

## Economics Colombia

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[paula.patino@davibank.com](mailto:paula.patino@davibank.com)**Colombia: BanRep hikes policy rate 100 bps to 11.25% as institutional tensions escalate**

**Banco de la República increased its policy rate by 100 bps to 11.25%, once again through a split vote, with four members voting in favor, one member voting for no change, and two members voting for a 50 bp cut.** The decision was aligned with analysts' consensus and was accompanied by an unprecedented episode, in which Finance Minister Germán Ávila withdrew from the meeting and called a press conference at the Ministry of Finance to express his dissatisfaction and distance himself and the Government from the decision adopted by the Board. **During this press conference, the Minister stated that the Government will distance itself from Banco de la República going forward, raising questions about the conditions under which future Board decisions may be made.**

During Banco de la República's press conference, Governor Villar stated that today's rate hike was legitimate, given that the Finance Minister did vote. Additionally, he called on the National Government and Minister Ávila to reconsider their stance of distancing themselves from BanRep, recalling that the representation of a government member on the central bank's board is a constitutional mandate.

**Part of the press conference was dedicated to reiterating the importance of Banco de la República's independence and the benefits it has delivered since its implementation in the 1991 Constitution.** Governor Villar avoided expressing views on the legal situation of future Board meetings if the Minister Avila decides not to attend again, meaning we will have to wait to see how Minister Ávila's decision evolves and how it can be responded under the legal framework. **All in all, next meeting on April 30 involves uncertainty and is an opportunity to prove how strong will be the institutional framework to safeguard independent decisions of the central bank.**

On the technical front, it was emphasized that the decision responds to a balance of risks in which inflation in 2026 is higher than in 2025 and year-end inflation expectations remain above 6%. Second, it was highlighted that economic growth has underperformed expectations due to specific factors, and lastly, the war involving Iran introduces a high degree of uncertainty regarding its effects on Colombia.

**We highlight that Villar emphasized in a deep reading of macroeconomic indicators,** noting that on the inflation front, regulated prices have been a short-term tailwind, while the economic slowdown is due to specific events, such as the deceleration in coffee production. In this context, Governor Villar stated that the Bank will continue to take data-dependent decisions, seeking to guide inflation back to the 3% target within the policy horizon. At DAVIbank, we project another rate hike in April and, for now, maintain our forecast

of a 75 bp increase to 12%, which we consider the terminal rate of this cycle, despite also projecting that, starting in March, inflation will start a consistent upward path, reaching its peak only in December at around 6.3%.

#### Key highlights of today's decision.

- **On the withdrawal of the finance minister.** The finance minister, Germán Ávila, expressed dissatisfaction with Banco de la República's decision during a press conference held prior to the central bank's official press conference. Minister Ávila called for the convening of a broad forum across sectors to discuss the decision-making framework of BanRep and stated that the government would distance itself from the Central Bank going forward. It is difficult to anticipate the consequences of these statements and whether they imply that the Ministry of Finance could cease to participate in the central bank's board.
- **On Banco de la República's press conference.** Governor Villar confirmed that today's decision was taken with the vote of the Minister of Finance and argued that if the Finance Minister were to decide not to attend future sessions, this would constitute non-compliance with the constitutional mandate. Governor Villar stated that he expects the Finance Minister to reconsider his presence at future meetings, noting that all participants contribute to enriching the Board's debate.
- **Governor Villar emphasized the benefits of an independent central bank.** Governor Villar stated that Banco de la República's autonomy implies that decisions are made with a long-term horizon in mind and not based on the interests of any given government, which represents a valuable asset for society. This allows for an appropriate response to the economic environment. In this context, he acknowledged that although raising interest rates is painful today, it is the most appropriate measure to avoid persistently high inflation and it ensures that the economy can grow sustainably for a longer period.
- **Governor Villar stated that most of the central banks operate under independent schemes that make decisions on a technical basis.** While he considers it legitimate for the government to seek a discussion on the central bank's decision-making framework, he defended the fact that the Constitution assigns value to this independence, warning that calls for change would run counter to societal stability.

#### On the technical discussion

- **Growth:** It was highlighted that growth has been below expectations (2025 at 2.6% vs 2.9% BanRep expectations) due to specific events, such as the decline in coffee production.

Villar emphasized that 2026 GDP growth could be below the technical staff's January estimate; however, it would still exceed 2% for the full year. **Villar also stated that it is early to assess the balance of the situation regarding the war in Iran and its impact on the economy**, given the presence of both positive factors—such as higher oil prices—and negative ones, including rising input costs.

- **On inflation:** Governor Villar stated that headline inflation in 2026 is higher than in 2025, despite favorable developments in regulated prices, and emphasized that inflation excluding food and regulated items (currently at 5.5% y/y) better reflects the inflationary pressures faced by the economy. Villar argued that rapid and strong rate hikes may increase the probability of inflation returning to target within a two-year horizon. It is worth highlighting that, on average, analysts are expecting year-end inflation of 6.30%, which is expected to be the peak, and that in 2027, in the absence of additional shocks, inflation could begin to decline.
- **As usual, Governor Villar did not provide guidance on future actions.** For now, he stated that today's rate hike is consistent with the assessment made in January following the increase in inflation expectations, and that the Board will continue to make data-dependent decisions. **In DAVIbank we expect the board to continue hiking the interest rate in April, probably the final move before a pause.**

## Macroeconomic forecast DAVIbank Economics Colombia

| Forecast                                  | 2019  | 2020   | 2021  | 2022  | 2023  | 2024   | 2025pr | 2026pr |
|---|-------|--------|-------|-------|-------|--------|--------|--------|
| <b>National Accounts</b>                  |       |        |       |       |       |        |        |        |
| Real GDP growth (yearly %)                | 3,2   | -7,2   | 11,1  | 7,6   | 0,9   | 1,5    | 2,6    | 2,7    |
| Domestic demand (y/y. %)                  | 4,0   | -7,5   | 13,8  | 10,5  | -2,3  | 1,6    | 3,9    | 3,4    |
| Consumption (y/y. %)                      | 4,3   | -4,3   | 14,1  | 9,5   | 0,7   | 1,4    | 4,2    | 3,5    |
| Private (y/y. %)                          | 4,0   | -5,0   | 15,3  | 11,1  | 0,6   | 1,6    | 3,4    | 3,5    |
| Government (y/y. %)                       | 5,5   | -0,9   | 10,3  | 2,2   | 1,1   | 0,0    | 7,4    | 3,6    |
| Gross capital formation (y/y. %)          | 2,5   | -21,1  | 13,4  | 16,6  | -16,3 | 3,4    | 7,8    | 2,8    |
| Exports (y/y. %)                          | 3,3   | -22,3  | 15,7  | 13,6  | 3,1   | 0,3    | 0,6    | 0,5    |
| Imports (y/y. %)                          | 7,7   | -19,8  | 28,5  | 25,0  | -9,8  | 1,3    | 8,8    | 3,4    |
| <b>Laboral Market</b>                     |       |        |       |       |       |        |        |        |
| Unemployment (%. Average)                 | 10,9  | 16,7   | 13,8  | 11,2  | 10,2  | 10,2   | 8,9    | 9,8    |
| <b>Balance of Payments</b>                |       |        |       |       |       |        |        |        |
| Trade Balance (USD\$. B)                  | -14,1 | -13,1  | -20,0 | -16,6 | -8,2  | -9,77  | -14,87 | -19,27 |
| Exports (USD\$. B)                        | 51,3  | 38,2   | 50,9  | 73,1  | 67,8  | 68,87  | 71,08  | 73,16  |
| Imports (USD\$. B)                        | 65,5  | 51,3   | 70,9  | 89,6  | 76,0  | 78,63  | 85,95  | 92,44  |
| Current account (USD\$ Balance. B)        | -15   | -9     | -18   | -21,3 | -9,7  | -7,412 | -10,88 | -10,88 |
| Current account (% of GDP)                | -4,6  | -3,4   | -5,6  | -6,2  | -2,7  | -1,8   | -2,4   | -2,4   |
| Exchange terms (y/y. %)                   | 4,04  | -12,62 | 20,74 | 5,94  | -8,22 | 8,56   | 1,46   |        |
| <b>Prices. Rates &amp; Exchange Rates</b> |       |        |       |       |       |        |        |        |
| CPI (y/y. %. End period)                  | 3,80  | 1,61   | 5,62  | 13,12 | 9,28  | 5,20   | 5,10   | 6,34   |
| CPI (y/y. %. Average)                     | 3,52  | 2,53   | 3,49  | 10,15 | 11,77 | 6,63   | 5,14   | 5,79   |
| CPI without food (y/y. %. End period)     | 3,45  | 1,03   | 3,44  | 9,99  | 10,33 | 5,60   | 5,11   | 7,06   |
| COP (\$. End period)                      | 3297  | 3422   | 4077  | 4850  | 3902  | 4405   | 3780   | 3918   |
| COP (\$. Average)                         | 3281  | 3694   | 3766  | 4254  | 4322  | 4153   | 4050   | 3924   |
| BanRep's rate (%. End period)             | 4,25  | 1,75   | 3,00  | 12    | 13,0  | 9,50   | 9,25   | 12,00  |
| <b>Tax Codes*</b>                         |       |        |       |       |       |        |        |        |
| Net Debt of CNG (% of GDP)                | 48,4  | 60,7   | 60,1  | 57,6  | 53,4  | 59,3   | 58,5   | 58,5   |
| Primary Balance of CNG (% del PIB)        | 0,4   | -5,0   | -3,6  | -1,0  | -0,3  | -2,4   | -3,5   | -2,1   |
| Deficit of CNG (% of GDP)                 | -2,5  | -7,8   | -7,1  | -5,3  | -4,3  | -6,8   | -6,4   | -5,1   |

\*Source: Financing Plan 2026.

Source: DAVIbank Economics Colombia.

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