

## Cautious Monetary Policy to prevail

- ▶ We revised our year-end inflation forecast to 4.5% (from 4.2%), due to an inflation surprise in January and indexation; potential gas price hikes maintain the balance of risks for inflation to the upside. Despite the changes in BanRep's board, we expect the cautious stance to continue, with a resumption of only a 25-bp cut in March, and a YE25 rate of 8%. For 2026, we forecast a year-end rate of 6.5% (unchanged from the previous scenario).

### U-turn in fiscal consolidation leads to significant miss in 2024

**Lower-than-expected revenues in 2024 led to a substantial widening of the nominal fiscal deficit to 6.8% of GDP, above the deficit target of 5.6% of GDP.** The primary balance deteriorated significantly, from -0.3% of GDP in 2023 to -2.4% of GDP in 2024. Net public debt shot up from 53.8% of GDP to 60% of GDP in 2024.

**Recovery of fiscal credibility in 2025 is at stake, but revenue estimates may be too upbeat.** For 2025, the government expects tax revenues to increase by 22.6% YoY, up by 3.1% of GDP relative to 2024. In this context, the fiscal deficit target for 2025 remained stable at 5.1% of GDP, implying a strong fiscal adjustment with a primary balance of -0.2% of GDP. Net debt is expected to increase slightly from 60.0% of GDP in 2024 to 60.6% of GDP, moving farther from the debt anchor (55% of GDP). However, achieving the 5.1% fiscal deficit target for 2025 seems challenging without an expenditure reduction of at least COP 40 trillion (2.4% of GDP) and the adoption of a new tax bill, amid high revenue estimates.

### Disinflationary process to decelerate

**Upside CPI surprise at the start of 2025.** Annual headline inflation was virtually unchanged at 5.22% in January (from 5.20% in December), while core inflation fell to 5.75% (down 20 bps vs. November) from a peak of 10.60% in April 2024). Non-durable goods inflation (mainly food) came in at 3.7% yoy, up 9 bps from the previous month. Energy inflation fell to 2.92%, down 210 bps from December. Service inflation dropped by 4 bps to a still-high 7.34%, compared with the peak of 9.51% in September. At the

margin, we estimate that inflation accumulated in the quarter stood at 5.1% (SA, annualized) and 4.4% in 4Q24. Core inflation fell to 5.3% from 5.5% in 4Q24 (SA annualized). Inflation in February is likely to remain high, following the announcement of gas price hikes and the seasonal adjustment of education prices.

**GDP growth came broadly in line with expectations in 4Q24.** The Colombian economy increased by 2.3% yoy in 4Q24 (+2.1% in 3Q24). The increase in the annual GDP was lifted by entertainment, commerce and public administration. For the full year, activity grew 1.7%, slightly below BanRep expectation 1.8%. At the margin, the coincident activity indicator (ISE) expanded 1.4% from November to December, and 0.7% qoq/saar.

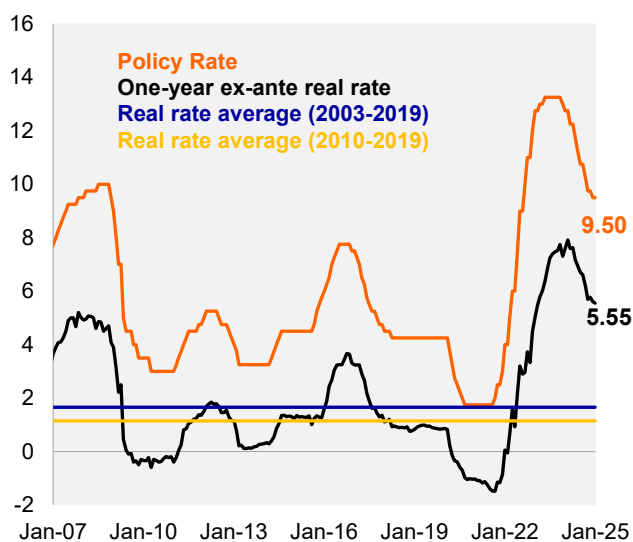
### Still-cautious Central Bank stance

**BanRep paused the easing cycle at 9.5% in January, after slowing the pace of cuts in December.** The second consecutive hawkish decision was once again split, with five members voting for the pause, one favoring a 25-bp cut, and another a 50-bp reduction. Governor Villar cited the headwinds to the disinflation process following the increase in PPI, the significant real minimum wage hike, and the rise in above-target inflation expectations. Finance Minister Guevara – a voting member of BanRep's board – indicated that the government will continue to pursue further cuts.

**Upward revision of BanRep's inflation and real neutral interest rate expectations.** In its latest monetary policy report, BanRep's technical staff revised the year-end inflation forecast up by 0.9 pp to 4.05% (Itaú: 4.5%; 5.2% in 2024). Regarding monetary

policy, the central bank's baseline scenario implies a policy rate path that is, on average, above analyst expectations in the January's survey (which put the policy rate at 7.3% in 4Q25 and 6.25% at the end of the policy horizon). The board once again raised the estimated real neutral rate for 2026, this time by 0.3 pp to 3%.

**First pause since the beginning of the easing cycle**



Source: Banrep

## Higher inflation estimate

**Less demanding base effect in 2024 led us to revise our 2025 GDP growth forecast up by 0.1 pp to 2.3%.**

**Wider fiscal deficit in 2025 and 2026.** Following the widening of the deficit in 2024 and the absence of spending cuts for 2025, we revised our nominal fiscal deficit forecast up to 6.5% of GDP (from 5.5% previously) and to 4.8% for 2026 (vs. 4.5% in our previous scenario). Higher-than-anticipated deficits are likely to weigh on the sovereign's credit rating.

## Current account deficit to remain low this year.

High remittances and a still-moderate trade deficit support the maintenance of our CAD forecast of 2.0% of GDP for 2024; some widening is expected for 2025, to 2.8% of GDP. We kept our exchange rate estimate at COP 4,400/USD for YE25, amid high uncertainties surrounding domestic policy and narrowing interest rate differentials with the U.S., among other factors.

**Disinflationary process to slow in 2025.** Potential gas price hikes this month could lead to a further deceleration of the disinflationary process, adding to a strong January print and indexation pressures from a larger-than-expected minimum wage increase. We now forecast a YE25 CPI of 4.5% (from 4.2% previously), but maintained the YE26 CPI at 3.3%.

**We expect rate cuts to resume in March (-25 bps), with the board's makeup better reflecting the government's stance.** We continue to expect a YE24 rate of 8.0%, well above the nominal neutral rate of 5.7%. BanRep continues to express concerns about the inflation dynamics, but the two new board members are likely to tilt the decisions toward gradual cuts.

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### Colombia | Forecasts and Data

	2020	2021	2022	2023	2024F		2025F		2026F	
					Current	Previous	Current	Previous	Current	Previous
<b>Economic Activity</b>										
Real GDP growth - %	-7.2	10.8	7.3	0.6	1.7	-	<b>2.3</b>	2.2	<b>2.6</b>	2.6
Nominal GDP - USD bn	270	322	345	364	409	-	<b>413</b>	414	<b>449</b>	450
Population (millions)	50.9	51.4	51.8	52.2	<b>52.7</b>	52.7	<b>53.2</b>	53.2	<b>53.5</b>	53.5
Per Capita GDP - USD	5,312	6,272	6,659	6,976	<b>7,768</b>	7,792	<b>7,768</b>	7,777	<b>8,388</b>	8,396
Unemployment Rate - year avg	16.7	13.8	11.2	10.2	10.2	-	<b>10.2</b>	10.2	<b>10.2</b>	10.2
<b>Inflation</b>										
CPI - %	1.6	5.6	13.1	9.3	5.2	-	<b>4.5</b>	4.2	<b>3.3</b>	3.3
<b>Interest Rate</b>										
Monetary Policy Rate - eop - %	1.75	3.00	12.00	13.00	9.50	-	<b>8.00</b>	8.00	<b>6.50</b>	6.50
<b>Balance of Payments</b>										
COP / USD - eop	3,428	4,070	4,850	3,855	4,406	-	<b>4,400</b>	4,400	<b>4,200</b>	4,200
Trade Balance - USD bn	-10.1	-15.3	-14.5	-9.7	-10.8	-	<b>-10.0</b>	-7.0	<b>-9.0</b>	-8.0
Current Account - % GDP	-3.4	-5.6	-6.2	-2.7	<b>-2.0</b>	-2.0	<b>-2.8</b>	-2.8	<b>-3.0</b>	-3.0
Foreign Direct Investment - % GDP	2.8	3.0	5.0	4.8	<b>3.3</b>	3.3	<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>61.0</b>	61.0	<b>64.0</b>	64.0
<b>Public Finances</b>										
Primary Central Govt Balance - % GDP	-5.0	-3.6	-1.0	-0.3	<b>-2.4</b>	-0.9	<b>-1.7</b>	-0.9	<b>-0.7</b>	-0.2
Nominal Central Govt Balance - % GDP	-7.8	-7.1	-5.3	-4.3	<b>-6.8</b>	-5.6	<b>-6.5</b>	-5.5	<b>-4.8</b>	-4.5
Central Govt Gross Public Debt - % GDP	65.0	63.0	60.8	56.7	<b>63.2</b>	61.9	<b>65.6</b>	63.6	<b>65.2</b>	63.0

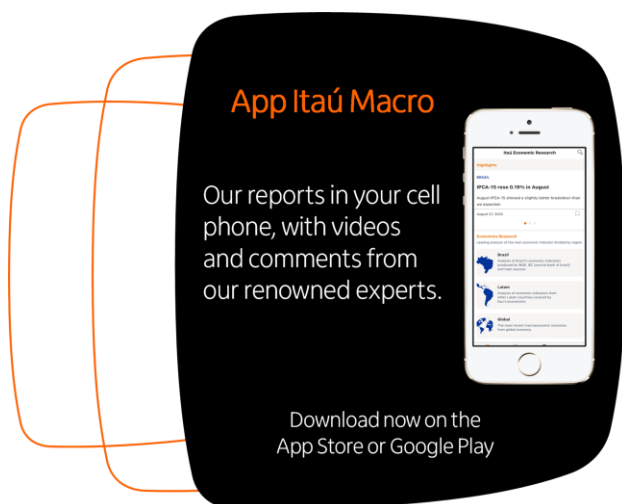
Source: IMF, Bloomberg, Dane, Banrep, Haver and Itaú

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