MONETARY POLICY REPORT

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MONETARY **POLICY REPORT**

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Deputy Technical Governor

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Anderson Grajales Olarte
Juan Andrés Rincón Galvis
Elkin Jose Navas Diago

(*) Deicy Cristiano, head of the Statistics Section; Jesús Sarmiento and Raúl Acevedo, analysts at the Statistics Section; Jesús Bejarano, Director of the Applied Macroeconomic Analysis Department; Andrés Herrera, Steven Zapata, and Manuela Quintero, analysts of the Fiscal and Sector Analysis Group; Aarón Levi Garavito and Wilmer Osvaldo Martinez Rivera, senior economists at the Office for Monetary Policy and Economic Information; Sergio Bravo, Nicolás Lozano, Camilo Bahamón, Nicole Gallego, Juan Camilo Vallejo, César Vargas, and Diego Leiton, first employent interns, also participated in the making of this Report.

Edited in Bogotá D.C., Colombia
Suggestions and comments: +57 (1) 343 1011 / atencionalciudadano@banrep.gov.co

Monetary Policy in Colombia

Banco de la República (the Central Bank of Colombia) is required by the Constitution to maintain the purchasing power of Colombia's currency in coordination with general economic policy.[1] In order to fulfill this mandate, *Banco de la República's* Board of Directors (hereafter BDBR) has adopted a flexible inflation-targeting scheme, by which monetary policy actions (MP) seek to lead inflation to a specific target and achieve maximum levels of sustainable output and employment.

The flexibility of this scheme allows the BDBR to maintain an adequate balance between reaching its inflation target and smoothing output and employment fluctuations around their sustainable growth paths. The BDBR has set a 3.0% inflation target based on annual change in the consumer price index (CPI). In the short term, inflation may be affected by factors outside of monetary policy control, such as changes in food prices due to climate-related phenomena. To factor in this reality, the BDBR has also set a ±1 percentage point range outside its inflation target (i.e., 3.0 ± 1 pp). This range does not represent a monetary policy target, but rather reflects the fact that inflation can fluctuate around the target and will not always be equal to 3.0%.

The main instrument the BDBR uses to control inflation is the policy interest rate (overnight repo rate, or benchmark interest rate). Given that monetary policy actions take time to fully affect the economy and inflation,[2] the BDBR assesses the inflation forecast and inflation expectations vis-à-vis the inflation target, as well as the current situation and outlook of the economy, in order to determine their value.

The BDBR meets once a month, producing monetary policy decisions in eight of its meetings (January, March, April, June, July, September, October, and December). In principle, no such decisions are made in the BDBR's four remaining meetings (February, May, August, and November).[3] At the end of the meetings in which monetary policy decisions are produced, a press release is published, and a press conference is held by the Governor of the Central Bank and the Minister of Finance. The minutes of the meeting describing the positions that led the BDBR to its decision are published on the third business day. Additionally, the Monetary Policy Report (MPR),[4] produced by the Central Bank's technical staff, is published in January, April, July, and October, on the second business day. On the fourth business day following the Board meeting, the Bank's Deputy Technical Governor presents the MPR. This dissemination scheme[5] seeks to deliver relevant and up-to-date information to contribute to better decision-making by the agents of the economy.

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1 Political Constitution of Colombia (1991), Article 373 and Decision C-481/99 of the Constitutional Court.

2 For further details, see M. Jalil and L. Mahadeva (2010). "Transmission Mechanisms of Monetary Policy in Colombia", Universidad Externado de Colombia, School of Finance, Government, and International Relations, ed. 1, vol. 1, no. 69, October.

3 A Board Member may request an extraordinary meeting at any time to make MP decisions.

4 Formerly known as the Inflation Report.

5 The current communication scheme was approved by the BDBR in its May 2023 meeting.

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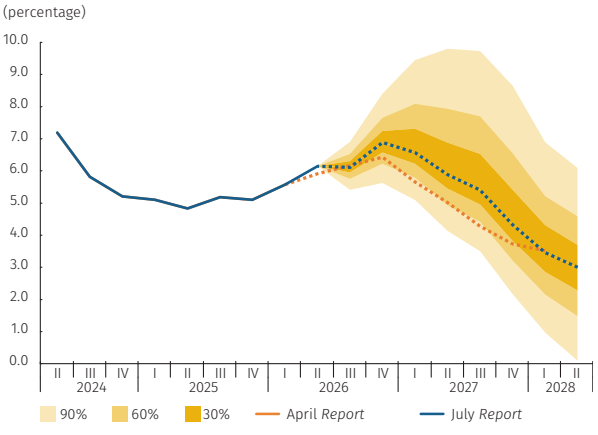
1. Summary

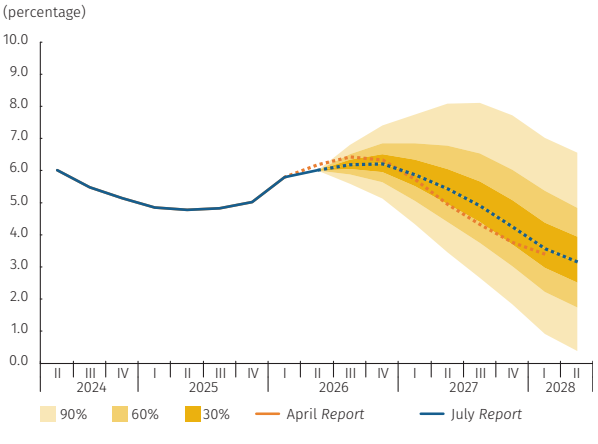
1.1 Macroeconomic Overview

Graph 1.1
Consumer Price Index [a/b/]
(annual change; end-of-period)



a/ This graph presents the forecast probability distribution on an eight-quarter time horizon. Density characterizes the prospective balance of risks with areas of 30%, 60%, and 90% probability surrounding the central forecast (mode), through a combination of densities from the Patacon and the 4GM-LM monetary policy models.
b/ The probability distribution corresponds to the forecast exercise from the July report.
Source: DANE; calculations and projections by *Banco de la República.*

GGraph 1.2
CPI excluding food and regulated items [a/b/]
(annual change; end-of-period)



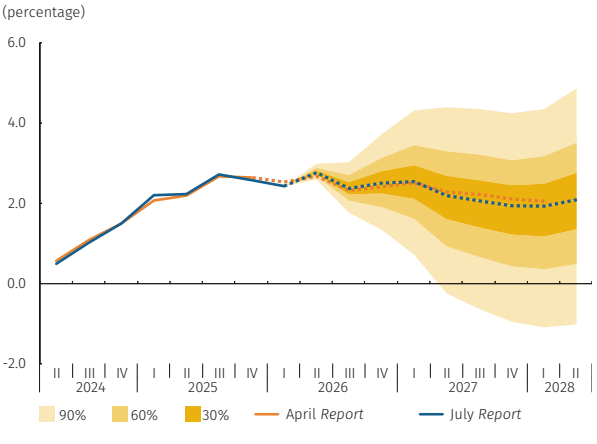
a/ This graph presents the forecast probability distribution on an eight-quarter time horizon. Density characterizes the prospective balance of risks with areas of 30%, 60%, and 90% probability surrounding the central forecast (mode), through a combination of densities from the Patacon and the 4GM-LM monetary policy models.
b/ The probability distribution corresponds to the forecast exercise from the July report.
Source: DANE; calculations and projections by *Banco de la República.*

In May and June, headline inflation and core inflation (excluding food and regulated items) continued to rise to 6.1% and 6.0%, respectively, moving further from the 3% target. The new forecast for December 2026 projects inflation rising to 6.9%, to then fall to 4.3% by the end of 2027 (Graph 1.1). As anticipated in the previous *Report*, inflation continued to rise in June, partly due to the gradual pass-through of the substantial increase in the minimum wage into consumer prices. In the second quarter, all CPI groups recorded increases in their annual rates of change. Inflation observed in June surpassed April's projections due to a higher-than-expected annual variation in food prices, driven by increases in international transport and agricultural input costs, as well as local supply shocks, particularly from flooding and road blockades. Gasoline prices also saw unforeseen increases, placing additional pressure on the regulated group. These upward surprises were not fully offset by the services group's weaker performance, which saw lower-than-expected prices in the food-away-from-home category and stronger disinflationary pressures from the exchange rate. This occurred in an environment where certain restaurant inputs, including electricity and gas, fell short of expectations, helping mitigate the impact of the rise in labor costs. The inflation forecast was revised upward for year-end 2026 and 2027 due to an expected steeper rise in food prices, stemming from supply shocks during the first half of the year and a forecast of a strong *El Niño* event; however, the impacts of these conditions would begin to ease in the second half of 2027. The upward revision to the inflation forecast also reflects a steeper path for the prices of regulated items, associated with larger expected increases in some public services such as gas, electricity, and water, further exacerbated by anticipated worsening weather conditions (*El Niño*). Likewise, increases in international goods prices are projected, which would more than offset the disinflationary pressures arising from a more negative-than-expected real exchange rate gap due to the persistent appreciation of the peso. Higher year-end inflation would also place upward pressure on several indexed services in 2027. This would take place against a backdrop of more pronounced wage growth and a greater output gap than anticipated in the April *Report*. Hence, by December 2026, headline and core inflation are projected to stand at 6.9% and 6.2%, respectively (previously forecast at 6.4% and 6.3%, respectively) and, by the end of 2027, drop to 4.3% and 4.2% (previously 3.7% and 3.8%, respectively) (Graph 1.2). These projections continue to face high uncertainty, mainly due to unknowns surrounding

the timing, intensity, and duration of the *El Niño* phenomenon; the evolution of the conflict in the Middle East and its effects on international commodity prices and exchange rates; and adjustments to the prices of regulated goods and services.

Economic growth in the first quarter of 2026 (2.2%) was slightly higher than initially forecast (2.1%). These figures, together with the new economic activity indicators for the current quarter and the medium-term macroeconomic forecast, suggest that GDP would grow by 2.5% in 2026 and 1.9% in 2027 (versus the previous forecasts of 2.4% and 2.1%, respectively). Compared with the April estimate, domestic demand in the first quarter of 2026 expanded somewhat more than expected, mainly propelled by consumption and investment in machinery and equipment. The external deficit widened slightly versus the previous year, as imports grew slightly more than exports year-on-year, both exceeding projections. For the second quarter of 2026, economic indicators suggest annual growth of 3.2%, higher than estimated in April (2.8%), although this rebound would be partly transitory. Domestic demand is expected to accelerate in annual terms, driven primarily by higher spending on entertainment and durable goods, which would support private consumption. Annual growth in public consumption is expected to moderate but remain significantly above GDP growth, primarily resulting from increased spending associated with the presidential elections. Gross fixed capital formation is expected to slow in annual terms because of weak investment in housing, other buildings, and infrastructure, despite strong investment in machinery and equipment. For the remainder of 2026 and 2027, several factors would continue to encourage spending, including favorable terms of trade and foreign tourism levels. This would occur in an environment of an active monetary policy stance, which would be adjusted to levels compatible with the convergence of inflation towards the 3% target over the forecast horizon and the reduction of excess demand. In this context, the economic growth projection for 2026 stands at 2.5% (previously 2.4%) and that of 2027 at 1.9% (previously 2.1%) (Graph 1.3). New forecasts for economic activity suggest that the output gap would be somewhat wider than estimated in April, turning negative towards the end of 2027 (Graph 1.4). These projections are subject to a high degree of uncertainty stemming from external factors - such as the conflict in the Middle East, its effect on international fuel prices, and the reaction of financial markets to monetary policy in advanced economies—as well as domestic factors, including uncertainty surrounding fiscal policy and the effects of potential climate shocks.

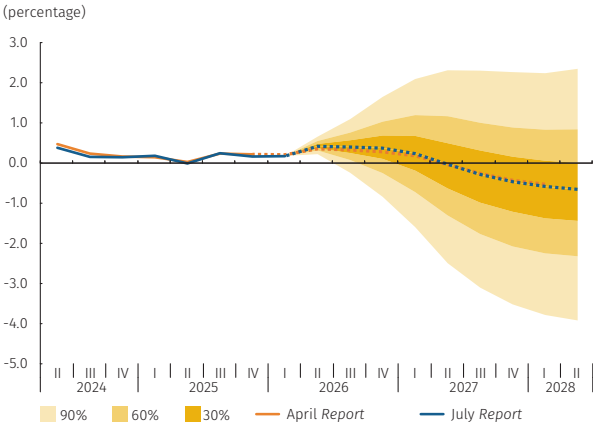
Graph 1.3
Gross Domestic Product, four quarter accumulation [a/b/c/]
(annual change)



a/ Seasonally adjusted and corrected for calendar effects.
b/ This graph presents the forecast probability distribution on an eight-quarter time horizon. Density characterizes the prospective balance of risks with areas of 30%, 60%, and 90% probability surrounding the central forecast (mode), through a combination of densities from the Patacon and the 4GM-LM monetary policy models.
c/ The probability distribution corresponds to the forecast exercise from the July report.
Source: DANE; calculations and projections by *Banco de la República.*

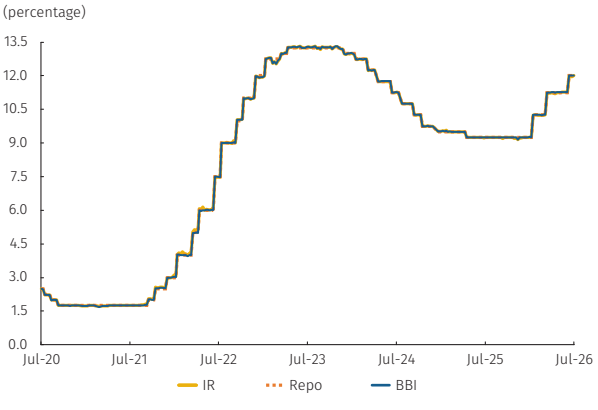
So far in 2026, heightened geopolitical tensions have disrupted global trade, driven up energy prices, and tightened financial conditions, limiting growth in some regions. Higher oil and gas prices have placed upward pressure on global inflation, and in several economies, including the euro area, this has led to a

Graph 1.4
Output gap [a/b/c/] - Predictive Densities
(four-quarter accumulation)



a/ The historical output gap estimate is calculated as the difference between observed GDP (four-quarter accumulation) and potential GDP (trend; four-quarter accumulation) based on the 4GM-LM model.
b/ This graph presents the forecast probability distribution on an eight-quarter time horizon. Density characterizes the prospective balance of risks with areas of 30%, 60%, and 90% probability surrounding the central forecast (mode), through a combination of densities from the Patacon and the 4GM-LM monetary policy models.
c/ The probability distribution corresponds to the forecast exercise from the July report.
Source: DANE; calculations and projections by *Banco de la República.*

Graph 1.5
Monetary policy interest rate, interbank rate and BBI[a/]
(weekly data)



a/ IR: interbank rate. BBI: benchmark banking indicator. Repo: Monetary Policy interest rate.
Sources: Financial Superintendency of Colombia and *Banco de la República.*

deterioration in economic growth. By contrast, some commodity-producing countries have seen an increase in the terms of trade and domestic income. In June and July, the Federal Reserve maintained its interest rate unchanged, amid higher inflationary risks associated largely with the increase in international energy prices. At the same time, futures for the United States' monetary policy interest rate increased. Accordingly, this *Report* revised the expected path for the U.S. benchmark rate, without any reduction noted in the forecast horizon. In this context, it is expected that Colombia's external demand is expected to moderate to 2.1% in 2026 and 2027, while the terms of trade projection was revised upward. This risk premium forecast is thus lower than April's number; however, the expected path remains ascending, amid high global uncertainty and a rising local public debt. It should be noted that external uncertainty remains high due to persisting geopolitical conflicts and trade tensions, among other factors.

Domestic demand that exceeds the economy's productive capacity, rising headline and core inflation, and high, far-from-target inflation expectations underscore the need for a monetary policy stance that continues to guide the convergence of inflation toward the 3% target by 2028. GDP growth in the first quarter of 2026 and the economic activity indicators for the second quarter point to economic acceleration, with domestic spending (domestic demand) exceeding trend values considered before the pandemic. In the labor market, the unemployment rate continues at levels that can be described as low, compared to historical levels, and employment shows an increasing trend. Headline and core inflation rates have grown and remain well above target. These behaviors in economic activity, the labor market, and prices indicate excess demand, as reflected in a positive output gap. Inflation forecasts and expectations remain high. The prospect of an increase in inflation in 2026, the presence of aggregate demand that exceeds the productive capacity of the economy, and the upside risks to inflation require a monetary policy stance that favors the convergence of inflation towards the target within the forecast horizon.

1.2 Monetary Policy Decision

The Board of Directors of *Banco de la República* (BDBR) decided, by majority vote, to increase the monetary policy interest rate by 75 basis points (bp) at its June meeting and to keep it unchanged at 12.0 % at its July meeting (Figure 1.5).

2. Macroeconomic forecasts and risk analysis[1]

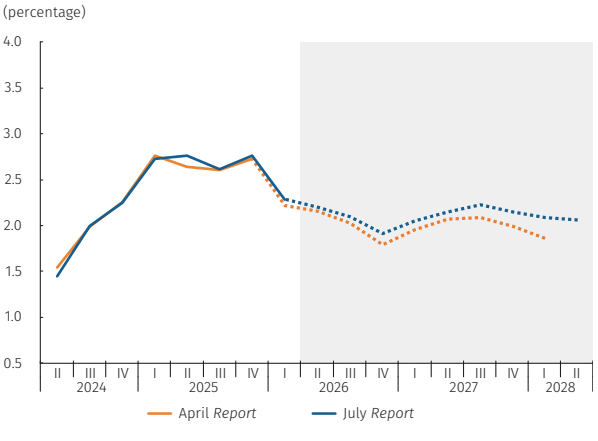
2.1 International outlook

2.1.1 Foreign demand

So far in 2026, the global economy has continued to face elevated geopolitical uncertainty associated with the conflict in the Middle East. Although the ceasefire observed between mid-June and early July temporarily reduced uncertainty, the recent escalation of tensions has once again heightened risks to the global economy. The conflict has continued to generate upward pressure on international energy prices, transportation costs, and financial market volatility, while also posing risks to global economic growth. Against this backdrop, U.S. GDP grew by 2.1% quarter-over-quarter (annualized) in the first quarter of 2026, driven by the recovery in public spending following the partial government shutdown in late 2025 and by stronger investment. This was partly offset by a sharp increase in imports. The latest data continue to point to mixed economic activity, with private consumption affected by weak household confidence and increased inflationary pressures stemming from the conflict, while business surveys remain in positive territory.[2] As for other trading partners, during the first quarter of 2026, economies such as Brazil, Peru, and Ecuador recorded strong economic performance, supported by fiscal stimulus and the strengthening of certain export sectors. In contrast, economic activity weakened in Mexico, Chile, and, particularly, in the eurozone, where the adverse effects of high energy costs and weak demand continue to weigh on activity. Meanwhile, China's economy slowed to an annual growth rate of 4.3% in the second quarter of the year, reflecting continued weakness in domestic demand and the ongoing real estate crisis, despite strong export and high-tech manufacturing performance. Based on available information, the recent performance of main trading partners remains heterogeneous and continues to be conditioned by geopolitical and trade uncertainty.

Growth among Colombia's main trading partners is expected to diminish from 2.7% in 2025 to 2.1% in 2026 and 2027 (Graph 2.1), against a backdrop of still-elevated global uncertainty. This slowdown is expected to be less pronounced than

Graph 2.1
Real GDP, main trade partners
(Annualized change, projections according to full-year assumption)



Sources: Bloomberg; statistics offices and central banks; calculations and projections by *Banco de la República*.

1 The projections presented in this chapter are based on estimates from the Patacon and 4GM central forecast models. For more details on these models, see https://www.banrep.gov.co/es/node/149 and Ramos, Naranjo and Pulido (2026, to be published).

2 According to preliminary information available at the time this Report was being written, figures indicate that during the second quarter of 2026, GDP growth in the United States registered 1.5% in annualized quarterly terms.

projected in the previous *Report*, reflecting improved growth prospects in some of the country's key trading partners. In its latest report, the International Monetary Fund (IMF) projects that global economic growth will moderate from 3.5% in 2025 to 3.0% in 2026, before recovering to 3.4% in 2027. Relative to its previous report, the IMF's aggregate projections show little change, as the negative effects of the conflict in the Middle East on global economic activity are expected to be partially offset by a stronger global technology cycle, associated with advances in artificial intelligence and its increasing adoption. Nevertheless, the IMF emphasizes that the effects of the conflict remain heterogeneous across economies, depending on their exposure to higher energy prices, their participation in global value chains, and their integration with the technology sectors. In this context, improved prospects for some of Colombia's main trading partners, particularly Brazil, Peru, and Ecuador, supported by domestic factors, partially offset the expected moderation in the United States, the eurozone, Mexico, and Chile. As a result, Colombia's relevant external demand is projected to grow by 2.1% in both 2026 and 2027, a rate below its historical average,[3] albeit slightly higher than projected in the April *Report* (Table 2.1). Uncertainty surrounding this assumption remains high due to the evolving conflict in the Middle East, its effects on international energy prices, global supply chains, and financial conditions, as well as the risks associated with greater fragmentation of international trade. At the regional level, Ecuador's elimination of tariffs on imports from Colombia has helped reduce bilateral trade tensions, although some challenges remain for normalizing trade flows between the two countries.

Table 2.1
Projected Economic Growth among Major Trade Partners [a/]

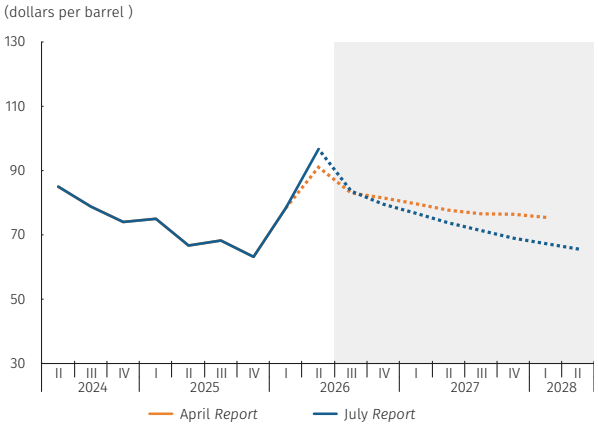
Main partners	2024 (pre)	2025 (pre)	2026 (proj)	2027 (proj)
United States	2.8	2.1	2.0	1.9
Eurozone	0.9	1.5	0.6	1.0
China	5.0	5.0	4.7	4.2
Ecuador	-1.9	3.7	2.4	2.2
Brazil	3.4	2.3	1.9	1.7
Peru	3.5	3.5	3.2	2.8
Mexico	1.2	0.7	1.1	1.6
Chile	2.6	2.6	1.5	2.4
All trade partners [a/]	1.9	2.7	2.1	2.1

(pre): preliminary, (proj): projected
a/ Projections calculated based on the contribution of non-traditional trade.
Sources: Bloomberg; Focus Economics, statistics offices, and central banks (observed data); *Banco de la República* (projections and calculations).

2.1.2 International price developments

For 2026, the oil price assumption remains elevated amid geopolitical tensions and the gradual recovery of demand in China. For 2027, Brent oil prices are expected to decline as global crude oil supply expands (Graph 2.2). In the second quarter of the year, the average Brent crude oil price stood at around USD 97 per barrel (bl), above the previous quarter's average (USD 78 bl). This increase reflected a contraction in global oil supply, resulting from disruptions and heightened risks to oil tanker transit through the Strait of Hormuz.[4] For the remainder of 2026, China's demand for oil and refined products is expected to recover gradually, following the sharp slowdown observed during the first half of the year. This recovery, together with persistent geopolitical tensions in the Middle East,

Graph 2.2
Assumed quarterly oil price



Source: Bloomberg; calculations, and projections by *Banco de la República.*

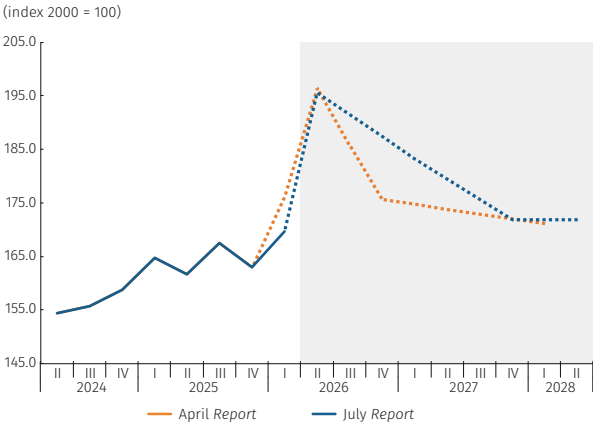
3 Historically, the average annual growth in trading partners between 2001 and 2025 has been 2,9%.

4 According to the U.S. Energy Information Administration, before the conflict the Strait of Hormuz handled an average of nearly 20 million barrels per day, equivalent to approximately 20% of global oil and refined product consumption.

is expected to generate upward pressure on international oil prices. However, the price increase is expected to be limited by the projected expansion of global oil production, particularly in non-OPEC countries.[5] Throughout 2027, global oil supply growth will continue to be led by the United States, Canada, Brazil, Guyana, and Argentina. In addition, the expected normalization of conditions for vessel transit through the Strait of Hormuz and the easing of geopolitical tensions are expected to support higher oil production in Middle Eastern countries, consistent with strategies aimed at regaining market share. As a result, global oil supply growth is projected to exceed consumption growth during 2027 and part of 2028. This is expected to contribute to rebuilding crude oil and refined product inventories in member countries of the Organization for Economic Cooperation and Development (OECD) and to support the projected downward trend in oil prices. Based on these assumptions, the anticipated average Brent crude oil price for 2026 is USD 84 per barrel, broadly in line with the level projected in the previous *Report* (USD 83 per barrel). By 2027, the Brent price is expected to decline to USD 73 per barrel, a larger downward revision than projected in the April *Report*, reflecting improved supply prospects. The projected price path remains subject to exceptionally high uncertainty. In particular, significant risks persist regarding the evolution of the conflict in the Middle East, whose recent escalation has increased risks to supply and shipping through strategic crude oil transport routes. Added to this is ambiguity regarding the effectiveness and durability of any potential agreements or negotiations, whose partial progress and recurring setbacks continue to raise doubts about the sustained normalization of navigation through the Strait of Hormuz.[6] This outlook is also influenced by future OPEC decisions, the behavior of its member countries, potential trade measures or foreign policy actions by the United States and Israel, and the evolution of oil demand in China.

The terms of trade are expected to continue increasing in 2026, in line with the expected rise in oil, coal, and gold prices, while declining in 2027 as prices of Colombia's main export commodities are anticipated to moderate (Graph 2.3). In the first quarter of 2026, the terms of trade increased by about 3.1% compared with the same period in 2025, reflecting higher export prices. In 2026, this indicator is projected to increase by about 13.0% year-over-year, supported by elevated prices for coal, gold, oil, and refined oil products amid persistent geopo-

Graph 2.3
Assumed quarterly terms of trade[a/]



a/ Terms of trade index based on chain-linked export and import price indices.
Source: Calculations, and projections by *Banco de la República*.

5 On April 28, 2026, the United Arab Emirates announced its withdrawal from OPEC and the OPEC+ alliance, effective May 1, 2026, following a review of its production policy and future production capacity.

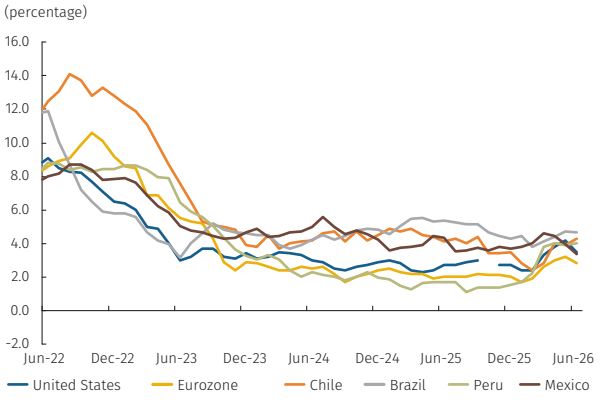
6 On June 17, 2026, the United States and Iran signed a memorandum of understanding that supported a partial recovery in navigation through the Strait of Hormuz and in crude oil flows from the region. However, the resumption of military attacks and counterattacks in early July again disrupted maritime traffic through the strait and increased uncertainty in the global oil market.

litical tensions. This projection is above the 11.7% forecast in the previous *Report*, reflecting upward revisions to coal and nickel prices driven by stronger expected demand, particularly in Asia, and disruptions to coal supply associated with the conflict in the Middle East. In addition, the smaller-than-expected increase in US-dollar prices for intermediate goods imported by Colombia would contribute to a faster improvement in the terms of trade. For 2027, the country's terms of trade are projected to contract by 4.6% year-over-year, reflecting the expected moderation in oil, coal, and coffee prices. However, this decline would be smaller than that projected in the April *Report* (-5.5% in 2027), owing to a more pronounced decline in the US-dollar prices of intermediate goods imported by the country, consistent with the expected behavior of fuel, fertilizer, and certain grain prices.

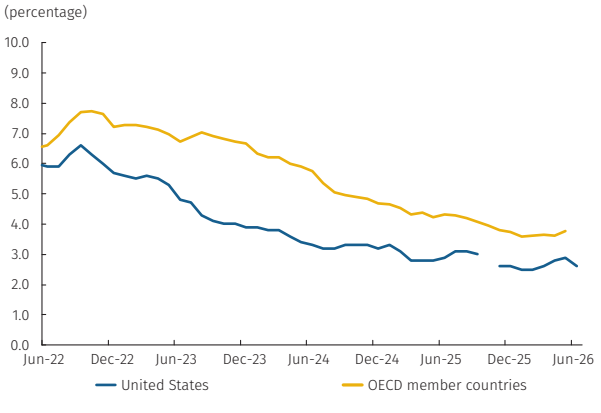
During 2026, headline inflation is expected to remain above target in several advanced economies amid elevated geopolitical uncertainty stemming from the conflict in the Middle East. The latest OECD data indicate annual inflation in member countries rose to 4.6% in May 2026, up from 4.4% in April, driven primarily by a further increase in energy prices, which recorded an annual variation of 15.8% as of last month. Meanwhile, core inflation increased to 3.8%, reflecting a gradual pass-through of inflationary pressures to components other than energy (Graph 2.4). In the United States, annual inflation declined to 3.5% in June 2026, from 4.2% in May, while core inflation fell to 2.6%, partly reflecting the recent drop in domestic gasoline and other fuel prices following the partial easing of tensions in the Middle East. Nevertheless, energy prices remained high relative to a year earlier, and inflationary pressures persist in some service sectors. Consistent with this outlook, the IMF's latest report projects that global inflation will increase from 4.1% in 2025 to 4.7% in 2026, before moderating to 3.9% in 2027. This reflects a global disinflation process that has been temporarily interrupted by the conflict's impact on energy prices. The IMF also warns that a renewed escalation of the conflict could lead to further increases in oil and gas prices, higher transportation and production costs, disruptions to global supply chains, and a delay in the convergence of inflation toward target levels.

Graph 2.4
Inflation, select main trading partners

A. Headline Inflation



B. Inflation excluding food and energy

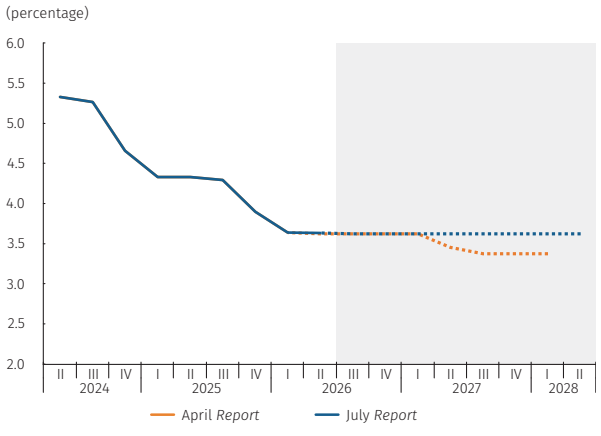


Source: Bloomberg and the Organization for Economic Co-operation and Development (OECD).

2.1.3 International financial developments

This *Report* projects a path for the U.S. policy interest rate that is higher than the one envisaged in April, in an environment characterized by elevated geopolitical and trade uncertainty, increased inflationary pressures, and a labor market that remains resilient (Graph 2.5). At its June and July 2026 meetings, the Federal Open Market Committee (FOMC) kept its monetary policy interest rate unchanged within a range of 3.50% to 3.75%, consistent with market expectations and the Bank's technical staff projections. The minutes for the June meeting indica-

Graph 2.5
Assumed U.S. Federal Reserve quarterly interest rate



Source: Federal Reserve Bank of Saint Louis; calculations and projections by *Banco de la República*.

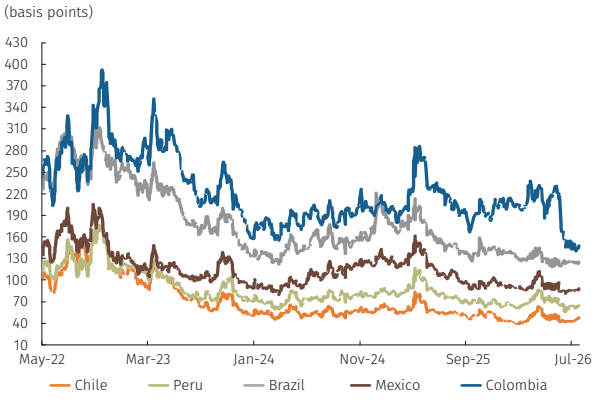
ted that members no longer view a near-term interest rate cut as appropriate, given inflationary pressures associated with, among other factors, higher energy prices resulting from the conflict in the Middle East. They also emphasized that, although risks to growth and employment have become more balanced, significant uncertainty remains regarding the future path of inflation, and divergence among Committee members regarding the next monetary policy decision has increased. In its latest projections, the FOMC median revised its inflation forecasts upward, as measured by the Personal Consumption Expenditures (PCE) deflator, for both headline and core inflation to 3.6% and 3.3% for 2026, respectively, and to 2.3% and 2.5% for 2027. Consistent with this outlook, and with a balance of risks perceived as increasingly tilted toward upside inflation risks owing to the greater persistence of supply shocks, the FOMC raised the median projected path for the federal funds rate to 3.8% by the end of 2026 (up from 3.4%), consistent with a more restrictive monetary policy stance. Meanwhile, interest rate futures have risen relative to the levels observed in the April *Report*,[7] reflecting higher inflation readings in recent months, the resilience of economic activity and the labor market, and the more hawkish tone of recent FOMC communications. Although the downward inflation surprise in June partially tempered expectations of further monetary tightening, the renewed escalation of the conflict in the Middle East kept market interest rate expectations above those recorded in April. Futures continue to signal additional increases in the policy interest rate toward the end of 2026 and elevated levels throughout much of 2027, remaining above the path implied by the FOMC's projections. Against this backdrop, this *Report* again revises the projected path for the U.S. monetary policy interest rate upward relative to the April *Report*. In particular, rate cuts are no longer anticipated over the forecast horizon, in contrast to the April scenario, which called for a 25-basis-point (bp) reduction during the first half of 2027. This assumption reflects a scenario in which inflationary pressures stemming from the conflict in the Middle East, together with the relative strength of the U.S. economy, would require maintaining a restrictive monetary stance for a longer period. In this context, the projected path of the U.S. policy interest rate remains subject to considerable uncertainty, associated with developments in inflation, the labor market, trade policy, and risks to U.S. economic growth.

The projected path of the risk premium was revised downwards relative to the previous *Report*, reflecting a combination of external and domestic factors. Nevertheless, the assumption continues to incorporate a gradual upward trend over the forecast horizon, mainly driven by persistent domestic fiscal pres-

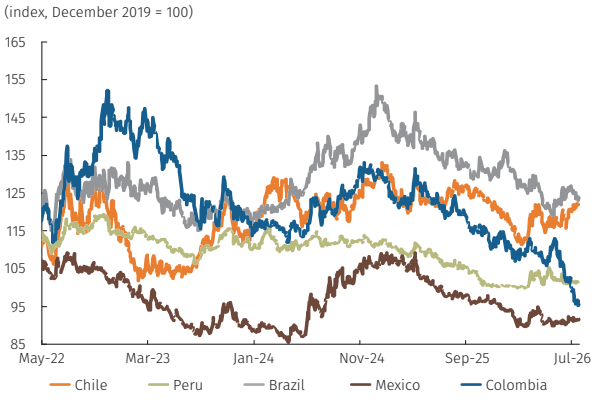
7 By the end of 2026 and 2027, and with figures as of July 21, 2026, the futures associated with the Fed's monetary policy interest rate stood at 3.99% and 4.04%, respectively (previously 3.56% and 3.22%, taken on April 21).

Graph 2.6
Behavior of nominal exchange rate and risk premium for select Latin American countries

A. Five-year credit default swaps



B. Nominal exchange rate



Note: Data to July 24, 2026.
Source: Bloomberg; calculations by *Banco de la República.*

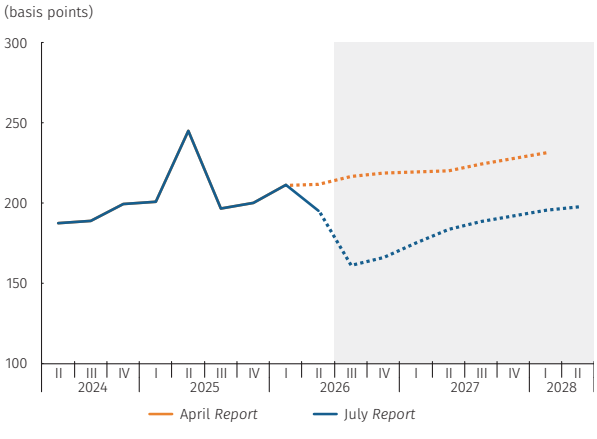
sures. In recent months, Colombia's risk premium, measured by the five-year credit default swap (CDS), has declined, averaging 145 bps through July 22 of the third quarter, compared with 211 bps and 195 bps in the first and second quarters of 2026 (Graph 2.6). The latter has led to a narrowing of the spread between Colombia's risk premiums and those of its regional peers. This performance appears to reflect a combination of several factors. On the external front, although tensions in the Middle East continue to exert upward pressures on energy prices, volatility in international financial markets has remained relatively contained and has even declined from the elevated levels observed at the onset of the conflict. As a result, global risk perception has eased considerably. This favorable external environment has also contributed to a fall in risk premiums across emerging market economies, which are currently below the levels observed in the first quarter of the year. On the domestic front, uncertainty associated with the political cycle, which had kept Colombia's CDS significantly above that of its regional peers during the first part of the year, dissipated following the conclusion of the electoral period. This has been reinforced by improvements in the terms of trade, driven by higher oil, coal, and gold prices. As a result, the projected path of Colombia's risk premium was revised downwards in response to the factors described above. Nevertheless, the projection continues to recognize persistent risks and upward pressures stemming from the fiscal outlook, given the government's high levels of debt and fiscal deficit. In addition, international conflicts and the complex geopolitical environment could once again increase global risk aversion and restrict financing conditions for emerging market economies. Against this backdrop, Colombia's CDS is expected to maintain an upward trend over the forecast horizon, averaging 183 bps by 2026 and rising slightly to 185 bps in 2027 (Graph 2.7).

2.2 Macroeconomic projections[8]

2.2.1 Inflation

Annual consumer inflation is likely to increase over the remainder of the year and, beginning in 2027, to resume a downward path towards the target, partly due to the cumulative effect of monetary policy measures. The projected inflation path is higher than that presented in the April *Report*, mainly reflecting stronger inflationary pressures in the food and regulated items components. During the second quarter of the year, annual headline inflation increased and exceeded the Bank's technical staff's expectations (6.1% versus 5.9%). This upside surprise was driven primarily by certain food prices, which rose

Graph 2.7
Colombia's assumed quarterly risk premium (CDS) [a/]

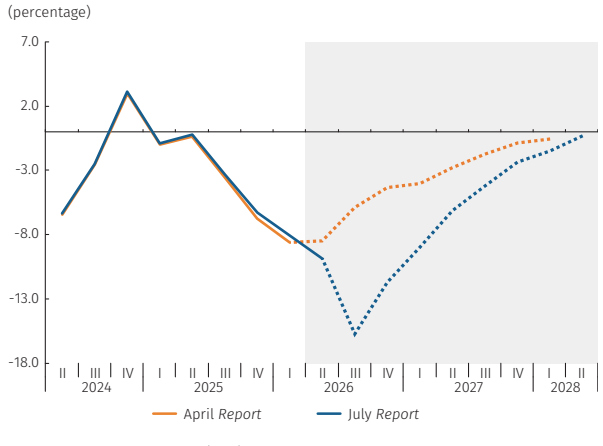


a/ Five-year credit default swaps.
Source: Bloomberg; calculations and projections by *Banco de la República.*

8 Projections are based on an active monetary policy in which *Banco de la República's* monetary policy interest rate is adjusted to ensure alignment with the inflation target.

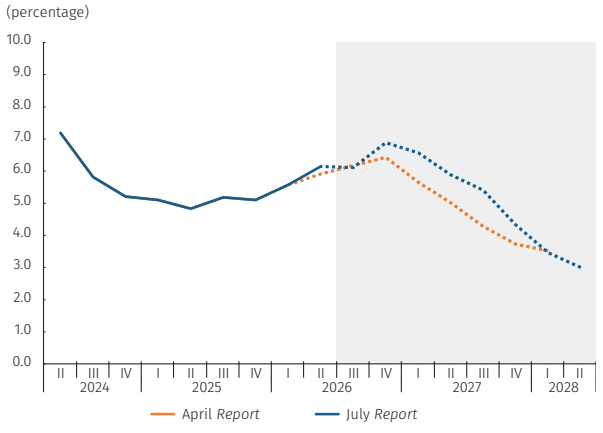
significantly more than anticipated, reflecting supply disruptions affecting perishables. Unanticipated adjustments in fuel prices were also observed, partly as a result of the increase in international oil prices. Looking ahead, persistent upward pressures suggest that both headline and core inflation will continue to increase over the remainder of the year. In particular, both indicators are expected to continue rising over the next two quarters, reflecting the pass-through of wage increases to prices and continued aggregate demand, consistent with an output gap projected to remain in positive territory throughout 2026 and into part of 2027. The increase in inflation is also likely to be influenced by the effects of the conflict in the Persian Gulf on the prices of certain agricultural products and inputs, oil, and international transportation. In addition, the relative scarcity of some technology products worldwide has contributed to higher prices for those goods. By 2027, both headline and core inflation are expected to resume a downward path toward the target, partly as a result of the cumulative effects of monetary policy measures, which are expected to reduce excess demand and support the convergence of inflation to the 3% target, as well as the partial dilution of the supply shocks affecting some prices. Relative to the April *Report*, the projected path for headline inflation has been revised upwards, mainly reflecting the inflation surprises observed in the food and regulated items baskets. In addition, the central scenario now incorporates the effects of an *El Niño* event, which is expected to mainly affect the CPI for food, while also generating additional pressures on regulated items through higher electricity and gas tariffs and on services through food away from home (CFH for its Spanish acronym). The forecast also incorporates somewhat more persistent external cost pressures associated with a prolonged conflict in the Middle East, which could also pass through to some imported agricultural inputs and goods via higher international transport costs. This is expected to occur in a context in which demand pressures are anticipated to remain stronger over much of the forecast horizon than estimated in the April *Report*. Taken together, these factors would result in higher headline inflation at the end of 2026 than projected in the previous *Report*. These upward pressures would also contribute to higher inflation in 2027 through indexation effects. They would be partially offset by disinflationary pressures from the exchange rate, reflected in a real exchange rate gap that is now estimated to be more negative over the forecast horizon (Graph 2.8). It is important to note that the central scenario does not incorporate additional adjustments to gasoline prices and that the assumed effect of the El Niño event is broadly consistent with a conservative scenario based on past high-intensity weather events. As a result, annual headline inflation is projected to reach 6.9% by the end of 2026, before declining to 4.3% in 2027, compared with projections of 6.4% and 3.7% respectively, in the previous *Report* (Graph 2.9). In a context of international conflicts and potentially severe climate shocks, the central scenario remains subject to unusually high uncertainty.

Graph 2.8
Quarterly RER inflationary gap [a/]



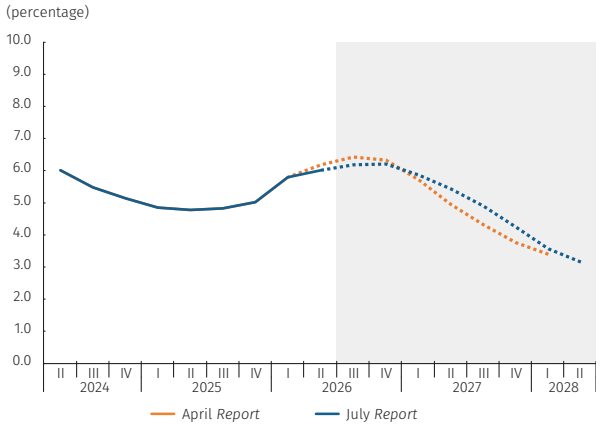
a/ The real exchange rate (RER) inflationary gap captures inflationary pressures caused by the exchange rate. Positive values imply upward inflation pressures. The gap is calculated as the deviation of the real exchange rate from a non-inflationary trend estimate under the 4GM-LM monetary policy model.
Source: *Banco de la República.*

Graph 2.9
Consumer Price Index (CPI)
(Annual change, end-of-period)



Source: DANE; calculations and projections by *Banco de la República.*

Graph 2.10
CPI excluding food and regulated items
(Annual change, end-of-period)

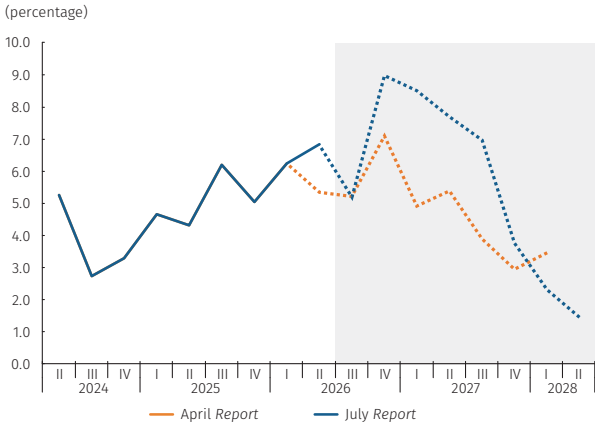


Source: DANE; calculations and projections by *Banco de la República.*

Core inflation would continue rising in the second half of 2026 and begin falling starting in 2027. Relative to the April *Report*, the projected path is lower in 2026, but higher as of 2027. Core inflation, measured by the annual variation in the CPI excluding food and regulated items, increased during the second quarter of the year and stood at 6.0% in June, slightly below the 6.2% projected in the previous *Report*. This difference was mainly driven by the downside surprises in some service components, particularly food away from home. The projected path for core inflation is upward in 2026, reflecting the factors discussed above, which are expected to result in a higher annual CPI for services and a relatively stable CPI for goods. On the services side, wage cost pressures and continued strength in demand are expected to be reinforced by the effects of the *El Niño* event, which would affect core inflation, mainly through the food away from home component. By contrast, annual variation in the CPI for goods is expected to reflect a balance between upward pressures, including higher domestic and external costs, robust consumer demand, and downward pressures, particularly the appreciation of the real exchange rate and increased competition in items such as vehicles. By 2027, the cumulative effects of monetary policy measures and the gradual easing of domestic and external inflationary pressures are expected to allow both goods and services inflation to follow a downward path through the end of the forecast horizon. Relative to the April Report, the projected path for core inflation is slightly lower in 2026, but higher from 2027 onwards. The lower projection for 2026 reflects recent downward surprises in some service components, particularly food away from home, where moderate adjustments in rents and public utility services, together with stronger disinflationary pressures from the exchange rate, contributed to lower-than -expected-inflation. The higher projected path from 2027 onwards reflects indexation effects associated with headline inflation that is expected to be higher at the end of 2026, which would affect services inflation in particular. It also reflects the incorporation of the effects of *El Niño*, a somewhat larger output gap, and higher international transportation costs resulting from the prolonged conflict in the Middle East. As a result, inflation excluding food and regulated items would be expected to end 2026 at 6.2% (slightly below the 6.3% estimated in April) and 2027 at 4.2% (above the 3.8% forecast in April) (Graph 2.10).

Both the pressures associated with the agricultural cycle and the incorporation of *El Niño* event effects into the central forecast scenario would lead to food inflation increasing faster through the end of 2026 than projected in the previous *Report*. In June, the annual change of the CPI for food stood at 6.8%, above the 5.3% projected in the previous *Report*. This difference is mainly explained by a less pronounced and delayed downward phase of the perishable food price cycle than anticipated in April, reflecting the greater impact of some supply disruptions. In particular, the road blockades obser-

Graph 2.11
CPI for foods
(Annual change, end-of-period)

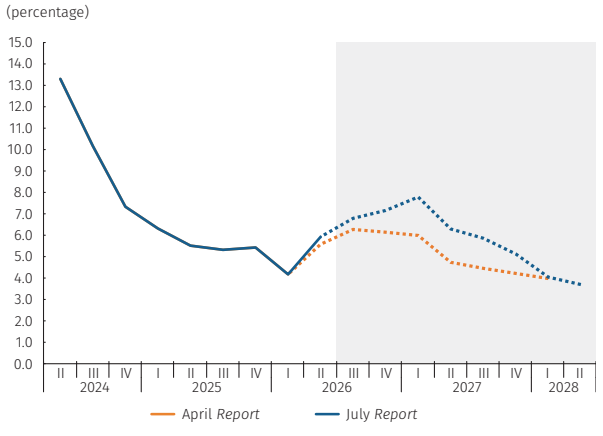


Source: DANE; calculations and projections by *Banco de la República.*

ved in some regions of the country during April, and the earlier floods are expected to have larger, more persistent lagged effects than previously anticipated. These factors are compounded by stronger upward pressures from international oil prices and the price of other agricultural inputs and goods. Looking ahead, given the high probability assigned by specialized agencies to the occurrence of an *El Niño* event, its effects on prices have been incorporated into a conservative scenario based on records of past strong-intensity weather events. This weather event will have its largest impact on prices in the second quarter of 2027. However, the other aforementioned upward pressures are expected to gradually ease from the end of 2026 and, together with stronger disinflationary pressures from the exchange rate, lead to a decline in annual food inflation beginning in early 2027. Consequently, compared with the previous *Report*, the projected path was revised upward due to the stronger pressures described above and the incorporation of the effects of the El Niño event, which together are expected to affect the agricultural cycle. As a result, annual food inflation is forecast to end 2026 at 9.0%, up from the previously projected 7.1%, and to end 2027 at 3.8%, up from the 3.0% projected in the previous *Report* (Graph 2.11). The projected path of food inflation is highly uncertain due to developments in production and distribution, the exchange rate, fertilizer prices, international food prices, and weather shocks. In particular, there is uncertainty about the duration and intensity of the *El Niño* event and the extent to which its effects are passed through to prices.

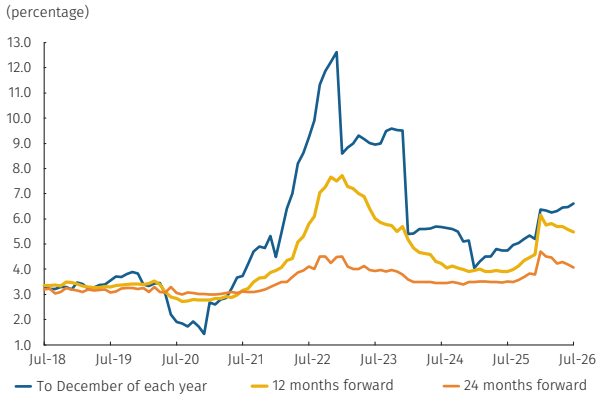
The projected CPI path for regulated items was revised upward in this *Report* due to upside surprises in fuel prices and the incorporation of *El Niño* effects. Nevertheless, this component is expected to resume a downward trend in 2027. In June, annual CPI for regulated items increased to 5.9%, above the 5.6% projected in the previous *Report*. The upside surprise was mainly due to an unanticipated increase in fuel prices, along with larger-than-expected increases in electricity and waste collection rates. The projected path is expected to rise during 2026, largely due to upward pressures from indexation mechanisms and the continued pass-through of higher labor costs to some regulated services, as well as expected adjustments in electricity prices that are higher than those recorded in 2025. As these pressures ease, CPI for regulated items is envisioned to begin declining in the first quarter of 2027 and continue through the end of the forecast horizon. Compared with the previous *Report*, the projected path is higher due to the upside surprises observed in the second quarter of 2026, the estimated effects of the *El Niño* event on gas and electricity prices, and indexation to higher headline inflation at the end of 2026. It should be noted that the projected path assumes no further changes to domestic fuel prices in 2026, in the absence of new government announcements. In turn, the gas

Graph 2.12
CPI for regulated items
(Annual change, end-of-period)



Source: DANE; calculations and projections by *Banco de la República.*

Graph 2.13
Bank and stockbroker inflation forecast [a/]



a/ Corresponds to the median response of the Monthly Survey of Economic Analyst Expectations conducted by *Banco de la República.*
Source: DANE; calculations and projections by *Banco de la República.*

tariff forecast assumes that domestic demand will not be fully met by domestic production and that international prices will remain high due to the conflict in the Middle East. As a result, annual CPI for regulated items is expected to stand at 7.1% at the end of 2026 (6.1% in April) and 5.1% in December 2027 (4.2% previously) (Graph 2.12). Forecasts for gas, electricity, and fuel prices are subject to a high degree of uncertainty due to the potential *effects of an El Niño event*, whose intensity, duration, and impact on prices may differ considerably from those assumed in the central scenario.

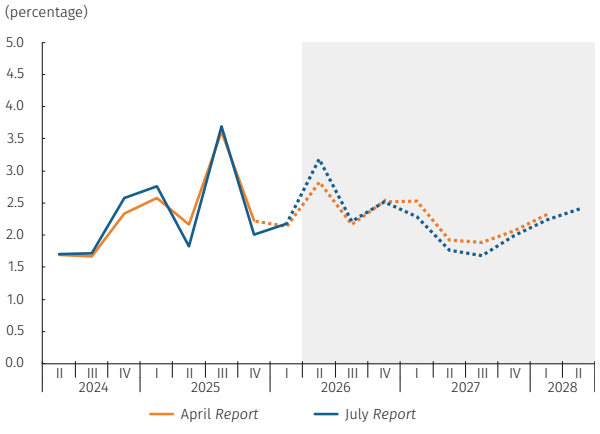
Compared with the April *Report*, headline inflation expectations increased for December 2026 and 2027, while core inflation expectations declined. All measures of inflation expectations remain above the 3% target, although they point to lower inflation over longer horizons. According to *Banco de la República's* monthly survey of economic analysts conducted between July 8 and 10 (Graph 2.13), the median expectation for headline inflation stood at 6.6% for the end of 2026, higher than the 6.3% expected in the April survey. For core inflation, the median expectation declined from 6.3% in April to 6.1% in July. For the end of 2027, headline inflation expectations increased to 5.0%, from 4.8% in April, while core inflation expectations declined to 4.8%, from 4.9% in April. Median five-year-ahead headline inflation expectations declined to 3.3%, from 3.5% in April. Meanwhile, as of July 24, inflation expectations derived from public debt securities (break-even inflation, BEI), adjusted for inflation and liquidity risk premiums, show relative stability across two-, three-, and five-year maturities. These measures stood at 6.2%, 6.0%, and 5.7%, respectively, compared with 6.2%, 6.1%, and 5.7% in April. It is worth noting that, as of July, inflation expectations across all maturities remain above the 3% target, though they continue to signal lower inflation as the forecast horizon lengthens.

2.2.2 Economic activity

In the second quarter of 2026, the Colombian economy would have continued to expand, albeit at a faster pace than in the first quarter, mainly due to a temporary boost from certain events. Available indicators[9] for the second quarter suggest that economic activity expanded at a higher rate than in the first quarter, both year-on-year (3.2%) and annualized quarter-on-quarter (4.2%), according to seasonally and calendar-adjusted series (Graph 2.14). This forecast implies an upward revision from the 2.8% projected by the Bank's techni-

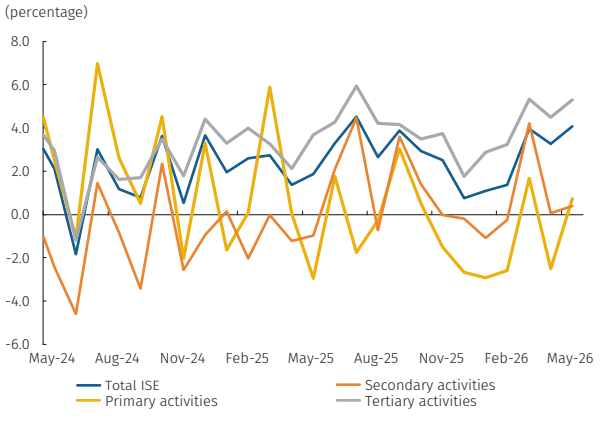
9 These include the ISE, manufacturing production, retail sales, and services surveys through May, together with other more timely indicators, such as the Regional Economic Pulse (PER), energy demand, consumer credit disbursements, debit and credit card purchase transactions, motorcycle registrations, and monthly exports and imports.

Graph 2.14
Quarterly GDP [a/]
(Annual change)



a/ Seasonally adjusted and corrected for calendar effects.
Source: DANE; calculations and projections by *Banco de la República.*

Graph 2.15
Economic Tracking Indicator (ISE), and ISE by sectors [a/, b/]
(Annual change)



a/ Seasonally adjusted and corrected for calendar effects.
b/ Primary activities: agriculture, hunting, forestry and fishing, mine and quarry exploitation. Secondary activities: manufacturing industries and construction. Tertiary activities: electricity, gas, and water supply; commerce, repairs, transportation and lodging; information and communications, financial and insurance activities; real estate activities; professional, scientific and technical activities; administrative and support services; public administration and defense, education and health; arts and entertainment.
Source: DANE; calculations and projections by *Banco de la República.*

cal staff in the April *Report*. Among the indicators supporting this forecast, the Economic Monitoring Indicator (ISE) stands out, recording annual growth of 3.7% for both April and May (Graph 2.15), driven by the continued strong performance of tertiary activities (4.9%), including public administration, education and health; arts and entertainment; electricity, gas, and water supply; and the trade, transportation, and accommodation macro-sector. Meanwhile, secondary activities remained broadly unchanged from the previous year (0.2% year-on-year), as the stronger performance of manufacturing industries was offset by continued weakness in construction. In contrast, primary activities continued to decline year-on-year (-0.9%), largely owing to weak agricultural activity, while mining and quarrying resumed growth, driven by strong performance in coal and gold. During the remainder of the quarter, economic activity is estimated to have received an additional boost from certain events, such as the presidential elections and activities associated with the FIFA World Cup, temporarily boosting consumption.

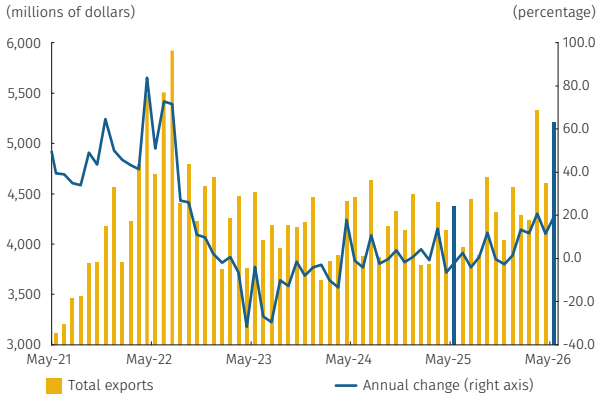
The strong performance of consumption would have continued to drive the growth in domestic demand, alongside a smaller decline in investment. During the second quarter, total domestic expenditure would have grown by 3.1% year-on-year, with a further quarterly increase of 7.8% at an annualized rate, both rates above those observed at the beginning of the year. Consumption would be expected to have made the largest contribution to this expansion, with annual growth of 3.7%, once again exceeding the economy's overall growth. Both private and public consumption are estimated to have increased in annual and quarterly terms. In contrast, gross capital formation is estimated to have continued to decline year-on-year (-1.2%), albeit at a slower rate than in the previous two quarters, with a marginal quarterly increase.

In the second quarter, total consumption would have maintained a favorable performance, with annual growth accelerating and exceeding GDP growth. Private consumption, the largest component of total consumption, would have recorded an annual growth rate of 3.2%, higher than in the first quarter. By component, durable goods consumption is estimated to have remained strong, though its annual growth would have been more moderate than at the beginning of the year. Semi-durable goods consumption is expected to have recorded annual growth similar to that of the first quarter, supported, among other factors, by transitory spending on books and stationery. Services consumption would have continued to expand gradually, driven by spending on betting and entertainment. Overall, the World Cup is expected to have boosted several segments of private consumption. Nevertheless, the annual deceleration relative to last year has occurred amid lower contributions from some factors that boosted household disposable income in 2025, such as remittances and coffee-related income, whose

growth has moderated so far this year. This has been compounded by monetary policy remaining in contractionary territory. On the other hand, public consumption would have continued to register high annual growth (7.0%), driven by spending associated with the electoral processes held in the second quarter and by the payment of part of the retroactive salary owed to public-sector employees. As a result, total consumption would have accelerated in annual terms to nearly 3.7%, which would remain higher than GDP growth.

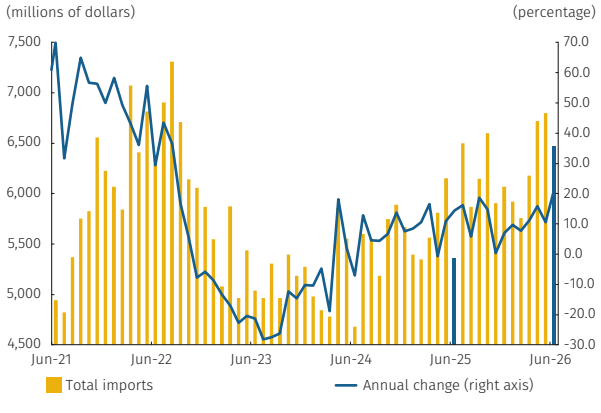
Investment growth would have been driven by a strong performance of spending on machinery and equipment but remained constrained by the weak performance of housing and some segments of civil works. In the second quarter, gross fixed capital formation is expected to have recorded a more moderate annual increase (3.8%) than in the previous quarter. By component, investment in machinery and equipment, the most dynamic item, would have grown in annual terms, as suggested by the preliminary performance of capital goods imports through June, particularly imports of transport equipment and capital goods for industry. In contrast, investment in housing would have registered another annual decline, in line with indicators such as residential building completions. Investment in other buildings and structures is expected to have recorded moderate growth relative to the previous quarter but a decline in annual terms. A relatively favorable performance is anticipated for civil works, driven by regional projects and some SG road projects, though partially offset by mining-related works; however, the non-residential sector would have remained stagnant, with no annual growth. Finally, gross capital formation, which includes the statistical discrepancy and changes in inventories, would have increased considerably on a quarterly basis (13.3% quarter-on-quarter), despite a decline in annual terms (-1.2%), although at a more moderate rate than in the first quarter.

Graph 2.16
Total goods exports (FOB)
(Monthly)



Source: DANE; calculations by *Banco de la República.*

Graph 2.17
Total goods imports (CIF)
(Monthly)

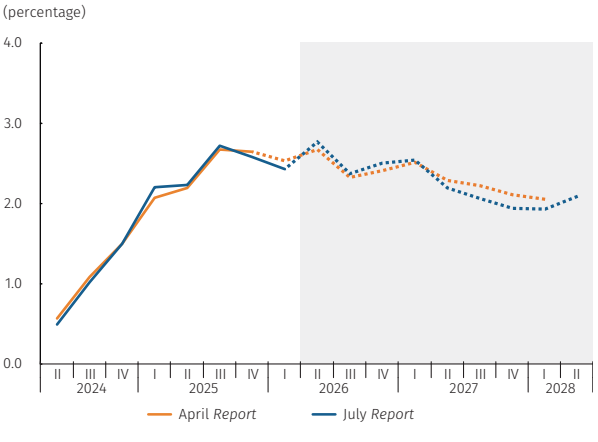


Source: DANE and DIAN (preliminary foreign trade data); calculations by *Banco de la República.*

Annually, exports grew slightly but were surpassed by imports. In the case of international sales, a modest annual growth rate of around 1.7% is expected in the second quarter. Quantities data through May indicate significant annual declines in exports of coffee, bananas, coal, and ferronickel, partially offset by increases in exports of oil, gold, and some manufactured goods (Graph 2.16). For services exports, incoming air passenger figures do not indicate significant growth, and the annual increase should be moderate. In the case of imports, where annual growth is likely to be close to 2.7%, preliminary figures through June point to favorable performance across all groups, particularly capital and intermediate goods, with some moderation in the annual growth of consumer goods imports (Graph 2.17). Overall, the external deficit (in constant pesos) would have been higher than in the previous quarter and a year earlier, and its accounting contribution to annual GDP growth would therefore have been negative.

In the second quarter of the year, on the production side, the strong momentum of tertiary activities would have been accompanied by a greater contribution from the primary sector and the manufacturing industry. During this period, tertiary activities would have recorded significant quarter-on-quarter growth, driven by electoral processes and international sporting events, among other factors, which would have continued to drive demand for various services. In annual terms, these activities would have grown by around 3.9% and would have remained at historically high levels. Artistic and entertainment activities are expected to have made a significant contribution to growth, mainly due to the impact of the World Cup on sports betting, as well as the continued hosting of a wide range of concerts and large-scale events in some cities across the country. In addition, public administration, healthcare, and education activities would have continued to expand as a result of the hiring of new personnel to support electoral processes, the payment of bonuses to defense-sector employees, and retroactive payments to public-sector employees. In this context, growth is also projected in trade, transportation, and accommodation activities, mainly due to domestic commerce, which continues to be supported by strong demand for vehicles and motorcycles, household appliances, and beverages. Meanwhile, primary activities would have returned to growth after two quarters of annual declines, amid weather conditions characterized by lower rainfall, which would have favored the recovery of coffee production and other crops, as well as increased extraction of coal and metallic minerals, such as gold, amid relatively high international prices. Finally, secondary activities are expected to have remained at levels slightly above those observed a year earlier, with a more dynamic manufacturing industry, driven particularly by refining, beverage production, and motorcycle manufacturing. Nevertheless, the performance of secondary activities would have remained constrained by the weak performance of construction, particularly residential and non-residential building construction.

Graph 2.18
GDP, four-quarter cumulative [a/]
(annual change)



a/ Seasonally adjusted and corrected for calendar effects.
Source: DANE; calculations and projections by *Banco de la República.*

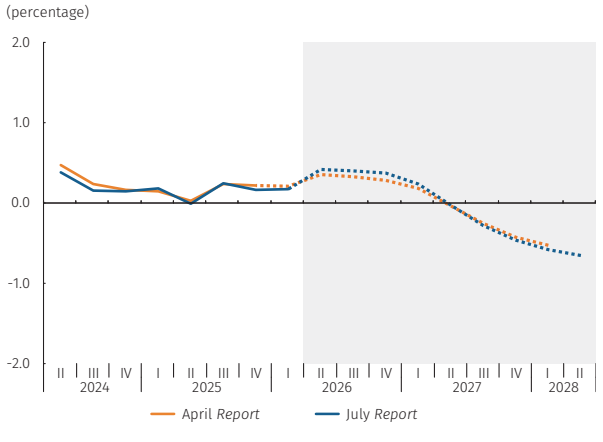
The strong momentum of several components of spending shows a marginal slowdown that could continue through the remainder of the year and into 2027 (Graph 2.18). This *Report* projects that the Colombian economy will continue to expand, but at a more moderate pace over the forecast horizon, amid high levels of uncertainty. On the external front, the effects of geopolitical tensions would keep the terms of trade at elevated levels in 2026, with a tendency to ease over the forecast horizon. Trading partners are expected to decelerate relative to 2025, amid persistent external inflation and higher expected external interest rates. On the domestic front, consumption would lose the temporary momentum seen in the first half of the year, while monetary policy would continue to support convergence of inflation toward its target. Investment, for its part, would continue to recover, supported by a gradual strengthening of civil works. The improvement in the terms of trade

would favor export performance. However, this boost could be partially offset by the effects of exchange rate appreciation on the output of some internationally tradable sectors. As a result, GDP growth is projected at 2.5% in 2026, slightly above the 2.4% estimated in the April *Report*. In 2027, the downward trend in growth is expected to continue, with annual growth of 1.9%, owing to a deterioration in the terms of trade following the dissipation of the 2026 shocks and a monetary policy stance aimed at correcting excess demand and fostering the convergence of inflation toward the 3% target. This scenario remains subject to a high degree of uncertainty, associated with the duration of recent domestic supply shocks, the effects of the conflict in the Middle East on external demand relevant to Colombia and on external financing conditions, as well as the possible materialization of an adjustment in public finances through spending cuts or increases in the tax burden. There are also upside pressures on interest rates stemming from the inflationary risks that continue to affect the Colombian economy (see Section 2.3).

The unemployment rate continues to decline year-on-year at the national aggregate level, reaching a historical low. However, forecasts indicate an upward trend in the urban unemployment rate over the forecast horizon. Seasonally adjusted data from the Integrated Household Survey (GEIH, for its Spanish acronym) for the rolling quarter ending in May show a labor market that continued to exhibit favorable year-on-year dynamics. The employed population increased by 3.2% year-on-year in the national aggregate, while the national participation rate stood at 64.8%, up 0.8 percentage points from a year earlier. Against this backdrop, the national aggregate unemployment rate declined to 8.3%, the lowest level recorded in this series, while the urban unemployment rate remained stable year-on-year at 8.9%. The unemployment rate forecast presented in this *Report* incorporates recent labor market developments, the economic activity projections discussed above, and other variables. Accordingly, the urban unemployment rate is expected to rise, averaging 8.8% in 2026, slightly below the 8.9% projected in the April *Report*. By 2027, the urban unemployment rate is foreseen to continue increasing, averaging 9.8%, as forecast in the previous *Report*.

Compared with the previous *Report*, the estimate of the annual output gap for the second quarter of 2026 was revised upward, consistent with stronger domestic demand, low unemployment, and rising headline and core inflation above target. The estimated excess demand for the second quarter of the year is consistent with domestic demand remaining strong, appreciable wage increases, continued increases in headline and core inflation, and significant improvements in the terms of trade (Graph 2.19). In addition, labor market indicators show a favorable performance, with low unemployment rates at historical lows. These factors reflect an economy that continues to grow

Graph 2.19
Output gap [a/]
(four-quarter cumulative)



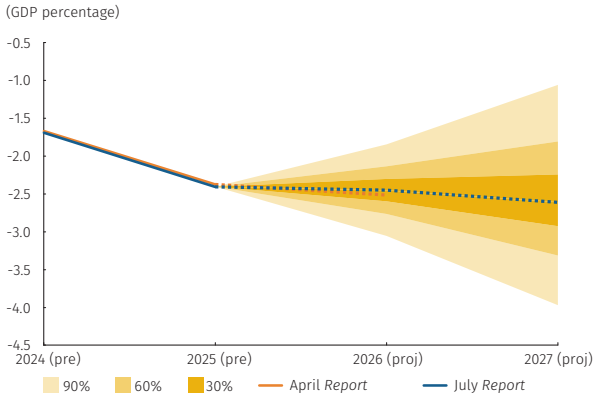
a/ The historical estimate of the output gap is calculated as the difference between observed GDP (four-quarter cumulative) and potential GDP (trend; four-quarter cumulative) from the 4GM-LM model; for the forecast, it is calculated as the difference between the technical staff's GDP estimate (four-quarter cumulative) and potential GDP (trend; four-quarter cumulative) from the 4GM-LM model.
Source: DANE; calculations and projections by *Banco de la República.*

above its productive capacity. Going forward, excess demand is expected to remain higher than projected in the previous *Report* during the remainder of 2026 and part of 2027, driven by the positive impact of improved terms of trade. Nevertheless, the monetary policy stance aimed at reducing inflation is contributing to the gradual elimination of excess capacity in the economy. Specifically, the output gap is estimated to be positive at 0.4% in 2026 (0.3% in the previous *Report*) and to narrow gradually, closing around the second quarter of 2027. By the end of 2027, the gap is expected to be negative (-0.5%), consistent with the expected gradual reduction in inflation. On the other hand, potential GDP would grow at a rate of 2.3% in 2026, similar to the 2.4% estimated in the previous *Report*. The estimates of the output gap and potential output presented in this *Report* are subject to a high uncertainty, associated, in part, with the expected duration of the supply shocks that have recently affected the economy, the duration and magnitude of the *El Niño* event, the real and financial effects of the conflict in the Middle East, and demographic factors affecting the economy's potential output over the long term, among others.

2.2.3 Balance of payment

For 2026, the current account deficit would widen slightly to 2.5% of GDP (Graph 2.20),[10] amid higher international prices and strong domestic economic activity. The larger external imbalance would result mainly from a wider trade deficit and, to a lesser extent, a larger factor income deficit. In particular, strong domestic demand, driven by higher private consumption and growth in investment in machinery and equipment, together with the appreciation of the peso and higher international prices of imported raw materials, would be reflected in stronger import growth, which would outpace the increase in export revenues from oil, mining, and non-traditional exports. The services deficit would also widen due to higher freight payments and increased expenditures on tourism and financial services, despite higher external tourism revenues. For its part, the factor income deficit would increase due to higher profits remitted abroad by foreign direct investment (FDI) companies, supported by the impact of high international prices on the mining and energy sector and by the strength of domestic demand in other sectors, as well as by higher interest payments associated with public external debt. In contrast, current transfers would post a larger surplus than in 2025, as workers' remittances would remain at high levels, although their growth rate would be lower than in recent years.

Graph 2.20
Annual current account [a/, b/]
(four-quarter cumulative)



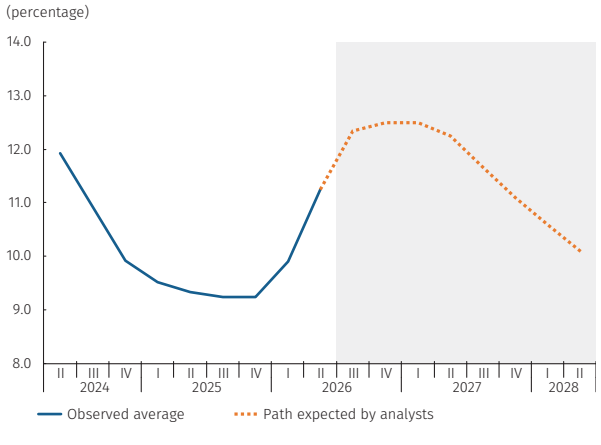
(pre): preliminary, (proj): projected
a/ The graph displays the probability distribution and its most likely path for an eight-quarter horizon. Densities characterize the balance of potential risks for areas with 30%, 60%, and 90% probability around the central forecast (mode), primarily using the densities from the Patacon and 4GM-LM models as references.
b/ The probability distribution is derived from the forecasting exercise of the July Report.
Source: *Banco de la República.*

10 For the second quarter of 2026, a current account deficit of close to 2.6% of GDP is expected, as a result of larger trade and factor income deficits.

For 2027, the current account deficit would continue to widen to 2.6% of GDP amid a projected deterioration in the terms of trade. Lower revenues from the decline in international prices of the main export products, together with moderate import growth, would translate into a larger goods trade deficit. For its part, the services deficit as a percentage of GDP is expected to remain at a level similar to that of 2026, amid stable growth among trading partners and a slowdown in domestic economic activity. In contrast, a smaller factor income deficit is expected, in line with lower profits that oil and mining companies with foreign direct investment (FDI) would remit abroad. Finally, the surplus on current transfers would increase moderately, driven by a marginal increase in remittances. There is considerable uncertainty surrounding the current account balance forecast, driven by volatility in international commodity prices, risks to global growth, and an uncertain outlook for global trade policy and external financial conditions, among other factors.

For 2026 and 2027, the country would maintain full access to external financing, with FDI remaining the main source of funding. In particular, FDI would show gradual improvement over the next two years relative to 2025 levels. Specifically, investment in sectors other than oil and mining would increase over the forecast horizon, driven by the strength of domestic demand. In contrast, investment in oil and mining would decline in 2026 amid lower domestic production and increase in 2027 as a result of a more favorable environment for domestic exploration and production, together with relatively favorable prices. In addition, the public sector would contribute to external financing by borrowing abroad to finance the large fiscal deficit. For its part, the private sector would receive foreign resources in 2026 and accumulate external assets in 2027. External financing would take place amid stable U.S. interest rates and a risk premium for Colombia that would continue to trend upward.

Graph 2.21
Monetary policy interest rate: average observed quarterly, and rate expected by analysts [a/]



a/ These projections are calculated considering the quarterly average of the current rate according to the median response of the Monthly survey of economic analyst expectations conducted by Banco de la República for July 2026.
Source: *Banco de la República.*

2.2.4 Monetary policy and interest rates expected by analysts

The median analysts' expectation for the policy interest rate is 12.3% for the third quarter of 2026, 12.5% for the fourth quarter of 2026, and 11.1% by the end of 2027 (Graph 2.21). The median response to *Banco de la República's* monthly survey of analysts' expectations conducted in early July suggests that the average policy interest rate for the third quarter of 2026 would stand at 12.3%. Analysts anticipate the policy rate would remain at 12.5% through the remainder of the year, before declining to 11.1% in the fourth quarter of 2027. On average, the policy rate path expected by analysts is somewhat lower than that implied

by the macroeconomic forecast presented in this *Report* during the first year of the forecast horizon, and higher during the second year. The survey results also indicate that analysts' inflation expectations at the end of the forecast horizon are higher than those projected by the technical staff in this *Report*.

2.3 Balance of macroeconomic risks

Climate risks, geopolitical tensions, persistent domestic cost pressures, and evolving external financial conditions remain the most relevant sources of uncertainty for the macroeconomic forecast. The predictive density (PD) exercise,[11] which summarizes the balance of risks surrounding the macroeconomic forecast variables, continues to indicate a high level of uncertainty. On the external front, the most prominent risk factor is the conflict in the Middle East and other geopolitical tensions, given the high degree of uncertainty they generate regarding oil and commodity prices and, more generally, external inflationary pressures, and, therefore, the financial conditions faced by the Colombian economy. These factors generate moderately upward risks to inflation through international financial conditions that, on balance, could prove tighter, and through potentially higher international prices for fuels, various inputs, and some goods. At the domestic level, the forecast incorporated a strong *El Niño* event, raising the risk that it could be more or less intense than anticipated and generate inflationary effects different from those contemplated in the central scenario. Given that conservative effects of a strong *El Niño* event were incorporated into the forecast and that there is a high probability the event will be very strong, this factor represents an upside risk. The same would apply to further increases in the minimum wage in 2027 above inflation and productivity growth. As mentioned above, this risk is common to all inflation baskets but has a greater impact on the services basket. All of the above results in the balance of risks to inflation being tilted to the upside and characterized by high levels of uncertainty.

Compared with the April *Report*, uncertainty surrounding external assumptions remained high, and the balance of risks continues to point to upward external pressures on inflation. Among the external risk factors considered in the PD exercise, the most relevant are geopolitical tensions, which, on balance, suggest upside risks to commodity, food, and fuel prices, as well as the possible persistence of higher inflation in the United States. This could imply a higher Federal Reserve policy rate path than that contemplated in the central scenario, as well as tighter international financial conditions. In turn, these factors, amid a domestic fiscal imbalance, generate an upward bias in the risk premium, thereby affecting external financing conditions. Although the terms of trade present balanced risks, the possibility of lower growth among trading partners introduces downside risks to Colombia's external demand.

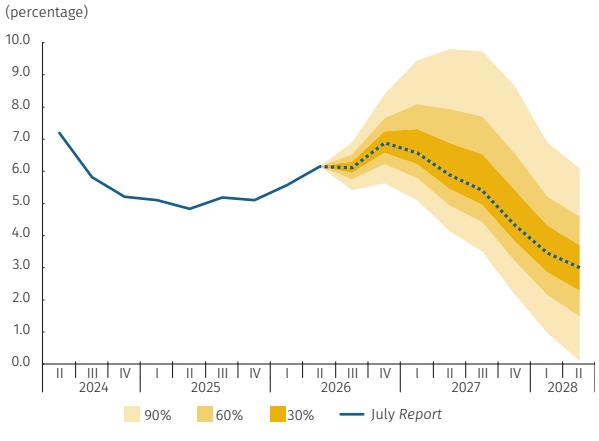
The balance of risks to headline and core inflation remains tilted to the upside over the forecast horizon (Graphs 2.22 and 2.23). This *Report* incorporates the materialization of a strong El Niño event, whose upward effects on prices would begin

11 Technical details on the construction of the risk balance through the predictive densities exercise can be found in the document "*Caracterización y comunicación del balance de riesgos de los pronósticos macroeconómicos: un enfoque de densidad predictiva para Colombia*" (Mendez-Vizcaino et al., 2021), and in Box 1 of the July 2021 Monetary Policy Report.

toward the end of the year, peak in mid-2027, and then gradually dissipate during the second half of that year. In this context, the main upside risk remains that the *El Niño* event will be stronger and more persistent than anticipated in this *Report*, as the probability of a more intense and prolonged event has increased in recent months. This could generate additional upward pressure on food prices, on some regulated prices, and on the food-away-from-home component beyond those incorporated in the central path. In addition, minimum wage increases in 2027 that exceed inflation and productivity growth could reinforce cost pass-through and indexation mechanisms, thereby increasing inflation persistence. Upside risks associated with larger adjustments in gas prices, due to a higher imported component, as well as with pressures on fertilizer and fuel prices stemming from geopolitical tensions, are also considered. In contrast, a main downside risk factor is the possibility of greater-than-expected short-term appreciation of the peso or a more persistent one. However, on balance, upside risks predominate for the regulated, food, and services baskets, while the balance of risks for goods is relatively neutral.

The balance of risks for economic activity is tilted to the upside for the second quarter of 2026, but to the downside for the remainder of the forecast horizon.

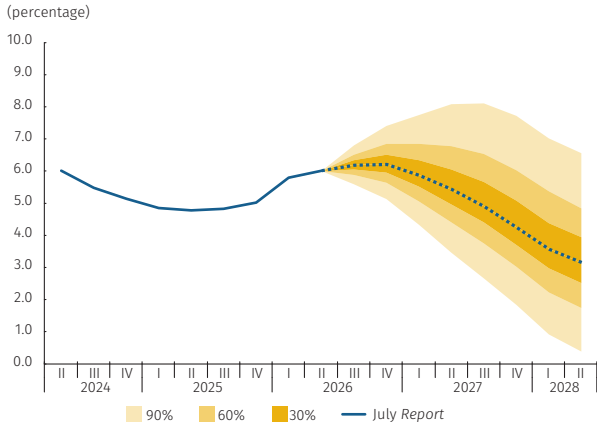
Graph 2.22
Consumer price index, predictive density [a/, b/]
(annual change, end-of-period)



	4Q 2026	4Q 2027	2Q 2028
Mode	6.9	4.3	3.0
< Mode	44%	31%	49%
	Intervals		
<2	0%	4%	28%
2 to 4	0%	21%	42%
>4	100%	74%	30%

a/ The graph displays the probability distribution and its most likely path on an eight-quarter forecast horizon. Densities characterize the balance of potential risks with areas of 30%, 60% and 90% probability around the central forecast (mode), using a combination of densities from the Patacon and 4GM-LM models.
b/ The probability distribution is derived from the forecasting exercise of the July Report.
Source: DANE; calculations and projections by *Banco de la República*

Graph 2.23
CPI excluding food and regulated items, predictive density [a/, b/]
(annual change, end-of-period)

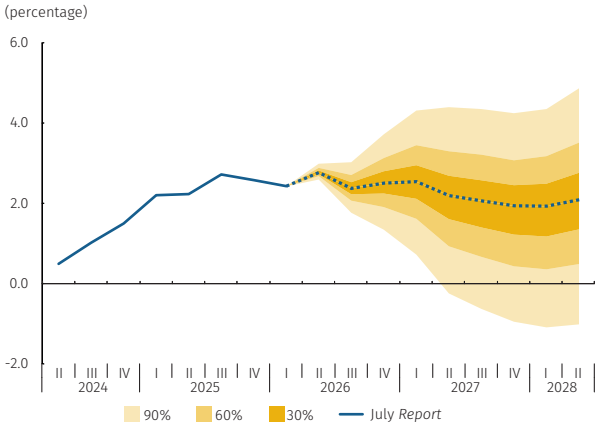


	4Q 2026	4Q 2027	2Q 2028
Mode	6.2	4.2	3.2
< Mode	47%	40%	45%
	Intervals		
<2	0%	6%	23%
2 to 4	0%	29%	41%
>4	100%	65%	37%

a/ The graph displays the probability distribution and its most likely path on an eight-quarter forecast horizon. Densities characterize the balance of potential risks for areas with 30%, 60%, and 90% probability around the central forecast (mode), using a combination of densities from the Patacon and 4GM-LM models.
b/ The probability distribution is derived from the forecasting exercise of the July Report.
Source: DANE; calculations and projections by *Banco de la República.*

Compared with the previous *Report*, uncertainty surrounding the demand components decreased for 2026. For the second quarter of this year, upside risks are estimated, particularly due to the strength of private consumption. Over the remainder of the forecast horizon, the main downside risk factors include the possibility of lower remittances and coffee-related income, the materialization of supply shocks associated with strikes or a more intense *El Niño* event, and a prolonged period of weak housing investment, amid uncertainty about construction costs. Added to these factors is the short-term effect of a possible adjustment in public spending required to reduce the fiscal imbalance. In addition, the upside balance of risks to inflation and, consequently, to the policy rate implies a downside risk to aggregate demand. In contrast, the main upside risk factors include the continued strength of private consumption, high employment levels, the projected low unemployment rate, and progress on some infrastructure projects. Overall, although the forecast for the second quarter of 2026 shows upside risks, downside risks to economic activity predominate over the remainder of the forecast horizon (Graph 2.24). In this context, the PD exercise also incorporates a downside bias in the output gap, consistent with the risk of weaker aggregate demand than that contemplated in the central scenario (Graph 2.25).

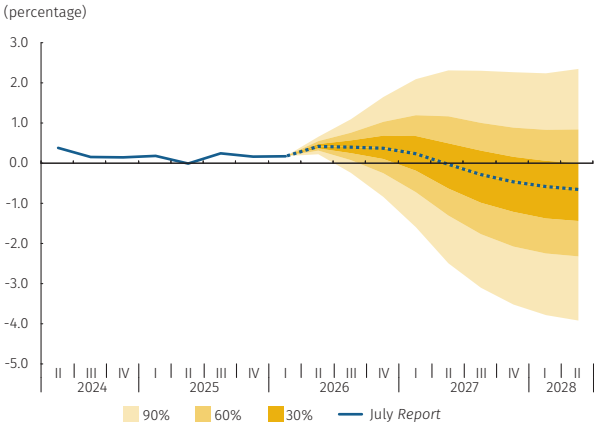
Graph 2.24
GDP, four-quarter cumulative, predictive density [a/, b/]
(annual change)



	4Q 2026	4Q 2027	2Q 2028
Mode	2.5	1.9	2.1
< Mode	50%	58%	55%
	Intervals		
<1	2%	35%	31%
1 to 2	22%	25%	22%
2 to 3	51%	22%	20%
>3	25%	18%	27%

a/ The graph displays the probability distribution and its most likely path on an eight-quarter forecast horizon. Densities characterize the balance of potential risks for areas with 30%, 60%, and 90% probability around the central forecast (mode), using a combination of densities from the Patacon and 4GM-LM models.
b/ The probability distribution is derived from the forecasting exercise of the July Report.
Source: DANE; calculations and projections by *Banco de la República.*

Graph 2.25
Output gap, predictive density [a/, b/]
(four-quarter cumulative)



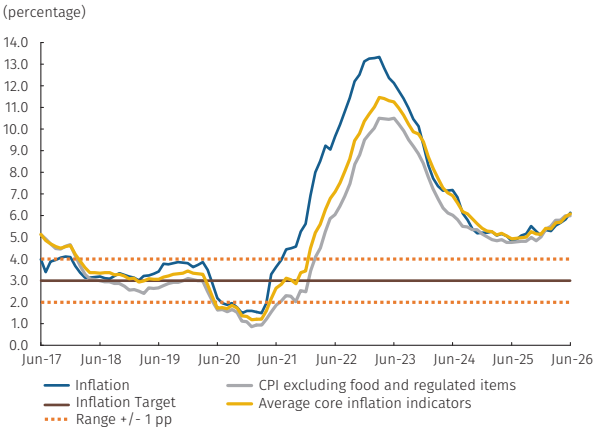
	4Q 2026	4Q 2027	2Q 2028
Mode	0.4	-0.5	-0.7
< Mode	49%	55%	54%
	Intervals		
<-1	3%	43%	47%
-1 to 0	27%	22%	21%
0 to 1	49%	18%	16%
>1	21%	17%	17%

a/ The graph displays the probability distribution and its most likely path on an eight-quarter forecast horizon. Densities characterize the balance of potential risks for areas with 30%, 60%, and 90% probability around the central forecast (mode), using a combination of densities from the Patacon and 4GM-LM models.
b/ The probability distribution is derived from the forecasting exercise of the July Report.
Source: DANE; calculations and projections by *Banco de la República.*

In summary, the balance of risks points to a high degree of uncertainty surrounding external assumptions, an upside bias for headline and core inflation, and a downside bias for economic growth over most of the forecast horizon. With a 90% probability, headline inflation would range from 5.6% to 8.4% at the end of 2026 and from 2.2% to 8.6% at the end of 2027. Core inflation, with the same confidence level, would range from 5.6% to 8.4% at the end of 2026 and from 1.8% to 7.7% by the fourth quarter of 2027. The probability that headline and core inflation fall below 4% by the fourth quarter of 2027 is estimated at 26% and 35%, respectively. Regarding economic activity, annual GDP growth is expected, with a 90% probability, to range from 1.3% to 3.7% in 2026 and from -0.9% to 4.2% in 2027.

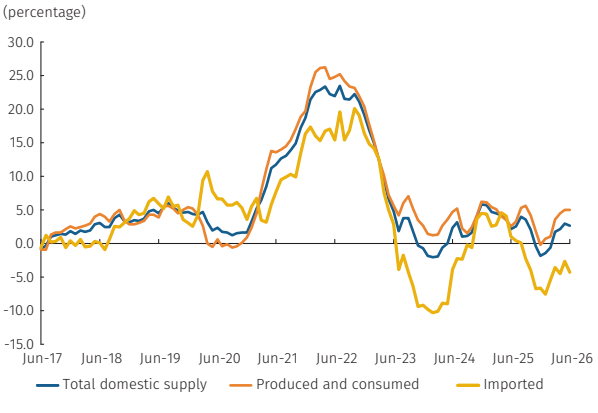
3. Current economic situation

Graph 3.1
CPI and core inflation indicators
(annual change)



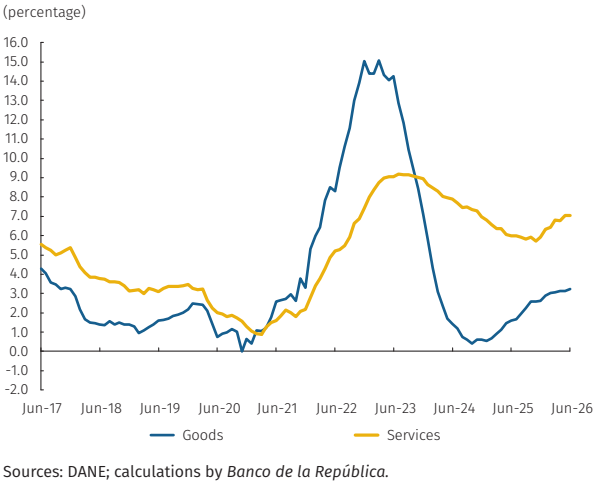
Sources: DANE and *Banco de la República.*

Graph 3.2
PPI by origin
(annual change)



Sources: DANE; calculations by *Banco de la República.*

Graph 3.3
CPI for goods and services, excluding food
and regulated items (annual change)



Sources: DANE; calculations by *Banco de la República.*

3.1 Inflation and price behavior

During the second quarter of 2026, headline inflation continued its upward trend amid internal and external pressures. Year-on-year, the Consumer Price Index (CPI) rebounded between March (5.6%) and June (6.1%), exceeding the inflation target (3.0%) by more than 3 percentage points (pp). This surpasses the technical staff's projections published in the previous *Report*, affected by higher regulated price adjustments for gasoline and electricity and a longer upward cycle in perishable foods. On the other hand, core inflation (CPI excluding food and regulated items) increased from 5.8% to 6.0% in the same period (Graph 3.1), below forecasts in the April *Report*, due to smaller adjustments in the food away from home and tourism-related services. Steeper price increases were widespread, affecting the annual change of all major components of the basket, including goods, services, regulated items, and food. This recent upward trend in inflation continues to be explained internally by significant increases in labor costs and rising private consumption, which are reflected in demand exceeding the economy's productive capacity. Added to the above are supply shocks on certain foods, coupled with greater pressures from logistics costs and raw materials in international markets. All of this happened despite disinflationary pressures from the Colombian peso's appreciation against the US dollar. In this context, the annual change in producer prices continued to trend upwards during the second quarter, from 1.8% in March to 2.6% in June (Graph 3.2).[1] This behavior was driven by the local component of the producer price index (PPI), which increased year-on-year from 3.6% to 5.0%. However, this effect was partially offset by the imported component, which fell from -3.6% in March to -4.3% in June because of the exchange rate appreciation.

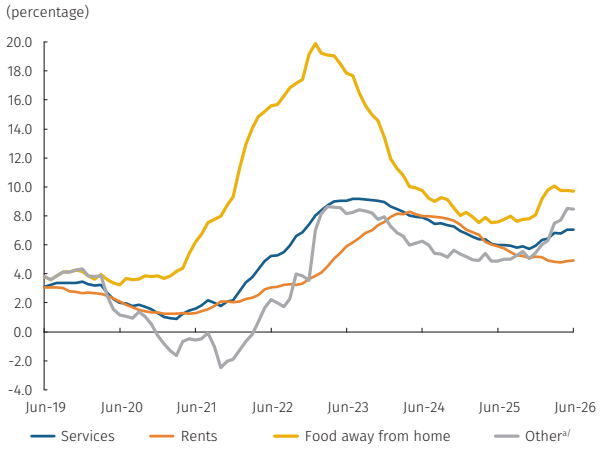
The adjustment in the CPI for goods continues to show a slight upward trend, driven by stronger private consumption and greater international cost pressures. The annual change in the CPI for goods (excluding food and regulated items) increased from 3.0% in March to 3.2% in June (Graph 3.3). This behavior has been mirrored by strong activity in household spending so far this year. Moreover, disruptions to supply chains and the global rise in maritime freight costs, stemming from international conflicts, exerted upward pressure on manufactured goods prices, especially imported items. This was exacerbated by global shortages of microchips and other high-demand

1 DANE information for the past month is always provisional.

technological components, a factor that put upward pressure on the prices of some electronic devices in the family basket. The above behavior was partially offset by the downward effect of the peso's appreciation against the U.S. dollar on the final price of tradable goods (see Box 1).

The services segment remains the primary driver of inflationary persistence. The annual change in service prices (excluding food and regulated items) closed the second quarter of 2026 at 7.0%, down from 6.8% in March (Graph 3.4). The pass-through of indexation mechanisms continued to be transmitted to the rental group, whose annual change increased slightly between March (4.8%) and June (4.9%), as well as to personal services and other labor-intensive services. The latter group, in particular, has been incorporating the significant increase in labor costs associated with the noteworthy increase in the minimum wage, the changes brought about by the labor reform, and the reduced working day into its prices. In contrast, the annual CPI adjustment for food away from home fell slightly during the second quarter (from 10.1% to 9.7%). Despite this decline, the food away from home grouping continued to register high annual adjustments, driven by cumulative increases in food prices, higher labor costs, and continued strong domestic demand.

Graph 3.4
CPI for services, excluding food and regulated items (annual change)

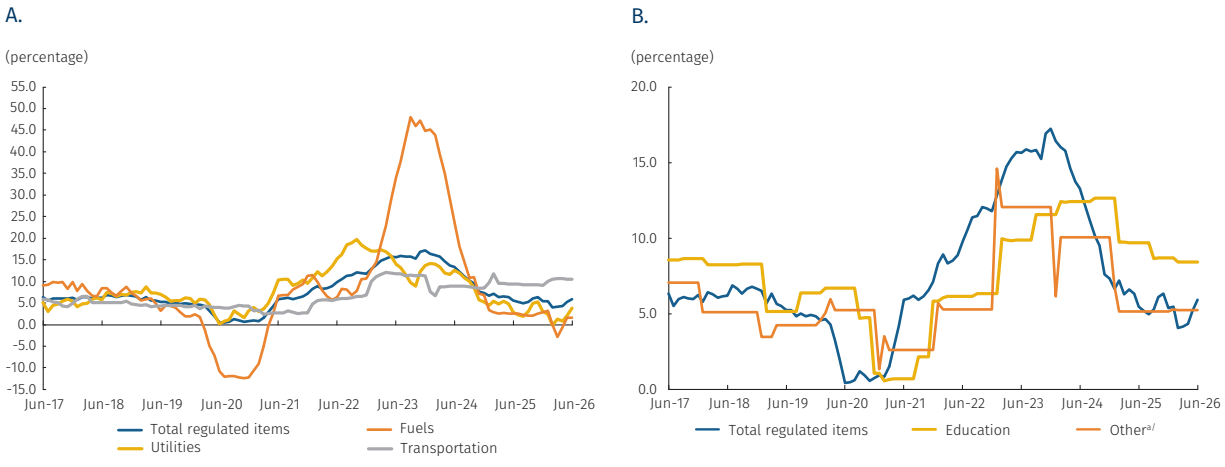


a/ This group mainly includes the following items: communication, recreation, and cultural events; education (non-regulated); miscellaneous services (beauty/hair salons, childcare, financial services, etc.); transportation; property management; domestic services; nightclubs and hotels; healthcare; and laundry services.
Sources: DANE; calculations by *Banco de la República.*

The year-on-year change in the prices of the regulated items sub-basket returned to an upward path after its first-quarter fall, induced by upward pressures on residential public service rates. The annual change in the CPI for regulated items increased from 4.1% in March to 5.9% in June (Graph 3.5). The upward trajectory was primarily attributable to increases in certain public service components, such as gas, electricity, and garbage, whose annual price changes grew by more than 3 pp during the second quarter. As a result, public services recorded year-on-year price growth from 1.2% in March to 3.8% in June. The annual variation in fuel prices increased from -2.9% in March to 1.6% in June. This behavior is associated with the two consecutive increases of close to COP 400 per gallon of gasoline decreed in April and May. The other components of the regulated segment – including transportation and education, among others – remained relatively stable during the past three months (Graph 3.5).

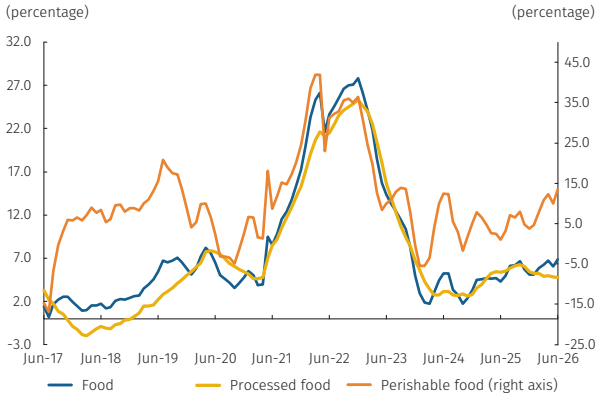
During the second quarter, food prices resumed their upward path, mainly driven by the perishables category. The annual change of the CPI for food grew from 6.3% in March to 6.8% in June (Graph 3.6). This behavior was propelled by the upward price cycle in perishable foods, whose year-on-year change grew from 10.8% in March to 13.5% in June. Supply shocks stemming from flooding and road closures, higher labor and logis-

Graph 3.
CPI for regulated items and its components
(annual change)



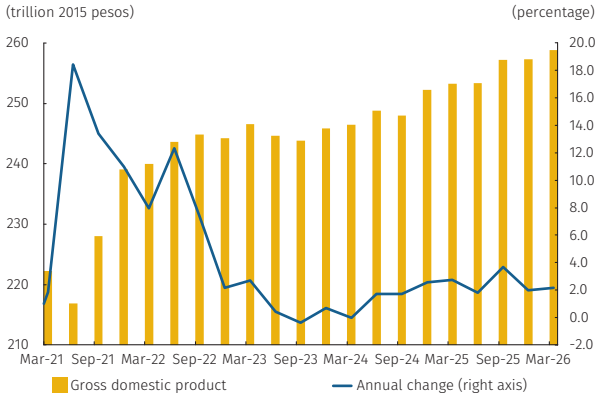
a/ Includes EPS affiliate co-payments, administrative certificates and documents, and professional fee payments
Sources: DANE; calculations by *Banco de la República.*

Graph 3.6
CPI for food and its components
(annual change)



Sources: DANE; calculations by *Banco de la República.*

Graph 3.7
Gross Domestic Product a/
(quarterly and annual change)



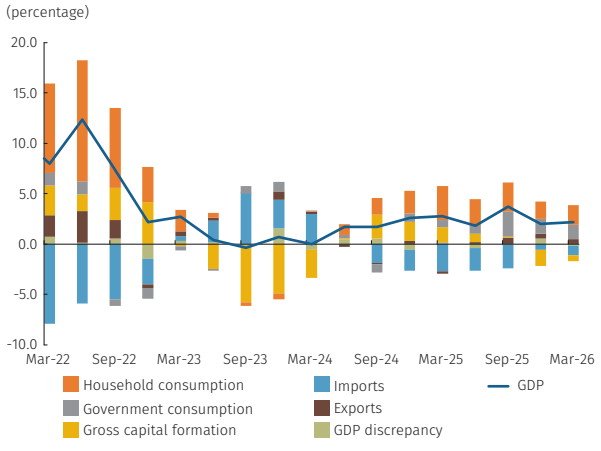
a/ Seasonally adjusted and corrected for calendar effects
Sources: DANE; calculations by *Banco de la República.*

tics costs, and higher international prices for some agricultural inputs contributed to the above. In particular, geopolitical tensions in the Middle East have been exerting pressure on international fertilizer markets and maritime transport prices, raising agricultural production costs. In contrast, the annual variation in the CPI for processed foods in June (4.8%) remained close to that observed in March (4.9%). This food sub-category has benefited from lower price adjustments for several animal products (excluding beef, which was negatively affected by increases in export prices), the dissipating effects of the healthy tax on ultra-processed foods, and exchange rate appreciation.

3.2 Growth and domestic demand

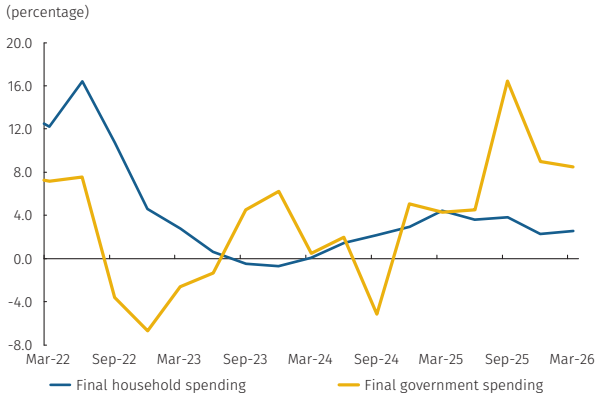
In the first quarter of 2026, the Colombian economy resumed a moderate expansion path, after the dissolution of some negative shocks that would have affected its behavior at year-end 2025. During the first quarter of 2026, Colombia's economic activity registered an annual growth of 2.2% (Graph 3.7), a figure similar to that anticipated by the technical staff in the previous *Report* (2.1%). This behavior was echoed in an annualized quarterly expansion of 2.4%, using seasonally and calendar-adjusted figures, after the stall observed at the end of 2025, when the economy suffered a series of negative transitory shocks, including surprisingly high rainfall, lower natural gas production, unforeseen maintenance and stoppages in some industrial plants, and lower iron and steel production. From an expenditure perspective, domestic demand continues to be a positive contributor to growth, with higher-than-expec-

Graph 3.8
Contributions to annual changes to quarterly GDP [a/]
(annual change, contribution)



a/ Seasonally adjusted and corrected for calendar effects
Sources: DANE; calculations by *Banco de la República.*

Graph 3.9
Final household and general government spending [a/]
(annual change)



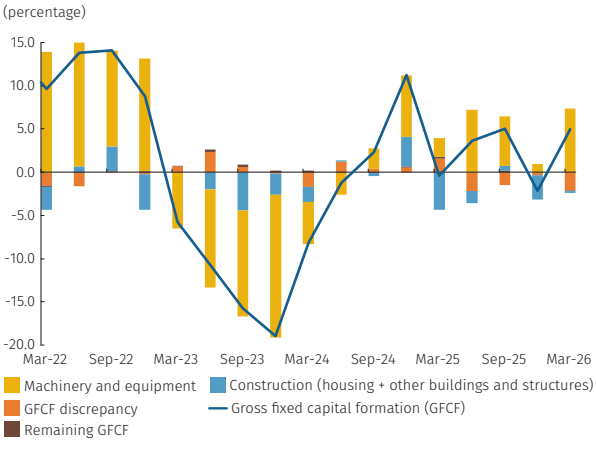
a/ Seasonally adjusted and corrected for calendar effects
Sources: DANE; calculations by *Banco de la República.*

ted annual and quarterly variations. The primary contributor was private consumption, which continued strong, as expected, and from investment in machinery and equipment (Graph 3.8). For its part, the external deficit widened slightly compared to the previous year, insofar as imports grew at a slightly faster rate than exports. On the supply side, heterogeneous sectoral dynamics persisted, with tertiary activities as the main drivers of the Colombian economy. The services that contributed most to annual growth were public administration, education and healthcare, artistic and entertainment activities, and commerce, transportation and lodging. In addition, a recovery was noted in the manufacturing industry, overcoming temporary factors that had affected its performance last quarter. However, primary activities and the construction sector continued to decline year-on-year.

Domestic demand grew at an annual rate similar to that of GDP, exceeding expectations, driven mainly by strong consumption. In the first quarter, total domestic expenditure registered an annual growth of 2.3%, exceeding the forecast in the April *Report* (1.9%). The main contributor to this increase was private consumption, whose annual growth (2.6%) exceeded expectations (Graph 3.9). By component, the year-on-year growth of durable items consumption (12.5%) stands out, driven by spending on vehicles, motorcycles, computer equipment, and household appliances. Alternatively, services recorded a more moderate annual increase (1.7%), although they continue to surpass their pre-pandemic level, aided by entertainment spending. Non-durable consumption also registered moderate annual growth (1.9%), explained by spending on food products and medicines, among others. For its part, semi-durable consumer goods grew by 4.0% annually; nevertheless, unlike the other segments, it recorded a quarterly decline. It should be noted that, despite the positive overall performance of private consumption, this aggregate slowed relative to its performance during the whole of 2025 (3.5%). This occurred in an environment where certain sources of household disposable income, such as remittances and coffee income, also slowed at the beginning of 2026, intensified by more restrictive monetary policy. Conversely, public consumption continues to register strong annual growth (8.5%), the highest among the most salient demand components, mainly explained by expenditures during the electoral processes that took place in this quarter and by hiring of personnel in certain sectors such as education.

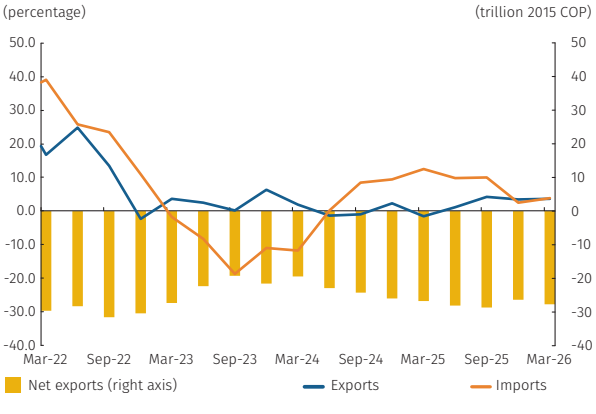
The growth of fixed investment in both annual and quarterly terms surpassed the technical staff's expectations, propelled by the machinery and equipment segment but constrained by weak performance in construction investment. In the first three months of the year, annual growth in gross fixed capital forma-

Graph 3.10
Quarterly gross fixed capital formation [a/]
(annual change, contribution)



a/ Seasonally adjusted and corrected for calendar effects
Sources: DANE; calculations by *Banco de la República.*

Graph 3.11
Exports, imports, and trade balance [a/]
(annual change and trillion 2015 COP)



a/ Seasonally adjusted and corrected for calendar effects
Sources: DANE; calculations by *Banco de la República.*

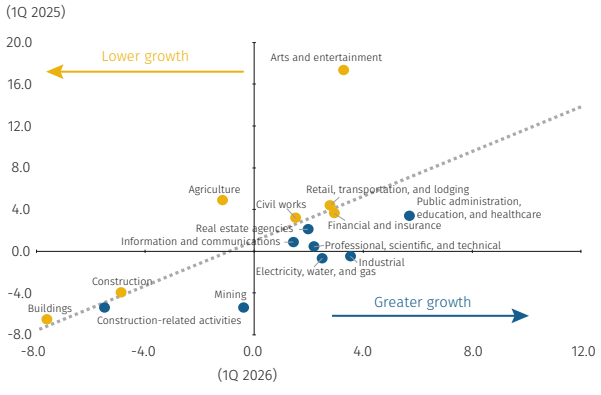
tion (4.9%) was driven by significant expansion in the machinery and equipment category (15.7%), which continues to be the most dynamic segment of investment (Graph 3.10). According to import figures, the line items that have enjoyed the greatest investment are transportation and industrial equipment. In contrast, investment in construction registered an unfavorable performance, with lower quarterly rates in both housing and other buildings and structures. In annual terms, housing investment fell by 2.8%, while investment in other buildings and structures increased by 1.2% because of the low base of comparison. In housing, the quarterly decline would be due to a lower completion of housing for the middle strata, and in other buildings and structures, to weakness in non-residential buildings and civil works associated with mining. Finally, total gross capital formation behaved differently from gross fixed capital formation in the first quarter, posting an annual decline of 3.4%, due to a negative statistical discrepancy and inventory variation, according to the most recent figures published by DANE.

The external deficit in constant pesos widened compared to the previous three months, as imports increased and exports fell. Imports saw annual growth (3.8%), led by increases in durable consumption and capital goods, mainly in transport equipment, as suggested by the monthly figures translated into real pesos. Exports grew at an annual rate of 3.6%, despite a quarterly decline. The quarter-on-quarter decline was explained, above all, by exports of goods such as coffee and ferronickel. Services also fell at the margin, as non-resident tourism and lower energy exports to Ecuador declined. Consequently, the external deficit in constant pesos was larger than in the first quarter and a year ago (Graph 3.11), with a negative accounting contribution to annual GDP growth.

Services activities continued to drive annual growth in the Colombian economy, coupled with improved performance of the manufacturing industry (Graph 3.12). Tertiary activities expanded by 3.3% annually, recording five consecutive years of growth. Although services showed a generalized expansion, the performance seen in public administration and education and healthcare (5.7%) was the most notable, explained by staffing increases[2], partly attributable to election activities processes, wage rises and bonuses in different public entities, including the defense sector, and increases in teaching in the education system. Furthermore, artistic and entertainment activities (3.3%) continued to expand, driven by internet gaming. In the macro commerce sector, transportation and lodging continued

2 The increase in hiring (full-time and temporary employees) would have occurred both regionally and at a national level.

Graph 3.12
Sectoral value-added growth levels:
1Q 2025 relative to 1Q 2026 [a/]



a/ Seasonally adjusted and corrected for calendar effects
Note: Sectors located above the gray dotted line show lower growth than the one observed one year earlier, while those located below show higher year-on-year growth.
Sources: DANE; calculations by *Banco de la República.*

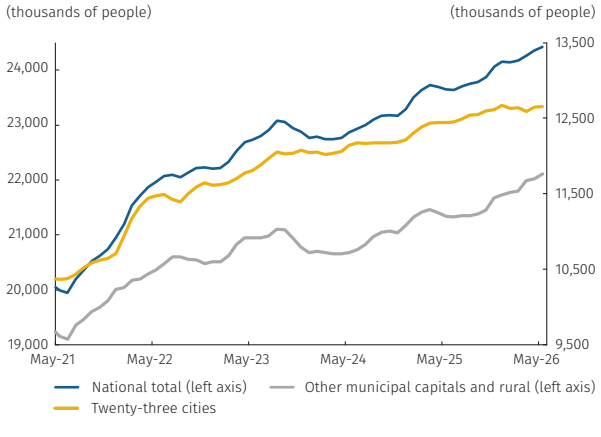
to grow domestically (2.8%), driven by positive performance in sales of vehicles, motorcycles, and computer and telecommunications equipment. The secondary branches showed some signs of recovery (1.3%), mainly in the manufacturing industry (3.5%), supported by the revitalization of coking and oil refining following the technical issues that affected production in 2025. The latter was further assisted by the standardization of some production processes in the beverage industries and good performance of metallurgical products. In contrast, construction continued to see annual declines (-4.9%), as both residential and non-residential buildings once again fell, only partially offset by a slight increase in civil works. The primary branches recorded an overall year-on-year decline (0.9%), as a result of weather effects coupled with greater costs of goods that affected some crops and fishing. The mining sector continued its annual decline, with the weak performance of coal and oil unable to be offset by growth in some metals, such as gold and silver.

3.3 Labor market[3,4]

For the rolling quarter ending in May, national aggregate employment grew by 3.2% annually, particularly in other municipal capitals and rural areas. In this period, the Integrated Household Survey's (GEIH for its Spanish acronym) seasonally adjusted data indicate an increase of about 766,000 jobs, equal to an annual increase of 3.2% in national employment. This growth was not uniform across all geographical areas. In other municipal capitals and rural areas, annual employment grew by 5.0%, representing 561,000 additional jobs, while in the twenty-three main cities, annual employment growth was 1.6%, representing 205,000 jobs (Graph 3.13). By economic sectors, the greatest contributors to annual job creation nationally were commerce and lodging (0.40 pp), the agricultural sector (0.29 pp), and branches of public administration, healthcare and education (0.28 pp). In contrast, the manufacturing sector showed a significant decline of -0.83 pp.

By occupation, recent months have seen evidence of stagnation in the salaried segment, while the non-salaried segment has continued to grow. In the rolling quarter ended in May, salaried employment grew year-on-year by 3.6%. However, so

Graph 3.13
Employed population by location

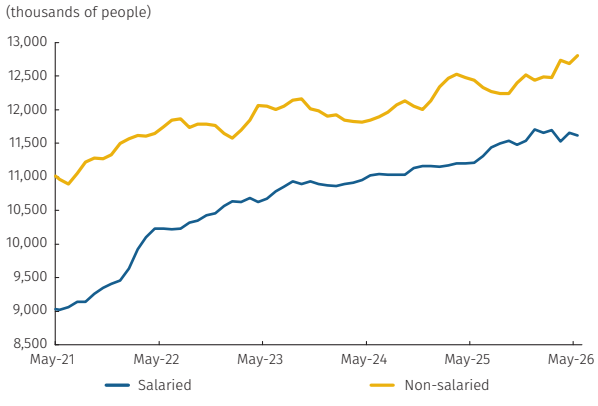


Note: Rolling quarterly seasonally adjusted data
Sources: DANE (GEIH), calculations by *Banco de la República.*

3 For a more detailed analysis of the labor market, please see *Banco de la República's* Labor Market Report, available only in Spanish at https://www.banrep.gov.co/es/reporte-mercado-laboral.

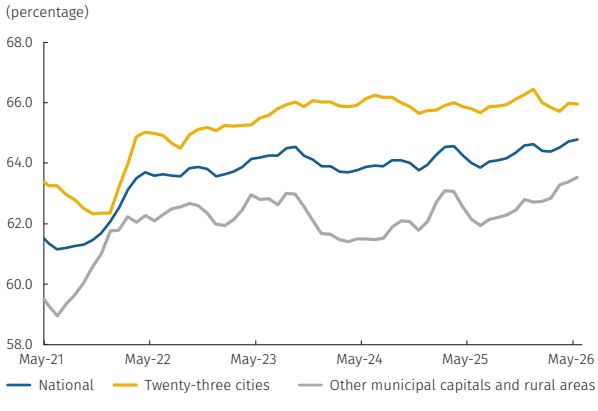
4 The labor market figures referenced in this section of the Report are primarily for the rolling quarter ending in May 2026.

Graph 3.14
Jobs by type of employment
(national total)



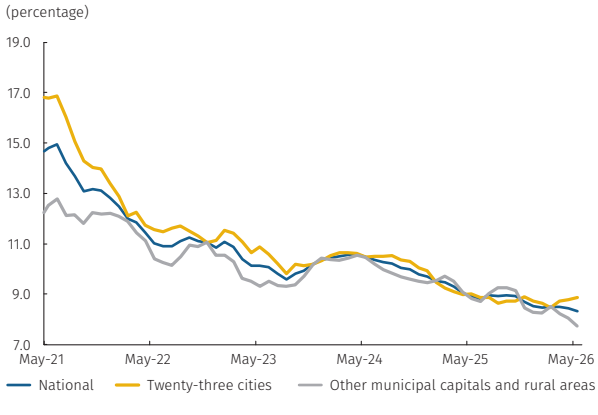
Note: Rolling quarterly seasonally adjusted data
Sources: DANE (GEIH), calculations by *Banco de la República.*

Graph 3.15
National global participation rate by location



Note: Rolling quarter seasonally adjusted data
Sources: DANE (GEIH), calculations by *Banco de la República.*

Graph 3.16
Unemployment rate by location



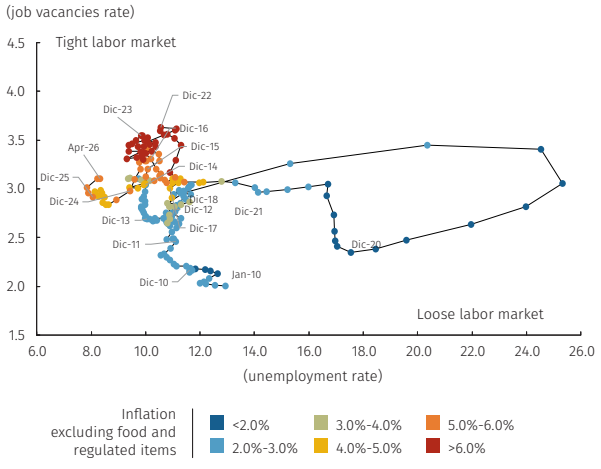
Note: Rolling quarter seasonally adjusted data
Sources: DANE (GEIH), calculations by *Banco de la República.*

far in 2026 this segment has weakened. In particular, between December 2025 and May 2026, the salaried segment fell by 0.8% (around 97,000 jobs), a decline more pronounced in the twenty-three main cities, where the contraction was 1.5%. This behavior in salaried (and formal) employment is consistent with information from records of contributors to the Integrated Contribution Settlement Form (PILA, for its Spanish acronym), where the number of contributors fell in the first quarter of the year, in line with that observed in the GEIH salaried data. In contrast, the non-salaried (informal) segment grew year-on-year by 2.9%, continuing to expand in 2026 (Graph 3.14). This reflects improved employment activity in the Other municipal capitals and the rural area, driven by the public administration, commerce and lodging, as well as construction branches.

The overall labor force participation rate rose annually in the national aggregate, as the inactive population declined in other municipal capitals and rural areas. In the rolling quarter ending in May, the population outside the labor force (inactive) fell by 0.8% nationally, leading to an increase of 0.8 pp in the labor force participation rate to 64.8% in May. By geographic area, the labor force participation rate in urban areas grew by 0.2 pp annually, reaching 66.0% over the same period. In other municipal capitals and rural areas, the labor force participation rate grew by 1.4 pp, and stood at 63.5% in May (Graph 3.15). This behavior of labor force participation in other municipal capitals and rural areas is consistent with improved employment behavior in this area, because this geographic domain tends to experience a direct transition between inactivity and employment. By gender, women's labor force participation rate stood at 53.6%, which represented an annual increase of 1.1 pp. For men, the labor force participation rate increased annually by 0.4 pp and stood at 76.9% in May.

The unemployment rate continues to fall in the national aggregate and has reached an all-time low. However, it has increased slightly in urban areas during 2026. In the rolling quarter ended in May, the national unemployment rate was 8.3%, the lowest level in this series since national aggregate figures have been recorded. This reduction was mainly explained by the fall in the unemployment rate in other municipal capitals and rural areas (-1.1 pp per year), where the unemployment rate stood at 7.7% in May. The urban unemployment rate remained stable compared to the previous year, with increases this year offsetting declines observed during much of the previous year (Graph 3.16). There is significant heterogeneity among cities, with Manizales (7.4%), Villavicencio (7.6%) and Pereira (7.6%) registering the lowest unemployment rate. In contrast, Quibdó had the highest unemployment rate (23.2%), followed by Cartagena (12.8%) and Riohacha (11.9%). Compared to the previous

Graph 3.17
Beveridge curve for the seven main cities



Notes: Rolling quarter seasonally adjusted data. GEIH's vacancy rate is estimated based on hires according to Morales, Hermida, and Dávalos' methodology (2019).
Sources: DANE (GEIH), calculations by *Banco de la República.*

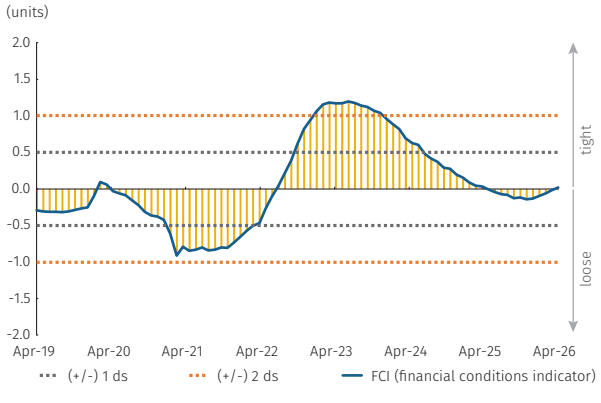
year, the most significant declines in the unemployment rate were observed in Quibdó (-5.9 pp), Riohacha (-3.3 pp) and Florencia (-2.8 pp), while the largest increases were experienced by Santa Marta (3.4 pp), Cartagena (3.3 pp) and Valledupar (1.8 pp).

On balance, job vacancy indicators and hiring expectations improved. The relationship between urban unemployment rate and vacancy rate, depicted by the Beveridge curve[5] (Graph 3.17), suggests continued narrowness in the labor market, with figures on the left side of the curve, in a scenario of a low historical unemployment rate and improved job vacancy rate performance observed in recent months. Conversely, medium-term hiring expectations, as derived from *Banco de la República's* Quarterly Survey of Economic Expectations (ETE), also improved, although they remain in negative territory. Specifically, as of April, the difference between the percentage of companies that expect to expand their workforce and those that plan to reduce it over the next three to six months was -6.9 pp, a slight improvement from the January figure (-15.1 pp).

3.4 Financial and monetary market

During the second quarter of 2026, local financial conditions continued to adjust gradually amid increases in the monetary policy interest rate (MPR) and loan interest rates. In this context, the loan portfolio continues to grow across all modalities, albeit at a more stable pace and at moderate rates, as reflected in a lower perceived demand for loans, more stringent criteria for their attainment, and weaker disbursement activity. Concurrently, lending and lending rates increased in the second quarter of the year, in line with the recent increase in the monetary policy rate and persistently high inflation expectations. Nonetheless, the financial system remains in a solid position, as evidenced by positive loan portfolio quality indicators, recovering profits, and solvency levels that far exceed regulatory minimums. Together, these developments suggest that local financial conditions are no longer accommodating but rather are moving towards a restrictive environment (Graph 3.18). This adjustment will reduce its impact on economic activity, particularly private consumption.

Graph 3.18
Financial condition indicators for Colombia [/a]

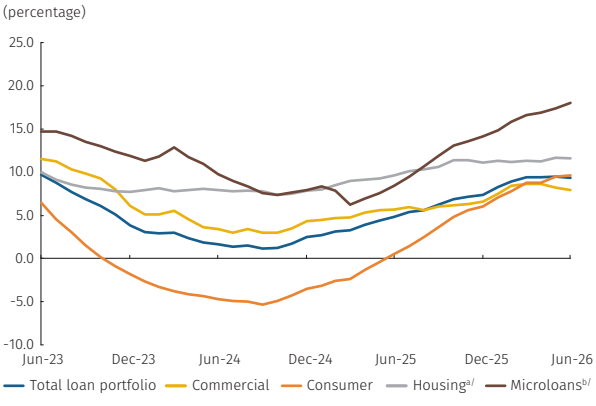


a/ This indicator summarizes the behavior of approximately 80 financial variables that provide information on the saving, investment, and financing decisions of households, businesses, and the government. Negative values indicate financial conditions that are more accommodating than the historical average, while positive values reflect more restrictive or more stressed conditions (see Box 4 of the April 2026 Monetary Policy Report).
Source: calculations by *Banco de la República.*

In the second quarter of 2026, the loan portfolio will continue to expand, although recent signs suggest growth will gradually slow. In nominal annual terms, the loan portfolio grew at a pace similar to that in the first quarter of the year: close to 9%. By modality, consumer, commercial, and housing loans registered annual changes of 9.6%, 7.9%, and 11.6%, respectively (Graph 3.19). In real annual terms, every modality conti-

5 The Beveridge curve is a graphical representation of the relationship between unemployment and the job vacancy rate.

Graph 3.19
Gross loan portfolio in Colombian pesos
(annual change, monthly averages)



a/ Adjusted housing: bank loan portfolio plus securitizations
b/Microloans as of March 1, 2024, includes "Banco Contactar", entity that had previously operated as "Corporación de Crédito Contactar" under the oversight of the Superintendency of Corporations.
Sources: Financial Superintendence of Colombia, calculations by *Banco de la República.*

Table 3.1
Interest rates
(average monthly, percentage)

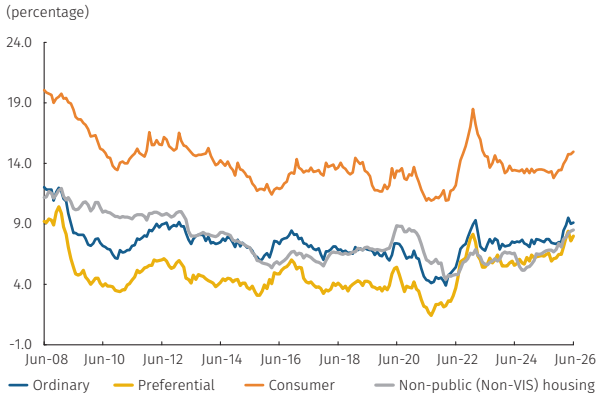
	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26
Interbank					
Interbank policy rate	9.25	9.25	9.25	10.25	11.25
Interbank overnight	9.25	9.25	9.21	10.24	11.26
BBI overnight	9.25	9.25	9.22	10.26	11.27
BBI 1-month	9.24	9.24	9.30	10.76	11.56
BBI 3-months	9.17	9.19	9.47	11.45	12.03
BBI 6-months	9.06	9.11	9.84	12.11	12.33
BBI 12-months	8.87	8.96	10.31	12.70	12.48
Deposits					
Savings	4.04	3.99	3.83	4.57	4.41
DTF 90-days	8.94	8.76	8.95	9.83	9.99
CDT* 180-days	9.11	8.85	9.11	10.49	10.44
CDT 360-days	9.53	9.39	9.91	12.16	12.26
CDT > 360-days	10.16	9.94	10.58	12.84	13.18
Loans					
Preferential	11.59	11.17	11.91	13.71	14.47
Ordinary	12.79	12.74	12.95	14.78	15.60
Non-public housing purchases	11.96	12.09	12.84	13.72	15.00
Public housing purchases	11.50	11.55	12.26	12.53	13.79
Consumer personal loan	20.46	20.33	20.37	21.75	23.16
Consumer payroll loan	16.76	16.57	16.59	18.10	18.90
Credit card	24.11	23.56	23.36	23.87	26.96

*CDT (term deposit certificates)
Sources: Financial Superintendence of Colombia, calculations by *Banco de la República.*

nued to increase, although more slowly than at the beginning of the year. Although the year-on-year credit growth remained widespread, the sustained recovery in the consumer loan portfolio stands out, especially after the contraction recorded in previous years. However, the commercial loan portfolio has shown a loss of vitality in recent months. As of March 2026, surveys on loan demand and supply continued to show positive signals, though with less favorable prospects for the second quarter. The demand perception indicator remained positive for the consumption and microloan modalities, while the commercial and housing modalities showed not so positive responses. For the second quarter, the surveyed entities suggest that demand for housing loans remained weak and that demand for consumer loans would trend downward. On the supply side, credit-granting requirements indicators were negative for consumer and housing loans, indicating that a greater share of financial institutions continue to decrease requirements for granting new loans and make them more flexible. In contrast, conditions for the commercial loan portfolio continue to tighten, while conditions for microloans remain unchanged. For the second quarter of 2026, banks expect to ease restrictions on consumption and microloans and tighten them for commercial and housing modalities. In addition, disbursement levels have stabilized and register lower annual growth rates after the increases observed in 2025. Together, these elements continue to point to easing in loan-portfolio activity. This takes place in an environment characterized by less favorable financial conditions that continue to correct, higher real interest rates, positive yet restrained household disposable income, and low unemployment rates.

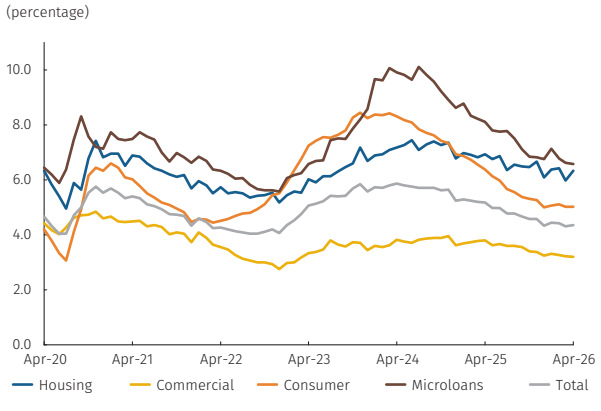
During the second quarter of 2026, interest rates on active and passive loans increased, amid increases in the monetary policy rate (MPR) and inflation expectations that continue to exceed the 3% target. The Board of Directors of *Banco de la República* left the MPR unchanged at the April meeting and opted for a 75-basis-point (bps) increase at the June meeting, with a cumulative 275 bps increase so far this year. This behavior was closely reflected by the market's short-term interest rates. With data as of June, the one-, three-, and six-month banking benchmark indicators increased by 80, 59, and 22 bps, respectively, compared with March. The twelve-month benchmark banking indicator fell by 22 bps during the second quarter of the year (Table 3.1). Interest rates for 90-day certificates of deposit (CDT for its Spanish acronym) increased by 16 bps, and those with maturities exceeding 360 days by 35 bps. On the other hand, lending interest rates also rose across all modalities during the period, increased in real terms compared to the first quarter of the year, and remained above their 10-year averages (Graph 3.20). Likewise, expectations for the monetary policy interest rate, both those derived from surveys and those implicit in

Graph 3.20
Real loan interest rates
(monthly average data deflated
by the CPI excluding food)



Sources: Financial Superintendence of Colombia, calculations by *Banco de la República.*

Graph 3.21
NPL Indicator
(past due loan portfolio[a/] / total loan portfolio)



a/Refers to loans past due over 30 days
Sources: Financial Superintendence of Colombia, calculations by *Banco de la República.*

financial derivatives (OIS),[6] remain high and suggest that the MPR will remain high over a longer period, which is consistent with inflation expectations that exceed the target and with the objective to ensure convergence of inflation to the target.

Loan portfolio quality, profitability, and solvency indicators continued to reflect the soundness of the financial system. As of April 2026, the non-performing loans quality indicator was lower than at the end of 2025 across all loan types, except housing, continuing the improvement observed since the previous year (Graph 3.21). Likewise, credit-granting establishments recorded twelve-month cumulative profits of COP 18.6 trillion in April 2026, representing an annual growth of 73%, in line with lower non-performing loan portfolio provisions due to improvements in the indicator, and higher investment income. For their part, total and basic solvency levels stood at 17.1% and 14.7%, respectively, well above the regulatory minimums of 9.0% and 4.5%, respectively.

6 An OIS (Overnight Index Swap) contract is a financial derivative in which two parties agree to exchange cash flows based on a fixed interest rate and a variable interest rate linked to an overnight benchmark rate, such as the bank benchmark index. Based on the interest rates agreed upon in these contracts, it is possible to derive expectations for the path of *Banco de la República*'s monetary policy rate (MPR) over a given horizon.

Box 1
Determinants of Nonfood, Nonregulated Goods Inflation in Colombia: Evidence from a VAR under an Open-Economy Phillips Curve Approach

Carlos Huertas
Marlon Salazar*

Introduction

From a theoretical perspective, tradable-goods inflation can be described by a New Keynesian Phillips curve for an open economy, in which current inflation depends on inflation expectations and real marginal costs. Since the latter variable is not observable, the literature generally approximates its domestic component using real unit labor costs, defined as the ratio of real wages to labor productivity or, equivalently, as the share of wages in income. Likewise, the output gap is frequently used in empirical applications as a reduced form approximation for real marginal costs. In addition, in an open economy, international prices, the nominal exchange rate, and transportation costs affect import prices and, through these, firms' marginal costs and tradable-goods inflation. Consequently, the output gap and measures of labor costs are interpreted as alternative proxies for domestic marginal costs, while external variables capture cost shocks originating in international markets.

In Colombia, in 2026 to date, the year-on-year change in the consumer price index (CPI) for nonfood, nonregulated goods (SAR goods for their Spanish acronym) has been on an upward trend, despite the appreciation of the peso against the U.S. dollar.[1] Although exchange-rate appreciation tends to ease inflationary pressures on tradable goods by reducing the peso cost of imported goods and external inputs, the recent behavior of these prices suggests this effect has been constrained by other factors. In particular, strong domestic demand, reflected in a positive output gap, higher inflation expectations, and, more recently, the rebound in external nonfood, nonregulated goods inflation stand out.

Based on the above, this box presents an estimate of a structural VAR (vector autoregression) model to explain the dynamics of SAR goods inflation in Colombia. The structure incorporates: 1) external goods inflation, constructed using comparable price indices for the United States, China, and Germany, weighted according to their shares in Colombia's imports; 2) changes in the nominal exchange rate, which capture the exchange-rate pass-through to domestic prices; 3) the GDP gap, as an indicator of domestic demand and cost pressures; 4) twelve-month inflation expectations from surveys of analysts; and 5) SAR goods inflation. The VAR is identified using a Cholesky decomposition, with the variables ordered according to their degree of contemporaneous exogeneity. Under this specification, external goods inflation is considered the most exogenous variable, while Colombia's SAR goods inflation is the most endogenous.

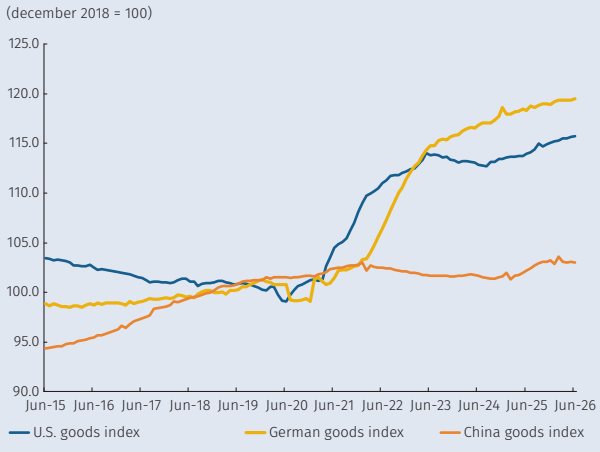
1. Construction of the external nonfood, nonregulated goods CPI

To measure external inflation for SAR goods in Colombia, an external goods CPI was constructed, using the subcategories that comprise this component of Colombia's CPI as a ben-

* The authors are members of the Programming and Inflation Department. The opinions herein expressed are solely the responsibility of the authors and do not necessarily reflect those of the Bank nor its Board of Directors.

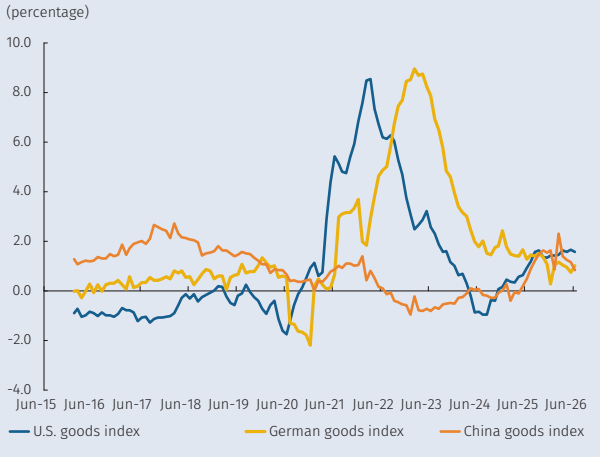
1 Seasonally adjusted year-on-year nonfood, nonregulated goods inflation has been on an upward trend since January 2025, and this trend has continued through 2026. As of June 2026, seasonally adjusted annual SAR goods inflation stood at 3.2%, while the year-on-year change in the peso-to-US-dollar exchange rate was -15.1%.

Graph B1.1
External nonfood, nonregulated goods CPI



Note: considers price indices with a December 2018 base of 100, seasonally adjusted.
Source: author's own calculations.

Graph B1.2
Year-on-year change in external nonfood, nonregulated goods CPI



Note: considers price indices with a December 2018 base of 100, seasonally adjusted.
Source: author's own calculations.

chmark. The exercise consisted of identifying, at the highest level of disaggregation available, comparable subcategories in the CPIs of the United States, China, and Germany. Based on these correspondences, an external SAR goods price index was constructed for each country in its respective currency. As shown in Graph B1.1, price behavior differs clearly between the pre- and post-pandemic periods. Between 2015 and 2019, the indices for the United States and Germany remained relatively stable, while China's index increased gradually. However, starting in 2021, goods prices in the United States and Germany underwent a pronounced and persistent change in trend, while China's index continued along the gradual path observed before the pandemic.

The post-pandemic inflation episode differed significantly across these countries in both magnitude and timing. In the United States, the annual change in the index peaked at 8.7% in March 2022, while in Germany the highest value, 9.0%, was observed nearly a year later, in February 2023. In China, by contrast, post-pandemic upward price pressures were moderate: the year-on-year change reached a post-pandemic peak of 1.4% in January 2022, below the levels observed before 2019, and then declined in the following months, falling into negative territory between 2022 and 2024. Starting in 2025, the year-on-year change in the indices has shown an upward trend, mainly in the United States and China, while in Germany it has exhibited a moderate downward trend. More recently, in June 2026, the annual change stood at 1.6% in the United States, 1.0% in Germany, and 0.8% in China (Graph B1.2).[2]

2. VAR model results

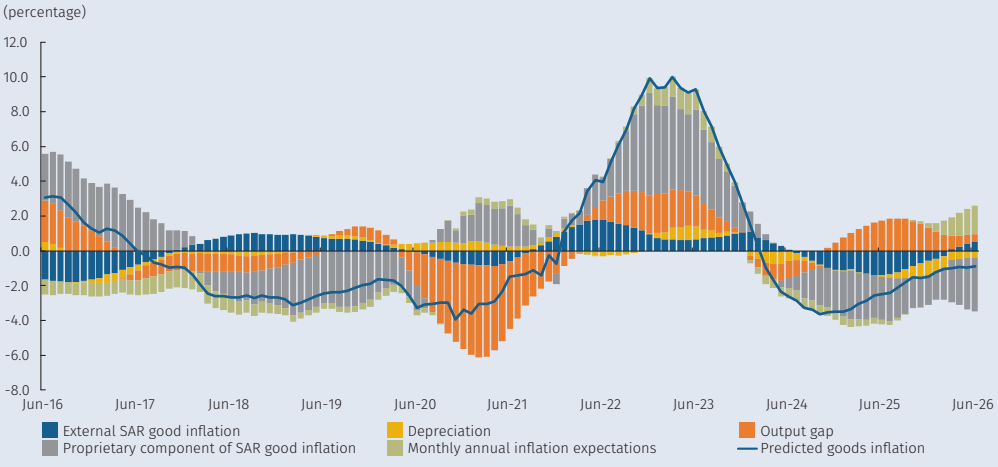
The model was estimated using monthly data from February 2015 through June 2026. The year-on-year results are obtained by accruing the changes observed over the previous twelve months.

The historical breakdown of the twelve-month VAR model, presented in Graph B1.3,[3] shows that external goods inflation and the GDP gap were relevant in explaining the increase in prices following the pandemic, together with positive contributions from depreciation, demand (output gap), and inflation expectations. In the current semester, the results show that the recent appreciation of the peso has helped ease goods inflation, but its effect has been insufficient to reverse the upward trend observed since early 2025. The evidence suggests that the leading sources of inflationary pressure have been the GDP gap, inflation expectations, and, more recently, external goods inflation.

2 Alternative exercises and estimates were also conducted that included variables intended to approximate the relevant marginal costs within the Phillips curve framework. In particular, measures of international transportation costs, approximated by the difference between the CIF and FOB values of imports, as well as unit labor cost indicators for the manufacturing industry, were considered. However, the inclusion of these variables did not yield statistically or economically meaningful results and were therefore excluded from the model's final specification.

3 Contributions are expressed as deviations of inflation from its long-run average.

Graph B1.3
Historical breakdown of shocks: deviation of nonfood, nonregulated goods inflation from its long-term average



Note: considers price indexes whose base is December 2018 (=100), seasonally adjusted.
Source: author's own calculations.

Appendix 1
Macroeconomic Forecasts by local and Foreign Analysts[a/, b/]

	Units	Jul-26	Dec-26	Jul-27	Dec-27	Jul-28
Headline CPI	Monthly variation (average)	0.31	n. a.	n. a.	n. a.	n. a.
CPI excluding food	Monthly variation (average)	0.30	n. a.	n. a.	n. a.	n. a.
CPI excluding food and regulated	Monthly variation (average)	0.29	n. a.	n. a.	n. a.	n. a.
CPI food	Monthly variation (average)	0.29	n. a.	n. a.	n. a.	n. a.
CPI regulated	Monthly variation (average)	0.41	n. a.	n. a.	n. a.	n. a.
Headline CPI	Annual variation (average), end of period	6.18[c/]	6.68	5,.49	4,.98	4,.13
CPI excluding food	Annual variation (average), end of period	6.15[c/]	6.30	5.26	4.81	4.19
CPI excluding food and regulated	Annual variation (average), end of period	6.07[c/]	6.12	5.19	4.76	4.16
CPI food	Annual variation (average), end of period	6.27[c/]	8.01	6.57	5.36	3.60
CPI regulated	Annual variation (average), end of period	6.45[c/]	7.25	6.16	5.62	4.44
Nominal exchange rate	COP per USD, end of period	3,300	3,500	3,550	3,638	3,662
Monetary policy rate	Percentage, end of period	12.50	12.50	11.50	10.75	9.25

	Units	II-2026	III-2026	IV-2026	2026	I-2027	II-2027	III-2027	IV-2027	2027	I-2028	II-2028
GDP	Annual change, original series	2.6	2.2	2.5	2.4	2.1	2.3	2.4	2.4	2.3	2.5	n. a.
Unemployment	Thirteen cities, quarterly average	8.7	8.6	8.6	n. a.	9.5	9.0	9.0	8.7	n. a.	9.6	n. a.
IBR (90 days)	Effective annual rate, end of period	n. r.	12.3	12.4	n. a.	12.3	11.9	11.4	10.9	n. a.	10.3	9.5
Fiscal Deficit (GNC) [d/]	Share of GDP	n. a.	n. a.	n. a.	6.7	n. a.	n. a.	n. a.	n. a.	6.0	n. a.	n. a.
Direct Account Deficit[d/]	Share of GDP	n. a.	n. a.	n. a.	2.6	n. a.	n. a.	n. a.	n. a.	2.9	n. a.	n. a.

n.a.: Not available.
n.r.: Not relevant, given that the data has already been observed.
a/ The survey excluded the question related to the DTF starting with the April 2023 *Banco de la República*'s Monthly Survey of Economic Analyst Expectations.
Expectations (EME for its Spanish acronym) conducted by *Banco de la República.*
b/ Is the response median to *Banco de la República's Monthly Survey of Economic Analyst Expectations*, except for the CPI and CPI excluding food, which are the response average.
c/ Data calculated based on the results of *Banco de la República's* Monthly Survey of Economic Analyst Expectations (EME).
d/ Positive values represent deficit and negative values represent surplus.
Sources: *Banco de la República*, Monthly Survey of Economic Analyst Expectations, conducted in July 2026.

Appendix 2
Main Macroeconomic Forecasting Variables

		Years										
		2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Exogenous variables												
External [a/]												
GDP of trading partners [b/]	Percentage, annual var., seasonally adjusted	3.2	2.5	1.5	-6.6	8.3	3.7	2.4	1.9	2.7	**2.1**	**2.1**
Oil price (Brent benchmark)	Dollars per barrel, average of the period	55	72	64	43	71	99	82	80	68	**84**	**73**
Terms of trade [c/]	Index, 2000 = 100	128	140	138	117	140	170	154	155	164	**186**	**178**
Federal funds effective rate (Fed)	Percentage, average for the period	1.0	1.8	2.2	0.4	0.1	1.7	5.0	5.1	4.2	**3.6**	**3.6**
5-year Credit Default Swap for Colombia	Basis points, average for the period	129	114	99	142	142	259	246	187	210	**183**	**185**
Internal												
Neutral real interest rate for Colombia	Percentage, average for the period	1.3	1.3	1.2	1.3	1.5	2.0	2.2	2.4	2.7	3.1	3.4
Potential GDP for Colombia (trend)	Percentage, annual change	2.5	2.7	2.8	-1.4	3.9	3.7	2.9	2.7	2.6	2.3	2.8
Endogenous variables												
Prices												
Total CPI [d/]	Percentage, annual change, end of period	4.1	3.2	3.8	1.6	5.6	13.1	9.3	5.2	5.1	**6.9**	**4.3**
CPI excluding food [e/]	Percentage, annual change, end of period	5.0	3.5	3.5	1.0	3.4	10.0	10.3	5.6	5.1	.	.
CPI for goods (excluding food and regulated items)	Percentage, annual change, end of period	3.2	1.4	2.2	0.6	3.3	15.0	7.1	0.6	2.6	.	.
CPI for services (excluding food and regulated items)	Percentage, annual change, end of period	5.4	3.1	3.5	1.3	2.2	7.4	9.0	7.0	5.9	.	.
CPI for regulated items	Percentage, annual change, end of period	6.3	6.7	4.8	0.7	7.1	11.8	17.2	7.3	5.4	**7.1**	**5.1**
CPI for food [f/]	Percentage, annual change, end of period	0.5	1.9	5.8	4.8	17.2	27.8	5.0	3.3	5.1	**9.0**	**3.8**
CPI for perishable food	Percentage, annual change, end of period	5.8	8.9	8.7	2.5	24.4	36.4	-0.5	5.1	3.8	.	.
CPI for processed food	Percentage, annual change, end of period	-0.9	-0.1	5.0	5.4	15.3	25.3	6.7	2.8	5.5	.	.
Core inflation indicators [g/]												
CPI excluding food	Percentage, annual change, end of period	5.0	3.5	3.5	1.0	3.4	10.0	10.3	5.6	5.1	.	.
Core CPI 15	Percentage, annual change, end of period	4.2	3.2	3.8	1.9	4.4	11.6	9.5	5.4	5.3	.	.
CPI excluding food and regulated items	Percentage, annual change, end of period	4.7	2.6	3.1	1.1	2.5	9.5	8.4	5.2	5.0	**6.2**	**4.2**
Average of all core inflation indicators	Percentage, annual change, end of period	4.6	3.1	3.4	1.3	3.4	10.4	9.4	5.4	5.1	.	.
Representative market exchange rate	Pesos per dollar, average for the period	2.951	2.957	3.282	3.691	3.747	4.257	4.330	4.074	4.053	.	.
Real exchange rate Inflationary gap	Percentage, average for the period	-2.7	-1.4	2.5	4.7	1.9	7.9	0.6	-3.1	-2.7	**-11.4**	**-5.4**
Economic activity												
Gross domestic product (sats)*	Percentage, annual change, sats	1.4	2.6	3.2	-7.2	10.8	7.3	0.8	1.5	2.6	**2.5**	**1.9**
Final consumption expense	Percentage, annual change, sats	2.3	4.0	4.3	-4.2	13.8	9.0	0.7	1.5	4.3	.	.
Household final consumption expenditure	Percentage, annual change, sats	2.1	3.2	4.1	-5.0	14.7	10.8	0.5	1.6	3.5	.	.
General government final consumption expenditure	Percentage, annual change, sats	3.6	7.4	5.3	-0.8	9.8	1.0	1.6	0.6	8.4	.	.
Gross capital formation	Percentage, annual change, sats	-3.2	1.5	3.0	-20.7	11.6	16.0	-16.1	2.4	1.2	.	.
Gross fixed capital formation	Percentage, annual change, sats	1.9	1.0	2.2	-23.6	16.7	11.5	-12.8	0.7	1.4	.	.
Housing	Percentage, annual change, sats	-1.9	-0.4	-8.9	-32.7	39.8	2.0	-4.2	-3.8	-6.5	.	.
Other buildings and structures	Percentage, annual change, sats	4.6	-3.5	1.1	-30.8	0.9	-4.3	-5.4	3.8	-2.3	.	.
Machinery and equipment	Percentage, annual change, sats	1.4	8.6	12.3	-13.3	23.3	30.5	-23.0	0.7	8.9	.	.
Cultivated biological resources	Percentage, annual change, sats	0.3	-3.1	7.9	-1.8	-0.9	-12.5	5.0	7.9	4.7	.	.
Intellectual property products	Percentage, annual change, sats	1.2	1.5	-0.7	-8.3	3.4	7.3	3.1	-3.1	-1.1	.	.
Domestic demand	Percentage, annual change, sats	1.1	3.5	4.0	-7.5	13.4	10.3	-2.4	1.6	3.8	.	.
Exports	Percentage, annual change, sats	2.6	0.6	3.1	-22.5	14.6	12.5	3.1	0.4	1.9	.	.
Imports	Percentage, annual change, sats	1.0	5.8	7.3	-20.1	26.7	24.0	-10.0	1.2	8.6	.	.
Product gap [h/]	Percentage	-0.7	-0.8	-0.5	-6.5	-0.2	3.3	1.3	0.1	0.2	**0.4**	**-0.5**
Short-term indicators												
Real production of manufacturing industry	Percentage, annual change, seasonally adjusted	0.0	3.0	1.3	-8.1	16.2	10.4	-4.7	-2.5	2.2	.	.
Retail trade sales, excluding fuels or vehicles	Percentage, annual change, seasonally adjusted	-0.1	5.4	8.1	-1.6	12.0	9.4	-3.9	1.6	11.3	.	.
Coffee production	Percentage, annual change, cum. for period	-0.3	-4.5	8.8	-5.8	-9.5	-11.9	2.4	23.4	-2.3	.	.
Oil production	Percentage, annual change, period average	-3.6	1.3	2.4	-11.8	-5.8	2.4	3.0	-0.6	-3.4	.	.
Labor market [i/]												
Total national												
Unemployment rate	Percentage, annual change, period average	9.7	10.0	10.9	16.7	13.8	11.2	10.2	10.2	8.9	.	.
Occupancy Rate	Percentage, annual change, period average	60.0	59.1	57.7	50.4	53.1	56.5	57.6	57.4	58.6	.	.
Overall participation rate	Percentage, annual change, period average	66.4	65.7	64.8	60.4	61.5	63.6	64.1	63.9	64.3	.	.
Thirteen cities and metropolitan areas												
Unemployment rate	Percentage, annual change, period average	11.0	11.1	11.5	19.1	15.2	11.4	10.4	10.1	8.6	**8.8**	**9.8**
Occupancy Rate	Percentage, annual change, period average	60.5	59.6	58.8	50.8	53.8	58.1	59.5	59.9	61.0	.	.
Overall participation rate	Percentage, annual change, period average	67.9	67.1	66.4	62.7	63.5	65.5	66.3	66.7	66.7	.	.
Balance of payments [j/ k/]												
Current account (A + B + C)	Millions of dollars	-9,924	-14,041	-14,809	-9,267	-17,949	-20,881	-8,322	-7,100	-11,022	**-14,082**	**-15,090**
Percentage of GDP	Percentage, nominal terms	-3.2	-4.2	-4.6	-3.4	-5.6	-6.0	-2.3	-1.7	-2.4	**-2.5**	**-2.6**
A. Goods and services	Millions of dollars	-8,762	-10,556	-14,148	-13,105	-20,001	-16,096	-7,806	-9,770	-14,886	**-17,471**	**-20,254**
B. Primary income (factor income)	Millions of dollars	-8,046	-11,442	-9,716	-4,950	-8,723	-17,086	-13,439	-12,837	-12,570	**-13,560**	**-12,233**
C. Secondary income (current transfers)	Millions of dollars	6,883	7,957	9,055	8,788	10,775	12,301	12,922	15,507	16,434	**16,948**	**17,398**
Financial account (A + B + C + D)	Millions of dollars	-9,625	-12,954	-13,298	-8,113	-16,693	-20,466	-7,849	-5,577	-8,889	.	.
Percentage of GDP	Percentage, nominal terms	-3.1	-3.9	-4.1	-3.0	-5.3	-5.9	-2.1	-1.3	-1.9	.	.
A. Foreign investment (ii - i)	Millions of dollars	-10,011	-6,172	-10,836	-5,725	-6,381	-13,799	-15,525	-9,172	-6,746	.	.
i. Foreign Investment in Colombia (FDI)	Millions of dollars	13,701	11,299	13,989	7,459	9,561	17,182	16,794	13,684	11,571	.	.
ii. Colombian abroad	Millions of dollars	3,690	5,126	3,153	1,733	3,181	3,384	1,269	4,512	4,825	.	.
B. Portfolio investment	Millions of dollars	-1,800	862	24	-1,768	-4,595	427	8,663	2,272	-7,559	.	.
C. Other investment (loans, other credits, and derivatives)	Millions of dollars	1,641	-8,831	-5,820	-4,949	-6,371	-7,665	-2,705	-2,270	3,251	.	.
D. Reserve assets	Millions of dollars	545	1,187	3,333	4,328	654	571	1,718	3,593	2,165	.	.
Errors and omissions (E&O)	Millions of dollars	299	1,087	1,510	1,153	1,256	415	474	1,523	2,132	.	.
Interest rates												
Policy interest rate [l/]	Percentage, period average	6.1	4.4	4.3	2.9	1.9	7.2	13.0	11.4	9.3	.	.
Policy rate expected by analysts [m/]	Percentage, period average										**11.5**	**11.9**
IBR overnight	Percentage, period average	6.1	4.3	4.3	2.9	1.9	7.2	13.0	11.4	9.3	.	.
Commercial interest rate [n/]	Percentage, period average	11.1	9.3	8.8	7.4	6.2	13.3	18.7	14.5	12.5	.	.
Consumer interest rate [o/]	Percentage, period average	19.4	17.9	16.5	15.0	14.3	21.1	27.9	21.7	19.1	.	.
Mortgage interest rate [p/]	Percentage, period average	11.6	10.6	10.4	10.1	9.1	12.9	17.7	13.5	12.1	.	.

Note: values in bold are forecasts or assumptions.
sats: seasonally adjusted time series, modified to eliminate the effect of seasonal and calendar influences.
a/ Quarterly data in bold are assumptions based on the annual forecast of each variable.
b/ Calculated with the main trading partners (excluding Venezuela) weighted by their share of trade.
c/ Terms of trade index based on chained indices of export and import prices.
d/ The medium term forecast corresponds to the average of the estimates obtained from the technical staff's central models (4GM and PATACON).
e/ Calculations by *Banco de la República*; excluding the CPI item weight for food and non-alcoholic beverages. Consult González, E.; Hernández, R.; Caicedo, E.; Martínez-Cortés, N.; Grajales, A.; Romero, J. (2020). "Nueva clasificación del Banrep de la canasta del IPC y revisión de las medidas de inflación básica en Colombia", *Borradores de Economía*, No. 122, *Banco de la República*, available at: https://investiga.banrep.gov.co/es/be-1122.
f/ Calculations by *Banco de la República*; equal to the division of the CPI of food and non-alcoholic beverages produced by DANE (not including the subclasses corresponding to meals outside the home). See González, E.; Hernández, R.; Caicedo, E.; Martínez-Cortés, N.; Grajales, A.; Romero, J. (2020). "Nueva clasificación del Banrep de la canasta del IPC y revisión de las medidas de inflación básica en Colombia", Working Papers on Economics, No. 122, *Banco de la República*, available at: https://investiga.banrep.gov.co/es/be-1122.
g/ Calculations by *Banco de la República*. See González, E.; Hernández, R.; Caicedo, E.; Martínez-Cortés, N.; Grajales, A.; Romero, J. (2020). "Nueva clasificación del Banrep de la canasta del IPC y revisión de las medidas de inflación básica en Colombia", Working Papers on Economics, No. 122, *Banco de la República*, available at: https://investiga.banrep.gov.co/es/be-1122.
h/ The historical gap estimate is calculated based on the difference between observed GDP (cumulative 4 quarters) and potential GDP (trend; cumulative 4 quarters) resulting from the 4GM model; in the forecast it is calculated from the difference between the technical staff's estimate of GDP (cumulative 4 quarters) and potential GDP (trend; cumulative 4 quarters) resulting from the 4GM model.
i/ Rates are calculated based on seasonally adjusted annual populations.
j/ The results presented follow the recommendations of the sixth edition of the Balance of Payments and International Investment Position Manual (BPM6). See additional information and method changes at http://www.banrep.gov.co/ balance-payments.
k/ Results for 2024 and 2025 are preliminary
l/ Corresponds to the average annual monetary policy interest rate calculated with the working days of the series.
m/ These projections are calculated as the average of the interest rate that would be in effect in each year according to the median of the monthly responses to the Monthly Survey of Economic Analyst Expectations (EME) conducted by *Banco de la República* in July 2026.
n/ Weighted average of interest rates on ordinary, treasury and preferential loans.
o/ Does not include loans granted through credit cards.
p/ Corresponds to the weighted average of interest rate of the disbursements in COP and UVR (real value unit for its Spanish acronym) for the acquisition of No VIS housing (housing that is not social interest housing).

Appendix 2 (continuation)
Main Macroeconomic Forecasting Variables

		2020		2021				2022	
		Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Exogenous variables									
External [a/]									
GDP of trading partners [b/]	Percentage, annual var., seasonally adjusted	-6.7	-3.0	0.5	18.8	9.0	6.5	5.2	4.0
Oil price (Brent benchmark)	Dollars per barrel, average of the period	43	45	61	69	73	80	98	112
Terms of trade[c/]	Index, 2000 = 100	121	125	135	133	140	150	163	178
Federal funds effective rate (Fed)	Percentage, average for the period	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.8
5-year Credit Default Swap for Colombia	Basis points, average for the period	132	104	110	131	143	185	209	238
Internal									
Neutral real interest rate for Colombia	Percentage, average for the period								
Potential GDP for Colombia (trend)	Percentage, annual change								
Endogenous variables									
Prices									
Total CPI [d/]	Percentage, annual change, end of period	2.0	1.6	1.5	3.6	4.5	5.6	8.5	9.7
CPI excluding food [e/]	Percentage, annual change, end of period	1.6	1.0	1.1	2.7	3.0	3.4	5.3	6.8
CPI for goods (excluding food and regulated items)	Percentage, annual change, end of period	1.2	0.6	1.1	2.6	3.0	3.3	6.4	8.3
CPI for services (excluding food and regulated items)	Percentage, annual change, end of period	1.9	1.3	0.9	1.6	2.0	2.2	3.8	5.2
CPI for regulated items	Percentage, annual change, end of period	1.2	0.7	1.5	5.9	5.9	7.1	8.3	9.8
CPI for food [f/]	Percentage, annual change, end of period	4.1	4.8	3.9	8.5	12.4	17.2	25.4	23.6
CPI for perishable food	Percentage, annual change, end of period	-3.4	2.5	1.6	8.7	14.8	24.4	41.9	31.2
CPI for processed food	Percentage, annual change, end of period	6.4	5.4	4.6	8.5	11.7	15.3	20.7	21.5
Core inflation indicators [g/]									
CPI excluding food	Percentage, annual change, end of period	1.6	1.0	1.1	2.7	3.0	3.4	5.3	6.8
Core CPI 15	Percentage, annual change, end of period	2.3	1.9	1.7	3.4	3.8	4.4	6.9	8.4
CPI excluding food and regulated items	Percentage, annual change, end of period	1.7	1.1	0.9	1.9	2.3	2.5	4.5	6.1
Average of all core inflation indicators	Percentage, annual change, end of period	1.9	1.3	1.2	2.7	3.0	3.4	5.6	7.1
Representative market exchange rate	Pesos per dollar, average for the period	3,731	3,662	3,559	3,695	3,847	3,882	3,910	3,919
Real exchange rate Inflationary gap	Percentage, average for the period	4.5	1.5	-1.4	1.6	3.6	3.7	2.6	1.8
Economic activity									
Gross domestic product (sats)*	Percentage, annual change, sats	-9.0	-3.2	1.9	18.4	13.4	11.0	8.0	12.3
Final consumption expense	Percentage, annual change, sats	-7.4	1.1	3.7	21.9	18.5	12.8	11.4	14.9
Household final consumption expenditure	Percentage, annual change, sats	-8.6	0.9	2.6	25.3	19.6	14.0	12.2	16.4
General government final consumption expenditure	Percentage, annual change, sats	-2.2	1.6	10.8	8.6	12.4	7.7	7.2	7.6
Gross capital formation	Percentage, annual change, sats	-17.4	-23.1	-5.5	33.5	8.5	15.4	16.1	8.1
Gross fixed capital formation	Percentage, annual change, sats	-24.9	-15.0	3.1	42.2	15.3	14.0	9.6	13.8
Housing	Percentage, annual change, sats	-30.1	-26.1	22.9	64.1	31.2	47.7	1.1	4.8
Other buildings and structures	Percentage, annual change, sats	-37.1	-24.4	-13.4	30.7	-0.6	-1.2	-8.8	-1.1
Machinery and equipment	Percentage, annual change, sats	-9.4	1.5	7.9	56.0	23.6	15.5	34.7	33.6
Cultivated biological resources	Percentage, annual change, sats	-7.9	-3.0	5.8	1.2	-4.2	-6.7	-16.2	-16.2
Intellectual property products	Percentage, annual change, sats	-10.9	-9.1	-3.2	3.4	8.3	5.5	7.1	9.9
Domestic demand	Percentage, annual change, sats	-9.7	-2.8	1.7	24.4	16.7	12.8	12.8	13.6
Exports	Percentage, annual change, sats	-28.3	-22.8	-9.6	15.1	26.8	33.0	16.8	24.7
Imports	Percentage, annual change, sats	-25.8	-15.5	-5.1	47.0	40.3	34.1	39.1	25.8
Product gap [h/]	Percentage	-5.6	-6.5	-6.2	-4.0	-2.2	-0.2	1.1	2.6
Short-term indicators									
Real production of manufacturing industry	Percentage, annual change, seasonally adjusted	-7.3	0.0	6.7	27.6	20.1	12.9	11.9	20.8
Retail trade sales, excluding fuels or vehicles	Percentage, annual change, seasonally adjusted	-3.5	5.3	4.0	19.2	15.7	10.7	12.6	21.9
Coffee production	Percentage, annual change, cum. for period	-3.6	-4.6	13.3	-24.7	-1.9	-18.8	-16.3	9.7
Oil production	Percentage, annual change, period average	-15.4	-14.1	-14.6	-5.1	-0.1	-1.7	-0.1	5.1
Labor market [i/]									
Total national									
Unemployment rate	Percentage, annual change, period average	18.5	15.8	14.3	15.0	13.1	12.8	11.9	10.9
Occupancy Rate	Percentage, annual change, period average	48.9	52.5	52.8	52.0	53.3	54.1	56.0	56.7
Overall participation rate	Percentage, annual change, period average	60.0	62.4	61.7	61.2	61.3	62.1	63.5	63.6
Thirteen cities and metropolitan areas									
Unemployment rate	Percentage, annual change, period average	21.9	17.7	16.5	16.6	14.2	13.4	12.3	11.2
Occupancy Rate	Percentage, annual change, period average	48.9	53.1	53.6	53.2	54.3	54.3	57.5	58.0
Overall participation rate	Percentage, annual change, period average	62.6	64.6	64.2	63.8	63.2	62.7	65.5	65.3
Balance of payments [j/ k/]									
Current account (A + B + C)	Millions of dollars	-2,013	-2,997	-3,105	-4,047	-4,835	-5,962	-5,398	-4,751
Percentage of GDP	Percentage, nominal terms	-3.0	-4.0	-4.0	-5.5	-6.0	-6.9	-6.3	-5.3
A. Goods and services	Millions of dollars	-3,263	-4,092	-3,688	-5,022	-5,259	-6,032	-4,958	-3,049
B. Primary income (factor income)	Millions of dollars	-1,172	-1,380	-1,867	-1,652	-2,339	-2,865	-3,617	-4,531
C. Secondary income (current transfers)	Millions of dollars	2,422	2,475	2,450	2,627	2,763	2,935	3,176	2,829
Financial account (A + B + C + D)	Millions of dollars	-1,857	-2,584	-2,789	-3,761	-4,504	-5,640	-5,037	-4,952
Percentage of GDP	Percentage, nominal terms	-2.8	-3.4	-3.6	-5.1	-5.6	-6.5	-5.8	-5.5
A. Foreign investment (ii - i)	Millions of dollars	-258	-1,818	-1,438	-1,013	-2,528	-1,402	-3,651	-3,661
i. Foreign Investment in Colombia (FDI)	Millions of dollars	844	2,069	2,307	1,997	2,707	2,550	4,934	5,043
ii. Colombian abroad	Millions of dollars	586	251	869	984	179	1,149	1,284	1,382
B. Portfolio investment	Millions of dollars	323	1,506	1,319	-6,089	851	-675	1,866	-759
C. Other investment (loans, other credits, and derivatives)	Millions of dollars	-2,127	-3,976	-2,860	3,167	-2,981	-3,697	-3,379	-606
D. Reserve assets	Millions of dollars	205	1,705	190	174	154	135	127	74
Errors and omissions (E&O)	Millions of dollars	155	413	316	287	331	322	361	-201
Interest rates									
Policy interest rate [l/]	Percentage, period average	2,2	1,8	1,8	1,8	1,8	2,4	3,7	5,7
Policy rate expected by analysts [m/]	Percentage, period average								
IBR overnight	Percentage, period average	2,2	1,7	1,7	1,7	1,8	2,4	3,7	5,7
Commercial interest rate [n/]	Percentage, period average	7,0	6,2	6,0	5,7	6,0	6,9	8,6	10,8
Consumer interest rate [o/]	Percentage, period average	14,8	14,2	14,0	13,7	14,3	14,8	16,7	19,1
Mortgage interest rate [p/]	Percentage, period average	10,2	9,6	9,2	8,9	9,0	9,3	9,9	11,5

Note: values in bold are forecasts or assumptions.
sats: seasonally adjusted time series, modified to eliminate the effect of seasonal and calendar influences.
a/ Quarterly data in bold are assumptions based on the annual forecast of each variable.
b/ Calculated with the main trading partners (excluding Venezuela) weighted by their share of trade.
c/ Terms of trade index based on chained indices of export and import prices.
d/ The medium term forecast corresponds to the average of the estimates obtained from the technical staff's central models (4GM and PATACON).
e/ Calculations by *Banco de la República*; excluding the CPI item weight for food and non-alcoholic beverages. Consult González, E.; Hernández, R.; Caicedo, E.; Martínez-Cortés, N.; Grajales, A.; Romero, J. (2020). "Nueva clasificación del Banrep de la canasta del IPC y revisión de las medidas de inflación básica en Colombia", *Borradores de Economía*, No. 122, *Banco de la República*, available at: https://investiga.banrep.gov.co/es/be-1122.
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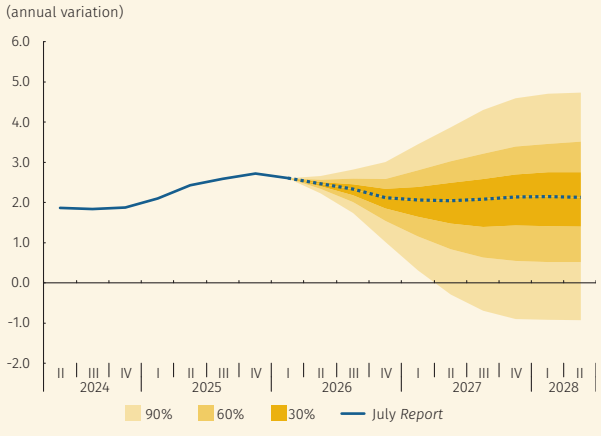
2022		2023				2024				2025				2026				2027				2028	
Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
3.2	2.5	2.5	2.9	2.1	2.1	1.8	1.4	2.0	2.2	2.7	2.8	2.6	2.8	2.3	**2.2**	**2.1**	**1.9**	**2.0**	**2.2**	**2.2**	**2.1**	**2.1**	**2.1**
98	89	82	78	86	83	82	85	79	74	75	67	68	63	78	97	**84**	**80**	**77**	**74**	**71**	**69**	**67**	**65**
174	166	159	152	155	150	152	154	156	159	165	162	167	163	170	**196**	**191**	**187**	**183**	**179**	**176**	**172**	**172**	**172**
2.2	3.6	4.5	5.0	5.3	5.3	5.3	5.3	5.3	4.7	4.3	4.3	4.3	3.9	3.6	3.6	**3.6**	**3.6**	**3.6**	**3.6**	**3.6**	**3.6**	**3.6**	**3.6**
275	314	283	275	219	207	172	187	189	199	201	245	197	200	211	195	**161**	**166**	**175**	**183**	**188**	**192**	**195**	**198**
11.4	13.1	13.3	12.1	11.0	9.3	7.4	7.2	5.8	5.2	5.1	4.8	5.2	5.1	5.6	6.1	**6.1**	**6.9**	**6.6**	**5.9**	**5.4**	**4.3**	**3.5**	**3.0**
8.3	10.0	11.4	11.6	10.9	10.3	8.8	7.6	6.5	5.6	5.2	4.9	4.9	5.1	5.4	6.0	.	.	.	.	.	.	.	.
11.6	15.0	15.1	14.3	10.4	7.1	3.1	1.4	0.6	0.6	0.9	1.6	2.2	2.6	3.0	3.2	.	.	.	.	.	.	.	.
5.9	7.4	8.7	9.0	9.1	9.0	8.3	7.9	7.5	7.0	6.4	6.0	5.8	5.9	6.8	7.0	.	.	.	.	.	.	.	.
11.5	11.8	14.7	15.6	15.8	17.2	15.8	13.3	10.2	7.3	6.3	5.5	5.3	5.4	4.1	5.9	**6.8**	**7.1**	**7.8**	**6.3**	**5.8**	**5.1**	**4.0**	**3.7**
26.6	27.8	21.8	14.3	11.5	5.0	1.7	5.3	2.7	3.3	4.7	4.3	6.2	5.1	6.3	6.8	**5.2**	**9.0**	**8.5**	**7.7**	**7.0**	**3.8**	**2.3**	**1.5**
35.5	36.4	19.7	10.1	13.9	-0.5	-3.4	12.5	2.9	5.1	4.6	1.0	6.6	3.8	10.8	13.5	.	.	.	.	.	.	.	.
24.1	25.3	22.5	15.6	10.7	6.7	3.4	3.2	2.7	2.8	4.7	5.4	6.1	5.5	4.9	4.8	.	.	.	.	.	.	.	.
8.3	10.0	11.4	11.6	10.9	10.3	8.8	7.6	6.5	5.6	5.2	4.9	4.9	5.1	5.4	6.0	.	.	.	.	.	.	.	.
10.0	11.6	12.4	11.6	10.3	9.5	7.6	7.1	6.2	5.4	5.3	5.1	5.3	5.3	5.9	6.3	.	.	.	.	.	.	.	.
7.5	9.5	10.5	10.5	9.5	8.4	6.8	6.0	5.5	5.2	4.8	4.8	4.8	5.0	5.8	6.0	**6.2**	**6.2**	**5.9**	**5.4**	**4.9**	**4.2**	**3.6**	**3.2**
8.6	10.4	11.4	11.2	10.2	9.4	7.7	6.9	6.1	5.4	5.1	4.9	5.0	5.1	5.7	6.1	.	.	.	.	.	.	.	.
4,384	4,812	4,758	4,424	4,044	4,074	3,921	3,919	4,097	4,348	4,190	4,201	4,015	3,822	3,696	3,612	.	.	.	.	.	.	.	.
11.0	16.3	10.6	2.2	-5.9	-4.6	-6.7	-6.4	-2.5	3.1	-0.9	-0.2	-3.3	-6.3	-8.1	-9.9	**-15.7**	**-11.7**	**-9.0**	**-6.1**	**-4.2**	**-2.3**	**-1.5**	**-0.3**
7.3	2.2	2.7	0.4	-0.4	0.7	0.0	1.7	1.7	2.6	2.8	1.8	3.7	2.0	2.2	**3.2**	**2.2**	**2.5**	**2.3**	**1.8**	**1.7**	**2.0**	**2.2**	**2.4**
8.2	2.3	1.8	0.4	0.1	0.4	0.0	1.5	0.8	3.5	4.1	3.8	5.7	3.8	3.4	**3.7**	.	.	.	.	.	.	.	.
10.7	4.6	2.8	0.6	-0.5	-0.7	0.0	1.4	2.1	2.9	4.4	3.6	3.8	2.3	2.6	**3.2**	.	.	.	.	.	.	.	.
-3.6	-6.7	-2.6	-1.3	4.5	6.2	0.5	2.0	-5.1	5.1	4.3	4.5	16.5	9.0	8.5	**7.0**	.	.	.	.	.	.	.	.
16.6	23.9	-1.1	-12.5	-26.2	-23.3	-14.5	0.7	15.4	11.9	9.0	5.0	0.6	-9.1	-3.4	**-1.2**	.	.	.	.	.	.	.	.
14.0	8.8	-5.8	-10.7	-15.7	-18.9	-8.1	-1.2	2.3	11.2	-0.4	3.6	5.0	-2.2	4.9	**3.8**	.	.	.	.	.	.	.	.
6.9	-4.2	6.9	-3.1	-8.4	-11.6	-11.4	-5.5	-5.9	8.9	-5.2	-6.1	-5.9	-9.0	-2.8	**-1.5**	.	.	.	.	.	.	.	.
4.8	-10.6	-4.8	-5.2	-10.6	-0.9	2.1	4.6	3.4	5.3	-10.9	-0.6	6.4	-3.4	1.2	**-4.9**	.	.	.	.	.	.	.	.
24.4	29.9	-13.1	-22.0	-24.7	-31.7	-10.6	-5.5	5.3	16.3	4.8	16.7	12.5	2.1	15.7	**10.3**	.	.	.	.	.	.	.	.
-11.9	-4.4	1.3	7.2	7.4	4.4	2.7	4.8	11.2	12.9	11.3	4.7	1.9	1.6	1.1	**3.1**	.	.	.	.	.	.	.	.
6.9	5.7	1.0	3.8	4.8	2.6	2.7	-4.6	-7.6	-2.8	-1.9	-2.7	2.3	-2.2	-2.1	**0.4**	.	.	.	.	.	.	.	.
10.2	4.9	1.3	-2.3	-5.3	-3.2	-2.5	1.3	3.5	4.3	4.8	3.9	4.6	2.1	2.3	**3.1**	.	.	.	.	.	.	.	.
13.4	-2.3	3.7	2.4	0.2	6.3	1.8	-1.4	-1.0	2.2	-1.5	1.2	4.3	3.5	3.6	**1.7**	.	.	.	.	.	.	.	.
23.5	10.9	-1.8	-8.3	-18.6	-10.9	-11.8	0.3	8.5	9.4	12.4	9.8	10.1	2.5	3.8	**2.7**	.	.	.	.	.	.	.	.
3.6	3.3	3.3	2.6	1.8	1.3	0.6	0.4	0.2	0.1	0.2	0.0	0.2	0.2	0.2	**0.4**	**0.4**	**0.4**	**0.2**	**0.0**	**-0.3**	**-0.5**	**-0.6**	**-0.7**
7.0	3.6	-1.0	-4.5	-7.1	-6.0	-4.6	-3.2	-1.9	-0.4	1.3	2.4	4.0	1.3	1.2	.	.	.	.	.	.	.	.	.
6.1	-1.0	-2.0	-5.5	-4.6	-3.5	-3.6	-0.8	3.3	7.6	11.2	12.4	11.9	9.7	9.5	.	.	.	.	.	.	.	.	.
-18.2	-17.0	-0.7	-14.3	-2.1	24.9	3.5	30.3	22.9	33.9	35.7	-19.9	14.6	-24.3	-33.4	25.8	.	.	.	.	.	.	.	.
1.3	3.6	3.2	3.7	3.7	1.5	0.7	1.0	-1.0	-2.9	-2.1	-6.4	-2.8	-2.2	-2.3	.	.	.	.	.	.	.	.	.
11.2	10.9	10.4	10.1	9.8	10.4	10.5	10.4	10.0	9.7	9.3	8.8	9.0	8.5	8.5	.	.	.	.	.	.	.	.	.
56.7	56.7	57.3	57.8	58.2	57.3	57.0	57.3	57.7	57.7	58.6	58.2	58.4	59.1	59.0	.	.	.	.	.	.	.	.	.
63.8	63.6	63.9	64.2	64.5	63.9	63.7	63.9	64.1	63.9	64.6	63.9	64.2	64.6	64.5	.	.	.	.	.	.	.	.	.
11.1	10.9	11.0	10.3	9.9	10.2	10.5	10.2	10.0	9.7	9.1	8.7	8.3	8.5	8.7	**8.7**	**8.9**	**9.1**	**9.4**	**9.7**	**9.9**	**10.1**	**10.1**	**10.1**
58.3	58.4	58.7	59.3	60.1	59.8	59.7	60.1	60.1	59.8	60.8	60.6	61.1	61.3	60.7	.	.	.	.	.	.	.	.	.
65.6	65.5	66.0	66.1	66.7	66.5	66.7	66.9	66.8	66.3	66.8	66.4	66.7	67.0	66.5	.	.	.	.	.	.	.	.	.
-6,107	-4,625	-2,809	-2,087	-1,547	-1,880	-1,591	-1,426	-1,648	-2,435	-1,664	-2,490	-2,945	-3,924	-1,573	.	.	.	.	.	.	.	.	.
-6.9	-5.6	-3.5	-2.4	-1.6	-1.8	-1.6	-1.4	-1.5	-2.3	-1.6	-2.4	-2.5	-3.1	-1.2	.	.	.	.	.	.	.	.	.
-4,416	-3,673	-2,177	-2,060	-1,404	-2,165	-1,770	-2,358	-2,378	-3,264	-2,528	-3,837	-4,052	-4,470	-2,500	.	.	.	.	.	.	.	.	.
-4,795	-4,144	-3,727	-3,056	-3,508	-3,148	-3,152	-2,965	-3,343	-3,377	-2,982	-2,804	-3,106	-3,678	-3,251	.	.	.	.	.	.	.	.	.
3,104	3,193	3,094	3,029	3,365	3,434	3,331	3,897	4,073	4,206	3,846	4,151	4,213	4,224	4,178	.	.	.	.	.	.	.	.	.
-5,736	-4,741	-2,591	-2,699	-1,376	-1,182	-1,486	-1,080	-1,024	-1,988	-1,410	-1,796	-2,472	-3,211	-954	.	.	.	.	.	.	.	.	.
-6.5	-5.8	-3.2	-3.1	-1.4	-1.2	-1.4	-1.0	-1.0	-1.9	-1.3	-1.7	-2.1	-2.5	-0.7	.	.	.	.	.	.	.	.	.
-2,959	-3,529	-3,600	-5,442	-3,335	-3,148	-2,408	-1,646	-2,456	-2,662	-2,079	-1,559	-1,910	-1,199	-3,436	.	.	.	.	.	.	.	.	.
3,113	4,092	4,164	5,335	3,838	3,457	3,547	2,766	3,305	4,066	2,823	3,382	3,044	2,322	3,794	.	.	.	.	.	.	.	.	.
154	563	563	-107	503	309	1,140	1,120	849	1,404	744	1,823	1,134	1,123	358	.	.	.	.	.	.	.	.	.
-233	-447	1,111	1,520	4,527	1,504	1,416	-451	3,489	-2,182	2,971	-3,780	-5,068	-1,682	-1,533	.	.	.	.	.	.	.	.	.
-2,703	-976	-467	824	-3,026	-35	-1,445	104	-3,104	2,175	-2,866	3,019	3,971	-873	3,472	.	.	.	.	.	.	.	.	.
159	210	366	399	457	496	951	914	1,046	682	564	525	534	543	543	.	.	.	.	.	.	.	.	.
371	-117	219	-612	170	697	105	347	623	448	253	694	472	713	619	.	.	.	.	.	.	.	.	.
8.6	10.8	12.5	13.2	13.3	13.2	12.8	11.9	10.9	9.9	9.5	9.3	9.3	9.3	9.9	11.3	.	.	.	.	.	.	.	.
																12.3	**12.5**	**12.5**	**12.3**	**11.7**	**11.1**	**10.6**	**10.1**
8.6	10.8	12.5	13.2	13.3	13.2	12.8	11.9	10.9	9.9	9.5	9.3	9.3	9.2	9.9	11.3	.	.	.	.	.	.	.	.
14.2	17.8	19.9	18.6	18.6	18.0	16.2	15.1	14.2	13.0	12.7	12.6	12.3	12.5	13.5	14.9	.	.	.	.	.	.	.	.
22.9	27.2	30.1	28.5	26.7	26.3	23.9	22.5	21.2	20.0	19.5	19.3	18.9	19.0	19.9	21.4	.	.	.	.	.	.	.	.
13.4	16.4	18.2	18.1	17.5	17.1	16.4	14.9	12.8	11.6	11.7	12.0	12.0	12.5	13.3	14.5	.	.	.	.	.	.	.	.

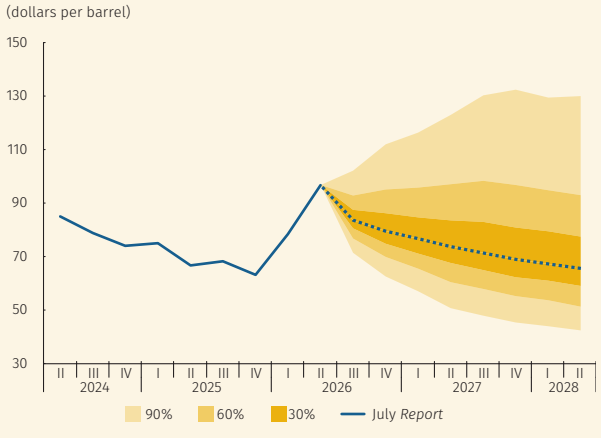
Appendix 3
Predictive Densities for other relevant Macroeconomic Forecasting Variables

Graph A3.1
Quarterly assumptions of 12-month growth of trading partners based on annual projections, predictive density[a/]



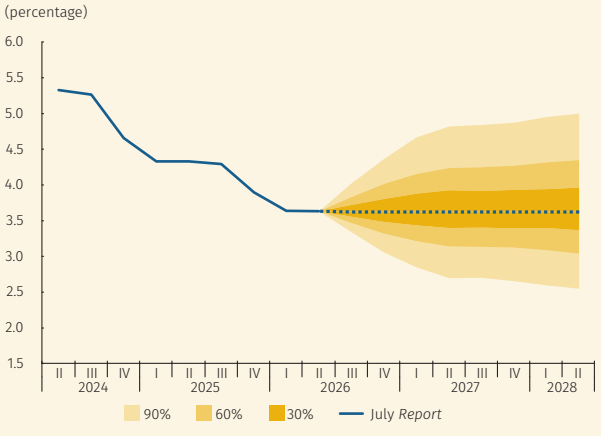
a/ The graph displays the probability distribution and its most likely path on an eight-quarter forecast horizon. Densities characterize the balance of potential risks with areas of 30%, 60% and 90% probability around the central forecast (mode).
Sources: Bloomberg, statistics bureaus, central banks; calculations and projections by *Banco de la República*.

Graph A3.2
Quarterly oil price assumption, predictive density[a/]



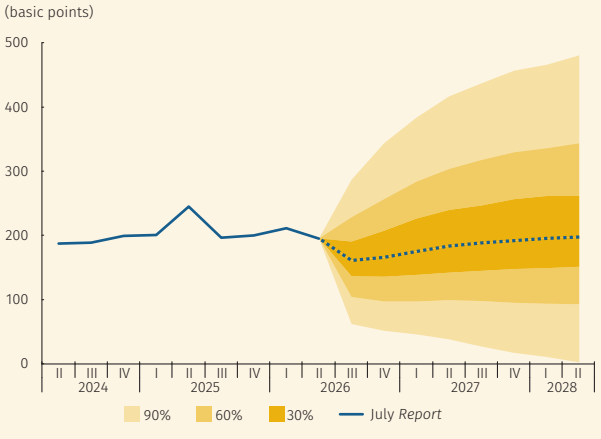
a/ The graph displays the probability distribution and its most likely path on an eight-quarter forecast horizon. Densities characterize the balance of potential risks with areas of 30%, 60% and 90% probability around the central forecast (mode).
Source: Bloomberg, calculations and projections by *Banco de la República*.

Graph A3.3
U.S. Federal Reserve quarterly interest rate assumption, predictive density[a/]



a/ The graph displays the probability distribution and its most likely path on an eight-quarter forecast horizon. Densities characterize the balance of potential risks with areas of 30%, 60% and 90% probability around the central forecast (mode).
Source: Federal Reserve Bank of Louis, calculations and projections by *Banco de la República*.

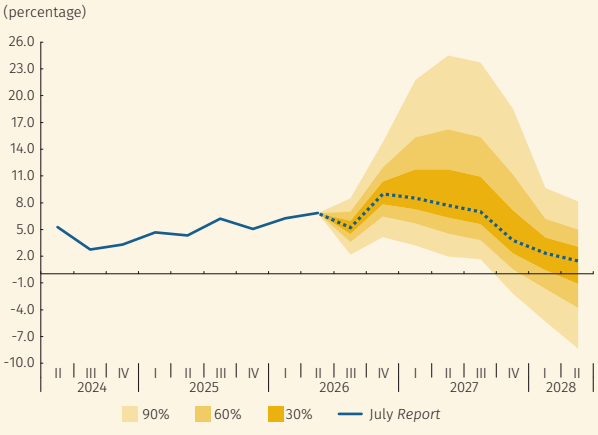
Graph A3.4
Colombia's quarterly risk premium (CDS) assumption, predictive density[a/,b/]



a/ Five-year credit default swaps
b/ The graph displays the probability distribution and its most likely trajectory on an eight-quarter forecast horizon. Densities characterize the balance of potential risks with areas of 30%, 60% and 90% probability around the central forecast (mode), using a combination of densities from the Patacon and 4GM-LM models.
Source: Bloomberg, calculations and projections by *Banco de la República*.

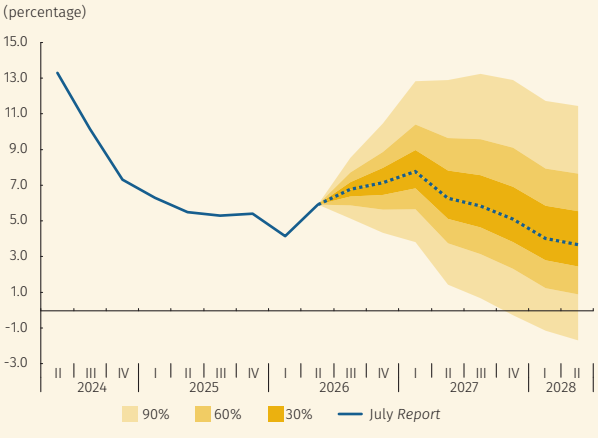
Appendix 3 (continuation)
Predictive Densities for other relevant Macroeconomic Forecasting Variables

Graph A3.5
CPI for foods, predictive density [a/]
(annual change, end-of-period)



a/ The graph displays the probability distribution and its most likely trajectory on an eight-quarter forecast horizon. Densities characterize the balance of potential risks with areas of 30%, 60% and 90% probability around the central forecast (mode), using a combination of densities from the Patacon and 4GM-LM models.
Source: calculations and projections by *Banco de la República*.

Graph A3.6
CPI for regulated items, predictive density [a/]
(annual change, end-of-period)



a/ The graph displays the probability distribution and its most likely trajectory on an eight-quarter forecast horizon. Densities characterize the balance of potential risks with areas of 30%, 60% and 90% probability around the central forecast (mode), using a combination of densities from the Patacon and 4GM-LM models.
Source: calculations and projections by *Banco de la República*.

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