Macro scenario-Colombia

April 16, 2025

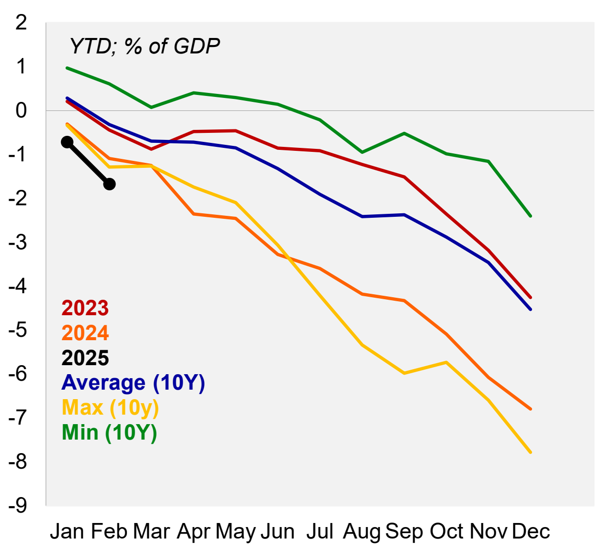
Caution is the name of the game

- Despite favorable domestic demand dynamics at the start of the year, we have slightly revised our 2025 GDP growth forecast down to 2.0% and to 2.3% for 2026. This adjustment is due to changes in our global scenario, including lower oil prices, reduced growth in the US (Colombia's main trading partner), and tighter-than-expected domestic monetary policy.
- In the context of elevated global policy uncertainty, high inflation, and above-target inflation expectations, BanRep's Board is likely to remain cautious in the short term. We revised our year-end 2025 policy rate forecast to 8.25% (previously expected at 8.0%) and the year-end 2026 rate to 7.5% (previously 6.5%). Our revision also takes into account the series of consecutive hawkish decisions by BanRep's Board.

Fiscal accounts in the spotlight

The fiscal deficit through February increased to the largest on record. The Ministry of Finance (MoF) reported a cumulative nominal deficit of 1.7% of GDP in February (compared to 0.8% of GDP during the same period in 2024), significantly above the historical average deficit of 0.4%. This result was driven by a striking 23.8% year-over-year nominal increase in expenditure, while nominal revenues fell by 1.1% year-over-year. Data through April shows that liquid assets at the treasury remain close to seasonally low historical levels. In this context, the MoF has not ruled out a new financing law and is planning to raise tax revenues to meet fiscal targets.

Fiscal deficit widened further in February



Source: Ministry of Finance; Itaú

Activity was improving at the start of the year

Things were looking better. The coincident activity indicator (ISE), which is available with a significant lag, expanded by 0.8% MoM SA in January. On an annual basis, the ISE rose by 2.6% YoY. Growth was fueled by primary activities, which showed a monthly variation of 1.0% MoM. Secondary and tertiary activities posted monthly expansions of 0.6% MoM. Meanwhile, other leading indicators have also reflected solid momentum, with business confidence in positive territory and imports increasing by 26.8% QoQ/saar in January.

Inflation remains high yet has resumed a gradual decline. Following two consecutive large upside surprises, inflation was slightly below consensus in March, rising by 0.52% month-over-month, driven by housing and utilities, food prices, and hotels and restaurants. Annual headline inflation fell by 19 basis points from February to 5.09% in March, while core inflation dropped by 22 basis points to 5.41% (from a peak of 10.60% in April last year and 8.8% at the end of 2023). Services inflation decreased by 37 basis points to a still-high 6.85% (from a peak of 9.51% in September). At the margin, we estimate that inflation accumulated in the quarter was 5.1% (seasonally adjusted, annualized; 4.5% in 4Q24). Core inflation fell to 4.7% from 5.4% in 4Q24 (seasonally adjusted, annualized).

Central Bank extended the pause

In another divided decision, BanRep kept the policy rate at 9.5% for the second consecutive meeting. The decision was split, with four members voting to pause, while three members supported a significant 50-bp cut. The meeting included votes from three new members, whom we believe favored a cut. Governor Villar highlighted the increase in the February CPI, uncertainty related to the fiscal accounts, and the global scenario. The minutes reflected that the majority group considered there was still work to be done on inflation and deemed cuts premature due to the stagnation of the disinflation process. On the other hand, the minority group highlighted progress in the decline of core CPI, which, in their view, showed that the minimum wage adjustment had not pressured inflation. The dovish camp tried to build consensus around a 25-bp cut but was unsuccessful. Further split votes are to be expected.

Forecast revisions driven by domestic and global factors

Revising growth down. Despite favorable domestic demand dynamics at the start of the year, we have slightly revised our 2025 GDP growth forecast down to 2.0% (from 2.3% in the previous scenario) and to 2.3% in 2026 (from 2.6% in last month's forecast). This adjustment is due to changes in our global scenario, including lower oil prices, reduced growth in the US (Colombia's main trading partner), and tighter-than-expected domestic monetary policy.

A greater fiscal deficit. We revised our 2025 nominal fiscal deficit forecast to 7.0% of GDP, up from our previous forecast of 6.5%, due to lower oil prices, a weaker revenue recovery, and the absence of spending cuts. For 2026, we now expect a nominal fiscal deficit of 5.5% of GDP, compared to 4.6% in our previous scenario.

Remittances should continue to support CAD financing. Despite the recent improvement in import dynamics, high remittances are expected to support the financing of the CAD at 2.6% this year, stable from the previous scenario. We now expect the COP to end the year at COP 4,400/USD (compared to COP 4,300 in the previous scenario) and YE26 at COP 4,200 (previously expected at COP 4,100), driven by a greater idiosyncratic risk premium.

We maintained our inflation forecasts at 4.5% for YE25 and 3.3% for YE26. However, even though we are in a pre-election year, potential increases to gas prices pose upside risks to the inflation trajectory.

BanRep to remain cautious. Amid elevated global policy uncertainty, high inflation, and above-target inflation expectations, BanRep's Board is likely to remain cautious in the short term. We revised our year-end 2025 policy rate forecast to 8.25% (previously 8.0%) and the year-end 2026 rate to 7.5% (previously 6.5%). Our revision also takes into account the series of consecutive hawkish decisions by BanRep's Board.

Vittorio Peretti
Carolina Monzón
Juan Robayo
Angela Gonzalez

Colombia | Forecasts and Data

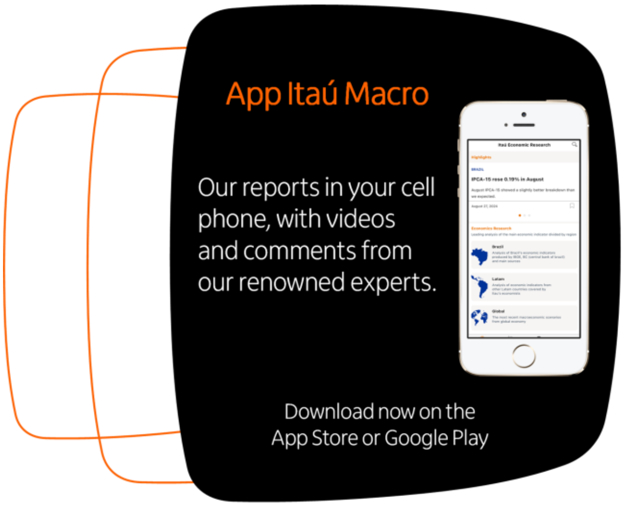
	2020	2021	2022	2023	2024	2025F		2026F	
						Current	Previous	Current	Previous
Economic Activity									
Real GDP growth - %	-7.2	10.8	7.3	0.7	1.7	**2.0**	2.3	**2.3**	2.6
Nominal GDP - USD bn	270	322	345	364	420	**412**	419	**447**	460
Population (millions)	50.9	51.4	51.8	52.2	52.7	**53.2**	53.2	**53.5**	53.5
Per Capita GDP - USD	5,312	6,272	6,657	6,972	7,968	**7,737**	7,870	**8,357**	8,602
Unemployment Rate - year avg	16.7	13.8	11.2	10.2	10.2	**10.2**	10.2	**10.3**	10.2
Inflation									
CPI - %	1.6	5.6	13.1	9.3	5.2	**4.5**	4.5	**3.3**	3.3
Interest Rate									
Monetary Policy Rate - eop - %	1.75	3.00	12.00	13.00	9.50	**8.25**	8.00	**7.50**	6.50
Balance of Payments									
COP / USD - eop	3,433	3,981	4,810	3,822	4,409	**4,400**	4,300	**4,200**	4,100
Trade Balance - USD bn	-10.1	-15.3	-14.5	-9.7	-10.8	**-11.0**	-11.0	**-10.0**	-10.0
Current Account - % GDP	-3.4	-5.6	-6.1	-2.4	-1.8	**-2.6**	-2.6	**-3.1**	-3.1
Foreign Direct Investment - % GDP	2.8	3.0	5.0	4.6	3.4	**3.6**	3.6	**3.7**	3.7
International Reserves - USD bn	58.5	58.0	56.7	59.1	61.9	**62.5**	61.0	**64.0**	64.0
Public Finances									
Primary Central Govt Balance - % GDP	-5.0	-3.6	-1.0	-0.3	-2.4	**-2.2**	-1.7	**-1.2**	-0.5
Nominal Central Govt Balance - % GDP	-7.8	-7.1	-5.3	-4.2	-6.8	**-7.0**	-6.5	**-5.5**	-4.8
Central Govt Gross Public Debt - % GDP	65.0	63.0	60.8	56.7	63.3	**66.3**	65.0	**66.8**	63.7

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

Macro Research – Itaú

Mario Mesquita – Chief Economist

To access our reports and forecast visit our website:
https://www.itau.com.br/itaubba-pt/macroeconomic-analysis



Relevant Information

1. This report has been prepared and released by the Macro Research Department of Itaú Unibanco S.A. (“Itaú Unibanco”). This report is not a product of the Equity Research Department of Itaú Unibanco or Itaú Corretora de Valores S.A. and shall not be construed as a research report (“relatório de análise”) for the purposes of Article 1 of the CVM Instruction NR. 20, dated 2021.
2. The exclusive purpose of this report is to provide macroeconomics information and it does not constitute and shall not be construed as an offer to buy or sell or a solicitation of an offer to buy or sell any financial product, or to participate in any particular trading strategy in any jurisdiction. The information herein is believed to be reliable as of the date on which this report was released and it has been obtained from public sources believed to be reliable. However, Itaú Unibanco does not make any explicit or implied representation or warranty as to the completeness, reliability or accuracy of such information, nor does this report intend to be a complete statement or summary of the markets or developments referred to herein. Itaú Unibanco has no obligation whatsoever to update, modify or amend this report and inform the reader accordingly.
3. The opinions contained herein reflect exclusively the personal views of the analyst responsible for this report and were prepared independently and autonomously, including in relation to Itaú Unibanco, Itaú Corretora de Valores S.A. and any other companies within their economic group.
4. This report may not be reproduced or redistributed to any other person, in whole or in part, for any purpose, without the prior written consent of Itaú Unibanco. Additional information on the financial products mentioned in this report may be available upon request. Itaú Unibanco and/or any other company within its economic group is not and shall not be liable for any investment decisions (or otherwise) based on the information provided herein.

Additional Note: This material does not take into consideration the objectives, financial situation or specific needs of any particular client. Clients must obtain financial, tax, legal, accounting, economic, credit and market advice on an individual basis, based on their personal characteristics and objectives, prior to making any decision based on the information contained herein. By accessing the material, you represent and confirm that you understand the risks related to the financial instruments described in this material and the laws in your jurisdiction relating to the provision and sale of financial service products. You acknowledge that this material contains proprietary information and you agree to keep this information confidential for your exclusive use.

For inquiries, suggestions, complaints, criticisms and compliments, talk to Itaú’s CSCC: 0800 728 0728. Or contact us through our portal https://www.itau.com.br/atenda-itau/para-voce/. If you are not satisfied with the proposed solution, please contact the Itaú Corporate Ombudsman: 0800 570 0011 (on weekdays from 9 AM to 6 PM) or our PO Box 67.600, São Paulo-SP, Zip Code 03162-971. Hearing impaired, every day, 24h, 0800 722 1722.