Colombia

Towards a more balanced growth model

2027 is set to be a year of adjustment for Colombia, marked by the gradual correction of macroeconomic imbalances accumulated over recent years. Our central scenario envisages moderate growth, persistent inflation and the beginning of a prolonged fiscal consolidation process, with interest rates remaining elevated.

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We expect the economy to grow by 2.0% in 2027, slightly below 2026, but with a healthier composition as investment gains importance relative to consumption. Restrictive monetary policy will weigh on private consumption, while fiscal consolidation will reduce the contribution from public consumption. Fixed investment should recover, although elevated interest rates will moderate the pace, resulting in a more balanced growth mix.

The labour market is forecast to begin to deteriorate gradually in 2027, mainly reflecting weaker economic activity, particularly as private and public consumption moderate. Employment has shown notable resilience in recent years despite higher labour costs and softer economic growth. The shift towards a greater contribution from investment could support formal job creation; however, informality is likely to maintain a significant share of the labour market. We expect a moderate increase in the unemployment rate, while further measures that raise labour costs could constrain formal job creation and make a more significant reduction in informality more difficult.

By 2027, we expect the rate-hiking cycle that began in 2026 in response to strong consumption and higher labour costs to have concluded. We therefore anticipate a period of policy-rate stability through much of the year as inflation begins to moderate, although the disinflation process is likely to remain gradual and subject to upside risks. We expect the beginning of a gradual easing cycle towards the end of 2027, bringing the policy rate to around 11% by year-end. Nevertheless, persistent inflation will require cautious policy normalisation, keeping interest rates elevated for much of 2027.

The fiscal consolidation process initiated in 2026 should continue in 2027, with the incoming government starting from a weaker fiscal position and a revised fiscal framework. We expect the adjustment to combine greater expenditure discipline with new revenue measures aimed at strengthening the primary balance and helping stabilise the debt trajectory. However, the magnitude and pace of consolidation will depend largely on the implementation of the proposed measures. In this regard, the

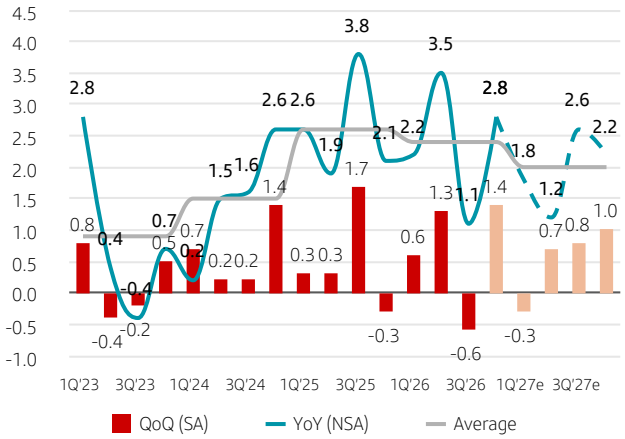
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main risk for 2027 will be execution, as a significant part of the adjustment will require congressional approval.

Financial conditions should improve gradually in 2027 as the easing cycle progresses, although they are likely to remain restrictive. Lower rates and recovering activity should help limit further deterioration in loan quality, although households and corporates will continue to face elevated financing costs, and banks are likely to maintain relatively selective underwriting standards. Domestic interest rates will still be sensitive to fiscal developments, global financial conditions and the credibility of the new economic policy framework.

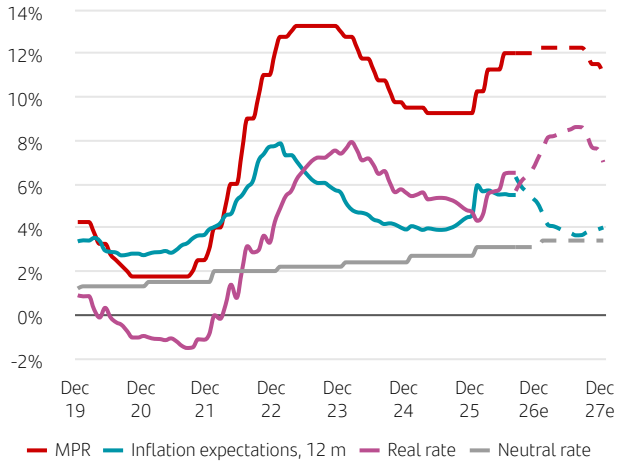
Overall, 2027 should be a year of adjustment rather than acceleration. We expect gradual disinflation and the beginning of a rate-cutting cycle towards year-end, alongside a progressive recovery in investment and a shift towards a more balanced growth composition. However, growth will remain moderate, financial conditions relatively restrictive, and fiscal consolidation will continue to be a key determinant of the evolution of the economy and financial markets.

Colombia: GDP growth will remain moderate
(%)



Sources: DANE, BanRep and Santander Research.

Colombia: Financial conditions will stay relatively restrictive
(%)



Sources: DANE, BanRep and Santander Research.

Macroeconomic forecasts

	2026e	2027e	2028e
GDP growth (%)	2.4	2.0	3.1
Unemployment rate	9.3	10.1	9.5
CPI inflation	7.0	5.1	4.0

Source: Santander Research. Annual average.