

Economics Colombia

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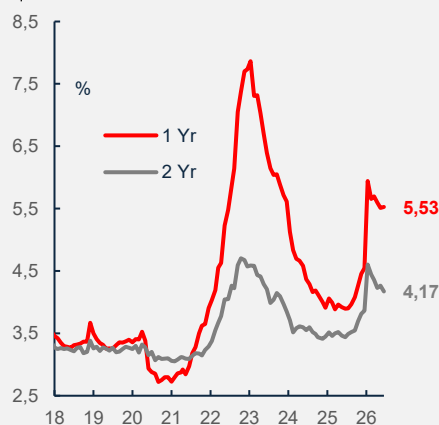
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Chart 1. Average Headline Inflation Expectations



Sources: DAVIbank Economics, BanRep.

Table 1. Headline Inflation Expectations

| | Average | Change vs previous survey, bps |
|------------------------|---------|--------------------------------|
| May-2026, m/m % change | 0,32 | ... |
| Dec-2026, y/y % change | 6,52 | 4 |
| 1Y ahead, y/y % change | 5,53 | 2 |
| Dec-2027, y/y % change | 4,88 | -2 |
| 2Y ahead, y/y % change | 4,17 | -9 |

Sources: DAVIbank Economics, BanRep.

Colombia: Inflation expectations settle, while the monetary policy rate is expected to peak at 12.25%.

The Central Bank (BanRep) published its June survey of economists' expectations on Thursday, June 18. Inflation expectations increased slightly for December 2026 to 6.52% and for the one-year horizon, while they decreased for the two-year horizon. While this two-year correction is positive for BanRep, expectations remain above the target range. At DAVIbank, we still expect inflation to peak in December 2026, although convergence to target could take longer, especially now that IDEAM, Colombia's climate authority, has officially declared the onset of the El Niño phenomenon. That said, the increasingly likely peace agreement between the United States and Iran could help ease some supply side inflation pressures in the future. Inflation expectations for December 2027 stand at 4.88%, still well above BanRep's projection of 3.7%.

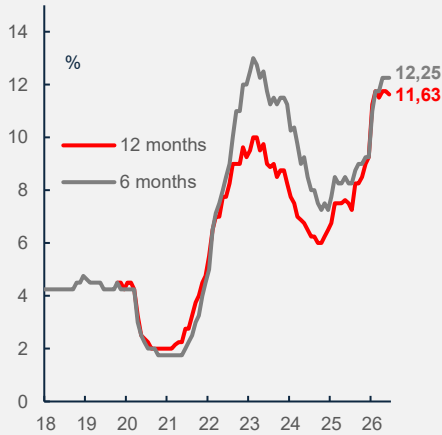
Regarding the monetary policy rate, economists' consensus expects BanRep to resume the hiking cycle in June, reach the peak of the tightening cycle in September at 12.25%, and begin easing in January 2027. By the end of 2027, the monetary policy rate is expected to be 10.5%, which still suggests the need to maintain a contractionary stance. It is worth noting that in the most recent Monetary Policy Report, BanRep's staff indicated that its implicit monetary policy path was, on average, lower than the one expected by market consensus. This difference was attributed to lower inflation expectations projected by the central bank staff for 2027. In any case, the most recent survey suggests that, after the pause in April, BanRep is not expected to reach significantly higher rate levels but rather to maintain rates at contractionary levels for a longer period.

Dispersion among projections persists and still shows an upside skew. For inflation, the highest estimate for end-2026 is 7.22%, while the lowest is 5.94%. For interest rates, the upper bound of expectations now implies a terminal rate of 13.50%. **At DAVIbank Economics, we project inflation to end 2026 at 6.74%. Regarding monetary policy, we expect the policy rate to close 2026 at 12%.** Our base case scenario is for BanRep to resume the hiking cycle in July; however, the possibility of a June move remains, although it could be influenced by the post-election environment.

Inflation in May came in below our estimate. Food inflation is still elevated but was lower than expected, while services inflation continues to reflect the impact of higher labor costs. Looking ahead to June, we expect annual inflation to continue trending higher, reaching 6.04% year-over-year, amid still-elevated food inflation and renewed pressures in services.

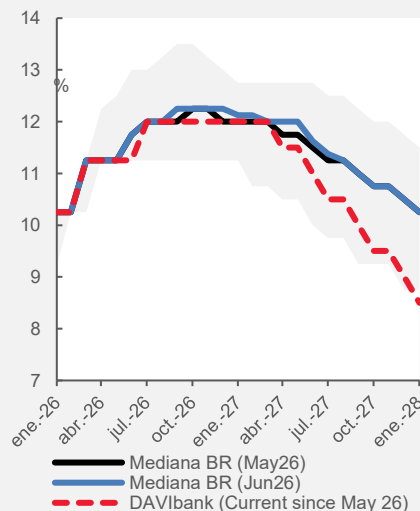
Key details from the survey

Chart 2. Average Policy Rate Expectations



Sources: DAVIbank Economics, BanRep.

Chart 3. Expected Monetary Policy Path
BanRep Survey vs DAVIbank Economics



Sources: DAVIbank Economics, BanRep.

- Short-term inflation expectations.** Monthly inflation in June is expected to average 0.32% m/m, 21 bps higher than one year ago and taking the annual figure to 6.07% y/y (Table 1). DAVIbank's June projection is slightly below the economists' consensus (0.29% m/m, 6.04% y/y). We expect inflation to reflect still-elevated food prices, while energy prices will contribute positively. Services inflation will continue to show the impact of higher labor costs. As a result, several service segments are likely to maintain double-digit annual inflation, which in our calculations will take services inflation to stay above the 7% mark. The survey shows core inflation (excluding food) is expected to reach 0.33%, while DAVIbank projection is at 0.31% m/m.
- Medium-term inflation expectations.** Expectations for December 2026 increased to 6.52% (+4 bps vs previous survey) and the one-year horizon (June 2027) increased by 2 bps to 5.53%. Expectations for the two-year horizon stand at 4.17%, down 9 bps from the previous survey but still slightly above the target range. At DAVIbank, our projections remain above the consensus: we expect year-end inflation at 6.74%, with our one-year-ahead expectation at 5.54%.
- Monetary policy rate.** The economists' consensus points to a new rate hike in June, with a 50 bp increase to 11.75%. Rate expectations for the 6-month and 12-month horizons stand at 12.25% and 11.63%, respectively (Chart 2). **In contrast to the May survey, which pointed to a 12.25% peak lasting only two months, the June survey sees the same peak reached in September and extending through December. This contrasts with IBR market expectations, which now point to a peak policy rate of 12.65% and interest rates remaining close to 12% until the end of 2027.**

At DAVIbank, we expect a final 75 bp increase in July, bringing the policy rate to 12% (Chart 3). This path is consistent with a contractionary monetary stance, reflected in an estimated real rate of approximately 6.5% (based on the average of ex ante and ex post measures) by the end of 2026, above the current estimated real rate of 6%. **In contrast to the average economist consensus, we expect a lower peak in the tightening cycle, but one that lasts at least one year.**

FX projections: For December 2026, analysts estimate COP 3,647 per USD (previous survey COP 3,763 pesos); while for Dec-2027 is at 3,711 pesos. At DAVIbank, our year end projections stand at COP 3,822 for 2026 and COP 3,924 for 2027, subject to revisions following the election results.

Macroeconomic forecast DAVIbank Economics Colombia

| Forecast | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025pr | 2026pr |
|---|-------|--------|-------|-------|-------|--------|--------|--------|
| National Accounts | | | | | | | | |
| Real GDP growth (yearly %) | 3,2 | -7,2 | 11,1 | 7,6 | 0,9 | 1,5 | 2,6 | 2,4 |
| Domestic demand (y/y. %) | 4,0 | -7,5 | 13,8 | 10,5 | -2,3 | 1,6 | 3,9 | 2,9 |
| Consumption (y/y. %) | 4,3 | -4,3 | 14,1 | 9,5 | 0,7 | 1,4 | 4,2 | 3,4 |
| Private (y/y. %) | 4,0 | -5,0 | 15,3 | 11,1 | 0,6 | 1,6 | 3,4 | 3,2 |
| Government (y/y. %) | 5,5 | -0,9 | 10,3 | 2,2 | 1,1 | 0,0 | 7,4 | 4,4 |
| Gross capital formation (y/y. %) | 2,5 | -21,1 | 13,4 | 16,6 | -16,3 | 3,4 | 7,8 | 0,3 |
| Exports (y/y. %) | 3,3 | -22,3 | 15,7 | 13,6 | 3,1 | 0,3 | 0,6 | 1,9 |
| Imports (y/y. %) | 7,7 | -19,8 | 28,5 | 25,0 | -9,8 | 1,3 | 8,8 | 3,0 |
| Laboral Market | | | | | | | | |
| Unemployment (%. Average) | 10,9 | 16,7 | 13,8 | 11,2 | 10,2 | 10,2 | 8,9 | 9,8 |
| Balance of Payments | | | | | | | | |
| 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 | |
| Prices. Rates & Exchange Rates | | | | | | | | |
| 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 |
| Tax Codes* | | | | | | | | |
| 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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