
REPORT OF THE
BOARD OF DIRECTORS
TO **CONGRESS**

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REPORT OF THE
BOARD OF DIRECTORS
TO **CONGRESS**

Banco de la República
Bogotá, D. C., Colombia

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Bogotá, 1 August 2025

To
PRESIDENTS AND OTHER MEMBERS
Honorable Chairmen and Members
Standing Constitutional Committees
The Senate of the Republic
The House of Representatives

Dear Sirs:

The Board of Directors of *Banco de la República*, in accordance with the provisions of Article 5 of Act No. 31 of 1992, submits this Report to Congress for consideration by the Honorable Congress of the Republic, which presents the macroeconomic performance of 2024 and the outlook for 2025. It presents the recent evolution of inflation and the decisions made by the Board of Directors of the Central Bank. In addition, it describes the evolution of local financial and credit markets, the external balance of the country, the composition of the country's foreign reserves and their performance, the financial situation of the Bank and its projections, and the cultural management made by *Banco de la República*.

Cordially,



Leonardo Villar Gómez
Gerente General

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Introduction

After registering an inflation of 5.2% at the end of 2024, in the first months of 2025 annual inflation halted the downward trend observed during the previous year and, until May, remained fluctuating within a range of 5.1% to 5.3%. The persistence of inflation during these months, despite the contractionary stance of monetary policy, was related to the rebound in food inflation and pressures from services inflation, which remained high due to price indexation. Additionally, goods inflation partially reversed the strong downward trend it had shown in 2024, although without exceeding 2.0% annually. In June, annual inflation declined to 4.8%, due to a moderation in food and regulated items, and to a lesser extent, in services. Despite this latest figure, the convergence process of inflation toward the 3.0% target during the first half of the year has been slower than expected. Its relative inflexibility during this period led to an increase in expectations, as shown by the surveys conducted in July by *Banco de la República* (the Central Bank of Colombia) among analysts, where the median stands at around 4.7% for the end of 2025, compared to approximately 3.8% in the October survey of the previous year.

During the first half of the year, significant macroeconomic shocks occurred both externally and internally. Among the former, the announcements by the United States regarding the imposition of tariffs on many of its trading partners, including Colombia, stand out. These announcements have frequently varied in amounts and terms, creating significant uncertainty that has affected global trade and investment decisions. Despite some moderation in the proposals initially presented, tariffs have increased sharply and are expected to continue rising as they take effect. Looking ahead, higher tariffs would substantially increase trade barriers, which could put upward pressure on global inflation and slow global growth. To this would also be added a broadly expansionary fiscal policy in the United States that extends tax exemptions and increases spending commitments in areas such as defense and immigration, thereby putting upward pressure on the fiscal deficit. Likewise, the adoption of a highly restrictive immigration policy could affect economic activity. The implementation of these policies is expected to be inflationary. This, coupled with the complex global geopolitical situation, tends to increase volatility and uncertainty in international financial markets, making external financing conditions more restrictive for emerging economies such as Colombia.

Internally, the main shocks have been associated with the uncertain outlook for public finances, following the activation of the escape clause in the fiscal rule, which raised the projected deficits of the Colombian Government for 2025 and subsequent years. This situation led to an increase in long-term interest rates on Colombian public debt, as discussed in Box 3 of this *Report*, and to a downgrade of the sovereign debt rating by two major international credit rating agencies. Additionally, increases in gas tariffs, due to the need to supplement the domestic supply of this fuel with imported gas, have accentuated pressures on the consumer price index and have partially offset the impact of reduced inflation in other regulated prices, particularly electricity tariffs.

Economic activity figures show that the pace of economic growth continued to increase compared to the results of the previous year. According to information from the National Administrative Department of Statistics (DANE in Spanish), in

its seasonally adjusted and calendar-adjusted series, the economy expanded by 2.7% annually in the first quarter of 2025, surpassing the technical staff's forecast (2.5%) and the 2.6% annual growth recorded in the last quarter of 2024. The lagged effect of the policy interest rate reduction in 2024 and its transmission to other rates in the economy contributed to the strengthening of domestic demand, which increased by 4.7% annually in the first quarter. This was mainly driven by household consumption, which expanded by 4.4% annually, showing greater dynamism than that observed throughout 2024 (1.6%) and even compared to that recorded in the last quarter of that year (3.0% annually). However, fixed capital investment remained stagnant due to the contraction in housing construction and in other buildings and structures, which was partially offset by the positive performance in machinery and equipment investment. From the perspective of productive sectors, strong performance was observed in artistic and entertainment activities, the agricultural sector, and commerce, transportation, and accommodation services. In contrast, mining and quarrying experienced the greatest deterioration, with a 5.1% annual decline, followed by construction.

Information for the second quarter suggests that the Colombian economy would have grown at an annual rate similar to that of the first quarter. This is supported by leading indicators such as the Economic Tracking Indicator (ISE in Spanish), which showed an annual variation of 2.7% in May, with outstanding performance in tertiary activities, which grew at an annual rate of 4.2% that month. Other leading indicators also show positive results through May, such as retail sales, manufacturing production, the services survey, the Regional Economic Pulse (PER in Spanish), energy demand, and consumer loan disbursements. In this context, and subject to the uncertainty currently generated by the complex external outlook, the technical staff forecasts that the Colombian economy growth will be around 2.7% in 2025 and 2.9% in 2026.

The higher dynamism of economic activity has contributed to the strong performance of the labor market, which in the first five months of the year has shown positive trends in the employed population in rural and urban areas. Job creation has mainly originated in municipalities and rural areas, with a 4.5% annual growth in the rolling quarter ended in May, higher than that observed in urban areas (2.5%). This employment performance was reflected in an increase in the employment rate in the national aggregate, which grew by 1.1 percentage points (pp) annually during the same period, reaching 58.3%.

Employment growth was driven by the non-salaried employment and informal segments, which implied that the informality rate increased again. This is partly explained by the higher share of non-salaried employment in the agricultural sector, as well as by the high trend toward informality in service sectors such as commerce and accommodation, and transportation and communications, which led job creation during the first months of the year. The increase in employment, in a context where the participation of the working age population in the labor market has remained stable, has been reflected in a reduction of the unemployment rate, which, according to seasonally adjusted figures, stood at 9.0% in May for the national aggregate and in the thirteen main cities. This represents one of the lowest unemployment rates in recent years.

In this context of high external market volatility, upward pressures on inflation, and an increase in the National Government's fiscal deficit and net debt, the Board of Directors of *Banco de la República* (BDBR) has had to be particularly cautious in its decisions regarding the monetary policy interest rate. Thus, after cutting the interest rate from 13.0% at the end of 2023 to 9.5% at the end of 2024, in its decision-making

sessions in January and March the BDBR opted to keep it unchanged at 9.5%, pending additional information that would allow for a more accurate assessment of the effect of these shocks. In April, it decided on a further reduction of 25 basis points (bps), bringing the interest rate to 9.25%, a level that remained unchanged in its June session. The BDBR has emphasized that the current conditions of uncertainty, both externally and internally, along with inflationary risks, require prudent and well-supported decisions that set sustainable interest rate levels and minimize the risk of having to reverse them in the short term, which would imply high credibility costs for the central bank. This policy strategy provides clear signals to the market, guiding its expectations and contributing to private sector decisions being consistent with the objective of bringing inflation toward its 3.0% target.

1. Executive Summary

International Macroeconomic Environment

So far in 2025, the international economic environment has been strongly affected by the US government's announcements regarding the increase of tariffs on imports from much of the world, including Colombia. Negotiations with various countries and US interests have led to frequent changes in the amounts and timing of these tariffs. Such changes have generated significant economic uncertainty, causing disruptions in trade and affecting companies' investment decisions worldwide.

Amid this climate of uncertainty, exacerbated by intensifying global geopolitical conflicts and tensions, which have weakened business and consumer confidence, the global economy showed signs of slowing down in the first quarter of 2025. Recognizing this situation, international organizations forecast global economic growth of 2.9% for 2025¹, below the 3.3% expansion estimated for 2024. The anticipated slowdown would particularly affect the economies of the United States, Mexico, and Canada.

Global inflation has shown signs of persistence so far in 2025, with service prices remaining high and some increases in goods prices. Inflation persistence is observed despite monetary policies that continue to be restrictive in most advanced economies, whose central banks have been cautious in cutting interest rates in an environment of high inflation expectations and strong labor markets. In the case of Latin America, inflation dynamics have been mixed. Thus, total annual inflation in Colombia, Chile, and Peru has exhibited some moderation so far in 2025 compared to the end of last year. It should be noted that, unlike Colombia, inflation in Peru is already within its target range, and in Chile it is expected to return to that range in the second half of this year. Meanwhile, in Brazil and Mexico, inflation has increased, and its outlook remains above target.

External financial markets have exhibited high volatility given the high uncertainty surrounding the trade, fiscal, and international relations policies of the new US administration. In particular, for much of the first half of the year, upward pressures have been observed on US government bonds rates, in contrast to the appreciations typically observed in these bonds during periods of volatility due to their traditional role as a safe asset. Contrary to usual patterns, the US dollar has weakened against the currencies of developed and emerging countries, also driven by growing fiscal and trade concerns, as well as expectations of a slowdown in US economic activity.

In this context, so far in 2025 through May, net foreign portfolio investment inflows to emerging economies were recorded at levels similar to those observed in the same period of 2024. In the case of Latin America, portfolio capital flows registered net inflows totaling USD 42 billion. However, multilateral entities, such as the Organization for Economic Cooperation and Development (OECD), warn of the possibility of a change in demand for risky assets and a deleveraging in financial markets, which could generate financial stress, with potential capital outflows from the most vulnerable emerging economies.

¹ World Bank (June 2025) and Organization for Economic Cooperation and Development (June 2025).

Economic Activity in Colombia

The Colombian economy has continued to gain dynamism in the first half of 2025. After recording 1.6% growth in 2024 and 2.6% annual growth in the last quarter of that year, economic activity continued its recovery path in the first quarter of 2025, registering annual growth of 2.7%. This growth was driven by a significant strengthening of domestic demand, which grew by 4.7% annually in the first quarter, more than double that recorded in 2024 (2.0%). The main contribution to this growth came from private consumption, which increased by 4.4% annually in response to the increase in household disposable income, favored by the rise in the minimum wage, higher remittances and tourism, and high coffee prices, as discussed in Box 1 of this *Report*. Lower loan interest rates and gradual improvements in consumer confidence contributed to this dynamism. Among the different consumption categories, notable growth was observed in durable consumption (vehicles and household appliances: 14.3% annually) and semi-durable consumption (furniture and clothing: 9.1% annually). This type of consumption occurs once households' basic needs have been met and reflects their confidence and willingness to borrow. Public consumption, in turn, registered relatively low growth (1.9% annually)². In contrast with strong consumption performance, fixed capital investment remained stagnant due to the contraction in housing construction and other buildings, which was not offset by growth in investment in machinery and equipment. Finally, in the first quarter of the year, exports in real peso terms grew by only 0.7% annually, while imports rose by 12.4% annually, driven by the dynamism of consumption of durable goods and investment in machinery and equipment. As a result, during this period, net external demand made a negative contribution to the variation in Gross Domestic Product (GDP).

According to the most recent available information, the economy continued to grow at a solid pace during the second quarter of the year. The Economic Tracking Indicator (ISE) showed an annual variation of 2.7% in May, exceeding both the technical staff's forecast (2.3%) and the figure recorded in April (2.5%). According to this indicator, tertiary activities grew at an average annual rate of 3.7%, with notable dynamism in the macro-sector of commerce, transportation, and accommodation. Other indicators as of May also point to strong economic performance³. This has been supported by improvements in consumer and business confidence indices, in the context of declining inflation and lower domestic and foreign interest rates. Based on this, the technical staff expects growth to be around 2.7% in 2025 and 2.9% in 2026. These forecasts are made in an environment in which the global trade situation would continue to somewhat limit economic growth through various channels, and therefore, are subject to a significant degree of uncertainty.

On the supply side, economic growth during the first quarter of the year was mainly explained by the performance of tertiary activities, particularly services associated with artistic and entertainment activities. The positive performance of the commerce, transportation, and accommodation sectors is also highlighted, which was driven by domestic trade and land and air transport services. This was further supported by the performance of public administration, education, and health

2 Public consumption, as measured by DANE's national accounts, basically corresponds to government personnel expenses and general government expenses. It does not include other Central Government operating expense items typically recorded in fiscal accounts, such as transfers to territorial entities or households.

3 Leading indicators include the industry and trade surveys, regulated and unregulated energy demand, road freight movement, the Regional Economic Pulse (PER by its Spanish acronym), vehicle and motorcycle registrations, commercial bank transactions, and exports and imports.

services, as well as financial, and insurance services. Primary sectors also contributed. Thanks to strong dynamics in agricultural activities related to coffee and livestock, which were partly offset by declines in the coal, oil, and nickel mining sectors. In contrast, secondary sectors continued to record declines due to the contraction in the manufacturing and construction sectors, except for civil works, which grew at an annual rate of 3.7%.

Employment

In the context of a recovering economy, employment continued to grow throughout 2025. According to data from the Integrated Household Survey (GEIH in Spanish), in annual terms, for the rolling quarter ended in May, employment in the national aggregate grew 3.4%, which represented the creation of 788,000 jobs. This dynamism was mainly explained by employment in municipalities of intermediate and small cities (different from the twenty-three main cities)⁴ and in rural areas, which saw an annual increase of 4.5%, a higher figure than the one observed in urban areas (2.5%). By economic sector, the largest contributions to annual employment growth were recorded in commerce and accommodation, transportation and communications, and agriculture.

The largest employment generation was concentrated in the non-salaried⁵ and informal segment. Thus, so far in 2025, the non-salaried segment experienced a significant increase, reaching 12.5 million employed individuals, equivalent to a 5.1% growth in the rolling quarter ended in May compared to the same period in the previous year. In contrast, employment in the salaried segment⁶ recorded an annual growth of only 1.6% during the same period. The greater dynamism of non-salaried employment compared to salaried employment is partly explained by the fact that the sectors contributing most to job creation during this period, such as agriculture and service activities, are highly informal. This led to a rise in the informality rate, which reached 56.1% in May.

The proportion of the working age population actively participating in the labor market (either employed or unemployed but seeking work) is a measure of the labor supply, which is quantified through the so-called Labor Force Participation rate (TGP in Spanish). This rate has remained stable in the twenty-three main cities at around 66% over the last year, while in other municipalities and rural areas the TGP declined to levels close to 62%. This lower increase in labor supply, in an environment of rising employment as previously mentioned, led to reductions in the unemployment rate. Thus, for the rolling quarter ended in May 2025, the unemployment rate in the national aggregate fell by 1.6 pp annually, reaching 8.9% in the last month. This unemployment rate is one of the lowest in the last 25 years, only comparable to the levels observed in the first half of 2015. Geographically, the unemployment rate in the twenty-three cities fell by 1.5 pp and stood at 9.1%, while in other municipalities and rural areas it declined by 1.7 pp and stood at 8.8%. By gender, for the rolling quarter ended in May, the unemployment rate for women decreased by 0.8 pp compared to the rolling quarter ended in December, while for

4 This result corresponds to the seasonally adjusted difference between the national aggregate and that of the twenty-three main cities.

5 Non-salaried employee: individuals in occupational positions such as domestic employee, self-employed worker, employers, unpaid family workers, and day laborer or temporary workers.

6 Salaried employee: individuals in occupational positions such as workers or employees in private companies or in the government.

men it fell by 0.6 pp. Thus, in May, the unemployment rate for women stood at 11.5%, and for men at 7%. This led to a reduction in the gender unemployment gap, which stood at 4.5 pp at the end of May.

Inflation

Between December 2024 and May of this year, annual inflation fluctuated within 5.1% to 5.3%, interrupting the downward trend observed throughout the previous year, when it fell from 9.3% at the end of 2023 to 5.2% in November 2024. This change in the adjustment pace was driven by upward pressures on food prices, significant increases in gas tariffs at the beginning of the year, and inertia in the inflation of certain goods and services. In June, annual inflation declined to 4.8%, due to a moderation in food and regulated items, and to a lesser extent in services. A lower annual depreciation of the exchange rate also contributed to mitigating inflationary pressures. Despite this latest figure, the trajectory of annual consumer price inflation in the first half of the year showed a slower-than-expected reduction. This was reflected in an increase in inflation expectations, which, according to surveys conducted by *Banco de la República* among analysts in July, had a median of around 4.7% for the end of 2025 and 3.8% for the end of 2026, suggesting a slow convergence of inflation toward the target.

Unlike headline inflation, core inflation, which excludes food and regulated items, continued to decline during most of the first half of the year, registering an annual variation of 4.8% in June, lower than that observed at the end of 2024 (5.2%) and a year ago (6.0%). Part of this reduction came from the sub-basket of goods, whose price adjustments remained below 2.0% annually, within the context of low exchange rate pressures. Regarding the services sub-basket, its annual variation decreased from values close to 7.0% at the end of 2024 to 6.0% in June 2025. However, the annual price variation of this group remains high, reflecting a significant inflationary inertia due to high indexation.

Regarding food prices, contrary to the technical staff's expectations, their annual inflation increased from 3.3% in December 2024 to 4.3% in June. This increase was concentrated on processed foods, which faced stronger-than-expected shocks due to increases in international prices of certain agricultural raw materials, as well as higher pressures from transportation fees. In the case of perishable foods, there was a decline in their annual variation, but less than expected, which can be attributed to changes in the agricultural production cycle.

As for inflation in regulated items, during the first half of the year it fell from 7.3% annually in December 2024 to 5.5% annually in June. This performance was mainly explained by a reduction in electricity tariff increases, driven by the substitution of thermal generation (more expensive) with hydroelectric generation, resulting from the normalization of rainfall and the recovery of reservoir levels. Additionally, there were decreases in the annual adjustments of fuels and regulated education. This favorable performance offset the sharp increases in residential gas tariffs and the annual increases in regulated transportation. It should be noted that most items in this sub-basket maintain annual adjustments above the inflation target, partly explained by their high indexation to observed inflation.

The convergence of inflation toward the target continues to face significant risks associated with the uncertain global trade and financial outlook, along with the effects stemming from the domestic fiscal imbalance, which could put upward pressure on local prices. Additionally, geopolitical conflicts could lead to an unanticipated increase

in oil prices, which would increase both external and internal transportation costs, as well as items such as electricity and gas. In the latter case, there is a significant risk of a shortfall in domestic gas supply, which could require an increase in imports, resulting in higher gas tariffs.

Monetary Policy

The BDBR has been particularly cautious in its policy interest rate decisions. After lowering it from 13.0% at the end of 2023 to 9.5% by the end of 2024, in the first half of 2025 the BDBR decided to slow the pace of policy interest rate cuts, with a single 25-bp reduction at its April session, bringing it to 9.25% by the end of the first half of the year.

This cautious monetary policy stance takes into account that the downward trend in inflation during the first half of the year has been slower than expected, and that its level remains well above the target and higher than that of its peers in Latin America and many other emerging economies. It also recognizes the risks arising from a complex global context, where uncertainty persists regarding the impact that higher tariffs and financial market volatility could have on inflation and economic activity, with the balance of risks appearing skewed toward greater inflationary pressures. On the domestic front, it warns of the inflationary risks associated with the higher fiscal deficit forecast for this year and the following ones, given its expansionary effect on the economy.

Under these circumstances, the BDBR emphasizes that exercising caution in its decisions, considering all available information, ensures that monetary policy is sustainable, in the sense that decisions adopted will not run the risk of having to be reversed in the short term, which would seriously affect the central bank's credibility.

Balance of Payments

In the first quarter of the year, the current account recorded a deficit of 2.2% of GDP, higher than the deficit of 1.9% of GDP in the same quarter of the previous year. The widening of this imbalance was explained by a larger deficit in the trade balance of goods and a reduction in the services surplus. This performance was partially offset by higher current transfers and a reduction in the factor income deficit. This occurred in the context of domestic demand expanding at an annual rate higher than GDP in the first quarter, lower prices for some exported goods, such as oil and coal, along with strong performance in foreign tourism and high levels of worker remittances.

The trade imbalance was caused by the value of goods exports being lower than that of imports. External sales of coffee, industrial products, and non-monetary gold increased, while sales of coal and oil decreased. On the other hand, imports of goods were driven by higher purchases of inputs and capital goods for industry, consumer goods, and fuels. Trade in services showed a slightly lower surplus than in the first quarter of the previous year, with higher exports thanks to increased revenues from foreign tourist travel and higher imports due to greater expenditures on travel and cargo transportation.

The higher net income from current transfers, which helped to limit the current account deficit balance, was due to an increase in workers' remittances, which reached USD 3,131 million in the first quarter, up by USD 410 million from the same period of the

previous year. This result was associated with the strong performance of employment in the United States and Spain, the main sources of these inflows.

Lower net outflows from factor income also partially offset the higher current deficit, mainly due to lower interest payments on foreign credit and increased income from Colombia's investments abroad. This dynamic was partly offset by the increase in profit remittances from firms with foreign direct investment in the country, as a result of higher profits from financial and business services activities, commerce, hotels, and manufacturing industries.

Foreign direct investment (FDI) continued to be the main source of external financing. In the first quarter, it amounted to USD 3,142 million, which was USD 540 million lower than in the same period a year ago. This was mainly explained by a reduction in investments in trade and hotels, financial and business services, and mining, which was partially offset by higher FDI in manufacturing and in electricity, gas, and water activities.

The financing of the external deficit was also supported by net income from portfolio investments and, to a lesser extent, by foreign credits. In the first quarter of 2025, public sector external debt recorded net income of USD 92 million, resulting from the sum of net income from debt securities (USD 1,026 million) and net loan amortizations (USD 934 million). In the private sector, net income came from loans (USD 1,349 million) and from portfolio investment in the local market (USD 181 million). In turn, Colombian capital outflows were estimated at USD 2,789 million, concentrated in private-sector financial portfolio investments abroad (USD 4,470 million).

For 2025, the technical staff projects a current account deficit of around 2.5% of GDP, higher than the 1.7% deficit recorded in 2024. The widening of this imbalance would result from more dynamic domestic demand, the continued moderation in international prices of some mining goods exported by the country, and an environment of uncertainty regarding foreign trade policies.

Public Finances

The General Government (GG)⁷ deficit stood at 5.8% of GDP in 2024, representing an increase of 3.1 percentage points (pp) compared to 2023. The widening of this deficit was due to a deterioration in the balances of the Central National Government (CNG) (2.5 pp), the Social Security subsector (0.7 pp), and other entities at the central level (0.2 pp), which was partially offset by a 0.1 pp improvement in the regional and local balance. The reduction in the deficit position of the Fuel Price Stabilization Fund (FEPC in Spanish) is highlighted, which was the result of the adjustments made by the national government to the price of gasoline since the end of 2022. However, fiscal pressures from the price differential in diesel fuel (ACPM in Spanish) persists.

Figures for 2024 indicate that the total and primary deficits of the CNG would have reached 6.7% and 2.4% of GDP, respectively. The deterioration in the CNG's total balance was mainly explained by a decline of 2.2 pp of GDP in total revenues, largely

⁷ The General Government (GG) is made up of the Central National Government (CNG), regional and local governments, the Social Security sector (pensions and health), and other entities at the central level, including the Fuel Price Stabilization Fund (FEPC).

driven by lower income tax and external VAT collections plus tariffs, as well as reduced oil revenues due to lower dividends paid by Ecopetrol. On the other hand, spending increased by 0.3 pp due to higher transfers from the General Participation System (GPS) and increases in interest and social security items (health and pension), as well as personnel expenses.

The scenario presented by the Ministry of Finance and Public Credit (MHCP in Spanish) in the recently published *Medium-Term Fiscal Framework* (MTFF) projects an increase in the CNG's total deficit to 7.1% of GDP in 2025, as a result of higher interest burden. Excluding interest, the primary deficit would remain unchanged at 2.4% of GDP. This forecast anticipates primary spending at 19.5% of GDP, 0.6 pp higher than in 2024. This increase would be mainly due to higher resources allocated to the GPS and pensions, personnel expenses, and other transfers. In line with the projections for the CNG, the GG is expected to record a fiscal deficit of 6.5% of GDP in 2025, representing a 0.7 pp increase compared to the level observed in 2024. For 2026, the MHCP projects that the CNG's fiscal deficit will be reduced to 6.2% of GDP, which corresponds to a decrease of 0.9 pp compared to the estimated deficit for 2025. This adjustment would be supported mainly by an annual increase in the nation's tax revenues equivalent to 1.2 pp of GDP, which will depend largely on the approval and implementation of a tax reform.

The higher fiscal imbalances projected would lead to an increase in the CNG's net debt, which, after standing at 53.4% of GDP in 2023, would reach a historical maximum of 63.0% of GDP in 2026. The outcome is explained by the widening of the primary deficit, the high cost of financing that would exceed real economic growth, and a higher average exchange rate used to value external debt at the end of each fiscal year.

Faced with this situation, the Superior Council for Fiscal Policy (CONFIS in Spanish) invoked the activation of the escape clause that allows a temporary deviation from compliance with the fiscal targets set in the fiscal rule between 2025 and 2027. The government justified this decision as the viable alternative to guarantee the functioning and payment of the debt service in the short term, thus avoiding an abrupt adjustment of public finances that could affect productive activity or lead to macroeconomic imbalance. In this regard, the Independent Fiscal Rule Committee (CARF in Spanish) issued an unfavorable (non-binding) opinion, noting that the escape clause is designed for extraordinary events and not for structural fiscal imbalances.

The state of public finances and fiscal policy decisions influence the country's risk perception and inflation behavior, and affect, through various channels, the monetary authority's room for maneuver in managing interest rates. In this regard, the BDBR has insisted on the need to undertake an orderly adjustment of public finances that ensure fiscal sustainability and contributes to macroeconomic stability. To this end, it is essential to approve structural reforms that permanently increase revenues and reduce the inflexibility of public spending, which are examined in detail in Box 2 of this Report.

Foreign Reserves

As of 30 June 2025, net foreign reserves totaled USD 65,163 million, representing an increase of USD 2,682 million during 2025. The return on foreign reserves so far this year, excluding the exchange rate component, stood at 2.90% (USD 1,851 million), which was one of the main factors explaining the increase in reserves. This result was mainly due to higher interest rates, which had a positive impact on the profitability of foreign reserves through higher interest earned on investments. Additionally, the return on international reserves was favored by the appreciation of investments, due to the decrease in short-term interest rates in the main markets in which the reserves are invested. Finally, the increase in the level of foreign reserves was also supported by the appreciation of other reserve currencies against the US dollar, which generated a positive exchange effect on the appreciation of reserves (USD 862 million).

An indicator widely used internationally to assess measure the adequate level of foreign reserves is the one proposed by the International Monetary Fund's (IMF) *Assessing Reserve Adequacy* (ARA) methodology. This metric establishes that foreign reserves should cover the main balance of payments risks during periods of pressure in the foreign exchange market. This indicator aims to cover the risks associated with the loss of access to external financing, the loss of confidence in the local currency, the reversal of capital flows, and a potential contraction in external demand. According to the IMF standard, an economy is considered to maintain adequate levels of reserves if the ratio between these and their adequate level (according to the ARA methodology) is between 1.0 and 1.5. With the most recent available information, corresponding to May 2025, this ratio for Colombia stands at 1.30.

Banco de la República's Profits

Through June 2025, the Bank's profit amounted to COP 7,751 billion (b), as a result of revenues of COP 9,405 b and expenses of COP 1,654 b. This profit was COP 3,663 b higher than in the same period of 2024.

Revenues originated mainly from the return on foreign reserves, which recorded an annual increase of COP 3,029 b (80.3%). Other revenues came from the returns on TES (bonds issued by the Colombian Government) held by the Bank, as well as interests on expansionary repo operations. Expenses were mainly explained by the remuneration of the CNG's deposits with the Bank and contractionary deposits. Corporate expenses increased by 6.7% annually, including increases in general expenses related to projects and technology services, and personnel expenses linked to the salary adjustment set by the Collective Bargaining Agreement.

For 2025, a profit of COP 12,571 b is projected, COP 2,530 b higher than the one observed in 2024. The higher expected profits for this year would be explained by the increase in net monetary income that would exceed the increase in net corporate expenses and those of the issuing bank. This estimate has a high degree of uncertainty, primarily associated with the evolution of the return on foreign reserves and, to a lesser extent, with the growth and expansion sources of the monetary base.

2. Macroeconomic Environment

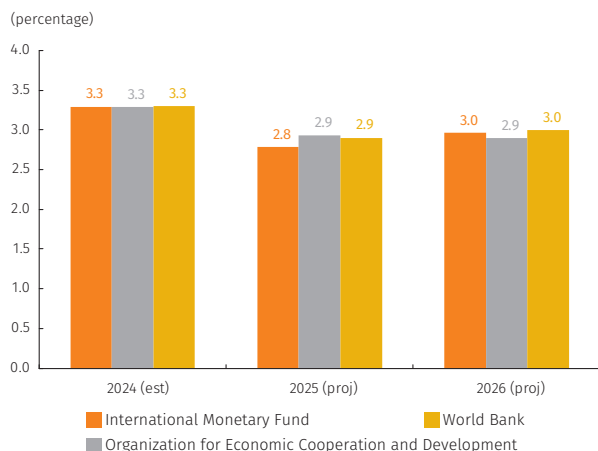
2.1 Evolution and Perspectives of the International Macroeconomic Environment

So far in 2025, the external economic environment has been characterized by heightened uncertainty in trade policy. Throughout the year, announcements by the US government have changed frequently, and there is no certainty regarding the tariffs that will govern international trade. On 1 February, President Donald Trump announced a series of tariffs that would impact imports to the United States from China, the European Union, Mexico, and Canada. However, the measures concerning Mexico and Canada were suspended for one month, only two days after they were enacted. In March, tariffs on China were raised by an additional 10 percentage points (pp), and tariffs on goods from other North American countries came into effect, albeit with some exemptions. On 2 April, the US president announced, “reciprocal tariffs,” which set a minimum rate of 10% and reached up to 50% in some cases, in what he referred to as “Liberation Day.” However, these tariffs were suspended for three months, just one week after their announcement. Additionally, retaliatory measures from China in response to these taxes brought the tariffs applied to that country to 145%. In May, the United States began a series of negotiations with the United Kingdom, Europe, China, and other countries to moderate the tariff rate. Despite these efforts, as of the drafting of this *Report*, the average US tariff rate is at the highest point in the last 84 years. Looking ahead, the value of tariffs will remain uncertain due to ongoing additional negotiations and potential suspensions of the reciprocal tariffs announced on 2 April. These constant changes in the US trade policy have significantly heightened economic uncertainty, causing disruptions in trade and investment decisions by companies worldwide.

In the first quarter of 2025, the global economy showed signs of a slowdown amid rising trade barriers and a substantial increase in political uncertainty worldwide. International organizations project a slowdown in global Gross Domestic Product (GDP) by 2025, especially in those economies most affected by trade uncertainty. Following the solid global economic growth observed in 2024, the economy slowed down significantly during the first quarter of 2025. Economies such as the United States and Japan recorded quarterly declines in their GDP, driven by an increase in imports of goods, due to the anticipation of purchases prior to the materialization of tariffs announced by the US government. This outcome was partially offset by some encouraging growth data in other advanced and some emerging economies. The case of China stands out, whose activity continues to expand at a solid pace, supported by expansionary fiscal and monetary policies in that country. Germany and the United Kingdom exhibited a strengthening in their economies, driven in part by an increase in their exports. In the case of Germany, fiscal flexibility focused on increasing spending in defense and infrastructure was also observed. Despite this progress, global economic growth is expected to slow down from an estimated 3.3% in 2024 to 2.9% in 2025 (Graph 2.1)¹, which would be concentrated in North American economies (the United States, Mexico, and Canada). This would occur in the context of elevated political and trade uncertainty, which would slow down

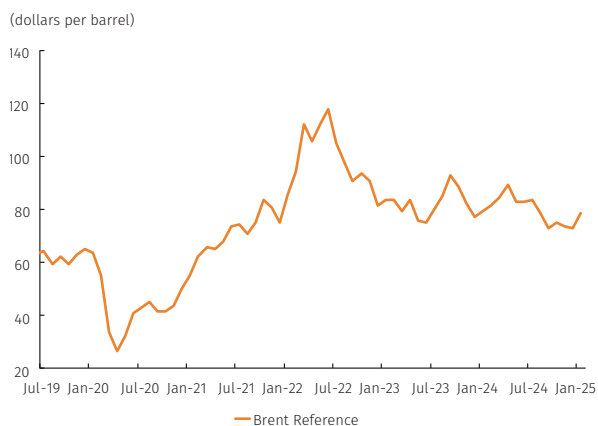
¹ According to the most recent World Economic Outlook (WEO, April 2025) of the International Monetary Fund (IMF), the global growth forecast was reduced from 3.3% to 2.8% for 2025, and from 3.3% to 3.0% for 2026. Similarly, the most recent OECD’s Economic Outlook (June 2025) also reflected a reduction in the global growth forecast from 3.1% to 2.9% for 2025, and from 3.0% to 2.9% for 2026.

Graph 2.1
Economic Growth
(annual variation)



Source: International Monetary Fund (April 2025), World Bank (June 2025), Organization for Economic Cooperation and Development (June 2025).

Graph 2.2
International Oil Price



Source: Bloomberg.

corporate investment and global trade growth². In addition, a potential increase in costs and the weakening of business and consumer trust could have adverse effects on the global growth perspective. In turn, monetary policies will remain restrictive in most advanced economies, with elevated interest rates aimed at containing potential additional inflationary pressures. Recent reports from the Organization for Economic Cooperation and Development (OECD) and the World Bank highlight downward risks to global growth, mainly associated with a further increase in trade and political uncertainty, as well as their potential effects on global trade, investment, and economic activity. They also mention the potential increase in geopolitical conflicts and tensions, as well as a shift in demand for risk assets and deleveraging in financial markets, which could generate financial stress, with large capital outflows from the most vulnerable emerging economies.

In the first half of 2025, international oil prices declined compared to the average observed in 2024, in an environment of growth in global crude oil production levels and an expected slowdown in global economic activity. During the first half of the year, the crude oil price for the Brent benchmark was, on average, close to USD 71 per barrel (bl), equivalent to a 15% decrease compared to the same period in 2024 (Graph 2.2). This performance is partly explained by the favorable dynamics of global oil production levels³, along with the anticipated slowdown in global economic activity, as a result of the US tariff policies. Consequently, inventories of crude oil and its derivatives have grown in OECD member countries, contributing to the moderation of prices. However, a sharper decline in prices has been limited by the escalation of geopolitical and military conflicts in the Middle East, the stable performance in consumption of oil and its derivatives by China, and a moderation in oil production from Russia. Forecasts from the June report of the US Energy Information Administration (EIA) indicate that the average Brent oil price would stand at USD 66 bl in 2025 and USD 59 bl in 2026.

The international food price index recorded an increase in the first half of the year compared to the average observed in 2024, driven by higher cocoa and coffee prices. In May 2025, the World Bank's international beverages price index rose by 31% annually, a performance explained mainly by the increase in cocoa and coffee prices. In the first case, the persistence

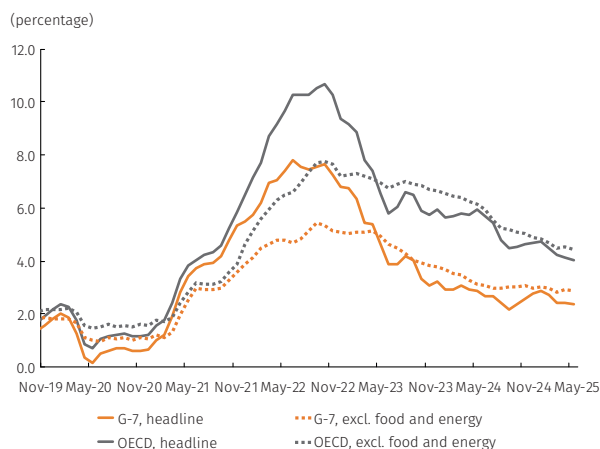
2 According to the World Bank's most recent report, global trade volume is projected to slow down from the estimated 3.4% for 2024 to 1.8% in 2025.

3 The observed and projected growth in oil extraction has been led by non-Organization of the Petroleum Exporting Countries and Allies (OPEC+) countries, particularly the United States, Brazil, and Canada. Additionally, as of April 2025, OPEC+ has implemented a gradual phase-out of voluntary production cuts. Recently, in its 31 May statement, the cartel announced that most member countries would continue unwinding the cuts, which explains the increase in oil drilling from this group of countries so far in 2025.

of unfavorable weather conditions has caused harvest problems in major producing countries such as the Ivory Coast and Ghana. In addition, demand for this food has increased. The rise in coffee prices throughout the year also contributes to sustaining high prices in the beverage component. On the other hand, international prices of other foods recorded an annual decline of approximately 8.0% in May, explained by the favorable price performance of cereals, particularly rice, wheat, and corn, which have shown a downward trend so far in 2025 due to positive harvest perspectives for this season. Despite the above, downward pressures on prices would be limited by the recent increase in the fertilizer price index, resulting from restrictions on trade in these inputs. According to the World Bank’s April 2025 report, the international food price index is projected to decline by 7.0% in 2025 and by 0.9% in 2026, while the international beverages price index is expected to grow by 19.7% in 2025, followed by an 11% decline in 2026.

So far this year, global inflation has exhibited signs of persistence, with service price levels remaining high and goods prices rising, albeit from low levels. This occurs in the context of heightened political and trade uncertainty and higher inflation expectations, despite the fact that monetary policy continues to be contractionary in several economies. So far in 2025, the decline in global inflation has remained slow, mainly due to a gradual moderation in service price growth, amid strong labor markets, and some acceleration in goods prices in an environment of heightened uncertainty surrounding global trade policy. In line with this, in May 2025, annual headline inflation in OECD member countries stood at 4.0% and for G7 member countries at 2.4% (Graph 2.3), both figures below those recorded at the end of 2024 (4.7% for OECD and 2.8% for G7). In May, the core component of inflation (excluding food and energy) stood at 4.4% for OECD countries (4.9% in December 2024) and 2.9% for G7 countries (3.0% in December 2024). As of June 2025, figures for annual headline inflation in several advanced economies remained above their inflation targets, for example, in the United Kingdom (3.6%), Japan (3.3%), and the United States (2.7%). On the contrary, inflation in Canada (1.9%) and the Euro Zone (2.0%) was at or below the target (2.0% in both cases) (Graph 2.4). In turn, June 2025 core inflation figures (excluding food and energy) for these economies (2.3% in the Euro Zone, 2.9% in the United States, 3.1% in Canada, 3.7% in the United Kingdom, and 3.3% in Japan) were equal or higher than those for headline inflation, indicating greater persistence in services inflation and increases in the goods category. Inflationary dynamics in Latin America have been mixed. Thus, so far in 2025, annual headline inflation in Colombia, Chile, and Peru has exhibited some moderation compared to what was observed at the end of the previous year, highlighting the case of Peru, whose inflation is already within its target range. On the contrary, inflation has risen in Brazil and Mexico. In particular, in June 2025, annual headline inflation stood at 4.8% in Colombia, 4.1% in Chile, and

Graph 2.3
Headline Inflation and Headline Inflation Excluding Food and Energy for the G7 and OECD



Source: Organization for Economic Cooperation and Development.

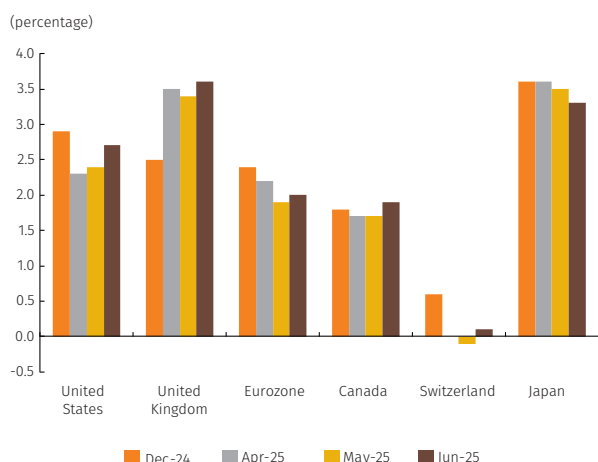
1.7% in Peru, slightly below the 5.2%, 4.5%, and 2.0% observed in December 2024, respectively. On the other hand, over the same month, inflation reached 5.4% in Brazil and 4.3% in Mexico, above the 4.8% and 4.2% observed at the end of the previous year, respectively. (Graph 2.4, Panel B).

Headline inflation is expected to remain above the target in some advanced and emerging economies, in a context of recent increases in consumer inflation expectations stemming from changes in the US trade policy and heightened global uncertainty. Over the remainder of the year, global headline inflation is expected to remain slightly above the average target, but with notable heterogeneity across economies. Headline inflation is expected to remain above target in some advanced economies such as the United States and the United Kingdom, amid elevated uncertainty associated with rising trade barriers and their potential influence on economic growth. At the same time, inflation expectations have risen so far in 2025, primarily in some advanced economies, influenced by the implementation of trade restrictions. On the other hand, as of May 2025, one-year inflation expectations in regional economies are within their target range for Peru, but remain above their specific targets for Colombia, Chile, Mexico, and Brazil⁴. In this context, the OECD’s most recent report projects that average headline inflation for member countries would fall from the estimated 5.1% for 2024 to 4.1% for 2025, representing slower inflationary moderation than anticipated in its previous report.

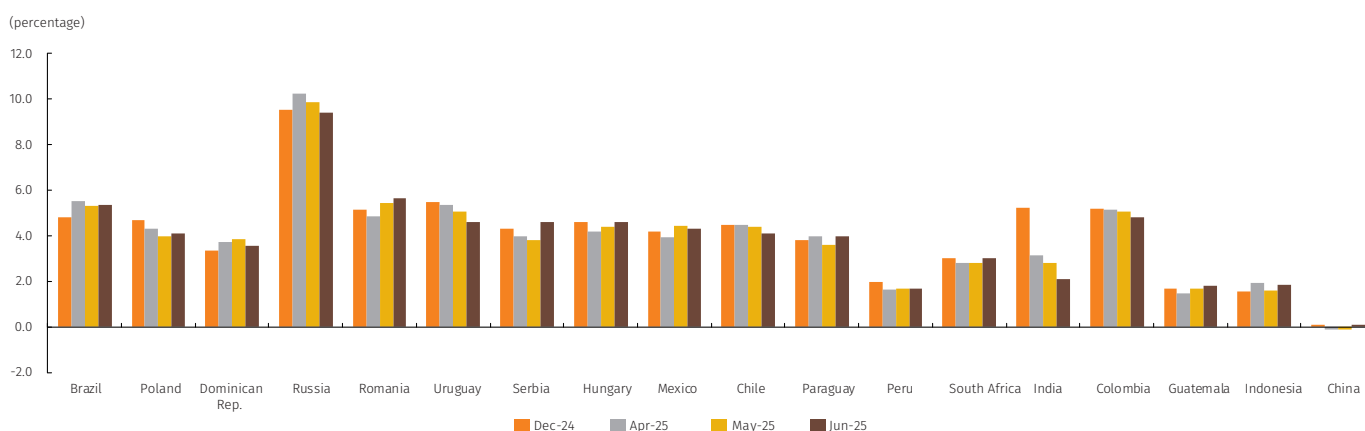
The US Federal Reserve held its policy interest rate unchanged during the first half of 2025, maintaining it within a range between 4.25% and 4.50%. In turn, other advanced economies continued to lower policy interest rates. In the United States, the Federal Open Market Committee (FOMC) held its policy interest rate steady within a range of 4.25% to 4.50% during the first half of the year, a range reached in December

Graph 2.4
Headline Consumer Inflation

A. Some Advanced Economies



B. Some Major Emerging Economies and the Region

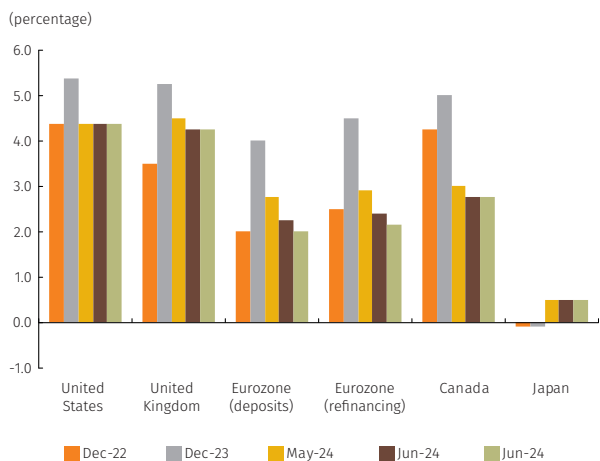


Source: Bloomberg.

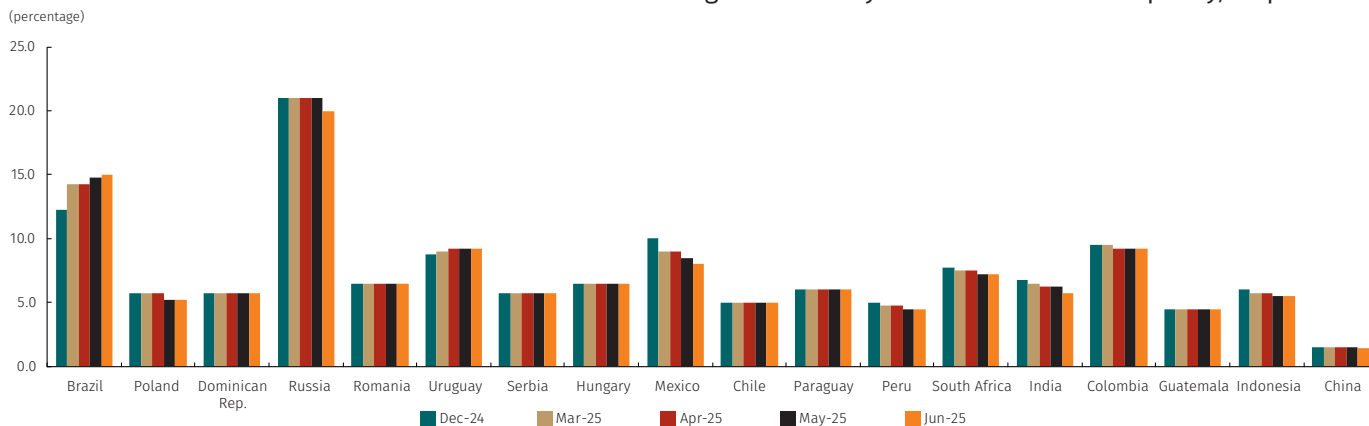
⁴ In May 2025, twelve-month inflation expectations stood at 3.9% for Colombia, 3.4% for Chile, 2.3% for Peru, 3.6% for Mexico, and 4.9% for Brazil.

Graph 2.5
Monetary Policy Interest Rate in Some Economies

A. Some Advanced Economies



B. Some Emerging and Regional Economies



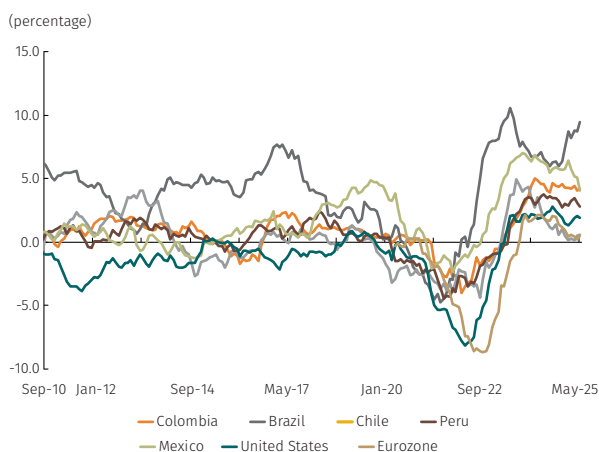
Source: Bloomberg.

of the previous year. This has occurred amid high uncertainty regarding the consequences of that country’s tariff policy on economic growth and price dynamics. Consistent with this high uncertainty, the median of the FOMC’s most recent projections, published in June 2025, anticipates two interest rate cuts of 25 basis points (bps) in the second half of 2025, along with a lower projection of economic growth by the end of the same year, and higher inflation than anticipated in its previous report⁵. On the contrary, during the first half of the year, the European Central Bank continued to lower its benchmark interest rates in a context of moderating inflation, setting its main policy interest rate at 2.0% and its refinancing interest rate at 2.15% in June this year. Likewise, the central banks of the United Kingdom and Canada lowered their policy interest rates by 50 bps during the first half of the year, compared to what was observed at the end of 2024. Thus, as of June 2025, the benchmark interest rate in the United Kingdom stood at 4.25%, while in Canada it stood at 2.75%. Finally, after abandoning its negative interest rate policy, Japan’s central bank raised its benchmark interest rate again by 25 bps in January 2025, bringing it to 0.5%, a figure that has remained steady during the first half of the year (Graph 2.5).

Looking ahead, monetary policy in the major advanced economies faces high uncertainty associated with the effects of changes in global trade policy, which, on the one hand, would increase inflation and, on the other, would slow down economic activity. In some advanced economies, such as the United States, Canada, and the United Kingdom, monetary policy is expected to remain restrictive for the remainder of the year, even with additional policy interest rate cuts in these countries. This would occur amid the current uncertainty. Specifically, for the remainder of 2025, the Federal Reserve in the United States is expected to keep the policy interest rate above its long-term level, amid a context of high uncertainty associated with trade policy, its potential

5 In the June 2025 report, the median of the FOMC’s projections revised upward its estimate for the headline personal consumption expenditures (PCE in Spanish) from 2.7% to 3.0% by the end of 2025, while for the core PCE, the revision was from 2.8% to 3.1% for the same period. In turn, the median projection for economic growth was revised downward from 1.7% to 1.4% by the end of 2025.

Graph 2.6
Ex post Monetary Policy Interest Rate



Note: The calculation uses the inflation observed for the same month.
Source: Bloomberg and the central banks of each country; calculations by Banco de la República.

influence on local prices, and the effects on economic activity, as well as higher inflation expectations reflected in the surveys. On the other hand, in the Euro Zone, the European Central Bank (ECB) is likely approaching the end of its cuts in main interest rates, in line with the moderation in inflation observed so far in 2025. Finally, in Japan, the central bank is expected to gradually raise its policy interest rate in response to persistent local inflation.

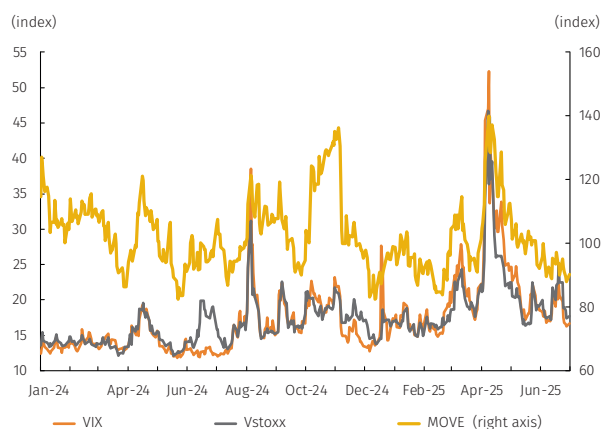
In emerging economies, monetary policy has become more cautious throughout 2025, as central banks have either slightly reduced their interest rates or kept them steady. This has occurred amid uncertainty regarding inflationary effects and local growth in the face of stronger trade barriers and elevated global political uncertainty. During the first half of 2025, several economies in the region lowered their policy interest rates compared to what was observed at the end of the previous year. For that period, the reduction was 25 bps in Colombia (9.25%), 50 bps in Peru (4.5%), and 200 bps in Mexico (8.0%)⁶. Over the same period, other economies such as Chile (5.0%) and Paraguay (6.0%) kept their interest rates steady. In turn, other countries raised their interest rates in a context of additional inflationary pressures, such as Brazil (15.0%), with an increase of 275 bps, and Uruguay (9.25%), with an increase of 50 bps (Graph 2.5). In real terms, interest rates remain in contractionary territory (Graph 2.6). A similar dynamic has extended to other emerging economies. As of June 2025, Poland (5.25%), Russia (20.0%), South Africa (7.25%), India (5.75%), Indonesia (5.5%), and China⁷ (1.4%) have lowered their policy interest rates compared to the values observed in December 2024. Over the same period, countries such as the Dominican Republic (5.75%), Romania (6.5%), Serbia (5.75%), Hungary (6.5%), Guatemala (4.5%), and Georgia (8.0%) have kept their policy interest rates steady. Looking ahead, a cautious stance is expected from central banks in emerging economies, given the high level of global uncertainty surrounding trade policy and its uncertain effects on inflation.

International financial markets have exhibited high volatility during the first half of 2025, in line with the high uncertainty surrounding the trade, fiscal, and international policies under the new US administration, and their potential impact on global economic growth and inflation perspectives. The

6 In the case of Mexico, in the minutes of its meetings, the Central Bank's Governing Board has highlighted the opportunity to continue reducing interest rates, considering the performance of the exchange rate, the weakness of economic activity, and the potential influence of trade policy shifts worldwide, which would particularly affect the economy of that country.

7 It refers to the seven-day repo interest rate set by the People's Bank of China.

Graph 2.7
Risk Perception Indicators in International Financial Markets



Source: Bloomberg, Data License.

main global risk indicators, such as the Vix, Vstoxx, and MOVE⁸, recorded significant episodes of volatility throughout the semester in response to various trade-related announcements from the US administration. These announcements have generated high uncertainty and market surprises, in contrast to expectations at the beginning of the year (Graph 2.7). Added to this were the intensification of geopolitical tensions worldwide, as well as the discussions and subsequent approval by Congress of the fiscal package proposed by the US government. This package seeks to extend the tax cuts in place since 2017 and includes additional initiatives put forward by President Trump during the presidential campaign⁹, which would be partially funded through reductions in incentives for renewable energy, stricter eligibility requirements for health and food assistance programs, and a 1.0% tax on remittances, among others. Although in the short term, the approval of this package raises the debt ceiling, reducing uncertainty regarding a potential default by the US government, in the long term, it implies an increase in the trajectory of the debt¹⁰.

Following the announcement on 2 April of a broad-based increase in tariffs imposed by the United States, markets reacted negatively. However, this response was partially corrected due to the announced moderation of policy and the progress in negotiations between the United States and its trading partners. As detailed in the *Financial Markets Report* for the first quarter of 2025¹¹, financial markets reacted cautiously during the first two months of the year, a period in which investors discounted the tariff threats from the new US administration as part of a negotiating strategy, with a low probability of effective implementation. However, following the official announcement of the tariffs¹² by President Donald Trump on 2 April, stock markets recorded significant declines, while the dollar and US Treasury securities were also negatively affected. Later, the government's decision to postpone

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- 8 The Vix, Vstoxx, and MOVE measure expected one-month implied volatility in options on the S&P 500, EuroStoxx, and US Treasury bonds, respectively.
- 9 Among these initiatives, the following stand out: 1) making permanent tax exemptions on tips, overtime, and certain interests on car loans; 2) raising the limit on the state and local tax (SALT) deduction for those earning less than USD 500,000; and 3) increasing spending on defense and border security.
- 10 According to an analysis from 17 June by the Congressional Budget Office (CBO), the approval of this law raises the projection of public debt as a percentage of GDP from 117% (estimated in January) to 124% by 2034. In addition, the CBO estimates that fiscal deficits for the 2025-2034 period would increase by USD 3.4 trillion.
- 11 See Shaded Section 1: Uncertainty in International Financial Markets amid the US Trade Policy.
- 12 Minimum tariffs of 10% were imposed on most trading partners, excluding Mexico and Canada, whose products were already subject to higher rates. Countries with larger trade deficits with the United States faced higher tariffs: China (34%), India (26%), Japan (24%), and the EU (20%), among others.

the implementation of some of these measures, along with signs of progress in trade negotiations¹³, contributed to a partial correction in markets. Despite this, the international trade environment remains characterized by high uncertainty.

In line with the above, interest rates on sovereign debt instruments have also exhibited high volatility. Uncertainty surrounding the US trade policy translated into upward pressures on Treasury securities rates for much of the semester, in contrast to the appreciations typically observed in these securities during episodes of volatility, given their traditional role as a safe asset. In particular, the rate on thirty-year US Treasury securities reached its highest level since 2023, raising concerns over investor demand for these securities in a context of policy shifts in that country. These depreciations could also reflect concerns regarding US fiscal sustainability, as well as certain market-specific factors¹⁴. However, since late May, and in line with signs of progress in trade negotiations between the United States and its main trading partners, Treasury securities rates, and global public debt, in general, began to exhibit a correction toward lower levels (Graph 2.7).

In turn, the US dollar has weakened against the currencies of developed and emerging countries, driven by growing fiscal and trade concerns, as well as expectations of a slowdown in US economic activity. This performance contrasts with its usual performance in periods of global risk aversion, where it typically strengthens as a safe asset¹⁵. As of June 27, the US Dollar Index (DXY)¹⁶ declined by 10.22%, in a context of elevated fiscal uncertainty in the United States stemming from large deficits, progress on the government's fiscal package in that country, greater market volatility following tariff announcements, and weak economic data that amplified concerns over the US economy. In this context, Moody's decision to downgrade the United States' sovereign rating from Aaa to Aa1 also stands out, citing the increase in debt and high debt service compared to economies with similar ratings.

On the other hand, in this context of high volatility, there have been net foreign portfolio investment inflows to emerging economies from January to May 2025, with an amount similar to that observed over the same period in 2024. According

13 Initially, China responded with retaliatory measures, which led the United States to impose a 145% tariff on Chinese products, while China introduced a 125% tariff on products originating from the United States. Subsequently, both economies entered trade negotiations, which led to a temporary reduction of these tariffs to 30% and 10%, respectively. In addition to this, the trade agreement with the United Kingdom maintains the 10% tariff for most products from that country, but includes some exemptions (e.g., cars up to a specific amount) and temporarily suspends tariffs on steel and aluminum between the two nations.

14 Among the relevant factors are the potential liquidation of US Treasury securities by leveraged investors, such as hedge funds, in response to margin calls associated with basis trade investment strategies, as well as speculation about eventual bond sales by foreign investors, particularly China (although subsequent evidence on this front was limited). The basis trade consists of arbitraging the difference between the price of treasuries in both the spot and forward markets. However, in contexts of greater volatility or rising interest rates, this strategy can lead to losses and margin calls that force investors to close positions and settle liquid assets, such as treasuries.

15 In this context, some analysts point to the loss of the US dollar's "exorbitant privilege," as market confidence in the currency and the performance of the US economy has weakened, given the high uncertainty on the trade and fiscal fronts. The term "exorbitant privilege" was first used by the French Finance Minister and later president Valéry Giscard d'Estaing in the 1960s to describe the benefits obtained by the US economy by having a currency perceived as a reserve asset equivalent to gold, which allowed it to borrow at low cost, run high fiscal deficits, and print money to finance its debt. Thus, by having a deteriorated market confidence toward the currency and the performance of the US economy in the face of high uncertainty on the trade and fiscal front.

16 An index that compares the US currency with six major currencies: the euro (EUR) weights 57.6%; the Japanese yen (JPY), 13.6%; the British pound sterling (GBP), 11.9%; the Canadian dollar (CAD), 9.1%; the Swedish krona (SEK), 4.2%, and the Swiss franc (CHF), 3.6%.

to preliminary figures published by the Institute of International Finance (IIF)¹⁷, net inflows for USD 115 billion (b¹⁸ were observed so far this year (as of May), driven by inflows into fixed income markets and slight outflows from equity markets¹⁹ (Graph 2.8). In the case of Latin America, portfolio capital flows recorded net inflows totaling USD 42 b²⁰, the second-largest regional inflows after China.

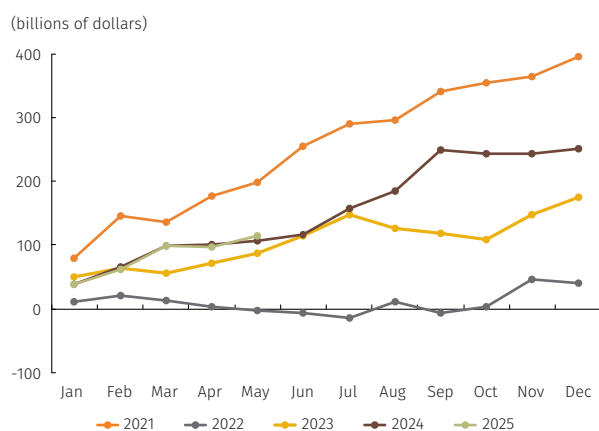
2.2 Evolution and Outlook of Economic Activity and the Labor Market

2.2.1 Economic Activity

During the first half of the year, the Colombian economy is estimated to have recorded a favorable performance, gaining dynamism compared to the previous year, although still not reaching its potential level. According to the most recent information from the National Administrative Department of Statistics (DANE in Spanish), GDP recorded an annual growth of 1.6% in 2024, representing an acceleration compared to that observed in 2023 (0.7%). The Colombian economy continued to recover during the first quarter of 2025, when it reached an annual expansion rate of 2.7% (Graph 2.9) and an annualized quarterly rate of 3.2% (above the average observed in 2024), based on seasonally and calendar adjusted series²¹, such as the Economic Tracking Indicator (ISE in Spanish) for the April-May bimonthly period (which grew by 2.6% annually, in its seasonally adjusted series), suggests that this performance continued in the second quarter of the year, with even higher levels of economic activity, as a result of the positive performance maintained by the services sector and agricultural activities. This has occurred in the context of declining inflation (although still above the target), an improvement in consumer and business confidence indices, lower external interest rates, and the gradual easing of domestic monetary policy. Based on this, an annual growth of 2.6% is expected for the second quarter of 2025.

Domestic demand is estimated to have expanded at a significant pace, driven by private consumption that exhibited greater-than-expected strength, contrary to what happened

Graph 2.8
Portfolio Flows to Emerging Economies by Non-Residents



Source: Institute of International Finance (IIF).

17 In its June 2025 report, with preliminary information from February 2022.

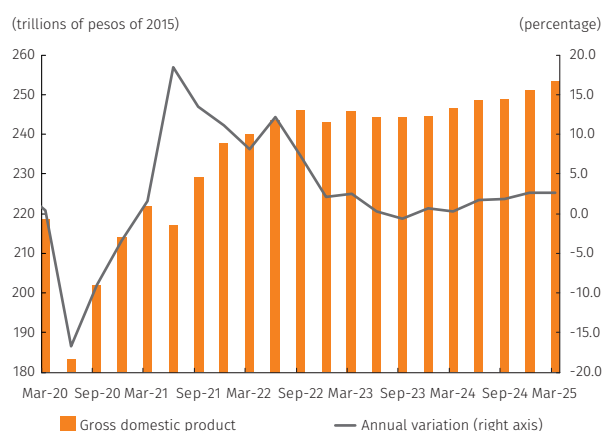
18 In the same period of 2024, net inflows of USD 107.2 b were observed.

19 Specifically, inflows of USD 141 b were recorded into debt markets, and outflows of USD 26 b from the stock markets.

20 Of which, USD 35 b and USD 7 b correspond to inflows into fixed-income and equity markets, respectively.

21 These include regulated and non-regulated energy demand, road freight movement, the Regional Economic Pulse (PER in Spanish), vehicle and motorcycle license plates, commercial bank transactions, exports and imports, among others.

Graph 2.9
Gross Domestic Product (GDP)^{a/}
(quarterly and annual variation)



a/ Seasonally adjusted series and adjusted for calendar effects.
Source: National Administrative Department of Statistics (DANE in Spanish); calculations by *Banco de la República*.

to investment. In the first quarter of 2025, total domestic spending recorded a notable annual increase of 4.7%, a figure above the growth observed during the fourth quarter and throughout 2024 (Table 2.1). The main contribution to this growth came from private consumption, which continued to display considerable strength, with annual growth of 4.4%, higher than that of the economy overall and reaching record highs well above those suggested by its pre-pandemic trend²². Although in general, all household consumption segments recorded a favorable performance, the largest annual growth occurred in the consumption of durable and semi-durable goods. Service consumption grew at a more moderate annual rate, following several years of steady and substantial increases. As a result, service consumption in the first quarter stood at approximately 8.0%, above its pre-pandemic trend (2015-2019). The vigorous dynamics of private consumption, which according to technical staff estimates would continue in the second quarter of the year, continues to occur in a context of recovery in household disposable income, due to a

Table 2.1
Real Annual GDP Growth by Type of Expenditure
(seasonally adjusted and calendar effects corrected, base 2015)

| | 2023 | 2024 | | | | 2024 | 2025 |
|--|-----------|-------|------|------|------|-----------|------|
| | Full Year | Q1 | Q2 | Q3 | Q4 | Full Year | Q1 |
| Final consumption expenditure | 0.6 | 0.0 | 1.4 | 1.2 | 3.3 | 1.4 | 4.0 |
| Household final consumption expenditure | 0.4 | 0.0 | 1.2 | 2.2 | 3.0 | 1.6 | 4.4 |
| Non-durable goods | -0.2 | 0.3 | 1.6 | 2.0 | 2.8 | 1.7 | 5.1 |
| Semi-durable goods | -12.9 | -8.8 | -2.7 | 0.6 | 9.0 | -0.7 | 9.1 |
| Durable goods | -4.7 | -4.3 | -1.7 | 4.8 | 12.6 | 2.7 | 14.3 |
| Services | 3.3 | 0.8 | 1.3 | 2.0 | 1.2 | 1.3 | 3.4 |
| General government final consumption expenditure | 1.6 | 2.3 | 2.5 | -6.0 | 3.9 | 0.7 | 1.9 |
| Gross capital formation ^{a/} | -16.0 | -11.6 | 4.3 | 18.6 | 13.3 | 5.2 | 8.2 |
| Gross fixed capital formation | -12.7 | -5.8 | 2.0 | 5.1 | 12.5 | 3.2 | -0.1 |
| Housing | -4.4 | -6.3 | -0.8 | -6.5 | 4.9 | -2.4 | -8.5 |
| Other buildings and structures | -5.5 | 5.7 | 10.6 | 11.5 | 10.7 | 9.6 | -8.8 |
| Machinery and equipment | -22.6 | -9.4 | -4.4 | 6.6 | 17.0 | 1.7 | 6.0 |
| Cultivated biological resources | 5.0 | 3.0 | 4.9 | 11.6 | 13.3 | 8.2 | 11.2 |
| Intellectual property products | 2.0 | 4.6 | -1.6 | -4.1 | 0.1 | -0.3 | 0.3 |
| Domestic demand | -2.5 | -2.0 | 1.7 | 4.2 | 4.4 | 2.0 | 4.7 |
| Exports | 3.1 | 4.1 | 2.1 | 2.1 | 2.0 | 2.5 | 0.7 |
| Imports | -9.9 | -7.6 | 4.5 | 12.2 | 9.8 | 4.4 | 12.4 |
| GDP | 0.7 | 0.2 | 1.7 | 1.8 | 2.6 | 1.6 | 2.7 |

a/ The difference between gross capital formation and gross fixed capital formation can be understood as a statistical discrepancy, which arises from the calculation of real figures and their seasonal adjustment, plus an accumulation of inventories. These figures, which are not explicitly published by DANE, often exhibit strong fluctuations and can shift from negative to positive values from one quarter to another, or vice versa.
Source: DANE; calculations by *Banco de la República*.

22 Calculated between 2015-2019

significant flow of remittances from abroad, a higher income for coffee-growing families, the dynamism shown by job-creating sectors such as tourism activities, and a substantial short-term increase in the purchasing power of the minimum wage. This is compounded by lower loan interest rates and gradual improvements in consumer confidence (see Box 1). As for public consumption, during the first half of the year, it is estimated to have remained at levels similar to those recorded for much of 2024, thus reporting relatively low annual growth.

Poor investment results in the first quarter mainly stemmed from the construction sector's weak performance. This situation appears to have extended in the second quarter, continuing to limit a further recovery of the economy. The main contribution to the weak performance in gross fixed capital formation, which fell 0.1% annually in the first quarter, arose from investment in other buildings and structures. According to DANE, this item fell at an annual rate of 8.8%, due to the decline in the component of non-residential buildings. On the other hand, civil works continued to grow annually, largely supported by the evolution of regional infrastructure works and advances in certain initiatives of the 5G program²³. The second negative contribution came from investment in housing, whose result (-8.5% annually) was mainly due to lower project completion in the non-LIH (low-income housing) segment. The performance of housing sales and projects under construction, in the building census, does not suggest a change in the trend for the second quarter of the year. On the contrary, investment in machinery and equipment through March remained at levels similar to those of the last quarter of 2024 and, due to a low base of comparison, expanded annually (6.0%). According to import figures, the sectors driving the greatest investment in machinery and equipment would be the industrial and agricultural sectors. These figures point to a favorable performance for this investment component in the second quarter. The performance of machinery and equipment widely contrasts with that of construction investment. While machinery and equipment reached their pre-pandemic trend levels (2015-2019), investment in other buildings and structures, as well as in housing, continue to show significant lags in this value. Finally, it is worth noting that total gross capital formation showed a different performance from fixed capital formation in the first quarter (with an annual expansion of 8.2%), thanks to a large, positive contribution from the statistical discrepancy and inventory variation component, according to the most recent figures published by DANE.

Exports are estimated to have recorded a modest pace of expansion in the first half of the year. This result occurred despite a decline in external sales of oil, coal, and ferronickel. In the first quarter of 2025, exports in real pesos showed a low annual growth of 0.7%, below the 2024 record (2.5%). A similar situation is expected for the second quarter. So far this year, the performance of this item was limited by the weak performance of mining exports, which, according to figures in volumes, showed setbacks between January and May compared to the previous year (for coal, ferronickel, and oil, of 31.6%, 16.9%, and 2.2%, respectively). This decline contrasted with the positive dynamism of agricultural exports, driven mainly by coffee (18.3%), and manufactures, which have also increased according to the volume index of *Banco de la República* (the Central Bank of Colombia (12.0% so far in April). The growth of service exports is also highlighted, with an annual expansion of 7.1% in the first quarter of the year, mainly driven by non-resident tourism.

23 In order, the 5G road projects with the greatest progress are the new Valle road network with accesses to Cali and Palmira; the Magdalena Sabana de Torres-Curumaní C2 trunk line; APP the new Valle del Cauca road network, corridor: Buenaventura-Loboguerrero-Buga; and the Magdalena Puerto Salgar-Barrancabermeja C1 trunk line.

In line with the expansion of domestic demand, imports are estimated to have grown significantly. This would have caused net external demand in constant pesos to show a larger deficit in the first half of the year compared to the previous year. During the first quarter, the favorable performance of private consumption and investment in machinery and equipment translated into a substantial increase in imports (12.4% annually and 8.9% quarterly annualized), a trend that would have continued in the second quarter based on the information available as of May. This dynamism, driven mainly by imports of durable consumer goods, led to a widening of the external deficit in the first quarter compared to the previous quarter and compared to what was observed a year earlier. In turn, this meant that the trade deficit in constant pesos continued to make a negative accounting contribution to annual GDP variations.

On the supply side, the services sectors are estimated to have continued to show significant dynamism, being the main drivers of economic growth and offsetting the weak performance of mining and a large part of the construction sector. The annual growth in economic activity during the first quarter of 2025 was explained primarily by the solid dynamics of tertiary activities (Table 2.2), especially by the positive performance of the commerce, transportation, and accommodation sectors, which was boosted by domestic trade, with real sales levels similar to those observed during 2022 VAT-free days, and by land and air transportation services. The services associated with artistic and entertainment activities are also highlighted, due to the boom in internet-based gaming and online betting, as well as the wide range of concerts offered in the country's main cities. Additional contributions came from the stronger performance of public administration, education, health, financial, and insurance services. The primary branches also contributed positively to growth, although to a lesser extent, due to the positive dynamism of agricultural activities associated with coffee and livestock, despite the continued setbacks in the mining sector in coal, oil, and other metal ores such as nickel. In contrast, secondary branches registered both annual and quarterly declines due to the weak performance of the construction sector, particularly in the buildings segment, despite the quarterly growth in the manufacturing industry. Services are expected to have remained the main drivers of economic growth during the second quarter of 2025, accompanied by improved performance in primary and secondary activities, despite the weak performance expected to persist in mining and, to a large extent, in building construction.

For the remainder of 2025 and for 2026, the Colombian economy is expected to continue recovering, although it faces sources of uncertainty and considerable risks, both domestic and external. The technical staff of *Banco de la República* projects the Colombian economy to continue expanding on an annual basis, despite tighter external financial conditions than those anticipated at the beginning of the year and weaker expected growth among trading partners. This occurs within the context of unusually high international uncertainty due to various armed conflicts and trade disputes. On the domestic front, private consumption is expected to maintain positive annual growth rates, consistent with previously mentioned factors that have been driving household financing sources for consumption. Added to this would be the cumulative effects of the reduction in the monetary policy interest rate. Public consumption is not expected to grow significantly, as it would be constrained by the central government's spending adjustment needs, according to public finance projections presented in the latest *Medium-Term Fiscal Framework* (MTFF). Regarding investment, no significant contribution to GDP growth is anticipated, partly due to the low dynamics of housing investment, and despite the boost from civil works construction, as regional and local projects continue to advance

Table 2.2
Real Annual GDP Growth by Type of Economic Activity
(seasonally adjusted and calendar effects corrected, base 2015)

| | 2023 | 2024 | | | | 2024 | 2025 |
|--|-----------|------|------|------|------|-----------|------|
| | Full Year | Q1 | Q2 | Q3 | Q4 | Full Year | Q1 |
| Agriculture, Forestry, Hunting, and Fishing | 1.7 | 5.5 | 7.8 | 11.2 | 7.3 | 8.0 | 5.9 |
| Mining and Quarrying | 2.6 | -2.6 | -3.5 | -7.6 | -6.5 | -5.0 | -5.1 |
| Manufacturing Industry | -2.7 | -3.8 | -3.0 | -1.5 | 0.1 | -2.1 | -0.4 |
| Electricity, Gas, and Water | 2.2 | 4.6 | 2.3 | 0.7 | -0.1 | 1.9 | -1.3 |
| Construction | -3.1 | 1.5 | 1.5 | 4.3 | 0.4 | 1.9 | -3.1 |
| Buildings | 0.3 | -1.7 | -3.5 | -1.5 | -3.1 | -2.5 | -6.5 |
| Civil Works | -12.6 | 7.2 | 14.3 | 16.3 | 9.3 | 11.7 | 3.7 |
| Specialized Construction Activities | 0.5 | 2.6 | 1.3 | 2.9 | -0.7 | 1.5 | -3.5 |
| Commerce, Repair, Transportation, and Accommodation | -3.6 | -1.9 | 0.7 | 2.1 | 4.7 | 1.4 | 4.7 |
| Information and Communications | 1.8 | -2.1 | -1.5 | 1.0 | -0.4 | -0.8 | 0.8 |
| Financial and Insurance Activities | 8.9 | -2.8 | 1.4 | 4.4 | -1.2 | 0.4 | 3.3 |
| Real Estate Activities | 1.9 | 2.0 | 1.9 | 1.9 | 2.0 | 1.9 | 1.9 |
| Professional, Scientific, and Technical Activities | 2.0 | 0.0 | -0.4 | 0.1 | 0.1 | -0.1 | 1.1 |
| Public Administration and Defense, Education, and Health | 5.0 | 5.3 | 3.0 | 0.8 | 4.0 | 3.3 | 3.6 |
| Artistic, Entertainment, and Recreation Activities | 10.5 | 6.1 | 10.8 | 11.6 | 4.7 | 8.2 | 15.4 |
| Subtotal value added | 1.1 | 0.5 | 1.6 | 2.0 | 2.5 | 1.7 | 2.7 |
| Taxes less subsidies | -2.5 | -1.8 | 0.3 | 2.4 | 3.4 | 1.1 | 2.2 |
| GDP | 0.7 | 0.2 | 1.7 | 1.8 | 2.6 | 1.6 | 2.7 |

Source: DANE; calculations by Banco de la República.

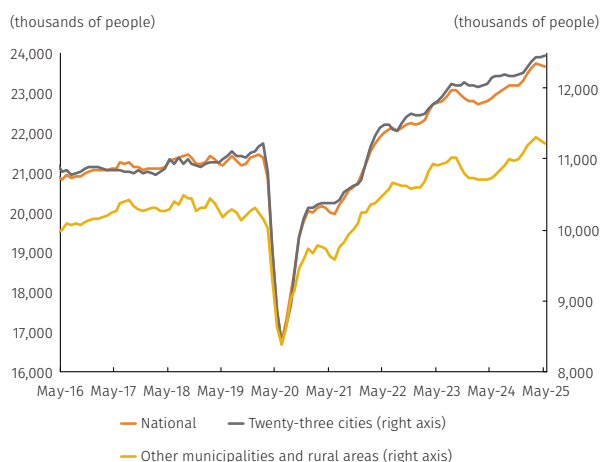
and 5G infrastructure projects continue. Given all this, the technical staff expects growth to be around 2.7% by 2025. By 2026, the Colombian economy is expected to grow at an annual rate of 2.9%, in an environment in which the global trade situation would continue to constrain economic growth to some extent through various channels. However, it should be noted that these forecasts face high levels of uncertainty given the current global trade and geopolitical context.

2.2.2 Labor Market

So far in 2025, the national aggregate employment has continued to grow. This was primarily driven by a stronger labor demand performance in the domain of other municipalities and rural areas. According to rolling quarter data from the *Large Integrated Household Survey* (GEIH in Spanish)²⁴, employment series in the national aggregate continued to increase throughout the year, until May, although it shows relative stability at the margin. On an annual basis, for the rolling quarter ended in May, employment grew by 3.4%, which represented the creation of 788,000 jobs. By geographical domains, employment dynamism was explained by the increase in other municipalities and rural areas, which recorded an annual variation of 4.5%, a figure higher than that observed in urban areas (2.5%) (Graph

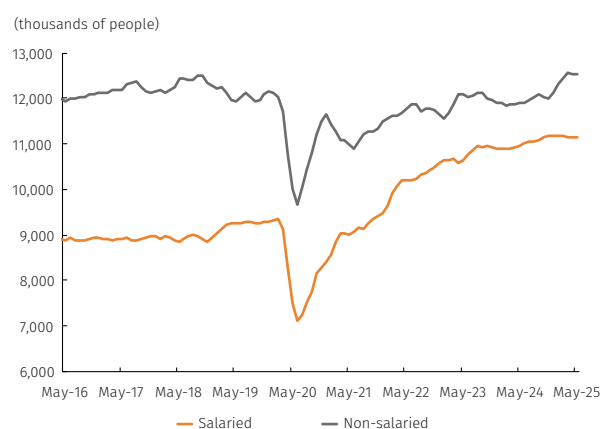
²⁴ The labor market analysis presented in this Report is based on seasonally adjusted and three-month moving average data.

Graph 2.10
Employed Population by Geographical Domain



Note: Data on a quarterly moving average and seasonally adjusted data.
Source: DANE (Lage Integrated Household Survey – GEIH); calculations by Banco de la República.

Graph 2.11
Employment by Occupation
National Aggregate



Note: Data on a quarterly moving average and seasonally adjusted data.
Source: DANE (GEIH); calculations by Banco de la República.

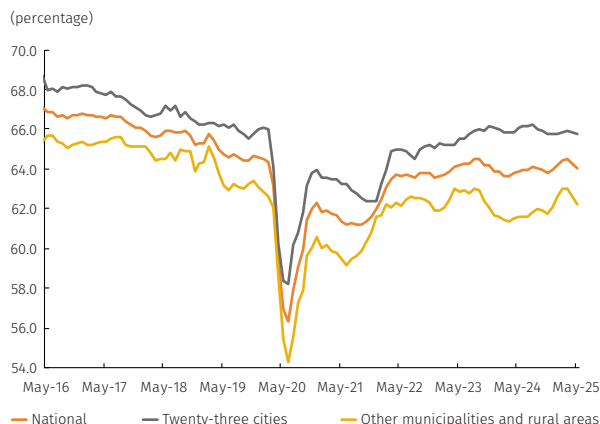
2.10). This employment trend was reflected in the employment-to-population rate (TO in Spanish) of the national aggregate, which, for the same period, grew annually by 1.1 pp, reaching 58.3%. On the other hand, the TO in other municipalities and rural areas increased annually by 1.6 pp and in urban areas by 0.7 pp, standing at 56.7% and 59.8%, respectively. By economic sector, the largest contributions to the annual variation in employment, in the national aggregate, were made by the branches of commerce and accommodation (1.0 pp), transportation and communications (0.9 pp), and agriculture (0.7 pp).

Employment growth was driven by the non-salaried and informal segment, which led the informality rate to increase again in annual terms so far this year. So far in 2025, the non-salaried segment recorded a significant rise, reaching 12.5 million employed individuals. This is consistent with the increase in employment observed in other municipalities and rural areas, as non-salaried employment is overrepresented in this domain, accounting for approximately 63% of total employment. At the same time, this is in line with what has been observed in various economic sectors, since, as mentioned, those that contributed the most to job creation (commerce and accommodation, transportation and communications, and agriculture) have a high level of informality. In particular, the rolling quarter ended in May 2025 recorded an increase of 5.1% in non-salaried employment compared to the same period of the previous year, although the performance has been weaker at the margin. In turn, employment in the salaried segment has remained relatively stable, posting an annual growth of 1.6% over the same period (Graph 2.11). In this way, the greater dynamism of non-salaried employment, which is mostly informal, compared to salaried employment, explains the annual growth observed in the informality rate (TI in Spanish) so far this year. Thus, TI stood at 56.1% in May 2025.

Labor force participation is less dynamic than employment. In particular, labor force participation has remained relatively stable in urban areas over the last year. The Labor Force Participation rate (TGP in Spanish), which measures the proportion of the working age population that is employed or unemployed, has remained steady in the twenty-three main cities at around 66% over the last year. In turn, in other municipalities and rural areas, the TGP experienced a reduction in recent months, reaching levels close to 62% (Graph 2.12). By gender, women's participation in the labor market has remained stable in recent months. For men, the TGP rose slightly (0.2 pp) compared to what was recorded at the end of the previous year. Thus, the TGP of women stood at 52.6% in the rolling quarter ended in May 2025, while the TGP of men reached 76.5%.

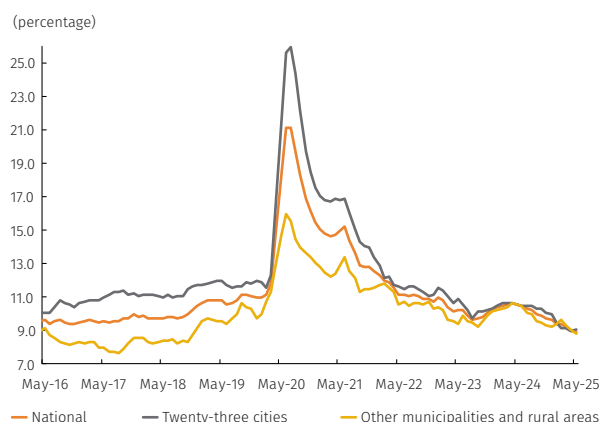
The lower pressure on labor supply and employment growth implied reductions in the unemployment rate (UR) during the first half of the year, across all domains. For the rolling quarter ended in May 2025, the UR of the national aggregate declined

Graph 2.12
Labor Force Participation Rate by Geographic Domain



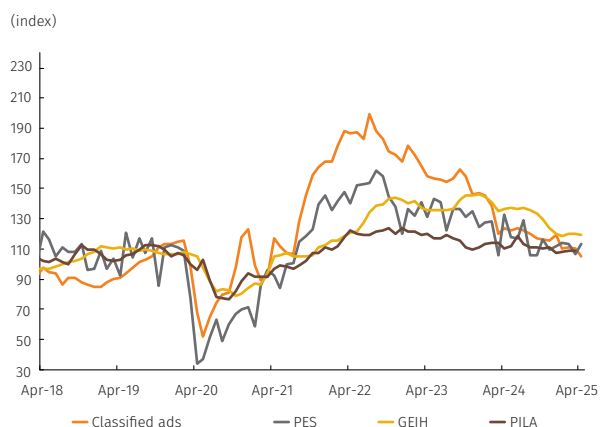
Note: Data on a quarterly moving average and seasonally adjusted data.
Source: DANE (GEIH); calculations by Banco de la República.

Graph 2.13
Unemployment Rate by Geographic Domain



Note: Data on a quarterly moving average and seasonally adjusted data.
Source: DANE (GEIH); calculations by Banco de la República.

Graph 2.14
Job Vacancy Index from Different Sources



Note: Base 100 = 2018. Seasonally adjusted data.
Source: Arango (2013), Morales, Hermida, and Dávalos (2019), Public Employment Service (PES); calculations by Banco de la República.

annually by 1.6 pp and reached 8.9% in the last month. This unemployment figure is one of the lowest observed in the last 25 years, comparable only to the levels recorded in the first half of 2015. By geographical domain, for the same period, the UR of the twenty-three cities fell by 1.5 pp, while in other municipalities and rural areas it contracted by 1.7 pp, so that the UR in these domains stood at 9.1% and 8.8%, respectively (Graph 2.13). By gender, so far this year, the UR for women declined by 0.8 pp while the UR for men fell by 0.6 pp. Thus, as of May 2025, the UR of women stood at 11.5% and that of men at 7.0%. This has allowed the gender gap in the UR to continue to narrow, and for the last month, it stands at 4.5 pp.

Other salaried labor demand indicators, such as vacancies, have continued to converge toward levels observed before the pandemic. Vacancy indicators calculated from different sources of information, such as classified ads, the Public Employment Service (Servicio Público de Empleo or SPE in Spanish), the GEIH, and the Integrated Record of Contributions to Social Security (PILA in Spanish), have continued to decline, converging to the levels observed at the end of 2019 (Graph 2.14). In line with the vacancy information, medium-term hiring expectations surveys, such as the *Quarterly Survey of Economic Expectations* (ETE in Spanish) of Banco de la República, indicated some stability as of the first quarter of 2025. Thus, the hiring expectations balance, which measures the difference between the percentage of companies willing to expand workforce and those unwilling to do so, is close to zero. This occurs after being in negative territory in the previous quarter, which is consistent with the modest performance of the salaried segment so far in 2025. As for monthly labor income, they continued to adjust upward in the national aggregate, registering a real annual increase of 6.3% for salaried workers and 8.7% for non-salaried workers in April.

2.3 Evolution and Outlook of the Fiscal Situation

The General Government (GG)²⁵ fiscal deficit experienced a significant increase between 2023 and 2024, from 2.7% to 5.8% of GDP, respectively, due to the deterioration in the balance sheet of the Central National Government (CNG). According to the 2025 *Medium-Term Fiscal Framework* (MTFF-25) presented by the Ministry of Finance and Public Credit (MHCP in Spanish), the GG deficit stood at 5.8% of GDP in 2024, representing an increase of 3.1 pp compared to 2023²⁶. This deterioration was mainly due to the CNG's balance sheet deterioration (2.5 pp),

25 It should be remembered that the GG is made up of the CNG, regional and local governments, social security sector (pensions and health), and the other entities of the central level, among which the FEPC is included.

26 According to the DANE's methodology for the institutional sector economic accounts, data from 2024 to December reveal a GG deficit of 5.6% of GDP, higher than the 3.3% deficit observed in the same period of 2023.

the social security subsector (0.7 pp), and other entities at the central level (0.2 pp). This situation was partially offset by an improvement of 0.1 pp in the balance sheet of regionals and locals²⁷. The reduction in the deficit position of the fuel price stabilization fund (FEPC in Spanish) is highlighted, which was the result of the adjustments implemented by the Colombian Government to the price of gasoline since the end of 2022, which was reflected in the closing of the gap between the benchmark price and the price of gasoline in the local market at the end of 2023 and throughout 2024²⁸. However, fiscal pressures persist due to the price differential for ACPM (diesel fuel), which shows the importance of starting to reduce the subsidy granted to this fuel²⁹.

The deterioration in CNG's public finances in 2024 was explained by both lower tax collection and higher primary spending. Data for 2024 indicate that the total and primary deficit of CNG would have reached 6.7% and 2.4% of GDP, respectively. This represents an increase of 2.5 pp and 2.1 pp, compared to the levels recorded in 2023. The deterioration of 2.5 pp in the total balance sheet for 2024 was mainly due to the fall in total income by 2.2 pp of GDP, and to a lesser extent, the increase in spending by 0.3 pp of GDP. The nation's income stood at COP 281.5 trillion (t) in 2024, representing 16.5% of GDP compared to the 18.7% in 2023. This reduction is mainly attributed to the lower income tax collection and external VAT plus tariffs, as well as the reduction of oil revenues on account of the drop in dividends issued by Ecopetrol. The drop in corporate income collections is largely explained by the weaker dynamism in the coal and oil sectors, as well as by the elevated withholdings paid in 2023 under Decree 261, which adjusted self-withholding rates in line with the 2022 tax reform. On the other hand, spending amounted to COP 396 t in 2024, equivalent to 23.2% of GDP, compared to 22.9% in 2023. In this case, transfers through the General Participation System (GPS) and the interest and social security items (health and pension) would have registered the largest annual increases.

In accordance with the MTF-25, a deterioration in the total balance sheet is projected for 2025 compared to the previous year, mainly due to higher public spending on inflexible items such as debt service payments, which would more than offset the increase in total revenues. The MTF-25 scenario forecasts a total and primary deficit of 7.1% and 2.4% of GDP in 2025, respectively, implying a deterioration of 0.4 pp in the total balance sheet compared to what was observed in 2024, while the primary balance sheet would remain at the same levels. The higher interest burden between 2024 and 2025 (0.4 pp of GDP) would explain the wider fiscal deficit. As for primary spending, it would reach 19.5% of GDP, that is, 0.6 pp above the figure recorded in 2024. This increase would be explained mainly by increased resources allocated to the

27 The favorable fiscal results of local administrations can be explained by higher revenues from transfers related to the General Participation System (GPS), as well as by the delay in spending that is historically observed in the first year of subnational governments.

28 The fiscal surplus recorded by the FEPC in 2024 results from the difference between the deficit caused (0.5% of GDP, equivalent to COP 8 trillion) and the resources transferred by the nation to the Fund to settle outstanding obligations with fuel importers and refiners accumulated until December 2023 (1.2% of GDP, COP 20.5 trillion).

29 In the process of reducing the ACPM price differential, with Decree 763 of June 2024, the government established an adjustment in the price of diesel for large consumers, that is, those who have a special logistics operation and consume more than 20,000 gallons on average per month. Additionally, in September 2024, in an agreement with the transporters, an increase of COP 400 was established in the gallon of ACPM.

rise in GPS and pension spending (0.8 pp), personnel spending (0.4 pp), and other transfers (0.3 pp). However, this growth would be partially offset by the reduction in payments to the FEPC (0.8 pp), and by reduced resources allocated to the health sector (0.2 pp) and investment (0.1 pp). The projected increase in primary spending for 2025 would offset the increase in the nation's revenues, which are expected to reach 17.0% of GDP, with an increase of 0.5 pp of GDP compared to 2024. This growth would be largely explained by higher income tax collections, which would contribute 0.7 pp of GDP, as a result of growth in non-oil income tax withholdings and installments, in line with Decree 572 of 2025, which modified the self-withholding thresholds and rates applicable to different economic sectors.

The total CNG balance estimated for 2025 in MTF-25 would imply a deterioration of 2.0 pp of GDP compared to the *Financial Plan (FP-25)* presented at the beginning of the year. Compared to the scenario outlined in the FP-25 update, the fiscal deficit would be 2.0 pp higher than initially estimated (5.1% of GDP). This increase is explained by a downward revision of 1.3 pp of GDP in tax revenues, as well as by higher spending expectations by 0.7 pp of GDP. According to MTF-25, the downward adjustment of the projected revenue results from a lower expectation for collections by the National Directorate of Taxes and Customs (DIAN in Spanish) and a less effective management and evasion measures, which cannot be offset by the higher resources expected derived from Decree 572 on self-withholdings.

In line with what is projected for the CNG, an expansion of the GG fiscal deficit is expected between 2024 and 2025. By 2025, the GG is projected to record a fiscal deficit of 6.5% of GDP, representing an increase of 0.7 pp compared to the level observed in 2024. The deterioration in the GG's balance sheet relative to the previous year would be mainly explained by a higher deficit in the central government (including the CNG and other entities and funds, such as the FEPC) totaling 0.9 pp of GDP, and a 0.4 pp drop in the balance sheet of regional and local governments. This would be partially offset by a 0.7 pp increase in the surplus of social security. It is important to note that the projections included in the MTF-25 incorporate the revenues and expenditures derived from the pension reform (Law 2381 of 2024) and account for the resources of the Contributory Pillar Savings Fund (FAPC in Spanish) within the pension subsector. These higher revenues derived from the pension reform, which would be allocated to both Colpensiones and the FAPC, would largely explain the higher fiscal surplus of the pensions and social security subsector between 2024 and 2025³⁰.

The MTF-25 projects a reduction in the fiscal and primary deficits for 2026, explained mainly by an expected increase in total revenues of 1.2 pp of GDP, of which 1.0 pp of GDP would come from a tax reform. As projected by the government, the CNG's fiscal deficit in 2026 would stand at 6.2% of GDP, representing a reduction of 0.9 pp compared to the estimated deficit for 2025. This result would be primarily supported by an annual increase in the nation's tax revenues of 14.3% (1.2 pp of GDP), which will largely depend on the approval and implementation of a tax reform that generates an additional collection of COP 19.6 t (1.0 pp of GDP) during that period. Regarding expenditure, it is projected to grow by 7.2% annually, equivalent to an increase of 0.2 pp of GDP, explained by the growth of primary

³⁰ The projections presented in the MTF-25 assume the entry into force of the pension reform on 1 July 2025. The preparation and publication of the MTF-25 took place prior to the Constitutional Court's ruling, which suspended the implementation of the pension reform and returned the discussion to its fourth debate due to a procedural flaw.

spending, which would be driven by inertial dynamics associated with inflexible components of public spending (see Box 2).

The high fiscal deficit projected for 2025 and 2026 would lead to a gradual increase in the CNG's net debt, rising from 59.3% of GDP in 2024 to 63.0% of GDP in 2026.

After reaching 53.4% of GDP in 2023, net debt would gradually increase to 63.0% of GDP in 2026, according to MTF-25 figures. This increase in public debt would be explained by the high and persistent primary deficits, elevated financing costs, which would exceed real economic growth, as well as the higher average exchange rate used to value external debt at the end of each period. Given this, CNG's net debt would reach a historical high of 63.0% of GDP in 2026, a level above that observed in 2020 (60.7% of GDP).

The Supreme Council for Fiscal Policy (CONFIS in Spanish) established the activation of the escape clause, which allows for a temporary deviation from compliance with the fiscal targets set under the fiscal rule between 2025 and 2027. In this regard, the Independent Fiscal Rule Committee (CARF in Spanish) issued an unfavorable (non-binding) concept, noting that the escape clause is designed for extraordinary events and not for structural fiscal imbalances³¹. The MHCP justified its decision as the only viable alternative to ensure the operation and debt service payments in the short term, thereby avoiding an abrupt adjustment of public finances that could undermine productive activity or trigger macroeconomic imbalance. The MHCP also argues that the high inflexibility of spending and the limited capacity to generate sufficient revenues in the short term created the current fiscal situation and the need to postpone compliance with the parametric targets of the fiscal rule. In the CARF's point of view, the escape clause is not intended for this type of situation, and according to the regulatory framework, it can only be invoked in the presence of extraordinary events or events that compromise macroeconomic stability. The CARF concludes that the MHCP's request does not provide a sufficient explanation regarding the relevance of the clause in the current fiscal situation and emphasizes that the main macroeconomic imbalance at present is precisely the fiscal imbalance.

According to the MTF-25, the path to bringing the fiscal deficit back to levels of 3.0% of GDP in the medium term will depend on an eventual tax reform set to take effect in 2026, as well as on potential structural reforms amid adjusting inflexible spending. Once the escape clause activation period concludes, the total deficit of the CNG is expected to reach 3.1% of GDP in 2028 and 2.8% of GDP on average between 2029 and 2036. Achieving this consolidation path will require a structural adjustment of public finances, jointly distributed between reforms and measures to increase revenues and reduce expenditures. Compared to the level projected for 2025, on the revenue side, the MTF-25 forecasts an average increase of 2.3 pp of GDP in the medium term (2028-2036). Of this, 1.4 pp would come from the tax reform expected to take effect in 2026, while the remaining 0.9 pp would result from the plan to reduce tax evasion, avoidance, and modernization of the DIAN, as well as the response to macroeconomic assumptions, including the evolution of oil prices. On the expenditure side, the path projected in the MTF-25 implies a structural correction of primary spending averaging 2.3 pp of GDP during the 2028-2036 period, associated with the permanent effects of public spending reforms expected between 2025 and 2027. With these measures, the net debt level

31 Please see Statement No. 17: CARF Preliminary Concept, as well as the initial messages in the MTF-2025 dated 13 June 2025, and Statement No. 18.

projected in the MTF-25 for 2036 is 61.3% of GDP. In this regard, the CARF warns that the fiscal strategy approved by the CONFIS is insufficient to bring debt down to the anchor or prudent level of 55% of GDP in the medium term and does not allow for strengthening credibility. Therefore, stabilizing public finances and converging debt toward its prudent level will require efforts beyond those currently contemplated in the MTF-25. Finally, it should be noted that, the MTF-25 assumes that the reform of the GPS through Legislative Act 03 of 2024, which includes the enactment of the *Ley de Competencias* (Law on the Allocation of Responsibilities), does not represent fiscal pressures for the Government Budget (PGN in Spanish) in the medium term. However, if this reform is not fiscally neutral, it could generate additional pressure on public spending, affecting the projected fiscal path.

Fiscal policy decisions play a key role in macroeconomic stability, as their interaction with monetary policy directly influences interest rates and the country's risk perception. High and persistent fiscal deficits increase the demand for resources in financial markets, raising interest rates and reducing the scope for *Banco de la República's* decisions to be effectively transmitted to the rest of the economy. In addition, higher fiscal risk could raise the country risk premium, affecting access to credit and exerting upward pressure on the interest rates required by investors. Although the neutral interest rate is determined by structural factors, a more solid fiscal environment tends to moderate these pressures, facilitating a monetary stance more consistent with the price stability objective that promotes sustainable growth. However, a prolonged fiscal deterioration may raise the neutral interest rate by creating structural distortions in the economy. As mentioned in the literature, monetary policy may face greater constraints in controlling inflation when public debt levels are high and fiscal deficits are persistent³². In Colombia, these interactions become particularly relevant in a context of high sensitivity to capital flows and international financial conditions. The risk premium for Colombia remains at levels higher than those observed in economies with comparable macroeconomic fundamentals. In this context, preserving fiscal sustainability contributes not only to maintaining favorable financing conditions, but also to reinforcing the effectiveness of monetary policy in achieving its objectives.

The current high levels of debt and fiscal deficit, together with increased spending pressures, largely driven by their inflexibility, make it essential to implement an orderly adjustment to ensure fiscal sustainability and contribute to economic stability. The gradual and timely reduction of the fiscal deficit and debt is crucial to reduce country risk and avoid an excessive adjustment burden on the private sector. To achieve this, the approval of structural reforms that permanently increase revenues and adjust primary spending is essential. In this regard, it is crucial to advance in the proper definition and distribution of responsibilities across the different territorial levels, as well as in the subsequent reallocation of resources and approval of the law, within the framework of Legislative Act 03 of 2024, which amended the GPS. In addition, the government's fiscal adjustment plan should be accompanied by a clear definition, presentation, and management before the Congress of Colombia of the legal reforms needed to reduce expenditures and increase structural revenues, with the aim of ensuring a credible return to the fiscal rule path and the sustainability of public finances over the medium term.

32 Lozano-Espitia, L. E.; Herrera, M. (2008). "Dominancia fiscal versus dominancia monetaria: evidencia para Colombia, 1990-2007", *Borradores de Economía* (Working Papers on Economics), No. 485, *Banco de la República*. Sargent, T. J.; Wallace, N. (1981). "Some Unpleasant Monetarist Arithmetic," *Quarterly Review*, vol. 5, pp. 1-17, Federal Reserve Bank of Minneapolis.

Shaded Section 1 Regional Economy

1. Overview of Departmental Economies in 2024

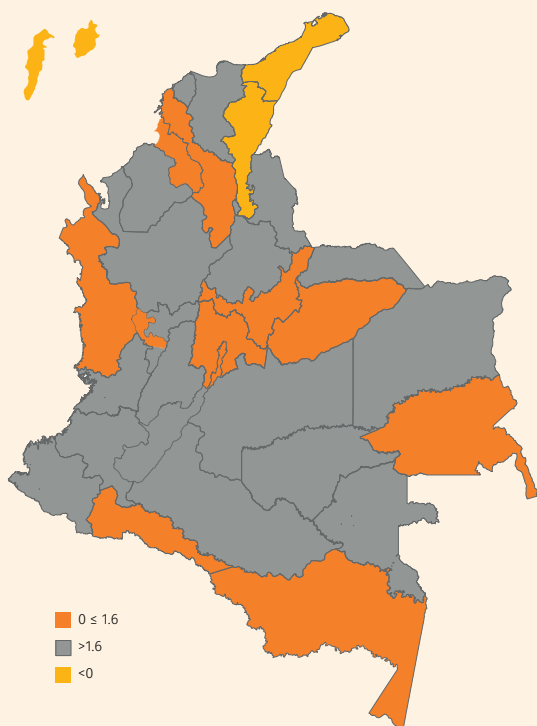
According to departmental GDP figures for 2024, nineteen of the thirty-three territories recorded annual growth above the national result, while three registered declines compared to the previous year (Diagram S1.1). Most departmental economies were driven by the recovery of domestic demand, while areas that recorded declines in economic activity were affected by the deterioration of the mining sector. The dynamism of domestic demand was primarily associated with the expansion of private consumption of goods and services, reflected in the growth of agricultural activity, domestic trade, and entertainment-related services, sectors that propelled the department's strong performance. On the contrary, the economies of La Guajira and Cesar contracted due to the reduction in coal extraction.

The departments with the highest economic growth were Arauca, Huila, Guaviare, Vichada, and Tolima (Graph S1.1). Agriculture was the main contributor to these economies' strong performance, which, in the case of Arauca, was also supported by the contribution of oil extraction. Additionally, except for San Andrés, the agricultural sector contributed to the positive variation across all departments, a trend possibly linked to increased consumption of perishable goods and external demand. Within this sector, the rise in coffee production boosted the performance of coffee-producing regions such as Antioquia, the Central Coffee Region (Huila, Tolima, Caldas, Risaralda, Quindío), Cauca, and Santander. This recovery followed the adverse effects of the *El Niño* phenomenon in the first quarter of the year, which was also supported by rising international prices.

Favorable weather conditions allowed increased production of permanent crops such as Hass avocado, sugarcane, and cocoa in Antioquia, Valle del Cauca, and Santander, respectively. Regarding fruits and citrus, there was a notable improvement in supply in Antioquia, Cundinamarca, Valle del Cauca, and Santander, covering domestic consumption and exports, particularly to the United States, the United Kingdom, and the European Union. The livestock sector grew in regions with strong livestock farming tradition, including the Southeast (Vichada, Casanare, Meta, Guaviare) and the Caribbean (La Guajira, Magdalena, Cesar, Córdoba, Bolívar); with pork production rising in Antioquia, Valle del Cauca, and Cundinamarca; and poultry in Santander. This dynamic was driven by an increase in per capita consumption of these proteins.

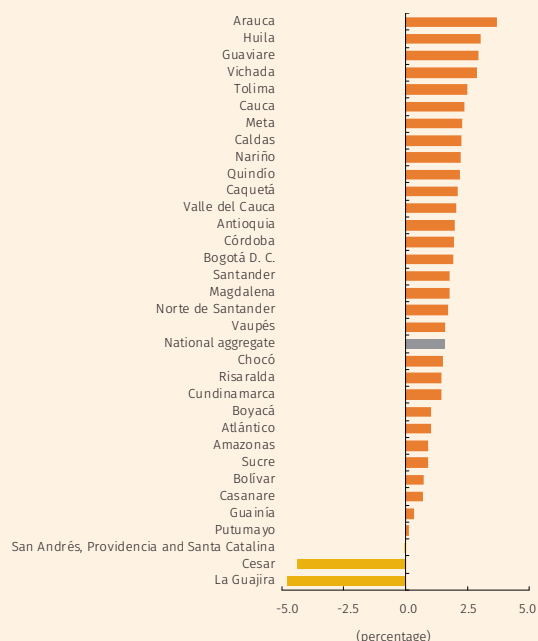
Large sectors such as commerce, transportation, accommodation, and food services showed recovery across all departments. Likewise, artistic and entertainment activities broadly contributed to departmental economic growth. These results

Diagram S1.1
Real Departmental GDP, 2024
(annual variation)



Source: DANE; calculations by Banco de la República.

Graph S1.1
Annual Variation of Real Departmental GDP, 2024



Source: DANE.

were boosted by increased private consumption of goods and services, in the context of lower interest rates, declining inflation, and higher household disposable income. The improved commerce performance was due to rising consumption of food and beverages in both specialized and non-specialized establishments in Antioquia, Atlántico, Bogotá, Cundinamarca, Santander, and Valle del Cauca, recovering from the deterioration observed a year earlier. The consumption of durable goods also contributed to the sector’s performance across all departments. New vehicle sales notably increased in Bogotá, Llanos Orientales, and the Southwest of the country, with Bogotá leading in the registration of hybrid and electric vehicles. Meanwhile, sale of computer equipment and household appliances showed the highest growth in Cundinamarca, Antioquia, and Santander. Consumption of pharmaceuticals, perfumes, and cosmetics rose in Antioquia, Bogotá, Cundinamarca, and Valle del Cauca, while clothing and textiles declined across all departments.

In turn, three-quarters of the national variation in artistic and entertainment activities recorded the previous year were attributed to Bogotá, Antioquia, Valle del Cauca, Atlántico, Santander, and Cundinamarca, the territories hosting the largest number of concerts, festivals, and cultural activities. Large-scale, non-recurring events such as COP16 in Cali and the U-20 Women’s World Cup in Bogotá, Medellín, and Cali also contributed to this positive dynamic. Additionally, the growth of online gambling and sports betting continued throughout 2024, fueled by an increased number of national and international sports competitions and the entry of new companies into the market. Revenues from online gaming and sports betting rose in all departments but remained concentrated in Bogotá and Antioquia (35%). Guainía, Vichada, and Putumayo recorded the highest real growth in this area (over 50% annually), while Bogotá recorded a 20% increase.

In mining and quarrying, activity contracted in almost all departments, except for Meta, Arauca, and Magdalena. Meta accounted for one-third of the country’s extractive production, while Arauca ranked sixth. Growth in Meta and Arauca was driven by increased oil production, unlike in Casanare, Santander, Putumayo, and Huila, where projects and contracts concluded. In Cesar and La Guajira, the decline in coal production reflected lower external demand, reduced international prices, and logistical difficulties. In Antioquia and Chocó, the contraction in the activity was due to reduced gold mining.

The manufacturing industry declined in all departments, except for Arauca and Nariño, where minimal growth was observed (0.1%). Across all territories, food and beverage production decreased. The reduction in the production of cocoa, chocolate, and confectionery products, as well as in milling products, oils, and fats, is likely related to lower consumption of these products due to the implementation of taxes on ultra-processed foods. Lower inventory turnover impacted the production of both alcoholic and non-alcoholic beverages in Atlántico, Bogotá, Cundinamarca, and Santander. In these same departments, along with Antioquia and Bolívar, chemical and

pharmaceutical production declined due to a drop in institutional orders and shortages of raw materials. This situation was partially offset by an increase in demand for personal care products, both for the domestic and foreign markets.

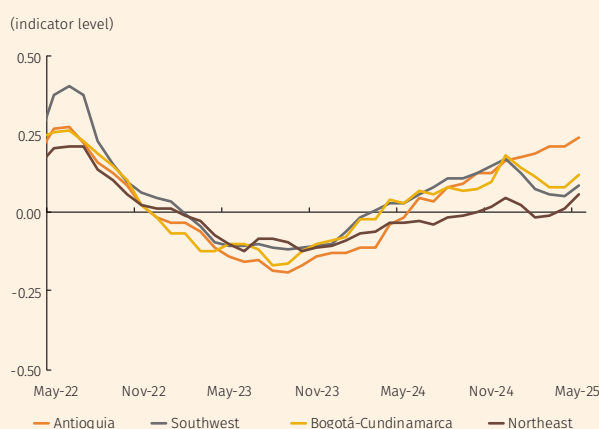
Meanwhile, in Antioquia, Bogotá, Bolívar, and Valle del Cauca, motor vehicle manufacturing declined, though a recovery was observed at the end of the year, fueled by increased demand for motorcycles from dealers and distributors. Regarding the production of oil refining products, a contraction was recorded in Bolívar and Santander, specifically at the Cartagena and Barrancabermeja refineries, respectively. The reduction in the production of non-metallic mineral products in most departments was explained by lower demand for remodeling materials.

In the construction sector, departments showing growth did so due to progress in civil works, while declining building construction limited the sector's performance in all territories. The largest increases occurred in Antioquia, Bogotá, and the southeast (Casanare and Meta), driven by progress in infrastructure projects such as Bogotá's first metro line, the José María Córdova airport interchange, and the Toyo Tunnel in Antioquia, as well as road improvements in *Llanos Orientales*. Conversely, the Central Coffee Region, Nariño, San Andrés, Guainía, Sucre, and Cundinamarca experienced significant contraction due to reduced building construction, especially residential, caused by lower housing demand and a high available inventory.

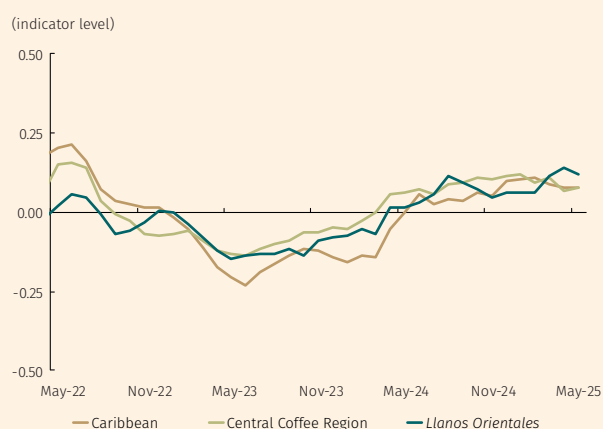
2. Evolution of the Regional Economy During 2025

Regional economies would have grown from January to May 2025, according to the *Banco de la República's* Regional Economic Pulse (PER) indicators (Graph S1.2). The upward trend in Antioquia's economy stands out, alongside the recovery of the regions of Bogotá, the Southwest, the Northeast, and *Llanos Orientales* after a slow start to the year. The Caribbean and Central Coffee regions maintained positive results similar to those recorded at the end of 2024. Growth in all territories would have been propelled by private consumption, characterized by increased demand for durable goods, such as vehicles, motorcycles, and materials for residential remodeling, and

Graph S1.2
Regional Economic Pulse
Average Rolling Quarter
A.



B.



Note: The Regional Economic Pulse is based on monthly surveys of business owners and executives who share their perceptions about the annual performance of the companies they represent, as well as the main factors behind the results observed. The levels of the economic Indicator range between -1 and 1, where values above zero represent annual growth and those below zero indicate declines; it does not represent percentage variations. The indicator tracks six economic activities: agriculture, industry, commerce, transportation, finance, and housing. The monitoring regions are: Antioquia (Antioquia), Bogotá (Bogotá and Cundinamarca), the Caribbean (Bolívar, Atlántico, Córdoba, Cesar, Magdalena, La Guajira, Sucre, and San Andrés and Providencia), Central Coffee Region (Caldas, Quindío, Risaralda, Tolima, Huila, and Caquetá), *Llanos Orientales* (Meta and Casanare), Northeast (Santander, Norte de Santander, and Boyacá), and Southwest (Valle del Cauca, Cauca, and Nariño). For more information about the methodology and available series, see: https://suameca.banrep.gov.co/estadisticas-economicas/informacionSerie/500031/economia_regional_pulso_economico_regional_por_regiones

Source: *Banco de la República*.

semi-durable goods, such as clothing, within a context of less restrictive monetary policy, lower inflation, and higher household disposable income. In the specific case of the Northeast, public order issues would have adversely affected its economy in the first months of the year.

According to PER sources, domestic trade sales would have grown in all regions of the country, driven by ongoing discounts and marketing strategies that generated consumer interest. Antioquia, Bogotá, and *Llanos Orientales* recorded the highest growth in the indicator, explained by ongoing incentives to household spending, such as promotions and marketing campaigns. The Southwest and Northeast showed signs of deceleration, due to border difficulties with Ecuador and Venezuela, respectively. In the Caribbean, events like the Barranquilla Carnival and concerts would have shifted household spending towards entertainment services, limiting better trade results. Despite this, in this region, as well as in Bogotá and Antioquia, large-scale events would have boosted sales of clothing, food, and beverages. Pharmaceutical and personal care products would have grown due to the opening of new establishments and commercial campaigns, while remodeling materials would have performed well, especially for renovations and small-scale works. Likewise, sales of new vehicles and motorcycles remained strong, particularly in Bogotá, Central Coffee Region, and *Llanos Orientales*, stimulated by lower financing costs, new launches, improved inventory, and effective commercial strategies. Retail sales growth was accompanied by rising consumer loans in all regions, favored by the gradual reduction of interest rates and the commercial management of credit institutions.

Artistic, cultural, sports events, and concerts would have boosted accommodation services in Antioquia, the Caribbean, and Bogotá, while the decline in corporate events slowed down hotel occupancy in all regions. In addition, road closures in the Southwest and public order issues in the Northeast would have limited better results in hotel activity.

Most regions showed signs of manufacturing production recovery, with slightly positive indicators in the Southwest, the Caribbean, and Central Coffee Region, and moderate growth in Antioquia. The increases would have been associated with higher domestic and foreign demand, expansion strategies, and improved sales expectations. However, this dynamic would have been moderated by an environment of widespread uncertainty. Antioquia's manufacturing sector would have reported the greatest growth, with an upward trend throughout the year, while *Llanos Orientales* would have shown the most pronounced decline. Food production would have grown in leading regions (Antioquia and Southwest), with notable increases in dairy products, canned goods, and animal feed, attributed to higher domestic demand, commercial strategies, and improved availability of raw materials.

In contrast, food production in the Northeast faced phytosanitary issues affecting key inputs for production, and rice milling in *Llanos Orientales* experienced turnover difficulties. According to the PER, industries in Antioquia and Central Coffee Region stood out for the good performance of vehicle and motorcycle assembly, driven by the recovery of consumption, lower interest rates, and inventory replenishment. The textile and clothing industries grew due to new contracts, sales expectations, and operational improvements, with Antioquia benefited from an expanded client base and Bogotá due to a higher domestic demand. In turn, growth in the PER's chemical manufacturing group was driven by the Caribbean, Antioquia, and Southwest regions, where the availability of inputs and external demand stimulated this activity. On the contrary, the non-metallic mineral manufacturing in the indicator showed negative results due to the slow execution of civil works, although improvements were observed in Bogotá and the Northeast with new residential projects.

In turn, the PER results suggest that the agricultural sector would have grown in most regions, although with signs of slowdown, mainly in the Northeast and Central

Coffee regions. According to the indicator, Antioquia and Southwest were the only regions reporting agricultural growth. The increase in Antioquia would be explained by production improvements, favorable weather conditions, and larger planted areas, which would have been reflected in higher production of avocado, bananas, and flowers, also supported by good export dynamics. In turn, Southwest agricultural results would have been driven by higher productivity of sugarcane, fruit crops, and coffee. On the contrary, the Caribbean region would have shown declines in cotton production due to reduced sowing caused by low profitability and the dry season during the first months of the year, also affecting cassava and plantains production. These weather conditions also would have negatively impacted *Llanos Orientales'* agriculture. Meanwhile, excessive rainfall in the Northeast and Central Coffee regions would have affected crops and caused phytosanitary issues. On the other hand, coffee harvesting in the Central Coffee Region declined due to increased rainfall, delaying ripening and harvest. The negative results in Northeast were attributed to lower supply of panela cane and oil palm, partially offset by a favorable coffee production.

The livestock sector of the PER grew in all regions, except for the Northeast, which remained stable. The *Llanos Orientales* and Central Coffee regions led the results, driven by strong cattle and pork slaughter, reflecting positive domestic demand performance. Dairy production stood out in Antioquia and the Southwest, which would have been supported by rainfall that improved pasture conditions. The Caribbean and the Northeast recorded the lowest results in the indicator. The former reported a slight increase in poultry and beef production, partially offset by a decline in dairy supply, while the latter faced phytosanitary issues, affecting its main livestock sector, poultry activity.

According to the PER, transportation activity slowed significantly across all regions, mainly due to dynamism loss in air transportation segment. Antioquia was the only region with increased air transport (passengers and cargo). Air cargo transportation grew in Antioquia due to higher flower exports, which also benefited Bogotá, although this did not offset the reduction in passenger transportation in the capital. Other regions experienced decreased airport passenger departures, determining the sector's results, with the Northeast being the region with the most pronounced contraction in the indicator due to lower flight frequency. In land transportation, Antioquia and Southwest showed slight increases, similar to previous records. In Antioquia, shipments of food, beverages, and coal stood out, while the Southwest benefited from road normalization, which facilitated the transportation of manure, fertilizers, and sugar. Other regions reported minimal annual variations in land transport according to PER data.

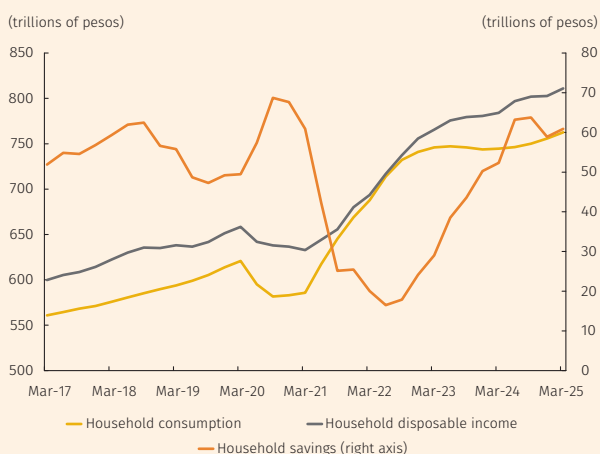
Box 1 Potential Drivers of Private Consumption

As noted in recent reports from the Board of Directors of *Banco de la República* to Congress, in recent quarters much of the strength of economic activity, particularly domestic demand, has relied on household consumption, whose outstanding performance has been characterized by growth rates exceeding those of GDP since the third quarter of 2024, and levels that, according to the most recent figures, are well above those suggested by the pre-pandemic trend¹. Some of the factors that may be influencing this favorable performance of private consumption can be divided into three main groups: 1) increases in household disposable income; 2) slightly more favorable credit dynamics; and 3) a gradual recovery in consumer confidence.

First, household disposable income has recently shown significant increases. In real terms, using the private consumption deflator, this aggregate grew by 2.8% in 2024 and by 4.4% annually in the first quarter of 2025 (Graph B1.1). Several components have contributed to this increase. One of them is compensation to employees, whose real growth (4.4% in 2024 and 2.9% annually in the first quarter) has been driven, among other things, by improved employment performance over the last year² and by the cumulative increase in the real minimum wage in recent years (around 16% between 2023 and 2025³), which benefits both minimum-wage earners and those receiving equivalent pensions⁴. However, these cumulative minimum wage increases, which have substantially exceeded observed inflation plus the country's productivity gains, would have a temporary effect on consumption, as the upward pressure they have generated on inflation could negatively affect household disposable income. Indeed, part of the significant minimum wage increases have been transmitted to several important CPI groups, such as food away from home, building administration, and hairdressing services, among others. They have also put upward pressure on wage costs in sectors of the economy that are intensive in unskilled labor (e.g., agriculture), affecting the inflation expectations of price setters. These factors, which have contributed to high inflation and a slowdown in its convergence toward the 3.0% target, would be detrimental to the future of household disposable income.

Another factor that has contributed to the increase in household disposable income is transfers from other institutional sectors. This group includes, for example, income from workers' remittances,

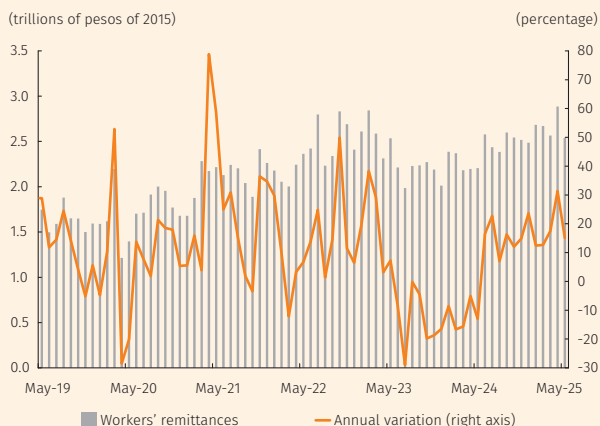
Graph B1.1
Household Private Consumption, Disposable Income, and Savings^{a/}
(4-quarter cumulative)



a/ Series deflated using the private consumption deflator.
Source: DANE; calculations by *Banco de la República*.

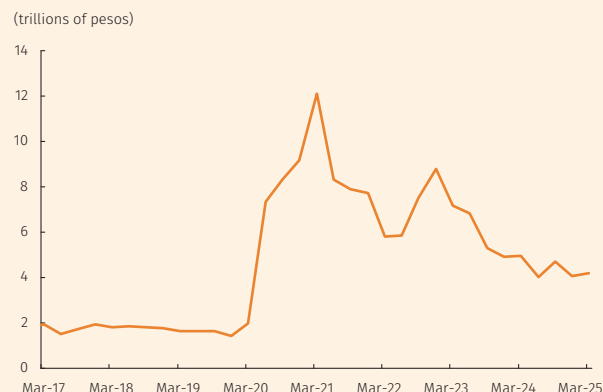
- 1 Calculated between 2015 and 2019.
- 2 With seasonally adjusted figures as of May, the unemployment rate stood at 9.0% at the national level, representing a decrease of 1.3 percentage points (pp) compared to the same month in 2024.
- 3 This corresponds to the real increase in the minimum wage, including the transportation allowance, using the headline inflation observed at the end of the year as a deflator. For 2025, the headline inflation forecast by the technical staff in its April 2025 *Monetary Policy Report* is used.
- 4 Some calculations, based on the GEIH, suggest that 10.3% of total employed individuals (approximately 2.3 million people) earned between 0.9 and 1.1 minimum wages. Likewise, figures from Colpensiones suggest that 1.7 million pensioners receive a pension equivalent to one minimum wage.

Graph B1.2
Workers' Remittances to Colombia, in Real Pesos^{a/}
(monthly and annual variation)



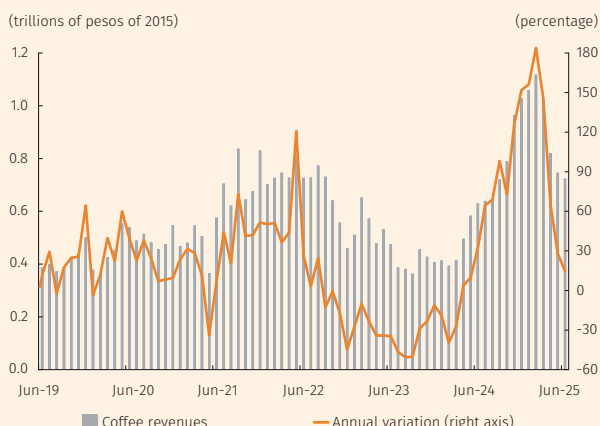
a/ Series deflated using the Consumer Price Index (CPI), seasonally adjusted and calendar effects corrected. Source: DANE; calculations by Banco de la República.

Graph B1.3
CNG Transfers to Households, Four-Quarter Cumulative^{a/}
(quarterly)



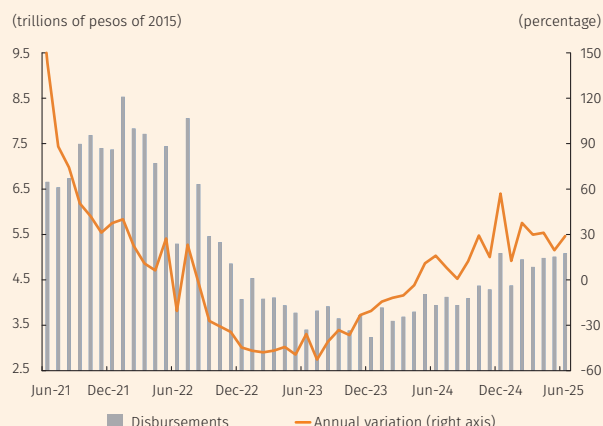
a/ Series deflated using the CPI. Source: Ministry of Finance; calculations by Banco de la República.

Graph B1.4
Coffee Revenues, Calculated Using the Domestic Benchmark Price, in Real Pesos^{a/}
(monthly and annual variation)



a/ Series deflated using the CPI, seasonally adjusted, and calendar effects corrected. Source: Federación Nacional de Cafeteros (Colombian Coffee Growers Federation-FNC); calculations by Banco de la República.

Graph B1.5
Consumer Credit Disbursements, in Real Pesos^{a/ b/}
(monthly and annual variation)



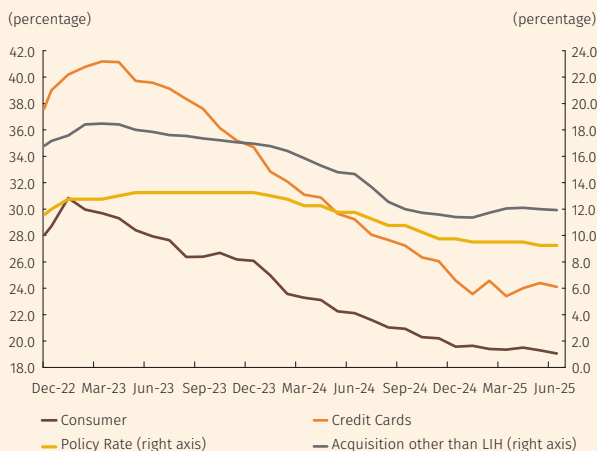
a/ Disbursement information includes revolving credit, unrestricted loans, loans covered by automatic payroll deductions, vehicle loans, and current account overdrafts to individuals. It does not include credit cards. b/ Series deflated using the CPI, seasonally adjusted, and calendar effects corrected. Source: Financial Superintendency of Colombia; calculations by Banco de la República.

which reached historic levels in the April-May two-month period, growing at an annual rate of over 20% in real terms, after having expanded by 16.6% in 2024 (Graph B1.2). This category also includes money transfers from the government to households—Graph B1.3 shows the evolution of these transfers, originating from the Central National Government (CNG). Although these transfers decreased in 2023 and 2024, coinciding with the end of the most critical period of the pandemic and the subsequent consolidation of various government programs into the *Renta Solidaria* (Solidarity Income) program, transfers from the CNG currently account for around 0.5% of household disposable income.

An additional factor is the increase in the income of coffee-growing households, which, according to the Colombian Coffee Growers Federation, number around 557,000. The same source reports coffee production and the domestic reference price, which are used to estimate the income generated by this activity. Some calculations indicate that this income accounted for 1.0% of household disposable income in 2024. In February of 2025, coffee income reached its all-time high of COP 1.1 trillion (Graph B1.4). Despite the recent decline in the domestic coffee price and in production, which caused coffee income to fall in recent months, the annual growth of this income remains positive and significant (14.8% in June).

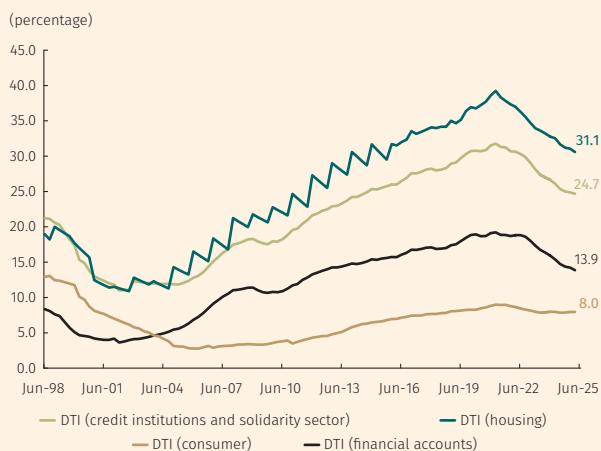
Graph B1.6
Household Financial Conditions

A. Household Interest Rates



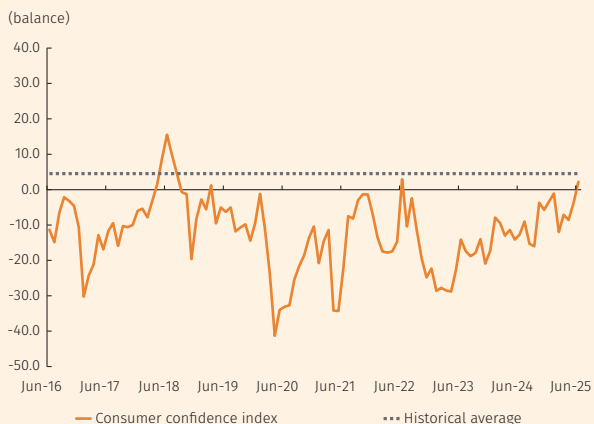
Source: Financial Superintendency of Colombia (Form 414); calculations by Banco de la República.

B. Household Debt to Disposable Income (DTI)



Source: Financial Superintendency of Colombia and DANE; calculations by Banco de la República.

Graph B1.7
Consumer Confidence Index



Source: Fedesarrollo.

A second aspect worth considering relates to the gradual recovery of consumer credit in recent months. Graph B1.5 shows the evolution of consumer loan disbursements in real terms, also deflated by the CPI. Although these disbursement levels remain below the highs recorded in 2021 and part of 2022, they show a recent recovery in the context of lower credit interest rates and a reduction in households' financial burden (Graph B1.6). This performance suggests that the recovery of the consumer loan portfolio may continue. However, despite the good performance of disbursements, annual growth remains limited. Some analyses by the technical staff of *Banco de la República* indicate that these disbursements exhibit a positive and significant correlation with private consumption, particularly in durable and semi-durable goods.

The third factor that may be contributing to the good performance of household consumption is the recovery of consumer confidence. Figures from Fedesarrollo's *Consumer Opinion Survey*, shown in Graph B7.1, indicate a gradual increase in confidence since the beginning of 2023, mainly driven by the recovery in the component measuring households' perceptions of economic conditions. Although the correlation between this indicator and private consumption is not high, it is positive and, in the recent period, its improvement coincides with the strength of consumption.

Finally, it is important to note that, as shown in Graph B1.1, based on real figures accumulated over four quarters, during 2023 and 2024 the growth of disposable income exceeded that of private consumption in real terms. This resulted in increases in household savings in both years, a trend that appears to have continued into the first quarter. This suggests that there are sufficient available resources that could support private consumption throughout the remainder of the year and possibly into part of 2026.

Box 2

Inflexibility of Public Spending in Colombia: Analysis of the Composition and Evolution of the Government Budget, 2000-2024

Spending inflexibility is a structural feature of Colombia's Government Budget (PGN). This condition reflects the existence of earmarked revenues, the establishment of spending commitments through the Constitution and the law, and the state's permanent obligations related to pensions and debt service. A rigid budget significantly limits the government's capacity to reallocate spending, respond to emergencies, and make fiscal policy adjustments in order to achieve objectives of economic stability, growth, or improved income distribution.

The 1991 Political Constitution strengthened the decentralization process in Colombia by allocating an increasing percentage of the nation's current revenues (ICN in Spanish) to the regions. These commitments came to represent nearly 45% of the ICN by the end of the 1990s, significantly reducing the flexibility of the PGN and introducing a factor of instability into the central government's finances, which led to a constitutional reform in 2001.

Constitutional Reforms

Legislative Act 01 of 2001 established the General Participation System (GPS), a mechanism through which the Nation must transfer resources to territorial entities, whose annual amount was to be calculated based on the average growth of the ICNs over the previous four years. However, on a transitional basis, the reform stipulated that the GPS allocation would initially increase based on the observed CPI, plus a few real percentage points, and that by 2008 it should recover the share of ICN that territorial transfers had in 2001. Given the fiscal risk posed by this increase in the GPS, another constitutional reform was approved in 2007, which extended until 2016 the annual adjustment formula based on the observed CPI plus a real increase. According to this reform, starting in 2017 the original formula reinstated, based on the average growth of ICNs over the last four years.

At the end of 2024, the Congress of Colombia approved another legislative act to once again modify the formula for calculating the GPS. Under this reform, starting in 2017 the GPS must gradually increase until it reaches 39.5% of the ICNs. To implement this measure, a law will need to be enacted to define the responsibilities of each level of government, primarily in the areas of education, health, drinking water, and basic sanitation.

Rigidity of Public Spending

The *Medium-Term Fiscal Framework* for 2025 (MTFF-2025) indicates that 86.4% of the primary expenditure of the Central National Government (CNG) in 2024 is inflexible. When debt interest payments are included, this share rises to 89.1%. However, this pronounced rigidity of the PGN is not new. A study conducted by Echeverry, Fergusson, and Querubín (2004)¹ warned that nearly 96% of budget appropriations were already predetermined in 2003, and that the growing expansion of social spending, together with the burden of pension payments and debt service, severely constrained the state's budgetary flexibility.

1 Echeverry, J. C.; Fergusson, L.; Querubín, P. (2004). "La batalla política por el presupuesto de la Nación: inflexibilidades o supervivencia fiscal", CEDE document, No. 2004-01, Economic Development Studies Center (CEDE in Spanish), Universidad de los Andes.

The most rigid components of public spending are the GPS and other legally mandated allocations to the territories; debt service—especially interest payments, which are not subject to adjustment; pension payments; and health expenditures. Salaries also exhibit a high degree of inflexibility, as they are protected by labor and contractual regulations. Paradoxically, the investment item, which should be the driver of development and the main instrument for boosting productivity and economic growth, turns out to be the most flexible and, therefore, the first to be cut during periods of fiscal restraint. This finding is supported by Vallejo and Zapata (2019)², who show that investment expenditures in Colombia remained positively synchronized with GDP between 2001 and 2018, reflecting a distinctly procyclical behavior. Unlike operating expenses, investment expenditures were more closely aligned with fluctuations in the economic cycle.

International Comparison

From an international perspective, Colombia exhibits a higher level of budgetary rigidity than the Latin America average. A study by Moody's (2017)³ analyzed the inflexibility of public spending in 16 Latin American countries and examined their fiscal adjustment capacity. Using an expenditure flexibility index, the study highlighted that Brazil and Colombia were among the least flexibility countries, with more than 85% of their budgets committed to mandatory spending (salaries, transfers, and interest payments). In contrast, Ecuador showed the highest flexibility, with only 49% of mandatory spending, followed by countries such as Peru and Panama, which also exhibited more adaptable budget structures. Only Guatemala, Panama, and El Salvador managed to reduce public spending as a share of GDP between 2010 and 2016, which highlights the challenges faced by many governments in the region to consolidate their public finances when there is a high level of rigid spending.

To assess the inflexibility of public spending in Colombia, a budgetary flexibility index was constructed for this box based on the methodology developed by Moody's, using information from the PGN between 2000 and 2024. The exercise compiled detailed data for more than 180,000 budget items. Public spending was initially classified into four broad categories: 1) operating expenses, which include wages and salaries as well as purchases of goods and services; 2) current transfers, such as pensions, health, and legally mandated allocations to the territories; 3) capital expenditures of the PGN; and 4) debt service (interest payments and amortizations). Subsequently, each category was examined for its degree of rigidity, considering as flexible those expenditures that can be more easily adjusted in the short term (for example, capital expenditures and the portion of operating expenses not associated with salaries or tax obligations). Under this criterion, most inflexible expenditures correspond to public sector salaries, certain current transfers (mandatory), and interest and amortization payments on public debt.

Before beginning the analysis of the inflexibility of the PGN, it is worth noting that there is a difference between budget appropriations⁴—which is the variable used in this Box—and CNG expenditures presented in the MTF-25 and described in section 2.3 of this *Report*. Appropriations correspond to the maximum amount of spending authorized by Congress for a fiscal year, while CNG expenditures reflect actual payments made, accrued obligations, and other accounting records during that period. In other words, the budget defines what may be spent, but in practice not all of it is executed or paid within the same year: part of the resources may remain as budgetary reserves (uncommitted obligations) or as accounts pay-

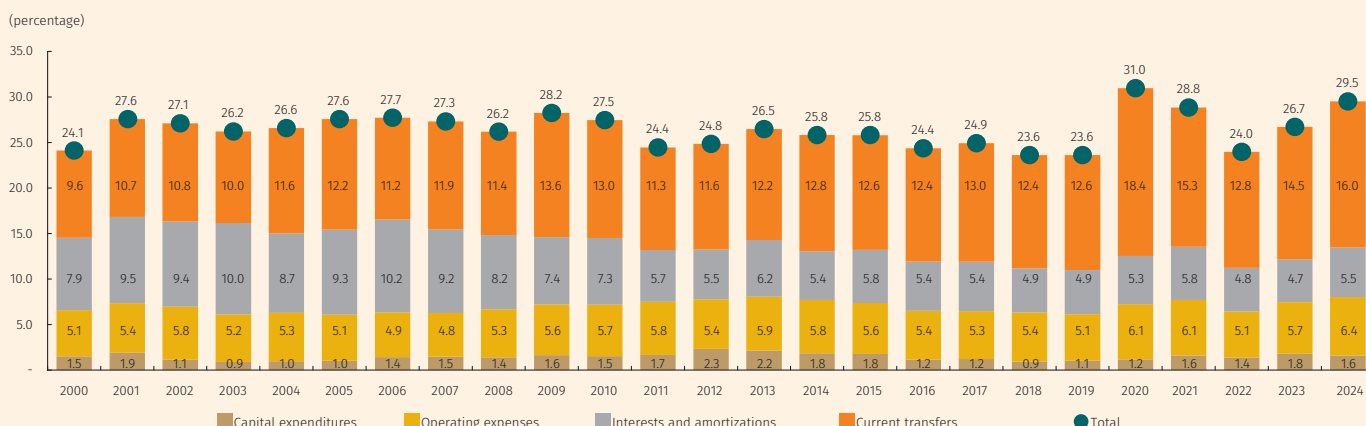
2 Zapata-Álvarez, S.; Vallejo-Rubiano, F. P. (2019). "Sectoral Procyclicality of Public Expenditure and GDP in Colombia," *Notas Fiscales*, No. 28, Ministry of Finance and Public Credit.

3 Moody's Investors Service (2017, 18 October). "High Compulsory Spending Levels to Impede Fiscal Consolidation, Especially in Brazil."

4 Budget appropriations are the maximum expenditure amounts authorized by the Congress of Colombia for the National Government to execute during a fiscal year through the Annual Budget Law. These appropriations establish the legal ceilings for committing and executing public funds across different categories, such as operating expenses, investment, and debt service, and constitute the starting point of the budget execution process.

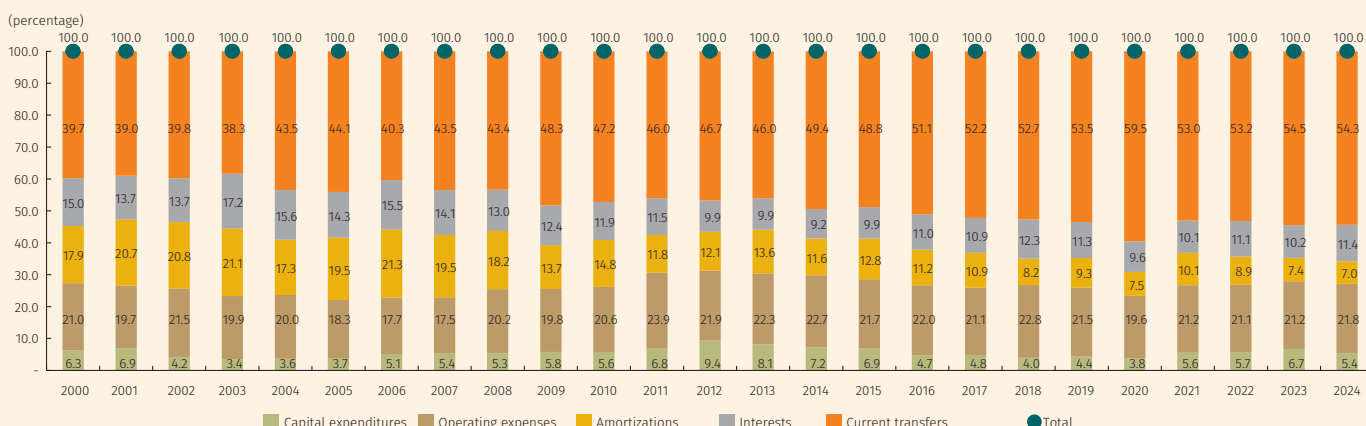
Graph B2.1
Budget Appropriation Following Moody's Rating (2000 – 2024)^{a/}

A. Percentage of GDP



a/ This corresponds to the current appropriation of the General Budget (PGN in Spanish) as of December each year. For 2024, it corresponds to the current appropriation as of November. These data are preliminary.
Source: Ministry of Finance and Public Credit; authors' own calculations.

B. Percentage of PGN



a/ This corresponds to the current appropriation of the PGN as of December each year. For 2024, it corresponds to the current appropriation as of November. These data are preliminary.
Source: Ministry of Finance and Public Credit; own calculations.

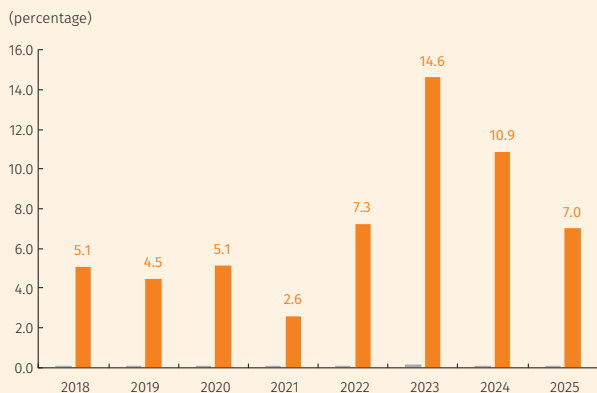
able (unsettled obligations). Additionally, CNG expenditure includes transactions such as interest accruals, as well as other adjustments that are not necessarily executed through the cash flow of the General Directorate of Public Credit and the National Treasury, nor are they explicitly included in the approved budget. However, they exclude debt amortizations and payments made with the own resources of national public establishments, among others⁵.

As shown in Graph B2.1, current transfers have been the fastest-growing component of public spending over the last twenty years, rising from 9.6% of GDP (39.7% of PGN) in 2000 to 16% of GDP (54.3% of PGN) in 2024. Within this item, an average of 33% corresponds to statutory transfers to subnational governments, and 31% to the National Government's pension commitments. It is worth highlighting the increase in transfers to the health sector, whose share of total current transfers increased from 5.9% to 16.4% between 2000 and 2024. This change reflects the impact of Law 1607 of 2012, which eliminated the obligation for companies to pay health contributions for workers with incomes of up to ten minimum wages, transferring this responsibility to the state.

5 The difference between the PGN appropriations and the CNG expenditures is analyzed in detail in the study by Rincón-Castro, H.; Zapata-Álvarez, S. (2025), "Presupuesto de la Nación y el balance fiscal del gobierno central: ¿cómo se relacionan y qué los diferencia?", forthcoming in Banco de la República's Working Papers on Economics series (*Borradores de Economía*).

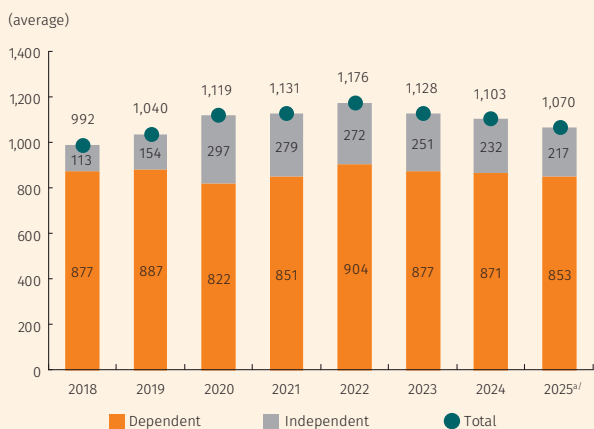
Graph B2.2
Salary Increases and the Evolution of the Number of Public Sector Contributors, 2018-2025

A. Salary Increase – Public Employees in the Executive Branch (%)



FSOURCE: Annual decrees on salary increases.

B. Annual Average of Contributors – Public Administration and Defense^{a/}



a/ Number of contributors as of March.
Source: *Tablero de control para el seguimiento de los aportes al Sistema de la Seguridad Social* (Control dashboard for monitoring contributions to the Social Security System or UGPP in Spanish).

When examining operating expenses, it is observed that their most representative component is salaries, which have accounted for an average of 53% of the total for this item during the period analyzed. A more detailed analysis shows that, on average, personnel expenses accounted for 2.9% of GDP between 2000 and 2024, equivalent to around 11% of budget appropriations. Although this category has been relatively stable as a share of GDP, it has been increasing in real and nominal terms. Between 2000 and 2024, this item rose from around COP20 trillion (t) to more than COP50 t at constant prices, and from COP6 t to COP50 t in current terms. In recent years, this growth has been mainly due to salary increases and, to a lesser extent, to an increase in the number of employees.

To illustrate this trend, Graph B2.2 shows salary increases and the evolution of the number of public sector contributors between 2018 and 2025⁶. During this period, salaries of executive branch employees grew by an average of 7.1% annually, with more pronounced increases of around 9.9% annually between 2022 and 2025. Regarding the number of contributors in the public administration and defense sector, there was a net increase of 78,000 individuals between 2018 and 2025, although a decline is observed between 2022 and 2025, mainly attributable to a reduction in independent contributors (mostly contractors). Similarly, it should be noted that, according to the technical analysis document on the MTF-2025 by the Independent Fiscal Rule Committee, spending on service contracts and their volume remain below the historical average (2018-2024). As of June 2025, COP 14.1 t and 394,600 contracts have been executed, both below the averages of COP 17.6 t and 486,500 contracts, respectively. This indicates a lower activity level in the use of this contractual modality.

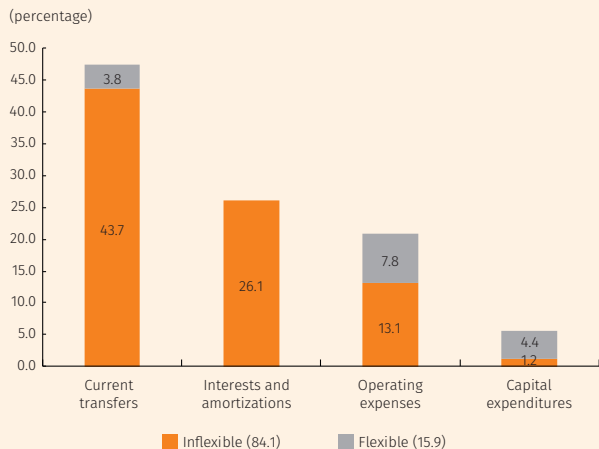
Within capital expenditures, investment in road, river, rail, and airport infrastructure was the main component, accounting for 40% of the total in this item. On average, this type of investment represented 0.6% of GDP during the period analyzed. This category also includes housing subsidies, which accounted for approximately 11% of capital expenditures, and mass transit systems, with a share close to 6.0%. These components have maintained a consistent presence within the composition of capital expenditures during the period studied.

Estimated budgetary inflexibility, according to Moody’s index, reached an average of 84.1% of total public spending between 2000 and 2024. Excluding interest payments and debt amortizations, this proportion falls to 78.6%. As shown in Graph B2.3, most of the inflexible spending corresponds to current transfers, which on average accounted for 43.7% of the PGN in the period analyzed. It is important to note that the approval of various laws establishing permanent spending obligations has reinforced this budgetary rigidity (Melo, Ramos, and Gómez, 2020)⁷. In turn, flexible current transfers—those subject to adjustment—account for only 3.8% of the PGN on average. Among these, the most important are those denominated “transfers subject to prior approval” in the Finance sector, which are not freely earmarked, as their execution is subject to obtaining a favorable opinion from the

6 The total number of contributors in the public administration and defense sector includes all its workers. However, public educators are grouped under the education sector, and the available information does not allow them to be distinguished from private-sector educators.

7 Melo-Becerra, L. A.; Ramos-Forero, J. E.; Gómez, C. (2020). “El Presupuesto General de la Nación: una aproximación a las partidas de transferencias e inversión”, *Borradores de Economía* (Working Papers on Economics), No. 1136, Banco de la República.

Graph B2.3
Average Composition of Public Spending by Budgetary Flexibility in Colombia's PGN (2000-2024)^{a/}



a/ These data are preliminary.
 Source: Ministry of Finance and Public Credit; authors' own calculations.

Ministry of Finance and Public Credit. Indeed, in the 2024 PGN cut, which amounted to COP 28 t, nearly COP 9 t corresponding to this item were adjusted. Meanwhile, budgetary deferral of the 2025 PGN, totaling COP 12 t, included COP 1.1 t associated with this component.

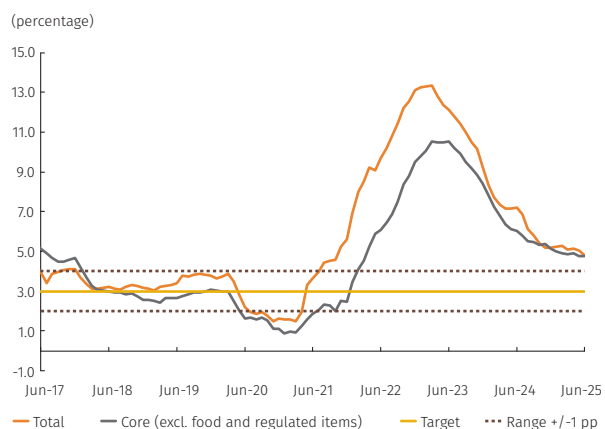
Thus, it is evident that government expenditure exhibits significant rigidity under the current constitutional and legal framework. In response of this situation, the MTFF-25 proposes a “fiscal pact” to enable the processing of structural reforms in Congress aimed at reducing expenditure inflexibilities. The objective of these reforms would be to ensure the sustainability of public finances and to reinstate the fiscal rule starting in 2028, thereby granting the state greater budgetary flexibility to meet its economic and social development objectives.

3. Inflation and Monetary Policy Decisions

3.1 Evolution and Outlook of Inflation

Annual consumer inflation declined during the first half of the year, partly due to the cumulative effects of monetary policy, which limited some upward pressures on consumer prices. However, the decline was smaller than the one observed in the previous two years and the one expected by both the Bank and market analysts. In June of this year, annual inflation stood at 4.82%, below the level recorded at the end of 2024 (5.2%) (Graph 3.1). Thus, inflation has been declining for just over two years, partly driven by the cumulative effects of monetary policy, which moderated demand pressures and inflation expectations, supporting the convergence of inflation toward its 3.0% target. This reinforced a relatively favorable performance of the exchange rate during the first half of 2025, which prevented further inflationary pressures. Despite this, the pace of disinflation moderated compared to last year, partly due to upward pressures observed in the prices of food and regulated items. Similarly, inflation remained above the target, largely due to the persistence still observed in the prices of certain goods and services. It should be noted that inflation performance so far this year also occurred amid significant upside risks on both the external and domestic fronts and was accompanied by an increase in inflation expectations for the end of this year and next, suggesting a slower convergence of inflation to the target over the next two years.

Graph 3.1
CPI and CPI Excluding Food and Regulated Items
Headline and Core Annual Inflation
(annual variation)



Source: DANE; calculations by Banco de la República.

Core inflation also declined so far in 2025, although it remained significantly above the target, due to substantial adjustments in the services sub-basket. Annual core inflation, measured as the annual variation in the Consumer Price Index (CPI) excluding food and regulated items, stood at 4.8% at the end of the first half of 2025 (Graph 3.1), lower than at the end of 2024 (5.2%) and a year earlier (6.0%). This reduction was likely the result of several of the factors mentioned, most notably the presence of excess productive capacity and its disinflationary effect on the goods and services basket. For the goods CPI side, price adjustments remained well below 3.0% during this period, in the context of limited exchange rate pressures, despite the recent dynamism of private consumption. However, the annual variations of this sub-basket have increased so far in 2025, which could be associated with higher domestic transportation cost pressures (an increase in diesel prices) and rising international prices. Regarding the services CPI, its annual variation fell from levels close to 7.0% at the end of 2024 to 6.0% in June 2025 (Table 3.1). Rental prices drove the decline, dropping from 7.4% in December 2024 to 5.9% in June 2025. Despite this, annual rental adjustments remain elevated

Table 3.1
Consumer Price and Core Inflation Indicators
As of June 2025

| Description | New CPI Weights | Dec-24 | Jan-25 | Feb-25 | Mar-25 | Apr-25 | May-25 | Jun-25 |
|--|-----------------|--------|--------|--------|--------|--------|--------|--------|
| Total | 100 | 5.20 | 5.22 | 5.28 | 5.09 | 5.16 | 5.05 | 4.82 |
| Excluding food | 84.95 | 5.65 | 5.39 | 5.44 | 5.19 | 5.29 | 5.13 | 4.94 |
| Goods | 18.78 | 0.62 | 0.56 | 0.67 | 0.93 | 1.11 | 1.45 | 1.58 |
| Services | 48.85 | 6.97 | 6.80 | 6.57 | 6.38 | 6.37 | 6.06 | 6.00 |
| Rents | 25.16 | 7.40 | 7.04 | 6.87 | 6.69 | 6.20 | 6.04 | 5.89 |
| Meals outside the home | 8.79 | 8.01 | 8.26 | 7.91 | 7.52 | 7.89 | 7.55 | 7.60 |
| Other | 14.91 | 5.38 | 5.19 | 4.97 | 4.92 | 5.42 | 4.87 | 4.88 |
| Regulated items | 17.32 | 7.31 | 6.64 | 7.21 | 6.30 | 6.58 | 6.31 | 5.49 |
| Utilities | 6.69 | 5.21 | 4.38 | 5.34 | 4.76 | 5.40 | 4.84 | 2.90 |
| Fuel | 2.91 | 6.77 | 3.33 | 2.90 | 2.52 | 2.64 | 2.57 | 2.54 |
| Transportation | 5.21 | 8.40 | 9.63 | 11.82 | 9.51 | 9.52 | 9.44 | 9.41 |
| Education | 2.38 | 12.63 | 12.63 | 9.73 | 9.74 | 9.70 | 9.68 | 9.67 |
| Other | 0.13 | 10.03 | 6.78 | 5.14 | 5.14 | 5.14 | 5.14 | 5.14 |
| Foods | 15.05 | 3.31 | 4.49 | 4.56 | 4.67 | 4.61 | 4.71 | 4.31 |
| Perishable | 3.15 | 5.07 | 7.82 | 6.52 | 4.59 | 2.68 | 2.49 | 1.00 |
| Processed | 11.90 | 2.80 | 3.53 | 3.99 | 4.70 | 5.22 | 5.42 | 5.37 |
| Core inflation indicators | | | | | | | | |
| Excluding food | | 5.65 | 5.39 | 5.44 | 5.19 | 5.29 | 5.13 | 4.94 |
| Core 15 (p08) | | 5.45 | 5.49 | 5.42 | 5.30 | 5.34 | 5.25 | 5.12 |
| Inflation excluding food and regulated items | | 5.15 | 5.02 | 4.90 | 4.84 | 4.90 | 4.77 | 4.77 |
| Average core inflation indicators | | 5.42 | 5.30 | 5.25 | 5.11 | 5.18 | 5.05 | 4.94 |

Other services: Laundry and ironing services; services related to co-ownership; domestic services; health services; other transportation (maintenance and repairs, school transportation, air travel, intermunicipal and international transportation); information and communications; recreation and culture; accommodation, bars, and nightclubs; education (higher education, diplomas, and non-formal education courses); other miscellaneous services (personal care, insurance, childcare).

Other regulated items: Health Promoting Entities (*Empresas Promotoras de Salud* or EPS in Spanish) moderate fees; certificates, administrative documents, and fee payments.

Source: DANE; calculations by Banco de la República (BR) with provisional classifications.

due to indexation to past inflation and limited housing supply stemming from the weak performance of the housing sector. Another relevant factor in services was food away from home, which also recorded a decrease from December 2024 (8.0%) to June (7.6%). Despite the slowdown in service prices, their annual adjustments remain elevated, partly due to the high indexation component of this sub-basket.

Food prices accelerated with higher-than-estimated increases, due to various supply-side factors, including higher costs and rises in international prices, among others. Contrary to the expectations of Banco de la República's technical staff, the annual variation of the food CPI rose from 3.3% in December 2024 to 4.3% in June 2025. This increase was concentrated on processed foods, which faced stronger-than-anticipated shocks due to increases in international prices for some agricultural commodities (mainly coffee and oils) and a greater-than-expected effect of the health tax on sugary beverages and ultra-processed foods. Additional pressures also came from higher transportation costs. In the case of perishable foods, the annual variation declined, but by much less than expected, which can be attributed, in addition to the factors previously mentioned, to changes in the agricultural production cycle. However, it should be noted that there has been an

abundant supply of perishable foods, leading to recent price declines for many of these products.

So far in 2025 to June, the annual variation of regulated items continued to show a downward trend, although slower than expected, with rates still high due to adjustments in certain public services, including household gas and urban transportation. In the first half of the year, the annual variation of the CPI for regulated items recorded the largest reduction among the main components of the household basket, falling from 7.3% to 5.5%. This performance was mainly explained by the moderation in adjustments to public utility tariffs, whose annual growth fell from 5.2% in March to 2.9% in June 2025. The main cause of this downward trend was the reduction in electricity tariffs, resulting from the substitution of more expensive thermal generation with hydroelectric power, due to the normalization of rainfall and the recovery of reservoir levels. This favorable trend in electricity tariffs offset sharp increases in household gas prices (from 9.4% in December 2024 to 19.5% in June), which would be related to higher import needs in the sector. Annual increases were also recorded in the regulated transportation sector. On the contrary, annual adjustments in fuels and regulated education declined. It should be noted that most items in the regulated sub-basket continue to record annual adjustments well above the inflation target, partly because they are highly indexed to past inflation.

For the remainder of the year, headline and core inflation measures are expected to continue declining, albeit slowly and without reaching the inflation target, in a context of persistent upward pressures on food and regulated items, as well as the persistence of high adjustments in several items in the services basket, particularly. The gradual reduction in inflation for the remainder of the year would remain possible due to the presence of excess productive capacity, reflected in a negative output gap, and a relatively favorable exchange rate performance. This downward trend in inflation will also be supported by the fact that no increases are expected in international prices of raw materials and imported goods, and by factors such as the decline in international oil prices, which should help contain increases in both external and domestic transportation costs. This would allow for a decline in annual inflation excluding food or regulated items, somewhat greater than that observed in the first half of the year. However, it would remain at relatively high levels compared to the target, due to still high adjustments in the CPI for services and the acceleration of goods prices influenced by indexation. In the case of headline inflation, the decline for the remainder of the year would be less pronounced, given the upward pressures in the prices of food and regulated items (mainly gas). Although these items are surrounded by high uncertainty, headline inflation is expected to stand at around 4.7% at the end of this year and to continue its downward trend in 2026, converging toward the target at the end of that year.

The convergence of inflation to the target continues to face significant risks associated with the future performance of the exchange rate, international prices, and adjustments in energy and gas tariffs. The uncertain global trade and financial outlook, together with challenges arising from domestic fiscal imbalances, could put upward pressure on domestic prices, particularly for goods, food, fuel, and certain services. This would further delay the convergence of inflation to the target. Geopolitical risks could lead to an unexpected rise in oil prices, which would increase both external and domestic transportation costs, as well as items such as electricity and gas. In the latter case, there is a significant risk of a domestic gas

supply shortfall, which could lead to more expensive imports and result in significant increases in gas tariffs.

3.2 Monetary Policy Decisions

The actions taken by *Banco de la República* respond to the constitutional mandate to “preserve the purchasing power of the currency in coordination with the general economic policy.” In order to comply with the above, for more than two decades, the Board of Directors of *Banco de la República* (BDBR) has implemented an inflation targeting scheme with a flexible exchange rate regime, in which monetary policy actions are aimed at bringing inflation to the 3.0%¹ target and reaching the maximum sustainable level of output and employment. In this framework, monetary policy decisions are made based on the analysis of the current state and outlook for economic activity, as well as the assessment of inflation and its expectations against the target. For example, if this analysis indicates that inflation could persistently deviate from 3.0% due to spending excesses or shortfalls against the economy’s productive capacity, the monetary policy interest rate (MPR) is modified upwards or downwards to return inflation to the target. If the deviations are due to transitory factors (e.g., a climatic phenomenon that affects food prices for a few months or temporary supply shocks) and inflation expectations remain anchored to the target, the MPR is not modified. On the contrary, if deviations initially considered transitory are accentuated due to more persistent inflation or unwanted indexation processes, the MPR is modified to anchor expectations and contributes to inflation returning to target. This process of transmitting monetary policy is more efficient and less expensive if monetary policy is credible.

In the first half of 2025, the monetary policy interest rate was reduced, although by a smaller magnitude than in 2024, consistent with the slow convergence of inflation toward the target and with the recovery of economic activity toward sustainable levels. In the first half of 2025, changes in the macroeconomic context pointed to more restrictive external financing conditions for the country, an output level closer to its long-term sustainable value, and a slower convergence of inflation toward the 3.0% target. During this period, geopolitical conflicts and the US tariff policy generated high uncertainty about the global economy, and the Fed’s interest rate turned out higher than estimated by the market and the technical staff at the beginning of the year. This, together with the greater fiscal deterioration observed in Colombia at the end of 2024, which is expected to widen during 2025, tightened the country’s external financing conditions. In turn, the economic growth observed in the first quarter and the most recent estimates for the second quarter reflected stronger domestic demand dynamics and lower excess productive capacity compared to projections made in January by the Bank’s technical staff. This may have been partly due to the expansionary effects on domestic demand of the previously mentioned increase in the fiscal deficit. Regarding prices, inflation declined, but at a slower pace than in 2024 and than the projections made at the end of the previous year by the Bank’s technical staff and market analysts. Likewise, the path of

1 Between 1991 and 2001, the BDBR set specific annual inflation targets. In November 2001, the BDBR reported that the long-term inflation target was 3.0% and explained that maintaining this objective was equivalent to promoting price stability in the country. From 2002 onwards, it began to announce an acceptable range around the specific target for the following year, the latter being the midpoint of this range. In mid-2009, inflation was around 3.0%, and since 2010, the inflation target has been focused on the long-term target (3.0%). See <https://www.banrep.gov.co/es/noticias/junta-directiva/meta-inflacion-2025>

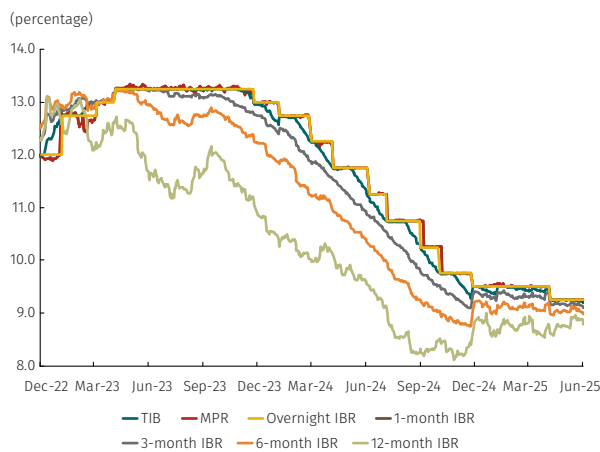
inflation expectations among economic agents suggests a slower convergence of inflation toward the 3.0% target. In this context, after having reduced the interest rate by 50 bps in most sessions during 2024, since December of that year, the BDBR decided to slow down the pace of policy interest rate cuts, with only two reductions of 25 bps in its December and April meetings, bringing it to 9.25% as of June 2025. This cautious monetary policy stance acknowledges the risks to the convergence of inflation toward the target.

The high external uncertainty, the significant fiscal challenges faced by the country, and the risks surrounding the convergence of inflation to the target make it necessary to maintain a cautious monetary policy. The reduction in inflation and its convergence process toward 3.0% have been achieved with a monetary policy that, while still restrictive, has allowed for the recovery of economic activity alongside a historically low unemployment rate. Looking ahead, changes and high uncertainty in the macroeconomic context suggest maintaining caution in monetary policy decisions. External financial conditions remain restrictive, in an environment of global geopolitical tensions and an expected slow normalization of monetary policy in the United States. In addition, observed inflation and its expectations remain above the target, with risks that, if materialized, could slow down its convergence toward 3.0%. These risks include the future performance of the exchange rate in a context of high global and fiscal uncertainty in the country; unanticipated but necessary increases in some regulated prices; and a price indexation in 2026 to inflation that, compared with previous forecasts, is estimated to be higher by the end of 2025, among others. In this context, the magnitude and pace at which monetary policy can be eased will depend on available information and its assessment in the coming months.

4. Financial and Credit Market Developments and Prospects

4.1 Financial Intermediation by Credit Institutions

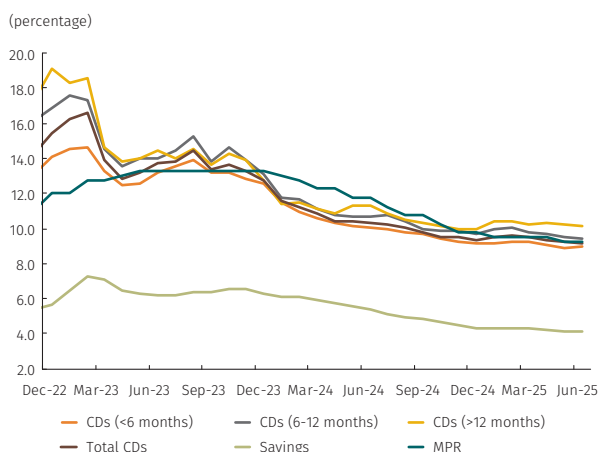
Graph 4.1
Monetary Policy Interest Rate (MPR), Interbank Rate (TIB), and (overnight, 1, 3, 6, and 12-month) IBR



Source: Banco de la República, calculations using information from Form 441 of the Financial Superintendency of Colombia and Banco de la República.

During the first half of 2025, money market interest rates reflected the changes in the monetary policy interest rate (MPR). The overnight Benchmark Banking Indicator – BBI (IBR by its acronym in Spanish) and the overnight Interbank Interest Rate (TIB by its acronym in Spanish) are indicators of the funding cost of financial institutions at that maturity. These rates remained aligned with the MPR, averaging 0.8 bps and 0.5 bps above it, respectively. Longer-term BBI rates (one, three, six, and twelve months) are indicators of expectations for the MPR at the corresponding maturity. Since the first half of 2023, these rates had anticipated the cycle of MPR cuts that effectively began at the end of that year, and until December 2024 they stood several percentage points below the MPR, indicating expectations of significant future reductions in *Banrep*'s policy rate. However, following the December 2024 meeting, when the MPR cut was lower than anticipated by the market, BBI rates at maturities other than overnight increased. Since then, their spread relative to the MPR has been smaller than that observed in 2023 and 2024, particularly since April. This suggests that, so far in 2025, expectations of future monetary policy rate cuts have been more moderate than in the previous two years¹ (Graph 4.1).

Graph 4.2
Interest Rates on CDs and Savings Deposits



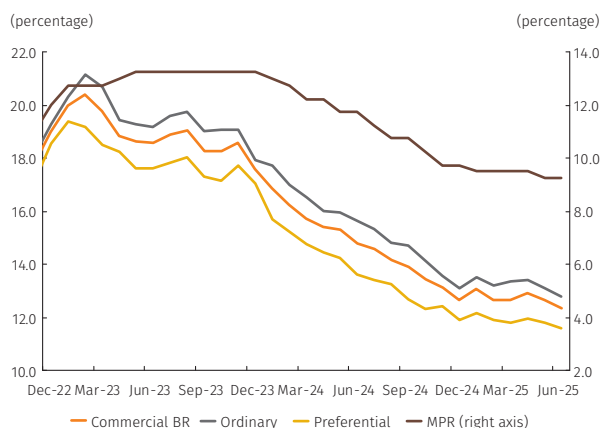
Note: The policy rate (MPR) corresponds to the rate established by the Board of Directors of Banco de la República (BDBR) at the monthly meeting; other rates correspond to the monthly average (weighted by amount). Source: Banco de la República, calculations using information from Form 441 of the Financial Superintendency of Colombia.

Deposit interest rates on certificates of deposit (CDs) remained relatively stable, while savings deposit interest rates continued to decline. During the first half of 2025, the aggregate CDs rate fell by 16 bps (compared to the December average). This decrease was less pronounced than that observed in 2023 and 2024 and resulted from reductions in short-term rates and increases in rates on deposits with maturities of more than one year². The interest rate on savings deposits (ordinary active), which is usually more stable than the CD rate, declined slightly more during this period (24 bps), explained by the

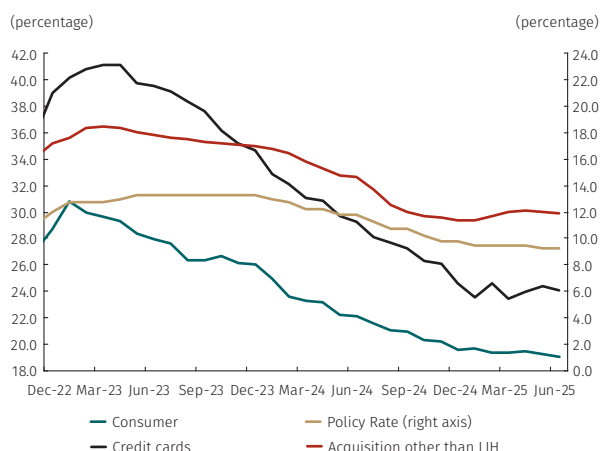
- 1 The spread between the one-month IBR and the MPR went from an average of 17.3 bps in 2024 to 4.9 bps between January and April, and to 0.6 bps between May and June; the three-month spread fell from 52 bps to 17 bps, and to 8.4 bps over the same periods; the six-month spread from 106.2 bps to 38.5 bps, and to 21.4 bps; and the twelve-month spread from 203.4 bps to 75.4 bps, and to 46.9 bps.
- 2 Compared to the December 2024 average, as of June 2025, CD rates with maturities of less than six months and those between six and twelve months had declined by 26 bps, while those with maturities of more than one year had increased by 20 bps. The share of CDs with maturities longer than one year rose from an average of 11.6% in 2024 to an average of 13.3% in the first half of 2025.

Graph 4.3
Interest Rates on Loans

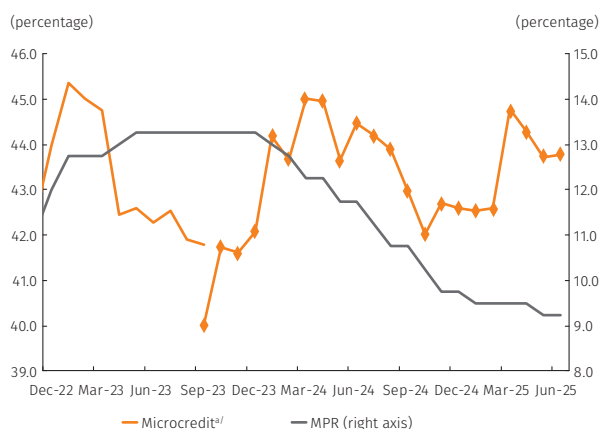
A. Commercial Loans



B. Consumer, Credit Card, and Housing



C. Microcredit



a/ By Decree 455 of March 2023, five sub-modalities of productive loans were created: popular productive loans for rural and urban areas (up to 6 legal monthly minimum wages in force – SMMLV), productive loans for rural and urban areas (between 6 and 25 SMMLV), and higher-value loans (over 25 SMMLV). For each of the sub-modalities, the Financial Superintendency of Colombia calculates and publishes a monthly usury rate based on information from the four weeks prior to certification. As a result, the level of the aggregate microcredit series does not match the aggregate rate for new productive loans.

Note: The policy rate corresponds to the rate established by the BDBR at the monthly meeting; other rates correspond to the monthly average (weighted by amount).

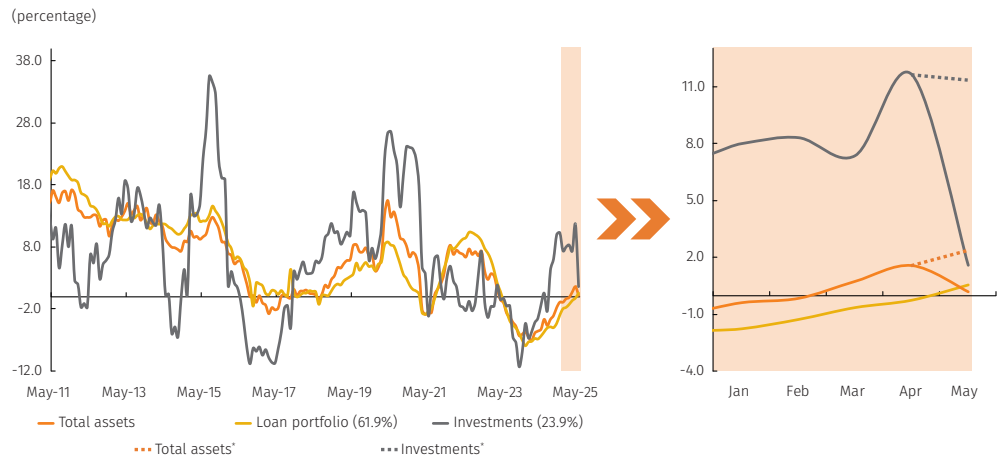
Source: Banco de la República, calculations using information from Form 414 of the Financial Superintendency of Colombia.

performance of account rates across all customer segments³ (Graph 4.2). In the case of savings deposit rates for individuals, part of the increase observed in the second half of the previous year was reversed, due to the stabilization in the share of institutions offering higher rates, while several of them have reduced the remuneration paid to their clients on this product⁴. This occurred in a context in which agents expect smaller reductions in inflation and a slower pace of MPR cuts, compared to the previous two years.

Interest rates on loans declined, although at a slower pace than in 2024, with the exception of interest rates on housing loans, which increased. Interest rates on commercial loans, consumer loans, and credit cards (to individuals) fell by 35 bps, 51 bps, and 48 bps, respectively, so far in 2025⁵. As observed for deposit interest rates on CDs and savings accounts these reductions were less pronounced than those recorded in the immediately preceding years. On the contrary, housing loan interest rates increased (12 bps for LIH housing and 54 bps for non-LIH housing), partly explained by delays in implementing changes to the *Mi Casa Ya* program, which began allocating subsidies in 2025, starting in late April. For microcredit, whose rates often perform differently from other types of loans, rates also increased, both including and excluding loans granted through rediscount⁶ operations (Graph 4.3).

- 3 So far in 2025 to June, the average monthly rate on active deposit accounts of legal entities fell by 29 bps, that of official entities by 53 bps, and that of individuals by 7 bps. The share of institutions offering rates above 5.0% has remained relatively stable at around 8.0% during the year.
- 4 In the second half of 2024, some institutions offered savings deposit interest rates for individuals that were significantly higher than those of traditional banks, gaining market share. The share of the balance of active savings deposits held by institutions offering rates above 5.0% increased from an average of 4.5% in the second half of 2024 to an average of 7.9% in the first half of 2025.
- 5 The interest rate on ordinary commercial loans declined by 34 bps, while that on preferential loans fell by 32 bps. The share of preferential loans increased (from 35.9% in December 2024 to 37.6% in June 2025). For consumer loans, the rate on loans covered by automatic payroll deductions rose by 14 bps, while the rate on other consumer loans decreased by 35 bps, with an increase in the share of disbursements for loans covered by automatic payroll deductions (from 35.5% in December 2024 to 37.7% in June 2025).
- 6 For microcredits (productive loans), including all disbursements (with and without rediscounts), the interest rate increased by 205 bps so far this year (compared to the December 2024 average), and by 119 bps excluding rediscount loans. Rediscount loans reduced their share of microcredit disbursements (productive loans) from 29% in December 2024 to 23% in June 2025.

Graph 4.4
Annual Nominal Growth in the Assets of Credit Institutions and Their Main Components



Note 1: The investments* and assets* series shown with a dotted line correspond to the growth of investments and total assets of credit institutions (CIs), excluding the effect of the spin-off of part of Bancolombia's controlled investments abroad, which were transferred to the newly formed Grupo Cibest.

Note 2: Real growth was calculated using the consumer price index excluding food.

Note 3: The percentages in parentheses represent the share of main accounts in total assets.

Source: Financial Superintendency of Colombia, calculations by Banco de la República.

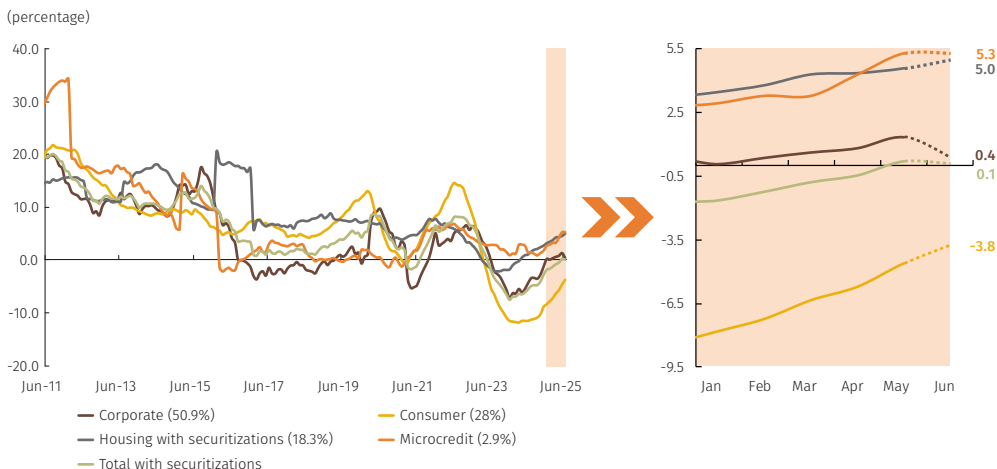
The total assets of credit institutions (CIs) recorded positive real growth in 2025, driven by an increase in investments and a gradual improvement in loan portfolio placements. As of May 2025, the total assets of CIs amounted to COP 1,059.7 trillion (t), following annual nominal growth of 5.3%. In real terms⁷, after nearly two years of consecutive annual contractions, positive growth has been observed since March 2025 (Graph 4.4). The recovery of CIs' total assets has been mainly supported by investments⁸ (particularly in local sovereign debt securities: TES), which have expanded in the context of slower loan portfolio growth. The robust growth in investments reflects a marked preference by CIs that may suggest a “crowding-out-effect” from credit loan portfolios toward public debt investment securities. However, the pace of loan portfolio contraction continued to ease throughout 2025, suggesting a gradual recovery. For the remainder of the year, total assets of CIs are expected to maintain their upward trend, and the loan portfolio is projected to return to positive real growth in the second half of 2025.

The total gross loan portfolio of credit institutions (CIs) continued to contract in real terms, though at a slower pace, supported by the recovery in growth of all types of loans. As of May 2025, the gross loan portfolio of CIs totaled COP 728.4 t, following an annual nominal growth of 5.3%. The contraction pace has continued to moderate so far in 2025, amid a domestic environment of easing inflation. The stronger growth in housing and microcredit modalities, together with the gradual recovery of the corporate loan portfolio since late 2024, has supported this trend (Graph 4.5). In contrast, the consumer loan portfolio continued to decline

7 The real growth rates presented in this section of the report were calculated using the consumer price index (CPI) less food.

8 On 19 May 2025, the transformation of Grupo Bancolombia's investments into Grupo Cibest was completed. This new parent company will consolidate the financial conglomerate's operations in Colombia and abroad. Following the spin-off, some foreign-controlled investments previously recorded on Bancolombia's balance sheet ceased to be recognized as of that date. Given the institution's significant share in the local banking system, this operation led to a significant decline in aggregate investment and asset figures. For historical comparison purposes, Graph 4.4 shows the counterfactual annual growth that would have been observed in the absence of this operation, thereby correcting for the impact of the balance sheet adjustment.

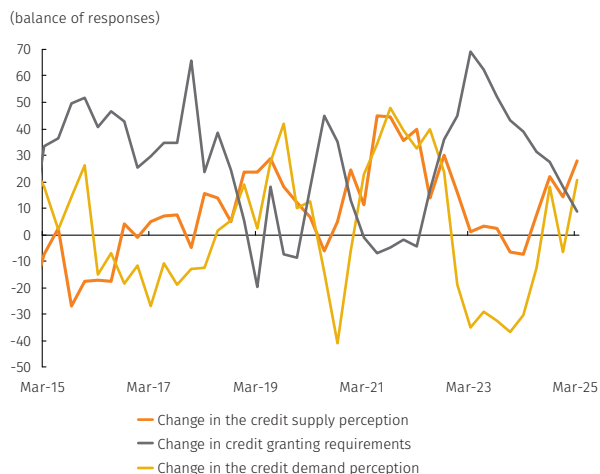
Graph 4.5
Real Annual Growth in the Gross Loan Portfolio of Credit Institutions



Note 1: The dotted lines are constructed using weekly data as of June 2025, as reported in Form 281 by the Financial Superintendency of Colombia, which provides weekly information on the main balance sheet accounts of credit institutions. Therefore, the data presented may vary slightly from that reported in the balance sheets of credit institutions.
 Note 2: The balance of the housing loan portfolio includes the National Savings Fund, which represents 10.5%.
 Note 3: Real growth was calculated using the consumer price index excluding food.
 Note 4: The percentages in parentheses indicate the share of loan types in the total loan portfolio.
 Source: Financial Superintendency of Colombia, calculations by Banco de la República.

Graph 4.6
Credit market perception

A. Credit Institutions



Note: The balance of responses is defined as the sum of the high perception minus the low perception (high – low).
 Source: Survey on the Credit Situation in Colombia, March 2025; calculations by Banco de la República.

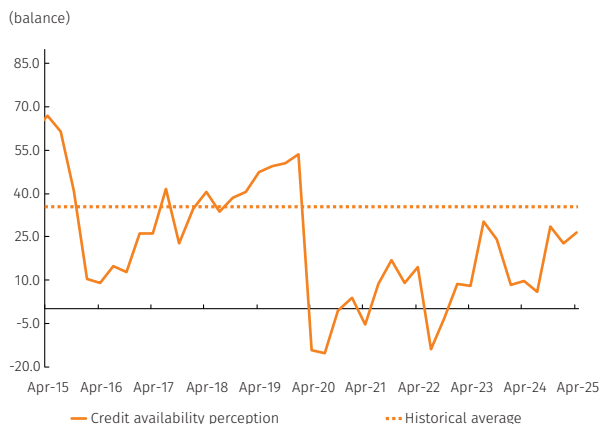
year-on-year in absolute terms, although its contraction pace is slower than that observed in 2024 and early 2025.

The recent performance of loan disbursements, along with credit market indicators, enables to anticipate growth in the gross loan portfolio from mid-2025. Disbursements (weekly average) across all types of loan portfolios have exhibited increases since mid-2024 and, on average, during 2025 to date, their levels have exceeded those of the previous year, particularly for housing loans, consumer loans, microcredit, and credit cards⁹. In this context, the most recent results of *Banco de la República’s Report on the Credit Situation in Colombia*¹⁰ show positive signs: by March 2025, financial institutions reported an improvement in the perception of both credit supply and demand, along with smaller increases in lending restrictions for new loans (Graph 4.6, Panel A). Additionally, the perception regarding credit availability for the productive sector remained in positive territory (Graph 4.6, Panel B). If these trends persist, the credit market is expected to continue its recovery process, and the loan portfolio is likely to register positive real growth rates in the coming months.

9 In particular, so far in 2025, disbursements for housing loans were 29.9% higher in real terms than their 2024 average, for consumer loans 21.6%, for microcredit 13.7%, and for credit cards (individuals) 7.2%. For commercial loans, the increase was more moderate, at 2.5%.

10 For further details of this report, see: <https://www.banrep.gov.co/es/publicaciones-investigaciones/reporte-situacion-credito-colombia>

B. Productive sector companies

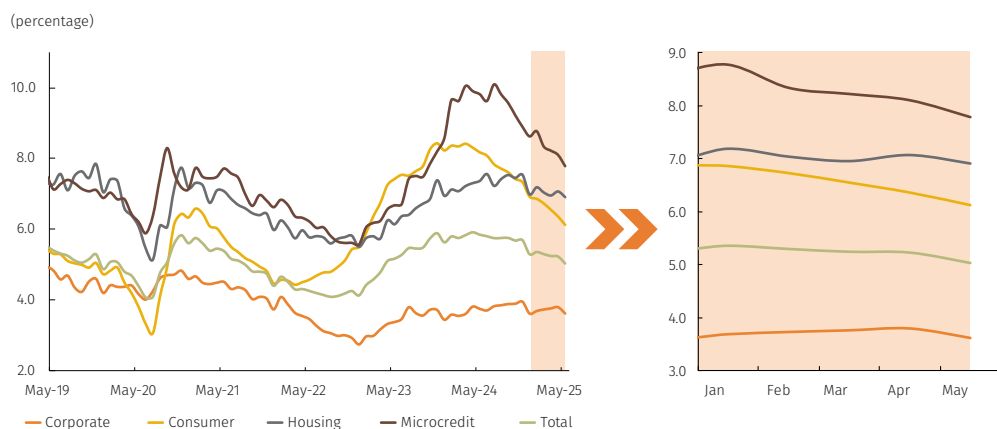


Note 1: Productive sector companies include those in the manufacturing and mining sectors, large warehouse chains, as well as transportation and communications.
 Note 2: The balance of responses is defined as the sum of the high perception minus the low perception.
 Source: Quarterly Survey of Economic Expectations, April 2025; calculations by Banco de la República.

The non-performing loan portfolio, measured through the Non-performing Loans ratio (NPL) of the overall loan portfolio, continued to decline so far in 2025; however, the indicator remains at high levels compared to the average of recent years. Between January and May 2025, the total NPL fell by 33 basis points (bps), suggesting that the deterioration of the overall loan portfolio continued with the gradual downward trend initiated in the third quarter of 2024 (Graph 4.7). By type of loan, NPL ratios for microcredit, housing, and consumer loan portfolios declined by 99 bps, 28 bps, and 74 bps, respectively. Despite this improvement, the consumer loan deterioration remains high relative to historical standards. The NPL of the corporate loan portfolio, unlike other types of loans, remained steady as its non-performing loan portfolio grew at a faster pace than its gross loan portfolio. Looking ahead, in an environment of lower interest rates, delinquency in both household (housing and consumer loans) and corporate (corporate and microcredit loans) loan portfolios could continue to decline. Nevertheless, risks remain tied to domestic economic performance in the context of heightened uncertainty¹¹, which could limit a sustained improvement in NPLs.

In terms of CIs funding, the growth pace of both demand deposits and CDs has increased. Balances of demand deposits¹² as well as term deposits (which include CDs and bonds issued by CIs) have posted a stronger growth so far in 2025 compared

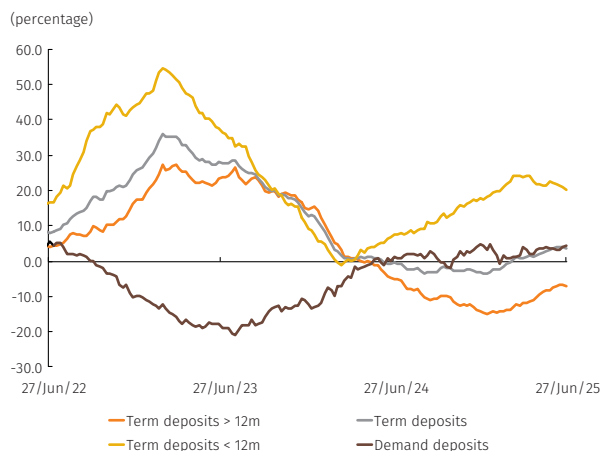
Graph 4.7
 Non-Performing Loans Indicator and Non-Performing Loans Indicator + Write-Offs from Credit Institutions



Note 1: The Non-Performing Loans Indicator is calculated as the ratio between the non-performing loan portfolio and the total gross loan portfolio (the non-performing loan portfolio includes the balance of loans that have not been paid for more than 30 days).
 Note 2: The Non-Performing Loans Indicator of housing portfolio differs from the one usually reported by the Financial Superintendency of Colombia (SFC in Spanish), as that entity considers as overdue only the installments past due for periods of one to four months. In this report, the total capital loan is also included. In addition, the National Savings Fund is included.
 Source: Financial Superintendency of Colombia; calculations by Banco de la República.

11 For additional information, see the *Financial Stability Report* for the first half of 2025.
 12 That is, those immediately available and usable for making payments, such as savings and checking accounts.

Graph 4.8
Annual Growth in Demand and Term Deposits

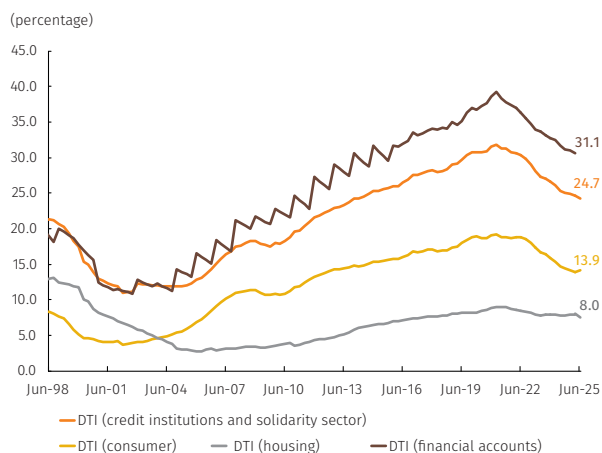


* It does not include CDs held by Banco de la República.
Source: Banco de la República, calculations using information from Form 281 of the Financial Superintendency of Colombia.

with the previous year, recording an average annual real variation of 2.6% and 0.9% in, respectively, compared to -1.5% and 0.3% observed on average during 2024 (Graph 4.8). Demand deposits have exhibited greater dynamism since mid-2024, as a result of the performance of savings, and after nearly two years of real declines. Regarding CDs and bonds issued by CIs, those with long-term maturities have posted annual contractions (albeit increasingly moderate), while those with maturities under one year show a strong annual growth (above 20% in real terms). The increase in demand for demand deposits and CDs (with some preference for short maturities) occurs in an environment of stronger economic activity, declining interest rates, and lower inflation.

The CDs market is expected to continue its upward trend in the coming months, in line with the need for greater stable funding in a context of expectations for stronger loan portfolio dynamism. Funding of CIs - that is, the resources allocated to support their active operations - is expected to expand in line with the favorable outlook for the loan portfolio. Given these increased funding needs, CIs must sustain rigorous management of their liability structure, prioritizing stable sources¹³ that comply with current regulations and the principles of the Net Stable Funding Ratio (NSFR). Consequently, the CDs market is expected to continue in an upward trend for the coming months, considering that these instruments represent a generally stable funding source given their contractual maturity features.

Graph 4.9
Household Debt to Disposable Income (DTI)

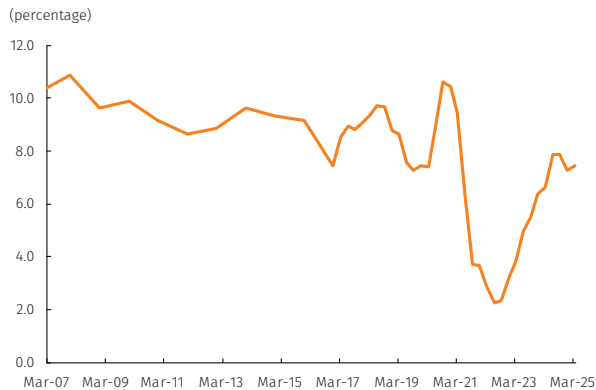


Note: The graph presents the Debt-to-Income (DTI) ratio. It uses the gross adjusted disposable income of households from the national accounts by institutional sector. The graph shows four measures of debt:
- Red line: Household debt with credit institutions supervised by the Financial Superintendency of Colombia, savings and loan cooperatives, employee funds, and *Titularizadora Colombiana*.
- Orange line: Household debt from the balances of the financial accounts published by Banco de la República. In addition to the red line, it includes microcredits and commercial loans from individuals, as well as obligations with other financial institutions.
- Yellow line: Consumer loans with credit institutions.
- Grey line: Housing loans with credit institutions.
Source: Financial Superintendency of Colombia and DANE. Calculations by Banco de la República.

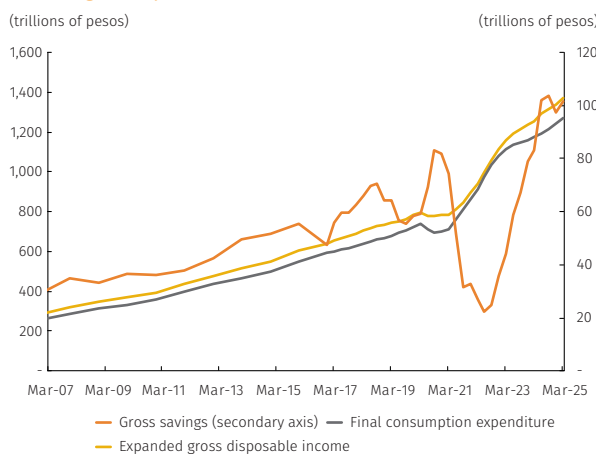
As of March 2025, the household debt-to-income ratio continued to decline, and this dynamic is expected to persist during the first half of the year. Household debt as a percentage of their disposable income¹⁴ (DTI) has remained on a downward trend for over two years, after having recorded historically high levels (Graph 4.9). This performance aligns with the dynamics of the loan portfolio allocated for households (consumer and housing loans), which continued to contract in real terms (-2.0%, reaching COP 358.4 t¹⁵ as of April 2025). The DTI is expected to continue falling during the first half of 2025, albeit to a lesser extent, due to the recovery of the loan portfolio (Graph 4.9, dotted lines).

- 13 According to the NSFR regulation, the stability of a funding source depends on the contractual maturity of the liability and the withdrawal propensity of financing providers. In this regard, a liability with a longer (shorter) maturity and a lower (higher) withdrawal propensity is considered more (less) stable.
- 14 For this measure, the adjusted gross disposable income is used as denominator, which refers to gross primary income including current social transfers and deducting taxes, social contributions, and other current transfers. For these purposes, gross primary income corresponds to household compensation per wages, net property income, gross capital surpluses, and mixed income. The annual value corresponds to the sum of the four quarters.
- 15 In addition to the housing and consumer loans granted by the CIs, this also includes the household obligations with savings and loan cooperatives, the National Savings Fund, and employee funds.

Graph 4.10
Household Savings
A. Savings as a Percentage of Disposable Income

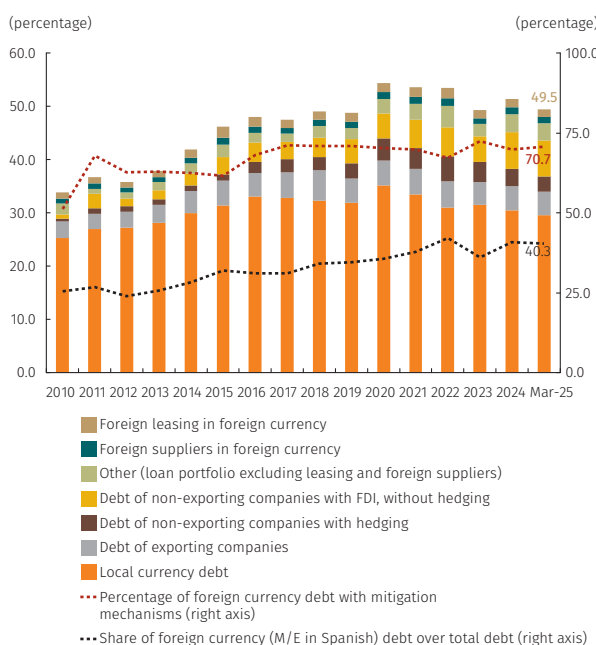


B. Savings Components



Source: DANE and Banco de la República; calculations by Banco de la República.

Graph 4.11
Annual Real Growth of Demand and Term Deposits



Note: Foreign currency debt from suppliers and leasing with foreign entities is not available by Tax Identification Number (TIN) and, therefore, it cannot be determined whether this debt is hedged.
Source: Financial Superintendency of Colombia, DANE, and Banco de la República; calculations by Banco de la República.

During the first quarter of 2025, households' gross savings as a percentage of disposable income recovered marginally compared with the reductions observed at the end of 2024.

Although these savings¹⁶ remained below its pre-pandemic average, they have recovered from the historical lows recorded in June 2022 (Graph 4.10, Panel A). This performance takes place within the context of household income recovery, which has grown faster than spending over the past two years. As of March 2025, income exhibited a higher annual growth rate compared with 2024 (Graph 4.10, Panel B). In this regard, factors that negatively affect income could weigh negatively on the recovery of savings and, in turn, on the financial health of households, as they would have a smaller liquidity reserve to meet their obligations. Among these factors, the importance of remittances stands out, which, as of March 2025, represented 3.7% of households' gross disposable income and has gained significance over the past five years. Likewise, the financial health of households will be influenced by the strength of the labor market and its continuous positive performance.

Corporate sector debt as a share of GDP declined during the first quarter of 2025, in a context of Colombian peso appreciation and economic recovery.

As of March 2025, private corporate sector debt represented 49.5% of annual GDP, below the 51.5% recorded at the end of 2024, and slightly above the level observed at the close of 2023 (Graph 4.11). This fall is mainly explained by the reduction in debt contracted with foreign financial institutions and with parent companies, within the context of local currency appreciation. Foreign currency-denominated debt accounts for 40.3% of the total private corporate sector debt, and the majority (70.7%) is covered by some exchange rate risk mitigation mechanism (exporting firms, firms with financial hedging operations, or firms with FDI).

CIIs could face a deterioration in loan portfolio quality due to the exposure of exporting firms to the effects of tariff policies imposed by the United States and high uncertainty surrounding external demand. However, overall, CIIs would remain resilient given that they have enough capital to withstand such a shock.

Under the framework of the International Emergency Economic Powers Act (IEEPA), the US government announced the imposition of tariffs on exports from a broad group of jurisdictions, including Colombia, which was assigned a 10% tariff, like most countries in Latin America. To explore the potential adverse effects of this measure on the Colombian economy, as well as, more broadly, the context of uncertainty surrounding external demand, Box 1 of the *Financial Stability Report* for the first half of 2025 presents a static simulation exercise that, with restrictive assumptions, aimed at quantifying the potential impact on the financial health of CIIs in the event of credit

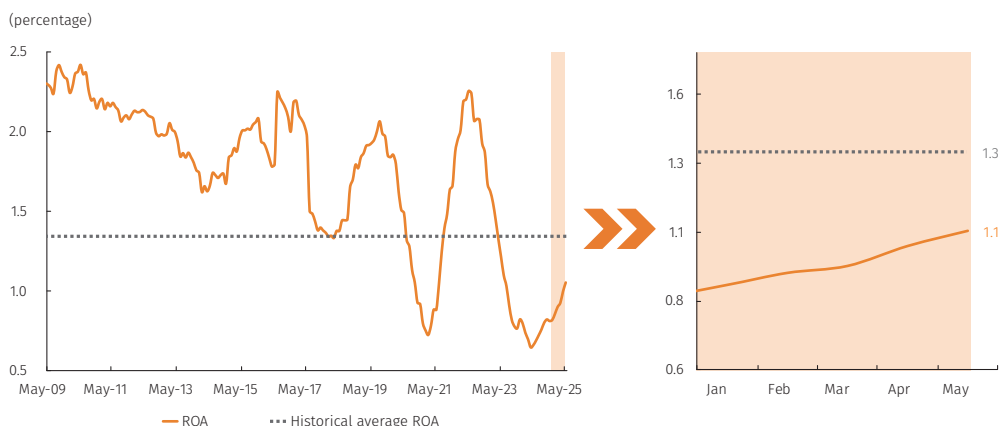
16 This expanded adjusted gross disposable income indicator, reported in the quarterly national accounts broken down by institutional sector, includes an adjustment for the variation in the net share of households in pension funds.

defaults by exporting firms due to reduced revenues. According to the results, a group of exporting firms representing 1.9% of the commercial loan portfolio could face difficulties in meeting their financial obligations with local CIs, with manufacturing, trade, and agricultural sectors being the most affected. However, according to the sensitivity exercise presented in the *Financial Stability Report* for the first half of 2025 and considering effects of the credit risk from the identified exporting firms over solvency, CIs would, in aggregate, have the patrimonial capacity to withstand a scenario of high uncertainty stemming from trade tensions.

So far in 2025, the returns of CIs continued to recover, consolidating the trend that began in 2024. As of May 2025, the return on assets (ROA) of CIs stood at 1.1%, after increasing by 24 bps since December 2024 (Graph 4.12, Panel A). This slight rebound was driven by lower loan-loss provisions and higher income from investment valuation (Graph 4.12, Panel B). The performance of provisions is mainly related to the gradual recovery of the loan portfolio quality. However, ROA remains 29 bps below its historical average, primarily because loan portfolio growth is still weak and some deterioration persists, negatively weighing on interest income. As credit risk indicators maintain their trend of improvement and loan portfolio growth improves, it is expected that the returns of CIs will continue to recover in 2025, due to higher interest income.

Graph 4.12
Aggregate Return on Assets (ROA) of CIs

A. Historical Evolution



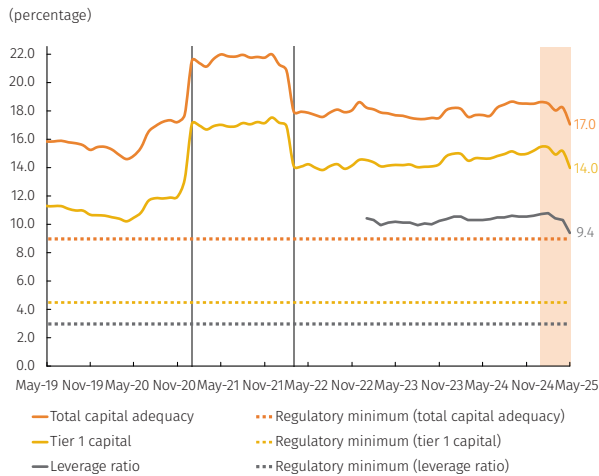
Source: Financial Superintendency of Colombia, calculations by Banco de la República.

B. Decomposition of ROA Variation



Note 1: Gray (yellow) shades indicate a negative (positive) contribution to ROA.
 Note 2: The "Other" category includes net income from money market operations and equity investments.
 Source: Financial Superintendency of Colombia, calculations by Banco de la República.

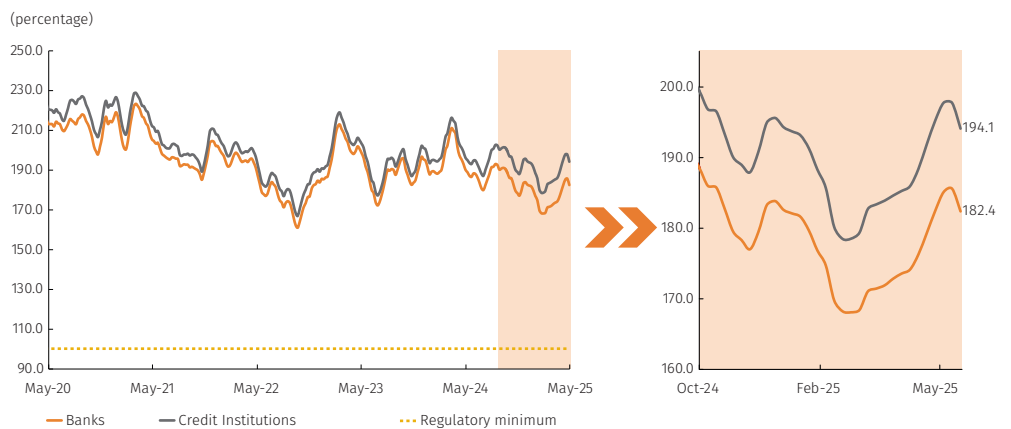
Graph 4.13
Aggregate Capital Adequacy Ratios



Note 1: Total capital adequacy is defined as the ratio of total regulatory capital to the value of assets weighted by credit, market, and operational risk. Tier 1 capital is defined as the ratio of Common Equity Tier 1 net of deductions to the value of assets weighted by level of credit, market, and operational risk.
 Note 2: From 2024 onwards, limits including the conservation buffer are 10.5%, 7.5%, and 6.0% for total capital adequacy, Additional Tier 1, and tier 1 capital, respectively. Systemically important financial institutions require an additional 75 bps. In practice, non-compliance with capital buffers does not constitute a situation of insolvency.
 Note 3: Since January 2021, CIs must comply with the regulatory requirement of the leverage ratio, which is defined as the sum of the value of Common Equity Tier 1 net of deductions and Additional Tier 1, divided by the leverage value.
 Source: Financial Superintendency of Colombia, calculations by Banco de la República.

CIs maintain adequate capital and liquidity levels, above regulatory minimums, even when assessed under a stressed scenario. Capital adequacy ratios of CIs were well above the regulatory minimums (Graph 4.13). However, between December 2024 and May 2025, the total capital adequacy ratio and equity tier 1 ratio decreased by 1.5 pp and 1.2 pp, respectively, due to slower capital growth allocated to cover potential losses¹⁷. In terms of liquidity, CIs maintained a strong position so far in 2025, as reflected in the ample levels of the short-term liquidity coverage ratio (LCR; Graph 4.14) and the structural liquidity (Net Stable Funding Ratio – NSFR; Graph 4.15). Given the expected loan portfolio growth and the entry into force of the regulatory changes to the NSFR in September 2025¹⁸, CIs will need to continue managing their funding toward more stable sources. As assessed semiannually in *Banco de la República’s Financial Stability Report*, CIs would have sufficient equity capacity to absorb potential losses in hypothetical stress scenarios characterized by adverse macroeconomic environments and low probability of occurrence.

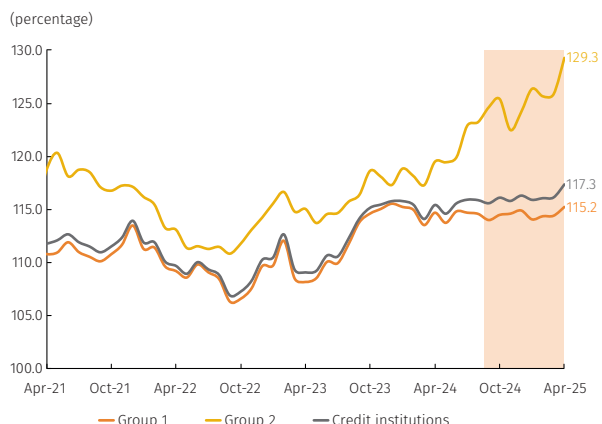
Graph 4.14
Thirty-Day Simple Average Liquidity Risk Indicator of Credit Institutions



Note: The average Liquidity Risk Indicator (LRI) is calculated as the ratio of the average of the last four weeks of the month of liquid assets adjusted for market liquidity and exchange rate risk (LAM) to the average of the last four weeks of the month of the net liquidity requirements (NLR).
 Source: Financial Superintendency of Colombia; calculations by Banco de la República.

- 17 In May 2025, a significant decline was recorded in the available capital of CIs to absorb losses due to the transformation of *Bancolombia* into *Grupo Cibest*. This operation involved the transfer of part of *Bancolombia’s* equity from reserve accounts and surplus or deficit to the *Cibest* Group.
- 18 The SFC established that, starting September 2025, CIs and special official institutions (SOIs) subject to regulation must differentiate the demand deposits of wholesale customers of the real sector, open-end collective investment funds (OECIFs), and financial institutions supervised by the SFC, between operational and non-operational deposits, in accordance with an internal classification methodology.

Graph 4.15
Net Stable Funding Ratio (NSFR)
of Credit Institutions

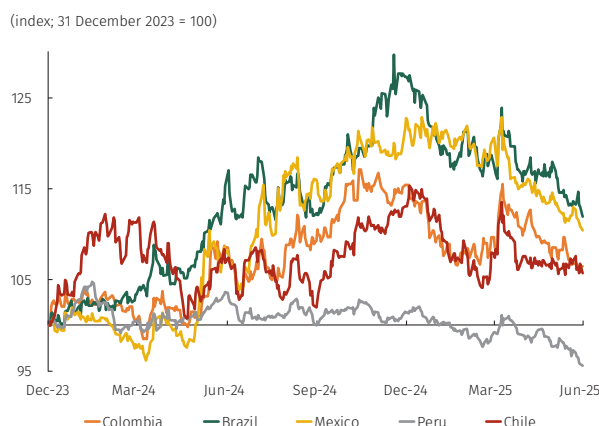


Note 1: The indicator series is presented only for Groups 1 and 2 because institutions in Group 3 are not required to comply with an NSFR regulatory limit. The minimum required for Group 1 since March 2022 is 100% (red dotted line), and for Group 2, it is 80%.

Note 2: Institutions in Group 1 are made up of banks whose assets represent at least 2.0% of the total assets of banks as of 31 December of the immediately preceding year. Group 2 includes CIs that are not part of Group 1 and for which the loan portfolio and leasing operations correspond to a significant asset. Group 3 includes CIs that are not part of the previous groups and whose significant assets are investments and derivative transactions.

Source: Financial Superintendency of Colombia; calculations by Banco de la República.

Graph 4.16
Nominal Exchange Rate for Some Economies in the Region



Source: Bloomberg, Data License.

4.2 Local Financial Markets

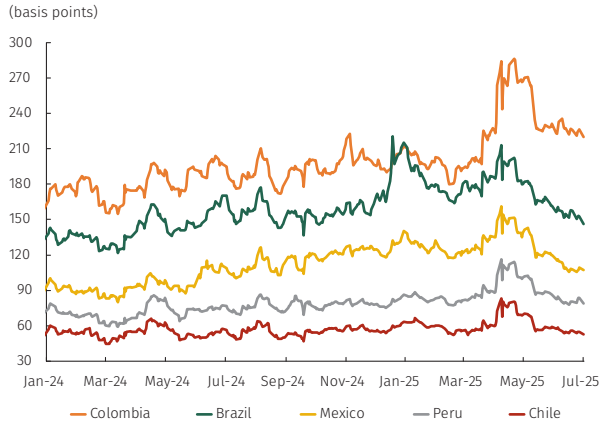
4.2.1. Foreign Exchange Market

To keep inflation low and stable while achieving the maximum sustainable level of output and employment, Banco de la República follows an inflation-targeting framework¹⁹ with a flexible exchange rate regime. Exchange rate flexibility is considered a fundamental element in achieving these objectives because: 1) in the face of external shocks, much of the adjustment is made by the exchange rate²⁰; 2) authorities in a small, open economy with a flexible exchange rate have greater autonomy in their monetary policy, facilitating the achievement of their own inflation targets and enabling countercyclical responses to economic cycles²¹; 3) it reduces incentives for excessive exchange rate risk²²; and 4) the inherent volatility in floating rates stimulates the development of the hedging market, which is important for maintaining financial stability and promoting market development²³.

In the first half of 2025, the Colombian peso (COP) appreciated, in line with the global weakening of the US dollar, but to a lesser extent compared to the strengthening of some of its regional market peers (Mexican peso and Brazilian real)²⁴ (Graph 4.16). The COP appreciated by 7.7% (as of 27 June), a performance also influenced by idiosyncratic factors, such as attractive interest rate differentials that favor certain investment strategies²⁵, and higher foreign currency supply from some agents, particularly at the beginning of the year. However, certain factors may have limited the strengthening of the COP, highlighting increased local fiscal concerns and the recent downgrades in the country's sovereign rating by Moody's and

- 19 In this framework, monetary policy actions are aimed at ensuring that future inflation aligns with the target set at the policy horizon.
- 20 The interest rate is more stable in a flexible exchange rate regime than in a fixed exchange rate regime.
- 21 Conversely, when there is a fixed exchange rate against the currency of a developed country, monetary policy is subject to the decisions of the external monetary authority. Thus, if business cycles are not synchronized, the monetary actions of the developed country could have adverse effects on the output and employment of the emerging country.
- 22 Currency mismatches arise when an agent's income is in local currency, but part of their liabilities is in another currency without any hedging. Under a flexible regime, currency volatility encourages agents to limit their exposure to exchange rate risk. While Colombia has strong regulations on currency mismatches for financial intermediaries, exchange rate volatility creates incentives for real sector agents to take steps to mitigate their exposure to such risk.
- 23 These instruments allow agents to hedge the exchange rate at competitive prices.
- 24 Between 30 December 2024 and 27 June 2025, the Brazilian real, Mexican peso, Colombian peso, Peruvian sol, and Chilean peso strengthened by 11.2%, 8.8%, 7.7%, 5.6%, and 5.6%, respectively.
- 25 Currency carry trade is a strategy in which debt is taken on in a low-interest-rate currency to invest in another with higher returns.

Graph 4.17
Risk Premium (Five-Year CDS) for Some Economies in the Region

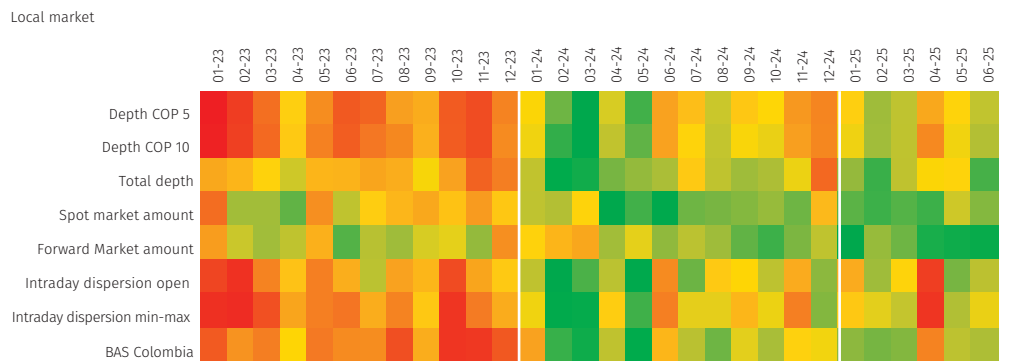


Source: Bloomberg, Data License.

S&P Ratings²⁶. In this context, the country risk indicator, measured through the five-year Credit Default Swap (CDS), rose slightly in the first half of the year compared to the end of 2024, while it fell in other countries analyzed within the region (Graph 4.17). It is worth noting that, in early July, regional currencies appreciated significantly in response to a sharp weakening of the US dollar, driven by uncertainty surrounding the approval of the US fiscal package. During this episode, the COP has recorded a more pronounced appreciation than some of its peers, possibly supported by expectations of greater medium-term foreign currency flows into the local market, arising from government financing operations, specific foreign currency sales by some agents, and the rebound in oil prices during several sessions in the first days of the month.

In this context, there has been a deterioration in liquidity conditions²⁷ in the foreign exchange market as well as an increase in the average conditional volatility of the currency. Particularly, the bid-ask spread (BAS), and dispersion measures increased, while market depth declined compared to the average of the first half of 2024. In contrast, trading volumes in the spot market and in the peso-dollar forward market increased. The higher trading volumes in the forward market may be linked to an environment of high volatility, which has encouraged greater demand for foreign exchange hedging, especially by foreign agents (Graph 4.18).

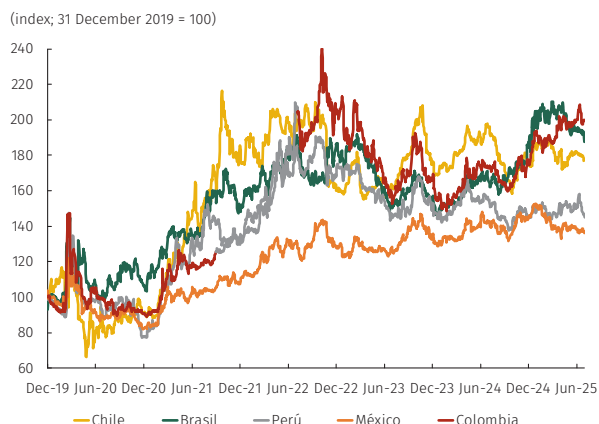
Graph 4.18
Monthly Foreign Exchange Market Measures Heatmap



Note: Each box corresponds to the percentile of the monthly average liquidity measure, taking into account the time window from January 2019 to January 2025. A red (green) cell indicates a lower (higher) level of liquidity.
Source: Bloomberg, Banco de la República.

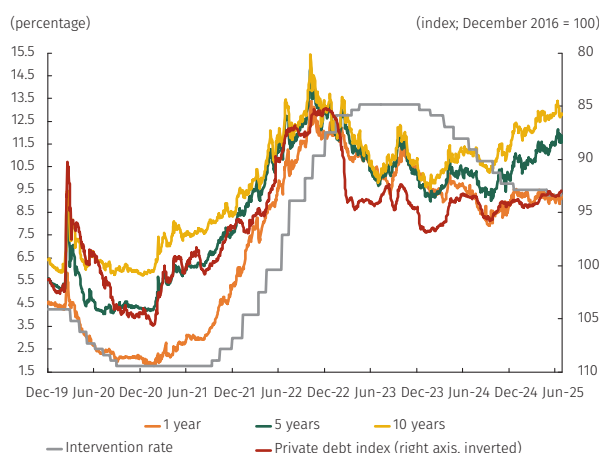
- 26 On 26 June, Moody's and S&P downgraded Colombia's rating, citing concerns over fiscal deterioration, rising public debt, and higher financing costs. Moody's lowered the rating from Baa2 to Baa3 (stable perspective), while S&P dropped from BB+ to BB (negative perspective).
- 27 Foreign exchange market liquidity is assessed using the bid-ask spread (BAS) and depth measures. The BAS reflects the average difference between the best purchase and sale quotes as a proportion of the daily average Set-FX rate; a higher BAS indicates lower liquidity. Depth corresponds to the average aggregate amount of the best purchase and sale quotes for the peso/dollar pair (in five-minute intervals) within ranges of ±\$5, ±\$10, and for the total market. In the first half of 2024, the average BAS was 0.045%, compared to 0.048% in the first half of 2025. Average depth at ±\$5, ±\$10, and total declined from USD 10.2 million (m), USD 19.5 m, and USD 52.5 m in the first half of last year to USD 8.5 m, USD 16.3 m, and USD 49.7 m in the first half of 2025, respectively.

Graph 4.19
Interest Rate Index in Some Economies in the Region



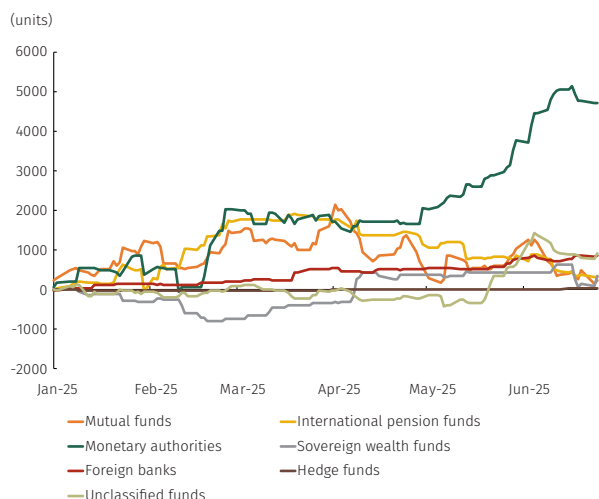
Source: Bloomberg, Electronic Trading System (SEN in Spanish), and Master Trader; calculations by Banco de la República.

Graph 4.20
Zero-Coupon TES Rates in Pesos by Term, Private Debt Index, and Monetary Policy Rate



Source: SEN and Master Trader; calculations by Banco de la República.

Graph 4.21
Cumulative Net Purchases by Type of Foreign Investor in the TES Spot Market (Billions)



Source: Central Securities Depository. Calculations: Banco de la República.

4.2.2 Debt and Stock Markets

During 2025, local sovereign debt securities (TES) have depreciated, in contrast to the debt observed for its regional peers. This may be associated with high uncertainty on the domestic fiscal front, which led to downgrades of Colombia’s sovereign rating and, consequently, that of TES, losing its investment status²⁸ at the end of June. While short-term securities of other regional countries appreciated by more than 100 bps during the first half of 2025 (and by more than 60 bps for long-term securities, Graph 4.19), TES depreciated by more than 100 bps across the entire curve. Most analysts attribute this adverse performance mainly to increased fiscal uncertainty, which ultimately materialized in rating downgrades issued by Moody’s and S&P (Graph 4.20).

In this context, foreign investors²⁹ partially reversed the selling position they had taken during 2023 and 2024. This performance could be linked to the high returns offered by TES and is consistent with the purchase flows into assets of emerging economies. However, these agents carried out significant sales in June and the first days of July, after TES lost its investment status. During the first half of 2025, foreign investors recorded net purchases of peso-denominated TES and UVR-denominated TES for COP 4.8 trillion (t), mainly concentrated in references within the long end of the curve (COP 5.0 t). As a result, by the end of the first half of the year, these agents ranked as the third-largest TES holders, after banks and Pension and Severance Funds (FPCs in Spanish). By type of foreign investor, a reallocation of their flows was observed, with a prominent role played by monetary authorities, who led the net purchases of TES (COP 4.4 t, Graph 4.21). Nevertheless, it is important to note that although these agents made net purchases of TES over the semester, in June and early July (until 7 July), foreign investors recorded net sales of COP 5.8 trillion, which coincided with the deterioration in the country’s credit rating (Graph 4.22).

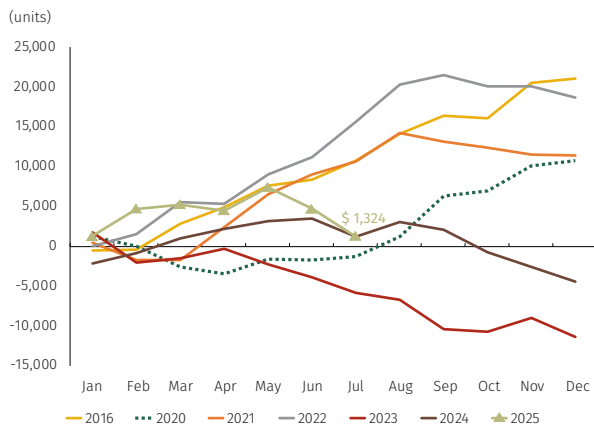
In turn, commercial banks have been the main TES buyers in 2025, while local pension funds (FPCs) moderated their purchases compared to the trend observed since 2023. During 2025, commercial banks made net purchases of peso-denominated TES and UVR-denominated TES for COP 14.4 t, mainly concentrated in references within the middle end of the curve (COP 16.8 t, Graph 4.23)³⁰. On the other hand, FPCs have recorded net purchases of COP 10.8 t over the same

28 Securities in foreign currency had already lost investment status in 2021.

29 For a detailed analysis of the performance of these agents in the public debt market, see Box 3 of the *Financial Stability Report* for the third quarter of 2023.

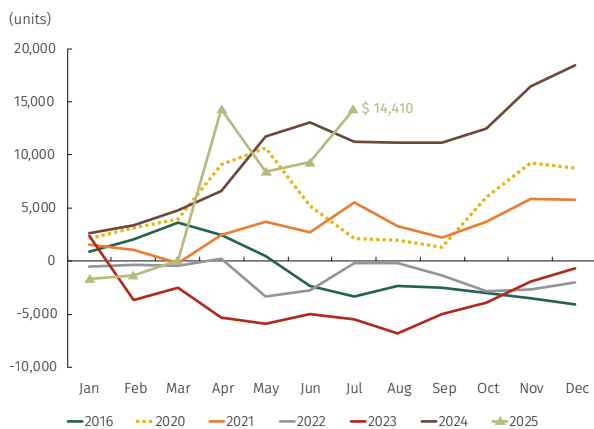
30 In the long and short maturities, they have recorded net flows of COP 8.5 t and -COP 16.9 t, respectively.

Graph 4.22
Cumulative Net Purchases per Year by Foreign Investors in the TES Spot Market (billions)



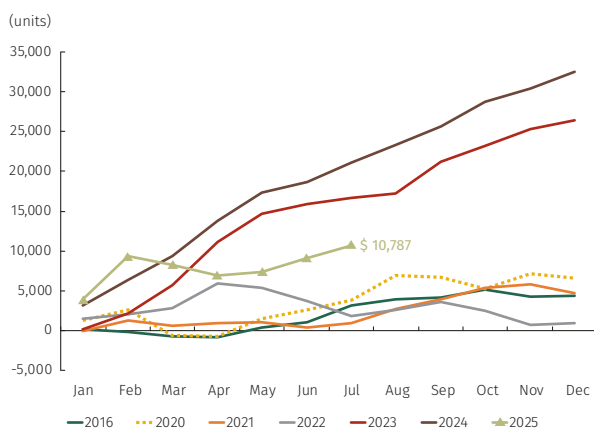
Source: Central Securities Depository. Calculations: Banco de la República.

Graph 4.23
Cumulative Net Purchases per Year by Commercial Banks in the TES Spot Market (billions)



Source: Central Securities Depository. Calculations: Banco de la República.

Graph 4.24
Cumulative Net Purchases per Year by Pension and Severance Funds in the TES Spot Market (billions)



Source: Central Securities Depository. Calculations: Banco de la República.

period, concentrated on the long end of the curve (COP 19.3 t, Graph 4.24)³¹.

With the publication of the 2025 Medium-Term Fiscal Framework, the General Directorate of Public Credit and the National Treasury (DGCPTN in Spanish) presented a set of strategies aimed at optimizing the public debt maturity profile and meeting the government’s vault cash needs during 2025. These measures include: 1) debt interbank exchange operations with entities of the market makers program; 2) a greater issuance of securities with short- and medium-term maturities (while reducing longer term loan placements); and 3) carrying out Total Return Swap (TRS) operations³² with foreign banks, with the aim of building a liquidity reserve. Particularly, interlibrary exchange operations seek to reduce the number of upcoming maturities by repurchasing securities nearing maturity, replacing them with references within the medium and the long end of the curve. Likewise, the issuance of short-term treasury bonds (TCO in Spanish)³³ has also increased significantly. Regarding TES placements, these are concentrated in references maturing in 2029, in an effort to ensure more favorable financing conditions in terms of interest rates. In addition, DGCPTN plans to execute TRS operations with foreign banks within one year, delivering local public debt securities as collateral and receiving resources in foreign currency, in order to establish a liquidity reserve that strengthens the government’s vault cash availability.

While these measures provide greater flexibility to meet immediate financing needs, they also entail significant refinancing and liquidity risks as they increase exposure to short-term maturities and fluctuations in the exchange and interest rates in international markets. On the one hand, TRS operations with foreign entities provide foreign currency resources that must be converted into COP in the local market to cover the government’s domestic needs. However, upon maturity of these operations, the resources must be returned in foreign currency, which constitutes a risk stemming from potential exchange rate depreciations. Added to this is interest rate risk, as the cost of these operations could rise in the event of a tightening of international financial conditions. Moreover, the higher concentration of local currency debt issuances in securities with short- and medium-term maturities increases the volume of obligations to be met in the near term, which

31 In the long and short maturities, they have recorded net flows of -COP 3,1 t y -COP 5,8 t, respectively.

32 A total return swap (TRS) is a transaction through which an entity obtains short-term liquidity by delivering securities as collateral, with the commitment to return the resources at a future date and receive the collateral back. In practice, it operates as a secured loan, where the security serves as backing to reduce the risk of the transaction. In this case, the DGCPTN would deliver public debt securities as collateral.

33 The outstanding balance of these securities increased from COP 17 trillion in December 2024 to COP 30 trillion in June 2025.

Graph 4.25
Buying Position of Foreign Investors in Non-Delivery
Forwards (NDFs) in TES
(billions)



Source: Banco de la República.

could generate greater liquidity pressures for the Government and limit its ability to respond to potential financial or fiscal shocks.

In the TES future market³⁴, foreign investors continued to expand their buying position during the first half of 2025, maintaining the trend started in 2023. However, starting in June, they adopted a remarkable selling position, in line with the depreciation of TES and high local fiscal uncertainty. According to market agents, participants in this segment are mostly investors with short-term strategies, in contrast to the profiles observed in the spot market³⁵. So far this year, foreign investors have increased their buying position in the non-delivery forward (NDF) of TES by COP 2.9 t, primarily in references within the middle end of the curve (COP 2.5 t). However, this trend reversed in June, when they executed net sales of COP 3.7 t, likely reflecting a downward revision in TES appreciation expectations, given rising fiscal concerns (Graph 4.25).

In 2025, financing through the placement of corporate debt securities decreased compared to the same period in 2024. So far this year, loan placements through the Colombian Stock Exchange amounted to COP 474 b, a level below that observed in the same period of 2024 (COP 1.4 t). This decrease was largely driven by a 97.0% reduction in loan placements in the non-financial corporate sector.

So far this year, the MSCI Colcap index³⁶ has posted a valuation similar to those of regional indices³⁷ and recorded a higher trading volume compared to 2024. However, although liquidity has recovered, it still remains below the average observed prior to the pandemic and compared to other peer countries in the region. During 2025, most of the stocks comprising the index have appreciated, especially those in the financial and commodities sectors. This performance has been driven by favorable corporate results and rising prices of certain commodities, such as gold. In addition, the strengthening of initiatives aimed at improving market liquidity, such as liquidity

34 The instruments traded are NDFs of TES, which commit the parties to buy or sell TES at a future date at a price agreed upon through negotiation. These are usually executed between a local counterparty and a foreign counterparty.

35 As of June 2025, foreign share in TES was distributed as follows: mutual funds (40%), international pension funds (23%), monetary authorities (17%), sovereign wealth funds (7.0%), foreign banks (3.0%), international insurers (2.0%), and others (8.0%).

36 The MSCI Colcap Index, the main benchmark of the Colombian stock market, is calculated by the MSCI and includes the twenty-three most liquid stocks from twenty issuers, weighted by exchange-trade capitalization without share limits.

37 In the first half of 2025, the MSCI Colcap appreciated by 20.9%, outperforming the average performance (16.8%) of the main stock indexes in Mexico, Peru, Brazil, and Chile.

training programs³⁸, may have contributed to a more dynamic market and higher daily trading volumes during the year³⁹.

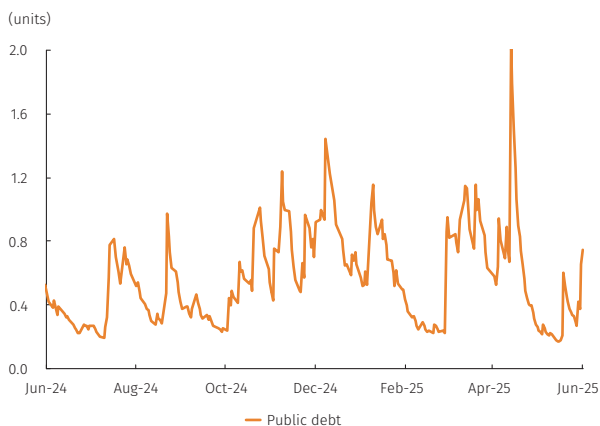
2025 is expected to be a challenging year for Colombian financial assets due to risks associated with an external environment characterized by potentially tighter financial conditions and greater geopolitical tensions, as well as high local fiscal uncertainty.

4.3 Market Risk Exposure of the Financial System and Evolution of Non-Bank Financial Institutions' Loan Portfolios

TES depreciation has negatively weighed on the profits of financial institutions in the context of domestic and international volatility and uncertainty, which has increased their market risk. During March and April 2025, public debt market volatility increased due to geopolitical tensions stemming from US protectionist measures, compounded by uncertainty over local public finances (Graph 4.26). In a one-week loss valuation exercise, where a decline in both public and private debt is assumed, as well as a drop in the stock market⁴⁰ (see chapter 2.3 of the *Financial Stability Report* for the first half of 2025), intermediaries could face losses of COP 15.1 t, of which COP 5.3 t would stem from public debt market depreciations. These potential losses, in turn, would represent 2.8% of financial system entities' equity, a relatively modest impact that highlights the sector's resilience against adverse scenarios.

The weakening of public finances currently constitutes the main driver of potential market risk events for financial intermediaries. Fiscal risks associated with higher debt levels and fiscal deficits have adversely affected the sovereign rating⁴¹, which may increase the perception of country risk and lead to a further decline in the value of debt securities. As of 20 June 2025, 93.8% (COP 528.4 t) of public debt securities held by financial intermediaries are valued at market prices. Therefore, greater devaluations, driven by an unfavorable performance

Graph 4.26
Volatility in the Public Debt Market

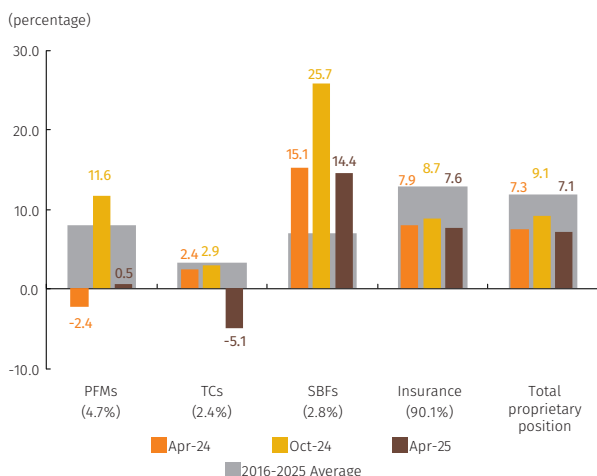


Note: Volatility is calculated using a GARCH (1,1) model on interest rates of TES securities. Information as of 20 June 2025.
Source: Central Securities Depository; calculations by Banco de la República.

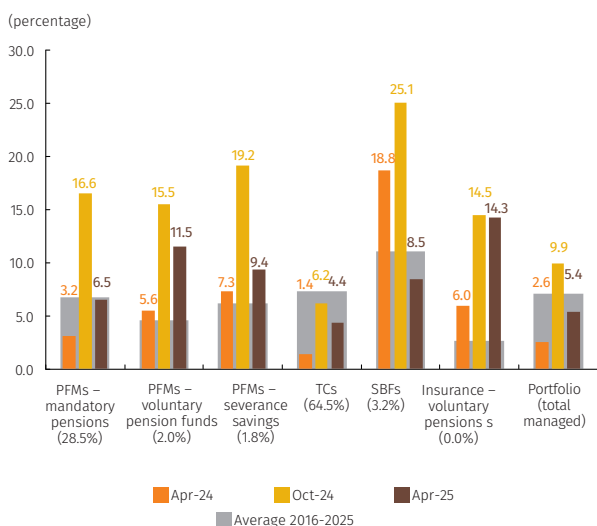
- 38 Liquidity training programs are initiatives through which brokerage firms post sound purchase and sale quotes on the Colombian Stock Exchange screens for selected shares in the local market, with the aim of increasing trading activity and narrowing price differentials.
- 39 In 2025, the average daily trading volume (VPDN in Spanish) in the local market reached COP 104 b, compared to COP 64.8 b in 2024.
- 40 This sensitivity test uses the shocks estimated by the International Monetary Fund in its Global Financial Stability Report (April 2025). In that report, the IMF assesses the average impact that emerging economies could experience as a result of trade tensions and global uncertainty.
- 41 On 26 June 2025, the rating agencies Moody's and Standard & Poor's downgraded Colombia's sovereign debt rating, citing the newly projected deterioration in government debt indicators and the country's weak external position. This followed the publication of the *Medium-Term Fiscal Framework*. With these decisions, Colombia now maintains investment grade with Moody's (Baa3) and stands two notches below investment grade with S&P (BB). Notably, S&P's decision also marked the loss of Colombia's local-currency investment grade rating by this agency.

Graph 4.27
Annual Real Growth of Assets of Non-Bank Financial Institutions

A. Proprietary Position



B. Managed Position



Note: The graph includes information from pension fund managers (PFMs), stock brokerage firms (SBFs), trust companies (TCs), and insurance companies (Insurers). The series are deflated using the CPI excluding food.
Source: Financial Superintendency of Colombia; calculations by Banco de la República.

of public debt amid tighter financial conditions or heightened geopolitical tensions, could raise funding costs for intermediaries and negatively affect their margins and liquidity risk.

As of April 2025, Non-Banking Financial Institutions (NBFIs) recorded real asset growth below their historical averages, both in proprietary and asset under management portfolios. Proprietary assets expanded by 7.1%, well below the historical average of 11.8% (Graph 4.27, Panel A). Stock Brokerage Firms (SBFs) were the only exception to this trend. This performance was largely shaped by insurance companies, which account for 90.1% of NBFIs’ assets in proprietary assets. On the other hand, Trust Companies (TCs) reported a 5.1% real annual contraction in their assets, explained by lower investments in TES and CDs. The Pension and Severance Fund Administrators (PFAs) recorded a slight growth of 0.5%. Asset under management portfolios also showed moderate growth, at 5.4% in real terms, below their historical average (Graph 4.27, Panel B). Within these, assets managed by TCs, SBFs, and PFAs in mandatory pensions, which together represent 96.2% of total asset under management, grew by 4.4%, 8.5%, and 6.5%, respectively, all below their historical trend.

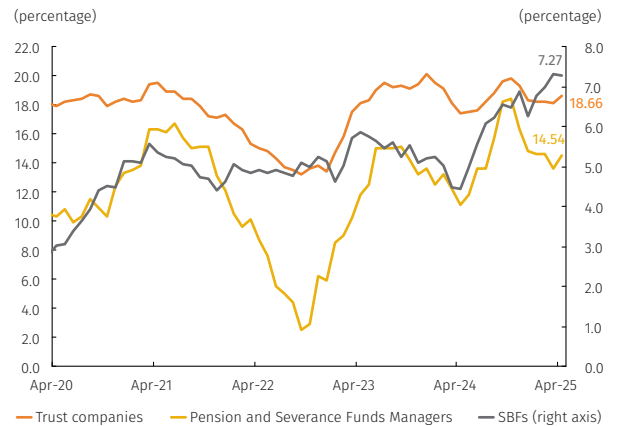
Following the decline in the returns observed across most NBFIs in the last quarter of 2024, a trend toward recovery or stabilization of these entities’ revenues has been observed. So far in 2025, NBFIs’ returns have outperformed the five-year average across all business segments. In particular, general insurance companies have consolidated a recovery that has been ongoing for three years, while life insurers have maintained relative stability (Graph 4.28, Panel A). Among other NBFIs, returns have also remained steady in recent months (Graph 4.28, Panel B): TCs continue to report levels above their historical average, PFAs have sustained a stable trend despite the decline observed toward the end of 2024, and SBFs have consolidated the growth in returns that has been evident for a year.

Graph 4.28
ROA of Non-Bank Financial Institutions (NBFIs)

A. Insurance Companies

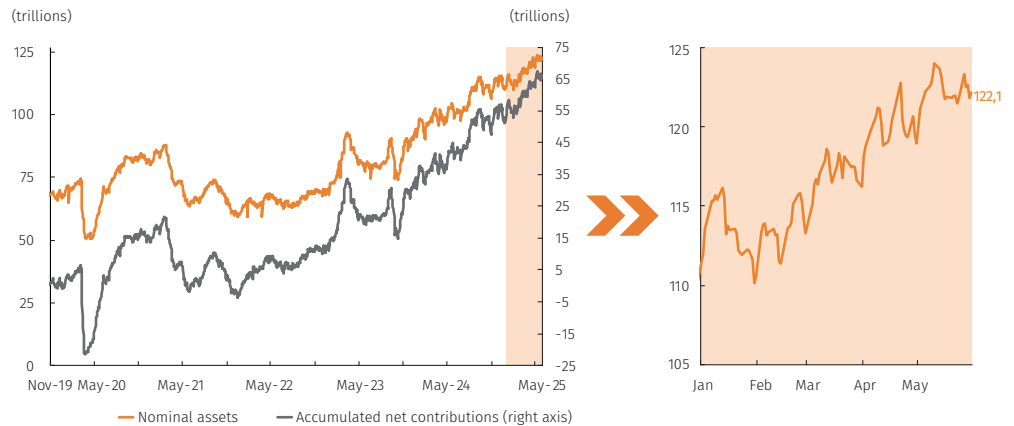


B. Other NBFIs



Note: The graph includes information from pension fund managers (PFMs), stock brokerage firms (SBFs), trust companies (TCs), and insurance companies (Insurers).
Source: Financial Superintendency of Colombia (SFC); calculations by Banco de la República.

Graph 4.29
Total Assets and Net Contributions of Open-End Collective Investment Funds (OECIFs)

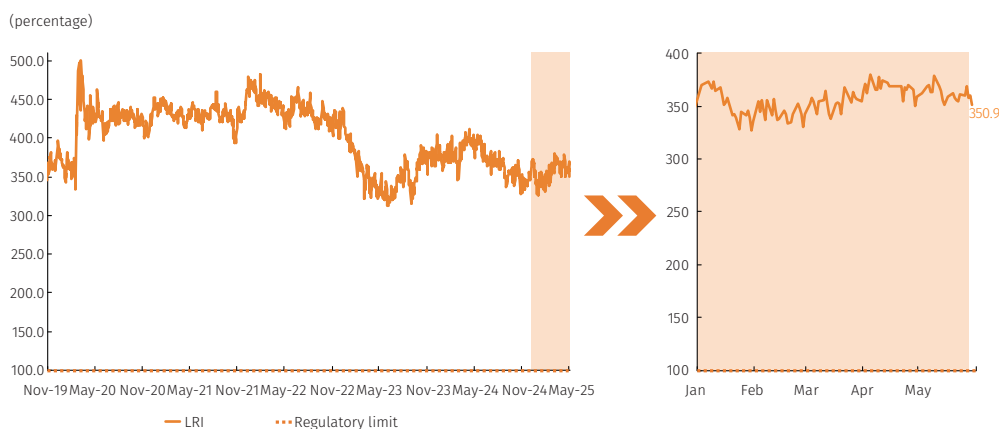


Note: Accumulated net contributions are calculated from September 2019.
Source: Financial Superintendency of Colombia (SFC); calculations by Banco de la República.

The total assets of Open-end Collective Investment Funds (OECIFs) grew rapidly, driven by higher net contributions, mainly due to an increase in capital contributions. So far in 2025, the total assets of OECIFs have risen by 10.7%, reaching a record level of COP 124 t (Graph 4.29). This growth is primarily explained by the positive performance of contributions net of withdrawals, which amounted to COP 13.7 t over the same period. This performance has taken place in a context of market expectations for reductions in CDs interest rates, which has strengthened the appeal of OECIFs for investors by offering greater liquidity, higher expected future returns, and diversification.

The liquidity of OECIFs remained ample compared to regulatory minimums, with a general trend of stability. During the analysis period, the Liquidity Risk Indicator (LRI) of OECIFs⁴² remained stable and well above the regulatory limit of 100% (Graph 4.30). This stability was supported by sustained and consistent growth of both High-Quality Liquid Assets (HQLA) and the net value of funds throughout 2025⁴³.

Graph 4.30
Liquidity Risk Indicator (LRI) of OECIFs



Note: The LRI is calculated as the median of the LRI of all OECIFs.
Source: Financial Superintendency of Colombia (SFC); calculations by Banco de la República.

42 The LRI corresponds to the ratio between High-Quality Liquid Assets (HQLA) and the net asset value of the OCI multiplied by the maximum probable net withdrawal.

43 For further details on OECIFs, see Section 2.1.3.1 of the *Financial Stability Report* for the first half of 2025.

Shaded Section 2

Monetary Base and M3

Throughout the first half of 2025, monetary aggregates showed annual growth rates higher than those observed since mid-2023, with cash held by the public and short-term CDs standing out. This occurred in an environment of stronger economic activity and lower interest and inflation rates compared to those observed in the previous two years.

During the first half of the year, the monetary base registered an average annual growth of 13.9%, the highest since mid-2022. This was driven by a sharp increase in cash held by the public (21% average annual growth), its main component¹, which more than offset the decline in bank reserves (-6.2% average annual growth). It is important to note that pandemic shock led to a significant increase in the demand for money, particularly cash, which was subsequently corrected sharply in 2022 and 2023, in an environment of high interest rates, which represent an opportunity cost for the most liquid financial assets. The strong growth of cash in 2025 can be understood in this context as a return to its long-term trend. It should be noted that, since the pandemic, the behavior of cash demand in Colombia has been similar to that observed internationally. Regarding bank reserves, their decline resulted from the reduction in the reserve requirement established by the BDBR in August 2024, which came into effect in mid-September² (Graph S2.1).

From the perspective of liquidity sources, in the year through June, *Banco de la República* provided primary liquidity through transitory liquidity operations to prevent pressures in the money market³. During this period, the Bank did not intervene in the foreign exchange market, nor did it purchase or sell TES.

One of the factors that typically causes changes in the supply of the monetary base is the balance of government deposits at *Banco de la República*. This remained at low levels, slightly

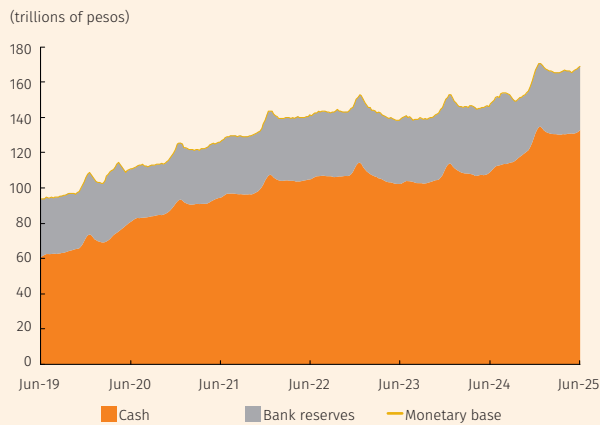
1 Cash held by the public represents between 75% and 79% of the monetary base balance.

2 As of the two-week compliance period for reserve requirements that began on 11 September 2024, the reduction of the reserve requirement established by the Board of Directors on 30 August 2024 came into effect (the reserve requirement for demand deposits went reduced from 8.0% to 7.0% and that of CDs with a term of less than eighteen months from 3.5% to 2.5%) (see <https://www.banrep.gov.co/es/noticias/banco-republica-redujo-requerimiento-encaje-sobre-depositos-establecimientos-credito>).

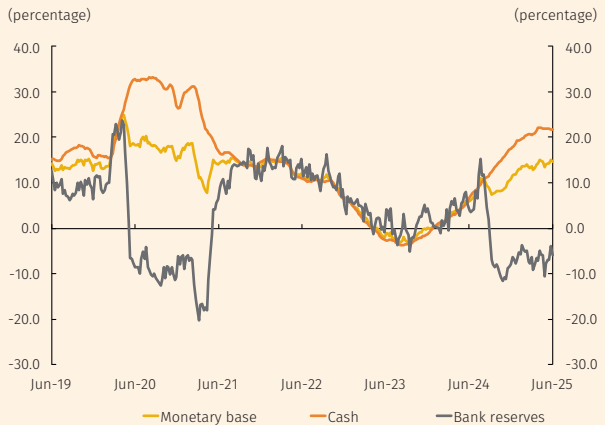
3 On average, the overnight benchmark banking indicator (BBI) was 0.8 basis points (bps) above the monetary policy rate.

Graph S2.1
Monetary Base, Cash, and Bank Reserves
 (balance and annual percentage change, four-week rolling average: data as of Friday)

A. Balance



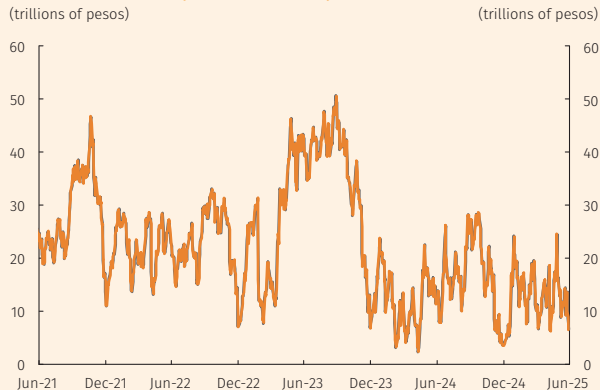
B. Annual Percentage Change



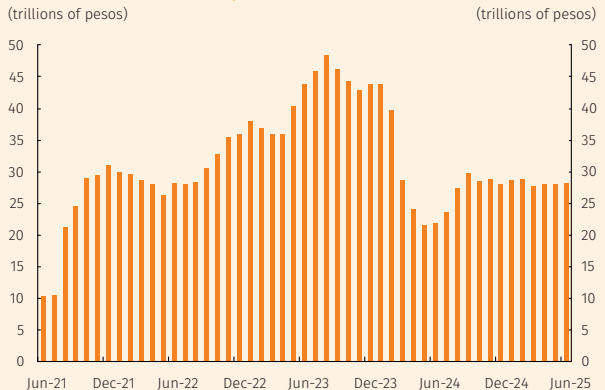
Source: Banco de la República.

Graph S2.2
Main Factors of the Monetary Base Supply

A. Government Deposits at Banrep



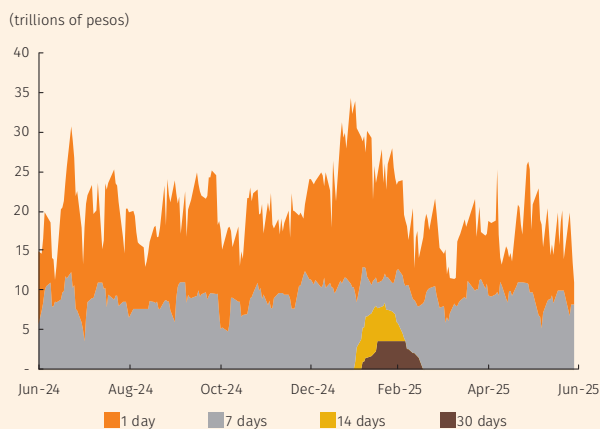
B. TES balance at Banrep



Note: It includes interest-bearing and non-interest-bearing deposits of the National Treasury (TGN in Spanish) at Banrep. It also includes interest rates.
 Source: Banco de la República.

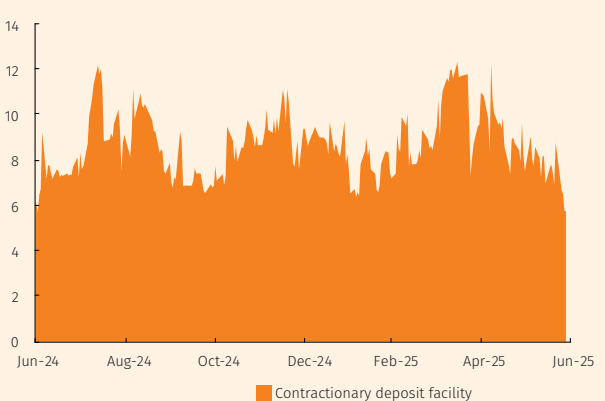
Source: Banco de la República.

C. Expansionary Repo Balance^{a/}



a/ Includes auction, expansionary deposit facility, and repos for the normal operation of the payment system.
 Source: Banco de la República.

D. Balance of interest-bearing deposits not constituting reserve requirements (DRNCE)^{a/}

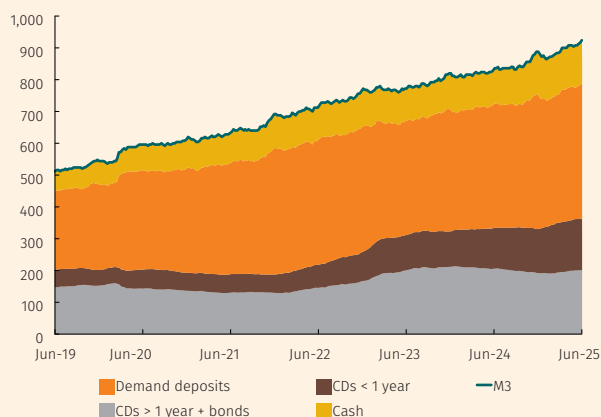


a/ Deposits are overnight.
 Source: Banco de la República.

Graph S2.3
M3 and Its Components
(balance and annual percentage change, four-week average: data as of Friday)

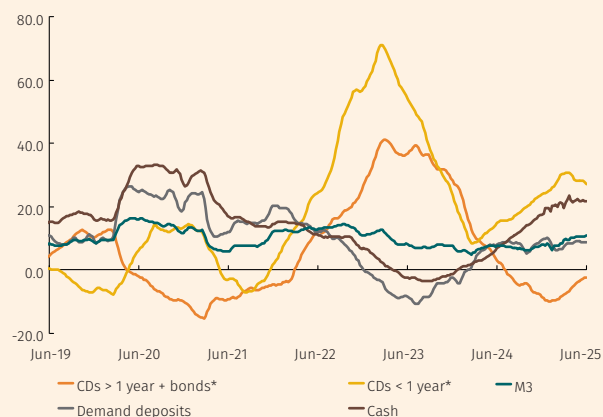
A. Nominal Balances

(trillions of pesos)



B. Nominal Change

(percentage)



Source: Banco de la República, calculations using information from Form 281 of the Financial Superintendency of Colombia.

above those observed in the first half of 2024⁴. Regarding transitory liquidity operations, for most of the period, the Bank conducted daily repo auctions with the usual seven-day and overnight maturities (except for a few days in February when fourteen- and thirty-day repos were offered)⁵ (Graph S2.2).

Regarding the broad monetary aggregate M3, the first half of 2025 also showed higher annual growth (9.0% on average) than those observed in the previous two years. This monetary aggregate comprises cash held by the public and assets issued by credit institutions that serve as money. These assets may be used to make payments in legal tender (such as checking accounts or savings accounts), or to save (store of value) in instruments that provide some level of certainty about their nominal value and that can be converted into liquid payment instruments (such as CDs)⁶. The higher growth rate of M3 is explained both by the performance of cash and by increases in the bal-

4 The average balance of government deposits at *Banrep* during the first half of 2025 was COP 12,971 billion (b) (vs. COP 12,189 b in the same period in 2024). This balance already includes the amount paid in March from the transfer of *Banco de la República's* 2024 profits (COP 10,031 b) (see <https://www.banrep.gov.co/es/noticias/banrep-obtuvo-utilidad-2024>).

5 The contractionary deposit facility allows financial institutions (OMO's placement agents) to make interest-bearing deposits not constituting reserves requirements at the end of the day at *Banco de la República* at an interest rate 100 bps lower than the policy rate. Similarly, the expansionary deposit facility (which also operates daily) allows financial institutions (OMO's placement agents) to obtain liquidity through repos with the Bank at the end of the day at an interest rate 100 bps higher than the policy rate, which is taken as a reference for repos offered through auction.

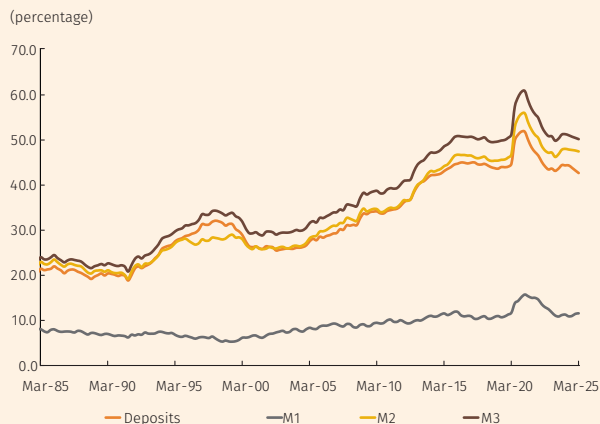
6 In particular, in Colombia, M1 includes cash held by the public and current accounts; M2 includes M1, savings accounts and CDs; and M3 includes M2 plus bonds, trust deposits (collection services), and other demand deposits.

Graph S2.4
Monetary Aggregates and Their Main Components as a Percentage of GDP

A. Monetary Base and Cash Held by the Public



B. Deposits and Monetary Aggregates M1, M2, and M3



Source: DANE and Financial Superintendency of Colombia (Form 281); calculations by Banco de la República.

ance of demand deposits and CDs. For the latter, both short- and long-term deposits have shown increases in their balance compared to the levels observed at the end of 2024. However, in annual terms, short-term CDs grew by more than 25% annually, while those with a maturity of more than one year continued to decline, although at a slower pace (Graph S2.3).

Regarding GDP, with information as of March, the various monetary aggregates remained at levels similar to those recorded a year earlier (which, in turn, are close to those recorded in 2019, before the pandemic), except for cash (Graph S2.4).

Box 3

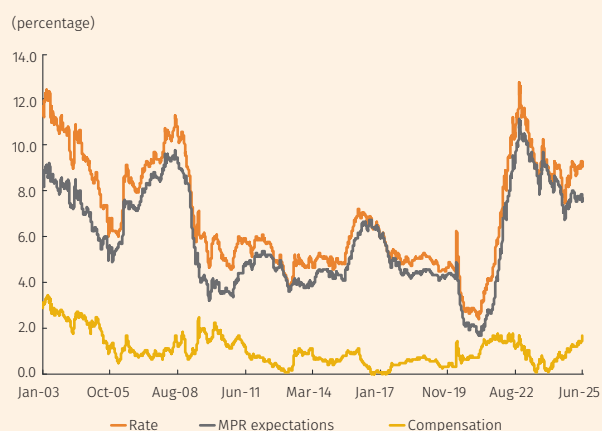
Determinants of Sovereign Debt Interest Rates at Different Maturities

Graph B3.1
2-year Monetary Policy Expectations from Financial Markets



Source: Banco de la República.

Graph B3.2
Decomposition of the Two-Year TES Rate



Source: Banco de la República.

Interest rates on public debt tend to respond to different determinants, depending on maturity. Since 2024, short-term interest rates on Colombian peso-denominated public debt (TES) have declined in line with the cuts in *Banco de la República's* monetary policy rate (MPR). On the contrary, long-term interest rates have increased, driven by other structural factors. In this context, this box aims to identify the main factors that have driven this increase over the last year and a half. The evidence suggests that the increase in long-term interest rates is mainly due to the deterioration of the country's fiscal outlook¹.

In general, short-term interest rates are mainly influenced by the MPR and by market expectations regarding its future trajectory. In Colombia, this relationship can be analyzed by breaking down short-term TES interest rates into two factors: market expectations regarding the future course of monetary policy and a compensation for investing over a longer horizon². These monetary policy expectations can be mainly derived from surveys, the TES market, or the financial derivatives market (swaps)³, with the latter two sources being highly similar (Graph B3.1). Furthermore, the fact that most movements in the interest rates of short-term securities can be explained by these expectations (Graph B3.2) suggests that monetary policy is the main factor driving their performance (Espinosa, Melo, and Moreno, 2014).

In turn, long-term interest rates are largely determined by structural factors, as well as by macroeconomic and financial conditions. Similar to short-term interest rates, they can be broken down into inflation expectations and additional compensation for investing over a longer horizon. The latter reflects the premium that investors demand for holding long-term securities rather than rolling over short-term investments throughout the same horizon (Kopp and Williams, 2018). In other words, the term premium represents the compensation required for assuming the risk of possible interest rate changes over the life of the security (Adrian, Crump, and Moench, 2014). In the case of Colombia, long-term interest rates are generally explained by both the evolution of inflation expectations and this additional premium. However, during the period analyzed, the increase observed in long-term interest rates was mainly explained by the increase in this compensation, while monetary policy expectations have shown some reductions (Graph B3.3).

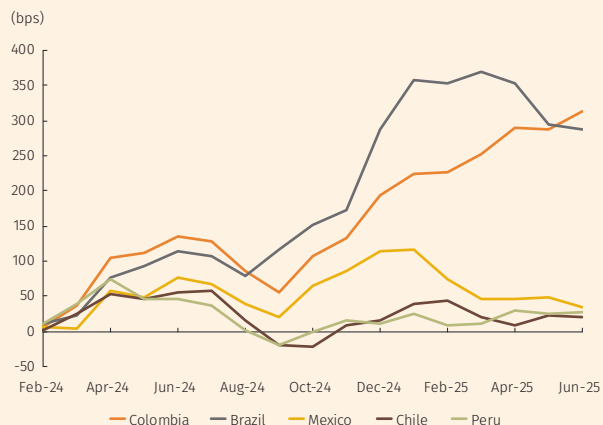
- 1 For this purpose, the approach presented by Botero, Mateus, and Ruiz (2023) is used.
- 2 Prepared based on the methodology proposed by Espinosa, Melo, and Moreno (2014), which, in turn, is based on that of Adrian, Crump, and Moench (2013).
- 3 In Colombia, interest rates swaps are derivative instruments that reflect investors' monetary policy expectations, given that the underlying of these assets is the compounded overnight BBI over the term of the transaction.

Graph B3.3
Decomposition of the Ten-Year TES Rate



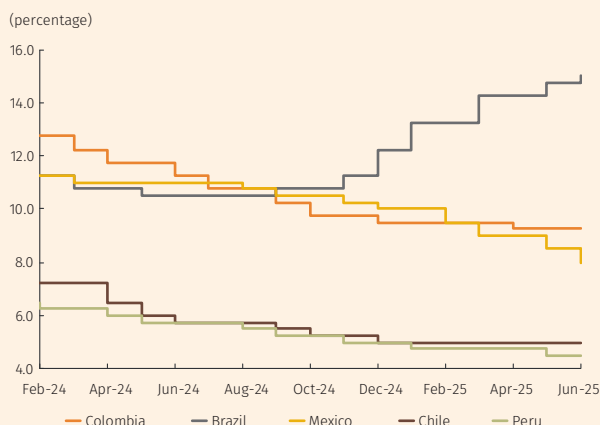
Source: Banco de la República.

Graph B3.4
Cumulative Variation (bps) in the 10-Year Rate in Local Currency since January 2024



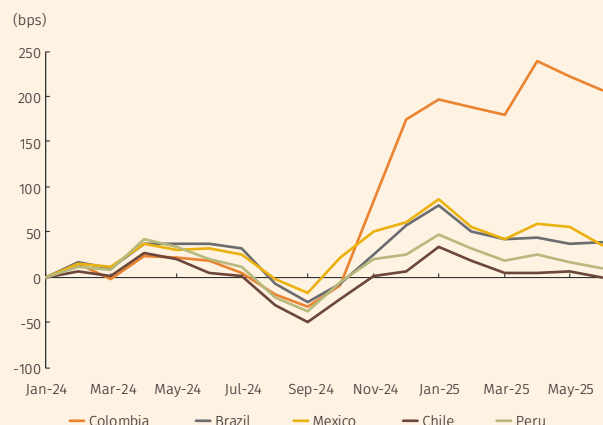
Source: Bloomberg.

Graph B3.5
Monetary Policy Rate of the Central Banks in the Region



Source: Bloomberg.

Graph B3.6
Cumulative Variation (bps) of the 10-Year Rate in Dollars since January 2024

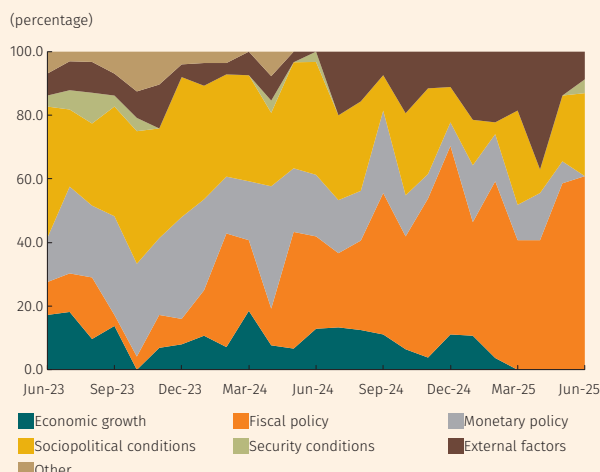


Source: Haver, Bloomberg.

The increase in interest rates has occurred in both local currency and US dollars. In the case of local currency interest rates (Graph B3.4), this upturn has occurred while *Banco de la República* has reduced its MPR by 375 basis points (bps) during this period, a larger reduction than that implemented by other central banks in the region. In contrast with Brazil, where the increase of more than 300 bps in local currency interest rates can largely be attributed to the 325-bps increase in the MPR over the same period (Graph B3.5). Regarding dollar interest rates, Colombian securities have shown increases greater than those observed in other countries in the region (Graph B3.6).

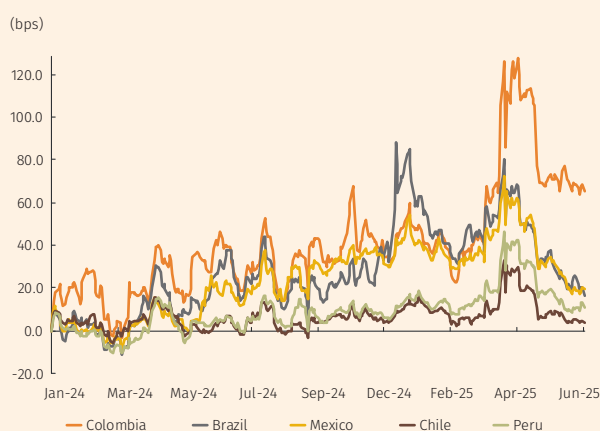
The decomposition of these interest rates into monetary policy expectations and a compensation for investing over longer terms indicates that the latter factor explains the increase in Colombian long-term securities during 2024 and so far in 2025. In order to analyze the determinants of this compensation, Botero, Mateus, and Ruíz (2023) analyze the Colombian case and find that, historically, it has been explained by five factors: 1) greater

Graph B3.7
Most Relevant Factors in Investment Decision-Making



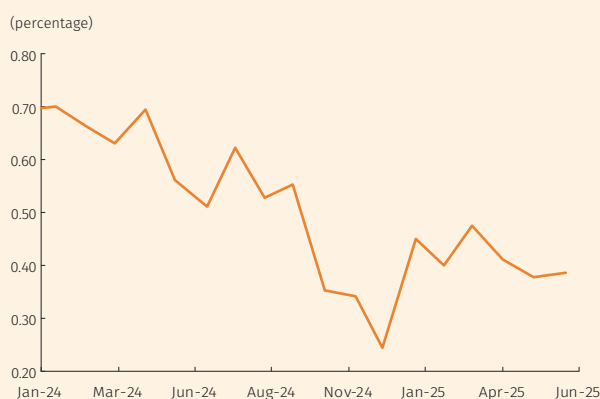
Source: Financial Opinion Survey (EOF in Spanish).

Graph B3.8
Cumulative Variation (bps) of the Five-Year CDS since January 2024



Source: Bloomberg.

Graph B3.9
Inflation Uncertainty



Note: Measured as the standard deviation of one-year inflation expectations, based on Banco de la República's monthly expectations survey.
Source: Banco de la República.

uncertainty about future inflation⁴; 2) the fiscal deficit (as a share of GDP); 3) risk appetite in emerging economies⁵; 4) lower liquidity⁶; and 5) to a lesser extent, sociopolitical risk, as measured by the *Financial Opinion Survey*⁷ (EOF in Spanish).

The deterioration of the country's fiscal outlook is a factor that may explain the increase in long-term interest rates observed since 2024.

On one hand, the fiscal deficit increased from 4.2% of GDP in 2023 to 6.7% in 2024. Furthermore, the *Medium-Term Fiscal Framework* (MTFF) published in June by the Ministry of Finance activated the escape clause of the fiscal rule for a three-year period, forecasting a deficit of 7.1% of GDP in 2025 and 6.2% in 2026, levels significantly higher than the 2.5% recorded in 2019, before the COVID-19 pandemic. This contributed to the recent downgrade of the sovereign credit rating by S&P and Moody's, announced at the end of June, which resulted in the loss of investment grade⁸ of TES (foreign currency bonds had already lost it in 2021).

This challenging outlook for public finances is also reflected in the perceptions of analysts and the market.

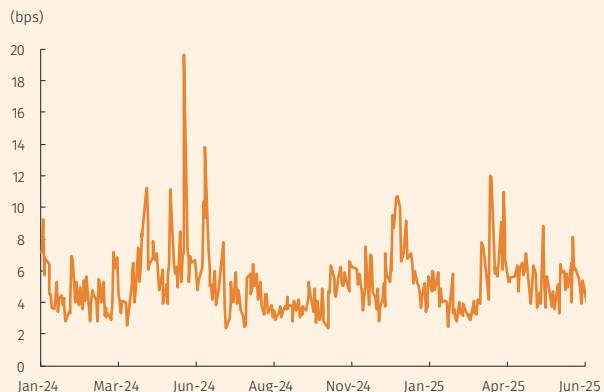
The EOF shows that over the past two years, the number of agents identifying the fiscal front as the main risk to the local market has increased significantly (Graph B3.7). Likewise, the country's risk premium, measured by the five-year credit default swaps (CDS), has increased considerably over the same period, exceeding that of other countries in the region (Graph B3.8).

In turn, other factors that contribute to explaining the compensation paid for holding long-term sovereign securities have recently performed favorably and therefore would not explain the upturn observed since 2024.

In particular, measures of inflation uncertainty (Graph B3.9) and market liquidity (Graph B3.10) have shown a downward trend, although they remain above their historical averages. Similarly, the relevance of sociopolitical conditions has declined, although it continues to be the second most relevant factor for agents when making investment decisions (Graph B3.7). While these three factors have performed favorably during this period, their still-high levels could contribute to long-term interest rates remaining high relative to their historical averages. Finally, risk appetite toward emerging economies has rebounded during 2025, in line with the favorable performance of public debt securities in most countries in the region (Graph B3.11).

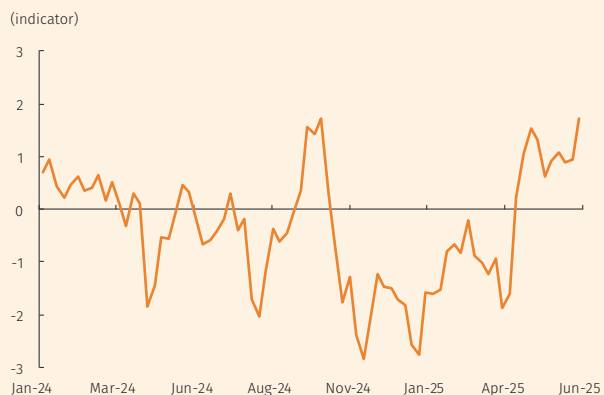
- 4 Measured as the standard deviation of one-year inflation expectations from *Banco de la República's* monthly expectations survey. Studies such as that by Ceballos, Naudon, and Romero (2016) use this variable to measure compensation for inflation risk.
- 5 Measured using the variable of appetite for currency risk toward emerging countries calculated by JP Morgan.
- 6 Measured using the bid-ask spread (BAS) of TES. A lower level of this variable indicates greater liquidity in the TES market.
- 7 Each month, Fedesarrollo and the Colombian Stock Exchange (BVC in Spanish) publish the Financial Opinion Survey EOF, in which one of the questions posed to analysts and portfolio investors is about the most relevant factors when making their investment decisions. One of the possible answers is sociopolitical conditions.
- 8 On 26 June, Moody's downgraded the government's credit rating from Baa2 to Baa3 (stable outlook), still one notch above investment grade. One the same day, S&P Global Ratings also downgraded the foreign currency rating from BB+ to BB, and the local currency rating from BBB- to BB+ (both with negative outlooks). S&P's decision means that TES (local currency debt) has lost its investment grade, as two out of three ratings are now below investment grade (Fitch Ratings had already downgraded Colombia's local and foreign currency debt to below investment grade in 2021).

Graph B3.10
BAS^{a/} of TES
(illiquidity measure)



a/ The Bid-Ask Spread (BAS) is calculated as the median of the difference between the best bid price and the best ask price for each second between 9:00 a.m. and 12:30 p.m. each day, for all peso-denominated TES in the market.
Source: Banco de la República.

Graph B3.11
Exchange Rate Risk Appetite toward Emerging Economies



Note: Positive values of this variable indicate appetite for emerging economies; negative values indicate an aversion to these economies.
Source: JP Morgan.

In conclusion, the increase in long-term interest rates on Colombian public debt is mainly explained by an increase in the compensation for investing over longer terms, which would particularly be associated with the deterioration of the country's fiscal outlook.

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5. External Balance and Foreign Reserves

5.1 Developments and Outlook of Colombia's Balance of Payments

The current account deficit widened to 2.2% of GDP in the first quarter, driven by a larger trade balance deficit and partially offset by higher net income from current transfers and lower net outflows from factor income (Table 5.1). In the first quarter of the year, the current account posted a deficit of USD 2,290 million (m), equivalent to 2.2% of GDP and above the 1.9% of GDP recorded a year earlier. The widening of this imbalance was explained by an expansion of the goods trade balance deficit by USD 983 m compared to the same period in 2024 and a reduction of USD 30 m in the services surplus. This performance was partially offset by higher current transfers (USD 518 m) and by the reduction in the factor income deficit (USD 149 m) compared to the previous year. This occurred in an environment of domestic demand that continued to recover and grew at an annual rate above that of GDP, lower prices for some exported goods, such as oil and coal, a positive performance in inbound tourism, and still high levels of remittances from workers.

The increase in the trade balance deficit was the result of greater growth in goods imports compared to exports, along with a less favorable balance in the services basket (Table 5.1). External sales of goods totaled USD 12,163 m in the first quarter of the year, with increases in products such as coffee (USD 724 m), industrial goods (USD 416 m), and non-monetary gold (USD 240 m), and declines in coal (USD 772 m) and oil (USD 190 m) compared to the same period of the previous year. In turn, imports amounted to USD 15,251 m, driven by higher purchases of inputs and capital goods for industry, consumer goods, and fuels. As for services trade, exports grew by USD 419 m compared to the previous year, mainly driven by higher revenues from inbound tourism (USD 252 m), while imports, on the other hand, rose by USD 449 m, due to increased outflows in travel and freight transport.

In the first quarter of the year, higher net income from current transfers helped contain a larger widening of the current deficit, supported by stronger remittances from abroad and a decline in transfer outflows. During this period, workers' remittances reached USD 3,131 m, with an increase of USD 410 m compared to the same period of the previous year (15.1% annually), representing 2.9% of quarterly GDP. This outcome was associated with the positive employment performance in the United States and Spain, countries that account for many of these inflows. In turn, outflows from current transfers other than remittances declined by USD 42 million compared to the same period in 2024, further improving the net income balance of this component of the current account.

Lower net outflows from factor income also partially offset the wider current account deficit, which is explained by a reduction in interest payments on external loans and higher income from Colombia's investments abroad. The reduction in interest payments on external loans (USD 138m) came from both public sector loans (USD 95m) and private sector loans (USD 43m). At the same time, income from Colombia's investments abroad increased (USD 101 million), mainly due to higher interest receipts from loans granted abroad by the Colombian private sector

Table 5.1
Colombia's Current Account

| Current Account (millions of dollars) | 2024 (pr) Jan-Mar | 2025 (pr) Jan-Mar | Variation (dollars) |
|---|----------------------|----------------------|------------------------|
| Current account (A + B + C) | -1,945 | -2,290 | -346 |
| Percentage of GDP | -1.9% | -2.2% | |
| Income | 22,237 | 23,628 | 1,391 |
| Expenses | 24,182 | 25,918 | 1,736 |
| A. Goods and Services | -1,931 | -2,943 | -1,013 |
| 1. Goods | -2,105 | -3,088 | -983 |
| FOB exports | 11,764 | 12,163 | 399 |
| FOB imports | 13,869 | 15,251 | 1,382 |
| 2. Services | 175 | 145 | -30 |
| Exports | 4,343 | 4,762 | 419 |
| Imports | 4,168 | 4,617 | 449 |
| B. Factor Income | -3,345 | -3,196 | 150 |
| 1. Revenues | 2,398 | 2,499 | 101 |
| 2. Expenses | 5,743 | 5,695 | -49 |
| I. Interests | 3,364 | 3,226 | -138 |
| Public | 2,121 | 2,027 | -95 |
| Private | 1,243 | 1,200 | -43 |
| II. Income from foreign investments in Colombia | 2,369 | 2,463 | 94 |
| Direct | 2,319 | 2,409 | 90 |
| Portfolio | 50 | 54 | 4 |
| III. Employee compensation | 10 | 5 | -5 |
| C. Current Transfers | 3,331 | 3,849 | 518 |
| Revenues | 3,732 | 4,204 | 472 |
| Expenses | 401 | 355 | -46 |

pr: Preliminary.
Source: Banco de la República.

(USD83 million). On the other hand, profit remittances abroad by firms with foreign direct investment (FDI) recorded an increase (USD90 million), driven by higher estimated earnings in financial activities and business services, trade, hotels, and manufacturing industries (USD33 million). However, this higher outflow from profits was partially offset by lower estimated earnings for companies engaged in oil, mining, and quarrying activities, in a context of lower prices for some goods, such as oil and coal, and weaker domestic production in that sector.

During the first quarter of 2025, FDI remained the main source of external financing. The financial account recorded net capital inflows of USD1,835 m (1.7% of GDP as of March), an increase of USD234 m compared to the first quarter of 2024 (Table 5.2). The resources received through FDI (USD3,142 m), income from foreign loan portfolio investments (USD1,207 m), and disbursements of loans and other external credits (USD416 m) are highlighted. Within these inflows, the resources received by FDI declined by USD540 m relative to those received a year earlier. This FDI dynamic is mainly explained by the reduction in investments from trade and hotel activities (USD445 m), financial and business services (USD349 m), and mining

Table 5.2
Colombia's Financial Account

| Financial Account (millions of dollars) | 2024 (pr) Jan-Mar | 2025 (pr) Jan-Mar | Variation (dollars) |
|---|----------------------|----------------------|------------------------|
| Financial account (II+III+IV-I) | -1,601 | -1,835 | -234 |
| Percentage of GDP | -1.6% | -1.7% | |
| I. Liabilities (foreign capital inflows) (A+B) | 3,797 | 4,765 | 968 |
| A. Foreign direct investment | 3,683 | 3,142 | -540 |
| B. Other investments in Colombia (i+ii) | 114 | 1,622 | 1,508 |
| i. Public sector (a+b) | 754 | 92 | -662 |
| a. Foreign portfolio investment | 749 | 1,026 | 277 |
| International markets (bonds) | 641 | -10 | -651 |
| Local market (TES) | 108 | 1,036 | 928 |
| b. Foreign loans and other liabilities | 6 | -934 | -939 |
| Loans | 6 | -934 | -939 |
| ii. Private sector (a+b) | -640 | 1,530 | 2,170 |
| a. Foreign portfolio investment | -166 | 181 | 346 |
| International markets | -170 | 0 | 170 |
| Local market | 4 | 181 | 176 |
| b. Foreign loans and other liabilities | -474 | 1,349 | 1,824 |
| Loans | -381 | 1,039 | 1,420 |
| Other ^{a/} | -93 | 310 | 403 |
| II. Assets (Colombian capital outflows) (A+B) | 1,820 | 2,789 | 969 |
| A. Direct investment abroad | 1,156 | 689 | -467 |
| B. Other investments abroad (i+ii) | 664 | 2,100 | 1,436 |
| i. Public sector | -590 | -2,095 | -1,504 |
| ii. Private sector | 1,255 | 4,195 | 2,940 |
| III. Financial Derivative Instruments (A-B) | -575 | -422 | 153 |
| IV. Reserve assets | 951 | 564 | -388 |

pr: Preliminary.

a/ It includes: i) currency and deposits, and ii) loans and trade advances.

Note: Public debt corresponds to the sum of foreign portfolio investments and loans.

Source: Banco de la República.

(USD 171 m), which was partially offset by higher FDI in the manufacturing industry (USD 123 m) and in electricity, gas, and water supply (USD 105 m).

The financing of the external deficit was also supported by net income from loan portfolio investments and, to a lesser extent, by external credits (Table 5.2). During the first quarter of 2025, the public sector external debt recorded revenues of USD 92 m, resulting from the subtraction of net income from debt securities (USD 1,026 m) against net repayments of loans (USD 934 m). As for the private sector, it received income through loans (USD 1,349 m) and portfolio investments in the local market (USD 181 m). On the other hand, Colombian capital outflows were estimated at USD 2,789 m, concentrated in external loan portfolio financial investments, especially from the private sector (USD 4,470 m).

For 2025, Banrep's technical staff projects a current account deficit close to 2.5% of GDP. The expansion compared to the 1.7% deficit in 2024 would be the result

of a better performance of domestic demand, continued moderation in international prices of some mining goods exported by the country, and an environment of uncertainty regarding external trade policies. The larger external imbalance would be explained by the deterioration in the trade balance of goods and services, due to the expected increase in imports and lower revenues from oil and mining exports. However, a sharper widening of the trade deficit would be limited by higher revenues from coffee, gold, and non-traditional goods exports, as well as by the dynamism of exports from tourism-related services. The lower factor income deficit, associated with lower profit remittances abroad from mining and oil companies with FDI, along with the higher surplus of current transfers, supported by larger revenues from workers' remittances, would also help limit a further widening of the external imbalance.

The country is expected to retain access to external financing in an environment where US interest rates remain above their pre-pandemic levels and Colombia's risk premium remains above its historical average. FDI would be positioned as the main source of resources, while lower investments in oil and mining would be partially offset by higher investments in other sectors, given the expectations of stronger domestic demand and economic growth. On the other hand, public sector capital flows are projected to contribute to external financing to a greater extent than in previous years, in line with the expected widening of the fiscal deficit by 2025.

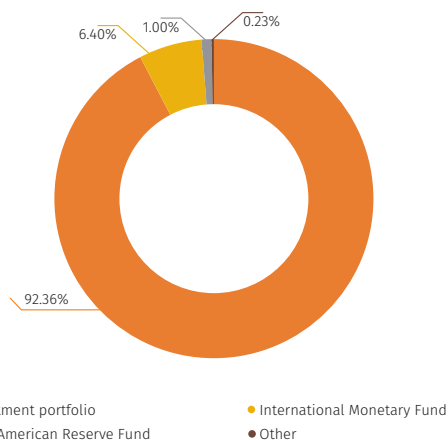
5.2 Foreign Reserves

In compliance with Law 31 of 1992, Banco de la República manages foreign reserves in accordance with the public interest, benefiting the national economy, and facilitating the country's payments abroad. Consequently, the law defines that the investment of reserve assets shall adhere to the criteria of security, liquidity, and profitability. The security criterion under which foreign reserves are managed in Colombia involves adequately controlling the risks to which the investments are exposed. To manage these risks within acceptable parameters and levels, *Banco de la República's* Foreign Reserves Committee¹ sets strict limits for exposure to the various risks faced by reserves. To meet the liquidity criterion, *Banrep* invests foreign reserves in financial assets that are easy to sale, if necessary, or in assets maturing in the coming months, and defines investment tranches based on liquidity and profitability objectives. Once the criteria for low-risk investment of the foreign reserves are defined, the management policy seeks to ensure adequate profitability, as this is part of the mandate given by law to *Banco de la República*. The Annex provided an explanation of the policies guiding reserve investment as well as some relevant definitions.

The main objective of foreign reserves is to protect the country from external shocks that may affect both trade and financial flows and, depending on their magnitude, could jeopardize macroeconomic stability. For instance, trade flows may be affected by a drastic reduction in exports or an unusual increase in imports that tightens the country's external liquidity; similarly, financial flows could be impacted by limited access to external financing, such as reduced availability of international credit or higher capital outflows from both foreign investors and residents. Foreign reserves are also a key factor in the perceived repayment capacity

¹ The Foreign Reserves Committee comprises the Minister of Finance and Public Credit or his delegate, the full-time members of the Board of Directors, and the Governor.

Graph 5.1
Composition of Foreign Reserves
(information as of 30 June 2025)



Note: Gold is included within the investment portfolio. The "Other" category includes international agreements, cash on hand, and on-demand deposits.
Source: *Banco de la República*.

of domestic borrowers, as credit rating agencies and external lenders consider that an adequate level of reserves would enable residents to meet foreign currency obligations, such as paying for imports and servicing external debt, when the country faces challenges in accessing external financing. In this context, maintaining an adequate level of reserves helps improve the country's and its residents' risk perception, thereby, facilitating access to international capital markets for both the government and the private sector.

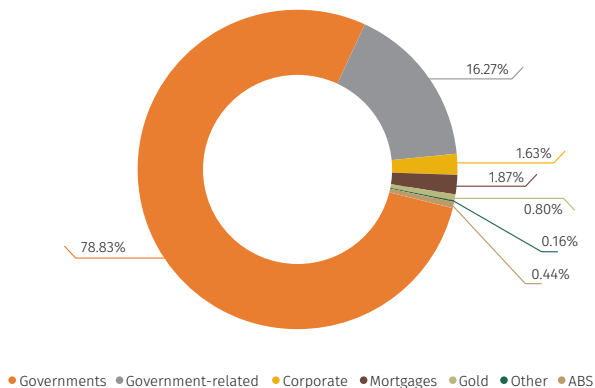
***Banco de la República* maintains external liquidity buffers deemed sufficient to meet the objective mentioned above.** In this regard, it is recognized that maintaining an adequate level of foreign currency liquidity is crucial for preventing and dealing with external shocks, considering various international metrics. For example, it is desirable that the level of external liquidity managed by *Banco de la República* exceeds the sum of the current account deficit and projected external debt payments.

During 2025, there has been an increase in the level of foreign reserves, mainly explained by the positive returns obtained so far this year. As of 30 June 2025, net foreign reserves² totaled USD 65,163 million (m), which represents an increase of USD 2,682 m during 2025. The return on foreign reserves so far this year, excluding the foreign exchange component, stood at 2.90% (USD 1,851 m), which was a fundamental factor in explaining the increase in reserves. This result was mainly driven by higher interest rates, which had a positive impact on the return of foreign reserves through increased interest income. Additionally, the return of foreign reserves was favored by investment valuation, due to the decrease in the levels of short-term interest rates in the main markets in which reserves are invested. Finally, the increase of foreign reserves was supported by the appreciation of other reserve currencies against the US dollar, resulting in a positive exchange rate effect on the appreciation of reserves (USD 862 m).

The main component of foreign reserves is the investment portfolio. This consists of investments in financial instruments on the international market and certified physical gold (91.61% and 0.75% of reserves, respectively). In addition, foreign reserves include the country's contributions to the International Monetary Fund and the Latin American Reserve Fund. Graph 5.1 shows the composition of foreign reserves as of the end of the first half of 2025.

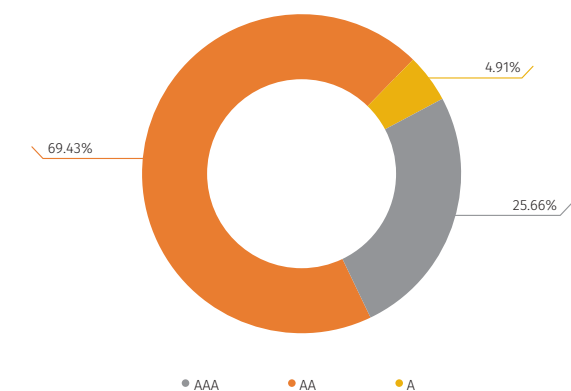
² Net foreign reserves are equal to total foreign reserves, or gross reserves, minus the short-term external liabilities of *Banco de la República*. The latter consists of demand obligations in foreign currency with non-resident agents. Gross foreign reserves amounted to USD 65,188 m, while short-term external liabilities totaled USD 25 m.

Graph 5.2
Composition of the Investment Portfolio by Sector
(information as of 30 June 2025)



Source: Banco de la República.

Graph 5.3
Distribution of Investments by Credit Rating
(information as of 30 June 2025)



Source: Banco de la República.

5.2.1 Reserve Indicators

The different metrics on foreign reserves continue to indicate that Colombia maintains an adequate level, without exceeding the necessary level to meet the country’s external needs and provide solid backing against potential external shocks. This assessment holds even after Colombia’s access to the International Monetary Fund’s (IMF) Flexible Credit Line (FCL) was suspended. An internationally widely used indicator to assess reserve adequacy is proposed by the IMF’s Assessing Reserve Adequacy (ARA) methodology. This metric establishes that foreign reserves must be sufficient to cover the main balance of payments risks during episodes of foreign exchange market pressure. This indicator is designed to provide protection against the risks associated with the loss of access to external financing, a decline in confidence in the local currency, a reversal of capital flows, and a potential contraction in external demand. According to the IMF standard, an economy is considered to hold an adequate level of reserves if the ratio between its actual reserves and their adequate level (according to the ARA methodology) falls within the range of 1.0 to 1.5. Based on the most recent information available corresponding to May 2025, this ratio for Colombia stands at 1.30.

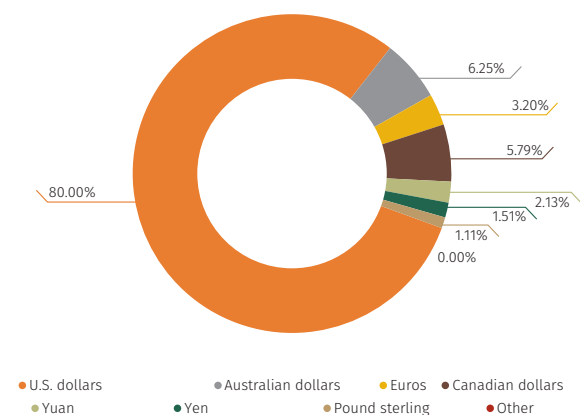
5.2.2 Composition of the Investment Portfolio

The investment portfolio is primarily composed of securities issued by governments and government-related entities. As shown in Graph 5.2, as of 30 June 2025, approximately 95.10% of the portfolio was investments in securities issued by such entities.

The portfolio composition by credit rating reflects the high credit quality of the assets in which the portfolio is invested. Graph 5.3 shows that 25.66% of the portfolio was invested in AAA-rated instruments and 69.43% in AA-rated instruments. Banrep uses as reference the lowest credit rating assigned by at least two of the three major credit rating agencies (S&P, Moody’s, and Fitch Ratings). In addition to credit ratings, Banrep incorporates the monitoring of environmental, social, and governance (ESG) risk factors into its foreign reserves risk management process.

The investment portfolio consists of currencies characterized by high daily trading volumes and belonging to countries with high credit ratings, with the US dollar holding the largest share. Graph 5.4 displays the currency composition of the investment portfolio as of 30 June 2025. Given that one of the objectives of foreign reserves is to meet the country’s external payments during periods of reduced external financing sources, the currency composition of Colombia’s foreign reserves aims to replicate the performance of the country’s balance of payments outflows. In this regard, reserves seek to cover the volatility of the country’s external payments arising from exchange rate

Graph 5.4
Currency Composition of the Investment Portfolio
(information as of 30 June 2024)



Source: Banco de la República.

movements between foreign currencies. The US dollar has the largest share of Colombia's foreign reserves, as most of the country's trade and financial transactions with the rest of the world are conducted in this currency. The following currencies are also eligible for investment: Canadian, Australian, and New Zealand dollars, Swedish krona, pound sterling, Swiss franc, euro, yuan, yen, Norwegian krone, renminbi, Hong Kong and Singapore dollars, and South Korean won.

5.2.3 Returns on Reserves

The return of foreign reserves mainly depends on two factors: interest and capital appreciation. The first factor refers to the interest income from the instruments in which the foreign reserves are invested. The second relates to changes in the market value of securities resulting from fluctuations in interest rates. This second factor arises from the inverse relationship between bond prices and interest rates; that is, when interest rates increase, bond prices decrease, and vice versa.

As of 30 June 2025, foreign reserves showed a positive return, driven by interest income from investments in the investment portfolio (interest factor) and the appreciation of the portfolio due to the interest rate cuts (capital appreciation factor). Year-to-date, foreign reserves have reached a 2.90% return³. Interest rates in the main markets where foreign reserves are invested have remained elevated compared to historical levels, contributing to the positive return through interest income (interest factor) this year. Additionally, due to monetary policy decisions by most central banks in developed economies, short-term interest rates of sovereign bond curves have been reduced, resulting in an appreciation of shorter-term investments (capital appreciation factor).

The outlook for the return of foreign reserves in 2025 remains favorable both for interest income and investment appreciation. With interest rates within international markets remaining relatively high compared to those observed in recent years, reserve investments are expected to continue generating solid interest income (interest factor) throughout the year. Additionally, as global inflation levels continue to decline, interest rates on sovereign debt securities are expected to further decrease, leading to additional appreciation of investments. The outlook for the return of foreign reserves is favorable, given the higher level of interest income on portfolio assets. Moreover, interest rate cuts may occur in several advanced economies in the coming months, considering the projections available for 2025. Over the medium term, interest rates on

³ This return is calculated by dividing the observed return by the average value of net reserves as of 31 December 2024 and 30 June 2025. Since 2015, the influence of exchange rate effects has been excluded from the return of reserves.

sovereign debt securities are expected to further decline, which would generate additional investment appreciation but lower interest income.

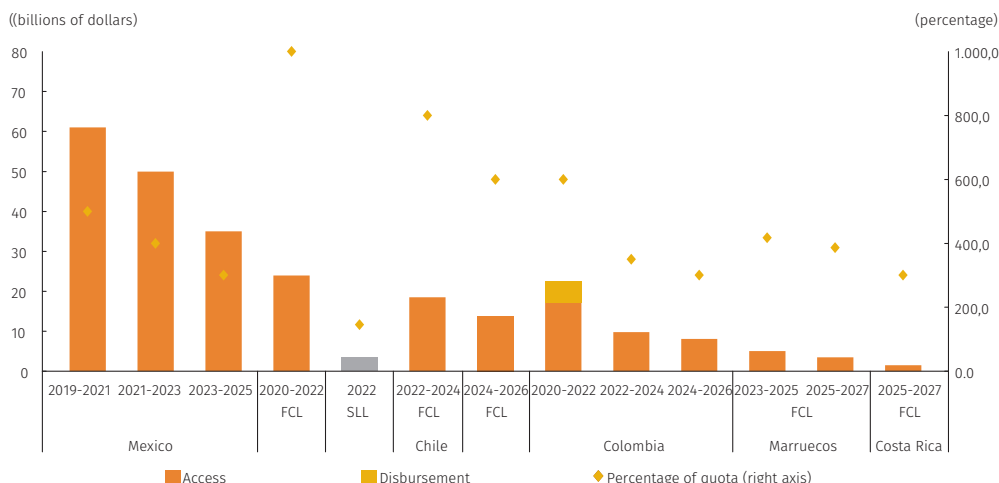
5.2.4 Measures to Strengthen International Liquidity

On 26 April 2024, the Executive Board of the International Monetary Fund (IMF) approved a new two-year Flexible Credit Line (FCL) arrangement for USD 8,100 million, equivalent to 300% of the country’s quota. This arrangement replaced the previous one, approved in 2022, and is considered by the Colombian authorities as a precautionary instrument to face external risks.

The FCL is an instrument created by the IMF to provide precautionary and flexible financing to countries with solid institutional frameworks for economic policy and strong economic fundamentals. This line complements the country’s availability of external liquidity for beneficiary countries, serves as insurance against external risks, maintains agents’ confidence in the economy, and facilitates access to financial markets under favorable conditions. Currently, five countries have active FCL agreements: Mexico, Chile, Colombia, Morocco, and Costa Rica (Graph 5.5).

FCL agreements, which are approved for two-year periods, are subject to a mid-term review at the end of the first year, which assesses whether the member country continues to meet the criteria to access the instrument. These criteria are: 1) a sustainable external position; 2) a capital account that must be mostly financed by private flows; 3) a consistent track record of access to capital markets on favorable terms; 4) an adequate position of foreign reserves; 5) sound public finances, including a sustainable public debt position; 6) low and stable inflation within a robust monetary and exchange rate policy framework; 7) a sound financial system without bank solvency problems that could pose a risk to systemic stability; 8) effective supervision of the financial sector; and 9) data transparency and integrity. Likewise, the mid-term review requires a favorable assessment of the member country’s policies, within the framework of the most recent Article IV consultation, as part of the assessment of qualification criteria. If one year after the approval date of the current agreement, the mid-term review has not been completed (for agreements with a two-year duration), the country’s access to FCL resources will

Graph 5.5
Recent Flexible Credit Line (FCL) Agreements



Source: International Monetary Fund (IMF) and Banco de la República.

be suspended. No disbursements can be made until the aforementioned review is concluded.

Colombia has been implementing the necessary adjustments to correct the main macroeconomic imbalances stemming from the disruptions of recent years. Thus, more than a year after the most recent renewal of the FCL, the country has maintained strong economic fundamentals and policy frameworks on most fronts. However, despite these favorable prospects, the fiscal situation has deteriorated, given a highly inflexible spending structure and lower-than-projected revenues. In this context, marked by high uncertainty and volatility in financial markets due to changes in US economic policy and global geopolitical tensions, the IMF, which visited the country at the beginning of the year, decided to postpone the completion of the Article IV consultation.

The Fund reported that the assessment regarding Colombia's eligibility to access the instrument's resources is contingent on the completion of the ongoing Article IV consultation and the mid-term review, meaning access to FCL resources has been suspended since 26 April of this year. The IMF remains engaged with the Colombian authorities in a constructive dialogue regarding the appropriate actions and policies needed to address the current challenges facing the country. The Article IV process continues ongoing as the IMF's staff completes its assessment.

On the other hand, Banco de la República also has access to the Federal Reserve's Repurchase Agreement (Repo) Facility (FIMA). This is an instrument that facilitates access to immediate liquidity if required under extreme circumstances. In these transactions, FIMA account holders (central banks and other international monetary authorities with accounts at the Federal Reserve Bank of New York) exchange their US Treasury bonds held at the Federal Reserve for US dollars, with a commitment to repurchase the securities the next day, along with interest. The main benefit for *Banco de la República* in accessing the FIMA facility is having liquidity in US dollars without permanently selling assets from the foreign reserves' portfolios. This mitigates liquidity and market risk. *Banco de la República* would use this facility only in the unlikely event that, after deciding to sell dollars in the spot market, the market for purchasing and selling US Treasury securities had very low liquidity at that time.

Finally, Banco de la República has access to liquidity facilities from the Bank for International Settlements (BIS), which complements the availability of external liquidity from foreign reserves. Under these facilities, central banks' investments with the BIS serve as collateral for liquidity provision by the BIS. In this context, *Banco de la República* could access contingent and immediate liquidity without having to sell assets from foreign reserves' portfolios invested in BIS instruments, which could be particularly useful in extreme circumstances of low liquidity in global fixed-income markets or episodes of high-risk aversion. Particularly, in the first half of 2025, the BIS renewed these facilities for *Banco de la República* for a total amount of USD2,000 m, which would only be used exceptionally in extreme market situations⁴. In this sense, *Banco de la República* considers these facilities as precautionary lines that complement the availability of external liquidity for the foreign reserves.

⁴ Such entity reserves the right to approve or deny applications for access to the instrument and for the disbursement of the facility. The BIS reviews each central bank's request for access to the line and, if applicable, its request for disbursement.

Shaded Section 3

Developments of Colombia's Balance of Payments in the period 2000-2024

One of the main characteristics of the Colombian economy's external accounts is, in general terms, its persistent current account deficit and, consequently, its demand for external financing. This is reflected in a negative current account balance, which has range between 1.3% and 6.0% as a share of GDP so far this century. It should be noted that, recently, the current account deficit deteriorated significantly in the early years of this decade, as a result of the imbalances generated during the years following the pandemic. This situation has been corrected in recent years as part of the macroeconomic adjustment observed in the Colombian economy. Over time, the country's persistent external imbalance has been driven by deficits in the trade balance of goods and services and in factor income, partially offset by net income from current transfers (Table S3.1).

First, the main determinant of the current account dynamics is the performance of exports and imports, which accounted, on average, for 62% of total current income and expenditure during the 2000-2024 period. In this component, external sales reached their highest share in the period 2009-2015 (75.2%), while external purchases did so in 2020 (66.8%). Regarding foreign trade in services, foreign sales and purchases have recorded a notable upturn in their relative importance since 2016. In particular, during 2023 and 2024, the growth in travel receipts was especially significant, while in the years prior to the pandemic, travel and freight transportation expenditures stood out. In turn, net income from current transfers has shown an upward trend, particularly in the most recent period, driven by higher foreign currency inflows from remittances, an item that has reached historically high levels over the past two years. This result was associated with the increase in the Colombian population living abroad and the good performance of employment in the United States and Spain, countries that contribute nearly 70% of these resources.

Since 2000, revenues and expenses from factor income have shown substantial growth, with the exception of 2020. In recent years, they have reached their highest levels (Table S3.1). On the revenue side, this result is due to higher profits and returns generated by investments made by Colombians abroad. In contrast, the increase in expenditures is explained both by the performance of profits of firms with foreign direct investment (FDI), which tends to be especially high during periods of commodity price booms, and by the rise in interest payments on external debt, particularly during the pandemic. In recent years, these have been characterized by higher international interest rates. Regarding interest payments abroad, the analysis period shows that foreign loan payments made by the public sector are higher than those made by the private sector, although with slower growth after 2022 due to higher loans contracted by private firms (Table S3.1). It should be noted that, as FDI and foreign loans are the main sources of financing for a persistently deficit current account balance, the increase in these liabilities also partially explains the rise in factorial income external expenses in the country.

In line with the persistent current account deficit, Colombia has relied on external financing during the reference period, recording net capital inflows of between 1.3%

Table S3.1
Colombia's Current Account

| Current Account (millions of dollars) | 2000- 2008 ^{a/} | 2009- 2015 ^{a/} | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|--|-----------------------------|-----------------------------|----------------|---------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Current account (A + B + C) | -2,306 | -12,182 | -12,587 | -9,924 | -14,041 | -14,809 | -9,267 | -17,949 | -20,879 | -8,296 | -7,225 |
| Percentage of GDP | -1.3% | -3.7% | -4.4% | -3.2% | -4.2% | -4.6% | -3.4% | -5.6% | -6.0% | -2.2% | -1.7% |
| Income | 28,785 | 66,517 | 54,748 | 62,655 | 68,800 | 68,318 | 52,420 | 68,783 | 94,174 | 92,055 | 95,818 |
| Expenses | 31,091 | 78,700 | 67,334 | 72,579 | 82,841 | 83,127 | 61,687 | 86,732 | 115,052 | 100,351 | 103,043 |
| A. Goods and Services | -1,206 | -5,511 | -13,451 | -8,762 | -10,556 | -14,148 | -13,105 | -20,001 | -16,094 | -7,786 | -9,473 |
| 1. Goods | 890 | 151 | -9,176 | -4,285 | -6,394 | -9,863 | -8,870 | -13,984 | -12,178 | -6,808 | -9,156 |
| FOB exports | 20,652 | 50,051 | 34,063 | 39,786 | 42,993 | 40,656 | 32,309 | 42,736 | 59,473 | 52,642 | 51,091 |
| FOB imports | 19,763 | 49,900 | 43,239 | 44,070 | 49,387 | 50,518 | 41,179 | 56,719 | 71,652 | 59,449 | 60,246 |
| 2. Services | -2,096 | -5,662 | -4,275 | -4,477 | -4,162 | -4,285 | -4,235 | -6,017 | -3,916 | -978 | -317 |
| Exports | 3,023 | 7,245 | 8,706 | 9,536 | 10,731 | 10,668 | 5,915 | 8,178 | 14,044 | 16,031 | 17,910 |
| Imports | 5,120 | 12,907 | 12,981 | 14,013 | 14,893 | 14,954 | 10,150 | 14,195 | 17,960 | 17,010 | 18,227 |
| B. Factor Income | -4,780 | -11,580 | -5,312 | -8,046 | -11,442 | -9,716 | -4,950 | -8,723 | -17,086 | -13,432 | -13,260 |
| 1. Income | 1,125 | 3,336 | 4,994 | 5,577 | 6,177 | 6,977 | 4,543 | 5,932 | 6,975 | 8,970 | 9,691 |
| 2. Expenses | 5,905 | 14,916 | 10,306 | 13,623 | 17,619 | 16,693 | 9,492 | 14,656 | 24,061 | 22,402 | 22,951 |
| I. Interests | 2,549 | 3,363 | 5,330 | 6,021 | 6,768 | 7,192 | 6,014 | 6,496 | 8,320 | 11,305 | 13,002 |
| Public | 1,783 | 2,571 | 3,907 | 4,705 | 5,089 | 5,202 | 4,804 | 5,205 | 5,605 | 7,138 | 8,205 |
| Private | 766 | 792 | 1,423 | 1,316 | 1,678 | 1,989 | 1,210 | 1,291 | 2,716 | 4,167 | 4,797 |
| II. Income from foreign investments in Colombia | 3,338 | 11,476 | 4,927 | 7,539 | 10,790 | 9,442 | 3,434 | 8,114 | 15,707 | 11,068 | 9,922 |
| Direct | 3,310 | 11,056 | 4,795 | 7,346 | 10,576 | 9,228 | 3,257 | 8,010 | 15,583 | 10,876 | 9,735 |
| Portfolio | 27 | 421 | 132 | 193 | 214 | 214 | 177 | 104 | 124 | 192 | 187 |
| III. Employee compensation | 18 | 65 | 22 | 23 | 22 | 22 | 5 | 7 | 34 | 29 | 26 |
| C. Current Transfers | 3,680 | 4,909 | 6,177 | 6,883 | 7,957 | 9,055 | 8,788 | 10,775 | 12,301 | 12,922 | 15,507 |
| Income | 3,984 | 5,885 | 6,985 | 7,757 | 8,899 | 10,017 | 9,654 | 11,937 | 13,681 | 14,413 | 17,126 |
| Expenses | 304 | 976 | 808 | 873 | 941 | 962 | 866 | 1,162 | 1,380 | 1,490 | 1,619 |

pr: Preliminary.

a/ Corresponds to the simple average for the referenced period.

Source: Banco de la República.

Table S3.2
 Colombia's Financial Account

| Financial Account (millions of dollars) | 2000- 2008 ^{a/} | 2009- 2015 ^{a/} | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|---|-----------------------------|-----------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Financial Account (II + III + IV - I) | -2,228 | -11,952 | -12,339 | -9,625 | -12,954 | -13,298 | -8,113 | -16,693 | -20,466 | -7,849 | -5,839 |
| Percentage of GDP | -1.3% | -3.6% | -4.4% | -3.1% | -3.9% | -4.1% | -3.0% | -5.3% | -5.9% | -2.1% | -1.4% |
| I. Liabilities (foreign capital inflows) (A + B) | 6,501 | 24,935 | 24,414 | 19,973 | 20,710 | 16,708 | 22,894 | 27,415 | 32,635 | 22,107 | 19,433 |
| A. Foreign direct investment | 5,376 | 12,593 | 13,858 | 13,701 | 11,299 | 13,989 | 7,459 | 9,561 | 17,182 | 16,794 | 14,269 |
| B. Other investments in Colombia (i + ii) | 1,125 | 12,342 | 10,556 | 6,272 | 9,411 | 2,719 | 15,436 | 17,854 | 15,452 | 5,313 | 5,164 |
| i. Public sector (a + b) | 1,021 | 7,771 | 12,332 | 4,007 | 5,479 | 727 | 18,447 | 17,083 | 8,578 | 4,290 | 1,263 |
| a. Foreign portfolio investment | 705 | 6,046 | 9,292 | 6,695 | 2,016 | 850 | 9,274 | 8,958 | 4,852 | 2,117 | 3,144 |
| International markets (bonds) | 641 | 3,498 | 1,910 | 2,914 | -1,514 | 1,069 | 6,182 | 5,825 | 542 | 4,371 | 4,073 |
| Local market (TES) | 64 | 2,548 | 7,382 | 3,781 | 3,529 | -219 | 3,092 | 3,133 | 4,311 | -2,253 | -929 |
| b. Foreign loans and other liabilities | 315 | 1,725 | 3,039 | -2,687 | 3,463 | -123 | 9,173 | 8,126 | 3,726 | 2,173 | -1,881 |
| Loans | 338 | 1,590 | 3,041 | -2,687 | 3,463 | -123 | 9,173 | 5,339 | 3,773 | 2,173 | -2,181 |
| ii. Private sector (a + b) | 104 | 4,570 | -1,776 | 2,265 | 3,932 | 1,992 | -3,011 | 770 | 6,874 | 1,023 | 3,901 |
| a. Foreign portfolio investment | 66 | 2,703 | 737 | 1,117 | -1,667 | -559 | -1,759 | -611 | -1,973 | -1,000 | -206 |
| International markets | -26 | 1,036 | 1,100 | 645 | -844 | 673 | -1,305 | 578 | -1,422 | -1,020 | -744 |
| Local market | 92 | 1,667 | -363 | 472 | -823 | -1,232 | -454 | -1,189 | -551 | 20 | 538 |
| b. Foreign loans and other liabilities | 38 | 1,867 | -2,513 | 1,147 | 5,599 | 2,551 | -1,253 | 1,382 | 8,847 | 2,023 | 4,107 |
| Loans | -155 | 1,622 | -1,497 | 1,098 | 5,436 | 2,014 | -1,147 | 998 | 7,637 | 1,499 | 3,932 |
| Other ^{b/} | 193 | 245 | -1,016 | 49 | 163 | 537 | -105 | 384 | 1,209 | 524 | 175 |
| II. Assets (Colombian capital outflows) (A + B) | 2,694 | 9,126 | 12,530 | 9,438 | 6,548 | -7 | 10,966 | 9,703 | 10,775 | 15,115 | 10,057 |
| A. Direct investment abroad | 1,417 | 4,653 | 4,517 | 3,690 | 5,126 | 3,153 | 1,733 | 3,181 | 3,384 | 1,269 | 4,576 |
| B. Other investments abroad (i + ii) | 1,276 | 4,473 | 8,013 | 5,748 | 1,422 | -3,161 | 9,232 | 6,522 | 7,391 | 13,846 | 5,481 |
| i. Public sector | 836 | 334 | 3,690 | -1,276 | 1,484 | -2,103 | 958 | -2,576 | 1,724 | 3,123 | -406 |
| ii. Private sector | 441 | 4,139 | 4,323 | 7,024 | -62 | -1,058 | 8,274 | 9,099 | 5,667 | 10,723 | 5,887 |
| III. Financial Derivative Instruments (A - B) | 76 | 208 | -621 | 365 | 21 | 84 | -513 | 365 | 823 | -2,575 | -57 |
| IV. Reserve assets | 1,504 | 3,649 | 165 | 545 | 1,187 | 3,333 | 4,328 | 654 | 571 | 1,718 | 3,593 |

pr: Preliminary.

a/ Corresponds to the simple average for the referenced period.

b/ It includes: i) currency and deposits, and ii) loans and trade advances.

Source: Banco de la República.

and 5.9% of GDP, reaching their highest levels between 2021 and 2022 (Table S3.2)¹. The main source of external financing has been the FDI, accounting for an average of 71.2% of the total amount received from abroad, followed by portfolio investment (21.0%) and resources from foreign loans and other liabilities (7.8%). The good performance of the FDI is due to the performance of the Colombian domestic market, international commodity prices, and the profitability associated with these investments. Thus, despite internal and external shocks, the FDI has remained above other capital flows and has shown an upward trend throughout the analysis period, although with a decline in 2024 (Table S3.2).

On the other hand, financing of the current deficit has also relied on resources from foreign loans and portfolio investments. In this regard, the public sector has played an important role in the performance of these financial flows due to the number of its transactions in both debt securities flows and the disbursements and amortizations of its foreign loans (Table S3.2). Except for 2017, 2019, and 2024, during the analysis period, the public sector consistently demanded external financing, obtaining income from portfolio investments and loans (Table S3.2). In turn, the private sector has also contracted external debt, which has risen significantly since 2022, mainly as a result of greater demand for resources by companies to finance their productive projects in Colombia and their expansion into the regional market.

Regarding investments made by Colombians abroad, loans and other assets are the most commonly used financial instruments by domestic investors (59.1% on average), particularly those made by the private sector. Also notable are the dynamics of Colombia's foreign direct investment (IDCE in Spanish), which exhibits a more stable performance compared to other capital flows abroad (Table S3.2).

1 More detailed information about the financial account is available at the following link: https://suameca.banrep.gov.co/estadisticas-economicas-back/reporte-oac.html?path=%2Festadisticas_Banco_de_la_Republica%2F4_Sector_Externo_tasas_de_cambio_y_derivados%2F2_Sector_Externo%2F4_Balanza_de_pagos%2F2_Balanza_de_pagos_Maximo_nivel_de_detalle

Shaded Section 4

Participation of *Banco de la República* in the Bank for International Settlements

In compliance with Law 1484 of 12 December 2011, which authorized the incorporation of *Banco de la República* as a shareholder in the Bank for International Settlements (BIS)¹, this section details the most relevant activities carried out with this institution in recent months. In accordance with the granted authorization, *Banrep* subscribed to 3,000 shares of the BIS valued at 65,712,000 Special Drawing Rights (SDRs), equivalent to USD 100,978,710, which are recorded at their acquisition cost in SDRs under the items of contributions to international organizations and entities.

This year, during the BIS Annual General Meeting, a decision was made to pay a dividend of SDR 380 per share, comprising an ordinary dividend of SDR 305 per share and a final dividend of SDRs 75 per share. This dividend is distributed among members as a result of the exceptional increase in the organization's total income during the 2024-2025 period. Thus, following the payment of dividends, the profits for the period were allocated to the General Reserve Fund, the Special Reserve Fund for Dividends, and the Free Reserve Fund².

In recent months, as usual, *Banco de la República's* management has participated in the periodic meetings held by the organization, in which recent events and the outlook of the global economy and financial markets are reviewed. Recent discussions in the meeting of governors from BIS member countries have focused on monetary policy cycles, recent investment dynamics, regional integration amid global fragmentation, the outlook for households following inflation increases in recent years, the performance of global financial conditions, and the challenges of using artificial intelligence in the workplace at central banks.

Furthermore, within the framework of the BIS advisory groups that conduct research and analysis in areas such as financial stability and banking transactions, *Banco de la República's* regular participation in meetings of the Consultative Group of Directors of Financial Stability (CGDFS) stands out, where discussions have focused on the risks of non-bank financial intermediaries in the region, the provision of liquidity in periods of crisis, and the work plan for 2025, which on this occasion will focus on the risks of artificial intelligence on financial stability. Also noteworthy is the participation in the Consultative Group of Directors of Operations (CGDO) meeting, which discussed recent developments in financial markets, market performance in the United States, and the fiscal sustainability of countries in the region.

1 This international institution was created in 1930 and currently includes 63 central banks. Its mission is to support central banks in their quest for monetary and financial stability by fostering international cooperation in these areas, as well as to serve as bank for the member central banks. Its headquarters are located in Basel (Switzerland), and it has two representative offices, one in Hong Kong and the other in Mexico City.

2 In accordance with the bylaws, 5.0% of net return for the 2024-2025 period, after deducting the dividend payment, was transferred to the General Reserve Fund, and the remaining amount was distributed between the Special Reserve Fund for Dividends and the Free Reserve Fund.

Finally, the 24th BIS Annual Conference³, held at the end of June this year in Basel, Switzerland, is also highlighted. On this occasion, discussions focused on financial innovation, liquidity and central bank intervention, the interaction of monetary and fiscal policies in an environment of high debt levels, perspectives on policymaking, and the challenges faced by central banks in a changing world. Additionally, during the BIS annual general meeting, the organization presented the *2024 Annual Economic Report*⁴. The report is divided into three chapters, which focus on the importance of maintaining economic stability amid uncertainty and fragmentation in global trade, the implications of a changing financial system for monetary policy and financial conditions, and the possibility of developing a monetary system based on tokenization.

3 The presentations of the 24th annual conference of the organization are available at the following link: <https://www.bis.org/events/conf250627/overview.htm>

4 The report is available at the following link: <https://www.bis.org/publ/arpdf/ar2025e.htm>

6. Financial Situation of *Banco de la República*

6.1 Statement of Financial Position *Banco de la República* (Balance Sheet)¹

As of 30 June 2025, *Banco de la República* (*Banrep*) assets amounted to COP 322,008 billion (b), liabilities to COP 207,508 b, and equity to COP 114,499 b. *Banrep*'s assets decreased compared to the end of 2024 due to the lower value in pesos of foreign reserves and the balance of Repo transactions. The balance of liabilities declined as a result of the lower value of interest-bearing deposits not constituting reserve requirements (DRNCE in Spanish) and the monetary base. Finally, equity decreased mainly due to the performance of the exchange rate adjustment account (Table 6.1).

In the first half of the year, assets decreased by COP 20,699 b (-6.0%) compared to the end of the previous year, due to the lower value in pesos of net foreign reserves and a reduced balance of repo transactions. Between January and June 2025, the dollar balance of these foreign reserves, which constitute the main component of *Banrep*'s assets, increased by USD 2,682 million (m), driven by their returns (USD 1,851 m) and a positive exchange rate differential resulting from the depreciation of the dollar against other reserve currencies (USD 862 m). However, when considering the peso value of foreign reserves, their balance decreased by COP 10,296 b (-3.7%), mainly due to the appreciation of the Colombian peso against the US dollar². Additionally, the balance of expansionary repo transactions dropped by COP 12,199 b (-50.7%) compared to that observed at the end of the previous year. For other asset accounts, changes were smaller. Particularly, the balance of the TES portfolio held by *Banrep* increased by COP 40 b (0.1%)³.

At the end of the first half of 2025, liabilities decreased by COP 1,935 b (-0.9%) compared to the end of the previous year, mainly due to a lower balance of the monetary base and remunerated non-reserve deposits. The monetary base declined by COP 1,758 b (-1.0%) compared to the end of 2024, due to the seasonality in public demand for cash. In turn, the balance of interest-bearing deposits not constituting reserve requirements fell by COP 3,629 b (-38.7%) over the same period. This decline was partially offset by an increase in deposits from the National Government at *Banrep* by COP 2,919 b (80.7%).

Finally, compared to the end of 2024, equity exhibited a decline of COP 18,764 b (-14.1%), due to a negative variation in the exchange rate adjustment account. The change in equity was driven by a decline in the exchange rate adjustment surplus of COP 17,356 b (-13.5%), mainly offset by the effect of the strengthening of the

1 This section shows the items according to economic and non-accounting criteria. Compared to the financial statements submitted to the Financial Superintendency of Colombia and the National General Accounting Office, the differences are: 1) the assets discount the value of the liabilities associated with foreign reserves portfolio purchases for which payment has not yet been made (in *Banrep*'s financial statements, this is recorded as a higher value of the asset and as an enforceability of foreign reserves in the liabilities); 2) the assets and liabilities of this section include the coins in circulation, which is not part of the accounting information of *Banrep*'s statement of financial position; and 3) other reclassifications of lower-value accounts. In this regard, the values of assets and liabilities presented in this Report (COP 322,008 b and COP 207,508 b, respectively) differ from those recorded in the Financial Statements as of 30 June 2025 (COP 324,979 b and COP 210,479 b).

2 From January to June 2025, the Colombian peso appreciated by 7.7% against the US dollar. It should be noted that approximately 77% of the foreign reserves' portfolio is invested in this currency.

3 So far this year, *Banrep* has not made purchases or sales of TES.

Table 6.1
Statement of Financial Position of Banco de la República Classified by Economic Criteria (billions of pesos)

| Accounts | December, 2024 | | June, 2025 | | Variation | |
|---|----------------|------------------|------------|------------------|-----------|------------|
| | Balances | Percentage Share | Balances | Percentage Share | Absolute | Percentage |
| Assets | 342,706 | 100.0 | 322,008 | 100.0 | -20,699 | -6.0 |
| Net Foreign Reserves | 275,489 | 80.4 | 265,193 | 82.4 | -10,296 | -3.7 |
| Participation in international organizations and entities | 8,289 | 2.4 | 9,191 | 2.9 | 903 | 10.9 |
| Investments in TES held by Banrep | 28,063 | 8.2 | 28,102 | 8.7 | 40 | 0.1 |
| Repo operations | 24,043 | 7.0 | 11,844 | 3.7 | -12,199 | -50.7 |
| Other net assets | 6,823 | 2.0 | 7,677 | 2.4 | 854 | 12.5 |
| Liabilities and equity | 342,706 | 100.0 | 322,008 | 100.0 | -20,699 | -6.0 |
| Liabilities | 209,443 | 61.1 | 207,508 | 64.4 | -1,935 | -0.9 |
| Monetary base | 172,800 | 50.4 | 171,042 | 53.1 | -1,758 | -1.0 |
| Cash | 136,645 | 39.9 | 134,485 | 41.8 | -2,160 | -1.6 |
| Reserves | 36,156 | 10.6 | 36,557 | 11.4 | 401 | 1.1 |
| Remunerated non-reserve deposits | 9,372 | 2.7 | 5,742 | 1.8 | -3,629 | -38.7 |
| National Government Deposits | 3,619 | 1.1 | 6,539 | 2.0 | 2,919 | 80.7 |
| Obligations to international organizations | 23,521 | 6.9 | 24,010 | 7.5 | 489 | 2.1 |
| Other deposits | 130 | 0.0 | 175 | 0.1 | 45 | 34.7 |
| Equity | 133,264 | 38.9 | 114,499 | 35.6 | -18,764 | -14.1 |
| Capital | 13 | 0.0 | 13 | 0.0 | 0 | 0.0 |
| Reserves | 744 | 0.2 | 744 | 0.2 | 0 | 0.0 |
| Surplus | 127,144 | 37.1 | 109,798 | 34.1 | -17,346 | -13.6 |
| Exchange rate adjustments account ^{a/} | 128,185 | 37.4 | 110,829 | 34.4 | -17,356 | -13.5 |
| Special Foreign-exchange Account (CEC in Spanish) | 453 | 0.1 | 453 | 0.1 | 0 | 0.0 |
| Investment in assets for cultural activities | 382 | 0.1 | 392 | 0.1 | 10 | 2.5 |
| Transfers to international organizations | -1,943 | -0.6 | -1,943 | -0.6 | 0 | 0.0 |
| Cumulative effect of accounting change – Decree 2386 of December 2015 | 67 | 0.0 | 67 | 0.0 | 0 | 0.0 |
| Other Comprehensive Income (OCI) | -4,679 | -1.4 | -3,808 | -1.2 | 871 | -18.6 |
| Results | 10,041 | 2.9 | 7,751 | 2.4 | -2,290 | -22.8 |

a/ It includes the exchange rate adjustment account of net foreign reserves, liabilities to the IMF (SDR allocations), and liabilities to FLAR (Andean pesos).

Note: This table presents the items according to economic rather than accounting criteria. Compared to the financial statements submitted to the Financial Superintendency of Colombia and the National General Accounting Office, the differences are: i) the assets deduct the value of the liabilities associated with the purchase of foreign reserve portfolios on which payment has not yet been made (in the Central Bank's financial statements, this is recorded as a higher asset value and as an enforceability of foreign reserves in the liabilities); (ii) the assets and liabilities in this section include coins in circulation, which is not part of the accounting information in the Central Bank's Statement of Financial Position; and (iii) other reclassifications of lower-value accounts. In this regard, the values of assets and liabilities presented in this Report (COP 322,008 b and COP 207,508 b, respectively) differ from those recorded in the Financial Statements as of 30 June 2025 (COP 324,979 b and COP 210,479 b).

Source: Banco de la República.

Colombian peso against the US dollar⁴. *Banrep's* equity was also reduced by the transfer of 2024 profits to the National Government, amounting to COP10,031 b⁵. Finally, the outcome for the first half of 2025 reached COP7,751 b.

6.2 Income Statement (P&L)

6.2.1 Closure as of June 2025

From January to June 2025, *Banrep's* profit amounted to COP7,751 b, resulting from revenues of COP9,405 b and expenses of COP1,654 b (Table 6.2). When breaking down its main components, profit is explained by net monetary income of COP8,182 b, which was higher than the net expenses from issuing and putting into circulation banknotes and coins of COP65 b and net corporate expenses of COP365 b⁶. Compared to the same period in 2024, profit was higher by COP3,663 b.

During the first half of 2025, revenues originated mainly from the return on foreign reserves. For this period, monetary income amounted to COP9,158 b, higher by COP3,420 b (59.6%) compared to the first half of 2024, mainly due to: 1) the return of foreign reserves recorded in the P&L⁷ for COP6,798 b⁸, with an annual increase of COP3,029 b (80.3%); 2) the return of TES held by *Banrep* amounted to COP1,448 b, with an annual increase of COP138 b (10.6%). This occurred because, although the average balance and interest rate were lower this year, no losses previously recorded in Other Comprehensive Income (OCI) from portfolio settlements were realized⁹, which affected previous year's returns; 3) interest income from expansionary repo transactions by COP903 b, with an annual increase of COP287 b (46.6%), driven by the highest average balance, whose effect on income exceeded the influence of the reduction in the remuneration interest rate¹⁰, which was determined by the monetary policy interest rate path defined by *Banco de la República's* Board of Directors, and 4) exchange rate differences that amounted to COP2 b, lower by COP20 b (-91.0%) compared to the same period of the previous year, due to a 7.7% appreciation of the peso against the US dollar through June 2025, com-

4 The exchange rate adjustment account includes the influence on the peso value of foreign reserves from fluctuations in the exchange rate of the peso against the currencies in which these reserves are invested, as well as the differences on the liabilities exchange with the IMF (Special Drawing Rights [SDR] allocations) and with the Latin American Reserve Fund (FLAR in Spanish) (Andean pesos).

5 See: <https://www.banrep.gov.co/es/noticias/banrep-obtuvo-utilidad-2024>.

6 The concept of corporate expenses in this *Report* includes pension-related expenses.

7 Unrealized returns arising from variations in the market prices of portfolio securities under the passive management mandate (passive portfolio) are recorded in the OCI account in *Banrep's* equity, with no impact on the P&L. When realized, these returns (profits or losses) are transferred from the OCI to the P&L. Additionally, the P&L does not record the exchange adjustment resulting from variations in the exchange rates of the peso against the currencies in which the foreign reserves are invested. This effect is recorded in the surplus account due to exchange adjustment in *Banrep's* equity.

8 The total return of foreign reserves observed between January and June 2025 amounted to COP7,625 b. The return of foreign reserves accounted for in the P&L, COP6,798 b, was obtained by: 1) discounting from its total return the transfers to the OCI as a result of unrealized net profits during this period, per COP933 b, and 2) including the realization of accumulated profits from previous periods, previously recognized in the OCI, per COP106 b.

9 Realized losses in the first half of 2024 amounted to COP214 b and were associated with sales in the market and the delivery of securities to the National Government, the latter as part of the distribution of 2023 results.

10 During the first half of 2025, the remuneration interest rate and the daily volume of expansion repos were, on average, 9.45% and COP20,161 b, compared to 12.41% and COP10,507 b in the same period of 2024.

Table 6.2
Income Statement (P&L) of Banco de la República, January to June
(billions of pesos)

| | Observed as of June | | Annual Variations | |
|---|---------------------|--------------|-------------------|-------------|
| | 2024 | 2025 | Absolute | Percentage |
| I. Total Income (A + B + C) | 5,903 | 9,405 | 3,503 | 59.3 |
| A. Monetary income | 5,738 | 9,158 | 3,420 | 59.6 |
| Interest and yields | 5,696 | 9,150 | 3,454 | 60.6 |
| Foreign reserves | 3,770 | 6,798 | 3,029 | 80.3 |
| TES held by Banrep | 1,310 | 1,448 | 138 | 10.6 |
| Expansionary repos | 616 | 903 | 287 | 46.6 |
| Foreign exchange differences | 22 | 2 | -20 | -91.0 |
| Other monetary income | 21 | 6 | -14 | -69.3 |
| B. Face value of coins put into circulation | 57 | 126 | 69 | 122.3 |
| C. Corporate income | 108 | 122 | 13 | 12.5 |
| Commissions: banking services and trust business | 88 | 100 | 12 | 13.2 |
| Other corporate revenues | 20 | 22 | 2 | 9.0 |
| II. Total Expenses (A + B + C + D) | 1,815 | 1,654 | -161 | -8.9 |
| A. Monetary expenses | 1,219 | 976 | -243 | -19.9 |
| Interest and yields | 1,135 | 900 | -236 | -20.8 |
| National Government Deposits | 683 | 550 | -133 | -19.5 |
| Monetary contraction deposits | 452 | 350 | -103 | -22.7 |
| Administration and fund management expenses abroad | 29 | 33 | 5 | 16.0 |
| Flexible credit line commitment fee (IMF) | 50 | 32 | -17 | -35.0 |
| Foreign exchange differences | 5 | 10 | 6 | 129.1 |
| Other monetary expenses | 1 | 1 | 0 | 9.8 |
| B. Issuance and putting into circulation of banknotes and coins | 140 | 191 | 51 | 36.8 |
| C. Corporate expenses | 456 | 487 | 31 | 6.7 |
| Personnel expenses | 290 | 300 | 9 | 3.2 |
| Overheads | 90 | 112 | 22 | 24.7 |
| Other corporate expenses | 76 | 75 | -1 | -1.1 |
| D. Pensioners' expenses | 0 | 0 | -0 | -86.9 |
| III. Results for the Year (I - II) | 4,088 | 7,751 | 3,663 | 89.6 |

Note: The income or expense items presented in this table may differ from the financial statements submitted to the Financial Superintendency of Colombia and the National General Accounting Office due to the reclassification of some minor items between income and expenses.
Source: Banco de la República.

pared to a depreciation observed in the first half of 2024. In turn, revenues from the face value of coins in circulation and *Banrep's* corporate activities totaled COP 126 b and COP 122 b, respectively, with annual variations of COP 69 b (122.3%) and COP 13 b (12.5%).

Between January and June 2025, expenses were mainly explained by the remuneration of the National Government's deposits at *Banrep* and contractionary deposits. For this period, monetary expenses amounted to COP 976 b, lower by COP 243 b (-19.9%) compared to the first half of 2024, mainly due to: 1) the remuneration of Government deposits, which amounted to COP 550 b, with an annual decline of COP 133 b (-19.5%), resulting from a lower average interest rate, whose effect on expenses exceeded the impact of the higher average balance observed during the period¹¹, and 2) the remuneration of contractionary deposits, which totaled COP 350 b, with an annual reduction of COP 103 b (-22.7%) because, although its average balance was higher, the effect of the lower average interest rate¹² dominated. On the other hand, corporate expenses totaled COP 487 b, with an annual increase of COP 31 b (6.7%), mainly due to higher personnel expenses of COP 300 b, overheads of COP 112 b, and other corporate expenses of COP 75 b. Compared to the first half of 2024, the increase in corporate expenses is mainly explained by the rise in overhead expenses, including those associated with technology projects and services, and personnel expenses, which incorporated the salary adjustment set by the Collective Bargaining Agreement (6.2%). Finally, expenses for issuing and putting into circulation monetary species amounted to COP 191 b, which implied an increase of COP 51 b (36.8%), largely explained by the increased production and circulation of high-denomination banknotes.

6.2.2 Projection for 2025

For 2025, a profit of COP 12,571 b is projected, which is COP 2,530 b higher than that observed in 2024 (Table 6.3). Net monetary income, which reflects the results of monetary, exchange rate, and credit policies, the management of foreign reserves, and the role of *Banrep* as banker and lender of last resort to credit institutions, is expected to total COP 13,806 b for the year. In turn, net expenses from corporate results and issuing bank operations would amount to COP 1,000 b and COP 235 b, respectively. It is worth noting that corporate results stem from *Banrep's* administrative management, while those derived from the issuing bank role arise from the difference between the income from the face value of coins in circulation and the costs of issuing and circulating monetary species. Under this breakdown, compared to 2024, the higher projected profits for 2025 would be explained by an increase in net monetary income of COP 2,809 b, which would exceed the rise in net corporate expenses of COP 229 b, and the issuing bank expenses of COP 50 b.

It should be noted that the estimated result has a high degree of uncertainty, primarily linked to the evolution of the return on foreign reserves and, to a lesser extent, to the growth and sources of expansion of the monetary base. Particularly, changes in paths and expectations of external interest rates could significantly affect the projected returns from foreign reserves, while an unanticipated change in growth or sources of expansion of the monetary base would modify

11 In the first half of 2025, the average daily balance of these deposits was COP 12,288 b, remunerated at a rate of 9.44%. In the same period of 2024, these values stood at COP 11,700 b and 12.42%, respectively.

12 The remuneration interest rate declined from 11.64% in the first half of 2024 to 8.43% in the same period of 2025. Conversely, over these periods, the average daily volume of contractionary deposits increased from COP 8,223 b to COP 8,716 b.

Table 6.3
Income Statement (P&L) of *Banco de la República*
(billions of pesos)

| | Observed | Projection | Annual Variations | |
|---|----------|------------|-------------------|------------|
| | 2024 | 2025 | Absolute | Percentage |
| I. Total Income (A + B + C) | 13,948 | 16,329 | 2,381 | 17.1 |
| A. Monetary income | 13,490 | 15,752 | 2,262 | 16.8 |
| Interest and yields | 13,419 | 15,719 | 2,300 | 17.1 |
| Foreign reserves | 9,340 | 10,931 | 1,591 | 17.0 |
| TES held by <i>Banrep</i> | 2,480 | 2,716 | 235 | 9.5 |
| Expansionary repos | 1,599 | 2,072 | 473 | 29.6 |
| Foreign exchange differences | 42 | 28 | -13 | -31.9 |
| Other monetary income | 29 | 5 | -24 | -82.4 |
| B. Face value of coins put into circulation | 228 | 291 | 64 | 28.1 |
| C. Corporate income | 231 | 285 | 54 | 23.6 |
| Commissions: banking services and trust business | 188 | 206 | 18 | 9.7 |
| Other corporate revenues | 43 | 79 | 36 | 83.9 |
| II. Total Expenses (A + B + C + D) | 3,907 | 3,757 | -149 | -3.8 |
| A. Monetary expenses | 2,493 | 1,946 | -547 | -21.9 |
| Interest and yields | 2,337 | 1,779 | -559 | -23.9 |
| National Government Deposits | 1,501 | 1,099 | -402 | -26.8 |
| Monetary contraction deposits | 837 | 680 | -157 | -18.8 |
| Administration and fund management expenses abroad | 60 | 78 | 17 | 28.6 |
| Flexible credit line commitment fee (IMF) | 86 | 68 | -19 | -21.5 |
| Foreign exchange differences | 8 | 19 | 12 | 152.8 |
| Other monetary expenses | 1 | 2 | 1 | 192.2 |
| B. Issuance and putting into circulation of banknotes and coins | 412 | 526 | 114 | 27.6 |
| C. Corporate expenses | 1,001 | 1,279 | 278 | 27.8 |
| Personnel expenses | 573 | 688 | 115 | 20.0 |
| Overheads | 215 | 286 | 71 | 33.1 |
| Other corporate expenses | 212 | 299 | 86 | 40.6 |
| Flexible budget availability | 0 | 6 | 6 | n.a. |
| D. Pensioners' expenses | 1 | 7 | 5 | 476.2 |
| III. Results for the Year (I - II) | 10,041 | 12,571 | 2,530 | 25.2 |

Source: *Banco de la República*.

net monetary policy income¹³. For example, in the first half of 2025, interest rates in external debt markets, particularly in the United States, and the performance of the peso exchange rate against reserve currencies were highly volatile, which increased uncertainty in estimated returns in pesos of foreign reserves. Additionally, the monetary base has grown faster than initially expected at the beginning of 2025, which led to upward revisions of the estimates of net monetary policy income. These two facts highlight the uncertainty in defining the assumptions for the 2025 profit projection and indicate that these estimates may change over the remainder of the year¹⁴.

In 2025, Banrep's revenues would amount to COP16,329 b, higher than those recorded in 2024, mainly due to the annual increase in returns from foreign reserves.

Within the income recognized in *Banrep's* P&L, the return on foreign reserves is projected to amount to COP10,931 b, primarily reflecting interest income, given the high levels of interest rates on the external sovereign bonds in which the reserves are invested¹⁵. On the other hand, the returns of TES held by the *Banrep* and the expansionary repo transactions are expected to total COP2,716 b and COP2,072 b, respectively, with annual increases of COP235 b and COP473 b¹⁶. In the case of repos operations, the higher interest income in 2025 would be the result of the rise in their average balance, despite the annual reduction in the expected average interest rate¹⁷. Finally, the face value of coins put into circulation at COP291 b, and corporate income at COP285 b, are expected to show annual increases of COP64 b and COP54 b, respectively.

On the other hand, expenses in 2025 are estimated to amount to COP3,757 b, lower than those observed in 2024, mainly as a result of the lower expected value for the remuneration of the National Government's deposits at Banrep.

In particular, this remuneration is projected at COP1,099 b, with an annual reduction of COP402 b due to lower average balances and the reduction in the interest rate, the latter associated with the expected decrease in the monetary policy interest rate¹⁸. In turn, the remuneration of contractionary monetary deposits is expected to total COP680 b in 2025, showing an annual reduction of COP157 b, as a result of a lower average interest rate expected for the year. Additionally, in 2025, expenses related to the issuance and circulation of monetary species are expected at COP526 b, higher by COP114 b compared to 2024, due to the expected increase in demand for banknotes and coins. Finally, corporate expenses are estimated at COP1,285 b, implying an annual increase of COP284 b due to salary adjustment, the rise in the legal minimum wage, higher expenses of technology projects and services, and provisions established by *Banrep's* Legal Department, among others.

13 The net monetary policy income results from the revenues generated by returns of the TES held by *Banrep* and from the expansion repos minus the expenses from the remuneration of the deposits of the National Government at *Banrep* and those of monetary contractionary deposits.

14 The estimated profits for 2025 projected in the budget approved by the Board of Directors at the end of 2024 (COP10,512 b) are lower than those projected in this *Report*.

15 This projection does not include any assumptions regarding purchases or sales of foreign currency in the foreign exchange market by *Banrep*.

16 This projection does not include any assumptions regarding purchases or sales of TES by *Banrep* in the market.

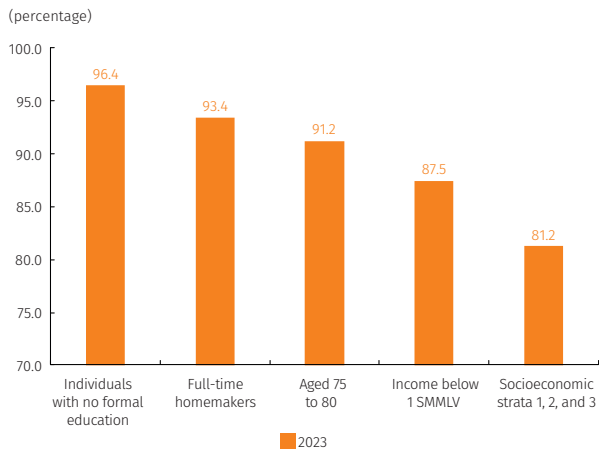
17 The monetary policy interest rate assumption in this projection is based on the median of the Monthly Survey of Economic Analysts' Expectations conducted by *Banrep* in June 2025 and does not reflect the stance of the Board of Directors of Banco de la República BDBR or any of its members.

18 See previous footnote.

7. Payments in the Colombian Economy

7.1 Use of Cash and Other Payment Instruments

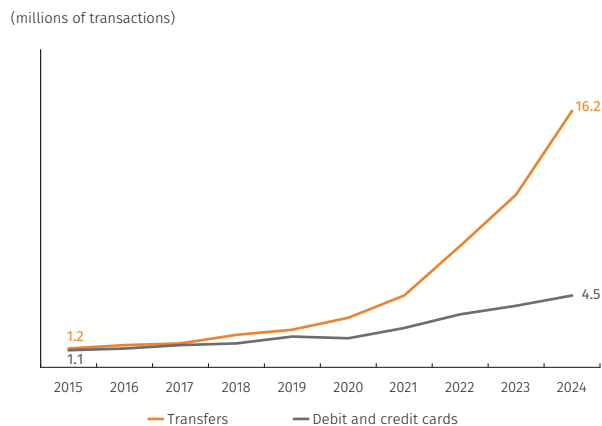
Graph 7.1
Population groups that most frequently use cash for their regular payments



Source: Survey on supply of banknotes, coins, and payment instruments (2023); calculations by Banco de la República.

Although the use of cash has declined over the past decade, it remains the preferred method for regular payments in the country. To monitor this variable as a payment instrument, Banco de la República has conducted a *Survey on the Perception of Banknotes, Coins, and Payment Instruments* five times over the last decade. The results indicate that the majority of regular payments for food, beverages, clothing, transportation, housing, utilities, among others, are made in cash, representing 77.8% of transactions and 78.6% of the total value. However, during the last decade, cash usage has declined by 12.1 percentage points (pp) in the number of transactions and by 11.0 pp in value (in 2014, the perception of cash payments accounted for 88.8% of transactions and 90.7% of total value). It should be noted that Colombians who use cash most frequently as their primary payment method are those individuals with no formal education, engaged full-time in household work, adults, low-income earners, and residents in socioeconomic levels 1, 2, and 3 (Graph 7.1). In turn, electronic transfers are perceived as the second most used payment instrument, which is confirmed by the transactional data presented below.

Graph 7.2
Trends in the Use of Electronic Payment Instruments (daily average)



Source: Banco de la República, financial institutions, the Automated Clearing House (ACH) of Colombia, and the Financial Superintendency of Colombia.

The use of electronic payment instruments, such as transfers, debit cards, and credit cards, increased in 2024. Instant transfers have become increasingly popular. Based on transactional information from payment systems and financial institutions, electronic transfers are the most representative payment instrument in the retail market. This method is characterized by a high number of small-value transactions between individuals and a lower number of larger-value transactions between legal entities. Over the past decade, the number of retail payments has shown an upward trend in the use of transfers and debit and credit cards (Graph 7.2). In 2024, transfers (inter- and intrabank) reached an average daily payment value of COP26.4 trillion (t), with 16.2 million (m) of operations, which represented a 12.6% growth (7.0% in real terms) compared to the previous year. Regarding the adoption rate (number of operations per capita), electronic transfers in Colombia have shown a rising trend in recent years: in 2015, the average was seven transfers per person, while in 2023 this figure increased to 51 transfers per person. During the same period, debit card transactions rose from five to twenty per person, and credit card transactions rose from four to nine per person. However, there is still scope for improvement in the country's position regarding the number of transactions per person compared to other countries with higher adoption rates. As for instant transfers, which are characterized by the immediate availability of

funds to the payment beneficiary, it is worth highlighting their increased adoption among users of various financial institutions. Growth compared to the previous year reached approximately 350% in the number of transactions and 297% in transaction value.

7.2 Progress on the Implementation of Bre-B: Colombia's New Interoperable Instant Payments System

Banco de la República is advancing in the implementation of the new interoperable instant payment system, called Bre-B. This system will allow instant transfers between all accounts within the financial system, at any time, any day of the week, and at low cost. With Bre-B, Colombia aligns with the international trend of having a transactional infrastructure that supports instant and interoperable payments, which enhances competitiveness and innovation, while facilitating financial inclusion and the formalization of the economy.

Bre-B aims to overcome market fragmentation caused by the existence of multiple payment systems and the widespread use of e-wallets initially designed as closed-end schemes, which has led to more than 80% of their transactions being intrabank. The development of instant payments has been characterized by the significant growth of e-wallets. By 2018, the main e-wallets reached 3.2 m of low-value deposit accounts, while by 2024 these reached 68.5 m. As a result of this coverage, 76.1% of the adult population held at least one low-value deposit. However, 59% (40.5 m) of these deposit accounts were provided by the two main issuers in the country, meaning that around 80% of the transactions with these products are intrabank. In this regard, Bre-B represents a solution to interoperability challenges, expected to accelerate the adoption of instant payments.

The design and development of Bre-B have followed international standards and involved active industry participation. Through the Payment Systems Forum and the Instant Payments Interoperability Committee (CIPI in Spanish), *Banco de la República* has maintained an ongoing dialogue with the private sector to discuss the rules and operating standards of Bre-B. Throughout the design, development, and regulatory process of Bre-B, *Banco de la República* has worked in close coordination with the financial and payments industry to support the adaptation and adjustment of existing payment systems, as well as those that have emerged during the initiative. This coordination has also facilitated monitoring, control, and compliance with the established timelines. The institutional framework created around the project has enabled the timely identification of adjustments to the regulation and operation, which have contributed to the good development of the project.

In Bre-B, the instant payment clearing systems are interconnected with each other through a new public digital infrastructure operated by Banco de la República. This infrastructure includes the Centralized Directory (DICE in Spanish) and the Operational Settlement Mechanism (MOL in Spanish). In addition, *Banco de la República* will operate a new instant payment clearing house (Dríxi) to provide broad access and facilitate innovation. The centralized directory will serve as a repository of all the aliases of the users within the financial system, enabling identification of the recipient and the corresponding intermediary institution within the ecosystem. In turn, the operational settlement mechanism is the component that strengthens the efficiency, security, and interoperability of the industry by enabling settlement of both intra-system and inter-system payments in central bank money. Finally, the Dríxi instant payments clearing system will be interconnected with the other private networks, following the same regulatory guidelines established for them.

The Drixi operation is expected to broaden access to the ecosystem, especially for emerging and smaller entities, as well as complement market efforts with new services and functionalities.

Banco de la República defined guidelines that seek to ensure that the user experience for sending and receiving money is simple and uniform. To receive a payment or transfer, the user must only have an alias, which serves as the identifier assigned to their account or deposit. The regulation provides four types of aliases for individuals: a National ID card, a mobile phone number, an email address, or an alphanumeric code. For businesses, a fifth option is available, which is a business code. Users are free to choose the type of key they wish to associate with their account and may have multiple keys with the same financial institution or across different institutions, provided that each alias is linked to a single account. Users may register, modify, cancel, and, in the future, port their aliases through the Bre-B zone that each financial institution must provide within its digital channels, in accordance with the regulations established by *Banco de la República*¹.

Starting 14 July 2025, the centralized directory will be available for financial institutions to offer the Bre-B zone through their digital channels, enabling users to register their aliases. Some institutions have launched pilot programs and are familiarizing their clients with the concept of aliases. Together with the financial and payments industry, information and education campaigns are being conducted to explain what the aliases are and how they may be registered or confirmed if they were used before the launch of Bre-B. The regulation has established a series of operational processes to facilitate the population of the centralized directory, which will be managed by *Banco de la República* with the aliases of users from financial institutions.

Making payments and transfers through Bre-B will be possible starting the fourth week of September. Banco de la República has been closely supporting financial institutions in their preparation process for the launch of the new ecosystem and has designed a robust framework to ensure the continuity of Bre-B's service. In accordance with the established schedule, Bre-B's transactional operations will begin in the fourth week of September, when *Banco de la República* activates the Operational Settlement Mechanism (MOL in Spanish). The system includes technological, operational, and business continuity schemes aimed at ensuring the continuity and availability of the service.

The security and integrity of transactions have been a highly relevant focus for the Bank and all its partners in the development of Bre-B. Following the recommendations of the Instant Payments Interoperability Committee (CIPI in Spanish), Banco de la República has incorporated guidelines to facilitate fraud prevention and management by financial institutions. The regulation on instant payments includes a set of provisions that payment systems and their participants must comply with to prevent and manage potential transactional fraud. Among these provisions is a transaction limit of 1,000 Basic Value Units (UVB in Spanish)², as well as the possibility of establishing additional caps based on the volume or number of transactions. Likewise, institutions may limit the number of aliases that users can

1 External Resolution 6 of 2023 from the Board of Directors of *Banco de la República* and Regulatory Circular 465-DSP from *Banco de la República*.

2 The Basic Value Unit (UVB) is a measure created to simplify the calculation of fees, penalties, and fines, and to decouple these values from inflation and the minimum wage. The UVB value for 2025 is COP 11,552, according to the Ministry of Finance and Public Credit. The UVB is adjusted annually based on the variation of the Consumer Price Index (CPI) excluding food and regulated items for the month of October of the previous year.

register and may block or cancel registered aliases whenever suspicious behavior is identified. In any case, processes related to aliases and to Bre-B's transactional services will require prior user authentication, which will be subject to the security policies of financial institutions. *Banco de la República* will continue monitoring market developments through the CIPI to determine the need to incorporate additional aspects into the regulation.

Bre-B will begin operations by facilitating person-to-person and person-to-business transfers. In collaboration with the financial and payments industry, *Banco de la República* will promote the introduction of new services and functionalities, with the aim of enabling the largest number of payments to be processed through this ecosystem. To further advance instant payments in Colombia, *Banco de la República* will encourage the development of a regulatory agenda to define the technical operational, and business standards required to ensure interoperability across a wide range of services, functionalities, and use cases in Bre-B. Among others, it is expected that e-commerce payments, utility collections, recurring payments, and government obligations will be enabled.

***Banco de la República* will monitor the adoption of Bre-B and user preferences regarding different payment methods, in order to identify trends and needs, as well as gaps in the adoption of instant payments, and to develop actions to address them.** Despite private efforts, Colombia still has limited digital transactionality. Part of this challenge is reflected in the low usability of low-value deposits. Out of nearly 60 million active deposit accounts, an average of only four debit transactions per month are recorded (withdrawals, payments, and transfers) (*Banca de las Oportunidades*, 2025). With the introduction of Bre-B, *Banco de la República* will analyze the evolution of the ecosystem, financial institutions' access, and user adoption levels, with the aim of determining the necessary operational or regulatory measures to facilitate its development.

7.3 Global scanning of Central Bank Digital Currency (CBDC)

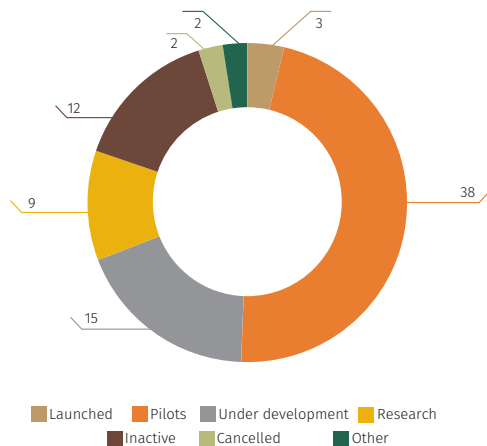
***Banco de la República* has concluded that there are no reasons for issuing a retail central bank digital currency (CBDC) and continues to monitor global developments, focusing on experimentation with a wholesale CBDC.** The analysis carried out indicated that the potential benefits of a retail CBDC, related to access to electronic payment services, efficiency, and innovation, can be achieved through alternative policies, such as the development of the Bre-B instant payment system, which will begin operations in the second half of 2025³. The Bank's experimentation with the wholesale CBDC is focused on understanding the benefits it could offer to the financial system in domestic and cross-border payments. Advances in distributed ledger technology (DLT) experimentation have yielded promising results in transaction performance per second, operational resilience, and the implementation of smart contracts for the issuance, trading, and management of digital assets.

The Bank's experimentation agenda is aligned with global developments in the exploration of wholesale CBDC. In the context of the Helvetia III project, Switzerland has issued at least six digital bonds, totaling CHF 750 million (approximately USD 842 million), settled using the wholesale CBDC. As part of the European Central Bank's experimentation with DLT technology for settlement, the Bank of France has

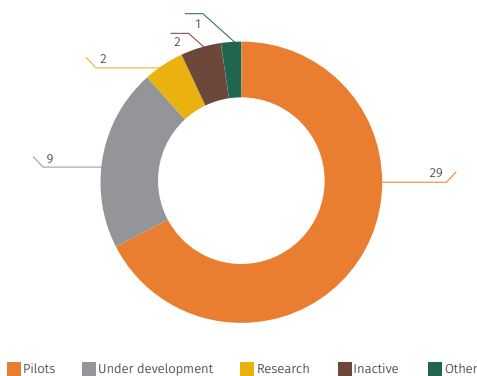
3 See: *Banco de la República* (2024). "Relevance and Risks of Issuing a Central Bank Digital Currency in Colombia," July; available at: <https://www.banrep.gov.co/es/publicaciones-investigaciones/pertinencia-riesgos-emitir-monedas-digital-banrep>

Graph 7.3
Work Stages in the Central Bank Digital Currency (CBDC)
(number of countries)

A. Retail



B. Wholesale



Fuente: Atlantic Council (2025).

issued digital bonds, settling transactions in CBDC, such as a EUR 100 million digital bond issued by the French state bank Caisse des Depots.

The Innovation Hub of the Bank for International Settlements (BIS) continues to lead multilateral projects exploring the potential of wholesale CBDC. The *Agorá* project, a multi-asset common platform involving the central banks of Japan, South Korea, Mexico, Switzerland, United Kingdom, and the Federal Reserve Bank of New York, has consolidated the participation of over forty private-sector stakeholders. This project is expected to provide lessons for the financial and payment infrastructures⁴ of the future. On the other hand, the *Rialto* project is exploring a proof of concept for the interconnection of instant payment systems across different jurisdictions, with settlement in wholesale CBDC⁵.

Interest in central bank digital currencies (CBDCs) remains high worldwide, with 137 central banks actively working on this issue. Progress has been most notable in pilot phases and proof-of-concept initiatives, although there have been no new issuances. Information compiled by the Atlantic Council (2025) highlights that, of 137 countries, 81 are actively analyzing retail CBDCs, with 53 economies at more advanced stages of development (38 pilot phases and 15 proof-of-concept initiatives), and three that have already issued them (Nigeria, the Bahamas, and Jamaica). Meanwhile, 43 countries are in experimental phases of wholesale CBDCs (29 in pilot phases and 9 in proof-of-concept initiatives) (Graph 7.3).

There are different views worldwide regarding the concept of retail CBDC. While the United States has ruled out their issuance, Europe and Asia continue to advance in their development. The United States has, for now, discarded the issuance of a CBDC⁶ and has opted instead to support the use of dollar-backed stablecoins in order to maintain its leadership in international payments. In turn, China’s digital yuan and the digital euro remain among the most advanced retail CBDC projects, with the former in a pilot phase and the latter under development until the end of 2025.

4 BIS (2024). Project *Agorá* update, available at: <https://www.bis.org/about/bisih/topics/fmis/agora.htm>

5 BIS (2025). Project *Rialto*, available at: <https://www.bis.org/about/bisih/topics/cbdc/rialto.htm>

6 White House (2025). Fact Sheet: Executive Order to Establish United States Leadership in Digital Financial Technology, available at: <https://www.whitehouse.gov/fact-sheets/2025/01/fact-sheet-executive-order-to-establish-united-states-leadership-in-digital-financial-technology>

In the region, CBDC initiatives in Chile, Peru, and Brazil stand out. In Chile, the central bank announced the development of a proof of concept; however, it identified challenges related to future adoption and the potential increase in the cost of financial intermediation⁷. On the other hand, the Central Reserve Bank of Peru (BCRP in Spanish) is conducting a pilot project, in partnership with a mobile telecommunications company, to explore use cases with offline functionalities aimed at promoting financial inclusion, particularly in rural areas and underbanked areas⁸.⁹ In turn, the Central Bank of Brazil (BCB in Spanish) is implementing the second pilot phase of its Drex project, in which it is exploring thirteen use cases that seek greater efficiency in cross-border and domestic payments with CBDC, while acknowledging the need for further work to ensure that Drex meets privacy and security requirements and to address scalability and programmability challenges¹⁰.

7 Central Bank of Chile (2024). *Emisión de moneda digital de banco central en Chile, segundo informe: "Avances de la exploración conceptual"*, available at: <https://www.bcentral.cl/documents/33528/130503/Segundo-Informe-MDBC.pdf/1c506d66-1dbf-2434-54bd-3997ec84784b?t=1712352384816>

8 Reserve Bank of Peru (2024). Informative Note, October, available at: <https://www.bcrp.gob.pe/docs/Transparencia/Notas-Informativas/2024/nota-informativa-2024-10-14.pdf>

9 Reserve Bank of Peru (2025). Informational Note, March, available on: <https://www.bcrp.gob.pe/docs/Transparencia/Notas-Informativas/2025/nota-informativa-2025-03-18.pdf>

10 Central Bank of Brazil (2025). Press Release, available at: <https://www.bcb.gov.br/en/pressdetail/2601/nota>

Annex

Investment Portfolio Management Policies for Foreign Reserves

According to best practice recommendations, foreign reserves should be managed based on liquidity, security, and profitability criteria. In this regard, it is essential to: (1) have sufficient liquidity in foreign currency, (2) have strict policies for managing the different risks faced by transactions, and (3) generate reasonable risk-adjusted returns, subject to liquidity and other risk constraints. The following explains how these rules are applied in managing Colombia's foreign reserves.

1. Risk Management Policies

Banco de la República has a risk management framework that identifies and assesses the risks to which transactions are exposed, in order to keep them at low levels. Some of the main risk management policies are as follows:

Liquidity Risk: Investments are made in financial assets with permanent demand in the secondary market, and the portfolio is divided into tranches. This structure allows for the rapid and cost-effective conversion of reserve assets into cash, and enables quicker liquidation of specific tranches.

Market Risk: Investments are made in a limited set of eligible assets, adhering to strict investment limits on duration, margin duration, currency composition, and sector. This approach ensures that the portfolio's value exhibits moderate sensitivity fluctuations in market interest rates.

Credit Risk: Investments are limited to assets with high credit ratings, as these investments have a low probability of payment default. The minimum credit rating for governments and government-related entities is A-. For private issuers, the minimum rating is A+ for exposures to individual issuers and BBB- (investment grade) when investing through funds. Historically, the percentage of issuers with these ratings that have experienced defaults in the following year is close to 0.0%. If the credit rating of an issuer in which the portfolio is directly invested falls below the minimum allowed, the exposure is liquidated within a short period. Additionally, maximum exposures are limited per sector and issuer to limit the impact of credit events on the portfolio's value.

Exchange Rate Risk: The impact of the exchange rate risk is mitigated with the equity account "exchange adjustment" referred to in paragraph 4 of Article 62 of Decree 2520 of 1993 (*Banco de la República's* Bylaws). This account increases in years when reserve currencies strengthen against the Colombian peso and decreases in years when they weaken. Therefore, currency fluctuations have no impact on the statement of comprehensive income. *Banco de la República*, as well as most of the central banks around the world, holds currencies other than the US dollar in its currency composition to cover the country's payments abroad, since these are made in many currencies. It is important to note that currency rates are highly volatile and often lack defined long-term trends, making it difficult to reliably forecast their behavior.

Counterparty Risk: To mitigate counterparty risk, transactions are settled through delivery-versus-payment mechanisms, which require counterparties for fixed income trading to be market makers and counterparties for foreign exchange trading to have high credit ratings. Delivery-versus-payment mechanisms seek to ensure that the exchange of securities for cash or the exchange of payments in a foreign currency transaction happens simultaneously

to eliminate the possibility of default by either party. Foreign currency counterparties must have a minimum credit rating of A- if they have an ISDA¹ master agreement. If no such agreement is in place, the minimum rating is A+.

Risks associated with environmental, social, and governance (ESG) factors: ESG factors are those associated with environmental, social, and governance issues that may affect the environment and an issuer's ability to operate successfully. Considering these factors in the investment of foreign reserves is important, inadequate management by an issuer may affect its ability to generate long-term returns and/or result in market, credit, legal, or reputational risks, among others. Therefore, *Banco de la República* incorporates ESG factors in its investment processes and risk monitoring for foreign reserves through strategies compatible with the security, liquidity, and profitability criteria defined in the legal mandate assigned to *Banco de la República* for the management of foreign reserves.

2. Investment Portfolio Tranches

The investment portfolio is divided into three tranches: short-term, medium-term, and gold tranche.

The short-term tranche is intended to cover potential liquidity needs of the reserves in twelve months. Currently, this tranche includes working capital and a passively managed portfolio. Working capital is the portfolio that receives resources from foreign exchange market interventions, and its investments are concentrated in very short-term dollar-denominated assets. Given that the objective of this tranche is to provide immediate liquidity for foreign exchange market interventions, the working capital is concentrated in deposits and investments that can be liquidated within one day at a very low cost. As of 30 June 2025, the value of the short-term tranche was USD 37,246 m, of which USD 1,199 m corresponds to working capital and USD 36,047 m to the passively managed portfolio.

The passively managed portfolio is the main component of the short-term tranche. This portfolio is characterized by having a longer duration and an expected return profile that exceeds that of the working capital, a currency composition that seeks to replicate the performance of the country's balance of payments outflows, and a return similar to its benchmark index². The passively managed portfolio is invested in multiple currencies and instruments that align with those of the benchmark index that is defined with the restrictions that the expected return of the portfolio, excluding the currency component, is positive in twelve months with a confidence level of 95%, and that the expected value of a potential loss does not exceed 1.0%.

The medium-term tranche seeks to increase the expected return on foreign reserves over the long term, preserving a conservative portfolio, with an expected return profile higher than that of the short-term tranche and its benchmark index. Its objective is to maximize the risk-adjusted return in US dollars, the currency in which foreign reserves are valued, for the portion of the portfolio deemed less likely to be used within twelve months. In this way, the goal is to achieve the maximum return subject to the restrictions that the expected return in US dollars of this tranche is positive with a probability of 95% and that the expected value of a potential loss does not exceed 1.0% over a three-year horizon. Currently, the medium-term tranche is mainly composed of actively managed portfolios that seek to generate a higher return than the benchmark index³. At the end of the first half of 2025, the value of the medium-term tranche amounted to USD 22,573 m.

1 The framework agreement established by the International Swaps and Derivatives Association (ISDA) is intended to determine the terms and conditions governing over-the-counter derivatives traded between entities.

2 The next section explains the concept and composition of the benchmark index.

3 The External Administration Program section explains that one of the seven active portfolios is managed directly by *Banco de la República* and the rest by external administrators. An explanation of how the program works can also be found there.

The gold tranche corresponds to the investments of foreign reserves in gold. This metal allows diversifying the investment portfolio, since its price behaves differently from that of the securities in which the short- and medium-term tranches are invested. As of June 2025, the market value of the gold tranche of the reserves amounted to USD 492.6 m.

3. Benchmark Indexes

To manage the reserves investment portfolio, *Banco de la República* defines theoretical portfolios or benchmark⁴ indexes for the short- and medium-term tranches. Different indexes are constructed for each tranche to reflect their investment objectives. The indexes serve as a reference framework to measure the performance of each portfolio. The following is an explanation of how the two benchmark indexes are constructed.

To construct the index for short-term⁵ tranche, a target currency composition is first determined. Once the currency composition has been defined, the portfolio that maximizes risk-adjusted⁶ returns and complies with the loss restrictions defined for this tranche is identified. The currency composition of this index seeks to replicate the performance of the country's balance of payments outflows⁷. Non-dollar currencies are expected to appreciate during periods when the US dollar value of the country's external payments increases, which implies that the value of these currencies may decrease against the dollar during periods when the dollar value of external payments decreases. As of June 2025, the currency composition of the short-term tranche index was 82% US dollars, 7.0% Australian dollars, 8.0% Canadian dollars, and 3.0% euros. The loss restrictions defined for the short-term tranche are: 1) to have positive returns over a twelve-month horizon with 95% confidence, excluding the exchange rate effect, and 2) that the expected value of a potential loss over a twelve-month horizon does not exceed 1.0% of the value of the tranche.

A similar procedure is followed for the construction of the medium-term tranche index, with two key differences: no currency composition restriction is imposed, and the loss restrictions are defined over a longer horizon. First, no currency composition constraint is imposed, since the goal of this tranche is to maximize the risk-adjusted returns in US dollars. Second, the restrictions of having positive returns with 95% confidence and that the expected value of a potential loss does not exceed 1.0% of the value of the tranche are defined over a three-year horizon, reflecting the lower likelihood of using the resources from this tranche in the short term. In constructing the portfolio that maximizes risk-adjusted returns in dollars, investments in currencies other than dollars are allowed.

As of June 2025, the benchmark indexes defined for both tranches have a moderate rate market risk level, with an effective index duration of 2.75 for the short-term tranche and 3.14 for the medium-term tranche. Graph A1.1 shows the approved benchmark indexes for the short- and medium-term tranches⁸.

4 In the capital markets, a benchmark index refers to a basket of assets with predetermined weights according to certain rules that define their composition. In general, an index attempts to broadly replicate the behavior of a financial asset market and serves as an indicator of the performance of other investment portfolios in that same market. For example, some of the best-known benchmark indexes in the equity markets are the MSCI COLCAP in Colombia, or the S&P500 and Dow Jones in the United States (*Banrep* uses fixed-income market indexes only).

5 This benchmark index does not apply to working capital, since there are no reference portfolios that adequately measure the instruments allowed in this portfolio.

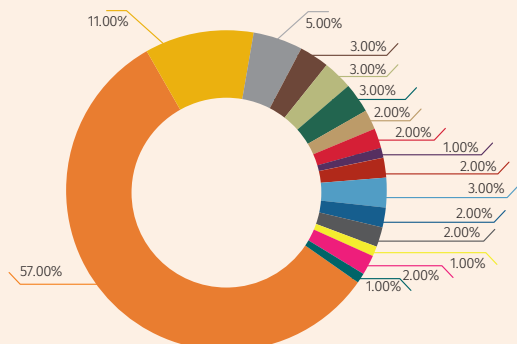
6 The detailed description of the methodology for the construction of the benchmark index can be found in the boxes "Technical Explanation of the Methodology for the Construction of the Benchmark Index" and "Market Risk Constraints in the Optimization Process" in the 2013 and 2019 *Foreign Reserves Management Reports*.

7 See the Box "New Currency Composition of the Foreign Reserves Portfolio" in the March 2012 *Report of the Board of Directors to the Congress of Colombia* for a detailed explanation of the methodology for the currency composition of reserves.

8 The indexes published by ICE data Indices are used for the different sectors that make up the benchmark index.

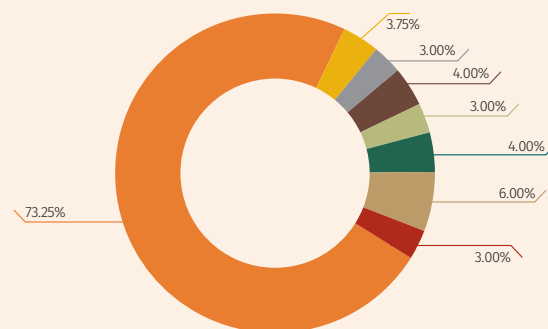
Graph A1.1
Composition of the Benchmark Indexes in the Short and Medium-Term Tranches
 (information as of 30 June 2025)

A. Short-term tranche



- U.S. government bonds (0-1 years)
- U.S. government bonds (1-5 years)
- U.S. government bonds (5-10 years)
- U.S. government bonds (+10 years)
- U.S. government inflation-linked bonds (1-10 years)
- U.S. government inflation-linked bonds (+10 years)
- Australian government bonds (0-3 years)
- Australian government bonds (3-5 years)
- Australian government bonds (5-10 years)
- Australian government bonds (+10 years)
- Canadian government bonds (0-1 years)
- Canadian government bonds (1-5 years)
- Canadian government bonds (5-10 years)
- Canadian government bonds (+10 years)
- German government bonds (0-1 years)
- German government bonds (1-5 years)

B. Medium-term tranche



- U.S. Government bonds (0-3 years)
- U.S. Government bonds (3-5 years)
- U.S. government inflation-linked bonds (+10 years)
- German government bonds
- U.K. government bonds
- Japanese government bonds
- Australian government bonds
- Canadian government bonds

Source: Banco de la República.

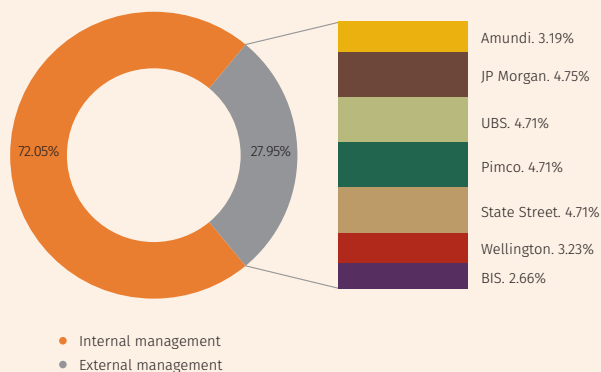
4. External Management Program

Banco de la República directly manages the short-term tranche, a portion of the medium-term tranche, and the gold tranche. The remaining resources of the medium-term tranche are managed by external portfolio managers. At the end of June 2025, the internally managed portion of the investment portfolio amounted to USD 43,454.5 m (72.05% of the total investment portfolio), while the externally managed program amounted to USD 16,858.04 m (27.95% of the investment portfolio).

The main purposes of using external managers are to generate returns superior to those of the benchmark index and to improve portfolio diversification. In this regard, the selected firms participating in the program have a high capacity for analyzing financial markets and a sophisticated infrastructure that can be used to define investment strategies and train Banrep officials in the management of international investments, which is another objective of the external management program.

Private companies participating in the program are selected through competitive processes and are subject to ongoing evaluation. Based on the performance results of each administrator since their hiring, the amount managed may be adjusted, or their participation in the program may be reviewed. Currently, the private companies participating in the external management program are: Amundi Asset Management, J.P. Morgan Asset Management (UK)

Graph A1.2
Investment Portfolio Management
(information of 30 June 2025)



Source: Banco de la República.

Limited, Pacific Investment Management Company LLC, State Street Global Advisors Trust Company, UBS Asset Management (Americas) Inc., and Wellington Management Company LLP (Graph A1.2). The resources managed by these entities are held in *Banco de la República's* custody accounts and the managers' contracts can be terminated when deemed necessary. Investments in funds managed by the Bank for International Settlements (BIS) are also considered part of the external management program. Access to these funds is restricted to central banks and multilateral entities, with the aim of investing in assets appropriate for global foreign reserves in a cooperative effort among different countries⁹.

⁹ Currently, investments are made in a fund of securities issued by the Chinese government (USD 1,305.1 m) and a fund of securities issued by non-financial corporations (USD 298.2 m).

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