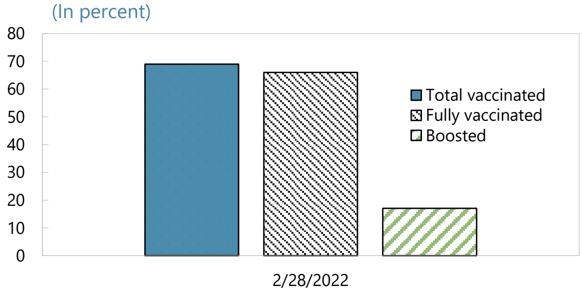
BACKGROUND

1. **Colombia's very strong policy frameworks and comprehensive policy response to the pandemic supported the economy's resilience**. Prior to the pandemic, a flexible exchange rate, central bank credibility under inflation targeting, effective financial sector supervision and regulation, a medium-term fiscal rule, and strong institutions 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. The fiscal response (worth around 4 percent of GDP) included health spending and creating the FOME crisis relief fund, alongside introducing discretionary measures like payroll subsidies and expanded transfer programs. The monetary and financial sector response included exceptional actions such as asset purchases to support market liquidity, reducing the policy rate to historic low levels at 1.75 percent, as well as financial support measures such as a loan modification program to maintain credit flows to support economic activity.

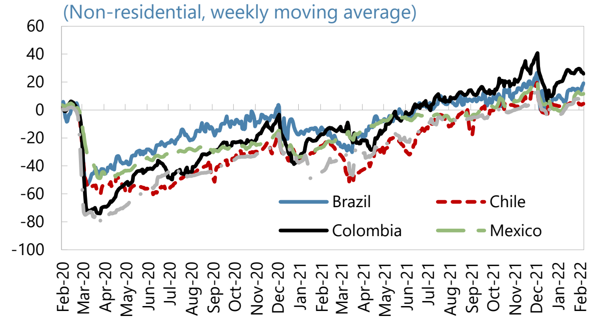
2. **As of end-February, around 66 percent of the population has been fully vaccinated.** With this progress, the authorities are approaching an initial target of 70 percent and have decided to go for a more ambitious target of 80 percent that incorporates younger age groups. An additional 10 million doses have been secured to help meet this target. Venezuelan migrants have been included in the national vaccination plan. In 2021, especially during the second half of the year, lower COVID-related cases and rising vaccinations contributed to a rapid re-opening of the economy with mobility measures already reaching pre-pandemic levels. The recent wave of COVID-related cases, associated with the Omicron variant, peaked in mid-January and no confinement measures were implemented as ICU capacity was below the trigger thresholds.

Colombia Vaccination Rates
(In percent)



Sources: Ministry of Health and Social Protection; DANE; Haver; and IMF staff calculations.
Note: complete scheme is two-dose or single-dose vaccine.

Google Mobility
(Non-residential, weekly moving average)



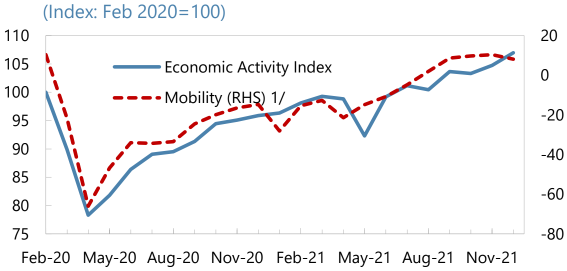
Sources: Google; Haver; and IMF staff estimates.

CONTEXT: A STRONG DEMAND-LED ECONOMIC RECOVERY

3. **Colombia's strong economic recovery is among the region's fastest.** The economy registered a stronger-than-expected GDP growth of 10.6 percent in 2021 (on par with Chile and Peru). Private consumption has been the major driver of the recovery—supported by the economic

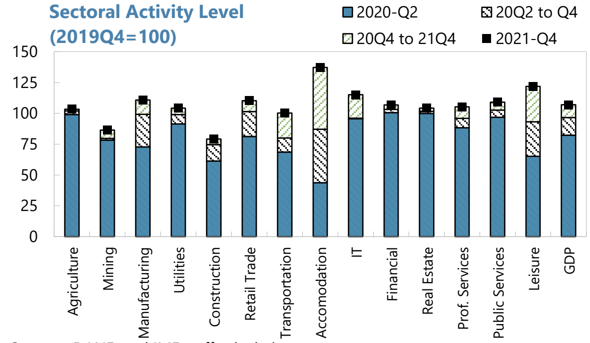
reopening, pent-up demand, resumption of consumer credit, and strong remittance inflows. Higher fiscal deficits and public spending have further supported domestic demand. While total output has already reached pre-pandemic levels, the recovery has been uneven with some sectors lagging (mining, including oil, and construction are still below pre-pandemic levels) amid supply-side disruptions. At the same time, strong growth has been accompanied by higher inflation and external imbalances.

Monthly GDP Index and Mobility
(Index: Feb 2020=100)



Sources: Haver; DANE; Google; and IMF staff calculations.
1/ Feb 2021 google mobility is the average with data up til Feb 19, 2021. It reflects working place visitng change data during weekdays.

Sectoral Activity Level
(2019Q4=100)



Sources: DANE; and IMF staff calculations.

4. Inflation continues rising given supply-side shocks and strong demand. Amid strong domestic demand, supply-side constraints, and rising commodity prices, inflation exceeded the central banks' inflation target (3 percent) and upper limit of its tolerance range (4 percent) since last August, with CPI inflation reaching 5.6 percent in December. Inflation climbed to almost 7 percent in January, driven by higher food and energy prices (about 20 percent and 12 percent, respectively), with increases mainly driven by higher international prices, disruptions in global supply chains, and higher transport costs. Core inflation (ex. food and regulated prices) has also risen since 2021Q2 reaching 3.5 percent in January, as slack in the economy narrowed. Moreover, recent minimum wage settlements in December (10 percent) and some indexation effects (e.g., rents) indicate some persistence in underlying inflation pressures and could be an important channel for second-round effects from supply-side shocks. While two-year ahead inflation expectations remain well anchored, they have showed some increase above the inflation target in recent months (see Figure 5).

5. The central bank started the process of monetary policy normalization in September and has stepped up the pace of tightening. The central bank accelerated its pace of normalization with two consecutive increases of 50 bps in October and December and an increase of 100 bps in January, raising the policy rate to 4 percent. Despite this tightening, the monetary policy stance still remains accommodative.[1]

6. External imbalances widened as part of Colombia's twin deficits. Alongside a larger fiscal deficit, the current account deficit widened noticeably from 3.5 in 2020 to 5.8 percent of GDP in 2021 (see Figure 4). A strong rebound in both domestic demand and international prices raised imports by 38 percent, while exports expanded less by about 32 percent. Production of oil and coal were particularly dampened in 2021Q2, recovering only partially from disruptions accompanying

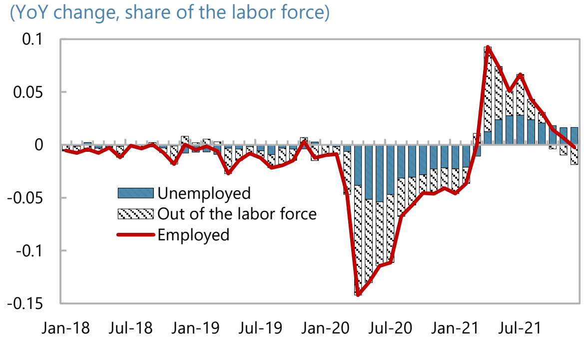
[1] The real interest rate is below staff's estimate of the natural rate of interest of between 1 and 2 percent.

earlier social unrest, and so key export revenues were driven more by higher commodity prices than volumes.[2] External financing needs (EFN) increased and remain elevated at about 18 percent of GDP, mainly reflecting an increase in the current account deficit and private sector short-term debt amortization.

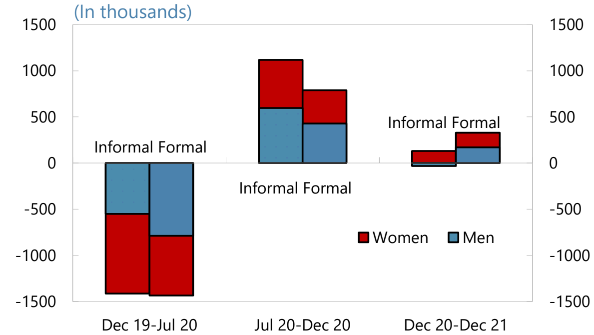
7. With tighter financial conditions, private portfolio flows moderated but FDI remained resilient. Country risk premia have moved higher (Figure 1) following the loss of Colombia's investment grade sovereign rating related to weaker public finances in the wake of the pandemic. Portfolio inflows remained positive in 2021Q2 but decelerated in 2021Q3 as investors adjusted their positions. Net FDI, however, continued to recover strongly, increasing by an estimated 33 percent y-o-y in 2021 (still slightly below pre-pandemic levels). Colombia's external position is assessed as moderately weaker than the level consistent with medium-term fundamentals and desired policy settings (Annex I).

8. Employment is recovering but trails the rebound in GDP. About a quarter of jobs were lost at the height of the lockdowns. As of December, about 80 percent of job losses have been recovered. While informal employment is approaching pre-pandemic levels, the recovery in formal jobs has been more sluggish[3], while women have been slower to rejoin the labor force amidst increased household burdens and school closures. Youth employment and participation rates are still below levels seen before the pandemic. Overall, the labor force participation rate remains below pre-pandemic levels (59.3 percent compared to about 63.0 percent in December 2019). The unemployment rate has continuously declined from record levels above 20 percent in 2020 to 12.3 percent (seasonally adjusted) in December 2021, but is higher in major cities and for women (see text-charts and Figure 7).

Employment Losses
(YoY change, share of the labor force)



Job Change by Formality Status
(In thousands)



Sources: GEIH; and IMF staff calculations.

9. The fiscal deficit was smaller than expected in 2021. With stronger growth and broadly unchanged spending, the central government fiscal deficit is now estimated to be -8.2 percent of GDP in 2021 or about 1½ percent of GDP lower than the expected deficit for 2021 in the Medium-

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[2] Social demonstrations generated temporary closures of oil wells and general distribution issues.

[3] However, based on the information from PILA (Planilla Integrada de Aportes a la Seguridad Social), the number of workers contributing to the social security system was 10.4 million in December 2021 compared to 9.3 million in December 2019.

Term Fiscal Framework (MTFF) target. After a sharp rise in debt during 2020, the central government's gross public debt-to-GDP ratio is now estimated to register an earlier than anticipated decline of about one percentage point of GDP (from 64.7 percent in 2020 to 63.8 percent in 2021). Also, in 2021, the government boosted its liquidity buffer with resources related to the SDR allocation (see Annex II).

10. The new Social Investment Law (SIL) aims at strengthening the fiscal framework, extending social protections, and raising medium-term revenues. After two years of fiscal rule suspension, the SIL re-anchors the fiscal framework by outlining a transition path towards a structural balance rule with new debt anchor. Within this medium-term adjustment path, the SIL aims for a net improvement in the central government primary balance by 1.1 percent of GDP[4], on average, starting in 2023. As a key component, the law raises medium-term revenues through hikes in corporate tax rates. The law also introduces a new strengthened fiscal rule oversight committee and extends pandemic support spending through the end of this year (see Annex III).

11. Colombia's bank-based financial system has withstood the pandemic well and remains sound. The faster recovery in 2021 has supported banks' balance sheets, which have already absorbed most pandemic-related provisioning expenses. With capital adequacy at 21.9 percent at year end, liquidity coverage above 200 percent, and a return on assets of 1.9 percent, capital and liquidity ratios are healthy, while operational profitability has returned.[5] Despite the phasing out of COVID-related regulatory support measures, NPLs have declined from a peak of 5.2 percent in January 2021 to 4.0 percent in December 2021. The consumer credit portfolio had a high impairment rate during the pandemic (just below 7 percent by end-2020), declining to 4¾ percent by end-2021. Extraordinary regulatory measures to support credit during the pandemic have been rolled back. The *Programa de Acompañamiento a Deudores* (PAD) was closed in August. As of December 2021, credit under the PAD stood at a manageable 5.0 percent of gross loans. The NPL ratio of PAD loans stood at 15.2 percent but could rise further.

12. Credit growth appears to be entering an upswing and credit institutions are well positioned to support expanding activity, even as interest rates rise. In 2021, credit to the private sector grew 4.3 percent in real terms (yoy) as credit relief measures such as the PAD were phased out. While growth in commercial credit is somewhat lagging (2.1 percent), consumer credit is picking up (6.8 percent), albeit not as fast as before the pandemic. Bank loan portfolios are dominated by variable-rate commercial credit, although fixed-rate consumer loans represent an important share of the loan portfolio. Hence a rapid rise in interest rates could squeeze some interest margins in the short run. However, banks' comfortable capital positions, lower credit risks, and less provisioning needs in the context of strong growth would allow banks to continue

[4] The SIL is expected to generate around 1¼ percent of GDP in permanent revenues but only 1 percent of GDP in net terms after accounting for permanent uses (e.g., General System of Participations and specific transfers).

[5] The FSIs in the main text refer to credit institutions. As such, they may differ somewhat from the *deposit-taking* institutions-based numbers in the Table 7 and Figure 8. The liquidity ratio is based on a local implementation of the LCR. The 2022 FSAP found that it is not fully aligned with Basel III standards.

supporting the recovery through expanding lending activities. This is corroborated by recent lending surveys, which indicate improvements in both the demand and the supply of credit.

13. Financial inclusion has improved with the pandemic, while digital finance initiatives are ongoing. Financial inclusion indicators improved considerably through electronic delivery of pandemic-related social transfers. As of June 2021, 89 percent of the adult population had one or more financial products, already exceeding the authorities' 2022 target (85 percent). However, gender and urban-rural gaps remain. The issuance in 2022Q2 of an Open Finance decree is expected to boost competition in and innovation around Digital Finance.

OUTLOOK AND RISKS

14. Colombia's economic momentum is expected to extend into 2022. Under staff's assumptions for the path of the pandemic (e.g., no major lockdowns affecting economic activity), above-potential growth is expected around 5½ percent in 2022, led by a robust household consumption and a continued recovery of investment and exports. Supported by a still accommodative monetary stance, the output gap is projected to close by 2022H2. Over the medium-term, GDP growth is expected to converge to its potential growth rate of about 3½ percent, supported by some of the drivers that had propelled growth in 2019. These include migration from Venezuela, infrastructure projects under 4G and 5G, finalization of the implementation of the National Development Plan, and implementation of investments and reforms associated to the *Compromiso por Colombia* and peace process plans.

15. Higher inflation is expected to persist and will likely remain above the target by end-2022 with upside risks. Under the baseline, inflation is expected to peak in 2022Q1 at about 8 percent and then decline gradually to 5.7 percent by end-2022. Pressures from external factors are assumed to continue having an impact on inflation in 2022H1. Domestic factors related to the indexation of some services (e.g., rents), base effects associated to tax holidays (VAT), and the larger than expected increase in the minimum wage will also have an impact on inflation. Thereafter, inflation is expected to continue its gradual decline and be close to the target by end-2023 as effects of these price shocks dissipate. The balance of risks, however, is on the upside from higher international prices of commodities and raw materials; more persistent disruptions in global supply chains; more stringent external financial conditions; and second-round effects from higher inflation.

16. The fiscal outcome appears set to overperform again this year. As highlighted in the government's Financial Plan for 2022, a lower fiscal deficit (6.2 percent of GDP) than in the fiscal rule (7.9 percent of GDP) appears within reach this year given higher tax collections due to the stronger-than-expected economic recovery and restraint on primary expenditures. The gross central government debt-to-GDP ratio is likely to be lower relative to last year, going from 63.8 percent to 62.7. Colombia's public debt—which covers the non-financial public sector and part of the financial public sector (i.e., Finagro and Fogafin)—is expected to remain sustainable in the medium term (see Annex IV).

17. The external deficit is expected to narrow gradually. The current account deficit is projected to decline to about 5¼ percent of GDP in 2022, driven by the recovery of exports, particularly oil and coal, services exports, and moderating growth in imports. Over the medium term, the current account deficit is expected to narrow to 4 percent of GDP. FDI and portfolio flows are expected to remain the major sources of external financing. EFN are expected to moderate but remain elevated. Assuming modest reserve accumulation as in 2021, Colombia's reserve coverage would remain adequate according to the ARA metric, although it is expected to gradually decline over time given rising EFN in the baseline.

18. Risks remain tilted to the downside (Annex V)**.** External risks remain elevated led by an intensification of the ongoing conflict 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. A tightening of external financial conditions and heightened market volatility from intensified geopolitical conflict in Europe or faster-than-expected policy tightening in advanced economies could lead to currency depreciation, higher sovereign risk premium, and capital outflows in Colombia. 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, political risks associated to a shift in the direction of economic policies after the 2022 elections, and slower implementation of the infrastructure agenda, peace accord, or fiscal plans set out in the SIL. A resurgence of migration flows from Venezuela would add to pressures on fiscal plans and external imbalances.

RECALIBRATING POLICIES TO SAFEGUARD AN INCLUSIVE RECOVERY AND PRESERVE ECONOMIC STABILITY

With a strong recovery underway but downside risks, Colombia's policies will need to be carefully recalibrated to extend economic momentum and manage higher inflation, while strengthening public finances and reducing external imbalances. To control rising inflation and anchor expectations, accelerated monetary tightening by the central bank is appropriate to limit second-round effects from supply side factors. Fiscal consolidation over the medium term should progress in accordance with the MTFF, but stronger-than-expected tax revenues should be saved to achieve a lower fiscal deficit in 2022. To ensure debt sustainability, safeguard key social programs, and support public investment, additional durable tax revenues need to be complemented by spending efficiency measures. Financial sector policies should enhance household and firm financial data and certain institutional arrangements for the resolution and macroprudential frameworks. Structural policies should be deployed to improve inclusive growth and external competitiveness.

A. Monetary Policy, Exchange Rate and Reserves: Recalibrating The Pace of Monetary Normalization

19. Against the background of rising inflation pressures, accelerated monetary normalization by the central bank is appropriate to control rising consumer prices and anchor inflation expectations. Against a backdrop of low excess capacity, negative real interest rates, and lags in the monetary transmission, the acceleration in monetary policy tightening is warranted. Added steps to raise interest rates in the first half of the year to sufficiently tighten monetary and financial conditions should guide inflation lower. This will help safeguard central bank credibility, anchor inflation expectations, insure against upside inflation risks and moderate demand. Monetary policy decisions and the balance of risks should continue to be clearly communicated to help guide market expectations.

20. Given elevated external vulnerabilities and risks, reserve accumulation should continue. Continued reserve accumulation would maintain adequate reserve coverage over the medium term under the ARA metric and can raise the reserve position towards the authorities' own target of covering short-term external financing needs sufficiently in their adverse scenario.

21. The central bank concurs with the view that monetary normalization needs to continue in the upcoming months, with the pace of tightening being data dependent. Considering the fast pace of economic recovery and risks posed by large and persistent supply shocks, the policy rate has been raised by 225 basis points. While supply shocks are the major driver of current inflation outcomes, the central bank remains focused on its price stability mandate and on preventing these persistent shocks from becoming entrenched in domestic inflation. Although the policy stance remains expansionary and excess capacity is low, the central bank is mindful that higher interest rates will dampen short-term economic growth but stressed that they recognize this and seek to avoid the welfare implications of inflation expectations becoming unanchored on medium-term growth. The government has also temporarily cut import tariffs and facilitated access to credit and insurance for agricultural producers to mitigate pressures on food prices from supply shocks. Regarding FX reserves, the authorities remain committed to maintaining adequate international liquidity cushions and a flexible exchange rate as an external shock absorber.

B. Fiscal Policy: Reducing Twin Deficits and Ensuring Fiscal Sustainability

22. A stronger economic recovery presents a window of opportunity to strengthen public finances. Stronger than expected growth in GDP, higher oil prices and related fiscal revenues, and faster closing of the output gap—as assessed by staff—implies achieving consolidation is attainable after two years of pandemic-related fiscal support. Saving windfalls associated with higher than projected revenues and/or higher GDP would ensure the expected fiscal deficit of 6.2 percent of GDP to be met or reduced. This would support external adjustment, reducing twin-deficits and related vulnerabilities, as well as helping achieve 2023 targets more smoothly. This would also help contain debt costs and respect deficit limits over time established in the MTFF. Moreover, additional fiscal consolidation will lessen the need for monetary tightening to address inflation pressures.

Strong, independent oversight by the new Autonomous Fiscal Rule Committee (CARF) will be important for guiding the goals for deficit reduction and meeting or exceeding the targets, including in 2022.

23. Colombia stands to benefit from deeper fiscal reforms. Looking beyond the near-term, securing new revenue sources will be paramount to ensure sound public finances and address inefficiencies in the tax system. Beyond the revenue gains from the SIL and DIAN modernization[6], staff recommends further durably raising revenues by an *additional* 1 – 1 ½ percent of GDP over the medium term to safeguard key social protection spending and public investment while meeting MTFF deficit targets and generating a faster reduction in public debt levels.[7] Revenue mobilization efforts should aim to reduce tax distortions and loopholes, increase progressivity, improve fairness, and protect poorer households using compensating measures where needed. An initial menu of options could include raising wealth and dividend taxes, which could generate a revenue increase of ¼ percent of GDP in the medium-term. Beyond this, other options could include various environmental taxes, especially for corporates, and progressive taxes targeting high-income earners.

Colombia: Possible Revenue Options (% GDP)

Measure	***Expected yield***
Green taxes (increase in carbon and vehicle tax rates)	0.1
Junk food and sugary drinks	0.2
Elimination of preferential tax regimes 1/	0.4
Wealth and dividend taxes	0.3
Total	**1.0**

Source: National authorities and Fund staff estimates
1/ These mainly include a reduced CIT rate for Free Zones, exemptions for hotels, a special treatment for large-scale infrastructure projects, the "orange economy" (art and IT activities), agricultural developments, and tourism investment projects.

24. Spending efficiency gains would complement revenue measures. Further strengthening the social benefit system (SISBEN IV) by building a new social registry would help to more effectively target recipients of social transfers. As the recovery moves into expansion, the authorities should phase out exceptional pandemic measures (including the employment/wage subsidies such as the PAEF and public loan guarantees). Also, efficiency gains can be achieved by implementing energy subsidy reforms to reduce fiscal costs.[8] Specifically, carefully designed reforms entail a gradual phasing out of subsidies in the case of fuel products and, in the case of electricity, an improvement in the targeting over the medium-term. In addition, efficiency gains can be achieved by continued reforms in public procurement both from the normative and management dimensions to promote competition and produce efficiency gains along the lines of the Report of the Committee on Expenditure and Public Investment.[9]

[6] The MTFF envisages about 1½ percent of GDP in revenue gains coming from the tax authority (DIAN) modernization by 2023. Staff estimated that continued improvements to DIAN's IT system and governance should produce administrative efficiency gains of ½-1 percent of GDP over the medium term (IMF Country Report 21/59).

[7] Past staff advice argued for the need to increase tax revenues by 2-3 percentage points of GDP to meet Colombia's development goals (IMF Country Report 21/59). Given the new SIL, staff has adjusted these revenue goals accordingly.

[8] The estimated fiscal cost of energy subsidies (fuel and electricity) was estimated at about 0.7 percent of GDP See "Reforming Energy Pricing-Technical Assistance Report (IMF Country Report 19/344).

[9] See Comisión del Gasto y la Inversión Pública (2018).

25. The authorities remain fully committed to maintain fiscal credibility and placing debt on a sustained declining trajectory consistent with the new fiscal rule. Following a better-than-expected fiscal deficit outturn in 2021, the authorities were confident that the central government's fiscal deficit in 2022 would be significantly narrower than what is required to comply with the new fiscal rule (-6.2 percent vs. -7.9 percent of GDP). The authorities broadly agreed that tax collections from better-than-expected growth should be saved to accelerate fiscal consolidation this year; and this, combined with maintaining fiscal spending plans, would generate lower primary and overall fiscal deficits in 2022 if growth continues to be strong—similar to how overperformance in the budget was achieved in 2021. Over the medium term, the authorities believe that expected revenue mobilization from tax reform in the SIL, added to potential efficiency gains in tax collections from DIAN modernization and normalization of public spending, were sufficient to keep the public debt ratio on a sustained downward path consistent with the new fiscal rule. On spending efficiency, they broadly agreed with staff that there was scope to enhance targeting of social benefits including through better utilizing SISBEN IV and by building a new social registry to better identify recipients. This new system would allow for better means testing of several of the social assistance programs, as it allows for more accurate income estimates using household characteristics and, perhaps, by strengthening this system with a new social registry to create a more complete and integrated system for beneficiary identification.

C. Financial Sector Policies: Reinforcing Financial Stability and Its Contribution to Growth and Development

26. Macro-financial risks appear contained. Still, vulnerabilities remain. Renewed credit growth is, on balance, a positive sign that should help support economic recovery, but the authorities will need to continue monitoring credit quantity and quality. While the household debt ratio to GDP is slightly below pre-pandemic levels, debt-service-to-income data is not readily available. Overall, non-financial private sector indebtedness has reached a historical high of around 54 percent of GDP as of June 2021. About 40 percent of non-financial private corporate debt is denominated in FX, of which just above 30 percent consist of unhedged FX debt. Given legacy effects and debt vulnerabilities from past credit cycles, monitoring of household and corporate indebtedness remains important for managing macrofinancial risks. If consumer debt maturities were to lengthen, provisioning requirements should be raised accordingly.

27. The 2022 FSAP concluded that Colombia has considerably strengthened its financial system. It also made recommendations for further improvements. (See Annex VI) While challenges remain, regulatory and supervisory frameworks have been strengthened since the previous FSAP in 2012. At the same time, data availability and certain institutional arrangements for the resolution and macroprudential frameworks could be improved further. Specifically, better data on household indebtedness, as well as on conglomerates' exposures to foreign subsidiaries are important for proper surveillance and analysis of risks, and to inform potential policy responses. Through subsidiaries, Colombian financial conglomerates have sizable exposures to Central America, that warrant vigilance, and the financial network's evolving complexity calls for the further development of monitoring tools. In that context, resolution planning for cross-border institutions

should be strengthened, and a macroprudential oversight strategy, jointly drafted and signed by all relevant institutions, would be beneficial. Basel III implementation continues on track.

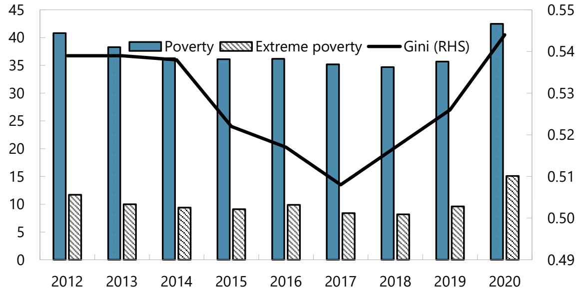
28. The Colombian Financial Superintendency (SFC) expressed that, as recovery progresses, supervisory priorities are shifting focus from short-term support to further strengthening long-term resilience of the financial system. The authorities mentioned that supervisory priorities have been defined around four main building blocks where credit risk continues to be a top priority: (i) monitoring increased risk-appetite and assessing financial burden indicators (close monitoring of credit vintages in consumer loans), (ii) heterogeneous sectoral recovery and smooth transition of debtors whose credit conditions remain affected, (iii) demand factors may affect the performance and dynamics of some loan segments, and (iv) close monitoring to write-offs in microcredit. Also, the authorities agreed with staff's assessment that, even though stability risks are currently contained, continued vigilance is warranted, especially in regard to international spillovers. The authorities expressed that the FSAP has helped them to approach information on concentration and contagion in financial conglomerates with a different perspective, leveraging from network analysis tools. The authorities emphasized the successful launch of sovereign green bonds to further develop local capital markets and contribute to mobilize financing for the country´s decarbonization and climate change adaptation priorities.

D. Structural Reforms: Promoting Inclusive, Sustainable Growth and Enhancing External Competitiveness

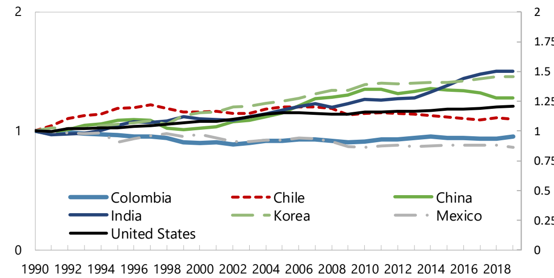
29. Hard-won social gains of the last decade have been eroded by the pandemic shock. While the growth slowdown after the commodity boom has resulted in a slower pace of poverty reduction, the poverty rate in 2017 was roughly half the level of 2002. However, with Covid-19, a rising poverty rate has reverted back to levels observed ten years ago. In addition, the pandemic shock has contributed to increase income inequality.

30. Flat productivity has been a long-standing concern. Colombia's total factor productivity (TFP) level remains close to that of 1990. Higher productivity growth is thus crucial to raise living standards whereas a repetition of the oil-driven investment boom of the 2000s is unlikely. Both the 2018-2022 National Development Plan (NDP) and the recently approved Sustainable and Resilient Economic Reactivation and Repowering Strategy (*Compromiso por Colombia*) recognize that higher poverty levels and stagnant productivity constitute major challenges to Colombia's development ambitions and require designing programs and investment plans to tackle them.

Poverty and Inequality



Total Factor Productivity
(Constant national prices, 1990=1)



Source: Penn World Table, version 10.0; IMF staff calculations.

31. Aligning the Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) framework with international standards has advanced, but efforts should continue to ensure its effectiveness. An updated national AML/CFT policy was adopted in 2021.[10] Colombia introduced a set of reforms to address the technical gaps identified in the 2018 Mutual Evaluation Report (MER), including with respect to wire transfers, correspondent banking relations, statistics, guidance, and feedback[11]. The SFC has improved its risk-based approach to AML/CFT supervision and placed increased attention on cross-border supervisory activities in particular in Central America, where banks have greater money laundering (ML) / terrorism financing (TF) risk exposure. ML investigations and prosecutions are still not commensurate with the country's risk profile. Customer due diligence measures were also recently strengthened by law (January 2022), but some Designated Non-Financial Business and Professions (DNFBPs) are still out of the scope of the AML/CFT regime. Virtual Asset Service Providers (VASPs) are required to report suspicious transactions to the Financial Intelligence Unit, but there is still no clear framework in terms of the licensing and supervisory regime. The Beneficial Owner Register created under the Directorate of Taxes and Customs, went live in January 2022, and is expected to contribute to the efforts to mitigate the misuse of legal persons.

32. Colombia has made some progress in improving its legislation to combat corruption and enhance transparency. Earlier this year the Law 2195[12] was passed, introducing an implementation mechanism for the prevention and detection of unjustified increase in assets under the jurisdiction of the National Prosecutor General's Office (*Procuraduría General de la Nación*). This mechanism will consolidate the databases containing information about assets and interests of officials, together with tax and property information.

33. Further advancing structural reforms to enhance productivity and external competitiveness will support the recovery and help cement the foundation for sustainable, inclusive growth. A full, equitable recovery will require the continued support and greater opportunity for poorer households, along with structural reforms that reduce unemployment and public investment to enhance productivity in the medium term. Priorities include:

[10] This is in line with the findings of the 2019 ML/TF national risk assessment.
[11] The re-ratings were adopted in the context of the latest GAFILAT Plenary (December 2021).
[12] https://www.funcionpublica.gov.co/eva/gestornormativo/norma.php?i=175606#2

- Further accelerating the vaccination program to protect the people and to allow the functioning of the economy.

- Continuing transfer programs with increased targeting—including through more progressive and focused pension subsidies and by better utilizing the social benefit system (SISBEN IV) and by building a new social registry to better identify recipients.

- Continued integration of migrants into formal markets through the implementation of the commendable Temporary Protection Program (TPS).

- Finalizing the implementation of the NDP and effective implementation of the Peace Accords to support regional, social, and economic inclusion.

- Measures that facilitate the recovery of formal sector jobs—including addressing structurally high non-wage labor costs (e.g., contribution costs)[13] and formalization barriers.

- To address transport costs, continued implementation of the national and regional infrastructure is warranted (4G and 5G projects).

- Measures to boost competitiveness while addressing logistics bottlenecks and trade-restricting tariff and non-tariff barriers.[14]

34. Important steps have been taken towards sustainable growth and a green recovery. Under the framework of the National Policy on Climate Change, the Colombian authorities consider green recovery as a key pillar of their sustainable recovery strategy (see Annex VII). One the components of *Compromiso por Colombia* is dedicated to green and sustainable recovery (sustainable infrastructure, nature-based solutions, and bioeconomy), including a portfolio of projects with a financing envelope of about 1.5 percent of GDP.

35. The authorities report progress on the structural reform agenda on inclusion, social protection, and employment. The authorities report progress in the implementation of the NDP, reaching an execution level of almost 73 percent. Guided by the NDP, progress has been reported on firm formalization initiatives and efficiency improvements in logistics and export-import systems. Equally important, DNP is finalizing the creation of a new social registry to better identify recipients of social transfers, which will also contribute to a better targeting of social programs by introducing differentiations by members of the household and poverty rate.

- *Reactivating employment*. The authorities report the implementation of programs to increase the participation of women and the youth in the labor market and the preparation of job training programs. These programs have protected over 4.3 million and created close to 300 thousand

[13] See OECD Economic Survey of Colombia 2022.

[14] The Internationalization Mission (2021) finds that tariffs remain higher than in regional peers, significant tariff dispersion remained after the trade liberalization period of the 90s, and worsened over the last two decades, and that non-tariff measures (especially non-technical non-tariff measures) limiting trade have proliferated.

new jobs, where 90 percent have been granted to women and young employees. The authorities continue integrating Venezuelan migrants through the TPS program, affecting nearly 2 million people, which will raise Colombia's economic potential.

- *Extending the social safety net and reducing informality*. The authorities have introduced the Social Protection Floor (SPF), which grants access to social security benefits for nearly 10 million workers earning less than minimum wage. To address structural constraints in the labor market, the authorities will follow the recommendations from the Labor Mission (*Misión de Empleo*).

- *Peace through legality*. The government also remains committed to the continued implementation of the Peace Accords over its 15-year timeframe and has continued to make progress on all pillars of the agreement, notably on regional developments via the finalization of Development Plans with a Territorial Focus (PDET), update of the cadastre and securing additional resources for peace from the royalties' system.

36. Progress was also reported on public investment to enhance productivity and competitiveness. To further reactivate employment and enhance competitiveness, the *Compromiso por Colombia* strategy was launched aiming to generate one million jobs through the acceleration of large infrastructure projects, mainly toll road concessions, airports and fluvial. As of December, 100 percent of the projects related to a sustainable and green recovery have been completed or are under execution. The government's execution rates of the 4G agenda have also significantly increased during the last three years from 16 percent in August 2018 to about 63 percent in December 2021 (27 out of 29 projects are ongoing). Also, some projects in the first wave of the 5G agenda are already in pre-construction phase or with a public tendering in process.[15]

STAFF APPRAISAL

37. Very strong policy frameworks and a comprehensive policy response to the pandemic supported the economy's resilience. Prior to the pandemic, a flexible exchange rate, central bank credibility under inflation targeting, effective financial sector supervision and regulation, a medium-term fiscal rule, and strong institutions 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 policy framework to deliver a coordinated and timely response to mitigate the impact of the pandemic. Colombia's external position is assessed as moderately weaker than the level consistent with medium-term fundamentals and desired policy settings.

38. To control rising consumer prices, prevent second-round effects from supply side factors, and safeguard credibility, an accelerated monetary tightening by the central bank is appropriate. Amid low excess capacity and negative real interest rates, the acceleration in monetary policy tightening is warranted. Added steps to raise interest rates in the first half of the year to sufficiently tighten monetary and financial conditions should guide inflation lower. This will help

[15] To have a more effective integration of the Colombian economy in the international economy, the authorities will follow the recommendations of the Internalization Mission (*Misión de Internalization*).

safeguard the credibility of the monetary policy framework, anchor inflation expectations, insure against upside inflation risks, and moderate demand. Monetary policy decisions and the balance of risks should continue to be clearly communicated to help guide market expectations. With high external financing needs and exposures, international reserve accumulation over time should continue to help maintain reserve adequacy and insure against external liquidity risks. The IMF's Flexible Credit Line (FCL) provides additional external buffers and enhances market confidence.

39. Alongside the recovery, Colombia's public finances are showing signs of improving with scope to make further gains. Following a narrower-than-anticipated fiscal deficit in 2021, continued policy efforts would further reduce fiscal financing needs that were elevated due to the pandemic. Moreover, the unwinding of pandemic-related support measures so far has been effective, helping put public debt on a downward trajectory already in 2021 (three years earlier than previously expected). With excess capacity diminishing, added fiscal revenue from higher-than-expected GDP and tax collections should be saved and further targeting and phasing out of exceptional pandemic measures should be considered (including public loan guarantees).

40. The fiscal framework has been reactivated and a sustained reduction in the fiscal deficit will be key to reducing fiscal risks and external imbalances. The SIL is an important step in the right direction and the mission welcomes the strengthening of the fiscal framework—by explicitly outlining a transition path towards a structural balance rule with a new debt anchor. This objective, underpinned by underlying fiscal efforts, would help support external adjustment and ensure that fiscal deficit limits established in the medium-term fiscal framework are respected. Strong, independent oversight by the CARF will be important for guiding the goals for deficit reduction and meeting or exceeding the targets, including in 2022. Fiscal consolidation would also lessen the burden on monetary policy to ease demand pressures and help ease sovereign borrowing costs by reducing debt.

41. Colombia would benefit from deeper fiscal reforms. While the robust economic recovery has improved Colombia's fiscal outlook, securing new revenue sources will be paramount to safeguarding key social protection programs and public investment, while supporting a faster reduction in the debt level. Beyond the revenue gains from the SIL and DIAN modernization, further raising revenues durably by an additional 1 – 1 ½ percent of GDP over the medium term would be desirable. Revenue mobilization efforts should aim to reduce tax distortions and loopholes, increase progressivity, improve fairness, and protect poorer households using compensating measures where needed. To complement higher revenues, spending efficiency gains can be achieved by better utilizing the social benefit system (SISBEN IV) and by building a new social registry to better identify recipients, further implementing energy subsidy reforms, and advancing initiatives to improve public procurement.

42. The Colombian authorities have developed robust supervisory and regulatory frameworks to safeguard financial stability and certain steps would further enhance them. The FSAP finds that Colombia has considerably strengthened its regulatory and supervisory system since the previous IMF assessment in 2012, while several areas deserve attention. Data availability and certain institutional arrangements for bank resolution and macroprudential frameworks can be

enhanced. Given the upswing in credit, it would be important to continue closely monitoring the behavior of riskier loans and ensure that household and corporate leverage do not become excessive.

43. **The authorities should continue working towards enhancing the effectiveness of the AML/CFT regime.** The authorities are encouraged to address the remaining technical deficiencies identified in the MER, in particular by reinforcing the political exposed persons requirements and bringing the remaining DNFBPs under the AML/CFT regime. Once the regulatory framework for DNFBPs is adopted, the authorities should ensure that an adequate monitoring/supervisory framework is put in place. The authorities should address the ML/TF risks associated with crypto assets and ensure that virtual asset service providers are properly licensed, monitored/supervised for AML/CFT compliance. The authorities should continue refining the accuracy of the beneficial ownership information and monitor its effective implementation. Efforts to investigate and prosecute money laundering should continue in order to achieve more meaningful results.

44. **Further efforts are needed to strengthen and operationalize the anti-corruption and transparency framework to address conflict of interest and corruption concerns.** Some legislative deficiencies include absence of whistleblower protection and the criminal liability of legal entities for acts of corruption. Procurement is considered high-risk for corruption and conflict of interest, and the authorities should take greater efforts in introducing internal controls, cross-checking debarment lists, and strengthening ethics and compliance programs. They should also limit the arbitrary use of direct contracting and collect and publish beneficial ownership information of companies awarded public contracts. Strong implementation of new and existing laws will also be important.

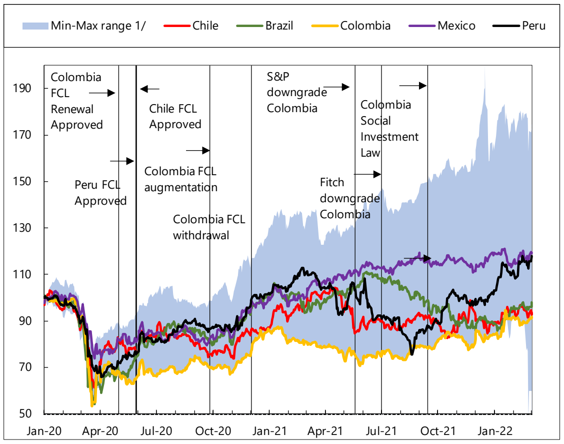
45. **Structural reforms are key to set the foundation for a sustainable and inclusive expansion.** To aid job creation and bring employment closer to pre-pandemic levels, lowering barriers to firm and labor formalization would help reduce structural unemployment and enhance productivity. To extend the social safety net, the mission welcomes the introduction of the Social Protection Floor (SPF), which grants access to social security benefits for nearly 10 million workers earning less than minimum wage. The commendable Temporary Protection Status (TPS) program for Venezuela migrants should strengthen their integration and raise Colombia's economic potential. In other areas of social protection, retaining cash transfers for families but on a more targeted basis going forward can sustain income support for Colombia's most vulnerable households, particularly given the uncertain path of the pandemic. Pursuing a green recovery, identified as a key pillar of the sustainable recovery strategy within the *Compromiso por Colombia* plan and the recently approved Carbon Neutrality and Climate Resilience Law, will be critical for sustainable growth. Here, the successful launch of sovereign green bonds last year and the introduction of new environmental taxes, can support the government's green recovery plans by creating room for continued investment in key climate-related areas.

46. **Staff recommends that the next Article IV takes place on the standard 12-month cycle.**

Figure 1. Colombia: Financial Conditions Relative to LA5 and Other EMs

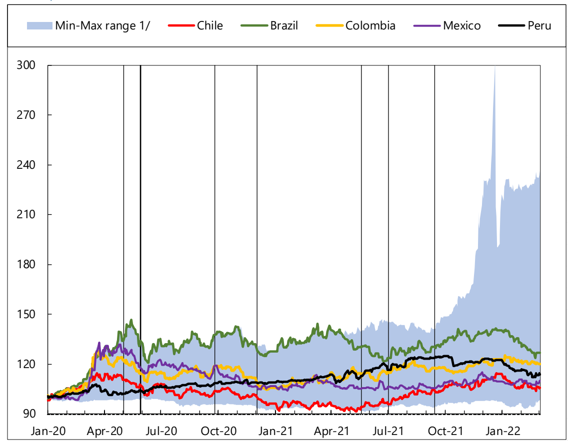
Domestic Equity Indices 2/

Jan 03, 2020 = 100



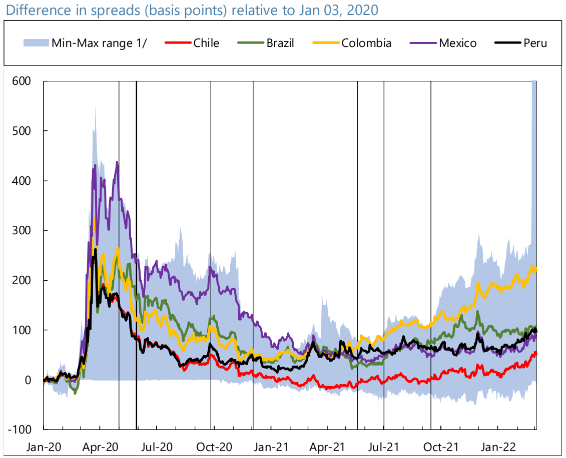
Local Currency per US Dollar Indices

Jan 03, 2020 = 100



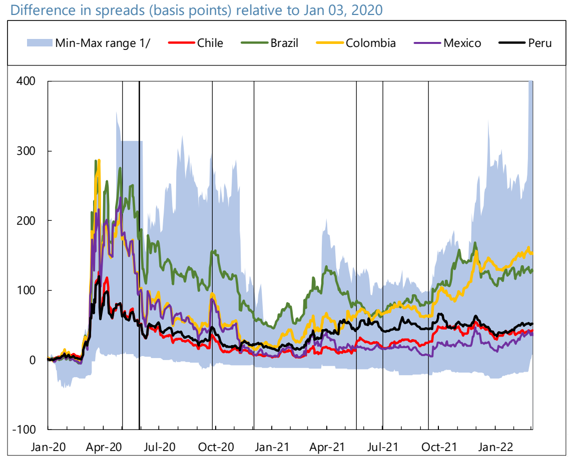
EMBIG Spreads 3/

Difference in spreads (basis points) relative to Jan 03, 2020



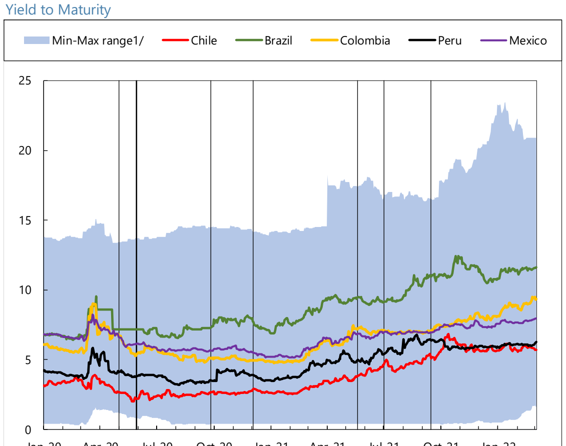
CDS Spreads

Difference in spreads (basis points) relative to Jan 03, 2020



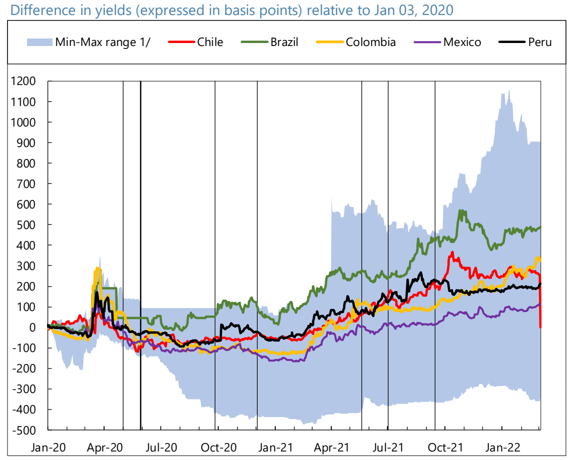
Domestic Currency Sovereign Bond Yields 4/

Yield to Maturity



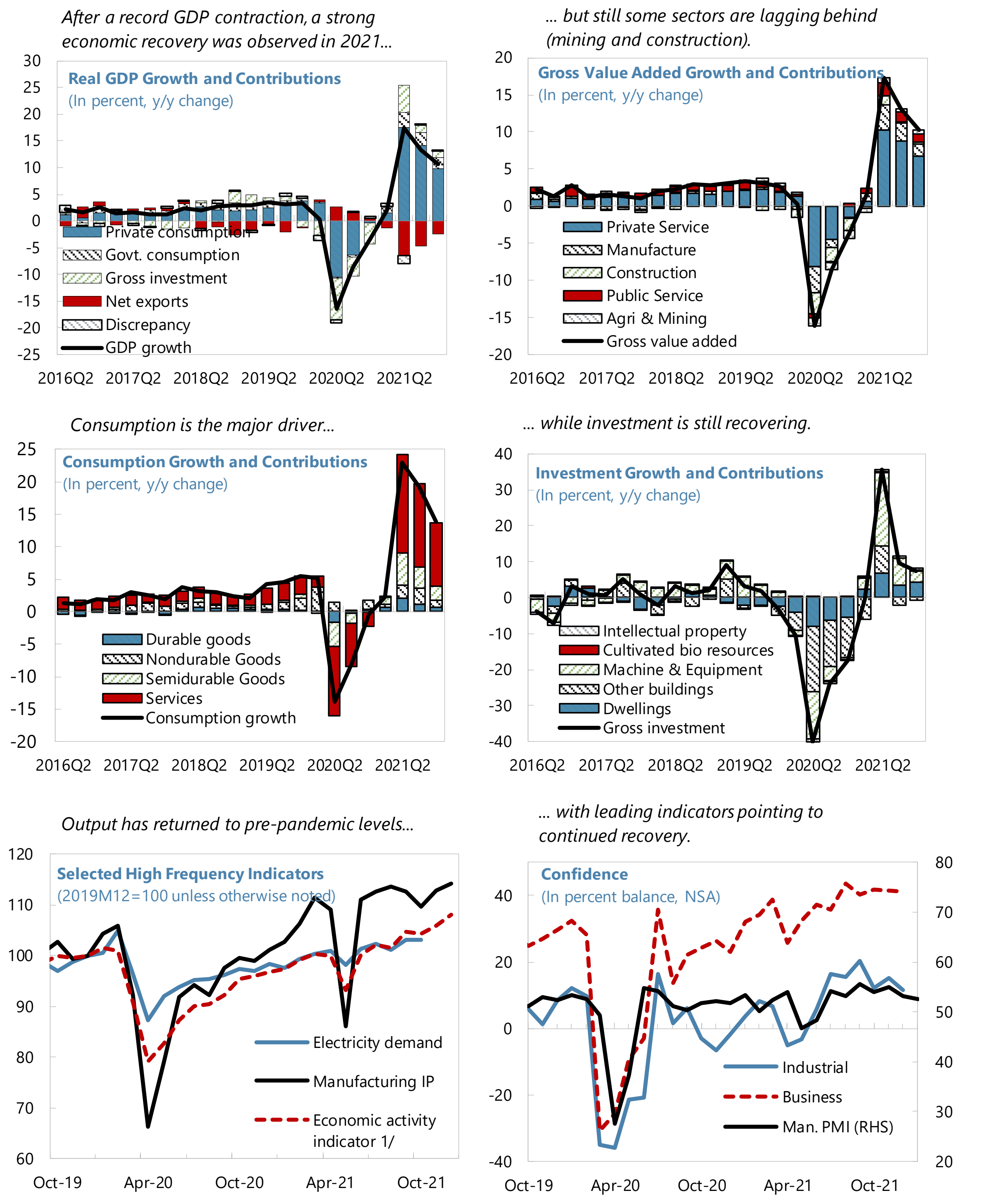
Domestic Currency Sovereign Bond Yields 4/

Difference in yields (expressed in basis points) relative to Jan 03, 2020



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.

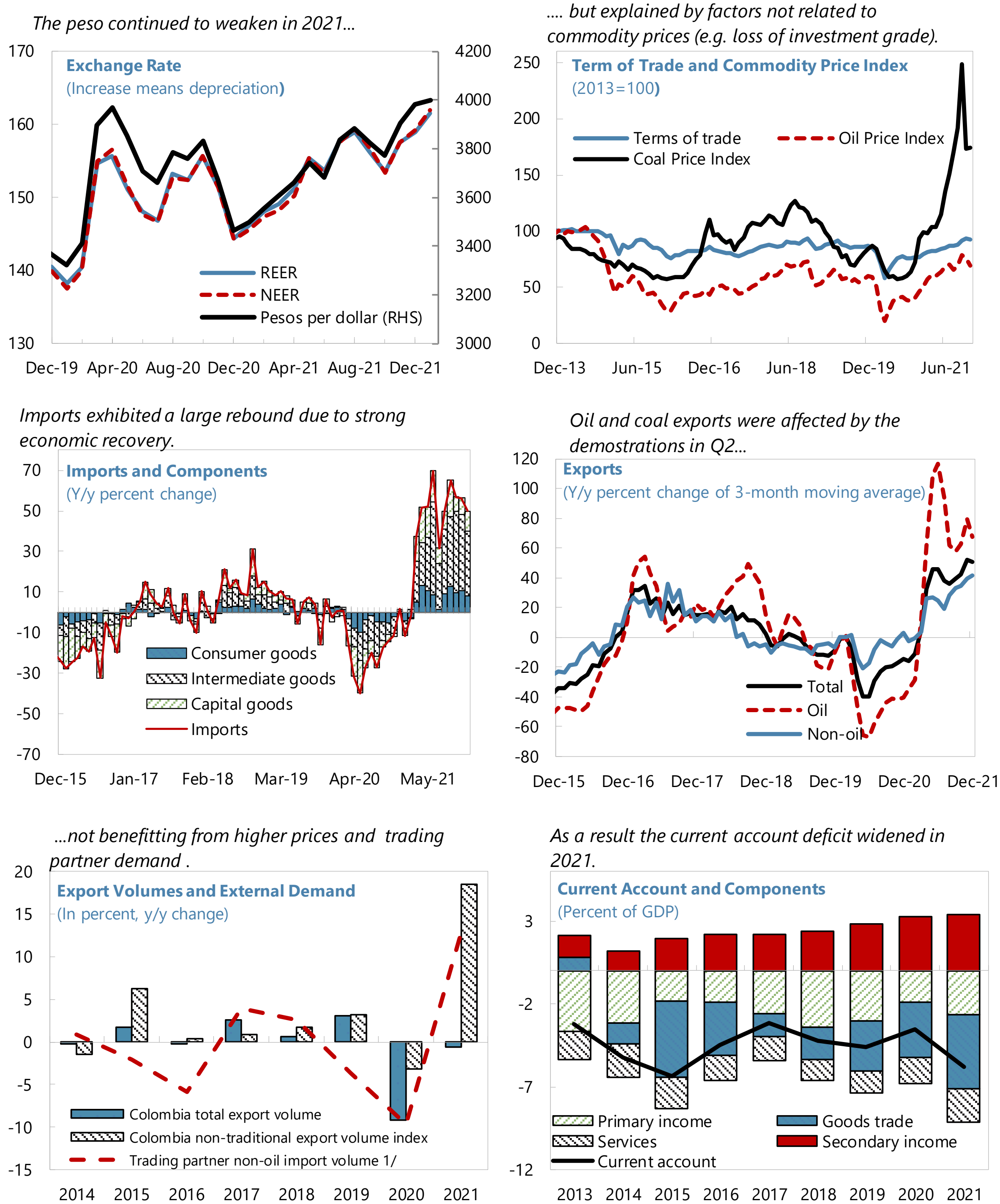
Figure 2. Colombia: Real Sector Developments



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

1/ Seasonally & working days adjusted.

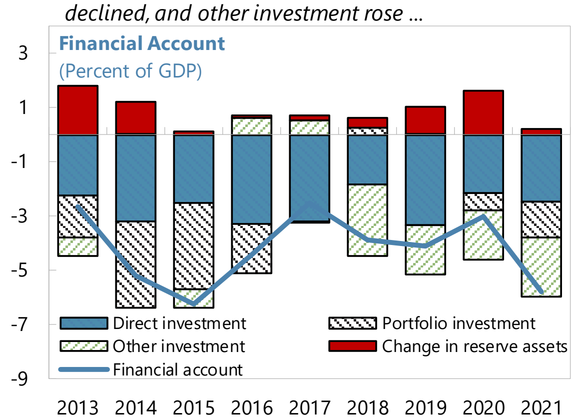
Figure 3. Colombia: Current Account Developments



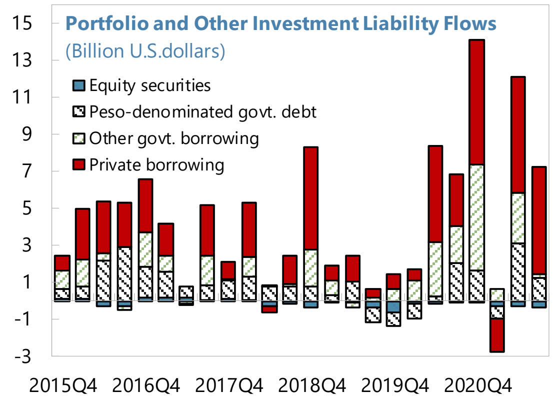
Sources: DANE; Banco de la República; Bloomberg; Haver Analytics; and IMF staff estimates.
1/ Weighted by destinations of Colombia's non-traditional exports.

Figure 4. Colombia: Financial Account Developments

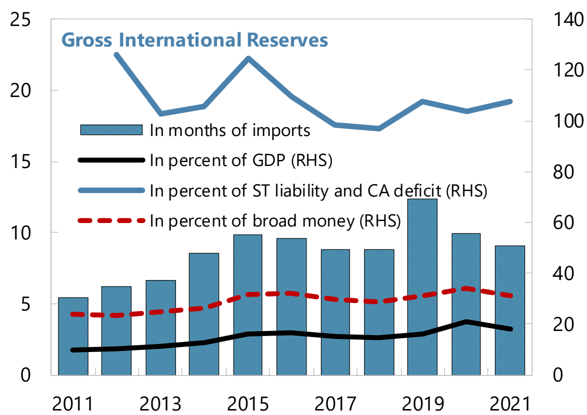
Direct investment increased in 2021, net portfolio declined, and other investment rose ...



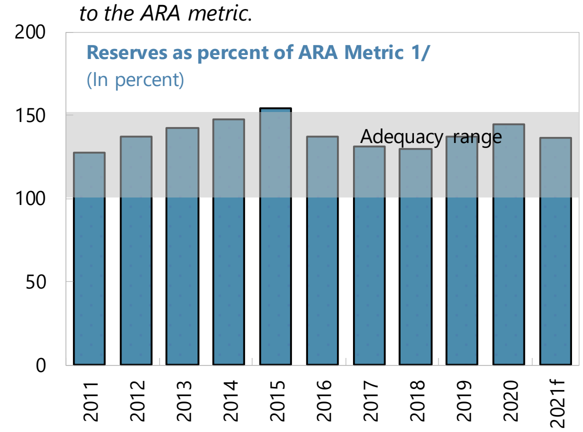
...as external borrowing increased.



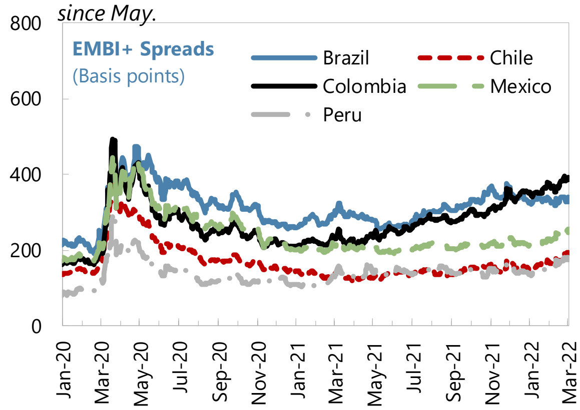
Reserves coverage registered a slight decline.



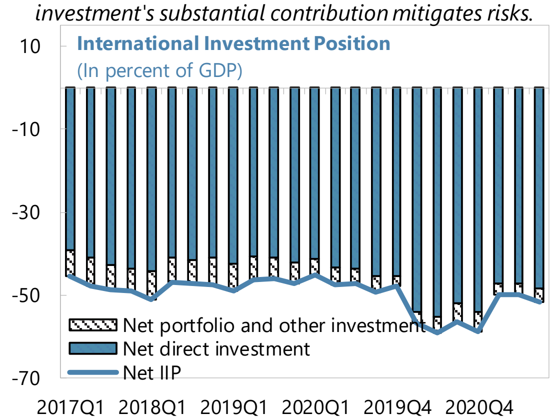
However, coverage remains adequate relative to the ARA metric.



Colombia's spreads have shown an upward trend since May.



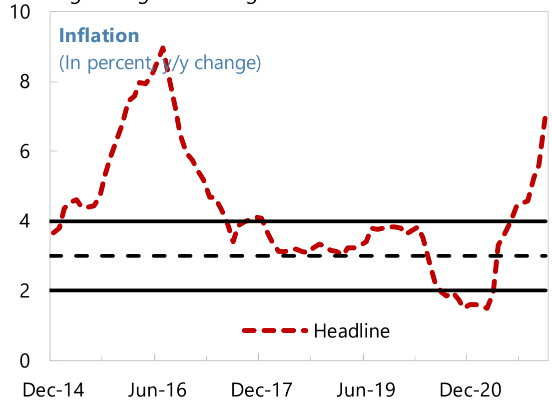
Net liabilities showed a slight increase, but direct investment's substantial contribution mitigates risks.



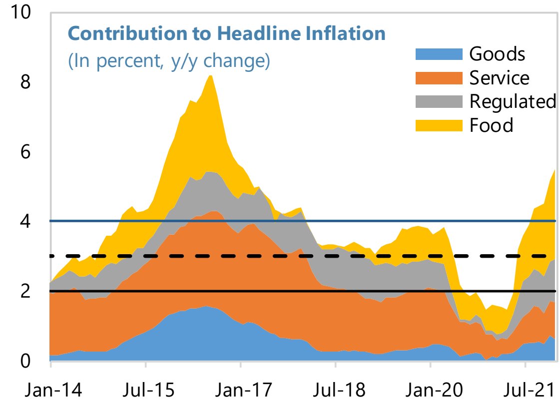
Sources: Banco de la República; DANE; Haver Analytics; Bloomberg; and IMF staff estimates.
1/ Based on Oct 2021 WEO Vintage. Does not include commodity buffers. Uses metric for floating exchange rates.

Figure 5. Colombia: Inflation and Monetary Policy

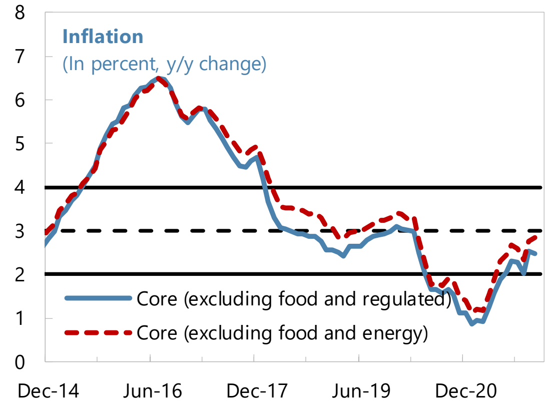
Headline inflation was above the upper-bound of the target range since August 2021…



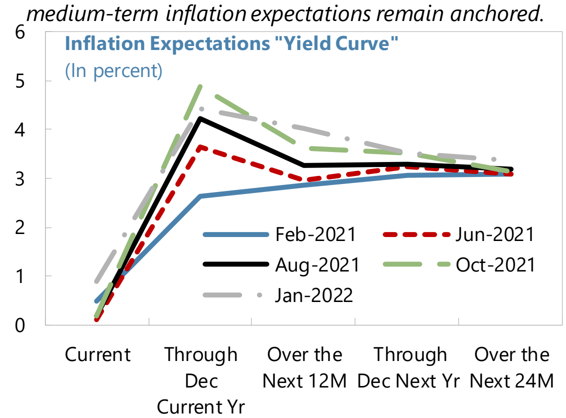
…mainly due to the increase of food and energy prices.



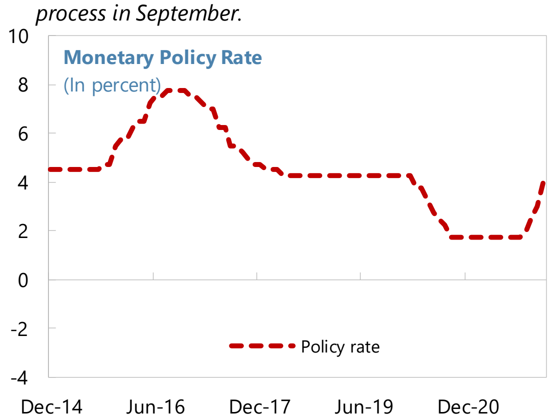
Core inflation has increased gradually since June.



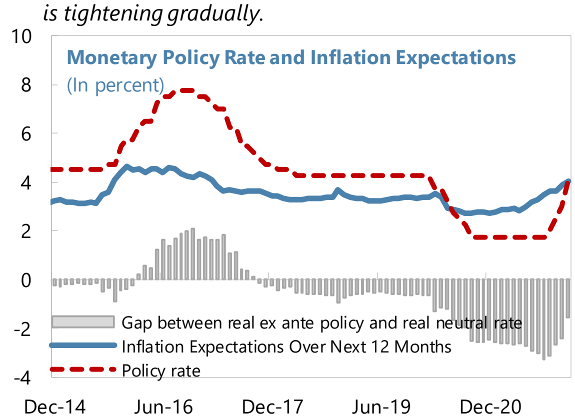
Short-term inflation expectations started to deviate but medium-term inflation expectations remain anchored.



BanRep started the monetary policy normalization process in September.

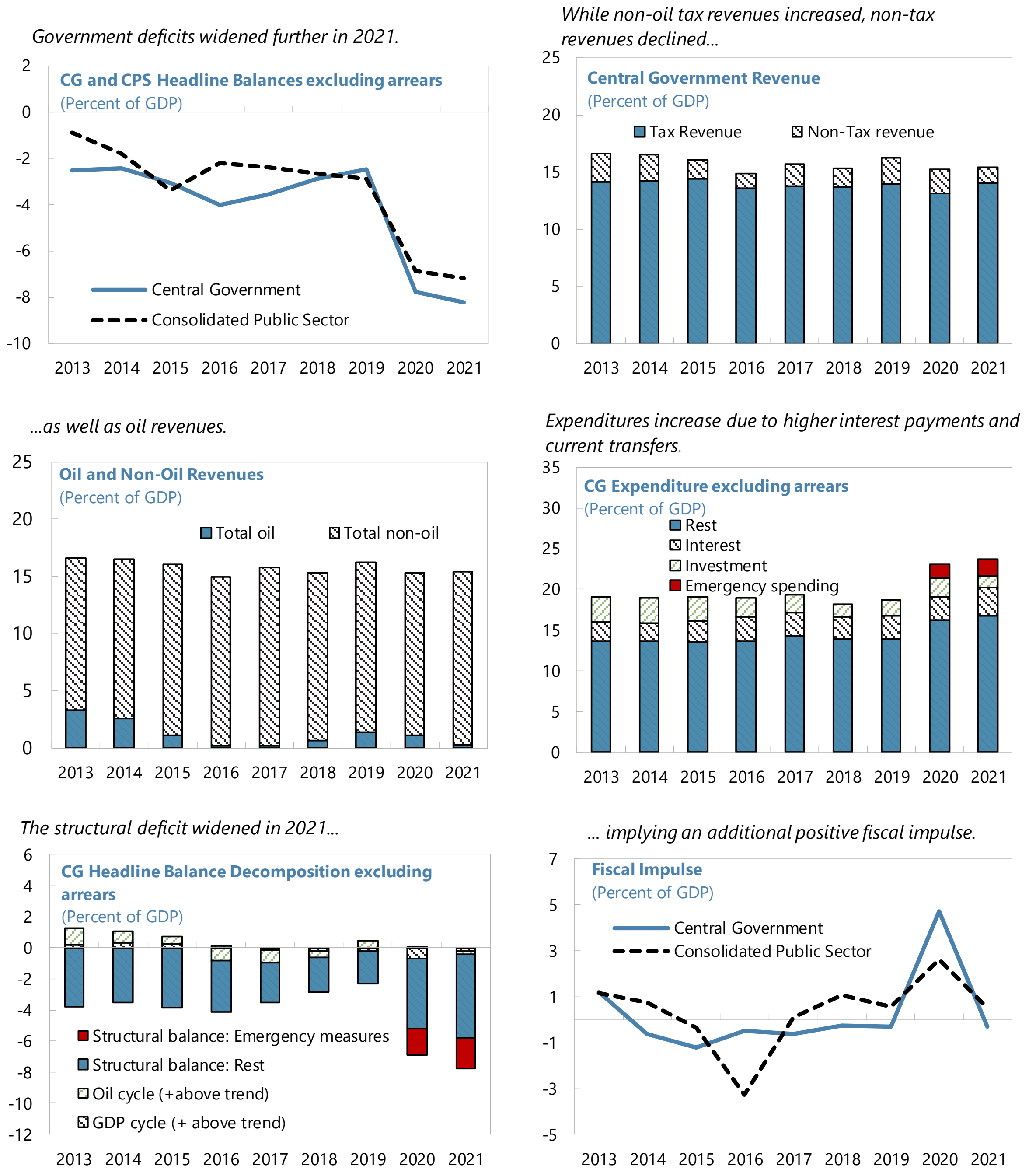


While still accommodative, the monetary policy stance is tightening gradually.



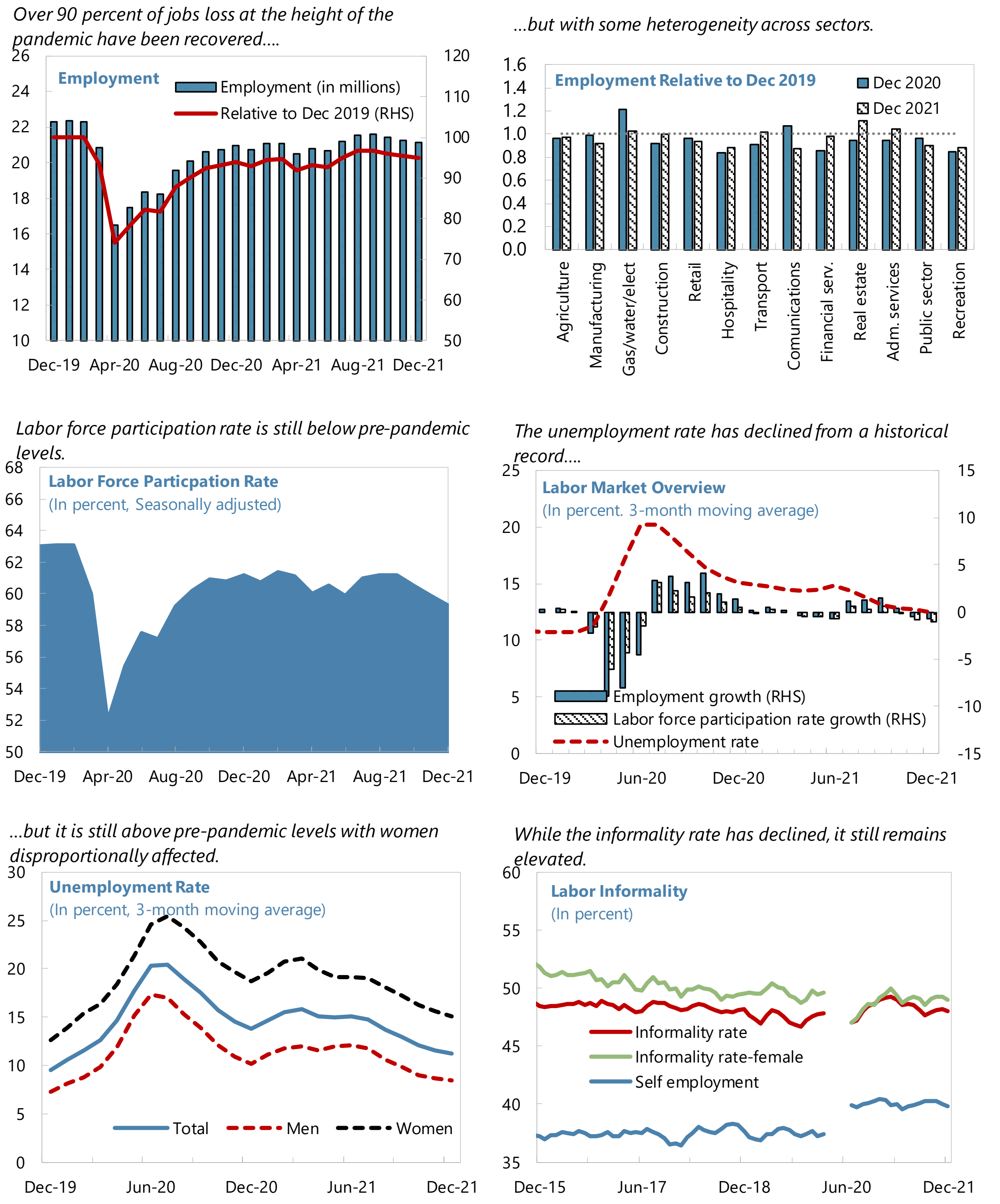
Sources: DANE; Banco de la República; Haver Analytics; and IMF staff estimates.

Figure 6. Colombia: Fiscal Developments



Sources: Ministerio de Hacienda y Crédito Público; DANE; and IMF staff estimates.

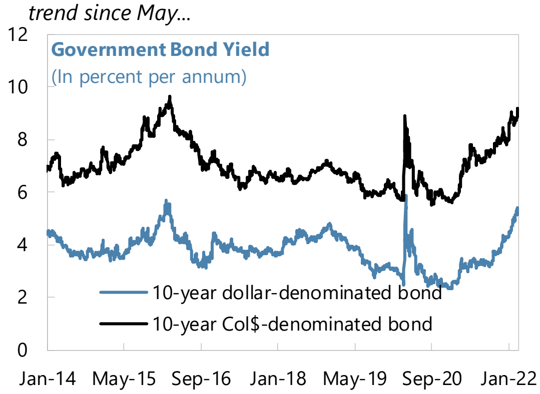
Figure 7. Colombia: Labor Market Developments



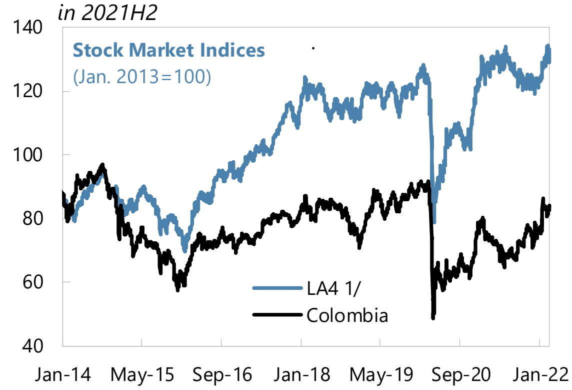
Sources: DANE; Banco de la República; Haver Analytics; and IMF staff estimates.

Figure 8. Colombia: Recent Macro-Financial Developments

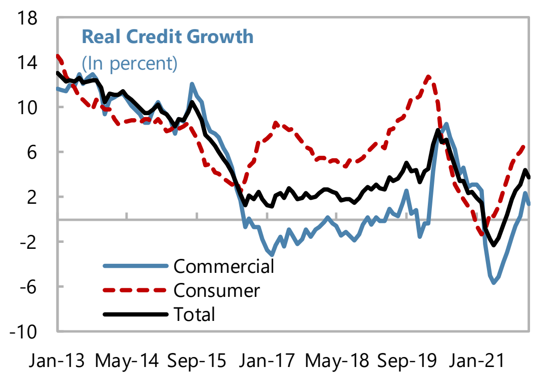
Sovereign bond yields have shown an upward trend since May...



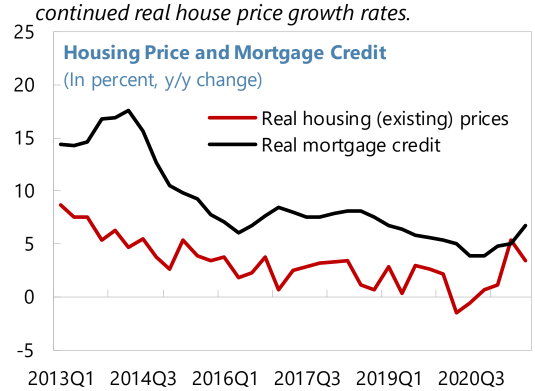
... and the stock market had registered some recovery in 2021H2



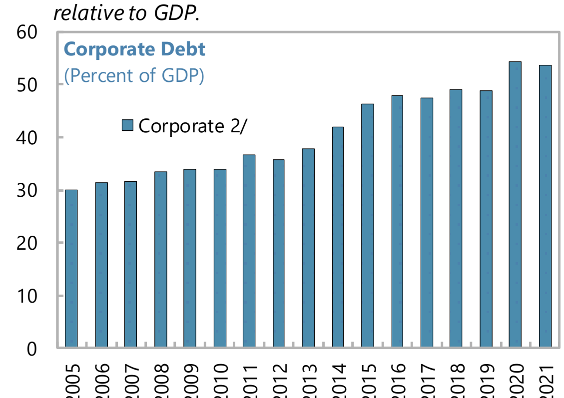
Bank credit had started to increase.



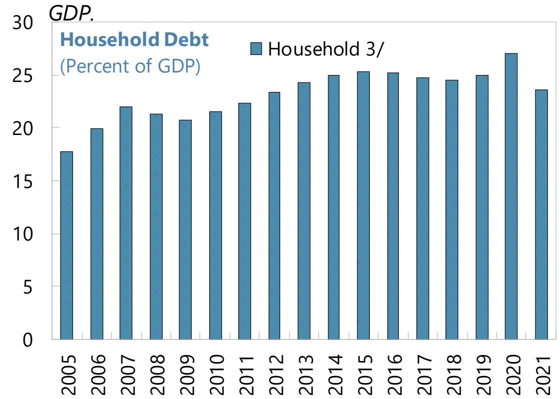
Mortgage credit growth remained dynamic with continued real house price growth rates.



Private sector corporate debt shows a hight level relative to GDP.



Hosusehold debt has shown a slight decline relative to GDP.



Sources: Banco de la República; DANE; Bloomberg; and IMF staff estimates.
1/ LA4 corresponds to the average of Brazil, Colombia, Peru and Mexico.
2/ Data for 2021 refers to June 2021.
3/ Data for 2021 refers to August 2021.

Table 1. Colombia: Selected Economic and Financial Indicators

I. Social and Demographic Indicators

Population (million), 2021. Projection	51.0	Unemployment rate, 2021 (SA, percent)	13.7
Urban population (percent of total), 2020	81.4	Physicians (per 1,000 people), 2018	2.2
GDP, 2021		Adult illiteracy rate (ages 15 and older), 2018	4.9
Per capita (US$)	6,157	Net secondary school enrollment rate, 2018	77.5
In billion of Col$	1,176,695	Gini coefficient, 2020	54.4
In billion of US$	314	Poverty rate, 2020	42.5
Life expectancy at birth (years), 2019	77.3		
Mortality rate, (under 5, per 1,000 live births), 2019	13.6		

II. Economic Indicators

						Projections					
	2017	2018	2019	2020	2021 1/	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	5.4	3.3	3.4	3.4	3.4	3.4
Potential GDP	2.9	3.0	3.1	-2.0	5.0	4.4	3.2	3.3	3.3	3.4	3.4
Output Gap	-0.8	-1.2	-1.1	-6.2	-1.2	-0.2	-0.1	0.0	0.0	0.0	0.0
GDP deflator	5.1	4.6	4.0	1.4	6.6	6.0	3.4	3.1	3.1	3.1	3.1
Consumer prices (average)	4.3	3.2	3.5	2.5	3.5	6.5	4.3	3.0	3.0	3.0	3.0
Consumer prices, end of period (eop)	4.1	3.1	3.8	1.6	5.6	5.7	3.5	3.0	3.0	3.0	3.0
External sector											
Exports (f.o.b.)	16.8	8.1	-5.4	-20.5	31.6	18.8	4.9	1.3	2.1	4.0	4.2
Imports (f.o.b.)	1.9	12.1	2.3	-18.5	37.5	10.7	3.8	2.7	2.1	3.6	3.5
Export volume	2.6	0.6	3.1	-9.1	-0.6	6.5	11.1	3.6	2.8	4.1	3.8
Import volume	1.0	5.8	7.3	-15.9	17.6	4.8	3.4	2.1	1.1	2.8	2.7
Terms of trade (deterioration -)	9.9	3.5	-2.3	-12.2	13.3	6.7	-6.0	-1.7	-1.4	-0.9	-0.6
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	10.3	8.2	7.8	7.6	7.5	7.5
Credit to the private sector	12.8	6.8	11.6	-0.8	11.5	10.6	8.2	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	-6.3	-4.3	-3.6	-2.6	-2.5	-2.5
Central government structural balance 4/	-2.6	-2.2	-2.1	-6.2	-7.4	-6.0	-4.3	-3.8	-2.7	-2.5	-2.5
Consolidated public sector (CPS) balance 5/	-2.4	-4.5	-2.9	-6.9	-7.2	-4.9	-3.2	-1.7	-1.1	-1.2	-1.2
CPS non-oil structural primary balance	-0.1	-1.2	-1.7	-4.3	-4.9	-3.3	-2.6	-1.6	-0.5	0.0	-0.1
CPS fiscal impulse	0.1	1.0	0.6	2.6	0.5	-1.5	-0.7	-1.0	-1.1	-0.5	0.1
Public sector gross debt 6/	49.4	53.6	52.4	65.7	64.6	62.1	61.8	60.3	59.4	57.7	56.3
Gross domestic investment	21.6	21.2	21.4	19.2	19.7	19.1	19.3	19.4	19.5	19.6	19.7
Gross national savings	18.4	17.0	16.8	15.7	14.0	13.9	14.6	14.9	15.1	15.4	15.6
Current account (deficit -)	-3.2	-4.2	-4.6	-3.5	-5.8	-5.2	-4.7	-4.5	-4.3	-4.2	-4.1
External Financing Needs	13.5	14.3	15.3	18.1	17.9	15.9	15.7	16.3	15.7	15.3	15.1
External debt 7/	47.3	46.7	50.1	65.6	60.4	59.2	59.8	60.6	60.6	60.2	59.8
	(In percent of exports of goods and services)										
External debt service	73.7	70.8	77.8	113.0	85.8	68.5	72.9	80.0	79.8	79.0	78.7
Interest payments	10.7	10.7	14.7	17.3	13.4	12.5	13.0	13.6	14.3	14.3	14.3
	(In billion of U.S. dollars; unless otherwise indicated)										
Exports (f.o.b.)	39.8	43.0	40.7	32.3	42.5	50.5	53.0	53.7	54.8	57.0	59.4
Of which: Petroleum products	13.3	16.8	16.0	8.8	13.4	17.3	19.4	18.4	17.3	17.1	16.9
Gross international reserves 8/	47.1	47.9	52.7	58.5	59.1	60.1	61.2	62.4	63.6	64.7	65.8
Share of ST debt at remaining maturity + CA deficit	102	99	112	105	111	109	100	101	100	98.4	100.7

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

1/ Estimate for external sector variables (except for real exchange rate), 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 2/ above.
6/ Includes Ecopetrol and 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.

Table 2a. Colombia: Summary Balance of Payments

(In millions of US$, unless otherwise indicated)

						Projections					
	2017	2018	2019	2020	2021 1/	2022	2023	2024	2025	2026	2027
Current account balance	**-9,924**	**-14,041**	**-14,801**	**-9,568**	**-18,149**	**-17,791**	**-17,047**	**-17,374**	**-17,539**	**-18,008**	**-18,446**
Goods balance	-4,285	-6,394	-9,863	-8,870	-14,082	-12,126	-12,041	-13,128	-13,375	-13,615	-13,738
Exports, f.o.b.	39,786	42,993	40,656	32,309	42,534	50,520	52,997	53,696	54,830	57,026	59,405
Commodities	25,890	29,441	26,866	18,204	25,418	31,330	33,888	33,194	32,832	33,484	34,223
Fuel	13,308	16,843	15,962	8,755	13,421	17,252	19,360	18,363	17,274	17,095	16,924
Non-fuel	12,582	12,598	10,904	9,449	11,997	14,078	14,528	14,831	15,558	16,390	17,299
Non-traditional exports	10,062	10,716	10,571	9,733	12,507	14,383	15,497	16,666	17,923	19,217	20,595
Other	3,834	2,837	3,219	4,372	4,610	4,808	3,612	3,836	4,076	4,324	4,587
Imports, f.o.b.	44,070	49,387	50,518	41,179	56,616	62,646	65,038	66,823	68,205	70,640	73,143
Consumer goods	10,161	11,273	11,868	10,027	12,334	13,706	14,254	14,518	14,964	15,526	16,129
Intermediate goods	18,889	21,502	21,665	17,743	27,147	29,625	30,482	31,351	31,375	32,316	33,005
Capital goods	13,210	14,814	15,646	12,436	15,794	17,867	18,742	19,276	20,061	20,864	21,935
Other	1,810	1,798	1,338	972	1,341	1,448	1,561	1,678	1,805	1,935	2,074
Services balance	-4,477	-4,162	-4,283	-4,287	-6,281	-5,670	-5,987	-5,645	-5,775	-6,005	-6,269
Exports of services	9,536	10,731	10,668	5,837	7,727	9,665	10,682	11,869	12,605	13,360	14,123
Imports of services	14,013	14,893	14,952	10,125	14,009	15,336	16,669	17,515	18,381	19,365	20,391
Primary income balance	-8,046	-11,442	-9,710	-5,198	-8,363	-10,684	-10,331	-10,485	-10,851	-11,445	-12,105
Receipts	5,577	6,177	6,983	4,405	6,212	6,930	7,346	7,655	7,957	7,970	8,062
Expenditures	13,623	17,619	16,693	9,603	14,575	17,614	17,677	18,140	18,808	19,414	20,167
Secondary income balance	6,883	7,957	9,055	8,788	10,578	10,689	11,312	11,884	12,462	13,056	13,665
Financial account balance	**-7,859**	**-12,954**	**-13,298**	**-8,191**	**-18,149**	**-17,791**	**-17,047**	**-17,374**	**-17,539**	**-18,008**	**-18,446**
Direct Investment	-10,011	-6,172	-10,836	-5,802	-7,730	-9,106	-10,404	-11,745	-13,205	-14,797	-16,514
Assets	3,690	5,126	3,153	1,656	2,422	2,524	2,581	2,634	2,686	2,737	2,788
Liabilities	13,701	11,299	13,989	7,459	10,152	11,630	12,986	14,379	15,891	17,534	19,303
Oil sector	3,106	2,540	2,755	1,263	1,069	1,069	1,069	1,069	1,069	1,069	1,069
Non-oil sectors	10,595	8,759	11,234	7,174	9,082	10,561	11,916	13,310	14,822	16,465	18,233
Portfolio Investment	-34	862	24	-1,792	-4,178	-5,367	-4,619	-3,484	-3,619	-3,062	-3,158
Assets	7,779	1,211	315	5,747	428	-100	-169	-209	-229	-240	-246
Liabilities	7,812	349	291	7,539	4,605	5,267	4,450	3,275	3,390	2,821	2,912
Equity	472	-823	-1,232	-454	-761	-980	-530	-561	-593	-626	10
Debt instruments	7,340	1,172	1,523	7,993	5,366	6,247	4,980	3,836	3,983	3,447	2,902
General government	6,011	4,529	366	6,124	4,366	5,997	3,980	1,336	1,483	1,697	1,152
Banks	295	-800	60	-328	0	0	500	1,000	1,000	750	750
Corporates and households	1,034	-2,557	1,097	2,196	1,000	250	500	1,500	1,500	1,000	1,000
Derivatives	365	21	84	-513	0	0	0	0	0	0	0
Other Investments	1,276	-8,852	-5,904	-4,411	-6,866	-4,256	-3,153	-3,344	-1,936	-1,275	180
Assets 2/	-264	211	-3,476	-1,885	-530	330	8	3,512	1,773	1,486	3,393
Liabilities	-1,540	9,062	2,428	2,527	6,335	4,586	3,161	6,857	3,709	2,760	3,213
Net use of IMF Credit (General Government)	0	0	0	5,370	0	0	0	-2,685	-2,685	0	0
Change in reserve assets	545	1,187	3,333	4,328	624	938	1,129	1,200	1,222	1,125	1,046
Net errors and omissions	**2,065**	**1,087**	**1,503**	**1,377**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Memorandum items:											
Brent Crude Oil Price (US$/barrel)	54	71	64	42	70	84	77	73	70	69	68

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

1/ Estimate for 2021.

2/ 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)

	2017	2018	2019	2020	2021 1/	Projections 2022	2023	2024	2025	2026	2027
Current account balance	**-3.2**	**-4.2**	**-4.6**	**-3.5**	**-5.8**	**-5.2**	**-4.7**	**-4.5**	**-4.3**	**-4.2**	**-4.1**
Goods balance	-1.4	-1.9	-3.1	-3.3	-4.5	-3.5	-3.3	-3.4	-3.3	-3.2	-3.0
Exports, f.o.b.	12.8	12.9	12.6	11.9	13.5	14.6	14.6	14.0	13.5	13.3	13.1
Commodities	8.3	8.8	8.3	6.7	8.1	9.1	9.3	8.6	8.1	7.8	7.6
Fuel	4.3	5.0	4.9	3.2	4.3	5.0	5.3	4.8	4.3	4.0	3.7
Non-fuel	4.0	3.8	3.4	3.5	3.8	4.1	4.0	3.9	3.8	3.8	3.8
Non-traditional exports	3.2	3.2	3.3	3.6	4.0	4.2	4.3	4.3	4.4	4.5	4.6
Other	1.2	0.8	1.0	1.6	1.5	1.4	1.0	1.0	1.0	1.0	1.0
Imports, f.o.b.	14.1	14.8	15.6	15.2	18.0	18.1	17.9	17.4	16.8	16.5	16.2
Consumer goods	3.3	3.4	3.7	3.7	3.9	4.0	3.9	3.8	3.7	3.6	3.6
Intermediate goods	6.1	6.4	6.7	6.6	8.6	8.6	8.4	8.2	7.7	7.5	7.3
Capital goods	4.2	4.4	4.8	4.6	5.0	5.2	5.2	5.0	4.9	4.9	4.9
Other	0.6	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.5	0.5
Services balance	-1.4	-1.2	-1.3	-1.6	-2.0	-1.6	-1.6	-1.5	-1.4	-1.4	-1.4
Exports of services	3.1	3.2	3.3	2.2	2.5	2.8	2.9	3.1	3.1	3.1	3.1
Imports of services	4.5	4.5	4.6	3.7	4.5	4.4	4.6	4.6	4.5	4.5	4.5
Primary income balance	-2.6	-3.4	-3.0	-1.9	-2.7	-3.1	-2.8	-2.7	-2.7	-2.7	-2.7
Receipts	1.8	1.8	2.2	1.6	2.0	2.0	2.0	2.0	2.0	1.9	1.8
Expenditures	4.4	5.3	5.2	3.6	4.6	5.1	4.9	4.7	4.6	4.5	4.5
Secondary income balance	2.2	2.4	2.8	3.2	3.4	3.1	3.1	3.1	3.1	3.0	3.0
Financial account balance	**-2.5**	**-3.9**	**-4.1**	**-3.0**	**-5.8**	**-5.2**	**-4.7**	**-4.5**	**-4.3**	**-4.2**	**-4.1**
Direct Investment	-3.2	-1.8	-3.4	-2.1	-2.5	-2.6	-2.9	-3.1	-3.3	-3.5	-3.7
Assets	1.2	1.5	1.0	0.6	0.8	0.7	0.7	0.7	0.7	0.6	0.6
Liabilities	4.4	3.4	4.3	2.8	3.2	3.4	3.6	3.7	3.9	4.1	4.3
Oil sector	1.0	0.8	0.9	0.5	0.3	0.3	0.3	0.3	0.3	0.2	0.2
Non-oil sectors	3.4	2.6	3.5	2.7	2.9	3.1	3.3	3.5	3.7	3.8	4.0
Portfolio Investment	0.0	0.3	0.0	-0.7	-1.3	-1.6	-1.3	-0.9	-0.9	-0.7	-0.7
Assets	2.5	0.4	0.1	2.1	0.1	0.0	0.0	-0.1	-0.1	-0.1	-0.1
Liabilities	2.5	0.1	0.1	2.8	1.5	1.5	1.2	0.9	0.8	0.7	0.6
Equity	0.2	-0.2	-0.4	-0.2	-0.2	-0.3	-0.1	-0.1	-0.1	-0.1	0.0
Debt instruments	2.4	0.4	0.5	3.0	1.7	1.8	1.4	1.0	1.0	0.8	0.6
General government	1.9	1.4	0.1	2.3	1.4	1.7	1.1	0.3	0.4	0.4	0.3
Banks	0.1	-0.2	0.0	-0.1	0.0	0.0	0.1	0.3	0.2	0.2	0.2
Corporates and households	0.3	-0.8	0.3	0.8	0.3	0.1	0.1	0.4	0.4	0.2	0.2
Derivatives	0.1	0.0	0.0	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Investments	0.4	-2.6	-1.8	-1.6	-2.2	-1.2	-0.9	-0.9	-0.5	-0.3	0.0
Assets 2/		0.1	-1.1	-0.7	-0.2	0.1	0.0	0.9	0.4	0.3	0.8
Liabilities		2.7	0.8	0.9	2.0	1.3	0.9	1.8	0.9	0.6	0.7
Net use of IMF Credit	0.0	0.0	0.0	2.0	0.0	0.0	0.0	-0.7	-0.7	0.0	0.0
Change in Reserve Assets	0.2	0.4	1.0	1.6	0.2	0.3	0.3	0.3	0.3	0.3	0.2
Net errors and omissions	**0.7**	**0.3**	**0.5**	**0.5**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

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

1/ Estimate for 2021.

2/ 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 liqu
as at end-2020 for use in 2021.

Table 3. Colombia: Operations of the Central Government 1/

(In percent of GDP, unless otherwise indicated)

						Projections					
	2017	2018	2019	2020	2021 2/	2022	2023	2024	2025	2026	2027
Total revenue	**15.7**	**15.3**	**16.2**	**15.3**	**15.4**	**15.7**	**16.7**	**16.7**	**16.6**	**16.6**	**16.5**
Current revenue 3/	**14.4**	**13.8**	**14.1**	**13.3**	**14.1**	**14.5**	**15.3**	**15.2**	**15.1**	**15.1**	**15.1**
Tax revenue	**13.8**	**13.7**	**14.0**	**13.1**	**14.0**	**14.3**	**15.1**	**15.1**	**15.0**	**14.9**	**14.9**
Net income tax and profits	5.7	6.5	6.4	6.2	6.3	6.4	7.0	7.2	7.1	7.2	7.3
Goods and services	5.5	5.7	5.8	5.4	6.0	6.2	6.2	6.0	6.0	5.9	5.8
Value-added tax	5.5	5.7	5.8	5.4	6.1	6.2	6.1	6.0	6.0	5.9	5.8
International trade	0.4	0.4	0.4	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Financial transaction tax	0.7	0.7	0.8	0.7	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Stamp and other taxes	1.4	0.5	0.7	0.5	0.4	0.5	0.6	0.6	0.6	0.6	0.6
Nontax revenue	**1.9**	**1.6**	**2.2**	**2.2**	**1.4**	**1.4**	**1.6**	**1.6**	**1.6**	**1.6**	**1.5**
Property income	0.4	0.2	0.4	0.1	0.2	0.3	0.3	0.3	0.3	0.3	0.3
Other	1.0	1.3	1.7	1.9	1.2	1.1	1.3	1.3	1.3	1.4	1.3
Total expenditure and net lending	**19.3**	**20.1**	**18.7**	**23.1**	**23.7**	**22.0**	**21.0**	**20.3**	**19.1**	**19.1**	**19.0**
Current expenditure	**16.0**	**17.5**	**15.7**	**19.5**	**20.8**	**18.9**	**18.3**	**17.9**	**17.5**	**17.2**	**16.8**
Wages and salaries	2.2	2.3	2.1	2.4	2.4	2.4	2.3	2.3	2.2	2.2	2.1
Goods and services	0.7	0.4	0.6	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Interest	2.9	2.8	2.9	2.8	3.4	3.6	3.5	3.4	3.5	3.7	3.4
External	0.7	0.7	0.7	0.8	0.7	0.9	1.1	1.2	1.2	1.2	1.1
Domestic	2.2	2.1	2.2	2.0	2.7	2.7	2.4	2.2	2.3	2.5	2.3
Current transfers	10.2	12.1	10.1	14.1	14.9	12.8	12.3	12.0	11.5	11.1	11.1
Capital expenditure	**3.3**	**2.6**	**3.0**	**3.6**	**2.8**	**3.1**	**2.7**	**2.4**	**1.7**	**2.0**	**2.2**
Fixed capital formation	2.1	1.5	1.8	2.2	1.5	1.9	1.6	1.3	0.6	0.9	1.2
Capital transfers	1.2	1.1	1.2	1.3	1.4	1.2	1.1	1.1	1.1	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 4/	**-3.6**	**-4.8**	**-2.5**	**-7.8**	**-8.2**	**-6.3**	**-4.3**	**-3.6**	**-2.6**	**-2.5**	**-2.5**
Memorandum items:											
Oil-related revenues 5/	0.2	0.6	1.3	1.1	0.3	0.7	1.3	1.6	1.4	1.2	1.1
Structural balance 6/	-2.6	-2.2	-2.1	-6.2	-7.4	-6.0	-4.3	-3.8	-2.7	-2.5	-2.5
Structural primary non-oil balance	-0.7	-0.5	-0.2	-4.9	-4.6	-3.1	-2.0	-1.7	-0.4	0.0	-0.2
Fiscal Impulse	-0.6	-0.2	-0.3	4.7	-0.3	-1.4	-1.2	-0.2	-1.3	-0.4	0.2
Non-oil balance	-3.8	-3.5	-3.3	-9.0	-8.2	-6.7	-5.4	-5.1	-3.9	-3.7	-3.6
Primary balance	-0.7	-2.0	0.4	-4.9	-4.8	-2.7	-0.8	-0.2	0.9	1.2	0.9
Net FCL financing (US$ million)	0.0	0.0	0.0	5370.1	0	0	0	-2685	-2685	0	0
Nominal GDP (in Col$ trillion)	920.5	987.8	1,060.1	998.7	1,176.7	1,315.1	1,405.7	1,499.2	1,597.5	1,703.1	1,815.7

Sources: Ministry of Finance; Banco de la República; and IMF staff estimates and projections.
1/ Includes central administration only.
2/ Estimate for 2021.
3/ Includes tax revenues, telecom and port concessions and other revenues.
4/ Includes central bank profits. For 2018, it includes recognition of accounts payable worth 1.9 percent of GDP. For 2021 includes privatization receipts worth 1.2 percent of GDP that, under GFSM 1986 which is used by the authorities, produces a headline deficit of -7.0 percent of GDP.
5/ Includes income tax payments and dividends from Ecopetrol corresponding to earnings from the previous year.
6/ 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 4. Colombia: Operations of the Combined Public Sector 1/

(In percent of GDP, unless otherwise indicated)

	2017	2018	2019	2020	2021 2/	2022	2023	2024	2025	2026	2027
						Projections					
Total revenue 3/	**26.8**	**30.0**	**29.4**	**26.6**	**27.7**	**29.2**	**30.1**	**30.1**	**29.6**	**29.4**	**29.2**
Tax revenue	18.8	21.2	21.7	20.8	21.7	22.1	22.8	22.8	22.6	22.5	22.5
Nontax revenue	8.0	8.8	7.7	5.8	6.0	7.2	7.2	7.4	7.1	6.9	6.6
Financial income	1.1	0.8	0.7	0.4	0.4	0.5	0.5	0.5	0.5	0.5	0.5
Operating surplus of public enterprises 4/	2.3	2.3	2.4	2.1	2.1	2.3	2.4	2.4	2.4	2.4	2.4
Other 5/	4.6	5.6	4.6	3.3	3.4	4.3	4.4	4.5	4.2	4.0	3.8
Total expenditure and net lending 6/	**29.4**	**34.5**	**31.8**	**33.6**	**34.5**	**34.4**	**33.3**	**31.9**	**30.8**	**30.7**	**30.5**
Current expenditure	24.9	31.4	27.6	29.8	30.7	29.5	28.4	27.9	27.4	27.0	26.5
Wages and salaries	5.4	5.4	5.1	5.4	5.4	5.4	5.3	5.3	5.2	5.2	5.1
Goods and services	3.8	3.5	3.4	3.1	3.1	3.3	3.3	3.3	3.3	3.3	3.3
Interest	3.1	3.0	3.1	3.0	3.3	3.5	3.5	3.4	3.4	3.6	3.3
External	0.7	0.7	0.8	1.0	1.0	1.2	1.4	1.5	1.6	1.6	1.4
Domestic	2.4	2.3	2.4	2.0	2.4	2.4	2.0	1.9	1.9	2.0	1.9
Transfers to private sector	8.0	13.5	12.2	14.5	15.0	13.4	12.5	12.4	11.9	11.4	11.4
Other 7/	4.5	6.0	3.8	3.8	3.8	3.8	3.7	3.7	3.6	3.5	3.4
Capital expenditure	4.6	3.1	4.2	3.8	3.8	4.9	4.9	4.0	3.4	3.7	4.0
Statistical discrepancy	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Nonfinancial public sector balance	**-2.5**	**-4.7**	**-3.5**	**-7.0**	**-6.8**	**-5.1**	**-3.3**	**-1.8**	**-1.2**	**-1.3**	**-1.3**
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 8/	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 9/	**-2.4**	**-4.5**	**-2.9**	**-6.9**	**-7.2**	**-4.9**	**-3.2**	**-1.7**	**-1.1**	**-1.2**	**-1.2**
Overall financing	**2.4**	**4.5**	**2.9**	**6.9**	**7.2**	**4.9**	**3.2**	**1.7**	**1.1**	**1.2**	**1.2**
Foreign, net	2.6	1.3	0.9	7.9	2.9	2.7	1.0	1.2	0.9	0.8	1.1
o/w IFIs	0.6	-0.1	0.3	2.7	1.2	0.5	-0.2	-0.7	-0.9	-0.3	-0.4
o/w FCL	0.0	0.0	0.0	2.0	0.0	0.0	0.0	-0.7	-0.7	0.0	0.0
Domestic, net	-0.2	3.2	2.0	-1.0	4.2	2.2	2.2	0.5	0.2	0.4	0.1
Memorandum items:											
Overall structural balance 10/	-1.2	-1.9	-1.7	-4.7	-5.8	-5.0	-3.5	-2.2	-1.3	-1.2	-1.2
Primary balance 11/	0.8	-1.5	0.2	-3.9	-3.8	-1.4	0.3	1.7	2.3	2.4	2.1
Oil-related revenues 12/	1.1	1.9	2.4	1.9	1.4	1.8	2.5	2.6	2.3	2.0	1.9
Public sector gross debt 13/	49.4	53.6	52.4	65.7	64.6	62.1	61.8	60.3	59.4	57.7	56.3
Nominal GDP (In Col$ trillion)	920.5	987.8	1,060.1	998.7	1,176.7	1,315.1	1,405.7	1,499.2	1,597.5	1,703.1	1,815.7

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/ Estimate for 2021.
3/ From 2018, tax revenues include social contributions collected by public health providers.
4/ 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.
5/ Includes royalties, dividends and social security contributions.
6/ Expenditure reported on commitments basis. From 2015 onwards, previously recorded capital expenditures have been reclassified as wages and salaries and goods and services.
7/ Includes adjustments to compute spending on commitment basis and the change in unpaid bills of nonfinancial public enterprises.
8/ Interest payments on public banks restructuring bonds and mortgage debt relief related costs.
9/ For 2018, includes the recognition of arrears worth 1.9 percent of GDP.
10/ 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.
11/ Includes statistical discrepancy. Overall balance plus interest expenditures.
12/ Includes income tax payments and dividends from Ecopetrol that correspond to earnings from the previous year, and royalties to local governments.
13/ Includes Ecopetrol and Banco de la República's outstanding external debt.

Table 5. Colombia: Monetary Indicators

	2017	2018	2019	2020	2021 2/	2022	2023	2024	2025	2026	2027
						Projections					
	(In billions of Col$, unless otherwise indicated)										
Central Bank											
Net Foreign Assets	140,586.1	155,542.5	172,577.7	200,732.2	220,143.1	215,077.1	221,245.8	227,844.6	234,819.5	241,491.8	248,204.2
Gross official reserve assets	140,724.9	155,646.7	172,548.8	200,801.4	230,981.6	225,915.6	232,084.3	238,683.1	245,658.0	252,330.3	259,042.7
In billions of US$	47.2	47.9	52.7	58.5	58.0	59.0	60.1	61.3	62.5	63.6	64.7
Short-term foreign liabilities	64.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other net foreign assets	-74.0	-104.2	28.9	-69.2	-10,838.5	-10,838.5	-10,838.5	-10,838.5	-10,838.5	-10,838.5	-10,838.5
Net domestic assets	-51,773.4	-57,461.5	-60,123.9	-68,058.6	-74,762.1	-52,391.7	-45,841.9	-39,357.1	-32,441.2	-24,369.5	-15,233.9
Net credit to the public sector	-2,490.6	-1,524.9	3,034.3	6,625.4	20,055.7	14,054.6	12,297.5	10,557.9	8,702.7	6,537.4	4,086.7
Net credit to the financial system	3,808.4	9,016.5	8,435.0	6,948.8	7,994.2	5,602.2	4,901.8	4,208.4	3,468.9	2,605.8	1,628.9
Other	-53,091.3	-64,953.1	-71,593.1	-81,632.9	-102,812.0	-72,048.5	-63,041.2	-54,123.5	-44,612.8	-33,512.6	-20,949.5
Monetary base	88,812.7	98,081.0	112,453.8	132,673.6	145,381.0	162,685.4	175,403.9	188,487.4	202,378.3	217,122.3	232,970.3
Currency in circulation	74,057.6	80,653.3	91,659.3	111,373.9	125,450.8	139,288.9	148,877.9	158,635.1	168,881.3	179,696.7	191,220.8
Deposit money banks reserves	14,671.5	17,322.5	20,649.2	20,928.1	19,533.2	41,827.3	45,840.5	48,950.6	52,187.9	55,621.7	59,298.2
Other deposits	83.6	105.2	145.3	371.5	397.0	397.0	397.0	397.0	397.0	397.0	397.0
Financial system											
Net foreign assets	128,443.1	131,230.3	145,975.5	199,728.9	187,213.1	178,273.0	181,907.9	185,889.0	190,111.8	193,830.8	197,390.3
In billions of US$	43.0	40.4	44.5	58.2	47.0	46.5	47.1	47.7	48.4	48.9	49.3
Net domestic assets	343,014.5	367,175.1	402,159.3	404,826.1	491,842.1	570,485.1	627,892.6	686,729.4	748,863.0	815,696.4	888,007.7
Net credit to public sector	42,089.3	43,902.9	57,916.7	83,018.3	82,776.7	92,622.6	105,380.1	112,249.8	117,935.0	124,133.5	129,062.5
Credit to private sector	458,444.5	489,621.5	546,519.9	542,246.1	604,489.2	668,350.5	723,049.6	779,842.1	840,355.4	904,271.4	972,228.6
Other net	-157,352.6	-166,212.3	-202,096.3	-220,235.1	-195,423.7	-190,487.9	-200,537.1	-205,362.5	-209,427.4	-212,708.5	-213,283.4
Broad money	471,457.6	498,405.4	548,134.8	604,554.9	679,055.2	748,758.1	809,800.6	872,618.3	938,974.8	1,009,527.1	1,085,398.0
	(Annual percentage change)										
Credit to private sector	12.8	6.8	11.6	-0.8	11.5	10.6	8.2	7.9	7.8	7.6	7.5
Currency	7.0	8.9	13.6	21.5	12.6	11.0	6.9	6.6	6.5	6.4	6.4
Monetary base	5.0	10.4	14.7	18.0	9.6	11.9	7.8	7.5	7.4	7.3	7.3
Broad money 1/	6.4	5.7	10.0	10.3	12.3	10.3	8.2	7.8	7.6	7.5	7.5
	(In percent of GDP)										
Credit to private sector	49.8	49.6	51.6	54.3	51.4	50.8	51.4	52.0	52.6	53.1	53.5
Currency	8.0	8.2	8.6	11.2	10.7	10.6	10.6	10.6	10.6	10.6	10.5
Monetary base	9.6	9.9	10.6	13.3	12.4	12.4	12.5	12.6	12.7	12.7	12.8
Broad money	51.2	50.5	51.7	60.5	57.7	56.9	57.6	58.2	58.8	59.3	59.8
Memorandum items:											
CPI inflation, eop	4.1	3.1	3.8	1.6	5.6	5.7	3.5	3.0	3.0	3.0	3.0
Nominal GDP (In Col$ billions)	920,471	987,791	1,060,068	998,718	1,176,695	1,315,127	1,405,663	1,499,204	1,597,547	1,703,079	1,815,740

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

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

2/ Estimate for financial system variables.

Table 6. Colombia: Medium-Term Outlook

	2017	2018	2019	2020	2021 1/	2022	2023	2024	2025	2026	2027
						Projections					
	(In percent of GDP, unless otherwise indicated)										
Real GDP (in percent change)	1.4	2.6	3.2	-7.0	10.6	5.4	3.3	3.4	3.4	3.4	3.4
Consumer prices (in percent change; eop)	4.1	3.1	3.8	1.6	5.6	5.7	3.5	3.0	3.0	3.0	3.0
Gross national savings	18.4	17.0	16.8	15.7	14.0	13.9	14.6	14.9	15.1	15.4	15.6
Private sector	16.5	18.6	15.8	19.0	17.6	14.1	13.1	12.8	13.0	13.0	13.0
Public sector	2.0	-1.6	1.0	-3.3	-3.6	-0.2	1.5	2.1	2.1	2.4	2.6
Gross domestic investment	21.6	21.2	21.4	19.2	19.7	19.1	19.3	19.4	19.5	19.6	19.7
	(In percent of GDP, unless otherwise indicated)										
Nonfinancial public sector 2/											
Revenue	26.8	30.0	29.4	26.6	27.7	29.2	30.1	30.1	29.6	29.4	29.2
Expenditure	29.4	34.5	31.8	33.6	34.5	34.4	33.3	31.9	30.8	30.7	30.5
Current expenditure	24.9	31.4	27.6	29.8	30.7	29.5	28.4	27.9	27.4	27.0	26.5
Capital expenditure	4.6	3.1	4.2	3.8	3.8	4.9	4.9	4.0	3.4	3.7	4.0
Primary balance 3/4/	-0.7	-2.0	0.4	-4.9	-4.8	-2.7	-0.8	-0.2	0.9	1.2	0.9
Overall balance 3/4/	-2.5	-4.7	-3.5	-7.0	-6.8	-5.1	-3.3	-1.8	-1.2	-1.3	-1.3
Combined public sector balance 4/	-2.4	-4.5	-2.9	-6.9	-7.2	-4.9	-3.2	-1.7	-1.1	-1.2	-1.2
External financing	2.6	1.3	0.9	7.9	2.9	2.7	1.0	1.2	0.9	0.8	1.1
Domestic financing	-0.2	3.2	2.0	-1.0	4.2	2.2	2.2	0.5	0.2	0.4	0.1
External current account balance	-3.2	-4.2	-4.6	-3.5	-5.8	-5.2	-4.7	-4.5	-4.3	-4.2	-4.1
Trade balance	-1.4	-1.9	-3.1	-3.3	-4.5	-3.5	-3.3	-3.4	-3.3	-3.2	-3.0
Exports	12.8	12.9	12.6	11.9	13.5	14.6	14.6	14.0	13.5	13.3	13.1
Imports	14.1	14.8	15.6	15.2	18.0	18.1	17.9	17.4	16.8	16.5	16.2
Financial account balance	-2.5	-3.9	-4.1	-3.0	-5.8	-5.2	-4.7	-4.5	-4.3	-4.2	-4.1
Direct Investment	-3.2	-1.8	-3.4	-2.1	-2.5	-2.6	-2.9	-3.1	-3.3	-3.5	-3.7
Portfolio Investment	0.0	0.3	0.0	-0.7	-1.3	-1.6	-1.3	-0.9	-0.9	-0.7	-0.7
Other Investments and Derivatives	0.5	-2.6	-1.8	-1.8	-2.2	-1.2	-0.9	-0.9	-0.5	-0.3	0.0
Change in Reserve Assets	0.2	0.4	1.0	1.6	0.2	0.3	0.3	0.3	0.3	0.3	0.2
Gross public sector debt 5/	49.4	53.6	52.4	65.7	64.6	62.1	61.8	60.3	59.4	57.7	56.3
Gross public sector debt, excluding Ecopetrol	46.1	51.0	49.4	61.5	61.9	59.8	59.7	58.3	57.4	55.7	54.4
Memorandum items:											
Nominal GDP (in Col$ billion)	920,471	987,791	1,060,068	998,718	1,176,695	1,315,127	1,405,663	1,499,204	1,597,547	1,703,079	1,815,740

Sources: Colombian authorities and IMF staff estimates and projections.

1/ Estimate for fiscal and external sector variables.

2/ Excludes Ecopetrol.

3/ Includes statistical discrepancy.

4/ 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.

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

Table 7. Colombia: Financial Soundness Indicators

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

	2015	2016	2017	2018	2019	2020	2021 2/
Capital Adequacy 1/							
Regulatory capital to risk-weighted assets	16.9	17.5	18.6	17.8	16.9	19.2	22.0
Regulatory Tier 1 capital to risk-weighted assets	11.4	11.4	12.4	12.3	11.8	14.4	17.8
Capital (net worth) to assets	8.7	8.7	9.2	9.4	9.1	9.9	12.1
Asset Quality and Distribution							
Provisions to nonperforming loans	155.5	153.5	134.7	137.1	142.3	152.4	157.6
Gross loans to assets	66.4	68.3	68.1	69.9	69.9	67.0	65.8
Earnings and Profitability							
ROAA	2.4	2.7	1.9	2.1	2.3	1.0	2.3
ROAE	13.0	13.2	9.1	12.7	13.2	5.9	13.5
Interest margin to gross income	58.7	53.7	59.2	61.7	61.2	62.7	61.5
Noninterest expenses to gross income	47.8	45.1	48.3	46.3	47.1	49.0	46.9
Liquidity							
Liquid assets to total assets	18.9	18.0	18.6	18.7	17.2	19.9	20.0
Liquid assets to short-term liabilities	39.9	39.9	42.6	39.3	36.6	37.9	36.1
Deposit to loan ratio	93.2	92.6	92.7	89.9	89.4	98.4	96.7
Other							
Foreign-currency-denominated loans to total loans	8.3	6.9	6.1	6.0	5.2	4.6	5.2
Foreign-currency-denominated liabilities to total liabilities	14.1	11.9	11.1	12.1	11.8	11.4	11.5

Source: Superintendencia Financiera; and IMF staff calculations.

1/ The large changes in capital adequacy between 2020 and 2021 are mostly due to the adoption of Basel III capital definitions and risk weights.

2/ 2021 data is up to Nov 2021.

Table 8. Colombia: Indicators of External Vulnerability [1/]

(In billions of US$, unless otherwise indicated)

	2017	2018	2019	2020	2021 [2/]	Projections 2022	2023	2024	2025	2026	2027
Exports of GNFS	49.3	53.7	51.3	38.1	50.3	60.2	63.7	65.6	67.4	70.4	73.5
Imports of GNFS	58.1	64.3	65.5	51.3	70.6	78.0	81.7	84.3	86.6	90.0	93.5
Terms of trade (y/y percent change)	9.9	3.5	-2.3	-12.2	13.3	6.7	-6.0	-1.7	-1.4	-0.9	-0.6
Current account balance	-9.9	-14.0	-14.8	-9.6	-18.1	-17.8	-17.0	-17.4	-17.5	-18.0	-18.4
In percent of GDP	-3.2	-4.2	-4.6	-3.5	-5.8	-5.2	-4.7	-4.5	-4.3	-4.2	-4.1
Financial account balance	-7.9	-13.0	-13.3	-8.2	-18.1	-17.8	-17.0	-17.4	-17.5	-18.0	-18.4
Of which: Foreign direct investment (net)	-10.0	-6.2	-10.8	-5.8	-7.7	-9.1	-10.4	-11.7	-13.2	-14.8	-16.5
Of which: Portfolio investment (net)	0.0	0.9	0.0	-1.8	-4.2	-5.4	-4.6	-3.5	-3.6	-3.1	-3.2
Total external debt (in percent of GDP) 3/	47.3	46.7	50.1	65.6	60.4	59.2	59.8	60.6	60.6	60.2	59.8
Of which: Public sector (in percent of GDP) 3/	30.3	29.0	30.1	41.6	38.7	38.5	38.2	37.6	36.7	35.8	34.9
In percent of gross international reserves	312.9	325.8	307.6	303.1	320.8	340.4	354.6	372.7	386.1	398.2	411.1
Short-term external debt (in percent of GDP) 4/	5.3	6.1	7.1	8.1	7.0	6.5	6.3	6.1	5.9	5.7	5.5
Of which: Public sector (in percent of GDP)	0.2	0.2	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Of which: Private sector (in percent of GDP)	5.1	5.9	6.8	7.8	6.8	6.3	6.2	5.9	5.8	5.6	5.4
Amortization of MLT external debt (in percent of GNFS exports)	32.9	29.2	25.8	37.8	30.7	22.4	24.5	31.2	30.6	30.5	31.1
External interest payments (in percent of GNFS exports)	10.7	10.7	14.7	17.3	13.4	12.5	13.0	13.6	14.3	14.3	14.3
Gross international reserves 5/	47.1	47.9	52.7	58.5	59.1	60.1	61.2	62.4	63.6	64.7	65.8
In months of prospective GNFS imports	8.8	8.8	12.3	9.9	9.1	8.8	8.7	8.6	8.5	8.3	8.1
In percent of broad money	29.8	31.2	31.5	33.2	34.7	30.7	29.2	27.8	26.6	25.4	24.3
In percent of short-term debt on residual maturity basis plus current account deficit	101.7	98.8	112.3	105.4	110.8	108.8	100.5	101.1	100.1	98.4	100.7
In percent of ARA 6/	134	132	140	141	137	129	125	120	119	116	114
Real effective exchange rate (percentage change, + = appreciation)	5.6	0.7	-9.1	-11.1	-1.9	...	...	...	...	...	...

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/ Estimates for 2021.

3/ Includes foreign holdings of locally issued public debt (TES).

4/ Original maturity of less than 1 year. Stock at the end of the previous period.

5/ 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.

6/ Excluding commodity buffer. Coverage including a buffer for commodity price uncertainty was 128 percent of the metric at end-2020.

Table 9. Colombia: Capacity to Repay Indicators 1/

(In billions of US$, unless otherwise indicated)

	2019	2020	2021	2022	2023	2024	2025	2026	2027
Exposure and Repayments (In SDR millions)									
GRA credit to Colombia	--	3,750.0	3,750.0	12,267.0	12,267.0	10,392.0	5,323.1	1,064.6	--
(In percent of quota)	--	183.4	183.4	600.0	600.0	508.3	260.4	52.1	--
Charges due on GRA credit 2/	--	18.8	37.2	241.7	318.3	299.5	254.0	80.6	7.4
Debt service due on GRA credit 2/	--	18.8	37.2	241.7	318.3	2,174.5	5,322.8	4,339.1	1,072.0
Debt and Debt Service Ratios 3/									
In percent of GDP									
Total external debt	50.1	65.6	60.4	85.0	85.1	85.8	85.3	84.2	83.2
Public external debt	30.1	41.6	38.7	57.7	56.6	55.4	53.8	52.0	50.3
GRA credit to Colombia	--	1.9	1.7	7.2	6.9	5.5	2.7	0.5	--
Total external debt service 4/	12.3	15.9	14.0	16.4	18.4	21.1	20.6	18.7	17.9
Public external debt service 4/	3.0	2.7	2.8	2.7	3.6	6.3	5.7	3.9	3.0
Debt service due on GRA credit	--	0.0	0.0	0.1	0.2	1.2	2.7	2.1	0.5
In percent of Gross International Reserves									
Total external debt	222.5	217.6	225.3	296.9	304.8	316.5	323.3	330.2	338.5
Public external debt	133.3	138.1	144.5	201.4	202.8	204.2	203.7	204.0	204.7
GRA credit to Colombia	--	8.9	9.0	35.6	35.2	29.4	14.8	2.9	--
In percent of Exports of Goods and Services									
Total external debt service 4/	77.8	113.1	87.7	76.4	73.5	86.7	87.8	81.3	78.8
Public external debt service 4/	18.9	19.4	17.5	12.6	14.3	25.9	24.2	17.0	13.3
Debt service due on GRA credit	--	0.1	0.1	0.7	0.7	4.8	11.5	9.0	2.1
In percent of Total External Debt									
GRA credit to Colombia	--	2.9	2.8	8.5	8.1	6.5	3.2	0.6	--
In percent of Public External Debt									
GRA credit to Colombia	--	4.6	4.4	12.5	12.2	10.0	5.0	1.0	--
Memo Items:									
U. S. dollars per SDR (period average)	1.38	1.39	1.42	1.41	1.43	1.44	1.45	1.46	1.47
Oil Price (WEO APSP, US$ per barrel)	61.4	41.3	69.1	82.4	75.3	70.9	68.1	66.3	65.5

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

1/ Assumes full drawing of remaining precautionary access (417.7 percent of quota) on March 25, 2022.
2/ Based on the rate of 1.217 (as of February 24, 2022).
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).

Table 10. Colombia: Gross External Financing Needs

(In billions of US$, unless otherwise indicated)

	2021 Baseline	2022 Baseline
		Projection
Gross external financing needs	**-55,485**	**-53,385**
External current account balance	-18,149	-17,791
Debt amortization	-37,335	-35,594
Medium and long term debt	-15,440	-13,506
Public sector 1/	-3,918	-1,815
Private sector	-11,522	-11,691
Short-term debt	-21,896	-22,088
Public sector	-690	-690
Private sector	-21,206	-21,397
Gross external financing sources	**56,108**	**54,323**
Foreign direct investment (net)	7,730	9,106
Medium and LT debt disbursements	24,156	23,852
Public sector 1/	13,135	12,911
Private sector	11,022	10,941
Short-term debt disbursements	22,088	22,575
Public sector	690	690
Private sector	21,397	21,885
Other capital flows (net) 2/	2,135	-1,210
Change in international reserves	624	938
Use of IMF credit	**0**	**0**
Percent of quota	0	0
Memo: Gross international reserves	59,124	60,062

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

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.

Table 11. Colombia: External Debt Sustainability Framework, 2017-2027
(In percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2017	2018	2019	2020	2021	10-Year Historical Average	10-Year Standard Deviation	2022	2023	2024	2025	2026	2027	**Debt-stabilizing non-interest current account 6/**
Baseline: External debt	47.3	46.7	50.1	65.6	60.4			**59.2**	**59.8**	**60.6**	**60.6**	**60.2**	**59.8**	**-3.2**
Change in external debt	-2.1	-0.6	3.4	15.4	-5.2			-1.1	0.5	0.8	0.0	-0.4	-0.4	
Identified external debt-creating flows (4+8+9)	-4.1	-0.5	3.2	11.6	-4.7			0.9	1.2	0.9	0.6	0.3	-0.1	
Current account deficit, excluding interest payments	1.5	2.5	2.2	1.1	3.6			3.0	2.4	2.2	2.0	1.9	1.8	
Deficit in balance of goods and services	2.8	3.2	4.4	4.9	6.5			5.2	5.0	4.9	4.7	4.6	4.4	
Exports	15.8	16.1	15.9	14.1	16.0			17.4	17.5	17.1	16.6	16.4	16.3	
Imports	18.6	19.2	20.3	19.0	22.5			22.6	22.5	22.0	21.4	21.0	20.7	
Net non-debt creating capital inflows (negative)	-2.9	-1.6	-2.2	-0.7	-1.2			-1.3	-1.6	-1.7	-1.8	-2.0	-2.3	
Automatic debt dynamics 1/	-2.7	-1.4	3.2	11.2	-7.1			-0.8	0.4	0.4	0.4	0.4	0.4	
Contribution from nominal interest rate	1.7	1.7	2.3	2.4	2.1			2.2	2.3	2.3	2.4	2.3	2.3	
Contribution from real GDP growth	-0.6	-1.1	-1.5	4.2	-6.0			-3.0	-1.9	-1.9	-1.9	-2.0	-2.0	
Contribution from price and exchange rate changes 2/	-3.8	-2.0	2.4	4.5	-3.3			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	2.0	-0.1	0.2	3.8	-0.5			-2.0	-0.7	-0.1	-0.6	-0.6	-0.2	
External debt-to-exports ratio (in percent)	299.1	290.4	315.6	464.8	377.4			339.7	340.7	354.7	364.2	366.2	367.8	
Gross external financing need (in billions of US dollars) 4/	41.0	46.3	48.5	46.9	55.5			53.4	55.2	60.9	61.7	63.5	65.8	
in percent of GDP	13.1	13.9	15.0	17.3	17.7			15.5	15.2	15.9	15.2	14.8	14.6	
Scenario with key variables at their historical averages 5/								**59.2**	**62.6**	**67.0**	**71.2**	**75.5**	**80.4**	**1.0**
Key Macroeconomic Assumptions Underlying Baseline														
Real GDP growth (in percent)	1.4	2.6	3.2	-7.0	10.6	2.9	4.3	5.4	3.3	3.4	3.4	3.4	3.4	
GDP deflator in US dollars (change in percent)	8.8	4.5	-6.3	-9.9	5.1	-2.9	10.1	4.2	1.8	2.2	2.2	2.1	2.0	
Nominal external interest rate (in percent)	3.8	3.9	4.8	4.1	3.8	4.1	0.3	4.0	4.1	4.1	4.1	4.1	4.1	
Growth of exports (US dollar terms, in percent)	15.3	8.9	-4.5	-25.7	31.8	-1.0	18.1	19.7	5.8	3.0	2.9	4.4	4.5	
Growth of imports (US dollar terms, in percent)	3.3	10.7	1.9	-21.6	37.7	2.2	16.9	10.4	4.8	3.2	2.7	3.9	3.9	
Current account balance, excluding interest payments	-1.5	-2.5	-2.2	-1.1	-3.6	-2.7	1.2	-3.0	-2.4	-2.2	-2.0	-1.9	-1.8	
Net non-debt creating capital inflows	2.9	1.6	2.2	0.7	1.2	2.2	1.2	1.3	1.6	1.7	1.8	2.0	2.3	

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.

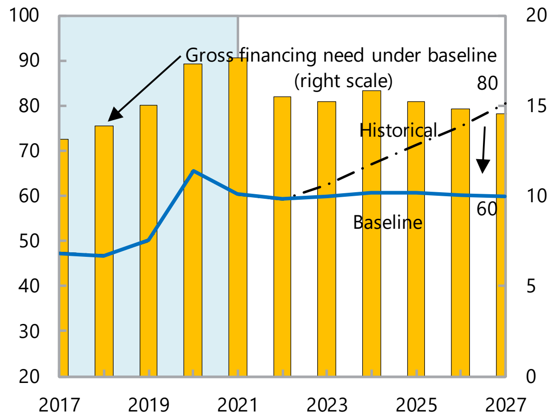
5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

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

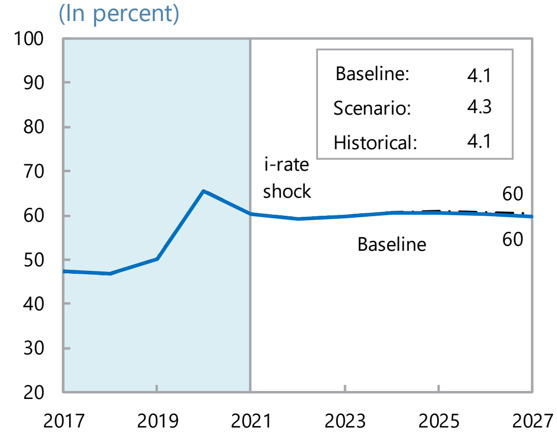
(External debt in percent of GDP)

Baseline and Historical Scenarios



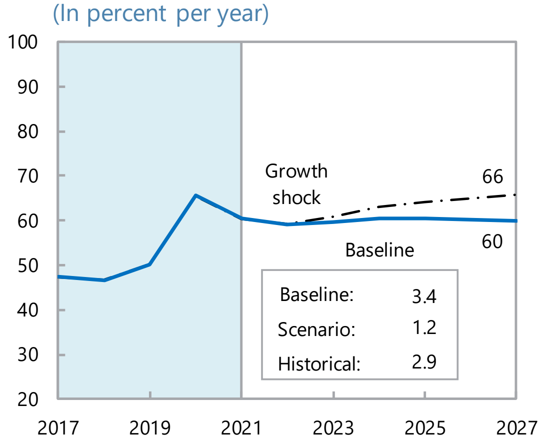
Interest Rate Shock

(In percent)



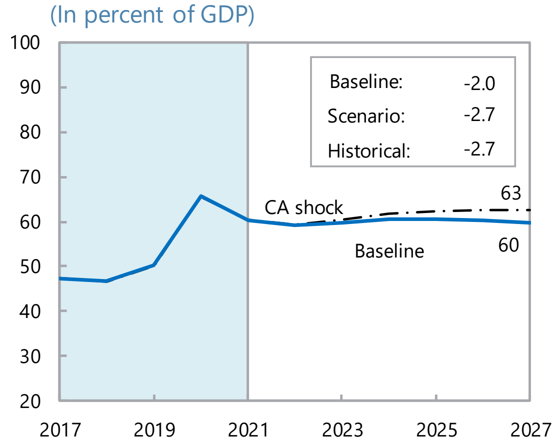
Growth Shock

(In percent per year)

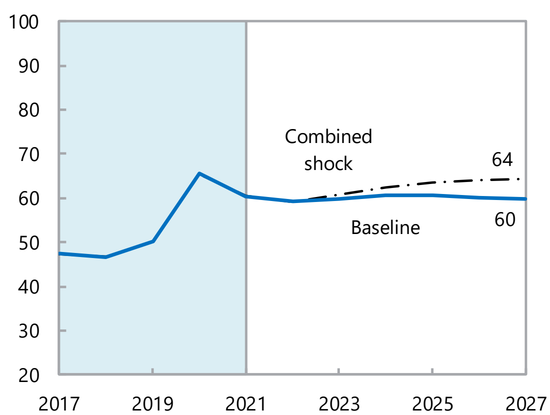


Non-Interest Current Account Shock

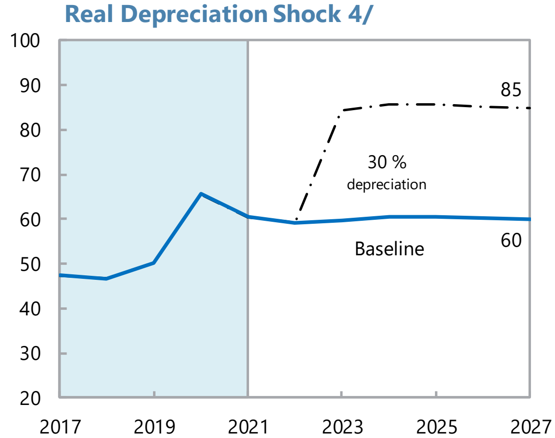
(In percent of GDP)



Combined Shock 3/



Real Depreciation Shock 4/



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.

Annex I. External Sector Assessment

Overall Assessment: *The external position is moderately weaker than implied by medium-term fundamentals and desirable policies. This assessment is driven by the estimated current account gap of -1.86 percent of GDP (+/-1 percent of GDP, given uncertainty surrounding point estimates). Mitigating factors include the diversity and relative stability of capital flows, the negative correlation between the income balance and the trade balance, adequate reserve coverage, and a flexible exchange rate that has continued as a long serving primary mechanism of adjustment to external shocks.*

Potential Policy Responses*: Fiscal consolidation in 2022 and through the medium term is expected to raise national saving. Structural policies to improve competitiveness and boost non-commodity exports remain essential but will likely only aid the external position over the medium term. Priorities include lowering nontariff barriers, enhancing customs procedures, reducing transportation costs, and improving infrastructure.*

Foreign Assets and Liabilities: Position and Trajectory

Background. Colombia's estimated NIIP was -57 percent of 2021 GDP in December 2021, an increase of 1.4 percent of GDP compared to end-2020 (-59 percent of 2020 GDP). The increase is largely attributable to mechanical denominator effects of Colombia's increasing US$ GDP. Regarding the numerator, the NIIP decreased by US$ 18.1 billion (6 percent of 2021 GDP) because of exchange rate and other valuation effects. Taking a longer-term perspective, the estimated data represents a decline of 18 percent of GDP relative to end-2015, consistent with the cumulative net inflows of financial liabilities. Direct investment (DI) contributes a substantial portion to the NIIP; excluding DI, the NIIP stood at only -7 percent of GDP, compared to -6 percent at end-2015. Considering only reserve assets and debit liabilities, the net position was -42 percent.

Assessment. Gross external financing needs rose to an estimated 17.9 percent of GDP in 2021. The external stability (ES) approach suggests a need for an external adjustment once the recovery is fully underway. The estimated medium-term current account balance required to stabilize the NIIP at its end-2020 level is -3.2 percent of GDP which is a narrower deficit than the medium-term baseline. The large share of FDI, whose risk-sharing properties can mitigate the risks of a falling NIIP, as well as a net long foreign currency position may permit a smaller or slower adjustment.

2021 (% GDP)	NIIP: -57	Gross Assets: 72	Reserve Assets: 19	Gross Liab.: 128	Debt Liab.: 65

Current Account

Background. The estimated current account balance (CAB) of -5.8 percent of GDP in 2021 was a larger deficit than the 3.5 percent in 2020 and the -4.4 percent of GDP 2015-20 average. A sharp rebound in domestic demand raised imports by 37 percent, while lagging exports grew by about 32 percent. Production of oil and coal were particularly dampened in Q2, recovering only partially, and therefore key exports were not able to benefit fully from higher commodity prices. The short- and medium-term CAB is projected to decrease to about –4.1 percent of GDP on the back of the recovery in exports and the moderation of imports growth, including the effects of fiscal consolidation.

Assessment. Model estimates coupled with the estimated 2021 current account balance indicate a cyclically-adjusted CAB norm of -0.8 percent of GDP and a CAB gap of -5.4 percent of GDP for 2021. Identified policy gaps were assessed to be small (-0.1). The following two adjustments follow the 2019, 2020, and 2021 Article IV consultations: 1) the contribution of oil exports to the norm is reduced by 1.3 percent of GDP given Colombia's investment needs and the channeling of government oil revenue to infrastructure investment projects with a high social return and that are also expected to boost competitiveness in the medium term;[1] and 2) the large stock of migrants from Venezuela justifies a downward adjustment of 0.5 percent to the norm.[2] For the assessment in this Article IV, the cyclically-adjusted CAB is also adjusted by 1.34 percent of GDP to account for the effects of the COVID-19 crisis; [3] and by and additional 0.4 to take into account the effects of the blockages that occurred in early 2021. [4] The combined adjustments above reduce the CAB gap by 3.54 percent to–1.86 percent of GDP (+/-1 percent of GDP, given uncertainty surrounding point estimates). Staff assesses the CAB to be moderately weaker than justified by medium-term fundamentals and desirable policies.

2021 (% GDP)	Estimated CA: -5.8	Cycl. Adj. CA: -6.2	EBA Cycl. Adj. CA Norm: -0.8	EBA CA Gap: -5.4	COVID-19 Adj: -1.34	Staff CA Gap: -1.86

Real Exchange Rate

Background. The period average real effective exchange rate (REER) index depreciated by about 2 percent in 2021, following a depreciation of 11 percent in 2020, and was 36 percent weaker than in 2014 owing to lower, but recovering, oil prices.

Assessment. EBA REER approaches estimate an undervaluation of 32.5 percent (index method) and 29.1 percent (level method) in 2021. Applying a semi-elasticity of -0.12 to the gap from the CAB approach suggests a REER overvaluation of between 8.5 and 30.5 percent. Overall, staff judges the REER gap consistent with the CAB gap at 19.5 percent, though with a wide range of uncertainty (+/- 11 percent) given: the poor fit of the EBA CAB model for Colombia, with large unexplained residuals that have been persistently biased and which are amplified by the arithmetic of a low semi-elasticity, and the substantial differences in results across the REER and CA approaches.

Capital and Financial Accounts: Flows and Policy Measures

Background. Current account deficits have in the last decade been financed primarily by capital inflows (FDI and portfolio debt securities). Net FDI inflows in 2020 were an estimated 2.7 percent of GDP, diversified across sectors. The private sector (including SOEs) received portfolio inflows by roughly 1.3 percent of GDP. Sovereign issuances on the international markets continued in 2021, including the first green bond issuance in Latin America, which was heavily oversubscribed. Having decreased during the period of global market turmoil earlier in 2020, non-residents' holdings of domestically issued government debt securities increased substantially in response to higher financing needs and Colombia's inclusion in global bond indices. The proportion of shorter maturities (less than 3 years) slightly increased from 7 to 9 percent, still far from the 17 percent observed in 2019, and the diversification of holders continued to rise slightly. The government has further diversified its foreign funding sources by borrowing from multilateral institutions.

Assessment. The relative stability of FDI flows, diversification of creditors, very strong macroeconomic policies, and a track record of uninterrupted market access have underpinned capital inflows, including around periods of stress such as the global financial crisis and the emerging markets selloff prompted by

the pandemic. Colombia's attractiveness as an investment destination and favorable global monetary conditions should allow temporarily withheld investments to resume once the acute phase of the pandemic has passed and fiscal reform uncertainties have abated.

FX Intervention and Reserves Level

Background. Colombia's gross reserves increased slightly by about US$0.6 billion in 2021 owing to realized valuation gains and the 2021 IMF General SDR Allocation of roughly US$2.8 billion, which was offset by the selling of the same US$ amount to the government. The central bank intervened in the FX market between March 13, 2020 and February 3, 2021 by an amount of USD 9.1 billion, mainly through introducing auctions of forward contracts (NDFs) to provide liquidity and hedging mechanisms in local currency markets.

Assessment. The flexible exchange rate has long served as the primary mechanism of adjustment to external shocks. Depreciations have cushioned export receipts, albeit mostly through local-currency prices owing to dollar-pricing of exports, and aided import compression. Reserve coverage as measured by the ARA metric has increased since 2017 but has declined since 2015 because higher liabilities have contributed to a higher metric. For 2021, coverage is estimated at 113 percent of the ARA metric including a commodity buffer[5] and 137 percent excluding the commodity buffer. Access to unused resources available under Colombia's FCL provides an additional liquidity buffer equivalent to 23 percent of the ARA metric including the commodity buffer. Further reserve accumulation would help insure against elevated external risks.

[1] The contribution of oil exports is adjusted downward to account for Colombia's investment needs relative to the EBA sample. As in the 2019, 2020, and 2021 Article IV reports, this is based on Colombia's infrastructure gap relative to rivals in export markets; higher public fixed capital formation; and relatively efficient practices in public investment management.

[2] The adjustment is the same as in the 2020 and 2021 Article IV, which is consistent with a constant stock of migrants. The adjustment is lower than in the 2019 Article IV and conservative relative to the adjustment implied by the EBA model's population coefficient.

[3] This adjustor relates to the impact of the crisis on (1) the travel services balance (including tourism) due to restrictions on international travel; (2) trade in medical products triggered by the health emergency; and (3) the shift in household consumption composition from services to durables and other consumer goods.

[4] To proxy for the losses related to the early-2021 blockages, the adjustor captures the variation of monthly production between May-December with respect to a potential production. These monthly production "losses" are then multiplied by the monthly average Brent price and aggregated.

[5] To capture the uncertainty in commodity prices, we proxy commodity price volatility by that embodied in oil options prices and apply that to baseline commodity export values.

Annex II. Use of IMF's 2021 SDR General Allocation

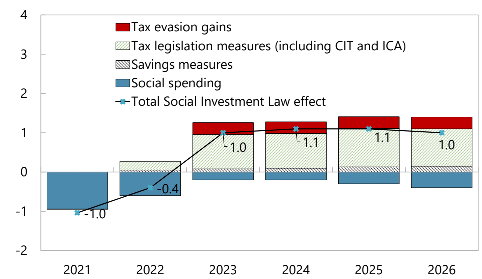
1. As part of the 2021 IMF General SDR Allocation to support resilience and stability in the global economy, Colombia received SDR 1.96 billion, equivalent to USD 2.79 billion. SDRs were credited to each country in proportion to its quota in the Fund in August 2021. As per Colombia's constitutional and legal framework, the allocation of SDRs was received by the *Banco de la República* as part of the international reserves it manages, being the country's fiscal agent in its relationship with the Fund.

2. With relatively high budget financing needs for 2022 expected at that time, the government then boosted its liquidity buffer with a transfer of resources related to the SDR allocation. On August 30, 2021, the authorities performed an operation in which the central bank sold FX to the Ministry of Finance and Public Credit (MinHacienda) in an equivalent amount to the SDR allocation in exchange for local treasury bonds (at market prices). The operation was performed in a manner that was consistent with Colombia's legal and institutional frameworks, allowing the transfer to respect institutional independence and boundaries. Specifically, MinHacienda sold existing domestic government bonds (TES), which were already part of the Treasury's current holdings, in exchange for FX held at the central bank in an amount commensurate with the SDR allocation. This operation thus allowed the government to boost its liquidity buffer without involving any new debt issuance. At the same time, the central bank was able to maintain its adequate level of international reserves at its pre-SDR allocation level.

Annex III. Fiscal Reform: The Social Investment Law

1. Colombia has been an early adopter of fiscal reforms in the wake of the COVID-19 pandemic. In September 2021, Colombia enacted the Social Investment Law (SIL) which introduces a comprehensive set of fiscal reforms. Main elements of the reform aim to (i) strengthen the fiscal framework, (ii) extend social spending, and (iii) raise tax revenues, mainly from corporates. At the macro level, the reforms make explicit the fiscal targets for 2022-25 following the two-year suspension of the fiscal rule in 2020-21. The fiscal targets converge to a structural primary balance rule over the medium term with a debt anchor.[1] In terms of the fiscal framework, the law also creates a strengthened fiscal rule oversight committee with its own staff and operational budget.

Effects Of Social Investment Law On Fiscal Balance
(Percent of GDP)



Sources: Medium-term Fiscal Framework; and staff calculations based on authorities' estimates.

2. The reforms passed should help strengthen medium-term fiscal balances. Specifically, the SIL aims to raise about 1¼ percent of GDP mainly from businesses, with hikes in CIT[2] rates (from 31 to 35 percent), complemented by revenue efficiency gains from measures tackling tax evasion. Overall, authorities expect fiscal balances to be raised by about 1 percent of GDP over the medium term.[3]

3. To support households and firms, the law also extends pandemic-related programs on a temporary basis. Given concerns over distributional effects, spending measures include an extension of social protection through *Ingreso Solidario* program until end-2022, which provides unconditional cash transfers to the poorest households, until end-2022. For businesses, formal employment subsidies have also been expanded, especially for younger workers[4], and university education subsidies have been added. To limit budgetary implications, offsets from a battery of measures that limit other public spending growth in real terms were also included.

4. The tax reform is a step in the right direction to place public debt on a downward path but fiscal adjustment in 2022 could be more ambitious. The pandemic response increased public debt to about 67 percent of GDP in 2021, and consolidation will be needed to restore public

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[1] The debt anchor is set at 55 percent of GDP and covers the central government only. If debt is above this threshold, the structural balance should be at least 0.2 percent of GDP plus 10 percent of the deviation. The upper debt limit is set at 70 percent of GDP, with the structural balance being at least 1.8 percent of GDP if debt goes beyond this limit. The SIL sets the fiscal transition path to the new rule from 2022-25, and authorities expect the debt-to-GDP ratio to converge to the anchor level by around 2032.

[2] CIT refers to corporate income taxes and ICA refers to an industrial and commerce tax (local turnover tax).

[3] The SIL includes tax evasion gains of about 0.2 percent of GDP given some measures included in the law (Title II). The SIL is expected to generate around 1¼ percent of GDP in revenues but only1 percent of GDP in net terms after accounting for permanent uses (e.g., General System of Participations and specific transfers).

[4] Includes extension of the Formal Employment Support Program (PAEF) and new hiring subsidies equivalent to 25 percent of a minimum wage for the youth aged 18-28 and 10 percent for the rest of the population, subject to budget-dependent caps.

finances to pre-pandemic levels. Following double-digit growth in 2021, above-potential GDP growth in 2022 raises scope for smaller deficit next year and avoiding the planned sharper retrenchment in public finances in 2023. With the new fiscal reforms estimated to improve the fiscal balance by around 1 percent of GDP starting in 2023, the authorities envisage that additional fiscal measures will be required down the road to achieve their medium-term fiscal objectives. Staff estimates that durably raising tax revenues by 2-3 percent of GDP over the medium term would help safeguard key public investment and social spending while placing public debt on a firm downward path (IMF Country Report 21/59).

Annex IV. Public Sector Debt Sustainability Analysis

The public debt figures reported for Colombia cover the non-financial public sector and the financial public sector (Finagro and Fogafin).[1] Current debt is estimated to have decreased by about 1 percentage point of GDP in 2021, reflecting a combination of higher fiscal revenues amid high growth and expenditure restraint. Under the baseline scenario, the non-financial public sector gross debt ratio is projected to gradually decline from about 65 percent of GDP in 2021 to about 56 percent in 2027. Fiscal risks largely reflect the uncertain path of the pandemic or unexpected shortfalls in revenue mobilization. The long average maturity and favorable currency composition of the debt mitigate short-term financing risks arising from high but diversified foreign ownership. Colombia's public debt is expected to remain sustainable in the medium term.

Baseline Scenario

1. **At the end of 2021, the non-financial public sector (NFPS) gross debt is estimated to have decreased to 64.6 percent of GDP from 65.7 percent in 2020.** In terms of composition, around 90 percent of NFPS debt corresponds to central government debt.[2] The share of local currency denominated debt fell from 54 percent in 2020 to around 50 in 2021. Around 90 percent of external public debt is denominated in US dollars.

2. **The NFPS gross debt ratio is expected to continue declining as the authorities follow the transition path and fiscal rule under the Social Investment Law (Annex II),** aiming for a net improvement in the central government primary balance by 1.1 percent of GDP, on average, starting 2023. Favorable growth dynamics will also contribute to the decline of general government level (Figure 3). If real GDP growth, real interest rates, and other debt-creating flows remain at the level of the last projection year (2027), the debt-stabilizing primary balance is estimated at 0.1 percent of GDP. During the projection period, the expected primary surpluses starting in 2024 should place the NFPS gross debt on a declining path.

Realism of Baseline Scenario

3. **The baseline assumptions seem plausible as staff's forecasts are not systematically biased (based on historical projection errors).** Furthermore, fan charts show limited uncertainty around the baseline (the symmetric fan chart has a width of about 20 percent of GDP). However, there is still uncertainty around staff's projections for the near-term growth outlook (which does not assume further lockdowns). As highlighted in the government's financial plan for 2022, a lower fiscal deficit (-6.3 percent of GDP) than in the medium-term fiscal framework (-7 percent of GDP) appears within reach this year given higher tax collections. Following a narrower-than-anticipated

[1] For the DSA, the non-financial public sector covers the central government, regional and local governments, decentralized entities, and Ecopetrol. Public debt also includes the recognition of public debt arrears stemming from past court rulings, social security, energy subsidies and liabilities from pension bonds and FOMAG (see IMF Country Report 20/104). Domestic debt is defined on a currency basis.

[2] Ecopetrol's debt at around 5 percent of GDP is included as part of the NFPS.

fiscal deficit in 2021, continued policy efforts would further reduce fiscal financing needs that were elevated due to the pandemic. While the robust economic recovery has improved Colombia's fiscal outlook, it remains important to secure new revenue sources to safeguard key social protection programs and public investment, while supporting a faster reduction in the debt level closer to the anchor. While the resulting fiscal adjustment will appear large compared to those made historically by other countries, a relatively significant part of this adjustment corresponds to 2022 and especially 2023, when all the COVID-19 spending is withdrawn, and revenues are projected to increase (Figure 2). A historical scenario based on the large primary deficit in 2021 yields an upward sloping path for debt.

Risks

4. **Negative shocks to GDP growth and the real exchange rate would put pressure to the public debt ratio**. The stress-tests analysis shows that negative shocks to real GDP growth (calibrated as one standard deviation) and the real exchange rate (calibrated at 30 percent) would increase the public debt ratio to levels just below 80 percent in the near-term. In addition, while the outcome of a shock to the primary balance would not be as stringent as the ones for real GDP growth and the real exchange rate, staff recognize the risks associated with a potential shortfall of revenue mobilization efforts (see Annex III).

5. **The share of NFPS debt held by non-residents is above its risks benchmark reflecting a rapid increase of foreign investors' participation in Colombia's local currency public debt market since 2013.**[3] Refinancing risks are mitigated by a more diversified foreign investor base, cash on hand and pre-financing. Additionally, the authorities have made further progress in their strategy to increase the proportion of loans carrying fixed interest rates, to extend maturities, to increase liquidity in the local market and to minimize roll-over risk.[4] The level and share of local currency sovereign debt held by non-residents exhibited a decline in February and March of 2021 related to the increase of US yields and the announcement of a higher fiscal deficit in 2021 (the level decline was 2.5 percent). Foreign investors started to adjust their positions anticipating the loss of investment grade, which happened in May (S&P) and July (Fitch). While non-residents position of local-currency sovereign debt recovered after March, the observed decline highlights the risk that non-residents could sell and exit for a sustained period. Risks are also elevated with respect to external financing requirements which rose notably in 2020 due to the pandemic, as short-term external debt rose while nominal growth contracted.

[3] This largely reflects the reduction of the capital gains tax as part of the tax reform in 2013 and the inclusion of Colombian bonds in JP Morgan's EM-GBI in 2014.

[4] See Medium-Term Debt Management Strategy 2018−22.

Figure 1. Colombia: Public Sector DSA Risk Assessment

(Nonfinancial Public Sector Debt)

Heat Map

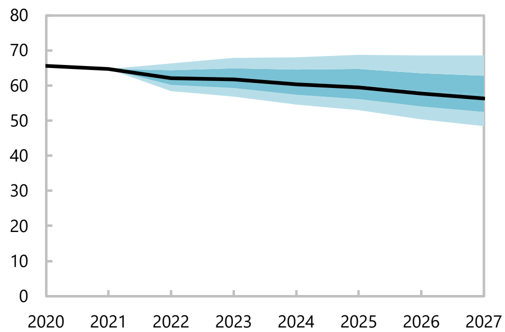
Debt level 1/	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability shock
Gross financing needs 2/	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Debt profile 3/	Market Perception	External Financing Requirements	Change in the Share of Short-Term Debt	Public Debt Held by Non-Residents	Foreign Currency Debt

Evolution of Predictive Densities of Gross Nominal Public Debt

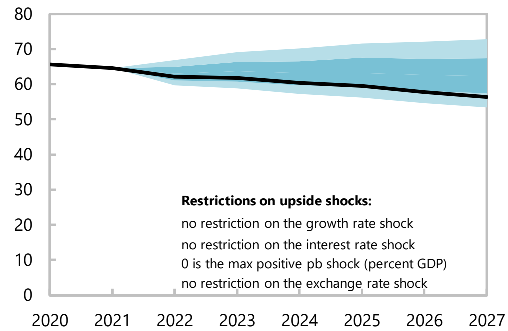
(in percent of GDP)

Baseline Percentiles: 10th-25th 25th-75th 75th-90th

Symmetric Distribution



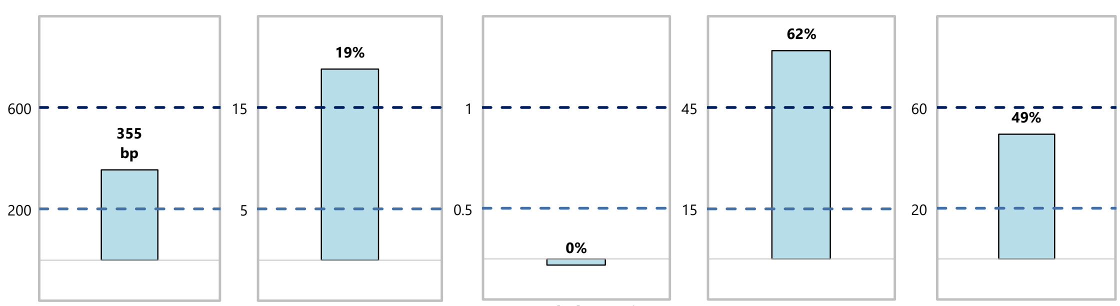
Restricted (Asymmetric) Distribution



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2021)

Colombia -- Lower early warning --- Upper early warning



EMBIG
(in basis points) 4/

External Financing Requirement
(in percent of GDP) 5/

Annual Change in Short-Term Public Debt
(in percent of total)

Public Debt Held by Non-Residents
(in percent of total)

Public Debt in Foreign Currency
(in percent of total)

Source: IMF staff.

1/ The cell is highlighted in green if debt burden benchmark of 70% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

2/ The cell is highlighted in green if gross financing needs benchmark of 15% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

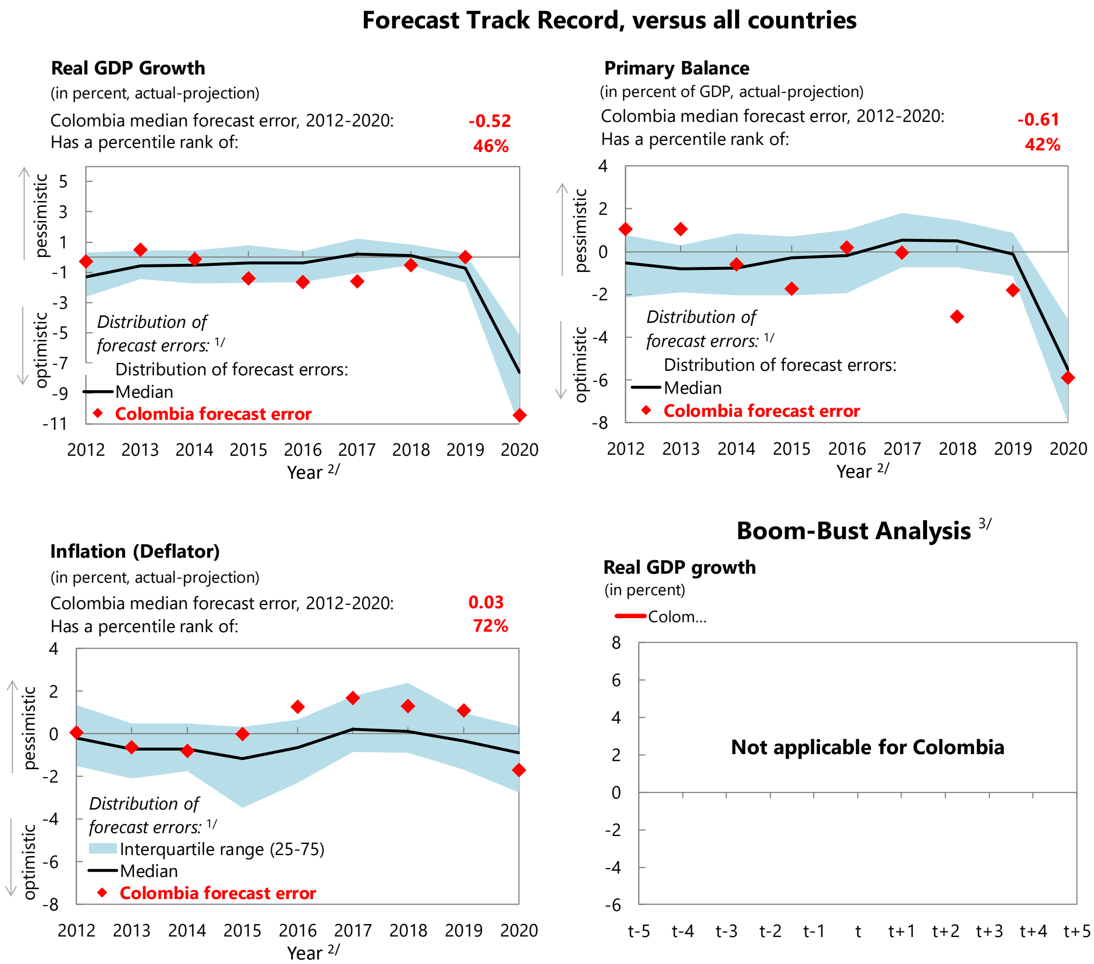
3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, cell is white.
Lower and upper risk-assessment benchmarks are:

200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

4/ EMBIG, an average over the last 3 months, 19-Nov-21 through 17-Feb-22.

5/ External financing requirement is defined as the sum of current account deficit, amortization of medium and long-term total external debt, and short-term total external debt at the end of previous period.

Figure 2. Colombia: Public Sector DSA – Realism of Baseline Assumptions

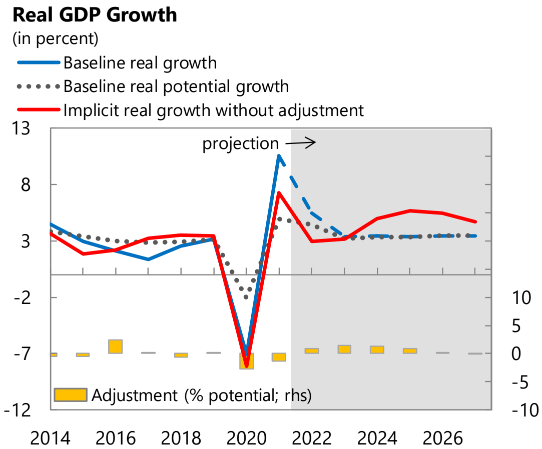


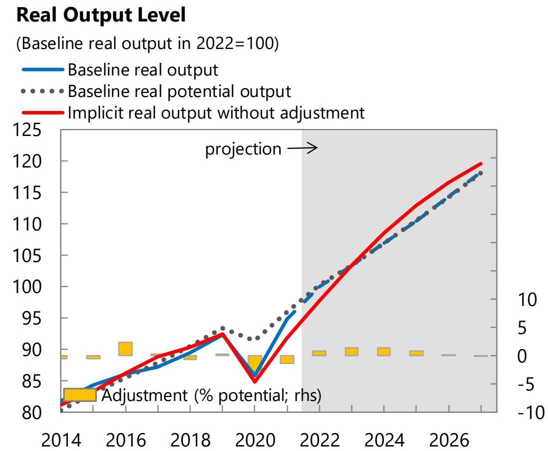
Source : IMF staff.
1/ Plotted distribution includes all countries, percentile rank refers to all countries
2/ Projections made in the spring WEO vintage of the preceding year
3/ Not applicable for Colombia, as it meets neither the positive output gap criterion nor the private credit growth criterion.

Figure 2. Colombia: Public Sector DSA – Realism of Baseline Assumptions (concluded)

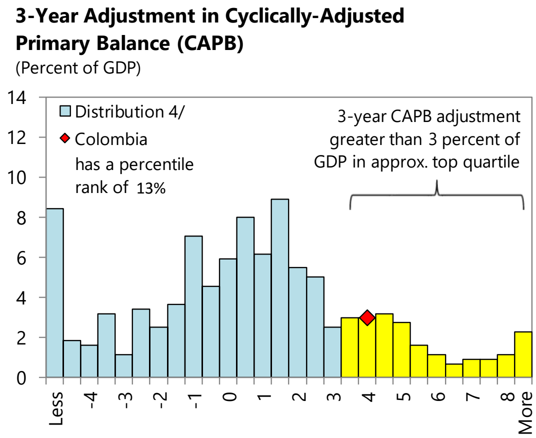
Growth and Level of Output in Absence of Fiscal Adjustment

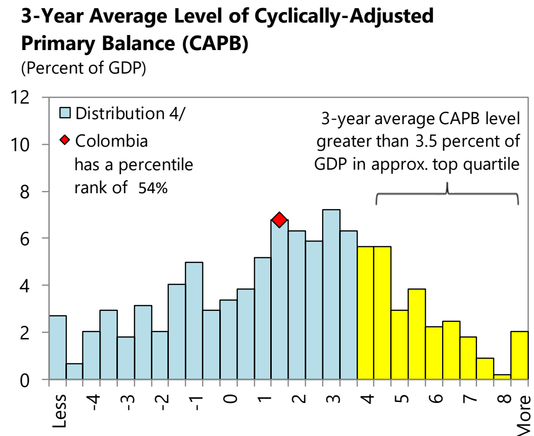
Assumed multiplier of 1, persistence of 0.6





Assessing the Realism of Projected Fiscal Adjustment





Source : IMF staff.
4/ Data cover annual observations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

Figure 3. Colombia: Public Sector Debt Sustainability Analysis (DSA) – Baseline Scenario

(In percent of GDP, unless otherwise indicated)

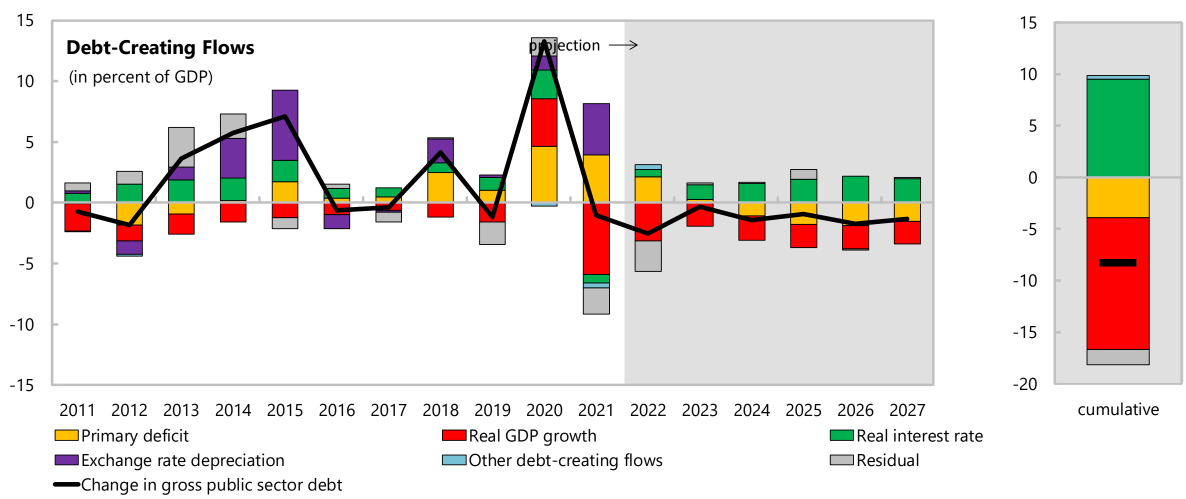
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2011-2019 [2/]	2020	2021	2022	2023	2024	2025	2026	2027
Nominal gross public debt	45.1	65.7	64.6	62.1	61.8	60.3	59.4	57.7	56.3
Public gross financing needs	5.4	8.7	10.0	6.8	6.8	6.0	5.4	6.6	5.5
Real GDP growth (in percent)	3.6	-7.0	10.6	5.4	3.3	3.4	3.4	3.4	3.4
Inflation (GDP deflator, in percent)	3.9	1.4	6.6	6.0	3.4	3.1	3.1	3.1	3.1
Nominal GDP growth (in percent)	7.7	-5.8	17.8	11.8	6.9	6.7	6.6	6.6	6.6
Effective interest rate (in percent) [4/]	7.4	5.4	6.0	7.4	5.6	5.9	6.6	7.0	6.9

As of February 17, 2022		
Sovereign Spreads		
EMBIG (bp) 3/		353
5Y CDS (bp)		222
Ratings	Foreign	Local
Moody's	Baa2	Baa2
S&Ps	BB+	BBB-
Fitch	BB+	BB+

Contribution to Changes in Public Debt

	Actual			Projections							
	2011-2019	2020	2021	2022	2023	2024	2025	2026	2027	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	1.8	13.3	-1.0	-2.5	-0.3	-1.4	-0.9	-1.7	-1.3	-8.3	
Identified debt-creating flows	1.3	11.8	1.1	0.0	-0.5	-1.5	-1.7	-1.6	-1.4	-6.8	
Primary deficit	0.4	4.7	3.9	2.1	0.3	-1.1	-1.8	-1.9	-1.5	-3.9	0.1
Primary (noninterest) revenue and grants	27.7	26.2	27.2	28.7	29.6	29.7	29.2	29.0	28.7	174.8	
Primary (noninterest) expenditure	28.0	30.8	31.1	30.8	29.9	28.6	27.4	27.1	27.2	170.9	
Automatic debt dynamics [5/]	1.0	7.4	-2.4	-2.5	-0.7	-0.4	0.0	0.2	0.1	-3.3	
Interest rate/growth differential [6/]	-0.1	6.2	-6.6	-2.5	-0.7	-0.4	0.0	0.2	0.1	-3.3	
Of which: real interest rate	1.2	2.3	-0.7	0.6	1.2	1.6	1.9	2.2	2.0	9.5	
Of which: real GDP growth	-1.4	3.9	-5.9	-3.1	-1.9	-2.0	-1.9	-1.9	-1.9	-12.8	
Exchange rate depreciation [7/]	1.1	1.2	4.2	…	…	…	…	…	…	…	
Other identified debt-creating flows	0.0	-0.3	-0.4	0.4	0.0	0.0	0.0	0.0	0.0	0.4	
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	-0.4	0.4	0.0	0.0	0.0	0.0	0.0	0.4	
Residual, including asset changes [8/]	0.4	1.5	-2.2	-2.5	0.1	0.1	0.8	-0.1	0.1	-1.5	



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).

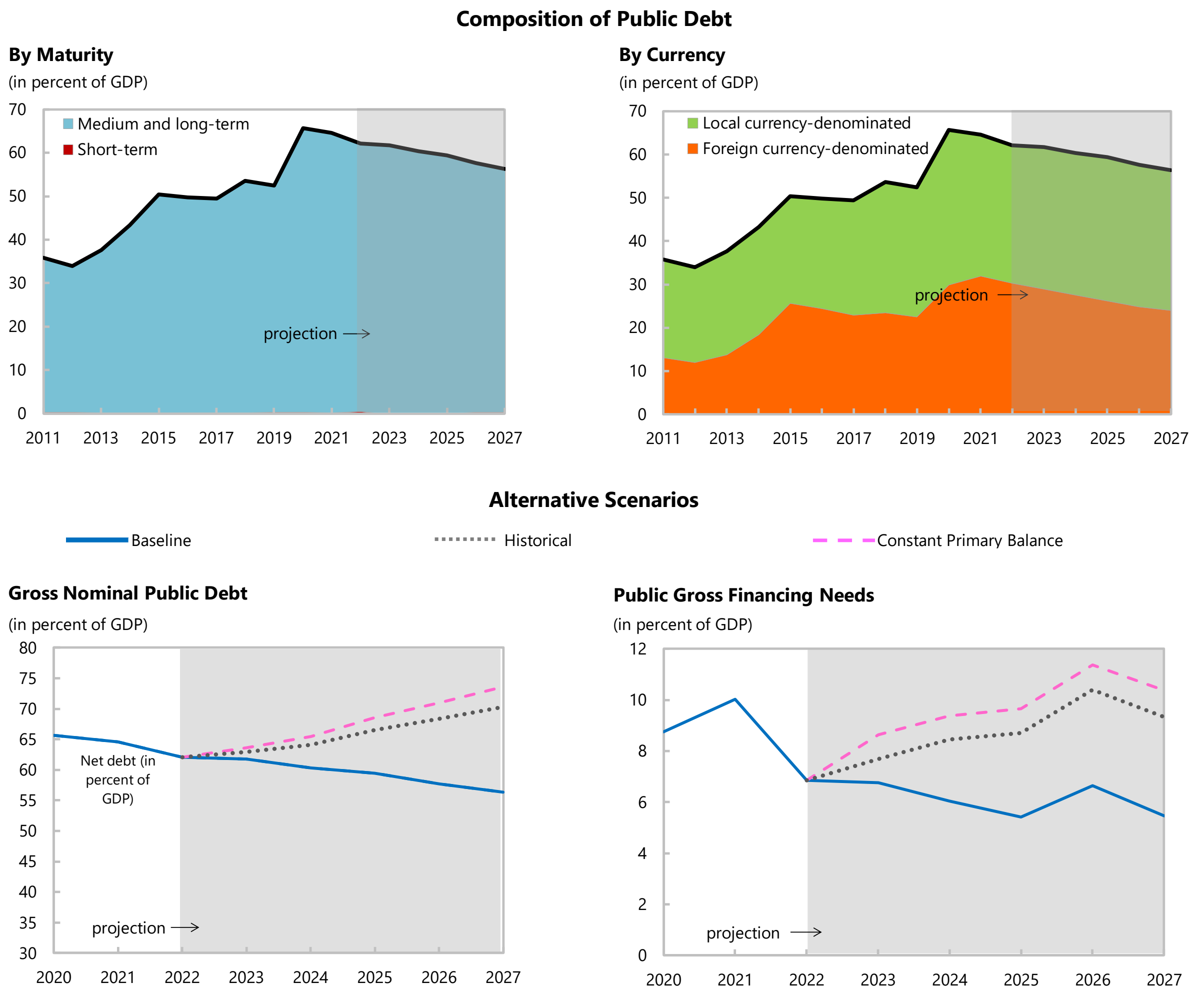
6/ The real interest rate contribution is derived from the numerator in footnote 5 as $r - \pi(1+g)$ and the real growth contribution as -g.

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 4. Colombia: Public DSA – Composition of Public Debt and Alternative Scenarios



Underlying Assumptions
(in percent)

Baseline Scenario	2022	2023	2024	2025	2026	2027
Real GDP growth	5.4	3.3	3.4	3.4	3.4	3.4
Inflation	6.0	3.4	3.1	3.1	3.1	3.1
Primary Balance	-2.1	-0.3	1.1	1.8	1.9	1.5
Effective interest rate	7.4	5.6	5.9	6.6	7.0	6.9
Constant Primary Balance Scenario						
Real GDP growth	5.4	3.3	3.4	3.4	3.4	3.4
Inflation	6.0	3.4	3.1	3.1	3.1	3.1
Primary Balance	-2.1	-2.1	-2.1	-2.1	-2.1	-2.1
Effective interest rate	7.4	5.6	6.0	6.7	7.2	7.2

Historical Scenario	2022	2023	2024	2025	2026	2027
Real GDP growth	5.4	2.9	2.9	2.9	2.9	2.9
Inflation	6.0	3.4	3.1	3.1	3.1	3.1
Primary Balance	-2.1	-1.2	-1.2	-1.2	-1.2	-1.2
Effective interest rate	7.4	5.6	6.0	6.7	7.3	7.2

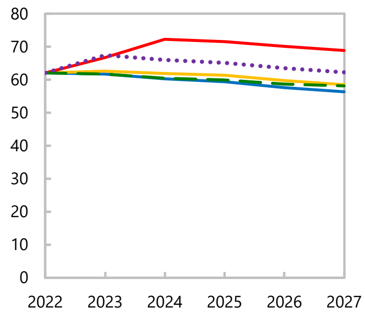
Source: IMF staff.

Figure 5. Colombia: Public DSA – Stress Tests

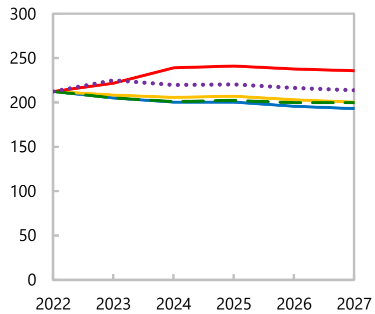
Macro-Fiscal Stress Tests

Baseline
Real GDP Growth Shock
Primary Balance Shock
Real Exchange Rate Shock
Real Interest Rate Shock

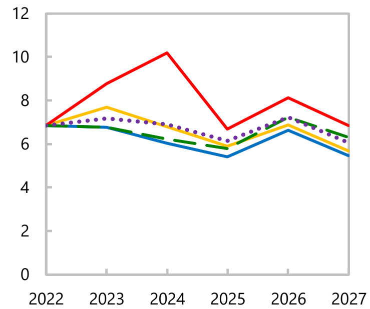
Gross Nominal Public Debt
(in percent of GDP)



Gross Nominal Public Debt
(in percent of Revenue)



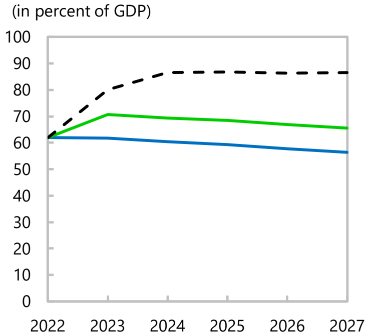
Public Gross Financing Needs
(in percent of GDP)



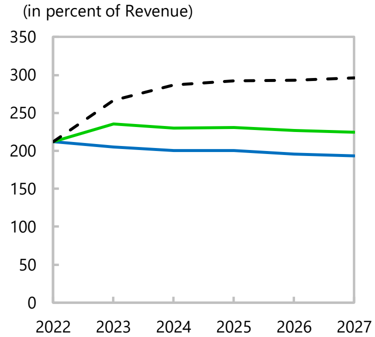
Additional Stress Tests

Baseline
30 percent depreciation
Combined Macro-Fiscal Shock

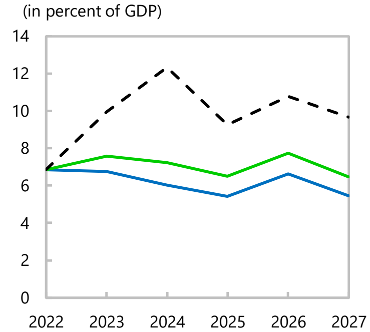
Gross Nominal Public Debt
(in percent of GDP)



Gross Nominal Public Debt
(in percent of Revenue)



Public Gross Financing Needs
(in percent of GDP)



Underlying Assumptions
(in percent)

Primary Balance Shock	2022	2023	2024	2025	2026	2027
Real GDP growth	5.4	3.3	3.4	3.4	3.4	3.4
Inflation	6.0	3.4	3.1	3.1	3.1	3.1
Primary balance	-2.1	-1.2	0.4	1.4	1.8	1.5
Effective interest rate	7.4	5.6	6.0	6.7	7.1	7.0
Real Interest Rate Shock						
Real GDP growth	5.4	3.3	3.4	3.4	3.4	3.4
Inflation	6.0	3.4	3.1	3.1	3.1	3.1
Primary balance	-2.1	-0.3	1.1	1.8	1.9	1.5
Effective interest rate	7.4	5.6	6.3	7.3	8.0	8.2
Combined Shock						
Real GDP growth	5.4	-1.0	-0.9	3.4	3.4	3.4
Inflation	6.0	2.3	2.0	3.1	3.1	3.1
Primary balance	-2.1	-1.9	-2.1	1.4	1.8	1.5
Effective interest rate	7.4	6.7	6.3	7.5	8.2	8.4

Real GDP Growth Shock	2022	2023	2024	2025	2026	2027
Real GDP growth	5.4	-1.0	-0.9	3.4	3.4	3.4
Inflation	6.0	2.3	2.0	3.1	3.1	3.1
Primary balance	-2.1	-1.9	-2.1	1.8	1.9	1.5
Effective interest rate	7.4	5.6	6.0	6.9	7.3	7.1
Real Exchange Rate Shock						
Real GDP growth	5.4	3.3	3.4	3.4	3.4	3.4
Inflation	6.0	14.0	3.1	3.1	3.1	3.1
Primary balance	-2.1	-0.3	1.1	1.8	1.9	1.5
Effective interest rate	7.4	6.7	5.9	6.6	7.0	6.8

Source: IMF staff.

Annex V. Risk Assessment Matrix

Risk Assessment Matrix (January Preliminary)[1]		
Source of Risks (Probability in color; time horizon in bold)	**Impact**	**Policy Advice for Colombia**
Global		
Outbreaks of lethal and highly contagious Covid-19 variants lead to subpar/volatile growth, with increased divergence across countries. Rapidly increasing hospitalizations and deaths, due to low vaccination rates or caused by vaccine-resistant variants, force lockdowns and increased uncertainty about the course of the pandemic. In addition to declines in external demand, a reassessment of growth prospects triggers capital outflows, financial tightening, currency depreciations, and debt distress in some E MDEs. **High**	**High**	Continue to allow the flexible exchange rate to weaken in response to lower commodity prices. Fiscal policy should accommodate extended urgent temporary spending needs and support the recovery, including extending the suspension of the fiscal rule. Monetary policy should offset demand reductions absent inflationary pressures and supply-side shocks.
De-anchoring of inflation expectations in the U.S. and/or advanced European economies. A fast recovery in demand amid a lagging supply-side response leads to a rapid de-anchoring of inflation expectations, which prompts central banks to tighten policies abruptly. The resulting sharp tightening of global financial conditions and spiking risk premia lead to currency depreciations, asset market selloffs, bankruptcies, sovereign defaults, and knock-on effects (e.g., lower commodity prices and possible contagion across EMDEs). **Medium**	**High**	Use the flexible exchange rate as the first line of defense against external shocks. Targeted liquidity interventions, including unconventional measures like asset purchases, can address disorderly market conditions, as can use of international reserves, if needed. The government needs to continue implementing its medium-term fiscal consolidation adjustment plans starting in 2022 to build credibility in the fiscal framework and reduce further pressures on sovereign yields.
Widespread social discontent and political instability. Social tensions erupt as the imposition of vaccine mandates and mobility restrictions and/or a withdrawal of pandemic-related policy support—amid increasing prices of essentials, slower growth, and rising inequality—result in higher unemployment and heavier household debt burdens. Political instability triggers capital outflows. **High**	**Medium**	To reduce the risk of domestic tensions and protests reaching the intensity observed elsewhere in the region, speed up implementation of *Compromiso por Colombia* and Peace Agreement, with a focus on reducing inequality.
Rising and volatile food and energy prices. Commodity prices are volatile and trend up amid pent-up demand and supply disruptions, conflicts, or a bumpy transition to renewable energy sources. This leads to bouts of price and real sector volatility, including acute energy crises in some countries. **High**	**High**	Use the flexible exchange rate as the first line of defense against external shocks. If needed, deploy reserves to mitigate the impact of potentially weaker capital outflows. Reduce reliance on oil-related tax revenues.
Geopolitical tensions and de-globalization. Intensified geopolitical tensions, security risks, and conflicts cause economic and political disruptions, disorderly migration, production reshoring, a decline in global trade, and lower investor confidence. Associated supply chain disruptions and commodity price shocks give rise to inflationary pressures. **High**	**High**	Use the flexible exchange rate as the first line of defense against external shocks. If needed, deploy reserves to mitigate the impact of potentially weaker capital outflows. The government needs to continue implementing its medium-term fiscal consolidation adjustment plans to reduce further pressures on sovereign yields. Monetary should be ready to accelerate the pace of tightening to abate inflationary pressures and keep inflation expectations anchored.

Risk Assessment Matrix (concluded)		
Colombia Specific		
Unexpected shift in the COVID-19 pandemic. The disease proves harder to eradicate requiring more containment efforts and impacting economic activity directly and through persistent behavioral changes. **Medium**	**High**	The recalibration of policies will need to be delayed to mitigate the impact of the larger or more prolonged shock. In addition to protecting the vulnerable, policies should focus on limiting scarring and facilitating adjustment to the new normal.
Delays in infrastructure projects, continued weakness in exports. Softer private consumption and investment. **Low/ Medium**	**High**	Reprioritize public investment projects. Speed up structural reforms to enhance external competitiveness and diversification. Reduce the speed of monetary policy normalization to maintain monetary accommodation.
Higher than expected migration flows from Venezuela, greater than anticipated costs per migrant, and/or challenges in assimilating migrants results in additional net fiscal costs and lower potential output. **Low**	**Medium**	Seek concessional financing and aid ensuring medium-term declining path for public debt. Speed-up policies to integrate migrants into the labor force and maximize economic benefits.
Shortfalls in mobilizing tax revenue leads to large cuts in public investment and social spending, adversely affecting growth and poverty reduction or lead to relaxation of the fiscal rule and higher public debt. **Medium**	**High**	Eliminate preferential regimes for businesses and broaden the base for personal income taxes and VAT (with targeted transfers for vulnerable groups affected) and strengthen revenue administration over time. Reprioritize public investment projects.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). Non-mutually exclusive risks may interact and materialize jointly.

Annex VI. 2022 Financial Sector Assessment Program (FSAP)

Financial Sector Assessment Programs (FSAPs) are intended to help countries identify key sources of systemic risk in the financial sector and implement policies to enhance its resilience to shocks and contagion. An assessment under the FSAP was conducted from February to November 2021. Its main findings were as follows.

1. **Since the previous FSAP in 2012, Colombia has taken important steps to strengthen and develop its financial system.** Financial supervision and systemic risk oversight have been enhanced, especially through the Conglomerates Law of 2017. Strong and sustained public sector commitment towards financial inclusion coupled with relevant legal and regulatory reforms paid off with the achievement of access targets, though digital payments are lagging, and inequalities persist due to high costs and frictions among others. The 2018 Capital Markets Mission, which contributed to diagnostic and consensus building between public and private stakeholders, has led to several legal reforms, though challenges remain. Colombia is at the regional forefront in facilitating capital mobilization towards sustainable projects and enhancing the financial sector's role in managing climate-related risks.

2. **The institutional framework for conducting macroprudential policy has been effective so far.** The systemic risk monitoring framework is advanced, and the macroprudential toolkit has been enhanced in line with Basel III recommendations. Nevertheless, it would be useful to prepare a macroprudential oversight strategy, jointly drafted and signed by all relevant institutions. The central bank's role in macroprudential policy could be strengthened to harness its expertise in macro-financial analysis. To address potential risks from potentially rapid growth in household indebtedness, the Loan-to-Value (LTV) and Debt-Service-to-Income (DSTI) tools could be expanded to cover leasing products and nonbank credit, while the DSTI tool should include nonmortgage debt.

3. **Some features of the crisis management and safety net framework would benefit from further enhancement.** The FSAP recommends: (i) strengthening the operational independence of the resolution unit within the SFC; (ii) reviewing the responsibilities for developing recovery and resolution plans and expanding the content of recovery plans; and (iii) strengthening the safeguards for FOGAFIN's fund and providing unambiguous access to a back-up liquidity facility.

4. **Bank solvency appears resilient to stress, while liquidity stress tests indicate some vulnerability to very severe pressures.** A severe test of resilience to a combination of risks arising from global resurgence of the pandemic, tightening of global financial conditions, political uncertainty, and fiscal deterioration shows that the banking system overall would stay above the regulatory minima, assisted by well-capitalized banks and relatively strong profit buffers. The banking system is also largely resilient to liquidity stress, with liquidity shortfalls relatively small under an extreme funding shock. In very extreme scenarios, liquidity risk would arise for some banks with heavier reliance on unsecured wholesale funding and lower holdings of liquid assets. Finally, a corporate vulnerability analysis shows that, while the pandemic shock has led to a deterioration in

repayment capacity and profitability in 2020, it has not triggered widespread systemic failures, due to pandemic-related policy actions.

5. The financial system does face some structural and emerging risks. The financial system is dominated by large and complex financial conglomerates with increasing cross-border exposures, which makes the monitoring of interconnectedness and contagion channels essential. Colombian conglomerates have become systemic players in several Central American countries. While considerable progress has been made in cross-border information sharing and supervisory cooperation, further development of monitoring tools to bolster early-warning systems is recommended. Moreover, resolution planning for cross-border institutions should be strengthened. Although pre-pandemic domestic credit growth was contained overall, consumer credit was growing rapidly, particularly in the unsecured segment, and this portfolio subsequently had high impairment rate during the pandemic. As lending to households is expected to grow again strongly, closing data and oversight gaps on the indebtedness of households would be necessary.

Annex VII. Policy Actions to Address Climate Change and its Effects

Colombia is one of the most biodiverse countries on Earth. Forests cover nearly 55 percent of the land area, significantly higher than the OECD average of 30 percent (OECD, 2014)[1]. While Colombia's contribution in global GHG emissions is small, it is highly vulnerable to climate change effects. As part of its international commitments, Colombia has designed mitigation and adaption policies embedded in its recently updated National Determined Contributions (NDCs). Equally important, the authorities have developed a long-term strategy (E2050) to guide the country towards a transition to a low-carbon economy, from a starting point where more than half of Colombia's exports are related to mining-energy sector.

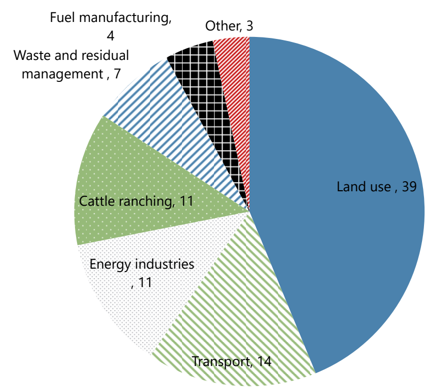
A. Context and National Commitments

1. **In an international context, Colombia has low GHG emissions per capita and contributes only 0.4 percent of global emissions (OECD, 2014).**[2] CO_2 (the main GHG) emissions per unit of GDP are relatively low, due to Colombia's heavy reliance on hydropower, as well as limited carbon-intensive manufacturing.[3]

2. **About 50 percent of GHG emissions from Colombia are generated in the rural sector, mainly due to cattle ranching and land use.** The energy mining sector follows with a 14 percent share and the transportation sectors and industry with shares of 14 and 11 percent, respectively.

3. **However, when it comes to the vulnerability to natural hazards, Colombia falls into the high-risk class, ranking 21 out of 191 countries in INFORM Risk Index 2022 *(European Commission)* and ranks 89 out of 181 countries in the 2020 ND-GAIN Index (recognized as vulnerable to climate change impacts).** One-fifth of Colombia's territory, 85 percent of the population and 87 percent of GDP are at risk from natural disasters (OECD, 2014).

Net Greenhouse Gas Emissions by Activity (2014)
(In percent)



Sources: Second Biennial Update Report to the UNFCCC (2018).

[1] Colombia: Environmental Performance Reviews (2014). https://www.oecd.org/colombia/Colombia%20Highlights%20english%20web.pdf

[2] Colombia's gross greenhouse gas emissions for 2014 equaled 236 million tons of CO2-equivalent according to Colombia's Second Biennial Update Report to the UNFCCC (BUR, 2018).

[3] Perez-Archila and Sever (2021) report that compared to peers Colombia's emissions per unit of GDP are lower. Moreover, Colombia's emissions per output would be lower than 69 percent of the countries across the world.

4. In terms of national commitments, Colombia is one of the 71 countries that submitted updated Nationally Determined Contributions (NDCs) to the Paris Agreement in 2020. Compared to its previous 2015 goal of reducing economy-wide emissions by 20 percent below business-as-usual (BAU) emissions by 2030, the updated target of reducing emissions by 51 percent by the same year is among the most ambitious in the Latin American region. Also, in its updated NDC, Colombia has committed to reduce black carbon by 40 percent compared to its 2014 emissions level.

5. Under the updated NDCs, the maximum of emissions in 2030 would be 169.44 Mt CO_2eq (equivalent to a 51 percent reduction in emissions compared to the projection of emissions in 2030 in the reference scenario), initiating a decrease in emissions between 2027 and 2030 tending towards carbon neutrality in the middle of the century:

Sector	Reduction goal ($MTCO_2$ eq)	Contribution to goal (%)	Number of Measures
Energy	11.2	6.3	7
Agriculture	21.2	12.4	9
Environment	23.2	13.1	16
Transport	5.7	3.2	8
Industry	4.7	2.6	6
Housing	1.4	0.8	8
Finance Ministry	0.7	0.4	1
Health			2
Deforestation	59.2	33.5	
Local government	49.0	27.7	116

Source: Ministry of Environment and Sustainable Development.

Mitigation	Adaptation
	Housing sector: 5 measures
32 national measures (led by ministries)	Health sector: 2 measures
89 subnational measures (led by territorial entities)	Mines and energy: 3 measures
3 specific black carbon measures (led by ministries)	Industry sector: 1 measure
24 measures led by companies.	Agriculture sector: 3 measures
	Environment sector: 11 measures
	Transport sector

Source: Ministry of Environment and Sustainable Development.

B. The Climate Change National Action Plan[4]

6. The official presentation of the First national communication on climate change in 2001 occurred at the United Nations Framework Convention on Climate Change.[5] In 2002, the Ministry of the Environment, with the support of the National Planning Department (DNP), prepared the document: *Climate Change Policy Guidelines* in order to identify the strategies required to consolidate the necessary national capacity to respond to potential climate change threats. In 2003 and 2004, the regulatory framework for the development of Clean Development Mechanism was issued as part of the national strategy to promote the reduction of emissions by sources and absorption by sinks of greenhouse gases.

7. Based on the Second National Communication on Climate Change (2010), work began on four strategies to address climate change, as reflected in the National Development Plan 2010-2014 "Prosperity for all": i) the National Plan for adaptation to climate change; ii) the Colombian Low Carbon Development Strategy; iii) the National Strategy for the reduction of emissions due to deforestation and forest degradation; and iv) the Disaster Financial Protection Strategy. In 2012, Law 1523 was issued, adopting the National Disaster Risk Management Policy and establishing the National System of Disaster Risk Management.[6]

8. During the year 2013, the National Policy for the integral environmental management of the soil was formulated, which recognizes that soil degradation contributes to climate change. In 2014, Law 1715 was issued with which the national energy system seeks to promote the development and use of non-conventional sources of energy, mainly those of a renewable nature. The National Development Plan 2014-2018 "Everyone for a new country" makes explicit the need to consolidate the National Climate Change Policy, seeking its integration with environmental, territorial and sectoral planning.[7]

9. Building on the previous milestones, the National Climate Change Policy was introduced in 2016 to incorporate climate change management into public and private decisions in order to move forward on a climate-resilient and low-carbon development path.

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[4] This section follows and heavily draws from the document Political Nacional de Cambio Climático (2017), https://www.minambiente.gov.co/wp-content/uploads/2022/01/9.-Politica-Nacional-de-Cambio-Climatico.pdf

[5] The need to coordinate actions to deal with the increase greenhouse gas emissions, as well as define measures to counteract their impacts on the population and human activities, led to the adoption of the Framework Convention of the United Nations on Climate Change in 1992, which was ratified in 1994. In 2002, the Kyoto Protocol was ratified.

[6] Within the framework of this law, the National Disaster Risk Management Plan was also issued, which is part of the references for action on adaptation to climate change. The same year, the National Policy for the Comprehensive Management of Biodiversity and its ecosystem services identifies climate change as one of the direct drivers of transformation and loss of biodiversity and its services ecosystems.

[7] In 2016, the organization and operation of the Climate Change National System (Sisclima) was established for coordination, articulation, formulation, monitoring and evaluation of policies, regulations and other instruments of management that public, private and non-profit entities develop in terms of adaptation to climate change and GHG mitigation. Sisclima is coordinated by the Intersectoral Climate Change Commission and by the regional climate change nodes.

To this end, this policy proposes a series of high-impact, general and sectoral territorial strategies for the adaptation and mitigation of GHG.

10. The policy also lays out a planning cycle for the actions it proposes. The cycle began with the formulation of long-term national strategies: Colombian Low Carbon Development Strategy (ECDBC), National Plan for Adaptation to Climate Change, National Strategy for the Reduction of Emissions Due to Deforestation and Forest Degradation (ENREDD+), the National Plan of Disaster Risk Management Strategy, the Strategy for Financial Protection against Disasters, and the Colombian Strategy for Climate Financing.

C. Recent Government Actions

11. In 2018, Law 1931 was enacted and established that Ministries have to generate Comprehensive Sectoral Climate Change Management Plans (PIGCC). These plans are "instruments through which each Ministry identifies, evaluates and guides the incorporation of measures mitigation of greenhouse gases and adaptation to climate change in the policies and regulations of the respective sector." The law defines the missions of the National System for Climate Change (SISCLIMA) and the role and objective of its associated instruments.[8]

12. In December 2021, President Duque sanctioned the Climate Action Law, which seeks to create a minimum set of measures in the short, medium and long-term that will allow the country to achieve carbon neutrality by 2050. By 2030, this law proposes: (i) reduce deforestation to zero, (ii) reduce black carbon emissions by 40 percent, (iii) endorse the goal of reducing GHG emissions by 51 percent, and (iv) dictate measures to achieve climate resilience. The law creates tools for monitoring the goals and measures in climate matters and explicitly sets out the manner of disseminating information to citizens on progress, in order to offer access and transparency to information.

D. Strategy for the Mining-Energy Sector

13. The Ministry of Mines and Energy, according to the guidelines defined in the National Climate Change Policy (MADS, 2017), and in the obligations established in Law 1931 of 2018, was the first Ministry in Colombia to adopt its Plan for Comprehensive Sector Climate Change Management for the mining and energy sector (PIGCCme). Through the PIGCCme, the sector will contribute to the fulfillment of national goals established in the NDCs of Colombia in three key components:

[8] This includes the Sectoral Comprehensive Plans for Climate Change Management (*Planes Integrales de Gestión del Cambio Climático Sectoriales*-PIGCCS). It also creates the National Council on Climate Change and the National Program for Trading GHG Emissions Allowances (*Programa Nacional de Cupos Transables de Emisión de GEI*).

Mitigation Component

14. The emission reduction goal for the energy mining sector by 2030 is 11.20 Mt CO_2 eq. This indicates that the sector will have lower emissions in the year 2030 than those it presented in the year 2015, reaching its maximum emissions in the year 2023, four years before what is established in the NDC. The lines and ranges of mitigation potential of each of these goals, in which the sector is working, are summarized as follows: (i) Energy efficiency: 0.96 – 1.21 Mt CO_2eq; ii) Diversification of the energy matrix: 4.74 – 7.99 Mt CO_2eq; (iii) Active demand management: 0.22 – 2.01 Mt CO_2 eq; and (iv) Management of fugitive emissions: 0.39 – 3.24 Mt CO_2 eq.

Adaptation component

15. The specific goals of the energy mining sector are the following: (i) by 2025, a sectoral planning instrument for hydrocarbons, one for coal mining, and one for electric power will have climate change guidelines aimed at ensuring comprehensive operating conditions under new scenarios of operational and environmental demands; (ii) by 2025, have an updated climate risk analysis methodology, together with a strategy for periodically updating it at the national and business levels; and (iii) by 2025, have an adaptation project based on ecosystems for the electricity sector that helps companies in the sector ensure compliance with their strategic objectives.

Participation in the Long-Term Climate Strategy (E2050)

16. E2050 is the indicative policy instrument that guides actions at the national, regional and local levels on climate change to guide Colombia towards a transition to a low-carbon and climate-resilient future. According to what is established in Law 1931 of 2018 and what is indicated in E2050, the PIGCCs must be aligned with the E2050's objectives and proposals.