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Inflation moderates to 6.03% in July, but risks persist

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- **Annual inflation declined to 6.03% in July, after four consecutive months of increases.** As a result, it decreased by 11 bps compared to June, although it remains 93 bps above the level observed at the end of last year.
- **The moderation relative to June was mainly explained by food.**
- **In food, the relief was mainly explained by perishables.** However, we believe this moderation will be temporary, given the risk of lower availability of some products as a result of the recent earthquake (August 10, 2026) and the materialization of the effects of El Niño during the fourth quarter.
- **In contrast, inflation excluding food increased slightly, completing five consecutive months of increases. This behavior was mainly explained by regulated items, particularly higher electricity and gas tariffs.**
- **Services inflation declined slightly, while services inflation excluding rents fell for the second consecutive month.** This could suggest that some pressures, such as those associated with the minimum wage increase, are beginning to dissipate, although upward pressures persist in some components and new pressures stemming from higher labor costs could emerge.
- **We expect the decline in inflation observed in July to be temporary and inflation to resume an upward trend in the coming months,** in a context marked by the materialization of the effects of El Niño, strong domestic demand, higher labor costs, and risks stemming from the conflict in the Middle East. **We maintain our forecast of 7.0% inflation at the end of 2026.**

Monthly inflation in July stood at 0.17%, below BBVA Research expectations (0.27%) and analysts' forecasts (0.31%). **As a result, annual inflation declined to 6.03%, 11 basis points (bps) lower than in June, although it remains 93 bps above the level observed at the end of last year.**

The moderation in annual inflation was mainly explained by the food basket, whose annual variation declined to 5.82%, 101 bps below the level recorded in the previous month. This behavior was mainly explained by perishables and, to a lesser extent, processed foods.

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In perishables, annual inflation declined to 9.83% (-315 bps). The relief mainly came from fresh fruits and plantains, although tomatoes, cassava, and onions also contributed. This behavior could be associated with greater availability of these products.

In processed foods, annual inflation declined to 2.33% (-40 bps), mainly driven by coffee, which has now completed nine consecutive months of moderation. In contrast, meat inflation continued to increase and stood at 7.37% (+18 bps), with increases in beef, pork, and chicken. As a result, this sub-basket has now completed four consecutive months of increases.

We believe that the moderation in food inflation, particularly in perishables, will be temporary and that this basket could resume an upward trend in the coming months. On the one hand, the effects of the earthquake recorded on August 10 could generate upward price pressures due to the lower availability of some products resulting from disruptions to transportation routes.

On the other hand, the National Oceanic and Atmospheric Administration (NOAA) confirmed in July that El Niño conditions remained in place and raised the probability of a very strong event between October and December of this year from 63% to 81%. We expect the effects of El Niño on perishables to begin materializing during the fourth quarter, generating renewed upward price pressures.

In contrast, annual inflation excluding food increased slightly to 6.08% (+9 bps), completing five consecutive months of increases. This behavior was mainly driven by higher inflation in regulated items.

In regulated items, annual inflation increased to 6.44% (+53 bps), mainly driven by higher electricity and gas tariffs. In the case of electricity, the largest increases were concentrated in Bogotá, Medellín, Cali, and Barranquilla. In gas, a base effect also contributed to amplifying the increase in annual inflation. With this result, the regulated items sub-basket has now completed five consecutive months of increases.

In goods, annual inflation remained relatively stable at 3.25% (+2 bps), reflecting offsetting forces within the basket. While mobile phone equipment and men’s clothing exerted upward pressure, new and used private vehicles continued to show moderation. In particular, vehicle inflation has now completed ten consecutive months of declines. This behavior suggests that pressures stemming from strong domestic demand could be partially offsetting the disinflationary effect of the peso appreciation.

Meanwhile, annual services inflation declined to 6.96% (-7 bps), mainly due to the moderation in rents and fixed and mobile communication services. Air transport, cinemas and theaters, and package holidays also contributed. In rents, the monthly variation stood at levels similar to its pre-pandemic average, contributing to the decline in annual inflation. In air transport, the moderation reflects the fading of pressures observed between March and May, associated, among other factors, with the holiday season. Similarly, the deceleration in cinemas and theaters and package holidays would be related to the end of this season.

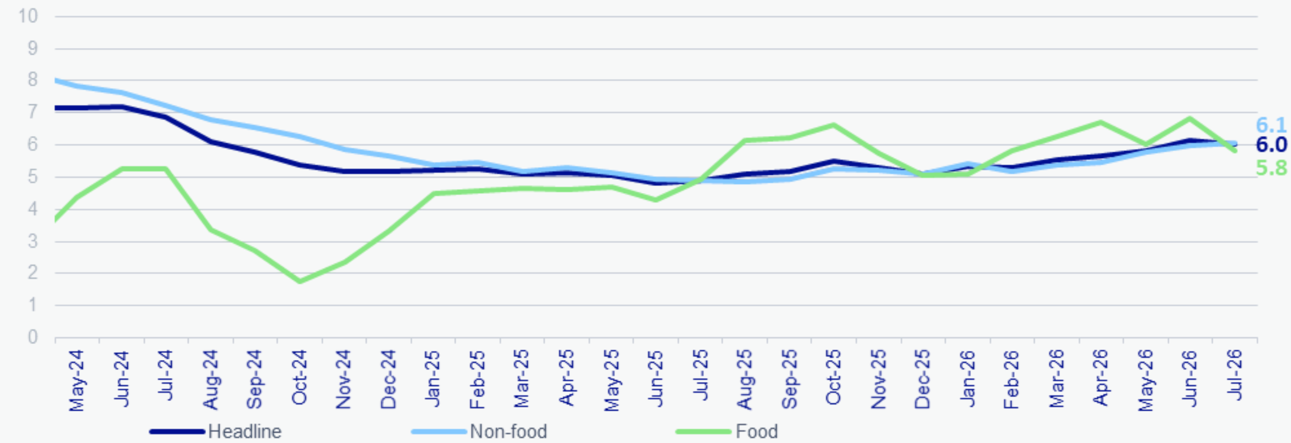
In this context, services inflation excluding rents also declined, to 8.98% (-4 bps), completing two consecutive months of slight reductions, although it remains at very high levels. This behavior could be a sign that some pressures, such as those associated with the minimum wage increase, are beginning to dissipate. However, this signal remains heterogeneous: in July, for example, inflation in residential property management services continued to increase significantly, probably still reflecting the effects of the minimum wage increase. Looking ahead, additional pressures on services could emerge from higher labor costs associated with the reduction in maximum working hours and higher Sunday and public holiday premiums. It is worth noting that services inflation excluding rents remains 233 bps above the level observed at the end of last year and at levels not seen since early 2024.

Risks to inflation excluding food remain elevated, particularly for regulated items. The conflict in the Middle East continues to exert pressure on oil prices. At the same time, El Niño could generate additional pressures on electricity tariffs and increase gas import requirements. Imported gas, in addition to being more expensive, could generate second-round effects on sectors such as industry and transportation.

In this context, annual inflation excluding food and regulated items —a measure closely monitored by the Central Bank— declined slightly to 5.96% (-4 bps). This result reinforces the decision of the Central Bank's Board of Directors to keep the policy rate unchanged at 12% at its July meeting.

In conclusion, annual inflation declined in July for the first time after four consecutive months of increases. However, the moderation was mainly explained by food. **We expect this decline to be temporary and inflation to resume an upward trend in the coming months,** in a context marked by the materialization of the effects of El Niño, strong domestic demand, higher labor costs, and risks stemming from the conflict in the Middle East. Under this scenario, **we maintain our forecast of 7.0% inflation at the end of 2026.**

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



Source: BBVA Research with DANE data.

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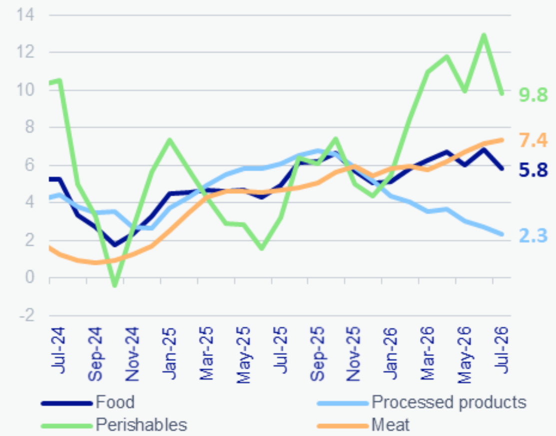
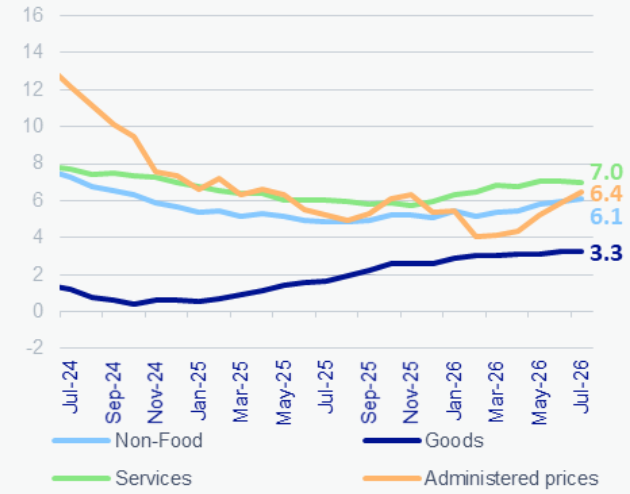
FOOD INFLATION AND MAIN BASKETS
(ANNUAL CHANGE, %)



Source: BBVA Research with DANE data.

INFLATION OF MAIN NON-FOOD BASKETS
(ANNUAL CHANGE, %)



Source: BBVA Research with DANE data.

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