EXCLUSIVE REPORT

Colombia's Perfect Storm: Why Companies Face Their Toughest Year Ahead

How credit downgrades, central bank rate hikes, a record minimum wage increase, Constitutional Court blockades, and the loss of the IMF safety net are combining to squeeze Colombian businesses from every direction in 2026.

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What's Happening and Why You Should Care

Colombian businesses are entering 2026 with a dangerous combination of problems that could squeeze their finances from every direction. According to Fitch Ratings, one of the world's leading credit agencies, companies in Colombia will face severe pressure on their cash flows over the next 12 to 18 months due to persistently high interest rates, stubborn inflation, increased taxes, and reduced access to international financing.

In simple terms: Imagine you run a business in Colombia. You're now paying more for loans, your costs are rising faster than you can raise prices, the government wants more of your money in taxes, and if you need to borrow from international markets, that door is increasingly closed. That's the reality Colombian companies now face.

The Credit Downgrade That Started It All

In December 2025, Fitch downgraded Colombia's sovereign credit rating from BB+ to BB, pushing the country deeper into "junk" territory. This wasn't just a symbolic move — it triggered six corporate credit downgrades and sent a clear message: Colombia's fiscal problems are now directly affecting its businesses.

Indicator	Figure
Central government deficit (2025)	6.5% of GDP
Central government deficit (2026 proj.)	7.5% of GDP

Indicator	Figure
General government debt (2027 proj.)	62.8% of GDP
Interest-to-revenue ratio (2026)	~15%
Primary spending increase (2025)	+13%
Rejected tax measures (Dec 2025)	16 trillion pesos (~$4.2B)

The Central Bank’s Dramatic Move

On January 30, 2026, Colombia’s Central Bank (Banco de la República) shocked markets by raising its benchmark interest rate by 100 basis points to **10.25%** — the highest level since October 2024. The decision came via a divided vote: four board members supported the increase, two voted for a 50 basis point cut, and one wanted to hold rates unchanged.

Why did this happen? Inflation expectations surged dramatically. According to the central bank’s data: analysts’ median inflation projections jumped from 4.6% to 6.4% for the end of 2026; for 2027, expectations rose from 3.8% to 4.8%; inflation has remained above the 3% target for six consecutive years; December 2025 inflation came in at 5.1%, down slightly from 5.3% in November but still well above target.

Finance Minister Germán Ávila expressed his “total disagreement” with the rate hike, warning that “this increase only raises the financial cost of production and contracts the economy.”

The Minimum Wage Explosion

President Gustavo Petro decreed a **23.7% increase** in the minimum wage for 2026, bringing it to 2 million Colombian pesos (approximately $500) with transportation subsidies included. The base salary rose from 1,423,500 to 1,750,905 pesos.

Impact breakdown: This is the largest increase since 1997 when wages rose 21.02%. The increase benefits 2.4 million workers who earn minimum wage. According to Asobancaria (the banking association), for every percentage point the minimum wage exceeds technical criteria, inflation can increase between 10 and 16 basis points. With a 22.7% base increase (versus technical criteria suggesting approximately 6.2%), inflation could rise by 165 to 263 basis points.

The housing affordability crisis: Since housing prices for social interest housing (VIS) are indexed to the minimum wage, VIS property prices jumped by 29 to 48 million pesos overnight. A VIS home that cost approximately 150 million pesos in 2022 now costs around 262.6 million pesos in 2026 — a **75% increase in just four years**.

During 2025, more than 25,000 families were forced to abandon their home purchases due to unaffordable price increases.

The Constitutional Court’s Bombshell

On January 29, 2026, in a historic decision, Colombia’s Constitutional Court suspended the economic emergency decree that President Petro had issued on December 22, 2025. The vote was 6 to 2.

What this means: This is the first time in Colombian history that the Constitutional Court has suspended a presidential decree. The emergency would have allowed the government to collect 11.1 trillion pesos ($3 billion) in new taxes.

Tax measures that were frozen include: 19% VAT on liquor, wine, and similar beverages; 19% VAT on online gambling; adjustments to wealth tax; surcharges on the financial sector; temporary taxes on hydrocarbon and coal extraction. The government estimated a fiscal gap of 28.3 trillion pesos for 2025–2026 due to the failure of financing laws to pass Congress. This is the third time the Constitutional Court has struck down a Petro emergency decree.

Sectors Most at Risk

Energy Utilities: “Deteriorating” Outlook

Fitch’s 2026 sector outlook for Colombian energy utilities is “deteriorating.” These companies are among the most affected by political intervention that often prioritizes short-term price controls over financial predictability and investment incentives. This increases the risk of future energy shortages.

Homebuilders: Squeezed on All Sides

Construction companies face some of the highest exposure because: pre-sale prices and affordability restrictions limit their ability to pass on cost increases; high interest rates worsen housing affordability for buyers; labor costs represent 25–30% of construction expenses; and additional materials from 34 subsectors add cost pressures.

Specific company mentions: Prodesa (rated A-(col)/Negative): More vulnerable due to limited leverage headroom and tight liquidity. Arquitectura y Concreto (rated A+(col)/Stable): Better positioned thanks to a diversified portfolio and low leverage.

Food and Consumer Companies: Mixed Effects

The impact is nuanced for this sector. Higher household disposable income from wage increases could boost consumption, but this may be offset by cost pressures. **Notable exposures:** Procafecol S.A. (rated A+(col)/Stable): This restaurant and café chain faces high sensitivity because labor can represent around 35% of operating costs. Riopaila (rated A+(col)/Stable): Exposed to rising labor costs and peso appreciation.

The IMF Safety Net Is Gone

In October 2025, Colombia terminated its **$8.1 billion Flexible Credit Line (FCL)** with the International Monetary Fund after the IMF suspended access to these funds in April 2025.

Background: Colombia had maintained this safety net since 2009. The IMF suspended access due to concerns about fiscal management. The central government deficit reached 6.7% of GDP in 2024, above official targets. Public debt rose to 61.3% of GDP. The government argued that with $65.5 billion in international reserves, Colombia no longer needed this backstop.

Critics, including former Finance Minister Mauricio Cárdenas, warned that losing the FCL sends a negative message to international investors. Colombia is now paying approximately **13% interest on financing**, compared to 6–7% a decade ago.

Election Uncertainty Adds to the Mix

Political and policy uncertainty will remain elevated ahead of: **Congressional elections in March 2026** and **Presidential elections in May 2026**.

With over 107 pre-candidates for president, the political landscape is highly fragmented. More than 93% of candidates are using social media as their primary communication channel, according to the Electoral Observation Mission. The polarized environment under President Petro opens the door to manipulated narratives that could undermine institutional trust.

The Bond Market Challenge

A higher sovereign risk premium could further restrict access to international markets, increasing liquidity and refinancing risk. Local bond market activity has been moderate over the past four years amid high rates and political uncertainty.

Current situation: Companies have opted for short and medium-term bank financing while waiting for market conditions to improve. Between 7% and 9% of local bond issuances mature in 2026 and 2027, respectively. Cross-border maturities are expected to be minimal in 2026 and approximately $2 billion in 2027.

What Does This Mean for Ordinary Colombians?

Higher borrowing costs: With the central bank rate at 10.25%, expect mortgage rates, car loans, and credit card interest to increase. For families planning to buy homes or make major purchases, financing becomes more expensive.

Housing affordability crisis: The 75% increase in VIS housing prices over four years, combined with reduced government subsidies (the Mi Casa Ya program had 308,000 subsidies from 2015–2023, but only 58,000 in 2024–2025, and zero allocated for 2026), makes homeownership increasingly out of reach.

Job market concerns: The construction sector, intensive in labor, faces margin compression. Small and medium construction companies (approximately 90% of the sector) may struggle, potentially leading to job losses.

Inflation persistence: Despite the minimum wage increase, rising costs for goods and services may erode purchasing power gains. Healthcare inflation reached 7.2%, and education inflation hit 7.4% in recent months.

Economic Projections at a Glance

Indicator	2025	2026 Projection
GDP Growth	2.9%	2.5%
Inflation	5.1%	4.5–6.4% (range)
Fiscal Deficit	6.7%	7.1–7.5%
Public Debt/GDP	59%	62–63%
Policy Interest Rate	9.25%	10.25%
Unemployment	~9%	~9%

The Bottom Line

Colombia enters 2026 in what analysts describe as a "perfect storm" of economic challenges. The combination of: (1) Credit rating downgrades affecting borrowing costs; (2) Central bank rate hikes squeezing credit; (3) Record minimum wage increases raising business costs; (4) Constitutional Court suspension of emergency tax measures; (5) Political uncertainty ahead of elections; (6) Loss of the IMF safety net; and (7) Persistent inflation above target — creates an environment where Colombian companies, and the people who work for and buy from them, face a year of significant challenges.

As Fitch stated: "Margins and operating cash flows of Colombian companies could face greater pressure over the next 12 to 18 months."

For investors, businesses, and ordinary citizens, 2026 will be a year that tests Colombia's economic resilience and institutional strength.

Verification Statement

All figures, claims, and statistics in this article are derived from verified sources including: Fitch Ratings official reports and press releases; Banco de la República (Colombia's Central Bank) official communications and data; International Monetary Fund data and reports; Colombian government official sources (Ministry of Finance, DANE statistics); established financial news outlets (Bloomberg, Reuters, Investing.com); regional economic research (BBVA Research, Deloitte, Americas Quarterly); and Colombian news sources (El Tiempo, El Colombiano, Infobae, La República).

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