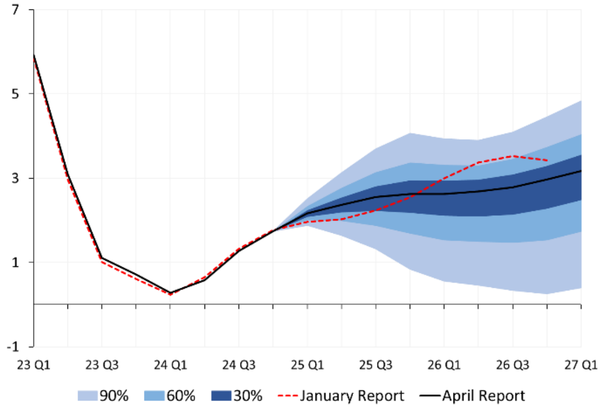
1. Summary

1.1 Macroeconomic Summary

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

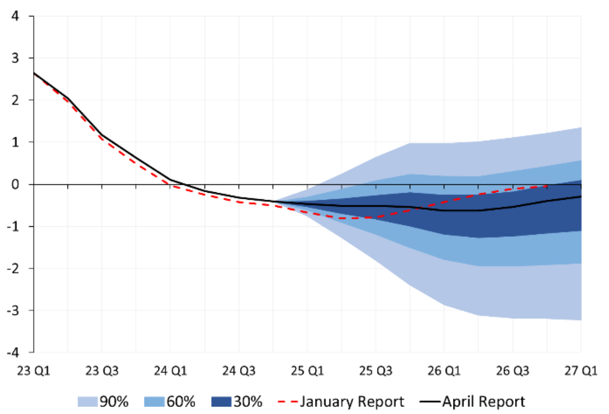
Compared to the outlook of the January Report, the economic growth forecast for 2025 remained at 2.6%, while for 2026 it was decreased to 3%. These estimates incorporate a more dynamic domestic demand during the first quarter of 2025 but expect a negative effect on the Colombian economy over the forecast horizon because of higher tariffs and the uncertainty surrounding the latter in the United States. Colombia’s annual fourth quarter GDP growth in 2024 (2.4%) was in line with projections (2.3%), although domestic demand proved more dynamic than foreseen (4.4% vs. 4.1%) while the external trade balance delivered a more unfavorable accounting contribution. The augmented growth of domestic demand,

Graph 1.1
Gross Domestic Product, four quarter accumulation [a/b/c/]
(annual change)
(percentage)



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

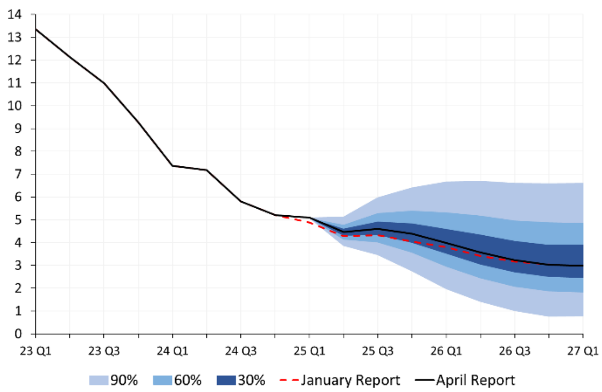
Graph 1.2
Output gap [a/b/c/] - Predictive Densities
(four-quarter accumulation)
(percentage)



a/ The historical output gap estimate is calculated as the difference between observed GDP (four-quarter accumulation) and potential GDP (trend; four-quarter accumulation) based on the 4GM model.

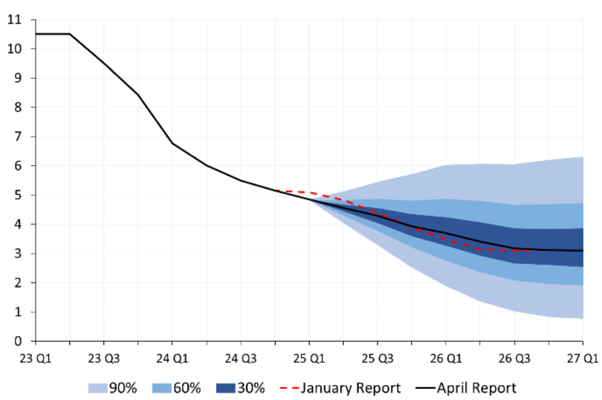
b/ This graph presents the forecast probability distribution on an eight-quarter time horizon. Density characterizes the prospective balance of risks with areas of 30%, 60%, and 90% probability surrounding the central forecast (mode), through a combination of densities from the Patacon and the 4GM monetary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

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



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

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



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

which completed five consecutive quarters of increases of its level, is a consequence of the improved performance of inventories and gross fixed capital formation (GFCF), along with investment in machinery and equipment, and in other buildings and structures. The higher-than-expected increase in imports reflected the performance of domestic demand and explained the expansion of the trade imbalance in real terms. Economic activity figures for the first quarter of 2025 suggest the economy would have grown year-on-year by 2.5%, surpassing the January estimates (1.8%) owing to a more vigorous domestic demand (4.9%) stemming from greater private consumption (2.6%) and heightened investment (19.9%). Imports would have accelerated in annual terms (14.4%), consistent with the performance of domestic demand, while exports contracted (2.0%). For the rest of the year, the high prices of several agricultural products such as coffee, along with the elevated levels of remittances from abroad and robust behavior of foreign tourism, will continue to stimulate household disposable income and spending. In an environment of lower real lending rates and with moderating credit risk, the expected recovery of lending would also contribute to output growth. However, changes in the US tariff policies have increased global risk and the cost of external financing, which would negatively impact demand for Colombia's exports. Thus, when incorporating both the expected improved dynamics for the first quarter and the negative external shock, the economic growth forecast for 2025 continued at 2.6%, but fell for 2026 from 3.4% to 3.0% (Graph 1.1). The abovementioned economic activity would unfold in the context of a gradual easing of domestic monetary policy over time, compatible with the convergence of inflation to the 3.0% target in the forecast horizon. Consequently, and heeding the GDP revisions published by DANE, the excess productive capacity forecast would be slightly lower for 2025 but somewhat greater for 2026 than the figures noted in the January Report (Graph 1.2). These estimates continue to be subject to high uncertainty due to external factors such as global political and trade tensions, the response of financial markets and monetary policy in advanced economies, coupled with domestic factors like uncertainty surrounding fiscal policy.

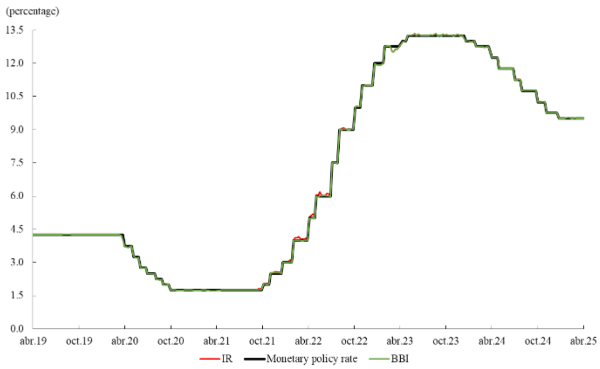
In March, headline inflation (5.1%) fell after four months of relative stability, while core inflation (4.8%), excluding food and regulated items, continued on its downward path. Inflation is expected to continue to decline and converge to the 3.0% target over the forecast horizon (Graphs 1.3 and 1.4). Compared to the January Report forecast, headline inflation declined in March at a slower pace owing to increased prices experienced by some regulated services, particularly gas and transportation, and processed foods. The steeper-than-expected fall in core inflation partially offset previous increases and contributed to the lower headline inflation. Within core inflation, several items in the services category, such as food away from home, non-regulated education, building management, health services, and hairdressing services, among others, registered a lower annual change than anticipated. This behavior was mirrored in the prices of several goods such as clothing, cell phones, vehicles, televisions, computers, and pet food, among others. For the remainder of 2025 and 2026, headline inflation would continue its convergence trajectory towards the 3% target, although at a slower pace than predicted in the January Report. This slowdown is due to additional adjustments in gas prices and the upward pressures exerted on processed foods throughout 2025 by international pricings. In addition, in 2026, several significant CPI groups, such as rents, would be indexed to the higher inflation rate anticipated for year-end 2025. Nevertheless, the cumulative monetary policy effects, reflected in an output gap that would remain negative during 2025 and 2026, and the disinflationary pressures from the real exchange rate would continue to contribute to the convergence of inflation towards its target. Thereby, by the end of 2025 and 2026, headline inflation is expected to fall to 4.4% and 3.0%, respectively (previously estimated at 4.1% and 3.0%). These forecasts continue to face high uncertainty, largely associated with the future behavior of the exchange rate, the impact of US trade policy changes on global trade, supply shocks affecting international food prices, provisions adjusting the prices of some regulated items and services, and the effects of the minimum wage increase during the remainder of the year.

The restrictive monetary policy stance continues contributing to the convergence of inflation towards the target. However, observed inflation and most measures of inflation expectations continue to surpass 3%. Economic activity indicators for the beginning of the year suggest that output will complete six periods of quarterly increases, with a slightly stronger domestic demand than expected. The economy continues to forecast excess productive capacity, contributing to reducing inflation. In the labor market, the unemployment rate registers levels that can be described as low compared to historical figures. Employment shows a growing trend, and the real increase in the minimum wage, exceeding the increase in labor productivity, is reflected in the price increases noted in several CPI groups. In 2024, the external position completed two consecutive years of current deficit decreases as a percentage of GDP, conducive to reducing the country's external vulnerability. However, the fiscal deterioration makes the country more vulnerable to a negative external financing shock. Going forward, global trade tensions originating from higher tariffs are expected to negatively affect the country's external demand, although the size of the impact remains highly unclear. At the same time, this negative external shock would place upward pressure on the exchange rate. Similarly, the country's fiscal weakness would exert upward pressure on the risk premium and the exchange rate. Inflation is expected to continue to decline and fall within its 3% target, but at a slower pace than forecast in the January Report. Inflation expectations for December 2025 and 2026 remain above 3%. Compared to the January estimate, in 2025 the predicted excess production capacity will be more moderate but exceed the previous forecast for 2026. The foreseen slower downward trend in inflation and lesser excess capacity are compatible with a restrictive monetary policy stance that aims for inflation to converge with the target over the forecast horizon.

1.2 Monetary Policy Decision

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

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



Sources: Superintendencia Financiera de Colombia and Banco de la República.
1/ IR: interbank rate. BBI: benchmark banking indicator.