

Box 3

Completion of the Foreign Reserves Accumulation Program Announced in 2023

At the 19 December 2023 meeting, the Board of Directors of *Banco de la República* (BDBR) announced the decision to gradually accumulate up to USD 1,500 million (m) in foreign reserves (FRs). The purpose of this measure was to strengthen Colombia's external liquidity, consolidate the positive perception of the country's macroeconomic stability, and facilitate access to external financing in an environment characterized by both local and international macroeconomic and financial uncertainty. The decision also responded to the commitment to gradually reduce the amount of access to the Flexible Credit Line (FCL) with the International Monetary Fund (IMF), which decreased in 2024,¹ with a new reduction anticipated in 2026.

In October 2024, the completion of the FRs accumulation process was announced after *Banco de la República* (*Banrep*) acquired reserves for USD 1,479.4 m, which represented 98.6% of the total amount of the announced program (USD 1,500 m) and 75% of the total amount auctioned (USD 1,962.7 m). As a result of this accumulation and the yields obtained, the FRs increased by USD 2,873 m, reaching USD 62,481 m by December 2024.

The results indicate that the program fully achieved its objective. The accumulation of FRs and their returns allowed the metrics used to evaluate the adequate level of FRs to align with or even exceed the levels observed in December 2023. The indicators confirm that the achieved level of FRs is adequate, without exceeding what is necessary to meet the country's external needs. Additionally, this accumulation offset the reduction in access to the IMF's FCL. In the current global environment, characterized by high uncertainty, the need to maintain an adequate level of FRs to meet the country's external needs and provide solid support in the face of potential external shocks is highlighted.

1. Characteristics of the FRs Accumulation Auctions

***Banrep's* intervention in the foreign exchange market was not intended to influence either the level or volatility of the exchange rate, nor to modify the monetary policy² stance.** During the period in which the FRs accumulation program was executed, no evidence was identified suggesting that its implementation had an impact on the normal dynamics of the foreign exchange market. In addition, the amounts auctioned were relatively small compared to the amounts traded in the market.³

***Banrep* used accumulation put options⁴ to purchase FRs.** This mechanism allowed market participants to offer *Banrep* the amount of dollars they wished to sell and the price at which they were willing to do so. Once the option was acquired, the agent could

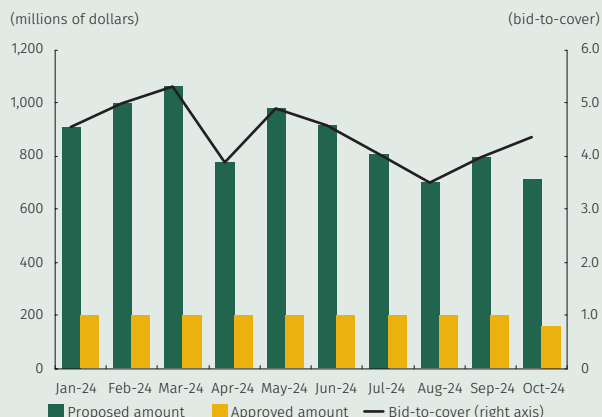
1 On 26 April 2024, the IMF approved a new two-year arrangement in favor of Colombia under the FCL for an amount in Special Drawing Rights (SDR) of 6,133.5 m, equivalent to about USD 8,100 m. This agreement replaced the previous one, approved in 2022, which had been for an amount in SDRs of 7,155.7 m, equivalent to USD 9,400 m (as of April 2024).

2 See "Política Monetaria y Tasa de Cambio en Colombia", available at: <https://www.bis.org/publ/bppdf/bispap57i.pdf> and "Intervención Cambiaria en Colombia", available at: <https://www.bis.org/publ/bppdf/bispap73h.pdf>.

3 In 2024, an average of USD 33,867 m was traded per month in the peso-dollar spot market, while the options auctions carried out by *Banco de la República* were mostly USD 200 m.

4 A put option is a financial contract that gives the buyer the right, but not the obligation, to sell an asset (e.g., a currency, stock or bond) at a specified price on or before a specified date. In exchange for this right, the buyer pays a premium to the seller of the option.

Graph B3.1
Demand for Put Option Auctions



Source: Banco de la República.

only exercise their right if, during the option’s validity period, the representative market exchange rate (TRM in Spanish) was below its average for the last twenty business days. This way, the FRs purchase process avoided generating pressure in scenarios of peso depreciation. As a result, the offers presented reflected both market conditions and agents’ expectations, considering factors such as exchange rate volatility and recent trends in its quotation.

Ten auctions were held between January and October 2024, where market participants demonstrated an average oversubscription of 4.4 times the amount offered. The auctions held between January and September had a quota of USD 200 m, in line with the initial parameters of the program, while the October auction was held with a quota of USD 163.2 m, an adjustment adopted to reach the proposed total of USD 1,500 m. The August auction registered the lowest oversubscription (3.5 times), while the March auction had the highest (5.3 times) (Graph R3.1).

Graph B3.2
Ratio of FRs/Current Account Deficit + External Debt Amortizations



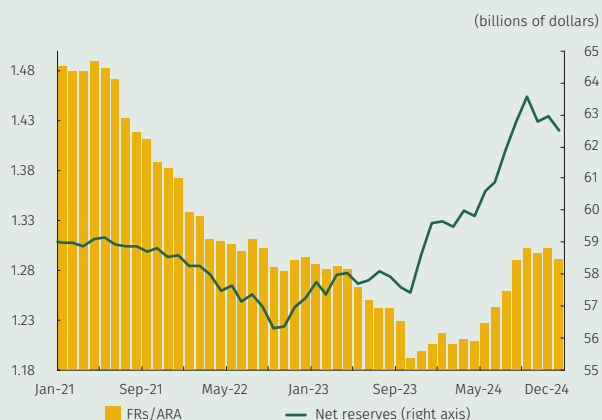
Note: The shaded area corresponds to the period between January and December 2024, and the horizontal line represents the coverage indicated by the Guidotti-Greenspan rule of 100%.
Source: Banco de la República.

2. Metrics for the Adequate Level of Reserves

During 2024 the metrics used to assess the adequacy of FRs remained in line with expectations and even showed improvements. One of the widely used international metrics, known as the extended Guidotti-Greenspan rule, measures the ability of FRs to cover 100% of the current account deficit and short-term external debt amortizations. In Colombia, this metric reached 106% in December 2024 and registered an upward trend during most of the year (Graph B3.2).

The indicator proposed by the IMF, called assessing reserve adequacy (ARA), increased during 2024, reversing the downward trend it had been showing since 2021. This indicator evaluates the capacity of FRs to mitigate the main balance of payments risks during periods of pressure in the foreign exchange market. According to the IMF, this indicator seeks to cover the risks associated with the loss of access to external financing, the decrease in confidence in the local currency, the reversal of capital flows, and a possible contraction in external demand.⁵ As a result of the FRs accumulation program and its returns, the ratio of FRs to the ARA metric improved from 1.21 in December 2023 to 1.29 in December 2024, remaining within the IMF recommended range of 1.0 to 1.5 throughout the period (Graph B3.3).

Graph B3.3
Ratio of FRs/ARA and Reserve Level



Source: Banco de la República.

The indicators used to assess the adequacy of FRs suggest that their level is adequate; however, this level is not excessive, but just enough to guarantee coverage of the country’s external needs and provide solid support in the face of potential external shocks. In the current context, characterized by high global and local uncertainty, maintaining a solid FRs position is a key element to preserve investor confidence in the country’s macroeconomic stability, strengthen the economy’s resilience to adverse scenarios, and ensure favorable conditions for access to external financing.

5 See IMF (2015). “Assessing Reserve Adequacy: Specific Proposals.”