

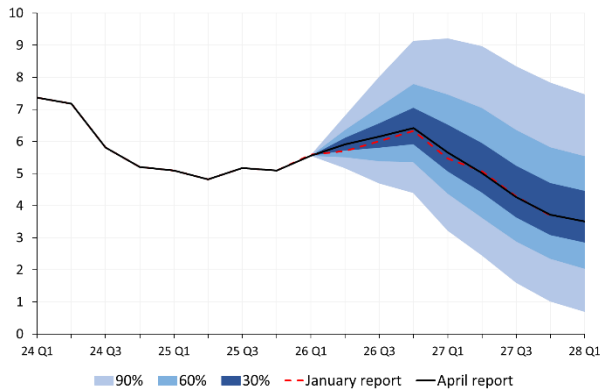
# 1. Summary

## 1.1 Macroeconomic Summary

**In the first quarter of the year, headline inflation (5.6%) and core inflation excluding food and regulated items (5.8%) increased, moving further from the 3% target. The new forecast for December 2026 indicates that inflation would rise to 6.4%, before gradually converging toward the target in 2027.** As anticipated, annual inflation rose in the first quarter, largely due to the effects of the sharp increase in the minimum wage on consumer prices. All CPI groups recorded increases in their annual variation, except for regulated items. As a result, March inflation is in line with the projection published in January. By component, the year-on-year change in food prices was higher than projected, reflecting the behavior of perishable products. For regulated items, the annual variation was lower than expected owing to more pronounced declines in energy prices, as well as unanticipated reductions in gas and gasoline prices. For goods, annual inflation was somewhat lower than projected, due in part to the suspension of the Economic Emergency Decree, which had increased VAT on liquor and cigarettes, and to a lower exchange rate. The increase in the CPI for services was also lower than projected, due to downward surprises in rents and increases in food away from home, which, although significant, were smaller than expected. The latter occurred in a context in which the costs of some restaurant inputs, including electricity and gas services, surprised to the downside, which may have mitigated the impact of higher minimum wage and food prices. When these surprises are incorporated into the forecasts, the projections for headline and core inflation suggest an estimated path for 2026 and 2027 similar to that published in the *January Report*. Compared with the previous *Report*, the real exchange rate gap is estimated to be somewhat more negative, implying downward pressures on imported prices, together with a positive but smaller output gap for most of 2026. The forecast assumes no further increases in domestic fuel prices, food production without significant supply shocks, and an active monetary policy response that ensures inflation resumes converging toward the 3% target. Accordingly, by December 2026, headline and core inflation are forecast at 6.4% and 6.3%, respectively (previously 6.3% for both measures). By the end of 2027, they are expected to fall at 3.7% and 3.8%, respectively, unchanged from the *January Report* (Graphs 1.1 and 1.2). These projections continue to face high uncertainty, mainly associated with the evolution of the conflict in the Middle East and its effects on international commodity prices and the exchange rate, the magnitude of the effects of the minimum wage increase on prices, possible adverse weather conditions, and adjustments to the prices of regulated goods and services.

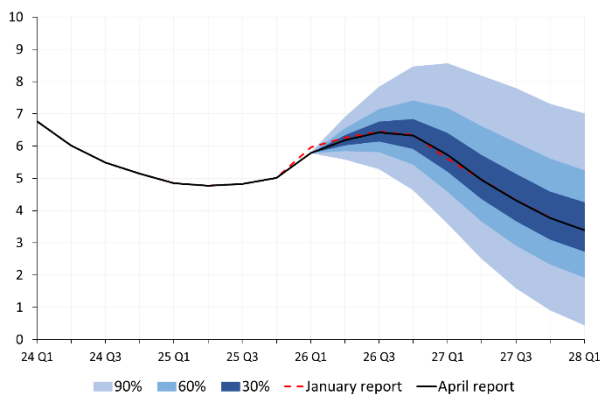
**Economic growth in the fourth quarter of 2025 (2.2%) and for the full year (2.6%) was lower than the January estimate. These**

**Graph 1.1**  
Consumer Price Index<sup>a/b/</sup>  
(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 April report.  
Source: DANE – calculations and projections by Banco de la República

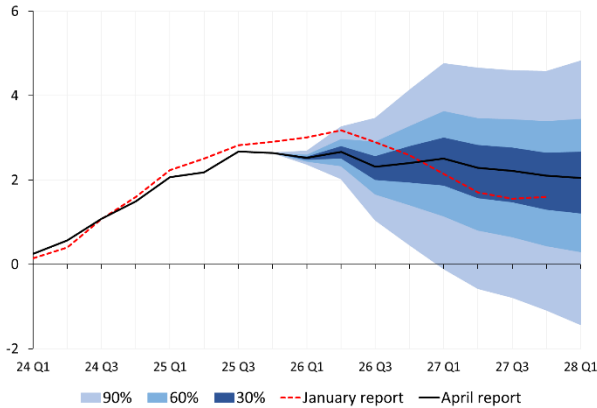
**Graph 1.2**  
CPI excluding food and regulated items<sup>a/b/</sup>  
(annual change; end-of-period)  
(percentage)



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 April report.  
Source: DANE – calculations and projections by Banco de la República

**Graph 1.3**

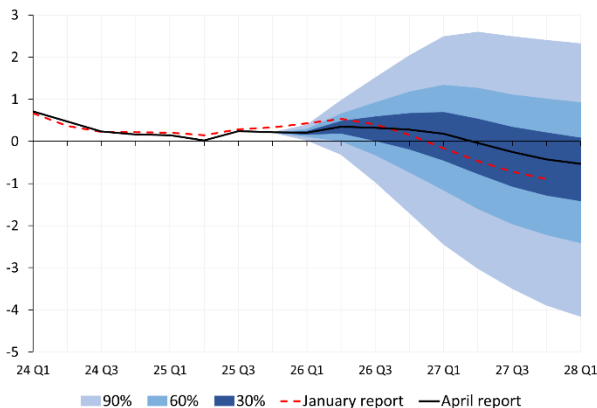
Gross Domestic Product, four quarter accumulation <sup>a/b/c/</sup>  
(annual change)  
(percentage)



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 April report.  
Source: Banco de la República

**Graph 1.4**

Output gap <sup>a/b/c/</sup> - 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 April report.  
Source: Banco de la República

figures, together with the new indicators of economic activity for the current quarter, suggest that GDP would grow by 2.4% in 2026 and by 2.1% in 2027 (previously 2.6% and 1.6%, respectively). The weaker-than-expected performance at the end of 2025 coincided with downward revisions to several expenditure series, indicating less robust domestic demand, mainly due to investment remaining below pre-pandemic levels. Although total consumption continued as the main driver of economic growth, its performance at year-end was weaker than expected. Public consumption, for its part, continued to grow at high annual rates. The real trade deficit in the last quarter of 2025 was smaller than expected, and the series for the previous two years was also revised downward, owing to steeper reductions in imports than in exports. For the first quarter of 2026, economic indicators suggest growth could stand at 2.1% (down from 3.2%). However, part of the observed slowdown would be associated with transitory supply shocks that are expected will be corrected. Looking ahead, several factors are foreseen to continue supporting household spending, including persistent fiscal stimulus, the strength of foreign tourism, positive labor market indicators, and the favorable terms-of-trade shock from higher international oil and coal prices. In the short term, rising real wages are also forecast to support spending, while remittances and coffee income would moderate their contribution. This evolution would take place in an environment of active monetary policy that would adjust to levels compatible with the process of inflation converging toward the 3% target over the forecast horizon and with the reduction of excess demand. Against this backdrop, the economic growth projection for 2026 was revised downward to 2.4% from 2.6% estimated in January, while that for 2027 was revised upward to 2.1% (previously 1.6%) (Graph 1.3). The new forecasts for economic activity and the revisions to the National Accounts series suggest that, compared with the January estimates, the output gap would be positive but smaller for most of 2026, then turn negative toward the end of 2027 (Graph 1.4). These projections are subject to a high degree of uncertainty arising from external factors (such as the conflict in the Middle East, its effects on international fuel prices, and financial markets’ reactions to monetary policy in advanced economies), as well as domestic factors, especially uncertainty surrounding fiscal policy.

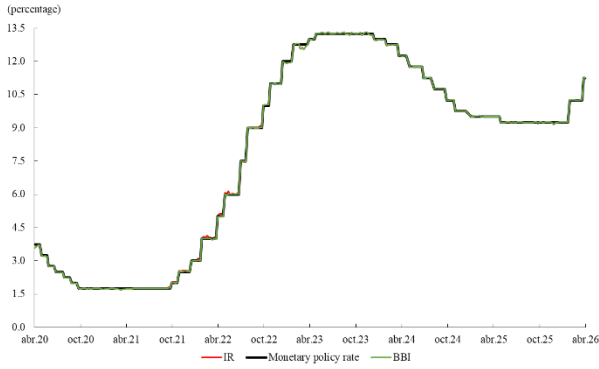
**In 2025, the country’s external demand was somewhat more dynamic than previously estimated. However, in 2026, the world economy faces heightened geopolitical tensions that have affected trade, increased energy prices, and heightened volatility in financial conditions, thereby limiting growth and increasing perceptions of global risk.** In 2025, several of Colombia’s trading partners recorded stronger-than-expected performance. As a result, growth in the country’s external demand would have reached 2.7%, slightly above the 2.4% projected in the previous *Report*. However, since the end of February, the global economy has faced heightened uncertainty owing to the conflict in the Middle East, which has pushed up oil and gas prices, disrupted trade, and heightened financial

volatility. In March, the Federal Reserve kept its interest rate unchanged amid higher inflationary risks largely tied to rising international energy prices. At the same time, futures on the monetary policy interest rate increased and were higher than in previous months. Accordingly, this *Report* revised the expected path of the U.S. benchmark rate and now projects a single 25-basis-point reduction in the first half of 2027 (previously, one reduction was expected in the first half of 2027 and another in the second half of 2027). Taking all these factors into account, Colombia's external demand is estimated to moderate growth to 2.0% in both 2026 and 2027, while the expectations for the international price of oil and the terms of trade were revised upward. The risk premium would continue to trend higher over the forecast horizon, amid greater global uncertainty, a rising path of public debt, and uncertainty regarding international financial conditions.

**Domestic demand exceeding the economy's productive capacity, rising headline and core inflation, and elevated inflation expectations indicate the need to set the real monetary policy interest rate on a path consistent with inflation's convergence toward the 3% target.** GDP growth at the end of 2025 and economic activity indicators for the first quarter of 2026 suggest that economic expansion would have moderated. However, spending levels still exceed those considered sustainable over the long term. In 2025, the external deficit as a percentage of GDP widened after having adjusted over the previous two years. In the labor market, the unemployment rate remains low relative to historical levels, and employment continues to trend higher. Headline and core inflation have increased and remain well above the target. These developments in economic activity, the labor market, and prices indicate excess demand, reflected in a positive output gap. Inflation forecasts and expectations remain elevated, driven by the sharp increase in wages. In addition, there are significant inflationary risks stemming from the evolution of external financial conditions and pressures on international gas and oil prices, amid domestic fiscal deterioration. Also adding to these risks is the increased likelihood of an *El Niño* event toward the end of the year, as well as the risk of a persistent de-anchoring of inflation expectations. The prospect of higher inflation in 2026, aggregate demand exceeding the economy's productive capacity, and upside risks to inflation require a monetary policy stance that favors a return of inflation to a downward path and seeks convergence toward the 3% target over the next two years.

**Graph 1.5**

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



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

## 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 100 basis points (bp) at its March 2026 meeting and, unanimously, to keep it unchanged at 11.25% at its April meeting (Figure 1.5).