

# Inflation halted its acceleration in February, standing at 5.29%

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## Regulated items exerted downward pressure on annual inflation in February

Monthly inflation in February was 1.08%, lower than expected by analysts (1.27%) and by BBVA Research (1.35%). As a result, annual inflation stood at 5.29%, representing a decrease of 6 basis points (bps) compared with January.

- **The reduction in total annual inflation was mainly explained by the non-food basket**, whose annual variation stood at 5.17%, registering a decline of 24 bps compared with January. This behavior was explained exclusively by the moderation in inflation of regulated items, which more than offset the acceleration observed in goods and services inflation.
- **Annual inflation for regulated items decreased to 4.05% (-143 bps compared with January)**, mainly driven by gas (-1,362 bps), gasoline (-310 bps), and electricity (-91 bps). In the case of gas, the sharp deceleration reflects a base effect: in February of last year its monthly variation was 14.42%, while in February of this year it was only 0.22%. In the next two months, this item could once again play a significant role, although in the opposite direction, given that the strong increase observed in February 2025 was reversed in March and April of that year, when the monthly variation was negative.
- The decline in gasoline inflation, meanwhile, is explained by the COP 500 price reduction decreed by the Government for February. Looking ahead, the Government has already announced an additional COP 500 reduction for March, bringing the cumulative adjustment for the year to COP 1,000. This additional adjustment could subtract around 10 bps from total inflation in March. However, going forward, uncertainty remains as to whether the Government will have room to continue reducing gasoline prices, considering the recent increase in international oil prices associated with the conflict between the U.S., Israel, and Iran.
- In the case of electricity, the deceleration was mainly explained by the sharp decline recorded in Bogotá, where the monthly variation was -3.86%. In the other main cities, the behavior was considerably more moderate: in Cali and Medellín decreases of -1.11% and -0.19% were observed, respectively, while Barranquilla recorded an increase of 0.21%.

- **In contrast, annual services inflation increased to 6.45% (+12 bps compared with January).** This increase was mainly driven by meals at table-service and self-service establishments (+40 bps), ready-to-eat meals consumed outside the home (+113 bps), domestic services (+166 bps), enrollment fees for technical, technological, and university programs (+117 bps), and residential property management services (+111 bps). Several of these services are labor-intensive and are therefore more affected by increases in the minimum wage, suggesting that it continues to exert upward pressure on inflation, particularly within the services basket. Additionally, in the case of education, the increase reflects the way DANE measures the monthly variation of this division, which is mainly concentrated in February. In contrast, the deceleration in rents (-20 bps) contributed to partially moderating services inflation, although its monthly variation remains slightly above pre-pandemic historical averages.
- **Likewise, annual goods inflation increased to 3.03% (+12 bps compared with January),** mainly driven by furniture (+93 bps), pet food (+198 bps), and information processing equipment (+293 bps). The depreciation of the Colombian peso observed during February, particularly toward the end of the month, may have exerted slight upward pressure on prices and could have effects in the coming months if the depreciation trend continues.
- **In this context, although inflation of regulated items declined, the increase in goods and services inflation led annual inflation excluding both food and regulated items—a measure closely monitored by the Banco de la República—to continue rising, reaching 5.52% (+12 bps compared with January).**
- **Meanwhile, annual food inflation registered a significant increase and stood at 5.84% (+73 bps compared with January),** as a result of the behavior of the perishables sub-basket. In particular, annual perishables inflation increased by 305 bps to 8.49%. This upward pressure may be associated with the rainy season. Meat inflation increased slightly by 10 bps to 5.92%, while processed food inflation declined by 34 bps to 4.03%. Within perishables, the increase was mainly explained by potatoes (+1,581 bps) and plantains (+1,263 bps). In the meat category, the increase was mainly driven by chicken (+47 bps) and beef (+31 bps). By contrast, the deceleration in processed foods was mainly explained by coffee (-757 bps) and sweets (-1,567 bps).
- **Although inflation surprised to the downside relative to expectations, inflationary pressures persist.** In particular, services continue to show pressure in labor-intensive items such as meals outside the home, domestic services, and administration fees, which tend to be more affected by increases in the minimum wage. Additionally, the favorable effect observed this month in gas prices could reverse over the next two months due to the base effect mentioned earlier, which would generate upward pressure on inflation. Other risk factors include a potential further depreciation of the peso, which could put upward pressure on goods inflation, as well as the effects of the rainy season, which could continue to affect food prices in the short term. Meanwhile, although an additional COP 500 reduction in gasoline prices has already materialized in March, uncertainty remains regarding the Government's capacity to continue reducing them in the coming months,

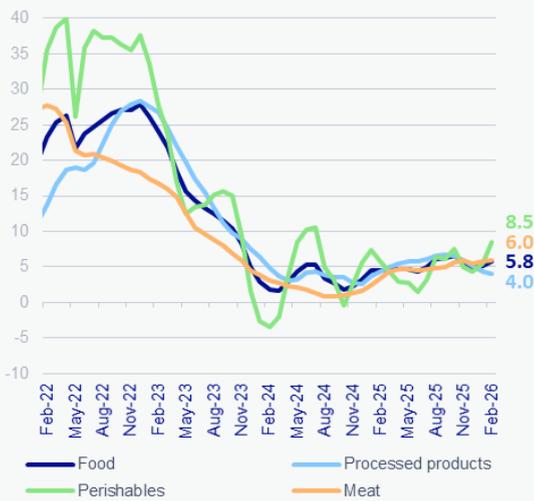
especially in a context of higher international oil prices. As such, we expect inflation to increase over the remainder of the year, driven by the effects of the minimum wage—which we expect not to be limited to the beginning of the year but to extend throughout it—and by the other risk factors mentioned above.

**TOTAL, FOOD AND NON-FOOD INFLATION (ANNUAL CHANGE, %)**



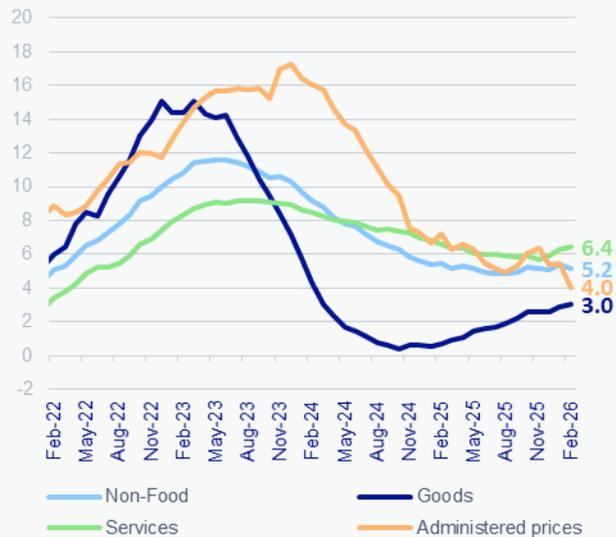
Source: BBVA Research with DANE data.

**FOOD INFLATION AND MAIN BASKETS (ANNUAL CHANGE, %)**



Source: BBVA Research with DANE data.

**INFLATION OF MAIN NON-FOOD BASKETS (ANNUAL CHANGE, %)**



Source: BBVA Research with DANE data.

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