MNI Colombia Central Bank Review: July 2025

MNI Point of View:

The Colombian central bank left its overnight lending rate unchanged at 9.25% at its July meeting. This came against analyst expectations of a 25bp rate cut, but the split board suggests that the balance of risks still remains tilted in favour of rate cuts in due course, albeit the bar for future easing has risen. The decision to remain on hold was driven by ongoing concerns over CPI expectations, as well as the fiscal deficit. Analysts generally expect the easing cycle to continue ahead, but in a far more cautious manner.

In keeping rates unchanged at 9.25%, BanRep opted for a marginal surprise versus consensus – however the split board (4 for unchanged, 1 for 25bps cut, 2 for 50bps cut) suggests the balance of risks still remains for rate cuts in due course. Unsurprisingly, the finance minister disclosed the government vote was for a cut today.

BanRep's statement noted that its decision "reflects a cautious approach to monetary policy" that incorporates the identified risks surrounding the expected convergence of inflation to the target. It adds that "future interest rate movements will acknowledge variations in inflation and its expectations, the behavior of economic activity, and the internal and external risk risk-balance" – a tweak from June's guidance which just stated that "future decisions will be determined based on the latest information available".

In justifying the hold on rates, Governor Villar outlined that the central bank is concerned over CPI expectations, as well as the fiscal deficit. In his Q&A, Villar no longer explicitly acknowledging a restrictive policy stance, and instead he suggested that further rate cuts could lead to excessive easing, pointing to the impact of the cuts which have already been delivered and thereby implying that previous easing may serve as a temporary substitute for future easing considering the lagged effects of monetary policy.

While minimum wage rises have not yet affected inflation, the Bank noted that minimum wage is likely to rise again next year, at a rate higher than the pace of inflation. This provides challenges for the policy stance. On demand, Villar noted that internal demand is growing at a strong pace, which urges "caution" on rate cuts.

Among sell-side, analysts note that the bar for future easing has risen given the Bank is expected to adopt a more restrictive stance moving forward. However, year-end policy rate forecasts of around 8.50-8.75% remain unchanged for now, but risks are noted to be tilted to less easing.

Link to monetary policy statement: https://www.banrep.gov.co/en/news/board-directors-july-2025

Notable Dates:

- **Aug 05** – Publication of Minutes
- **Aug 09** – July CPI Inflation Data
- **Aug 15** – Q2 GDP Data
- **Sept 05** – August CPI Inflation Data
- **Sept 30** – Next Rate-Setting Meeting

Analyst Views (Alphabetical):

BBVA: Expectation a More Restrictive Policy Stance for Remainder of 2025

- In BBVA's view, the press release was particularly brief and focused exclusively on traditional monetary policy topics. Fiscal issues, which had been prominently discussed in prior communications, were deliberately omitted. Nevertheless, both the statement and the press conference conveyed a distinctly hawkish stance by the central bank.
- Despite the lack of explicit references to fiscal matters in the statement, the Governor's comments confirmed that fiscal dynamics were central to the Board's internal discussions. The majority position on the Board was justified by these factors, underpinning a cautious approach to monetary policy that BBVA do not expect to shift significantly in the near term.
- This supports BBVA's expectation of a more restrictive policy stance for the remainder of 2025 than previously anticipated. Key elements likely to influence monetary policy in the coming months include: budget debates and funding negotiations in Congress, the trajectory of fiscal indicators, continued stickiness in core inflation, discussions on minimum wage increases, and ongoing strength in the labour market. Global developments further complicate the policy outlook.

Goldman Sachs: Hurdle for Near-Term Easing Has Risen Significantly

- While Goldman Sachs still believe the continuation of the cutting cycle is possible, the hurdle for near-term easing has risen significantly. A notable shift occurred during the Q&A, with Governor Villar no longer explicitly acknowledging a restrictive policy stance, unlike in previous meetings. Instead, he suggested that further rate cuts could lead to excessive easing.
- Goldman Sachs have a slightly less upbeat view of economic activity than the MPC, anticipating a deceleration in private domestic demand. However, the additional stimulus from domestic public demand (and expectations of even higher spending following the unveiling of the 2026 budget) may mitigate the slowdown, preventing a more forceful near-term response from the hawkish MPC camp.
- For now, Goldman Sachs maintain their expectation of further easing this year, but risks are clearly skewed towards fewer cuts than their current forecast of three 25bp moves. They say they may revise their rate forecasts after the publication of the Inflation Report and MPC minutes next week.

Itau: Risks Tilt to Fewer Rate Cuts Before Year-End

- With three policy meetings remain, Itau say risks tilt to fewer cuts to their year-end rate call of 8.75%. Inflation remains high, amid a tight labor market and fiscal risks persist. The IPoM, to be published on August 4, will include the technical staff's macroeconomic projections and a likely upward revision to the inflation expectations and the neutral rate.

JP Morgan: See Policy Rate at 8.75% by Year-End

- JP Morgan note that, overall, the four-director majority has maintained a steady course, cognizant of the myriad risks that could impede the convergence of headline inflation to the target within the policy horizon.
- Looking ahead, their central scenario anticipates annual headline inflation decelerating to 4.70% by late in the third quarter, potentially paving the way for a 25bp policy rate cut in October, followed by another 25bp reduction in December, driving the policy rate to 8.75% by year-end.
- The forecast risk is tilted towards higher rate levels, JPM note, particularly if fiscal policy becomes more procyclical, as suggested by the 2026 Budget Law draft presented by the administration. JPM maintain 8.50% as the terminal level for 2026.

SocGen: See Upside Risks to Year-End Policy Rate Forecast of 8.50%

- SocGen note that the central bank's statement underscored the lack of progress on disinflation and highlighted recent growth resilience as a key factor behind the decision. The statement also noted that inflation expectations remain above target, with a mixed outlook, especially as indicated by debt market signals.
- SocGen say the growth-inflation mix remains challenging for the central bank. With ex-ante real rates at 5.35% – more than double the estimated neutral rate of 2.6% – the decision to resume easing will remain finely balanced. While the near-term inflation outlook is difficult, some of this can be attributed to sector-specific price behaviour during the post-pandemic recovery.
- They say additional normalisation of inflation over the coming year should allow BanRep to cut rates further, though the central bank's continued hawkish stance suggests any easing will be extremely cautious in the months ahead. Given this context, SocGen see further upside risks to their year-end policy rate forecast of 8.50%.

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