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MONETARY **POLICY REPORT**

* Presented by the technical staff to the Board of Directors for its meeting on 31 October 2025.

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Monetary Policy in Colombia

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

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

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

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

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

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

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

4 Formerly known as the Inflation Report.

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

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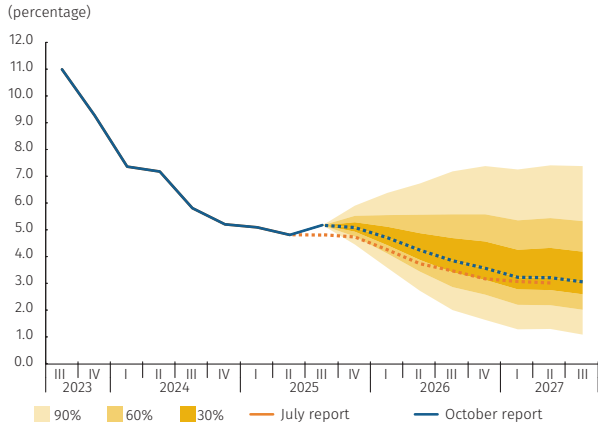
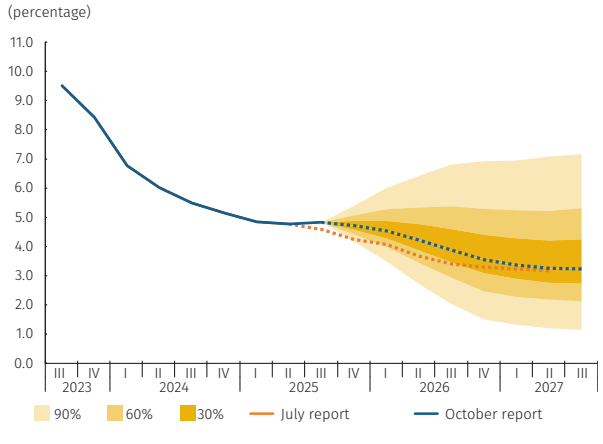
Gross Domestic Product, four quarter accumulation [a/b/c/] (annual change)



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

Graph 1.2
Output gap [a/b/c/] - Predictive Densities (four-quarter accumulation)



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

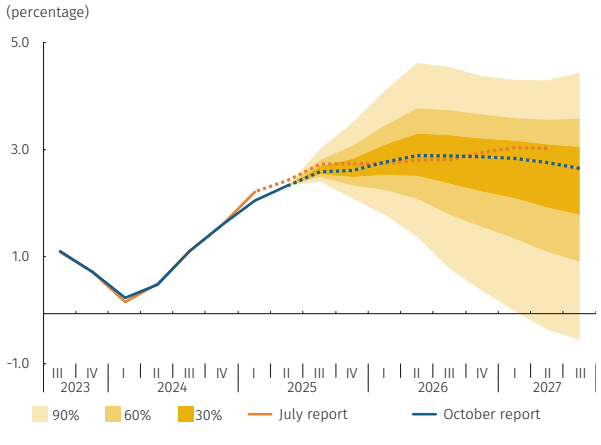
1.1. Macroeconomic Summary

During the third quarter, headline inflation increased (5.2%) while core inflation, which excludes food and regulated items, remained stable (4.8%). Both indicators registered rates above those projected in the July *Report*. As a result, the updated forecast path suggests a slower convergence toward the 3% target. With the exception of regulated items, annual variations in the main CPI groups surprised on the upside against July estimates. The most significant deviation occurred in the food subbasket, driven by a more persistent upward price cycle for perishable foods, increased labor costs, unexpected escalation in international prices for certain foods and fertilizers, and additional supply shocks, amid a backdrop of relatively strong demand. By contrast, regulated prices registered a lower-than-expected annual variation, primarily due to smaller adjustments in electricity services resulting from the higher share of hydroelectric power in generated electricity, as well as regulatory changes in the sector. Upside surprises in services and goods reflected a higher-than-anticipated domestic demand, a slower decrease in the price of rents, the effect of higher food prices on meals away from home, and unexpected increases in the prices of some international goods. Moreover, the observed increase in inflation expectations may be exerting upward pressure on several prices in the consumer basket. Incorporating these surprises into the forecast, headline and core inflation are expected to converge more gradually to the 3% target. As such, year-end 2025, headline inflation is expected to reach 5.1% (previously 4.7%) and core inflation 4.7% (previously 4.2%). In 2026, several CPI groups, including rents, would therefore be indexed to a higher inflation rate. This outcome would occur alongside a somewhat faster reduction in excess productive capacity than estimated in the July *Report*. These upward inflationary pressures would be partially offset by a decline in the price of imported goods, given a lower exchange rate relative to that presumed in July. Thus, by December 2026, headline inflation is projected to reach 3.6% (previously 3.2%), and core inflation 3.5% (previously 3.3%) (Graphs 1.1 and 1.2). Inflation would continue to decrease and converge to the target by the end of the two-year forecast horizon. This downward trend is supported by an expected deceleration in food inflation during 2026, as a result of a high comparison base and the dissipation of supply shocks, along with the cumulative

effects of monetary policy. The latter would be reflected in an output gap projected to remain negative through mid-2026, as well as disinflationary pressures stemming from the exchange rate. These forecasts remain subject to high uncertainty, mainly due to the potential impact of a minimum wage increase in 2026 above observed inflation plus productivity, future behavior of the exchange rate, effects of tariff increases on global trade, supply shocks affecting international food prices, and regulatory provisions related to adjustments in prices of regulated goods and services.

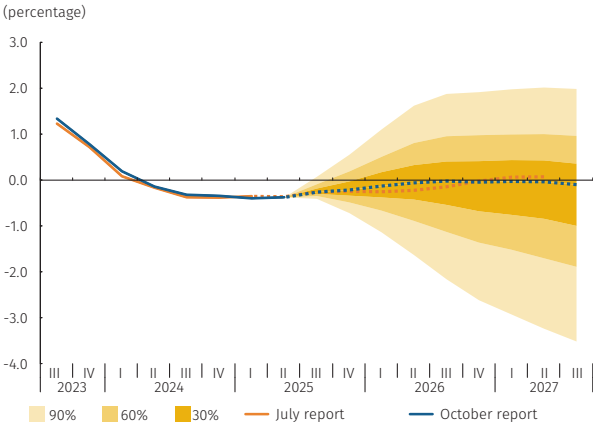
Economic growth for the second quarter of 2025 (2.5%) was broadly in line with the estimate (2.6%), as domestic demand (4.1%) achieved four consecutive quarters of significant annual increases, surpassing those of GDP. Based on updated information, the GDP is expected to grow at 2.6% in 2025 and 2.9% in 2026. As anticipated, domestic demand remained strong in the second quarter, led by private (3.6%) and public consumption (3.9%). Investment also recorded significant annual growth (6.4%), particularly in machinery and equipment, although levels remain low relative to those observed before the pandemic. Conversely, net external demand contributed negatively to GDP growth, as the annual increase in imports (9.5%) outpaced that of exports (0.6%), primarily attributable to lower export volumes of oil and coal. Available data for the third quarter suggest annual GDP growth of 3.0%, with domestic demand expanding 4.4% supported by strong private and public consumption (3.6% and 8.5%, respectively), as well as an acceleration in gross fixed capital formation (4.3%), led by machinery and equipment and civil works. The trade deficit would continue to widen, as imports (7.8%) grew at a higher annual rate than exports (0.2%), reflecting strong private demand and lower export volumes of mining and energy products. For the remainder of the year, several factors are expected to continue supporting household disposable income and spending, including high coffee prices, strong remittance inflows, solid foreign tourism activity, and, in the short term, increases in real wages. Credit is also expected to continue recovering, reinforced by lower real interest rates, historically high employment levels, and a temperance in credit risk, aiding GDP growth. Weakness in oil and coal production and exports is anticipated to continue. In this context, the GDP growth forecast for 2025 was revised to 2.6% (from 2.7%), while the forecast for 2026 remains at 2.9% (Graph 1.3). Robust domestic demand, upside surprises in core inflation, and favorable labor market indicators suggest that excess productive capac-

Graph 1.3
Consumer Price Index [a/b/]
(annual change; end-of-period)



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

Graph 1.4
CPI excluding food and regulated items [a/b/]
(annual change; end-of-period)



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b/ The probability distribution corresponds to the forecast exercise from the October report.
Source: DANE; calculations and projections by *Banco de la República.*

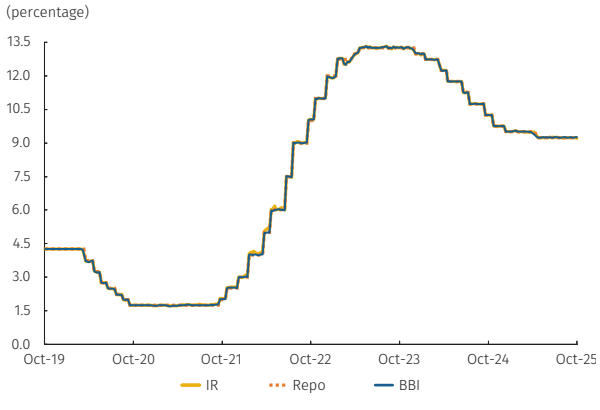
ity could diminish faster than anticipated in July (Graph 1.4). This would occur in an environment of gradually less contractionary domestic monetary policy, which nonetheless remains consistent with supporting inflation convergence toward the 3% target. These forecasts remain subject to substantial uncertainty stemming from external factors, including geopolitical risks, global trade tensions, and financial market reactions to monetary policy in advanced economies, as well as domestic factors, particularly uncertainty surrounding fiscal policy.

Compared to the July *Report*, external financing conditions for Colombia are less restrictive, reflecting lower policy rates in the United States, stronger demand for risk assets, and reduced global trade tensions. However, uncertainty remains high as geopolitical conflicts continue. The growth of external demand relevant to Colombia has exceeded expectations and is forecasted to remain strong through 2026. Terms of trade have improved as prices for imported intermediate and capital goods fell, and prices for commodities such as coffee and gold continue high, partially offsetting weaker mining and energy prices. As expected, in September and October, the US Federal Reserve (Fed) reduced its benchmark rate by 25 basis points at each meeting, setting it to a range of 3.75%–4.0% amid concerns about labor market weakness; nevertheless, with upward revisions to growth and inflation projections for 2026. Current forecasts by the Federal Open Market Committee (FOMC) anticipate two additional cuts in 2025 and one in 2026, without reaching the long-term rate by year-end 2027. Accordingly, this *Report* also forecasts three Fed cuts—one in the remainder of this year and one during 2026. This environment has fostered an appreciation of global equity markets and reduced risk premiums in emerging economies, including Colombia. However, a persistent increase in public debt is expected to continue exerting upward pressure on Colombia's risk premium over the forecast horizon. Uncertainty remains high due to trade tensions, US immigration measures, geopolitical conflicts, and developments regarding Colombia's sovereign risk rating.

Strong domestic demand - growing at a pace well above GDP - together with headline and core inflation that have stabilized at elevated levels, inflation expectations that grew in the third quarter and still surpass the 3% target, and significant inflationary risks over the policy horizon, suggest the restrictive monetary policy stance should continue. Indicators of economic activity for the third quarter point to domestic demand completing more

than a year of annual growth rates well above those of the GDP. The latter has been echoed in a widening of the external deficit as a share of GDP, following an adjustment over the previous two years. In the labor market, the unemployment rate remains at historically low levels, and employment continues to trend upward. Headline and core inflation have surprised to the upside and stabilized at levels well above the target. These developments in economic activity, labor markets, and prices suggest that excess productive capacity could narrow more quickly than estimated in the previous *Report*. Fiscal deterioration has pushed up the economy's neutral interest rate, increasing the country's vulnerability to adverse external financing shocks. Against this backdrop, inflation is expected to converge toward the 3% target more slowly than projected in the July *Report*. Concurrently, inflation expectations for December 2025 and 2026 have increased and remain above 3%. Looking ahead, notable inflationary risks persist related to the minimum wage adjustment, external financial conditions amid fiscal deterioration, and natural gas prices. The prospect of a slower decline in inflation, lower excess productive capacity, and significant upside risks to inflation support maintaining a restrictive monetary policy stance, allowing the disinflation process to continue and a convergence toward the target over the forecast horizon.

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



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

1.2 Monetary Policy Decision

At its September and October 2025 meetings, the Board of Directors of *Banco de la República* (BDBR) decided by majority vote to maintain the monetary policy interest rate at 9.25% (Graph 1.5).

2. Macroeconomic forecasts and risk analysis[1]

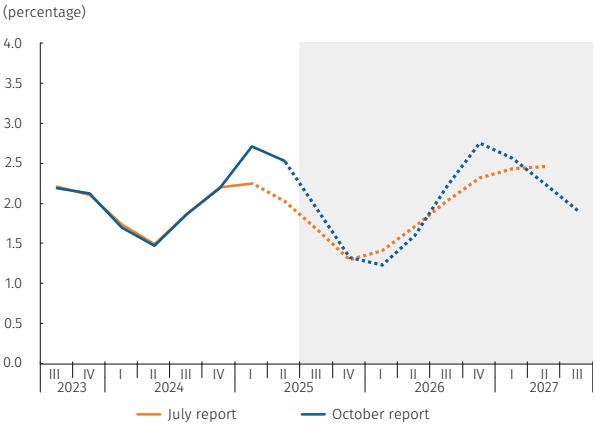
2.1 International outlook

2.1.1 Foreign demand

So far in 2025, the economic performance of some of the country's main trading partners has been better than expected, despite a global environment marked by high commercial and political uncertainty. In the United States, economic activity rebounded significantly in the second quarter, with annualized quarterly growth of 3.8%. However, the recent improvement in private consumption indicators contrasts with mounting concerns about labor market dynamics, given the unfavorable hiring data in recent months. Moreover, the partial federal government shutdown since October 1 has heightened economic and political uncertainty by halting some public services and delaying the release of key statistical information. Regarding Colombia's other trading partners, Ecuador's economy expanded by 3.4% annually in the first quarter, supported by strong consumption and investment amid high remittance inflows.[2] In Mexico, the slowdown has been milder than anticipated, largely due to a positive economic performance in the first half of the year, despite ongoing risks associated with external demand. China recorded solid growth so far this year (5.1% annually in the third quarter), despite heightened trade tensions with the United States.[3] Overall, uncertainty surrounding international trade has eased relative to April, reflecting progress in trade negotiations between the United States and several economies, as well as an effective tariff rate below that previously expected.

In 2025, Colombia's external demand is expected to grow by 2.1% annually and to moderate slightly in 2026 (2%) (Graph 2.1), representing an upward revision relative to the July *Report*. According to the International Monetary Fund (IMF), the global economy is projected to slow from 3.3% in 2024 to 3.2% in 2025—slightly above its previous forecast—and

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



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

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

2 At the time of writing this Report, preliminary figures showed that in the second quarter of 2025, Ecuador's GDP registered an annual growth of 4.3%, far exceeding market expectations.

3 Recently, there has been a new escalation of trade tensions between China and the United States. Beijing expanded controls on strategic exports (rare earths, magnetos) and Washington responded with new 100% tariffs on Chinese imports and critical software controls starting Nov. 1.

to reach 3.1% in 2026, in the context of persistent geopolitical uncertainty and trade tensions. The IMF notes that risks to global growth remain skewed to the downside, reflecting prolonged uncertainty, higher trade barriers, and labor supply disruptions. In this environment, given the better-than-expected figures observed in several economies, the economic activity of Colombia's trading partners is expected to grow by an average of 2.1% in 2025 and 2.0% in 2026, above the projections presented in the previous *Report* (1.8% and 1.9%, respectively). However, these figures remain below the historical average[4] (Table 2.1). Uncertainty surrounding this assumption remains high due to volatility in US–China trade policy, the prolonged US government shutdown, potential deterioration in global consumer and business confidence, and the uncertain effects of higher trade barriers on global inflation.

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

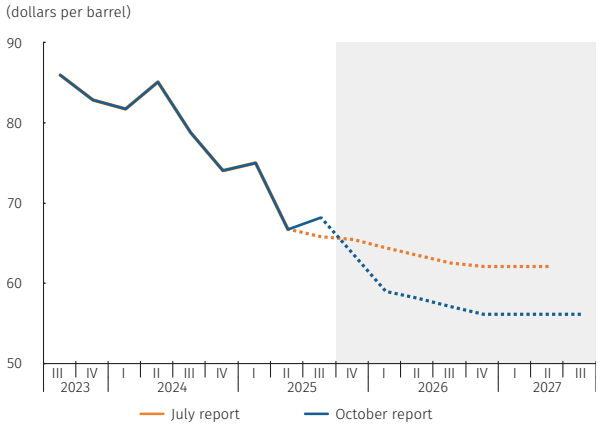
Main partners	2023 (pre)	2024 (proj)	2025 (proy)	2026 (proj)
United States	2.9	2.8	1.7	1.7
Eurozone	0.5	0.8	1.2	1.1
China	5.3	5.0	4.6	4.1
Ecuador	2.0	-2.0	2.5	1.5
Brazil	3.2	3.0	2.0	1.7
Peru	-0.4	3.3	3.0	2.7
Mexico	3.4	1.2	0.5	1.1
Chile	0.6	2.4	2.3	2.1
All trade partners [a/]	2.5	1.8	2.1	2.0

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

2.1.2 International prices

The assumption of a downward trajectory in oil prices over the forecast horizon persists, although the anticipated decline is more gradual than that presented in the previous *Report*. The latter reflects the continued increase in global production and the expected rise in inventories of crude oil and petroleum products among the member countries of the Organization for Economic Cooperation and Development (OECD) (Graph 2.2). In the third quarter, the average Brent benchmark price stood at USD 68 per barrel (bl), below the average observed in the first half of the year (USD 71/bl). This downward trend partly reflects the persistent increase in global supply, driven by the expansion of production in non-Organization of the Petroleum Exporting Countries and its allies (OPEC+)—including the United States, Guyana, Canada, Brazil, Norway, and Argentina. In addition, production has increased in most OPEC+ member countries, led by Saudi Arabia, which reaffirmed its commitment at its most recent meeting to continue the progressive unwinding of a second phase of cuts, amounting to 1.65 million barrels per day.[5] Although global demand for oil and petroleum products is also expected to rise, it is predicted to do so at a slower pace than supply, contributing to a larger accumulation of inventories in OECD member countries. This, in turn,

Graph 2.2
Assumed quarterly oil price



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

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

5 In addition to the twelve OPEC members, its allies (OPEC+) include Azerbaijan, Bahrain, Brunei, Kazakhstan, Russia, Mexico, Malaysia, South Sudan, Sudan, and Oman. During their meeting on October 5, 2025, eight OPEC+ member countries agreed to continue the gradual reversal of cuts in November, applying a new increase of 137,000 barrels per day. This decision is in addition to the increase made in October and is part of the process to gradually undo a total adjustment of 1.65 million barrels per day. The countries warned that these increases could be paused or reversed depending on market conditions.

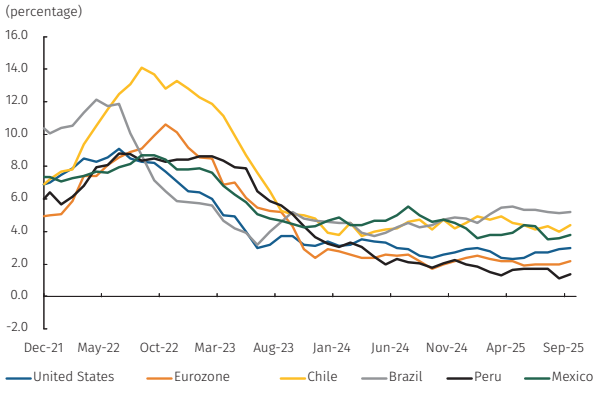
supports the downward revision of prices and the expected declining path over the forecast horizon. Nevertheless, the reduction in production from Iran and Russia, stronger oil demand from China, and elevated geopolitical tensions are factors that could limit the downward pressure on prices and increase market volatility. Taking all these elements into account, the average Brent price is assumed to be close to USD 68/bl in 2025—unchanged from the previous *Report*—and USD 58/bl in 2026 (compared with USD 63 in the July *Report*). Overall, uncertainty surrounding oil prices remains high due to geopolitical conflicts, future OPEC+ decisions, and US trade policies.

Following the rebound expected for 2025, the terms of trade are expected to fall in 2026, consistent with the anticipated behavior of Colombia's main export commodity prices. For 2025 as a whole, the country's terms of trade are estimated to improve above that forecast in the previous *Report*. This outcome reflects higher projected international prices for coffee and gold, along with a fall in the dollar prices of intermediate and capital goods imported by Colombia, which would more than offset the expected reduction in oil and coal prices. However, a decline in the terms of trade is anticipated for 2026, mainly due to the projected decrease in the prices of the country's main mining and energy exports.

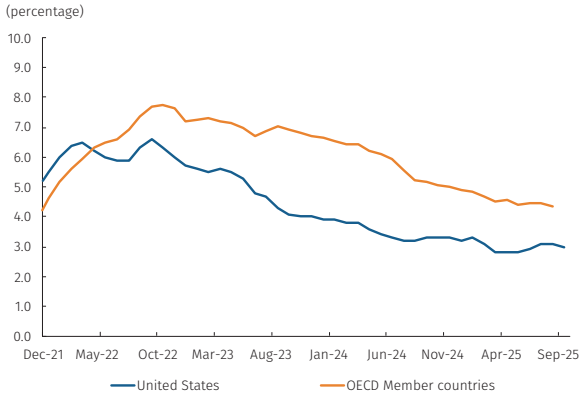
In 2025, inflation is expected to remain above target in several economies, amid increased trade barriers and heightened uncertainty that could intensify price pressures. So far this year, global headline inflation has continued to moderate on average, although with heterogeneous behavior across economies. According to the most recent OECD data, annual headline inflation for member countries stood at 4.1% in August 2025, unchanged from July, while core inflation (excluding food and energy) reached 4.3% annually, slightly below the 4.5% recorded in the previous month. In the same period, food inflation rose to 5.0% (from 4.5% in July), and energy inflation increased to 0.7% (from 0.3%), reflecting occasional pressures on international crude oil and some grains. In the G7 economies, headline inflation reached 2.7% annually in August, slightly higher than in previous months, while in the euro area it remained stable at around 2.0%, close to its inflation target (Graph 2.3). In the United States, annual headline inflation stood at 3.0% in September, after 2.9% in August, while core inflation also registered 3.0%. This outcome reflects annual increases in energy prices, alongside a slight moderation in the goods, food, and services components. For the remainder of the year, inflation is anticipated to remain around 3.0%—above the 2.0% target—in the context of high uncertainty related to trade policy and its effects on prices, still-elevated inflation expectations, and a somewhat milder economic slowdown. In its most recent

Graph 2.3
Inflation, select main trading partners

A. Headline Inflation



B. Inflation excluding food and energy



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

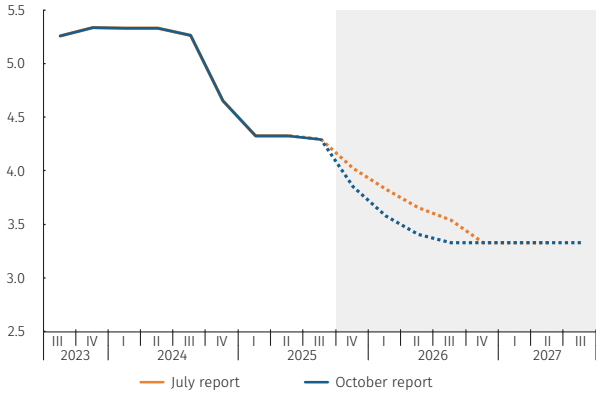
report, the IMF forecasts that global inflation will moderate from 4.9% in 2024 to 4.2% in 2025 and 3.7% in 2026.

2.1.3 International financial developments

This *Report* continues to foresee a gradual reduction in the benchmark rate in the United States, in an environment of high trade uncertainty and a less dynamic labor market (Graph 2.4). As anticipated, at its September meeting the Federal Open Market Committee (FOMC) reduced its policy rate by 25 basis points (bps) for the first time this year, followed by another 25-bps cut in October, placing the target range between 3.75% and 4.0%.[6] These adjustments occurred amid elevated commercial and political uncertainty and a significant weakening in hiring. In September, the median FOMC projections for the policy rate were revised downward relative to the June *Report*, now incorporating three rate cuts in 2025 (two already implemented in September and October and an additional cut projected for year-end) and only one cut in 2026, compared with the two reductions previously expected for each year. Under this new scenario, the policy rate would stand at 3.6% at the end of 2025 and 3.4% at the end of 2026, both levels lower than previously projected. At the same time, the FOMC revised its forecasts upward for economic growth and the personal consumption expenditures (PCE) implicit deflator through the end of 2026.[7] Futures associated with the federal funds rate have declined significantly in recent weeks, reflecting expectations of a less restrictive monetary stance in a backdrop of heightened trade uncertainty and weak hiring data. Thus, futures markets show an implicit path broadly similar to that of the Federal Reserve for 2025, albeit anticipating somewhat lower interest rates thereafter.[8] Considering these developments, this *Report* reduces the assumed path of the US benchmark rate for 2025 and 2026. Specifically, one additional 25 bps cut is incorporated for the remainder of 2025, which would bring the rate to a range between 3.50%

Graph 2.4
Assumed U.S. Federal Reserve quarterly interest rate

(percentage)



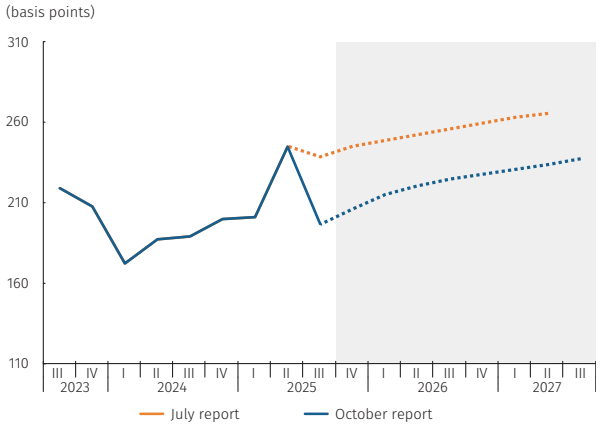
Source: Federal Reserve Bank of Saint Louis; calculations, and projections by *Banco de la República.*

6 On September 11, 2025, the European Central Bank (ECB) kept its policy interest rate unchanged at 2.0% and its refinancing interest rate at 2.15%, consistent with the values reached in June. In its statement, the ECB highlighted the economic resilience of the area in a complex global environment. It revised upwards its projections for headline inflation to 2.1% for 2025 and 1.7% for 2026, while the core component would stand at 2.4% in 2025 and 1.9% in 2026, an estimate similar to the previous Report.

7 In the September 2025 report, the median FOMC projection maintained its estimate for total PCE at 3.0% for 2025 and revised it upwards for 2026 to 2.6% (up from 2.4% in the previous report). The median projection for core PCE remained at 3.0% by the end of 2025 and was revised upward for 2026 to 2.6% (from 2.4% in the previous Report). Finally, the median projection for economic growth was revised upwards from 1.4% to 1.6% by the end of 2025, and from 1.6% to 1.8% by the end of 2026.

8 By the end of 2025 and 2026, and with figures as of October 21, 2025, the futures associated with the Fed's monetary policy interest rate stood at 3.69% and 2.89%, respectively (previously 3.93% and 3.13% taken on July 21).

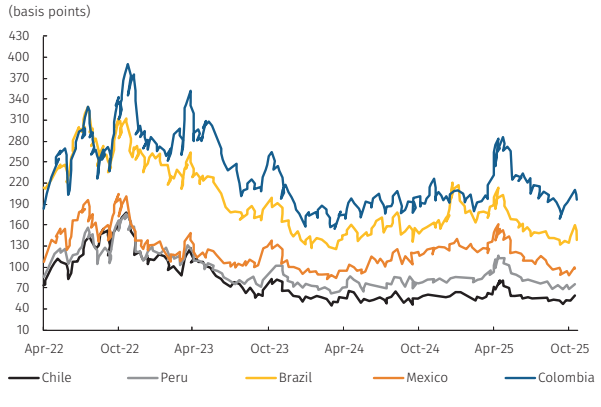
Graph 2.5
Colombia's assumed quarterly risk premium (CDS) a/



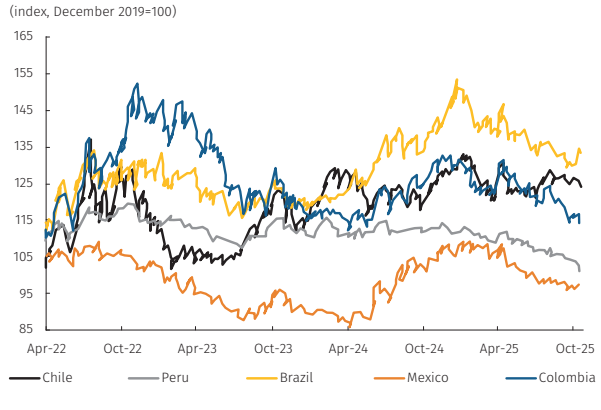
a/ Five-year credit default swaps.
Source: Bloomberg; calculations and projections by *Banco de la República.*

Graph 2.6
Behavior of nominal exchange rate and risk premium for selected Latin American countries

A. Five-year credit default swaps



B. Nominal exchange rate



Note: Data to October 23, 2025.
Source: Bloomberg; calculations by *Banco de la República.*

and 3.75% by year-end, followed by another reduction in 2026, placing the benchmark rate between 3.25% and 3.50% at the end of that period. This assumption is made in an environment of high uncertainty related to price developments, trade restrictions, the fiscal situation, the partial US government shutdown, and risks to economic growth.

The expected path for Colombia's risk premium was revised downward, consistent with the recent performance of the indicator; however, it is still expected to rise over the forecast horizon amid persistent domestic fiscal pressures. (Graph 2.5). Financial conditions in the United States and most of the world improved during the third quarter, marked by a notable reduction in market volatility and credit spreads, together with a moderation in bond yields (Graph 2.6, panel A). These conditions supported greater demand for riskier assets globally and led to increased capital flows toward emerging economies, where equity indices delivered strong performance. Consequently, currencies in the region appreciated across the board against the dollar (Graph 2.6, panel B). In this context, Colombia's five-year credit default swap (CDS) averaged 196 bps in the third quarter, below the 244 bps observed in the second quarter. The forecast anticipates rising public debt and persistent domestic uncertainty, partly due to a challenging fiscal outlook. Against this backdrop, Colombia's new projected five-year CDS path would average 212 bps in 2025—a 20-basis-point reduction relative to the scenario presented in the July *Report*. However, the average is expected to increase to 222 bps in 2026, within a context where, despite the short-term relief provided by favorable international market conditions, domestic fiscal imbalances continue to exert structural pressure that sustains the upward trend in the risk premium over the forecast horizon.

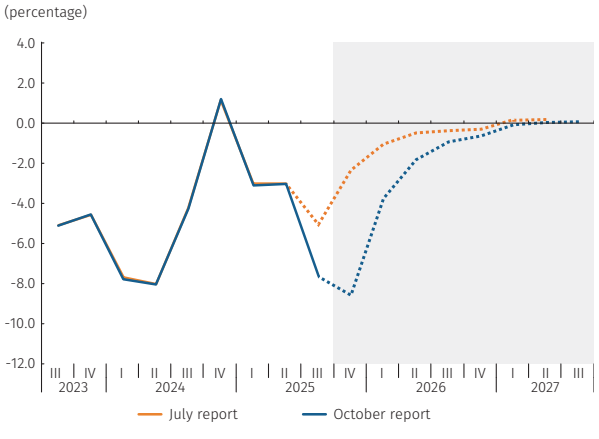
2.2 Macroeconomic projections[9]

2.2.1 Inflation

Following the increase observed in the third quarter, annual consumer inflation is expected to resume its downward trend, albeit with a slower and more gradual convergence path toward the 3% target than projected in the July *Report*. The forecast revision incorporates an output gap that would close more rapidly than previously expected, primarily due to stronger consumption. It also reflects greater inflationary persistence, considering the recent behavior of key components of the services CPI, along with higher external

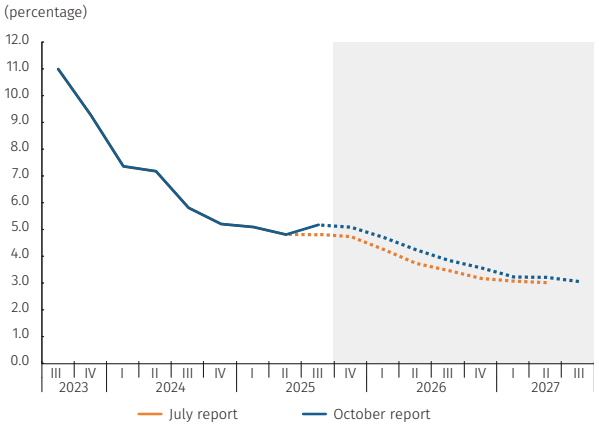
9 Projections are based on an active monetary policy wherein *Banco de la República*'s monetary policy interest rate is adjusted to guarantee alignment with the inflation target.

Graph 2.7
Quarterly RER inflationary gap [a/]
(annual change, end-of-period)



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

Graph 2.8
Consumer Price Index (CPI)
(annual change, end-of-period)



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

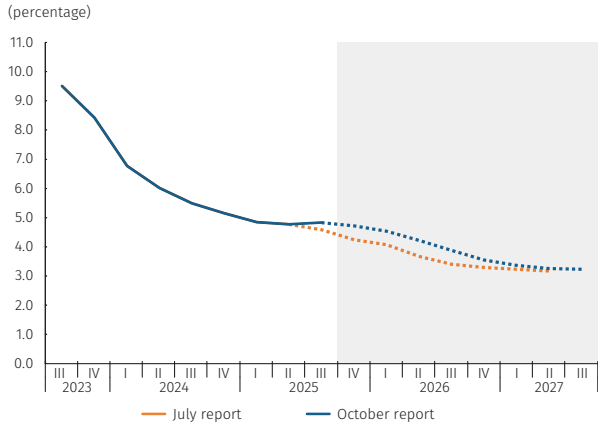
(excluding fuels) and domestic cost pressures or larger pass-through effects on the CPI than anticipated. Added to these factors are higher prices for perishable foods and other temporary supply shocks affecting several sub-baskets. Furthermore, inflation expectations across different horizons are higher than those previously reported, and indexation for 2026 incorporates a higher inflation rate, consistent with the upward revision of the forecast for the end of 2025. Despite this, inflation is still expected to moderate over the forecast horizon as a result of the cumulative effects of monetary policy and the gradual dissipation of various supply shocks, as well as projected declines in international prices of manufactured goods within a context of a more negative real exchange rate gap than in the July *Report*, which would generate disinflationary pressures over much of the forecast horizon (Graph 2.7). Considering all these factors, annual headline inflation is projected to be 5.1% by December 2025 and 3.6% by December 2026 (Graph 2.8), which is above the 4.7% and 3.2% anticipated in the July *Report*, respectively. The forecast assumes that the minimum wage increase for 2026 will not exceed headline inflation plus labor productivity gains.[10] It also assumes neutral weather conditions for food supply and moderate adjustments in electricity and gas tariffs. As in previous *Reports*, this projection remains subject to significant uncertainty and is exposed mainly to upside risks (see Section 2.3), particularly those stemming from wage increases that exceed observed inflation plus productivity growth.

This *Report* continues to anticipate a significant decline in core inflation in 2026 and 2027. However, it is expected to follow a steeper path than initially anticipated in July, due to a less negative output gap and greater indexation to higher inflation rates, among other factors. Annual core inflation—measured as the variation in the CPI excluding food and regulated items—was revised upward partly because of lower estimated excess productive capacity over most of the forecast horizon. Additional factors include higher labor costs (minimum wage increase for 2025, changes in working hours, and surcharges) with a larger-than-expected pass-through to prices, along with specific factors within each sub-basket. For the CPI of goods excluding food and regulated items, the underestimation of recent adjustments may suggest stronger-than-anticipated labor cost pressures and more dynamic consumption. The sharp increase in international gold prices has also contributed to higher inflation in certain low-weight components of the CPI, generating greater upward pressure than expected, despite the appreciation of the peso. Nevertheless, the projected path for goods

10 In particular, the minimum wage increase is supposed to be around 6% by 2026.

inflation still anticipates declines over the forecast horizon, considering the estimated negative real exchange rate gap and lower expected pressures from international manufactured goods prices. These developments would stem, in part, from the increased supply of manufactured goods from Asia to the Colombian market, following the tariff increases imposed by the United States on China. The forecast for services inflation, excluding food and regulated items, was also revised upward, reflecting, in addition to the factors already mentioned, a slower reduction in rent adjustments. This may be partly explained by low new housing sales and strong demand for housing for tourism purposes. The revision also incorporates a higher expected path for food away from home, a component facing higher-than-anticipated food and labor costs. Moreover, inflation for the end of 2025 and 2026 is estimated to be higher and, through indexation mechanisms, leading to upward revisions in the price adjustments of certain services. Nonetheless, services inflation is still expected to decline gradually, supported by a negative output gap that persists during part of the forecast horizon, indexation to lower inflation rates by end-2026, and gradually declining inflation expectations—although still above target. Taking all these factors into account, this *Report* maintains the expectation of a continued decline in core inflation over the next eight quarters, albeit at a slower pace than projected in July. The forecast reflects the cumulative effects of a restrictive monetary policy stance and the expectation that this posture must be supported long enough for inflation to continue converging toward the target. As such, the annual variation of the CPI for goods (excluding food and regulated items) is likely to remain below 3.0% throughout the forecast horizon, while services inflation is projected to continue above that level over the next two years, though on a downward trajectory. Core inflation would thus reach 4.7% by December 2025 (previously 4.2%) and 3.5% by December 2026 (previously 3.3%) (Figure 2.9).

Graph 2.9
CPI excluding food and regulated items
(annual change, end-of-period)



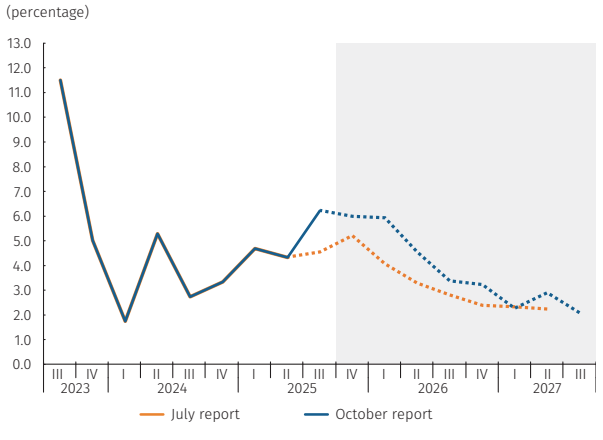
Source: DANE; calculations and projections by *Banco de la República.*

The annual variation in the CPI for food is expected to remain high over the next two quarters but begin to fall significantly as of the second quarter of 2026, approaching 3.0% by year-end. The entire path was revised upward due to sizable positive surprises in perishable food inflation during the last quarter, which suggests a longer-than-expected[11] phase of elevated prices within the agricultural cycle, as well as cost pressures from higher prices of fertilizers and other inputs. Additional upward pressures on this sub basket stem from increases in certain international prices such as coffee, stronger external demand for beef, higher labor costs, and restrictions in domestic transport routes, all in the context of

11 This cycle has shown in recent years an unstable periodicity that is different from that observed before the pandemic.

relatively firm domestic demand. Over the coming quarters, the forecast for food inflation is expected to fluctuate with the production cycle of perishable goods, assuming neutral weather conditions and a relatively abundant agricultural supply. The expectation assumes declining input costs, no new supply shocks related to domestic transport, and disinflationary effects from the real exchange rate gap—all of which would help contain input and processed food inflation. These elements, combined with a more favorable base of comparison, explain the projected decline for 2026. The forecast continues to include the increase in food prices associated with the expansion of the so-called healthy[12] taxes at the end of 2025 but does not incorporate potential effects arising from the current restricted passage on the road to the Llanos Orientales section of the country. With these assumptions, annual food inflation is expected to reach 6.0% at the end of 2025 (down from 5.2% in the previous *Report*) and 3.2% at the end of 2026 (down from 2.4% in July) (Graph 2.10). The forecast for this group remains subject to high uncertainty due to the inherent volatility of perishable food production and distribution, which is frequently affected by multiple supply shocks.

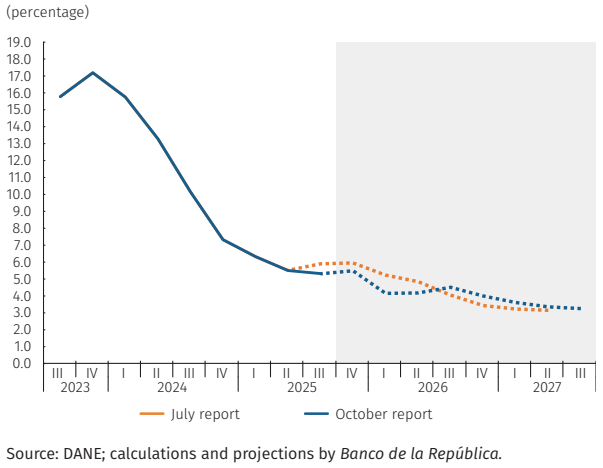
Graph 2.10
CPI for foods
(annual change, end-of-period)



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

This *Report* foresees regulated inflation to resume a downward trend beginning in early 2026, under the assumption of moderate adjustments to electricity and gas tariffs. The short-term projection was reduced mainly because of sizable decreases in electricity rates at the start of the third quarter, which were not fully anticipated in the July *Report* and appear to be related to favorable hydrological conditions and certain regulatory measures. These decreases will affect annual regulated inflation for twelve months. Thereafter, the forecast is slightly higher than in July, due to indexation effects resulting from higher inflation projected for the end of 2025. However, the overall trajectory is still expected to remain downward, in line with declining inflation. The path assumes moderate adjustments in electricity and gas tariffs and incorporates lower oil prices—slightly below those projected in the July *Report*—which would imply limited pressure on domestic gasoline prices. Uncertainty regarding gas prices remains elevated, given a domestic market that may face insufficient supply and require greater imports at higher cost, particularly under adverse weather conditions. Under these assumptions, regulated inflation is anticipated at 5.5% at the end of 2025 (5.9% in the previous *Report*) and 4.0% at the end of 2026 (3.4% in July) (Graph 2.11).

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

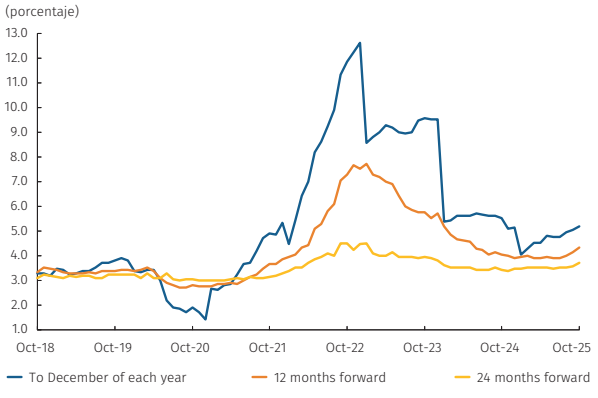


Source: DANE; calculations and projections by *Banco de la República*.

Compared to July figures, inflation expectations obtained from surveys and those implied by public debt securities

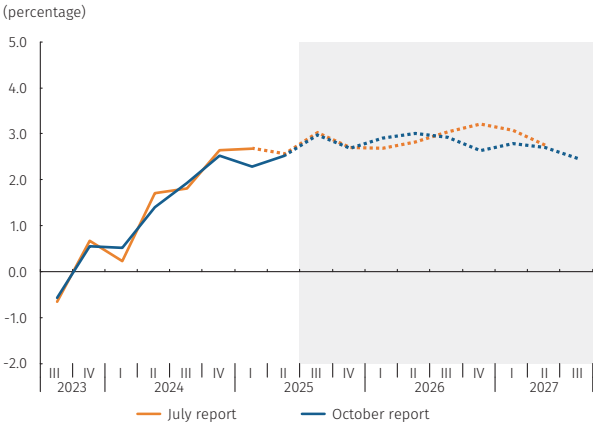
12 The so-called "healthy" tax on ultra-processed sugary drinks will be updated at the beginning of each year starting in 2026 based on the tax value unit (UVT). This update is not expected to have a significant impact on the CPI.

Graph 2.12
Bank and stockbroker inflation forecast [a/]



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

Graph 2.13
Quarterly GPD [a/]
(annual change)



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

have increased and remain above 3% over a two-year horizon. Nonetheless, all measures continue to show convergence toward the target at longer horizons. Expectations from economic analysts (Graph 2.12), based on the Bank's monthly survey conducted between October 8 and 10, show median expectations for headline and core inflation of 5.2% and 4.8%, respectively, for the end of 2025—higher than the July survey's results (4.7% and 4.4%, respectively). By the end of 2026, medians stand at 4.2% and 4.0%, up from 3.8% and 3.6% in July. At a two-year horizon, median expectations for headline inflation stand at 3.7%, and at a five-year horizon, they decline to 3.0%. Meanwhile, based on information up to October 24, expectations implied by public debt securities (breakeven inflation, adjusted for risk and liquidity premiums) at two-, three-, and five-year maturities increased, standing at 4.2%, 4.1%, and 4.0%, respectively (compared with 3.7%, 3.7%, and 3.8% in July). [13]

2.2.2 Economic activity

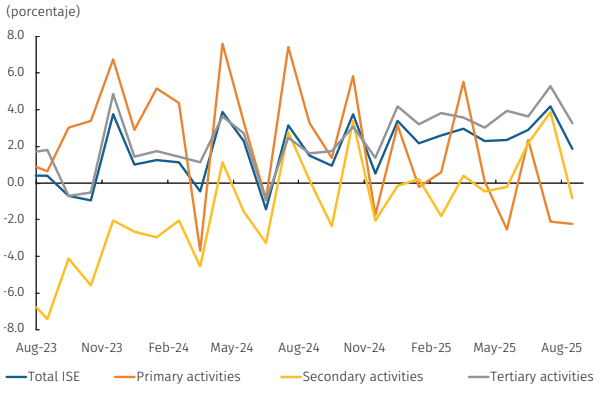
In the third quarter of 2025, the Colombian economy is expected to continue gaining momentum gradually, with domestic demand remaining robust. It is estimated that during this period the economy expanded at an annual rate of 3.0% (3.2% annualized quarter-on-quarter), a result similar to that projected in the July *Report* (Graph 2.13). This estimate assumes a solid performance of domestic demand (4.3% annually), which would have grown for the fifth consecutive quarter at rates above 4% and above GDP growth, driven by private consumption and investment in machinery and transport equipment. This forecast is supported by several leading indicators[14] for this quarter and, in particular, by the Economic Monitoring Indicator (ISE), which reported average annual growth of 3.0% in the July–August period (Graph 2.14). As discussed below, this performance reflects the robust dynamics of several service sectors within the tertiary branch, which expanded at an average annual rate of 4.3% during those months. This is further enhanced by the favorable performance of the agricultural sector and, to a lesser extent, the recovery observed in manufacturing. By contrast, mining and building construction would have continued to show weak results.

Private consumption would have continued to post robust growth, driven by relatively high annual rates and

13 The behavior of these measures in recent months may have been influenced by some dynamics of the public debt market, such as recent Treasury operations, the seasonality of these instruments, and purchases by public entities.

14 These include energy demand, road freight movement, the Regional Economic Pulse (PER), vehicle and motorcycle registrations, and consumer credit disbursements, among others.

Graph 2.14
Economic Monitoring Indicator (ISE), and ISE by sectors [a/, b/]
(annual change)



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

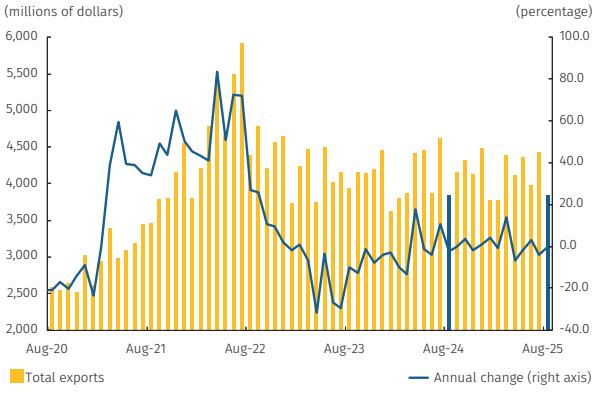
an increase in quarterly terms, alongside a temporary acceleration in public consumption. During the third quarter, private consumption would have grown at an annual rate of 3.6%, similar to the rate observed in the second quarter, with an expansion between quarters. This behavior is consistent with indicators such as the ISE, retail sales to August, and more frequent data, including vehicle and motorcycle registrations, consumer credit disbursements, and preliminary import figures for consumer goods through September. By components, the positive performance of durable and semi-durable goods stands out, posting significant annual and quarterly growth. Services consumption would also remain buoyant, with positive annual rates supported mainly by trade and household spending on entertainment. This strength in private consumption would be supported by dynamic disposable household income, favored by growth in real labor income, remittances, government transfers, and income in coffee-producing households. Additionally, somewhat more favorable credit conditions and the gradual recovery of consumer confidence would have contributed to this performance. Public consumption is expected to show greater dynamism in annual terms due to a relatively low base of comparison, but with levels similar to those of the previous quarter. This forecast incorporates the retroactive payment of the salary adjustment for public servants, which was largely executed during the third quarter. Overall, total consumption would have recorded another quarterly increase from an already high level and an annual growth rate exceeding 4%, higher than those observed in preceding quarters.

For the third quarter, fixed investment would again show an increase in annual growth, although remaining at historically low levels and exhibiting heterogeneous behavior across components. Gross fixed capital formation would have increased relative to the second quarter. Investment in machinery and equipment remained the most dynamic component, supported by preliminary import data for capital goods through September, which continued to reflect double-digit annual growth. Investment in construction, by contrast, would have remained weak, with annual declines. Housing investment would have fallen again in annual terms, although continuing at levels similar to those of the second quarter, consistent with the ongoing decline in value added from building construction and the still high inventory levels in the sector, despite some recovery in housing sales and dynamism in mortgage disbursements. Investment in other buildings and structures would have posted a modest annual increase, driven by civil works—particularly in Bogotá—and the progress of 5G road projects, partially offset by the weak performance of non-residential buildings. Finally, total gross capital formation is anticipated to have expanded in both annual and quarterly terms, assum-

ing positive—though somewhat lower—growth of the component that includes the statistical discrepancy and inventory accumulation.

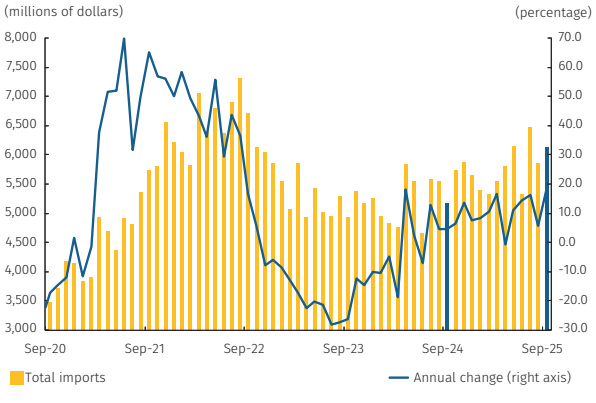
Foreign trade indicators suggest that the trade deficit would have widened again in the third quarter, reflecting exports in constant pesos with very limited growth and strong import dynamics. During this period, export levels are expected to remain unchanged, with slight annual growth (Graph 2.15). Quantities through August indicate significant declines in mining exports—particularly coal and oil—in line with lower production in these sectors. This would be offset by annual increases in agricultural exports such as coffee and bananas, as well as industrial exports (including food and chemical products). Exports of services are expected to have increased relative to the second quarter, although with limited annual growth, based on indicators such as international air passenger traffic. Imports, meanwhile, are expected to post new growth in both quarterly and annual terms (the latter around 8.0%), consistent with strong domestic demand. The main boost would have come from imports of durable consumer goods, as suggested by preliminary September data (Graph 2.16). With this, the real-peso trade deficit is projected to remain above the levels observed in the second quarter and in the same period of the previous year, leading to a negative contribution of net external demand to the annual GDP variation.

Graph 2.15
Total goods imports (CIF)
(monthly)



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

Graph 2.16
Total goods exports (FOB)
(monthly)



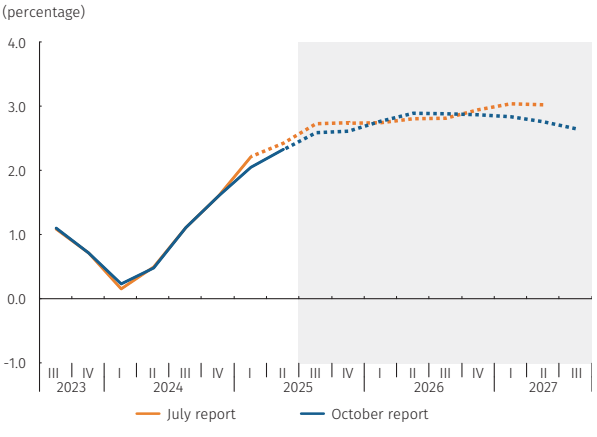
Source: DANE; calculations by *Banco de la República.*

On the supply side, several tertiary-sector activities and the recovery in manufacturing stand out, contrasting with a marked annual decline in mining and construction. During the third quarter, the tertiary sector (services) would have continued to make the largest contribution to annual GDP growth, expanding around 4.0% in annual and quarterly terms. Within this group, the most substantial contributions would come from trade, transport, and hospitality services; artistic, entertainment and recreation services; and public administration. This estimate is supported by the behavior of retail sales in August, the dynamism of online gambling, sports betting, and concerts, as well as the aforementioned retroactive salary payments in the public sector. In the secondary sector, manufacturing showed more evident signs of recovery, with annual growth close to 4.0% and even higher annualized quarterly growth. Civil works also contributed positively, partly offsetting the weakness in building construction. In primary activities, an annual expansion of 0.3% (8.0% quarter-on-quarter) is expected, driven by strong agricultural performance—especially in coffee production and livestock. In contrast, the mining sector would have continued to weaken, with annual declines in coal, oil, and metallic minerals.

For the remainder of 2025 and for 2026, the Colombian economy is estimated to continue expanding at annual

rates similar to those recently observed, following a path broadly consistent with that forecast in the July *Report*. This *Report* continues to assume domestic financing costs that would decline gradually and external financing conditions that would remain favorable. This occurs alongside a slight upward revision to trading-partners' growth, which is expected to support exports. Domestically, private consumption is projected to moderate in 2026 as the output gap closes over the forecast horizon, incorporating expectations of slower growth in remittances and real wages, as well as the absence of an additional boost from coffee income. Nevertheless, private consumption is expected to continue being boosted by multiple favorable factors, including the gradual easing of monetary policy and the recovery of household credit. Moreover, labor-market strength would support household confidence, positively influencing consumption in the coming quarters. Investment is expected to continue contributing positively to growth over the forecast horizon, supported by lower domestic financing costs and progress in public works projects initiated by national and local governments. With these factors, annual growth is estimated at 2.6% for 2025—slightly below the July projection of 2.7%—and 2.9% for 2026 (unchanged from the July *Report*) (Graph 2.17), within a context of strong domestic demand. It should be noted that these forecasts remain subject to high uncertainty, particularly due to the deterioration of public finances, trade restrictions, and persistent geopolitical conflicts that could affect global trade and the domestic economy.

Graph 2.17
GDP, four-quarter cumulative [a/]
(annual change)



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

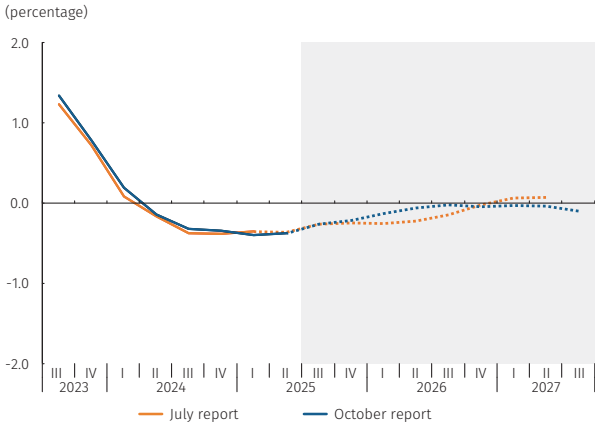
Unemployment-rate (UR) projections were revised downward compared to the previous *Report* and suggest relative stability for the remainder of 2025 and in 2026. Data from the Integrated Household Survey (GEIH) for the rolling quarter ending in August shows that national employment remained stable at high levels, with significant annual growth. Meanwhile, the inactive population remained unchanged, reflected in a stable overall participation rate of nearly 64%. The national unemployment rate for the rolling quarter ending in August remained similar to that in May (9.0%), and 1.2 pp below the figure from a year earlier.[15] Based on labor-market performance and the economic projections in this *Report*, the seasonally adjusted national unemployment rate is anticipated to remain relatively stable through year-end, averaging between 8.6% and 9.3% for 2025, with a baseline estimate of 9.0%. For 2026, the baseline projection is 8.8% (range: 7.4%–10.2%). In urban areas, the unemployment rate is expected to continue at levels around 8.1% and 9.8% for 2025 with a baseline estimate of 8.5% and decline slightly to 8.2% in 2026 (range: 6.9%–9.4%). These values are below those in the previous *Report*. As a result, estimates of

15 See Chapter 3 of this *Report* for more details.

the unemployment rate consistent with stable inflation (the non-accelerating inflation rate of unemployment, NAIRU) indicate that the unemployment gap—although narrowing—would remain negative over the forecast horizon, signaling a relatively tight labor market.

This *Report* estimates a slightly negative annual output gap for the third quarter, similar to that presented in the previous *Report* and closing faster than previously anticipated, aligned with stronger domestic demand. For the third quarter and the remainder of the year, the output gap is estimated to remain slightly negative but to begin closing gradually, reflecting the momentum of private consumption and certain investment components. Specifically, the annual output gap for the third quarter of 2025 is foreseen at around -0.3%, and at -0.2% by December—levels similar to those projected in the July *Report* (Graph 2.18). This implies a potential GDP growth of 2.5% for 2025, slightly below the previous estimate of 2.6%, partly due to the prolonged weakness in certain sectors, particularly mining and energy. For 2026, the output gap is expected to close by mid-year—somewhat earlier than projected in the July *Report*—and remain near zero for the rest of the forecast horizon. These estimates are subject to significant uncertainty, associated with prolonged weakness in some investment components, potential structural changes in the economy, and the strength of domestic demand—particularly private consumption—among other factors.

Graph 2.18
Output gap [a/]
(four-quarter cumulative)



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

2.2.3 Balance of payments

By 2025, the current account deficit is projected to widen to 2.5% of GDP, up from 1.7% in 2024,[16] in the context of expanding domestic demand. The greater external imbalance would reflect a widening trade deficit in goods, driven by strong domestic demand, lower international prices and volumes of mining and oil exports, and heightened uncertainty regarding global trade policies. In particular, the strength of domestic demand would translate into significant growth in goods imports that, together with lower external sales of coal and oil, would more than offset the revenues associated with exports of coffee, gold, and non-traditional goods. In contrast, the remaining components of the current account would mitigate a further widening of the deficit. Firstly, the services account would post a smaller shortfall than in the previous year, partly due to higher tourism exports. Secondly, the factor income deficit would narrow, reflecting lower interest payments on external debt

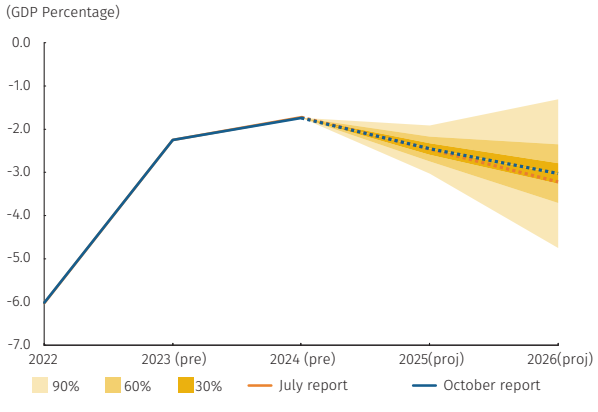
16 For the third quarter of 2025, a current account deficit of close to 2.6% of GDP is projected. This result would be explained by the greater trade imbalance of goods, given a significant growth in imports.

and reduced profit remittances abroad by mining and oil companies with foreign direct investment. Finally, the surplus in current transfers would increase, supported by the still robust performance of workers' remittances.[17]

By 2026, the current account deficit is expected to widen further to 3.0% of GDP (Graph 2.19). This would primarily reflect a larger trade deficit in goods, consistent with domestic demand that remains dynamic and continues to fuel import growth. Additionally, international prices of key exported commodities are expected to continue moderating, thereby reducing external revenues. In contrast, the deficits in services and factor income would continue to narrow, given the expected increase in exports from tourism and the projected decline in interest payments[18] and transfer of profits abroad. The surplus in current transfers would also rise, supported by continued—though more moderate—growth in remittances. From the savings–investment balance perspective, the projected widening of the external deficit in 2025 and 2026 is consistent with a public-sector imbalance that would remain high, in line with lower expected public-sector savings, and with a reduction in the private-sector surplus associated with the anticipated expansion in investment. Finally, uncertainty surrounding the current account forecast remains high, given the volatility of international commodity prices, risks to domestic and global growth, the uncertain outlook for global trade policy, and the unpredictable evolution of domestic and external financial conditions, among other factors.

Colombia would maintain full access to external financing, and foreign direct investment (FDI) would remain the main source of external funding in the remainder of 2025 and 2026. FDI is expected to remain at levels similar to those of 2024 in 2025 and to increase in 2026, reflecting a sectoral recompositing. Lower investment in oil and mining would be offset by higher inflows to other sectors, including financial and communications services, manufacturing, and trade, supported by strong domestic demand and higher economic growth. The public sector would contribute to external financing in line with the projected high fiscal deficit, while the private sector would continue to accumulate assets abroad. External financing would occur in an environment of lower interest rates in the United States—although still

Graph 2.19
Annual current account [a/, b/]
(four-quarter cumulative)



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

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

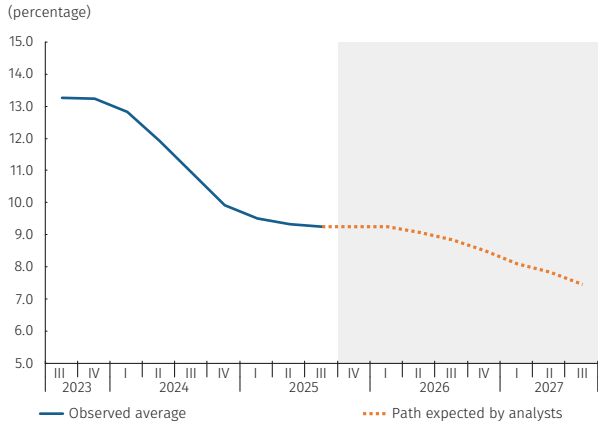
18 The lower interest payments are explained both by the reduction in external interest rates and by the effect of the recent total return swap (TRS) operations by the Ministry of Finance and Public Credit (MHCP).

above pre-pandemic levels—and a risk premium for Colombia that would remain higher than its historical average.

2.2.4 Monetary policy and interest rates expected by analysts

The median analysts' expectation for the policy interest rate is 9.25% for the fourth quarter of 2025 and 8.5% year-end 2026 (Graph 2.20). The median response to *Banco de la República's* monthly survey of analysts' expectations conducted in early September anticipates that the average policy rate in the third quarter of 2025 would be 9.25%. For 2026, analysts project a higher path than that recorded in the September survey, with the rate reaching 8.5% by the end of the year and 7.5% for the third quarter of 2027. Although analysts anticipate reductions in the benchmark rate, the expected path is now higher than in previous quarters. On average, over an eight-quarter horizon, this path exceeds that of the July 2025 survey and is slightly higher than the path implied in the macroeconomic forecast in this *Report*. It is essential to note that the trajectory of the interest rate implied in the baseline scenario of this *Report* does not imply wage increases exceeding inflation in 2025, accompanied by an increase in labor productivity. Deviations from this assumption could partly explain the differences between analysts' inflation and interest rate forecasts and those of the technical staff for 2026. Wage increases significantly higher than those assumed in this *Report* pose an upside risk to inflation and the monetary policy interest rate, especially in the context of a tight labor market and dynamic private domestic demand.

Graph 2.20
Monetary policy interest rate: average observed quarterly, and rate expected by analysts [a/]



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

2.3 Balance of macroeconomic risks

The risks surrounding the macroeconomic forecast remain significant. For inflation, the balance of risks is tilted to the upside over the forecast horizon, while for growth, the balance is mixed—biased to the upside for the remainder of 2025 and to the downside in 2026. The predictive density (PD)[19] exercise summarizes the risk balance across multiple variables within the macroeconomic forecast and maintains a dispersion range similar to that of the previous *Report* for most external assumptions. Among the most relevant domestic risk factors are the possibility that the minimum wage increase for 2026 will significantly exceed observed inflation and productivity gains, as well as the deterioration

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

of the country's fiscal situation, which could generate upward pressure on the sovereign risk premium and the exchange rate.

Upside risks to the sovereign risk premium and external inflation persist, while those associated with the economic growth of trading partners and oil prices are tilted to the downside. Among the external risk factors included in the PDs, the most important continues to be the upside risk to Colombia's sovereign risk premium linked to the persistent deterioration of domestic public finances. The materialization of this risk would imply higher external financing costs and, therefore, upward pressure on the exchange rate and tradable goods prices. Meanwhile, the imposition of US tariffs on several of its major trading partners exerts upward pressure on inflation in that economy and creates risks of lower global economic expansion than anticipated. The risk of higher inflation in the United States is offset by the worsening outlook for economic activity in that country, given weak labor market data, resulting in a balanced risk profile for the Federal Reserve's policy rate. Regarding international oil prices, the balance of risks is tilted to the downside, as explained by higher supply from OPEC and non-OPEC countries, as well as increased inventories among OECD members. In contrast, the balance of risks for international food prices is neutral, as upside risks associated with higher fertilizer costs are counterbalanced by downside risks stemming from more favorable weather conditions in vulnerable regions.

The balance of risks for inflation is skewed to the upside, amid significant pressures from labor costs, indexation mechanisms, and supply-side factors in the energy sector. Across all price baskets, upside risks prevail, particularly in services and regulated items. For services, the risk remains that the minimum wage increase in 2026 again significantly exceeds inflation and productivity. This risk is compounded by higher labor costs associated with new surcharges for overtime, changes in the apprenticeship hiring scheme, and the reduction in the legal workweek, which may place upward pressure on the prices of labor-intensive items. In regulated items, upside risks are associated with structural issues in the energy sector, particularly potential inadequacies in domestic natural gas supply and delays in electricity infrastructure investments. In food, the balance of risks is moderately tilted upward, driven not only by higher labor costs but also by potential increases in fertilizer and transportation prices. In goods, the main upside risks stem from a potential depreciation of the peso given the deteriorating trend in public finances, as well as from higher global logistics costs due to the reconfiguration of value chains amid trade tensions. These risks are partially offset by increased export supply from Asia to other markets, resulting in a moderately upward balance in this category, albeit with high uncertainty. The prevalence of these upside risks across the inflation baskets also raises the probability of greater inflation persistence, given the likelihood of indexation in 2026 and 2027 to levels of headline inflation above those assumed in the baseline scenario.

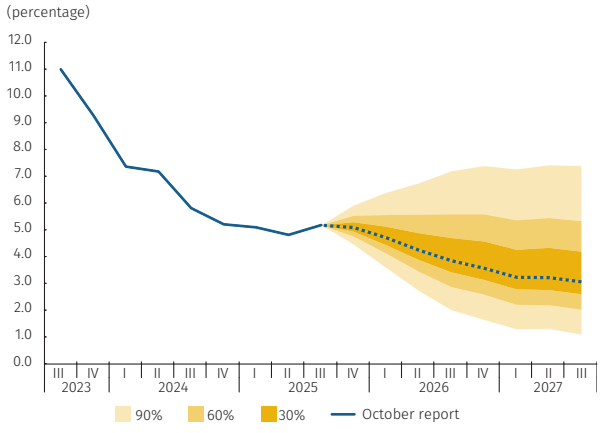
The balance of risks for economic activity is mixed—tilted to the upside for the second half of 2025 and to the downside for the remainder of the forecast horizon. Upside risks during the second half of 2025 are associated with the potential persistence of strong household consumption, supported by a resilient labor market, high remittance inflows, relatively high confidence indicators, and the current fiscal impulse. In particular, robust private consumption that sustains domestic demand, together with a labor market that remains tight by historical

standards (as suggested by the high vacancy-to-unemployment ratio), increases the risk of underestimating the economy's cyclical position, which would imply upside risks for the output gap estimate for this year.

For 2026 and 2027, downside risks to domestic demand predominate. The main risks include potentially lower external revenues and remittances resulting from adverse geopolitical developments, such as US trade and immigration policies, rising tensions in the bilateral relationship with that country, and a possible deterioration in external demand. Additional risks stem from the need for fiscal consolidation amid the recent deterioration in public finances; a weaker mining and energy sector due to lower international prices and domestic political factors; and subdued housing investment, given the persistent weakness in new supply. In contrast, upside risks include potential short-term increases in disposable income arising from wage developments, such as possible sizable increases in the minimum wage and regulatory changes in labor reform. The PD exercise also endogenously incorporates risks associated with the potential need for a more prolonged restrictive monetary policy stance in response to upside inflation risks, which outweigh exogenous downside risks to activity.

In summary, the balance of risks indicates slightly greater uncertainty compared to the previous *Report*, resulting in upside risks for inflation (Graphs 2.21 and 2.22) and mixed risks for activity (Graphs 2.23 and 2.24). In this context, headline inflation is expected, with a 90% probability, to fall between 4.4% and 5.9% at the end of 2025 and between 1.6% and 7.4% at the end of 2026. Over the same horizon, core inflation would range from 4.2% to 5.4% at year-end 2025 and from 1.5% to 6.9% at year-end 2026. The probability that headline and core inflation fall below 4% by end-2026 is 39% and 45%, respectively. Regarding economic activity, annual GDP growth is expected, with 90% probability, to fall between 2.1% and 3.5% in 2025 and between 0.4% and 4.4% in 2026.

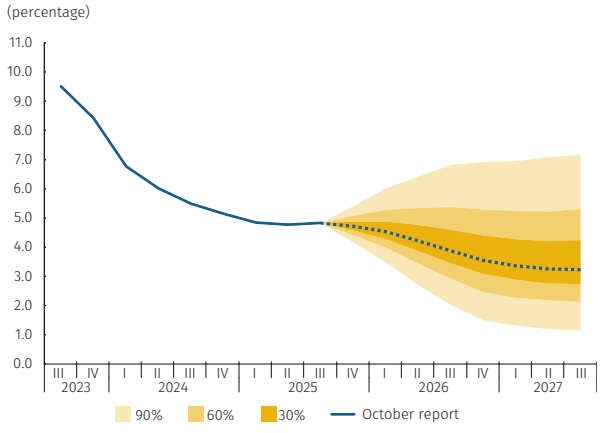
Graph 2.21
Consumer price index, predictive density [a/, b/]
(annual change, end-of-period)



	4Q 2025	4Q 2026	3Q 2027
Mode	5.1	3.6	3.1
< Mode	44%	30%	29%
	Intervals		
<2	0%	8%	13%
2 to 4	0%	31%	34%
>4	100%	61%	53%

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

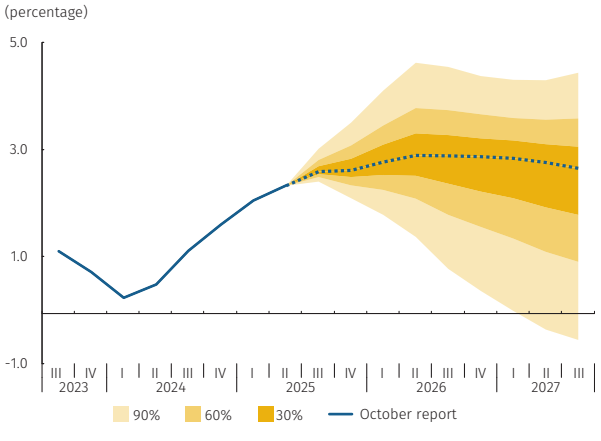
Graph 2.22
CPI excluding food and regulated items, predictive density [a/, b/]
(annual change, end-of-period)



	4Q 2025	4Q 2026	3Q 2027
Mode	4.7	3.5	3,2
< Mode	44%	34%	32%
	Intervals		
<2	0%	9%	13%
2 to 4	1%	36%	35%
>4	99%	55%	52%

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

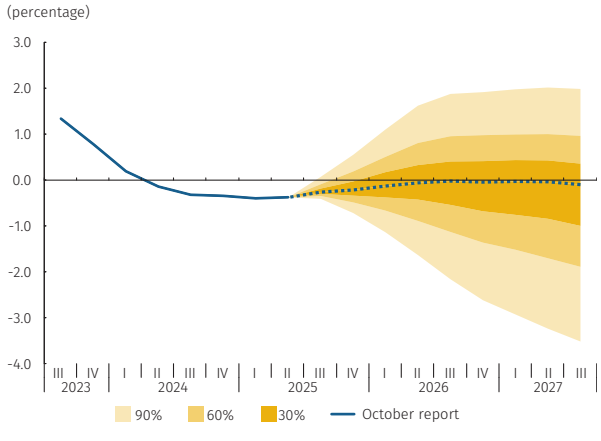
Graph 2.23
GDP, four-quarter cumulative, predictive density [a/, b/]
(annual change)



	4Q 2025	4Q 2026	3Q 2027
Mode	2.6	2.9	2.6
< Mode	36%	66%	69%
	Intervals		
<1	0%	13%	29%
1 to 2	3%	25%	25%
2 to 3	67%	31%	23%
>3	30%	30%	23%

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

Graph 2.24
Output gap, predictive density [a/, b/]
(four-quarter cumulative)

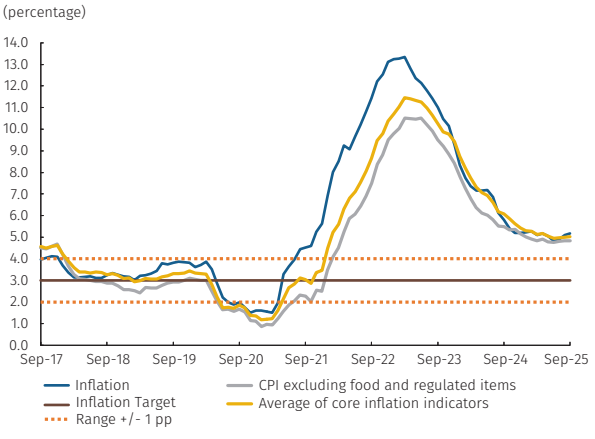


	4Q 2025	4Q 2026	3Q 2027
Mode	-0.2	0.0	-0.1
< Mode	40%	59%	67%
	Intervals		
<-2	0%	11%	24%
-2 to 0	61%	49%	45%
0 to 2	39%	35%	26%
>2	0%	5%	5%

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

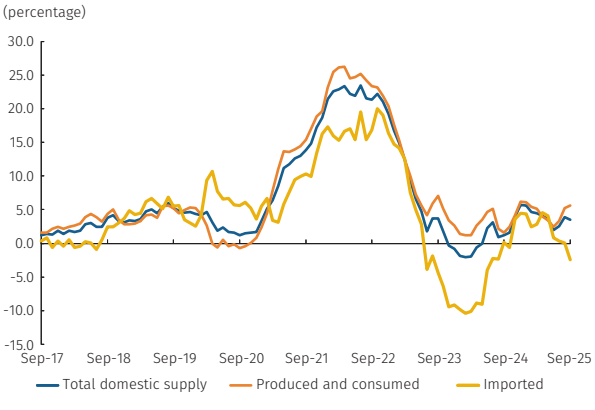
3. Current economic situation

Graph 3.1
CPI and core inflation indicators
(annual change)



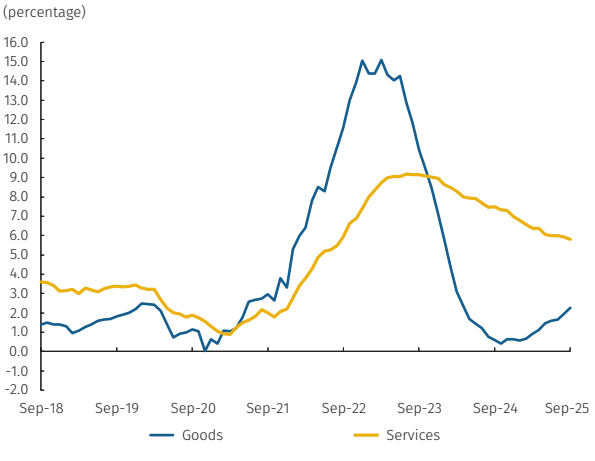
Sources: DANE and *Banco de la República.*

Graph 3.2
PPI by origin
(annual change)



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

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



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

3.1 Inflation and price behavior

During the third quarter, annual inflation resumed its downward trend, mainly as a consequence of a rebound in food and goods prices. In September 2025, annual inflation reached 5.2%, surpassing the 4.8% figure observed in June and forecast in the July *Report.* Core inflation, measured as the annual change in the CPI excluding food and regulated items, remained steady during the third quarter (4.8%), although it also exceeded the outlook (4.6%) of the previous *Report* (Graph 3.1). The annual changes in food, goods, and services were higher than expected, while the adjustment in regulated items inflation was lower than expected, restraining a greater increase in inflation. Food was the most significant contributor to the upward surprise, particularly the perishable foods category. The rise in inflation during the third quarter would have reflected the persistence of inflationary pressures from various sources, including a sustained vitality in domestic demand experienced year to date, particularly private consumption. Other contributing factors were the indexation of prices to high rates; increases in labor costs due to increases in the real minimum wage, the reduction in the weekly workweek, and the recent labor reform; the increase in international prices of certain goods, which exceeded the recent appreciation of the Colombian peso; and an almost generalized upward trend in food prices. In addition, the PPI's year-on-year change rebounded from 2.1% in June to 3.5% in September, which could antedate additional pressures on a large sample of the CPI basket excluding services, especially those items produced and consumed domestically, which recorded a significant increase between June (2.5%) and September (5.6%). For its part, the imported component of the IPP decreased from 0.9% to -2.4% in recent months, amid a period of peso appreciation (Graph 3.2).[1]

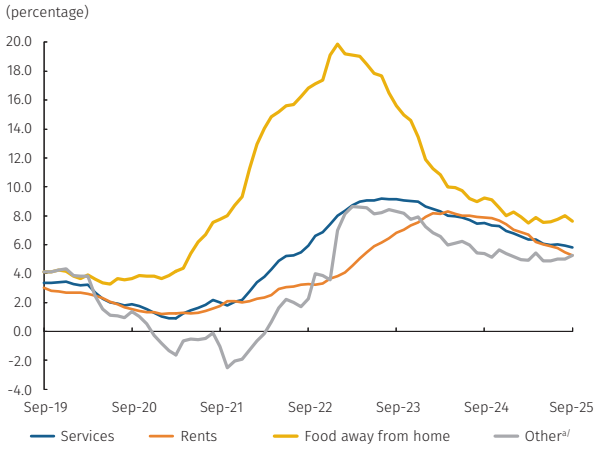
The prices of the CPI goods component grew more rapidly during the third quarter, driven by increases in consumption, production costs, and specific pressures upon certain items. The annual change in the CPI for non-food and non-regulated items increased from 1.6% in June to 2.2% in September (Graph 3.3), driven by products using gold as raw material and certain medicines. The most significant adjustments in the goods sub-basket would have reflected, in part, the strong momentum of private consumption observed so far this year. On the other hand, several factors have been heightening companies' operating and logistics costs. Foremost is the increase in labor costs, caused by significant adjustments to the minimum wage in recent years, compounded by the reduction of the workweek from 46 to 44

1 The most recent IPP data supplied by DANE is always provisional.

hours since mid-July of this year (Law 2101 of 2021) and the recent labor reform that extended the workday and increased hiring costs (Law 2466 of 2025). Additionally, internal logistics difficulties, including roadblocks and strikes in certain areas of the country, would have also facilitated the increase in transportation and distribution costs. Despite these pressures, the recent appreciation of the peso has helped to restrain price increases for some goods, especially the imported component within the consumer basket.

The annual change in service prices, excluding food and regulated items, continued to fall in the third quarter. However, it remains high due to the effects of indexation to past inflation, higher labor costs, and strong consumption. The decline in this services group - from 6.0% in June to 5.8% in September - has been slower than expected, mainly due to the persistence of the y-o-y adjustment in rents (from 5.9% in June to 5.3% in September) (Graph 3.4), partly in response to a limited supply of new housing in the country and demand pressures in medium-sized cities for tourist accommodation, among other factors. Food away from home, meanwhile, registered an annual change of 7.6% in September, similar to that observed in June. The sharp rise in prices in this subgroup is primarily attributed to the increases in food prices and in labor costs. In addition, some public services, such as gas and garbage collection, continued to drive up the CPI for food away from home, limiting the pace of decline of their annual adjustments. The remaining components of the services group - including education, communications, health, recreation, and other personal services - showed an upward annual variation between June and September of 4.9% and 5.3%, respectively.

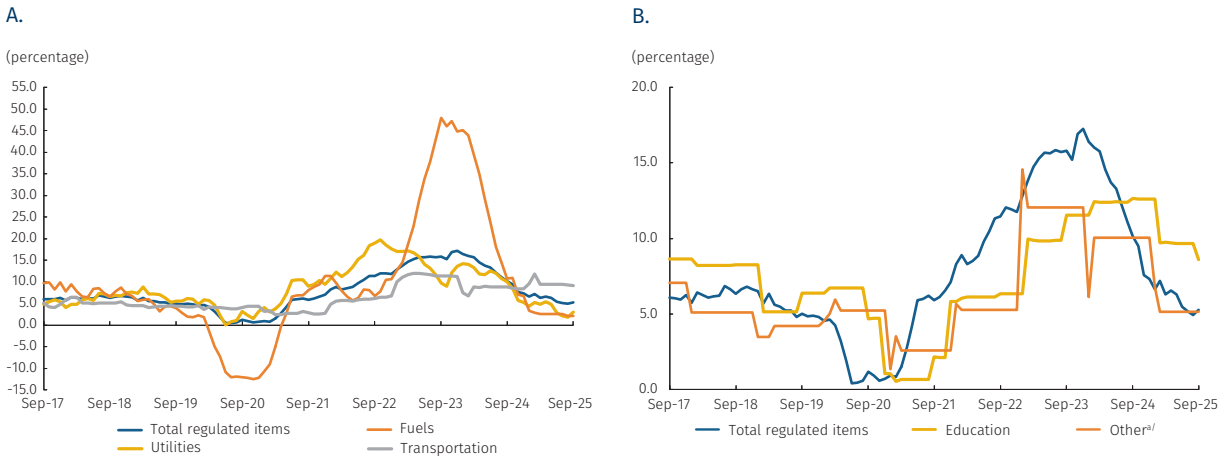
Graph 3.4
CPI for services excluding food and regulated items (annual change)



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

The year-on-year variation in the prices of the regulated basket decreased, primarily due to the behavior of the fuel and public transportation subgroups. The annual increase in regulated prices, although still above 3%, continued to assuage in the third quarter as a result of downward pressures on most of its components (Graph 3.5, panel A). Items such as transportation (which decreased from 9.3% to 9.1%), fuels (from 2.5% to 2.1%), and other regulated items (which continued unchanged at 5.1%) remained stable or declined (Graph 3.5, panel B). Fuel and public transportation have benefited from low growth in gasoline and diesel prices over the last twelve months (2.1% on average), while the "others" category, encompassing co-payments to the public health insurance services (EPS for its Spanish acronym) and notary fees, commonly only experiences notable variations early in the year. Public services, for their part, displayed no significant changes between June (2.9%) and September (3.0%). The low price growth in this regulated segment is explained mainly by the negative annual adjustment in electricity rates (-2.7%), arising from the abundant rainfall experienced so far this year, which has limited the share of more expensive thermal generation in the energy matrix. Moreo-

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

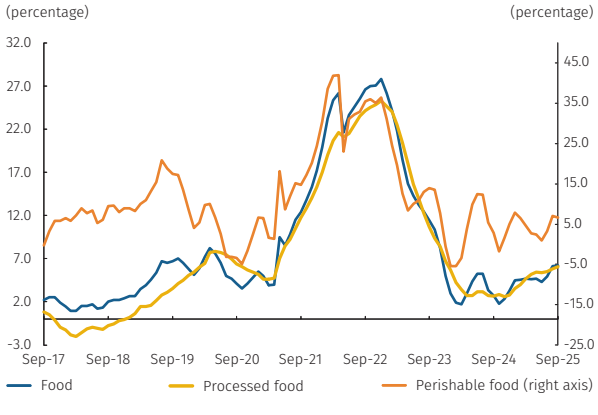


a/ Includes EPS affiliate co-payments, administrative certificates and documents, and professional fee payments
Sources: DANE; calculations by *Banco de la República.*

ver, the national government has also intervened to mitigate the impact of energy costs on household budgets.[2] In contrast, natural gas rates increased at the beginning of the year, reflecting insufficient local supply and the need for higher-priced imports, accumulating an annual adjustment exceeding 12% as of September.

The more substantial increases in food prices seen over the past months have taken place in an environment of ample supply, yet upward price shocks. Between June (4.3%) and September (6.2%), prices for both processed foods and perishable foods increased markedly (from 5.4% to 6.1% and from 1.0% to 6.6%, respectively) (Graph 3.6). So far this year, food price increases have surpassed the technical staff's forecasts in the context of ample supply. This dynamic can be explained by various factors, including upward pressure generated by the healthy tax on ultra-processed foods, higher labor costs (applicable to all foods), increases in the international prices of certain goods such as coffee, and robust private consumption. In addition, beef prices rose significantly as the livestock cycle contracted and exports to China grew, thereby reducing domestic supply. Furthermore, perishable food prices are being fueled by increases in non-labor costs (machinery, some inputs, and local transportation); increase in domestic and foreign consumption of fruits and vegetables (PPI records an annual growth above 30%); labor shortages in some regions of the country; and low availability of inputs and food in certain areas—particularly eastern Colombia—resulting from roadblocks caused by landslides and strikes in other parts of the country. In all,

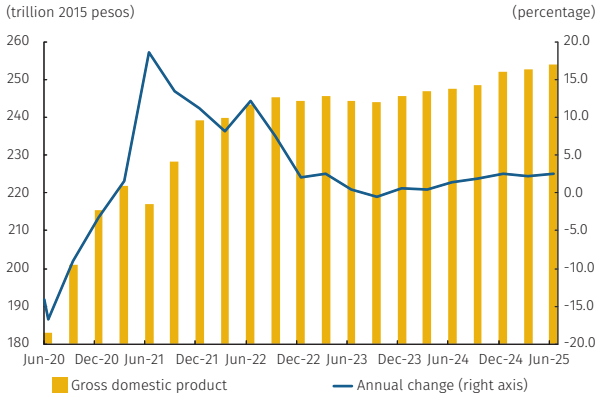
Graph 3.6
CPI for food and its components
(annual change)



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

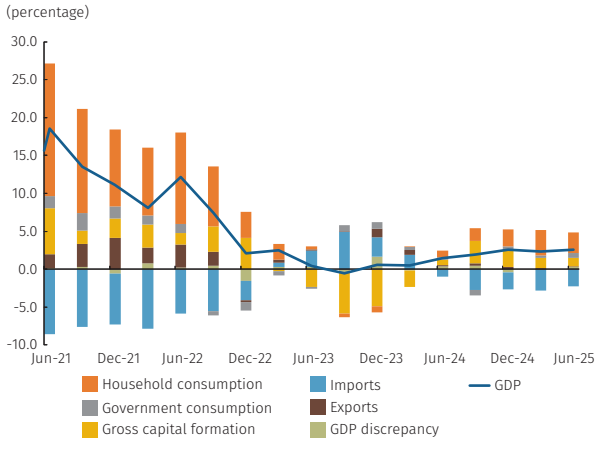
2 Partial payment by the Government of the rate option payment scheme, mainly on the Atlantic coast; contracts renegotiation between generators and marketers; and institutional interventions with marketers (Air-e), among others.

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



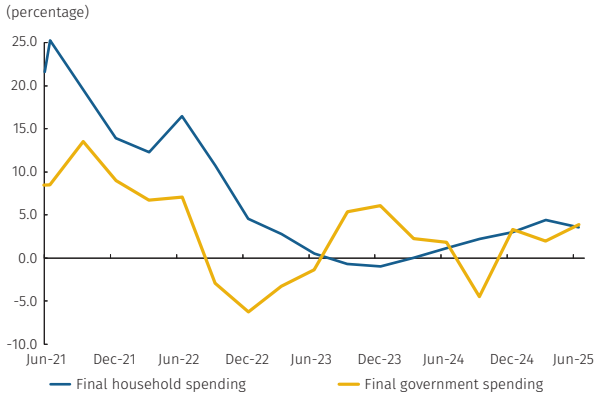
a/ Seasonally adjusted and corrected for calendar effects
Sources: DANE; calculations by *Banco de la República.*

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



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

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



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

some of these factors generated inflationary pressures that surpassed those predicted by the technical staff for the third quarter (see Box 1).

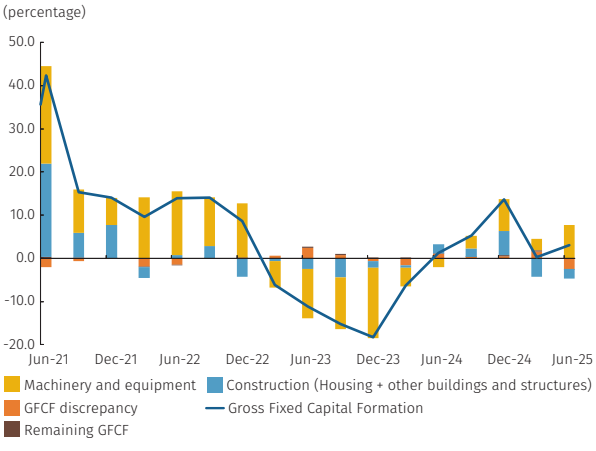
3.2 Growth and domestic demand

During the second quarter of 2025, GDP grew by 2.5% y-o-y, a rate comparable to that of the previous two quarters and to the forecast provided by the technical staff (2.6%). This economic growth, calculated using seasonally and calendar-adjusted figures, produced an annualized quarterly expansion (a.q.) of 2.0% (Graph 3.7). Consequently, Colombian economic activity continued its steady upward trend observed since the end of 2023. On the expenditure side, and consistent with expectations, domestic demand once again significantly outpaced GDP growth, mainly attributable to the growth of private consumption, with a substantial contribution also deriving from investment in machinery and equipment (Graph 3.8). The latter occurred against a backdrop of increased consumer and business confidence, favorable growth among trading partners, significant real increases in labor income, a historically low unemployment rate,[3] and inflation above target but relatively stable. On the supply side, arts and entertainment, trade, transportation, and hospitality services, as well as the agriculture and livestock sector, were the main drivers of annual GDP growth. In contrast, mining and quarrying, together with construction, were the sectors that recorded the most significant annual declines.

Growth in domestic demand once again outpaced GDP growth, in line with the technical staff's expectations, propelled by the growth of private consumption. Total domestic spending grew by more than 4% for the fourth consecutive quarter. The key contributor to this increase was private consumption, which continued at high levels, with an annual growth (3.7%) that, although lower than expected, once again exceeded that of the economy as a whole (Graph 3.9). All segments of household consumption continued to increase in annual terms, with durable goods extending at double-digit rates. Consumption of services, however, logged a more moderate annual increase, but continued at high levels above its pre-pandemic trend. As for the consumption of semi-durable goods, it concurrently exhibited annual growth while logging a slight quarterly decline. The favorable behavior of private consumption persists in the context of continued growth in disposable income and employment, a significant flow of remittances from abroad, and coffee revenues that remain at high levels, together with steady improvements in consumer confidence. Furthermore, public consumption increased quarterly and accelerated in annual terms, primarily due to the partial payment of backdated salaries of public employees.

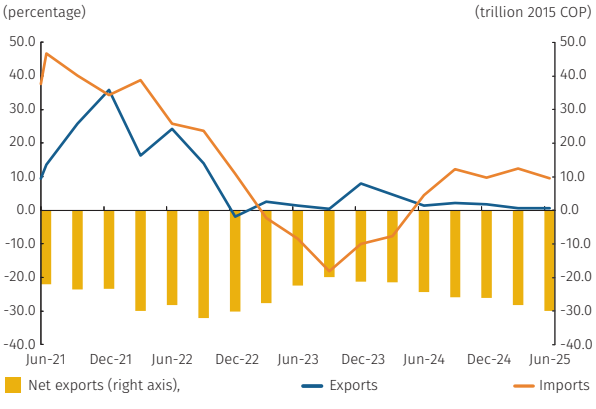
3 See the July 2025 Labor Market Report, available at: https://doi.org/pz99

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



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

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



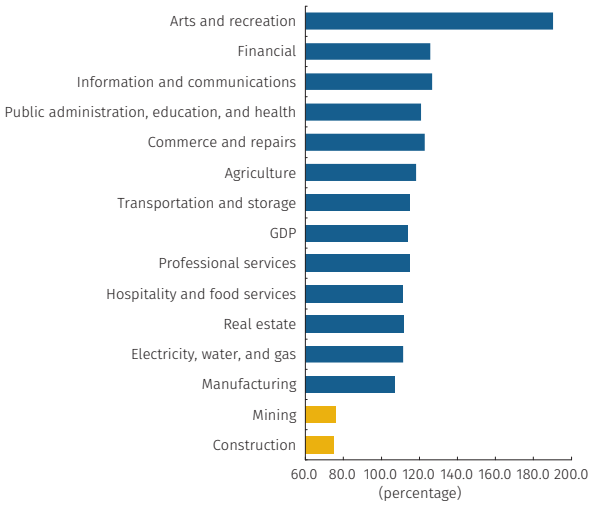
a/ Seasonally adjusted and corrected for calendar effects
Sources: DANE; calculations by *Banco de la República.*

Investment grew in the second quarter, both annually and quarterly, with results exceeding expectations and driven by strong performance in investment in machinery and equipment. The annual increase in gross fixed capital formation during the second quarter (3.1%) was largely due to the machinery and equipment component, which continued to be the most active investment segment (Graph 3.10). This item recorded a substantial quarterly increase (27.3% a.q.), implying a double-digit annual growth rate (18.0%). By subcomponent, growth of transportation equipment and of capital goods for industry is notable. In contrast, investment in construction continued to decline in annual terms, mainly as a result of the fall in housing investment (-9.5% y-o-y), resulting from fewer buildings completed in both the VIS and non-VIS segments (VIS is the low-income housing segment for its Spanish acronym). Investment in other buildings and structures showed a quarterly increase, which was not enough to prevent this component from declining annually (-0.9%), although less markedly than the housing component. The primary positive contributor was civil works, as suggested by supply figures, mainly construction for mining and industrial plants, as well as regional road and rail projects. Among the latter, the impact from the first line of the Bogotá metro, the *Regiotram de Occidente*, and progress in specific projects in the 5G infrastructure program were most notable. Total gross capital formation (6.4%) grew at an annual rate above that of fixed capital, resulting from the positive and significant statistical discrepancy component and variation in inventories, according to the most recent figures published by DANE.

The external trade deficit in constant pesos continued to expand quarter-on-quarter and year-on-year as imports continued to be strong, while exports remained sluggish. During the second quarter, the favorable performance of domestic demand, particularly in durable consumption and investment in machinery and equipment, led to a considerable increase in imports (9.5% annual and 10.7% a.q.). Durable and capital goods primarily drove this increase, particularly transportation equipment and industrial machinery. Exports in real pesos, meanwhile, showed modest annual growth of 0.6%, limited by the poor performance of mining exports. In contrast, agricultural exports continue to be strong, with growth concentrated in bananas and plantains, as well as food and chemical products. Exports of services, meanwhile, showed modest growth of 0.9% in annual terms (due to a quarterly decline of 10.1% a.q., which can be attributed to a decrease in foreign tourism. Given the above, the external trade deficit widened in the second quarter compared to the previous quarter and to that observed a year ago (Graph 3.11). Consequently, the trade deficit in constant pesos continued to make a negative contribution to the annual variation in GDP.

On the supply side, tertiary activities continued their annual momentum during the second quarter, serving as the pri-

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



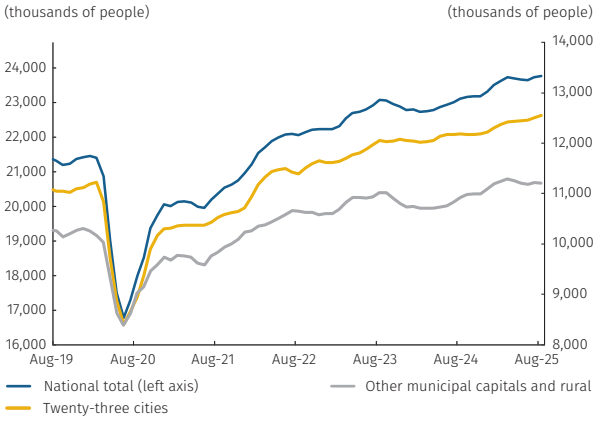
a/ Seasonally adjusted and corrected for calendar effects
Sources: DANE; calculations by *Banco de la República.*

mary contributors to economic growth. In contrast, mining and building construction performed poorly. The tertiary sector expanded by 3.2%, with a notable performance from artistic and entertainment activities (Graph 3.12), which continued to be fueled by the boom in internet-based gaming and online betting, as well as concerts in the country's main cities. Also striking is the positive performance of the retail, transportation, and hospitality sectors, which have been propelled by domestic retail activity that has surpassed even the boom of 2022 (when VAT-free days were used as an economic stimulus), as well as favorable behavior of air transportation services. Furthermore, information and communications services, as well as financial and insurance services, also had favorable renditions. Likewise, the secondary sector also contributed positively to annual growth, albeit with a more moderate rate of growth (0.8%). The latter was the result of year-on-year growth of the manufacturing industry, which was partially offset by declines in construction, particularly in the building segment. In contrast, the primary sector recorded an annual decline of 0.8%, due to the poor performance of the mining sector in coal, oil, and other metal ores, such as gold, despite the strong performance of agricultural activities associated with crops and livestock.

3.3 Labor market[4,5]

As for the labor market, employment continued to register significant annual growth, driven chiefly by activity in urban areas. In the rolling quarter ending August, the results of the Integrated Household Survey (GEIH for its Spanish acronym) revealed that national employment grew by 2.8% year-on-year, mainly spurred by the growth of employment in urban areas (3.0%), followed by, to a lesser extent, other municipal capitals and rural areas (2.6%). National annual employment growth was recorded in most economic sectors, with the greatest influence coming from manufacturing, commerce, and hospitality, as well as public administration, health, and education. Employment rebounded marginally compared to May (0.4%), reaching levels similar to those observed in March and continuing the upward trend seen in recent years. This performance was due to a quarterly increase in employment in the twenty-three main cities (0.8%), with no changes recorded in rural areas (Graph 3.13). Consistent with employment trends, the employment rate (ER) has risen slightly in recent months, ending August at 58.4%.

Graph 3.13
Employed population by location

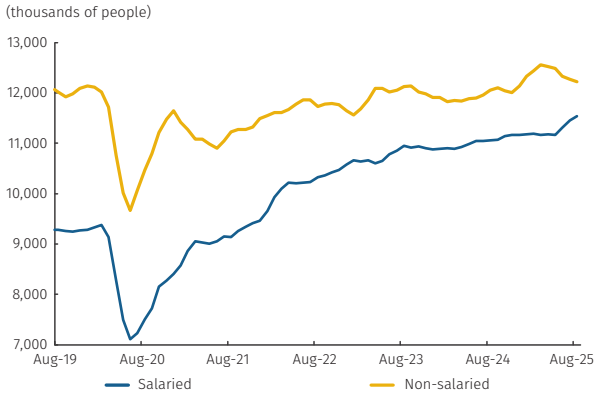


Note: Corresponds to rolling quarterly seasonally adjusted data
Sources: DANE (GEIH), calculations by *Banco de la República.*

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

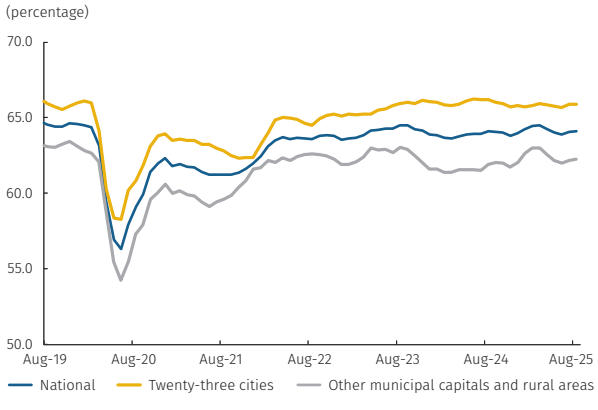
5 Labor market figures presented in this section of the Report are primarily for the rolling quarter ending August 2025.

Graph 3.14
Jobs by type of employment
(national total)



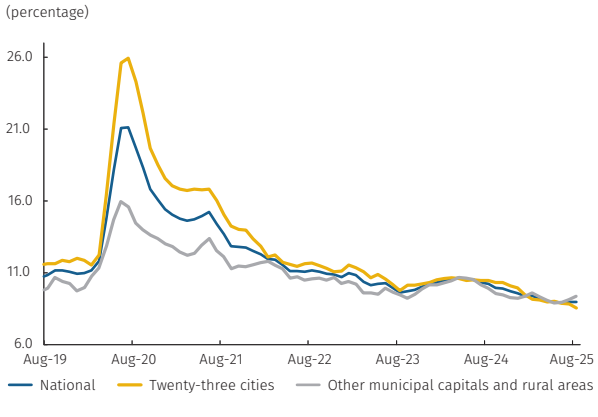
Note: Corresponds to rolling quarterly seasonally adjusted data
Sources: DANE (GEIH), calculations by *Banco de la República.*

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



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

Graph 3.16
Unemployment rate by location



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

By occupation, annual employment growth was driven by the salaried segment. In recent months, salaried employment has experienced a sustained upturn, reaching 11.5 million employed individuals, which is consistent with the recovery observed in major cities. In August, this segment saw annual and quarterly increases of 4.3% and 3.3%, respectively (Graph 3.14). Within the salaried group, private sector workers contributed most to annual national employment growth. This greater vitality is also mirrored by other data sources on formal salaried employment, including records of contributors to the Integrated Contribution Settlement Form (PILA for its Spanish acronym) and family compensation funds (CCF for its Spanish acronym). In contrast, non-salaried employment fell 2.1% quarter-on-quarter in August, although it still registered a year-on-year increase of 1.4%. As a result of the greater vitality observed in salaried employment and the contraction of non-salaried employment, which has a high informal component, the labor informality rate continued its downward trend, ending August at 55.3%.

The national labor force Global Participation Rate (GPR) remained relatively stable in recent months, with a slight upward correction at the margin. In August, the national GPR stood at 64.1%, a level similar to that observed a year ago (Graph 3.15), resulting from a 0.3 pp drop in urban areas and an increase of the same magnitude in rural areas. By geographic area, the GPR in the twenty-three main cities, as well as in other municipal capitals and rural areas, remained relatively unchanged compared to May. This stability in the national labor force participation rate coincides with the behavior of the population outside the labor force, or the inactive population, which did not alter from May.[6] By gender, there was an uptick in the labor force participation rate of men and a slight decline in that of women, ending August at 76.7% and 52.5%, respectively.[7]

The national aggregate unemployment rate remained at low levels, below its historical average. In August, seasonally adjusted figures showed the national unemployment rate at 9.0%, similar to the rate observed in May and lower than the 10.2% recorded a year prior. By geographic area, consistent with recent employment trends, the urban unemployment rate continued to decline (-0.4 percentage points compared to May), reaching historic lows (8.6%), while in rural areas it rebounded (0.5 pp compared to May) and stood at 9.4%. In annual terms, this represents reductions of 1.9 pp in urban unemployment and 0.6 percentage points in other capitals and rural areas (Graph 3.16). However, vast differences persist among the twenty-three main cities: Quibdó had the highest unemployment rate (25.4%) and Medellín the lowest

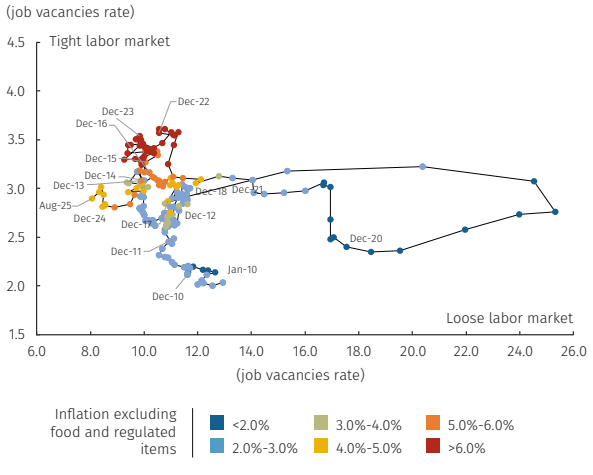
6 In annual terms, the population outside the labor force increased by 1.3% in August.

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

(6.4%). Compared to the previous year, the most significant declines in the unemployment rate were recorded in Florencia, (-6.2 pp); Cali, (-3.5 pp); and Pereira, (-3.3 pp). In contrast, Neiva was the only city to enjoy an increase (0.1 percentage points). Finally, the gender unemployment gap continued to narrow, falling from 4.5 pp in May to 4.2 pp in August, due to the decline in the unemployment rate for women and its concurrent increase for men.

In recent months, job vacancy indicators improved, short-term hiring expectations have continued to be positive, and medium-term expectations rebounded, suggesting an overall strong performance of formal employment. Short-term hiring expectations, as reported by the Manpower Group's September survey, showed a slight decline compared to the previous quarter. However, they remain positive, implying strong momentum in the formal sector for the near future. Likewise, medium-term expectations (in the six- to twelve-month horizon), as reported in *Banco de la República's* Quarterly Survey of Economic Expectations (ETE, for its Spanish acronym) for July, improved and indicated a positive outcome. Based on data through August, job vacancy rates obtained from classified ads, the Public Employment Service (SPE for its Spanish acronym), and implied hiring expectations derived from the GEIH household survey reported improved performance. The behavior of the unemployment rate and the vacancy rate in urban settings, as depicted by the Beveridge curve (Graph 3.17),[8] suggests a tight labor market. The latter is reflected in the data points positioned on the left side of the curve, where the unemployment rate continues to decline while the vacancy rate maintains its rising trajectory. Finally, based on data through July, real monthly job income for wage earners and non-wage earners continued its upward trend, with annual increases of 7.1% and 12.8%, respectively.

Graph 3.17
Beveridge curve for the seven largest cities



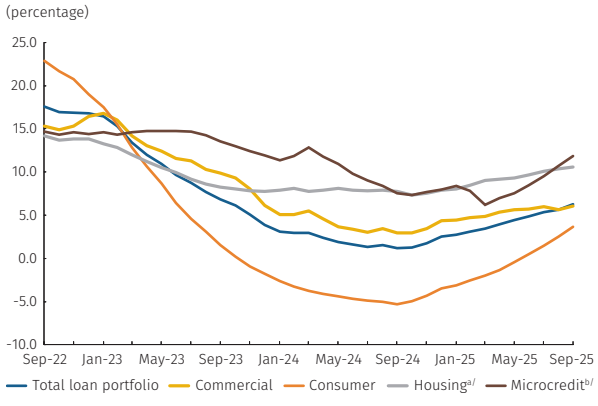
Notes: Rolling quarter seasonally adjusted data. GEIH's vacancy rate is estimated based on hires according to Morales, Hermida, and Dávalos' methodology (2019)
Sources: DANE (GEIH), calculations by *Banco de la República.*

3.4 Financial and monetary market

The loan portfolio has demonstrated a steady recovery throughout the year, amid relatively stable interest rates and improved risk indicators in the aggregate. Thus far in 2025, there has been a gradual recovery of the total loan portfolio—unbroken during the third quarter of the year—accompanied by improved credit demand perceptions and fewer lending restrictions. Real interest rates approached their historical averages, and loan portfolio quality indicators have continued to improve. Moreover, market agents continue to expect further reductions of the benchmark rate (MPR), although less than those anticipated earlier this year, as short-term inflation expectations increased. These promising loan conditions suggest that credit growth could conti-

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

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



a/ Adjusted housing: bank loan portfolio plus securitizations
b/Microcredit as of 01 March 2024 includes "Banco Contactar", entity that had previously operated as "Corporación de Crédito Contactar" under the oversight of the Superintendency of Corporate Affairs
Sources: Financial Superintendency of Colombia, calculations by *Banco de la República.*

Table 3.1
Interest rates
(average monthly, percentage)

	Dec-23	Jun-24	Dec-24	Jun-25	Sep-25
Interbank					
TPR	13.18	11.75	9.70	9.25	9.25
Interbank overnight	13.13	11.75	9.70	9.25	9.25
BBI overnight	13.13	11.75	9.70	9.25	9.25
BBI 1-month	13.10	11.47	9.44	9.24	9.24
BBI 3-months	12.81	11.01	9.20	9.17	9.19
BBI 6-months	12.35	10.49	8.86	9.06	9.11
BBI 12-months		9.65	8.40	8.87	8.96
Deposits					
Savings	6.23	5.36	4.30	4.04	3.95
DTF 90-days	12.63	10.14	9.22	8.94	8.76
CDT* 180-days	12.90	10.33	9.43	9.11	8.85
CDT 360-days	13.19	10.75	9.73	9.53	9.39
CDT > 360-days	12.71	11.32	9.97	10.16	9.94
Credit					
Preferential	17.05	13.65	11.92	11.59	11.17
Ordinary	17.93	15.66	13.13	12.79	12.74
Non-Public housing purchases	17.06	14.71	11.42	11.96	12.09
Public housing purchases	15.41	13.42	11.38	11.50	11.55
Personal loan consumption	28.16	24.73	21.18	20.46	20.49
Payroll loan consumption	19.83	18.14	16.58	16.76	16.59
Credit card	34.70	29.22	24.59	24.11	23.56

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

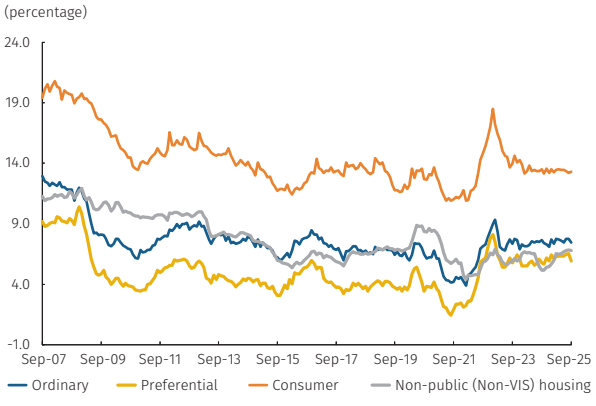
nue in the remainder of the year, which in turn could boost economic activity, particularly in private consumption.

During the third quarter, the loan portfolio continued to gain traction. Except for commercial loans, all other types of credit continued to show an upward trend in both their nominal and real annual variation rates, with a significant boost originating from the consumer loan portfolio (Graph 3.18). In real annual terms, the commercial loan portfolio remained stable with positive variations, while the housing loan portfolio grew from 4.8% in June to 5.6% in September. Consumer credit was the only type of credit that experienced negative real annual growth in September (-1.2%), yet continued on an upward trajectory with smaller annual contractions. The credit perception survey, as of June 2025, applied to banking entities showed favorable signs for loan portfolio placement, with positive demand perception and loan supply indicators for all loan types. The indicator on requirements for granting new loans showed a lessening of the restrictions applied by banks.[9] Disbursements for all credit types thus far this year have followed a positive trend, which continues to suggest a recovery in the loan portfolio in the context of higher disposable household income and real credit interest rates close to their historical averages.

The Board of Directors of *Banco de la República* (BDBR) decided to maintain the benchmark rate at 9.25%, and deposit and lending interest rates remained relatively stable. Higher inflation expectations, together with lower expected decreases in the monetary policy rate, have been reflected in some higher long-term interest rates. The stability of the benchmark rate in June, July, and September was mirrored by market interest rates. In the monetary market, shorter-term rates, such as the interbank interest rate (TIB) and the overnight and one-month benchmark banking indicators (IBR for its Spanish acronym), remained unchanged. However, the six- and twelve-month IBR rates registered upward adjustments, suggesting expectations of a slower reduction in the MPR than expected in the first half of the year, in line with increased inflation expectations. As for average CDT term deposit certificate interest rates, some drops were seen during the third quarter, although less pronounced for terms exceeding one year (Table 3.1). Lending interest rates, both nominal and real, remained relatively stable during the third quarter of 2025. In real terms, rates for household loans were below their historical average, while commercial interest rates continued to decline across the board and were very close to their historical averages (Graph 3.19).

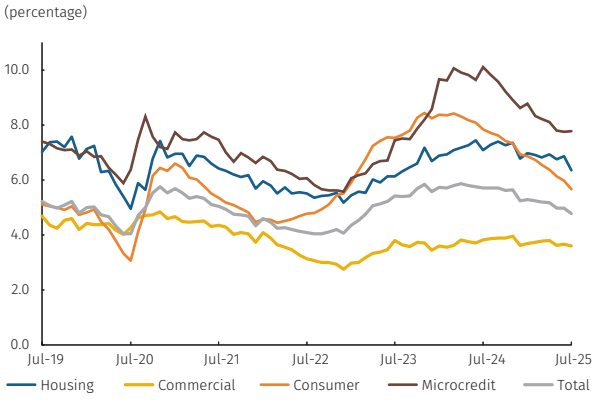
9 See *Banco de la República's* Quarterly Survey of the Credit Situation in Colombia for the second quarter of 2025: available in Spanish at https://www.banrep.gov.co/es/publicacionesinvestigaciones/reportesituacion-credito-colombia

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



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

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



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

The non-performing loans delinquency indicator has continued to improve, consistent with the behavior of the consumer loan portfolio, whose indicator is now close to its historical average. The profitability of credit institutions' profits continues to recover, and solvency levels remain well above regulatory minimums. The non-performing loans portfolio declined for all loan types; therefore, the non-performing loans delinquency indicator has shown consistent improvement year-to-date, with the consumer loan portfolio recording the biggest declines (Graph 3.20). This behavior has occurred in an environment where the debt-to-income ratio of households has continued to decline. The cumulative profits of credit institutions over the past twelve months reached COP 12.5 trillion (t) in July 2025, representing a 69% increase compared to the same period last year (COP 7.4 trillion). This performance remains primarily attributable to lower provision expenses, consistent with the reduced portfolio risk. Finally, based on data through July, the total (17.5%) and core (14.3%) solvency levels of credit institutions remain well above the regulatory minimums (9.0% and 4.5%, respectively).

Box 1
The Macroeconomic Imbalance Index (MII) for Colombia

Darío Perdomo Sánchez
Nicolle Valentina Herrera Pinto*

1. Introduction

Macroeconomic imbalances are understood as the deviations of key variables from their long-term equilibrium values. These imbalances can accumulate over time, often during economic boom periods, increasing an economy's vulnerability to adverse shocks and preface economic contractions and financial crises (Arteaga *et al*, 2013). To monitor Colombia's vulnerabilities, the Macroeconomic Imbalance Index (MII), initially proposed by Arteaga *et al* (2013), was updated and re-estimated. This tool seeks to summarize, in the aggregate, the deviations of four key variables of the Colombian economy from their long-term equilibrium levels: credit, housing prices, the current balance of payments account, and the real exchange rate. Additionally, a fifth indicator was included in an attempt to estimate the degree of fiscal imbalance. This Box describes the methodology for calculating the new MII and details the results for Colombia.

2. Methodology for estimating individual imbalances

The MII is built from the individual gaps or imbalances of its five components. To do so, a long-term equilibrium or trend level is estimated for each of the five indicators by combining three complementary methodologies: statistical filters, structural models based on economic theory, and panel data models that incorporate international experience.[1]

2.1 The credit imbalance

To analyze credit against its equilibrium level, total credit to the non-financial private sector is used in both real and per capita terms.[2] This variable avoids the potential distortions caused by the "denominator effect" of GDP fluctuations, a problem widely documented in the literature (Drehmann and Yetman, 2021; Repullo and Salas, 2011). The imbalance estimate combines three approaches. First, a cycle is obtained using the median of the trends generated by a set of univariate statistical filters[3] with parameters adjusted for financial cycles with a quarterly frequency (Baba *et al*, 2020). Secondly,

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* The authors are analysts at the Programming and Inflation Department. The opinions herein expressed are solely their responsibility and do not compromise the Bank or its Board of Directors. The authors wish to thank Carlos Huertas Campos, Viviana Alfonso Corredor, Manuela Quintero Jácome, David Camilo López Valenzuela, Steven Zapata Álvarez, Nicol Valeria Rodríguez Rodríguez, and Marlon Salazar Silva.

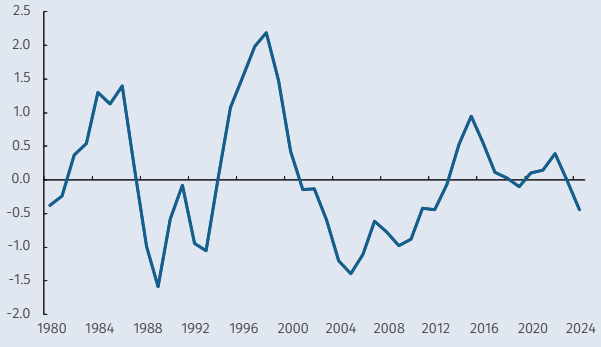
1 Although some methodologies use quarterly data, the resulting gaps are annualized by computing a simple average for each year, ensuring a standard frequency for aggregating the indicator.

2 Total credit data to the non-financial private sector are reported by the Bank for International Settlements (BIS).

3 Rolling average, Hodrick–Prescott (conventional and one-sided), STL, Hamilton, Baxter–King, Christiano–Fitzgerald, Butterworth, and trigonometric regression.

Graph B1.1
Average credit imbalance

(standard deviations from its mean)



Sources: Calculations by the authors.

an annual-frequency panel data model (FMOLS)[4] is estimated following Baba *et al* (2020) to capture the long-term relationship between credit and its macroeconomic fundamentals, including real GDP per capita, real deposits (M3) per capita, the real interest rate, and the demographic dependency ratio. Next, a structural model (VEC) with quarterly frequency is employed, following Galán and Mencía (2018), to estimate the leverage gap, which measures credit deviations from its equilibrium level.[5] Finally, a single imbalance indicator for credit is constructed by averaging the results of the three methodologies (Graph B1.1). Overall, the indicator successfully captures the recessions of the 1980s and 1990s, which were characterized by high levels of credit followed by financial crises. However, it fails to capture the episode of excess credit observed during 2006–2007,[6] which occurred amid bank liquidations of TES holdings (TES bonds are issued by the Colombian government and managed by *Banco de la República*), high international oil prices, low interest rates, and significant capital inflows[7] (López *et al*, 2020). Successively, the indicator shows a marked increase in credit imbalance during 2014–2015, coinciding with a sharp real rise in mortgage credit and housing prices, as well as the elevated international oil prices observed in previous years.[8] For 2024, the indicators suggest low credit imbalance; therefore, this factor does not represent a significant source of relevant macroeconomic vulnerability according to this measurement.

2.2 Housing price imbalance

The real estate market assessment is derived from the used housing price index (IPVU, for its Spanish acronym), estimated in real terms by *Banco de la República*.[9] Similarly, the housing price imbalance is determined using three methodologies. In the first, quarterly statistical filters are applied to estimate the median trend of the real IPVU and then determine its cycle. The second employs a panel data model (FMOLS)[10] with an annual frequency based on the determinants identified by Tripathi (2019) to estimate a price level compatible with fundamental criteria that include GDP per

4 The countries considered are Australia, Colombia, Spain, Finland, Ireland, the United States, the United Kingdom, Italy, Canada, Chile, Korea, Mexico, Austria, Belgium, France, Germany, Hungary, Israel, the Netherlands, Norway, Portugal, Sweden, Switzerland, India, Indonesia, Malaysia, and Singapore.

5 The model incorporates a vector of endogenous variables comprising credit, real GDP, the real interest rate, and housing prices in real terms, and it imposes a long-term one-to-one relationship between credit and GDP.

6 In 2006, there was a credit supply shock financed by the sale of TES public debt securities. This episode was widely documented in the Reports to Congress and Financial Stability Reports published during that period by the Central Bank of Colombia.

7 The absence of a signal in the indicator could stem from its structural components interpreting the expansion of credit as consistent with the strong performance of macroeconomic fundamentals during that period.

8 Although crude prices fell and the housing boom ended in 2015, the credit stock continued above its long-term trend.

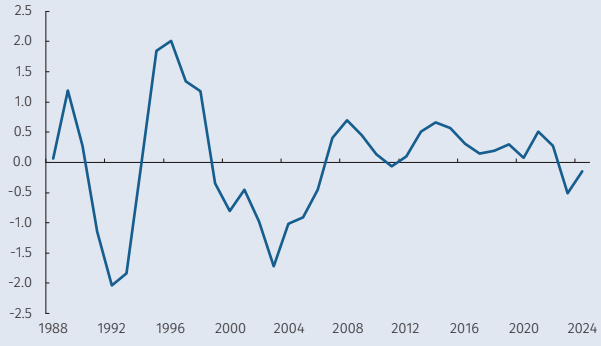
9 The IPVU estimated by *Banco de la República* includes data since 1988.

10 The countries considered are Australia, Colombia, Spain, Finland, Ireland, the United States, the United Kingdom, Italy, Canada, Korea, Belgium, France, Germany, Israel, the Netherlands, Norway, Portugal, Sweden, and Switzerland.

capita, credit, working-age population, rents, and price-to-income and price-to-rent ratios.[11] The third is the estimate of the non-fundamental component of housing prices, which uses the PSY-IVX methodology initially proposed by Phillips and Shi (2023) and subsequently applied to the Colombian case by Rodríguez and Perdomo (2025).[12] This last methodology allows the series to be broken down into two components: a fundamental component and another component that seeks to capture deviations associated with speculative behavior. To conclude, a single imbalance indicator for used housing prices is structured by averaging the results of the three methodologies outlined above (Graph B1.2). This indicator captures the housing boom and subsequent crisis observed in the second half of the 1990s and currently does not suggest that housing prices are a source of macroeconomic vulnerability.

Graph B1.2
Average used housing prices imbalance

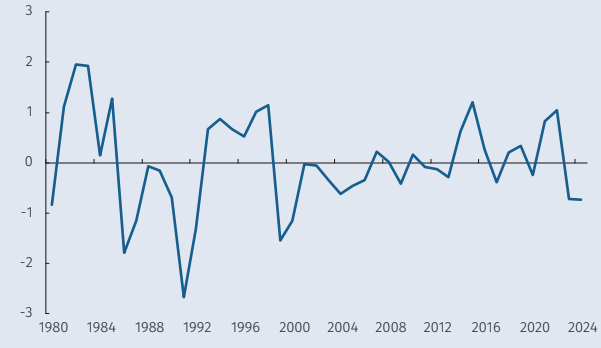
(standard deviations from its mean)



Sources: Calculations by the authors.

Graph B1.3
Average current account imbalance

(standard deviations from its mean)



Sources: Calculations by the authors.

2.3 Current account imbalance

The potential vulnerabilities of the external sector are assessed by measuring the deviation of the current account deficit from its reference level, which is defined by its fundamental determinants under various approaches. This assessment relies on three methodologies: (i) the application of univariate statistical filters; (ii) a cointegration model between external income and expenditure that verifies the long-term relationship between the country's trade and income flows (Arteaga *et al*, 2013; Husted, 1992); and (iii) a panel data model (FMOLS) which, following Torres and Cote (2017), Barbosa *et al* (2024), and Salazar (2025), estimates a current account norm based on fundamentals such as credit, public debt, relative GDP per capita, and Net International Investment Position (NIIP).[13] Finally, a single imbalance indicator for the current account is constructed (Graph B1.3), where positive values indicate a current account deficit above its equilibrium level. Overall, the indicator captures episodes in which the deficit widened significantly—such as the period preceding the 1994–1999 recession, the deterioration in the terms of trade in 2014, and the surge in domestic demand in 2022. Under this methodology, the current readings do not signal vulnerability arising from the external current account deficit.

2.4 Real exchange rate imbalance

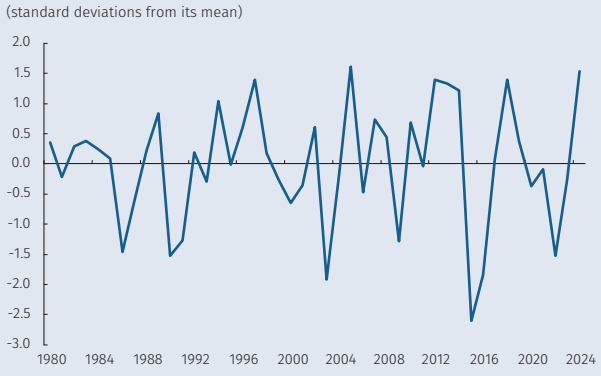
The imbalance signal from the real exchange rate is measured using three standard methodologies from the literature. The first is relative purchasing power parity (RPPP), which estimates the long-term trend using the median of univariate statistical filters at a quarterly frequency, following Arteaga *et al* (2013). The second approach is the behavioral equilibrium exchange rate (BEER), which approximates the real equilibrium exchange rate based on macroeconomic fundamentals – such as fiscal variables, external conditions, and productivity - using the BEER methodology of Miles,

11 The price-to-income ratio measures the affordability of housing in relation to household income while the price-to-rent ratio captures the relative profitability of buying a property versus renting it.

12 The authors apply seven categories of macroeconomic fundamentals to the Colombian case: rents, interest rates, macroeconomic conditions, uncertainty, demand factors, supply factors, and production costs.

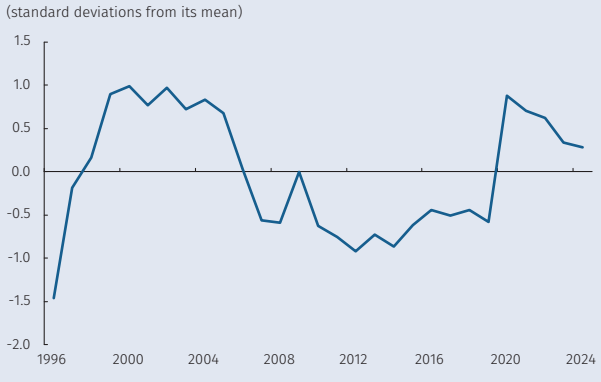
13 The countries considered are Barbados, Belize, Bolivia, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, Guatemala, Honduras, Jamaica, Panama, Paraguay, Peru, El Salvador, India, Indonesia, Israel, Jordan, Korea, Malaysia, Nepal, Pakistan, Papua New Guinea, and the Philippines.

Graph B1.4
Average real exchange rate imbalance



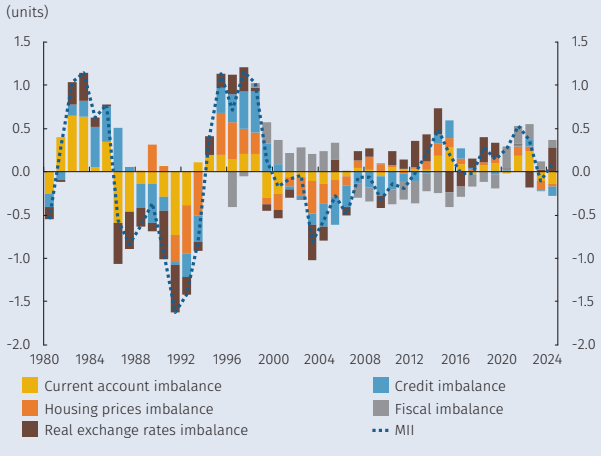
Sources: Calculations by the authors.

Graph B1.5
Average fiscal imbalance



Sources: Calculations by the authors.

Graph B1.6
Macroeconomic imbalance index by component [a/]



a/ Each component is expressed in normalized units and weighted by the weights of the main components.
Sources: Calculations by the authors.

Adler, and Grisse (2017) applied to Colombia by Salazar *et al* (2023), which incorporates several econometric specifications. The third methodology employed is the fundamental equilibrium exchange rate (FEER), which computes the real equilibrium exchange rate level needed to ensure external equilibrium by closing the gap between the underlying current account and the normative current account[14] (Arteaga *et al*, 2013). Lastly, the aggregate imbalance indicator for the real exchange rate is constructed (Graph B1.4). Under this methodology, a positive imbalance value is observed in 2024, corresponding to an appreciation of the exchange rate.

2.5 Fiscal imbalance

The imbalance indicator, used to assess possible signs of fiscal vulnerability, is estimated using three complementary methodologies. The first approach is the debt service ratio (DSR), which measures the percentage of government revenue allocated to servicing the debt, and incorporates the implicit real interest rate, the average life, and the stock of debt in its computation (Drehmann and Juselius, 2012). The second methodology employed is a regional comparison index, which gauges the deviation of Colombia's key fiscal indicators[15] from the average of a group of peer countries, including Brazil, Chile, Mexico, Peru, Paraguay, and Uruguay (Baldacci *et al.*, 2011; Ojeda *et al.*, 2012). The third methodology measures fiscal imbalance according to the difference between the primary balance that maintains a constant public debt-to-GDP ratio (which is contingent on the fundamentals of the real natural interest rate and potential GDP growth) and the primary balance adjusted for the economic and oil cycles (IMF, Fiscal Monitor). All three approaches interpret a positive value of the indicator as a sign of greater fiscal vulnerability. As a result (Graph B1.5), the aggregate fiscal imbalance indicator distinguishes periods when significant fiscal pressures contributed to macroeconomic vulnerability, particularly during 1998-2006 and, more recently, 2020-2024.

3. Construction of the aggregate MII

Once the five individual gaps have been estimated, they are standardized by subtracting their mean and dividing by their standard deviation, making them comparable. Following the original methodology of Arteaga *et al* (2013), the aggregate Macroeconomic Imbalance Index (MII) is constructed as a weighted average of these standardized gaps. The weights are obtained through principal component analysis (PCA), which assigns greater weight to the variables that explain a larger share of the system's joint variance, thereby capturing common imbalance dynamics[16] (Graph B1.6). According to the graphical depiction, the current imbalance of the real exchange rate and the fiscal imbalance—potentially related—are the two primary sources of vulnerability for the Colombian

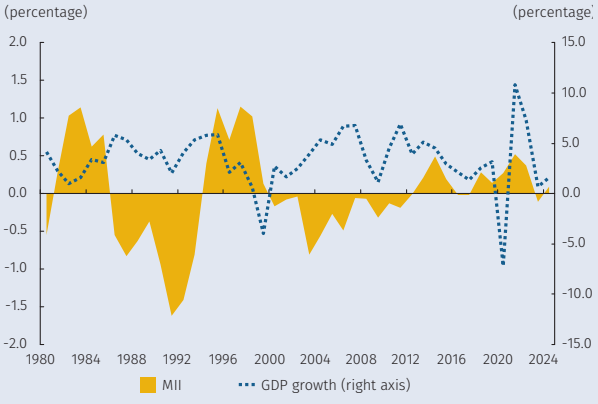
14 The normative current account refers to the level of the current account balance that is considered consistent with the macroeconomic equilibrium fundamentals.

15 It includes gross debt, net debt, the primary balance, and tax revenue as a percentage of GDP; the CDS (Credit Default Swap spread); the EMBI (Emerging Markets Bond Index spread); external debt as a percentage of total debt; the implicit real interest rate on public debt minus economic growth; and the NIIP (Net International Investment Position).

16 Due to the availability of IPVU data from 1988 onwards, for the 1980-1987 period the IDM re-estimates the weights using imbalances in the current account, the real exchange rate and credit.

economy. This finding is consistent with some risks surrounding the macroeconomic forecast presented in this *Report*.

Graph B1.7
Macroeconomic imbalance index and GDP growth



Sources: Calculations by the authors.

4. Historical imbalances analysis and assessment of the MII

An attractive attribute of a vulnerability indicator is that high positive values precede crises or periods of significant economic contraction (Arteaga *et al*, 2013). The historical behavior of the MII (Graph B1.7) demonstrates that it has indeed signaled several episodes of imbalance accumulation in the Colombian economy.

The most notable case corresponds to the period preceding the crisis of the late 1990s. Between 1994 and 1998, the MII displayed a marked and sustained buildup of imbalances, reaching its historical peak. This vulnerability was broad-based, with positive and significant contributions from most of its components (Graph B1.6). During this period, the economy experienced a credit boom, a sharp overvaluation of housing prices, persistent real currency appreciation, and a growing external deficit (Arteaga *et al*, 2013). The magnitude and breadth of these simultaneous imbalances—captured by the MII—would have served as a real-time warning of the economy's heightened fragility.

Following the crisis, the economy underwent a significant adjustment process, reflected in negative MII values during the first half of the 2000s. These improvements, however, were partly offset by fiscal deterioration. This fiscal imbalance stemmed largely from pressures on public spending associated with the crisis and the resulting increase in debt and debt-service burdens, which kept the government's structural position in a vulnerable zone. Between 2007 and 2008, the imbalances were low and mixed: although vulnerability pressures were amassing from the current account, housing prices, and the real exchange rate, they were counterbalanced by a strong fiscal correction. This macroeconomic context helps explain why the international financial crisis had much milder effects on the Colombian economy compared to the impacts seen during previous adverse external shocks.

The indicator also captured the high commodity-price cycle. Between 2013 and 2014, the MII recorded a new phase of imbalance accumulation, driven mainly by currency appreciation and a widening external deficit by 2014. The subsequent decline in oil prices from that year onward triggered a macroeconomic adjustment that was reflected in the gradual moderation of the index.

In 2021, the indicator reached a new peak—although still below the record observed in the late 1990s—driven by the strong recovery in domestic demand following the pandemic. Graph B1.6 illustrates the main contributors that year: a pronounced fiscal imbalance caused by high levels of debt and a large primary deficit, a historically high current account imbalance, and a significant increase in housing prices. Since 2022, a rapid and substantial correction has taken place, resulting in negative MII values by 2023. This adjustment was driven by a marked improvement on the external front, reflected in negative contributions from the current account and a correction in housing price imbalances, amid an increase in the monetary policy rates to restrictive levels. In 2024, the MII returned to positive but low levels, with vulnerability sources concentrated on the real exchange rate and public finances. Regarding the latter, there were marked increases in CDS and EMBI spreads, debt levels above those of regional peers, and greater deviations of the cyclically-adjusted primary balance (CAPB) from the primary balance consistent with a stable debt ratio. Recent figures for these variables in 2025 indicate that these imbalances continue to persist.

In summary, the MII is an indicator that quantifies the country's potential macroeconomic imbalances and has demonstrated its ability to detect periods wherein the economy has accumulated imbalances, increasing its vulnerability to adverse shocks.

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

	Unit	Oct-25	Dec-25	Oct-26	Dec-26	Oct-27
Headline CPI	Monthly variation (average)	0.14	n. a.	n. a.	n. a.	n. a.
CPI excluding food	Monthly variation (average)	0.18	n. a.	n. a.	n. a.	n. a.
CPI excluding food and regulated	Monthly variation (average)	0.19	n. a.	n. a.	n. a.	n. a.
CPI food	Monthly variation (average)	0.01	n. a.	n. a.	n. a.	n. a.
CPI regulated	Monthly variation (average)	0.17	n. a.	n. a.	n. a.	n. a.
Headline CPI	Annual variation (average), end of period	5.47[c/]	5.21	4.27	4.23	3.69
CPI excluding food	Annual variation (average), end of period	5.11[c/]	4.86	4.21	4.12	3.59
CPI excluding food and regulated	Annual variation (average), end of period	4.89[c/]	4.76	4.11	4.00	3.44
CPI food	Annual variation (average), end of period	7.02[c/]	6.39	4.27	4.18	3.85
CPI regulated	Annual variation (average), end of period	5.89[c/]	5.40	4.66	4.56	3.97
Nominal exchange rate	COP per USD, end of period	3,900	4,000	4,046	4,100	4,100
Monetary policy rate	Percentage, end of period	9.25	9.25	8.50	8.25	7.25

	Unit	III-2025	IV-2025	2025	I-2026	II-2026	III-2026	IV-2026	2026	I-2027	II-2027	III-2027
GDP	Annual change, original series	2.8	2.6	2.6	2.7	2.9	2.9	3.0	2.9	2.9	3.0	n. a.
Unemployment	Thirteen cities, quarterly average	8.4	8.9	n. a.	9.8	9.1	9.0	8.8	n. a.	9.3	9.1	n. a.
IBR (90 days)	Effective annual rate, end of period	n. a.	9.2	n. a.	9.2	8.9	8.6	8.1	n. a.	7.8	7.3	7.1
Fiscal Deficit (GNC) [d/]	Share of GDP	n. a.	n. a.	7.5	n. a.	n. a.	n. a.	n. a.	7.0	n. a.	n. a.	n. a.
Direct Account Deficit[d/]	Share of GDP	n. a.	n. a.	2.5	n. a.	n. a.	n. a.	n. a.	3.0	n. a.	n. a.	n. a.

n.a.: Not available.
n.r.: Not relevant, given that the data has already been observed.
a/ The survey excluded the question related to the DTF starting with the April 2023 *Banco de la República's* Monthly Survey of Economic Analyst Expectations.
Expectations (EME for its Spanish acronym) conducted by *Banco de la República.*
b/ Is the response median to *Banco de la República's Monthly Survey of Economic Analyst Expectations*, except for the CPI and CPI excluding food, which are the response average.
c/ Data calculated based on the results of *Banco de la República's* Monthly Survey of Economic Analyst Expectations (EME).
d/ Positive values represent deficit and negative values represent surplus.
Sources: *Banco de la República*, Monthly Survey of Economic Analyst Expectations, conducted in October 2025.

Appendix 2
Main Macroeconomic Forecasting Variables

		Years										
		2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Exogenous variables												
External [a/]												
GDP of trading partners [b/]	Percentage, annual var., seasonally adjusted	1.6	3.2	2.5	1.5	-6.6	8.3	3.7	2.5	1.8	**2.1**	**2.0**
Oil price (Brent benchmark)	Dollars per barrel, average of the period	45	55	72	64	43	71	99	82	80	**68**	**58**
Federal funds effective rate (Fed)	Percentage, average for the period	0.4	1.0	1.8	2.2	0.4	0.1	1.7	5.0	5.1	**4.2**	**3.4**
5-year Credit Default Swap for Colombia	Basis points, average for the period	212	129	114	99	142	142	259	246	187	**212**	**222**
Internal												
Neutral real interest rate for Colombia	Percentage, average for the period	1.6	1.3	1.3	1.2	1.3	1.5	1.9	2.2	2.4	**2.7**	**3.1**
Potential GDP for Colombia (trend)	Percentage, annual change	2.8	2.4	2.4	2.4	-0.1	3.9	3.6	2.8	2.7	**2.5**	**2.7**
Endogenous variables												
Prices												
Total CPI [c/]	Percentage, annual change, end of period	5.7	4.1	3.2	3.8	1.6	5.6	13.1	9.3	5.2	**5.1**	**3.6**
CPI excluding food [d/]	Percentage, annual change, end of period	5.5	5.0	3.5	3.5	1.0	3.4	10.0	10.3	5.6	.	.
CPI for goods (excluding food and regulated items)	Percentage, annual change, end of period	5.9	3.2	1.4	2.2	0.6	3.3	15.0	7.1	0.6	.	.
CPI for services (excluding food and regulated items)	Percentage, annual change, end of period	5.3	5.4	3.1	3.5	1.3	2.2	7.4	9.0	7.0	.	.
CPI for regulated items	Percentage, annual change, end of period	5.6	6.3	6.7	4.8	0.7	7.1	11.8	17.2	7.3	**5.5**	**4.0**
CPI for food [e/]	Percentage, annual change, end of period	6.7	0.5	1.9	5.8	4.8	17.2	27.8	5.0	3.3	**6.0**	**3.2**
CPI for perishable food	Percentage, annual change, end of period	-6.6	5.8	8.9	8.7	2.5	24.4	36.4	-0.5	5.1	.	.
CPI for processed food	Percentage, annual change, end of period	10.7	-0.9	-0.1	5.0	5.4	15.3	25.3	6.7	2.8	.	.
Core inflation indicators [f/]												
CPI excluding food	Percentage, annual change, end of period	5.5	5.0	3.5	3.5	1.0	3.4	10.0	10.3	5.6	.	.
Core CPI 15	Percentage, annual change, end of period	6.0	4.2	3.2	3.8	1.9	4.4	11.6	9.5	5.4	.	.
CPI excluding food and regulated items	Percentage, annual change, end of period	5.5	4.7	2.6	3.1	1.1	2.5	9.5	8.4	5.2	**4.7**	**3.5**
Average of all core inflation indicators	Percentage, annual change, end of period	5.7	4.6	3.1	3.4	1.3	3.4	10.4	9.4	5.4	.	.
Representative market exchange rate	Pesos per dollar, average for the period	3,053	2,951	2,957	3,282	3,691	3,747	4,257	4,330	3,921	.	.
Real exchange rate Inflationary gap	Percentage, average for the period	2.5	-1.7	-0.7	3.6	7.0	2.2	6.7	1.4	-4.7	**-5.6**	**-1.8**
Economic activity												
Gross domestic product (sats)*	Percentage, annual change, sats	2.1	1.4	2.6	3.2	-7.2	10.8	7.3	0.7	1.6	**2.6**	**2.9**
Final consumption expense	Percentage, annual change, sats	1.6	2.3	4.0	4.3	-4.2	13.8	9.0	0.6	1.4	.	.
Household final consumption expenditure	Percentage, annual change, sats	1.6	2.1	3.2	4.1	-5.0	14.7	10.8	0.4	1.6	.	.
General government final consumption expenditure	Percentage, annual change, sats	1.8	3.6	7.4	5.3	-0.8	9.8	1.0	1.6	0.7	.	.
Gross capital formation	Percentage, annual change, sats	-0.2	-3.2	1.5	3.0	-20.7	11.6	16.0	-16.0	5.2	.	.
Gross fixed capital formation	Percentage, annual change, sats	-2.9	1.9	1.0	2.2	-23.6	16.7	11.5	-12.7	3.2	.	.
Housing	Percentage, annual change, sats	-0.2	-1.9	-0.4	-8.9	-32.7	39.8	2.0	-4.4	-2.4	.	.
Other buildings and structures	Percentage, annual change, sats	0.0	4.6	-3.5	1.1	-30.8	0.9	-4.3	-5.5	9.6	.	.
Machinery and equipment	Percentage, annual change, sats	-7.9	1.4	8.6	12.3	-13.3	23.3	30.5	-22.6	1.7	.	.
Cultivated biological resources	Percentage, annual change, sats	13.1	0.3	-3.1	7.9	-1.8	-0.9	-12.5	5.0	8.2	.	.
Intellectual property products	Percentage, annual change, sats	-12.0	1.2	1.5	-0.7	-8.3	3.4	7.3	2.0	-0.3	.	.
Domestic demand	Percentage, annual change, sats	1.2	1.1	3.5	4.0	-7.5	13.4	10.3	-2.5	2.0	.	.
Exports	Percentage, annual change, sats	-0.2	2.6	0.6	3.1	-22.5	14.6	12.5	3.1	2.5	.	.
Imports	Percentage, annual change, sats	-3.5	1.0	5.8	7.3	-20.1	26.7	24.0	-9.9	4.4	.	.
Product gap [g/]	Percentage	0.3	-0.8	-0.6	0.2	-7.2	-0.8	2.9	0.8	-0.3	**-0.2**	**0.0**
Short-term indicators												
Real production of manufacturing industry	Percentage, annual change, seasonally adjusted	3.5	0.0	2.9	1.3	-8.1	16.2	10.4	-4.7	-2.5	.	.
Retail trade sales, excluding fuels or vehicles	Percentage, annual change, seasonally adjusted	2.0	-0.1	5.4	8.1	-1.6	12.1	9.4	-3.9	1.5	.	.
Coffee production	Percentage, annual change, cum. for period	0.4	-0.3	-4.5	8.8	-5.8	-9.5	-11.9	2.4	23.4	.	.
Oil production	Percentage, annual change, period average	-11.9	-3.6	1.3	2.4	-11.8	-5.8	2.4	3.0	-0.6	.	.
Labor market [h/]												
Total national												
Unemployment rate	Percentage, annual change, period average	9.5	9.7	10.0	10.9	16.7	13.8	11.2	10.2	10.2	**9.0**	**8.8**
Occupancy Rate	Percentage, annual change, period average	60.5	60.0	59.1	57.7	50.4	53.1	56.5	57.6	57.4	.	.
Overall participation rate	Percentage, annual change, period average	66.9	66.4	65.7	64.8	60.4	61.5	63.6	64.1	63.9	.	.
Thirteen cities and metropolitan areas												
Unemployment rate	Percentage, annual change, period average	10.3	11.0	11.1	11.5	19.1	15.2	11.4	10.4	10.1	**8.5**	**8.2**
Occupancy Rate	Percentage, annual change, period average	61.7	60.5	59.6	58.8	50.8	53.8	58.1	59.5	59.9	.	.
Overall participation rate	Percentage, annual change, period average	68.8	67.9	67.1	66.4	62.7	63.5	65.5	66.3	66.7	.	.
Balance of payments [i/ j/]												
Current account (A + B + C)	Millions of dollars	-12,587	-9,924	-14,041	-14,809	-9,267	-17,949	-20,853	-8,283	-7,290	**-11,107**	**-14,032**
Percentage of GDP	Percentage, nominal terms	-4.4	-3.2	-4.2	-4.6	-3.4	-5.6	-6.0	-2.2	-1.7	**-2.5**	**-3.0**
A. Goods and services	Millions of dollars	-13,451	-8,762	-10,556	-14,148	-13,105	-20,001	-16,068	-7,766	-9,549	**-14,986**	**-19,144**
B. Primary income (factor income)	Millions of dollars	-5,312	-8,046	-11,442	-9,716	-4,950	-8,723	-17,086	-13,439	-13,248	**-12,787**	**-12,146**
C. Secondary income (current transfers)	Millions of dollars	6,177	6,883	7,957	9,055	8,788	10,775	12,301	12,922	15,507	**16,665**	**17,257**
Financial account (A + B + C + D)	Millions of dollars	-12,339	-9,625	-12,954	-13,298	-8,113	-16,693	-20,466	-7,849	-5,864	.	.
Percentage of GDP	Percentage, nominal terms	-4.4	-3.1	-3.9	-4.1	-3.0	-5.3	-5.9	-2.1	-1.4	.	.
A. Foreign investment (ii - i)	Millions of dollars	-9,341	-10,011	-6,172	-10,836	-5,725	-6,381	-13,799	-15,525	-9,489	.	.
i. Foreign Investment in Colombia (FDI)	Millions of dollars	13,858	13,701	11,299	13,989	7,459	9,561	17,182	16,794	14,065	.	.
ii. Colombian abroad	Millions of dollars	4,517	3,690	5,126	3,153	1,733	3,181	3,384	1,269	4,576	.	.
B. Portfolio investment	Millions of dollars	-4,945	-1,800	862	24	-1,768	-4,595	427	8,663	2,273	.	.
C. Other investment (loans, other credits, and derivatives)	Millions of dollars	1,781	1,641	-8,831	-5,820	-4,949	-6,371	-7,665	-2,705	-2,241	.	.
D. Reserve assets	Millions of dollars	165	545	1,187	3,333	4,328	654	571	1,718	3,593	.	.
Errors and omissions (E&O)	Millions of dollars	247	299	1,087	1,510	1,153	1,256	387	435	1,426	.	.
Interest rates												
Policy interest rate [k/]	Percentage, period average	7.1	6.1	4.4	4.3	2.9	1.9	7.2	13.0	11.4	.	.
Policy rate expected by analysts [l/]	Percentage, period average										**9.3**	**8.9**
IBR overnight	Percentage, period average	7.1	6.1	4.3	4.3	2.9	1.9	7.2	13.0	11.4	.	.
Commercial interest rate [m/]	Percentage, period average	12.8	11.1	9.3	8.8	7.4	6.2	13.3	18.7	11.7	.	.
Consumer interest rate [n/]	Percentage, period average	19.2	19.4	17.9	16.5	15.0	14.3	21.1	27.9	18.5	.	.
Mortgage interest rate [o/]	Percentage, period average	12.4	11.6	10.6	10.4	10.1	9.1	12.9	17.7	11.8	.	.

Note: values in bold are forecasts or assumptions.
sats: seasonally adjusted time series, modified to eliminate the effect of seasonal and calendar influences.
a/ Quarterly data in bold are assumptions based on the annual forecast of each variable.
b/ Calculated with the main trading partners (excluding Venezuela) weighted by their share of trade.
c/ The medium term forecast corresponds to the average of the estimates obtained from the technical staff's central models (4GM and PATACON).
d/ Calculations by *Banco de la República*; excluding the CPI item weight for food and non-alcoholic beverages. Consult González, E.; Hernández, R.; Caicedo, E.; Martínez-Cortés, N.; Grajales, A.; Romero, J. (2020). "Nueva clasificación del Banrep de la canasta del IPC y revisión de las medidas de inflación básica en Colombia", *Borradores de Economía*, No. 122, *Banco de la República*, available at: https://investiga.banrep.gov.co/es/be-1122.
e/ Calculations by *Banco de la República*; equal to the division of the CPI of food and non-alcoholic beverages produced by DANE (not including the subclasses corresponding to meals outside the home). See González, E.; Hernández, R.; Caicedo, E.; Martínez-Cortés, N.; Grajales, A.; Romero, J. (2020). "Nueva clasificación del Banrep de la canasta del IPC y revisión de las medidas de inflación básica en Colombia", Working Papers on Economics, No. 122, *Banco de la República*, available at: https://investiga.banrep.gov.co/es/be-1122.
f/ Calculations by *Banco de la República*. See González, E.; Hernández, R.; Caicedo, E.; Martínez-Cortés, N.; Grajales, A.; Romero, J. (2020). "Nueva clasificación del Banrep de la canasta del IPC y revisión de las medidas de inflación básica en Colombia", Working Papers on Economics, No. 122, *Banco de la República*, available at: https://investiga.banrep.gov.co/es/be-1122.
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h/ Rates are calculated based on seasonally adjusted annual populations.
i/ The results presented follow the recommendations of the sixth edition of the Balance of Payments and International Investment Position Manual (BPM6). See additional information and method changes at http://www.banrep.gov.co/ balance-payments.
j/ Results for 2023 and 2024 are preliminary
k/ Corresponds to the average annual monetary policy interest rate calculated with the working days of the series.
l/ These projections are calculated as the average of the interest rate that would be in effect in each year according to the median of the monthly responses to the Monthly Survey of Economic Analyst Expectations (EME) conducted by *Banco de la República* in October 2025.
m/ Weighted average of interest rates on ordinary, treasury and preferential loans.
n/ Does not include loans granted through credit cards.
o/ Corresponds to the weighted average of interest rate of the disbursements in COP and UVR (real value unit for its Spanish acronym) for the acquisition of No VIS housing (housing that is not social interest housing).

Appendix 2 (continuation)
Main Macroeconomic Forecasting Variables

		2020				2021			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Exogenous variables									
External [a/]									
GDP of trading partners [b/]	Percentage, annual var,, seasonally adjusted	-1.1	-15.6	-6.6	-3.0	0.6	18.8	8.9	6.4
Oil price (Brent benchmark)	Dollars per barrel, average of the period	51	33	43	45	61	69	73	80
Federal funds effective rate (Fed)	Percentage, average for the period	1.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1
5-year Credit Default Swap for Colombia	Basis points, average for the period	125	206	132	104	110	131	143	185
Internal									
Neutral real interest rate for Colombia	Percentage, average for the period								
Potential GDP for Colombia (trend)	Percentage, annual change								
Endogenous variables									
Prices									
Total CPI [c/]	Percentage, annual change, end of period	3.9	2.2	2.0	1.6	1.5	3.6	4.5	5.6
CPI excluding food [d/]	Percentage, annual change, end of period	3.3	1.4	1.6	1.0	1.1	2.7	3.0	3.4
CPI for goods (excluding food and regulated items)	Percentage, annual change, end of period	2.4	0.7	1.2	0.6	1.1	2.6	3.0	3.3
CPI for services (excluding food and regulated items)	Percentage, annual change, end of period	3.2	2.0	1.9	1.3	0.9	1.6	2.0	2.2
CPI for regulated items	Percentage, annual change, end of period	4.3	0.4	1.2	0.7	1.5	5.9	5.9	7.1
CPI for food [e/]	Percentage, annual change, end of period	7.2	6.5	4.1	4.8	3.9	8.5	12.4	17.2
CPI for perishable food	Percentage, annual change, end of period	9.8	2.5	-3.4	2.5	1.6	8.7	14.8	24.4
CPI for processed food	Percentage, annual change, end of period	6.5	7.8	6.4	5.4	4.6	8.5	11.7	15.3
Core inflation indicators [f/]									
CPI excluding food	Percentage, annual change, end of period	3.3	1.4	1.6	1.0	1.1	2.7	3.0	3.4
Core CPI 15	Percentage, annual change, end of period	3.6	2.2	2.3	1.9	1.7	3.4	3.8	4.4
CPI excluding food and regulated items	Percentage, annual change, end of period	3.0	1.6	1.7	1.1	0.9	1.9	2.3	2.5
Average of all core inflation indicators	Percentage, annual change, end of period	3.3	1.7	1.9	1.3	1.2	2.7	3.0	3.4
Representative market exchange rate	Pesos per dollar, average for the period	3,540	3,850	3,731	3,662	3,559	3,695	3,847	3,882
Real exchange rate Inflationary gap	Percentage, average for the period	5.7	11.9	6.7	3.5	-0.1	2.3	3.4	3.3
Economic activity									
Gross domestic product (sats)*	Percentage, annual change, sats	0.3	-16.7	-9.1	-3.3	1.5	18.5	13.5	11.1
Final consumption expense	Percentage, annual change, sats	3.9	-14.4	-7.5	1.1	3.7	21.8	18.5	12.8
Household final consumption expenditure	Percentage, annual change, sats	4.5	-16.9	-8.5	0.9	2.7	25.3	19.6	13.9
General government final consumption expenditure	Percentage, annual change, sats	0.8	-2.9	-2.6	1.7	8.3	8.5	13.5	9.0
Gross capital formation	Percentage, annual change, sats	-11.2	-31.2	-17.5	-23.1	-5.6	33.3	8.5	15.7
Gross fixed capital formation	Percentage, annual change, sats	-12.7	-41.3	-24.8	-14.9	2.8	42.4	15.3	14.0
Housing	Percentage, annual change, sats	-25.6	-47.7	-30.0	-26.1	22.8	64.0	31.3	47.8
Other buildings and structures	Percentage, annual change, sats	-11.4	-49.6	-37.0	-24.3	-13.5	30.6	-0.6	-1.1
Machinery and equipment	Percentage, annual change, sats	-5.3	-37.1	-9.3	1.2	8.3	55.8	23.7	15.0
Cultivated biological resources	Percentage, annual change, sats	2.6	1.7	-7.9	-3.0	5.8	1.2	-4.2	-6.7
Intellectual property products	Percentage, annual change, sats	-3.6	-9.8	-10.9	-9.1	-3.9	4.0	8.3	5.7
Domestic demand	Percentage, annual change, sats	0.4	-17.9	-9.7	-2.8	1.6	24.4	16.7	12.9
Exports	Percentage, annual change, sats	-6.8	-30.3	-28.4	-24.2	-9.8	13.5	25.8	35.9
Imports	Percentage, annual change, sats	-5.1	-33.7	-25.7	-15.5	-5.0	46.6	40.2	34.3
Product gap [g/]	Percentage	-0.3	-3.9	-6.1	-7.2	-7.1	-4.5	-2.6	-0.8
Short-term indicators									
Real production of manufacturing industry	Percentage, annual change, seasonally adjusted	-1.6	-23.5	-7.2	0.0	6.7	27.7	20.1	13.0
Retail trade sales, excluding fuels or vehicles	Percentage, annual change, seasonally adjusted	6.8	-14.9	-3.6	5.5	4.1	19.5	15.9	10.7
Coffee production	Percentage, annual change, cum, for period	-13.8	-1.9	-3.6	-4.6	13.3	-24.7	-1.9	-18.8
Oil production	Percentage, annual change, period average	-2.1	-15.7	-15.4	-14.1	-14.6	-5.1	-0.1	-1.7
Labor market [h/]									
Total national									
Unemployment rate	Percentage, annual change, period average	11.8	21.1	18.4	15.4	14.6	15.2	12.8	12.5
Occupancy Rate	Percentage, annual change, period average	55.7	44.4	49.0	52.7	52.7	51.9	53.4	54.2
Overall participation rate	Percentage, annual change, period average	63.1	56.3	59.9	62.3	61.8	61.2	61.2	62.0
Thirteen cities and metropolitan areas									
Unemployment rate	Percentage, annual change, period average	11.9	25.2	21.8	17.3	16.8	16.7	14.0	13.1
Occupancy Rate	Percentage, annual change, period average	57.0	44.1	48.9	53.3	53.5	53.1	54.3	54.4
Overall participation rate	Percentage, annual change, period average	64.6	58.9	62.6	64.5	64.3	63.8	63.2	62.6
Balance of payments [i/ j/]									
Current account (A + B + C)	Millions of dollars	-2,295	-1,962	-2,013	-2,997	-3,105	-4,047	-4,835	-5,962
Percentage of GDP	Percentage, nominal terms	-3.1	-3.6	-3.0	-4.0	-4.0	-5.5	-6.0	-6.9
A, Goods and services	Millions of dollars	-3,098	-2,651	-3,263	-4,092	-3,688	-5,022	-5,259	-6,032
B, Primary income (factor income)	Millions of dollars	-1,369	-1,029	-1,172	-1,380	-1,867	-1,652	-2,339	-2,865
C, Secondary income (current transfers)	Millions of dollars	2,173	1,718	2,422	2,475	2,450	2,627	2,763	2,935
Financial account (A + B + C + D)	Millions of dollars	-1,735	-1,938	-1,857	-2,584	-2,789	-3,761	-4,504	-5,640
Percentage of GDP	Percentage, nominal terms	-2.3	-3.5	-2.8	-3.4	-3.6	-5.1	-5.6	-6.5
A, Foreign investment (ii - i)	Millions of dollars	-1,924	-1,725	-258	-1,818	-1,438	-1,013	-2,528	-1,402
i, Foreign Investment in Colombia (FDI)	Millions of dollars	3,175	1,371	844	2,069	2,307	1,997	2,707	2,550
ii, Colombian abroad	Millions of dollars	1,251	-353	586	251	869	984	179	1,149
B, Portfolio investment	Millions of dollars	-168	-3,429	323	1,506	1,319	-6,089	851	-675
C, Other investment (loans, other credits, and derivatives)	Millions of dollars	528	627	-2,127	-3,976	-2,860	3,167	-2,981	-3,697
D, Reserve assets	Millions of dollars	-171	2,590	205	1,705	190	174	154	135
Errors and omissions (E&O)	Millions of dollars	560	25	155	413	316	287	331	322
Interest rates									
Policy interest rate [k/]	Percentage, period average	4.2	3.3	2.2	1.8	1.8	1.8	1.8	2.4
Policy rate expected by analysts [l/]	Percentage, period average								
IBR overnight	Percentage, period average	4.2	3.2	2.2	1.7	1.7	1.7	1.8	2.4
Commercial interest rate [m/]	Percentage, period average	8.4	8.3	7.0	6.2	6.0	5.7	6.0	6.9
Consumer interest rate [n/]	Percentage, period average	15.8	15.5	14.8	14.2	14.0	13.7	14.3	14.8
Mortgage interest rate [o/]	Percentage, period average	10.4	10.4	10.2	9.6	9.2	8.9	9.0	9.3

Note: values in bold are forecasts or assumptions.
sats: seasonally adjusted time series, modified to eliminate the effect of seasonal and calendar influences.
a/ Quarterly data in bold are assumptions based on the annual forecast of each variable.
b/ Calculated with the main trading partners (excluding Venezuela) weighted by their share of trade.
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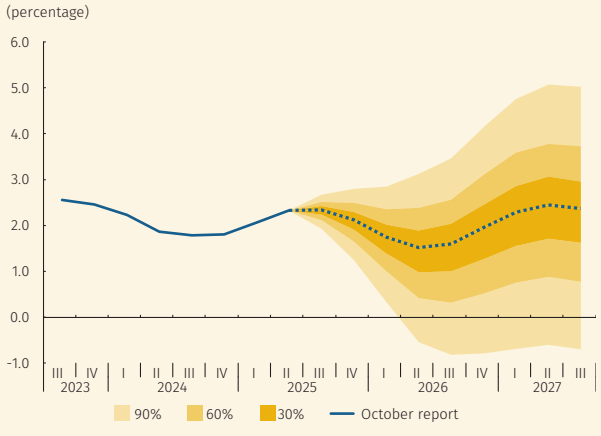
2022				2023				2024				2025				2026				2027		
Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
5.1	4.0	3.2	2.5	2.6	2.9	2.2	2.1	1.7	1.5	1.9	2.2	2.7	2.5	**1.9**	**1.3**	**1.2**	**1.6**	**2.2**	**2.8**	**2.6**	**2.2**	**1.9**
98	112	98	89	82	78	86	83	82	85	79	74	75	67	68	**64**	**59**	**58**	**57**	**56**	**56**	**56**	**56**
0.1	0.8	2.2	3.7	4.5	5.0	5.3	5.3	5.3	5.3	5.3	4.7	4.3	4.3	4.3	**3.9**	**3.6**	**3.4**	**3.3**	**3.3**	**3.3**	**3.3**	**3.3**
209	238	275	314	283	275	219	207	172	187	189	199	201	245	197	**206**	**215**	**220**	**225**	**227**	**230**	**234**	**237**
8.5	9.7	11.4	13.1	13.3	12.1	11.0	9.3	7.4	7.2	5.8	5.2	5.1	4.8	5.2	**5.1**	**4.7**	**4.2**	**3.8**	**3.6**	**3.2**	**3.2**	**3.1**
5.3	6.8	8.3	10.0	11.4	11.6	10.9	10.3	8.8	7.6	6.5	5.6	5.2	4.9	4.9	.	.	.	.	.	.	.	.
6.4	8.3	11.6	15.0	15.1	14.3	10.4	7.1	3.1	1.4	0.6	0.6	0.9	1.6	2.2	.	.	.	.	.	.	.	.
3.8	5.2	5.9	7.4	8.7	9.0	9.1	9.0	8.3	7.9	7.5	7.0	6.4	6.0	5.8	.	.	.	.	.	.	.	.
8.3	9.8	11.5	11.8	14.7	15.6	15.8	17.2	15.8	13.3	10.2	7.3	6.3	5.5	5.3	**5.5**	**4.1**	**4.2**	**4.5**	**4.0**	**3.6**	**3.3**	**3.2**
25.4	23.6	26.6	27.8	21.8	14.3	11.5	5.0	1.7	5.3	2.7	3.3	4.7	4.3	6.2	**6.0**	**5.9**	**4.5**	**3.4**	**3.2**	**2.3**	**2.9**	**2.1**
41.9	31.2	35.5	36.4	19.7	10.1	13.9	-0.5	-3.4	12.5	2.9	5.1	4.6	1.0	6.6	.	.	.	.	.	.	.	.
20.7	21.5	24.1	25.3	22.5	15.6	10.7	6.7	3.4	3.2	2.7	2.8	4.7	5.4	6.1	.	.	.	.	.	.	.	.
5.3	6.8	8.3	10.0	11.4	11.6	10.9	10.3	8.8	7.6	6.5	5.6	5.2	4.9	4.9	.	.	.	.	.	.	.	.
6.9	8.4	10.0	11.6	12.4	11.6	10.3	9.5	7.6	7.1	6.2	5.4	5.3	5.1	5.3	.	.	.	.	.	.	.	.
4.5	6.1	7.5	9.5	10.5	10.5	9.5	8.4	6.8	6.0	5.5	5.2	4.8	4.8	4.8	**4.7**	**4.5**	**4.2**	**3.9**	**3.5**	**3.4**	**3.3**	**3.2**
5.6	7.1	8.6	10.4	11.4	11.2	10.2	9.4	7.7	6.9	6.1	5.4	5.1	4.9	5.0	.	.	.	.	.	.	.	.
3,910	3,919	4,384	4,812	4,758	4,424	4,044	4,074	3,921	3,919	4,097	4,348	4,190	4,201	4,008	.	.	.	.	.	.	.	.
2.5	1.4	7.7	15.3	11.9	3.5	-5.1	-4.6	-7.8	-8.1	-4.3	1.2	-3.1	-3.0	-7.7	**-8.6**	**-3.8**	**-1.9**	**-0.9**	**-0.6**	**-0.1**	**0.0**	**0.1**
8.1	12.1	7.5	2.1	2.5	0.4	-0.6	0.6	0.5	1.4	1.9	2.5	2.3	2.5	**3.0**	**2.7**	**2.9**	**3.0**	**2.9**	**2.6**	**2.8**	**2.7**	**2.5**
11.5	14.9	8.4	2.2	1.7	0.2	0.2	0.2	-0.1	1.4	1.2	3.3	3.9	3.7	**4.5**	.	.	.	.	.	.	.	.
12.3	16.4	10.7	4.5	2.7	0.5	-0.7	-1.0	0.0	1.2	2.2	3.0	4.4	3.6	**3.6**	.	.	.	.	.	.	.	.
6.7	7.1	-2.9	-6.3	-3.3	-1.4	5.4	6.0	2.2	1.8	-4.5	3.3	1.9	3.9	**8.5**	.	.	.	.	.	.	.	.
16.5	7.2	17.2	23.8	-1.4	-12.2	-26.0	-23.2	-11.6	4.1	18.8	13.5	8.2	6.4	**4.3**	.	.	.	.	.	.	.	.
9.6	14.0	14.1	8.6	-6.2	-11.1	-15.3	-18.2	-6.2	1.3	5.2	13.7	0.2	3.1	**4.3**	.	.	.	.	.	.	.	.
1.3	5.0	6.9	-4.5	5.7	-3.8	-8.6	-10.2	-9.9	-3.0	-5.2	9.9	-6.7	-9.5	**-7.5**	.	.	.	.	.	.	.	.
-8.6	-1.1	4.8	-10.9	-6.1	-6.5	-10.3	1.3	5.7	10.1	11.0	11.6	-9.6	-0.9	**1.5**	.	.	.	.	.	.	.	.
34.9	33.5	24.8	29.2	-12.4	-22.0	-24.0	-31.7	-9.2	-4.4	6.5	17.1	5.8	18.0	**10.9**	.	.	.	.	.	.	.	.
-16.2	-16.2	-12.0	-4.4	1.2	7.1	7.4	4.6	2.9	5.1	11.6	13.3	11.5	4.4	**-0.9**	.	.	.	.	.	.	.	.
8.1	9.4	6.9	5.1	-0.8	2.5	3.8	2.5	4.4	-1.4	-3.9	0.0	0.0	-3.5	**-2.2**	.	.	.	.	.	.	.	.
12.9	13.5	10.2	4.8	1.2	-2.3	-5.4	-3.3	-2.0	1.6	4.2	4.4	4.6	4.1	**4.4**	.	.	.	.	.	.	.	.
16.3	24.2	13.9	-1.8	2.6	1.3	0.5	8.1	4.8	1.4	2.2	1.9	0.7	0.6	**0.2**	.	.	.	.	.	.	.	.
38.8	25.8	23.7	11.0	-2.3	-8.5	-18.1	-10.1	-7.6	4.4	12.2	9.8	12.4	9.5	**7.7**	.	.	.	.	.	.	.	.
0.3	1.9	3.1	2.9	2.8	2.2	1.3	0.8	0.2	-0.1	-0.3	-0.3	-0.4	-0.4	**-0.3**	**-0.2**	**-0.1**	**-0.1**	**0.0**	**0.0**	**0.0**	**0.0**	**-0.1**
11.9	20.8	7.0	3.5	-1.2	-4.6	-7.2	-6.0	-4.5	-3.0	-1.8	-0.4	1.1	2.3	.	.	.	.	.	.	.	.	.
12.6	22.0	6.0	-1.0	-2.0	-5.4	-4.5	-3.6	-3.8	-0.8	3.3	7.5	11.6	12.8	.	.	.	.	.	.	.	.	.
-16.3	9.7	-18.2	-17.0	-0.7	-14.3	-2.2	24.9	3.5	30.3	22.9	33.9	35.7	-19.9	14.6	.	.	.	.	.	.	.	.
-0.1	5.1	1.3	3.6	3.2	3.7	3.7	1.5	0.7	1.0	-1.0	-2.9	-2.1	-6.4	.	.	.	.	.	.	.	.	.
11.9	11.1	11.1	10.7	10.4	10.3	9.7	10.3	10.6	10.5	10.0	9.6	9.2	8.9	**9.0**	**8.8**	**8.8**	**8.8**	**8.5**	**8.8**	.	.	.
55.9	56.6	56.7	56.7	57.2	57.7	58.2	57.3	56.9	57.2	57.7	57.8	58.5	58.2	.	.	.	.	.	.	.	.	.
63.5	63.7	63.8	63.5	63.9	64.3	64.5	63.9	63.6	64.0	64.1	64.0	64.5	63.9	.	.	.	.	.	.	.	.	.
12.2	11.3	11.1	10.9	11.0	10.4	9.9	10.2	10.5	10.3	10.0	9.7	9.0	8.7	**8.0**	**8.2**	**8.3**	**8.2**	**7.9**	**8.2**	.	.	.
57.5	58.0	58.4	58.4	58.7	59.2	60.1	59.8	59.6	60.0	60.1	59.9	60.7	60.6	.	.	.	.	.	.	.	.	.
65.5	65.3	65.6	65.5	65.9	66.1	66.7	66.6	66.6	66.9	66.7	66.3	66.7	66.4	.	.	.	.	.	.	.	.	.
-5,391	-4,752	-6,100	-4,610	-2,798	-2,072	-1,533	-1,880	-1,733	-1,546	-1,663	-2,348	-2,091	-2,595	.	.	.	.	.	.	.	.	.
-6.2	-5.3	-6.9	-5.6	-3.4	-2.4	-1.5	-1.8	-1.7	-1.5	-1.6	-2.2	-2.0	-2.5	.	.	.	.	.	.	.	.	.
-4,950	-3,050	-4,409	-3,658	-2,166	-2,045	-1,390	-2,166	-1,770	-2,339	-2,333	-3,107	-2,673	-3,756	.	.	.	.	.	.	.	.	.
-3,617	-4,531	-4,795	-4,144	-3,727	-3,056	-3,508	-3,148	-3,294	-3,104	-3,403	-3,446	-3,264	-2,990	.	.	.	.	.	.	.	.	.
3,176	2,829	3,104	3,193	3,094	3,029	3,365	3,434	3,331	3,897	4,073	4,206	3,846	4,151	.	.	.	.	.	.	.	.	.
-5,037	-4,952	-5,736	-4,741	-2,591	-2,699	-1,376	-1,182	-1,579	-1,118	-1,038	-2,128	-1,614	-1,924	.	.	.	.	.	.	.	.	.
-5.8	-5.5	-6.5	-5.8	-3.2	-3.1	-1.4	-1.2	-1.5	-1.1	-1.0	-2.0	-1.5	-1.8	.	.	.	.	.	.	.	.	.
-3,651	-3,661	-2,959	-3,529	-3,600	-5,442	-3,335	-3,148	-2,501	-1,685	-2,503	-2,799	-2,435	-1,874	.	.	.	.	.	.	.	.	.
4,934	5,043	3,113	4,092	4,164	5,335	3,838	3,457	3,657	2,823	3,369	4,216	3,135	3,444	.	.	.	.	.	.	.	.	.
1,284	1,382	154	563	563	-107	503	309	1,155	1,138	866	1,417	700	1,570	.	.	.	.	.	.	.	.	.
1,866	-759	-233	-447	1,111	1,520	4,527	1,504	1,416	-451	3,489	-2,181	2,934	-3,859	.	.	.	.	.	.	.	.	.
-3,379	-606	-2,703	-976	-467	824	-3,026	-35	-1,445	104	-3,070	2,170	-2,678	3,283	.	.	.	.	.	.	.	.	.
127	74	159	210	366	399	457	496	951	914	1,046	682	564	525	.	.	.	.	.	.	.	.	.
354	-200	365	-132	208	-627	157	697	154	428	625	220	477	671	.	.	.	.	.	.	.	.	.
3.7	5.7	8.6	10.8	12.5	13.2	13.3	13.2	12.8	11.9	10.9	9.9	9.5	9.3	9.3	.	.	.	.	.	.	.	.
															9.3	**9.3**	**9.1**	**8.8**	**8.5**	**8.1**	**7.8**	**7.5**
3.7	5.7	8.6	10.8	12.5	13.2	13.3	13.2	12.8	11.9	10.9	9.9	9.5	9.3	9.3	.	.	.	.	.	.	.	.
8.6	10.8	14.2	17.8	19.9	18.6	18.6	18.0	16.2	15.1	14.2	13.0	12.7	12.6	12.3	.	.	.	.	.	.	.	.
16.7	19.1	22.9	27.2	30.1	28.5	26.7	26.3	23.9	22.5	21.2	20.0	19.5	19.3	18.9	.	.	.	.	.	.	.	.
9.9	11.5	13.4	16.4	18.2	18.1	17.5	17.1	16.4	14.9	12.8	11.6	11.7	12.0	12.0	.	.	.	.	.	.	.	.

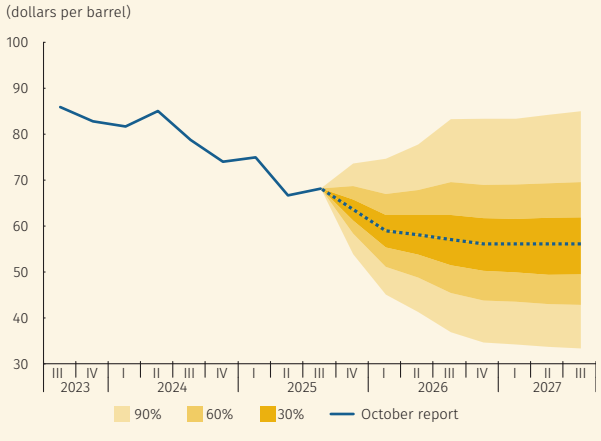
Appendix 3
Predictive Densities for other relevant Macroeconomic Forecasting Variables

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



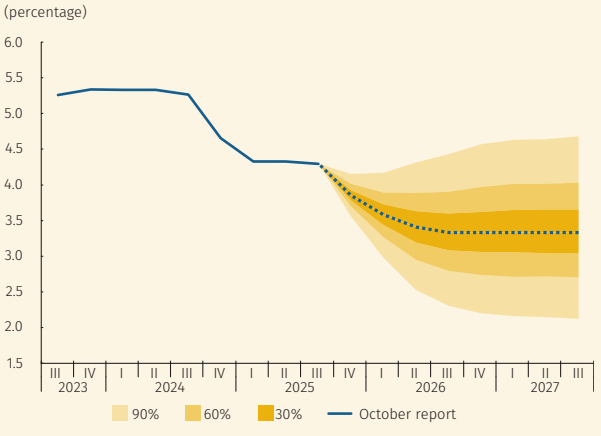
a/ The graph displays the probability distribution and its most likely path on an eight-quarter forecast horizon. Densities characterize the balance of potential risks with areas of 30%, 60% and 90% probability around the central forecast (mode).
Sources: Bloomberg, statistics bureaus, central banks;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

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



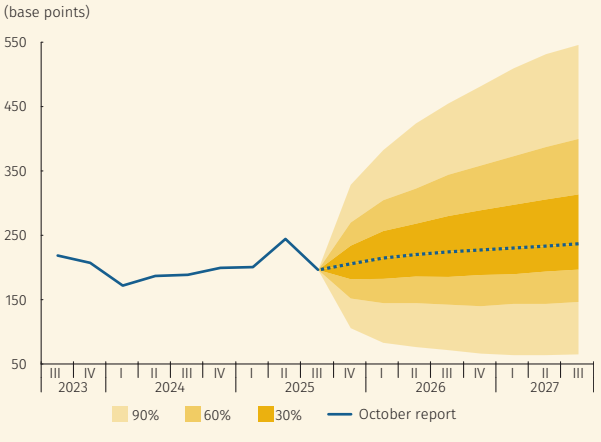
a/ The graph displays the probability distribution and its most likely path on an eight-quarter forecast horizon. Densities characterize the balance of potential risks with areas of 30%, 60% and 90% probability around the central forecast (mode).
Source: Bloomberg, calculations and projections by *Banco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

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



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

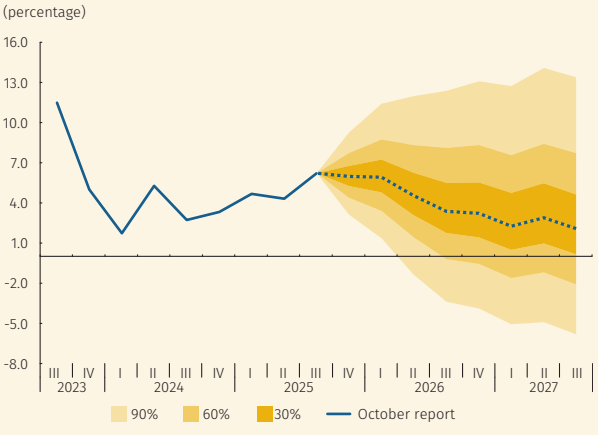
Graph A3.4
Colombia's quarterly risk premium (CDS) assumption, predictive density[a/,b/]



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

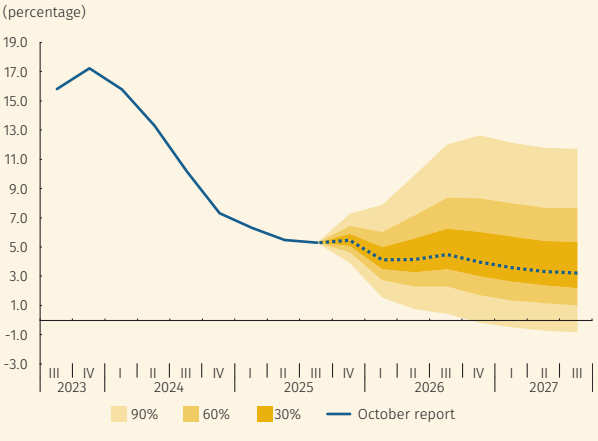
Appendix 3 (continuation)
Predictive Densities for other relevant Macroeconomic Forecasting Variables

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



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

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



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

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