Box 6: Liquidity Risk Management in Foreign Reserves - Foreign Reserves Management Report, 2025

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Banco de la República, in fulfillment of its constitutional mandate to manage foreign reserves, conducts this activity in accordance with the criteria of safety, liquidity, and return established by Law 31 of 1992. This box aims to explain liquidity risk and its management in foreign reserves.

First, liquidity is defined as the ability to convert an asset into cash in the shortest possible time and at the lowest possible cost. In this context, liquidity risk refers to the difficulty of converting an asset into cash or the likelihood of incurring a loss in the process. Liquidity risk represents a constant challenge for portfolio managers, particularly for those who need to maintain liquid resources at a specifc moment.