MNI Colombia Central Bank Review: October 2025

MNI POV: Extended Hold Seen Amid Inflation Concerns

The Colombian central bank left its overnight lending rate unchanged at 9.25% for a fourth consecutive meeting in October, in line with expectations. Once again, the decision was split 4-1-2, with one member voting for a 25bp cut and two members voting for a 50bp reduction, the same as at the previous meeting in September. The decision reflected concerns about rising inflation expectations and the risks to inflation, which is only seen returning to target in H1 2027. Analysts now expect the Board to remain on hold until well into next year, with the easing cycle potentially not resuming until the second half of the year.

The accompanying statement continued to strike a cautious tone, with the Board emphasising the increase in inflation expectations, noting that “all measures exceeded the 3% target for the next two years”. The Board also noted that headline inflation had increased for a third consecutive month in September, bringing it to its highest level since end-24. Speaking afterwards, Governor Villar flagged the inflation risks faced, stating that inflation is not seen returning to target until H1 2027. He also said that the board discussed risks that would warrant rate hikes, although the base case is still to keep rates unchanged. He now sees rates staying unchanged for longer.

In contrast, the more dovish government-appointed members continued to push for renewed rate cuts. Deputy Finance Minister Betancourt said that there is room to lower interest rates and that monetary policy should be used to boost growth. Amid concerns about the elevated fiscal deficit, she said that the government has little room for spending cuts and needs more revenue for a fiscal adjustment. She said that the government sees the approval of the tax bill for next year's budget as likely.

Meanwhile, President Petro posted on X following the decision to say that interest rates will only drop if the government elects a new member to the BanRep board. However, he is not due to appoint any more members before his term ends next August, meaning that this would only be possible in the meantime if an existing member steps down.

On activity, the committee said that domestic demand remains strong, driven by private and public consumption, as well as a rebound in investment. External financial conditions have eased, but the trade deficit has widened further on the back of the strength of domestic demand and a decline in mining and energy export volumes.

Overall, the Board reiterated that the decision to stay on hold reflected a “cautious monetary policy stance that acknowledges potential risks in the path of expected inflation convergence to the target.” Future decisions will continue to incorporate “variations in inflation and its expectations, the behavior of economic activity, and internal and external risks”. Analysts expect an extended rate hold ahead, with cuts potentially not resuming until H2 2026.

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

Notable Dates:
Nov 05 – Publication of Quarterly Monetary Policy Report
Nov 06 – Publication of October Meeting Minutes
Nov 10 – October CPI Inflation
Dec 19 – Next MPC Meeting

Analyst Views

BBVA: See Rates on Hold for Much of 2026, Still Prefer Tactical Short COP Positions

- The board’s forward guidance stuck to the narrative of staying on hold for longer, with Governor Villar noting the potential for future cuts while avoiding any mention of the hikes that the market has started to price.

Overall, the statement highlights the Bank's cautious stance, emphasising future risk factors. BBVA maintain their stance of rate stability for the remainder of the year and much of 2026.

- Given that the decision was widely expected, the direct market impact should be limited. However, BBVA believes that the recent pricing of a hike in early 2026 will be faded. If not now, then as more information on year-end indexation pressures is known, particularly around the minimum wage hike.
- BBVA still prefers COP short positions for the medium term, given weaker fundamentals and sticky inflation in Colombia. Yet they acknowledge that such exposures have to be tactical, given high carry costs and the potential for sizeable shifts in the exchange rate based on developments, either domestically (changes to pension fund rules, liability management operations) or with regards to US policy vis-à-vis Colombia.

Goldman Sachs: BanRep More Likely to Remain on Hold Than Hike

- All told, the data will dictate the direction of policy travel. Goldman Sachs still thinks that the MPC is more likely to remain on hold for the foreseeable future than to hike.
- In their view, the current data do not support initiating a hiking cycle: the policy stance remains restrictive, the economy is resilient but not strong, disinflation is delayed but not derailed, and GS thinks that the recent deterioration of inflation expectations is transitory.
- The main upside risk to inflation is a substantial minimum wage hike, although GS does not think that an adjustment in the magnitude that now appears consensus - around 10-12% or even a couple of points higher - would suffice to trigger a hiking cycle.
- GS expects the MPC to remain patient until it has enough information about the inflationary impulse from the wage adjustment, which would effectively rule out hikes through Q1 2026. This view could be challenged by continuous (i.e. not transitory) drifting of inflation expectations or the materialisation of additional risks to inflation (e.g. gas disruptions) that would prompt the MPC for more front-loaded defensive moves.

Itaú: Expect Policy Rate to Remain Unchanged at Least Until H2 2026

- Governor Villar noted that the technical staff expects inflation to remain relatively stable through year-end before resuming a downward trend in early 2026. September’s unfavourable inflation and rising expectations pushed convergence to the target range to H1 2027, prompting the Board to hold rates. Governor Villar highlighted the challenges posed by sharp increases in the minimum wage on inflation targets.
- Villar affirmed that monetary policy remains restrictive, supporting the disinflation process, where the neutral interest rate is lower than the current real interest rate. Villar remarked that the policy rate will remain stable for a longer period than previously anticipated, with the possibility of being reduced later on, though other decisions cannot be ruled out as inflation risks materialise going forward.
- The rebound in inflation, de-anchoring of inflation expectations, strength of domestic demand, and persistent fiscal imbalances limit the room for monetary policy easing. Itaú anticipates that BanRep will keep the policy rate unchanged at 9.25%, at least until H2 2026.

JP Morgan: Rates on Hold Until at Least Second Half of 2026, Risks Tilted Toward Tightening

- Echoing previous meetings, the majority’s stance was shaped by persistently high inflation, while economic activity remains robust. Governor Villar noted that the central scenario - set to be presented by the Staff this week - assumes headline inflation will remain stable through year-end, before resuming a downward trajectory early next year. Nevertheless, the Staff does not anticipate inflation converging to target by the end of 2026, but rather in the first half of 2027. Villar also recognised that the GDP level is getting closer to potential.
- Looking ahead, JP Morgan says that the prospects for monetary easing appear limited, with near-term risks skewed toward further rate hikes rather than cuts. Both headline and core inflation are projected to remain stubbornly elevated. The administration is preparing to implement a significant increase in the minimum wage - one that will outpace realised inflation and may deliver real income gains exceeding productivity growth. Meanwhile, expansionary fiscal policy is expected to continue fuelling inflationary pressures within the services sector.

- In light of these risks, JPM anticipates that the policy rate will remain steady until at least the second half of next year. Notably, the balance of risks in the first quarter remains tilted toward additional tightening, rather than premature easing.

Scotiabank: See Rate Cuts Resuming in H2 2026, Dependent on Size of Minimum Wage Hike

- Governor Villar stated that although there are some risks that could lead to discussions about hikes, these currently have a low probability. Overall, the tone of the meeting was more moderate compared to recent movements in the IBR market. On the upcoming minimum wage hike, Villar was prudent, noting that an increase in the minimum wage has a redistributive effect, but also presents challenges on the inflation front that must be considered. In contrast to the language typically used by the central bank at this time of year - usually calling for a prudent wage hike - Governor Villar's comments were more conservative.
- Scotiabank's view is that the government will pursue a real increase in the minimum wage above the technical rule of inflation plus productivity. In that regard, the reaction of the majority of the board in 2026 will depend on how the wage adjustment impacts inflation at the beginning of next year.
- Scotiabank expects a minimum wage hike of 11-12%. With this, they expect the stickiness of services inflation to continue. However, for now, they do not see a significant probability of an acceleration in headline inflation, with their 2025 year-end forecast at 5.31%, and end-2026 forecast at 4.34%.
- That said, a "wait and see" approach remains their base case, with the policy rate remaining stable until mid-2026, and cuts potentially resuming in H2 2026 to close the year at 8.25%. However, they recognise that risks are tilted to the upside and are strongly dependent on the decision regarding the minimum wage.