

## Economics Colombia

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### Research Team Colombia

Jackeline Piraján

Head of Research

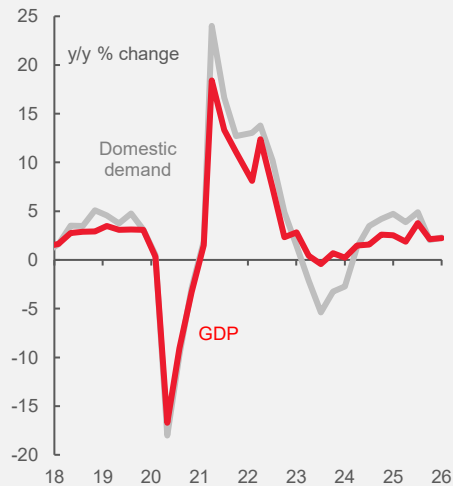
[jackeline.pirajan@davibank.com](mailto:jackeline.pirajan@davibank.com)

Paula Andrea Patiño

Intern

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

Chart 1: GDP vs Domestic Demand



Sources: DAVIbank Economics, DANE.

## Colombia: GDP results shows domestic demand is still strong and supportive for higher rates. Increase the potential growth is a challenge for the next government

According to DANE's GDP release, economic activity expanded by 2.2% y/y in Q1 2026 (Chart 1). Although this performance was above the Bloomberg survey consensus of 2%, economic activity showed a mixed picture that deserves further analysis. At the beginning of 2026, economic performance weakened significantly, with year-to-date growth up to February of 1.2% y/y, skewing forecasts to the downside. However, thanks to a sudden rebound in public spending, activity in March expanded by 4% y/y, allowing the economy to average a 2.2% y/y expansion over the quarter.

GDP data also reveal that household consumption remains resilient and diversified across all categories (services, non-durable, and durable goods), which is reflected in the still-strong performance of the services sector (3.8% y/y in Q1 2026). Investment as a percentage of GDP remains below the pre-pandemic average (17% vs. 21% pre-pandemic), with construction in particular remaining a pending challenge.

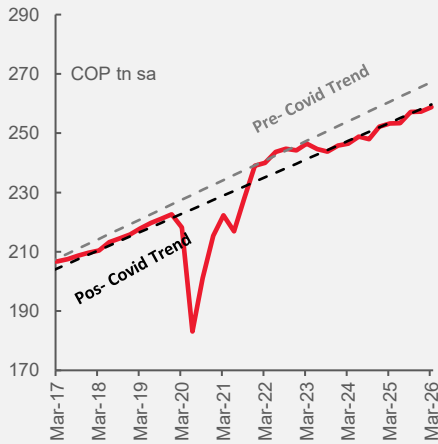
All in all, despite the mixed picture, economic activity continues to show that it is supported by solid consumption and is compatible with expectations of further tightening in monetary policy. At DAVIbank, we project that the tightening cycle will bring the policy rate to 12% in July, to stay in that level at least for a year, the previous call is compatible with the assessment of the central bank's staff that considers that Colombian economy is operating under a positive output gap (Chart 2) and in turn there is not a dilemma between pursuing inflation stability sacrificing growth.

- According to the economic activity index (ISE), Colombia's economy expanded by 4% y/y in March, marking a significant rebound fueled by strong growth in the public administration, defense, education, and health sector (+6.6% y/y). Public administration increases were driven by wage adjustments in the defense sector, enacted some months ago but effectively paid in March. This positive shock was further reinforced by the traditional spike in spending associated with preparations for the election process. We expect this positive contribution to continue during the second quarter of the year, while in the second half, the contribution from public administration is expected to moderate. Regarding other sectors, commerce (+4.1% y/y) and leisure (+6.2% y/y) continue to post solid growth, although at a slower pace compared to one year ago. This trend is worth monitoring

closely before concluding that the economy is beginning to adjust to a context of higher interest rates and rising inflation.

- **Quarterly performance was dominated by services (Chart 3 and 4), while the primary sector contracted and the secondary sector remained broadly unchanged.**

Chart 2: Real GDP



Sources: DAVIbank Economics, DANE.

- **In Q1 2026, the services sector (+3.8% y/y) remained the main source of growth.** Within this group, the strongest contributions came from public administration (5.6% y/y, contributing 9 bps), commerce, transport, and hotels (+2.9% y/y, contributing 6 bps), and real estate (+2% y/y, contributing 2 bps).

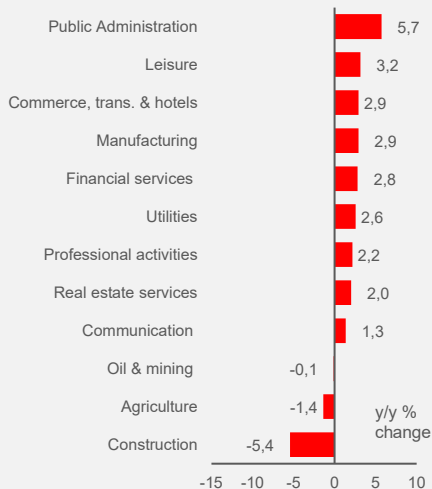
**A notable development in this group is that leisure activity is no longer a leading contributor.** According to DANE, leisure activities are normalizing their growth rates, as online gambling expands at a more moderate pace, allowing traditional leisure activities such as concerts and sporting events to gain greater relevance.

**Within services, commerce (+6.0% y/y) continues to demonstrate that domestic demand remains resilient and is even growing above its long-term trend,** as households maintain solid demand for both non-durable and durable goods. In contrast, sectors such as transport and logistics (+0.7% y/y) and accommodation (-1.8% y/y) are showing signs of deceleration and contraction, attributed to lower demand linked to exchange rate appreciation.

- **The primary sector contracted by 1.2% y/y, amid stagnant mining activity and sharp declines in the coffee sector, marking the second quarter of annual contraction.** Coffee production fell by 30.5% y/y, reflecting what could be interpreted as a normalization in productivity following a couple of boom years.

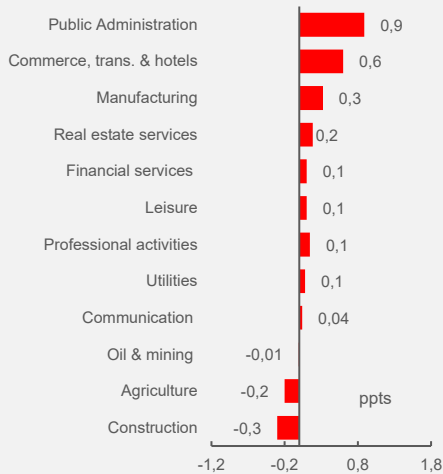
**Other agricultural crops maintained a solid performance, growing by 3.8% y/y.** One of the main challenges for this sector will be weather conditions, as the *El Niño* phenomenon (dry season) is expected to develop in the coming months. The impact on production will depend heavily on the duration and severity of the event, alongside other potential structural challenges.

Chart 3: GDP Q1-2026 by Sector



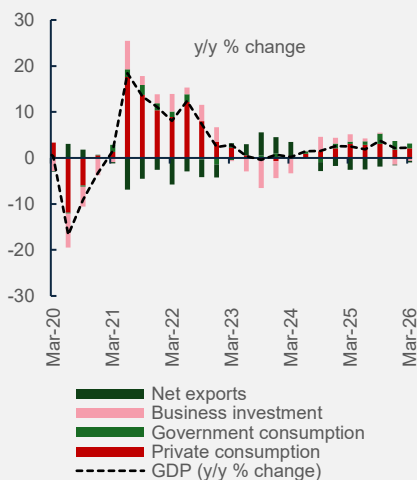
Sources: DAVIbank Economics, DANE.

**Chart 4: GDP Q1-2026 by Contribution**



Sources: DAVIbank Economics, DANE.

**Chart 5: GDP Contributions by Expenditures**



Sources: DAVIbank Economics, DANE.

In mining (-0.1% y/y), the near-flat performance reflects a combination of continued contractions in oil production (-2.7% y/y) and coal (-13.3% y/y), partially offset by a rebound in metallic minerals (+24.9% y/y), supported by favorable price conditions for commodities such as gold, which incentivize activity.

- **The secondary sector posted a mild expansion (+0.5% y/y), revealing a mixed picture for investment.** The manufacturing sector expanded by 2.9% y/y, a relatively strong pace driven by refining activities (+4.0% y/y). However, part of this growth may reflect a normalization effect, as Reficar's operations were disrupted by technical failures one year ago. On the positive side, the production of machinery and equipment (+4.6% y/y) suggests some recovery in industrial investment. Meanwhile, more lagging segments include wood and paper products (+3.8% y/y, albeit moderate) and clothing (-1.9% y/y).

**Construction (-5.4% y/y) remains in negative territory.** Civil works (+0.6% y/y) posted only a modest expansion, supported by regional projects, while large-scale national infrastructure activity remains limited. In contrast, building construction (-8.2% y/y) continues to deteriorate amid high interest rates and the absence of strong public policies to support housing development. **The weakness in both construction and parts of manufacturing ultimately reflects the subdued investment dynamics observed in recent years.**

**Economic activity from demand perspective.**

- **Private consumption remains the main source of growth for the Colombian economy, while investment remains low and the widening of the real trade deficit has slowed. Domestic demand expanded by 2.3% y/y, slightly above overall production growth of 2.2% y/y (Chart 5).**
  - **Consumption (+3.4% y/y) growth was mainly driven by private consumption (+2.7% y/y), and to a lesser extent by still-strong public spending (+7.8% y/y).** Private consumption shows a healthy composition, with households maintaining solid growth across all categories: durable goods (+12.7% y/y), semi-durable goods (+5.6% y/y), non-durable goods (+2.1% y/y), and services (+1.8% y/y). This contrasts with still-

**Chart 6:** Real External Balance (Exports-Imports).



Sources: DAVIbank Economics, DANE.

moderate credit growth and suggests that positive income shocks continue to support consumption capacity. In the case of public spending (+7.8% y/y), the expansion is significant; however, its contribution is less dominant compared to the aggregate impact of private consumption.

- **Investment: Gross fixed capital formation expanded by 3.7% y/y, reflecting a mixed picture.** Investment in machinery and equipment (+12.8% y/y) led the gains, likely indicating that some industries are responding to improved demand conditions. **In contrast, construction-related activities remain weak.** Housing (+3.2% y/y) and building (-2.2% y/y) continue to lag. Excluding the pandemic period, housing activity is at levels comparable to those observed in 2013, while building activity is similar to 2008 levels—around 43% below the peak reached in Q3 2017.
- **External sector: Real exports and imports both expanded by 3.5%.** Although the trade deficit continues to widen, it is doing so at a slower pace (Chart 6). The trade deficit increased by 12% y/y and is now at its widest level since mid-2023, reflecting strong domestic demand. Goods imports grew by 3.3% y/y, while services imports increased by 4.5% y/y, both consistent with robust household demand. On the export side, goods exports expanded by 2% y/y, while services exports contracted by 11.7% y/y.

### What to expect for the rest of 2026?

- **Economic activity is expected to grow slightly below the expansion registered in 2025.** Tailwinds from agriculture are likely to fade, while most service sectors are expected to slow in a context of higher inflation and interest rates. Preliminarily, DAVIbank projects GDP growth of 2.4% y/y.
- **Recently, the Autonomous Committee for the Fiscal Rule estimated potential GDP growth at 2.6%,** well below previous estimates of around 3% for the next five years. This represents a challenge for thinking about fiscal sustainability.
- **Current GDP dynamics show robust private consumption, which could continue exhibiting some inertia in the coming**

**periods.** However, promoting investment is critical to achieving higher potential growth rates. In the short term, a key challenge in improving the investment environment for real-sector projects is that businesses, which are currently net providers of financing, could turn into net borrowers, thereby limiting the availability of liquidity to continue financing a wide fiscal deficit. In our view, this is a “good problem” to consider; however, we must wait and see how the electoral process unfolds and how it affects macroeconomic variables.

- **In the meantime, the central bank is expected to resume its hiking cycle after the elections.** At DAVIbank, we anticipate a final hike of 75 bps in July, bringing the policy rate to 12%, where it is expected to remain for around one year before an easing cycle is considered. In its latest monetary policy report, the central bank staff stated that the Colombian economy is operating with a positive output gap. In line with a scenario requiring a sufficiently contractionary stance to bring inflation back to target, this would imply the economy operating with a negative output gap, with growth forecast at 2.1% in 2027.

## Macroeconomic forecast DAVIbank Economics Colombia

Forecast	2019	2020	2021	2022	2023	2024	2025pr	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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