

BanRep increases its benchmark rate in 100bp to 10.25% in January

BBVA Research
January 30, 2026

In a split decision, BanRep increased its benchmark rate by 100bps to 10.25%, the first hike in 33 months.

The January decision was split, with four members supporting a 100-basis-point increase, two in favor of a 50-bp cut, and one advocating for leaving the policy rate unchanged. This represents a marked shift relative to recent decisions, in which the majority favored rate stability while the remaining members supported a rate reduction. The statement's tone focuses on the solid performance of economic activity, the sharp increase in inflation expectations, and the deterioration of the current account balance.

- **Banrep notes that while headline inflation declined marginally in December 2025 (5.1%), core inflation (excluding food and regulated prices) increased by approximately 17 bp.** Particular emphasis is placed on the sharp rise in inflation expectations, which stand at 6.4% for end-2026 (up from 4.6%) and 4.8% for end-2027 (up from 3.8%). During the press conference, it was also noted that the Bank's technical staff revised up their inflation projections to 6.3% for end-2026 (from 4.1%).
- **Regarding economic activity, Banrep reiterated the strong performance observed across several indicators in the fourth quarter of 2025 and maintained its growth forecast for last year at 2.9%.** At the same time, the Board highlighted the continued strength of the labor market, reflected in both robust employment growth and a low unemployment rate. They also underscored the deterioration in the current account, which is expected to reach around 2.4% of GDP in 2025 compared with 1.6% in 2024, driven by import dynamics associated with the strong momentum of domestic demand.
- **On external factors, the statement highlights the increase in uncertainty surrounding external conditions, mainly due to geopolitical and trade-related factors.** In this environment, they consider that Colombia's sovereign risk perception has been adversely affected.
- **During the press conference, the Minister of Finance expressed strong opposition**

to the decision adopted by the majority of the Board. His position is based on the view that the decision is disproportionate and will have negative effects on economic activity and supply conditions. He further argued that the rationale behind the decision rests on an assumption he considers misguided, namely that the increase in the minimum wage is directly associated with inflationary pressures. In his remarks, he emphasized that the government will pursue measures to support the disinflation process, including a reduction in gasoline prices (by COP 500 per gallon in February). He also stressed that the Board's measures increase the government's funding costs, thereby reducing its capacity to allocate resources to other spending priorities.

- **In response, the Governor of the Banco de la República emphasized that the Bank does not take a position on the minimum wage increase, but that its mandate is to prevent such an increase from triggering an inflationary spiral that would erode households' purchasing power—a phenomenon he noted occurred in Colombia from the 1970s through the 1990s.** He also highlighted that public debt interest rates are not solely determined by monetary policy decisions, as they are influenced by other factors. In this regard, he pointed out that during the period of policy rate stability at the end of last year, government bond yields increased by 200 bp due to factors unrelated to monetary policy.
- The press conference also served as a platform to comment on other recent policy measures, notably the Constitutional Court's decision to suspend the Economic Emergency decree issued by the government. On this matter, the Minister stated that while the government respects and abides by judicial rulings, it disagrees with the decision and will pursue any available legal remedies. He added that the government will seek alternative measures of various kinds to offset the fiscal effects of the ruling, which he characterized as inconsistent with Colombian jurisprudence. On a separate issue, he noted that the Financial Plan is expected to be presented early next week, a document of critical importance for assessing the fiscal strategy of the current administration in its final phase.

In our view, the Board's decision—both in terms of timing and magnitude—responds to an unanticipated shock with significant implications for the Colombian economy. The unprecedented real increase in the minimum wage may trigger an inflationary spiral, initially reflected in inflation expectations (which have risen by around 200 bp for this year and 100 bp for the following year), but potentially leading to a loss of confidence in inflation's convergence toward target and to substantial economic and social costs. Accordingly, and in line with our expectations, the Banco de la República raised the policy rate by 100 bp, not only in response to the shock but also to contain the inflationary spiral in expectations and price-setting behavior 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 200 bp, 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 emphasizes 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. At BBVA Research, we believe that this above-expectations rate increase also 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, we estimate that the cumulative adjustment (including the decision already implemented) could reach 300 bp and would likely occur at a relatively rapid pace.

DISCLAIMER

This document, prepared by the BBVA Research Department, is informative in nature and contains data, opinions or estimates as at the date of its publication. These arise from the department's own research or are based on sources believed to be reliable and have not been independently verified by BBVA. BBVA therefore offers no express or implicit guarantee regarding its accuracy, completeness or correctness.

Any estimates contained in this document have been made in accordance with generally accepted methods and are to be taken as such, i.e. as forecasts or projections. Past trends for economic variables, whether positive or negative, are no guarantee of future trends.

This document and its contents are subject to change without prior notice, depending on variables such as the economic context or market fluctuations. BBVA is not responsible for updating this content or for giving notice of such changes.

BBVA accepts no liability for any direct or indirect loss that may result from the use of this document or its contents.

Neither this document nor its contents constitute an offer, invitation or request to acquire, disinvest or obtain any interest in assets or financial instruments, nor can they form the basis for any kind of contract, undertaking or decision.

The content of this communication or message does not constitute a professional recommendation to make investments under the terms of Article 2.40.1.1.2 of Decree 2555 of 2010 or the regulations that modify, replace or supplement it.

With particular regard to investment in financial assets that could be related to the economic variables referred to in this document, readers should note that under no circumstances should investment decisions be made based on the contents of this document; and that any persons or entities who may potentially offer them investment products are legally obliged to provide all the information they need to make such decisions.

The content of this document is protected by intellectual property laws. Reproduction, transformation, distribution, public communication, making available, extraction, reuse, forwarding or use of any nature by any means or process is prohibited, except in cases where it is legally permitted or expressly authorised by BBVA on its website www.bbvarresearch.com.