Economics Colombia
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Colombia: BanRep minutes show huge debate around inflation expectations

The central bank published the minutes of its March monetary policy meeting on Tuesday, April 7th. The minutes were released later than usual, stating that as of yesterday at 7:44 pm (local time) the Finance Ministry had not approved the text. This detail adds to the tension evidenced in the March meeting, from which Finance Minister Ávila suddenly withdrew. Yesterday's minutes indicated that points of discussion focused especially on the suitability of inflation expectations for decision-making and on the impact of contractionary monetary policy on economic activity.

The majority group defended that, given the challenges to comply with the inflation targets for 2026 and 2027, it was necessary to continue tightening monetary policy, all in a context in which economic activity continues operating above capacity. This group highlighted the importance of maintaining credibility in the inflation-targeting framework. In contrast, minority groups focused on signals of weakening economic activity. Members who voted for rate stability emphasized that, in the context of uncertainty, it is better to stay on the sidelines, while the group that voted for a 50-bps cut also focused on the impact of the restrictive monetary policy stance on FX appreciation and on debt costs.

The minutes demonstrate that BanRep's discussions have not been easy at all. In January's meeting, macro data supported a scenario in which there were no evident dilemmas between growth and inflation; however, erratic data released in the first quarter of the year, together with the fact that we are in the noisiest part of the electoral cycle, have increased the challenges for the central bank to reach consensus and to effectively communicate its decision to the population.

At DAVIbank, we see inflation reflecting mixed shocks in January and February, as the majority of the board highlighted; however, since March we expect to see a more consistent upward path, closing the year at 6.3% inflation. On the economic growth front, recent numbers pose a downside skew to our current projection of 2.7% GDP expansion in 2026. However, we need to assess how resilient domestic demand remains and which scenario develops post-election for investment. **In the meantime, we maintain our call for a new rate hike at April's meeting to reach 12%, followed by a hold, at least for a year, as we expect inflation expectations to start easing in the coming months.**

There is still uncertainty about the Government's decision to participate or not in the next monetary policy meeting, and recent interventions have not provided clear signals. **Despite this uncertainty, we continue to expect the central bank to find a way to**

make its decisions in an autonomous and independent manner, consistent with tradition.

Further details about March's minutes:

- **The majority group still sees challenges for inflation in the medium term.** This group stated that upside risks to inflation continue to support the need for further hikes and highlighted that, since January's meeting, they had warned that the 100 bps hike was only the first step in a cycle. On the inflation front, they noted that despite recent erratic results, items indexed to the minimum wage are already exhibiting inflation above 9%.

  This group argued that acting soon would prevent the Board from reaching higher levels in the future. From our perspective, this timing could be challenging, since even if the Board ends the hiking cycle early, inflation will continue to show inertia until peaking in December 2026, making it difficult to enter a pause phase with high conviction. The group also stated that economic activity continues to operate with a positive output gap and is expected to do so until 2027. Additionally, they highlighted the need to maintain the credibility of the inflation-targeting framework, as it has contributed to Colombia's macroeconomic stability. Regarding the fiscal situation, they expressed concern about the deviation between Government projections and CARF estimates for the primary deficit.

- **Minority groups are concerned about economic activity and uncertainty around macro dynamics in response to multiple shocks.**

  - **The arguments of the two members (the Minister Avila, and director Giraldo, according to our assessment) who voted for a 50 bps cut were aligned with the Finance Minister's recent speeches.** They argued that monetary policy cannot contain current inflation risks stemming from geopolitical shocks and could instead hurt economic growth. They also consider that current inflation is not particularly high compared to previous years. Furthermore, they argued that inflation expectations from analyst surveys and those derived from markets are not reliable and should not be used as anchors for monetary policy, especially in a context where expectation-based frameworks are not compatible with Colombia's high informality, meaning that economic agents focus mainly on the short term.

    Two additional statements were particularly striking. The first referred to concern about FX appreciation and its impact on exporters, and the second related to the impact of higher policy rates on debt costs. The former has been one of the arguments highlighted by the MoF to explain episodes of underperformance in fixed-income markets, which, in our opinion, is more closely related to the buildup of a fiscal premium when the government shows urgency in securing funding.

- **The member who voted to maintain the rate unchanged (Director Moisa)** highlighted that uncertainty remains high and called for prudence and for waiting for more information on current shocks. He also stated that the economy is still adjusting to post-pandemic conditions and to the minimum wage increase as a tool for income redistribution. She considers that the analysis of inflation-expectation surveys is insufficient to fully understand expectation formation.

Regarding international topics, the three groups agreed that international shocks could generate inflationary pressures in Colombia if they are long-lasting. However, the majority group added that inflation concerns could be exacerbated if other central banks around the world start to tighten monetary policy. Minority groups, for now, stated that it is not prudent to penalize economic activity with higher rates.

All in all, the next BanRep meeting will take place on Thursday, April 30. So far, no government authority has confirmed that the Minister will not attend the meeting. However, the fact that he has not yet officially approved the minutes suggests that the relationship remains tense. By April's meeting, we expect inflation to resume its upward trend, and it will be interesting to see how the central bank staff's stance evolves with the new release of the Monetary Policy Report. For now, we maintain our call that the last move in the hiking cycle will be in April, probably with a 75 bps hike to reach the 12% mark, followed by a hold of at least one year.

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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
Goverment (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.

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