BBVA Research

GDP accelerates: demand is outpacing production

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Key Messages

- **The economy accelerated in the second quarter, but domestic demand did so even more. GDP grew 3.5% year-on-year in the second quarter**, above BBVA Research's 3.2% forecast and up from 2.2% in the first quarter. **It also expanded 1.3% from the previous quarter**, more than twice the 0.6% increase recorded at the start of the year. As a result, **the economy grew 2.9% in the first half of 2026**. Final domestic demand, meanwhile, rose 4.9%, well above GDP growth. This gap was reflected in external trade: imports increased 7.5%, while exports fell 1.0%. **Domestic demand is growing faster than local production, with part of that additional demand being met by foreign supply. This composition of growth is less supportive of the economy's disinflation process.**

- **The public sector played an exceptional role in the acceleration of activity.** Government consumption grew 12.2%, compared with a 2.8% increase in household consumption. The boost came, among other factors, from retroactive wage payments to public employees, spending related to the electoral process and stronger public education activity. We estimate that GDP growth excluding the contribution from public consumption would have been close to 1.8%. **Several of these factors are temporary, meaning that the 3.5% growth rate should not be interpreted as the economy's new sustained pace of expansion.**

- **Private spending remains firm, but its strength is concentrated in components with high import content.** Within household consumption, durable goods grew 15.9%, well above services (2.0%) and non-durable goods (1.6%). Vehicles, furniture and household appliances were among the strongest-performing categories, supported by consumer confidence at its highest levels of the decade and an exchange rate more favorable for imports. At the same time, fixed investment grew 7.0%, led by machinery and equipment (+13.2%), a component for which more than 80% of supply is estimated to be imported. **Consumption and investment are expanding, but a significant share of that impulse is being met by foreign production, reducing its transmission to domestic GDP.**

- The second-quarter figure was strong, but **we maintain our 2.6% GDP growth forecast for 2026**. Looking ahead, higher interest rates should gradually moderate the most rate-sensitive components of demand, particularly private consumption and investment in machinery and equipment. This will be compounded by a normalization of the strong public-sector impulse seen in the second quarter. In the opposite direction, civil works may continue to gain traction and, further ahead, a broader recovery in construction and new infrastructure, mining and oil projects could provide greater support to activity. These, however, are primarily a medium-term story..

The public-sector boost was decisive, but unlikely to be repeated

Final consumption expenditure grew 4.4% year-on-year in the second quarter, with a marked difference between its two main components: household consumption rose 2.8%, while government consumption increased 12.2%.

On the production side, public administration, education, health and social services grew 10.0% and contributed 1.7 percentage points to value-added growth, close to half of the total. In addition, the incorporation of more complete government accounting information led to an upward revision of first-quarter final consumption growth, from 3.4% to 4.2%.

Public administration benefited from retroactive wage payments and spending related to the electoral process. Non-market education also posted strong growth, at 14.9%, supported by the addition of teachers and tutors. Health grew 4.9%, above overall GDP growth, although at a considerably slower pace.

The contrast within education was pronounced. While public, or non-market, education was one of the main drivers of activity during the quarter, market education grew by just 1.1%, extending a period of relatively weak performance associated, among other factors, with demographic changes and lower enrollment in private institutions.

The timing of public-sector spending also affected other activities. Restrictions on government contracting associated with Colombia's electoral guarantees law limited some information and communications services. Some of these contracts only began to materialize in June, and the sector contracted 0.1% year-on-year.

Overall, **the public sector explains a significant share of the acceleration between the first and second quarters, but several of its drivers were one-off in nature. This limits the extent to which the pace of growth observed in the second quarter can carry over into the second half of the year.**

Durables and machinery are growing strongly — and so are imports

Household spending was highly uneven across durability categories. Durable goods grew 15.9% and semi-durable goods 5.2%, while services increased 2.0% and non-durable goods 1.6%.

Vehicles, household appliances, furniture, and audio and video equipment were among the strongest-performing products. This strength is consistent with high levels of household confidence and willingness to purchase goods, with housing remaining the main exception. A more favorable exchange rate for imports has also facilitated purchases of foreign-produced durable goods, including vehicles.

A similar pattern was evident in investment. Gross capital formation grew 7.1% and gross fixed capital formation increased 7.0%. Within the latter, machinery and equipment rose 13.2%. The quarter included significant purchases of transport equipment, including locomotives for the Bogotá Metro, vessels and freight vehicles. Once again, this is a component with a high imported share.

This composition helps explain developments in external trade. Imports increased 7.5%, with goods up 7.6% and services 6.6%, while exports fell 1.0%, reflecting declines of 0.3% in goods and 3.9% in services. **Domestic demand is supporting activity, but its transmission to domestic GDP is reduced as a growing share is met by foreign production.**

Construction improves on civil works, while housing continues to lag

Construction returned to growth, expanding 2.2% year-on-year, although the aggregate figure masks two very different dynamics.

Civil works grew 17.1%, supported by road infrastructure, outdoor works and railway projects, including the Bogotá Metro. This was also reflected in fixed investment, where other buildings and structures grew 8.2%.

By contrast, the recovery has yet to take hold in building construction. Residential and non-residential buildings contracted 3.2% year-on-year, while specialized construction activities fell 2.2%. Both, however, grew compared with the first quarter, an early sign of improvement that is not yet sufficient to offset their year-on-year weakness.

It therefore remains premature to speak of a broad-based recovery in construction. For now, civil works are taking the lead, while housing and buildings continue to lag. A subsequent recovery in these components could broaden the sources of growth, although its effects would become more visible further ahead rather than in the short term.

Supply remains highly uneven

The 3.5% growth rate was also far from uniform across sectors. Trade, public administration and entertainment performed well, while agriculture, housing and some segments of transportation and services remained weak.

Wholesale and retail trade grew 6.0%, consistent with the strength of household spending. However, the broader trade, transportation, accommodation and food services aggregate expanded by only 2.2%. Land transportation grew 1.3%, accommodation and food services fell 4.0%, warehousing and support activities declined 5.0%, and water transportation contracted 40%, affected, among other factors, by lower transportation of hydrocarbons through this mode.

Arts, entertainment and recreation activities grew 9.5%, supported by the FIFA World Cup and other major events held during the quarter. Financial activities expanded 4.3%, with insurance providing an important contribution.

Manufacturing grew 2.0%, with stronger results in beverages, sugar-related products and refining. Mining expanded 4.2%, supported by coal —largely reflecting a base effect from operational disruptions in 2025— and by strong gold activity and exports. Oil, by contrast, declined from the previous quarter, meaning that the aggregate improvement in mining does not yet represent a broad-based recovery of the sector.

Agriculture was one of the main exceptions to overall growth, contracting 2.1%. Temporary and permanent crops fell 4.4%, with negative results in rice, bananas, plantains, flowers and cassava, while oil palm posted positive growth. Fishing contracted sharply. By contrast, livestock activity expanded, supported by milk, pork and poultry, while coffee rebounded 16.4% year-on-year in the quarter, although it remains down in the first half of the year.

The economy is therefore not only growing more strongly on the demand side than on the production side; within supply itself, growth remains concentrated in a relatively narrow group of activities.

A strong second quarter does not change our 2026 forecast

Growth of 2.9% in the first half leaves the economy with stronger momentum, but **several of the second-quarter drivers are unlikely to persist.** We expect public spending and the most interest-rate-sensitive components of private demand to moderate, partially offset by civil works and, over the medium term, by housing.

Against this backdrop, **BBVA Research maintains its 2.6% GDP growth forecast for 2026**. Over the medium term, broader infrastructure and mining projects could also provide additional support to economic growth.

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