

# BanRep increases its benchmark rate in 100bp to 11.25% in March

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**By a majority vote, the Central Bank raised the monetary policy rate by 100 basis points, continuing the tightening cycle that began in January, bringing it to 11.25%.**

The decision in March was, once again, split, with four members supporting a 100-basis-point increase, two in favor of a 50-basis-point cut, and one in favor of keeping the rate unchanged. The majority's stance underscores concerns about inflation expectations and the behavior of core inflation.

- **Banrep notes that inflation in February stood at 5.3%, higher than the rate observed at the end of 2025 (5.1%).** Core inflation, excluding food and regulated goods, has shown an upward trend so far this year, reaching 5.5% in February, compared to 5.0% in December 2025. To a large extent, the slight decline in overall inflation in February was concentrated in regulated goods and services.
- **As for inflation expectations, it is worth noting that they remain at high levels,** although they showed a slight decline in February. According to surveys of analysts, expectations fell to 6.3% in February from 6.4% the previous month. For 2027, expectations remain around 4.8%. Meanwhile, those derived from the government bond market remain close to 7.0%, although they show a slight decline.
- **In terms of economic activity, growth at the end of 2025 stood at an annual rate of 2.2% and a full-year rate of 2.6%, lower than the technical team had expected.** Although this figure was not further highlighted in the press release and no other economic activity data were mentioned, the unemployment rate and employment growth also indicate that economic activity continues to perform strongly. In turn, a breakdown of GDP results still shows that consumption—both private and public—predominates over investment. At the press conference, the Manager emphasized that the Bank's technical team still sees the economy performing well and that, although activity projections have moderated slightly for 2026, they remain above 2.0%.
- **In terms of external factors,** the statement highlights the recent conflict in Iran, which could jeopardize global economic growth and stability. **As for the Colombian economy, the impact is mixed,** though there are some positive factors stemming from an improvement in the country's terms of trade due to rising oil prices. On the other hand, in

the current situation, it could also trigger price increases for certain imported products such as gas or fertilizers, which, **according to the Central Bank, could lead to upward pressure on inflation, adding to the pressures already in place.** In response to questions on the matter, the bank added that uncertainty is very high, making the analysis even more complex.

- **At a parallel press conference** held a few minutes before the Central Bank's official briefing, **the Minister of Finance took a stance that openly diverged from the prevailing majority view on the Board.** He emphasized that the four Board members supporting the 100-basis-point interest rate hike are doing so without regard for the current global context, the nature of the inflationary shock (which is supply-driven by rising fuel and oil prices, not demand-driven), and contrary to the path of macroeconomic stability. **Due to this marked difference, the Minister announced his withdrawal from today's Board meeting and a rift between the Government and the Central Bank.**

In our view, the Board's decision reaffirms a firm stance on controlling inflation, even amid an uncertain and complex environment. The second consecutive 100-basis-point hike signals not only a more clearly contractionary stance but also a clear message of anticipation regarding the policy cycle. Ultimately, if this succeeds in bringing inflation expectations under control, it could lead to a lower terminal interest rate for the current tightening cycle and, consequently, greater medium- and long-term benefits for the Colombian economy.

Although the decision was split, it still reflects a strong majority view, suggesting that, if necessary, further rate hikes could continue. In our scenario, we expect an additional rate hike of approximately 100 basis points for the remainder of the year, which could occur at the April and June meetings (50 basis points at each). However, this path is contingent on the development of several factors: 1) the global environment and inflationary pressures stemming from higher energy prices; 2) the extent to which the minimum wage increase feeds into core inflation; 3) potential risks of food inflation via higher fertilizer prices or an El Niño phenomenon; among other factors. For now, economic activity figures, particularly those from the labor market, remain at solid levels; however, should a deterioration be observed in the coming months or should the slowdown in activity seen at the end of 2025 extend into the first quarters of 2026, there could be less room for rate hikes.

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