

Economics Colombia

December 19, 2025

Colombia: BanRep stayed on hold in the last meeting of the year.

BanRep held the monetary policy rate steady at 9.25%. Again, the vote division was: four members voted for stability, two supported a 50-bps cut, and one favored a 25-bps cut. **BanRep highlighted the decline in November's inflation, although the board acknowledged that inflation expectations remain elevated. Regarding economic activity, the board noted that private demand is robust, which is reflected in a wider trade deficit.** On the fiscal front, the central bank urged the government to adjust its public finances following the rejection of the Financing Law.

During the press conference, Governor Villar emphasized that, despite concerns about inflation expectations, **the central bank continues to monitor key variables and will set interest rates on a meeting-by-meeting basis.** In contrast, **Minister Ávila argued that interest rates should be lowered to support economic growth.** He also stated that significant increases in the minimum wage have not negatively impacted the economy and anticipated that, as in previous years, the government will raise the minimum wage substantially in 2026. **Additionally, Minister Ávila announced that the government is preparing an Economic Emergency decree in response to the rejection of the Financing Law.**

At DAVIbank Economics, we continue to favor a scenario of rate stability for most of 2026. While the minimum wage discussion could create tensions around inflation expectations, we believe the board will wait to see the actual impact of this parameter on inflation and expectations before reacting. **We reaffirm our call for rate stability until the third quarter of 2026 and project a year-end level of 8.75%, which aligns with our inflation forecast of 4.23% for year-end 2026.**

Highlights of Today's Meeting

- **Governor Villar emphasized that maintaining the central bank's credibility is crucial, responding to questions about inflation expectations remaining above the target range in 2026.** He noted that the board aims to bring inflation back to target gradually, following a path compatible with sustainable economic growth. Villar stated that the board is closely monitoring the evolution of inflation expectations and, in the meantime, maintains a contractionary stance. Importantly, he indicated that the inflation target is expected to be achieved in 2027, while in 2026 they anticipate a trend toward a range consistent with this medium-term goal. In our view, these remarks reflect the central bank's traditional approach of waiting for clearer signals before adjusting interest rates—supporting our call for rate stability.
- **Minimum wage debate:** Finance Minister Germán Ávila stated that recent increases in the minimum wage have not negatively affected inflation or the labor market. He also anticipated a significant increase for 2026 but did not clarify the potential impact on public finances or the Ministry of Finance's inflation projections. On the other hand, Governor Villar noted that BanRep does not have a specific position on the minimum wage but highlighted that a sharp increase could affect inflation convergence toward the target, which in turn could influence the interest rate path. Our view is that, although the minimum wage is a critical parameter, the central bank is unlikely to change its stance unless it significantly alters inflation expectations or the structural inflation trajectory.
- **Fiscal Situation:** In its communiqué, BanRep explicitly called for measures to stabilize public finances following the rejection of the Financing Law. During the press conference, however, Finance Minister Ávila indicated that the government is considering enacting an Economic Emergency decree, arguing that the 2026 budget is not fully financed after the law's rejection. Ávila suggested that upcoming measures will aim to increase fiscal revenue while avoiding further cuts to the spending plan.
- **In general, the tone of today's meeting was not significantly different from that observed in previous meetings.** Although the board remains vigilant about the economic context, the case for rate hikes still does not appear strong in the short term. The minimum wage decision will be key; however, Governor Villar noted that inflation also depends on other factors. **Our view is that the board**

will continue to act cautiously, which leads us to maintain our call for stability in the upcoming meetings.

IMPORTANT NOTE:

Next week DAVIbank Economics will suspend its reports for the remainder of the year. We will resume our reporting activity in 2026, with the expectation of continuing to serve as a relevant source of macroeconomic analysis for our clients.

We wish you happy holidays and a successful 2026. Cheers!

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