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

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

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

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* This report outlines the actions of *Banco de la República* carried out with the participation of Roberto Steiner Sampedro and Jaime Jaramillo Vallejo, members of the Board of Directors until February 2025.



Bogotá, 28 February 2025

To
PRESIDENTS AND OTHER MEMBERS
Honorable Chairmen and Members
Standing Constitutional Committees
The Senate of the Republic
The House of Representatives

Dear Sirs:

The Board of Directors of *Banco de la República*, in accordance with the provisions of Article 5 of Act No. 31 of 1992, submits this Report to Congress for consideration by the Honorable Congress of the Republic, which presents the macroeconomic performance of 2024 and the outlook for 2025. It presents the recent evolution of inflation and the decisions made by the Board of Directors of the Central Bank. In addition, it describes the evolution of local financial and credit markets, the external balance of the country, the composition of the country's foreign reserves and their performance, the financial situation of the Bank and its projections, and the cultural management made by *Banco de la República*.

Cordially,



Leonardo Villar Gómez
Gerente General

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Introduction

In 2024, the inflation reduction process, which began in 2023, continued, and the current account deficit in the balance of payments continued to contract. This macroeconomic adjustment process occurred in the context of a contractionary monetary policy in which *Banco de la República's* policy interest rates were gradually and cautiously reduced.

Headline inflation closed at 5.2% in 2024. With this result, inflation declined by 4.1 percentage points (pp) compared to the 9.3% recorded at the end of 2023 and 8.1 pp compared to the peak observed in March 2023. Similarly, core inflation, defined as inflation excluding food and regulated items, decreased from 8.4% in 2023 to 5.2% in 2024. Inflation in other important items in the consumer basket, such as food and regulated items, also moderated. In the case of food, the annual price variation decreased from 5.0% to 3.3%, while for regulated items, it decreased from 17.2% to 7.3%.

These favorable trends should not overshadow the fact that inflation remained more than 2.0% pp above the target set by the Board of Directors of *Banco de la República* (BDBR) at the end of 2024, a situation that the Board had already anticipated in November 2023. Additionally, in the last months of 2024, inflation expectations for 2025, which had been decreasing throughout the year, showed a concerning reversal amid increasing uncertainty about the evolution of the global economy and the deterioration of public finances, which reduces the scope for monetary policy action to lower interest rates and provide greater stimulus to economic activity. Added to this are various inflationary risks, such as the increase in the minimum wage substantially above observed inflation and restrictive trade policies in the United States that could lead to global price increases, which calls for greater caution in monetary policy decisions to ensure inflation convergence to the 3.0% target.

In this context, it is worth noting that while the Colombian economy started the mentioned recovery process, the growth observed in 2024 was 1.7%, below its long-term trend. From a sectoral perspective, this dynamic was driven by agriculture, entertainment, and some government services. However, key productive sectors, such as manufacturing and mining, contracted. On the demand side, fixed capital investment registered positive growth, but its level remained low, still below pre-pandemic levels. In contrast, consumption remained high, exceeding its pre-pandemic trend. This growth pattern could weaken the economy's potential output in the medium term. However, for 2025 and 2026, the technical staff forecasts gross domestic product (GDP) growth of 2.6% and 3.4%, respectively. On the other hand, the labor market performed well throughout the year, with increases in employment and declines in the labor force participation rate, which resulted in lower unemployment rates.

These results were driven by a monetary policy that maintained a contractionary stance throughout the year amid high uncertainty on both the fiscal and external fronts. Starting with a peak of 13.25% in November 2023 for the monetary policy rate (MPR), the BDBR initiated a cycle of MPR cuts in December 2023, which continued through 2024, totaling a reduction of 375 basis points (bp) to 9.5%. This process included 50-bp cuts in each session held between March and October. In December, the pace of cuts slowed to 25 bp, and in January 2025, in response to emerging

inflationary pressures, the BDBR decided to pause, awaiting further information on the determinants of future inflation, its expectations, and other key factors needed to determine the magnitude and pace at which monetary policy easing could continue without jeopardizing the achievement of the inflation target.

As is typical of monetary policy, all interest rate decisions have been cautiously made, given the limited information and uncertainty surrounding the future. Acting this way ensures that monetary policy decisions are sustainable over time and not at risk of being reversed in the short term. This helps guide expectations and serves as a reference framework for private-sector decisions. The BDBR is supported by a team of experts whose recommendations are backed by high-quality technical documents that provide valuable input for Board discussions. This decision-making protocol, characteristic of the inflation-targeting framework, has been working effectively in Colombia, as evidenced by the results described, which will be further analyzed in this Report to Congress.

01/ Executive Summary

International Macroeconomic Environment

The International Monetary Fund (IMF) and the World Bank estimate that the global economy grew by 3.2% in 2024, a rate similar to that observed in 2023 (3.3%). This occurred in a context of moderating inflation, which led central banks in advanced economies to initiate a cycle of monetary policy interest rate cuts, while several Latin American countries continued with the cuts they had begun earlier. This easing provided a stimulus to private consumption in many countries, boosting growth in the United States beyond initial projections. Other economies, such as Brazil, also experienced positive growth surprises driven by increased private consumption and higher public spending. In China, economic growth reached the government's 5.0% target following the implementation of fiscal and monetary stimulus measures. In Europe, a slight economic recovery was observed, supported by lower inflation and interest rate cuts, although some economies in the region, such as Germany, continued to face difficulties in their industrial sector and low economic growth.

Inflation moderation across several countries, following the high levels observed over the previous two years, was limited during the second half of 2024 due to increases in energy costs and persistent services inflation. As a result, in some advanced economies, such as Canada, the Eurozone, and the United Kingdom, where headline inflation had returned to central bank targets in September, inflation rebounded again in the last months of the year. Similarly, in the United States, inflation increased toward the end of the year, reaching 2.9% in December. This constrained the inflation correction in member countries of the Organization for Economic Co-operation and Development (OECD), which between 2023 and 2024 declined from 5.9% to 4.7% for headline inflation and from 6.7% to 4.9% for core inflation. In Latin America, where the monetary policy tightening cycle had started earlier than in advanced economies, inflationary dynamics were mixed. In countries such as Chile, Brazil, and Mexico, inflation increased in the last months of the year, and by the end of 2024, it stood at 4.5% in Chile, 4.8% in Brazil, and 4.2% in Mexico. In contrast, in Peru, inflation continued to decrease, reaching 2.0% at the end of the year, the midpoint of its target range. In Colombia, inflation continued to moderate throughout the year, but it ended at 5.2% in 2024, a figure above the level recorded in the major region countries.

Regarding oil, the Brent crude reference price declined by approximately 3.0% between 2023 and 2024, averaging around USD 80 per barrel (bl). This decline was partly due to increased crude oil production in countries outside the Organization of the Petroleum Exporting Countries (OPEC+) and allies, particularly in the United States, Guyana, Norway, and Brazil. The decrease in demand for crude in China due to the increased use of alternative energies in that country contributed to this decline. However, production cuts by OPEC+ member countries and escalating geopolitical tensions due to the conflict in the Middle East limited further reductions in prices. Growth in production levels by non-OPEC+ countries, led by the United States in response to the Trump administration policies, would increase crude inventories in 2025, putting additional downward pressure on prices. In line with this, the U.S. Energy Information Administration, in its January report, projected an average oil price of approximately USD 74 bl amid high uncertainty.

Throughout 2024, the U.S. dollar appreciated in response to expectations of a more gradual monetary policy rate-cutting cycle by the U.S. Federal Reserve (Fed). The most significant strengthening of the currency occurred in the last quarter of the year amid expectations of rising inflationary pressures that could materialize under President Trump's new administration, arising from the resurgence of trade tensions, fiscal pressures, and immigration policies. Meanwhile, during 2024, global risk indicators exhibited episodes of volatility, driven by adjustments in monetary policy expectations in major developed economies and greater global political and economic uncertainty following election results in several economies, particularly in the United States, the European Parliament, the United Kingdom, and France.

By 2025, global economic growth is expected to remain similar to that observed in 2024, amid further inflation moderation, wage recovery, sustained employment growth, and a less restrictive monetary policy, which would boost demand. This outlook carries a high degree of uncertainty associated with ongoing geopolitical tensions and U.S. trade policy, which could lead to tariff increases, retaliations, and additional pressures on commodity prices. In terms of monetary policy, a more gradual cycle of interest rate cuts by the Fed is anticipated, with the possibility of a complete halt if new inflationary pressures emerge in the U.S. In Latin America, most central banks are expected to continue cutting monetary policy interest rates, although these rates would remain in contractionary territory in countries where inflation levels have not yet aligned with central bank targets, limiting domestic demand stimulus in 2025. Furthermore, several countries in the region have recently raised interest rates.

Economic Activity in Colombia

Colombia's GDP recovered moderately in 2024 with an annual growth of 1.7%, contrasting with the low dynamism recorded in 2023 (0.7%). This improvement in growth occurred within the context of a reduction in interest rates and a strengthening of domestic demand. This outcome was also supported by a more favorable external environment, characterized by lower international interest rates, an increase in remittances from Colombians abroad, and growth in exports. Private consumption, which represents the main component of domestic demand, began to exhibit an upward trend starting in the second quarter, ultimately expanding by 1.6% in 2024, remaining at high levels, above its pre-pandemic trend. Similarly, fixed capital investment showed signs of recovery, with a 3.0% growth in 2024, contrasting with the significant contraction recorded in 2023. However, this component still remains at low levels, below those recorded in pre-pandemic. The improvement observed in fixed investment during 2024 came from the item "other buildings and structures", thanks to the progress of projects such as the Bogotá metro and some 5G roads, although the recovery is still at a very early stage. Investment in machinery and equipment also exhibited a moderate increase. In contrast, housing investment contracted in 2024, continuing the trend of low levels observed in 2023.

During 2024, the loan portfolio registered a low nominal growth, with some recovery towards the end of the year, and an annual real variation that continues to be negative in a context of higher economic activity. Particularly, commercial credit boosted the recovery of the loan portfolio during the last quarter of the year. In households' credit, the housing loan portfolio exhibited the highest nominal growth by type of loan, while the consumer loan portfolio continued to decrease. In real terms, both consumer and commercial loans continued to show annual declines, although at lower rates than those observed in previous quarters. A better performance of the loan portfolio is expected by 2025, in a context of lower inflation, lower interest rates, and an investment recovery.

On the supply side, primary and tertiary sector activities led the growth. Among the primary activities, crop and livestock activities related to crops, mainly coffee,

stood out, as its production reached historically high levels in 2024, along with livestock activities. However, this performance was partially offset by the contraction in mining, which saw declines in coal and oil production throughout 2024. The tertiary sectors also grew, mainly driven by artistic and entertainment activities, commerce, repairing services, transportation, and accommodation, as well as public administration, health, and education. As for secondary sectors, the manufacturing industry experienced another annual decline, while construction exhibited better performance, driven by civil works.

Economic activity is expected to continue recovering and approaching its potential in 2025, stimulated by an environment of lower interest rates than those observed in 2024, aligned with the process of inflation convergence toward the target. Regarding external financing costs, a high degree of uncertainty persists, linked to both the performance of international interest rates, in an environment of potential inflationary pressures generated by a restrictive trade policy, along with the immigration restrictions announced by the new U.S. government, and the Colombia's country risk performance in the face of fiscal imbalance.

Employment

In 2024, employment continued an upward trend, registering a 2.2% annual variation in the national aggregate by December, which represented the creation of 508,000 jobs. Geographically, employment growth was largely driven by the recovery of jobs in rural areas. Particularly, employment in other municipalities and rural areas grew by 3.2% between December 2023 and 2024, a higher figure than the one observed in urban areas (1.4%). By economic sector, the largest contributions to the annual employment variation in the national aggregate came from commerce and accommodation, manufacturing, public administration, health, and education.

Salaried employment increased by 2.7% in 2024, reaching 11.1 million employed individuals by the end of the year, exceeding the pre-pandemic level (9.3 million in December 2019). In turn, non-salaried employment registered a more moderate annual increase of 1.8%. The greater dynamism of salaried employment compared to non-salaried employment was reflected in the reduction of the informality rate (TI in Spanish), which fell to 55.6% by December 2024.

As a result of the growth in employment and a slight reduction in labor supply due to increases in inactivity in certain segments of the population, the unemployment rate exhibited a slight downward trend in 2024. Thus, with seasonally adjusted figures, the unemployment rate (UR) decreased by 0.6 pp between December 2023 and 2024, ending the year at 9.7% for the national aggregate. Geographically, the reduction in the UR was more pronounced in the other municipalities and rural areas, where UR ended at 9.4%, while in urban areas, it stood at 10%. Given the improved economic activity outlook for 2025, the domestic UR is expected to remain relatively stable throughout the year.

Inflation and Monetary Policy

Annual consumer price inflation stood at 5.2% at the end of 2024, 4.1 pp lower than the rate observed at the end of 2023 (9.3%) and 8.1 pp lower than the peak reached in March 2023 (13.3%). This significant decline in inflation has largely been the result of the cumulative effects of a restrictive monetary policy that moderated domestic demand growth toward more compatible levels with the economy's productive capacity. This adjustment also helped reduce the external imbalance from current account deficit levels exceeding 6.0% of GDP in 2022 to an estimated level of 1.8% of GDP by 2024. Additionally, the reversal of various external and domestic supply shocks, which generated strong inflationary pressures at the time, mainly on food

prices, was another important factor contributing to reducing inflationary pressures over the course of the year. Despite these advances, inflation in Colombia was still far from the 3.0% target and higher than in most other countries in the region at the end of 2024.

An alternative inflation measure to assess price developments is core inflation (excluding food and regulated products). This is considered to be a useful measure because, by excluding food (whose prices are often affected by supply shocks) and regulated products (whose prices depend on administrative decisions), it provides a core inflation indicator that is closely related to the demand performance and monetary policy actions. Between 2023 and 2024, core inflation (excluding food and regulated products) fell from 8.4% to 5.2%. The downward trend in this inflation measure demonstrates the effectiveness of contractionary monetary policy in reducing excess demand and containing inflationary pressures. Within core inflation, it is convenient to distinguish between the sub-baskets of goods and services, as their performance differs. Between 2023 and 2024, goods inflation decreased from 7.1% to 0.6%. Besides the contractionary monetary policy, this sharp decline was due to other factors, including: the resolution of logistics and goods transport issues that emerged internationally after the pandemic; the fall in international prices of some imported goods (such as cars, electronic devices, and mobile phones); and the appreciation of the peso against the dollar. In contrast, services inflation exhibited significant inertia over the course of the year, decreasing only from 9.0% to 7.0% between 2023 and 2024, despite the restrictive stance of monetary policy. This rigidity is explained by the high degree of indexation of services to observed inflation and increases in the legal minimum wage.

Regarding food prices, their annual variation decreased from 5.0% to 3.3% between 2023 and 2024. This decrease was driven by processed food prices, thanks to low pressures from imported raw materials and the favorable exchange rate performance. As for perishable foods, more favorable weather conditions allowed for price declines, particularly during the second half of the year. On the other hand, the annual variation of regulated prices fell to 7.3% during the previous year, from a level of 17.2% in 2023. This significant decline occurred as a result of smaller price adjustments for gasoline, after continuous increases in 2023 to bring this price to its international level. Additionally, rates for electricity and other utilities, except natural gas, also showed reductions in their annual variations.

It is expected that inflation will continue to converge toward the 3.0% target in 2025, although more slowly than initially anticipated. While moderate adjustments for food and regulated items are forecasted, new factors have emerged that generate risks to price performance. These include: 1) the increase in producer inflation, which increased from 1.6% in October to 5.8% in December 2024, as a result of both local and imported upward pressures; 2) the increase in the minimum wage for 2025 which, including the transportation subsidy, exceeded observed inflation by nearly 6 pp and the inflation target by 8 pp, and 3) the upturn in all inflation expectations measures, which place inflation slightly above 4.0% by the end of 2025, according to surveys conducted in February, or even higher levels, based on measures drawn from the financial markets. All of this occurs in the context of fiscal uncertainty and a volatile exchange rate.

These new pressures are already beginning to be reflected in the headline inflation performance, which interrupted its downward trend from November 2024, standing at 5.2%, a level that remained unchanged in December and January 2025. However, core inflation has continued to decline, reaching 5.02% in January, down from 5.15% in December 2024. Current inflation forecasts are subject to significant uncertainty and upside risks, including a higher pass-through of the minimum wage adjustment to other wages and corporate cost structures, as well as increased fiscal pressures that could lead to a further depreciation of the exchange rate if the risk premium

risers. Additionally, the risk of significant increases in natural gas rates has recently gained importance. With all this, the most likely forecast path suggests that annual headline inflation will continue to decrease, reaching around 4.0% by the end of 2025, and will continue its convergence toward the 3.0% target during 2026.

Balance of Payments

The current account deficit of the balance of payments between January and September 2024 decreased to 1.7% of GDP, compared to a deficit of 2.5% of GDP recorded in the same period of 2023. This correction of the external imbalance was driven by the increase in net income from current transfers, the reduction of the deficit in the services trade balance, and the lower net outflows from factor income. These results were partially offset by a widening of the trade deficit in goods in the period indicated.

The higher net income from current transfers was mostly due to higher remittances received from abroad. These remittances mainly came from the United States and Spain, in an environment of lower unemployment in these countries and an increase in the migratory flow of Colombians abroad. It should be noted that income from workers' remittances reached a historically high level during 2024, totaling USD 11,848 million (m) by December of that year, representing an annual increase of 17.4%.

The improvement in the factor income balance was mainly due to the reduction in profits of firms with foreign direct investment (FDI) in Colombia, which was reflected in lower outflows from profit remittances. The lower profits of these firms occurred mainly in the oil and coal sectors, in an environment of lower prices for these commodities. On the other hand, income from Colombia's investments abroad increased as a result of higher returns on international reserve assets and increased income from portfolio and financial investments, in addition to returns on Colombia's direct investments abroad.

These results were partially offset by an increase in the trade deficit through September 2024, as a result of a larger trade deficit in goods versus a smaller services trade deficit. The improvement in the latter was due to good dynamics in services exports, especially in the travel sector, thanks to the increase in the number of international travelers arriving in the country. The trade deficit in goods increased by September compared to a year ago, mainly due to the decrease in the value of exports, explained by lower coal prices and reduced value of re-exports. This occurred despite the good dynamics of agricultural and industrial exports. According to preliminary trade figures from the National Administrative Department of Statistics (DANE in Spanish), goods exports throughout 2024 remained at very similar levels to those of 2023, maintaining a positive trend in exports excluding oil and mining, while the latter continued to show annual reductions. On the other hand, imports showed a slight expansion for the entire year, which, together with the performance of exports, suggests a widening of the trade deficit in goods for all of 2024.

During the reference period, the financial account recorded net capital inflows equivalent to 1.1% of GDP, lower than the 2.5% of GDP observed a year earlier. Among these inflows, the resources received from FDI stand out, which, for the first nine months of the year, decreased from 5.0% of GDP in 2023 to 3.2% in 2024. This FDI dynamic is mainly explained by the reduction in investments received in mining, transportation, and communications sectors, as well as oil, which was partially offset by the increase in FDI in financial and business services.

The financing of the external deficit was also supported by net income from foreign credits. These resources correspond to the difference between net disbursements received by the private sector and net amortizations made by the public sector.

Additionally, during this period, foreign portfolio investments were received as a result of placements of long-term debt securities in international markets and net purchases of financial instruments in the local market by non-residents.

For all of 2024, it is estimated that the current account deficit would have been close to 1.8% of GDP. By 2025, the technical staff projects a widening of the current account deficit to 2.5% of GDP, in line with expected higher economic growth and improved domestic demand performance.

Public Finances

According to preliminary figures of the recent Financial Plan 2025 (PF-25 in Spanish) presented by the Ministry of Finance and Public Credit (MHCP in Spanish),¹ the General Government (GG)² deficit stood at 4.8% of GDP in 2024, representing an increase of 2.1 pp compared to 2023. This deterioration was mainly due to a worsening in the balances of the Central National Government (CNG) (2.6 pp) and the Social Security subsector (0.4 pp). The reduction in the deficit position of the Fuel Price Stabilization Fund (FEPC in Spanish) is highlighted, which was the result of the adjustments made by the national government to the price of gasoline since the end of 2022. This was reflected in the closing of the gap between the reference price and the price of gasoline in the local market at the end of 2023, a trend that continued during 2024. However, fiscal pressures still persist due to the compensation differential in the case of diesel fuel (ACPM in Spanish), which underscores the importance of beginning to reduce the subsidy granted to this fuel.

The data presented by the Government for 2024 indicate that the total and primary deficit of the CNG would have reached 6.8% and 2.4% of GDP, respectively. The deterioration in the total balance for 2024 was due both to a 2.3 pp decline in total revenues and a 0.3 pp increase in expenditure. The decrease in the Nation's revenues was mainly due to lower income tax and external VAT collections plus tariffs, as well as reduced oil revenues due to lower dividends paid by Ecopetrol. On the other hand, the increase in spending was concentrated in transfers from the General Participation System (GPS) and the interest and social security items (health and pension), as well as personnel expenses.

The depreciation of the peso at year-end 2024, together with the higher fiscal deficit, were reflected in an increase in the CNG's net debt as a percentage of GDP. According to PF-25 figures, the CNG's net debt to GDP ratio stood at 60.0% at the end of 2024, up from 53.8% of GDP observed in 2023. This represents not only an annual increase in public debt but also an upward revision compared to what was projected in the 2024 Medium-Term Fiscal Framework (MTFF-24), where it was anticipated to reach 55.3% of GDP in 2024, close to the fiscal rule's anchor level of 55.0% of GDP.

A total and primary deficit of 5.1% and 0.2% of GDP is projected for 2025, which implies an adjustment of 1.8 pp and 2.2 pp, respectively, compared to 2024, according to the scenario presented in PF-25. This would be explained by the 22.6% increase in tax collection, partly driven by greater management by the National Directorate of Taxes and Customs (DIAN in Spanish), which would increase collections by COP 30 trillion (t), as stated in the 2025 Government Budget bill (PGN-25 in Spanish). The expected dynamism in tax collection would more than offset the growth in primary spending, which is expected to increase by 3.8% annually, driven by higher resources

¹ Preliminary figures provided by the MHCP not yet approved by the CONFIS.

² The GG is composed of the Central National Government (CNG), regional and local governments, the social security sector (pensions and health), and other entities at the central level, including the Fuel Price Stabilization Fund (FEPC).

allocated to the GPS and pension spending. The Independent Fiscal Rule Committee (CARF in Spanish) points out risks associated with these projections, noting that compliance with the fiscal rule in 2025 and the stabilization of public finances will require a fiscal adjustment of around COP 46 b.³ The need for this adjustment is mainly explained by an overestimation of the projected revenues in the PGN-25.

For the MHCP, the 2024 result and the projection for 2025 would be consistent with compliance with the fiscal rule, which establishes a net structural primary balance (NSPB) target.⁴ The level of NSPB determined to comply with the fiscal rule is -0.2% of GDP for 2024 and 0.5% of GDP for 2025. A determining factor in the calculation of the 2024 NSPB was the inclusion of one-off transactions (TUVs in Spanish) for COP 32 t (1.9% of GDP), among which the following stand out: COP 25.8 t for unanticipated drop in collections, COP 2.3 t for deductibility of coal royalties, and COP 1.9 t for expenses associated with the winter emergency, among others.⁵

Regarding the above, CARF expressed some concerns regarding the one-off transactions approved by the Confis.⁶ The NSPB estimate presented by the Government for 2025 does not include one-off transactions.

Fiscal policy decisions and credibility play an essential role in avoiding overburdening the macroeconomic adjustment on interest rates. Colombia's risk premiums remain high and distant from those of other emerging countries with similar characteristics. In this context, deteriorations in the fiscal situation lead to increases in risk premiums, which is reflected in higher interest rates payable by the government and the economy as a whole. Therefore, it is essential to maintain a fiscal deficit trajectory that ensures the sustainability of public finances and promotes a balanced adjustment among economic agents.

Foreign Reserves

As of 31 December 2024, net foreign reserves totaled USD 62,481 m, representing an increase of USD 2,873 m during 2024. The return on foreign reserves in 2024, excluding the exchange rate component, stood at 3.65% (USD 2,230 m), which was one of the main factors explaining the increase in reserves. This result was mainly due to higher interest rates, which had a positive impact on the profitability of foreign reserves through higher interest earned on investments. Additionally, the reserves accumulation program announced by the BDBR in December 2023, which presented a reserve accumulation of USD 1,479.4 m at the end of December 2024, contributed to the increase in reserves during the year. The above was partially offset by the depreciation of other reserve currencies against the U.S. dollar, which generated a negative exchange effect of USD 759.55 m.

³ See Pronouncement No. 15, of 17 February 2025 (www.carf.gov.co).

⁴ Law 2155 of 2021 stipulates that the operational targets of the fiscal rule should be defined on the NSPB. This variable corresponds to the fiscal balance after discounting interest expenses, income from financial yields, one-time transactions, and the components associated with the economic and oil cycle. Law 2155 of 2021 established a transition regime for the fiscal rule between 2022 and 2025, with specific targets on the NSPB, regardless of the value of the debt observed at any given time.

⁵ See: one-off transactions applicable for the 2024 period (<https://www.minhacienda.gov.co/politica-fiscal/documentos-planeacion-financiera/plan-financiero/2025>).

⁶ Of the one-off transactions for COP 32 t that the Government included in the 2024 balance, only about COP 6.2 t had a favorable opinion from the CARF, which correspond to the non-structural component of the FEPC, the deductibility of coal royalties, the ruling of the Council of State that extends the times for the correction of tax returns, and the expense associated with the winter emergency. Therefore, the NSPB would have been -1.8% of GDP in 2024, higher level than the deficit of -0.2% of GDP allowed by the Law. See Pronouncement No. 15, dated 17 February 2025. (www.carf.gov.co).

An indicator widely used internationally to measure the adequate level of foreign reserves is the one proposed by the IMF's Assessing Reserve Adequacy (ARA) methodology. This metric establishes that reserves should cover the main balance of payments risks during periods of pressure in the foreign exchange market. According to the IMF, this indicator aims to cover the risks associated with the loss of access to external financing, the loss of confidence in the local currency, the reversal of capital flows, and a potential contraction in external demand. An economy is considered to maintain adequate levels of reserves if the ARA is between 1.0 and 1.5. With the information available as of December 2024, the IMF's ARA calculated for Colombia was 1.29. This shows that Colombia maintains an adequate level of reserves, but without exceeding what is necessary to meet the country's external needs in the face of extreme external scenarios.

Banco de la República's Profits

In 2024, the Central Bank's profits amounted to COP 10,041 billion (b), reaching its historical maximum, as a result of revenues of COP 13,948 b and expenses of COP 3,907 b (Table 6.2). This profit was COP 815 b higher than that observed in 2023 due to the annual reduction in expenses, partially offset by the decrease in revenues.

For 2025, a profit of COP 10,512 b is projected, COP 167 b higher than that considered in the budget approved for 2024, in a context where a high profitability of foreign reserves would persist. This forecast has a high degree of uncertainty, mainly associated with the evolution of the returns on foreign reserves and with the growth and sources of expansion of the monetary base.

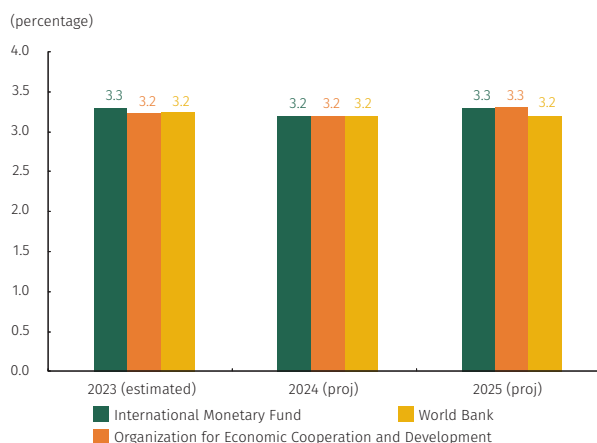
02/ Macroeconomic Environment

2.1 Evolution and Perspectives of the International Macroeconomic Environment

In 2024, global economic activity maintained similar growth to the previous year. The reduction in monetary policy interest rates and a recovery in real wages in most economies, given the decline in inflation, offset the high uncertainty resulting from geopolitical and trade tensions.

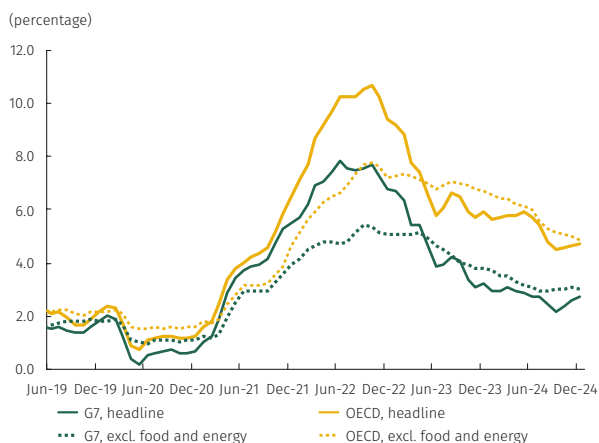
In its most recent reports, the International Monetary Fund (IMF) and the World Bank estimate that global growth for 2024 would have been 3.2%, similar to the 3.3% recorded in 2023 (according to IMF estimates) (Graph 2.1). The moderation of inflation allowed the beginning of the cycle of monetary policy interest rate reductions in most advanced economies, as well as continued cuts in those in the region. This was accompanied by resilient private consumption in the United States, which boosted growth in that economy beyond the projections made at the beginning of the year. Positive surprises were also observed in Brazil's growth in the context of higher private consumption and public spending. In China, economic growth reached the government's target of 5.0%, following the implementation of fiscal and monetary stimulus measures, together with some recovery in industrial production and exports. Europe experienced a slight economic recovery in 2024, although certain economies in the region, such as Germany, continued to face challenges in the industrial sector and low economic growth. The global economy still faces high uncertainty amid continuing armed conflicts, persistent geopolitical and trade tensions, and low levels of international trade. By 2025, global economic growth is expected to be similar to that observed in the previous year, in a context of further inflation moderation, wage recovery, sustained employment growth, and a less restrictive monetary policy, all of which would boost demand. This outlook shows a significant uncertainty associated with persistent geopolitical tensions and U.S. trade policy, which will lead to tariff increases, retaliations, and additional pressures on commodity prices.

Graph 2.1
Global Economic Growth
(annual variation)



proj.: projected
Sources: International Monetary Fund (January 2025), World Bank (January 2025), Organization for Economic Cooperation and Development (December 2024).

Graph 2.2
Headline Inflation and Headline Inflation Excluding Food and Energy for the G7 and OECD

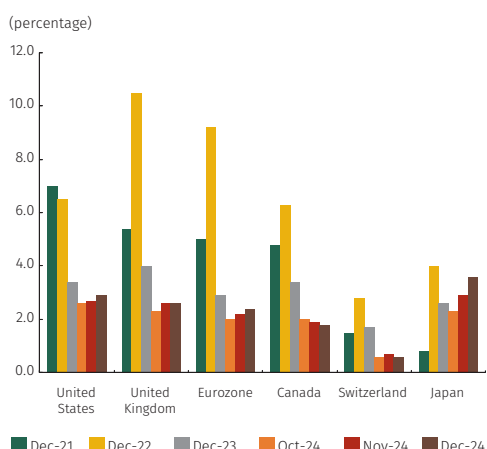


Source: Organization for Economic Cooperation and Development.

most of the year, and an improved balance between labor supply and demand in these markets.¹ During 2024, global inflation experienced a broad-based moderation after the high levels observed in the previous two years. However, in the second half of the year, this disinflationary process was limited by increases in energy prices, persistence in services prices, and a slower decline in goods prices. Thus, in December, total annual inflation in the member countries of the Organization for Economic Cooperation and Development (OECD) stood at 4.7%, after the 5.9% observed at the end of the previous year, while core inflation stood at 4.9%, lower than the 6.7% observed in December 2023 (Graph 2.2). Additionally, in some advanced economies, headline inflation returned to central banks' targets in September 2024—Canada (1.6%), the Eurozone (1.7%), and the United Kingdom (1.7%)—but accelerated again due to recent increases in energy prices, partially due to unfavorable base effects (Graph 2.3). In the United States, total annual inflation increased in the last months of the year and stood at 2.9% in December because of increases in energy prices, explained by unfavorable base effects and specific factors of the domestic gasoline market in that country. Conversely, core inflation stood at 3.2% amid lower reductions in commodity prices and some moderation in the services sector. In Latin America, where the monetary policy tightening cycle began earlier than in advanced economies, inflation dynamics are heterogeneous. By the end of 2024, an increase in headline inflation was observed in Chile, Mexico, and Brazil, driven by increases in energy and some services prices. Thus, by December 2024, headline inflation in Chile (4.5%), Mexico (4.2%), and Brazil (4.8%) was above their

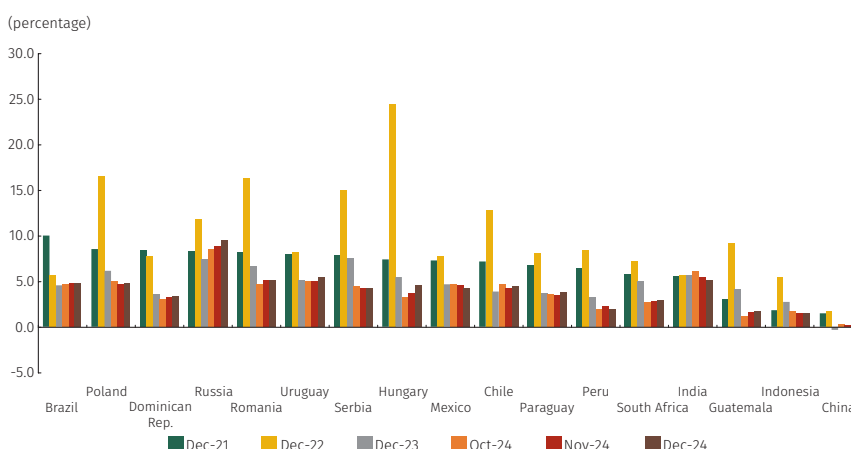
Graph 2.3
Headline Consumer Inflation

A. Some Advanced Economies



Source: Bloomberg

B. Some Major Emerging Economies and the Region



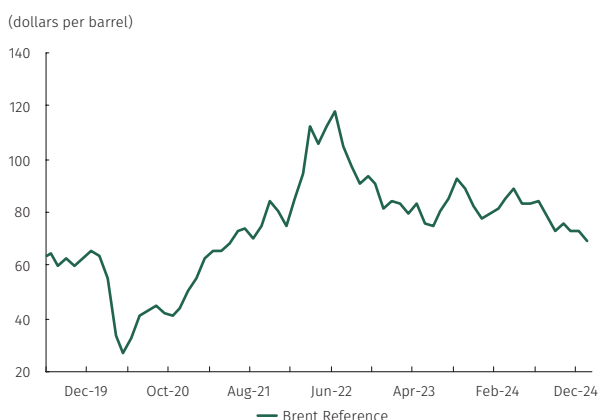
¹ The best balance in labor markets refers to a situation in which the demand for labor is close to the labor supply. Consequently, the ratio between the number of vacancies and the number of unemployed is close to one.

targets.² In Colombia, inflation continued to moderate, but as of December 2024, it stood at 5.2%, remaining above its target. In contrast, inflation in Peru was low (2.0%) and stood at the midpoint of the target range.

In 2025, the process of reducing inflation would continue in most economies, although in a context of high political and trade uncertainty, that could lead to increased cost pressures. In its most recent report, the IMF estimated total global total inflation stood at 5.7% for 2024 and would continue to moderate to 4.2% in 2025. Moreover, the organization expects total inflation in advanced economies to moderate to 2.1% for 2025, after 2.6% the previous year, while for emerging and developing economies, total inflation would be at 5.6% in 2025, after the 7.8% observed in 2024. This would occur amid an improved balance between labor supply and labor demand, together with an expected decline in international energy prices and a global monetary policy that would remain in contractionary territory. However, the IMF has noted signs that the disinflationary process may be stalling in some economies and highlights some upside risks associated with potential disruptions in trade and global supply chains due to protectionist tariff policies and rising trade tensions.

The slowdown in economic activity in China and the growth in oil production, especially from countries outside the Organization of the Petroleum Exporting Countries and its allies (OPEC+), contributed to the reduction in oil prices in 2024. The downward trend in prices would continue in 2025, in line with the expected increase in global production. In 2024, the price for the Brent benchmark decreased by about 3.0% compared to 2023 and was, on average, around USD 80 per barrel (bbl.) (Graph 2.4). The price reduction is partly due to the growth in oil production in non-OPEC+ countries, mainly in the United States, Guyana, Norway, and Brazil. The slowdown in China’s economic activity and, to some extent, the global increase in the use of renewable energies also contributed to the reduction in crude oil prices. Meanwhile, the production cuts implemented by OPEC+ and escalating geopolitical tensions driven by the conflict in the Middle East limited a further reduction in oil prices. During 2025, growth in production levels by non-OPEC+ countries would continue, led mainly by the United States, where the Trump administration’s policies are expected to contribute to the continued growth of oil extraction in that country. Likewise, production growth in Guyana, Brazil, and Norway is expected to continue, which would lead to an increase in oil and oil product inventories in OECD economies, contributing to price moderation. However, a stronger-than-expected winter season, new sanctions on Russian oil exports, and the implementation of OPEC+ cuts on oil production until the first quarter of 2025

Graph 2.4
International Oil Price



Source: Bloomberg.

2 For Colombia, Chile, Mexico, and Brazil the current inflation target is 3.0% (+/- 1.0% uncertainty interval).

would limit a further reduction in prices. In its January report, the U.S. Energy Information Administration projected an average price close to USD 74 bbl. for 2025 amid high uncertainty.

The process of interest rate cuts in advanced economies that began in 2024 would continue in most economies throughout 2025, albeit at a slower pace due to the high political and trade uncertainty facing the global economy and its potential effects on prices. In 2024, the U.S. Federal Reserve (Fed) began the cycle of monetary policy interest rate reductions with a 50 bps decrease in its September meeting, followed by 25 bp reductions in November and December meetings, placing the rate in a range of 4.25% and 4.50% at the end of 2024. This occurred in a context of strong local economic activity, moderation in the average inflation levels for the year, and a labor market where supply and demand are more balanced. The Federal Open Market Committee (FOMC) expects inflation to gradually approach its 2.0% target moving forward but acknowledges that this could take longer than initially anticipated after the rise in inflation observed at the end of 2024. In line with this, the median of the FOMC's most recent projections revised upward the expected path of its monetary policy interest rate for 2025, together with higher projections for the headline and core Personal Consumption Expenditures (PCE)³ price index for the same year.⁴ In turn, other central banks in advanced economies also began the cycle of monetary policy interest rate reductions in 2024. Thus, in June 2024, the Central Bank of Canada and the European Central Bank (ECB) began reducing their interest rates, followed by the Bank of England in July. By the end of 2024, the Central Bank of Canada set its interest rate at 3.25%, the European Central Bank at 3.00%,⁵ and the Bank of England at 4.75%, after the peaks reached the previous year (5.0%, 4.0%, and 5.5%, respectively) (Graph 2.5). Going forward, these economies are expected to continue reducing their interest rate as their inflation rates continue to approach their respective targets.

In 2024, most Latin American economies continued to reduce policy interest rates in an environment of moderating inflation and its expectations. However, some countries in the region have recently raised their interest rates. During the second half of 2024, some central banks in the region slightly paused their cycle of policy rate reductions, mainly due to additional cost pressures from energy prices and persistent core inflation. In December 2024, the monetary policy interest rate stood at 5.0% in Peru, 8.75% in Uruguay, 5.0% in Chile, 6.0% in Paraguay, and 9.5% in Colombia after the maximum levels reached in the cycle of increases in previous years (7.75% in Peru, 11.5% in Uruguay, 11.25% in Chile, 8.5% in Paraguay, and 13.25% in Colombia). In Brazil, the interest rate increased to 12.25% after hitting a low of 10.50% in July, driven by higher inflation and its expectations, resulting from a weaker currency, strong GDP growth, and a tight labor market. To this is added the country's fragile fiscal situation in a context of lower-than-expected tax revenues and a significant increase in transfers to households, which would result in gross public debt continuing to rise and exceeding 80% of GDP in 2025. Uruguay also recently raised its monetary policy interest rate. Meanwhile, Mexico's central bank

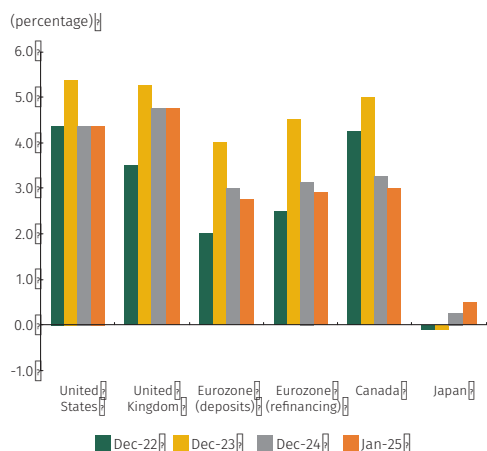
3 The PCE is the Fed's preferred measure of inflation and reflects changes in the prices of goods and services purchased by consumers in the United States.

4 In December 2024, the median FOMC projections for headline PCE increased from 2.1% to 2.5% by the end of 2025, while core PCE decreased from 2.2% to 2.0% for the same period. In turn, the same organization indicates a 50-bps reduction in its policy interest rate (previously expected to be 100 bps), which would place the rate in a range of 3.75% and 4.00% by the end of 2025.

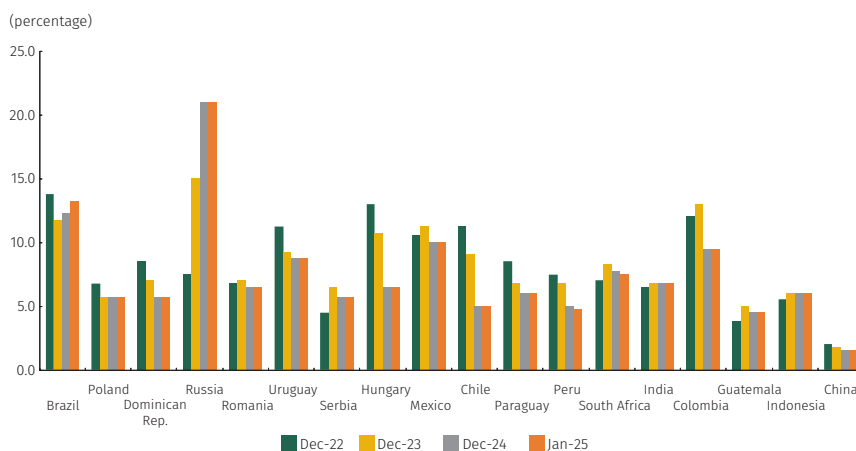
5 This refers to the deposit facility rate (DFR). In turn, as of December 2024, the rate for the main refinancing operations (MRO) stood at 3.15%.

Graph 2.5
Monetary Policy Interest Rate in Some Economies

A. Some Advanced Economies



B. Some Emerging and Regional Economies



Source: Bloomberg.

lowered its benchmark interest rate but kept it at high levels (10.0% in December 2024) in response to high total inflation and service price pressures. In addition, the public deficit widened to 5.0% of GDP, the highest level in the last twenty-five years. In 2025, policy interest rate cuts are expected to continue in most of the region’s economies as inflation moderates, although in countries where inflation remains above target, these interest rates would remain in contractionary territory, limiting stimulus for local⁶ demand. This would occur in a context of high uncertainty regarding the region’s economic growth evolution amid weaker external demand, declining commodity prices, lower demand from China, high levels of public debt, and constrained fiscal space in some countries. Additionally, uncertainty surrounding global trade and migration policies in the United States could negatively impact exports and the flow of remittances to the region.

Persistent inflation and resilient economic activity led financial markets to anticipate fewer monetary policy rate cuts in major developed economies compared to earlier 2024 projections. While in early 2024, the Fed and the ECB (European Central Bank) were expected to implement cumulative cuts of 150 bps throughout the year, they eventually cut their monetary policy interest rates by 100 bps. For 2025, as of early February, the market anticipated additional 50 bps cuts by the Fed and 150 bps cuts by the ECB.⁷ This contributed to a tightening of international financial conditions given the increase in medium- and long-term interest rates, together with the strength of the US dollar globally.

In line with the above, interest rates on sovereign debt instruments increased globally. In major developed economies, interest rates on long-term sovereign debt instruments increased by an average of 60 bps during the year, affected by

6 It highlights how macroeconomic imbalances have been corrected in some economies in the region. For Chile, in February 2025, the International Monetary Fund noted that the economy’s imbalances have been largely resolved, and policies have supported economic stability. In Peru, inflation is in line with its target and according to its central bank, the output gap would have reached 0.0% by December 2024.

7 In Japan, at the beginning of 2024, the market anticipated a 25 bps increase during the year. However, the Bank of Japan made increases of 35 bps, given its perception of higher inflationary pressures. For 2025, the market anticipates additional increases of up to 50 bps in this country.

a less optimistic outlook on the monetary side and a greater uncertainty on the fiscal front. In Latin America, these interest rates rose by about 175 bps on average,⁸ influenced by the global environment and idiosyncratic factors, such as fiscal uncertainty in Brazil and Colombia, and the electoral result in Mexico, which increased fears about possible reforms that erode the checks on power and the institutional framework and increase the government intervention in the economy.

The US dollar strengthened against developed and emerging countries' currencies amid expectations of a more gradual cycle of interest rate cuts by the Fed.⁹

The currency experienced its sharpest strengthening in the last quarter of the year due to possible inflationary pressures derived from trade tensions and fiscal uncertainty under the new administration in the United States. As a result, other developed-country currencies weakened against the dollar, also reflecting idiosyncratic factors, such as political uncertainty in Europe and Japan. In emerging markets, currencies also depreciated amid a strengthening of the dollar and a greater risk perception, reflected in the rise of credit default swaps (CDS). For the region, this trend also reflected idiosyncratic factors, such as high political and fiscal uncertainty.

International risk perception indicators increased at various points throughout the year, driven by changes in the monetary policy outlook, increased geopolitical tensions, and uncertainty regarding the global impact of the 2024 U.S. election results on the fiscal, inflationary, migration, and trade fronts.

The risk indicators globally, like Vix, Vstoxx, and MOVE,¹⁰ showed episodes of volatility during 2024, associated with adjustments in monetary policy expectations in the major developed¹¹ economies and with greater global political-economic uncertainty following the election results in several economies, especially in the United States, the European Parliament, the United Kingdom, and France (Graph 2.6).

In 2024, net inflows of foreign portfolio investment to emerging economies exceeded those observed in 2023.

In accordance with preliminary figures published by the Institute of International Finance (IIF),¹² net inflows of USD 269 billion (b)¹³ were observed in 2024, mainly to fixed¹⁴ income markets (Graph 2.7). In the case of

8 In particular, the year-end fiscal situation in Brazil led to a significant depreciation of Brazilian assets during December. The *Financial Markets Report* (FMR) for the fourth quarter of 2024 includes a shaded section summarizing the recent situation observed in that country (Shaded Section 1: "Recent Dynamics of Financial Markets in Brazil").

9 The DXY index increased by 7.06% so far this year compared to the end of 2023. This indicator compares the U.S. foreign currency to six major currencies: the euro (EUR) weights 57.6%, the yen (JPY) 13.6%, the pound sterling (GBP) 11.9%, the Canadian dollar (CAD) 9.1%, the Swedish krona (SEK) 4.2%, and the Swiss franc (CHF) 3.6%.

10 The Vix reflects the expected implied volatility in the one-month options on the S&P 500 index. The Vstoxx shows the expected implied volatility in the one-month options over the EuroStoxx index. The MOVE index reflects the expected implied volatility in one-month options over U.S. treasuries.

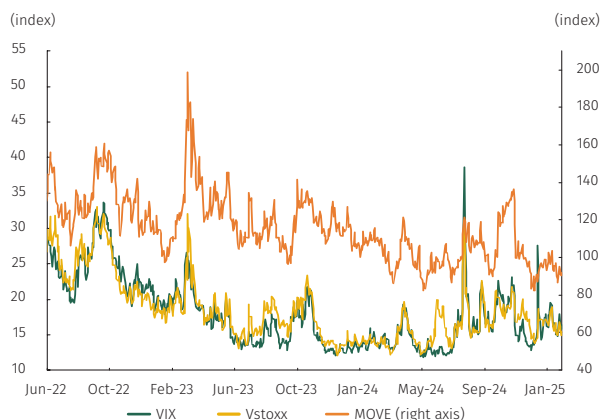
11 In particular, during the third quarter of the year, international financial markets experienced heightened volatility after the Bank of Japan surprised the market by raising its policy interest rate for the second time this year. This led international investors to unwind significant carry trade positions. For more details, see Shaded section 1. "Episode of Volatility in Foreign Financial Markets in August 2024," in the third quarter FMR. Subsequently, in its December meeting, the Fed surprised the market by adopting more cautious projections on the pace of interest rate cuts. In response, international risk perception indicators increased.

12 In its January 2024 report with preliminary information from February 2022.

13 In 2023, net inflows of USD 176 b were observed.

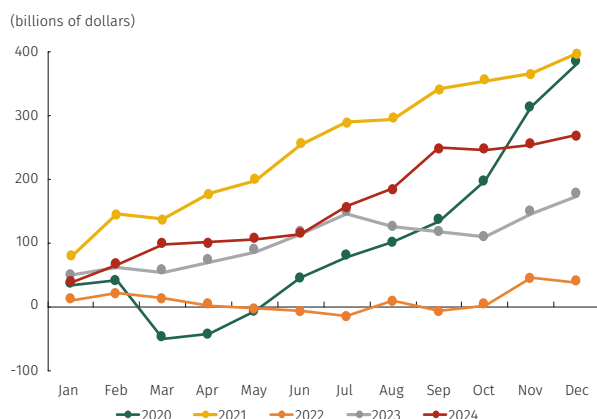
14 Specifically, USD 271 b of inflows to the debt markets and USD 2 b of outflows from equity markets were recorded.

Graph 2.6
Risk Perception Indicators in International Financial Markets



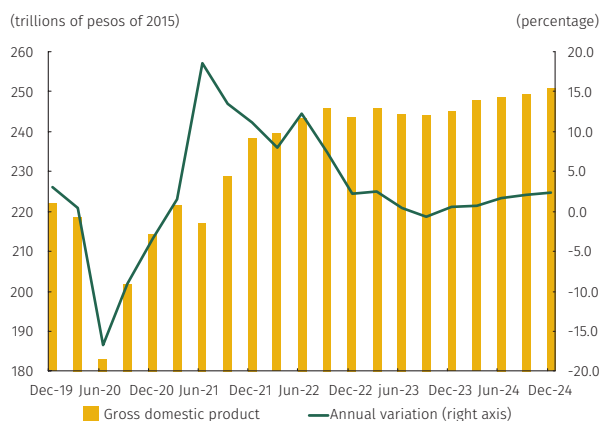
Sources: Bloomberg and Data License.

Graph 2.7
Portfolio Flows to Emerging Economies by Non-Residents



Source: Institute of International Finance (IIF).

Graph 2.8
Gross Domestic Product (GDP)^{a/}
(quarterly and annual variation)



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

Latin America, portfolio capital flows in 2024 had net inflows totaling USD 55 b,¹⁵ lower than the annual average of USD 66 b recorded since 2014.

2.2 Evolution and Outlook of Economic Activity and the Labor Market

2.2.1 Economic Activity

In 2024, the Colombian economy resumed a growth path more aligned with the convergence of inflation to the 3.0% target. According to information from the National Administrative Department of Statistics (DANE in Spanish), economic growth reached 1.7% last year. This figure reflects an improvement over the performance of 2023 when the economy only expanded by 0.7% after correcting various macroeconomic imbalances, both internal and external (Graph 2.8). The increase in growth occurred within a framework of a gradual easing of the monetary policy stance and a relatively favorable external environment. The latter was due to a decline in international interest rates, an increase in remittances from Colombians living abroad, and growth in exports, particularly driven by the dynamism of net income from services, among other factors. Although economic growth gradually increased throughout the year, economic activity remained below its potential, with excess productive capacity that should continue to contribute to the convergence of inflation to its 3.0% target.

During 2024, domestic demand, particularly private consumption, began to recover after the necessary stabilization observed in 2023 (Table 2.1). Domestic demand gradually recovered during 2024, exhibiting positive annual growth from the second quarter onward, and for the year as a whole, it grew at a rate slightly above that of GDP. Private consumption, which had shown some minor declines in annual variations since the second half of 2023, reversed this trend starting in the first quarter of 2024. For the full year, it expanded by 1.6%. Although this growth is relatively low compared to the historical growth of this aggregate (between 2015 and 2019, it grew at an average annual rate of 2.3%), it was sufficient to keep its levels at high records. The improved performance of private consumption would be in a context of lower interest rates, employment stability, moderate recovery of confidence, and higher incomes for coffee-growing families or remittance recipients from workers abroad. Additionally, there was an increase in the purchasing power of household income due to the decline in inflation throughout the year. In contrast, public consumption recorded a negative contribution to growth in 2024, contracting 0.5%.

15 Of which USD 61 b corresponds to inflows to the fixed income market and USD 6 b to outflows from the equity market.

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

	2023	2024				2024
	Full Year	Q1	Q2	Q3	Q4	Full Year
Final consumption expenditure	0.6	0.7	2.0	0.9	1.4	1.2
Household final consumption expenditure	0.4	0.7	2.0	1.7	1.9	1.6
Non-durable goods	-0.2	0.4	2.4	2.0	2.2	1.7
Semi-durable goods	-12.9	-6.7	-1.2	0.1	4.7	-0.9
Durable goods	-4.7	-8.4	3.0	7.4	9.9	2.7
Services	3.3	1.5	1.2	1.5	1.0	1.3
General government final consumption expenditure	1.6	1.9	2.5	-4.3	-2.1	-0.5
Gross capital formation	-16.0	-14.5	1.0	21.5	27.7	7.6
Gross fixed capital formation	-12.7	-4.3	1.4	4.2	11.0	3.0
Housing	-4.4	-5.0	-0.6	-8.3	2.4	-3.0
Other buildings and structures	-5.5	4.6	10.0	10.8	12.2	9.4
Machinery and equipment	-22.6	-7.0	-3.7	5.4	14.9	1.8
Cultivated biological resources	5.0	2.4	4.9	11.9	13.6	8.2
Intellectual property products	2.0	1.2	-3.8	-2.2	1.7	-0.8
Domestic demand	-2.5	-1.8	1.9	4.5	4.4	2.2
Exports	3.1	2.0	1.2	2.5	2.2	2.0
Imports	-9.9	-9.5	4.1	13.1	10.6	4.2
GDP	0.7	0.8	1.7	2.1	2.4	1.7

Source: DANE; calculations by Banco de la República.

In 2024, investment grew again after its sharp decline in 2023, although with a heterogeneous performance across components and without exceeding the levels observed in 2022. This aggregate also contributed to GDP expansion in 2024, and its annual growth reached 7.6%, a notable contrast to the sharp decline recorded in 2023. Despite this favorable performance, its levels were still below the peaks observed in 2022. The growth rate of total investment was partly driven by a recovery in inventories across several sectors after the declines observed in 2023. On the other hand, fixed capital investment recorded a more moderate growth rate in 2024 (3.0%), which means that its levels remain well below those recorded in the pre-pandemic. In addition, the performance across components was highly heterogeneous. The main boost came from investment in other buildings and structures, driven by progress in various investment projects at the local, regional, and national levels, such as the Bogotá metro and some 5G road projects, among others. However, this recovery in civil works is still incipient, given the low levels recorded in recent years. Investment in machinery and equipment also increased, albeit to a lesser extent. Conversely, housing investment showed no sign of recovery throughout the year and, in fact, contracted further from the already low levels observed the previous year. In addition to persistently high interest rates, the weak recovery of fixed capital investment was also associated with the effects of changes in housing subsidy policies, a deteriorating business environment, high legal uncertainty, and security and public order issues.

The trade deficit measured in constant pesos tended to increase as of the second quarter of 2024 after the significant reduction observed a year earlier. Throughout 2024, the trade deficit widened compared to the relatively low levels reached a year earlier. This is because exports in constant pesos grew by 2.0% for the year, while imports grew by 4.2%. On the export side, services remained the main driver of external sales, thanks to tourism, alongside a notable increase in coffee exports. Exports of oil, coal, and ferronickel declined in volume, particularly in the second half of the year. Regarding imports, a significant increase in their growth rate was observed during 2024, which is related to the recovery of domestic demand. This aggregate highlighted the growth of imports of raw materials, capital goods, and transportation equipment.

The increase in economic growth in 2024 was accompanied by a heterogeneous performance of production branches, where various activities of primary and tertiary origin stood out (Table 2.2). In the first case, growth was driven by agricultural activities related to agricultural crops, particularly coffee, whose production recorded a historically high level, as well as livestock. However, this performance was partially offset by the mining performance, which declined due to the drop in coal and oil production, affected by temporary supply shocks associated with public order problems in some mining and oil regions. Tertiary branches also grew compared to the previous year, mainly driven by artistic and entertainment¹⁶ activities, commerce, repair, transport, and accommodation, as well as public administration, health, and education sectors. Regarding secondary branches, the manufacturing industry recorded another annual decline, while construction performed better, explained by civil works, as the buildings segment recorded an annual decline in line with the recent poor performance of sales and project initiations.

The economy is expected to continue accelerating gradually in 2025, approaching its potential in an environment of a gradually looser monetary policy stance. However, this scenario faces high uncertainty given the risks affecting both the external and fiscal fronts. For 2025, the technical staff of *Banco de la República* (the Central Bank of Colombia) forecasts GDP growth of 2.6%. Thus, economic activity would continue recovering and approaching its potential, supported by an environment of lower interest rates than those observed in 2024. As for external financing costs, a high degree of uncertainty persists, associated with both the performance of international interest rates in an environment of potential inflationary pressures arising from restrictive trade policy and immigration restrictions announced by the new U.S. administration and Colombia's country risk performance in the face of fiscal imbalances. Other factors that would continue to drive growth in 2025 include the relatively good performance of trading partners and positive non-resident tourism performance. Private consumption, in particular, should benefit from high levels of remittances, although recent changes in U.S. immigration policies could negatively impact this performance. In terms of investment, the main driver would be civil works, as progress is expected on national 5G road projects and regional and local works, such as the Bogotá metro. Additionally, there would be an accumulation of inventories, which declined significantly in previous years. No significant growth is expected in public consumption, as it would be constrained by the central government's need to adjust its spending. The consolidation of the economic recovery would be reinforced by adjustments in public finances, facilitating access to external financing under more favorable conditions. This, in turn, would support a stable exchange rate, facilitating the reduction of inflation and allowing the gradual easing of monetary policy.

16 Largely explained by the exceptional performance of event-related services and sports betting.

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

	2023	2024				2024
	Full Year	Q1	Q2	Q3	Q4	Full Year
Agriculture, Forestry, Hunting, and Fishing	1.7	6.5	8.6	11.0	6.5	8.1
Mining and Quarrying	2.6	-2.7	-5.4	-7.1	-5.5	-5.2
Manufacturing Industry	-2.7	-4.0	-3.1	-1.4	0.4	-2.1
Electricity, Gas, and Water	2.2	4.6	2.2	0.7	0.0	1.9
Construction	-3.1	0.9	1.7	4.3	0.7	1.9
Buildings	0.3	-2.3	-3.5	-1.2	-2.8	-2.5
Civil Works	-12.6	7.2	14.3	16.2	9.3	11.7
Specialized Construction Activities	0.5	1.1	1.6	3.8	-0.5	1.5
Commerce, Repair, Transportation, and Accommodation	-3.6	-1.1	0.6	1.7	4.3	1.4
Information and Communications	1.8	-1.8	-1.7	1.0	-0.7	-0.8
Financial and Insurance Activities	8.9	-3.0	1.4	4.5	-1.1	0.4
Real Estate Activities	1.9	1.9	1.9	1.9	1.9	1.9
Professional, Scientific, and Technical Activities	2.0	0.1	-0.6	0.6	0.2	0.1
Public Administration and Defense, Education and Health	5.0	5.5	4.3	2.7	4.4	4.2
Arts, Entertainment, and Recreation Activities	10.5	4.5	10.5	11.9	5.8	8.1
Subtotal value added	1.1	0.6	1.8	2.4	2.4	1.8
Taxes less subsidies	-2.5	-0.5	0.7	1.9	2.4	1.1
GDP	0.7	0.8	1.7	2.1	2.4	1.7

Source: DANE; calculations by Banco de la República.

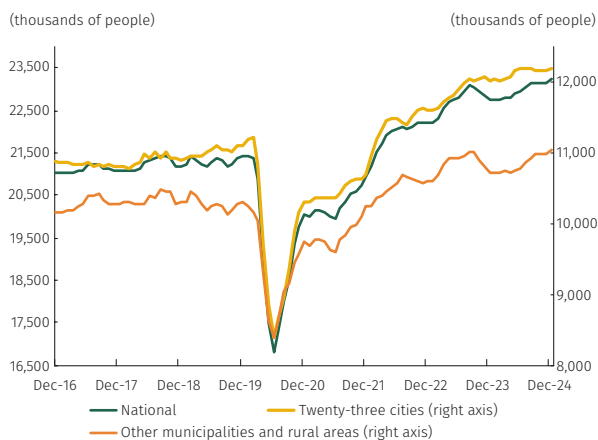
2.2.2 Labor Market

During 2024, the employed population of the national aggregate continued to grow slightly, at a rate close to 1.0%.¹⁷ This has resulted in a stabilization of the employment rate, closing the year at around 57.7%. According to rolling-quarter data from the Large Integrated Household Survey (GEIH in Spanish),¹⁸ employment in the national aggregate continued to increase in 2024, with an annual variation of 2.2% as of December, which represented the creation of 508,000 jobs. By geographical domains, employment dynamism was explained by employment recovery in other municipalities and the rural area, which between December 2023 and 2024 grew by 3.2%, a figure higher than that observed in the urban area

¹⁷ This growth corresponds to the variation in average employment between January and December 2023, compared to the average employment from January to December 2024.

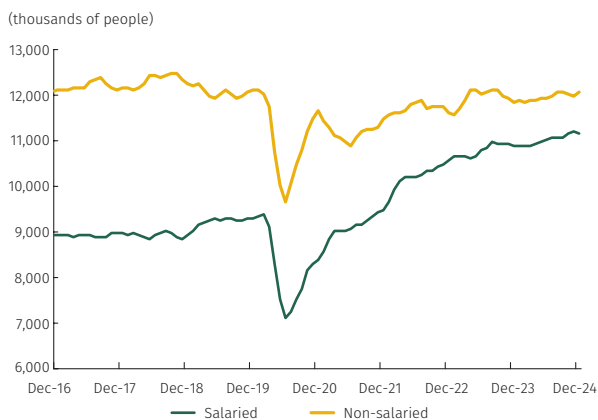
¹⁸ The labor market analysis presented in this Report is based on seasonally adjusted and moving quarter data.

Graph 2.9
Employed Population by Geographic Domain



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

Graph 2.10
Employment by Occupation (National Aggregate)



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

(1.4%) (Graph 2.9). This employment trend is reflected in the employment rate (TO in Spanish) of the national aggregate, which, as of December 2024, grew annually by 0.5 percentage points (pp) and stood at 57.7%. On the other hand, the TO in other municipalities and the rural area grew by 0.9 pp and stood at 56.2%, while in urban areas, it remained unchanged at 59.2%. By economic sector, the largest contributions to the annual variation in employment, in the national aggregate, were made by the branches of trade and accommodation (1.2 pp), manufacturing (0.6 pp), and public administration, health, and education (0.3 pp).

Salaried employment was the segment that grew the most throughout the year, implying declines in the informality rate.

In the second half of 2024, the salaried segment experienced a significant increase after the relative stability it exhibited in the first half of 2024, reaching levels of 11.1 million employed individuals, surpassing pre-pandemic levels (9.3 million in December 2019). Specifically, when comparing employment levels as of December 2024 to those recorded at the end of the previous year, this segment grew by 2.7%. Meanwhile, the employment recovery in the non-salaried segment observed for most of 2024 was partially interrupted between October and November. Thus, at the end of the year, the non-salaried segment recorded an annual increase of 1.8% (Graph 2.10). Thus, the greater dynamism of salaried employment compared to non-salaried employment explains the reduction in the informality rate (TI in Spanish) in the second half of 2024. This allowed the TI to reach 55.6% as of December 2024.

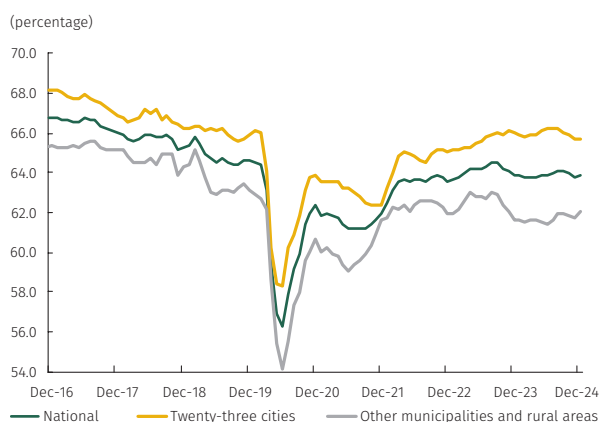
The population outside the labor force grew over the past year, particularly in urban areas.

Between December 2023 and 2024, the population outside the labor force grew by 1.3% in the national aggregate. This growth in inactivity was mainly driven by the increase in the urban area, which, in the same period, was 2.2%, while in the other municipalities and the rural area, it grew by only 0.5%. Thus, the Labor Force Participation (TGP in Spanish) closed the year at 63.9% in the national aggregate. In turn, the TGP stood at 65.7% and 62% in the urban area and the other municipalities and the rural area, respectively (Graph 2.11). The growth of the population outside the labor force was driven by individuals who withdrew from the labor market due to family reasons, retirement, or termination of temporary contracts. Within this group, women stood out, as they tended to exit the labor force at a higher rate during the second half of the year. Thus, as of December 2024, the TGP of women stood at 52.5%, while the TGP of men reached 76.3% (see *Labor Market Report No. 33*).

The national unemployment rate (UR) declined slightly during the second half of 2024, partly explained by lower pressure from the labor supply.

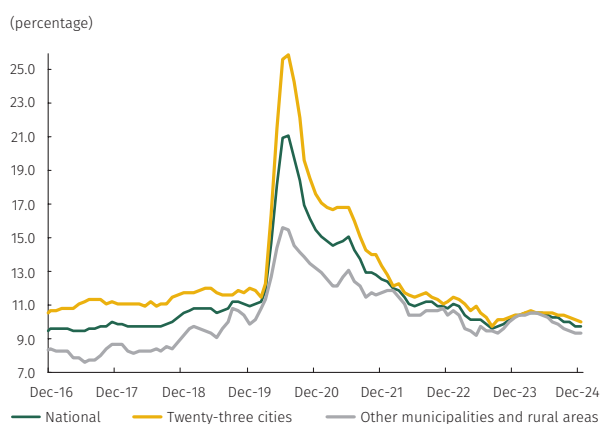
The increase in inactivity, together with moderate growth in employment, led to a further decline in UR during the second half of 2024. Thus, the annual variation

Graph 2.11
Labor Force Participation Rate by Geographic Domain



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

Graph 2.12
Unemployment Rate by Geographic Domain



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

Graph 2.13
Job Vacancy Index from Different Sources



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

between December 2023 and 2024 was -0.6 pp, bringing the UR of the national aggregate to 9.7% at the end of the year. By geographical domains, the reduction in the UR was more marked in the domain of the other municipalities and the rural area, where it contracted 0.9 pp, compared to a reduction of 0.4 pp in the urban area, ending at levels of 9.4% and 10%, respectively (Graph 2.12). For the urban area, the greatest contributions to unemployment have occurred in major cities, particularly in Bogotá and Medellín. By gender, the UR of men (7.8%) decreased more than the UR of women (12.3%), which slightly increased the gender gap to 4.5 pp, although it remains below pre-pandemic levels.

Demand indicators suggest that the labor market remained tight throughout 2024, with relatively high vacancy levels, which have been easing compared to their 2022 peak. In turn, given improved growth dynamics in 2025, the UR is expected to remain relatively stable this year. Vacancy indicators calculated from various sources of information, such as classified advertisements, the public employment service, and the GEIH, show a downward trend, although at levels even higher than those observed during 2018 (Graph 2.13). These relatively high vacancy levels, together with a declining UR, suggest a still-tight labor market. Additionally, medium-term expectations surveys, such as the Quarterly Survey of Economic Expectations (ETE in Spanish) of Banco de la República (*Banrep*), show a positive and stable balance in hiring expectations. Finally, for 2025, given the improved economic activity outlook, the UR of the national aggregate is expected to remain relatively stable throughout the year, in a range between 8.3% and 11.4%, with 9.8% as the most likely value. Thus, inflationary pressures from labor market dynamics are expected to moderate by the end of 2025, although some risks from the regulatory framework, such as the recent increase in the minimum wage, remain.

2.3 Evolution and Outlook of the Fiscal Situation

The General Government (GG)¹⁹ fiscal deficit experienced a significant increase between 2023 and 2024, mainly due to the deterioration in the balance sheet of the Central National Government (CNG). According to preliminary figures from the recent *Financial Plan 2025 (FP-25)* presented by the Ministry of Finance and Public Credit (MHCP in Spanish), the GG deficit stood at 4.8% of GDP in 2024, representing an increase of 2.1 pp compared to 2023.²⁰ This deterioration was mainly due to

¹⁹ It should be remembered that the GG is made up of the CNG, regional and local governments, social security sector (pensions and health), and the other entities of the central level, among which the FEPC is included.

²⁰ According to the DANE's methodology for the institutional sector economic accounts, data from 2024 to September reveal a GG deficit of 5.4% of GDP, higher than the 2.6% deficit observed in the same period in 2023.

CNG's balance sheet deterioration (2.6 pp) and the social security subsector (0.4 pp), partially offset by an improvement of 0.8 pp in the balance sheet of Regionals and Locals. The reduction in the deficit position of the fuel price stabilization fund (FEPC in Spanish) is highlighted, which was the result of the adjustments implemented by the Colombian Government to the price of gasoline since the end of 2022, which was reflected in closing of the gap between the benchmark price and the price of gasoline in the local market at the end of 2023, and that was maintained during 2024.²¹ However, fiscal pressures still persist due to the compensation differential in the case of the ACPM (diesel fuel), which shows the importance of starting to reduce the subsidy granted to this fuel.²²

In accordance with the most recent FP-25 update, the deterioration in CNG's public finances in 2024 was explained by both lower tax collection and higher primary spending. The data presented by the government for 2024 indicate that the total and primary deficit of CNG would have reached 6.8% and 2.4% of GDP, respectively. This would imply an increase of 2.6 pp and 2.1 pp in these indicators compared to 2023. The deterioration of 2.6 pp in the total balance sheet for 2024 was due to the fall in total income by 2.3 pp and the increase in spending by 0.3 pp. The nation's income went from COP 296.4 trillion (t) in 2023 to COP 279.2 t in 2024, equivalent to an annual fall of 5.8%. This is mainly attributed to the lower income tax collection and external VAT plus tariffs, as well as the reduction of oil revenues on account of the drop in dividends issued by Ecopetrol. The drop in corporate income collection is largely explained by the performance of the coal and oil sectors. On the other hand, spending increased from COP 363.3 t to COP 394.7 t between 2023 and 2024, with an 8.6% growth, where transfers through the General Participation System (GPS) and the interest and social security items (health and pension), as well as personnel expenses, would have registered the largest annual increases.

The fiscal and primary deficit of CNG observed in 2024 was higher than projected in the Medium-Term Fiscal Framework, 2024 (MTFF-24). The total deficit for 2024, at 6.8% of GDP, was 1.2 pp higher than projected in MTFF-24. This is because income was lower than expected by 0.6 pp of GDP (COP 9.5 t) while spending exceeded the projection by 0.6 pp of GDP (COP 11.0 trillion). The downward surprise in income was caused mainly by a lower collection of personal income quotas, to a lesser extent by lower capital resources, withholdings, and internal VAT. In contrast, the higher spending compared to that projected in MTFF-24 was explained by current expenditure, which would have more than offset the lower investment.

The depreciation at the end of 2024, together with the larger fiscal deficit, led to an increase in net debt as a percentage of GDP between 2023 and 2024. According to FP-25 figures, the net debt to GDP of CNG stood at 60.0% of GDP at the end of 2024, higher than the figure of 53.8% of GDP observed in 2023. This represents not only an increase in public debt on an annual basis, but an upward revision from the MTFF-24 projection, when it was projected to reach 55.3% of GDP in 2024, close to the anchor level of the fiscal rule, which is 55.0% of GDP.

21 The fiscal surplus recorded by the FEPC in 2024 results from the difference between the deficit caused (0.5% of GDP, equivalent to COP 8 trillion) and the resources transferred by the nation to the Fund to settle outstanding obligations with fuel importers and refiners accumulated until December 2023 (1.2% of GDP, COP 20.5 trillion).

22 In the process of reducing the ACPM price differential, with Decree 763 of June 2024 the government established an adjustment in the price of diesel for large consumers, that is, those who have a special logistics operation and consume more than 20,000 gallons per month. Additionally, in September 2024, in agreement with the transporters, an increase of COP 400 was established in the gallon of ACPM.

In accordance with FP-25, a less deficit total and primary balance is projected for 2025 compared to the previous year, mainly due to the expected revenue improvement that would more than offset the increase in public spending. However, the Independent Fiscal Rule Committee (CARF in Spanish) points out some risks to these projections. The F-25 scenario forecasts a total and primary deficit of 5.1% and 0.2% of GDP in 2025, implying an adjustment of 1.8 and 2.2 pp compared to 2024, respectively. This would be partly explained by a projected 22.6% increase in tax collection, driven by DIAN's greater management. In fact, in the 2025 bill of law of the Government Budget (PGN-25), it was estimated that this additional management would reach COP 30 t, an expectation that remained in FP-25. The expected dynamism in the collection would more than offset the growth in primary spending, which is expected to increase by 3.8% per year. This increase would be driven by increased resources for the GPS and pension spending, partly due to the increase in the minimum wage, as well as increased pressure on personnel²³ expenses. However, risks associated with the sustainability of public finances are raised in CARF's Statement No. 15, which indicates that compliance with the fiscal rule in 2025 and the stabilization of public finances will require a fiscal adjustment of around COP 46 trillion.²⁴ The need for this adjustment would be mainly explained by an overestimation of the projected income in the PNG-25.

Under the assumptions of FP-25 presented by the MHCP, the 2024 fiscal year-end closing and 2025 projection would be consistent with compliance with the fiscal rule. For the MHCP, the 2024 result and the 2025 projection would be consistent with compliance with the fiscal rule, which sets a target for the net structural primary balance (NSPB).²⁵ The level of NSPB determined to comply with the fiscal rule is -0.2% of GDP by 2024 and 0.5% of GDP by 2025. A determining factor in the calculation of the 2024 NSPB was the inclusion of one-off transactions (TUV in Spanish) amounting to COP 32 t (1.9% of GDP), among which COP 25.8 t stands out for unanticipated drop in collection, COP 2.3 for deductibility of coal royalties, and COP 1.9 t for expenses associated with the winter emergency, among others.²⁶ The NSPB estimate for 2025 presented by the government does not include TUV. Concerning

23 Pressures on personnel expenses would be associated with the minimum wage, as well as hiring in the defense sector and the judiciary. In the defense sector they come from the *Plan 16,000*, which aims to increase security force presence in the regions of the country. In turn, pressures in the judicial branch derive from the Statutory Law on Administration of Justice, which establishes that the budget allocated to this branch will be equivalent to 3.0% of the budget of revenues and capital resources of the National Treasury, according to the *MTFF*. It should be noted that 90% of the budget of the judicial branch is allocated to personnel expenses.

24 Statement No. 15 of 17 February 2025 (see www.carf.gov.co).

25 Law 2155 of 2021 stipulated that the operational targets of the fiscal rule must be defined on the NSPB. This variable corresponds to the fiscal balance after discounting interest expenses, income from financial returns, one-time transactions, and components associated with the economic and oil cycle. Law 2155 of 2021 established a transitional regime of fiscal rule between 2022 and 2025, with specific targets on the NSPB, regardless of the value of the debt that was observed at any given time.

26 Applicable TUVs for the 2024 (see <https://www.minhacienda.gov.co/politica-fiscal/documentos-planeacion-financiera/plan-financiero/2025>).

this, CARF expressed some concerns regarding the TUVs approved by the Superior Council for Fiscal Policy (CONFIS in Spanish).²⁷

Fiscal policy decisions play a key role in macroeconomic stability, as their interaction with monetary policy directly influences interest rates and the country's risk perception. Currently, Colombia's risk premiums remain high compared to emerging economies with similar characteristics, resulting in higher financing costs for both the government and the private sector. In this context, deteriorations in the fiscal situation led to increases in risk premiums, which are reflected in higher interest rates to be paid by the government and the economy as a whole. The current high levels of debt and fiscal deficits, together with higher spending pressures and lower incomes, require an orderly adjustment that ensures fiscal sustainability and contributes to economic stability. The gradual and timely reduction of the deficit and debt is crucial to reducing the country's risk and avoiding an over-adjustment in the private sector. To achieve this, it is essential to approve, during this year, the law regulating the competencies that the regions must assume within the framework of Legislative Act 03 of 2024. The correct assignment of these competencies from the Colombian Government to the territorial entities by the Congress of Colombia will allow progress in a sustainable fiscal path.

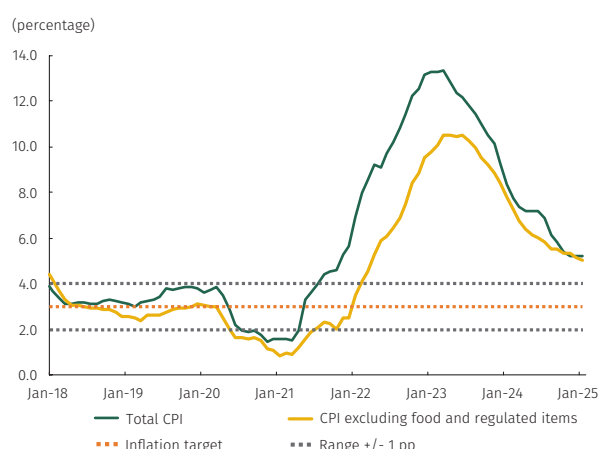
27 Of the TUVs worth COP 32 t that the government included in the 2024 balance sheet, only about COP 6.2 t had a favorable concept of the CARF, which corresponds to the non-structural component of the FEPC, the deductibility of coal royalties, the ruling of the Council of State that extends the deadlines for tax statement corrections and expenses associated with the winter emergency. Therefore, the NSPB would have been -1.8% of GDP in 2024, above the -0.2% of GDP deficit allowed by law (see Statement No. 15).

03/ Inflation and Monetary Policy Decisions

3.1 Evolution and Outlook of Inflation

In 2024, inflation in Colombia continued its gradual convergence towards the target, showing a significant reduction for the second consecutive year, largely due to the cumulative effects of monetary policy. Annual consumer inflation closed the year at 5.2%, a figure significantly lower than that recorded a year earlier (9.3%) (Graph 3.1). Since reaching a peak of 13.3% in March 2023, driven by a multiplicity of internal and external shocks and booming demand, inflation has declined almost continuously. The significant decline in inflation in 2024 is largely attributed to the cumulative effects of a tight monetary policy. This stance helped moderate demand growth to more sustainable levels, in turn allowing some macroeconomic imbalances, exchange rate pressures, and inflation expectations to reduce. Likewise, a significant portion of the various supply shocks affecting consumer prices were dissipated during the year, which resulted in greater stability of food and fuel prices, as mentioned below. Despite this significant progress in reducing inflation, it remained above the 3.0% target and continued to exhibit significant inertia in some sectors, driven by the predominant role of past-inflation indexation mechanisms and minimum wage adjustments.

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



Source: DANE; calculations by Banco de la República.

The reduction in core inflation (i.e., excluding food and regulated items), which is most influenced by monetary policy, played a crucial role in the decline in total inflation in 2024, particularly due to the performance of goods prices. The annual variation in the consumer price index (CPI) excluding food and regulated products continued to decline significantly in 2024, closing at 5.2% compared to 8.4% in December of the previous year (Graph 3.1). The main contribution to this reduction came from the CPI of goods (excluding food). The prices of this sub-basket tended to stabilize, suggesting that the shocks that had significantly affected them in previous years were fully dissipated in the first half of 2024. Such shocks, as mentioned in previous reports, would have resulted from post-pandemic logistics and transportation problems. The exchange¹ rate performance and the fall in international prices of goods such as automobiles, electronic appliances, and mobile phones also contributed significantly to the stabilization of these prices.

¹ As mentioned in other sections of this report, the peso appreciated continuously against the US dollar from late 2022 to mid-2024. Although this trend was reversed in the second half of the year, the depreciation was not significant and didn't passthrough goods prices.

The annual variation in the CPI for services also showed a reduction, albeit to a much lesser extent than that of goods. As of December 2024, it stood at 7.0%, compared to 9.0% registered in the same month of 2023. Spending and expectations moderation played a key role in this reduction. However, at the end of the year, the pace of adjustment of this sub-basket continued to exceed average inflation and the inflation target due to the greater inflationary inertia that characterizes these prices, and that has to do with the importance that indexation mechanisms fulfill in their formation. An important case is that of the leases (which are adjusted for the previous year's inflation), whose annual increase at the end of 2024 only showed a slight reduction compared to that observed a year earlier. In turn, cumulative wage adjustments, particularly the legal minimum wage, mainly affected the prices of some services with a relatively high weight in the consumer basket, such as food away from home and administration services, among others. It is worth noting that this increase is in addition to those implemented in the previous three years, when nominal wage adjustments exceeded observed inflation, accumulating 10 percentage points (pp) over these reference values between 2022 and 2024.²

The CPI of regulated products experienced a significant slowdown in 2024 thanks to the stabilization of fuel prices, which occurred after the strong but necessary adjustment a year earlier. The annual variation in the CPI of regulated products was the one with the largest decrease among the four sub-baskets and the one that contributed the most to the reduction of inflation in 2024. At the end of this year, the record was 7.3% compared to 17.2% in December 2023. Nonetheless, the high record maintained by this component at the end of the year was due to the role still played by wage increases and inflation in the previous year. On the other hand, a significant decline occurred because of lower adjustments in gasoline prices after sharp increases in 2023 aimed at reducing the deficit in the Fuel Price Stabilization Fund (FEPC) (Table 3.1). Lower exchange rate pressures and relatively stable international prices contributed to this slower pace of adjustment in 2024. Utilities also experienced a significant reduction in the pace of adjustment in that year, led by electricity tariffs, which grew from 20.7% in 2023 to 2.3% at the end of 2024. Prices for other utilities, except gas, also showed reductions in their annual variations. In the case of regulated education, annual adjustments remained high, closing the year at 12.6%.

The annual variation in food prices also declined over the past year, supported, among other things, by relatively stable international input prices, abundant agricultural supply, and weather conditions that tended to normalize as the year progressed. The annual variation of the food CPI closed the year at 3.3%, a figure lower than that recorded a year earlier (5.0%). Processed food prices, which have the most weight in this sub-basket, played a key role in this decrease thanks to the limited pressures from imported raw materials and the favorable exchange rate performance through mid-year. In the case of perishable foods, more favorable weather conditions contributed to price reductions, particularly during the third and part of the fourth quarter of the year. These prices continued to follow the pattern of the agricultural cycle observed in recent years. The increase in the annual variation of the perishable food CPI at the end of the year, which led to a rebound in total food inflation, was mainly due to a very low base of comparison in the fourth quarter of 2023 when food prices fell sharply. In general, food prices

² In 2024, the minimum wage increased by 12.07%, 2.79 pp above the 2023 closing inflation (9.28%). In 2023, the increase was 16%, 2.88 pp above the 2022 closing inflation (13.12%). In 2022, the increase was 10%, 4.4 pp above the inflation at the end of 2021 (5.6%).

Table 3.1
Consumer Price and Core Inflation Indicators

Description	Weights	Dec 23	Mar 24	Jun-24	Sept 24	Dec 24	Jan-25
Total	100	9.28	7.36	7.18	5.81	5.20	5.22
Excluding food	84.95	10.33	8.76	7.64	6.55	5.65	5.39
Goods	18.78	7.11	3.08	1.43	0.60	0.62	0.56
Services	48.85	8.96	8.29	7.89	7.48	6.97	6.80
Rents	25.16	7.56	8.11	7.99	7.89	7.40	7.04
Meals outside the home	8.79	13.44	10.83	9.75	9.25	8.01	8.26
Other ^{a/}	14.91	7.93	6.58	6.24	5.38	5.38	5.19
Regulated items	17.32	17.24	15.78	13.29	10.15	7.31	6.64
Utilities	6.69	13.65	13.33	12.52	10.00	5.21	4.38
Fuel	2.91	44.80	39.38	23.78	10.82	6.77	3.33
Transportation	5.21	11.23	8.82	8.83	8.79	8.40	9.63
Education	2.38	11.53	12.38	12.42	12.63	12.63	12.63
Other ^{b/}	0.13	12.07	10.03	10.03	10.03	10.03	6.78
Foods	15.05	5.00	1.73	5.27	2.73	3.31	4.49
Perishable	3.15	-0.47	-3.42	12.46	2.92	5.07	7.82
Processed	11.90	6.71	3.41	3.16	2.68	2.80	3.53
Core inflation (excluding food and regulated items)		8.42	6.77	6.01	5.49	5.15	5.02

a/ Laundry and ironing services; services related to co-ownership; domestic services; health services; other transportation (maintenance and repairs, school transportation, air travel, intermunicipal and international transportation); information and communications; recreation and culture; accommodation, bars, and nightclubs; education (higher education, diplomas, and non-formal education courses); other miscellaneous services (personal care, insurance, childcare).

b/ Health Promoting Entities (*Empresas Promotoras de Salud* or EPS in Spanish) moderate fees; certificates, administrative documents, and fee payments.

Source: DANE; calculations by Banco de la República with provisional classifications.

were supported by an increase in domestic supply, as recorded by DANE's agricultural economic activity figures (see Section 2.2.1 of this *Report*). Figures from the supply centers confirm these results, which were especially important for perishable foods, such as fruits.

For 2025, inflation is expected to continue gradually converging toward the target, but amid significant upside risks arising from both external and domestic factors, the latter related, to a greater extent, to the country's fiscal situation. Annual inflation remained at 5.2% in January 2025, a figure in line with the projections of *Banrep's* technical staff and most market analysts. The beginning of the year suggests that past inflation indexation mechanisms and the increase in the minimum³ wage remain important, implying that the convergence process toward the 3.0% target will continue to be gradual. Thus, the projections of most economic analysts and *Banrep's* technical staff suggest that inflation could be around 4.0% by the end of 2025 and continue its convergence toward the 3.0% target during 2026. This forecast requires a monetary policy that should remain in contractionary territory for a few more quarters, consistent with meeting the target. Likewise, it implies a favorable performance in the food prices and some regulated products, such as electricity, which is highly uncertain, given the frequent shocks these

3 The increase in the minimum wage for 2025, including the transportation subsidy, exceeded the observed inflation by about 6 pp in 2024 (5.2%) and the inflation target by 8 pp.

items have faced in the past. There are several risks to the expected reduction in inflation, the main one being that of a greater transmission of the cumulative minimum wage increases to consumer prices, either through the cost structure of companies or through indexation mechanisms. On the other hand, there are important sources of uncertainty for the evolution of inflation, such as that derived from the exchange rate performance, which will depend on various external and domestic circumstances. On the external front, the uncertainty associated with the evolution of international financial conditions, the effects of restrictive trade policies, and persistent global political tensions, among others, stand out. These elements may have complex and difficult-to-anticipate impacts on consumer prices in the country. On the domestic side, factors related to the evolution of the local fiscal situation and its effects on Colombia's risk perception could also influence exchange rate performance.

During 2024, inflation expectations for different horizons gradually declined, albeit remaining above the target and with some increases at the end of the year and the beginning of 2025. For one-, five-, and eight-year terms, the measures estimated based on public debt bonds (break-even inflation: BEI) decreased during the year, recording in December 2024, compared to the same period of the previous year, a drop of 169 bps, 43 bps, and 25 bps, and stood at 4.15%, 4.06 and 3.94%, respectively. Likewise, the expectations of analysts, obtained from the monthly survey by *Banco de la República*, were reduced during 2024 for the twelve- and twenty-four-month terms by 180 bps and 31 bps, and stood at 3.90% and 3.49%, in that order. Despite this, most measures of inflation expectations continue to be above the 3.0% target. In addition, in the last quarter of last year, a shift in the trend of expectations derived from debt bonds was observed, which increased significantly from October for all terms. Inflation expectations for December 2025, obtained from the analyst survey, also showed a slight increase in the last quarter (from 3.8% in the September survey to 3.9% in the December survey). This trend was accentuated at the beginning of 2025 when expected inflation for that horizon rose to 4.04% in the January survey and 4.3% in the February survey. At twenty-four and sixty-month horizons, expectations have remained relatively stable.

3.2 Monetary Policy Decisions

The actions taken by *Banco de la República* respond to the constitutional mandate to “preserve the purchasing power of the currency in coordination with the general economic policy.” In order to comply with the above, for more than two decades, the Board of Directors of *Banco de la República* (BDBR) has implemented an inflation targeting scheme with a flexible exchange rate regime, in which monetary policy actions are aimed at bringing inflation closer to the 3.0%⁴ target and reaching the maximum sustainable level of output and employment. In this framework, monetary policy decisions are made based on the analysis of the current state and the outlook for economic activity, as well as the assessment of inflation and its expectations against the target. For example, if this analysis indicates that inflation could persistently deviate from 3.0% due to spending excesses or short-

4 Between 1991 and 2001, the BDBR set specific annual inflation targets. In November 2001, the BDBR reported that the long-term inflation target was 3.0% and explained that maintaining this objective was equivalent to promoting price stability in the country. From 2002 onwards, it began to announce an acceptable range around the specific target for the following year, the latter being the midpoint of this range. In mid-2009, inflation was around 3.0%, and since 2010, the inflation target has been focused on the long-term target (3.0%). See <https://www.banrep.gov.co/es/noticias/junta-directiva/meta-inflacion-2025>

falls against the economy's productive capacity, the monetary policy interest rate (MPR) is modified to return inflation to 3.0%. If the deviations are due to transitory factors (e.g., a climatic phenomenon that affects food prices for a few months or temporary supply shocks) and inflation expectations remain anchored to the target, the MPR is not modified. On the contrary, if deviations initially considered transitory are accentuated due to more persistent inflation or by indexation processes, the MPR is modified to anchor expectations and contribute to inflation returning to target. This process of transmitting monetary policy is more efficient and less expensive if monetary policy is credible.

In 2024, gradual and sustained reductions in the policy interest rate to levels consistent with the expected convergence of inflation to the target contributed to the recovery in economic activity. During 2024, total and core inflation, excluding food and regulated products, continued to show a downward trend, but at the end of the year, they were at levels that still exceeded the 3.0% target. Medium- and long-term inflation expectations declined until September 2024. This favorable inflation performance and inflation expectations, in an environment of excess productive capacity for most of the year, provided favorable conditions to maintain the pace of monetary policy interest rate (MPR) cuts until October 2024. However, the rebound observed in inflation expectations during the fourth quarter, particularly those implied in sovereign debt instruments, together with the exchange rate depreciation observed at the end of the year and the uncertainty about the evolution of the fiscal accounts, the minimum wage adjustment and external conditions, led the BDBR to reduce the pace of the MPR cut. Thus, the BDBR accumulated a 375-bps cut since the beginning of the reduction phase, bringing the MPR from 13.25% in December 2023 to 9.50% in December 2024. In January 2025, in the face of new internal and external risks that could slow the convergence of inflation toward the target, the BDBR decided to maintain the MPR at 9.50%. Factors such as the significant increases in the minimum wage in recent years, well above the observed and expected⁵ inflation, a monetary policy expected to be tighter in the United States, the acceleration of producer prices, and the continued rebound of some measures of inflation expectations, all in an environment of fiscal uncertainty and exchange rate volatility, indicate the need for greater caution in monetary policy decisions to avoid jeopardizing what has been achieved so far. Monetary policy decisions have been consistent with the inflation convergence process towards the target and have contributed to the recovery of the Colombian economy in an environment of a resilient labor market and a more sustainable external position. Moderate monetary policy normalization is consistent with lower interest rates over the medium term and more favorable conditions for investment and growth.

Monetary policy can be less restrictive as the convergence of inflation and its expectations toward the target consolidates, provided that no significant risks materialize regarding the speed of such convergence. The sharp post-pandemic inflationary shock has been addressed with a monetary policy aimed at redirecting inflation toward the target by minimizing the sacrifice in terms of economic activity. Thus, in 2024, the reduction in inflation and its convergence process toward 3.0% has been achieved with a monetary policy that, although still restrictive, has allowed the recovery of economic activity with a historically low unemployment rate. However, inflation and its expectations remain above the target, and there are risks that, if they materialize, they may slow down its convergence toward 3.0%.

⁵ By 2025, by including the transportation subsidy, the increase in the minimum wage exceeded observed inflation by about 6 percentage points (pp) and the inflation target by 8 pp.

These include external financial conditions that tend to tighten in the face of the new U.S. government's policies on trade, energy policy, and migration, which could generate inflationary effects. Additionally, factors such as the future performance of the exchange rate amid high global and fiscal uncertainty in the country, the extent to which the sharp increases in the minimum wage in recent years have been passed through to inflation, unanticipated but necessary increases in certain regulated prices, and the degree of indexation in the economy, among others, must be monitored to ensure a solid convergence of inflation toward 3.0%. This, in an environment of external and domestic conditions that would be generating upward pressure (and could continue to do so) on the interest rate that is consistent with an economy growing at its potential level and inflation around its target.⁶ In this context, the magnitude and speed at which monetary policy can be eased will depend on the information available and its assessment in the coming months.

⁶ See Box: "Determinants of the Speed of Adjustment of the MPR" in the July 2024 *Report of the BDBR to Congress*, available at: <https://repositorio.banrep.gov.co/server/api/core/bitstreams/e86b6592-21b9-425c-a5f1-e39f9fb3a1e2/content>

Box 1

The transmission of the Monetary Policy Interest Rate and Its Expectations to Certificate of Deposit and Credit Interest Rates¹

As part of the inflation-targeting framework governing monetary policy in Colombia, *Banco de la República* uses the monetary policy interest rate (MPR) as an instrument. By changing the MPR, *Banrep* induces variations in market interest rates at different terms and in asset prices, thereby influencing spending and investment decisions of households and firms. The mechanisms through which monetary policy decisions affect various economic variables are called *monetary policy transmission channels*, which ultimately impact growth and inflation. The main channels are the interest rate channel, the credit channel, the exchange rate channel, the asset price channel, and the expectations channel.

This box describes the interest rate and credit channels and highlights the importance of the transmission of changes in the MPR and its expectations to the economy's interest rates. It also presents some results from estimates for Colombia regarding this transmission to the interest rates on certificate of deposits (CDT) and credit.

1. Two Monetary Policy Transmission Channels: Interest Rates and Bank Credit

The economic literature points to the interest rate channel as an important mechanism for transmitting monetary policy through which changes in short-term interest rates, driven by movements in the MPR, have effects on economic activity and inflation. In a first stage, variations in the current MPR are directly transmitted to money market interest rates² (typically overnight rates), but they also affect market expectations regarding future MPR values and uncertainty about them, which affects longer-term interest rates.³ These changes in interest rates at all terms affect consumption and investment decisions, which, in turn, alter price dynamics.

The transmission of the current MPR and its expectations to interest rates at different terms of savings and credit is reinforced by the bank credit channel. This operates when bank loans are a very important source of financing for economic agents,⁴ and when financial institutions do not have another asset on their balance sheets that can replace credit.⁵ Under these conditions, variations in the MPR, in addition to being transmitted to the different terms of the savings and loan interest rates, also affect the credit supply.

1 This is a summary of some sections of the technical document that will be published in *Borradores de Economía* (Working Papers on Economics).

2 See Box 3: "Liquidity Provision by *Banco de la República*, 2023-2024", in the *Report of the Board of Directors to the Congress of Colombia*, July 2024.

3 A long-term interest rate is equal to the sum of the observed and expected short-term interest rates to term, plus a risk premium that reflects the uncertainty around future short-term interest rates (interest rate expectations hypothesis). For example, a one-year interest rate would be equal to the sum of the observed daily rate and the expected daily rates for each day that contains the year, plus a premium paid to the investor for the risk that future daily rates deviate from projected levels.

4 Households and companies do not have a substitute funding for bank credit, since other types of financing are more expensive or difficult to access.

5 When a bank observes an increase in the demand for credit, it prefers to increase deposits to fund the operation; this because having resources with the sale of another asset (e. g., sale of securities, physical assets, etc.) is more expensive.

For example, reductions in the MPR decrease the return on bank deposits at the central bank or on loans to other banks, and thus create incentives for them to increase the supply of loans. This reinforces the impact of the MPR change on loan interest rates, as well as its effect on aggregate demand and inflation.

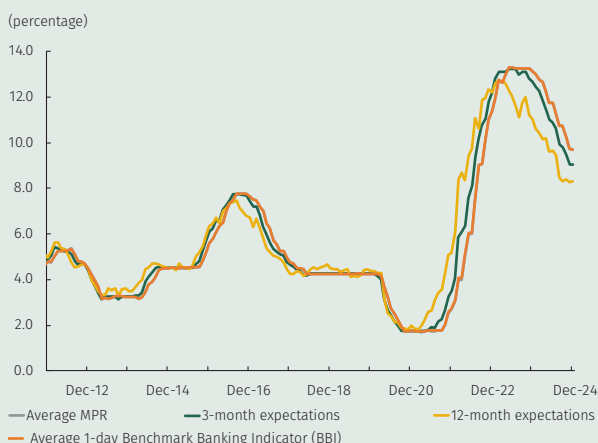
The transmission of monetary policy through interest rate and credit channels can be affected by factors such as financial regulation (bank reserves, capital requirements, interest rate limits, etc.), asymmetric information, market power, the share of fixed versus variable interest rates in the market, the degree of uncertainty regarding future MPR adjustments, and the credibility of the Central Bank, among others.

2. The MPR, Its Expectations, and Its Effect on CDT and Credit Interest Rates

First, Graph B1.1 shows that the MPR series and the overnight money market interest rate (BBI) align over time, indicating that any change in the MPR is immediately transmitted to the overnight money market rate. The graph also shows the expected paths that MPR agents⁶ have for the next three and twelve months, expectations extracted from a money market indicator called overnight index swap (OIS).⁷ It highlights how the agents anticipated both the period of increases in the MPR that began at the end of 2021 and the period of reductions that started at the end of 2023.

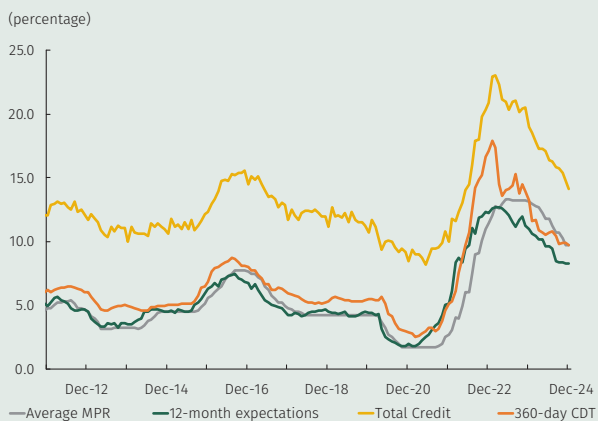
Graph B1.2 shows the expectations for the MPR over one year (according to the OIS), along with the interest rate on CDTs at the same term and the average credit interest rate.⁸ This graph shows a relationship between the movements of the MPR and its expectations relative to changes in deposit and credit rates. During the final stages of the MPR increase (Sept. 2021 to April 2023) and decrease (Dec. 2023 to Dec. 2024), the rates of the financial system began to react earlier, partly due to agents' expectations of future changes in the cost of liquidity offered by *Banco de la República*. In other words, banks anticipated future MPR movements, which were reflected in the performance of savings and credit rates. It is important to note that, during these periods, in addition to the supply and demand conditions in the savings and credit markets, there were also regulatory changes that affected the transmission process.⁹

Graph B1.1
Monetary Policy Interest Rate (MPR) and Its Expectations according to the OIS^{a/}
(effective annual rates, monthly averages of daily values)



a/ Calculated using the overnight index swap.
Sources: Bloomberg and Banco de la República.

Graph B1.2
MPR (OIS) Expectations^{a/} and CDT and Credit Interest Rates^{b/}
(monthly average effective annual rates)



a/ Calculated using the overnight index swap.
b/ The total credit interest rate corresponds to the weighted average interest rate by amount for loans: consumer, ordinary, preferential, and treasury loans.
Sources: Bloomberg and Banco de la República.

6 Similar results were obtained when constructing the paths of the expected MPR based on the monthly survey of economic analysts of Banco de la República.

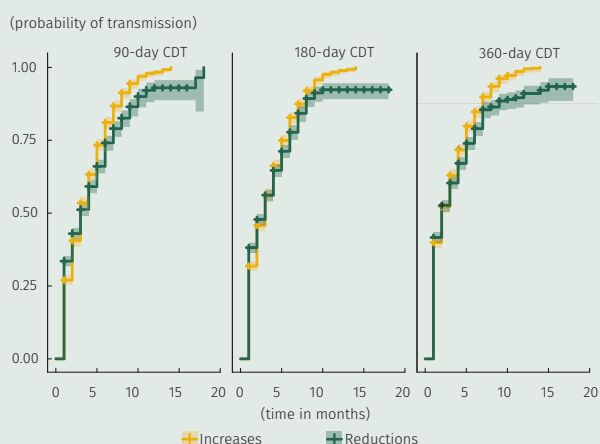
7 This is an exchange contract (swap of the index overnight) which has a fixed part and a floating part. One party agrees to pay floating interest on a national principle based on a certain overnight rate (e.g., the effective monetary policy rate) during the contract period. In return, the other party agrees to pay the mutually agreed fixed rate until the end of the swap or exchange agreement. On the previously agreed date, after the two parties' floating and fixed interest payment obligations accumulate during the period, the monetary difference is settled.

8 Weighted average rate by amount of credits: consumption, ordinary, preferential, and treasury.

9 In 2023, the Financial Superintendency modified the net stable funding ratio (NSFR), increasing the requirements to have a better match between the deposit terms and credit. As a result, some banks increased the demand for long-term CDTs to comply with the regulation and put upward pressure on interest rates on these deposits. In addition, in August 2024 Banco de la República reduced the bank reserve requirement by one percentage point, reducing the "opportunity cost" for intermediaries to have these deposits in Banrep.

In general terms, econometric exercises¹⁰ show that the transmission of MPR changes and its expectations (OIS) to CDT and credit interest rates occurs at different speeds. CDT interest rates react as quickly as or faster than loan rates to changes in the MPR and its expectations. CDT interest rates take between eight and twelve months to show significant transmission (90% of a MPR change) at the different terms. In this market, shorter-term deposits show faster transmission. As for loans, significant transmission (90% of a MPR change) takes between nine and more than fifteen months, depending on the loan type. Commercial interest rates, which are more highly indexed to the BBI or Fixed-Term Deposit (DTF in Spanish) compared to other loan types, exhibit faster transmission (between nine and twelve months), followed by consumer loan rates (between twelve and fifteen months), and mortgage rates (more than fifteen months). Depending on the size of the credit institutions, the transmission to both CDT and loan interest rates is faster in large financial institutions, followed by medium-sized and small ones.¹¹

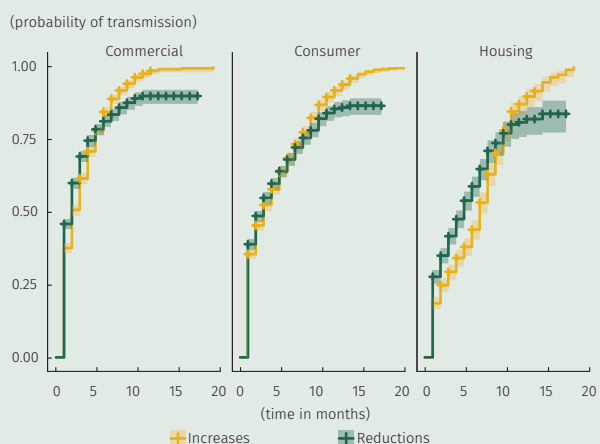
Graph B1.3
Probability of Transmission of the MPR and Its Expectations to Deposit Interest Rates



Source: Authors' own calculations.

An additional exercise seeks to estimate whether the transmission of interest rates and their expectations differs during periods of MPR increases compared to reductions (asymmetry). Graph B1.3 shows the results of a methodology that analyzes interest rates for each credit institution, highlighting asymmetries in deposit interest rates. These asymmetries show a greater likelihood of transmission in the months following TPM increases (over ten months). In the case of credit (Graph B1.4), commercial and housing loan interest rates show a faster transmission during TPM reduction periods in the first six months of the year, whereas after one year, all types of credit exhibit more likely transmission during periods of TPM increases.¹²

Graph B1.4
Probability of Transmission of the MPR and Its Expectations to Credit Interest Rates



Source: Authors' own calculations.

10 The results of these exercises will be published in more detail in *Borradores de Economía* (Working Papers on Economics). These were made with the interest rates of new CDTs and those of credit disbursements. As of December 2024, 78.8% of new deposits and 59.3% of disbursements from the financial system were at a fixed rate. About 80% of commercial credits are indexed to the BBI or DTF.

11 This classification by size considers the information on the assets of financial institutions.

12 Another methodology, which uses the aggregate interest rates of the CDT and credit weighted by the amount, indicates that in consumer and commercial interest rates, transmission is faster during periods of reductions in the MPR compared to periods of increases; In contrast, deposit and housing rates do not show asymmetries.

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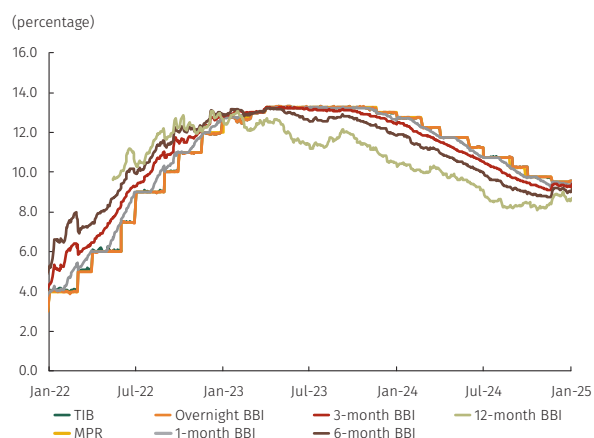
04/ Financial and Credit Market Developments and Prospects

4.1 Financial Intermediation by Credit Institutions

During 2024, money market interest rates reflected reductions in the monetary policy interest rate (MPR) (see Box 1). The overnight Benchmark Banking Indicator - BBI (IBR in Spanish) and the overnight Interbank Interest Rate (TIB in Spanish) are indicators of the funding cost of financial institutions at that term. These rates remained aligned with the MPR, decreasing by 345 bps between the end of December 2023 and the end of December 2024. The thirty-day BBI experienced a similar decline. Three-, six-, and twelve-month BBI rates also decreased for most of the year (the twelve-month rate showed slightly more volatility), except for December, when the MPR cut was smaller than expected by the market¹ (Graph 4.1).

Deposit interest rates through certificates of deposit (CDTs) and the savings deposit interest rate declined during 2024, continuing the trend observed since the early months of 2023. Over the year, CDT deposit interest rates decreased for all terms, especially in the first half of the year, and more sharply for terms under one year (in contrast to 2023, when longer-term rates decreased more than shorter-term rates).² The savings deposit interest rate also declined (more during the second half of the year than during the first half), although to a lesser extent than the CDT rate. Particularly, the decrease in the interest rates for corporate accounts (301 bps) and official institutions (203 bps) was offset by an increase in the savings deposit interest rate for individual accounts (60 bps) during the second half of the year, due to the rise of institutions offering higher rates than traditional banks, thus reducing the latter's share in the savings balance.³ This occurred in a context where agents continued to anticipate reductions in inflation and cuts in the monetary policy rate, as had occurred in 2023. On the other hand, credit institutions

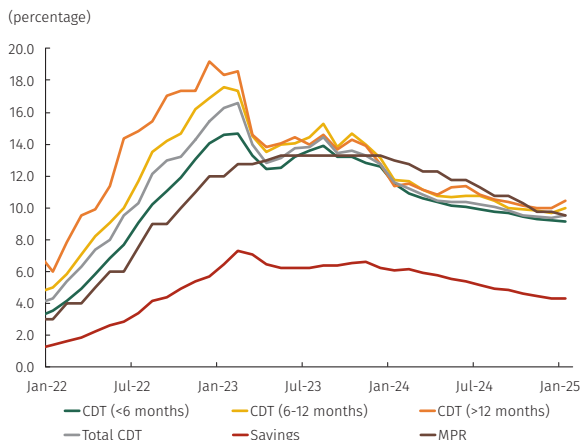
Graph 4.1
Monetary Policy Rate (MPR), Interbank Rate (TIB),
and (overnight 1, 3, 6, and 12-month) BBI



Source: Banco de la República.

- 1 Particularly, between the end of December 2023 and the end of December 2024, the three-month BBI decreased by 334 bps, the six-month BBI by 299 bps, and the twelve-month BBI by 197 bps. For the December meeting, the market anticipated a 50 bp cut in the MPR (the MPR declined by 25 bps).
- 2 In 2024, CDT deposit rates with a term of less than six months decreased by 341 bps, between six and twelve months by 345 bps, and for terms over one year, by 274 bps (compared to 147, 376, 644 in 2023 and 547, 792, and 860 from their peak level in 2023).
- 3 At the end of 2024, the share of legal entities in the savings balance was 50%, official institutions 17%, and individuals 33%. By the end of 2024, institutions with rates above 5.0% accounted for 7.9% of the active savings balance (a year earlier, the share of these institutions in the savings deposit balance of individuals was 0.3%).

Graph 4.2
Interest Rates on CDTs and Savings Deposits



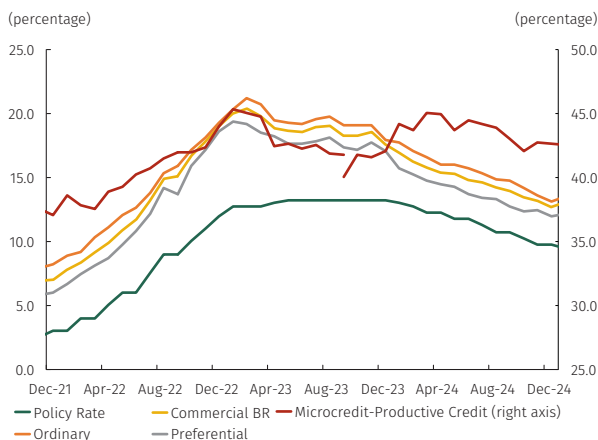
Source: Financial Superintendency of Colombia (Form 441); calculations by Banco de la República.

had lower funding needs compared to previous years, given the loan portfolio’s low dynamism (Graph 4.2).

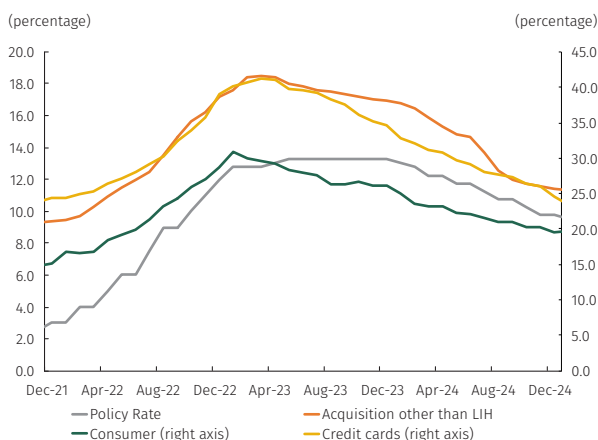
Significant declines in credit interest rates were also observed, mainly in household loans, continuing the trend seen since mid-2023. Loan rates declined more than the MPR across most loan types.⁴ Notably, there was a decrease in credit card rates (the loan type with the greatest reduction), consumer loans, and housing loans, all of which are loans aimed at individuals. In consumer loans, part of the reduction in the interest rate is driven by an increased share of payroll credits, which have lower rates as they are viewed as lower-risk credits for financial intermediaries. For housing purchase, the decrease in rates was more pronounced in the second half of the year because, starting in mid-July, several financial institutions began campaigns to reduce interest rates on this loan type (initially the largest banks, followed by the others). On the other hand, microcredit (productive credit)⁵ was the only loan type whose rate increased during the year,⁶ with increases in the first half of the year that were not fully offset by the reductions observed in the second half (Graph 4.3).

Graph 4.3
Interest Rates on Loans

A. Loans to Business



B. Loans to Households

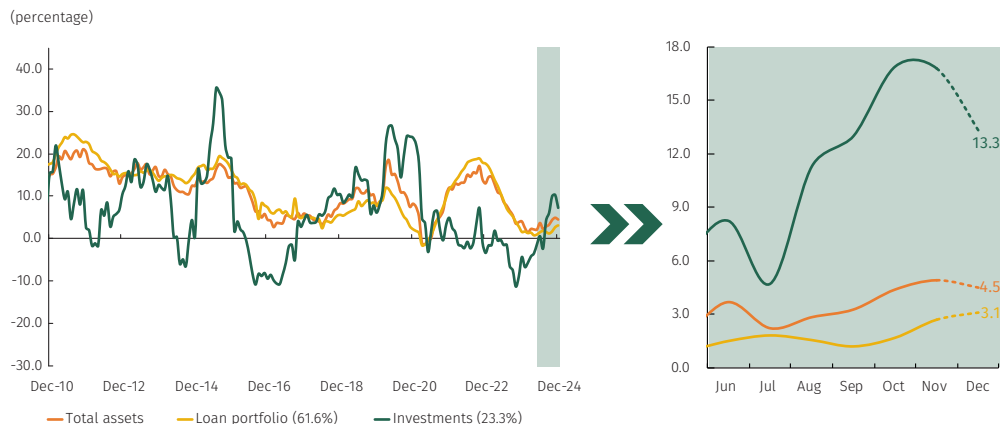


Note: The policy rate corresponds to the rate established by the BDBR at the monthly meeting; other rates correspond to the monthly average (weighted by amount).
Source: Financial Superintendency of Colombia (Forms 088 and 414); calculations by Banco de la República.

The assets of credit institutions (CIs) continued to exhibit low growth rates. As of November 2024, the total assets of CIs stood at COP 1,057.7 trillion (t), registering a nominal annual growth rate of 4.9% (Graph 4.4). This rate was higher than the one observed a year earlier, although it remained below its historical average (15.4% since 1991). The slight recovery in asset dynamics was driven by an acceleration in investments, particularly the purchases of local sovereign debt securities (TES) made by CIs in an environment of rising valuations of these securities. Meanwhile, the loan portfolio (net of provisions) showed low nominal annual growth compared to its historical trends, although it did experience a slight acceleration in the second half of the year. In real terms, while the annual growth of both assets and the net loan portfolio continued to be negative, the rate of decline was slower than at the beginning of the year.

- 4 Particularly, the aggregate commercial loan rate decreased by 432 bps during the year (the preferential loan rate decreased by 523 bps and the ordinary loan rate by 488 bps), the consumer loan rate by 650 bps (excluding payroll loans decreased by 722 bps, while payroll loans decreased by 331 bps), credit card rates for individuals by 1,011 bps, the non-LIH (low-income housing) housing purchase rate by 557 bps, and the LIH housing purchase rate by 389 bps.
- 5 By Decree 455 of March 2023, five sub-types of productive credit were created: rural and urban popular productive credit (up to six legal monthly minimum wages in force (SMMLV in Spanish)), rural and urban productive credit (between six and twenty-five SMMLV), and larger productive credit (above twenty-five SMMLV). For each sub-type, the Financial Superintendency of Colombia (SFC in Spanish) calculates and publishes a usury rate monthly, based on data from the four weeks prior to certification.
- 6 For microcredits (productive credit), the rate increased by 51 bps over the year, excluding rediscount credits, and rose by 134 bps when including those granted with rediscount funds. Rediscount credits reduced their share of microcredit (productive credit) disbursements from 33% in December 2023 to 29% in December 2024.

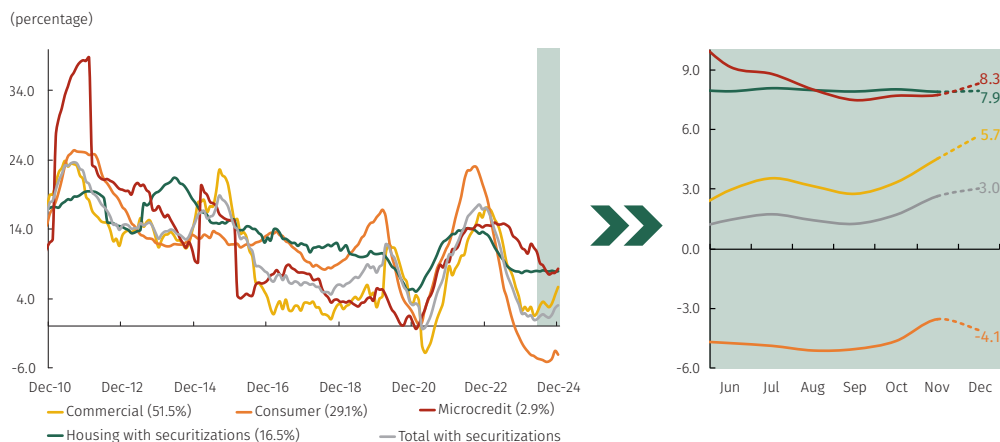
Graph 4.4
Annual Nominal Growth in the Assets of Credit Institutions and Their Main Components



Note 1: The dotted lines are constructed using weekly data as of December 2024, as reported in Form 281 by the Financial Superintendency of Colombia, which provides weekly information on the main balance sheet accounts of credit institutions. Therefore, the data presented may vary slightly from that reported in the balance sheets of credit institutions.
 Note 2: The percentages in parentheses represent the share of main accounts in total assets.
 Source: Financial Superintendency of Colombia; calculations by Banco de la República.

The gross loan portfolio showed low nominal growth in an environment of higher economic activity during 2024. This performance was mainly driven by the commercial loan portfolio. By 2025, higher loan portfolio growth is expected in an environment of lower inflation and an accelerating economy. The total gross loan portfolio of CIs recorded a nominal annual growth rate of 2.6%, amounting to COP 697.3 t in November 2024. Since mid-year, a slight increase in growth was observed, driven by the commercial loan portfolio, which accounts for about half of the loans granted (Graph 4.5). Housing and microcredit loan types recorded the highest nominal growth rates during 2024, while the consumer loan portfolio continued to decrease, although at a slower pace than observed during the last six months, remaining close to -4.0%. For the current year, higher loan portfolio growth is

Graph 4.5
Annual Nominal Growth in the Gross Loan Portfolio of Credit Institutions



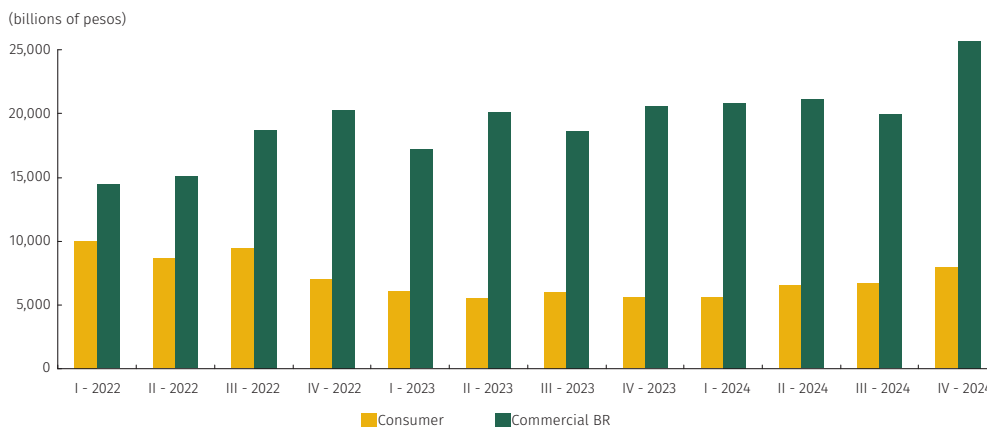
Note 1: The dotted lines are constructed using weekly data as of December 2024, as reported in Form 281 by the Financial Superintendency of Colombia, which provides weekly information on the main balance sheet accounts of credit institutions. Therefore, the data presented may vary slightly from that reported in the balance sheets of credit institutions.
 Note 2: The percentages in parentheses indicate the share of loan types in the total loan portfolio.
 Source: Financial Superintendency of Colombia; calculations by Banco de la República.

expected, in a context of inflation convergence towards the target, more favorable financial conditions, driven by a lower monetary policy rate, investment recovery, and increased credit demand.

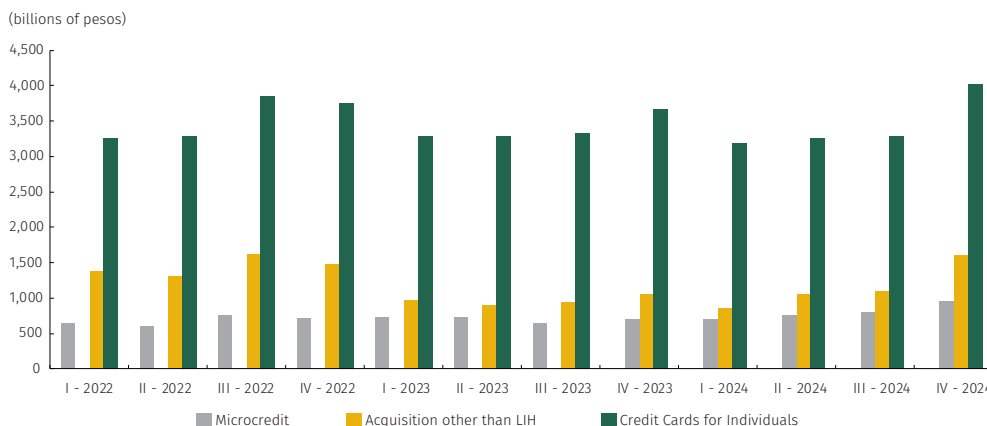
In the second half of 2024, higher levels of disbursements were observed across all loan types, compared to the first half of the year and 2023. The cumulative declines in interest rates since 2023 favored the volumes of new loans. This performance began at different times for each loan type, but by mid-year, all types showed increases compared to previous levels, especially for consumer loans, housing loans, and microcredit. According to the *Report on the Credit Situation in Colombia*,⁷ since mid-2024, financial institutions have observed a greater supply across the different loan types, compared to 2023 and the first half of 2024. This was reflected in a slower pace of decline in the consumer loan portfolio balance and a slight acceleration in the commercial and housing loan portfolios (Graph 4.6).

Graph 4.6
Loan Disbursements by Type
(quarterly average of weekly data)

A. Commercial and Consumer



B. Credit Card for Individuals, Acquisition of Non-LIH Housing, and Microcredit (Productive Credits)



Source: Financial Superintendency (Forms 088 and 414); calculations by Banco de la República.

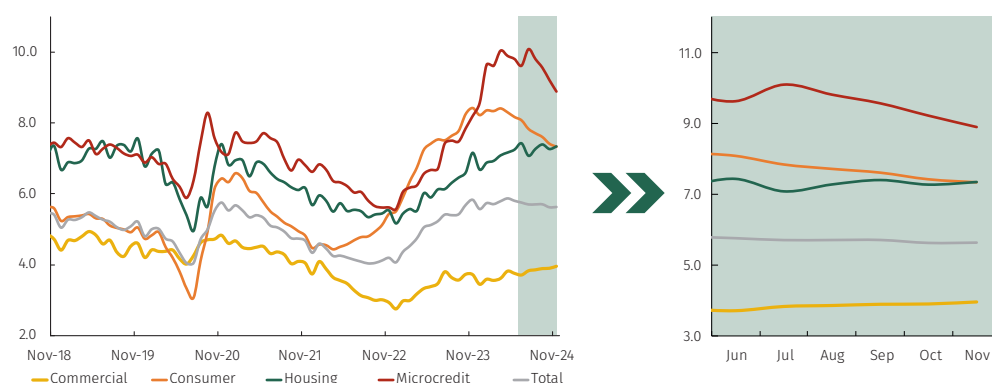
7 See <https://www.banrep.gov.co/es/publicaciones-investigaciones/reporte-situacion-credito-colombia>

The quality of the loan portfolio stabilized, although the non-performing loans indicator remained high compared to recent history.

In 2024, the growth of the non-performing loan portfolio⁸ in housing, microcredit, and consumer loan types slowed down, with the latter recording declines since mid-year (Graph 4.7). As a result, the downward trend in the non-performing loans indicator (NPL)⁹ was consolidated, although these indicators remain high. Between March and November 2024, the NPLs for consumer loans and microcredit decreased by about one percentage point (pp), reflecting less deterioration in the loan portfolio. For housing loans, although its non-performing loan portfolio slowed down, the NPL remained around 7.0%. Meanwhile, for the commercial loan portfolio, a slight increase (20 basis points, bps) in its NPL was observed since mid-2024, in line with the higher growth of the non-performing loan portfolio. The recovery trend in the NPL for consumer loans and microcredit is expected to continue in the first half of 2025, while deterioration may persist in commercial loans due to challenges in the construction, commerce, and manufacturing sectors. The dynamic of the NPL for the total loan portfolio will depend on which of these trends becomes more relevant.

Graph 4.7
Non-Performing Loans Indicator (NPL)

(percentage)



Note: The Non-Performing Loans Indicator is calculated as the ratio between the non-performing loan portfolio and the total gross loan portfolio (the non-performing loan portfolio includes the balance of loans that have not been paid for more than 30 days).
Source: Financial Superintendency of Colombia; calculations by Banco de la República.

In terms of funding, several factors favored the growth of demand deposits and short-term CDTs, while long-term liabilities decreased.

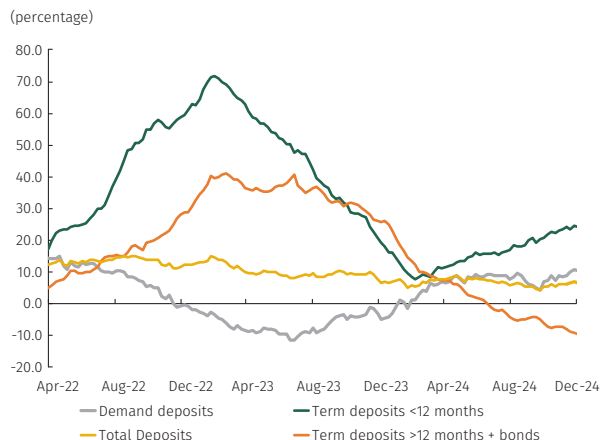
Previously, in 2022 and part of 2023, CDTs had shown significant growth and gained shares in the liabilities of CIs'. However, in 2024, the balance of long-term CDTs and bonds decreased, while that of short-term CDTs surged. Furthermore, an upward trend was observed in the balance of savings deposits, which represent the main demand deposit, and higher levels in checking accounts compared to those recorded in 2023.¹⁰ This was driven by the decline in interest rates, inflation, and expectations, as well as the recovery in economic activity and lower stable funding needs by CIs (Graph 4.8).

⁸ The non-performing loan portfolio corresponds to the balance of loans that have not been repaid for more than thirty days.

⁹ The non-performing loans indicator is calculated as the ratio of the non-performing loan portfolio to the total gross loan portfolio.

¹⁰ For more details, see the shaded section "M3 and Monetary Base."

Graph 4.8
Annual Growth in Demand and Term Deposits

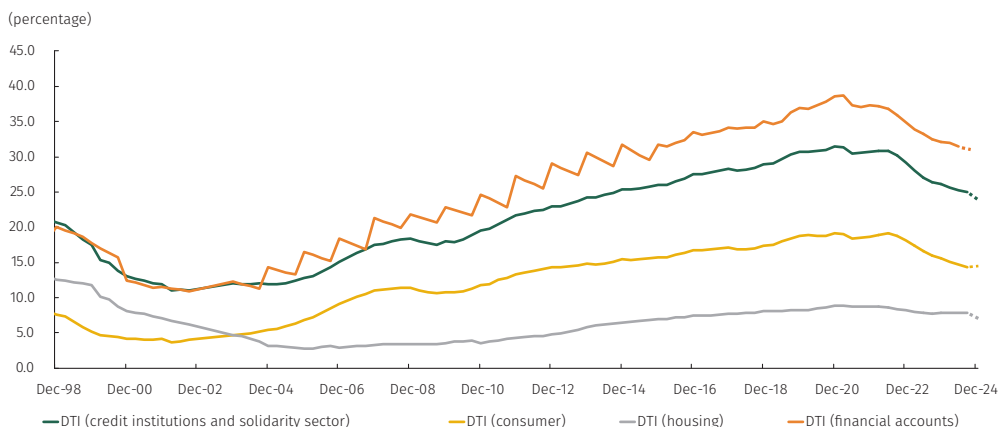


Source: Financial Superintendency of Colombia (Form 281); calculations by Banco de la República.

Throughout 2024, the household debt-to-income ratio continued to decline from historically high levels observed in 2022. As of September 2024, household leverage, measured by the debt-to-disposable income (DTI) ratio, completed nine consecutive quarters of reductions (Graph 4.9). This trend is explained by the continuous income growth at higher rates than debt levels. Household income has benefited from the high levels of remittances observed in 2024, which recorded an annual increase of 14.1% in dollars by September 2024.

The gross savings of households as a percentage of GDP slightly declined compared to the previous year, remaining at historically low levels. According to national accounts by institutional sector from DANE, as of September 2024, the annual gross savings of households stood at 4.1% of GDP, a value below the historical average of the indicator and 0.5 pp lower than the value observed at the end of 2023 (Graph 4.10). The reduction in gross savings is explained by a greater increase in final consumption compared to gross income.

Graph 4.9
Household Debt to Disposable Income (DTI)



Note: The graph presents the Debt-to-Income (DTI) ratio. It uses the gross adjusted disposable income of households from the national accounts by institutional sector. For consumer and housing DTI, it is assumed that the share of these loan portfolios in the total remains constant over the forecast horizon. The December 2024 data (dotted) corresponds to a forecast based on available information. Due to insufficient information, the forecast for financial account DTI is not estimated.

The graph shows four measures of debt:

1. Green line: Household debt with credit institutions supervised by the Financial Superintendency of Colombia, savings and loan cooperatives, employee funds, and Titularizadora Colombiana.
2. Orange line: Household debt from the balances of the financial accounts published by Banco de la República. In addition to the green line, it includes microcredits and commercial loans from individuals, as well as obligations to other financial institutions.
3. Yellow line: Consumer loans with credit institutions.
4. Grey line: Housing loans with credit institutions.

Assumptions for forecasts:

1. Consumer and housing debt with credit institutions was projected using the weekly balances reported by credit institutions to the Financial Superintendency of Colombia.
2. Household debt was projected using the growth of the consumer and housing loan portfolios.
3. Disposable income was projected based on the balance of payments projections of the technical staff of Banco de la República.
4. The wage bill of the Integrated Record of Contributions to Social Security (PILA in Spanish) was projected using the growth of disposable income.

Sources: Financial Superintendency of Colombia, Superintendencia de Economía Solidaria (Superintendencia of Solidarity Economy), Titularizadora Colombiana, Banco de la República, and DANE; calculations by Banco de la República.

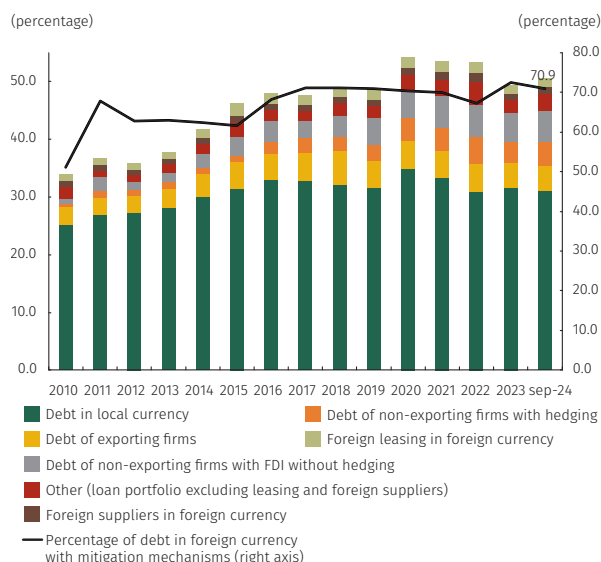
Corporate sector debt as a share of GDP slightly increased, following declines observed in 2023, in a context of economic recovery and looser local financial conditions. As of September 2024, private corporate sector debt accounted for 50.6% of annual GDP, a value higher than the 49.4% recorded at the end of 2023 and lower than the figures between 2020 and 2022

Graph 4.10
Annual Gross Household Savings as a Percentage of GDP



Source: DANE; calculations by Banco de la República.

Graph 4.11
Private Corporate Sector Debt by Foreign Exchange Hedging, Foreign Direct Investment (FDI), and Foreign Trade of the Debtor (Percentage of GDP)

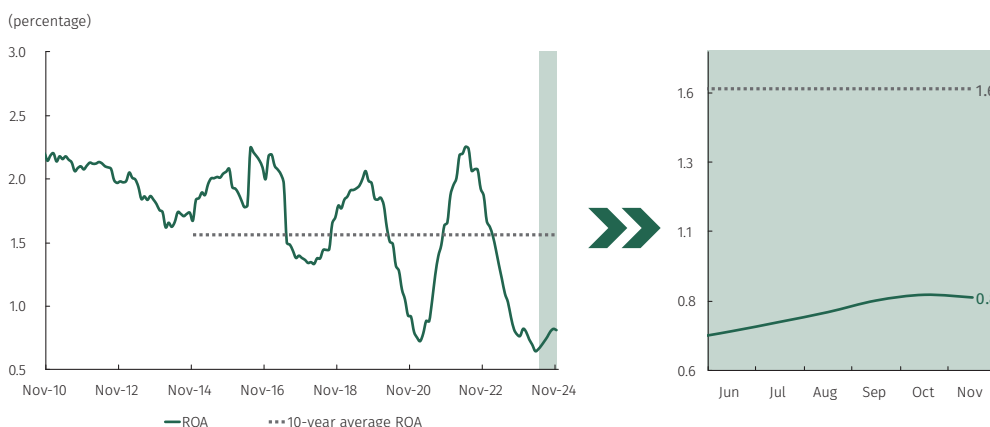


Note: Foreign currency debt from suppliers and leasing with foreign entities is not available by TIN and, therefore, it is not possible to identify whether this debt belongs to hedged companies.
Sources: Financial Superintendency of Colombia, DANE, and Banco de la República; calculations by Banco de la República.

(Graph 4.11). The percentage of foreign currency debt with some form of exchange rate risk mitigation (exporting firms, firms with financial hedging operations, or firms with FDI) remains high, although it slightly decreased to 70.9% in 2024.

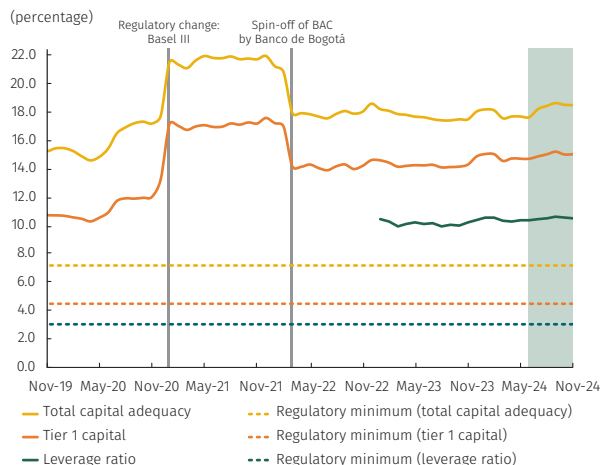
Profitability of CIs slightly recovered in 2024, after showing a downward trend in 2023. As of November 2024, the return on assets (ROA) of CIs stood at 0.8%, after increasing by 12.2 bps from March of the same year (Graph 4.12). This slight rebound was driven by higher income from investment valuation (especially treasury securities, TES) and lower loan-loss provisions. The latter is related to the decumulation of countercyclical provisions, a tool that allowed CIs to smooth their loan-loss provisions in 2024, as well as to the lesser deterioration of the consumer loan portfolio. However, the ROA is at 75.1 bps below the ten-year average, mainly

Graph 4.12
Return on Assets of Credit Institutions



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

Graph 4.13
Aggregate Capital Adequacy Ratios

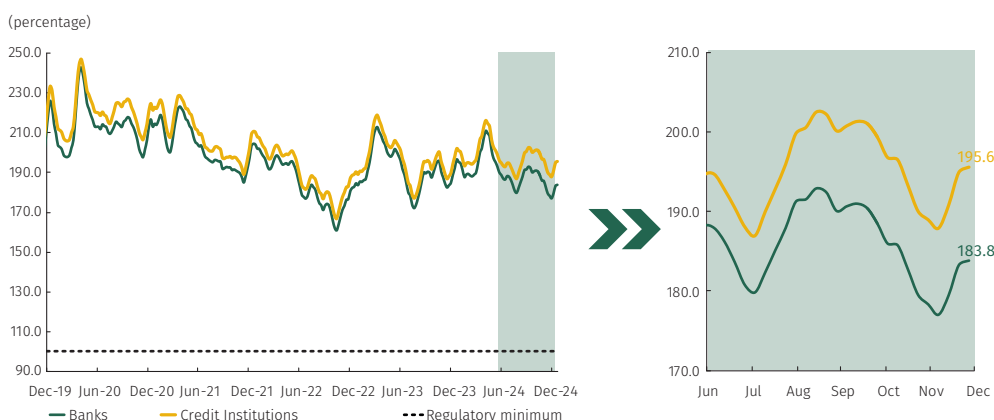


Note 1: Total capital adequacy is defined as the ratio of total regulatory capital to the value of assets weighted by credit, market, and operational risk. Tier 1 capital is defined as the ratio of Common Equity Tier 1 net of deductions to the value of assets weighted by level of credit, market, and operational risk.
 Note 2: The figures reported since January 2021 for total capital adequacy and tier 1 capital are not comparable with the historical series due to regulatory changes that required institutions to start converging to the guidelines established by Basel III.
 Note 3: From 2024 onwards, limits including the conservation buffer are 10.5%, 7.5%, and 6.0% for total capital adequacy, Additional Tier 1, and tier 1 capital, respectively. Systemically important financial institutions require an additional 75 bps. In practice, non-compliance with capital buffers does not imply a breach of regulatory limits and, therefore, does not constitute a situation of insolvency.
 Note 4: With the issuance of decrees 1477 of 2018 and 1421 of 2019, institutions began to report and comply with the regulatory requirement of the leverage ratio as of January 2021. This ratio is defined as the sum of the value of Common Equity Tier 1 net of deductions and Additional Tier 1, divided by the leverage value.
 Source: Financial Superintendency of Colombia; calculations by Banco de la República.

due to the low loan portfolio growth and deterioration, which negatively impacts interest income. As loan portfolio growth improves, it is expected that profitability of CIs will continue to recover in 2025 through higher interest income.

CIs maintain adequate capital and liquidity levels, above regulatory minimums, even when assessed under a stressed scenario. Capital adequacy ratios of CIs were well above the regulatory minimums (Graph 4.13). Since mid-2024, the total capital adequacy ratio and tier 1 capital ratio increased by 86.1 bps and 32.4 bps respectively, due to the increase in capital allocated to cover potential losses and the slower growth of risk-weighted assets, as a result of low credit growth. Additionally, CIs maintained a strong liquidity position in 2024, as reflected in the ample levels of the short-term liquidity risk indicator (LRI; Graph 4.14) and the structural liquidity indicator (Net Stable Funding Ratio - NSFR; Graph 4.15). Given the expected loan portfolio growth and the entry into force of regulatory changes to the NSFR in September 2025¹¹ CIs will need to continue managing their funding toward stable sources. As assessed semiannually in *Banco de la República's Financial Stability Report*,¹² CIs would have sufficient equity capacity to absorb potential losses in hypothetical stress scenarios characterized by adverse macroeconomic environments and low probability of occurrence.

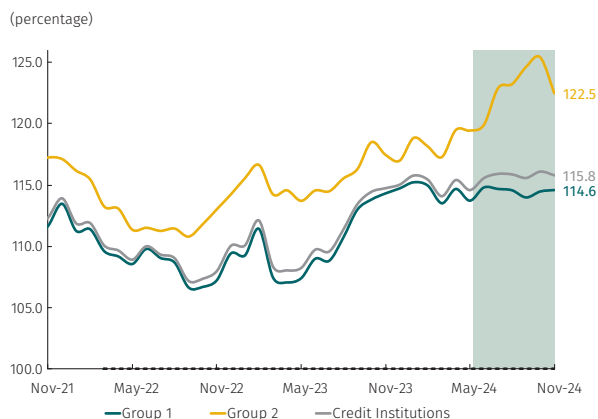
Graph 4.14
Thirty-Day Simple Average Liquidity Risk Indicator (LRI) of Credit Institutions



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

- 11 The SFC established that, starting in September 2025, CIs and special official institutions (SOIs) subject to regulation must differentiate demand deposits of wholesale customers in the real sector, open-end collective investment funds (OECIFs), and financial institutions supervised by the SFC, between operational and non-operational deposits, in accordance with an internal classification methodology.
- 12 For more details, see the *Financial Stability Report* for the second half of 2024.

Graph 4.15
Net Stable Funding Ratio (NSFR) of Credit Institutions



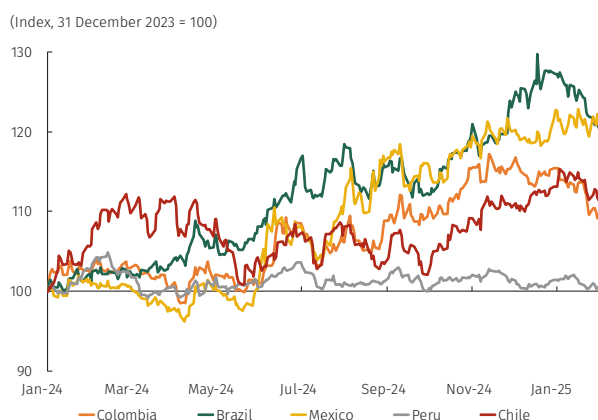
Note 1: The data to construct this graph comes from Form 238 of the Financial Superintendency of Colombia.

Note 2: The indicator series is presented only for Groups 1 and 2 because institutions in Group 3 are not required to comply with a NSFR regulatory limit. The minimum required for Group 1 since March 2022 is 100% (purple dotted line), and for Group 2, it is 80% (yellow dotted line).

Note 3: Institutions in Group 1 are made up of banks whose assets represent at least 2.0% of the total assets of banks as of 31 December of the immediately preceding year. Group 2 includes CIs that are not part of Group 1 and for which the loan portfolio and leasing operations correspond to a significant asset. Group 3 includes CIs that are not part of the previous groups and whose significant assets are investments and derivative transactions.

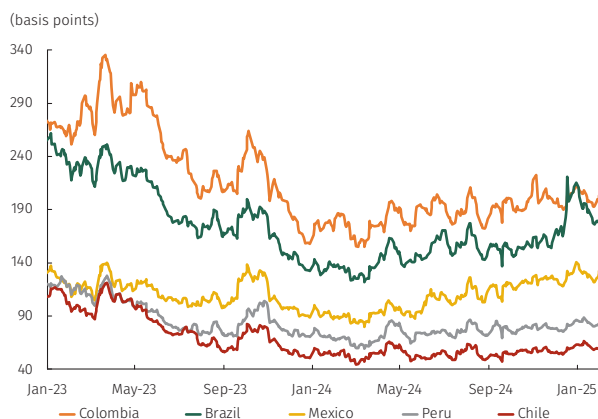
Source: Financial Superintendency of Colombia; calculations by Banco de la República.

Graph 4.16
Performance of the Foreign Exchange Market in the Region



Source: Bloomberg, Data License.

Graph 4.17
Risk Premium for Some Economies in the Region



Source: Bloomberg, Data License.

4.2 Local Financial Markets

4.2.1 Foreign Exchange Market

To maintain a low and stable inflation rate while also achieving the maximum sustainable output and employment levels, Banco de la República follows an inflation-targeting framework¹³ with a flexible exchange rate regime. Exchange rate flexibility is considered a key factor in achieving these objectives because: 1) in the event of external shocks, much of the adjustment is made by the exchange rate;¹⁴ 2) authorities in a small, open economy with a flexible exchange rate have greater autonomy in their monetary policy, which helps them achieve their inflation targets and react countercyclically to business cycles;¹⁵ 3) it reduces incentives for taking excessive exchange rate risk,¹⁶ and 4) the volatility inherent in floating rates fosters the development of the hedging market, which is crucial for maintaining financial stability and promoting market development.¹⁷

During 2024, the Colombian peso (COP) depreciated, in line with the performance of most of its regional and emerging market peers, mainly impacted by the appreciation of the US dollar and greater fiscal uncertainty (Graph 4.16). The COP depreciated by 15.4%, affected by an external context, a greater risk perception toward emerging economies (as reflected in the increase of most of its CDSs, Graph 4.17), the outlook for fiscal weakening due to low tax collection and higher spending pressures, and the volatility in oil prices. In 2025, the COP has partially reversed this trend; it has appreciated due to global factors and has also been influenced by specific factors, such as the performance of oil prices and the reaffirmation of the country's credit rating by S&P.¹⁸ Additionally, the

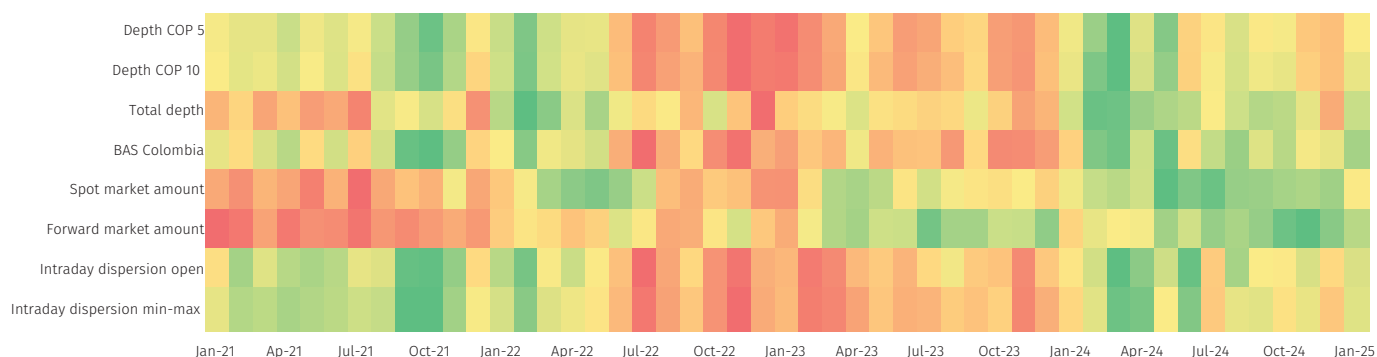
- 13 In this framework, monetary policy actions are aimed at ensuring that future inflation aligns with the target set in the policy horizon.
- 14 The interest rate is more stable in a flexible exchange rate regime than in a fixed exchange rate regime.
- 15 Conversely, when there is a fixed exchange rate against the currency of a developed country, monetary policy is subject to the decisions of the external monetary authority. Thus, if business cycles are not synchronized, the monetary actions of the developed country could have adverse effects on the output and employment of the emerging country.
- 16 Currency mismatches arise when an agent's income is in local currency, but part of their liabilities is in another currency without any hedging. Under a flexible regime, agents are encouraged to internalize and limit exposure to exchange rate risk. While Colombia has strong regulation on currency mismatches for financial intermediaries, exchange rate volatility creates incentives for real sector agents to take steps to mitigate their exposure to such risk.
- 17 The existence of these instruments allows agents to hedge exchange rate risk at competitive prices.
- 18 On 23 January 2025, S&P Global Ratings affirmed Colombia's long-term ('BB+') and short-term ('B') foreign currency sovereign ratings, while maintaining the negative outlook on the long-term rating. For S&P, the ratings were constrained by tight fiscal space and an increasingly weak external profile, with high external debt and volatile terms of trade.

appreciation has been supported by dollar supply flows from foreign investors, primarily from the forward market.¹⁹

In this context, there has been an improvement in liquidity conditions²⁰ in the foreign exchange market and a decrease in the average volatility of the currency during 2024 (Graph 4.18). The improvement in liquidity was reflected in a reduction in transaction costs (measured by the bid-ask spread) and an increase in the depth of the spot market compared to 2023. Additionally, the average daily trading volumes in the spot market²¹ and in the peso-dollar forward market²² increased compared to 2023. The higher trading volumes in the forward market may be linked to uncertainty regarding the peso performance in 2025, which has encouraged the search for foreign exchange hedging, particularly by foreign agents.

Graph 4.18
Monthly Foreign Exchange Market Measures Heatmap

(local market)

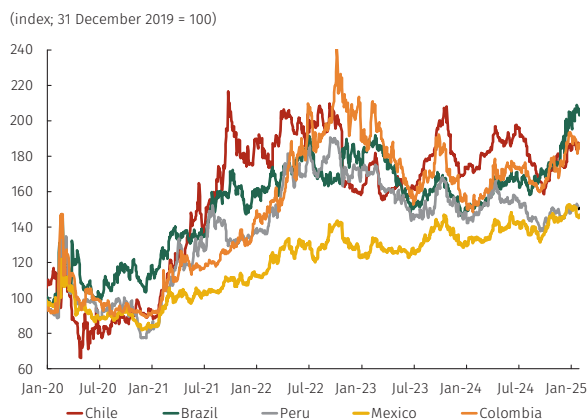


Note: Each box corresponds to the percentile of the monthly average liquidity measure, taking into account the time window from January 2019 to January 2025. A red (green) cell indicates a lower (higher) level of liquidity.

Sources: Bloomberg, Banco de la República. Information updated as of 27 January 2025. The information on traded amounts is as of 24 January.

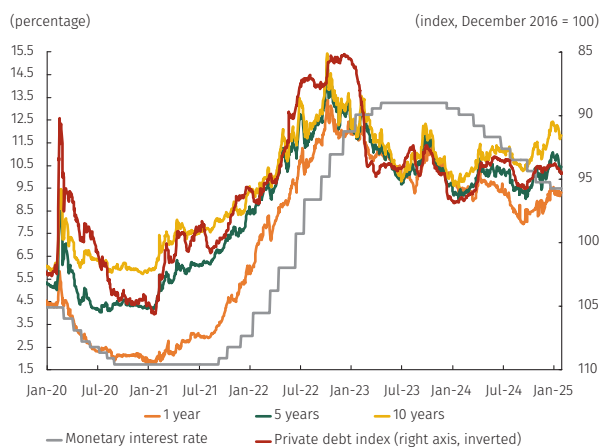
- 19 As of 23 January, foreigners have sold USD 2,330 million in the spot and forward peso-dollar markets. In the spot market, they have sold USD 911 m, while in the forward market, they have sold USD 1,418 million.
- 20 This is measured through the bid-ask spread (BAS) and market depth measures. The BAS is calculated as the average of the difference between the best bid price and the best ask price in the Set-FX spot session for each second between 8:30 a.m. and 1:00 p.m. each day, divided by the average Set-FX exchange rate of the day. An increase in this indicator reflects lower liquidity. On the other hand, depth measures correspond to the average sum of the amounts of the purchase and sales quotes of the peso/dollar, which are extracted from Set-FX every five minutes between 8:30 a.m. and 1:00 p.m. for the best quotes within a range of +/- \$5 and +/- \$10, and the total market. A decrease in this indicator reflects lower liquidity. In 2024, the average BAS was 0.047%, compared to 0.064% in 2023. Meanwhile, depth measures at \$5, \$10, and total averaged USD 8.8 million (m), USD 17.1 m, and USD 49.3 m, respectively, in 2024, compared to USD 6.1 m, USD 11.6 m, and USD 42.9 m, respectively, in 2023.
- 21 USD 1,717 m, versus USD 1,532 m recorded in 2023.
- 22 USD 3,704 m versus USD 3,577 m recorded in 2023.

Graph 4.19
Interest Rate Index in Some Economies in the Region



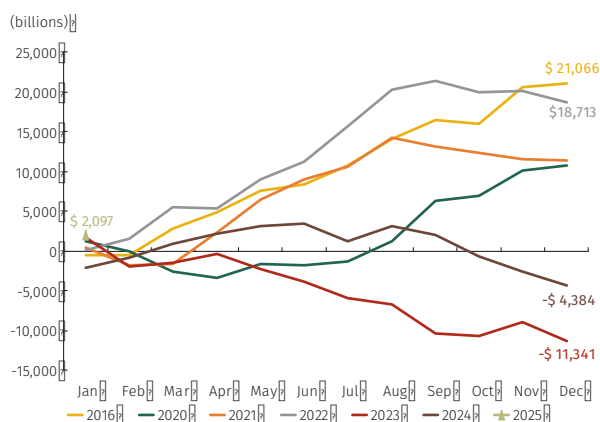
Sources: Bloomberg, Electronic Trading System (SEN in Spanish), and MasterTrader; calculations by Banco de la República.

Graph 4.20
Zero-Coupon TES Rates in Pesos by Term, Private Debt Index, and Monetary Policy Rate



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

Graph 4.21
Cumulative Net Purchases per Year by Foreign Investors in the TES Spot Market



Source: Central Securities Depository (DCV in Spanish); calculations by Banco de la República.

4.2.2 Debt and Stock Market

During 2024, local public debt securities experienced a greater depreciation than in several emerging countries, which was linked to increased fiscal uncertainty. During this period, ten-year local currency securities in Colombia depreciated by 250 bps, while depreciations averaged below 100 bps in other countries in the region and other emerging economies (Graph 4.19). In addition to the unfavorable international environment for fixed-income securities, the performance of Colombian securities was also explained by increased fiscal uncertainty due to low tax collection during the year, the projected increase in the fiscal deficit by the government, and greater future spending pressures from initiatives such as the reform to the General Participation System (GPS) (Graph 4.20).

Regarding the participants in the local public debt market, foreign investors²³ took a net selling position at the end of 2024, continuing the trend observed during 2023. This performance may have been related to the persistence of local uncertainty factors. Foreign investors closed 2024 with a net selling position of COP 4.4 t in peso- and UVR (Real Value Unit)-denominated TES (Graph 4.21). By investor type, mutual funds led the sales observed throughout the year, while monetary authorities led the outflows of foreign investors in the last quarter. In any case, a shift toward monetary authorities was observed during 2024.²⁴ Foreign investors have partially corrected this selling trend so far in 2025, with purchases totaling COP 1.3 t (Graph 4.22). This recent appetite has emerged after long-term securities reached their lowest prices in over a year in December.

Unlike the sales observed in 2023, the outflows of these agents during 2024 occurred in a context of depreciation of the peso and public debt securities.²⁵ As a result, foreign investors significantly reduced their participation in the public debt market. However, they remain the second largest holders of TES,²⁶ behind pension and severance funds (FPCs in

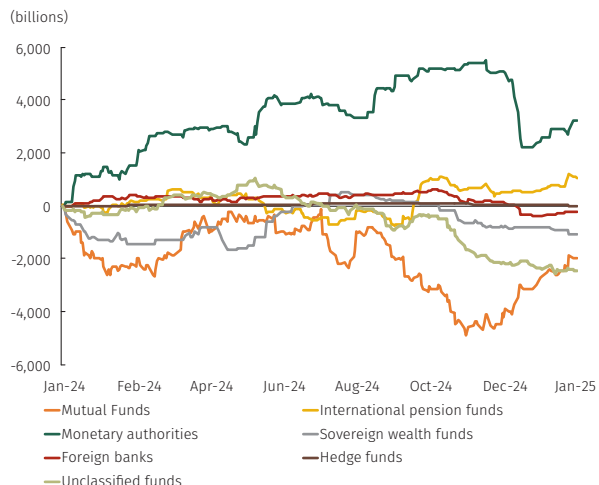
23 For more details on the performance of these agents in the Colombian public debt market, see <https://www.banrep.gov.co/es/publicaciones-investigaciones/reporte-mercados-financieros/recuadro-3-tercer-trimestre-2023>

24 The share of mutual funds in the total TES portfolio held by foreigners decreased from 43.3% to 41.9% between December 2023 and December 2024, while the share of monetary authorities increased from 12.5% to 15.2% over the same period.

25 During 2023, foreign investors sold COP 11.3 t in a context of peso appreciation and rising debt securities, which is why their TES balance in USD remained stable during that year.

26 The share of foreign investors in the total TES balance closed 2024 at 17.9%, the lowest level since March 2016.

Graph 4.22
Cumulative Net Purchases by Type of Foreign Investor in the TES Spot Market



Source: DCV; calculations by Banco de la República.

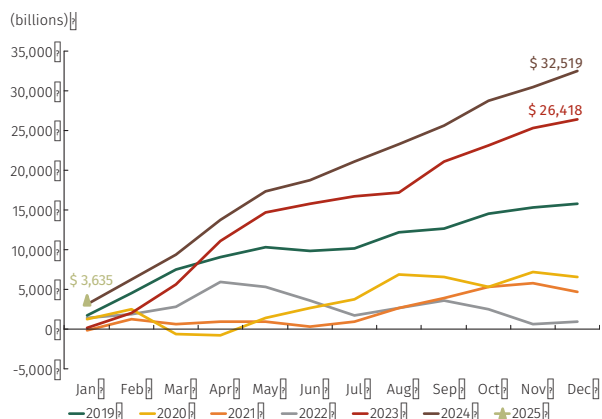
Spanish), and their exposure to TES rates, measured through the duration of their loan portfolio, remains high.²⁷

It is expected that foreign indexed investors²⁸ will reduce TES holdings during the first quarter of 2025 due to the increased share of India in a major benchmark index for investment in public debt of emerging economies, of which Colombia is part. This dynamic arises as these investors must adjust their portfolios by purchasing Indian sovereign debt securities and selling bonds issued by other emerging economies (including Colombia) that are part of the GBI-EM Global Diversified Index, to align with the new index weightings. India’s inclusion in this index has been gradual, with monthly increases of 1.0% in its share since June 2024.²⁹ This share is expected to peak at 10% by March 2025.

The participation of certain foreign investors in the local public debt market may be linked to the investment-grade status of Colombian debt. In this context, a potential downgrade in the sovereign rating could lead to portfolio investment outflows by foreign investors, since some maintain their presence in the market contingent on at least one credit rating agency granting such status to local public debt.³⁰

In turn, local pension funds (FPCs) continued to make significant purchases in the Colombian public debt market, reaching all-time highs in their position and remaining the primary buyers of Colombian public debt in 2024. These agents accumulated a TES buying position for COP 32.5 t in 2024, bringing their share of the total local currency public debt to 33% at the end of the year (Graph 4.23).

Graph 4.23
Cumulative Net Purchases per Year of Local Pension Funds in the TES Spot Market



Source: DCV; calculations by Banco de la República.

In 2024, private sector financing through the placement of corporate debt securities increased compared to 2023. This performance was mainly due to greater participation from the financial sector, which doubled its position in the market.

27 The duration of the total TES portfolio of foreign investors increased from 9.5 to 10.4 during 2024. These values are higher than the pre-2023 average of 7.0.

28 Indexed investors are those who base their investment decisions in the TES market on the performance of the yields of the GBI-EM global diversified index (an index constructed by JP Morgan from a basket of local currency public debt securities from a group of emerging countries), with some grade of freedom, depending on each agent.

29 This modification to the index would gradually reduce the weight of several countries, including Colombia. According to estimates reported by JP Morgan, the weight reduction will be around 17% for most current issuers between June 2024 and March 2025.

30 Currently, Colombia has a long-term foreign currency rating of BB+ from S&P and Fitch Ratings (speculative grade) and Baa2 from Moody’s (investment grade). Additionally, S&P assigns a BBB- rating to long-term local currency debt, which qualifies as investment grade. In this context, a downgrade by Moody’s or by S&P for local currency debt could lead to the outflows of foreign investors whose permanence in the market depends on at least one rating agency maintaining the investment grade for Colombian local currency debt securities.

Thus, loan placements through the Colombian Stock Exchange amounted to COP 4.8 t during the year, surpassing the levels recorded in the previous two years, although remaining at historically low levels.³¹ In particular, the increase was driven by a 171% rise in loan placements in the financial sector, compared to 2023.

The MSCI Colcap Index³² increased in 2024, outperforming the regional average³³ in an environment of improved liquidity conditions compared to 2023. However, liquidity remains at historically low levels compared to other countries in the region, such as Brazil and Mexico.³⁴ Throughout the year, most sectors within the index appreciated, with the mining sector showing the highest growth due to high prices of commodities such as gold. Additionally, several stocks benefited from the release of strong corporate results.³⁵ This occurred in an environment where liquidity increased throughout the year. So far in 2025, the index has continued to perform positively, outperforming its peers,³⁶ supported by the strength of various companies within the index, along with the improvement in Ecopetrol's economic outlook.

2025 is expected to be a challenging year for Colombian financial assets due to risks associated with an external environment with potentially tighter financial conditions and greater geopolitical tensions, as well as high uncertainty regarding the local fiscal situation. According to the IIF,³⁷ the Trump administration's policies, focused on trade protectionism, expansionary fiscal policy, deregulation, and immigration restrictions, could negatively impact currencies, interest rates, commodity prices, and investment flows into Latin America. Additionally, these measures could generate inflationary pressures that would hinder the Fed's monetary policy normalization and reduce the margin for rate cuts in the region, which is already affected by fiscal issues and their respective disinflation processes. Locally, the Independent Fiscal Rule Committee (CARF) recently commented on the country's fiscal outlook. Locally, according to the figures published by the government in the FP-25 update, the fiscal deficit in 2024 would have exceeded the Medium-Term Fiscal Framework projection by approximately COP 20.5 t. Recently, CARF commented on the country's fiscal outlook, noting that the government's cash position closed the year at historically low levels and that an additional fiscal adjustment of COP 46 t will be required to comply with the fiscal rule in 2025.³⁸

31 Between 2013 and 2023, the average amount placed in private debt securities in the Colombian Stock Exchange (BVC in Spanish) was COP 9 trillion.

32 It is an index calculated by the index provider MSCI and serves as the main benchmark of the Colombian stock market. It consists of the twenty most liquid issuers and twenty-three most liquid stocks in the market, weighted by market capitalization adjusted with no participation limit.

33 In 2024, the MSCI Colcap Index appreciated by 15.4%, while the main stock indexes of Mexico, Peru, Brazil, and Chile experienced an average depreciation of 1.3%.

34 In 2024, the average daily trading volume in stocks on Colombia's MSCI Colcap Index was USD 17 m, compared to USD 476 m in Mexico's S&P/BMV IPC and USD 3,068 m in Brazil's Bovespa.

35 Among these stocks, those from companies in the Grupo Empresarial Antioqueño stand out, particularly the stocks of Cementos Argos, which appreciated due to the Sprint 2.0 program that aimed at increasing the company's value, as well as the profits obtained from the takeover bid presented by Quikrete for Summit Materials. Additionally, Terpel and Promigas also benefited from strong corporate results.

36 So far in 2025, the MSCI Colcap Index appreciated by 10.3%, while the main stock indexes of Mexico, Peru, Brazil, and Chile experienced an average depreciation of 4.2%.

37 "Latam Exposure to a US Policy Shift," published on 26 November 2024.

38 <https://www.carf.gov.co/documents/d/guest/pronunciamento-no-15-vf->

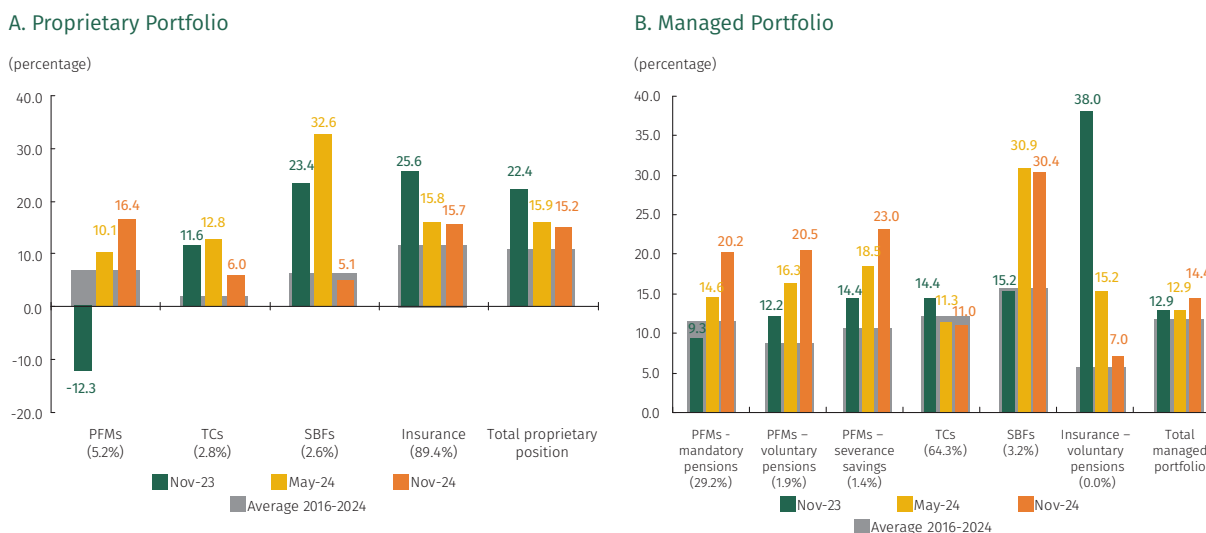
4.3 Market Risk Exposure of the Financial System and the Evolution of the Non-Bank Financial Institutions' Loan Portfolio

During 2024, non-bank financial institutions (NBFIs)³⁹ recorded nominal growth above their average of the past years, both in their proprietary position loan portfolios and managed loan portfolios, driving the dynamics of the financial system.

The loan portfolio in proprietary position, which amounts to COP 178.7 t, registered an annual growth of 15.2% in November 2024, a figure above the average of recent years (Graph 4.24, Panel A). This performance was mainly due to the strong performance of investments, which positively impacted the assets of the insurance sector and trust companies, collectively representing 92.2% of the sector's proprietary account assets. Regarding the loan portfolio managed by NBFIs, a similar trend is observed, with a real annual growth of 14.4%, also above its historical average, showing a balance of COP 1,640.9 t for November (Graph 4.24, Panel B). This dynamic was mainly influenced by the strong performance of the mandatory pension funds managed by Pension and Severance Fund Managers (PFMs) and the funds managed by Stock Brokerage Firms (SBFs), which represent 29.2% and 3.2% of the managed loan portfolio, respectively.

PFMs have consolidated as the largest holders of TES in Colombia, followed by foreign investors, who reduced their positions. Since December 2022, PFMs have been net buyers of TES, while foreign investors have exhibited a marked selling trend throughout most of the same period (Graph 4.25).

Graph 4.24
Nominal Annual Growth in the Assets of Non-Bank Financial Institutions

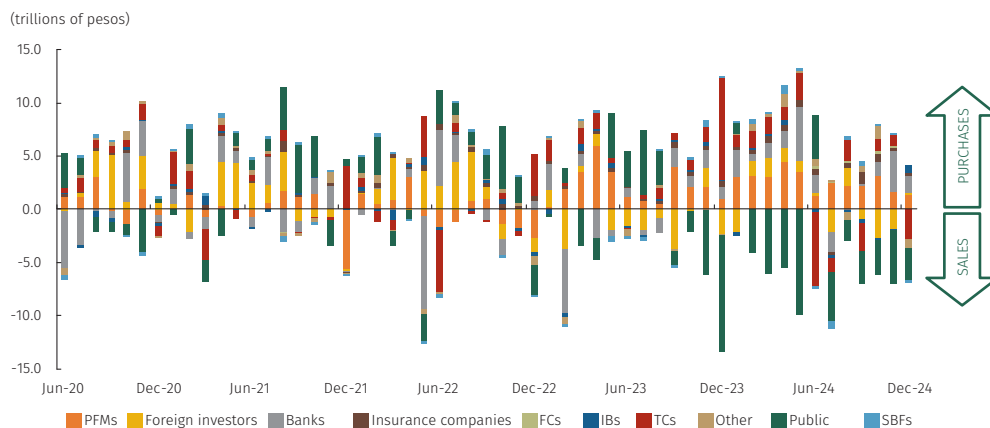


Note: The graph includes information from pension fund managers (PFMs), stock brokerage firms (SBFs), trust companies (TCs), and insurance companies (Insurers). The series are deflated using the CPI excluding food.
Source: Financial Superintendency of Colombia; calculations by Banco de la República.

During 2024, the largest buyers of TES were PFMs and banks, who accumulated purchases of COP 32.2 t and COP 18.3 t, respectively. In contrast, public entities and foreign investors were the largest sellers (COP 41 t and COP 4.4 t, respectively). This dynamic led to TES being concentrated mainly in PFMs, foreign investors, and

39 These include pension fund managers, insurance companies, trust companies, and stock brokerage firms.

Graph 4.25
Net Investment Flows in TES by Type of Investor



Note: Flows include issues and maturities, so they do not necessarily add up to zero.
Source: DCV; prepared by Banco de la República.

banks (31.4%, 17.6%, and 17.5% of the TES supply, respectively). Monitoring TES holdings by financial entities is relevant because a higher concentration in banks could imply a lower availability of resources for loan issuance in the future.

The larger TES holdings by PFMs and banks increased local investors' exposure to market risk. The pace of government debt issuance during 2024 was higher than in previous years and was mostly absorbed by local investors. This could represent risks, as changes in investment strategies of these holders could lead to abrupt price movements, and these entities might experience significant losses in the event of unfavorable market movements. Regarding interest rate risk to which loan portfolios are exposed, it is observed that the duration of the portfolios⁴⁰ of these entities, and of the financial system overall, has remained stable.

The interrelationship between NBFIs and CIs increased during 2024, potentially heightening the financial system's susceptibility to common shocks. A significant interconnection between NBFIs and CIs arises from the type of investments they hold in common.⁴¹ Exposure and concentration in the same types of assets could serve as a risk transmission channel between the two types of entities, for example, in the event of a liquidity shock that leads to an asset fire sale⁴² in a specific asset type common to both NBFIs and CIs. By December 2024, these common investments represented about 48% of the value of CIs' investments, with trust company-managed funds showing the highest figures. Over the last year (from December 2023 to December 2024), slight increases in this figure were observed for some types of NBFIs. Specifically, it is observed that TES from the same issuance

40 The loan portfolio duration represents the time it takes for an investor to recover their investment, considering coupon payments, the maturity of the security, and the rate at which it is traded. A longer duration is associated with greater sensitivity to changes in interest rates.

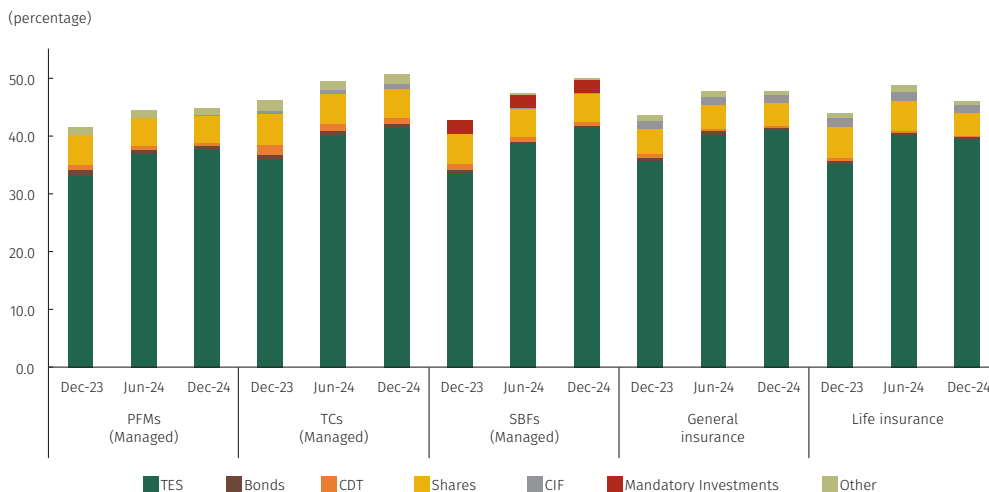
41 The term "common investments" refers to securities of the same type, from the same issuer, and with the same issue date (in the case of bonds), which at least one CI and at least one NBFI hold in their loan portfolio during the same period analyzed. For this identification, the loan portfolio managed by the SBFs, TCS, and PFMs, and the loan portfolio in proprietary position of insurance companies are considered.

42 An asset fire sale is a situation where assets traded in financial markets are sold at reduced prices due to a financial stress situation affecting those assets specifically or the market in general.

are the most common type of security simultaneously invested in by both CIs and NBFIs, followed by shares from the same issuer⁴³ (Graph 4.26).

During 2024, Open-End Collective Investment Funds (OECIFs)⁴⁴ increased their managed assets. Between January and December, their assets grew by COP 16.2 t (a 17.3% increase) to reach COP 110.3 t (Graph 4.27). This performance was driven by the dynamics of capital contributions, which, after deducting

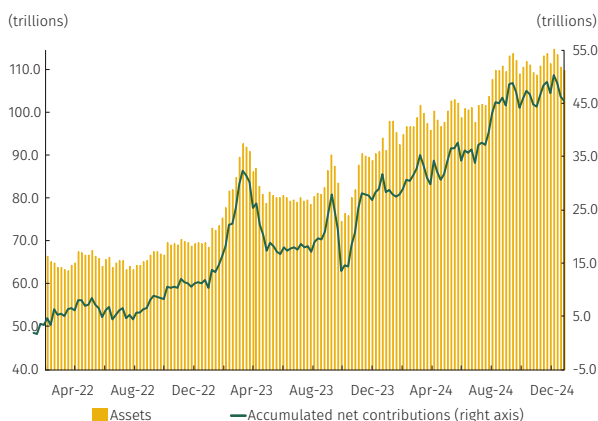
Graph 4.26
Weight of Common Holdings between CIs and NBFIs in the Investment Portfolio of CIs



Acronyms: Sovereign Debt Securities (TES); Certificates of Deposit (CDT); Collective Investment Funds (CIF).
 Note 1: The portfolio managed by SBFs, TCs, and PFMs, and the proprietary position portfolio of insurance companies are considered.
 Note 2: Common TES and bonds are those belonging to the same issue (same ISIN).
 Note 3: Mandatory investments in SBFs refer to mandatory investments for CIs that are in the managed portfolio of SBFs (in this case, it is a single SBF).
 Note 4: Although there are restrictions on investment in shares for CIs, both the Organic Statute of the Financial System and the Basic Legal Circular contain exceptions and rules for holding these assets for each type of CI. This is why CIs report shareholdings.
 Source: Financial Superintendency of Colombia; calculations by Banco de la República.

withdrawals, totaled COP 21.3 t in 2024. The above occurred in an environment of higher returns. The investment portfolio of these funds continued to concentrate on CDTs issued by CIs (49.8%) and funds deposited in demand accounts in these institutions (24.6%), highlighting the interconnection between OECIFs and CIs.

Graph 4.27
Assets and Accumulated Net Contributions of Open-End Collective Investment Funds

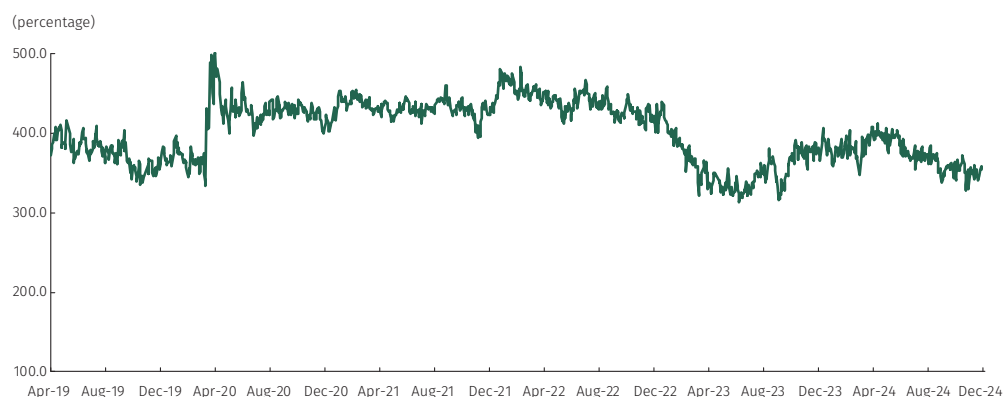


Note: Accumulated net contributions correspond to total contributions minus total withdrawals accumulated since January 2021.
 Source: Financial Superintendency of Colombia; calculations by Banco de la República.

- 43 While there are restrictions on equity investments for CIs, both the Organic Statute of the Financial System and the Basic Legal Circular contain exceptions and rules for holding such assets for each type of CI. As a result, CIs report shareholdings.
- 44 Collective investment funds (CIFs) are financial vehicles for savings and investment managed by specialized companies, where resources from multiple investors are invested in a portfolio of assets. Particularly, open-end CIFs (OECIFs) provide liquidity to investors, profitability, and stability to capital through investments in high-quality short-term securities. Due to their nature, they are subject to withdrawals, which in normal times are supported by resources in demand deposit accounts and the maturity of their securities. However, in the case of massive withdrawals by investors, the funds could resort to early liquidation of their securities, which would put additional pressure on their prices and market volatility.

The liquidity of OECIFs remained well above the regulatory minimum, although it slightly decreased from the second half of 2024. The liquidity risk indicator (LRI) remained above the regulatory limit of 100%, although it showed a downward trend since mid-year (Graph 4.28). This was explained by an increase in investments in U.S. Treasury securities, which, although highly liquid, are not included in the indicator calculation due to their maturity period.⁴⁵

Graph 4.28
LRI of Open-End Collective Investment Funds



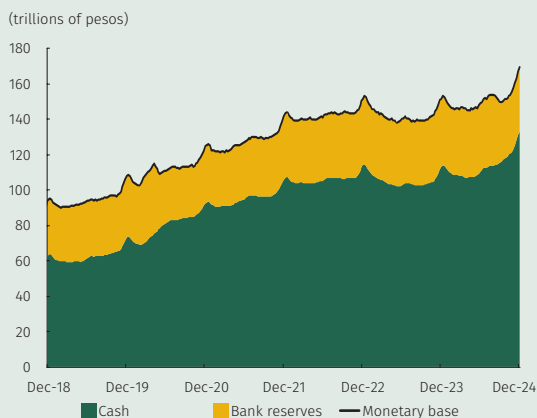
Source: Financial Superintendency of Colombia; calculations by Banco de la República.

⁴⁵ For more details on OECIFs, see section 2.1.3.1 of the *Financial Stability Report* for the second quarter of 2024.

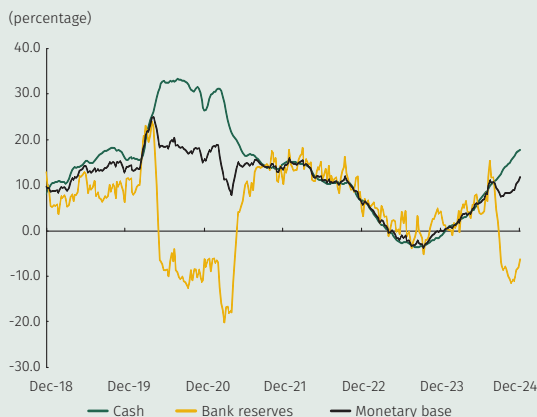
Shaded Section 1 Monetary Base and M3

Graph S1.1
Monetary Base, Cash, and Bank Reserves
(balance and annual percentage change, four-week moving average; data as of Friday)

A. Balance



B. Annual Percentage Change



Source: Banco de la República.

During 2024, there was a greater preference for liquid assets (such as cash and savings deposits) and short-term certificates of deposit (CDTs) over long-term CDTs and bonds. This occurred in an environment of declining interest rates, inflation, and inflation expectations, as well as increased economic activity compared to the previous year.

At the end of 2024, the monetary base (cash plus bank reserves) stood at COP 172,800 b, reflecting an increase of COP 18,022 b (11.6%) compared to the end of 2023. This was mainly explained by the increase in cash held by the public by COP 21,775 b (19.0%), partially offset by the decrease in bank reserves by COP 3,753 b (-9.4%), resulting from the reduction in the reserve requirement determined by the BDBR at its August meeting, which took effect in mid-September¹ (Graph S1.1) (see Box 2).

Throughout the year, the monetary base showed positive nominal annual growth, contrary to what was observed in the immediately previous year. The pace of increase was more pronounced in the second half of the year than in the first, as cash held by the public, the main component of the monetary base, significantly accelerated during that period.²

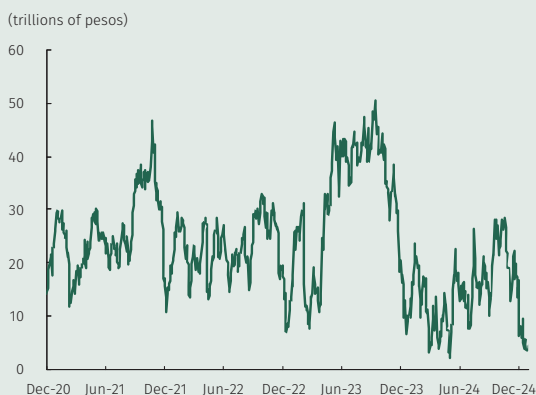
Banco de la República carried out the necessary operations to ensure the adequate supply of primary liquidity, aiming to prevent supply-demand imbalances in the monetary base from generating pressures in the money market.³ In the first half of the year, *Banrep* sold TES for COP 16,499 b to absorb liquidity, thus offsetting the effect of the atypically low balances maintained by the National Government at *Banco*

- 1 As of the two-week compliance period for reserve requirements that began on 11 September, the reduction of the requirement established by the Board of Directors on 30 August 2024 came into force (the reserve requirement for demand deposits was reduced from 8.0% to 7.0% and that of CDTs with a term of less than eighteen months from 3.5% to 2.5%) (see <https://www.banrep.gov.co/es/noticias/banco-republica-redujo-requerimiento-encaje-sobre-depositos-establecimientos-credito>).
- 2 On average, annual cash growth was 7.6% in nominal terms, 2.0% annual growth in the first half and 11.7% in the second half (vs. an average of -0.6% in 2023). The share of cash held by the public in the monetary base was 75% on average in 2024.
- 3 On average, the overnight benchmark banking indicator (BBI) was 0.2 basis points (bps) below the monetary policy rate.

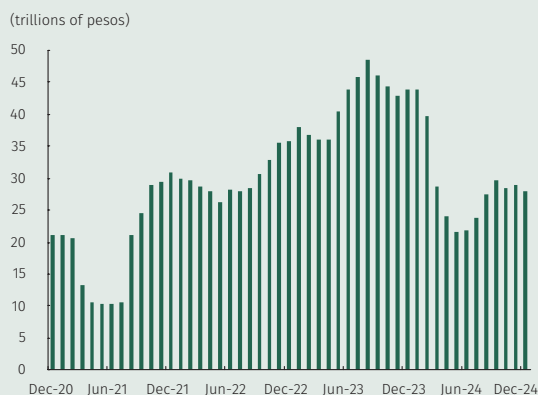
de la República,⁴ at a time when the demand for monetary base showed a moderate recovery. In the second half of the year, when the monetary base was more dynamic due to the cash performance, and the government's deposits at *Banrep* reached higher levels, *Banrep* purchased TES for COP 7,000 b (Graph S1.2). In determining these operations, *Banrep* considered the impact of the foreign reserves

Graph S1.2
Main Factors of the Monetary Base Supply

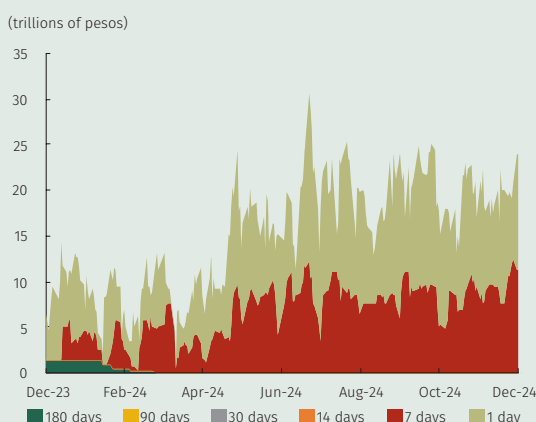
A. Government Deposits at *Banrep*^{1/}



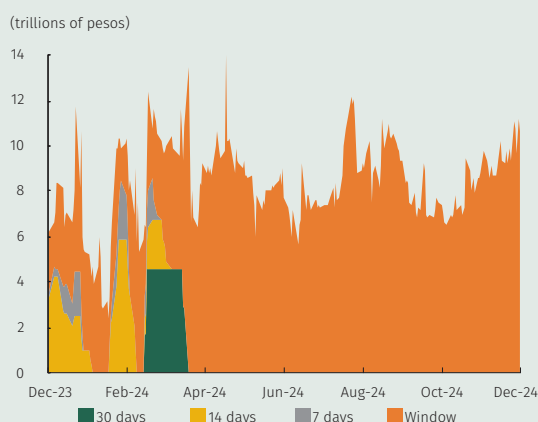
B. TES balance at *Banrep*



C. Expansionary Repo Balance^{2/}



D. Balance of interest-bearing deposits not constituting reserves requirements (DRNCE)^{2/}



1/ Government deposits at *Banrep* include interest-bearing and non-interest-bearing deposits.
2/ Includes auction, window, and repos for the normal operation of the payment system. Window transactions are overnight.
Source: Banco de la República.

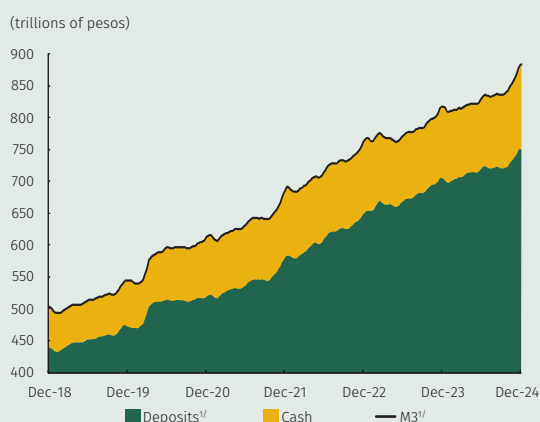
4 Government deposits typically reach a low at the end of each year. In 2024, during the first half of the year, a few days below the balance at the end of 2023 were observed, with an average balance of COP 12,189 b (vs. COP 25,416 b in the same period of 2023). This balance includes COP 4,312.6 b corresponding to the transfer made on 27 March of *Banrep*'s 2023 profits (the total amount of the transfer was COP 9,216.7 b, of which COP 4,904.1 b was delivered in TES, as requested by the Ministry of Finance and Public Credit, and the remainder as a credit to its account in pesos at *Banrep*).

accumulation program on the monetary base, carried out between January and October 2024⁵ and through which *Banrep* acquired USD 1,479.4 m (see Box 3).⁶

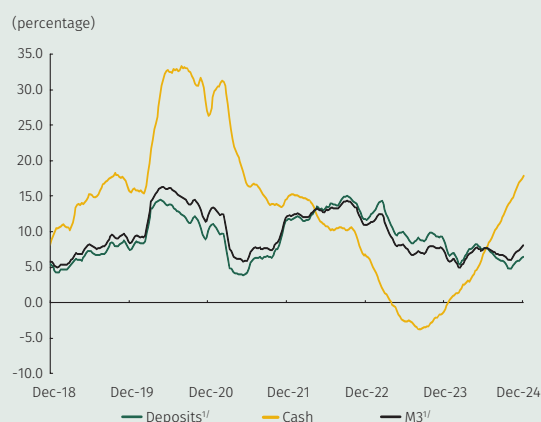
Finally, during 2024, *Banco de la República* offered expansionary repos with seven-day and overnight terms, as well as interest-bearing deposits not constituting reserves requirements (DRNCE in Spanish), the latter through the window, except during short periods in the first half of the year.⁷

Graph S1.3
M3 and Its Components
 (balance and annual percentage change, four-week average, data as of Friday)

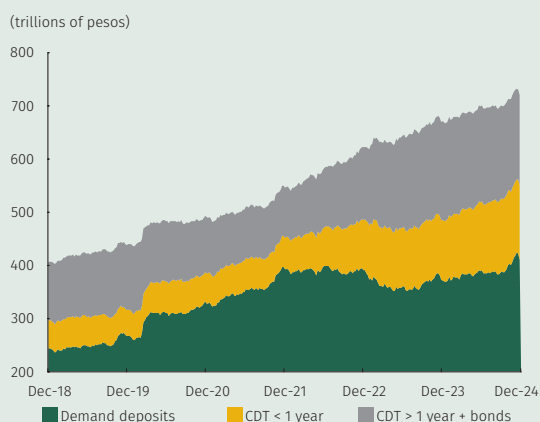
A. M3, Cash, and Deposits: Balances



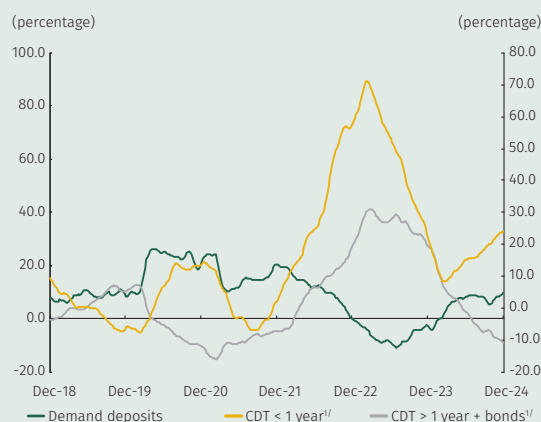
B. M3, Cash, and Deposits: Annual Percentage Change



C. Deposits by Term: Balance



D. Deposits by Term: Annual Percentage Change



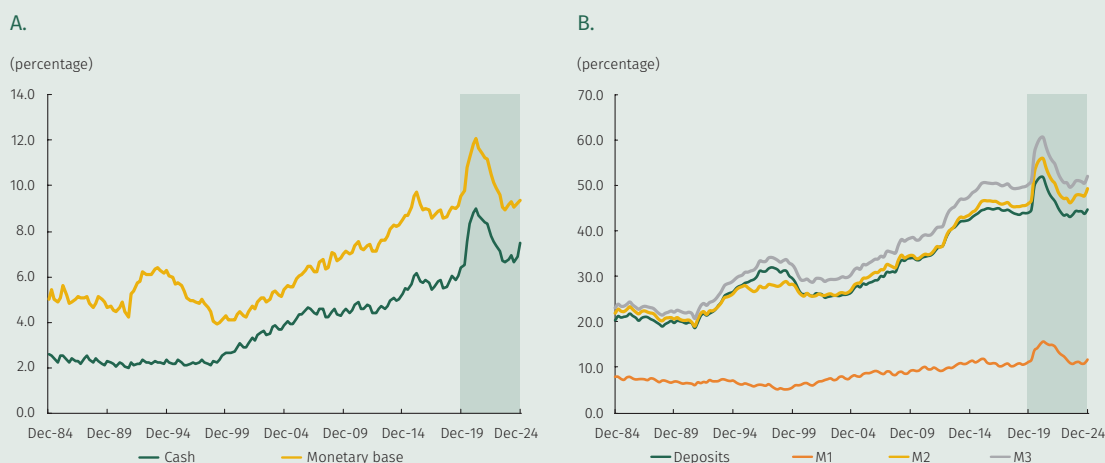
1/ CDTs and bonds held by Banco de la República are excluded.
 Source: Financial Superintendency (Form 281); calculations by Banco de la República.

- 5 See <https://www.banrep.gov.co/es/noticias/jdbr-decidio-iniciar-programa-acumulacion-reservas-internacionales>.
- 6 Payments in pesos for foreign currency acquired under the foreign reserves accumulation program amounted to COP 5,914 b (COP 3,217 b in the first half of the year and COP 2,697 b in the second half).
- 7 For 2024, the average balance of expansionary repos with public debt securities was COP 15,160 b (COP 10,470 b for the first half of the year and COP 19,771 b for the second half). The average balance of remunerated non-reserve deposits was COP 8,361 b. In the periods in which auctions of remunerated non-reserve deposits were held, no auction for repos with terms longer than overnight were announced.

On the other hand, M3 and deposits registered an average nominal annual variation of 6.7% and 6.6%, respectively (vs. 8.8% and 10.4% in 2023) (Graph S1.3). It is worth mentioning that the monetary aggregate M3 comprises cash held by the public and assets issued by credit institutions that serve as money, meaning they can be used to make payments in legal tender (such as checking accounts or savings accounts), or to save (store of value) in instruments that provide some level of certainty about their nominal value and that can be converted into liquid payment instruments (such as CDTs).⁸ During 2024, there was a greater preference for cash, demand deposits, and short-term CDTs, compared to long-term CDTs and bonds, whose balance decreased.⁹ This contrasts with what was observed in 2022 and 2023, when the balance of demand deposits, as well as cash, slowed down and even declined, while the balance of CDTs increased (Graphs S1.1 and S1.3). Regarding rates, the reduction was more pronounced for CDTs than for savings deposits.

Regarding GDP, the various monetary aggregates remained at levels similar to those recorded a year earlier (which, in turn, are close to those observed in 2019, before the pandemic). The exceptions were cash and the monetary base, which increased (Graph S1.4).

Graph S1.4
 Monetary Aggregates and Their Main
 Components as a Percentage of GDP^{a/}



a/ For the last quarter of 2024, nominal GDP corresponds to an estimate.
 Source: DANE, Financial Superintendency (Form 281); calculations by Banco de la República.

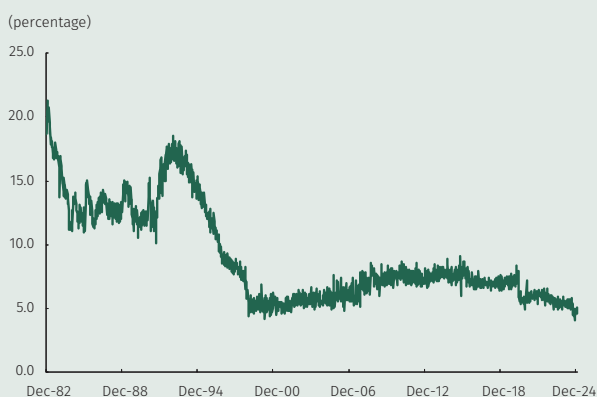
8 In particular, in Colombia, M1 includes cash held by the public and current accounts; M2 includes M1, savings accounts and CDTs; and M3 includes M2 plus bonds, trust deposits (collection services), and other demand deposits.

9 For the year 2024, the annual variation of demand deposits, on average, was 5.5% in nominal terms (vs. -6.2% in 2023), while the annual growth of short-term CDTs and long-term CDTs and bonds was 10.5% and 4.5%, respectively (vs 60.9% and 35.4% on average in 2023).

Box 2

Monetary Policy and Liquidity Risk Management: Analysis of the Reserve Requirement Reduction in 2024¹

Graph B2.1
Reserve Requirement to Deposit Ratio: Colombia, 1982-2024



Source: Banco de la República.

Reserve requirements are an economic policy instrument that has historically played an important role in the fulfillment of the central bank's mission worldwide. This requirement, set by the monetary authority of each country, mandates that banks and other credit institutions (CIs) to maintain a liquidity reserve in cash or in their accounts at the central bank. Accordingly, the reserve requirement ratio is the ratio of the reserve associated with this policy to the total public deposits. Graph B2.1 illustrates, for the Colombian case, the historical evolution of this reserve requirement to deposits ratio, showing a downward trend over the last decades.

In line with *Banco de la República's* Strategic Plan for the 2022-2025 period,² it was considered appropriate to review the role of the reserve requirement as a monetary policy tool. Based on this review, on 30 August 2024, the Board of Directors of *Banco de la República* (BDBR) decided to reduce the reserve requirement by one percentage point. Accordingly, the requirement was reduced from 8.0% to 7.0% for checking and savings accounts, and from 3.5% to 2.5% for term deposits (CDTs with maturities of less than eighteen months).

This box presents the main arguments that motivated the reduction in the reserve requirement, as well as a description of the effects this reduction has had on the liquidity of financial intermediaries and the proper functioning of the payment system. According to the data observed between September and December 2024, this change released about COP 6.1 trillion (t) in liquidity to the system, without affecting the short- or long-term liquidity of credit intermediaries. Likewise, the modification did not impact the settlement of payments in the Deposit Accounts System (CUD in Spanish) in which CIs participate.

1. Reserve Requirements as an Economic Policy Tool

Historically, the reserve requirement has been attributed with different functions that have evolved along with the development of the financial system and the design and implementation of monetary policy, based on its simplicity of application and close

1 This box is based on the blog "Encaje bancario y administración del riesgo de liquidez," which was published on *Banco de la República's* website on 18 October 2024. The text can be consulted at: <https://www.banrep.gov.co/es/blog/encaje-bancario-administracion-riesgo-liquidez>

2 *Banrep's* Strategic Plan defines the strategic objectives for the coming years, framed within *Banco de la República's* mission of contributing to the well-being of Colombians by preserving the purchasing power of the currency, supporting sustained economic growth and contributing to financial stability, the proper functioning of payment systems, the generation of knowledge, and the country's cultural activity.

relationship with credit activities. Specifically, this requirement has served three main functions.

The first has been to serve as a mechanism for mitigating the liquidity risk of financial intermediaries. Reserve resources, associated with the reserve requirement, have historically enabled CIs to cover depositors' withdrawals when their liquid resources have not been sufficient to meet their customers' liquidity needs. In this sense, reserve requirements have not only functioned as a buffer to mitigate situations such as the one described above, but also as a mechanism through which depositors trust that the resources in the central bank safeguard their assets.

The second function has been as a monetary policy tool. In the past, the main methods of monetary control by central banks were based on objectives directly related to the amount of money in the economy. In this scenario, reserve requirements play an important role, since they are directly related to the growth of money in the economy due to their close relationship with credit growth. In this sense, in inflationary situations, central banks increased reserve requirements to slow down credit growth and money circulation and reduced them in situations that required monetary stimulus in the economy.

Finally, reserve requirements have been used as a macroprudential tool in scenarios of credit market imbalances. Increases in the reserve requirement force credit intermediaries to have fewer funds available for lending, a situation that can prevent unsustainable credit growth that could lead to inflationary and negative real effects on the economy. On the contrary, the requirement can be reduced in cases of significant declines in the amounts disbursed by CIs, situations that can lead to recessions under certain conditions. For example, during the COVID-19 pandemic, a reduction in reserve requirements helped provide liquidity to the financial system to facilitate credit channeling to economic agents facing this unprecedented shock to the economy.

Despite its versatility and ease of implementation, advances in liquidity risk regulation and changes in monetary policy strategy have made reserve requirements less relevant, especially in the first two functions mentioned. Regarding its use as a liquidity risk mitigator, in recent years, the Financial Superintendency of Colombia, following the recommendations of the Basel Committee on Banking Supervision, has developed indicators that mitigate liquidity risk more effectively and efficiently than reserve requirements. The first of these, which focuses on short-term liquidity, is the Liquidity Risk Indicator (LRI), which is a ratio that relates CIs' high-quality liquid assets (such as cash and public debt securities) to their short-term liquidity requirements (such as maturities of their CDT issues, or accounts payable). The second indicator, which focuses on the structural funding of intermediaries, is the Net Stable Funding Ratio (NSFR), which complements the LRI by considering both the availability of liquidity and its requirements associated with all terms. Specifically, this ratio relates the available funding that each institution has (assigning a greater weight to instruments that ensure liquidity at longer terms) to the funding needs required by its assets, both to meet potential deposit withdrawals and to disburse new loans.

These indicators offer several advantages over reserve requirements. First, they have forward-looking considerations as they seek to anticipate future liquidity requirements at seven- and thirty-day terms, based on information from the institutions, as opposed to reserve requirements, which are based on the performance of deposits in the previous two weeks. In this sense, the LRI could anticipate sudden increases in depositors' liquidity needs, while the reserve requirement would not have this advantage. Secondly, they consider broader funding than the reserve requirement, which only covers deposits and liabilities, making them more precise. In particular, the LRI considers incoming contractual income flows, which, due to their liquid nature, can be used to cover potential funding pressures. Finally, these indicators have risk mitigation considerations in stress situations, by including adjustments related to market risk, exchange rate risk, and unanticipated outflows of depositors.

With respect to its second function, the reserve requirement has also lost relevance in the implementation of monetary policy. With the inflation targeting framework adopted

by *Banco de la República* to ensure price stability and adequate growth of the economy since 1999, the monetary policy instrument par excellence has become the benchmark interest rate (also known as the monetary policy interest rate), which led to the progressive abandonment of efforts to directly control monetary aggregates through reserve requirements. This dynamic has been implemented globally, leading countries such as Canada, the United Kingdom, and New Zealand to maintain zero reserve requirements.

In addition to the traditional functions of reserve requirements, bank reserves associated with reserve requirements continue to be important for the proper functioning of the economy's³ payment system. In particular, CIs use their reserve resources derived from the reserve requirement to meet their intraday liquidity needs in the market (e. g., to purchase TES or transfer tax collection to the national government), so any change in the requirement must take this factor into consideration to ensure the proper functioning of the payment system.

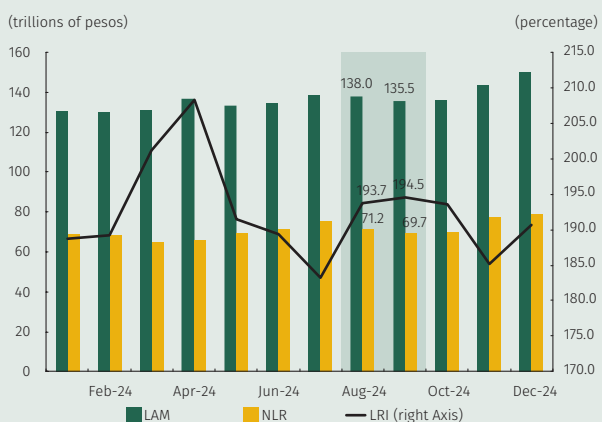
However, this remaining benefit of reserve requirements must be weighed against their costs. A high level of reserve requirements could represent a burden on financial intermediation. In particular, its use entails an "opportunity cost" for intermediaries, who could receive higher returns if they were able to invest those resources at market interest rates. CIs compensate for this cost through higher interest rates on loans and lower interest rates on deposits, which makes borrowing more expensive and reduces the return on savings for households and firms.

Considering the above, and in line with *Banco de la República's* Strategic Plan for the 2022-2025 period, it was found that the level of reserve requirements needed to ensure the proper functioning of the payment system was lower than the one in force in 2024. By reducing intermediation costs through a reduction of the reserve requirement, the process of financial deepening in the Colombian economy could be supported without compromising financial stability. In this direction, on 30 August 2024, the BDBR decided to reduce the reserve requirement by one percentage point: for checking and savings accounts, the reserve requirement was reduced from 8.0% to 7.0%, while for term deposits (CDTs with maturities of less than eighteen months), it was reduced from 3.5% to 2.5%. *Banco de la República* has continued to carry out its liquidity operations to ensure that the short-term market interest rate remains in line with the policy interest rate.

2. Effects on Liquidity and the Payment System

As described in the previous section, *Banco de la República* took into consideration the short-term liquidity of financial intermediaries and the adequate functioning of the large-value payment system when defining the reduction of the reserve requirement by one percentage point. In this sense, this section evaluates indica-

Graph B2.2
30-Day Liquidity Risk Indicator and Its Components



Note: LAM refers to liquid assets adjusted for market liquidity and exchange rate risk, and NLR refers to net liquidity requirements.
Source: Financial Superintendency of Colombia; calculations by *Banco de la República*.

3 The economy's payment system refers to the set of instruments, procedures, and rules that allow an economy to transfer funds between or through its participants, ensuring the circulation of money. The system includes the participating agent and the entity that operates the arrangements, in an institutional and operational framework within which payments are made, the operating procedures, and the communications network for transmitting payment information and effecting settlement.

tors that measure the stability of both factors, finding no impact on the stability of the local financial system after the August 2024 modification, which released an average of COP 6.1 trillion in liquidity between September and December of the same year.

First, in order to evaluate the short-term liquidity of CIs, Graph B2.2 shows the LRI and its components throughout 2024. As can be seen in the highlighted area, between August and September of the same year the indicator increased from 193.7% to 194.5%, remaining above the prudential requirement of 100% and showing an improvement in the institutions' ability to handle potential withdrawals by depositors. Although liquid assets were reduced due to lower reserve requirements, this effect was counteracted by institutions through lower net liquidity requirements from their customers. In addition, part of this reduction in liquid assets was offset by higher holdings of liquid investments. At the individual level, the reduction in reserve requirements did not result in significant movements in the liquidity indicators of any intermediary.

On the other hand, in line with expectations, the changes introduced in the required reserve had no significant impact on the liquidity of the local large-value payment system. In particular, different monitoring indicators based on the Basel Committee on Banking Supervision⁴ guidelines have shown that financial institutions did not change their payment patterns or liquidity preferences, adjusting satisfactorily to the regulatory change.

In line with these results, *Banco de la República* will continue to carry out its liquidity operations to ensure that the short-term market interest rate remains in line with the policy interest rate. Likewise, *Banrep* will continue to monitor market liquidity to guarantee the adequate functioning of the payment system and the financial stability of the Colombian economy.

⁴ For more information, see the liquidity monitoring metrics of the Basel regulatory framework available at <https://www.bis.org/baselframework/BaselFramework.pdf>, and the BIS working paper "Intraday liquidity around the world" available at <https://www.bis.org/publ/work1089.htm>.

05/ External Balance and Foreign Reserves

5.1 Developments and Outlook of Colombia's Balance of Payments

Between January and September 2024, the current account of the country's balance of payments recorded a deficit equivalent to 1.7% of GDP. This result was lower in US dollars compared to the previous year and decreased by 0.8 pp as a share of GDP (Table 5.1). This reduction was due to the decrease in the current account deficit in dollars, the appreciation of the peso against the dollar in the measurement of nominal GDP in dollars, and the growth of nominal GDP in pesos. The above occurred in the context of still-weak domestic demand, a reduction in international prices of certain goods and transportation costs, strong performance in service exports, and a significant increase in workers' remittances.

As of September 2024, the correction of the external imbalance was explained by improved dynamics across all components, except for the trade balance of goods, which saw an increased deficit. Between January and September 2024, the reduction in the current account deficit was explained by the rise in net income from current transfers, the reduction in the services trade deficit, and lower net outflows from the factor income item (Table 5.1). These results were partially offset by an expansion in the trade deficit in goods during the same period.

For the reference period, the largest net income from current transfers were mainly attributed to higher remittances received from abroad. These remittances primarily come from the United States and Spain, in an environment of lower unemployment in these countries and an increase in the migration flow of Colombians abroad. It is worth noting that income from workers' remittances reached a historically high level during 2024, totaling USD 11,848 million (m) by December, representing a 17.4% annual increase.

Lower net factor income outflows, as of September, were explained by the reduction in profits from Foreign Direct Investment (FDI) firms and the increase in income from Colombian investments abroad. The lower profits from FDI firms occurred in an environment of lower prices for some commodities, such as oil and coal, which was reflected in the poorer performance of mining-energy sector companies and, consequently, in a lower value of profits remitted abroad. Meanwhile, the increase in income from Colombian investments abroad originated from higher returns on foreign reserve assets and, to a lesser extent, from the rise in returns on portfolio investments, other financial investments, and higher income associated with Colombian direct investments abroad.

The previous results were partially offset by an increase in the trade deficit as of September 2024, which was the result of a higher deficit in the goods trade deficit that exceeded the reduction in the services trade deficit. For the reference period, the services trade balance reduced its deficit due to strong dynamics in services exports, especially in the travel sector, thanks to an increase in the number of international travelers who arrived in the country. The strong performance in services exports outweighed the rise in imports of such services, particularly in travel and freight transportation services. On the other hand, the trade deficit in goods as of September was higher than a year earlier, mainly due to a decrease in the value of exports during that period, which was particularly linked to lower coal prices and reduced re-export values, despite the positive dynamics of agricultural and

Table 5.1
Colombia's Balance of Payments

Current account (millions of dollars)	2023 (p) Jan-Sept	2024 (p) Jan-Sept	Variation (millions of dollars)
Current account (A + B + C)	-6,670	-5,325	1,345
Percentage of GDP	-2.5%	-1.7%	
A. Goods and services	-5,867	-6,748	-881
1. Goods	-4,970	-6,429	-1,460
FOB exports	39,506	37,866	-1,641
FOB imports	44,476	44,295	-181
2. Services	-898	-319	579
Exports	11,414	12,782	1,367
Imports	12,312	13,101	789
B. Factor Income	-10,291	-9,878	413
Income	6,696	7,383	687
Expenses	16,987	17,261	274
C. Current transfers	9,488	11,301	1,813
Income	10,571	12,566	1,996
Expenses	1,082	1,265	183
Financial Account Annual flows (millions of dollars)	2023 (p) Jan-Sept	2024 (p) Jan-Sept	Variation (millions of dollars)
Financial account with variation in foreign reserves (A + B + C + D)	-6,666	-3,519	3,146
Percentage of GDP	-2.5%	-1.1%	
A. Direct investment (ii-i)	-12,377	-6,906	5,471
i. Foreign direct investment in Colombia (FDI)	13,337	9,953	-3,384
Percentage of GDP (FDI)	5.0%	3.2%	
ii. Colombian investment abroad	960	3,047	2,087
B. Portfolio investment (1+2)	7,158	4,827	-2,332
1. Public sector (ii-i)	1,197	314	-883
i. Foreign portfolio investment (a + b)	-68	657	
a. International markets (bonds)	2,261	572	
b. Local market (TES)	-2,330	85	
ii. Portfolio investment abroad	1,129	971	
2. Private sector (ii-i)	5,962	4,513	-1,449
i. Foreign portfolio investment (a + b)	-913	356	
a. International markets (bonds)	-993	46	
b. Local market	80	310	
ii. Portfolio investment abroad	5,048	4,869	
C. Other public sector + private sector capital flows	-2,669	-4,351	-1,682
D. Reserve assets	1,222	2,911	1,689
Errors and omissions (E and O)	4	1,806	1,802
Memo item			
Financial account with no variation in foreign reserves	-7,888	-6,431	1,457
Variation in foreign reserves	1,222	2,911	

(p): provisional.
(pr): Preliminary.
Source: Banco de la República.

industrial exports. This reduction in goods exports was greater than the decline in imports recorded as of September. According to preliminary trade data from DANE, in 2024 total goods exports remained at very similar levels to the previous year, maintaining a positive trend in exports excluding oil and mining, while the latter continued to show annual declines. Meanwhile, imports would have shown a slight expansion for the year, which, along with the performance of exports, implies an increase in the goods trade imbalance for the entire year of 2024.

During the first nine months of 2024, FDI decreased compared to the same period of the previous year but continued to be the main source of external financing. In this period, the financial account recorded net capital inflows equivalent to 1.1% of GDP, lower than the 2.5% of GDP observed a year earlier (Table 5.1). Within these inflows, FDI stands out, which decreased from 5.0% of GDP in 2023 to 3.2% in 2024 (Table 5.1). This dynamic of FDI is primarily explained by reduced investments in mining, transportation and communications, and oil activities, which was partially offset by an increase in FDI in financial and business services.

The financing of the current account deficit was also supported by net income from foreign loans. These resources correspond to the difference between net disbursements received by the private sector and net amortizations made by the public sector. In the same period, foreign portfolio investments were received, resulting from long-term debt security placements in international markets and net purchases of financial instruments in the local market by non-residents. On the other hand, during the reference period there were capital outflows to constitute financial assets derived from outward direct investment, portfolio investments abroad, and net liquidations of other assets (Table 5.1). These transactions were primarily carried out by entities in the financial and real sectors.

For the full year of 2024, it is projected that the current account deficit was close to 1.8% of GDP, in a context of moderate economic growth, gradual recovery of domestic demand, and higher revenues from tourism and remittances. The annual reduction in the deficit would have been mainly explained by a higher surplus in current transfers, particularly the 17% growth in income from workers' remittances. Additionally, smaller deficits in services and factor income would have been observed, according to higher services exports in tourism and lower profits remitted abroad by mining and oil companies with FDI. In contrast, the expansion of the deficit in the goods account would have limited a greater correction of the external imbalance. This is linked to lower international prices for traditional export products such as oil and coal, as well as an increase in imported products.

Despite its annual reduction, FDI remained the main source of financing in 2024, followed by resources received by the public sector. During 2024, FDI would have contracted by 37%, driven by lower resources allocated to the oil and mining sectors (-54% compared to 2023). Despite this decline, FDI would have remained the largest source of external income, with gross capital inflows from this source reaching 190% of the current account deficit.

For 2025, the technical staff projects an expansion of the current account deficit to 2.5% of GDP, in line with expected higher economic growth and better performance of domestic demand. This outcome would be explained by a higher trade deficit in goods, linked to lower exports in a context of moderated international prices for coal and oil, as well as increased imports driven by the rebound in economic activity. In contrast, smaller deficits in services and factor income and a higher surplus in current transfers are expected, given the continued dynamism in

the tourism sector, lower profits remitted abroad, and high remittance flows from workers, factors that would limit a greater expansion of the current account deficit.

In 2025, the country would maintain access to external financing in an environment of U.S. interest rates remaining above pre-pandemic levels, and Colombia's risk premium continuing to be above its historical average. FDI would remain the main source of financing, particularly in economic sectors other than oil and mining, which would receive greater resources from abroad, in line with a more dynamic domestic demand. The public sector would also contribute to financing the projected current account deficit for the year.

From the perspective of savings and investment aggregates, the level of the current account deficit expected by the technical staff is consistent with a reduction in the external imbalance by 2024 and an expansion by 2025. Specifically, it is expected that the private sector will reduce its surplus in 2025 in line with lower savings and increased investment. On the other hand, the public sector would remain in deficit in 2024 and 2025, although it would see a marginal improvement in its savings level for this year, in line with the government's projection for the reduction in the fiscal deficit of the Central National Government.

5.2 Foreign Reserves

In compliance with Law 31 of 1992, Banco de la República manages foreign reserves in accordance with the public interest, benefiting the national economy and facilitating the country's payments abroad. Consequently, the law defines that the investment of reserve assets shall adhere to the criteria of security, liquidity, and profitability. The security criterion under which foreign reserves are managed in Colombia involves adequately controlling the risks associated with these investments. To manage these risks within acceptable parameters and levels, *Banco de la República's* Foreign Reserves Committee¹ sets limits for exposures to the various risks faced by the reserves. To meet the liquidity criterion, *Banrep* invests foreign reserves in financial assets that are easy to buy or sell, if necessary, or in assets maturing in the coming months. It defines investment tranches based on liquidity and profitability objectives. Once the criteria for low-risk investment of the foreign reserves are defined, the management policy seeks to ensure adequate profitability, as this is part of the mandate given by law to *Banco de la República*. An annex to the report explains the policies guiding reserve investment and some relevant definitions.

The main objective of foreign reserves is to protect the country from external shocks that may affect both trade and financial flows and, depending on their size, could jeopardize macroeconomic stability. For example, trade flows may be affected by a drastic reduction in exports or an unusual increase in imports that tightens the country's external liquidity. Similarly, financial flows could be impacted by difficulties in accessing external financing, such as reduced access to international credit or higher capital outflows from both foreign investors and residents. Foreign reserves are also a key factor in the perceived repayment capacity of domestic borrowers, as credit rating agencies and external lenders consider that an adequate level of reserves would enable residents to meet foreign currency obligations, such as paying for imports or servicing external debt, when the country faces difficulties accessing external financing. Thus, an adequate level

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

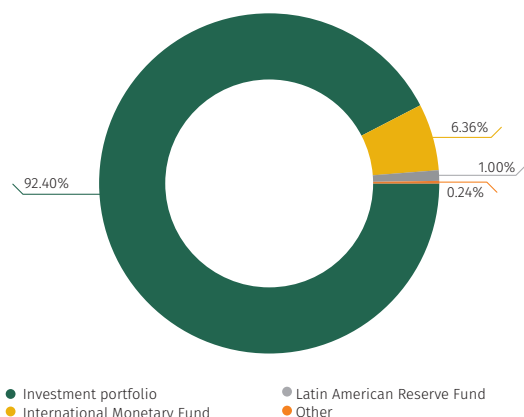
of reserves helps improve the country's and its residents' risk perception, facilitating access to international capital markets for both the government and the private sector.

Banco de la República maintains external liquidity buffers in amounts deemed sufficient to meet the objective mentioned above. In this regard, it is recognized that maintaining an adequate level of foreign currency liquidity is crucial for preventing and dealing with external shocks, considering various international metrics. For example, it is desirable that the level of external liquidity managed by *Banco de la República* exceeds the sum of the current account deficit and projected external debt payments.

In 2024, there was an increase in the level of foreign reserves. This increase was mainly due to the positive returns generated during the year and the gradual foreign reserves accumulation program implemented by Banco de la República. By 31 December 2024, net foreign reserves² totaled USD 62,481 m, which represents an increase of USD 2,873 m compared to the previous year. The return on foreign reserves in 2024, excluding the foreign exchange component, stood at 3.65% (USD 2,230 m), which was one of the main factors contributing to the increase in reserves. This result was mainly driven by higher interest rates, which had a positive impact on the return on foreign reserves through increased interest income. Additionally, the foreign reserves accumulation program announced by the BDBR in December 2023, which by December 2024 had accumulated USD 1,479.4 m in reserves, contributed to the rise in reserves during the year. This increase was partially offset by the depreciation of other reserve currencies against the US dollar, resulting in a negative exchange rate effect of USD 759.55 m.

The main component of foreign reserves is the investment portfolio. This consists of investments in financial instruments on the international market and certified physical gold (91.78% and 0.628% of reserves, respectively). Graph 5.1 shows the composition of foreign reserves as of the end of the second half of 2024.

Graph 5.1
Composition of Foreign Reserves
(as of 31 December 2024)



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

5.2.1 Reserve Indicators

Between January and October 2024, Banco de la República accumulated USD 1,479 m through its foreign reserves accumulation program. This represented 98.6% of the total amount announced by the BDBR in December 2023 (USD 1,500 m). The program was concluded in October 2024 after ten auc-

2 Net foreign reserves are equal to the total foreign reserves, or gross reserves, minus the short-term external liabilities of Banco de la República. These liabilities consist of demand liabilities in foreign currency with non-resident agents. Gross foreign reserves amounted to USD 62,510 m, and short-term external liabilities totaled USD 28 m.

tions, which experienced oversubscription from participating agents (see Box 3).

In line with the accumulation of foreign reserves and the higher returns obtained in 2024, stability was observed in the various metrics of reserve adequacy. This shows that Colombia maintains an adequate level of reserves without exceeding what is necessary to meet the country's external needs in the face of extreme external scenarios. One widely used international indicator to measure the adequacy of foreign reserves is the one proposed by the IMF's Assessing Reserve Adequacy (ARA) methodology. This metric establishes that reserves should cover the main risks to the balance of payments during periods of market pressure. According to the IMF, this indicator aims to cover risks associated with the loss of access to external financing, loss of confidence in the local currency, capital flow reversals, and potential contraction in external demand.³ An economy is considered to have adequate reserve levels if the Reserve Adequacy Ratio (ARA) is between 1.0 and 1.5. Based on the most recent available data, by December 2024, the Reserve Adequacy Ratio (ARA) for Colombia was 1.29.

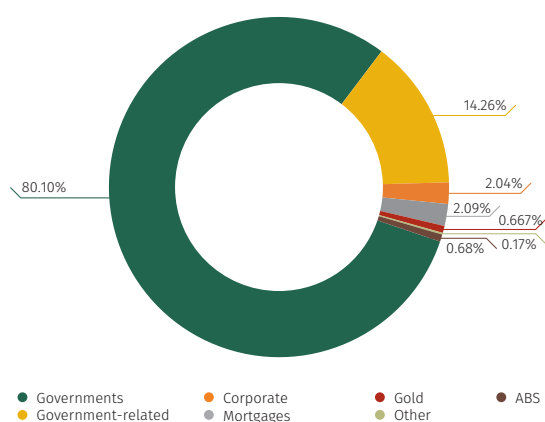
5.2.2 Composition of the Investment Portfolio

The investment portfolio is primarily composed of securities issued by governments and government-related entities. As shown in Graph 5.2, as of 31 December 2024, approximately 94.36% of the portfolio was invested in securities issued by such entities.

The portfolio composition by credit rating reflects the high credit quality of the assets in which the portfolio is invested. Graph 5.3 shows that 21.66% of the portfolio was invested in AAA-rated instruments, and 74.51% in AA-rated instruments. *Banrep* uses the lowest investment-grade rating assigned by at least two of the three major credit rating agencies (S&P, Moody's, and Fitch Ratings). In addition to credit ratings, *Banrep* incorporates the monitoring of environmental, social, and governance (ESG) risk factors into its foreign reserves risk management process.

The investment portfolio consists of currencies characterized by high daily trading volumes and are from countries with high credit ratings. Graph 5.4 shows the currency composition of the investment portfolio as of 31 December 2024. Given that one of the objectives of foreign reserves is to meet the country's external payments during periods of reduced external financing sources, the currency composition of Colombia's foreign reserves aims to replicate the performance of the country's balance of payments outflows. In this way, the

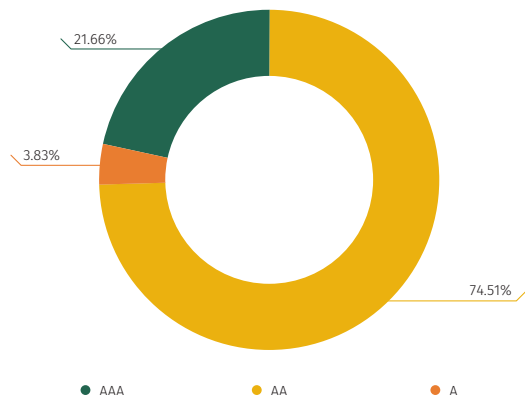
Graph 5.2
Composition of the Investment Portfolio
by Sector (as of 31 December 2024)



Source: Banco de la República.

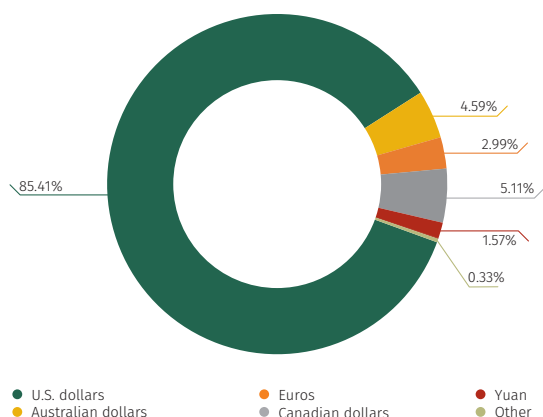
3 IMF (2015). "Assessing Reserve Adequacy: Specific Proposals."

Graph 5.3
Distribution of Investments by Credit Rating
(as of 31 December 2024)



Source: Banco de la República.

Graph 5.4
Currency Composition of the Investment Portfolio
(as of 31 December 2024)



Source: Banco de la República.

Graph 5.5
Duration of the Investment Portfolio
(as of 31 December 2024)



Source: Banco de la República.

reserves seek to cover the volatility of the country’s external payments arising from exchange rate movements. The US dollar has the largest share of Colombia’s foreign reserves, as most of the country’s trade and financial transactions with the rest of the world are conducted in this currency. Investments are also allowed in the following currencies: Canadian dollar, Australian dollar, New Zealand dollar, Swedish krona, pound sterling, Swiss franc, euro, yuan, yen, Norwegian krone, renminbi, Hong Kong dollar, Singapore dollar, and South Korean won.

In 2024, Banco de la República increased the duration⁴ of the investment portfolio, which allowed for a portfolio with a higher expected return relative to the risk assumed. Graph 5.5 shows the evolution of the portfolio duration. As of 31 December 2024, the investment portfolio duration was 3.06, meaning that the portfolio’s value could increase (or decrease) by 3.06% in response to a 1.0% decrease (or increase) in the interest rates of all the portfolio’s bonds.

5.2.3 Return on Reserves

The return on foreign reserves mainly depends on two factors: interest and capital appreciation. The first factor refers to the interest income from the instruments in which the reserves are invested, while the second factor refers to changes in the prices of securities due to movements in interest rates. This second factor arises from the inverse relationship between bond prices and interest rates—when interest rates increase, bond prices decrease, and vice versa.

As of 31 December 2024, foreign reserves showed a positive return, primarily driven by interest income from the investment portfolio (interest factor) and, to a lesser extent, by the appreciation of the portfolio due to the decrease in short-term interest rates (capital appreciation factor). Foreign reserves generated a return of 3.65%⁵ during 2024. Interest rates in the main markets where foreign reserves are invested remained relatively high compared to historical levels, which led to a positive return due to the interest factor throughout the year. Additionally, due to monetary policy decisions by most central banks in developed economies, short-term interest rates on government bond curves decreased, resulting in an appreciation of shorter-term investments (capital appreciation factor).

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

5 This rate of return is obtained by dividing the observed return in USD by the average value of net reserves on 31 December 2023 and 31 December 2024. Since 2015, the impact of exchange rate fluctuations on the return on foreign reserves has been excluded.

The outlook for the return on foreign reserves in 2025 remains favorable for both interest income and investment appreciation. Based on the information implied in the yield curves of the main markets where foreign reserves are invested, sovereign debt interest rates are expected to remain relatively high compared to their historical levels. This suggests that interest accrual will continue to be the main driver of return on foreign reserves. Additionally, as global inflation levels continue to decline, interest rates on sovereign debt securities are expected to further decrease, leading to additional appreciation of investments.

5.2.4 Measures to Strengthen International Liquidity

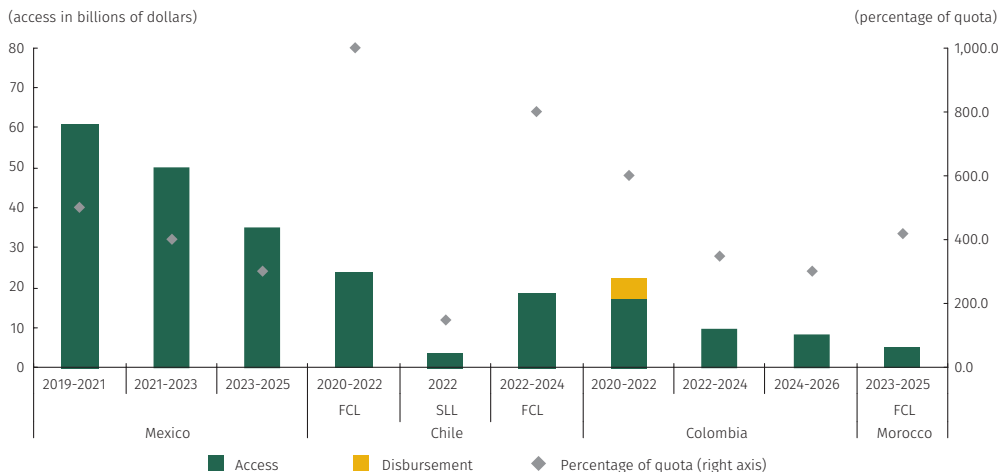
In April 2024, the IMF approved a new two-year flexible credit line (FCL) agreement for Colombia for USD 8,100 m, equivalent to 300% of the country's quota at the Fund. This agreement replaced the previous one, approved in 2022, and is considered by the Colombian authorities as a precautionary instrument to face external risks.

The FCL is an instrument created by the IMF available exclusively for eventual use by countries with strong economic fundamentals and sound institutional frameworks for economic policy. In order for a member country to access this instrument, it must meet the following criteria, which are considered when determining whether it has sound economic and policy fundamentals: 1) a sustainable external position, 2) a capital account that must be mostly financed by private flows, 3) a consistent track record of access to capital markets with favorable terms, 4) an adequate position of foreign reserves, 5) sound public finances, including a sustainable public debt position, 6) low and stable inflation within a robust monetary and exchange rate policy framework, 7) a sound financial system without solvency problems that could pose a risk to systemic stability, 8) effective supervision of the financial sector, and 9) data integrity and transparency. The main objective of the instrument is to provide immediate financing to beneficiary countries in the face of a scenario of extreme external risks. Currently, four countries have access to the FCL: Colombia, Mexico, Chile, and Morocco (Graph 5.6).

This facility complements the country's availability of external liquidity, serves as insurance against external risks, and maintains confidence in the Colombian economy. All of the above facilitates Colombia's access to international financial markets under favorable conditions. Since 2009, the country has benefited from successive renewals of the instrument (with modifications in access depending on external conditions) thanks to its solid institutional framework for macroeconomic policy and prudent management of the economy. The agreement signed in 2024 reflects the authorities' commitment to maintain strong economic fundamentals and sound institutional frameworks for economic policy, with a gradual strategy of reducing access as external risks recede.

On the other hand, Banco de la República also has access to the Federal Reserve's repo facility (FIMA), which is an instrument that facilitates access to immediate liquidity if required under extreme circumstances. In these transactions, FIMA account holders (central banks and other international monetary authorities with accounts at the Federal Reserve Bank of New York) exchange their US Treasury bonds held at the Federal Reserve for US dollars, with a commitment to repurchase the securities the next day, together with interest. The main benefit for *Banrep* in accessing the FIMA facility is to be able to have liquidity in US dollars without having to permanently sell the assets from the foreign reserves portfolios, which mitigates liquidity and market risk. *Banrep* would use this facility only if, having

Graph 5.6
Recent FCL Agreements



Sources: IMF and Banco de la República.

decided to sell dollars on the spot market, the market for purchase and sale of Treasury securities presented very low liquidity at that time.

Finally, Banco de la República has access to liquidity facilities from the Bank for International Settlements (BIS), which complement the availability of external liquidity from foreign reserves. Under these facilities, central banks' investments with the BIS serve as a collateral for liquidity provision by the BIS. In this sense, *Banrep* could access contingent and immediate liquidity without having to sell assets from foreign reserves portfolios invested in BIS instruments, which could be particularly useful in extreme circumstances of low liquidity in global fixed-income markets or episodes of high-risk aversion. Particularly, in the first half of 2024, the BIS renewed these facilities for *Banrep* for a total amount of USD 1,600 m, which would only be used exceptionally in extreme market situations.⁶ In this sense, *Banrep* considers these facilities as precautionary lines that complement the availability of external liquidity for foreign reserves.

6 That entity reserves the right to approve or deny requests to access the instrument and to disburse the facility. The BIS reviews each central bank's request for access to the line and the possibility of requesting its disbursement.

Shaded Section 2

***Banco de la República's* Participation in the Bank for International Settlements**

In compliance with Law 1484 of 12 December 2011, which authorized the incorporation of *Banco de la República* as a shareholder in the Bank for International Settlements (BIS),¹ this shaded section presents a report on the most relevant activities carried out with this institution during the past few months. In accordance with the authorization granted, *Banrep* subscribed 3,000 shares of the BIS valued at 65,712,000 Special Drawing Rights (SDRs), equivalent to USD 100,978,710, which are recorded at their acquisition cost in SDRs under the items of contributions to international organizations and entities.

In recent months, the directors of *Banco de la República* have actively participated in the regular meetings held by the institution, where recent events and the outlook for the global economy and financial markets are reviewed. The most recent discussions at the BIS member country governors' meetings have focused on various topics, such as the evolution of global growth and inflation dynamics, fiscal risks for the region, the strength of monetary policy transmission in emerging economies, productivity growth, the review of monetary policy frameworks, the surge in services trade, and the implications of climate shocks on the economy.

As part of the activities coordinated by the BIS Consultative Council for the Americas (CCA), *Banrep* actively participates in research projects, working groups, and conferences in various areas of central banking. In December 2024, *Banco de la República* hosted the BIS Scientific Committee's Annual Research Conference, which focused on the macro-financial implications of climate change and environmental degradation. Additionally, in February 2025, the High-Level Chapultepec Conference was held, in which the Governor of *Banco de la República* participated. The topics discussed at the conference focused on the evolution of global financial conditions, the role of cryptocurrencies and central bank digital currencies, economic lessons from the pandemic crisis, and future challenges for monetary policy in the Americas.

Within the BIS advisory groups that conduct research and analysis in areas such as financial stability and banking operations, which *Banco de la República* is part of, the publication in December 2024 of the report *A Proposal for a Retail Central Bank Digital Currency (CBDC) Architecture*² by the Consultative Group on Innovation and the Digital Economy (CGIDE) stands out.

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

2 The report is available at: <https://www.bis.org/publ/othp89.htm>

Lastly, *Banrep's* representatives had the opportunity to attend the annual meeting of deputy governors of central banks of emerging BIS member countries, which focused on capital market development, the role of governments in credit allocation, recent changes in financial systems, and adaptation to new technologies. They also attended the fourth edition of the BIS Innovation Summit, which focused on issues related to technological innovation in payment systems, crypto assets monitoring, tokenization, and artificial intelligence in central banks. Finally, they also participated in the fourth edition of the Green Swan Conference, which focused on the impact of climate change on the real economy, with special emphasis on monetary policy.

Box 3

Completion of the Foreign Reserves Accumulation Program Announced in 2023

At the 19 December 2023 meeting, the Board of Directors of *Banco de la República* (BDBR) announced the decision to gradually accumulate up to USD 1,500 million (m) in foreign reserves (FRs). The purpose of this measure was to strengthen Colombia's external liquidity, consolidate the positive perception of the country's macroeconomic stability, and facilitate access to external financing in an environment characterized by both local and international macroeconomic and financial uncertainty. The decision also responded to the commitment to gradually reduce the amount of access to the Flexible Credit Line (FCL) with the International Monetary Fund (IMF), which decreased in 2024,¹ with a new reduction anticipated in 2026.

In October 2024, the completion of the FRs accumulation process was announced after *Banco de la República* (*Banrep*) acquired reserves for USD 1,479.4 m, which represented 98.6% of the total amount of the announced program (USD 1,500 m) and 75% of the total amount auctioned (USD 1,962.7 m). As a result of this accumulation and the yields obtained, the FRs increased by USD 2,873 m, reaching USD 62,481 m by December 2024.

The results indicate that the program fully achieved its objective. The accumulation of FRs and their returns allowed the metrics used to evaluate the adequate level of FRs to align with or even exceed the levels observed in December 2023. The indicators confirm that the achieved level of FRs is adequate, without exceeding what is necessary to meet the country's external needs. Additionally, this accumulation offset the reduction in access to the IMF's FCL. In the current global environment, characterized by high uncertainty, the need to maintain an adequate level of FRs to meet the country's external needs and provide solid support in the face of potential external shocks is highlighted.

1. Characteristics of the FRs Accumulation Auctions

***Banrep's* intervention in the foreign exchange market was not intended to influence either the level or volatility of the exchange rate, nor to modify the monetary policy² stance.** During the period in which the FRs accumulation program was executed, no evidence was identified suggesting that its implementation had an impact on the normal dynamics of the foreign exchange market. In addition, the amounts auctioned were relatively small compared to the amounts traded in the market.³

***Banrep* used accumulation put options⁴ to purchase FRs.** This mechanism allowed market participants to offer *Banrep* the amount of dollars they wished to sell and the price at which they were willing to do so. Once the option was acquired, the agent could

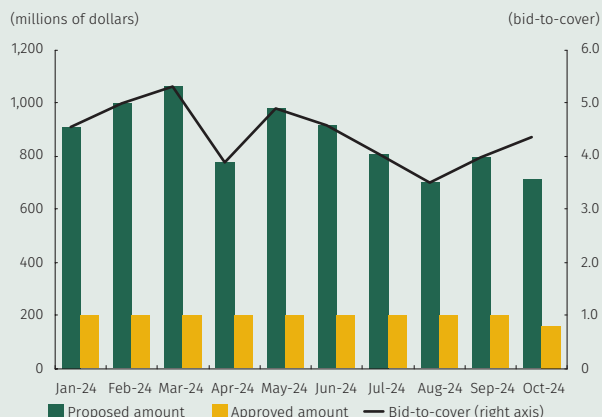
1 On 26 April 2024, the IMF approved a new two-year arrangement in favor of Colombia under the FCL for an amount in Special Drawing Rights (SDR) of 6,133.5 m, equivalent to about USD 8,100 m. This agreement replaced the previous one, approved in 2022, which had been for an amount in SDRs of 7,155.7 m, equivalent to USD 9,400 m (as of April 2024).

2 See "Política Monetaria y Tasa de Cambio en Colombia", available at: <https://www.bis.org/publ/bppdf/bispap57i.pdf> and "Intervención Cambiaria en Colombia", available at: <https://www.bis.org/publ/bppdf/bispap73h.pdf>.

3 In 2024, an average of USD 33,867 m was traded per month in the peso-dollar spot market, while the options auctions carried out by *Banco de la República* were mostly USD 200 m.

4 A put option is a financial contract that gives the buyer the right, but not the obligation, to sell an asset (e.g., a currency, stock or bond) at a specified price on or before a specified date. In exchange for this right, the buyer pays a premium to the seller of the option.

Graph B3.1
Demand for Put Option Auctions



Source: Banco de la República.

only exercise their right if, during the option’s validity period, the representative market exchange rate (TRM in Spanish) was below its average for the last twenty business days. This way, the FRs purchase process avoided generating pressure in scenarios of peso depreciation. As a result, the offers presented reflected both market conditions and agents’ expectations, considering factors such as exchange rate volatility and recent trends in its quotation.

Ten auctions were held between January and October 2024, where market participants demonstrated an average oversubscription of 4.4 times the amount offered. The auctions held between January and September had a quota of USD 200 m, in line with the initial parameters of the program, while the October auction was held with a quota of USD 163.2 m, an adjustment adopted to reach the proposed total of USD 1,500 m. The August auction registered the lowest oversubscription (3.5 times), while the March auction had the highest (5.3 times) (Graph R3.1).

Graph B3.2
Ratio of FRs/Current Account Deficit + External Debt Amortizations



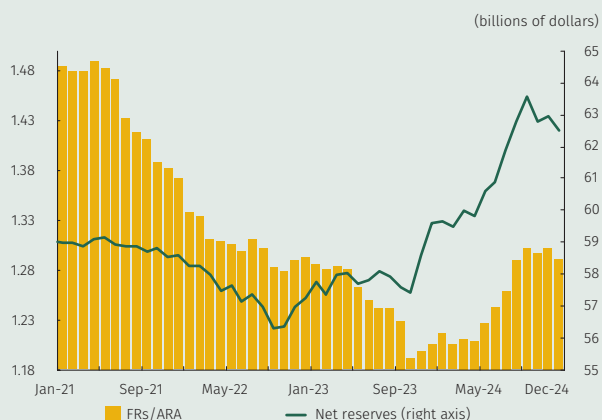
Note: The shaded area corresponds to the period between January and December 2024, and the horizontal line represents the coverage indicated by the Guidotti-Greenspan rule of 100%.
Source: Banco de la República.

2. Metrics for the Adequate Level of Reserves

During 2024 the metrics used to assess the adequacy of FRs remained in line with expectations and even showed improvements. One of the widely used international metrics, known as the extended Guidotti-Greenspan rule, measures the ability of FRs to cover 100% of the current account deficit and short-term external debt amortizations. In Colombia, this metric reached 106% in December 2024 and registered an upward trend during most of the year (Graph B3.2).

The indicator proposed by the IMF, called assessing reserve adequacy (ARA), increased during 2024, reversing the downward trend it had been showing since 2021. This indicator evaluates the capacity of FRs to mitigate the main balance of payments risks during periods of pressure in the foreign exchange market. According to the IMF, this indicator seeks to cover the risks associated with the loss of access to external financing, the decrease in confidence in the local currency, the reversal of capital flows, and a possible contraction in external demand.⁵ As a result of the FRs accumulation program and its returns, the ratio of FRs to the ARA metric improved from 1.21 in December 2023 to 1.29 in December 2024, remaining within the IMF recommended range of 1.0 to 1.5 throughout the period (Graph B3.3).

Graph B3.3
Ratio of FRs/ARA and Reserve Level



Source: Banco de la República.

The indicators used to assess the adequacy of FRs suggest that their level is adequate; however, this level is not excessive, but just enough to guarantee coverage of the country’s external needs and provide solid support in the face of potential external shocks. In the current context, characterized by high global and local uncertainty, maintaining a solid FRs position is a key element to preserve investor confidence in the country’s macroeconomic stability, strengthen the economy’s resilience to adverse scenarios, and ensure favorable conditions for access to external financing.

5 See IMF (2015). “Assessing Reserve Adequacy: Specific Proposals.”

06/ Financial Situation of *Banco de la República*

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

As of 31 December 2024, *Banco de la República* (*Banrep*) assets amounted to COP 342,706 billion (b), liabilities to COP 209,443 b, and equity to COP 133,264 b. *Banrep*'s assets increased compared to the end of 2023, mainly as a result of the higher value in pesos of foreign reserves, largely due to the depreciation of the Colombian peso against the currencies in which foreign reserves are invested. This had as a counterpart an increase in the exchange rate adjustment account in equity. In turn, the balance of liabilities increased as a result of the performance of the monetary base (Table 6.1).

Compared to the end of 2023, assets grew by COP 45,524 b (15.3%), mainly due to the increase in net foreign reserves. The dollar balance of these foreign reserves, which constitute the main component of *Banrep*'s assets, showed an annual increase of USD 2,873 m,² as a result of their return (USD 2,230 m) and the reserve accumulation program through the put option mechanism³ (USD 1,479 m). This was partially offset by the effect of the appreciation of the dollar against reserve currencies, which reduced its balance (USD 760 m). In pesos, its balance increased by COP 47,663 b (20.9%), as a result of its higher balance in dollars and the effect of the depreciation of the Colombian peso against reserve currencies.⁴ The other components of assets saw a net decrease of COP 2,139 b, which is explained by the decrease in the TES portfolio by COP 15,824 b (-36.1%), mainly due to the net sales of these securities made in the secondary market (COP 9,499 b)⁵ and the transfer of TES at market prices to the National Government as part of the payment of 2023 profits (COP 4,904 b).⁶ This was partially offset by the higher balance of expansionary repo operations of COP 15,162 b (Table 6.1).

1 This section shows the items according to economic and non-accounting criteria. Compared to the financial statements presented to the Financial Superintendency of Colombia and the National General Accounting Office, the differences are: 1) the assets discount the value of the liabilities associated with foreign reserves portfolio purchases for which payment has not yet been made (in *Banrep*'s financial statements, this is recorded as a higher value of the asset and as an enforceability of foreign reserves in the liabilities); 2) the assets and liabilities in this section include the currency in circulation, which is not part of the accounting information of *Banrep*'s balance sheet; and 3) other reclassifications of lower-value accounts. In this regard, the values of assets and liabilities presented in this Report (COP 342,706 b and COP 209,443 b, respectively) differ from those recorded in the Financial Statements as of 31 December 2024 (COP 345,115 b and COP 211,851 b).

2 See Chapter 5 of this Report.

3 The Board of Directors of *Banco de la República*, at its meeting on 19 December 2023, decided to initiate a foreign reserves accumulation program. See <https://www.banrep.gov.co/es/noticias/jdbr-decidio-iniciar-programa-acumulacion-reservas-internacionales>

4 At the end of 2024, the Colombian peso depreciated annually against the main reserve currencies: US dollar (15%), pound sterling (13%), euro (8.0%), Canadian dollar (6.0%), and Australian dollar (5.0%), among others.

5 See Shaded Section 1 "Monetary base and M32, p. 62.

6 The variation in the balance of the TES portfolio held by *Banrep* is explained as follows: 1) sales for COP 16,499 b, 2) purchases for COP 7,000 b, 3) transfer to the National Government of part of the profits from 2023 results for COP 4,904 b, 4) coupon payments for COP 1,914 b, 5) return of COP 2,695 b recorded in *Banrep*'s Income Statement, and 6) negative valuation of COP 2,201 b, recorded in the other comprehensive income (OCI) account within equity, as a result of fluctuations in the interest rates of the securities in which this portfolio is invested.

At the end of 2024, liabilities showed an annual increase of COP 15,656 b (8.1%), mainly due to the growth of the monetary base (COP 18,022 b). The latter item is made up of cash held by the public and bank reserves. Its increase is entirely explained by the greater dynamism of the demand for cash, which increased by COP 21,775 b, partially offset by the decrease in the bank reserve by COP 3,753 b, resulting from the decision of the BDBR to reduce the required reserve requirement.⁷

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

Accounts	December 2023		December 2024		Variation	
	Balances	Percentage share	Balances	Percentage share	Absolute	Percentage
Assets	297,183	100.0	342,706	100.0	45,524	15.3
Net Foreign Reserves ^{a/}	227,826	76.7	275,489	80.4	47,663	20.9
Participation in international organizations and entities	10,052	3.4	8,289	2.4	-1,763	-17.5
Investments in TES held by Banrep	43,887	14.8	28,063	8.2	-15,824	-36.1
Repo operations	8,880	3.0	24,043	7.0	15,162	170.7
Other net assets	6,537	2.2	6,823	2.0	286	4.4
Liabilities and equity	297,183	100.0	342,706	100.0	45,524	15.3
Liabilities	193,787	65.2	209,443	61.1	15,656	8.1
Monetary base	154,778	52.1	172,800	50.4	18,022	11.6
Cash	114,870	38.7	136,645	39.9	21,775	19.0
Reserves	39,909	13.4	36,156	10.6	-3,753	-9.4
Remunerated non-reserve deposits	8,393	2.8	9,372	2.7	978	11.7
National Government Deposits	6,824	2.3	3,619	1.1	-3,204	-47.0
Obligations to international organizations	23,657	8.0	23,521	6.9	-136	-0.6
Other deposits	135	0.0	130	0.0	-4	-3.2
Equity	103,396	34.8	133,264	38.9	29,868	28.9
Capital	13	0.0	13	0.0	0	0.0
Reserves	744	0.3	744	0.2	0	0.0
Surplus	95,737	32.2	127,144	37.1	31,407	32.8
Exchange rate adjustment account ^{b/}	96,787	32.6	128,185	37.4	31,397	32.4
Special Foreign-exchange Account (CEC in Spanish)	453	0.2	453	0.1	0	0.0
Investment in assets for cultural activities	373	0.1	382	0.1	10	2.6
Transfers to international organizations	-1,943	-0.7	-1,943	-0.6	0	0.0
Cumulative effect of accounting change - Decree 2386 of December 2015	67	0.0	67	0.0	0	0.0
Other Comprehensive Income (OCI)	-2,325	-0.8	-4,679	-1.4	-2,354	101.2
Results	9,226	3.1	10,041	2.9	815	8.8

a/ In reports prior to July 2024, gross foreign reserves were presented separately from the liabilities affecting these reserves. Starting from that report, their net balance is presented.

b/ Includes the exchange rate adjustment account of net foreign reserves, liabilities to the IMF (SDR allocations), and liabilities to FLAR (Andean pesos).

Note: This table presents the items according to economic rather than accounting criterion. Compared to the financial statements submitted to the Financial Superintendency of Colombia and the National General Accounting Office, the differences are: i) the assets deduct the value of the liabilities associated with the purchase of foreign reserve portfolios on which payment has not yet been made (in the Central Bank's financial statements, this is recorded as a higher asset value and as an enforceability of foreign reserves in the liabilities); (ii) the assets and liabilities in this section include coins in circulation, which is not part of the accounting information in the Central Bank's Statement of Financial Position; and (iii) other reclassifications of lower-value accounts. In this regard, the values of assets and liabilities presented in this Report (COP 342,706 b and COP 209,443 b, respectively) differ from those recorded in the Financial Statements as of 31 December 2024 (COP 345,115 b and COP 211,851 b).

Source: Banco de la República.

7 This decision took effect as of September 2024. See shaded section 1, p. 62 and Box 2, p.66 of this report. For more details on the modification in the reserve requirement, see <https://www.banrep.gov.co/es/noticias/banco-republica-redujo-requerimiento-encaje-sobre-depositos-establecimientos-credito>

The increase in the monetary base was partly offset by the lower balance of the National Government's deposits in *Banrep* by COP 3,204 b (Table 6.1).

Finally, equity increased by COP 29,868 b (28.9%) due to a positive change in the exchange rate adjustment account of foreign reserves and the results of the 2024 fiscal year. The exchange rate adjustment account included the annual variation of COP 33,088 b, counteracting the effect on the assets on net foreign reserves due to the higher exchange rate of the peso against reserve currencies.⁸ Additionally, the result for the 2024 fiscal year amounted to COP 10,041 b, reaching its all-time high. This was partially offset by the transfer of profits to the National Government from the results in 2023 for COP 9,217 b,⁹ and by the reduction of the OCI of COP 2,354 b,¹⁰ which decreased the value of equity (Table 6.1).

6.2 Income Statement (P&L)

6.2.1 Closure as of December 2024

In 2024, *Banrep*'s profit amounted to COP 10,041 b, reaching its all-time high, resulting from revenues of COP 13,948 b and expenses of COP 3,907 b (Table 6.2). This profit was higher by COP 815 b compared to that observed in 2023 due to the annual reduction in expenses, partially offset by the decrease in revenues. In 2024, expenses and revenues fell from the all-time highs recorded in 2023. When breaking down the P&L among its main components, profit is explained by net monetary income of COP 10,997 b, which was much higher than the net expenses from issuing and putting into circulation banknotes and coins of COP 185 b and net corporate expenses of COP 771 b.¹¹

During 2024, income originated mainly from the return on foreign reserves. Specifically, the yield recorded in the P&L¹² of these reserves amounted to COP 9,340 b,¹³ higher by COP 632 b compared to 2023. The accrual of interest (COP 8,743 b), driven by the high interest rates observed in the external capital markets during the year, explained a large part of the yields. On the other hand, the interest and returns on TES held by *Banrep* and the expansionary repos amounted to COP 2,480 b and COP 1,599 b, respectively, with annual declines of COP 1,401 b and COP 62 b. In the case of TES, the decrease in returns was mainly due to the lower average

8 The adjustment account also includes the effect of the difference in exchange of liabilities with the IMF (SDR allocations) and with FLAR - Latin American Reserve Fund (Andean pesos), which was negative at COP 1,690 b.

9 As mentioned, part of this transfer was made in TES (COP 4,904 b). The remainder of the profits (COP 4,313 b) was transferred by deposit in the Government's accounts at *Banrep*. See <https://www.banrep.gov.co/es/noticias/banrep-utilidad-nueve-punto-dos-billones-2023>.

10 See note 6.

11 Including the expense of pensioners.

12 As of 2022, the unrealized returns resulting from variations in the market prices of the portfolio securities under the passive management mandate (passive portfolio) are recorded in the OCI account in *Banrep*'s equity, with no impact on the P&L. When realized, these returns (profits or losses) are transferred from the OCI to the P&L. This, in accordance with the provisions of Decree 2443 of 12 December 2022. In addition, the P&L does not record the exchange adjustment resulting from variations in the exchange rates of the peso against the currencies in which the foreign reserves are invested. This effect is recorded in the surplus account due to exchange adjustment in *Banrep*'s equity.

13 The return on foreign reserves accounted for in the P&L, COP 9,340 b, is obtained by: 1) discounting from its total return, COP 8,974 b, the transfers to the OCI as a result of unrealized losses during 2024 for COP 893 b, and 2) including the realization of accumulated losses from previous periods, previously recognized in the OCI, per COP 528 b.

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

	Observed		Annual changes	
	2023	2024	Absolute	Percentage
I. Total income (A+B+C)	14,798	13,948	-850	-5.7
A. Monetary income	14,271	13,490	-781	-5.5
Interest and yields	14,252	13,419	-834	-5.8
Foreign reserves	8,708	9,340	632	7.3
TES held by <i>Banrep</i>	3,881	2,480	-1,401	-36.1
Expansionary repos	1,661	1,599	-62	-3.7
Private debt bonds held by <i>Banrep</i>	2	0	-2	-100.0
Foreign exchange differences	13	42	28	209.7
Other monetary income	5	29	24	506.0
B. Face value of coins put into circulation	230	228	-3	-1.1
C. Corporate income	297	231	-66	-22.3
Commissions: banking services and trust business	265	188	-78	-29.3
Other corporate income	32	43	11	36.2
II. Total expenses (A+B+C+D)	5,572	3,907	-1,665	-29.9
A. Monetary expenses	4,333	2,493	-1,840	-42.5
Interest and yields	4,093	2,337	-1,756	-42.9
National Government Deposits	3,739	1,501	-2,239	-59.9
Monetary contraction deposits	354	837	483	136.3
Administration and fund management expenses abroad	47	60	13	28.7
Flexible credit line commitment fee (IMF)	107	86	-21	-19.2
Foreign exchange differences	85	8	-77	-90.9
Other monetary expenses	1	1	-0	-18.7
B. Issuance and putting into circulation of banknotes and coins	344	412	68	19.8
C. Corporate expenses	890	1,001	110	12.4
Personnel expenses	553	573	20	3.6
Overheads	189	215	25	13.4
Other corporate expenses	148	212	65	44.0
D. Pensioners' expenses	4	1	-3	-72.9
III. Results for the year (I - II)	9,226	10,041	815	8.8

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

balance held by *Banrep*.¹⁴ As for repo interest, the annual reduction was due to lower remuneration rates, in accordance with the downward path of the monetary policy interest rate set by the Board of Directors of Banco de la República (BDBR)

¹⁴ The annual decline in average interest rates (purchase IRR), coupled with the realization of losses previously recorded in the OCI, also contributed to the reduction in TES returns, albeit by a smaller magnitude.

since December 2023, which offset the impact of the higher average balance observed in 2024.¹⁵ Within monetary income, foreign exchange differences and other monetary income amounted to COP 42 b and COP 29 b, respectively. The depreciation of the peso against the dollar¹⁶ and the premiums paid to *Banrep* for put options to accumulate reserves were the main reasons for the annual increase in each case. Finally, the face value of coins put into circulation, COP 228 b, and corporate income, COP 231 b, were lower than those recorded during 2023.

On the other hand, expenses were mainly explained by the remuneration of the National Government's deposits in *Banrep* and by corporate expenses. In 2024, the remuneration of government deposits was COP 1,501 b, COP 2,239 b lower than in the previous year, resulting from the decrease in the annual average balance of these deposits and, to a lesser extent, their interest rate,¹⁷ which was associated with the reductions in the monetary policy rate. In contrast, remuneration of monetary contraction deposits amounted to COP 837 b, with an annual increase of COP 483 b, reflecting the higher average volume of these deposits in *Banrep*, since their remuneration rate decreased in 2024.¹⁸ On the other hand, corporate expenses amounted to COP 1,001 b, with an annual increase of COP 110 b. Within these, personnel expenses for COP 573 b increased by COP 20 b, representing an annual growth of 3.6%, lower than the salary adjustment set by the Collective Bargaining Agreement (10.28%). In turn, overheads and other corporate expenses, COP 215 b and COP 212 b, respectively, increased in 2024. These increases were mainly explained by the increase in expenses associated with technology projects and services, in the first case, and the higher provisions made by *Banrep*'s Legal Department in accordance with the progress in judicial proceedings, in the second. Finally, expenses for issuing and putting into circulation monetary species amounted to COP 412 b, representing an annual increase of COP 68 b, mostly explained by the production and circulation of large-value denomination banknotes.

6.2.2 Projection for 2025

The budget for 2025 was approved by BDBR in December 2024, with prior concept of the Supreme Council for Fiscal Policy (CONFIS) on its impact on public finances. *Banrep*'s budget consists of three components: (1) the monetary component, which includes the results of monetary, foreign exchange, and credit activities, the management of foreign reserves, and the role as banker and lender of last resort to credit institutions; (2) the issuing bank component, which includes income from the face value of coins put into circulation and the expenses of issuing and putting into circulation monetary species,¹⁹ and (3) corporate results, derived from *Banrep*'s administrative management, such as income from commissions and cul-

15 In 2024, the remuneration rate and daily volume of expansionary repos were, on average, 11.14% and COP 15,137 billion, compared to 13.18% and COP 13,419 b in 2023.

16 The depreciation of the peso generated net exchange income due to the higher value in pesos of net assets in foreign currency other than foreign reserves and liabilities with the IMF (SDR allocations) and with FLAR (Andean pesos). In 2023, the appreciation of the peso generated a negative net result in exchange rate differences.

17 In 2024, the average daily balance of these deposits was COP 13,961 billion, remunerated at a rate of 11.35%. In 2023, these values were COP 30,254 b and 13.15%, respectively.

18 The average daily volume of contractionary deposits was COP 8,377 b in 2024, higher than that observed in 2023, when it amounted to COP 3,047 b. On the contrary, the average remuneration interest rate fell from 12.32% in 2023 to 10.50% in 2024.

19 It includes outreach activities.

tural activities, personnel expenses, operating expenses (overheads and others), and pensioners' expenses.

For 2025, a profit of COP 10,512 b is projected, which is COP 167 b higher than the one considered in the budget approved for 2024,²⁰ in a context where high profitability of foreign reserves would persist. Compared to the 2024 budget, although the projected profit for 2025 is higher, lower annual income and expenses are estimated (Table 6.3). By component, in 2025, *Banrep's* monetary result would yield profits of COP 11,672 b, higher than the net expenses from corporate activities and issuing bank activities by COP 992 b and COP 169 b, respectively. The result for 2025 would be COP 471 b higher than that observed in 2024.

Table 6.3
Budget of Banco de la República, 2025
(billions of pesos)

	Approved budget		Variation	
	2024 ^{a/}	2025	Absolute	Percentage
I. Total income (A+B+C)	15,620	14,649	-972	-6.2
A. Monetary income	15,081	14,059	-1,022	-6.8
Interest and yields	15,068	14,045	-1,022	-6.8
Foreign reserves	9,711	9,642	-69	-0.7
TES held by <i>Banrep</i>	4,090	2,618	-1,472	-36.0
Expansionary repos	1,267	1,786	519	41.0
Foreign exchange differences	8	8	0	3.9
Other monetary income	5	5	-0	-1.8
B. Face value of coins put into circulation	338	305	-33	-9.8
C. Corporate income	202	285	83	41.3
Commissions: banking services and trust business	167	206	39	23.6
Other corporate income	35	79	44	125.9
II. Total expenses (A+B+C+D)	5,275	4,137	-1,138	-21.6
A. Monetary expenses	3,651	2,386	-1,265	-34.6
Interest and yields	3,458	2,215	-1,243	-35.9
National Government Deposits	3,180	1,686	-1,494	-47.0
Monetary contraction deposits	277	529	252	90.9
Administration and fund management expenses abroad	78	78	-0	-0.3
Flexible credit line commitment fee (IMF)	105	84	-22	-20.5
Foreign exchange differences	8	8	-0	-4.9
Other monetary expenses	2	2	-0	-5.3
B. Issuance and putting into circulation of banknotes and coins	527	473	-54	-10.2
C. Corporate expenses	1,081	1,271	190	17.6
Personnel expenses	650	688	38	5.9
Overheads	248	286	38	15.3
Other corporate expenses	178	291	113	63.2
Flexible budget availability	5	6	1	17.6
D. Pensioners' expenses	16	7	-10	-59.5
III. Results for the year (I - II)	10,345	10,512	167	1.6

a/ The 2024 budget refers to the budget approved on 19 December 2023 by the Board of Directors.
Source: Banco de la República.

20 Throughout this section, the budget for 2024 refers to the one approved on 19 December 2023 by the BDBR.

It should be noted that the estimated result is highly uncertain, which is mainly associated with the evolution of the return on foreign reserves and the growth and sources of expansion of the monetary base. Particularly, changes in the paths and expectations of external interest rate could significantly affect the projected return on foreign reserves. In turn, a change in the growth or sources of expansion of the monetary base, compared to that considered in this estimate, would change the projection for net monetary policy income.²¹ To illustrate the uncertainty in the profit estimate, it is highlighted that in 2024 interest rates in the external debt markets, particularly in the United States, were highly volatile, leading to changes in foreign currency estimates of the returns on foreign reserves. Additionally, fluctuations in the exchange rate of the peso against the reserve currencies produced changes in the expression in pesos of these returns,²² and consequently, in the expected profits throughout the year.²³

In 2025, Banrep's income would amount to COP 14,649 b, which implies a reduction compared to the levels of the budget approved for 2024, mainly due to the lower yields of the TES held by Banrep. The approved budget for 2025 considers monetary revenues of COP 14,059 b, within which the return on foreign reserves accounted for in the P&L would add up to COP 9,642 b, and the returns of the TES and expansionary repos would be COP 2,618 b and COP 1,786 b, respectively (Table 6.3). In particular, in 2025, the return on foreign reserves is expected to be similar to that budgeted for 2024. On the other hand, interest on expansionary repos would increase by COP 519 b due to the increase in the volume of these operations, although the remuneration interest rate considered for these instruments would be lower.²⁴ In contrast, the return of the TES would be lower by COP 1,472 b due to the reduced balance that Banrep would maintain.²⁵ By 2025, it is estimated that the face value of coins put into circulation will amount to COP 305 b, lower than the value considered in the approved budget for 2024, as a result of a lower demand for coins. Corporate income would total COP 285 b, and its increase is explained by the higher commissions paid to Banrep and profits on the sale of real estate.

On the other hand, expenses in 2025 are estimated at COP 4,137 b, lower than those considered in the approved budget for 2024 due to the lower remuneration of the National Government's deposits in Banrep. This remuneration would add COP 1,686 b, lower by COP 1,494 b both due to the lower average balances and the reduction in the interest rate, given the expected decrease in the monetary policy rate for 2025.²⁶ On the other hand, the remuneration for monetary contraction deposits would amount to COP 529 b, as a result of the higher volumes, whose positive effect would exceed that of the lower interest rates, which represent the

21 Net monetary policy income is derived from income from returns on national currency securities held by Banrep and expansionary repos less remuneration of the National Government's deposits in Banrep and those of monetary contraction.

22 As mentioned, the P&L does not record the exchange adjustment of the balance of foreign reserves resulting from variations in the exchange rates of the peso against the currencies in which these reserves are invested. This effect is recorded in the surplus account due to exchange adjustment in Banrep's equity.

23 For example, the profits presented for 2024 in the *Report to Congress* of March 2024 amounted to COP 10,345 b, while in the *Report* of July of that same year were projected at COP 8,795 b, compared to a final result of COP 10,041 b.

24 The monetary policy interest rate assumption of this projection corresponds to the median of the monthly survey of expectations of economic analysts conducted by Banrep in November 2024 and does not correspond to a position of the BDBR.

25 This projection did not incorporate net purchases of TES by Banrep.

26 See note 24.

same performance mentioned for the monetary policy rate. On the other hand, in 2025, the expenses of issuing and putting into circulation monetary species would amount to COP 473 b, lower by COP 54 b compared to the amount budgeted for 2024, as a result of the smaller number of coins that would be put into circulation, according to demand forecasts for the year. Finally, corporate expenses²⁷ would total COP 1,277 b, with an annual change of COP 180 b, which is explained by the effects of the salary adjustment, the increase in the legal minimum wage, expenses related to technology projects and services, and provisions set by *Banrep's* Legal Department, among others.

6.3 Reserve Formation and Profit Distribution

In accordance with *Banrep's* legal framework set forth in the Political Constitution, Law 31 of 1992, and its Bylaws, once the net investment in assets for cultural activity is deducted and the statutory reserves are appropriated, the remainder of the profits belong to the nation. Based on the above, the project for the transfer of profits to the government, submitted for approval to the BDBR in February 2025, took the following considerations into account:

1. The results for the year 2024 for COP 10,041 b.
2. The non-use and non-constitution of equity reserves, in accordance with Law 31 of 1992 and *Banrep's* Bylaws.²⁸
3. The net investment in cultural assets in 2024 for COP 10 b, a value that must be deducted from the profit to be transferred to the National Government, according to the paragraph of Article 62 of *Banrep's* Bylaws.²⁹

Taking the above into account, on 28 February 2025, the BDBR approved the profit distribution project. Therefore, in March, *Banrep* will transfer COP 10,031 b to the National Government (Table 6.4).

Table 6.4
Profit Distribution
(billions of pesos)

	Profit distribution in 2025
A. 2024 results	10,041
Results for the year 2024	10,041
B. Plus use of equity reserves	0
C. Minus constitution of equity reserves	0
D. Minus other deductions	10
Net investment in assets for cultural activity	10
Net result in favor of the National Government: A + B - C - D	10,031

Source: Banco de la República.

27 Includes pensioners' expenses.

28 Issued by Decree 2520 of 1993.

29 In accordance with this article, the profit to be transferred or the loss to be borne by Government is defined as the result of subtracting from *Banrep's* income, both expenses, including depreciation, and expenditures intended to meet *Banrep's* operation and investment for the fulfillment of its cultural and scientific functions.

07/ Cultural Management of *Banco de la República*

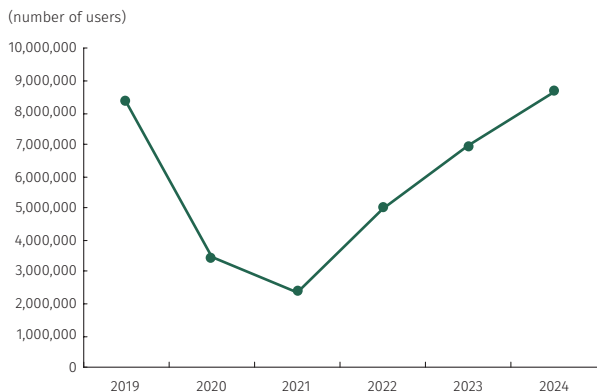
***Banco de la República* contributes to the country's cultural activity through four lines of work: the library network, art and numismatic museums, gold museums, and musical work.**¹ *Banrep* has a cultural presence with infrastructure and installed capacity in 29 cities across the country, connected through a network for the exchange of content and services. In each city, *Banrep* develops the lines of work defined by the heritage collections it has built over the years: the bibliographic collection, managed by the Luis Angel Arango Library (BLAA in Spanish), 22 libraries in other cities, and 5 regional documentation centers; the art collection, displayed at the Miguel Urrutia Art Museum (MAMU in Spanish), the Botero Museum, and the Casa Gómez Campuzano, which travels and is disseminated in other cities; the numismatic collection, exhibited at the Casa de Moneda Museum (the Mint museum); the archaeological and ethnographic collections, housed at the Bogotá Gold Museum and six regional museums; the collection of musical instruments, and the philatelic collection, based in Medellín. In addition to this physical infrastructure, there is a digital one, conceived and developed over many years. The interactions of users with physical and digital heritage allow us to state that *Banco de la República* manages a complex cultural network with a visible and recognized impact both within the country and abroad.

***Banrep* makes cultural management a sustainable, accessible, and inclusive model through a cultural network with a presence in various cities across the country.** The mission of the Office for Cultural Affairs is to contribute to the recovery, preservation, analysis, study, organization, research, and dissemination of the nation's cultural heritage; to facilitate access to knowledge, and to consolidate the sense of citizenship. To this end, actions related to the heritage collections are taken. In 2024, a new vision was outlined, which includes the continued sustainable management of networked cultural services and physical and digital collections, seeking the participation of diverse knowledge to promote the co-creation of relevant local content and close gaps in access to knowledge, culture, and leisure, while maintaining an ethical position regarding technology and the environment.

***Banrep* continues to consolidate itself as one of the largest collectors and managers of the country's heritage.** In 2024, there was a growth in the collections, with the bibliographic collection reaching 2,505,098 items, the art collection growing to 6,786 works, and the numismatic collection reaching 18,443 pieces. The archaeological collection includes 34,285 pieces in gold, 19,591 ceramic, stone-carved, shell, and other material objects, and the ethnographic collection contains 423 objects. The philatelic collection is made up of 35,638 stamps, and the musical collection consists of 85 instruments.

¹ Law 31 of 1992 (Article 25) determined that *Banrep* may continue to fulfill only the cultural and scientific functions that it was performing at the time of the issuance of said law.

Graph 7.1
User Variation, 2019-2024



Source: Banco de la República.

Image 7.1
Participants of the *Hip hop, pensamiento divergente y creatividad* Seminar at the Cultural Center of Pasto



Source: Banco de la República (Media Outreach Section of the Office for Cultural Affairs).

Image 7.2
Session of the *Historias de ciudad* Project at the Miguel Urrutia Art Museum (MAMU in Spanish)



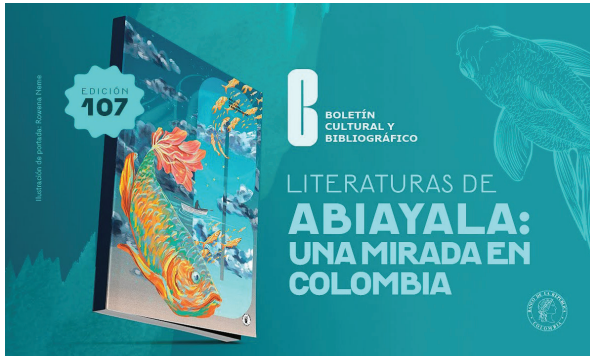
Source: Banco de la República (Media Outreach Section of the Office for Cultural Affairs).

The number of audiences in 2024 exceeded the pre-COVID-19 pandemic figures (Graph 7.1). In 2024, the number of users accessing libraries, museums, and musical activities nationwide reached 8,604,876 people, surpassing the 8,346,546 users registered in 2019. This audience enjoyed 23,833 on-site, off-site, and virtual activities. Physical resources and digital content, such as videos on the *Banrepcultural* YouTube channel, podcasts, and audio series, were accessed 7,026,483 times during the last year.

Cross-cutting thematic projects recognize the country’s cultural diversity and promote the decentralization of the cultural network. *Banrep’s* cultural management is based on recognizing regional cultural diversity, allowing the promotion of multiple viewpoints that reflect the diverse formation of Colombia, constitutionally recognized as a multicultural and multiethnic country. This premise underpins the development of cross-cutting thematic projects with various approaches that have been strengthened over the years. Examples include *Leer el Caribe* and *Leer el Pacífico* (“Reading the Caribbean and Reading the Pacific”), aimed at mediating readings, especially those with a local focus. The first project celebrated twenty-one years of joint work among the cultural centers of Cartagena, Montería, Sincelejo, Barranquilla, Santa Marta, Riohacha, San Andrés, and Valledupar. The second completed its ninth version at the cultural centers of Quibdó and Buenaventura. On the other hand, *Colombia en un hip-hop* (“Colombia through Hip-Hop”) continued to explore traditional music through research and programming of lectures and workshops (Image 7.1). Finally, the fourth version of the *Encuentro de investigadores del Pacífico* (“Symposium researchers of the Pacific”), led by the cultural centers of Popayán, Pasto, Buenaventura, Quibdó, and Cali, provided an academic space that contributed to access, knowledge, and dissemination of research in the region through lines of study related to habitat and applied technologies, art and culture, ethno-education, and environment.

During 2024, *Banrep’s* initiatives that promoted accessibility and inclusion continued to ensure the enjoyment of culture and the appropriation of heritage. The guidelines for participatory inclusion from the Office for Cultural Affairs seek to provide cultural services in conditions of equity and accessibility, with the creative participation of users to close gaps in access and use. Thus, services are offered, content is developed, and programming is provided for diverse audiences. This initiative includes ongoing work with stakeholders, such as teachers and mediators, researchers, cultural managers, and tour guides, as well as with rural communities, women, and the elderly. In 2024, homeless people participated in the *Historias de ciudad* (“City Stories”) y *Habitar la BLAA* (“Inhabiting the Library”) projects, led by the MAMU and the BLAA, with the aim of transforming their relationship with the city, culture, and heritage (Image 7.2). The goal is also to enable deaf and blind people to participate in the programming and services providing access to information offered nationwide. In particu-

Image 7.3
107th Edition of the Cultural and Bibliographic Journal



Source: Banco de la República (Media Outreach Section of the Office for Cultural Affairs).

Image 7.4
Exhibition *El Magdalena: una cuenca posible* at the Cultural Centers of Santa Marta and Girardot



Source: Banco de la República (Media Outreach Section of the Office for Cultural Affairs).

lar, the deaf community enjoyed *El mordisco de la medianoche*, the fourth literary production adapted to Colombian Sign Language (LSC in Spanish), available at the *Biblioteca para sordos* (Library for the Hearing Impaired), which includes LSC-adapted books, lectures, and audiovisual materials with interpretation.

The editorial activity of the Office for Cultural Affairs is recognized for its rigor and quality and contributes to the analysis, study, and dissemination of Colombian cultural heritage. The *Cultural and Bibliographic Journal*, a magazine published continuously since 1958, completed 107 editions in 2024 (Image 7.3). Catalogs for temporary exhibitions were also published: *Lente africana: fotografía subsahariana en la colección del Museo de Bellas Artes de Houston* (*African Lens: Sub-Saharan Photography in the Collection of the Houston Museum of Fine Arts*); *Claudia Andujar y la lucha Yanomami* (*Claudia Andujar and the Yanomami Struggle*); *Viki Ospina: crónicas visuales de la transformación social en Colombia 1970-1990* (*Viki Ospina: Visual Chronicles of Social Transformation in Colombia 1970-1990*); *Encuentros en la fábrica de polvo: María Elvira Escallón* (*Encounters at the Dust Factory: María Elvira Escallón*); *Los Llanos Orientales de Colombia en la Colección de Arte del Banco de la República* (*The Eastern Plains of Colombia in the Art Collection of Banco de la República*); *Miradas: notas a partir de la colección del Museo de Arte de Caldas* (*Views: Notes from the Collection of the Art Museum of Caldas*); *Excavar hasta llegar a las estrellas: arte emergente y obras referentes en la Colección de Arte del Banco de la República* (*Digging up to the Stars: Emerging Art and Landmark Works in the Art Collection of Banco de la República*), and *Paraísos y jardines: la naturaleza representada en la Colección de Arte del Banco de la República* (*Paradises and Gardens: Nature Represented in the Art Collection of Banco de la República*).

Cultural projects contribute to generating knowledge about climate change. Since 2021, the cross-cutting project *El Río: territorios posibles* (*The River: Possible Territories*) has been developed, reflecting on the country's river basins through transdisciplinary dialogues about the geographical, historical, social, and cultural meaning of rivers. In 2024, 298 activities were carried out with 42,385 participants. As part of this project, the exhibition *El Magdalena: una cuenca posible* (*The Magdalena River: A Possible Basin*) was displayed at the BLAA and cultural centers of Girardot and Santa Marta (Image 7.4) and will be available in Honda and Neiva until 8 February 2025. This exhibition has attracted a total of 81,355 visitors. Additionally, the exhibition *Tiempos de curación. Renovar el mundo desde el Amazonas* (*Times of Healing. Renewing the World from the Amazon*) was presented at the Gold Museum, attracting 48,269 visitors. This exhibition showcased other ways of understanding the global climate crisis through the cosmologies of the indigenous peoples of the Colombian Amazon. Similarly, during COP16, 455 children, young people, and families participated in a complete program at the cultural center of Cali, affirming the relationship between culture and the

Image 7.5
Announcement of the Start of the Works for the Complete Renovation of the Amira de la Rosa Theater



Source: Banco de la República (Media Outreach Section of the Office for Cultural Affairs).

Image 7.6
La Vorágine Project: 100 Years of Readings



Source: Banco de la República (Media Outreach Section of the Office for Cultural Affairs).

Image 7.7
21st Century Room. A Country Changing Its Image at the Casa de Moneda (Mint Museum)



Source: Banco de la República (Media Outreach Section of the Office for Cultural Affairs).

conservation of nature and ecosystem restoration, as well as recognizing the diversity of our territories.

Institutional alliances foster the circulation of collections, services, programs, and cultural content. In 2024, alliances were established with 752 cultural, educational, and governmental institutions at the national and international levels, benefiting our programming, diversity, and diversification. These alliances favored the development and strengthening of collections, and enabled *Banrep* to achieve positioning and added value. This collaborative work ensures that audiences have access to various quality cultural activities.

Banco de la República has consolidated an architectural and cultural legacy of great value to the country. In 2024, two important processes for the adaptation of buildings for cultural work advanced as planned. In Tunja, dissemination and appropriation strategies were launched for the San Agustín Cloister, a national cultural heritage site, and in 2025, restoration works will begin to turn it into a museum. In Barranquilla, the construction license for the Amira de la Rosa Theater renovation was approved, and construction work will begin in 2025 (Image 7.5). Cultural activities continue uninterrupted in both cities.

7.1 Library Network

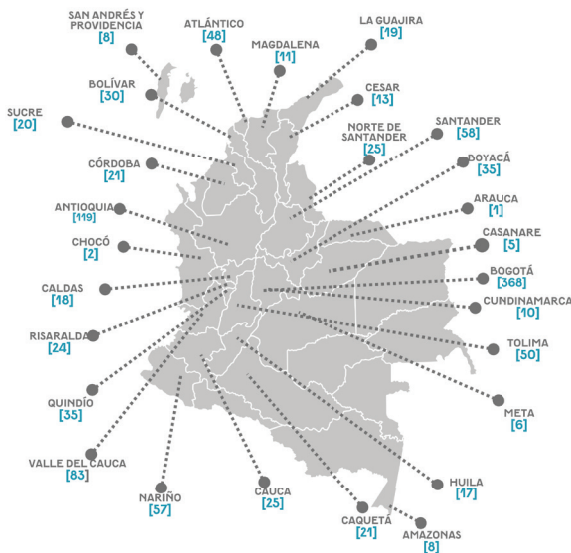
Users of Banco de la República’s Library Network have access to a large number of physical collections and electronic resources for consultation. Additionally, this Network is consolidated as a local meeting space. The Library Network is made up of libraries, regional documentation centers, and remote consultation areas. Throughout the country, users can access both physical materials and digitized collections, which are increasingly accessible through platforms such as *Descubridor* and online collections. Moreover, one of *Banrep*’s major contributions to the development of knowledge is the *Biblioteca Virtual* (“Virtual Library”) which offers a variety of files in different open access formats. In 2024, 60,917 users in 185 municipalities and 55 villages and townships used the loan service for *traveling bags*, which are collections of books organized by age group, fields of knowledge, and specific projects. The Library Network also coordinates projects of national interest such as *La vorágine: 100 años de lecturas* (“The Vortex: 100 Years of Readings”) (Image 7.6), which included reading mediation, event programming, content publication, and the creation of a citizen archive based on workshops with more than 300 participants in Buenaventura, Neiva, Santa Marta, Pasto, Florencia, Riohacha, Leticia, and Villavicencio. All these factors contribute to the recognition of cultural centers as places for meeting and citizen coexistence. For example, the inhabitants of Ibagué celebrated the 40th anniversary of the Darío Echandía Library, a space offering various services aimed at encouraging locals to take ownership of the region’s cultural heritage.

Image 7.8
Exhibitions *Viki Ospina: Visual Chronicles of Social Transformation in Colombia. 1970-1990* and *Alejandro Obregón in the Art Collection of Banco de la República* at the Cultural Centers of Bucaramanga and Barranquilla, respectively



Source: Banco de la República (Media Outreach Section of the Office for Cultural Affairs).

Image 7.9
Number of Proposals Submitted by Department to the 10th Call of the *Imagen Regional* (Regional Image) Program



Source: Banco de la República (Media Outreach Section of the Office for Cultural Affairs).

7.2 Art and Numismatic Museums

The renovated Casa de Moneda Museum reconstructs Colombia's economic history from pre-Hispanic times to the present.

This space was reopened in July 2023 as part of Banco de la República's celebration of its 100th anniversary and opened a new gallery in July 2024 called *Siglo XXI. Un país que cambia de imagen* ("The 21st Century Room. A Country Changing Its Image") (Image 7.7). The tour through eleven galleries offers visitors a reflection on the history and value that societies, both past and present, have given to various transactional elements. The proposal was recognized with the *Lápiz de Acero* award in 2024 in the category of best ephemeral space for its museographic and interactive design.

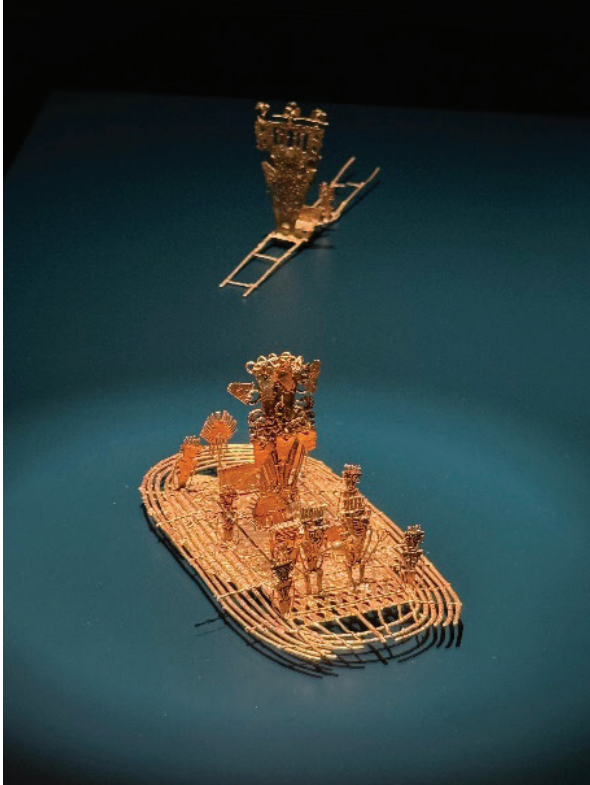
Temporary exhibitions promote the circulation of Colombian artists belonging to the collection of Banco de la República.

Encuentros en la fábrica de polvo ("Encounters at the Dust Factory") is an anthological exhibition by Colombian artist María Elvira Escallón, consisting of photographs, videos, and installations created between 1997 and 2024. During the exhibition, the artist received the 2024 National Photography Award, further confirming the relevance of her work. *Excavar hasta llegar a las estrellas* ("Digging up to the Stars") showcases works from emerging artists from different regions of the country, similar to other spaces that have been part of Ban-rep's programs, such as *Imagen Regional* ("Regional Image") or *Nuevos Nombres* ("New Names"), featuring works by artists with a longer trajectory. In *Paraísos y jardines: la naturaleza representada* ("Paradises and Gardens: Nature Represented"), 147 works made between the 17th century and the present day are exhibited. These projects are the result of research on the art collection and aim to display pieces that are normally carefully preserved in storage.

Original works from the art collection of Banco de la República travel to different cities.

Thanks to this effort, people in Manizales and Cali toured *El rigor de la mirada* ("The Rigor of Gaze"), an exhibition on the representation of sexual diversity and gender equity. The public in Armenia visited *El tigre no es como lo pintan. Reinterpretaciones de la nación* ("The tiger is not as it seems: Reinterpretations of the nation") to learn about various visions that artists have proposed of the concept of nation and its symbols. Residents of Ibagué and Bucaramanga enjoyed *Viki Ospina: crónicas visuales de la transformación social en Colombia. 1970-1990* ("Viki Ospina: Visual Chronicles of Social Transformation in Colombia. 1970-1990") (Image 7.8), which showcases the work of one of Latin America's first female photojournalists. In Santa Marta, Pasto, Bucaramanga, and Cali, video exhibitions *Con vida propia* ("With a life of its own"), *No tan corto-no tan largo* ("Not so short-not so long"), and *Cuerpos radicales* ("Radical bodies") were presented simultaneously. The people of Barranquilla discovered a selection of graphic and pictorial works from different moments by the artist Alejandro Obregón. In Villavicencio, the public explo-

Image 7.10
Renovated Exhibit of the Muisca Raft (*Balsa Muisca*), an Offering to Care for the World.



Source: Banco de la República (Media Outreach Section of the Office for Cultural Affairs).

Image 7.11
Mediation of the *Palabras de vida* Platform in Leticia



Source: Banco de la República (Media Outreach Section of the Office for Cultural Affairs).

red *Los Llanos Orientales de Colombia* (“The Eastern Plains of Colombia”) through works produced from the 19th century to contemporary times, illustrating the complexity and richness of this region. In Manizales, visitors discovered *Miradas: notas a partir de la colección del Museo de Arte de Caldas* (“Views: Notes from the Collection of the Art Museum of Caldas”), a selection of 22 works belonging to the MAC collection, which were loaned to *Banco de la República* for conservation and dissemination.

***Imagen Regional* (“Regional Image”) continues to support dialogue between artists, curators, and communities around contemporary artistic practices.** A total of 1,141 artists from 29 departments submitted their proposals for the 10th edition of the *Imagen Regional* program (Image 7.9), which has been promoting the development of plastic and visual arts in the regions since 1995, through the circulation and visibility of artists’ works and their processes, as well as organizing talks and workshops. The selected artists will participate in the circulation of their works nationwide between 2025 and 2028.

7.3 Gold Museums

Exhibitions at the Gold Museum promote cultural exchange and enhance the country’s image abroad. The renovation of la *Balsa muisca* (“the *Muisca Raft*”) (Image 7.10), among other projects, aims to enrich the experience of visitors. For four months, the Swiss public enjoyed *Más que oro: esplendor y pensamiento de la Colombia indígena* (More than Gold: Splendor and Thought of Indigenous Colombia), at the Rietberg Museum in Zurich. This marks the 218th exhibition by the Gold Museum worldwide, over 70 years of international cultural work. At the same time, the public in Bogotá and tourists had the chance to explore the world of the Canadian Arctic Inuit through the exhibition *Anurijuq, el viento sopla* (“Anurijuq, the wind blows”), from the Montreal Museum of Fine Arts. This cultural exchange is continuously strengthened in the Gold Museums network through the *Diálogos en la diversidad* (“Dialogues in Diversity”), which encourage the encounter between members of indigenous communities, collections, and visitors. This also contributes to ongoing research on the collections, such as in the case of the diagnosis of audiences conducted for the renovation of the Calima Gold Museum, with participants from the cultural ecosystem of Valle del Cauca and Cauca. For its part, in 1969, the *Balsa muisca* was acquired by *Banco de la República* to be safeguarded and has since become an outstanding piece of cultural heritage and a national identity icon. The recent renovation of its exhibition at the Bogotá Gold Museum is the result of new research into its history and importance.

Indigenous researchers share their knowledge through objects from the ethnographic collection. The *Palabras de vida* digital platform (Image 7.11), developed in partnership with the Amazon Conservation staff, enables worldwide access to ances-

Image 7.12
Monographic Concert by Natalia Valencia at the Luis Ángel Arango Library (BLAA in Spanish) Concert Hall



Source: *Banco de la República* (Media Outreach Section of the Office for Cultural Affairs).

tral knowledge from indigenous communities such as the Yukunas, Magütás and the people from the central region regarding objects that are part of the collection of the Ethnographic Museum of Leticia and their current use in celebrations, such as the *chontaduro* dance and the *yüü* ritual, as well as the role of words in coca, tobacco, and sweet cassava rituals. The use of offline devices has made it possible to reach diverse audiences in the rural areas of Leticia and Florencia.

7.4 Musical Work

***Banco de la República* continues its work of preserving Colombian musical heritage. Musical diversity reaches the entire country through the *Temporada nacional de conciertos* (National Concert Season).** In 2024, two new discographic productions were released: one highlights a selection of music by composer Nicolás Quevedo-Rachadell (1803-1874), and the other brings together works by the composer, professor, researcher, and director Gustavo Yepes (1945). Additionally, composer and sound artist Ana María Romano premiered the commissioned work, and Natalia Valencia presented her monographic concert (Image 7.12). These activities are part of the *Temporada nacional de conciertos*, which, during 2024, offered 176 concerts by national and international musicians, enjoyed by 13,557 attendees in the Luis Angel Arango Library Hall and 25,523 in 28 other cities across the country.

The *Jóvenes intérpretes* (Young Performers) call has supported emerging talent for 40 years, becoming a platform for circulation. In 2024, a new edition of this call was launched, selecting soloists and groups from the country to perform a concert at the Luis Angel Arango Library Hall, aiming to showcase their work in a program lasting up to four years. This series contributes to the circulation of young musical talents who continue their careers both in Colombia and abroad, with international recognition from programs such as the Young Artist Development of the Metropolitan Opera of New York, which supported a listening session and a workshop that served as a creative exchange platform. Thus, the musical work of *Banco de la República* contributes to the artistic development of musicians and enhances audience formation.

These aspects highlight how technical rigor and permanence over time give a unique character to *Banrep's* cultural work both nationally and internationally. The first has earned a seal of quality, and the second ensures the continuity of activities, which are adjusted through ongoing procedure reviews and result measurement. Both characteristics, quality and permanence, have helped consolidate this cultural framework and ensure its impact.

Box 4

Characteristics of the New Bre-B Instant Payments System

The year 2025 will be a key for the payments industry with the launch of Bre-B, the new interoperable instant payments system developed by *Banco de la República* in collaboration with the financial industry since 2022. This system will allow real-time¹ transfers with crediting of funds across all financial system accounts, at any time and on any day of the week, and at low cost.

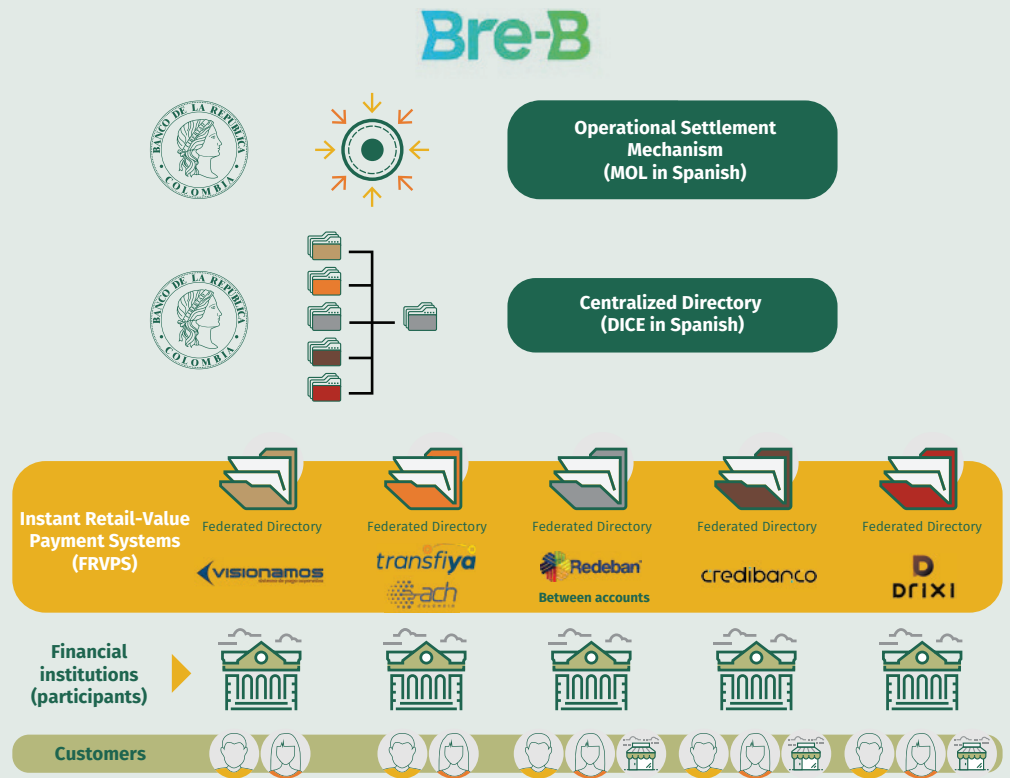
The arrival of Bre-B seeks to facilitate the broader use of electronic payments by individuals and businesses, offering greater efficiency and security compared to cash payments. It also aims to build credit histories that can then serve to accelerate financial inclusion for the population. Additionally, the ecosystem represents an opportunity to increase competition and innovation in the payments industry, which will strengthen payment services in the economy.

According to the World Bank, there are more than one hundred instant payments systems operating globally. In Colombia, despite market efforts, progress has been concentrated in closed payment models, which prioritize intrabank transfers over interbank transfers. In addition to the lack of interoperability, barriers persist in access to payment systems by new agents, who could boost competition and foster financial inclusion, for example, by introducing new technologies and business models, especially in key areas, such as the adoption by small businesses. While some of these barriers have begun to be reversed, there is still room for instant electronic payments to reduce the use of cash, which remains high and still represents 79% of daily transactions. For this reason, based on the conclusions of the Payments Systems Forum in 2022, *Banco de la República* launched the Interoperable Instant Payments project, based on the progress made by the private sector, and motivated by the need to converge toward the principles of interoperability, access, and innovation.

In this regard, Article 104 of the Law of the National Development Plan 2022-2026 granted the power to regulate the interoperability of instant payments in Colombia to the Board of Directors of *Banco de la República* (BDBR), and authorized *Banco de la República* to operate the necessary systems and technological components to guarantee such interoperability. Therefore, the BDBR issued the regulatory framework for interoperable instant payments, composed of External Resolution 6 of 2023 of the BDBR and External Regulatory Circular 465, which was most recently updated in September 2024. This regulation defines the principles and rules governing the interoperability of Retail-Value Instant Payment Systems (SPBVI in Spanish) and sets the technical standards for processing operations uninterruptedly (24/7) every day of the year. This regulation establishes a new architecture for the payments industry under which the SPBVIs are interconnected through a new public digital infrastructure operated by *Banco de la República*, consisting of a Centralized Directory (DICE in Spanish) and the Operational Settlement Mechanism (MOL in Spanish). Additionally, *Banco de la República* will operate a new instant payment clearing house (Drix), which will compete with private networks and interconnect with them following the same standards and obligations (Diagram B4.1).

¹ The maximum processing time established in the regulation is twenty seconds from the beginning of the operation until the funds are credited to the account of the receiving user. External Regulatory Circular DSP 465 of *Banco de la República*.

Diagram B4.1
Architecture of Colombia's Instant Payments Ecosystem



Source: Banco de la República.

1. Interoperable Architecture

The Centralized Directory (DICE in Spanish) will begin operation in the second quarter of 2025. This system will manage the keys identifying all end users in the ecosystem. Its main function is to guarantee the uniqueness of these keys, which is essential for routing and processing transfer orders continuously and unequivocally.

The Operational Settlement Mechanism (MOL) will become operational in the third quarter of 2025 and is designed to manage liquidity in the ecosystem in central bank money. With the implementation of this component, all instant transactions are guaranteed to be free from credit risk, which is desirable due to their irrevocability. Settlement will be gross and in real time, and will be executed against the deposit accounts of SPBVI participants, allowing liquidity demands to be managed centrally.

Through the new instant payment clearing house (Drixi), managed by *Banco de la República*, the value offering will be complemented by providing universal access to the instant payments ecosystem and promoting the emergence of new use cases. It is expected to start operations by the fourth quarter of 2025.

The adoption of payments will depend on guaranteeing ease of use; therefore, the regulations set guidelines based on the user experience, which must be unified and simple for all SPBVI participants. A crucial element is the incorporation of the key as an identifier to receive an instant payment. The regulation has defined the implementation of a multi-key model that allows each end user to assign up to four types of keys to a single deposit account, and for businesses, there will be a fifth option: the QR code for identifying the business.

Banco de la República also determined that the provision of services related to instant payments and transfers must be denominated under the Bre-B seal. This seal will be present on financial institutions' channels and in the communication and education campaigns for instant payments. Specifically, it has been mandated that SPBVI participants include a Bre-B area in their applications, where customers will be able to register the key(s), carry out transactions, and view transaction history, among other basic ecosystem options.

2.2. Preparing for Bre-B's Launch

The Bre-B operation process consists of five phases between October 2023 and September 2025. In phases one and two, the standards and technical rules were detailed, while in phase three the technological solution that will support the system is being implemented, and the industry is currently adjusting its systems and operating channels. The fourth phase will be implemented between July and September 2025 and will seek to initiate the registration of keys by users. To this end, promotional and educational campaigns are being designed to inform users about the characteristics of the keys and the process to be followed. Finally, the fifth phase will start in September 2025 and refers to Bre-B's live launch.

Going forward, *Banco de la República* and the market itself will need to maintain the efforts to broaden the acceptance of digital payments and deepen the Bre-B ecosystem. Future challenges for the ecosystem include the speed at which other use cases can be integrated, such as, the collection of utility bills, recurring payments, and e-commerce. Equally important will be the ongoing strengthening of tools to prevent fraud, ensure continuity in the provision of services, and enhance resilience of the system.

Annex

Investment Portfolio Management Policies for Foreign Reserves

According to best practice recommendations, foreign reserves should be managed based on liquidity, security, and profitability criteria. In this regard, it should aim to: 1) ensure sufficient liquidity in foreign currency; 2) have strict policies for managing the various risks involved in operations; and 3) generate reasonable risk-adjusted returns, subject to liquidity and other risk restrictions. Below is an explanation of how these rules are applied in the management of Colombia's foreign reserves.

1. Risk Management Policies

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

Liquidity risk: Investments are made in financial assets that have permanent demand in the secondary market, and the portfolio is divided into segments to be able to convert reserve assets into cash quickly and at low cost, and so that some segments can be liquidated more rapidly.

Market risk: Investments are made in a limited set of eligible assets, with strict investment limits in terms of duration, margin duration, currency composition, and portfolio sector composition. This is intended to ensure that the portfolio's value has a moderate sensitivity to interest rate movements in the market.

Credit risk: Investments are only made in assets with high credit ratings, as these investments have a low probability of default. The minimum credit rating for governments and government-related entities is A-. With respect to private issuers the minimum rating is A+ for exposures to individual issuers, and BBB- (investment grade) when invested through funds. Historically, the percentage of issuers with these ratings that have experienced payment defaults in the following year is close to 0%. If the credit rating of an issuer in which the portfolio is directly invested falls below the minimum allowed, the exposure is liquidated in a short period. Additionally, maximum exposures per sector and per issuer are limited to minimize the impact of credit events on portfolio value.

Exchange rate risk: The impact of the exchange rate risk is mitigated with the equity account "exchange adjustment" referred to in paragraph 4 of Article 62 of Decree 2520 of 1993 (*Banco de la República's* Bylaws). This account increases in years when the reserve currencies strengthen against the Colombian peso and decreases in years when they weaken. Therefore, currency variations have no impact on the statement of comprehensive income. *Banco de la República*, as well as most of the central banks around the world, holds currencies other than the US dollar in its currency composition to cover the country's payments abroad, since these are made in many currencies. It is important to note that currency rates are highly volatile and often lack defined long-term trends, making it difficult to reliably forecast their behavior.

Counterparty risk: To mitigate counterparty risk, transactions are settled through delivery-versus-payment mechanisms, which require counterparties for fixed income trading to be market makers and counterparties for foreign exchange trading to have high credit ratings. Delivery-versus-payment mechanisms seek to ensure that the exchange of securities for cash or the exchange of payments in a foreign exchange transaction happens simultaneously to eliminate the possibility of one party defaulting. Foreign exchange

counterparties must have a minimum credit rating of A- if they have an ISDA¹ master agreement. If no such agreement is in place, the minimum rating is A+.

Risks associated with environmental, social, and governance (ESG) factors: ESG factors are those associated with environmental, social, and governance issues that may affect the environment and an issuer's ability to operate successfully. Considering these factors in the investment of foreign reserves is important, as failure by an issuer manage them properly may affect its ability to generate long-term returns and/or manifest themselves in the market, credit, legal, or reputational risks, among others. Therefore, *Banco de la República* incorporates ESG factors in its investment processes and risk monitoring for foreign reserves through strategies compatible with the security, liquidity, and profitability criteria defined in the legal mandate assigned to *Banco de la República* for the management of foreign reserves.

2. Investment Portfolio Segments

The investment portfolio consists of three segments: short-term, medium-term, and gold.

The short-term segment is intended to cover the potential liquidity needs of the reserves in twelve months. Currently, this segment includes working capital and a passive portfolio. Working capital is the portfolio that receives resources from the interventions in the foreign exchange market, and its investments are concentrated in very short-term assets denominated in US dollars. Since the objective of this segment is to provide immediate liquidity for foreign exchange intervention purposes, working capital is concentrated in deposits and investments that can be liquidated in one day at a very low cost. As of 31 December 2024, the value of the short-term segment was USD 35,855 m, of which USD 1,209 m corresponds to working capital and USD 34,646 m to the passive portfolio.

The passive portfolio is the main component of the short-term segment. This portfolio is characterized by having a term and an expected return profile higher than that of working capital, a currency composition that seeks to replicate the performance of the country's balance of payments outflows, and a return similar to that of its benchmark index.² The passive portfolio is invested in multiple currencies and instruments that align with those of a benchmark index that is defined with the restrictions that the expected return of the portfolio, excluding the exchange rate component, is positive in twelve months with a confidence level of 95%, and that the expected value of a potential loss does not exceed 1.0%.

The medium-term segment seeks to increase the expected return on foreign reserves over the long term, preserving a conservative portfolio, with an expected return profile higher than that of the short-term segment and its benchmark index. Its objective is to maximize the risk-adjusted return in US dollars, the currency in which the foreign reserves are valued, for the portion of the portfolio deemed less likely to be used within twelve months. In this way, the maximum return is pursued subject to the restrictions that the expected return in US dollars of this segment is positive with a probability of 95% and that the expected value of a potential loss does not exceed 1.0% over a three-year horizon. Currently, the medium-term segment is mostly composed of actively managed portfolios that seek to generate a higher return than the benchmark index.³ At the end of 2024, the value of the medium-term segment increased to USD 21,618 m.

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

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

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

The gold segment corresponds to investments in foreign reserves in gold. This metal allows diversifying the investment portfolio, since its price behaves differently from that of the securities in which the short- and medium-term segments are invested. As of December 2024, the market value of the gold segment of the reserves amounted to USD 392.4 m.

3. Benchmark Indexes

To manage the reserves investment portfolio, *Banco de la República* defines theoretical portfolios or benchmark⁴ indexes for the short- and medium-term segments. Different indexes are constructed for each of these segments to reflect their investment objectives. These indexes serve as a reference framework to measure the performance of each portfolio. The following is an explanation of how the two benchmark indexes are constructed.

To construct the index for the short-term⁵ segment, a target currency composition is first determined. Once the currency composition has been defined, the portfolio that maximizes risk-adjusted⁶ returns and complies with the loss restrictions defined for this segment is identified. The currency composition of this index seeks to replicate the performance of the country's⁷ balance of payments outflows. Non-dollar currencies are expected to appreciate during periods when the US dollar value of the country's external payments increases, which implies that the value of these currencies may decrease against the dollar during periods when the dollar value of external payments decreases. As of December 2024, the currency composition of the short-term segment index was 81% US dollars, 7.0% Australian dollars, 8.0% Canadian dollars, and 4.0% euros. The loss restrictions defined for the short-term segment are: 1) to have positive returns over a twelve-month horizon with 95% confidence, excluding the currency effect, and 2) that the expected value of a potential loss over a twelve-month horizon does not exceed 1.0% of the value of the segment.

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

As of December 2024, the benchmark indexes defined for both segments have a moderate market risk level, with an effective index duration of 2.91 for the short-term segment and 3.39 for the medium-term segment. Graph A1.1 shows the approved benchmark indexes for the short- and medium-term segments.⁸

4 In the capital markets, a benchmark index refers to a basket of assets with predetermined weightings according to certain rules that define its composition. In general, an index attempts to broadly replicate the behavior of a financial asset market and serves as an indicator of the performance of other investment portfolios in that same market. For example, some of the best-known benchmark indexes in the equity markets are the MSCI Colcap in Colombia, or the S&P500 and Dow Jones in the United States (*Banrep* uses fixed-income market indexes only).

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

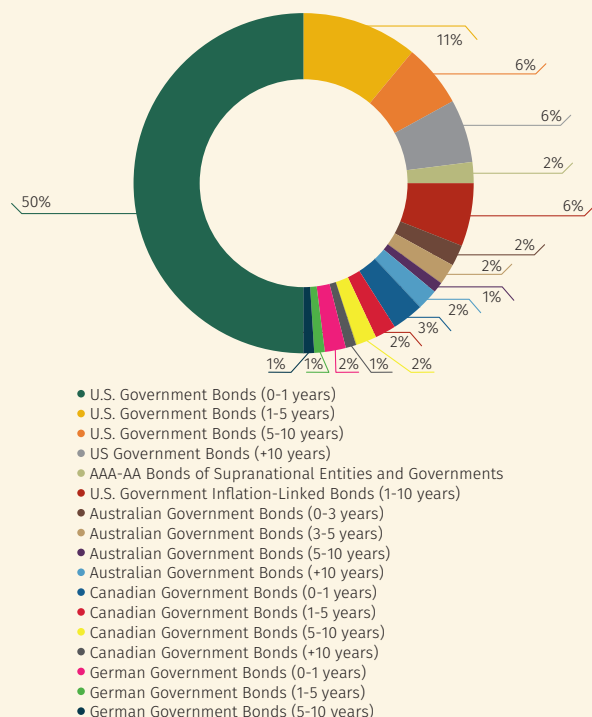
6 A detailed description of the methodology for the construction of the benchmark can be found in the boxes "Technical Explanation of the Benchmark Construction Methodology" and "Market Risk Constraints in the Optimization Process" in the 2013 and 2019 Foreign reserves Management Reports.

7 See Box "New currency composition of the foreign reserves portfolio" in the March 2012 Report of the Board of Directors of *Banco de la República* for a detailed explanation of the methodology for the currency composition of reserves.

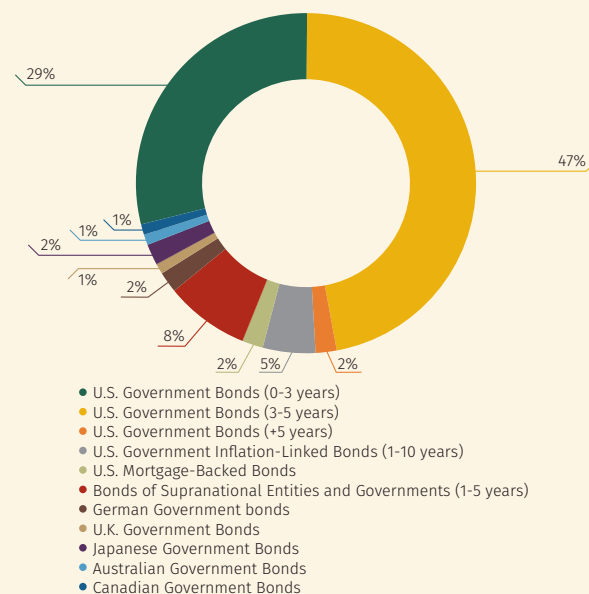
8 The indexes published by ICE Data Indices are used for the different sectors comprising the benchmark index.

Graph A1.1
Composition of the Benchmark Indexes in the Short and Medium Tranches
(as of 31 December 2024)

A. Short term tranche



B. Medium term tranche

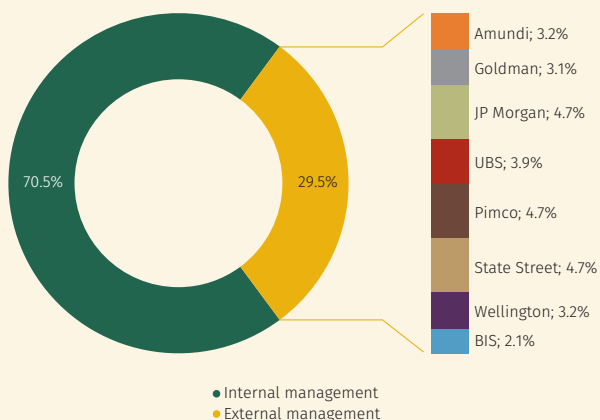


Source: Banco de la República.

4. External Management Program

Banco de la República directly manages the short-term segment, a portion of the medium-term segment, and the gold segment. The remaining resources of the medium-term segment are managed by external portfolio managers. At the end of December 2024, the internally managed portion of the investment portfolio amounted to USD 40,776.4 m (70.5% of the investment portfolio), while the externally managed program amounted to USD 17,089.9 m (29.5% of the investment portfolio).

Graph A1.2
Investment Portfolio Management
(as of 31 December 2024)



Source: Banco de la República.

The main purposes of using external managers are to generate returns superior to those of the benchmark index and to improve portfolio diversification. In this sense, the firms selected to participate in the program have strong market analysis abilities and sophisticated infrastructure that can be used to define investment strategies and train *Banrep's* staff in international investment management, the latter being another goal of the external management program.

The private firms participating in the program are selected through competitive processes and are continuously evaluated. Based on the results achieved by each administrator since their appointment, the amount administered is modified or their continued participation in the program is reviewed. Currently, the private firms participating in the external management program are: Amundi Asset Management, Goldman Sachs Asset Management L.P., JP Morgan Asset Management (UK) Limited, Pacific Investment Management Company LLC, State Street Global Advi-

sors Trust Company, UBS Asset Management (Americas) LLC, and Wellington Management Company LLP (Graph A1.2). The resources managed by these entities are held in the custody accounts of *Banco de la República*, and the administrators' contracts may be terminated when deemed necessary. Investments in funds managed by the Bank for International Settlements (BIS) are also considered part of the external administration program. Only central banks and multilateral entities have access to these funds, and their purpose is to make investments in assets appropriate for global foreign reserves in a cooperative effort among various countries.⁹

⁹ It is currently invested in a fund of securities issued by the Chinese government (USD 914.8 m) and a fund of securities issued by non-financial corporations (USD 287.6 m).

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