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COLOMBIA

April 2022

2022 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR COLOMBIA

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2022 Article IV consultation with Colombia, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during it March 25, 2022, consideration of the staff report that concluded the Article IV consultation with Colombia.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on March 25, 2022, following discussions that ended on February 15, 2022, with the officials of Colombia on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on March 11, 2022.
- An **Informational Annex** prepared by the IMF staff.
- A **Staff Supplement** updating information on recent developments.
- A **Statement by the Executive Director** for Colombia.

The documents listed below have been or will be separately released.

Financial Stability System Assessment

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

PR22/96

IMF Executive Board Concludes 2022 Article IV Consultation with Colombia

FOR IMMEDIATE RELEASE

Washington, DC – March 28, 2022: The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Colombia[2] on March 25, 2022. This also included a discussion of the findings of the Financial Sector Assessment Program (FSAP) exercise for Colombia[3].

Colombia's very strong policy frameworks and comprehensive policy response to the pandemic supported the economy's resilience. A flexible exchange rate, central bank credibility under inflation targeting, effective financial sector supervision and regulation, a medium-term fiscal rule, and strong institutions have helped the country to withstand external shocks and promote economic growth. Over the last two years, the authorities have used the flexibility of their macroeconomic framework to deliver a coordinated and timely response to mitigate the impact of the pandemic.

Colombia's economic recovery in 2021 was among the fastest in the region. After a strong economic rebound last year, Colombia's economic momentum is expected to continue into 2022. Above-potential growth is expected around 5¾ percent this year, led by robust household consumption and continued recovery of investment and exports. Supported by a still accommodative monetary stance, the output gap is projected to close by 2022H1. Over the medium term, GDP growth is expected to converge to its potential growth rate of about 3½ percent. The projected increase in the price of key commodity exports would lead to a significant reduction in the current account deficit from -5.7 percent of GDP in 2021 to -3.3 and -3.4 percent of GDP in 2022 and 2023, respectively.

Inflation continues rising led by supply-side shocks in the context of strong demand. Higher inflation is expected to persist and will likely remain above the upper limit of the central bank's

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[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

[2] Disclaimer: This Staff Report was prepared by a staff team of the IMF for the Executive Board's consideration on March 25. The Staff Report reflects discussions with the Colombian authorities from February 1- 15, 2022 and is based on the information available at that time. It focuses on Colombia's near, and medium-term challenges and policy priorities given the pandemic and subsequent economic recovery. The report was prepared before the Russia-Ukraine conflict and, therefore, does not reflect the implications of these developments and related policy responses. The Supplementary Information is based on the information available as of March 11, incorporating initial effects from the ongoing conflict which has amplified uncertainty and downside risks around the outlook.

[3] Under the FSAP, the IMF assesses the stability of the financial system, and not that of individual institutions. The FSAP assists in identifying key sources of systemic risk and suggests policies to help enhance resilience to shocks and contagion. The last FSAP exercise for Colombia took place in 2012-13.

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tolerance band (4 percent) throughout 2022, with upside risks. Inflation is projected at around 6¾ by end-2022.

Risks to growth remain tilted to the downside. External risks remain elevated led by an intensification of the ongoing war in Ukraine. While Colombia stands to benefit from higher hydrocarbon prices, rising and volatile international prices for food and energy, as well as more persistent disruptions in global supply chains, would exacerbate domestic inflationary pressures. Global financial market volatility arising from the conflict or the monetary tightening cycle in major economies could also create shocks to capital flows. New outbreaks of Covid-19 variants could lead to subpar or volatile growth in trading partners. Domestic risks are also tilted to the downside—including uncertainty around the domestic evolution of the pandemic and political risks associated with the upcoming elections.

The banking system entered the COVID-19 pandemic from a position of relative strength, and the authorities mounted a strong policy and support response. As a result, the financial system has weathered the pandemic relatively well so far. As outlined in the FSSA, overall, banks are largely resilient to solvency and liquidity shocks. But it is essential to monitor interconnectedness and contagion in view of the complexity of financial conglomerates and increasing cross-border exposures. Bank supervision has been enhanced, including by introducing a comprehensive framework for conglomerates. Macroprudential oversight is overall effective, but some macroprudential tools and data collection should be expanded to address leakages and risks from potential rapid household debt growth. The crisis management and safety net framework has been strengthened significantly, but recovery and resolution planning needs further improvements, including for cross-border institutions.

Executive Board Assessment[4]

Executive Directors agreed with the thrust of the staff appraisal. They commended the authorities for their very strong policy frameworks and a comprehensive pandemic response, which have supported the economy's resilience and a strong recovery. Directors noted that uncertainty and downside risks remain elevated, including from inflation, global financial conditions, and geopolitical tensions. They agreed that policies need to be recalibrated carefully to sustain the growth momentum, manage inflation, further strengthen public finances, and reduce external imbalances.

Directors agreed that an accelerated monetary tightening is appropriate to reduce inflationary pressures and safeguard the credibility of the monetary policy framework. They emphasized the need to ensure that policy decisions remain data-driven and accompanied by clear communication. Directors welcomed the authorities' commitment to maintain a flexible exchange rate to help absorb the impact of global shocks, including swings in commodity prices. They encouraged the authorities to continue with international reserve accumulation over time to help maintain reserve adequacy and insure against external liquidity risks. Directors noted that the Flexible Credit Line provides additional buffers and enhances market confidence.

[4] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.

Directors commended the authorities for the improved public finances and strong commitment to maintain fiscal credibility. They recommended continued efforts to save revenue windfalls, control spending, and phase out exceptional support measures, as conditions allow. Directors recognized that the Social Investment Law, including a new debt anchor, is an important step to strengthen the fiscal framework. They stressed that deeper fiscal reforms to secure new revenue sources and enhance spending efficiency would safeguard key social programs and public investment, while further reducing debt.

Directors welcomed the strengthening of the regulatory and supervisory frameworks. They encouraged the authorities to build on this progress by implementing the 2022 FSAP recommendations. Directors underscored the need to enhance data availability, crisis management, and the bank resolution and macroprudential frameworks.

Directors stressed the importance of further structural reforms to boost productivity, external competitiveness, and greener, inclusive growth. They called for continued efforts to strengthen governance and the anti-corruption and AML/CFT frameworks. Directors looked forward to further progress in implementing the green strategy, reducing trade barriers, and increasing labor force participation. They commended the authorities for their ongoing efforts to integrate Venezuelan migrants into the economy.

Table 1. Colombia: Selected Economic and Financial Indicators

	2017	2018	2019	2020	2021[1]	Projections 2022	2023	2024	2025	2026	2027
						(In percentage change, unless otherwise indicated)					
National income and prices											
Real GDP	1.4	2.6	3.2	-7.0	10.6	5.8	3.6	3.4	3.4	3.4	3.4
Potential GDP	2.9	3.0	3.1	-2.0	5.0	4.4	3.8	3.4	3.4	3.4	3.4
Output Gap	-0.8	-1.2	-1.1	-6.2	-1.2	0.1	-0.1	0.0	0.0	0.0	0.0
GDP deflator	5.1	4.6	4.0	1.4	6.6	7.5	3.4	3.1	3.1	3.1	3.1
Consumer prices (average)	4.3	3.2	3.5	2.5	3.5	7.7	4.2	3.5	3.0	3.0	3.0
Consumer prices, end of period (eop)	4.1	3.1	3.8	1.6	5.6	6.9	3.8	3.0	3.0	3.0	3.0
External sector											
Exports (f.o.b.)	16.8	8.1	-5.4	-20.5	32.3	47.0	1.8	-3.4	-0.3	2.6	2.2
Imports (f.o.b.)	1.9	12.1	2.3	-18.5	37.7	16.3	3.7	2.9	1.9	3.4	3.4
Export volume	2.6	0.6	3.1	-9.1	-0.8	4.1	14.7	4.2	1.2	3.6	2.4
Import volume	1.0	5.8	7.3	-15.9	17.8	6.1	3.8	2.5	1.1	2.8	2.6
Terms of trade (deterioration -)	9.9	3.5	-2.3	-12.2	13.4	26.6	-11.1	-6.3	-1.8	-1.4	-0.7
Real exchange rate (depreciation -) 2/	5.6	0.7	-9.1	-11.1	-1.9	...	...	...	...	...	...
Money and credit											
Broad money	6.4	5.7	10.0	10.3	12.3	12.2	8.5	7.8	7.6	7.5	7.5
Credit to the private sector	12.8	6.8	11.6	-0.8	11.5	12.5	8.5	7.9	7.8	7.6	7.5
Policy rate, eop	4.8	4.3	4.3	1.8	3.0	...	...	...	...	...	...
					(In percent of GDP)						
Central government balance 3/	-3.6	-4.8	-2.5	-7.8	-8.2	-6.1	-3.7	-3.6	-2.6	-2.5	-2.5
Central government structural balance 4/	-2.6	-2.2	-2.1	-6.1	-7.3	-5.8	-3.9	-3.9	-2.7	-2.5	-2.5
Consolidated public sector (CPS) balance 5/	-2.4	-4.5	-2.9	-6.9	-7.2	-4.4	-2.1	-1.3	-0.8	-0.9	-1.0
CPS non-oil structural primary balance	-0.1	-1.2	-1.7	-4.3	-4.9	-3.3	-2.4	-2.0	-0.7	-0.2	-0.3
CPS fiscal impulse	0.1	1.0	0.6	2.6	0.5	-1.6	-0.9	-0.4	-1.2	-0.5	0.1
Public sector gross debt 6/	49.4	53.6	52.4	65.7	64.6	60.6	59.2	57.5	56.3	54.5	52.9
Gross domestic investment	21.6	21.2	21.4	19.2	19.7	19.0	19.2	18.9	18.9	19.0	19.3
Gross national savings	18.4	17.0	16.8	15.8	14.1	15.6	15.9	15.1	15.0	15.2	15.4
Current account (deficit -)	-3.2	-4.2	-4.6	-3.4	-5.7	-3.3	-3.4	-3.8	-3.9	-3.9	-3.9
External Financing Needs	13.5	14.3	15.3	17.9	17.8	13.9	14.1	15.3	15.0	14.8	14.6
External debt 7/	47.3	46.7	50.1	65.6	60.3	58.1	58.4	59.1	59.0	58.6	58.2
						(In percent of exports of goods and services)					
External debt service	73.7	70.8	77.8	113.0	87.0	59.5	62.6	72.1	73.1	72.8	73.7
Interest payments	10.7	10.7	14.7	16.4	12.9	10.2	11.2	12.6	13.2	12.9	13.1
						(In billion of U.S. dollars; unless otherwise indicated)					
Exports (f.o.b.)	39.8	43.0	40.7	32.3	42.7	62.8	64.0	61.8	61.6	63.2	64.6
Of which: Petroleum products	13.3	16.8	16.0	8.8	13.5	21.4	23.5	22.4	19.9	19.3	18.5
Gross international reserves 8/	47.1	47.9	52.7	58.5	59.1	60.2	61.5	62.9	64.2	65.1	65.9
Share of ST debt at remaining maturity + CA deficit	102	99	113	106	125	119	106	104	103	99.7	102.6

Sources: Colombian authorities; UNDP Human Development Report; World Development Indicators; and IMF staff estimates.

1/ Estimate for monetary sector variables (except for poliy rate) and fiscal sector variables.

2/ Based on bilateral COL Peso/USD exchange rate.

3/ 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 1.2 percent of GDP that, under GFSM 1986 which is used by the authorities, produces a headline deficit of -7.0 percent of GDP.

4/ IMF staff estimate, excludes one-off recognition of arrears.

5/ Includes the quasi-fiscal balance of Banco de la República, sales of assets, phone licenses, and statistical discrepancy. For 2021 includes privatization receipts, see 3/ above.

6/ Includes Ecopetrol, Fogafin and Finagro.

7/ Current account deficit plus amortization due including holdings of locally issued public debt (TES).

8/ Excludes Colombia's contribution to FLAR; includes valuation changes of reserves denominated in currencies other than U.S. dollars.

INTERNATIONAL MONETARY FUND

COLOMBIA

STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION

March 11, 2022

KEY ISSUES

Context, outlook and risks. Colombia's economy rebounded strongly in 2021 with 10.6 percent growth led by pent-up domestic demand, notably private consumption. Around 66 percent of the population is fully vaccinated against Covid-19 as of end-February and the economy continues to reopen more fully. While GDP has already reached pre-pandemic levels, employment has trailed in its recovery and macroeconomic imbalances have emerged. Amid strong demand, supply constraints, and rising commodity prices, rising inflation exceeded the upper limit of the central bank's tolerance range in 2021. With demand-led growth and higher import prices, the current account deficit widened to 5¾ percent of GDP. Under staff's assumptions for the evolution of the pandemic, above-potential growth around 5½ percent is expected in 2022, led by robust household consumption and a continued recovery of investment and exports. External vulnerabilities remain elevated with high external financing needs and tighter financial conditions. External risks remain elevated and an intensification of the ongoing conflict in Ukraine may impart considerable volatility in financial and commodity markets. Domestic risks are also tilted to the downside—including uncertainty around the evolution of the pandemic, political uncertainty with national elections this year, and slower implementation of the infrastructure agenda and peace accords.

Policies. Colombia's very strong policy frameworks and comprehensive policy response to the pandemic supported the economy's resilience. Over the last two years, the authorities have used the flexibility of their macroeconomic framework to deliver a coordinated and timely response to mitigate the impact of the pandemic.

Recommendations. With a strong recovery underway moving toward expansion but with downside risks, Colombia's policies will need to be carefully recalibrated to extend economic momentum, manage higher inflation, strengthen public finances, and reduce external imbalances. Further reserve accumulation would help insure against elevated external risks.

Monetary and financial sector policies. Amid low excess capacity and negative real interest rates, accelerated monetary tightening by the central bank is appropriate to control rising consumer prices and prevent second-round effects from supply side factors. In line with the Financial Sector Assessment Program (FSAP) recommendations, there is room for further improvement in data collection to strengthen risk monitoring and certain institutional arrangements underpinning the macroprudential and resolution frameworks.

Fiscal policy. The strong economic recovery is an opportunity to strengthen public finances that were weakened by the pandemic, including further deficit reduction in the near term. Securing new revenue sources will be paramount to safeguarding key social protection programs and public investment in the future, while supporting a faster reduction in the debt level. These new revenue sources should be complemented by spending efficiency measures.

Structural reforms. Structural policies should be deployed to bolster inclusive growth and external competitiveness—including reducing labor market informality, completing the infrastructure agenda, strengthening governance, and further addressing trade (tariff and non-tariff) barriers. Continued implementation of the National Policy on Climate Change is key to pursue a sustainable, green recovery.

Advice from Previous Article IV Consultations: *Colombia's policy response in 2021 focused on both the pandemic and the recovery and was broadly in line with previous Fund advice*. The central bank kept its policy rate at historic lows to support economic activity and continued ensuring adequate liquidity provision to financial markets. On the fiscal front, the enacted Social Investment Law (SIL) reactivated the fiscal framework following appropriate suspension of the fiscal rule in 2020. The SIL re-anchors the fiscal path with explicit deficit targets to transition back to a structural balance rule. Moreover, following Fund advice, the fiscal framework was strengthened with a new debt anchor and by strengthening fiscal governance with an autonomous fiscal rules committee (CARF), in charge of fiscal rule oversight with its own staff and operational budget. The SIL also extended social spending to protect vulnerable groups through 2022 but, contrary to the intended tax reform, the SIL raises tax revenue from corporates. To reduce labor informality and extend the social safety net, the government granted access to social security benefits for nearly 10 million workers earning less than minimum wage through a new social protection floor (SPF); continued to implement the commendable Temporary Protection Status (TPS) program to integrate Venezuela migrants; and introduced new social protection programs to support economic and financial inclusion (e.g., *Ingreso Solidario*). The recent FSAP finds that the majority of the 2012 FSAP recommendations have been or are in the process of being implemented. Basel III implementation continues on track.

Approved By
Julie Kozack (WHD) and Kevin Fletcher (SPR)

Discussions took place virtually during February 1–15, 2022. The team comprised Hamid Faruqee (Head), Marco Arena, Juan Yépez Albornoz (all WHD), Leandro Medina (SPR), and Felix Vardy (MCM). Carolina Claver and Alice French (both LEG) participated in specific meetings. José Romero (OED) also participated. Danjing Shen, and Nicolas Landeta (all WHD) supported the mission from headquarters.

CONTENTS

ANNEXES