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GDP 2025: a demand-led recovery

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Key Messages

- GDP grew **2.6% in 2025**, accelerating from **1.5% in 2024** and **0.8% in 2023**, in a recovery primarily driven by **domestic demand**.
- Growth was **consumption-intensive**: **final consumption** increased **4.2%** (**households: 3.6%**, **government: 7.1%**), with a consumption mix consistent with an upswing in the business cycle, as **durables and semi-durables**—typically more cycle-sensitive components—outperformed.
- Investment improved only **partially** and remained **highly uneven**. **Machinery and equipment** rebounded (**+9.0% in 2025**), while **construction** contracted (**-4.4%**), keeping total investment below the levels observed during the previous decade.
- The **external sector** subtracted from growth: **imports (+8.4%)** expanded far more than **exports (+1.8%)**, pointing to higher import leakage and a year in which growth relied more heavily on domestic demand.
- On the supply side, expansion was concentrated in **services**, whereas **mining (-6.2%)** and **construction (-2.8%)** remained key drags. This configuration reinforces the notion of a widening gap between **demand growth and domestic productive capacity**.
- At the margin, **4Q25** showed a marked **sequential slowdown** (**seasonally adjusted GDP: +0.1% q/q**), largely explained by weak investment. That said, **December's ISE** posted a **monthly rebound** (**+0.9% m/m, seasonally adjusted**) and retail activity ended the year strongly, suggesting that consumption momentum may have carried into early 2026.
- For **2026**, **BBVA Research** forecasts **2.8%** growth, with a faster pace in **1H26** supported by consumption and a moderation in **2H26** as tighter financial conditions and inflation weigh on spending. Construction should contribute gradually—through **civil works** and **non-subsidized housing (No VIS)**—although uncertainty and the electoral cycle pose downside risks.

2025: growth composition and macro assessment

GDP by expenditure: a consumption-intensive recovery, incomplete investment rebound, and higher import leakage

GDP grew **2.6% in 2025**, accelerating from **1.5% in 2024** and **0.8% in 2023**, and moving closer to recent estimates of Colombia's medium-term potential growth (around **2.5% per year**). Domestic demand consolidated its recovery in 2025, with a clear **bias toward consumption**. The **4.2%** increase in **final consumption** (**households: 3.6%**, **government: 7.1%**) not only

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explains a large share of overall growth, but also shapes its macroeconomic profile: consumption-led expansions typically entail **higher import penetration**, **stronger pressures on non-tradable prices**, and therefore a more cautious monetary policy stance. While investment also improved on aggregate—particularly through a rebound in machinery and equipment—it remained more uneven than consumption and did not become the dominant engine of the cycle.

In this release, **DANE** introduced **mostly downward revisions** to **1Q–3Q25** results. The most significant changes came from **investment**, which was revised down in all three quarters. On the supply side, downward revisions were more limited, with the largest adjustments concentrated in **construction** and **mining**, while other sectors saw smaller or mixed changes.

Private consumption: cyclical components lead (durables and non-durables), with services remaining resilient

In 2025, **household consumption** grew **3.6%**, consolidating its role as a key driver of the domestic-demand recovery. From a cyclical perspective, **durables tend to amplify the cycle**: they typically outperform during upswings and contract more sharply during downturns. Accordingly, the main signal is not only that household spending increased, but that it did so with a composition consistent with a recovery phase. **Durables (+14.9%)** and **semi-durables (+7.1%)** posted the strongest, most cycle-sensitive gains, while **non-durables (+3.5%)** and, importantly, **services (+2.7%)** also contributed to private consumption growth.

Within services, the expansion was consistent with stronger performance in activities linked to households' current expenditures—together with the momentum in retail and related segments—reinforcing the view of growth being more supported by consumption than by capital accumulation. This trajectory was also consistent with improving macro fundamentals in 2025: a firmer labour market, a recovery in consumer confidence, and positive real wage dynamics, which tend to raise disposable income, reduce precautionary behaviour, and sustain a rotation toward more pro-cyclical spending categories (durables and semi-durables).

Public consumption: the year's most notable upside surprise

In 2025, **government consumption** increased **7.1%**, confirming a meaningful contribution from the public sector, particularly in the second half of the year. This performance is consistent with: (i) stronger momentum in **public administration, defense, education, and health**, which grew **4.5%** over the year; (ii) higher execution of **public payroll**; and (iii) a more intensive deployment of **current spending** on public services linked to social provision. In addition, the electoral calendar typically concentrates operational and logistical requirements—such as service procurement, territorial administration, and institution-related expenditures—which appear to have materialized in **2H25**, including spending associated with the October internal consultation.

Investment: a partial rebound, still far from a high-investment regime

Investment increased, but in an **incomplete** manner: **gross capital formation** rose **2.1%** and, more importantly, **fixed capital formation (FBCF)** grew only **1.3%**, indicating that 2025 was not a broad-based upswing in capital accumulation. From both a policy and market perspective, the diagnosis is clear: growth relied more on **current expenditure** than on the expansion of **future productive capacity (capital)**. This composition helps explain why growth can be **more inflation-prone** and why convergence toward a higher potential growth rate remains challenging.

Investment dynamics were also **highly heterogeneous**. Within fixed investment, **machinery and equipment** expanded **9.0%** in 2025, while **construction** contracted **4.4%**. Within construction, weakness was concentrated in **buildings**, with negative outcomes linked to **housing** and **other buildings**, whereas **civil works** contributed more favorably—though not enough to offset the sector's annual contraction. The macro message is twofold: on the one hand, the rebound in machinery is consistent with relatively high **capacity utilization** and strong domestic demand; on the other, persistent weakness in construction keeps overall capital formation subdued, limits multiplier effects on employment and intermediate demand, and prolongs the gap between current investment levels and those observed in the previous decade.

External sector: growth with a negative contribution from net external demand

While **exports** grew **1.8%**, **imports** increased **8.4%**. When domestic demand expands faster than the economy's ability to respond through local production, the **propensity to import** rises and, as a result, the **external deficit** tends to widen. In practice, an economy with dynamic consumption and investment but an export sector that does not accelerate at a similar pace will translate part of the demand impulse into higher foreign purchases. This is compounded by an export basket still constrained by weakness in the **mining and energy** complex; and although **non-traditional exports** and **services exports** (including tourism) have improved, their scale remains insufficient to fully offset the softer contribution from commodity exports.

GDP by production: services lead, while mining and construction remain laggards

The supply-side breakdown confirms a recovery led by **tertiary sectors**, with a productive configuration that helps explain both the strength of consumption and the weakness of the external balance.

2025 growth leaders:
Trade, transportation, and others (+4.6%) was the main engine of the year, consistent with robust consumption and a reallocation of spending toward services. **Public administration, health, and education (+4.5%)** also expanded strongly, in line with the sharp increase in government consumption. In addition, **arts, entertainment, and other services (+9.9%)**—a typically pro-cyclical segment—benefited from the normalization of household spending.

Sectors growing below GDP (or contracting):
Manufacturing (+1.9%) and **information and communications (+1.0%)** underperformed overall GDP, suggesting that part of the demand impulse was either met through imports or concentrated in non-tradable activities. **Construction (-2.8%)** remained in contractionary

territory, limiting linkages and employment generation. Finally, **mining and quarrying (-6.2%)** was the main structural drag, with direct implications for export performance; within the sector, declines were driven by **coal (-7.4%)**, **oil and gas and support activities (-4.3%)**, and **metallic minerals (-13.5%)**, among others.

Macro implication: a more demand-driven growth pattern

With domestic demand expanding so strongly—driven by consumption and public spending—while domestic supply does not accelerate at a comparable pace (with manufacturing and construction lagging), the resulting mix typically translates into **more persistent inflationary and external pressures**. This contrasts with economies where supply growth outpaces demand—such as China in the current cycle—where **disinflationary forces** tend to dominate. In Colombia, this growth profile helps explain, at least in part, the **cautious stance** the central bank has maintained in its monetary policy decisions since last year.

Momentum: end-2025 performance and early signals for 2026

GDP by expenditure in 4Q25: steady year-on-year growth, but sequential weakness driven by investment

On a year-on-year basis, GDP grew **2.3% in 4Q25**. However, the key message for momentum is the **seasonally adjusted quarter-on-quarter** performance: **+0.1% q/q**, signalling a marked slowdown relative to 3Q25:

- **Final consumption** (**+3.8% y/y; +0.4% q/q**) remained supportive, with **households (+3.1%)** and **government (+5.9%)** sustaining demand. Within household spending, **durables** led the expansion (**+12.7%** in the quarter), consistent with an upswing phase of the cycle.
- **Gross capital formation** (**-9.3% y/y; -8.9% q/q**) was the main contractionary force. **Fixed capital formation (FBCF)** (**-2.9% y/y; -2.8% q/q**) indicates that year-end growth was not investment-led and, at the margin, investment dynamics weakened further. In addition, the implied **inventory drawdown** suggests that part of the adjustment occurred through the liquidation of stocks—either to meet demand or as a supply-side response; in any case, it leaves room for **inventory rebuilding** if demand remains resilient. By asset type, the decline in FBCF was largely explained by **housing (-8.5% y/y)** and **other buildings and structures (-5.3%)**, while **machinery and equipment (+1.8%)** stayed in positive territory. Consistently, the **4Q25 Building Census** reported **39,992 housing units started (-5.4% y/y)**, pointing to continued weakness in the early stage of the housing cycle.
- **Exports** (**+1.2% y/y; +1.2% q/q**) versus **imports** (**+1.4% y/y; -4.5% q/q**): at the margin, the sequential decline in imports meant that **net external demand** contributed positively in the quarter. However, this improvement largely reflected the contraction in investment and its import-intensive components.

GDP by production and monthly indicators: mixed signals in December, with a bias toward moderation

On the production side, **4Q25** displayed the same configuration: **services provided the main support**, while **tradable sectors and construction** lagged. **Arts and entertainment (+11.5% y/y)** and **public administration (+4.8% y/y)** led growth. **Trade, transportation, and accommodation (+3.4% y/y)** remained dynamic, consistent with strong consumption. In contrast, **mining (-2.9% y/y)** and **construction (-2.6% y/y)** stayed in negative territory, while **manufacturing (+1.0% y/y)** posted only modest growth.

ISE December 2025: a monthly rebound, but moderate annual growth

December's **ISE (monthly economic monitoring index)** increased **1.7% y/y** in the original series; in seasonally adjusted terms it rose **1.5% y/y** and **+0.9% m/m**. This suggests that, while year-end activity recorded a monthly improvement, the year-on-year pace at the end of the year was **more moderate than the annual average**, consistent with an economy that **lost momentum at the margin** as 2025 came to a close.

Surveys and sectoral activity in December: a two-speed economy

- **Retail trade:** ended the year strongly. In December, **real retail sales** rose **11.0% y/y**, and full-year **2025** growth reached **+11.7%**; excluding fuels, growth was even higher. This remains one of the clearest gauges of the underlying strength of household consumption.
- **Manufacturing:** showed signs of cooling at the margin. In December, **real industrial output** declined **-0.6% y/y** and **sales** fell **-0.3% y/y**, while **employment** was only marginally positive (**+0.7% y/y**). This is consistent with the diagnosis that, in some segments, **demand is expanding faster than domestic production**, increasing reliance on external supply.
- **Services:** performance was heterogeneous, but overall activity remained resilient in segments linked to final demand, despite localized weaknesses (for instance, telecommunications posting negative growth).

Confidence: end-2025 and early-2026 readings point to still-solid demand

- In December, **commercial confidence** declined to **17.8%** from **22.3%** in November, pointing to some moderation in sector expectations, albeit from still elevated levels.
- **Industrial confidence** improved to **-0.7%** from **-4.3%**, supported by better production expectations; however, it was accompanied by weaker order books and remained in negative territory overall.
- In **January 2026**, **consumer confidence** stayed high at **18.2%**, although it eased relative to December. In addition, **willingness to purchase durable goods** declined compared to the previous quarter.

Macro and forward-looking assessment: why composition matters

The end of 2025 leaves a clear takeaway: **demand continues to run ahead**, while domestic supply has not responded with the same intensity. This has two key implications. First, **imports are expanding faster than GDP** (and faster than exports), reinforcing the role of import leakage in the growth mix. Second, several domestic productive sectors are **underperforming the aggregate**—including **manufacturing, construction, mining, and information and communications**—leaving overall growth increasingly concentrated in services.

This configuration is typically **more conducive to persistent inflationary and external pressures**, as it relies heavily on **current spending** and **non-tradables**, and because part of the adjustment tends to occur through **prices** rather than through a broad-based expansion in productive capacity.

2026 growth (2.8% forecast): a faster first half, followed by moderation in the second

In **1H26**, activity is expected to expand at a relatively faster pace, supported by still-dynamic household consumption. This will be underpinned by the **nominal income impulse** from the minimum wage adjustment and by the **carryover** from firm domestic demand. At this stage, the pass-through of tighter financial conditions to aggregate spending should remain **incomplete**, allowing consumption to retain traction and investment—while contained—not yet to fully reflect the higher cost of financing.

In **2H26**, growth should **moderate**. The minimum-wage impulse will gradually **fade**, while the combination of **more persistent inflation** and **elevated interest rates** will constrain real disposable income, raise borrowing costs, and weigh on both durable purchases and the execution of investment projects. Under this scenario, investment would adjust progressively, in line with softer demand and less supportive financial conditions.

In parallel, **construction** should improve only **gradually**, mainly through stronger **civil works**—typically more dynamic in the **third year** of regional and local administrations—and, to a lesser extent, through a potential recovery in **non-subsidized housing (No VIS)**, insofar as the recent rebound in sales translates into higher starts over the course of the year. Nevertheless, the **electoral cycle** and associated uncertainty could delay private investment decisions, both in machinery and equipment and in construction, maintaining a cautious tilt to the balance of risks. In addition, **public spending** tends to remain elevated during electoral periods, providing an additional support to growth in 2026.

Finally, it is important to note that, even with the recent rebound, **aggregate investment remains low** relative to the previous decade and to historical peaks. This weakness is not primarily explained by machinery and equipment—which has been comparatively more resilient—but by **construction**, which, beyond its weak recent performance, has also been subject to **downward revisions** in past statistical updates. From a macro perspective, this reinforces the view of a growth process more reliant on **current demand** than on **capital accumulation**, with implications for both potential growth and the economy’s sensitivity to financial conditions and confidence shocks.

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