
MONETARY POLICY REPORT

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MONETARY POLICY REPORT

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

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



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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 scheme⁵ seeks to deliver relevant and up-to-date information to contribute to better decision-making by the agents of the economy.

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

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

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

4 Formerly known as the Inflation Report.

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

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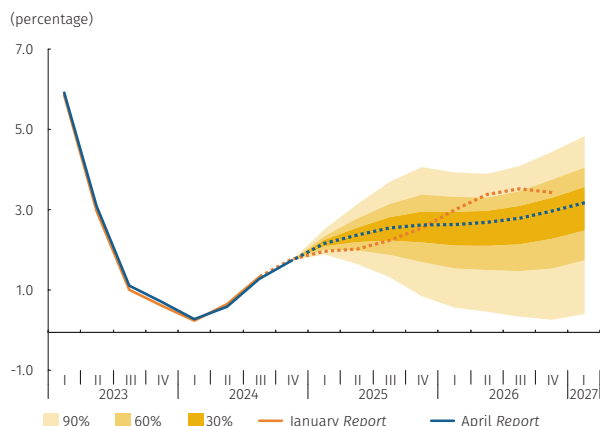
1. Summary

1.1 Macroeconomic Summary

The country's external financing conditions have become increasingly restrictive in an environment of global trade tensions resulting from higher tariffs imposed by the United States, greater volatility and uncertainty in international financial markets, and upward pressures on Colombia's risk premium. Concurrently, uncertainty surrounding trade and the prospect of heightened restrictions thereon give rise to negative shocks on the country's external demand, remittances from Colombian workers abroad, and prices of some of the main exported goods. In March, the US Federal Reserve (Fed) maintained its monetary policy interest rate at between 4.25% and 4.5%, consistent with the market's expectations and the Bank's technical staff. In April, tariff announcements by the United States and the uncertainty surrounding trade battles were echoed in a decrease in the economic growth forecast and a higher inflation prognosis for that country. This dichotomy between an expectation of lower growth and higher inflation has increased volatility in market forecasts surrounding the Fed's benchmark rate, translating also into lower growth prospects for the country's main trading partners. Accordingly, this Report assumes the Fed will gradually reduce its monetary policy rate through three cuts (previous estimate was two) of 25 basis points (bps) each during 2025, and two more of the same magnitude in 2026. Conversely, the fall in the international prices of some exported raw materials that provide significant revenues for Colombia's National Government (oil, coal, and nickel) would adversely affect the terms of trade during the forecast horizon. As the aforementioned external conditions materialize, along with the noted fiscal deterioration, these will continue to exert upward pressure over the forecast horizon on Colombia's already heightened risk premium. Uncertainty around external prognoses and their impact on the country is unusually high in view of growing foreign trade, migratory, tariff, and fiscal friction in the United States, the existing conflicts in several regions of the world, and the perception surrounding Colombia's sovereign risk, among others.

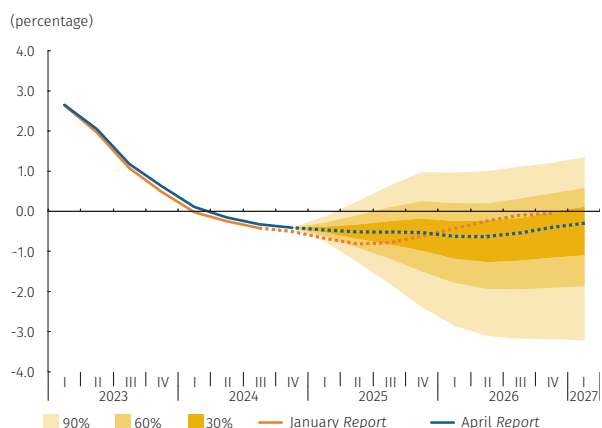
Compared to the outlook of the January Report, the economic growth forecast for 2025 remained at 2.6%, while for 2026 it was lowered to 3.0%. These estimates incorporate a more dynamic domestic demand during the first quarter of 2025 but expect a negative effect on the Colombian economy over the forecast horizon because of higher tariffs and the uncertainty surrounding the latter in the United States. Colombia's annual fourth quarter GDP growth in 2024 (2.4%) was in line with projections (2.3%), although domestic demand proved more dynamic than foreseen (4.4% vs. 4.1%) while the external trade balance delivered a more unfavorable accounting contribution. The augmented growth of domestic demand, which completed five consecutive quarters of increases of its level, is a consequence of the improved performance of inventories and gross fixed capital formation (GFCF), along with investment in machinery and equipment, and in other buildings and structures. The higher-than-expected increase in imports reflected the performance of domestic demand and explained the expansion of the trade imbalance in real terms. Economic activity figures for the first quarter of 2025 suggest the economy would have grown year-on-year by 2.5%, surpas-

Graph 1.1
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 April report.
Source: DANE; calculations and projections by Banco de la República.

Graph 1.2
Output gap^{a, b, c/}
(four-quarter accumulation)

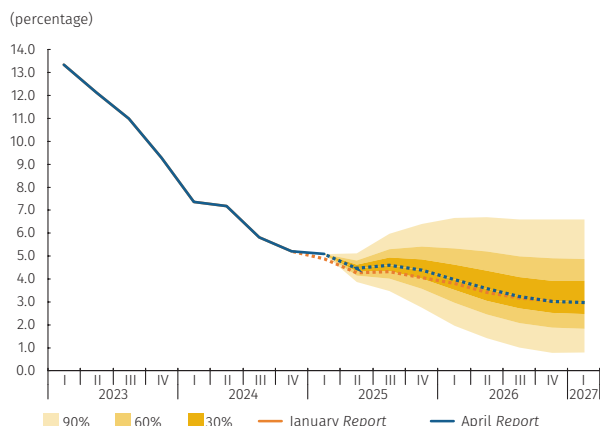


a/ The historical output gap estimate is calculated as the difference between observed GDP (four-quarter accumulation) and potential GDP (trend; four-quarter accumulation) based on the 4GM model.
b/ This graph presents the forecast probability distribution on an eight-quarter time horizon. Density characterizes 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 April report.
Source: DANE; calculations and projections by Banco de la República.

sing the January estimates (1.8%) owing to a more vigorous domestic demand (4.9%) stemming from greater private consumption (2.6%) and heightened investment (19.9%). Imports would have accelerated in annual terms (14.4%), consistent with the performance of domestic demand, while exports contracted (2.0%). For the rest of the year, the high prices of several agricultural products such as coffee, along with the elevated levels of remittances from abroad and robust behavior of foreign tourism, will continue to stimulate household disposable income and spending. In an environment of lower real lending rates and with moderating credit risk, the expected recovery of lending would also contribute to output growth. However, changes in the US tariff policies have increased global risk and the cost of external financing, which would negatively impact demand for Colombia's exports. Thus, when incorporating both the expected improved dynamics for the first quarter and the negative external shock, the economic growth forecast for 2025 continued at 2.6%, but fell for 2026 from 3.4% to 3.0% (Graph 1.1). The abovementioned economic activity would unfold in the context of a gradual easing of domestic monetary policy over time, compatible with the convergence of inflation to the 3.0% target in the forecast horizon. Consequently, and heeding the GDP revisions published by DANE, the excess productive capacity forecast would be slightly lower for 2025 but somewhat greater for 2026 than the figures noted in the January Report (Graph 1.2). These estimates continue to be subject to high uncertainty due to external factors such as global political and trade tensions, the response of financial markets and monetary policy in advanced economies, coupled with domestic factors like uncertainty surrounding fiscal policy.

In March, headline inflation (5.1%) fell after four months of relative stability, while core inflation (4.8%), excluding food and regulated items, continued on its downward path. Inflation is expected to continue to decline and converge to the 3.0% target over the forecast horizon (Graphs 1.3 and 1.4). Compared to the January Report forecast, headline inflation declined in March at a slower pace owing to increased prices experienced by some regulated services, particularly gas and transportation, and processed foods. The steeper-than-expected fall in core inflation partially offset previous increases and contributed to the lower headline inflation. Within core inflation, several items in the services category, such as food away from home, non-regulated education, building management, health services, and hairdressing services, among others, registered a lower annual change than anticipated. This behavior was mirrored in the prices of several goods such as clothing, cell phones, vehicles, televisions, computers, and pet food, among others. For the remainder of 2025 and 2026, headline inflation would continue its convergence trajectory towards the 3.0% target, although at a

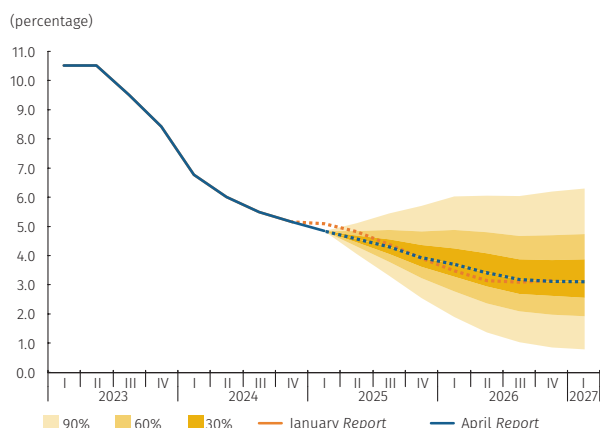
Graph 1.3
Consumer Price Index^{a/b/}
(annual change; end-of-period)



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 April 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)



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 April report.

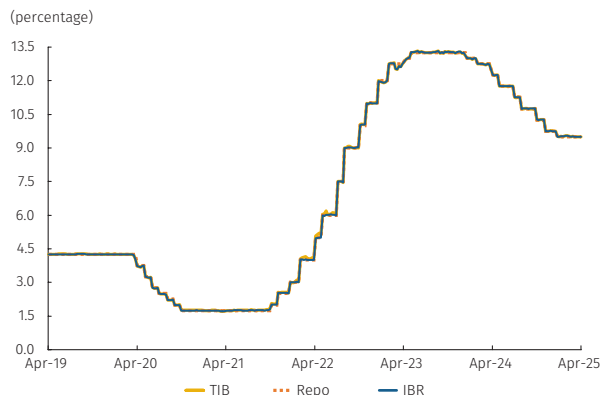
Source: DANE; calculations and projections by Banco de la República.

slower pace than predicted in the January Report. This slowdown is due to additional adjustments in gas prices and the upward pressures exerted on processed foods throughout 2025 by international pricings. In addition, in 2026, several significant CPI groups, such as rents, would be indexed to the higher inflation rate anticipated for year-end 2025. Nevertheless, the cumulative monetary policy effects, reflected in an output gap that would remain negative during 2025 and 2026, and the disinflationary pressures from the real exchange rate would continue to contribute to the convergence of inflation towards its target. Thereby, by the end of 2025 and 2026, headline inflation is expected to fall to 4.4% and 3.0%, respectively (previously estimated at 4.1% and 3.0%). These forecasts continue to face high uncertainty, largely associated with the future behavior of the exchange rate, the impact of US trade policy changes on global trade, supply shocks affecting international food prices, provisions adjusting the prices of some regulated items and services, and the effects of the minimum wage increase during the remainder of the year.

The restrictive monetary policy stance continues contributing to the convergence of inflation towards the target.

However, observed inflation and most measures of inflation expectations continue to surpass 3.0%. Economic activity indicators for the beginning of the year suggest that output will complete six periods of quarterly increases, with a slightly stronger domestic demand than expected. The economy continues to forecast excess productive capacity, contributing to reducing inflation. In the labor market, the unemployment rate registers levels that can be described as low compared to historical figures. Employment shows a growing trend, and the real increase in the minimum wage, exceeding the increase in labor productivity, is reflected in the price increases noted in several CPI groups. In 2024, the external position completed two consecutive years of current deficit decreases as a percentage of GDP, conducive to reducing the country's external vulnerability. However, fiscal deterioration makes the country more vulnerable to a negative external financing shock. Going forward, global trade tensions originating from higher tariffs are expected to negatively affect the country's external demand, although the size of the impact remains highly unclear. At the same time, this negative external shock would place upward pressure on the exchange rate. Similarly, the country's fiscal weakness would exert upward pressure on the risk premium and the exchange rate. Inflation is expected to continue to decline and fall within its 3.0% target, but at a slower pace than forecast in the January Report. Inflation expectations for December 2025 and 2026 remain above 3.0%. Compared to the January estimate, in 2025 the predicted excess production capacity will be more moderate but exceed the previous forecast for 2026. The foreseen slower downward trend in inflation and lesser excess capacity are compatible with a

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.

restrictive monetary policy stance that aims for inflation to converge with the target over the forecast horizon.

1.2 Monetary Policy Decision

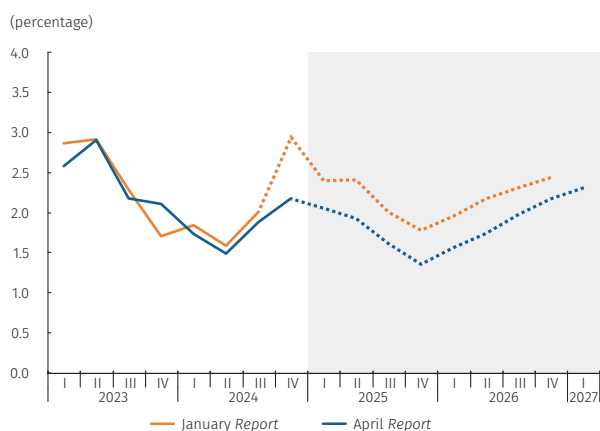
The Board of Directors of *Banco de la República* decided by majority vote to maintain the benchmark rate unchanged at its March 2025 meeting and unanimously agreed to reduced it by 25 basis points (pbs) at the April meeting, lowering it to 9.25% (Graph 1.5).

2. Macroeconomic forecasts and risk analysis¹

2.1 International outlook

2.1.1 Foreign demand

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.

The increase of uncertainty surrounding tariff measures in the United States has been reflected in downward revisions to global economic growth forecasts and external demand relevant to Colombia, which remains at low rates below those observed in 2024 (Graph 2.1). Among Colombia's main trading partners, the positive behavior of the US economy stood out in 2024, supported mainly by household consumption and the strength of its labor market. Other trading partners, such as Brazil, Peru, and China, also recorded solid economic performances. In the case of China, economic growth reached 5.0%, in line with the government's target, amid fiscal and monetary stimulus measures. These favorable outcomes, however, were offset by weaker real activity in Mexico and Ecuador. In Mexico, high political uncertainty² and weak domestic demand negatively affected economic performance. In Ecuador, growth was hindered by deteriorating national security and a decline in the availability of electricity.³ As a result, Colombia's relevant external demand grew by 1.8% in 2024, representing a sharper slowdown than projected in the previous *Report*.⁴ So far in 2025, the US economy has shown signs of deterioration⁵ in a context of low household and business confidence, high uncertainty regarding trade policy, a significant increase in the goods trade deficit—partly due to the advance of imports in anticipation of new tariffs—and an uptick in short and medium-term inflation expectations. Colombia's other trading partners are also facing heightened uncertainty regarding the evolution

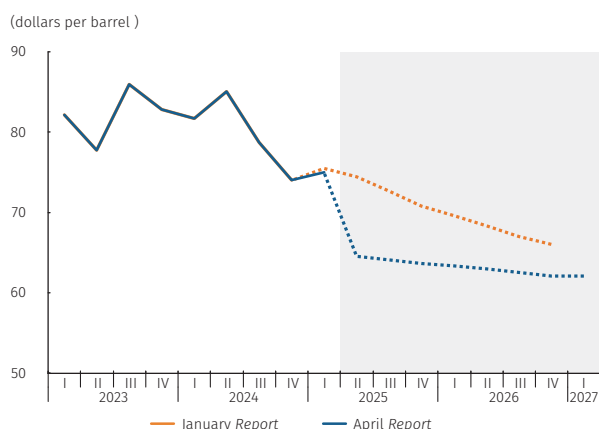
- 1 The projections presented in this chapter are based on estimates from the Patacon and 4GM central forecast models. For more details on these models, see <https://www.banrep.gov.co/es/node/149> and <https://www.banrep.gov.co/en/4gm-new-model-monetary-policy-analysis-colombia>
- 2 During the second half of 2024, presidential elections were held in Mexico, which generated increased political uncertainty in that country, affecting its economic indicators at the end of the year.
- 3 In January 2025, the Central Bank of Ecuador updated its national accounts figures and reduced real GDP growth since 2021. In 2024, Ecuador's economy experienced a 2.0% decline in economic activity as a result of a contraction in investment and household consumption. All of the above reduced the growth observed in Colombia's trading partners.
- 4 The *January Report* projected the aggregate growth of the country's main trading partners to be 2.1% for 2024.
- 5 At the time this *Report* was written, preliminary figures showed that in the first quarter of 2025, the US GDP contracted at an annualized quarterly rate of 0.3%, following 2.4% in the previous quarter.

Table 2.1
Economic Growth among Major Trade Partners^{a/}

Main partners	2023 (pr)	2024 (pr)	2025 (proj)	2026 (proj)
United States	2.9	2.8	1.2	1.1
Eurozone	0.5	0.8	0.9	1.2
China	5.2	5.0	3.8	3.7
Ecuador	2.0	-2.0	1.4	2.0
Brazil	3.2	2.9	1.8	1.8
Peru	-0.4	3.3	3.1	2.7
Mexico	3.3	1.2	0.3	1.2
Chile	0.6	2.4	2.3	2.3
All trade partners ^{a/}	2.4	1.8	1.7	1.9

(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).

Graph 2.2
Assumed quarterly oil price



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

of their exports in light of tariff measures imposed by the Trump administration and potential future modifications to those policies. Mexico, Canada, the euro area, and China are expected to be among the most affected economies. As a result, for 2025 and 2026, the International Monetary Fund (IMF) has reduced its global economic growth estimates to 2.8% and 3.0%,⁶ respectively, lower than the 3.3% observed in 2024.⁷ For all the above reasons, this *Report* has reduced the growth path of the country’s trading partners, with growth estimated at 1.7% for 2025 and a slight acceleration to 1.9% in 2026 (compared to 2.1% and 2.2% estimated in the *January Report* for 2025 and 2026, respectively). Both figures remain below the historical average for the indicator (Table 2.1).⁸ These projections face high uncertainty associated with US trade policy, which is likely to continue negatively affecting confidence and investment. The uncertainty is also heightened by the possibility of retaliation by China and other affected economies, which could result in the fragmentation of the global economy, increased trade barriers, and additional inflationary pressures, thereby raising uncertainty about the monetary policies of several economies.

2.1.2 International prices

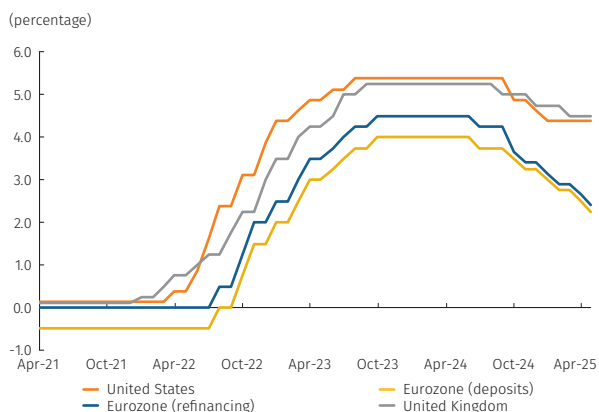
The projected path for oil prices was revised downward and is expected to continue on a declining trajectory, consistent with the anticipated increase in global oil supply and the expected weakening of demand in line with the projected moderation in global economic activity (Graph 2.2).

During the first quarter of 2025, the average price of Brent crude stood at approximately USD 75 per barrel (bl), declining in April to an average of USD 67 bl. On the supply side, the observed and projected fall in oil prices reflects a global increase in crude oil production. This is driven by the expected rise in output from member countries of the Organization of the Petroleum Exporting Countries and their allies (OPEC+), due to the gradual phase-out of voluntary cuts totaling 2.2 million barrels per day, a process expected to accelerate starting in May 2025.⁹ Additionally, higher produc-

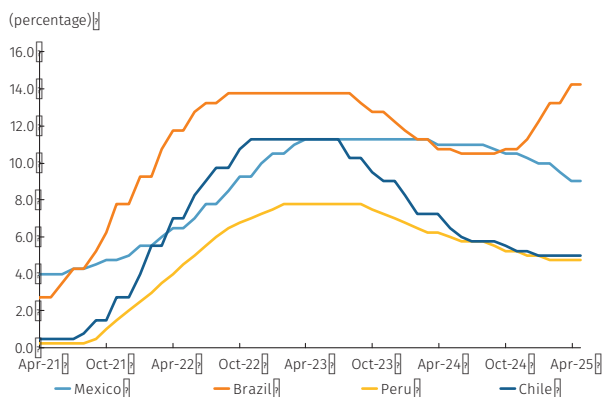
- 6 In January, the IMF expected global economic growth of 3.3% for 2025 and 2026.
- 7 In its most recent report, the IMF lowered its forecast for global merchandise trade from 3.2% to 1.7% for 2025 and from 3.3% to 2.5% for 2026.
- 8 Historically, the average annual growth in trading partners between 2001 and 2023 is 2.9%.
- 9 There are twelve member countries, along with the following allies (OPEC+): Azerbaijan, Bahrain, Brunei, Kazakhstan, Russia, Mexico, Malaysia, South Sudan, Sudan, and Oman. At its meeting on March 3, 2025, the group decided to begin gradually phasing out voluntary cuts of close to 2.2 million barrels per day starting on 01 April 2025, emphasizing that the increase in production would be gradual until December 2026. In addition, in its press release on 03 April 2025, the group announced an increase of close to 411,000 barrels per day for May of this year, equiva-

Graph 2.3
Monetary policy interest rate, select main trading partners

A. Developed Economies



B. Latin America



Note: April 2025 includes data observed on the 25th of said month.
Source: Bloomberg.

tion in non-OPEC+ countries is expected to contribute to the increase in global supply. Moreover, the anticipated build-up of oil and refined product inventories in the member countries of the Organization for Economic Cooperation and Development (OECD) over the forecast horizon is expected to reinforce the downward pressure on prices. This expansion in oil supply is compounded by the expected deceleration in global economic activity, driven in part by recently implemented US trade policies and the responses of affected trading partners. However, the decline in the price of this commodity would be partially contained by the continued enforcement of sanctions on oil exports from Russia, Venezuela, and Iran. Taking all these elements into account, this *Report* revises the assumed Brent crude oil price downward to USD 67 per barrel in 2025 and USD 63 per barrel in 2026. These figures are lower than those projected in the January *Report*, which assumed prices of USD 73 and USD 68 per barrel, respectively. Uncertainty surrounding the future trajectory of oil prices remains high due to potential decisions by OPEC+, the effects of US trade policy on global economic activity, and ongoing geopolitical tensions in several regions.

A moderation in terms of trade is expected over the forecast horizon, mainly as a result of the projected downward trend in the prices of mining products.

In 2025, the decline in Colombia's terms of trade would be primarily explained by the observed and expected contraction in international prices of oil and coal. However, this weakening would be partially offset by the anticipated favorable performance of gold and coffee prices,¹⁰ as well as lower-than-expected increases in the dollar prices of imported intermediate goods, as compared to the previous *Report*. In 2026, the deterioration in the terms of trade is expected to persist, reflecting continued declines in oil and coal prices. These would more than offset the projected, though more moderate, increase in international prices of coffee and gold compared to 2025.

In 2025, inflation is expected to remain above target in most economies, amid heightened trade-related uncertainty affecting the global economy.

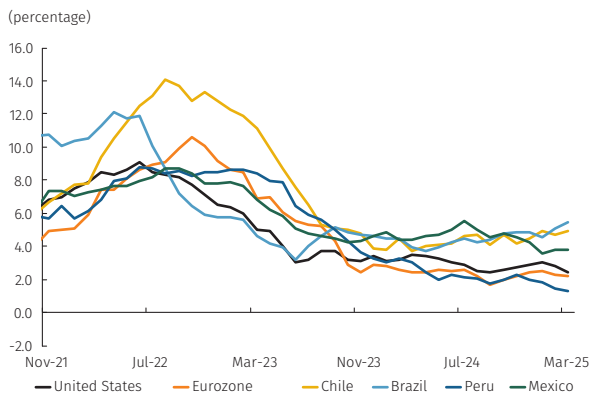
In 2024, global inflation continued to decline, supported by the slowdown in global economic activity and the maintenance of contractionary monetary policy stances in most countries (Graph 2.3). However, this disinflationary trend was limited by per-

lent to three monthly increases. In its announcements, OPEC+ notes that the decision to ease the cuts may be paused or reversed depending on market conditions.

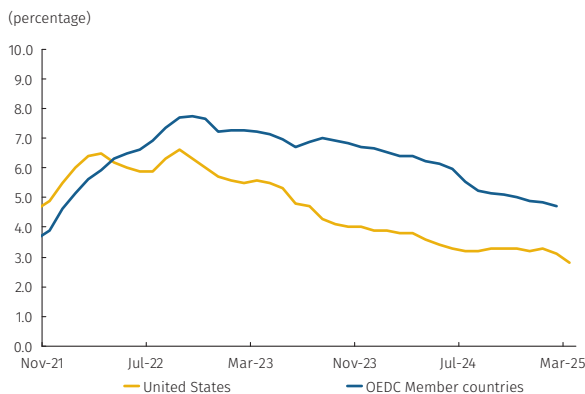
10 During the first quarter of the year, international coffee prices reached record highs in recent history due to crop problems in major producing countries such as Brazil and Vietnam. Recently, prices have fallen somewhat amid uncertainty surrounding global trade. However, prices are expected to remain high compared to 2024, given the persistent supply problems facing this crop.

Graph 2.4
Inflation, select main trading partners

A. Headline Inflation



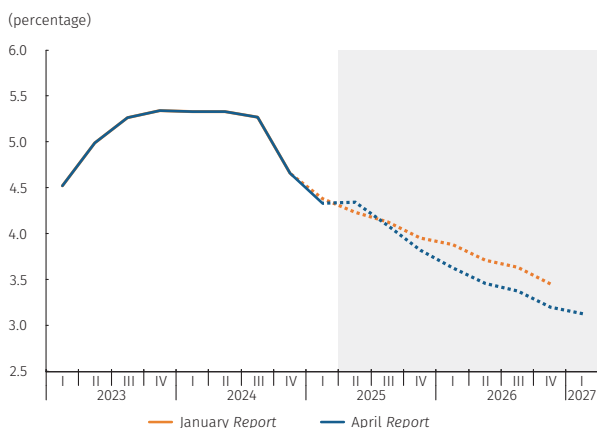
B. Inflation excluding food and energy



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

sistently high prices of services, waning goods deflation, and moderate increases in energy prices. Consequently, the International Monetary Fund (IMF) estimated the average annual global inflation rate at 5.7% in 2024, down from 6.7% in 2023. For 2025, the IMF revised its global inflation projection upward, primarily due to the expected impact of higher tariffs on prices. Nevertheless, this projection carries a downside risk, stemming from the potential weakening of global activity caused by these same trade measures. In line with this, the IMF now forecasts global inflation at 4.3% in 2025 and 3.6% in 2026. It also revised upward its inflation projections for advanced economies, where inflation is now expected to average 2.5% in 2025 and 2.2% in 2026. In contrast, inflation in emerging markets and developing economies is expected to moderate, averaging 5.5% in 2025 and 4.6% in 2026. In the United States, annual headline and core inflation declined in March to 2.4% and 2.8%, respectively, from 2.8% and 3.1% in February, figures that surprised markets on the downside (Graph 2.4). This decline was driven by year-over-year decreases in energy and goods prices, along with a moderation in services inflation, amid subdued consumer spending resulting from high uncertainty and low confidence. This was partially offset by increases in food prices. For the remainder of 2025, US inflation is expected to remain above the Federal Reserve’s 2.0% target. This reflects the effects of newly implemented tariffs on prices, unfavorable base effects, and recent notable increases in short and medium-term inflation expectations.

Graph 2.5
Assumed U.S. Federal Reserve quarterly interest rate



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

2.1.3 International financial developments

The forecast horizon for the US monetary policy interest rate was revised downward compared to the previous report, in an environment marked by elevated economic, trade, political, and inflation-related uncertainty (Graph 2.5). At its March 2025 meeting, the Federal Open Market Committee (FOMC) maintained the target range for federal funds within a range of 4.25% to 4.50%,¹¹ in line with market expectations.¹² In the meeting minutes, the FOMC noted growing pessimism in financial markets and increasing uncertainty regarding future policy actions by the US government. The Committee expressed some confidence in the recent moderation of inflation; however, some members

11 At its meeting on April 17, 2025, the European Central Bank (ECB) again reduced its main benchmark rate by 25 basis points to 2.25% and its refinancing rate to 2.40%. In its subsequent statement, the ECB noted that the high level of trade uncertainty facing the euro area could reduce household and business confidence, as well as the economic growth outlook. In addition, inflationary pressures have moderated and the euro has strengthened, leading to a further reduction in interest rates in the euro area.

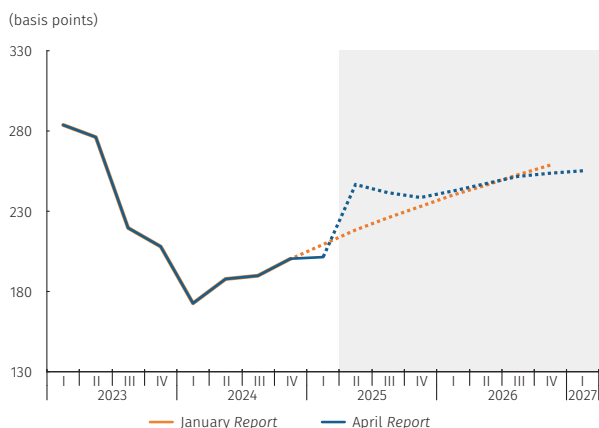
12 It also indicated that it would reduce the pace of balance sheet adjustment from USD 25 billion per month to USD 5 billion.

cautioned that inflation could rise during the remainder of the year due to the impact of higher tariffs. The Committee also highlighted the increase in inflation expectations captured through both market indicators and economic analysts' surveys, while labor market conditions remained broadly balanced. In this context, the median projection for the personal consumption expenditures (PCE) index was revised upward to 2.7% for 2025 and 2.2% for 2026. A similar upward revision was made for the core PCE indicator. Despite these revisions, the FOMC kept its projected path for the benchmark rate unchanged, implying two rate cuts in 2025. It also reiterated that the policy rate would remain below its long-term neutral level through the end of 2027.¹³ Additionally, the FOMC's median projection for US GDP growth was revised downward to 1.7% for 2025 and 1.8% for 2026. These adjustments reflect recent declines in both business and consumer confidence, which have contributed to reduced household spending and heightened concerns over a possible recession. Meanwhile, the policy interest rate implied by futures markets has declined in recent weeks. Notably, these markets are pricing in more rate cuts for 2025 than those currently anticipated by the Federal Reserve.¹⁴ In line with the above, this *Report* revised downward the predictions for the US monetary policy interest rate throughout the forecast horizon. This adjustment was made in a context of high uncertainty regarding price dynamics, trade restrictions, the country's financial conditions, and the unclear effects of recently announced tariffs on economic growth. Accordingly, for 2025, the assumption incorporates three 25-basis point reductions in the federal funds rate over the course of the year, bringing it to a range of 3.50% to 3.75% by year-end. For 2026, two additional 25-basis point cuts are assumed, resulting in an interest rate range of 3.00% to 3.25% by the end of that year.

The forecast horizon assumes a slightly higher risk premium for Colombia than that considered in the previous Report (Graph 2.6).

Since March 2025, financial markets have exhibited high volatility. Notable developments include a significant decline in the main stock market indices, an increase in long-term interest rates on US Treasury securities, and a broad depreciation of the US dollar.¹⁵ This combination, rising US long-term interest rates alongside a weaker-

Graph 2.6
Colombia's assumed quarterly risk premium (CDS)^{a/}

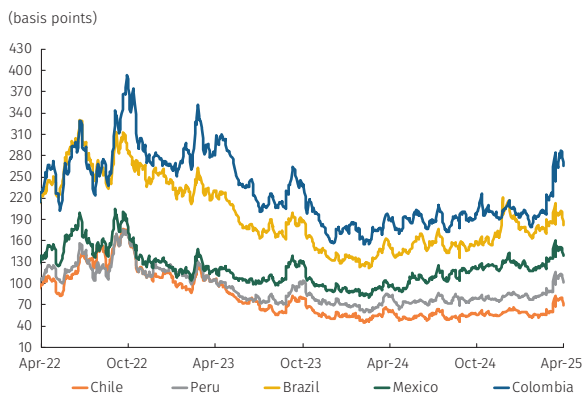


a/ Five-year credit default swaps.
Source: Bloomberg; calculations, and projections by Banco de la República.

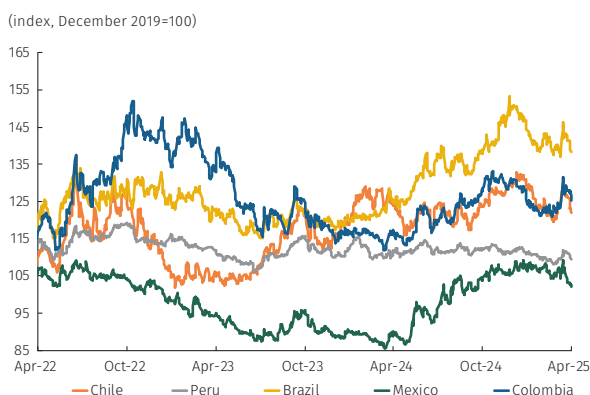
- 13 In March 2025, the median FOMC projections for the federal funds rate stood at 3.9% for year-end 2025, 3.4% for year-end 2026, and 3.1% for year-end 2027. Meanwhile, its estimate for the long-term interest rate remained at 3.0%.
- 14 By the end of 2025 and 2026, and with figures as of April 25, 2025, futures associated with the Fed's monetary policy interest rate stood at 3.50% and 3.14%, respectively, down from 3.93% and 3.71% respectively, as taken on January 24).
- 15 So far in 2025, the dollar has declined by about 5.0% against the currencies of the main advanced countries, as of the end of the previous month.

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

A. Five-year credit default swaps

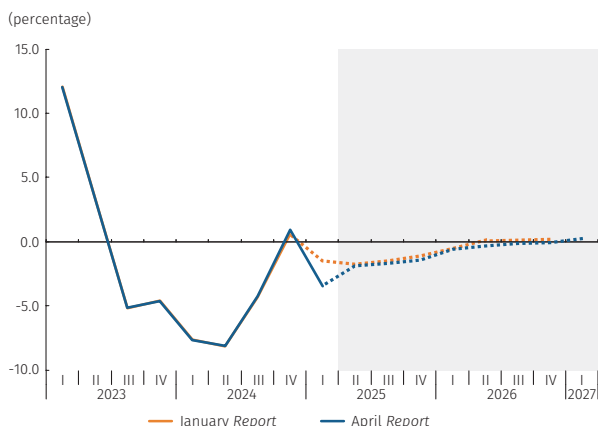


B. Nominal exchange rate



Note: Data to April 25, 2025.
Source: Bloomberg; calculations by Banco de la República.

Graph 2.8
Quarterly RER inflationary gap^{a/}
(annual change, end-of-period)



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

ning dollar, has been atypical. Also noteworthy is the sharp increase in the international price of gold, reflecting widespread risk aversion. In this context, sovereign risk premiums in the region increased through April 25 (Graph 2.7, panel A). In the case of Colombia, the average five-year credit default swap (CDs) rose from 201 basis points (bp) in the first quarter of the year to 265 bp as of April 25. This 64 bp increase was significantly higher than the regional average (19 bp). Similarly, the Colombian peso was the only currency in the region to depreciate against the dollar over the same period, with a depreciation close to 2.0% (Graph 2.7, panel B). In line with the above, this *Report* assumes a slightly higher risk premium than previously forecast, although a partial reversal of the recent increases is expected over the remainder of the year. The risk premium is projected to average 231 bp in 2025 and 248 bp in 2026,¹⁶ in a context of higher projected public sector indebtedness over the forecast horizon, less favorable global financial conditions, and increased risk aversion.

2.2 Macroeconomic Projections¹⁷

2.2.1 Inflation

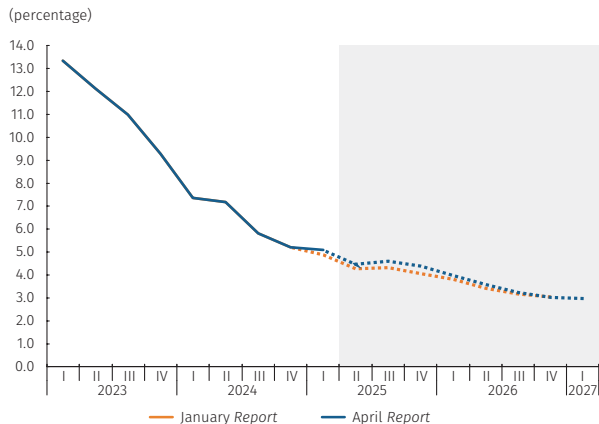
Total annual consumer inflation is expected to continue converging toward the target over the forecast horizon, although the path will be slightly higher than that projected in the previous *Report*, due to unexpected shocks to food and regulated items. Meanwhile, core inflation, excluding food and regulated items, remains unchanged for the end of 2025 and 2026. The aforementioned unforeseen shocks are mainly associated with increases in gas tariffs and higher-than-expected international prices for certain agricultural products than anticipated in January,¹⁸ which have led to surprises in the observed data and upward revisions in the expected adjustments for 2025. Despite these developments, this *Report* maintains the forecast of a gradual decline in inflation, reaching the 3.0% target by the end of 2026. Factors contributing to the decline in inflation include contained exchange rate pass-through effects (Graph 2.8), excess productive capacity expected to persist throughout 2025 and 2026, and inflation expectations that indicate a downward trend in the indicator. The monetary policy stance assumed in this *Report* is consistent with these elements

16 In the January *Report*, the forecast for Colombia's five-year CDs was 221 bps for 2025 y 249 for 2026.

17 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.

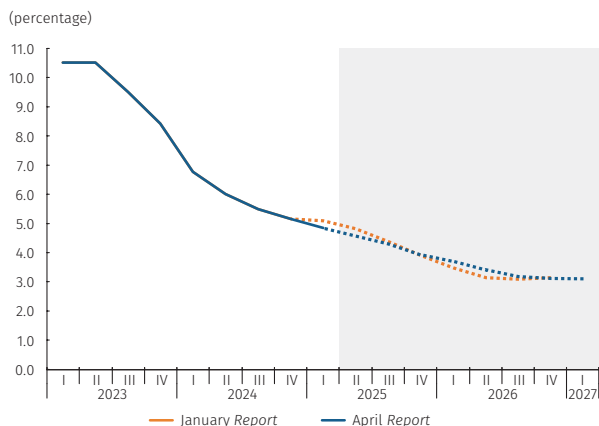
18 In recent months, there has been a significant increase in the prices of agricultural products in the beverage group (coffee and cocoa), compounded by the slower pace of decline in international prices for cereals, oils, and flour.

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



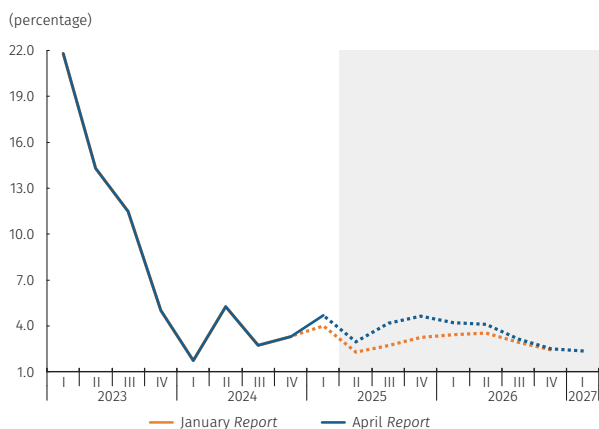
Source: DANE; calculations and projections by Banco de la República.

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



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

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



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

and with the convergence of inflation to 3.0% over the forecast horizon. Accordingly, the most likely forecast path for annual headline inflation is 4.4% at the end of 2025 and 3.0% in December 2026 (Graph 2.9), compared to 4.1% and 3.0% projected in the *January Report*, respectively. However, these projections are subject to high uncertainty and are exposed to upside risks, as discussed in Section 2.3.

Core inflation is expected to continue its gradual decline and converge toward the target by the end of 2026, following a trajectory similar to that projected in the previous Report.

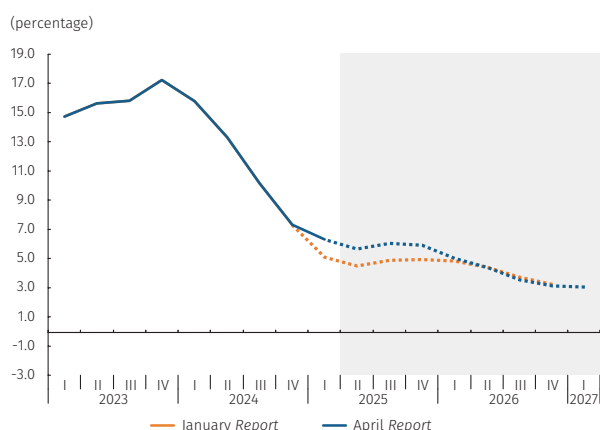
The continued reduction in the annual variation of the CPI excluding food and regulated items would result from several of the aforementioned factors. Regarding CPI for goods, its annual variation is expected to remain significantly below 3.0% throughout the forecast horizon, in a context of negative real exchange rate and output gaps. However, this estimate is subject to considerable uncertainty given the current international trade environment, with potential shocks in both directions. On the downside, a greater global supply of manufactured goods, particularly from China, alongside reduced inflationary pressures due to slowing global economic growth and lower international commodity prices, could push inflation downward. On the upside, rising production and transportation costs in the context of trade disputes, as well as the risk of further depreciation of the Colombian peso due to tighter global financial conditions and uncertainty surrounding Colombia's fiscal policy. For services, the annual variation in the CPI is expected to continue decreasing gradually but remain above 3.0% by the end of 2026, due to the strong inertia observed in this component, particularly in items such as rents. Considering all the above, annual core inflation is projected at 3.9% for December 2025 and 3.1% for December 2026, figures that are unchanged from those forecast in the *January Report* (Graph 2.10).

The annual variation in the CPI for food was revised upward for 2025 due to higher-than-expected observed and projected international prices for certain agricultural raw materials. This adjustment is mainly attributed to a higher forecast path for the CPI for processed foods, driven by the impact of international prices of inputs and agricultural products relevant to Colombia, which exceeded the assumptions made in the *January Report*. The projected variation in the CPI for food is expected to range between 3.0% and 4.5%, depending on the production cycle of perishable foods. These are anticipated to continue benefiting from favorable weather conditions and robust agricultural supply levels, consistent with those observed in 2024 and early 2025. In addition, the forecast for the end of 2025 includes a temporary upward impact from the increase in the so-called healthy taxes. Taking all of this into account, the most likely scenario places the annual variation in the CPI of food at

4.6% in December 2025 (compared to 3.3% in the previous *Report*) and at 2.5% in December 2026 (slightly above the 2.4% forecast in January) (Graph 2.11). The forecast path remains highly uncertain, as it partly depends on the performance of the production and distribution of perishable foods, a category characterized by high volatility and susceptibility to multiple supply shocks.

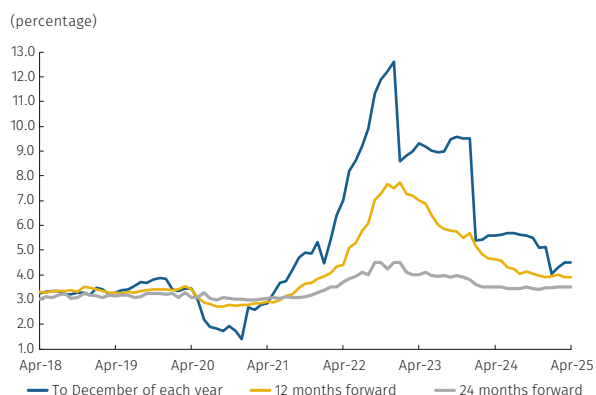
Increases in gas and urban transport tariffs not fully anticipated in the previous *Report* led to an upward revision of the forecast for regulated prices in 2025. This adjustment is mainly explained by sharp increases in the CPI of gas during the first quarter of the year in cities such as Bogotá, stemming from a shift in supply sources toward more distant domestic wells and imports due to the expiration of previous contracts. These increases had only been partially incorporated in the *January Report*. Additionally, urban transport fares rose more than expected. Looking ahead, most of the effects of these gas price pressures are expected to persist in the CPI; however, the current forecast does not assume a significant intensification, as the new expected increases are considerably lower than those recorded in the first quarter of 2025. It is important to highlight that as domestic gas supply continues to decline and the share of imports rises, domestic prices will become more sensitive to international price trends and both local and global transportation costs, representing a notable upside risk to the forecast. In this context, the annual variation in regulated items for 2025 was revised upward compared to the *January Report*, although it would remain slightly below the levels observed in the first quarter of the year. In 2026, inflation for regulated items is expected to resume a downward trend, driven primarily by indexation mechanisms tied to gradually lower inflation rates, and by the assumption that there will be no significant additional increases in gas and electricity tariffs during that year. Considering the above, the annual variation in the CPI for regulated items is forecast to be 5.9% at the end of 2025 (up from 4.9% in the previous *Report*) and 3.1% by the end of 2026 (Graph 2.12), with these figures remaining subject to high uncertainty due to the aforementioned factors.

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



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

Graph 2.13
Bank and stockbroker inflation forecast^{a/}

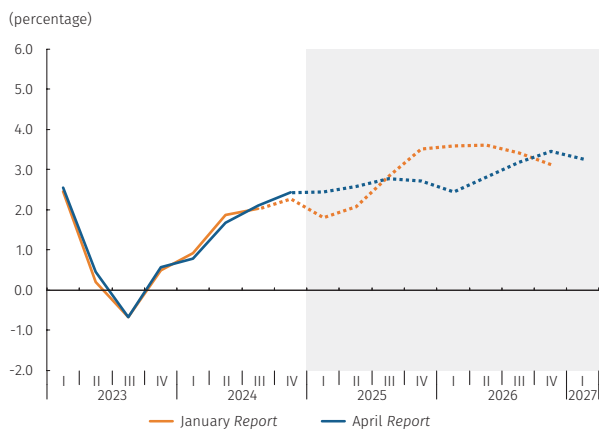


a/ Corresponds to the median response of the Monthly survey of economic analyst expectations conducted by Banco de la República.
Source: DANE; calculations and projections by Banco de la República.

Compared to January, short-term inflation expectations from surveys increased, while those implied by public debt securities declined significantly in recent months. Nevertheless, all remain above 3.0% over a two-year horizon, although they continue to exhibit a downward trend toward the target as the time horizon lengthens. Expectations from economic analysts (Graph 2.13), obtained from *Banco de la República's* monthly survey conducted between April 8 and 10, indicate that the median expectation for total and core inflation at the end of 2025 stand at 4.5% and 4.2%, respectively—both higher than the levels reported in the *January survey* (4.0% and 3.9%). By the end of 2026, these measures

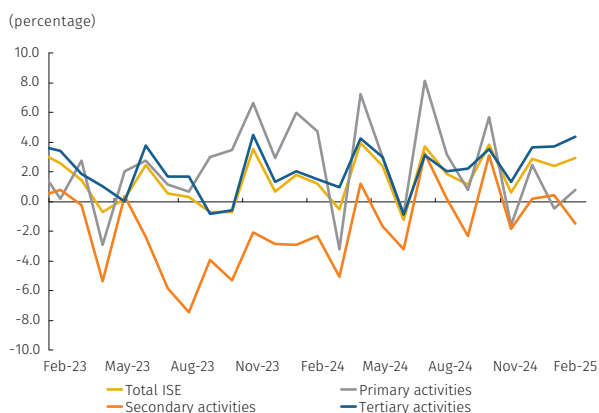
are 3.7% and 3.6%, compared to 3.6% and 3.3% in the previous *Report*. At two- and five-year horizons, the median expectations for total inflation remain at 3.5% and 3.0%, respectively. The measure for the annual variation in food prices by the end of 2025 increased to 4.7% from 4.3% recorded in January, while for regulated items it rose from 5.5% to 6.0%. By the end of 2026, it decreased to 3.6% (from 3.7%) in the case of food, and for regulated items fell to 4.3% (from 4.5%). Meanwhile, as of April 23, estimates based on government bonds (break-even inflation, BEI), adjusted for inflation and liquidity risk premiums, showed a decline, reaching 3.3%, 3.4%, and 3.5% for two-, three-, and five-year horizons, respectively. These figures compare to 4.5%, 4.3%, and 4.1% in January.

Graph 2.14
Quarterly GDP^{a/}
(Annual change)



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

Graph 2.15
Economic Tracking 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 lodging; 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 and projections by Banco de la República.

2.2.2 Economic activity

During the first quarter of 2025, the Colombian economy continued to gain momentum, driven by domestic demand, which supports higher growth than projected in the previous Report for that period. This *Report* estimates that the economy expanded at an annual rate of 2.5% during the first quarter, with an annualized quarterly growth of 4.5% in seasonally and calendar-adjusted terms (Graph 2.14). This represents an upward revision from the 1.8% projected in the January *Report* and reflects stronger momentum in various leading indicators during the first three months of the year.¹⁹ In particular, the Economic Activity Indicator (ISE) showed average annual growth of 3.1% in January and February (Graph 2.15), with an annualized quarterly expansion of around 6.4%. This result was primarily driven by the continued strength of the tertiary sector, especially in arts, entertainment, and recreation, which benefited from the boost provided by concerts and events held in February. It also reflects robust domestic trade performance, with real retail sales growing at an average annual rate of 11.9% in recent months, levels comparable to the peaks seen during VAT-free days in 2022. The primary and secondary sectors also contributed positively to ISE growth, although at a more moderate pace. On the expenditure side, domestic demand is estimated to have expanded at an annual rate of 4.9%, surpassing the growth recorded in the second half of last year. In contrast, net external demand is estimated to have contributed negatively to annual GDP growth.

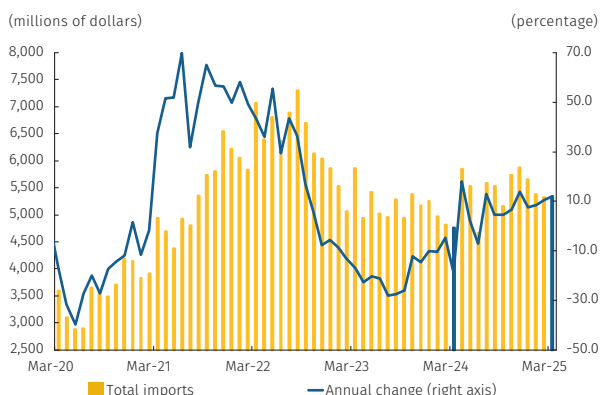
19 These include sales excluding fuel and vehicles, manufacturing output, and revenues from certain services, as well as other more timely indicators such as the regional economic pulse, energy demand, consumer credit disbursements, debit and credit card transactions, vehicle and motorcycle registrations, freight and passenger transport, and monthly exports and imports.

Within domestic demand, fixed capital investment is estimated to have recorded relatively high growth, driven by civil works, though it remains at historically low levels. The significant annual growth projected for gross fixed capital formation in the first quarter is largely attributed to the very low base of comparison from a year earlier and does not reflect strong investment momentum. By component, the strongest performance early in the year was seen in investment in other buildings and structures, which includes civil works. Notable projects include progress on the first line of the Bogotá Metro and the Transmilenio system, as well as contributions beginning to materialize from various road projects under the 5G program. Despite these positive developments, investment levels in this area remain very low compared to those observed in the past decade. In contrast, housing investment is estimated to have posted a slight quarterly increase but is not expected to have grown in annual terms, based on data from the building census and other indicators of residential construction supply. Investment in machinery and equipment is estimated to have grown moderately on both an annual and quarterly basis, according to preliminary data on capital goods imports. Regarding total investment, annual growth in the first quarter is estimated to have been considerably higher than that of fixed investment (close to 20%), a figure that assumes growth in the sum of inventory accumulation and the statistical discrepancy.

In the first quarter, total consumption is expected to have accelerated and, although annual growth would have been modest, it would have sustained the high levels recorded in recent quarters, largely due to the gradual increase in private consumption. The strengthening of household consumption likely occurred in a context of falling interest rates over several months, employment growth, and higher disposable income, partly driven by increased revenues from some export-oriented activities (e.g., coffee and tourism) and remittances from workers abroad, among other factors. As a result, this aggregate is estimated to have accelerated in the first quarter, which would also be reflected in a significant quarterly increase. This outcome would be explained by both annual and quarterly growth across all segments of private consumption, with notable momentum in durable goods consumption and a recovery in semi-durable goods consumption. Consumption of services likely continued to rise, as suggested by the strong performance of spending on entertainment, health, and education. The dynamics of private consumption are evident in indicators such as the tertiary ISE, retail sales, revenues in service-related sectors, imports of consumer goods, debit and credit card transactions, consumer credit disbursements, and registrations of vehicles and motorcycles. Public consumption is estimated to have increased on a quarterly basis, as suggested by General National Budget (PGN for its Spanish acronym) execution figures, which point to higher personnel and operating expenses. However, no annual growth is expected for this component, given a relatively high base of comparison. In summary, total consumption is expected to post modest annual growth alongside significant quarterly expansion.

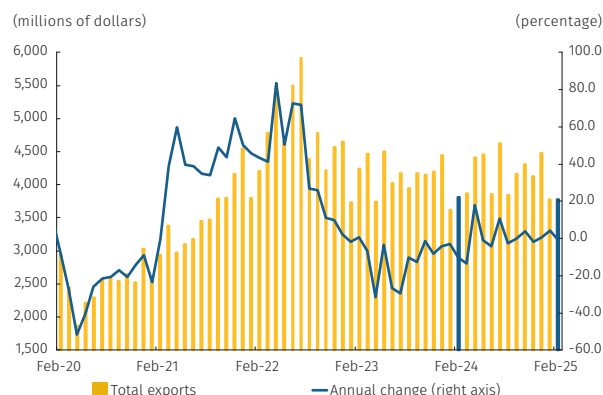
The faster pace of growth in domestic demand likely continued to widen the trade deficit in real pesos. During the first quarter, imports are estimated to have remained strong, at levels slightly above those of the fourth quarter of 2024, with an annual growth rate of 14.4%, consistent with the increasing momentum of domestic demand. According to preliminary data from the National Tax and Customs Authority (DIAN) (Graph 2.16), this increase was mainly driven by imports

Graph 2.16
Total goods imports (CIF)
(Monthly)



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

Graph 2.17
Total goods exports (FOB)
(Monthly)



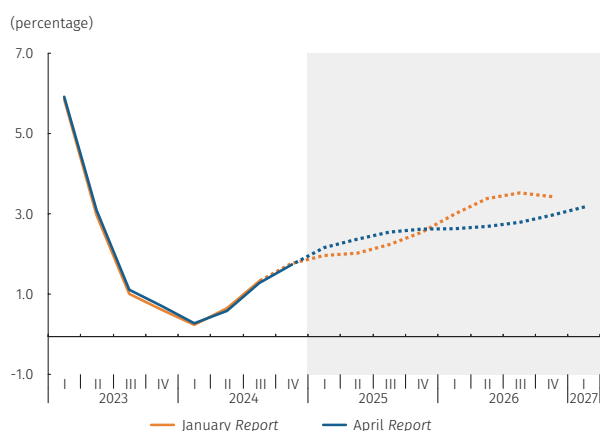
Source: DANE; calculations by Banco de la República.

of durable consumer goods. Regarding exports in constant pesos, modest annual growth of 2.0% is expected, implying a decrease in levels compared to the previous quarter (Graph 2.17). February data point to a significant quarterly drop in exports of mining goods such as coal, oil, and ferronickel, which was not offset by increases in agricultural exports, particularly coffee, or in industrial goods. Meanwhile, service exports showed no growth relative to the previous quarter, based on air passenger data that indicates a considerable decline in March, largely due to fewer arrivals from the United States. As a result, the trade deficit in real terms is estimated to have increased compared to both the previous quarter and the same period a year earlier, implying that the accounting contribution of net external demand to annual GDP growth remained negative.

On the supply side, service sectors continued to show strong momentum, driving economic growth and offsetting the weak performance of the mining and much of the construction sectors. In the first quarter of the year, both annual and quarterly growth were recorded in the tertiary sectors. Services related to arts, entertainment, and recreation were particularly dynamic, largely due to the boost from concerts held in February in several major cities. Domestic trade services also made a positive contribution. In contrast, accommodation, restaurants and bars, air transport—due to reduced passenger flows to and from the United States—and public utilities contributed negatively to annual growth in the tertiary sector. This quarter also saw a positive contribution from the primary sectors, driven by the continued strong performance of agriculture, particularly coffee production and livestock activities. The mining sector, however, is expected to have remained on a downward path, with annual declines in the production of coal, oil, and certain metal ores, such as ferronickel. Finally, secondary sectors are expected to have posted a slight annual and quarterly increase, supported in part by improved performance in manufacturing (excluding coking and refining) and in civil construction (see Box 1).

The Colombian economy is expected to continue growing through the rest of 2025 and into 2026, albeit at a slower pace than projected in the previous Report, reflecting the adverse effects of global trade conflicts and increased international uncertainty on real activity. The current Report still anticipates

Graph 2.18
GDP, four-quarter cumulative^{a/}
(annual change)



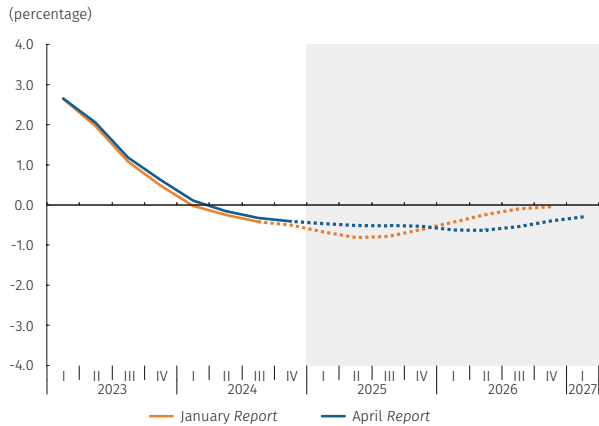
a/ Seasonally adjusted and corrected for calendar effects.
Source: DANE; calculations and projections by Banco de la República.

a gradual reduction in domestic financing costs and the preservation of external financing channels for the country, despite heightened global uncertainty. However, the tariff measures adopted by the United States and the significant uncertainty surrounding its outlook have led to a downward revision of growth for Colombia’s trading partners, as previously noted. This would negatively impact the country’s growth, particularly through some export channels. Consequently, the *Report* projects a lower contribution from external demand for the remainder of the year. Domestically, private consumption is expected to maintain positive annual growth, although at a slightly lower rate than forecasted in the previous *Report*, due to weaker terms of trade, a decline in consumer confidence, and a moderation in remittances amid the new external context. Nonetheless, private consumption should continue to be supported by lower inflation, reduced household debt, and still-elevated revenues from coffee and remittances. Public consumption is not expected to grow significantly, as it will be constrained by the national government’s need to reduce spending. Regarding investment, this *Report* assumes a significant contribution from civil construction, provided that regional and local projects move forward and the implementation of 5G infrastructure works continues. Considering the stronger-than-expected economic activity in the first quarter and the external shock’s negative effects over the forecast horizon, annual growth for 2025 remains at 2.6%, while the projection for 2026 has been revised downward to 3.0% (Graph 2.18). These forecasts are subject to greater uncertainty than three months ago, as discussed further in Section 2.3, due to the complexity of the international landscape.

Unemployment rate (UR) forecasts have been revised downward compared to those in the January Report. For 2025, the UR is expected to remain relatively stable, with the labor market remaining somewhat tight. Data from the Integrated Household Survey (GEIH for its Spanish acronym) as of February indicate a dynamic labor market, with job creation at the national level driven primarily by the non-salaried segment. At the same time, the inactive population declined in recent months, reflected in an increase in the global labor force participation rate (GPR), which reached 64.5%. Thus, despite increased labor supply, faster employment growth led to a decline in the national unemployment rate in recent months, bringing it below its historical average and to levels not seen since 2016. Specifically, for the rolling quarter ending in February, unemployment fell vis-a-vis November, standing at 9.4%.²⁰ Based on this labor market performance and the economic activity projections

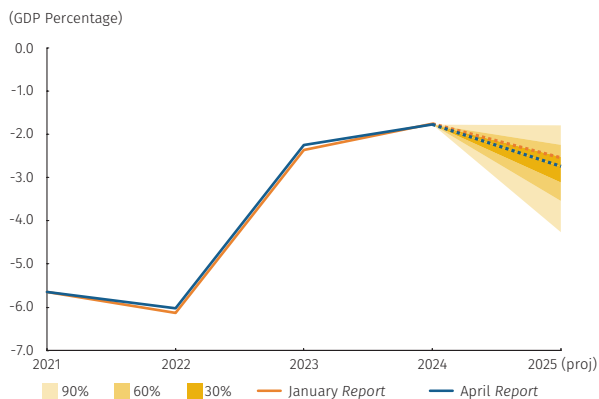
20 See Chapter 3 of this *Report* for additional information.

Graph 2.19
Output gap^{a/}
(four-quarter cumulative)



a/ The historical estimate of the output gap is calculated as the difference between observed GDP (four-quarter cumulative) and potential GDP (trend; four-quarter cumulative) from the 4GM 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.

Graph 2.20
Annual current account^{a/, b/}
(four-quarter cumulative)



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

in this *Report*, the seasonally adjusted national aggregate unemployment rate for 2025 is estimated to range between 8.7% and 10.5%, with a central estimate of 9.6%. For urban areas, the unemployment rate is projected to average 9.2% (within a range of 8.3% to 10.1%). These projections are lower than those presented in the previous *Report* for both geographic areas. As a result, estimates of the unemployment rate consistent with stable inflation (non-accelerating inflation rate of unemployment, NAIRU) suggest that the unemployment gap will remain negative over the forecast horizon, though it will generate only moderate inflationary pressures from labor market dynamics, after accounting for the effects of the recent minimum wage increase, which is assumed to have already materialized to a large extent.

For the first quarter of 2025, the annual output gap is estimated to have remained negative, reflecting economic activity still below its potential level despite the gradual recovery in domestic demand. Stronger-than-expected economic momentum during this first quarter, above that indicated in the previous *Report*, led to revised estimates of lower excess production capacity and, consequently, a less negative annual output gap for the remainder of 2025. However, the weaker growth outlook for the rest of 2025 and for 2026, resulting from the deteriorating international context, would affect the annual output gap beginning in 2026, as reflected in a downward revision of the gap in this *Report* (Graph 2.19). Accordingly, the annual output gap is estimated at around -0.5% in the first quarter of 2025, compared to -0.7% in the *January Report*. By the end of 2025, the gap is expected to be approximately -0.5% (-0.6% in the previous estimate), implying potential GDP growth of 2.8% (up from 2.7% in January). By the end of 2026, the gap is projected at -0.4%, lower than the January estimate, which anticipated a fully closed gap.

2.2.3 Balance of payments

By 2025, the current account deficit is projected to widen to 2.7% of GDP from 1.8% in 2024, reflecting a recovery in domestic demand and a moderation in international commodity prices, amid high uncertainty surrounding global trade policy (Graph 2.20).²¹ This larger external imbalance would result from an increase in the trade deficit in goods and services, partially offset by a smaller factor income

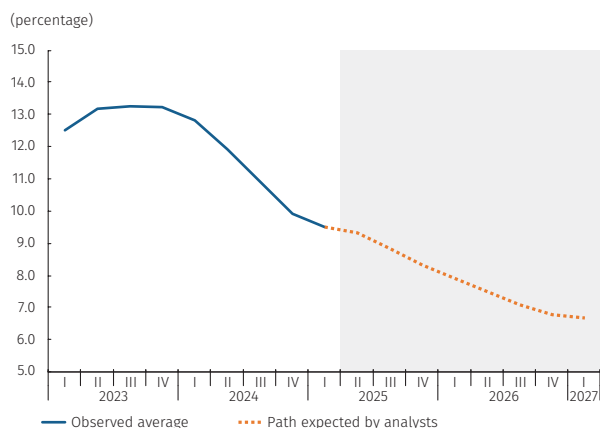
21 For the first quarter of 2025, a current account deficit of approximately 2.5% of GDP is projected. This result would be explained by a widening of the trade imbalance in goods and services, which would be partially offset by a higher surplus in current transfers and a lower factor income deficit.

deficit and a larger current transfer surplus. Specifically, the trade deficit in goods would widen due to lower export revenues, particularly in oil, mining, and to a lesser extent, non-traditional exports, despite favorable performance from coffee and gold. The deterioration in exports would exceed the January *Report's* projections, given the observed and expected impact of heightened global uncertainty related to US tariff policies. At the same time, import spending is expected to increase, driven by higher domestic demand and economic growth compared to 2024. The services deficit would also expand, led by increased imports of financial and tourism services, partially offset by continued strength in non-resident tourism-related exports. Meanwhile, net factor income outflows would decline, reflecting lower profit remittances from foreign-invested oil and mining companies and reduced private sector interest payments on external debt—supported by falling global interest rates. These effects would counterbalance the higher cost of public sector external debt. Additionally, the estimated surplus in current transfers, led by worker remittances,²² would help contain further widening of the current account deficit. The external balance forecast remains highly uncertain due to the significant and hard-to-quantify and predict impact of newly imposed US tariffs. This has been accompanied by high volatility in international commodity prices, increased downside risks to both domestic and global growth, uncertainty about trade policy and financial conditions, among other factors.

It is assumed that in 2025 Colombia will maintain full access to external financing, with foreign direct investment (FDI) continuing to be the main source of external resources. FDI is expected to be slightly lower than in 2024, mainly due to reduced investment in the oil and mining sectors, partially offset by increased investment in other areas of the economy amid stronger domestic demand. The public sector is also expected to contribute to external financing, given the projected high fiscal deficit. In contrast, the private sector is expected to increase its holdings of assets abroad. Overall, external financing will face tighter financial conditions, elevated volatility and uncertainty in international markets, relatively high global interest rates, and a risk premium for Colombia that remains above its historical average, reflecting concerns over deteriorating public finances.

2.2.4 Monetary policy and interest rates expected by analysts

Graph 2.21
 Monetary policy interest rate: average observed quarterly, and rate expected by analysts ^{a/}



a/ These projections are calculated considering the quarterly average of the current rate according to the median response of the *Monthly survey of economic analyst expectations* conducted by Banco de la República for April 2025. Source: Banco de la República.

22 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 that period was approximately 1,307,900 people. Additionally, labor markets are expected to remain tight in several of the countries where Colombian migrants reside.

The median analysts' expectation for the policy interest rate is 9.3% for the second quarter of 2025 and 8.3% for the fourth quarter (Graph 2.21). The median response to *Banco de la República's* monthly survey of analysts' expectations conducted in early April anticipates a continued decline in the policy rate over the next two years, although to a lesser extent than projected in the January *Report*. Specifically, they expect the policy rate to average 9.3% in the second quarter of 2025, 8.3% in the fourth quarter of 2025, 6.8% by the end of 2026, and 6.7% in the first quarter of 2027. On average, this path is higher than that projected in the January 2025 survey over an eight-quarter horizon. However, analysts' expectations for 2025 and 2026 remain below the path implied in this *Report's* macroeconomic forecast, which incorporates the monetary policy response to the previously described shocks. Furthermore, by the end of 2026, analysts expect higher headline inflation than projected by the Bank's technical staff.

2.3 Balance of macroeconomic risks

The balance of risks reflects greater uncertainty compared to the previous quarter, mainly due to recent announcements and changes in US tariff and trade policy and their impact on international trade and Colombia's external financing. The predictive density (PD) exercise²³ summarizes the risk balance across multiple variables within the macroeconomic forecast and shows higher uncertainty than the previous *Report* for most external variables and domestic economic activity, due to the repercussions of the US government's tariff increases. These measures heighten the risks of slower global growth and falling international commodity prices, particularly oil, while increasing upward inflationary pressures in the US. Additionally, greater risk aversion driven by financial market volatility and the possibility of a trade war has negatively affected the risk perception of emerging markets. This, along with a worsening of Colombia's idiosyncratic risk due to rising fiscal concerns, implies an upward bias in the sovereign risk premium. The combination of these factors increases the cost of external financing and generates significant upside risks to the exchange rate, which in turn would raise inflationary pressures, particularly in baskets with a high share of tradable goods. These upside inflation risks, combined with supply-side factors, outweigh the downside risks stemming from the possibility of weaker local economic growth, which are primarily driven by lower external income and remittances amid the global slowdown.

On the external front, upside risks to US inflation and the risk premium predominate, while risks to the growth of Colombia's trading partners and oil prices are tilted to the downside. Recent US tariff announcements and the responses from some of its trading partners have intensified concerns about a global economic slowdown, resulting in a downward bias in the growth projections for Colombia's main trading partners. These concerns have also triggered downward revisions in international commodity prices, as discussed in the external sector section. Conversely, the increase in US tariffs raises the cost of imported goods and inputs, exerting upward pressure on US inflation. While this could delay the

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

Fed's monetary policy normalization, the concurrent deterioration in growth prospects leads to a neutral balance for the expected path of US interest rates. Lastly, Colombia's sovereign risk premium remains on an upward trajectory due to mounting concerns about domestic public finances and the possibility of increased global risk aversion amid ongoing external financial market volatility—factors that continue to affect emerging economies, including Colombia.

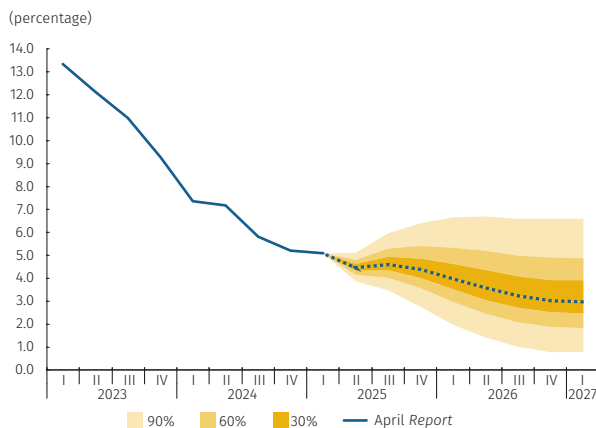
Headline and core inflation (excluding food and regulated items) are subject to upward risks. The most prominent inflationary risk factors include potential further depreciation of the peso due to fiscal concerns and tighter external financial conditions, the possibility of a real minimum wage increase exceeding productivity gains, and structural challenges in the energy sector. In the PD exercise, the inflation paths for both headline and core inflation are skewed upward, mainly due to risks in the regulated items and services sub-baskets. For regulated items, upside risks are largely tied to gas prices, as distribution companies may turn to imports, raising final consumer prices, as seen in the first quarter. This could also impact electricity prices, since gas is used in thermal power generation. In the services category, inflationary pressure could arise in 2026 if the minimum wage increases significantly outpace inflation and productivity, especially in a regulatory environment of reduced working hours. This risk is partially offset by the potential dampening effect of slower economic growth stemming from trade tensions. Regarding goods, there is significant upside risk from a possible further depreciation of the peso amid fiscal uncertainty and high external volatility linked to US trade policy shifts. Additionally, trade conflicts could raise global production and transportation costs, increasing international goods prices. However, these effects may be offset by a rise in exports from Asian countries, particularly China, to alternative markets in response to US trade restrictions. As a result, the risk balance for this basket is considered neutral, though uncertainty remains high. For food, key inflationary risks include a potential underestimation of shifts in the agricultural cycle, adverse climatic events, and greater exchange rate pressures than those assumed in the central scenario. These risks are mitigated by the possibility of continued strong agricultural performance, resulting in a neutral risk balance for this component.

The balance of risks to economic activity is mixed, with an upward bias for the first quarter and a downward bias for the remainder of the forecast horizon. For the first quarter, stronger-than-expected growth is anticipated, supported by recent ISE performance, particularly in tertiary activities such as entertainment services. However, beyond the first quarter, downside risks dominate over private consumption, investment, and exports, while the outlook for public consumption remains neutral. Key downside risks include weakened household and business confidence due to trade tensions, reduced external income and remittances amid the global slowdown, the potential for lower public spending stemming from weaker tax revenues and the need for fiscal adjustment, and a possible decline in investment in the mining and energy sectors due to falling international oil prices. On the upside, potential drivers of stronger growth include a larger boost to household disposable income from the recent minimum wage increase in the short run, accelerated infrastructure investment (notably in projects like the Bogotá metro and 5G civil works), and continued strength in private consumption as observed in the first quarter of 2025. Additionally, the PD exercise endogenously incorporates risks related to the possibility

of a more prolonged restrictive monetary policy stance in response to persistent inflationary pressures, which are considered more significant than the external downside risks to economic activity.

In summary, the balance of risks reflects heightened uncertainty, with upward risks for inflation (Graphs 2.22 and 2.23) and downward risks for economic growth (Graphs 2.24 and 2.25) over the forecast horizon. Under this scenario, there is a 90% probability that headline inflation will fall within a range of 2.8% to 6.4% by the end of 2025, and between 0.8% and 6.6% by the end of 2026. For core inflation, the same level of confidence implies a range of 2.5% to 5.7% at the end of 2025 and 0.8% to 6.2% at the end of 2026. The likelihood of headline and core inflation falling below 4.0% in the fourth quarter of 2025 stands at 30% and 46%, respectively. These probabilities increase to 57% and 62%, respectively, by the end of 2026. Regarding economic activity, annual GDP growth is projected, with 90% confidence, to range between 0.8% and 4.1% in 2025, and between 0.2% and 4.5% in 2026.

Graph 2.22
Consumer price index, predictive density^{a/, b/}
(annual change, end-of-period)



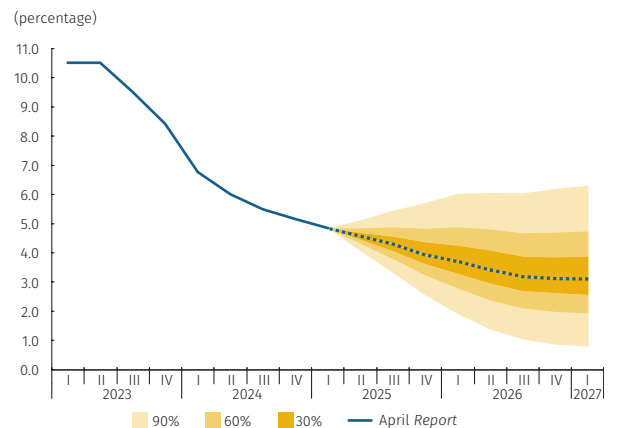
	2Q 2025	4Q 2025	4Q 2026
Mode	4.5	4.4	3.0
< Mode	46%	43%	35%
Intervals			
<2	0%	1%	17%
2 to 4	10%	29%	40%
>4	90%	70%	43%

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 April Report.

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

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



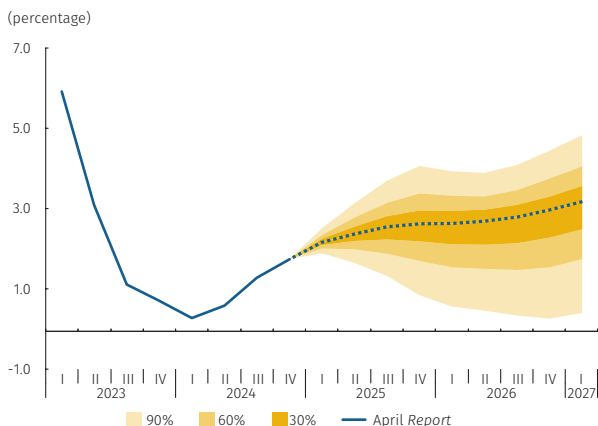
	2Q 2025	4Q 2025	4Q 2026
Mode	4.6	3.9	3.1
< Mode	48%	43%	40%
Intervals			
<2	0%	1%	17%
2 to 4	4%	45%	45%
>4	96%	54%	38%

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 April Report.

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

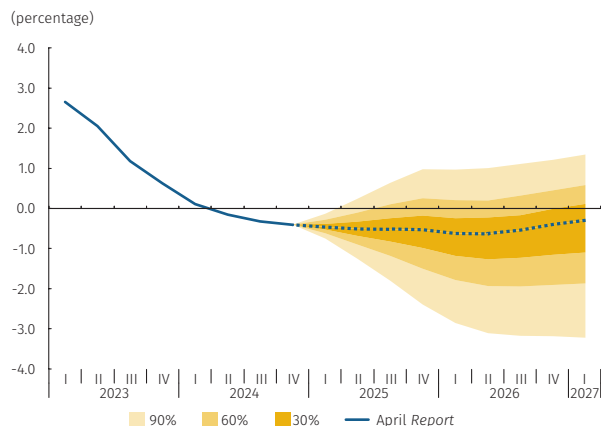
Graph 2.24
GDP, four-quarter cumulative, predictive density ^{a/, b/}
(annual change)



	4Q 2025	4Q 2026
Mode	2.6	3.0
< Mode	57%	68%
Intervals		
<1	7%	15%
1 to 2	26%	24%
2 to 3	38%	30%
>3	29%	31%

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

Graph 2.25
Output gap, predictive density ^{a/, b/}
(four-quarter cumulative)



	4Q 2025	4Q 2026
Mode	-0.5	-0.4
< Mode	57%	67%
Intervals		
<-3	1%	7%
3 to 0	75%	70%
0 to 2	24%	22%
>2	0%	2%

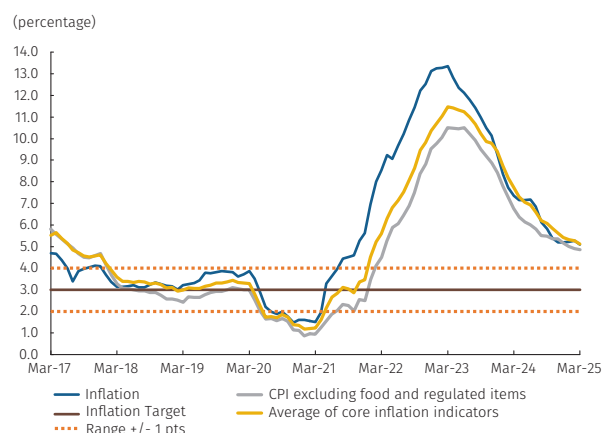
a/ The graph displays the probability distribution and its most likely path on an eight-quarter forecast horizon. Densities characterize the balance of potential risks with areas of 30%, 60% and 90% probability around the central forecast (mode), using a combination of densities from the Patacon and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

3. Current economic situation

3.1 Inflation and price behavior

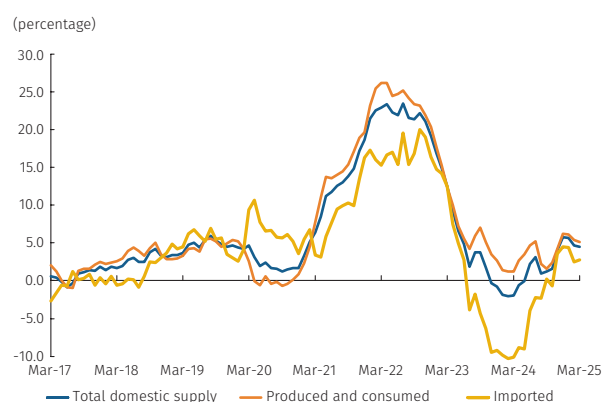
In March 2025, annual headline inflation declined after several months of stability, but remained above the 3.0% target. In this month, the annual change in the consumer price index (CPI) fell to 5.1%, slightly below the 5.2% recorded in December. Core inflation, measured by year-on-year change in the CPI excluding food and regulated items, also fell from 5.2% in December to 4.8% in March, as goods prices continued to show little adjustments, while services prices continued to decelerate gradually (Graph 3.1). Additionally, so far this year, certain public services, such as energy, water, and sewage, have contributed to reducing annual consumer inflation. The international prices of some food items¹ and raw materials also continued a downward trend, reducing non-labor costs, as demonstrated by the decrease in producer inflation from 5.8% in December to 4.5% in March, measured by the annual variation of the producer price index (PPI). The latter was influenced by the drop in both the local (from 6.2% to 5.1%) and the imported components (from 4.5% to 2.8%) (Graph 3.2).² Nonetheless, headline inflation recorded higher figures in March than those predicted by the technical staff in the January *Report* (4.9%), due to positive surprises in regulated item and food prices, which more than offset some downward surprises in core inflation.

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)

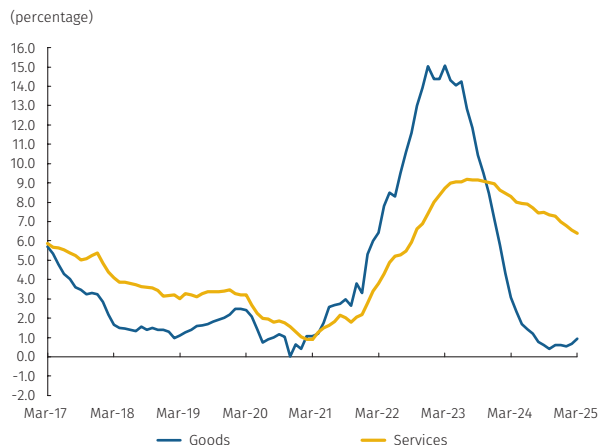


Sources: DANE; calculations by Banco de la República.

The year-on-year change in the prices of goods displayed an upward trend, although it remained at low levels. In December, the annual adjustment in the price of goods was 0.6%, while in March it increased to 0.9%, somewhat lower than the figure anticipated by the technical staff in the previous *Report* (1.1%) (Graph 3.3). The slight rebound seen for this group occurred in an environment of recent depreciation of the peso against the US dollar and higher labor costs, which would have contributed to raising the annual price adjustment of this sub basket. In addition, goods such as gold and fashion jewelry reflected the increase in the price of gold seen in recent weeks, along with significant increases in the prices of products like cigarettes and newspapers, which have recorded price adjustments exceeding 8.0% so far this year. The above would have occurred in the context of an output gap that remains negative, suggesting excess capacity, as well as the normalization of maritime transportation costs and rectification of bottlenecks in the Panama and Suez canals. These factors would have partially offset

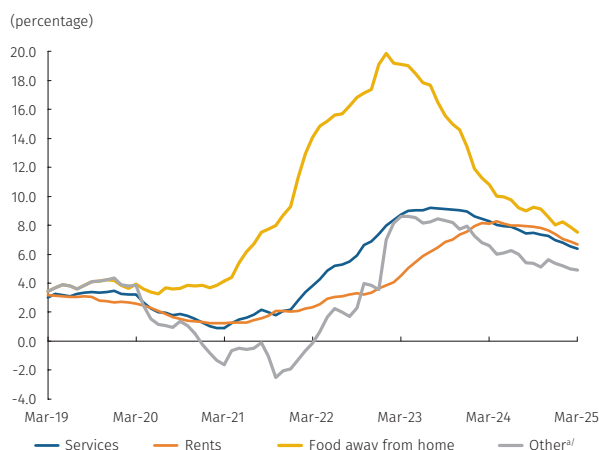
- 1 On average, international food prices have been falling since the beginning of the year. However, certain products such as coffee and cocoa suffered significant price increases during the first quarter.
- 2 Provisional annual producer inflation for March supplied by DANE.

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



Sources: DANE; calculations by Banco de la República.

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.

upward pressures on goods due to the recent behavior of the exchange rate.

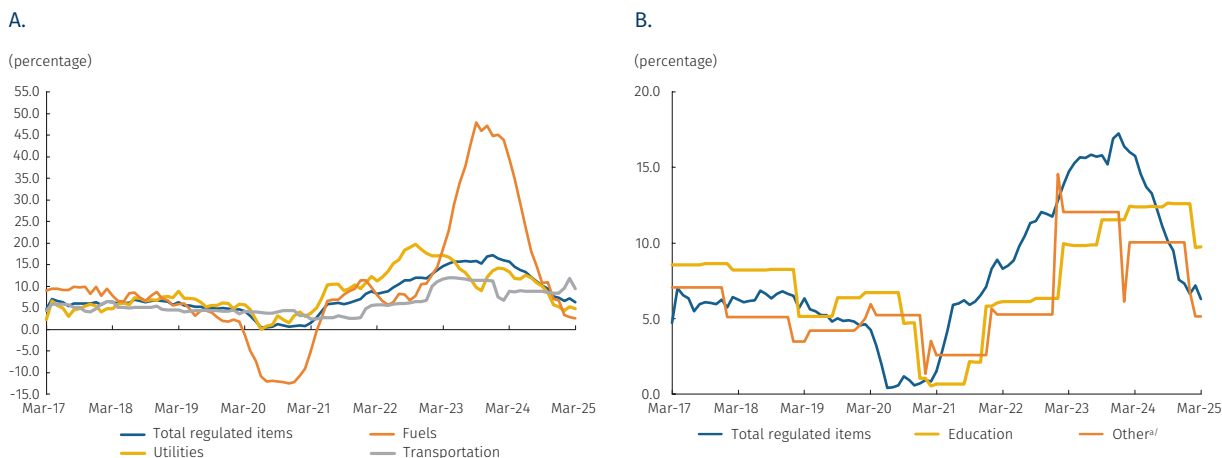
The services CPI continued to decelerate, although it was the segment that recorded the largest annual increases among the major CPI groups. Between December and March, the annual adjustment of the services CPI fell from 7.0% to 6.4%, surprisingly lower than forecast in the January *Report* (6.7%). This slowdown is explained by an indexation of some elements therein to lower rates than those observed last year, amid a still negative output gap (Graph 3.4). The decrease was universal across all subgroups. Particularly, the annual adjustment in the price of rents fell from 7.4% in December to 6.7% in March, and that of the other³ subgroup fell from 5.4% to 4.9%. The latter includes education, an item that has shown relatively low annual changes, with a noted increase in March of 3.4%. The food away from home subgroup also has a smaller price adjustment, shifting from 8.0% in December to 7.5% in March. However, this item continued to register high increases as the prices of gas and certain foods continue to rise, including fruits, beverages, and ultra-processed products with high sugar and fat content, coupled with higher labor costs and the continuation of the project to reduce the number of hours worked per week.⁴ It should be noted that, despite the downward trend in the services group and its main components, these items recorded the highest annual adjustment of all the primary CPI baskets. The latter, together with the considerable significance of services in the basic consumer basket (48.9%), are key factors that explain why annual inflation exceeds 5.0%.

During the first quarter of 2025, the year-on-year adjustment seen in regulated item prices decreased, but less than expected due to the significant increase in gas prices. The CPI for regulated items registered the largest annual deceleration compared to the rest of the main baskets, falling from 7.3% in December to 6.3% in March. However, it was higher than expected by the technical staff in the previous *Report* (5.1%). The deceleration exhibited in the annual variation of regulated items was explained by the significant reduction in the fuel price adjustments, which dropped from 6.8% in December to 2.5% in March, because of the high base of comparison given the sharp increases in fuel prices recorded the previous year (Graph 3.5, panel A). Utilities also contributed to the lower change seen in the regulated segment of the CPI, falling from 5.2% in December to 4.8% in March. This downward performance occurred despite the significant increase in gas prices during February, with an average mon-

3 This group is primarily comprised of the following items: communication, recreation and cultural events; education (non-regulated); miscellaneous services (beauty salons, day care, financial services, etc.); transportation; building administration fees; domestic services; night and health clubs; laundry services.

4 See Law 2101 of 2021 of the Congress of the Republic, available in Spanish at <https://www.funcionpublica.gov.co/eva/gestornormativo/norma.php?i=166506>

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

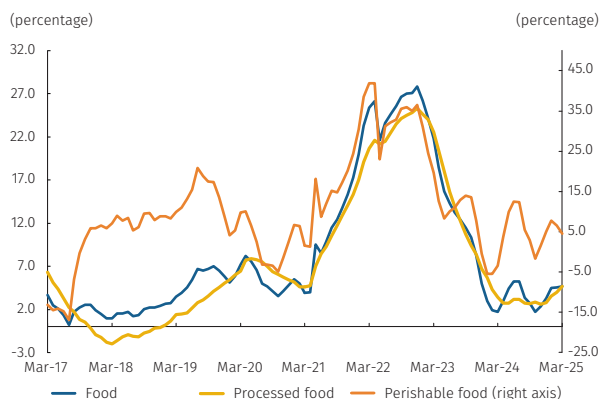


a/ Includes EPS affiliate co-payments, administrative certificates and documents, and professional fee payments
Sources: DANE; calculations by Banco de la República.

thly adjustment of close to 14%, with the highest figure seen in Bogotá, where the monthly increase was close to 30%. The subgroups of education and others⁵ also contributed to the lower annual change of the regulated item component of the family basket, decreasing from 12.6% to 9.7% (education) and from 10.0% to 5.1% (other). Transportation was the only group that placed upward pressure on the CPI for regulated items, increasing from 8.4% in December to 9.5% in March. The city that headed this rebound was Bogotá, which, so far this year, has recorded increases of close to 7.0% in the price adjustments of its urban transportation fares (Graph 3.5, Panel B).

Despite a relatively positive food supply observed in the first months of the year, the year-on-year behavior of this group heightened, driven by the price performance of processed foods. The rebound in the annual price adjustment of the CPI for food between December (3.3%) and March (4.7%), was higher than expected in the January Report (4.0%), owing to several recent upward pressures, including the exchange rate, the latest scheduled increase in the healthy tax on high-sugar and ultra-processed products,⁶ the higher international prices of some foods - particularly coffee and cocoa - and pressures from recent labor cost increases (Graph 3.6). These upward factors were displayed mainly in the processed food segment, whose annual price adjustment grew from 2.8% in December to 4.7% in March. In particular, the sub-basket of ultra-processed foods, which

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



Sources: DANE; calculations by Banco de la República.

5 This group is mainly comprised of EPS co-pay fees; fees for the issuance of certificates, administrative documents, and payment fees.

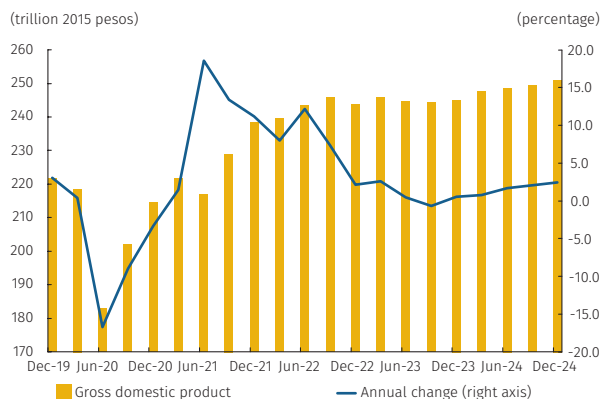
6 See Law 2277 of 2022, Title V, established taxes on sugar-sweetened ultra-processed beverages and food products. industrially ultra-processed and/or those high in added sugars, sodium or saturated fats. Available in Spanish at: <https://www.funcionpublica.gov.co/eva/gestornormativo/norma.php?i=199883>

also includes those containing coffee and cocoa products, is growing at over 15.0% annually, heading the list of items placing upward pressure on processed foods. In contrast, the annual price change in perishable food fell back during the first quarter, from 5.1% in December to 4.6% in March. This downward performance is associated with an abundant food supply enjoyed during the year, favored by the upward phase in the transitory crops cycle (vegetables, tubers, and some fruits) and by a positive rainfall pattern in recent months.⁷ In addition, recent drops in the international prices of several foodstuffs have led to lower import costs, especially for fruits and vegetables. Thus, the upward pressures of processed products, which have a greater weight in the basket, outweighed the downward influences of perishable products in the food group.

3.2 Growth and domestic demand

In the fourth quarter of 2024, the Colombian economy continued to improve gradually, mainly driven by positive domestic demand, consistent with what was forecast in the previous Report. During this period, economic activity registered an annual growth of 2.4%, similar to the 2.3% figure expected by the technical staff in the previous Report (see Box 2), which implies an annualized quarterly expansion of 2.5%, according to the seasonally and calendar-adjusted series (Graph 3.7). Accordingly, after the relative stagnation observed during 2023, five consecutive quarters have recorded a recovery. On the expenditure side, a positive contribution by domestic demand growth was observed, which was in line with expectations and primarily explained by the notable expansion of gross capital formation and moderate growth in private consumption. This outcome occurred amid a backdrop of interest rate reductions, declining inflation (although still above target), and an increase in household disposable income. On the supply side, the sectors that experienced the largest growth were agriculture and livestock, arts, entertainment and recreation, and civil construction. In contrast, mining exploitation and quarries was the segment that showed the largest decline, followed by financial and insurance services. Consequently, the Colombian economy grew by 1.7% during the entire 2024 period.

Graph 3.7
Gross Domestic Product^{a/}
(quarterly and annual change)

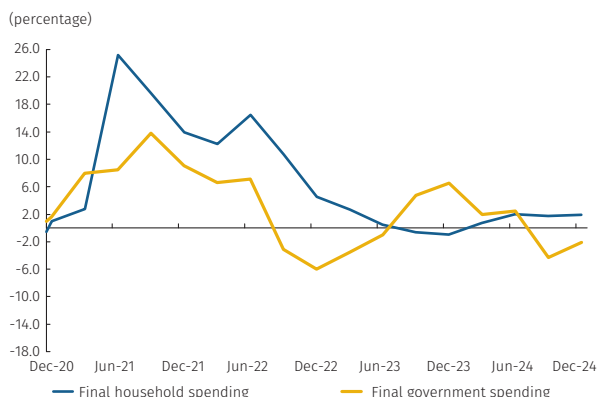


a/ Seasonally adjusted and corrected for calendar effects
Sources: DANE; calculations by Banco de la República.

Consumption continued to recover, driven primarily by household spending. During the fourth quarter, total consumption continued to grow moderately, both in quarterly (1.5% annualized quarter-on-quarter) and annual year-on-year (1.4%) terms. By component, the boost came from private consumption, which grew at an annualized rate of 1.9%

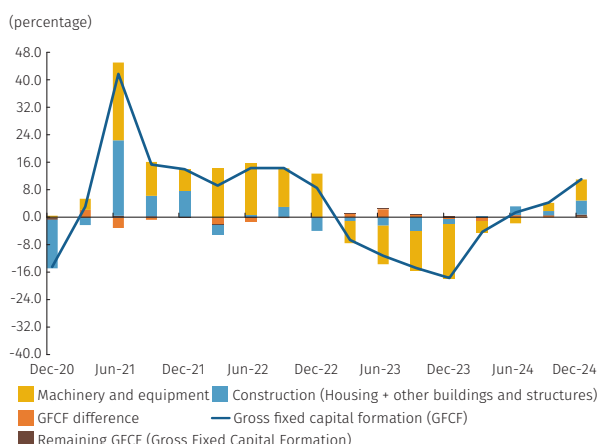
7 The expected La Niña phenomenon finally did not occur and for the first months of April, the US weather agency (NOAA) announced normal conditions with a very low probability of occurrence of any weather disturbance, including La Niña or El Niño. https://www.cpc.ncep.noaa.gov/products/analysis_monitoring/lanina/enso_evolution-status-fcsts-web.pdf

Graph 3.8
Final household and general government spending^{a/}
(annual change)



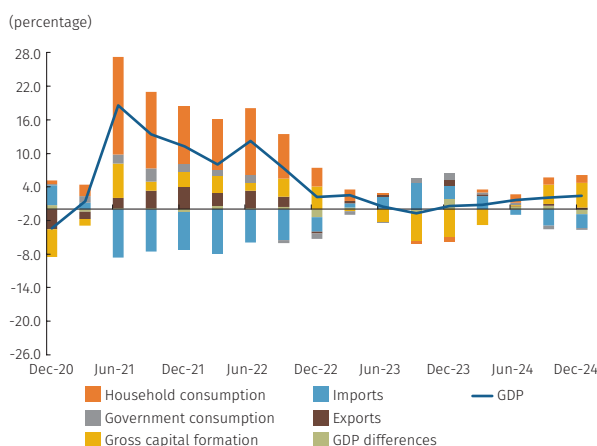
a/ Seasonally adjusted and corrected for calendar effects
Sources: DANE; calculations by Banco de la República.

Graph 3.9
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 3.10
Contributions to annual changes to quarterly GDP^{a/}
(annual change, contribution)



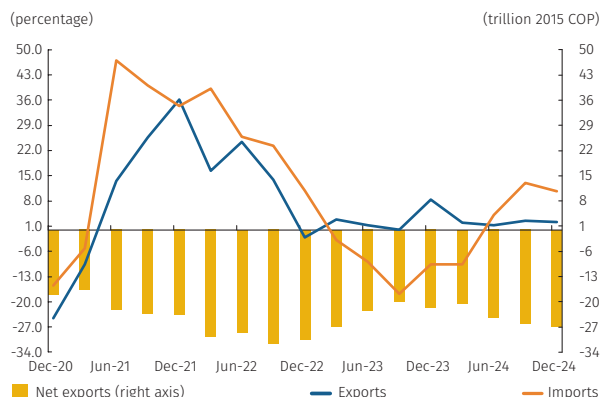
a/ Seasonally adjusted and corrected for calendar effects
Sources: DANE; calculations by Banco de la República.

(Graph 3.8), driven by an outstanding performance in the consumption of durable goods, which continued to recover quarterly and recorded an annual growth of 9.9%. This was coupled with the growth in consumption in services, which continued to increase annually and quarterly, explained to a greater extent by the good dynamics of the entertainment segment. Consumption of semi-durable goods, which had contracted in previous quarters, grew at an annual rate of 4.7%, due to the recovery of spending on clothing and footwear. Fourth quarter data for 2024 shows that private consumption expanded by 1.6% during the whole year. This rate, albeit moderate, made it possible for this aggregate to maintain historically high levels, exceeding those logged before the pandemic. Household consumption continued to grow in a context of less restrictive monetary policy, stable employment, and higher household disposable income. Furthermore, public consumption expanded in quarterly terms compared to the low level seen in the third quarter, largely due to better dynamics in labor expenditures. However, this was insufficient for this segment to log a positive behavior in annual terms (-2.1%). In the whole of 2024, public consumption contracted by 0.5%.

In the fourth quarter, investment grew again at a significant annual rate, due to a very low comparison base versus the previous year and a possible recovery in inventories. During this period, gross fixed capital formation expanded at significant annual (11.0%) and quarterly annualized (20.1%) rates. By component, the main contributor to annual growth was investment in machinery and equipment (Graph 3.9), whose annual expansion (14.9%) was explained, mainly by expenditures in capital goods for agriculture and industry, as suggested by import figures. Investment in other buildings and structures also recorded high annual growth (12.2%), which was due to growth in both the civil works component as well as in non-residential works. The investment in housing grew at a low annual rate (2.4%), although its levels increased compared to the previous quarter, driven primarily by the low-income housing segment (VIS for its Spanish acronym). It is noteworthy that total gross capital formation grew at a higher annual rate than fixed capital formation (27.7%), which resulted in an acceleration of this aggregate, being the main contributor to the annual growth of domestic demand (Graph 3.10). The above was explained by a positive and significant value recorded in the component that groups the statistical discrepancy and information on inventory change, which - with the figures of the most recent DANE publication - was a marked contrast to the negative value observed a year earlier. Despite the high growth rates, the levels of total and fixed investment have not fully recovered from the setbacks suffered by these components since 2020.

Net external demand once again was a negative contributor to growth, with a double-digit increase of 10.6% (Graph 3.11), as its annualized quarterly levels continue to rise (9.3%). The increase in this aggregate was mainly explained by

Graph 3.11
Exports, imports, and trade balance ^{a/}
(annual change and trillion 2015 COP)



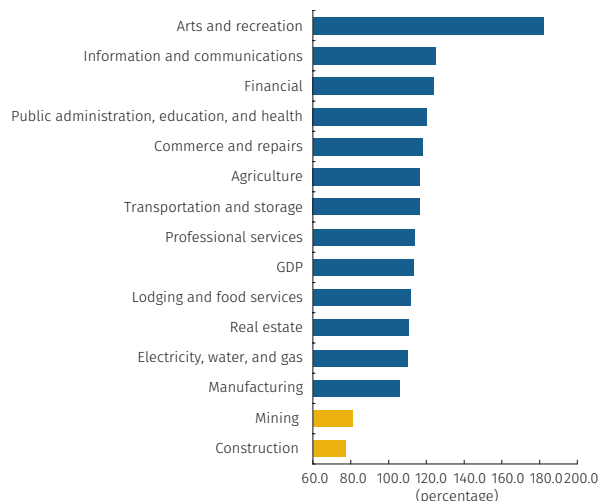
^{a/} Seasonally adjusted and corrected for calendar effects
Sources: DANE; calculations by Banco de la República.

growing purchases of intermediate goods, especially fuels, and durable consumer goods, among which the behavior of vehicle imports for household consumption is noteworthy. Alternatively, exports continued to expand at a modest annual rate (2.2%), yet showed higher quarterly rates (6.8%), driven mainly by exports of industrial goods, coffee, and services, the latter boosted by non-resident tourism. The aforementioned caused the external deficit in constant pesos to widen compared to the third quarter and to the figures of the previous year, hence registering a negative accounting contribution to the year-on-year change of the gross domestic product (GDP).

In the fourth quarter, GDP continued to be driven by the agricultural sector, civil works, and various branches of tertiary activities.

During this period, the primary branches continued to expand in annual terms (1.9%), although with a slight quarterly decline (-0.4%). The high levels reached by these activities were explained by the positive dynamism of the agricultural supply related to crops, the recovery in coffee production, and expanding livestock activities. In contrast, mining activities contracted by 5.5% annually due to the low production of coal, oil, and other metalliferous minerals, and continued at relatively low levels (Graph 3.12). The secondary branches had a slight annual expansion of 0.5%, partly due to the better performance of the non-cooking and oil refining industry, and to the construction of civil works, driven by various regional infrastructure projects, such as the first line of the Bogotá metro. The construction of buildings remained at low levels. Finally, the tertiary branches continued to contribute positively to annual GDP growth, expanding by 2.8% annually. This performance was mainly explained by the continued growth of artistic, entertainment, and recreational activities (5.8%), given the boom in online gaming and sports betting, as well as concerts and events held in the country’s main cities. The positive dynamics of public administration services (5.7%), health services (5.6%), and the macro-sector of commerce, transportation, and lodging (4.3%), the latter driven by domestic commerce and activities related to air transportation, also stand out.

Graph 3.12
Sectoral value-added levels in 4Q 2024 relative to 4Q 2019 ^{a/}
(4Q 2019 = 100%)



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

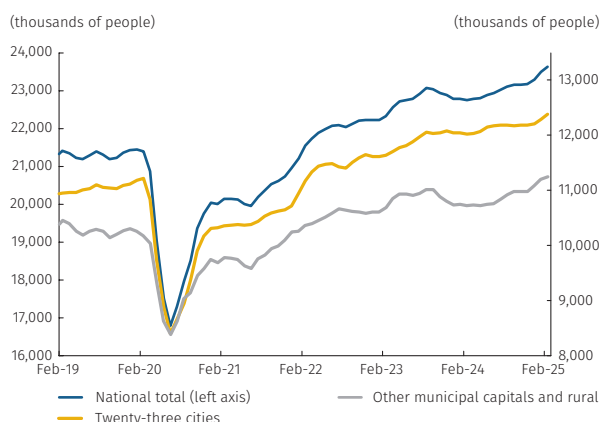
3.3 Labor market^{8,9}

The most recent labor market figures have shown a significant increase in employment at the national level. For the rolling three-month period ending in February, the results of the Integrated Household Survey (GEIH for its Spanish acronym) showed an increase in employment in the twenty-three main cities and the other municipal capitals and

8 For a more detailed analysis of the labor market, we invite you to consult Banco de la República’s Labor Market Report, available only in Spanish at <https://www.banrep.gov.co/es/reporte-mercado-laboral>

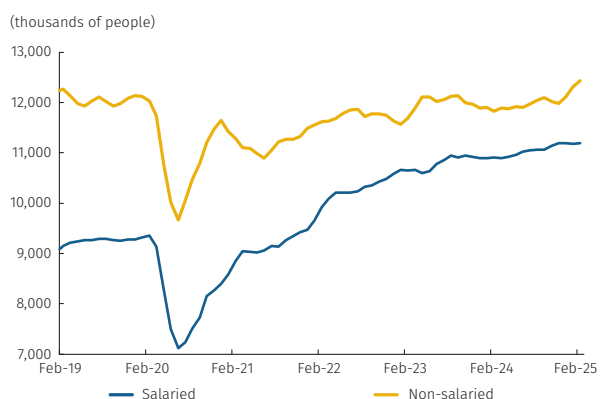
9 Labor market figures presented in this section of the Report primarily correspond to the rolling quarter ending November 2024.

Graph 3.13
Employed population by location



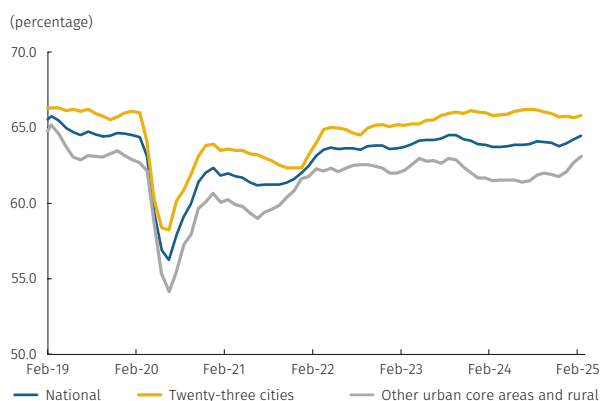
Note: Corresponds to rolling quarterly seasonally adjusted data
Sources: DANE (GEIH), calculations by Banco de la República.

Graph 3.14
Jobs by type of employment
(national total)



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

Graph 3.15
Total labor force participation rate by location



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

rural areas (Graph 3.13). Accordingly, for this period, national aggregate employment registered a year-on-year increase (3.9%),¹⁰ driven by employment growth in other municipal capitals and rural areas (4.9%) and, to a lesser extent, in the urban area (3.0%). By economic sector, national annual employment growth was observed in most branches, with commerce, lodging, public administration, healthcare, and education being the highest contributors to the national aggregate.

By occupation, annual employment growth was explained by positive activity in the non-salaried segment. The non-salaried labor segment grew, with a quarterly variation of 3.8% and an annual variation of 5.1% as of February (Graph 3.14). In particular, self-employed workers were the ones who contributed most to the increase during the quarter, with a quarterly change of 3.8% and an annual variation of 5.1% (Graph 3.14). Notably, the self-employed were those contributing most to annual employment growth nationwide. The salaried segment behavior remained relatively stable.¹¹ This stagnation was also noted in other sources of information on formal salaried employment, such as the records of contributors to the Integrated Contribution Settlement Form (PILA for its Spanish acronym). As a result of the increase in non-salaried employment (with a high informal component), the national figures reflecting the informal employment rate rose rapidly, reaching 56.4% in February.

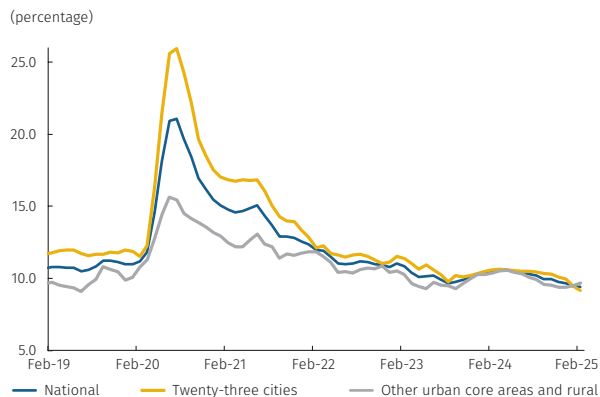
The global labor force participation rate (GPR) has increased, in line with the decrease in the population outside the labor force. In February, the national aggregate overall labor participation rate was 64.5%, which represents an increase of 0.8 percentage points (pp) versus the previous year, and of 0.7 pp compared to November 2024 (Graph 3.15). By geographic domain, the global labor participation rate in other cities and rural areas registered the most significant increase (1.6 pp annual and 1.3 pp quarterly). At the same time, no relevant changes were observed in the twenty-three main cities. This evolution is consistent with the recent drop recorded in the number of the population outside the labor force or inactive, which decreased by 0.7% annually and 1.4% quarterly. By gender, the recovery of female labor participation stands out, with an increase of 1.4 pp compared to February of the previous year, reaching 53.2%. The male labor force participation rate was 76.7%, with a marginal increase of 0.1 pp.

As a result of employment growth outpacing labor force growth, the national unemployment rate continued to decline. For the rolling quarter ending in February and based on seasonally adjusted data, the national unemployment

10 Consistent with the behavior of employment, the employment rate increased in recent months, reaching 58.4%.

11 In annual terms, rolling-quarter data for non-salaried segment employment in February registered a change of 2.6%.

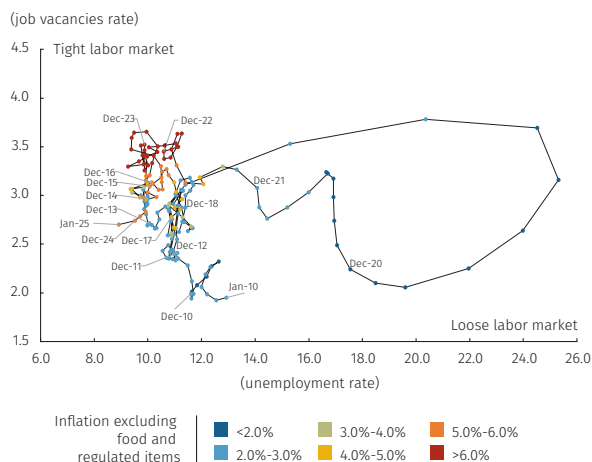
Graph 3.16
Unemployment rate by location



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

rate was 9.4%, lower than the 10.5% recorded a year earlier and the 9.8% seen in November. This decrease was due to reductions of 1.4 pp in the urban unemployment rate and 0.7 pp in the unemployment rate in other municipal capitals and rural areas, which stood at 9.2% and 9.7%, respectively (Graph 3.16). Nevertheless, the marked differences seen among the twenty-three main cities persist: Quibdó presented the highest unemployment rate (31.9%) and Medellín the lowest (7.0%). Compared to the previous three-month period, the largest drops in the unemployment rate occurred in Popayán (-2.9 pp), Cartagena (-2.1 pp), and Valledupar (-2.0 pp), while the largest increases were concentrated in Quibdó (4.0 pp), Riohacha (2.4 pp) and Ibagué (2.3 pp). As for the unemployment gap by gender, it widened in recent months, reaching 5.2 percentage points in February, as a result of a decrease in the unemployment rate of men, although this behavior was not mirrored by the unemployment rate of women.

Graph 3.17
Beveridge curve for the seven largest cities



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

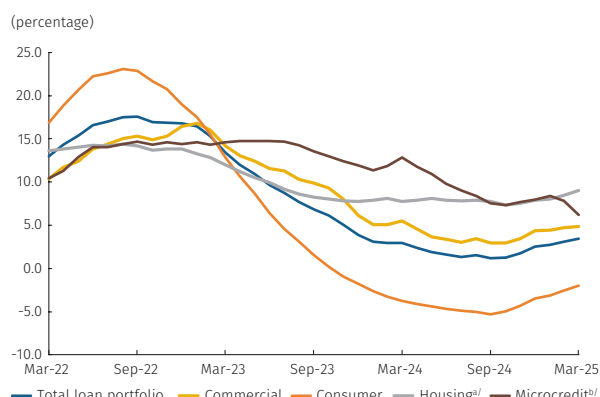
In recent months, job opening indicators have continued their downward trend. In contrast, short-term hiring expectations remain in positive territory. Short-term hiring expectations obtained from the ManpowerGroup's Survey of Hiring Expectations decreased slightly, although they remained in positive territory, suggesting stability in formal employment in the near future. Conversely, medium-term expectations figures for a six to twelve-month horizon, provided by Banco de la República's quarterly Survey of Economic Expectations (ETE for its Spanish acronym), (six to twelve months), moved into negative territory, anticipating possible contractions. With data as of January, job vacancy rates obtained from classified ads, the Public Employment Service (SPE for its Spanish acronym), and implied hiring expectations derived from the GEIH continued to decline. The behavior of the unemployment rate and the vacancy rate in the urban domain, in light of the Beveridge curve¹² (Graph 3.17), suggests a certain tightness of the labor market, given that the unemployment rate continues to decline and the vacancy rate remains relatively high. Finally, with data as of January, the national aggregate real labor income of salaried workers continued its upward trend, while that for non-salaried workers rebounded after the declines seen during most of the second half of 2024. In annual terms, increases of 6.8% were recorded for the salaried segment and 3.4% for the non-salaried segment.

3.4 Financial and money market

The loan portfolio continued to recover at a slow pace in a context of interest rates that remained relatively stable. Certain positive signs were observed during the first quarter of 2025, in the recovery of the loan portfolio in an envi-

12 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 March 1, 2024 includes "Banco Contactar", entity that had previously operated as "Corporación de Crédito Contactar" under the oversight of the Superintendency of Corporate Affairs

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

Table 3.1
Interest rates
(average monthly, percentage)

	Dec 22	Dec 23	Jun-24	Dec 24	Mar 25
Interbank					
Interbank policy rate	11.42	13.18	11.75	9.70	9.50
Interbank overnight	11.41	13.13	11.75	9.70	9.50
BBI overnight	11.41	13.13	11.75	9.70	9.50
BBI 1-month	11.80	13.10	11.47	9.44	9.45
BBI 3-months	12.08	12.81	11.01	9.20	9.31
BBI 6-months	12.31	12.35	10.49	8.86	9.12
BBI 12-months		11.17	9.65	8.40	8.80
Deposits					
Savings	5.72	6.23	5.36	4.30	4.30
DTF 90-days	13.42	12.63	10.14	9.22	9.26
CDT* 180-days	15.58	12.90	10.33	9.43	9.25
CDT 360-days	17.08	13.19	10.75	9.73	9.89
CDT > 360-days	19.15	12.71	11.32	9.97	10.26
Credit					
Preferential	18.57	17.05	13.65	11.92	11.78
Ordinary	19.27	17.93	15.66	13.13	13.35
Non-public housing purchases	17.22	17.06	14.71	11.42	12.07
Public housing purchases	17.00	15.41	13.42	11.38	11.64
Personal loan consumption	31.23	28.16	24.73	21.18	21.27
Payroll loan consumption	19.45	19.83	18.14	16.58	16.80
Credit card	39.01	34.70	29.22	24.59	23.40

*CDT (term deposit certificates)

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

ronment where 1) demand did not show significant changes and lending requirements remain high, although less stringent for some types of credit; 2) monetary policy interest rate expectations were adjusted toward smaller reductions; 3) real market interest rates are near or at their historical average levels; and, 4) credit risk indicators have stabilized, but continue at high levels. Going forward, credit recovery is expected to continue, albeit at a relatively slow pace, in an environment of economic activity that is expected to remain dynamic.

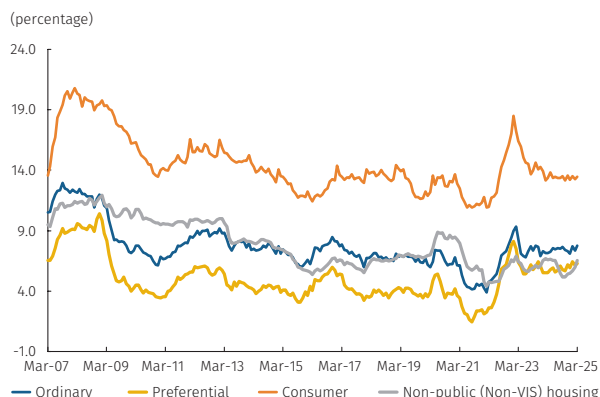
During the first quarter of 2025, the loan portfolio showed a slight recovery, even though the consumer portfolio continued to register negative annual variations. All loan types except consumer loans showed positive annual growth rates during the first months of the year. In general, the annual variations recorded during the year's first quarter were higher than those at the end of 2024 for most types of loans (Graph 3.18). Nonetheless, the loan portfolio continued to record annual contractions, although smaller, with increased disbursement levels in recent months. In real terms, the loan portfolio continued to contract, mirroring the behavior of the consumer portfolio. In contrast, the real value of the commercial portfolio remained stable compared to that observed a year ago, with mortgage loans continuing to accelerate at the margin, while microcredit experienced relatively stable growth. Surveys on credit availability show lower requirements by banks for all types of loans; however, requirements continue to be stringent¹³ in an environment of still high-risk levels. On the demand side, no clear signs anticipate a strong demand for loans. According to ETE data on the perception of loan availability, while a recent increase has been observed, it continues below pre-pandemic levels.¹⁴ The recent increase in consumer loan disbursement levels, coupled with a stable balance at the margin and continued weak demand for credit, suggests possible debt refinancing activities.

Interest rates for savings and credit continued to reflect the behavior of the monetary policy, remaining relatively stable during the first quarter of 2025 (Table 3.1). Money market rates, the interbank interest rate (TIB), and the overnight bank benchmark indicator (IBR) remained relatively stable, consistent with recent monetary policy decisions. However, at the beginning of the year, the IBR for terms exceeding three months registered some upward corrections, reflecting expectations of fewer benchmark rate reductions. Deposit interest rates were also relatively stable, although

13 See Banco de la República's Quarterly Survey of The Credit Situation in Colombia for the fourth quarter of 2024, available in Spanish at <https://www.banrep.gov.co/es/publicaciones-investigaciones/reporte-situacion-credito-colombia>

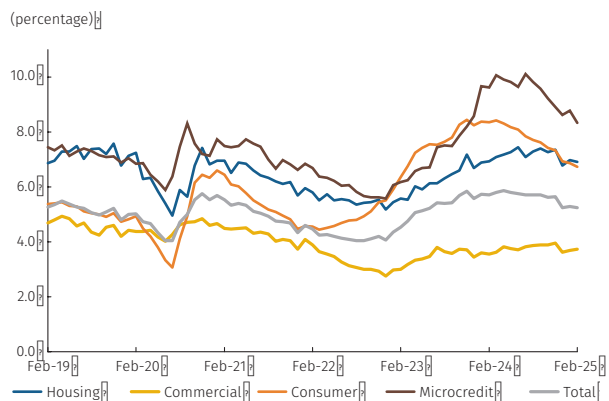
14 See Banco de la República's Quarterly Survey of Economic Expectations for January of 2025, available in Spanish at <https://suameca.banrep.gov.co/estadisticas-economicas/#/encuestas>

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.

longer-term rates showed a partial reversal of past declines, reflecting the changes in monetary policy expectations. Interest rates in the loan market did not show significant changes during the first three months of 2025. However, the housing market saw some upturns in recent months, which coincided with the increase in interest rates on long-term debt securities. In real terms, placement interest rates for households recorded levels below their average of the last decade, while commercial interest rates remained somewhat higher or close to their averages (Graph 3.19).

Credit institutions' profits increased during the last quarter of 2024, mainly due to slightly lower provisions. Solvency levels continue to exceed regulatory minimums. The cumulative profits of credit institutions reached COP 8.7 trillion (t) in 2024, higher than those of the previous year (COP 8.3 t). This increase was primarily explained by lower spending on provisions, after their significant increase during 2023. This lower expense was associated with a lower risk environment, reflected in the relative stability of the delinquency indicator of non-performing loans during 2024, with marginal improvements at the beginning of the year. However, the latter remains at high levels (Graph 3.20). With data as of February 2025, earnings continued to perform well (COP 9.5 t). In addition, total solvency (18.5%) and basic solvency (15.4%) levels remain comfortable with respect to the regulatory minimums (9.0% and 4.5%, respectively).

Box 1**From recovery to adjustment: recent dynamics of Colombia's productive sectors**

Johanna Barbosa Buitrago
Karen L. Pulido-Mahecha*

Following the macroeconomic shocks from the COVID-19 pandemic and the disruptions caused by the National Strike of 2021, the Colombian economy exhibited a notable recovery in 2022, with a real GDP increase of 7.3% and economic activity levels 10.4% above those recorded in 2019. This achievement mainly derived from the vigor of domestic demand, particularly household consumption, despite a backdrop of elevated inflation and interest rates, alongside an economic deceleration in key trading partners and constraining external conditions. This resilience occurred alongside persistent macroeconomic imbalances and a heterogeneous recovery across sectors.

Since 2023, the Colombian economy entered an adjustment phase marked by low growth (0.7% for the entire year), resulting in stagnation of economic activity levels (see Graph 3.7 of this *Report*), amid a restrictive monetary policy designed to facilitate the return of inflation toward the target. All of this implied the elimination of excess demand, projected since 2022, and, consequently, a closing of the output gap (Graph 2.19 of this *Report*). During 2024, economic activity exhibited increased dynamism, particularly in the latter half of the year, resulting in an overall rise of 1.7% for the year. Nonetheless, disparities in the performance of productive sectors continue to exist, with many activities still failing to regain pre-pandemic levels while others, conversely, exhibit a notable pace of growth.

This Box provides an assessment of post-pandemic economic activity behavior relative to the counterfactual trend observed during the pre-pandemic period from 2015 to 2019. The exercise is conducted for a group of supply-side indicators, which includes the real production of the manufacturing industry, real sales in retail, and real income in some service activities, applying monthly information provided by the DANE sectoral surveys.

1. Sectoral performance versus counterfactual trend

The counterfactual trend projection is established by applying a linear regression model to the interest series y_t , for the period 2015 to 2019, using the following model:

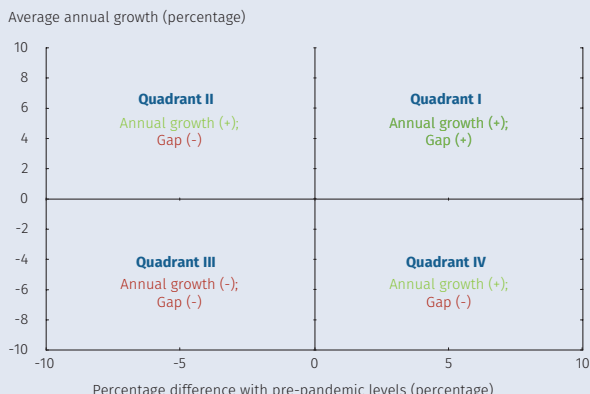
$$y_t = \beta_0 + \beta_1 t + \epsilon_t$$

Where $t = 1, 2, \dots, T$ are months, and $T =$ December 2019. This variable allows for modeling the linear evolution of the counterfactual trend as a function of time and provides a result that reflects the expected path of the series in the absence of disruptions. Comparing this trend with the observed data allows us to quantify deviations and identify sectors exhibiting atypical behavior in recent years.

The evaluated indicators include the 39 industrial activities covered by the Monthly Territorial Manufacturing Survey (EMMET for its Spanish acronym), the 16 retail trade

* The authors are, in order, professionals and specialized professionals of the Programming and Inflation Department of the Monetary Policy and Economic Information Sub management. The opinions are the authors' own and do not reflect the views of Banco de la República or its Board of Directors.

Graph B1.1
Classification of sectoral dynamics in the post-pandemic period



Source: Prepared by Banco de la República.

Graph B1.2
Observed levels versus counterfactual trend; real manufacturing production ^{a/}



^{a/} Seasonally adjusted and corrected for calendar effects
Source: DANE (EMMET), Calculations by Banco de la República.

Graph B1.3
Observed levels versus counterfactual trend; real manufacturing production without coking and oil refining ^{a/}



^{a/} Seasonally adjusted and corrected for calendar effects
Source: DANE (EMMET), Calculations by Banco de la República.

activities included in the Monthly Retail Trade Survey (EMC)¹, the 16 service activities included in the Monthly Services Survey (EMS) according to the old classification, as well as those of the Monthly Accommodation Survey (EMA). The real, seasonally adjusted and calendar adjusted indices for production, sales, and income indexes, respectively, are used. Nominal income from the EMS was deflated by using CPI items compatible with each of the services analyzed.

Based on a scattergram plot graphing the average annual growth of productive activity in each sector for the period 2023 to 2024 and the percentage difference in the levels of economic activity with respect to the counterfactual trend, it was possible to classify recent sectoral trends (Graph B1.1). The productive activities exhibiting positive annual growth with levels exceeding those of the pre-pandemic period were classified within the first quadrant as exhibiting strong momentum. The second quadrant includes those sectors that have shown recent annual growth but whose levels remain below their pre-pandemic period performance, suggesting a possible still-ongoing recovery process. The third quadrant features those sectors exhibiting annual contractions and levels below the counterfactual, which could reflect structural difficulties that affected their productive dynamics. Finally, the fourth quadrant includes sectors with negative annual growth, but with economic activity levels above their pre-pandemic trend, which would suggest a recent stabilization phase without significant growth momentum.

1.1 Manufacturing industry

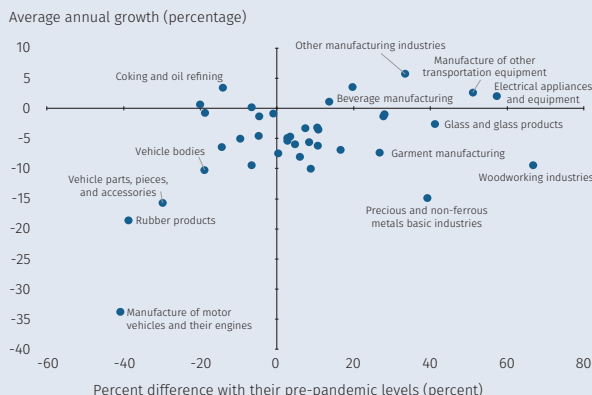
After reaching relatively high levels of real production in 2022, with year-on-year growth of 10.5%, the manufacturing industry entered an adjustment process, contracting for two consecutive years (4.7% in 2023 and 2.4% in 2024). Although this implies a stagnation in the sector's production levels, they remain close to the path they would have followed if they had continued their pre-pandemic period trend (Graph B1.2). Moreover, if we were to exclude oil refining and coking, the levels would actually exceed the segment's pre-pandemic height (Graph B1.3).

This behavior would suggest a convergence of the sector toward growth patterns more compatible with recent historical dynamics, although with heterogeneous behaviors and significant disparities among its component industries. Of the 39 manufacturing activities measured by the survey, only five maintained growth levels during the post-pandemic period that surpassed the counterfactual (Graph B1.4). This overachieving group includes the beverage production segment, attributed to factors such as the heat wave at the onset of 2024 and higher household consumption driven by an increase in cultural, entertainment, and sporting events. This positive momentum is also seen in the production of soaps and perfumes, the manufacturing of electrical appliances and equipment, the production of various transportation equipment, including motorcycles, and in other manufacturing industries.

Nearly 50% of manufacturing industries were categorized in the fourth quadrant, consistent with production levels that, despite recording average annual declines over the last two years, continue to surpass those projected by the counterfactual trend line. Among this grouping, we can highlight the behavior of the tex-

¹ Spliced real retail sales indices, available since 2013, are used.

Graph B1.4
Post-pandemic behavior of manufacturing industries (average 2023-2024)



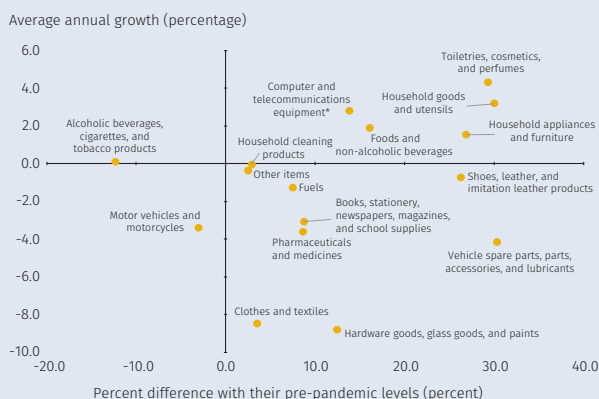
Source: DANE (EMMET), Calculations by Banco de la República.

Graph B1.5
Observed levels versus counterfactual trend; real retail sales without fuels or vehicles ^{a/}



a/ Seasonally adjusted and corrected for calendar effects
Source: DANE (EMMET), Calculations by Banco de la República.

Graph B1.6
Post-pandemic behavior of retail sector (average 2023-2024)



* For household consumption.
Source: DANE (EMC), Calculations by Banco de la República.

tile, apparel, and footwear sector, whose production levels have been relatively high, although steady, partly due to lower external demand and increased imports from in-app purchases.

Among the activities that continue to exhibit a significant lag in their levels, despite the growth observed during 2024, coffee threshing stands out, as its production continued at low levels, particularly during 2023, due to climatic factors associated with the heavy cumulative rain levels experienced in previous years. Other underperformers include coking and oil refining, whose production has been affected by lower drilling operations and a decrease in foreign direct investment, amid an environment of great uncertainty for the sector. Another laggard is sugar and *panela* (unrefined cane sugar) processing.

Finally, eleven manufacturing industries were classified in the third quadrant. These did not recover their counterfactual levels nor show any adjustment in their slowdown. Among these is the manufacture of motor vehicles for household use and associated industries, such as the manufacture of parts and accessories for vehicles and bodywork. This deterioration was the result of the closure of operations of one of the most important auto assembly plants in the country: Colmotores (General Motors). Another industry exhibiting structural problems is dairy production stemming from factors associated with high inputs and raw materials prices, the effects of the *El Niño* phenomenon in 2024, and higher returns on the steer market.

1.2 Domestic trade

Retail sales, excluding fuel and vehicles, also reached historic real levels in after the resulting shocks of the COVID-19 pandemic and the 2021 strike. In 2022, sales in this segment recorded a year-on-year growth of 20.8%, reflecting the strong dynamism of private consumption and the positive impact of the temporary stimuli proposed by the National Government, such as the VAT-free days.

However, in 2023, the sector faced a significant adjustment, suffering an annual contraction of 4.0%, although still at levels well above those suggested by the counterfactual trend (Graph B1.5). This slower growth rate may have resulted from tighter monetary conditions, with higher real interest rates and inflation that, although decreasing, continued above target. Among others, these conditions limited the capacity of households to continue expansive consumption patterns.

During the first half of 2024, real sales levels registered relative stabilization, although gaining momentum in the second semester, with a growth of 1.2% throughout the year. This dynamic was mostly pressured by the positive performance of sustained demand seen in the five lines of retail activities (Graph B1.6), underscoring the notable sales behavior of durable goods, such as household appliances, furniture, computer and telecommunications equipment for household use, and in the sale of non-durable goods, such as alcoholic beverages, cigarettes and tobacco products.

As in the manufacturing industry, a large percentage of retail trade merchandise lines maintained positive momentum in the post-pandemic period, with levels well above the counterfactual trend but with a decreasing annual performance. These include sales of fuels, pharmaceuticals, clothing, textiles, and footwear, and those associated with spare parts, components, and vehicle

accessories. Sales of motor vehicles and motorcycles for household use are also characterized by low dynamism, despite a recovery seen in the motorcycle segment at the end of 2024.

1.3 Services

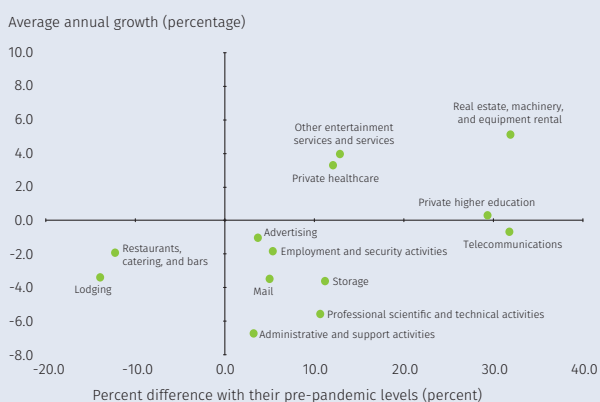
Most service activities in Colombia have performed favorably following the challenges associated with the pandemic, with several categories remaining at levels above their counterfactual trend and still achieving significant real annual growth (Graph B1.7). Only two of the sixteen categories are located in the third quadrant, with lower levels than before the pandemic and decreased revenues.

The recent and persistent momentum seen in most services categories would be associated with greater domestic and international commercial activity, the generation of entertainment events, the upturn in the Colombian tourism sector, and the massification of the internet and digitalization. All of the above would have allowed services to increase their relevance in providing value added to the economy, increasing both local consumption and exports.

The services categorized in the first quadrant represent those categories of interest, grouping services whose dynamism has not only endured after their pandemic recovery but also continues to generate higher revenues year after year. Revenues from real estate services have been driven by increased demand for rental housing and machinery to equip and adapt facilities. Private higher education and human healthcare services have shown resilience, with real revenues remaining at relatively high levels. Notably, healthcare services have been driven by increased demand for medical services, especially emergency and hospitalization services. In addition, entertainment and gaming services have maintained their vigor due to events such as concerts and a greater supply of other entertainment services, including online gaming and sports betting.

Conversely, the services grouped in the fourth quadrant are those that continue at high levels, though these have fallen in recent years. Services such as telecommunications, computer systems development, and film and television production benefited from the momentum associated with digitization, increased demand for digital platforms and internet massification policies, greater available mobile and fixed internet connections, and access to audiovisual platforms and applications, which increased significantly during and after the pandemic. Storage services and activities associated with transportation have registered greater revenues, explained by the higher freight tons and gallons transported, the improvement in the number of trips made at the national level, and the greater in-port area traffic reported.² In turn, e-commerce and business reactivation have maintained sales of mail and courier services above trend. In contrast, sectors such as advertising, scientific and technical activities, and employment services have benefited from new investments and a more competitive environment.

Graph B1.7
Post-pandemic behavior of services
(average 2023-2024)



Source: DANE (EMC), Calculations by Banco de la República.

² Also due to the accounting effect of the unification of the reporting process, with an increase in the number of companies reporting to the National Registry of Road Freight Dispatches (RNDC for its Spanish acronym).

Finally, the two service categories located in the third quadrant stand out. The first includes services provided by restaurants, bars, and catering, which counter the overall segment's positive behavior after the pandemic. Although revenues for these services recovered after 2020, they remain at a level below their pre-pandemic trend and exhibit annual declines. This occurs in a context of still-above-target inflation, which affects demand for these services as household spending is prioritized, also attributable to a possible change in household consumption patterns. This is exacerbated by higher costs not only of inputs, but also of leases, payroll, and public services, which, together with the lower demand for these services, would have further hindered the operations of these establishments, reflected in the number of restaurant closures in recent years.

The second relevant service category in the second quadrant corresponds to revenues from hotel services, which have also remained below their pre-pandemic trend. This was mainly the result of lower hotel occupancy due to the emergence of other lodging alternatives and growing informality in the sector, as well as the impact on prices with the re-establishment of the VAT on these services.

Box 2

Assessment of the macroeconomic forecast error for 2024

Jonathan Alexander Muñoz Martínez
Julián Mauricio Pérez Amaya*

In 2024, the Colombian economy began a comeback in its economic activity recovery process, recording an annual growth rate of 1.7%, surpassing the 0.6% seen in 2023. Furthermore, headline annual inflation continued its convergence to the target, concluding 2024 at 5.2%, amid moderated yearly adjustments in food and regulated items, the resolution of supply disruptions, downward pressures in the foreign exchange market, and a restrictive monetary policy approach.

Relative to the forecasts made in January 2024¹ by the technical staff of *Banco de la República*, economic activity for the entire year exceeded expectations. Household expenditure on the non-durable goods component surpassed the anticipated growth. Similarly, gross capital formation exhibited increased dynamism, propelled by the robust performance of civil works projects. The decline in the annual fluctuations of the CPI for food and regulated items exceeded the technical staff's expectations during 2024. Core inflation (excluding food and regulated items) saw a downward unanticipated decline attributed to the goods component, which displayed a more significant reduction than expected due to favorable trends in international prices. Conversely, the services basket aligned closely with expectations, with slight downward deviations for the 2024 closing outcome.

This Box employs one of the central forecasting models (4GM)² to analyze the technical staff's forecast errors concerning the behavior of inflation and annual GDP growth in 2024. This exercise aims to analyze the forecast errors, defined as the discrepancy between the actual data of macroeconomic variables at the conclusion of 2024 and the projections developed by the technical staff in January of that year, predicated on the shocks that, according to the model's framework, would explain these errors. This analysis parallels that outlined in *De Castro-Valderrama et al. (2021)* and constitutes a component of the annual internal assessment conducted by the technical staff on its forecasting methodology. The results of this exercise, including headline and core annual inflation and GDP growth, are presented below.

1. Headline and core inflation

Throughout 2024, actual lower headline and core inflation levels versus the forecast suggest that the technical staff overestimated the upward shocks to both baskets (Graph B2.1).

Compared to the projection made at the beginning of 2024, the forecast error for core inflation was mainly explained by favorable supply shocks in the baskets of goods and downward surprises in external prices. These factors more than offset the exchange rate pressures, which were less disinflationary than expected, and domestic demand, which

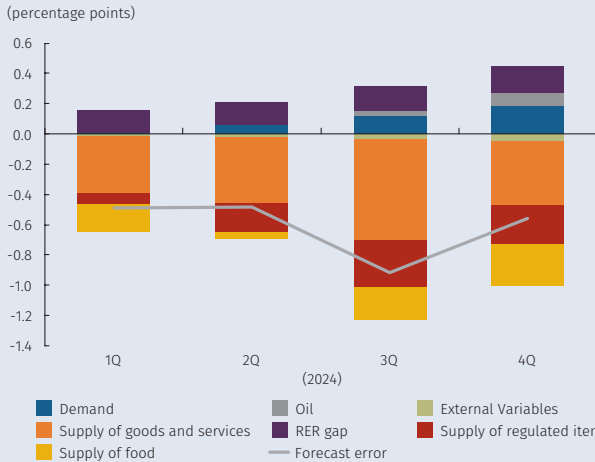
* The authors are members of the Macroeconomic Models Department of *Banco de la República*. The opinions are the authors' own and do not reflect the views of Banco de la República or its Board of Directors.

1 This Box evaluates the January 2024 projections versus the year-end figures.

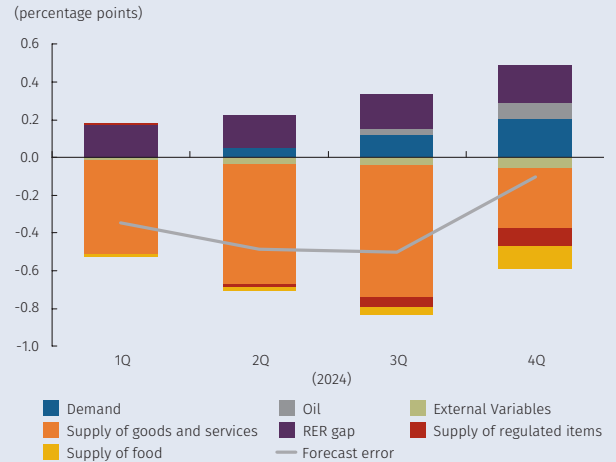
2 See <https://repositorio.banrep.gov.co/handle/20.500.12134/9812>

Graph B2.1
Inflation forecasting error in 2024
 (End-of-period, annual change)

A. Headline inflation



B. Core inflation (excluding food and regulated items)



Note: The forecast error is calculated as the difference between the observed value and the forecasts made in January 2024, so a positive value indicates that the final value observed was higher than the forecast and therefore the variable was underestimated. In each quarter, the bars represent the cumulative shocks that explain the discrepancy between the forecast and the observed data; thus, a bar above the horizontal axis indicates that more shocks materialized than initially expected by the technical staff. Source: Calculations by the authors.

was more robust than anticipated. By component, downward surprises were primarily attributable to overestimates in the goods basket, particularly for vehicles and miscellaneous items, which exhibited lower-than-expected inflation. The annual change in the CPI for services was relatively consistent with expectations, with slower food price adjustments than anticipated, influencing the prices of services such as food away from home, offsetting the undervaluation of the rents component.

The forecast error for headline inflation shows that the technical staff overestimated the latter for all quarters of 2024. The abovementioned behavior of the price adjustments in the goods and services baskets partly explains these downward surprises in headline inflation. Additionally, the shocks associated with the regulated items and food baskets were less severe than expected. In particular, the adjustments in fuel prices, public transport fares, and the price of public services³ were lower than those assumed in the initial macroeconomic forecast. The overestimation of the annual adjustments of food prices was partly explained by a more favorable agricultural cycle, together with better weather conditions, which benefited the prices of perishables. This was in addition to lower prices for processed products, which benefited from lower international prices and costs.

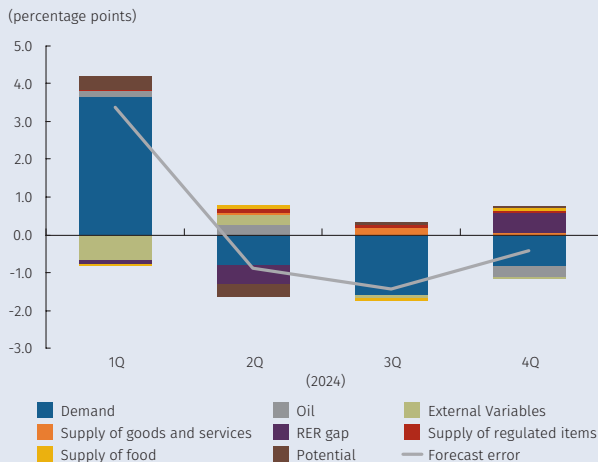
2. GDP growth

The forecast for economic activity growth at the beginning of 2024 anticipated less restrictive international financial conditions than those of 2023, which, together with growth in external demand, would contribute to a moderate recovery of the annual economic activity. The foregoing would occur in an environment of ongoing macroeconomic adjustment necessary to hasten the convergence of inflation towards the target. On the domestic front, private consumption was expected to gradually gain momentum during the year, after the low growth rates recorded in 2023. This, together with a steady investment recovery, would drive a moderate expansion of domestic demand.

Graph B2.2 illustrates a lower year-on-year quarterly GDP growth than forecast by the technical staff at the beginning of 2024. However, the first quarter saw a significant underestimate of output growth due to positive demand shocks associated with both

3 The downward surprise in the price of utilities was mainly explained by a lower increase in energy and gas tariffs.

Graph B2.2
Error in quarterly GDP growth forecasting in 2024
 (End-of-period, annual change)



Note: The forecast error is calculated as the difference between the observed value and the forecasts made in January 2024, so a positive value indicates that the final value observed was higher than the forecast and therefore the variable was underestimated. In each quarter, the bars represent the cumulative shocks that explain the discrepancy between the forecast and the observed data; thus, a bar above the horizontal axis indicates that more shocks materialized than initially expected by the technical staff.

Source: Calculations by the authors.

consumption and investment. In consumption, the surprise is explained by a stronger recovery in private consumption, particularly in the services and non-durable goods components. Investment exhibited unexpected vitality in gross fixed capital formation, particularly the civil works component. While both factors were seen throughout the year, a more active consumption behavior was expected after the first quarter, growing from the lower levels projected for the first three months of the year. As a result, the data exhibited a lower annual growth dynamic, reflected in negative demand shocks in the forecast error variance decomposition exercise of the January 2024 *Report*, as seen in Graph B2.2. In this case, external conditions and oil behavior were generally aligned with initial projections. For the full year, these elements collectively explain the underestimation of economic activity growth at the beginning of the year, when the technical staff foresaw a product increase of 0.8%, versus the 1.7% actually observed.

In summary, in 2024, GDP growth at the beginning of the year was higher than anticipated due to stronger-than-expected domestic demand. Concurrently, inflation was lower than projected due to positive supply shocks, which outweighed the effects of stronger demand and lower-than-projected exchange rate disinflationary pressures.

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Appendix 1

Macroeconomic Forecasts by local and Foreign Analysts^{a/, b/}

Unit		Apr 25	Dec 25	Apr 26	Dec 26	Apr 27
Headline CPI	Monthly variation (average)	0.47	n. a.	n. a.	n. a.	n. a.
CPI excluding food	Monthly variation (average)	0.40	n. a.	n. a.	n. a.	n. a.
CPI excluding food and regulated	Monthly variation (average)	0.42	n. a.	n. a.	n. a.	n. a.
CPI food	Monthly variation (average)	0.81	n. a.	n. a.	n. a.	n. a.
CPI regulated	Monthly variation (average)	0.41	n. a.	n. a.	n. a.	n. a.
Headline CPI	Annual variation (average), end of period	4.97 ^{c/}	4.59	3.96	3.73	3.52
CPI excluding food	Annual variation (average), end of period	5.13 ^{c/}	4.47	3.83	3.62	3.43
CPI excluding food and regulated	Annual variation (average), end of period	4.74 ^{c/}	4.18	3.67	3.48	3.24
CPI food	Annual variation (average), end of period	4.31 ^{c/}	4.54	3.95	3.68	3.54
CPI regulated	Annual variation (average), end of period	6.45 ^{c/}	5.77	4.44	4.15	4.12
Nominal exchange rate	COP per USD, end of period	4,326	4,306	4,250	4,200	4,200
Monetary policy rate	Percentage, end of period	9.25	8.00	7.50	6.75	6.63

Unit		I-2025	II-2025	III-2025	IV 2025	2025	I-2026	II-2026	III-2026	IV 2026	2026	I-2027
GDP	Annual change, original series	2.4	2.4	2.6	2.6	2.6	2.7	2.9	2.9	3.0	2.9	n. a.
Unemployment	Thirteen cities, quarterly average	10.3	10.2	9.8	9.4	n. a.	10.2	10.2	9.7	9.3	n. a.	n. a.
IBR (90 days)	Effective annual rate, end of period	n. r.	8.9	8.5	8.0	n. a.	7.4	7.0	6.6	6.5	n. a.	6.5
Fiscal Deficit (GNC) ^{d/}	Share of GDP	n. a.	n. a.	n. a.	n. a.	6.4	n. a.	n. a.	n. a.	n. a.	5.3	n. a.
Direct Account Deficit ^{d/}	Share of GDP	n. a.	n. a.	n. a.	n. a.	2.7	n. a.	n. a.	n. a.	n. a.	3.1	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 April 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	8.2	3.7	2.4	1.8	1.7	1.9
Oil price (Brent benchmark)	Dollars per barrel, average of the period	45	55	72	64	43	71	99	82	80	67	63
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	4.1	3.4
5-year Credit Default Swap for Colombia	Basis points, average for the period	212	129	114	99	142	142	259	246	187	231	248
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	3.0
Potential GDP for Colombia (trend)	Percentage, annual change	2.8	2.4	2.3	2.3	-0.1	4.0	3.7	2.8	2.8	2.8	2.8
Endogenous variables												
Prices												
Total CPI ^{c/}												
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	4.4	3.0
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	5.9	3.1
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	4.6	2.5
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	3.9	3.1
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	6.8	2.1	6.7	1.4	-4.8	-2.1	-0.3
Economic activity												
Gross domestic product (sats)*												
Gross domestic product (sats)*	Percentage, annual change, sats	2.1	1.4	2.6	3.2	-7.2	10.8	7.3	0.7	1.7	2.6	3.0
Final consumption expense	Percentage, annual change, sats	1.6	2.3	4.0	4.3	-4.2	13.8	9.0	0.6	1.2	.	.
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	-0.5	.	.
Gross capital formation	Percentage, annual change, sats	-0.2	-3.2	1.5	3.0	-20.7	11.6	16.0	-16.0	7.6	.	.
Gross fixed capital formation	Percentage, annual change, sats	-2.9	1.9	1.0	2.2	-23.6	16.7	11.5	-12.7	3.0	.	.
Housing	Percentage, annual change, sats	-0.2	-1.9	-0.4	-8.9	-32.7	39.8	2.0	-4.4	-3.0	.	.
Other buildings and structures	Percentage, annual change, sats	0.0	4.6	-3.5	1.1	-30.8	0.9	-4.3	-5.5	9.4	.	.
Machinery and equipment	Percentage, annual change, sats	-7.9	1.4	8.6	12.3	-13.3	23.3	30.5	-22.6	1.8	.	.
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	-0.8	.	.
Domestic demand	Percentage, annual change, sats	1.2	1.1	3.5	4.0	-7.5	13.4	10.3	-2.5	2.2	.	.
Exports	Percentage, annual change, sats	-0.2	2.6	0.6	3.1	-22.5	14.6	12.5	3.1	2.0	.	.
Imports	Percentage, annual change, sats	-3.5	1.0	5.8	7.3	-20.1	26.7	24.0	-9.9	4.2	.	.
Product gap ^{g/}	Percentage	0.3	-0.8	-0.6	0.3	-7.1	-0.8	2.7	0.6	-0.4	-0.5	-0.4
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	10.5	-4.7	-2.4	.	.
Retail trade sales, excluding fuels or vehicles	Percentage, annual change, seasonally adjusted	2.0	-0.1	5.5	8.1	-1.5	12.2	9.4	-4.1	1.4	.	.
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	9.6	.
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	9.2	.
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)												
Current account (A + B + C)	Millions of dollars	-12,587	-9,924	-14,041	-14,809	-9,267	-17,949	-20,879	-8,285	-7,412	-11,740	.
Percentage of GDP	Percentage, nominal terms	-4.4	-3.2	-4.2	-4.6	-3.4	-5.6	-6.0	-2.2	-1.8	-2.7	.
A. Goods and services	Millions of dollars	-13,451	-8,762	-10,556	-14,148	-13,105	-20,001	-16,094	-7,775	-9,767	-15,511	.
B. Primary income (factor income)	Millions of dollars	-5,312	-8,046	-11,442	-9,716	-4,950	-8,723	-17,086	-13,432	-13,153	-12,339	.
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	16,111	.
Financial account (A + B + C + D)	Millions of dollars	-12,339	-9,625	-12,954	-13,298	-8,113	-16,693	-20,466	-7,847	-5,581	.	.
Percentage of GDP	Percentage, nominal terms	-4.4	-3.1	-3.9	-4.1	-3.0	-5.3	-5.9	-2.1	-1.3	.	.
A. Foreign investment (ii - i)	Millions of dollars	-9,341	-10,011	-6,172	-10,836	-5,725	-6,381	-13,799	-15,525	-9,623	.	.
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	14,234	.	.
ii. Colombian abroad	Millions of dollars	4,517	3,690	5,126	3,153	1,733	3,181	3,384	1,269	4,611	.	.
B. Portfolio investment	Millions of dollars	-4,945	-1,800	862	24	-1,768	-4,595	427	8,663	2,455	.	.
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	-2,703	-2,006	.	.
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	413	438	1,832	.	.
Interest rates												
Policy interest rate ^{k/}												
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	7.1	6.1	4.3	4.3	2.9	1.9	7.2	13.0	11.4	9.0	7.3
IBR overnight	Percentage, period average	12.8	11.1	9.3	8.8	7.4	6.2	13.3	18.7	11.7	.	.
Commercial interest rate ^{m/}	Percentage, period average	19.2	19.4	17.9	16.5	15.0	14.3	21.1	27.9	18.5	.	.
Consumer interest rate ^{n/}	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 CPI item weight of Food and non-alcoholic beverages produced by DANE (does not include the subclasses corresponding to meals outside the home). See González, E.; Hernández, R. et al, *Ibid*.

f/ Calculations by *Banco de la República*. See González, E.; Hernández, R. et al, *Ibid*.

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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 2022 and 2023 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 April 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

		2019		2020			2021		
		Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Exogenous variables									
External ^{a/}									
GDP of trading partners ^{b/}	Percentage, annual var., seasonally adjusted	1.7	1.2	-1.1	-15.7	-6.6	-3.0	0.6	18.7
Oil price (Brent benchmark)	Dollars per barrel, average of the period	62	62	51	33	43	45	61	69
Federal funds effective rate (Fed)	Percentage, average for the period	2.2	1.7	1.2	0.1	0.1	0.1	0.1	0.1
5-year Credit Default Swap for Colombia	Basis points, average for the period	90	83	125	206	132	104	110	131
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	3.8	3.8	3.9	2.2	2.0	1.6	1.5	3.6
CPI excluding food ^{d/}	Percentage, annual change, end of period	3.4	3.5	3.3	1.4	1.6	1.0	1.1	2.7
CPI for goods (excluding food and regulated items)	Percentage, annual change, end of period	1.8	2.2	2.4	0.7	1.2	0.6	1.1	2.6
CPI for services (excluding food and regulated items)	Percentage, annual change, end of period	3.4	3.5	3.2	2.0	1.9	1.3	0.9	1.6
CPI for regulated items	Percentage, annual change, end of period	5.0	4.8	4.3	0.4	1.2	0.7	1.5	5.9
CPI for food ^{e/}	Percentage, annual change, end of period	6.5	5.8	7.2	6.5	4.1	4.8	3.9	8.5
CPI for perishable food	Percentage, annual change, end of period	17.5	8.7	9.8	2.5	-3.4	2.5	1.6	8.7
CPI for processed food	Percentage, annual change, end of period	3.6	5.0	6.5	7.8	6.4	5.4	4.6	8.5
Core inflation indicators ^{f/}									
CPI excluding food	Percentage, annual change, end of period	3.4	3.5	3.3	1.4	1.6	1.0	1.1	2.7
Core CPI 15	Percentage, annual change, end of period	3.7	3.8	3.6	2.2	2.3	1.9	1.7	3.4
CPI excluding food and regulated items	Percentage, annual change, end of period	2.9	3.1	3.0	1.6	1.7	1.1	0.9	1.9
Average of all core inflation indicators	Percentage, annual change, end of period	3.3	3.5	3.3	1.7	1.9	1.3	1.2	2.7
Representative market exchange rate	Pesos per dollar, average for the period	3,338	3,412	3,540	3,850	3,731	3,662	3,559	3,695
Real exchange rate inflationary gap	Percentage, average for the period	3.9	4.9	5.6	11.8	6.6	3.3	-0.1	2.1
Economic activity									
Gross domestic product (sats) ^{g/}	Percentage, annual change, sats	3.2	3.1	0.4	-16.7	-9.0	-3.4	1.5	18.6
Final consumption expense	Percentage, annual change, sats	4.5	5.1	3.8	-14.4	-7.4	1.1	3.7	21.7
Household final consumption expenditure	Percentage, annual change, sats	4.3	5.4	4.4	-16.9	-8.5	0.9	2.8	25.2
General government final consumption expenditure	Percentage, annual change, sats	5.1	4.3	1.1	-3.1	-2.6	1.6	8.0	8.5
Gross capital formation	Percentage, annual change, sats	5.7	-4.7	-11.0	-31.1	-17.3	-23.6	-5.6	33.9
Gross fixed capital formation	Percentage, annual change, sats	2.1	-3.7	-13.4	-41.3	-24.5	-14.4	3.1	41.7
Housing	Percentage, annual change, sats	-7.9	-13.2	-25.7	-48.0	-30.0	-25.8	22.5	64.0
Other buildings and structures	Percentage, annual change, sats	1.1	-6.6	-10.3	-50.1	-37.4	-24.4	-14.9	31.9
Machinery and equipment	Percentage, annual change, sats	10.3	2.9	-5.4	-37.2	-9.3	1.3	8.1	55.9
Cultivated biological resources	Percentage, annual change, sats	14.9	1.6	2.6	1.7	-7.9	-3.0	5.9	1.2
Intellectual property products	Percentage, annual change, sats	-1.3	1.4	1.1	-14.0	-10.9	-9.3	-6.9	7.3
Domestic demand	Percentage, annual change, sats	4.7	3.0	0.4	-17.9	-9.7	-2.9	1.6	24.5
Exports	Percentage, annual change, sats	2.0	-3.3	-6.6	-30.4	-28.2	-24.6	-9.6	13.5
Imports	Percentage, annual change, sats	10.8	-1.2	-4.8	-33.7	-25.9	-15.5	-5.2	47.0
Product gap ^{h/}	Percentage	0.1	0.3	-0.3	-3.8	-6.0	-7.1	-7.1	-4.5
Short-term indicators									
Real production of manufacturing industry	Percentage, annual change, seasonally adjusted	0.8	0.9	-1.5	-23.5	-7.2	0.0	6.7	27.6
Retail trade sales, excluding fuels or vehicles	Percentage, annual change, seasonally adjusted	9.5	9.2	6.5	-14.7	-3.3	5.5	4.5	19.3
Coffee production	Percentage, annual change, cum. for period	4.9	24.1	-13.8	-1.9	-3.6	-4.6	13.3	-24.7
Oil production	Percentage, annual change, period average	1.4	-0.2	-2.1	-15.7	-15.4	-14.1	-14.6	-5.1
Labor market ^{h/}									
Total national									
Unemployment rate	Percentage, annual change, period average	11.3	11.0	11.8	20.9	18.4	15.5	14.6	15.1
Occupancy Rate	Percentage, annual change, period average	57.2	57.5	55.7	44.5	48.9	52.7	52.8	51.9
Overall participation rate	Percentage, annual change, period average	64.4	64.6	63.1	56.2	60.0	62.3	61.8	61.2
Thirteen cities and metropolitan areas									
Unemployment rate	Percentage, annual change, period average	11.3	11.6	11.9	25.2	21.8	17.3	16.8	16.7
Occupancy Rate	Percentage, annual change, period average	58.7	58.7	57.0	44.1	48.9	52.3	52.5	53.1
Overall participation rate	Percentage, annual change, period average	66.2	66.4	64.7	58.9	62.6	64.5	64.3	63.8
Balance of payments ^{i/}									
Current account (A + B + C)									
Percentage of GDP	Percentage, nominal terms	-4,303	-3,467	-2,295	-1,962	-2,013	-2,997	-3,105	-4,047
A. Goods and services	Millions of dollars	-5.3	-4.2	-3.1	-3.6	-3.0	-4.0	-4.0	-5.5
B. Primary income (factor income)	Millions of dollars	-4,406	-3,607	-3,098	-2,651	-3,263	-4,092	-3,688	-5,022
C. Secondary income (current transfers)	Millions of dollars	-2,301	-2,298	-1,369	-1,029	-1,172	-1,380	-1,867	-1,652
Financial account (A + B + C + D)	Millions of dollars	2,404	2,438	2,173	1,718	2,422	2,475	2,450	2,627
Percentage of GDP	Percentage, nominal terms	-3,740	-2,706	-1,735	-1,938	-1,857	-2,584	-2,789	-3,761
A. Foreign investment (ii - i)	Millions of dollars	-4.6	-3.3	-2.3	-3.5	-2.8	-3.4	-3.6	-5.1
i. Foreign Investment in Colombia (FDI)	Millions of dollars	-1,678	-2,880	-1,924	-1,725	-2,588	-1,818	-1,438	-1,013
ii. Colombian abroad	Millions of dollars	3,163	3,342	3,175	1,371	844	2,069	2,307	1,997
B. Portfolio investment	Millions of dollars	1,485	462	1,251	-353	586	251	869	984
C. Other investment (loans, other credits, and derivatives)	Millions of dollars	137	1,551	-168	-3,429	323	1,506	1,319	-6,089
D. Reserve assets	Millions of dollars	-2,453	-1,579	528	627	-2,127	-3,976	-2,860	3,167
Errors and omissions (E&O)	Millions of dollars	254	202	-171	2,590	205	1,705	190	174
		563	761	560	25	155	413	316	287
Interest rates									
Policy interest rate ^{j/}	Percentage, period average	4.3	4.3	4.2	3.3	2.2	1.8	1.8	1.8
Policy rate expected by analysts ^{k/}	Percentage, period average								
IBR overnight	Percentage, period average	4.3	4.3	4.2	3.2	2.2	1.7	1.7	1.7
Commercial interest rate ^{m/}	Percentage, period average	8.9	8.5	8.4	8.3	7.0	6.2	6.0	5.7
Consumer interest rate ^{n/}	Percentage, period average	16.0	15.5	15.8	15.5	14.8	14.2	14.0	13.7
Mortgage interest rate ^{o/}	Percentage, period average	10.4	10.4	10.4	10.4	10.2	9.6	9.2	8.9

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>.

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m/ Weighted average of interest rates on ordinary, treasury and preferential loans.

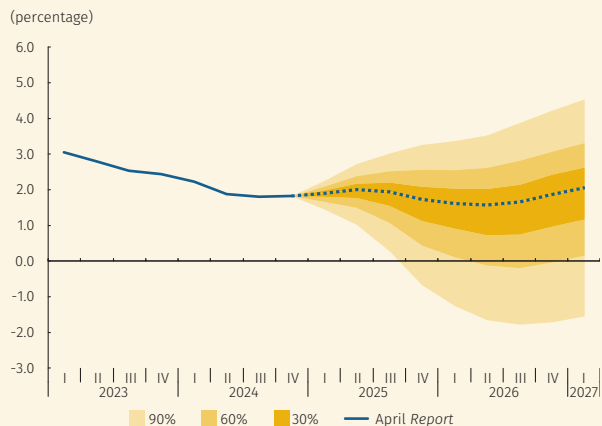
n/ Does not include loans granted through credit cards.

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).

2021		2022				2023				2024				2025				2026				2027
Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
8.8	6.3	5.1	4.0	3.2	2.5	2.6	2.9	2.2	2.1	1.7	1.5	1.9	2.2	2.1	1.9	1.6	1.4	1.6	1.7	2.0	2.2	2.3
73	90	98	112	98	89	82	78	86	83	82	85	79	74	75	65	64	64	63	63	63	62	62
0.1	0.1	0.1	0.8	2.2	3.7	4.5	5.0	5.3	5.3	5.3	5.3	4.7	4.3	4.3	4.1	3.8	3.6	3.5	3.4	3.2	3.1	
143	185	209	238	275	314	283	275	219	207	172	187	189	199	201	246	241	238	242	246	251	253	255
4.5	5.6	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	4.5	4.6	4.4	4.0	3.6	3.2	3.0	3.0
3.0	3.4	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	.	.	.	.	.	.	.	.
3.0	3.3	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	.	.	.	.	.	.	.	.
2.0	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	.	.	.	.	.	.	.	.
5.9	7.1	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	5.6	6.0	5.9	5.0	4.4	3.5	3.1	3.0
12.4	17.2	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	3.0	4.2	4.6	4.2	4.1	3.1	2.5	2.4
14.8	24.4	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	.	.	.	.	.	.	.	.
11.7	15.3	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	.	.	.	.	.	.	.	.
3.0	3.4	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	.	.	.	.	.	.	.	.
3.8	4.4	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	.	.	.	.	.	.	.	.
2.3	2.5	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	4.6	4.3	3.9	3.7	3.4	3.2	3.1	3.1
3.0	3.4	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	.	.	.	.	.	.	.	.
3,847	3,882	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	-1.9	-1.7	-1.5	-0.6	-0.4	-0.1	-0.1	0.3
3.4	3.3	2.6	1.3	7.8	15.3	12.0	3.5	-5.1	-4.6	-7.7	-8.1	-4.3	0.9	-3.5	.	.	.	.	.	.	.	.
13.4	11.2	8.0	12.2	7.4	2.2	2.6	0.4	-0.7	0.6	0.8	1.7	2.1	2.4	2.5	2.6	2.8	2.7	2.5	2.8	3.2	3.4	3.3
18.4	12.9	11.4	14.8	8.2	2.4	1.7	0.1	0.1	0.4	0.7	2.0	0.9	1.4	2.2	.	.	.	.	.	.	.	.
19.6	13.9	12.2	16.4	10.7	4.5	2.7	0.5	-0.6	-1.0	0.7	2.0	1.7	1.9	2.6	.	.	.	.	.	.	.	.
13.8	9.0	6.6	7.2	-3.1	-6.0	-3.6	-1.0	4.8	6.6	1.9	2.5	-4.3	-2.1	0.0	.	.	.	.	.	.	.	.
8.3	15.5	16.5	7.7	17.3	23.3	-1.9	-11.9	-24.9	-24.3	-14.5	1.0	21.5	27.7	19.9	.	.	.	.	.	.	.	.
15.3	14.0	9.2	14.3	8.6	-6.7	-11.2	-14.9	-17.7	-4.3	1.4	4.2	11.0	9.7	9.7	.	.	.	.	.	.	.	.
31.5	48.0	0.8	4.5	7.2	-3.9	5.2	-14.4	-8.2	-9.4	-5.0	-0.6	-8.3	2.4	-0.2	.	.	.	.	.	.	.	.
0.2	-0.6	-8.7	-1.3	5.1	-10.9	-7.4	-6.3	-9.5	1.7	4.6	10.0	10.8	12.2	9.7	.	.	.	.	.	.	.	.
23.8	15.2	34.0	33.8	24.9	29.7	-12.8	-21.7	-23.7	-31.8	-7.0	-3.7	5.4	14.9	16.9	2.2	.	.	.	.	.	.	.
-4.2	-6.8	-16.1	-16.3	-12.0	-4.5	1.2	6.9	7.4	4.8	2.4	4.9	11.9	13.6	16.8	.	.	.	.	.	.	.	.
7.9	6.5	9.1	10.5	8.9	1.2	0.0	3.2	0.7	4.2	1.2	-3.8	-2.2	1.7	4.2	.	.	.	.	.	.	.	.
16.6	13.0	12.9	13.5	10.2	4.8	1.1	-2.3	-5.3	-3.3	-1.8	1.9	4.5	4.4	4.9	.	.	.	.	.	.	.	.
25.7	36.3	16.3	24.5	13.8	-2.1	2.9	1.3	0.0	8.4	2.0	1.2	2.5	2.2	2.0	.	.	.	.	.	.	.	.
40.1	34.4	39.2	25.9	23.4	10.8	-2.8	-8.9	-17.8	-9.7	-9.5	4.1	13.1	10.6	14.4	.	.	.	.	.	.	.	.
-2.6	-0.8	0.2	1.8	2.9	2.7	2.0	1.2	0.6	0.1	-0.2	-0.3	-0.4	-0.5	-0.5	-0.5	-0.5	-0.5	-0.6	-0.6	-0.5	-0.4	-0.3
20.1	13.0	11.9	21.0	7.1	3.7	-1.1	-4.6	-7.2	-6.0	-4.5	-3.1	-1.8	-0.3	.	.	.	.	.	.	.	.	.
15.9	10.7	12.5	22.3	5.9	-1.0	-1.9	-5.7	-4.8	-3.8	-4.3	-0.7	3.2	7.7	.	.	.	.	.	.	.	.	.
-1.9	-18.8	-16.3	9.7	-18.2	-17.0	-0.7	-14.3	-2.1	24.9	3.5	30.3	22.9	33.9	35.7	.	.	.	.	.	.	.	.
-0.1	-1.7	-0.1	5.1	1.3	3.6	3.2	3.7	1.5	0.7	1.0	-1.0	-2.9	.	.	.	.	.	.	.	.	.	.
12.9	12.6	11.9	11.0	11.1	10.8	10.4	10.2	9.8	10.3	10.6	10.4	10.0	9.7	9.3	9.7	9.8	9.7	.	.	.	.	.
53.3	54.2	56.0	56.6	56.7	57.3	57.7	58.2	57.3	57.0	57.2	57.2	57.7	57.8	.	.	.	.	.	.	.	.	.
61.2	62.0	63.5	63.6	63.8	63.6	63.9	64.2	64.5	63.9	63.7	63.9	64.1	64.0	.	.	.	.	.	.	.	.	.
14.0	13.1	12.2	11.3	11.0	10.9	11.0	10.4	9.8	10.2	10.5	10.3	10.0	9.7	8.9	9.3	9.4	9.3	.	.	.	.	.
54.3	54.4	57.5	57.9	58.4	58.4	58.7	59.2	60.1	59.8	59.7	60.0	60.1	59.9	.	.	.	.	.	.	.	.	.
63.2	62.6	65.5	65.3	65.6	65.5	66.0	66.1	66.7	66.6	66.7	66.9	66.8	66.3	.	.	.	.	.	.	.	.	.
-4,835	-5,962	-5,397	-4,748	-6,109	-4,624	-2,807	-2,082	-1,546	-1,850	-1,941	-1,577	-1,654	-2,240	.	.	.	.	.	.	.	.	.
-6.0	-6.9	-6.3	-5.3	-6.9	-5.6	-3.5	-2.4	-1.6	-1.8	-1.9	-1.5	-1.6	-2.1	.	.	.	.	.	.	.	.	.
-5,259	-6,032	-4,957	-3,047	-4,418	-3,672	-2,175	-2,055	-1,403	-2,143	-1,933	-2,235	-2,336	-3,263	.	.	.	.	.	.	.	.	.
-2,339	-2,865	-3,617	-4,531	-4,795	-4,144	-3,727	-3,056	-3,508	-3,141	-3,339	-3,239	-3,391	-3,184	.	.	.	.	.	.	.	.	.
2,763	2,935	3,176	2,829	3,104	3,193	3,094	3,029	3,365	3,434	3,331	3,897	4,073	4,206	.	.	.	.	.	.	.	.	.
-4,504	-5,640	-5,037	-4,952	-5,736	-4,741	-2,590	-2,699	-1,376	-1,182	-1,530	-1,191	-1,076	-1,784	.	.	.	.	.	.	.	.	.
-5.6	-6.5	-5.8	-5.5	-6.5	-5.8	-3.2	-3.1	-1.4	-1.2	-1.5	-1.1	-1.1	-1.7	.	.	.	.	.	.	.	.	.
-2,528	-1,402	-3,651	-3,661	-2,959	-3,529	-3,600	-5,442	-3,335	-3,148	-2,566	-1,750	-2,522	-2,785	.	.	.	.	.	.	.	.	.
2,707	2,550	4,934	5,043	3,113	4,092	4,164	5,335	3,838	3,457	3,687	2,846	3,350	4,352	.	.	.	.	.	.	.	.	.
179	1,149	1,284	1,882	154	563	563	1,07	503	309	1,120	1,096	827	1,567	.	.	.	.	.	.	.	.	.
851	-675	1,866	-759	-233	-447	1,111	1,520	4,527	1,504	1,456	-275	3,553	-2,279	.	.	.	.	.	.	.	.	.
-2,981	-3,697	-3,379	-606	-2,703	-976	-467	824	-3,026	-34	-1,371	-80	-3,152	2,598	.	.	.	.	.	.	.	.	.
154	135	127	74	159	210	366	399	457	496	951	914	1,046	682	.	.	.	.	.	.	.	.	.
331	323	360	-203	374	-117	217	-617	170	668	411	386	578	457	.	.	.	.	.	.	.	.	.
1.8	2.4	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	8.8	8.3	7.9	7.5	7.1	6.8	6.7
1.8	2.4	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	.	.	.	.	.	.	.	.
6.0	6.9	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	.	.	.	.	.	.	.	.
14.3	14.8	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	.	.	.	.	.	.	.	.
9.0	9.3	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	.	.	.	.	.	.	.	.

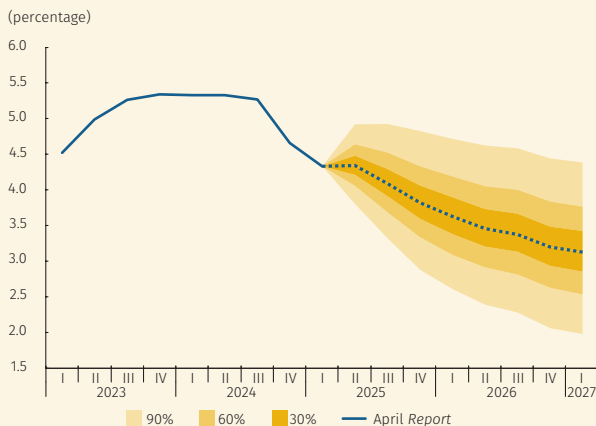
Appendix 3 Predictive Densities for other relevant Macroeconomic Forecasting Variables

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



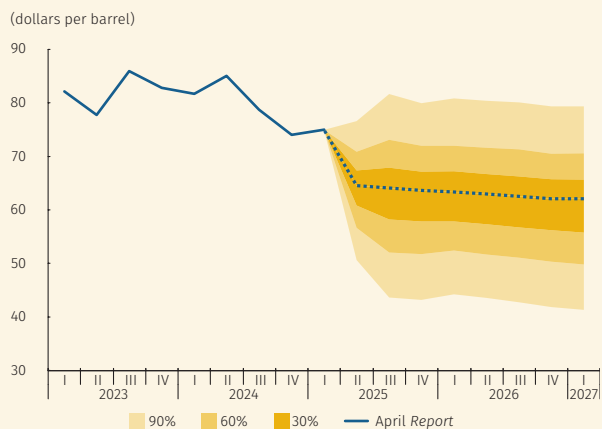
a/ The graph displays the probability distribution and its most likely path on an eight-quarter forecast horizon. Densities characterize the balance of potential risks with areas of 30%, 60% and 90% probability around the central forecast (mode).
Sources: Bloomberg, statistics bureaus, central banks;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

Graph A3.3
U.S. Federal Reserve quarterly interest rate assumption, predictive density^{a/}



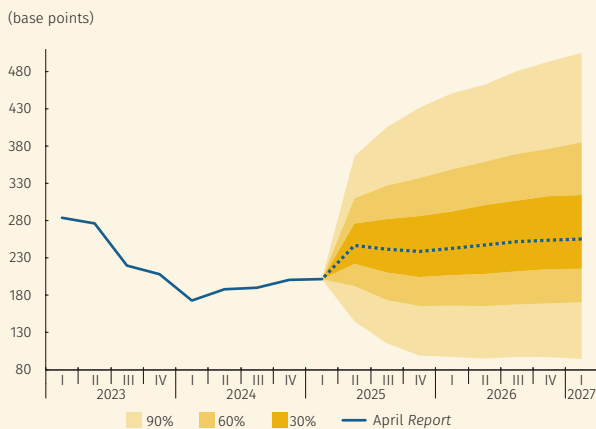
a/ The graph displays the probability distribution and its most likely path on an eight-quarter forecast horizon. Densities characterize the balance of potential risks with areas of 30%, 60% and 90% probability around the central forecast (mode).
Source: Federal Reserve Bank of Louis, calculations and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

Graph A3.2
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.

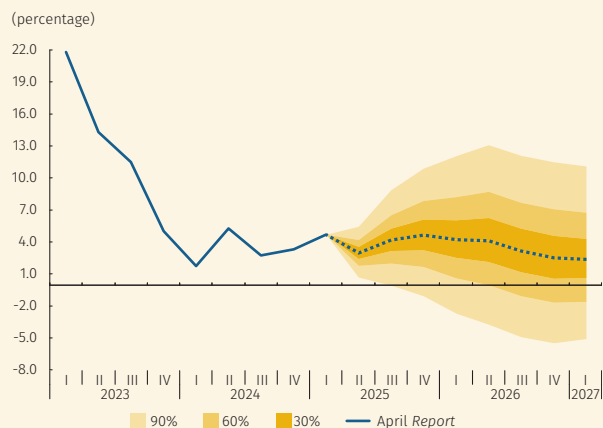
Graph A3.4
Colombia's quarterly risk premium (CDS) assumption, predictive density^{a/,b/}



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.

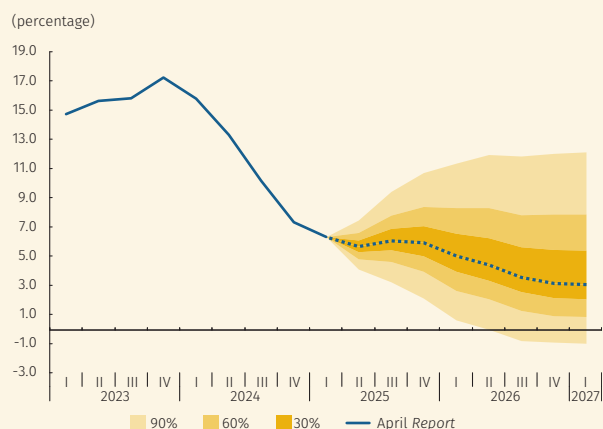
Appendix 3 (continuation) **Predictive Densities for other relevant Macroeconomic Forecasting Variables**

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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