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

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

Banco de la República
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BANCO DE LA REPÚBLICA · COLOMBIA

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Bogotá, 3 August 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 the first half of 2026 and the outlook for the remainder of the year. 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 evolution of payments in the Colombian economy.

Sincerely,

Leonardo Villar Gómez
Governor

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Introduction

In the first half of 2026, the Colombian economy continued to be affected by price pressures stemming from the previous year, compounded by new shocks that emerged over the course of the year. As anticipated, these include the upward pressure on consumer prices resulting from the increase in the minimum wage for 2026 by more than 23%. This wage increase would be particularly evident in the services component (excluding food and regulated items), which accounts for 48.9% of the consumer basket and whose annual inflation increased from 5.9% in December 2025 to 7.0% in June 2026, making it the component with the largest contribution to the increase in inflation in the first half of the year. This is explained by the fact that the provision of many of the services included in this component relies on labor with wages close to the minimum wage, and therefore their costs are significantly affected by wage increases. In turn, food also contributed to the increase in headline inflation in the first half of the year, affected by supply shocks recorded since the beginning of the year. Likewise, challenges related to electricity infrastructure and the pass-through to final consumers of higher labor costs associated with the provision of certain utilities have exerted upward pressure on regulated items, whose annual inflation stood at 5.9% in June. The war in Iran, which began in late February, added further inflationary pressures due to the increase in oil prices, higher transportation costs, and the increase in fertilizer prices that Colombia needs to import. These pressures, which can be characterized as supply shocks, have occurred amid domestic demand driven by total consumption and investment in machinery and equipment, as well as by the recent improvement in the terms of trade, high worker remittances, and persistent fiscal stimulus. Thus, despite a restrictive monetary policy such as that undertaken by *Banco de la República* (the Central Bank of Colombia), together with an appreciation of the peso that reduces the cost of imported goods and inputs, the simultaneous occurrence of supply shocks and demand exceeding the economy's productive capacity has generated upward price pressures that have spread to numerous components of the consumer basket. As a result, headline inflation in June stood at 6.1% annually, compared with 5.1% in December 2025, while core inflation (excluding food and regulated items) was 6.0% in June, compared with 5.0% at the end of 2025. Inflation dynamics in the first half of the year and the diversity of factors driving it have led to upward revisions in short- and medium-term inflation expectations, which remain well above the 3.0% target across all forecast horizons, although they decline as the horizon increases. For example, they currently stand at 6.6% for the end of this year and at 5.0% for the end of 2027. The de-anchoring of inflation expectations reflects a significant deterioration in the credibility of the inflation target on which the inflation-targeting strategy that guides monetary policy is based. This is compounded by the high uncertainty surrounding the inflation path arising from the recent increase in the probability of the *El Niño* phenomenon, which, depending on its strength and duration, could significantly increase gas and electricity tariffs, as well as food prices, whose inflation stood at 6.8% in June, its highest level since December 2023.

In response to the inflationary pressures that have pushed inflation away from its target and led to a broad-based increase in inflation expectations, the Board of Directors of *Banco de la República* (BDBR) has found it necessary to raise the monetary policy rate to 12.0% at the end of June 2026. These adjustments seek to

ensure a restrictive monetary policy stance that fosters a reduction in inflation toward the 3.0% target over a reasonable time horizon.

Regarding economic growth, the National Administrative Department of Statistics (DANE in Spanish) reported that in the first quarter of 2026, Gross Domestic Product (GDP) (in its seasonally adjusted series) grew by 2.2%, a rate higher than observed in the fourth quarter of 2025 (2.0%), when the economy experienced a reduction in its growth rate. Demand was mainly supported by total consumption, with notable growth in public and private consumption of durable goods. Likewise, investment in machinery and equipment performed strongly, driven by purchases of transportation equipment. However, other investment segments, particularly infrastructure and housing, continue to perform poorly, which could lead to a decline in the economy's potential growth. By economic activity branch, a growth pattern similar to that of 2025 continued to emerge in the first quarter of the year, in which tertiary activities continued to drive annual growth in Gross Domestic Product (GDP). Among these, public administration, health, education, and trade services, as well as artistic and entertainment activities stand out. Secondary activities showed a recovery, recording annual growth of 1.3%, explained mainly by the strong performance of manufacturing industries. Primary activities recorded an annual decline of 0.9% due to weak performance in agriculture, livestock, and mining. The Economic Tracking Indicator (ISE in Spanish) grew by 4.1% annually in May, suggesting an improvement in economic activity in the second quarter. For all of 2026, the Bank's technical staff forecasts growth of 2.5%, a figure slightly lower than that recorded in 2025.

In the labor market, the unemployment rate stands at levels that can be considered low relative to its historical levels, while employment shows an upward trend, with particularly strong performance in rural areas. The national unemployment rate continued to decline, reaching 8.3% in the rolling quarter ended in May (seasonally adjusted series). Over the same period, salaried employment grew by 3.6%, while non-salaried employment increased by 2.9%. By economic sector, public administration and defense, professional activities, and artistic activities contributed the most to employment. By employment status, private-sector employment drove salaried employment, while self-employment drove non-salaried employment.

Regarding the external environment, heightened geopolitical tensions have affected global trade, driven up energy prices, and tightened international financial conditions amid expectations of a more restrictive monetary policy stance in advanced economies. The increase in oil and gas prices has put upward pressure on global inflation and, in several economies, such as those in the Euro Zone, has been reflected in weaker economic growth. In contrast, some commodity-producing countries, such as Colombia, have seen an increase in the terms of trade and national income. Given that the conflict in the Middle East continues to drag on, international oil prices and the terms of trade are expected to remain elevated, while external demand for Colombia is expected to moderate over the remainder of the year and possibly into 2027.

Finally, in June, a significant decline in the country risk premium was observed, which was reflected in an increase in the value of local assets and a stronger appreciation of the peso than in other comparable currencies. This helped mitigate some inflationary pressures by lowering the cost of imported goods. If this appreciation persists, economic growth across sectors could be uneven in 2026, as some sectors could be affected by this phenomenon.

1. Executive Summary

International Macroeconomic Environment

The escalation of the conflict in the Middle East led to a significant increase in international prices of oil, natural gas, and fertilizers. This shock increased production and transportation costs, weakened consumer and business confidence, affected the outlook for global trade, and increased uncertainty about the evolution of global economic activity. Regarding oil prices, the average price of Brent crude oil during the first half of the year stood at around USD 87 per barrel, representing a 24% increase compared with the same period in 2025. This increase was mainly driven by restrictions on vessel traffic through the Strait of Hormuz, which affected oil production in several Persian Gulf countries and reduced global supply to levels below global demand. These disruptions also affected fertilizer production, whose prices increased by an average of around 18% during the first half of the year. This increase in fertilizer prices helps explain the upward trend observed in international prices of some food products during the first half of the year, which, together with higher energy prices, has been reflected in an upward trend in global inflation so far in 2026. In May, global inflation stood at 4.6% in the member countries of the Organization for Economic Cooperation and Development (OECD), while in the G7 economies it reached 3.5%. This trend has led inflation to remain above central banks' targets, while inflation expectations have increased.

In this context, monetary authorities worldwide exercised particular caution in their policy decisions. In the United States, the Federal Reserve (Fed) kept its policy interest rate unchanged within the 3.50% to 3.75% range during the first half of the year, in contrast to the expectations of downward adjustments at the beginning of the year, and raised its expected policy rate path, reflecting a potentially more restrictive stance and a lower probability of policy rate cuts over the next two years. Meanwhile, in the Euro Zone, the European Central Bank halted the monetary easing process and increased its policy rates in June in response to higher inflationary pressures associated with higher energy prices. In July, it kept its policy rates unchanged but mentioned in its communications the possibility of further increases in September. The central banks of Australia, Norway, Iceland, New Zealand, and South Korea increased their policy rates so far this year in response to emerging global inflationary pressures. In turn, in Japan, the gradual process of increasing the monetary policy rate continued. In emerging economies, monetary policy decisions also reflect this more cautious environment, although responses have varied across countries. During the first half of 2026, some central banks continued to lower their policy rates in certain economies where inflationary pressures remained relatively contained, such as Brazil, Mexico, Russia, and Poland. Others kept them unchanged, including Chile, Peru, India, and China. In contrast, countries such as Colombia, the Philippines, and South Africa raised their policy rates in response to the resurgence of inflationary pressures and heightened geopolitical uncertainty, while Indonesia did so to preserve exchange rate stability.

Under these circumstances, global economic activity has performed unevenly. In the United States, the economy continued to expand during the first half of the year, albeit at a slower pace than that observed in 2025, amid moderating private consumption and low household confidence. In the Euro Zone, growth remained moderate, affected by weak domestic demand, weaker performance of the manufacturing sector, and higher energy costs. In contrast, China maintained relatively

favorable growth, supported by stimulus policies and the strong performance of some industrial sectors, although difficulties in the real estate sector and weak household consumption persisted. International organizations warn that a potential intensification of the conflict in the Middle East or further disruptions in commodity markets represents the main downside risks to global growth for the remainder of the year.

The performance of international financial markets has also been affected by uncertainty associated with the conflict in the Middle East, given disruptions to international commodity trade and heightened concerns about a global inflation shock, which has been reflected in tighter international financial conditions. On the other hand, although portfolio investment inflows into emerging economies have been recorded so far this year, mainly toward debt instruments, the dynamics of perceptions of geopolitical risk introduced volatility into the behavior of these flows.

Economic Activity in Colombia

The most recent publication of DANE's National Accounts reported annual GDP growth of 2.2% in the first quarter of 2026, indicating a moderate rebound in the growth rate following the slowdown in economic activity observed in the fourth quarter of 2025 (2.0%). The expansion in the first quarter was driven by domestic demand, which increased 2.3% annually, a figure higher than the increase observed in the last quarter of the previous year (2.1%), but below that recorded for all of 2025 (3.8%). Private consumption drove most of the annual domestic demand growth in the first months of the year, which rose 2.6% annually, with durable goods consumption standing out. However, this increase in consumption was lower than in 2025 (3.5%). This slowdown occurred in a context in which some of the factors comprising household disposable income, such as workers' remittances and the income of coffee-growing households, grew at rates below those recorded in 2025. This was compounded by monetary policy remaining in contractionary territory. Another significant contributor to the increase in domestic demand in the first quarter was public consumption, which grew 8.5% annually, the highest growth rate among the major expenditure components. The dynamics of this component were explained by bonuses in the defense and education sectors, as well as by the hiring of temporary personnel for electoral purposes. Gross fixed capital formation increased by 4.9%, driven by the significant expansion of the machinery and equipment components (15.7%). The categories with the highest investment were transportation equipment and industrial equipment. In contrast, investment in construction performed unfavorably. Housing construction declined by 2.8% annually due to a lower completion rate of housing units in middle-income segments, while other buildings and structures grew by 1.2% annually, as a result of the weak performance of non-residential buildings and civil works associated with mining. The dynamism in household consumption and investment in machinery and equipment translated into an increase in imports, which grew by 3.8% in real terms in the first quarter.

From the standpoint of productive sectors, during the first quarter of 2026, tertiary activities continued to lead growth, with public administration services standing out due to increased personnel in the judicial sector for electoral processes, healthcare personnel deployed to territories, and bonuses in the defense sector. Artistic and entertainment activities, as well as trade, transportation, and accommodation, also stood out. Secondary activities also showed signs of recovery, mainly due to improved performance in the manufacturing industry, with higher real output of coking and petroleum refining, beverage manufacturing, and motorcycle manufacturing industries. However, construction continued to lag, particularly due to the buildings segment and the low growth of civil works. In turn, primary activities contracted slightly, dampened by weather-related factors and higher costs affecting some crops, such as coffee, as well as fishing, while mining continued to decline due to the weak performance of coal and oil.

The Bank's technical staff expects GDP growth of around 2.5% in 2026. This forecast is subject to a high degree of uncertainty, depending on the duration of the recent supply shocks and the effects of the conflict in the Middle East on external demand relevant to Colombia, as well as the effects associated with the adjustment required in public finances. Additionally, the production of some internationally tradable sectors, both in manufacturing and agricultural and livestock activities, could be affected by the appreciation of the Colombian peso, while others could benefit from favorable terms of trade.

Employment[1]

For the rolling quarter ending in May, the unemployment rate (UR) for the national aggregate stood at 8.3%, the lowest level since measurements for the national aggregate began in 2001. However, when disaggregating by geographic areas, this trend is not uniform. In urban areas, the UR stood at 8.9% in May, an increase of 0.2 percentage points (pp) since January, due to a slight deterioration in employment in this domain. In contrast, in other municipalities and rural areas, the UR declined by 1.1 pp in annual terms, reaching 7.7%. The slowdown in urban employment has been more than offset by the dynamics of rural employment, resulting in a 1.1 pp annual increase in the national employment-to-population ratio (EPR), which reached 59.4%, indicating a strengthening of labor demand. By gender, the UR for women stood at 10.4%, while that for men stood at 6.8%, narrowing the gender gap to historically low levels (3.6 pp).

The evolution of the labor force participation rate (LFPR), which measures the behavior of labor supply, also differed across geographic domains. As of May, the population outside the labor force in rural areas decreased by 2.3% in annual terms, while in urban areas it increased by 0.8% in annual terms during the same period. This was reflected in higher labor force participation in the national aggregate, which stood at 64.8% in May. By gender, the increase in participation was led by women, as their LFPR increased by 1.1 pp in annual terms, reaching 53.6%, compared with the 76.9% recorded for men, whose LFPR increased by 0.4 pp over the same period.

Other indicators of demand for salaried labor, such as job vacancies, calculated using different sources of information, which had been showing a declining trend at the beginning of the year, have performed positively in recent months, pointing to a more favorable balance in hiring expectations for the second half of 2026. Finally, regarding labor remuneration, the median monthly wage of salaried workers increased by 15.7% annually in real terms in April, while, among non-salaried workers, median labor income increased by 9.5% annually in real terms.

1 This section uses rolling quarter and seasonally adjusted data.

Inflation and Monetary Policy

So far this year through June, annual consumer inflation increased by 100 basis points (bps), rising from 5.1% in December 2025 to 6.1% in June 2026. Such a sharp increase in inflation over such a short period had not been seen since the strong inflationary episode of 2022. This upward trajectory in prices has occurred amid a significant increase in the minimum wage, elevated inflation expectations, growing domestic demand, and persistent increases in international costs. These inflationary pressures have been reflected in increases across all baskets that make up the consumer price index, particularly services and food. Services inflation, which exceeded 7.0% annually as of May, has been driven by substantial increases in payroll costs resulting from the increase in the minimum wage, the higher overtime costs, and the adjustment to working hours. This has occurred amid robust spending, driven largely by public consumption and historically low unemployment rates, which has generated demand pressures. This has been compounded by increases in food prices, whose annual inflation reached 6.8% in June, due to adverse weather conditions at the beginning of the year and cost pressures. On the external front, the conflict in the Middle East has led to significant increases in the prices of oil and various agricultural products and inputs, as well as substantial increases in international transportation costs. The annual variation in regulated item prices also contributed to the increase in headline inflation, mainly due to adjustments in transportation and increases in some public utility rates. All these upward pressures have outweighed the downward pressures stemming from the strong appreciation of the peso vis-à-vis the U.S. dollar in recent months.

Core inflation, excluding food and regulated item prices, increased by the same magnitude as headline inflation during the first half of the year, reaching 6.0% in June, compared with 5.0% at the end of 2025. Among other items, notable price increases were recorded for food away from home (FAFH), domestic services, security services, transportation, maintenance and repairs, healthcare, and rents, affected by higher labor costs and indexation processes. Goods prices have also shown an upward trend, although inflation in this category is lower (3.2% in June), driven by the strength of private consumption, higher maritime freight costs, and disruptions in global supply chains.

In the environment described, all measures of inflation expectations have remained significantly above the 3.0% target across all horizons, although they point to declines as the forecast horizon increases. These expectations reflect the significant risks facing the convergence of inflation toward the target going forward, associated with inflation inertia (following several years of inflation above target), the country's substantial fiscal imbalances, heightened uncertainty in the external environment, and potential climate-related shocks, such as the *El Niño* phenomenon.

Against this backdrop, the BDBR increased the monetary policy interest rate during the first half of 2026 through majority-vote decisions, from 9.25% in December 2025 to 12.0% in June 2026, by 100 bps at each of its January and March meetings, followed by a 75-bps increase at its June meeting, for a cumulative increase of 275 bps. At its April meeting, the BDBR unanimously decided to leave the monetary policy rate unchanged to allow time to assess the impact of the adjustments implemented at the two previous meetings and to avoid any association between the Bank's policies and the electoral process. The monetary policy rate increases implemented by the BDBR during the first half of the year have placed monetary policy in an appropriate stance to address the current balance of risks, contain additional inflationary pressures, preserve the anchoring of inflation expectations, and support the convergence of inflation toward the target over the policy horizon. This adjustment also contributes to restoring the credibility of the inflation target, which is a fundamental pillar of monetary policy under the inflation-targeting framework. The fact that economic activity remains relatively dynamic, still growing above its productive

capacity, together with low unemployment rates, reduces monetary policy trade-offs and, consequently, the economic and social costs of the necessary increase in interest rates.

Balance of Payments

In the first quarter of 2026, the country's current account of the balance of payments recorded a deficit of USD 1.573 million (m), equivalent to 1.2% of GDP, 0.3 percentage points lower than that recorded in the same period of 2025. By components of the balance of payments, this current account deficit is explained by the negative balances of trade in goods and services (USD 2.500 m) and factor income (USD 3.251 m), which were partially offset by the positive balance of current transfers (USD 4.178 m) and the surplus in the services trade balance (USD 406 m). The deficit in the trade balance of goods in the first quarter of the year was USD 159 m lower than a year earlier, as a result of a larger increase in the value of exports (USD 1.736 m) than that in the value of imports (USD 1.577 m). The growth in exports of goods was mainly driven by higher external sales of gold, bananas, coal, and manufactured products. As for imports, their increase was mainly driven by higher external purchases of consumer goods and of inputs and capital goods for industry. In turn, Colombia's foreign trade in services recorded a surplus of USD 406 m, resulting from the strong performance of external sales of traditional and modern services, particularly exports of contact center, IT, and consulting services, as well as business management services.

Net factor income recorded a deficit of USD 3.251 m, which was USD 268 m higher than that recorded in the same period of 2025. This performance is explained by higher net outflows of portfolio investment income and by the increase in profits of firms with foreign direct investment (FDI) in the country. The increase in FDI profits was mainly due to higher estimated earnings for firms operating in oil extraction, manufacturing, trade and hotels, financial institutions, and business services. In terms of current transfers, net income amounted to USD 4.178 m in the first quarter, USD 331 m higher than in the same period of the previous year. This was mainly explained by the increase in revenues of workers' remittances, which amounted to USD 3.347 m in the first quarter of 2026, an annual increase of USD 216 m. This growth was driven particularly by remittances sent from Spain and the United States.

During the first half of 2026, the country's financial account recorded net capital inflows of USD 954 m (0.7% of quarterly GDP). This figure was USD 457 million lower than that recorded a year earlier, mainly due to a larger increase in gross capital outflows than in gross capital inflows. Capital outflows to acquire financial assets abroad were estimated at USD 6.902 m in the first quarter of 2026, USD 4.697 m higher than that observed in the same period of 2025. Among capital inflows, FDI inflows stand out, amounting to USD 3.794 m (3.0% of quarterly GDP), USD 971 m higher than the amount received a year earlier. These resources were mainly channeled toward the transportation and communications, financial and business services, manufacturing, mining and oil, trade and hotels, and electricity sectors. The financing of the external deficit was also supported by foreign portfolio investment, totaling USD 4.819 m (3.8% of quarterly GDP), USD 3.612 m higher than that received in the same period of 2025. This resulted from issuances of long-term debt securities in international markets and net purchases of financial instruments in the domestic market by non-residents. Finally, in the first quarter of 2026, capital outflows to acquire financial assets abroad were estimated at USD 6.902 m, USD 4.697 m higher than that observed in the same period of 2025.

For 2026, *Banco de la República's* technical staff projects that the current account deficit would remain at 2.4% of GDP, although it would increase in U.S. dollar terms. The larger external imbalance would be explained by the deterioration in factor income, due to an increase in profit remitted by foreign-owned companies, as well as by a

larger deficit in the trade balance of goods and services, resulting from an increase in imports exceeding the growth of exports of mining and oil products, as well as tourism services. In turn, although the increase in workers' remittances is expected to moderate, they would drive the larger surplus in current transfers and help limit the widening of the external imbalance. The country would maintain access to external financing in an environment of international interest rates that would remain above their pre-pandemic levels and a Colombian risk premium that would remain above its historical average.

Public Finances

The overall deficit of the Central National Government (CNG) reached 6.4% of GDP in 2025, equivalent to COP 117.8 trillion (t), as a result of total revenues and expenditures of 16.3% and 22.7% of GDP, respectively. This represented a 0.3 pp of GDP reduction in the deficit as a share of GDP compared with 2024, which was explained exclusively by a 1.5 pp reduction in interest burden, which reached 2.8% of GDP, and was partially offset by a 1.1 pp increase in primary expenditure, resulting in a 0.4 pp decline in total expenditure as a share of GDP. This decline in interest payments resulted from the 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), which reduced interest expenditure by 1.4 pp of GDP. Regarding current revenue, they decreased by 0.1 pp of GDP in 2025 compared with 2024, mainly due to the lower availability of capital and non-tax revenues.

On the other hand, the fiscal deficit of the General Government (GG)[2] increased from 5.8% to 6.1% of GDP between 2024 and 2025, despite the improvement observed in the CNG's overall balance. This deterioration was mainly due to a worsening in the balance of regional and local governments (0.7 pp), associated with the increase in total expenditure (0.8 pp). This performance was driven by higher investment commitments by central administrations and by increased investment by the General Royalties System (SGR in Spanish), in line with the territorial government cycle. This was partially offset by improvements in the balances of the CNG (0.3 pp) and the social security subsector (0.2 pp). In 2025, the net position of the Fuel Price Stabilization Fund (FEPC in Spanish) continued to improve; however, the implicit subsidy on diesel continued to put pressure on public finances.

According to the 2026 *Medium-Term Fiscal Framework* (MTFF-26), for this year, the CNG is projected to have smaller overall and primary balances than in 2025, mainly due to the expected reduction in primary expenditure of nearly 1.7 pp of GDP. This document projects total CNG revenues of 16.1% of GDP, representing a 0.2 pp of GDP decline compared with revenues observed in 2025. Total expenditure is estimated at 21.4% of GDP and primary expenditure at 18.2% of GDP, representing decreases of 1.3 pp and 1.7 pp of GDP, respectively, compared with 2025. Meanwhile, the GG's fiscal deficit is projected to decline from 6.1% to 5.1% of GDP between 2025 and 2026. For 2027, revenues are expected to increase following the tax reform submitted by the outgoing government, which seeks to raise approximately COP 30 t, and a level of primary expenditure similar to that projected in the *MTFF-25*, amounting to COP 382 t.

In 2025, the CNG's gross debt increased in line with a higher primary deficit, while the accumulation of assets, together with the appreciation of the peso, contributed to reducing net debt as a share of GDP. For 2026 and 2027, the latter is expected to remain stable

2 The GG is made up of the CNG, regional and local governments, the social security sector (pensions and healthcare), and the remaining central-level institutions, including the Fuel Price Stabilization Fund (FEPC).

at around 58.9% of GDP. The main factor explaining this trajectory was the exchange of debt securities with a face value below their market price, which were repurchased by the Treasury using proceeds from new debt securities, generating an accounting effect on the amount of debt recorded. This dynamic would also be supported by the projected adjustment in the CNG's primary balance, as well as by the relatively stable exchange rate expected.

According to the statement issued by the Independent Fiscal Rule Committee (CARF in Spanish) on the *MTFF-26*[3], the Committee considers that the adjustment plan presented by the Ministry of Finance is based on overly optimistic assumptions regarding revenues, expenditure, growth, and debt, and depends on policy measures and reforms that have yet to be defined. Consequently, its fiscal trajectory is considered not very credible and difficult to achieve. In particular, CARF estimates that, without concrete expenditure adjustment measures, the CNG's total deficit for 2026 could reach 7.4% of GDP and the net debt could rise to 61% of GDP[4]. For 2027, CARF estimates that meeting the *MTFF-26* fiscal target, which contemplates a primary deficit of 0.5% of GDP, would require additional measures to increase revenues or reduce expenditure equivalent to 3.7% of GDP. CARF reaffirms the urgent need to adopt sufficient measures to increase revenues and reduce expenditure in order to stabilize public finances.

Fiscal policy decisions are a key determinant of macroeconomic stability and the sustainability of public finances. The trajectory of revenues, expenditure, and the fiscal deficit determines the evolution of public debt, influences perceptions of sovereign risk, and affects financing costs for both the government and the rest of the economy. In addition, its interaction with monetary policy is also relevant, as an expansionary fiscal policy may increase demand pressures, raise risk premiums, and require a higher level of interest rates to achieve the same degree of monetary policy restriction. Therefore, the credibility of the fiscal strategy and coordination with monetary policy are essential for financial conditions, macroeconomic stability, confidence, and the convergence of inflation toward the target.

Foreign Reserves

At the end of June 2026, net foreign reserves totaled USD 66.957 m, representing an increase of USD 605 m compared with the level recorded at the end of 2025. This increase was explained by the positive returns obtained during the first half of the year, which, excluding the exchange rate component, reached 1.05% (USD 697 m). This result was mainly driven by higher interest rate levels, which had a positive impact on the return on foreign reserves through investment income. However, these gains were offset during the period by a decline in the value of the investments due to higher short-term interest rates in the main markets in which the reserves are invested. Additionally, the depreciation of other reserve currencies against the U.S. dollar generated a negative exchange rate effect on the valuation of foreign reserves.

Various foreign reserve metrics 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.

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3 Press Release No. 29, 25 June, 2026. CARF News and Statements. Stay Informed — www.carf.gov.co

4 his was estimated by CARF in the technical analysis of the 2026 Medium-Term Fiscal Framework, published in July 2026.

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 May 2026, this ratio for Colombia stands at 1.16.

The outlook for the return on foreign reserves in 2026 remains favorable, particularly in terms of interest income. With international interest rates still at elevated levels, investments of foreign reserves are expected to continue making a significant contribution through interest accruals during the second half of the year.

Profits of *Banco de la República*

Through June 2026, the Bank's profit amounted to COP 4,493 billion (b), resulting from revenues of COP 6,281 b and expenses of COP 1,787 b. Compared with the first half of 2025, profit was COP 3,258 b lower, mainly due to lower income from investments of foreign reserves, amounting to COP 3,243 b, associated with the valuation effects mentioned in the previous section.

During the first half of 2026, monetary income amounted to COP 5,976 b and originated mainly from the return on foreign reserves. This amount was COP 3,182 b lower than in the same period of 2025, mainly due to a lower return on foreign reserves, primarily explained by the increase in external[5] interest rates. Meanwhile, monetary expenses during the first half of the year amounted to COP 1,038 b, COP 61 b higher than those in the first half of 2025 and were mainly explained by the remuneration of deposits held by the Colombian Government at the Bank and contraction deposits, whose remuneration interest rates and observed deposit balances were higher than those recorded in the same period of the previous year.

Income from the Bank's corporate activities totaled COP 139 b, with an annual variation of COP 17 b (14.4%). Corporate expenses amounted to COP 538 b, with an annual increase of COP 51 b (10.5%) of which personnel expenses totaled COP 313 b, general expenses COP 137 b, and other corporate expenses totaled COP 88 b. Compared with the first half of 2025, the increase in general expenses was mainly attributable to technology projects and services, while the higher personnel expenses resulted from the salary adjustment established under the Collective Bargaining Agreement (6.1%).

Expenses related to the issuance and circulation of banknotes and coins totaled COP 212 b, with an annual increase of COP 21 b (10.8%), explained by the higher production and circulation of coins.

For 2026, profit is projected at COP 9,194 b, COP 4,699 b lower than that observed in 2025. This is mainly explained by a COP 4,242 b reduction in net monetary income, which, in turn, is associated with the decline in the value of foreign reserve investments, generated by the increase in external interest rates.

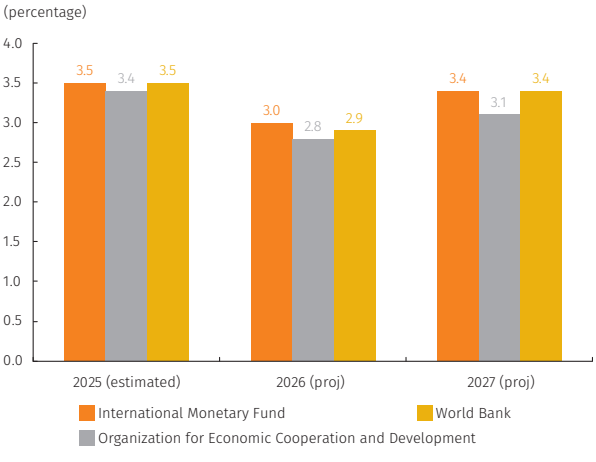
5 See chapter 5 of this *Report*.

2. Macroeconomic Environment

2.1 Evolution and Outlook of the International Macroeconomic Environment

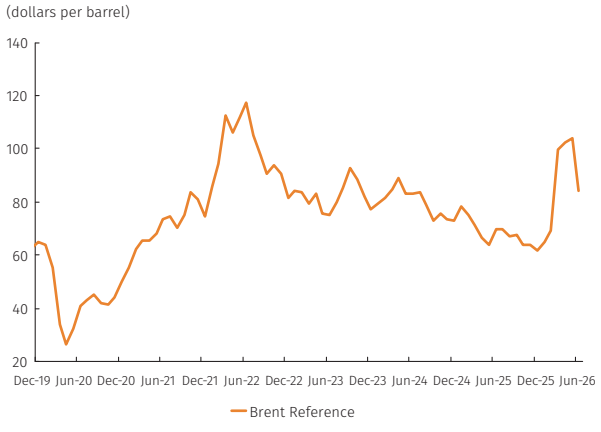
So far in 2026, the external economic environment has been characterized by high geopolitical and trade uncertainty. Throughout the year, developments in the conflict in the Middle East have worsened global growth prospects and increased inflationary pressures associated with higher energy and fertilizer prices. The escalation of the conflict in the Middle East has led to a significant increase in international oil, natural gas, and fertilizer prices, partially reversing the downward trend observed in previous quarters. This shock increased production and transportation costs, reduced consumer and business confidence, affected the outlook for global trade, and increased uncertainty about the evolution of global economic activity. In this context, global economic activity showed a mixed performance. In the United States, the economy continued to expand during the first quarter of 2026, although at a slower pace than that observed in 2025, amid moderating private consumption and low household confidence, while inflation remained above the Federal Reserve's (Fed) target. In turn, growth in the Euro Zone remained moderate, affected by weak domestic demand, subdued dynamism in the manufacturing sector, and higher energy costs. In contrast, China maintained relatively favorable growth, supported by stimulus policies and the strong performance of some industrial sectors, although difficulties in the real estate sector and weak household consumption persisted. Looking ahead, international organizations project a slowdown in global growth in 2026 (Graph 2.1), as a result of the impact of the conflict in the Middle East on international energy and fertilizer markets, increased geopolitical uncertainty, and a deterioration in the outlook for trade and investment. Both the World Bank and the Organization for Economic Cooperation and Development (OECD) point out that higher production and transportation costs, together with financial conditions that would remain restrictive for longer, would constrain global economic activity. Additionally, these organizations highlight that a potential escalation of the conflict in the Middle East or new disruptions in commodity markets constitute the main downside risks to global growth. However, the International Monetary Fund (IMF) also highlights that the global economy has shown greater resilience than initially expected, supported by the dynamism of the technology cycle and other factors that have partially mitigated the impact of the conflict.

Graph 2.1
Global Economic Growth
(annual variation)



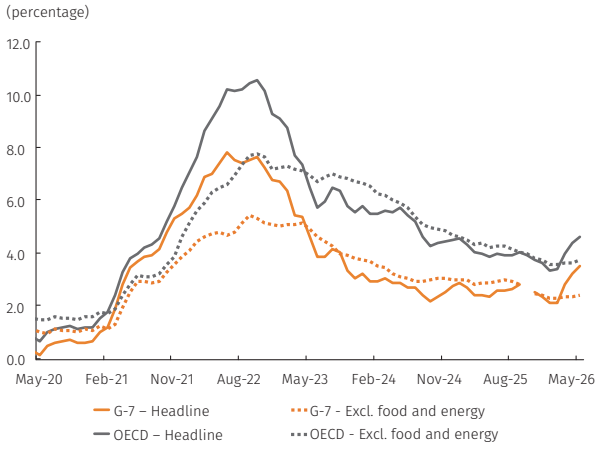
Sources: International Monetary Fund (July 2026), World Bank (June 2026), and Organization for Economic Cooperation and Development (June 2026).

Graph 2.2
International Oil Price



Source: Bloomberg.

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



Source: Organization for Economic Cooperation and Development.

During the first half of 2026, international oil and some food prices increased as a result of geopolitical tensions in the Middle East. The conflict affected maritime traffic through the Strait of Hormuz and reduced the production of both oil and its derivatives, as well as some fertilizers. Consequently, global inflation increased, which could delay its convergence toward central banks' targets. During the first half of the year, the average price of Brent crude stood at around USD 87 per barrel (bl), representing a 24% increase compared with the same period in 2025 (Graph 2.2). This increase was mainly driven by restrictions on vessel traffic through the Strait of Hormuz, which affected oil production in several Middle East countries and reduced global supply to levels below global demand. As a result, oil and petroleum product inventories in OECD economies declined, generating upward pressure on oil prices so far in 2026. Likewise, disruptions in the region affected fertilizer production, with prices increasing by around 18% during the first half of the year compared with the second half of 2025. Thus, this increase helps partly explain the upward trend observed in international prices of some food products during the first half of the year. In this context, global inflation has shown an upward trend so far in 2026. In particular, annual headline inflation in OECD member countries stood at 4.6% in May 2026, while it reached 3.5% in G7 economies. These figures are above those recorded at the end of 2025 (3.6% and 2.4%, respectively) and, in most cases, remain above central banks' inflation targets, suggesting that the convergence process could be slower than anticipated (Graph 2.3).

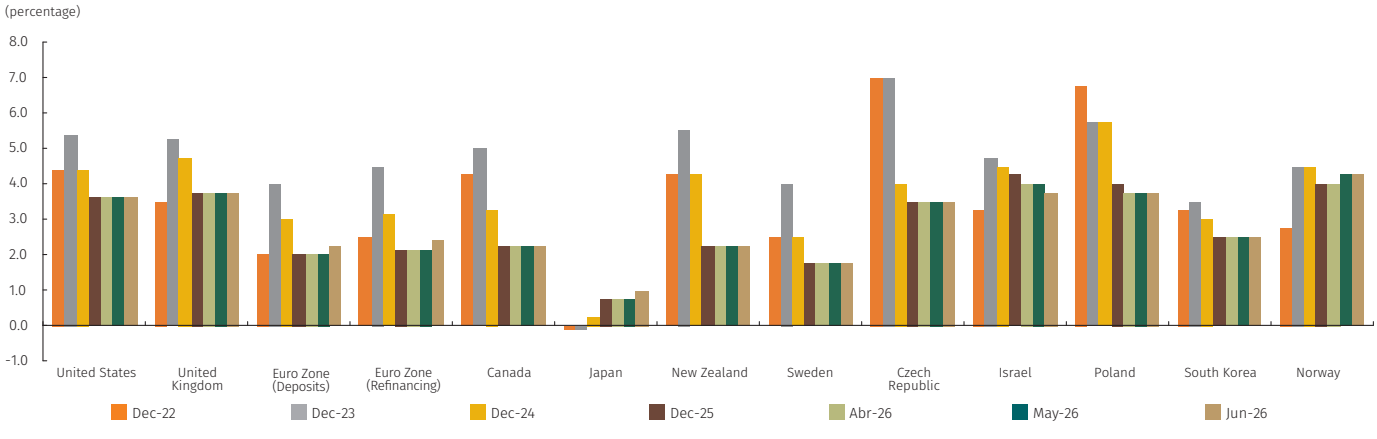
The Fed kept its monetary policy rate unchanged during the first half of 2026. In other advanced economies, the process of reducing policy interest rates moderated and, in some cases, monetary authorities interrupted or reversed this process in response to the resurgence of inflationary pressures. In the United States, the Federal Open Market Committee (FOMC) kept its policy interest rate unchanged within the 3.50%–3.75% range during the first half of the year. This decision was made amid heightened geopolitical and trade uncertainty, increased inflationary pressures stemming from higher energy prices, and a labor market that continues to show resilience. In other advanced economies, monetary policy decisions reflected the shift in the international macroeconomic environment. The central banks of Australia, Norway, Iceland, New Zealand, and South Korea raised their interest rates so far this year in response to the emergence of global inflationary pressures. Likewise, following several quarters of interest rate cuts, the European Central Bank (ECB) interrupted the monetary easing process and raised its policy rates in June amid increased inflationary pressures associated with higher energy prices. In July, it kept its interest rates unchanged but mentioned in its communications the possibility of further rate increases in

September. Meanwhile, the central banks of the United Kingdom, Sweden, and Canada kept their policy interest rates unchanged in 2026, while the Bank of Japan continued the process of monetary policy normalization by raising its benchmark interest rate again in June. Overall, these decisions reflect greater caution on the part of monetary authorities amid increased inflationary pressures, as well as increases in inflation expectations (Graph 2.4, panel A).

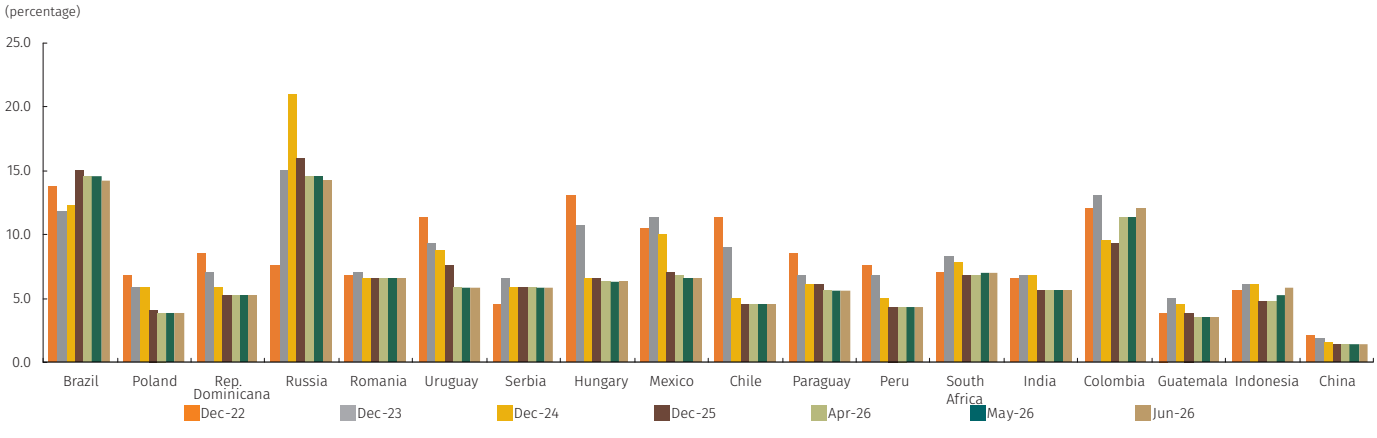
Looking ahead, monetary policy in both advanced and emerging economies will face heightened uncertainty associated with the evolution of inflationary pressures stemming from the conflict in the Middle East. In this context, the cycle of policy interest rate reductions has moderated, and in some economies, has even been interrupted or reversed in response to the resurgence of inflationary pressures. In the United States, the Fed's FOMC raised its expected path for the federal

Graph 2.4
Monetary Policy Interest Rate in Some Economies

A. Some Advanced Economies



B. Some Emerging Economies and the Region



Source: Bloomberg.

funds rate[1] , reflecting a more restrictive stance and a lower likelihood of policy rate reductions over the next two years. In the Euro Zone, the ECB could maintain a more restrictive monetary policy stance following its recent increase in policy rates, while in Japan, the gradual process of raising the monetary policy rate would continue. In emerging economies, monetary policy decisions have also reflected this more cautious environment, although responses varied across countries. During the first half of 2026, some central banks continued to lower their interest rates in economies where inflationary pressures remained relatively contained, such as Brazil, Mexico, Russia, and Poland. In turn, others kept their policy rates unchanged, including Chile, Peru, India, and China. In contrast, Colombia, the Philippines, and South Africa raised their policy interest rates in response to the resurgence of inflationary pressures, amid heightened geopolitical and financial uncertainty, while in Indonesia, the increase was mainly driven by the need to contain the depreciation of the rupiah and preserve exchange rate stability (Graph 2.4, panel B). Overall, these decisions reflect greater caution by central banks and suggest that policy interest rates would remain at restrictive levels for a longer period than anticipated.

The performance of international financial markets was also marked by uncertainty associated with the conflict in the Middle East, which has put upward pressure on energy prices and some basic inputs. These disruptions to international trade in commodities heightened concerns about a global inflationary shock[2] and contributed to the tightening of international financial conditions. Starting in April, these pressures began to ease amid signs of a potential agreement, which materialized in June, contributing to a partial reduction in inflationary concerns[3].

Global risk perception increased and recorded high volatility following the escalation of the conflict in the Middle East. The main indicators of financial risk perception (such as the VIX, VSTOXX, and MOVE Index)[4] recorded significant increases, reaching levels not seen since the so-called "Liberation Day"[5]. Since then, although some messages regarding a potential agreement have helped moderate risk perception, these indicators have remained volatile, reflecting market sensitivity to

1 In its June 2026 report, the median of the FOMC's projections revised upward its estimates for inflation as measured by the personal consumption expenditures (PCE) price index. For the end of 2026, the projection for headline PCE inflation increased from 2.7% to 3.6%, while the projection for core PCE inflation rose from 2.7% to 3.3%. Meanwhile, the median projection for economic growth was revised downward from 2.4% to 2.2% for the end of 2026. Likewise, the median projection for the federal funds rate increased from 3.4% to 3.8% for 2026, reflecting a more restrictive monetary policy stance.

2 Although this shock emerged in March 2025, tensions between the United States and Iran intensified from January 2026 onward, following tighter sanctions, the stalemate in negotiations over Iran's nuclear program, and a large-scale U.S. military deployment in the Middle East. On 28 February, the United States and Israel launched a joint military offensive against strategic targets in Iran, marking a significant escalation of the conflict.

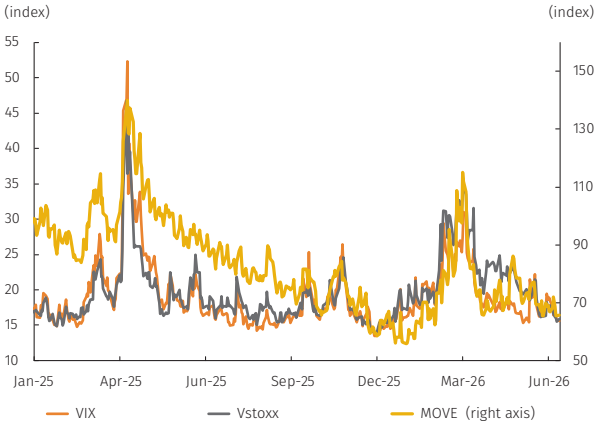
3 The interim agreement of 17 June temporarily allowed maritime traffic through the Strait of Hormuz to resume, supporting a partial normalization of oil flows and a reduction in global risk perception. However, uncertainty persisted, as new attacks on vessels in the area in early July renewed concerns about potential disruptions to energy supplies.

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

5 This referred to an announcement on 2 April 2025, through which the United States announced a broad-based tariff increase. In particular, a minimum tariff of 10% was imposed on most of its trading partners, excluding Mexico and Canada, whose goods were already subject to higher tariffs in various sectors. Additionally, higher tariffs were imposed on economies with large trade surpluses vis-à-vis the United States, including China (34%), India (26%), Japan (24%), and the European Union (20%), among other major trading partners.

announcements, negotiation signs, and episodes of tension associated with the conflict (Graph 2.5).

Graph 2.5
Risk Perception Indicators in International Financial Markets



Source: Bloomberg (Data License).

In turn, the public debt of the major advanced economies declined in value amid expectations of higher interest rates and less favorable global financial conditions[6]. In general, the pressures were more pronounced on short-term interest rates, in line with the increase in global inflation expectations and, therefore, with the possibility of a more restrictive stance by central banks[7]. Since the onset of the conflict, interest rates have remained at elevated levels and have shown high volatility, reflecting market sensitivity to the evolution of the conflict and its potential inflationary effects. In Japan, the pressures were more concentrated on long-term interest rates, amid persistent fiscal uncertainty[8].

In 2026, the U.S. dollar (USD) strengthened (the DXY[9] increased by 2.71%) against the major currencies of advanced economies and some emerging economies, reversing the trend observed since April 2025. The dynamics of the USD have been different so far this year: it initially depreciated between January and February, followed by an appreciation trend from March onward due to its role as a safe-haven asset amid the escalation of the conflict in the Middle East. Subsequently, the persistence of higher energy prices and the resulting inflation concerns reinforced expectations of a more restrictive monetary policy stance relative to that of other central banks, which has supported the U.S. dollar.

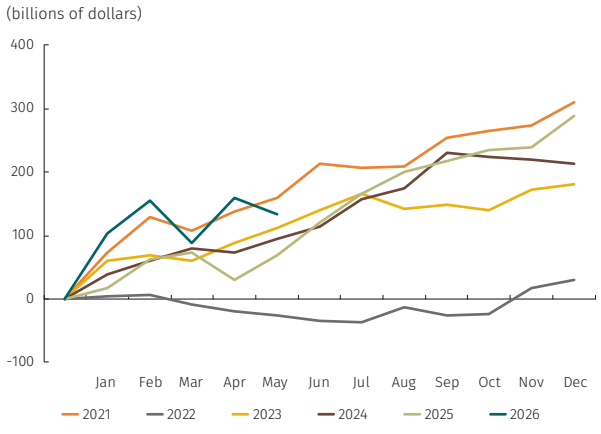
6 Financial conditions reflect how easy or costly it is for households, businesses, and governments to access financing. When interest rates increase, debt becomes more expensive and consumption and investment decisions moderate.

7 Short-term interest rates on public debt tend to respond more directly to the monetary policy rate and expectations regarding its path. During the period, two-year interest rates increased more than long-term rates in most major advanced economies; in the United States, they rose by about 70 bps, compared with 30 bps for ten-year securities; in the United Kingdom, by 47 bps compared with 29 bps; and in the Euro Zone, by 45 bps compared with 8 bps.

8 Long-term interest rates on bonds also tend to reflect structural factors, such as fiscal conditions and public debt sustainability. Although these concerns persisted in the major advanced economies, they had a more pronounced effect in Japan during the period: ten-year interest rates increased by about 64 bps, compared with 25 bps for two-year rates, amid concerns associated with fiscal stimulus packages, a record budget for 2026, and expectations of a more expansionary fiscal policy.

9 The DXY is an index that compares the U.S. dollar with a basket of other currencies: the euro, Japanese yen, pound sterling, Canadian dollar, Swedish krona, and Swiss franc.

Graph 2.6
Portfolio Flows to Emerging Economies by Non-Residents



Source: Institute of International Finance (IIF).

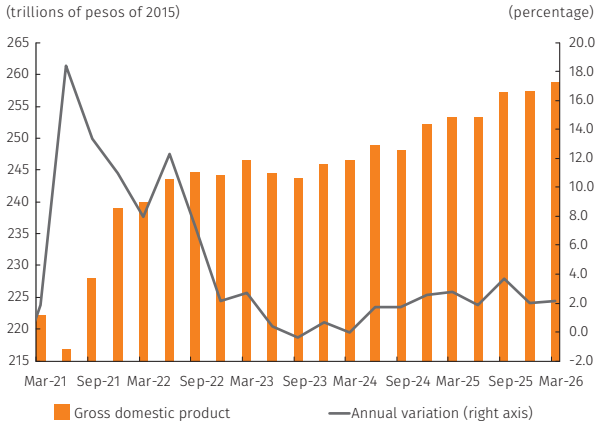
Although portfolio investment inflows into emerging economies have been recorded so far this year, mainly toward debt instruments, the dynamics of geopolitical risk perception have led to greater volatility in these inflows (Graph 2.6). According to preliminary figures from the Institute of International Finance (IIF), so far in 2026 (through May) net inflows of USD 132.5 billion (b) into emerging economies were recorded, resulting from positive flows into fixed-income markets that more than offset the outflows observed in equity markets. Latin America has been the second-largest destination for portfolio investment within this group of countries, after emerging Europe, with inflows of USD 45.5 b into debt instruments and USD 26.5 b into stock markets.

2.2 Evolution and Outlook for Economic Activity and the Labor Market

2.2.1 Economic Activity

The Colombian economy is estimated to have continued growing during the first half of 2026, at an average pace similar to that observed throughout 2025. According to the most recent publication by the National Administrative Department of Statistics (DANE), the Colombian economy grew by 2.6% annually throughout 2025, representing an improvement compared with the figure recorded a year earlier (1.5%). However, this result was marked by weaker dynamism toward the end of the year, when the economy faced temporary negative shocks that moderated growth (unusually heavy rainfall, lower gas production, maintenance and unexpected outages at some industrial plants, and lower iron and steel production). With most of these shocks dissipating, economic activity resumed its gradual expansion path in the first quarter of 2026, recording annual growth of 2.2% (Graph 2.7). Information available to date[10], such as the Economic Tracking Indicator (ISE), which grew by 3.7% annually in the April–May two-month period (based on seasonally adjusted and calendar-adjusted series), suggests that this performance would have continued during the second quarter of the year, with economic activity levels remaining relatively high. The latter would be due to the additional boost that the presidential elections and activities surrounding the FIFA World Cup would provide to service sectors, such as public administration, education, and health; artistic and entertainment activities; and the trade, transportation, and accommodation macrosector, as well as to stronger dynamics in manufacturing and some primary activities.

Graph 2.7
Gross Domestic Product[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.*

10 These include the ISE, manufacturing output, retail sales, and service-sector surveys through May, as well as more timely indicators such as the regional pulse, energy demand, consumer credit disbursements, debit and credit card purchase transactions, motorcycle registrations, and monthly exports and imports.

All of the above suggests that annual growth of 3.2% can be expected in the second quarter of 2026.

Domestic demand remained the main support for economic activity, driven particularly by household consumption. In the first quarter of 2026, total domestic spending recorded annual growth of 2.3%, higher than the increase observed in the fourth quarter of 2025; however, when compared with the full-year figure (Table 2.1), domestic demand shows a slowdown. Nevertheless, according to the Technical Staff's estimates, this aggregate would have expanded at a higher rate during the second quarter than at the beginning of the year. The main contribution to the annual growth in domestic demand at the beginning of the year came from private consumption, which maintained favorable performance, with an annual increase (2.6%) that was higher than that of the economy as a whole. Among its components, durable goods and services consumption stood out, with their annual increases making them the main contributors to the growth in household consumption and placing them at levels well above their pre-pandemic trend[11]. Despite this, the expansion of private consumption in the first half of the year would have been, on average, more moderate than last year's figure (3.5%). This slowdown is occurring in a context in which some components of household disposable income, such as workers' remittances and coffee-growing households' income, continue to grow,

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

	2024	2025				2025	2026
	Full Year	Q1	Q2	Q3	Q4	Full Year	Q1
Final consumption expenditure	1.5	4.1	3.8	5.7	3.8	4.3	3.4
Household final consumption expenditure	1.6	4.4	3.6	3.8	2.3	3.5	2.6
Non-durable goods	-0.3	3.1	3.9	3.9	2.9	3.4	1.9
Semi-durable goods	-2.5	6.6	6.7	7.7	7.4	7.1	4.0
Durable goods	0.1	12.3	16.2	20.3	13.1	15.4	12.5
Services	3.6	4.6	2.4	2.2	0.9	2.5	1.7
General government final consumption expenditure	0.6	4.3	4.5	16.5	9.0	8.4	8.5
Gross capital formation	2.4	9.0	5.0	0.6	-9.1	1.2	-3.4
Gross fixed capital formation	0.7	-0.4	3.6	5.0	-2.2	1.4	4.9
Housing	-3.8	-5.2	-6.1	-5.9	-9.0	-6.5	-2.8
Other buildings and structures	3.8	-10.9	-0.6	6.4	-3.4	-2.3	1.2
Machinery and equipment	0.7	4.8	16.7	12.5	2.1	8.9	15.7
Cultivated biological resources	7.9	11.3	4.7	1.9	1.6	4.7	1.1
Intellectual property products	-3.1	-1.9	-2.7	2.3	-2.2	-1.1	-2.1
Domestic demand	1.6	4.8	3.9	4.6	2.1	3.8	2.3
Exports	0.4	-1.5	1.2	4.3	3.5	1.9	3.6
Imports	1.2	12.4	9.8	10.1	2.5	8.6	3.8
GDP	1.5	2.8	1.8	3.7	2.0	2.6	2.2

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

11 Calculated between 2015 and 2019.

but at lower rates than those observed in 2025. This was compounded by monetary policy remaining in contractionary territory. Public consumption also made a notable contribution to the increase in domestic demand, whose annual growth (8.5%) was the highest among the major expenditure components. During the first half of the year, it would have maintained outstanding performance, driven by factors such as spending generated by electoral processes and the payment of retroactive salary adjustments to public officials.

Fixed investment would have shown a mixed performance, with relatively stronger performance in machinery and equipment, while building construction continued to lag. Annual growth in gross fixed capital formation in the first quarter (4.9%) was driven mainly by the significant expansion in machinery and equipment (15.7%). According to import figures, the items that would have accounted for the largest investment of this type are transportation equipment and industrial equipment. In contrast, investment in construction recorded unfavorable performance. Housing investment declined 2.8% annually, with a decline at the margin, while investment in other buildings and structures also declined on a quarterly basis but increased 1.2% annually due to a low comparison base. In the first case, the decline would have been due to fewer housing units completed in middle-income socioeconomic strata, and in the second, to the weak dynamism in non-residential construction and civil works associated with mining. These trends would extend into the second quarter, with imports of capital goods and data on buildings under construction point to favorable performance in machinery and equipment investment and weak performance in construction investment. Finally, it should be noted that in the first quarter, total gross capital formation performed differently from gross fixed capital formation (with an annual decline of 3.4%), due to a negative value for the statistical discrepancy and changes in inventories component, according to the latest figures published by DANE.

The strong performance of domestic demand would have continued to drive imports, while exports would have recorded more moderate growth. During the first quarter of 2026, the strong performance of household consumption and investment in machinery and equipment translated into an increase in imports, which grew by 3.8% in annual terms. This performance was mainly driven by imports of durable consumer goods and transportation equipment. For the second quarter, the information available through June suggests a further increase in import levels, but somewhat lower annual growth than at the beginning of the year. Regarding exports, they declined on a quarterly basis in the first quarter but, due to a relatively low comparison base, recorded annual growth of 3.6%. In the second quarter, annual growth is expected to slow to levels below 2.0%. So far this year, the performance of this component has been constrained by exports of products such as coffee, coal, and ferronickel, which, according to volume data through May, show annual declines (-22.9%, -20.3%, and -25.7%, respectively). This contrasts with the annual increases in external sales of oil (1.6%) and gold (22.8%), according to the same data. All of this is reflected in a trade deficit in constant pesos that would increase and would continue to make a negative accounting contribution to the annual variation in GDP.

From the supply perspective, tertiary activities would have continued to lead growth, while some productive sectors showed less favorable performance. In the first quarter of 2026, services maintained broadly positive dynamism (Table 2.2), with public administration, education, and health activities standing out, driven by increased hiring for electoral processes and salary adjustments at some entities in the sector. Artistic and entertainment activities also stood out, driven by the boom

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

	2024	2025				2025	2026
	Full Year	Q1	Q2	Q3	Q4	Full Year	Q1
Agriculture, Forestry, Hunting, and Fishing	6.1	4.9	4.6	3.4	-0.3	3.1	-1.2
Mining and Quarrying	-3.4	-5.4	-11.1	-6.7	-3.0	-6.6	-0.4
Manufacturing Industry	-2.6	-0.5	2.2	4.5	1.3	1.9	3.5
Electricity, Gas, and Water	2.5	-0.6	0.8	1.8	2.7	1.2	2.5
Construction	0.1	-4.0	-3.9	-1.4	-1.3	-2.7	-4.9
Buildings	-2.4	-6.6	-9.5	-8.3	-5.0	-7.4	-7.6
Civil Works	7.0	3.2	9.0	13.0	7.9	8.3	1.5
Specialized Construction Activities	-1.7	-5.4	-4.1	-1.3	-1.0	-3.0	-5.5
Commerce, Repair, Transportation, and Accommodation	1.2	4.4	5.5	5.8	3.0	4.7	2.8
Information and Communications	-0.2	0.9	2.8	1.6	-1.1	1.0	1.4
Financial and Insurance Activities	1.1	3.7	2.8	4.1	0.6	2.8	3.0
Real Estate Activities	2.2	2.1	1.9	1.9	2.0	2.0	2.0
Professional, Scientific, and Technical Activities	-0.4	0.5	1.2	1.7	1.9	1.3	2.2
Public Administration and Defense, Education, and Health	4.1	3.4	1.3	7.4	4.0	4.0	5.7
Artistic, Entertainment, and Recreation Activities	8.2	17.4	7.8	6.9	8.2	9.9	3.3
Subtotal value added	1.6	2.6	2.2	3.6	1.9	2.6	2.1
Taxes less subsidies	0.5	2.9	2.3	2.6	2.1	2.5	2.8
GDP	1.5	2.8	1.8	3.7	2.0	2.6	2.2

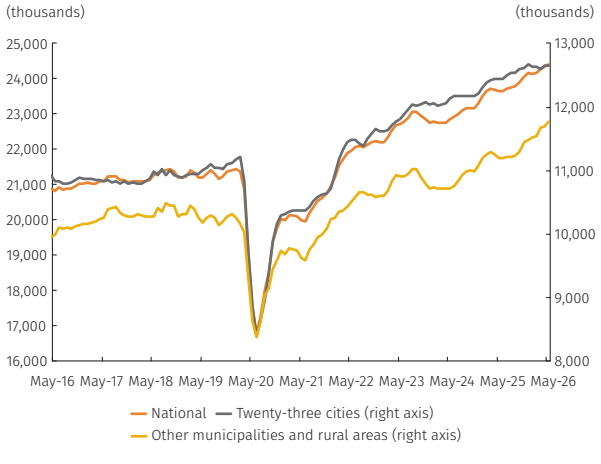
Source: DANE; calculations by *Banco de la República.*

in online gaming, as did trade, transportation, and accommodation, supported by domestic trade, particularly sales of vehicles, motorcycles, and technological equipment for household use. Secondary activities also showed signs of recovery, mainly due to improved performance in manufacturing, with higher real production in the coking and petroleum refining products, beverage manufacturing, and motorcycle manufacturing. However, construction continued to lag, particularly in the buildings segment, as did the low growth in civil works. Meanwhile, primary activities contracted slightly, affected by weather-related factors and higher costs that impacted some crops, such as coffee, and activities such as fishing, while mining continued to decline due to weak performance in coal and oil, despite the strong dynamism of metal ores, such as gold. For the second quarter, the presidential elections and the FIFA World Cup are expected to have provided an additional boost to various services and consumption, in a context in which industry would continue to perform well, together with weather conditions that would favor the recovery of crops such as coffee.

For the remainder of the year and in 2027, economic activity is expected to continue growing at a more moderate pace, as some components of domestic demand would slow, amid uncertain external conditions and a restrictive monetary policy stance. *Banco de la República's* technical staff expects the Colombian economy to continue expanding on an annual basis, despite tighter external financial conditions than those anticipated at the beginning of the year and lower expected

growth among trading partners. This is occurring amid high international uncertainty due to geopolitical tensions in the Middle East, which would keep the terms of trade at elevated levels in 2026, although with a moderating trend going forward. On the domestic front, consumption would show weaker performance than in the first half of the year, in a context in which monetary policy has been adjusted to foster the convergence of inflation toward its target. In turn, investment would continue to recover, supported by a gradual stronger dynamism in civil works. Meanwhile, exports would benefit from the favorable performance of the terms of trade. Considering all of this, the technical staff expects growth to be around 2.5% in 2026. For 2027, growth is expected to continue slowing, reaching an annual 1.9%, amid a monetary policy stance aimed at correcting excess demand and fostering the convergence of inflation toward the 3.0% target. However, it should be noted that these forecasts remain subject to a high degree of uncertainty, associated with the duration of recent supply shocks and the effects of the conflict in the Middle East on external demand relevant to Colombia and external financing conditions. Additionally, production in some tradable sectors, both in manufacturing and agricultural activities, could be affected by the appreciation of the Colombian peso. Added to this are the challenges associated with the adjustment required in public finances and its potential effects on aggregate demand.

Graph 2.8
Employed Population by Geographical Domain[a/]



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

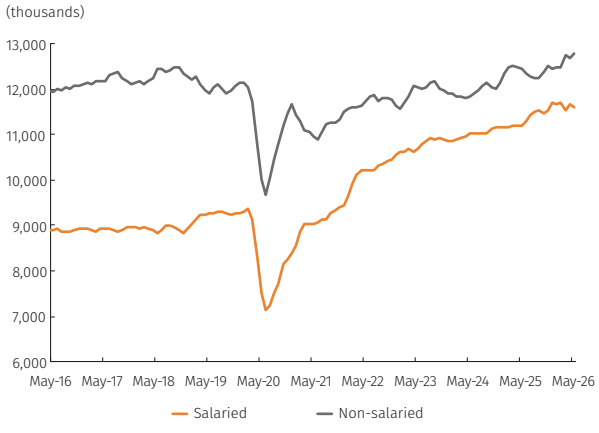
2.2.2 Labor Market[12]

During the first five months of 2026, employment in the national aggregate continued to grow, driven by employment in rural areas and intermediate municipalities. Meanwhile, employment in the main cities continues to grow annually, albeit at a slower pace. According to seasonally adjusted data for the rolling quarter ending in May from the *Colombian Household Survey* (GEIH, by its acronym in Spanish), the employed population recorded annual growth in both urban areas (1.6%) and rural areas (5.0%) (Graph 2.8). In rural areas, the largest contributions came from public administration, health, and education sector (1.4 percentage points, pp), and from trade and accommodation (1.3 pp). In urban areas, annual employment growth was driven mainly by the contribution of the public administration, health, and education sector (1.5 pp), and other activities (0.4 pp)[13]. The lower dynamism of urban employment has been more than offset by the dynamics of rural employment, resulting in a 1.1 pp increase in the employment-to-population ratio (EPR), which stood at 59.4% for the rolling quarter ending in May.

12 This section uses rolling quarter and seasonally adjusted data.

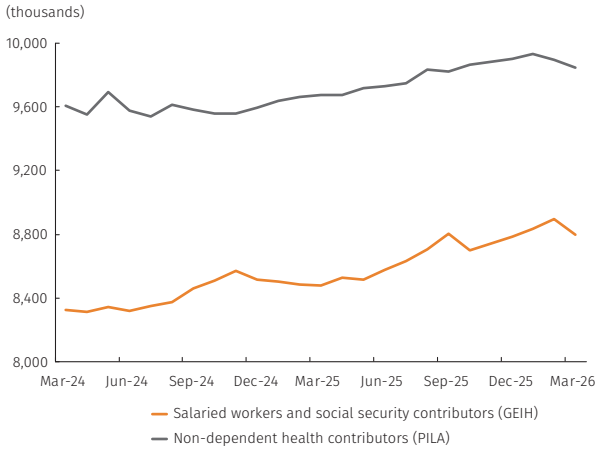
13 Other activities comprise electricity, gas, and water supply, as well as mining and quarrying.

Graph 2.9
Employment by Occupation
(national aggregate)[a/]



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

Graph 2.10
Salaried Employment and Social Security Contributors
(national aggregate)[a/]



a/ Data on a three-month moving average and seasonally adjusted data.
The series presented minimize methodological discrepancies between the GEIH and PILA. However, conceptual differences persist between them, mainly in how they define the employed population. Example: An individual who lost their job but continues to make contributions through PILA to maintain access to health services and preserve their pension contribution record; this individual may be counted in PILA but does not meet the GEIH criterion for being considered employed.
Source: DANE (GEIH), MinSalud (PILA); calculations by *Banco de la República.*

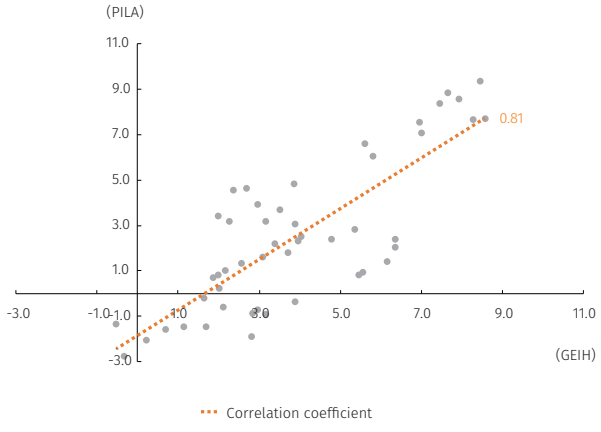
The lower dynamism of employment in the large cities is explained by the decline in salaried employment, while non-salaried employment continued to grow. In the rolling quarter ending in May 2026, salaried employment in the national aggregate recorded annual growth of 3.6%. However, so far this year, this segment has shown lower dynamism compared with that observed the previous year. In particular, between December 2025 and May 2026, the salaried employment declined by 0.8% (approximately 97,000 jobs). This performance was particularly pronounced in the twenty-three cities, where, over the same period, this segment contracted by 1.5% (Graph 2.9). In contrast, in the rolling quarter ending in May, non-salaried employment recorded annual growth of 2.9% in the national aggregate and has continued to grow so far in 2026. This reflects stronger employment dynamics in other municipalities and rural areas, driven by public administration, trade, accommodation, and construction segments.

The salaried employment and social security contributor indicators from the GEIH and the Social Security Administrative Records (PILA, by its acronym in Spanish)[14] have shown similar trends, indicating weaker dynamism in salaried employment so far this year. Although the GEIH is a household survey and PILA is an administrative record, both sources provide information on the performance of formal employment relationships. However, their comparison requires considering the differences in terms of frequency, methodology, and measurement concepts[15]. Graph 2.10 shows the performance of salaried employment contributing to social security according to the GEIH and dependent contributors registered in PILA; as can be seen, both sources show significant growth in recent years and a slowdown during the first months of 2026. Additionally, Graph 2.11 presents the correlation between the GEIH and PILA data for annual variations since 2022. The trend line suggests a positive association between the indicators, highlighting the consistency of the signals they provide regarding recent developments in formal employment.

14 PILA: Social Security Administrative Records.

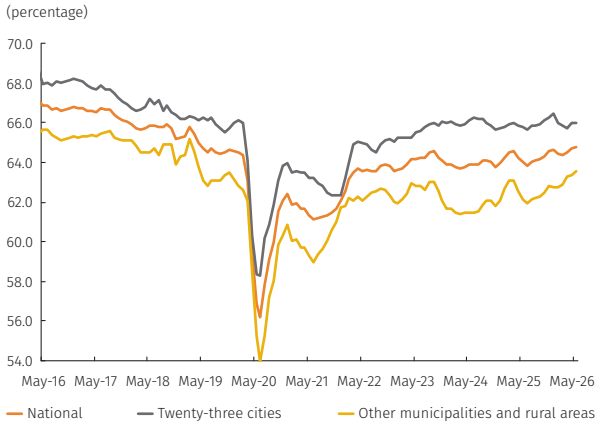
15 The GEIH measures employment through a household survey based on a reference week, whereas PILA records social security contributions, which may be subject to payment and registration lags. Therefore, contributions accrued in a given month may be recorded at a later date, which may particularly affect the most recent data cutoffs. Additionally, PILA requires data cleaning to exclude duplicates, corrections, or records that do not correspond to actual employed individuals. Finally, a comparison using the GEIH, more closely aligned with what PILA captures, should be based on social security contributions rather than on the official definition of labor formality, which incorporates additional criteria related to the firm or job.

Graph 2.11
Annual Percentage Variation in Social Security Contributions (GEIH) and Dependent Health Contributors (PILA) (national aggregate)



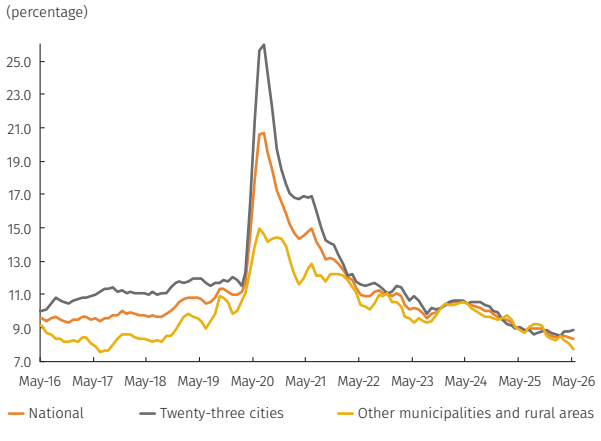
Source: DANE (GEIH), MinSalud (PILA); calculations by *Banco de la República.*

Graph 2.12
Labor Force Participation Rate by Geographic Domain[a/]



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

Graph 2.13
Unemployment Rate by Geographical Domain[a/]



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

Labor force participation showed weaker dynamism than employment. In particular, in urban areas, the labor force participation rate (LFPR) declined during the year to date in 2026. As of May, the population outside the labor force (inactive population) declined by 0.8% in annual terms at the national aggregate, mainly reflecting a decline in rural areas (2.3%). In contrast, in urban areas, the inactive population increased during the year to date in 2026 (0.8% annually). This has translated into a higher labor force participation rate (LFPR) at the national aggregate, which stood at 64.8% in May. In turn, although labor force participation in urban areas maintained positive annual growth, it has declined by 0.5 pp so far this year, bringing the LFPR to around 66% in this geographic domain (Graph 2.12). By gender, the increase in participation was led by women, whose LFPR rose by 1.1 pp and stood at 53.6% compared with that of men, which increased by 0.4 pp to 76.9% as of the same cutoff date.

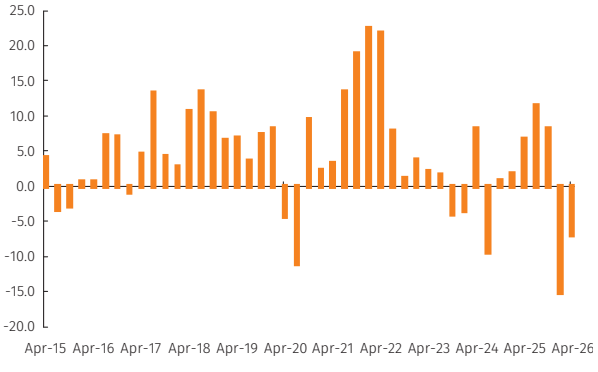
Although the unemployment rate (UR) has declined annually, it has increased in urban areas during 2026. For the rolling quarter ending in May 2026, the total aggregate UR declined by 0.6 pp annually, reaching 8.3%. This UR is the lowest recorded since measurements for the national aggregate began in 2001. However, moderate increases have been observed in the urban domain so far this year. The recent increase in the urban UR (+0.2 pp since January) is due to a slight deterioration in employment in this domain. Thus, the UR in the twenty-three cities stood at 8.9% in May. Meanwhile, in other municipalities and rural areas, the UR declined by 1.1 pp annually, reaching 7.7% (Graph 2.13). By gender, the UR stood at 10.4% for women and 6.8% for men, narrowing the gender gap to historically low levels (3.6 pp).

Other indicators of salaried labor demand, such as job vacancies, have stabilized and shown improved performance at the margin. Job vacancy indicators calculated from different sources of information, such as help-wanted ads, the Public Employment Service (SPE in Spanish), and the GEIH, which had been on a declining trend, have shown improved performance in recent months. In particular, this has been the case for the vacancy indices based on help-wanted ads and the level of vacancies consistent with the hiring of formal salaried workers in the GEIH[16]. In line with the improved performance of job vacancies in recent months, short-term hiring expectations (three to six months), such as those from *Banco de la República's Quarterly Survey of Economic Expectations* (ETE in Spanish), point to a recovery as of the second quarter of 2026, although they remain in negative territory. Thus, the hiring

16 Estimates based on a methodology for inferring job vacancy openings from the level of new hires observed in the GEIH. See Morales, L. F. *et al.* (2017), *Estimating Vacancies from Firms' Hiring behavior: The Case of a Developing Economy, Borradores de Economía* (Working Papers on Economics) No. 1017.

Graph 2.14
Balance of Expectations of Short-term Payroll Increases[a/]

(percentage points)



a/ Data on a three-month moving average and seasonally adjusted data.
Source: *Banco de la República*, Quarterly Survey of Economic Expectations (ETE in Spanish); calculations by *Banco de la República*.

expectations balance, which measures the difference between the percentage of firms willing to expand their workforce and those that are not, stands at -7.0% (-15% in the previous quarter) (Graph 2.14). Meanwhile, medium-term expectations (six to twelve months) returned to positive territory. Finally, concerning wages, the median monthly wage of salaried workers grew by 15.7% in real terms annually as of April (21.7% per hour). On the other hand, in the non-salaried segment, median labor income grew by 9.5% annually (15.6% per hour) in real terms.

2.3 Evolution and Outlook of the Fiscal Situation

Between 2024 and 2025, the fiscal deficit of the General Government (GG)[17] increased from 5.8% to 6.1% of GDP, despite the improvement observed in the overall balance of the Central National Government (CNG). According to the 2026 *Medium-Term Fiscal Framework* (*MTFF-26*), presented by the Ministry of Finance and Public Credit (MHCP in Spanish), the GG deficit stood at 6.1% of GDP in 2025, representing an increase of 0.3 pp compared with 2024[18]. This deterioration was mainly attributable to a deterioration in the balance of regional and local governments (0.7 pp), associated with an increase in total expenditure (0.8 pp). This performance was driven by higher investment commitments by central administrations and increased investment under the General Royalties System (SGR), in line with the territorial government cycle. This was partially offset by improvements in the CNG's balances (0.3 pp) and the social security subsector (0.2 pp). In 2025, the net position of the Fuel Price Stabilization Fund (FEPC) continued to improve compared with previous years. However, the implicit subsidy on ACPM (diesel fuel) continued to put pressure on public finances, underscoring the importance of continuing the process of bringing its price into line with the international parity level.

The overall balance of the CNG declined between 2024 and 2025, as a result of lower interest expenditure. However, the primary deficit continued to deteriorate, reaching 3.5% of GDP in 2025 (COP 65.7 trillion, t), a level similar to that observed in 2021. The overall 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 decline of 0.3 pp of GDP in the deficit, driven exclusively by a 1.5 pp reduction in the interest burden (which reached 2.8% of GDP). The foregoing was

17 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 FEPC.

18 According to DANE's institutional sector accounts methodology, data through December 2025 show a GG deficit of 6.7% of GDP, higher than the 5.6% deficit observed over the same period in 2024.

partially offset by a 1.1 pp increase in primary expenditure, resulting in an overall decline of 0.4 pp of GDP in total expenditure. This reduction in interest expenditure was due to an accounting effect stemming from the debt exchange operations carried out by the General Directorate of Public Credit under debt management operations (DMOs), which reduced interest expenditure by 1.4 pp of GDP[19]. Regarding revenues, they have declined by 0.1 pp of GDP in 2025 compared with 2024, mainly due to the lower availability of capital and non-tax revenues. In contrast, tax revenues increased by 0.4 pp of GDP, reaching 14.7% of GDP.

According to the *MTFF-26*, the CNG's overall and primary balances are projected to be less negative this year than in 2025, mainly due to an expected reduction in primary expenditure of nearly 1.7 pp of GDP. The financial plan envisages total CNG revenues at 16.1% of GDP, representing a decline of 0.2 pp of GDP compared with 2025 revenues. This is a result of lower tax revenues and fewer resources from special funds, each equivalent to a 0.1 pp GDP decline. Compared with the March 2026 update to the Financial Plan, the projection for total revenues remains unchanged (16.1% of GDP): higher revenue from external taxes and resources arising from the declaration of a State of Economic, Social, and Ecological Emergency in part of the national territory (0.4% of GDP: COP 8.7 t) partially offset the downward revision to domestic tax revenues, resulting from the provisional suspension ordered by the Council of State of Decree 572 of 2025 —which increased withholding and self-withholding tax rates—. Regarding expenditure, the *MTFF-26* estimates total expenditure at 21.4% of GDP and primary expenditure at 18.2% of GDP, representing declines of 1.3 and 1.7 pp of GDP, respectively, compared with 2025. This adjustment to primary expenditure is partly attributable to lower expected revenues resulting from the non-materialization of resources under the Financing Law and the temporary suspension of Decree 572 of 2025. Compared with the estimate presented in the March update to the Financial Plan, total expenditure would increase by 0.1 pp of GDP, while primary expenditure would remain relatively stable.

According to the *MTFF-26*, in line with the projections for the CNG, an improvement in the GG fiscal deficit is expected between 2025 and 2026, from 6.1% to 5.1% of GDP. This improvement is mainly attributable to a 0.5 pp reduction in the Central Government's deficit, driven by an improvement in the CNG balance (1.1 pp), although partially offset by the deterioration in the balance of the remaining central government institutions (0.6 pp). In particular, the latter would go from recording a surplus of 0.2% of GDP in 2025 to a deficit of 0.4% of GDP in 2026, mainly explained by the FEPC, for which a deficit of 0.3% of GDP is projected. This deficit is likely associated with the expected increase in compensation payments arising from the wider differential between international and domestic fuel prices, amid higher oil and refined product prices. Additionally, an improvement of around 0.2 pp of GDP is projected in both the balances of regional and local governments and the social security sector, which would contribute to a reduction in the GG deficit.

19 The inclusion of the effect of DMOs in the CNG's interest payments reflects an accounting consistency criterion between fiscal flows and changes in the debt balance. In 2025, several DMOs involved debt exchange operations that reduced the nominal value of debt without generating an equivalent cash flow at the same time. Since fiscal accounting records debt at face value, this reduction in the debt balance had to be reflected in some way in the fiscal accounts to ensure that the variation in debt was consistent with the fiscal balance for the period. For this reason, the Supreme Council for Fiscal Policy (CONFIS in Spanish) authorized the differential associated with these operations to be recorded as part of the accrued interest of the CNG, allowing the fiscal accounts to maintain the identity between the deficit and the variation in debt, without altering actual cash interest payments.

According to the *MTFF-26*, the projected reduction in the fiscal and primary deficits in 2027 will depend mainly on two factors: 1) an increase in revenue equivalent to 1.2 pp of GDP, associated with a tax reform expected to raise around COP 30 t[20], and 2) a level of primary expenditure similar to that projected in the *MTFF-25* (COP 382 t). Under these assumptions, the CNG's overall deficit would stand at 4.5% of GDP, representing a reduction of 0.8 pp from the estimated level for 2026. This improvement would be driven, in particular, by a strengthening of the primary balance, which would shift from a deficit of 2.1% of GDP in 2026 to 0.5% of GDP in 2027. This adjustment would offset the expected increase in debt service, as interest expenditure would rise by 0.7 pp of GDP, reaching 3.9% of GDP. Therefore, the fiscal consolidation implied for 2027 would require an effort of at least 2.4 pp of GDP, supported by both a permanent increase in revenue and restraint in primary expenditure.

In 2025, the CNG's gross debt increased in line with the higher primary deficit, while asset accumulation, DMOs, and the appreciation of the peso helped reduce net debt as a share of GDP. For 2026 and 2027, the latter is expected to remain stable at around 58.9% of GDP. The CNG's gross debt stood at 64.5% of GDP at the end of 2025, representing an increase of 3.2 pp from the level recorded in 2024. In turn, CNG's assets increased by 3.6 pp of GDP, largely driven by treasury operations[21]. Through these operations, the government repurchased impaired debt securities (with market values below their face and accounting values), using debt collateralized with treasury assets. These allowed that, despite the increase in gross debt, the net debt of the CNG declined, standing at 58.6% of GDP, which represented a reduction of 0.4 pp compared to the end of 2024. The *MTFF-26* projects that net debt will reach 58.9% of GDP in 2026 and remain at that level through the end of 2027. Although the CNG's primary balance would remain in deficit in 2026 and 2027 (-2.1% and -0.5% of GDP, respectively), which would continue to put upward pressure on debt, its declining trajectory, with a reduction of approximately 3.0 pp of GDP between 2025 and 2027 (from -3.5% to -0.5% of GDP), partly explains why net debt would reach 58.9% of GDP at the end of 2027. This is compounded by the effect of DMOs, which, according to the *MTFF-26*, likely help reduce net debt by around 1.0 pp of GDP in 2026 and 0.5 pp of GDP in 2027 (1.5 pp of GDP combined). This is compounded by the differential between the effective interest rate and economic growth ($r - g$), which would also help reduce debt, along with an expected relatively stable exchange rate.

According to the *MTFF-26*, the path to return the fiscal deficit to 3.0% of GDP over the medium term would be supported by additional revenue from a tax reform taking effect in 2027, as well as growth in other revenue sources, including oil revenues. Starting in 2028, when the escape clause ends and the fiscal rule's convergence path resumes, the CNG's overall deficit would fall to 3.6% of GDP and then

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20 The tax reform would generate revenue equivalent to 1.4 pp of GDP, which is higher than the projected increase in revenue (1.2 pp of GDP). This difference is mainly explained by the fact that the revenue equivalent to 0.4 pp of GDP associated with the Economic, Social, and Ecological Emergency (Decree 150 of 2026), which applies exclusively to 2026, would not be collected in 2027 and would therefore cease to be part of the revenue base from that year onward.

21 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 Ministry of Finance 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.

converge to levels near 3.0% of GDP. Achieving this trajectory will require a structural adjustment to public finances, supported by both higher revenue and reduced primary expenditure. Regarding revenue, the *MTFF-26* incorporates additional and permanent revenue equivalent to 1.4% of GDP starting in 2027, increasing to 1.6% of GDP in 2028. Additionally, the revenue path would be supported by inertial growth in non-oil revenue, oil revenue consistent with the projected path of international oil prices, and financial surpluses. Regarding expenditure, the scenario projects a 2.9 pp reduction in primary expenditure of GDP between 2025 and 2031. As a result, the CNG's net debt would peak at 59.6% of GDP in 2029 and subsequently embark on a downward trajectory, declining to 57.3% of GDP by 2037. Despite this improvement, the debt level would remain above the fiscal rule's debt anchor of 55% of GDP.

According to the statement issued by the Independent Fiscal Rule Committee (CARF) on the *MTFF-26*[22], the Committee considers that the adjustment plan presented by the MHCP is based on overly optimistic assumptions regarding revenues, expenditure, growth, and debt, and depends on policy measures and reforms that have yet to be defined. Consequently, the fiscal trajectory outlined in the plan is considered not very credible and difficult to achieve. In particular, the CARF estimates that, without concrete expenditure adjustment measures, the CNG's overall deficit could reach 7.4% of GDP in 2026, while net debt could rise to 61% of GDP[23]. For 2027, the CARF estimates that meeting the fiscal target set out in the *MTFF-26*, which envisages a primary deficit of 0.5% of GDP, would require additional measures to increase revenues or reduce expenditure equivalent to 3.7% of GDP. However, the CARF agrees on the urgent need to adopt sufficient measures to increase revenues and reduce expenditure in order to stabilize public finances.

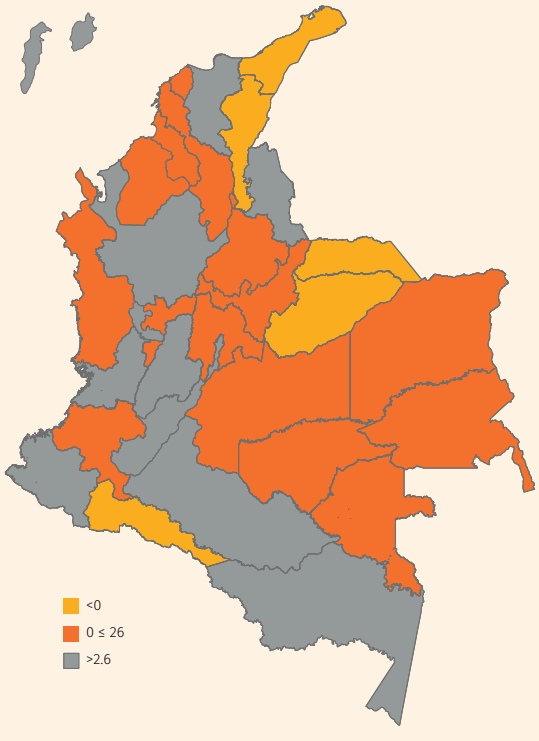
Fiscal policy decisions are a key determinant of macroeconomic stability and the sustainability of public finances. The trajectory of revenues, expenditure, and the fiscal deficit determines the evolution of public debt, influences perceptions of sovereign risk, and affects financing costs for both the government and the rest of the economy. Likewise, fiscal policy affects aggregate demand through the composition of public expenditure and the tax burden, influencing private-sector consumption and investment decisions. In addition, its interaction with monetary policy is relevant: an expansionary fiscal policy can increase demand pressures, raise risk premiums, and require a higher level of interest rates to achieve the same degree of monetary policy restraint. In this context, the credibility of the fiscal strategy and its coordination with monetary policy are essential for financial conditions, macroeconomic stability, confidence, and the convergence of inflation to the target.

22 Press Release No. 29, 25 June, 2026. See: "CARF News and Press Releases Stay Informed" at www.carf.gov.co

23 This was estimated by the CARF in its technical analysis of the *MTFF-26*, published in July 2026.

Shaded Section 1
Regional Economy

Diagram S1.1
Real Departmental GDP, 2025
(annual variation)



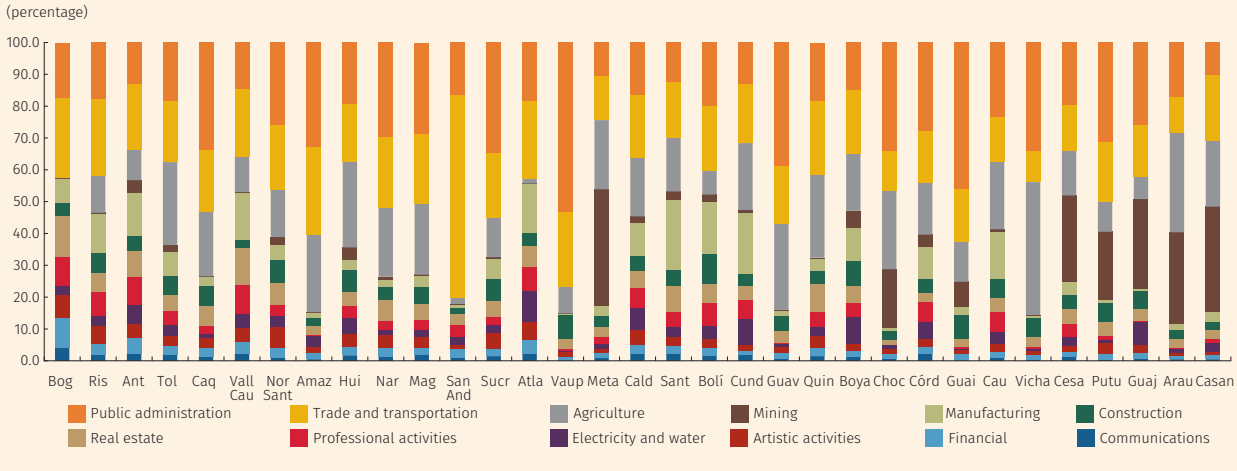
Source: National Administrative Department of Statistics (DANE in Spanish); calculations by *Banco de la República.*

1. Overview of Departmental Economies in 2025

In accordance with the 2025 departmental GDP, Bogotá and eleven departments recorded growth above the national result (2.6%), while sixteen territories increased their output at a slower pace, and five posted negative results compared with 2024 (Diagram S1.1). The growth of regional economies was driven mainly by the expansion of tertiary activities, particularly trade, transportation, accommodation and food services; public administration, education and health, and artistic, entertainment and recreational activities. Stronger household consumption, supported by improved financing conditions, higher labor income, and the flow of remittances, together with increased public spending, explained a large part of this dynamic. In contrast, mining and construction continued to represent areas of weakness in production for several departments, due to lower extraction of coal, oil and some metallic minerals, as well as the persistence of weak performance in building construction, especially residential construction. In particular, the five departments with the largest reductions in their GDP are highly economically dependent on the mining sector (Graph S1.1).

Bogotá recorded the highest economic growth in the country, followed by Risaralda, Antioquia, Tolima, and Caquetá (Table S1.1). In these territories, the contribution of trade and other service activities, including entertainment, stood out. In Bogotá and Antioquia, favorable contributions from manufacturing

Graph S1.1
Share of Each Sector in Departmental Aggregate Value, 2025



Source: National Administrative Department of Statistics (DANE in Spanish); calculations by *Banco de la República.*

Table S1.1
Annual Variation in Departmental GDP by Sector, 2025

Department	Agriculture[2]	Mining[3]	Manufacturing[4]	Electricity and Water[5]	Construction	Trade and Transportation[6]	Communications	Financial[8]
Bogotá D.C.	1.1	4.1	1.0	1.1	4.9	5.5	1.9	2.9
Risaralda	0.5	-5.3	4.5	0.3	4.8	3.9	0.6	2.6
Antioquia	3.4	-13.6	4.8	1.9	-3.5	5.6	0.4	2.6
Tolima	3.0	-4.6	1.2	0.5	3.2	3.9	0.3	2.5
Caquetá	1.7	-2.0	4.5	1.1	3.1	3.0	1.2	2.4
Valle del Cauca	5.0	-2.5	0.7	0.3	-7.7	4.7	0.2	2.9
Norte de Santander	-0.0	-4.4	2.4	1.6	2.6	3.8	0.1	2.4
Amazonas	3.0	-1.4	4.1	0.6	-5.9	3.0	0.8	2.1
Huila	2.8	-8.3	6.7	0.5	1.3	3.6	0.0	2.4
Nariño	3.4	-11.0	4.6	1.4	-14.1	3.3	0.2	2.9
Magdalena	1.2	-1.1	2.3	0.8	-1.4	2.9	0.1	2.6
San Andrés[1]	7.2	-1.7	1.0	1.7	-18.5	3.1	0.7	2.3
Sucre	2.9	-7.8	5.7	0.3	-8.3	2.6	1.3	2.5
Atlántico	6.6	-5.9	1.4	1.5	-13.4	4.9	1.0	2.7
Vaupés	0.6	-2.2	5.0	1.4	-10.6	2.3	0.9	2.4
Meta	4.7	0.3	7.8	1.0	9.9	3.1	0.0	2.4
Caldas	2.0	-10.3	2.4	1.4	-7.7	4.5	0.6	2.5
Santander	4.0	-3.7	1.2	1.8	-5.0	4.9	0.1	2.4
Bolívar	5.5	-6.7	-1.3	0.6	-0.6	3.4	1.1	2.5
Cundinamarca	2.9	-7.6	2.0	1.6	-15.3	4.5	0.1	3.0
Guaviare	0.7	-2.0	6.9	1.4	-11.7	2.9	0.8	2.3
Quindío	1.6	-1.9	5.4	1.2	-23.9	4.2	0.2	2.2
Boyacá	0.8	-10.1	-0.5	0.4	6.8	3.0	0.1	2.7
Chocó	1.5	-4.9	5.5	0.5	-5.9	3.5	0.1	2.4
Córdoba	5.6	-15.0	-2.9	0.1	-11.2	3.8	0.5	2.7
Guainía	2.8	-13.5	5.9	1.3	-11.2	2.5	0.8	2.6
Cauca	0.0	-11.0	1.0	0.1	-12.7	3.5	0.7	2.6
Vichada	-0.9	-1.9	3.9	1.5	-11.7	2.1	0.8	2.5
Cesar	3.4	-8.5	7.2	1.4	-9.4	3.2	0.8	2.9
Putumayo	2.9	-13.7	4.9	1.4	-8.0	3.2	0.4	2.6
Guajira	2.5	-10.0	3.6	0.3	-1.6	2.7	0.6	2.5
Arauca	3.6	-11.8	3.8	1.0	-8.0	2.4	0.3	2.5
Casanare	2.8	-9.4	4.1	1.3	-5.8	0.9	0.4	2.4
National Total	3.1	-6.6	1.9	1.2	-2.7	4.7	1.0	2.8

Notes:
1: San Andrés, Providencia and Santa Catalina (Archipelago).
2: Agriculture, livestock, hunting, forestry, and fishing.
3: Mining and quarrying.
4: Manufacturing industries.
5: Electricity, gas, steam and air conditioning supply; water supply; sewerage, waste management and remediation activities.
6: Wholesale and retail trade; repair of motor vehicles and motorcycles; transportation and storage; accommodation and food service activities.
7: Information and communications.
8: Financial and insurance activities.

Table S1.1 (Continued)
Annual Variation in Departmental GDP by Sector, 2025

Department	Real Estate Activities	Professional activities[9]	Public administration[10]	Artistic activities[11]	Aggregate value	Taxes	Gross domestic product
Bogotá D.C.	1.9	1.7	3.9	7.9	3.7	2.6	3.5
Risaralda	2.1	1.1	3.5	9.6	3.3	2.3	3.2
Antioquia	2.9	1.4	4.1	11.8	3.1	2.6	3.0
Tolima	2.2	1.3	4.1	11.3	3.0	2.6	3.0
Caquetá	1.7	0.7	3.8	9.0	3.0	2.5	3.0
Valle del Cauca	1.7	1.4	3.8	12.2	2.9	2.6	2.9
Norte de Santander	1.6	1.0	3.9	9.1	2.8	2.6	2.8
Amazonas	1.6	0.6	3.0	9.6	2.7	1.8	2.7
Huila	0.7	1.1	4.4	11.6	2.7	2.2	2.7
Nariño	1.5	1.1	4.4	9.8	2.7	2.4	2.7
Magdalena	2.3	1.1	4.3	8.7	2.6	2.5	2.6
San Andrés[1]	1.0	0.9	3.6	10.5	2.6	2.6	2.6
Sucre	1.8	1.4	3.9	10.2	2.6	2.7	2.6
Atlántico	1.7	0.9	3.3	12.2	2.6	2.4	2.6
Vaupés	1.7	1.1	4.9	11.1	2.5	2.6	2.5
Meta	1.0	1.2	4.0	9.1	2.5	2.1	2.5
Caldas	1.6	0.9	4.0	11.9	2.4	2.6	2.4
Santander	1.9	0.7	4.0	11.6	2.4	2.5	2.4
Bolívar	1.5	0.6	4.3	11.6	2.0	2.3	2.0
Cundinamarca	2.6	0.9	3.8	10.8	2.0	2.2	2.0
Guaviare	1.7	1.2	3.6	10.8	1.9	1.9	1.9
Quindío	1.8	1.1	4.2	11.2	1.8	2.1	1.8
Boyacá	1.5	0.9	4.3	11.2	1.6	2.3	1.6
Chocó	1.5	1.4	4.4	9.0	1.5	2.0	1.5
Córdoba	1.2	0.6	4.0	9.6	1.5	1.5	1.5
Guainía	2.0	1.2	4.8	10.0	1.4	1.8	1.4
Cauca	2.0	1.3	4.1	11.9	1.1	1.8	1.2
Vichada	1.6	1.0	3.6	10.9	0.5	1.7	0.5
Cesar	1.8	1.3	4.4	9.1	-1.2	0.9	-1.1
Putumayo	1.6	1.2	4.5	11.9	-1.4	0.5	-1.3
Guajira	1.7	0.9	4.7	9.4	-1.7	0.7	-1.6
Arauca	1.6	1.3	4.5	10.5	-2.0	0.3	-1.9
Casanare	1.8	1.1	4.5	11.9	-2.3	0.7	-2.2
National Total	2.0	1.3	4.0	9.9	2.6	2.5	2.6

Notes:
9: Professional, scientific and technical activities; administrative and support service activities.
10: Public administration and defense; compulsory social security plans; education; human health and social work activities.
11: Artistic activities, entertainment and recreation, and other service activities; activities of households as employers; undifferentiated goods- and services-producing activities of households for own use.
Source: DANE.

activities were also observed, which, together with the strength of the tertiary sector, enabled them to maintain their share of national GDP for the third consecutive year. In addition, together with Valle del Cauca, Santander, Cundinamarca, and Atlántico, they accounted for more than three-quarters of national growth in 2025. By contrast, Casanare, Arauca, and La Guajira recorded the largest declines, mainly associated with the reduction in mining activity. In Casanare and Arauca, lower oil production had an impact, while in La Guajira the decline in coal extraction continued.

Within the tertiary sector, artistic, entertainment, and recreational activities recorded the largest expansion and even exhibited the highest growth among the other economic sectors of each department (Table S1.1). The positive performance was driven by concerts, festivals, cultural shows, and sporting events, as well as the continued growth of internet-based gaming. Bogotá, Antioquia, and Valle del Cauca contributed nearly two-thirds of the national annual growth in the activity, due to a high concentration of large-scale events. Among the most notable factors were concerts by international artists and major tours, as well as other cultural and sporting events of national reach. Despite recording the lowest growth rate (7.9%), the country's capital remained the main contributor to the expansion of entertainment-related activities, given its concentrated share of the national aggregate (40%).

The broad group of trade, transportation, accommodation, and food services also showed favorable and widespread performance across the territories. Bogotá and Antioquia led both in growth and in contribution to the national result, driven by the increase in sales of new motor vehicles, information technology and communications equipment, as well as by the increase in transportation, especially air transportation. Valle del Cauca, Atlántico, and Cundinamarca also made significant contributions. The recovery in consumption of durable and semi-durable goods accounted for a large part of the result, supported by favorable credit conditions, commercial promotions, greater inventory availability, and an appreciation of the exchange rate that stimulated demand for imported goods. Meanwhile, accommodation performance was more moderate due to lower hotel occupancy, affected by increasing competition from alternative lodging.

In turn, the public administration, defense, education, and health branch grew in all departments, within a range of 3.0% to 4.9% annually. Bogotá, Antioquia, Valle del Cauca, Cundinamarca, and Bolívar accounted for more than half of the national expansion of this activity. However, the largest increases were observed in Vaupés, Guainía, La Guajira, Arauca, and Putumayo, where public administration has a significant share of the productive structure. The performance of the branch was mainly explained by the increase in operating expenditures of territorial entities.

The agricultural sector continued to grow in most territories, although at a more moderate pace than in previous years. In 2025, the largest increases were observed in several departments of the Caribbean region, amid higher production of fruits, tubers and bananas, as well as strong performance in cattle farming associated with favorable external demand. However, the main contributions to national growth came from Valle del Cauca, Antioquia, Santander, and Cundinamarca, where crops such as sugarcane, fruits, oil palm, potatoes, and vegetables contributed to the result, together with positive performance in livestock activities such as milk, chicken, and eggs. By contrast, Norte de Santander and Vichada showed weak performance, in the former case due to lower production of rice, coffee, and some temporary crops.

As for the manufacturing industry, growth was reported in the national aggregate, although with heterogeneous results across departments. Antioquia stood out for its high contribution, due to the positive performance of the production of meat products, vehicles and auto parts, furniture and some durable goods. This department,

together with Cundinamarca, Bogotá, and Santander, accounted for nearly three-quarters of the country's manufacturing increase. In Cundinamarca, the production of chemicals, dairy products, and vehicles stood out; in Bogotá, chemical products, textiles, and dairy products stood out; while in Santander, the better performance of fuels and other industrial activities contributed to the result. In contrast, Bolívar, Córdoba, and Boyacá recorded declines in their production, associated, in the first case, with lower production of construction materials, particularly for the oil sector, and of fuels amid reduced external demand; in Córdoba, with the decline in ferronickel production; and in Boyacá, with lower production of basic metals and non-metallic minerals.

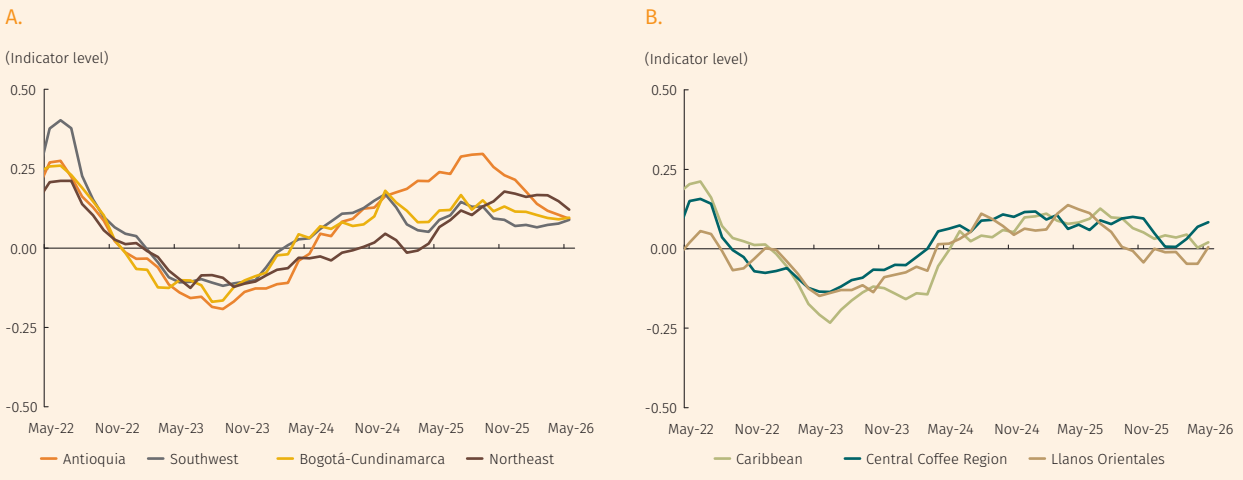
Construction continued to be one of the most lagging sectors. Only eight departments recorded growth, while declines persisted in the rest, mainly associated with lower construction of residential buildings. Quindío and San Andrés posted the steepest decreases; however, due to their economic size, Cundinamarca, Atlántico, and Antioquia accounted for nearly three-quarters of the sector's national decline. On the other hand, Meta recorded the largest expansion, driven by the dynamism of residential construction supported by territorial subsidy programs for home purchase. Bogotá was the main contributor to the progress of large-scale civil works, particularly the first Metro line, followed by Boyacá, Meta, and Risaralda, the latter driven by non-residential buildings. In Boyacá and Cundinamarca, progress in railway construction stood out.

Finally, mining and quarrying recorded the greatest deterioration among the economic sectors in 2025, deepening its decline in most mining-oriented departments. The steepest declines were observed in Córdoba, Putumayo, and Antioquia. However, due to their weight in national activity, more than half of the sector's reduction came from Antioquia, Cesar, and Casanare. In Antioquia, the decline was driven by lower legal gold production; in Cesar, the contraction in coal mining continued amid high operating costs and difficulties in international marketing; and in Casanare, lower oil production was due to the natural depletion of mature fields and lower levels of investment and exploration.

2. Evolution of the Regional Economy during 2026

Most regional economies continued to grow during the first five months of 2026, although at a more moderate pace than that observed during much of 2025. The exception was Llanos Orientales region, which continued to show lower dynamism and would have been the only region with negative average growth during the period, according to the indicators of *Banco de la República*'s Regional Economic Pulse (PER, by its Spanish acronym) (Graph S1.2). The Northeast region, which comprises the departments of Santander, Norte de Santander, and Boyacá, ranked among the areas with the strongest performance, while the Central Coffee region showed a gradual recovery after a weak start to the year. Antioquia continued to decelerate, leaving behind the leadership observed in previous periods and converging toward growth rates similar to those of Bogotá and the Southwest region. Positive results in most regions were driven by private consumption dynamics and signs of improvement in industrial activity. Nevertheless, households and firms continued to exercise caution in their spending and investment decisions due to persistent economic and political uncertainty.

Graph S1.2
Regional Economic Pulse
(average rolling quarter)



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

According to PER sources, between January and May, trade sector sales grew in all regions, although at a heterogeneous pace of expansion. Purchases associated with the lead-up to the FIFA World Cup, such as entertainment and technology products, stimulated household and business spending. Antioquia and Bogotá recorded the highest growth rates, after Llanos Orientales, driven by ongoing promotions and demand for durable and semi-durable goods in home- and technology-related categories. In Antioquia, the greater influx of tourists also boosted sales. In turn, the Northeast stood out for the upward trend in trade, driven by the increase in customer traffic at shopping centers and sales during special events, such as Mother's Day and the lead-up to the FIFA World Cup. In border areas, such as the Northeast and Southwest, positive results were limited by external and local factors. In the Northeast, political uncertainty in Venezuela had an impact, while in the Southwest, the lower number of shoppers from Ecuador had an impact, amid tariff policies between Colombia and Ecuador, as well as public-order problems in the southern part of the territory. Across regions, sales of new vehicles and motorcycles accelerated during the period under analysis, except in the Central Coffee region, where the growth of these goods remained relatively stable. Motor vehicle sales would be explained by greater inventory availability, better financing conditions and commercial strategies, as well as by the growing positioning of hybrid and electric vehicles, resulting from a broader and more competitive supply.

In turn, the manufacturing industry would have shown positive performance between January and May 2026, due to the increase in the production of capital and consumer goods. The strongest results were observed in Antioquia, the Northeast, and the Southwest, where performance would have been determined by the increase in orders, inventory restocking, better availability of raw materials, and improvements in the operational efficiency of plants. Antioquia recorded the largest expansion, supported by the dynamism of the transportation equipment sector, which offset the reductions observed in textiles, apparel, footwear, and metalworking. In the Northeast, growth was related to the increase in the production of palm oil and meat products. Meanwhile,

the Southwest maintained positive performance thanks to the performance of leading groups in the region's production, such as transportation equipment, driven by demand for motorcycles; food and beverages, associated with the performance of the sugarcane agro-industry, as well as pharmaceuticals and chemicals.

The industry in the Central Coffee region and Bogotá showed more moderate growth, limited by lower production of textiles, apparel, and non-metallic minerals. The performance of the latter activity was constrained by the weak dynamics of construction. In the Caribbean, growth was moderate, supported by external demand and the positive performance of the chemical and beverage sector. By contrast, Llanos Orientales was the only region to report a decline in the manufacturing sector, mainly due to lower agro-industrial activity, affected by persistent problems in the rice production and marketing. In several regions, industrial growth was constrained by factors such as higher manufacturing costs, high inventories in some sectors, businesspeople's caution regarding the economic environment, and restrictions arising from the tariffs imposed by Ecuador, particularly in the Southwest and Central Coffee regions, given their greater trade exposure to this market.

The growth in trade and industry was consistent with the dynamics of financial system disbursements in the regions, as they facilitated household spending and business financing, according to PER sources. However, the caution exercised by economic agents in taking on new credit obligations limited the growth of credit demand. This caution also affected purchases of new housing, which would have maintained a downward trend in most regions, with more pronounced declines in Antioquia, the Southwest, and Llanos Orientales. Lower sales of new housing would be mainly associated with the lower availability of subsidies and a lower supply of projects.

According to the results of the Regional Economic Pulse, the agricultural sector would have recorded annual declines between January and May 2026, mainly due to weather shocks that affected the leading crops in each region. In agricultural activity, the largest declines would have been recorded in the Caribbean and Antioquia. In the former, this performance was related to smaller areas planted, low prices, and flooding, which affected rice, cotton, and cassava crops. In Antioquia, excess rainfall and production costs had a negative impact on crops such as bananas, citrus fruits, and coffee. In turn, the negative result in Llanos Orientales would be explained by a reduction in rice and corn planting, associated with lower profitability and high rainfall. Likewise, rainfall affected and delayed coffee, rice, and citrus harvests in the Central Coffee region. By contrast, the Northeast and Southwest grew due to higher rainfall. In the Northeast, the production of rice, palm, potatoes, and onions increased, while performance in the Southwest was explained by increased production of sugarcane, rice, and bananas, favored by suitable weather conditions for these crops and larger areas planted.

As for livestock production, all regions would have recorded increases, mainly attributed to poultry and pig farming. The largest increases would have been observed in the Central Coffee region and the Southwest, due to the positive performance of chicken and pork slaughter, which responded to greater household demand amid more competitive prices. In turn, the Caribbean and Antioquia recorded more moderate increases due to a decline in cattle slaughter resulting from lower consumption.

Transportation activity would have grown in all regions, due to the expansion of passenger air transportation and, to a lesser extent, the increase in land freight transportation, according to PER indicators. The Northeast, Antioquia, the Southwest, and Bogotá recorded the strongest performance in the air transportation segment, driven by the opening of new routes, increased flight frequencies, and the occurrence

of entertainment events. In land transportation, Antioquia, the Caribbean, the Northeast, and the Southwest reported increases in cargo transportation, driven by the transportation of construction materials, agricultural products, chemicals, food, and machinery. In addition, an increase in the departure of intermunicipal passengers was observed in all regions, favored by vacation periods and festivities. By contrast, urban passenger transportation showed weaker results in regions such as Bogotá, the Caribbean, and the Central Coffee region, due to road maintenance that affected demand for public transportation services. In turn, land transportation in the Southwest was constrained by disruptions resulting from the closure of the road to Buenaventura and blockades on strategic corridors.

In contrast, hotel activity continued to decelerate in most regions, despite the occurrence of cultural and sporting events and concerts. In Bogotá, the Northeast, and the Caribbean, hotel occupancy increased due to the greater flow of visitors attracted by these types of events. However, as in all regions, the dynamics were constrained by the holding of elections and visitors' preference for short-term rentals. This latter factor had a more pronounced impact in Antioquia, where hotel occupancy declined in annual terms.

3. Inflation and Monetary Policy Decisions

3.1 Evolution and Outlook of Inflation

During the first half of 2026, annual consumer inflation increased and moved further away from the 3.0% target, amid a sharp minimum-wage increase, elevated inflation expectations, resilient domestic demand, and persistent international cost pressures. In June of 2026, annual inflation stood at 6.14%, above the level recorded at the end of 2025 (5.1%) (Table 3.1). In this way, inflation resumed an upward trajectory after nearly two years of decline. The increase in inflation was observed across all the Consumer Price Index (CPI) sub-baskets, with the largest contributions coming, particularly, from services and food. This price performance occurred amid significant upward pressures, both externally and domestically, and was accompanied by a considerable increase in inflation expectations for the end

Table 3.1.
Consumer Price and Core Inflation Indicators

Description	New CPI Weights (percentage)	Annual variation							Contribution to the year-to-date change in inflation (basis points)
		Jun-25	Sep-25	Dec-25	Mar-26	Apr-26	May-26	Jun-26	
Total	100	4.82	5.18	5.10	5.56	5.68	5.84	6.14	1.04
Excluding food	84.95	4.94	4.94	5.11	5.39	5.44	5.79	5.98	0.70
Goods	18.78	1.58	2.25	2.61	3.05	3.13	3.12	3.23	0.09
Services	48.85	6.00	5.81	5.93	6.80	6.77	7.04	7.03	0.50
Rents	25.16	5.89	5.27	5.17	4.83	4.80	4.89	4.92	-0.06
FAFH	8.79	7.60	7.63	8.09	10.07	9.74	9.75	9.69	0.18
Other[a/]	14.91	4.88	5.27	5.46	7.49	7.69	8.53	8.47	0.38
Regulated items	17.32	5.49	5.29	5.40	4.14	4.34	5.19	5.91	0.11
Utilities	6.69	2.90	3.02	3.03	1.24	0.82	2.01	3.80	0.06
Fuel	2.91	2.54	2.09	2.80	-2.89	-0.69	1.59	1.58	-0.04
Transportation	5.21	9.41	9.21	9.08	10.62	10.60	10.48	10.42	0.09
Education	2.38	9.67	8.63	8.71	8.40	8.42	8.42	8.42	-0.00
Other[b/]	0.13	5.14	5.14	5.14	5.23	5.23	5.23	5.23	0.00
Foods	15.05	4.31	6.21	5.07	6.27	6.71	6.04	6.83	0.34
Perishable	3.15	1.00	6.59	3.80	10.81	12.24	9.96	13.51	0.44
Processed	11.90	5.37	6.08	5.45	4.89	4.99	4.82	4.79	-0.09
Core inflation indicators									
Excluding food		4.94	4.94	5.11	5.39	5.44	5.79	5.98	
Core 15 (p08)		5.12	5.30	5.29	5.85	5.87	6.11	6.30	
Inflation excluding food and regulated items		4.77	4.83	5.02	5.79	5.79	5.98	6.00	
Average core inflation indicators		4.94	5.02	5.14	5.68	5.70	5.96	6.09	

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

of 2026 and 2027. On the domestic front, service prices and some goods prices rose due to significant increases in payroll costs from the rise in the minimum wage, labor reform, and reduced working hours, as well as the indexation of some items to rising accumulated inflation. The above occurred amid an economy growing above its potential, with unemployment at historically low levels, pointing to demand pressures that, nevertheless, have recently shown signs of moderating. This was also compounded by upward pressure on the prices of some food items associated with unfavorable weather conditions. On the external front, the conflict in the Middle East that began at the end of February this year has generated significant inflationary pressures, affecting the prices of various agricultural products, production inputs, and oil (which led to the recent increases in fuel prices decreed by the National Government), as well as causing significant increases in international transportation costs. Additionally, a relative global shortage of certain technology goods has driven up their prices. All these upward pressures likely outweigh the downward pressures stemming from the peso's recent sharp appreciation vis-à-vis the U.S. dollar.

Core inflation also increased during the first half of the year, largely reflecting the pass-through of the increase in the minimum wage to service prices, amid demand pressures, higher international oil and transportation prices, and the presence of price indexation mechanisms. Core inflation, measured as the annual variation in the CPI excluding food and regulated items, stood at 6.0% at the end of the first half of 2026, above the level observed at the end of 2025 (5.0%) and that recorded a year earlier (4.8%). In particular, service price dynamics unfolded amid domestic demand that continues to exert upward pressure, despite its recent moderation. In turn, this dynamic was likely driven by the high degree of indexation to wages and other costs, as reflected in items such as food away from home (FAFH), whose annual variation increased from 8.1% in December to 9.7% in June. This was due to higher food prices and to higher labor costs associated with the minimum wage increase, surcharges for Sunday, holiday, and night work established under Law 2466 of 2025, as well as the gradual reduction in statutory weekly working hours, as provided for under Law 2101 of 2021. These increases in labor costs had a greater impact on labor-intensive services, such as domestic services, which recorded a significant adjustment from December (7.8%) to June (13.7%). Likewise, since March, passenger air transport has increased considerably, driven by the sharp rise in international fuel prices due to the conflict in the Middle East, despite the recent decline in June. As a result, the annual adjustment in service prices stood at 7.0% that month, the highest among all sub-baskets. As for goods prices, their upward trend reflected stronger private consumption and higher prices for various inputs (gold, silver, fossil fuel derivatives, and some active ingredients used in medicine production). Particularly, since the outbreak of the conflict in the Middle East, imported goods have become more expensive due to higher maritime freight costs and disruptions to global supply chains. By contrast, some items with a high import content continued to record price declines, benefiting from the peso's appreciation vis-à-vis the U.S. dollar. As a result, the annual variation in goods prices stood at 3.2% in June. In line with this, vehicle prices declined year-to-date, driven by intense price competition, mainly from firms marketing electric vehicles.

Food prices recorded upward pressures associated with higher international transportation and agricultural input costs, as well as some domestic supply disruptions. After recording a downward trend toward the end of 2025, food inflation rebounded sharply during the first half of this year, increasing from 5.1% in December to 6.8% in June. This performance was mainly due to the sharp annual increase observed in the prices of perishable foods, whose variation rose from 3.8% to 13.5% over the same period. This result reflects the impact of a particularly

intense rainy season toward the end of the previous year and early this year, which affected various agricultural and livestock activities, particularly in the Caribbean region. Although greater supply was recorded at the country's wholesale markets so far in 2026, adverse weather conditions resulted in quality losses and greater spoilage of some agricultural products, reducing the effective availability of certain foods for marketing and putting upward pressure on their prices. Additionally, at the national level, production costs increased due to higher labor costs. This factor was compounded more recently by an external supply shock that drove up prices of some agricultural inputs and food products, whose international prices rebounded as a result of the conflict in the Middle East. This situation also contributed to an increase in fuel prices, raising transportation and freight costs. By contrast, the annual variation in the CPI for processed foods continued to decline, falling from 5.5% in December to 4.8% in June. This downward trend is mainly explained by lower animal protein prices—except for beef—and the fading of the inflationary effects associated with the health tax on ultra-processed foods[1], together with the disinflationary pressures stemming from the exchange rate.

The annual variation in regulated item prices also contributed to the increase in headline inflation, mainly due to adjustments in transportation prices and larger increases in some public utility rates. The annual adjustment in this group increased from 5.4% in December to 5.9% in June. This performance was driven mainly by the utilities subcomponent, whose annual variation increased from 3.0% to 3.8% over the same period, primarily due to the significant annual increase in waste collection rates and, to a lesser extent, electricity rates. The foregoing was compounded by the regulated transport subgroup's performance, whose annual variation rose from 9.1% to 10.4% in the first half of the year, largely due to higher costs associated with mandatory vehicle inspections and urban transportation. By contrast, the absence of new rate shocks and greater flexibility in gas service contracting arrangements have supported a rapid downward correction in annual gas rate variations so far this year. Likewise, the annual variation in the CPI for vehicle fuels declined from 2.8% in December to 1.6% in June, contributing to the slowdown in regulated prices. This performance was associated with two consecutive COP 500 reductions in February and March, followed by increases of COP 375 in April and COP 400 in May. Annual variations in regulated education prices (preschool, elementary, and secondary) and the remaining regulated components showed no significant change in the first half of 2026.

The cumulative effects of monetary policy, along with the gradual dissipation of some supply shocks, are expected to lead inflation to resume a downward path in 2027 and converge toward the 3.0% target. For the remainder of 2026, inflation is projected to remain under upward pressure from both domestic and external factors. Among the most relevant determinants are the remaining pass-through of minimum-wage increases into production costs and final prices, as well as relatively dynamic consumption, which would continue to support demand for goods and services. These factors would be compounded by indexation effects from accumulated inflation and external pressures associated with geopolitical tensions in the Middle East, which could translate into higher costs for some imported goods and raw materials. Likewise, the significant adjustments expected in gas rates would exert additional upward pressure on headline inflation, particularly through the regulated prices component. However, these factors would be partially offset by stronger disinflationary pressures stemming from the exchange rate, which would

1 The inflationary impact of the health tax on processed foods is considered to have run its course following the completion, in January 2026, of the gradual increase schedule established in Law 2277 of 2022, with only automatic indexation adjustments remaining.

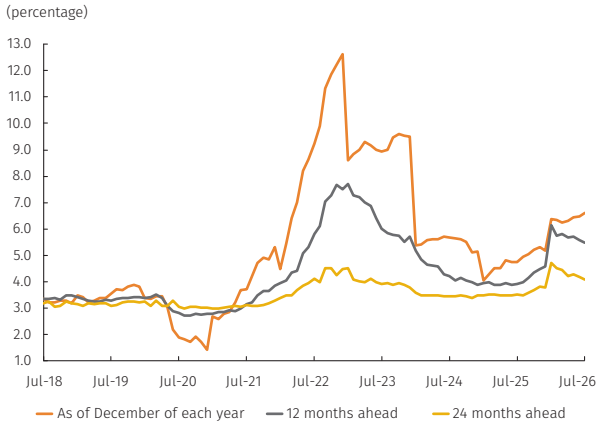
help contain the pace of price increases. In this context, inflation is expected to remain relatively high in the second half of 2026, driven mainly by persistent indexation mechanisms, labor cost pressures, and increases in some regulated prices. This forecast scenario does not account for any additional changes in fuel prices, which remain a key source of uncertainty about the future path of inflation. In 2027, inflation is expected to resume a downward path toward the 3.0% target as some supply shocks gradually dissipate and the cumulative effects of contractionary monetary policy take hold.

During the first half of the year, inflation expectations remained above the 3.0% target across all horizons, though they pointed to lower inflation as the horizon lengthened (Graph 3.1). Following the sharp increase recorded between December and January across all sources of inflation expectations (surveys and those derived from financial markets) and at all horizons, driven largely by the announcement of the 2026 minimum wage adjustment, these expectations have moderated somewhat so far this year. However, all measures remain well above the 3.0% target and their December readings from the previous year. For two-, three-, and five-year horizons, measures estimated from government bonds (break-even inflation, BEI) declined during the first half of the year, recording reductions of 43 basis points (bps), 70 bps, and 97 bps, respectively, in June compared with January, and stood at 6.1%, 5.9%, and 5.7%, respectively[2]. Likewise, analysts' inflation expectations, from *Banco de la República's* monthly survey, have declined so far in 2026 by 67 bps and 64 bps for the twelve- and twenty-four-month horizons, respectively, to 5.5% and 4.1%. However, expectations for the end of 2026 and 2027 increased in response to the upward factors that have put pressure on inflation so far this year, reaching 6.6% and 5.0%, respectively. For core inflation (excluding food and regulated items), expectations for the end of 2026 and the twelve- and twenty-four-month horizons declined by 56 bps, 102 bps, and 47 bps, respectively, to 6.1%, 5.2%, and 4.1%. Meanwhile, the expectation for the end of 2027 remained unchanged at 4.8%. Similarly, the median of the *Quarterly Survey of Economic Expectations* (ETE in Spanish), conducted among businesspeople from different sectors, academics, consultants, and labor unions, also recorded a 50-bps decline in July compared with January for the twelve- and twenty-four-month horizons, standing at 5.5% and 4.5%, respectively.

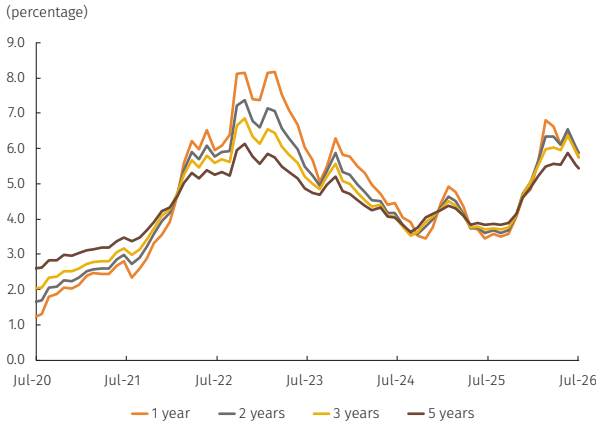
The balance of risks to inflation remains tilted to the upside, particularly due to the potential occurrence of a strong or very strong *El Niño* phenomenon, possible additional adjustments to fuel and regulated prices, the effects of the conflict in the Middle East on international prices of some products, and the persistence of the effects of adjustments in labor costs. On

Graph 3.1
Headline Inflation Expectations

A. Median of the Monthly Survey of Economic Expectations (EME in Spanish)



B. Break-even Inflation (BEI) Adjusted for Inflation and Liquidity Risk Premiums[a/]



a/ The break-even inflation rate (BEI) is a measure of inflation expectations obtained from the difference between the yields on nominal and inflation-indexed bonds of the same maturity. BEIs adjusted for inflation and liquidity risk premiums are used, with information as of 10 July, 2026.
Source: National Administrative Department of Statistics (DANE in Spanish); calculations by *Banco de la República.*

2 BEI measures adjusted for inflation risk and liquidity premium show slight increases of 21 bps, 23 bps, and 19 bps between January and June for the two-, three-, and five-year horizons, respectively, reaching 6.5%, 6.4%, and 5.9% for the same horizons.

the external front, the main risks stem from potential further increases in oil and food prices due to heightened geopolitical tensions, more persistent inflation in the United States, and, consequently, tighter international financial conditions. On the domestic front, the main risks include a greater pass-through of wage increases to prices, potential effects of a strong or very strong *El Niño* phenomenon on food and energy prices, as well as further adjustments to gas, fertilizer, and fuel prices. Although some factors, such as increased agricultural supply resulting from the expansion of the agricultural frontier through land restitution processes, the ban on meat exports to China, greater supply of goods from Asia, and stronger and more persistent disinflationary pressures stemming from the exchange rate could mitigate some of these pressures, on balance, upside risks to inflation prevail, particularly for more labor-intensive components and those that depend on weather conditions.

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 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.

During the first half of 2026, headline inflation increased, while inflation expectations remained well above the 3.0% target, in a context of domestic demand that continued to exceed the economy's productive capacity and an unemployment rate at historically low levels. In response to these developments, the BDBR decided by majority vote to raise the policy interest rate by 275 basis points (bps) so far this year, bringing it to a level more consistent with inflation converging toward the 3.0% target. Throughout the semester, increases in the prices of services

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

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

whose adjustments are indexed to inflation, as well as in some regulated goods and wages, continued to exert inflationary pressures. At the same time, inflation expectations remained significantly above the 3.0% target. This occurred in a context where economic activity indicators showed domestic demand expanding faster than output, with a labor market marked by historically low unemployment and significant wage increases. Additionally, persistent external risks associated with volatility in international energy and fertilizer prices and transportation costs increased uncertainty about inflation's future path. Facing this macroeconomic assessment, which was supported by the majority of the BDBR's members, two 100 bps increases were deemed necessary during the first half of 2026, at the January and March meetings, followed by an additional 75 bps increase in June, resulting in a cumulative 275 bps adjustment to the monetary policy rate. These decisions sought to reinforce the monetary policy stance, help bring inflation back toward the 3.0% target, and reaffirm *Banco de la República's* commitment to its constitutional mandate of price stability.

The risks to inflation's convergence toward the target, the country's significant fiscal challenges, and the high degree of uncertainty in the external environment justify maintaining a restrictive monetary policy stance. In addition to persistently elevated headline and core inflation, as well as inflation expectations that remain above the 3.0% target, there are risks of upward price pressures associated with possible increases in gas prices and the potential occurrence of the *El Niño* phenomenon, whose effects could translate into increases in food prices and the prices of some utilities. Likewise, fiscal challenges remain a major source of economic uncertainty, while the external environment remains highly volatile amid global financial conditions and geopolitical tensions. In this context, maintaining a restrictive monetary policy stance is necessary to contain further inflationary pressures, preserve the anchoring of inflation expectations, and support inflation's convergence toward the target over the policy horizon.

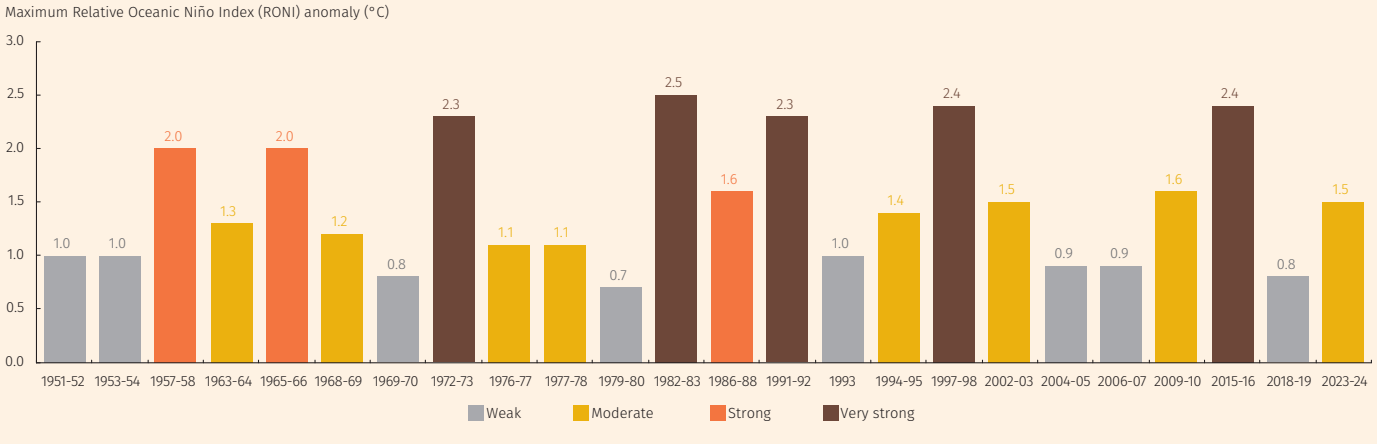
Box 1
El Niño Phenomenon

The *El Niño*-Southern Oscillation (ENSO) phenomenon is an oceanic and atmospheric phenomenon that occurs in the central and eastern tropical Pacific Ocean. Its warm phase (known as *El Niño*) corresponds to persistent and anomalous warming of surface waters off the coasts of Peru and Ecuador, while its cold phase (*La Niña*) is characterized by cooling of these same waters. Although ENSO has global effects, in the case of Colombia, its effect is a significant reduction in rainfall and an increase in air temperature, particularly in the Caribbean, Andean, and Pacific regions.

For several decades, the international meteorological community has used the Oceanic Niño Index (ONI) as a reference for identifying the occurrence and intensity of the phenomenon. This index, calculated by the U.S. National Oceanic and Atmospheric Administration (NOAA), measures the deviation of sea surface temperature in the Niño 3-4 region of the central Pacific from a rolling thirty-year climatological average. An *El Niño* episode is considered to occur when this index persistently exceeds the +0.5°C threshold for at least five consecutive rolling three-month periods, and the intensity of the event is classified into four categories: weak (+0.5 to +0.9 °C), moderate (+1.0 to +1.4 °C), strong (+1.5 to +1.9 °C), and very strong or extreme (+2.0 °C or higher).

At the beginning of 2026, in response to the structural warming of the ocean, NOAA replaced the ONI with the Relative Oceanic Niño Index (RONI). In a context in which the Earth's temperature has exceeded, on average over the last three years, the critical threshold of 1.5°C established in the 2016 Paris Agreement, the reference climatological average of the ONI had been steadily increasing, making it difficult to distinguish the cyclical signal inherent to ENSO from the trend component associated with global warming. The RONI corrects this bias by subtracting from the anomaly in the Niño 3-4 region the average warming observed in the rest of the tropical belt, thereby allowing for more precise identification of the onset, duration, and intensity of each episode. This methodological change—discussed in detail in Box 2 of the April 2026[1] *Monetary Policy Report*—is the standard currently used by the technical staff of *Banco de la República* in its monitoring and forecasting exercises, and is the one used in this box.

Graph B1.1
Intensity of *El Niño* Episodes, 1950–2024



Source: National Oceanic and Atmospheric Administration (NOAA) – Climate Prediction Center (RONI); calculations by *Banco de la República*.

1 See: https://repositorio.banrep.gov.co/server/api/core/bitstreams/9d957fd9-5082-420b-8dcb-72ffb3526d4e/content

A review of the available oceanographic records since 1950 shows that the *El Niño* phenomenon (like *La Niña*) does not follow regular patterns of onset, occurrence, duration, or intensity. Between 1950 and 2024, according to the RONI, twenty-four *El Niño* episodes have been recorded: eight of weak intensity, eight moderate, and eight strong to very strong, five of which have been classified as very strong. In the second half of the twentieth century, warm events predominated over cold ones, a situation that has been reversed so far this century. The duration of each *El Niño* episode ranges from five to eighteen months, with an overall average of close to ten months. The evidence also shows an increasing relationship between intensity and duration: very strong episodes have lasted, on average, close to fourteen months, while weak ones last around eight months.

Five episodes stand out for their magnitude and macroeconomic impact on the Colombian economy. The 1982-1983 episode was associated with severe adverse effects on the agricultural sector and upward pressures on food prices. The 1991-1992 episode led to the most severe electricity rationing in the country's recent history, in a context of high dependence on hydropower and low diversification of the energy mix. The 1997-1998 episode (one of the most intense of the twentieth century) generated significant shocks to food inflation. More recently, the 2014-2016 and 2023-2024 episodes contributed significantly to the upward pressures observed on food and regulated prices during those periods and evidenced the persistence of transmission channels, despite improvements in energy infrastructure and institutional response capacity (Table B1.1).

Table B1.1
Major Strong or Very Strong El Niño Episodes

Episode	Intensity	Max. ONI (°C)	Max. RONI (°C)	Macroeconomic Impacts in Colombia
1982-1983	Very strong	2.2	2.5	Severe dampening on agriculture; upward pressures on food prices.
1991-1992	Strong	1.7	2.3	National electricity rationing (1992 power blackout).
1997-1998	Very strong	2.4	2.4	Significant shocks to food price inflation and the balance of payments.
2009-2010	Moderate	1.6	1.6	Pressures on food prices; limited sectoral effects.
2014-2016	Very strong	2.8	2.4	Significant contribution to the acceleration of inflation in 2015–2016.
2023-2024	Strong	2.1	1.5	Increases in energy rates and perishable prices; effects on expectations.

Note: The intensity classification is based on the ONI. For some episodes, particularly the more recent ones, the RONI may fall into a different category because of the adjustment for mean tropical ocean warming.
Source: NOAA – Climate Prediction Center (ONI and RONI) and IDEAM; calculations by *Banco de la República.*

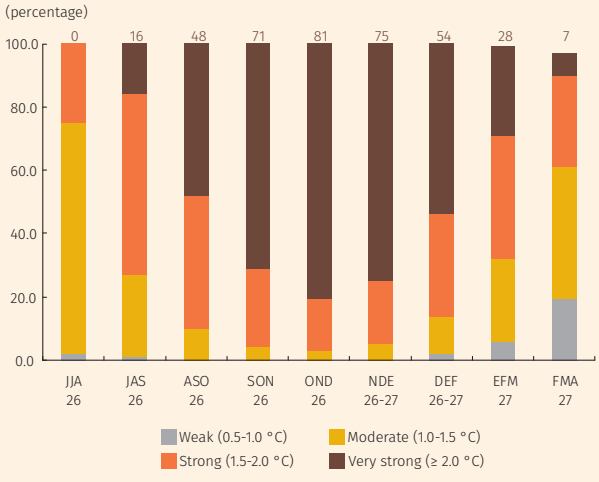
For Colombia, the evidence in the literature suggests that the main transmission channel of *El Niño* to the economy are through food, energy, and agricultural activity. The magnitude of the impact depends on the intensity and duration of the phenomenon, and on producers' response.

First, reduced rainfall and higher temperatures affect agricultural production. Second, lower water availability reduces inflows into reservoirs in the electricity system and puts upward pressure on electricity and gas rates, with a direct impact on the regulated-price basket. Third, higher food prices are passed through to food away from home and, through this channel, to services inflation. Finally, direct shocks to food and regulated prices generate second-round effects on inflation expectations and on the other CPI baskets.

The quantification of these effects has been studied by the technical staff of *Banco de la República*. The available empirical evidence suggests that an *El Niño* phenomenon could cause annual headline inflation to deviate by several dozen basis points (bp) above its

baseline[2] path, with more pronounced impacts during strong and very strong episodes and limited effects during weak[3] ones. These estimates are subject to a high degree of uncertainty, as the final effects may be affected by the presence of other simultaneous shocks during climatic episodes (transportation cost shocks, greater depreciation, etc.) and by the response of economic agents to the shock.

Graph B1.2
Probability of El Niño Phenomenon Intensity by Quarter



Note: figure above each bar: probability of very strong intensity.
Source: NOAA – Climate Prediction Center, Official El Niño Southern Oscillation (ENSO) Strength Probabilities (RONI), July 2026 update.

According to the information available as of the date of this *Report*, the main international climate monitoring centers agree that *El Niño*-like conditions are already present both in the equatorial Pacific Ocean and in the atmosphere, and that the phenomenon has been strengthening. According to the most recent update from NOAA's Climate Prediction Center, released in early July 2026, the probability that the episode will persist into early 2027 rose to 97%, while the probability that it will reach very strong intensity increased significantly for the remainder of the year: this probability rose from 63% in June to 81% for the October-December 2026 period and remains elevated (around 71% and 75%) for the September-November 2026 and November 2026-January 2027 periods, respectively. If it materializes, the episode would be among the largest *El Niño* events recorded since 1950. Projections from the International Research Institute for Climate and Society (IRI) and the World Meteorological Organization point in the same direction (Graph B1.2).

At the national level, the Institute of Hydrology, Meteorology and Environmental Studies (Ideam) confirmed the presence of *El Niño* conditions and is consistent with the international assessment of a high probability that the phenomenon will reach very strong intensity, with the period of greatest intensity concentrated between the last quarter of 2026 and early 2027. The regions most exposed would be the Pacific, Andean, and Caribbean regions, with risks associated with wildfires, water stress, declining river flows —which are already beginning to be reflected in record temperatures in several regions of the country— and disruptions to food production and electricity generation.

Consequently, given the higher probability of a high-intensity episode for the remainder of 2026 and early 2027, the *El Niño* phenomenon is emerging as one of the main factors shaping the macroeconomic outlook over the medium term.

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2 For more information on estimates of the impact of previous *El Niño* episodes on inflation in Colombia, see: Abril-Salcedo *et al.* (2016); Abril-Salcedo *et al.* (2020); Bejarano-Salcedo *et al.* (2020).

3 In general terms, the literature has found that a weak *El Niño* climate shock does not affect consumer food prices and, consequently, headline inflation.

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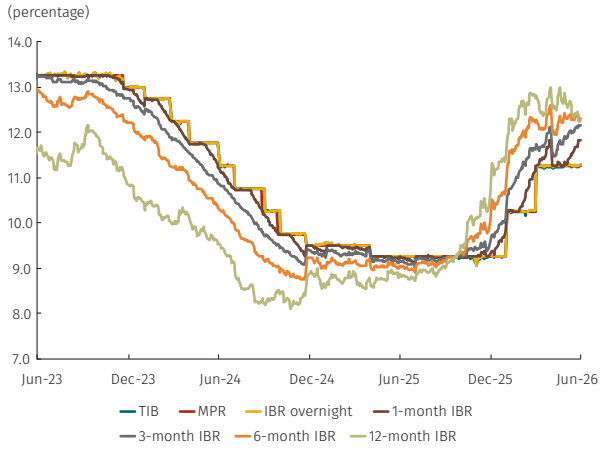
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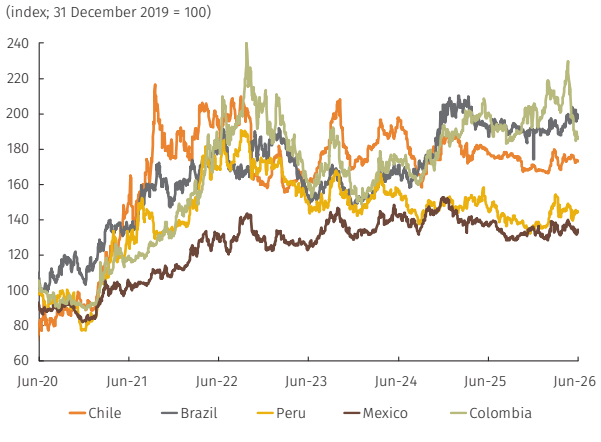
4. Evolution and Outlook of Financial and Credit Markets

Graph 4.1
Monetary Policy Rate (MPR), Interbank Rate (TIB in Spanish), and Benchmark Banking Indicator (IBR in Spanish) rates at different maturities



Sources: *Banco de la República* and Financial Superintendency of Colombia (Form 441).

Graph 4.2
Interest Rate Index in Some Economies in the Region



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

4.1 Money Market and Public Debt Rates

During the first half of 2026, very short-term market interest rates reflected the increases in the monetary policy rate (MPR). The overnight Benchmark Banking Indicator – BBI (IBR in Spanish) and the overnight Interbank Interest Rate (TIB in Spanish), both indicators of financial institutions' funding costs at that maturity, remained aligned with the MPR, though with greater volatility than in 2025. On average during the semester, the overnight IBR stood at 0.97 bps above the MPR, while the TIB averaged −0.76 bps. For longer-term maturities, through March, one-, three-, six-, and twelve-month IBR rates continued the upward trend observed since the last quarter of 2025. So far this year, these rates have risen more than the MPR, reflecting expectations of a restrictive monetary policy stance. After the BDBR's decision to leave the MPR unchanged in April, these rates moved in mixed directions (Graph 4.1).

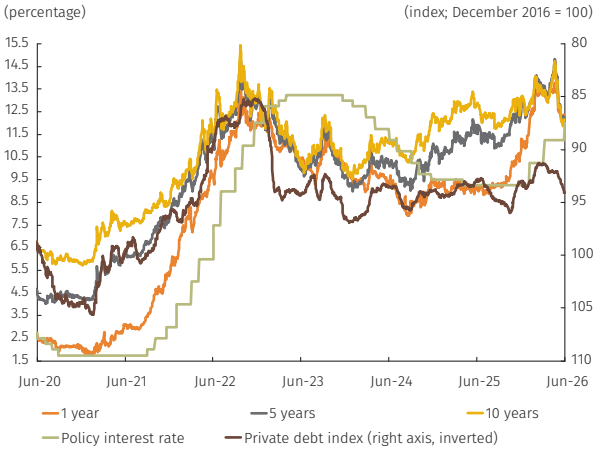
Between January and May 2026, local sovereign debt securities (TES) continued to depreciate amid domestic fiscal and political uncertainty. Subsequently, in June, long-term TES appreciated, driven mainly by the decline in market-based measures of sovereign risk. In contrast, short-term TES depreciated amid mixed performance across the region's debt markets. On average, TES appreciated by 37 bps across the curve, while securities from other countries in the region appreciated by 14 bps during the semester (Graph 4.2). Most analysts attribute the positive performance of TES interest rates to the decline in the sovereign risk premium since May, as measured by the five-year Credit Default Swap (CDS), which fell by 58 bps during the semester and reached its lowest level since September 2021. At the same time, short-term interest rates came under upward pressure amid higher inflation expectations (Graph 4.3).

Additionally, the TES market continues to exhibit lower liquidity buffers than in 2025. Liquidity indicators, measured by the bid-ask spread (BAS)[1] and the depth[2] of the TES market,

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

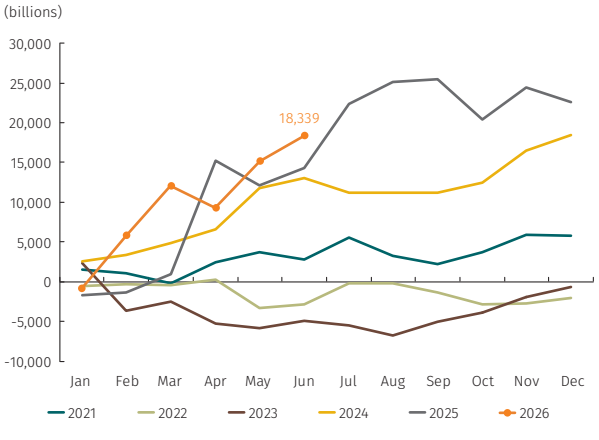
2 Measured as the average of the sum of purchase quotes and the sum of sales quotes in the secondary market for public debt.

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



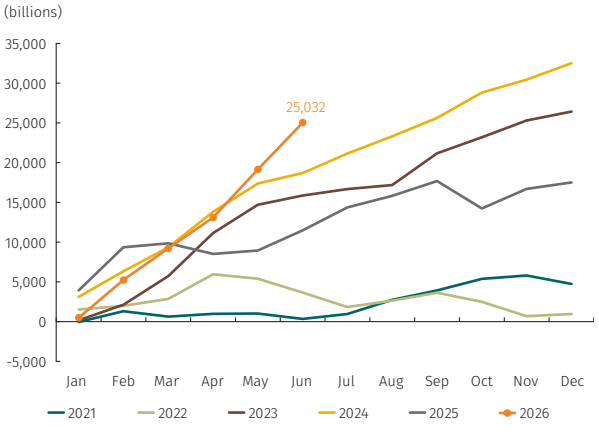
Sources: SEN and Master Trader; calculations by *Banco de la República.*

Graph 4.4
Cumulative Net Purchases per Year by Commercial Banks in the TES Spot Market



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

Graph 4.5
Cumulative Net Purchases per Year by Pension and Severance Funds in the TES Spot Market



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

have shown partial recovery so far in 2026, although they have not returned to the levels observed prior to December 2025[3].

In this context, pension and severance funds (FPCs in Spanish) have been the largest buyers of TES during the period, followed by foreign[4] investors and, to a lesser extent, commercial banks. In the first half of 2026, FPCs were net buyers of TES, totaling COP 24.9 trillion (t), followed by foreign investors and commercial banks, with net purchases of COP 23.3 t and COP 18.3 t, respectively (Graphs 4.4 and 4.5).

Excluding the sales transactions between foreign investors and the General Directorate of Public Credit and the National Treasury (DGCPTN) related to the total return swap (TRS)[5] transaction, foreign investors have been among the main buyers of TES in the spot market during the first half of 2026, in a context of increased concentration of their holdings among a small number of investors. These investors continued the buying trend observed in 2025. They made net spot market purchases of TES totaling COP 23.3 t in the first half of 2026 (Graph 4.6), likely driven by high yields and expectations of appreciation for these securities. This figure excludes transfers of securities to the DGCPTN as payment for the financing transaction this institution entered into with a group of international banks, amounting to COP 32 t. In this context, foreign investors' concentration in this market[6] continued to increase during the semester, despite a partial correction in June (Graph 4.7).

In the derivatives market, foreign investors also bought, bringing cumulative positions to an all-time high. During the first half of 2026, foreign investors' buying positions in TES non-deliverable forwards (NDFs)[7] increased by COP 24.5 t. Among their

3 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 of 2025. During the first half of 2026, these indicators stood on average at 9.56 bps and 12.85 bps, respectively.

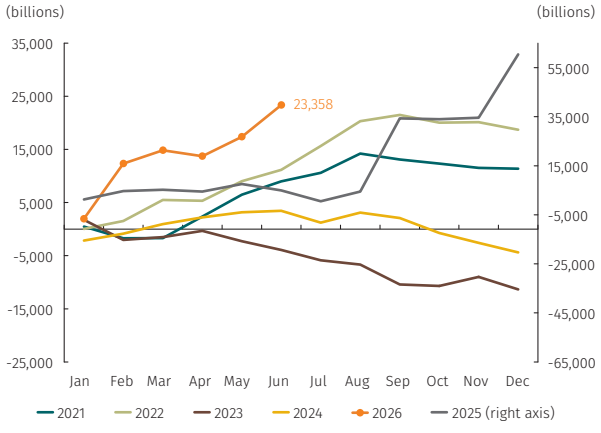
4 Excluding flows related to the total return swap (TRS) transaction.

5 The TRS consisted of a bridge-financing transaction that the DGCPTN executed with a group of foreign banks in September 2025. Under the transaction, the DGCPTN delivered local- and foreign-currency-denominated sovereign debt securities and U.S. Treasuries as collateral in exchange for Swiss franc-denominated funds. Between March and May 2026, the DGCPTN made partial prepayments until the transaction was fully settled. As a result of these prepayments, the foreign banks returned the securities posted as collateral to the DGCPTN. Foreign investors recorded these flows as sales transactions.

6 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 each month. Higher values indicate a greater level of concentration.

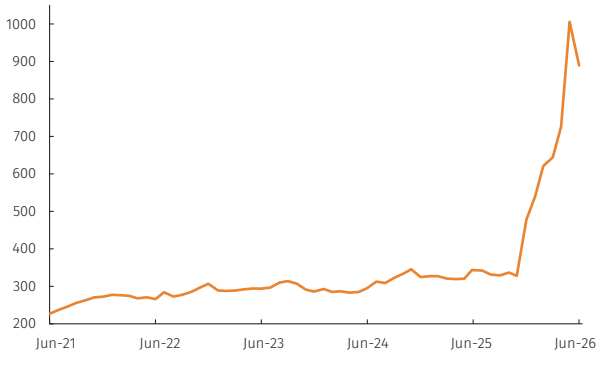
7 TES NDFs are derivative instruments that commit the parties to buy or sell TES at a future date at a price agreed upon at the time of the transaction. They are typically entered into between a local and a foreign counterparty.

Graph 4.6
Cumulative Net Purchases per Year by Foreign Investors in the TES Spot Market



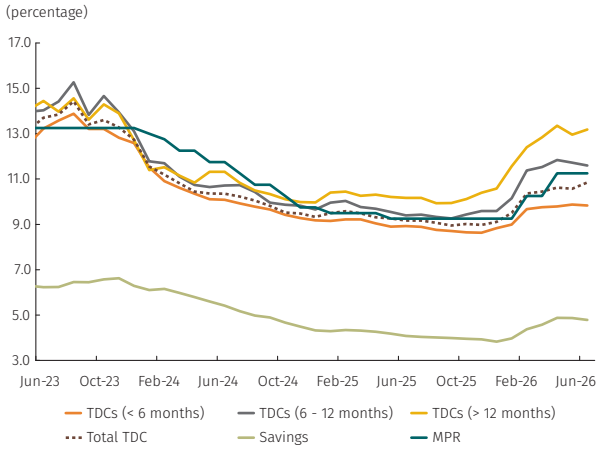
Source: DCV; calculations by *Banco de la República.*

Graph 4.7
HHI Concentration Index of Foreign Investors' Holdings of TES



Source: *Banco de la República.*

Graph 4.8
Interest Rates on TDCs and Savings Deposits



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

local counterparties, foreign investors concentrated their position increases in commercial banks during the period (COP 23.5 t). Unlike many foreign investors in the spot market, those in the TES derivatives market may have shorter investment horizons, and their investment flows may be more volatile.

Additionally, the outstanding stock of short-term instruments (TCO in Spanish) declined during the period but remains at an all-time high. In the first half of 2026, the outstanding stock of TCOs declined from COP 60 t to COP 44 t[8], a factor that could continue to put upward pressure on short-term interest rates along the TES curve, given that supply in this segment remains high. In this context, short-term interest rates along the peso-denominated curve increased by 24 bps during the period.

4.2 Financial Intermediation by Credit Institutions

In the first half of 2026, deposit interest rates, through term deposit certificates (TDC) and savings deposits trended upward, particularly in the early months of the year, reflecting increases in the MPR. TDC interest rates had been rising since the last quarter of the previous year amid upward inflation and MPR expectations. During the first months of 2026, as these expectations became more firmly established, increases in TDC rates also became more pronounced and widespread, particularly at longer maturities and in the treasury segment. Subsequently, in the second quarter, the pace of the increase moderated, and TDC interest rates for maturities under six months, as well as those offered through bank branches, remained relatively stable[9]. In turn, interest rates on savings deposits (ordinary active accounts) also increased sharply at the beginning of the year. In the second quarter, this trend[10] partially reversed (Graph 4.8).

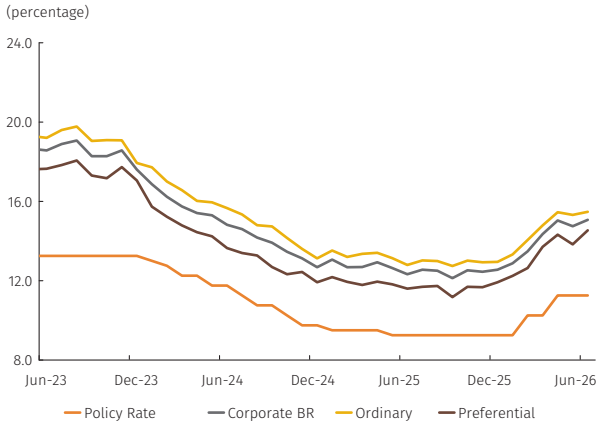
8 Between 2021 and 2024, the outstanding stock of TCOs averaged COP 12 t.

9 As a result, in the first half of 2026, the aggregate TDC interest rate rose by 134 bps from its January average (just before *Banco de la República* changed its monetary policy stance). During this period, the MPR accumulated an increase of 200 bps. By maturity, interest rates on TDCs with terms of less than six months, between six months and one year, and more than one year increased by 84 bps, 144 bps, and 162 bps, respectively, over this period. By segment, the increase was 114 bps for branches and 160 bps for treasury operations.

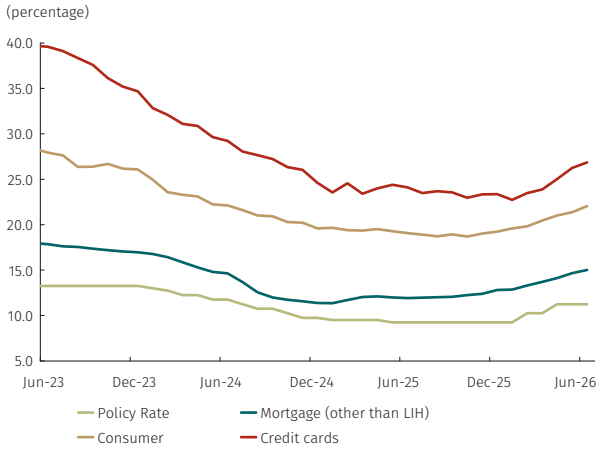
10 As of June, the interest rate on savings deposits (active ordinary) had increased by 96 bps from the December average and by 81 bps from the January average.

Graph 4.9
Interest Rates on Loans

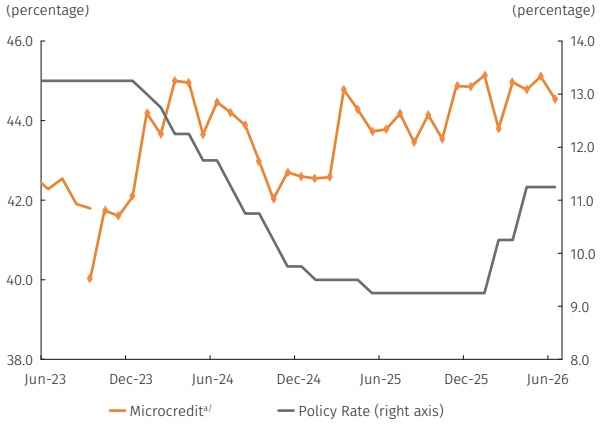
A. Loans to Companies



B. Loans to Households



C. Microcredit[a/]



a/ Decree 455 of March 2023 created five subcategories of productive loans: popular productive rural and urban loans (up to 6 Legal monthly minimum wage in force (SMMLV in Spanish)), rural and urban productive loans (between 6 and 25 SMMLV), and higher-amount productive loans (above 25 SMMLV). For each subcategory, the Financial Superintendency of Colombia calculates and publishes a usury rate monthly, based on information from the four weeks preceding the certification. As a result, the aggregate microcredit series does not align with the aggregate interest rate for new productive loans. The policy rate is the rate set by the BDBR at its monthly meeting; the other rates are monthly averages (weighted by amount).
Source: Financial Superintendency of Colombia; calculations by *Banco de la República.*

During this period, lending interest rates also trended upward. However, corporate loan interest rates have stabilized in recent months. For corporate loans in particular, increases were concentrated in the first few months, followed by relative stability from April onward, while rates on consumer loans, credit cards, and housing loans increased steadily throughout the first half of the year (Graph 4.9, panels A and B). For microcredit, interest rates fluctuated without a clear trend (Graph 4.9, panel C). In almost all lending modalities (excluding microcredit and Low-Income Housing (LIH) loans), changes were more pronounced than in the MPR, possibly anticipating future benchmark-rate[11] changes. It should be noted that the increase in interest rates on corporate and consumer loans began in the last quarter of 2025, while that on housing loans began earlier. This performance of interest rates coincided with stronger stock growth across all loan portfolio modalities, despite disbursements halting their upward trend in recent months.

The assets of credit institutions (CIs)[12] continue to grow in real terms, driven by loan portfolio dynamics and increased investments in sovereign debt securities; however, signs of moderation have emerged in recent months. As of April 2026, CIs' total assets amounted to COP 1,164.3 t (62.8% of 2025 GDP). So far this year, these institutions' assets have continued to grow, driven mainly by lending expansion, followed by increased investments in sovereign debt securities (TES, Graph 4.10). CIs have made larger TES purchases amid higher short-, medium-, and long-term[13] interest rates and stronger forward demand for TES (NDFs)[14] from foreign investors. Because CIs are the main counterparties to these transactions, they increased their TES holdings in the spot market as a hedging strategy. However, the growth rate of this type of investment has slowed in recent months. Although it remains above the ten-year average (5.3%), this trend is expected to continue in the second half of 2026. In turn, based on preliminary information for May and June of this year, the loan portfo-

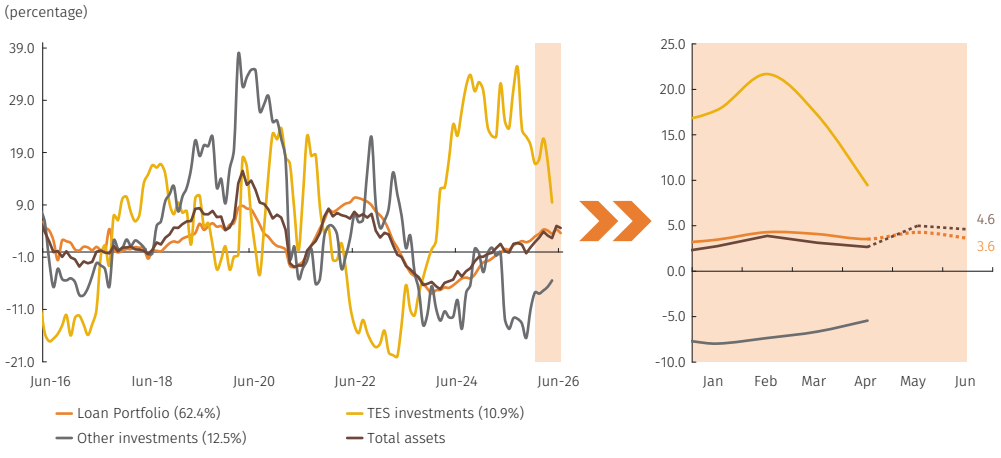
11 Compared with January (before the change in the monetary policy stance), interest rates increased by 222 bps for corporate loans, 226 bps for consumer loans, 423 bps for credit cards, and 209 bps for non-LIH housing loans, while the increase for LIH housing loans was 159 bps, and microcredit rates decreased by 59 bps.

12 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 (CFCs), financial corporations (CFs), and financial cooperatives.

13 For fixed-income securities, such as TES, prices move inversely to market interest rates. Thus, higher interest rates reduce the value of previously issued securities held in the portfolio, thereby reducing valuation gains. However, higher interest rates also increase yields on new TES investments, making them more attractive.

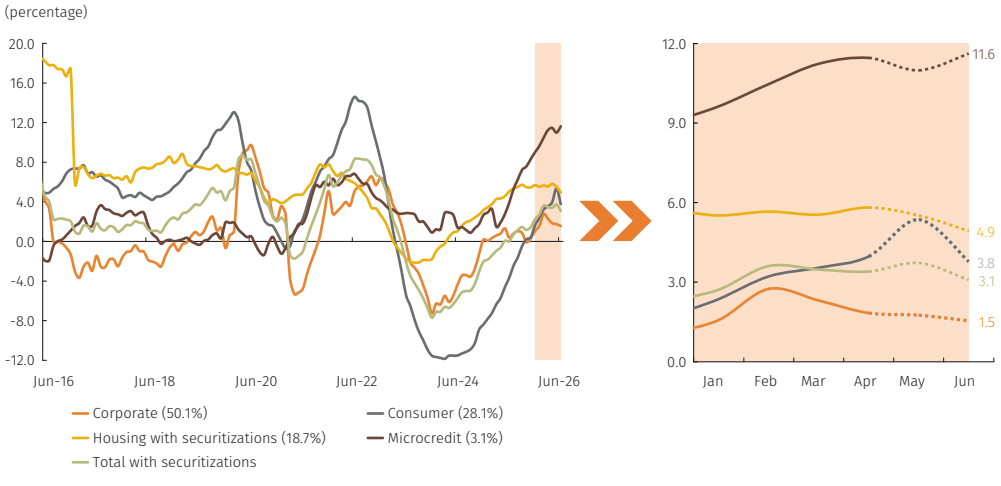
14 NDFs are contracts in which, at maturity, the difference between the market price and the agreed forward price is exchanged, multiplied by the size of the position. Thus, at maturity, the net gains from the transaction are exchanged instead of the full contract value.

Graph 4.10
Real Annual Growth in the Assets of CIs and their Main Components



Note 1: The loan portfolio series corresponds to the loan portfolio of net provisions, which is part of assets.
Note 2: The dotted lines were constructed using weekly information from Form 281 of the Financial Superintendency of Colombia (May and June of 2026), which reports the main balance sheet accounts of credit institutions. As a result, the values may differ slightly from those recorded in official balance sheets. Likewise, since this source does not provide disaggregated information for the investment category, figures for TES investments and Other Investments are not presented.
Note 3: The share of each item in total assets is presented in parentheses.
Source: Financial Superintendency of Colombia; calculations by *Banco de la República.*

Graph 4.11
Real Annual Growth of the Total Loan Portfolio of CIs and by Type

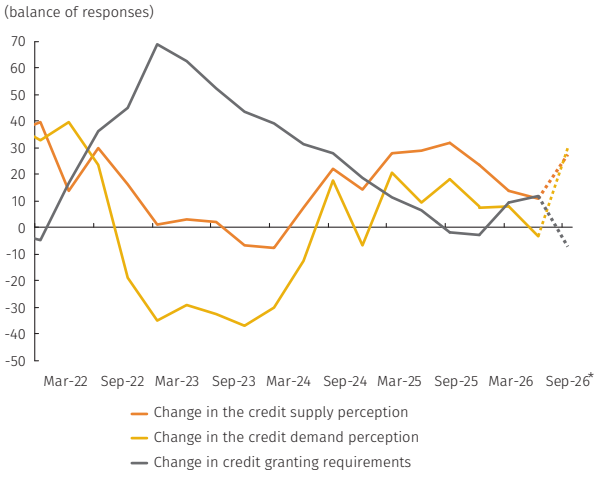


Note 1: The dotted lines were constructed using weekly information from Form 281 of the Financial Superintendency of Colombia (May and June of 2026), which reports the main balance sheet accounts of credit institutions. As a result, the values may differ slightly from those recorded in official balance sheets.
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 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.*

lio continues to expand, albeit with signs of moderation. Taken together, these factors could lead to less dynamism in asset growth for the remainder of 2026.

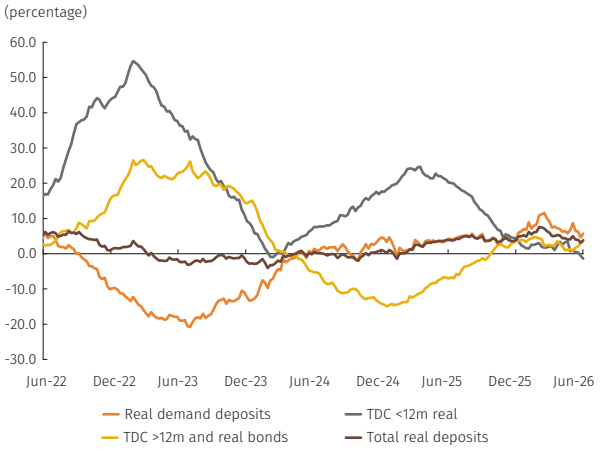
Loans continue to expand across modalities, although the latest results from the *Report on the Credit Situation in Colombia*, together with disbursement dynamics, suggest this performance could moderate in the second half of 2026. As of April 2026, the total loan portfolio of CIs amounted to COP 788.1 t (42.3% of 2025 GDP), following real annual growth of 3.4% (Graph 4.11), despite the continued growth in these intermediaries' investments in TES. This result was driven by sustained growth in the housing loan portfolio and accelerated growth in microcredit, consumer, and corporate loans, with microcredit showing the strongest expansion. However, preliminary information for May and June 2026 suggests a moderation

Graph 4.12
Change in the Credit Institutions' Perception



Note: The date marked with an asterisk and the dashed line indicate the credit institutions' expectations.
Source: Survey on the Credit Situation in Colombia, June 2026; calculations by *Banco de la República.*

Graph 4.13
Demand and term deposits (annual real percentage variation)[a/]



a/ Deflated using inflation excluding food.
Source: Financial Superintendency of Colombia; calculations by *Banco de la República.*

in consumer and corporate credit growth, in line with slower disbursement growth across all modalities, though they continue to post positive real growth. Additionally, the latest results from the *Report on the Credit Situation in Colombia* show a decline in perceptions of credit supply (Graph 4.12) and tighter lending standards in the second quarter of 2026. Although CIs anticipate an increase in both credit demand and supply, along with a relaxation of lending standards in the coming months, recent disbursement trends suggest credit growth could moderate for the remainder of 2026. However, if CIs' expectations materialize, this trend could be mitigated, supporting stronger credit growth.

CIs' funding has grown, although at slower rates since February 2026. This performance was driven mainly by the lower growth of demand and term deposits, the most important sources of funding for CIs. During the first half of the year, demand deposits (mainly savings and current accounts) grew at higher rates than in the previous three years. This performance was particularly pronounced during the first quarter of the year, when the largest increase in savings deposit interest rates was observed. Subsequently, their growth declined, driven by a slowdown in deposits from wholesale customers[15] (Graph 4.13). On the other hand, term deposit issuances (mainly TDCs) declined between February and May 2026, driven by lower issuances with maturities between six months and one year; however, in June 2026, TDC issuances increased again, driven by higher issuances with maturities of more than one year. In the coming months, funding is expected to continue growing at a moderate pace, in line with the loan portfolio's performance.

Although loan delinquency continues to follow a downward trajectory, its pace of improvement has moderated during 2026. After following a downward trend since early 2025, the Non-performing Loans Indicator (NPL)[16] has remained stable at around 4.4% so far in 2026 (Graph 4.14). This performance is explained by the stabilization of the indicator for consumer, corporate, and housing loans. In contrast, the NPL for microcredit continues to trend downward and stands near its historical average. In turn, the non-performing loan portfolio[17] across all credit modalities has been contracting since early

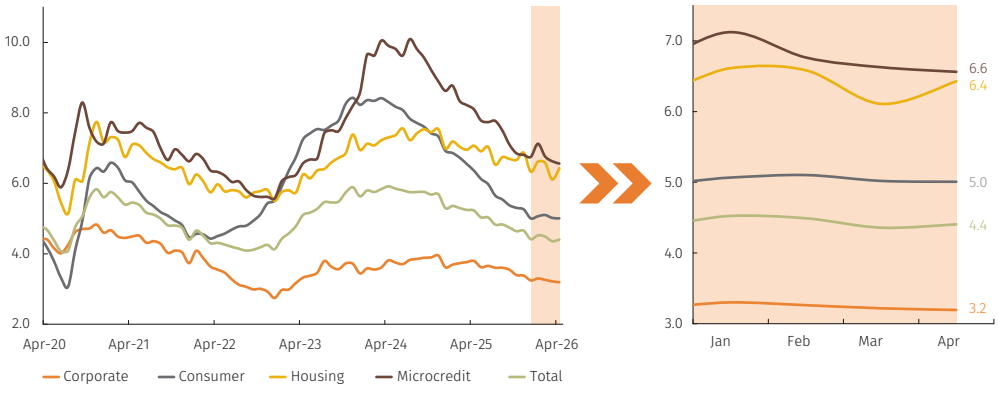
15 Wholesale customers are individuals and legal entities that manage significant volumes of funds (with an average balance of demand deposits exceeding 220 times the legal monthly minimum wage in force (SMLMV in Spanish) for the corresponding year). This category includes deposits from foreign customers.

16 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).

17 The non-performing loan portfolio is the stock of loans with payments overdue for more than 30 days.

Graph 4.14
Non-Performing Loans Indicator of Credit Institutions

(percentage)

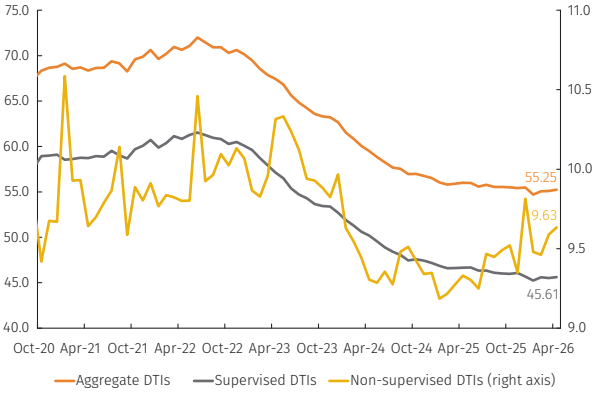


Note 1: The non-performing loans indicator (NPL) is calculated as the ratio of non-performing loan portfolios (loans more than 30 days in arrears) to the total gross loan portfolio.
Note 2: The non-performing loans indicator of the housing portfolio differs from that reported by the Financial Superintendency of Colombia (SFC in Spanish), as it only considers past-due payments for delinquency periods between one and four months, while this report includes the total principal of the loan. In addition, the National Savings Fund is included.
Source: Financial Superintendency of Colombia; calculations by *Banco de la República.*

2026, albeit at an increasingly slower pace. This moderation is particularly pronounced in the consumer loan portfolio, while the corporate loan portfolio has been more volatile. If these dynamics persist, the overall NPL could increase over the remainder of 2026.

Graph 4.15
Household Debt-to-Disposable-Income (DTI)

(percentage)

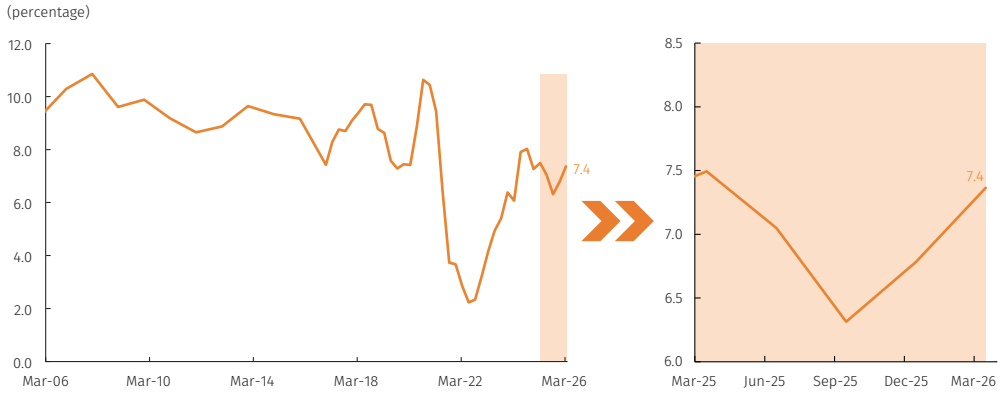


Note: The graph shows the debt-to-income indicator (DTI). For this purpose, the estimated disposable income of households is used. The graph presents three measures of borrowing:
Gray line: household debt with credit institutions supervised by the SFC.
Yellow line: household debt with institutions not overseen by the SFC, including cooperatives, real-sector companies, Fintechs, family compensation funds, among others.
Orange line: total household debt with entities overseen and not overseen by the SFC.
Source: Experian, calculations by *Banco de la República.*

The household debt-to-income ratio increased slightly, consistent with the acceleration in these agents' loan portfolios. However, savings continued to increase, driven by income growth. Household debt, including consumer and mortgage loans, continued to accelerate in the first quarter of 2026 (Graph 4.15), driven by stronger growth in the consumer loan portfolio, which accounts for around 65% of these agents' total loan portfolios. This increase was driven mainly by rising indebtedness with entities not overseen by the Financial Superintendency of Colombia (SFC)[18], which, according to Experian credit bureau records, accounts for 17.4% of the total household loan portfolio and has grown significantly since early 2025. In turn, these agents' disposable income has also increased in recent months, supported by favorable performance in economic activity, wages, and remittances, which, given their strong growth in recent years, have become an increasingly important source of household income. In this context, the debt-to-income ratio increased slightly in recent months, while household savings recovered, despite remaining below the levels observed before the pandemic (Graph 4.16). Over the remainder of 2026, the household debt-to-disposable-income (DTI) ratio is expected to decline slightly as loan portfolio growth weakens amid

18 Entities not overseen by the SFC include family compensation funds, non-financial cooperatives, fintechs, telecommunications companies, real-sector entities, among others.

Graph 4.16
Gross Household Savings as a Percentage of Extended Adjusted Gross Disposable Income

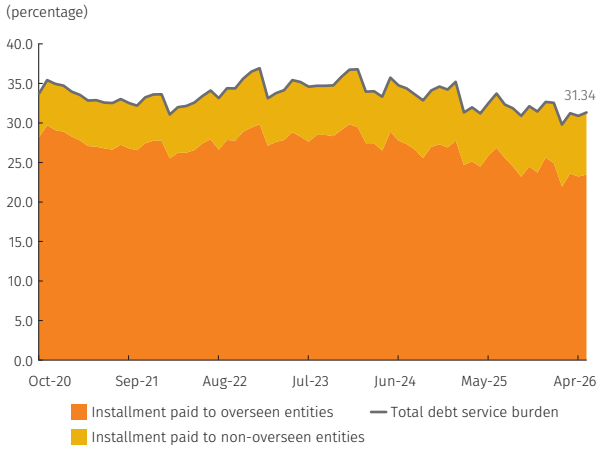


Note: Annual values defined as the sum of the four quarters. The savings level was revised upward compared to that presented in previous reports as a result of DANE's revision of the national accounts figures. The income used as the denominator in the indicators of the graph includes an adjustment for the variation in households' net participation in pension funds.
Source: National Administrative Department of Statistics (DANE in Spanish); calculations by *Banco de la República.*

inflationary pressures and higher interest rates. However, risks arising from a potential deterioration in the labor market or a decline in remittances could affect income growth and, consequently, the performance of the debt-to-income and savings indicators.

Household financial burden showed a marked downward trend from December 2023 onward; however, so far in 2026, it has slightly reversed. The household financial burden indicator measures the share of household income spent on debt payments. In that sense, the higher this percentage, the more vulnerable borrowers are to a decline in income, as they may struggle to meet their debt payments and, in the worst case, default. Using credit records and an estimate of borrowers' income from the Experian credit bureau, aggregate household financial burden was estimated as the sum of their monthly loan payments (including principal and interest) divided by the sum of their estimated income (Graph 4.17). According to this information, household financial burden has trended downward since December 2023 and has fluctuated around 33% over the past five years. However, after declining sharply in January this year, the indicator slightly reversed this trend, in line with the increase in wages. In turn, consistent with households' greater indebtedness to entities not overseen by the SFC[19], payments on obligations to these entities now make up a larger share of total debt payments. Finally, although higher interest rates or potential negative income shocks could push the financial burden to higher levels, there is uncertainty regarding the future performance of the indicator, as, in line with tighter lending standards at financial institutions, a potential slowdown in loan portfolio growth could contribute to keeping the financial burden at stable levels or even reducing it.

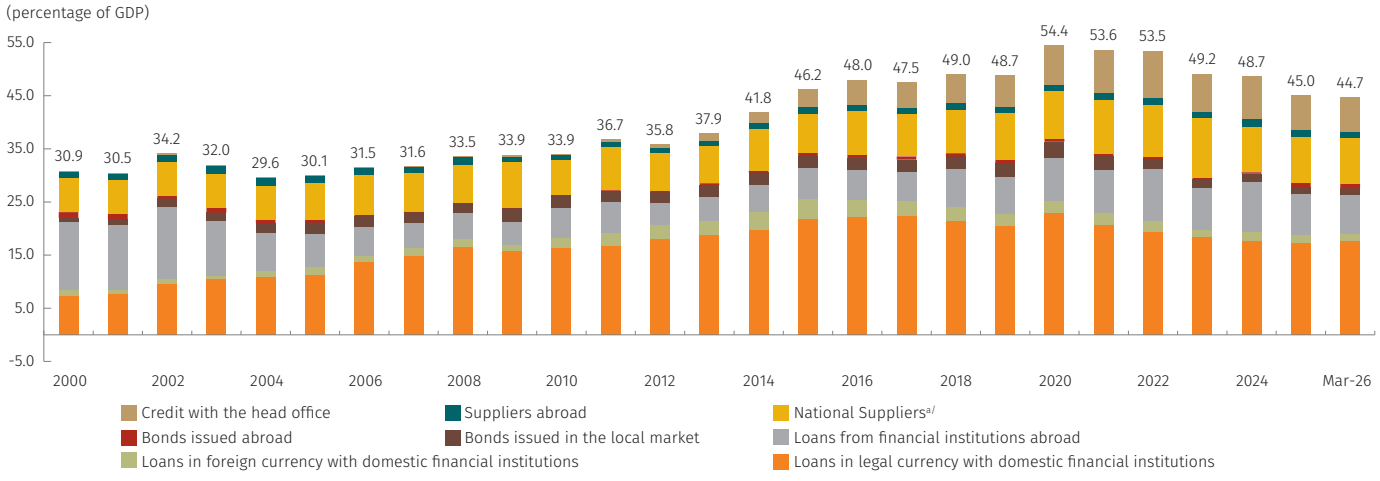
Graph 4.17
Aggregate Household Financial Burden



Note 1: The financial burden is calculated as the sum of loan payments, including equity and interest, divided by the sum of income estimated by the credit bureau. For the calculation, debtor records are excluded when their individual financial burden (defined as the ratio of the sum of their loan payments to their income) is below the 1.0 percentile or above the 99 percentile for each month.
Note 2: The areas represent the sum of loan payments by entity group (overseen or not overseen) divided by the sum of income estimated by the credit bureau.
Note 3: The non-supervised group comprises telecommunications companies, Fintechs, real sector entities, family compensation funds, non-financial cooperatives, and other non-supervised financial institutions.
Source: Experian; calculations by *Banco de la República.*

19 See Box 2 of the *Financial Stability Report* for the first half of 2026.

Graph 4.18
Private Corporate Sector Financial Debt by Instrument[a/]



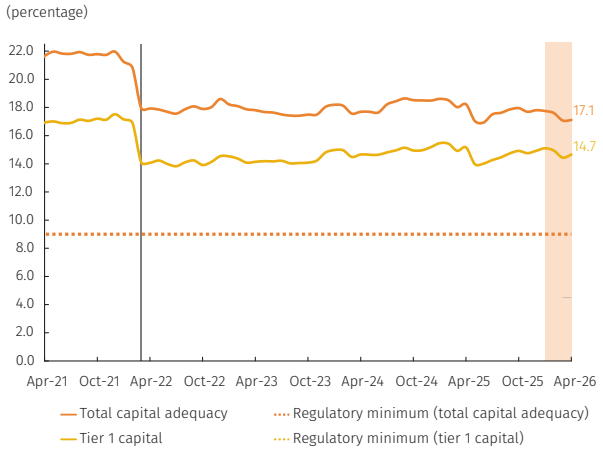
a/ This only includes information on companies that report their financial statements to the Superintendency of Corporate Affairs. In 2016, all companies recorded their financial statements in accordance with International Financial Reporting Standards (IFRS), which did not allow for the determination 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 financial statements for 2025 have not yet been published, annual GDP growth is used to project the value for March 2026.
Sources: Financial Superintendency of Colombia, Superintendency of Corporate Affairs, and Banco de la República; calculations by *Banco de la República.*

On the other hand, the downward trend in firms' financial deepening indicators has continued, despite the recovery in domestic corporate credit. The corporate loan portfolio, the main source of financing for the private corporate sector, has stabilized at positive real growth rates over the past year, following the contractions recorded in 2024. However, this recovery has not translated into greater financial deepening for firms. As of March 2026, private corporate sector indebtedness as a share of GDP stood at 44.7%, reaching its lowest level in the past decade (Graph 4.18). This performance reflects factors that have moderated firms' borrowing plans, including low investment[20], mixed growth in the corporate loan portfolio across economic sectors[21], heightened uncertainty from geopolitical tensions, a rebound in inflation expectations, and the electoral process. This is compounded by the accounting effect of the Colombian peso's appreciation vis-à-vis the U.S. dollar, which has also contributed significantly to the reduction in corporate indebtedness, given that 38.5% of this sector's total debt is denominated in foreign currency. Looking ahead, the recovery in corporate financing could remain gradual and uneven, while persistent uncertainty and a potential tightening of domestic financial conditions could continue to constrain investment performance and corporate indebtedness.

20 Using DANE data on quarterly GDP at constant prices, from the expenditure approach, the investment rate (measured as gross fixed capital formation as a share of GDP) stood at 16.8% in the first quarter of 2026, remaining at low levels since 2023 and below the 21–24% range observed between 2016 and 2019.

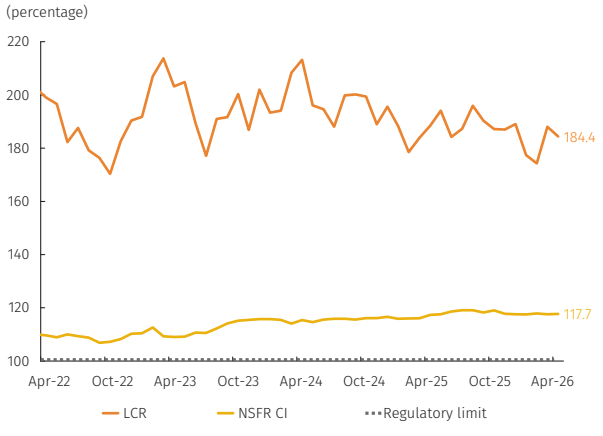
21 While the loan portfolios of the trade, financial activities, agriculture and livestock, electricity, and real estate sectors recorded positive growth (together accounting for 56.3% of the corporate loan portfolio), reflecting their strong economic performance, those of the manufacturing, construction, transportation, health, hotels and restaurants, and mining sectors contracted in real terms over the past year (accounting for 43.7% of the portfolio).

Graph 4.19
Capital Adequacy Ratios at the Aggregate Level



Note 1: Total (tier 1) capital adequacy is calculated as the ratio between the calculated technical equity (ordinary core equity net of deductions) and the value of assets weighted by level of credit, market, and operational risk level.
Note 2: From 2024 onwards, the regulatory limits that include the conservation buffer are 10.5%, 7.5%, and 6.0% for total capital adequacy, additional common equity tier 1, and tier 1 capital, respectively. Systemically important institutions must comply with an additional 75 bps. Non-compliance with the buffers does not constitute insolvency.
Note 3: The vertical line indicates the spin-off of BAC by Banco de Bogotá.
Source: Financial Superintendency of Colombia; calculations by *Banco de la República.*

Graph 4.20
Short-term and Structural Liquidity Indicators of CIs



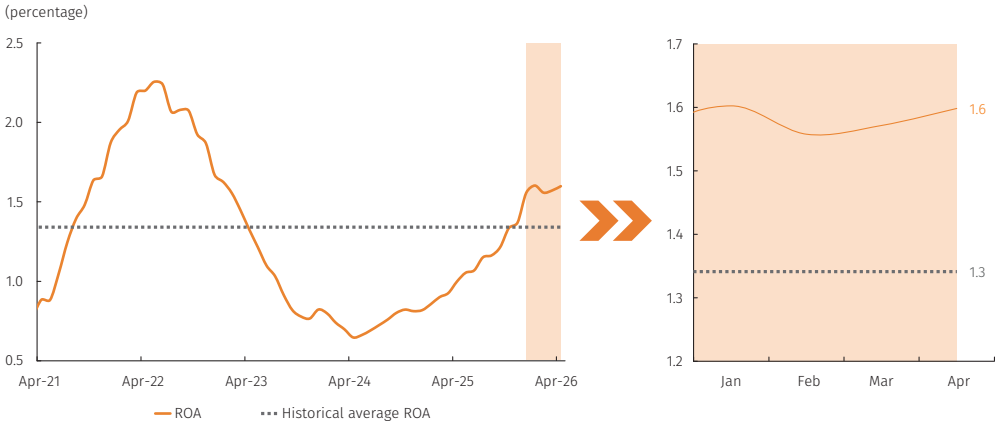
Note 1: The LCR is calculated as the ratio of the average over the last four weeks of the month of liquid assets adjusted for market liquidity and exchange rate risk (LAMs) to the average over the last four weeks of the month of liquidity requirements (NLRs). The regulatory minimum is 100% (black dotted line).
Note 2: The NSFR is presented for the aggregate of credit institutions, which is similar to the indicator for Group 1, comprising banks whose assets represent at least 2.0% of total banking system assets as of 31 December of the immediately preceding year. Since March 2022, the minimum requirement for this group has been 100% (black dotted line).
Source: Financial Superintendency of Colombia; calculations by *Banco de la República.*

Over the remainder of 2026, corporate loans are expected to grow at moderate rates, while some economic sectors are expected to experience higher delinquency. High levels of international and domestic uncertainty could affect firms' investment decisions and demand for credit for the remainder of 2026. On the one hand, increases and volatility in energy commodity and derivative prices, driven by geopolitical tensions, would affect firms' costs. This is compounded by rising operating expenses and tax burdens following the declaration of an economic emergency, which could affect profits and, in turn, affect investment decisions. Finally, tighter financial conditions would raise borrowing costs for firms, potentially increasing loan portfolio delinquency. Given this outlook of high uncertainty, the corporate loan portfolio is expected to grow at moderate rates through the remainder of 2026, while loan portfolio quality in sectors more severely affected by the current economic environment, such as healthcare, construction, and trade, is expected to deteriorate further.

Despite heightened uncertainty, the management indicators of CIs reflected the soundness of the Colombian financial system, even under simulated stress scenarios. So far in 2026, the solvency ratios of CIs, which reflect their capital backing, have remained well above regulatory minimums, although they have declined slightly due to the increase in risk-weighted assets, in a context of credit expansion and a moderation in the decline of delinquency indicators (Graph 4.19). In any event, the stress tests presented semiannually in *Banco de la República's Financial Stability Report* indicate that, in aggregate, CIs would have sufficient capital levels to absorb losses arising from a hypothetical adverse macroeconomic scenario with a low probability of occurrence, while maintaining solvency ratios above regulatory requirements. Additionally, CIs maintain a strong liquidity position, reflected in ample levels of the structural liquidity (NSFR) and short-term liquidity indicators (Liquidity Coverage Ratio - LCR). In the case of the latter indicator, the increase observed since March 2026 has been driven by higher TES holdings, which are highly liquid assets in the market (Graph 4.20).

Aggregate profitability levels of CIs remain above their historical average, although they show signs of stabilization. After following an upward trend since early 2024, the return on assets (ROA) indicator for CIs has remained relatively stable at around 1.6% so far in 2026 (Graph 4.21). This performance reflects the favorable effect of lower loan-loss provisions, in line with slower deterioration in the loan portfolio, and lower valuation gains on investments, amid higher market interest rates.

Graph 4.21
Aggregate Return on Assets (ROA) of CIs



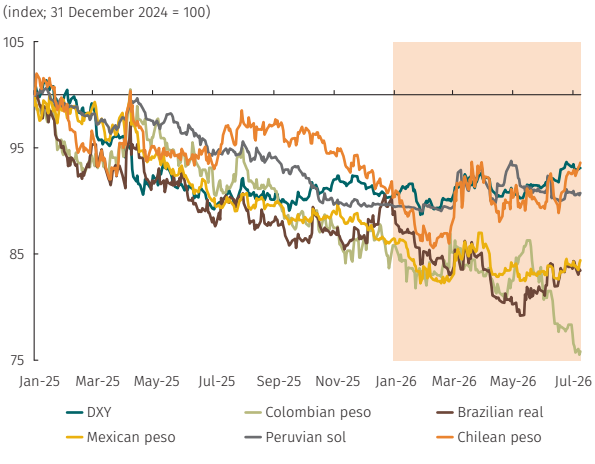
Source: Financial Superintendency of Colombia; calculations by *Banco de la República.*

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 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 part of the adjustment takes place through the exchange[15] rate; 2) authorities in a small and open economy with a flexible exchange rate have greater monetary policy autonomy, which facilitates achieving their own inflation targets and respond countercyclically to economic fluctuations[16]; 3) it reduces incentives for taking on excessive[17] exchange rate risk; and 4) the volatility inherent in a floating exchange rate encourages the development of the hedging market, which is important for maintaining financial stability and promoting market[18] development.

Graph 4.22
Performance of the Region's Foreign Exchange Market[a/]



a/ Data as of 8 July 2026.
Source: Bloomberg, Data License

So far in 2026, the Colombian peso (COP) has appreciated more than most regional currencies (Graph 4.22)[22]. The appreciation of Latin American currencies was likely supported by greater appetite for regional assets, given their lower direct exposure to the Middle East conflict, as well as by the favorable performance of some raw materials and attractive interest rate differentials vis-à-vis developed economies. In turn, the COP's greater relative appreciation was mainly driven by domestic factors. Among these, the following stand out: 1) the National Government's greater financing needs, which could be met through external credit resources and foreign portfolio

22 So far in 2026 (as of 8 July), the currencies in the region that appreciated were the Colombian peso (11.6%), the Brazilian real (6.3%), and the Mexican peso (2.38%), while the currencies that depreciated were the Peruvian sol (-1.4%) and the Chilean peso (-3.6%).

investment aimed at acquiring local sovereign debt securities, the monetization of which increases the supply of foreign currency; 2) the reduction in Colombia's sovereign risk premium, which has supported foreign investors' appetite for TES and, consequently, the supply of foreign currency; 3) sustained remittance flows; and 4) interest rate differentials vis-à-vis developed economies, which remain attractive and could influence portfolio investment flows into the country. All of the above occurred in a context in which liquidity conditions in this market have improved compared with those observed toward the end of 2025. However, other factors, such as the global strengthening of the U.S. dollar, uncertainty associated with the conflict in the Middle East, S&P Global Ratings' downgrade of Colombia's sovereign credit rating, and USD purchases by the DGCPTN, likely helped partially contain the peso's appreciation.

The COP's appreciation has heterogeneous effects on the productive sector and the financial position of local firms. On the one hand, it may affect the competitiveness and peso-denominated revenues of export-oriented sectors and firms competing with imported goods and increase the vulnerabilities of those with foreign-exchange mismatches. On the other hand, it reduces the cost of imported goods and inputs when measured in local currency and eases the financial burden on firms with external debt, particularly when their revenues are primarily generated in pesos.

4.3.2 Stock Market

Financing through the issuance of corporate debt securities increased in the first half of 2026 compared with the same period in 2025. As of June, loan placements through the Colombian Stock Exchange totaled COP 3.0 t in 2026, above levels in the first half of 2025 and 2024 (COP 0.6 t and COP 2.2 t, respectively). This performance was driven by an increase in loan placements in the financial sector.

During the first half of 2026, the MSCI Colcap Index appreciated, in line with the stock markets of its regional peers, and trading volumes increased compared with 2025, reaching a record high. In the first half of 2026, the index appreciated by about 9.7%, driven by the financial, oil, and services sectors. Favorable corporate results reported by some firms and higher oil prices contributed to both the increase in prices and improved liquidity conditions in the stock market. In this context, the index's trading volume peaked in March 2026[23]. This occurred despite an environment marked by fiscal and electoral uncertainty, as well as doubts about resolving the conflict in the Middle East.

During the period, foreign investors and FPCs were the main net buyers in the equity market. Foreign investors accumulated net purchases of COP 671 b, while FPCs recorded COP 415 b in net purchases. Foreign investors' entry into the Colombian stock market may reflect both demand for assets in emerging economies and expectations of further valuations in 2026.

23 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 227 b.

4.4 Evolution of the Portfolio of Non-Banking Financial Institutions (NBFIs) and the Financial System's Exposure to Increases in Market Interest Rates

Interconnections between CIs and NBFIs are key factors in monitoring financial stability risks. NBFIs comprise pension fund administrators (PFAs), trust companies (TCs), stock brokerage firms (SBFs), and insurance companies. Their monitoring includes assets under management and assets held on their own account. In carrying out these activities, NBFIs have grown considerably in recent years (Graph 4.23, panel A) and have established significant interconnections with CIs. As highlighted in the *Financial Stability Report* for the first half of 2026, NBFIs channel significant resources to CIs (COP 184.6 t), mainly through TDCs (63.4%) and deposits (29.4%). In particular, resources from collective investment funds (CIFs) and voluntary pension funds, totaling approximately COP 143.9 t, represent a significant share, making these entities key stakeholders in the funding structure of CIs. In addition, these interconnections can also be observed from the perspective of CIs' assets, which show exposures to NBFIs amounting to COP 15.7 t, both through loans, primarily extended to trusts managed by TCs, and through investments, particularly in CIFs. Taken together, these channels reflect two-way relationships that deepen integration within the financial system and may serve as mechanisms for transmitting shocks between CIs and NBFIs.

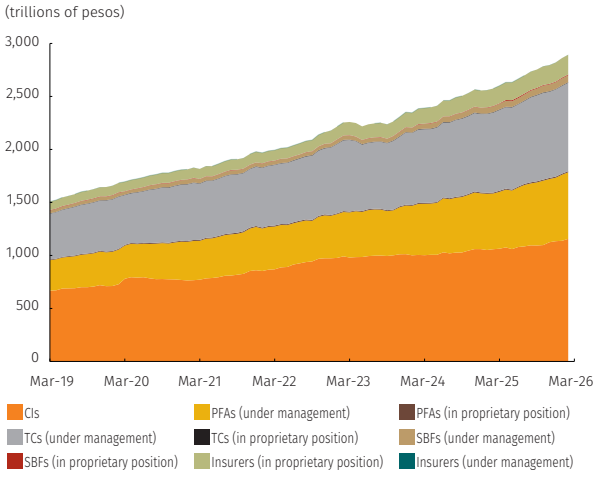
NBFIs' assets, both held on their own account and under management, grew in real annual terms, driven by the expansion of investment portfolios. The profitability of these intermediaries has shown heterogeneous performance over the past six months. Assets under management as of March 2026 rose 6.6% in real annual terms to COP 1,521.3 t. In particular, COP 609.6 t corresponds to trusts managed by TCs, which are characterized by greater stability and lower exposure to liquidity risk. Likewise, assets held in their own account posted real growth of 8.4%, reaching COP 209.6 t (Graph 4.23, panels B and C). Within the portfolio, TES, CIFs, and stocks stand out as the items with the largest expansion in assets under management, while growth in assets held in their own account was concentrated mainly in TES. In turn, profitability posted varied performance across entity types (Graph 4.23, panels D and E). PFAs and TCs recorded real annual increases in profitability, as measured by ROA, driven mainly by higher net income from investment valuation and growth in commission and fee income. In contrast, SBFs recorded a decline in this indicator, driven by strong asset expansion and slower income growth associated with the valuation and sale of investments. Insurers also recorded a decline in profitability, mainly due to higher expenses related to establishing reserves and reinsurance, as well as slower income growth, particularly from investments and premiums. However, the deterioration was more pronounced among life insurers, whose ROA stood below 1.0%.

As financial system institutions gained greater exposure to sovereign debt securities and market volatility linked to fiscal and political uncertainty, the value at risk (VaR) of intermediaries' investment portfolios increased as of the end of the first half of 2026. To estimate the potential maximum loss of an institution's portfolio over a given time horizon at a specified confidence level, VaR[24] is calculated at 95% based on its net returns. As shown in Graph 4.24, this indicator remains very low for CIs, consistent with banks' hedging strategy, which reduces expected losses from

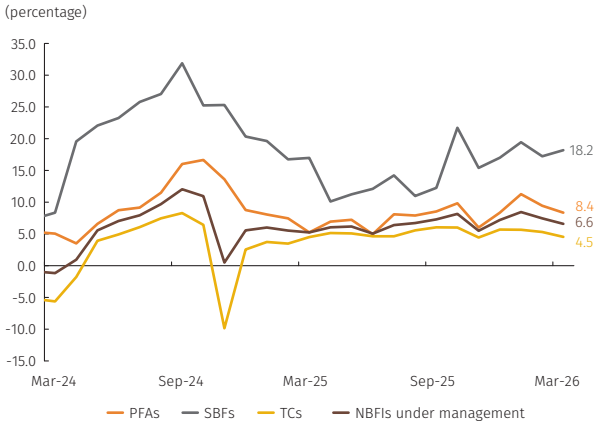
24 A statistical measure that quantifies the maximum expected loss of an asset portfolio that will not be exceeded with a given level of confidence over a specified period. It can be assumed that the expected loss on investments will not exceed the 95% VaR with a 5.0% probability.

Graph 4.23
Key Variables in the Current Situation of Non-Bank Financial Institutions (NBFIs)

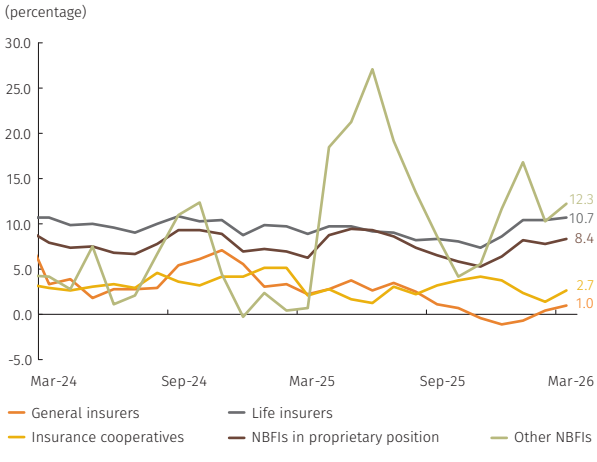
A. Assets Under Management, Proprietary Assets of NBFIs, and Assets of CIs[a/]



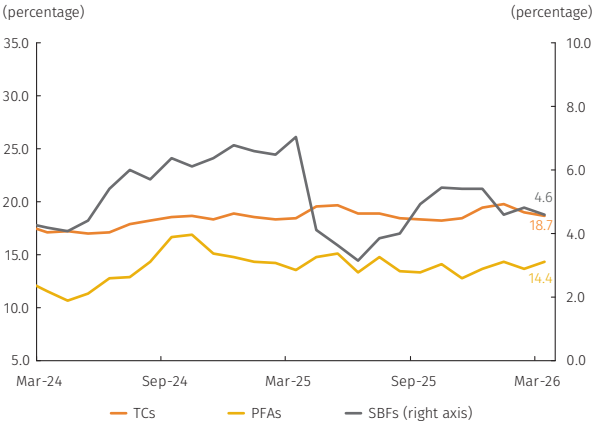
B. Evolution of the Real Annual Growth of Assets Under Management of NBFIs



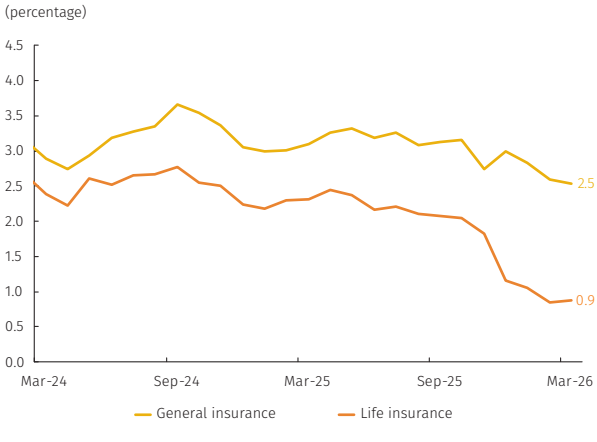
C. Evolution of the Real Annual Growth of Assets in Proprietary Position of NBFIs



D. Return on Assets (ROA) of Trust Companies (TCs), Pension Funds (PFAs), and Stock Brokerage Firms (SBFs)

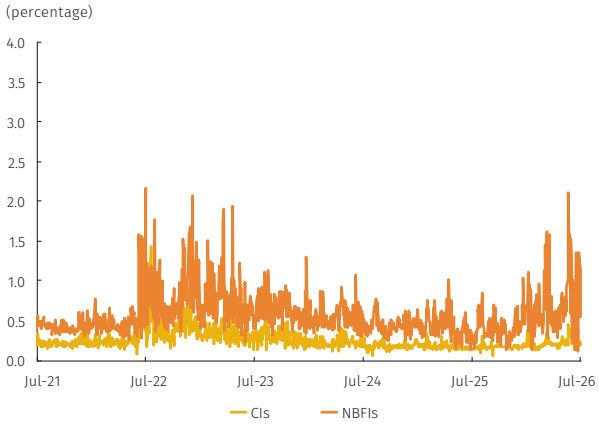


E. Return on Assets (ROA) of General and Life Insurers



a/ The total assets under management by each type of NBFI are considered: i) SBFs: CIFs, ii) TCs: trust companies, social security system resources, CIFs, and voluntary pensions, iii) PFAs: voluntary and mandatory pension funds, and iv) insurance companies: voluntary pensions managed by a single insurance company. Assets under management include financial investments and derivatives, as well as other less-liquid assets (e.g., physical assets). However, custody activities carried out by TCs are not included. As of March 2026, custodied assets reached COP 394.4 t.
Source: Financial Superintendency of Colombia; calculations by *Banco de la República.*

Graph 4.24
95% Value at Risk of the Investment Portfolio of Financial System Institutions



Note: The VaR is estimated using quantile regression on daily returns with ARCH-type errors (Q-ARCH). The estimation uses a rolling 252-day window with a 95% confidence level.
Sources: DCV, Deceval and Precia; calculations by *Banco de la República.*

market risk events[25] by maintaining positions in the spot and futures markets for sovereign debt securities. In turn, NBFIs have shown higher VaR levels, in line with the declines observed in the public debt market, driven by interest rate expectations and levels, fiscal uncertainty, and the impact of the Ministry of Finance's debt issuance decisions on the market. Likewise, NBFIs' VaR was also affected by the volatility observed in the stock market during the first half of the year.

Going forward, CIs could face reductions in their returns, attributable to the increase in the market interest rate structure. In an environment of tighter financial conditions, the intermediation margin of CIs could be affected through several transmission channels. The first depends on the sensitivity of CIs' financial income and expenses to scenarios of higher rates across the entire interest rate structure. The second corresponds to the higher expenses and losses that these entities could potentially incur due to the deterioration in their debtors' creditworthiness under this same scenario. In turn, the third channel would materialize through the devaluation of investment portfolios, which are mainly concentrated in sovereign debt securities (TES). For a more detailed description of these mechanisms, see Box 3.

25 Risk of incurring losses as a result of changes in the prices of financial instruments in which institutions hold investment positions.

Shaded Section 2
Monetary Base and M3

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.

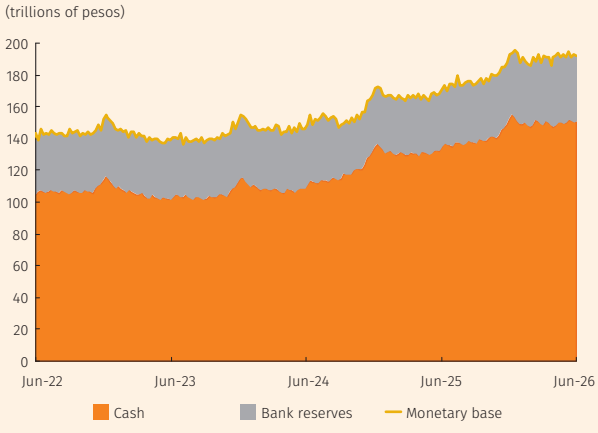
Consequently, the provision or withdrawal of liquidity is not aimed at fixing the money supply in the economy, but rather at ensuring the necessary liquidity conditions so that the short-term interest rate is consistent with achieving the inflation target. The amount of money in circulation is thus determined by public demand, which depends on the MPR and other variables, such as economic activity and the price level. 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 TDCs, among others, issued by financial institutions and which also perform the functions of money as a means of payment and store of value.

During the first half of 2026, growth in the monetary base remained at levels close to those observed on average during much of 2025, while M3 showed greater dynamism than in the previous year. This occurred in an environment of increases in deposit interest rates, higher levels of inflation and inflation expectations, and weaker economic activity compared with the previous year.

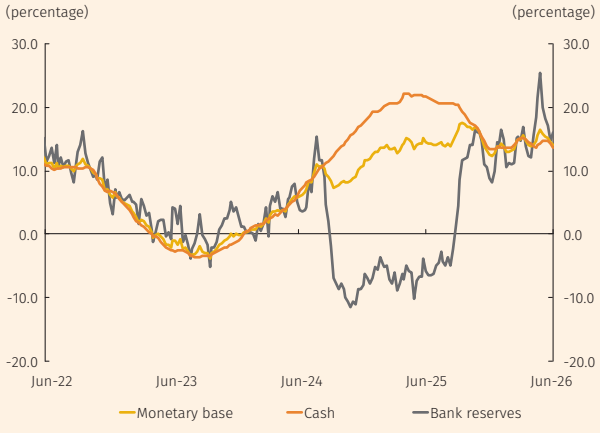
The monetary base maintained an annual variation of close to 14% (Graph S2.1). Cash held by the public, its main component, recorded relatively stable annual growth of around 14%. Bank reserves, on the other hand, increased their annual rate of expansion, due to a higher reserve requirement (driven,

Graph S2.1
Monetary Base, Cash, and Bank Reserves

A. Balance



B. Annual Variation (4-week moving average)



Source: *Banco de la República.*

in turn, by greater demand for deposits) and an increase in the excess reserve requirement.

Banco de la República conducted the relevant operations to ensure an adequate supply of the monetary base, seeking to prevent the interaction between its supply and demand by financial institutions and the public from generating pressures in the money[1] market.

In the first months of the year, the provision of liquidity by *Banrep* required daily expansionary repos at the usual maturities (seven days and *overnight*)[2] and the acceptance of remunerated non-reserve deposits through the liquidity absorption[3] facility. These operations, which the Bank conducts routinely, make it possible to offset the changes generated by other items that lead to an expansion or contraction of the monetary base, to the extent that these differ from demand (Graph S2.2).

In particular, one of the operations that in recent years has constituted a significant source of expansion of the monetary base is the transfer of *Banrep*'s profits to the government. This year, in March, *Banrep* credited COP 10,926 b to the government's deposit account for this purpose[4], and its effect on the monetary base was offset by fewer repo operations. In turn, the balance of the government's deposits at *Banrep* is

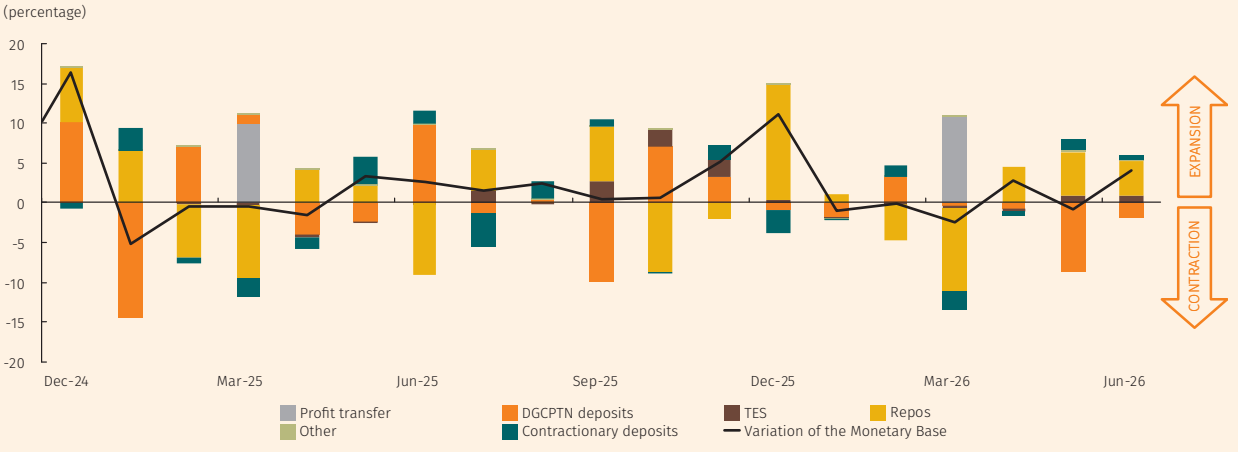
1 On average, the overnight Benchmark Banking Indicator – BBI (IBR in Spanish) stood 1.0 basis points (bp) above the monetary policy rate.

2 So far in 2026, the average balance of expansionary repos with public debt instruments was COP 23,270 b. The average balance of remunerated non-reserve deposits was COP 7,517 b.

3 The liquidity absorption facility allows financial institutions (OMOs Placement Agents [OPA]) to make remunerated non-reserve deposits at *Banco de la República* at the end of the day at an interest rate 100 bp below the monetary policy rate. Similarly, the expansion windows (which also operates daily) allows financial institutions (OMOs Placement Agents) to obtain liquidity through repos with the Bank at the end of the day at an interest rate 100 bp above the monetary policy rate, which is used as the reference rate for repos offered through auction.

4 The payment of 2025 profits to be transferred to the National Government totaled COP 13,855.1 b. The remaining amount of profits (COP 2,928.7 b) were paid with TES from *Banrep*'s portfolio (at market prices), in response to the request made by the Ministry of Finance and Public Credit. See: https://www.banrep.gov.co/es/noticias/banrep-obtuvo-utilidad-2025

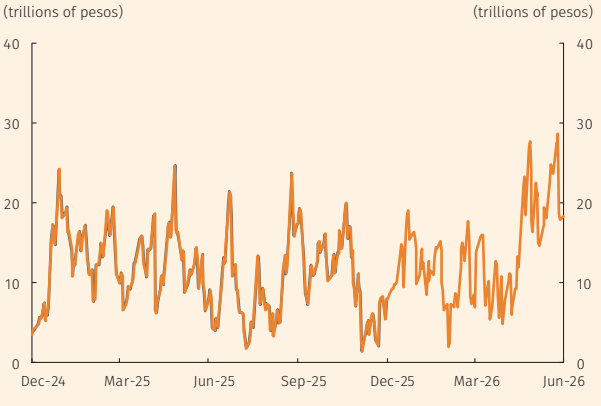
Graph S2.2
Monthly Variation in the Monetary Base by Source



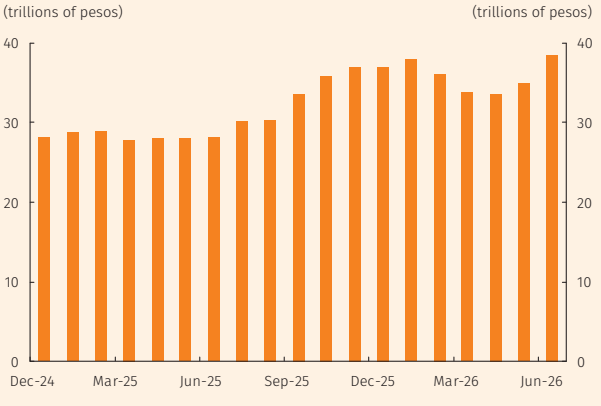
Note: Positive (negative) values indicate an expansion (contraction) of the monetary base. The profit transfer to the National Government considers only the payment credited to the deposit account.
Source: *Banco de la República.*

Graph S2.3
Main Factors Comprising the Supply of the Monetary Basea/

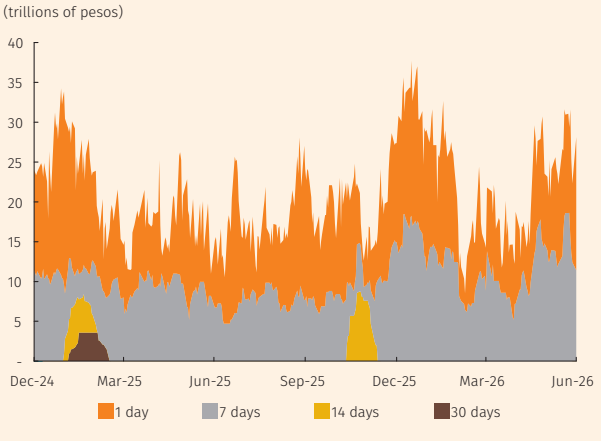
A. Government Deposits in *Banrep*



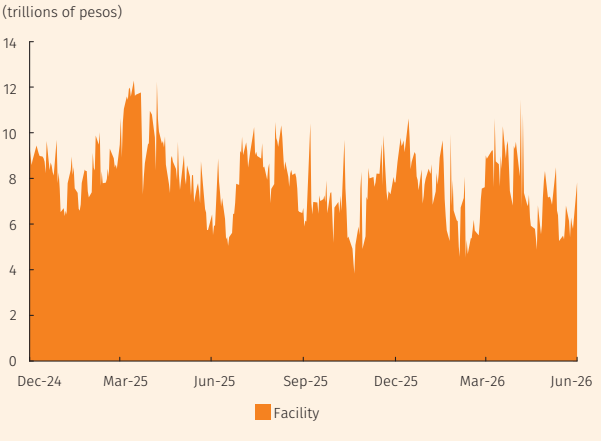
B. Stock of *Banrep*'s TES



C. Stock of Expansionary Repos



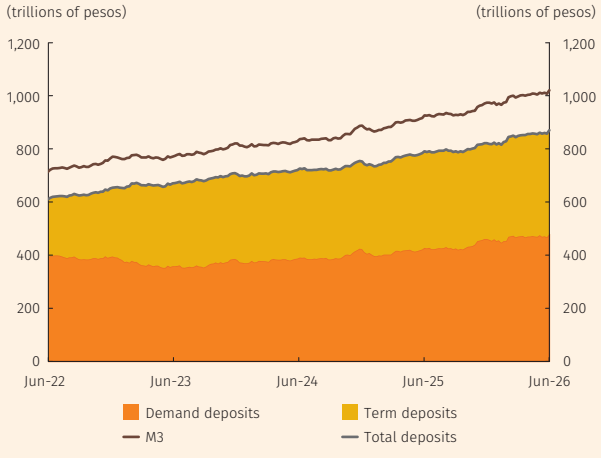
D. Stock of Interest-Bearing Deposits not Constituting Reserve Requirements



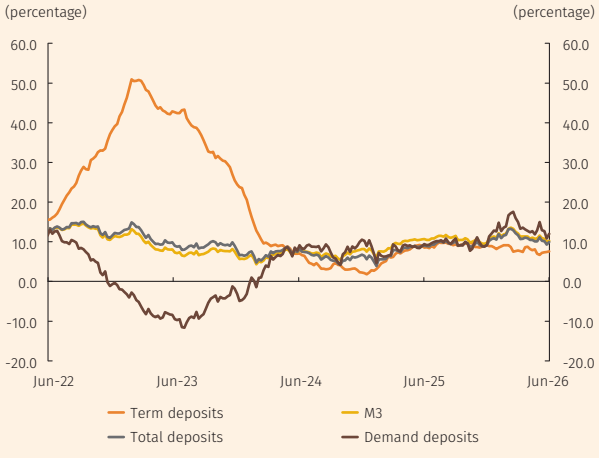
a/ Panel B presents the stock at market prices at the end of the month, while the other panels present daily data.
Source: *Banco de la República.*

Graph S2.4
M3 and its Components
(Stock and annual percentage variation, 4-week average. Data as of Friday)

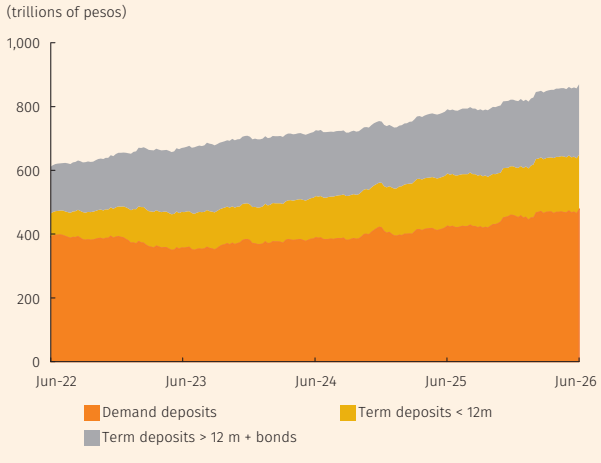
A. Stock



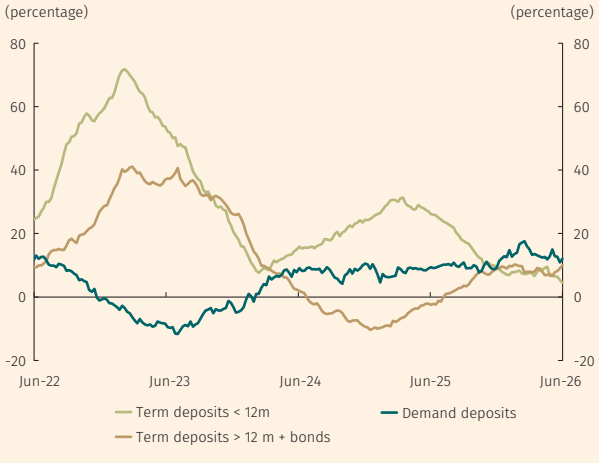
B. Stock Annual Variations



C. Stock



D. Stock Annual Variations



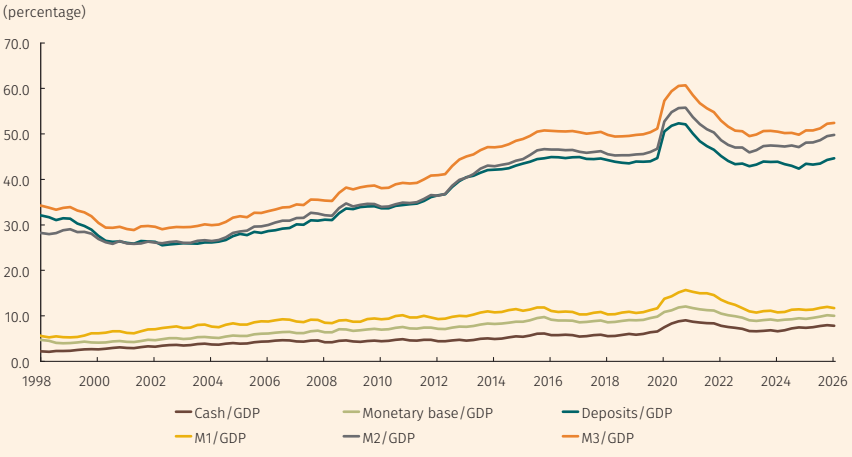
Source: *Banco de la República.*

one of the factors that generates changes in the monetary base in most months and reflects the decisions made by the General Directorate of Public Credit and the National Treasury regarding the Nation's cash position. This balance remained at levels similar to the 2025 average through April and, subsequently, increased (which implies a monetary contraction). *Banrep* therefore complemented the provision of liquidity with purchases of TES in the secondary market in May and June, totaling[5] COP 2,482 b (Graphs S2.2 and S2.3). Finally, during the period under analysis, *Banrep* did not conduct any foreign exchange[6] market operations.

5 See https://www.banrep.gov.co/es/noticias/compras-ventas-divisas-tes-portafolio-mayo-2026 and https://www.banrep.gov.co/es/noticias/compras-ventas-divisas-tes-portafolio-junio-2026

6 Foreign reserves measured in U.S. dollars increased during the period under analysis, mainly due to the return earned on the investment portfolio managed by *Banco de la República*. For a detailed analysis of the evolution of foreign reserves and the factors explaining their variation, see Chapter 5 of this *Report*.

Graph S2.5.
Monetary Base, Cash, Deposits, and Monetary Aggregates as a Percentage of GDP[a/]



a/ Nominal GDP for June 2026, obtained using the real GDP forecast from the April Monetary Policy Report.
Source: *Banco de la República.*

Regarding the broad monetary aggregate (M3)[7] its annual growth remained relatively stable during the first half of 2026 (except for a few weeks in February and March), reflecting the performance of deposits and cash. At the end of June, annual variations stood at 10.3% for M3 and 10% for total deposits, figures slightly higher than those recorded on average at the end of 2025. In turn, for cash, a growth of 11.9% was observed, a figure lower than that observed on average in the previous year.

Deposit growth, the main component of M3, was driven by demand liabilities, particularly savings deposits. For TDCs and bonds (term liabilities), the recovery was consolidated for those with maturities of more than twelve months, with increases in their annual growth rates. In contrast, TDCs with maturities of less than one year decelerated (Graph S2.4).

Relative to GDP and based on information as of June, monetary aggregates showed some increases compared with the levels observed the previous year. These increases were more pronounced for broad monetary aggregates, reflecting the performance of deposits (Graph S2.5).

7 The M3 monetary aggregate comprises cash held by the public and assets issued by credit institutions that perform the functions of money, insofar as they can be used to make payments in legal tender (such as current accounts or savings accounts), or for saving purposes in instruments whose nominal value is highly certain and that can be converted into liquid means of payment (such as TDCs). In Colombia, M1 includes cash held by the public and current accounts; M2 includes M1, savings accounts, and TDCs; and M3 includes M2 plus bonds, fiduciary deposits (collection services), and other demand deposits.

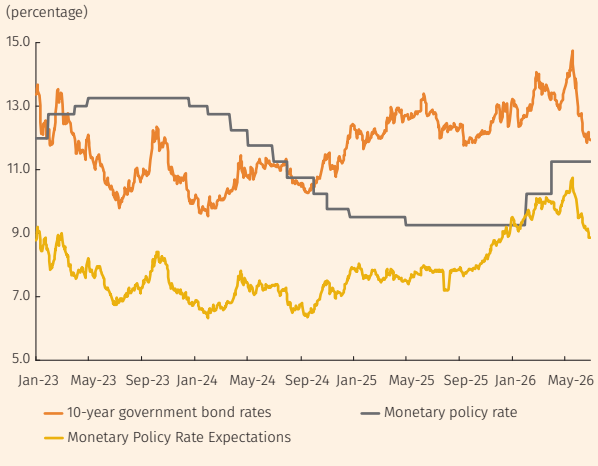
Box 2
Dynamics of the Monetary Policy Interest Rate and the Main Long-Term Interest Rates in the Economy

In Colombia, interest rates play a fundamental role in the economy, access to credit, and the fiscal soundness of the Central Government. The Board of Directors of *Banco de la República* is responsible for determining the monetary policy interest rate (MPR), which corresponds to the economy's overnight reference interest rate and generally guides the performance of other market interest rates.

Other highly relevant interest rates are those paid by the government to access financing through the issuance of bonds. The public debt market, through the trading of these bonds, determines the cost of acquiring debt for the Central Government at different maturities. In these markets, factors such as the level of debt, the soundness of public finances and the risk of default are key to determining the level of interest rates. Participants in these markets include credit institutions, which, in addition to investing in these bonds, can extend loans to the public at different maturities, a function in which reference interest rates, as well as those of alternative investments, play a fundamental role in making credit allocation decisions.

In this context, it is essential to analyze the dynamics of interest rates on public debt instruments together with other market interest rates, rather than in isolation, given that their performance may be related to or affect instruments traded at similar maturities. For example, interest rates on short-term securities tend to be more closely related to the performance of the monetary policy interest rate, while interest rates on long-term bonds may affect mortgage credit interest rates, since, if they are sufficiently high, these two instruments could be seen as substitutes when making investment decisions.

Graph B2.1
Ten-Year Government Bond Interest Rates and Observed and Expected Banco de la República Policy Interest Rates



Source: *Banco de la República.*

Short-Term Interest Rates

In Colombia, the MPR, or benchmark rate, is the main tool used by the Board of Directors of *Banco de la República* to intervene in the money market. Since the intervention rate corresponds to the minimum interest rate *Banco de la República* charges financial institutions for providing liquidity, changes in the level of this rate affect short-term interest rates, and over time, these affect the level of deposit and lending interest rates offered to the public.

Until a few months ago, the performance of the MPR had a certain relationship with the price of public debt bonds (Graph B2.1). However, since 2024, this performance has changed, as other macroeconomic variables have gained relevance in explaining increases in interest rates in this market. For example, between December 2023 and October 2024, both the MPR and the mortgage credit market interest rate showed simultaneous downward trends; whereas between October 2025 and February 2026, an upward trend can be observed in ten-year public debt interest rates and mortgage credit interest

rates, despite stability in the MPR. This phenomenon is mainly explained by: 1) a greater influence of the government's fiscal performance (among other factors), and 2) a higher level of debt in the market.

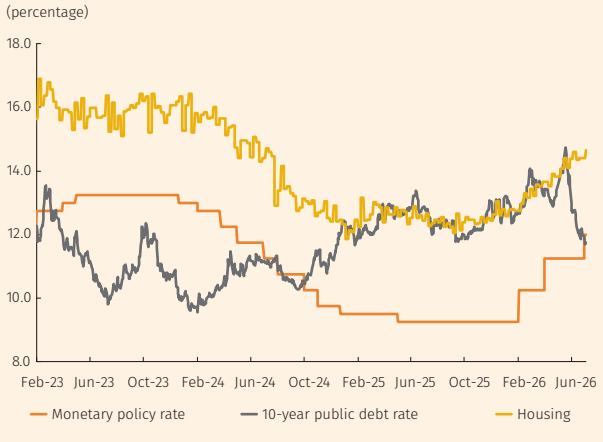
The interest rate at which public debt bonds are traded can be characterized by two main components: first, the interest rate at which investors would be willing to purchase public bonds if there were no risks of default or unforeseen changes in their prices. The second component corresponds to the additional compensation that buyers of public bonds demand for assuming risks related to public debt. The first component is generally associated with the MPR, given its nature as the reference interest rate in the economy. This factor also includes expectations regarding the monetary policy rate and surprises in decisions regarding this rate. The second component corresponds to the additional compensation that buyers demand for assuming risks, which depends on the financial soundness of the government (generally measured through the fiscal deficit), as well as other risk components that affect the ability to pay these bonds. Consequently, if investors perceive a greater deterioration in public finances, they will demand greater compensation for purchasing riskier bonds.

Before 2024, the public debt interest rate in Colombia was determined to a greater extent by the first component; that is, its movements and trend were related to monetary policy decisions. However, since early 2024, an increase has been observed in the contribution of the component associated with compensation for default risks in Colombia, which has caused the public debt interest rate to diverge from the performance of the MPR.

Long-Term Interest Rates

The upward movement in public debt interest rates has important effects on the economy. First, it increases the cost of servicing the Central Government's debt, increasing the future fiscal deficit through higher interest payments. On the other hand, this increase may affect long-term loan interest rates, and consequently, other sectors of the economy. For example, the significant increase in the interest rate on ten-year public debt between early 2024 and May 2026 brough it to levels similar to those of mortgage loans, causing credit institutions to set similar compensation levels for these loans in order to maintain their supply.

Graph B2.2
Nominal Interest Rate



Source: *Banco de la República.*

Thus, it can be seen that, during 2023 and 2024, the mortgage interest rate declined, in line with the performance observed for the MPR during that period and without being influenced by the interest rate on long-term bonds. However, since late 2024, the upward movement in the interest rate on ten-year public debt caused it to exceed the level of the mortgage credit interest rate, which has since closely followed the performance of the former, rather than that of the central bank's benchmark rate (Graph B2.2).

This decoupling of the mortgage credit interest rate from *Banco de la República's* benchmark rate has significant effects on the public seeking to obtain a housing loan, as higher interest rates charged by lenders make credit more expensive for these borrowers to access and could even limit their access to it.

The April 2026 *Monetary Policy Report* included an econometric exercise aimed at explaining the performance of the mortgage credit interest rate through movements in the MPR and the public debt interest rate. This exercise found that, between January 2003 and December

2024, both the MPR and the public debt rate maintained a significant relationship with the interest rate on mortgage[1] loans (Table B2.1).

Table B2.1.
Results of Simple Regressions of the Mortgage Interest Rate on Banco de la República's Policy Interest Rate and the 10-Year Public Debt Interest Rate[a/]

	Regression 1 January 2003 to December 2024	Regression 2 January 2025 to March 2026
Estimate	OLS	OLS
Sample	2003:01 - 2024:12	2025:1 - 2026:03
Banrep's policy interest rate	0.25***	0.04
	(0.03)	(0.26)
10-year public debt rate	0.77***	0.79***
	(0.04)	(0.19)
F-statistic	505.95	13.67
Adjusted R^2	79.34%	64.41%

a/OLS: stands for ordinary least squares, which is the simplest and most widely used method in econometrics for estimating regressions.
F-statistic: the F-statistic helps determine the degree of association between the independent variables and the dependent variable.
Adjusted R2: indicates the percentage of the variation in the mortgage interest rate explained by the model.
Source: *Banco de la República.*

In contrast, when evaluating the same relationship between January 2025 and March 2026, the MPR shows no significant effects, while the ten-year public interest rate does, and the estimated coefficient is practically the same as that observed in the first period. The regression result for the second period analyzed is consistent with the decoupling between the mortgage credit interest rate and the benchmark rate described above.

Conclusions

Since the end of 2024, a breakdown in the relationship between the monetary policy rate and the interest rate in the public debt market has been observed in Colombia, in contrast to the performance observed in previous years. This breakdown is mainly explained by endogenous macroeconomic phenomena that affect the risk premium demanded by agents when purchasing public debt bonds, mainly due to the increase in the fiscal deficit since late 2024 and the rise in inflation during 2026.

In addition, the higher cost of public debt has led to increases in interest rates in other markets, such as mortgage credit market, in contrast to the effect of the monetary policy rate on these markets before late 2024. With respect to mortgage credits, financial agents have increased the cost of access to credit to make investment in this sector more competitive compared to public debt bonds issued by the National Government, negatively affecting the public's ability to access housing through debt.

1 See: https://repositorio.banrep.gov.co/server/api/core/bitstreams/c5501263-167a-427a-b0e0-4f635b92c4e1/content

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Osorio, D. (2026). Box 5: Recent Shifts in Interest Rate Dynamics in the Colombian Economy, in *Monetary Policy Report*; available at: https://repositorio.banrep.gov.co/server/api/core/bitstreams/c5501263-167a-427a-b0e0-4f635b92c4e1/content

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Box 3
How Can Movements in the Interest Rates Structure Affect the Profitability of Credit Institutions?

In Colombia, credit[1] institutions (CIs) are financial institutions responsible for channeling funds raised from the public toward lending activities and investment operations. In carrying out this financial intermediation function, CIs are exposed to the materialization of various risks, which may be generated or exacerbated by changes in interest rates. For this reason, *Banco de la República* assesses the potential impacts that changes in the structure of interest rates (i.e., short-, medium-, and long-term rates) may have on the profitability and capital soundness of intermediaries through continuous monitoring exercises presented in the *Financial*[2] *Stability Report*. These assess how the materialization of different scenarios could affect the operations of CIs through various transmission channels, enabling the early identification of vulnerabilities. This is essential to prevent stress situations in which severe shocks can erode capital levels and constrain the institutions' intermediation capacity.

This assessment is particularly relevant in the current context, characterized by recent increases in the term structure of interest rates in the economy. Indeed, various local and external macro-financial factors have a differentiated impact across the different maturities of this structure. In the short term, interest rates are influenced mainly by inflationary pressures, movements in the monetary policy rate, and expectations regarding its future path. In the medium- and long-term tranches, changes in global financial conditions have had an impact, with uncertainty associated with geopolitical conflicts prevailing. Interest rates have also been affected to a greater extent by developments in the local[3] fiscal situation.

In this context, a scenario of higher interest rates across the entire interest rate structure could lead to a decline in the net interest of these institutions, that is, the difference between interest income lending and investment activities and expenses associated with the payment of interest on the deposits they manage and financial obligations they owe. This reduction could materialize mainly through three transmission channels. The first depends directly on the sensitivity of each intermediary's financial income and expenses to movements in interest rates in banking intermediation activities. The second corresponds to the higher expenses and losses that these institutions could potentially incur as a result of a deterioration in their debtors' creditworthiness. Finally, the third channel corresponds to the potential decline in the investment portfolio, which, in the case of CIs, is concentrated particularly in public debt instruments (TES).

Therefore, the purpose of this box is to characterize the transmission channels described above and to reference some exercises used to analyze the impacts of an increase in the interest rate structure on the intermediation margin and profitability of credit intermediaries. The results of these analyses suggest that, in aggregate terms, CIs have sufficient capital to absorb hypothetical scenarios in which such risks materialize[4]. However, at the

1 Credit institutions include commercial banks, finance companies, financial corporations, and financial cooperatives.

2 https://www.banrep.gov.co/es/publicaciones-investigaciones/reporte-estabilidad-financiera/historico-reportes

3 A more detailed analysis of these factors and their risk balance is presented in the April 2026 *Monetary Policy Report*, available at: https://www.banrep.gov.co/es/publicaciones-investigaciones/informe-politica-monetaria/abril-2026.

4 See the *Financial Stability Report* (FSR) for the first half of 2026, available at: https://www.banrep.gov.co/es/publicaciones-investigaciones/reporte-estabilidad-financiera/primer-semestre-2026.

individual level, the impact will depend on each CI's exposure to the transmission channels analyzed below, which is determined by the composition of its assets and liabilities.

1. What happens to financial income and expenses when interest rates increase?

In their financial intermediation activities, CIs raise funds from the public through various instruments —such as current and savings accounts, term deposits (such as TDCs), or bond issuance— and allocate them to lending and investment holdings. These assets and liabilities, which summarize the core business of CIs, are recorded in what is known as the banking[5] book. To perform their intermediation function, CIs inherently engage in maturity transformation: they commonly finance themselves with short- and medium-term liabilities, while their assets are allocated to longer-term horizons (loans and investments). This structural asymmetry between the maturities of assets and liabilities exposes CIs' intermediation margin to fluctuations in market interest rates.

In particular, when there is a broad-based increase in interest rate structure, financial expenses tend to adjust at a faster pace than income, thereby reducing the intermediation margin. Consequently, the greater the maturity gap, the greater the institution's susceptibility to experiencing declines in its intermediation income. By way of illustration, if a bank funds itself with a six-month deposit at a specific interest rate and uses those funds to extend a one-year loan at a higher fixed interest rate, it initially obtains an intermediation margin equivalent to the difference between the interest it charges on the loan and the interest it must pay on the TDC. However, if market interest rates increase during the first six months, a higher rate will be required when the TDC is renewed, which increases interest payment expenses, while income from the loan remains unchanged. This compresses the institution's intermediation margin and reduces its profitability.

Additionally, the intermediation margin may be affected even when assets and liabilities have similar maturities, if their funding or assets are indexed to different reference interest rates, such as the Benchmark Banking Indicator (IBR). In a scenario of rising interest rates, if the benchmark indicator to which the liability is indexed increases by a greater proportion than that of the asset, the margin is reduced, affecting profitability. The intermediation margin may also be affected by changes in customer behavior in response to new market conditions, as occurs when depositors withdraw their funds early in search of instruments offering higher returns, forcing the CI to replace those sources with more costly funding. In the initial example, this risk could materialize if the depositor who held a six-month TDC has the option of making an early withdrawal and decides to cancel the deposit at the end of the third month to transfer the funds to a TDC issued by another institution that offers a higher interest rate during the remaining period. In this case, although the bank expected to have those funds available for six months, it would only have them for half of the originally expected term. To cover this funding shortfall, it would have to take new deposits at an interest rate higher than that agreed upon in the initial customer's TDC. As a result, the cost of funding would increase, and the intermediation margin would decrease.

Box 1 of the *Financial*[6] *Stability Report* for the first quarter of 2026 presented the results of an exercise reported by CIs to the Financial Superintendency of Colombia, which assesses the sensitivity of the intermediation margin to upward movements in the interest rate structure. As described in the document, most of the institutions analyzed would record a reduction in their intermediation margin, explained by negative maturity mismatches between their assets and liabilities. This occurs because a large share of the funding of the most affected

5 The banking book groups positions associated with the financial intermediation process of CIs, including borrowing operations related to fundraising —through current and savings accounts, term deposits, and bond issuance, among others— as well as lending operations, such as loan disbursements, the maintenance of investments classified as available for sale and held to maturity, among others.

6 For a detailed description of the risk, see Box 1: "Interest Rate Risk in the Banking Book: Current Regulation and Challenges in Higher Interest Rate Scenario," published in the *Financial Stability Report* for the first half of 2026.

institutions consists of deposits that are sensitive to changes in interest rates. The exercise finds that an increase in interest rates is quickly transmitted to the cost of funding, while a significant portion of assets adjusts at a slower pace, which increases the risk and reduces the intermediation margin. However, the analysis concludes that the impact of this shock does not threaten the capital strength of credit intermediaries.

2. What happens to the creditworthiness of households and firms?

The main source of income for CIs is the interest they charge their debtors in exchange for the funds they lend to them. This income depends crucially on debtors having sufficient creditworthiness to meet their obligations. However, it may be threatened by sharp increases in delinquency. To mitigate these effects, the Financial Superintendency of Colombia requires institutions to provision the loans they grant, that is, to set aside from their income expected losses associated with the level of risk of each debtor. Thus, granting loans to riskier debtors is associated with a higher level of provisions, which tends to negatively impact the expected income of these institutions.

Among the main determinants of a debtor's level of risk is, precisely, their creditworthiness, which may be affected by changes in their income, increases or decreases in their debt levels, or changes in the payments associated with those loans, which are often affected by interest rates in the economy.

Increases in the interest rate structure are expected to result in higher payments associated with household and corporate loans, which weakens their creditworthiness, increases the perception of risk by credit intermediaries, and potentially leads to deteriorations in the credit ratings that determine the level of provisions these institutions must incur. In this regard, higher interest rates increase institutions' provision expenses, which affects their expected income, reducing their profits.

It is important to mention that the effect of an increase in interest rates on debtors depends on two fundamental factors: the type of interest rate at which their loan is set, and the initial level of these rates prior to the increase. Regarding the former, debtors that tend to experience the largest increases in their financial burden are those with loans tied to variable interest rates, which means that changes in these rates are passed through directly and proportionally to the loans they pay. Firms, which have loans in the commercial loan portfolio, are those with the highest proportion of their loans at variable interest rates. In contrast, debtors whose loans are predominantly set at fixed interest rates (such as households) are less susceptible to changes in their payments when interest rates increase, although they are affected if they need to access new loans or renew existing ones, which tends to occur, for example, with products such as credit cards or revolving loans.

On the other hand, the initial levels of interest rates are important for assessing the effect on the level of credit risk assumed by intermediaries: from this perspective, it is riskier for debtors to face increases in their interest rates when these are already at high levels and result in high payments as a percentage of the debtor's income, compared with situations in which increases occur when firms and households have a low financial burden, in which additional payments are easier to meet.

These risk channels are assessed by the technical staff of *Banco de la República* as part of the stress test conducted for the *Financial Stability Report*, in which the scenarios assessed involve movements in interest rates that affect debtors in the financial system, particularly those with lower creditworthiness. The results show that, although these shocks have effects on intermediaries' incomes, they are limited and do not compromise their capital position or their prudential liquidity indicators, demonstrating the strength of CIs.

3. What happens to the investments held by institutions?

An increase in interest rates can also affect the profitability of CIs through a decline in the value of their investment portfolios. These encompass a wide range of tradable instruments, such as public and private debt bonds (TES), equities, and derivatives, which institutions hold on their balance sheets and are valued at market prices. This mechanism can be illustrated, for example, by considering a hypothetical situation involving increases in interest rates. In such situation, investors demand higher returns to allocate their funds to projects requiring financing. The National Government and other issuers are forced to issue debt at higher interest rates. This generates an immediate adverse effect on the TES that CIs already held in their portfolios, because they offered lower and, therefore, less attractive rates, which results in a decline in their price. Thus, when compared with new issuances, older securities lose competitiveness in the market. Consequently, the interest rate shock reduces the value of CIs' trading portfolios and affects their profitability.

In the recent environment, marked by fiscal and inflationary pressures, the system's exposure to this risk has increased, given that institutions have increased their TES holdings since early 2024 (see Chapter 4 of this *Report*), causing these securities to account for approximately 10.9% of their total assets as of April 2026. In order to estimate the effect of this channel on financial stability, the most recent stress test in the *Financial Stability Report* includes an adverse scenario in which there is an upward shift in the interest rate structure of TES, reflecting declines in the value of the securities across all maturities. The results show that losses from the decline in the value of these investments would account for a significant portion of the decline in CIs' profitability over the period analyzed.

Conclusions

Increases in the interest rate structure could affect the operations of CIs. In particular, CIs may see their profitability and capital base compromised through a decline in their margin, higher provision expenses, and a decline in the value of their investment portfolios. In this regard, from the perspective of financial stability, continuously monitoring these sources of vulnerability affecting the profitability and capital position of CIs is essential in a macro-financial context characterized by high uncertainty and the persistence of factors that could generate upward movements across the interest rate structure. As described throughout the box, these risks are assessed by the technical staff of *Banco de la República* in the *Financial Stability Report* and are considered in the preparation of the stress test. The results show that, in aggregate terms, CIs would maintain sufficient capital levels to withstand the materialization of a hypothetical, adverse, and unlikely scenario involving these transmission mechanisms, but that could affect their short-term profitability. At the individual level, some CIs could experience a greater deterioration in their capital position, depending on their exposure to the materialization of the risks described, as well as on the initial conditions when they enter the stress test.

5. External Balance and Foreign Reserves

5.1 Developments and Outlook of Colombia's Balance of Payments

During the first quarter of 2026, the current account recorded a deficit of USD 1,573 million (m), equivalent to 1.2% of GDP (Table 5.1). This result represented a decrease of USD 91 m (0.3 pp) compared with the deficit recorded a year earlier and reversed the upward trend that this indicator had been showing since the third quarter of 2024. This occurred in a context of higher terms of trade, growth in workers' remittances, and domestic demand that remained dynamic. In turn, the financial account recorded net capital inflows of USD 954 m (0.7% of GDP), a figure that includes an increase in foreign reserves of USD 543 m. These inflows were USD 457 m (0.6 pp of GDP) lower than those recorded a year earlier. Finally, errors and omissions were estimated at USD 619 m.

The reduction in the external imbalance is explained by higher net income from current transfers and a lower trade deficit in goods. The foregoing was partially offset by higher primary income net outflows and the lower trade surplus in services. In particular, the lower current imbalance (USD 91 m) reflected an annual increase of USD 331 m in net income from current transfers, mainly explained by higher workers' remittances. Likewise, the reduction in the trade deficit in goods (USD 159 m), associated with export growth exceeding import growth, contributed to reducing the current imbalance. In contrast, higher net primary income outflows (USD 268 m) and the decrease in the services trade balance surplus (USD 132 m) partially offset this effect.

The decrease in deficit balances in the foreign trade of goods was due to the higher growth of exports, mainly gold, compared with that of external purchases (imports). In turn, the surplus in the balance of services decreased, explained by the higher growth of imports compared with that of exports. Foreign trade in goods recorded a deficit of USD 2,906 m, resulting from exports of USD 13,972 m and imports of USD 16,878 m. The trade deficit in goods was USD 159 m lower than a year ago (USD 3,065 m), as a result of an increase of USD 1,736 m (14.2% annually) in external sales, which exceeded the increase of USD 1,577 m (10.3% annually) in external purchases. The latter were mainly driven by consumer goods (USD 1,239 m; 33.5%), reflecting domestic demand that remained dynamic. In turn, the services trade balance recorded a surplus of USD 406 m, USD 132 m lower than that observed a year earlier, as a result of imports growing at a faster pace than exports. Exports of services increased by USD 544 m, driven by higher sales of traditional services (travel) and modern services (IT), while external purchases of services increased by USD 676 m, largely driven by payments for financial and insurance services.

In the first three months of 2026, a significant recomposition of the goods export basket was observed, due to a greater contribution from external sales of gold, bananas, coal, and industrial products, and to a lower concentration in mining and energy goods. The annual increase in exports of goods (USD 1,736 m; 14.2%)

Table 5.1
Colombia's Balance of Payments

Current Account (millions of dollars)	2025 (p) Jan-Mar	2026 (p) Jan-Mar	Variation (dollars)
Current account (A + B + C)	-1,664	-1,573	91
Percentage of GDP	-1.6%	-1.2%	
A. Goods and services	-2,528	-2,500	28
1. Goods	-3,065	-2,906	159
FOB exports	12,236	13,972	1,736
FOB imports	15,301	16,878	1,577
2. Services	537	406	-132
Exports	4,797	5,342	544
Imports	4,260	4,936	676
B. Factor income	-2,982	-3,251	-268
Profits and interest from direct investment[a/]	-1,063	-1,121	-58
Interest, dividends, and other income[b/]	-1,919	-2,130	-211
C. Current transfers	3,846	4,178	331
Revenues	4,202	4,542	341
Expenses	355	365	9

Financial account Annual flows (millions of dollars)	2025 (p) Jan-Mar	2026 (p) Jan-Mar	Variation (dollars)
Financial account with variation in foreign reserves (A + B + C + D)	-1,410	-954	457
Percentage of GDP	-1.3%	-0.7%	
A. Direct investment (ii-i)	-2,079	-3,436	-1,357
i. Foreign investment in Colombia (FDI)	2,823	3,794	971
Percentage of GDP (FDI)	2.7%	3.0%	
ii. Colombian investment abroad	744	358	-386
B. Loan portfolio investment (1+2)	2,971	-1,533	-4,504
1. Public sector (ii-i)	-1,247	-4,188	-2,941
i. Foreign loan portfolio investment (a+b)	1,026	4,739	
a. International markets (bonds)	-10	3,859	
b. Local market (TES)	1,036	879	
ii. Loan portfolio investment	-221	551	
2. Private sector (ii-i)	4,218	2,655	-1,563
i. Foreign loan portfolio investment (a+b)	181	81	
a. International markets (bonds)	0	0	
b. Local market	181	81	
ii. Loan portfolio investment	4,399	2,736	
C. Other capital flows: public sector + private sector	-2,866	3,472	6,338
D. Reserve assets	564	543	-21
Mistakes and omissions (E and O)	253	619	366
Memo item			
Financial account excluding variation in foreign reserves	-1,974	-1,497	478
Variation of foreign reserves	564	543	

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.*

originated mainly from higher external sales of gold (USD 1,252 m), bananas (USD 289 m), coal (USD 199 m), and industrial products (USD 121 m), especially food products. In particular, the higher value of gold exports was due to increases in both its price (71.3%) and the quantity shipped (33.3%), while the increase of coal exports was driven by the rise in volume (52.9%), partially offset by the decrease in its price (-21.9%). It should be noted that during the first quarter of 2026, the country's terms of trade increased by 3.1% compared to the same period of the previous year, a result explained by the increase in the implicit prices of exports (2.2%) and the decrease in the implicit prices of imports (0.8%).

Higher net income from current transfers is mainly explained by the increase in remittances received from abroad, particularly those sent from Spain and the United States. In the first quarter of 2026, such income amounted to USD 4,178 m, 8.6% (USD 331 m) higher than that recorded a year earlier. Of this amount, workers' remittances totaled USD 3,347 m, with annual growth of 6.9% (USD 216 m), equivalent to 2.6% of quarterly GDP and 12.7% of current income in the balance of payments. This increase was mainly explained by remittances sent from Spain and the United States, which grew by USD 90 m and USD 13 m, respectively. In turn, income from other transfers totaled USD 1,195 m (USD 124 m more), mainly associated with transfers received by government entities and donations from non-residents to residents.

Higher net primary income outflows resulted from higher payments of portfolio investment income and the increase in estimated profits of firms with foreign direct investment (FDI) in the country. These effects were partially offset by the reduction in interest on external loans and higher income from portfolio investment income abroad. The factor income deficit stood at USD 3,251 m, USD 268 m higher than that recorded a year earlier. Outflows under this component increased by USD 293 m, as a result of higher returns on foreign portfolio investment (USD 378 m) and an increase in estimated income for firms with FDI (USD 67 m) —driven by higher profits in oil production, manufacturing, and trade and hotels. This was partially offset by the reduction in interest payments on external loans (USD 155 m). In turn, factor income increased by USD 25 m, reflecting the increase in portfolio investment income abroad (USD 20 m).

During the first quarter of 2026, financing of the external deficit came mainly from foreign portfolio investment, followed by FDI, while external loans and other liabilities recorded net outflows. Foreign capital inflows were estimated at USD 8,346 m, of which foreign portfolio investment accounted for USD 4,819 m (3.8% of quarterly GDP) and foreign direct investment for USD 3,794 m (3.0% of GDP). In contrast, under external loans and other liabilities, the country made net repayments of USD 267 m. Among foreign portfolio investment inflows, net placements of long-term debt securities by the government in international markets, amounting to USD 3,859 m, stand out. The new placements, issued in U.S. dollars (USD), had an average interest rate of 6.0%, with an average maturity of five years.

By 2026, the technical staff of *Banco de la República* projects that the current account deficit would rise to 2.5% of GDP, although it would increase in millions of U.S. dollars. This increase would be associated with dynamic domestic demand, high levels of external debt, and an increase in profits remitted to firms with foreign investment. The larger external imbalance would be explained by the deterioration in factor income and the trade balance of goods and services. In particular,

the increase in external debt interest payments and higher profits remitted abroad by firms with FDI would increase the factor income deficit. In turn, the expected increase in imports would be greater than the growth in income from sales of mining and oil products and tourism services, which would generate an additional widening of the trade deficit. In contrast, although the growth in workers' remittances would moderate, they would account for most of the increase in the current transfers surplus and would help limit a further widening of the external imbalance.

The country would maintain access to external financing in an environment of external interest rates that would remain above their pre-pandemic levels and a risk premium for Colombia that would continue to be above its historical average. FDI would once again become the main source of resources. This would occur as lower investments in oil and mining would be more than offset by higher investments in other sectors, given the outlook for domestic demand and local economic growth to remain dynamic. In turn, both the public and private sectors would contribute to external financing, considering the high fiscal deficit and the current regulations governing pension funds' holdings of assets abroad.

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 adequate control of investment-related risks, ensuring these risks are managed within acceptable parameters and levels. To this end, *Banco de la República*'s[1] Foreign Reserves Committee sets strict limits on exposures to each of the different risks faced by the reserves. To meet the liquidity criterion, the Bank invests foreign reserves in financial 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 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. A country's foreign reserves are also a key factor in the perception of domestic borrowers' creditworthiness to meet their payment obligations, 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

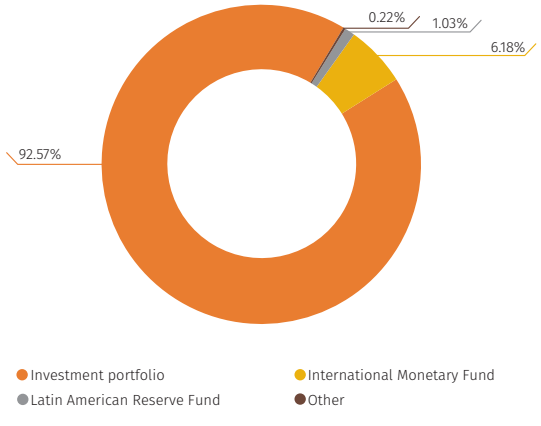
1 The Foreign Reserves Committee comprises the Minister of Finance and Public Credit or his delegate, the full-time members of the Board of Directors, and the Governor.

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 payment of external debt.

During the year, there has been an increase in the level of foreign reserves, which stood at USD 66,957 m at the end of June 2026. This increase was driven by positive returns obtained so far this year. Indeed, net foreign reserves[2] increased by USD 605 m during the first half of the year. The return on foreign reserves so far in 2026, excluding the exchange rate component, was 1.05% (USD 697 m). This result was mainly due to higher interest rate levels, which had a positive impact on the return on foreign reserves through higher interest income from investments. On the other hand, the return on foreign reserves was offset during this period by the decline in the value of investments, following the increase in short-term interest rate levels in the main markets in which the reserves are invested. In addition, the depreciation of other reserve currencies against the U.S. dollar has generated a negative exchange rate effect on the valuation of reserves.

Graph 5.1
Composition of Foreign Reserves[a/]



a/ Information as of 30 June 2026.
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.*

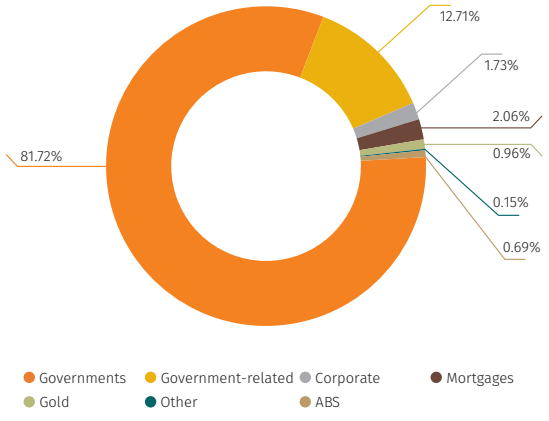
The main component of foreign reserves is the investment portfolio. This corresponds to investments in financial instruments on the international market and certified physical gold (91.67% and 0.90% of reserves, respectively). Graph 5.1 shows the composition of foreign reserves at the end of the first half of 2026.

5.2.1 Reserve Indicators

The various metrics of foreign reserves continue to indicate that Colombia maintains an adequate level to meet its external needs and provide solid backing against potential external shocks. One of the most widely used indicators internationally to assess reserve adequacy is the one proposed by the IMF's

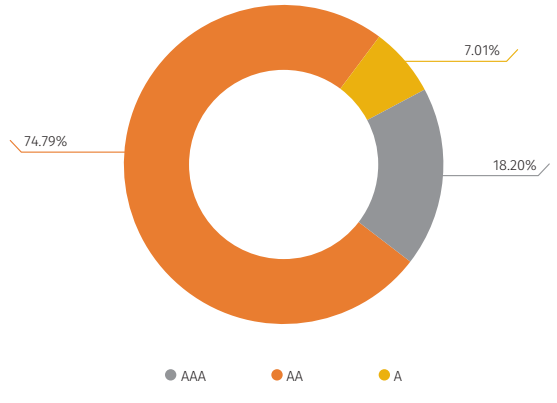
2 Net foreign reserves are equal to total foreign reserves, or gross reserves, minus the short-term external liabilities of *Banco de la República*. The latter consists of demand obligations in foreign currency with non-resident agents. Gross foreign reserves amounted to USD 66,980 m, while short-term external liabilities totaled USD 22 m.

Graph 5.2
Composition of the Investment Portfolio by Sector[a/]



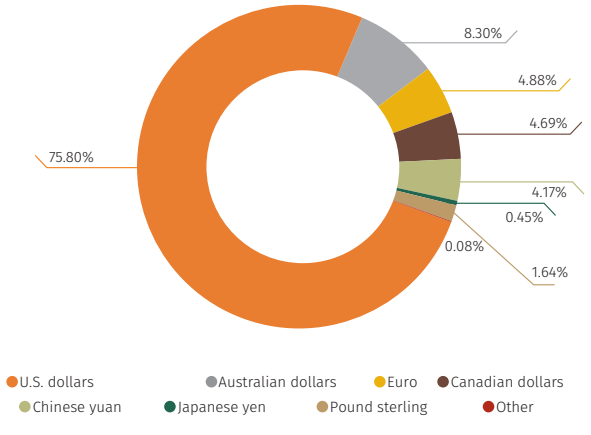
a/ Information as of 30 June 2026
Source: *Banco de la República.*

Graph 5.3
Distribution of Investments by Credit Rating[a/]



a/ Information as of 30 June 2026
Source: *Banco de la República.*

Graph 5.4
Foreign Exchange Composition of the Investment Portfolio[a/]



a/ Information as of 30 June 2026
Source: *Banco de la República.*

Assessing Reserve Adequacy (ARA) methodology. This approach establishes that foreign reserves should be sufficient to cover the main balance of payments risks during episodes of foreign exchange market pressure. This indicator seeks to provide protection against risks associated with the 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 maintain an adequate level of reserves if the ratio of observed reserves to their adequate level (according to the ARA methodology) is within the range of 1.0 to 1.5. Based on the most recent information available, corresponding to May 2026, this ratio for Colombia stands at 1.16.

5.2.2 Composition of the Investment Portfolio

The investment portfolio is primarily composed of securities issued by governments and government-related entities. Graph 5.2 shows the composition of the investment portfolio as of 30 June 2026, when approximately 94.43% was invested in securities issued by such entities.

The composition of the investment portfolio by credit rating reflects the high credit quality of the assets in which the foreign reserves portfolio is invested. Graph 5.3 shows that 18.20% of the portfolio was invested in AAA-rated instruments and 74.79% in AA-rated instruments. The Bank uses as a reference the lowest rating assigned by at least two of the three major credit rating agencies (S&P, Moody's, and Fitch Ratings). In addition to credit ratings, 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 shows the currency composition of the investment portfolio as of 30 June 2026. 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 Korean won.

5.2.3 Return on Reserves

The return of foreign reserves depends mainly on two factors: the account 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 30 June 2026, foreign reserves recorded a positive performance, primarily driven by the interest accrual effect from investments within the portfolio (interest factor). Foreign reserves recorded a return of 1.05%[3] so far this year. Interest rates in the principal markets where foreign reserves are invested remained elevated relative to historical levels, generating a positive return (interest factor) throughout this year. On the other hand, during the first half of 2026, interest rates and government bond yields have shown a general upward trend, reflecting a progressive revision of monetary policy expectations toward a more restrictive stance. This has led to a decline in the value of investments (valuation factor), which has partially offset the positive return. Movements in interest rates were strongly influenced by macroeconomic data, particularly inflation and economic activity reports, as well as by the increase in energy prices associated with the conflict between the United States, Israel, and Iran and disruptions in the Strait of Hormuz, factors that increased inflationary risks. Consequently, both the projections of the central banks in the principal markets in which foreign reserves are invested and investors' expectations shifted toward higher levels of future interest rates.

The outlook for the return on foreign reserves in 2026 remains favorable, particularly regarding interest income appreciation. With international interest rates still at elevated levels, investments in the reserves are expected to continue making a significant contribution through interest income during the year. In most markets, interest rates appear to have reached a point of stability, with no significant pressures toward further cuts or increases. However, unlike what was anticipated at the beginning of the year, both central bank projections and investors' expectations suggest a higher return of additional increases in interest rates or, at least, a prolonged period at high levels. In this context, episodes of declines in portfolio values could occur due to the negative effect that rate increases have on the prices of fixed-income instruments. However, although a rise in rates negatively affects the portfolio's short-term performance, it also increases the yields at which future cash flows are reinvested, strengthening the expected long-term return. Thus, in a scenario of higher rates, the interest component would continue to be a relevant and positive factor for the performance of reserves. Additionally, given the high volatility and uncertainty currently characterizing financial markets, both the magnitude and speed of the expected movements in interest rates are uncertain, as is the ultimate impact on portfolio valuation losses.

3 This return is calculated by dividing the observed return by the average value of net reserves as of 31 December 2025 and 30 June 2026. Since 2015, the exchange rate effects have been excluded from reserve returns.

5.2.4 Measures to Strengthen International Liquidity

***Banco de la República* has access to the Federal Reserve's Repo Facility (FIMA), which servers 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 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 risk. 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.

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 the 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 2026, the BIS renewed these facilities for the Bank for a total of USD 3,150 m, which would only be used exceptionally in the event of extreme market[4] conditions. In this regard, the Bank considers these facilities as precautionary lines that complement the availability of external liquidity from foreign reserves.

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

Shaded Section 3
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, *Banrep* 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."

For 2026, as stipulated at the BIS Annual General Meeting, it was decided to pay a dividend of SDR 390 per share, comprising an ordinary dividend of SDR 315 per share and an additional dividend of SDR 75 per share, which on this occasion is distributed among the members due to the increase in profits during the 2025-2026 period. Thus, following the payment of dividends, the remaining amount of net profit was allocated to the General Reserve Fund, the Special Reserve Fund for Dividends, and the Free Reserve Fund of the institution[2].

In recent months, as usual, *Banco de la República*'s management has participated in the institution's regular meetings, in which recent developments and the outlook for the global economy and financial markets are reviewed. The most recent discussions at meetings of governors from member countries of the BIS have focused on current developments in core inflation and risks to headline inflation, the implications of the conflict in the Middle East for consumption, the impact of supply shocks on potential output, the challenges facing the policy frameworks of emerging market economies, the behavior of stablecoins, competition in retail digital payments, and the risks posed by artificial intelligence (AI) to financial stability.

Likewise, within the scope of the BIS consultative groups that conduct research and analysis in areas such as financial stability, the digital economy, and banking operations, *Banco de la República*'s regular participation in various technical discussion forums is highlighted. In particular, the Bank participated in the meetings of the Consultative Group of Directors of Financial Stability (CGDFS), where topics such as the implications of artificial intelligence for financial stability, developments in the bond market, and the behavior of stablecoins and their main risks were discussed.

The Bank also participated in the meeting of the Consultative Group on Innovation and the Digital Economy (CGIDE), where issues related to instant payment systems, artificial intelligence, stablecoins, and *tokenization* were discussed. The Bank's participation in the Consultative Group on Monetary Policy (CGMP), where the dynamics of capital flows and the exchange rate were analyzed in a context of high geopolitical

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

2 In accordance with the Bylaws, after deducting the dividend payment, 5.0% of the net profit for the 2025-2026 period was transferred to the General Reserve Fund, and the remaining amount was distributed between the Special Dividend Reserve Fund and the Free Reserve Fund.

risk. Finally, the Bank participated in the Consultative Group of Directors of Operations (CGDO), where developments in global markets, the impact of geopolitical shocks, U.S. monetary policy, and the use of AI by central banks were examined.

The 25th BIS Annual Conference[3], which was held in late June of this year in Basel, Switzerland, also stands out. On this occasion, discussions focused on inflation, global risks to markets, digital innovation, and monetary policy in an increasingly fragmented global economy. Additionally, within the framework of the BIS Annual General Meeting, the institution presented its *2026*[4] *Annual Economic Report*, which is divided into three chapters that focus on the risks associated with artificial intelligence, the challenges faced by central banks amid rising public debt and the growing role of non-banking financial institutions and, finally, *tokenization*, stablecoins, and the future of money.

3 The presentations from the 25th BIS Annual Conference are available at the following link: https://www.bis.org/events/conf260626/overview.htm

4 The report is available at the following link: https://www.bis.org/publ/arpdf/ar2026e.htm

6. Financial Situation of *Banco de la República*

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

As of 30 June 2026, *Banco de la República's* (*Banrep*) assets amounted to COP 313,892 billion (b), liabilities to COP 241,899 b, and equity to COP 71,993 b. *Banrep*'s assets decreased compared to the end of 2025, due to the lower balance of net foreign reserves expressed in pesos. This is explained by the appreciation of the Colombian peso against the currencies in which those reserves are invested[2]. In turn, the balance of liabilities increased as a result of higher levels of deposits of the National Government at *Banrep* and the monetary base. Finally, equity decreased due to the lower value of the exchange rate adjustment account and the transfer of profits to the National Government against the 2025 results (Table 6.1).

As of the end of June 2026, assets decreased by COP 16,668 b (-5.0%) so far this year, mainly due to the lower balance of net foreign reserves expressed in pesos. The value in pesos of foreign reserves, which are the main component of assets, decreased by COP 18,902 b (-7.6%), as a result of the appreciation of the Colombian peso against the currencies in which those reserves are invested. It should be noted that, so far this year through June, their balance in U.S. dollars increased[3] (USD 605 m), mainly due to their return (USD 697 m), partially offset by the negative exchange rate differential (USD 71 m) resulting from the appreciation of the U.S. dollar against reserve currencies, except the Australian dollar, the yuan, and the Norwegian krone. This was partially offset by the increase in the balances of the TES portfolio held by *Banrep*, by COP 1,477 b (4.0%), and of expansionary repo operations, by COP 623 b (2.2%). In the case of TES, the increase resulted from portfolio valuation (COP 3,522 b) and purchases of securities (COP 2,482 b), partially offset by the transfer of securities to the National Government as part of the transfer of profits against the 2025 results (COP 2,929 b[4]) and by the maturity of coupons (COP 1,599 b) (Table 6.1).

At the end of the first half of 2026, liabilities increased by COP 10,631 b (4.6%) so far this year, mainly due to a higher balance of National Government deposits at *Banrep*. This last component increased by COP 10,189 b (127.1 %) during the semester. In turn, compared to the end of 2025, at the end of June the balance of the

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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 reserve 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 in this section include the coins in circulation, which are not part of the accounting information in the Bank's Statement of Financial Position; and (3) other reclassifications of lower-value accounts. In this regard, the values of the assets and liabilities presented in this *Report* (COP 313,892 b and COP 241,899 b, respectively) differ from those recorded in the Financial Statements as of 30 June 2026 (COP 320,478 b and COP 248,845 b).

2 Between the end of December 2025 and June 2026, the Colombian peso appreciated by 8.4% against the U.S. dollar, the currency in which most of foreign reserves are invested.

3 See Chapter 5 of this *Report*.

4 In response to the request made by the Ministry of Finance and Public Credit, in March 2026 *Banrep* transferred COP 2,929 b in TES B securities from its monetary portfolio to the National Government (market value) and credited COP 10,926 b to the National Government's account at *Banrep*, as part of the transfer of profits totaling COP 13,855 b against *Banrep*'s 2025 results. See: https://www.banrep.gov.co/es/noticias/banrep-obtuvo-utilidad-2025

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

Accounts	December 2025		June 2026		Variation	
	Stock	Percentage Share	Stock	Percentage Share	Absolute	Percentage
Assets	330,560	100.0	313,892	100.0	-16,668	-5.0
Net foreign reserves	249,291	75.4	230,389	73.4	-18,902	-7.6
Participation in international organizations and entities	9,162	2.8	8,007	2.6	-1,155	-12.6
Investments in TES held by *Banrep*	37,014	11.2	38,491	12.3	1,477	4.0
Expansionary repos	27,915	8.4	28,538	9.1	623	2.2
Other net assets	7,178	2.2	8,467	2.7	1,289	18.0
Liabilities and equity	330,560	100.0	313,892	100.0	-16,668	-5.0
Liabilities	231,268	70.0	241,899	77.1	10,631	4.6
Monetary base	192,515	58.2	195,310	62.2	2,795	1.5
Cash	154,486	46.7	152,152	48.5	-2,334	-1.5
Bank reserves	38,029	11.5	43,158	13.7	5,129	13.5
Interest-bearing deposits not constituting reserve requirements	7,835	2.4	7,826	2.5	-9	-0.1
National Government deposits	8,016	2.4	18,205	5.8	10,189	127.1
Obligations to international organizations	22,792	6.9	20,381	6.5	-2,411	-10.6
Other deposits	110	0.0	176	0.1	66	60.4
Equity	99,292	30.0	71,993	22.9	-27,299	-27.5
Capital	13	0.0	13	0.0	0	0.0
Reserves	744	0.2	744	0.2	0	0.0
Surplus	90,324	27.3	70,316	22.4	-20,008	-22.2
Exchange rate adjustments account[a/]	91,354	27.6	71,309	22.7	-20,046	-21.9
Special Foreign-exchange Account (CEC in Spanish)	453	0.1	453	0.1	0	0.0
Investment in assets for cultural activities	392	0.1	430	0.1	38	9.6
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)	-5,682	-1.7	-3,573	-1.1	2,109	-37.1
Results	13,893	4.2	4,493	1.4	-9,399	-67.7

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 reported 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 313,892 b and COP 241,899 b, respectively) differ from those recorded in the Financial Statements as of 30 June 2026 (COP 320,478 b and COP 248,845 b).
Source: *Banco de la República.*

monetary base was COP 2,795 b (1.5%) higher, due to the behavior of bank reserves, as public demand for cash was lower, as is usual for this balance (Table 6.1).

Finally, equity decreased by COP 27,299 b (-27.5%) during the semester, explained by the negative variation in the exchange adjustment of foreign reserves of COP 20,046 b (-21.9%), and by the transfer of profits to the National Government against the 2025 results, amounting to COP 13,855 b. The decrease in the exchange adjustment account is explained by the appreciation of the Colombian peso against reserve currencies, and is the result of the reduction in the peso balance of foreign reserves[5]. In addition, the result for the first half of 2026 totaled COP 4,493 m (Table 6.1).

6.2 Income Statement (P&L)

6.2.1 Closure as of June 2026

So far in 2026, as of June, *Banrep's* profit amounted to COP 4,493 b, resulting from income of COP 6,281 million and expenses of COP 1,787 b (Table 6.2). Compared to the first half of 2025, profit was COP 3,258 b lower, mainly due to the lower return on foreign reserves, which recorded an annual decrease of COP 3,961 b (-58.3%) as a result of the decline in the value of its portfolio due to the increase in external interest rates[6].

During the first half of 2026, revenues were primarily originated by the return on foreign reserves. For this period, monetary income amounted to COP 5,976 b, and was COP 3,182 b (-34.7%) lower compared to the first half of 2025, mainly due to: 1) the return on foreign reserves recorded in the profit and loss (P&L) of COP 2,838 b[7], with an annual decrease of COP 3,961 b (-58.3%), mainly due to the increase in external[8] interest rates; 2) the return on TES held by *Banrep* of COP 1,975 b, with an annual increase of COP 527 b (36.4%) associated with higher balances and average interest rates[9]; 3) interest income from expansionary repo operations of COP 1,152 b, with an annual increase of COP 249 b (27.6%) as a result of the higher average balance and higher remuneration[10] interest rate, the latter determined by the path of the monetary policy interest rate set by the Bank's Board of Directors; and 4)

5 In addition to fluctuations in the exchange rate of the Colombian peso against the currencies in which foreign reserves are invested, the exchange rate adjustment account also reflects 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).

6 See Box 4 of this *Report* for an explanation of this effect.

7 The total return on foreign reserves observed between January and June 2026 amounted to COP 2,510 b. The return on foreign reserves recorded in the P&L, amounting to COP 2,838 b was obtained by: 1) deducting from total returns the unrealized losses arising from changes in the market price of the portfolio under the passive management mandate, recognized in other comprehensive income (OCI), amounting COP 1,120 b, and 2) including the realization of accumulated losses from previous periods, previously recognized in OCI, amounting to COP 792 b. It should be noted that the total return on foreign reserves in Colombian pesos does not include changes in their balance arising from fluctuations in the exchange rates of the Colombian peso against the currencies in which these reserves are invested. These changes are recorded in the exchange adjustment account under *Banrep*'s equity.

8 See chapter 5 of this *Report*.

9 The higher average balances are mainly the result of purchases of COP 12,481 b made by *Banrep* between July 2025 and June 2026, which were partially offset by the delivery of TES to the National Government in March 2026 for COP 2,929 b as part of the distribution of profits against 2025 results.

10 During the first half of 2026, the remuneration interest rate and the daily volume of expansionary repo balances averaged 10.58% and COP 23,096 b, respectively, compared with 9.45% and COP 20,161 b in the same period of 2025.

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

	Observed to June		Annual variations	
	2025	2026	Absolute	Percentage
I. Total Income (A + B + C)	9,405	6,281	-3,125	-33.2
A. Monetary	9,158	5,976	-3,182	-34.7
1. Interests and yields	9,150	5,965	-3,185	-34.8
Foreign Reserves	6,798	2,838	-3,961	-58.3
TES held by the Bank	1,448	1,975	527	36.4
Expansionary repos	903	1,152	249	27.6
2. Foreign exchange differences	2	6	4	205.8
3. Other monetary income	6	5	-1	-14.1
B. Coins put into circulation Face value of coins put into circulation	126	165	39	31.2
C. Corporate	122	139	17	14.4
Commissions: banking services and trust business	100	112	12	12.4
Other corporate revenues	22	27	5	23.6
II. Total Expenses (A + B + C)	1,654	1,787	133	8.0
A. Monetary	976	1,038	61	6.3
1. Interests and yields	900	977	77	8.6
National Government deposits	550	637	87	15.9
Monetary contractionary deposits	350	340	-10	-2.8
2. Administration and fund management expenses abroad	33	28	-5	-15.5
3. Flexible credit line commitment fee (IMF)	32	0	-32	-100.0
4. Foreign exchange differences	10	32	22	208.0
5. Other monetary expenses	1	1	-0	-6.0
B. Issuance and putting into circulation of banknotes and coins	191	212	21	10.8
C. Corporate	487	538	51	10.5
1. Personnel expenses	300	313	13	4.3
2. Overheads	112	137	25	22.5
3. Other corporate expenses	75	88	13	16.9
III. Results (I - II)	7,751	4,493	-3,258	-42.0

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.*

exchange rate differences of COP 6 b, COP 4 b (205.8%) higher, mainly due to the greater appreciation of the Colombian peso against the U.S. dollar observed at the end of June 2026 compared with the same date in 2025. In turn, income from the face value of metallic coins put into circulation and from *Banrep's* corporate activity totaled COP 165 b and COP 139 b, respectively, with annual variations of COP 39 b (31.2%) and COP 17 b (14.4%) respectively.

Between January and June 2026, expenses were mainly driven by the remuneration of National Government deposits at *Banrep* and contractionary deposits. For this period, monetary expenses amounted to COP 1,038 b, COP 61 b (6.3%) higher than in the first half of 2025, mainly due to: 1) the remuneration of government deposits of COP 637 b, with an annual increase of COP 87 b (15.9%) resulting from

the higher average values of the remuneration interest rate and the balance of deposits observed during the period[11], and (2) the remuneration of contractionary deposits of COP 340 b, with an annual decrease of COP 10 b (-2.8%) due to the lower average balance[12]. In turn, corporate expenses amounted to COP 538 b, with an annual increase of COP 51 b (10.5%), of which personnel expenses totaled COP 313 b, general expenses COP 137 b, and other corporate expenses COP 88 b. Compared with the first half of 2025, the increase in general expenses was mainly attributable to technology projects and services, while the higher personnel expenses resulted from the wage adjustment set by the Collective Bargaining Agreement (6.1%)[13]. Lastly, expenses related to the issuance and putting into circulation of monetary species totaled COP 212 b, with an annual increase of COP 21 b (10.8%), explained by the higher production and putting into circulation of metallic coins.

6.2.2 Projection for 2026

For 2026, a profit of COP 9,194 b is projected, COP 4,699 b lower than that observed in 2025 (Table 6.3). Compared with the previous year, the lower profit expected for 2026 is mainly explained by the reduction in net monetary income of COP 4,242 b (-28.5%), which, in turn, is associated with the decline in the value of investments in foreign reserves resulting from the increase in external interest rates, and by the increase in net corporate expenses of COP 344 b. Net monetary income, which reflects the results of monetary, foreign exchange, and credit policy, the management of foreign reserves, and *Banrep's* role as banker and lender of last resort to credit institutions, would amount to COP 10,637 b for the year and, as mentioned, would be COP 4,242 b lower than in 2025, mainly due to the estimated reduction of COP 5,520 b in income generated by the investment of foreign reserves. In turn, net expenses arising from corporate results and those of the issuing bank would amount to COP 1,142 b and COP 302 b, respectively. It should be recalled that corporate results arise from the Bank's administrative management, while those derived from the Bank's currency-issuing function result from the difference between net income from the face value of metallic coins put into circulation and the costs of issuing and putting into circulation banknotes and coins, including expenses related to their distribution and dissemination.

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, 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[14]. As a reference, in the first half of 2026, interest rates in external debt markets, particularly in the United States, showed volatile

11 In the first half of 2026, the average daily balance of these deposits was COP 12,709 b, remunerated at an interest rate of 10.63%. In the same period of 2025, these values were COP 12,288 b and 9.44 %, respectively.

12 Average remuneration interest rates increased from 8.43% in the first half of 2025 to 9.59% in the same period of 2026. Conversely, for these same periods, the average daily volume of contractionary deposits decreased from COP 8,716 b to COP 7,482 b.

13 The wage increase was based on the annual variation in the CPI in December of the previous year (5.10%) plus one percentage point.

14 The net monetary policy income is the result of the returns on TES held by *Banrep* and income from expansionary repos, less expenses from the remuneration of the National Government's deposits at the Bank and monetary contractionary deposits.

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

	Observed	Projection	Annual variations	
	2025	2026	Absolute	Percentage
I. Total Income (A + B + C)	17,283	13,438	-3,845	-22.2
A. Monetary	16,662	12,842	-3,820	-22.9
Interests and yields	16,650	12,798	-3,852	-23.1
Foreign Reserves	11,894	6,374	-5,520	-46.4
TES held by the Bank	3,029	3,910	880	29.1
Expansionary repos	1,726	2,514	788	45.6
Foreign exchange differences	5	38	33	660.7
Other monetary income	6	5	-2	-25.0
B. Face value of coins put into circulation	342	335	-7	-2.1
C. Corporate	279	261	-18	-6.5
Commissions: banking services and trust business	216	220	4	1.8
Other corporate revenues	63	41	-22	-34.8
II. Total Expenses (A + B + C)	3,390	4,244	854	25.2
A. Monetary	1,782	2,204	422	23.7
Interests and yields	1,623	2,091	468	28.9
National Government deposits	976	1,346	370	37.9
Monetary contractionary deposits	647	745	98	15.2
Administration and fund management expenses abroad	66	69	4	5.3
Flexible credit line commitment fee (IMF)	53	0	-53	-100.0
Foreign exchange differences	40	42	2	5.0
Other monetary expenses	1	2	1	150.1
B. Issuance and putting into circulation of banknotes and coins	532	637	105	19.7
C. Corporate	1,076	1,403	326	30.3
Personnel expenses	592	703	110	18.6
Overheads	246	357	111	45.0
Other corporate expenses	238	336	98	41.2
Flexible budget availability	0	7	7	n.a.
III. Results (I - II)	13,893	9,194	-4,699	-33.8

Source: *Banco de la República.*

dynamics, with an upward trend[15]. In turn, the exchange rate of the peso against reserve currencies showed an unanticipated downward trend. These two developments increased the uncertainty in the projections of returns on foreign reserves expressed in pesos. In addition, so far this year through June, the monetary base grew more than expected, which implied upward revisions to estimates of net monetary[16] policy income.

15 Particularly, the higher interest rates for the two-year U.S. Treasury bond were observed in July 2026.

16 The estimated profit for 2026 projected in the budget approved by the Bank's Board of Directors at the end of 2025 (COP11,271 b) is higher than that projected in this report.

In 2026, *Banrep's* revenues would amount to COP 13,438 b, lower than those recorded in 2025, largely due to the decrease in the return on foreign reserves. Among the income recognized in *Banrep's* P&L, the return on foreign reserves would amount to COP 6,374 b, COP 5,520 b lower than that observed in 2025. On the other hand, returns on TES held by *Banrep* and on expansionary repos would amount to COP 3,910 b and COP 2,514 b, respectively, with annual increases of COP 880 b and COP 788 b[17]. In the case of repos, in 2026, the higher interest income would result from the expected[18] increases in the average balance and average interest rate. Finally, the face value of metallic coins put into circulation, amounting to COP 335 b, and corporate income, amounting to COP 261 b, are estimated to show annual decreases of COP 7 b and COP 18 b, respectively.

On the other hand, in 2026, expenditures are estimated to amount to COP 4,244 b, higher than those observed in 2025, mainly as a result of the higher remuneration of National Government deposits at *Banrep*. In particular, this remuneration would amount to COP 1,346 b, with an annual increase of COP 370 b due to higher average levels of its balance and interest rate, the latter associated with the expected increase in the monetary[19] policy rate. In turn, the remuneration of monetary contractionary deposits would amount to COP 745 b in 2026 and would show an annual increase of COP 98 b, as a result of a higher average interest rate expected for the year. Meanwhile, in 2026, issuance and putting into circulation of banknotes and coins, including expenses related to their distribution and dissemination, are expected to amount to COP 637 b, COP 105 b higher than in 2025 due to the expected increase in demand for banknotes and coins. Finally, corporate expenses are estimated at COP 1,403 b, which implies an annual increase of COP 326 b due to the wage adjustment, the increase in the legal minimum wage, the increase in expenses on technology projects and services, and the provisions established by the Legal Department of *Banrep*, among others.

17 This projection does not include assumptions regarding purchases or sales of TES in the market by *Banrep* during the second half of 2026.

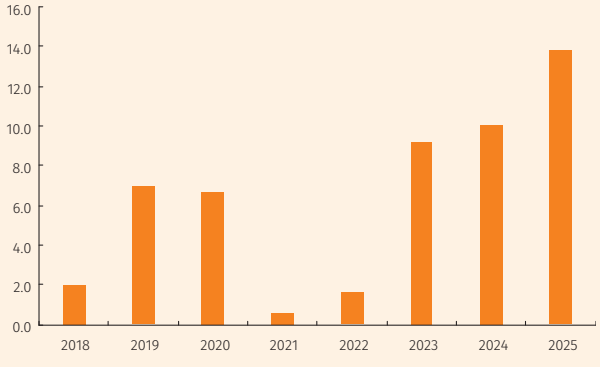
18 The monetary policy interest rate assumption for this projection considers the changes in the median of the monthly survey of economic analysts' expectations conducted by *Banrep* in June 2026, and does not correspond to the position of the Bank's Board of Directors or any of its members.

19 See footnote 18.

Box 4
Foreign Reserves and Banco de la República's Profits

Graph B4.1
Transfer of Banco de la República's Profits to the Government

(trillions of pesos)



Source: *Banco de la República.*

Every year, *Banco de la República* (*Banrep*) generates profits that, by law[1], must be transferred to the government, after deducting the capital reserves established by law. In 2026, *Banrep* transferred approximately COP 13.9 t in profits to the National Government, generated from its operations in 2025. As shown in Graph B4.1, this level of profits is the highest on record and exceeds the high levels reached in 2023 and 2024.

Foreign reserves constitute *Banrep*'s main asset and were one of the key determinants of its financial results in 2025. In a year in which the Bank's profits reached an all-time high, the net income from the managements of foreign reserves amounted to COP 11.9 t, that is, COP 2.5 t more than a year earlier. Thus, of the total profits generated by *Banrep* in 2025, 86% resulted from the management of foreign reserves during the past year. This result was mainly explained by three factors: high interest income, valuation gains of fixed-income portfolios, and a diversified and prudent investment strategy.

Foreign reserves are managed based on the criteria of safety, liquidity, and return. Therefore, a significant proportion of the portfolio is invested in high credit quality fixed-income instruments, mainly issued by governments and entities in advanced economies. Within this conservative framework, returns come primarily from the interest paid on securities and changes in their market prices.

Consequently, the main determinants of foreign reserve returns are: the level of interest rates, which determines coupon income; movements in market yields, which affect bond prices; portfolio duration, which determines the sensitivity of those prices to changes in interest rates; and diversification across currencies, issuers, and instruments, which helps mitigate risks.

In recent years, the global economy has faced an environment of high interest rates for an unusually prolonged period, as central banks responded to inflationary pressures arising from the pandemic and compounded by those of other recent global shocks. This environment has supported higher returns on financial assets, including those in which foreign reserves are invested.

As a result, foreign reserves have performed favorably in recent years, particularly during much of the past year, when foreign rates remained at elevated levels, boosting interest income from investments. Subsequently, sovereign bond yields tended to decline amid expectations of a less restrictive monetary policy. This combination

1 Law 31 of 1992. General Rules for the Issuance of the Bank's Bylaws, Chapter I, Article 27, paragraph 8, subparagraph e), states: "Profits, losses, and transfers to be borne by the National Government. The remainder of *Banco de la República's* profits, once the reserves have been appropriated in the manner provided for in the preceding subparagraph, shall belong to the Nation. Losses for the fiscal year shall be covered by the Nation, provided that they cannot be covered by the reserve established in the preceding subparagraph.

made it possible to capture recurring interest income and valuation gains on fixed-income securities.

1. Interest Received on Investments

Interest income depends on the contractual interest rates of the instruments in which foreign reserves are invested. Following the pandemic, the economy has faced a prolonged period of high interest rates as a result of the aforementioned actions taken by major central banks to contain inflationary pressures. In this environment of persistently high international interest rates, new securities and portfolio reinvestments generate higher coupons, which translates into a stable source of income for *Banrep*. In fact, interest income was the main component of returns on foreign reserves during 2025.

2. Changes in Investment Prices

The second determinant corresponds to changes in the prices of securities. In fixed-income instruments, there is an inverse relationship between interest rates and bond prices: when market interest rates decrease, the value of bonds increases; when rates rise, their prices decrease. This occurs because these instruments pay predetermined cash flows over their term, while market conditions change constantly. As a result, the economic value of these future cash flows adjusts according to the prevailing level of interest rates. For example, if market rates increase from one period to another, the price of existing bonds falls. This is because investors can obtain higher returns by purchasing new bonds issued at higher rates, and therefore will demand a discount to purchase older bonds whose coupons were set when rates were lower. Similarly, if interest rates decrease, previously issued bonds gain value, as their coupons become more attractive relative to new securities available in the market. In that case, investors are willing to pay a higher price for those bonds to obtain relatively higher returns than those offered by new issues[2]. For this reason, interest rate reductions or expectations of a less restrictive monetary policy, as inflationary shocks gradually dissipate, can generate significant valuation gains in reserve portfolios.

Additionally, the duration[3] of the portfolio amplifies or reduces this effect, as it determines the extent to which the valuation of investments will be affected by movements in interest rates. The longer the duration, the greater the sensitivity of the portfolio's value to changes in interest rates. This is because a greater proportion of cash flows is received at later dates, so their present value depends to a greater extent on the discount rate used to value them. Consequently, small changes in interest rates generate more pronounced changes in the price of these instruments. As illustrated in Graph B4.2, the relationship between interest rates and prices is more pronounced for

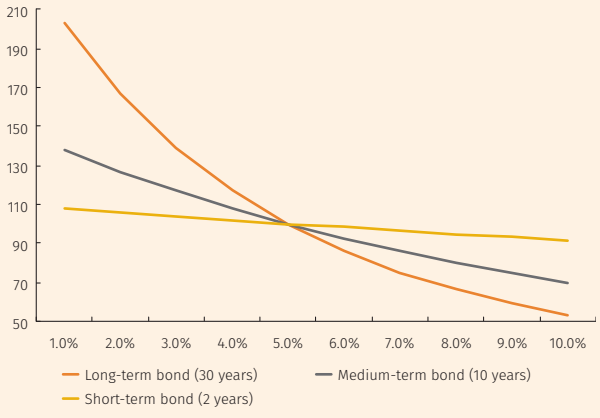
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2 The inverse relationship between a bond's price and the interest rate can also be explained mathematically. The price of a fixed-income instrument is defined as the present value of the cash flows, discounted at a specific interest rate or rate of return, as shown in the following formula, where: P = instrument price; FC = cash flow (coupon rates and principal); i= instrument rate of return; n = number of periods; as follows:

$$P = \frac{FC_1}{(1+i)} + \frac{FC_2}{(1+i)^2} + \cdots \frac{FC_n}{(1+i)^n}$$

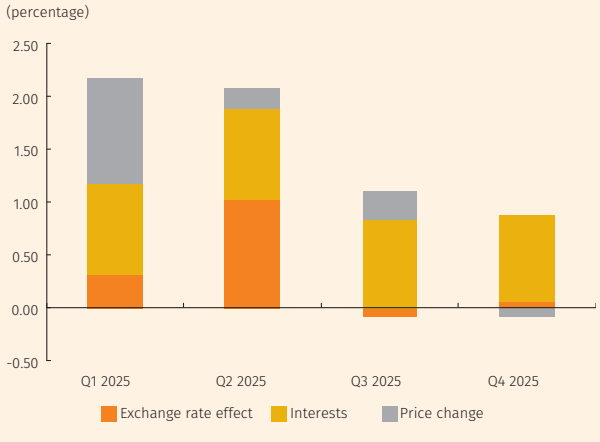
3 The duration of a bond is the average time until the receipt of all the cash flows of that bond; that is, it expresses, in years, how long it will take for the cash flows of that bond to be paid.

Graph B4.2
Duration: Sensitivity of Bond Prices to Changes in Interest Rates



Source: *Banco de la República.*

Graph B4.3
Decomposition of the Return on Foreign Reserves



Source: *Banco de la República.*

longer-term bonds. When interest rates decrease, the price of a long-term bond increases more rapidly than that of medium- or short-term bonds; similarly, when interest rates increase, its price falls more sharply. Intuitively, this occurs because a greater proportion of the economic benefits from these bonds will be received further in the future, making the present value of those cash flows more sensitive to changes in the rate used to discount them.

Therefore, in a scenario of declining yields, a higher duration allows higher valuation gains to be captured. Conversely, it also implies greater potential losses if interest rates rise. The gradual adjustments made in 2023 and 2024 to moderately increase duration allowed foreign reserves to benefit in 2025 from the decline in international yields.

Diversification was also relevant. The distribution of reserves across currencies, issuers, sectors, and instruments helps reduce risk concentration and stabilize returns. In 2025, the depreciation of the U.S. dollar against other reserve currencies increased the value of investments denominated in those currencies, although this effect is mainly recorded in equity accounts and not directly in the income statement.

During 2025, these determinants acted jointly: high international interest rates supported interest income, while the decline in sovereign yields generated valuation gains in fixed-income portfolios. Thus, the two main channels (coupons and prices) contributed to the exceptional performance of foreign reserves and, therefore, to *Banrep*'s profits.

Graph B4.3 shows that the main source of return on foreign reserves during 2025 was interest income, with a positive and stable contribution throughout the year. Valuation gains had a more concentrated contribution, particularly in the first quarter, when expectations of a more accommodative monetary policy stance in the United States increased and U.S. Treasury bond yields declined.

The exchange rate effect contributed positively, mainly in the second quarter, amid the depreciation of the U.S. dollar against other reserve currencies. This performance complemented interest income and valuation gains and highlighted the role of exchange rate diversification as an additional source of portfolio stability.

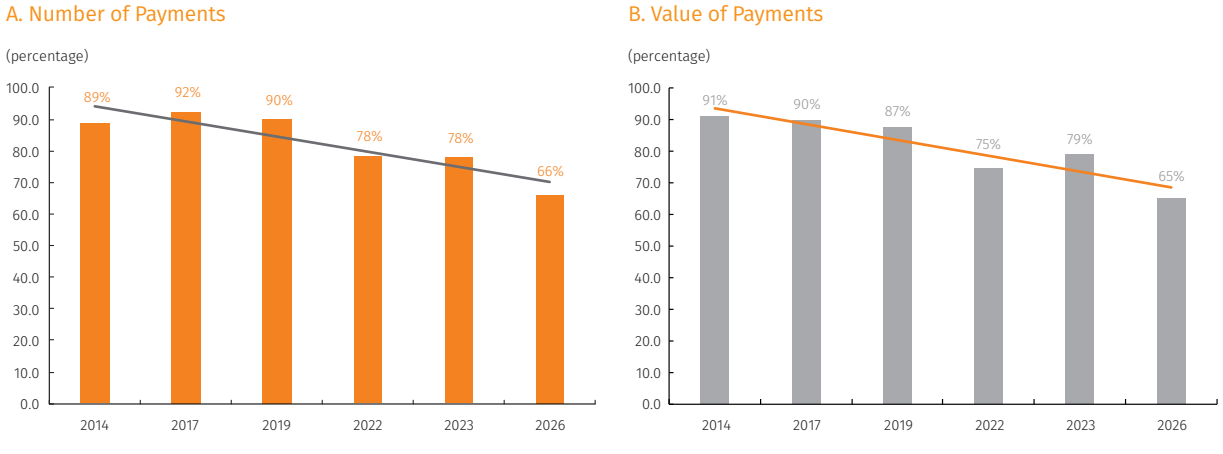
In summary, the performance of foreign reserves in 2025 was explained by the combination of four determinants: high international interest rates, which boosted interest income; declines in market yields, which generated valuation gains; portfolio duration, which made it possible to capture part of this movement; and a diversification strategy that mitigated risks and complemented financial performance. These factors contributed significantly to *Banrep*'s record profits and to the substantial transfer of resources to the National Government.

7. Payments in the Colombian Economy

7.1 Use of Cash and Other Payment Instruments

Over the past twelve years in Colombia, there has been a downward trend in the percentage of the population that makes most of its regular payments with cash. The results of the measurement conducted in 2026 show that cash continues to be the main instrument used by most of the population for their regular payments, such as those for food, beverages, clothing, transportation, housing, utilities, among others[1]. However, its use has been gradually declining. In particular, 66% of the population indicated that cash is the instrument with which they make the largest number of these payments (Graph 7.1, panel A), while 65% indicated that it is the main instrument in terms of the value paid (Graph 7.1, panel B). Nevertheless, these percentages have decreased compared with those observed in 2014, when they stood at 89% in number and 91% in value, which represents reductions of 23 pp and 26 pp, respectively. These results show that, although cash remains relevant, it has been losing relative share as electronic instruments advance. Particularly, wire transfers have become established as the second payment instrument after cash, in line with the growth observed in their transactional activity (Graph 7.2).

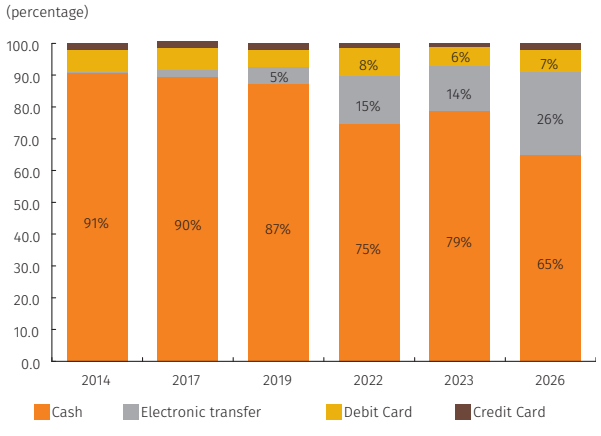
Graph 7.1
Percentage of the Population for Whom Cash is the Main Instrument for their Usual Payments



Source: *Banco de la República* (National Survey on the Provision of Banknotes and Coins and Payment Instruments, 2014–2026).

1 *Banco de la República* conducts the *National Survey on the provision of banknotes and coins and payment instruments* (Epbmip), whose main purpose is to determine the perceptions of individuals (public) and legal entities (merchants) regarding the provision of cash (coins and banknotes) in the economy. This survey includes a module aimed at examining aspects related to the preferences of this population regarding the use of payment instruments (cash, transfers, cards, and checks) when purchasing goods and services on a monthly basis, i.e., payments related to the purchase of food, beverages, clothing, and payments for utilities, as well as transportation and housing. Thus, the data collected in this survey module do not include payments related to luxury goods and services, durable goods, or those generated in the financial asset market (i.e.: payment for household appliances, vehicles, financial obligations other than mortgage loans, or the purchase of stocks or public debt instruments).

Graph 7.2
Percentage of People for Whom each Instrument is the Main Instrument for the Value of their Usual Payments



Source: *Banco de la República* (National Survey on the Provision of Banknotes and Coins and Payment Instruments, 2014–2026).

Electronic retail payments continue to deepen in Colombia. Electronic transfers were the most widely used electronic instrument, driven by the growth of transfers within the same financial institution, mobile wallets, and instant transfers (transfers made through Bre-B). The use of wire transfers has increased in recent years and has become established as the most widely used electronic instrument for retail payments in the country (Graph 7.2). These transfers are divided into traditional and instant transfers. In 2025, traditional transfers recorded an average daily value of COP 20.3 trillion (t) and 17.4 m transactions[2]. Intrabank transfers stand out within this category, that is, those in which the payer and recipient conduct the transaction through the same financial institution. These accounted for 62.9% of the value and 93.6% of the total number of traditional transfers. In turn, mobile wallets, which are part of intra-institutions transfers, reached a value of COP 629.4 b and 9.8 m transactions[3]. By type of user, individuals originated 93% of traditional transfers in number of transactions, while legal entities accounted for 87% of the value transacted. In addition, 77% of transfers made by firms corresponded to amounts exceeding COP 200 m, while 95% of those made by individuals were below COP 50 m. Finally, instant transfers, those made through the Bre-B[4] instant payments ecosystem, recorded a daily average of COP 377,236 m and 2,833,925 transactions. These transactions have experienced significant expansion, with growth of close to 164% in value and 152% in the number of transactions compared with the previous year. Similarly, despite accounting for only 5.0% of the value of traditional interbank transfers, they account for 2.5 times the number of transactions.

2 Traditional transfers include: transfers between financial institutions (inter-institution) processed by Automated Clearing Houses (ACH in Spanish), with deferred multilateral net settlement; transfers between customers of the same financial institution (intra-institution), which do not pass through a retail-value payment system because they are settled within the same institution; and transfers made by customers using the same mobile wallet (intra-institution).

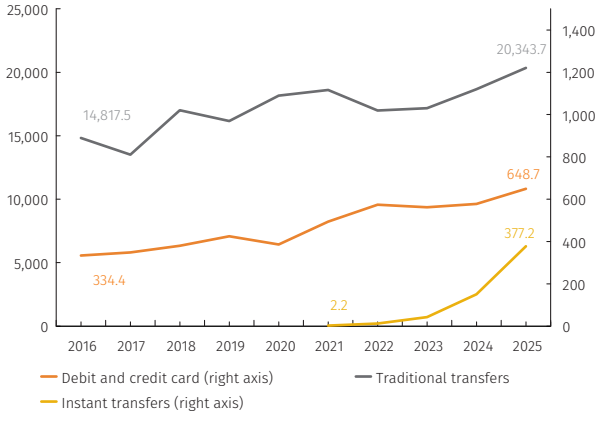
3 Mobile wallets replicate physical wallets in a mobile application that provides different payment instruments. The transactional use of electronic deposit has been implemented mainly through mobile wallets. Electronic deposits were intended to promote electronic payments, transactions, and collections. At the end of 2011, the National Government established electronic deposits offered by credit institutions as demand deposits, different from current and savings accounts, in the name of individuals and legal. With electronic deposits, the need arose to take advantage of technological advances to conduct electronic transactions. Special conditions were established, such as simplified account-opening procedures, limits on their amounts, rules for the use of channels and means of operation, and risk management. Subsequently, with the aim of strengthening access to transactional financial services, Decree 4687 of 2011 and Law 1375 of 2014 created specialized companies for electronic deposits and payments (Sedpes) as new financial institutions.

4 Comprising instant retail-value payment systems, financial institutions (banks, cooperatives, specialized companies for electronic deposits and payments), *Fintechs*, and *Banco de la República*'s new real-time settlement service with the Operational Settlement Mechanism (MOL), among others.

Graph 7.3
Trends in Instrument Usage

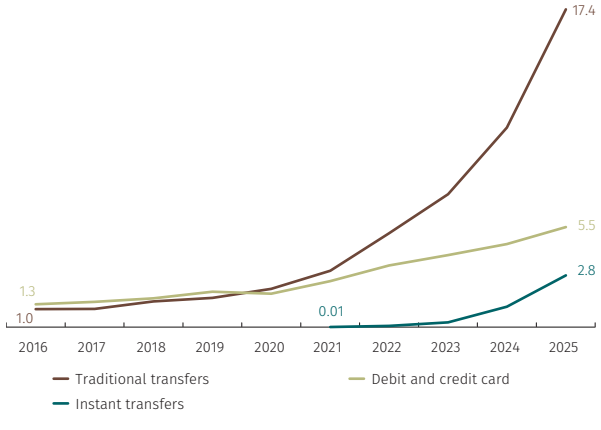
A. Trends in the Use of Payment Instruments (Value), 2025

(billions of 2025 pesos)



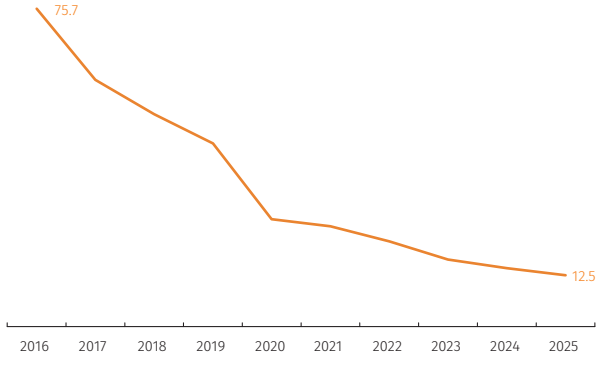
B. Trends in the Use of Payment Instruments

(millions of transactions, daily average)



C. Instrument Trends (Checks)

(thousands of transactions, daily average)



Source: *Banco de la República*, financial institutions (commercial banks, financing companies, and SEDPEs), ACH Colombia, and the Financial Superintendency

Purchases with debit and credit cards maintained an upward trend (Graph 7.3, panel A and panel B), while checks continued to lose share in the number of transactions, although they remain relevant for high-value payments, mainly by legal entities. In 2025, purchases with debit and credit card recorded a daily average of COP 648.7 b and 5.5 m transactions, representing annual real growth of 12.2% in value and 20.7% in the number of transactions (Graph 7.3, panel A and panel B). Individuals accounted for 91% of the value of purchases made with debit cards and 89% of those with credit cards. Most of these transactions corresponded to transactions for amounts of up to COP 1 m (83% for debit cards and 58% for credit cards). In turn, check transactions maintained the downward trend observed over the past ten years. In 2025, the average value of these transactions grew by approximately 4.2% (-0.9% in real terms), from COP 520 b to COP 542 b. At the same time, the average daily number of transactions decreased by 11.7%, from 14,127 transactions in 2024 to 12,480 transactions in 2025 (Graph 7.3, panel C). However, checks continue to be the instrument with the highest average value per transaction, both for legal entities and individuals, with amounts of approximately COP 45 m and COP 35 m, respectively.

7.2 Implementation of Bre-B, Colombia's Interoperable Instant Payment System

With regard to the interoperability of instant payment systems, the implementation and operational launch of the centralized[5] infrastructures required for the operation of Bre-B, the country's instant payment ecosystem, were successfully completed within the deadlines established in the regulations issued by *Banco de la República*[6]. This milestone made it possible to implement the interoperability model defined by the Bank for instant payments in Colombia. The operation of these infrastructures provided the capabilities necessary for existing Instant Retail-Value Payment Systems (SPBVIs in Spanish), as well as those that enter the market in the future, to exchange instant payment orders and fund transfers under common rules and standards. These capabilities include a maximum processing time of twenty seconds per transaction, the use of the "alias" as the identifier of the deposit product, transaction-by-transaction settlement in central bank money, and a unified user experience.

The Centralized Directory (DICE in Spanish) became operational on 14 July 2025, integrating five instant retail-value payment systems and enabling the alias registration service for all users of the 39 entities participating in the financial system. This infrastructure made it possible to consolidate a

5 The centralized infrastructure provided by *Banco de la República* consist of two modules: the Centralized Directory (DICE) and the Operational Settlement Mechanism (MOL).

6 External Regulatory Circular DSP 465, Section 9.

single alias registry, facilitating the process of capturing and validating the information corresponding to the recipient of the instant payment and enabling full interoperability. The launch of DICE represented a fundamental step in creating a simple and common user experience and facilitated the promotion and preparation for the adoption of instant payments.

The Operational Settlement Mechanism (MOL in Spanish) went into production on 6 October 2025, initiating the processing of interoperable instant payment orders and fund transfers. With the MOL going into production, the Bre-B ecosystem began operations, enabling the processing and settlement of person-to-person and person-to-business instant payments, regardless of the entities to which the originating or receiving user is linked. This infrastructure enables the secure, efficient, and real-time settlement of interoperable transactions.

Currently, six instant retail-value payment systems (SPBVIs) are part of the Bre-B ecosystem, comprising 249 participating entities. As of June 2026, there were 169 cooperatives, 26 banks, 23 employee funds, six financing companies, four payment service providers, four Companies Specializes in Electronic Deposits and Payments (SEDPE in Spanish), one trust company, and one stock brokerage firm. The incorporation of new SPBVIs and participating entities reflects the progress and consolidation of the interoperability model promoted by *Banco de la República*. This coverage allows users to make instant payments and transfers between users of different financial institutions. Likewise, the growth of the ecosystem strengthens competition and promotes innovation in the provision of payment services, while expanding access to modern and efficient payment solutions.

The results of the implementation of the Bre-B ecosystem reflect widespread adoption of interoperable instant retail-value payments in the Colombian economy. The Bre-B ecosystem has registered 109 million aliases associated with 35.3 million users, and since the mass rollout of the service in October 2025 to date, 1,108 million transactions have been carried out for a total value of COP 169 t, with an average of COP 153,200 per transaction. The high number of aliases and transactions shows users' confidence in the ecosystem, which promotes the digitalization of payments and the efficiency of the Colombian financial system.

To contribute to the development of Bre-B, *Banco de la República* has been advancing a regulatory and technical work agenda aimed at promoting the scalability of interoperable instant payments. This agenda includes the incorporation of new use cases or payment models, the strengthening of technical standards and the definition of new functionalities for the ecosystem. Similarly, it seeks to facilitate the onboarding of new participants, strengthen operating rules, and contribute to risk prevention. These initiatives would contribute to the deeper use of electronic payment instruments by Colombians and to the digitalization of the economy.

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 risk, 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 30 June 2026, the value of the short-term tranche was USD 38,769 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 to generate a higher return than the benchmark index[3]. At the end of the first half of 2026, the value of the medium-term tranche amounted to USD 22,720 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

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 following section explains the concept and composition of the benchmark index.

3 The External Management 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.

securities in which the short- and medium-term tranches are invested. As of June 2026, the market value of the gold tranche of the reserves amounted to USD 603.7 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 the 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 June 2026, the currency composition of the short-term tranche index was 79% U.S. dollars, 8.0% Australian dollars, 7.0% Canadian dollars, and 6.0% 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 return 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 dollars are allowed.

As of June 2026, the benchmark indices defined for both tranches have a moderate level of market risk, with an effective index duration of 2.93 for the short-term tranche and 2.53 for the medium-term tranche. Graph A1.1 shows the approved benchmark indices for the short- and medium-term tranches[8].

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4 In 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.

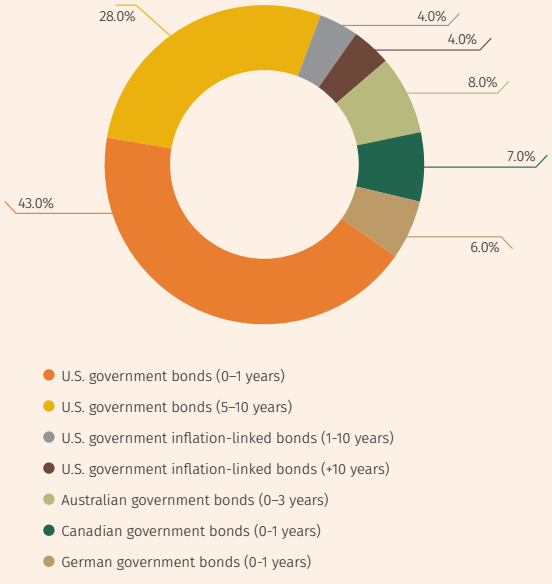
6 The detailed description of the methodology for the construction of the benchmark index can be found in the boxes "Technical Explanation of the Methodology for the Construction of the Benchmark Index," "Market risk constraints in the optimization process," and "Definition of benchmarks indices: incorporation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

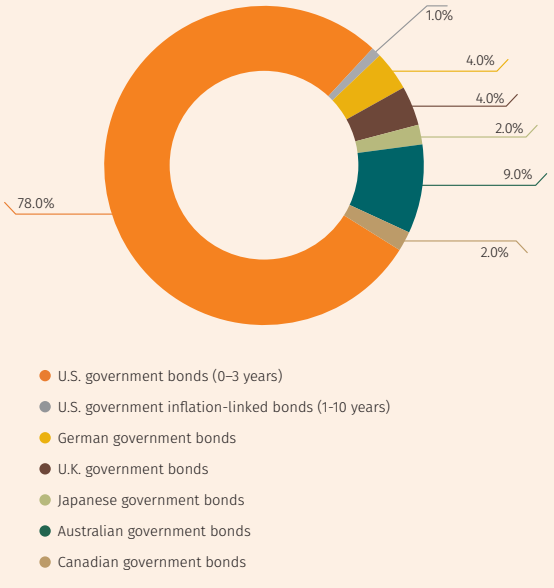
8 The indexes published by ICE Data Indices are used for the different sectors that comprise the benchmark.

Graph A1.1
Composition of the Benchmark Indices in the Short- and Medium-Term Tranches[a/]

A. Short-term Tranche



B. Medium-term Tranche



a/ Information as of 30 June 2026.
Source: *Banco de la República.*

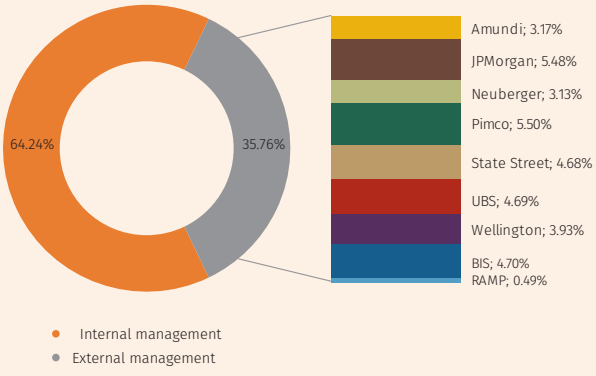
4. External Management Program

Banco de la República directly manages the short-term tranche, a portion of the medium-term tranche, and the gold tranche. The remaining resources of the medium-term tranche are managed by external portfolio managers. At the end of June 2026, the portion of the investment portfolio managed internally amounted to USD 39,888 m (64.24% of the total investment portfolio), while the resources allocated to external portfolio managers amounted to USD 22,204 m (35.76% of the investment portfolio).

The main purpose of using external managers is 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 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 firms 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)

Graph A1.2
Investment Portfolio Composition[a/]



a/ Information as of 30 June 2026.
Source: *Banco de la República.*

Inc., and Wellington Management Company LLP (Graph A1.2). The resources managed by these entities are held in *Banco de la República*'s custody accounts, and the manager's contracts can be terminated when deemed necessary. Investments in funds managed by the Bank for International Settlements (BIS) and the World Bank are also considered part of the external management program. These types of portfolios 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 In the case of the BIS, the Bank currently invests in a fund of securities issued by the Chinese government (USD 2,611.2 m) and a fund of securities issued by non-financial corporations (USD 308.5 m). The World Bank manages a mortgage portfolio (USD 301.4 m) delegated to this entity within the framework of *Banco de la República*'s participation in the Reserves Advisory Management Program (RAMP).

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