

The Central Bank of Colombia kept its policy rate unchanged at 11.25% at its April meeting

BBVA Research
April 30, 2026

In a unanimous decision, the Central Bank kept the monetary policy interest rate unchanged at 11.25% in April.

The decision in April was unanimous, despite that there exist divergent opinions between the members of the Board with regards to monetary policy, with the intention to reach common grounds in the current situation. With this decision, the policy rate remains at 11.25%, a level that is expected to hold for two months until the meeting at the end of June.

- **Banrep notes that inflation in March stood at 5.6%, 46 basis points above the December figure (5.1%).** They add that core inflation (excluding food and regulated prices) stands at 5.8%, with a sharper increase compared to the end of 2025, of nearly 80 basis points. They maintain a tone of caution regarding the acceleration of inflation.
- **As for inflation expectations, the signals are mixed. On the one hand, market expectations fell slightly, while analysts' expectations rose marginally.** It is worth noting that regardless of these movements, expectations remain outside the target range for both the current year and the following year. This maintains the pressure on missing the inflation target for another year.
- **In terms of economic activity, the leading indicators available for the first quarter of the year point to GDP growth exceeding that observed in the fourth quarter of last year.** Notable indicators include energy demand, manufacturing output, retail sales, and exports. Added to this is a labor market that remains dynamic, with low unemployment rates and a trend of growth in wage-earning employment.
- **Among external factors, the uncertainty stemming from the prolonged conflict in the Middle East stands out.** In this regard, there are concerns about larger-than-expected increases in international prices for energy, fertilizers, and certain goods, which could add upward pressure on inflation in the short and medium term. Additionally, they note that external financial conditions have tightened for Colombia, possibly due to a context in which rate cuts are less likely or even interest rate hikes in developed economies.

- **Regarding the decision, the Governor notes that one of the reasons the Board agreed to keep rates steady is the significant upward adjustment that had already been implemented in previous months.** The Governor notes that differences of opinion persist within the Board regarding the observed and expected behavior of inflation and the state of the economy, but that reaching agreements and allowing time to review new information can be helpful in determining the appropriate stance.
- **The Minister of Finance announced at a press conference a new \$400-peso increase in gasoline prices and a rise in diesel prices**—albeit smaller than that of gasoline—changes that are expected to push inflation higher. In turn, and in an effort to curb inflationary pressures, he announced the extension of fertilizer subsidies, among other measures.
- **On other matters, the Minister emphasized that, for the time being, they are not considering another increase in the minimum wage.** This stance stems from a warning issued by President Petro during a cabinet meeting in recent weeks, regarding the possible need to raise the minimum wage again to offset the negative impact of rising interest rates on household income. On the other hand, in response to questions about announcements of a new tax reform, the Minister emphasized that they are aware there is a fiscal problem involving a significant increase in the fiscal deficit and that among the causes of this deficit is the inability to reasonably increase tax revenues.

Our opinion:

First, it should be noted that all the speculation in recent weeks regarding the Minister's possible absence from the meeting—and consequently the meeting's potential cancellation—proved unfounded. The Minister attended, and the meeting proceeded as scheduled. Additionally, as both the Governor and the Minister noted, the meeting was conducted in a cordial atmosphere, and the arguments of all parties were respected. We consider this a fundamental pillar of the proper development of public policy, and in particular of monetary policy. We hope this will put an end to an escalation of comments and disparaging remarks that do not serve the discussion of ideas and positions well.

Regarding the decision, the arguments outlined in the press release and some highlighted during the press conference suggest that economic conditions still require a monetary policy adjustment, with rate hikes beyond those already implemented. However, the decision signals a pause to assess the evolution of certain indicators amid widespread uncertainty. This stance is made possible because, in the first months of the year, the Bank undertook the difficult task of raising rates to contain the spiral in inflation expectations. Finally, it also helps to tone down the institutional confrontation between the Bank and the Government, a step we consider crucial for the effective implementation of monetary policy.

We view the decision to keep rates steady as a pause, driven by a high level of uncertainty; however, in the coming months we expect inflation to trend upward, continuing to be affected by cyclical shocks as well as pressures stemming from the minimum wage increase and strong demand. At the same time, we believe that the balance of risks regarding inflation is tilted toward

the upside, both due to the global context and its effects on prices of fertilizers, gas, and other goods, as well as due to climatic factors such as the increased probability of an *El Niño* event of at least moderate intensity in the second half of the year. In this regard, and unless there is a marked slowdown in economic activity in the coming months, we anticipate that the upward cycle could resume after this brief pause.

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