

## Economics Colombia

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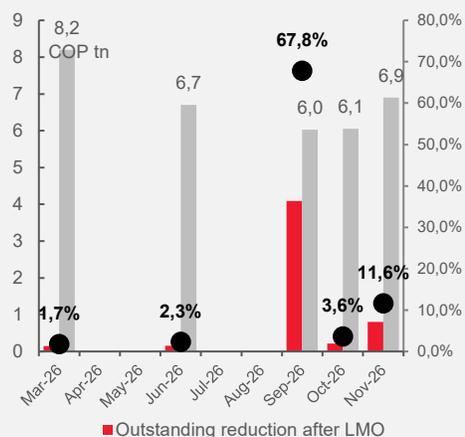
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**Chart 1.** Outstanding of TCOs involved in the debt swap.



Sources: DAVIbank Economics, MoF statement.

## Colombia: Takeaways from the First Liability Management Operation and Expectations Ahead of the Financing Plan 2026

On January 29, the Ministry of Finance carried out the first liability management operation (LMO) of the year. The operation implicitly reveals some of the potential objectives for the 2026 financing program, which should be confirmed with the release of the Financing Plan expected to be published in forthcoming days. From this first LMO, we identify the Public Credit Direction aiming to manage liquidity risks and pursue the goal of reducing the debt-to-GDP ratio.

Ahead of the Financing Plan, it will be interesting to assess how the financing strategy has changed compared to 2025, given that the expected macroeconomic scenario is now different: BanRep has begun a new hiking cycle with a surprising 100 bps rate increase, and inflation is expected to surpass 6% due to the significant increase in the minimum wage.

Regarding fiscal accounts, the primary deficit in 2025 is expected to be higher than projected in the MTFE. However, the overall deficit should be lower due to the effects of the LMO operations. Still, the fresh projections will be key—in particular, how they align with the government's commitment to return to compliance with the Fiscal Rule by 2028.

### About the First Liability Management Operation and Tweaks Versus the 2025 Strategy

It is important to remember that when the Public Credit Direction prepared the 2025 financing program, the main macroeconomic assumption was that interest rates would decline. In that context, the Ministry of Finance decided to assume refinancing risk in its issuance strategy, expecting to extend the duration of the debt once interest rates were lower. Second, liquidity risk became a significant concern at the time—particularly toward the end of 2025, when several operations suggested that the Ministry needed to secure cash urgently, even if it meant paying meaningful premiums. This was evident in the direct transaction with PIMCO.

All in all, in 2026 liquidity constraints remains significant for Colombia. This is driving both an early start to the global debt issuance program and, as we saw this week, the execution of a debt swap in the local market.

### Our View on What Is Behind the Liability Management Operation

- The operation involved two groups of securities, covering both peso denominated and UVR denominated TES (COLTES). For peso COLTES, we believe the primary objective was reducing liquidity risk. For UVR COLTES, the goal appears to be reducing the nominal value of the debt, as the exchanged references are discounted bonds swapped for bonds with prices closer to par.

**Table 1:** Interest rate comparison between withdrawn references and issued references during the swap

UVRs references	Coupon	Weighted avg rates of each reference during auctions / rate of January 2026 transaction	Change in the Nominal Outstanding in the LMO
17-mar-27	3,3	3,13	-3,972
18-abr-29	2,25	4,02	-5
25-mar-33	3	3,97	-1,244
16-jun-49	3,75	4,45	-3,735
22-ene-31	6,5	6,3	8,6
1-feb-62	6,5	6,367	3,604
Weighted rates of withdrawn references	3,02	3,88	-14,0
Weighted rates of increased references	6,50	6,32	12,2

Sources : Min Fin communique, DAVIbank Economics.

**Details of the operation and its results:**

- **Exchanging TCOs for 2030 COLTES Aims to Reduce Liquidity Risk**

The Ministry of Finance proposed exchanging TCOs maturing in 2026 (March, June, September, October, and November), which currently total COP 28.4 tn in outstanding value. The March 2026 TCO is the largest maturity, at COP 8.2 tn. **In our view, this operation confirms the government’s intention to mitigate liquidity risk, given the low peso cash buffers (DTN of COP 15.3 tn as of January 23) and the fact that the next major tax collection season begins until April.** However, in our opinion, the results of the debt swaps were not sufficient to materially ease liquidity pressures (Chart 1). The maturity profile prior to April remains challenging, and this may push the government to continue seeking additional financing sources—such as large TCO issuances, further market-based TCO swaps, or other sizable operations to manage upcoming payments.

- **UVR COLTES debt swap:**

**Our interpretation is that this operation aimed to reduce the nominal value of the debt while taking advantage of the structural demand for inflation-indexed instruments, particularly among local investors.** In this swap, discounted bonds were exchanged for bonds trading above par. Notably, **the average coupon of the withdrawn references was 2.89%**, and the government’s effective cost of funding when these references were originally placed via auctions was **3.94%—both below the coupon and yield of the instruments delivered to investors in the swap (a 6.5% coupon and an operation yield of 6.3%).**

**Why?** As stated in the official communiqué, the objective was to achieve a nominal debt reduction of COP 2.5 tn, of which COP 1.7 tn came from the UVR swap. In our assessment, the operation contributed to a marginal improvement in the debt-to-GDP ratio. However, over the long term, it increases the interest payment burden, given the higher coupons of the new bonds. **All in all, this tranche of the LMO illustrates that improving headline fiscal metrics—particularly nominal debt levels—remains a priority.** Nonetheless, it will be important to assess how these operations affect long-term interest burden.

**About the Financing Plan 2026:**

**The Financing Plan is one of the most important fiscal publications in Colombia.** It typically presents the preliminary fiscal results for the previous year and updates expectations regarding the deficit and financing strategy for the current year.

**In 2025, the Financing Plan triggered a credibility issue.** First, compliance with the Fiscal Rule required recording 1.9% of GDP in temporary transactions, 80% of which was attributable to an unexpected shortfall in fiscal revenues. Second, the initial projection of a 5.1% of GDP deficit for 2025 did not incorporate the existing “budgetary lag,” which ultimately appeared in the MTFF along with the request to activate the Fiscal Rule’s escape clause.

### What should be monitored in 2026?

#### For the “above-the-line” accounts:

- **2025 fiscal results.** As of November 2025, the total fiscal deficit stood at 5.9% of GDP, with a primary deficit of 3.3% of GDP. This suggests that the financing strategy and possibly favorable movements in variables such as the exchange rate helped reduce the interest burden. However, the primary deficit is expected to remain significantly elevated.
- **Consistency of the macroeconomic scenario, particularly revenue projections.** It will be crucial to assess how the government incorporates the congressional rejection of the tax reform and the Constitutional Court’s suspension of the State of Emergency. Preliminary information from President Petro statements suggest the Government will cut COP 16 tn in the budget.
- **Compatibility of the projected primary balance path with the trajectory required to return to Fiscal Rule compliance by 2028.**
- **Sensitivity to parameters.** Monitoring assumptions around key variables—and the implications of policy decisions such as reductions in FEPC-regulated gasoline prices—will be important.

#### For the financing side:

- In 2025, the financing strategy drew substantial attention because it included efforts to reduce the cost of outstanding debt and issuance strategies aimed at moderating the interest burden. The underlying assumption was that interest rates would decline. However, this expectation faded as the central bank instead launched a new hiking cycle.

#### In 2026, it will be particularly relevant to monitor:

1. Whether auction sizes increase.
  2. Whether the strategy of maintaining high refinancing risk persists.
  3. The extent to which global markets remain a key funding source.
  4. The status and planned approach to unwinding the TRS operations with the six international banks.
- **As highlighted in the first part of this report, liquidity risk has been a persistent concern in Colombia.** We will be attentive to any indications of how this risk might evolve—especially considering the presidential elections, since a new administration could take office in August.

## Macroeconomic forecast DAVIbank Economics Colombia

Forecast	2019	2020	2021	2022	2023	2024	2025pr	2026pr
<b>National Accounts</b>								
Real GDP growth (yearly %)	3,2	-7,2	10,8	7,3	0,7	1,6	2,8	2,9
Domestic demand (y/y. %)	4,0	-7,5	13,4	10,3	-2,5	2,0	4,3	3,3
Consumption (y/y. %)	4,3	-4,2	13,8	9,0	0,6	1,4	4,1	3,8
Private (y/y. %)	4,1	-5,0	14,7	10,8	0,4	1,6	3,6	3,9
Government (y/y. %)	5,3	-0,8	9,8	1,0	1,6	0,7	6,5	3,6
Gross capital formation (y/y. %)	3,0	-20,7	11,6	16,0	-16,0	5,2	5,0	0,8
Exports (y/y. %)	3,1	-22,5	14,6	12,5	3,1	2,5	1,2	1,5
Imports (y/y. %)	7,3	-20,1	26,7	24,0	-9,9	4,4	8,9	3,1
<b>Laboral Market</b>								
Unemployment (%. Average)	10,9	16,7	13,8	11,2	10,2	10,2	8,9	9,8
<b>Balance of Payments</b>								
Trade Balance (USD\$. B)	-14,1	-13,1	-20,0	-16,6	-8,2	-9,77	-12,91	-14,10
Exports (USD\$. B)	51,3	38,2	50,9	73,1	67,8	68,87	69,6	72,6
Imports (USD\$. B)	65,5	51,3	70,9	89,6	76,0	78,63	82,54	86,6
Current account (USD\$ Balance. B)	-15	-9	-18	-21,3	-9,7	-7,412	-10,05	-11,29
Current account (% of GDP)	-4,6	-3,4	-5,6	-6,2	-2,7	-1,8	-2,4	-2,5
Exchange terms (y/y. %)	4,04	-12,62	20,74	5,94	-18,0	-0,7	-1,0	
<b>Prices. Rates &amp; Exchange Rates</b>								
CPI (y/y. %. End period)	3,80	1,61	5,62	13,12	9,28	5,20	5,10	6,34
CPI (y/y. %. Average)	3,52	2,53	3,49	10,15	11,77	6,63	5,14	5,79
CPI without food (y/y. %. End period)	3,45	1,03	3,44	9,99	10,33	5,60	5,11	7,06
COP (\$. End period)	3297	3422	4077	4850	3902	4405	3780	3918
COP (\$. Average)	3281	3694	3766	4254	4322	4153	4050	3924
BanRep's rate (%. End period)	4,25	1,75	3,00	12	13,0	9,50	9,25	12,00
<b>Tax Codes*</b>								
Net Debt of CNG (% of GDP)	48,4	60,7	60,1	57,6	53,4	59,3	61,3	63,0
Primary Balance of CNG (% del PIB)	0,4	-5,0	-3,6	-1,0	-0,3	-2,4	-2,4	-1,4
Deficit of CNG (% of GDP)	-2,5	-7,8	-7,1	-5,3	-4,3	-6,8	-7,1	-6,2

\*Source: MTFE 2025.

Source: DAVIbank Economics Colombia.

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