Macroeconomic Research

Macro Scenario – Colombia
December 2024

Colombia: Gradual easing cycle to continue amid fiscal stress

1. We maintained our 2024 GDP growth forecast at 2.0% and 2.4% for 2025
   - Entertainment, agriculture, among other sectors supported activity dynamics

2. We expect inflation to end 2024 at 5.1% and 2025 at 3.7%
   - The disinflationary process will continue, with all eyes on the minimum wage increase

3. Financing of the 2025 budget still in the spotlight
   - Spending cuts in next year's budget appear necessary to comply with the fiscal rule

4. Fiscal risks of the SGP reform reduced slightly, but medium-term uncertainty remains
   - Transfers would increase from 23% to 39.5% over a 12-year period beginning in 2027

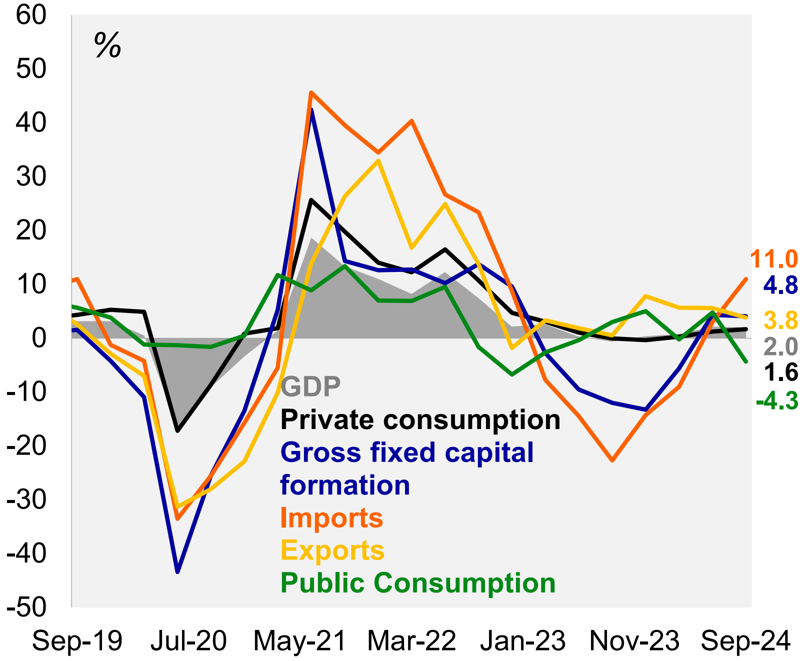
5. Fiscal uncertainty reduces degrees of freedom in monetary policy
   - As long as the fiscal noise continues, the Board’s position will remain cautious

1. We maintained our 2024 GDP growth forecast at 2.0% and 2.4% for 2025.

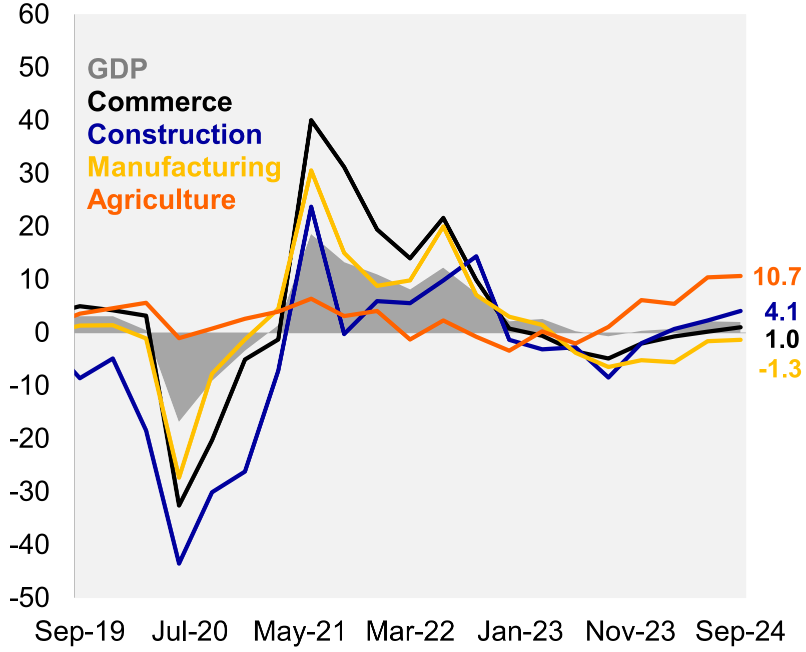
Entertainment, agriculture, among other sectors supported activity dynamics

- Manufacturing and mining are still contracting on an annual basis.

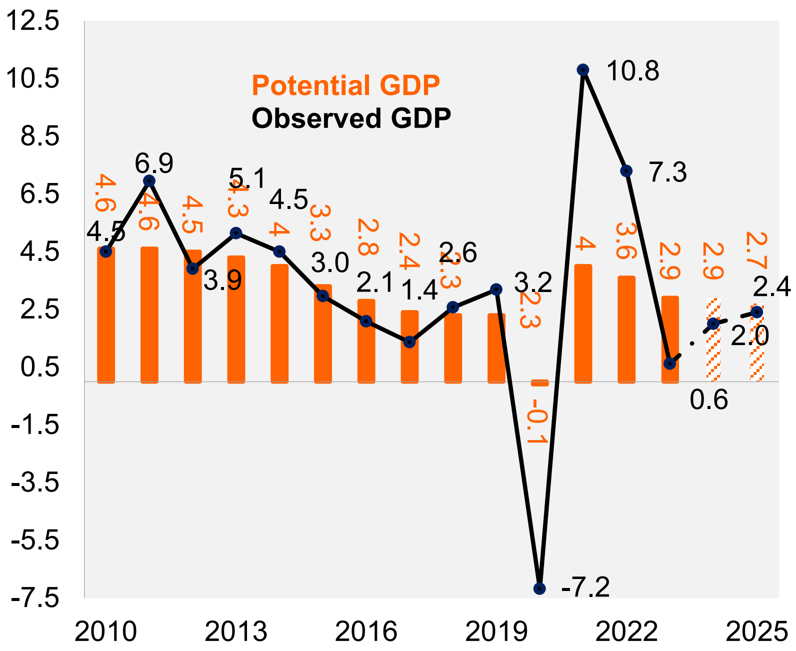
Investment remained in positive territory



Agriculture and services boost activity



GDP growth will remain below potential



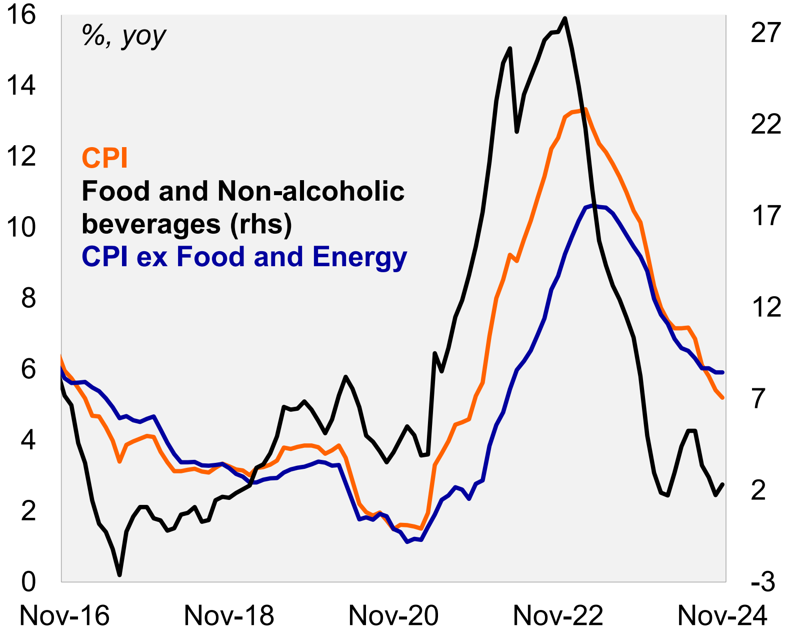
Source : DANE, Itaú.

2. We expect inflation to end 2024 at 5.1% and 2025 at 3.7%

The disinflationary process will continue, with all eyes on the minimum wage increase

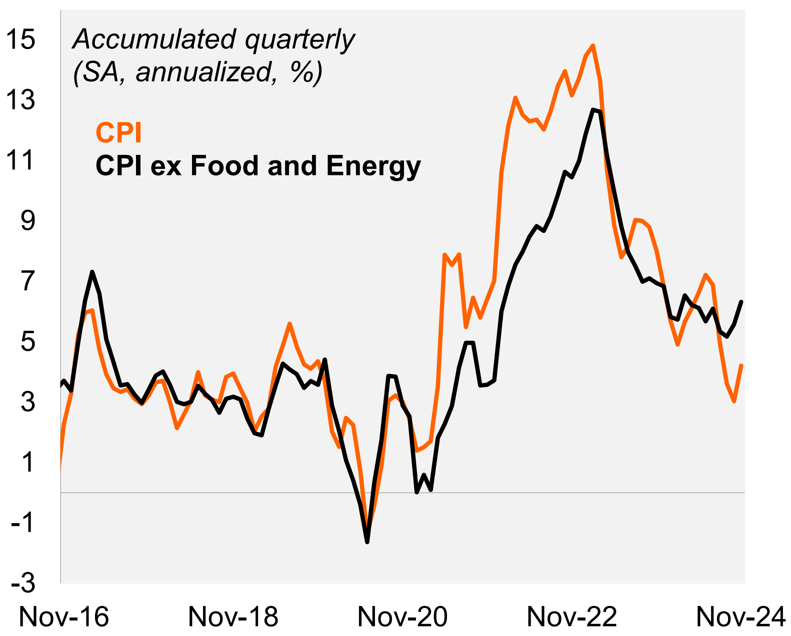
- Headline CPI fell to 5.20% and Core CPI to 5.95% in November. At the margin, we estimate that inflation accumulated in the quarter was 4.2% (SA, annualized; 3.6% in 3Q24). Core inflation increased to 6.3% from 5.2 in 3Q24 (SA annualized).

Core inflation remained stable...



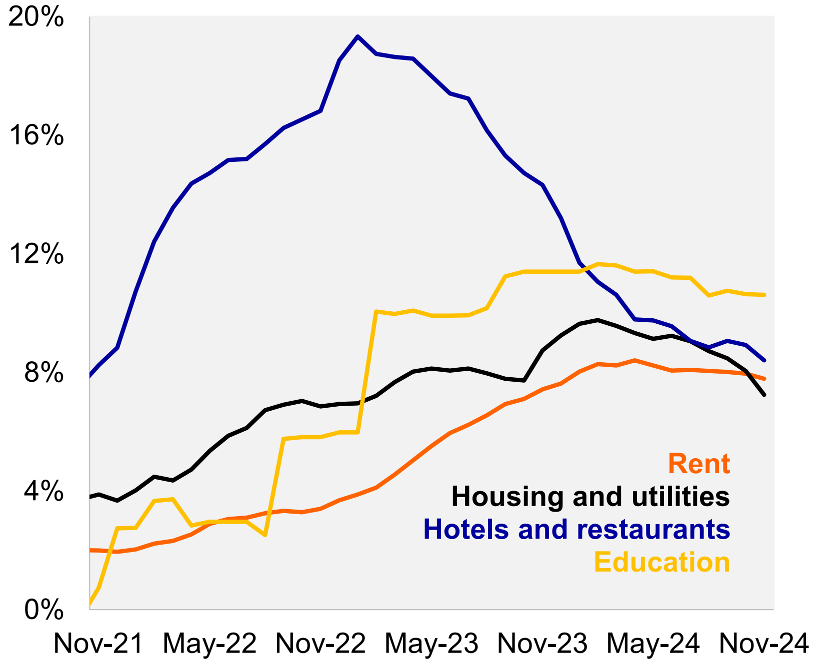
Source: Dane, Itaú

... while sequential pressures increased



Source: Dane, Itaú

Services prices remained sticky



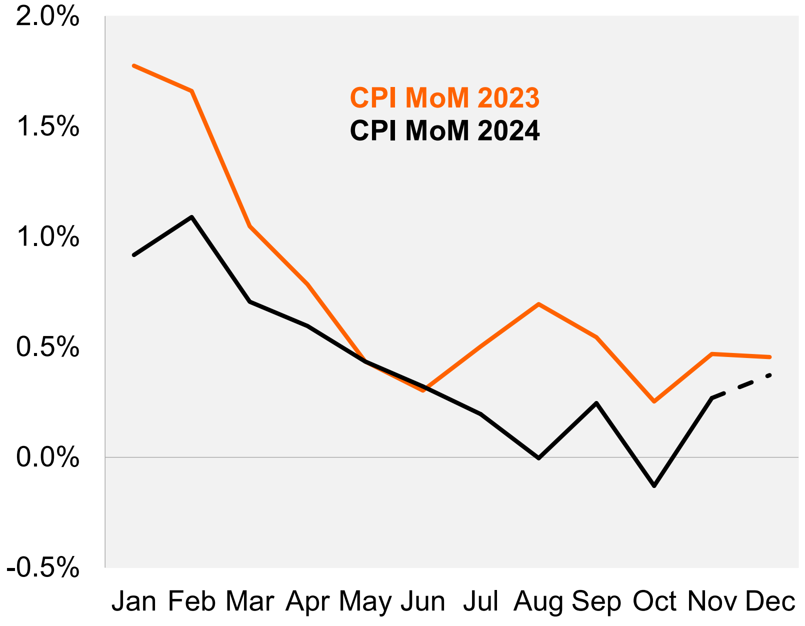
Source: DANE, Itaú.

2. We expect inflation to end 2024 at 5.1% and 2025 at 3.7%

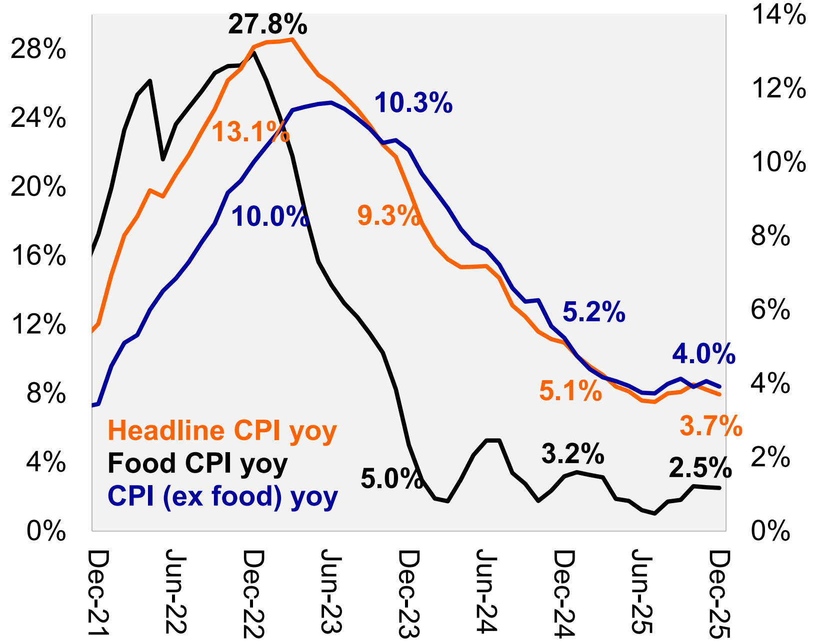
The disinflationary process will continue, with all eyes on the minimum wage increase

- One-year ahead inflation expectations (3.98%) finally fell back within the target range.

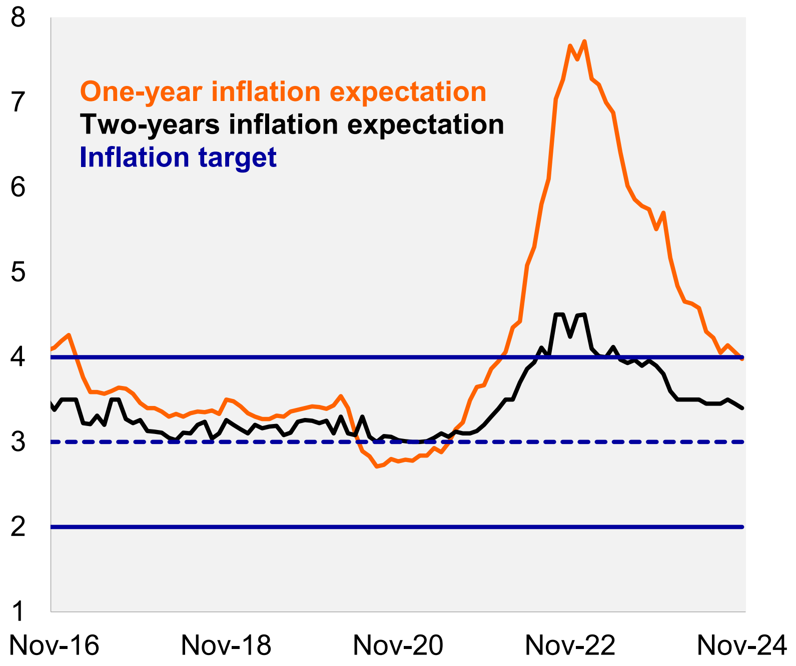
Basis of comparison allows disinflationary process to continue …



Inflation will continue to converge towards target



CPI expectations back within target range



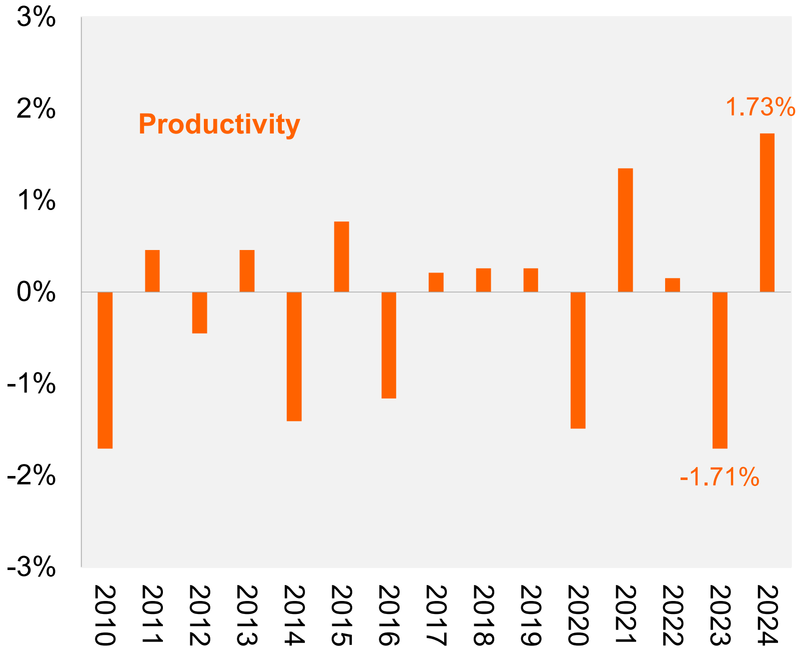
Source: DANE, Banrep, Itaú.

2. We expect inflation to end 2024 at 5.1% and 2025 at 3.7%

The disinflationary process will continue, with all eyes on the minimum wage increase

- Productivity increased by 1.7% in 2024, according to official estimates, setting the stage for a minimum wage increase of at least 6.8%.
- BanRep had estimated a minimum wage increase of 6.5%, consistent with inflation falling to the target in late 2025.

Productivity posted an upward surprise



Adjustment to the real minimum wage in recent years

Minimum wage schedule
Dec 03rd : Productivity release
Dec 09th : BanRep and MoF inflation update inflation estimates
Dec 15th : First deadline for an agreement
Dec 24th : Extraordinary sessions begin
Dec 30th : Final deadline

Source: BanRep, Dane, Itaú.

3. Financing of the 2025 budget still in the spotlight

Spending cuts in next year's budget appear necessary to comply with the fiscal rule

- Minister of Finance announced cuts in this year's budget spending of COP 28.4 trillion (1.7% of GDP).
- After the financing bill was archived by the Congress, a cut in the 2025 Budget will probably be announced in January.
- To comply with the fiscal rule, the Fiscal Council recommends a cut to the 2025 budget of COP 40 trillion (2.2% of GDP).

Breakdown of the national budget for 2024 and 2025
Trillion pesos

Concept	2024 .(1)	2025 Project .(2)	% change 25/24 (3) = (2/1)	% of GDP 2024 .(4)	% of GDP 2025 .(5)
Regular functioning	**309**	**328**	**6.2**	**18.3**	**18.4**
Personnel expenses	55	60	9.3	3.3	3.4
Acquisition of goods and services	14	15	8.1	0.8	0.9
Transfers	235	248	5.4	14	13.9
Debt service	**95**	**113**	**19.1**	**5.6**	**6.3**
Principal	40	51	27.1	2.4	2.9
Interests	53	59	13	3.1	3.3
Comissions and other expenses	1	0	-14.7	0	0
Contingency fund	1	2	33.6	0.1	0.1
Investment	**100**	**82**	**-17.4**	**5.9**	**4.6**
Total	**503**	**523**	**3.9**	**29.9**	**29.4**
Total without debt	**409**	**410**	**0.4**	**24.3**	**23.1**

To ensure compliance with the fiscal rule, budget under-execution is required in 2024
Figures as % of GDP

Concept	1. 2024 MTFF 2024	2025: 2. MTFF 2024	2025: 3. National Budget	2025: 4. Dif. 3-2	2025: 5. Fiscal Council	2025: 5. Dif. 5 - 3
Total income	**17.1**	**17.5**	**19.3**	**1.7**	**17.3**	**-1.9**
Tax revenue	15.4	16.3	17.8	1.5	15.8	-1.9
Non-tax	0.1	0.1	0.1	0	0.1	0
Rest	1.8	1.2	1.5	0.3	1.5	0
Of which, ECOPETROL	0.7	0.4	0.5	0.1	0.5	0
Total spending	**22.8**	**22.7**	**24**	**1.3**	**22.1**	**-1.9**
Interests	4.7	4.7	4.7	0	4.6	0
Primary expenditure	18	18	19.3	1.3	17.5	-1.8
Primary balance	**-0.9**	**-0.5**	**-0.1**	**0.4**	**-0.2**	**-0.1**
Total balance	**-5.6**	**-5.1**	**-4.7**	**0.4**	**-4.8**	**-0.1**

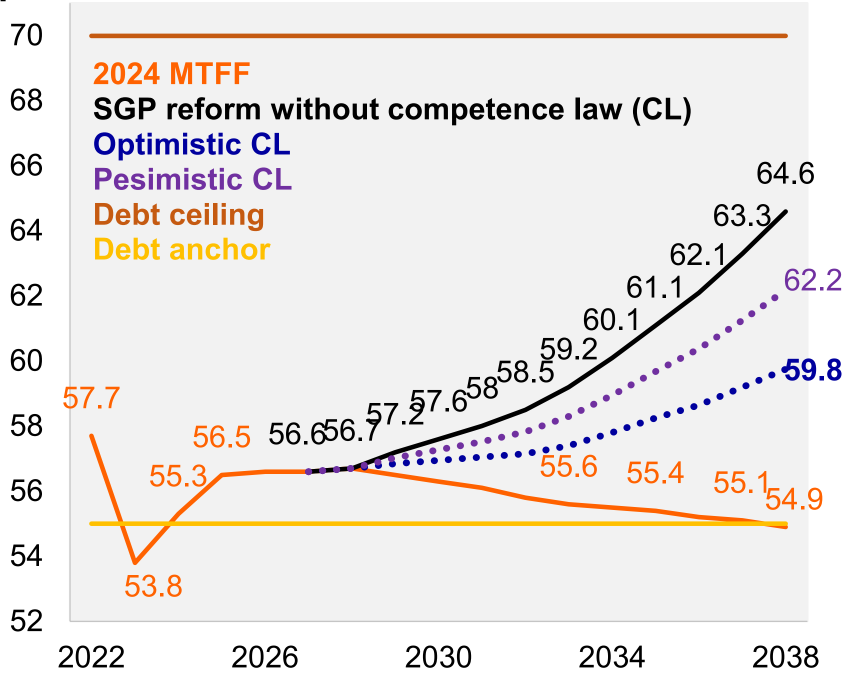
Source: Ministry of Finance, Fiscal Council, Itaú

4. Fiscal risks of the SGP reform reduced slightly, but medium-term uncertainty remains

Transfers would increase from 23% to 39.5% over a 12-year period beginning in 2027.

- The Government must present the law of competences within 12 months, without which the reform cannot come into force.

The original reform would have pushed net debt to the limit in 2038.



BANREP computes a complex macroeconomic scenario in 2038 under the SGP reform

Estimated impacts of the GSP reform in 2038 (without competition law)	
GDP	-11.6%
Total consumtion	-14.2%
Private consumption	-18.0%
Public consumption	3.5%
Total investment	-30.7%
Private investment	-34.5%
Public investment	6.4%
Exports	3.2%
Imports	-28.5%
Aditional spending for SGP (to GDP)	2.7%
Public consumption (to GDP)	2.0%
Transferences (to GDP)	0.3%
Public investment (to GDP)	0.4%
Public debt (to GDP)	27.9%

Source: Ministry of Finance, Central Bank, Itaú

5. Fiscal uncertainty reduces degrees of freedom in monetary policy

As long as the fiscal noise continues, the Board's position will remain cautious

Villar : Villar referred to the recent approval of the SGP reform and noted that fiscal uncertainty could have undesirable effects on inflation. For Villar, the recent depreciation of the exchange rate has not jeopardized convergence or inflation to target, but it is a risk factor to monitor as it captures the fiscal challenges.

Steiner: Monetary policy is elevated because inflation expectations have not yet converged to the long-term target. Cautiousness has costs, but it also has its benefits. There are risks that we want to avoid such as Brazil's reversals in the monetary policy path.

Jaramillo: Lower interest rates would support swifter growth the large fiscal deficit prevents the central bank from accelerating the cycle. Conditions do not favor an acceleration as the 2025 budget is not financed and the minimum wage adjustment remains uncertain.

Villamizar: Colombia is not isolated from external factors that could jeopardize the sustainability of the inflation convergence process. BanRep should avoid premature victories on inflation.

Taboada: Expressed concern on the sustained exchange rate depreciation amid tighter global financial conditions.

Acosta : The Central Bank needs to be cautious. The main objective is not to come close to the CPI target, but to reach it by December 2025. An FX rate above 4,400 is a concern for inflation.

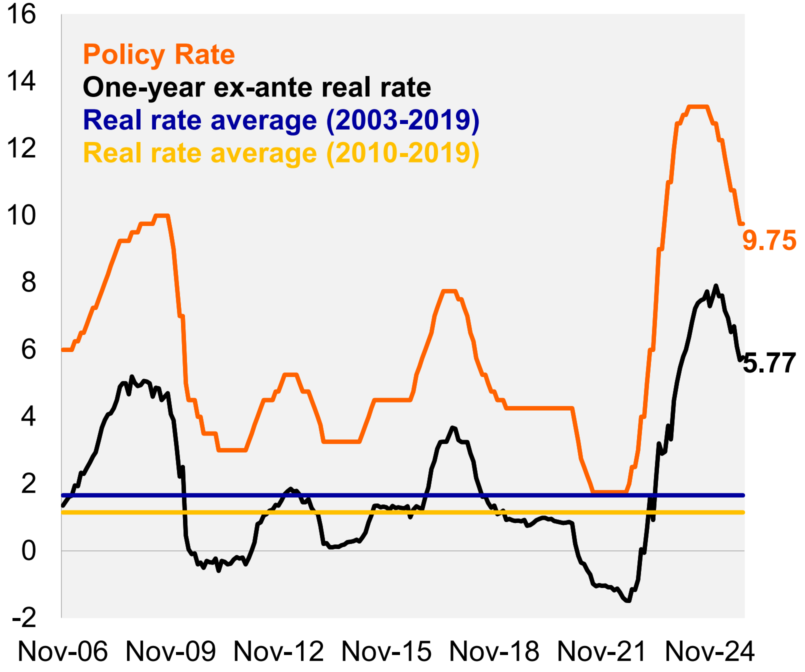
Guevara: Inflation could return to the target range in the short term, as a result interest rates could decrease much more rapidly to consolidate the recovery.

5. Fiscal uncertainty reduces degrees of freedom in monetary policy

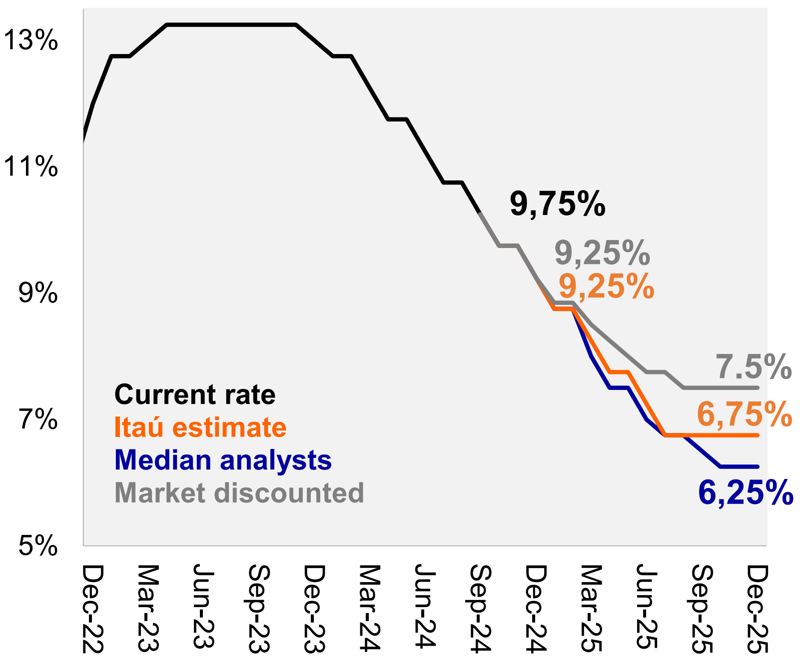
As long as the fiscal noise continues, the Board's position will remain cautious

- We continue to expect a YE-24 rate at 9.25%, but a higher YE-25 at 6.75% (6.5% previously), with a terminal rate at 6.0% in 2026.
- In February two Board members will be replaced, this could open the door to an acceleration of the cycle.

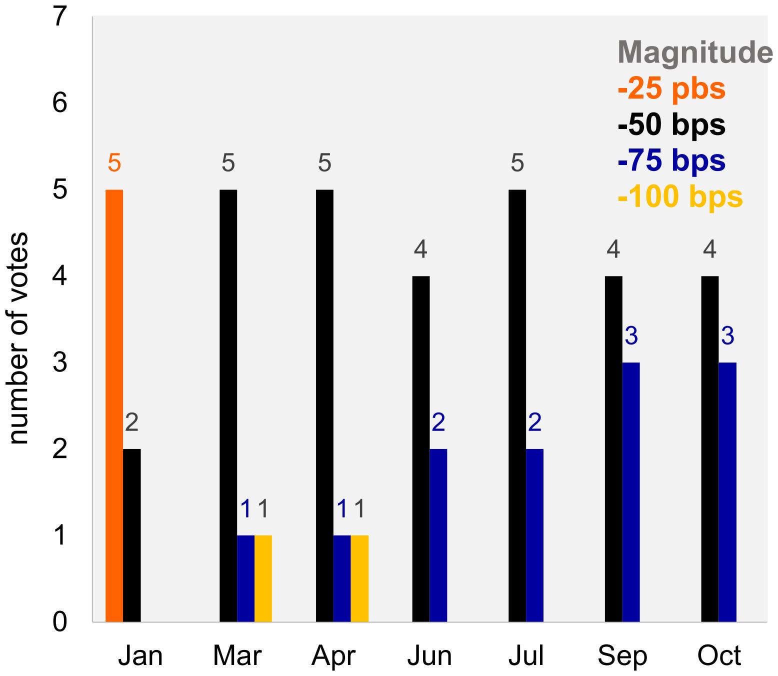
One-year ex-ante real rate remains elevated



Expected path



BanRep voting 2024



Source: Central Bank, Itaú

Colombia | Forecast

	2019	2020	2021	2022	2023	2024F		2025F		2026F
						Current	Previous	Current	Previous	Current
Economic Activity										
Real GDP growth - %	3.2	-7.2	10.8	7.3	0.6	**2.0**	2.0	**2.4**	2.4	**3.0**
Nominal GDP - USD bn	323	270	322	345	364	**416**	416	**410**	411	**440**
Population (millions)	50.4	50.9	51.4	51.8	52.2	**52.7**	52.7	**53.2**	53.2	**53.5**
Per Capita GDP - USD	6,411	5,312	6,272	6,659	6,976	**7,893**	7,893	**7,710**	7,710	**8,225**
Unemployment Rate - year avg	10.9	16.7	13.8	11.2	10.2	**10.3**	10.6	**10.2**	10.5	**10.2**
Inflation										
CPI - %	3.8	1.6	5.6	13.1	9.3	**5.1**	5.1	**3.7**	3.7	**3.0**
Interest Rate										
Monetary Policy Rate - eop - %	4.25	1.75	3.00	12.00	13.00	**9.25**	9.25	**6.75**	6.50	**6.00**
Balance of Payments										
COP / USD - eop	3,287	3,428	4,070	4,850	3,855	**4,300**	4,300	**4,500**	4,500	**4,200**
Trade Balance - USD bn	-10.8	-10.1	-15.3	-14.5	-9.7	**-7.5**	-7.5	**-7.0**	-7.0	**-8.0**
Current Account - % GDP	-4.6	-3.4	-5.6	-6.2	-2.7	**-2.0**	-2.5	**-2.8**	-2.8	**-3.0**
Foreign Direct Investment - % GDP	4.3	2.8	3.0	5.0	4.8	**3.3**	3.3	**3.7**	3.7	**3.7**
International Reserves - USD bn	52.7	58.5	58.0	56.7	59.1	**60.6**	60.6	**61.0**	61.0	**64.0**
Public Finances										
Primary Central Govt Balance - % GDP	0.4	-5.0	-3.6	-1.0	-0.3	**-0.9**	-0.9	**-0.9**	-0.9	**-0.2**
Nominal Central Govt Balance - % GDP	-2.5	-7.8	-7.1	-5.3	-4.3	**-5.6**	-5.6	**-5.5**	-5.5	**-4.5**
Central Govt Gross Public Debt - % GDP	50.3	65.0	63.0	60.8	56.7	**61.3**	61.3	**64.5**	64.5	**63.1**

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

Macro Research – Itaú

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