

## Tightening cycle to resume as inflation risks rise

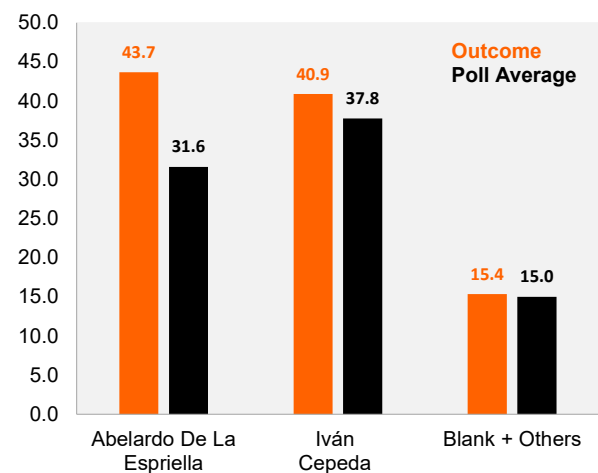
- ▶ Elevated energy costs and climate related shocks are expected to keep inflationary pressures elevated in 2H26. In this context, we maintained our CPI forecasts unchanged at 7.0% for 2026 and 5.7% for 2027. Therefore, we expect BanRep to resume its tightening cycle in June, ending the year at 12.50% (unchanged from our previous baseline) and gradually easing to 11% by end 2027 (in line with our prior view).

### De la Espriella leads first round, setting up a tight runoff against Cepeda

#### Cepeda and De la Espriella advance to the runoff.

With 23.9 million votes cast, Abelardo De la Espriella (independent) led the first round of the presidential elections with 43.7% of the vote, substantially above the 31.6% May poll average. Iván Cepeda, the governing coalition's candidate, followed with 40.9% (37.6% in May polls). Both are projected to compete in the June 21 runoff. Meanwhile, Paloma Valencia (Centro Democrático) placed third with 6.9% (vs. 15.6% in May polls). Other candidates collectively received 6.9% (broadly in line with May polls), while blank votes stood at 1.7% (vs. 4.4% in May). Voter turnout reached 57.9%, well above the 54.8% of the first round in 2022; voting in Colombia is voluntary. Looking ahead, security, health, energy and Constitutional Assembly, remains the top concerns for voters heading into the runoff. Polls suggest Abelardo de la Espriella has a lower rejection rate (20%) versus Cepeda (42%). Polls are projected to resume, with the blackout resuming on June 14, one week before the June 21 runoff. President Petro's term ends on August 7, 2026.

### First-round presidential election results



Source: National Civil Registry, Itaú

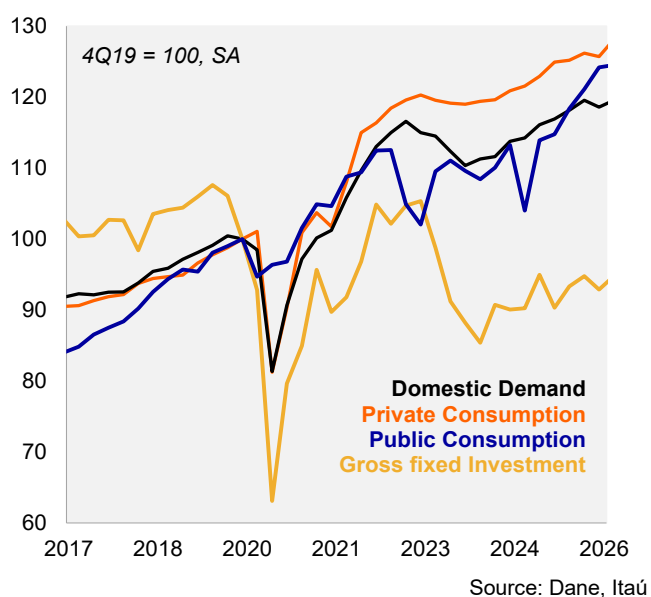
**Fiscal consolidation in the spotlight.** On the economic front, De La Espriella proposes an ambitious deficit reduction toward 2–3% of GDP, combined with tax cuts and a smaller state. In contrast, Cepeda's framework points to a more gradual adjustment of around 1.5% – 1.6% of GDP over four years, relying on tax administration gains and a detailed expenditure review, while maintaining a redistributive agenda.

**Fiscal accounts still under pressure.** Focus on the pace of fiscal consolidation in the coming years is likely to continue, considering the sizable deficits of recent years. This year's official forecast considers a reduction in the nominal deficit to 5.1% of GDP in 2026 (6.4% in 2025), alongside a primary deficit of 2.1%, pointing to a gradual consolidation. In this context, the cumulative nominal deficit in 1Q26 narrowed to 1.7% of GDP (vs. 2.0% in 1Q25) and the primary deficit to 0.4% (vs. 0.8% in 1Q25).

## Activity surprises to the upside

**GDP exceeded expectations in 1Q26.** Activity rose by 2.2% YoY, supported by public administration, commerce, and real estate. Sequential growth reached 0.6% QoQ SA, driven by investment and both public and private consumption. Gross fixed investment rebounded, led by machinery and equipment, although housing remains a drag. Domestic demand expanded 2.3% YoY, with consumption supported by strong public spending. Meanwhile, consumer confidence deteriorated at the margin in April but remained at relatively high levels.

### Strong consumption dynamics in 1Q26



## Inflation remains elevated, with persistent underlying pressures

**Sequential inflation pressures remain elevated.** Inflation rose 0.78% MoM in April, lifting annual CPI to 5.68%, while core inflation eased marginally to 6.28%. Sequential dynamics remain strong, with quarterly inflation at 6.8% SAAR and core inflation at 7.7%. Services inflation moderated slightly but continues to reflect indexation effects, pointing to persistent underlying pressures. Survey-based inflation expectations remained broadly stable at 5.7% and 4.29% for the one- and two-year horizons, respectively.

**Rising odds of a strong El Niño event.** El Niño is a weather phenomenon that acts as a negative supply shock in Colombia, with clear implications for inflation. Lower rainfall reduces reservoir levels, increases reliance on costlier thermal generation, and pushes energy prices higher. At the same time, drought

conditions weigh on agricultural output, tightening food supply. Historically, this combination has led to inflationary pressures, particularly in food and energy. During the last strong El Niño event (2015), food inflation reached double digits, underscoring the importance of the shock's intensity. Accordingly, the strength of a new weather shock will be key in shaping the magnitude of food inflation pressures. We expect food inflation to reach 9.5% by year-end (above the consensus estimate of 7.8%), with an upside bias depending on the strength of the weather phenomenon.

## Temporary pause, with hikes likely to resume in June

**BanRep pauses but maintains a tightening bias.** BanRep held the policy rate at 11.25% by the end of April, surprising markets and our call, but signaling that the hiking cycle is not over. We estimate the ex-ante real rate at 5.5%, well above BanRep's 2027 neutral rate estimate (3.4%). Governor Villar emphasized that further hikes remain possible, with inflation dynamics as the key driver. External risks, including higher oil prices and geopolitical tensions, continue to tilt risks to the upside.

**Inflation risks dominate the monetary stance.** BanRep's Monetary Policy Report shows broadly unchanged inflation projections but highlights upside risks. The 2026 CPI forecast was revised up by 10bps to 6.4%, driven by food prices, energy costs, and supply disruptions, while core inflation remains well above target. Regarding monetary policy, the central bank staff's baseline scenario implies a policy rate path that is, on average for 2026 and 2027, below April's analysts' expectations of 12.25% in 4Q26 and 10.4% in 4Q27. The staff maintained their estimate of the real neutral rate at 3.1% for 2026, while raising the 2027 estimate by 10bps to 3.4%.

## Rising inflationary pressures call for caution

**Consumption continues to support growth, though weakness in key sectors such as construction and mining remains a drag.** We maintain our 2026 GDP growth forecast at 2.1% and our 2027 forecast at 2.3%.

**Elevated energy costs and climate-related shocks are expected to keep inflationary pressures elevated in 2H26.** As a result, we maintained our inflation forecasts unchanged at 7.0% for 2026 and 5.7% for 2027.

**Amid rising inflation concerns and above target inflation expectations, we expect BanRep to resume its tightening cycle in June, ending the year at 12.50% (unchanged from our previous baseline) and gradually easing to 11% by end-2027 (in line with our prior view).**

**Despite continued growth in imports, exports are starting to recover.** As a result, we revised down our current account deficit (CAD) forecast to 2.5% of GDP (from 2.7% previously). We maintained our year-end FX

forecast at COP 3,600 per USD for both 2026 and 2027, supported by rising interest rate differentials, despite fiscal risks.

**Vittorio Peretti**  
**Carolina Monzón**  
**Juan Robayo**  
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## Colombia | Forecasts and Data

	2022	2023	2024	2025	2026F		2027F	
					Current	Previous	Current	Previous
<b>Economic Activity</b>								
Real GDP growth - %	7.3	0.7	1.5	2.6	<b>2.1</b>	2.1	<b>2.3</b>	2.3
Nominal GDP - USD bn	345	364	389	493	<b>524</b>	524	<b>547</b>	547
Population (millions)	51.8	52.2	52.7	53.2	<b>53.4</b>	53.4	<b>53.7</b>	53.7
Per Capita GDP - USD	6,657	6,972	7,375	9,276	<b>9,819</b>	9,819	<b>10,190</b>	10,190
Unemployment Rate - year avg	11.2	10.2	10.2	8.9	<b>10.2</b>	10.2	<b>10.2</b>	10.2
<b>Inflation</b>								
CPI - %	13.1	9.3	5.2	5.1	<b>7.0</b>	7.0	<b>5.7</b>	5.7
<b>Interest Rate</b>								
Monetary Policy Rate - eop - %	12.00	13.00	9.50	9.25	<b>12.50</b>	12.50	<b>11.00</b>	11.00
<b>Balance of Payments</b>								
COP / USD - eop	4,810	3,822	4,409	3,757	<b>3,600</b>	3,600	<b>3,600</b>	3,600
Trade Balance - USD bn	-14.5	-9.7	-10.8	-16.4	<b>-12.0</b>	-13.0	<b>-11.0</b>	-11.8
Current Account - % GDP	-6.1	-2.4	-1.7	-2.4	<b>-2.5</b>	-2.7	<b>-3.0</b>	-3.2
Foreign Direct Investment - % GDP	5.0	4.6	3.4	2.3	<b>2.3</b>	2.3	<b>2.5</b>	2.5
International Reserves - USD bn	56.7	59.1	61.9	65.7	<b>66.5</b>	66.5	<b>68.0</b>	68.0
<b>Public Finance</b>								
Primary Central Govt Balance - % GDP	-1.0	-0.3	-2.4	-3.5	<b>-3.3</b>	-3.3	<b>-2.8</b>	-2.8
Nominal Central Govt Balance - % GDP	-5.3	-4.2	-6.7	-6.4	<b>-6.5</b>	-6.5	<b>-5.8</b>	-5.8
Central Govt Gross Public Debt - % GDP	60.8	56.3	61.6	64.3	<b>60.1</b>	60.1	<b>62.9</b>	62.9

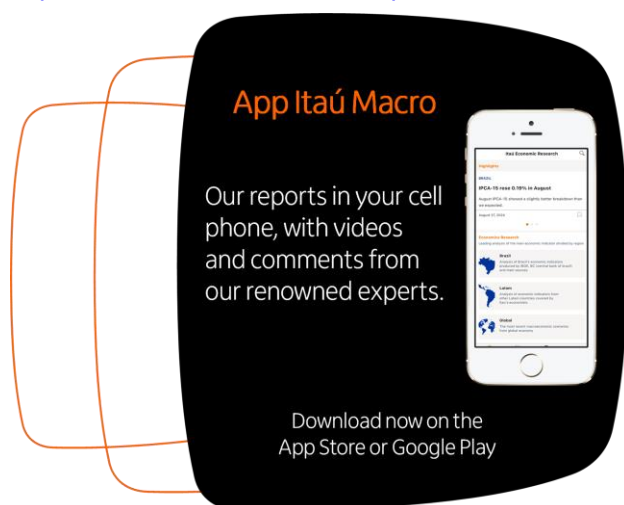
Source: IMF, Bloomberg, Dane, Banrep, Haver and Itaú

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