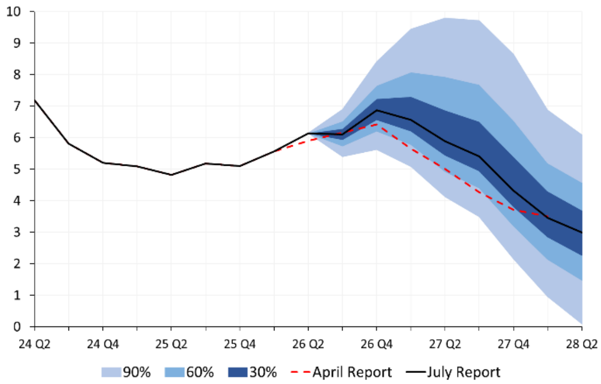
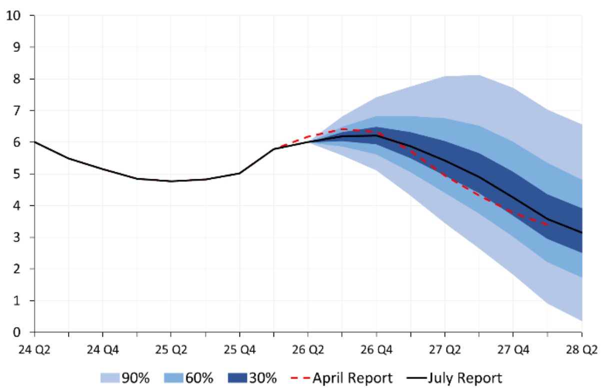
1. Summary

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



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

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

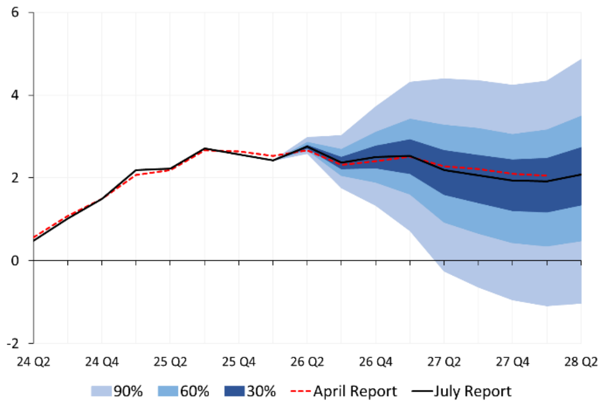


a/ This graph presents the forecast probability distribution on an eight-quarter time horizon. Density characterizes the prospective balance of risks with areas of 30%, 60%, and 90% probability surrounding the central forecast (mode), through a combination of densities from the Patacon and the 4GM-LM 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

1.1 Macroeconomic Summary

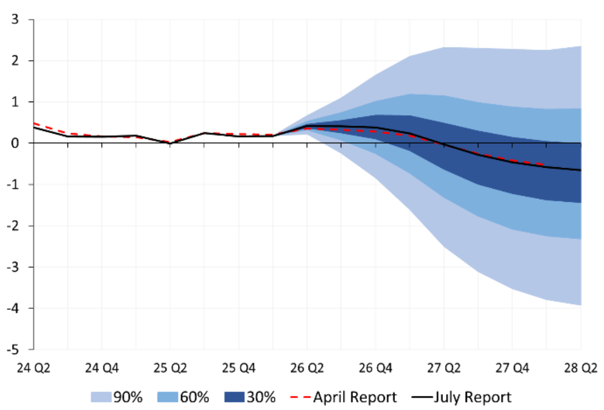
In May and June, headline inflation and core inflation (excluding food and regulated items) continued to rise to 6.1% and 6.0%, respectively, moving further from the 3% target. The new forecast for December 2026 projects inflation rising to 6.9%, to then fall to 4.3% by the end of 2027 (Graph 1.1). As 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. End-of-year inflation would also play a significant role, with expected higher levels placing upward pressure on the prices of several indexed services during 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.

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



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: Banco de la República

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



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: Banco de la República

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 electoral campaign. 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. The latter would take place in an environment of a restrictive 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.

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 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, to a large extent, 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.

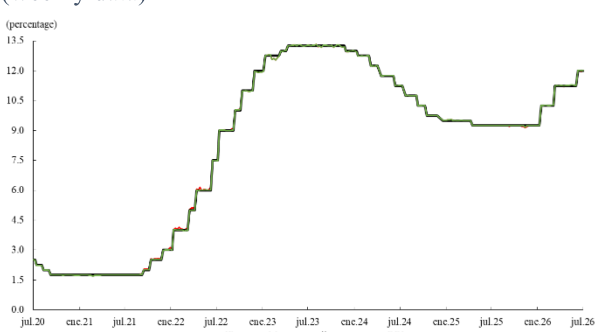
benchmark rate, without any reduction noted in the forecast horizon. In this context, it is expected that Colombia's external demand is expected to moderate to 2.1% in 2026 and 2027, while the terms of trade projection was revised upward. This risk premium forecast is thus lower than April's number; 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 (Graph 1.5).

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



Sources: Superintendencia Financiera de Colombia and Banco de la República.
1/ IR: interbank rate. BBI: benchmark banking indicator.