

Monetary Policy Responds as It Should

- ▶ We maintained our GDP growth forecasts at 2.3% for 2026 and 2027, as the ongoing monetary tightening cycle is set to restrain household consumption, while investment remains weak amid election uncertainty. Inflationary pressures will stay elevated through 2026 following the minimum wage increase. We have retained our year end 2026 inflation forecast at 6.7%. Reversal in the disinflation trend and a further drift in inflation expectations point to continued monetary tightening ahead. We maintain our year end policy rate projection at 12%.

With election ahead, uncertainty rises

The government remains firmly committed to a 23% minimum-wage increase. The State Council suspended the original 23% increase, citing procedural irregularities, and instructed the executive to issue a temporary decree to preserve contractual stability while the case is reviewed. The government has since appealed the ruling and proceeded to issue a new decree with the same 23% increase, in part justified by closing the gap towards a minimum "living" wage – a novel concept. A final ruling by the State Council is pending, leaving the near-term policy path uncertain, heightening risks around labor-cost dynamics and inflation expectations.

Meanwhile, the government confirmed a new declaration of economic emergency, citing atypical rainfall as an unforeseeable shock. The authorities estimate the emergency package will require COP 8 trillion (0.4% of GDP), to be financed through progressive wealth taxes on legal entities, with rates ranging from 0.6% to 1.2% for net worth between COP 10 billion (USD 2.7 million) and COP 30 billion (USD 8.1 million).

Polling suggests that the ruling coalition's presidential candidate Iván Cepeda remains highly competitive heading into the May 31 presidential election (with a potential June 21 runoff). The political right remains fragmented, unable thus far to articulate a cohesive message or build an electoral advantage. A key leading indicator ahead of the presidential vote will be the March 8 legislative elections, which will help gauge voter alignment and the balance of political forces heading into the final stretch of the presidential race.

Higher primary fiscal deficit

The Fiscal Council estimates that the accumulated primary deficit for 2025 reached 3.4% of GDP, 0.2pp above the November projection, and the 1% official forecast. The Council also calculated that the nominal deficit stood at 6.3% of GDP (6.7% in 2024). Gross public debt rose to 64.7% of GDP, up from 59.9% in December 2024.

In 2026, the Ministry of Finance (MoF) will continue to increase its USD cash position to face debt payments. After closing 2025 with COP 27.7 trillion, the MoF is currently building a foreign-currency buffer that reached nearly USD 10 billion as of February. For 2026, the MoF projects a closing cash balance of COP 17.7 trillion, and it is likely the government will continue accumulating FX liquidity, potentially reaching USD 12–15 billion. Colombia, as several other countries in the region, is benefiting from global dollar weakness.

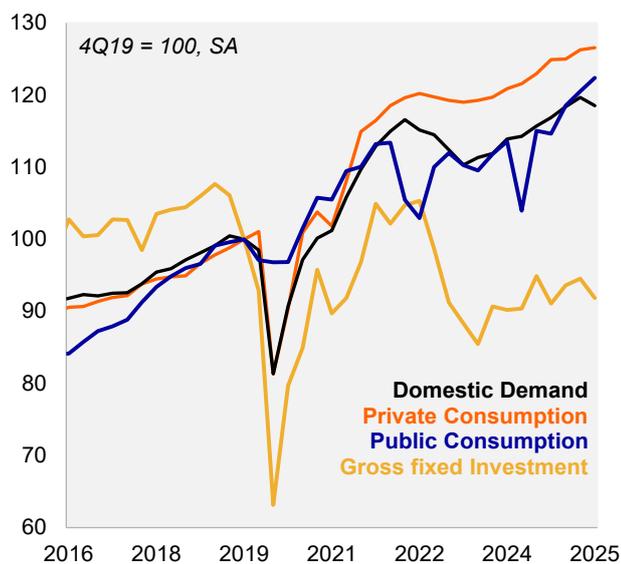
Inflation Back on the Rise

Inflation metrics rebounded at the start of 2026. Headline inflation rose 25bps in January from December to 5.35% YoY, the highest reading since October 2025. Core inflation increased 38bps to 5.94%, its highest level since November 2024. The 43bps jump in services inflation, now at 6.85%, signals renewed cost-push pressures following the minimum wage adjustment. Looking ahead, while services inflation is likely to remain under pressure, gasoline price rollbacks and lower electricity tariffs could deliver a more benign February inflation print.

The Colombian economy grew 2.6% in 2025 (vs 1.5% in 2024), below BanRep's 2.9% forecast. Growth softened to 2.3% YoY in 4Q25 after 3.6% in 3Q25. On

the demand side, growth was supported by public consumption (+5.9% YoY) and private consumption (+3.1% YoY), while gross fixed investment fell. Sequentially, GDP expanded a modest 0.1% QoQ (SA) in 4Q25, following 1.3% in 3Q25—reinforcing the view of a loss of momentum heading into 2026 as uncertainty rises and inflation and interest rate expectations surge.

Downbeat investment

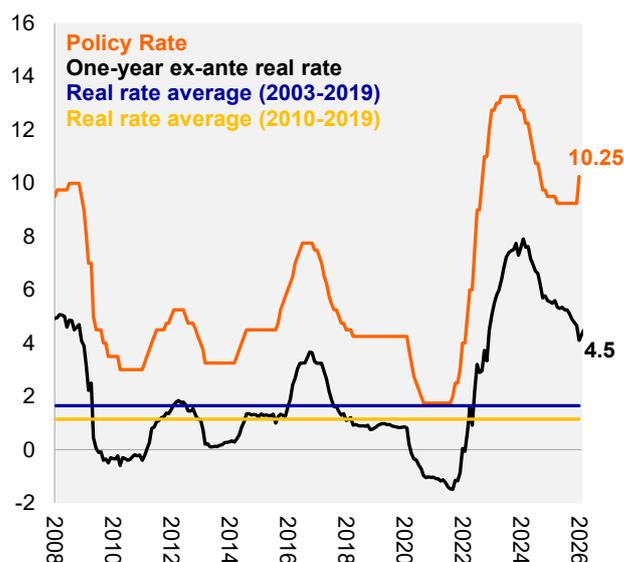


A strong monetary policy signal

BanRep’s board raised the policy rate by 100bps to 10.25%, delivering a stronger-than-expected move to begin the hiking cycle. The split decision saw four board members support the 100bps increase, one vote to hold, and two votes for a 50bps cut (including the Finance Minister). Governor Villar emphasized that the sharp adjustment was aimed at keeping inflation expectations aligned with the Central Bank’s target. According to the meeting minutes, the majority of the board underscored the need for additional tightening to restore credibility.

BanRep’s staff introduced significant revisions to their macro forecasts following the unprecedented minimum wage hike. In its quarterly Monetary Policy Report, the Central Bank raised its 2026 year-end inflation forecast by 270bps to 6.3% (Itaú: 6.7%; analysts: 6.3%; vs. 5.1% in 2025). On monetary policy, the staff’s baseline scenario implies a policy rate path that sits above market expectations, a stance consistent with 11.1% in 4Q26 and 9.5% by end-2027, on average. The staff maintained their estimate of the real neutral rate at 3.1% for 2026 and 3.3% for 2027.

A swift reaction



Maintaining our terminal rate call at 12%

We maintained our GDP growth forecasts at 2.3% for 2026 and 2027 (2.6% in 2025), as tighter monetary conditions continue to weigh on household consumption and investment remains subdued.

Following the minimum-wage increase, inflationary pressures are set to persist through 2026. We therefore keep our year-end 2026 inflation forecast at 6.7%, with a moderate decline to 5.7% by end-2027 amid significant indexation mechanisms.

With the disinflation cycle reversing and inflation expectations well above the ceiling of the target’s tolerance range, BanRep is likely to continue tightening to re-anchor expectations. We maintain our year-end policy rate projection at 12% (a further 175bps of hikes), followed by a gradual easing to 10.75% by end-2027.

We continue to see a COP 3,700/USD by year-end 2026 and 2027, supported by wide interest-rate differentials, and a weak dollar, though we flag the likelihood of heightened volatility during the election year.

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Colombia | Forecasts and Data

	2022	2023	2024	2025F		2026F		2027F	
				Current	Previous	Current	Previous	Current	Previous
Economic Activity									
Real GDP growth - %	7.3	0.7	1.5	2.6	2.8	2.3	2.3	2.3	2.3
Nominal GDP - USD bn	345	364	389	493	491	524	531	547	567
Population (millions)	51.8	52.2	52.7	53.2	53.2	53.4	53.5	53.7	53.7
Per Capita GDP - USD	6,657	6,972	7,375	9,276	9,224	9,820	9,914	10,190	10,557
Unemployment Rate - year avg	11.2	10.2	10.2	8.9	9.0	10.2	10.2	10.2	10.2
Inflation									
CPI - %	13.1	9.3	5.2	5.1	-	6.7	6.7	5.7	5.7
Interest Rate									
Monetary Policy Rate - eop - %	12.00	13.00	9.50	9.25	-	12.00	12.00	10.75	10.75
Balance of Payments									
COP / USD - eop	4,810	3,822	4,409	3,757	-	3,700	3,700	3,700	3,700
Trade Balance - USD bn	-14.5	-9.7	-10.8	-16.4	-	-12.3	-12.3	-10.9	-10.9
Current Account - % GDP	-6.1	-2.4	-1.8	-2.5	-2.5	-3.2	-3.2	-3.6	-3.6
Foreign Direct Investment - % GDP	5.0	4.6	3.4	3.5	3.5	3.7	3.7	4.0	4.0
International Reserves - USD bn	56.7	59.1	61.9	65.7	-	66.5	66.5	68.0	68.0
Public Finance									
Primary Central Govt Balance - % GDP	-1.0	-0.3	-2.4	-3.0	-3.0	-3.1	-3.1	-2.6	-2.6
Nominal Central Govt Balance - % GDP	-5.3	-4.2	-6.7	-6.6	-6.6	-7.4	-7.4	-5.6	-5.6
Central Govt Gross Public Debt - % GDP	60.8	56.3	61.6	61.3	61.3	67.1	67.1	67.6	67.6

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

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