MNI Colombia Central Bank Review: September 2025

MNI POV: Board Split As Easing Cycle Pause Extended

The Colombian central bank left its overnight lending rate unchanged at 9.25% for a third consecutive meeting in September, 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 decision reflected concerns over the outlook for inflation, which is no longer seen returning to target next year amid a large minimum wage hike. Many analysts expect the Board to remain on hold through year-end, although some still see scope for a possible cut in December.

The accompanying statement continued to strike a cautious tone, with the Board noting that latest CPI inflation data had come in above the technical staff's forecasts, amid an increase in inflation expectations. Looking ahead, the Board's new outlook "suggests a slower convergence of inflation toward the 3% target", which was reiterated by Governor Villar in the post-meeting press conference. With the minimum wage set to rise above inflation next year, Villar said that inflation was now only expected to return to target in 2027.

On activity, Villar said that internal demand is growing at a strong pace, after Q2 growth came in line with expectations. The statement noted positive momentum in domestic demand, further increases in consumption and, more recently, in investment. However, Finance Minister Avila highlighted the continued split in the Board as he said that the government didn't agree with the decision to stay on hold and argued that rates need to be lowered to boost growth.

On the external front, the Board said that uncertainty remains high, although it noted that external financial conditions have eased in recent weeks. Meanwhile, the central bank announced that it had cancelled its flexible credit line agreement with the IMF (after it had been suspended in April), which Villar said won't impact the country's financing. He added that there is no need to boost international reserves, which are "adequate".

Overall, the Board reiterated that the decision to stay on hold reflected a "cautious approach to monetary policy that incorporates the identified risks surrounding the expected convergence of inflation to the target". Future decisions will continue to acknowledge "variations in inflation and its expectations, the behavior of economic activity, and the internal and external risk risk-balance". Many analysts now expect the central bank to remain on hold until early next year, although some still see the door being open to a possible cut in Q4.

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

Notable Dates:
Oct 03 – Publication of September Meeting Minutes
Oct 08 – September CPI Inflation
Oct 31 – Next MPC Meeting

Analyst Views

BBVA: Recently Entered Short COP Trade

- BanRep kept rates on hold at 9.25%, as expected, adding some hawkish tone to its statement. Policymakers also announced the formal cancellation of the IMF's FCL line, which the Fund first suspended in April.
- The decision to hold rates backs the COP carry but the IMF's cancellation move is slightly supportive of BBVA's short COP trade idea entered yesterday.

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- Alternatively, opportunities exist in being long volatility or vega above 6m in COP, which picks up the noise of the 2Q26 elections. With cuts already largely priced out the decision impact on local rates will be limited.

Goldman Sachs: December Meeting Open for 25bp Rate Cut

- The communique was mostly as conservative as Goldman Sachs anticipated, reiterating the cautious tone with the board emphasising risk management, upside inflation risks, and resilient domestic demand as key factors supporting the hold. However, GS interpreted the signals from the press conference as less hawkish than those from the July meeting.
- During the press conference, Governor Villar highlighted that the hawkish members' decision was informed by an upward tilt in the balance of risks for inflation, which probably includes the prospect of a significant minimum wage increase for 2026.
- That said, there were clear indications that further rate cuts remain in the pipeline. The communique noted a more favourable external backdrop, characterised by easier global financial conditions and hinting at the potential for a deeper-than-expected FOMC easing cycle. In turn, Governor Villar was more explicit than in previous statements about the restrictive nature of the current policy stance. He also confirmed that rate hikes are not part of the Board's current menu of policy options, dismissed concerns about consumption credit growth, and expressed confidence that inflation will eventually return to target without reaccelerating.
- GS maintain their expectation that the MPC will remain on hold in October, but still see the December meeting as open for a 25bp rate cut - their base case. This forecast is predicated on the materialisation of two additional FOMC rate cuts, stable inflation expectations, and confirmation from upcoming activity data that the transitory buoyancy observed in July's economic activity has subsided.

Itaú: Forecast Unchanged Rates Through Year-End

- Governor Villar emphasised that most members are maintaining a cautious stance, acknowledging the risks associated with inflation converging to the target. Nevertheless, he emphasised that the Board's discussion has centred between holding and lowering the policy rate, yet the downward disinflation trend is less clear than before. Villar stated that an interest rate hike has not yet been considered a plausible option given the contractionary levels of monetary policy.
- Sticky inflation, increasing inflation expectations, strong consumption dynamics, and a large fiscal imbalance limit space for monetary policy action during the final two meetings of the year. Itaú expects Banrep to hold the monetary policy rate at the current 9.25% through year-end.

JP Morgan: Policy Rate Remaining Stable Until Early Q2 '26.

- The majority's resolve was shaped primarily by stubbornly high inflation. Both headline and core CPI figures surpassed the technical team's projections. The bank's communique further acknowledged that the latest forecast scenario points to a more protracted path toward the 3% inflation target.
- The rate decision coincided with the official cancelation of Colombia's Flexible Credit Line (FCL) with the IMF. The move follows the IMF's earlier announcement that access to the facility would remain frozen due to fiscal risks. With no access to the unconditional line, Colombia decided to cancel it. The central bank noted that FX liquidity remains ample, offering reassurance amid global uncertainty. Consequently, officials see little justification for reopening the FX accumulation program.
- Looking ahead, the prospects for monetary easing appear limited. The administration is poised to raise the minimum wage well above realised inflation, delivering real gains that outpace productivity growth. Meanwhile, expansionary fiscal policy is set to continue fuelling services inflation. JPM foresees the policy rate remaining stable until early 2Q26.