Economics Colombia
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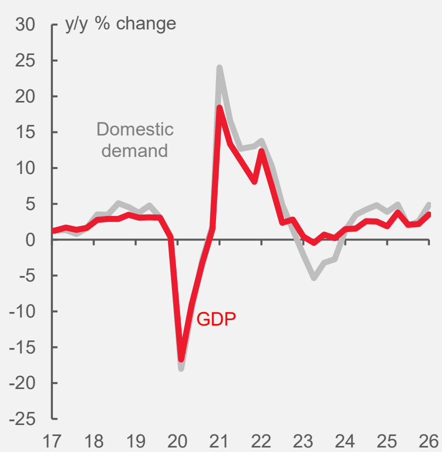
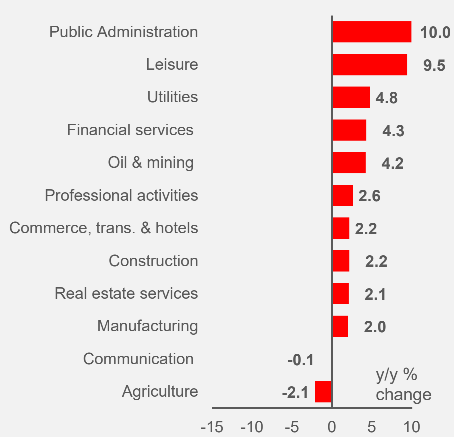
Chart 1: GDP vs Domestic Demand



Sources: DAVIbank Economics, DANE.

Chart 2: GDP Q2-2026 by Sector



Sources: DAVIbank Economics, DANE.

Colombia: upside surprise in GDP results due to transitory shocks

According to DANE's GDP release, economic activity expanded by 3.5% y/y in Q2 2026 (Chart 1). Although this performance was above the economists' consensus of 3.3% and our forecast of 3.1%, economic activity showed a mixed picture that deserves further analysis, especially regarding temporary impulses. Higher government spending associated with the presidential elections and higher public salaries, together with better-than-expected performance in the construction and mining sectors, were the main drivers of the surprise. In addition, the coincidence of the elections and the FIFA World Cup provided a boost to domestic demand that will not repeat for another four years.

GDP data also revealed that household consumption remains resilient and diversified across all categories (services, non-durable, and durable goods), which is consistent with the strong performance of the commerce and leisure sectors. Despite growing at a 7% annual rate and the upside surprise in some of its components, fixed investment as a percentage of GDP continues to decline, reaching 15,5%.

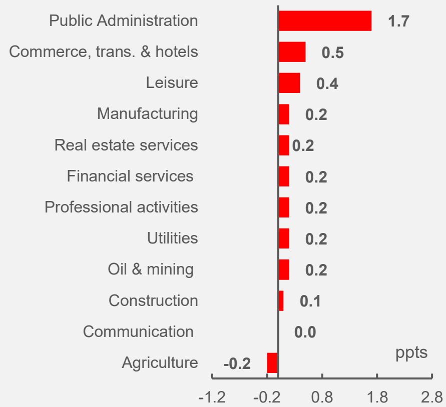
All things considered, the economy continues to show resilience, with robust household consumption offsetting weakness in other areas. The recent earthquake is expected to weigh on growth in the short term. However, reconstruction-related spending and the speed at which it is executed will support activity thereafter and ultimately determine the net effect on growth**.**

Regarding monetary policy, it is worth noting that the central bank staff, in its latest Monetary Policy Report, characterized the recent outperformance of the economy as temporary. However, they continue to estimate a positive output gap in the coming quarters. On the other hand, one of the board members who supported keeping rates unchanged stated that the possibility of a rate hike remains on the table. These mixed signals highlight the high degree of uncertainty. Nevertheless, **following the earthquake, we favor a scenario in which the policy rate remains stable at 12% for approximately one year.**

Key takeaways from the data.

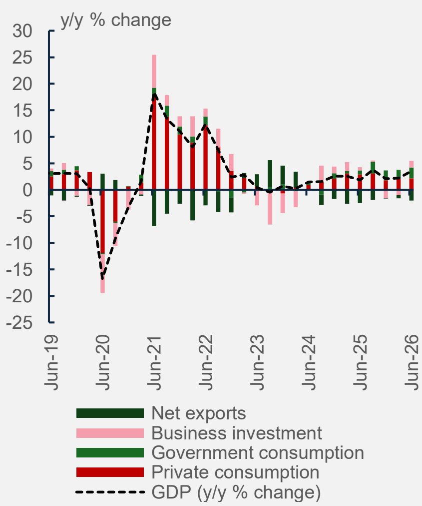
- **According to the economic activity index (ISE), Colombia's economy expanded by 3.5% y/y in June, showing a still-strong performance that lasted during all of the quarter, this time again driven by the services' sector, especially public administration (+7.8% y/y) and financial activities (+8.7% y/y).** Public administration increases were driven by spending associated with the presidential elections. We expect this

Chart 3: GDP Q2-2026 by Contribution



Sources: DAVIbank Economics, DANE.

Chart 4: GDP Contributions by Expenditures



Sources: DAVIbank Economics, DANE.

positive contribution to continue during the second half of the year, although in a more moderate way.

- **Quarterly performance was dominated by services (Chart 2 and 3), but the primary and secondary sectors showed an upward surprise.**

    - **In Q2 2026, the strongest overall contribution came from public administration (10% y/y, contributing 1.7 pps), largely driven by higher public hiring and election-related spending.** Commerce also made a significant contribution, growing by 2.2% and adding 0.5 pps to GDP growth, supported by stronger consumer confidence, resilient domestic demand, and the boost associated with the FIFA World Cup. Likewise, arts, entertainment, and recreation activities grew by 9.5% and contributed 0.4 pps, benefiting from the same demand-side drivers and from the ongoing reallocation of household spending toward services, a trend that has strengthened since the pandemic.
    - **Among the weaker-performing sectors, agriculture contracted by 2.1% y/y and subtracted 0.2 pps from GDP growth.** The decline reflected adverse weather conditions, higher production costs linked to geopolitical developments, and normalization following several quarters of exceptionally strong performance. Information and communications activities declined by 0.1%, mainly due to a high base effect and weaker demand from the public sector. Construction expanded by 2.2%, contributing only 0.1 pps to overall growth. Nevertheless, this marked the sector's first annual increase since the third quarter of 2024, driven by strong growth in civil engineering works, particularly large infrastructure projects such as the Bogotá Metro and railway developments. This positive performance was partially offset by a 3.2% decline in building construction.
    - **Mining also deserves special mention, as it grew by 4.2% y/y and contributed 0.2 pps to GDP growth.** This represented the sector's first annual expansion since the fourth quarter of 2024 and its strongest growth rate since the third quarter of 2022. The improvement was mainly supported by more favorable external conditions, particularly persistently higher oil prices resulting from the conflict between the United States and Iran.

Economic activity from demand perspective.

- **On the expenditure side, final domestic demand grew by 4.9% y/y,** maintaining a strong pace despite restrictive financial conditions. Household consumption increased by 2.8%, while government consumption continued to expand at a double-digit rate, rising by 12.2% and remaining one of the key drivers of economic activity (Chart 4).

- **Household spending continued to shift toward services, which made the largest contribution to consumption growth and expanded by 2.0% y/y.** At the same time, goods consumption remained robust, especially durable goods, whose consumption surged by 15.9%. This pattern is consistent with the strong performance observed in entertainment and recreation-related activities.

- **Investment also showed signs of strengthening. Gross fixed capital formation increased by 7.0% y/y, marking its strongest growth since late 2024.** The expansion was largely driven by machinery and equipment investment as well as civil engineering projects. However, the investment rate remained relatively low at 15.5% of GDP, reflecting the continued weakness in building construction.

- **In contrast, the external sector weighed on overall growth.** Exports declined by 1.0% yoy, while imports increased by 7.5%, a pattern consistent with an appreciated exchange rate that has reached levels not seen since 2019. This reflects the strength of domestic demand, although an increasing share of that demand has been met through imported goods.

What to expect for the rest of 2026

- **Given that the factors underpinning strong growth in Q2 were largely temporary, economic activity is expected to moderate in the second half of the year.** Nevertheless, growth should continue to benefit from a higher number of working days than in 2025 and from increased thermoelectric generation, which has a stronger contribution to GDP.

- **There is considerable uncertainty surrounding the impact of the recent earthquake on economic growth.** While the destruction of capital stock and disruptions across several sectors could weigh on activity in the near term, reconstruction efforts are likely to provide a significant boost thereafter, potentially resulting in a small but positive net effect on GDP. For now, we continue to project GDP growth of 2.4% y/y in 2026, although the range of possible outcomes is wider than previously anticipated.

- **Given BanRep's latest decision to keep the policy rate unchanged at 12%, together with the earthquake, the exchange rate appreciation, and the downside surprise in July inflation, we now expect the policy rate to remain at 12% through mid-2027.** In this context, and considering the impact of post-earthquake reconstruction activity, our 2027 GDP growth forecast of 2.7% now carries an upside bias.

- Promoting investment and shifting economic growth toward more sustainable drivers capable of delivering stronger potential growth remains a key policy challenge.

Macroeconomic forecast DAVIbank Economics Colombia

Forecast	2019	2020	2021	2022	2023	2024	2025	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 Ex. 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	10
Fiscal projections*									
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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