

Economics Colombia

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Colombia Monetary Policy Preview: BanRep Poised to Launch a New Monetary Tightening Cycle.

On Friday, January 30, BanRep will hold its first monetary policy meeting of 2026. This will be the Board's first decision following the ~23% increase in the minimum wage for 2026. Markets and economists currently expect the start of a new hiking cycle, though views differ regarding the initial pace and the terminal level of the cycle. According to January's expectations surveys, the average forecast points to a 50bps hike at Friday's meeting—below the ~75 bps currently priced in by the IBR market—while in the medium term, BanRep's survey suggests a terminal rate around 11.25%, compared with the slightly above 12% level discounted by the IBR market.

DAVIbank Economics expects BanRep to raise its policy rate by 50 bps to 9.75%. The decision is likely to be taken through a divided vote, as has been the case in recent meetings. Considering that some Board members had already proposed rate hikes in the December meeting—prior to the announcement of the 2026 minimum wage increase—we expect this hawkish bias to persist in January's discussion. However, it will likely be more evident in the minutes than in the post meeting communiqué.

The January decision is surrounded by significant uncertainty, as the recent minimum wage increase is unprecedented (18.1% above inflation and well above the technical guideline based on inflation and productivity). This uncertainty is reflected in the wide forecast ranges for inflation and interest rates in 2026. In fact, we do not rule out that such uncertainty could lead some Board members to argue for a slower start to the hiking cycle. At DAVIbank, we believe a "wait and see" approach would be inappropriate at this point because inflation expectations are unanchored not only for 2026 but also for 2027—something that requires a stronger policy response, especially considering that the next meeting will not take place until late March.

It is worth noting that in the January meeting, the Board will have access to a new set of macroeconomic projections prepared by the central bank staff. These projections will be detailed in next week's Monetary Policy Report. Overall, the start of a new hiking cycle will unfold in a context of unanchored inflation expectations, rising domestic fiscal risks, upcoming presidential and legislative elections, and elevated global volatility driven by renewed geopolitical tensions and disruptions to international trade.

At DAVIbank Economics, we project that the rate hiking cycle will continue through the third quarter of 2026, ending the year at 12.0%. The highest expectation in BanRep's survey points to a peak of 12.25% in June 2026, while the median expectation places the peak at 11.25% in January 2027 (see report [here](#)). At DAVIbank forecast, the minimum-wage increase significantly shifted medium-term inflation expectations, rising from 4.2% for end-2026 (as projected in December 2025) to the recently published 6.3% (see report [here](#)). Inflation risks for 2026 remain clearly tilted to the upside, given that a large

share of the CPI—mainly labor-intensive services—will be directly affected by the minimum wage adjustment. Nonetheless, other components, such as food prices and utility fees, could partially offset the expected acceleration in 2026.

Key Points to Consider Ahead of January's Meeting

- **Economic Activity:** Between January and November 2025, the Colombian economy expanded by 2.8%, driven largely by services, particularly public administration, and commerce. The strengthening of economic activity has been supported by robust household consumption—boosted by income positive shocks due to high remittances and a resilient labor market—alongside higher public spending. According to our estimates, the output gap almost closed, which would give BanRep additional room to increase its contractionary stance.
- **Inflation:** At the end of 2025, headline inflation stood at 5.10%, below analysts' expectations, driven by a sharp decline in overall inflation and in prices of certain regulated services such as electricity. Core inflation registered 5.11%, easing relative to November. The increase in the minimum wage is expected to have significant effects on the prices of several services, leading to a projected inflation rate of 6.3% by the end of 2026—marking six consecutive years with inflation above BanRep's target range.
- **External Sector:** The current account deficit remained at 2.2% of GDP between January and September 2025, while in the third quarter it widened to 2.4% of GDP. The deterioration reflects stronger domestic demand and a decline in oil exports, although it has been partially offset by a significant increase in remittances. This backdrop has not generated material pressure on the exchange rate; however, the strengthening of domestic demand and output growing near potential suggests additional inflationary pressures, which supports the case for a more contractionary monetary policy stance.
- **Fiscal Situation:** In the final months of 2025, the COLTES curve weakened significantly after higher liquidity needs became evident following the direct placement of COP 23 tn in COLTES to a foreign investor. In addition, the fiscal challenges expected for 2026 prompted the Government to declare a state of emergency, aimed at securing resources after the COP 16.3 tn financing bill was rejected. For 2026, wider fiscal needs are expected to translate into a substantial increase in the primary deficit—particularly in the context of presidential elections—which has become a key concern for the Board and supports the case for maintaining a contractionary monetary policy stance for an extended period.

Macroeconomic forecast DAVIbank Economics Colombia

Forecast	2019	2020	2021	2022	2023	2024	2025pr	2026pr
National Accounts								
Real GDP growth (yearly %)	3,2	-7,2	10,8	7,3	0,7	1,6	2,8	2,9
Domestic demand (y/y. %)	4,0	-7,5	13,4	10,3	-2,5	2,0	4,3	3,3
Consumption (y/y. %)	4,3	-4,2	13,8	9,0	0,6	1,4	4,1	3,8
Private (y/y. %)	4,1	-5,0	14,7	10,8	0,4	1,6	3,6	3,9
Government (y/y. %)	5,3	-0,8	9,8	1,0	1,6	0,7	6,5	3,6
Gross capital formation (y/y. %)	3,0	-20,7	11,6	16,0	-16,0	5,2	5,0	0,8
Exports (y/y. %)	3,1	-22,5	14,6	12,5	3,1	2,5	1,2	1,5
Imports (y/y. %)	7,3	-20,1	26,7	24,0	-9,9	4,4	8,9	3,1
Laboral Market								
Unemployment (%. Average)	10,9	16,7	13,8	11,2	10,2	10,2	9,2	9,8
Balance of Payments								
Trade Balance (USD\$. B)	-14,1	-13,1	-20,0	-16,6	-8,2	-9,77	-12,91	-14,10
Exports (USD\$. B)	51,3	38,2	50,9	73,1	67,8	68,87	69,6	72,6
Imports (USD\$. B)	65,5	51,3	70,9	89,6	76,0	78,63	82,54	86,6
Current account (USD\$ Balance. B)	-15	-9	-18	-21,3	-9,7	-7,412	-10,05	-11,29
Current account (% of GDP)	-4,6	-3,4	-5,6	-6,2	-2,7	-1,8	-2,4	-2,5
Exchange terms (y/y. %)	4,04	-12,62	20,74	5,94	-18,0	-0,7	-1,0	
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	61,3	63,0
Primary Balance of CNG (% del PIB)	0,4	-5,0	-3,6	-1,0	-0,3	-2,4	-2,4	-1,4
Deficit of CNG (% of GDP)	-2,5	-7,8	-7,1	-5,3	-4,3	-6,8	-7,1	-6,2

*Source: MTFF 2025.

Source: DAVIbank Economics Colombia.

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