Scotiabank

GLOBAL ECONOMICS

LATAM DAILY

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Latam Daily: Strong Domestic Demand Lifts Colombian GDP

- **Colombia: GDP growth beat expectations on strong domestic demand**

On Tuesday, November 18th, DANE reported GDP growth of 3.6% y/y in Q3-2025, well above BanRep's expectation of 3.0%, the market consensus of 3.2%, and Scotiabank Colpatria's projection of 2.9%. In seasonally adjusted terms, the economy expanded 1.2% q/q and 3.4% y/y, while in level terms activity is now slightly surpassing the post-pandemic trend (chart 1). It is worth noting that during the quarter there were two additional business days in July, which is an unusual occurrence that was a tailwind for the data.

On the supply side, services-related sectors were the most dynamic, driven by acceleration in commerce, transport, and the hotels sector, along with manufacturing and a still robust contribution from public administration. On the demand side, domestic demand grew at a 5% y/y pace (chart 2), pointing to a widening real trade deficit amid significant household consumption growth and an even stronger expansion in public consumption.

A key question arising from this GDP performance concerns sustainability, as household consumption is being fueled by income shocks, while public spending contrasts with the context of high deficits and debt burdens. Either way, today's figures support our view of monetary policy rate stability in the coming months, as solid economic performance provides a buffer to maintain a contractionary stance while we await relevant developments on the inflation front. The next GDP release is expected by mid-February, and although today's numbers could skew our 2025 projection to the upside, we maintain our forecast of 2.6% growth.

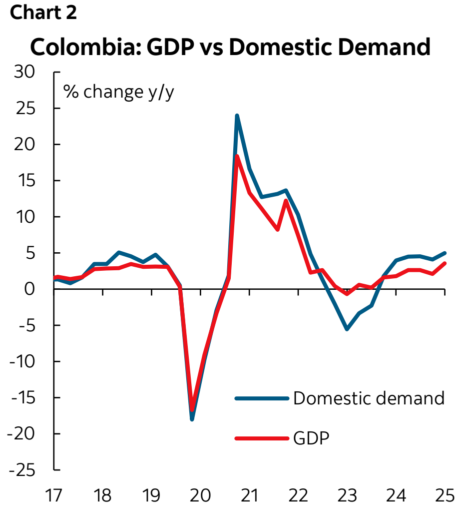
Key takeaways:

- **Supply Side:** Economic growth was more broadly distributed across sectors compared to 2024, as 10 out of 12 sectors posted expansions (charts 3 and 4).
    - **Leading sectors: Three sectors accounted for 83% of total growth in Q3.** Public administration, defense, health, and education grew by an impressive 8% y/y (contribution of 1.3 ppts), mainly due to higher payments to the defense sector and increased hiring in control entities related to the electoral process. Commerce, transport, and hotels expanded 5.6% y/y (contribution of 1.2 ppts), reflecting strong retail and wholesale sales amid robust household demand, especially for durable goods. Manufacturing (+4.1% y/y) rebounded, driven by oil refining (+7.3% y/y), clothing (+10.5% y/y), and food-related manufacturing (meat products) supported by stronger international demand.

Chart 1

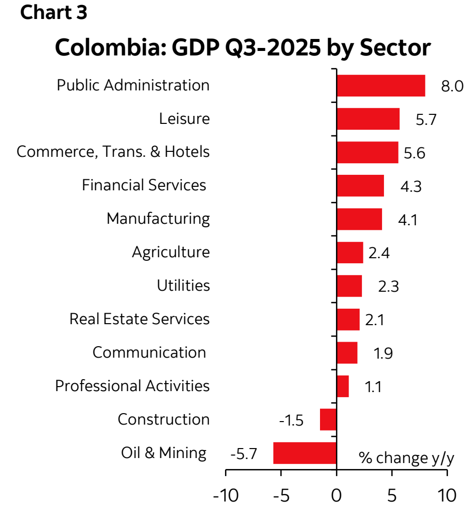
Sources: Scotiabank Economics, DANE.

Chart 2



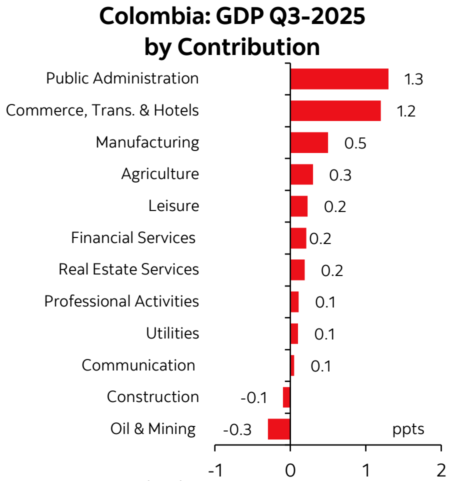
Sources: Scotiabank Economics, DANE.

Chart 3



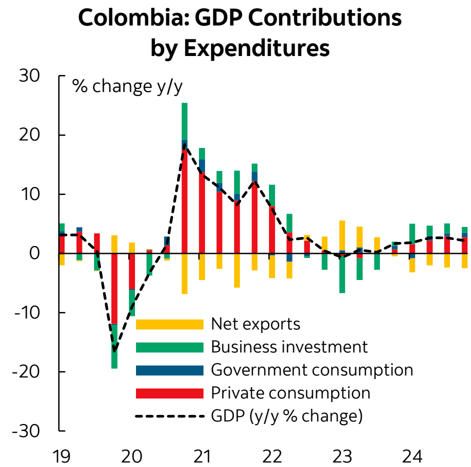
Sources: Scotiabank Economics, DANE.

Chart 4



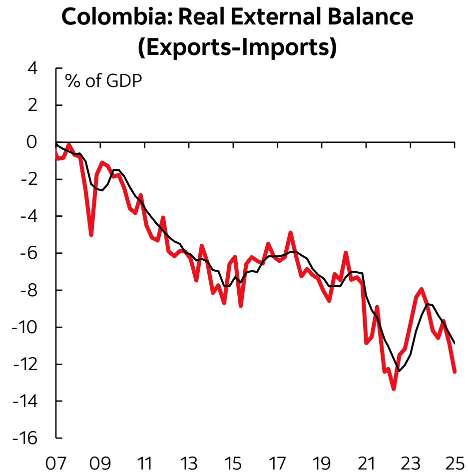
Sources: Scotiabank Economics, DANE.

Chart 5



Sources: Scotiabank Economics, DANE.

Chart 6



Sources: Scotiabank Economics, DANE.

- **Compared to 2024, the composition of leading sectors changed.** While the public sector remained strong, agriculture and leisure-related activities slowed: Agriculture grew 2.4% y/y, down from 10.8% in Q3-2024, due to weaker coffee production. However, food supply remains stable, helping keep food prices under control. Leisure expanded 5.7% y/y, nearly half of last year's growth (11.5% y/y). Online gambling remains a leading segment, but fewer events moderated overall performance.
- **Oil & Mining and Construction remain the weakest sectors, with activity levels 24% below pre-pandemic standards:** Oil & Mining contracted 5.7% y/y, marking the seventh consecutive quarterly decline. Lower oil and gas output contributed -2.2 ppts, while metallic minerals (-18.2% y/y) accounted for -2.6 ppts, partly reflecting construction weakness. Construction fell 1.5% y/y, with a YTD decline of 2.7% y/y. Building construction remains 21% below pre-pandemic levels, weighed down by limited housing and office activity. Civil works (28% below pre-pandemic) have shown recovery since mid-2023, driven by regional infrastructure projects.

- **Demand Side:** Domestic final demand grew 5% y/y, the strongest since Q3-2022 and above the pre-pandemic five-year average of 2.5% y/y. This was supported by resilient private consumption and a sharp 14.2% y/y increase in public spending (chart 5).
  - **Private consumption rose 4.2% y/y (YTD: 3.9%). Services (+2.9% y/y) and non-durable goods (+3.9% y/y) contributed 3 ppts.** Durable goods (+17.2% y/y, 0.7 ppts) and semi-durable goods (+8.2% y/y, 0.4 ppts) outperformed last year. Consumption is mainly fueled by income shocks—remittances (~3% of GDP), informal activity, and real wage gains—rather than credit demand. Despite uncertainty about sustainability, decent savings levels support a positive outlook.
  - **Public spending surged 14.2% y/y, driven by higher wages (especially defense), pre-election hiring, increased education transfers, and delayed wage adjustments.** Spending remains strong despite tight fiscal conditions, likely influenced by the electoral cycle. In 2026, contributions may moderate due to restrictions under the "Ley de Garantías."
  - **Fixed capital formation rose 2.2% y/y, with investment up 4.8% y/y, signaling inventory reductions.** Machinery and equipment (+13.9% y/y) led gains, linked to transport projects and agricultural investment. Housing investment remained weak.
- **Trade deficit widened:** Imports grew 10% y/y, mainly transport-related goods, while exports rose 2.2% y/y, resulting in the largest trade gap since Q4-2022. Widening in the trade deficit (chart 6) reflects the stunning performance of the domestic demand, in terms of the external accounts of the balance of payments, we highlight that wider trade deficit is not fueling FX pressures as the relevant inflows of remittances maintains the current account deficit in low levels.

—Jackeline Piraján & Valentina Guio