Economics Colombia
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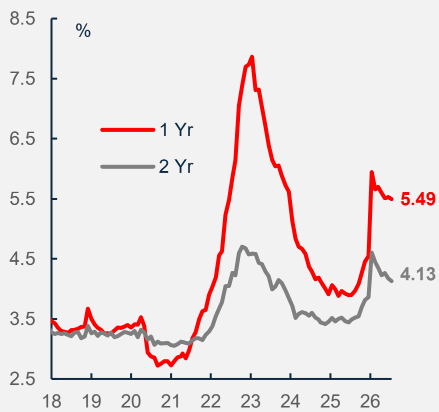
Chart 1. Average Headline Inflation Expectations



Sources: DAVIbank Economics, BanRep.

Table 1. Headline Inflation Expectations

	Average	Change vs previous survey, bps
Jul-2026, m/m % change	0,31	…
Dec-2026, y/y % change	6,68	17
1Y ahead, y/y % change	5,49	-3
Dec-2027, y/y % change	4,98	9
2Y ahead, y/y % change	4,13	-5

Sources: DAVIbank Economics, BanRep.

Colombia: Inflation expectations remain elevated, as economists expect the policy rate to peak at 12.50%

The Central Bank (BanRep) published its July survey of economists' expectations on Thursday, July 16. Inflation expectations increased for December 2026 to 6.68% and for December 2027 to 4.98%, while those for the one- and two-year horizons barely decreased. This behavior followed the upside surprise in June's release and is probably starting to incorporate expectations of the impact from the "El Niño" phenomenon. Either way, the inflation path suggests that the process of converging again to the target range will be slow, something that is a concern for the majority of the central bank and, in fact, was one of the motivations for increasing the interest rate at the June meeting.

Regarding monetary policy, economists' consensus shows an expectation of a 50 bps hike at the July meeting and predicts that this will be the peak of the tightening cycle, suggesting that potential cuts could materialize starting in March 2027 and gradually bring the rate down to 11% by the end of the next year. It is worth noting that the expected peak has moved upward over time. Given that, the July meeting is a key one since we will have the central bank staff's baseline scenario in the Monetary Policy Report, and this, together with the board's post-meeting communication, could help clarify whether we can be confident that the tightening cycle has ended or not.

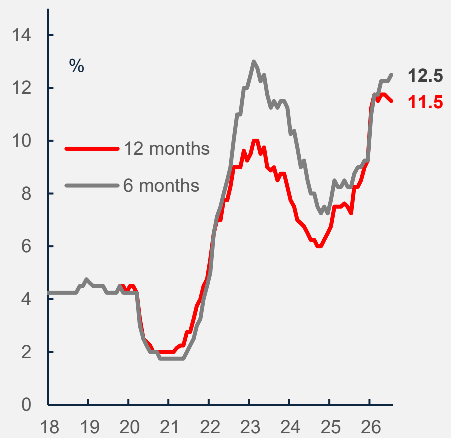
At DAVIbank, expectations are skewed to the upside versus consensus for 2026 and to the downside for 2027. We expect inflation to reach 6.87% in December 2026 and decline to 4.87% in December 2027. Regarding the monetary policy rate, our call is for a 75 bps hike in July, and we see the possibility of starting an easing cycle in mid-2027, when we expect inflation expectations to settle within the target range (defined between 2% and 4%). For year-end 2027, we project the interest rate to close at 10%.

Key details from the survey

- **Short-term inflation expectations.** Monthly inflation in July is expected to average 0.31% m/m, 3 bps higher than one year ago, taking the annual figure to 6.17% y/y (Table 1). DAVIbank's July projection is above the economists' consensus (0.38% m/m, 6.25% y/y). We expect inflation to reflect some moderation in food inflation; however, we also expect to see renewed significant upside pressure from electricity fees. The survey shows that core inflation (excluding food) is expected to reach 0.30%, while DAVIbank's projection stands at 0.36% m/m.

- **Medium-term inflation expectations.** Expectations for December 2026 jumped to 6.52% (+17 bps vs. the previous survey), and the one-year horizon (July 2027) increased by 3 bps to 5.49%. Expectations for the two-year horizon stand at 4.13%, down 5 bps from the previous survey but still showing limited confidence in achieving the target range. At DAVIbank, our projections remain above the consensus: we expect year-end inflation to reach 6.87%, with our one-year-ahead expectation at 5.57%. It is worth noting that rising year-end inflation expectations are increasing the likelihood of a minimum wage adjustment of around 8% to 8.5%, making the expected slowdown in inflation even more gradual. It is also worth noting that, for now, we are not incorporating a significant impact from the "El Niño" phenomenon, since it will largely depend on how long it lasts and how intense this event ultimately proves to be.

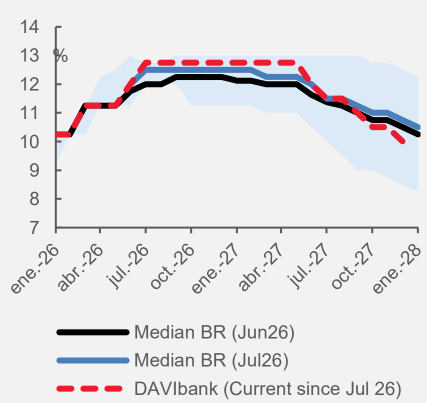
Chart 2. Average Policy Rate Expectations



Sources: DAVIbank Economics, BanRep.

- **Monetary policy rate.** The economists' consensus points to a new 50 bp rate hike in July, bringing the policy rate to 12.50%. Rate expectations for the 6-month and 12-month horizons stand at 12.50% and 11.50%, respectively (Chart 2). In contrast to the previous survey, economists' consensus is now pointing to a longer period of stability at the peak of the hiking cycle than expected in previous surveys, which probably reflects the hawkish wording of the majority group on the central bank's board at the last meeting.

Chart 3. Expected Monetary Policy Path



Sources: DAVIbank Economics, BanRep.

- **At DAVIbank, we expect a final 75 bp increase in July, bringing the policy rate to 12.75% (Chart 3).** This path is consistent with a contractionary monetary stance, reflected in an estimated real rate of approximately 7% (based on the average of ex ante and ex post measures) at the beginning of 2027. **In contrast to the average economist consensus, we expect a prolonged period of stability, with the trigger for rate cuts being the signal that inflation expectations have consolidated below 4%.**

- **FX projections:** For December 2026, analysts estimate COP 3,476 per USD (previous survey: COP 3,647 per USD), while the expectation for December 2027 stands at COP 3,592 per USD. At DAVIbank, we revised our forecast downward and now expect the exchange rate to close the year at COP 3,567 per USD. According to our models, the recent appreciation has extended beyond what fundamentals can explain, suggesting a potential overshooting driven by optimism following the elections. However, it remains to be seen whether this premium can be sustained, and we believe that part of its persistence will depend on the effectiveness of the new government in delivering its promised economic agenda.

Macroeconomic forecast DAVIbank Economics Colombia

Forecast	2019	2020	2021	2022	2023	2024	2025pr	2026pr	2027 pr
National Accounts									
Real GDP growth (yearly %)	3.2	-7.2	11.1	7.6	0.9	1.5	2.6	2.4	2.7
Domestic demand (y/y. %)	4.0	-7.5	13.8	10.5	-2.3	1.6	3.9	2.9	3.2
Consumption (y/y. %)	4.3	-4.3	14.1	9.5	0.7	1.4	4.4	3.4	3.1
Private (y/y. %)	4.0	-5.0	15.3	11.1	0.6	1.6	3.5	3.2	3.6
Goverment (y/y. %)	5.5	-0.9	10.3	2.2	1.1	0.0	8.3	4.4	0.8
Gross capital formation (y/y. %)	3.2	-7.2	11.1	7.6	0.9	1.5	2.6	2.4	2.7
Exports (y/y. %)	3.3	-22.3	15.7	13.6	3.1	0.3	1.8	1.9	1.7
Imports (y/y. %)	7.7	-19.8	28.5	25.0	-9.8	1.3	8.8	3.0	4.2
Laboral Market									
Unemployment (%. Average)	10.9	16.7	13.8	11.2	10.2	10.2	8.9	9	9.4
Balance of Payments									
Trade Balance (USD$. B)	-14.15	-13.10	-20.00	-16.10	-7.81	-9.77	-14.89	-16.61	-19.91
Exports (USD$. B)	51.3	38.2	50.9	73.5	68.7	69.1	71.5	79.22	82.1
Imports (USD$. B)	65.5	51.3	70.9	89.6	76.5	78.9	86.3	97.05	103.10
Current account (USD$ Balance. B)	-14.81	-9.27	-17.95	-20.88	-8.32	-7.10	-11.02	-13.4	-16.18
Current account (% of GDP)	-4.6	-3.4	-5.6	-6.0	-2.3	-1.7	-2.4	-2.3	2.7
Prices. Rates & Exchange Rates									
CPI (y/y. %. End period)	3.80	1.61	5.62	13.12	9.28	5.20	5.10	6.87	4.87
CPI (y/y. %. Average)	3.52	2.53	3.49	10.15	11.77	6.63	5.14	6.01	5.67
CPI without food (y/y. %. End period)	3.45	1.03	3.44	9.99	10.33	5.60	5.11	6.50	4.77
COP ($. End period)	3297	3422	4077	4850	3902	4405	3780	3567	3701
COP ($. Average)	3281	3694	3766	4254	4322	4153	4052	3643	3629
BanRep's rate (%. End period)	4.25	1.75	3.00	12	13.0	9.50	9.25	12.75	10
Tax Codes*									
Net Debt of CNG (% of GDP)	48.4	60.7	60.1	57.6	53.4	59.3	58.5	61	62.9
Primary Balance of CNG (% del PIB)	0.4	-5.0	-3.6	-1.0	-0.3	-2.4	-3.5	-4.1	0.5
Deficit of CNG (% of GDP)	-2.5	-7.8	-7.1	-5.3	-4.3	-6.8	-6.4	-7.4	-5.1

*Source: CARF Report June 2026 about MTFF. For 2027 the projection assumes a 3.7% of GDP adjustment

Source: DAVIbank Economics Colombia.

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