Macro scenario - Colombia

December 17, 2025

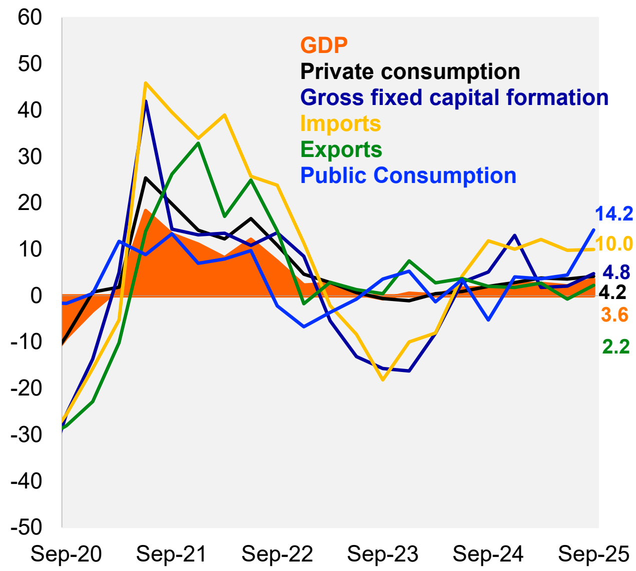
No more cuts

- In the context of persistent positive activity surprises, driven by public and private consumption, we revised our 2025 GDP growth forecast up slightly to 2.8% for 2025 and down to 2.7% for 2026, compared to 2.7% and 2.8%, respectively.
- We raised our 2026 year-end inflation call up to 4.7%, from 4.5% previously, considering a real minimum wage increase of 6.7%, as inflation expectations continue to drift further above target.
- A slow disinflation process, above target inflation expectations, and persistent headwinds to the fiscal accounts led us to revise our monetary policy forecast, now expecting BanRep to remain on hold through 2026, despite divisions within the board.

Activity outperforms, again

Positive activity surprises continued in 3Q25. The economy rose 1.2% (SA) from 2Q25 to 3Q25 (+0.4% previously), driven by public and private consumption. On an annual basis, GDP increased by 3.4% YoY SA in 3Q25, above BanRep's staff forecast (3.0%). In parallel, the labor market remains tight, with the urban unemployment rate (SA) at 8.8%, well below BanRep's NAIRU estimate (10.2%). Meanwhile, business confidence remained positive in October, while consumer confidence rose to the highest level since June 2018.

Consumption continues to fuel growth



Source: Dane, Itaú

Minimum wage uncertainty fuels inflation concerns

TFP growth picks up. While all eyes are on the minimum wage discussion, the official statistical agency released a key input, with 2025 TFP growth estimated at 0.91%, setting a technical floor of 6.2% for the negotiation. TFP growth has accelerated from 1.4% and 1.7% in 2021 and 2024, respectively. Minimum wage increments decreed by the MoF in previous years have been well above productivity growth and past inflation, leading to market expectations of a double-digit annual rise, fueling inflation concerns.

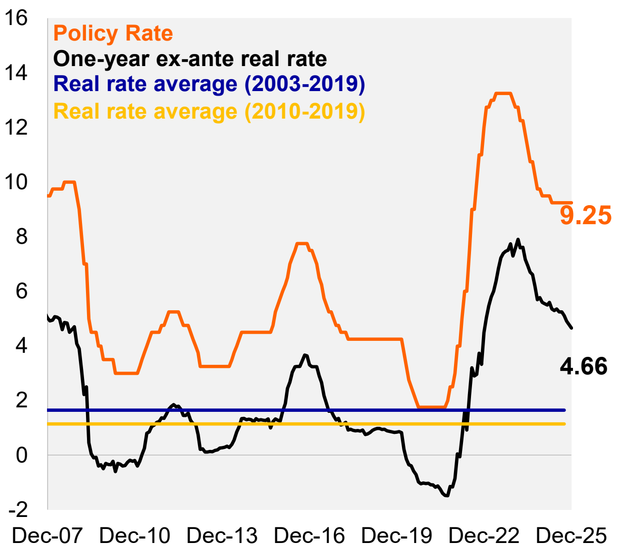
After four consecutive months of rising annual inflation, November brought some relief. CPI surprised to the downside rising by 0.07% MoM in November. On an annual basis, headline inflation fell by 21bps from October to 5.3% in November, while core inflation did so by 6bps to 5.46%. Services inflation dropped by 13 bps to 6.26% (9.51% peak in September 2023). At the margin, we estimate inflation accumulated in the quarter reached 5.2% (SA, annualized, stable from 3Q25). Core inflation stood at 5.9%, up from 5.5% in 3Q25 (SA, annualized).

12-month inflation expectations rose further in December. According to BanRep's monthly analyst survey, the one-year and 2026 YE expectations posted increases of 12 bps and 19 bps, reaching 4.59%, thus completing four months above the target range ceiling. Core inflation expectations for 2026 YE also increased by 16 bps to 4.67%. Consequently, the consensus now expects the resumption of the easing cycle in March 2027 (previously anticipated for October 2026). This hawkish shift in the consensus aligns with our forecasts, which project 2025 YE and 2026 YE inflation at 5.2% and 4.7%, respectively. Furthermore, we do not expect BanRep to resume cuts until early 2027.

Pressure mounts on the Board's upcoming decisions

Diverging Board views amid a challenging outlook. In recent statements, Governor Villar highlighted that, given recent developments on expectations, the Board has had to postpone further policy rate cuts, while the possibility of a hike is emerging. Board member Taboada remarked that some members, including herself, have started to question whether rate stability alone is sufficient to resume the disinflation process or if additional measures are required. On the other hand, Cesar Giraldo criticized reliance on outdated models focused solely on interest rates, calling for alternative tools and a new analytical approach, while remarking that the current stance is contractionary.

Real rate remains high



Source: Dane, Itaú

No more cuts through 2026

Due to internal demand that continues to surprise to the upside, driven by public and private consumption, we revised our 2025 GDP growth forecast up to 2.8% for 2025 and down to 2.7% for 2026, compared to 2.7% and 2.8%, respectively.

We revised our 2026 year-end inflation forecast up to 4.7%, from 4.5% previously, considering a real minimum wage increase of 6.7% (12% nominal, including the transport subsidy).

A slow disinflation process, above target inflation expectations, and persistent headwinds to the fiscal accounts led us to revise our monetary policy forecast, now expecting BanRep to remain on hold through 2026. However, as we've flagged previously, the materialization of additional inflation risks could open the door to a hiking cycle, even in the context of a divided board with a minority still voting for cuts.

Measures taken by the MoF's DMO led us to revise our 2025 nominal deficit forecast down to 6.6% of GDP, from 7.5%, as fiscal headwinds persist.

Vittorio Peretti
Carolina Monzón
Juan Robayo
Angela Gonzalez

Colombia | Forecasts and Data

	2021	2022	2023	2024	2025F		2026F		2027F
					Current	Previous	Current	Previous	Current
Economic Activity									
Real GDP growth - %	10.8	7.3	0.7	1.6	**2.8**	2.7	**2.7**	2.8	**3.0**
Nominal GDP - USD bn	322	345	364	420	**440**	428	**498**	474	**512**
Population (millions)	51.4	51.8	52.2	52.7	**53.2**	53.1	**53.5**	53.4	**53.7**
Per Capita GDP - USD	6,272	6,657	6,972	7,968	**8,266**	8,059	**9,303**	8,877	**9,522**
Unemployment Rate - year avg	13.8	11.2	10.2	10.2	**9.0**	9.0	**9.2**	9.2	**9.2**
Inflation									
CPI - %	5.6	13.1	9.3	5.2	**5.2**	5.3	**4.7**	4.5	**3.7**
Interest Rate									
Monetary Policy Rate - eop - %	3.00	12.00	13.00	9.50	**9.25**	9.25	**9.25**	8.75	**8.25**
Balance of Payments									
COP / USD - eop	3,981	4,810	3,822	4,409	**3,900**	3,900	**3,900**	3,900	**3,900**
Trade Balance - USD bn	-15.3	-14.5	-9.7	-10.8	**-15.2**	-12.7	**-12.3**	-11.3	**-10.9**
Current Account - % GDP	-5.6	-6.1	-2.4	-1.8	**-2.5**	-2.8	**-3.2**	-3.2	**-3.6**
Foreign Direct Investment - % GDP	3.0	5.0	4.6	3.4	**3.5**	3.5	**3.7**	3.7	**4.0**
International Reserves - USD bn	58.0	56.7	59.1	61.9	**66.0**	66.0	**66.5**	66.5	**68.0**
Public Finances									
Primary Central Govt Balance - % GDP	-3.6	-1.0	-0.3	-2.4	**-3.0**	-2.7	**-2.5**	-2.5	**-2.0**
Nominal Central Govt Balance - % GDP	-7.1	-5.3	-4.2	-6.7	**-6.6**	-7.5	**-6.8**	-6.8	**-5.0**
Central Govt Gross Public Debt - % GDP	63.0	60.8	56.3	61.6	**61.3**	65.0	**66.5**	66.5	**67.0**

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

Macro Research – Itaú

Mario Mesquita – Chief Economist

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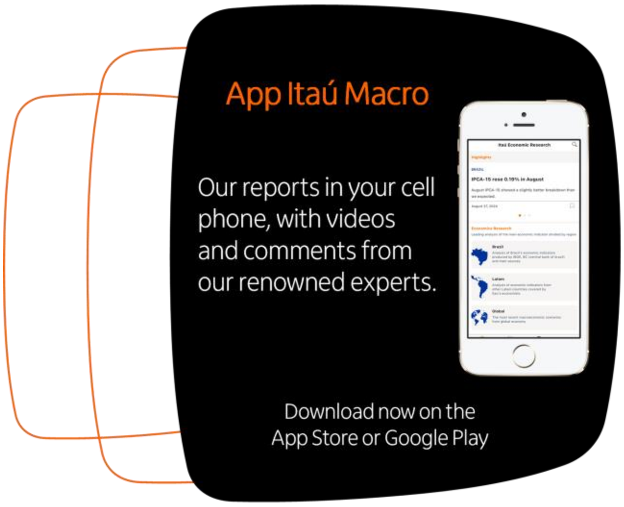

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