MONETARY **POLICY REPORT**

ISSN - 2711 - 2128

01/ 2026

BANCO DE LA REPÚBLICA COLOMBIA

January 2026

MONETARY **POLICY REPORT**

* Presented by the technical staff to the Board of Directors for its meeting on 30 January 2025.

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

ISSN - 2711 - 2128

Office of the Deputy Technical Governor
Hernando Vargas Herrera
Deputy Technical Governor

Office for Monetary Policy and Economic Information (*)
Juan José Ospina Tejeiro
Chief Officer

Programming and Inflation Department
Carlos Huertas Campos
Director

Inflation Section
Adolfo León Cobo Serna
Head

Édgar Caicedo García
Juan Pablo Cote Barón
Nicolás Martínez Cortés
Franky Galeano Ramírez
Karen Pulido Mahecha
Juan Esteban Moncada Londoño
Sergio Restrepo Ángel

Macroeconomic Programming Section
David Camilo López Valenzuela
Head

Johanna Barbosa Buitrago
Marlon Salazar Silva
Darío Perdomo Sanchez
Jorge Daniel Guevara Acevedo

Forecasting Process Management Section
Celina Gaitán Maldonado
Head

Tatiana Andrea Mora Arbeláez
Nicol Valeria Rodríguez Rodríguez
Nicolle Valentina Herrera Pinto

Macroeconomic Modeling Department
Franz Hamann Salcedo
Director

Forecasting Section
Julián Pérez Amaya
Head

Jose Vicente Romero Chamorro
Jonathan Muñoz Martinez
Shelly Valentina Gonzalez Ballesteros
Juan Camilo Laborde Vera
Cristian González Téllez
Cristian Camilo Quesada Paipa

Consultant and Researchers associated with the Macro-Economic Models Department
José David Pulido Pescador
Head

Sara Naranjo Saldarriaga
Anderson Grajales Olarte
Juan Andrés Rincón Galvis
Elkin Jose Navas Diago
Oscar Iván Ávila Montealegre

(*) Eliana González, head of the Statistics Section; Deicy Cristiano and Jesús Sarmiento, analysts at the Statistics Section; Jesús Bejarano, Director of the Applied Macroeconomic Analysis Department; Andrés Herrera, Steven Zapata and Manuela Quintero, analysts of the Fiscal and Sector Analysis Group; Aarón Levi Garavito and Wilmer Osvaldo Martinez Rivera, senior economists at the Office for Monetary Policy and Economic Information; Sergio Bravo, Jose Luis Moreno, Nicolás Quenguan, Juan Andrés Camacho, Angie Linares, Laura Gallo, Angela Aparicio, and Yessica Suarez, student interns, also participated in the making of this Report.

Edited in Bogotá D.C., Colombia
Suggestions and comments: +57 (1) 343 1011 / atencionalciudadano@banrep.gov.co

Monetary Policy in Colombia

Banco de la República (the Central Bank of Colombia) is required by the Constitution to maintain the purchasing power of Colombia's currency in coordination with general economic policy.[1] In order to fulfill this mandate, *Banco de la República*'s Board of Directors (hereafter BDBR) has adopted a flexible inflation-targeting scheme, by which monetary policy actions (MP) seek to lead inflation to a specific target and achieve maximum levels of sustainable output and employment.

The flexibility of this scheme allows the BDBR to maintain an adequate balance between reaching its inflation target and smoothing output and employment fluctuations around their sustainable growth paths. The BDBR has set a 3.0% inflation target based on annual change in the consumer price index (CPI). In the short term, inflation may be affected by factors outside of monetary policy control, such as changes in food prices due to climate-related phenomena. To factor in this reality, the BDBR has also set a ±1 percentage point range outside its inflation target (i.e., 3.0 ± 1 pp). This range does not represent a monetary policy target, but rather reflects the fact that inflation can fluctuate around the target and will not always be equal to 3.0%.

The main instrument the BDBR uses to control inflation is the policy interest rate (overnight repo rate, or benchmark interest rate). Given that monetary policy actions take time to fully affect the economy and inflation,[2] the BDBR assesses the inflation forecast and inflation expectations vis-à-vis the inflation target, as well as the current situation and outlook of the economy, in order to determine their value.

The BDBR meets once a month, producing monetary policy decisions in eight of its meetings (January, March, April, June, July, September, October, and December). In principle, no such decisions are made in the BDBR's four remaining meetings (February, May, August, and November).[3] At the end of the meetings in which monetary policy decisions are produced, a press release is published, and a press conference is held by the Governor of the Central Bank and the Minister of Finance. The minutes of the meeting describing the positions that led the BDBR to its decision are published on the third business day. Additionally, the Monetary Policy Report (MPR),[4] produced by the Central Bank's technical staff, is published in January, April, July, and October, on the second business day. On the fourth business day following the Board meeting, the Bank's Deputy Technical Governor presents the MPR. This dissemination scheme[5] seeks to deliver relevant and up-to-date information to contribute to better decision-making by the agents of the economy.

---

1 Political Constitution of Colombia (1991), Article 373 and Decision C-481/99 of the Constitutional Court.

2 For further details, see M. Jalil and L. Mahadeva (2010). "Transmission Mechanisms of Monetary Policy in Colombia", Universidad Externado de Colombia, School of Finance, Government, and International Relations, ed. 1, vol. 1, no. 69, October.

3 A Board Member may request an extraordinary meeting at any time to make MP decisions.

4 Formerly known as the Inflation Report.

5 The current communication scheme was approved by the BDBR in its May 2023 meeting.

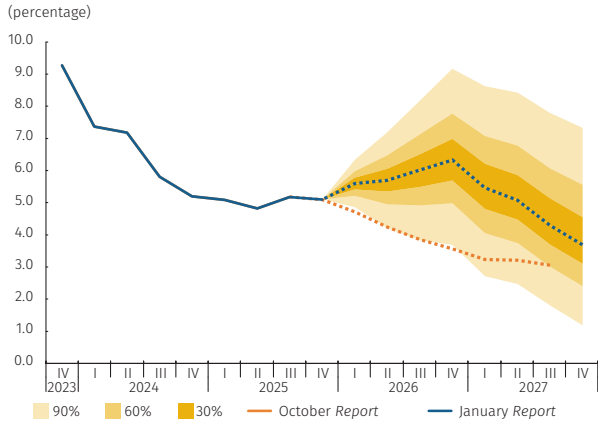
Contents

Graphs

Tables

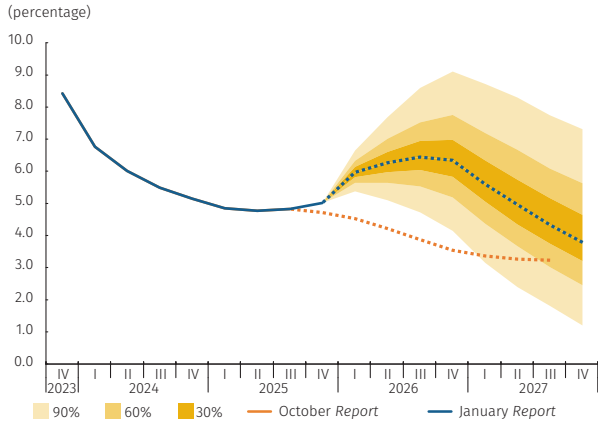
1. Summary

Graph 1.1
Consumer Price Index [a/b/]
(annual change; end-of-period)



a/ This graph presents the forecast probability distribution on an eight-quarter time horizon. Density characterizes the prospective balance of risks with areas of 30%, 60%, and 90% probability surrounding the central forecast (mode), through a combination of densities from the Patacon and the 4GM-LM monetary policy models.
b/ The probability distribution corresponds to the forecast exercise from the January report.
Source: DANE; calculations and projections by *Banco de la República.*

Graph 1.2
CPI excluding food and regulated items [a/b/]
(annual change; end-of-period)



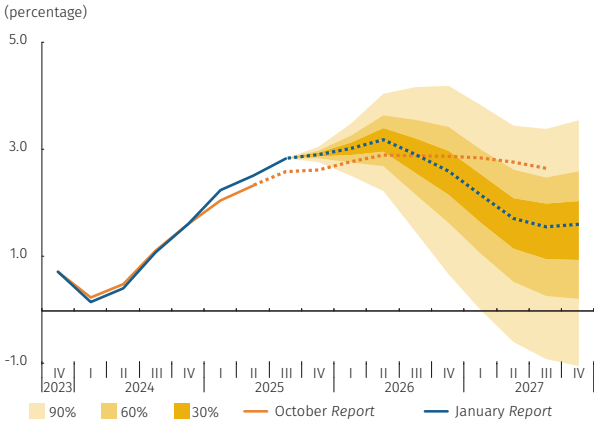
a/ This graph presents the forecast probability distribution on an eight-quarter time horizon. Density characterizes the prospective balance of risks with areas of 30%, 60%, and 90% probability surrounding the central forecast (mode), through a combination of densities from the Patacon and the 4GM-LM monetary policy models.
b/ The probability distribution corresponds to the forecast exercise from the January report.
Source: DANE; calculations and projections by *Banco de la República.*

1.1 Macroeconomic Summary

In the fourth quarter of 2025, headline inflation eased slightly to 5.1%, in line with the October forecast. However, and against expectations, core inflation—which excludes food and regulated items—rose to 5.0%. Consequently, the revised forecast, which incorporates the price effects of the substantial minimum wage increase, suggests that inflation will rise in 2026 and then converge more slowly toward the 3% target. Compared to October projections, prices in the food group and, to a lesser extent, regulated prices surprised on the downside in December, a behavior explained by a high supply of perishable foods, a stronger-than-expected appreciation of the peso and its pass-through to processed food prices, and unanticipated reductions in public gas and electricity services. Many of the above downward surprises were offset by an increase in core inflation that exceeded expectations, amid strong domestic demand likely to exceed the economy's productive capacity, labor costs that could exert greater upward pressure on prices, and greater indexation of rents to past inflation. Incorporating these surprises into the forecasts, along with the sharp 23.2% increase in the minimum wage, the projected price effects of the economic emergency, and larger-than-expected increases in gas prices relative to October, both headline and core inflation projections for 2026 were revised upward, implying a slower convergence to the 3% target. The forecast horizon assumes a more negative real exchange rate gap, greater downward pressure on prices of imports, no significant supply shocks in food production, and a reactive monetary policy aimed at bringing inflation back to the 3% target. Accordingly, headline and core inflation are now expected to reach 6.3% by December 2026, up from the previous projections of 3.6% and 3.5%, respectively, and to decline to 3.7% and 3.8% by year-end 2027 (previously projected at 3%) (Graphs 1.1 and 1.2). These forecasts remain subject to considerable uncertainty and could deviate from current estimates, mainly due to the effects of the unusually large minimum wage increase, the future path of the exchange rate, supply shocks affecting international and domestic food prices, and provisions related to adjustments in regulated goods and services prices.

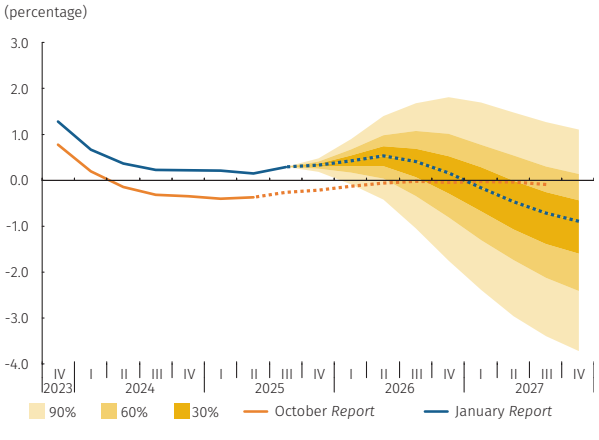
DANE revised the cumulative output level for 2025 year-to-date upwards, reporting higher economic growth for the third quarter (3.4%) than previously estimated (3.0%), as domestic demand (5.0%) recorded five consecutive quarters of signif-

Graph 1.3
Gross Domestic Product, four quarter accumulation [a/b/c/]
(annual change)



a/ Seasonally adjusted and corrected for calendar effects.
b/ This graph presents the forecast probability distribution on an eight-quarter time horizon. Density characterizes the prospective balance of risks with areas of 30%, 60%, and 90% probability surrounding the central forecast (mode), through a combination of densities from the Patacon and the 4GM-LM monetary policy models.
c/ The probability distribution corresponds to the forecast exercise from the January report.
Source: DANE; calculations and projections by *Banco de la República.*

Graph 1.4
Output gap [a/b/c/] - Predictive Densities
(four-quarter accumulation)



a/ The historical output gap estimate is calculated as the difference between observed GDP (four-quarter accumulation) and potential GDP (trend; four-quarter accumulation) based on the 4GM-LM model.
b/ This graph presents the forecast probability distribution on an eight-quarter time horizon. Density characterizes the prospective balance of risks with areas of 30%, 60%, and 90% probability surrounding the central forecast (mode), through a combination of densities from the Patacon and the 4GM-LM monetary policy models.
c/ The probability distribution corresponds to the forecast exercise from the January report.
Source: DANE; calculations and projections by *Banco de la República.*

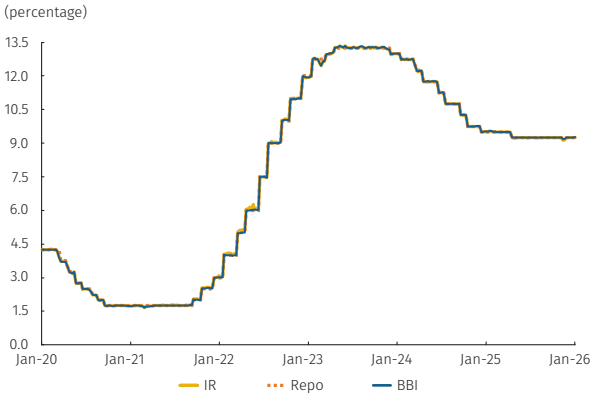
icant increases, exceeding domestic output. The latter, coupled with the inflation and labor market results, suggests a positive output gap that could persist throughout 2026. In the third quarter, domestic demand surpassed expectations, driven mainly by private (4.0%) and public consumption (15.2%). Gross fixed capital formation also displayed high annual growth (4.7%), especially in machinery and equipment, although it remains below pre-COVID-19 pandemic levels. In contrast, net external demand was a negative contributor to GDP growth, as the year-on-year increase in imports (10.1%) exceeded that of exports (2.4%), a trend that also reflects the strength of domestic demand. The data available for the fourth quarter suggest an annual GDP growth of 3%, as domestic demand continues strong (4.8%), explained by the vitality of both private and public consumption (4.3% and 5.8% respectively), along with the recovery of gross fixed capital formation (3.2%) from its lower post-pandemic levels. The trade deficit is expected to widen further, as imports continue to grow annually (9.2%) while exports remain stagnant (0%), mainly due to the ongoing decline in foreign sales of coal and oil. In 2026, multiple factors would continue to encourage consumption, including the high and persistent primary fiscal deficit, the high flow of remittances, the vitality of foreign tourism, the still-high coffee prices, and - in the short term- the increase in real wages. Upward surprises in output levels and core inflation, strong absorption dynamics, positive labor market indicators, a growing trade deficit, and economic growth forecasts suggest that demand will exceed the economy's productive capacity, thus foreseeing a positive output gap throughout 2026. Against this backdrop, the economic growth estimate increased to 2.9% for 2025 and decreased to 2.6% for 2026 (previously 2.6% and 2.8%, respectively). By 2027, economic activity would continue to slow, as the output gap turns negative (Graph 1.3). These circumstances would occur in a context of active monetary policy that adapts in step with the convergence of inflation toward the 3% target in 2027, and the decrease in excess demand (Graph 1.4). However, these forecasts are subject to a high level of uncertainty, owing to external factors - including global political and trade tensions, along with the response of financial markets to monetary policy in advanced economies - and internal factors, particularly uncertainty surrounding fiscal policy.

Relative to the October *Report*, the country's external financing conditions have eased, reflecting the lowering of U.S. policy interest rates, stronger demand for risk assets, and diminished global trade tensions, although global uncertainty surround-

ing geopolitical conflicts remains high. Colombia's external demand has exceeded growth expectations and is expected to continue expanding at a somewhat slower pace during the forecast horizon. Terms of trade have improved as a result of falling prices for intermediate and capital goods imports, along with continued high prices for commodities such as coffee and gold, which have more than offset the decline in mining and energy prices. Meanwhile, as anticipated, in December the U.S. Federal Reserve (Fed) reduced its benchmark rate by 25 basis points (bp) to a range of 3.50% to 3.75%, reflecting signs of moderating economic activity, reduced hiring, and limited available data due to delays in government statistical releases. Following this decision, December inflation edged down slightly compared to previous months. Consequently, this *Report* forecasts a slightly lower monetary policy rate for 2026, with two 25-bp decreases expected to bring the benchmark rate to between 3.0% and 3.25% by year-end, maintaining this range throughout 2027. This situation has reinforced the buoyancy of global stock markets and the decline of risk premiums in emerging economies. Nevertheless, Colombia's fiscal deterioration has increased its country risk premium in recent months, a trend expected to continue during the forecast horizon. It is important to underscore that external uncertainty remains elevated, as trade tensions, U.S. immigration policies, geopolitical conflicts, fluctuations in global financial conditions, and perceptions of Colombia's sovereign risk persist.

A strong domestic demand that surpasses the economy's productive capacity, as well as headline and core inflation that are expected to rise and continue exceeding the 3% target, coupled with a significant increase in inflation expectations that has reduced the *ex-ante* real interest rate of monetary policy, indicate that monetary policy should be adjusted to levels compatible with a decrease in inflation and its convergence to the 3% target. Economic activity indicators for the fourth quarter suggest that GDP has completed two full years of quarterly increases, with annual domestic demand far outpacing GDP growth. This has been reflected in a broadening external deficit as a percentage of GDP, after the adjustment noted in the previous two years. In the labor market, the unemployment rate continues at historically low levels, with employment trending upward. Core inflation has surprised on the upside and, like headline inflation, remains well above target. These developments in the country´s economic activity, labor market, and prices indicate a positive output gap. Fiscal deterioration increases the country's vulnerability to adverse external financing shocks. The sharp increase in the minimum wage led to significant upward revisions in the inflation forecasts of the Bank's technical staff and in economic agents' inflation expectations, reducing the real policy interest rate. In addition, there are significant inflationary risks stemming from changing external financial conditions, local fiscal deterioration, and pressures on natural gas prices. The prospect of higher inflation in 2026, the presence of aggregate demand that exceeds the economy's productive capacity, and significant upside risks to inflation, require an adjustment in the monetary policy stance to resume convergence of inflation toward the target over the forecast horizon, consistent with *Banco de la Republica's* commitment to the constitutional mandate to maintain a low and stable inflation and achieve the maximum sustainable level of output and employment.

Graph 1.5
Monetary policy interest rate, interbank rate and BBI[a/]
(weekly data)



a/ IR: interbank rate. BBI: benchmark banking indicator. Repo: Monetary Policy interest rate.
Sources: Financial Superintendency of Colombia and *Banco de la República.*

1.2 Monetary Policy Decision

At its December 2025 meeting, the Board of Directors of *Banco de la República* (BDBR) decided by majority vote to maintain the monetary policy interest rate unchanged and to increase it by 100 basis points (bps) at its meeting in January of this year, bringing it to 10.25% (Graph 1.5).

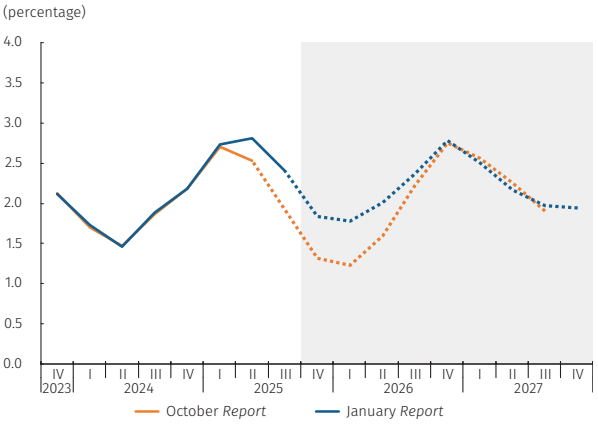
2. Macroeconomic forecasts and risk analysis[1]

2.1 International outlook

2.1.1 Foreign demand

The information available for 2025 suggests that economic activity among some of Colombia's main trading partners performed better than previously expected, in a global environment characterized by elevated trade and political uncertainty, which has moderated in recent months but remains high. In the United States, economic activity remained dynamic in the third quarter. GDP grew by approximately 2.3% annually (4.4% quarter-on-quarter annualized), driven mainly by strong private consumption, positive net exports, and higher public spending. This performance was accompanied by favorable activity indicators, particularly retail sales and services spending, despite persistently weak consumer confidence. Delays in the publication of some official statistics following the partial federal government shutdown continue to constrain the assessment of current economic conditions and have added uncertainty regarding the state of the U.S. economy. Among other key trading partners, Ecuador's economy grew by 2.4% annually in the third quarter, moderating relative to previous quarters but still supported by private consumption and remittance inflows. In Mexico, economic activity contracted slightly (around -0.1% annually), reflecting weakness in the industrial sector and softer domestic demand. Meanwhile, the euro area expanded somewhat more than expected (1.4% annually), mainly supported by domestic demand. For its part, China maintained solid growth, reaching the government's official target of 5.0% for 2025, in a context of robust external demand and continued dynamism in key manufacturing and services sectors, despite elevated uncertainty. Overall, uncertainty surrounding international trade has eased compared to previous months, reflecting new trade agreements and an effective tariff rate in the United States that has been lower than initially anticipated, although it remains above levels observed in previous years.

Graph 2.1
Real GDP, main trade partners
(Annualized change, projections according to full-year assumption)



Sources: Bloomberg; statistics offices and central banks; calculations and projections by *Banco de la República*.

In 2025, Colombia's relevant external demand is projected to grow by 2.4%, gradually moderating to 2.2% in 2026 and 2.1% in 2027 (Graph 2.1). These figures represent an upward revision relative to the previous *Report*. According to projections by the International Monetary Fund (IMF), global economic activity is expected to expand by around 3.3% in 2025 and 2026, followed by a slight moderation to 3.2% in 2027. This outlook

1 The projections presented in this chapter are based on estimates from the Patacon and 4GM central forecast models. For more details on these models, see https://www.banrep.gov.co/es/node/149 and https://www.banrep.gov.co/en/4gm-new-model-monetary-policy-analysis-colombia

reflects the adverse effects of trade policies and elevated global uncertainty, which would be partially offset by somewhat less restrictive global financial conditions and stronger investment dynamics in technology-related sectors, particularly in advanced economies. The IMF assesses that risks to global growth remain tilted to the downside, given persistent trade and geopolitical uncertainty, signs of weakening labor markets, and subdued growth in global merchandise trade. In this context and considering the recent improvement in activity among some key trading partners, economic growth in Colombia's main trading partners is projected to average 2.4% in 2025, 2.2% in 2026, and 2.1% in 2027. These projections are higher than those presented in the previous *Report* but remain below historical averages (Table 2.1).[2] Uncertainty surrounding this external demand scenario remains high, reflecting the evolution of international trade policy, geopolitical tensions, and their implications for global growth and inflation, as well as recent trade tensions between Colombia and Ecuador, stemming from bilateral tariff announcements and trade restrictions that could affect regional trade flows.[3]

Table 2.1 Economic Growth among Major Trade Partners [a/]

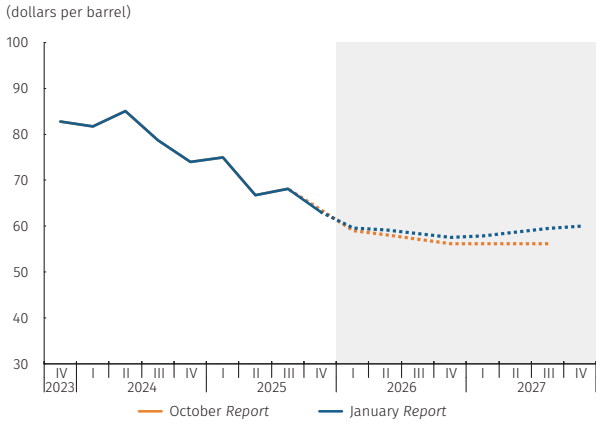
Main partners	2024 (pre)	2025 (proj)	2026 (proj)	2027 (proj)
United States	2.8	2.2	2.3	2.0
Eurozone	0.8	1.4	1.2	1.3
China	5.0	5.0	4.5	4.2
Ecuador	-2.0	3.2	1.6	2.0
Brazil	3.0	2.3	1.7	2.0
Peru	3.5	3.1	2.9	2.7
Mexico	1.1	0.4	1.1	1.8
Chile	2.4	2.3	2.1	2.1
All trade partners[a/]	1.8	2.4	2.2	2.1

(pre): preliminary, (proj): projected
a/ Projections calculated based on the contribution of non-traditional trade.
Sources: Bloomberg; Focus Economics, statistics offices, and central banks (observed data); *Banco de la República* (projections and calculations).

2.1.2 International financial developments

Oil prices are projected to decline further in 2026, albeit at a slightly slower pace than anticipated in the October Report, and to stabilize in 2027. This outlook is consistent with a context of high global production, whose growth, although still positive, is expected to moderate gradually (Graph 2.2). In the fourth quarter of 2025, the average price of Brent crude stood at approximately USD 63 per barrel (bl), bringing the annual average to USD 68 bl, below the USD 80 bl observed in 2024. Over the forecast horizon, global oil supply is expected to remain elevated, driven primarily by increased production from countries outside the Organization of Petroleum Exporting Countries and its allies (OPEC+), notably the United States, Brazil, Canada, Guyana, and Argentina. Although production growth is projected to slow, supply would continue to exceed expected global demand. As a result, inventories of oil and oil derivatives in member countries of the Organisation for Economic Co-operation and Development (OECD) are expected to accumulate, contributing to downward pressure on prices through 2026. Nevertheless, several factors would limit a more pronounced decline. These include recent production moderation in Russia, Iran, and Venezuela; the decision by some OPEC+ members to

Graph 2.2
Assumed quarterly oil price

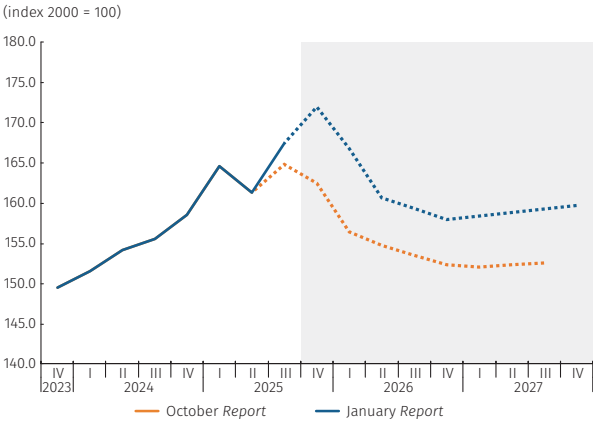


Source: Bloomberg; calculations and projections by *Banco de la República*.

2 Historically, the average annual growth in trading partners between 2001 and 2023 is 2.9%.

3 In January 2026, the government of Ecuador announced the imposition of a unilateral 30% tariff on Colombian imports, arguing a trade deficit and lack of cooperation on border security. In response, Colombia adopted reciprocal measures and suspended electricity exports. Ecuador then significantly increased rates for transporting Colombian crude oil through its pipelines, which could affect energy trade between the two countries.

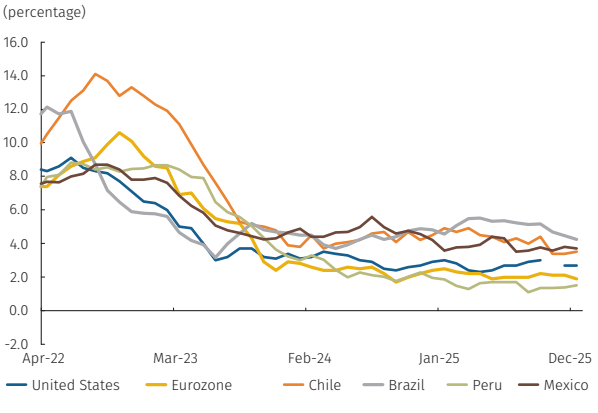
Graph 2.3 Assumed quarterly terms of trade [a/]



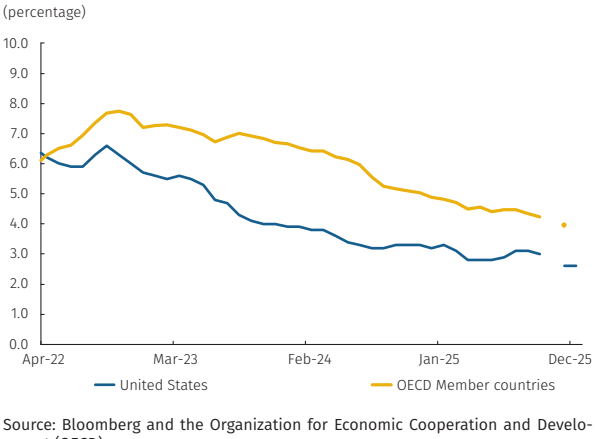
a/ Terms-of-trade index according to chained indices of export and import prices
Source: Calculations and projections by *Banco de la República.*

Graph 2.4
Inflation, select main trading partners

A. Headline Inflation



B. Inflation excluding food and energy



Source: Bloomberg and the Organization for Economic Cooperation and Development (OECD).

maintain voluntary production cuts during the first quarter of 2026;[4] and recent seizures of oil tankers by the United States. In addition, sustained oil demand in China and India over the projection horizon would support prices. Rising geopolitical tensions could also affect production dynamics in some oil-producing economies, contributing to increased market volatility. Taking these factors into account, the average Brent price is projected at approximately USD 59 bl in 2026 (compared with USD 58 bl in the October *Report*) and USD 59 bl in 2027. The outlook for the oil market continues to be subject to considerable uncertainty, associated with geopolitical developments, future OPEC+ decisions, and trade policies in the United States.

After increasing significantly in 2025, the terms of trade are projected to decline over the remainder of the forecast horizon, mainly reflecting the expected path of prices for Colombia's principal export commodities (Graph 2.3). In 2025, the terms of trade are estimated to have increased by 7.3% annually, above the 5.4% projected in the previous *Report*. This stronger performance was driven by higher international prices of coffee and gold, which more than offset lower oil prices. For 2026, a reduction in the terms of trade is anticipated, largely explained by the projected behavior of mining and energy commodity prices and, to a lesser extent, by a moderation in coffee prices. This effect would be partially offset by lower U.S. dollar prices of Colombia's imports, particularly intermediate and capital goods, as well as by a higher gold price relative to the previous forecast. Toward 2027, the terms of trade are expected to continue declining, in line with the projected increase in import prices.

During 2026, headline inflation is expected to remain above target in several advanced economies, in the context of persistent trade tensions, still restrictive financial conditions, and elevated geopolitical uncertainty, factors that could continue to exert upward pressure on prices. Based on available information for 2025, global headline inflation moderated on average, although with notable cross-country heterogeneity. According to recent data from the Organisation for Economic Co-operation and Development (OECD), annual headline inflation in member countries declined to 3.9% in November 2025, from levels above 4.0% observed in previous months, reflecting lower food prices. Core inflation (excluding food and energy) stood at 4.0% over the same period (Graph 2.4). In the United States, annual headline inflation reached 2.7% in December 2025, slightly below previous readings, while core inflation stood at approximately

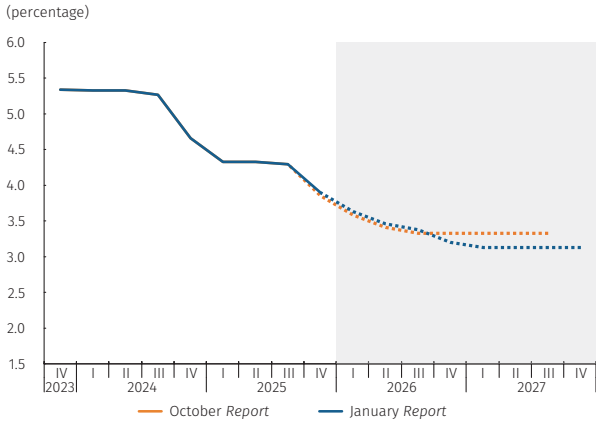
4 In addition to the twelve OPEC members, its allies (OPEC+) include Azerbaijan, Bahrain, Brunei, Kazakhstan, Russia, Mexico, Malaysia, South Sudan, Sudan, and Oman. During their meeting on January 4, 2026, eight OPEC+ member countries agreed to continue the gradual reversal of cuts over the 1.65 million barrels per day over February and March 2026, a measure adopted due to seasonal reasons. The countries warned that the gradual elimination of cuts could be partially or totally reinstated depending on market conditions.

2.6%, largely reflecting moderation in energy prices and services inflation. Although these figures point to progress in the disinflation process, uncertainty regarding the future path of prices remains elevated heading into 2026, in a context of short-term inflation expectations still above target, uncertainty surrounding tariff policies, and a gradual cooling of the labor market. Consistent with this outlook, the International Monetary Fund (IMF), in its latest projections, expects global inflation to continue moderating over the coming years, reaching an average of 4.1% by year-end 2025, declining to 3.8% in 2026, and 3.4% in 2027. The IMF highlights risks associated with trade fragmentation and volatility in food and energy prices, which could slow the pace of disinflation in some economies.

2.1.3 International financial developments

This Report continues to anticipate a gradual reduction in the monetary policy interest rate in the United States, in an environment characterized by elevated trade uncertainty and less dynamic labor market conditions (Graph 2.5). At its December meeting, the Federal Open Market Committee (FOMC) lowered the policy rate by 25 basis points (bp), placing it in a range of 3.50% to 3.75%, in the context of weak job creation and information constraints resulting from delays in the publication of official statistics. At that meeting, the median FOMC projections for the policy rate remained unchanged relative to the September report, standing at 3.4% at end-2026 and 3.1% in 2027. In turn, the FOMC slightly revised upward its projection for economic growth over the forecast horizon and kept its unemployment rate projections broadly stable, while the projections for the total and core personal consumption expenditures (PCE) implicit deflator were adjusted marginally downward, although they remain above the 2.0% target.[5] Subsequently, at its January 2026 meeting, the FOMC decided to keep the policy rate unchanged, emphasizing the need for additional evidence that inflation is converging to target. In recent weeks, futures associated with the federal funds rate for 2026 and 2027 have continued to decline, although they remain at somewhat higher levels[6] than those implied by earlier expectations. Taking this into account, this *Report* slightly revised downward the assumption for the U.S. monetary policy interest rate, contemplating a

Graph 2.5
U.S. FED's assumed quarterly interest rate

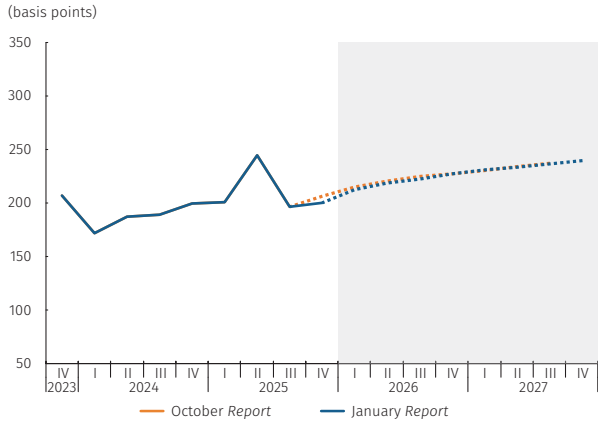


Source: Saint Louis Fed; calculations and projections by *Banco de la República*.

5 In the December 2025 report, the median FOMC projections for economic growth were revised upwards to 1.7% at the end of 2025, 2.3% for 2026 and 2.0% for 2027. Meanwhile, the median projection for the unemployment rate remained stable for 2025 at 4.5% and for 2026 at 4.4%, although it moderated slightly to 4.2% in 2027. Finally, it revised downwards its headline and core PCE projection for 2025 and 2026, albeit maintaining its projection for 2027. Thus, total PCE would stand at 2.9% at the end of 2025, 2.4% for 2026 and 2.1% for 2027; while the core PCE would stand at 3.0% at the end of 2025, 2.5% in 2026 and 2.1% in 2027.

6 By the end of 2026 and 2027, and with figures as of January 20, 2026, the futures associated with the Fed's monetary policy interest rate stood at 3.19% and 3.21%, respectively (previously 2.88% and 2.97% taken on October 21).

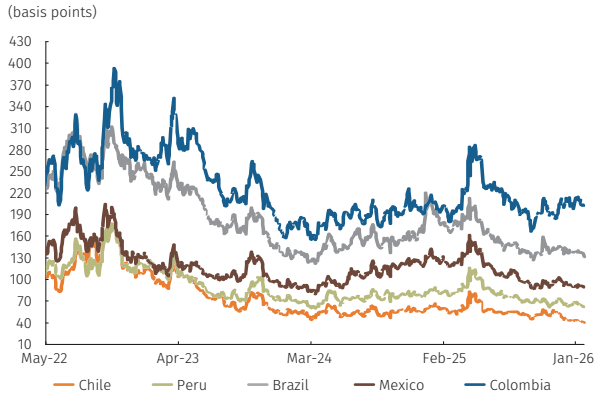
Graph 2.6
Colombia's assumed quarterly risk premium (CDS) [a/]



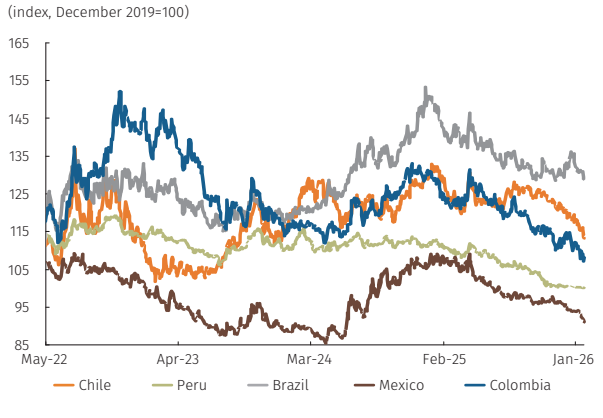
a/ Five-year credit default swaps.
Source: Bloomberg; calculations and projections by *Banco de la República.*

Graph 2.7
Behavior of nominal exchange rate and risk premium for selected Latin American countries

A. Five-year credit default swaps



B. Nominal exchange rate



Note: Data to January 23, 2026.
Source: Bloomberg; calculations by *Banco de la República.*

process of rate reductions concentrated during the current year. In particular, two additional 25 bp reductions are now assumed for 2026, which would bring the policy rate to a range between 3.00% and 3.25% at year-end 2026, a level that would be maintained throughout 2027. This assumption remains subject to high uncertainty, associated with developments in inflation, labor market conditions, trade policy, the fiscal outlook, and risks to economic growth in that country.

For this *Report*, Colombia's risk premium is expected to increase over the forecast horizon in an environment of elevated uncertainty and increasing fiscal pressures (Graph 2.6). During 2025, Colombia's five-year credit default swap (CDS) averaged 210 basis points (bp), compared to 187 bp in 2024, widening the spread relative to the region to around 130 bp above the regional average (Graph 2.7, panel A). This divergence occurred while several regional economies benefited from lower global risk aversion, strong equity market performance, and a generalized appreciation of their currencies against the U.S. dollar (Graph 2.7, panel B). In Colombia, fiscal pressures became a persistent factor throughout 2025 and are expected to exert a significant impact on the public debt trajectory in the coming years. Public spending is expected to face additional pressures associated with the minimum wage increase decreed for 2026, which, according to the Autonomous Committee on the Fiscal Rule (CARF), would generate an estimated increase in the fiscal deficit of COP 5.3 trillion in 2026 and COP 8 trillion in 2027. [7] This fiscal outlook, combined with the uncertainty associated with an election year—which could limit the scope for revenue-enhancing measures or significant expenditure adjustments— is expected to contribute to maintaining public debt at elevated and increasing levels. Accordingly, the sovereign risk premium is projected to average 220 bp in 2026 and increase to 235 bp in 2027, levels broadly similar to those presented in the previous *Report*.

2.2 Macroeconomic projections[8]

2.2.1 Inflation

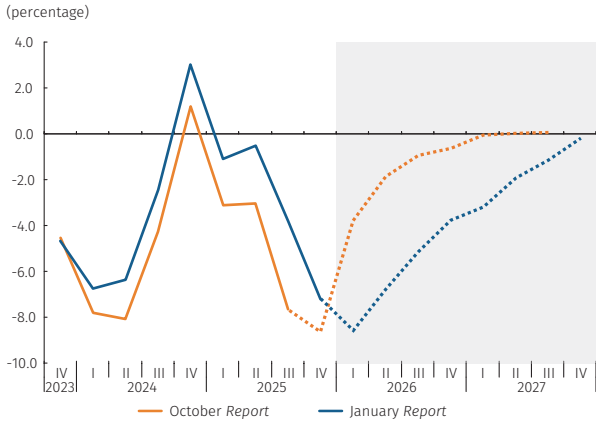
For the next two years, the forecast for annual consumer inflation has been revised upward relative to the previous *Report*, mainly reflecting the effects on prices of the significant increase in the legal minimum wage. The current forecast path incorporates upward pressures on inflation throughout 2026, with a break in this trend in 2027, when inflation is expected to

7 https://www.carf.gov.co/documents/d/guest/comunicado-22-estimacion-preliminar-efecto-fiscal-de-aumento-de-salario-minimo-2026

8 Projections are based on an active monetary policy wherein *Banco de la República*'s monetary policy interest rate is adjusted to guarantee alignment with the inflation target.

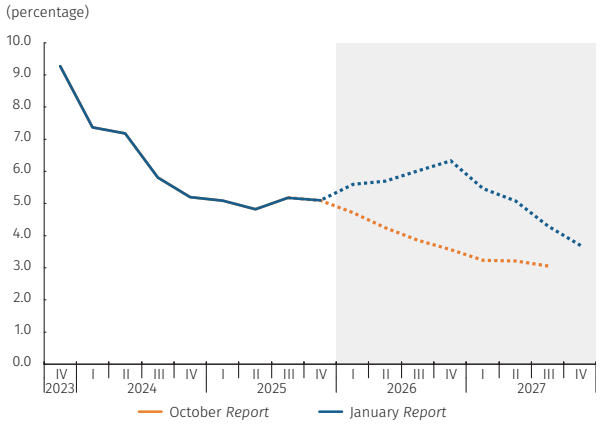
gradually approach the 3% target, largely as a result of monetary policy actions. Compared to the October *Report*, additional upward pressures on prices are anticipated due to the unexpected adjustment of the legal minimum wage for 2026. The increase of 23.2%[9] significantly exceeded historical levels, the sum of 2025 inflation and labor productivity growth, and the assumption of around 6.0% used in the previous *Report's* forecast. The revision also reflects a re-estimation of the output gap, which, according to recent calculations, is expected to remain in positive territory throughout 2026, consistent with stronger-than-expected domestic demand that is projected to remain dynamic over the year, as discussed below. The upward revision also incorporates the effects of the economic emergency declared by the Government, which would impact inflation through higher taxes on the liquor segment.[10] In addition, the new forecast path considers greater inflation persistence in some CPI services components (such as rents) and specific supply shocks affecting certain baskets, particularly regulated items, associated with expected increases in gas prices. These upward pressures would not be offset by favorable short-term developments in food prices. Although disinflationary pressures are expected from a more negative real exchange rate gap over much of the forecast horizon (Graph 2.8), the absence of upward pressures from international prices of manufactured goods, and the COP 300 reduction in gasoline prices in February announced by the Government,[11] these factors would only partially mitigate the impact of the minimum wage adjustment and other cost pressures. As a result, the forecast path for total inflation was revised upward over the entire horizon, and convergence to the target would be delayed by several quarters. Annual headline inflation is projected to stand at 6.3% at the end of 2026, as compared to 3.6% in the previous *Report*. By 2027, inflation is expected to decline to 3.7%, partly reflecting the cumulative effects of monetary policy actions aimed at fulfilling the constitutional mandate of preserving the purchasing power of the peso, in coordination with general economic policy, as well as the dissipation of the minimum wage shock and other supply shocks. In that horizon, inflation would remain above the level projected in the October *Report*, mainly due to indexation to a higher inflation rate resulting from the upward revision of the 2026 forecast (Graph 2.9). As in the previous *Report*, this projection is subject to significant uncertainty and is exposed predominantly to upside risks (see Section 2.3).

Graph 2.8
Quarterly RER inflationary gap [a/]
(annual change, end-of-period)



a/ The real exchange rate (RER) inflationary gap captures inflationary pressures caused by the exchange rate. Positive values imply upward inflation pressures. The gap is calculated as the deviation in the real exchange rate relative to a non-inflationary trend estimate under the 4GM-LM monetary policy model.
Source: *Banco de la República.*

Graph 2.9
Consumer Price Index (CPI)
(annual change, end-of-period)



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

9 Including transportation allowance.

10 The forecasts made in this Report contemplate the impacts of Decree 1390 of 22 December 2025, which was temporarily suspended on 29 January 2026 through a precautionary decision of the Constitutional Court.

11 At the time of writing this report, the Government had announced a reduction of three hundred pesos in the price of gasoline as of February 1. The final decision, according to Resolution 40095 of 29 January 2026 issued by the Ministry of Mines and Energy, establishes that the reduction will be five hundred pesos.

According to various studies conducted by *Banco de la República's* technical staff, increases in the legal minimum wage above the previous year's inflation and labor productivity generate upward pressures on consumer prices. These estimates[12] suggest that a 100 bp increase in the minimum wage above the sum of inflation and productivity would raise annual consumer inflation by between 8 bp and 16 bp by the end of the year. Evidence indicates that, in 2025, the 11.0% adjustment to the minimum wage (including the transportation allowance)—which implied an increase of 4.5 pp above the sum of 2024 inflation (5.2%) and estimated productivity for that year (1.3%)—had an impact on consumer inflation and delayed its convergence toward the target (see Section 3.1 of this *Report*). The 23.2% increase in the legal minimum wage for 2026 represents a rise of 17.2 pp above the sum of inflation in 2025 (5.1%) and productivity (0.9%).[13] This adjustment is substantial and, therefore, its estimated impact on inflation at the end of 2026 is significant (see Box 1). This assessment is reinforced by the fact that, over the past five years, the minimum wage has registered sizeable increases above inflation and productivity, which, together with the reduction in working hours, have implied even larger gains in real wages. For the purposes of the projections in this *Report*, the additional shock associated with the minimum wage corresponds to the difference between the 23.2% adjustment decreed and the 6.0% increase assumed in the previous *Report*. Nevertheless, there is a high degree of uncertainty regarding both the magnitude of the pass-through of the minimum wage increase to prices and the speed at which it would materialize over the year. These elements will depend, among other factors, on the cyclical position of the economy, the response of employment and production, and the interaction with other shocks. Moreover, the intensity of the pass-through could vary with the size of the adjustment, which substantially exceeds the increases observed since 1993.[14]

The core inflation forecast was also revised upward due, among other reasons, to unexpected increases in labor costs and greater inflationary inertia, factors that would delay the convergence of this indicator to 3.0%. Higher labor costs, mainly associated with the significant increase in the minimum wage, would have a greater impact on service prices, as was the case in 2025, but would also affect the prices of certain goods (excluding food and regulated items). In addition to the increase in the minimum wage, there are upward pressures stemming from higher costs of night and Sunday shift work, as well as from the reduction in weekly working hours. Along with these factors and a more positive estimated output gap, there are specific upward pressures across each sub-basket. In the case of the CPI for goods (excluding food and regulated items), there is an additional effect of higher liquor prices due to increased taxes imposed under the economic emergency. However, larger price increases in this sub-basket would be limited by disinflationary pressures from the exchange rate, as suggested by a more negative real exchange rate gap than that projected in the previous *Report*, and by stability or declines in international prices of manufactured goods imported by the country. Thus, although the projected path for the annual variation of the CPI for goods contemplates moderate increases over the forecast horizon, it stands above the estimate in the previous *Report*. For its part, the forecast for the CPI for services (excluding food and regulated items) was

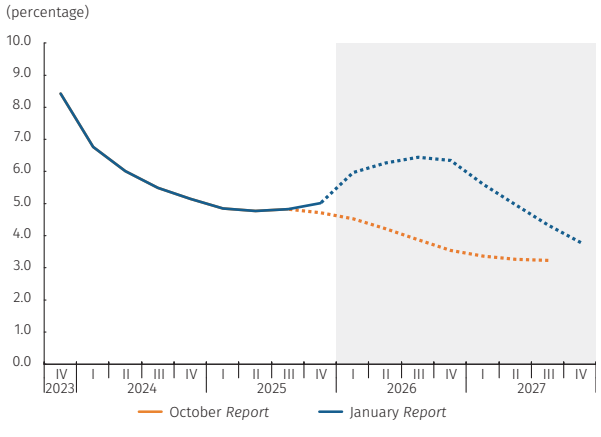
12 See Box 2: "Estimated effects of the minimum wage on inflation in Colombia - Monetary Policy Report - January 2025" (https://www. https://www.banrep.gov.co/en/publications-research/monetary-policy-report/box-2-january-2025)

13 It corresponds to the contribution of total factor productivity (TFP) to the growth of value added for the 2025 period until the third quarter, according to DANE calculations.

14 In 1993 the nominal adjustment of the minimum wage, plus transportation allowance, was 25%, compared to an inflation observed that year of 22.6%.

also revised upward, incorporating, in addition to the factors mentioned above, greater persistence in items associated with tourism and rents, as suggested by the evolution of these prices in 2025. In the case of rents, the limited supply of new housing in the market may also exert upward pressure on prices. Given the above, a significant increase in services inflation is expected throughout 2026, followed by a gradual reduction in 2027, in an environment in which domestic demand growth would slow, allowing GDP to reach levels compatible with the convergence of inflation to the target, as explained in section 2.2.2 of this *Report*. Accordingly, this *Report* expects headline inflation excluding food and regulated items to increase for much of 2026, before resuming a downward trend toward the end of that year. This forecast incorporates the cumulative effects of a monetary policy stance that would remain restrictive over the forecast horizon to ensure that inflation resumes its decline toward the target. Thus, the annual variation of the CPI for goods (excluding food and regulated items) is expected to remain slightly above 3.0% for much of the forecast horizon, while the annual variation of the CPI for services (excluding food and regulated items) is expected to remain significantly above this level over the next two years. As a result, annual core inflation would stand at 6.3% at the end of 2026 (previously 3.5%) and at 3.8% at the end of 2027 (Graph 2.10).

Graph 2.10
CPI excluding food and regulated items
(annual change, end-of-period)

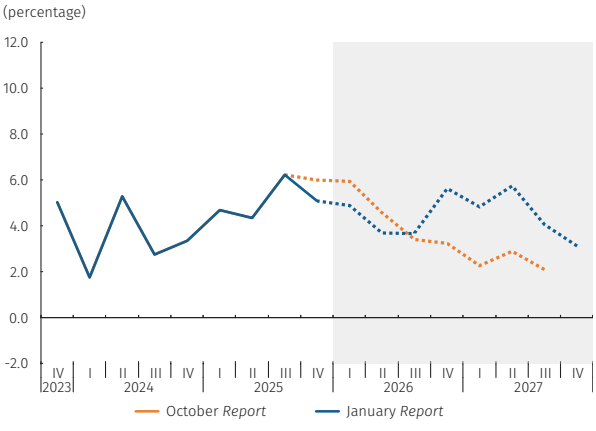


Source: DANE; calculations and projections by *Banco de la República*.

The annual variation of the CPI for food is expected to continue declining during the first half of the year, following a pattern similar to that envisaged in the previous *Report*. However, beginning in the second half of the year, it would stand above the levels projected in the October *Report*. The forecast for the first half of the year was revised downward relative to the previous *Report*, incorporating the downward surprises observed in perishable food prices during the last quarter of 2025. These developments occurred in the context of abundant domestic supply that, together with the most recent information available, suggest smaller price adjustments in the first months of the year. This dynamic would be reinforced by greater disinflationary pressures associated with a more negative real exchange rate gap. Nonetheless, the unexpected increase in the minimum wage—particularly its effect on processed food prices—would imply that, from the second half of 2026 onward, the annual variation of the food CPI would exceed the levels projected in the October *Report*. Looking ahead, no additional effects on processed food prices are anticipated from the update of healthy taxes, as these would have reached their maximum rate by the end of 2025.[15] Compared to October, the current forecast also incorporates higher international prices for certain inputs and food products (including rice, oils, and meat). Thus, the projected path for food inflation would con-

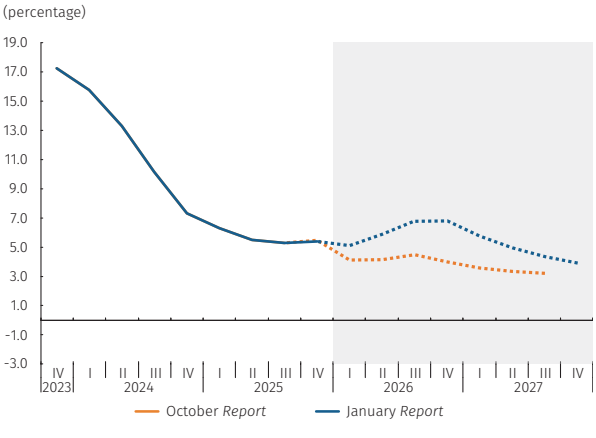
15 Starting in 2026, The tax on ultra-processed sugary beverages will be updated at the beginning of each year, based on the tax value unit (UVT). This update is expected to have no relevant impact on the CPI.

Graph 2.11
CPI for foods
(annual change, end-of-period)



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

Graph 2.12
CPI for regulated items
(annual change, end-of-period)



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

Graph 2.13
Bank and stockbroker inflation forecast [a/]

a/ Corresponds to the median response of the Monthly Survey of Economic Analyst Expectations conducted by *Banco de la República.*
Source: DANE; calculations and projections by *Banco de la República.*

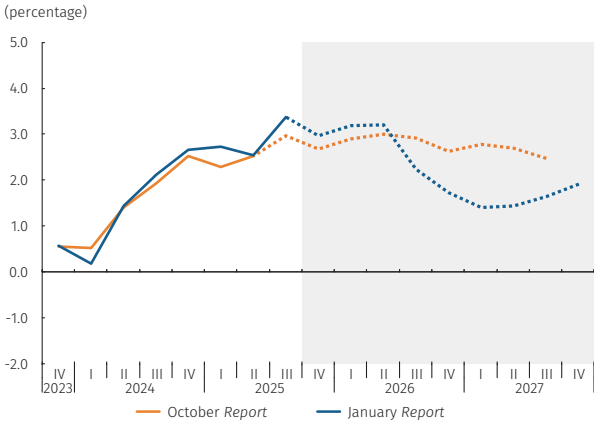
tinue to fluctuate in line with the production cycle of perishable foods, under the assumption of no adverse weather conditions and a relatively high level of agricultural supply. Under these assumptions, the annual variation of the CPI for food would reach 5.6% by the end of 2026 (previously 3.2%) and 3.1% by the end of 2027 (Graph 2.11). As in previous *Reports*, the forecast for food inflation is subject to high uncertainty, given that price dynamics depend on production and distribution conditions, as well as on exchange rate movements and climate shocks, all of which contribute to elevated volatility.

The annual variation in the CPI for regulated items is expected to increase during 2026 and begin to decline in 2027, remaining above 3.0% mainly due to upward pressures from increases in the minimum wage, gas prices, and the role of indexation. The upward revision to the forecast for this group reflects, first and foremost, the surprise increase in the minimum wage, which could have direct cost effects on the formation of various regulated prices, including regulated education services, public transportation fares, parking fees, and certain public utilities. A significant increase in gas tariffs is also anticipated in the first quarter of 2026, taking into account the recent increase in primary market contract prices, driven by lower domestic gas production. By 2027, additional upward pressures would materialize through indexation mechanisms affecting water and sewer tariffs, given the higher level of total inflation projected for 2026. Regarding fuels, the central forecast scenario incorporates the increase of approximately COP 100 per gallon in diesel and gasoline prices decreed in January of this year, as well as the announcement of a COP 300 per gallon reduction in gasoline prices in February. Looking ahead, gasoline prices are expected to remain relatively stable throughout 2026, consistent with the projected path of oil prices and the exchange rate. The baseline scenario also assumes moderate adjustments in electricity tariffs over the forecast horizon. Under these assumptions, the annual variation in the CPI for regulated items would reach 6.8% by the end of 2026 (compared with 4.0% in the October Report) and 3.9% in December 2027 (Graph 2.12). These projections for gas prices continue to face significant upside risks, particularly in light of potentially insufficient domestic supply that could require a larger share of imports at higher costs than locally produced gas. These risks are partially offset by downside risks associated with potential additional reductions in gasoline prices which, according to government statements, could reach up to COP 2,000 per gallon.

Compared with the October *Report*, inflation expectations obtained from surveys and those implied by public debt securities have increased significantly and are now above 3%. Nevertheless, all measures continue to exhibit a downward trajectory over longer horizons. Expectations from economic analysts (Graph 2.13), based on the Bank's monthly survey conducted between January 9 and 14, show median expectations

for headline and core inflation for the end of 2026 of 6.4% and 6.7%, respectively, above the figures reported in the October survey (4.3% and 4.0%, respectively). By the end of 2027, both medians stand at 4.8%. At the median five-year horizon, median expectations for headline inflation increased to 3.4%, from 3.0% in October. Meanwhile, based on information available as of January 23, expectations implied by public debt securities (breakeven inflation, adjusted for risk and liquidity premiums) at two-, three-, and five-year maturities increased, standing at 6.1%, 5.8%, and 5.3%, respectively (compared with 4.3% in the October *Report*).

Graph 2.14
Quarterly GPD [a/]
(annual change)

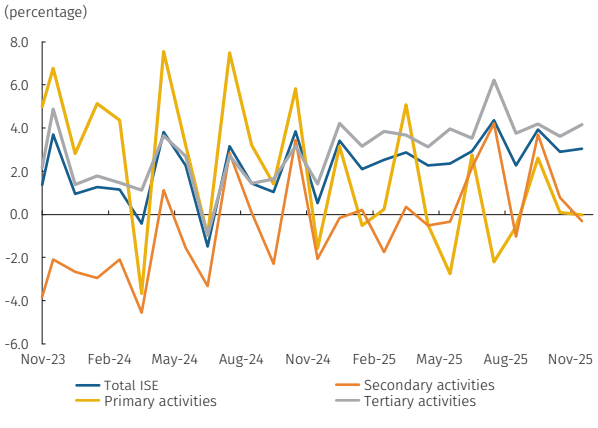


a/ Seasonally adjusted and corrected for calendar effects.
Source: DANE; calculations and projections by *Banco de la República*.

2.2.2 Economic activity

In the fourth quarter, the Colombian economy would have continued to show notable strength, supported by high domestic demand. For this period, the Colombian economy is estimated to have expanded at an annual rate of 3.0% (3.3% annualized quarter-on-quarter), above the growth projected in the October *Report* (2.7%) (Graph 2.14). This estimate incorporates vigorous domestic demand (4.8% annually), driven by private consumption, investment in machinery and equipment, and public spending. This assessment is supported by several indicators observed during the quarter,[16] particularly the Economic Activity Monitoring Indicator (ISE), which expanded at an annual rate of 3.0% during the October-November two-month period (Graph 2.15). As discussed below, these indicators point to annual growth in the tertiary sector on the supply side, supported by public administration, entertainment, health and education, as well as commerce, transportation, and accommodation services. They also suggest growth in the secondary sector, reflecting the expected favorable performance of manufacturing and civil works. By contrast, the primary sector would have registered a slight annual contraction, given the declines observed in mining production and the low growth of the agricultural sector, which nonetheless remains at historically high production levels.

Graph 2.15
Economic Monitoring Indicator (ISE), and ISE by sectors [a/, b/]
(annual change)



a/ Seasonally adjusted and corrected for calendar effects.
b/ Primary activities: agriculture, hunting, forestry and fishing, mine and quarry exploitation. Secondary activities: manufacturing industries and construction. Tertiary activities: electricity, gas, and water supply; commerce, repairs, transportation and hospitality services; information and communications, financial and insurance activities; real estate activities; professional, scientific and technical activities; administrative and support services; public administration and defense, education, and health; arts and entertainment.
Source: DANE; calculations by *Banco de la República*.

Strong domestic demand continued to be driven by robust growth in private consumption, which in the last two quarters was accompanied by a recovery in public consumption. In the fourth quarter, private consumption remained buoyant, posting high annual growth (4.3%) and additional quarter-on-quarter expansion. This performance is consistent with various short-term indicators, including retail sales, vehicle and motorcycle registrations, consumer credit disbursements, preliminary figures for consumer goods imports, commercial bank transactions, and food supply data. By component, the favor-

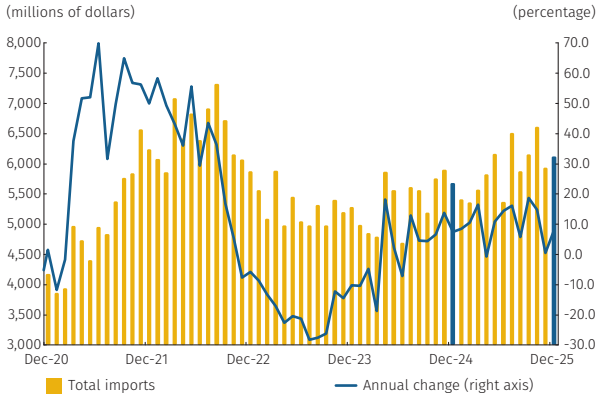
16 In addition to the ISE, these include trade sales, energy demand, road freight movement, the Regional Economic Pulse (PER), vehicle and motorcycle registrations, and consumer credit disbursements, among others.

able performance of durable goods consumption stands out, reflected in significant annual and quarterly increases. This segment was driven primarily by spending on vehicles —possibly supported by sales associated with the auto show— as well as on motorcycles, household appliances, and mobile phone equipment. Semi-durable goods consumption is also estimated to have performed well, mainly due to higher sales of clothing and footwear. In addition, services consumption is expected to have remained dynamic, with positive annual growth rates, largely supported by household spending on entertainment activities. The strength of private consumption continues to be underpinned by growth in households' disposable income, supported, among other factors, by fiscal stimulus measures, increases in real labor income, remittance inflows, and higher income among coffee-producing households. This has been complemented by somewhat more favorable credit conditions and a recent and notable recovery in consumer confidence. Public consumption is expected to have remained at the relatively high levels reached in the third quarter, with an annual growth rate exceeding that of GDP, as suggested by General National Budget data on personnel, general, and transfer expenditures. However, a moderation in annual growth (to 5.8%) is anticipated, reflecting a high basis of comparison and the absence in the fourth quarter of transitory factors that boosted this component in the previous quarter, such as retroactive salary payments to civil servants and the bonus paid to public teachers. Overall, total consumption in the fourth quarter would record additional quarter-on-quarter expansion on already elevated levels and annual growth above 4.0%.

Investment continued to expand in the fourth quarter, driven in particular by expenditure in machinery and transport equipment and by civil engineering works. During this period, gross fixed capital formation is estimated to have grown in both annual (3.2%) and quarterly terms. The most dynamic component would have remained investment in machinery and equipment, which is estimated to have stayed at high levels, once again recording double-digit annual growth. This is supported by preliminary figures for capital goods imports as of December, especially those related to transport equipment and certain capital goods for industry. In the case of housing investment, indicators such as completed housing supply and mortgage loan disbursements suggest a quarterly increase, which nevertheless implies a double-digit annual decline. Investment in other buildings and structures is estimated to have recorded a moderate annual increase, driven by civil works, mainly in Bogotá, and by progress in regional road projects. These increases would have been partially offset by a less favorable performance in non-residential building construction. Finally, total gross capital formation is estimated to have expanded in both annual (5.8%) and quarterly terms, assuming a slight decline (compared with the previous quarter) in the component that includes statistical discrepancy and changes in inventories.

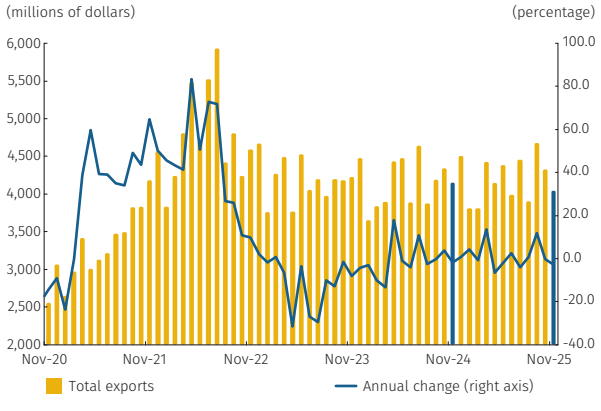
The trade deficit in real pesos is estimated to have widened relative to both the third quarter and the same period of the previous year, reflecting the strong dynamism expected in imports, which would not have been matched by an equivalent increase in exports. In the fourth quarter, imports are estimated to have continued expanding at a robust pace, both in quarterly and annual terms (9.2%), consistent with the favorable performance of domestic demand and a domestic supply that has not grown at the same rate. The main driver would have come from capital goods and durable consumer goods imports, as suggested by preliminary figures through December (Graph 2.16). Regarding exports, a slight increase in levels compared to the previous quarter is anticipated, resulting in no annual growth (0.0%). Volume data through November (Graph 2.17) point to annual declines in some mining exports, particularly oil and coal, offset by increases in agricultural exports, such as coffee and

Graph 2.16
Total goods imports (CIF)
(monthly)



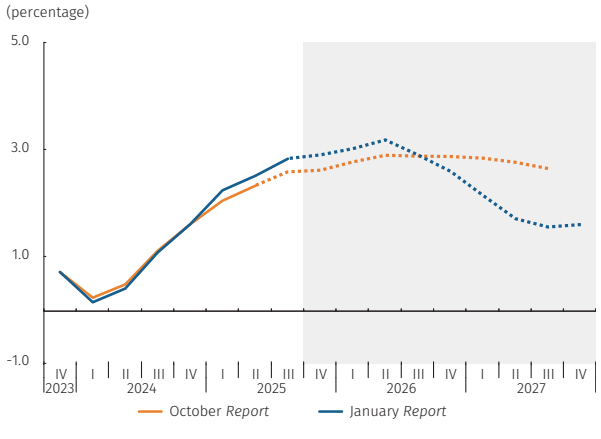
Source: DANE and DIAN (preliminary foreign trade data); calculations by *Banco de la República.*

Graph 2.17
Total goods exports (FOB)
(monthly)



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

Graph 2.18
GDP, four-quarter cumulative [a/]
(annual change)



a/ Seasonally adjusted and corrected for calendar effects.
Source: DANE; calculations and projections by *Banco de la República.*

bananas, and in industrial exports (including food and chemical products, among others). In the case of services exports, levels similar to those of the previous quarter are expected, although with annual declines due to a high base of comparison. This projection considers indicators such as inbound air passenger traffic. Overall, the trade deficit in real pesos is projected to stand above the levels observed in the third quarter and in the same period of the previous year. As a result, net external demand would have continued to make a negative accounting contribution to annual GDP growth, reflecting the presence of excess demand in the economy.

On the supply side, the fourth quarter continued to show momentum in several tertiary sector activities and a favorable performance of manufacturing, which more than offset the contraction in mining and part of the construction sector. The tertiary sector (which mainly comprises services) is estimated to have expanded at an annual rate above that of GDP (3.4%), largely explained by the strong performance of artistic and entertainment activities and public administration. The former was supported by the high number of events and concerts held during the quarter, while the latter reflected higher government spending on personnel and general expenses. In addition, the trade, transport, and accommodation sector is estimated to have recorded positive growth, driven mainly by domestic trade, with vehicle sales and purchases of household appliances and personal electrical equipment standing out. Financial and insurance activities also continued to expand, although at a slower pace than in the third quarter, consistent with a moderation in consumer credit disbursements in recent months. The secondary sector made a positive contribution to annual growth, with manufacturing playing a key role. Its recovery is partly explained by improved performance in coking and oil refining activities. Moreover, the expected favorable results in civil engineering construction would have contributed to the sector's growth. In contrast, the primary sector is estimated to have contracted again, reflecting lower coffee production and the weak performance of mining, particularly oil and gas.

Given the above, the growth estimate for 2025 as a whole was revised upward. For 2026 and 2027, economic activity is expected to moderate, consistent with the need to reduce excess demand and facilitate the convergence of inflation to the target over the forecast horizon (Graph 2.18). For 2025, GDP growth is estimated at 2.9%, above both the figure observed in 2024 (1.6%) and the projection by the technical staff in the previous *Report* (2.6%). This revision reflects, among other factors, DANE's re-estimation of first-quarter data and the upside surprise in third-quarter growth. The robust performance of the economy in the fourth quarter also contributed to the upward revision of the full-year forecast. In 2025, domestic demand is estimated to have grown at around 4.6%, mainly driven by

higher levels of private and public consumption. This pace of expansion is historically high and would be consistent with a positive output gap and a widening of external deficit. In 2026, slower growth in remittances and in coffee export revenues is expected to moderate the pace of expansion of domestic demand, particularly consumption. Economic activity is projected to grow by 2.6% in 2026, slightly below the 2.8% forecast in the October *Report*. This trend would continue into 2027, partly reflecting the monetary policy adjustment required to reduce inflation. Such an adjustment would contribute to a gradual absorption of excess demand and the closing of the output gap, thereby facilitating convergence of inflation toward the 3.0% target.

Unemployment-rate (UR) projections in the thirteen major cities were revised upward compared to the previous *Report* and suggest an increasing path over the forecast horizon. Information available from the Integrated Household Survey (GEIH) to November indicates that employment continued to expand from already high levels, with significant annual growth. At the same time, the inactive population declined in recent months, leading to an increase in the overall participation rate (OPR), which stood at around 66.3% in the rolling quarter ending in November. As a result, the urban UR in the rolling quarter series increased from 8.6% in August to 8.9% in November, although it remained 1.2 percentage points below the level observed one year earlier.[17] The forecast presented in this Report incorporates these recent labor market developments, the projected path of economic activity, and the upward surprise in the minimum wage, among other factors.[18] Under this scenario, the urban UR is expected to follow an upward trend, averaging 9.0% in 2026, above the figure projected in the October *Report* (8.2%). By 2027, the urban UR is projected to average 10.0%.[19] These projections are subject to significant uncertainty and present a moderate upward bias, given the magnitude of the minimum wage increase and changes in the regulatory framework (see section 2.3). Finally, estimates of the non-accelerating inflation rate of unemployment (NAIRU) suggest that the unemployment gap would gradually close over the forecast horizon, consistent with a less tight labor market.

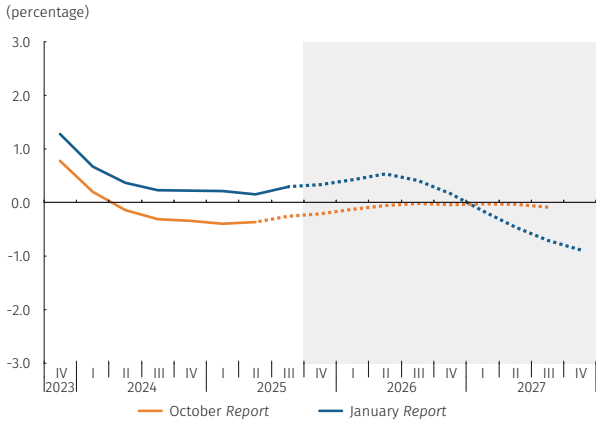
A positive annual output gap is estimated for the fourth quarter of 2025, consistent with strong growth in domestic demand, low unemployment rates, and core inflation remaining above target. The output gap is expected to remain positive throughout 2026 and to close only in the first quarter of 2027. Thus, for the fourth quarter of 2025 and for 2026 as a whole, the economy would operate above its potential level, with the gap gradually closing over the forecast horizon. This assessment is consistent with the upside surprises observed in core inflation, which has shown high persistence at levels above the target. It is also in line with the strength of domestic demand observed since the second half of 2024, driven by dynamics in household income and a high primary fiscal deficit, among other factors. These developments have been reflected in robust growth in consumption and certain investment components, as well as in a widening of the external deficit. In addition, the gap estimates

17 See Chapter 3 of this Report for more details.

18 For this purpose, the technical staff made use of one of its central forecasting models (4GM-LM, see Box 1).

19 Starting with this Report, an eight-quarter forecast horizon is presented, which is obtained from the central forecasting model developed by *Banco de la República*'s technical staff (Ramos, Naranjo, & Pulido, 2026).

Graph 2.19
Output gap [a/]
(four-quarter cumulative)



a/ The historical estimate of the output gap is calculated as the difference between observed GDP (four-quarter cumulative) and potential GDP (trend; four-quarter cumulative) from the 4GM-LM model; for the forecast, it is calculated as the difference between the technical staff's GDP estimate (four-quarter cumulative) and potential GDP (trend; four-quarter cumulative) from the 4GM-LM model.
Source: DANE; calculations and projections by *Banco de la República.*

in this *Report* incorporate the results of a labor market characterized by historically low unemployment rates. Accordingly, the annual output gap for 2025 is estimated at around 0.3% (Graph 2.19), implying potential GDP growth of 2.8%. The revisions to the estimates of the output gap and potential GDP presented in this *Report* mainly reflect adjustments to the most recent GDP series published by DANE, upside surprises in domestic demand, and an improved incorporation of labor market variables in the assessment of excess demand in the economy (see Box 2). It is worth noting that the estimates of the output gap and potential output presented in this *Report* are subject to a high degree of uncertainty, associated with significant revisions to national accounts data and potential structural changes in the economy, among other factors.

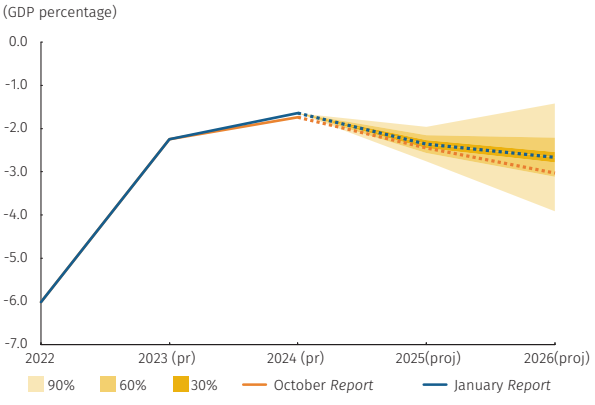
2.2.3 Balance of payments

In 2025, the current account deficit is projected to widen to 2.4% of GDP, compared with 1.6% in 2024.[20] This result is mainly explained by a larger trade deficit and, to a lesser extent, by a wider factor income deficit. In particular, imports are estimated to have expanded significantly, reflecting stronger domestic demand. These higher external outlays, together with lower export revenues from oil and coal, more than offset higher revenues from coffee, gold, and non-traditional exports. The factor income account is estimated to have recorded a larger deficit than in the previous year, owing to higher external debt service payments. This effect was not fully offset by higher returns on Colombia's external assets and lower profit remittances by foreign-owned mining and oil companies (FDI). In contrast, the services and current transfer accounts are estimated to have posted surpluses, thereby mitigating a further widening of the external deficit. On the one hand, the services account is estimated to have closed the year with a surplus, driven mainly by higher tourism exports, reflecting a higher number of nonresidents visiting the country. On the other hand, the current transfers account would have recorded a larger surplus than in 2024, supported by the continued dynamism of workers' remittances.[21]

20 For the fourth quarter of 2025, a current account deficit of close to 2.7% of GDP is projected. This result would be explained by the greater trade imbalance of goods, and a larger factor income deficit.

21 In 2025, remittances from workers are expected to increase, reflecting the high levels of Colombian migration observed between 2022 and 2024. According to figures from Migración Colombia, the net outflow of Colombians abroad during 2024 was approximately 315,000 people. Additionally, labor markets are expected to remain tight in several of the countries where Colombian migrants reside.

Graph 2.20
Annual current account [a/, b/]
(four-quarter cumulative)



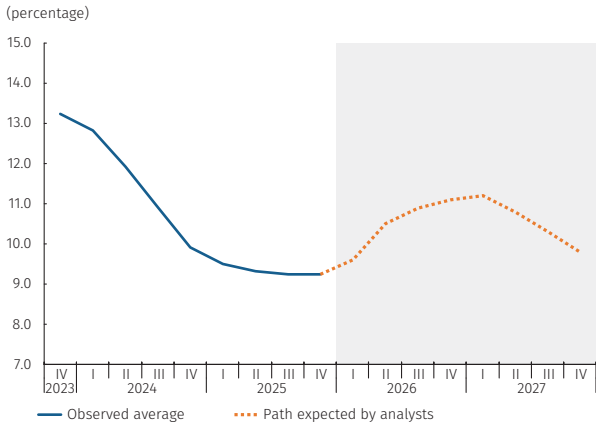
(pre): preliminary, (proj): projected
a/ The graph displays the probability distribution and its most likely path for an eight-quarter horizon. Densities characterize the balance of potential risks with areas of 30%, 60% and 90% probability around the central forecast (mode), using primarily as reference the densities from the Patacon and 4GM-LM models
b/ The probability distribution is derived from the forecasting exercise of the January Report.
Source: *Banco de la República.*

In 2026, the current account deficit is projected to widen further, to 2.7% of GDP (Graph 2.20). The larger external imbalance is expected to be reflected by a wider goods trade deficit, consistent with lower expected revenues from some of the country's main commodity exports, in a context of moderation in international prices and lower domestic production. This would be compounded by strong domestic demand, which would continue to support import growth. Meanwhile, the factor income deficit is expected to remain broadly stable to those observed in 2025, as higher profit remittances abroad would be offset by lower interest payments on private external liabilities in a setting of declining international interest rates. In contrast, the services and current transfer accounts would continue to post larger surpluses, supported by robust tourism exports and remittance inflows that would remain at elevated levels. From a savings–investment balance perspective, the projected widening of the external deficit in 2025 and 2026 is consistent with a public sector imbalance that would remain high, in line with lower projected public savings, as well as with a narrowing of the private sector surplus, given higher projected investment and lower projected savings. Finally, the current account forecast remains subject to elevated uncertainty, reflecting the volatility of international commodity prices, risks to domestic and global growth, potential changes in global trade policy, and the uncertain evolution of domestic and external financial conditions, among other factors.

For 2025 and 2026, the country is expected to maintain full access to external financing, with foreign direct investment (FDI) remaining the main source of external funds. In particular, FDI is estimated to have declined in 2025 due to lower investment in the oil and mining sectors and the absence of the one-off transactions observed in 2024 in other sectors. In contrast, FDI is projected to recover in 2026 as a result of a sectoral recomposition, whereby lower investment in oil and mining would be offset by higher inflows into other sectors, supported by the dynamism of domestic demand. Although FDI would continue to be the main source of financing for the current account deficit in both years, public external borrowing would increase its contribution in line with the high observed and projected fiscal deficit, while the private sector would continue to accumulate assets abroad.[22] External financing would take place in an environment of lower interest rates in the United States, although still above pre-pandemic levels, and of a risk premium for Colombia that would remain above its historical average, in a context of persistent imbalances in public finances.

22 These projections do not consider the effect of the draft decree that seeks to limit investments abroad by pension funds.

Graph 2.21
Monetary policy interest rate: average observed quarterly, and rate expected by analysts [a/]



a/ These projections are calculated based on the quarterly average of the current rate, as per the median response of the Monthly Survey of Economic Analyst Expectations conducted by Banco de la República for October 2025.
Source: *Banco de la República.*

2.2.4 Monetary policy and interest rates expected by analysts

The median analysts' expectation for the policy interest rate is 9.6% for the first quarter of 2026 (9.75% for the January meeting), 11.1% for the fourth quarter of 2026, and 9.8% at the end of the forecast horizon (Graph 2.21). The median response to *Banco de la República's* monthly survey of analysts' expectations conducted in early January suggests that the average policy interest rate would stand at 9.6% in the first quarter of 2026 and would increase to an average of 11.1% in the fourth quarter of that year. For the first quarter of 2027, analysts anticipate additional increases, bringing the rate to 11.2%, followed by a reduction to 9.8% at the end of the forecast horizon. On average, over an eight-quarter horizon, the path expected by analysts is below the path incorporated into the macroeconomic forecast of this *Report*. The survey results also indicate that analysts' inflation expectations at the end of the forecast horizon are higher than the inflation forecast presented in this *Report*.

2.3 Balance of macroeconomic risks

The materialization of the risk of a higher-than-anticipated increase in the legal minimum wage for 2026—of a magnitude that exceeded the usual range of uncertainty—constitutes the most relevant development underlying the current macroeconomic forecast. In the context of a higher central projection for inflation, the current balance of risks incorporates smaller upside pressures than those identified in the previous *Report*. The predictive densities (PD)[23] exercise, which summarizes the risk balance across multiple variables within the macroeconomic forecast suggests a level of overall uncertainty similar to that of the previous *Report*. This uncertainty continues to originate largely from external assumptions, although risks associated with domestic variables have increased. On the external front, the most significant risk factor is related to the country's sovereign risk premium, in the context of persistent fiscal challenges. At the domestic level, following the confirmation of a minimum wage increase for 2026 that exceeded expectations, there remains an upside risk that the pass-through of this shock to consumer prices could be greater than contemplated in the central scenario. This risk cuts across all CPI baskets but is particularly pronounced in services. In contrast, downside risks are identified for food and regulated items. For food, these are associated with the potential behavior of non-labor agricultural costs. For regulated items, they are linked to possible additional reductions in gasoline prices. Overall, the balance

23 Technical details on the construction of the risk balance through the predictive density exercise can be found in the paper "*Caracterización y comunicación del balance de riesgos de los pronósticos macroeconómicos: un enfoque de densidad predictiva para Colombia*" (Méndez-Vizcaíno et al., 2021) and in Box 1 of the July 2021 *Monetary Policy Report.*

of risks for inflation remains tilted to the upside, although to a lesser extent than in previous Reports, and continues to be subject to a high degree of uncertainty.

Among the external assumptions, the sovereign risk premium presents the most pronounced upside risks, owing to the country's fiscal situation. In relation to external factors, the most relevant risk is on the upside and is associated with Colombia's sovereign risk premium, as a result of the persistent deterioration of the domestic fiscal balance. The materialization of this risk would imply higher external financing costs and, consequently, upward pressures on the exchange rate. Nevertheless, exchange rate dynamics also face downside risks in the context of global dollar weakness and potential domestic factors, such as the possible implementation of stricter regulatory limits on pension fund investments in foreign-currency-denominated assets. Regarding other external factors, upside risks to inflation in the United States persist, stemming from the lagged effects of tariffs imposed by that country and its immigration policies. These risks are offset by the possibility of a weaker-than-expected U.S. labor market, resulting in a broadly balanced risk assessment for the path of the Federal Reserve's policy interest rate. As for international oil prices, the balance of risks is moderately tilted to the upside, reflecting developments in Iran and recent geopolitical events. Together with the upside risks associated with coffee and gold prices, this implies an upward bias in the risk balance for the terms of trade. Finally, both growth in Colombia's trading partners and international food prices exhibit a broadly neutral balance of risks. In the first case, downside risks related to geopolitical tensions and the lagged effects of trade conflicts are offset by the resilience observed in the main partner economies. In the second case, upside risks associated with potential disruptions to export routes are balanced by downside risks linked to more favorable weather conditions.

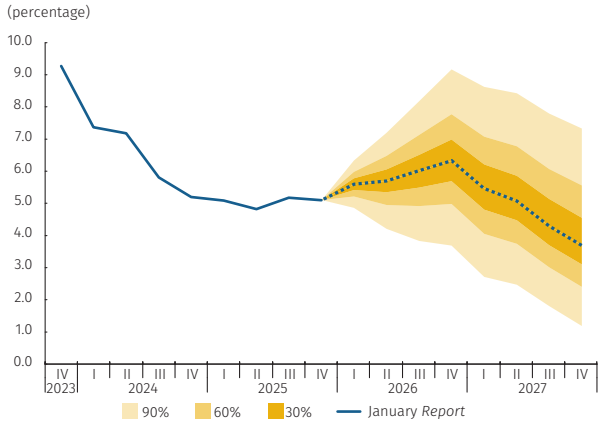
The balance of risks for core inflation remains tilted to the upside, although less so than in the previous *Report*. The materialization of the risk associated with a higher minimum wage in 2026 was incorporated into the upward revision of the central forecast path. Along this new trajectory, the balance of risks for 2027 continues to be skewed to the upside, but to a lesser extent than in the previous *Report.* The most significant upside risk over the entire forecast horizon is a greater pass-through of the minimum wage increase to prices than that assumed in the central scenario, in a context of higher labor costs stemming from new surcharges for overtime work and the reduction in statutory working hours. Although this risk cuts across the different CPI baskets, it is more pronounced in the services sub-basket, which is more intensive in labor input. Accordingly, the balance of risks for services inflation is clearly tilted to the upside. In the case of goods (excluding food and regulated items), the balance of risks is slightly skewed to the upside, as the risk of a stronger-than-expected pass-through of higher labor costs outweighs the potential for greater disinflationary pressures associated with the exchange rate.

For the food and regulated items sub-baskets, downside risks prevail in 2026, resulting in a balanced risk profile for headline inflation in that year and an upside bias in 2027. In contrast to core inflation, the balance of risks for food and regulated items is tilted to the downside, particularly in the first half of 2026. For food, a potentially stronger downward phase of the agricultural cycle in perishables, together with favorable developments in non-labor costs (as suggested by the PPI for the sector), generates downside risks to inflation that offset those associated with the minimum wage increase. For regulated items, although upside risks persist in gas and electricity prices, the possibility of larger-than-anticipated reductions in gasoline prices—relative to the central scenario—dominates the balance of risks, at least during the

first half of 2026. Accordingly, the balance of risks for headline inflation is assessed as broadly balanced in 2026 and tilted to the upside in 2027.

The balance of risks to economic activity is skewed to the downside, particularly toward the end of the forecast horizon. The predictive densities (PD) exercise for economic growth indicates a neutral balance of risks for the fourth quarter of 2025 and a downside balance for 2026 and 2027 as a whole. The information available for the end of 2025 provides mixed signals. On the one hand, there are upside risks associated with potentially stronger household consumption, supported by favorable labor market performance, high levels of remittances, relatively elevated confidence indicators, and fiscal stimulus. On the other hand, there are downside risks related to supply-side factors, which were reflected in the moderation of economic activity in November as measured by the ISE. For 2026 and 2027, downside risks predominate. These include the possibility that the labor market may be adversely affected by the significant increase in the minimum wage; lower external and remittance income in a context of geopolitical tensions and U.S. immigration policies; weaker housing investment, particularly in the low-income housing segment; and the persistence of subdued performance in the mining and energy sector. In addition, the PD exercise endogenously incorporates risks associated with the possibility of a more restrictive monetary policy stance than that assumed in the central sce-

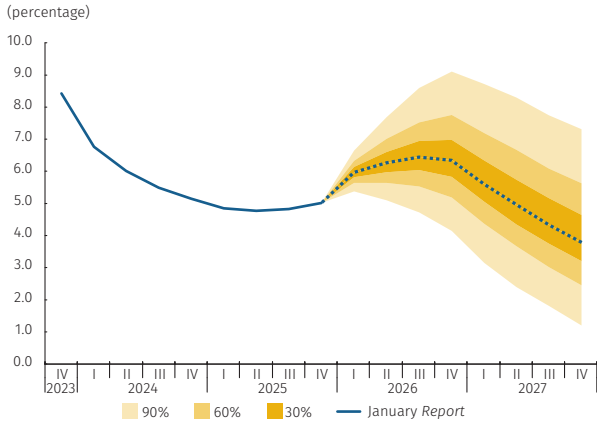
Graph 2.22
Consumer price index, predictive density [a/, b/]
(annual change, end-of-period)



	2Q 2026	4Q 2026	4Q 2027
Mode	5.7	6.3	3.7
< Mode	51%	49%	39%
	Intervals		
<2	0%	0%	12%
2 to 4	3%	7%	34%
>4	97%	93%	55%

a/ The graph displays the probability distribution and its most likely path on an eight-quarter forecast horizon. Densities characterize the balance of potential risks with areas of 30%, 60% and 90% probability around the central forecast (mode), using a combination of densities from the Patacon and 4GM-LM models.
b/ The probability distribution is derived from the forecasting exercise of the January *Report*.
Source: DANE; calculations and projections by *Banco de la República*

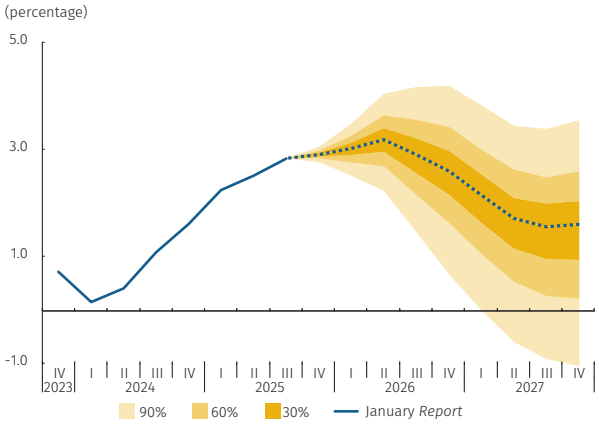
Graph 2.23
CPI excluding food and regulated items, predictive density [a/, b/]
(annual change, end-of-period)



	2Q 2026	4Q 2026	4Q 2027
Mode	6.3	6.3	3.8
< Mode	45%	43%	41%
	Intervals		
<2	0%	0%	12%
2 to 4	0%	4%	34%
>4	100%	96%	54%

a/ The graph displays the probability distribution and its most likely path on an eight-quarter forecast horizon. Densities characterize the balance of potential risks with areas of 30%, 60% and 90% probability around the central forecast (mode), using a combination of densities from the Patacon and 4GM-LM models.
b/ The probability distribution is derived from the forecasting exercise of the January *Report*.
Source: DANE; calculations and projections by *Banco de la República*.

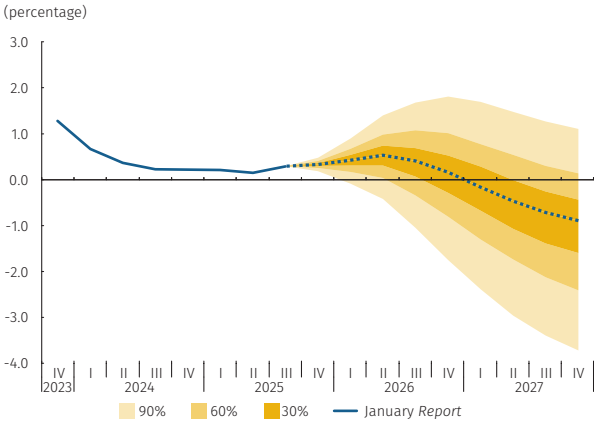
Graph 2.24
GDP, four-quarter cumulative, predictive density [a/, b/, c/]
(annual change)



	4Q 2025	4Q 2026	4Q 2027
Mode	2.9	2.6	1.6
< Mode	50%	57%	60%
	Intervals		
<1	1%	8%	41%
1 to 2	0%	28%	28%
2 to 3	89%	34%	21%
>3	10%	30%	10%

a/ The graph displays the probability distribution and its most likely path on an eight-quarter forecast horizon. Densities characterize the balance of potential risks with areas of 30%, 60% and 90% probability around the central forecast (mode), using a combination of densities from the Patacon and 4GM-LM models.
b/ The probability distribution is derived from the forecasting exercise of the January *Report*.
Source: DANE; calculations and projections by *Banco de la República*.

Graph 2.25
Output gap, predictive density [a/, b/, c/]
(four-quarter cumulative)



	4Q 2025	4Q 2026	4Q 2027
Mode	0.3	0.2	-0.9
< Mode	49%	55%	62%
	Intervals		
<-1	0%	17%	59%
-1 to 0	0%	32%	23%
0 a 1	100%	32%	12%
>1	0%	19%	6%

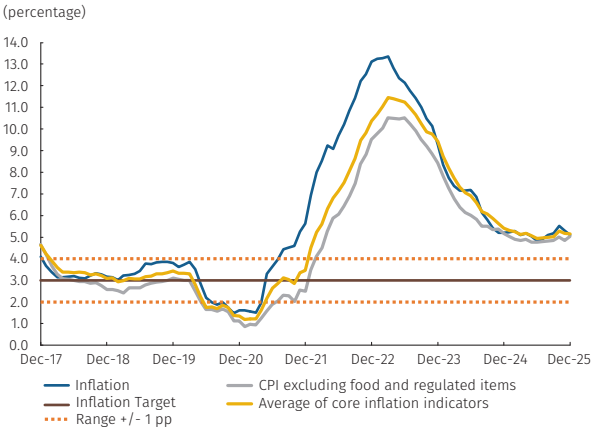
a/ The graph displays the probability distribution and its most likely path on an eight-quarter forecast horizon. Densities characterize the balance of potential risks with areas of 30%, 60% and 90% probability around the central forecast (mode), using a combination of densities from the Patacon and 4GM-LM models.
b/ The probability distribution is derived from the forecasting exercise of the January *Report*.
Source: DANE; calculations and projections by *Banco de la República*.

nario, should the upside risks to inflation materialize, which are more pronounced than the exogenous downside risks to activity.

In summary, the balance of risks reflects greater uncertainty than in the previous *Report*, with balanced risks for inflation in 2026 and an upward bias in 2027 (Graphs 2.22 and 2.23), and a downside bias for economic growth throughout the forecast horizon (Graphs 2.24 and 2.25). In this context, headline inflation is expected, with a 90% probability, to fall between 3.7% and 9.2% at the end of 2026 and between 1.2% and 7.3% at the end of 2027. Core inflation, with the same confidence level, would range between 4.1% and 9.1% at the end of 2026 and between 1.2% and 7.3% by the fourth quarter of 2027. The probability that headline and core inflation fall below 4% by the fourth quarter of 2026 is estimated at 7% and 4%, respectively, and increases to 45% and 46%, respectively, by the end of 2027. Regarding economic activity, annual GDP growth is expected, with a 90%, to fall between 0.7% and 4.2% in 2026 and between -1.1% and 3.5% in 2027.

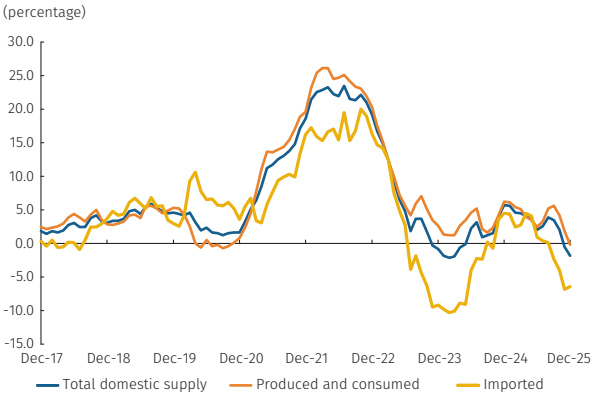
3. Current economic situation

Graph 3.1
CPI and core inflation indicators
(annual change)



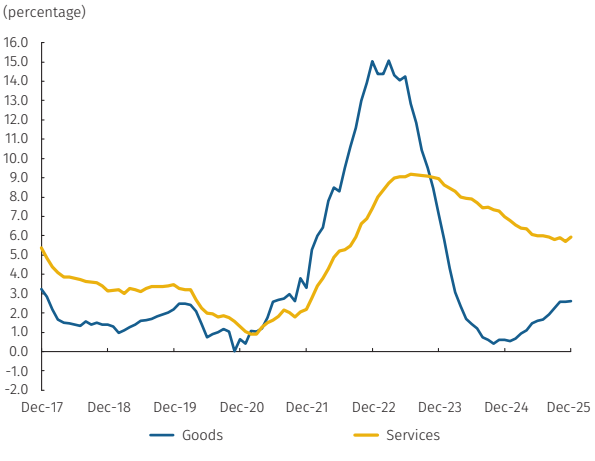
Sources: DANE and *Banco de la República.*

Graph 3.2
PPI by origin
(annual change)



Sources: DANE; calculations by *Banco de la República.*

Graph 3.3
CPI for goods and services, excluding food and regulated items
(annual change)



Sources: DANE; calculations by *Banco de la República.*

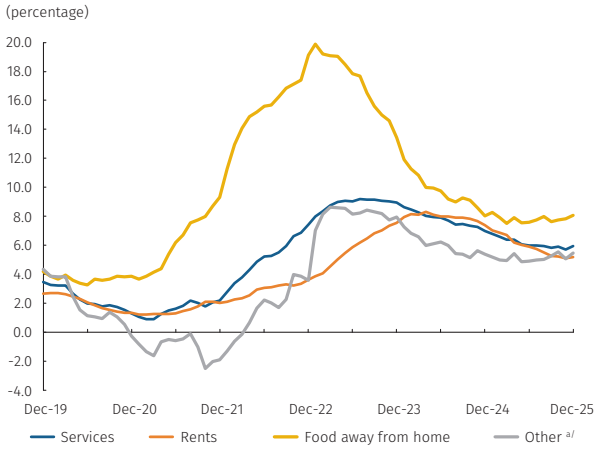
3.1 Inflation and price behavior

In 2025, annual headline inflation ended the year at a level similar to that recorded at yearend 2024, remaining above 3%. In line with the projections cited in the October Report, the annual change in the consumer price index (CPI) ended at 5.1% in 2025, a figure similar to the one recorded in September (5.2%) and December 2024 (5.2%). On the other hand, core inflation, measured as the annual change in the CPI excluding food and regulated items, increased between September (4.8%) and December (5.0%) (Graph 3.1). These levels of headline and core annual inflation near 5% in the last quarter of 2025 echoed the persistence of inflationary pressures from multiple sources, including the continued strength of domestic demand throughout the year, particularly consumption. Other instigators include price indexation that was well above the 3.0% target at the end of 2024, a significant rise in labor costs due to the increase in the real minimum wage, the reduction in workweek hours (Law 2101 of 2021), and the recent labor reform (Law 2466 of 2025). Additional influences include the upward momentum of certain food items - particularly meat prices, and the tax increase on ultra-processed foods. However, non-labor costs and external pressures eased considerably, as evidenced by the behavior of producer price inflation (PPI). The total PPI for domestic supply declined year-on-year by 1.8% in December, compared with 3.5% in September. This respite was observed in both the imported (-2.3% to -6.4%) and domestic (5.6% to -0.2 %) components (Graph 3.2).[1]

The CPI goods prices continued to rise during the last quarter of 2025, driven by robust household demand and specific cost effects. The annual adjustment in the CPI for goods, excluding food and regulated items, rose from 2.2% in September to 2.6% in December (Graph 3.3). This surge in the price of goods would mirror elevated private consumption and higher international prices of precious metals (gold and silver), which directly affected the jewelry subgroup, as well as increases experienced in some personal care items. Conversely, in an environment of currency appreciation, imported goods with technological components experienced annual price decreases, whereas less tradable goods were particularly affected by higher payroll and domestic transportation costs. Despite this quarterly increase, the goods group continued to exhibit the lowest annual variation among the major CPI segments, partly due to stabilized global supply chains - which in previous years had greatly impacted prices - and a lower exchange rate.

1 Last month's IPP data supplied by DANE is provisional.

Graph 3.4
CPI for services, excluding food and regulated items
(annual change)

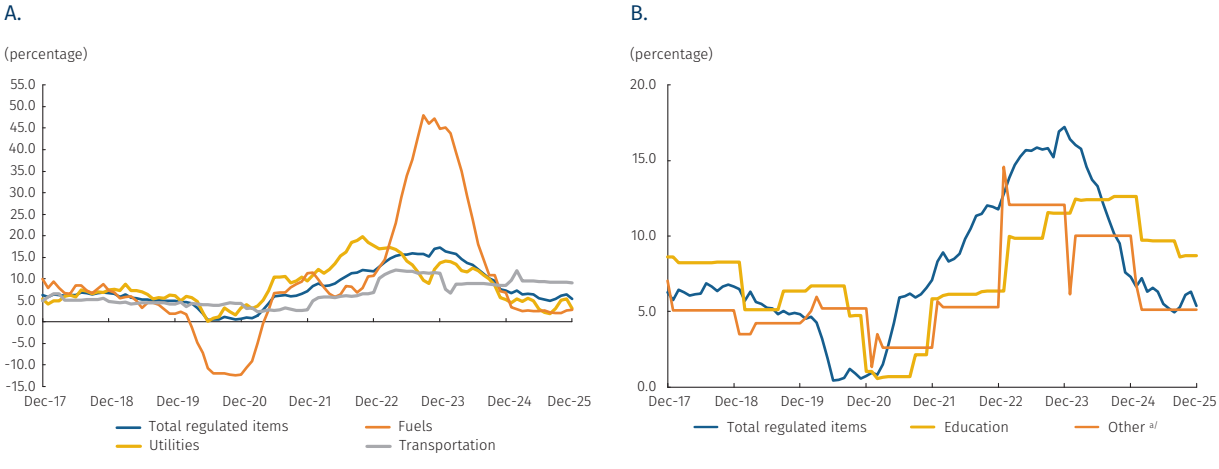


a/ This group mainly includes the following items: communication, recreation, and cultural services; education (non-regulated); miscellaneous services (hairdressing, childcare, financial, etc.); transportation; property management; domestic service; nightclubs and hotels; healthcare; and laundry services
Sources: DANE; calculations by *Banco de la República.*

During the fourth quarter of 2025, the CPI services component increased slightly, in line with stronger demand, higher labor costs, and indexation to past inflation. The annual services CPI adjustment rose slightly between September (5.8%) and December (5.9%). The latter is primarily attributable to the increase in food-away-from-home consumption and other services. In particular, food away from home recorded a year-on-year increase from September (7.6%) to December (8.1%), which persisted throughout the year, partly attributable to higher natural gas prices and labor costs. Similarly, the other services category, encompassing education, communications, health, recreation, and other personal services, registered a marginally higher annual variation in December (5.5%) than in September (5.3%). Alternatively, although rents fell slightly during the last quarter of the year (from 5.3% in September to 5.2% in December) (Graph 3.4), they continued at high levels. This reflects, among other factors, the prevalence of indexation within this item, a limited supply of new housing nationwide, and dynamic demand experiences in tourist-attracting cities such as Bogotá, Medellín, Cartagena, and Santa Marta.

The annual change in the CPI for regulated goods increased in the last quarter of the year, with a consistent pattern across its components. The annual change in the prices of the regulated items sub-basket increased slightly from September (5.3%) to December (5.4%). Specifically, the fuel group recorded the largest increase among regulated fuels, rising from 2.1% in September to 2.8% by yearend. This behavior resulted from increases in gasoline and diesel prices observed in the latter months of 2025 and the high statistical base effect. Regulated education and transportation (8.7% and 9.1% in December, respectively) remained relatively stable (Graph 3.5). Utilities (3.0%), on the other hand, remained unaffected during the fourth quarter,

Graph 3.5
CPI for regulated items and its components
(annual change)

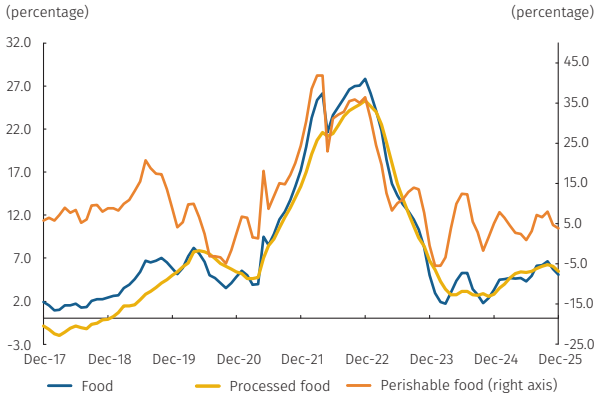


a/ Includes EPS affiliate co-payments, administrative certificates and documents, and professional fee payments
Sources: DANE; calculations by *Banco de la República.*

to some extent because of the appreciation of the peso and abundant rainfall, which reduced the use of more expensive thermal power generation. Moreover, government measures, including the partial repayment of the deferred tariff scheme in the Caribbean region, contract renegotiations, and interventions of distributors, such as Air-e. Additionally, in the case of gas, the Government prioritized the supply of gas to sensitive sectors, optimizing infrastructure and streamlining contracting to mitigate the effects of higher-cost gas imports on rates.

The year-on-year change in food prices fell in the last quarter of 2025 after growing continuously throughout the year. After its upward trajectory during the first three quarters of 2025, the annual change in food prices began to decline in the latter months of the year, from 6.6% in September to 5.1% in December, amid abundant supply. This contraction was noted in both the perishables segment (from 6.6% to 3.8%) and the processed foods segment (from 6.1% to 5.5%) (Graph 3.6). This decline in the growth path of perishable foods is attributable to widespread rainfall across the national territory, lower PPI non-labor cost pressures in recent months, and the normalization of production cycles, which are expected to ensure an abundant supply of fresh products in the country's main supply centers. Processed foods, on the other hand, would have absorbed the fall in international food prices and the appreciation of the peso. This helped offset the observed increases in beef prices and the impact of the so-called healthy tax on ultra-processed foods, which explains the observed price adjustments in products with higher sugar and saturated fat content.

Graph 3.6
CPI for food and its components
(annual change)

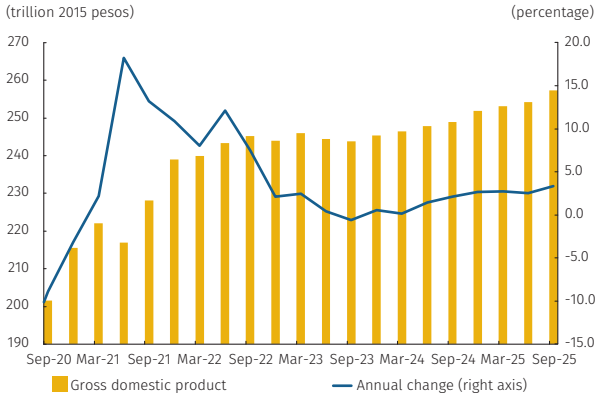


Sources: DANE; calculations by *Banco de la República.*

3.2 Growth and domestic demand

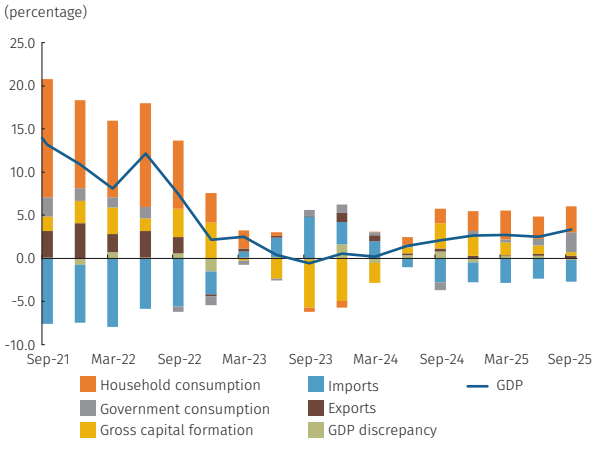
In the third quarter of 2025, GDP grew more rapidly than in previous quarters of the year, exceeding the technical staff's expectations. Economic growth in the third quarter, calculated using seasonally and calendar-adjusted figures (3.4% per year), resulted in an annualized quarterly growth of 5.0% (Graph 3.7). Consequently, Colombian economic activity levels continued their upward trajectory observed since the end of 2023. Regarding the expenditure side, annual growth in domestic demand was a positive contributor, primarily explained by positive consumption behavior in both the private and public sectors. On the other hand, net exports contributed to an accounting shortfall in GDP growth, as import growth exceeded export growth (Graph 3.8). On the supply side, artistic and entertainment activities, public administration, retail, transportation and lodging services, and the manufacturing industry were the strongest product drivers. Conversely, mining and quarrying, together with construction, were the sectors experiencing the largest annual declines.

Graph 3.7
Gross Domestic Product [a/]
(quarterly and annual change)



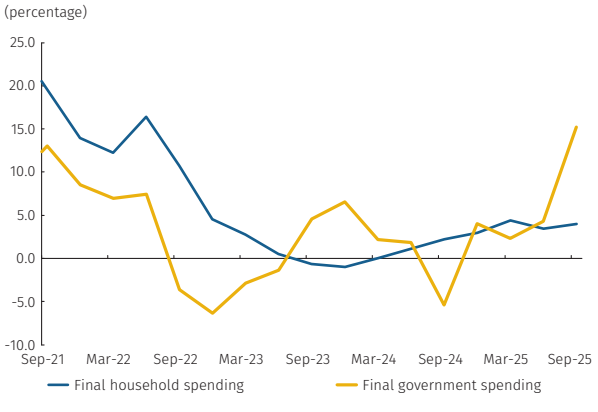
a/ Seasonally adjusted and corrected for calendar effects
Sources: DANE; calculations by *Banco de la República.*

Graph 3.8
Contributions to annual changes to quarterly GDP [a/]
(annual change, contribution)



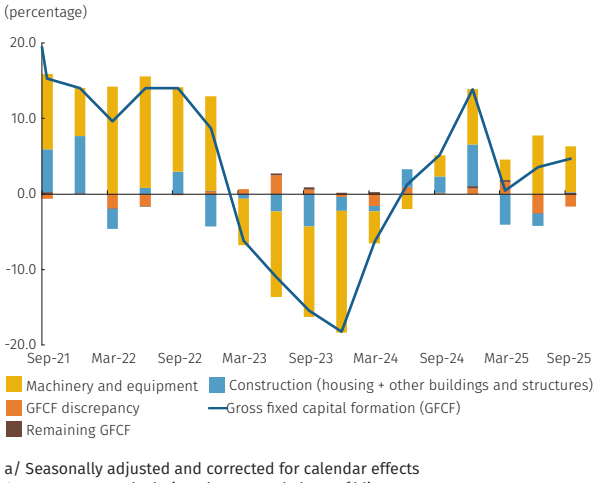
a/ Seasonally adjusted and corrected for calendar effects
Sources: DANE; calculations by *Banco de la República.*

Graph 3.9
Final household and general government spending [a/]
(annual change)



a/ Seasonally adjusted and corrected for calendar effects
Sources: DANE; calculations by *Banco de la República.*

Graph 3.10
Quarterly gross fixed capital formation [a/]
(annual change, contributions)



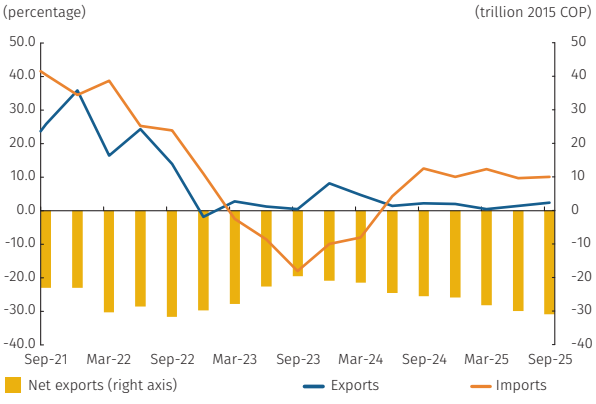
a/ Seasonally adjusted and corrected for calendar effects
Sources: DANE; calculations by *Banco de la República.*

Internal demand continued to outpace overall GDP growth, driven by both private and public consumption. Total domestic expenditure once again registered a marked increase (5%), a larger figure than expected in the October *Report* (4.4%). Private consumption was the primary sponsor of this growth, registering a significant and higher-than-expected increase, both annually (4.0%) and quarterly (5.5% q-o-q). (Graph 3.9). All household consumption segments continued to grow in both quarterly and annual terms, with notable increases in durable consumption (17.2% y-o-y), driven primarily by spending on vehicles and motorcycles, as well as on household appliances and mobile communications equipment. Service consumption experienced a more moderate annual increase (2.9%) but remained high, exceeding the pre-pandemic trend. Concerning the consumption of semi-durable goods, its annual increase (7.7%) favored spending on clothing and footwear. The dynamics of private consumption remained strong, supported by sustained growth in disposable income, employment, and remittance flows, with coffee revenues coupled with gradual improvements in consumer confidence. Moreover, public consumption increased quarterly and accelerated notably on an annual basis (15.2%), particularly due to the partial retroactive salary payment to public employees and a bonus paid to public teachers.

Total investment during the third quarter recorded a moderate year-on-year expansion, propelled by investment in machinery and equipment, but hampered by the continued contraction in housing investment. The annual growth in gross fixed capital formation in the third quarter (4.7%) is largely attributable to the machinery and equipment component, which remained the most active investment segment (Graph 3.10), with an annual expansion rate in double digits (13.4%). By subcomponents, an increment in transportation equipment and capital goods for agricultural investment is noteworthy. Furthermore, investment in other buildings and structures recorded a significant quarterly increase (16.2% q-o-q), encouraging annual growth (5.8%). The main positive contribution came from civil works, as suggested by the supply-side product figures, emphasizing the influence of regional works -particularly Bogotá- and gradual progress in several projects of the 5G infrastructure program. Conversely, investment in housing maintained its significant downward trend (-8.1%) due to curtailed building completions in both the low-income and non-low-income housing segments (VIS and non-VIS, respectively, for its Spanish acronym). Total gross capital formation grew at an annual rate of 2.3%, below the rate of fixed investment, as the statistical discrepancy and the variation in the inventories component, although positive, fell relative to previous quarters, according to the most recent figures published by DANE.

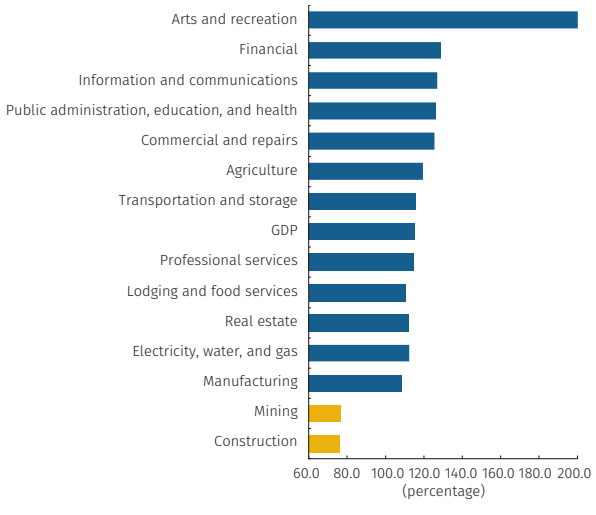
The external trade deficit in constant pesos widened in the third quarter compared to the previous, as imports grew, propelled by private consumption and investment in machinery and equipment. During the third quarter, the strong perfor-

Graph 3.11
Exports, imports, and trade balance [a/]
(annual change and trillion 2015 COP)



a/ Seasonally adjusted and corrected for calendar effects
Sources: DANE; calculations by *Banco de la República.*

Graph 3.12
Sectoral value-added levels in 2Q 2025 relative to 4Q 2019 [a/]
(4Q 2019 = 100%)



a/ Seasonally adjusted and corrected for calendar effects
Sources: DANE; calculations by *Banco de la República.*

mance of domestic demand, particularly in the consumption of durable goods, together with heightened investment in machinery and equipment, led to a considerable increase in imports (10.1% year-on-year and 9.9% quarter-on-quarter), mainly driven by imports of durable consumer goods and capital goods, particularly transportation equipment. Exports in real pesos continued to grow at a moderate annual rate of 2.4%, constrained by declines in mining exports. The latter juxtaposed the dynamism of agricultural exports, principally coffee and bananas, with that of manufacturing exports, including food and chemical products. Exports of services did not grow in annual terms (0.1%) despite the slight quarterly increase (2.1% quarter-on-quarter), explained by favorable -though limited- activity in non-resident tourism. Thus, the external trade deficit widened in the third quarter compared to the previous quarter and the same period of 2024 (Graph 3.11), once again resulting in a negative accounting contribution to GDP.

On the supply side, in the third quarter, the tertiary, agricultural, and industrial sectors exhibited marked annual growth, with services contributing significantly to economic growth. The tertiary branch grew by 4.6%, driven by artistic and entertainment activities (Graph 3.12), factoring a continued boom in Internet gaming and online betting, as well as concerts held in the country's main cities. Furthermore, the sub-branch of public administration and defense was a positive performer, showing significant growth following a bonus paid to public teachers. Moreover, the retail, transport, and lodging sub-branch recorded a positive performance, as did the financial and insurance activities sub-branch. The secondary branch also contributed positively to annual growth, with good results in the manufacturing sector, particularly coking and oil refining. However, this increase was offset by the decline in construction, particularly in buildings. The primary branch, however, fell in annual terms as mining, notably coal and oil extraction, fared poorly. The latter occurred in spite of the good dynamics seen in agricultural activities associated with coffee cultivation and livestock.

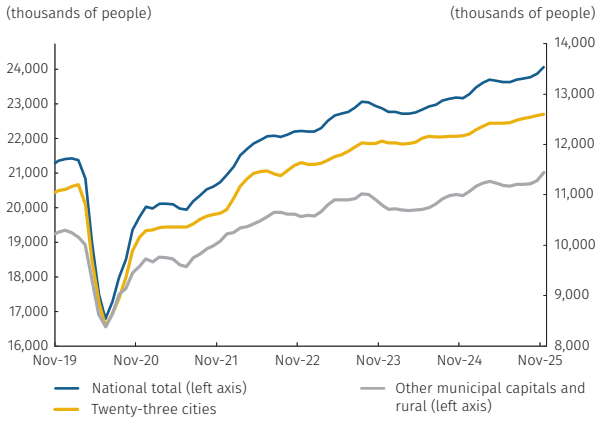
3.3 Labor market[2,3]

The most recent labor market data indicate that employment continued to grow, particularly in rural areas. For the rolling quarter ending in November, the results of the Integrated Household Survey (GEIH for its Spanish acronym) showed that national employment remained buoyant. Employment increased by 1.3% compared to August, largely because of quar-

2 For a more detailed analysis of the labor market, we refer you to *Banco de la República's* Labor Market Report, available only in Spanish at https://www.banrep.gov.co/es/reporte-mercado-laboral

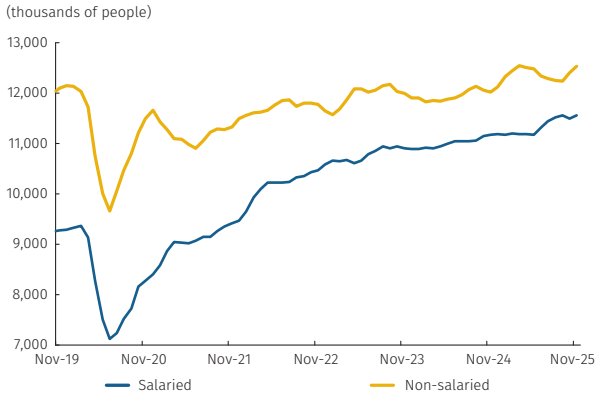
3 Labor market figures presented in this section of the *Report* are primarily for the rolling quarter ending November 2025.

Graph 3.13
Employed population by location



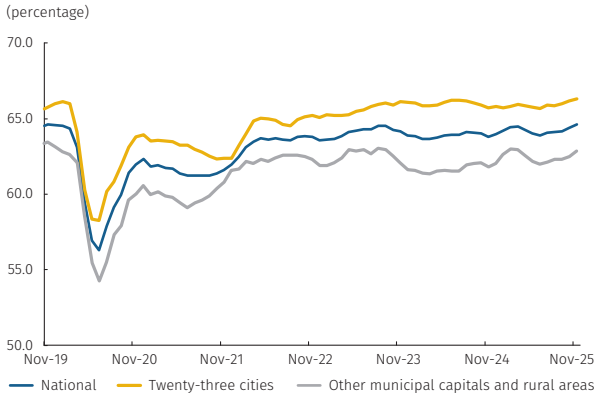
Note: Rolling quarterly seasonally adjusted data
Sources: DANE (GEIH), calculations by *Banco de la República.*

Graph 3.14
Jobs by type of employment
(national total)



Note: Rolling quarterly seasonally adjusted data
Sources: DANE (GEIH), calculations by *Banco de la República.*

Graph 3.15
National Global Participation Rate (GPR) rate by location



Note: Rolling quarter seasonally adjusted data
Sources: DANE (GEIH), calculations by *Banco de la República.*

terly employment growth in rural areas (2.2%) and, to a lesser extent, in the twenty-three main cities (0.6%) (Graph 3.13). In annual terms, national employment grew by 3.9%,[4] explained by 4.2% and 3.5% increases in urban and rural areas, respectively. This annual increase in employment was observed in most economic branches, with a larger contribution from the agricultural, retail and lodging, and transport and communications sectors.

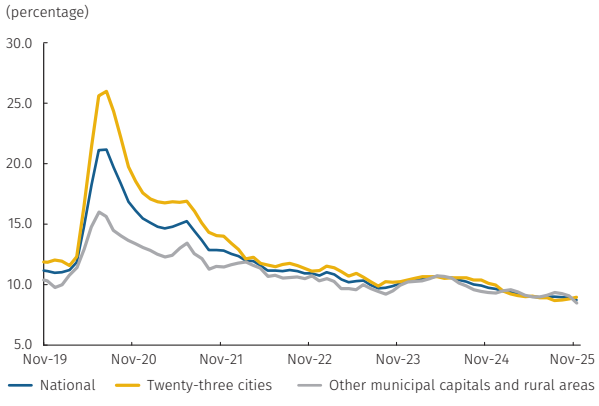
By occupation, salaried employment continued strong, while non-salaried employment showed an upturn. In recent months, salaried employment continued to grow, albeit at a more moderate pace (0.3% in November versus 0.8% in August). On an annual basis, this segment grew by 3.4% in November, driven primarily by private workers (Graph 3.14). This positive trend was mirrored in other data sources on formal salaried employment, including records of contributors to the Integrated Contribution Settlement Form (PILA for its Spanish acronym) and to family compensation funds (CCF for its Spanish acronym). Furthermore, in recent months, the decline in non-salaried employment observed during the second and third quarters was reversed. Thus, in November, this segment recorded quarterly growth of 2.3% and annual growth of 4.2%, with self-employed workers as the largest contributors to the annual growth in national employment. In this context, although formal employment continued to grow, the improved activity in non-salaried employment (which includes a high informal component) translated into an increase in the informal labor rate, which stood at 55.8% in November.

The overall labor force Global Participation Rate (GPR) in recent months has been consistent with the decrease observed in the inactive population. In November, the national GPR stood at 64.6%, surpassing August's figure by 0.5 percentage points (pp) and last year's by 0.8 pp (Graph 3.15). Compared with a month ago, the GPR increased by 0.6 pp in the twenty-three main cities and by 1.1 pp in other municipal capitals and rural areas; year-on-year, the GPR grew by 0.5 pp and 0.6 pp, respectively. This behavior of the national GPR is consistent with the decrease in the population outside the labor force, or inactive, which fell by 1.2% compared to August, largely due to individuals in the other municipal capitals and rural areas exiting this characterization. By gender, labor participation increased for both men and women, with rates of 77.2% and 53.0%, respectively.[5]

4 Consistent with the behavior of the job market, the employment rate has grown in recent months and currently stands at 59.0%.

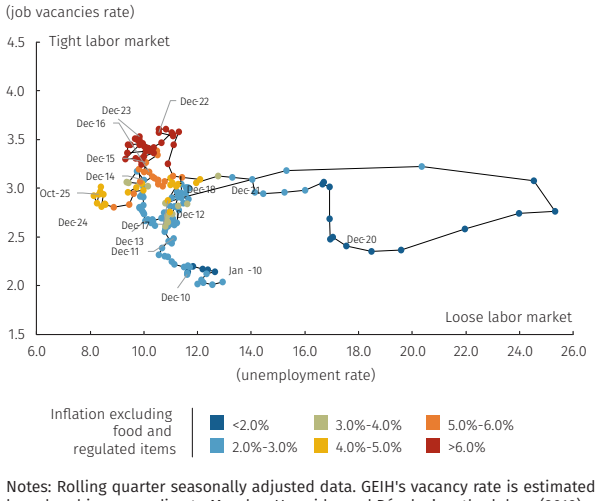
5 In annual terms, the global labor force participation rate recorded a 0.1 pp increase for men and a decrease in the same amount for women.

Graph 3.16
Unemployment rate by location



Note: Rolling quarter seasonally adjusted data
Sources: DANE (GEIH), calculations by *Banco de la República.*

Graph 3.17
Beveridge curve for the seven largest cities



Notes: Rolling quarter seasonally adjusted data. GEIH's vacancy rate is estimated based on hires according to Morales, Hermida, and Dávalos' methodology (2019)
Sources: DANE (GEIH), calculations by *Banco de la República.*

In recent months, the national aggregate unemployment rate has fallen and remains at levels below its historical average. In the rolling quarter ending November, applying seasonally adjusted figures, the unemployment rate stood at 8.7%, down 0.3 pp from August and 1.0 pp from the same period a year earlier. By geographic area, the results vary. The urban unemployment rate increased by 0.3 percentage points (pp) from August to 8.9%, reflecting a larger labor supply relative to available jobs. In contrast, the unemployment rate in rural areas fell by 0.9 percentage points to 8.4%, consistent with recent labor market behaviors. In annual terms, these figures imply a decrease of 1.9 pp in the urban unemployment rate and 1.2 pp in other municipal capitals and rural areas (Graph 3.16). However, widespread differences exist among the country's twenty-three main cities: for example, Quibdó had the highest unemployment rate (23.9%) and Villavicencio the lowest (7.4%). Compared with the previous year, the largest reductions in the unemployment rate were observed in Florencia (-5.1 pp), Quibdó (-4.6 pp), and Popayán (-3.0 pp), whereas Cartagena (1.0 pp) and Neiva (0.4 pp) recorded the largest increases. Finally, the gender gap in unemployment stood at 4.3 pp in November, compared with 4.2 pp in August, with the unemployment rates for men and women remaining relatively stable.

In recent months, job vacancies improved, while short-and medium-term hiring expectations fell, suggesting a general weakening of formal employment going forward. Short-term hiring expectations, as reported by the Manpower Group survey, showed a slight decline relative to the previous quarter, although they remained in positive territory, suggesting diminished activity in the formal segment in the near term. Likewise, medium-term expectations (six to twelve months) in *Banco de la República's* Quarterly Survey of Economic Expectations (ETE, for its Spanish acronym) declined, with an overall neutral outlook. Based on data through November, job vacancy rates obtained from classified ads, the Public Employment Service (SPE for its Spanish acronym), and implied hiring expectations derived from the GEIH household survey showed few changes. The combined behavior of the urban unemployment rate and the vacancy rate, as depicted by the Beveridge curve (Graph 3.17),[6] suggests that the labor market continues to signal a tightness, with figures on the left side of the curve, as the unemployment rate remains low and the job vacancy rate continues its incremental pace. Finally, with data up to October, the real monthly job income of salaried and non-salaried workers continued to show an upward trend, with annual increases of 7.5% and 16.8%, respectively.

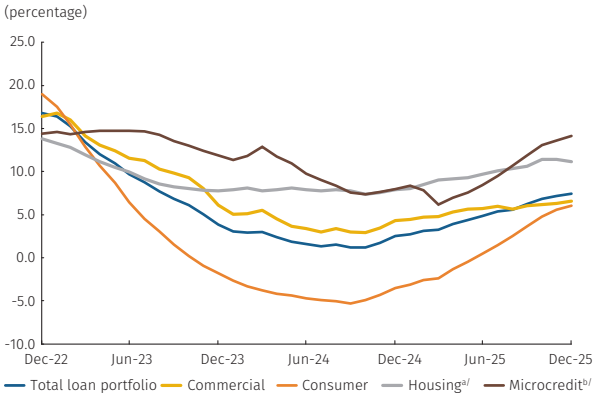
6 The Beveridge curve is a graphical representation of the relationship between unemployment and the job vacancy rate.

3.4 Financial and monetary market

In 2025, all components of the loan portfolio showed a gradual recovery, with interest rates generally lower than in 2024 and improved risk indicators across all loan types. This loan portfolio performance continued in the fourth quarter, particularly in consumer loans, accompanied by improved perceptions of credit demand and supply and fewer restrictions on loan concessions. However, toward the end of the year, loan disbursements, particularly consumer loans, remained at the same levels as in the third quarter. Most interest rates, both active and passive, declined throughout 2025, except for housing loan rates. Nevertheless, by yearend, the benchmark banking indicators (IBR for its Spanish acronym) and longer-term deposit certificate (CDT for its Spanish acronym) rates increased, in line with the recent increase in inflation expectations and a monetary policy interest rate (MPR) that could increase in 2026, in line with market expectations. At the same time, the loan portfolio quality indicators continued to improve and approached their historical levels. Together, these relatively favorable loan-granting conditions enabled a gradual credit recovery in 2025, although the recent stabilization of consumer disbursements suggests moderate portfolio growth in 2026.

During the fourth quarter, loans increased on an annual basis, driven primarily by activity in the consumer loan portfolio. In nominal terms, the total loan portfolio grew year-on-year by 7.4% in December, while the consumer, commercial, and housing loan portfolios grew annually by 6.0%, 6.6%, and 11.1%, respectively (Graph 3.18). In real terms, consumer credit continued to register positive annual changes after more than two years in negative territory, and the housing loan portfolio showed a slight acceleration. For its part, the commercial loan portfolio remained stable in real terms, with annual changes hovering around zero in the final quarter of the year. As of September, the credit demand and supply perception survey continued to show positive signs, while requirements for granting all types of new loans decreased, suggesting that the loan portfolio would continue its gradual recovery. However, consumer credit disbursements flatlined in recent months after the sustained increases observed in 2025, which could signal restrained activity in this loan modality going forward. The latter occurred amid higher household disposable income, strong employment performance, and real credit interest rates that remained stable for most of the period.

Graph 3.18
Gross loan portfolio in Colombian pesos
(annual change, monthly averages)



a/ Adjusted housing: bank loan portfolio plus securitizations
b/ Microcredit as of March 1, 2024, includes "Banco Contactar", entity that had previously operated as "Corporación de Crédito Contactar" under the oversight of the Superintendency of Corporate Affairs
Sources: Financial Superintendency of Colombia, calculations by *Banco de la República.*

The behavior of interest rates has been mixed in recent months: short-term rates have remained stable, whereas longer-term rates have risen amid rising inflation and MPR expectations. The market's short-term interest rates reflected the behavior of the monetary policy interest rate (MPR), which remained unchanged at 9.25% in the October and Decem-

Table 3.1
Interest rates
(average monthly, percentage)

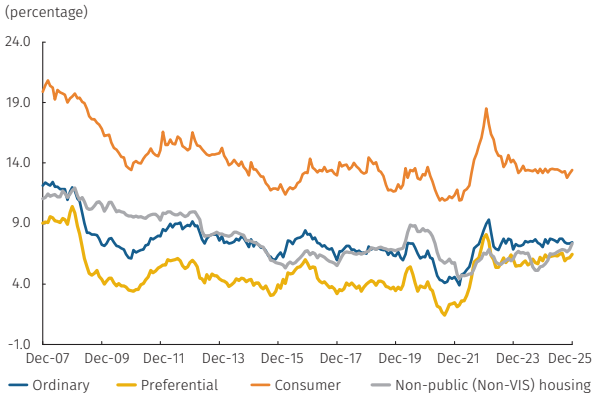
	Jun-24	Dec-24	Jun-25	Sep-25	Dec-25
Interbank					
Interbank policy rate	11.75	9.70	9.25	9.25	9.25
Interbank overnight	11.75	9.70	9.25	9.25	9.21
BBI overnight	11.75	9.70	9.25	9.25	9.22
BBI 1-month	11.47	9.44	9.24	9.24	9.30
BBI 3-months	11.01	9.20	9.17	9.19	9.47
BBI 6-months	10.49	8.86	9.06	9.11	9.84
BBI 12-months	9.65	8.40	8.87	8.96	10.31
Deposits					
Savings	5.36	4.30	4.04	3.99	3.83
DTF 90-days	10.14	9.22	8.94	8.76	8.95
CDT* 180-days	10.33	9.43	9.11	8.85	9.11
CDT 360-days	10.75	9.73	9.53	9.39	9.91
CDT > 360-days	11.32	9.97	10.16	9.94	10.58
Credit					
Preferential	13.65	11.92	11.59	11.17	11.91
Ordinary	15.66	13.13	12.79	12.74	12.95
Non-public housing purchases	14.71	11.42	11.96	12.09	12.84
Public housing purchases	13.42	11.38	11.50	11.55	12.26
Consumer personal loan	24.73	21.18	20.46	20.33	20.37
Consumer payroll loan	18.14	16.58	16.76	16.57	16.59
Credit card	29.22	24.59	24.11	23.56	23.36

*CDT (term deposit certificates)
Sources: Financial Superintendency of Colombia, calculations by *Banco de la República.*

ber meetings. The interbank interest rate (TIB) and the overnight and one-month benchmark banking indicators (IBR for its Spanish acronym) remained relatively stable, while three-, six- and twelve-month IBRs increased by 27, 53 and 64 basis points (bp), respectively, during the fourth quarter (Table 3.1). The behavior of CDT interest rates varied in 2025, with rates rising in the fourth quarter across all maturities. Real lending rates increased moderately in 2025, particularly for housing loans, and approached their historical average (Graph 3.19). This behavior occurred in an environment of higher inflation and MPR expectations, as well as rising interest rates on public debt securities.

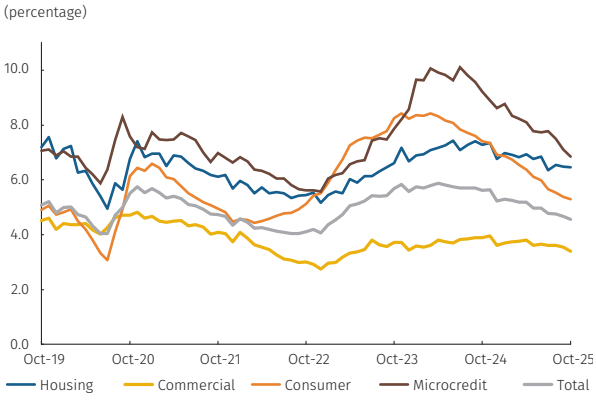
Loan portfolio quality continued to improve for all loan types, while lending institutions' profits continued to recover and solvency levels remained well above regulatory minimums. The loan portfolio quality indicator continued to improve through October 2025 across all loan types, particularly for the consumer loan portfolio (Graph 3.20). This favorable behavior among non-performing loans has occurred in an environment of lower debt-to-household-income ratios and higher employment levels. Twelve-month cumulative profits of credit institutions reached COP 14.7 trillion (t) in October 2025, 71% annual growth, spurred by lower loan portfolio provisions and higher income from investments in TES (bonds issued by the Colombian government and managed by *Banco de la República*). Finally, the total (18.0%) and basic (14.9%) solvency levels of credit institutions remained well above the regulatory minimums (9.0% and 4.5%, respectively).

Graph 3.19
Real loan interest rates
(monthly average data deflated by the CPI excluding food)



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

Graph 3.20
NPL Indicator
(past due loan portfolio[a/] / total loan portfolio)



a/Refers to loans past-due over 30 days
Sources: Financial Superintendency of Colombia, calculations by *Banco de la República.*

Box 1
Possible macroeconomic effects of the minimum wage

Óscar Iván Ávila-Montealegre
Ánderson Grajales-Olarte
Mario Andrés Ramos-Velosa
Juan José Ospina-Tejeiro*

This Box quantifies the potential effects of a real increase in the minimum wage on a set of macroeconomic variables when the increment exceeds the sum of inflation and labor productivity growth by 17.2 percentage points (pp), as the one established for 2026. The analysis is conducted by updating the exercise presented in chapter 3.2 of the journal *Ensayos sobre Política Económica (ESPE)*, No. 103, which studies the macroeconomic effects of the minimum wage in Colombia. The benchmark exercise in ESPE considered a 1 pp increment; consequently, the results presented in this Box should be interpreted in the context of a larger shock. For a detailed description of the model and transmission mechanisms, see *Borradores de Economía* No. 1264.[1] Below, we summarize the model employed, its main transmission channels, and its effects on the labor market, economic activity, and prices.

In practical terms, the model describes a small open economy inhabited by two types of households: one with high productivity and access to capital markets, and another with lower productivity and no access to capital markets. The latter type of household supply both formal and informal labor, which is its only mechanism for smoothing income fluctuations.

Formal firms use capital (machinery, equipment, and buildings) along with high- and low-skilled labor to produce final goods. Low-skilled formal workers earn the minimum wage, whereas informal workers earn less than the minimum wage. In turn, highly skilled workers earn higher incomes, and in the short term, their wages adjust proportionately to increases in the minimum wage (the beacon or lighthouse effect). When firms hire formal workers, they pay a tax that is redistributed to low-income households. Additionally, the model incorporates a central bank that sets the monetary policy interest rate to reduce fluctuations in inflation and output.

In the model, the minimum wage is determined by past inflation, labor productivity, and an unanticipated shock. This shock may reflect adjustments to the minimum wage that deviate from the sum of past inflation and productivity, either through agreements between workers and employers or government decisions. The minimum wage directly affects the hiring of low-skilled formal workers and indirectly affects informal employment and aggregate macroeconomic adjustments. The results of a 17.2 pp shock in the minimum wage on several important economic variables are presented in Graph B1.1. Note that the model is calibrated to reproduce the average characteristics of the Colombian economy, including consumption

* The authors are members of the Macroeconomic Modelling Department and the Assistant Manager of Monetary Policy and Economic Information. The opinions herein expressed are solely their responsibility and do not compromise the Bank or its Board of Directors

1 For this exercise, the model was adjusted to reproduce additional characteristics of the Colombian economy, and therefore, its parameters are not the same as those presented in the journal Ensayos sobre Politica Económica (publication on relevant issues on economic policy in Colombia published by Banco de la República, or ESPE for its Spanish acronym) or in the research draft. The new characteristics include the size of informal employment. Consequently, given the magnitude of the shock, the results presented are not equivalent to simply scaling those from the ESPE; however, the mechanisms remain the same.

and investment ratios relative to GDP, as well as the labor informality rate, and wage gaps across worker groups.

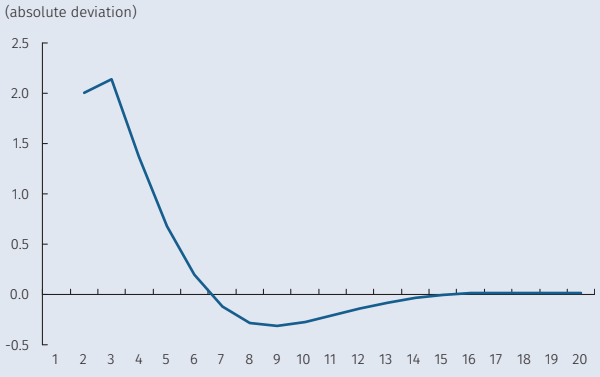
In the labor market, an increase in the minimum wage directly affects low-skilled workers, both formal and informal. The increase in hiring costs reduces demand for low-skilled formal work hours. In terms of impact, this reduction is close to 10%. However, as firms and the economy converge toward their new equilibrium, the decline intensifies, and, in the long term, total work hours for low-skilled formal jobs are reduced by approximately 20%.

Graph B1.1
Response of the main macroeconomic aggregates after a permanent increase in the real minimum wage

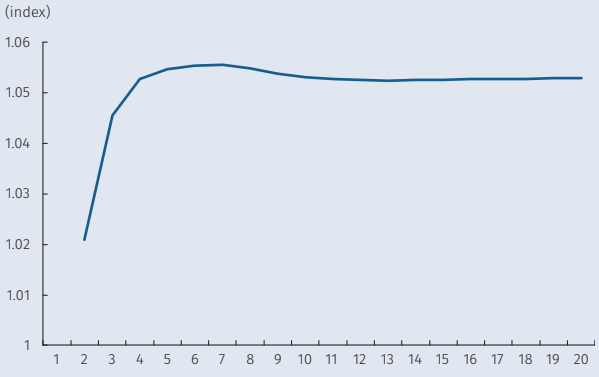
Note: GDP, investment, consumption, hours, and salaries are expressed as percentage deviations from their initial equilibrium levels. The monetary policy interest rate and quarterly inflation are expressed in annual terms as an absolute deviation from the initial equilibrium. Finally, the relation of formal employment over unskilled employment is expressed as an index, with the initial value normalized to 1.
Source: Authors' own calculations.

Graph B1.1 (continuation)

G. Quarterly inflation (annualized)



H. Informal employment / low-skilled employment



Note: GDP, investment, consumption, hours, and salaries are expressed as percentage deviations from their initial equilibrium levels. The monetary policy interest rate and quarterly inflation are expressed in annual terms as an absolute deviation from the initial equilibrium. Finally, the relation of formal employment over unskilled employment is expressed as an index, with the initial value normalized to 1.
Source: Authors' own calculations.

Some of the decline in formal hours is replaced by informal work, although this substitution is incomplete. In the short term, higher disposable income temporarily reduces the supply of informal work among low-income households. However, as formal labor income declines due to reduced hiring, these households increase their supply of informal work again. As a result, in the long term, informal work hours increase by approximately 5%, and the share of informal employment in aggregate employment steadily rises. As described below, this partial substitution toward lower-productivity work is one of the main channels through which the minimum wage increase affects aggregate output. In contrast, high-skilled work hours remain virtually constant throughout the adjustment period.

Overall, the results indicate a labor market reallocation concentrated among the low-skilled segment characterized by less formal hiring and greater reliance on informal labor.

Wages show heterogeneous responses throughout the adjustment. Unskilled formal wages increase immediately, in accordance with the minimum wage adjustment. In terms of impact, the hourly income of informal workers also increases as a result of the temporary contraction in labor supply; however, during the transition, the increase in informal labor supply exerts downward pressure on these wages. The wages of skilled workers initially increase due to the minimum wage's transmission effects. Subsequently, the contraction in economic activity leads to a decline in these wages, while skilled employment levels converge toward values close to those observed before the shock.

Together, the results indicate a labor-market reallocation, concentrated in the low-skilled segment, characterized by less formal hiring, greater use of informal labor, and differentiated wage responses. These responses reflect the interaction among income effects, changes in labor supply, and aggregate economic adjustment.

In terms of economic activity, GDP declines by approximately 1.0% in the second half of the year after the shock and gradually converges to a long-term decrease of approximately 0.7%. In the short term, output behavior reflects differentiated adjustments among its components, which converge over time toward a generalized decline in macroeconomic aggregates.

On the demand side, output contraction is largely explained by the response of investment. In particular, investment in capital complementary to low-skilled labor declines by nearly 10% in the short term. This reduction is partially offset by an increase in investment in machinery and equipment of around 8-9%. This increase reflects a substitution between productive factors, characterized by greater use of capital and lower demand for low-skilled labor, for example, through the automation of tasks previously performed by low-skilled formal workers, whose remuneration is indexed to the minimum wage.

With respect to consumption, responses differ among household types. Initially, consumption by unskilled households, composed of minimum wage earners or participating in the informal sector, increases as a result of higher labor income. Eventually, it declines as formal employment contracts. On the other hand, consumption among skilled households declines immediately and persistently, associated with a permanent decline in labor income due to the reduced aggregate economic activity. In aggregate terms, consumption shows an immediate slight increase, followed by a decline in subsequent quarters, remaining below its pre-shock level throughout the period studied.

From a price perspective, the increase in the minimum wage implies higher marginal production costs, which translate into an inflation increase of nearly 200 basis points (bp) in annual terms. In response to this dynamic, the monetary policy rate adjusts by approximately 200 bp after the shock and begins to decline toward its long-term equilibrium as inflation converges to its long-term target.

Note on the Interpretation of Results

It is important to note that this analysis quantifies the isolated effects of a real increase in the minimum wage on the main economic variables, assuming there are no other concurrent shocks. In this sense, it does not constitute a prognosis of the economy's future evolution, but rather a measure of the marginal impact of the minimum wage.

Consequently, for example, the estimated effect on inflation of 200 bp should not be interpreted to mean that inflation will mechanically increase from 5.1% in 2025 to 7.1% in 2026. Rather, it represents the contribution of the minimum wage increase to the inflation observed in 2026. If inflation in that year were 6%, the results indicate that, absent from the minimum wage increase, inflation would have been 4%. Similarly, if inflation in 2026 is 4%, this implies that, without the minimum wage increase, inflation would have been 2%.

In other words, inflation in 2026 may increase or decrease relative to the 5.1% observed in 2025 depending on multiple factors. However, according to this exercise, regardless of the inflation level ultimately observed, the contribution of the minimum wage increase will be approximately 200 basis points. Results for the remaining macroeconomic variables should be interpreted similarly.

References

Arango, L. E., Ávila–Montealegre, O. I., Bonilla-Mejía, L., Botero–García, J. A., Caicedo-García, E., Dávalos–Álvarez, E., ... & Vargas, C. O. 2022. "Efectos macroeconómicos del salario mínimo en Colombia". *Ensayos sobre Política Económica*, 103: 1-117. *Banco de la República.*

Ávila-Montealegre, O. I., Grajales, A., Ospina-Tejeiro, J. J., Ramos-Veloza, M. A. 2023. "Salario mínimo y ajuste macroeconómico: lecciones de una economía emergente, pequeña y abierta con trabajo formal e informal". Borradores de Economía, 1264. *Banco de la República.*

Box 2
Inclusion of the labor market in the 4GM model

Sara Naranjo-Saldarriaga
José D. Pulido-Pescador
Mario A. Ramos-Veloza*

Introduction

Banco de la República, the Central Bank of Colombia, continuously reviews and updates the tools used for macroeconomic forecasting and monetary policy analysis. These tools include macroeconomic models, which enable the collective analysis of inflation and economic growth dynamics in the medium term and serve as a quantitative framework for formulating monetary policy. One such model is the neo-Keynesian semi-structural model developed by González et al. (2020), which is known as 4GM. This methodology, based on the general structure of the International Monetary Fund's (IMF) Global Projection Model adapted to a small, open economy, is similar to that used by several central banks.

This Box presents an extension of the 4GM model, called 4GM-LM (4GM with labor market), which the Bank's technical staff began to use in this *Report*. This version expands the base model by integrating wage and unemployment dynamics. This addition enables a more rigorous analysis of the influence of labor market behavior on inflation, economic growth, and potential output, thereby making it possible to explicitly incorporate their implications for monetary policy decisions. A detailed description of the model is provided in Ramos-Veloza, Naranjo-Saldarriaga, and Pulido (2026).

1. Main changes from the original 4GM model

The original 4GM model consists of four main components: one for aggregate demand (IS curve), another for inflation (four Phillips curves covering goods, services, food, and regulated goods), a third for monetary policy (Taylor rule), and a final component for the exchange rate (open interest rate parity). The updated model adds two more components that represent the behavior of wages and the unemployment rate, as well as their connection to economic activity and prices, both in the short and long term.

The first additional block breaks down the unemployment rate into cyclical and trend components. The cyclical component of unemployment is explained by Okun's law, which links the cyclical nature of economic activity (the output gap) to that of unemployment. The trend component follows an autoregressive process with a long-term attractor, which allows persistent output gaps (as measured in a centered three-year moving window) to have some effect on the unemployment trend, a phenomenon known as hysteresis.

The second block models wage behavior in the economy.[1] Nominal wages are converted into real wages by deflating them with inflation expectations. Real wages are separated into

---

* The authors are members of the Macroeconomic Modelling Department. The opinions herein expressed are solely their responsibility and do not compromise the Bank or its Board of Directors

1 The wage measure in the model corresponds to a dynamic factor that explains the common behavior among a set of five wage series. The series presents the median incomes of employed persons and workers with social security, both from DANE's Integrated Household Survey (GEIH, for its Spanish acronym, as well as the nominal wage indices from the sectoral surveys of industry, commerce, and construction published monthly by DANE.

cyclical and trend components. The cyclical component of real wages reflects the labor component of firms' marginal costs and, through this channel, affects the Phillips curves for the four price baskets. Thus, an increase in the real wage gap implies greater labor-market inflationary pressures, which affect prices. Meanwhile, the trends in real wages play a role similar to that of labor productivity, affecting potential output. Nominal wages are described by a new Phillips curve in which the unemployment rate gap serves as an indicator of labor market demand pressures. Thus, a tight (loose) labor market, where the unemployment gap is negative (positive), exerts upward (downward) pressure on nominal wages, which, in turn, raises (lowers) real wages.

Finally, in the new model, the aggregate demand and the potential output equations are modified to account for labor market effects. In particular, the Investment-Savings (IS) equation recognizes that changes in households' purchasing power, derived from labor-market conditions, influence their consumption, the main component of aggregate demand. Thus, both the unemployment and the real wage gaps directly affect the output gap. In addition, the economy's growth capacity (i.e., potential output) is affected by structural changes in the labor market, as reflected in movements in the trend components of the unemployment rate and real wages. In summary, there are four new mechanisms that connect the goods and services market with the labor market:

Okun's law establishes an inverse relationship between unemployment and output gaps. When the economy grows above its potential, unemployment tends to fall; conversely, when the economy contracts below its potential, unemployment tends to increase.

Effect of the labor market on aggregate demand: recognizes that the purchasing power of households directly influences consumption; therefore, the cyclical components of real wages and the unemployment rate affect aggregate demand.

Effects of structural changes in the labor market on potential output: shifts in the trend components of real wages and unemployment affect the economy's productive capacity and, consequently, potential output.

Finally, in addition to these changes, given the decline in oil's share in Colombia's exports in recent years, the new version of the model replaces oil prices with the terms of trade, an indicator that encompasses a broader set of prices for Colombia's export supply. Accordingly, the new version of the model includes three additional observable variables relative to the original: the unemployment rate, a wage indicator, and the terms-of-trade index. The model parameters are estimated using data from 2003 to 2025, Bayesian techniques for large-scale models, and an estimation algorithm that isolates pandemic-induced atypical fluctuations in the main macroeconomic variables, following Ferroni, Fisher, and Melosi (2024).

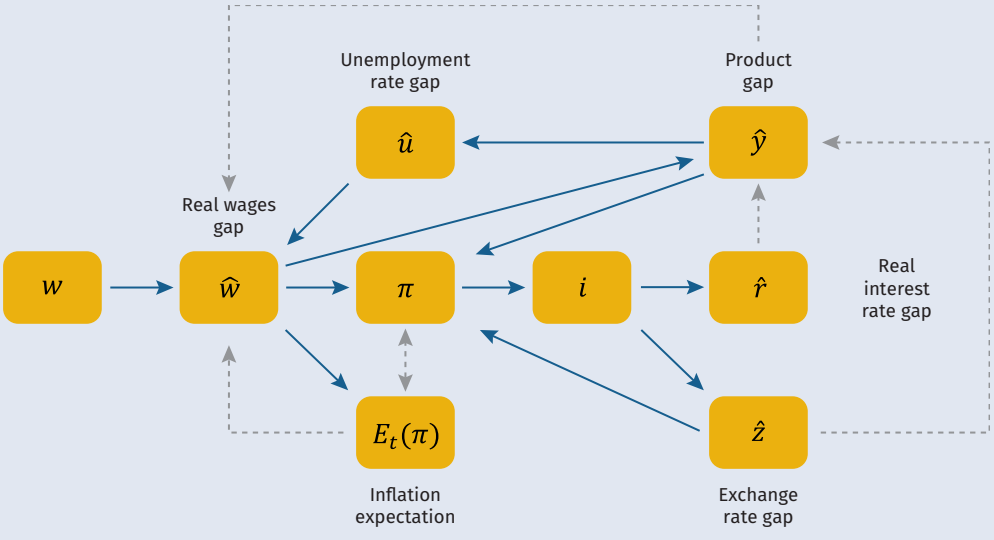
2. Advantages of the new model

The 4GM-LM model offers three advantages for understanding the Colombian economy compared to the previous version. First, it offers a richer economic structure. The new structure introduces labor-market shocks into the model, enabling a more comprehensive understanding of the economy's behavior. Accordingly, it is possible to distinguish whether a spike in inflation was caused by a demand shock, wage increase, trend increase in the unemployment rate, or external factors such as the price of exported goods (terms of trade).

Second, the new model provides a better understanding of the interactions among the goods and services markets and the labor market, as well as the stabilizing role of monetary policy. This is achieved by integrating causal relationships among the variables of both markets within a single analytical framework, which are activated when the economy faces shocks in either market. For example, an unexpected increase in nominal wages raises the cyclical component of real wages given price rigidities. This, in turn, increases production costs and initially raises aggregate demand, thereby raising inflation and inflation expectations, prompting the central bank to raise the policy interest rate to stabilize the economy (Graph B2.1).

Third, the model provides forecasts for the incorporated labor market variables that are internally consistent with those for economic activity and prices published in the *Monetary Policy Report*. Finally, the new version of the model remains compatible with other modules developed for the original 4GM (e.g., endogenous credibility).

Diagram B2.1
Nominal Wage Shock



Source: created by the authors.

Finally, the new version of the model remains compatible with other modules developed for the original 4GM (e.g., endogenous credibility of monetary policy; see Grajales et al., 2025) and with the technology for incorporating the balance of risks in the forecast (i.e., predictive densities; see Méndez-Vizcaíno et al., 2021).

3. Conclusion and utility for monetary policy

The new version of the 4GM model represents an improvement in monetary policy analysis in Colombia. It extends the framework for analyzing inflationary pressures by helping to discern whether these pressures stem from shocks in the goods and services market or the labor market. In addition, it offers a more complete view of deviations in economic behavior from levels compatible with the economy growing at an inflation rate equal to the long-term target (3%), considering not only the output gap but also the unemployment gap.

As with the original version, the semi-structural nature of this new model facilitates both adapting it to the data and communicating its results. In addition, it allows technical staff to explicitly incorporate their judgments regarding the behavior of economic activity, prices, and the labor market into forecasting exercises. The model's main findings regarding the historical decomposition of shocks, its fit for forecasting, and its ability to simulate data properties are presented in Ramos-Veloza, Naranjo-Saldarriaga, and Pulido (2026).

References

Ferroni, F.; Fisher, J. D.; Melosi. L. 2024. "Unusual Shocks in Our Usual Models", *Journal of Monetary Economics*.147:103598. Elsiver.

González, A.; Guarín, A.; Rodríguez-Guzmán, D.; Vargas-Herrera, H. 2020. "4GM: A New Model forthe Monetary Policy Analysis in Colombia", *Borradores de Economía*, 1106. *Banco de la República.*

Grajales-Olarte, A.; Hamann, F.; Naranjo-Saldarriaga, S.; Pulido, J. (2025). "Policy Implications of Losing Credibility: Lessons from Colombia's Post-pandemic Inflationary Surge", *Borradores de Economia* (núm. 1304), Banco de la República de Colombia.

Méndez-Vizcaíno, J. C.; Guarín, A.; Anzola-Bravo, C.; Grajales-Olarte, A. (2021). "Characterizing and Communicating the Balance of Risks of Macroeconomic Forecasts: A Predictive Density Approach for Colombia", Borradores de Economía, 1178, *Banco de la República.*

Ramos-Veloza, M.; Naranjo-Saldarriaga, S.; Pulido, J. 2026. "Wage Dynamics, Unemployment, and Inflation: Enhancing 4GM Semi-Structural Model", Borradores de Economía,1341, *Banco de la República.*

Appendix 1
Macroeconomic Forecasts by local and Foreign Analysts[a/, b/]

	Unit	Jan-26	Dec-26	Jan-27	Dec-27	Jan-28
Headline CPI	Monthly variation (average)	1.18	n. a.	n. a.	n. a.	n. a.
CPI excluding food	Monthly variation (average)	1.18	n. a.	n. a.	n. a.	n. a.
CPI excluding food and regulated	Monthly variation (average)	1.11	n. a.	n. a.	n. a.	n. a.
CPI food	Monthly variation (average)	1.13	n. a.	n. a.	n. a.	n. a.
CPI regulated	Monthly variation (average)	1.56	n. a.	n. a.	n. a.	n. a.
Headline CPI	Annual variation (average), end of period	5.36[c/]	6.19	5.94	4.71	4.60
CPI excluding food	Annual variation (average), end of period	5.53[c/]	6.47	6.19	4.94	4.65
CPI excluding food and regulated	Annual variation (average), end of period	5.52[c/]	6.49	6.18	4.98	4.73
CPI food	Annual variation (average), end of period	4.56[c/]	4.98	5.07	4.43	4.01
CPI regulated	Annual variation (average), end of period	5.70[c/]	6.73	6.38	5.34	4.82
Nominal exchange rate	COP per USD, end of period	3,700	3,800	3,850	3,900	3,893
Monetary policy rate	Percentage, end of period	9.75	11.13	11.25	9.50	9.50

	Unit	IV-2025	2025	I-2026	II-2026	III-2026	IV-2026	2026	I-2027	II-2027	III-2027	IV-2027
GDP	Annual change, original series	2.7	2.8	2.9	3.0	2.8	3.0	2.8	2.9	2.8	2.8	n. a.
Unemployment	Thirteen cities, quarterly average	8.0	n. a.	9.8	9.0	8.7	8.4	n. a.	9.9	9.0	8.9	n. a.
IBR (90 days)	Effective annual rate, end of period	n. r.	n. a.	10.6	11.0	11.2	11.3	n. a.	10.9	10.4	9.8	9.3
Fiscal Deficit (GNC) [d/]	Share of GDP	n. a.	n. a.	n. a.	n. a.	n. a.	n. a.	7.2	n. d.	n. a.	n. a.	n. a.
Direct Account Deficit[d/]	Share of GDP	n. a.	n. a.	n. a.	n. a.	n. a.	n. a.	3.0	n. d.	n. a.	n. a.	n. a.

n.a.: Not available.
n.r.: Not relevant, given that the data has already been observed.
a/ The survey excluded the question related to the DTF starting with the April 2023 *Banco de la República*'s Monthly Survey of Economic Analyst Expectations.
Expectations (EME for its Spanish acronym) conducted by *Banco de la República.*
b/ Is the response median to *Banco de la República's Monthly Survey of Economic Analyst Expectations*, except for the CPI and CPI excluding food, which are the response average.
c/ Data calculated based on the results of *Banco de la República's* Monthly Survey of Economic Analyst Expectations (EME).
d/ Positive values represent deficit and negative values represent surplus.
Sources: *Banco de la República*, Monthly Survey of Economic Analyst Expectations, conducted in January 2026.

Appendix 2
Main Macroeconomic Forecasting Variables

		Years										
		2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Exogenous variables												
External [a/]												
GDP of trading partners [b/]	Percentage, annual var., seasonally adjusted	3.2	2.5	1.5	-6.6	8.3	3.7	2.4	1.8	**2.4**	**2.2**	**2.1**
Oil price (Brent benchmark)	Dollars per barrel, average of the period	55	72	64	43	71	99	82	80	68	**59**	**59**
Terms of trade [c/]	Index, 2000 = 100	128	140	138	117	140	170	154	155	**166**	**161**	**159**
Federal funds effective rate (Fed)	Percentage, average for the period	1.0	1.8	2.2	0.4	0.1	1.7	5.0	5.1	4.2	**3.4**	**3.1**
5-year Credit Default Swap for Colombia	Basis points, average for the period	129	114	99	142	142	259	246	187	210	**220**	**235**
Internal												
Neutral real interest rate for Colombia	Percentage, average for the period	1.3	1.3	1.2	1.3	1.5	2.0	2.2	2.4	2.7	3.1	3.3
Potential GDP for Colombia (trend)	Percentage, annual change	2.6	2.7	2.6	-1.3	4.1	3.6	2.8	2.7	2.8	2.8	2.7
Endogenous variables												
Prices												
Total CPI [d/]	Percentage, annual change, end of period	4.1	3.2	3.8	1.6	5.6	13.1	9.3	5.2	5.1	**6.3**	**3.7**
CPI excluding food [e/]	Percentage, annual change, end of period	5.0	3.5	3.5	1.0	3.4	10.0	10.3	5.6	5.1	.	.
CPI for goods (excluding food and regulated items)	Percentage, annual change, end of period	3.2	1.4	2.2	0.6	3.3	15.0	7.1	0.6	2.6	.	.
CPI for services (excluding food and regulated items)	Percentage, annual change, end of period	5.4	3.1	3.5	1.3	2.2	7.4	9.0	7.0	5.9	.	.
CPI for regulated items	Percentage, annual change, end of period	6.3	6.7	4.8	0.7	7.1	11.8	17.2	7.3	5.4	**6.8**	**3.9**
CPI for food [f/]	Percentage, annual change, end of period	0.5	1.9	5.8	4.8	17.2	27.8	5.0	3.3	5.1	**5.6**	**3.1**
CPI for perishable food	Percentage, annual change, end of period	5.8	8.9	8.7	2.5	24.4	36.4	-0.5	5.1	3.8	.	.
CPI for processed food	Percentage, annual change, end of period	-0.9	-0.1	5.0	5.4	15.3	25.3	6.7	2.8	5.5	.	.
Core inflation indicators [g/]												
CPI excluding food	Percentage, annual change, end of period	5.0	3.5	3.5	1.0	3.4	10.0	10.3	5.6	5.1	.	.
Core CPI 15	Percentage, annual change, end of period	4.2	3.2	3.8	1.9	4.4	11.6	9.5	5.4	5.3	.	.
CPI excluding food and regulated items	Percentage, annual change, end of period	4.7	2.6	3.1	1.1	2.5	9.5	8.4	5.2	5.0	**6.3**	**3.8**
Average of all core inflation indicators	Percentage, annual change, end of period	4.6	3.1	3.4	1.3	3.4	10.4	9.4	5.4	5.1	.	.
Representative market exchange rate	Pesos per dollar, average for the period	2,951	2,957	3,282	3,691	3,747	4,257	4,330	4,074	4,053	.	.
Real exchange rate Inflationary gap	Percentage, average for the period	-2.5	-1.1	2.7	5.4	2.3	7.5	0.4	-3.1	-3.2	**-6.1**	**-1.6**
Economic activity												
Gross domestic product (sats)*	Percentage, annual change, sats	1.4	2.6	3.2	-7.2	10.8	7.3	0.7	1.6	**2.9**	**2.6**	**1.6**
Final consumption expense	Percentage, annual change, sats	2.3	4.0	4.3	-4.2	13.8	9.0	0.6	1.4	**4.5**	.	.
Household final consumption expenditure	Percentage, annual change, sats	2.1	3.2	4.1	-5.0	14.7	10.8	0.4	1.6	**4.0**	.	.
General government final consumption expenditure	Percentage, annual change, sats	3.6	7.4	5.3	-0.8	9.8	1.0	1.6	0.7	**6.7**	.	.
Gross capital formation	Percentage, annual change, sats	-3.2	1.5	3.0	-20.7	11.6	16.0	-16.0	5.2	**5.6**	.	.
Gross fixed capital formation	Percentage, annual change, sats	1.9	1.0	2.2	-23.6	16.7	11.5	-12.7	3.2	**3.0**	.	.
Housing	Percentage, annual change, sats	-1.9	-0.4	-8.9	-32.7	39.8	2.0	-4.4	-2.4	**-8.5**	.	.
Other buildings and structures	Percentage, annual change, sats	4.6	-3.5	1.1	-30.8	0.9	-4.3	-5.5	9.6	**0.1**	.	.
Machinery and equipment	Percentage, annual change, sats	1.4	8.6	12.3	-13.3	23.3	30.5	-22.6	1.7	**12.4**	.	.
Cultivated biological resources	Percentage, annual change, sats	0.3	-3.1	7.9	-1.8	-0.9	-12.5	5.0	8.2	**3.9**	.	.
Intellectual property products	Percentage, annual change, sats	1.2	1.5	-0.7	-8.3	3.4	7.3	2.0	-0.3	**-0.2**	.	.
Domestic demand	Percentage, annual change, sats	1.1	3.5	4.0	-7.5	13.4	10.3	-2.5	2.0	**4.6**	.	.
Exports	Percentage, annual change, sats	2.6	0.6	3.1	-22.5	14.6	12.5	3.1	2.5	**1.0**	.	.
Imports	Percentage, annual change, sats	1.0	5.8	7.3	-20.1	26.7	24.0	-9.9	4.4	**10.3**	.	.
Product gap [h/]	Percentage	-0.8	-0.9	-0.3	-6.4	-0.3	3.3	1.3	0.2	**0.3**	**0.2**	**-0.9**
Short-term indicators												
Real production of manufacturing industry	Percentage, annual change, seasonally adjusted	0.0	2.9	1.3	-8.1	16.2	10.4	-4.7	-2.5	.	.	.
Retail trade sales, excluding fuels or vehicles	Percentage, annual change, seasonally adjusted	-0.1	5.5	8.1	-1.6	12.0	9.4	-3.9	1.5	.	.	.
Coffee production	Percentage, annual change, cum. for period	-0.3	-4.5	8.8	-5.8	-9.5	-11.9	2.4	23.4	-2.3	.	.
Oil production	Percentage, annual change, period average	-3.6	1.3	2.4	-11.8	-5.8	2.4	3.0	-0.6	.	.	.
Labor market [i/]												
Total national												
Unemployment rate	Percentage, annual change, period average	9.7	10.0	10.9	16.7	13.8	11.2	10.2	10.2	.	.	.
Occupancy Rate	Percentage, annual change, period average	60.0	59.1	57.7	50.4	53.1	56.5	57.6	57.4	.	.	.
Overall participation rate	Percentage, annual change, period average	66.4	65.7	64.8	60.4	61.5	63.6	64.1	63.9	.	.	.
Thirteen cities and metropolitan areas												
Unemployment rate	Percentage, annual change, period average	11.0	11.1	11.5	19.1	15.2	11.4	10.4	10.1	**8.7**	**9.0**	**10.0**
Occupancy Rate	Percentage, annual change, period average	60.5	59.6	58.8	50.8	53.8	58.1	59.5	59.9	.	.	.
Overall participation rate	Percentage, annual change, period average	67.9	67.1	66.4	62.7	63.5	65.5	66.3	66.7	.	.	.
Balance of payments [j/ k/]												
Current account (A + B + C)	Millions of dollars	-9,924	-14,041	-14,809	-9,267	-17,949	-20,853	-8,283	-6,880	**-10,693**	**-13,731**	.
Percentage of GDP	Percentage, nominal terms	-3.2	-4.2	-4.6	-3.4	-5.6	-6.0	-2.2	-1.6	**-2.4**	**-2.7**	.
A. Goods and services	Millions of dollars	-8,762	-10,556	-14,148	-13,105	-20,001	-16,068	-7,766	-9,551	**-14,431**	**-17,926**	.
B. Primary income (factor income)	Millions of dollars	-8,046	-11,442	-9,716	-4,950	-8,723	-17,086	-13,439	-12,836	**-12,915**	**-12,908**	.
C. Secondary income (current transfers)	Millions of dollars	6,883	7,957	9,055	8,788	10,775	12,301	12,922	15,507	**16,653**	**17,104**	.
Financial account (A + B + C + D)	Millions of dollars	-9,625	-12,954	-13,298	-8,113	-16,693	-20,466	-7,849	-5,577	.	.	.
Percentage of GDP	Percentage, nominal terms	-3.1	-3.9	-4.1	-3.0	-5.3	-5.9	-2.1	-1.3	.	.	.
A. Foreign investment (ii - i)	Millions of dollars	-10,011	-6,172	-10,836	-5,725	-6,381	-13,799	-15,525	-9,172	.	.	.
i. Foreign Investment in Colombia (FDI)	Millions of dollars	13,701	11,299	13,989	7,459	9,561	17,182	16,794	13,684	.	.	.
ii. Colombian abroad	Millions of dollars	3,690	5,126	3,153	1,733	3,181	3,384	1,269	4,512	.	.	.
B. Portfolio investment	Millions of dollars	-1,800	862	24	-1,768	-4,595	427	8,663	2,272	.	.	.
C. Other investment (loans, other credits, and derivatives)	Millions of dollars	1,641	-8,831	-5,820	-4,949	-6,371	-7,665	-2,705	-2,270	.	.	.
D. Reserve assets	Millions of dollars	545	1,187	3,333	4,328	654	571	1,718	3,593	.	.	.
Errors and omissions (E&O)	Millions of dollars	299	1,087	1,510	1,153	1,256	387	435	1,303	.	.	.
Interest rates												
Policy interest rate [l/]	Percentage, period average	6.1	4.4	4.3	2.9	1.9	7.2	13.0	11.4	9.3	.	.
Policy rate expected by analysts [m/]	Percentage, period average										**10.5**	**10.6**
IBR overnight	Percentage, period average	6.1	4.3	4.3	2.9	1.9	7.2	13.0	11.4	9.3	.	.
Commercial interest rate [n/]	Percentage, period average	11.1	9.3	8.8	7.4	6.2	13.3	18.7	14.5	12.5	.	.
Consumer interest rate [o/]	Percentage, period average	19.4	17.9	16.5	15.0	14.3	21.1	27.9	21.7	19.1	.	.
Mortgage interest rate [p/]	Percentage, period average	11.6	10.6	10.4	10.1	9.1	12.9	17.7	13.5	12.1	.	.

Note: values in bold are forecasts or assumptions.
sats: seasonally adjusted time series, modified to eliminate the effect of seasonal and calendar influences.
a/ Quarterly data in bold are assumptions based on the annual forecast of each variable.
b/ Calculated with the main trading partners (excluding Venezuela) weighted by their share of trade.
c/ Terms of trade index based on chained indices of export and import prices.
d/ The medium term forecast corresponds to the average of the estimates obtained from the technical staff's central models (4GM and PATACON).
e/ Calculations by *Banco de la República*; excluding the CPI item weight for food and non-alcoholic beverages. Consult González, E.; Hernández, R.; Caicedo, E.; Martínez-Cortés, N.; Grajales, A.; Romero, J. (2020). "Nueva clasificación del Banrep de la canasta del IPC y revisión de las medidas de inflación básica en Colombia", *Borradores de Economía*, No. 122, *Banco de la República*, available at: https://investiga.banrep.gov.co/es/be-1122.
f/ Calculations by *Banco de la República*; equal to the division of the CPI of food and non-alcoholic beverages produced by DANE (not including the subclasses corresponding to meals outside the home). See González, E.; Hernández, R.; Caicedo, E.; Martínez-Cortés, N.; Grajales, A.; Romero, J. (2020). "Nueva clasificación del Banrep de la canasta del IPC y revisión de las medidas de inflación básica en Colombia", Working Papers on Economics, No. 122, *Banco de la República*, available at: https://investiga.banrep.gov.co/es/be-1122.
g/ Calculations by *Banco de la República*. See González, E.; Hernández, R.; Caicedo, E.; Martínez-Cortés, N.; Grajales, A.; Romero, J. (2020). "Nueva clasificación del Banrep de la canasta del IPC y revisión de las medidas de inflación básica en Colombia", Working Papers on Economics, No. 122, *Banco de la República*, available at: https://investiga.banrep.gov.co/es/be-1122.
h/ The historical gap estimate is calculated based on the difference between observed GDP (cumulative 4 quarters) and potential GDP (trend; cumulative 4 quarters) resulting from the 4GM model; in the forecast it is calculated from the difference between the technical staff's estimate of GDP (cumulative 4 quarters) and potential GDP (trend; cumulative 4 quarters) resulting from the 4GM model.
i/ Rates are calculated based on seasonally adjusted annual populations.
j/ The results presented follow the recommendations of the sixth edition of the Balance of Payments and International Investment Position Manual (BPM6). See additional information and method changes at http://www.banrep.gov.co/ balance-payments.
k/ Results for 2023 and 2024 are preliminary
l/ Corresponds to the average annual monetary policy interest rate calculated with the working days of the series.
m/ These projections are calculated as the average of the interest rate that would be in effect in each year according to the median of the monthly responses to the Monthly Survey of Economic Analyst Expectations (EME) conducted by *Banco de la República* in January 2026.
n/ Weighted average of interest rates on ordinary, treasury and preferential loans.
o/ Does not include loans granted through credit cards.
p/ Corresponds to the weighted average of interest rate of the disbursements in COP and UVR (real value unit for its Spanish acronym) for the acquisition of No VIS housing (housing that is not social interest housing).

Appendix 2 (continuation)
Main Macroeconomic Forecasting Variables

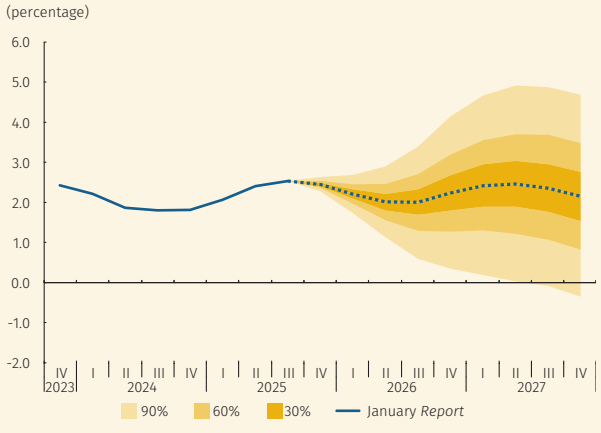
		2020				2021			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Exogenous variables									
External [a/]									
GDP of trading partners [b/]	Percentage, annual var,, seasonally adjusted	-1.1	-15.7	-6.7	-3.0	0.5	18.9	8.9	6.4
Oil price (Brent benchmark)	Dollars per barrel, average of the period	51	33	43	45	61	69	73	80
Terms of trade [c/]		119	102	121	125	135	133	140	150
Federal funds effective rate (Fed)	Percentage, average for the period	1.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1
5-year Credit Default Swap for Colombia	Basis points, average for the period	125	206	132	104	110	131	143	185
Internal									
Neutral real interest rate for Colombia	Percentage, average for the period								
Potential GDP for Colombia (trend)	Percentage, annual change								
Endogenous variables									
Prices									
Total CPI [d/]	Percentage, annual change, end of period	3.9	2.2	2.0	1.6	1.5	3.6	4.5	5.6
CPI excluding food [e/]	Percentage, annual change, end of period	3.3	1.4	1.6	1.0	1.1	2.7	3.0	3.4
CPI for goods (excluding food and regulated items)	Percentage, annual change, end of period	2.4	0.7	1.2	0.6	1.1	2.6	3.0	3.3
CPI for services (excluding food and regulated items)	Percentage, annual change, end of period	3.2	2.0	1.9	1.3	0.9	1.6	2.0	2.2
CPI for regulated items	Percentage, annual change, end of period	4.3	0.4	1.2	0.7	1.5	5.9	5.9	7.1
CPI for food [f/]	Percentage, annual change, end of period	7.2	6.5	4.1	4.8	3.9	8.5	12.4	17.2
CPI for perishable food	Percentage, annual change, end of period	9.8	2.5	-3.4	2.5	1.6	8.7	14.8	24.4
CPI for processed food	Percentage, annual change, end of period	6.5	7.8	6.4	5.4	4.6	8.5	11.7	15.3
Core inflation indicators [g/]									
CPI excluding food	Percentage, annual change, end of period	3.3	1.4	1.6	1.0	1.1	2.7	3.0	3.4
Core CPI 15	Percentage, annual change, end of period	3.6	2.2	2.3	1.9	1.7	3.4	3.8	4.4
CPI excluding food and regulated items	Percentage, annual change, end of period	3.0	1.6	1.7	1.1	0.9	1.9	2.3	2.5
Average of all core inflation indicators	Percentage, annual change, end of period	3.3	1.7	1.9	1.3	1.2	2.7	3.0	3.4
Representative market exchange rate	Pesos per dollar, average for the period	3,540	3,850	3,731	3,662	3,559	3,695	3,847	3,882
Real exchange rate Inflationary gap	Percentage, average for the period	3.6	10.2	5.5	2.4	-0.7	2.2	3.9	3.7
Economic activity									
Gross domestic product (sats)*	Percentage, annual change, sats	-0.1	-16.5	-8.9	-3.2	2.2	18.2	13.2	10.9
Final consumption expense	Percentage, annual change, sats	3.9	-14.3	-7.4	1.1	3.7	21.8	18.5	12.8
Household final consumption expenditure	Percentage, annual change, sats	4.5	-16.9	-8.6	0.9	2.7	25.3	19.6	13.9
General government final consumption expenditure	Percentage, annual change, sats	0.5	-2.3	-2.7	1.5	8.9	8.9	13.0	8.5
Gross capital formation	Percentage, annual change, sats	-11.2	-31.2	-17.5	-23.1	-5.6	33.3	8.5	15.6
Gross fixed capital formation	Percentage, annual change, sats	-12.6	-41.3	-24.8	-14.9	2.9	42.3	15.3	14.0
Housing	Percentage, annual change, sats	-25.6	-47.7	-30.0	-26.1	22.8	64.0	31.3	47.8
Other buildings and structures	Percentage, annual change, sats	-11.3	-49.6	-37.0	-24.4	-13.4	30.7	-0.6	-1.1
Machinery and equipment	Percentage, annual change, sats	-5.3	-37.1	-9.3	1.2	8.4	55.8	23.7	15.0
Cultivated biological resources	Percentage, annual change, sats	2.6	1.7	-7.9	-3.0	5.8	1.2	-4.2	-6.7
Intellectual property products	Percentage, annual change, sats	-3.5	-9.8	-10.9	-9.1	-3.9	4.0	8.3	5.8
Domestic demand	Percentage, annual change, sats	0.4	-17.9	-9.7	-2.8	1.6	24.5	16.7	12.9
Exports	Percentage, annual change, sats	-6.8	-30.3	-28.4	-24.2	-9.8	13.5	25.8	35.9
Imports	Percentage, annual change, sats	-4.7	-33.8	-25.8	-15.6	-5.1	46.7	40.5	34.5
Product gap [h/]	Percentage	-0.9	-3.7	-5.4	-6.4	-6.1	-3.9	-2.1	-0.3
Short-term indicators									
Real production of manufacturing industry	Percentage, annual change, seasonally adjusted	-1.6	-23.5	-7.2	0.0	6.7	27.7	20.1	13.0
Retail trade sales, excluding fuels or vehicles	Percentage, annual change, seasonally adjusted	6.7	-14.9	-3.6	5.5	4.0	19.4	15.8	10.6
Coffee production	Percentage, annual change, cum, for period	-13.8	-1.9	-3.6	-4.6	13.3	-24.7	-1.9	-18.8
Oil production	Percentage, annual change, period average	-2.1	-15.7	-15.4	-14.1	-14.6	-5.1	-0.1	-1.7
Labor market [i/]									
Total national									
Unemployment rate	Percentage, annual change, period average	11.8	21.1	18.4	15.4	14.6	15.2	12.8	12.5
Occupancy Rate	Percentage, annual change, period average	55.7	44.4	49.0	52.7	52.7	51.9	53.4	54.2
Overall participation rate	Percentage, annual change, period average	63.1	56.3	59.9	62.3	61.7	61.2	61.2	62.0
Thirteen cities and metropolitan areas									
Unemployment rate	Percentage, annual change, period average	11.9	25.2	21.9	17.3	16.8	16.7	14.0	13.1
Occupancy Rate	Percentage, annual change, period average	57.0	44.1	48.9	53.3	53.5	53.1	54.3	54.4
Overall participation rate	Percentage, annual change, period average	64.6	58.9	62.6	64.5	64.3	63.8	63.2	62.6
Balance of payments [j/ k/]									
Current account (A + B + C)	Millions of dollars	-2,295	-1,962	-2,013	-2,997	-3,105	-4,047	-4,835	-5,962
Percentage of GDP	Percentage, nominal terms	-3.1	-3.6	-3.0	-4.0	-4.0	-5.5	-6.0	-6.9
A, Goods and services	Millions of dollars	-3,098	-2,651	-3,263	-4,092	-3,688	-5,022	-5,259	-6,032
B, Primary income (factor income)	Millions of dollars	-1,369	-1,029	-1,172	-1,380	-1,867	-1,652	-2,339	-2,865
C, Secondary income (current transfers)	Millions of dollars	2,173	1,718	2,422	2,475	2,450	2,627	2,763	2,935
Financial account (A + B + C + D)	Millions of dollars	-1,735	-1,938	-1,857	-2,584	-2,789	-3,761	-4,504	-5,640
Percentage of GDP	Percentage, nominal terms	-2.3	-3.5	-2.8	-3.4	-3.6	-5.1	-5.6	-6.5
A, Foreign investment (ii - i)	Millions of dollars	-1,924	-1,725	-258	-1,818	-1,438	-1,013	-2,528	-1,402
i, Foreign Investment in Colombia (FDI)	Millions of dollars	3,175	1,371	844	2,069	2,307	1,997	2,707	2,550
ii, Colombian abroad	Millions of dollars	1,251	-353	586	251	869	984	179	1,149
B, Portfolio investment	Millions of dollars	-168	-3,429	323	1,506	1,319	-6,089	851	-675
C, Other investment (loans, other credits, and derivatives)	Millions of dollars	528	627	-2,127	-3,976	-2,860	3,167	-2,981	-3,697
D, Reserve assets	Millions of dollars	-171	2,590	205	1,705	190	174	154	135
Errors and omissions (E&O)	Millions of dollars	560	25	155	413	316	287	331	322
Interest rates									
Policy interest rate [l/]	Percentage, period average	4.2	3.3	2.2	1.8	1.8	1.8	1.8	2.4
Policy rate expected by analysts [m/]	Percentage, period average								
IBR overnight	Percentage, period average	4.2	3.2	2.2	1.7	1.7	1.7	1.8	2.4
Commercial interest rate [n/]	Percentage, period average	8.4	8.3	7.0	6.2	6.0	5.7	6.0	6.9
Consumer interest rate [o/]	Percentage, period average	15.8	15.5	14.8	14.2	14.0	13.7	14.3	14.8
Mortgage interest rate [p/]	Percentage, period average	10.4	10.4	10.2	9.6	9.2	8.9	9.0	9.3

Note: values in bold are forecasts or assumptions.
sats: seasonally adjusted time series, modified to eliminate the effect of seasonal and calendar influences.
a/ Quarterly data in bold are assumptions based on the annual forecast of each variable.
b/ Calculated with the main trading partners (excluding Venezuela) weighted by their share of trade.
c/ Terms of trade index based on chained indices of export and import prices.
d/ The medium term forecast corresponds to the average of the estimates obtained from the technical staff's central models (4GM and PATACON).
e/ Calculations by *Banco de la República*; excluding the CPI item weight for food and non-alcoholic beverages. Consult González, E.; Hernández, R.; Caicedo, E.; Martínez-Cortés, N.; Grajales, A.; Romero, J. (2020). "Nueva clasificación del Banrep de la canasta del IPC y revisión de las medidas de inflación básica en Colombia", *Borradores de Economía*, No. 122, *Banco de la República*, available at: https://investiga.banrep.gov.co/es/be-1122.
f/ Calculations by *Banco de la República*; equal to the division of the CPI of food and non-alcoholic beverages produced by DANE (not including the subclasses corresponding to meals outside the home). See González, E.; Hernández, R.; Caicedo, E.; Martínez-Cortés, N.; Grajales, A.; Romero, J. (2020). "Nueva clasificación del Banrep de la canasta del IPC y revisión de las medidas de inflación básica en Colombia", Working Papers on Economics, No. 122, *Banco de la República*, available at: https://investiga.banrep.gov.co/es/be-1122.
g/ Calculations by *Banco de la República*. See González, E.; Hernández, R.; Caicedo, E.; Martínez-Cortés, N.; Grajales, A.; Romero, J. (2020). "Nueva clasificación del Banrep de la canasta del IPC y revisión de las medidas de inflación básica en Colombia", Working Papers on Economics, No. 122, *Banco de la República*, available at: https://investiga.banrep.gov.co/es/be-1122.
h/ The historical gap estimate is calculated based on the difference between observed GDP (cumulative 4 quarters) and potential GDP (trend; cumulative 4 quarters) resulting from the 4GM model; in the forecast it is calculated from the difference between the technical staff's estimate of GDP (cumulative 4 quarters) and potential GDP (trend; cumulative 4 quarters) resulting from the 4GM model.
i/ Rates are calculated based on seasonally adjusted annual populations.
j/ The results presented follow the recommendations of the sixth edition of the Balance of Payments and International Investment Position Manual (BPM6). See additional information and method changes at http://www.banrep.gov.co/ balance-payments.
k/ Results for 2023 and 2024 are preliminary
l/ Corresponds to the average annual monetary policy interest rate calculated with the working days of the series.
m/ These projections are calculated as the average of the interest rate that would be in effect in each year according to the median of the monthly responses to the Monthly Survey of Economic Analyst Expectations (EME) conducted by *Banco de la República* in January 2026.
n/ Weighted average of interest rates on ordinary, treasury and preferential loans.
o/ Does not include loans granted through credit cards.
p/ Corresponds to the weighted average of interest rate of the disbursements in COP and UVR (real value unit for its Spanish acronym) for the acquisition of No VIS housing (housing that is not social interest housing).

2022				2023				2024				2025				2026				2027			
Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
5.2	4.0	3.3	2.5	2.6	2.9	2.1	2.1	1.7	1.5	1.9	2.2	2.7	2.8	2.4	**1.8**	**1.8**	**2.0**	**2.4**	**2.8**	**2.5**	**2.2**	**2.0**	**1.9**
98	112	98	89	82	78	86	83	82	85	79	74	75	67	68	63	**60**	**59**	**58**	**58**	**58**	**59**	**60**	**60**
163	177	174	166	159	152	155	150	152	154	156	159	165	161	167	**172**	**167**	**161**	**159**	**158**	**158**	**159**	**159**	**160**
0.1	0.8	2.2	3.6	4.5	5.0	5.3	5.3	5.3	5.3	5.3	4.7	4.3	4.3	4.3	3.9	**3.6**	**3.5**	**3.4**	**3.2**	**3.1**	**3.1**	**3.1**	**3.1**
209	238	275	314	283	275	219	207	172	187	189	199	201	245	197	200	**212**	**219**	**222**	**227**	**231**	**233**	**237**	**240**
8.5	9.7	11.4	13.1	13.3	12.1	11.0	9.3	7.4	7.2	5.8	5.2	5.1	4.8	5.2	5.1	**5.6**	**5.7**	**6.0**	**6.3**	**5.5**	**5.1**	**4.3**	**3.7**
5.3	6.8	8.3	10.0	11.4	11.6	10.9	10.3	8.8	7.6	6.5	5.6	5.2	4.9	4.9	5.1	.	.	.	.	.	.	.	.
6.4	8.3	11.6	15.0	15.1	14.3	10.4	7.1	3.1	1.4	0.6	0.6	0.9	1.6	2.2	2.6	.	.	.	.	.	.	.	.
3.8	5.2	5.9	7.4	8.7	9.0	9.1	9.0	8.3	7.9	7.5	7.0	6.4	6.0	5.8	5.9	.	.	.	.	.	.	.	.
8.3	9.8	11.5	11.8	14.7	15.6	15.8	17.2	15.8	13.3	10.2	7.3	6.3	5.5	5.3	5.4	**5.1**	**5.9**	**6.8**	**6.8**	**5.8**	**4.9**	**4.3**	**3.9**
25.4	23.6	26.6	27.8	21.8	14.3	11.5	5.0	1.7	5.3	2.7	3.3	4.7	4.3	6.2	5.1	**4.9**	**3.7**	**3.7**	**5.6**	**4.8**	**5.7**	**4.0**	**3.1**
41.9	31.2	35.5	36.4	19.7	10.1	13.9	-0.5	-3.4	12.5	2.9	5.1	4.6	1.0	6.6	3.8	.	.	.	.	.	.	.	.
20.7	21.5	24.1	25.3	22.5	15.6	10.7	6.7	3.4	3.2	2.7	2.8	4.7	5.4	6.1	5.5	.	.	.	.	.	.	.	.
5.3	6.8	8.3	10.0	11.4	11.6	10.9	10.3	8.8	7.6	6.5	5.6	5.2	4.9	4.9	5.1	.	.	.	.	.	.	.	.
6.9	8.4	10.0	11.6	12.4	11.6	10.3	9.5	7.6	7.1	6.2	5.4	5.3	5.1	5.3	5.3	.	.	.	.	.	.	.	.
4.5	6.1	7.5	9.5	10.5	10.5	9.5	8.4	6.8	6.0	5.5	5.2	4.8	4.8	4.8	5.0	**6.0**	**6.3**	**6.4**	**6.3**	**5.6**	**5.0**	**4.3**	**3.8**
5.6	7.1	8.6	10.4	11.4	11.2	10.2	9.4	7.7	6.9	6.1	5.4	5.1	4.9	5.0	5.1	.	.	.	.	.	.	.	.
3,910	3,919	4,384	4,812	4,758	4,424	4,044	4,074	3,921	3,919	4,097	4,348	4,190	4,201	4,015	3,875	.	.	.	.	.	.	.	.
2.5	1.5	10.4	15.6	10.2	2.0	-6.0	-4.7	-6.7	-6.4	-2.5	3.0	-1.1	-0.5	-3.8	-7.2	**-8.6**	**-6.8**	**-5.1**	**-3.8**	**-3.2**	**-1.9**	**-1.1**	**-0.2**
8.1	12.1	7.5	2.1	2.5	0.4	-0.6	0.6	0.2	1.4	2.1	2.7	2.7	2.5	3.4	**3.0**	**3.2**	**3.2**	**2.2**	**1.7**	**1.4**	**1.4**	**1.6**	**1.9**
11.5	14.9	8.3	2.2	1.7	0.3	0.1	0.2	-0.1	1.5	1.1	3.3	3.9	3.8	5.6	**4.6**	.	.	.	.	.	.	.	.
12.2	16.4	10.7	4.6	2.8	0.5	-0.7	-1.0	0.0	1.1	2.2	3.0	4.4	3.5	4.0	**4.3**	.	.	.	.	.	.	.	.
7.0	7.4	-3.6	-6.3	-2.8	-1.4	4.6	6.6	2.2	1.8	-5.4	4.0	2.3	4.3	15.2	**5.8**	.	.	.	.	.	.	.	.
16.5	7.2	17.2	23.8	-1.3	-12.1	-26.1	-23.3	-12.2	4.0	18.9	14.2	8.8	5.8	2.3	**5.8**	.	.	.	.	.	.	.	.
9.6	14.0	14.0	8.7	-6.1	-11.0	-15.4	-18.2	-6.3	1.3	5.1	13.9	0.5	3.6	4.7	**3.2**	.	.	.	.	.	.	.	.
1.3	4.9	6.9	-4.4	5.8	-3.8	-8.6	-10.4	-10.4	-3.8	-4.5	10.5	-5.4	-8.3	-8.1	**-12.0**	.	.	.	.	.	.	.	.
-8.7	-0.8	5.1	-11.3	-6.3	-5.9	-10.0	0.6	5.3	11.1	11.1	11.0	-9.9	0.2	5.8	**4.1**	.	.	.	.	.	.	.	.
34.9	33.6	24.8	29.2	-12.4	-22.0	-24.1	-31.7	-9.2	-4.3	6.4	17.1	6.0	18.1	13.4	**12.3**	.	.	.	.	.	.	.	.
-16.2	-16.2	-12.0	-4.4	1.2	7.1	7.3	4.7	2.9	5.1	11.5	13.3	11.5	4.5	1.4	**-0.9**	.	.	.	.	.	.	.	.
8.2	9.4	6.9	5.1	-0.7	2.6	3.7	2.4	4.4	-1.3	-4.0	-0.1	0.0	-3.3	2.2	**0.4**	.	.	.	.	.	.	.	.
12.9	13.5	10.2	4.8	1.2	-2.3	-5.4	-3.4	-2.1	1.6	4.2	4.5	4.7	4.0	5.0	**4.8**	.	.	.	.	.	.	.	.
16.3	24.2	13.9	-1.8	2.7	1.3	0.5	8.1	4.8	1.4	2.2	1.9	0.3	1.4	2.4	**0.0**	.	.	.	.	.	.	.	.
38.7	25.3	24.0	11.0	-2.5	-8.7	-18.0	-10.0	-8.0	4.3	12.6	10.1	12.3	9.7	10.1	**9.2**	.	.	.	.	.	.	.	.
1.0	2.5	3.6	3.3	3.2	2.6	1.8	1.3	0.7	0.4	0.2	0.2	0.2	0.2	0.3	**0.3**	**0.4**	**0.5**	**0.4**	**0.2**	**-0.2**	**-0.5**	**-0.7**	**-0.9**
11.9	20.8	7.0	3.5	-1.2	-4.6	-7.2	-6.0	-4.5	-3.1	-1.7	-0.4	1.2	2.4	3.9	.	.	.	.	.	.	.	.	.
12.6	22.0	6.0	-1.1	-2.0	-5.4	-4.5	-3.6	-3.8	-0.9	3.4	7.5	11.6	12.9	12.3	.	.	.	.	.	.	.	.	.
-16.3	9.7	-18.2	-17.0	-0.7	-14.3	-2.1	24.9	3.5	30.3	22.9	33.9	35.7	-19.9	14.6	-24.3	.	.	.	.	.	.	.	.
-0.1	5.1	1.3	3.6	3.2	3.7	3.7	1.5	0.7	1.0	-1.0	-2.9	-2.1	-6.4	-2.8	.	.	.	.	.	.	.	.	.
11.9	11.1	11.1	10.7	10.4	10.3	9.7	10.3	10.5	10.5	10.0	9.6	9.2	8.9	8.9	.	.	.	.	.	.	.	.	.
55.9	56.6	56.7	56.7	57.2	57.7	58.3	57.3	56.9	57.2	57.7	57.8	58.5	58.2	58.4	.	.	.	.	.	.	.	.	.
63.5	63.7	63.8	63.5	63.8	64.3	64.5	63.9	63.6	63.9	64.1	64.0	64.5	63.9	64.2	.	.	.	.	.	.	.	.	.
12.2	11.3	11.1	10.9	11.0	10.4	9.9	10.2	10.5	10.3	10.0	9.7	9.0	8.7	8.3	**8.8**	**8.8**	**8.7**	**9.1**	**9.4**	**9.7**	**9.9**	**10.1**	**10.2**
57.5	58.0	58.4	58.4	58.7	59.2	60.1	59.8	59.6	60.0	60.1	59.9	60.7	60.6	61.1	.	.	.	.	.	.	.	.	.
65.5	65.3	65.6	65.5	65.9	66.1	66.7	66.6	66.6	66.9	66.8	66.3	66.7	66.4	66.7	.	.	.	.	.	.	.	.	.
-5,391	-4,752	-6,100	-4,610	-2,798	-2,072	-1,533	-1,880	-1,591	-1,407	-1,603	-2,280	-1,873	-2,426	-2,853	.	.	.	.	.	.	.	.	.
-6.2	-5.3	-6.9	-5.6	-3.4	-2.4	-1.5	-1.8	-1.6	-1.3	-1.5	-2.1	-1.8	-2.3	-2.4	.	.	.	.	.	.	.	.	.
-4,950	-3,050	-4,409	-3,658	-2,166	-2,045	-1,390	-2,166	-1,770	-2,339	-2,333	-3,109	-2,682	-3,771	-3,896	.	.	.	.	.	.	.	.	.
-3,617	-4,531	-4,795	-4,144	-3,727	-3,056	-3,508	-3,148	-3,152	-2,965	-3,342	-3,376	-3,038	-2,806	-3,170	.	.	.	.	.	.	.	.	.
3,176	2,829	3,104	3,193	3,094	3,029	3,365	3,434	3,331	3,897	4,073	4,206	3,846	4,151	4,213	.	.	.	.	.	.	.	.	.
-5,037	-4,952	-5,736	-4,741	-2,591	-2,699	-1,376	-1,182	-1,486	-1,079	-1,024	-1,988	-1,591	-1,970	-2,232	.	.	.	.	.	.	.	.	.
-5.8	-5.5	-6.5	-5.8	-3.2	-3.1	-1.4	-1.2	-1.5	-1.0	-1.0	-1.9	-1.5	-1.9	-1.9	.	.	.	.	.	.	.	.	.
-3,651	-3,661	-2,959	-3,529	-3,600	-5,442	-3,335	-3,148	-2,408	-1,646	-2,456	-2,662	-2,336	-1,697	-1,887	.	.	.	.	.	.	.	.	.
4,934	5,043	3,113	4,092	4,164	5,335	3,838	3,457	3,547	2,766	3,305	4,066	3,011	3,246	2,903	.	.	.	.	.	.	.	.	.
1,284	1,382	154	563	563	-107	503	309	1,140	1,120	849	1,404	676	1,549	1,016	.	.	.	.	.	.	.	.	.
1,866	-759	-233	-447	1,111	1,520	4,527	1,504	1,416	-451	3,489	-2,182	2,940	-3,821	-4,838	.	.	.	.	.	.	.	.	.
-3,379	-606	-2,703	-976	-467	824	-3,026	-35	-1,445	104	-3,104	2,175	-2,759	3,024	3,960	.	.	.	.	.	.	.	.	.
127	74	159	210	366	399	457	496	951	914	1.046	682	564	525	534	.	.	.	.	.	.	.	.	.
354	-200	365	-132	208	-627	157	697	105	327	578	292	282	456	621	.	.	.	.	.	.	.	.	.
3.7	5.7	8.6	10.8	12.5	13.2	13.3	13.2	12.8	11.9	10.9	9.9	9.5	9.3	9.3	9.3	.	.	.	.	.	.	.	.
																9.6	**10.5**	**10.9**	**11.1**	**11.2**	**10.8**	**10.3**	**9.8**
3.7	5.7	8.6	10.8	12.5	13.2	13.3	13.2	12.8	11.9	10.9	9.9	9.5	9.3	9.3	9.3	.	.	.	.	.	.	.	.
8.6	10.8	14.2	17.8	19.9	18.6	18.6	18.0	16.2	15.1	14.2	13.0	12.7	12.6	12.3	12.5	.	.	.	.	.	.	.	.
16.7	19.1	22.9	27.2	30.1	28.5	26.7	26.3	23.9	22.5	21.2	20.0	19.5	19.3	18.9	19.0	.	.	.	.	.	.	.	.
9.9	11.5	13.4	16.4	18.2	18.1	17.5	17.1	16.4	14.9	12.8	11.6	11.7	12.0	12.0	12.5	.	.	.	.	.	.	.	.

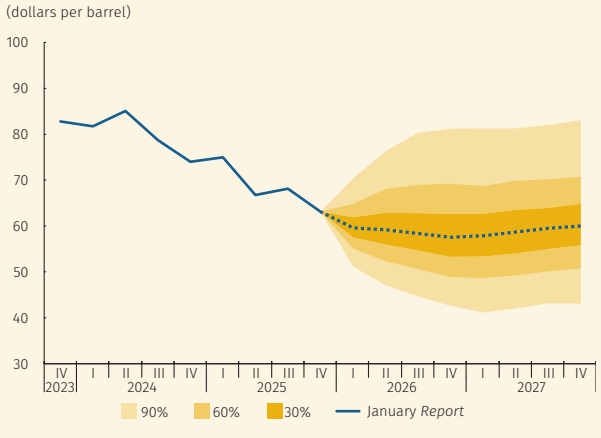
Appendix 3
Predictive Densities for other relevant Macroeconomic Forecasting Variables

Graph A3.1
Quarterly assumptions of 12-month growth of trading partners based on annual projections, predictive density[a/]



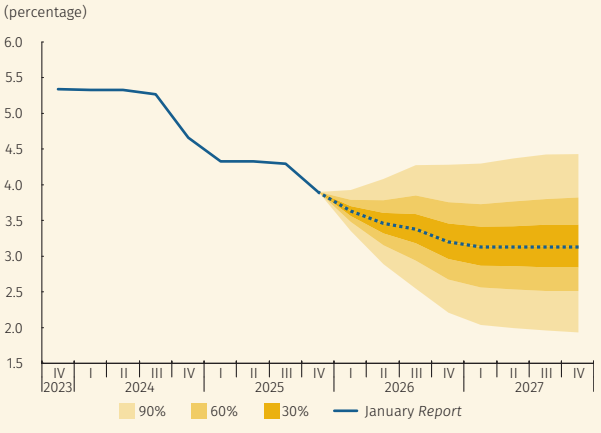
a/ The graph displays the probability distribution and its most likely path on an eight-quarter forecast horizon. Densities characterize the balance of potential risks with areas of 30%, 60% and 90% probability around the central forecast (mode).
Sources: Bloomberg, statistics bureaus, central banks; calculations and projections by *Banco de la República*.

Graph A3.2
Quarterly oil price assumption, predictive density[a/]



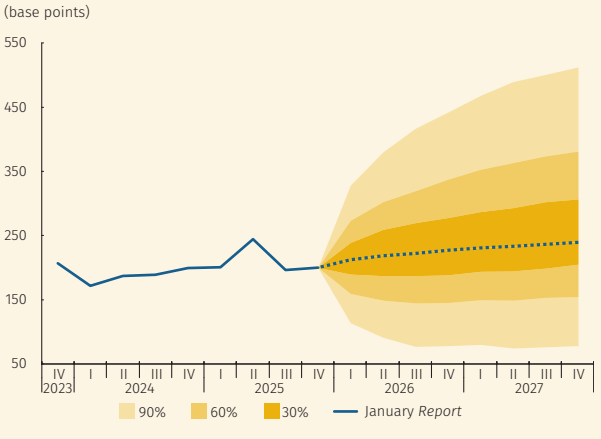
a/ The graph displays the probability distribution and its most likely path on an eight-quarter forecast horizon. Densities characterize the balance of potential risks with areas of 30%, 60% and 90% probability around the central forecast (mode).
Source: Bloomberg, calculations and projections by *Banco de la República*.

Graph A3.3
U.S. Federal Reserve quarterly interest rate assumption, predictive density[a/]



a/ The graph displays the probability distribution and its most likely path on an eight-quarter forecast horizon. Densities characterize the balance of potential risks with areas of 30%, 60% and 90% probability around the central forecast (mode).
Source: Federal Reserve Bank of Louis, calculations and projections by *Banco de la República*.

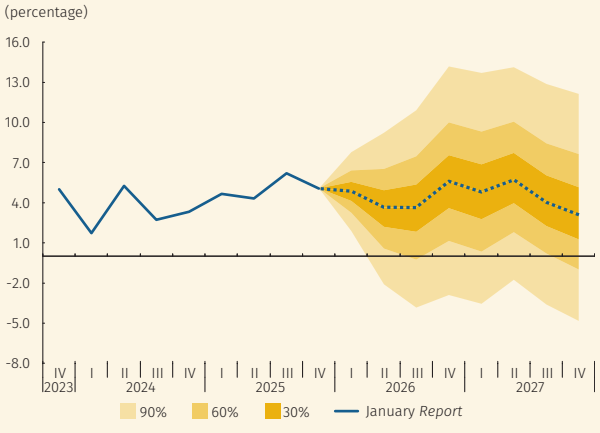
Graph A3.4
Colombia's quarterly risk premium (CDS) assumption, predictive density[a/,b/]



a/ Five-year credit default swaps
b/ The graph displays the probability distribution and its most likely trajectory on an eight-quarter forecast horizon. Densities characterize the balance of potential risks with areas of 30%, 60% and 90% probability around the central forecast (mode), using a combination of densities from the Patacon and 4GM-LM models.
Source: Bloomberg, calculations and projections by *Banco de la República*.

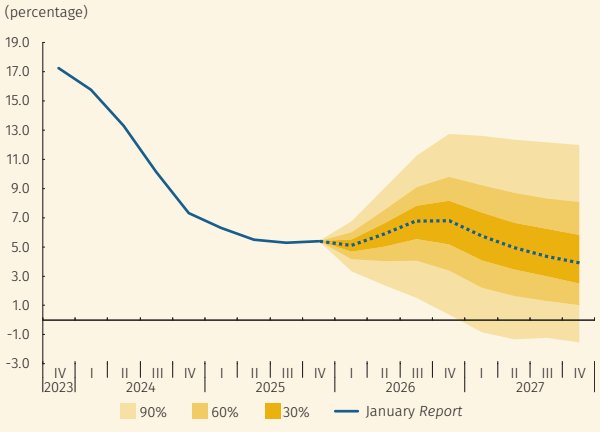
Appendix 3 (continuation)
Predictive Densities for other relevant Macroeconomic Forecasting Variables

Graph A3.5
CPI for foods, predictive density [a/]
(annual change, end-of-period)



a/ The graph displays the probability distribution and its most likely trajectory on an eight-quarter forecast horizon. Densities characterize the balance of potential risks with areas of 30%, 60% and 90% probability around the central forecast (mode), using a combination of densities from the Patacon and 4GM-LM models.
Source: calculations and projections by *Banco de la República*.

Graph A3.6
CPI for regulated items, predictive density [a/]
(annual change, end-of-period)



a/ The graph displays the probability distribution and its most likely trajectory on an eight-quarter forecast horizon. Densities characterize the balance of potential risks with areas of 30%, 60% and 90% probability around the central forecast (mode), using a combination of densities from the Patacon and 4GM-LM models.
Source: calculations and projections by *Banco de la República*.

This Report was coordinated, edited, and designed by the Publishing Management Section of the Administrative Services Department, with font Fira Sans 10.

February 2026