

Economics Colombia

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Colombia: Preview runoff election June 21st.

- **Runoff dynamics introduce asymmetric political risk:** The first round confirmed strong voter mobilization driven by polarization. Heading into the runoff, the outcome will hinge on decisive turnout gains and the reallocation of centrist votes. While current signals point to a narrow advantage for De La Espriella, a tight margin and potential institutional tensions increase tail risks around the electoral outcome.
- **Diverging policy frameworks with distinct market implications:** De La Espriella's platform is anchored on restoring investor confidence, fiscal discipline, and private-sector-led growth, while ruling out near-term tax hikes. Cepeda proposes a greater state footprint, higher public spending, and revenue mobilization via increased taxation on corporates and high-income individuals.
- **Fiscal constraints remain the key macro anchor:** Irrespective of the election result, Colombia faces a challenging fiscal adjustment path with limited policy clarity on consolidation. Current asset pricing reflects a benign, market-friendly scenario, suggesting potential downside risks if growth, financing conditions, or policy execution fall short of expectations.

What happens in the first round, and what to have in mind in the runoff?

- **The first round of the 2026 presidential elections had a turnout of 57.9%, a historically high level for a first round (55% in 2022).** This outcome was partly driven by a highly polarized electoral environment, along with the campaigns' ability to mobilize voters who had remained on the sidelines in previous elections.
- **Ahead of the runoff, several key factors will shape the outcome.** First, the left-wing bloc's strategy will focus on further increasing turnout, especially in regions and segments where abstention has traditionally been high. Second, both candidates have begun reaching out to centrist voters, largely represented by the votes won by Paloma Valencia, around 1.6 million, and Sergio Fajardo, close to 1 million voters.
- **In this context, initial estimates suggest that the runoff could favor Abelardo De La Espriella, although the margin is likely to be narrow.** However, the reaction of the current administration to a potentially adverse outcome adds an extra

layer of uncertainty. The absence of an explicit acknowledgment of the first-round results by President Petro heightens the risk of institutional and social tensions. In addition, a scenario in which De La Espriella is elected amid challenges or political noise from the outgoing administration does not appear to be fully priced in by markets, pointing to a possible gap between asset valuations and actual political risks.

What we know about economic proposals?

- **Candidate Abelardo De La Espriella's economic program centers on strengthening investor confidence as a driver of growth and improved fiscal conditions.** His economic team has suggested that a better perception of country risk following the favorable first-round outcome could lead to lower government financing costs, with estimates pointing to potential savings of around COP 17 tn in debt service. It is important to note that this estimates are significantly higher than those provided by CARF. This view is backed by expectations of renewed demand for Colombian assets in a setting of greater regulatory predictability and stronger fiscal discipline.

The approach also includes measures to encourage private investment, ease certain regulatory frameworks, and support business activity. However, a key part of this strategy depends on how quickly capital flows materialize and on effective coordination between policy announcements and implementation. Finally, both De La Espriella and his vice-presidential running mate, José Manuel Restrepo, ruled out a tax reform as a way to improve the fiscal outlook, arguing that higher fiscal revenues would follow once economic growth strengthens.

- **Candidate Iván Cepeda has proposed an economic agenda that maintains a strong role for the public sector.** This involves maintaining a high level of public spending. His fiscal strategy focuses on building consensus to pass revenue-raising reforms, particularly by increasing the tax burden on corporations and high-income individuals.

His proposals also include centralizing the management of royalties under the National Government, which would represent a significant shift in how these resources are currently distributed. All in all, Cepeda's plan suggests a larger role for the state in the economy, raising important questions about the dynamics of the fiscal deficit.

On sensitive topics such as monetary policy, Cepeda has said he supports preserving the autonomy of the Central Bank, but with a role in which it supports the economic policy defined by the Government. It also includes the idea of opening the debate on whether the central bank could fund public investment projects.

Table 1. Summary of Economic proposals of the candidates

| Economic Proposals | | |
|-----------------------------|---|--|
| Policy Dimension | Abelardo de la Espriella | Iván Cepeda |
| GDP growth target | 7% y/y. | No explicit target. |
| Fiscal adjustment | A COP 70 trillion adjustment. A primary surplus in the near term. Eliminating redundant ministries, with estimated savings of COP 25 to 30 trillion per year. | “Republican austerity” focused on discretionary and luxury spending. |
| Tax policy | Corporate tax relief. Attract FDI. | Wealth taxes on high-net-worth individuals. Broader tax base. |
| Employment | Private sector absorbs labour released by state downsizing, incentivized by lower taxes. | Formalization of more than 50% of the labor force. Industrial policy, infrastructure, and the energy transition as key drivers of job creation. |
| Hydrocarbons | Fracking, new upstream contracts, and the reactivation of exploration. | No new upstream licensing. |
| Private investment & credit | Creation of special economic zones with tax exemptions. A 2% mortgage rate through public banking mechanisms to reactivate housing demand and construction. | Democratization of access to credit through community organizations. Strengthening of public credit institutions to improve access to housing finance for low-income households. |

Sources: Public interviews of candidates and economic teams.

Structural challenges for the next Government

Regardless of the electoral outcome, the next administration will face a complex fiscal environment that will require high-impact economic policy decisions. Credit rating agencies have emphasized that the public finance context remains challenging and that neither candidate has presented a fully detailed and credible fiscal consolidation plan. Fitch Ratings has recently highlighted the difficulty of the macroeconomic environment to make progress on this front, while S&P noted in its April rating adjustment that there is no clear consolidation program reflected in the current proposals. As a

headwind to fiscal consolidation, it must also be noted that policies related to health, energy, and security in Colombia cannot be delayed.

On the fiscal front, restoring credibility in the eventual return to compliance with the fiscal rule is key. In this regard, three main challenges stand out.

- **First, the need to implement spending cuts to reduce the primary deficit**, which reached 3.5% in 2025, a historically high level in the absence of major external shocks and about 4.5 times its long-term average. This adjustment must be consistent with returning to compliance with the fiscal rule starting in 2028, a key condition for preserving credibility and macroeconomic stability.
- **Second, stabilize the debt burden and avoid to deviate further from the 55% of GDP nominal anchor.** This is particularly sensitive for investors, as it constrains access to favorable financing conditions and increases vulnerability to shifts in the global financial environment.
- **Third, government liquidity management remains in the spotlight as cash buffers remains tight.** Looking ahead to the remainder of 2026, the heavy concentration of TCO maturities heightens the importance of a well-defined treasury strategy, given its direct impact on sovereign risk perception.

Additionally, decisions such as the minimum wage adjustment, which in recent years has increased above inflation, along with tax policy and expenditure control, will be closely monitored by markets in the post-election period.

Markets' reaction

Following the first-round results, local financial markets saw a significant reaction, which in our opinion, is pricing in a high probability of Abelardo De La Espriella winning the presidency and having a successful implementation of economic adjustments. The exchange rate appreciated by \$100 COP/USD in the week after the election, moving from pre-election levels of \$3,689.5 COP/USD to less than \$3,500 COP /USD, reaching levels not seen since 2019. **This movement reflects a shift in country risk expectations and investor positioning toward a scenario of greater economic discipline.** In line with this trend, the COLTES curve posted gains of ~145 basis points on average after the first round, pointing to strong demand even in a very volatile international context.

The joint behavior of these assets suggests that the market has internalized not only a high probability of victory of the right-wing candidate, but also a scenario of successful implementation of market-friendly policies.

Factors to consider regarding the baseline market scenario

Despite the favorable positioning of Colombian assets, several factors point to the need to temper the level of optimism reflected in current prices.

- **First, the balance of power in Congress suggests a fragmented governing environment (Chart 1)**, which could complicate the passage of structural reforms and constrain the implementation of the economic agenda. Additionally, the outsider strategy that enabled Abelardo De La Espriella to lead the first round, by avoiding traditional alliances and maintaining a narrative of autonomy, also raises questions about his ability to turn that electoral support into a functional governing coalition within a divided Congress.

Chart 1. Share of seats in the Senate by party



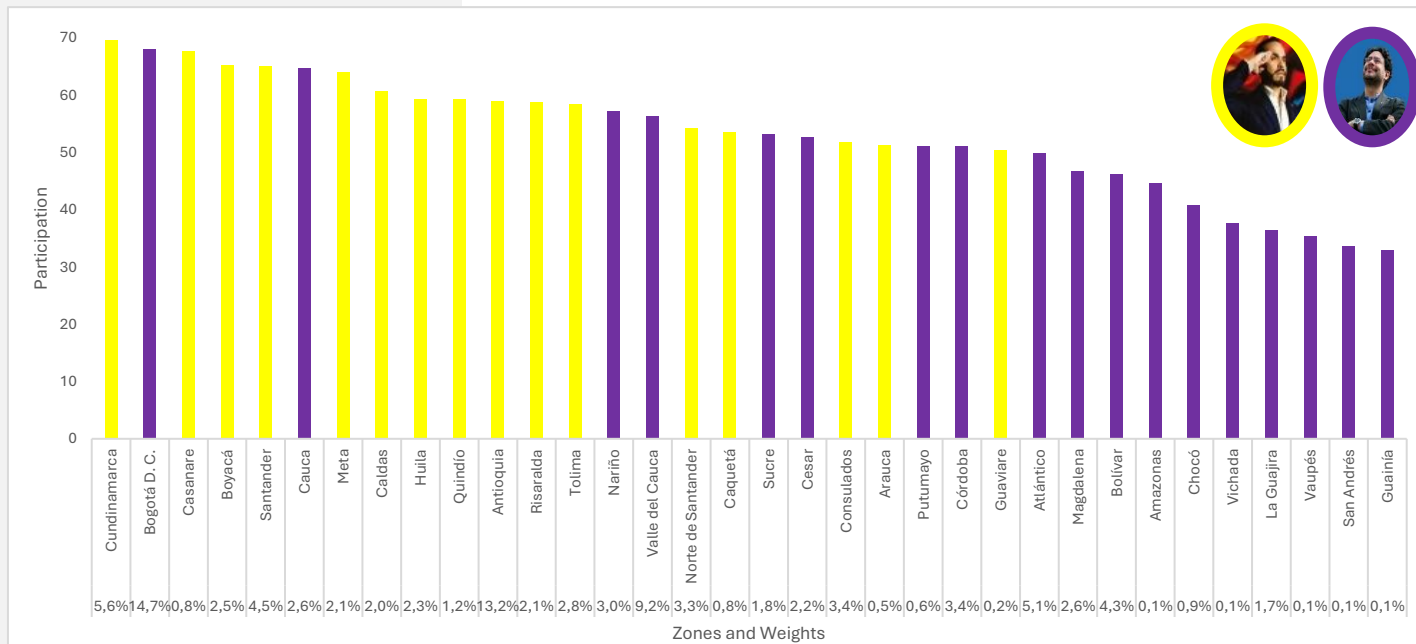
Sources: Registraduría Nacional del Estado Civil, DAVIbank Economics.

- **Second, on the economic front, the strategy centered on restoring investor confidence faces risks related to the mismatch between the timing of cash flow materialization and the government’s immediate fiscal needs.** If these flows fail to materialize at the expected pace, pressure could build on the COLTES curve, the exchange rate, and sovereign spreads.
- **Third, on the political front, a narrow victory for De La Espriella could trigger tensions.** Comparable cases in the region, such as Peru, where the presidential runoff was decided by a margin of fewer than 40,000 votes, show how a polarized environment can lead to very tight outcomes. The possibility that President Petro may not recognize the results, consistent with his stance after the first round, is a risk.
- **From an electoral perspective, turnout distribution also introduces important nuances (Chart 2).** Regions where De La Espriella secured a majority showed historically high participation levels, which may limit his room for further gains in the runoff. By contrast, areas with stronger support for Cepeda recorded turnout closer to their historical averages, suggesting greater potential for expansion within that electorate. Still, De La Espriella made notable inroads among

middle-class voters nationwide, a group that in previous elections had tended to favor left-wing candidates.

Moreover, in the first round, De La Espriella won the overseas vote with 54.36%, compared to 28.46% for Cepeda, and that difference of more than 150,000 votes accounted for roughly one quarter of the final national margin between the two candidates. In addition, overseas turnout reached record levels, around 41%–42%, compared to 31% in 2022, making the international vote a much more important block than usual.

Chart 2. Turnout by Departments in the first round of Elections.



Sources: Registraduría Nacional del Estado Civil, DAVIbank Economics.

Note: Percentages at the bottom of the chart indicate each region's share of the total electoral census.

Macroeconomic forecast DAVIbank Economics Colombia

| Forecast | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 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 | 6,60 |
| CPI (y/y. %. Average) | 3,52 | 2,53 | 3,49 | 10,15 | 11,77 | 6,63 | 5,14 | 5,93 |
| CPI without food (y/y. %. End period) | 3,45 | 1,03 | 3,44 | 9,99 | 10,33 | 5,60 | 5,11 | 6,35 |
| 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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