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

ISSN - 1657 - 799X

03/
2026

March 2026

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

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

ISSN - 1657 - 799X

BOARD OF DIRECTORS

Chair

Germán Ávila Plazas
Minister of Finance and Public Credit

Board Members

Olga Lucía Acosta Navarro
Laura Carla Moisá Elicabide
Mauricio Villamizar Villegas
Bibiana Taboada Arango
Cesar Augusto Giraldo Giraldo

Governor

Leonardo Villar Gómez

Bogotá, 31 March 2026

To
PRESIDENTS AND OTHER MEMBERS
Third Stading Constitutional Committees
The Senate of the Republic
The House of Representatives

Dear Sirs:

The Board of Directors of *Banco de la República* (the Central Bank of Colombia), in accordance with the provisions set forth in Article 5 of Law 31 of 1992, hereby submits for consideration of the Honorable Congress of Colombia its Report to Congress, which presents the macroeconomic results for 2025 and the outlook for 2026. In this context, it includes the recent evolution of inflation and the decisions taken by the Board of Directors of the Bank. In addition, it describes the evolution of the local financial and credit markets, the country's external balance, the composition of international reserves and their performance, the financial situation of the Entity and its projections, and the environmental management of *Banco de la República*.

Sincerely,

Leonardo Villar Gómez
Governor

Content

Graphs

Tables

Introduction

Macroeconomic performance in 2025 shows mixed results, with certain advances and underlying imbalances that pose significant economic policy challenges in the short and medium term. In accordance with the National Administrative Department of Statistics (DANE in Spanish), Colombia's Gross Domestic Product (GDP) grew by 2.6% in 2025, above the Latin America average (2.4%) and that of countries such as Brazil (2.3%), Mexico (0.6%), the United States (2.1%), and the Euro Zone (1.5%). As a result, the Colombian economy achieved a moderate recovery following the low growth rates of previous years. However, this result was below the forecasts of both analysts (2.8%) and the technical staff of *Banco de la República* (2.9%). The downside surprise relative to expectations was largely driven by weak growth in the fourth quarter (2.2% vs. 3.0% expected), mainly due to a contraction in gross capital formation (-7.0%) and a slowdown in household consumption. The only expenditure component that maintained a high dynamism was government consumption, which grew by 6.4%, although this was not sufficient to offset the weakening of the other components of demand. This was reflected in an expansion of domestic demand of 2.4% in the last quarter of 2025, significantly below its average growth of 4.4% in the previous three quarters. From the perspective of economic activity sectors, the loss of dynamism in the fourth quarter was evident in the contraction of productive sectors that had been growing at a solid pace through September, such as agriculture and information and communications, while other sectors, including manufacturing, trade, and financial activities, experienced a slowdown.

When examining the overall GDP growth figures for 2025, structural concerns become evident, such as the weak performance of construction (-2.8%), and mining and quarrying (-6.2%), which repeated their weak results from 2024. Regarding the composition of demand, a bias toward total consumption was observed, which grew by 4.2%, while investment remained lagging, particularly gross fixed capital formation (fixed investment), which increased by only 1.3%. Household consumption expanded by 3.6%, driven mainly by durable goods, which typically have a high import component. This contributed to imports growing well above exports, which was reflected in a negative net external demand that weighed on GDP growth and put upward pressure on the current account deficit of the balance of payments. Meanwhile, government consumption increased by 7.1% in 2025, surpassing the dynamics of household consumption. The low growth in fixed capital investment suggests a lag in the economy's potential growth, to the detriment of sectors such as housing, buildings and structures, hydrocarbons, and public utilities, while sectors more closely linked to consumption, such as trade, transportation, accommodation, food services, and entertainment, benefited. More balanced growth, less reliant on imports and more oriented toward infrastructure, would increase the Colombian economy's potential growth and its sustainability, and would help ease inflationary pressures.

Regarding inflation performance in 2025, analysts, the Bank's technical staff, and the members of the Board of Directors of *Banco de la República* (BDBR) expected inflation to continue the downward trend observed in 2024 and move closer to its 3.0% target. However, this did not occur. By the end of 2025, headline inflation stood at 5.1%, only slightly below the level recorded at the end of 2024 (5.2%). Similarly,

core inflation, excluding food and regulated items, stood at 5.0% at the end of 2025, also very close to the level observed at the end of 2024 (5.2%). This outcome took place within a context of domestic demand that remained highly dynamic, driven mainly by public and private consumption, the latter supported by a higher coffee income, increased workers' remittances, and growth in employment, among others. In addition, some labor cost pressures emerged, associated with the increase in the minimum wage and the reduction in working hours. Among the items with the largest price increases were certain services, such as rents, meals away from home, and tourism. These factors were compounded by increases in some perishable food prices, which eased toward the end of the year. These pressures were partially offset by a decline in the annual variation of the Consumer Price Index (CPI) for regulated items, which, however, was affected by significant adjustments in transportation, education, and gas fees, preventing a more pronounced decrease. In this context, inflation expectations gradually adjusted upward, and the contractionary stance of monetary policy throughout the year did not achieve its objective of sustaining the downward trend in inflation observed in 2024.

Inflation expectations showed an exceptional increase in January compared to their December measurements, coinciding with the 23.2% increase in the minimum wage for 2026 (including the transportation allowance). In the case of analysts, the median of the sample rose from 4.6% to 6.4% by the end of 2026 and from 3.8% to 4.8% by the end of 2027. Expectations derived from debt markets also increased, standing above 6.0% at the two-year horizon. This rise in expectations weakened the restrictive stance of monetary policy by reducing the expected real interest rate (ex-ante[1] rate) by the same magnitude. Under these conditions, and without reaching unanimity, a majority of the members of the Board of Directors of *Banco de la República* (BDBR) considered it necessary to begin, in January, an upward cycle of the policy interest rate through an increase of 100 basis points (bps). Aware of how demanding this measure is for the public and the markets, this group of Board members considered it an essential decision to prevent a persistent de-anchoring of inflation relative to the target, thereby preserving the credibility of the BDBR in its commitment to price stability. Subject to the lag with which monetary policy operates, inflation continued to rise at the beginning of the year, Headline inflation stood at 5.35% and 5.29% in January and February, respectively, while core inflation excluding food and regulated items reached 5.39% and 5.51%, respectively. These inflation levels set Colombia apart from its regional peers, as it is the only economy that has not yet brought inflation back close to the target after the inflationary shocks that occurred following the pandemic.

The most important challenge facing macroeconomic policy in the coming years is to restore the Colombian economy to a path of sustainable growth and inflation around its target. This process requires effective coordination between monetary and fiscal policy. The former is responsible not only for implementing a timely and consistent management of the interest rate to steer inflation toward its target, but also for smoothing real cycles, thereby contributing to making economic growth as sustainable as possible. Ideally, fiscal policy should also adopt a countercyclical stance, thus supporting the objective of stabilizing the economy and restoring market confidence.

The economic scenario considered by the technical staff in its January Monetary Policy Report projected that annual inflation would increase from 5.1% at the end of 2025 to 6.3% by the end of 2026, and that GDP growth would be 2.6%, the same

1 The ex-ante real interest rate for a given period is measured as the difference between the nominal interest rate and the expected inflation rate for that period.

rate recorded in 2025. However, this scenario did not consider the effects of the significant shock to the global economy posed by the war in Iran, which would raise the prices of oil, natural gas, and other commodities, such as fertilizers. In addition, it could affect the magnitude of global trade and the confidence of investors and consumers. The scale of these effects on inflation and global growth, as well as the repercussions on emerging economies such as Colombia, will depend on the intensity and duration of the conflict, about which there remains considerable uncertainty.

01/ Executive Summary

International Macroeconomic Environment

Global economy in 2025 was marked by a context of high political and trade uncertainty associated with the imposition of new tariffs by the United States. These announcements raised concerns about significant adverse effects on global growth, trade volumes, higher production costs stemming from increased input prices, and various inflationary pressures. However, over the course of the year, it was possible to reach partial trade agreements between the United States and other major economies, which helped to moderate tariff-related uncertainty and contain part of these effects. In addition, the decline in international oil prices—largely explained by the increase in global production—helped to contain inflationary pressures and partially offset the rise in the prices of some tradable goods.

Global economic activity in 2025 maintained a growth rate similar to that of 2024. The gradual moderation of inflation and somewhat less restrictive financial conditions, together with stronger investment and consumption in some advanced economies, offset the persistent uncertainty associated with geopolitical and trade tensions and with the fragmentation of global trade. In their most recent report, the International Monetary Fund (IMF) and the World Bank estimate global growth of 3.3% for 2025, while the Organization for Economic Cooperation and Development (OECD) projects growth of around 3.2%. In the United States, economic activity grew by 2.1%, driven by private consumption, net exports, and investment. In China, the economy grew by 5.0% in 2025, meeting the government's official target and maintaining the figure recorded in the previous year. In Latin America, growth was heterogeneous and generally moderate, in contrast to the stronger dynamism of several emerging Asian economies, which exceeded the global average.

Inflation in 2025 continued to moderate in both advanced and emerging economies. Lower cost pressures compared to previous years, together with still restrictive monetary policies and a gradual normalization of labor markets, contributed to this trend of price adjustment. In OECD member countries, headline annual inflation stood at 3.7% at the end of 2025, compared to 4.7% at the end of the previous year. In the case of the United States, headline inflation declined from 2.9% in December 2024 to 2.7% in December 2025. In the Euro Zone, inflation also continued to moderate, decreasing from 2.4% to 2.0%. In Latin America, headline inflation in 2025 declined in countries such as Brazil, Mexico, Chile, and Peru compared to December 2024 levels, remaining within their target ranges in all cases. In this context, monetary policy interest rates in most advanced economies continued to decline, with some pauses toward the end of the year. Similarly, most Latin American economies continued to reduce their policy interest rates during 2025 toward less restrictive or neutral stances, depending on observed inflation and their expectations.

During 2025, the U.S. dollar weakened significantly against the main currencies of both advanced and emerging economies. This was mainly explained by the moderation in U.S. economic growth expectations due to fiscal and trade concerns, as well as by fears regarding a potential loss of the Federal Reserve's (Fed) institutional independence. Episodes of higher risk aversion, together with the weakness of the dollar and increased demand for alternative reserve assets, led to market ques-

tioning of the currency's leadership as a safe-haven asset and as an international transaction currency.

The recently initiated war in Iran, which has rapidly escalated to other countries in the Middle East, casts a new shadow of uncertainty over the outlook for global growth, inflation, oil prices, global trade, and many other macroeconomic and financial variables. The globalization of the world economy means that the effects of such a severe conflict spread quickly to all corners of the globe. Attacks on oil and gas refineries in several countries in the Persian Gulf have led to shutdowns of these facilities and disruptions to the transit of oil tankers through the Strait of Hormuz. As a result, oil prices have exhibited significant volatility, which for now makes it impossible to produce reliable forecasts for this and many other relevant variables. The technical staff of *Banco de la República* will closely monitor developments and will present updated projections in forthcoming *Monetary Policy Reports* as new information becomes available.

Economic Activity in Colombia

In 2025, Colombia's Gross Domestic Product (GDP) grew by 2.6%, exceeding the figures recorded in 2023 (0.8%) and 2024 (1.5%). This outcome took place in the context of an expansionary fiscal policy and a monetary policy whose restrictive stance was weakened by the gradual increase in inflation expectations throughout the year. This contributed to strengthening domestic demand, which grew at an average annual rate of 4.4% during the first three quarters of the year and by 3.9% for the year as a whole.

The expansion of domestic demand was largely driven by higher household consumption, which grew by 3.6% in 2025. This increase in consumption was supported by a sustained rise in disposable income, resulting from the increase in the minimum wage, higher employment, a growing flow of workers' remittances, and higher coffee income, all of which contributed to improved consumer confidence. Overall, all segments of household consumption continued to expand, with durable consumption standing out for its strong performance (14.9% annually), driven by spending on vehicles and motorcycles, as well as on household appliances and mobile communication equipment. Public consumption also registered a positive contribution to growth in 2025, expanding by 7.1%. This component recorded significant annual increases, particularly during the second half of the year, driven by retroactive payments to public officials and a substantial bonus granted to public school teachers.

Fixed investment grew by 1.3% in 2025, a low figure that was affected by the contraction observed in the fourth quarter of the year. Its performance across components was heterogeneous. The main boost came from investment in machinery and equipment, which stimulated higher imports of capital goods during the year. Within this category, the growth of capital goods for agriculture and industry stands out. In contrast, housing investment contracted by 6.5%, from the already low levels observed the previous year, as a result of fewer completions of buildings in both the Low-Income Housing (LIH) and non-LIH segments. Investment in other buildings and structures also recorded an annual decline, despite progress in various investment projects at the local, regional, and national levels, such as the Bogotá metro and certain 5G road infrastructure projects. The weak recovery of investment appears to be associated with the lagged effects of changes in housing subsidy policies, a perception among businesspeople of increased regulatory risk, a still restrictive monetary policy, and the decline of the mining and energy sectors, which in the past were major drivers of investment in civil works and other structures, among other factors.

On the productive side, artistic, entertainment, and recreational activities were the most dynamic, expanding by 9.9% during the year, followed by trade and public administration and defense. In contrast, mining and quarrying recorded the largest decline, with an annual contraction of 6.2%, followed by a 2.8% contraction in the construction sector, mainly due to building activity. In this regard, this *Report* discusses the trend observed in the economy in recent years, in which a recomposition of its sectoral structure has been taking place, with a declining share of the mining and energy sector, as well as of construction and manufacturing activities, in favor of the services sectors.

Abstracting from the still uncertain effects of the recent armed conflict in the Middle East, the technical staff projected GDP growth for 2026 at 2.6%, that is, the same rate as in 2025. The cumulative effects of a restrictive monetary policy, aimed at moderating the growth of domestic demand to a pace consistent with the convergence of inflation to the target, would tend to limit the pace of economic activity. This lower expansion would also reflect less favorable external conditions, due to slower growth in remittances and in income from coffee exports. This trend should allow for the gradual elimination of excess demand and the closing of the output gap, thereby facilitating the convergence of inflation to the 3.0% target.

Employment[2]

In 2025, the unemployment rate in Colombia continued to decline to historically low levels. Indeed, between the last quarter of 2024 and the same period of 2025, this rate decreased by 1.1 percentage points (pp) at the national aggregate, bringing unemployment at the national level to 8.5% in the fourth quarter of the year. By geographical domain, the reduction in the unemployment rate was similar in both urban areas and in other municipalities and rural areas, standing at 8.7% and 8.2%, respectively. By gender, unemployment rates for men and women in the fourth quarter of 2025 were 6.6% and 11.1%, respectively, leaving the gender gap relatively stable at around 4.5 pp, a level lower than that observed before the pandemic.

The path of the unemployment rate depends on developments in both labor demand and labor supply. Labor demand is measured by the performance of the employed population and by its share of the working-age population (employment rate). As of the fourth quarter of 2025, the employed population at the national level grew by 3.7% in annual terms, which translated into the creation of 860,000 jobs. Salaried employment increased by 4.9% in the fourth quarter of 2025, while non-salaried employment grew by 2.6%. As a result, the employment rate at the national aggregate increased by 1.3 pp. Employed population in both urban and rural areas grew at rates similar to those of the national aggregate. In urban areas, this growth was mainly driven by sectors such as manufacturing, trade, and accommodation, while in rural areas the largest contributions to job creation came from the agricultural sector and from the transportation and communications sector.

Labor supply is measured by the economically active population (employed and unemployed individuals seeking work) as a proportion of the working-age population (Labor Force Participation rate, [TGP in Spanish]). The data from DANE show that, as of December 2025, the TGP increased by 0.7 pp in annual terms across all

2 This section uses rolling quarter and seasonally adjusted data.

geographical domains, indicating that labor supply was less dynamic than labor demand in 2025. As expected, this was reflected in the decline in the unemployment rate reported above. The increase in labor force participation was led by men, whose TGP rose by 0.9 pp and stood at 77.1% in the fourth quarter of 2025. In contrast, for women, the TGP increased by 0.5 pp and stood at 53.2%. Some analyses of labor supply carried out by Bank[3] researchers suggest that the decline in the TGP over the past ten years has been influenced by a demographic composition effect (aging), as well as by a decrease in youth participation in the labor supply, associated with their longer stay in the education system.

For most of 2025, the informality rate declined to historically low levels. However, starting in the fourth quarter of the year, it rebounded and stood at 55.8% during that period. This increase in informality in the last months of the year is consistent with the rise in non-salaried employment, a predominantly informal segment. By economic sector, the largest annual increases in informality as of the fourth quarter were observed in the branches associated with mining, electricity, gas and water, and finance. On the other hand, the largest reductions in the informality rate were observed in professional activities and in the agricultural sector.

The hiring expectations balance reported in *Banco de la República*'s Quarterly Survey of Economic Expectations (ETE in Spanish) turned negative in January 2026, after showing positive results throughout 2025. This indicator summarizes the net hiring intentions of the business sector (the percentage planning to increase payroll minus the percentage planning to reduce it), so its deterioration points to a slower expansion of salaried employment in the near future. The outlook of the Bank's technical staff is consistent with this signal, projecting an upward trend in the urban unemployment rate, which is expected to average 9.0% in 2026.

Inflation and Monetary Policy

Inflation in 2025 behaved very differently from the pattern observed a year earlier. While in 2024 it declined from 9.3% in December 2023 to 5.2% at the end of 2024, this trend was interrupted in 2025. During the first half of the year, it ceased to decline, and at the beginning of the second half it took an upward trend, increasing from 4.8% in June to 5.5% in October, before moderating slightly to 5.1% at the end of 2025, very close to the level observed at the end of 2024. Similarly, core inflation (excluding food and regulated items) showed downward rigidity and stood at 5.0% in December 2025, only slightly below the level recorded in December 2024 (5.2%). The downward resistance of both headline and core inflation throughout 2025 occurred despite the fact that monetary policy remained in contractionary territory. This performance was mainly driven by the strengthening of domestic demand, which grew at an average rate of 4.4% during the first three quarters of the year and by 3.9% for the full year, in response to the boost generated by increased private and public spending. This was compounded by a growing process of price indexation, driven by rising inflation expectations and increases in the minimum wage, which rose by 11% in 2025, including the transportation allowance, twice the inflation rate observed in 2024.

3 An analysis of the structural and cyclical dynamics of labor force participation can be found in *Labor Market Reports*, No. 35 (July 2025).

Most items of the family shopping basket explain the rigidity of the annual inflation rate in 2025. The annual variation in food prices showed an upward trend throughout most of 2025, driven mainly by increases in processed foods prices, and only partially eased toward the end of the year, reaching 5.1% in December, above the 2024 figure. Regulated inflation declined from 7.3% to 5.4% between 2024 and the end of 2025, although it remained far from the inflation target due to significant adjustments in transportation, education, and gas fees, among other factors. On the other hand, core inflation, excluding food and regulated items, showed a marginal decline between the end of 2024 and June 2025, falling from 5.2% to 4.8%, but increased gradually during the second half of the year, closing the year at 5.0%. Thus, the results for both headline and core inflation in 2025 exceeded the values projected by the Bank's technical staff, and their performance indicated that upward pressures on prices stemmed from both supply shocks—such as those affecting food and some regulated items—and demand pressures, as reflected in the increase in core inflation, which excludes food and regulated items.

The evolution of inflation and its expectations during 2025 did not provide the appropriate conditions to continue the process of reducing the policy interest rate as had been undertaken in 2024. The only cut in the policy interest rate during 2025 took place at the BDBR meeting at the end of April, when it was reduced from 9.5% to 9.25%.

Analysts' expectations for headline and core inflation for December 2026, as of January 2025, stood at 3.6% and 3.3%, respectively, reflecting their confidence that inflation would follow a downward path and converge toward its target over a two-year horizon. These expectations increased progressively as analysts observed the downward rigidity of inflation throughout 2025. Accordingly, by December 2025, analysts had revised their expectations for both headline and core inflation for end-2026 to 4.6% in both measures. However, the most significant shock came with the increase in the minimum wage for 2026, set at just over 23%, which led analysts in January 2026 to raise their expectations for end-2026 to 6.4% for headline inflation and 6.7% for core inflation. Comparing these latest expectations with those held by analysts in December 2025 shows upward revisions for end-2026 of 180 bps for headline inflation and 210 bps for core inflation. This implied that the ex-ante real policy interest rate—measured as the difference between its nominal level (9.25%) and inflation expectations—declined by the same magnitudes. Inflation expectations derived from debt markets also increased and, in January, stood above 6.0% on the two-year horizon. As a result, the stance of monetary policy eased unintentionally, precisely at a time when inflationary pressures increased substantially.

Under these circumstances, at its January meeting the BDBR decided by majority to increase the policy interest rate by 100 bps, bringing it to 10.25%. This increase, although significant, was not sufficient to offset the decline in the ex-ante real interest rate caused by the upward revision of inflation expectations. In the minutes of the BDBR's January meeting, the members of the majority group stated that this was an essential decision to prevent a persistent de-anchoring of inflation relative to the target and to address the serious risk of losing the monetary authority's credibility in its commitment to the inflation target and its ability to fulfill its constitutional mandate. They also acknowledged that this was a demanding decision for the public and the markets but suggested the need for further increases in the policy interest rate to ensure the convergence of inflation to the 3.0% target, which is expected to be achieved toward the end of 2027, given the lags with which monetary policy operates.

Balance of Payments

The country's current account of the balance of payments recorded a deficit of USD 10,883 million (m) in 2025, USD 3,871 m higher than the level observed a year earlier. This imbalance was equivalent to 2.4% of GDP, a figure 0.7 pp higher than in 2024. By components of the balance of payments, this current account deficit originated from the negative balance of trade in goods and services (USD 14,871 million) and of the net primary income outflows (USD 12,446 million), which was partially offset by the positive balance of current transfers (USD 16,435 million).

The deficit in the trade balance of goods increased by USD 5,677 m in 2025 compared to the previous year, as the 0.8% (USD 406 m) rise in exports was largely outweighed by a 10.1% increase in the value of imports (USD 6,082 m). The growth in exports of goods was mainly driven by exports of coffee, industrial products (particularly chemical and food), and gold, whose increase was offset by lower sales of crude oil and its derivatives, as well as coal. In turn, the services trade deficit narrowed by USD 488 m, supported by the strong performance of travel and IT service exports. This performance reflects the recomposition of the country's export structure in recent years, a topic discussed in greater detail in Box 4 of this Report. As for imports, their increase was mainly driven by higher external purchases of consumer goods, as well as inputs and capital goods for industry, partially offset by lower imports of fuels and lubricants.

Colombia's terms of trade improved by 5.9% in 2025 compared to the previous year. This performance was mainly explained by the increase in international prices of coffee and gold, as well as by the decline in the U.S. dollar prices of imports. These factors more than offset the drop observed in oil prices.

The deficit balance of factor income was USD 391 m lower than that recorded in 2024, explained by lower net outflows of interest on external loans, higher income from Colombia's direct investments abroad, and a decline in the estimated profits of firms with foreign direct investment (FDI) in the country. The reduction in FDI-related profits was largely due to lower estimated earnings of firms operating in oil extraction, mining and quarrying, transportation, storage, and communications. This was partially offset by higher profits in financial and business services, trade, hotels, and manufacturing.

The positive balance of current transfers increased by 6.0% (USD 927 m) in 2025 compared to 2024. This is explained by higher revenue from workers' remittances, which amounted to USD 13,098 m, with an annual increase of 10.6% (USD 1,250 m). Their growth was mainly driven by remittances from Spain and the United States, which increased by USD 362 m and USD 157 m, respectively, compared to a year earlier.

During 2025, the country's financial account recorded net capital inflows of USD 9,047 m (2.0% of GDP), an amount USD 3,470 m higher than that observed in 2024. Among these inflows, FDI's resources stood out, totaling USD 11,469 m (2.5% of GDP), which was USD 2,215 m lower than the amount received a year earlier. These resources were mainly directed toward the financial and business services sectors, mining and oil, manufacturing, trade and hotels, and electricity. The financing of the external deficit was also supported by foreign portfolio investment, amounting to USD 19,871 m, most of which was received by the public sector (USD 15,285 m) through bond issuances in international markets and purchases of TES by non-residents in the local market. Additionally, the country received net disbursements of external loans totaling USD 850 m, directed toward the private sector.

For 2026, the technical staff projects a moderate widening of the current account deficit relative to the previous year, in an environment of high uncertainty stemming from international geopolitical conflicts. The increase relative to the 2.4% deficit of GDP recorded in 2025 would occur within a context in which, although international oil prices are expected to remain above the levels observed in 2025 as a result of the recent conflict in the Middle East, some exports would face constraints related to production and export volumes. This would be compounded by domestic demand, which is expected to continue driving imports. On the other hand, the country is expected to maintain access to external financing in an environment where U.S. interest rates remain above their pre-pandemic levels and Colombia's risk premium continues to exceed its historical average.

Public Finances

According to the update of the 2026 Financial Plan (FP-26) published by the Ministry of Finance and Public Credit (MHCP in Spanish), the total deficit of the Central National Government (CNG) decreased from 6.7% to 6.4% of GDP between 2024 and 2025, reaching COP 117.8 trillion (t). This reduction was achieved exclusively as a result of a lower interest burden, which was partially offset by an increase in primary expenditure. The decline in interest payments resulted from an accounting effect associated with debt exchange operations carried out by the General Directorate of Public Credit and the National Treasury (DGCPTN in Spanish) as part of debt management operations (DMOs). Compared to the projection included in the 2025 Medium-Term Fiscal Framework (MTFF25), the total deficit of the CNG was 0.8 pp of GDP lower.

The CNG's primary deficit increased from 2.4% to 3.5% of GDP between 2024 and 2025, reaching COP 65.7 t. This was the result of primary expenditure amounting to COP 368.6 t (19.9% of GDP), representing an increase of 1.1 pp of GDP compared to 2024. Transfers accounted for the main increases in expenditure, particularly due to higher obligations associated with the General Participation System, pensions, universities, and subsidies for electricity fees. The primary balance is a key indicator for assessing fiscal sustainability, as it reflects the government's capacity to finance its operating and investment expenditures with its own resources before servicing debt interest costs.

In line with the higher primary deficit, the CNG's gross debt increased from 61.3% of GDP in 2024 to 64.4% in 2025. This was explained by an increase in the stock of gross domestic debt as a share of GDP, which rose by 5.0 pp, in contrast to external debt, which declined by 1.9 pp of GDP, partly due to the appreciation of the peso. Despite the increase in gross debt, the CNG's net debt declined from 59.0% to 58.5% of GDP between 2024 and 2025, largely due to treasury operations through which the government managed to accumulate both domestic and external assets.

Preliminary figures from the MHCP suggest that the General Government (GG)[4] deficit stood at 5.6% of GDP in 2025 (COP 104.6 t), declining by 0.2 pp compared to the result observed in 2024. This performance was largely explained by this reduction of 0.3 pp of GDP in the CNG's total deficit. This was accompanied by an increase of 0.2 pp of GDP in the surplus of the social security subsector, which reached 0.4% of GDP.

4 The General Government is made up of the CNG, regional and local governments, the social security sector (pensions and health), and the other entities of the central level, which includes the Fuel Price Stabilization Fund (FEPC).

The MHCP projects, for 2026, a total deficit of the CNG of 5.1% of GDP and a primary deficit of 2.1% of GDP, which would represent a reduction compared to the deficits observed in 2025. The financial programming of the FP-26 contemplates total CNG revenues of 16.1% of GDP, a figure that represents a decline of 0.2 pp of GDP relative to the revenues observed in 2025, associated with lower tax collection and reduced resources from special funds. On the expenditure side, the FP-26 estimates total spending of 21.2% of GDP and primary expenditure of 18.2% of GDP, representing decreases of 1.5 pp and 1.7 pp of GDP relative to 2025, respectively. The adjustment in primary expenditure is due to the non-materialization of resources derived from the Financing Bill and the provisional suspension of Decree 1390 of 2025, which requires a reduction in the National Budget (PGN in Spanish) by the same magnitude. The effective implementation of the adjustment, and therefore, the implementation of the projected expenditure reductions, is subject to the Constitutional Court's final decision regarding the Emergency Decree.

Regarding CNG debt, the MHCP estimates that gross debt will stand at 61.1% of GDP, implying a decline of 3.3 pp of GDP compared to 2025. This effect stems from the completion of the financial obligation associated with the collateralized debt operation. However, the termination of this obligation does not affect net debt, as the extinguishment of the collateral results in a reduction of CNG assets. Accordingly, net debt would stand at 58.7% of GDP, that is, 0.2 pp above the level recorded at the end of 2025. Compared to the MTFF-25, the projected net debt is 4.3 pp of GDP lower.

The Independent Fiscal Rule Committee (CARF in Spanish) considers it unlikely that the fiscal scenario for 2026 presented by the Government in the FP-26 will materialize, given that the mechanisms to ensure the proposed expenditure reduction are unclear. CARF projections[5] under a baseline scenario with no adjustments to revenues and expenditures, indicate that the total deficit for 2026 could reach 6.7% of GDP and the primary deficit 3.7% of GDP. The latter level would exceed both the primary deficit observed in 2025 (3.5% of GDP) and that contemplated in the FP-26 scenario (2.1% of GDP), placing it among the highest levels recorded since the period following the pandemic shock. In its baseline scenario, CARF estimated that an adjustment of 1.6% of GDP (COP 32.1 t) would be required to meet the primary deficit target set by the Supreme Council for Fiscal Policy (CONFIS in Spanish) for 2026.

Foreign Reserves

Net foreign reserves totaled USD 66,352 m at the end of 2025, representing an increase of USD 3,871 m compared to their level at the end of 2024. This increase was explained by the positive returns obtained during the year. The return on foreign reserves in 2025, excluding the exchange rate component, stood at 4.76% (USD 3,067 m). This result was mainly driven by higher interest rate levels, which had a positive impact on the return on foreign reserves through increased interest income from investments. Additionally, the return was favored by investment valuation, due to the decrease in the levels of short-term interest rates in the main markets in which reserves are invested. Finally, the increase in the level of foreign reserves was supported by the appreciation of other reserve currencies against the U.S. dollar, resulting in a positive exchange rate effect on their valuation.

5 CARF. (2026) "The fiscal scenario for 2026 is exposed to expenditure pressures that would hinder the return to the Fiscal Rule," Statement No. 19.

Various foreign reserve metrics continue to indicate that Colombia maintains an adequate level to meet its external needs and to provide a solid backing against potential external shocks. One of the most widely used indicators internationally to assess the reserve adequacy is proposed by the IMF's Assessing Reserve Adequacy (ARA) methodology. This metric establishes that foreign reserves must be sufficient to cover the main balance of payments risks during episodes of pressure in the foreign exchange market. This indicator aims to provide protection against risks associated with the loss of access to external financing, a loss of confidence in the local currency, a reversal of capital flows, and a possible contraction in external demand. According to the IMF standard, an economy is considered to maintain an adequate level of reserves if the ratio of observed reserves to their adequate level (according to the ARA methodology) lies within the range of 1.0 to 1.5. Based on the most recent available information, corresponding to January 2026, this ratio for Colombia stands at 1.24.

The outlook for the return on foreign reserves in 2026 remains favorable, particularly in terms of interest income. Although monetary policy interest rates in most markets have been declining over the past year, they remain at high levels; therefore, interest accruals are expected to continue to be favorable.

Profits of *Banco de la República*

The profit of *Banco de la República* in 2025 reached a new historical high of COP 13,893 billion (b), as a result of revenues of COP 17,283 b and expenses of COP 3,390 b. This profit was COP 3,852 b higher than that recorded in 2024, due to an increase in revenues and a decrease in expenses.

Revenues were primarily generated from the return on foreign reserves, which amounted to COP 11,894 b, representing an increase of COP 2,555 b compared to 2024. In turn, expenses mainly stemmed from the remuneration of the deposits held by the Colombian Government at the Bank, totaling COP 976 b, which recorded an annual reduction of COP 525 b due to a decline in both the average annual balance and the remuneration interest rate, resulting from cuts in the monetary policy interest rate.

A profit of COP 11,271 b is projected for 2026, which is COP 759 b higher than that considered in the budget approved for 2025, in an economic environment that would support the profitability of foreign reserves.

02/ Macroeconomic Environment

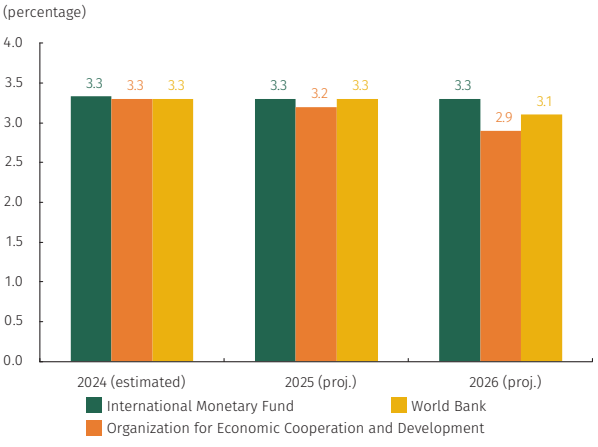
2.1 Evolution and Outlook of the International Macroeconomic Environment

During 2025, global economy was marked by a context of high political and trade uncertainty associated with the imposition of new tariffs by the United States. Initially, significant adverse effects were anticipated on global growth, a slowdown in international trade, higher production costs related to the increase in the price of imported inputs, and upward inflationary pressures, particularly on tradable goods. However, over the course of the year, partial trade agreements were reached between the United States and some major economies, which helped to moderate tariff-related uncertainty and contain part of these effects. Regarding prices, although a significant pass-through of these higher tariffs to inflation had been expected, the evidence suggests that the impact has been more limited than anticipated, especially in the United States (World Bank, 2026; Cavallo, Llamas, and Vázquez, 2025).[6] In that economy, factors such as the prior accumulation of inventories, the partial absorption of costs by firms, and the reconfiguration of supply chains toward countries with preferential agreements limited the pass-through to prices. This was compounded by the decline in international oil prices, which helped contain inflationary pressures and partially offset the increase in the cost of some imported goods. In turn, China managed to cushion part of the external shock by redirecting its exports toward other trading partners in Asia and the rest of the world. This allowed it to sustain export dynamism despite tighter trade restrictions (World Bank, 2026). In contrast, economies with high exposure to trade with the United States, such as the Euro Zone, Canada, and Mexico, faced a more adverse environment, which affected their economic performance during 2025. Looking ahead to 2026, a high level of economic, trade, and geopolitical uncertainty is expected to persist. This environment would be marked by the continuation of trade tensions, the recent escalation of the conflict in the Middle East, and its potential impact on international energy prices. In addition, average tariff rates are expected to remain above the levels observed prior to the recent episode of trade tensions. In this context, on 20 February 2026, the U.S. Supreme Court struck down a large share of the tariffs imposed in April 2025, on the grounds that the Executive had exceeded its authority under the International Emergency Economic Powers Act (IEEPA). Subsequently, the administration of Donald Trump imposed a temporary global tariff of 10% under Section 122 of the Trade Act of 1974 and left open the possibility of raising it to 15%, which keeps uncertainty high regarding the future path of trade policy.

In 2025, global economic activity maintained a growth rate similar to that of the previous year. The gradual moderation of inflation and somewhat less restrictive financial conditions, together with stronger investment and consumption in some advanced economies, offset the persistent uncertainty associated with geopolitical and trade tensions, as well as with the fragmentation of global trade. In their most recent report, the International Monetary Fund (IMF) and the World Bank estimate global growth of 3.3% for 2025, a figure similar to that observed in 2024, while the Organization for Economic Cooperation and Development (OECD) proj-

6 World Bank (2026). *Global Economic Prospects*, January, Washington, D.C.: World Bank; Cavallo, A., Llamas, P., & F. Vázquez, F. (2025). "Tracking the Short-Run Price Impact of U.S. Tariffs," NBER Working Paper, No. 34496, National Bureau of Economic Research, Cambridge, MA.

Graph 2.1
Global Economic Growth
(annual variation)



proj.: projected.
Sources: International Monetary Fund (January 2026), World Bank (January 2026), and Organization for Economic Cooperation and Development (December 2025).

ects growth of around 3.2% (Graph 2.1). In the United States, economic activity grew by 2.1% in 2025, driven by private consumption, net exports, and investment, with a performance well above projections at the beginning of the year. In the Euro Zone, activity showed a gradual recovery, although differences across countries persisted and some industrial sectors remained weak. In emerging and developing economies, growth remained dynamic. In China, the economy grew by 5.0% in 2025, meeting the government's official target and maintaining the figure recorded in the previous year. In this case, the strength of the export sector stood out in an environment of high trade uncertainty. In Latin America, growth was heterogeneous and generally moderate, in contrast to the stronger dynamism of several emerging Asian economies, which exceeded the global average. For 2026, the main international organizations project global growth figures similar to or slightly lower than the ones observed in 2025, in the context of high uncertainty marked by the gradual normalization of monetary policy and the persistence of risks linked to trade tensions and geopolitical conflicts. It should be noted that these projections do not yet fully incorporate the potential macroeconomic effects of the recent conflict in the Middle East, which introduces an additional element of uncertainty regarding the path of global economic activity.

In 2025, the decline in international oil prices was largely explained by the increase in global production. The dynamism of supply, which exceeded the growth of demand led by China, contributed to inventory accumulation in OECD countries. However, for 2026, uncertainty remains high due to the recent conflicts in the Middle East. During 2025, the average price of Brent crude fell by around 15% compared to 2024, standing at USD 68 per barrel (bl) (Graph 2.2). This moderation in prices was driven by an increase in global oil supply, supported by higher production in non-member economies of the Organization of the Petroleum Exporting Countries (OPEP in Spanish), particularly the United States, Guyana, Norway, and Brazil. As a result, global production exceeded demand, which was reflected in a greater accumulation of inventories of crude oil and its derivatives in OECD economies, putting downward pressure on prices. However, the decline was partially limited by resilient demand, associated with the strong performance of the Chinese economy. For 2026, a slowdown in the growth of global oil production is anticipated, although it would still exceed global consumption, maintaining the accumulation of inventories of oil and its derivatives in OECD countries, as well as downward pressures on prices. However, during the first quarter of 2026, oil prices have recorded increases exceeding the levels observed in the previous year. These increases are explained by the escalation of the conflict in the Middle East, particularly due to Iran's attacks on oil and gas refineries in neighboring countries, which have led to shutdowns of these facilities and disruptions to the transit of oil tankers through the Strait of Hormuz. In this context, uncertainty remains high throughout 2026 due to the effects on global production

Graph 2.2
International Oil Price

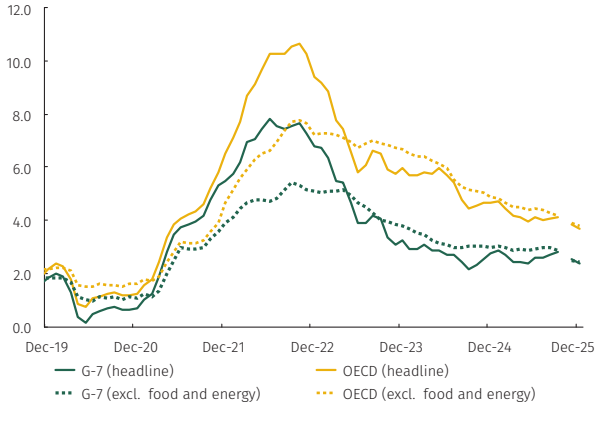
Source: Bloomberg.

levels—factors that could limit price declines and contribute to maintaining high volatility in the market. Finally, in its most recent report published on March, the U.S. Energy Information Administration projects an average price of around USD 79 per barrel for 2026, within a context of high uncertainty.

During 2025, global inflation continued to moderate, although with heterogeneous patterns across countries. Lower cost pressures compared to previous years, together with a still restrictive monetary policy and a gradual normalization of labor markets, contributed to the easing of price adjustments in most economies. However, high trade and geopolitical uncertainty limited the speed of convergence toward central bank targets. In this context, global headline inflation declined in 2025 compared to 2024, in a moderation process common to most advanced and emerging economies, albeit with differences in magnitude. In December 2025, annual headline inflation in OECD member countries stood at 3.7%, compared to 4.7% at the end of the previous year. In turn, core inflation stood at 3.8%, below the 4.9% recorded in December 2024 (Graph 2.3). In the United States, following the rebound observed in the second and third quarters of the year, headline inflation resumed a downward trajectory. This performance was explained by lower pressures on energy prices—associated with the decline in international oil prices—and by a gradual slowdown in the goods and services components. As a result, headline inflation declined from 2.9% in December 2024 to 2.7% in December 2025. Over the same period, core inflation showed a more pronounced correction, decreasing from 3.2% to 2.6%. In the Euro Zone, inflation also continued to moderate, declining from 2.4% at the end of 2024 to 2.0% at the end of 2025. In contrast, in the United Kingdom and Canada, headline inflation stood at 3.4% and 2.4%, respectively, at the end of 2025—levels higher than those observed the previous year (2.5% and 1.8%, respectively)[7] (Graph 2.4, panel A). In Japan, headline inflation stood at 2.1% and declined significantly compared to 2024, following the rebound recorded in that year. In emerging economies, inflation showed a downward trend in most of the countries analyzed. In several Latin American countries with inflation-targeting frameworks, headline inflation continued to decline and, by the end of 2025, stood within target ranges. Particularly, it reached levels of 4.3% in Brazil, 3.7% in Mexico, 3.5% in Chile, and 1.5% in Peru—figures lower than those recorded in December 2024 (Graph 2.4, panel B). In turn, in China, negative annual variations in the CPI were recorded during the first half of the year, reflecting episodes of deflation associated with moderate domestic demand; although inflation stood at 0.8% by the end of the year, the annual average remained

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

(percentage)

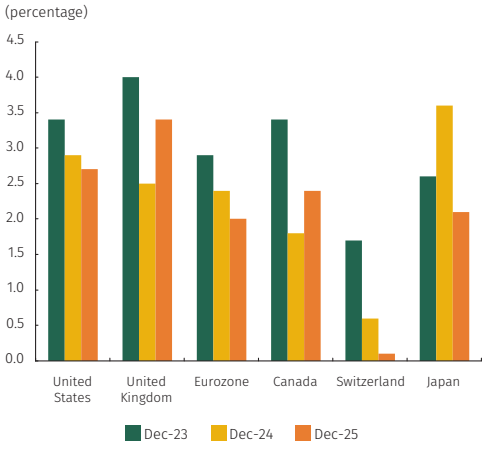


Note: The absence of inflation data from the Organization for Economic Cooperation and Development for October 2025 reflects the unavailability of price information in the United States due to the partial shutdown of the federal government, which prevented the Bureau of Labor Statistics from collecting data through surveys. Given the non-recoverable nature of this information and the weight of this country in the aggregate, inflation for that month will not be published.
Source: Organization for Economic Cooperation and Development.

7 In the United Kingdom and Canada, the increase in inflation at the end of 2025 compared to 2024 was associated with less favorable base effects, increases in energy prices and some services (including housing-related items), as well as the persistence of pressures in the services component, within a context of relatively tight labor markets and a gradual transmission of monetary policy.

Graph 2.4
Headline Consumer Inflation

A. Some Advanced Economies



B. Some Major Emerging Economies and the Region

Source: Bloomberg.

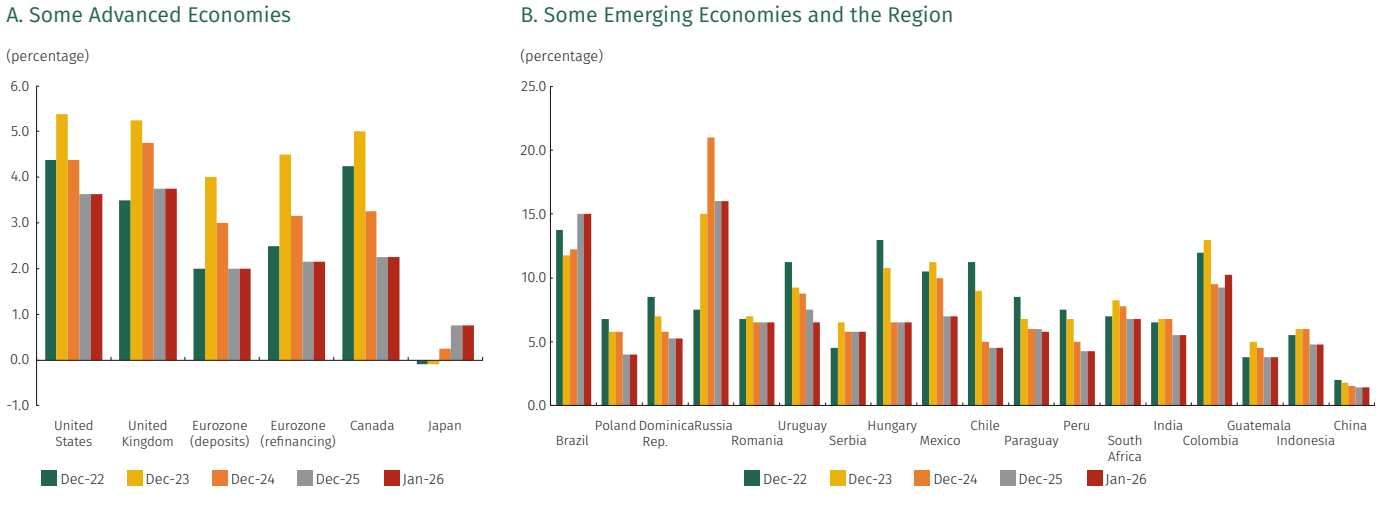
below that recorded in 2024. Overall, the disinflationary process advanced broadly and relatively widely in 2025, especially in advanced economies and most emerging market economies, in an environment characterized by persistent geopolitical and trade uncertainty.

For 2026, the disinflationary process is expected to continue in most economies, although at a more uncertain pace than previously anticipated, within a context of recent upward pressures on international oil prices associated with the escalation of the conflict in the Middle East, also amidst an environment of high political and trade uncertainty, which could generate occasional price pressures and differences in the speed of convergence across countries. In its most recent report, the IMF estimates that global inflation would stand at 4.1% in 2025 and continue to moderate to 3.8% in 2026. Over the same period, in advanced economies, headline inflation would decline from 2.5% to 2.2%, while in emerging and developing economies it would decrease from 5.2% to 4.8%. This dynamic would be associated with a global demand process of normalization, lower pressures from international energy prices, and financial conditions that, although less restrictive than in previous years, would continue to contribute to inflation moderation. However, the recent increase in oil prices introduces an upward risk to these projections, both through its direct effect on the energy component and through possible indirect pressures on transportation costs. In the United States, convergence toward the target would be more gradual than in other advanced economies, in an environment of high tariff-related uncertainty and inflation expectations that remain relatively elevated. Added to this are risks associated with greater trade fragmentation and geopolitical shocks that could generate additional pressures on commodity prices.

Monetary policy interest rates in advanced economies, except for Japan, continued to decline during 2025, although at different paces across countries and with some pauses toward the end of the year. In the United States, the Federal Reserve (Fed) continued its cycle of monetary policy interest rate cuts, after having placed

it in the 4.50%-4.75% range at the end of 2024. Throughout 2025, the Federal Open Market Committee (FOMC) implemented additional reductions that brought the rate to a range between 3.50% and 3.75% at the end of the year[8]. This occurred in an environment of gradual inflation moderation, solid economic growth, and a labor market that showed signs of weakness. However, toward the end of the year, the monetary authority adopted a more cautious stance, conditioning the future path of the interest rate on further convergence of inflation toward the 2.0% target and on the evolution of external risks. In turn, other central banks in advanced economies also made progress in the easing process initiated in 2024. By the end of 2025, the European Central Bank (ECB) had reduced its benchmark rates to 2.0% for the term deposit certificate facility and 2.15% for the main refinancing operations, while the Bank of Canada lowered its policy rate to 2.25% (Graph 2.5, panel A). The Bank of England, in turn, continued reducing its rate to 3.75%, although with pauses in the second half of the year in response to temporary upticks in inflation. In contrast, the Bank of Japan continued the normalization of its monetary policy following the abandonment of the negative interest rate regime in 2024. As it had not participated in the previous cycle of rate hikes observed in other advanced economies, during 2025 it gradually increased its benchmark rate to 0.75%, in response to inflation remaining above its target. Looking ahead, the path of interest rates in these countries will be determined by the pace of inflation convergence and the materialization of risks associated with trade and geopolitical uncertainty.

Graph 2.5
Monetary Policy Interest Rate in Some Economies



Source: Bloomberg.

During 2025, most Latin American economies continued to reduce their monetary policy interest rates, in an environment of moderating inflation and inflation expectations. The pace of the cuts was heterogeneous across countries and, in some cases, pauses were observed in the easing cycle, associated with the convergence of real interest rates toward levels considered neutral by their central banks, as well as with greater caution in the face of external uncertainty particularly at the begin-

8 The Federal Reserve reduced its monetary policy rate by 75 basis points (bps) during 2025. Similarly, the European Central Bank and the Bank of England implemented cumulative cuts of 100 bps each. In contrast, the Bank of Japan increased its benchmark rate by 50 bps.

ning of the year amid concerns over tariffs and a possible global slowdown. In this context, several central banks in the region deepened the easing process initiated in previous years, in line with moderating inflation and signs of weaker domestic demand. By the end of 2025, policy interest rates in countries such as Peru, Chile, Mexico, and Uruguay stood at levels below those observed a year earlier and significantly below the peaks reached during the previous monetary tightening cycle (Graph 2.5, panel B). Paraguay was an exception, as it kept its reference interest rate unchanged throughout the year. In contrast, in Brazil, the central bank raised interest rates in 2025 in response to persistent inflation, high expectations, and exchange rate and fiscal pressures.

The performance of international financial markets was also marked by an environment of high uncertainty, particularly during the first half of the year, as well as by monetary policy interest rate cuts in most major advanced economies. In the United States, several episodes of trade tension were recorded during the first half of the year, including the so-called *Liberation Day*[9], which led to a temporary increase in risk premiums amid greater uncertainty and a deterioration in trade relations with its main partners. Although several of these factors eased in the second half of the year, new episodes of tension[10] also emerged. However, following this initial period of high uncertainty, especially during the first half of 2025, international financial markets experienced a significant increase in demand for risk assets, as discussed below. This environment was accompanied by the continuation of policy interest rate cuts by most central banks in advanced economies, which supported more ample global liquidity conditions. In contrast, the Bank of Japan maintained a contractionary stance in response to factors specific to this economy.

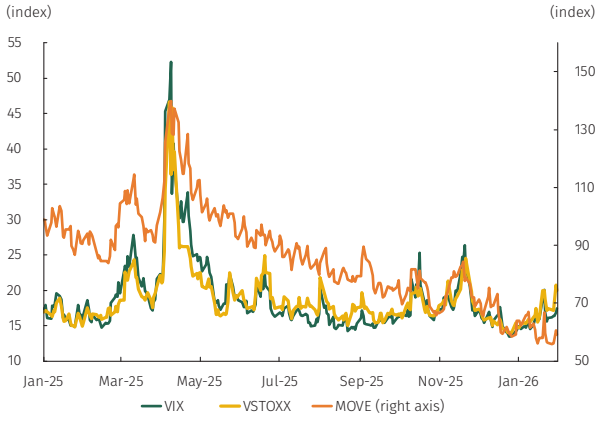
During 2025, several episodes of increased global risk perception were recorded; however, their effects on most financial markets were transitory, as the uncertainty factors that characterized them moderated rapidly. Between 2025 and early 2026 (as of January 30), events occurred that affected global financial markets to varying degrees. The main risk perception indicators (such as the VIX, VSTOXX, and MOVE Index[11]), as well as U.S. Treasury bonds and equity markets in major economies, showed temporary deteriorations during periods of heightened uncertainty. These movements were followed by relatively rapid corrections as shocks dissipated and negotiations progressed (Graph 2.6). In particular, the episode that stands out is the so-called *Liberation Day* on 2 April 2025, which generated significant tensions following the announcement of a generalized increase in tariffs. This event also

9 This corresponded to an announcement made on 2 April, whereby the United States communicated a generalized increase in tariffs. In particular, a minimum tariff of 10% was established for most of its trading partners, except for Mexico and Canada, whose goods were already subject to higher taxes in various sectors. In addition, higher tariffs were imposed on economies with large trade surpluses against the United States, including China (34%), India (26%), Japan (24%), and the European Union (20%), among other key partners.

10 Among these, noteworthy developments include the approval, in early July 2025, of a fiscal package that expanded tax benefits and raised deficit and debt projections, which led to concerns about that country's fiscal sustainability. This was compounded by a prolonged partial shutdown of the federal government due to a lack of budgetary agreement, as well as additional episodes of trade and geopolitical tensions.

11 The VIX, VSTOXX, and MOVE Index measure one-month implied volatility, derived from option prices on the S&P 500, the Euro Stoxx 50, and U.S. Treasury bonds, respectively.

Graph 2.6
Risk Perception Indicators in International Financial Markets



Sources: Bloomberg and Data License.

triggered significant market[12] declines, which were partially reversed as the announced[13] measures were moderated. However, some assets exhibited more persistent effects: the U.S. dollar recorded a global depreciation, as discussed below, and certain precious metals showed sustained gains, in the context of increased demand for safe-haven assets.

U.S. sovereign debt securities recorded moderate price increases, despite fiscal uncertainty, in line with the Federal Reserve's interest rate cuts and the moderation of some global risk factors, particularly from the second half of 2025. In turn, long-term interest rates in Japan and the Euro[14] Zone increased due to pressures on fiscal conditions in those economies. In the United States, long-term securities declined during the first half of 2025 due to persistent fiscal and trade uncertainty. However, they gradually recovered from the third quarter onward, accumulating moderate gains over the period. Even so, rates remained at relatively high levels and exhibited high volatility. Meanwhile, short-term securities appreciated in response to the consolidation of expectations of interest rate cuts by the Federal Reserve and to the 75 bps reductions implemented in the second half of the year. In Japan, long-term interest rates rose sharply, reaching historically high level as a result of a marked deterioration in perceptions of fiscal[15] sustainability. In the Euro Zone, long-term interest rates increased mainly due to

12 Between 2 and 9 April, the MOVE Index increased by 22.4 points, the VIX by 12.1 points, and the VSTOXX by 24.6 points, reflecting a significant increase in global risk perception. Over the same period, major stock markets in advanced economies recorded an average decline of 9.7%. In turn, yields on long-term U.S. Treasury bonds rose by 21 bps, implying a decline in their prices.

13 For more details, see: Marco Lombardi, Gabor Pinter, and Karamfil Todorov (2025). "Box A. Understanding the Swift Market Recovery after the April 2025 Tariff Shock," in *Markets Shrug Off Trade Conflicts*, Bank for International Settlements, September.

14 Yields on 20-year Japanese sovereign debt securities increased by 71 bps from 2.34% to 3.04%, while 20-year euro-denominated French sovereign debt securities rose by 31 bps, from 3.67% to 3.98%, between 30 June and 31 December 2025. On the other hand, yields on German bonds of the same maturity increased by 28 bps over the same period, from 2.96% to 3.24%.

15 Following the resignation of Prime Minister Shigeru Ishiba in early September, Sanae Takaichi was elected in October, increasing uncertainty due to her pro-fiscal stimulus stance. In this context, in November 2025 the government approved a new stimulus package amounting to JPY 17.7 t (USD 112 b), the largest since the pandemic. In addition, in December, a record budget for 2026 totaling JPY 122.2 t (USD 784 b) was enacted, aimed at boosting economic growth and strengthening defense spending, despite the risks this poses to fiscal sustainability.

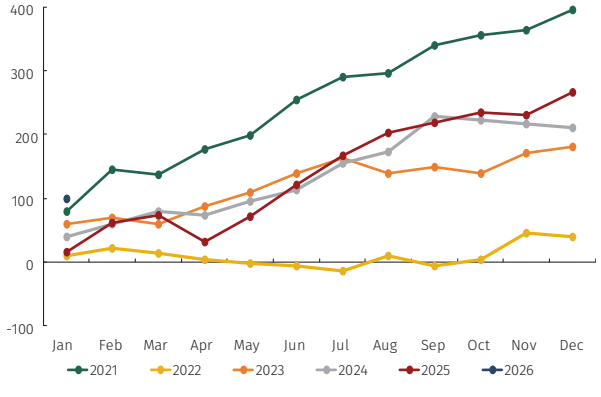
political and fiscal[16] uncertainty, while in the United Kingdom movements were moderate[17].

The U.S. dollar weakened significantly (the DXY[18] declined by 9.37%) against the major currencies of both advanced and emerging economies. Market expectations suggest that this weakness could persist over the medium term, in a context where some analysts have raised concerns about the role of the dollar as the main reserve and international transaction currency. During 2025, the performance of the dollar was driven primarily by the moderation in U.S. economic growth expectations amid fiscal and trade concerns, as well as issues related to the institutional independence of the Fed. Episodes of greater risk aversion, together with the weakening of the dollar and increased demand for alternative reserve assets, led to market questioning of the currency's leadership as a safe-haven asset and international transaction currency.

In this context, stronger investor demand for risk assets was observed, which may be associated with portfolio diversification motives. This supported a significant increase in portfolio investment flows toward emerging economies, mainly driven by inflows into debt instruments. According to preliminary figures published by the Institute of International Finance (IIF)[19], net inflows to emerging markets reached USD 259 billion (b) in 2025, reflecting positive flows into fixed income markets that more than offset the outflows observed in equities[20] (Graph 2.7). This figure represents the highest cumulative portfolio investment in emerging economies since 2022, highlighting a strengthening in demand for emerging assets. In the case of Latin America, portfolio capital flows recorded net inflows totaling USD 64.1 b[21], the third largest inflows at the regional level after Asia (excluding China) and emerging Europe.

Graph 2.7
Portfolio Flows to Emerging Economies by Non-Residents

(billions of dollars)



Source: Institute of International Finance (IIF).

16 For example, in September 2025 the French parliament dismissed Prime Minister François Bayrou after rejecting his austerity plan aimed at reducing public debt, marking the second removal of a head of government in nine months. That same month, Fitch Ratings downgraded France's credit rating from AA- to A+, citing political instability and the deterioration of public finances. Additionally, in October, S&P Global Ratings downgraded the country's sovereign rating from AA- to A+. Finally, in November it was reported that the projected net borrowing of the German federal government for 2026 would exceed initial estimates.

17 Short-term interest rates declined in line with the Bank of England's expansionary monetary stance, while long-term rates remained relatively stable.

18 The DXY index measures the value of the U.S. dollar against a weighted basket of major advanced-economy currencies, including the euro, Japanese yen, pound sterling, Canadian dollar, Swedish krona, and Swiss franc.

19 In its February 2026 report (preliminary information).

20 Specifically, inflows of USD 320 b were recorded in debt markets, and outflows of USD 61 b from stock markets.

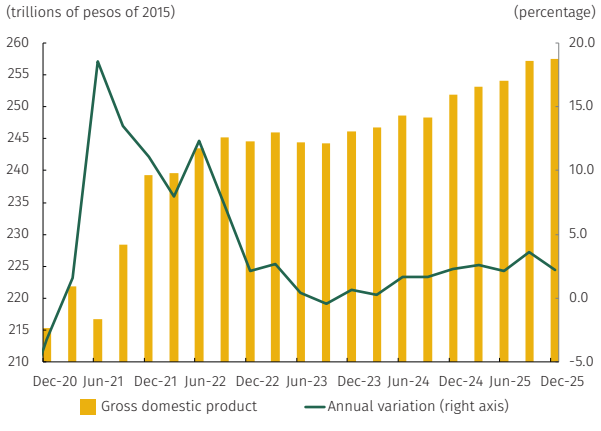
21 Of these, USD 79 b correspond to inflows into fixed income markets, and USD 15 b to outflows from equities.

2.2 Evolution and Outlook for Economic Activity and the Labor Market

2.2.1 Economic Activity

In 2025, the Colombian economy grew at a higher rate than in the previous two years, driven by various service sectors, agricultural activities, and, to some extent, manufacturing. According to data from DANE, economic growth reached 2.6% in that year, above the 1.5% recorded in 2024 and higher than that of some countries in the region[22]. This performance continued the trend observed since late 2023 (Graph 2.8). This stronger growth occurred within the context of a restrictive monetary policy stance that gradually eased over the course of the year, alongside an expansionary[23] fiscal policy and relatively favorable external credit conditions. The latter was supported by the reduction in the policy interest rate in the United States. The acceleration in economic activity was also underpinned by sustained growth in disposable income and employment, as well as by remittances inflows and coffee-related income, which remained at high levels. This was further supported by improved consumer confidence. On the supply side, artistic, entertainment, and recreational activities were the most dynamic, followed by wholesale and retail trade, and public administration and defense. These sectors recorded growth rates of 9.9%, 4.6%, and 4.5%, respectively. In contrast, mining and quarrying was the sector with the greatest deterioration, posting an annual contraction of 6.2%, followed by a decline in the construction sector (-2.8%), mainly driven by buildings (Table 2.1). During the first three quarters, a clear upward trend in the level of economic activity was observed, which did not persist in the fourth quarter.

Graph 2.8
Gross Domestic Product (GDP)[a/]
(quarterly and annual variation)



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

The performance observed in 2025 continues the trend recorded in the economy in previous years, with a lower share of the mining, energy, construction, and manufacturing sectors, in favor of various service sectors and agricultural activities. In recent years, the Colombian economy has undergone a recomposition of its sectoral structure, increasingly shifting toward agricultural and service activities, while some goods-producing sectors have lost relative share (Table 2.2). In particular, the agricultural sector has steadily increased its share of GDP, rising from 6.4% in 2019 to 9.9% in 2025. This result would be associated with a greater agricultural supply of crops other than coffee, as well as livestock production. In

22 In 2025, Brazil, Chile, and Mexico grew by 2.3%, 2.3%, and 0.6%, respectively. In addition, according to the IMF's January 2026 report, the region is estimated to have grown by an average of 2.4% in 2025.

23 The Independent Fiscal Rule Committee, in its Statement No. 19, indicates that, in the current context of public finances, a fiscal boost took place during 2025. In particular, it estimates that the cyclically adjusted primary balance stood at -2.7% of GDP, the lowest level since 1999; and that its deterioration compared to 2024 implied a fiscal stimulus of 0.3 pp to GDP growth, above the average of 0.2 pp observed over the past decade (see: https://www.carf.gov.co/documents/d/guest/pronunciamiento-no-19).

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

	2024	2025				2025
	Full Year	Q1	Q2	Q3	Q4	Full Year
Agriculture, Forestry, Hunting, and Fishing	6.1	5.2	4.7	3.0	-0.3	3.1
Mining and Quarrying	-3.4	-5.8	-10.2	-5.8	-2.8	-6.2
Manufacturing Industry	-2.6	-0.2	2.3	4.3	1.1	1.9
Electricity, Gas, and Water	2.5	-0.8	0.8	1.9	2.8	1.1
Construction	0.1	-2.9	-3.6	-2.0	-2.6	-2.8
Buildings	-2.4	-6.0	-9.3	-8.2	-6.6	-7.5
Civil Works	7.0	4.3	9.3	12.4	7.0	8.3
Specialized Construction Activities	-1.7	-3.4	-3.8	-2.9	-2.6	-3.2
Commerce, Repair, Transportation, and Accommodation	1.2	4.5	5.6	5.4	3.0	4.6
Information and Communications	-0.2	0.6	2.8	1.7	-1.3	1.0
Financial and Insurance Activities	1.1	3.3	2.8	4.2	0.7	2.8
Real Estate Activities	2.2	1.9	2.0	2.1	1.9	2.0
Professional, Scientific, and Technical Activities	-0.4	1.1	1.5	1.2	1.5	1.3
Public Administration and Defense, Education, and Health	4.1	3.7	1.9	7.6	4.7	4.5
Artistic, Entertainment, and Recreation Activities	8.2	15.6	7.6	5.1	11.6	9.9
Subtotal value added	1.6	2.6	2.5	3.5	2.0	2.7
Taxes less subsidies	0.5	2.7	2.8	2.4	2.1	2.5
GDP	1.5	2.6	2.2	3.6	2.2	2.6

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

Table 2.2
Percentage Share of Economic Sectors in GDP, 2010–2025

Economic Sector	Average 2010-2019	2019	2020	2021	2022	2023	2024	2025
Agriculture, Forestry, Hunting, and Fishing	6.1	6.4	7.5	7.8	8.8	8.8	9.5	9.9
Mining and Quarrying	7.3	5.5	4.1	5.4	7.3	5.7	4.5	3.7
Manufacturing Industry	12.2	10.9	10.7	11.2	11.1	10.9	10.2	9.9
Electricity, Gas, and Water	3.2	3.4	3.9	3.8	3.7	4.2	4.4	4.0
Construction	6.6	6.2	4.7	4.2	3.9	4.0	4.3	4.2
Commerce, Repair, Transportation, and Accommodation	16.6	17.8	17.0	18.2	18.6	18.8	18.6	19.0
Information and Communications	3.0	2.8	2.9	2.7	2.5	2.4	2.3	2.2
Financial and Insurance Activities	4.2	4.4	4.9	4.4	3.9	4.0	4.1	4.2
Real Estate Activities	8.7	8.7	9.5	8.3	7.1	7.2	7.4	7.4
Professional, Scientific, and Technical Activities	6.8	6.8	6.9	6.6	6.4	6.5	6.4	6.3
Public Administration and Defense, Education, and Health	13.9	15.1	16.4	15.2	13.4	14.4	15.1	15.4
Artistic, Entertainment, and Recreation Activities	2.4	2.6	2.5	2.8	3.1	3.5	3.8	4.0

Note: Sectoral shares are calculated based on the original and nominal GDP series.
Source: DANE; calculations by *Banco de la República.*

the case of services, artistic, entertainment, and recreational activities stand out, increasing their share from 2.6% of GDP in 2019 to 4.0% in 2025. This performance has been associated, among other factors, with the boom in internet-based gaming, mainly sports betting, as well as with a greater number of cultural events and large-scale concerts held in the country. Similarly, an increase is observed in the share of trade, transportation, and accommodation services, which rose from 17.8% of GDP in 2019 to 19.0% in 2025, driven by the dynamism observed in the commercialization of motor vehicles, motorcycles, and computer equipment for household use, among others. In contrast, some goods-producing sectors have reduced their relative share within the economy. Mining and quarrying declined from 5.5% of GDP in 2019 to 3.7% in 2025, while construction decreased from 6.2% to 4.2% over the same period. In the case of construction, this is observed in both housing and other buildings and civil works. The latter is partly related to the contraction of the oil and coal sectors, which are intensive in investment in civil works.

On the expenditure side, and as in 2024, domestic demand continued to be the main driver of economic activity growth, mainly due to the boost from private and public consumption. During 2025, domestic demand maintained high growth rates, exceeding those of GDP as a whole. Private consumption was the main driver of the strong performance of domestic demand, recording significant annual growth (3.6%) (Table 2.3) and reaching historically high levels by the end of the year. In general, all segments of household consumption continued to expand in annual levels and growth rates, with the contribution of the services sector standing out. Although its annual growth was moderate (2.7%), it occurred at very high levels and followed three

Table 2.3
Real Annual GDP Growth by Type of Expenditure
(seasonally adjusted and calendar effects corrected, base 2015)

	2024	2025				2025
	Full Year	Q1	Q2	Q3	Q4	Full Year
Final consumption expenditure	1.5	4.0	3.7	5.6	3.7	4.2
Household final consumption expenditure	1.6	4.4	3.4	3.8	2.9	3.6
Non-durable goods	-0.3	4.6	3.6	3.4	2.4	3.5
Semi-durable goods	-2.5	6.5	6.2	7.5	8.2	7.1
Durable goods	0.1	14.4	15.1	17.6	12.6	14.9
Services	3.6	3.5	2.4	2.7	2.2	2.7
General government final consumption expenditure	0.6	2.6	4.4	15.9	6.4	7.1
Gross capital formation	2.4	8.2	6.2	1.2	-7.0	2.1
Gross fixed capital formation	0.7	0.4	3.8	4.6	-3.2	1.3
Housing	-3.8	-3.6	-5.8	-6.5	-10.0	-6.5
Other buildings and structures	3.8	-10.5	-0.4	5.1	-5.3	-2.9
Machinery and equipment	0.7	4.9	16.7	13.0	2.2	9.0
Cultivated biological resources	7.9	11.6	4.8	1.8	1.4	4.7
Intellectual property products	-3.1	-0.7	-2.8	1.7	-3.6	-1.4
Domestic demand	1.6	4.5	3.9	4.7	2.4	3.9
Exports	0.4	1.4	2.0	2.8	1.1	1.8
Imports	1.2	12.9	10.1	9.9	1.3	8.4
GDP	1.5	2.6	2.2	3.6	2.2	2.6

Note: This is not an officially published series by DANE. Calculated as the difference between gross capital formation and gross fixed capital formation.
Source: DANE; calculations by *Banco de la República.*

consecutive years of significant expansions. Strong dynamism was also observed in durable consumption (14.9% annually), driven mainly by spending on vehicles and motorcycles, as well as on household appliances and mobile communication devices. Non-durable consumption, in turn, grew by 3.5%, recovering from the -0.3% decline recorded in 2024. As for semi-durable goods consumption, its annual expansion (7.1%) was supported by spending on clothing and footwear. This very strong performance of household consumption occurred amid higher real incomes due to increases in the minimum wage, lower interest rates, employment stability, a recovery in consumer confidence, and higher income for coffee-growing families or those receiving remittances from workers abroad. Public consumption also registered a positive contribution to growth in 2025, registering a notable expansion of 7.1%. This component showed considerable annual increases, especially during the second half of the year, supported, among other factors, by expenditures associated with electoral processes and by the payment of back pay to public officials, as well as a significant bonus for public school teachers.

Fixed investment expanded at a low rate and below that of GDP, with levels still lower than those observed over the past decade, mainly due to a weak performance in construction investment. In 2025, fixed investment grew by 1.3%, a figure higher than that observed in 2024. Its performance across components was highly heterogeneous. The main boost came from investment in machinery and equipment, which was reflected in higher imports of capital goods during the year. By subcomponents, the growth of these goods for agriculture and industry is highlighted. In contrast, housing investment contracted from the already low levels observed the previous year, as a result of a lower completion of buildings in both the LIH and non-LIH segments. Investment in other buildings and structures also recorded an annual decline, despite progress in various investment projects at the local, regional, and national levels, such as the Bogotá metro and some 5G road projects, among others. Regarding total investment, which includes changes in inventories, its annual growth in 2025 was 2.1%, contributing to GDP expansion in thar year, but at a rate lower than that of public and private consumption. However, this rate is below the growth reported for the same aggregate a year earlier and below overall GDP growth in 2025. Its increase over the last year was partly driven by a recovery in inventories across several sectors. The weak performance of investment is likely associated with the lagged effects of changes in housing subsidy policy, a perception of higher regulatory risk among businesspeople, a still restrictive monetary policy, and the decline of the mining and energy sectors, which in the past were major drivers of investment in civil works and other structures, among other factors.

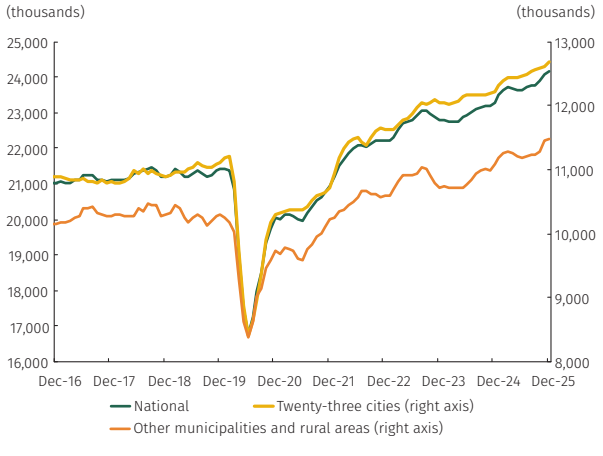
Imports recorded a strong expansion, in line with the dynamism of domestic demand, while exports grew to a lesser extent, resulting in a renewed negative contribution of net external demand to growth. During 2025, the favorable performance of domestic demand, particularly, durable consumption and investment in machinery and equipment, was reflected in a considerable increase in imports (8.4% annually), which was mainly driven by imports of durable consumer goods and capital goods, especially transport equipment. In turn, exports, in real pesos, showed modest annual growth of 1.8%, partly explained by the weak performance of exports from the mining and energy sectors. This contrasted with the dynamism of agricultural exports, whose growth was driven by coffee and bananas, as well as with manufacturing exports, driven by food and chemical products. Service exports recorded significant annual growth (5.4%), partly explained by favorable dynamics in non-resident tourism, reflecting the increased recent share of this component in the country's export basket (see Box 4). As a result, in 2025 the external trade deficit widened compared to 2024, which once again made a negative accounting contribution to GDP growth.

By 2026, a moderation in the growth rate of the Colombian economy is expected, in an environment of lower expansion of external income and a restrictive monetary policy consistent with the convergence of inflation to the 3.0% target. For 2026, the technical staff of *Banco de la República* expects GDP growth to be somewhat lower than that recorded in 2025. In this context, the cumulative actions of monetary policy would contribute to slowing domestic demand, especially household consumption. This lower expansion would also result from somewhat less favorable external conditions, due to slower growth in remittances and income from coffee exports, as well as the still uncertain effects of the recent armed conflict in the Middle East. This trend should allow for the gradual elimination of excess demand and the closing of the output gap, thereby facilitating the convergence of inflation to the 3.0% target.

2.2.2 Labor Market[24]

As of the fourth quarter of 2025, the national aggregate employed population grew in annual terms by 3.7%, which represents the creation of 860,000 jobs. This implied an increase in the employment rate of 1.3 percentage points (pp). According to seasonally adjusted and rolling quarter data from the *Large Integrated Household Survey (GEIH in Spanish)*, the employed population showed similar annual growth in both urban areas (3.72%) and rural areas (3.68%) (Graph 2.9). In urban areas, annual employment growth was mainly driven by the contribution of sectors such as manufacturing (1.2 pp), and trade and accommodation (1.2 pp). In rural areas, the largest contributions were recorded in the agricultural sector (1.9 pp) and in transportation and communications (0.7 pp). This employment dynamism was reflected in an increase of 1.3 pp in the employment-to-population ratio (EPR) for the national aggregate, bringing the EPR to 59.1% in the last quarter of 2025.

Graph 2.9
Employed Population by Geographical Domain

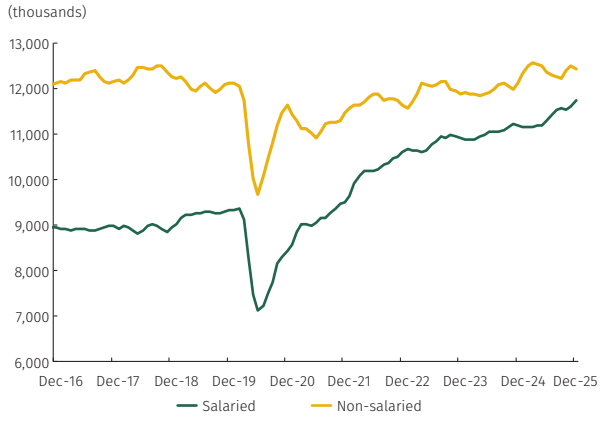


Note: Data on a three-month moving average and seasonally adjusted data.
Source: DANE (Lage Integrated Household Survey – GEIH); calculations by *Banco de la República.*

Salaried employment grew by 4.9% in the fourth quarter of 2025, while the non-salaried segment grew by 2.6%, driven by a rebound during the last quarter of the year. In the second half of 2025, the salaried segment recorded a significant increase, following the relative stability observed in the first half of the year, reaching levels of 11.7 million employed people. Within this segment, the group that contributed the most to the annual variation in total employment in the fourth quarter of 2025 was private employees, with a contribution of 2.3 pp (5.2% annual growth). In contrast, government employees contributed only 0.03 pp over the same period (with annual growth of 0.9%). In turn, the non-salaried segment accelerated in the last quarter; thus, at the end of the year this segment recorded an annual increase of 2.6% (Graph 2.10). Within this group, the largest contribution to annual growth

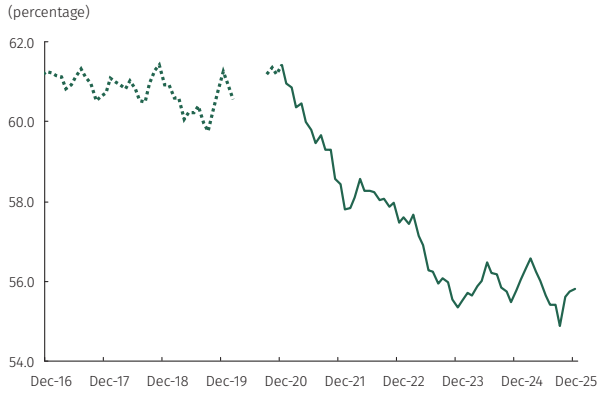
24 This section uses rolling quarter and seasonally adjusted data.

Graph 2.10
Employment by Occupation (national aggregate)



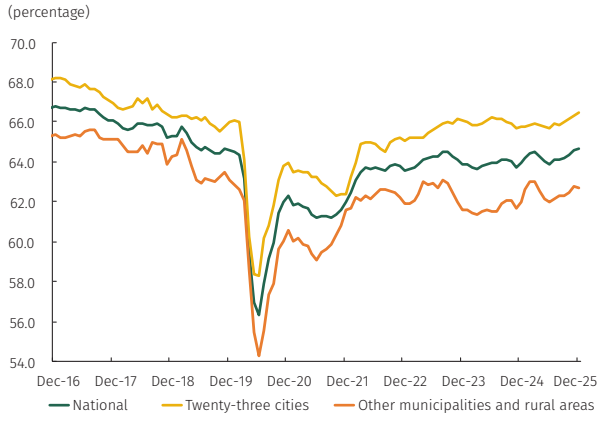
Note: Data on a three-month moving average and seasonally adjusted data.
Source: DANE (GEIH); calculations by *Banco de la República.*

Graph 2.11
Informality Rate (national aggregate)



Note: Data on a three-month moving average and seasonally adjusted data. Data before 2021 corresponds to a preliminary splice.
Source: DANE (GEIH); calculations by *Banco de la República.*

Graph 2.12
Labor Force Participation Rate by Geographic Domain



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

in total employment came from self-employed workers, who contributed 0.9 pp (with annual growth of 2.3%), followed by day laborers, who contributed 0.5 pp (15.7% annual growth) in the last quarter of 2025. In turn, domestic employment made a negative contribution of 0.05 pp, due to a contraction in this group of 1.6% annually over the same period.

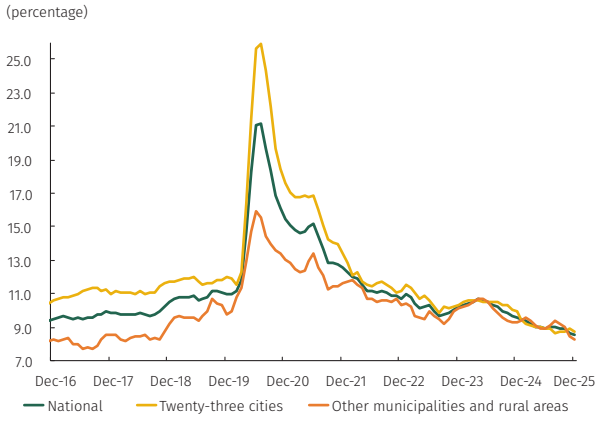
The informality rate (IR) stood at 55.8% in the last quarter of 2025, a level similar to that observed a year earlier. During much of 2025, the IR decline, reaching historically low levels. However, starting in the fourth quarter of the year, it showed a rebound (Graph 2.11). This increase in the IR in recent months is consistent with the growth of non-salaried employment, a predominantly informal segment. By economic sectors, the largest annual increases in the IR as of the fourth quarter of 2025 were observed in mining and in electricity, gas, and water (4 pp combined), and finance (2.2 pp). On the other hand, the largest reductions in the IR were observed in professional activities (-1.6 pp) and in the agricultural sector (-0.7 pp).

Labor supply showed less dynamism than employment. As of December 2025, the labor force participation rate (LFPR) increased by 0.7 pp annually across all domains. Between the last quarter of 2024 and the last quarter of 2025, the population outside the labor force contracted by 0.6% at the national aggregate. The smaller inactive population is mainly explained by a 0.8% reduction in urban areas over the same period, while in other municipalities and rural areas the annual contraction was 0.4%. Thus, the LFPR increased by 0.7 pp and closed the year at 64.6%. The LFPR stood at 66.5% in urban areas and at 62.7% in other municipalities and rural areas, respectively (Graph 2.12). By gender, the increase in participation was led by men, whose LFPR rose by 0.9 pp and stood at 77.1% in the fourth quarter of 2025. In the case of women, the LFPR increased by 0.5 pp and stood at 53.2%. The structural analysis of labor[25] supply suggests that over the past ten years, the decline in the LFPR has been influenced by two mechanisms. First, a demographic composition effect (aging), whereby young people within the Working Age Population (WAP) have lost relative weight compared to older groups. Second, a behavioral effect, as the LFPR of young people has declined, consistent with longer stays in the education system.

The unemployment rate (UR) continued to decline to historically low levels, reflecting stronger employment dynamics compared to labor supply. Thus, the annual variation between the last quarter of 2024 and that of 2025 was -1.1 pp at the national aggregate, bringing the UR to 8.5% in the fourth quarter of 2025. By geographical domains, the reduction in the UR was similar in both urban areas (-1.2 pp) and in other municipalities and rural areas (-1.0 pp), ending at levels of 8.7% and 8.2%, respectively (Graph 2.13). In urban areas, the larg-

25 An analysis of the structural and cyclical dynamics of labor force participation can be found in *Labor Market Reports*, No. 35 (July 2025).

Graph 2.13
Unemployment Rate by Geographical Domain

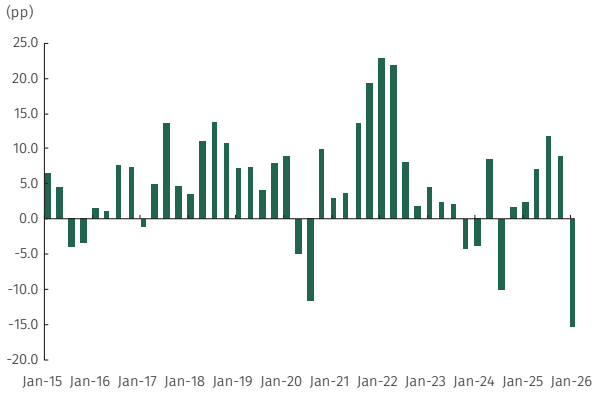


Note: Data on a three-month moving average and seasonally adjusted data.
Source: DANE (GEIH); calculations by *Banco de la República.*

Graph 2.14
Job Vacancy Index from Different Sources

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

Graph 2.15
Balance of Expectations of Short-term Payroll Increases[a/]



a/ In the next three to six months. Quarterly and seasonally adjusted data.
Source: Banco de la República, Quarterly Survey of Economic Expectations (ETE in Spanish); calculations by *Banco de la República.*

est annual reductions in the UR were observed in Quibdó, Florencia, and Riohacha. By gender, the UR for men (6.6%) and women (11.1%) showed similar reductions, close to 1 pp in the fourth quarter of 2025. This kept the gender gap relatively stable at around 4.5 pp, a level lower than that observed before the pandemic.

Vacancy indicators suggest that during 2025 labor demand was relatively high, which is consistent with low levels of unemployment. Vacancy indicators calculated from different sources of information—such as classified ads, the public employment service, and the GEIH—stabilized in 2025 after showing a downward trend over the past two years, although at levels above those observed before the pandemic (Graph 2.14). These relatively high vacancy levels, together with the reduction in the UR, suggest that demand pressures on employment persisted during the previous year. A signal consistent with the presence of demand pressures is that, as of the fourth quarter of 2025, wages recorded real annual growth of around 3.1 pp above the increase in the minimum wage. This dynamic could also reflect matching frictions that limit the filling of vacancies.

For 2026, hiring expectations moved into negative territory, and the UR is expected to increase. The balance of hiring expectations reported in the *Quarterly Survey of Economic Expectations* (ETE in Spanish) of *Banco de la República*, which remained in positive territory throughout 2025, turned negative in January 2026 (Graph 2.15). This indicator summarizes the net hiring intentions of the business sector (the percentage planning to increase payroll minus the percentage planning to reduce it), so its deterioration points to a slower expansion of salaried employment in the near future. The outlook of the Bank's technical staff is consistent with this signal, showing an upward trend in the urban UR, which is expected to average 9.0% in 2026.

2.3 Evolution and Outlook of the Fiscal Situation

In accordance with the fiscal year figures of the Ministry of Finance and Public Credit (MHCP), in 2025 the total deficit of the Centra National Government (CNG) stood below both the result observed in 2024 and the projection included in the 2025 *Medium-Term Fiscal Framework* (MTFF-25). The total deficit of the CNG reached 6.4% of GDP in 2025 (COP 117.8 t), associated with total revenues and expenditures of 16.3% and 22.7% of GDP, respectively (COP 302.8 t and COP 420.6 t). This represented an annual decrease of 0.3 pp of GDP in the deficit, driven exclusively by a lower interest burden of 1.5 pp (which reached 2.8% of GDP), which was partially offset by an increase of 1.1 pp in primary expenditure, which together led to a decline of 0.4 pp of GDP in total expenditure. This reduction in interest payments stems from an accounting effect related to securities exchanges carried out by the Public Credit General Direction as a result of debt management operations (DMOs),

which reduced interest expenditure by 1.4 pp of GDP[26]. On the revenue side, in 2025 a decrease of 0.1 pp of GDP was observed compared to 2024, which moderated the improvement associated with lower expenditure. This performance was mainly due to the lower availability of capital revenues, which declined from 1.7% of GDP in 2024 to 1.3% in 2025, as well as non-tax revenues, which decreased by 0.1 pp of GDP. In contrast, tax revenues increased by 0.4 pp, reaching 14.7% of GDP (COP 271.9 t). Finally, the total deficit of the CNG stood at 0.8 pp of GDP below the estimate presented in the MTFF-25.

In 2025, the primary balance of the CNG deteriorated compared to 2024 and exceeded the magnitude projected in the MTFF-25, standing at 3.5% of GDP (COP 65.7 t). This indicator is key for assessing fiscal sustainability, as it reflects the government's capacity to finance its operation and investment with its own resources before resorting to debt financing. The primary deficit widened by 1.2 pp of GDP compared to the previous year, as a result of higher primary expenditure, which reached 19.9% of GDP (COP 368.6 t), equivalent to an increase of 1.1 pp compared to 2024[27]. This performance was driven by a higher level of investment, which increased by 0.7 pp to 2.7% of GDP (COP 49.2 t), accompanied by a 0.4 pp increase in operating expenditure, which reached 17.2% of GDP (COP 319.3 t). Within the latter, transfers (14.1% of GDP) concentrated the main upward pressures, especially due to higher obligations associated with the General Participation System (GSP), pensions, universities, and electricity subsidies. Compared to what was projected in the MTFF-25, the primary deficit was 1.1 pp of GDP higher, as a result of primary expenditure exceeding initial projections.

Despite the increase in the CNG's gross debt resulting from the higher primary deficit, net debt as a share of GDP declined between 2024 and 2025. The CNG's gross debt closed 2025 at 64.4% of GDP, which represented an increase of 3.1 pp compared to the level recorded in 2024. This performance was explained by a higher stock of domestic gross debt, which expanded by 5.0 pp, in contrast to external debt, which recorded a decrease of 1.9 pp of GDP. In turn, CNG assets increased by 3.6 pp of GDP, largely driven by treasury[28] operations. Through these operations, the government repurchased impaired debt securities (with a market value below their face and accounting value), using debt collateralized with treasury assets, equivalent to around 3.3% of GDP. These operations allowed that, despite the increase in gross debt, net debt of the CNG declined, standing at 58.5% of GDP, which represented a reduction of 0.5 pp compared to the end of 2024.

---

26 The inclusion of the effect of DMOs within CNG interest responds to a criterion of accounting consistency between fiscal flows and changes in the debt stock. In 2025, several DMOs involved securities exchanges that reduced the face value of the debt without generating an equivalent cash flow at the same time. Since fiscal accounting records debt at its face value, this reduction in the stock had to be reflected in the fiscal accounts in some way to ensure that the change in debt was consistent with the fiscal result for the period. For this reason, the Supreme Council for Fiscal Policy (CONFIS in Spanish) authorized recording the differential associated with these operations within accrued interest of the National Government, allowing the fiscal accounts to maintain the identity between the deficit and the change in debt, without altering effective interest payments on a cash basis.

27 This level of primary expenditure is 3.9 pp of GDP above the average of primary expenditure observed in the decade prior to the pandemic.

28 Assets associated with total return swap (TRS) are recognized within net debt due to the accounting treatment of these financial transactions. Although the collateral—comprising a component that covers the value of the TRS and a haircut to cover market risks—is held in custody by the financial institutions that issued the Swiss franc-denominated debt, legal and economic ownership of the assets remains with the Nation. In this sense, the collateral represents a right of the MHCP associated with the fulfillment of the financial obligation and, therefore, is recorded as an asset, even though it is subject to temporary immobilization during the term of the contract.

Financing needs of the CNG amounted to COP 178.5 t in 2025, equivalent to 9.6% of GDP, representing an increase of 2.4 pp compared to 2024. These needs correspond to the total cash resources required by the CNG through borrowing to meet its financial obligations, and include the primary deficit, cash interest payments, and debt amortizations. The increase relative to the previous year was mainly associated with the widening of the primary deficit, which rose from 2.4% of GDP in 2024 to 3.5% in 2025, as well as with the higher volume of debt amortizations, which increased from 1.5% to 2.7% of GDP. In addition, cash interest payments[29] remained at high levels, rising from 3.3% to 3.4% of GDP. Together, these factors resulted in an increase in total financing needs compared to the previous year.

Regarding the General Government (GG),[30] its deficit declined between 2024 and 2025, driven by the lower deficit at the central level. According to preliminary figures from the MHCP, the GG deficit is estimated to have stood at 5.6% of GDP in 2025 (COP 104.6 t), decreasing by 0.2 pp compared to the result observed in 2024. This performance was largely explained by the reduction of 0.3 pp of GDP in the total deficit of the CNG, a magnitude similar to that observed at the aggregate central level. In addition, there was an increase of 0.2 pp of GDP in the surplus of the social security subsector, which reached 0.4% of GDP. However, these improvements were offset by a deterioration of 0.1 pp in the balance of regional and local governments, whose result stood at 0.1% of GDP in 2025. Within this subsector, the General Royalties System (SGR in Spanish) recorded, for the first time since 2020, a negative balance equivalent to -0.1% of GDP.

In accordance with the update of the Financial Plan for 2026 (FP-26) published in mid-March, the MHCP projects for the CNG a total deficit of 5.1% of GDP and a primary deficit of 2.1% of GDP, which would represent a reduction relative to the deficits observed in 2025. The financial program contemplates total CNG revenues of 16.1% of GDP, a figure that represents a decline of 0.2 pp of GDP compared to the revenues observed in 2025, a result associated with lower tax collection and lower resources from special funds, each with a change of 0.1 pp of GDP. In addition, the revenue projection is 1.9 pp of GDP lower than that estimated in the MTFF-25, partly because the FP-26 does not incorporate revenue adjustments for 2026, unlike MTFF-25, which included 1.0 pp of GDP, together with a downward revision of the DIAN's baseline tax collection. On the expenditure side, the FP-26 estimates total expenditure at 21.2% of GDP and primary expenditure at 18.2% of GDP, representing reductions of 1.5 pp and 1.7 pp of GDP compared to 2025, respectively. The adjustment in primary expenditure is due to the non-materialization of resources derived from the Financing Law and the suspension of Decree 1390 of 2025, which requires reducing the National Budget (PGN) by the same magnitude. This reorientation of the adjustment toward expenditure results in projections lower than those of the MTFF-25, with differences of 3.2 pp of GDP in total expenditure and 1.4 pp of GDP in primary expenditure.

Regarding CNG debt, the FP-26 projects lower gross debt and higher net debt than those recorded in 2025. The MHCP estimates that gross debt will stand at 61.1% of GDP, implying a decline of 3.3 pp of GDP compared to 2025. This effect is derived from

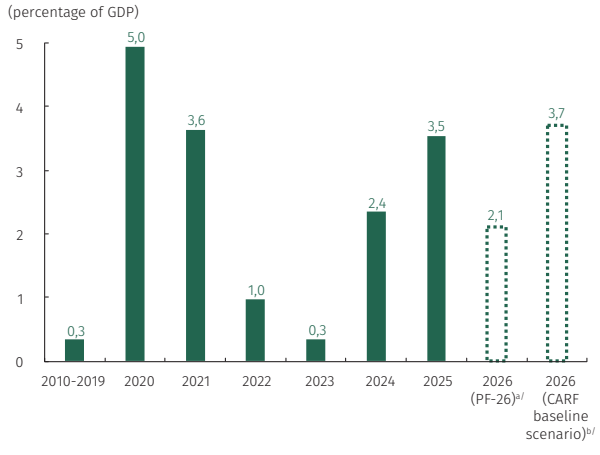
29 Cash interest differs from total fiscal interest expenditure, mentioned in the second paragraph of Section 2.3, as the latter incorporates the accrual and indexation of interest, while cash interest reflects exclusively the effective payments made during the period.

30 It should be noted that the GG is made up of the CNG, regional and local governments, the social security sector (pensions and health), and the rest of the central level, which includes the Fuel Price Stabilization Fund (FEPC in Spanish).

the termination of the financial obligation associated with the collateralized debt operation. However, the termination of this obligation does not affect net debt, as the extinguishment of the collateral translates into a reduction in CNG assets; therefore, net debt would stand at 58.7% of GDP, that is, 0.2 pp above the end of 2025. With respect to the MTFF-25, the net debt projection is 4.3 pp of GDP lower.

According to the projections of the Independent Fiscal Rule Committee (CARF) presented in early March 2026[31], in an inertial scenario with no adjustments to revenues and expenditures, the total deficit for 2026 could stand at 6.7% of GDP and the primary deficit at 3.7% of GDP. As can be seen in Graph 2.16, this level would exceed both the primary deficit observed in 2025 (3.5% of GDP) and that contemplated in the FP-26 scenario (2.1% of GDP), placing it among the highest values recorded since the period following the pandemic shock. In its statement, the CARF estimated a required adjustment of 1.6% of GDP for 2026 in order to comply with the primary deficit target defined by the Confis in the National Budget (PGN-26). In turn, the FP-26 would be presenting a net adjustment of 1.5 pp of GDP through primary expenditure compared to the FP scenario published in July 2025, consistent with the PGN[32].

Graph 2.16
GNC Primary Deficit



a/ Projection from the 2026 General Budget (PGN-26) Financial Plan.
b/ Independent Fiscal Rule Committee (CARF in Spanish) projection in Statement No. 19, published in March 2026, under a scenario with no revenue or expenditure adjustments.
Source: Ministry of Finance and Public Credit (MHCP in Spanish) and CARF

However, the CARF's projections in its most recent statement also highlight that the deepening of the fiscal imbalance observed in 2025 occurs within a context of high indebtedness and signs of economic overheating, which limits the convenience of additional[33] fiscal stimulus. In this environment, the CARF identifies significant fiscal pressures over the medium term and emphasizes the importance of agreements between Congress, the Government, and civil society to adopt structural measures that strengthen permanent revenues and mitigate expenditure rigidities, in order to achieve an adjustment of between 3.5% and 4.0% of GDP. If these actions are not implemented, there is a risk that gross debt will follow an upward trajectory, increasing the probability of episodes of macroeconomic instability.

Fiscal policy decisions constitute a fundamental element for macroeconomic stability, given that their interaction with monetary policy influences financial conditions in the economy and the perception of sovereign risk, which affects the

31 CARF (2026). "The fiscal scenario for 2026 is exposed to expenditure pressures that would hinder a return to the Fiscal Rule," Statement No. 19.

32 The adjustment is calculated by taking the reduction in primary expenditure from the PF-26 and the PGN published in July, as well as the change in total revenues in both scenarios, excluding the revenue adjustment required in the PGN-26.

33 This was estimated by the CARF in the aforementioned document (Statement No. 19), based on the structural primary imbalance, which is estimated at -2.7% of GDP. Fiscal impulse (its contribution to growth) is then estimated as the negative of the first annual difference of this indicator, which the CARF estimates at 0.3 p of GDP.

government's financing costs. The increase in the primary deficit reflects decisions aimed at addressing various needs and expenditure rigidities through increased financing resources. The persistence of an inertial scenario—characterized by expenditure pressures and a level of revenue collection similar to the current one—could generate additional challenges in terms of fiscal sustainability and macroeconomic performance. Particularly, a high primary deficit can boost aggregate demand above the productive capacity of the economy, as noted by the CARF, generating inflationary pressures. The materialization of these risks, in an environment of low capital formation, weakens incentives for private investment, limits long-term growth, and requires a greater amount of future fiscal resources to be allocated to debt servicing, leaving less room for expenditure with higher social impact.

Box 1
Potential Effects of the Increase in the Minimum Wage on Inflation

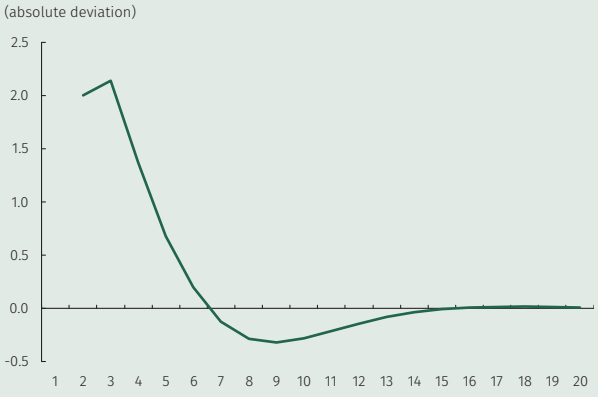
This box analyzes how a significant increase in the minimum wage may affect inflation. The exercise considers a scenario in which such an increase exceeds past inflation and labor productivity growth by 17.2 percentage points (pp), a magnitude consistent with the adjustment considered for 2026. The objective is to quantify the inflationary contribution attributable to this specific shock, recognizing its unusually significant increase. Accordingly, what follows should not be interpreted as a comprehensive projection of observed inflation, which depends on multiple factors and concurrent shocks, but rather as a measurement of the marginal impact of the minimum wage increase on inflation.

This exercise uses a small open-economy macroeconomic model that allows analysis of how changes in the minimum wage affect prices, originally presented in Chapter 3.2 of *Ensayos sobre Política Económica* (Issue No. 103). The model incorporates household heterogeneity (high- and low-productivity households) and labor market segmentation (formal and informal employment), as well as a central bank that sets the monetary policy interest rate to reduce fluctuations in inflation and output. Within this model, the minimum wage is determined as a function of past inflation and labor productivity, plus an unexpected component that captures deviations from this rule, which may reflect bargaining agreements between workers and employers or Government decisions. This element is crucial for the inflation analysis, as it allows the minimum wage increase to be interpreted as an exogenous shock or unexpected change that alters the cost structure and, through this channel, modifies the price path generated by the model.

The main mechanism through which a minimum wage shock is transmitted to prices operates primarily through the cost channel[1]. When the minimum wage increases in the model, it becomes more costly for many firms to pay their low-skilled formal workers, since these workers earn the minimum wage. As the minimum wage rises, labor costs increase in the directly indexed segment; that is, firms face higher expenses as marginal production costs increase, and part of this rise is typically passed through to consumer prices. Additionally, in the short term, other wages are also affected as they use the minimum wage as a reference point. In that regard, a partial adjustment of high-skilled wages is incorporated in proportion to the increase in the minimum wage (the so-called “lighthouse effect”), which temporarily amplifies the cost pressures faced by the productive sector and, consequently, the inflationary pressures associated with the shock. In summary, the real increase in the minimum wage acts as an increase in marginal costs and, through this channel, becomes a source of inflationary pressure in the model.

1 The model also includes a demand channel in which the minimum wage increases the disposable income of a fraction of the population and, consequently, aggregate demand rises in the short term, reinforcing cost-driven inflationary pressures; however, this channel has a comparatively smaller quantitative impact.

Graph B1.1
Response of Quarterly Inflation (annualized) to a Permanent Increase in the Real Minimum Wage

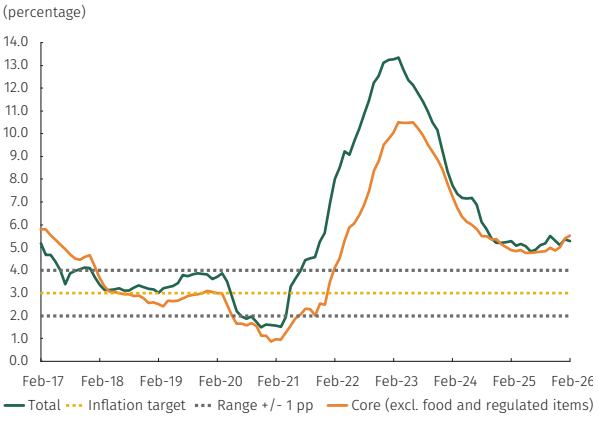


Note: Quarterly inflation is expressed in annualized terms and as an absolute deviation from the initial equilibrium.
Source: *Banco de la República* (Monetary Policy Report, January 2026).

The main result of the exercise is that a 1,700-basis-point (bp) increase in the minimum wage translates into an increase in inflation of approximately 200 bp in annual terms. This increase occurs even under a monetary authority that responds to inflationary pressures in line with its inflation-stabilization objective, thereby allowing inflation to be gradually steered back toward its long-term target (Graph B1.1).

03/ Inflation and Monetary Policy Decisions

Graph 3.1
CPI and CPI Excluding Food and Regulated Items
(annual variation)



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

3.1 Evolution and Outlook of Inflation

Headline and core inflation stopped declining in 2025 and remained at levels above the target. This performance occurred in an environment in which inflation expectations increased, domestic demand remained highly dynamic, and some cost pressures became evident. After a significant reduction in inflation since 2023, a break in this trend was observed during the second half of 2025 (Graph 3.1). Indeed, starting in July 2025, headline inflation showed some rebounds and closed the year at 5.1%, a figure very close to that of December 2024 (5.2%) and above the minimum observed in June (4.8%). Core inflation—excluding food and regulated goods—followed a similar trend, also reaching a low point toward mid-year and increasing in the second half, ending December 2025 at 5.0%. This stagnation in inflation was due to the confluence of several factors that consolidated throughout the year, including a more dynamic domestic demand than expected, driven mainly by both public and private consumption. This performance was also related to increases in labor costs (derived from the rise in the real[1] minimum wage by 5.8 percentage points [pp] above 2024 inflation and the productivity estimated for that year, of 1.36%, in addition to the reduction in the weekly working hours). Similarly, this was associated with persistently higher adjustments rates, apparently due to stronger indexation in the prices of some services, such as rents and tourism, among others. This was compounded by upward pressures from some perishable foods and the increase in taxes on ultra-processed foods. Additionally, in the second half of the year, the stagnation of inflation was accompanied by an increase in inflation expectations across different horizons, which may also have influenced price adjustments, suggesting a slower convergence of inflation toward the target. These upward pressures more than offset the decline in the annual variation of the Consumer Price Index (CPI) for regulated items, which however remained at levels significantly above 3.0% throughout the year.

The stagnation of core inflation (excluding food and regulated items) at relatively high levels was the result of increasing adjustments in the prices of goods and services that continued to show significant annual variations. Annual core inflation, measured as the annual variation in the CPI excluding food and regulated items, stood at 5.0% at the end of 2025, higher than that observed in June (4.8%) and close to that recorded

1 Including the transportation allowance.

at the end of 2024 (5.1%). This performance would have resulted from several of the factors mentioned, particularly the strength of domestic demand (especially in the case of services) and the lag in local productive capacity to meet it. Regarding the CPI for services, despite reductions throughout the year (from 7.0% in December 2024 to 5.9% at the end of 2025), it showed an annual variation in which price adjustments remained considerable and above those anticipated (Table 3.1). Rents, the main component of this sub-basket, maintained high adjustments. This performance suggests a high incidence of indexation to December 2024 inflation, as well as a limited supply of new housing in the country, together with dynamic demand for short-term stays, among other factors, due to the growth of tourism in several cities. Another service item that recorded high and increasing rates during the second half of the year was food away from home, which was affected—beyond the dynamism of demand—by significant increases in labor costs, higher gas fees, and food process, as discussed below. On the goods CPI side, although price adjustments remained below 3.0%, they showed a significant rebound in the second half of the year (2.6% in December, compared to 1.6% in June), which reflects higher payroll and domestic transportation costs, as well as increases in international quotations of precious metals (gold and silver). Although these affect an item with a small weight in the CPI basket (articles made of gold, silver, costume jewelry, and precious stones), they

Table 3.1
Consumer Price and Core Inflation Indicators as of February 2026
(annual variation)

Description	New CPI Weights	Aug-25	Sept-25	Oct-25	Nov-25	Dec-25	Jan-26	Feb-26
Total	100	5.10	5.18	5.51	5.30	5.10	5.35	5.29
Excluding food	84.95	4.85	4.94	5.25	5.20	5.11	5.41	5.16
Goods	18.78	1.93	2.25	2.59	2.58	2.61	2.90	3.02
Services	48.85	5.93	5.81	5.90	5.72	5.93	6.33	6.45
Rents	25.16	5.49	5.27	5.23	5.11	5.17	5.13	4.93
Meals outside the home	8.79	7.99	7.63	7.76	7.81	8.09	9.18	9.78
Other[a/]	14.91	5.01	5.27	5.55	5.06	5.46	6.02	6.29
Regulated items	17.32	4.95	5.29	6.10	6.34	5.40	5.47	4.05
Utilities	6.69	1.87	3.02	4.99	5.32	3.03	2.32	-0.17
Fuel	2.91	2.20	2.09	2.11	2.58	2.80	3.10	-0.00
Transportation	5.21	9.23	9.21	9.15	9.21	9.08	10.08	10.53
Education	2.38	9.67	8.63	8.71	8.71	8.71	8.71	8.41
Other[b/]	0.13	5.14	5.14	5.14	5.14	5.14	5.27	5.23
Foods	15.05	6.13	6.21	6.64	5.74	5.07	5.11	5.84
Perishable	3.15	7.12	6.59	7.99	4.72	3.80	4.67	7.84
Processed	11.90	5.82	6.08	6.24	6.05	5.45	5.24	5.23
Core inflation indicators								
Excluding food		4.85	4.94	5.25	5.20	5.11	5.41	5.16
Core 15 (p08)		5.29	5.30	5.56	5.43	5.29	5.46	5.53
Inflation excluding food and regulated items		4.82	4.83	4.99	4.85	5.02	5.39	5.51
Average core inflation indicators		4.99	5.02	5.27	5.16	5.14	5.42	5.40

a/ Laundry and ironing services; services related to co-ownership; domestic services; health services; other transportation (maintenance and repairs, school transportation, air travel, intermunicipal and international transportation); information and communications; recreation and culture; accommodation, bars, and nightclubs; education (higher education, diplomas, and non-formal education courses); other miscellaneous services (personal care, insurance, childcare).
b/ Health Promoting Entities (*Empresas Promotoras de Salud* or EPS in Spanish) moderate fees; certificates, administrative documents, and fee payments.
Source: DANE; calculations by *Banco de la República* with provisional classifications.

had some impact on the sub-basket of goods. The increase in the annual variation of goods was recorded despite currency appreciation and lower international transport costs.

Food prices recorded high adjustments throughout the year, affected by external price and cost pressures, higher taxes on processed foods, as well as local supply shocks (which affected perishable goods). The annual variation in food prices showed an upward trend during almost all of 2025 and only partially eased toward the end of the year, finishing December at 5.1%, well above the 2024 reading. The upward trend observed during much of the year was mainly concentrated on processed food prices. In addition to some of the factors already mentioned, such as the dynamics of domestic demand and increases in labor costs, this performance was also influenced by higher external demand (as could be the case with beef exports to China), increases in some international prices (such as coffee), the rise in the health tax on ultra-processed foods, and the cyclical decline in cattle slaughter. In the case of perishable goods, performance was more volatile, in line with the usual cycle of these products. In addition, during the third quarter, higher non-labor costs (machinery, some inputs, and local transportation), labor shortages in some regions of the country, and climatic and public order events (landslides and strikes) affected supply. In this sense, despite the good performance of agricultural supply, which suggested more moderate increases in this component, these factors in the third quarter generated additional upward pressures on perishable food prices. In the last two months of the year, a decline in the annual variation in food prices was observed, mainly due to decreases in perishable good prices, which are consistent with the performance of the production cycle.

Prices of regulated items were affected by significant adjustments in transportation, education, and gas fees, which prevented a more pronounced decline in the annual variation of this sub-basket. The CPI for regulated items recorded an annual variation of 5.4% at the end of the year, similar to the one observed in June (5.5%), but lower than that of December 2024 (7.3%). Particularly, significant annual variations were recorded during the year in regulated education and transportation. Utilities recorded an annual variation of 3.0% at the end of the year, with increases in gas fees which, although moderating compared to June, closed the year at 8.6%, reflecting lower domestic supply. This was compounded by increases in water supply, sewerage, and waste collection. This was partially offset by the annual declines observed in electricity prices, in an environment of appreciation of the peso and abundant rainfall, which reduced the use of more costly thermal generation, along with the adoption of government measures (partial payment of the tariff option, contract renegotiation, and intervention in retail energy suppliers). In turn, the fuels group recorded an increase in the last quarter and closed the year at 2.8%, as a result of increases in gasoline and ACPM (diesel fuel) prices, and the effect of a low statistical base of comparison. It should be noted that most items in the regulated sub-basket maintain annual adjustments well above the inflation target, partly because they are highly indexed to past inflation.

Inflation faces significant shocks that hinder its decline in the short term, particularly those associated with labor costs, placing additional pressure on monetary policy. For 2027, inflation is expected to resume its downward trend, partly as a result of the cumulative effects of monetary policy actions. As a result of these shocks, market inflation expectations increased significantly across different horizons, standing above 6.0% by the end of 2026, as detailed below. Although pressures on productive capacity and aggregate demand may be easing, concerns persist regarding significant upward pressures stemming from the sharp increase in the

minimum wage[2] (23.2%)—well above December 2025 inflation plus productivity gains)—as discussed in Box 1 of this *Report*. Evidence from 2025 suggests that labor cost pressures, both formal and informal, were an important factor in the interruption of the decline in inflation. Added to this are concerns about high inflation inertia resulting from indexation, possible increases in gas prices given its limited supply, and recent supply shocks that have affected food prices, particularly perishable items. These upward pressures would not be fully offset by the cumulative appreciation of the peso or by the reductions in gasoline prices announced by the National Government (COP 500 per gallon in February and March). Nevertheless, the cumulative actions of monetary policy are expected to help reverse possible upward trends and steer inflation and its expectations toward the target. Given the lags of monetary policy, this objective is more likely to be achieved by 2027.

At the beginning of 2026, inflation expectations derived from surveys and from the performance of TES (bonds issued by the Colombian Government) showed a significant increase across different horizons, and all of them stood well above the 3.0% target (see Box 2). In the second half of 2025, inflation expectations at different horizons increased, remaining above the target. For one-, five-, and eight-year maturities, measures estimated based on public debt bonds (break even inflation, BEI) increased in the second half of the year, recording in December 2025, compared to June, rises of 237 basis points (bps), 125 bps, and 78 bps, and stood at 5.78%, 5.29%, and 4.93%, respectively. Similarly, analysts' expectations, obtained from *Banco de la República*'s monthly survey, increased in the second half of 2025 for the twelve- and twenty-four-month horizons by 69 bps and 32 bps, and stood at 4.59% and 3.80%, respectively. In turn, the median of the *Quarterly Survey of Economic Expectations* (ETE), conducted among businesspeople from different sectors, academics, consultants, and labor unions, also recorded an increase in October compared to July, of 20 bps for the twelve-month horizon, standing at 4.5%, while for the twenty-four-month horizon it remained unchanged (4.0%). This upward trend in expectations intensified at the beginning of 2026, with significant increases across the different measures of inflation expectations. Particularly, as of February data, one-, five-, and eight-year BEIs have increased compared to December by 206 bps, 59 bps, and 36 bps, standing at 7.84%, 5.88%, and 5.29%, respectively. In turn, analysts raised their expectations compared to December by 118 bps and 70 bps for the twelve- and twenty-four-month horizons, standing at 5.76% and 4.5%, respectively. Finally, the median of the ETE increased in January compared to October by 150 bps and 100 bps for the twelve- and twenty-four-month horizons, standing at 6.0% and 5.0%, respectively.

3.2 Monetary Policy Decisions

The actions undertaken by *Banco de la República* respond to the constitutional mandate to "ensure preservation of the purchasing power of the peso, in coordination with overall economic policy."[3] To fulfill this mandate, for more than two decades the Board of Directors of *Banco de la República* (BDBR) implemented an inflation targeting framework with a flexible exchange rate regime, under which monetary

2 Including the transportation allowance.

3 Political Constitution of Colombia of 1991, Article 373, and Judgment C-481/99 of the Constitutional Court.

policy actions are aimed at bringing inflation to the 3.0%[4] target and achieving the maximum sustainable level of output and employment. Within this framework, monetary policy decisions are made based on an analysis of current economic conditions and the outlook for economic activity, as well as on the evaluation of inflation and its expectations relative to the target. For example, if this analysis indicates that inflation may deviate persistently from 3.0% due to excess or insufficient demand relative to the economy's productive capacity, the monetary policy interest rate (MPR) is adjusted upward or downward to bring inflation back toward the target. If deviations are due to transitory factors (e.g., a weather event affecting food prices for a few months or temporary supply shocks) and inflation expectations remain anchored to the target, the MPR is not adjusted. By contrast, if deviations initially considered transitory become more pronounced due to more persistent inflation, or in the presence of undesired indexation processes, the MPR is adjusted with the aim of anchoring expectations and helping inflation return to the target. This monetary policy transmission process is more effective and less costly when there is credibility in monetary policy, which is reinforced through timely decisions.

In 2025, the monetary policy interest rate was reduced by 25 basis points (bps), but its stance remained restrictive, consistent with the convergence of inflation to the target, in an environment of observed and expected inflation above 3.0% and demand excesses reflected in a widening of the current account deficit. In the first quarter of 2025, headline and core inflation and their expectations declined, but remained at levels above the 3.0% target. At the same time, the Colombian economy continued to recover, although in an environment of high global uncertainty due to the increase in tariffs in the United States and their negative effects on the country's external demand. In this macroeconomic context, characterized by declining inflation and expectations, and by external demand facing significant downside risks, the BDBR unanimously decided in April to reduce the policy interest rate by 25 bps. Subsequently, headline and core inflation increased and ended the year at levels similar to those recorded a year earlier. Inflation expectations also increased, a pattern that intensified toward the end of the year as negotiations for the minimum wage approached. This increase in observed and expected inflation reduced the real policy interest rate and its contractionary stance. Tariff barriers declined, risks to the global economy moderated, and economic activity indicators suggested that domestic demand continued to register annual increases above those of output, demand excesses that were reflected in a widening of the external deficit. Based on this macroeconomic assessment, which was shared by most members of the BDBR, it was decided by majority to maintain the policy interest rate at 9.25% through the end of 2025.

In January 2026, domestic demand dynamics continued to exceed the economy's productive capacity; headline and core inflation remained elevated, and their expectations increased significantly, moving further away from the 3.0% target. In response, the BDBR decided by majority to increase the monetary policy interest rate by 100 bps and bring it to levels that are more consistent with the convergence of inflation to the 3.0% target. The sharp increase in the minimum wage for 2026,

4 Between 1991 and 2001, the BDBR established specific annual inflation targets. In November 2001, the BDBR announced that the long-term inflation target was 3.0% and explained that maintaining this objective was equivalent to promoting price stability in the country. Starting in 2002, it began to announce an acceptable range around the point target for the following year, with the latter being the midpoint of that range. By mid-2009, inflation stood at around 3.0%, and since 2010 the inflation target has been centered on the long-term target (3.0%). See https://www.banrep.gov.co/es/noticias/junta-directiva/meta-inflacion-2026

well above observed inflation plus productivity, led in January to a significant rise in all inflation expectations of around 200 bps for the one-year horizon. As a result, the stance of monetary policy weakened, as the ex-ante real interest rate declined by the same magnitude, at a time when inflation had remained above the 3.0% target for five consecutive years. This raised the risk that the BDBR could lose credibility in its commitment to the inflation target and its ability to fulfill its constitutional mandate. This occurred in a context in which economic activity indicators suggested that the dynamics of domestic demand continued to exceed that of output, with demand excesses reflected in a widening external current deficit and an unemployment rate at historically low levels. Considering this macroeconomic assessment, supported by most members of the BDBR, it was decided by majority to raise the interest rate by 100 bps and to announce that this would mark the beginning of a new monetary policy cycle.

Given its interaction with monetary policy, fiscal policy decisions and credibility play an essential role in preventing the macroeconomic adjustment from being overly borne by interest rates. Fiscal accounts have deteriorated over the last two years, and Colombia's risk premium remains high and above that of other countries in the region and other emerging economies with similar characteristics. In this context, increases in risk premiums and in the interest rates that the government must pay would be reflected in higher real interest rates across the economy, as well as upward pressures on the exchange rate, which would further constrain monetary policy. Added to this is a procyclical impulse of public consumption that contributes to domestic demand growth exceeding the economy's productive capacity. Therefore, it is essential to maintain a fiscal deficit path that ensures fiscal sustainability and promotes a balanced adjustment among economic agents. A fiscal adjustment process that gradually and timely reduces the deficit and public debt helps achieve lower country risk levels and minimizes the impact on private economic activity. Postponing the reduction or implementing it insufficiently, when it is needed, places a greater burden of the macroeconomic adjustment on monetary policy and may result in an overadjustment of the private sector.

Box 2
Inflation Expectations and Their Recent Evolution

Inflation expectations refer to the level of inflation that economic agents anticipate in the future. In other words, they are the estimates made by individuals or groups regarding expected increases in the prices of goods and services most frequently consumed by households. These expectations are primarily measured through surveys of various market participants (such as analysts, firms, trade unions, among others), as well as through indicators derived from domestic sovereign debt securities, calculated as the yield differential between inflation-indexed bonds and nominal bonds (break-even inflation).

In conducting monetary policy, inflation expectations play a central role, particularly under an inflation-targeting framework. In addition to being a key input for the decision-making process of the Board of Directors of *Banco de la República* (BDBR), inflation expectations directly influence economic agents' decisions regarding consumption, savings, investment, and price-setting. Likewise, they play a key role in the transmission of monetary policy: when agents trust that the authority will take sufficient measures to achieve the 3.0% target, they adjust their decisions accordingly, thereby facilitating and accelerating price stabilization. If expectations remain anchored to the target, the credibility of the monetary authority is strengthened, the effectiveness of its actions is enhanced, and the costs of economic activity are reduced.

Since inflation expectations are an unobservable variable, *Banco de la República* uses different sources and methodologies to estimate them:

- Surveys that directly capture the views of economic agents[1]: the Monthly Survey of Economic Analyst Expectations (EME in Spanish), and the Quarterly Survey of Economic Expectations (ETE), which gathers perceptions from a sample of institutions in the following economic sectors: manufacturing industry and mining, the financial system, large retail chains, transport and communications, academics and consultants, and trade unions, across the four main cities of the country: Bogotá, Medellín, Cali, and Barranquilla.
- Implicit inflation measures are derived from the public debt market and are known as break-even inflation (BEI) and forward break-even inflation (FBEI). In Colombia, these are calculated by comparing the interest rates of Colombian sovereign bonds (TES) issued in nominal terms with TES indexed to inflation (Real Value Unit, UVR).

Surveys have the advantage of directly capturing agents' perceptions and enabling the identification of differences across participant types and time horizons. However, they tend to focus on shorter horizons, are conducted less frequently, and may be subject to response biases or representativeness issues. On the other hand, measures derived from the public debt market provide daily information, enable analysis across a wide range of horizons, and reflect expectations embedded in market decisions[2].

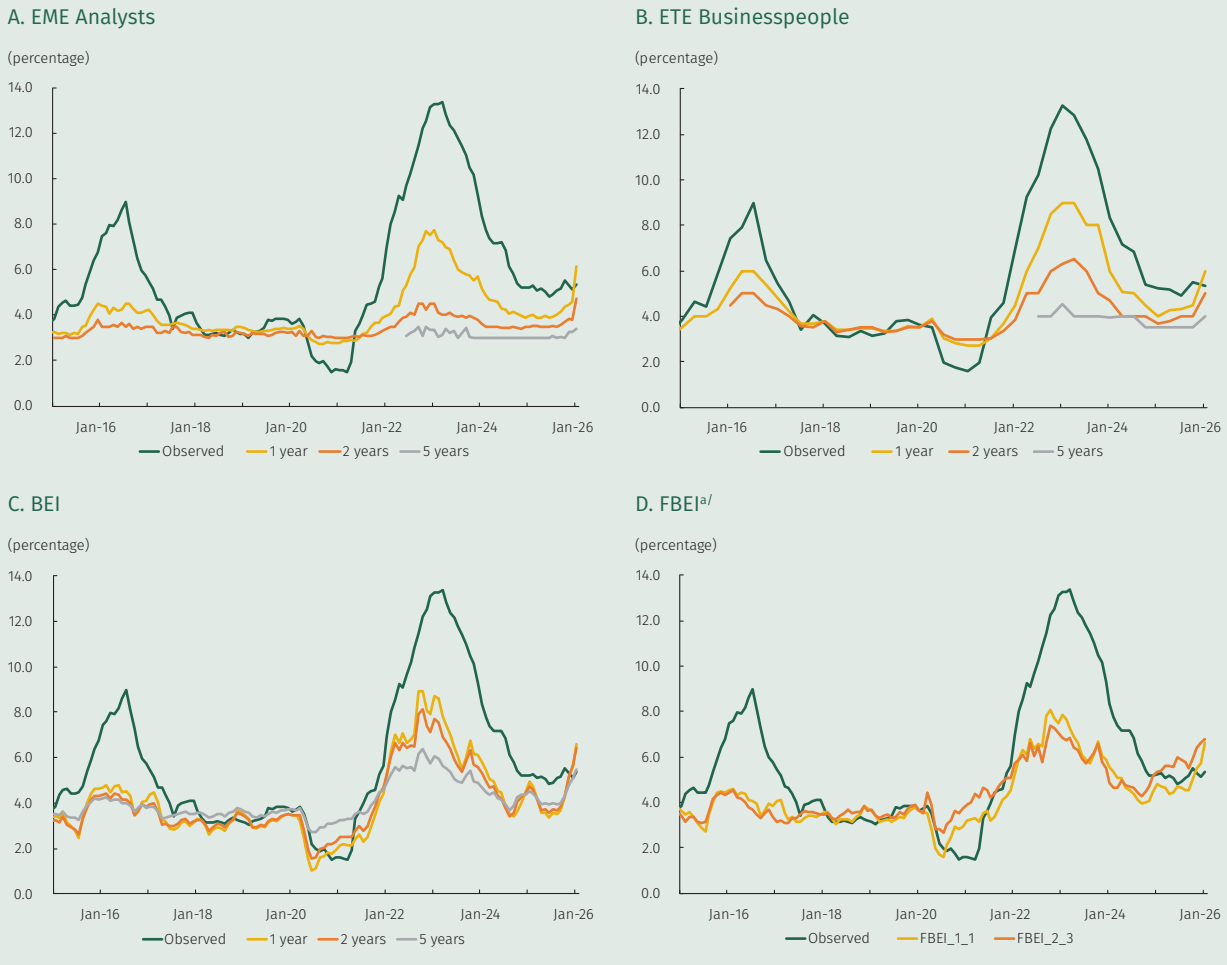
1 https://suameca.Banrep.gov.co/estadisticas-economicas/encuestas

2 However, these measures may include inflation risk and liquidity premiums and therefore do not constitute a pure measure of expectations. For this reason, they are commonly estimated after removing the inflation risk premium from the measure.

1. Recent Evolution of Inflation Expectations

After the peak inflation level observed in Colombia in early 2023, both actual inflation and expectations for its future trajectory declined steadily until June 2025. Subsequently, this trend reversed, and in January 2026, a significant increase in inflation expectations was observed across different horizons, both in survey-based measures and in those derived from the public debt market (Graph B2.1). This increase occurred in the context of a substantial rise in the minimum wage for 2026 (23.2%), including the transport subsidy, which was significantly higher than the observed inflation for the end of 2025 (5.1%). In contrast to other countries in the region, Colombia recorded a sharp increase in inflation forecasts for the end of 2026[3] (Graph B2.2).

Graph B2.1
Inflation Expectations for Colombia

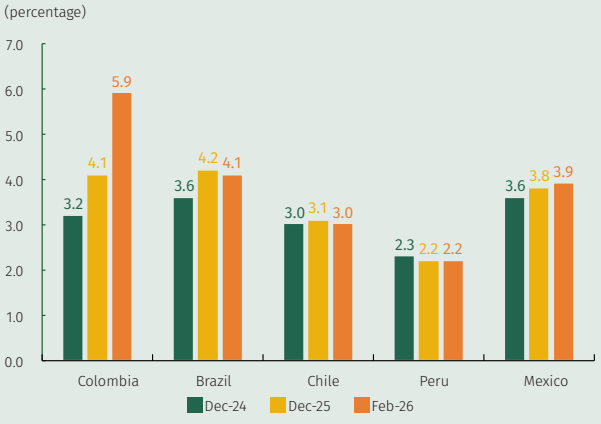


a/ FBEI_1_1 and FBEI_2_3 are reported, corresponding to one-year-ahead inflation expectations from the first year and three-year-ahead inflation expectations from the second year.
Sources: *Monthly Survey of Economic Analysts* (EME in Spanish), *Quarterly Survey of Economic Expectations* (ETE in Spanish), Electronic Trading System (SEN in Spanish), and Master Trader; calculations by *Banco de la República*.

In the case of surveys, between October 2025 and January 2026, a sharp increase in inflation expectations was observed among both analysts and a broader group of agents covered by the quarterly survey, across one-, two-, and five-year horizons (Graph B2.3). Likewise, the dispersion of respondents' expectations increased, particularly in the quarterly survey. In par-

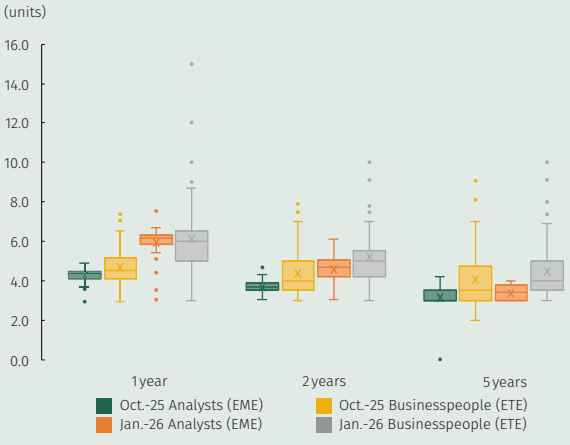
3 Inflation forecasts for December 2026 in surveys conducted by LatinFocus in December 2025 and February 2026 showed no significant changes for Mexico (10 basis points [bps]), Brazil (-10 bps), Peru (0 bps), and Chile (-10 bps), while for Colombia, they showed an increase of 180 bps.

Graph B2.2
Inflation Expectations for December 2026 for Selected Countries in the Region



Note: Measures of the change in inflation expectations for December 2026 were taken from surveys conducted in December 2024, December 2025, and February 2026.
Source: LatinFocus.

Graph B2.3
Annual Headline Inflation Expectations by Horizon (Oct.-25 vs Jan.-26)



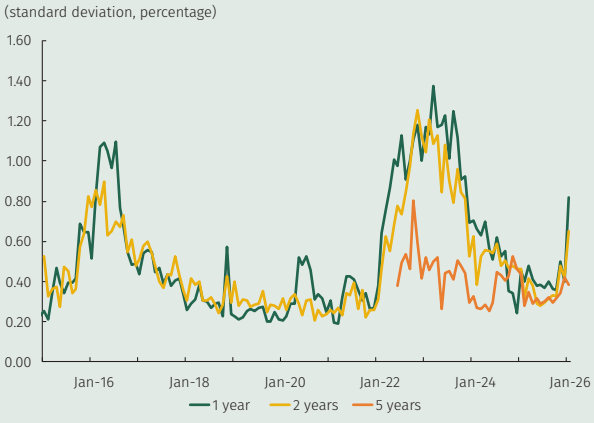
Sources: *Monthly Survey of Economic Analysts* (EME), *Quarterly Survey of Economic Expectations* (ETE), *Banco de la República.*

ticular, for the twelve-month horizon, the median of analysts' headline inflation expectations increased from 4.3% to 6.2%, while the ETE median rose from 4.5% to 6.0%. At the two-year horizon, the median for analysts rose from 3.7% in October to 4.7% in January, while the ETE median increased from 4.0% to 5.0%. This pattern is less pronounced for responses associated with the five-year horizon, where expectations in the EME and ETE increased by 40 bps and 50 bps, respectively, reaching 3.4% and 4.0%. On the other hand, in January 2026, for one-, two-, and five-year horizons, BEI inflation expectations stood at 6.6%, 6.4%, and 5.5%, respectively, which were higher by 231 bps, 209 bps, and 120 bps compared to the October 2025 estimates. This increase was also observed after adjusting for the risk premium in both BEI and FBEI.

Graph B2.4 shows the evolution of the dispersion of survey-based inflation expectations, reflecting respondents' uncertainty about the potential macroeconomic effects of recent surprises on inflation. On the other hand, Graph B2.5 shows the probability that analysts assign to different inflation ranges for the end of the current year and the following year (according to the EME). Particularly for December 2026, the highest average probability was concentrated in ranges above 6.0%, while for December 2027, it was concentrated in the 4.0% to 6.0% range.

Graph B2.4
Dispersion of Survey Inflation Expectation Results

A. EME Analysts

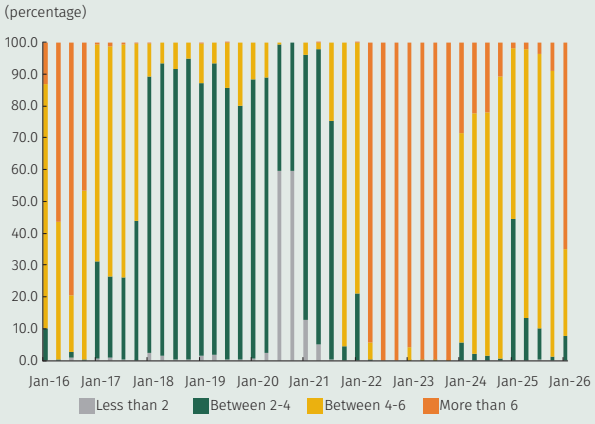


B. ETE Businesspeople

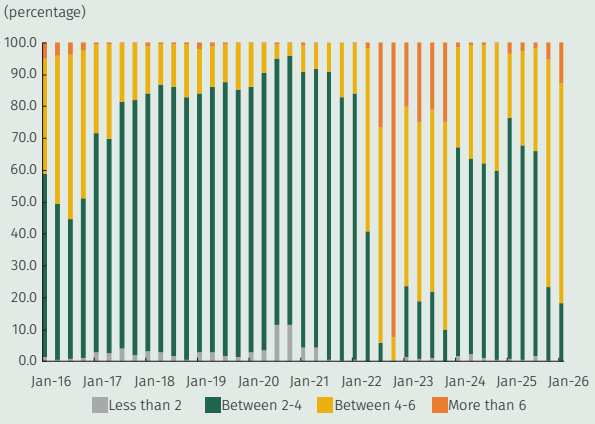
Sources: *Monthly Survey of Economic Analysts* (EME), *Quarterly Survey of Economic Expectations* (ETE), *Banco de la República.*

Graph B2.5
Probability Assigned in the EME to each Inflation Range

A. As of December of the Current Year



B. As of December of the Following Year



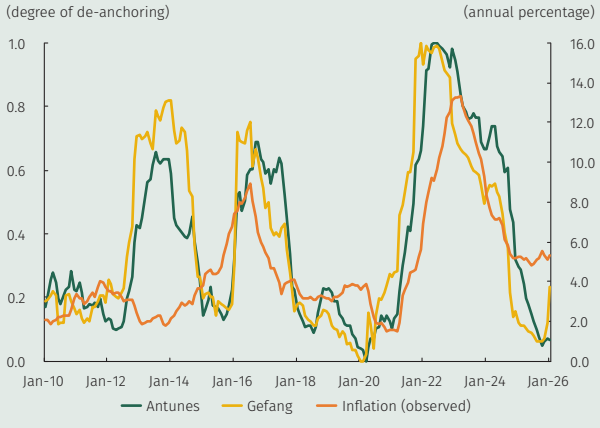
Sources: *Monthly Survey of Economic Analysts* (EME), *Banco de la República.*

2. Analysis of the Degree of De-anchoring of Inflation Expectations

An important concept in the study of inflation expectations is "anchoring," which refers to whether expectations tend to converge to a stable value over time, where this value is known as the "anchor." It is also important, within this concept, to understand the speed of convergence following shocks that temporarily move expectations away from the anchor. Assessing the value toward which inflation expectations converge in the medium and long term provides signals about the credibility of monetary policy. Additionally, if the value toward which expectations converge is close to the long-term inflation target, it is inferred that *Banco de la República's* inflation target is credible. Following international practice, the analysis of the degree of inflation expectations anchoring focuses on two dimensions: (1) assessing whether variations in short-term inflation expectations are not transmitted to medium- and long-term horizons, that is, whether the latter remain stable (anchored) in the face of temporary changes in short-term expectations; and (2) assessing the speed at which deviations between observed inflation and the target return to zero, which indicates adequate anchoring.

In the literature, there are econometric applications to measure the degree of anchoring, based on the notion of pass-through or co-movement between short-term expectations and those at medium- and long-term horizons. Graph B2.6 presents the results of the estimates by Antunes (2015) and Gefang (2012)[4] for short-term BEI rates (one year) relative to medium-term rates (averaged over three to five

Graph B2.6
Degree of Inflation Expectation De-anchoring



Source: *Banco de la República*; authors' own calculations.

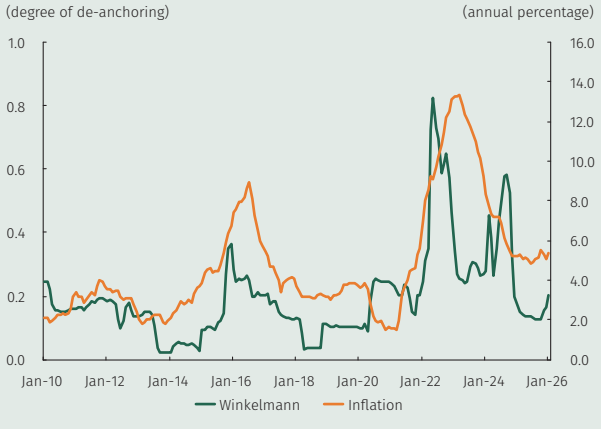
4 For further information on the application of these methodologies, see Box 2 of the October 2024 *Monetary Policy Report* (https://www.Banrep.gov.co/es/publicaciones-investigaciones/informe-politica-monetaria/recuadro2-octubre-2024)

years)[5]. Under this concept, a value close to zero would indicate low co-movement (or pass-through) between short- and long-term expectations, implying well-anchored expectations. The results show that although expectations had stabilized in 2025, both their level and variability increased at the beginning of 2026. This suggests greater sensitivity to recent changes in inflation and that expectations will take longer to return to levels close to the target. Even so, the degree of de-anchoring remains low compared with other past inflationary episodes. The results show a marked increase in dependence across both horizons since December 2025, indicating greater transmission from short-term to long-term expectations.

In addition to expectation pass-through, it is important to have a measure that captures the evolution of the persistence of deviations in inflation expectations from a given level, as well as a measure that reflects the market's perceived anchor. For this purpose, the methodology of Strohsal and Winkelmann (2014) was implemented, where, for simplicity, the results are averaged for BEI rates with maturities of three to five years (Graphs B2.7 and B2.8). It is important to note that most of the results hold across all maturities. Graph B2.7 shows that the degree of de-anchoring is related to the persistence of shocks to inflation expectations and to their reversion to the mean (the perceived anchor). In this regard, the lower the persistence of such shocks, the more anchored inflation expectations are. This implies that when the indicator is close to zero, shocks are more transitory and, therefore, expectations are anchored. In contrast, when the indicator is close to one, it reflects a higher degree of de-anchoring. Although there has been a recent deterioration in this measure, the level of de-anchoring remains low compared with previous inflationary episodes and is close to its historical average. Graph B2.8 shows the market-perceived anchor, which has been gradually declining since the 2023 peak. Recently, this measure increased above 4.0%, even after adjusting for the inflation risk premium.

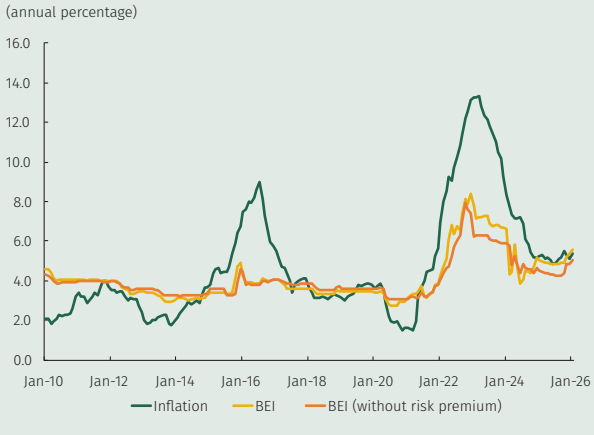
Based on the previous exercises, it can be observed that both the level and volatility of the various inflation expectations measures have increased significantly in recent periods. Headline and core inflation, along with their expectations measures, remain above the target, and the different indicators of the degree of de-anchoring suggest caution in terms of monetary policy, as they have not yet returned to desirable levels that would allow inflation and expectations to continue converging toward *Banco de la República's* inflation target. It is important to note that the analysis of the interest rate goes beyond the present exercise, as the Board of Directors monitors a range of variables, such as external financial conditions, international commodity prices, domestic economic activity, and other factors that may affect confidence in the achievement of the inflation target over the policy horizon.

Graph B2.7
Degree of De-anchoring as a Mean-reversion Measure (market anchor)



Source: *Banco de la República*; authors' own calculations.

Graph B2.8
Market Anchor Derived from Public Debt (Winkelmann Methodology)



Source: *Banco de la República*; authors' own calculations

5 The results remain when comparing short-term expectations with long-term expectations (six to ten years).

References

Antunes, A. A. (2015). "Co-movement of Revisions in Short- and Long- Term Inflation Expectations," *Finance and Economics Discussion Series*, No. 2015-15, Bank of Portugal.

Gefang, D.; Koop, G.; Potter, S. (2008). "The Dynamics of UK and US Inflation Expectations," Finance and Economics Discussion Series, No. 2015-15, University of Glasgow.

Strohsal, T.; Winkelmann, L. (2014). "Assessing the Anchoring of Inflation Expectations," *Journal of International Money and Finance*, http://dx.doi.org/10.1016/j.jimonfin.2014.09.00

Muñoz, J. A. (2026). "A Level-Dependence Approach for Assessing De-Anchoring of Inflation Expectations: Evidence from Colombia," *Latin American Journal of Central Banking*.

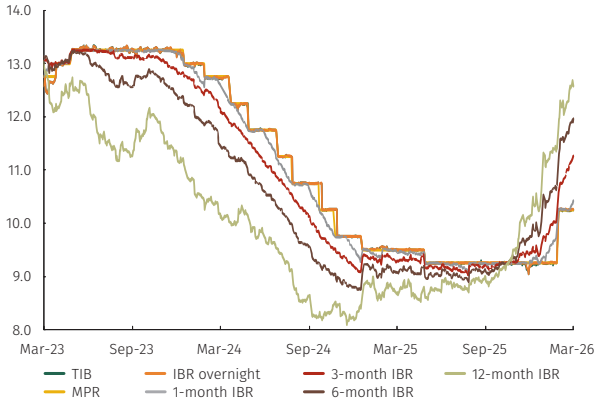
04/ Evolution and Outlook of Financial and Credit Markets

4.1 Money Market and Public Debt Rates

During 2025 and so far in 2026, money market interest rates reflected adjustments in the monetary policy interest rate (MPR) and expectations regarding its future movements. The overnight Benchmark Banking Indicator – BBI (IBR in Spanish) and the overnight Interbank Interest Rate (TIB in Spanish) remained aligned with the performance of the MPR, with deviations from the MPR of +0.2 basis points (bps) and -0.4 bps on average, respectively. Although more pronounced differences were observed at the end of January and the beginning of December 2025, these were temporary[1]. For longer maturities, IBR rates at one, three, six and twelve months were below the MPR for most of the year. However, following the MPR cut in April, these rates gradually converged toward the policy rate, and since late October they have been above it. This performance reflected an increase in inflation expectations and the anticipation of a possible shift in the monetary[2] policy stance. So far in 2026, the overnight IBR and the TIB have remained close to the MPR (with average differences of -0.2 bps and 1.1 bps, respectively, as of February 23), while rates at all other maturities continue to indicate expectations of future increases in the MPR, with spreads widening as maturities[3] increase (Graph 4.1).

Graph 4.1
Monetary Policy Rate (MPR), Interbank Rate (TIB in Spanish), and (overnight, 1, 3, 6, and 12- month) Benchmark Banking Indicator (IBR in Spanish)

(percentage)

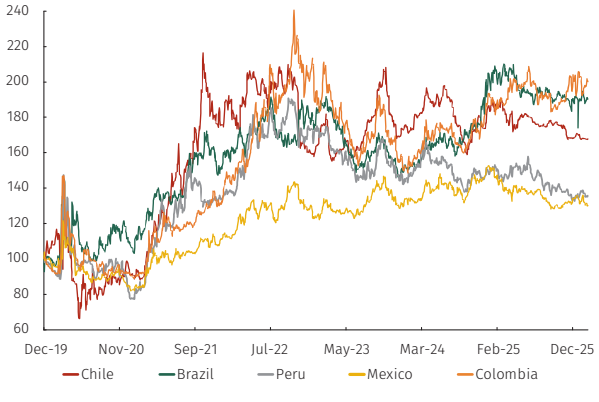


Sources: *Banco de la República* and Financial Superintendency (calculations based on Form 441 data).

In 2025, local sovereign debt securities (TES) depreciated, in contrast to the performance of sovereign debt of their regional peers, in the context of greater fiscal uncertainty, which led to sovereign rating downgrades and the loss of investment grade of TES.[4] On average, TES depreciated by 70 bps across the curve, while short-term securities in other countries in the region appreciated by 32 bps on average during the year. In turn, long-term securities in these countries showed mixed performance (Graph 4.2). Most analysts attribute the adverse performance of

Graph 4.2
Interest Rate Index in Some Economies in the Region

(index; 31 December 2019 = 100)



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

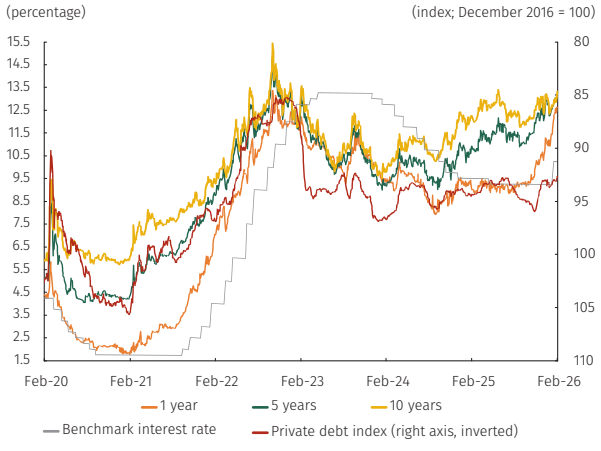
1 Particularly, between 27 January and 13 February 2025, the average difference between the overnight IBR and the TIB relative to the MPR was 4 bps for both rates, and between 28 November and 5 December, -10 bps and -12 bps, respectively.

2 In December 2025, the difference between IBR interest rates for one-, three-, six-, and twelve-month maturities and the MPR averaged +4.5 bps, +21.7 bps, +58.5 bps, and +105 bps (compared with -6.1 bps, -16.8 bps, -39.8 bps, and -82.8 bps in April, respectively).

3 So far in 2026, as of 23 February, the spreads of term IBR interest rates relative to the MPR are positive: 17 bps, 61 bps, 129 bps, and 198 bps for the one-, three-, six-, and twelve-month maturities, respectively.

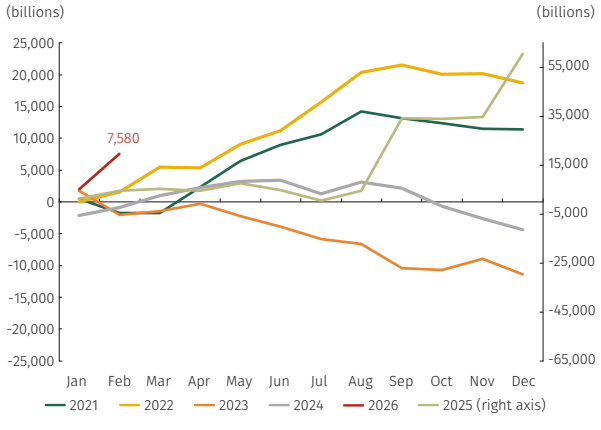
4 Foreign-currency-denominated securities had already lost their investment grade in 2021.

Graph 4.3
Zero-Coupon TES Rates in Pesos by Term, Private Debt Index, and Monetary Policy Rate



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

Graph 4.4
Cumulative Net Purchases per Year by Foreign Investors in the TES Spot Market



Source: DCV (Central Securities Depository, managed by *Banco de la República*); calculations by *Banco de la República.*

long-term TES yields primarily to increased fiscal uncertainty, which ultimately materialized in rating downgrades by Moody's and S&P[5]. At the same time, short-term yields were pressured upwards amid rising inflation expectations and interest rates (Graph 4.3).

Additionally, during the period a significant increase was observed in the outstanding stock of short-term instruments (TCO in Spanish), which recorded significant depreciations at the end of the year. This occurred within a context of deterioration in the liquidity of the TES market compared to 2024. During 2025, the outstanding stock of TCO increased from COP 17 trillion (t) to COP 60 t. In turn, liquidity indicators, measured by the bid-ask spread (BAS)[6] and the depth[7] of the TES market, showed significant deterioration toward the end of the year[8]. Although partial corrections have been observed so far in 2026, these indicators have not returned to pre-December levels. In this context, short-term rates along the peso-denominated curve recorded depreciations of 270 bps during 2025 and so far in 2026.

In this environment, foreign[9] investors recorded net purchases of TES during 2025, mainly explained by large, non-conventional transactions between these agents and the General Directorate of Public Credit and the National Treasury (DGCPTN in Spanish), without which the amount of purchases by these investors decreases significantly. Foreign investors closed 2025 with cumulative net purchases of COP 60 t (Graph 4.4) in the TES spot market, a figure that stands at COP 5 t, excluding the non-conventional transactions carried out by the DGCPTN with foreign investors during 2025. In September, a financing operation was conducted with a group of international banks

5 On 26 June 2025, the rating agency Moody's downgraded Colombia's sovereign rating in both local and foreign currency from Baa2 to Baa3, maintaining a stable outlook. In turn, S&P lowered the local-currency rating from BBB- to BB+. As a result, TES lost their investment grade, as they fell below this threshold according to both rating agencies.

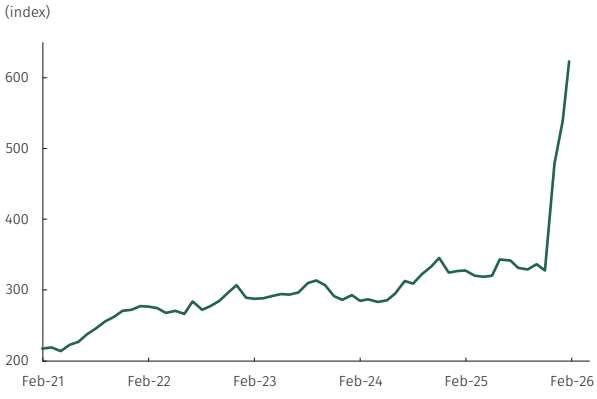
6 Measured as the difference between purchase and sale quotes in the secondary market for public debt.

7 Measured as the average of the sum of purchase quotes and the sum of sales quotes in the secondary market for public debt.

8 At the end of 2025, the average daily BAS stood at 9.97 bps for peso-denominated TES and 14.17 bps for UVR-denominated TES, compared with average levels of 7.49 bps and 10.38 bps observed between January and November.

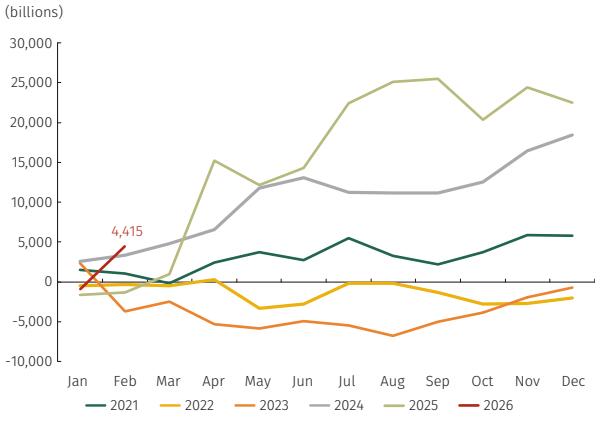
9 For a detailed analysis of the performance of these agents in the public debt market, see Box 3 of the *Financial Markets Report* for the third quarter of 2023 (banrep.gov.co).

Graph 4.5
HHI Concentration Index of Foreign Investors' Holdings of TES



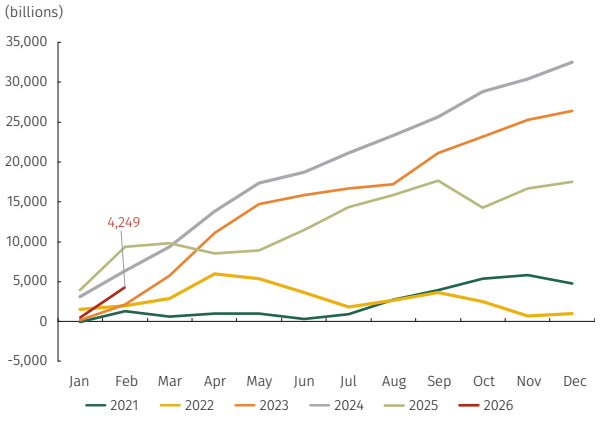
Source: DCV; calculations by *Banco de la República.*

Graph 4.6
Cumulative Net Purchases per Year by Commercial Banks in the TES Spot Market



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

Graph 4.7
Cumulative Net Purchases per Year by Pension and Severance Funds in the TES Spot Market



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

for COP 32 t[10], backed by government debt securities. This type of transaction, due to its exceptional nature, may generate uncertainty regarding the transparency of financing mechanisms. Additionally, in December, a direct sale of TES to a foreign investor for COP 23 t[11] took place, which may have influenced participants' perception of the functioning of the market-maker program. Since this operation, the purchasing trend among these investors has continued, in line with the high yields offered by these securities, and a significant increase has been observed in the degree of concentration of their TES[12] holdings, which is approaching all-time highs as of February 2026 (Graph 4.5).

Public entities, led by the MHCP, accounted for the majority of TES purchases during most of 2025, followed by commercial banks and Pension and Severance Funds (FPC in Spanish); this dynamic has continued in 2026. During 2025, public entities recorded net demand for TES amounting to COP 25.1 t, followed by commercial banks and FPCs, with net purchases of COP 21.3 t and COP 16.7 t, respectively (Graphs 4.6 and 4.7). So far in 2026, banks and FPCs have maintained a net buying position of COP 4.5 t and COP 4.2 t, respectively, while public entities have recorded net purchases of COP 920 b.

During 2025, the MHCP carried out ten public debt exchange operations for an all-time high of COP 160 t. These exchange[13] operations involved swapping securities to reduce the nominal outstanding balance of the debt, as well as to smooth the concentration of short-term maturities. According to market participants, the magnitude of these operations has resulted in lower liquidity in the spot market, which has also led them to trade cautiously amid uncertainty regarding the evolution of these operations.

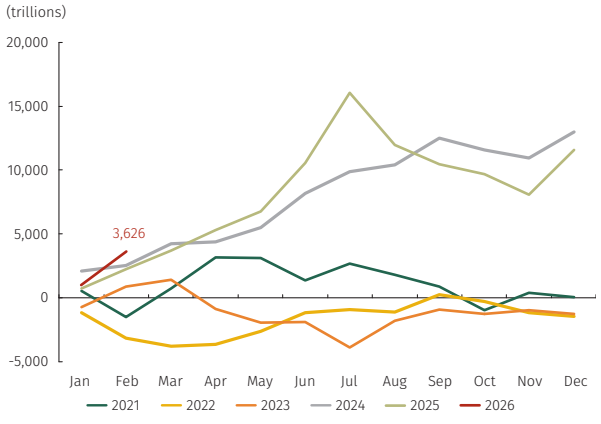
10 In September 2025, the MHCP received resources in Swiss francs from a group of foreign banks, in exchange for Treasuries and Colombian public debt in pesos and U.S. dollars. In local sovereign debt securities, it delivered TCO and long-term TES for an amount of COP 32 t to these banks. See press release.

11 Ministry of Finance and Public Credit (2025, 19 December). *MinHacienda culmina operación de venta directa de TES por $23 billones a inversionista extranjero*. See press release.

12 Measured through the Herfindahl-Hirschman Index (HHI), which is constructed as the sum of the squared shares of each foreign investor within the group's total holdings in each month. Higher values indicate a greater level of concentration.

13 An MHCP debt exchange consists of replacing existing debt securities with new ones under different terms, with agents that are part of the market-maker scheme. The government withdraws from circulation bonds that are close to maturity or that are less attractive in the market and delivers instruments with longer maturities or higher coupons to these agents. This mechanism allows it to smooth the maturity profile and manage its financial obligations, while investors receive securities that may be more suitable for their portfolios.

Graph 4.8
Buying Position of Foreign Investors in Non-Deliverable Forwards (NDFs) in TES



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

In the derivatives market, foreign investors increased their net buying position in TES futures[14] during 2025 and continued to do so in 2026, extending the trend that began in 2023. Unlike a large share of foreign agents participating in the spot market, foreign participants in the TES derivatives market may have a short-term investment horizon, and their investment flows may be more volatile. During 2025, the foreign investors' buying position in TES non-delivery forwards (NDF) increased by COP 11.6 t, mainly in bonds in the middle segment of the curve (COP 11.8 t). This implies that foreign agents have shifted toward an indirect exposure to the TES market through these derivative instruments, which depend on the market prices of the securities. Regarding their local counterparties, commercial banks were the type of institution with which they concentrated the increase in their position during the period (COP 9.9 t; Graph 4.8).

4.2 Financial Intermediation by Credit Institutions

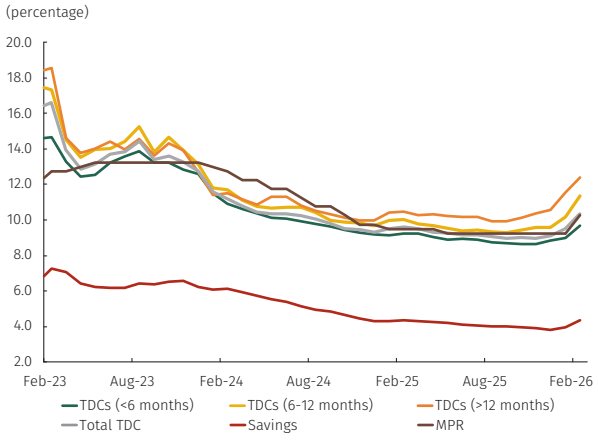
During most of 2025, deposit interest rates, through term deposit certificates (TDC) and savings deposits, continued their downward trend, although at a slower pace than that observed in 2024. However, starting in the last quarter of the year, TDC interest rates increased in the context of rising expectations for inflation and the MPR. In December 2025, deposit interest rates on TDCs and savings deposits stood 22 bps and 49 bps below their average levels one year earlier, with less pronounced declines than those recorded in 2024, when these interest rates fell by 341 bps and 197 bps, respectively[15]. However, in the last quarter, as higher inflation expectations, and potential future increases in the MPR began to be anticipated, TDC interest rates increased, particularly for maturities longer than six months[16]. So far in 2026, interest rates across

14 The instruments traded are TES non-deliverable forwards (NDFs), which commit the parties to buy or sell TES on a future date at a price agreed at the time of the transaction. They are typically entered into between a local and a foreign counterparty.

15 By maturity, the interest rate on CDs with maturities of less than six months declined 35 bps, and that of six- to twelve-month maturities fell by 7 bps, while rates for maturities longer than one year increased by 61 bps. The interest rate on active ordinary savings deposits declined by 53 bps for legal entities, 59 bps for public sector entities, and 7 bps for individuals.

16 Comparing average levels in December with those of September, the aggregate CD interest rate increased by 15.8 bps, while rates for maturities of less than six months rose by 12.1 bps, those between six and twelve months by 32.6 bps, and those for maturities longer than one year by 63.7 bps.

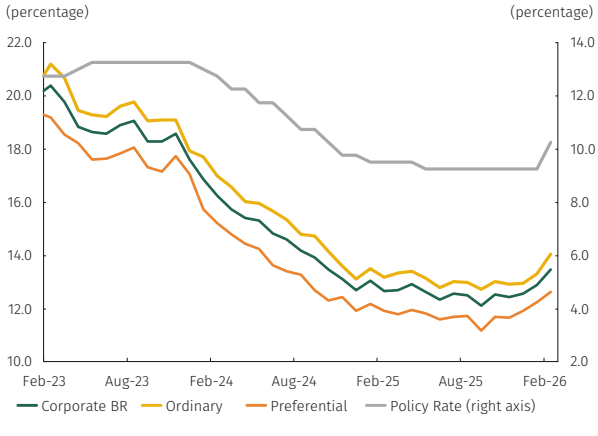
Graph 4.9
Interest Rates on CDTs and Savings Deposits



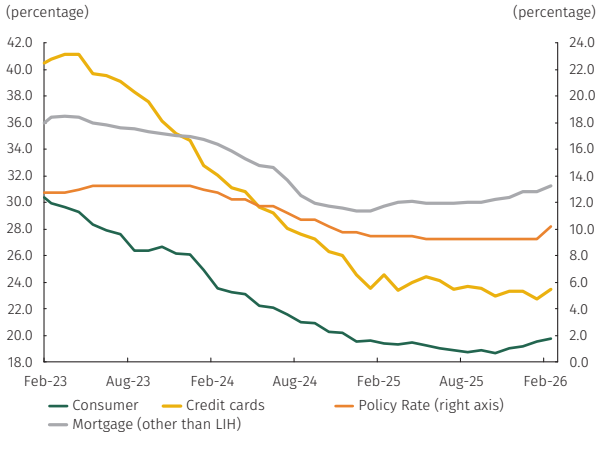
Note: The policy rate (MPR) corresponds to the rate established by the Board of Directors of Banco de la República (BDBR) at the monthly meeting; other rates correspond to the monthly average (weighted by amount).
Source: Financial Superintendency (form 441); calculations by *Banco de la República.*

Graph 4.10
Interest Rates on Loans

A. Loans to Companies



B. Loans to Households



all TDC maturities have continued to increase sharply, as have saving[17] deposit interest rates (Graph 4.9).

During 2025, interest rates on loans decreased, although at a slower pace than in 2024. The exceptions were mortgage rates and microcredit, which increased. In the first weeks of 2026, broad-based increases in lending interest rates have been recorded. As of December 2025, interest rates on corporate loans, consumer loans, and credit cards were 12 bps, 35 bps, and 124 bps, lower, respectively, than in December of the previous year. However, these declines were smaller than those observed in 2024 (-492 bps, -650 bps, and -1,010 bps, respectively). In contrast, mortgage rates increased (143 bps for non-LIH and 96 bps for LIH). In turn, the microcredit interest rate showed high variability during 2025, ending December at an average rate 226 bps higher than a year earlier. So far in 2026, increases in interest rates were observed for all types of loans[18] interest rates. It should be noted that, in general, disbursements tend to be low at the beginning of the year, and some credit lines with higher interest rates gain a larger share (for example, in the case of consumer credit, personal loans, revolving credit, and other loan categories besides payroll-deducted loans) (Graph 4.10).

Total assets of credit institutions (CIs)[19] continued to record positive growth, driven by the dynamics of the loan portfolio and investments, mainly in sovereign debt securities. Together, these items accounted for the growth in total assets, which reached COP 1,134.8 t (61.2% of GDP in 2025) in December 2025 (Graph 4.11). During much of 2025, CIs were characterized by significant purchases of TES and short-term public securities (TCOs), due to expectations of valuation gains and attractive interest rates, in the context of various debt management operations by the National Government.

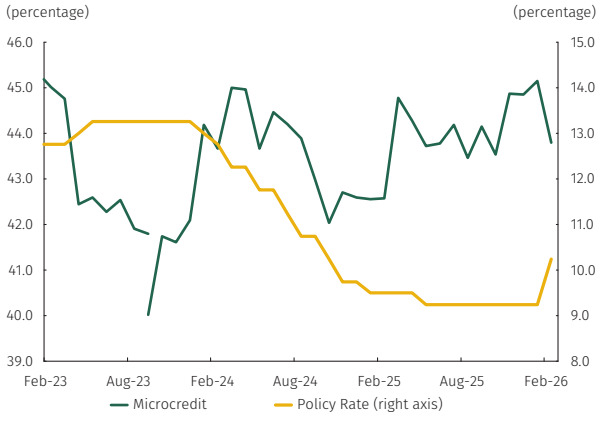
17 In January 2026, relative to December 2025, the interest rate on deposits through CDs increased by 40 bps (by maturity, increases were 16 bps, 56 bps, and 98 bps for maturities of less than six months, six to twelve months, and more than twelve months, respectively), and the aggregate interest rate on active ordinary savings deposits rose by 14 bps (5 bps for legal entities, 7 bps for individuals, and 26 bps for public sector entities).

18 Compared with the average interest rate in December 2025, in January the interest rate on corporate loans increased by 32 bps, consumer loans by 37 bps, non-LIH housing acquisition by 5 bps, and microcredit 28 bps; while LIH decreased by 17 bps and credit card rates for individuals declined by 62 bps.

19 According to the Financial Superintendency of Colombia (SFC in Spanish), CIs are defined as those financial institutions whose main function is to receive funds from the public in legal tender, in the form of demand or term deposits to allocate them through loans, discounts, advances, investments, or other lending operations. This group includes banks, finance companies (FCs), financial corporations (FCs), and financial cooperatives.

Graph 4.10
Interest Rates on Loans (continuation)

C. Microcredit

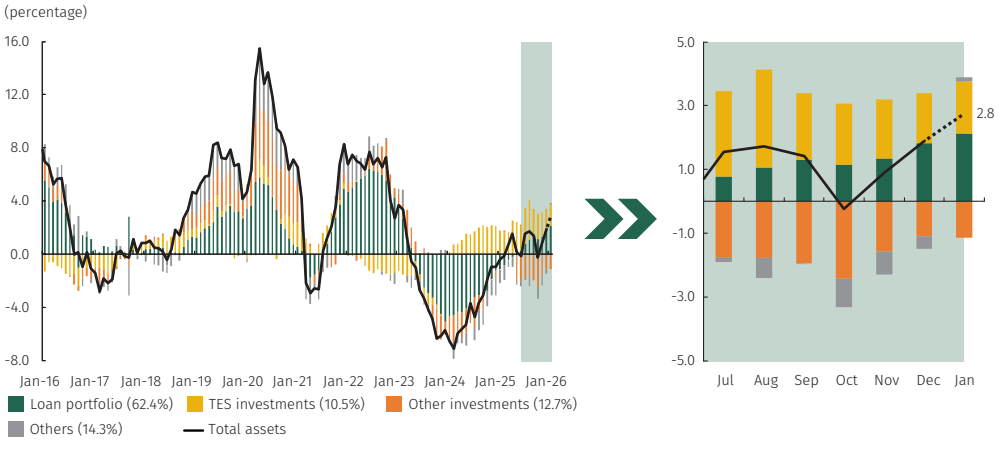


Note 1: As of September 2023, refers to the aggregate rate of productive credit modalities, in accordance with Decree 455 of 29 March 2023, issued by the Ministry of Finance.
Note 2: The policy rate corresponds to the rate established by the BDBR at the monthly meeting; other rates correspond to the monthly average (weighted by amount).
Source: Financial Superintendency of Colombia (form 414); calculations by *Banco de la República.*

In addition, strong demand for TES NDF[20] contracts by foreign investors led banks, main counterparties in these transactions, to increase their TES holdings in the spot market as a hedging strategy. This dynamic reflected the preference of CIs, particularly banks, for this type of asset and could have implied a potential risk of crowding out credit to the private sector. However, the recovery in lending by CIs, in an environment of lower lending interest rates and stronger economic activity, supported total asset growth.

Gross loan portfolio showed a broad-based recovery and recorded real growth starting in October 2025, although the pace of expansion varied across loan categories. Since November 2025, all types of loan portfolios have shown positive annual real growth rates, a pattern not observed since early 2023 (Graph 4.12). The corporate loan portfolio showed a more pronounced recovery towards the end of 2025, after its growth fluctuated around zero due to persistently low investment levels in some economic sectors. Likewise, the consumer loan portfolio recorded positive growth after two consecutive years of contraction. These dynamics, together with the positive trend in microcredit and housing loan portfolios, supported the recovery in total lending, which reached COP 749.5 t (40.4% of GDP in 2025) in December 2025.

Graph 4.11
Real Annual Growth in the Assets of CIs and the Contribution of their Main Components to Growth

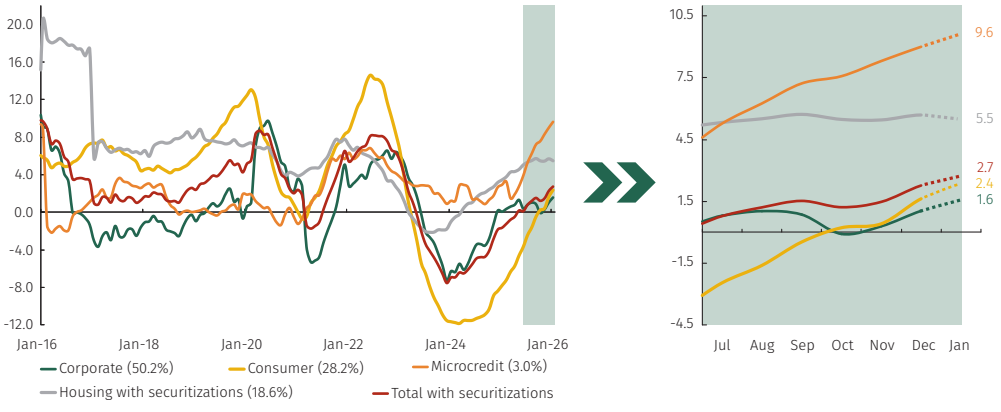


Note 1: The loan portfolio series corresponds to the net loan portfolio of provisions, which is included in assets.
Note 2: The dotted lines were constructed using weekly information from Form 281 of the Financial Superintendency of Colombia (January 2026), which reports the main balance sheet accounts of credit institutions. Therefore, the values may differ slightly from those recorded in the official balance.
Note 3: The share of each item in total assets is shown in parentheses.
Source: Financial Superintendency of Colombia; calculations by *Banco de la República.*

20 Non-Delivery Forwards (NDFs) are contracts in which, at maturity, the difference between the market price and the agreed forward price is exchanged, multiplied by the size of the position. Thus, at maturity, the net gains from the transaction are exchanged instead of the full contract value.

Graph 4.12
Real Annual Growth of the Total Loan Portfolio of CIs and by Type

(percentage)



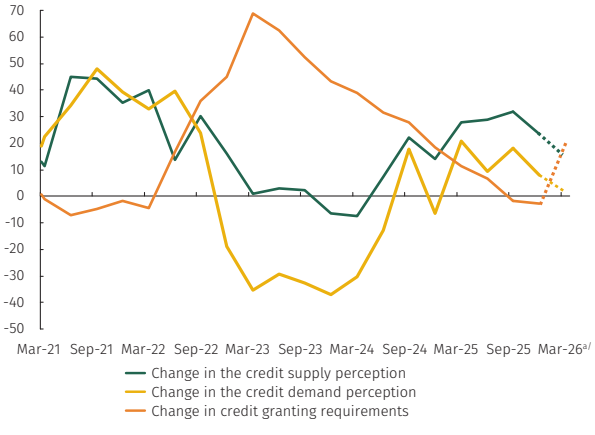
Note 1: The dotted lines were constructed using weekly information from Form 281 of the Financial Superintendency of Colombia (January 2026), which reports the main balance sheet accounts of credit institutions. Therefore, the values may differ slightly from those recorded in the official balance.
Note 2: Real growth was calculated using the Consumer Price Index (CPI) excluding food.
Note 3: The share of the type of loan in the total loan portfolio is shown in parentheses.
Note 4: The balance of the housing loan portfolio includes the National Savings Fund, which accounts for 10.1%.
Source: Financial Superintendency of Colombia; calculations by *Banco de la República.*

Looking ahead, the most recent results of the *Report on the Credit Situation in Colombia*[21], together with the dynamics of disbursements and the increase in interest rate expectations, suggest that the credit recovery could moderate. In recent months, disbursements across all loan segments have shown a slowdown in their growth. This trend has been particularly pronounced in the housing and corporate loan portfolios. In addition, market expectations of increases in the MPR could translate into a further moderation in disbursement growth. In line with this, the most recent results of the Report on the Credit Situation in Colombia (Graph 4.13.) show mixed signals. Although both credit supply and demand remain in positive territory, expectations point to a gradual tightening of lending standards, especially in the consumer and corporate loan portfolios, as well as weaker credit demand prospects. In this context, if these expectations materialize, moderation in the pace of credit recovery is anticipated. Moreover, this trend could be exacerbated by the regulatory uncertainty faced by financial intermediaries in the recent past, which has exposed them to proposals involving tax increases, mandatory investments, changes in market conditions, among others.

Regarding funding, a similar growth was observed in both demand deposits and CDs, reflecting a more balanced funding composition compared to that observed in previous years.

Graph 4.13
Credit Market Perception
(credit institutions)

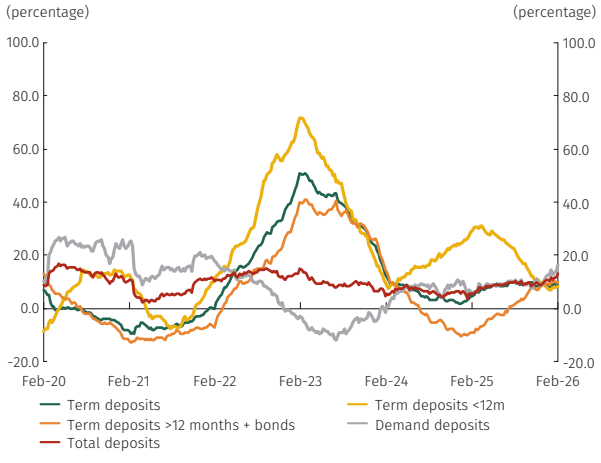
(balance of responses)



a/ Expectations for the next quarter (dotted line).
Source: Survey on the Credit Situation in Colombia, December 2025; calculations by *Banco de la República.*

21 For more details of the report, see https://www.banrep.gov.co/es/publicaciones-investigaciones/reporte-situacion-credito-colombia

Graph 4.14
Annual Growth in Demand and Term Deposits

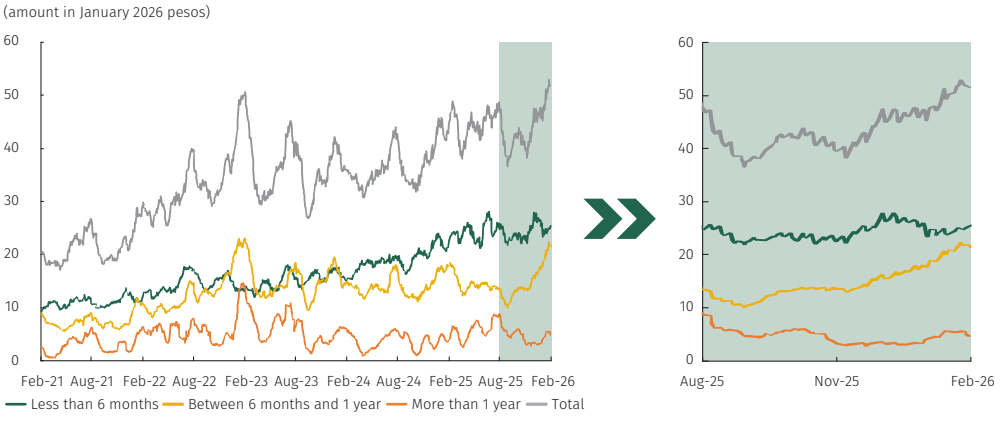


Source: Financial Superintendency of Colombia (form 281); calculations by *Banco de la República.*

During 2025, the annual growth of demand[22] and term deposits balances (which include CDs and bonds issued by CIs) gradually converged, particularly from the second quarter onward. This performance contrasts with what has been observed since the pandemic, when periods of marked preference for demand deposits were recorded (as in 2020, 2021, and, to a lesser extent, in 2024), or for CDs (as in 2022 and 2023). For the latter, it is noteworthy that, since mid-2025, CD balances with maturities longer than twelve months recorded positive annual variations, after nearly one year of declines. This long-term funding is important to support the expansion of CIs' assets, particularly credit growth. In turn, short-term CDs gradually reduced their growth rate throughout 2025, falling from rates close to 30% at the beginning of the year to around 9.0% at the end of December. In the first weeks of 2026, greater dynamism in demand deposits has been observed in the context of rising interest rates (Graph 4.14).

In line with higher interest rates on term deposits, the supply of these instruments is expected to increase. However, the dynamics of this market will also depend on the demand from CIs, as funding is required to support credit growth. As of February 2026, CD issuances reached historical highs in real terms (Graph 4.15), with a preponderant concentration in maturities between six months and one year. As long as interest rates continue to rise, this supply could maintain an upward trend. However, from the perspective of funding demand by CIs, this momentum could weaken in the light of expectations of a slower pace of credit growth. Similarly, the future behavior of these deposits will be conditioned by the stable funding needs of CIs due to the Net Stable Funding Ratio (NSFR), as required by External

Graph 4.15
Real CDT Issuance by Maturity



Note 1: The 20-day moving average of CDT issuance by maturity is presented.
Note 2: Information as of 19 February 2026.
Note 3: The series were deflated using the CPI excluding food, with Jan. 2026 as the base period. As of February 2026, the monthly inflation variation was assumed to correspond to the median reported in that month's Monthly Expectations Survey.
Source: Financial Superintendency of Colombia; calculations by *Banco de la República.*

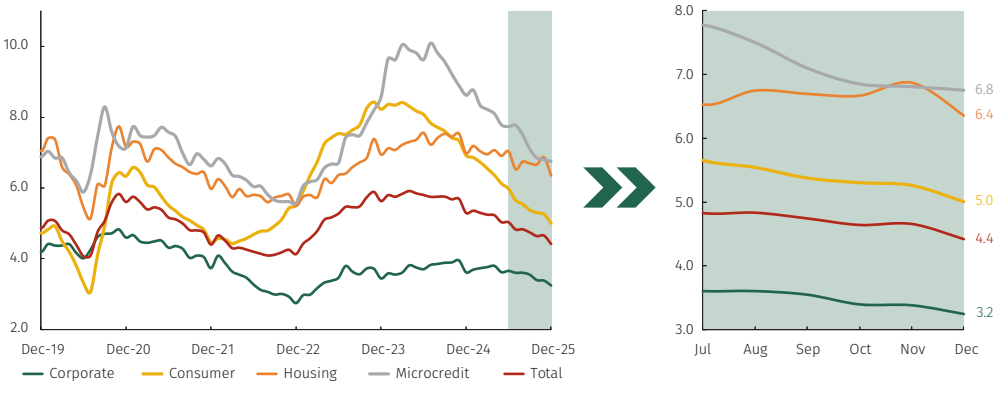
22 That is, those that are immediately available and can be used to make payments, such as savings accounts and checking accounts.

Circular 012 of 2025 of the Financial Superintendency of Colombia (SFC). This issue was highlighted in Box 2, "Net Stable Funding Ratio (NSFR): The importance of a structural liquidity requirement in Colombia," of the Financial Stability Report for the second half of 2025[23].

Throughout 2025, the Non-performing Loans Indicator (NPL)[24] declined across all types of loans, which shows a broad-based improvement in delinquency. Non-performing consumer and microcredit loans maintained a downward trend, a pattern observed since late 2024, which contributed to an accelerated reduction in the NPL (Graph 4.16). However, in the last months of 2025, the decline in this indicator for these loan categories was more gradual. In turn, the NPL for the corporate and housing loan portfolios showed more moderate decreases, as the stock of non-performing loan portfolio in these categories did not decline at the same pace observed in the others.

Graph 4.16
Non-Performing Loans Indicator (NPL) of CIs

(percentage)



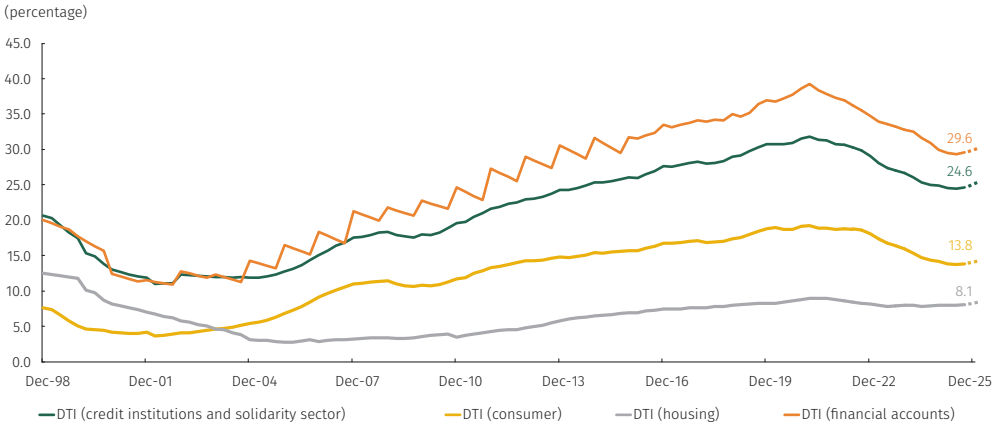
Note 1: The non-performing loan indicator is calculated as the ratio between the non-performing loan portfolio (loans that have not been paid for more than 30 days) and the total gross loan portfolio.
Note 2: The dotted lines correspond to the non-performing loan indicator, including write-offs (+C), calculated as the ratio of: (i) the sum of the non-performing loan portfolio and 12-month cumulative write-offs net of recoveries; and (ii) the sum of the total gross loan portfolio and 12-month cumulative write-offs net of recoveries.
Note 3: The Non-Performing Loans Indicator for the housing portfolio differs from the one usually reported by the Financial Superintendency of Colombia (SFC in Spanish), as that entity considers overdue only installments past due for periods of 1 to 4 months. In this report, the total capital loan is also included. In addition, the National Savings Fund is included.
Source: Financial Superintendency of Colombia; calculations by *Banco de la República.*

Higher household debt led, as of September 2025, to a rise in households´ debt-to-disposable-income ratio for the first time since March 2021. During the first half of 2025, household disposable income performed favorably supported by low unemployment and strong remittance growth, which contributed to the debt-to-disposable-income (DTI) ratio maintaining the downward trend it had been showing since 2021. However, in line with the recovery in household lending, which since July 2025 has presented positive real annual growth, and as anticipated in the Financial Stability Report for the second half of 2025, the DTI ratio increased slightly as of September. Likewise, the DTI is expected to stand at slightly higher levels by the end of 2025 than current ones (Graph 4.17, dotted lines), due to the observed and expected dynamics of household debt, and to an expectation that household income growth will stabilize at levels close to its pre-pandemic average. For 2026,

23 https://www.banrep.gov.co/es/publicaciones-investigaciones/reporte-estabilidad-financiera/segundo-semestre-2025

24 The Non-performing Loans Indicator is calculated as the ratio between the non-performing loan portfolio and the total gross loan portfolio (the non-performing loan portfolio includes the outstanding balance of loans that have not been paid for a period longer than thirty days).

Graph 4.17
Household Debt to Disposable Income (DTI)

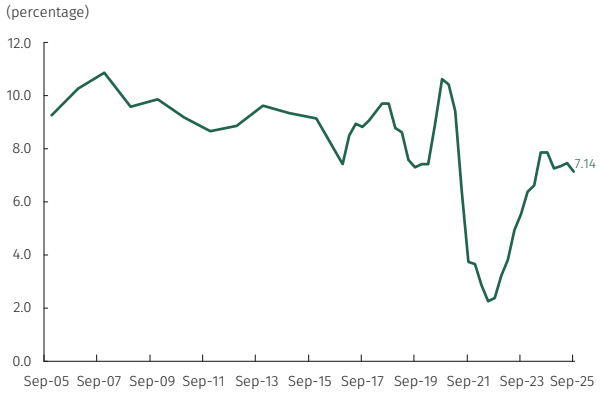


Note: The chart presents the debt-to-income (DTI) indicator. For this purpose, the adjusted gross disposable income of households from the national accounts by institutional sector is used.
The graph presents four measures of borrowing:
1. Green line: Household debt with credit institutions supervised by the Financial Superintendency of Colombia, savings and credit cooperatives, employee funds, and the Titularizadora Colombiana (Colombian Securitization Office).
2. Orange line: Household debt from the balances of the financial accounts published by *Banco de la República*. In addition to the green line, it includes microcredits and commercial loans from individuals, as well as obligations to other financial institutions.
3. Yellow line: Consumer loans with credit institutions.
4. Grey line: Housing loans with credit institutions.
The dotted segments correspond to forecasts of the indicator as of December 2025 prepared by the technical staff of *Banco de la República*. The forecast is constructed using data observed as of June 2025. For the DTI for consumer and housing, it is assumed that the share of these portfolios in the total remains constant over the forecast horizon. Due to insufficient information, the DTI forecast is not estimated using the borrowing of the financial accounts published by *Banco de la República*.
Sources: Financial Superintendency of Colombia, *Superintendencia de Economía Solidaria* (Superintendence of Solidarity Economy or SES in Spanish), *Titularizadora de Colombia, Banco de la República*, and DANE; calculations by *Banco de la República*.

uncertainty remains regarding the evolution of household debt and disposable income, as their dynamics will depend, among other factors, on the effects of the minimum wage increase on the labor market and inflation, and its impact on these agents' creditworthiness and on financial institutions' willingness to extend credit.

Related to this, households' gross savings as a percentage of disposable income declined in the third quarter of 2025 compared to the previous quarter, due to higher growth in private consumption. In line with the favorable growth of disposable income, household savings had been experiencing a significant recovery since June 2022. However, since September 2024, household final consumption began to grow at higher rates, contributing to a reversal in the savings trend, which has become more pronounced in recent quarters. As a result, savings as a share of disposable[25] income remained below its historical average for a full year (Graph 4.18). It should be noted that a potential reduction in savings would represent a vulnerability for households' financial health, as it would imply lower liquidity buffers to meet short-term obligations.

Graph 4.18
Gross Household Savings as a Percentage of the Adjusted Gross Disposable Income

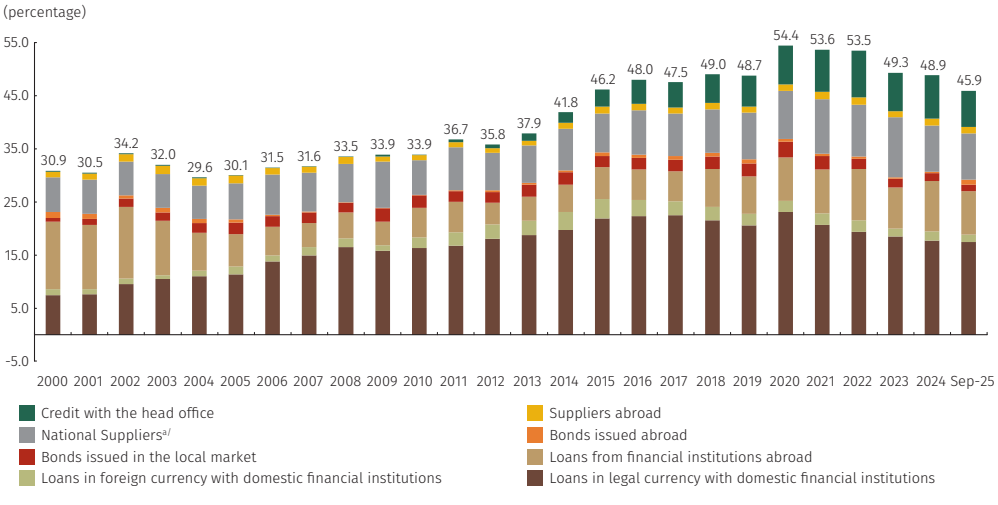


Note: Annual values are defined as the sum of the four quarters. The income used as the denominator in the indicators shown in the graph includes an adjustment for the variation in households' net participation in pension funds.
Source: DANE; calculations by *Banco de la República*.

25 This income measure corresponds to expanded adjusted gross disposable income, which includes an adjustment for the variation in the net shares of households in pension funds.

Private corporate sector debt as a share of GDP continued to decline during the third quarter of 2025, in the context of Colombian peso appreciation, which contributed to a reduction in foreign-currency- denominated debt. As of September 2025, private corporate sector debt represented 45.9% of annual GDP, the lowest level observed since 2015[26]. The decline in this indicator is mainly explained by the appreciation of the peso against the U.S. dollar, which reduced the value of foreign-currency- denominated debt, particularly loans from parent companies abroad and from financial institutions abroad[27] (Graph 4.19). In addition to the effect associated with exchange rate dynamics, the recent evolution of corporate debt has been influenced by structural factors, such as the replacement of traditional funding sources with other instruments (for example, accounts payable and other liabilities). This suggests that the observed decline does not necessarily reflect a deleveraging process. Looking ahead, a potential tightening of financial conditions could exert upward pressure on financing costs and weaken firms' borrowing capacity, either through a depreciation of the Colombian peso or through lower availability of funding for Colombian companies in international markets.

Graph 4.19
Private Corporate Sector Financial Debt as a Percentage of GDP, by Instrument



a/ Includes only information from companies that report financial statements to the Superintendency of Corporate Affairs. In 2016, all companies recorded their financial statements in accordance with International Financial Reporting Standards (IFRS), which did not allow for the determination of the balance of debt owed to domestic suppliers. Therefore, to approximate the data from these companies, the average percentage that short- and long-term suppliers reported over current and non-current liabilities, respectively, between 2007 and 2015, was calculated for the companies that reported during the period using the mandatory Chart of Accounts (PUC in Spanish), and an equal percentage was assumed for the entities that submitted financial statements as of 2016. Since the 2022 financial statements have not yet been published, annual GDP growth is used to project the December 2022 value.
Source: Financial Superintendency of Colombia, Superintendence of Corporate Affairs, and Banco de la República; calculations by *Banco de la República.*

The effects of the tariff policies implemented by the United States on companies linked to foreign trade remain uncertain. However, CIs maintain low credit exposure to these types of firms and have sufficient capital levels to absorb a shock derived from these measures. Colombia's global annual exports in 2025 increased slightly by 1.0% in real terms compared to 2024. This low growth has occurred amid high uncertainty regarding the potential impact of increased tariffs imposed by the

26 Between 2015 and 2024, private corporate sector debt fluctuated between 46.2% and 54.4%.

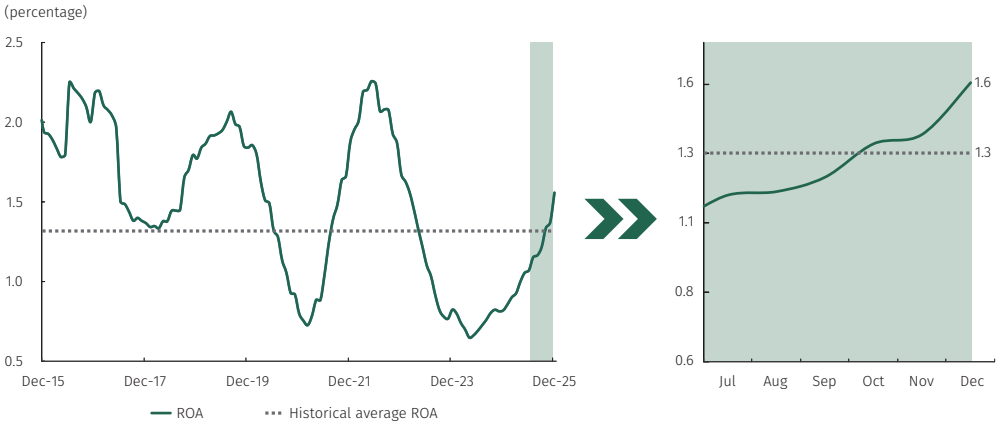
27 When estimating a counterfactual scenario in which the Representative Market Exchange Rate (TRM in Spanish) had remained at its end-2024 level (COP 4,409 as of 31 December 2024, compared with COP 3,901 in September 2025), it is found that total private corporate sector debt would have declined by around 0.76 pp in September 2025, which contrasts with the observed declined of 3.0 pp.

United States on several countries[28]. Regarding the financial system's exposure to companies with export revenues from trade with the United States, this is relatively low (7.2% of the total loan portfolio as of September 2025). In addition, the NPL for this loan portfolio remains at low levels (2.6% as of September 2025). On the other hand, replicating the stress test from Box 1 of the Financial Stability Report for the first half of 2025, designed to estimate the impact of an adverse tariff scenario on firms' balance sheets and their exposure to CIs[29], it was found that the number of firms with an interest[30] coverage ratio (ICR) below one (1) under the stressed scenario would increase from 347 to 372. The sectors with the highest concentration of these firms would continue to be trade, agriculture, and manufacturing. Regarding CIs' exposure to these firms, it stood at COP 6.84 t as of September 2025, a level similar to that observed in December 2024. Finally, the NPL for the corporate loan portfolio and the total loan portfolio would increase from 3.5% to 5.4% and from 4.7% to 5.6%, respectively.

The profitability of CIs continued to show a recovery trend in 2025, in line with its historical average and the economic cycle. In 2025, the return on assets (ROA) indicator for CIs increased by 70 bps and stood at 1.6% at the end of the year (Graph 4.20, panel A). The recovery in profitability was mainly driven by a reduction in provisioning expenses, associated with the gradual improvement in loan portfolio quality throughout 2025 (Graph 4.20, panel B).

Graph 4.20
Aggregate Return on Assets (ROA) of CIs

A. Historical Evolution



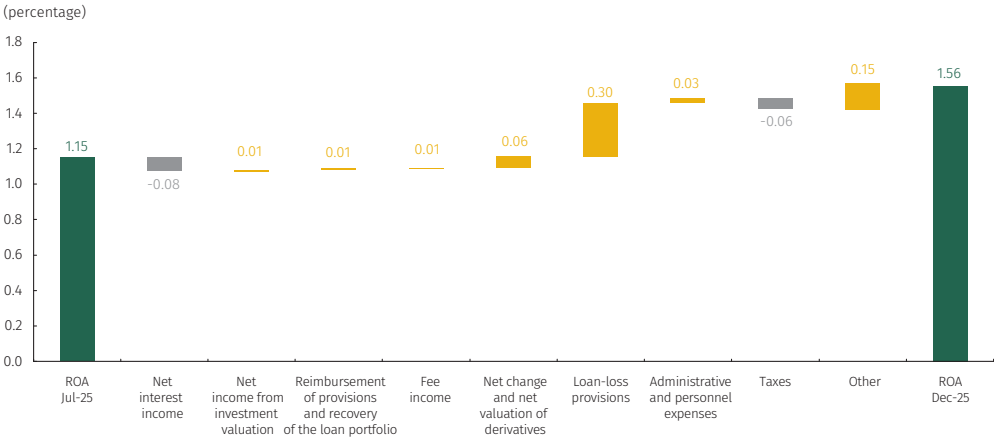
28 On 2 April 2025, the Trump administration announced "Liberation Day," which broadly consisted of the imposition of tariffs on a wide range of jurisdictions. Under this scheme, Colombia, like most Latin American countries, faced a 10% tariff.

29 For details of the assumptions and limitations of the test, see Box 1 of the Financial Stability Report (first half of 2025: https://www.banrep.gov.co/es/publicaciones-investigaciones/reporte-estabilidad-financiera/segundo-semestre-2025).

30 It is defined as the ratio of earnings before taxes to interest expenses.

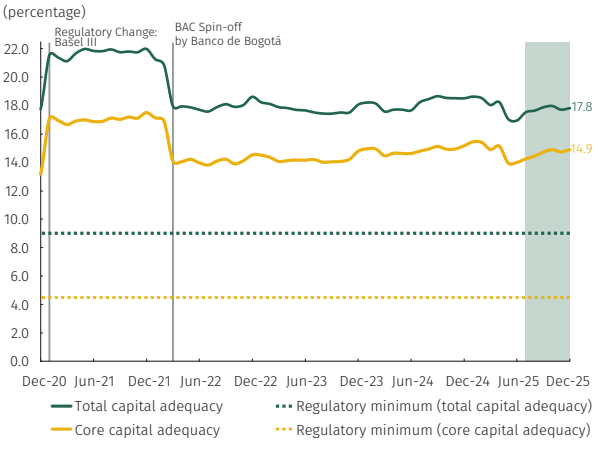
Graph 4.20
Aggregate Return on Assets (ROA) of CIs (continuation)

B. Decomposition of ROA Variation



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

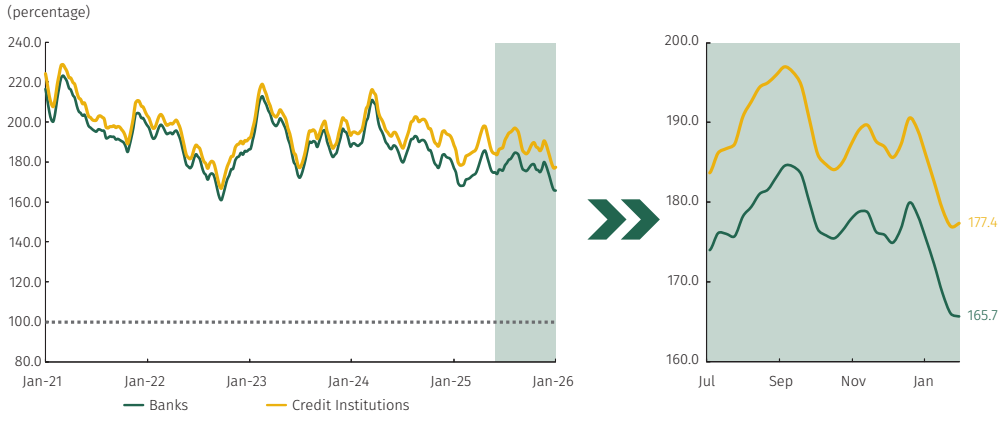
Graph 4.21
Aggregate Capital Adequacy Ratios of CIs



Note 1: Core total capital adequacy ratios are calculated as the ratio between total regulatory capital (common equity tier 1 net of deductions) and risk-weighted assets, considering credit, market, and operational risk.
Note 2: From 2024 onwards, the regulatory limits, including the conservation buffer, are 10.5%, 7.5%, and 6.0% for total capital adequacy, additional common equity tier 1, and core capital adequacy, respectively. Systemically important financial institutions require an additional 75 bps. Non-compliance with buffers does not constitute insolvency.
Note 3: The leverage ratio is defined as the sum of the value of common equity tier 1 net of deductions and the additional core equity over the leverage value.
Source: Financial Superintendency of Colombia; calculations by *Banco de la República.*

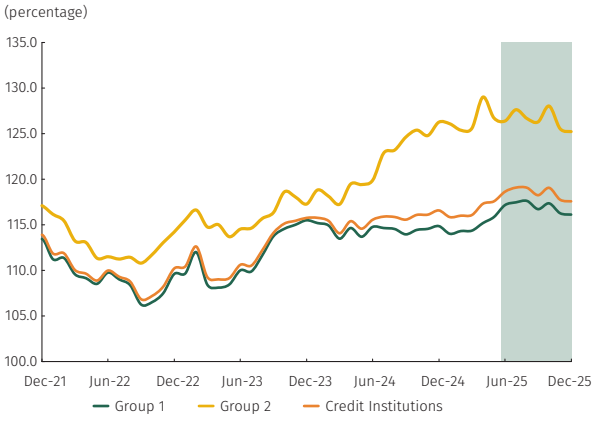
In this context of recovery of CIs' balance sheets and profitability, their capital and liquidity levels remained well above regulatory minimums, even when assessed under stress scenarios. Following the slight decline in Tier 1 capital and total capital adequacy ratios in May 2025, associated with the transfer of reserves and other equity components from Bancolombia to Grupo Cibest, these increased by 76.4 bps and 94.7 bps, respectively (Graph 4.21). This increase was explained by the strengthening of capital aimed at covering potential losses. Likewise, CIs maintained a solid and ample liquidity position throughout the year, which was reflected in short-term liquidity indicators (Liquidity Coverage Ratio - LCR; Graph 4.22) and structural liquidity (NSFR; Graph 4.23). When assessing the impact of hypothetical adverse macroeconomic scenarios, as conducted semiannually in *Banco de la República*'s Financial Stability Report, the aggregate of CIs shows capital adequacy ratios to absorb the losses arising from this test.

Graph 4.22
Thirty-Day Simple Average Liquidity Risk Indicator (LCR) of Credit Institutions



Note: The average LCR is calculated as the ratio of the average of the last four weeks of the month of liquid assets adjusted for market liquidity and exchange rate risk (LAM) to the average of the last four weeks of the month of the net liquidity requirements (NLR) over a 30-day horizon.
Source: Financial Superintendency of Colombia; calculations by *Banco de la República.*

Graph 4.23
Net Stable Funding Ratio (NSFR)
of Credit Institutions



Note 1: The indicator series is presented only for Groups 1 and 2 because institutions in Group 3 are not required to comply with an NSFR regulatory limit. Since March 2022, the minimum required for Group 1 is 100% (green line), and for Group 2, it is 80% (yellow line).
Note 2: Institutions in Group 1 are made up of banks whose assets represent at least 2.0% of the total assets of banks as of 31 December of the immediately preceding year. Group 2 includes CIs that are not part of Group 1 and for which the loan portfolio and leasing operations correspond to a significant asset. Group 3 includes CIs that are not part of the previous groups and whose significant assets are investments and derivative transactions.
Source: Financial Superintendency of Colombia; calculations by *Banco de la República.*

4.3 Local Financial Markets

4.3.1 Foreign Exchange Market

To maintain low and stable inflation, and to achieve the maximum sustainable level of output and employment, *Banco de la República* follows an inflation-targeting[31] framework with a flexible exchange rate regime. Exchange rate flexibility is considered a fundamental element in achieving these objectives because: 1) in the face of external shocks, a large share of the adjustment is absorbed by the exchange[32] rate; 2) authorities in a small and open economy with a flexible exchange rate have greater autonomy in their monetary policy, which facilitates achieving their own inflation targets and reacting countercyclically to economic[33]cycles; 3) it reduces incentives for excessive[34] exchange risk; and 4) the inherent volatility in floating rates stimulates the development of the hedging

31 Within this framework, monetary policy seeks to align future inflation with the target set at the policy horizon.

32 A flexible exchange rate regime tends to generate greater stability in interest rates than a fixed exchange rate regime.

33 Conversely, when there is a fixed exchange rate against the currency of a developed country, monetary policy is subject to the decisions of the external monetary authority. Thus, if business cycles are not synchronized, the monetary actions of the developed country could have adverse effects on the output and employment of the emerging country.

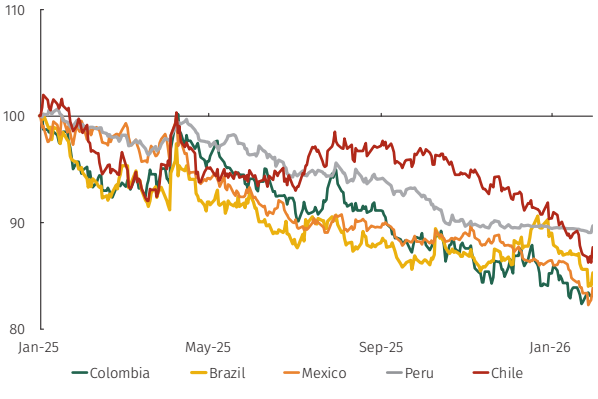
34 Currency mismatches occur when an agent has income in local currency and liabilities in foreign currency without hedging. Under a flexible regime, exchange rate volatility encourages agents to limit their exposure to exchange rate risk. Although Colombia has strong regulations regarding currency mismatches of financial intermediaries, exchange rate volatility creates incentives for real sector agents to undertake actions that allow them to mitigate their exposure to this risk.

market, which is important for maintaining financial stability and promoting market[35] development.

During 2025, the Colombian peso appreciated, mainly in line with the global weakening of the U.S. dollar, and to a greater extent than some regional[36] currencies (Graph 4.24). This performance was driven primarily by external factors, although it was also supported by certain idiosyncratic elements, particularly toward the end of the year, amid significant market operations carried out by the Ministry of Finance and Public Credit (MHCP). Among the idiosyncratic factors that may have contributed to the strengthening of the currency, interest rate differentials relative to the United States stand out, as they may influence portfolio investment flows into the country, as well as a greater supply of foreign currency from some market participants. Additionally, the Colombian peso was supported by flows associated with higher income from tourism and remittances, favorable conditions in the coffee sector, and the expectation and subsequent execution of foreign currency monetizations by the MHCP. Particularly, debt management operations conducted with international banks implied significant inflows of U.S. dollars into the local foreign exchange market, contributing to the appreciation observed in the second half of the year. In the case of regional currencies, these also benefited from the weakening of the U.S. dollar, attractive interest rate differentials, the rebound in some commodities (especially copper, which reached all-time highs), as well as country-specific factors. So far in 2026, the Colombian peso has continued to strengthen, although at a slower pace. This coincided with foreign currency purchases by the MHCP in the spot market to strengthen its foreign currency cash position, and with a context of high volatility associated with increased uncertainty related to the electoral cycle, as well as market attention to the potential effects of the decree aimed at increasing the investment of pension and severance funds (FPC) in the local market, and the draft decree seeking to transfer to Colpensiones the resources of affiliates who have requested to move from FPC administrators.

Graph 4.24
Nominal Exchange Rate for Some Economies in the Region

(index; 31 December 2024 = 100)



Note: Data as of 30 January 2026.
Source: Bloomberg, Data License.

During the last weeks of December 2025, the prices of foreign exchange[37] hedging increased significantly, reaching all-time highs. This performance was driven by the increase in U.S.

35 These instruments allow agents to hedge the exchange rate at competitive prices.

36 Between 30 December 2024 and 30 December 2025, the Colombian peso, the Brazilian real, the Mexican peso, the Peruvian sol, and the Chilean peso appreciated by 14.8%, 11.4%, 12.8%, 10.5%, and 9.7%, respectively.

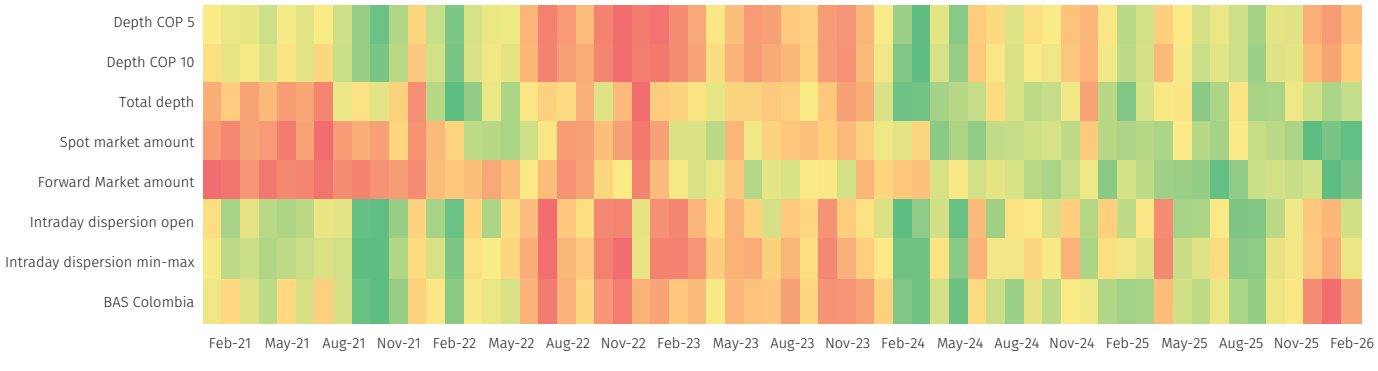
37 The price of foreign exchange hedging, also known as implied depreciation, is the percentage difference between the spot market price of the dollar and the forward price quoted in forward contracts by Foreign Exchange Market Intermediaries (FXIs). Under interest rate parity, the prices quoted in these contracts are expected to be closely aligned with the differential between domestic and foreign interest rates (theoretical depreciation).

dollar holdings of Foreign Exchange Market Intermediaries[38] (FXIs) following the sales operations carried out by the MHCP, and by greater demand for these instruments from foreign investors. The one-month price for these operations during December 2025 averaged 7.9%, higher than the 4.5% observed between January and November, which was close to the theoretical price derived from covered interest parity (4.7%).[39] Additionally, the increase U.S. dollar holdings implied significant pressure on the capacity of these intermediaries to supply U.S. dollars in the forward[40] market, which resulted in higher hedging costs. This was further reinforced by stronger demand for foreign exchange hedging instruments from foreign investors in the USD/COP market.

Liquidity conditions in the foreign exchange market deteriorated relative to 2024 levels, and the average volatility of the Colombian peso increased, particularly toward the end of 2025. In December, several liquidity indicators deteriorated, except for trading volumes in the spot and forward markets. Particularly, a measure of the bid–ask spread (BAS) reached levels not observed since 2022. This performance was associated, among other factors, with an increase in market expectations of potential transactions by the National Treasury Direction (DTN in Spanish) in the foreign exchange market, leading to greater caution among some market participants. So far in 2026, the indicators have shown partial corrections relative to levels observed in December of the previous year; however, overall, they remain at lower liquidity levels than their historical range (Graph 4.25).

Graph 4.25
Heatmap of Liquidity Conditions

(local market)



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

38 FXIs are financial institutions authorized by law to channel transactions that must be carried out through the regulated foreign exchange market, as well as voluntary transactions.

39 The theoretical price, or theoretical depreciation, is obtained from the difference between the IBR rate (peso funding rate) and the SOFR rate (U.S. dollar funding rate).

40 As the U.S. dollar liquidity holdings of FXIs increases, their capacity to supply U.S. dollars in the forward market becomes constrained, since additional forward sales would, for the purpose of netting their overall exchange position, require further purchases of U.S. dollars in the spot market, thereby increasing their U.S. dollar liquidity holdings even more. As a result, in this scenario, FXIs tend to offer U.S. dollars in the forward market at higher implied rates ("sell at higher prices"), in order to moderate a further expansion of their U.S. dollar liquidity holdings.

4.3.2 Stock Market

Financing through the issuance of corporate debt securities declined in 2025 relative to 2024 levels. In 2025, loan placements through the Colombian Stock Exchange reached COP 3.8 t, standing below the level observed in 2024 (COP 4.8 t). A reduction in loan placements in the non-financial corporate sector largely drove this decrease. On the other hand, during the year, the spread between private debt issuance rates and TES yields was, on average, negative.

In 2025 and January 2026, the MSCI Colcap index[41] appreciated, in line with other regional stock markets[42], and recorded higher trading volumes than in 2024. So far in 2026, trading volume has reached historical highs. During 2025, the index appreciated by nearly 50%, driven by most sectors, with a greater contribution from the financial sector, which has the largest weighting in the index. Favorable corporate earnings, the appreciation of certain commodities (particularly gold), and specific corporate events[43] contributed to both higher prices and improved liquidity in the stock market. In January 2026, the increase in foreign investor flows, together with greater participation by local institutional investors such as trust companies and FPCs, pushed trading volume to its highest observed level[44].

Two thousand twenty-six is expected to remain a challenging year for Colombian financial assets amid elevated political and fiscal uncertainty. In the foreign exchange market, some analysts have noted that the scale of MHCP's recent transactions has prompted market participants to adopt more cautious positions. In this context, recent statements by the DTN are also noteworthy, in which it indicated that the Treasury acts like any other market participant and that its activity in the foreign exchange market could increase. As noted, these elements may be reflected, among other factors, in somewhat tighter liquidity conditions in the foreign exchange market, particularly toward the end of 2025 and the beginning of 2026.

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

During 2025, the interconnectedness among financial institutions and between them and the public debt market increased. Pension fund administrators (PFAs), banks, and trust companies were key participants in the TES market (Graph 4.26). In this context, local public debt issuance increased significantly in 2025, particularly following the activation of the fiscal rule's "escape clause". As a result, the outstanding stock of TES reached COP 724.5 t (24.3% higher than in 2024). These issu-

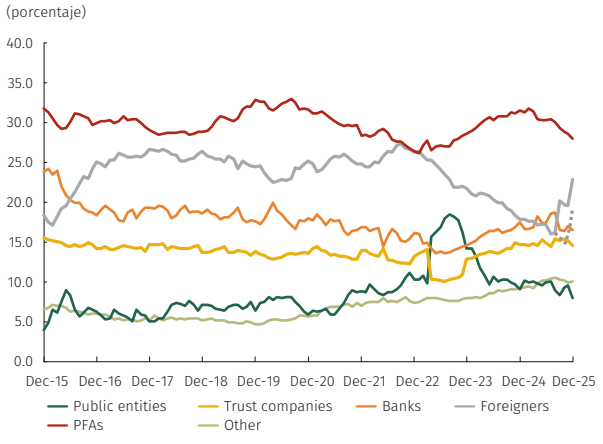
41 The MSCI Colcap Index, the main benchmark of the Colombian stock market, is calculated by the MSCI and includes the twenty-three most liquid stocks from twenty issuers, weighted by exchange-trade capitalization without share limits.

42 In 2025, the MSCI Colcap appreciated by 49.9%, in line with the average performance of the main stock market indexes in Mexico, Peru, Brazil, and Chile (43.2%).

43 During 2025, companies belonging to the Grupo Empresarial Antioqueño, SURA, Grupo Argos, and Cementos Argos carried out corporate spin-offs to simplify their ownership structures and focus their portfolios on companies aligned with their core business activities. Similarly, in 2025, Grupo Cibest carried out share buyback programs. During the November rebalancing of the MSCI Colcap index, shares of Grupo Éxito were added.

44 In 2025, the average daily trading volume (VPDN in Spanish) in the local market reached COP 115 b. During 2026, the VPDN has been COP 210 b.

Graph 4.26
Participation in the TES Market by Type of Entity



Note: The dotted line represents the share of foreign investors excluding the total return swap executed between the National Government and six foreign banks. For further information, see the Financial Stability Report for the second half of 2025 and the Financial Markets Report (Q3 2025).
Source: DCV; calculations by *Banco de la República*.

ances were absorbed mainly by institutions within the local financial system. Within this group, PFAs remained the largest holders of TES, while second place alternated between foreign investors and banks, followed by trust companies. Thus, by year-end, PFAs, banks, and trust companies accounted for 59% of the outstanding TES stock. This high level of participation reflects a strong interlinkage between the financial system and the public debt market, as well as greater exposure to market risk in a fiscally challenging environment. This dynamic could affect the profitability of financial system institutions in the event of adverse market performance and could even limit banks' capacity to extend credit if they prioritize investment in TES over their financial intermediation role. Additionally, the reversal of foreign investors' selling trend in the last quarter of 2025 was mainly attributed to their participation in the National Government's debt management transactions and to direct placements conducted by the MHCP. However, these investors shifted from predominantly long-term, structural investors towards short-term investors, such as mutual funds, which could increase the market's vulnerability to potential outflows and, consequently, to declines in the value of these securities.

The accumulation of TES by banks was mainly driven by their need to hedge their exposures in the forward market. However, these institutions' sensitivity to interest-rate changes remains low and stable. Although foreign investors exhibited a selling trend in the TES market for most of the year, this selling strategy in the spot market was accompanied by purchases in the NDF market for the same securities, with banks as counterparties. Accordingly, the increase in banks' participation in the spot public debt market was mainly explained by a hedging strategy against the exposure arising from their role as counterparties to foreign investors in the forward market. This could amplify the risk of sudden selling in the spot market by banks if foreign investors were to close or not roll over their positions in the NDF market, which could generate downward pressure on TES prices. Consistent with the above, banks' portfolio duration[45] remained stable at low levels, in line with a medium-term investment profile. Similarly, when estimating duration adjusted for NDF positions[46], the portfolio's sensitivity to changes in interest rates was even lower and even declined marginally relative to its level at the beginning of the year.

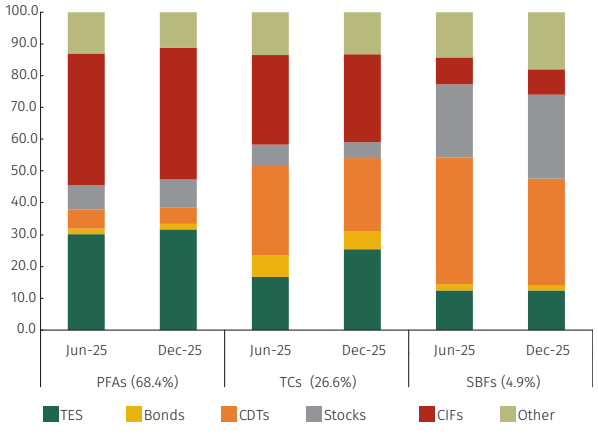
45 Duration is a measure of the time it takes an investor to recover their investment, and it varies with market interest rates and the maturity of the securities. In this way, duration allows for measuring the sensitivity of securities to interest rate changes. The longer the duration, the greater the sensitivity of bond prices to changes in interest rates.

46 This measure is calculated as the duration of long positions in TES minus that of short positions, with both weighted by their respective amounts. Thus, this measure more accurately reflects the extent to which banks' debt portfolios are exposed to changes in interest rates.

Although Government debt management transactions, due to their size, contributed to generating temporary positive variations in TES prices, these securities experienced declines in value during 2025. However, non-bank financial institutions (NBFIs)[47] have experienced significant growth in assets under management, driven primarily by the strong performance of the investment portfolios under their management. Throughout the year, TES interest rates exhibited mixed dynamics. The first half of 2025 was marked by declines in prices amid heightened fiscal risk and a deterioration in Colombia's credit rating. In contrast, in the second half of the year, National Government debt management transactions contributed to a decline in rates during the third and early fourth quarters, bringing them back to levels observed at the start of the year. However, a slower-than-expected convergence of inflation to the target, combined with increased fiscal and political uncertainty and concerns about the effects of the minimum wage increase on employment and the path of the monetary policy interest rate, contributed to TES closing the year with valuation losses. Nevertheless, although NBFIs are significant holders of these securities, as described above, their assets under management were not materially affected by these losses. In contrast, assets under management reached a value of COP 1,484.2 t[48] in December 2025, maintaining its trend of positive real annual growth[49], at 9.6%. This favorable performance is explained by the diversification of the investment portfolio composition, which constitutes a large share of NBFIs' assets under management. However, mixed performance was observed across different types of NBFIs. In the case of PFAs, portfolio growth was mainly driven by the real annual increase in collective investment funds (CIFs), which are the main investment instrument, accounting for 40.4% of their portfolio (Graph 4.27). Meanwhile, the stock brokerage firms' (SBFs) posted positive results, mainly due to the real annual growth in stocks (which account for 26.5% of their portfolio). Lastly, the portfolio of trust companies (TCs) contracted in December, with declines observed across its main instruments, except for TES.

Graph 4.27
Composition of the Managed Portfolio of NBFIs

(percentage)



Abbreviations: Treasury securities (TES), certificates of deposit (CDTs), and collective investment funds (CIFs).
Note: Parentheses show the share of investments reported for each type of entity within the total managed portfolio in SFC Form 351.
Source: Financial Superintendency of Colombia; calculations by *Banco de la República.*

47 They include pension fund administrators (PFAs), insurance companies, trust companies (TCs), and stock brokerage firms (SBFs).

48 The total assets under management of NBFIs are considered; however, custody activities conducted by TCs are excluded. Custodied assets as of December 2025 amounted to COP 384.5 t.

49 Although a monthly decrease of COP 17 t was observed in November, the value of the assets recovered in December.

Box 3
Liquidity Provision by Banco de la República Under the Inflation Targeting Scheme

1. Introduction

The 1991 Political Constitution assigned *Banco de la República* (*Banrep*) the mandate of maintaining low and stable inflation, in coordination with the general economic policy. To fulfill this mandate, since 1999, Colombia has adopted an inflation targeting scheme under a flexible exchange rate system, in which the main instrument for controlling inflation is the monetary policy interest rate (MPR) (also known as the intervention rate or benchmark rate). The Board of Directors of *Banco de la República* (BDBR) sets the MPR at a level consistent with achieving the inflation target over the monetary policy horizon. Subsequently, *Banrep* conducts monetary transactions to align the overnight money market interest rate with the MPR. To this end, it provides liquidity to financial institutions (which in turn transmit it to the rest of the economy) at a minimum cost equal to the MPR, or it absorbs excess liquidity, also using the MPR as a reference.

Consequently, the provision or withdrawal of liquidity is not aimed at fixing the money supply in the economy, but rather at ensuring the necessary liquidity conditions so that the short-term interest rate is consistent with achieving the inflation target. The amount of money in circulation is thus determined by public demand, which depends on the MPR and other variables, such as economic activity and the price level. This scheme also operates under a flexible exchange rate regime, allowing the exchange rate to fluctuate freely in response to market conditions. By allowing the exchange rate and the money supply to adjust flexibly to changing economic conditions, interest rate volatility is reduced.

Operationally, the provision or withdrawal of liquidity to the economy is calibrated so that the supply of the monetary base matches the amount of money demanded by the public and financial institutions when the short-term interest rate equals the MPR set by the BDBR. The monetary base is the money issued by the central bank and is composed of currency in circulation held by the public and the bank reserves of financial institutions. It constitutes the economy's primary liquidity and differs from broader monetary aggregates such as M1, M2, or M3, which include instruments like current accounts, savings deposits, and CDTs, among others, issued by financial institutions and which also perform the functions of money as a means of payment and store of value.

The objective of this box is to present the evolution of primary liquidity supply by *Banrep* over the course of the present century.

2. Operational Framework of Monetary Policy in Colombia

Until the early 1990s, liquidity circulating in the economy came largely from permanent sources, including direct credit from *Banrep* to the Government and to sectoral financial funds. By concentrating all foreign exchange purchases and sales in *Banrep*, a direct impact was generated on the monetary base. These mechanisms, among others, generated recurrent structural expansions in the money supply, which required significant sterilization efforts[1]. That period was characterized by high inflation, averaging around 24%.

1 Between 1974 and 1998, *Banrep* issued participation securities at different maturities, an instrument that allowed it to absorb the excessive liquidity generated, particularly by the coffee boom of the 1980s and the economic expansion of the mid-1990s.

This environment began to change with the 1991 Constitution, which transformed *Banrep* into an independent authority for monetary policy, foreign exchange, and credit, prohibited direct lending to the Government, and banned the monetization of the impact of exchange rate fluctuations on foreign reserves. Liquidity provision ceased to rely on permanent sources and came to depend mainly on *Banrep's* financial operations (open market operations, OMOs)[2], which helped improve monetary control. At the same time, *Banrep* shifted from a position in which it absorbed excess liquidity to one in which it generally supplies liquidity to the economy; that is, it moved to a net creditor position.

Throughout the 1990s, monetary policy was implemented using monetary aggregates as operating targets[3]; however, the exchange rate band regime adopted during that period complicated monetary management. In this context, financial and real shocks to the economy led to significant volatility in interest rates[4]. Additionally, it became evident that money demand was unstable and, therefore, that using monetary aggregates to control inflation was difficult.

Following the dismantling of the exchange rate band in September 1999, the country began transitioning to an inflation targeting scheme. Within this framework, the main instrument of monetary policy is the MPR, the minimum interest rate at which *Banrep* is willing to provide liquidity to authorized institutions (entities of the financial system), from which the maximum rate at which it is willing to absorb excess liquidity is derived. For this reason, under the inflation targeting scheme, the MPR serves as a benchmark for the short-term cost of money. When short-term interest rates are stable and close to the MPR, financial institutions can have a high degree of confidence that the cost of accessing short-term funding will equal the rate announced by the BDBR. This facilitates their liquidity management, the formation of their own lending and deposit interest rate scheme for transactions with their clients, and ultimately the transmission of monetary policy.

Currently, *Banrep* approximates the cost of short-term money in the money market using the overnight Benchmark Banking Indicator (IBR)[5]. Operationally, *Banrep* seeks to avoid pronounced and persistent deviations of this rate from the MPR, as the latter corresponds to the level that the BDBR considers consistent with achieving the inflation target. A positive deviation suggests the presence of liquidity shortages, whereas a negative deviation indicates the presence of excess liquidity.

The negative relationship between demand for the monetary base and the interest rate is illustrated schematically in Diagram B3.1, where the vertical axis represents the overnight IBR and the horizontal axis the level of the monetary base. The supply of the monetary base that the central bank has previously put into circulation (BM_0 supply) is illustrated by the vertical dotted yellow line. It reflects all the transactions previously carried out by the central bank that have affected the stock of currency in circulation held by the public or the reserve balances of financial institutions. In turn, the demand for the monetary base, represented by the green line, has a negative relationship with the interest rate, as this reflects the opportunity cost of holding cash or non-interest-bearing deposits at the central bank for the public or financial institutions. Demand for the monetary base also depends on various economic conditions, such as economic activity, the price level, preferences for the different available payment methods, and regulatory factors (such as the financial transactions tax).

Panel A of Diagram B3.1 illustrates a situation with liquidity shortages. This means that, in the absence of additional central bank transactions, the supply and demand for the monetary base would equilibrate at a market interest rate (IBR_0) above the MPR, implying a more contractionary

2 From 1999 onward, OMOs were restricted to public debt securities.

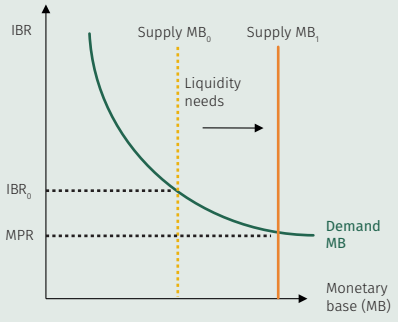
3 In 1994, corridors were adopted for M1 and M3. In 1997, the decision was made to use the monetary base as an intermediate target (see López *et al.*, 2016: https://d1b4gd4m8561gs.cloudfront.net/sites/default/files/publicaciones/archivos/be_952.pdf)

4 In Colombia, in particular, strong capital flows (initially inflows and, toward the end of the decade, outflows) made it difficult to control both the money supply and the exchange rate simultaneously.

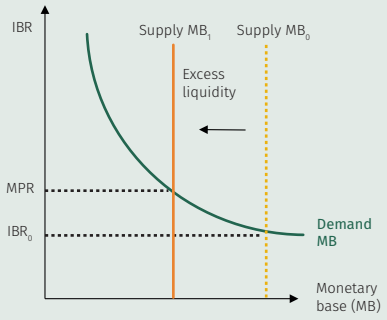
5 The IBR framework began operations in 2008. Previously, the overnight interbank rate (TIB) was used as the benchmark rate.

Diagram B3.1
Supply and Demand of the Monetary Base

A. Situation with Liquidity Needs



B. Situation with excess liquidity



Note: BM0 supply corresponds to the scenario without additional liquidity operations by the central bank; BM1 supply corresponds to the scenario with additional liquidity operations by *Banrep*.
Source: *Banco de la República*.

monetary policy stance than the one defined by the BDBR. It is therefore necessary for *Banrep* to conduct transactions to expand the monetary base to the level indicated by the solid orange vertical line (MB1 supply), thereby providing the liquidity the economy demands to the MPR.

Panel B of Diagram B3.1 illustrates the opposite case, in which the economy has excess liquidity. If the central bank does not carry out any additional transactions, the supply and demand for the monetary base would equilibrate at an interest rate (IBR_0) below the MPR announced by the monetary authority. In that regard, the policy stance would be more accommodative than necessary to achieve the inflation target; therefore, *Banrep* must absorb the excess liquidity.

To determine the magnitude of primary liquidity needs or surpluses, *Banrep* prepares internal projections of the demand for and supply of the monetary base. For demand projections, statistical methods are used that rely on the historical performance of the monetary base and forecasts of other macroeconomic variables (GDP, prices, and interest rates) consistent with the MPR. For the supply, the main items of *Banrep's* balance sheet (Table B3.1) are projected, as explained below.

Table B3.1
Main Accounts of Banco de la República's Balance Sheet

Assets	Liabilities
	Monetary base
Foreign reserves	- Cash
TES	- Reserve
Repos	Government deposits in COP
Other net assets	Contractionary deposits (DRNCE)
	Equity
	Capital
	Profits

Source: *Banco de la República*.

The monetary base is the central bank's main liability and, in some cases, serves as the counterpart to movements in other components of the balance sheet. This implies that changes in assets, such as foreign reserves, TES, or repo transactions, as well as in certain liabilities, including Government deposits and contractionary deposits, can translate into expansions or contractions of primary liquidity. For example, if the Government is expected to increase tax revenues or reduce its expenditure, an increase in the balance of its account at *Banrep* would be projected, which would result in a lower level, or a contraction of the monetary base. Likewise, foreign exchange payments arising from a foreign exchange purchase program by *Banrep* (defined on grounds other than providing liquidity to the economy) would have an expansionary effect on the monetary base.

Although these projection exercises are subject to considerable uncertainty, they make it possible to assess the appropriateness of using the various instruments available to *Banrep* for regulating liquidity in the economy. In particular, they help ensure that the supply and demand

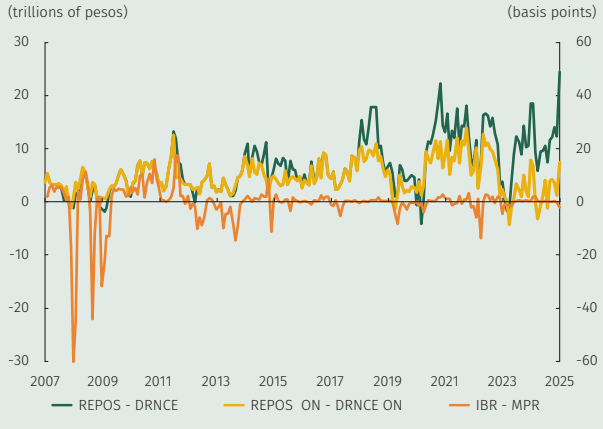
for the monetary base are consistent with the MPR and that no pronounced and persistent deviations occur in the short-term interest rate (in our case, the overnight IBR)[6].

Table B3.1 presents the main items according to economic rather than accounting criteria. Compared with the financial statements submitted to the supervisory authorities (the Financial Superintendency of Colombia and the General Accounting Office of the Nation), some differences may arise; in particular, coins in circulation, which are not part of the accounting information in *Banrep's* statement of financial position, but are included in the monetary base.

Specifically, based on the projected paths of demand for and supply of the monetary base, *Banrep* calculates liquidity needs or excesses and, on that basis, assesses which open market operations (OMOs) are appropriate, seeking to avoid interest-rate pressures. If the differences between the supply and demand for the monetary base are not significant or are short-lived, liquidity shortages (or excesses) can be addressed (or withdrawn) through temporary instruments (repos or remunerated non-reserve deposits [DRNCE in Spanish[7]]). When liquidity needs or excesses are significant and persistent, *Banrep* purchases or sells securities in the secondary market, mainly bonds issued by the Colombian Government (TES)[8]. These instruments are similar to those used by other central banks operating under inflation-targeting schemes and floating exchange rate regimes[9]. In its decisions regarding OMOs, *Banrep* seeks to maintain a position in which it needs to provide moderate liquidity, as the overnight IBR tends to be closer to the MPR in such situations than when excess liquidity must be absorbed (Graph B3.1).

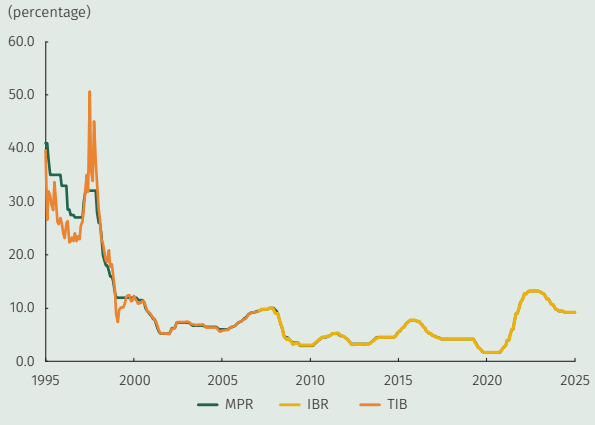
The framework implemented has been successful in significantly reducing volatility in overnight money market rates. This contributes to the proper formation of other interest rates in the financial system and, ultimately, to the transmission of monetary policy (Graph B3.2).

Graph B3.1
Banco de la República's Position and Overnight IBR Spread Relative to the MPR



Note 1: Overnight IBR, MPR, Repos, and interest-bearing deposits not constituting reserve requirements (DRNCE) are monthly averages of daily data.
Note 2: *Banrep's* position corresponds to the difference between the outstanding balance of repos and the outstanding balance of DRNCE. The total position and the overnight (ON) position are presented.
Source: *Banco de la República.*

Graph B3.2
Performance of the Overnight TIB, Overnight IBR, and MPR



Note: TIB (from 1995 to 2007), overnight IBR, and MPR. Monthly average
Source: *Banco de la República.*

6 In preparing projections of the supply of the monetary base, it is essential to forecast the evolution of Government deposits at *Banrep*. Since 2005, as a result of the agreement between the National Government and *Banrep*, the General Directorate of Public Credit and the National Treasury (DGCPTN) has deposited all surplus liquidity from its resources at *Banrep*, where it is remunerated at market rates. Before this agreement, the DGCPTN actively participated in the repo market, which, on the one hand, generated a high degree of uncertainty regarding the balances it would hold at *Banrep* and, on the other, led to the coexistence of two benchmark interest rates (that of *Banrep* and that of transactions with the DGCPTN). Thanks to the interinstitutional agreement, liquidity management, and the anticipation of changes in government deposit balances at *Banrep* improved. See *Banco de la República Journal*, editorial note "Nuevo esquema de suministro de liquidez," May 2005.

7 The BDBR authorized remunerated non-reserve deposits in December 2004 and became operational in April 2007. In these transactions, authorized financial institutions place excess liquidity at *Banrep* for a fixed term in exchange for remuneration. This drains liquidity from the economy during that period, without *Banrep* having to provide securities as collateral.

8 For further details on the instruments available to *Banrep* to regulate liquidity in the economy, see External Resolution 5 of 2022 and its corresponding regulatory circulars, available at: https://www.Banrep.gov.co/es/reglamentacion-expansion-y-contraccion-monetaria

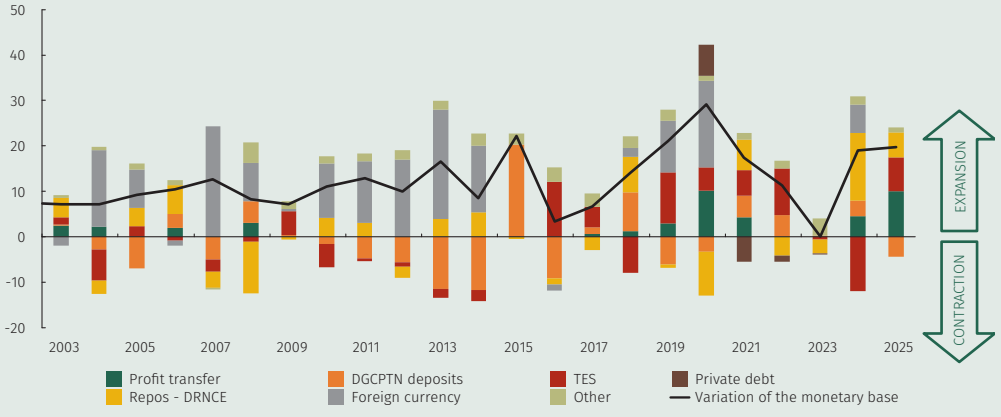
9 According to a BIS survey, the instruments used by some central banks in the region are highly similar to mechanisms used to provide liquidity at the local level. For further details, see: Box 3: "Primary liquidity supply by *Banco de la República*, 2023–2024," in the July 2024 Report to Congress, and "Comparison: Institutional Setup of Monetary Policy Decisions and Operations" (bis.org).

3. Primary Liquidity Supply by *Banrep*, 2001–2025

Over the past 25 years, the country's macroeconomic conditions have influenced how *Banrep* has supplied primary liquidity to the economy. In Graph B3.3, the line shows changes in the monetary base at the end of each year, while the bars reflect the effect of *Banrep's* various operations on it. Positive flows indicate operations that expanded the monetary base, while negative flows indicate those that contracted it.

Graph B3.3
Monetary Base by Source, Annual Flows

(trillions of pesos of December 2025)



Note: CPI was used as a deflator. The profit transfer considers only the payment credited to the deposit account. Repos–DRNCE includes reverse repos up to 2004. For DGCPTN deposits, balances of monetary control deposits are included (associated with the issuance of monetary control TES). Foreign exchange includes transactions with the market and with the National Government (for 2021, the sale of foreign currency to the Government, with payment in TES, corresponding to the extraordinary allocation of SDRs made by the IMF to member countries, is excluded).
Source: *Banco de la República.*

At the beginning of the present century, Colombia implemented the inflation-targeting scheme. During this period, *Banrep* strengthened the use of open market operations (OMOs) as the main instrument for regulating liquidity. During that period, foreign reserves were sold to address critical episodes in the foreign exchange market, and subsequently foreign currency purchases were carried out to restore an adequate level of foreign reserves once the financial and external crisis of the late 1990s had been overcome. It also became necessary to build a portfolio of TES securities to provide *Banrep* with the instruments needed for both permanent and temporary liquidity-absorbing transactions, as required.

Later, the economy experienced large capital inflows and a persistent appreciation of the peso, prompting *Banrep*, in its role as the foreign exchange authority, to intervene in the foreign exchange market to accumulate reserves and moderate potential exchange rate misalignments.

In this context, foreign exchange purchases were the primary source of liquidity supply to the economy during that period[10]. To offset the monetary expansion generated by foreign exchange purchases, *Banrep* intervened in the TES market, selling almost its entire portfolio[11], and, starting in 2007, began using DRNCE as an instrument for temporary liquidity-absorbing transactions. These transactions were implemented instead of reverse repos, which required *Banrep* to deliver sovereign debt securities as collateral[12]. In addition, coordination between the DGCPTN and *Banrep*, which had been strengthened through the 2005 agreement on the management

10 In several of those years, foreign exchange purchases exceeded the change in the monetary base balance.

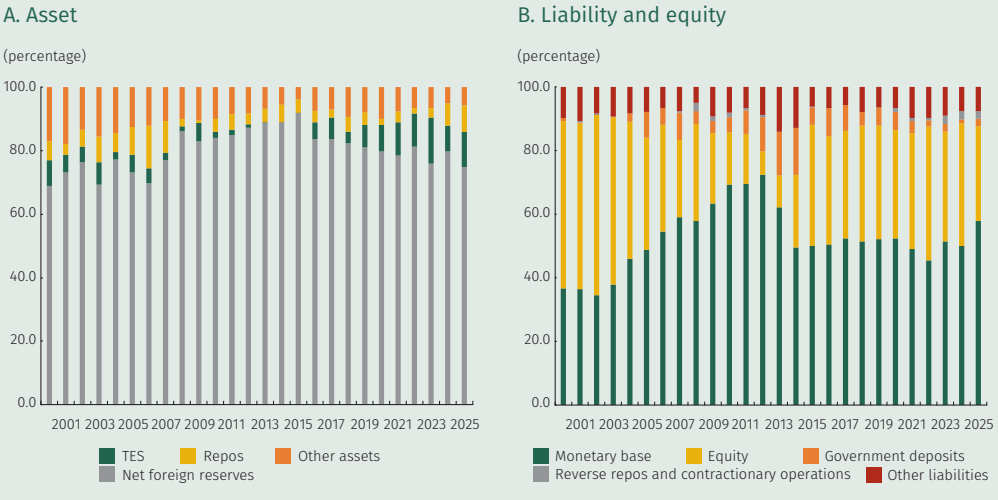
11 Between 2011 and 2014, the stock of TES held by *Banrep* averaged 0.7% of its assets (with a minimum of 0.0% and a maximum of 1.6%).

12 In addition, in 2009 the restriction requiring OMOs to be carried out exclusively with sovereign debt securities was removed, so that *Banrep* can now conduct such operations with other securities, including the issuance of its own securities, subject to prior authorization by the BDBR. This authority has not been used, thanks to coordination with the Government.

of Government liquidity surpluses[13], allowed the Government to increase its balances at the issuer through monetary control TES issuances[14]. In this way, the supply of the monetary base was kept consistent with money demand conditions, and money market rates remained aligned with the MPR (Graph B3.2).

During the period analyzed, foreign reserves increased their share of *Banrep*'s balance sheet (rising from an average of 73% of total assets between 2001 and 2003 to 86% between 2008 and 2014, peaking at 92% in 2015). This occurred despite the marked trend toward appreciation of the Colombian peso. At the same time, during this period, the share of the monetary portfolio declined (TES, which on average accounted for 6.0% of assets between 2001 and 2003, fell to 0.0% in 2014). Regarding liabilities, the share of Government deposits increased, while equity declined as a counterpart to the effect of the strengthening of the peso (Graph B3.4).

Graph B3.4
Evolution of the Composition of Banco de la República's Balance Sheet (percentage of total)



Note: Government deposits include balances of monetary control deposits (associated with the issuance of monetary control TES).
Source: *Banco de la República.*

During the COVID-19 pandemic, demand for liquid assets (particularly currency in circulation held by the public) increased significantly. The monetary base recorded the highest real growth rates of the century (Graph B3.5). At the same time, in response to the effects of the shock on financial markets, *Banrep* adopted extraordinary measures to ensure liquidity and preserve the functioning of the payment system[15]. Specifically, the limits and maturities of repo transactions were expanded, including the possibility of conducting them backed by private securities and promissory notes, and outright purchases of TES and private debt securities (CDTs and bonds issued by credit institutions) were carried out. To withdraw potential excess liquidity, *Banrep* conducted auctions of contraction deposits[16]. When the extraordinary increase in demand for the monetary base began to reverse, *Banrep* carried out signifi-

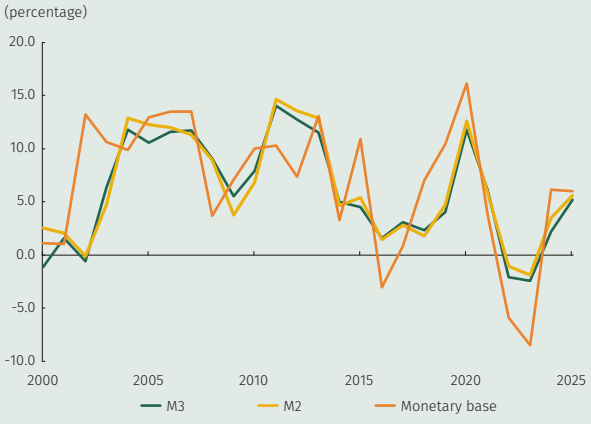
13 See footnote 6.

14 In 2011 (Law 1450), the Monetary Control TES mechanism was authorized, under which the Ministry of Finance issued TES with specific benchmarks determined by *Banrep*, and the proceeds were permanently deposited at *Banrep*, which also assumed the financial cost of those securities. For further information, see the shaded section "Monetary Control TES" in the *Report of the Board of Directors to the Congress of Colombia*, March 2013 (available at https://repositorio.Banrep.gov.co/server/api/core/bitstreams/40468f58-68fc-4d9b-b7bb-94cc14974d4f/content)

15 Additionally, foreign exchange hedging intervention mechanisms were activated, with a very limited impact on the monetary base, and the Government made foreign currency purchases to strengthen the foreign reserve position. For further details, see the *Report of the Board of Directors to the Congress of Colombia* of March and July 2020, and March 2021 (available at https://www.Banrep.gov.co/es/publicaciones-investigaciones/informe-junta-directiva-congreso/historico-informes)

16 Specifically, from 27 March 2020 to 19 May 2021, daily auctions of contraction deposits were conducted.

Graph B3.5
Annual Real Percentage Variation in the Monetary Base and in M2 and M3 Aggregates



Note: CPI was used as a deflator.
Sources: Financial Superintendency of Colombia, DANE, and *Banco de la República*; calculations by *Banco de la República*.

cant sales of TES to withdraw excess liquidity that could have exerted downward pressure on the overnight IBR.

In the current decade, the transfer of *Banrep*'s profits to the Government has been a significant source of monetary expansion in some years (Graph B3.3). In accordance with *Banrep*'s legal framework, the residual profits, after deducting the net investment in assets for cultural activities and appropriating the statutory reserves, shall accrue to the Nation. Since 2020, this transfer of profits has been carried out in cash by depositing into the Government's account at *Banrep*, by delivering TES held by the central bank, or by a combination of these two forms of payment. When profit payments are made through deposits into the Government's account at *Banrep*, this generates monetary expansion that is reflected only as a higher monetary base when the Government makes payments using those resources.

In 2025, the transfer of *Banrep*'s fiscal year 2024 profits accounted for 50.9% of the total increase of the monetary base[17]. To supply liquidity, *Banrep* carried out purchases of TES equivalent to 50.7% of the change in demand for the monetary base. This expansion, of a permanent nature, was offset by the contraction generated by coupon payments from *Banrep*'s TES portfolio and, at the end of the year, by a higher balance of government deposits at *Banrep* compared to 2024[18]. Additionally, throughout the year *Banrep* conducted daily repo auctions at the usual maturities of seven days and overnight (except for some days in January, February, and November, when repos with maturities of fourteen and thirty days were offered)[19], and received contraction deposits through the standing facility, whereby temporary liquidity instruments made it possible to adjust day-to-day mismatches between the supply of and demand for the monetary base[20].

4. Evolution of the Demand for the Monetary Base and Broad Money

The initial issuance of money by the central bank is known as "primary issuance," since it is from this that financial intermediaries (credit institutions) can expand the money supply through the creation of deposits, such as savings accounts, current accounts, or instruments such as CDTs, which is known as "secondary issuance." These instruments, created by financial intermediaries, fulfill the functions of money in the economy as a means of payment and a store of value.

Observed balances of the monetary base or any other definition of money reflect the demand that economic agents have for these types of instruments, in accordance with agents' preferences and current and expected economic conditions. In that regard, the levels of mone-

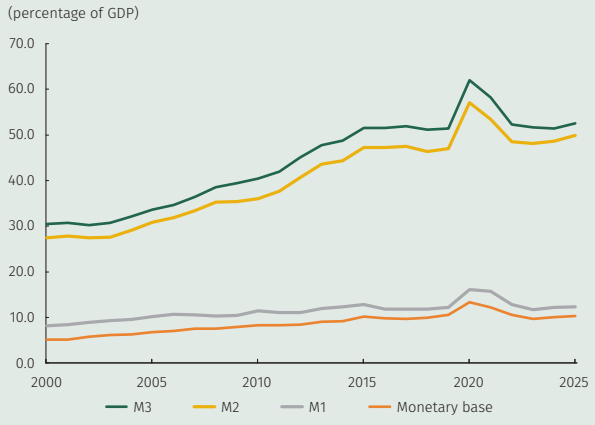
17 Between the end of December 2024 and the end of December 2025, the monetary base increased by COP 19.7 trillion (t). *Banrep*'s profits transferred to the Government amounted to COP 10,031 billion (b) and were paid in full as a credit to its deposit account at *Banrep*.

18 During 2025, *Banrep* received coupon payments from its TES portfolio amounting to COP 2,507 b. At the end of the year, Government deposits at *Banrep* were COP 4,396 b higher than those recorded a year earlier (rising from COP 3,619.4 b to COP 8,016 b).

19 In 2025, the average balance of expansionary repos backed by sovereign debt securities was COP 19,736 b (10.3% of the average monetary base balance), while that of DRNCE amounted to COP 8,093 b (4.2% of the average monetary base balance).

20 Throughout 2025, *Banrep* conducted daily repo auctions at the usual maturities of seven days and overnight (except for some days in January, February, and November, when repos with maturities of fourteen and thirty days were offered), and received contraction deposits exclusively through the standing facility.

Graph B3.6
Monetary Base, M2, and M3 as a Percentage of GDP



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

tary aggregates reflect the decisions of households, firms, and, in general, the various agents in the economy.

Since the adoption of the inflation-targeting scheme, real growth in money demand in Colombia has been positive for most of the period[21], regardless of the definition used. This performance is explained by economic growth and greater financial deepening. Over the past ten years, the ratio of the monetary base and other monetary aggregates to GDP has remained relatively stable, suggesting growth consistent with the country's economic activity. The exception was the COVID-19 pandemic period, when money demand increased significantly but temporarily, so that in recent years it has returned to the GDP ratios observed in 2019 (Graph B3.6).

5. Conclusions

Under the inflation-targeting scheme, in a flexible exchange rate regime, the supply of primary liquidity by *Banco de la República* has operated as a mechanism to sustainably align very short-term interest rates with the MPR. *Banrep* manages the set of open market operations (OMOs) so that the short-term price of money (measured by the overnight IBR) promptly reflects the monetary policy stance, preserving credibility and facilitating its transmission to remaining interest rates.

This institutional transition allowed liquidity to cease depending on permanent sources that were difficult to sterilize and to be managed instead through more flexible and reversible market operations. Within this scheme, the performance of OMOs has responded to changes in *Banrep's* balance sheet —foreign exchange interventions, reserve accumulation, and variations in Government deposits. As a result, liquidity policy has largely consisted of offsetting these impulses to avoid persistent deviations of the overnight IBR from the MPR. The introduction and consolidation of instruments (auction repos and standing facilities, outright purchases/sales of TES, DRNCE, and *Banco de la República* securities) expanded the operational toolkit, reduced the reliance on delivering collateral during liquidity-absorption phases, and strengthened the ability to respond to liquidity surpluses and shortages, even when sources of expansion/contraction change or when stress episodes arise with a high preference for liquidity. Likewise, the transfer of *Banrep's* profits to the Government can constitute a significant source of monetary expansion, highlighting that the realization of these impulses depends on the Government's effective use of such resources and, therefore, on operational coordination around public deposits.

Overall, the scheme has been successful in keeping the overnight money market interest rate aligned with the MPR, with very small and short-lived deviations. This condition is necessary for the orderly transmission of monetary policy. Moving forward, the challenge is to continue strengthening forecasting capacity (projections of the supply and demand for the monetary base) in an environment of changing payment methods, greater volatility in external flows, and variations in Government balances. Finally, the evidence suggests that demand for the monetary base and for broad money has, in general terms,

21 Specifically, in Colombia M1 includes cash held by the public and current account deposits; M2 adds savings accounts and CDTs; and M3 also includes other instruments issued by credit institutions (such as collected funds and bonds issued by these entities).

been consistent with the economic cycle. This reinforces the idea that, under this regime, nominal stability is achieved primarily through anchoring inflation expectations and managing the policy interest rate, while monetary aggregates serve as monitoring and diagnostic variables for liquidity and financial intermediation.

References

Banco de la República (2000). "La estrategia de política monetaria", Editorial Note, *Banco de la República Journal*, October, available at: https://publicaciones.*Banrep*cultural.org

Banco de la República (2005). "Nuevo esquema de suministro de liquidez", Editorial Note, *Banco de la República Journal*, May, available at: https://publicaciones.Banrepcultural.org

Banco de la República (various years). *Report of the Board of Directors to the Congress of Colombia*, available at: https://www.Banrep.gov.co/es/publicaciones-investigaciones/informe-junta-directiva-congreso/historico-informes

Banco de la República (2015). *Financial Stability Report*, September, available at: https://www.Banrep.gov.co/es/publicaciones-investigaciones/reporte-estabilidad-financiera/septiembre-2015

Banco de la República (2023). Box 1: Recent liquidity conditions and the role of *Banco de la República*, in *Financial Markets Report*, third quarter, available at: https://www.Banrep.gov.co/es/publicaciones-investigaciones/reporte-mercados-financieros/recuadro-1-tercer-trimestre-2023

Banco de la República (2024a). Box 3: Liquidity supply by *Banco de la República*, 2023–2024, *Report of the Board of Directors to the Congress of Colombia*, July, available at: https://www.Banrep.gov.co/sites/default/files/publicaciones/archivos/recuadro-3-informe-congreso-julio-2024.pdf

Banco de la República (2024b). "Monetary policy and liquidity supply," *Banrep* Blog, available at: https://www.Banrep.gov.co/es/blog/politica-monetaria-suministro-liquidez

Banco de la República (2015). *History of Banco de la República, 1923–2015*, available at: https://repositorio.Banrep.gov.co/handle/20.500.12134/11165

Bank for International Settlements (2023). II. Monetary policy in the 21st century: lessons learned and challenges ahead, at *BIS Annual Economic Report 2024, Ch. II, 41, 89.*, at: https://www.bis.org

Clavijo, S.; Varela, C. (2003). "Flotación cambiaria y esterilización monetaria: la experiencia de Colombia", *Borradores de Economía* (Working Papers on Economics), No. 256.

López, E.; Vargas, H.; Rodríguez, N. (2016). "La estrategia de Inflación objetivo en Colombia. Una visión histórica", *Borradores de Economía* (Working Papers on Economics), No. 952.

05/ External Balance and Foreign Reserves

5.1 Developments and Outlook of Colombia's Balance of Payments

In 2025, the external balance recorded a larger deficit than the previous year, largely driven by a wider goods trade imbalance, amid strong domestic demand dynamics and a decline in mining and energy exports. The current account recorded a deficit of USD 10,883 million (m) (2.4% of annual GDP), USD 3,871 m higher (0.7 pp of GDP) compared to 2024 (Table 5.1). This larger external imbalance was mainly explained by the widening of the goods trade deficit, which reached USD 5,677 m. This performance was partially offset by higher net current transfer income (USD 927 m), a reduction in the services trade balance deficit (USD 488 m), and lower net outflows from factor income (USD 391 m). This occurred in the context of continued strong domestic demand, lower prices for certain exported commodities such as oil and coal, strong performance in foreign tourism, and still high levels of workers' remittances. Meanwhile, the financial account, including the increase in foreign reserves, recorded net capital inflows of USD 9,047 m (2.0% of GDP), USD 3,470 m higher than in 2024.

The widening of the goods trade balance deficit was the result of stronger growth in foreign purchases of goods imports (USD 6,082 m) relative to exports (USD 406 m), increasing the trade deficit to USD 14,832 m in 2025, while the services balance deficit narrowed. External purchases increased by 10.1% annually, driven by consumer goods (USD 3,211 m, 21.8%) and industrial inputs and capital goods (USD 2,720 m, 8.9%), while imports of fuels and lubricants declined (USD 598 m, 11.0%). On the export side, the increase was modest (0.8%), with significant declines in mining and energy products offset by better performance in other sectors (coffee and manufactured goods) (see Box 4). In services trade, exports increased by USD 1,550 m compared to 2024, driven mainly by higher revenues from non-resident travel expenditure (USD 728 m) and, to a lesser extent, by sales of modern services, particularly information technology services. Imports, in turn, increased by USD 1,062 m, mainly due to higher outflows related to traditional services. The goods and services trade balance recorded a larger deficit in 2025, despite favorable terms of trade and the boost from non-traditional agricultural exports and services exports (see Box 4).

Colombia's terms of trade improved by 5.9% in 2025 compared to the previous year. This performance was mainly driven by increases in international coffee and gold prices, as well as a decline in import prices in US dollar terms. These factors more than offset the decline observed in oil prices. The improvement in the terms of trade between 2024 and 2025 was driven by increases in the US dollar prices of exported commodities such as coffee and gold, which recorded annual changes of around 52% and 37%, respectively. This performance was further reinforced by the decline in import prices in US dollar terms, particularly for capital goods and inter-

Cuadro 5.1
Balanza de pagos de Colombia

Current Account (millions of dollars)	2024 (p) Jan-Dec	2025 (p) Jan-Dec	Variation (millions of dollars)
Current account (A + B + C)	-7,012	-10,883	-3,871
Percentage of GDP	**-1.7%**	**-2.4%**	
A. Goods and services	-9,682	-14,871	-5,189
1. Goods	-9,156	-14,832	-5,677
FOB exports	51,091	51,496	406
FOB imports	60,246	66,329	6,082
2. Services	-527	-39	488
Exports	18,037	19,587	1,550
Imports	18,564	19,626	1,062
B. Factor Income	-12,837	-12,446	391
Profits and interest from direct investment[a/]	-5,058	-4,320	738
Interest, dividends, and other income[b/]	-7,779	-8,126	-347
C. Current Transfers	15,507	16,435	927
Revenues	17,126	17,995	869
Expenses	1,619	1,560	-59
Financial account Annual flows (millions of dollars)	**2024 (p) Jan-Dec**	**2025 (p) Jan-Dec**	**Variation (millions of dollars)**
Financial account with variation in foreign reserves (A + B + C + D)	-5,577	-9,047	-3,470
Percentage of GDP	**-1.3%**	**-2.0%**	
A. Direct investment (ii-i)	-9,172	-7,310	1,862
i. Foreign investment in Colombia (FDI)	13,684	11,469	-2,215
Percentage of GDP (FDI)	**3.3%**	**2.5%**	
ii. Colombian investment abroad	4,512	4,159	-352
B. Loan portfolio investment (1+2)	2,272	-7,480	-9,752
1. Public sector (ii-i)	-2,310	-14,227	-11,917
i. Foreign loan portfolio investment (a+b)	3,144	15,285	
a. International markets (bonds)	4,073	4,675	
b. Local market (TES)	-929	10,610	
ii. Loan portfolio investment	834	1,058	
2. Private sector (ii-i)	4,581	6,746	2,165
i. Foreign loan portfolio investment (a+b)	-31	4,586	
a. International markets (bonds)	-569	3,327	
b. Local market	538	1,259	
ii. Loan portfolio investment	4,550	11,332	
C. Other capital flows: public sector + private sector	-2,270	3,578	5,848
D. Reserve assets	3,593	2,165	
Mistakes and omissions (E and O)	1,435	1,835	400
Memo item			
Financial account excluding variation in foreign reserves	-9,171	-11,213	-2,042
Variation of foreign reserves	3,593	2,165	

(p): Provisional.
(pr): Preliminary.
a/ Direct investment interest refers to those related to debt transactions between companies with a direct investment relationship.
b/ Corresponds to income from loan portfolio investment, loans and other external credit, reserve assets, and employee compensation.
Source: *Banco de la República.*

mediate inputs, which fell by around 7.3% and 4.3% compared to the previous year, respectively. These factors offset the decline in international prices of mining and energy commodities, such as oil, coal, and ferronickel, as well as the moderation observed in flower prices.

Higher net current transfer income (USD 927 m) and lower net factor income outflows (USD 391 m) also limited the widening of the external imbalance. The increase in current transfers is mainly explained by higher workers' remittances, which amounted to USD 13,098 m in 2025, with an annual increase of 10.6% (USD 1,250 m). These revenues were equivalent to 2.9% of annual GDP and 13.2% of current account revenues in the balance of payments. This growth was mainly driven by remittances sent from Spain and the United States. In turn, lower net factor income outflows (USD 391 m), reflecting higher net income from profits and interest on foreign direct investment (USD 738 m), partially offset by higher net returns and net interest payments on loan portfolio investment and other external loans (USD 347 m). In the case of direct investment income, this outcome is mainly explained by higher revenue from Colombia's direct investment abroad (USD 495 m) and lower profits of firms with foreign direct investment (FDI) (USD 243 m). In the case of net returns and interest, the reduction is mainly explained by higher net outflows from loan portfolio investment (USD 906 m), partially offset by higher net income from other investments (USD 559 m).

In 2025, financing of the external deficit came mainly from foreign loan portfolio investment (USD 19,871 m), followed by FDI (USD 11,469 m) and, to a lesser extent, net external credits (USD 850 m). Net inflows in the financial account, including reserves, totaled USD 9,047 m (2.0% of GDP), representing an increase of USD 3,470 m in net inflows compared with 2024. These inflows resulted from foreign capital inflows of USD 32,190 m, capital outflows by Colombian residents to the rest of the world of USD 22,685 m[1], payments by non-residents to residents related to financial derivatives of USD 1,707 m, and an increase in foreign reserves (from reinvested earnings) of USD 2,165 m. By instrument type, non-resident purchases in the local market (USD 11,869 m) and foreign loan placements (USD 8,002 m) explained the increase in loan portfolio investment capital inflows (see Shaded Section 1). FDI flows moderated compared with 2024, with a greater share in financial and business services, followed by mining and oil. The results of the balance of payments financial account for 2025 reflect a change in the composition of current account financing over the past year, with FDI no longer being the main source of external financing for the country.

Foreign loan portfolio investment became the main source of external financing in 2025, driven by resources received primarily by the public sector (USD 15,285 m). This phenomenon can be observed in the significant participation of the public sector in foreign loan portfolio investment, namely: 89.4% (USD 10,610 m) of non-resident purchases of debt securities in the local market corresponded to public debt, and 58.4% (USD 4,675 m) of the total value of foreign loan placements was attributable to the public sector. It is worth noting that, although the private sector received fewer loan portfolio investment resources than the public sector, these amounts were equivalent to approximately 40% of total FDI received during the same period.

1 Of these outflows, USD 6,903 m correspond to loan portfolio investments and deposits abroad made by pension and insurance funds, including reinvested earnings from accumulated balances of such investments in previous years.

FDI became the second-largest source of current financing due to its lower level compared with 2024 (USD 2,215 m). This dynamic is mainly explained by lower inflows to the trade, restaurants, and hotels sector (USD 811 m), financial and business services (USD 633 m), mining and oil (USD 541 m), and manufacturing (USD 410 m), partially offset by higher investment in transport and communications activities (USD 425 m).

In turn, in 2025, net inflows from external credits were recorded (USD 850 m), reflecting net disbursements by the private sector, which more than offset net amortizations by the public sector. During the analysis period, private sector firms received net disbursements of USD 1,133 m, below the level recorded in 2024 (USD 4,496 m). In contrast, on a net basis, the public sector made debt amortizations of USD 284 m, a lower amount than in the immediately preceding year (USD 2,181 m).

For 2026, *Banrep's* technical staff expects a moderate widening of the current account deficit compared with 2025. This behavior would be mainly associated with continued strong domestic demand driving imports, and lower export values for certain export products. The wider goods trade deficit would occur in a context in which, although international oil prices would remain above those observed in 2025 as a result of the recent conflict in the Middle East, some exports would face constraints related to production and export volumes. This would be compounded by continued strong domestic demand driving imports, with broad-based growth in external purchases of consumer, intermediate, and capital goods. Additionally, global geopolitical tensions, particularly the conflict in Iran, could exert upward pressure on international prices for certain energy inputs and imported raw materials, which would also affect import values. In contrast, a factor income deficit of a magnitude similar to the one recorded in the previous year is projected, along with slightly higher surpluses in services and current transfers, supported by the dynamism of the tourism sector and still-elevated remittance flows, although with a marked slowdown in the latter compared with 2025. These factors would help contain a further widening of the current account deficit.

From the perspective of the saving and investment aggregates, the projected widening of the external deficit in 2026 is consistent with a public-sector imbalance that would remain negative and sizeable, and with a reduction in the private-sector surplus. In particular, the public sector is expected to remain in deficit this year, although a marginal improvement in its savings and a slight deterioration in its investment as a percentage of GDP would lead to some reduction in its negative imbalance. On the other hand, the private sector would reduce its surplus in 2026, in line with lower savings and investment, which would remain broadly stable as a share of GDP.

For 2026, the country would maintain access to external financing amid US interest rates remaining above pre-pandemic levels and a Colombian risk premium that would continue to be above its historical average. Although FDI declined in 2025, it is expected to increase in 2026 and regain its role as the main source of external financing. This performance would be explained by a sectoral reallocation in which lower investment in oil and mining would be offset by higher inflows to other sectors, driven by the expected dynamism of domestic demand. However, there remains significant uncertainty regarding the evolution of these flows, given risks associated with the recent increase in both global and domestic risk perceptions. In turn, the public sector would also contribute to external financing, in line with the projected

high fiscal deficit, although with a smaller share than in 2025, when it accounted for 138% of the country's total net capital inflows. In 2026, the public sector's share would decline to 56%, a level that would nevertheless remain above the 25.5% average observed between 2022 and 2024.

5.2 Foreign Reserves

In compliance with Law 31 of 1992, *Banco de la República* manages foreign reserves in accordance with the public interest, benefiting the national economy and facilitating the country's external payments. In this framework, the law defines that the investment of reserve assets shall be conducted in accordance with the criteria of safety, liquidity, and return. The safety criterion involves an adequate control of investment-related risks, ensuring these risks are managed within acceptable parameters and levels. To this end, *Banco de la República's*[2] Foreign Reserves Committee sets strict limits on exposures to each of the different risks faced by foreign reserves. To meet the liquidity criterion, the Bank invests foreign reserves in highly liquid assets that are easily tradable or short-term assets. Additionally, investment tranches are defined based on liquidity and return objectives. Once the criteria for low-risk investment of the foreign reserves are defined, the management policy aims to ensure adequate returns, as required by law for *Banco de la República*. The Annex provides an explanation of the policies that guide reserve investment, as well as some relevant definitions.

The main objective of foreign reserves is to protect the country against external shocks that may impact trade and financial flows and, depending on their size, could jeopardize macroeconomic stability. For example, trade flows may be affected by a drastic reduction in exports or an unusual increase in imports, thereby tightening the country's external liquidity. Similarly, financial flows could be affected by difficulties in accessing external financing, such as tighter access to international credit or greater capital outflows from both foreign investors and residents. Foreign reserves are also a key factor in the perception of domestic borrowers' creditworthiness, as credit rating agencies and external lenders consider that an adequate level of foreign reserves would allow residents to meet foreign-currency obligations, such as the payment of imports and external debt service, at times when the country faces difficulties in accessing external financing. In this regard, an adequate reserves level helps to enhance the perceived risk profile of the country and its residents, facilitating access for both the Government and the private sector to international capital markets.

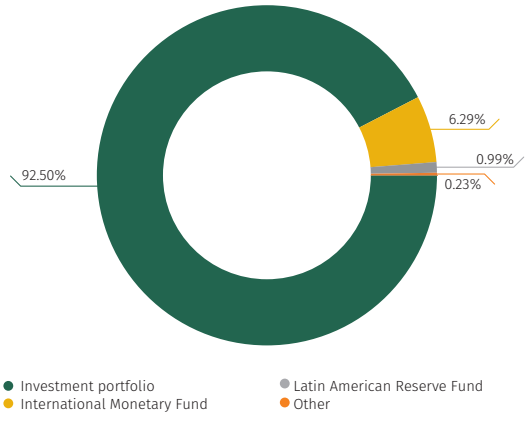
***Banco de la República* maintains external liquidity buffers in amounts deemed sufficient to ensure coverage of the country's external shocks.** In this context, it is recognized that maintaining an adequate level of liquidity in foreign currency is crucial for preventing and dealing with external shocks, considering various international metrics. For example, it is considered desirable that the level of foreign reserves managed by *Banco de la República* exceeds the sum of the current account deficit plus the projected payments of external debt.

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

In 2025, there was an increase in the level of foreign reserves, which stood at USD 66,352 m at the end of the year. This increase was driven by the positive returns obtained during the period. Net foreign reserves[3] increased by USD 3,871 m over the course of the year. The return on foreign reserves in 2025, excluding the exchange rate component, was 4.76% (USD 3,067 m). This result was mainly driven by higher interest rates, which had a positive impact on the return on foreign reserves through increased inflows from interest income. Additionally, the return of foreign reserves was favored by investment valuations, due to lower short-term interest rates in the main markets where reserves are invested. Finally, the increase in foreign reserves was supported by the appreciation of other reserve currencies against the U.S. dollar. This resulted in a positive exchange rate valuation effect (USD 849 m).

The main component of foreign reserves is the investment portfolio. This corresponds to investments in financial instruments on the international market and certified physical gold (91.53% and 0.98% of reserves, respectively). Graph 5.1 shows the composition of foreign reserves as of December 2025.

Graph 5.1
Composition of Foreign Reserves
(information as of 31 December 2025)



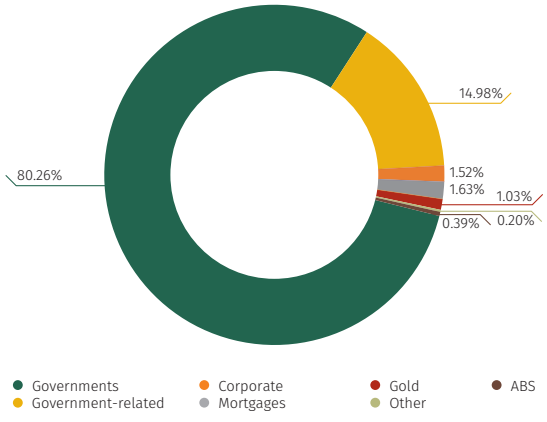
Note: Gold is included within the investment portfolio. The "*Other*" category includes international agreements, cash on hand, and on-demand deposits.
Source: *Banco de la República.*

5.2.1 Reserve Indicators

The various metrics on foreign reserves continue to indicate that Colombia maintains an adequate level, without exceeding the necessary amount to meet the country's external needs and provide solid backing against potential external shocks. This assessment holds even after accounting for the loss of access to the International Monetary Fund's (IMF) Flexible Credit Line (FCL). This instrument had complemented the country's external liquidity since April 2009, and the possibility of its gradual reduction was one of the factors that justified the foreign reserve accumulation program in 2024. One of the most widely used indicators at the international level to assess reserve adequacy is the IMF's Assessing Reserve Adequacy (ARA) metric. This framework establishes that foreign reserves should be sufficient to cover the primary balance of payments risks during periods of foreign exchange market pressure. This indicator seeks to protect against risks associated with loss of access to external financing, loss of confidence in the local currency, reversal of capital flows, and a potential contraction in external demand. According to the IMF standard, an economy is considered to hold an adequate level of reserves if the ratio between its actual reserves and their adequate level (accord-

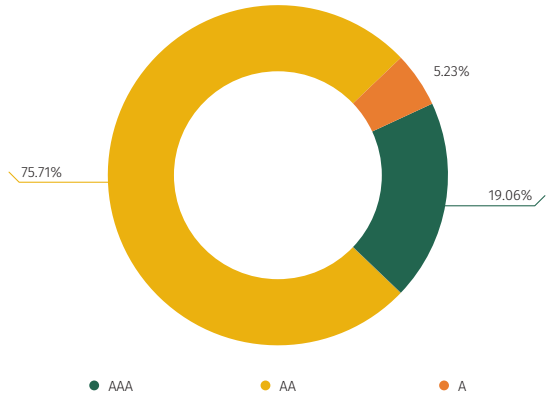
3 Net foreign reserves are equal to total foreign reserves, or gross reserves, minus the short-term external liabilities of *Banco de la República*. The latter consists of demand obligations in foreign currency with non-resident agents. Gross foreign reserves amounted to USD 66,379 m, while short-term external liabilities totaled USD 26 m.

Graph 5.2
Composition of the Investment Portfolio by Sector
(information as of 31 December 2025)



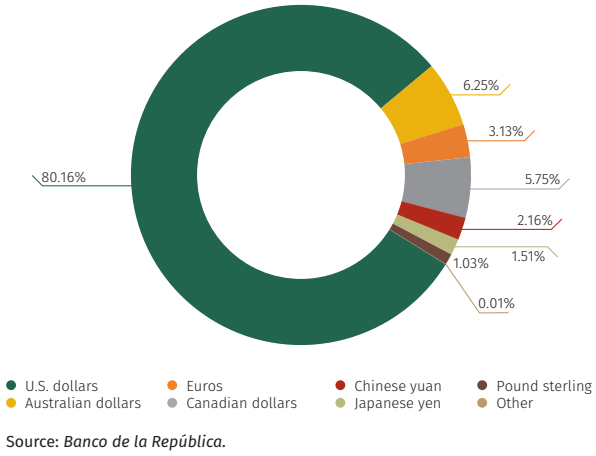
Source: *Banco de la República.*

Graph 5.3
Distribution of Investments by Credit Rating
(information as of 31 December 2025)



Source: *Banco de la República.*

Graph 5.4
Foreign Exchange Composition of the Investment Portfolio
(information as of 31 December 2025)



Source: *Banco de la República.*

ing to the ARA methodology) falls within the range of 1.0 to 1.5. Based on the most recent information available corresponding to January 2026, this ratio for Colombia stands at 1.24.

5.2.2 Composition of the Investment Portfolio

The investment portfolio is primarily composed of securities issued by governments and government-related entities. As shown in Graph 5.2, as of 31 December 2025, approximately 95.23% of the portfolio was invested in securities issued by such entities.

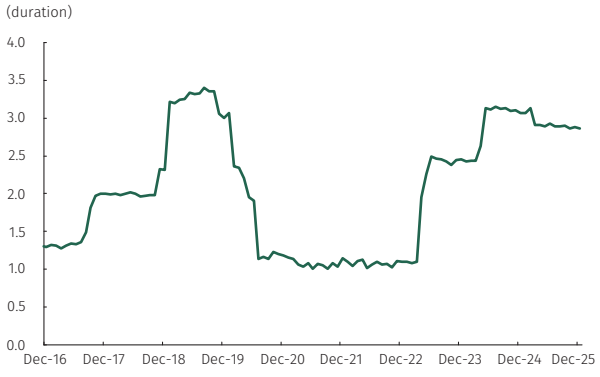
The investment portfolio's composition by credit rating reflects the high credit quality of the assets in which it is invested. Graph 5.3 shows that 19.06% of the portfolio was invested in AAA rated instruments and 75.71% in AA rated instruments. The credit rating used by *Banco de la República* as reference corresponds to the lowest long term credit rating issued by at least two of the three major credit rating agencies (S&P, Moody's, and Fitch Ratings). In addition to credit ratings, the Bank incorporates the monitoring of environmental, social, and governance (ESG) criteria into the foreign reserves risk management process.

The investment portfolio comprises currencies characterized by high daily trading volumes and issued by countries with high credit ratings, with the U.S. dollar accounting for the largest share. Graph 5.4 displays the currency composition of the investment portfolio as of 31 December 2025. Given that one of the objectives of foreign reserves is to cover the country's external payments during periods of tighter access to external financing, the currency composition of Colombia's foreign reserves seeks to replicate the behavior of the country's balance of payments outflows. In this regard, reserves seek to hedge the volatility in the country's external payments arising from exchange rate movements. The U.S. dollar has the largest share of Colombia's foreign reserves, as most of the country's trade and financial transactions with the rest of the world are conducted in this currency. Investments are also allowed in the following currencies: Canadian, Australian, and New Zealand dollars; Swedish krona; pound sterling; Swiss franc; euro; yuan; yen; Norwegian krone; renminbi; Hong Kong and Singapore dollars; and South Korean won.

During 2025, *Banco de la República* reduced the duration[4] of its investment portfolio, resulting in a portfolio with returns less sensitive to changes in interest rates. Graph 5.5 shows the evolution of the investment portfolio's duration. As of 31 December 2025, the investment portfolio had a duration of 2.85, which

4 Duration is a risk measure defined as the percentage decrease (increase) in the value of a portfolio in response to a 1.0% increase (decrease) in all interest rates.

Graph 5.5
Duration of the Investment Portfolio
(information as of 31 December 2025)



Source: *Banco de la República.*

implies that the portfolio's value could increase (decrease) by 2.85% in response to a 1.0% decrease (increase) in the rates of all the bonds within the portfolio.

5.2.3 Returns on Reserves

The return on foreign reserves depends mainly on two factors: the accrual of interest and the valuation of securities. The first factor corresponds to the interest received from the instruments in which foreign reserves are invested, while the valuation component reflects changes in the prices of securities due to interest-rate movements. This second factor arises from the inverse relationship between the prices of bonds and the interest rate: when interest rates increase, bond prices decline, and vice versa.

As of 31 December 2025, foreign reserves recorded a positive performance, primarily driven by the interest accrual effect from investments within the portfolio (interest factor) and, to a lesser extent, the appreciation of the portfolio resulting from less restrictive monetary policies (valuation factor). Foreign reserves recorded a return of 4.76%[5] in 2025. Interest rates in the principal markets where foreign reserves are invested remained elevated relative to historical levels, generating a positive return (interest factor) throughout the year. Additionally, as a result of monetary policy decisions by most central banks in developed economies, short-term interest rates of sovereign bond yield curves declined, leading to an appreciation of shorter-duration investments (valuation factor).

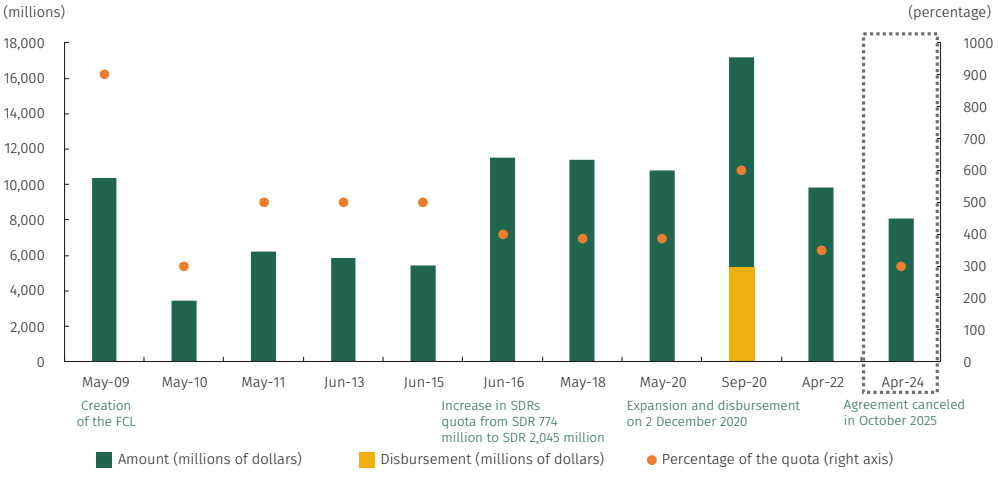
The outlook for the return on foreign reserves in 2026 remains favorable, particularly regarding interest income appreciation. Although interest rates in most markets have declined over the past year, they remain at relatively elevated levels; therefore, interest accrual is expected to continue to be favorable. In most markets, interest rates appear to have reached a point of stability, with no significant pressures for further cuts or hikes. In this context, the valuation effect on portfolios would be moderate, as no sharp declines in interest rates are anticipated that would drive significant capital gains.

5 This return is calculated by dividing the observed return by the average value of net reserves as of 31 December 2024 and 31 December 2025. Since 2015, the exchange rate effects have been excluded from reserve returns.

5.2.4 Measures to strengthen International Liquidity

From 2009 to 2025, Colombia benefited from successive arrangements under the Flexible Credit Line (FCL). Over the years, access under the FCL has ranged between 300% and 900% of the institution's country quota (Graph 5.6). Since its initial access in 2009, the Colombian authorities had granted the instrument a fully precautionary status. However, in September 2020, it was granted partial precautionary status under the arrangement approved in 2020, following the country's disbursement at the end of that year amid heightened pandemic-related uncertainty.

Graph 5.6
Colombia's Historical Access to the FCL



Sources: *Banco de la República* and IMF (official communications).

In December 2025, the Colombian authorities completed the payment of the resources disbursed in December 2020 under the FCL arrangement. The disbursement carried out by the Colombian authorities amounted to approximately USD 5,400 m (equivalent at the time to 183% of the country's quota). For the payment of the principal, eight quarterly installments were established, each of SDRs of 468,750,000, beginning in March 2024 and ending in December 2025. Likewise, the corresponding interest payments were made on a quarterly basis from the date of disbursement in December 2020 and have also been fully settled. With the completion of the payments related to the disbursement, the obligations arising from that operation (which were fully assumed by the National Government through the Ministry of Finance and Public Credit, with *Banco de la República* acting in its capacity as fiscal agent), as well as the term of the agreement signed between the Ministry and the Bank, have been concluded.

The Colombian authorities (the Ministry of Finance and Public Credit and *Banco de la República*) requested the cancellation of the current arrangement under the FCL on 01 October 2025. The Executive Board of the IMF approved this arrangement in April 2024 for two years and for USD 8,100 m, equivalent to 300% of the country's quota. The Colombian authorities regarded it as a precautionary instrument to face external risks.

The request to cancel the arrangement was made after the IMF suspended access to the instrument's resources in April 2025. In the case of FCL arrangements approved for two years, although the approved amount is available throughout the arrange-

ment period, the Executive Board must complete a mid-term[6] review immediately before the end of the first twelve months for the country to maintain access to the line's resources during the second year. Additionally, this review is contingent upon the completion of the ongoing Article IV consultation, which requires that the macroeconomic policy framework be assessed as very strong in the consultation as part of the assessment of the qualification criteria[7]. In Colombia's case, the IMF mission that visited the country at the beginning of the year decided to postpone the completion of the Article IV consultation. As a result, the mid-term review of the aforementioned FCL arrangement was not completed, leading to the suspension of access to the resources until the arrangement expired.

The Executive Board concluded the 2025 Article IV consultation on 29 September 2025, and the assessment indicated that the country's fiscal policy had deteriorated relative to the previous evaluation. This outcome implied that the country would not be able to regain access to the resources under the FCL and, therefore, the suspension of access would remain in effect until the arrangement expired. In light of this situation, the authorities decided to request its cancellation. As access to the resources was no longer available, maintaining the arrangement did not provide any benefit to the country; however, it did entail the continued accrual of commitment fees, a financial charge established by the IMF that applies to precautionary financing facilities such as the FCL.

The decision taken to cancel the current FCL took place within the context of a sound international liquidity position for the country. At the time of the arrangement's cancellation, foreign reserves stood at USD 65.5 billion (b). This level was achieved as a result of the reserve accumulation program carried out in 2024 for USD 1.5 b, as well as portfolio returns of USD 4.5 b from the beginning of 2024 through September 2025.

Additionally, *Banco de la República* also has access to the Federal Reserve's Repo Facility (FIMA), which serves as an instrument for immediate liquidity in U.S. dollars under extreme circumstances. In these transactions, FIMA account holders (central banks and other international monetary authorities with accounts at the Federal Reserve Bank of New York) exchange their U.S. Treasury bonds held in custody at the Federal Reserve (Fed) for U.S. dollars, with a commitment to repurchase the securities the following day, together with interest. The main benefit for *Banco de la República* in accessing the FIMA Repo Facility is the ability to obtain U.S. dollar liquidity without permanently selling assets from the foreign reserves portfolios, thereby mitigating both liquidity and market risks. The Bank would use this facility only if, having decided to sell dollars in the spot market, the Treasury securities market exhibit very low liquidity at that time.

---

6 The mid-term review assesses recent developments in the macroeconomic outlook, the expected evolution of risks over the duration of the arrangement, policy initiatives, and the country's assessment against the qualification criteria.

7 These criteria are: 1) a sustainable external position; 2) a capital account that must be mostly financed by private flows; 3) a consistent track record of access to capital markets with favorable terms; 4) an adequate position of foreign reserves; 5) sound public finances, including a sustainable public debt position; 6) low and stable inflation within a robust monetary and exchange rate policy framework; 7) a sound financial system without banking solvency problems that could pose a risk to systemic stability; 8) effective supervision of the financial sector; and 9) data transparency and integrity.

Finally, *Banco de la República* has access to liquidity facilities provided by the Bank for International Settlements (BIS), which complement the availability of external liquidity from foreign reserves. Under these facilities, central banks' investments with the BIS serve as collateral for liquidity provision by the BIS. In this sense, *Banco de la República* could access contingent and immediate liquidity without having to sell assets from foreign reserves portfolios invested in BIS instruments, which could be particularly useful under extreme circumstances of low liquidity in global fixed-income markets or episodes of high-risk aversion. Particularly, in the first half of 2025, the BIS renewed these facilities for the Bank for a total of USD 2,000 m, which would only be used exceptionally in the event of extreme market conditions[8]. In this regard, the Bank considers these facilities as precautionary lines that complement the availability of external liquidity from foreign reserves.

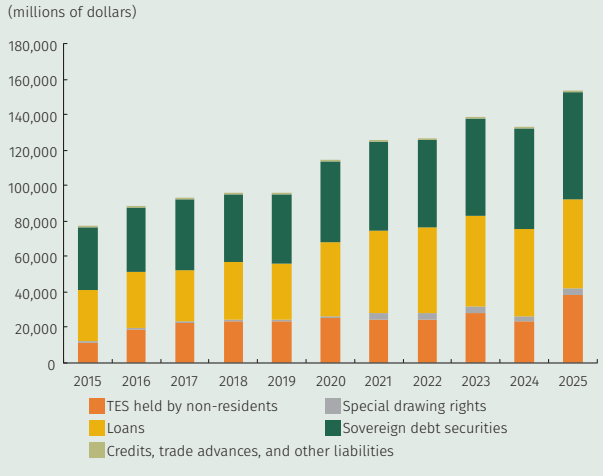
8 Such entity reserves the right to approve or deny applications for access to the instrument and for the disbursement of the facility. The BIS reviews each central bank's request for access to the line and, if applicable, its request for disbursement.

Shaded Section 1
Evolution of Colombia's External Debt

At the end of December 2025, Colombia's external debt reached USD 246,801 million (m), equivalent to 53.8% of GDP. This balance was USD 25,848 million (4.9%) higher than that recorded in December 2024. 86.1% of this amount corresponds to long-term obligations (maturity of more than one year), while the remaining 13.9% consists of short-term maturities (one year or less). By instrument type, the external debt balance consists mainly of loans and bonds.

By sector, public external debt accounts for 61.9% of the total, while private sector debt represents 38.1% (Graph S1.1). In addition, 13.3% of the total corresponds to intercompany loans between entities with direct investment relationships.

Graph S1.1
Public Sector External Debt Balance by Instrument



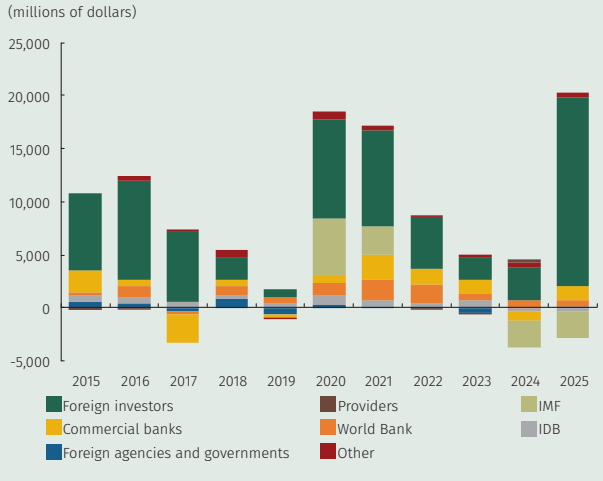
Source: *Banco de la República.*

1. Public Sector

At the end of December 2025, the public sector's external debt stood at USD 153,427 m, equivalent to 33.3% of GDP. This amount was 15.4% higher than that recorded in 2024 (USD 133,007 m). The increase was mainly due to higher non-resident purchases of TES. To a lesser extent, net issuance of debt securities in international markets also contributed (Graph S1.1).

By instrument type, debt securities issued in international markets accounted for 39.7% of the total balance (USD 60,874 m), followed by loans (32.4%; USD 49,735 m) and TES held by non-residents (25.3%; USD 38,820 m). The remainder corresponds to liabilities associated with Special Drawing Rights (SDRs).

Graph S1.2
Net Flow of Public Sector External Debt by Lender

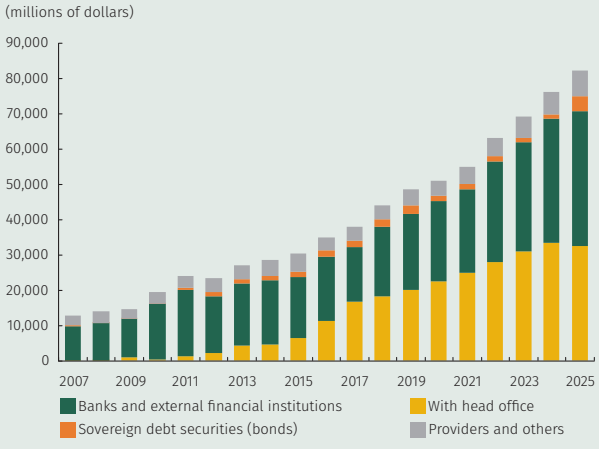


Source: *Banco de la República.*

During 2025, the net flow (disbursements minus amortizations) of public external debt totaled USD 17,550 m, higher than that recorded in 2024 (USD 983 m). The main source of external financing is the placement of TES in the domestic market, acquired by non-resident institutional investors (USD 13,159 m), and, to a lesser extent, the net issuance of bonds in international markets (USD 4,675 m).

Additionally, in 2025, the public sector recorded net amortizations of USD 284 m, reflecting repayments on the contingent financing facility obtained from the IMF to cover pandemic-related expenditures (USD 2,532 m) and amortizations of loans extended by the Inter-American Development Bank (IDB) (USD 254 m). These transactions were partially offset by disbursements received from commercial banks (USD 1,245 m), the

Graph S1.3
Private Sector External Debt Balance



Source: *Banco de la República.*

World Bank (USD 643 m), and agencies, foreign governments, and other lenders (USD 614 m) (Graph S1.2).

2. Private Sector

At the end of December 2025, the private sector's external debt stood at USD 94,054 m (20.5% of GDP). Of this amount, 87.4% corresponded to liabilities of the non-banking corporate sector, and the remaining 12.6% to debt incurred by banking institutions. By maturity, 65.0% of this balance is long-term debt, while the remaining 35.0% is short-term debt (Graph S1.3).

Regarding the outstanding balance of the non-banking sector debt, 85.75% corresponded to liabilities owed to foreign financial institutions, 6.92% to trade credit, and the remaining 7.33% originated from bonds and insurance-related liabilities. At the end of 2025, the outstanding stock of banks' external debt was primarily composed of loans and debt securities, accounting for 56% and 40.7%, respectively.

The net flow of external debt of the private sector in 2025 amounted to USD 5,752 m, reflecting net disbursements of USD 6,353 m by non-banking companies and net amortizations by banks (USD 601 m). By instrument, the main net disbursements were observed in debt securities (USD 3,327 m), followed by loans (USD 1,703 m). Finally, the outstanding balance of intercompany debt among entities with a direct investment relationship totaled USD 3,327 m in December 2025. During the year, net flows under this item amounted to USD 1,002 m.

Shaded Section 2
Participation of *Banco de la República* in the Bank for International Settlements

In compliance with Law 1484 of 12 December 2011, which authorized the incorporation of *Banco de la República* as a shareholder of the Bank for International Settlements (BIS)[1], this shaded section presents a report on the most relevant activities carried out with that institution in recent months. In accordance with the granted authorization, the Bank subscribed for 3,000 shares of the BIS for an amount of 65,712.000 Special Drawing Rights (SDRs), equivalent to USD 100,978,710, which are recorded at their acquisition cost in SDRs under the item "contribution in international organizations and entities."

In recent months, *Banco de la República's* management has actively participated in the institution's regular meetings, in which recent developments and the outlook for the global economy and financial markets are reviewed. In particular, the meetings of governors from member countries of the BIS have focused on issues such as the evolution of growth and inflation dynamics, fiscal policy and debt developments, the trajectory of the U.S. dollar, labor market dynamics, the rise of non-bank financial intermediaries and their impact on monetary policy, and the implications of population aging for financial stability. Additionally, discussions have addressed the review of monetary policy frameworks, the development of stablecoins in the region, the communication of monetary policy in times of uncertainty, and the heterogeneity of the effects of artificial intelligence across emerging and advanced economies.

Within the framework of activities coordinated by the Consultative Council for the Americas (CCA) of the BIS, the Bank actively participates in research projects, working groups, and conferences across various areas of central banking. Likewise, the Bank participated in working groups such as the Consultative Group of Directors of Financial Stability (CGDFS) and the Consultative Group of Directors of Operations (CGDO), in which, respectively, monitoring frameworks for the financial system and medium-term risks arising from the increase in sovereign debt were discussed.

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

Within the scope of the BIS consultative groups that conduct research and analysis in areas such as financial stability and banking operations, of which *Banco de la República* is a member, particular note is made of the publication in April 2025 of the report Leveraging Tokenisation for Payments and Financial Transactions[2] by the Consultative Group on Innovation and the Digital Economy (CGIDE). Also noteworthy is the paper Governance of AI Adoption in Central Banks[3], published in January 2025 by the Consultative Group on Risk Management (CGRM).

Finally, representatives of the Bank had the opportunity to attend the annual meeting of deputy governors of central banks from emerging market economies that are members of the BIS, which focused on capital flows, exchange rates, and financial conditions in emerging markets within a changing international monetary system.

2 The report is available at: https://www.bis.org/publ/othp92.htm

3 The report is available at: https://www.bis.org/publ/othp90.htm

Box 4
Colombia's Foreign Trade Basket of Goods and Services: Recent Trends

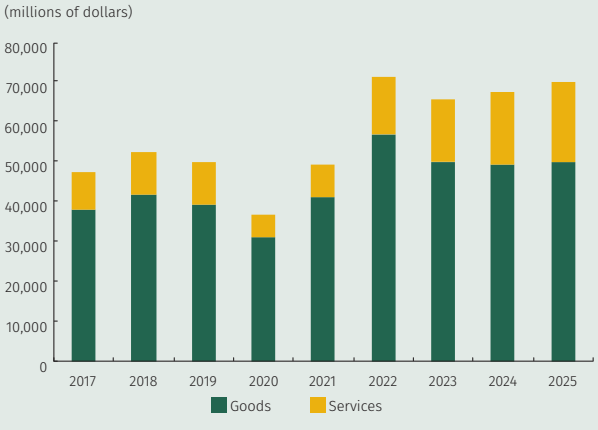
External income is fundamental to the economic development of countries, particularly for developing economies such as Colombia. These flows constitute an important component of national income and support economic growth by enabling the expansion of production, investment, the adoption of technological improvements, and increases in productivity, among other factors. Additionally, diversifying sources of external income helps ease the economy's external constraints and reduces vulnerability to different shocks.

In Colombia, external income has been characterized by a high concentration in goods exports, particularly primary commodities. However, in recent years, the composition of the goods export basket has changed. In turn, the growth of export of services has recently helped reduce the country's trade deficit. Between 2017 and 2025, the export dynamics of goods and services were characterized by four phases (Graph B4.1):

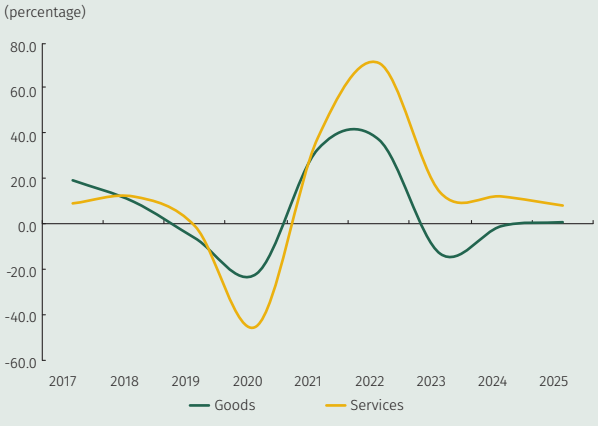
1. The pre-pandemic period was characterized by an export structure concentrated in primary commodities, particularly oil, coal, and coffee, and in travel and transport services.
2. The COVID-19 shock, a period during which Colombian exports declined significantly, was driven by the decrease in global demand and the sharp fall in oil prices. Services trade, particularly tourism and transport, experienced an even sharper contraction due to mobility restrictions.
3. The subsequent post-pandemic recovery, when exports peaked in 2022, was driven by higher volumes, a significant increase in oil and coal prices, and continued growth in services exports.
4. Since 2023, a recent phase of adjustment and rebalancing of exports has been observed, toward more moderate growth, with a greater role for services and for non-mining and non-energy exports. This occurred in the context of a slowdown in the global economy and a normalization of commodity prices.

Graph B4.1
Composition of Colombian Exports Between 2017 and 2025

A. Evolution of the Composition of Colombian Exports



B. Annual Growth Rate of Colombian Exports



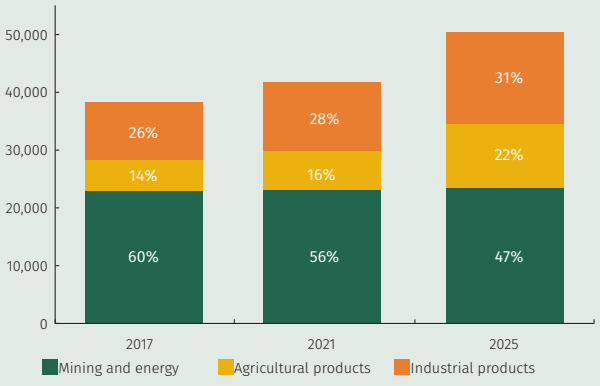
Source: Colombian Tax and Customs National Authority (DIAN in Spanish), DANE, and *Banco de la República*; calculations by *Banco de la República*.

The evolution of the goods export basket (Graph B4.2) shows a lower share of mining and energy products, which declined from 60% of total exports in 2017 to 47% in 2025, a year in which lower oil prices and moderate external demand constrained their growth. This weaker performance also reflects a significant rebalancing of the country's goods export basket, marked by a greater role for agricultural and industrial products, which gained relative share while reaching higher levels between 2021 and 2025.

This rebalancing was driven by higher exports of coffee (supported by improved prices and larger volumes), industrial products, gold, and other metallic minerals (such as copper and its derivatives). To a lesser extent, higher sales of flowers, other agricultural products, and

Graph B4.2
Goods Export Basket

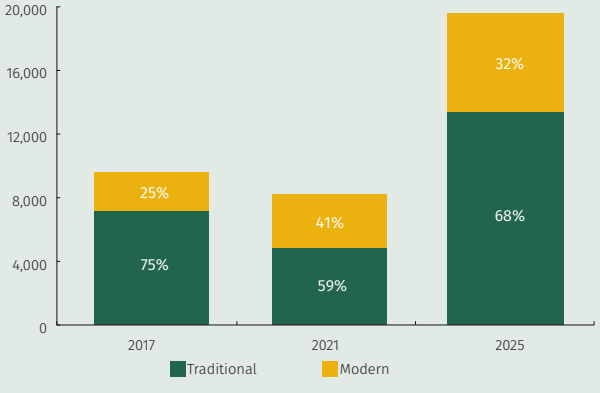
(millions of dollars)



Note: Mining and energy correspond to oil and its derivatives, coal, gold, ferronickel, and other mining products. Agricultural products include coffee, bananas, flowers, and other agricultural products.
Source: DIAN, DANE, and *Banco de la República*; calculations by *Banco de la República.*

Graph B4.3
Evolution of Services Exports

(millions of dollars)



Source: Balance of payments, *Banco de la República.*

bananas also contributed to growth. Within industrial goods, notable growth was observed in food and chemical products. The foregoing suggests progress—albeit still limited—in diversification.

Regarding services exports, the literature classifies them by increasing tradability, driven by Information and Communication Technology (ICT) and the internet. As a result, some services no longer require physical interaction between the provider and the buyer to carry out the transaction, thereby distinguishing traditional[1] from modern[2] services (Mishra, 2011; ECLAC, 2017).

In Colombia, services exports have become increasingly important in generating external income, growing at an average annual rate of 9.0% between 2017 and 2025, while goods exports grew at 3.3% over the same period. In turn, the export basket is concentrated in traditional services, mainly travel and transport, which accounted for 68% of total exports in 2025 (Graph B4.3).

Despite the importance of traditional services, it is worth noting the increasing share of modern services in Colombia, which rose from 18% of total services exports in 2005 to 25% in 2017 and 32% in 2025, driven by the ease of delivery through electronic means. Additionally, they have grown faster than traditional services between 2017 and 2025, at an average annual rate of 13%.

Modern services include a wide range of activities that add more value than traditional services and rely on a more highly skilled workforce. These include, for example, contact center services, administrative and technical consulting, computer services, advertising, legal services, among others.

The diversity and cross-cutting nature of these services have allowed them to exhibit significant dynamics and to contribute to recent changes in the structure of Colombia's export basket. The development of ICT and greater global connectivity has enabled the digital delivery of various modern services, thereby fostering greater integration of services into global trade as distance barriers are overcome (Oliver, 2023).

In Colombia's export basket, this is reflected in a higher share of modern services following the pandemic. Lockdown measures and mobility restrictions enabled services to leverage their ability to be delivered electronically and to shift toward more specialized activities, such as software and web application development, and technical support services, among others.

Likewise, international dynamics such as the relocation of services enable firms with foreign capital to participate in global trade by providing services from locations closer to their affiliates and under more attractive conditions, such as skilled labor and infrastructure, among others (A. T. Kearney Global Services Location Index, 2023).

1 Traditional services are characterized by requiring the physical presence of both the provider and the consumer for the transaction to occur, such as transport services, maintenance and repair services, travel, construction, personal, cultural, and recreational services, manufacturing services on physical inputs owned by others, and government services.

2 In these services, the use of ICT facilitates their tradability. This category includes telecommunications, computer and information services, financial services, insurance and pension services, charges for the use of intellectual property, and other business services.

To summarize, exports of goods and services have shown gradual progress in diversification and a greater contribution to external income. A higher share of agricultural goods, mainly coffee, and industrial products is observed. In turn, services exports, particularly those associated with the use of information and communication technologies, play a more prominent role. This rebalancing broadens the country's sources of external income and provides alternatives for integration into other sectors, particularly in higher-value-added activities.

References

Economic Commission for Latin America and the Caribbean (2017). *International Trade Outlook for Latin America and the Caribbean, 2017* (LC/PUB.2017/22-P), Santiago, 2017.

Mishra, S.; Lundstrom, S.; Anand, R. (2011). "Service Export Sophistication and Economic Growth," *Economic Premise*, No. 55, The World Bank.

Oliver, S. (2023). "Services Trade, Distance, and the Internet," *SSRN Electronic Journal*, available at: https://doi.org/10.2139/ssrn.4467509

06/ Financial Situation of *Banco de la República*

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

As of 31 December 2025, *Banco de la República's* assets amounted to COP 330,560 billion (b), liabilities to COP 231,268 b, and equity to COP 99,292 b. The Bank's assets decreased compared to the end of 2024 due to the lower peso value of its foreign reserves. This is explained by the effect of the appreciation of the Colombian peso against the currencies in which those reserves are invested. In turn, the balance of liabilities increased due to developments in the monetary base and the balance of Government deposits at the Bank. Finally, equity decreased mainly due to the exchange rate adjustment account (Table 6.1).

Relative to the end of 2024, total assets decreased by COP 12,146 b (-3,5%), mainly reflecting the effect of the domestic currency's appreciation when foreign reserve balances are expressed in Colombian pesos. Net foreign reserves are the largest component of the Bank's assets. Their balance in U.S. dollars increased by USD 3,871 million (m) annually[2], driven by portfolio returns (USD 3,067 m) and a positive exchange rate differential from the depreciation of the U.S. dollar against other reserve currencies (USD 850 m). However, the annual appreciation of the Colombian peso against the U.S. dollar (14.8%) at the end of 2025 resulted in a lower balance when expressed in Colombian legal tender than that recorded a year earlier. The other components of assets recorded a net increase of COP 14,052 b, explained by a higher value of the portfolio of public debt instruments (TES) of COP 8,952 b (31.9%), mainly as a result of net purchases of these securities in the secondary market (COP 9,999 b)[3], and by a higher balance of expansionary repos relative to the end of 2024 of COP 3,872 b (16.1%) (Table 6.1).

At the end of 2025, liabilities increased by COP 21,825 b (10.4%), reflecting the expansion of the monetary base. The annual increase in the monetary base of COP 19,714 b (11.4%) is explained by stronger growth in both currency in circulation and bank reserves, which increased by COP 17,841 b (13.1%) and COP 1,873 b (5.2%), respectively. Government deposits at the Bank also increased by COP 4,396 b (121.5%) relative to the balance at the end of 2024, while the balance of monetary contractionary deposits decreased by COP 1,536 b (-16.4%) (Table 6.1).

---

1 This section shows the items according to economic and non-accounting criteria. Compared to the financial statements submitted to the Financial Superintendency of Colombia and the National General Accounting Office, the differences are: 1) the assets discount the value of the liabilities associated with foreign reserves portfolio purchases for which payment has not yet been made (in the Bank's financial statements, this is recorded as a higher value of the asset and as an enforceability of foreign reserves in the liabilities); 2) the assets and liabilities of this section include the coins in circulation, which is not part of the liabilities of the Bank's balance sheet; and 3) other reclassifications of lower-value accounts. In this regard, the values of assets and liabilities presented in this Report (COP 330,560 b and COP 231,268 b, respectively) differ from those recorded in the Financial Statements as of 31 December 2025 (COP 333,092 b and COP 233,800 b).

2 See Chapter 5 of this *Report*.

3 See Box 3, "Liquidity Provision by *Banco de la República* under the Inflation Targeting Scheme," in this *Report*.

Finally, relative to the end of 2024, equity decreased by COP 33,972 b (25.5%), due to the negative variation recorded in the exchange rate adjustment account of foreign reserves. The exchange rate adjustment account decreased by COP 36,830 b (28.7%), mainly as a counterpart to the effect of the lower exchange rate of the peso versus reserve currencies[4]. In addition, the 2025 annual profit amounted to COP 13,893 b,

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

Accounts	December 2024		December 2025		Variation	
	Balances	Percentage Share	Balances	Percentage Share	Absolute	Percentage
Assets	342,706	100.0	330,560	100.0	-12,146	-3.5
Net foreign reserves	275,489	80.4	249,291	75.4	-26,198	-9.5
Participation in international organizations and entities	8,289	2.4	9,162	2.8	873	10.5
Investments in TES held by *Banrep*	28,063	8.2	37,014	11.2	8,952	31.9
Expansionary repos	24,043	7.0	27,915	8.4	3,872	16.1
Other net assets	6,823	2.0	7,178	2.2	355	5.2
Liabilities and equity	342,706	100.0	330,560	100.0	-12,146	-3.5
Liabilities	209,443	61.1	231,268	70.0	21,825	10.4
Monetary base	172,800	50.4	192,515	58.2	19,714	11.4
Cash	136,645	39.9	154,486	46.7	17,841	13.1
Reserve	36,156	10.6	38,029	11.5	1,873	5.2
Monetary contractionary deposits	9,372	2.7	7,835	2.4	-1,536	-16.4
National Government deposits	3,619	1.1	8,016	2.4	4,396	121.5
Obligations to international organizations	23,521	6.9	22,792	6.9	-729	-3.1
Other deposits	130	0.0	110	0.0	-20	-15.5
Total equity	133,264	38.9	99,292	30.0	-33,972	-25.5
Capital	13	0.0	13	0.0	0	0.0
Reserves	744	0.2	744	0.2	0	0.0
Surplus	127,144	37.1	90,324	27.3	-36,821	-29.0
Exchange rate adjustments account[a/]	128,185	37.4	91,354	27.6	-36,830	-28.7
Special Foreign-exchange Account (CEC in Spanish)	453	0.1	453	0.1	0	0.0
Investment in assets for cultural activities	382	0.1	392	0.1	10	2.5
Transfers to international organizations	-1,943	-0.6	-1,943	-0.6	0	0.0
Cumulative effect of accounting change – Decree 2386 of December 2015	67	0.0	67	0.0	0	0.0
Other Comprehensive Income (OCI)	-4,679	-1.4	-5,682	-1.7	-1,003	21.4
Results	10,041	2.9	13,893	4.2	3,852	38.4

a/ It includes the exchange rate adjustment account of net foreign reserves, liabilities to the IMF (SDR allocations), and liabilities to FLAR (Andean pesos).
Note: This table presents the items according to economic rather than accounting criteria. Compared to the financial statements submitted to the Financial Superintendency of Colombia and the National General Accounting Office, the differences are: i) the assets deduct the value of the liabilities associated with the purchase of foreign reserve portfolios on which payment has not yet been made (in the Bank's financial statements, this is recorded as a higher asset value and as an enforceability of foreign reserves in the liabilities); ii) the assets and liabilities in this section include coins in circulation, which is not part of the accounting information in the Bank's Statement of Financial Position; and iii) other reclassifications of lower-value accounts. In this regard, the values of assets and liabilities presented in this Report (COP 330,560 b and COP 231,268 b, respectively) differ from those recorded in the Financial Statements as of 31 December 2025 (COP 333,092 b and COP 233,800 b).
Source: *Banco de la República.*

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

reaching its highest historical level. The above was partially offset by the transfer of profits to the National Government charged to 2024 results in the amount of COP 10,031 b[5], and by the reduction in the other comprehensive income (OCI) account of COP 1,003 b (Table 6.1).

6.2 Income Statement (P&L)

6.2.1 Closure as of December 2025

In 2025, the Bank's profit reached a new record of COP 13,893 billion, driven by revenues of COP 17,283 b and expenses of COP 3,390 b (Table 6.2). The profit was COP 3,852 b higher than in 2024, due to an increase in revenue (COP 3,335 b) and a decrease in expenses (COP 516 b). When breaking down the profit and loss (P&L) account into its main components, the result is explained by net monetary income of COP 14,880 b, which exceeds net expenses of COP 190 b from issuing and putting into circulation banknotes and coins, and net corporate expenses of COP 797 b.

During 2025, revenues were primarily originated by the net income from foreign reserves. Particularly, net income[6] recorded in the P&L[7] from these reserves amounted to COP 11,894 b[8], an increase of COP 2,555 b compared to 2024. Most of these returns came from interest accrual (COP 8,807 b). Additionally, interest and returns on TES held by the Bank and on expansionary repos amounted to COP 3,029 b and COP 1,726 b, respectively, with annual increases of COP 549 b and COP 127 b. In the case of TES, the increase in returns was mainly driven by a higher average balance held by the Bank[9]. As for interest on expansionary repos, the annual increase was driven by a higher average balance in 2025, partially offset by lower remuneration rates, in line with the gradual reduction in the policy interest rate set by the Board of Directors of *Banco de la República* (BDBR) since December 2023[10]. Within monetary income, other monetary income and exchange rate differences amounted to COP 6 b and COP 5 b, respectively. Finally, the face value of metallic coins put into circulation, amounting to COP 342 b, and corporate income, amounting to COP 279 b, were higher than those recorded in 2024 by COP 115 b and COP 48 b, respectively.

On the other hand, expenses were mainly driven by the remuneration of National Government deposits at the Bank and monetary contractionary deposits, as well as by corporate expenses. In 2025, remuneration of Government deposits amounted

---

5 The profits were transferred via deposit into the Government's accounts at the Bank. See https://www.banrep.gov.co/es/noticias/banrep-obtuvo-utilidad-2024

6 Net of recoveries.

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

8 The total return on foreign reserves observed in 2025 amounted to COP 12,463 b. The return on foreign reserves recorded in the P&L, amounting to COP 11,894 b, is obtained by: 1) deducting from total returns the transfers to the OCI arising from net unrealized profits on the passive management portfolio during the period, amounting to COP 681 b; and 2) including the realization of accumulated profits from prior periods, previously recognized in the OCI, amounting to COP 112 b.

9 The annual increase in average interest rates (purchase IRR) also contributed to the rise in TES returns, albeit to a lesser extent.

10 In 2025, the remuneration rate and the daily volume of expansionary repos averaged 9.34% and COP 19,330 b, respectively, compared with 11.14% and COP 15,137 b in 2024.

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

	Observed		Annual variations	
	2024	2025	Absolute	Percentage
I. Total Income (A + B + C)	13,948	17,283	3,335	23.9
A. Monetary income	13,490	16,662	3,172	23.5
Interests, yields and others	13,419	16,650	3,231	24.1
Foreign reserves	9,340	11,894	2,555	27.4
TES held by the Banrep	2,480	3,029	549	22.1
Expansionary repos	1,599	1,726	127	8.0
Foreign exchange differences	42	5	-37	-87.9
Other monetary income	29	6	-23	-78.1
B. Face value of coins put into circulation	228	342	115	50.4
C. Corporate income	231	279	48	21.0
Commissions: banking services and trust business	188	216	28	15.1
Other corporate revenues	43	63	20	46.7
II. Total Expenses (A + B + C)	3,907	3,390	-516	-13.2
A. Monetary expenses	2,493	1,782	-711	-28.5
Interests and yields	2,337	1,623	-715	-30.6
National Government deposits	1,501	976	-525	-35.0
Monetary contractionary deposits	837	647	-190	-22.7
Administration and fund management expenses abroad	60	66	5	9.1
Flexible credit line commitment fee (IMF)	86	53	-34	-39.1
Foreign exchange differences	8	40	32	420.3
Other monetary expenses	1	1	0	2.0
B. Issuance and putting into circulation of banknotes and coins	412	532	120	29.0
C. Corporate expenses	1,002	1,076	75	7.5
Personnel expenses	575	592	18	3.1
Overheads	215	246	31	14.7
Other corporate expenses	212	238	25	11.9
III. Results (I - II)	10,041	13,893	3,852	38.4

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

to COP 976 b, representing an annual decrease of COP 525 b, driven by reductions in both the average annual balance and the remuneration interest rate[11], the latter of which was associated with cuts in the policy interest rate. At the same time, remuneration for monetary contractionary deposits amounted to COP 647 b, with an annual decrease of COP 190 b, reflecting both the lower average balance of these depos-

11 In 2025, the average daily balance of these deposits was COP 10,906 b, remunerated at an average interest rate of 9.36%. In 2024, these values were COP 13,961 b and 11.35%, respectively.

its at the Bank and the lower interest rate on remuneration in 2025[12]. Additionally, exchange-rate differences expenses amounted to COP 40 b and were higher by COP 32 b due to the peso's appreciation against the U.S. dollar[13]. It is worth noting that the Flexible Credit Line (FCL) with the IMF was canceled as of 1 October 2025, which resulted in lower expenses during the period.

As for corporate expenses, their execution amounted to COP 1,076 b, with an annual increase of COP 75 b. Within this category, personnel expenses totaling COP 592 b increased by COP 18 b, representing an annual growth of 3.1%, below the wage adjustment set by the Collective Bargaining Agreement (6.2%). Likewise, general expenses (COP 246 b) and other corporate expenses (COP 238 b) increased by 14.7% and 11.9%, respectively, compared with 2024. These increases are mainly explained by the rise in expenses associated with technology projects and services in the first case, and by higher provisions established by the Legal Department of *Banco de la República* in line with developments in legal proceedings, in the second case. Finally, expenses related to issuing and putting into circulation banknotes and coins amounted to COP 532 b, representing an annual increase of COP 120 b, driven by higher demand for banknotes and coins.

6.2.2 Projection for 2026

The 2026 budget was approved by the BDBR in December 2025, with prior concept by the Supreme Council for Fiscal Policy (CONFIS) on its impact on public finances. The Bank's budget has three components: 1) the monetary component, which includes the results of monetary, foreign exchange, and credit operations, the management of foreign reserves, and the role as banker and lender of last resort to credit institutions; 2) the Bank's note-issuing component, which includes net income from the face value of metallic coins put into circulation, as well as expenses related to issuing and putting into circulation banknotes and coins [14]; and 3) corporate results, derived from the Bank's administrative management, such as income from fees and cultural activities, and personnel and operating expenses (general and other expenses).

For 2026, a profit of COP 11,271 b is projected, COP 759 b higher than that contemplated in the 2025 budget[15], in an economic environment that would favor the return on foreign reserves. Compared with the 2025 budget, the annual increase in revenues would exceed that of expenses (Table 6.3). By component, in 2026, the Bank's net monetary result would generate profits of COP 12,767 b, exceeding net expenses of COP 354 b from the note-issuing function and COP 1,142 b for corporate activities.

It should be noted that the estimated result is subject to a high degree of uncertainty, mainly associated with the performance of the return on foreign reserves and with the growth of, and sources of expansion in, the monetary base. In particular,

12 The average daily volume of monetary contractionary deposits was COP 8,093 b in 2025, lower than that observed in 2024, when it amounted to COP 8,377 b. Additionally, the average remuneration interest rate declined from 10.5% in 2024 to 8.32% in 2025.

13 The appreciation of the peso generated net expenses from exchange rate differences due to the lower peso value of net foreign-currency assets other than foreign reserves, as well as liabilities with the IMF (SDR allocations) and the FLAR (Andean pesos). In 2024, the depreciation of the peso generated a positive net result from exchange rate differences.

14 It includes expenses related to the distribution and dissemination of banknotes and coins, among others.

15 Throughout this section, the 2025 budget refers to the one approved by the BDBR on 20 December 2024.

Table 6.3
Budget of Banco de la República, 2026
(billions of pesos)

	Approved budget		Variation	
	2025[a/]	2026	Absolute	Percentage
I. Total Income (A+B+C)	14,649	15,902	1,254	8.6
A. Monetary income	14,059	15,358	1,299	9.2
Interests and revenues	14,045	15,310	1,264	9.0
Foreign reserves	9,642	9,019	-623	-6.5
TES held by the Banrep	2,618	3,580	962	36.8
Expansionary repos	1,786	2,711	925	51.8
Foreign exchange differences	8	43	35	414.3
Other monetary income	5	5	0	7.4
B. Face value of coins put into circulation	305	283	-22	-7.1
C. Corporate income	285	261	-24	-8.5
Commissions: banking services and trust business	206	220	14	6.7
Other corporate revenues	79	41	-38	-48.0
II. Total Expenses (A+B+C)	4,137	4,631	494	11.9
A. Monetary expenses	2,386	2,591	205	8.6
Interests and yields	2,215	2,500	285	12.9
National Government deposits	1,686	1,846	159	9.5
Monetary contractionary deposits	529	654	126	23.7
Administration and fund management expenses abroad	78	80	2	2.7
Flexible credit line commitment fee (IMF)	84	0	-84	-100.0
Foreign exchange differences	8	10	2	19.5
Other monetary expenses	2	2	-0	-8.1
B. Issuance and putting into circulation of banknotes and coins	473	637	164	34.7
C. Corporate expenses	1,277	1,403	125	9.8
Personnel expenses	695	703	8	1.2
Overheads	286	357	71	25.0
Other corporate expenses	291	336	45	15.6
Flexible budget availability	6	7	1	10.4
III. Results (I - II)	10,512	11,271	759	7.2

a/ The 2025 budget refers to the budget approved on 20 December 2024 by the Board of Directors.
Source: *Banco de la República.*

changes in the paths and expectations of external interest rates could significantly affect the projected return on foreign reserves. Similarly, an unforeseen change in the growth of, or in the sources of expansion of, the monetary base would alter net monetary policy income[16]. As a reference, in 2025, interest rates in external debt markets, particularly in the United States, and the peso's exchange rate against reserve currencies exhibited volatility. This situation increased uncertainty in projections of foreign reserves' returns expressed in pesos[17]. In addition, the monetary base grew more than expected, prompting upward revisions to estimates of net monetary policy income. These two factors highlighted the uncertainty inherent in defining

16 The net monetary policy income results from the revenues generated by the returns on the TES held by the Bank and from the expansion repos, minus the expenses from the remuneration of the National Government's deposits at the Bank and of monetary contractionary deposits.

17 As mentioned, the P&L does not record the exchange-rate adjustment to the foreign reserves balance resulting from changes in the peso's exchange rate against the currencies in which these reserves are invested. This effect is recorded in the surplus account due to exchange adjustment in the Bank's equity.

the assumptions used to project 2025 profits[18] and indicate that the estimates for 2026 may change throughout the year.

In 2026, the Bank's revenues would amount to COP 15,902 b, implying an increase compared with the levels of the budget approved for 2025, mainly driven by higher returns on TES held by the Bank and income from expansionary repo transactions. The 2026 approved budget includes monetary income of COP 15,358 b, of which the return on foreign reserves recorded in the P&L would amount to COP 9,019 b, while returns on TES and expansionary repos would total COP 3,580 b and COP 2,711 b, respectively (Table 6.3). Particularly in 2026, the return on foreign reserves is expected to be COP 623 b lower than that budgeted for 2025. On the other hand, returns on TES would be COP 962 b higher, driven by the higher average balance maintained by the Bank[19]. The interest on expansionary repos would increase by COP 925 b due to higher average balances and higher average remuneration interest rates on these transactions[20]. Finally, compared with the 2025 approved budget, the face value of metallic coins put into circulation, amounting to COP 283 b, and corporate income, amounting to COP 261 b, are expected to decrease by COP 22 b and COP 24 b, respectively.

On the other hand, in 2026, expenditures are estimated at COP 4,631 b, higher than those considered in the approved budget for 2025, largely due to the higher remuneration on National Government deposits held at the Bank and of monetary contractionary deposits, as well as expenses associated with issuing and putting into circulation banknotes and coins. The remuneration on National Government deposits and monetary contractionary deposits would amount to COP 1,846 b and COP 654 b, respectively, with increases of COP 159 b and COP 126 b. In both cases, the assumed increase in the interest rate paid on these deposits[21], which would more than offset the effect of lower average balances, would explain the higher expected remuneration. On the other hand, in 2026, expenses related to issuing and putting into circulation banknotes and coins would amount to COP 637 b, exceeding the 2025 budget by COP 164 b, mainly due to higher demand for high-denomination banknotes. Lastly, corporate expenses would total COP 1,403 b, with an annual increase of COP 125 b, driven by salary adjustments, the increase in the statutory minimum wage, expenditure on technology projects and services, and higher costs associated with interventions in the Bank's building infrastructure, among other factors.

6.3 Appropriation of Reserves and Distribution of Profits

In accordance with the Bank's legal framework, as outlined in the Political Constitution, Law 31 of 1992, and its Bylaws, the residual profits, after deducting the net investment in assets for cultural activities and appropriating the statutory reserves, shall accrue to the Nation. Based on the foregoing, the profit transfer proposal to the Government submitted for approval by the BDBR in February 2026 primarily considered the following considerations:

---

18 For example, the profits reported for 2025 in the March 2025 Report to Congress amounted to COP 10,512 b, while the July Report for the same year projected COP 12,571 b, compared with a final result of COP 13,893 b.

19 This projection does not include any assumptions about the Bank's purchases or sales of TES in the market.

20 The policy interest rate assumption in this projection is based on the median of the monthly survey of economic analysts' expectations conducted by the Bank in November 2025 and does not reflect the stance of the BDBR or of any of its members.

21 See previous note.

1. The results for fiscal year 2025 amounted to COP 13,893 b.

2. The non-use and non- appropriation of equity reserves, in accordance with Law 31 of 1992 and the Bank's Bylaws[22].

3. The net investment in cultural assets in 2025 amounted to COP 38 b, an amount that must be deducted from the profit to be transferred to the National Government, in accordance with the sole paragraph of Article 62 of the Bank's Bylaws[23].

Taking the above into account, on 27 February 2026, the BDBR approved the proposal for the appropriation of reserves and distribution of profits, and, accordingly, the Bank transferred COP 13,855 b to the National Government in March. This transfer was made predominantly in cash through a deposit into the Government's account at the Bank (79%), with the remainder delivered in TES, valued at market prices, from the Bank's monetary intervention portfolio.

Table 6.4
Appropriation of Reserves and Distribution of Profits in 2026 From the 2025 Result
(billions of pesos)

A. 2025 results	13,893
Results for the year 2025	13,893
B. Plus the use of statutory reserves	0
C. Minus the allocation to statutory reserves	0
D. Minus other deductions	38
Net investment in assets for cultural activity	38
Set-off of accounts for the amount owed by the Ministry of Finance and Public Credit to Banco de la República for the administration of Tax Refund Certificates[a/]	0
Net result in favor of the National Government: A + B - C - D	13,855

a/ The amount totals $919,062.81.
Source: *Banco de la República.*

22 Issued pursuant to Decree 2520 of 1993.

23 In accordance with this article, the profit to be transferred or the loss to be borne by the Government is defined as the result of deducting from the Bank's revenue both its expenses, including depreciation, and the expenditures allocated to finance its operations and investments in the fulfillment of its cultural and scientific functions.

07/ Environmental Management of *Banco de la República*

Banco de la República has been carrying out various activities focused on environmental sustainability. In fulfillment of the Bank's 2022–2025 Strategic Plan, the entity strengthened its environmental initiatives to support sustainability, both from a central banking perspective and as an institution. In this regard, it worked on three fronts: 1) continuing actions aimed at understanding the impact of climate change on core central banking functions; 2) consolidating its status as a carbon-neutral institution; and 3) continuing disclosure to users[1] on matters related to natural heritage.

7.1 Actions to Enhance the Understanding of Climate Change in Central Banking Functions

From the Office of Economic Studies, progress was made in developing a research agenda to understand the effects of climate change on the Colombian economy. As part of this work, fourteen academic research papers were published in 2024 and 2025. Four of these analyze the effects of climate change's physical and transition risks on inflation, inflation expectations, sovereign risk, and financial markets[2]. The remaining ten examine how climate variability, natural disasters, and mitigation policies affect access to credit, agricultural and manufacturing productivity, the energy market, and subnational public finances, among other areas[3]. Taken together, these publications provide empirical evidence and analytical frameworks to understand

1 "Users" refers to citizens who make use of the Bank's cultural services, either in person or virtually.

2 See: 1) Romero-Chamorro, J. V., Naranjo-Saldarriaga, S. and Muñoz-Martínez, J. (2025). "Adverse Weather-Induced Inflation: Some Implications for Monetary Policy in a Small Open Economy," *Borradores de Economía* (Working Papers on Economics), No. 1319; 2) Melo-Velandia, L. F., Parra-Amado, D. and Bermúdez-Céspedes, J. P. (2025). "Do natural disasters and the announcement of ENSO events have an impact on market-based measures of inflation expectations?," *Borradores de Economía* (Working Papers on Economics), No. 1315; 3) Bermúdez, J., Melo-Velandia, L. F. and Parra, D. (2025). "Sovereign Risk and Stock Market Response to Natural Disasters in Emerging Economies," *Borradores de Economía* (Working Papers on Economics), No. 1303; 4) Bohórquez-Peñuela, C., Noailly, J. and Shehadeh, N. (2024). "Climate Transition Risks and Bank Lending: Evidence from Colombia," *Borradores de Economía* (Working Papers on Economics), No. 1294.

3 See 1) "Climate Risk and Access to Credit: Evidence from Colombian Potato Growers," *Borradores de Economía* (Working Papers on Economics), No. 1307; 2) Arteaga, J., de Roux, N., Gáfaro, M., Ibáñez, A. M. and Pellegrina, H. (2025). "Farm Size Distribution, Weather Shocks, and Agricultural Productivity," *Borradores de Economía* (Working Papers on Economics), No. 1306; 3) Guzmán-Finol, K., Dall'erba, S., Lyons, A., Eiras-Barca, J. (2025). "Efecto de la variabilidad climática en el rendimiento del arroz en Colombia," *Borradores de Economía* (Working Papers on Economics), No. 1299; 4) Muñoz, J. Pérez, A. and Carabalí, J. (2025). "Weather shocks, productivity and performance of manufacturing firms in Colombia," *Borradores de Economía* (Working Papers on Economics), No. 1298; 5) Ayala-García, J. and Pérez-Ruidíaz, D. (2024). "Impact of Natural Disasters on the Vía al Llano on Freight Transportation," Regional and Urban Economics Working Papers (Documentos de Trabajo sobre Economía Regional y Urbana, DTERU in Spanish), No. 329; 6) Ayala-García, J. (2024). "Desastres naturales, declaratoria de emergencia y corrupción"; 7) Ríos, D., Pérez, A., Meneses, L. and Carabalí, J. (2024). "Market power and adverse weather events in a hydro-dominated electricity market," *Borradores de Economía* (Working Papers on Economics), No. 1266; 8) Ayala-García, J. and Ceballos-Sierra, F. (2024). "How do Environmental Shocks Affect Competitors in a Supply Chain? Evidence from a Competitors' Weighting Matrix;" 9) Blundell, W. and Vélez-Velásquez, J. S. (2024). "Carbon Tax Pass-through: Incidence with Vertical Integration and Price Regulation;" *Borradores de Economía* (Working Papers on Economics), No. 1292); 10) Gáfaro, M. and Mantilla, C. (2024). "Water Overvaluation in Incentivized Bargaining Games," *Borradores de Economía* (Working Papers on Economics), No. 1293.

the impact of climate risks on macroeconomic stability and productive performance in Colombia.

Additionally, the Office for Monetary Policy and Economic Information[4] maintains a research agenda examining the macroeconomic effects of climate change and their implications for the key variables that inform monetary policy discussions. The main objective of this agenda is to understand how these factors affect macroeconomic variables, including inflation, inflation expectations, economic growth, financial stability, and risk premiums. This line of work integrates empirical and quantitative approaches to identify transmission mechanisms—such as climate shocks, extreme events, natural disasters, and news related to green innovation—and to assess their effects on both the expected level of economic activity and its distribution and volatility. In addition, the impacts of external climate policy on the local economy are studied, recognizing the growing interdependence between global environmental regulation, financial conditions, and macroeconomic stability. In particular, event studies are being developed to assess the impact of natural disasters on sovereign risk premiums, along with econometric models, Bayesian Vector Autoregressions (BVAR) to quantify the macroeconomic effects of news on future technological advances in the green sector, quantile regressions to evaluate risks to economic growth in the face of temperature-related climate shocks, and nonlinear models to estimate the effects of rainfall on food inflation.

7.2 Actions to Reduce the Environmental Impact of Banco de la República's Activities

As part of its efforts to reduce the environmental impact of its institutional operations, *Banco de la República* has developed various initiatives. These include efforts to reduce its carbon footprint, as well as obtaining and committing to maintain its carbon-neutral certification in accordance with international standards.

In 2025, *Banco de la República's* Environmental Management System (SGA in Spanish) maintained its ISO 14001:2015[5] certification, demonstrating compliance with its environmental objectives and programs. In terms of energy efficiency, electricity consumption was 1.23% below the established target[6], due to the operational controls implemented and investments made in replacing energy-intensive critical equipment, such as air conditioning systems, compressors, electrical substations, and lighting, as well as the automation of electrical circuits (Graph 7.1). In terms of efficient water use, potable water consumption in 2025 decreased by 3.56% relative to the established target (Graph 7.2). It is worth noting that fourteen of the Bank's facilities currently have rainwater harvesting systems.

In 2025, the Bank received the carbon-neutral organization certification for 2024 under the ISO 14064:2018 and PAS 2060:2014 standards, for its management of greenhouse gas (GHG[7]) emissions and corresponding removals. The Bank has a

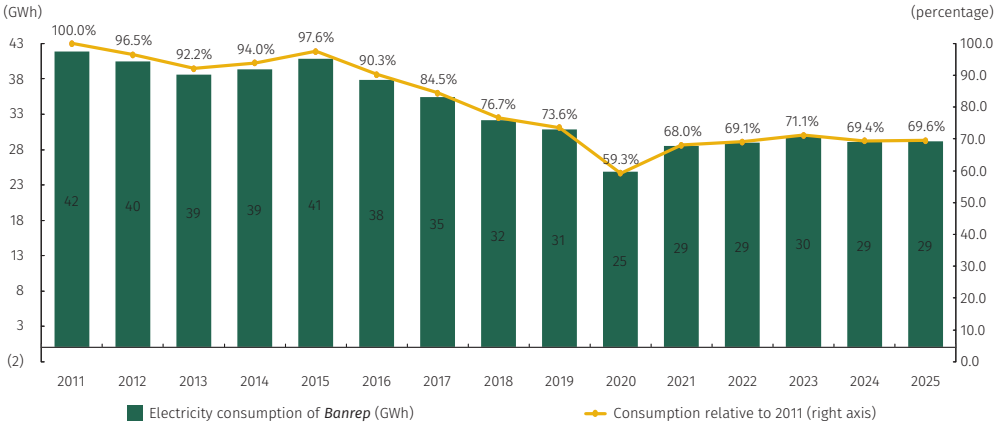
4 This agenda is led by the Models and Capacities Development Section of the Macroeconomic Models Department within the Office of the Deputy Technical Governor.

5 ISO 14001:2015, entitled "Environmental Management Systems: Requirements with Guidance for Use," aims to provide organizations with a framework for protecting the environment and responding to changing environmental conditions, while balancing socio-economic needs.

6 Established target: average consumption for the years 2023 and 2024.

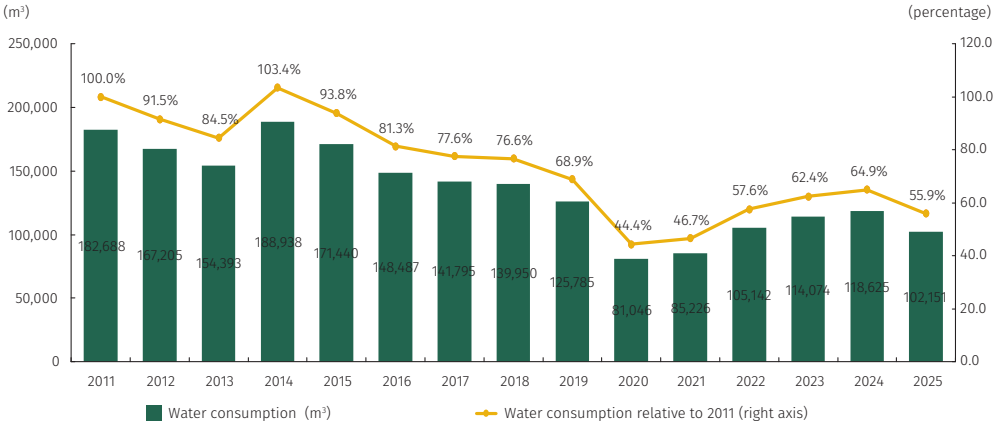
7 GHG is defined as the gaseous component of the atmosphere, both natural and anthropogenic, that absorbs and emits radiation at specific wavelengths within the infrared radiation spectrum emitted by the Earth's surface, the atmosphere, and clouds.

Graph 7.1
Historical Electricity Consumption of *Banco de la República*



Source: *Banco de la República.*

Graph 7.2
Historical Potable Water Consumption of *Banco de la República*

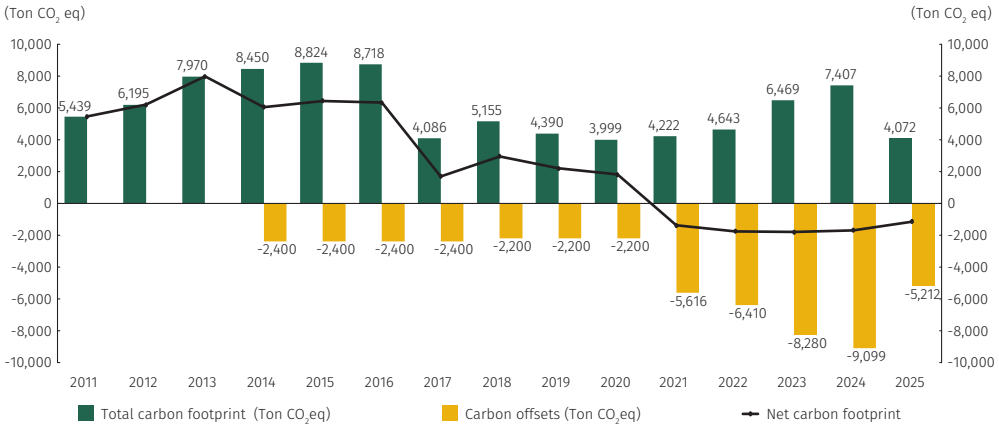


Source: *Banco de la República.*

carbon footprint management system and has maintained this certification consecutively in 2021, 2022, 2023, and 2024, with a focus on generating positive environmental impacts (Graph 7.3). To reduce GHG emissions, projects were implemented to reduce electricity consumption, replace refrigerant gases in air conditioning systems, control vehicle use to reduce fuel consumption, and replace vehicles with electric ones. Additionally, to remove greenhouse gases from the atmosphere, the Bank carries out vegetation planting of native species in protected areas owned by Colombian municipalities and within the National Natural Parks (PNN in Spanish) system.

In 2025, *Banrep* updated its environmental policy, shifting toward an Environmental Sustainability Policy that incorporates governance criteria, climate change considerations, a carbon-neutral footprint, and environmental culture. This policy reflects the Bank's corporate sustainability value of generating positive economic, environmental, and social impacts.

Graph 7.3
Total Carbon Footprint: *Banco de la República*[a/]



a/ Covering all of the Bank's facilities nationwide where it has operational control.
Note 1: The 2025 carbon footprint is estimated using the Factor de Emisión preliminar (preliminary Emission Factor [EF]) published by XM.
Note 2: Estimated offsets are currently under verification.
Note 3: The carbon footprint in 2023 and 2024 was significantly affected by the use of thermoelectric generation in the country, which increased the EF. In 2025, the EF decreased due to increased renewable energy generation.
Source: *Banco de la República.*

7.3 Progress in Cultural Outreach on Climate Change

In its cultural activities, projects continue to advance the digital preservation of its heritage collections and the generation of knowledge on climate change. *Banco de la República* recognizes the significant heritage value for Colombians of the bibliographic, archaeological, ethnographic, art, numismatic, philatelic, and musical instrument collections it safeguards and manages. For this reason, strategies to preserve its collections against risks arising from climate change continue to be implemented, for example, through the digitization of collections and by ensuring their availability to the public and access to their content in the event of any impact (Table 7.1). Users may explore part of these collections through specialized services for researchers, the Virtual Library, and the Banrepcultural.org portal.

Currently, the Bank continues the ongoing review and updating of the Collections Emergency Response Plan (PSC in Spanish), as presented in the *Report of the Board of Directors to the Congress of Colombia* of March 2024. This plan establishes the guidelines for the protection of the heritage collections of the "Museo del Oro" (Gold Museum), the Art and Collections Unit, and the Library Network Department, defining, for different types of emergencies, what is to be safeguarded, when, by whom, how, and where.

The Bank strengthens outreach on Colombia's natural heritage to contribute to a comprehensive approach to climate change. On the one hand, since 2021, the cross-cutting project *El río, territorios posibles* has been developed, which reflects on our river basins through transdisciplinary dialogues on the geographic, historical, social, and cultural significance of rivers. In 2025, 200 activities were carried out with 11,245 participants across twenty-five cities within the cultural network, and two new content initiatives were launched:

- The podcast *Atrato, madre majestuosa,* focuses on the Atrato River, which is emblematic for its cultural richness, biodiversity, and the struggle to protect environmental and community rights. It has recorded 2,639 downloads.
- The fifth installment of the audiovisual series *Los saberes de la gente del río* focused on the *Ranchería* River. It included translation into Colombian Sign Language (LSC in Spanish) and subtitling. It has recorded 1,884 views.

Table 7.1
Progress in Digitalization
(As of 31 December 2025)

Collection		Progress as of 31 December 2025		
		Quantity	Progress in Digitalization	
			Quantity	Percentage
Archaeological		54,797	54,797	100
Fine arts		6,848	6,848	100
Ethnographic		841	841	100
Philatelic	Data bank	39,238	39,238	100
	Loan for use (commodatum)	435,218	386,306	89
Musical instruments		85	85	100
Numismatic		18,487	18,487	100
Quantity as of 31 December 2025 (cumulative total)				
Bibliographic and documentary		Digitalization		3,406,154
		Microfilming and refilming		15,060
		Transfer from analog to digital and/or duplication of audio and audiovisual recordings		26,694

Source: *Banco de la República.*

In February 2025, the cross-cutting project *Semillas, memorias que llevan vida* was launched. This project promotes an exchange of knowledge and traditional cultural practices regarding the connections among seeds as biocultural heritage, food systems, traditional medicine and its spirituality, food sovereignty, climate change, and the lessons learned by communities for the stewardship of their territories. Within the framework of the cultural programming, 155 activities were carried out with 11,029 participants across the twenty-nine cities of the cultural network, and the following content was launched:

- A traveling exhibition of works from the art collection that reached 10,890 users.
- Videos featuring seed custodians and knowledge holders from different regions.
- The animated video *Las semillas como memoria biocultural*. It has recorded 427 views.
- A series of six videos for social media featuring rural content creator *Nubia e hijos* to disseminate the research project *Usos y rutas de las semillas*, covering seventeen seed varieties, with more than 160,000 total views.

Within the project framework, a tropical forest nursery was also established at the Museo del Oro Tairona in Santa Marta. This initiative was developed in partnership with Viveros Hermanos of the *Fundación Estación Biológica Bachaqueros* and hosts 278 trees from eight species at the germination stage, resulting from three seed-collection cycles carried out by the Museum's team. The nursery supports the entire life cycle, from seed collection to planting and subsequent monitoring in areas designated for their growth. This approach fosters an ongoing dialogue between the museum, the community, and various environmental stakeholders. Between 2026 and 2027, once the seedlings reach sufficient height, they will be planted in designated areas agreed upon with environmental stakeholders. In addition, the nursery plays an active role in activating the archaeological and art collections by fostering reflections on plant ontologies. These activities were carried out as part of the

cultural programming framework, through guided visits held between March and December 2025, with a total of 5,491 participants.

In 2023, the exhibition *El Magdalena, una cuenca posible* was inaugurated at the Luis Ángel Arango Library (BLAA in Spanish). This exhibition, which has traveled to Girardot, Santa Marta, Honda, Neiva, Cali, Ibagué, Manizales, and Popayán, seeks to promote reflection on climate change. In total, it has attracted 96,662 visitors, and it is expected to be exhibited in other cities within the cultural network through 2029.

In 2024, the exhibition *Tiempos de curación, Renovar el mundo desde el Amazonas* was inaugurated. It explores ways of understanding the global climate crisis through the cosmologies of Indigenous peoples of the Colombian Amazon. The exhibition presents how these communities work to maintain balance in the relationships among the beings of the world, through healing practices for the planet that include care for the individual and collective body, as well as for the territory and memory. The exhibition has been presented at the Gold Museum in Ipiales and in Leticia and has recorded 50,036 visitors.

A methodology was implemented nationwide to reduce the environmental impact of materials used in exhibition production and the Bank's cultural activities more broadly. In its first phase in Bogotá, at the Luis Ángel Arango Library, the Gold Museum, and the Cultural Complex (Miguel Urrutia Art Museum [MAMU], Botero Museum, and the Museo Casa de Moneda [The Mint Museum]), the management of 24.3 tons of recyclable waste, such as wood, plastic, cardboard, and glass, among others, generated in the course of cultural activities was carried out. Likewise, the use of non-reusable materials was reduced in the production of eight exhibitions.

Shaded Section 3
Mangrove Planting in the Old Providence McBean Lagoon National Natural Park

Banco de la República is working to remain a carbon-neutral organization. To this end, it seeks to reduce the generation of greenhouse gases (GHGs) and, additionally, to remove the GHGs that are generated from the atmosphere. To achieve this, it plants native species on ecologically significant lands to promote vegetative regeneration in protected areas. This project is carried out in partnership with the National Natural Parks Unit (PNN) and with its technical support. The project includes planting mangroves and implementing maintenance activities over a three-year period by the Bank to promote their survival.

During 2025, 12,601 mangroves were planted in the PNN Old Providence McBean Lagoon National Natural Park, located on Providencia Island. This action helps offset greenhouse gas emissions generated by the Bank's operations and contributes to restoring a portion of the mangrove area affected by Hurricane Iota. Mangrove restoration is essential for the island's inhabitants, as these ecosystems serve as breeding grounds for small fish and crustaceans that sustain the local food chain. In addition, mangroves act as a physical barrier for coastal protection and are an essential source of biodiversity.

Image S3.1
Mangrove Areas of the Old Providence PNN Destroyed by Hurricane Iota in 2020

Source: *Banco de la República.*

Image S3.2
Preparation of Mangrove Areas and Mangrove Planting

Source: *Banco de la República.*

Annex
Investment Portfolio Management Policies for Foreign Reserves

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

1. Risk Management Policies

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

Liquidity Risk: Investments are made in financial assets that are easily tradable in secondary markets, and investment tranches are defined. This structure allows to convert the reserve assets into cash quickly and at low cost, and enables the quick liquidation of specific tranches.

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

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

Exchange Rate Risk: The impact of the exchange rate risk is mitigated with the equity account "foreign exchange adjustment" referred to in paragraph 4 of Article 62 of Decree 2520 of 1993 (*Banco de la República*'s Bylaws). This account increases in years when reserve currencies strengthen against the Colombian peso and decreases in years when they weaken. Therefore, currency fluctuations have no impact on the statement of comprehensive income. *Banco de la República*, like most of the central banks around the world, holds currencies other than the U.S. dollar in its currency composition to cover the country's external payments, which occur in multiple currencies. It is important to note that currency exchange rates are highly volatile and often do not exhibit clearly defined long-term trends. This makes it very difficult to reliably forecast their behavior.

Counterparty Risk: To mitigate counterparty risk, transactions are settled through payment-on-delivery mechanisms. For this purpose, counterparties for fixed income trading must be market makers, and counterparties for foreign exchange trading must have high credit ratings. Payment-on-delivery mechanisms seek to ensure that the exchange of securities for cash or the exchange of payments in a foreign currency transaction occurs simultaneously to

contain the impact of a default. Foreign exchange counterparties must have a minimum credit rating of A- if they have an International Swaps and Derivatives Association (ISDA) master agreement[1]; otherwise, the minimum credit rating is A+.

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

2. Investment Portfolio Tranches

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

The short-term tranche is intended to cover potential liquidity needs of the reserves over a twelve-month horizon. Currently, this tranche includes working capital and a passively managed portfolio. Working capital is the portfolio that receives resources from foreign exchange market interventions, and its investments are concentrated in very short-term dollar-denominated assets. Given that the objective of this tranche is to provide immediate liquidity for foreign exchange market interventions, the working capital is concentrated in deposits and investments that can be liquidated overnight at a minimal cost. As of 31 December 2025, the value of the short-term tranche was USD 37,953 m.

The passively managed portfolio is the main component of the short-term tranche. This portfolio is characterized by having a longer duration and an expected return profile higher than that of the working capital, a currency composition that seeks to replicate the behavior of the country's balance of payments outflows, and a return similar to that of its benchmark[2]. The passive portfolio is invested in multiple currencies and instruments that align with those of the benchmark, and is defined with the constraints that the expected return of the portfolio, excluding the currency component, is positive over a twelve-month horizon with a 95% confidence level, and that the expected value of a potential loss does not exceed 1.0%.

The medium-term tranche seeks to increase the expected return on foreign reserves over the long term, while maintaining a conservative portfolio with an expected return profile higher than that of the short-term tranche and its benchmark index. For the portion of the portfolio considered less likely to be used within a twelve-month period, the objective is to maximize the risk-adjusted return in U.S. dollars, the currency in which foreign reserves are valued. Thus, the goal is to achieve the maximum return subject to the constraints that the expected return in U.S. dollars of this tranche is positive with 95% probability and that the expected value of a potential loss does not exceed 1.0% over a three-year horizon**.** Currently, the medium-term tranche mainly comprises actively managed portfolios that seek[3] to generate returns above the benchmark index. At the end of 2025, the value of the medium-term tranche amounted to USD 22,901 m.

The last tranche corresponds to investments of foreign reserves in gold. This metal allows diversifying the investment portfolio, since its price behaves differently from that of the secu-

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

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

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

rities in which the short- and medium-term tranches are invested. As of 31 December 2025, the market value of the gold tranche of the reserves amounted to USD 647.5 m.

3. Benchmark Indices

To manage the reserves investment portfolio, *Banco de la República* defines theoretical portfolios or indices[4] for the short- and medium-term tranches. Different indices are constructed for each tranche to reflect their investment objectives. The indices serve as a reference framework to measure the performance of each portfolio. The following is an explanation of how the two benchmark indices are constructed.

To construct the short-term tranche index[5], a target currency composition is first determined. Once the currency composition is defined, the portfolio that maximizes risk-adjusted[6] returns and complies with the loss constraints established for this tranche is selected. The currency composition of this index seeks to replicate the behavior of the country's balance of payments outflows[7]. It is intended that currencies other than U.S. dollar appreciate during periods when the dollar value of the country's external payments increases, which implies that these currencies may depreciate against the dollar during periods when the dollar value of external payments decreases. As of December 2025, the currency composition of the short-term tranche index was 82% U.S. dollars, 7.0% Australian dollars, 8.0% Canadian dollars, and 3.0% euros. The loss constraints defined for the short-term tranche are: 1) to have positive returns over a twelve-month horizon with 95% confidence, excluding exchange rate effects, and 2) that the expected value of a possible loss over a twelve-month horizon does not exceed 1.0% of the tranche's value.

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

As of December 2025, the benchmark indices defined for both tranches have a moderate level of market risk, with an effective index duration of 2.71 for the short-term tranche and 3.08 for the medium-term tranche. Graph A1.1 shows the approved benchmark indices for the short- and medium-term tranches[8].

---

4 In the capital markets, a benchmark index refers to a basket of assets with predetermined weights according to certain rules that define their composition. In general, an index attempts to broadly replicate the behavior of a financial asset market and serves as an indicator of the performance of other investment portfolios in that same market. For example, some of the best-known benchmark indexes in the equity markets are the MSCI COLCAP in Colombia, or the S&P 500 and Dow Jones in the United States (the Bank uses fixed-income market indexes only).

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

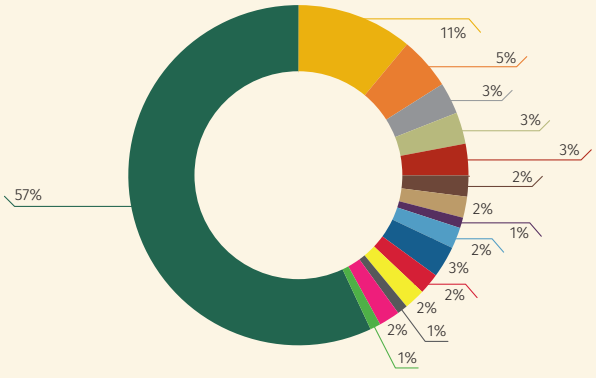
6 The detailed description of the methodology for the construction of the benchmark index can be found in the boxes "Technical Explanation of the Methodology for the Construction of the Benchmark Index," "Market risk constraints in the optimization process," and "Definition of benchmark indices: incorporation of neutral expectations in the optimization process" in the *Foreign Reserves Management Reports* for 2013, 2019, and 2021.

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

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

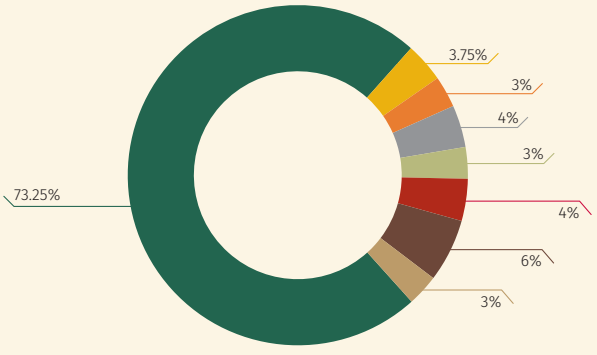
Graph A1.1
Composition of the Benchmark Indices in the Short and Medium-Term Tranches
(information as of 31 December 2025)

A. Short-term tranche



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

B. Medium-term tranche



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

Source: *Banco de la República.*

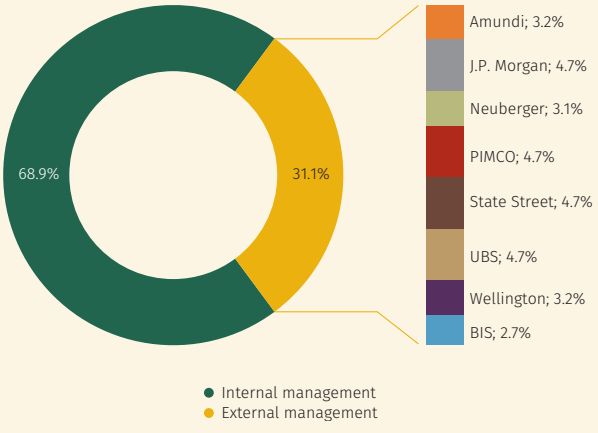
4. External Management Program

Banco de la República directly manages the short-term tranche, a portion of the medium-term tranche, and the gold tranche. The remaining resources of the medium-term tranche are managed by external portfolio managers. At the end of 2025, the portion of the investment portfolio managed internally amounted to USD 42,295 m (68.94% of the total investment portfolio), while the externally managed program totaled USD 19,059 m (31.06% of the investment portfolio).

The main purposes of using external managers are to generate returns above those of the benchmark and to improve portfolio diversification. In this regard, the firms selected to participate in the program have a strong financial markets analysis capabilities and a sophisticated infrastructure that can be leveraged to define investment strategies and to train *Banrep* staff in the management of international investments, which is another objective of the external management program.

The private companies participating in the program are selected through competitive processes and are subject to ongoing evaluation. Based on each manager's performance since their selection, the amount of assets under management may be adjusted, or their participation in the program may be reviewed. Currently, the private firms participating in the external management program are: Amundi Asset Management, J.P. Morgan Asset Management (UK) Limited, Neuberger Berman Investment Advisers LLC, Pacific Investment Management Company LLC, State Street Global Advisors Trust Company, UBS Asset Management (Americas) Inc., and Wellington Management Company LLP (Graph A1.2). The resources managed by these entities are held in

Graph A1.2
Investment Portfolio Composition
(information as of 31 December 2025)



Source: *Banco de la República.*

Banco de la República's custody accounts, and the manager's contracts can be terminated when deemed necessary. Investments in funds managed by the Bank for International Settlements (BIS) are also considered part of the external management program. These funds are only accessible to central banks and multilateral entities and are intended to invest in assets appropriate for global foreign reserves as part of a cooperative effort among different countries[9].

9 Currently, investments are made in a fund of securities issued by the Chinese government (USD 1,347.2 m) and a fund of securities issued by non-financial corporations (USD 306.1 m).

This report was coordinated, edited, and designed by the Publications Management Section of the Administrative Services Department, with characters Fira Sans at 10 points.

Printed by *Contacto Gráfico S. A. S.*
April 2026