

Economics Colombia

May 5, 2026

Research Team Colombia

Jackeline Piraján

Head of Research

jackeline.pirajan@davibank.com

Paula Andrea Patiño

Intern

paula.patino@davibank.com**Colombia: After the unexpected BanRep hold, we maintain our call for 12% as the terminal point of the tightening cycle.**

On Thursday, April 30, BanRep held the monetary policy rate at 11.25%, in a unanimous vote, surprising economists and market consensus that pointed to a hike of at least 50 bps. The decision comes after a period of significant tension in which the Government repeatedly criticized previous BanRep decisions to hike interest rates and even threatened the board with a new increase in the minimum wage if interest rates increased again at April's meeting. All of the above occurred in the context of the most critical part of the election period. In the middle of this pressure, the majority of the board that supported previous hikes, and especially Governor Villar, were very vocal about rate hikes being compatible with the constitutional mandate of inflation targeting. Probably because of all the context that framed the decision, **April's decision was a surprise and should be carefully read not only from a purely technical monetary policy approach, but also from a political economy perspective.**

In the communiqué and during the press conference, we saw that the macroeconomic diagnosis continues to point to unanchored inflation expectations, robust domestic demand, and high uncertainty both domestically and in international markets. That said, in our opinion the motivation for a pause comes from the need to avoid being involved in a political debate during the most challenging part of the elections—basically, there is a tradeoff between the pure monetary policy reaction function and political considerations that could bring better short-term stability. However, as with any tradeoff, the decision brings costs. In the case of BanRep and monetary policy, which were perceived as the “adult in the room,” **the cost of avoiding further political pressure during the electoral period is that markets may need to reorganize how Colombia pays its risk premium. In this case, a more depreciated FX, higher CDS, and higher asset swap spreads are the expected consequences of the decision.**

Did the central bank lose its independence? No, in our opinion, but recent episodes demonstrate some cracks in the autonomy of the central bank and show that BanRep is not immune to political risks. In fact, in the communiqué the central bank explicitly said the pause took place in order to achieve agreements in the current context. However, there was also a strong emphasis on the fact that differences in the assessment of the macroeconomic situation persist.

On the other hand, from the “glass half full” perspective, the central bank's decision to hike aggressively at the beginning of the year provides some room to pause until the dust around the

elections settles. The current contractionary stance (that we estimate at 6% real rate) could at least moderate the deterioration of inflation expectations, and for this reason we do not modify our expectation for the terminal point of the hiking cycle at 12%, despite changes in the timing of the hikes. **In our projections, headline inflation is still expected to peak in December, while at the same time inflation expectations to one and two years horizon will continue declining.** For this reason, **ending the hiking cycle in the third quarter of the year is an opportunity to fine-tune the contractionary stance required to find an equilibrium between compliance with the inflation target in the medium term and its cost to economic activity.** As we maintain our call for a 12% terminal rate, **we do expect hikes to resume in July with a 50 bps increase and in September with a 25 bps increase, when inflation will approach and probably surpass 6%.**

This week the spotlight will be on the complementary pieces of the monetary policy decision: the Monetary Policy Report on Tuesday and the Minutes on Wednesday. In both documents we can assess how the purely technical perspective differs from policy implementation. In the Monetary Policy Report, it will be relevant to monitor how the balance of risks has evolved, as inflation appears to face challenges to comply with the target even in 2027 and is exposed to risks stemming from the consequences of the Iran conflict and potential weather events, as the “El Niño” phenomenon becomes more probable. **In the case of economic activity, recent results came well below staff’s January expectations, and it remains to be seen whether this changes conclusions around the output gap (estimated as positive in January) and the activity–inflation tradeoff.**

Lastly, in the case of markets, the significant FX market reaction is consistent with a weakening of the carry trade thesis. Since Q3-2025, we have observed that the rate differential (Colombia vs. US rates) has increased its explanatory power for the COP, contributing approximately a 200-peso appreciation. That said, Monday’s reaction amounts to almost half of the theoretical impact the FX rate could experience if markets were to abandon 100% of the carry trade thesis. It is also worth noting that a depreciation of 200 pesos is not an immediate game changer for inflation. That is why, for now, we cannot attribute a higher-rates scenario to FX pass-through effects; instead, we prefer to monitor how international risks related to the Iran war and the “El Niño” weather phenomenon evolve.

The next monetary policy meeting will take place on Tuesday, June 30, one and a half weeks after the potential presidential runoff. By that time, we will not only know who the next president will be, but we will also have the release of the Medium-Term Fiscal Framework and additional macroeconomic data. In this context, we expect GDP growth to point to weak performance and inflation to approach 6%. **There will be a large amount of information to consider, but for**

now we do not expect the central bank to resume rate hikes at that time.

Macroeconomic forecast DAVIbank Economics Colombia

Forecast	2019	2020	2021	2022	2023	2024	2025pr	2026pr
National Accounts								
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
Laboral Market								
Unemployment (%. Average)	10,9	16,7	13,8	11,2	10,2	10,2	8,9	9,8
Balance of Payments								
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	
Prices. Rates & Exchange Rates								
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
Tax Codes*								
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.

Disclaimer

- This document has been prepared by Banco DAVIbank S.A., a banking institution, for distribution among its clients and those of its subsidiaries in Colombia: Fiduciaria and Brokerage Firm, entities subject to inspection, surveillance, and control by the Financial Superintendence of Colombia.
- This document is for informational purposes only. It should not be interpreted as professional advice or as a research report for making investment decisions, in accordance with the provisions of Articles 2.40.1.1.2 and 2.40.1.1.3 of Decree 2555 of 2010 and its complementary regulations.
- The information contained is provided for informational purposes only and does not constitute personalized investment advice, nor an invitation, offer, solicitation, suggestion, or obligation on the part of Banco DAVIbank S.A. or its subsidiaries in Colombia, their managers, representatives, associates, directors, partners, employees, advisors, or contractors. Accordingly, the information in this document is published for general use and does not take into account specific investment objectives, financial situations, or the needs of any particular investor. The use of the information provided is the sole responsibility of the recipient. The reader should understand that the purpose of this document is not to predict the future or guarantee a financial result, nor to ensure the fulfillment of the scenarios presented. This document does not predict future outcomes or guarantee financial results; all scenarios are strictly referential.
- Interested parties should seek authorized professional advice regarding the suitability of making investment decisions and should understand that statements regarding future outlooks may not materialize.
- The opinions contained in this document have been compiled or obtained from public sources considered reliable, but no express or implied warranty is made regarding their accuracy or completeness.
- Neither Banco DAVIbank S.A., nor its subsidiaries accept any responsibility for any direct, indirect, or consequential loss arising from any use of the information contained in this document.
- The information in this document is based on certain assumptions and analyses of the information available at the time it was prepared, which may or may not be correct. Therefore, there is no certainty that the projections contained in this document will be met; thus, nothing in this document is or should be considered a promise or guarantee regarding the future performance of such projections.
- The opinions, estimates, and projections contained in this document are subject to change without prior notice.
- This document does not constitute, nor should it be understood as: (i) an offer to sell or an invitation to buy securities; (ii) a proposal to carry out commercial transactions; (iii) personalized investment advice.