MNI Colombia Central Bank Preview: October 2025

Monetary policy decision and statement press release: 1800GMT/1400ET – Friday, October 31, 2025.

MNI POV: Bar To Renewed Easing Rises Further

BanRep is expected to keep the overnight lending rate unchanged at 9.25% for a fourth consecutive meeting on Friday. The minutes to last month's meeting suggested that the bar to renewed rate cuts has moved even higher, amid concerns over persistent inflation, uncertainty over the disinflation trajectory and the increase in the fiscal deficit. Furthermore, board member Villamizar has said that a rate hike might need to be considered. While this is not the base case yet, analysts have pushed their expectations for the next cut further out, to April 2026.

Inflation No Longer Seen Returning to Target Next Year

After leaving the policy rate unchanged in a split decision again last month, the majority of the BanRep board struck a cautious tone due to mounting concerns over the outlook for inflation, which is no longer seen returning to target next year. Speaking after the meeting, Governor Villar said that with the minimum wage set to rise above inflation next year, inflation was now only expected to return to target in 2027.

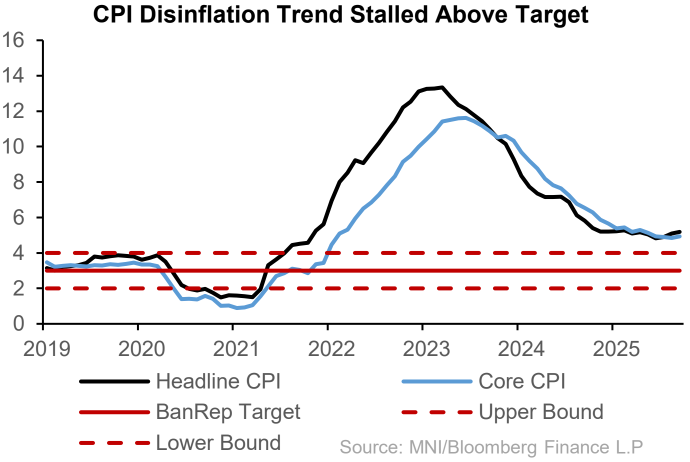
The subsequent minutes to that meeting pointed to risks of an extended rate hold ahead. The four members who voted to stay on hold said that there were "even more compelling reasons" than previously to keep the policy unchanged, including stagnant inflation, uncertainty over future disinflation and the increase in the fiscal deficit, which will boost domestic demand. They also cautioned on the possibility of an uncontrolled increase in the minimum wage and flagged concern about rising inflation expectations, while downplaying the benefit of recent FX strength.

In contrast, the two members who voted for a 50bp cut believed that the majority view was "overly conservative", which doesn't support the goal of achieving higher growth rates to consolidate the economic recovery. The member who voted for a 25bp cut noted the "slight increase" in inflation but did not see anything to warn about worrying spikes. He also saw room to cut rates to boost "modest growth" and sustain job creation.

Stagnant Inflation & Rising Expectations a Concern

Speaking more recently, Governor Villar reiterated his ongoing concerns about the slow convergence of inflation to target, once again flagging risks from the large minimum wage hike and elevated fiscal deficit. He also referenced the strength of the significant economic recovery, which he said isn't sustainable. These concerns were reinforced by the latest CPI inflation data, which came in above expectations in September. Headline inflation rose by 8bp to a seven-month high of 5.18% y/y (vs. 5.11% expected), while core inflation increased by 9bp to 4.94% y/y (vs. 4.84% exp.). The policy-relevant core ex-food and regulated prices measure was stable at 4.8% y/y.

CPI Disinflation Trend Stalled Above Target



Source: MNI/Bloomberg Finance L.P

Looking ahead, unhelpful base effects look set to keep the headline and core rates around these levels through the rest of the year, after which the significant 2026 minimum wage hike presents a meaningful risk to the outlook. According to the latest BanRep analyst survey, headline inflation is now expected to end this year at 5.21% y/y, up from 5.04% seen last month, while core inflation is expected to close the year at 4.90% (vs. 4.69% ahead of the September meeting). Further ahead, 2026 year-end CPI expectations have also risen further, with the headline rate expected to finish next year at 4.25% (up from 4.02% previously), while core inflation reaches 4.14% (vs. 3.98% previously).

Business Address – MNI Market News, 3rd Floor, 1 Great Tower Street, London, EC3R 5AA

Overall, the stalling of the disinflation trend and recent increase in inflation expectations suggests that there is no room to lower interest rates at this juncture. Indeed, BanRep co-director Villamizar said recently that the central bank may need to consider a rate hike if the inflation outlook deteriorates further, adding that to consider a rate cut, inflation expectations would need an important correction, and the government would need to rein in the fiscal deficit. Against this backdrop, analysts have pushed back their expectations for a resumption of BanRep's easing cycle to April 2026, according to the latest BanRep survey. The policy rate is now expected to end next year at 8.25% (vs. 8.00% seen previously), before slowly falling towards 7.5%.

Ongoing Fiscal Pressures a Constraint on Further Easing

Villamizar also sees risks that the fiscal deficit could be close to 8% of GDP this year, well above the government's 7.1% forecast and last year's 6.7% deficit. Although Congress recently approved the COP 547tn 2026 budget bill, the government still needs to raise COP 16tn through a proposed tax reform bill, and the track record has not been good on the passage of tax reform lately. With the primary deficit forecasted to be 2.4% of GDP, a large portion of the overall fiscal deficit will be interest on the debt, which could come under pressure on the back of any potential future rate hikes.

Nonetheless, public credit director Javier Cuellar said recently that the government will continue with its liquidity management operations as it seeks to lower the interest cost of its debt. He said that the government is planning more USD bond buy backs funded with Euro issuance going forward, with the aim of lowering interest payments to 3.2-3.8% of GDP, from 4.7% currently. Cuellar also said that the government sees public debt below 60% of GDP this year, targeting a figure between 57% and 59%.

Economy Supported by Resilient Consumer Demand

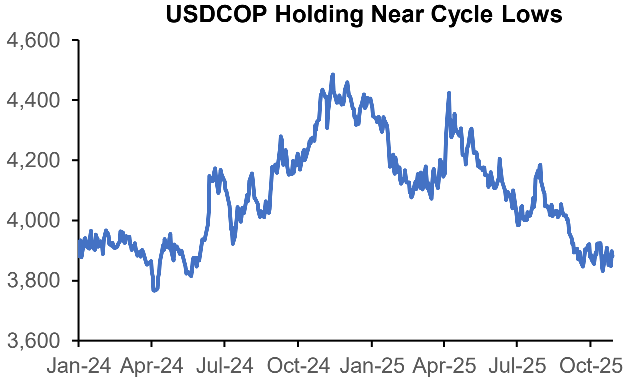
Meanwhile, economic activity disappointed in August, with growth slowing by more than expected to 2.0% y/y, from 4.4% in July. The disappointment came amid a larger-than-expected contraction in manufacturing production over the month and a softening of consumer spending. Despite this, retail sales are still growing at a double-digit pace, as consumer demand continues to be supported by a tight labour market and robust wage growth. And after a strong start to the quarter, the economy remains on track to expand by around 2.5% this year.

Nonetheless, the soft August data mean that the Board is likely to remain split this month, possibly in another tight 4-3 vote, with the more dovish government-appointed members continuing to argue for renewed rate cuts. Concerns about the impact of heightened tensions with the US are also likely to weigh on the decision, even if the sanctions imposed by the US on President Petro and members of his inner circle for alleged drug trafficking have very limited macro impact. Importantly, the trade relationship with the US has not been impacted so far, and US Secretary of State Marco Rubio said over the weekend that the US does not want to harm Colombia's people and its economy with the sanctions imposed on the President.

Peso Still Anchored by Attractive Carry For Now

Despite the ongoing fiscal concerns, and mounting US tensions, the Colombian peso has remained resilient in recent weeks, with USDCOP falling to a fresh cycle low earlier this month. The move reflects the benefit of continued attractive carry for the peso, as well as support from reports that the government is preparing a draft decree to boost private pension fund investments into local assets. Nonetheless, while BanRep board members have downplayed the benefit of recent peso strength, analysts note that renewed weakness could put pressure on them to consider rate hikes ahead. For USDCOP, the 50-day EMA has been an important technical point, capping the price action well since mid-August. The average intersects at 3925, which is the key short-term resistance for the pair. On the downside, key support is at 3738.25, the April 08, 2024 low.

USDCOP Holding Near Cycle Lows



Source: MNI/Bloomberg Finance L.P

MNI Colombia Data Watch List

Inflation		Current	3m ago	3m Chg	6m ago	6m Chg	2Y History	Hit / Miss	Vs Trend	Surprise Index	Z-Score
CPI	% y/y	5.18	4.8	↑	5.1	↑					-0.75
Core CPI	% y/y	4.94	4.9	→	5.2	↓					-0.68
Oil Price (WTI Active)	$	60.26	61.65	↓	67.42	↓					-0.18
Economic Activity		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
PMI Manufacturing	Index	52.0	51.0	↑	49.4	↑					0.48
Manufacturing Prod.	% y/y	1.0	3.0	↓	-1.2	↑					-0.25
Economic Activity NSA	% y/y	1.98	2.44	↓	1.33	↑					
Trade Data		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
Trade Balance	$ M	-1678.5	-1448.4	↓	-1241.0	↓					-1.22
Exports FOB	$ M	3842.2	4358.1	↓	3780.3	↑					
Consumer / Labour Market		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
Retail Sales	% y/y	12.4	10.1	↑	12.7	↓					0.73
Consumer Confidence	Index	1.6	2.2	↓	-7.1	↑					0.79
National Unemployment Rate	%	8.6	9.0	↓	10.3	↓					-0.77
Urban Unemployment Rate	%	7.8	9.0	↓	9.8	↓					-1.24
Markets		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
Bolsa de Valores	Index	12,300	12,180	↑	12,600	↓					0.68
Local 10-Year IBR Swap Rate	%	9.57	9.28	↑	9.18	↑					0.37

Note: For quarterly data the 3m ago column will display the previous data point and the 6m ago column will display the data point prior to that.
Source: MNI, Bloomberg

Analyst Views

All 27 analysts in the latest Bloomberg survey expect the central bank to remain on hold at 9.25% this week.

BBVA: Expect BanRep to Remain on Hold in Another 4-3 Split Vote

- BanRep is expected to keep rates on hold at 9.25%, which would be its fourth consecutive pause. The board is likely to remain split, with four members voting to hold, and the other three favouring cuts.
- The majority of the board's concerns regarding the lack of inflation convergence (strengthened after the latest upside surprises and the deterioration in inflation expectations) and unsustainable fiscal trends remain in place and are likely to linger into H1 2026, with the addition of new substantial minimum wage revisions and an eye on the COP.
- The peso's strength has allowed the bank to be more sanguine about the inflation trend and risks, but a larger slide could put additional pressure on policymakers to consider hikes instead. Carry is an important factor for the COP, beyond political and trade tensions.

BNY Mellon: Real Rate Buffer to Remain High Until US Tensions Ease

- BNY Mellon expect the overnight lending rate to be left unchanged at 9.25%, as the central bank will likely continue to advocate for a high real-rate buffer until trade tensions with the US ease.
- Inflation is slowing on a sequential basis, and they believe that some room for monetary easing should materialise in the medium term. However, demand remains high in the economy, with robust double-digit growth in retail sales, while the labour market is marginally tightening.
- Recent iFlow data have shown strong flows into domestic asset markets, but BNY believes that the COP will likely be under pressure as carry trades unwind.

Itaú (Oct 10): Only See Rate Cuts Resuming in H2 2026

- Itaú's preliminary estimate for October's monthly inflation (scheduled for release on November 10), ranges between 0.1% and 0.2%, leading the annual CPI print to increase to between +5.4% y/y and +5.5% y/y. In the last months of the year, base effects and pressure over food and gas prices will lead inflation to remain above 5%.
- Amid persistent inflation, rising CPI expectations, and lingering pressure on the fiscal accounts, caution remains essential. The bar is high for any cut in the monetary policy rate this year and Itaú forecasts the policy

Business Address – MNI Market News, 3rd Floor, 1 Great Tower Street, London, EC3R 5AA

rate to remain unchanged at 9.25% for the rest of the year. They only see rate cuts resuming in H2 2026, reaching 8.25% by the end of 2026.

JP Morgan (Oct 08): No Scope for Monetary Easing at this Juncture

- Inflation figures for September exceeded expectations, with the annual rate rising for the third consecutive month. The underlying data is particularly concerning, highlighting the entrenched nature of price pressures, especially within core inflation. Notably, both food and energy inflation undershot JP Morgan's forecasts, thus a pronounced upside surprise in core inflation accounted for the entirety of the monthly forecast deviation.
- Although seasonally adjusted data indicate a modest deceleration in headline inflation, core price momentum remains persistently elevated, suggesting headline CPI convergence to target is to be further delayed.
- JPM have revised higher both 2025 and 2026 end-of-year projections, to 5.10% y/y and 4.55% y/y, respectively.
- The September inflation print reinforces JPM's assessment that there is no scope for monetary easing at this time, while it opens the discussion on whether the BanRep will be forced to tighten monetary conditions in the coming months.

Scotiabank: Guidance in Focus as BanRep Set to Stay on Hold Until Q2 2026

- Scotiabank sees BanRep remaining on hold at 9.25% until 2Q26. August economic activity data were somewhat disappointing, with a slowdown to 2.0% y/y, from 4.4% in July, falling short of forecasts of around 3%. However, seasonal or base effect factors may have played an outsized role in driving a soft print, while the economy is still tracking an expansion of about 2.5% this year on the back of strong household spending.
- The bank's guidance will be the main thing to watch this week, with a focus on their views regarding the government's possible double-digit minimum wage increase for 2026 and the upside inflation risks it would generate.

SocGen (Oct 10): No Longer Expect Rate Cuts This Year

- The BanRep board remains highly divided, with the majority opting to keep rates unchanged amid stalled disinflation and an uncertain fiscal outlook. The economy is currently supported by significant fiscal stimulus, driving consumption and domestic demand, but faces weakening exports and potentially unsustainable external balances.
- The policy outlook after next year's presidential election is unclear, though the peso's relative strength suggests markets expect a fiscally responsible government. An improved medium-term fiscal outlook could allow BanRep to cut rates more aggressively in the second half of 2026. However, the prospect for near-term rate cuts now depends more on a sharp growth slowdown than on peso appreciation (although aggressive Fed easing could still alter this view). Minutes from the September monetary policy meeting indicate that most board members continue to discount the impact of significant peso appreciation on inflation.
- Given the stubborn inflation outlook, SocGen no longer expects BanRep to cut rates in 4Q25, raising their year-end rate forecast to 9.25% (from 8.75%). They now anticipate 25–50bp cuts in 1H26, and another 100–125bp in 2H26, resulting in an end-2026 policy rate forecast of 7.75% (previously 7.25%). Policy rate forecasts remain highly sensitive to election outcomes.