

Research Team Colombia

Jackeline Piraján Díaz

Head of Research

jackeline.pirajan@davibank.com

Daniela Valentina Guio

Senior Economist

daniela.guio@davibank.com

Paula Andrea Patiño

Intern

paula.patino@davibank.com

Colombia Macro View. How Did We Close 2025 and How Are We Starting 2026?

The year 2025 for Colombia was turbulent from beginning to end. Year-end celebrations unfolded amidst major decisions that shifted our expectations for 2026. The most relevant shock was the increase in the minimum wage (Chart 1), as both inflation and the monetary policy rate are now expected to be higher. This shift in outlook could even have implications for the sovereign's financing strategy, all within a context of tighter liquidity, the final stretch of the current administration, and heightened uncertainty ahead of the electoral cycle. In fact, 2026 is an important year in which macro news should also be analyzed with a political background.

In this document, we will explore the main economic and political topics in Colombia ahead of 2026, highlighting our views for main variables.

Key Takeaways from 2025 that matter for 2026

1. The Colombian economy grew more than expected in 2025 and could show resiliency in 2026.

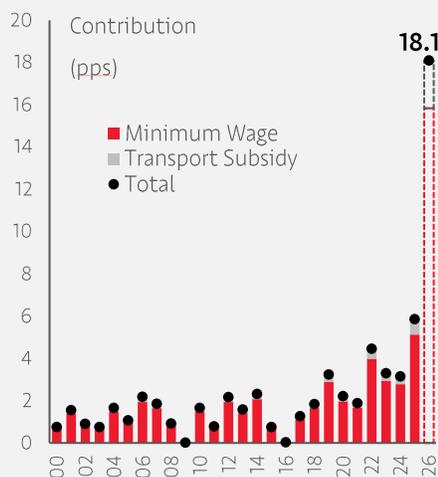
In six of the ten months reported in 2025, economic activity expanded beyond expectations. Strong household consumption and increased fiscal spending supported the economy's better-than-expected performance. Household consumption mostly reflected positive income shocks resulting from strong remittance flows, wage growth, lagged effects of an agricultural sector boom, and a recovery in the services sector.

On the other hand, higher government spending aligned with a challenging fiscal outlook, as the government maintained significant expansion despite moderate tax collections. Investment showed a mixed composition, with non-construction categories performing well. We estimate Colombia grew 2.8% in 2025, and project 2.9% growth in 2026. According to our calculations, the output gap is now technically closed.

2. Inflation closed at 5.10%, just 10 bps lower than the year-end 2024 reading. However, the outlook for 2026 is not as rosy.

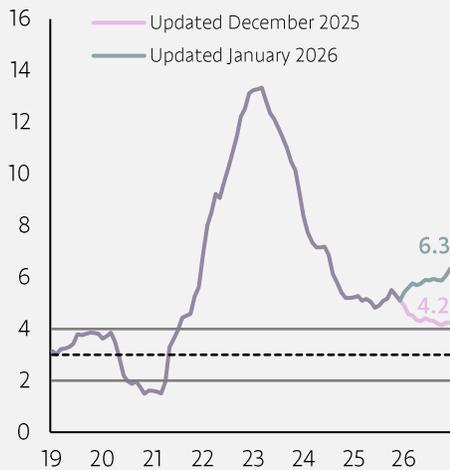
Disinflation progressed more slowly than anticipated at the start of the year, with services-related inflation proving particularly sticky. Services inflation closed at 5.93% and averaged above 6% during the year, still reflecting indexation effects from the 2025 minimum wage adjustment, which was similar to the 2024 increase.

Chart 1. Real increase in minimum wage and contribution by component



Source: DAVIbank Economics.

Chart 2. Colombia Total Inflation (%)



Source: DAVIbank Economics.

Goods inflation rebounded, despite an appreciating exchange rate that was insufficient to counteract the rebound, likely due to demand pressures from strong domestic consumption. Food inflation saw a moderate acceleration, closing at 5.07%.

For 2026, the main risk—without question—is the minimum wage adjustment. Combined with strong momentum in domestic demand, this may trigger an increase in headline inflation through indexation effects. According to the Central Bank of Colombia, for every percentage point that the minimum wage rises above the rule of inflation plus productivity, headline inflation accelerates between 8 and 15 bps, depending on the central bank’s response.

Our year-end 2026 inflation forecast stands at 6.34% y/y, higher than our pre-announcement estimate of 4.3% (Chart 2). Food and regulated prices will be tailwinds, while services inflation would accelerate to around 8%, and goods inflation would remain stable despite the expected appreciation of the exchange rate.

3. Monetary Policy. BanRep should toughen its stance.

With the economy operating near potential and inflationary risks rising, we expect the Central Bank to begin hiking interest rates at the January meeting, with 50 bps increases until reaching 12% by September (with a final 25 bps move). While financial markets expect a more aggressive start to the cycle, we believe the bias relative to both: our scenario and the market’s, lies to the downside given the central bank’s traditionally cautious stance.

In the December meeting, although the vote distribution matched previous months, two board members signaled willingness to begin the hiking cycle. In January, we expect a majority of four members to support a 50-bp increase, ending 2026 at 12.00% (Chart 3).

Chart 3. Colombia Monetary Policy Rate (%)



Source: DAVIbank Economics.

4. Fiscal Policy. Lower deficit with a worse mix

Preliminary government data suggests the 2025 fiscal deficit will come in below the Medium-Term Fiscal Framework’s projection of 7.1% of GDP. However, the deficit composition is deteriorating, with the primary deficit likely exceeding the 2.4% forecast in the Framework—implying that part of the fiscal efficiencies gained from debt-management operations, and FX appreciation were absorbed by a higher primary deficit.

Amid these pressures, Congress rejected the proposed Financing Law, prompting the government to declare an economic state of emergency in an attempt to implement parts of the rejected law to boost immediate revenue. Because this occurred during the judiciary’s recess period, a ruling from the Constitutional Court on the validity of the emergency is expected in the coming weeks. Our base case scenario is for a rejection of the emergency, that said, this topic shouldn’t not be

analyzed from its direct economic or tax impact, but for the reaction of the Government if they fail in finding the extra funding of the Emergency situation: higher deficit?

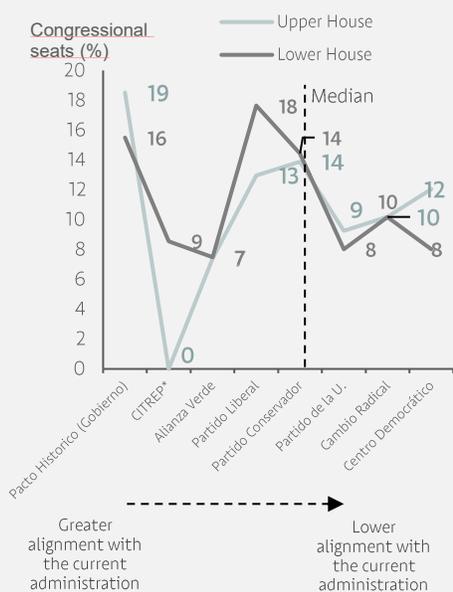
5. Financing. At the edge of liquidity

Toward year-end, the sovereign's liquidity constraints became evident. After the end of the corporate tax payment cycle in late October, the financing needs of the nation became clear: a euro-market funding operation with demand of roughly EUR 7 billion, followed by direct loans from U.S. banks, credit requests from multilaterals, and culminating in the direct sale of COLTES to a foreign counterparty (PIMCO).

Amid these events, the yield curve jumped 125 bps from late October to year-end. From a macro perspective, the average yield of 13.15% negotiated with PIMCO for debt with an 8-year average maturity implies a 140-bp premium relative to auction yields for the same instruments—highlighting the cost of liquidity urgency.

In January 2026, the sovereign resumed its USD bond issuance program, receiving stronger demand, although again relying on external markets to meet pressing liquidity needs. This dynamic placed downward pressure on the exchange rate as external debt proceeds are converted into pesos. **At DAVIbank Economics, we expect the liquidity-seeking dynamic to persist until April, when the corporate tax payment cycle resumes.** In the meanwhile it will be relevant to pay attention to the Financing Plan release as the changing macroeconomic scenario, especially the expectation on the monetary policy rates could promote to a change in the financing strategy to another stance, maybe abandoning the willingness to take significant refinancing risk to simply and fueling the strategy of be more focused in issuances in the belly of the curve as it was already signal with the COLTES 2030 new reference.

Chart 4. Congressional Seats by Political Party – Colombian 2022 Elections.



6. Elections: warming up the engines

The 2026 electoral calendar includes congressional elections on March 8, presidential first-round elections on May 31, and a runoff on June 21. The most recent poll—AtlasIntel for Semana and GAD3 for RCN—showed a neck-and-neck race between Abelardo de la Espriella (far right, 28% and 30.2% voting intention, respectively) and Iván Cepeda (far left, Pacto Histórico candidate, 26.5% a 41.7%, respectively).

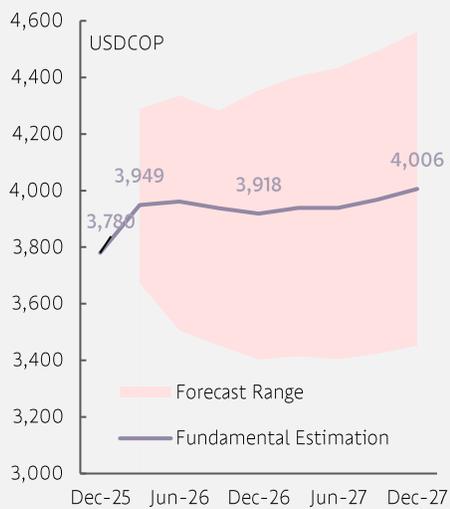
Polling significance will increase after March 8, once the final list of presidential candidates is clearer. The center-right coalition will test its strength in March, while the center-left shows no signs of forming alliances. What is clear is that the next president will face a challenging fiscal position and major unresolved issues in security, healthcare, and the energy sector.

Events in Venezuela have not yet been reflected in the polls, and several outgoing-administration measures—such as the minimum wage increase, potential gasoline price cuts, price controls, an even the

* Special Transitory Peace Electoral Districts.

Sources: Misión de Observación Electoral, DAVIbank Economics.

Chart 5. USDCOP Forecast.



Source: DAVIbank Economics.

announcement of the Pension Funds' limits to invest in international markets—are being closely watched as the government seeks to build support ahead of elections.

7. Exchange rate: weak fundamentals behind the COP appreciation

Macro-fundamental models continue to point to a level above current market pricing; however, we recognize that significant forces are keeping the COP stronger than usual. First, the central bank's contractionary stance in response to emerging inflationary risks; and second, the large-scale monetization of external public debt. We note that both factors stem from negative fundamentals, particularly a weakening of fiscal conditions reflected in noisy political decisions that ignore the structural problem. This makes the recent appreciation fragile in the medium term. However, as long as Colombia maintains access to external markets, this pattern of a stronger COP is likely to persist and the probability to continue operating below 3750 remains high. **In this final point, we want to touch base regarding the recent decree draft on pension fund international asset repatriation.** The draft suggests a more moderate starting point than expected: the limit for investing in international markets would be reduced to 30%, to be implemented over a five-year horizon. **Currently, pension funds hold about 50% of their total AUMs in foreign assets, and the excess above the proposed 30% limit is estimated at approximately COP 91 trillion / USD 24 billion.** Therefore, potential monetizations would likely be much lower than those recently carried out by the government. That said, the proposal does not look as negative as initially feared and could have a limited impact on the currency if implemented gradually (the discussion about its long-term negative effects on the pension system deserves another, much longer chapter). However, as we highlighted at the beginning of the report, its announcement should also be read as a potentially favorable headline for the Government ahead of elections.

Macroeconomic forecast DAVIbank Economics Colombia

Forecast	2019	2020	2021	2022	2023	2024	2025pr	2026pr
National Accounts								
Real GDP growth (yearly %)	3,2	-7,2	10,8	7,3	0,7	1,6	2,8	2,9
Domestic demand (y/y. %)	4,0	-7,5	13,4	10,3	-2,5	2,0	4,3	3,3
Consumption (y/y. %)	4,3	-4,2	13,8	9,0	0,6	1,4	4,1	3,8
Private (y/y. %)	4,1	-5,0	14,7	10,8	0,4	1,6	3,6	3,9
Government (y/y. %)	5,3	-0,8	9,8	1,0	1,6	0,7	6,5	3,6
Gross capital formation (y/y. %)	3,0	-20,7	11,6	16,0	-16,0	5,2	5,0	0,8
Exports (y/y. %)	3,1	-22,5	14,6	12,5	3,1	2,5	1,2	1,5
Imports (y/y. %)	7,3	-20,1	26,7	24,0	-9,9	4,4	8,9	3,1
Laboral Market								
Unemployment (%. Average)	10,9	16,7	13,8	11,2	10,2	10,2	9,2	9,8
Balance of Payments								
Trade Balance (USD\$. B)	-14,1	-13,1	-20,0	-16,6	-8,2	-9,77	-12,91	-14,10
Exports (USD\$. B)	51,3	38,2	50,9	73,1	67,8	68,87	69,6	72,6
Imports (USD\$. B)	65,5	51,3	70,9	89,6	76,0	78,63	82,54	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	
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	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

*2025 Medium-Term Fiscal Framework.

Source: DAVIbank Economics Colombia.

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