Frequently Asked Questions on the international reserve accumulation program approved at the July 2026 Board Meeting

1. Why is an international reserve accumulation program needed if current reserve levels are already adequate?

International reserves act as insurance for the country, safeguarding the availability of foreign-currency resources to handle episodes of international uncertainty, facilitating access to external financing, and strengthening confidence in Colombia among investors, creditors, and other economic agents.

The decision is precautionary. International reserves are adequate to meet the country's external financing needs and support the economy in the event of external shocks. However, over the past year, the external liquidity buffer, as indicated by various reserve adequacy metrics tracked by *Banco de la República*, has decreased. This reduction mainly reflects the fact that projected external debt payments and other external financing needs have increased.

2. Does this decision mean that *Banco de la República* considers the international reserves to be insufficient?

No. International reserves remain adequate to meet the country's external financing needs and to support the economy in the event of external shocks. The decision to accumulate international reserves does not reflect a scarcity; rather, it is a precautionary strategy aimed at strengthening the country's external liquidity position and preserving adequate buffers for future protection.

Recently, some globally accepted reserve adequacy metrics have shown a reduction in their buffers, primarily due to rising potential external financing needs for the economy. For example, the IMF's Assessing Reserve Adequacy (ARA) metric, one of the most widely used international benchmarks, has recently stood at around 1.14, which remains adequate but is closer to the lower end of the recommended range (1.0 to 1.5).

Consequently, the Board considered it suitable and timely to maintain a strong external position and gradually strengthen the Colombian economy's capacity to respond to potential future shocks.

3. If international reserves have increased in recent years, why accumulate more?

International reserves have increased in recent years because of several factors, including returns on the financial assets in which they are invested. However, it would not be prudent to assume that these favorable results will continue indefinitely. The outlook for international financial markets may become less favorable in the coming years. For this reason, *Banco de la República* considers it appropriate to strengthen reserve levels now through a gradual and precautionary approach.

In simple terms, it is better to strengthen the buffer while conditions are favorable rather than wait until financial stress or heightened uncertainty arises.

4. How does this decision relate to market confidence?

Maintaining adequate international reserve levels helps ensure the country's ability to meet its external obligations, respond to external shocks, and maintain access to external financing. The program's objective is to strengthen these buffers in a precautionary, gradual, and transparent manner.

5. What message does this decision send to the markets?

This decision reflects prudent, precautionary management of the country's external position. *Banco de la República* aims to gradually strengthen international reserves under normal market conditions to preserve the Colombian economy's capacity to respond to potential future external shocks. In doing so, it strengthens investor and international lender confidence and facilitates the country's access to external financing.

The measure is consistent with Colombia's flexible exchange rate regime, does not alter the monetary policy stance, and aims to strengthen the fundamentals supporting the country's macroeconomic stability.

If the program is completed in full, international reserves would increase to approximately USD 73.73 billion.

6. Why accumulate reserves if the country already has access to external financing?

International reserves are highly liquid assets that are immediately available and provide an additional buffer against external shocks. Access to financing may become more costly or limited precisely during periods of financial stress; for this reason, reserves and external financing complement each other.

7. Why have some international reserves metrics deteriorated in recent years

Reserve adequacy metrics depend not only on the level of international reserves, but also on the size of the economy and the country's potential external financing needs.

Although international reserves are higher today than they were a few years ago, the economy's potential external financing needs have also increased. As a result, the coverage reserves provide against certain external risks is relatively lower than in the past.

Therefore, *Banco de la República* believes it is prudent to steadily increase international reserves. This strategy aims to ensure sufficient protection buffers and enhance the Colombian economy's resilience against external shocks.

8. Why is the amount set at up to USD 4 billion?

The amount was determined through a comprehensive assessment of the main reserve adequacy metrics. The USD 4 billion option maintains a favorable balance among strengthening the reserve adequacy metrics, the financial cost to *Banco de la República*, and the flexibility needed to ensure an adequate supply of liquidity to the economy, consistent with the policy interest rate set by the Board of Directors of *Banco de la República*.

9. Why not a smaller or larger amount?

A smaller amount would grant a more limited improvement in reserve coverage ratios, while a larger amount would offer additional benefits but also entail higher financial costs and more demanding liquidity management considerations. The Board determined that USD 4 billion provides the most suitable balance.

10. Will *Banco de la República* necessarily purchase the full USD 4 billion?

Not necessarily, since USD 4 billion is the maximum authorized amount. The actual addition will depend on demand for the options, whether the exercise condition is met, and option holders' decisions.

11. Is this a large reserve accumulation program?

The program is designed to gradually accumulate up to USD 4 billion in international reserves.

Although this is a significant amount, it represents only a small share of the country's total international reserves and will be implemented gradually through mechanisms announced in advance to the market.

The USD 4 billion represents approximately 6% of the current level of international reserves.

12. Is *Banco de la República* trying to influence the exchange rate?

No, the program is not intended to fix or target a specific exchange rate level. Colombia maintains a flexible exchange rate regime, under which the exchange rate plays an important role in adjusting to external shocks. The purpose of the program is to strengthen international reserves.

The reserve accumulation mechanism based on put options allows purchases to adjust to changing market conditions. In particular, the options may be exercised only if the Market

Exchange Rate (TRM) is below its 20-business-day moving average. As a result, purchases are expected to occur mainly during periods of exchange rate appreciation.

13. Does this program contradict a decision to raise the policy interest rate?

No, the two instruments serve different objectives and are fully compatible. The policy interest rate is employed to bring inflation back to target, while the reserve accumulation program is intended to strengthen the country's external liquidity position on a precautionary basis.

Foreign currency purchases inject liquidity into the economy in Colombian pesos, but *Banco de la República* has the tools to offset that effect when necessary. This process is known as sterilization.

Through its liquidity management operations, *Banco de la República* can maintain monetary conditions aligned with the Board of Directors' monetary policy decisions.

Therefore, the reserve accumulation program does not imply any change in interest rates or in the monetary policy stance.

14. Will the program affect the interest rate level or the monetary policy stance?

International reserve accumulation and monetary policy serve different objectives. While reserve accumulation is intended to strengthen the country's ability to withstand external shocks, monetary policy remains focused on achieving the inflation target and maintaining low and stable inflation. *Banco de la República* has the tools necessary to pursue both objectives consistently.

15. How will the program be implemented?

The program will be implemented gradually and transparently through a mechanism announced in advance to the market.

Banco de la República will conduct put-option auctions for international reserve accumulation, a mechanism that allows market participants to sell U.S. dollars to *Banco de la República* only when the conditions established under the program are met.

This mechanism offers several advantages. First, it provides transparency and predictability regarding how reserve accumulation will be carried out. Second, it allows purchases to occur gradually and in an orderly manner, avoiding interference with the normal functioning of the foreign exchange market. Finally, it encourages foreign currency purchases to be concentrated during periods when U.S. dollar liquidity in the market is more abundant.

In this way, *Banco de la República* can strengthen international reserves while preserving the flexible exchange rate regime and without targeting a specific exchange rate level.

The program provides for auctions of up to USD 400 million per month, subject to the conditions established by the mechanism.

16. Why use options?

Because options allow international reserves to be accumulated gradually, transparently, and in an orderly manner, while allowing purchases to adjust to market conditions. The 2024 experience showed that this mechanism enabled reserve accumulation without significantly disrupting the functioning of the foreign exchange market, consistent with the monetary policy stance**.**

17. Can the program be suspended?

Yes, the program may be suspended if exceptional circumstances in the foreign exchange market justify such action. *Banco de la República* may resume the program once those conditions have been resolved.

18. Why implement the program now?

Banco de la República's projections suggest that, in the absence of additional reserve purchases, reserve adequacy margins could continue to decline. Taking precautionary action now strengthens the country's external resilience before external shocks materialize or reserve adequacy levels deteriorate further. Moreover, current market liquidity and foreign exchange market conditions support a gradual and orderly implementation of the program.

19. What did *Banco de la República* learn from the 2024 program?

The 2024 program serves as the most relevant precedent, demonstrating that the reserve accumulation mechanism can operate gradually and in an orderly manner. It was implemented through monthly put-option auctions for international reserve accumulation, enabling *Banco de la República* to accumulate virtually the entire announced target within ten months, and did not cause notable disruptions to the functioning of the foreign exchange market or the implementation of monetary policy. The experience also underscored the importance of clearly communicating the program's objective and closely monitoring the mechanism's operation.