

March 17, 2025

All eyes on BanRep

- ▶ We keep our inflation forecasts at 4.5% for YE25 and 3.3% for YE26. The effects of the recent upside inflation surprises are likely to be offset by currency appreciation. However, potential additional increases in gas prices could hinder the disinflationary process.
- ▶ While the fundamentals indicate a pause, BanRep could still lean toward a cut at the next monetary policy meeting on March 31, prioritizing the growth recovery. We maintain a year-end rate of 8.0% for 2025 and 6.5% for 2026. However, the evolution of still above-target inflation expectations and global developments will play a key role in the pace of the easing cycle.

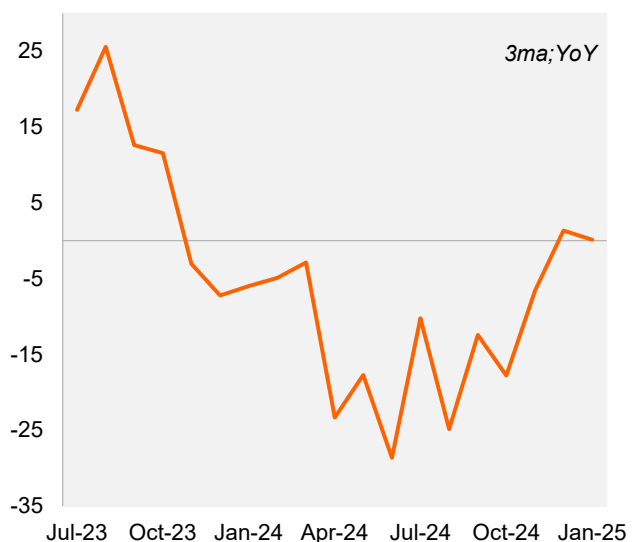
Activity evolving as expected

As expected, growth showed acceleration in 4Q24, led by an improvement in investment. GDP rose by 2.3% yoy (vs. +2.1% in 3Q24), broadly in line with BanRep's forecast. Gross fixed investment increased by 10.5% yoy (vs. +3.8% in 3Q24 and +4.0% in 2Q24), due to an improvement in machinery and equipment, while consumption increased by just under 2%. At the margin, activity is growing by 2.5% qoq/saar (up from 1.25% in 3Q24).

Domestic demand is recovering, but remittances are supporting a narrowing of the CAD. The current account deficit (CAD) reached 2.1% of GDP in 4Q24, taking the annual CAD to 1.8% of GDP (vs. 2.2% in 2023), the lowest level since 2005. The improvement in the CAD was mainly driven by higher transfers, up 20% yoy (vs. +5% yoy in 2023). Overall, net direct investment achieved a 130% coverage of the CAD (vs. 187% in 2023 and 66% in 2022).

Revenues are turning the corner. Following the 12.8% real annual contraction last year, tax revenues (representing the lion's share of total revenues) have finally begun to improve, swinging positive in the past two months. That said, revenues will have to continue to ramp up significantly in the coming months if they are to meet the MoF's ambitious annual growth forecast of +16.4% real annual (+22% nominal annual), or 16.8% of GDP (vs. 14.5% of GDP in 2024).

Tax revenues are recovering



Source: Ministry of Finance; Itaú

More unpleasant inflation surprises

Inflation delivered another upside surprise in February, rising by 1.14% MoM, well above market expectations for the second consecutive month.

The main positive contributors in the month were housing and utilities, education, and transport. Food and transportation surprised us. The disinflation process reversed at the margin, with annual headline inflation increasing by 6 bps from January, to 5.28%, while core inflation dropped by 8 bps to 5.63% (from a peak of 10.60% in April 2024). Service inflation dropped by 12 bps to a still-high 7.22% (from a peak of 9.51% in September). We estimate 5.4% inflation accumulated in

the quarter (SA, annualized), vs. 4.6% in 4Q24. Core inflation fell to 5.0%, from 5.5% in 4Q24 (SA, annualized).

Central Bank maintains cautious tone

Board members take a cautious stance. In line with the comments since December, Central Bank Governor Leonardo Villar has reiterated that the considerable minimum wage adjustment will slow the disinflation process. Mr. Villar believes that, without a cautious approach, inflation dynamics could force the board to backtrack on its easing path. Board member Olga Lucía Acosta sees a challenging fiscal context that requires a lower risk premium to ensure fiscal sustainability. Board member Mauricio Villamizar believes that a deterioration of the fiscal accounts requires a restrictive monetary policy. In our view, these comments together with the string of upside inflation surprises increase the probability of another pause at the next monetary policy meeting, although we maintain our call of a 25-bp cut.

How far will the Board go?

GDP growth nears potential. Following a below-potential GDP growth of 1.7% in 2024, we forecast an expansion of 2.3% in 2025 and 2.6% in 2026, gradually edging toward its 2.8-3.0% potential.

CAD likely to remain low amid high remittances.

Despite expectations of better import dynamics ahead, high remittances will support a CAD of 2.6% this year (-0.2 pp adjustment; 1.8% in 2024). We now estimate that the COP will end the year at 4,300/USD (from our previous expectation of COP 4,400/USD), primarily reflecting changes in our international scenario.

We maintain our inflation forecasts at 4.5% for YE25 and 3.3% for YE26.

The effects of the recent upside inflation surprises are likely to be offset by a lower passthrough from currency appreciation. Potential additional increases in gas prices could hinder the disinflationary process.

While fundamentals indicate a pause, BanRep should still lean toward a cut at the next monetary policy meeting on March 31, prioritizing the recovery of economic activity.

We maintain our call of a year-end rate of 8.0% for this year and 6.5% for 2026. However, the evolution of still above-target inflation expectations and global developments will play a key role in the pace of the easing cycle.

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	2020	2021	2022	2023	2024F		2025F		2026F	
					Current	Previous	Current	Previous	Current	Previous
Economic Activity										
Real GDP growth - %	-7.2	10.8	7.3	0.7	1.7	-	2.3	2.3	2.6	2.6
Nominal GDP - USD bn	270	322	346	367	420	-	419	413	460	449
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	6,665	7,028	7,968	-	7,870	7,768	8,602	8,388
Unemployment Rate - year avg	16.7	13.8	11.2	10.2	10.2	-	10.2	10.2	10.2	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	-	8.00	8.00	6.50	6.50
Balance of Payments										
COP / USD - eop	3,433	3,981	4,810	3,822	4,409	-	4,300	4,400	4,100	4,200
Trade Balance - USD bn	-10.1	-15.3	-14.5	-9.7	-10.8	-	-11.0	-10.0	-10.0	-9.0
Current Account - % GDP	-3.4	-5.6	-6.1	-2.4	-1.8	-	-2.6	-2.8	-3.1	-3.0
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	-	61.0	61.0	64.0	64.0
Public Finances										
Primary Central Govt Balance - % GDP	-5.0	-3.6	-1.0	-0.3	-2.4	-	-1.7	-1.7	-0.5	-0.7
Nominal Central Govt Balance - % GDP	-7.8	-7.1	-5.3	-4.2	-6.8	-	-6.5	-6.5	-4.8	-4.8
Central Govt Gross Public Debt - % GDP	65.0	63.0	60.8	56.7	63.3	63.2	65.0	65.6	63.7	65.2

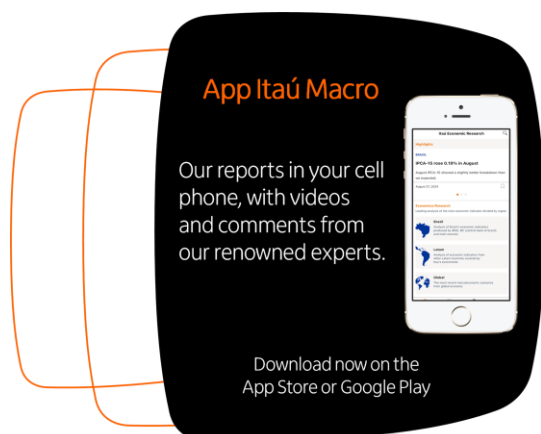
Source: IMF, Bloomberg, Dane, Banrep, Haver and Itaú

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