

Inflation ended 2025 at 5.10%, virtually unchanged from the previous year

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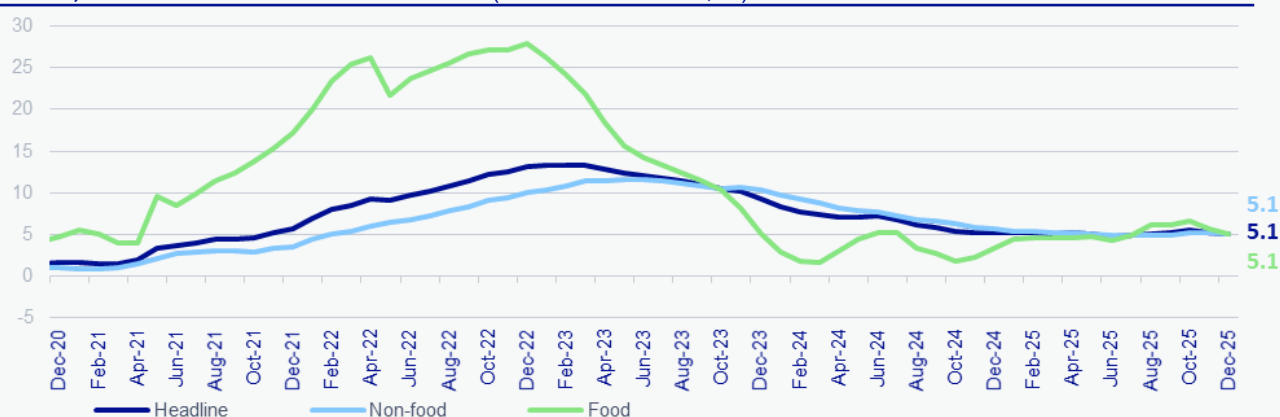
In December, food accounted for most of the decline in headline annual inflation versus November

Monthly inflation in December came in at 0.27%, slightly below analysts' expectations (0.35%, according to Banco de la República's survey) and BBVA Research's forecast (0.35%). As a result, annual inflation fell to 5.10%, down 20 bps from November, marking two consecutive monthly declines. Compared to year-end 2024, inflation was virtually unchanged, edging down from 5.20% in December 2024 to 5.10% at the end of 2025.

- **The decline in headline annual inflation relative to November was driven mainly by food**, whose annual inflation fell to 5.07% (-67 bps vs. November), reflecting a broad-based correction within the basket, with notable contributions from processed products, perishables, and meats.
- **In parallel, the non-food basket posted a slight decline in annual inflation** to 5.11% (-9 bps vs. November), largely explained by a moderation in administered prices, supported by lower pressures in utilities—electricity, gas and water—and base effects.
- **In contrast, inflation excluding food and administered prices—closely monitored by Banco de la República—rose to 5.02% (+16 bps vs. November), pointing to more persistent underlying pressures.** By component, goods remained relatively stable, confirming the break in the upward trend observed through much of the year, amid offsetting upward and downward forces. Services, meanwhile, registered an increase in inflation, driven by price rises concentrated in categories linked to cinema, tourism and out-of-home consumption, while rents continued to show a moderate increase.
- **December inflation surprised on the downside.** The moderation in administered prices stands out in particular, as this basket had not shown relief of this magnitude since June and had been increasing over the previous three months. Still, year-end dynamics were not uniform: goods held steady for a second consecutive month, while services posted one of the few increases observed during the year.

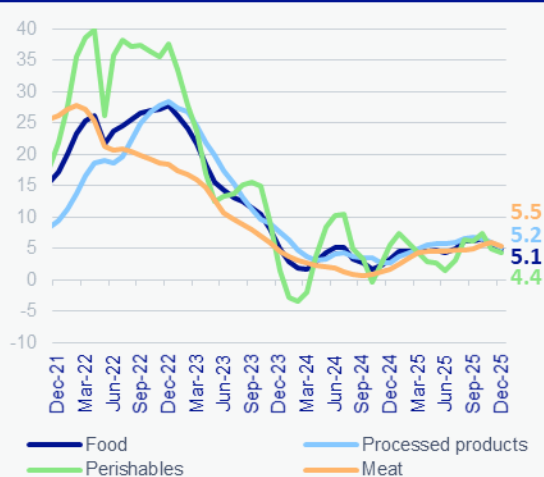
- **Compared to year-end 2024, headline inflation remained virtually unchanged at the end of 2025 due to offsetting pressures across baskets.** On the one hand, food and goods recorded substantial increases in annual inflation; on the other, services and administered prices moderated significantly, offsetting upside pressures and keeping headline inflation broadly stable in aggregate.
- **Food inflation remained on an upward path for most of 2025.** It spiked early in the year, then stayed relatively stable until July, when it began to accelerate. However, the last two months of the year saw a downward correction that contributed importantly to the moderation in headline inflation towards year-end 2025—although food inflation still ended above its level a year earlier.
- **Goods inflation also trended upward through much of the year, suggesting the presence of demand pressures,** consistent with the strong performance of consumption. Despite an average peso appreciation of 0.46% in 2025—which typically lowers the price of tradable goods and moderates inflation in this basket—goods inflation did not ease, reinforcing the hypothesis of domestic pressures. Only from November onward did this trajectory break, and goods inflation stabilized.
- In contrast, services inflation eased over the course of the year, with increases limited to specific months, suggesting lower pressures in key components such as rents. Administered prices also showed a general moderation trend during 2025, albeit with an acceleration episode between September and November, before resuming their adjustment toward year-end. This relief was largely driven by the behavior of key items such as electricity and fuels.
- **Looking ahead, we expect the 23% minimum wage increase, far above what had been projected, to exert significant upward pressure on inflation in 2026, particularly via services, but also across other baskets through higher labor costs in labor-intensive sectors and subsequent price adjustments.** In this context, inflation would neither continue on a downward path nor remain flat, but would instead resume an upward trajectory, complicating the disinflation process. Risks are not limited to minimum-wage-related indexation: if consumption remains dynamic in 2026, supported by higher household income, it could sustain demand pressures and, consequently, inflationary pressures. Added to this is the risk of increases in gas prices in a scenario of lower domestic supply. As a result, inflation would not enter the target range in 2026, completing six consecutive years above it. In our scenario, inflation would close significantly above 2024 and 2025 levels.

TOTAL, FOOD AND NON-FOOD INFLATION (ANNUAL CHANGE, %)



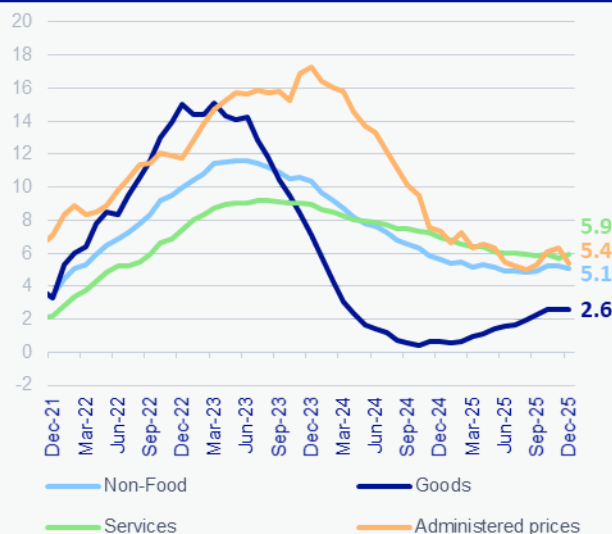
Source: BBVA Research with DANE data.

FOOD INFLATION AND MAIN BASKETS (ANNUAL CHANGE, %)



Source: BBVA Research with DANE data.

INFLATION OF MAIN NON-FOOD BASKETS (ANNUAL CHANGE, %)



Source: BBVA Research with DANE data.

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