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BanRep kept its policy rate unchanged at 12% and announced an international reserves accumulation program

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Four board members voted to keep the policy rate unchanged, while three voted for a 50-basis-point increase, showing that the differing views remain. Future decisions will depend on incoming data and on whether external and inflationary risks related to the climate or the exchange rate materialize.

- Both in the press conference and in the statement, Banrep highlighted that inflation continued on an upward trend, reaching 6.14% in June. This was driven by the behavior of food and regulated prices. They also noted that core inflation, excluding food and regulated items, remained stable at 6.0%.
- **According to Banrep, analysts' inflation expectations increased in July, while those derived from the public debt market remained elevated across all maturities.** Analysts' inflation expectations for December 2026 and 2027 stood at 6.6% and 5.0%, respectively. Expectations derived from the public debt market remained above 6.0% across all maturities. In next week's Monetary Policy Report, Banrep's technical staff is expected to raise its inflation forecast for this year to 6.9%, with inflation projected to reach the 3% target in 1H2028.
- **On the activity side, according to Banrep, information for the second quarter suggests that the economy may have accelerated its pace of growth.** The Economic Tracking Indicator (ISE) grew by 4.1% year-on-year in May, accelerating relative to April, driven mainly by the tertiary sector. Banrep estimates that the economy will grow by 2.5% in 2026.
- **BanRep highlighted that the appreciation of the Colombian peso has exceeded that of several comparable currencies, helping to mitigate upward inflationary pressures.** However, it stressed that uncertainty surrounding both inflation and economic activity remains very high, due to the conflict in the Middle East and the high probability of a very intense El Niño event.
- The decision to keep rates unchanged reflects an agreement among the four members supporting that option, despite the Minister of Finance maintaining his position in favor of a 50-basis-point rate cut, as he clarified during the press conference. We do not know the

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position of the other Board member who had voted for rate cuts in previous meetings. It is also important to highlight that three Board members continue to support rate increases in response to inflationary risks, and that the bloc of four members that had been voting for rate hikes was broken by this decision. **As a result, future decisions regarding the policy rate will depend on incoming information and on whether external and climate-related risks materialize, particularly, in the case of the latter, through second-round effects on inflation.**

- Governor Villar gave no indication during the press conference of what may come next in terms of monetary policy. Today's decision may represent either a pause or the end of the cycle. **BBVA Research believes that, provided that second-round effects from El Niño do not materialize and that there are no additional inflationary pressures resulting from a significant reversal of the exchange rate appreciation, the rate-hiking cycle may have come to an end.**
- **In connection with the foreign exchange environment, with the peso having appreciated by close to 20% year-to-date, and with the objective of strengthening external liquidity levels, BanRep announced a gradual international reserves accumulation program of up to USD 4 billion.** The mechanism to be used will be auctions of accumulation put options, which may be exercised when the representative market exchange rate, or TRM, is below its 20-day moving average. Option auctions will be held monthly, and the amount will be announced in each auction notice. The strike price of the options will be the TRM in effect on the day they are exercised.
- **The notice for the first auction will be published today, and the options will be activated in line with the exchange rate dynamics observed to date. The auction will take place on August 3, 2026, with an allocation of up to USD 400 million**, and the awarded options may be exercised between August 4 and August 31, 2026, provided the condition is met.
- **From a foreign exchange and external liquidity perspective, BBVA Research considers that the announcement of international reserves accumulation is a step in the right direction,** as it may help contain exchange rate dynamics and strengthen the country's external buffers. Furthermore, as BanRep clarified, the reserves accumulation process will be fully sterilized so as not to affect the monetary policy stance**.**

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