

# Colombia Economic Outlook

June 2026

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BBVA Research Colombia

## Executive Summary

BBVA Research, in an inertial scenario, not yet including active policies from the new administration, estimates that the Colombian economy will grow 2.6% in 2026 and 2.1% in 2027. Activity remains in positive expansion, but without a strong acceleration cycle. Private consumption will continue to be the main short-term support, although it will lose strength because of high interest rates, high inflation, and weaker employment dynamics. In this inertial scenario, and without accounting for what the impact of possible new economic policies could be, investment will remain weak in 2026 and will only begin to stabilize in 2027, with a still limited recovery in construction and housing, given the traditional lead times for starting works. GDP excluding public consumption will grow by around 2.1% in 2026 and 1.9% in 2027, showing that the private component of the economy continues to advance, partially offsetting the slowdown in the public component.

Inflation will continue to be one of the main macroeconomic constraints. After standing at 5.84% year-on-year in May 2026, it will end the year near 7.0% and decline to 5.6% in 2027. The price increase is driven by regulated items, services, fuels, the minimum wage, climate pressures, and energy. Disinflation will be gradual. Therefore, the Banco de la República will have to maintain a restrictive stance during 2026, taking the policy rate to 12.25%, before beginning a gradual easing cycle toward the end of 2027.

The fiscal challenge will remain relevant. We estimate that the total deficit of the Central National Government will stand at 6.7% of GDP in 2026 and would fall to 6.2% in 2027. Public debt will remain above 60% of GDP. Without additional revenue or spending measures, the fiscal correction would be limited and gradual, so it will be necessary to define a strategy that strengthens the sustainability of public finances. That strategy should combine higher permanent revenues, better spending efficiency, control of current expenditure growth, and clear signals of commitment to the fiscal institutional framework. Restoring credibility will be key to containing TES rates, reducing risk premiums, and preventing the cost of public financing from continuing to crowd out credit and private investment.

The exchange rate will appreciate on average in 2026, to around 3,628 pesos per dollar, and then gradually depreciate toward an average of 3,698 in 2027. The initial appreciation responds to better local financial conditions and high rates, while the subsequent depreciation reflects a wider external deficit, the expected reduction in rates, and lower flows to emerging markets. The current account would move from -2.6% of GDP in 2026 to -2.9% in 2027, due to a moderate recovery in imports and a still gradual expansion of exports, in addition to interest payments on Colombia's external debt.

## **1. Global environment: positive growth, but with more inflation and monetary caution**

The global scenario for 2026-2027 will be conditioned by two forces: geopolitical tensions and greater caution from central banks. The conflict in the Middle East, although gradually de-escalating, continues to pressure prices for oil, gas, fertilizers, and other inputs. The baseline scenario does not envisage a prolonged systemic disruption, and clear signs of normalization are already being observed. The impact is relevant, but remains manageable as long as it does not last for several quarters, as appears to be the case.

Global growth prospects remain positive. The United States will continue to show resilience, with growth of 2.4% in 2026 and 2.2% in 2027, supported by technology investment, artificial intelligence, and a still-solid labor market. China could grow 4.5% in 2026 and 4.2% in 2027, with an economy more supported by production and technology investment than by domestic consumption. Finally, Europe is the weakest bloc, with growth of 0.7% in 2026 and 1.2% in 2027, affected by energy, confidence, and weaker industrial momentum.

Global inflation will rebound in 2026 due to energy and food, but should moderate in 2027 if broad second-round effects do not appear. In the United States, average inflation is estimated at around 3.5% in 2026 and 2.4% in 2027; in the Eurozone, around 2.8% and 1.9%, respectively. This combination of positive growth and still-high inflation forces central banks to remain cautious for longer.

For Colombia, the global context implies four main effects: high oil prices during part of 2026, greater pressure on fuel and fertilizer prices, demanding external financial conditions, and less future room for a rapid reduction in local rates. The higher Brent oil price improves fiscal and external revenues in the short term, but also pressures inflation through fuels and transportation costs.

## **2. Colombia: an economy that is growing, but with a still incomplete recovery**

The Colombian economy entered 2026 with moderate expansion. GDP grew 2.2% year-on-year in the first quarter, less than expected, explained mainly by lower inventory accumulation and weakness in housing. Even so, there was an acceleration at the margin compared with the end of 2025.

In this inertial scenario, and without accounting for what the impact of possible new economic policies could be, we estimate that GDP would grow 2.6% in 2026 and moderate to 2.1% in 2027. The slowdown in 2027 does not imply an economic contraction, but rather a normalization after a 2026 supported by private consumption, public consumption, and some favorable external prices. Growth would remain positive, but still with a gradual expansion of investment and productivity.

Domestic demand growth is estimated at 2.9% in 2026 and 2.3% in 2027. The slowdown is explained by the lower boost from public consumption and by investment that is only beginning to recover. Private consumption will continue to be the main support for activity in the short term, but

investment will be the key component in determining whether the economy can grow more after 2027. Private activity is advancing, but remains limited by high rates, inflation, low investment, and construction that is still lagging. Finally, GDP excluding public consumption would grow by around 2.1% in 2026 and 1.9% in 2027.

### **3. Consumption: resilient, but with less momentum in 2027**

Private consumption will grow 3.0% in 2026 and 2.4% in 2027. It will be the most important component supporting activity in the short term. Still-resilient employment, labor income, and consumption of services will help maintain the expansion.

However, consumption would lose some traction in 2027. Three factors explain this moderation. First, high inflation reduces households' real income. Second, interest rates will remain elevated for much of the period, limiting durable goods and financed purchases. Third, the labor market will slow, with an average unemployment rate that would rise from 9.2% in 2026 to 9.7% in 2027.

Consumption of services will continue to show better relative performance, especially in activities associated with tourism, restaurants, entertainment, transportation, and personal services. By contrast, durable goods will moderate due to the effect of interest rates.

Public consumption would grow 5.4% in 2026 and 2.9% in 2027, absent new measures. In 2026, it will continue to contribute to GDP, reflecting a still-high level of public spending. In 2027, its growth will moderate, in line with the need to begin gradual fiscal consolidation. The moderation of public consumption would be inherently gradual and highly conditioned by its significant rigidities: wages, operating expenses, transfers, legal obligations, and social programs.

### **4. Investment: the short-term weak point**

Investment dynamics will gradually strengthen, with positive results beyond 2027. Not accounting for the impact of new economic policy measures taken by the new government, fixed investment would grow only 1.2% in 2026 and 1.4% in 2027. Investment remains affected by high interest rates, the absence of large infrastructure and mining and oil projects, weakness in housing, lags in civil works, and short-term business caution.

Investment in machinery and equipment has performed better than construction. In the first quarter of 2026, investment in machinery and equipment maintained dynamic growth, while housing and civil works continued to lag. Housing investment stood near 80% of its end-2019 level, and civil works around 58%, showing a significant gap in construction.

In this inertial scenario, investment other than construction would grow 2.7% in 2026, but fall 1.7% in 2027. This behavior could be explained by higher interest rates, the effect of the statistical base, and the slowdown in final consumption, both private and public, factors that reduce the need to expand local productive capacity.

Nevertheless, there are several factors that could drive better investment performance from an earlier stage and even generate a more favorable result in 2027. These include an economic policy that allows large investment projects in infrastructure and in the mining-energy sector to be rapidly unblocked; significant demand from Venezuela, which would require a sustained acceleration in that country's demand, production, income, and economic conditions; and a faster reduction in public debt interest rates, especially TES, translating into a lower relative cost of financing for the

private sector. However, these conditions will depend largely on the speed, effectiveness, capacity, and credibility of the economic policies implemented by the new government, so it is still premature to anticipate their materialization.

Overall, this relatively weak performance in investment other than construction would be partially offset by a gradual recovery in construction investment. This component would move from a decline of 0.7% in 2026 to growth of 5.2% in 2027, favored by a low comparison base and by the progressive improvement of activity in housing, nonresidential buildings, and other civil works.

In particular, housing investment would grow 0.5% in 2026 and accelerate to 5.5% in 2027. This recovery would be supported by a gradual improvement in financial conditions compared with current levels, the continuity of support programs for the sector, and a progressive normalization of confidence among households and builders. Nevertheless, although mortgage rates would tend to decline over the forecast horizon, they would remain above their historical averages, which would continue to partially limit the sector's dynamism.

## 5. Inflation: high in 2026, gradual moderation in 2027

Inflation is the main constraint on the scenario. In May 2026 it reached 5.84% year-on-year, driven by regulated items and services. Gasoline, electricity, and water tariffs pressured inflation in regulated goods; air tickets, tourism packages, and rents drove services inflation; and food inflation saw partial relief after months of increases due to excessive rainfall.

Inflation is expected to end 2026 at 7.0% and fall to 5.6% in 2027. In this scenario, average inflation would be 6.0% in 2026 and 6.7% in 2027, reflecting that the price level will remain high for much of next year before easing more clearly.

The main pressure factors are:

- Strong or very strong El Niño, with effects on food and energy.
- Fuel prices due to the conflict in the Middle East.
- Service costs associated with the minimum wage and indexation.
- Regulated public utility tariffs and limited gas availability.
- Restricted productive supply in some sectors.

The scenario assumes that the El Niño climate phenomenon will generate transitory pressures on food and energy, with a reversal toward the end of 2027 that may help notably reduce the price of agri-food products. It also incorporates an additional 800-peso increase in the price of gasoline due to the external energy shock.

Disinflation will be gradual because supply shocks will not arrive in an economy with fully normalized prices, but in one that still maintains demand pressures. El Niño, higher fuel prices, and energy pressures will combine with still-elevated services inflation, active indexation mechanisms, and labor costs that continue to incorporate recent increases in the minimum wage.

Therefore, although growth moderates in 2027, inflation will not fall automatically or at the speed that lower demand would suggest. The challenge will be to prevent transitory shocks from becoming persistent through tariffs, rents, services, expectations, and wage negotiations.

Food and energy inflation should ease toward the end of 2027, but core inflation convergence will be slower and will depend on maintaining a restrictive monetary policy, avoiding new exchange-rate pressures, moderating indexation, and gradually restoring the economy's supply capacity.

## **6. Banco de la República: high rates during 2026 and cuts from late 2027**

The Banco de la República will maintain a restrictive stance. The policy rate would reach 12.25% in June 2026 and fall to 11.25% by the end of 2027.

The need for high rates responds to inflation accelerating in 2026 and to risks to expectations. The climate and energy shock could generate an additional upward bias if it contaminates inflation expectations.

Rate cuts would begin only toward the end of 2027, when two conditions coincide: lower core inflation and less fiscal pressure. Monetary policy will not be able to move too far ahead without risking credibility. Long-term rates will also remain high, although with a tendency to moderate if fiscal credibility improves. This will continue to affect investment, housing, and business credit.

## **7. Exchange rate: appreciation in 2026 and gradual depreciation in 2027**

The average exchange rate is estimated to fall from 4,053 pesos per dollar in 2025 to 3,628 in 2026, and then rise to 3,698 in 2027. At year-end, it would stand at 3,640 in 2026 and 3,720 in 2027.

The appreciation in 2026 is explained by high domestic rates, better short-term market conditions, and a correction in risk premiums. However, this appreciation should not be extrapolated indefinitely. From 2027, the peso would gradually depreciate for three reasons. First, the current account deficit will widen. Second, the Banco de la República will begin preparing the ground to reduce rates toward the end of the year. Third, international flows to emerging markets could be lower in the coming quarters.

The exchange rate would stop depending mainly on very short-term factors and would begin to respond to a greater extent to macroeconomic fundamentals, such as the fiscal deficit, the external deficit, real interest rates, and the oil price. Taken together, these factors favor a more depreciated real exchange rate, necessary to support the adjustment of the economy's fiscal and external imbalances.

## **8. Fiscal policy: the main macroeconomic challenge**

Fiscal accounts start from a weak position. In 2025, the total deficit was 6.4% of GDP and the primary deficit 3.5% of GDP, driven by primary spending close to 19.9% of GDP, around four points above pre-pandemic levels. Gross debt stood at 64.5% of GDP. For 2026, the total deficit would be 6.7% of GDP and would fall to 6.2% in 2027. Public debt would remain close to 63% of GDP. The adjustment will be gradual because spending is rigid and because adjustment is difficult.

This inertial scenario includes a tax reform to increase public revenues, with an effect from 2027. A reform does not by itself solve the fiscal problem. Consolidation will also require spending

efficiency, control of operating expenses, and signals about the importance of fiscal sustainability for the country's economic growth.

Fiscal credibility is fundamental because its effects are transmitted to the economy as a whole. If markets perceive a sustainable fiscal path, TES rates will tend to decline, financial system funding conditions will improve, the cost of credit will fall, and a recovery in private investment will be favored. Conversely, if the fiscal signal is weak, the high cost of financing the public sector will continue to partially crowd out access to financing for the private sector. Nevertheless, the new government's economic policies are key to the future of fiscal sustainability and growth.

## 9. Final reflection

The next government will receive an economy that is growing, but that needs to control inflation, increase investment, put its fiscal accounts in order, and strengthen its productive capacity. Inflation will remain high in 2026 and will only decline gradually in 2027. Meanwhile, the Banco de la República will have to maintain high interest rates. Their reduction will depend on core inflation continuing to ease, expectations remaining anchored, and the exchange rate not generating new pressures. Colombia needs fiscal consolidation; to achieve it, it will be necessary to improve spending efficiency, contain the structural growth of spending, and increase revenues. A clear fiscal path can reduce financing costs, alleviate the crowding-out effect on the private sector, and create more room for investment. The recovery of investment, which starts from low levels, will be the main challenge for raising potential GDP and making growth more sustainable.