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BanRep holds the rate steady at 9.25% while the National Government announces measures to contain the 2026 budget imbalance

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For the fifth consecutive meeting, BanRep held the policy rate steady at 9.25%, in a split decision. During the year, the rate was reduced by only 25bp. The Minister of Finance announced a declaration of economic emergency.

The December decision maintained the balance observed at previous meetings, with four members in favor of stability, two in favor of a 50bp reduction, and one in favor of a 25bp reduction. A cautious tone is maintained, highlighting that, although inflation fell in November, it remains well above the target and will end the year very close to December 2024 inflation (5.2%). Along these lines, they emphasize the good performance of economic activity supported by high dynamism in consumption.

- **BanRep highlights the reduction in inflation in November (5.3%) compared to October (5.5%), but clarifies that it remained high and above the levels observed at the end of 2024 (5.2%).** It also highlights lower core inflation (4.9%), which, although lower than that observed at the end of 2024 (5.2%), remains high. It is highlighted that future inflation expectations for one and two years increased to a greater degree than observed inflation. At the press conference, the Chair mentioned that they expect the disinflation process to continue.
- **In terms of activity, BanRep highlights the good performance of the economy;** with annual economic growth of 3.4% (seasonally adjusted) in the third quarter, exceeding the technical team's forecasts (3.0%) and that the growth momentum came mainly from domestic demand, with an expansion of total consumption of 5.6%. The Chair mentioned the concern regarding the imbalance between supply and domestic demand that has been transmitted into a widening of the external imbalance.

- **Regarding fiscal issues, the statement includes a call to the National Government to take action** to balance the National General Budget given the non-approval of the Financing Law.
- **Taking advantage of the call for fiscal action, the Minister of Finance announced at the press conference the declaration of an economic emergency that could take place in the coming hours.** He explained the supervening events supporting it and stated that it will be declared to increase revenue in 2026 by the same amount and through the same taxes included in the Financing Law that was not approved by Congress. The expected revenue would be the same COP 16.3 trillion (3% of the budget).
- **The main supervening event for Minister Ávila is the non-approval of the Financing Law by Congress, which generates an imbalance in the 2026 accounts of nearly COP 16 trillion.** Additionally, and as a consequence of the above, the Minister highlighted that the following are put at risk: compliance with the Constitutional Court ruling on the unification of the UPC between the two health regimes, energy subsidy payments, payments for future appropriations, and payments for judicial rulings. He also emphasized the deterioration of security as a supervening event and the need to increase investment in order to counter the new attack methods of illegal armed groups.
- **Regarding the minimum wage**, the Minister of Finance mentioned that they favor a significant increase, above the inflation rate, without mentioning a specific figure.

In our opinion, the BanRep Board's decisions will continue to depend on the relevant data available for each meeting and on decisions regarding issues such as the minimum wage increase, the expected indexation for the first part of the year, the performance of domestic demand—particularly consumption—, the increase in public spending, and the widening of the trade deficit, among others. According to our forecasts, inflation will continue to decrease and close 2026 at 4.5%, below the 5.2% we expect by the end of this year and the 5.2% of 2024. Regarding the declaration of an economic emergency, we will await the decree and its justification to conduct a careful analysis of it.

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