

# MNI Colombia Central Bank Review: January 2026

## MNI POV: 100bp Hike To Prevent Inflation Spiral

The Colombian central bank hiked its overnight lending rate by 100bp to 10.25% in January, as it began its tightening cycle with a larger-than-expected move. Most analysts had expected a 50bp hike, with a small minority forecasting a 75bp move and a similar number looking for a smaller 25bp increase. Once again, the decision was split 4-1-2, with one member voting for a hold and two members voting for a 50bp cut. The aggressive hike came on the back of the much-larger-than-expected minimum wage increase, which has resulted in a sharp rise in inflation expectations. In addition, the Board also noted the continuing strength of domestic demand and rising current account deficit. Analysts expect the Board to continue its aggressive hiking cycle ahead, with perhaps a 50bp move in March and 100-200bp of further tightening in total this year.

The accompanying statement put particular emphasis on the sharp increase in inflation expectations, with the end-26 estimate rising to 6.4%, from 4.6%, and the end-27 estimate rising to 4.8%, from 3.8%. The Board also noted that inflation expectations from debt markets have risen above 6% on a two-year horizon. The central bank now sees inflation ending this year at 6.3%, up from 4.1% projected previously.

Meanwhile, the committee highlighted the ongoing strength of domestic demand, with economic activity indicators suggesting that the economy maintained “strong dynamism” in Q4, driven by private and public consumption. As a result, BanRep still expects the economy to have grown by 2.9% last year. However, the 2026 GDP estimate was reduced by 30bp to 2.6%.

The continuing strength of the domestic economy is also weighing on the external position, with the current account deficit expected to have risen to 2.4% of GDP last year, according to the committee, up from 1.6% in 2024. In addition, the external backdrop remains highly uncertain, amid escalating trade conflicts and geopolitical tensions.

The post meeting press conference highlighted the significant division within the committee, with Finance Minister Avila (who voted for a 50bp cut) saying that the government did not agree with the rate hike decision, which he described as irresponsible. Avila said that the government would pursue measures to reduce inflation, including a COP 500/gallon cut in gasoline prices in February. He also said that the government will present a financial plan this week, which will be key for the fiscal outlook.

In contrast, Governor Villar said that the central bank was acting to prevent an inflation spiral resulting from the minimum wage hike, which would weigh on household spending. In response to Avila’s remarks that the rate hike would increase the government’s funding costs, Villar said that borrowing costs were rising even before the rate increase, due to other factors unrelated to monetary policy.

Overall, the statement said that the “majority decision adopted by the Board of Directors aims to return inflation to a downward trajectory”. Going forward, the Board will be data dependent. With inflation likely to rise further over the coming months, analysts expect the front-loaded hiking cycle to continue, with perhaps another 50bp increase in March, and 100-200bp of further tightening in total this year.

**Link to monetary policy statement:** <https://www.banrep.gov.co/en/news/board-directors-january-2026>

### Notable Dates:

Feb 04 – Publication of January Meeting Minutes

Feb 05 - Publication of Quarterly Monetary Policy Report

Feb 06 – January CPI Inflation

Mar 31 – Next MPC Meeting

## Analyst Views

### **BBVA: See Scope for Further 200bp of Tightening at Relatively Rapid Pace**

- In BBVA's view, the 100bp hike was not only in response to the minimum wage shock but also to contain the inflationary spiral in expectations and price-setting behaviour during the early months of the year, when most of these adjustments typically occur.
- More broadly, given the upward revision of inflation expectations and projections by around 200bp, following five consecutive years of inflation target misses and several years of pronounced inflation persistence, the cumulative monetary policy response should exceed the expected increase in inflation in order to steer inflation back toward target over the medium term.
- This argument is reinforced by the final sentence of the statement, which emphasises that the decision aims to restore a downward trajectory for inflation, suggesting that further rate hikes may be required in the coming months, with their pace dependent on incoming data.
- BBVA believes that this above-expectations rate increase reflects a pre-emptive strategy to get ahead of price formation and anchor expectations, thereby avoiding the need to reach a higher terminal rate later in the cycle. As such, they estimate that the cumulative adjustment (including the decision already implemented) could reach 300bp and would likely occur at a relatively rapid pace.
- The additional hawkishness will provide support for the COP, although actions by the Ministry of Finance will also continue to matter (it has recently been buying USD, muting appreciation pressures on the COP), as will changes in government policy. The uncertainty surrounding policy announcements and the volatility of the COP have made it difficult to hold longer-term positions, and any COP exposure should be managed carefully with awareness of various flow and positioning metrics.

### **Goldman Sachs: Expect 50bp Hike in March, and 50bp Thereafter, with Risks Skewed to Upside**

- Goldman Sachs notes that the forward guidance was open-ended, providing no explicit indication of the magnitude of the next policy move, and instead signalling that future decisions will remain contingent on incoming data. In the press conference, Governor Villar argued that the forceful rate hike was primarily aimed at anchoring inflation expectations over a horizon consistent with returning inflation to the  $3\pm 1\%$  target band by end-2027 - a shift from the previous goal of bringing inflation back to the 3% target midpoint by that date.
- Overall, GS believes that the deterioration of the inflation outlook following the sizable 23% minimum wage adjustment required a frontloaded rate hike to restore the restrictiveness of the policy stance. The MPC delivered on this and then did some more, surprising them and the market. GS expects the MPC to preserve the tightening bias over the next meetings, with the magnitude of the next hike determined by upcoming inflation data.
- Given strong Jan-Feb. seasonality in wage-sensitive CPI components, the MPC should have a clearer read on the underlying inflation trend by the March meeting, allowing it to adjust then the pace of policy tightening, if necessary. The MPC will also likely be very mindful about deviations of end-2027 expectations from the upper end of the  $3\pm 1\%$  target.
- The risks to GS' current 50bp rate hike forecast for the March meeting and 50bp in additional tightening thereafter - for a year-end rate of 11.25% - are skewed towards the upside. That said, in GS' view, Friday's hawkish surprise also reflected a sense of urgency to address the spike in inflation expectations following the wage announcement. Such sense of urgency may be less pronounced at the next meeting, especially if expectations begin to stabilise and realised inflation tracks the updated staff projections, which are now more closely aligned with the market expectation than last year's.

### **Itaú: Believe Majority Will Continue Front-Loaded Hiking Cycle in March, See 12% Year-End Rate**

- Following the de-anchoring of inflation expectations resulting from the significant increase in the minimum wage, Itaú believes that the majority of the Board will continue its frontloaded hiking cycle at the next meeting, scheduled for March 31.

- The magnitude of the adjustment will depend on the degree of indexation pressures on inflation and the behaviour of inflation expectations. Itaú sees a yearend rate of 12%.
- The main reason for the sharp monetary policy adjustment is to ensure that inflation expectations remain aligned with the Central Bank's target. Governor Villar noted that the 23% minimum wage increase, though high, was common before the Central Bank gained independence. The 1991 Constitution, which granted independence to the Central Bank, also gave it the role of reassuring workers that inflation would not rise to levels that would prevent real wage increases.
- Following the decision, the one-year ex-ante real rate reached 4.1% (based on the monthly analysts' survey), above BanRep's real neutral rate estimate of 3.1% for 2026, an estimate that could be revised this week in the quarterly monetary policy report.

### **JP Morgan: Expect Further 100bp of Tightening**

- While JP Morgan had anticipated a more measured approach - expecting an initial 50bp increase, given the Board's recent divisions and the exchange rate's performance - the majority signalled a clear commitment to safeguarding monetary policy credibility. The hike exceeded both analyst forecasts and market pricing, underscoring the Board's resolve.
- Governor Villar delivered a robust and educational defence of monetary orthodoxy, standing in contrast to the heterodox stance voiced by Finance Minister Avila. Villar noted that the central bank staff revised their 2026 inflation projection sharply higher, to 6.3% from 4.1% previously.
- In light of the Board's action, JPM maintain their forecast for a 200bp tightening cycle. With the initial 100bp hike now delivered, they anticipate three subsequent increases of 50bp, 25bp, and 25bp at the next policy meetings.
- Based on their inflation outlook, these nominal rates would translate into real rates of 6.5% (ex-ante) and 4.9% (ex-post). A critical assumption underpinning these projections is a stable exchange rate environment throughout and following the upcoming congressional and presidential elections.

### **SocGen: Forecast Additional 175bp of Tightening, with 75bp Hike in March**

- Despite the large hike, ex-ante real rates have drifted toward 4% as inflation expectations rose. BanRep previously viewed 3.1% as the neutral real rate. Given elevated inflation, rising wages, and growing fiscal and external imbalances that keep yields high, BanRep may need to push real rates further above neutral. SocGen says that incoming inflation data will now be crucial in determining the pace and extent of further tightening after this "front-loaded" move.
- After the 100bp hike, SocGen now expect an additional 175bp of increases: a 75bp move in March, followed by 50bp hikes at each of the next two meetings. This would lift the MPR to 12.00%, barring significant upside surprises in inflation. SocGen does not expect rate cuts over the next 12 months; instead, they see 125bp of easing in 2027, once wage-driven inflation pressures begin to fade.
- High interest rates are likely to become politically sensitive ahead of March congressional and June presidential elections. The government has continued to criticise BanRep's tight stance, raising the risk of political pressure on the board. With FX markets remaining relatively stable it is uncertain whether BanRep will need to fully meet the market's increasingly hawkish expectations or instead simply keep rates elevated for an extended period. Much will depend on the fiscal regime the market anticipates emerging after the elections.