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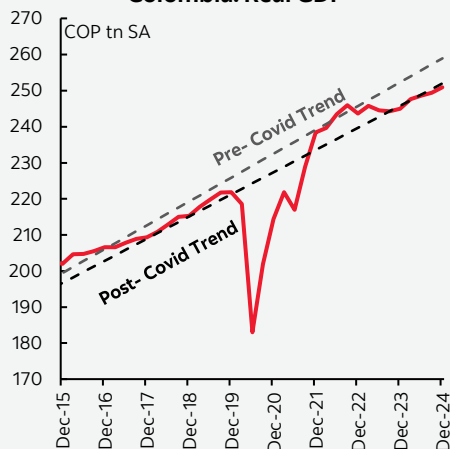
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Chart 1

Colombia: Real GDP



Latam Daily: Small Colombia GDP Miss; Higher Inflation and Rate Forecasts

- Colombia: Economic activity expanded by 1.7% in 2024, slightly below BanRep, MoF, and Scotiabank expectations of 1.8%; BanRep Survey: Inflation and interest rate expectations for 2025 increased

COLOMBIA: ECONOMIC ACTIVITY EXPANDED BY 1.7% IN 2024, SLIGHTLY BELOW BANREP, MOF, AND SCOTIABANK EXPECTATIONS OF 1.8%

Data released by DANE on Monday, February 17th, showed that economic activity expanded by 1.7% vs. 2023, slightly below BanRep, MoF, and Scotiabank expectations of 1.8%. Most of the year, the leading sectors were agriculture 8.1% (y/y), the public sector, education and health (+4.2% y/y), and leisure (+8.1% y/y with a strong contribution from online gambling), at the end of the year we saw a better contribution from the commerce sector. In the case of investments, fixed capital formation expanded by 3.0% y/y; however, investments stood at 17.2% of GDP, well below the pre-pandemic average (between 2015–19) of 22.3% of GDP. At the end of 2024, we saw a rebound in investments in machinery and equipment, and other buildings, but investment activity in 2024 remains 11% below the investment activity in pre-pandemic 2019, which is still a medium-term challenge.

The Q4-2024 results show Colombia's real GDP grew by 2.3% y/y, above the 2.2% expected by market consensus, in line with BanRep's forecast of 2.3%, and below our forecast of 2.7% (chart 1). In seasonally adjusted terms, economic growth recorded a variation of 0.6% compared to the third quarter accelerating versus the third quarter of 2024 (0.3% q/q). Economic activity shows a heterogeneous behaviour; however, the composition was different versus the one observed in H1-2024. Now, the positive contribution comes from commerce. On the demand side, there are some green shoots that arose from the recovery of imports and a further reduction in inventories, while investment remains lacking in the recovery but improving compared to previous periods.

Our take on yesterday's data is that the economy passed the worst of the economic cycle, but we are still looking for a broader recovery force; for now, we maintain our GDP forecast for 2025 at 2.6% y/y. Regarding monetary policy, as we have highlighted in previous reports, the negative output gap was an usual argument to call for the acceleration of the easing cycle, however, the inflation rebound and fiscal uncertainty maintain the cautious approach of the central bank board, and that is why, after yesterday's data, we expect to see a close call between a rate cut of 25bps and keeping the rate stable during March's monetary policy meeting.

From a sectoral perspective, the economic activity results show a mixed picture, in which commerce, public services (which include health and education services), agriculture and leisure leverage growth, while mining and financial services offset the recovery. In the fourth quarter, commerce, transport, and hotels grew by 4.4% y/y, returning to their historical growth, and contributed 1.0 ppts to overall growth, reflecting good dynamism in retail sales, where telecommunications and vehicle sales stand out in December 2024 (+46.4% y/y for telecommunications, and +29.4% y/y for household vehicles and +15.3% y/y for other vehicles). Public services were the second sector that contributed the most to the variation, with growth of 4.0% y/y and a contribution of 0.7 ppts. For now, it is good news to see the expansion of those sectors and we highlight that Colombia could find a structural source of expansion in 2025 as commerce and industry accelerate.

The manufacturing industry came back to positive territory after six consecutive quarters in contraction and showed a slower acceleration compared to previous quarters. Manufacturing grew by 0.3% y/y, showing a positive performance in the beverage and

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food industry (+4.1% y/y), apparel (+3.2% y/y), and machinery and equipment (+2.1% y/y). In contrast, the oil and mining sector recorded a variation of -5.9% y/y and a negative contribution of 0.4 pts, followed by financial services (-1.1% y/y, -0.1 pts), both of which contributed negatively to the fourth quarter results.

Domestic demand grew by 4.3% y/y driven by investment and private consumption. Investment continues with a considerable recovery, with a 29.1% y/y growth in gross capital formation and a 10.5% y/y increase in gross fixed capital formation, although investment continues well below pre-pandemic levels. Private consumption registered a growth of 1.2% y/y with a contribution of 1.1 pts to the result, led by higher spending on services (+1.2% y/y) and non-durable goods (+1.9% y/y), however, it is worth noting that durable goods recovered a bit expanding by 9.6% y/y after a negative base and 2.3% y/y contraction one year ago that could be explained by the FX performance. In the external sector, the increase on exports offset the widening trade deficit, thus, exports registered a growth of 2.0% and a contribution of 0.1 pts, which was offset by an 10.7% y/y increase in imports (which suggests a better domestic demand), however, the trade deficit decreased by 1.0 pts from 10.9% of GDP in Q3-2024 to 9.9% of GDP in Q4-2024 (chart 2).

The results show that economic activity is subject to seasonal shocks and the activities that drove economic growth in the first quarter of 2024 slowed down. Agricultural activity has played an important role in the economic recovery in response to the improved behaviour of climatic changes and a greater agricultural supply in the country. However, consumption continues to be uneven across sectors, with good dynamics in the services sector, which puts pressure on manufacturing production. Looking at the monthly evolution of economic activity, we saw a 2.9% y/y and a 1.4% m/m increase in December.

Ahead of the next monetary policy meeting in March, BanRep could have a still-challenging debate. Fiscal uncertainty remains, inflation rebounded, and economic activity was broadly aligned with expectations. Before March's meeting, the Board will have January's economic activity results, February inflation data that will continue reflecting the effect of the increase in the minimum wage on inflation, and current account data. Our official projection is for a 25bps cut; however, the chance of rate stability is increasing.

Key Highlights:

- On the supply side in Q4-2024, commerce, transport, and hotels, contributed around 44% of economic growth with a variation of 4.4% y/y and a contribution of +1.0 pts.** Public services (which include health and education services) were the second activity to contribute to growth with an increase of 4.0% y/y and a contribution of 0.7 pts. In third place are agricultural activities with a variation of 6.5% and a contribution of 0.6 pts. It is important to note that in all of 2024, agricultural activities explained 44% of economic performance, recording the highest growth in 18 years (+8.1% in 2024).
- Overall commercial activity showed an important recovery while construction continued to show important acceleration.** Commercial activity grew by 4.4% y/y, showing a recovery amid a rebound in retail sales of technological equipment, household appliances and televisions. On the other hand, construction grew by 0.5% y/y, a growth that is mainly attributed to a good dynamic in civil infrastructure works with an increase of 8.6% y/y. However, it is important to highlight the decrease of 3.1% y/y in the building sector which has registered negative results for about 6 consecutive quarters.

Chart 2

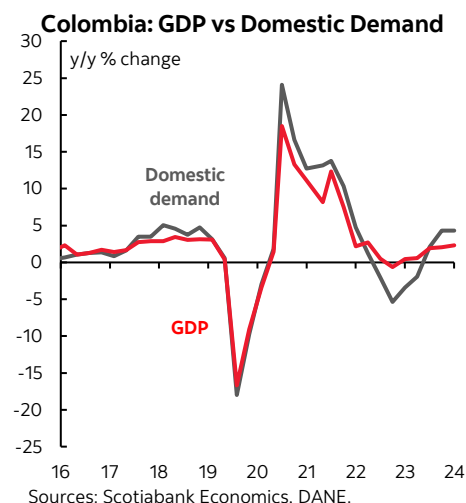


Chart 3

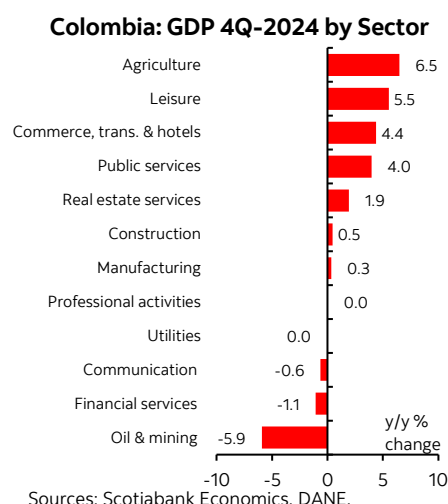
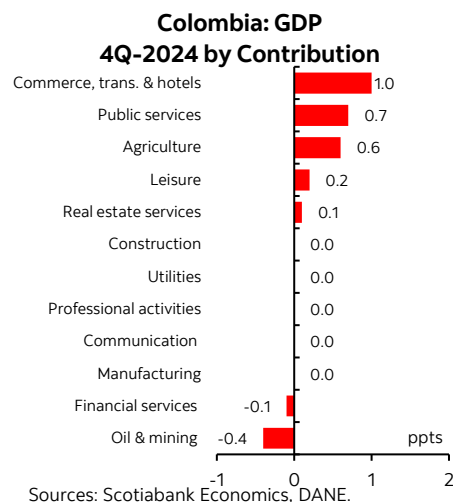


Chart 4



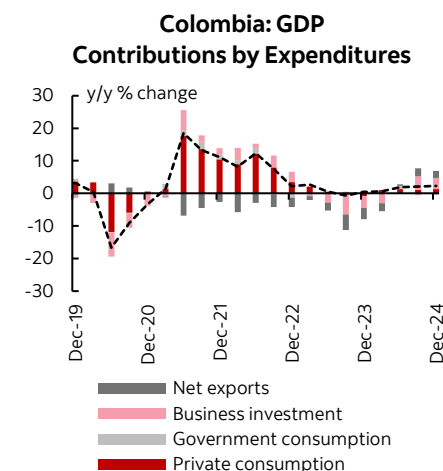
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- On the negative side, oil and mining and the financial sector were the ones that offset growth.** Mining industries dropped by -5.9% y/y, subtracting -0.4 ppts of the total result. Besides, financial and insurance activities reversed the positive trend and registered a drop of 1.1% y/y in the period, in which financial intermediation services could explain the result, followed by the deacceleration of insurance sector (charts 3 and 4).
- In seasonally adjusted terms, economic growth improved, with a variation of 0.6% q/q.** Commerce, transport and hotels, grew the most (+3.2% q/q), followed by public services (which include health and education services) (+1.3% q/q) and manufacturing (+1.1% y/y). Meanwhile, construction (-0.2% q/q), leisure (-0.4% q/q) and oil and mining (-0.4% q/q) decreased during the quarter.
- Private consumption drove the domestic demand result, and public spending continued with a negative trend.** Domestic demand increased by 4.2% y/y and 0.6% q/q. Gross investment contributed the most, with a variation of 29.1% y/y and 5.0% q/q. In Q4-2024, private consumption continues on a positive trend with an increase of 2.0% y/y and 0.3% q/q and continues above the long-term consumption trend for Colombia. Thus, the household consumption reflected higher spending on services (+1.2% y/y), non-durable goods (+1.9% y/y) and durable goods (+9.6% y/y), while spending on semi-durable goods return to a positive trend with an increase of 4.0% y/y. In contrast, government spending fell -1.8% y/y but increased 1.6% q/q during this period after the significant drop of 4.9% q/q in the last quarter. It is worth noting that in 2025, economic activity is expected to continue showing a recovery on the private consumption side, as the public sector faces a huge liquidity constraint and reduction on its investment budget.
- In the case of investments, gross capital formation expanded by 29.1% and investment expanded by 10.5%.** These results suggested that inventories decreased during the fourth quarter. In the case of investment, the main contributors were machinery and equipment (+14.1% y/y), other buildings (+12.5% y/y) and biological resources (+14.5% y/y). It's important to note that investment in housing increased by +2.3% y/y after the largest drop since 2020 in the last quarter, showing a still-weak balance but with an acceleration in the period. Compared to the pre-pandemic, investment in the construction sector is 2% below, while machinery and equipment are 18% above.
- On the external balance side, the increase on exports moderated the widening trade deficit.** Thus, exports increased 2.0% y/y, contributing 0.1 ppts, while imports had a variation of 10.7% y/y, offsetting with -2.3 ppts of the general growth result. It is worth noting that imports of goods, expanded by 13.9% y/y in Q4-2024, slightly offsetting the contraction of one year ago (-13.6% y/y) (charts 5 and 6).

Economic Activity Indicator (ISE):

In December, the ISE grew by 2.9% compared to December 2023, with 9 of the 12 activities showing positive variations. The growth was mainly due to an increase in leisure of 15.9% y/y with a contribution of 0.9 ppts, commerce, transport, and hotels with an expansion of 3.8% y/y and a contribution of 0.9 ppts, and public services (which include health and education services) increased 4.8% y/y and contributed 0.8 ppts. On the negative side, financial and insurance services recorded a drop of -5.9% y/y subtracting 0.3 ppts of the result, followed by oil and mining which contracted -5.8% y/y subtracting 0.3 ppts (chart 7).

Chart 5



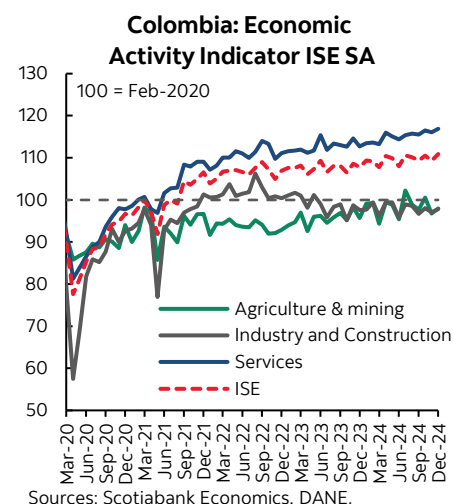
Sources: Scotiabank Economics, DANE.

Chart 6



Sources: Scotiabank Economics, DANE.

Chart 7



Sources: Scotiabank Economics, DANE.

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On a seasonally adjusted basis, the ISE grew by 1.4% compared to November 2024, showing positive variations in 7 of the 12 activities. In December, the primary sector was the one that grew the most compared to the previous month (+1.2% m/m). The secondary sector (+0.8% m/m) shows increases in the agricultural sector (+1.3% m/m) offset by the performance of oil and mining (-0.6% m/m), while service activities (+0.7% m/m) offset this behaviour with positive dynamics in professional, utilities and leisure activities.

—Jackeline Piraján & Valentina Guio

BANREP SURVEY: INFLATION AND INTEREST RATE EXPECTATIONS FOR 2025 INCREASED

The central bank (BanRep) surveyed economists' expectations for February. Inflation expectations were adjusted upwards, following an upward surprise in January's inflation results. January inflation stood at 0.94% m/m, above the 0.82% estimated by analysts. For 2025, the inflation expectation was revised from 4.21% in the January survey to 4.35%, representing an increase of 14 basis points. For the one-year horizon, the expectation was 4.99%, showing a decrease of 7bps compared to the previous survey, while the 2-year expectation decreased from 3.51% to 3.46%. In the short-term, the inflation expectation for February is 0.98%, which could lead to annual inflation falling from 5.22% to 5.11%. Scotiabank Colpatría's projection is 1.10% m/m and 5.23% y/y. In this projection, we account for still-high food inflation and the upside pressure on regulated gas prices which could impact the CPI projection by at least 20bps (chart 8).

Regarding monetary policy, the Board paused the easing cycle at its January meeting. The Board kept the rate unchanged at 9.50%, in a majority vote in the face of inflationary risks. The high wage increase, trade uncertainty (tariffs), the tightening of international financial conditions, and concerns about the fiscal outlook at the local level were the arguments for pausing. The consensus estimates a 25 basis point cut at the March 31st meeting, taking the rate to 9.25%. For the end of 2025, the expectation was adjusted upward from 7% in the January survey to 7.75% in February.

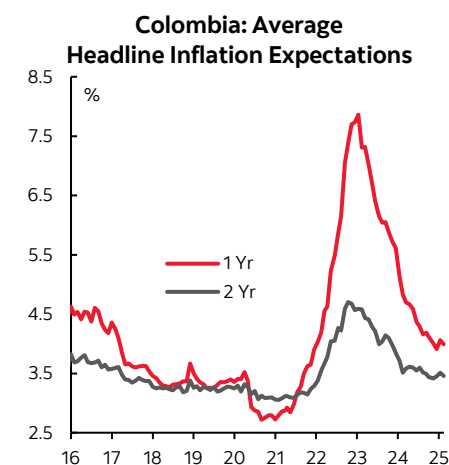
Scotiabank Colpatría's expectations regarding monetary policy are in line with the median of analysts, with a base scenario of a 25bps cut at the March meeting; however, the January inflation surprise may lead to greater caution on the part of the BanRep Board, leading us to think that there is a close call between stability and a cut of 25bps. February inflation will be key to determining the Board's stance. In our scenario, inflation would remain almost unchanged, which increases the probability of a new pause in rates.

Regarding the exchange rate, the consensus adjusted its outlook downwards. For December 2025, analysts estimate an exchange rate of 4,274.6 pesos, lower than the 4,336.8 pesos projected in January 2025. For 2026, the expectation was also adjusted downwards, going from 4,248.78 pesos to 4,169.07 pesos. The downward adjustment in expectations could be due to the strength of the Colombian peso recently given the corporate tax season (February–April), which usually brings a greater flow of dollars. Scotiabank Colpatría's projection for 2025 is 4,367 and for 2026, 4,364 pesos.

Key points from the survey:

- **Short-term inflation expectations.** For February, the consensus is 0.98% m/m, implying annual inflation of 5.11% y/y, lower than the current 5.22%. The maximum expectation is 1.20% and the minimum is 0.45%. Scotiabank Colpatría Economics' projection is 1.10% m/m and 5.23% y/y. Core inflation, excluding food, projected by analysts is 0.99%.
- **Medium-term inflation expectations.** Inflation expectations for December 2025 rose 14 basis points to 4.35% (table 1). The expectation for a 1-year horizon decreased by 7bps to 3.99%, and expectations for 2 years decreased by 5bps to 3.46%.

Chart 8



Sources: Scotiabank Economics, BanRep.

Table 1: Colombia—Headline Inflation Expectations

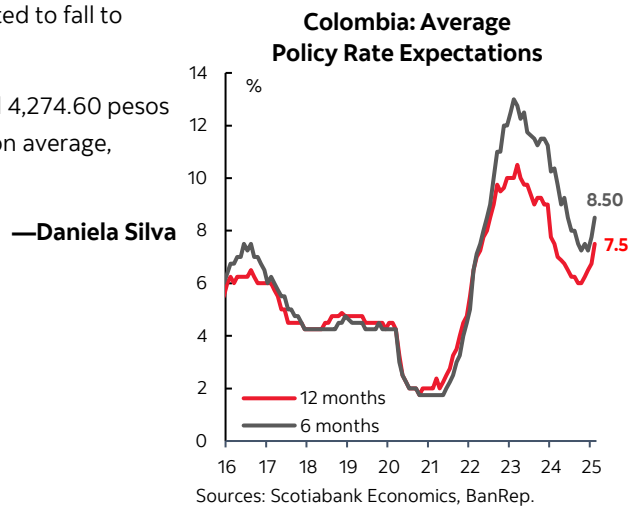
	Average	Change vs previous survey, bps
Feb-2025, m/m % change	0.98	...
Dec-2025, y/y % change	4.35	14
1Y ahead, y/y % change	3.99	-7
Dec-2026, y/y % change	3.62	-3
2Y ahead, y/y % change	3.46	-5

Sources: Scotiabank Economics, BanRep.

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- **Monetary policy rate.** The median of expectations is for a 25 basis point cut at the March 31st meeting, which would leave a rate of 9.25%. For 2025, the rate is estimated to fall to 7.75% (chart 9).
- **FX.** Projections for the US dollar exchange rate for the end of 2025 averaged 4,274.60 pesos (62 pesos less than the previous survey). By December 2026, respondents, on average, expect a change rate of 4,169.07 pesos.

Chart 9



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