

COLOMBIA

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A PROGRAMME OF RADICAL CHANGE

The presidential election on 21 June 2026 was won by Abelardo de la Espriella, an outsider who distances himself from the traditional figures of the Colombian right. His programme, which represents a total departure from that of the outgoing government, draws clear inspiration from the economic liberalisation advocated by Argentine President Javier Milei and the security measures of Salvadoran President Nayib Bukele. His accession to power in August therefore heralds major shifts in economic and fiscal policy, as well as in the fight against drug trafficking. Although economic growth has remained largely unaffected by the closure of the Strait of Hormuz, it is expected to slow in 2026, primarily due to more restrictive monetary and fiscal policies. However, the risks associated with implementing the incoming government's socio-economic programme are considerable, particularly given the high level of fragmentation in Parliament, where the outgoing government's party retains a large number of seats.

GROWTH REMAINS RESILIENT BUT IS EXPECTED TO SLOW

In Q1, year-on-year real GDP growth remained relatively strong at 2.2%. Household consumption picked up, partly due to the sharp increase in the minimum wage (+23.7%), which came into force on 1st January. In the short term, growth is likely to remain resilient as it is largely unaffected by the closure of the Strait of Hormuz. On the one hand, Colombia does not source hydrocarbons from the Gulf states and has therefore avoided fuel shortages. On the other hand, domestic gasoline and diesel prices, which are regulated by the government, have seen minimal increases since 1st March (+5.2% for gasoline and +2.7% for diesel). Instead, the main source of vulnerability stems from rising fertiliser prices, as agriculture accounts for a moderate share of the economy (10% of GDP).

Despite this limited exposure, growth is expected to slow. The unprecedented scale of the minimum wage increase has weakened the labour market. In April, the seasonally adjusted unemployment rate reached 8.7%, up from 8.4% in December 2025). Furthermore, job creation since January has been concentrated in the public administration, defence, education and health sectors, with an increase of (+419,000 jobs since last December). Conversely, other sectors recorded a net loss of 366,000 jobs during the same timeframe, the vast majority of which were in manufacturing and retail.

However, the public sector's ability to boost job creation is unlikely to last. A. de la Espriella has stated his intention to cut 700,000 public sector jobs, representing nearly 3% of total employment. The rise in the unemployment rate could therefore accelerate rapidly from the second half of 2026 onwards. Combined with the drastic budget cuts promised by the incoming president, which could take effect as early as Q3, consumption — the main driver of growth in 2025 — is expected to slow significantly (Chart 1).

On the other hand, the economic liberalisation programme promised by A. de la Espriella could lead to a rebound in private investment. We would then see a gradual rebalancing of growth drivers. However, this rebalancing is likely to be hindered by the Central Bank's monetary policy tightening.

MONETARY POLICY: INDEPENDENCE REAFFIRMED, MORE TIGHTENING EXPECTED

Since the start of 2026, inflation has started to rise again. It is largely driven by the sharp rise in the minimum wage, which is fuelling inflation in the services sector. It is also driven by inflationary pressures

¹ Since the start of the year, year-on-year inflation in the services sector has exceeded 7% (healthcare and education) or even 9% (catering and hospitality industry, which is characterised by the lowest wages according to the DANE). By comparison, food price inflation peaked at 6.8% in June and inflation in the transport sector averaged 5.2% from March to June.

Economic forecasts

	2022	2023	2024	2025	2026e	2027e
Real GDP growth, %	7.3	0.8	1.5	2.6	2.0	2.7
Inflation, CPI, year average, %	10.2	11.8	6.6	5.1	6.2	5.5
Central gov. balance / GDP (%)	-5.3	-4.2	-6.7	-6.4	-6.5	-5.4
Central government debt / GDP (%)	59.3	54.5	59.7	64.4	66.8	68.4
Current account balance / GDP (%)	-6.0	-2.3	-1.7	-2.4	-2.1	-2.3
External debt / GDP (%)	59.2	59.6	52.6	53.1	54.3	55.6
Forex reserves, USD bn	57.3	59.6	62.5	64.4	66.8	67.2
Forex reserves, in months of imports	7.7	9.3	9.5	9.2	9.3	9.3

TABLE 1

e: ESTIMATES & FORECASTS

SOURCE: BNP PARIBAS ECONOMIC RESEARCH

Economic growth is driven by consumption

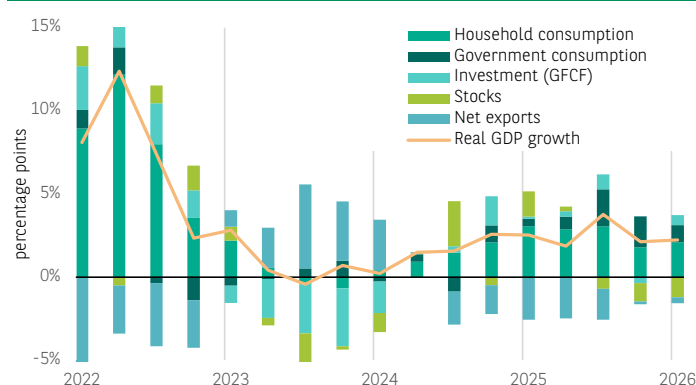


CHART 1

SOURCE: DANE, BNP PARIBAS

resulting from the closure of the Strait of Hormuz, albeit to a lesser extent¹. In June, inflation continued to accelerate, reaching 6.1% y/y, compared with 5.1% in December 2025.

In response, the Central Bank raised its key interest rate by 100 basis points on two occasions in Q1. This action was met with considerable discontent from the government, which threatened to raise the minimum wage again if the Central Bank raised rates in April.


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Despite a hawkish majority, the monetary policy committee opted to leave the key interest rate unchanged until May.

Threats to the Central Bank's independence have since receded. Firstly, at the end of May, the Council of State suspended the requirement for the Minister of Finance to attend monetary policy committees to ratify its decisions. Furthermore, the defeat in the presidential elections of I. Cepeda, the incumbent government's candidate, has reduced the risk of a prolonged standoff between the executive and the Central Bank. The Central Bank therefore resumed its cycle of monetary tightening on 30 June with a 75bp increase, raising the key interest rate to 12%. In the coming months, the second-round effects of the minimum wage increase are likely to continue, and more rate hikes are expected.

EXTERNAL ACCOUNTS: SEVERAL SUPPORTIVE FACTORS ON THE HORIZON

Colombia's energy trade surplus is one of the largest in Latin America². It exceeded 2% of GDP in 2025. External accounts are therefore well-positioned to benefit from rising energy prices. According to our calculations, an increase in the price of a barrel of oil to an average of USD 85 in 2026 (+25% compared with 2025) could lead to a gain of USD 1.9 bn (0.4% of GDP) for the trade balance. The current account deficit — which stood at just 1.2% of GDP in Q1 — is therefore expected to shrink this year.

The capital account could also strengthen. The election of A. de la Espriella as president has been positively received by foreign investors. Since 31 May, when he came out on top in the first round of voting, the COP has appreciated by 11.3% against the US dollar (Chart 2). The incoming president's ideological affinity with his US counterpart, from whom he has received support, is likely to help improve bilateral relations after two difficult years. The renewed confidence among foreign investors could, in the short term, result in a marked increase in net portfolio investment inflows (which already accounted for 1.2% of GDP in Q1 2026), while the economic liberalisation programme could boost net foreign direct investment inflows, which fell to 1.5% of GDP in 2025, marking a record low not seen since the Covid-19 pandemic. However, a sustained rebound in capital inflows is not guaranteed. Foreign investor confidence could erode if the government fails to lay the foundations for fiscal consolidation swiftly. A deterioration in the already fragile security situation, coupled with a resurgence of social unrest in response to the new government's highly controversial socio-economic programme, could also lead to capital outflows.

In the medium term, the measures championed by A. de la Espriella — which represent a complete departure from the previous government — should, in principle, improve the country's external accounts. In particular, the incoming president plans to lift the ban on granting new licences for hydrocarbon exploration and hydraulic fracturing (fracking). Crude oil production, which has fallen by 1.5% since 2022, could therefore rebound. This would bolster exports of goods, which have experienced sluggish growth in recent years (+0.2% per year in real terms from 2023 to 2025). However, this would be at the expense of the energy transition.

The peso appreciates and sovereign yields decline

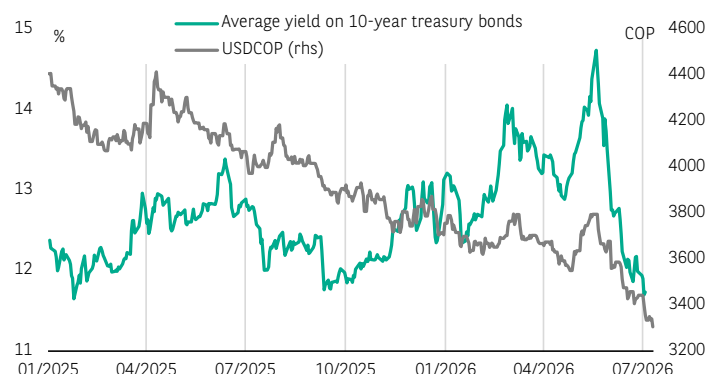


CHART 2

SOURCE: BANREP, BNP PARIBAS

PUBLIC FINANCES: AUSTERITY PROGRAMME

The rise in international energy prices since March poses a risk of fiscal slippage, given the subsidies paid by the state to offset fuel price controls³. On average, from 2022 to 2024, transfers from the central government to the fuel price stabilisation fund amounted to 1.4% of GDP per year. However, the risk of fiscal slippage is somewhat mitigated by government revenue from oil, which also increase in line with energy prices: on average, from 2022 to 2024, it reached 2.1% of GDP.

So far, this risk of fiscal slippage has not materialised. From January to April 2026, the central government deficit stood at 2.2% of full-year GDP. This is down by 0.6pp compared with the deficit recorded from January to April 2025, but it remains high. A. de la Espriella has promised a stringent fiscal austerity programme. His election has therefore reassured investors: since the first round of the presidential elections on 31 May, yields on sovereign bonds have been falling (Chart 2).

Budget cuts are expected from 2026 onwards. However, the continuation of fiscal consolidation in 2027 faces several obstacles. In particular, President Espriella's government will have to contend with a highly fragmented Parliament, which could complicate the passing of budget laws and tax reforms⁴. These difficulties could fuel strong financial volatility in the coming months.

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² See: [Latin America: more exposed to inflationary pressures than to disruptions in hydrocarbon supplies](#)

³ See: [In Latin America, the energy crisis is expected to have a moderate impact on public finances](#)

⁴ See: [Presidential Election in Colombia: A 180 Degree Turn](#)



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