# Macro scenario - Colombia

July 14, 2025

## A Balancing Act

- Activity started 2Q25 on a strong footing, leading us to maintain our 2025 GDP growth forecast at 2.5%. In the context of weak investment dynamics, we envisage below-potential GDP growth for 2026 at 2.5%.
- While inflation surprised to the downside slightly for the second consecutive month in June, we retain our yearend inflation call at 5.1%, and that for 2026 at 3.6%.
- Our forecast considers BanRep taking the policy rate by yearend to 8.75% (up from 8.5% in the previous scenario), while we continue to anticipate a year-end 2026 rate of 7.75%.

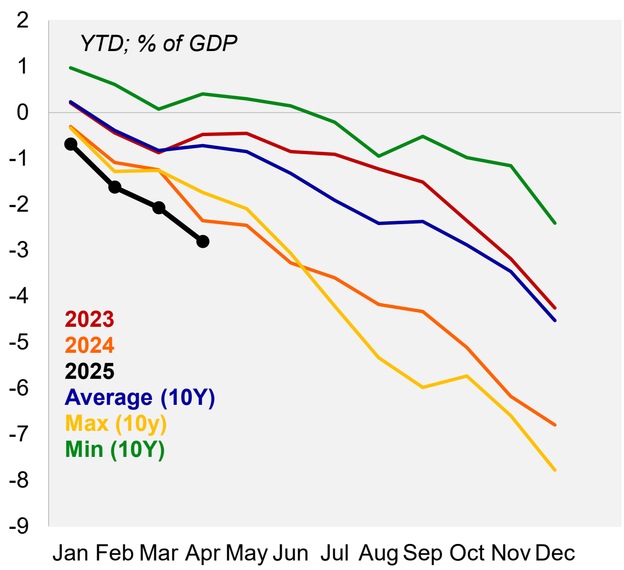
### April activity surprised to the upside

**Economic activity started 2Q25 on a strong footing.** The monthly GDP proxy rose by 1.6% MoM SA in April, recovering from the monthly contraction in March. On an annual basis, activity rose by 1.1% YoY, driven by agriculture and mining, with a monthly variation of 2.0% MoM. Secondary and tertiary sectors posted monthly expansions of 1.4% MoM and 0.5% MoM, respectively. The labor market remains tight, with the unemployment rate (SA) at 9.0%, well below BanRep's NAIRU estimate of 10.2%. Meanwhile, business confidence showed mixed results in May, but still with a favorable trend.

### Fiscal accounts still under pressure despite revenue recovery

**Another large fiscal deficit in April. The monthly fiscal balance in April reached a deficit of 0.7% of GDP, below last year's 1.1%. The cumulative fiscal deficit for the year rose to 2.8% of GDP, 0.8pp above the same period in 2024. Tax revenues continued to increase in May, rising by 2.6% YoY in real terms, leading to a cumulative increase in the year of 4.3%, still below the MoF's annual 9.9% forecast. In this context, following the revision of the MoF's 2025 fiscal deficit forecast to 7.1% of GDP, S&P and Moody's reacted by downgrading the sovereign's credit rating.** Moody's lowered the long-term foreign currency rating from Baa2 to Baa3, the lowest within investment grade, and adjusted the outlook from negative to stable. S&P revised the long-term foreign currency rating down further within speculative to 'BB' from 'BB+', and kept a negative outlook. Fitch rates Colombia at BB+ with a negative outlook (set in March), and has yet to release an update since the revised official forecasts.

**The deficit remains at historically high levels**




Source: Minister of Finance; Itaú

### A welcome development: inflation falls below 5% in June

**Monthly inflation surprised consensus to the downside for the second consecutive month in June.** Consumer prices rose by 0.10% MoM in June, driven by service (hotels and restaurants and transport) prices. On an annual basis, headline inflation fell by 23bps from May to 4.82% in June, the lowest since October 2021, while core inflation dropped by 6bps to 5.37%. However, services inflation fell by only 8bps to a still high 6.51% YoY (9.51% peak in September 2024). At the margin, we estimate that

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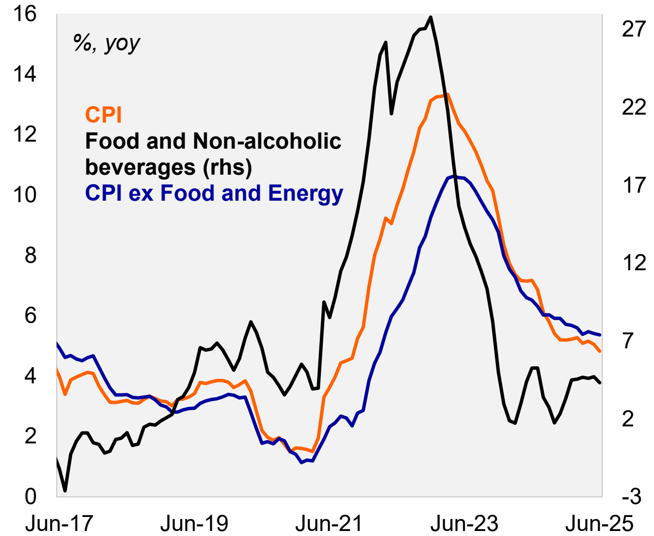
inflation accumulated in the quarter reached 5.6% (SA, annualized; +5.2% in 1Q25). Core inflation remains elevated at 5.4%, from 5.2% in 1Q25 (SA, annualized).

**Slow disinflation underway**




Source: Dane; Itaú

## BanRep maintained the policy rate in June, prioritizing caution

**In a divided decision, BanRep expectedly kept the policy rate at 9.25% in June.** The split decision saw four members voting to hold, one member favoring a 25bp cut, and two members supporting a larger 50bp reduction (including the Finance Minister). The policy statement mentions that the revised official fiscal path poses challenges to the sustainability of the fiscal accounts and reduces room for monetary policy easing. The decision also took place in the context of the technical staff revising their 2025 GDP growth forecast up by 10bps to 2.7%. Members that voted to reduce the policy rate cited the decline in inflation to date, the convenience of supporting investment dynamics, economic activity, and hence, the fiscal accounts. As has been the case in recent decisions, the forward guidance was neutral, depending on incoming data. It is notable that, while falling slowly, inflation remains way above the target, and the arguments presented for easing do not seem consistent with inflation targeting as it has been implemented by most other central banks.

## Balancing fiscal and monetary policy

**We keep our GDP growth forecast for this year and next at 2.5%.** Commerce and services continue to drive growth, as the labor market continues to outperform. In contrast, however, investment dynamics remain weak.

**Elevated remittances continue to sustain a narrow CAD.** Despite a rising trade deficit, remittances are performing well. We still see the CAD at 2.6% of GDP this year (1.8% in 2024). We now expect the exchange rate to end of the year at COP 4,100/USD (previously expected at COP 4,300/USD) and for year-end 2026 at COP 4,100 (compared to COP 4,200 in the previous scenario), primarily reflecting a weaker global dollar, and despite elevated domestic fiscal risks.

**Inflation still projected to gradually decline.** We maintained our inflation forecasts at 5.1% and 3.6% for yearend 2025 and 2026, respectively. Risks tilt towards an even more gradual disinflation path next year, as a result of another potential above-inflation minimum wage adjustment by the yearend and indexation pressures, stemming from services. These risks, however, appear partly contained by favorable COP dynamics.

**Even greater fiscal deficits.** Even though revenues are recovering, they are likely to undershoot the official forecast, leading us to revise our 2025 nominal fiscal deficit forecast up by 0.5pp to 7.5% of GDP and by a larger 1.3pp to 6.8% next year.

**Fiscal woes reduce BanRep's room to maneuver.** We now expect a year-end rate of 8.75% (previously 8.5%), with only two cuts in the remaining four meetings of the year. While risks tilt to a higher terminal rate, partly due to an eventually greater neutral real rate (currently estimated by BanRep at 3.0%), we maintained our cycle endpoint in 2026 at 7.75%. All things considered, we find the case for further easing rather fragile, but committee dynamics lead us to expect some more easing ahead.

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## 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 | **2.5** | 2.5 | **2.5** | 2.5 |
| Nominal GDP - USD bn | 270 | 322 | 345 | 364 | 420 | **421** | 421 | **458** | 458 |
| 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 | **7,909** | 7,909 | **8,554** | 8,554 |
| Unemployment Rate - year avg | 16.7 | 13.8 | 11.2 | 10.2 | 10.2 | **9.6** | 9.6 | **9.8** | 9.8 |
| **Inflation** | | | | | | | | | |
| CPI - % | 1.6 | 5.6 | 13.1 | 9.3 | 5.2 | **5.1** | 5.1 | **3.6** | 3.6 |
| **Interest Rate** | | | | | | | | | |
| Monetary Policy Rate - eop - % | 1.75 | 3.00 | 12.00 | 13.00 | 9.50 | **8.75** | 8.50 | **7.75** | 7.75 |
| **Balance of Payments** | | | | | | | | | |
| COP / USD - eop | 3,433 | 3,981 | 4,810 | 3,822 | 4,409 | **4,100** | 4,300 | **4,100** | 4,200 |
| Trade Balance - USD bn | -10.1 | -15.3 | -14.5 | -9.7 | -10.8 | **-12.0** | -11.0 | **-11.0** | -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** | 62.5 | **64.0** | 64.0 |
| **Public Finances** | | | | | | | | | |
| Primary Central Govt Balance - % GDP | -5.0 | -3.6 | -1.0 | -0.3 | -2.4 | **-2.7** | -2.2 | **-2.5** | -1.2 |
| Nominal Central Govt Balance - % GDP | -7.8 | -7.1 | -5.3 | -4.2 | -6.7 | **-7.5** | -7.0 | **-6.8** | -5.5 |
| Central Govt Gross Public Debt - % GDP | 65.0 | 63.0 | 60.8 | 56.7 | 63.3 | **65.0** | 65.2 | **66.5** | 65.8 |

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

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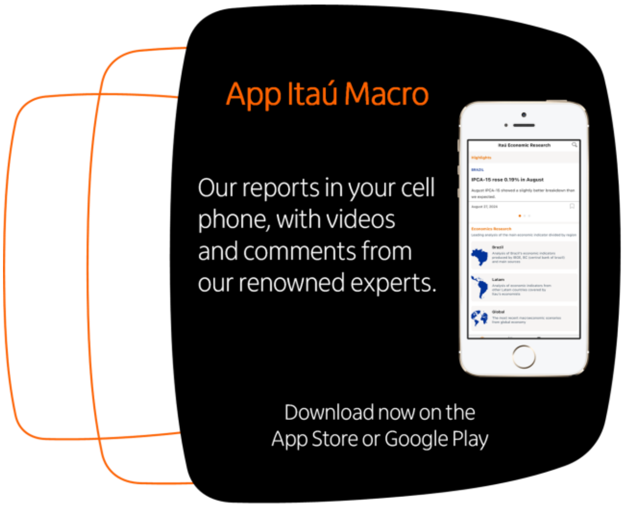

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