Macro scenario - Colombia

October 10, 2025

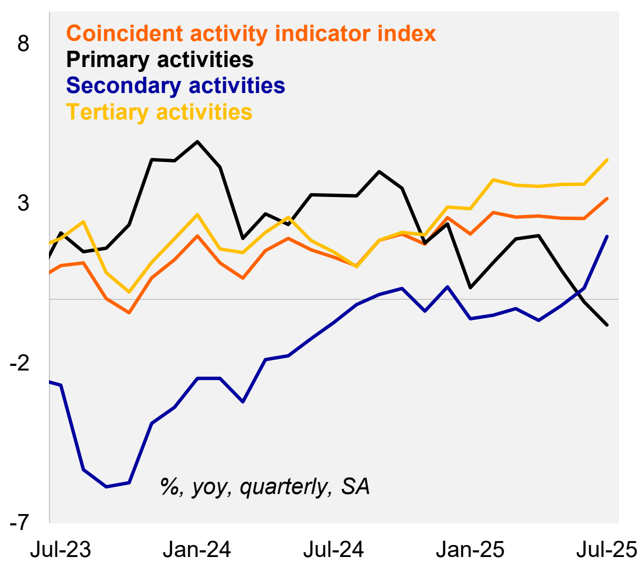
Inflation dynamics cool rate cut expectations

- We raised our year-end 2025 CPI forecast to 5.2% and 4.2% for year-end 2026, as upside risks we flagged in previous months started to materialize, including unfavorable food price dynamics. The magnitude of next year's minimum wage hike, to be decreed by year end, is a looming risk for next year's disinflation path.
- With activity resilient and labor market tight, along with concerning inflation dynamics, we maintained our forecast of no rate cuts for the remainder of the year, keeping the rate at 9.25%. While we still anticipate a 100-bp cycle next year to 8.25%, we revised the timing of these, now for continuous cuts starting in the second half of 2026.

Activity Gains Momentum

Activity rose by the fastest pace since mid-2021. On a sequential basis, the coincident activity indicator (ISE) expanded by 2.9% MoM (SA) from June to July (-1.0% MoM in June), marking the greatest increase since June 2021. As a result, activity rose by 3.1% QoQ SA in the quarter ending in July. On an annual basis, the ISE rose by 4.3% YoY, driven by growth in tertiary and secondary activities. In parallel, labor market tightness is reflected by historically low levels of the urban unemployment rate (8.0% SA, well below BanRep's NAIRU of 10.2%) and sizable job creation in the quarter ending in August. Business confidence slipped at the margin in August, but the trend is favorable, edging up to the highest levels since 2022.

Activity rebounds



Source: Dane, Itaú

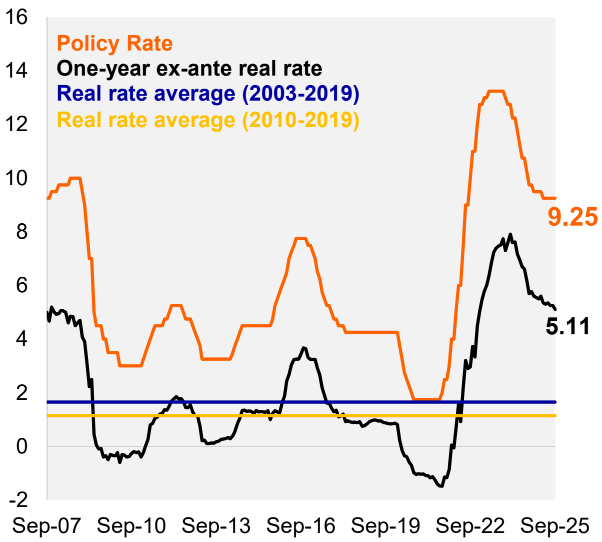
Inflation dynamics are turning sour

Inflationary pressures persisted in September. Consumer prices rose by 0.32% MoM in September, above market consensus yet closer to our call, driven by housing and utilities, beverages and tobacco and education. On an annual basis, headline inflation increased by 8bps from August to 5.18% in September, while core inflation fell by 3bps to 5.33%. On a quarterly basis, we estimate inflation accumulated in the quarter reached 5.3% (SA, annualized, +5.5% in 2Q25). Core inflation remains elevated at 5.4%, from 5.3% in 2Q25 (SA, annualized). Meanwhile, BanRep's monthly analyst survey, released prior to the September upside surprise, showed increases in the one-year and two-year ahead inflation expectations, rising by 14 bps and 11 bps to 4.14% and 4.02%, respectively, marking the highest levels in 2025. Core inflation expectations also increased, rising 19 bps and 9 bps to 4.63% and 3.91% for December 2025 and December 2026, respectively, while the one-year-ahead measure remained broadly stable at 4.05%.

Continuing pause

In the context of resilient activity and stubborn inflation, BanRep expectedly kept the policy rate at 9.25% in the September policy meeting, staying on hold for the third consecutive time. The Board was split again with four members voting to hold, one favoring a 25-bp cut, and two supporting a larger 50-bp cut (including the Finance Minister). While the Board's discussion has centered on holding or lowering the policy rate, the downward disinflation trend is less clear. Even then, Governor Villar has stated that a rate hike has not been considered given the contractionary levels of monetary policy. Meanwhile, the minutes indicated an even more cautious approach by the majority, emphasizing the effects of expansionary fiscal policy, which exerts pressure on domestic demand and crowds out private investment.

Real rate remains contractionary



Source: Dane, Itaú

Inflation Pressures Remain

The economic recovery remains on track, driven by private consumption. We forecast 2025 GDP growth at 2.7% and 2.8% for 2026.

Despite the widening trade deficit, remittance inflows continue to play a key role in mitigating pressures on Colombia's current account deficit. We still expect a current account deficit (CAD) of 2.8% for this year and 1.8% in 2024. Despite the recent appreciation of the peso, we maintain our year-end forecast at COP 4,000 per USD for this yearend and next.

We raised our year-end 2025 CPI forecast to 5.2% and 4.2% for year-end 2026, as upside risks we had flagged in previous months started to materialize, including unfavorable food price dynamics, while the minimum wage increase for next year has yet to be defined.

Amid persistent inflation, rising CPI expectations, and lingering pressure on the fiscal accounts, caution remains essential. We only expect rate cuts to resume in 2H26, with a 100-bp cycle to 8.25%.

Vittorio Peretti
Carolina Monzón
Juan Robayo
Angela Gonzalez

Colombia | Forecasts and Data

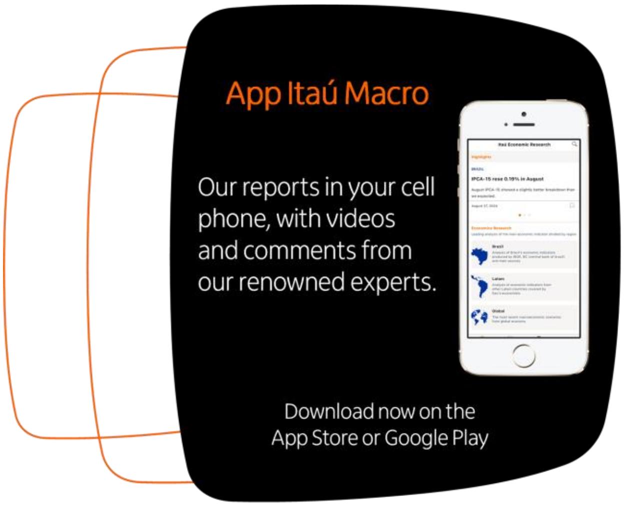
	2020	2021	2022	2023	2024	2025F		2026F	
						Current	Previous	Current	Previous
Economic Activity									
Real GDP growth - %	-7.2	10.8	7.3	0.7	1.6	**2.7**	2.7	**2.8**	2.8
Nominal GDP - USD bn	270	322	345	364	420	**428**	428	**474**	474
Population (millions)	50.9	51.4	51.8	52.2	52.7	**53.1**	53.1	**53.4**	53.4
Per Capita GDP - USD	5,312	6,272	6,657	6,972	7,968	**8,059**	8,059	**8,877**	8,877
Unemployment Rate - year avg	16.7	13.8	11.2	10.2	10.2	**9.0**	9.0	**9.2**	9.2
Inflation									
CPI - %	1.6	5.6	13.1	9.3	5.2	**5.2**	5.1	**4.2**	4.0
Interest Rate									
Monetary Policy Rate - eop - %	1.75	3.00	12.00	13.00	9.50	**9.25**	9.25	**8.25**	8.25
Balance of Payments									
COP / USD - eop	3,433	3,981	4,810	3,822	4,409	**4,000**	4,000	**4,000**	4,000
Trade Balance - USD bn	-10.1	-15.3	-14.5	-9.7	-10.8	**-12.7**	-12.7	**-11.3**	-11.3
Current Account - % GDP	-3.4	-5.6	-6.1	-2.4	-1.8	**-2.8**	-2.8	**-3.2**	-3.2
Foreign Direct Investment - % GDP	2.8	3.0	5.0	4.6	3.4	**3.5**	3.5	**3.7**	3.7
International Reserves - USD bn	58.5	58.0	56.7	59.1	61.9	**66.0**	66.0	**66.5**	66.5
Public Finances									
Primary Central Govt Balance - % GDP	-5.0	-3.6	-1.0	-0.3	-2.4	**-2.7**	-2.7	**-2.5**	-2.5
Nominal Central Govt Balance - % GDP	-7.8	-7.1	-5.3	-4.2	-6.7	**-7.5**	-7.5	**-6.8**	-6.8
Central Govt Gross Public Debt - % GDP	65.0	63.0	60.8	56.3	61.6	**65.0**	65.0	**66.5**	66.5

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.