

## Economics Colombia

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### Research Team Colombia

Jackeline Piraján

Head of Research

[jackeline.pirajan@davibank.com](mailto:jackeline.pirajan@davibank.com)

Daniel García

Senior Economist

[daniel.castro@davibank.com](mailto:daniel.castro@davibank.com)

Paula Andrea Patiño

Intern

[paula.patino@davibank.com](mailto:paula.patino@davibank.com)

## Colombia Insights 2026-MTFF: No news is not good news. Fiscal clean-up kicked forward

### Key takeaways:

- **Fiscal trajectory remains fragile and priced for risk:** The 2026 deficit target (5.3% of GDP) looks optimistic given rigid spending dynamics and rising interest costs, suggesting downside risk to fiscal metrics and potential upward pressure on sovereign spreads.
- **Liquidity and refinancing risks stay front and center:** Despite active liability management, low cash buffers and reliance on domestic funding (including increased direct placements and treasury operations) keep short-term liquidity risk elevated and could sustain volatility along the curve.
- **Policy credibility hinges on next administration:** Meaningful fiscal consolidation, likely requiring a sizeable tax reform (~1.4% of GDP) and tighter spending, has been deferred, leaving investors focused on future policy execution and the path back to fiscal rule compliance post-2027.

Table 1. Macroeconomic Assumptions

Variable	2025	2026		2027	
		2026-FP	2026-MTF F	2025-MTF F	2026-MTFF
Real GDP (growth, %)	2,6	2,6	2,6	3,3	2,2
Nominal GDP (growth, %)	8,1	7,8	9	6,4	5,8
Deflator (%)	6		3,6		3,2
Inflation (end of period, %)	5,1	5,8	6,0	3,0	4,4
Average exchange rate (COP/USD)	4053	3801	3757	4500	3859
Average Depreciation (%)	-0,5	-6,2	-7,3	2,1	2,7
End of Period Exchange Rate (USD/COP)	4409		4386		4389
Average oil price (Brent, USD/Barrel)	68,2	59,2	85,5	63,6	74,9
Oil Production (KBPD)	746	727	731	764	717
Imports (USD, growth %)	1,3	3,6	5,5		3,7
Current account balance (% of GDP)	-2,4	-2,9	-2,2	-2,6	-2

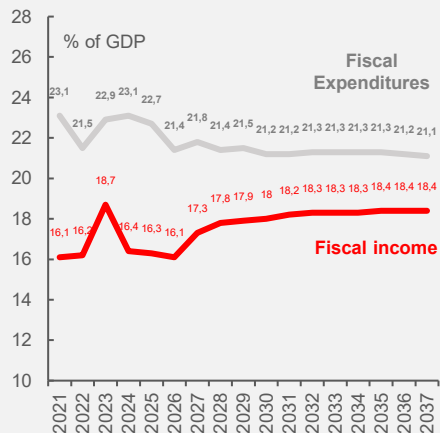
On Friday, June 12th, the Ministry of Finance (MOF) released the Medium-Term Fiscal Framework (MTFF), one of the most important documents in Colombia's fiscal planning. The MTFF provides insights into the Government's long-run (10-year) economic outlook, as well as current fiscal results.

The fiscal situation in Colombia has been in the spotlight for a while, not only due to challenges around medium-term sustainability but also because of liquidity concerns, as in the last year some episodes revealed that Colombia's cash buffers were at very low levels. This ended up being reflected in the pricing and volatility of debt instruments, which at the worst level of stress reached 15% for some references. Also, it is worth noting that the country is currently under Fiscal Rule suspension, which will last until the end of 2027, and part of the plans to return to compliance failed to materialize in 2025, with the rejection of a fiscal reform, increased primary spending, and again, a noisy process of fiscal budget approval for 2026. All of the above has been framed by sovereign credit rating downgrades by the three major credit rating agencies in the last 12 months, leaving Colombia at Baa3 (last notch of IG) with Moody's, BB for Fitch Ratings, and BB- for S&P.

Source: Ministry of Finance. 2026-MTFF.

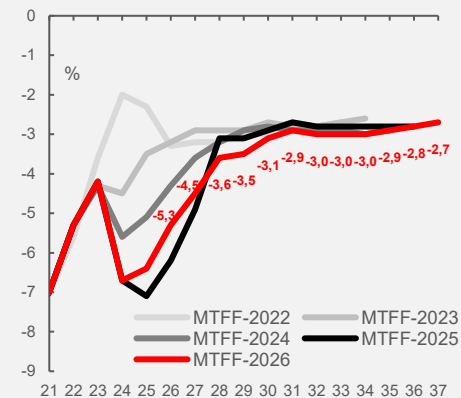
2026-MTFF, being the last one of the current government, should represent a balance for the fiscal situation and be the starting point

**Chart 1. Fiscal Income and Expenditures (% of GDP)**



Sources: 2026-MTFF, DAVIbank Economics.

**Chart 2. Fiscal Deficit – Central Government (% of GDP).**



Sources: 2026-MTFF, MoF, DAVIbank Economics.

for the next administration. Unfortunately, Friday’s publication still provides an optimistic fiscal deficit estimate for 2026 of 5.3% of GDP that relies on challenging assumptions, especially on the spending front, and involves an upward revision of 0.2% of GDP versus the Financing Plan (2026-FP) due to a higher debt interest burden (COP \$4.3 tn).

On the financing front, there was a change in the composition of sources compared to the Financing Plan publication in March. The government will reduce foreign sources by ~30%, while doubling treasury operations as a source. In the case of local sources of financing, direct placements are 1.6 times the previous estimation. Regarding liquidity, the buffer expected by the end of the year was revised downward versus March’s FP2026 publication. **The MoF said that further details of changes in financing operations will be provided in future presentations**, as Public Credit Director couldn’t attend Friday’s presentation.

At DAVIbank, we anticipate that the next government will need to refresh the fiscal assessment, and by that time we could have better guidance on how the situation can be managed. Fixed income markets have reacted positively after the first round of elections, and this could moderate the impact of the 2026-MTFF release on the curve. In our opinion, **returning to fiscal rule compliance is challenging and requires both spending and income measures, and in the meantime, liquidity buffers plus high refinancing risk remain in the spotlight as that could fuel volatility in the future.**

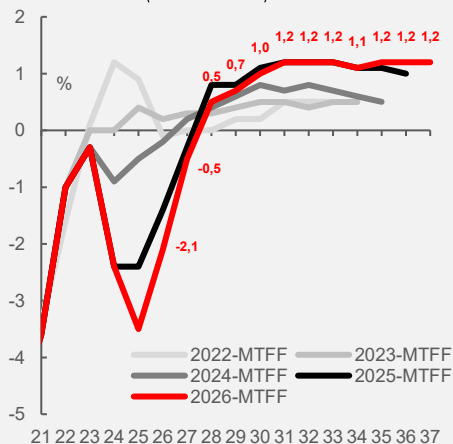
### Details of the 2026-MTFF.

#### Macro Assumptions:

Overall, the macroeconomic assumptions seem reasonable. The MoF projects moderate growth, with GDP at 2.6% in 2026 and 2.2% in 2027, alongside oil prices revised upward to an average of USD 85.5 per barrel. Inflation is expected to reach 6% by year-end 2026, below average market expectations, and to converge to target by 2028, while the exchange rate assumption remains close to the YTD average. In the medium term, projected growth of around 2.9% exceeds CARF estimates of potential growth of 2.6%, with authorities expecting a stronger rebound if investment recovers, according to the Director of Macroeconomic Policy.

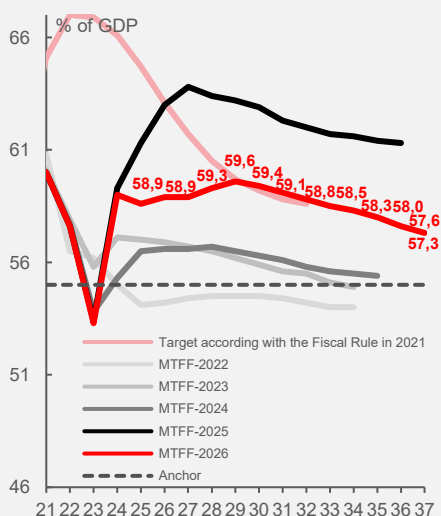
In 2027, the Government now expects GDP growth of 2.2%, 1.1 ppt below the estimate in the 2025 MTFF, which we flagged as overly optimistic. **The more realistic growth scenario for 2027 stems from weather phenomena and international shocks** and is consistent with a narrowing in the expected current account deficit from 2.6% to 2% of GDP; also, the import growth projection was revised down to 0.1% y/y.

**Chart 3.** Primary Fiscal Balance – Central Government (% of GDP).



Sources: 2026-MTFF, MoF, DAVIbank Economics.

**Chart 4.** Net Debt of the Central Government (% of GDP)



Sources: MoF, DAVIbank Economics.

Inflation projections for 2027 rose from an optimistic 3% to 4.4%, while the exchange rate is now expected to average COP 3,859/USD, down 14.3% from the 2025 MTFF expectation of COP 4,500/USD.

### FISCAL INCOME AND SPENDING: ABOVE OF THE LINE ACCOUNTS

- Fiscal Income:**

In previous years, the overestimation of tax revenues led to significant imbalances that allowed for higher spending and, as a result, wider fiscal deficits when revenue targets were not met. This time, revenue estimates for 2026 appear more realistic, with projected growth in tax revenues of 8.2% y/y, below the 11% observed in 2025, which itself fell short of the 14.8% that had been expected in the 2025 MTFF.

In addition, compared with the 2026 FP published in March, structural fiscal revenue projections for 2026 remain largely unchanged, with the only adjustment being the inclusion of COP 8.7 trillion from the Economic, Social and Ecological Emergency Act. Excluding this additional income, for which there is still uncertainty based on the data available so far, projected growth in tax revenues falls to 4%. Thus, total fiscal revenue is expected to reach 16.1% of GDP (Chart 1), 0.2 ppt lower than in 2025. **It is important to note that fiscal revenues, both from taxes and Ecopetrol dividends, appear less responsive to higher oil prices.** Despite an expected oil price that is 25% higher than in 2025, Ecopetrol dividends are projected to decline by 42.9%. On the spending side, the higher FEPC deficit also dampens the positive impact of higher oil prices on the fiscal stance.

In 2027, tax income is again expected to grow at an unrealistic annual pace of 15.2% y/y, propelled by a COP 30 tn (1.4% of GDP) tax reform necessary to consolidate the fiscal situation going forward. The Macroeconomic Policy Director emphasized that this reform will not be implemented by the current government and that its magnitude is indicative of the necessary fiscal adjustment. This again puts the spotlight on the next government and the ways in which it will implement the adjustments, given that Minister Ávila emphasized the need to reduce tax exemptions, and neither candidate for the second-round presidential election has presented clear fiscal consolidation proposals.

- Fiscal Spending:**

In the 2026 FP estimates, public spending was expected to grow by only 1% in nominal terms, an unrealistic assumption given that this category has grown at an average pace of 11.3% since 2022. While the 2026 MTFF now expects a 2.7% growth rate (21.4% of GDP, Chart 1), this assumption remains

unrealistic, especially considering that the COP 8.7 tn in additional revenues from the Economic, Social and Ecological Emergency Act is expected to be fully spent in 2026. **Without this additional spending, primary and total spending would decrease by 2.9% and 6.8%, respectively. Nevertheless, the decline in the budget carryover from 2025, recorded at 0.3% of GDP (0.7 ppt lower than in 2024), exerts downward pressure on primary spending in 2026, as fewer obligations from 2025 need to be settled during the year.**

In 2027, fiscal spending is expected to grow by COP 33.5 tn (7.8%), divided into COP 18.9 tn in interest payments and COP 14.7 tn in primary spending. Despite the higher interest payments, they are expected to be lower as a percentage of GDP than those paid in 2024 (3.9% in 2027 vs. 4.3% in 2024) and lower than what was expected in the 2025 MTF (4.6% of GDP).

- **Fiscal deficit:**

The fiscal deficit for 2026 was revised upward to 5.3% of GDP (Chart 2) from the 5.1% estimate published in the 2026 FP (the primary deficit is still expected to reach 2.1% of GDP, Chart 3), still assuming moderate growth in public spending versus the previous year (~3% in nominal terms). **In our opinion, the fiscal deficit in 2026 could stand above 7% of GDP, especially due to our higher expected public spending.** In 2027, the fiscal deficit is expected to narrow to 4.5% of GDP, 0.4 ppt lower than in the 2025 MTF, mainly due to a 1.5 ppt lower primary deficit (0.5% of GDP). The narrowing of both total and primary deficits relies heavily on the projected income-side adjustment of 1.4% of GDP, which will depend entirely on the next government and on Congress approval.

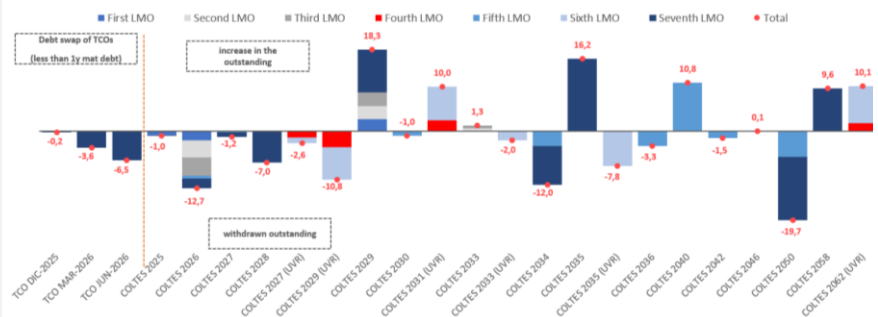
- **Net debt projections point to stabilization at around 59% of GDP (chart 4). However, as emphasized in previous points in previous descriptions, this can be reached under a significant adjustment of 1.4% of GDP and a context of GDP growth above potential in the medium term.**

### **FINANCING: TAKES ON FINANCING STRATEGIES DURING THE LAST YEAR AND PERSPECTIVES**

In 2025, the financing strategy aimed at lowering debt costs took center stage. Indeed, its relevance was such that it overshadowed the negative news of a deficit projection that had been significantly revised upward. Effectively, the expectations, execution, and understanding of liability management operations shaped the volatility in Colombia's FI and FX markets over the last year, causing domestic dynamics to deviate from global and fundamental trends.

In our opinion, liability management operations were effective in reorganizing the outstanding local debt (Chart 5) and moderating some fiscal risk premiums previously built at the long end of the curve; while in foreign currency debt, the efficiency gains (in terms of reducing size and interest burden) were sizable. In contrast, the liquidity constraints that Colombia has faced for a couple of years are far from being resolved. An example of this was reflected in episodes of strong volatility between November 2025 and May 2026, when FI rates spiked in situations in which the MoF demonstrated urgency in securing funding. This resulted in direct operations with PIMCO (December), a sizable increase in COLTES outstanding outside of auctions (February), and liability management operations outside the visibility of the market makers scheme. **Previous episodes suggest that the structural fiscal risk in Colombia is becoming a significant short-term liquidity risk. At times, liability management operations provided sizable liquidity to Colombia in challenging contexts; however, in other periods, the cash drag was evident.**

**Chart 5.** Liability Management Operations of Domestic debt in 2025 – Estimate Reduction in nominal debt: COP 16.3 tn + COP 5.3 tn of FONPET operation.



Sources: MoF, DAVIbank Economics.

**An issue to keep an eye on in the forthcoming months/years is refinancing risk**, as, although it could be managed through traditional debt swaps, it is expected to reallocate fiscal risk premiums across the curve, shifting from a structure in which significant supply led to higher fiscal premiums in the short-term and belly tenors of the curve toward longer-dated references.

### What about the TRS performance?

One of the most striking operations was the TRS, which ultimately pursued interest efficiencies through a structure that involved a CHF 7.5 bn (equivalent to USD 9.53 bn) obligation and a USD 15.12 bn portfolio as collateral. This structure was established in September 2025 and started unwinding between March and May 2026, requiring USD 6.63 bn in cash. Net performance was positive for the nation at USD 400 million (4.2% relative to the CHF loan size). Fortunately, the nation benefited from the operation, although in our opinion, the

operation deserves a more thorough debrief regarding unobservable impacts, especially in terms of the side effects of executing such a sizable operation relative to the size of domestic fixed income and FX markets.

### What changed in the Uses and Sources chart 2026?

- Compared to the Financing Plan 2026 released in March-2026, the Uses and Sources chart revealed that financing will rely in a less extend in foreign sources, in fact, foreign debt issuances are done. Instead, treasury operation becomes more relevant. In terms of local sources, auctions will only increase by COP 1 tn to COP 60 tn, while direct placements were elevated from COP 9 tn to COP 24.25 tn. Details about financing strategies and what to expected until the end of the current government mandates could come in a separate conference according to MoF officials. For now in **Table 2** we provide a comparison in which n.a. means the 2026-MTFF didn't disclose in the text the plan vs the specific account disclosed in the 2026-FP.

**Table 2.** Uses and Sources 2026.

Uses and Sources 2026					
Sources (COP tn)	2026-FP Projection (March)	2026-MTFF (Current Projections)	Uses (COP tn)	2026-FP Projection (March)	2026-MTFF (Current Projections)
	155,0	150,5		155,0	150,5
<b>Disbursements</b>	<b>128,4</b>	<b>116,0</b>	<b>Fiscal Deficit</b>	<b>102,2</b>	<b>106,5</b>
Foreign Sources (USD 9.8 bn)	43,2	(USD 8.3 bn) 30,8	Primary balance	41,4	41,4
Bonds (USD 4.9 bn)	21,6	(USD 4.9 bn) 21,6	Local interests	49,9	55,8
Multilaterals (USD 2.9 bn)	12,8	(USD 2.4 bn) 8,21	External interests (USD 2.8 bn)	10,9	(USD 2.28 bn) 9,2
Commercial Banks / Or (USD 2.0 bn)	8,8	(USD 1 bn) 3,76			
Local Sources	85,3	85,3	<b>Amortizations</b>	<b>15,3</b>	<b>14,6</b>
Auctions	60,0	61,0	External (USD 2.79 bn)	10,8	(USD 2.79 bn) 10,3
Direct placements	9,0	24,25	Local	4,5	4,4
Green bonds	2,0	n.a.			
Public entities	8,0	n.a.	<b>Treasury operations - Debt management</b>	<b>18,2</b>	<b>21,8</b>
Pensional bonds	4,5	n.a.			
Payments using COLTES	1,75	n.a.	<b>Payment of obligations with TES</b>	<b>1,8</b>	<b>0,2</b>
<b>Treasury operations</b>	<b>8,0</b>	<b>17,9</b>			
TCOs	1,0	n.a.	<b>Payment of obligations with debt service</b>		<b>0,2</b>
Managed Funds	3,98	n.a.			
Others (USD 781 M)	3,0	n.a.			
<b>Accrual Adjustments</b>	<b>-8,7</b>	<b>-9,6</b>			
<b>Initial availability</b>	<b>27,3</b>	<b>26,2</b>	<b>Final availability</b>	<b>17,6</b>	<b>7,1</b>

Sources: MoF 2026-MTFF, DAVIbank economics.

- For 2027, as fiscal deficit is expected to diminish to 4.5% of GDP, the financing needs decrease (Table 3). However, there is a big chance to have revision in the releases to come from the next government. For now, the plan is to focus financing in domestic sources (76%), and go to foreign debt in a moderate proportion (24%).
  - Foreign sources are estimated at USD 6.7 bn (~1.3% of GDP), USD 1.5 bn (0.3% of GDP) in credits with banks and USD 2.6 bn (0.5% of GDP) with multilaterals, and USD 2.6 bn (0.5% of GDP) foreign currency bonds (53% lower than in 2026).
  - Local currency sources involve stability in auction sizes at COP 60.1 tn (2.8% of GDP), COP 1tn in Green

COLTES and COP 23 bn (1.1% of GDP in direct placements.

**Table 3.** Uses and Sources 2027

<b>Uses and Sources 2027</b>			
<b>Sources (COP tn)</b>	<b>2026-MTFF (Current Projections)</b>	<b>Uses (COP tn)</b>	<b>2026-MTFF (Current Projections)</b>
	<b>130,4</b>		<b>130,4</b>
<b>Disbursements</b>	<b>109,9</b>	<b>Fiscal Deficit</b>	<b>95,6</b>
Foreign Sources	(USD 6.7 bn) 25,9	Primary balance	11,6
Bonds	(USD 2.6 bn) 10	Local interests	74,2
Multilaterals	(USD 2.6 bn) 10	External interests	(US\$ 3.4 bn) 9,7
Commercial Banks / Others	(USD 1.5 bn) 5,8		
Local Sources	84,0	<b>Amortizations</b>	<b>26,6</b>
Auctions	60,1	External	(US\$ 3.4 bn) 12,8
Direct placements	23,0	Local	13,8
Green bonds	1,0		
		<b>Treasury operations - Debt management</b>	<b>-</b>
<b>Treasury operations</b>	<b>20,0</b>		
		<b>Payment of obligations with TES</b>	<b>0,5</b>
<b>Accrual Adjustments</b>	<b>-6,6</b>		
<b>Initial availability</b>	<b>7,1</b>	<b>Final availability</b>	<b>7,8</b>

Sources: 2026-MTFF, DAVIbank Economics.

## Macroeconomic forecast DAVIbank Economics Colombia

Forecast	2019	2020	2021	2022	2023	2024	2025	2026pr
<b>National Accounts</b>								
Real GDP growth (yearly %)	3,2	-7,2	11,1	7,6	0,9	1,5	2,6	2,7
Domestic demand (y/y. %)	4,0	-7,5	13,8	10,5	-2,3	1,6	3,9	3,4
Consumption (y/y. %)	4,3	-4,3	14,1	9,5	0,7	1,4	4,2	3,5
Private (y/y. %)	4,0	-5,0	15,3	11,1	0,6	1,6	3,4	3,5
Government (y/y. %)	5,5	-0,9	10,3	2,2	1,1	0,0	7,4	3,6
Gross capital formation (y/y. %)	2,5	-21,1	13,4	16,6	-16,3	3,4	7,8	2,8
Exports (y/y. %)	3,3	-22,3	15,7	13,6	3,1	0,3	0,6	0,5
Imports (y/y. %)	7,7	-19,8	28,5	25,0	-9,8	1,3	8,8	3,4
<b>Laboral Market</b>								
Unemployment (%. Average)	10,9	16,7	13,8	11,2	10,2	10,2	8,9	9,8
<b>Balance of Payments</b>								
Trade Balance (USD\$. B)	-14,1	-13,1	-20,0	-16,6	-8,2	-9,77	-14,87	-19,27
Exports (USD\$. B)	51,3	38,2	50,9	73,1	67,8	68,87	71,08	73,16
Imports (USD\$. B)	65,5	51,3	70,9	89,6	76,0	78,63	85,95	92,44
Current account (USD\$ Balance. B)	-15	-9	-18	-21,3	-9,7	-7,412	-10,88	-10,88
Current account (% of GDP)	-4,6	-3,4	-5,6	-6,2	-2,7	-1,8	-2,4	-2,4
Exchange terms (y/y. %)	4,04	-12,62	20,74	5,94	-8,22	8,56	1,46	
<b>Prices. Rates &amp; Exchange Rates</b>								
CPI (y/y. %. End period)	3,80	1,61	5,62	13,12	9,28	5,20	5,10	6,34
CPI (y/y. %. Average)	3,52	2,53	3,49	10,15	11,77	6,63	5,14	5,79
CPI without food (y/y. %. End period)	3,45	1,03	3,44	9,99	10,33	5,60	5,11	7,06
COP (\$. End period)	3297	3422	4077	4850	3902	4405	3780	3918
COP (\$. Average)	3281	3694	3766	4254	4322	4153	4050	3924
BanRep's rate (%. End period)	4,25	1,75	3,00	12	13,0	9,50	9,25	12,00
<b>Tax Codes*</b>								
Net Debt of CNG (% of GDP)	48,4	60,7	60,1	57,6	53,4	59,3	58,5	58,5
Primary Balance of CNG (% del PIB)	0,4	-5,0	-3,6	-1,0	-0,3	-2,4	-3,5	-2,1
Deficit of CNG (% of GDP)	-2,5	-7,8	-7,1	-5,3	-4,3	-6,8	-6,4	-5,1

\*Source: Financing Plan 2026.

Source: DAVIbank Economics Colombia.

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