

Macroeconomic Research
Macro Scenario – Colombia
August 2024

COLOMBIA: Is the acceleration of the easing cycle approaching?

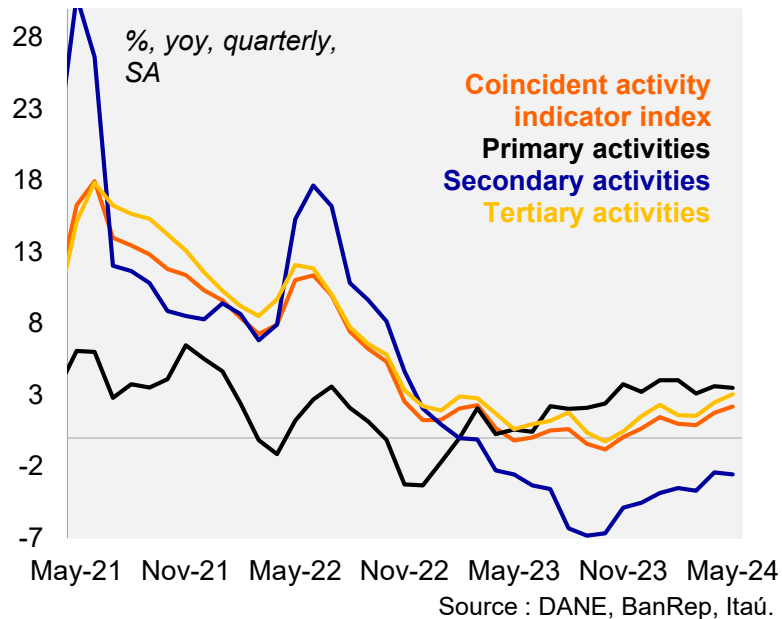
- 1. Agriculture, public administration and entertainment improved activity dynamics**
- 2. The disinflationary process will continue, albeit slowed by services prices**
- 3. We expect BanRep to remain cautious**
- 4. Despite spending cuts, low revenues make it difficult to meet fiscal targets**
- 5. Reform discussions continue in Congress**

1. Agriculture, public administration, and entertainment improved activity dynamics

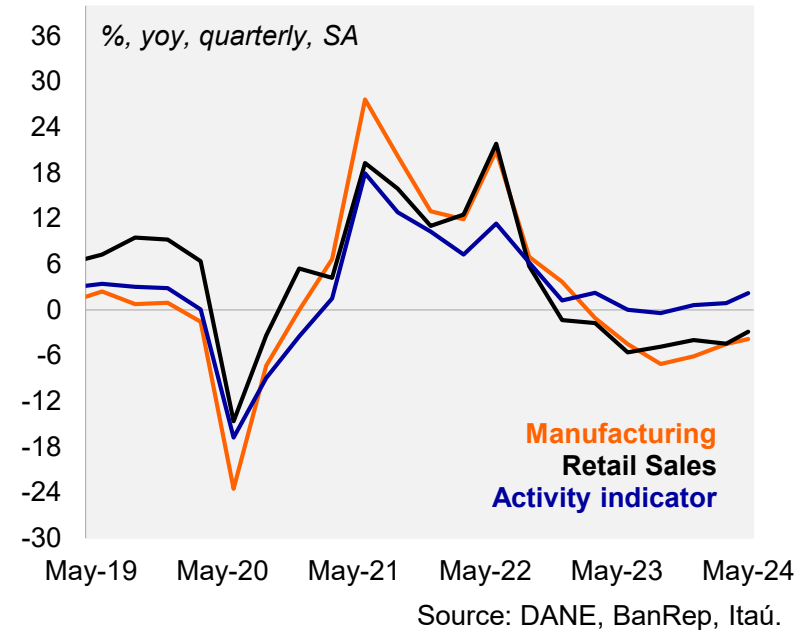
Better than expected dynamics led us to raise 2024 GDP growth up to 1.6% from 1.4%

- Retail sales and manufacturing remain in negative territory, as growth is projected to remain below potential.

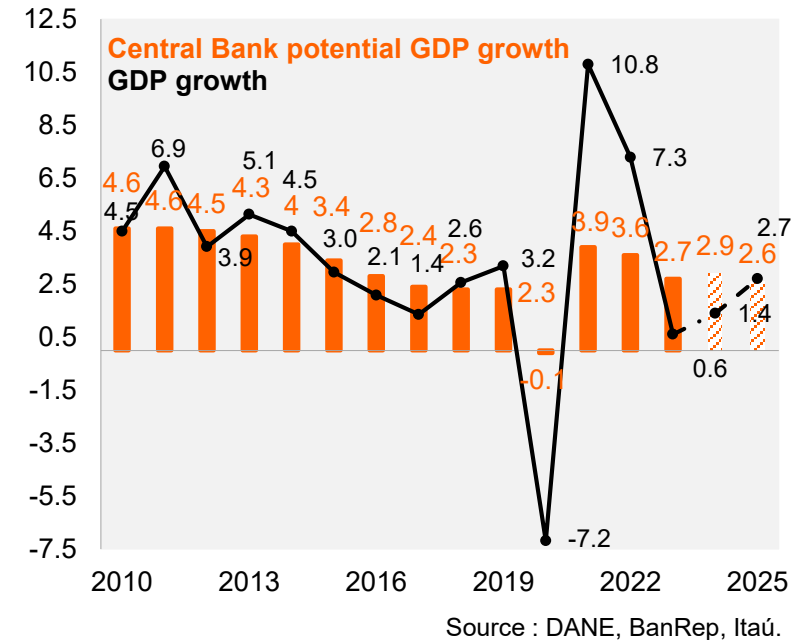
Improving activity dynamics



Secondary sector continues in negative territory



GDP remains below potential

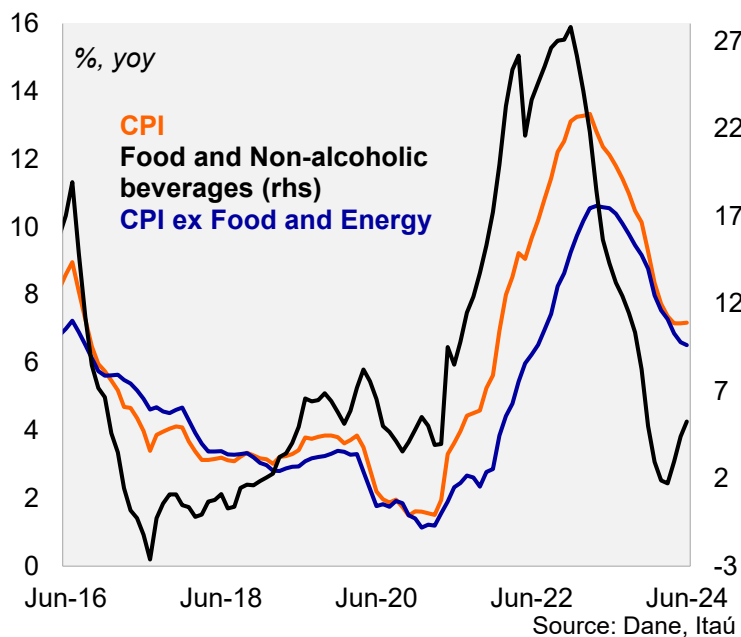


2. The disinflationary process will continue, albeit slowed by services prices

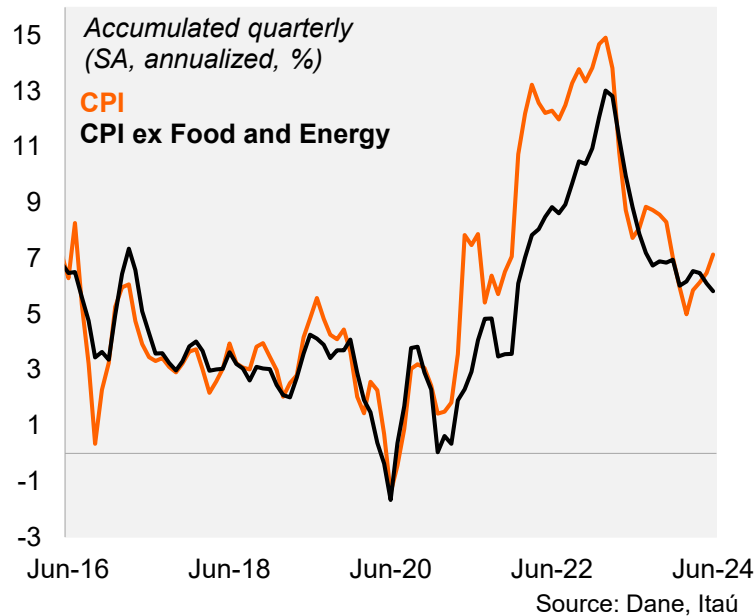
Headline CPI remained stable while core inflation fell at the margin

- Services prices have been sticky, especially due to rental prices.

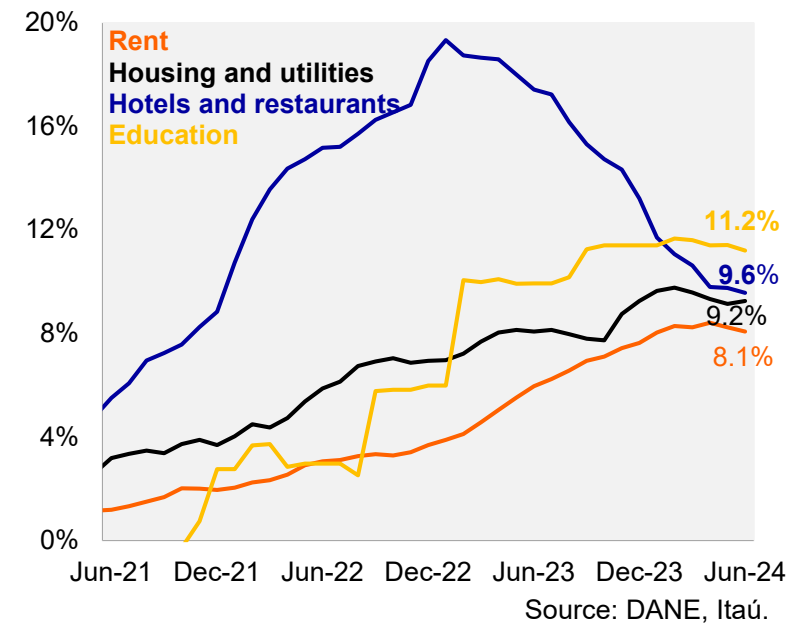
Headline CPI remained stable



Core inflation fell at the margin



Services remain sticky

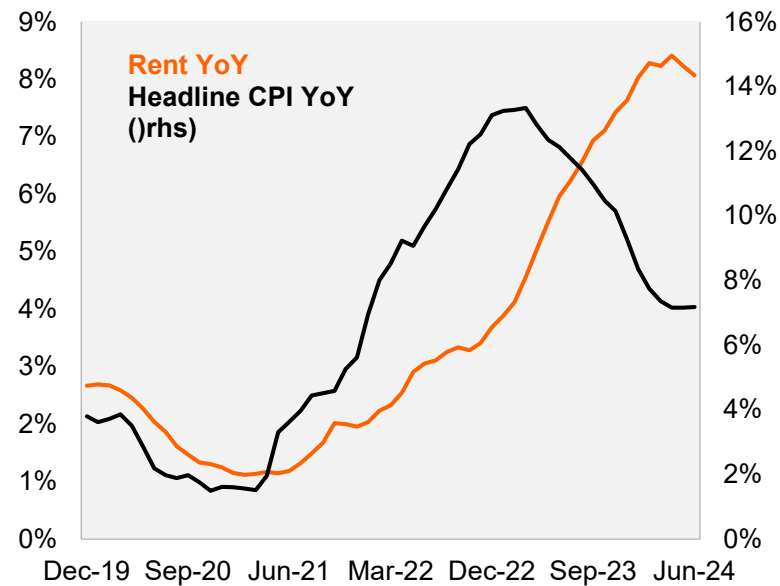


2. The disinflationary process will continue, albeit slowed by services prices

Rent CPI remained pressured at the margin

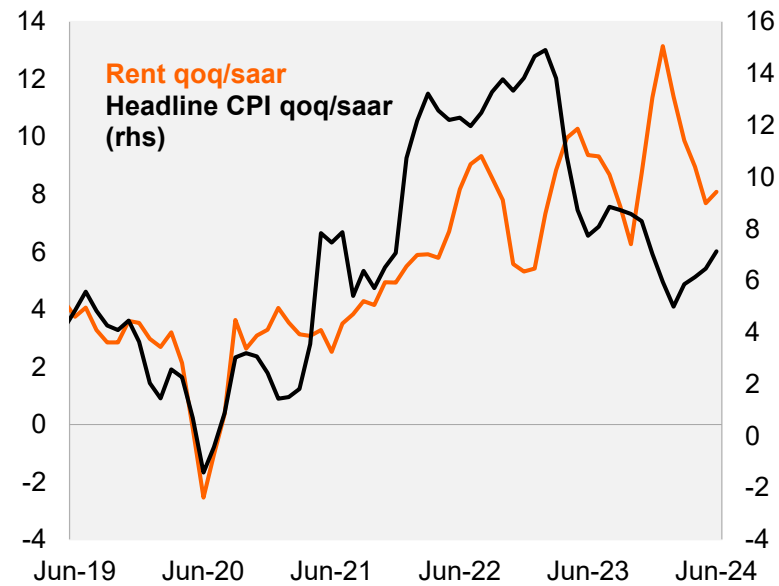
- The rent disinflation process will continue to move forward but at a slow pace.

Headline CPI vs Rent CPI



Source: DANE, Itaú.

Rent CPI increases at the margin



Source: DANE, Itaú.

Expected rent CPI path

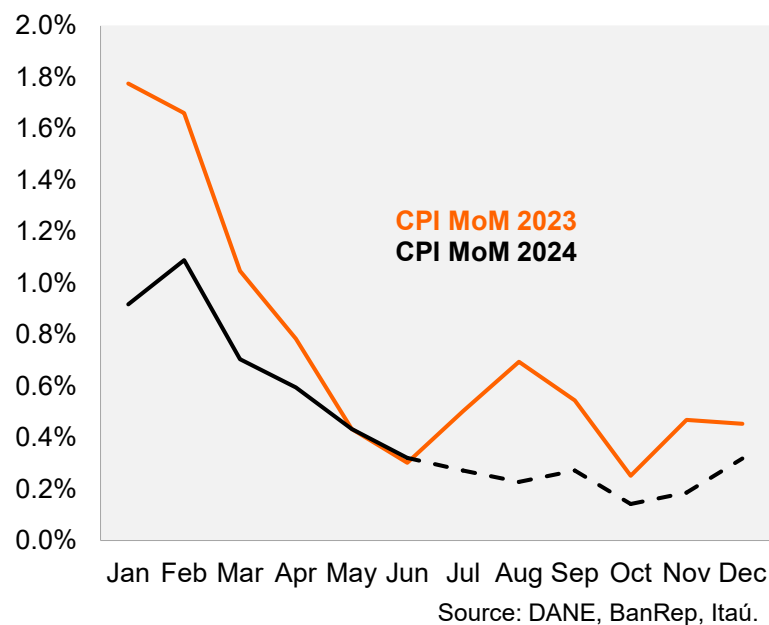
CPI	MoM	YoY
Jan-24	0.82	8.04
Feb-24	0.85	8.28
Mar-24	0.74	8.24
Apr-24	1.11	8.42
May-24	0.75	8.24
Jun-24	0.48	8.07
Jul-24	0.39	7.97
Aug-24	0.42	7.86
Sep-24	0.41	7.65
Oct-24	0.37	7.59
Nov-24	0.38	7.44
Dec-24	0.39	7.34

2. The disinflationary process will continue, albeit slowed by services prices

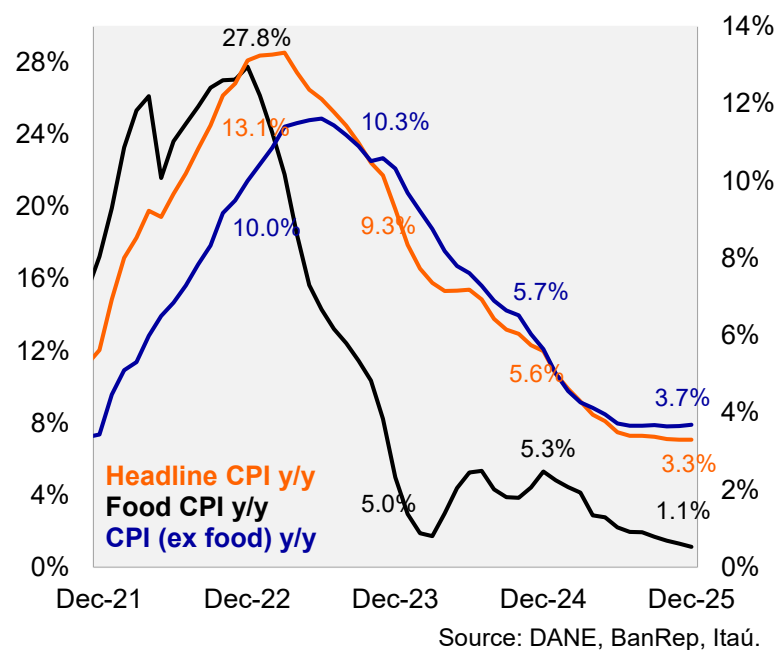
Inflation expectations have continued to fall

- We continue to expect a year-end CPI of 5.6% for 2024 and 3.3% for 2025.
- Base effects should also support the disinflationary process

MoM CPI 2023 vs expected path for CPI 2024



Projected annual CPI path



CPI expectations

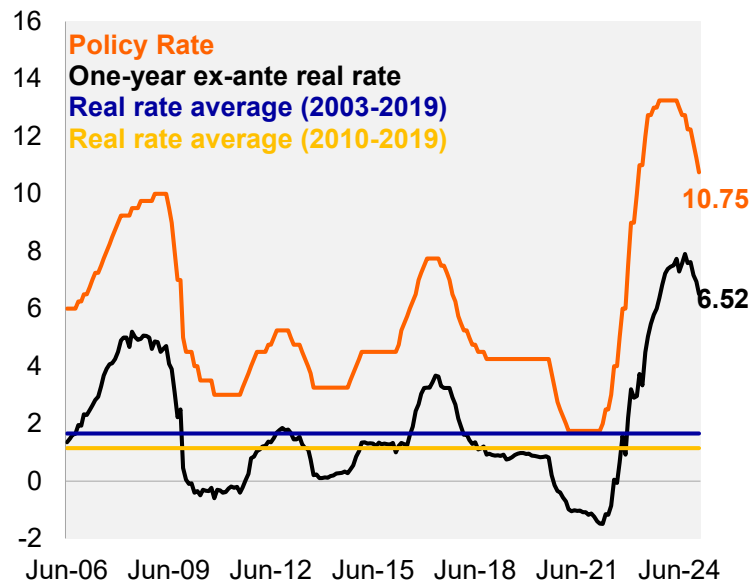


3. MP: We expect BanRep to remain cautious

An earlier start to the Fed's easing cycle should open the door for larger cuts

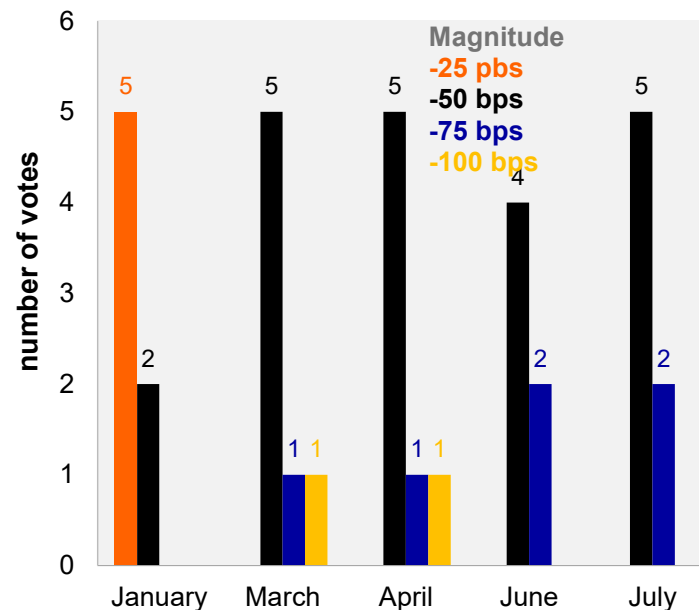
- We maintain our YE24 call at 8.75%, where we expect the board to maintain the 50-bp rate cut cycle in the near term

Highly contractionary real interest rate



Source: BanRep, Bloomberg, Itaú.

BanRep voting 2024



Leonardo Villar

Majority favored a 50 bps cut:

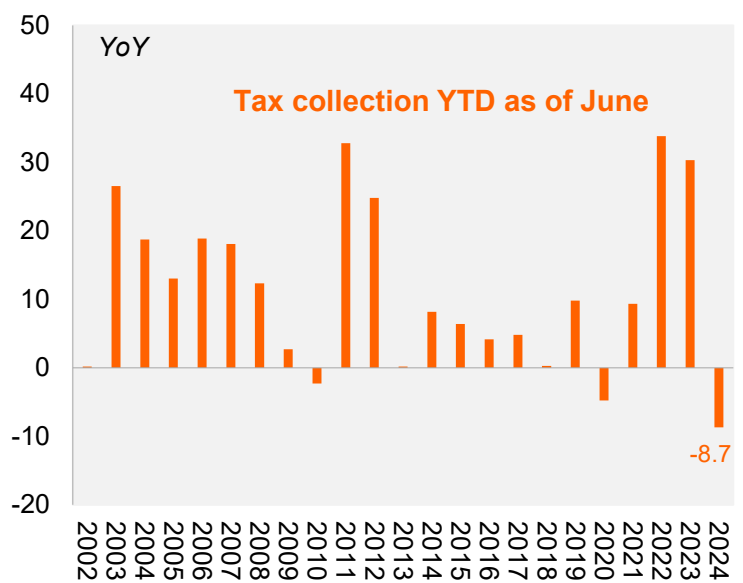
1. External financial conditions are seen to be less restrictive.
2. The disinflation process is expected to continue in the upcoming months.
3. Inflation risks have moderated, amid a lower probability of a strong "La Niña", more favorable exchange rate dynamics recently, and less restrictive international financial conditions, increasing the likelihood that the FED starts to cut rates soon.
4. Upcoming decisions will be data dependent, as has been the case in previous decisions

4. Despite spending cuts, low revenues make it difficult to meet fiscal targets

Primary balance to remain negative in 2025

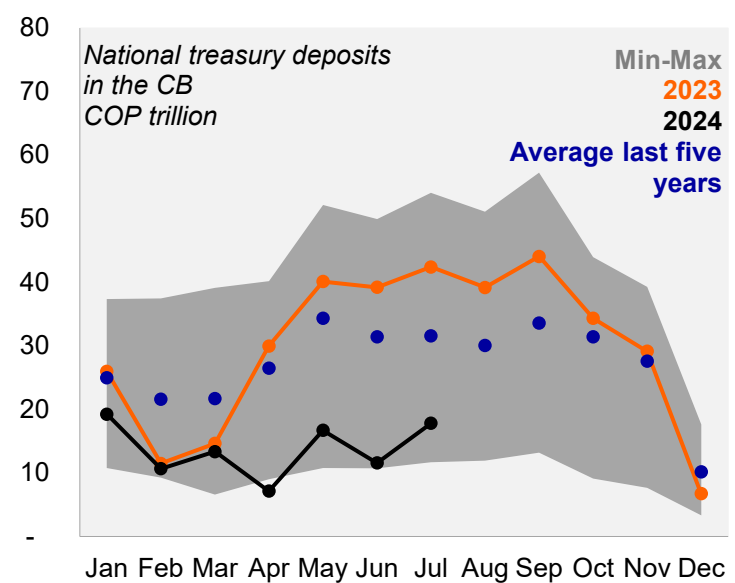
- Tax collection in the year through June fell by 8.7% YoY (nominal)
- Revenue underperformance poses challenges to fiscal accounts

Tax collection remains below target



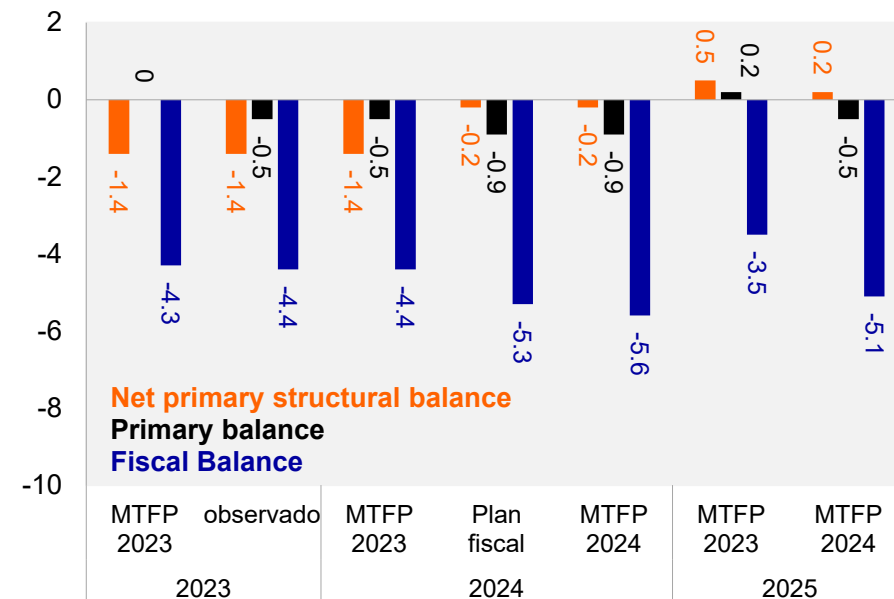
Source: BanRep, DIAN, Ministry of Finance, Itaú.

National treasury deposits in the Central Bank



Source: BanRep, DIAN, Ministry of Finance, Itaú.

Falling to a negative primary balance in 2025

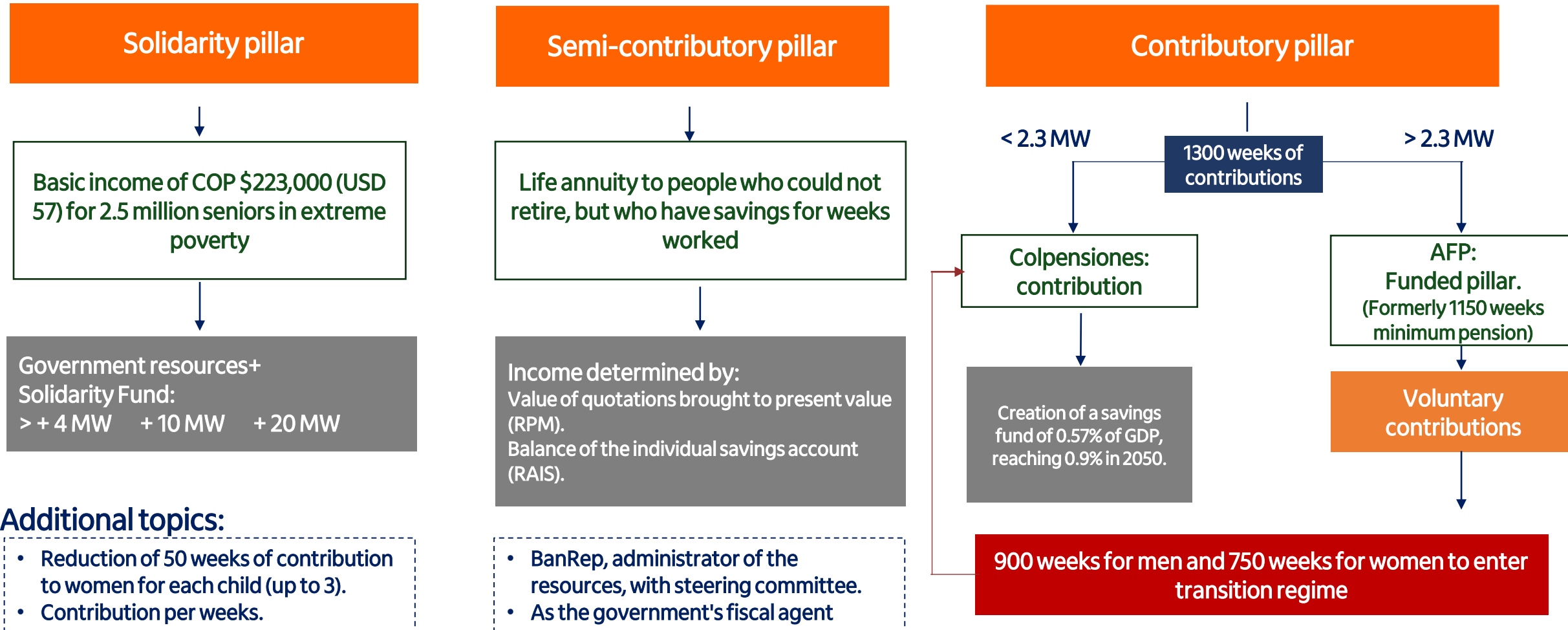


5. Reform discussions continue in Congress

Reform	Focus	Stage	Impact
Health reform	<ul style="list-style-type: none"> Expand care coverage. Increases the role of the state in payments. The administration of public health resources will be carried out through ADRES, an entity associated with the Health Care Ministry 	<ul style="list-style-type: none"> Archived during the first semester Will be filed in congress on July 20th 	<ul style="list-style-type: none"> Fiscal council estimates additional efforts of \$4 to \$7 trillion annually for the period 2024-2027
Education reform	<ul style="list-style-type: none"> Extension to preschool education cycle. Secondary education will be compulsory. Improving infrastructure conditions. Strengthen teacher education. 	<ul style="list-style-type: none"> Archived during the first semester Will be filed in congress again 	<ul style="list-style-type: none"> Javeriana University estimates that the cost of the reform exceeds COP \$40 trillion annually. Another estimate points to \$200 trillion in 20 years.
Pension reform	<ul style="list-style-type: none"> Mandatory contributions to the state's pension fund for people with incomes up to 2.3 minimum wages, managed in a savings fund. Multi-pillar pension model: Solidarity, semi-contributory, contributory and individual savings pillars. People with income of more than 4 minimum wages: additional contribution of 2% of their contribution base. 	<ul style="list-style-type: none"> Approved by congress. Was sanctioned by the president on July 16, it is now a law. It will be in effect as of July 2025 	<ul style="list-style-type: none"> Fiscal council estimates a fiscal impact of 0.3% of GDP between 2025 and 2069 (approx. COP \$5 trillion each year). After 2069, the impact would be of 3.0% of GDP.
Labor reform	<ul style="list-style-type: none"> Increases Sunday surcharge to 100% (before: 75%). More formalization measures. Limits for service contracts. Prioritization of indefinite term contracts. 	<ul style="list-style-type: none"> Approved in the Commission of the Lower House (1/4) Next step: Debate in the Plenary of the Lower House. 	<ul style="list-style-type: none"> Wage costs would rise between 3,2% and 10,7%. Approximately 450,000 formal jobs would be cut in 3 to 4 years. SMEs would have an estimated cost overrun of 9.2% of their wage bill.
Public services reform	<ul style="list-style-type: none"> Involve more agents in the generation of energy through energy communities and other distributed alternatives. Increase electric power and water coverage. The president could directly regulate public services. 	<ul style="list-style-type: none"> Consolidated on 10/07. To be presented to congress on July 20th. 	<ul style="list-style-type: none"> The costs of the reform have not yet been estimated.
Financing law	<ul style="list-style-type: none"> Gives the initiative to reduce the nominal income tax rate from 35% to 30%. 	<ul style="list-style-type: none"> To be presented after July 29th 	<ul style="list-style-type: none"> Impact of lower corporate taxes is evaluated in a scenario of falling revenues.

5. Reform discussions continue in Congress

Pension reform proposal approved in the Senate

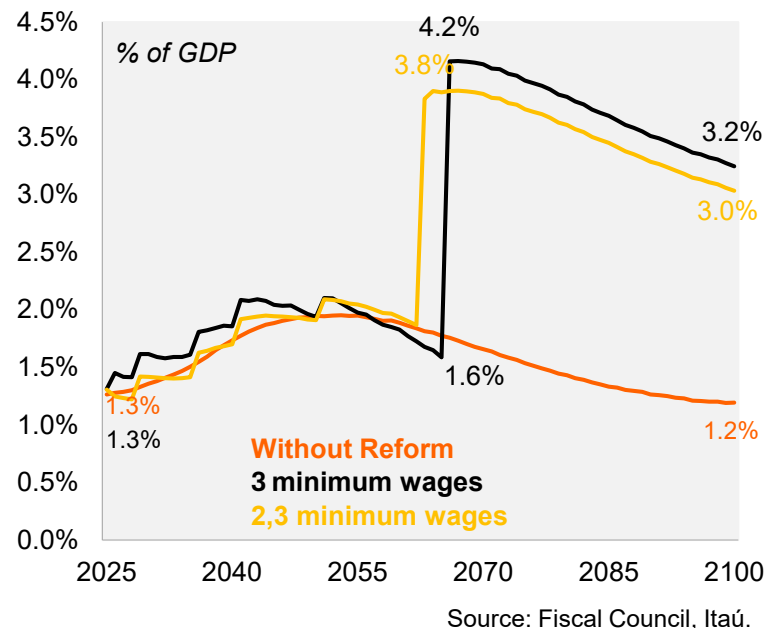


5. Reform discussions continue in Congress

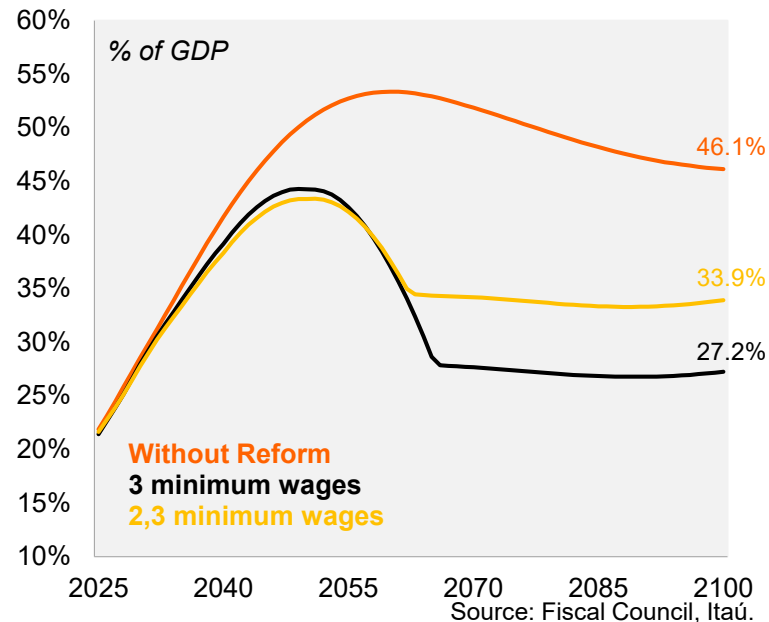
Main impacts of the pension reform according to the Fiscal Council

- The pension reform's short-term fiscal costs would be moderate, but large in the long term.

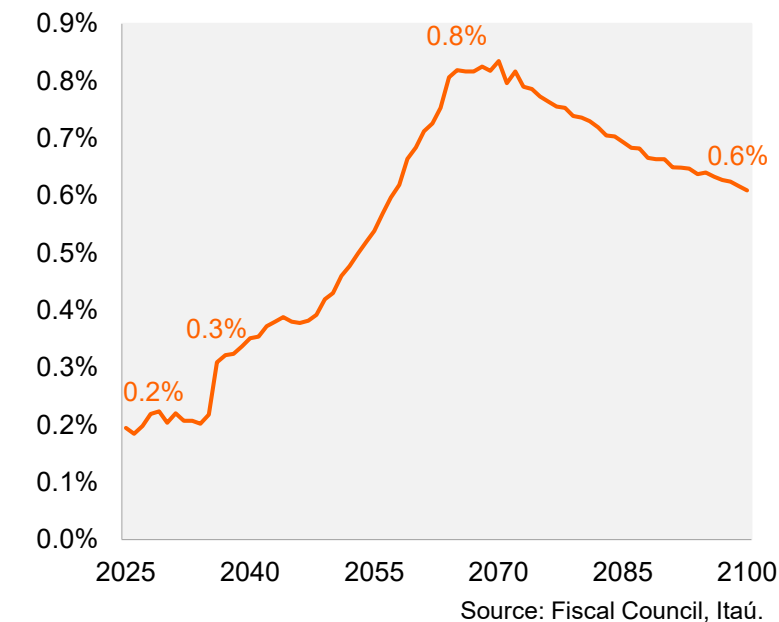
Transfer of CNG to Colpensiones



Stock of National Savings



Fiscal cost semi-contributory pillar



Forecasts

	2019	2020	2021	2022	2023	2024F		2025F	
						Current	Previous	Current	Previous
Economic Activity									
Real GDP growth - %	3.2	-7.2	10.8	7.3	0.6	1.6	1.4	2.5	2.7
Nominal GDP - USD bn	323	270	322	345	364	425	424	434	434
Population (millions)	50.4	50.9	51.4	51.8	52.2	52.7	52.7	53.2	53.2
Per Capita GDP - USD	6,411	5,312	6,272	6,659	6,976	8,072	8,056	8,150	8,150
Unemployment Rate - year avg	10.9	16.7	13.8	11.2	10.2	10.6	10.6	10.5	10.5
Inflation									
CPI - %	3.8	1.6	5.6	13.1	9.3	5.6	5.6	3.3	3.3
Interest Rate									
Monetary Policy Rate - eop - %	4.25	1.75	3.00	12.00	13.00	8.75	8.75	6.00	6.00
Balance of Payments									
COP / USD - eop	3,287	3,428	4,070	4,850	3,855	4,100	4,100	4,200	4,200
Trade Balance - USD bn	-10.8	-10.1	-15.3	-14.5	-9.7	-6.5	-6.5	-7.0	-7.0
Current Account - % GDP	-4.6	-3.4	-5.6	-6.2	-2.7	-2.7	-3.0	-3.2	-3.4
Foreign Direct Investment - % GDP	4.3	2.8	3.0	5.0	4.8	3.2	3.2	3.5	3.5
International Reserves - USD bn	52.7	58.5	58.0	56.7	59.1	60.6	60.6	61.0	61.0
Public Finances									
Primary Central Govt Balance - % GDP	0.4	-5.0	-3.6	-1.0	-0.3	-0.9	-0.9	-0.5	-0.5
Nominal Central Govt Balance - % GDP	-2.5	-7.8	-7.1	-5.3	-4.3	-5.6	-5.6	-5.1	-5.1
Central Govt Gross Public Debt - % GDP	50.3	65.0	63.0	60.8	56.7	60.0	60.1	62.4	62.4

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

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