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Inflation began to accelerate in January, reaching 5.35%

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The non-food basket explained most of the acceleration in headline annual inflation in January

Monthly inflation in January stood at 1.18%, broadly in line with analysts' expectations (1.16%) and BBVA Research's forecast (1.21%). As a result, annual inflation rose to 5.35%, representing an increase of 25 basis points (bp) compared to December 2025 and marking the beginning of the inflationary process we expect for 2026.

- **The acceleration in headline annual inflation was mainly explained by the non-food basket**, whose annual variation reached 5.41%, increasing by 30 bp compared to December 2025. This increase was broad-based across all its sub-baskets, with a particularly strong contribution from services and goods.

- **Services inflation rose to 6.33% (+40 bp versus December 2025)**, driven mainly by services provided at sports venues (+638 bp), cinemas and theaters (+327 bp), domestic services (+307 bp), full-service and self-service restaurants (+119 bp), prepared meals consumed outside the home (+106 bp), and residential property management services (+81 bp). Most of these services are labor-intensive, suggesting that part of the upward pressure likely stems from the 23% increase in the minimum wage, as higher labor costs are passed through to final prices.

- **Goods inflation, which had remained stable over the previous two months, broke that trend and increased to 2.90% (+28 bp versus December 2025).** This rise was driven mainly by information processing equipment (+593 bp), mobile phone equipment (+486 bp), and whisky, rum, brandy and other alcoholic beverages (+399 bp). Among the twelve DANE expenditure divisions, alcoholic beverages recorded the largest increase (+122 bp), partly reflecting the economic emergency, which raised taxes on alcoholic beverages and cigarettes.

- **Administered prices increased slightly, with annual inflation reaching 5.47% (+8 bp compared to December 2025)**, mainly due to higher inflation in gas (+115 bp) and urban transportation (+112 bp). In contrast, electricity (-147 bp) and water supply (-58 bp) saw declines in their inflation.

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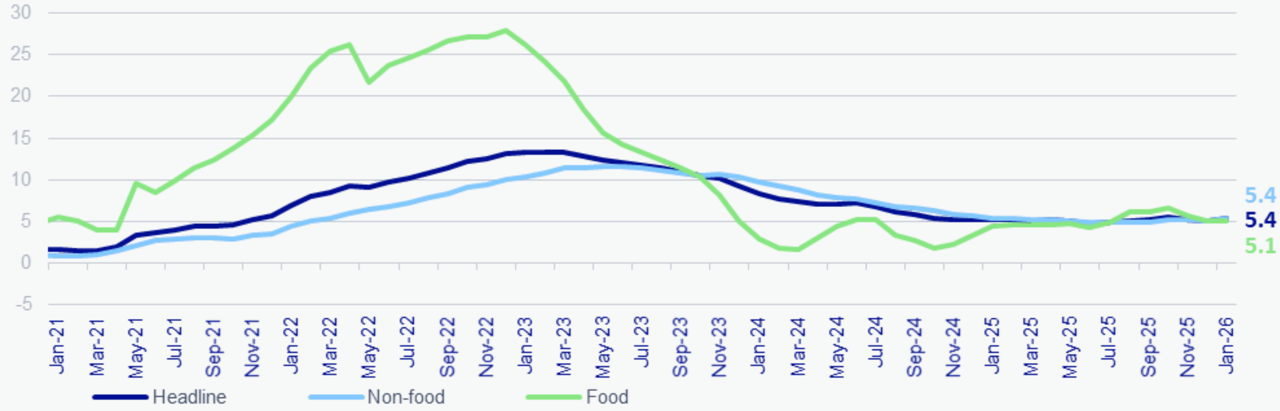
- **In this context, inflation excluding food and administered prices, closely monitored by the Central Bank, continued to rise and reached 5.39% (+37 bp compared to December 2025).**

- **Meanwhile, food inflation posted a slight increase, reaching 5.11% (+4 bp versus December 2025)**, reflecting offsetting dynamics within the basket. In particular, perishables inflation rose by 109 bp and meat inflation by 39 bp, while processed food inflation declined by 83 bp. The increase in perishables was mainly driven by potatoes (+977 bp) and plantain (+857 bp), while the rise in meats was largely explained by beef (+217 bp). By contrast, the slowdown in processed foods was mainly due to coffee (-381 bp) and soft drinks (-363 bp).

- **As anticipated, inflation accelerated in January as a result of indexation processes, intensified by the 23% increase in the minimum wage.** In this context, the services sub-basket—the most sensitive to such adjustments—recorded a significant increase. However, goods and regulated prices also rose; in the former case, likely influenced by the economic emergency, which raised taxes on alcoholic beverages and cigarettes. Indexation effects tend to be more pronounced during the first four months of the year, peaking in February. Therefore, despite the fact that the impact of the economic emergency on alcoholic beverages will fade and a COP 500 reduction in gasoline prices will be implemented—having a marginal effect of less than 0.1 percentage points on inflation—we expect the inflationary process to continue in February and even intensify. We anticipate that upward pressures will continue to originate mainly from services, given their labor-intensive nature and ability to pass higher labor costs onto final prices. Nevertheless, we also expect these pressures to materialize in goods, driven by stronger consumption associated with higher household incomes.

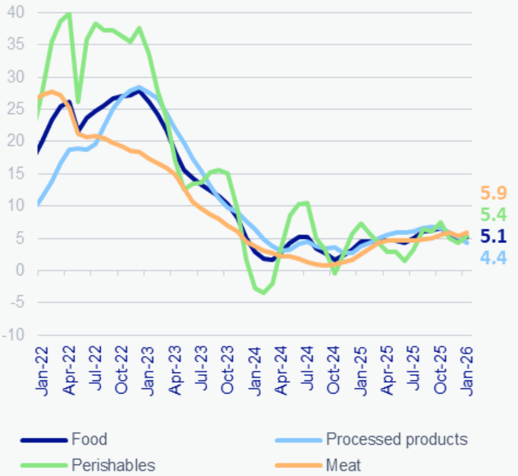
- **This outcome reinforces the Central Bank Board's decision to raise the policy interest rate**, as inflation excluding food and administered prices increased by 37 bp compared to December 2025. The next three months will be crucial, as most of the effects of the minimum wage adjustment on inflation will materialize during this period. In this context, we continue to expect the Board to raise the policy rate by an additional 200 bp, completing a total increase of 300 bp in 2026.

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



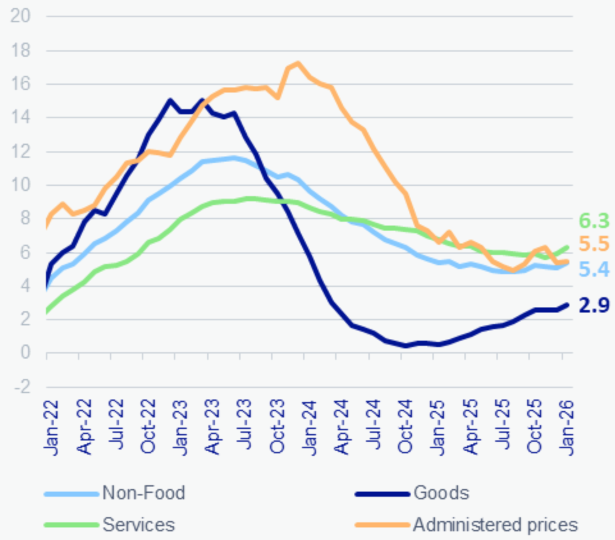
Source: BBVA Research with DANE data.

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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