Colombia: Review Under the Flexible Credit Line Arrangement-Press Release; Staff Report; and Statement by the Executive Director for Colombia

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COLOMBIA

May 2021

REVIEW UNDER THE FLEXIBLE CREDIT LINE ARRANGEMENT—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR COLOMBIA

In the context of the Review Under the Flexible Credit Line Arrangement, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on April 28, 2021, following discussions the officials of Colombia on economic developments and policies underpinning the IMF arrangement under the Flexible Credit Line. Based on information available at the time of these discussions, the staff report was completed on April 13, 2021.
- A **Staff Supplement** updating information on recent developments.
- A **Statement by the Executive Director** for Colombia.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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PRESS RELEASE

PR21/115

IMF Executive Board Concludes Review of Colombia's Performance Under the Flexible Credit Line Arrangement

FOR IMMEDIATE RELEASE

Washington, DC – **April 30, 2021:** The Executive Board of the International Monetary Fund (IMF) concluded on April 28, 2021 its review of Colombia's qualification for the arrangement under the Flexible Credit Line (FCL) and reaffirmed Colombia's continued qualification to access FCL resources.

The current two-year FCL arrangement for Colombia was approved by the IMF's Executive Board on May 1, 2020 (see Press Release No. 20/201). Access under the FCL was subsequently raised on September 25, 2020 to an amount equivalent to SDR 12.267 billion or about US$17.6 billion (see Press Release No. No. 20/300) and Colombia made a drawing of SDR 3.75 billion or about US$5.4 billion in December (see Press Release No. 20/363). The Colombian authorities stated their intention to treat remaining access under the FCL arrangement as precautionary—an amount equivalent to SDR 8.517 billion (or US$ 12.2 billion).

Colombia's FCL arrangement was first approved on May 11, 2009 (see Press Release No. 09/161) and successor arrangements were approved on May 7, 2010 (see Press Release No. 10/186), May 6, 2011 (see Press Release No. 11/165), June 24, 2013 (see Press Release No. 13/229), June 17, 2015 (see Press Release 15/281), June 15, 2016 (see Press Release No. 16/279), and May 25, 2018 (see Press Release No. 18/196).

Following the Executive Board's discussion on Colombia, Ms. Antoinette Sayeh, Deputy Managing Director and Acting Chairman of the Board, made the following statement:

"Colombia's very strong policy frameworks, anchored by a flexible exchange rate, credible inflation targeting-regime, effective financial sector supervision and regulation, and medium-term fiscal framework, continue to serve the country well and have allowed the authorities to deliver a coordinated and timely response to the COVID-19 pandemic. As a result, following the largest recession on record, Colombia's economy is returning to growth with policies well-positioned to support the nascent recovery.

"Colombia remains exposed to elevated external risks given the uncertainty about the path of the pandemic. Delays in the rollout of vaccines worldwide could hamper the domestic recovery through its impact on global demand and oil prices. Tighter global financial conditions could increase borrowing costs and increase rollover risks. In that context, the authorities continue to show their firm commitment to maintaining sound and prudent policies going forward. As such, the authorities have submitted to Congress a comprehensive fiscal reform seeking to raise revenues in a durable and equitable way to safeguard key social spending and public investment, while strengthening the fiscal framework to anchor sound public finances over the medium term. This reform will help to stabilize public debt and place it on a downward trajectory over time, allowing the authorities to rebuild fiscal buffers to secure the resilience of the economy.

“The FCL arrangement makes financing available when needed and continues to provide a cushion of international liquidity that signals the strength of Colombia’s fundamentals and its policy frameworks. The authorities have clearly stated their intention to treat the remaining access under the FCL arrangement as precautionary and intend to prepare for a gradual phasing out as the exceptional set of risks in the global economy clearly recede, in line with the temporary nature of the instrument. A careful communication strategy remains important to facilitate a smooth exit from the FCL.”

COLOMBIA

REVIEW UNDER THE FLEXIBLE CREDIT LINE ARRANGEMENT

April 13, 2021

EXECUTIVE SUMMARY

Context: COVID-19 has taken a severe toll on Colombia's society and economy—including over 60,000 deaths and over 5 million jobs temporarily lost in Colombia's largest recession on record. A gradual but uneven recovery led by private domestic demand and manufacturing is underway, but services continue to be weak. While the economy had remained resilient before the pandemic owing to very strong policy frameworks, economic activity is not expected to return to pre-pandemic levels until the end of 2022.

Risks: Downside external risks remain substantial and higher than pre-pandemic levels. Elevated financing needs make Colombia vulnerable to external shocks. A pandemic resurgence would induce headwinds for the global economy, reducing Colombia's commodity exports, while tighter global financial conditions could increase borrowing costs. Domestically, this could halt the recovery, increase financing needs, complicate implementation of fiscal reform, and compound financing risks.

Flexible Credit Line (FCL): On December 2nd, Colombia made a drawing of US$ 5.4 billion under the FCL arrangement in the context of the pandemic. The authorities are using the drawing to help meet higher financing needs whilst maintaining strong external buffers. With access under the FCL arrangement augmented last September to SDR 12.267 billion (US$ 17.6 billion), the remaining amount available to Colombia under the credit line stands at SDR 8.517 billion (US$ 12.3 billion) after the drawdown. The authorities intend to treat this remaining amount under the FCL as precautionary.

Qualification: Staff assesses that Colombia continues to meet the qualification criteria for access to FCL resources specified under the Executive Board decision on FCL arrangements (Decision No. 14283-(09/29), adopted on March 24, 2009, as amended). Staff recommends that the Board completes this review that would allow Colombia to make further purchases until the expiration of the existing FCL arrangement on April 30, 2022—although the authorities intend to treat remaining access under the FCL as precautionary.

Approved By
Aasim M. Husain and Kevin Fletcher

The report was prepared by a team comprised of Hamid Faruqee (Head), Jorge Alvarez, Emilio Fernandez-Corugedo, Belen Sbrancia (all WHD), Alberto Behar (SPR), and Felix Vardy (MCM) with support from Nicolas Landeta, and Danjing Shen (all WHD).

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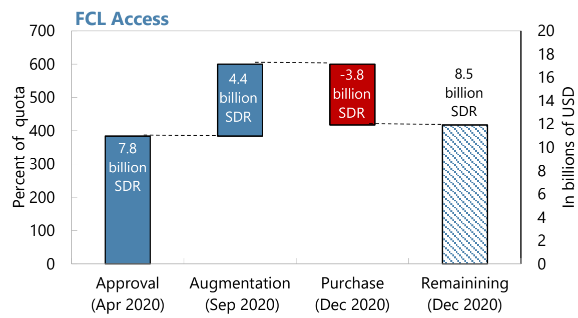
CONTEXT

1. **Colombia's macroeconomic policy frameworks remain very strong, allowing a timely and coordinated policy response to the pandemic.** The authorities have used the flexibility afforded by their policy framework to effectively respond to recent exceptional external shocks—including from oil price swings, Venezuelan migration, and the COVID-19 pandemic. Throughout these shocks, the inflation-targeting regime, flexible exchange rate, and sound financial supervision have been maintained. To create space for the policy response, the authorities temporarily suspended the fiscal rule in response to the pandemic-induced recession and remain committed to sustainable public finances anchored by their medium-term fiscal framework (MTFF). The current account has been financed by stable sources of funding, and reserve coverage ratios remain adequate according to the IMF ARA methodology.

2. **During the extraordinary COVID-19 shock, Colombia's current FCL arrangement was approved last May and access was augmented in September under the existing arrangement.** As noted in the 2021 Article IV Staff Report, COVID-19 has taken a severe toll on Colombia's society and economy—including over 60,000 deaths, sharp rises in unemployment, and the largest recession on record. The authorities' request for a new FCL arrangement was approved on May 1st, for the same access level as in 2018. In response to heightening risks with the pandemic, however, the authorities requested an augmentation on September 25, raising the access level from 384 percent of quota (SDR 7.8496 billion) to 600 percent of quota (SDR 12.267 billion). The augmentation was approved due to both actual and potential balance of payments needs that were higher than expected at the time of the May approval, as detailed in country report 20/284. As part of the request, the authorities announced their intention to use FCL resources to complement other sources of external financing.



Sources: IMF staff calculations.
Note: The value of the FCL in USD is based on the SDR exchange rate at the time of augmentation on September 25, 2020.

3. **On December 2nd, Colombia made a purchase of SDR 3.75 billion (US$ 5.4 bn), becoming the first member to draw under an FCL arrangement.** At the request of the authorities, the funds were transferred to the Ministry of Finance to meet balance of payment needs in the context of Colombia's policy response to the pandemic. With higher financing needs—partly reflecting COVID-related spending—the authorities considered FCL resources to have provided a useful complement to private sources to complete its financing plan, avoiding placing undue pressure on financial markets or reducing existing external buffers amid heightened external risks.

After the purchase, Colombia's remaining access under the FCL is equivalent to 417 percent of quota (SDR 8.517 billion or about US$ 12.3 billion).[1]

4. Market reactions signaled the value of the FCL as insurance against external risks. While the announcement of the purchase was largely anticipated, the Colombian peso appreciated and yields on the 2031 bond fell. The authorities and staff worked together to develop a coordinated communication strategy to reinforce key messages around the benefits of the FCL to address both actual and potential BOP needs while reaffirming Colombia's very strong policy frameworks.[2] The day after approval of the augmentation, the Colombian peso appreciated by more than regional peers, with the volume of transactions up 40 percent relative to the previous trading day.[3] According to the authorities, the positive market response underscores the role of the FCL as an effective tool to manage external shocks and anchor market confidence.

RECENT DEVELOPMENTS

5. Colombia was hit hard by the pandemic but a gradual recovery is underway. Nationwide and localized restrictions contributed to a historical output decline of around 6.8 percent in 2020. About a quarter of jobs were affected, with the unemployment rate momentarily surpassing 20 percent at the height of the shock, and weak private demand brought inflation below the central bank's target. The economy has started to recover, albeit intermittently, since a new spike in cases in January led to renewed localized lockdowns. As a result of the pandemic response and lower tax revenues, the 2020 headline fiscal deficit for the central government widened to 7.7 percent of GDP.

6. As demand weakened, the external deficit narrowed. The current account deficit narrowed from 4.4 percent of GDP in 2019 to 3.3 percent in 2020. The sharp domestic demand contraction reduced imports and primary income outflows while remittances inflows rose. These factors outweighed the decline in goods exports stemming from lower prices and production for some commodities. Nonetheless, estimated external financing needs rose from 15.1 of GDP in 2019 to 17.4 percent in 2020 reflecting higher debt amortization by the private sector (mostly non-banks).[4]

7. The financial system has remained resilient as banks entered the crisis from a position of relative strength, with healthy capitalization and liquidity. At end-2020, banks' average

[1] Following the December FCL purchase, the government converted US$ 1.5 billion to pesos and, as at end-2020, kept the remaining US$ 3.9 billion abroad with the intent to help meet early 2021 budget support needs. These external buffers are separate from central bank reserves.

[2] The announcement was made by virtual press conference after the central bank's monthly meeting and subsequently at a press event conducted by Fund staff. Separate press releases were issued simultaneously by the authorities and the IMF with the news on FCL augmentation.

[3] Announcement of augmentation approval made on a Friday after markets closed.

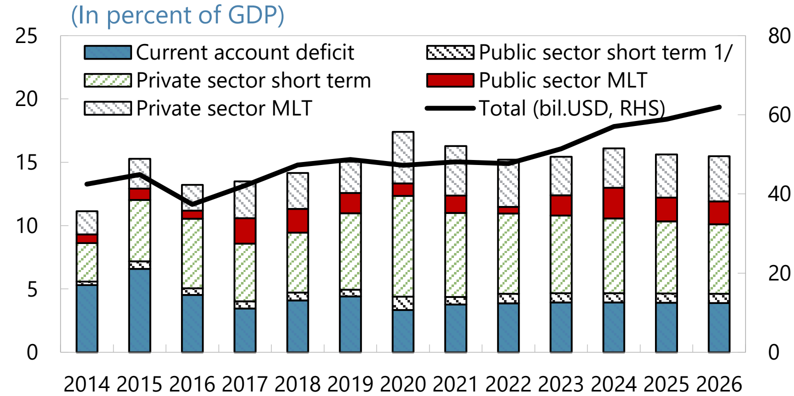
[4] There were no reports of strains in meeting obligations. Private-sector exposures are mitigated by a large domestic-currency component, foreign-currency earnings, and creditors that also have foreign direct investments.

capital adequacy ratio (CAR) stood at 17.2 percent, while the liquidity coverage ratio (LCR) hovered around 200 percent.[5] With the downturn, bank profitability declined but remains positive, and NPLs have edged up from 4.3 to 5.0 percent between end-2019 and end-2020, with the rise partly mitigated by grace periods and other temporary measures in support of debtors and banks. They are expected to continue rising until the recovery takes hold, reaching a peak of 9 to 10 percent of gross loans toward the end of 2021.[6] Stress tests by BanRep suggest that the expected but not yet realized credit losses do not pose a risk to financial stability. However, risks remain mainly from a larger than expected deterioration in credit quality if the downturn were more protracted.

OUTLOOK AND RISKS

8. The economy is projected to gradually recover in 2021 but gross external financing needs will remain elevated. Under staff's assumptions for the pandemic—declining infections, rising vaccinations and limited lockdowns —and policy support, growth is expected to rebound in 2021 to around 5 percent.[7] Thereafter, pre-pandemic drivers are expected to slowly return to support growth. As increasing domestic demand drives imports and income outflows, the current account deficit is projected to widen to 3¾ percent of GDP in 2021. Gross external financing needs are expected to moderate as a share of GDP in 2021 (to 16¼ percent) and thereafter, as private-sector amortization needs soften. However, this metric will remain elevated by historical standards, indicating ongoing vulnerabilities to terms of trade declines and capital flow reversals.

Gross External Financing Needs
(In percent of GDP)



Sources: National authorities and IMF staff estimates.
1/Includes amortization of TES.

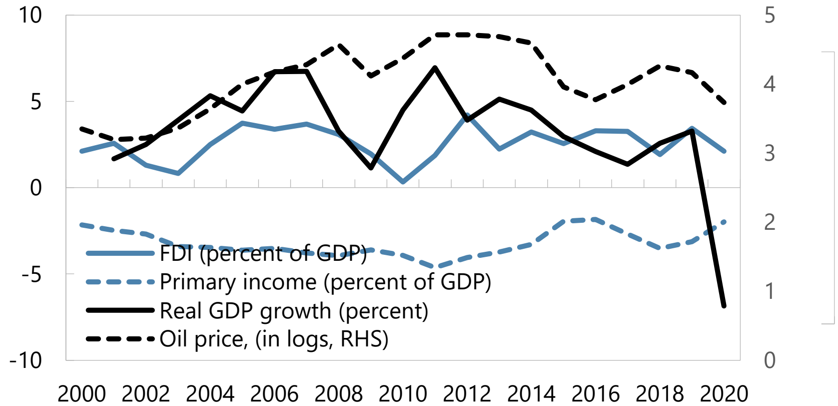
[5] Unlike the FSI data in Table 8, these numbers refer to credit institutions only. Table 8 includes so-called second-tier banks, such as national development institutions.

[6] Projection based on the authorities' stress testing exercise.

[7] The carry over (base effect) adds 4.8 percent to Annual GDP growth in 2021, leaving aside any sequential growth through the year.

9. The fallout from the pandemic demonstrated Colombia's exposure to volatility in oil and other commodity prices. In 2020, Colombia's commodity exports fell by one-third (about 3 percent of 2019 GDP). The deterioration in the trade balance also reflected lower coal exports. Notwithstanding this, a large decrease in profits remitted abroad from the mining/oil sector[8] was a main driver for an improving income balance and narrower current account deficit. However, because some profits are typically reinvested, lower profits contributed to lower foreign direct investment (FDI).[9] A faster-than-expected decline in oil prices would hurt the expected short-term recovery in exports, investment, and fiscal revenues.

FDI and Primary Income Over the Cycle

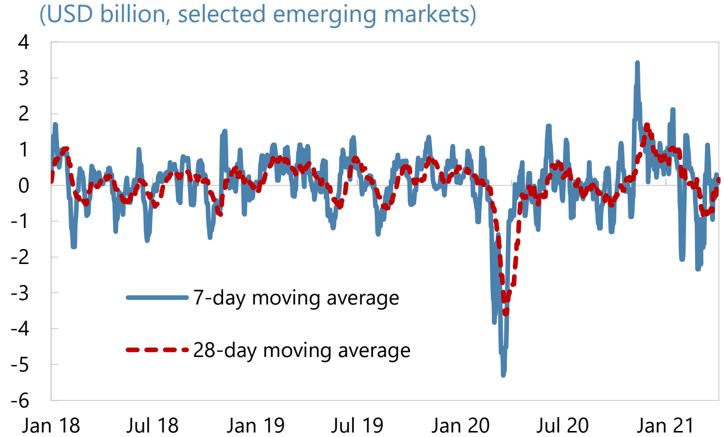


Sources: IMF, *International Financial Statistics;* Haver Analytics; and IMF staff calculations.

10. Colombia's very strong policies and fundamentals attract foreign investment, but the speed of recovery depends on the global environment. External deficits have in the last decade been financed primarily by private capital inflows through FDI and portfolio debt. In 2020, FDI declined substantially, reflecting lower new investment as well as lower re-invested profits with lower commodity prices and lower domestic GDP growth. Favorable global financial conditions helped private portfolio inflows recover from sharp outflows earlier in the year, but private inflows were exceeded by outflows through Colombian acquisition of assets abroad. Aggregate portfolio and other investment flows rose, however, as the government financed a larger share of its fiscal deficit abroad. The diversification of investors and maturity profile of sovereign borrowing also

Total Daily Portfolio Flows - Equity and Debt

(USD billion, selected emerging markets)



Sources: National sources; IIF; and; IMF staff calculations.

[8] See 2021 Selected Issues Paper.

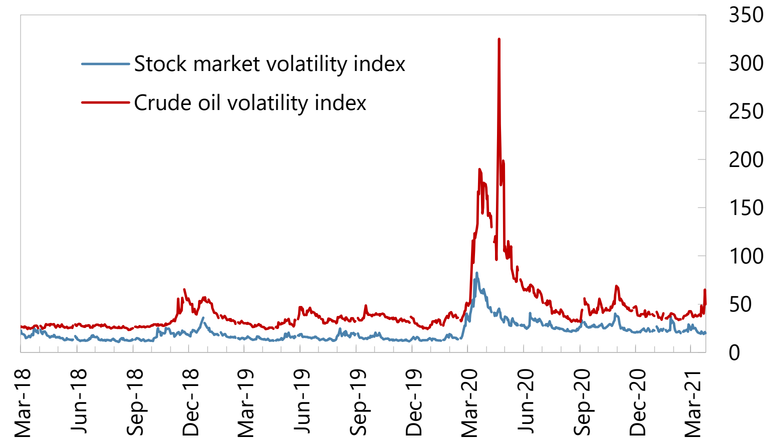
[9] For example, remitted oil profits of more than ½ percent of GDP in 2019 fell to about zero in 2020. Oil FDI, which contributed 19 percent to total FDI in 2019, also fell by about ½ percent of GDP in 2020. In terms of fiscal balances, oil-related revenues are expected to decline to ¼ percent of GDP in 2021 from 1¼ percent of GDP in 2019.

increased.[10] Globally, high-frequency proxies suggest decreasing portfolio flows to EMs in recent months. If appetite for EM securities wanes further, this poses a risk to capital flows in staff's baseline, that recovering non-oil FDI and moderating public borrowing will restore the primacy of private investment.

11. Global risks remain substantial and higher than before the pandemic. The External Economic Stress Index (ESI) forecasts stress above pre-pandemic levels (Box 1), consistent with market-based indices of uncertainty. Key external downside risks include:[11]

- *A pandemic resurgence inducing headwinds for the global economy*. This could be caused by vaccine-resistant strains and delays in vaccine production or distribution. Slower global growth would reduce demand for Colombia's exports.

Market Volatility Index



Sources: Wall Street Journal; and Haver Analytics.

- *Tighter financial conditions increasing financing costs for emerging markets***.** Potential triggers include a reassessment of market fundamentals, an increase in sovereign yields, or a re-evaluation of the risks of high inflation. Tighter financial conditions would increase rollover risks and borrowing costs for Colombia.

- *Other short-term external risks continue to be important.* An unexpected rise in immigration from Venezuela could increase fiscal and external deficits, while an intensification of social unrest, triggered for example by rising food pices, could damage sentiment and slow activity in the region and globally.

12. Domestic risks for Colombia center on navigating the delicate transition from recovery support to safeguarding fiscal sustainability. New waves of infections could again slow domestic activity through lockdowns and increase fiscal spending needs. This could complicate the fiscal consolidation expected during the transition back to the medium-term fiscal anchor and placing public debt firmly on a declining path. A delayed or weak fiscal reform would increase the risks of a lower sovereign rating and potentially a sharp rise in yields, especially if it were to coincide with

[10] Sovereign issuances on the international market in 2020 were heavily oversubscribed and at more favorable terms than in 2019, and the trend has so far continued in 2021. Non-residents' holdings of domestically issued government debt securities (TES) increased substantially last year but participation has declined in 2021 so far.

[11] See the *April 2021 World Economic Outlook*, which details the high uncertainty surrounding the global outlook.

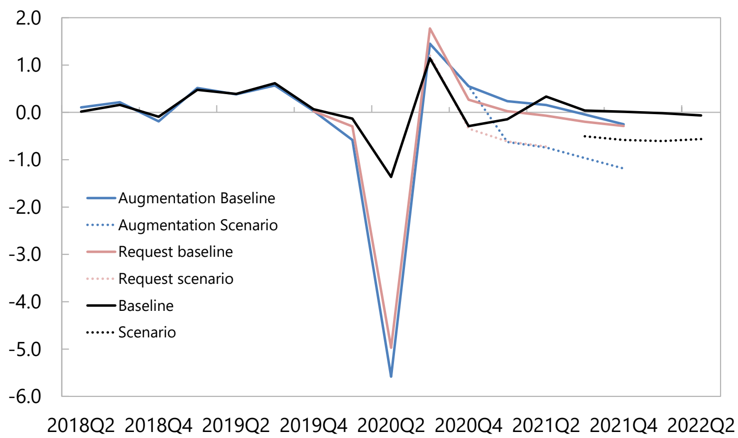
Box 1. Updated External Economic Stress Index

The updated ESI shows baseline stress below that observed during the current arrangement but above pre-pandemic levels. A more moderate adverse scenario—consistent with the more moderate scenario presented in the April 2021 WEO compared to the June 2020 WEO—in which vaccine rollout and effectiveness disappoint would leave stress lower than at the time of the FCL augmentation request.

The external ESI summarizes Colombia's external shocks and exposures to these shocks. The methodology is explained in "Flexible Credit Line—Operational Guidance Note," IMF Policy Paper, July 2018. The variables and weights are unchanged from recent Colombia FCL reports. The four variables are the level of the oil price, U.S. real GDP growth, the emerging market volatility index (VXEEM) and the change in the 10-year U.S. Treasury yield.

High baseline stress is modelled to decline but to remain above 2019 levels. Since the approval of the FCL augmentation in September 2020, external stress has been higher than modelled at the time. This primarily reflects U.S. growth dynamics, where a less disappointing outturn in the second quarter of 2020 translated to a lower rebound in subsequent quarters. Faster-than-expected increases in Treasury yields added to stress in the first quarter of 2021. In the coming year, the baseline assumption of negligible rises in yields and sustained U.S. growth are expected to drive stress levels lower than in recent quarters. Baseline stress is also lower than at the time of the approval of the FCL arrangement and its augmentation because of an upward revision in oil price assumptions. However, baseline stress is higher than that modelled for 2019.

Colombia: External Economic Stress Index
(Negative values indicate above average stress)



Source: IMF staff calculations.

The adverse scenario reflects external risks that vaccine rollout does not go as smoothly as in the baseline and that virus variants prove to be more resistant. The shock occurs in the third quarter of this year and lasts four quarters. In the adverse scenario, the level of U.S. GDP is 1½ percent lower than the baseline in 2021 and 2 percent lower in 2022. This shock is smaller than assumed for the FCL augmentation request but in line with that assumed for the request. It reflects the less severe outcome for the U.S. in the scenario presented in the *April 2021 WEO* than in the *June 2020 WEO*. As assumed for the approval and augmentation of the FCL arrangement, oil prices are 28 percent below baseline, the VXEEM two standard deviations above baseline, and yields 100 bps above baseline in the adverse scenario. The smaller U.S. shock contributes to lower external economic stress than in the adverse scenario at the time of the September 2020 augmentation. The ESI in the adverse scenario for this review is similar to that at the time of the May 2020 approval of the FCL request.

higher-than-expected fiscal and external financing needs in the context of a more difficult global financing environment if the pandemic were to worsen again.

POLICIES

13. Macroeconomic policies have appropriately focused on defeating the pandemic and supporting the nascent recovery:

- *Fiscal policy*. Due to emergency spending needs and deteriorating tax revenues from the pandemic, the authorities temporarily suspended the fiscal rule for two years. While the pandemic lingers, the authorities plan to maintain social assistance to the most vulnerable households and support larger healthcare needs, including vaccination. As a result, under staff's baseline, the deficit would further widen to 9.5 percent of GDP[12] in 2021 and be partially financed with undisbursed resources from the emergency mitigation fund (FOME). Public debt would peak in 2022 at 64.3 percent of GDP and gradually decline thereafter.

- *Monetary policy*. With the policy rate at 1.75 percent, appropriate accommodation remains in place to support the recovery. The authorities are well-positioned to reduce interest rates further if downside risks to growth materialize or if inflation remains below target, to the extent that inflation expectations remain well-anchored. The flexible exchange rate should continue to be the first line of defense against external shocks.

- *Reserve accumulation*. Reserve coverage in 2020 remained adequate at 128 percent of the ARA metric including a commodity buffer. With rising external liabilities and associated amortization needs, further reserve accumulation would help maintain buffers in an environment of heightened uncertainty and elevated external financing needs. Depending on market conditions, reserve accumulation in the order of US$ 3 billion per year on average would maintain reserve coverage at current ratios in the medium term (see 2021 Article IV Staff Report).

- *Financial supervision*. In response to the pandemic, regulatory and supervisory policies have sought to balance maintaining prudential standards, while ensuring continued credit flows to support economic activity. As measures introduced to face the pandemic are withdrawn (see 2021 Article IV Staff Report), supervisory authorities should continue intensive monitoring as planned and continue to encourage banks to make use of system-wide capital buffers to ensure the recognition of expected losses and avoid procyclical tightening of credit conditions. Capital distributions should be kept to a minimum while uncertainty is high.

14. Colombia remains committed to a very strong overall policy framework, including by reinforcing the medium-term fiscal framework. As the pandemic subsides and the recovery firms up, the authorities are committed to fiscal reform that strengthens social protection, ensures a gradual adjustment in public finances, and reinstates the fiscal rule. As signaled by the Fiscal Rule Consultative Committee (FRCC) following its March 11 meeting, public debt should be placed on a downward trend through gradual fiscal adjustment including through a comprehensive fiscal reform as soon as 2022 that durably raises revenue and improves public spending efficiency while

[12] The authorities headline deficit includes privatization proceeds of about 1.1 percent of GDP, that under the GFSM 1986 results in a deficit of 8.4 percent of GDP.

protecting the most vulnerable. A return to the fiscal rule is needed to restore the medium-term fiscal anchor, with targets envisaged in the 2020 MTFF adjusted to have more gradual but steady consolidation. Further changes to the fiscal framework, including the creation of an independent fiscal council and upgrades to the fiscal rule such as an improved escape clause would strengthen its credibility.

15. The financial sector policy agenda to further strengthen the regulatory and supervisory framework is on track. The financial supervisor is implementing the Conglomerates Law and Basel III capital and liquidity standards in line with previous staff advice. Implementation of these standards has already begun and is expected to be completed by 2024. An FSAP conducted during the course of 2021 will focus on systemic risk analysis, assessment of regulatory and financial stability frameworks, and developmental issues in the Colombian financial system.

16. The authorities' structural reform agenda should support the recovery and promote inclusive growth. The authorities have launched the *Compromiso por Colombia* strategy which will aim to create a million jobs by supporting SMEs, accelerating infrastructure projects, and providing assistance to sectors most affected by the pandemic such as the hospitality sector. The authorities report progress on the Peace Accords has continued on all pillars of the agreement, in particular on finalizing the Development Plans with a Territorial Focus (PDET), securing additional resources for peace from the royalties' system. The authorities' commendable efforts to integrate the large number of Venezuelan migrants, most recently by providing them Temporary Protective Status, should boost Colombia's economic potential.

FCL ACCESS LEVEL AND EXIT STRATEGY

17. In view of evolving external risks associated with the pandemic and adequate FCL coverage, the authorities are not requesting a change in access at this review. After the augmentation of access and subsequent purchase at end-2020, the authorities view remaining access under the FCL of 417 percent of quota (8.517 SDR billion or about US 12.3 billion) as providing, along with international reserves, sufficient buffers against prevailing external risks and potential balance of payments needs. The authorities intend to treat the remaining amount under the FCL as precautionary. With the size of the FCL purchase in December 2020 in line with staff assessments of actual BOP needs at the time of the September 2020 augmentation, remaining FCL access appears adequate

18. Authorities recognize the temporary nature of the FCL and remain committed to a gradual exit, risks permitting. In light of the country's very strong macroeconomic policy framework and considering the FCL as a temporary instrument, the Colombian authorities intend to *reduce* access below the 417 percent of quota currently available as soon as the exceptional set of risks in the global economy clearly recede (see report 20/284). The authorities see continued reserve accumulation over time as an important component for a gradual exit from the FCL instrument when conditions allow it.

19. From staff's perspective, reduced access going forward and an eventual exit from the FCL should depend on the evolution of key external risks. A framework for exit considerations would include the following main elements: [13]

- *An updated assessment of relevant external risks and whether they have receded or not at the time an FCL renewal is sought.* This would help identify the main conditions under which a successor FCL arrangement may be requested with lower access levels than 417 percent of quota, or under which no successor arrangement would be needed. In the case of Colombia, the relevant set of exceptional external risks includes the pandemic itself and related external financing risks; resumption of migration flows from Venezuela; as well as heightened volatility in commodity prices or in global risk premia. Staff's assessment is that uncertainty around the pandemic remains high, although external financing conditions have noticeably improved since last year. Staff expects the exceptional level of risks to continue to recede, but new risks could emerge or current risks could intensify.

- *Policy efforts to strengthen domestic resilience to external shocks where needed*. Policymakers should continue to increase resilience by building more international liquidity buffers or strengthening effectiveness of policy instruments to prepare for exit and to effectively manage external risks. For Colombia, very strong policy frameworks—including its fiscal framework and flexible exchange rate regime—and adequate reserve position indicate that the policy instruments and buffers support resilience. With higher external financing needs over time and Colombia's vulnerability to external shocks, fiscal reforms could support investment confidence and continued reserve accumulation would preserve adequacy ratios to insure against external risks (see 2021 Article IV Staff Report). Specifically, from the authorities' risk-based framework, continued reserve accumulation over time could provide sufficient external buffers under an adverse scenario in the absence of the FCL.

REVIEW OF QUALIFICATION

20. Staff's assessment is that Colombia continues to meet the FCL qualification criteria (Figure 4). Colombia continues to have very strong fundamentals and to implement effective policies, including:

- *A sustainable external position.* Overall, staff assesses the external position to be moderately weaker than implied by medium-term fundamentals and desirable policy settings but sustainable (see 2021 Article IV Staff Report). The negative correlation between the income balance and the trade balance, adequate reserve coverage, and a flexible exchange rate should continue to support stability going forward. After an increase in 2020, staff projects external debt to gradually decline as a share of GDP over the medium term and to remain manageable

[13] See FCL guidance note (2018:5-6).

even under large negative shocks (Figure 6 and Table 10). Fiscal consolidation once the recovery is underway is expected to raise national saving in the medium term.

- *Capital account position dominated by private flows*. Public liabilities accounted for 25 percent of international investment liability stocks at the end of 2020, while FDI accounted for 56 percent. Public flows accounted for 28 percent of direct, portfolio, and other asset and liabilities flows on average over the last three years, including a share of 43 percent in 2020 – the highest in at least a decade. The share of public financing flows is expected to decline to 37 percent in 2021 and to its pre-pandemic average in 2022. Regarding private flows, Colombia's very strong fundamentals and policies, together with a global and domestic economic recovery and favorable global monetary conditions, are expected to drive a recovery in non-oil FDI. Overall FDI is expected to rise from 2.8 percent of GDP in 2020 to 3.1 percent of GDP in 2021 and towards 4 percent of GDP over the medium term and thus continue to finance the bulk of the current account deficit. In contrast, the value of private portfolio liability inflows is expected to be less than 1 percent per year over the forecast horizon.

- *Track-record of steady sovereign access to international capital markets at favorable terms*. Colombia has had uninterrupted access to international capital markets at favorable terms since the early 2000s and has maintained access throughout the pandemic with spreads below the EM average. The public sector issued or guaranteed external bonds or disbursements of public and publicly-guaranteed external commercial loans in international markets during each of the last five years, in a cumulative amount over that period in excess of 500 percent of Colombia's Fund quota (for the central government). The three major credit rating agencies all continue to assign an investment grade rating to Colombia while acknowledging a deteriorated outlook.[14]

- *International reserve position which, notwithstanding potential balance of payments pressures that justify Fund assistance, remains comfortable*. Colombia's reserves have exceeded 100 percent of the ARA metric in each of the last three years. Reserves rose to US$ 59 billion in 2020 on valuation gains and central bank purchases from the Treasury. In particular, the central bank purchased US$ 2 billion from the central government following the government's liquidation of overseas assets and purchased another US$ 1.5 billion as the central government immediately exchanged part of its purchase under the FCL arrangement for pesos. The FCL, including the purchase, has supported Colombia's international liquidity position despite actual of balance of payments needs last year.

- *Sound public finances, including a sustainable public debt position*. Colombia's public debt is expected to be sustainable in the medium term, although gross public debt could surpass 70 percent under various shock scenarios (Figure 4). Under the baseline, nonfinancial public sector gross debt ratio is projected to gradually decline from around 64½ percent of GDP in 2022 to around 57 percent in 2026. The long average maturity and favorable currency composition of the debt mitigate short-term financing risks arising from high but diversified foreign ownership

[14] Moody's assigns a rating of Baa2. Fitch and S&P assign ratings of BBB-. Fitch was the only one to downgrade in 2020, while S&P and Moody's changed outlook from stable to negative.

(see Debt Sustainability Analysis in 2021 Article IV). Although the fiscal rule was temporarily suspended due to the pandemic, the authorities remain firmly committed to reestablishing a fiscal anchor. A planned fiscal reform aims to raise revenues durably while preserving and improving the targeting of social spending, and engaging in gradual fiscal consolidation that guarantees the medium-term sustainability of public finances.

- *Low and stable inflation, in the context of a sound monetary and exchange rate policy*. Colombia has maintained single digit inflation since 2000, which has resulted in well-anchored inflation expectations throughout the pandemic with inflation at a historical low. Monetary easing to support the recovery in 2020 has been compatible with moderating inflation and well-anchored inflation expectations. The authorities remain committed to their inflation targeting and flexible exchange rate frameworks.

- *Sound financial system and absence of solvency problems that may threaten systemic stability.* Entering the crisis with adequate liquidity and capital buffers, Colombia's well-regulated bank-dominated financial sector has shown itself to be resilient during the pandemic. As of December 2020, the banking system's capital adequacy ratio stood at 17.2 percent, with Common Equity Tier-1 capital at 12.8 percent, well above regulatory limits. Barring a severely adverse scenario, under which prolonged pandemic-induced economic dislocation could pose a risk to financial stability through its effect on credit quality, the 2021 Article IV mission did not find systemically relevant solvency risks or recapitalization needs.

- *Effective financial sector supervision.* The regulatory and supervisory authorities have shown themselves to be highly professional. The most recent FSAP and Article IV report did not raise substantial concerns regarding the supervisory framework, and the authorities have finalized and implemented many of the 2013 FSAP recommendations. The financial sector policy agenda to further strengthen the regulatory and supervisory framework remains on track. Since the start of the crisis, the financial regulator (SFC) has focused on maintaining a delicate balance between prudential standards and ensuring continued credit flows to the economy. Monthly top-down stress tests allow for early intervention if and where needed.

- *Data transparency and integrity.* Overall quality of Colombian data continues to be high and adequate for effective surveillance. Colombia has subscribed to the Special Data Dissemination Standards (SDSS) since 1996.[15]

- *Track record.* Colombia continues to have a sustained track record of implementing very strong policies, and all relevant core indicators have been met in each of the five most recent years.

21. Colombia has preserved its very strong institutional policy framework during the pandemic. The fundamental institutional architecture in place since the Constitutional Reform of 1991 has been preserved, including central bank independence. Monetary policy has credibly anchored expectations despite facing very large terms of trade and inflation shocks in recent years, including currently unwinding pandemic effects. In addition, the country continues to have effective

[15] See Informational Annex of Colombia's 2021 Article IV Staff Report for further information.

financial regulation and supervision frameworks that have contributed to a resilient financial system. As detailed in the 2021 Article IV Staff Report, progress has been made in enhancing procurement transparency, and strengthening anti-corruption and Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) regimes in line with international standards, although efforts should continue.[16] The formal recognition of Colombia as an OECD member in 2020 is a testament to credible policies conducted over recent decades

22. **The authorities remain committed to maintaining very strong policies going forward, including the preservation of a sound fiscal framework.** The Medium Term Fiscal Framework (MTFF) - introduced in 2011- will continue to guide fiscal policy and serve as the anchor for public finances. Consistent with this framework and with staff advice, the fiscal rule was appropriately suspended in 2020 to accommodate emergency spending measures and support for vulnerable households and firms during the pandemic.[17] The authorities remain committed to the MTFF and plan to undertake comprehensive fiscal reform to reinforce it. In particular, the authorities plan to reinstate the fiscal rule in 2022, complement it with a debt anchor, and undertake tax reform to mobilize revenues taking into account recommendations from an expert commission. Fiscal reform is seen as a priority to strengthen social protection, restore fiscal space, reduce government debt and anchor market confidence.

SAFEGUARDS ASSESSMENT

23. **Staff has completed the safeguards procedures for Colombia's 2020 FCL arrangement.** Deloitte Colombia (the external auditor) issued an unmodified audit opinion on Banco de la Republica's 2019 financial statements. Staff reviewed the 2019 audit results and held discussions with Deloitte. The Audit Committee continues to conduct oversight on the external audit process. Staff also noted the timely publication of the FY 2019 financial statements on the BRC's website. No significant issues emerged from the conduct of these procedures.

STAFF APPRAISAL

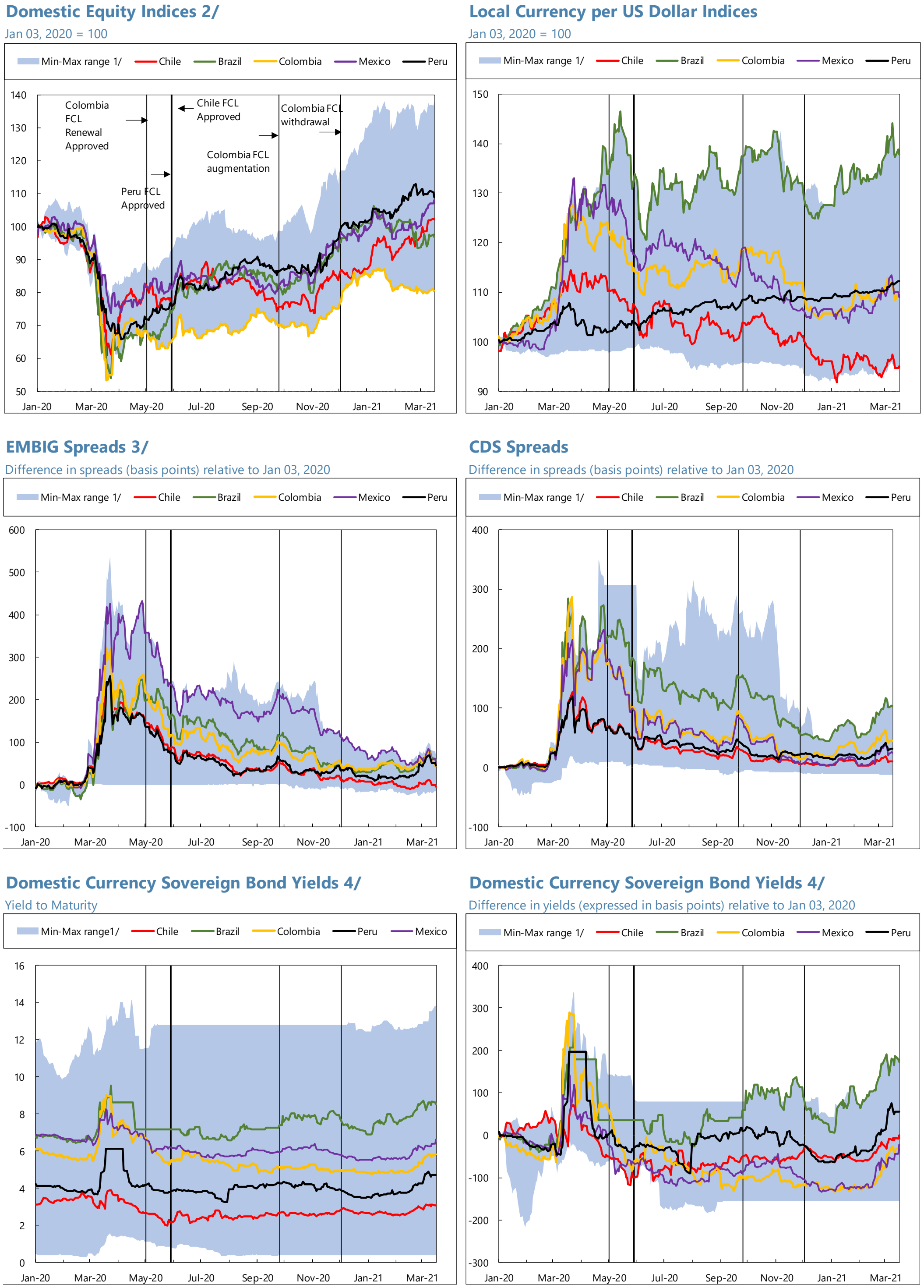
24. **The FCL has served Colombia well as an external buffer against past and prevailing external risks**. The flexible instrument with strong qualification criteria has boosted market confidence in Colombia’s very strong policy framework throughout periods of high volatility, including recent commodity price declines and the ongoing pandemic. Moreover, the renewal, augmentation, and purchase of FCL resources in 2020 supported authorities’ policies while preserving existing liquidity buffers. As important domestic and external risks remain with the pandemic, the FCL will continue to provide important insurance against external tail risks.

[16] These include efforts to enhance the effectiveness of the AML/CFT and anti-corruption systems, including through a swift implementation of the 2018 Fund-led AML/CFT assessment recommendations, introduction of whistleblower protection, and strengthening the asset disclosure of senior public officials.

[17] See Country Report No. 2020/284 for details on rule suspension.

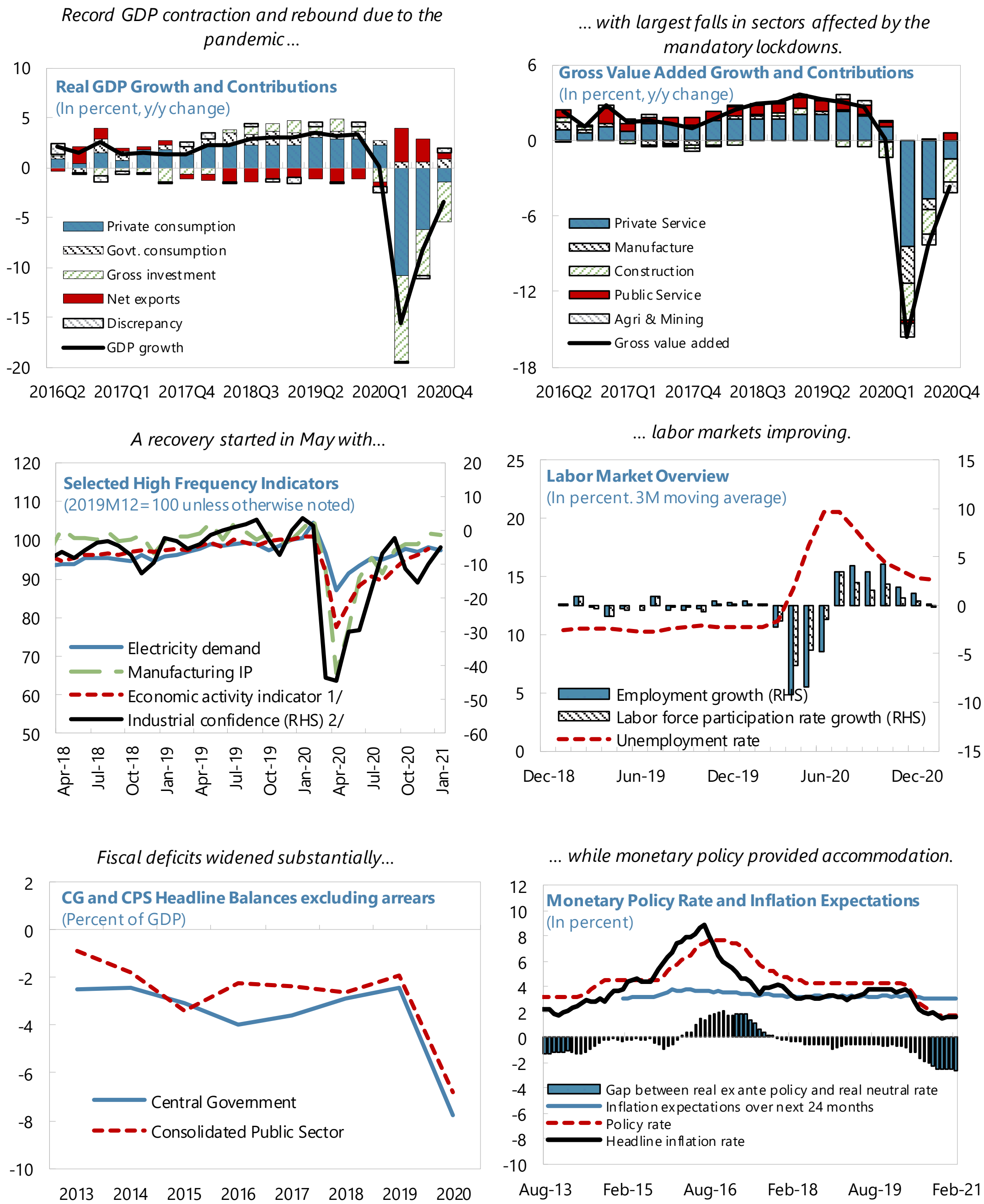
25. Staff's assessment is that Colombia continues to meet the qualification criteria for access to FCL resources. As noted in the Executive Board assessment of the 2021 Article IV consultation, Colombia continues to have very strong policy frameworks, anchored by its credible inflation-targeting regime, flexible exchange rate, guiding fiscal framework, and effective financial system regulation and supervision that have been preserved during the pandemic. The authorities have a successful track record of prudent policy management and remain committed to restoring the fiscal framework and the continuation of very strong policies consistent with the frameworks in place. Staff therefore recommends completion of the review under the FCL arrangement for Colombia.

Figure 1. Colombia: Financial Market Developments



Sources: Haver Analytics and Bloomberg LLP.
1/ Selected sample of emerging market countries including Brazil, Chile, Colombia, Mexico, Peru, Uruguay, Czech Republic, Croatia, Hungary, Poland, Russia, Turkey, India, Indonesia, Malaysia, Philippines, Thailand and Vietnam.
2/ Naitonal benchmark share price indices.
3/ Mexico's EMBIG includes Sovereign and Quasi.
4/ 10 year government bond or closest available maturity.

Figure 2. Colombia: Recent Economic Developments

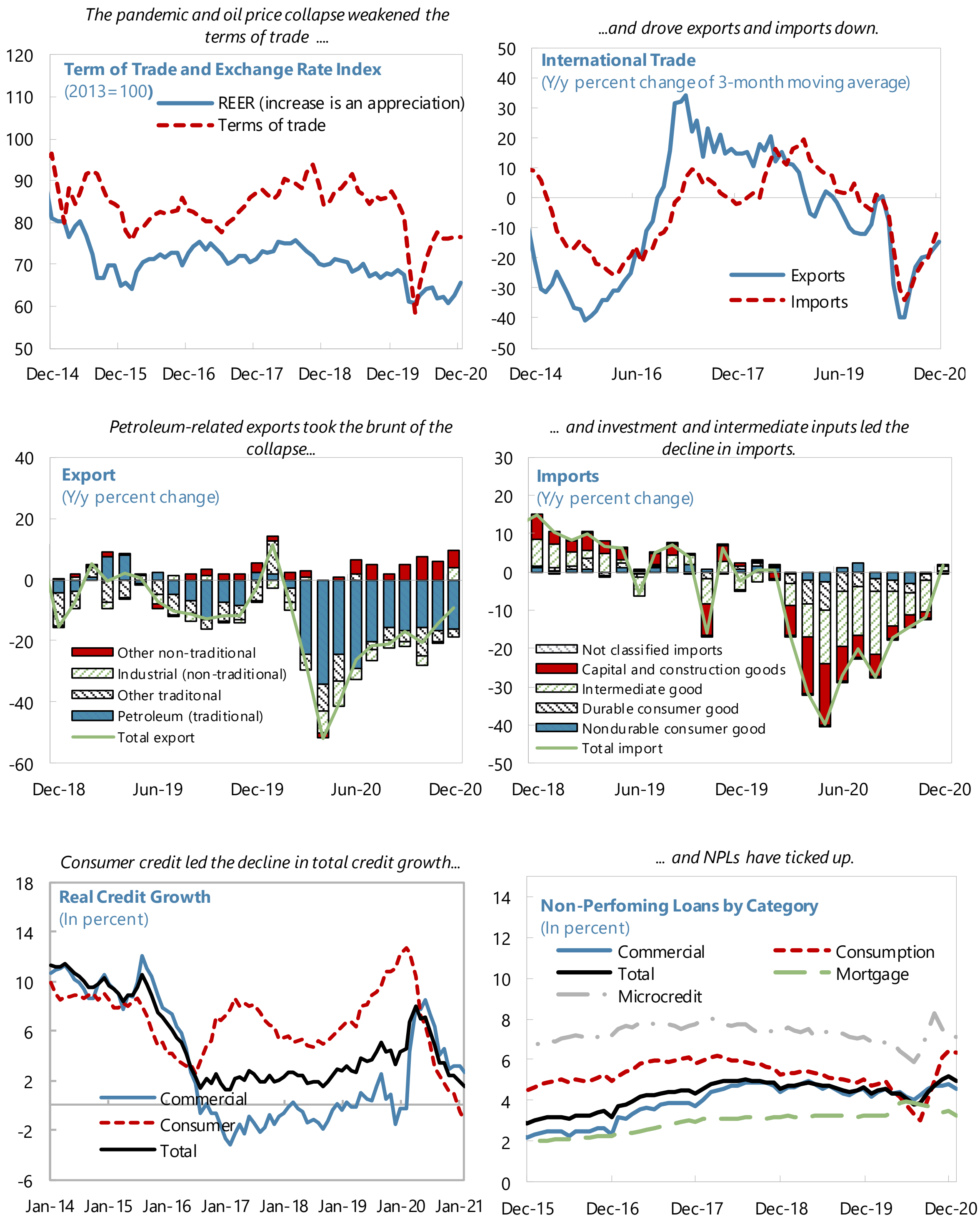


Sources: Departamento Administrativo Nacional de Estadísticas (DANE); Dirección de Impuestos y de Aduanas Nacionales (DIAN), La Fundación Para la Educación Superior y el Desarollo; Haver Analytics; and IMF staff estimates.

1/ Seasonally & working days adjusted. Other indicators in this chart are non-seasonal-adjusted.

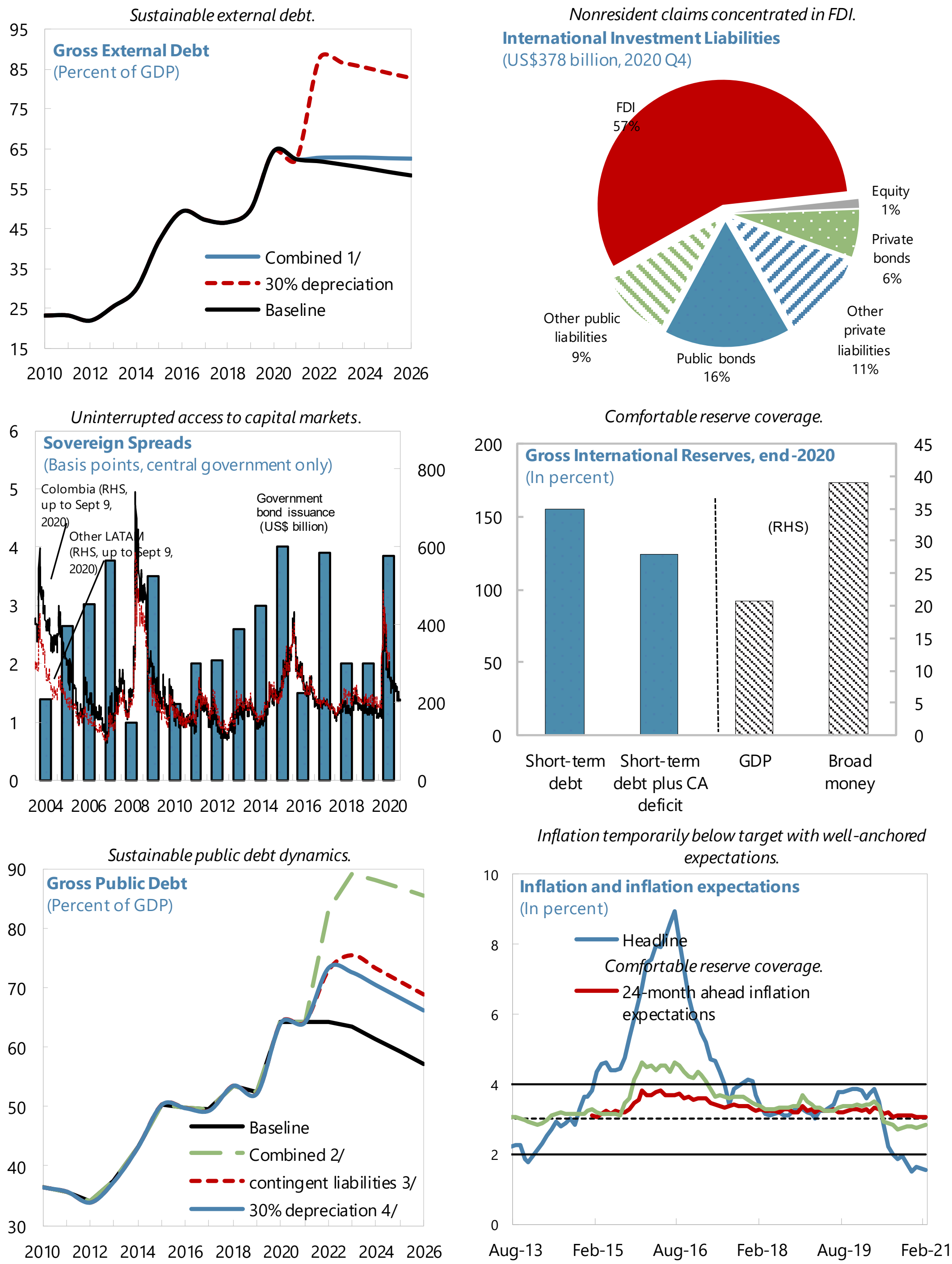
2/ Index sets to 2019M12=0.

Figure 3. Colombia: Recent External and Financial Developments



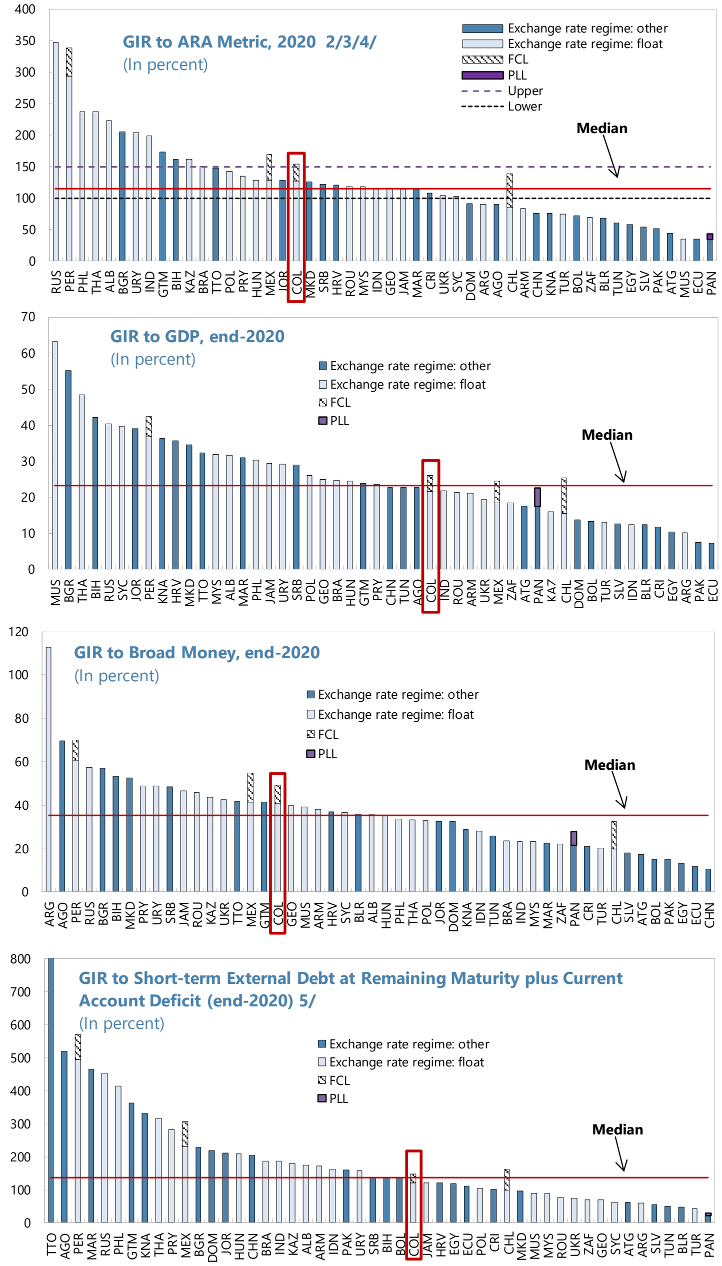
Source: DANE, Haver, Superintendencia Financiera de Colombia; Banco de la República; and IMF staff estimates.

Figure 4. Colombia: FCL Qualification Criteria



Sources: Banco de la República; Ministerio de Hacienda y Crédito Público; Datastream; Haver; and IMF staff estimates.
1/ Combined permanent 1/4 standard deviation shocks applied to interest rate; growth; and non-interest current account balance.
2/ Combined 2 year shock to primary balance (1/2 standard deviation) and growth (1 standard deviation) shocks to primary balance; permanent shock to interest rate (to historical maximum) and exchange rate (about 30 percent real).
3/ One-time increase in non-interest expenditures equivalent to 10 percent of banking sector assets leads to a real GDP growth shock (see above): growth is reduced by 1 standard deviation for 2 consecutive years; interest rate increases as a function of the widening of the primary deficit.
4/ 30 percent permanent real depreciation in 2020.

Figure 5. Colombia: Reserve Coverage in an International Perspective[1/]



Sources: World Economic Outlook; IFS; and IMF staff estimates.

1/ The sample of countries included in these charts includes all EMEs for which data is available. For Colombia, FCL amount refers to remaining precautionary access.

2/ The ARA metric provides a tool to help inform reserve adequacy assessments, but individual circumstances (for example, access to swap lines, market maturity, etc.) require additional judgment and, for this reason, mechanistic comparisons of the ARA metric do not provide a complete view.

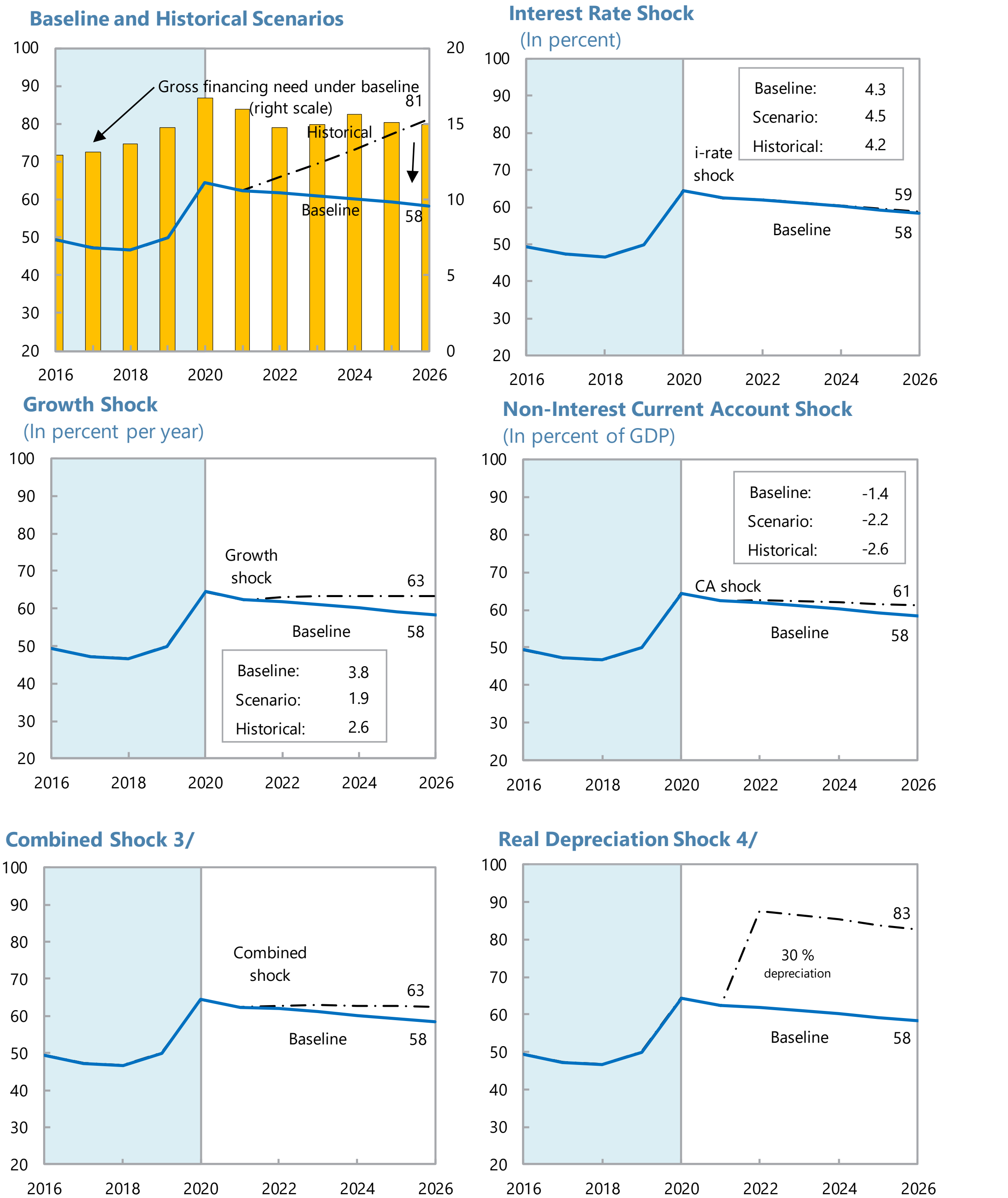
3/ The ARA Metric is a weighted sum of potential drains on the BoP, depending on the country's exchange rate regime. For fixed exchange rates, ARA Metric = 10% × Exports + 10% × Broad Money + 30% × Short-term Debt + 20% × Other Liabilities. For floating exchange rates, ARA Metric = 5% × Exports + 5% × Broad Money + 30% × Short-term Debt + 15% × Other Liabilities. See "Guidance Note on the Assessment of Reserve Adequacy and Related Considerations", IMF, 2016. For Colombia, includes a commodity buffer. Without the buffer, reserves coverage excluding the FCL is 145 percent.

4/ The upper and lower lines denote the 100-150 percent range of ARA metric, which are considered broadly adequate for precautionary purposes.

5/ The current account balance is set to zero if it is in surplus.

Figure 6. Colombia: External Debt Sustainability: Bound Tests [1/] [2/]

(External debt in percent of GDP)



Sources: IMF staff estimates.

1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.

2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.

3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.

4/ One-time real depreciation of 30 percent occurs in 2022.

Figure 7. Colombia: Public Sector Debt Sustainability Analysis (DSA) – Baseline Scenario

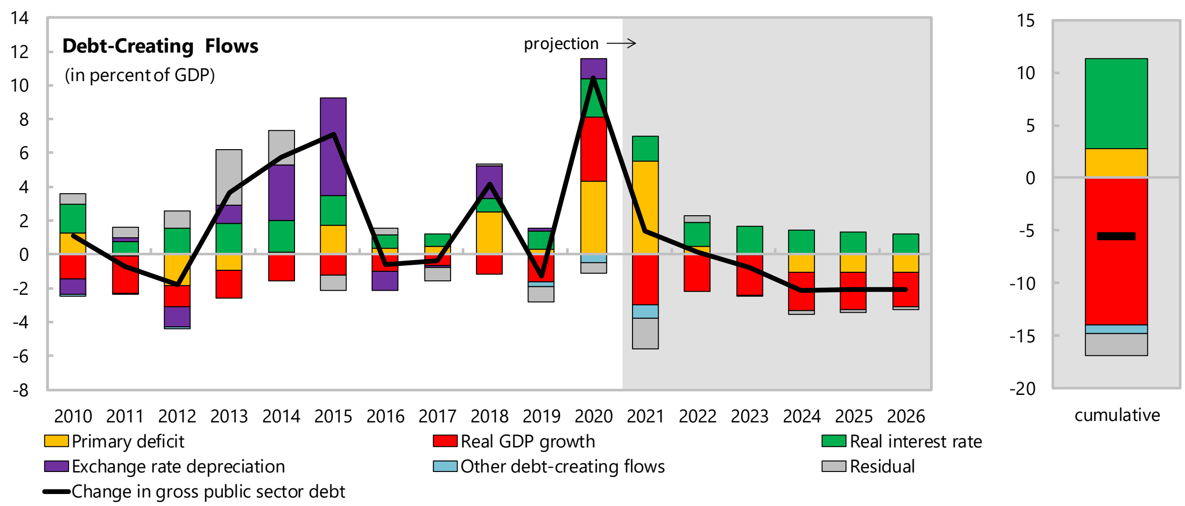
(In percent of GDP, unless otherwise indicated)

Debt, Economic and Market Indicators [1/]

	Actual			Projections						As of March 30, 2021		
	2010-2018 [2/]	2019	2020	2021	2022	2023	2024	2025	2026	Sovereign Spreads		
Nominal gross public debt	43.4	52.3	62.8	64.2	64.3	63.5	61.4	59.3	57.2	EMBIG (bp) 3/	217	
Public gross financing needs	5.3	7.3	8.7	9.7	7.0	7.0	6.6	6.1	5.7	5Y CDS (bp)	137	
Real GDP growth (in percent)	3.8	3.3	-6.8	5.1	3.6	4.0	3.8	3.8	3.6	Ratings	Foreign	Local
Inflation (GDP deflator, in percent)	3.9	4.0	1.4	3.0	3.1	3.2	3.3	3.4	3.5	Moody's	Baa2	Baa2
Nominal GDP growth (in percent)	7.8	7.4	-5.5	8.4	6.9	7.3	7.3	7.4	7.3	S&Ps	BBB-	BBB
Effective interest rate (in percent) [4/]	7.7	6.3	5.4	5.8	5.6	6.2	5.9	5.9	5.8	Fitch	BBB-	BBB-

Contribution to Changes in Public Debt

	Actual			Projections							
	2010-2018	2019	2020	2021	2022	2023	2024	2025	2026	cumulative	debt-stabilizing
Change in gross public sector debt	2.0	-1.3	10.5	1.4	0.1	-0.8	-2.1	-2.1	-2.1	-5.5	primary
Identified debt-creating flows	1.3	-0.4	11.1	3.2	-0.3	-0.7	-1.9	-1.9	-1.9	-3.5	balance [9/]
Primary deficit	0.4	0.3	4.3	5.5	0.5	0.0	-1.0	-1.1	-1.1	2.8	-0.8
Primary (noninterest) revenue and grants	27.4	28.7	26.1	26.5	28.6	28.9	29.1	28.8	28.6	170.5	
Primary (noninterest) expenditure	27.8	29.0	30.4	32.0	29.1	28.9	28.0	27.7	27.5	173.3	
Automatic debt dynamics [5/]	0.9	-0.4	7.2	-1.5	-0.8	-0.7	-0.8	-0.8	-0.8	-5.5	
Interest rate/growth differential [6/]	0.0	-0.6	6.1	-1.5	-0.8	-0.7	-0.8	-0.8	-0.8	-5.5	
Of which: real interest rate	1.3	1.1	2.3	1.5	1.4	1.7	1.4	1.3	1.2	8.6	
Of which: real GDP growth	-1.4	-1.6	3.8	-3.0	-2.2	-2.4	-2.3	-2.2	-2.0	-14.0	
Exchange rate depreciation [7/]	1.0	0.2	1.2	…	…	…	…	…	…	…	
Other identified debt-creating flows	0.0	-0.3	-0.5	-0.8	0.0	0.0	0.0	0.0	0.0	-0.8	
Privatization (incl. concessions) (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Contingent liabilities	0.0	-0.3	-0.5	-0.8	0.0	0.0	0.0	0.0	0.0	-0.8	
Residual, including asset changes [8/]	0.7	-0.9	-0.6	-1.8	0.4	-0.1	-0.2	-0.2	-0.2	-2.1	



Source: IMF staff.

1/ Public sector is defined as non-financial public sector.

2/ Based on available data.

3/ EMBIG.

4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.

5/ Derived as $[(r - \pi(1+g) - g + ae(1+r)]/(1+g+\pi+g\pi))$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

6/ The real interest rate contribution is derived from the numerator in footnote 5 as $r - \pi (1+g)$ and the real growth contribution as $-g$.

7/ The exchange rate contribution is derived from the numerator in footnote 5 as $ae(1+r)$.

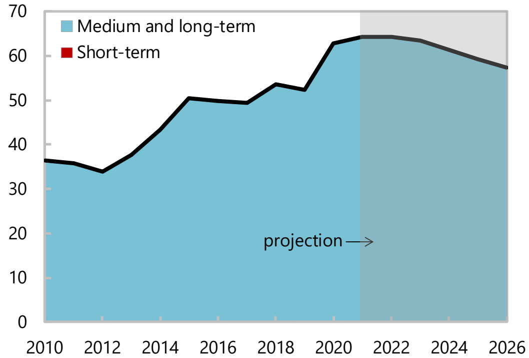
8/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

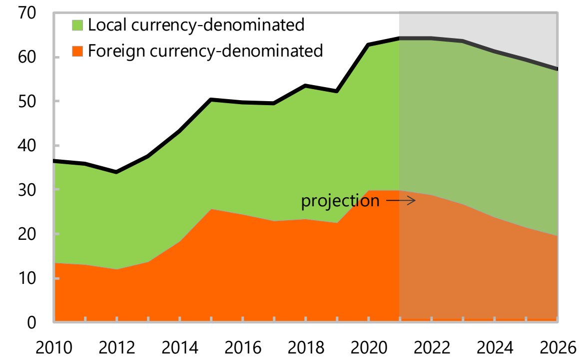
Figure 8. Colombia: Public DSA – Composition of Public Debt and Alternative Scenario

Composition of Public Debt

By Maturity
(in percent of GDP)



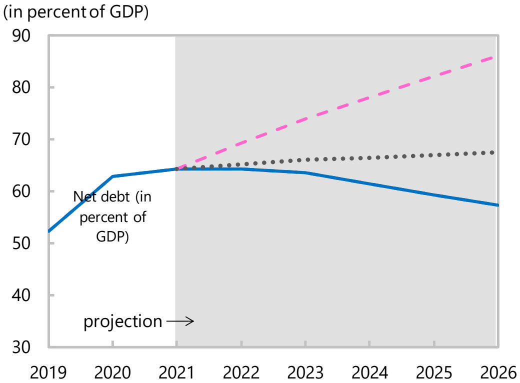
By Currency
(in percent of GDP)



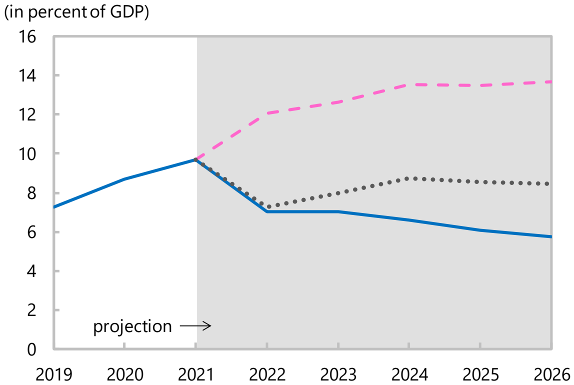
Alternative Scenarios

Baseline   Historical   Constant Primary Balance

Gross Nominal Public Debt
(in percent of GDP)



Public Gross Financing Needs
(in percent of GDP)



Underlying Assumptions
(in percent)

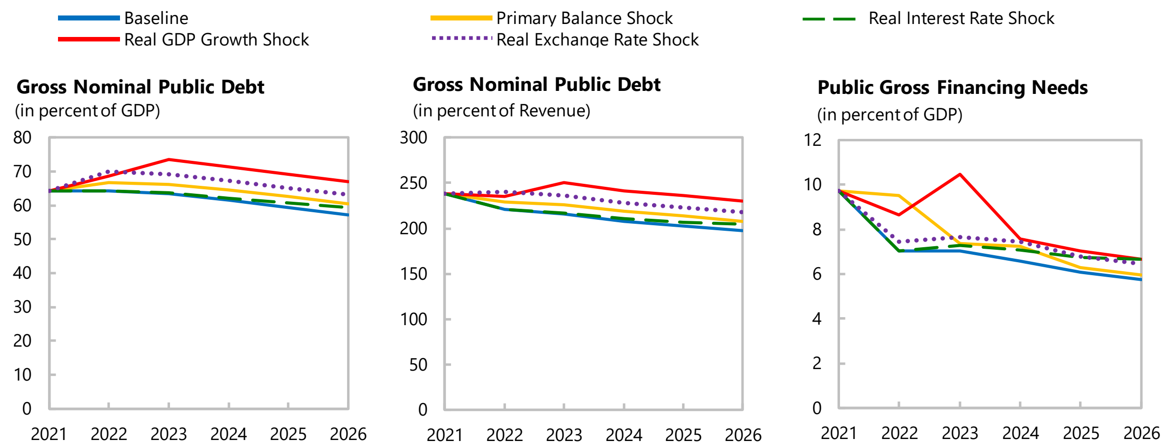
Baseline Scenario	2021	2022	2023	2024	2025	2026
Real GDP growth	5.1	3.6	4.0	3.8	3.8	3.6
Inflation	3.0	3.1	3.2	3.3	3.4	3.5
Primary Balance	-5.5	-0.5	0.0	1.0	1.1	1.1
Effective interest rate	5.8	5.6	6.2	5.9	5.9	5.8
Constant Primary Balance Scenario						
Real GDP growth	5.1	3.6	4.0	3.8	3.8	3.6
Inflation	3.0	3.1	3.2	3.3	3.4	3.5
Primary Balance	-5.5	-5.5	-5.5	-5.5	-5.5	-5.5
Effective interest rate	5.8	5.6	6.0	5.7	5.7	5.6

Historical Scenario	2021	2022	2023	2024	2025	2026
Real GDP growth	5.1	2.6	2.6	2.6	2.6	2.6
Inflation	3.0	3.1	3.2	3.3	3.4	3.5
Primary Balance	-5.5	-0.7	-0.7	-0.7	-0.7	-0.7
Effective interest rate	5.8	5.6	6.3	6.1	6.2	6.2

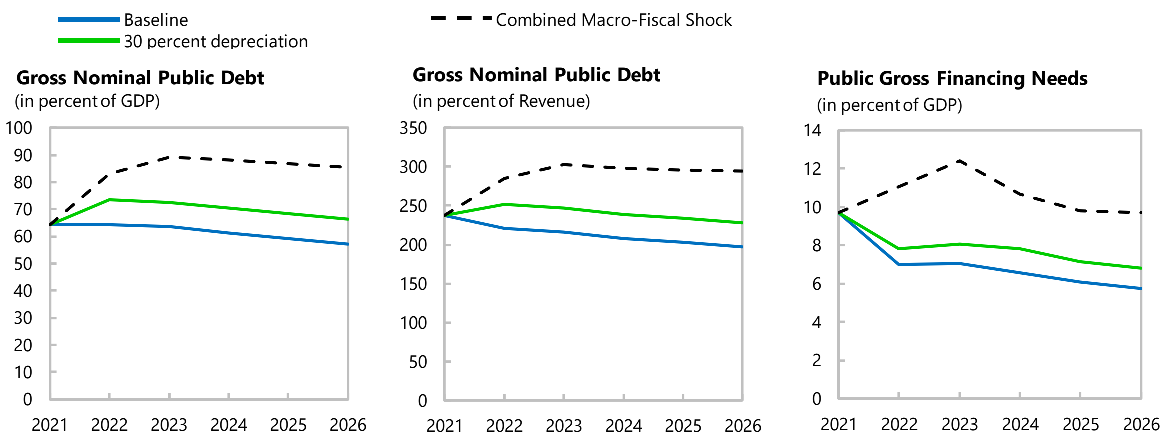
Source: IMF staff.

Figure 9. Colombia: Public DSA – Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions
(in percent)

Primary Balance Shock	2021	2022	2023	2024	2025	2026
Real GDP growth	5.1	3.6	4.0	3.8	3.8	3.6
Inflation	3.0	3.1	3.2	3.3	3.4	3.5
Primary balance	-5.5	-3.0	-0.2	0.5	1.1	1.1
Effective interest rate	5.8	5.6	6.2	5.9	6.0	5.9
Real Interest Rate Shock						
Real GDP growth	5.1	3.6	4.0	3.8	3.8	3.6
Inflation	3.0	3.1	3.2	3.3	3.4	3.5
Primary balance	-5.5	-0.5	0.0	1.0	1.1	1.1
Effective interest rate	5.8	5.6	6.6	6.7	7.1	7.3
Combined Shock						
Real GDP growth	5.1	-0.1	0.3	3.8	3.8	3.6
Inflation	3.0	2.2	2.3	3.3	3.4	3.5
Primary balance	-5.5	-3.0	-2.7	0.5	1.1	1.1
Effective interest rate	5.8	7.1	6.6	6.7	7.1	7.3

Real GDP Growth Shock	2021	2022	2023	2024	2025	2026
Real GDP growth	5.1	-0.1	0.3	3.8	3.8	3.6
Inflation	3.0	2.2	2.3	3.3	3.4	3.5
Primary balance	-5.5	-1.8	-2.7	1.0	1.1	1.1
Effective interest rate	5.8	5.6	6.2	6.0	6.0	5.9
Real Exchange Rate Shock						
Real GDP growth	5.1	3.6	4.0	3.8	3.8	3.6
Inflation	3.0	13.7	3.2	3.3	3.4	3.5
Primary balance	-5.5	-0.5	0.0	1.0	1.1	1.1
Effective interest rate	5.8	7.1	6.2	5.9	5.9	5.8

Source: IMF staff.

Table 1. Colombia: Selected Economic and Financial Indicators

I. Social and Demographic Indicators

Population (million), 2020	49.4	Unemployment rate, 2020 (percent)	16.1
Urban population (percent of total), 2019	81.1	Physicians (per 1,000 people), 2018	2.2
GDP, 2020		Adult illliteracy rate (ages 15 and older), 2018	4.9
Per capita (US$)	5,495	Net secondary school enrollment rate, 2018	77.5
In billion of Col$	1,002,587	Gini coefficient, 2019	52.6
In billion of US$	271	Poverty rate, 2019	35.7
Life expectancy at birth (years), 2018	77.1		
Mortality rate, (under 5, per 1,000 live births), 2018	14.2		

II. Economic Indicators

						Projections					
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
	(In percentage change, unless otherwise indicated)										
National income and prices											
Real GDP	2.1	1.4	2.6	3.3	-6.8	5.1	3.6	4.0	3.8	3.8	3.6
Potential GDP	3.0	2.9	3.0	3.1	-2.0	2.7	2.8	2.9	3.0	3.1	3.2
Output Gap	0.6	-0.8	-1.2	-1.0	-5.9	-3.7	-2.9	-1.9	-1.1	-0.4	0.0
GDP deflator	5.1	5.1	4.6	4.0	1.4	3.0	3.1	3.2	3.3	3.4	3.5
Consumer prices (average)	7.5	4.3	3.2	3.5	2.5	2.1	2.6	2.7	2.8	2.9	2.9
Consumer prices, end of period (eop)	5.7	4.1	3.1	3.8	1.6	2.5	2.6	2.7	2.8	2.9	3.0
External sector											
Exports (f.o.b.)	-11.7	16.8	11.7	-4.7	-21.0	24.9	4.5	3.7	3.5	4.0	4.1
Imports (f.o.b.)	-16.9	2.3	12.1	2.5	-18.5	16.4	4.2	5.4	5.0	5.1	4.6
Export volume	-0.2	2.6	0.6	3.1	-10.1	6.3	6.5	4.5	3.4	3.6	3.5
Import volume	-3.5	1.0	5.8	7.3	-16.0	7.8	5.9	5.2	3.5	3.5	3.3
Terms of trade (deterioration -)	3.3	9.6	5.9	-1.8	-11.8	8.0	0.0	0.0	-0.3	-0.7	-0.4
Real exchange rate (depreciation -) 1/	-4.7	5.7	0.6	-9.1	-11.1	NA	NA	NA	NA	NA	NA
Money and credit											
Broad money	9.5	6.4	5.7	10.0	-3.0	11.1	9.5	9.9	9.9	9.9	9.7
Credit to the private sector	7.7	12.8	6.8	11.6	2.8	9.4	10.9	11.3	11.3	11.4	11.3
Policy rate, eop	7.5	4.8	4.3	4.3	1.8	NA	NA	NA	NA	NA	NA
	(In percent of GDP)										
Central government balance 2/	-4.0	-3.6	-4.8	-2.5	-7.7	-9.5	-4.4	-3.5	-2.9	-2.5	-2.4
Central government structural balance 3/	-3.3	-2.6	-2.3	-2.2	-6.4	-8.0	-3.5	-3.0	-2.7	-2.4	-2.3
Consolidated public sector (CPS) balance 4/	-2.2	-2.4	-4.5	-1.9	-6.8	-8.6	-3.3	-2.9	-1.8	-1.6	-1.5
CPS non-oil structural primary balance	0.0	-0.1	-1.2	-0.8	-4.4	-5.6	-0.6	-1.1	-0.5	-0.4	-0.3
CPS fiscal impulse	-3.3	0.1	1.0	-0.4	3.6	1.3	-5.1	0.5	-0.6	-0.1	0.0
Public sector gross debt 5/	49.8	49.4	53.6	52.3	62.8	64.2	64.3	63.5	61.4	59.3	57.2
Gross domestic investment	23.2	21.6	21.2	21.5	18.8	19.2	19.8	20.5	20.8	20.8	20.8
Gross national savings	18.6	18.2	17.1	17.1	15.5	15.4	16.0	16.6	16.8	16.9	16.9
Current account (deficit -)	-4.5	-3.4	-4.1	-4.4	-3.3	-3.8	-3.9	-3.9	-3.9	-3.9	-3.9
External Financing Needs	13.2	13.5	14.2	15.1	17.4	16.3	15.2	15.4	16.1	15.6	15.5
External debt 6/	49.4	47.2	46.6	49.9	64.4	62.4	61.9	61.1	60.2	59.2	58.3
Of which: public sector 6/	31.9	30.3	29.0	30.0	39.3	38.2	37.5	36.3	34.2	32.6	31.5
	(In percent of exports of goods and services)										
External debt service	66.6	72.0	68.9	75.1	109.3	88.4	80.2	81.3	85.2	83.8	84.5
Interest payments	11.1	10.7	10.5	14.2	16.8	14.9	15.3	15.1	14.8	15.0	15.2
	(In billion of U.S. dollars; unless otherwise indicated)										
Exports (f.o.b.)	34.1	39.8	44.4	42.4	33.5	41.8	43.7	45.3	46.9	48.8	50.8
Of which: Petroleum products	10.8	13.3	16.8	16.0	8.8	13.5	13.4	13.3	12.9	12.9	13.0
Gross international reserves 7/	46.2	47.1	47.9	52.7	58.5	60.7	61.6	62.4	63.3	64.4	65.5
Share of ST debt at remaining maturity + CA deficit	113	103	100	116	124	132	124	113	111	108	104.5

Sources: Colombian authorities; UNDP Human Development Report; World Development Indicators; and IMF staff estimates.
1/ Based on bilateral COL Peso/USD exchange rate.
2/ Includes one-off recognition of previously unrecognized accounts payable worth 1.9 percent of GDP in 2018 and central bank profits. For 2021 includes privatization receipts worth 1.1 percent of GDP that, under GFSM 1986 which is used by the authorities, produces a headline deficit of -8.4 percent of GDP.
3/ IMF staff estimate, excludes one-off recognition of arrears.
4/ Includes the quasi-fiscal balance of Banco de la República, sales of assets, phone licenses, and statistical discrepancy. For 2021 includes privatization receipts, see 2/ above.
5/ Includes Ecopetrol and Banco de la República's outstanding external debt.
6/ Current account deficit plus amortization due including holdings of locally issued public debt (TES).
7/ Excludes Colombia's contribution to FLAR; includes valuation changes of reserves denominated in currencies other than U.S. dollars.

Table 2a. Colombia: Summary Balance of Payments

(In millions of US$, unless otherwise indicated)

						Projections					
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Current account balance	**-12,782**	**-10,742**	**-13,634**	**-14,285**	**-9,083**	**-11,125**	**-12,107**	**-13,094**	**-13,917**	**-14,738**	**-15,501**
Goods balance	-9,176	-4,470	-5,144	-8,451	-7,918	-6,374	-6,542	-7,653	-8,757	-9,702	-10,364
Exports, f.o.b.	34,063	39,777	44,440	42,368	33,481	41,832	43,706	45,315	46,884	48,763	50,778
Commodities	20,407	25,890	29,441	26,866	18,204	24,987	25,531	25,771	25,762	26,160	26,620
Fuel	10,796	13,308	16,843	15,962	8,756	13,455	13,379	13,295	12,913	12,935	13,014
Non-fuel	9,612	12,582	12,598	10,904	9,449	11,532	12,151	12,476	12,849	13,225	13,606
Non-traditional exports	9,520	10,062	10,716	10,571	9,732	10,726	11,703	12,700	13,832	14,912	16,047
Other	4,136	3,825	4,283	4,931	5,544	6,119	6,473	6,845	7,290	7,691	8,111
Imports, f.o.b.	43,239	44,247	49,584	50,818	41,400	48,206	50,248	52,968	55,641	58,465	61,141
Consumer goods	10,114	10,161	11,273	11,868	9,944	11,601	12,074	12,714	13,338	14,001	14,626
Intermediate goods	18,809	18,889	21,502	21,665	17,493	20,408	21,239	22,366	23,463	24,629	25,728
Capital goods	12,527	13,210	14,814	15,646	12,544	14,634	15,230	16,038	16,825	17,661	18,449
Other	1,789	1,987	1,995	1,638	1,418	1,563	1,705	1,851	2,016	2,173	2,338
Services balance	-4,276	-4,476	-4,357	-4,425	-4,503	-5,224	-5,479	-5,544	-5,526	-5,702	-5,838
Exports of services	8,706	9,536	10,617	10,589	5,662	7,288	8,746	10,172	11,977	12,630	13,320
Imports of services	12,982	14,012	14,974	15,014	10,165	12,511	14,225	15,716	17,503	18,333	19,158
Primary income balance	-5,228	-8,407	-11,776	-10,114	-5,386	-8,740	-9,710	-9,980	-10,189	-10,374	-10,847
Receipts	4,996	5,479	6,117	7,044	4,449	6,344	6,839	6,913	7,149	7,697	8,072
Expenditures	10,224	13,886	17,893	17,157	9,835	15,084	16,549	16,893	17,338	18,071	18,919
Secondary income balance	5,898	6,611	7,643	8,704	8,724	9,212	9,623	10,083	10,555	11,040	11,547
Financial account balance	**-12,273**	**-9,701**	**-12,559**	**-13,240**	**-8,092**	**-11,125**	**-12,107**	**-13,094**	**-13,917**	**-14,738**	**-15,501**
Direct Investment	-9,330	-10,147	-6,409	-11,095	-5,724	-6,697	-8,403	-9,468	-10,624	-11,884	-13,270
Assets	4,517	3,690	5,126	3,219	1,966	2,422	2,463	2,505	2,549	2,595	2,643
Liabilities	13,848	13,837	11,535	14,314	7,690	9,119	10,866	11,973	13,174	14,479	15,913
Oil sector	2,386	3,106	2,540	2,755	1,247	1,681	1,681	1,681	1,681	1,681	1,681
Non-oil sectors	11,462	10,730	8,995	11,558	6,443	7,438	9,186	10,292	11,493	12,798	14,232
Portfolio Investment	-4,839	-1,617	1,297	250	-1,346	-2,142	-3,470	-3,975	-4,587	-5,242	-3,999
Assets	5,190	6,200	1,646	541	6,169	1,523	539	39	-213	-341	-406
Liabilities	10,029	7,817	349	291	7,515	3,665	4,009	4,013	4,374	4,901	3,593
Equity	-363	472	-823	-1,232	-454	-261	-277	-294	-313	-333	-353
Debt instruments	10,392	7,340	1,172	1,523	7,969	3,926	4,286	4,308	4,687	5,234	3,946
General government	8,792	6,011	4,529	366	6,124	2,706	4,036	3,558	2,187	2,734	2,196
Banks	1,100	295	-800	60	-328	0	0	500	1,000	1,000	750
Corporates and households	500	1,034	-2,557	1,097	2,172	1,220	250	250	1,500	1,500	1,000
Derivatives	-621	365	21	84	-507	0	0	0	0	0	0
Other Investments	2,353	1,153	-8,656	-5,812	-4,843	-4,501	-1,069	-528	389	1,340	605
Assets 1/	2,879	-387	407	-3,385	-1,926	-2,050	507	636	894	1,029	1,497
Liabilities	526	-1,540	9,062	2,428	2,916	2,451	1,576	1,164	505	-310	892
Net use of IMF Credit (General Government)	0	0	0	0	5,370	0	0	0	-2,685	-2,685	0
Change in reserve assets	165	545	1,187	3,333	4,328	2,214	836	877	905	1,049	1,163
Net errors and omissions	**509**	**1,046**	**1,075**	**1,045**	**992**	**0**	**0**	**0**	**0**	**0**	**0**
Memorandum items:											
Brent Crude Oil Price (US$/barrel)	44	54	71	64	42	60	56	54	53	52	52
Nominal exchange rate (Col$/US$, period average)	3,055	2,951	2,956	3,281	3,693	3,675	3,704	3,739	3,777	3,815	3,855

Sources: Banco de la República and IMF staff estimates and projections.

1/ Includes liquidation of government assets held abroad of US$ 3 billion in 2020. Of the FCL purchase, US$ 3.9 billion was held abroad as government international liquidity as at end-2020 for use in 2021.

Table 2b. Colombia: Summary Balance of Payments
(In Percent of GDP)

	2016	2017	2018	2019	2020	Projections 2021	2022	2023	2024	2025	2026
Current account balance	**-4.5**	**-3.4**	**-4.1**	**-4.4**	**-3.3**	**-3.8**	**-3.9**	**-3.9**	**-3.9**	**-3.9**	**-3.9**
Goods balance	-3.2	-1.4	-1.5	-2.6	-2.9	-2.2	-2.1	-2.3	-2.5	-2.6	-2.6
Exports, f.o.b.	12.0	12.8	13.3	13.1	12.3	14.2	13.9	13.6	13.2	12.9	12.7
Commodities	7.2	8.3	8.8	8.3	6.7	8.5	8.1	7.7	7.3	6.9	6.7
Fuel	3.8	4.3	5.0	4.9	3.2	4.6	4.3	4.0	3.6	3.4	3.3
Non-fuel	3.4	4.0	3.8	3.4	3.5	3.9	3.9	3.7	3.6	3.5	3.4
Non-traditional exports	3.4	3.2	3.2	3.3	3.6	3.6	3.7	3.8	3.9	4.0	4.0
Other	1.5	1.2	1.3	1.5	2.0	2.1	2.1	2.1	2.1	2.0	2.0
Imports, f.o.b.	15.3	14.2	14.8	15.7	15.3	16.3	16.0	15.9	15.7	15.5	15.3
Consumer goods	3.6	3.3	3.4	3.7	3.7	3.9	3.9	3.8	3.8	3.7	3.7
Intermediate goods	6.7	6.1	6.4	6.7	6.4	6.9	6.8	6.7	6.6	6.5	6.4
Capital goods	4.4	4.2	4.4	4.8	4.6	5.0	4.9	4.8	4.8	4.7	4.6
Other	0.6	0.6	0.6	0.5	0.5	0.5	0.5	0.6	0.6	0.6	0.6
Services balance	-1.5	-1.4	-1.3	-1.4	-1.7	-1.8	-1.7	-1.7	-1.6	-1.5	-1.5
Exports of services	3.1	3.1	3.2	3.3	2.1	2.5	2.8	3.1	3.4	3.4	3.3
Imports of services	4.6	4.5	4.5	4.6	3.7	4.2	4.5	4.7	4.9	4.9	4.8
Primary income balance	-1.8	-2.7	-3.5	-3.1	-2.0	-3.0	-3.1	-3.0	-2.9	-2.8	-2.7
Receipts	1.8	1.8	1.8	2.2	1.6	2.1	2.2	2.1	2.0	2.0	2.0
Expenditures	3.6	4.5	5.4	5.3	3.6	5.1	5.3	5.1	4.9	4.8	4.7
Secondary income balance	2.1	2.1	2.3	2.7	3.2	3.1	3.1	3.0	3.0	2.9	2.9
Financial account balance	**-4.3**	**-3.1**	**-3.8**	**-4.1**	**-3.0**	**-3.8**	**-3.9**	**-3.9**	**-3.9**	**-3.9**	**-3.9**
Direct Investment	-3.3	-3.3	-1.9	-3.4	-2.1	-2.3	-2.7	-2.8	-3.0	-3.2	-3.3
Assets	1.6	1.2	1.5	1.0	0.7	0.8	0.8	0.8	0.7	0.7	0.7
Liabilities	4.9	4.4	3.5	4.4	2.8	3.1	3.5	3.6	3.7	3.8	4.0
Oil sector	0.8	1.0	0.8	0.9	0.5	0.6	0.5	0.5	0.5	0.4	0.4
Non-oil sectors	4.1	3.4	2.7	3.6	2.4	2.5	2.9	3.1	3.2	3.4	3.6
Portfolio Investment	-1.7	-0.5	0.4	0.1	-0.5	-0.7	-1.1	-1.2	-1.3	-1.4	-1.0
Assets	1.8	2.0	0.5	0.2	2.3	0.5	0.2	0.0	-0.1	-0.1	-0.1
Liabilities	3.5	2.5	0.1	0.1	2.8	1.2	1.3	1.2	1.2	1.3	0.9
Equity	-0.1	0.2	-0.2	-0.4	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Debt instruments	3.7	2.4	0.4	0.5	2.9	1.3	1.4	1.3	1.3	1.4	1.0
General government	3.1	1.9	1.4	0.1	2.3	0.9	1.3	1.1	0.6	0.7	0.5
Banks	0.4	0.1	-0.2	0.0	-0.1	0.0	0.0	0.2	0.3	0.3	0.2
Corporates and households	0.2	0.3	-0.8	0.3	0.8	0.4	0.1	0.1	0.4	0.4	0.3
Derivatives	-0.2	0.1	0.0	0.0	-0.2	0.0	0.0	0.0	0.0	0.0	0.0
Other Investments	0.8	0.4	-2.6	-1.8	-1.8	-1.5	-0.3	-0.2	0.1	0.4	0.2
Assets 1/			0.1	-1.0	-0.7	-0.7	0.2	0.2	0.3	0.3	0.4
Liabilities			2.7	0.8	1.1	0.8	0.5	0.3	0.1	-0.1	0.2
Net use of IMF Credit		0.0	0.0	0.0	2.0	0.0	0.0	0.0	-0.8	-0.7	0.0
Change in Reserve Assets	0.1	0.2	0.4	1.0	1.6	0.7	0.3	0.3	0.3	0.3	0.3
Net errors and omissions	**0.2**	**0.3**	**0.3**	**0.3**	**0.4**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

Sources: Banco de la República and IMF staff estimates and projections.
1/ Includes liquidation of government assets held abroad of US$ 3 billion in 2020. Of the FCL purchase, US$ 3.9 billion was held abroad as government international liquidity as at end-2020 for use in 2021.

Table 3. Colombia: Gross External Financing Needs and Sources, 2020-21

(In millions of U.S. dollars, unless otherwise indicated)

	2020	2021
	Preliminary	Projection
Gross external financing needs	**-45,270**	**-47,188**
External current account balance	-9,083	-11,125
Debt amortization	-36,187	-36,062
Medium and long term debt	-13,755	-15,600
Public sector 1/	-2,706	-4,079
Private sector	-11,049	-11,522
Short-term debt	-22,432	-20,462
Public sector	-863	-863
Private sector	-21,569	-19,599
Gross external financing sources	**44,229**	**49,402**
Foreign direct investment (net)	5,724	6,697
Medium and LT debt disbursements	21,228	21,757
Public sector 1/	6,823	10,516
Private sector	14,405	11,242
Short-term debt disbursements	20,462	20,682
Public sector	863	863
Private sector	19,599	19,819
Other capital flows (net) 2/	-3,186	265
Change in international reserves	4,328	2,214
Use of IMF credit	**5,370**	**0**
Percent of quota 3/	*183*	0
Memo: Gross international reserves	58,500	60,714

1/ Including financial public sector; excluding non-financial public sector. Net of TES flows. Excludes IMF FCL.

2/ Includes all other net financial flows (i.e., pension funds, other portofolio flows, government assets held abroad), Colombia's contribution to FLAR, and errors and omissions.

3/ Based on SDR per US$ exchange rate at time of purchase (2020).

Table 4. Colombia: Operations of the Central Government 1/

(In percent of GDP, unless otherwise indicated)

						Projections					
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Total revenue	**14.9**	**15.7**	**15.3**	**16.2**	**15.2**	**14.8**	**15.9**	**16.5**	**16.7**	**16.7**	**16.6**
Current revenue 2/	**13.7**	**14.4**	**13.8**	**14.1**	**13.2**	**13.8**	**15.3**	**15.4**	**15.4**	**15.5**	**15.5**
Tax revenue	**13.6**	**13.8**	**13.7**	**14.0**	**13.0**	**13.7**	**15.3**	**15.4**	**15.3**	**15.4**	**15.4**
Net income tax and profits	4.7	5.7	6.5	6.4	6.1	6.1	6.3	6.3	6.3	6.4	6.4
Goods and services	4.8	5.5	5.7	5.8	5.3	5.9	7.0	7.0	7.0	7.0	7.0
Value-added tax	4.8	5.5	5.7	5.8	5.3	5.9	7.0	7.0	7.0	7.0	7.0
International trade	0.5	0.4	0.4	0.4	0.3	0.4	0.4	0.4	0.4	0.4	0.4
Financial transaction tax	0.8	0.7	0.7	0.8	0.7	0.8	0.8	0.8	0.8	0.8	0.8
Stamp and other taxes	2.8	1.4	0.5	0.7	0.5	0.5	0.7	0.8	0.8	0.8	0.8
Nontax revenue	**1.3**	**1.9**	**1.6**	**2.2**	**2.2**	**1.1**	**0.6**	**1.1**	**1.4**	**1.3**	**1.2**
Property income	0.4	0.4	0.2	0.4	0.1	0.1	0.2	0.3	0.4	0.4	0.4
Other	0.8	1.0	1.3	1.7	1.9	1.1	0.4	0.8	1.0	0.9	0.8
Total expenditure and net lending	**18.9**	**19.3**	**20.1**	**18.7**	**23.0**	**24.3**	**20.2**	**20.0**	**19.7**	**19.2**	**19.0**
Current expenditure	**15.5**	**16.0**	**17.5**	**15.6**	**19.4**	**19.6**	**18.0**	**17.3**	**17.0**	**16.7**	**16.4**
Wages and salaries	2.4	2.2	2.3	2.1	2.4	2.2	2.2	2.2	2.2	2.2	2.2
Goods and services	0.5	0.7	0.4	0.6	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Interest	2.9	2.9	2.8	2.9	2.8	3.3	3.6	3.5	3.4	3.2	3.2
External	0.7	0.7	0.7	0.7	0.8	0.8	0.8	0.8	0.9	0.8	0.7
Domestic	2.2	2.2	2.1	2.2	2.0	2.5	2.8	2.6	2.5	2.4	2.4
Current transfers	9.7	10.2	12.1	10.1	13.9	13.8	11.9	11.4	11.1	10.9	10.8
Capital expenditure	**3.4**	**3.3**	**2.6**	**3.0**	**3.5**	**4.7**	**2.2**	**2.6**	**2.7**	**2.5**	**2.6**
Fixed capital formation	2.3	2.1	1.5	1.8	2.2	3.4	1.1	1.6	1.6	1.5	1.5
Capital transfers	1.2	1.2	1.1	1.2	1.3	1.3	1.1	1.1	1.0	1.0	1.0
Net lending	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall balance 3/	**-4.0**	**-3.6**	**-4.8**	**-2.5**	**-7.7**	**-9.5**	**-4.4**	**-3.5**	**-2.9**	**-2.5**	**-2.4**
Memorandum items:											
Oil-related revenues 4/	0.2	0.2	0.6	1.3	1.1	0.3	0.7	1.0	1.2	1.0	0.9
Structural balance 5/	-3.3	-2.6	-2.3	-2.2	-6.4	-8.0	-3.5	-3.0	-2.7	-2.4	-2.3
Structural primary non-oil balance	-1.3	-0.7	-0.5	-0.2	-4.9	-5.5	-0.7	-0.6	-0.5	-0.2	-0.1
Fiscal Impulse	-0.5	-0.6	-0.2	-0.3	4.7	0.6	-4.8	-0.1	-0.1	-0.3	0.0
Non-oil balance	-4.2	-3.8	-3.5	-3.3	-8.9	-9.5	-4.8	-4.4	-4.1	-3.5	-3.3
Primary balance	-1.1	-0.7	-2.0	0.4	-4.9	-6.3	-0.8	0.0	0.4	0.7	0.8
Net FCL financing (US$ million)	0.0	0.0	0.0	0.0	5370.1	0	0	0	-2685	-2685	0
Nominal GDP (in Col$ trillion)	863.8	920.5	987.8	1,061.1	1,002.6	1,086.3	1,161.0	1,246.2	1,337.4	1,436.6	1,541.6

Sources: Ministry of Finance; Banco de la República; and IMF staff estimates and projections.

1/ Includes central administration only.

2/ Includes tax revenues, telecom and port concessions and other revenues.

3/ Includes central bank profits. For 2018, it includes recognition of accounts payable worth 1.9 percent of GDP. For 2021 includes privatization receipts worth 1.1 percent of GDP that, under GFSM 1986 which is used by the authorities, produces a headline deficit of -8.4 percent of GDP. From 2022 deficits are estimates.

4/ Includes income tax payments and dividends from Ecopetrol corresponding to earnings from the previous year.

5/ In percent of potential GDP. Adjusts non-commodity revenues for the output gap and commodity revenues for differentials between estimated equilibrium oil price and production levels. Adjustments are made to account for fuel subsidy expenditures and the accrual of Ecopetrol dividends.

Table 5. Colombia: Operations of the Combined Public Sector 1/

(In percent of GDP, unless otherwise indicated)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
						Projections					
Total revenue 2/	**27.7**	**26.8**	**30.0**	**29.4**	**26.5**	**27.0**	**29.2**	**29.4**	**29.5**	**29.3**	**29.0**
Tax revenue	18.2	18.8	21.2	21.7	20.7	21.4	23.0	23.0	23.0	23.0	23.0
Nontax revenue	9.5	8.0	8.8	7.7	5.8	5.6	6.2	6.3	6.6	6.3	6.0
Financial income	1.3	1.1	0.8	0.7	0.4	0.4	0.5	0.5	0.5	0.5	0.5
Operating surplus of public enterprises 3/	2.0	2.3	2.3	2.4	2.1	2.1	2.3	2.4	2.4	2.4	2.4
Other 4/	6.1	4.6	5.6	4.6	3.3	3.0	3.3	3.5	3.7	3.4	3.2
Total expenditure and net lending 5/	**30.1**	**29.4**	**34.5**	**31.8**	**33.4**	**35.3**	**32.7**	**32.4**	**31.4**	**31.0**	**30.7**
Current expenditure	24.4	24.9	31.4	27.6	29.7	29.5	28.6	27.5	27.1	26.7	26.3
Wages and salaries	5.6	5.4	5.4	5.1	5.4	5.3	5.3	5.3	5.3	5.3	5.3
Goods and services	3.4	3.8	3.5	3.4	3.2	3.3	3.4	3.4	3.3	3.3	3.3
Interest	3.3	3.1	3.0	3.1	3.0	3.2	3.6	3.5	3.4	3.3	3.2
External	0.9	0.7	0.7	0.8	1.0	1.0	1.1	1.2	1.1	1.1	1.0
Domestic	2.4	2.4	2.3	2.4	2.0	2.2	2.5	2.3	2.2	2.2	2.2
Transfers to private sector	7.7	8.0	13.5	12.2	14.3	14.0	12.5	11.6	11.5	11.3	11.1
Other 6/	4.5	4.5	6.0	3.8	3.8	3.8	3.8	3.7	3.7	3.6	3.5
Capital expenditure	5.7	4.6	3.1	4.2	3.7	5.8	4.1	4.9	4.3	4.3	4.3
Statistical discrepancy	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Nonfinancial public sector balance	**-2.3**	**-2.5**	**-4.7**	**-2.5**	**-6.9**	**-8.3**	**-3.6**	**-3.0**	**-1.9**	**-1.7**	**-1.6**
Fogafin balance	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Net cost of financial restructuring 7/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Combined public sector balance 8/	**-2.2**	**-2.4**	**-4.5**	**-1.9**	**-6.8**	**-8.6**	**-3.3**	**-2.9**	**-1.8**	**-1.6**	**-1.5**
Overall financing	**2.2**	**2.4**	**4.5**	**1.9**	**6.8**	**8.6**	**3.3**	**2.9**	**1.8**	**1.6**	**1.5**
Foreign, net	1.6	2.6	1.3	0.9	7.6	2.4	1.5	0.4	-0.6	-0.2	0.3
o/w IFIs	N.A.	0.6	-0.1	0.3	2.7	0.7	-0.1	-0.2	-0.7	-1.0	-0.3
o/w FCL	0.0	0.0	0.0	0.0	2.0	0.0	0.0	0.0	-0.8	-0.7	0.0
Domestic, net	0.6	-0.2	3.2	1.0	-0.8	6.2	1.8	2.6	2.4	1.8	1.2
Memorandum items:											
Overall structural balance 9/	-1.5	-1.3	-2.0	-1.9	-5.1	-6.6	-2.4	-2.3	-1.5	-1.5	-1.6
Primary balance 10/	1.1	0.8	-1.5	1.2	-3.8	-5.4	0.3	0.6	1.6	1.6	1.6
Oil-related revenues 11/	1.0	1.1	1.9	2.4	1.9	1.4	1.6	1.9	1.9	1.7	1.6
Public sector gross debt 12/	49.8	49.4	53.6	52.3	62.8	64.2	64.3	63.5	61.4	59.3	57.2
Nominal GDP (In Col$ trillion)	863.8	920.5	987.8	1,061.1	1,002.6	1,086.3	1,161.0	1,246.2	1,337.4	1,436.6	1,541.6

Sources: Ministry of Finance; Banco de la República; and IMF staff estimates and projections.

1/ The combined public sector includes the central, regional and local governments, social security, and public sector enterprises.

2/ From 2018, tax revenues include social contributions collected by public health providers.

3/ For 2016, excludes proceeds from the sale of ISAGEN and for 2018, it includes the recognition of accounts payable worth 1.9 percent of GDP. From 2022 the deficits are staff estimates.

4/ Includes royalties, dividends and social security contributions.

5/ Expenditure reported on commitments basis. From 2015 onwards, previously recorded capital expenditures have been reclassified as wages and salaries and goods and services.

6/ Includes adjustments to compute spending on commitment basis and the change in unpaid bills of nonfinancial public enterprises.

7/ Interest payments on public banks restructuring bonds and mortgage debt relief related costs.

8/ For 2018, includes the recognition of arrears worth 1.9 percent of GDP.

9/ Adjusts non-commodity revenues for the output gap and commodity revenues for differentials between estimated equilibrium oil price and production levels. Adjustments are made to account for fuel subsidy expenditures and the accrual of Ecopetrol dividends.

10/ Includes statistical discrepancy. Overall balance plus interest expenditures.

11/ Includes income tax payments and dividends from Ecopetrol that correspond to earnings from the previous year, and royalties to local governments.

12/ Includes Ecopetrol and Banco de la República's outstanding external debt.

Table 6. Colombia: Monetary Indicators

						Projections					
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
					(In billions of Col$, unless otherwise indicated)						
Central Bank											
Net Foreign Assets	138,859.3	140,586.1	155,542.5	172,577.7	182,193.2	193,635.5	197,565.8	204,123.2	206,365.6	220,175.4	208,099.5
Gross official reserve assets	138,631.7	140,724.9	155,646.7	172,548.8	200,801.4	199,649.1	206,203.9	214,152.9	217,128.6	223,901.0	230,871.8
In billions of US$	46.2	47.2	47.9	52.7	58.5	55.3	56.1	57.0	57.9	59.0	60.1
Short-term foreign liabilities	20.2	64.8	0.0	0.0	18,539.0	6,179.7	8,239.5	10,986.0	8,468.4	9,231.3	9,561.9
Other net foreign assets	247.9	-74.0	-104.2	28.9	-69.2	166.1	-398.6	956.3	-2,294.6	5,505.7	-13,210.4
Net domestic assets	-54,259.4	-51,773.4	-57,461.5	-60,123.9	-49,519.7	-49,883.0	-43,923.8	-39,218.4	-29,390.9	-30,063.5	-4,093.5
Net credit to the public sector	-5,987.7	-2,490.6	-1,524.9	3,034.3	6,625.4	6,674.0	5,876.7	5,247.2	3,932.3	4,022.3	547.7
Net credit to the financial system	5,678.6	3,808.4	9,016.5	8,435.0	6,948.8	6,999.8	6,163.6	5,503.3	4,124.3	4,218.7	574.4
Other	-53,950.3	-53,091.3	-64,953.1	-71,593.1	-63,093.9	-63,556.8	-55,964.1	-49,968.8	-37,447.6	-38,304.5	-5,215.6
Monetary base	84,599.9	88,812.7	98,081.0	112,453.8	132,673.6	143,752.6	153,642.1	164,904.8	176,974.7	190,111.8	204,005.9
Currency in circulation	69,222.0	74,057.6	80,653.3	91,659.3	111,373.9	120,674.3	128,976.1	138,430.7	148,562.9	159,590.9	171,254.5
Deposit money banks reserves	15,283.3	14,671.5	17,322.5	20,649.2	20,928.1	39,303.4	42,298.1	45,302.2	48,620.5	52,204.2	56,049.8
Other deposits	94.7	83.6	105.2	145.3	371.5	371.5	371.5	371.5	371.5	371.5	371.5
Financial system											
Net foreign assets	130,824.5	128,443.1	131,230.3	145,975.5	157,058.5	166,401.9	168,458.6	172,882.2	172,838.1	184,159.0	169,450.9
In billions of US$	43.6	43.0	40.4	44.5	45.8	47.6	47.8	48.5	48.0	50.6	46.0
Net domestic assets	312,194.1	343,014.5	367,175.1	402,159.3	374,456.3	424,249.7	478,594.2	538,525.9	608,801.9	675,013.4	773,449.0
Net credit to public sector	34,554.5	42,089.3	43,902.9	57,916.7	66,500.7	85,166.9	94,575.7	107,156.5	120,150.2	131,696.8	141,680.5
Credit to private sector	406,445.7	458,444.5	489,621.5	546,519.9	561,698.7	614,220.8	681,044.9	758,210.8	844,035.0	940,450.5	1,046,800.4
Other net	-128,640.6	-157,352.6	-166,212.3	-202,096.3	-253,743.1	-275,137.9	-297,026.4	-326,841.4	-355,383.3	-397,134.0	-415,032.0
Broad money	443,018.6	471,457.6	498,405.4	548,134.8	531,514.8	590,651.6	647,052.8	711,408.1	781,640.1	859,172.4	942,899.9
					(Annual percentage change)						
Credit to private sector	7.7	12.8	6.8	11.6	2.8	9.4	10.9	11.3	11.3	11.4	11.3
Currency	3.7	7.0	8.9	13.6	21.5	8.4	6.9	7.3	7.3	7.4	7.3
Monetary base	2.5	5.0	10.4	14.7	18.0	8.4	6.9	7.3	7.3	7.4	7.3
Broad money 1/	9.5	6.4	5.7	10.0	-3.0	11.1	9.5	9.9	9.9	9.9	9.7
					(In percent of GDP)						
Credit to private sector	47.1	49.8	49.6	51.5	56.0	56.5	58.7	60.8	63.1	65.5	67.9
Currency	8.0	8.0	8.2	8.6	11.1	11.1	11.1	11.1	11.1	11.1	11.1
Monetary base	9.8	9.6	9.9	10.6	13.2	13.2	13.2	13.2	13.2	13.2	13.2
Broad money	51.3	51.2	50.5	51.7	53.0	54.4	55.7	57.1	58.4	59.8	61.2
Memorandum items:											
CPI inflation, eop	5.7	4.1	3.1	3.8	1.6	2.5	2.6	2.7	2.8	2.9	3.0
Nominal GDP (In Col$ billions)	863,783	920,470	987,791	1,061,119	1,002,587	1,086,309	1,161,041	1,246,152	1,337,361	1,436,636	1,541,631

Sources: Banco de la Republica; and IMF staff estimates and projections.

1/Broad money includes nonliquid liabilities to the domestic nonfinancial private sector.

Table 7. Colombia: Medium-Term Outlook

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
						Projections					
	(In percent of GDP, unless otherwise indicated)										
Real GDP (in percent change)	2.1	1.4	2.6	3.3	-6.8	5.1	3.6	4.0	3.8	3.8	3.6
Consumer prices (in percent change; eop)	5.7	4.1	3.1	3.8	1.6	2.5	2.6	2.7	2.8	2.9	3.0
Gross national savings	18.6	18.2	17.1	17.1	15.5	15.4	16.0	16.6	16.8	16.9	16.9
Private sector	15.4	16.2	18.8	15.1	18.8	18.5	15.4	14.8	14.5	14.4	14.3
Public sector	3.3	2.0	-1.6	2.0	-3.3	-3.1	0.6	1.7	2.3	2.5	2.6
Gross domestic investment	23.2	21.6	21.2	21.5	18.8	19.2	19.8	20.5	20.8	20.8	20.8
	(In percent of GDP, unless otherwise indicated)										
Nonfinancial public sector 1/											
Revenue	27.7	26.8	30.0	29.4	26.5	27.0	29.2	29.4	29.5	29.3	29.0
Expenditure	30.1	29.4	34.5	31.8	33.4	35.3	32.7	32.4	31.4	31.0	30.7
Current expenditure	24.4	24.9	31.4	27.6	29.7	29.5	28.6	27.5	27.1	26.7	26.3
Capital expenditure	5.7	4.6	3.1	4.2	3.7	5.8	4.1	4.9	4.3	4.3	4.3
Primary balance 2/3/	-1.1	-0.7	-2.0	0.4	-4.9	-6.3	-0.8	0.0	0.4	0.7	0.8
Overall balance 2/3/	-2.3	-2.5	-4.7	-2.5	-6.9	-8.3	-3.6	-3.0	-1.9	-1.7	-1.6
Combined public sector balance 3/	-2.2	-2.4	-4.5	-1.9	-6.8	-8.6	-3.3	-2.9	-1.8	-1.6	-1.5
External financing	1.6	2.6	1.3	0.9	7.6	2.4	1.5	0.4	-0.6	-0.2	0.3
Domestic financing	0.6	-0.2	3.2	1.0	-0.8	6.2	1.8	2.6	2.4	1.8	1.2
External current account balance	-4.5	-3.4	-4.1	-4.4	-3.3	-3.8	-3.9	-3.9	-3.9	-3.9	-3.9
Trade balance	-3.2	-1.4	-1.5	-2.6	-2.9	-2.2	-2.1	-2.3	-2.5	-2.6	-2.6
Exports	12.0	12.8	13.3	13.1	12.3	14.2	13.9	13.6	13.2	12.9	12.7
Imports	15.3	14.2	14.8	15.7	15.3	16.3	16.0	15.9	15.7	15.5	15.3
Financial account balance	-4.3	-3.1	-3.8	-4.1	-3.0	-3.8	-3.9	-3.9	-3.9	-3.9	-3.9
Direct Investment	-3.3	-3.3	-1.9	-3.4	-2.1	-2.3	-2.7	-2.8	-3.0	-3.2	-3.3
Portfolio Investment	-1.7	-0.5	0.4	0.1	-0.5	-0.7	-1.1	-1.2	-1.3	-1.4	-1.0
Other Investments and Derivatives	0.6	0.5	-2.6	-1.8	-2.0	-1.5	-0.3	-0.2	0.1	0.4	0.2
Change in Reserve Assets	0.1	0.2	0.4	1.0	1.6	0.7	0.3	0.3	0.3	0.3	0.3
Gross public sector debt 4/	49.8	49.4	53.6	52.3	62.8	64.2	64.3	63.5	61.4	59.3	57.2
Gross public sector debt, excluding Ecopetrol	45.4	46.1	51.0	49.3	60.4	62.1	62.3	61.5	59.4	57.3	55.2
Memorandum items:											
Nominal GDP (in Col$ billion)	863,783	920,470	987,791	1,061,119	1,002,587	1,086,309	1,161,041	1,246,152	1,337,361	1,436,636	1,541,631

Sources: Colombian authorities and IMF staff estimates and projections.

1/ Excludes Ecopetrol.

2/ Includes statistical discrepancy.

3/ For 2016, excludes proceeds from the sale of ISAGEN and for 2018, it includes recognition of accounts payable worth 1.9 percent of GDP. From 2022 ownwards, the deficits are staff estimates that may not be consistent with announced headline deficit targets by the Fiscal Rule Consultative Committee for the central government.

4/ Includes Ecopetrol and Banco de la República's outstanding external debt.

Table 8. Colombia: Financial Soundness Indicators [1/]

(In percent, unless otherwise indicated; end-of-period values)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Capital Adequacy 2/											
Regulatory capital to risk-weighted assets	17.3	16.9	18.1	17.0	17.0	16.9	17.5	18.6	18.5	17.6	19.9
Regulatory Tier 1 capital to risk-weighted assets	13.0	13.4	13.7	12.0	11.7	11.4	11.4	12.4	12.7	12.2	14.8
Capital (net worth) to assets 3/	14.2	14.3	14.7	14.8	14.9	14.1	16.2	16.1	16.6	17.0	16.3
Asset Quality and Distribution 4/											
Nonperforming loans to gross loans (30-day)	NA	NA	NA	NA	NA	2.9	3.2	4.3	4.6	4.3	5.0
Nonperforming loans to commercial loans (90-day)	NA	NA	NA	NA	NA	1.6	1.8	3.0	3.8	3.4	3.8
Provisions to nonperforming loans	175.0	182.0	163.9	160.7	151.3	155.5	153.5	134.7	137.5	142.4	152.8
Gross loans to assets	67.9	70.4	69.6	68.2	69.3	70.2	69.3	70.1	70.5	69.2	64.4
Earnings and Profitability											
ROAA	3.4	3.3	3.1	2.8	2.9	2.7	3.0	2.2	2.6	2.9	1.7
ROAE	23.7	23.0	21.2	19.5	19.8	18.9	18.3	13.7	16.0	17.3	10.4
Interest margin to gross income	55.6	58.4	58.7	61.3	60.6	58.7	53.7	59.2	57.3	56.4	57.0
Noninterest expenses to gross income	47.0	49.3	47.2	47.0	44.6	43.4	41.2	43.9	41.9	40.4	42.1
Liquidity 2/											
Liquid assets to total assets 5/	22.1	21.5	21.6	21.4	19.8	18.9	18.0	18.6	19.2	17.7	20.3
Liquid assets to short-term liabilities 5/	42.7	43.7	43.6	41.9	40.3	39.9	39.9	42.6	43.0	40.0	41.5
Deposit to loan ratio	93.5	91.4	94.7	96.3	91.6	93.2	92.6	92.7	92.0	91.2	100.3
Other											
Foreign-currency-denominated loans to total loans	6.9	7.7	7.5	7.3	8.4	8.3	6.9	6.1	5.9	5.0	4.4
Foreign-currency-denominated liabilities to total liabilities	9.8	11.5	10.5	11.9	13.5	13.9	11.8	11.0	11.6	11.4	10.9
Net open position in foreign exchange to capital 6/	0.6	1.0	0.6	0.5	0.7	1.3	5.5	6.4	7.1	0.7	0.9

Source: Superintendencia Financiera.

1/ Unlike the FSI data referred to in the main text, this table covers both regular credit institutions and so-called second-tier banks, which include national development banks among other institutions.

2/ Over CY2020, Basel III risk weights came into force, resulting in a rise of about 1 to 1.5 percentage points in average CARs.

3/ Large increase in 2016 due to a change to IFRS in January 2016 where deposit insurance that used to be recorded as a liability is now recorded as capital.

4/ Implementation of emergency measures (Circulars 7 and 14) and the PAD make that series are not fully comparable across time.

5/ Data after 2011 refers to broader definition of liquid assets in line with international standards.

6/ Since January 2016, goodwill and retained earnings started to be recorded in foreign currency. Before January of 2016, they were recorded in Colombian pesos and weren't included in the foreign exchange position.

Table 9. Colombia: Indicators of External Vulnerability [1/]

(In billions of US$, unless otherwise indicated)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
						Projections					
Exports of GNFS	42.8	49.3	55.1	53.0	39.1	49.1	52.5	55.5	58.9	61.4	64.1
Imports of GNFS	56.2	58.3	64.6	65.8	51.6	60.7	64.5	68.7	73.1	76.8	80.3
Terms of trade (y/y percent change)	3.3	9.6	5.9	-1.8	-11.8	8.0	0.0	0.0	-0.3	-0.7	-0.4
Current account balance	-12.8	-10.7	-13.6	-14.3	-9.1	-11.1	-12.1	-13.1	-13.9	-14.7	-15.5
In percent of GDP	-4.5	-3.4	-4.1	-4.4	-3.3	-3.8	-3.9	-3.9	-3.9	-3.9	-3.9
Financial account balance	-12.3	-9.7	-12.6	-13.2	-8.1	-11.1	-12.1	-13.1	-13.9	-14.7	-15.5
Of which: Foreign direct investment (net)	-9.3	-10.1	-6.4	-11.1	-5.7	-6.7	-8.4	-9.5	-10.6	-11.9	-13.3
Of which: Portfolio investment (net)	-4.8	-1.6	1.3	0.3	-1.3	-2.1	-3.5	-4.0	-4.6	-5.2	-4.0
Total external debt (in percent of GDP) 2/	49.4	47.2	46.6	49.9	64.4	62.4	61.9	61.1	60.2	59.2	58.3
Of which: Public sector (in percent of GDP) 2/	31.9	30.3	29.0	30.0	39.3	38.2	37.5	36.3	34.2	32.6	31.5
In percent of gross international reserves	302.1	312.6	325.3	306.5	299.0	303.7	315.1	326.0	336.6	346.5	356.0
Short-term external debt (in percent of GDP) 3/	5.3	5.3	6.1	6.9	7.5	7.0	6.8	6.5	6.3	6.1	5.9
Of which: Public sector (in percent of GDP)	0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.2	0.2	0.2
Of which: Private sector (in percent of GDP)	5.0	5.1	5.8	6.7	7.2	6.7	6.5	6.3	6.1	5.8	5.6
Amortization of MLT external debt (in percent of GNFS exports)	17.7	31.1	28.6	25.0	35.1	31.8	25.5	27.9	33.4	32.4	33.5
External interest payments (in percent of GNFS exports)	11.1	10.7	10.5	14.2	16.8	14.9	15.3	15.1	14.8	15.0	15.2
Gross international reserves 4/	46.2	47.1	47.9	52.7	58.5	60.7	61.6	62.4	63.3	64.4	65.5
In months of prospective GNFS imports	9.5	8.8	8.7	12.3	11.6	11.3	10.8	10.2	9.9	9.6	9.4
In percent of broad money	31.3	29.8	31.2	31.5	37.8	36.0	33.5	31.3	29.2	27.3	25.6
In percent of short-term debt on residual maturity basis plus current account deficit	112.8	102.9	100.2	116.3	124.0	131.5	123.5	112.9	111.2	107.5	104.5
In percent of ARA 5/	144	135	132	140	145	144	141	136	132	130	126
Nominal exchange rate (Col$/US$, period average)	3,055	2,951	2,956	3,281	3,693	3,675	3,704	3,739	3,777	3,815	3,855
Real effective exchange rate (percentage change, + = appreciation)	-4.7	5.7	0.6	-9.1	-11.1	0.8	0.0	-0.1	-0.2	-0.1	-0.1

Sources: Banco de la República; and IMF staff estimates and projections.
1/ GNFS stands for goods and nonfactor services; MLT stands for medium and long-term.
2/ Includes foreign holdings of locally issued public debt (TES).
3/ Original maturity of less than 1 year. Stock at the end of the previous period.
4/ IMF definition that excludes Colombia's contribution to Fondo Latinoamericano de Reservas (FLAR) and includes valuation changes of reserves denominated in other currencies than U.S. dollars.
5/ Excluding commodity buffer. Coverage including a buffer for commodity price uncertainty was 128 percent of the metric at end-2020.

Table 10. Colombia: External Debt Sustainability Framework, 2016–26
(In percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2016	2017	2018	2019	2020			2021	2022	2023	2024	2025	2026	Debt-stabilizing non-interest current account 6/
Baseline: External debt	49.4	47.2	46.6	49.9	64.4			**62.4**	**61.9**	**61.1**	**60.2**	**59.2**	**58.3**	**-3.0**
Change in external debt	7.3	-2.1	-0.6	3.3	14.5			-2.1	-0.5	-0.8	-0.9	-1.0	-0.9	
Identified external debt-creating flows (4+8+9)	4.3	-3.9	-0.7	2.9	11.3			-0.5	0.3	0.0	0.0	-0.1	-0.1	
Current account deficit, excluding interest payments	2.8	1.8	2.4	2.1	0.9			1.3	1.3	1.4	1.5	1.5	1.4	
Deficit in balance of goods and services	4.8	2.9	2.8	4.0	4.6			3.9	3.8	4.0	4.0	4.1	4.1	
Exports	15.1	15.8	16.5	16.4	14.4			16.6	16.7	16.7	16.6	16.3	16.0	
Imports	19.9	18.7	19.3	20.4	19.0			20.5	20.6	20.6	20.7	20.4	20.1	
Net non-debt creating capital inflows (negative)	-1.4	-2.9	-1.6	-2.3	-0.6			-1.2	-1.5	-1.6	-1.7	-1.8	-1.9	
Automatic debt dynamics 1/	2.8	-2.7	-1.4	3.1	11.0			-0.6	0.4	0.2	0.3	0.3	0.4	
Contribution from nominal interest rate	1.7	1.7	1.7	2.3	2.4			2.5	2.6	2.5	2.5	2.5	2.4	
Contribution from real GDP growth	-0.9	-0.6	-1.1	-1.6	4.1			-3.0	-2.1	-2.3	-2.2	-2.2	-2.0	
Contribution from price and exchange rate changes 2/	2.1	-3.8	-2.0	2.4	4.5			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	3.0	1.8	0.1	0.3	3.2			-1.6	-0.8	-0.9	-0.9	-0.9	-0.8	
External debt-to-exports ratio (in percent)	326.3	298.8	283.0	304.8	446.8			375.4	369.8	366.8	362.2	363.3	364.0	
Gross external financing need (in billions of US dollars) 4/	36.5	41.0	45.8	47.8	45.3			47.2	46.2	49.8	55.3	57.0	59.9	
in percent of GDP	12.9	13.1	13.7	14.8	16.7			16.0	14.7	15.0	15.6	15.1	15.0	
Scenario with key variables at their historical averages 5/						10-Year Historical Average	10-Year Standard Deviation	**62.4**	**65.9**	**69.5**	**73.2**	**77.2**	**81.4**	**0.9**
Key Macroeconomic Assumptions Underlying Baseline														
Real GDP growth (in percent)	2.1	1.4	2.6	3.3	-6.8	2.6	3.7	5.1	3.6	4.0	3.8	3.8	3.6	
GDP deflator in US dollars (change in percent)	-5.6	8.8	4.5	-6.3	-9.9	-2.4	10.5	3.6	2.3	2.3	2.3	2.4	2.5	
Nominal external interest rate (in percent)	3.8	3.8	3.9	4.8	4.1	4.2	0.4	4.2	4.3	4.3	4.3	4.3	4.4	
Growth of exports (US dollar terms, in percent)	-9.0	15.3	11.6	-3.8	-26.1	0.0	19.7	25.5	6.8	5.8	6.1	4.3	4.4	
Growth of imports (US dollar terms, in percent)	-14.8	3.6	10.8	2.0	-21.7	1.6	15.5	17.8	6.2	6.5	6.5	5.0	4.6	
Current account balance, excluding interest payments	-2.8	-1.8	-2.4	-2.1	-0.9	-2.6	1.2	-1.3	-1.3	-1.4	-1.5	-1.5	-1.4	
Net non-debt creating capital inflows	1.4	2.9	1.6	2.3	0.6	2.3	1.2	1.2	1.5	1.6	1.7	1.8	1.9	

Source: IMF staff estimates.

1/ Derived as [r - g - r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

2/ The contribution from price and exchange rate changes is defined as [-r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock. r increases with an appreciating domestic currency (e > 0) and rising inflation (based on GDP deflator).

3/ For projection, line includes the impact of price and exchange rate changes.

4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period. Excludes estimated amortization of TES.

5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

Table 11. Colombia: Capacity to Repay Indicators 1/

	2019	2020	2021	2022	2023	2024	2025	2026
Exposure and Repayments (In SDR millions)								
GRA credit to Colombia	--	3,750.0	12,267.0	12,267.0	12,267.0	8,262.8	2,129.3	--
(In percent of quota)	--	183.4	600.0	600.0	600.0	404.1	104.1	--
Charges due on GRA credit 2/	--	18.8	203.0	297.5	297.5	306.2	133.0	8.8
Debt service due on GRA credit 2/	--	18.8	203.0	297.5	297.5	4,310.4	6,266.5	2,138.0
Debt and Debt Service Ratios 3/								
In percent of GDP								
Total external debt	49.9	64.4	88.1	87.4	86.3	85.2	83.8	82.6
Public external debt	30.0	39.3	57.0	55.8	53.9	50.8	48.4	46.7
GRA credit to Colombia	--	1.9	8.6	8.1	7.7	4.9	1.2	--
Total external debt service 4/	12.3	15.8	21.1	17.3	19.5	22.2	21.9	19.9
Public external debt service 4/	3.0	2.5	4.1	2.5	3.9	6.8	6.3	4.3
Debt service due on GRA credit	--	0.0	0.1	0.2	0.2	2.6	3.5	1.1
In percent of Gross International Reserves								
Total external debt	306.5	299.0	375.8	388.8	401.1	412.9	423.5	433.5
Public external debt	184.5	182.3	243.2	248.3	250.3	246.1	244.8	245.1
GRA credit to Colombia	--	8.9	36.6	36.2	35.8	23.8	6.0	--
In percent of Exports of Goods and Services								
Total external debt service 4/	75.1	109.3	105.3	72.5	81.8	93.4	93.9	86.9
Public external debt service 4/	18.4	17.1	20.4	10.3	16.5	28.4	27.0	18.9
Debt service due on GRA credit	--	0.1	0.7	0.8	0.8	10.8	15.0	4.9
In percent of Total External Debt								
GRA credit to Colombia	--	3.0	9.7	9.3	8.9	5.8	1.4	--
In percent of Public External Debt								
GRA credit to Colombia	--	4.9	15.0	14.6	14.3	9.6	2.5	--
Memo Items:								
U. S. dollars per SDR (period average)	1.38	1.39	1.45	1.46	1.46	1.47	1.47	1.48
U. S. dollars per SDR (end of period)	1.38	1.44	1.45	1.46	1.47	1.47	1.48	1.48
Oil Price (WEO APSP, US$ per barrel)	61.4	41.3	58.5	54.8	52.5	51.3	50.7	50.5

Sources: Colombian authorities, Finance Department, World Economic Outlook, and IMF staff estimates.

1/ Assumes full drawing of remaining precautionary access (417 percent of quota) upon approval of the review and materialization of an adverse scenario in-line with the one prepared for the request for augmentation of access.
2/ Based on the rate of 1.05 (as of March 24, 2021).
3/ Staff projections for external debt, GDP, gross international reserves, and exports of goods and services reflect the adverse, and not the baseline, scenario under which the full FCL drawing is assumed.
4/ Excluding local-currency government securities TES (which have foreign participation).

COLOMBIA

April 26, 2021

REVIEW UNDER THE FLEXIBLE CREDIT LINE ARRANGEMENT—SUPPPLEMENTARY INFORMATION

Prepared By Western Hemisphere Department

This statement reports on the fiscal reform proposal submitted by the Colombian authorities to Congress after the review was issued to the Executive Board on April 14. The thrust of the staff appraisal has not changed.

1. **The Colombian government unveiled a comprehensive fiscal reform proposal on April 15.** Congress is expected to debate the proposal in the coming weeks. The reform aims to durably raise revenues by around 2½ percent of GDP over the medium term and includes expenditure measures worth around 1 percent of GDP (see Table 1). The net impact in terms of deficit reduction is around 1½ percent of GDP over the medium term. Major reform elements include mobilizing revenue through direct and indirect taxes (including new environmental taxes), strengthening targeted social protection measures, and reinforcing the fiscal framework.

2. **To mobilize revenues, direct and indirect taxes would have a broader base and improved equity.** The reforms aim to raise revenues durably by broadening the tax base and improving fairness, while bringing tax revenue ratios and composition closer in line with regional and OECD peers. Main tax reform areas include:

- *Value-Added Taxes (VAT)*: Exempt or reduced-rate categories would be consolidated to broaden the base and raise collections by 0.6 percent of GDP.[1] To compensate poorer families for cost increases, VAT compensatory transfers are expanded (from COP 35,000 to COP 50,000 monthly payments) at a cost of 0.2 percent of GDP, with the eligibility as a share of the total population expanding from 20 to 40 percent according to authorities' estimates.

[1] Under the proposed VAT reform, exemptions on basic consumption goods would be preserved.

- *Income taxes:* As the main source of new tax collections, personal Income tax (PIT) thresholds, rates and definitions would be modified to broaden the tax base and raise revenues by 1.4 percent of GDP (see Figure 1). In terms of progressivity, this includes making high pensions taxable.[2] Additionally, tax rates are also raised on dividend income (from 10 to 15 percent) with an increased minimum threshold. Meanwhile, exemptions and deductions on Corporate Income Taxes (CIT) are reduced.

3. **Other tax reforms include new environmental taxes and some temporary transition taxes.** In terms of environmental taxes to fight climate change, new carbon, plastic-packaging, pesticide, vehicle, and gasoline taxes are established. To help the transition from COVID-induced deficits, a series of temporary transition taxes are also levied. These include a 3 percent CIT surcharge and a temporary net wealth tax of 1-2 percent for 2022-2023.[3] In addition, a temporary high-income 10 percent tax applicable to 2021H2 is proposed for monthly incomes above COP 10 million.

4. **Social transfers are strengthened, and new employment programs are established.** The unconditional transfer program implemented during the pandemic, Ingreso Solidario, is made permanent with more targeted coverage of households at a cost of 0.4 percent of GDP. The reform also includes measures to improve the targeting of other transfer programs, including energy subsidies. To promote employment during the recovery, the emergency payroll subsidy program (PAEF) would be extended to June 2021, and new employment subsidies would include those who hire young workers, elder workers without a pension, and women over 40 years old without employment contracts.[4]

5. **A modified fiscal rule and strengthened fiscal framework are proposed.** The reform reinstates the fiscal rule as an anchor and reinforces the fiscal framework to stabilize public debt in the medium-term. A transition path for maximum fiscal deficits is outlined during the post COVID-19 recovery period (2022-2024) before a debt-target driven framework is fully installed. Main reform elements include:

- *Fiscal rule coverage, target, and definition changes:* The new fiscal rule would target the net structural primary balance of the general government. This is a shift from the current rule, which focuses on the overall structural balance of the central government. The new structural target would take account of an oil cycle adjustment based on oil revenue deviations from past data and correct for one-off transactions.[5] A new debt

[2] Monthly pensions above COP 7.0 million would be taxed.

[3] Authorities expect to raise 0.1 percent of GDP per year from net wealth tax.

[4] Additional temporary employment subsidies, up to a global limit established by the Finance Ministry, are made available for those who hire previously unemployed workers without a demographic target.

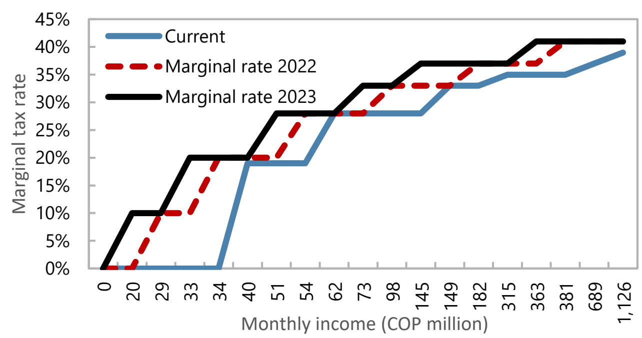
[5] The new method does not include output gaps and projections that influence current target calculations and focuses only on observable measures mainly related to the oil cycle in adjusting the structural target. After the debt target becomes operational, there will be a mechanism to account for other macroeconomic shocks.

anchor would be established—defined on (non-pension) net public liabilities[6]—and the Council of Fiscal Policy (CONFIS)[7] led by the Finance Ministry would determine debt limits and convergence parameters to establish yearly structural primary balance targets. The new rule is designed to prevent protracted increases in public debt seen under the previous rule.

- *Institutional reforms:* The reform establishes a new "Autonomous Fiscal Rule Committee" to oversee adherence to the rule, with its own staff and independent operational budget. [8] Other institutional reforms include granting 6-month extraordinary presidential powers to restructure public entities for fiscal savings, and changes to the escape clause. Once activated, this cannot be active for more than three consecutive years and both the magnitude of the deviation and the expected return path must be established.

6. The reform proposal would reinforce Colombia's fiscal framework and is broadly in line with past staff advice. Reflecting the authorities' commitment to sound public finances and very strong policy frameworks, the proposal would reinstate a fiscal rule as the policy anchor with a strengthened fiscal framework around it. On the tax side, staff has advocated raising tax revenues by 2-3 percent of GDP over the medium term, led by VAT and PIT reform, to bring Colombia in line with regional peers and to help stabilize public debt. The current reform proposal—if approved by Congress—would be significant progress in that direction.

Figure 1. PIT – Marginal Tax Rates



Sources: IMF staff calculations.
Note: 2021 UVT/COP exchange rate used.

[6] These are defined as general government total non-pension liabilities, net of financial assets belonging to subsectors of the general government. The CONFIS would be in charge of final determinations on definitional details.

[7] The Council for Fiscal Policy (CONFIS) is a body attached to the Ministry of Finance and Public Credit to direct fiscal policy and coordinate the budgetary system. The council's composition is the Finance Minister who presides, director of the National Planning Department, economic counselor of the President, Vice Ministers of Finance, director of the National Treasury and Public Credit, and director of Taxes and Customs.

[8] This new independent technical body would replace the current Fiscal Rules Consultative Committee (FRCC) that lacked these resources. New committee members would be appointed by the Finance minister and elected for rotational four-year terms. Two members would be initially appointed for a two-year term.

Table 1. Colombia: Intended Sources and Uses of Fiscal Reform Proceeds
(Average 2022-31)

Sources	COP trillion	Percent of GDP	Uses	COP trillion	Percent of GDP
Total	**28.1**	**2.4**	**Total**	**28.1**	**2.4**
VAT	7.3	0.6	Ingreso Solidario	4.6	0.4
Persons (including PIT)	17	1.4	Employment and other subsidies	0.8	0.1
Companies (including CIT)	3.7	0.3	VAT compensatory transfers	1.8	0.2
			Revenue sharing with regions	4.6	0.4
			Net tax reform balance effect	**16.4**	**1.4**

Source: MHCP

Statement by Mr. Romero Tarazona on Colombia
April 28, 2021

On behalf of the Colombian authorities, I thank the staff for their assessment, which confirms that Colombia continues to qualify for access to resources under the Flexible Credit Line (FCL).

The global economy is gaining momentum and growth projections have been revised upwards, but external risks remain higher than before the onset of the COVID-19 pandemic. The recovery has been sustained by the vaccination process, as well as by ample global support. Nevertheless, the external environment continues to be marked by high levels of uncertainty and uneven progress in the vaccination process, as highlighted in recent IMF reports. External financial conditions for emerging market economies have been volatile and could tighten due to the recent hike in interest rates, particularly in the United States. Consequently, an uneven recovery is expected across countries and sectors.

The Colombian economy is still facing an unprecedented shock due to the pandemic. There is uncertainty about its evolution as further outbreaks and challenges in the rollout of vaccines might affect the economic recovery. Internal and exogenous aspects of the shock have impacted the country's external and fiscal accounts, thus increasing financing needs. The decline in economic activity in 2020 reflects the deepest contraction in history (6.8 percent) and it has gone hand in hand with the widening of the fiscal deficit due to a simultaneous decrease in domestic revenues and increase in expenditures to support the sanitary emergency. This has resulted in a rise in the government debt-to-GDP ratio, which reached 64.8 percent in 2020.

Colombia's experience during the pandemic underlines the importance of building strong macroeconomic policy frameworks to support the country's policy responses. The framework is built on a full-fledged inflation-targeting regime with a flexible exchange rate, public finances anchored for the medium term, and sound financial regulation and supervision. This framework has allowed the authorities to provide a coordinated, timely, and decisive response to tackle the consequences of the global shock.

A gradual economic recovery is expected to persist throughout this year, fostered by domestic demand. In the fourth quarter of 2020, GDP growth was encouragingly better than expected, increasing by 6.0 percent *vis-à-vis* the third quarter of 2020. The recent evolution of leading indicators such as consumer confidence, industrial production, and energy demand suggests the recovery is underway. Output is estimated to gradually reach pre-pandemic levels in 2022. However, downside risks remain, particularly related to the evolution of the pandemic and results from the vaccination campaign.

Nevertheless, the economic recovery is uneven across sectors, and the need for containment measures in response to new waves of the virus pose risks to the pace of economic recovery. The shock has caused both supply and demand effects, but the impacts on the latter have been greater, consequently widening the negative output gap. The slack in the labor market mirrors this situation, as the unemployment rate remains above 14.0 percent. Moreover, the risk that renewed restrictions might be needed—as seen at the end of 2020 in response to a surge in infections, and lockdowns in January and April—that could adversely affect growth and employment cannot be ruled out going forward.

The FCL has played a fundamental role in facing COVID-19. The access increase to 600 percent of quota in September 2020 strengthened Colombia's international liquidity position and helped the country complement other sources of external financing, providing balance of payments support in an environment of heightened external uncertainty.

The partial disbursement of the FCL reinforced Colombia's response to the pandemic, allowing the country to diversify financing sources, and preserving strong external buffers in this uncertain context. It helped safeguard Colombia's policy response to the emergency and its effects on the economy. In September 2020, authorities announced their intention to draw a portion of the augmented FCL for budget support that was followed through in December 2020. The transaction provided balance of payments support in the context of higher financing needs. The partial FCL disbursement for budget financing thus helped the government respond to the COVID-19 pandemic and reduced its potential effects on the economy. Part of the disbursement was bought by the Central Bank, thus strengthening the country's international reserve position. Noteworthy, the diversification of financing sources was significant to mitigate potential crowding out effects and higher financing costs for the private sector and other public entities in local markets due to increase in borrowing needs from the government.

The market response to the announcement of the augmentation and the intention to disburse a portion of the FCL last September was positive, as well as when the disbursement took place in December. The augmented access in response to heightened external risks reflected the IMF´s continued support and recognition of Colombia's strong economic fundamentals and very strong policy and institutional frameworks. The coordinated communication strategy implemented by the authorities and the IMF during the entire process bolstered market confidence. Specifically, resources from the FCL reinforced confidence in the management of the pandemic emergency and recovery plan.

As highlighted in the staff's assessment, Colombia continues to meet the qualification criteria for access to IMF resources under the FCL arrangement. The country's external position is sustainable, and FDI is expected to rise. Although the global recovery will support higher external demand and better terms of trade in 2021, the current account deficit is expected to increase slightly as result of stronger domestic absorption as the economy recovers from the COVID-19 shock. Furthermore, despite increased international financial volatility, reliable information suggests that capital inflows to Colombia adjusted in an orderly manner during the pandemic and started to gain momentum in April.

Inflation remains below target while the Central Bank retains high credibility, and monetary policy continues to support the recovery. Because of the demand shock and price relief measures, inflation in 2020 stood below the Central Bank's target and should converge to the 3.0 percent target in the next two years. At the same time, the slack in the economy is substantial. Consequently, the Central Bank has used its policy space to keep an accommodative monetary policy stance to support the economic recovery in a countercyclical fashion. The financial system has maintained adequate liquidity and capital levels. Despite the size of the macroeconomic shock, financial intermediation has continued smoothly, and growth of the loan portfolio has remained positive in nominal and real terms.

As highlighted in the staff's report, Colombia's foreign reserve position is adequate. The report also mentioned the need to accumulate further reserves in the coming years to bolster the economy´s capacity to withstand external shocks. In this regard, authorities wish to express that the Central Bank is committed to keeping adequate external liquidity buffers under an uncertain external environment. During 2020, the Central Bank increased its foreign liquidity buffers by nearly USD 5 billion in international reserves, reaching a level close to USD 60 billion.

The trajectory of the fiscal policy has certainly been challenged by COVID-19, with implied lower domestic revenues, larger fiscal deficits, and higher public debt. In 2020, the fiscal deficit widened up to 7.8 percent of GDP and is expected to increase up to 8.6 percent this year. Colombia remains committed to sound public finances and the stabilization and gradual reduction of the government debt burden, as demonstrated by the Ministry of Finance's Sustainable Solidarity Bill presented to Congress on April 15th. The target is to improve tax collection through reform of personal income tax, corporate income tax and value added tax, higher efficiency of the Tax Administration, and reduction in evasion and avoidance. It also introduces rules for a new set of green taxes aligned with our international commitments to reduce greenhouse gas emissions, a stronger social safety net which improves equality and reduces poverty, that increased during the pandemic. Finally, a reform to the Fiscal Rule seeks to complement the current arrangement with a clear path for fiscal consolidation, an explicit debt anchor and a strengthened overseeing independent committee. This reform would preserve the integrity of the Medium-term Fiscal Framework (MTFF) which remains a central part of the authorities' overall policy and institutional framework, as well as the track record of their policy implementation.

Colombian authorities remain committed to maintaining the very strong economic policy framework that has allowed them to respond rapidly to the sanitary emergency and its economic impact, and aim to treat the remaining amount under the FCL, SDR 8.517 billion (US$ 12.3 b), as precautionary. They also recognize the transitory nature of the FCL and remain committed to reducing access to the instrument, risk permitting. They are encouraged by the improvement of the external conditions, the economic recovery supported by the vaccination process and favorable international financial conditions, but also perceive external downside risks linked to a possible tightening of the global financial conditions and the pandemic.

The authorities look forward to continued support from the IMF Board and Fund staff. We are deeply grateful to Mr. Hamid Faruqee and his team for their commitment and hard work during the entire process of augmentation of access of the FCL, its partial disbursement, and the mid-term review. The authorities also wish to express their gratitude to staff involved in the FCL disbursement process, a key transaction for our country.