Macro scenario - Colombia

June 26, 2026

Election outcome reshapes policy outlook amid El Niño's arrival

- Elevated energy prices and climate-related shocks are expected to sustain inflationary pressures in 2H26. We now forecast year-end 2026 CPI at above-consensus 7.5% and 5.8% in 2027 (previously 7.0% and 5.7%).
- We expect BanRep to resume its tightening cycle later this month, amid elevated inflation and above-target expectations, and following the unexpected pause in April. Our scenario foresees the hiking cycle extending to a terminal rate of 13.0% by end-2026 (+50bp vs. our previous scenario). In 2027, a gradual easing to 11.5% is expected. (vs. 11.0% previously).

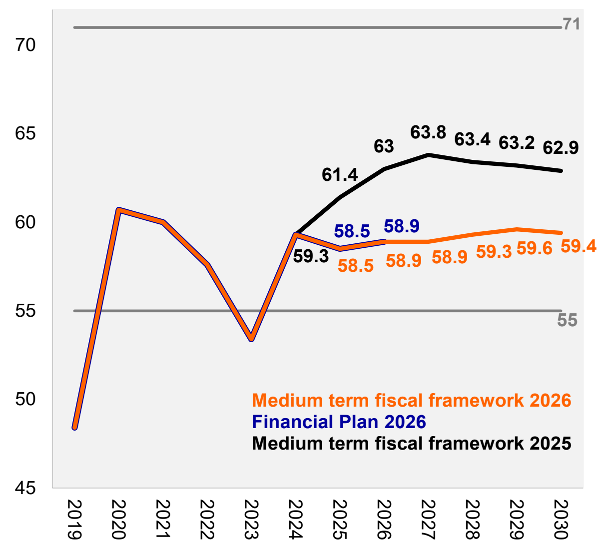
Crucial initial policy signals from the incoming administration

De La Espriella wins the presidential runoff, marking a shift in policy direction. The policy agenda points to expenditure-driven fiscal consolidation, deregulation and a reopening of the hydrocarbons sector to private sector investment. Throughout his campaign, the president elect emphasized reducing the size of the state, facilitating fiscal consolidation and implementing tax cuts alongside improvements in tax administration. The policy agenda is projected to rely, at least partially, on administrative measures including decrees. Political fragmentation in Congress may pose challenges for reforms that require congressional approval. The new administration will begin its four-year term on August 7.

Fiscal accounts still under pressure

The outgoing administration's Medium-Term Fiscal Framework includes an unannounced revenue-enhancing tax reform as a driver of fiscal consolidation. The official 2026 primary deficit is projected at 2.1% of GDP, falling to 0.5% in 2027 in line with the fiscal rule. However, the narrowing relies on the approval of an ambitious tax reform worth some 1.5% of GDP. The 2026 nominal fiscal deficit is forecasted at 5.3% of GDP and 4.5% in 2027, while net public debt remains elevated at 58.9% of GDP, above the 55% anchor. Debt is projected to remain stable in the near term, with a peak of 59.6% of GDP by 2029. A stronger exchange rate helps contain external interest payments at 3.3% of GDP in 2026, although these are projected to rise to 4.4% of GDP in 2027. Financing needs remain sizeable, with external funding targeted at USD 8.3 billion in 2026 and continued reliance on domestic markets.

Net debt (% GDP)

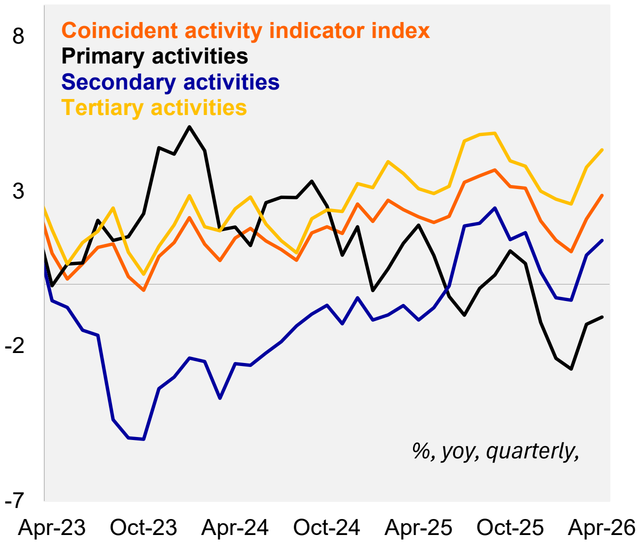


Source: MoF; Itaú

Domestic demand remains upbeat

Activity remained resilient at the start of 2Q26. In April, the coincident activity indicator (ISE) expanded 3.3% YoY. On a sequential basis, the ISE increased 0.3% MoM (seasonally adjusted) from March to April. Activity was fueled by tertiary activities, which grew 0.6% MoM and 4.6% YoY. Within the broad services sector, social services, utilities and commerce advanced the most. Meanwhile, primary and secondary activities dragged growth with monthly contractions. April activity data confirm the trends observed at the end of 1Q26, with total consumption expanding 3.4% YoY, supported by strong public consumption (+7.8%) and a gradual recovery in private consumption (+2.7%). Despite a still contractionary monetary policy stance, sizeable minimum wage increases (+18% real YoY in 2026) and elevated remittances continue to support household consumption, with consumer confidence remaining at historically high levels.

Activity continues to be driven by the services sector



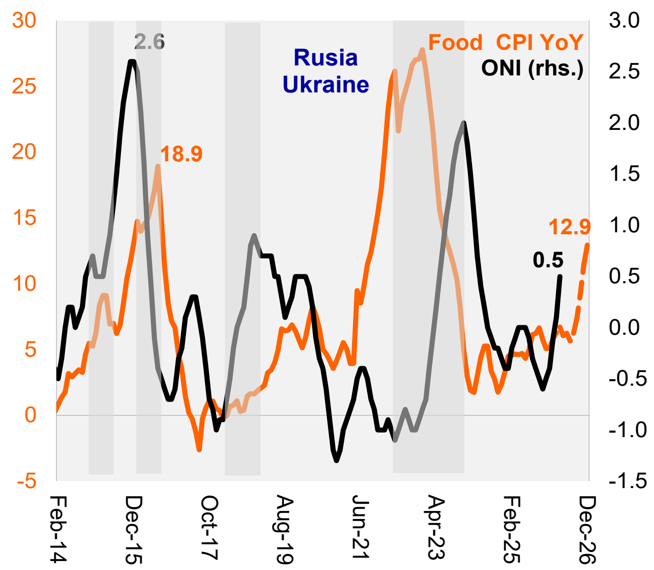
Source: Dane; Itaú

External accounts improve on stronger exports. The current account deficit narrowed to 1.2% of GDP in 1Q26, the lowest level in two decades. The improvement was supported by a smaller trade deficit, strong transfers at 3.2% of GDP and a services surplus. Export growth accelerated to 14.2% YoY, outpacing imports at 10.3% YoY, narrowing the goods trade deficit to USD 2.9 billion. Despite this improvement, FDI covered only 74% of the current account deficit over the rolling year, while portfolio inflows remained supportive at USD 1.5 billion (1.2% of GDP).

Inflation rebounds with persistent core pressures
Consumer prices rose by 0.47% MoM in May, slightly below consensus, bringing annual inflation to 5.84% and core inflation to 6.49%. Housing and utilities were the main contributors, while services inflation increased to 7.5%, reflecting indexation effects from the minimum wage adjustment. At the margin, quarterly inflation reached 6.8% SAAR, with core inflation at 7.6%, indicating persistent underlying pressures. Survey-based inflation expectations moderated slightly, with 12- and 24-month horizons easing to 5.57% (from 5.70%) and 4.18% (from 4.29%), respectively.

Rising probability of a very strong El Niño event. NOAA's latest ENSO probabilities point to a sharp increase in El Niño odds into 2H26, with strong El Niño becoming the central scenario (~30% in October - December) and very strong events also gaining material probability (~60%). In Colombia, the weather phenomenon leads to lower rainfall, reducing reservoir levels, and increasing reliance on costlier thermal generation, thereby pushing 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. Accordingly, the strength of a new weather shock will be key in shaping the magnitude of food inflation pressures. We now expect food prices to reach 12.9% by year-end (9.5% previously expected; above the 7.0% consensus), broadly in line with the dynamics observed during the 2015 episode.

El Niño is coming



Source: NOAA, Itaú

Inflationary pressures will keep monetary policy restrictive

Monetary policy to stay restrictive for longer. Following the elections outcome, asset performance and the country risk premium have improved, with FX and sovereign CDS reaching their lowest levels since 2021, while the current account deficit remains contained. However, inflation progress remains under tension. Food prices are likely to face upward pressures from El Niño conditions, domestic demand continues to grow above expectations, and services inflation remains elevated above 7%. Against this backdrop of persistent domestic inflationary pressures and tighter global financial conditions, maintaining a restrictive monetary stance appears warranted to further anchor medium- and long-term inflation expectations, which remain above target. After the unexpected pause in April, Board members' remarks reflect a predominantly hawkish bias, with a majority focused on anchoring inflation expectations, thus supporting further tightening. Meanwhile, a more dovish view from the MoF favors gradualism and greater consideration of growth and social trade-offs.

Consumption holds up as inflation pressures persist

Although El Niño should pose transitory headwinds to economic activity, a recovery in private investment should mitigate its impact. Therefore, we now expect GDP growth of 2.2% in 2026 and 2.4% in 2027 (previously 2.1% and 2.3%).

Uncertainty around energy prices, linked to developments in the Middle East conflict, alongside climate-related shocks, is expected to sustain inflationary pressures in 2H26. As a result, we now expect year-end CPI at an above consensus 7.5% in 2026 and 5.8% in 2027 (previously 7.0% and 5.7%).

In this context, we expect BanRep to resume its tightening cycle later this month, amid elevated inflation and above-target expectations, and following the unexpected pause in April. Our scenario sees the hiking cycle extending to 13.0% by end-2026 (+50bp vs. our previous scenario). In 2027, a gradually easing to 11.5% is expected. (vs. 11.0% previously).

A decline in the risk premium is driving the currency's appreciation. We revised our year-end FX forecast to COP 3,400 per USD for both 2026 and 2027 (COP/USD 3,600 previously expected). Meanwhile, exports are showing early signs of recovery, while import growth remains strong, prompting us to revise the current account deficit forecast to 2.3% of GDP for 2026 (from 2.5%).

Currency appreciation, together with fiscal austerity, will reduce interest payments and narrow the fiscal deficit this year. We now expect a fiscal deficit of 5.0% of GDP in 2026 (previously 6.5%) and 4.3% in 2027 (previously 5.8%).

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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	**2.2**	2.1	**2.4**	2.3
Nominal GDP - USD bn	345	364	389	493	**542**	524	**598**	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	**10,153**	9,819	**11,149**	10,190
Unemployment Rate - year avg	11.2	10.2	10.2	8.9	**9.5**	10.2	**9.5**	10.2
Inflation								
CPI - %	13.1	9.3	5.2	5.1	**7.5**	7.0	**5.8**	5.7
Interest Rate								
Monetary Policy Rate - eop - %	12.00	13.00	9.50	9.25	**13.00**	12.50	**11.50**	11.00
Balance of Payments								
COP / USD - eop	4,810	3,822	4,409	3,757	**3,400**	3,600	**3,400**	3,600
Trade Balance - USD bn	-14.5	-9.7	-10.8	-16.4	**-12.0**	-12.0	**-11.0**	-11.0
Current Account - % GDP	-6.1	-2.4	-1.7	-2.4	**-2.3**	-2.5	**-2.8**	-3.0
Foreign Direct Investment - % GDP	5.0	4.6	3.4	2.3	**2.3**	2.3	**2.5**	2.5
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	**-2.6**	-3.3	**-2.1**	-2.8
Nominal Central Govt Balance - % GDP	-5.3	-4.2	-6.7	-6.4	**-5.0**	-6.5	**-4.3**	-5.8
Central Govt Gross Public Debt - % GDP	60.8	56.3	61.6	64.3	**59.3**	60.1	**62.1**	62.9

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

Macro Research – Itaú

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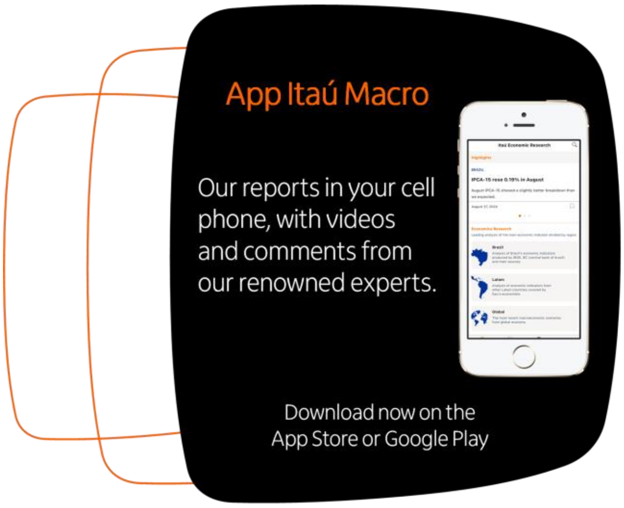

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