MNI Colombia Central Bank Preview: December 2025

Monetary policy decision and statement press release: 1800GMT/1300ET – Friday, December 19, 2025.

MNI POV: Hold Seen, But Risk of Hawkish Surprise

BanRep is expected to leave its policy rate unchanged at 9.25% for a fifth consecutive meeting on Friday, in another split decision, although risks of a hike have increased significantly amid mounting concerns over the inflation outlook. Rising inflation expectations, strengthening domestic demand and increasing fiscal pressures have prompted the majority of the BanRep board to strike a more hawkish tone recently, with the market now pricing in over 150bp of rate hikes over the next year. For now, softer-than-expected CPI data this month give the Board some breathing space to wait for the outcome of 2026 minimum wage negotiations before year end.

Several Board Members See Increased Likelihood of Rate Hikes

BanRep's December monetary policy meeting comes against a backdrop of mounting concerns over the inflation and fiscal outlook and increasing risks that the central bank will be forced to hike interest rates in the coming meetings. After remaining on hold in another split decision in October, Governor Villar said that the Board had discussed risks that would warrant rate hikes, although the base case at that time was still to keep rates unchanged for longer.

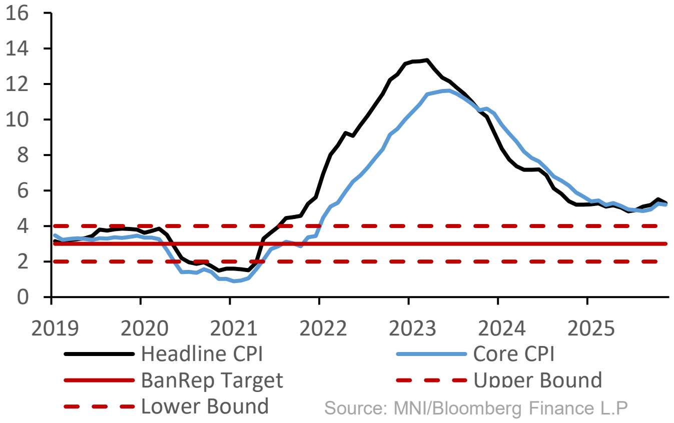
The subsequent minutes to that meeting revealed that members of the majority group who voted to remain on hold believed that rising inflation and inflation expectations forced them to postpone rate cuts until convergence of inflation to target could be ensured. "Several" members even saw the possibility of rate hikes if certain risks materialise, noting worrying signs of price indexation, which they said could worsen if the minimum wage is hiked as much as suggested. They also noted the significant strengthening of domestic demand and the growing external imbalance of the economy, which they said could increase the risk premium and reverse the FX appreciation, adding to price pressures.

Since that meeting, several Board members have struck a notably more hawkish tone, flagging the risks that the central bank may have to hike rates in the coming meetings. Last month, BanRep co-director Mauricio Villamizar said that he sees increased likelihood of rate hikes, while more recently co-director Bibiana Taboada said that monetary policy may need to do more to moderate domestic demand growth. Their comments follow hawkish remarks from Governor Villar who also flagged the possibility of a rate hike amid the broad increase of inflation pressures. While he hopes this won't happen, the Board may be forced in that direction, he said, given three key risks to the inflation outlook, including the "enormous" minimum wage increase, strength of domestic demand, and large fiscal deficit.

Softer Nov CPI Gives Room to Wait on Min Wage

Inflation has risen further above target in recent months, adding to rate hike risks, although the data since the October BanRep meeting have been mixed. In October, headline inflation rose to a 13-month high of 5.51% y/y, while core inflation increased to a six-month high of 5.25% y/y. The policy-relevant ex-food and regulated prices measure also rose by 20bp to 5.0% y/y.

CPI Inflation Pressures Continue to Mount



In November, however, inflation came in a little lower than expected, giving the central bank some breathing space ahead of this week's meeting. Headline inflation declined to 5.30% y/y, below the 5.46% consensus, helped by a decline in food inflation. Excluding food, core inflation also edged down by 5bp to 5.20%, while BanRep's preferred ex-regulated measure dipped to 4.86% y/y. Despite this, inflation remains far above target, and the threat of an above-inflation 2026 minimum wage hike remains a serious risk to the outlook. The government has so far failed to reach an agreement with employers and unions in negotiations this month (with employers demanding a ~7% hike and unions 16%), raising the risk that President Petro will announce the minimum wage hike by decree before month-end.

Against this backdrop, 2026 inflation expectations have continued to rise, even as 2025 estimates have remained more stable. According to the latest BanRep analyst survey, headline inflation is projected to end this year at 5.19% (down from 5.33% last month, but close to the 5.21% in October), while the end-26 estimate has risen to 4.59%, from 4.40% last month and 4.25% in October. Meanwhile, core inflation is expected to end this year at 5.13% (vs. 5.12% last month and 4.90% in October) and 4.67% next year (vs. 4.51% previously and 4.14% in October). As BanRep co-director Taboada recently noted, inflation expectations remain consistently above target.

Given this, analysts now expect the policy rate to remain unchanged at 9.25% throughout next year, with the first cut not coming until the end of Q1 27. Previously, analysts saw the first cut coming in October next year, with the policy rate ending the year at 8.75%. This is still in stark contrast to latest market pricing, which is consistent with over 150bp of rate hikes over the next year. Despite this, the rate decision is likely to be split again this week, with the dovish minority of the Board still likely to vote for a rate cut.

Strengthening Domestic Demand Bolsters Rate Hike Risks

Meanwhile, robust Q3 GDP and September economic activity data will have reinforced Governor Villar's concerns about the strength of domestic demand. The economy grew at its fastest pace since Q3 2022 last quarter, driven by a 5.0% y/y increase in domestic demand on the back of robust consumer spending and a jump in government expenditure. Overall, real GDP rose by 1.2% q/q, lifting the annual rate of growth to 3.6% y/y, from 2.1%. Subsequent activity data for October were a little softer than expected, although retail sales continue to grow at a double-digit y/y pace, while the unemployment rate ticked down to remain close to historic lows. Analysts still see the economy growing by around 2.6% this year, according to latest consensus estimates, and 2.8% in 2026.

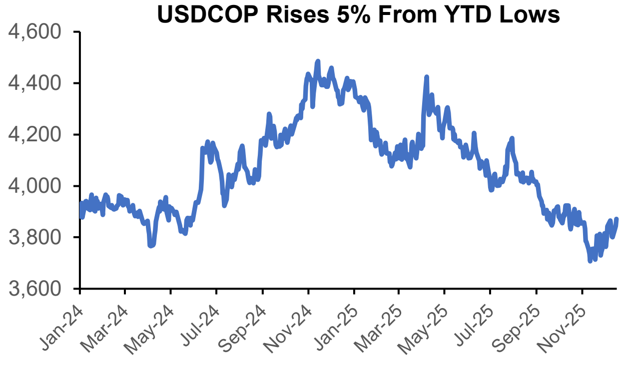
Rejection of Government's Tax Financing Bill Adds to Fiscal Concerns

Fiscal pressures have also continued to rise, following Congress' rejection of the government's tax financing bill this month. This is the bill that sought to raise COP 16tn through tax hikes for the 2026 budget, and its rejection means that the government will likely have to delay or reduce spending from next year's COP 547tn budget. Finance Minister Avila said that the country is already in an economic emergency following the failure of the bill, although he added that the government is seeking to avoid spending cuts if it can and is looking at other ways to recover revenue. If spending is reduced, Avila said that infrastructure spending would be cut, rather than spending on social programmes.

More positively, the Finance Ministry said this week that the fiscal deficit would come in at 6.2% of GDP this year, below the previous 7.1% target, as well as the fiscal rule committee's recent 6.7% estimate. As a result, the debt-to-GDP ratio would decline to 57.3% this year, it said, 4.1ppts less than originally expected. The improvement has been driven by the stronger peso, as well as recent liability management operations, which have helped reduce debt interest payments by 1.3ppt of GDP compared to last year, according to the Finance Ministry. It also said that spending would be cut by at least COP 14.3tn this year.

Despite this, the underlying fiscal position remains under pressure, with the primary fiscal deficit still on course to potentially exceed 3% of GDP this year, according to latest data. Against this backdrop, Fitch recently downgraded Colombia's sovereign credit rating to BB, from BB+, on the back of the persistently large fiscal deficits, which it said will still increase the public debt to GDP ratio over the medium-term.

USDCOP Rises 5% From YTD Lows



Source: MNI/Bloomberg Finance L.P

Peso Still Supported by Attractive Carry for Now

Despite the ongoing fiscal concerns, the Colombian peso has remained relatively resilient since the last MPC meeting, benefiting from the attractive carry buffer that has been aided by the hawkish central bank repricing over the period. That said, USDCOP has risen above the 50-day EMA which had been an important technical point, previously capping price action well since mid-August. While BanRep board members have downplayed the benefit of recent peso strength, sustained weakness ahead could put further pressure on them to consider rate hikes.

MNI Colombia Data Watch List												
Inflation		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
CPI	% y/y	5.30	5.1	↑	5.1	↑					-0.61
Core CPI	% y/y	5.20	4.9	↑	5.1	↑					0.79
Oil Price (WTI Active)	$	56.67	62.70	↓	58.14	↓					-0.73
Economic Activity		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
PMI Manufacturing	Index	54.0	55.3	↓	52.6	↑					1.20
Manufacturing Prod.	% y/y	1.9	5.8	↓	-3.3	↑					-0.23
Economic Activity NSA	% y/y	4.03	2.97	↑	4.47	↓					
Trade Data		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
Trade Balance	$ M	-1164.1	-1099.8	↓	-837.3	↓					0.51
Exports FOB	$ M	4300.5	4427.5	↓	4119.4	↑					
Consumer / Labour Market		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
Retail Sales	% y/y	10.0	10.5	↓	13.1	↓					0.91
Consumer Confidence	Index	13.6	5.3	↑	-8.6	↑					1.87
National Unemployment Rate	%	8.2	8.8	↓	8.8	↓					-1.12
Urban Unemployment Rate	%	8.0	8.4	↓	8.7	↓					-0.87
Markets		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
Bolsa de Valores	Index	14,100	12,600	↑	12,000	↑					1.62
Local 10-Year IBR Swap Rate	%	10.40	9.27	↑	9.11	↑					1.99

Note: For quarterly data the 3m ago column will display the previous data point and the 6m ago column will display the data point prior to that.
Source: MNI, Bloomberg

Analyst Views

Most analysts (22/26) in the latest Bloomberg survey expect the central bank to remain on hold at 9.25% this week. The remaining four analysts are looking for a 25bp hike.

Barclays: Maintain Forecast of 25bp Hikes in December & January

- Uncertainty about Colombia's monetary policy outlook is elevated, but Barclays maintain their forecast of two hikes of 25bp, in December and January. However, given the better-than-expected November inflation print, the December decision becomes a close call. This gives BanRep some additional room to manoeuvre, and it might strategically prefer to wait for the government's decision on the minimum wage increase, which is the biggest risk to the disinflation process and the key variable for the monetary policy outlook at the moment.
- Although it is not completely out of the question, the likelihood of the extreme scenario of the government announcing a 20% increase appears to have declined. The range of options on the negotiating table is between 7% and 16%, with workers in the upper side, employers on the low side and the government in the middle at 11%.
- Therefore, considering that the market is currently expecting hikes of about 200bp, the balance of risks seems asymmetric. Even if the government were to meet the 16% workers' demand, BanRep seems unlikely to enact the large increase in rates currently expected by the market. For a scenario like that to materialise, Barclays thinks inflation would need to jump above 6% or a shock would have to significantly weaken the COP, but that is not the direction in which these variables seem to be moving.
- On the contrary, if the government holds to its 11% minimum wage increase proposal and inflation keeps falling at least gradually, a scenario in which the bank makes no hikes and starts cutting after the elections in H2 2026 could still be feasible, as a new administration is likely to advance on fiscal consolidation.

BBVA: Expect Hawkish Tilt, But No Rate Hike Yet

- BanRep bank has been split on rates for several months, with the majority pledging to restore confidence in the inflation target. The COP has been an important element that has helped prevent the bank from having to begin hiking again, and it will therefore remain in the spotlight.
- For now, BBVA expects BanRep will try to stay the course with more cautious rhetoric and hawkish tilts, but it is still not evident that they will pull the trigger and hike. Higher inflation and expectations pose risks for policymakers as they wait for news on the minimum wage front.

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BNY Mellon: On Hold as Easing Capacity Limited Ahead of Upcoming Election

- BNY Mellon expects BanRep to keep rates at 9.25% as rising risk premia tied to US trade relations drive asset volatility. High nominal and real rates remain the central bank's baseline stance.
- Even with real rates near 4%, easing capacity is limited ahead of the upcoming election. Domestic data remain robust, however, with the urban unemployment rate near record lows.

Deutsche Bank: Continue to Pencil in Hiking Cycle Starting January

- Deutsche Bank thinks that BanRep will likely employ the upcoming meeting as a "transition" one, whereby the policy rate is left unchanged at 9.25%, but the direction moves from split decisions featuring a minority support for easing to signalling a tightening cycle to be initiated in the January meeting.
- The unmooring of inflation expectations warrants a policy response, in DB's view, while the rhythm of economic activity and the deterioration of macro imbalances buttress the case for hikes. However, the November inflation print provides some leeway for a "transition" meeting this week.
- Although DB would advocate for a decisive hiking cycle (4x50bp) starting this week, to underpin a swift retracement of expectations that would enable cuts before the end of next year, DB are sceptical that BanRep's board would be keen on an aggressive hiking strategy, likely compromising instead for a more moderate and gradual approach (6x25bp).
- Further, DB reckons that the November inflation reading buys BanRep some time to: i) wait for the official announcement of the minimum wage hike; and ii) transition between "split holds with a minority voting for cuts" to signalling the imminent start of a hiking cycle starting in January via a more unified vote tally, hawkish forward guidance and tone during the presser.
- DB continues to pencil in a hiking cycle to be initiated in January that would lift the policy rate to 10.75% by Q3 2026. An announcement regarding the minimum wage hike could trigger a hike already in December if it turns out a hefty one (12%+), in their view.

Goldman Sachs: Conditions for Rate Hikes Not Yet Met

- Goldman Sachs expects BanRep to hold the policy rate at 9.25% on Friday, with a divided vote (four for hold, three for cut). The forward guidance is likely to remain cautious and data dependent, reiterating that future decisions will reflect observed and expected inflation as well as the balance of risks for inflation.
- GS expects the MPC to underscore that a pivot to rate hikes remains a risk scenario, while subtly acknowledging that the probability of such an outcome has risen relative to the previous meeting. At the same time, GS expects the Committee to reaffirm that the current policy stance remains restrictive.
- In GS' view, the conditions for rate hikes have not yet been met. First, they still view disinflation as stalling, not derailed. Second, the upside inflation risks identified by the hawkish four-Director camp as pre-conditions for hikes have not materialised: the COP has appreciated only 1.4% against the USD since the last meeting and still tracks close to YTD lows; GS are not tracking meaningful domestic gas tariffs hikes; and the minimum wage decision will probably come only after the meeting, with the negotiation range narrowing to 7–16%, still compatible with an 11–12% outcome that had been the pre-negotiation analyst consensus.
- Rising inflation expectations pose a more material risk to GS' call for a steady policy rate at upcoming meetings. Short- and medium-term expectations have drifted higher since September. While the hawkish camp has expressed discomfort in these dynamics, Governor Villar recently remarked that the central bank has maintained its credibility to the extent that the term structure of inflation expectations is still consistent with convergence to the target.

Itaú: BanRep to Remain on Hold for Prolonged Period of Time

- After four consecutive months of rising annual inflation, November brought some relief. Headline inflation fell by 21bp from October to 5.3% in November. Year-to-date inflation sits at 5.15% (5.13% in October), well above the central bank's 3% target.
- Itaú's preliminary estimate for December's monthly inflation, scheduled for release on January 8, ranges between 0.3% and 0.4%, resulting in the annual CPI print falling mildly to 5.2%. Strong indexation pressures combined with a slow pace of disinflation in rents and restaurants are keeping inflation above 5%. Consequently, BanRep will likely proceed cautiously, keeping the interest rate unchanged at 9.25% for a prolonged period of time.

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JP Morgan: Likely to Remain on Hold While Awaiting Min Wage Decision

- The BanRep rate decision comes against a backdrop of persistently high and sticky inflation. Admittedly, food deflation helped headline to surprise to the downside in November, but risks for inflation convergence to target by the policy horizon are aplenty.
- Following the welcome respite in November's inflation data, and with inflation expectations survey for December still pending (a key report that might prompt JP Morgan to revise their call) JPM maintain as the most likely outcome, a majority of the Board voting to stay on hold. However, JPM recognise that this is a very close call, with market pricing currently assigning nearly a 65% probability to a 25bp hike.
- JPM believes the majority will keep the policy rate stable while awaiting the minimum wage decision, a key parameter shaping income policy. The trajectory of inflation expectations and forthcoming income policy decisions will be pivotal in shaping the near-term direction of monetary policy.
- Meanwhile, the underlying fiscal picture continues to deteriorate. While year-end figures may offer some "positive" surprises, such as a lower interest burden and improved debt-to-GDP ratios, the primary fiscal balance will close the year at levels only observed during the pandemic and at the end of the twentieth century. The next administration must act swiftly to stabilise fiscal policy - only a credible fiscal commitment, anchored by substantial spending cuts that reduce Treasury borrowing, can meaningfully lower fiscal risks and risk premiums.

Natixis: A Pause Before Q1 Rate Hikes

- Natixis anticipates that the board will maintain the policy rate at 9.25% in this week's meeting. Nonetheless, they assign a 25% probability to the possibility of a 25bp hike. The moderation of inflation in November, coupled with the Fed's rate cut and the continued strength of the COP, will enable BanRep to pause as it lays the groundwork for a shift from easing to hiking in 2026.
- As is typically the case, Natixis expects four board members will advocate for a pause, while three will favour cuts. BanRep usually refrains from providing forward guidance in its communiqués. However, Natixis expects Governor Villar to signal, during the press conference, that rate hikes will commence in early 2026.
- Looking ahead, Natixis expects BanRep to raise policy rates twice by 25bp each in the first two meetings of 2026, followed by a pause before making further decisions on tightening monetary policy.
- A key factor driving these decisions will be the increase in the minimum wage. BanRep has indicated that a minimum wage hike exceeding the sum of last year's inflation plus productivity, totalling above 7.2%, will put upward pressure on inflation. Natixis' expectation is that the government will end up increasing the minimum wage by 10-12% by decree.

Scotiabank: Focus on Villar's Remarks on Rate Hike Prospects

- BanRep is expected to keep its overnight rate at 9.25% in a now classic divided vote where government appointees will likely vote for rate cuts against the majority preferring a hold.
- Inflation expectations are back on the rise again, while core inflation has stopped falling and is at 5.2% y/y. COP has been appreciating strongly since April but has recently lost some ground partly as President Trump and President Petro increasingly lock horns.
- The biggest thing to watch will be the tone of the statement and Governor Villar's comments in regard to the possibility of rate hikes. This discussion may be heavily influenced by a decision on 2026's minimum wage hike that could come before the meeting, where an increase closer to 15% than 10% would certainly increase the possibility that BanRep considers hikes.

SocGen: BanRep Likely to Keep Rates on Hold Through Most of H1 2026

- BanRep is likely to maintain its policy pause in December, in another split decision. At its October 2025 meeting, the central bank kept the monetary policy rate unchanged at 9.25%, with a narrow 4-3 majority. Four directors voted to hold the rate, while two favoured a 50bp cut and one supported a 25bp reduction, underscoring ongoing disagreements among board members (and between the central bank and the government) regarding the pace of monetary easing. This division is likely to persist into December.
- The Board cited persistent inflationary pressures and rising inflation expectations as key reasons for maintaining a cautious approach. While SocGen anticipates further moderation in inflation over the coming quarters, they still project end-2026 headline and core inflation at 4.20% and 3.90%, respectively, above

BanRep's 3.0% target. The key question is whether the stronger currency will be sufficient to help BanRep overcome current inflationary pressures, or if rate pressures will continue to mount.
- The economic rebound gained momentum in 3Q25, but the underlying data reveal weaknesses and growing imbalances, as growth has been primarily driven by excessive fiscal spending despite weak external demand. This suggests that the outlook remains vulnerable to fiscal constraints, and external balances are also likely to deteriorate in the coming quarters.
- For now, SocGen align with consensus, expecting inflation to cool in the period ahead, which should allow BanRep to resume easing after the elections next year. SocGen currently projects the end-2026 BanRep policy rate at 8.0%. Nevertheless, upside risks to their policy rate forecast will persist if upcoming inflation readings surprise to the upside or if the fiscal outlook continues to deteriorate.

MNI Policy Team Insights

MNI EM POLICY: BanRep 2026 Rate Hike Risk From Credibility Threat

By Larissa Garcia
Nov 19, 2025

More hawkish members of Colombia's central bank board worry that the institution's inflation-fighting credibility is already in jeopardy due to a board split which has seen votes by other members to cut rates despite persistent price pressures, with this concern boosting the risk of a hike next year, MNI understands.

While Banco de la Republica's board held the policy rate at 9.25% on Oct 31, the meeting saw another split vote, with three members voting for cuts since July, and with two pushing for a deep 50-basis-point cut. In the meeting's minutes, members who voted to hold raised the possibility of a hike and pointed to the risk that BanRep's credibility could be damaged should inflation rise faster than the baseline.

But the hawkish members consider that the Bank's credibility has only been maintained by its insistence on holding policy unchanged, amid strong pressure from the government to cut rates and plans for a significant increase in Colombia's minimum wage, MNI understands. While they do not see the need for a hike yet, this concern over credibility is part of their calculations.

BanRep's last unanimous decision was in May when it cut by 25 basis points.

"Several members even indicated that future interest rate increases could be considered if certain inflationary risks materialize which, although not part of the baseline scenario, should not be underestimated," the minutes said. "If that scenario materialized, the credibility of the Bank which forms the basis of its inflation-targeting framework could be affected."

INFLATION REBOUND

Headline inflation in September rose again for the third consecutive month and reached 5.2%, the same level observed at the end of 2024 and above the 3% target. Core inflation stood at 4.8%.

Earlier this year, President Gustavo Petro appointed two new members to the BanRep board, Laura Moisa and Cesar Augusto Giraldo, to replace Roberto Steiner and Jaime Jaramillo. The move, which was in line with Colombian law, was seen as an attempt to make the board more dovish.

According to the minutes, the members who voted for a 50bp cut emphasized that the positive gap between the real policy interest rate and the neutral real interest rate is wide enough to allow easing to support the recovery of economic activity.

The board member who voted for a 25bp cut stressed that the structure of inflation in Colombia makes it particularly sensitive to supply shocks, some of which are persistent in nature and cannot necessarily be influenced by the domestic interest rate.

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