

Annual inflation rose to 6.29% in September, driven by food prices

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Octubre 08, 2026

Key takeaways

- **Annual inflation edged up to 6.29% in September**, 5 basis points (bps) above August and 119 bps above its end-2025 level.
- **This increase reflected two opposing trends: accelerating food inflation and moderating non-food inflation.**
- **The acceleration in food inflation was driven by perishable products.** Potatoes once again exerted upward pressure on inflation, alongside significant price increases in tomatoes and fresh vegetables and legumes. These developments were associated with less favorable weather conditions in recent months.
- **Non-food inflation declined by 9 bps, ending a six-month upward trend, supported by a significant moderation in goods inflation.** Vehicles and, to a lesser extent, alcoholic beverages (including beer) accounted for most of the slowdown in this component's annual inflation rate. Regulated-price inflation also moderated, primarily reflecting lower annual electricity price inflation. Meanwhile, services inflation remained broadly stable, although underlying pressures emerged in rents, airfares, and selected restaurant-related items. These increases were offset by a moderation in mobile telecommunications prices.
- **On the positive side, the moderation in goods inflation suggests that the favorable effects of exchange rate appreciation are finally beginning to pass through to consumer prices, albeit with a lag.** The cumulative appreciation of the Colombian peso so far this year could provide further disinflationary relief, despite the recent rebound in the exchange rate.
- **Risks stemming from adverse weather conditions remain significant, particularly for perishable food prices.** The effects of El Niño could become more pronounced in these essential food items and could also spill over into other CPI components that did not respond significantly in September, including electricity, gas, and food consumed away from home.
- **We expect inflation to remain on an upward trajectory over the coming months, reaching 7.0% by year-end 2026,** against a backdrop of potential lingering effects from

the earthquake, the materialization of El Niño-related shocks, resilient domestic demand, and risks associated with the conflict in the Middle East.

Monthly inflation stood at 0.37% in September, slightly below BBVA Research's forecast of 0.38% and market analysts' consensus of 0.40%. **As a result, annual inflation reached 6.29%, 5 basis points (bps) above the August reading of 6.24% and 119 bps above its end-2025 level.** This outcome reflected diverging trends across the main CPI components. While food inflation continued to face upward pressures, annual core inflation excluding food declined.

Annual food inflation reached 6.74% in September, increasing by 65 bps relative to August. The acceleration was primarily driven by perishable food prices, consistent with developments observed in recent months. Annual inflation in this subcomponent reached 13.1%, up 226 bps from the previous month. The largest contributions came from potatoes (78.2% year-on-year inflation; +1,478 bps relative to August), tomatoes (16.56%; +2,833 bps), and fresh vegetables and legumes (10.1%; +1,045 bps). All these products were affected by less favorable weather conditions, particularly higher temperatures and reduced rainfall.

The other two food subcomponents exhibited broadly stable aggregate dynamics. Inflation in processed foods stood at 2.38% (+2 bps month-on-month in annual rate terms), while meat inflation reached 7.24% (-5 bps). Nevertheless, within processed foods, upward price pressures were observed in eggs, rice, and soft drinks, although these were offset by more favorable developments in other items.

The food items experiencing the strongest price pressures—potatoes, tomatoes, and fresh vegetables and legumes—may already be responding to the deterioration in weather conditions associated with the early onset of El Niño. According to reports from the National Oceanic and Atmospheric Administration (NOAA), the phenomenon is expected to intensify over the coming months. Against a backdrop of already unfavorable soil moisture conditions and elevated temperatures, this could result in more pronounced effects on food prices throughout the remainder of the year and most likely into the early part of the second quarter of 2027.

Conversely, annual non-food inflation moderated to 6.19% (-9 bps), ending six consecutive months of increases. This development was mainly driven by goods inflation, with a smaller contribution from regulated prices. **Annual inflation excluding food and regulated prices—a core inflation measure closely monitored by Banco de la República—also declined in September, reaching 6.03% (-9 bps relative to the previous month).**

Annual goods inflation declined to 2.87% (-42 bps relative to August). Within this category, vehicles made the largest contribution to the moderation, with annual price inflation falling to -2.85%, compared with -1.7% in the previous month. Alcoholic beverages and beer also provided some relief, with their annual inflation rate declining by slightly more than 100 bps. Similar moderation was observed in pharmaceutical products and personal hygiene items. This outcome marks a reversal of the prolonged upward trend in goods inflation, suggesting that the cumulative appreciation of the Colombian peso over the past year is beginning to pass through to domestic consumer prices. This exchange rate pass-through could help alleviate, at least partially, some of the inflationary pressures affecting the core CPI basket. So far, the magnitude of the peso's

cumulative year-on-year appreciation remains substantially larger than the observed response in goods inflation, suggesting scope for additional disinflationary effects over the coming months.

Regulated-price inflation also eased, reaching 6.69% in September, down from 6.77% in August (-8 bps). This moderation was primarily explained by electricity tariffs, whose annual rate of change declined by 67 bps, supported by a slight monthly reduction of 0.11% in tariffs. In contrast, annual gas price inflation increased to 1.86%, from 1.41% in the previous month. This component also interrupted a six-month upward trend that had begun after annual regulated-price inflation stood at 4.05% in February 2026. Unlike the moderation observed in goods inflation, however, we consider this relief to be temporary and expect regulated-price inflation to resume its upward trajectory over the remainder of the year, particularly in early 2027.

This outlook reflects the expected effects of El Niño, which will significantly reduce hydroelectric generation availability and increase reliance on more expensive thermal power generation. These pressures will be compounded by limited domestic natural gas availability. According to our estimates, Colombia could need to import approximately 50% of its natural gas requirements, at elevated international prices resulting from the conflict in the Middle East.

Services inflation, meanwhile, remained broadly stable in September, reaching 7.19% year-on-year (+2 bps relative to August). However, this aggregate stability masks emerging upward pressures in several individual components.

First, monthly rental inflation was relatively high for this time of year, reaching 0.46%. This pushed annual rental inflation up by approximately 10 bps to around 5.1%. This development is particularly relevant given that Colombian legislation limits annual rent adjustments to the previous year's inflation rate, suggesting that rental inflation is already approaching this ceiling. Nevertheless, two underlying trends warrant close monitoring. On the one hand, reports from firms tracking rental market developments at a more granular level indicate significant rent increases in areas affected by the recent earthquake. This may partly explain the acceleration in rental inflation, as discussed in our August report. In addition to this, housing market conditions remain relatively tight following several years of subdued activity in the residential construction and housing sector. This may be contributing to a shift in demand from homeownership toward rental housing, thereby intensifying upward pressure on rents. Given the substantial weight of rents in Colombia's CPI basket, closely monitoring these two developments will be particularly important for assessing the inflation outlook.

Airfares also recorded a sharp acceleration in September, with annual inflation reaching 18.3%, compared with 4.5% in August. This increase may be linked to higher fuel prices stemming from the conflict in the Middle East, a shock that introduces considerable volatility and uncertainty into airfare dynamics. Prices for hot beverage services also increased, reflecting the rise in coffee costs observed in previous months. This development may be an early indication of broader pressures on food consumed away from home, particularly as El Niño-related disruptions to agricultural production intensify over the coming months.

Despite these specific upward pressures, overall services inflation remained relatively stable, supported by a significant moderation in mobile telecommunications tariffs, whose annual inflation rate declined to 4.9% from 6.6%.

Conclusions and outlook

In conclusion, the increase in inflation observed in September was broadly in line with expectations and was primarily driven by food prices. This composition provides some marginal relief to underlying inflation pressures and offers Banco de la República some breathing room in terms of near-term inflation dynamics.

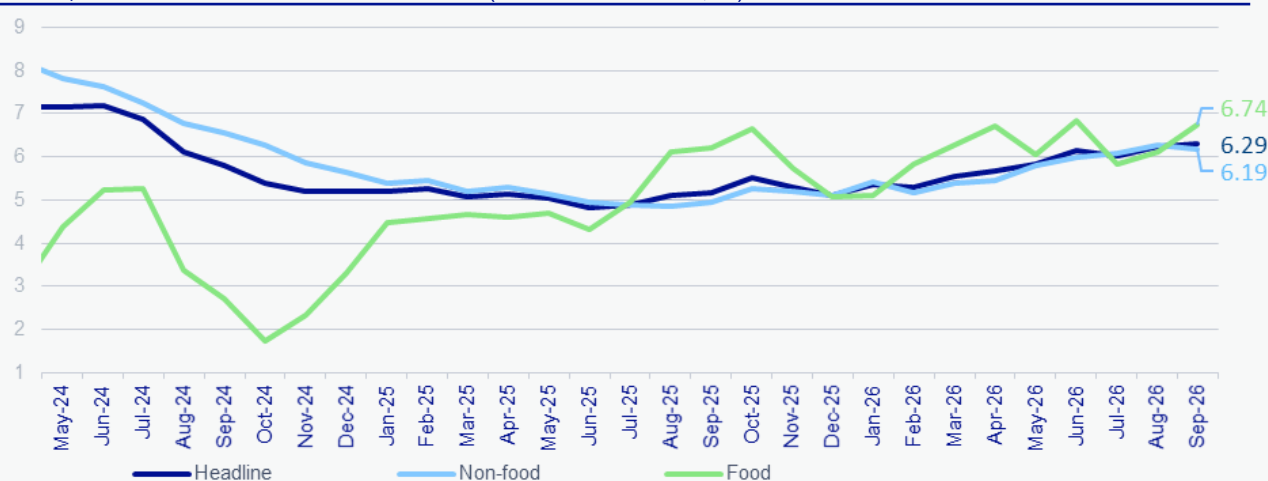
Nevertheless, medium-term inflation risks remain firmly in place, particularly those associated with an increasingly intense El Niño event. Its effects could extend well beyond food prices, affecting other CPI components, including regulated prices, restaurants, and transportation.

Beyond these widely discussed risks, developments within services inflation warrant particular attention. Specifically, rental market conditions should be monitored closely, given the potential for persistent pressures arising from earthquake-related disruptions and structural imbalances in the housing market.

At the same time, the possibility of a prolonged conflict in the Middle East poses additional upside risks to inflation. These risks could materialize not only through airfares, as already observed, but also through other components, including food prices, via higher fertilizer costs.

Overall, we expect inflation to continue rising gradually toward 7.0% by the end of 2026.

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



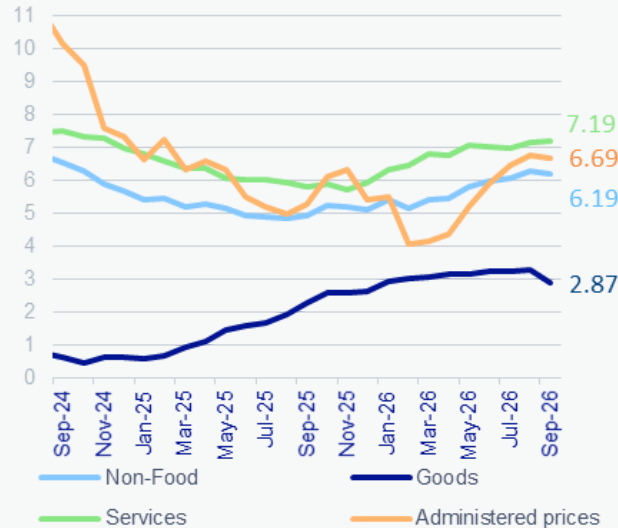
Source: BBVA Research with DANE data.

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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