

## Economics Colombia

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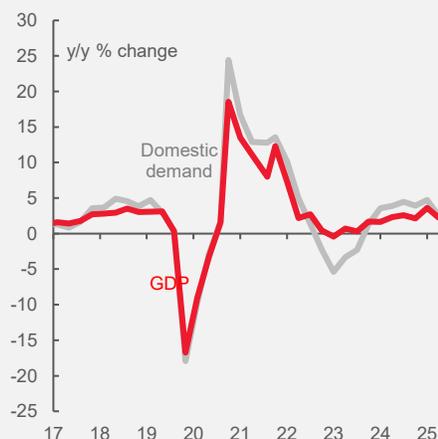
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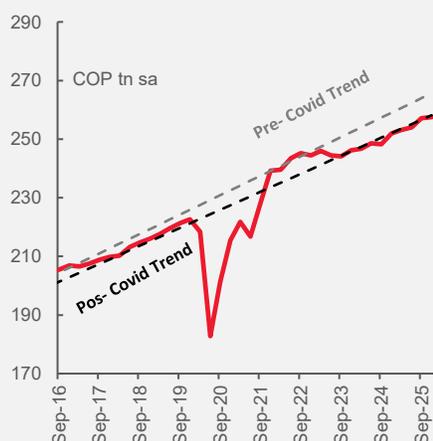
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**Chart 1.** GDP vs Domestic Demand.



Sources: DAVIbank Economics, DANE.

**Chart 2.** Real GDP



Sources: DAVIbank Economics, DANE.

## Colombia: Economy grew below expectations in 2025 but is still compatible with further rate hikes.

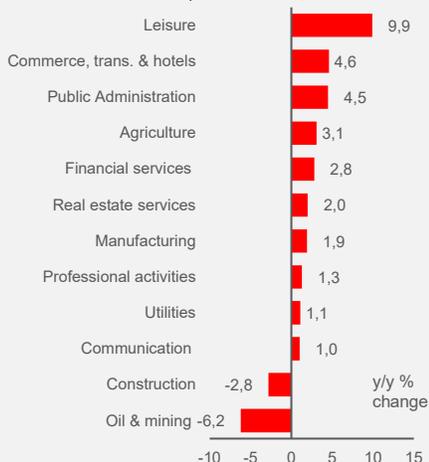
DANE released GDP statistics for 2025 in Monday January 16, 2026. In Q4 2025, economic activity expanded by 2.3%, well below the economist consensus of 2.8%, and losing some steam from the register observed in the Q3-2024 of 3.6% y/y. The weaker than expected performance is also attributed to the statistical revision made by DANE especially in the October and September 2025 data initially estimated with expansions above 3%, that were revised downward to an average of 2.5% y/y. However, it is important to highlight that compared with the beginning of the year, we observed a major proportion of economic sectors contracting. In fact, the economic activity index (ISE) of December showed five of the twelve sectors in contractions, in which agriculture (-2.2% y/y) represented the main drag. Meanwhile 91% of total growth was concentrated in public administration (+4,7% y/y, driven by election related activities), commerce (+2,8% y/y reflecting strong household consumption), and leisure (+8% y/y supported by stronger cultural activities).

**Overall, in 2025, economic activity grew by 2.6%, falling short of market and our expectation of around 2.8% and the BanRep projection of 2.9%.** On the sectoral front, Commerce, Transport & Hotels (+4.6% y/y), Public administration, defense, education & Health (+4.5% y/y), and leisure related activities (+9.9% y/y) contributed 80% of total expansion. Meanwhile, construction (-2.8% y/y) and mining (-6.2% y/y) remained in negative territory. As mentioned before, the agricultural sector decelerate, passing from being a leading sector in 2024 and now weighing on broader economic performance—especially toward year end.

**On the demand side, domestic demand increased to a robust 3.9% (chart 1),** driven by an acceleration in household consumption (+3.6% y/y vs 1,6% in 2024) and public spending (+7.1% y/y vs 0.6% y/y in 2024), which contributed to a widening of the real trade deficit (imports grew by 8.4% y/y, while exports increased 1.8% y/y). Investment also improved moderately, expanding by 1.3% y/y, especially in sectors different from construction, which in our assessment, is a reflection of the response of some industries to the better household's demand.

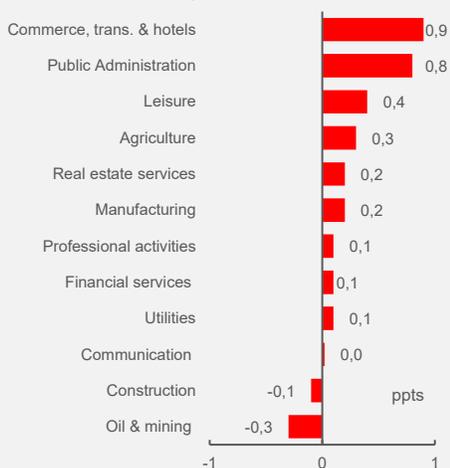
**All in all, although the Colombian economy underperformed relative to expectations in late 2025, the overall picture continues to show strong domestic demand, particularly due to household consumption and public spending.** Performance was below BanRep's expectations; however, consumption related components continue to demonstrate solid momentum, which could still justify maintaining an aggressive stance from the central bank. We maintain our view that BanRep will hike its policy rate by 100 bps in March and 75 bps in April,

Chart 3. 2025 by sector



Sources: DAVIbank Economics, DANE.

Chart 4. 2025 by Contribution



Sources: DAVIbank Economics, DANE.

reaching 12%, where it is expected to remain for the rest of the year. It is worth highlighting that in its January Monetary Policy Report, the central bank revised its estimate of the output gap from negative to positive. **Under our Taylor rule framework, this adjustment would imply the need for even higher interest rates—above our baseline projection of 12%. However, based on the most recent data, we maintain our view that the output gap is closer to neutral rather than positive(Chart 2), supporting our projection that the policy rate peaks at 12% in 2026.**

**Key points to highlight:**

- **Throughout 2025, Colombia consolidated its recovery path.** Although the economy appeared to lose momentum toward the end of the year, we attribute this to statistical factors within the national accounts methodology that have been challenging to interpret. The strongest quarterly performance was recorded in Q3 2025 (+3.6% y/y), which we believe reflects genuinely solid economic activity but may also have been influenced by the presence of two additional business days relative to a traditional third quarter.
- **The Economic Activity Indicator (ISE) for October and November were weaker than initially reported, with both months revised down from 3.0% y/y and 3.1% y/y to 2.6% and 2.5% y/y, respectively.** The largest downward revisions came from agriculture and mining, which shifted from estimated expansions to outright contractions. Revisions in secondary and services sectors were more moderate. These adjustments reinforce the trend of increasingly uneven sectoral performance. Importantly, the decline in agricultural activity merits close attention: agriculture was one of the strongest performers in 2024, providing a significant positive income shock to households—an effect that may dissipate heading into 2026.

**Economic growth in the supply side front: The performance shows a more mixed behavior across sectors.**

- **Leading sectors:** Three sectors accounted for 84% of the Q4 expansion (chart 3 and 4): Public administration, defense, education, and health (+4.8% y/y); Commerce, transport, and hotels (+3.4% y/y); and Leisure activities (+11.5% y/y). Public administration reflected the effects of the pre-election period, with activities related to election logistics expanding 137.6% y/y compared with Q4-2024. In the case of commerce, growth was driven primarily by purchases of durable goods such as IT equipment (+42.1% y/y), televisions and entertainment devices (+29.7% y/y), and home appliances (+18.3% y/y), underscoring the strength of household balance sheets and their ability to diversify consumption with only moderate use of credit. In leisure activities, a notable shift occurred: online

**Chart 5.** GDP Contributions by Expenditures



Sources: DAVIbank Economics, DANE.

**Chart 6.** Real external balance (exports-imports) % of GDP



Sources: DAVIbank Economics, DANE.

gambling was no longer the main contributor; instead, the strongest expansion came from concerts and cultural events.

- Weakest sectors:** GDP performance closed 2025 with a more mixed profile, as four out of the twelve sectors contracted in Q4-2025. The main drag came from mining activities (-2.9% y/y), with oil and mining falling 2.9% y/y and metalliferous ore mining contracting 15.7% y/y, a decline typically associated with weaker construction demand. Construction (+2.9% y/y), information and communications (-1.2% y/y), and agriculture (-0.4% y/y) completed the negative picture, collectively subtracting 0.03 percentage points from overall growth. This performance highlights an important pattern: activities that depend heavily on government incentives—such as mining and construction—continue to show persistent weakness. Meanwhile, in agriculture, the previous coffee boom has clearly reversed (-22.1% y/y). This trend warrants close monitoring, as both lower production and softer international prices could weigh on household disposable income in coffee-producing regions.
- Performance of 2025:** The services sector remained the main contributor to economic activity during the year. Commerce, transport, and hotels (+4.6% y/y) contributed 0.9 ppts, supported by stronger retail and wholesale sales (+7% y/y). Public administration (+4.5% y/y) added 0.8 ppts, consistent with the government’s decision to maintain high levels of public spending. Leisure activities (+9.9% y/y), contributing 0.4 ppts, showed a shift as online gambling gradually lost relative importance compared with traditional entertainment services. On the negative side, construction (-2.8% y/y) and mining (-6.2% y/y) remained significant drags. In construction, housing activity contracted 7.5% y/y, failing to recover from the 2.3% decline observed in 2024.
- Perspectives for 2026:** Some sectors—particularly manufacturing (+1.9% y/y)—strengthened in 2025, reflecting a positive reaction to firmer domestic demand. However, the main challenges for 2026 will involve managing rising labor costs and operating in a high-interest rate environment. We project GDP growth of 2.9% for 2026, with services expected to remain the primary driver. Nonetheless, it will be important to monitor whether investment decisions become more conservative due to the electoral cycle and changes in inflation and interest-rate dynamics.

**Economic growth in the demand side:** Domestic demand (+3.8% y/y in Q4-2025 and +3.9% y/y for 2025) remained robust (chart 5), driven by strong household consumption and public spending. The real trade deficit widened, and investment as a share of GDP closed at a still-weak 16.6%.

- **Private consumption rose 3.1% y/y in Q4 2025 and 3.6% for the year.** The consumption basket became significantly more diversified in 2025 compared with 2024. Durable goods consumption expanded 15% y/y and semidurable goods consumption grew 7.3% y/y, more than offsetting the contractions reported in 2024. In contrast, services consumption moderated, increasing 2.7% in 2025 versus 3.6% in 2024. Consumption continues to be driven mainly by income shocks—remittances (around 3% of GDP), informal sector earnings, and real wage gains—rather than by credit demand. Despite some uncertainty over the sustainability of these drivers, solid savings levels still support a constructive outlook.
- **Public spending increased 5.9% in Q4 2025 and 7.3% for the full year.** Spending accelerated toward year end due to preparations for the electoral cycle. In 2026, beginning January 31, the Ley de Garantías came into effect, typically restricting new contracts during presidential elections. This could moderate the contribution of public spending to GDP.
- **Fixed capital formation contracted 9.3% y/y in Q4 2025. Investment declined 2.9% y/y in the quarter but expanded 1.5% y/y for the year.** These figures have undergone significant revisions by DANE, particularly regarding buildings and civil works, resulting in noisy signals about the state of investment. In 2025, the largest declines were in housing (-6.5% y/y) and other buildings (-2.6% y/y). Conversely, machinery and equipment remained strong (+9.3% y/y), likely linked to the improved performance of manufacturing sectors. Looking ahead to 2026, the high-rate environment could weigh further on investment. We expect housing construction to weaken, while prospects for manufacturing related investment remain less clear.
- **Trade deficit widened in 2025 (chart 6).** Imports grew 8.4% y/y in 2025, driven mainly by goods purchases (+10.2% y/y). Exports increased 1.8% y/y; services exports rose 5.6% y/y on stronger tourism, while goods exports posted a modest 0.8% y/y increase, reflecting weakness in mining related commodities.
- **The widening of the trade deficit reflects stronger domestic demand;** however, its impact on FX has been contained. According to the balance of payments, remittances remain solid, helping keep the current account deficit under control. At DAVIbank, we consider the trade deficit a key variable for the FX outlook, particularly if investment activity strengthens.
- **Looking ahead to 2026,** we expect private consumption to remain strong; however, as mentioned previously, a slowdown in the agricultural sector could affect consumption capacity in certain regions. In terms of public spending, although new

contracts are restricted during the electoral period, there will still be space for publicity related activities. On the investment front, we anticipate that the housing sector's rebound will be delayed due to high interest rates. Finally, on the external side, the trade deficit may continue widening, as prospects for coffee exports remain subdued while durable goods consumption and manufacturing related imports—particularly machinery and equipment—are likely to stay strong.

## 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	10,8	7,3	0,7	1,6	2,6	2,9
Domestic demand (y/y. %)	4,0	-7,5	13,4	10,3	-2,5	2,0	3,7	3,3
Consumption (y/y. %)	4,3	-4,2	13,8	9,0	0,6	1,4	3,7	3,8
Private (y/y. %)	4,1	-5,0	14,7	10,8	0,4	1,6	2,9	3,9
Government (y/y. %)	5,3	-0,8	9,8	1,0	1,6	0,7	6,4	3,6
Gross capital formation (y/y. %)	3,0	-20,7	11,6	16,0	-16,0	5,2	-7,0	0,8
Exports (y/y. %)	3,1	-22,5	14,6	12,5	3,1	2,5	1,1	1,5
Imports (y/y. %)	7,3	-20,1	26,7	24,0	-9,9	4,4	1,3	3,1
<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	-16,37	-14,10
Exports (USD\$. B)	51,3	38,2	50,9	73,1	67,8	68,87	50,2	72,6
Imports (USD\$. B)	65,5	51,3	70,9	89,6	76,0	78,63	66,57	86,6
Current account (USD\$ Balance. B)	-15	-9	-18	-21,3	-9,7	-7,412	-10,05	-11,29
Current account (% of GDP)	-4,6	-3,4	-5,6	-6,2	-2,7	-1,8	-2,4	-2,5
Exchange terms (y/y. %)	4,04	-12,62	20,74	5,94	-18,0	-0,7	-1,0	
<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	61,3	63,0
Primary Balance of CNG (% del PIB)	0,4	-5,0	-3,6	-1,0	-0,3	-2,4	-2,4	-1,4
Deficit of CNG (% of GDP)	-2,5	-7,8	-7,1	-5,3	-4,3	-6,8	-7,1	-6,2

\*Source: MTFF 2025.

Source: DAVIbank Economics Colombia.

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