

# Macro scenario - Colombia



May 16, 2025

## Higher inflation, higher rates

- ▶ Higher-than-expected food prices throughout the year, along with the expectation of more pressured gas prices in the second semester, lead us to revise our CPI forecast. We have increased our YE25 CPI forecast to 4.8% and 3.5% for YE26, compared to our previous projection of 4.5% and 3.3%, respectively.
- ▶ Despite BanRep's unexpected rate cut in the April meeting, we believe the elevated domestic risk premium, an uncertain global outlook with fewer FED cuts, and upside risks in inflation suggest that caution should be the priority. We now expect a year-end rate of 8.5% (8.25% previously expected) and 7.75% for YE26 (7.5% in the previous scenario).

## Gradual activity recovery continues

**Sectoral activity gained momentum at the end of 1Q25.** During the first quarter of the year, manufacturing increased 1.8% yoy (+0.6% rise in 4Q24), while retail sales increased 10.1% (+9.1% in 4Q24), as well as core retail sales, which also rose by 10.1% (+7.2% in 4Q24). Consumer confidence closed on a favorable trend in March, but with a mild set back in April, and business confidence was mixed, albeit gradually improving. Imports dynamics remain upbeat, increasing 20% qoq/saar in February.

**The labor market remained solid with employment increasing at the margin in the 1Q25.** The unemployment rate fell to 9.3% SA in March, down 0.4pp from 4Q24, below BanRep's NAIRU estimate of 10.2%. At the margin, employment rose by 0.5% MoM SA in March, and rose by a brisk 2.0% between 4Q24 and 1Q25.

## 1Q25 fiscal deficit closes at record high

**The nominal fiscal deficit widened further in 1Q25.** On a year-to-date basis, the fiscal deficit rose to 2.0% of GDP, above the 1.3% of GDP deficit a year ago, driven by a sharp increase in spending (6.4% of GDP compared to 5.4% a year ago) amid a modest recovery in revenues (4.4% of GDP compared to 4.3% in 1Q24). Revenue dynamics are encouraging at the margin, yet appear well below official forecasts. During the first quarter of the year, nominal tax revenues grew by 7.2% YoY. Specifically, in March, tax revenues rose by 9.3% YoY in nominal terms. While revenue dynamics are a welcome turnaround from 2024's

dismal outcome (-4.6% YoY nominal), it falls short of the official 2025 revenue forecast of 21.8% YoY.

**An unpleasant upside inflation surprise in April.** Consumer prices rose by 0.66% MoM in April, well above consensus, driven by housing and utilities, food prices, and hotels and restaurants. On an annual basis, headline inflation increased by 7 bps from March to 5.16% in April, while core inflation rose by 10 bps to 5.51% (10.60% peak in April last year; 8.8% at the end of 2023). Services inflation remained stable at a still-high 6.8% (9.51% peak in September). At the margin, we estimate that inflation accumulated in the quarter rose to 5.7% (SA, annualized; 4.6% in 4Q24). Core inflation decelerated to 5.1% from 5.6% in 4Q24 (SA, annualized).

## Central bank surprises by resuming cuts

**BanRep surprised by delivering a unanimous 25 bps cut to 9.25%, with market consensus strongly tilted towards another hold.** The unanimous cut marked a significant shift from the 4-3 vote to hold rates at the March meeting and is also the first unanimous decision since July 2023. Governor Villar highlighted the resumption of the disinflation process as key to the decision. Despite the unanimous vote, the minutes revealed the presence of a hawkish camp that was reluctant to ease amid fiscal uncertainty and the impact of external shocks on domestic variables. This group specifically demanded concrete signs of fiscal adjustment to contain risk premiums in upcoming releases. The decision took place in the context of heightened domestic uncertainty related to access to the IMF's Flexible Credit Line, and better-than-

expected labor market data, although before the upside inflation surprise. Survey-based inflation expectations remain well above BanRep's 3% target, even drifting higher at the margin, posing challenges to the credibility of the policy regime. Separately, the market-implied policy rate path stabilizes well above BanRep's neutral rate estimates. In sum, if the cut indeed resulted from continuing disinflation, then that explanation is no longer valid.

**In the central bank's monetary policy report, released after April's decision, BanRep's technical staff revised inflation upward and now expects a weaker activity rebound.** In its quarterly Monetary Policy Report, the year-end inflation forecast rose by 30 bps to 4.4% (Itaú: 4.5%; 5.2% in 2024). GDP growth for 2025 remained at 2.6%, with increased global uncertainty eliminating a prior upward bias (2.8% in March). The recovery in 2026 is now projected at 3%, down 0.4 pp. Regarding monetary policy, the central bank staff's baseline scenario implies a policy rate path that is, on average, above analysts' expectations for 2025 and 2026 (policy rate at 8.3% in 4Q25 and 6.8% in 4Q26). The staff kept the neutral real rate for this year at 2.7% and at 3.0% for 2026.

### Upside risks to inflation remain

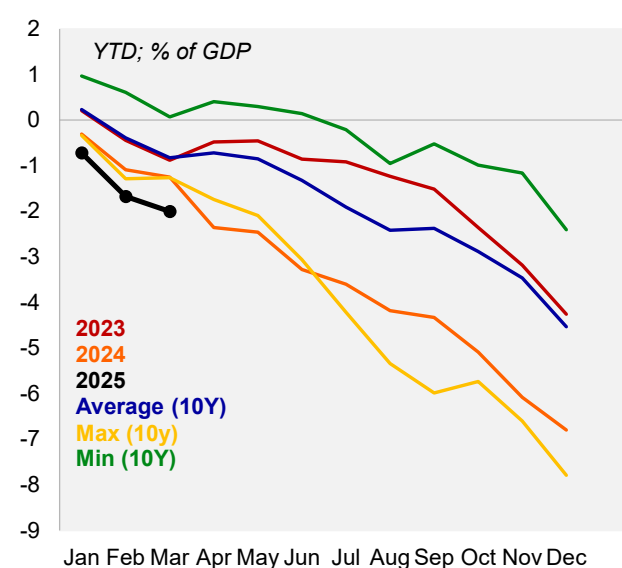
**A more gradual global economic slowdown to support local economic recovery.** Following last year's GDP growth of 1.7%, and after the US-China agreement, we now forecast a 2.2% GDP growth this year and 2.6% for next (2.0% and 2.3% forecasted previously). Activity should be boosted by the tertiary sector but may still be dragged down by the mining and manufacturing sectors. We continue to anticipate a nominal fiscal deficit of 7.0% of GDP this year, and 5.5% for 2026.

**Remittances would allow the CAD to remain at low levels.** Even though import growth remains strong, the performance of remittances has been positive, leading us to still expect a current account deficit of 2.6% this year (+1.8% of GDP in 2024). Given elevated domestic risk premium, we continue to expect some depreciation from current levels to COP 4,400/USD by the end of this year. We revised the exchange rate up to COP 4,300 for YE26 (previously expected at 4,200), amid weak oil prices and greater risk premium.

**Upside risk to inflation.** Regardless of upward pressure on gas prices, along with higher-than-expected food prices, the disinflationary process is expected to continue, but at a notably slower pace. We revised our CPI forecast for YE25 and YE26 to 4.8% and 3.5%, respectively (previously expected at 4.5% and 3.3%). Next year, the possibility of another significant increase in the minimum wage will continue to pressure services prices.

**Risk premium and fiscal imbalance will lead BanRep to maintain a contractionary stance.** Despite BanRep's unexpected rate cut in the April meeting, we believe the elevated domestic risk premium, an uncertain global outlook, and upside risks in inflation suggest that caution should remain the priority. We now expect a year-end rate of 8.5% (8.25% previously expected) and 7.75% for YE26 (7.5% in the previous scenario).

### A historically high deficit at the end of 1Q25



Source: Ministry of Finance; Itaú

Vittorio Peretti  
 Carolina Monzón  
 Juan Robayo  
 Angela Gonzalez

## Colombia | Forecasts and Data

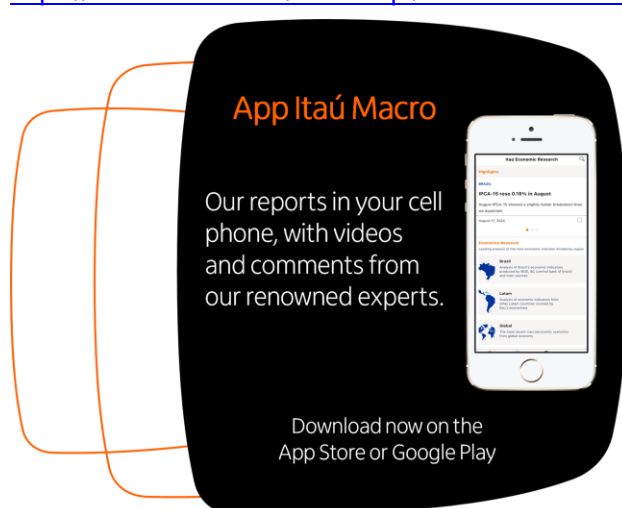
|  | 2020  | 2021  | 2022  | 2023  | 2024  | 2025F        |          | 2026F        |          |
|--|-------|-------|-------|-------|-------|--------------|----------|--------------|----------|
|  |       |       |       |       |       | Current      | Previous | Current      | Previous |
| <b>Economic Activity</b>               |       |       |       |       |       |              |          |              |          |
| Real GDP growth - %                    | -7.2  | 10.8  | 7.3   | 0.7   | 1.7   | <b>2.2</b>   | 2.0      | <b>2.6</b>   | 2.3      |
| Nominal GDP - USD bn                   | 270   | 322   | 345   | 364   | 420   | <b>414</b>   | 412      | <b>445</b>   | 447      |
| Population (millions)                  | 50.9  | 51.4  | 51.8  | 52.2  | 52.7  | <b>53.2</b>  | 53.2     | <b>53.5</b>  | 53.5     |
| Per Capita GDP - USD                   | 5,312 | 6,272 | 6,657 | 6,972 | 7,968 | <b>7,775</b> | 7,737    | <b>8,309</b> | 8,357    |
| Unemployment Rate - year avg           | 16.7  | 13.8  | 11.2  | 10.2  | 10.2  | <b>9.8</b>   | 10.2     | <b>9.8</b>   | 10.3     |
| <b>Inflation</b>                       |       |       |       |       |       |              |          |              |          |
| CPI - %                                | 1.6   | 5.6   | 13.1  | 9.3   | 5.2   | <b>4.8</b>   | 4.5      | <b>3.5</b>   | 3.3      |
| <b>Interest Rate</b>                   |       |       |       |       |       |              |          |              |          |
| Monetary Policy Rate - eop - %         | 1.75  | 3.00  | 12.00 | 13.00 | 9.50  | <b>8.50</b>  | 8.25     | <b>7.75</b>  | 7.50     |
| <b>Balance of Payments</b>             |       |       |       |       |       |              |          |              |          |
| COP / USD - eop                        | 3,433 | 3,981 | 4,810 | 3,822 | 4,409 | <b>4,400</b> | 4,400    | <b>4,300</b> | 4,200    |
| Trade Balance - USD bn                 | -10.1 | -15.3 | -14.5 | -9.7  | -10.8 | <b>-11.0</b> | -11.0    | <b>-10.0</b> | -10.0    |
| Current Account - % GDP                | -3.4  | -5.6  | -6.1  | -2.4  | -1.8  | <b>-2.6</b>  | -2.6     | <b>-3.1</b>  | -3.1     |
| Foreign Direct Investment - % GDP      | 2.8   | 3.0   | 5.0   | 4.6   | 3.4   | <b>3.6</b>   | 3.6      | <b>3.7</b>   | 3.7      |
| International Reserves - USD bn        | 58.5  | 58.0  | 56.7  | 59.1  | 61.9  | <b>62.5</b>  | 62.5     | <b>64.0</b>  | 64.0     |
| <b>Public Finances</b>                 |       |       |       |       |       |              |          |              |          |
| Primary Central Govt Balance - % GDP   | -5.0  | -3.6  | -1.0  | -0.3  | -2.4  | <b>-2.2</b>  | -2.2     | <b>-1.2</b>  | -1.2     |
| Nominal Central Govt Balance - % GDP   | -7.8  | -7.1  | -5.3  | -4.2  | -6.8  | <b>-7.0</b>  | -7.0     | <b>-5.5</b>  | -5.5     |
| Central Govt Gross Public Debt - % GDP | 65.0  | 63.0  | 60.8  | 56.7  | 63.3  | <b>66.3</b>  | 66.3     | <b>66.8</b>  | 66.8     |

Source: IMF, Bloomberg, Dane, Banrep, Haver and Itaú

## Macro Research – Itaú

## Mario Mesquita – Chief Economist

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