

Macro scenario - Colombia



April 30, 2026

Higher inflation outlook lifts Colombia terminal rate to 12.5%

- Inflation risks remain skewed to the upside, driven by pressures from the minimum wage hike and higher energy prices, alongside rising probabilities of a strong El Niño weather phenomenon in 2H26. As a result, we revised our 2026 CPI forecast upward to 7.0% (from 6.7% and 5.1% at the end of last year), while maintaining our year-end 2027 forecast at 5.7%. Against this backdrop, we now expect the policy rate to end the year at 12.5% (previously 12.0%), followed by a gradual easing cycle towards 11% by end-2027 (10.75% in the previous scenario).

Polling data reshapes the runoff outlook

Polls show conflicting views on the runoff. Generally, polls show the governing coalition's candidate Iván Cepeda leading the May 31 first-round presidential election, ahead of opposition candidates Abelardo de la Espriella and Paloma Valencia. However, runoff forecasts for June 21 point to mixed outcomes amid a high share of undecided voters. The next presidential term begins on August 7.

Fiscal pressures intensify amid faster budget execution

Faster execution, weaker fiscal metrics. Budget execution accelerated in 1Q26, reaching 19.2% of the annual budget (excluding debt service), above last year's 16.2%, despite the electoral guarantee law. Investment spending rose, and nearly 50% of the COP 49 trillion backlog (2.6% of GDP) was also executed. In this context, the cumulative fiscal deficit through February reached 1.7% of GDP, essentially in line with 2025 (1.6%).

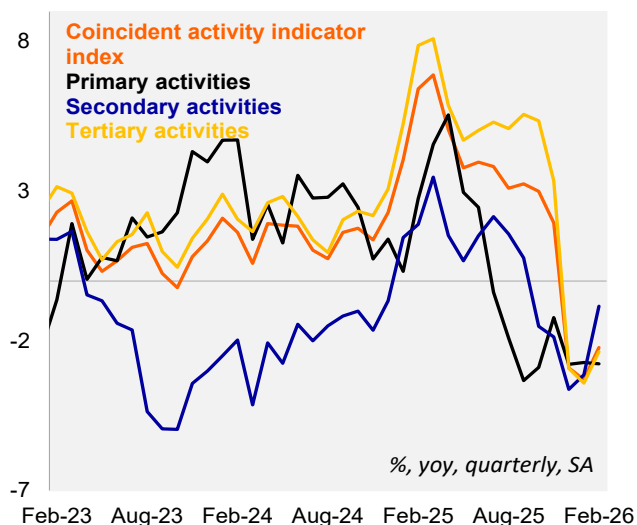
Pension reform: Council of State freezes accelerated transfers

The Council of State has provisionally suspended the transfer of pension fund assets to the public Colpensiones. The Council of State provisionally suspended Decree 415 of 2026, which mandated the accelerated transfer of pension savings from private funds to Colpensiones, an operation estimated at COP 25 trillion (1.4% of GDP) with execution deadlines of 10–30 days. The ruling limits transfers to resources linked to already-retired affiliates (COP 5.5 trillion; 0.3% of GDP), arguing that broader transfers could prove irreversible

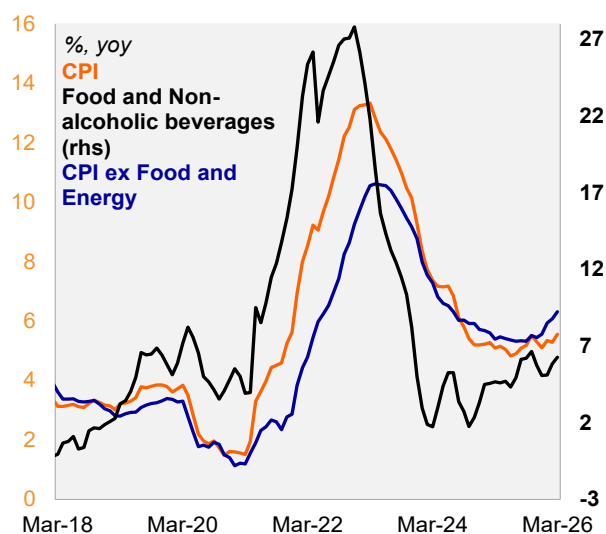
before full judicial review. As a result, near-term risks to local markets have diminished, as the decision curtails forced asset sales and abrupt portfolio rebalancing. Nevertheless, a final decision on the matter remains pending.

Activity shows tentative stabilization, but momentum remains weak

Economic activity disappointed in early 2026. The ISE grew 1.6% YoY in February, below expectations, while January was revised down to 1.3%, amid weak primary sectors. On a sequential basis, activity expanded by 0.5% MoM SA. Despite the softer start to the year, consumer confidence increased in March, with a sharp rebound in willingness to purchase durable goods, the highest since 2018, pointing to short-term consumption resilience.

Growth disappoints despite resilient domestic demand

Source: Dane

Unfavorable headline and core inflation dynamics

Source: Dane

Inflation re-accelerates, strengthening the hawkish bias

Inflation surprised to the upside in March. Headline CPI rose 0.78% MoM, lifting annual inflation to 5.56%, while core inflation climbed to 6.32%, the highest since mid-2024. Services inflation accelerated further to 7.3% YoY, reflecting indexation following the 23% minimum wage hike. At the margin, quarterly inflation reached 7.1% SAAR, with core inflation at 7.7% SAAR, pointing to entrenched underlying pressures. Survey-based inflation expectations have declined at the margin yet remain well above BanRep's 3% target; the one- and two-year horizon declined by 12 bps and 23 bps to 5.70% and 4.83%, respectively.

Monetary policy: higher terminal rate amid institutional tensions

Institutional friction remains elevated, reinforcing upside risks to the policy rate path. While some BanRep Board members reaffirm the primacy of the 3% inflation target and central bank independence, the MoF continues to challenge the tightening cycle, arguing that rate hikes undermine growth, employment and fiscal sustainability. The administration has threatened further minimum wage hikes should additional hikes take place—raising governance and credibility risks. That said, legal constraints limit unilateral action, given mandatory tripartite negotiations and strict technical criteria, but political pressure could continue. Against this backdrop, analysts now expect a terminal rate of 12.25% by July, while we see further hikes ahead, taking the policy rate to a higher terminal of 12.5%.

Higher inflation forecast points to a higher terminal rate

1Q26 growth is set to disappoint despite solid domestic demand. As a result, we revised our 2026 GDP growth forecast down to 2.1%, while maintaining our 2027 forecast at 2.3%.

Supply shocks from higher energy prices and climate-related impacts are set to put upward pressure on prices in the second half of the year. As a result, we revised our 2026 CPI forecast upward to 7.0% (from 6.7%), while maintaining our year-end 2027 forecast at 5.7%.

We now expect a year-end policy rate of 12.5% (previously expected at 12.0%), followed by a gradual easing to 11% by end-2027.

We maintained our current account deficit (CAD) forecast at 2.7% of GDP (from -2.4% of GDP in 2025). Meanwhile, supported by high interest rates and a favorable carry relative to peers, we revised our year-end FX forecast to COP 3,600 per USD from COP 3,700 for both 2026 and 2027.

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Colombia | Forecasts and Data

	2022	2023	2024	2025	2026F		2027F	
					Current	Previous	Current	Previous
Economic Activity								
Real GDP growth - %	7.3	0.7	1.5	2.6	2.1	2.3	2.3	2.3
Nominal GDP - USD bn	345	364	389	493	524	525	547	547
Population (millions)	51.8	52.2	52.7	53.2	53.4	53.4	53.7	53.7
Per Capita GDP - USD	6,657	6,972	7,375	9,276	9,819	9,838	10,190	10,209
Unemployment Rate - year avg	11.2	10.2	10.2	8.9	10.2	10.2	10.2	10.2
Inflation								
CPI - %	13.1	9.3	5.2	5.1	7.0	6.7	5.7	5.7
Interest Rate								
Monetary Policy Rate - eop - %	12.00	13.00	9.50	9.25	12.50	12.00	11.00	10.75
Balance of Payments								
COP / USD - eop	4,810	3,822	4,409	3,757	3,600	3,700	3,600	3,700
Trade Balance - USD bn	-14.5	-9.7	-10.8	-16.4	-13.0	-13.0	-11.8	-11.8
Current Account - % GDP	-6.1	-2.4	-1.7	-2.4	-2.7	-2.7	-3.2	-3.2
Foreign Direct Investment - % GDP	5.0	4.6	3.4	2.3	2.3	3.7	2.5	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	-3.5	-3.3	-3.3	-2.8	-2.8
Nominal Central Govt Balance - % GDP	-5.3	-4.2	-6.7	-6.4	-6.5	-6.5	-5.8	-5.8
Central Govt Gross Public Debt - % GDP	60.8	56.3	61.6	64.3	60.1	60.1	62.9	62.9

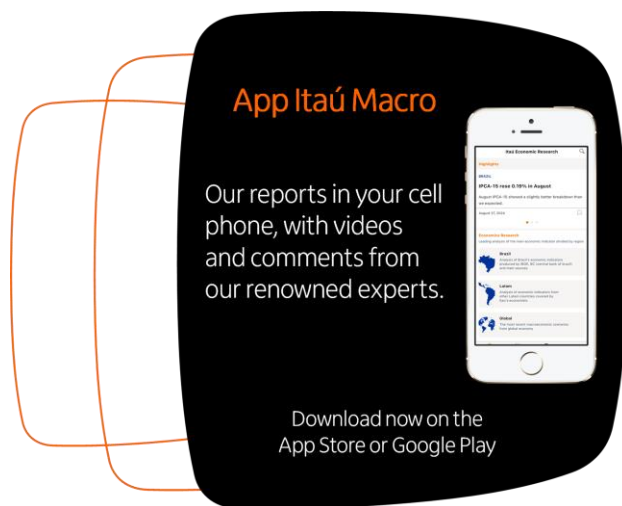
Source: IMF, Bloomberg, Dane, Banrep, Haver and Itaú

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