DEVELOPMENTS AND OUTLOOK

1. **Colombia's strong economic recovery in 2021 places it among the region's growth leaders.** GDP growth for 2021 was 10.6 percent, on par with Chile and Peru as the fastest growing economies in the region. Buoyed by pent-up household consumption and higher credit growth, GDP growth is forecast at 5.8 percent in 2022 and 3.6 percent in 2023.[1] The consumption-led recovery is expected to become more broad-based, spurred by exports and investment amid rising commodity prices and lower domestic supply bottlenecks.

2. **Inflation has been well above the central bank's target of 3 percent since August 2021, prompting the central bank to raise rates and to accelerate the pace of tightening.** Amid strong domestic demand, supply-side constraints, and sharply rising commodity prices, inflation climbed to 8.5 percent in March, well above the central bank's target. Moreover, recent indexation dynamics in salaries and rents have maintained pressure on inflation and could continue to do so in the near term. As supply constraints and commodity price pressures are alleviated, staff expects inflation to gradually return to the central bank's target by mid-2024, although inflation risks are to the upside. To firmly anchor medium-term inflation expectations and guard against second round effects, the central bank raised the policy rate by 325 basis points cumulatively to 5 percent between September 2021 and March 2022. The largest rate hikes occurred in January and March (100 basis points).

3. **Alongside the recovery, Colombia's public finances are showing signs of improving with scope to make further gains.** The fiscal deficit was smaller than expected in 2021. With stronger growth and broadly unchanged spending, the central government fiscal deficit was 8.2 percent of GDP in 2021, about 1½ percent of GDP lower than in the 2021 Medium-Term Fiscal Framework (MTFF) target. A lower fiscal deficit (6.1 percent of GDP) than what is required to comply with the new 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. Gross public debt decreased to 64.6 percent of GDP in 2021 and is projected to decline from 60.6 percent of GDP in 2022 to about 53 percent in 2027. The new Social Investment Law (SIL) strengthened the fiscal framework by raising medium-term revenues and outlining a transition path towards a structural balance rule with new debt anchor. Public debt is expected to remain sustainable with high probability in the medium term (see Figures 8–10, and Annex IV of the 2022 Article IV Staff Report for Colombia).

4. **The current account deficit widened further alongside demand-led growth.** Alongside strong domestic absorption and higher import prices, the current account deficit widened noticeably from 3.4 in 2020 to 5.7 percent of GDP in 2021. The 2021 external position is assessed as moderately weaker than the level implied by medium-term fundamentals and desirable policies, given that part

[1] Baseline projections incorporate revisions to the global outlook following the start of the war in Ukraine, in line with the assumptions underpinning the April 2022 WEO.

of the widening current account deficit last year is assessed as being temporary due to pandemic-related effects and domestic disruptions to oil production (see Annex I of the 2022 Article IV Staff report for Colombia). FDI has remained a strong and stable source of financing, while portfolio inflows were positive in 2021 but decelerated as investors adjusted their positions due to Colombia's sovereign ratings downgrade. The current account deficit is projected to significantly decline to 3.3 percent of GDP in 2022, driven mainly by an increase in export prices, particularly for oil and coal, and the recovery of tourism. Over the medium term, the current account deficit is expected to widen somewhat to around 4 percent of GDP. FDI and portfolio flows are expected to remain the major sources of external financing. Colombia's reserve coverage would remain adequate according to the ARA metric.

5. **The SDR allocation boosted Colombia's liquidity buffers.** Colombia's SDR allocation of USD 2.8 billion or 0.9 percent of GDP was received by the central bank as part of the international reserves it manages. On August 30, 2021, the authorities performed an operation in which the central bank sold foreign currency to the ministry of finance (MOF) in an equivalent amount to the SDR allocation in exchange for local treasury bonds (at market prices). Specifically, MOF sold existing domestic government bonds (TES), which were already part of the Treasury's current holdings, in exchange for foreign currency held at the central bank in an amount commensurate with the SDR allocation.[2] 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.

6. **Colombia's banks have withstood the pandemic well and the financial system remains sound.** Credit growth, particularly consumer loans, appears to be entering an upswing amid a stronger growth outlook. Businesses and households improved their balance sheets, but leverage ratios remain elevated, particularly for non-financial firms (Figure 3). Banks exhibit strong capital and liquidity buffers, underpinned by effective supervision. Financial regulatory support measures were introduced in 2020 to help borrowers through the pandemic and have since been successfully rolled back. Basel III implementation continues on track and has further strengthened capital adequacy. The 2022 Financial Sector Assessment Program (FSAP) exercise concluded that Colombia has considerably strengthened its regulatory and supervisory system. Nonetheless, data availability and certain institutional arrangements for bank resolution and macroprudential frameworks should be enhanced.[3]

7. **Despite the improved near-term outlook, external risks remain elevated and tilted to the downside.** The main external risk stems from uncertainty around the war in Ukraine and its global economic repercussions. While Colombia's balance of payments and fiscal position stand to

[2] Payment for the foreign currency was made with securities from the portfolio of the General Directorate of Public Credit and National Treasury of the Ministry of Finance and Public Credit (the Treasury). The Treasury holds a small portfolio of TES (obtained through buyback and exchange operations) used to ensure appropriate liquidity in the TES market. These securities are actively traded in the secondary market.

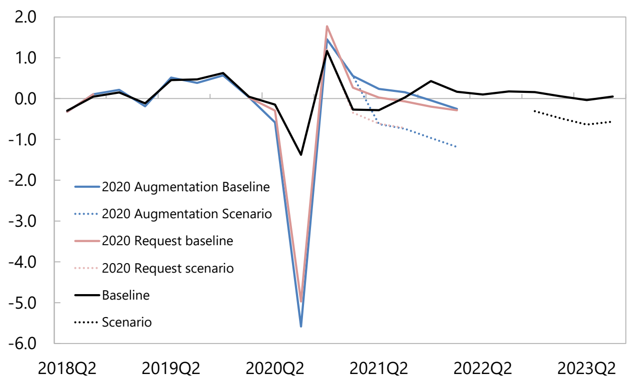
[3] See 2022 Colombia Financial System Stability Assessment (FSSA).

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 due to the war or to 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 (Box 1). Notwithstanding the recent slowdown in migrant flows, higher than expected migration flows from Venezuela would raise near-term fiscal and external deficits. These shocks could heighten Colombia's fiscal risks and are likely to be exacerbated by political uncertainty from the upcoming national election cycle.

Box 1. Updated External Economic Stress Index

The updated External Economic Stress Index (ESI) for Colombia shows baseline stress improved since the previous FCL arrangement in 2020. The main drivers for lower external stress include an upward revision in oil prices and improved U.S growth dynamics.[1] An adverse scenario assumes higher financial markets volatility, a protracted Covid-19 effects negatively affecting U.S growth, including lower vaccination rates than previously anticipated, and lower oil prices. Despite its improvement, the ESI indicates that the country still faces sizable external risks.

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



Source: IMF staff calculations.

Baseline stress is forecasted to stabilize, but still remains worse than 2019 levels. After elevated volatility during 2020-21, the index is expected to stabilize, reflecting an upward revision oil prices and positive U.S. growth dynamics, particularly in 2022. It is worth noting that even though the index is expected to balance at around zero, it is still well below the 2019 levels, which means higher levels of external economic stress.

An adverse scenario shows that external risks remain elevated. In this adverse scenario U.S growth is weaker, compared to the baseline, by 0.7 percent 2022 and 1.7 in 2023.[2] The shock in 2022 is smaller than what was assumed in the previous FCL (including 2020 augmentation and 2021 review) and most of the uncertainty is now placed in 2023. The smaller U.S. growth shock contributes to lower external economic stress compared with past adverse scenarios. However, it still shows that the country faces elevated external risks.

[1]The ESI summarizes Colombia's external shocks and the exposure to these shocks. The main methodology is described in "Flexible Credit Line—Operational Guidance Note," IMF Policy Paper, July 2018. The index is based on four variables that capture Colombia's external risks: level of the oil price, U.S. real GDP growth, emerging market volatility index (VXEEM), and the change in the 10-year U.S Treasury yield. These variables and the respective weights remain unchanged from recent Colombia FCL reports.

[2]This reflects the scenario presented in the *October 2021 WEO*, in which the Covid-19 extends well into the medium term. As assumed in the 2021 review as well as for the approval and augmentation of the FCL arrangement, oil prices are 28 percent below baseline, the VXEEM two standard deviations above baseline, and yields 100 basis points above baseline in the adverse scenario.

8. Colombia will hold presidential elections this year. The first round is scheduled to take place on May 29. If no candidate wins a simple majority, the top two candidates would compete in a second-round election on June 19. The new administration takes office on August 7. There are four main candidates—two from the center, one from the center-right, and one from the left. Political assurances on policy continuity and maintaining very strong institutional frameworks from the leading candidates provide a necessary safeguard for the proposed arrangement.

VIEWS ON POLICIES

9. Colombia's very strong policy frameworks have served the country well. Before the onset of Covid-19, 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, promote economic growth, integrate Venezuelan migrants into Colombian society, and support rising living standards.[4] To aid job creation and equitably raise living standards, continuing to advance key structural reforms and climate policies will remain essential. Capping a series of institutional reviews and reforms, Colombia is set to join the OECD soon.

10. A comprehensive policy response to the pandemic has supported the economy's resilience. Over the last two years, the authorities have used the flexibility of their macroeconomic framework to deliver a coordinated and timely response to mitigate the impact of the Covid-19 on lives and livelihoods. The fiscal response (worth around 4 percent of GDP) included health spending and creating the FOME crisis relief fund, alongside introducing discretionary tax and spending measures like payroll subsidies and expanded transfer programs. As of March 2022, nearly 70 percent of the eligible population has been fully vaccinated and the authorities' target is to fully vaccinate 80 percent. 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, as well as exceptional actions such as a loan modification program to maintain credit flows to support economic activity.

11. Going forward, carefully recalibrating Colombia's policies will help ensure an inclusive recovery and safeguard credibility of its very strong policy frameworks. With a robust 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.

- **Monetary policy.** Against a backdrop of low excess capacity, negative real interest rates, and lags in the monetary transmission, the recent acceleration in monetary policy tightening is welcome. Further steps to raise interest rates in the first half of the year to sufficiently tighten

[4] At the conclusion of the 2022 Article IV Consultation, Executive Directors welcomed the Colombian authorities' commitment to maintain very strong policies.

monetary and financial conditions should help guide inflation lower. This will safeguard credibility of the central bank's monetary policy (inflation targeting) framework and anchor inflation expectations. The authorities concur with the view that monetary tightening needs to continue in the upcoming months.[5]

- **Fiscal policy.** Alongside the strong rebound in GDP and increased tax collections, the fiscal outturns were better than expected last year, with a narrower fiscal deficit and lower public debt levels as compared to the government's 2021 financial plan. In the 2022 financial plan, a stronger economic recovery opens space for additional fiscal consolidation this year if tax revenue gains from stronger growth are saved and pandemic-related fiscal support measures are phased out (subject to the continuation of strong economic momentum and lower Covid-19 cases). With the MTFF and SIL in 2021, Colombia's fiscal framework has been reactivated—anchored by a new fiscal rule and debt mechanism with an explicit transition path for fiscal deficit targets to preserve the soundness of public finances.[6] Full implementation of the SIL is critical to contain fiscal risks and ensure debt sustainability. In this regard, strong and 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 set in the revamped fiscal framework. Beyond the revenue gains from the SIL, further durably raising revenues by an additional 1 – 1 ½ percent of GDP over the medium term would be paramount to safeguarding key social protection programs and public investment.[7]

- **Reserve accumulation**. With modest reserve accumulation last year and the SDR allocation and subsequent operation, Colombia's internal reserves holdings remained around $60 billion (137 percent of ARA metric). Given elevated external vulnerabilities and risks, reserve accumulation over time should continue. The authorities' commitment to the flexible exchange rate regime continues to play an important role in helping the economy adjust to changing global conditions.

- **Financial sector policies.** Exceptional measures to keep credit flowing during the pandemic, like the borrowers support program (PAD), are now being phased out. Despite the rollback of financial regulatory support, NPLs remain well provisioned and supervision has continued to be effective. The 2022 FSAP concluded that, while challenges remain, regulatory and supervisory frameworks have been materially strengthened since the previous FSAP in 2012, including for

[5] See *Banco de la Republica's* March 2022 minutes for the Board of Directors meeting (https://www.banrep.gov.co/en/minutes-banco-republicas-board-directors-meeting-march-31-2022).

[6] See Colombia's 2022 Article IV Staff report (Annex III) for a detailed description of the SIL and the revamped fiscal rule.

[7] 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. See Colombia's 2022 Article IV staff report for further details.

financial conglomerates.[8] As lending to households is expected to grow strongly in the near-term, it is necessary to expand the coverage of some macroprudential tools (for instance, the DSTI tool could be expanded to include non-mortgage debt) and close data and oversight gaps with respect to household indebtedness. Given debt vulnerabilities from past credit cycles, monitoring of household and corporate indebtedness remains important for managing macrofinancial risks. Certain institutional arrangements underpinning the resolution and macroprudential frameworks could be further strengthened.[9]

- **Structural policies.** To promote inclusive growth and enhance external competitiveness, structural reforms should address labor informality, raise financial inclusion, reduce entry barriers and strengthen governance. To reduce informality and extend the social safety net, the government recently introduced the Social Protection Floor (SPF), granting access to social security benefits for nearly 10 million workers earning less than minimum wage. The Temporary Protection Status (TPS) program for nearly 2 million Venezuela migrants should strengthen their economic integration and help raise Colombia's economic potential. With expanded social protection (for instance, *Ingreso Solidario*), financial inclusion has increased with higher access to financial services though these social transfers. Boosting competition for financial services would lower costs and enhance access to financial services. Building on recent progress in improving the AML/CFT legal and regulatory framework, and further enhancing the effective implementation of the AML/CFT regime and the national anti-corruption framework, would support governance, investment, and inclusive growth. Finally, the introduction of new environmental taxes and green bonds would create room for continued investment in key climate-related areas, to complement the authorities' climate policy framework.[10]

THE AUTHORITIES' FCL REQUEST AND EXIT STRATEGY

12. Colombia has maintained access to the FCL since the inception of the instrument in 2009. As a complement to its international reserve holdings, the authorities value the FCL as a buffer against external risks and as a signal of very strong macroeconomic policies and institutional policy frameworks. The previous FCL arrangements have enhanced Colombia's buffers as insurance against heightened external risks in recent years, complementing the authorities' policy response to shocks such as the 2014–16 drop in commodity prices and the collapse of the Venezuelan

[8] Colombia's financial conglomerates (FCs) are systemically important and particularly active in Central America. In general, with FCs, double-gearing, opacity, international spillovers, and related party lending can be potentially serious concerns. The conglomerates law, approved in September 2017, provides the Colombian Financial Superintendency (SFC) with the necessary powers to oversee FCs.

[9] See 2022 Colombia FSSA for other key FSAP recommendations.

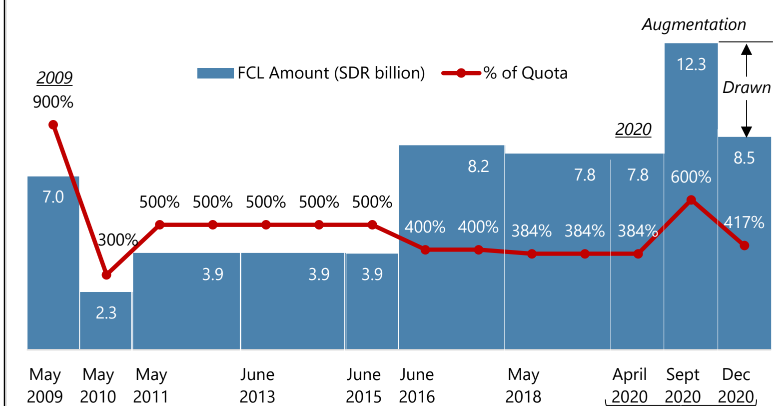
[10] See Colombia's 2022 Article IV Staff report (Annex VII) for a detailed description of Colombia's policy actions to address climate change.

economy.[11] In December 2020, the partial FCL drawing was instrumental to help meet higher budget financing needs and avoiding additional market pressures while maintaining strong external buffers in a context of heightened global uncertainty during the Covid-19 crisis. The first-ever FCL drawing was also signaled and well communicated by the authorities to markets without any financial disruption.[12]

13. The authorities are requesting a new two-year FCL arrangement, with a reduction in access. They are requesting access of 350 percent of quota commensurate with their assessment of external risks and vulnerabilities.

14. The authorities remain committed to an exit strategy and to resume a gradual path of reducing access under the FCL arrangement, the evolution of risks permitting. Prior to the pandemic in 2020, Colombia had been steadily lowering access in successive FCL arrangements since 2015. Access declined from 500 percent of quota in 2015 to 400 percent of quota under the 2016 arrangement that was approved in June 2016. Access was then further reduced by 16 percentage points of quota in 2018, which was maintained in the May 2020 arrangement before its augmentation.[13]

Historical Access to IMF Flexible Credit Line



Source: IMF staff calculations.

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

- **An updated assessment of relevant external risks and their evolution**. This would help identify the main conditions under which a successor FCL arrangement may be requested with lower access levels than 350 percent of quota. In the case of Colombia, the relevant set of elevated external risks includes uncertainty related to the war in Ukraine; the future path of the pandemic; a faster-than-expected policy tightening in advanced economies; and heightened volatility in commodity prices or in global risk premia. Staff's assessment is that while the nature

[11] As discussed in EBS/15/57, empirical analyses by the Colombian central bank and IMF staff found that access to the FCL reduced the sovereign risk premium for Colombia, had an important positive impact on consumer confidence and growth, and helped ease exchange rate pressures faster.

[12] See IMF Country Report No. 21/87.

[13] Prior to its augmentation in September 2020, the FCL arrangement initially approved on May 1, 2020, was for 384 percent of quota (SDR 7.8496 billion)—that is, *same* level of access as the 2018 FCL arrangement.

of external risks has changed since the approval and augmentation of the 2020 FCL arrangement, global risks remain elevated and tilted to the downside. Under the baseline, staff expects the level of risks to recede over time, which would imply continued reductions in access with any subsequent FCL arrangements and an eventual exit in this scenario. However, new risks could also emerge, or current risks could intensify, which could alter this outlook.

- **Policy efforts to strengthen domestic resilience to external shocks where needed**. Policymakers should continue to increase resilience by building more international liquidity buffers and strengthening the effectiveness of policy instruments to prepare for FCL exit and to effectively manage external risks. For Colombia, very strong policy frameworks—including its fiscal framework and flexible exchange rate regime—and adequate reserve position indicate that the policy instruments and buffers support resilience. With still elevated external financing needs and Colombia's vulnerability to external shocks, further fiscal reforms that durably raise revenues over the medium-term would ensure debt sustainability and support market confidence and continued reserve accumulation would preserve adequacy ratios to insure against external risks (see 2022 Article IV Staff Report).

ASSESSMENT OF FCL QUALIFICATION

16. Staff's assessment is that Colombia continues to meet the qualification criteria for an FCL arrangement. As described in the 2022 Article IV staff report, Colombia has very strong macroeconomic policies and institutional policy frameworks, which the authorities remain committed to.[14]

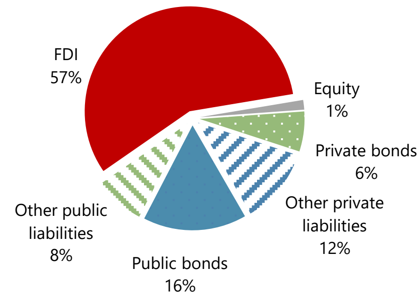
- **Sustainable external position.** The 2021 external position is assessed as moderately weaker than the level implied by medium-term fundamentals and desirable policies. The external current account deficit is projected to narrow significantly from 5.7 to 3.3 percent of GDP this year, driven mainly by an increase in export prices, particularly of oil and coal, a recovery in services exports, and moderating growth in imports. Over the medium term, the current account deficit is expected to widen somewhat to around 4 percent of GDP. FDI and portfolio flows are expected to remain the major sources of external financing. The updated external debt sustainability analysis shows the external debt/GDP ratio is projected to decline to 58 percent of GDP and stabilize at around this ratio over the medium term. The composition of external debt is favorable with long maturity and sizable peso-denominated debt for sovereign bonds and high natural and financial hedges for corporate bonds.

- **Capital account position dominated by private flows.** Public liabilities account for 24 percent of Colombia's international investment liability stocks, while FDI accounts for 57 percent of liabilities. These proportions have been broadly maintained in recent flows. The reliance on net

[14] Political assurances on policy continuity from the leading presidential candidates provide appropriate safeguards for the proposed arrangement.

portfolio inflows is projected to remain low over the medium term at about 1 percent of GDP. Stable funding sources—especially FDI—are expected to continue to finance the bulk of the current account deficit in the medium term.

International Investment Liabilities 1/
(2018-21)



Sources: Haver Analytics and IMF staff calculations.
1/ Average 2018Q1-2021Q3.

- **Track-record of steady sovereign access to international capital markets at favorable terms.** Colombia has had uninterrupted access to international capital markets at favorable terms since the early 2000s. The public sector issued or guaranteed external bonds or disbursements of public and publicly-guaranteed external commercial loans in international markets during each of the last 6 years, in a cumulative amount over that period equivalent to around 686 percent of Colombia's Fund quota, which is well above the FCL threshold of 50 percent of quota. With the arrival of the global pandemic, the risk-off episode adversely affected Colombia's spreads, as was the case regionally and globally, with spreads remaining relatively close to EMBI average (Figure 4). Despite the loss of investment grade in July 2021, there were no large outflows from a more diversified foreigner investor base and local banks were able to take on the positions left by foreign participants.

- **International reserve position, which, notwithstanding potential balance of payments pressures that justify Fund assistance, remains relatively comfortable.** Gross international reserves increased to USD 59.1 billion in December 2021 from USD 58.5 billion in December 2020, comfortably reaching standard reserve coverage indicators (Figure 4). Colombia's gross international reserve holdings stand at around 139 percent of the ARA metric on average over three years (that is, the latest data point in 2022 and the two previous years), exceeding the FCL threshold of 100 percent and has never been below 80 percent of ARA metric in any of the last four years.

- **Sound public finances, including a sustainable public debt position.** Staff assesses Colombia's public debt to be sustainable with high probability (see Figures 8–10, and Annex IV of the 2022 Article IV Staff Report for Colombia). Fiscal policy is underpinned by a sound and recently strengthened fiscal framework with a structural balance rule and a debt anchor.[15] Gross public debt is projected to converge to the debt anchor of 55 percent of GDP by 2026 if the

[15] Colombia has been an early adopter of fiscal reforms in the wake of the COVID-19 pandemic. In September 2021, Colombia enacted the SIL which introduces a comprehensive set of fiscal reforms. 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. In terms of the fiscal framework, the law also creates a strengthened fiscal rule oversight committee with its own staff and operational budget (see Annex III of the 2022 Article IV Staff Report for Colombia for a detailed description).

authorities meet the fiscal targets set out in the SIL. Debt could rise if there are fiscal slippages (e.g., shortfalls in revenue mobilization) or if global shocks result in growth underperformance and a risk-off shift in financial markets. However, the favorable maturity and currency structure of public debt mitigates risks (Figure 9).

- **Low and stable inflation, in the context of a sound monetary and exchange rate policy.** Colombia has maintained single digit inflation since 2000, with monetary policy set to help keep inflation close to target. This has resulted in anchored inflation expectations. Recently, headline inflation has risen well above the central bank's target of 3 percent and the central bank has raised the policy rate. The upward price pressures are mainly driven by global and idiosyncratic supply-demand imbalances. Given inflation pressures and risks (including from indexation dynamics), the central bank has recently accelerated its pace of normalization (100 basis points in March), with a cumulative increase of 325 basis points since October 2021. The authorities remain committed to their inflation targeting framework and flexible exchange rate.

- **Sound financial system and absence of solvency problems that may threaten systemic stability.** The bank-dominated financial system has withstood the pandemic well. It remains well-provisioned, well-capitalized and liquid. As of November 2021, the banking system's capital adequacy ratio stood at 22 percent, with Tier-1 capital at 17.8 percent. Both are well above regulatory limits. Banks' liquidity position was also comfortable, with an LCR of around 200 percent. The 2022 FSAP concluded that banks are largely resilient to solvency and liquidity shocks.

- **Effective financial sector supervision.** The 2022 FSAP concluded that Colombia has considerably strengthened its regulatory and supervisory frameworks, including for financial conglomerates. Capital and liquidity standards are being brought into line with Basel III, including definitions of risk-weighted assets and regulatory capital. A capital requirement for operational risk was introduced in 2019Q3. Capital conservation and systemic risk buffers are also being implemented, with a phased introduction over 2020-24 to mitigate any adverse impact on credit supply. The authorities remain committed to heightened supervisory vigilance during the transition period. The conglomerates law, approved in September 2017, is being implemented.

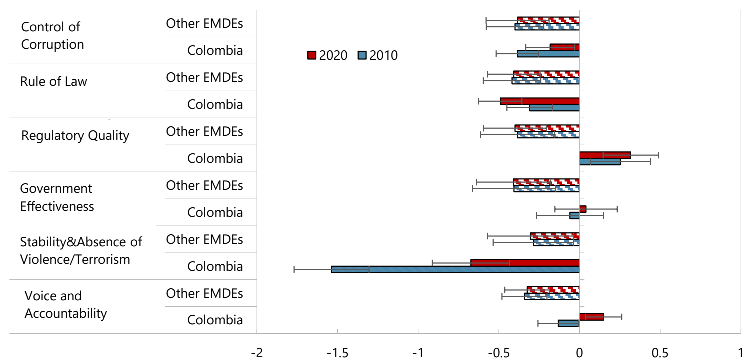
- **Data transparency and integrity.** Colombia's macroeconomic data continues to meet high standards. Colombia remains in observance of the Special Data Dissemination Standards (SDDS), and the authorities publish relevant data on a timely basis. A fiscal transparency evaluation took place in April 2017 and noted that in the last decade and a half, Colombia has made significant progress in terms of building strong fiscal institutions, based on good transparency practices, resulting in a relatively strong institutional framework. Colombia scores relatively high in a number of areas covered by the FTC (Fiscal Transparency Code) and has begun to implement some of the recommendations, such as improved reporting of fiscal risks as demonstrated in the Medium-Term Fiscal Framework.

- **Track record.** Colombia continues to have a sustained track record of implementing very strong policies, including according to staff's assessment that all relevant core indicators were met in each of the five most recent years.

17. Regarding government effectiveness, Colombia compares relatively well to peers and has improved in recent years. The authorities have combined the strengthening of the legal framework for governance and transparency with wider access to information and organizational changes to improve governance (see Country Report 18/128 and 2022 Article IV report for an update on the status of previous and ongoing governance reforms). The OECD has noted that Colombia has undergone fundamental changes over the last ten years and has made significant progress in implementing its governance agenda.[16] Colombia's government effectiveness and control of corruption scores from the Worldwide Governance Indicators improved. Colombia exhibits strong governance indicators, well above peers, on regulatory quality, government effectiveness, and voice and accountability indicators. However, the rule of law is an area of recent weakening and past social unrest has been in part motivated by the perception of corruption.

Worldwide Governance Indicators

(ranges from approximately -2.5 (weak) to 2.5 (strong) governance performance)



Note: EMDEs country group correspond to WEO definition. The black lines show one standard error confidence bands.

Source: Kaufmann D., A. Kraay, and M. Mastruzzi (2010), "The Worldwide Governance Indicators: Methodology and Analytical Issues".

ACCESS CONSIDERATIONS UNDER ADVERSE SCENARIO

18. Staff considers that the level of access of 350 percent of quota requested by Colombia should provide sufficient coverage against balance of payments risks. This section provides a quantitative analysis of external financing requirements under an adverse scenario.

[16] See OECD Integrity Review of Colombia. Recent governance achievements include the publication of income tax returns for public servants and the increased use of big data and analytics to improve risk management.

- **While global risks remain elevated, their nature has changed since the approval and augmentation of the 2020 FCL arrangement**. While some uncertainty remains about the course of the pandemic, other risks have also become prominent, including (i) uncertainty surrounding the war in Ukraine and its effects on global growth, financial markets, and commodity prices and (ii) risks arising from elevated inflation in many countries and uncertainty about the degree of monetary tightening needed in these countries. Realization of these risks, such as faster-than-expected monetary tightening in major economies, could depress global growth and commodity prices and prompt capital outflows from emerging markets, including Colombia.

- **Consequently, the adverse scenario considers a modified composition of shocks**. Specifically, shocks to the financial account are broadly similar to those used at the time of the approval of the 2020 FCL arrangement and 2020 FCL augmentation. However, given the current distribution of risks to commodity prices associated with the war in Ukraine, the adverse scenario considers a somewhat smaller shock to the current account (that is, less decline in oil prices). The current scenario also allows for somewhat larger reserve drawdown, given that the authorities have accumulated additional reserves since the 2020 FCL request and augmentation, while keeping the Assessing Reserve Adequacy (ARA) coverage within the adequate range of 100–150 percent. The reduced FCL access is also in line with the authorities' intended gradual exit path.

19. In staff's view, reduced FCL access aligns with a reduction in external vulnerabilities in Colombia given lower external financing needs with higher commodity prices compared to 2020-21. The requested access of 350 percent of quota is based on rollover rates from historical stress experiences (Figure 6), applied to updated exposures in the baseline. However, the resulting contributors to the estimated financing gap differ somewhat as a result of the revised baseline and external vulnerabilities (see text tables and Table 3).

- **Financial account**. Faster-than-expected monetary tightening in major economies and/or new developments in the war in Ukraine could give rise to a surge in global financial volatility and heightened market risk aversion, generating higher sovereign risk premium and capital outflows in Colombia. Against this backdrop, the adverse scenario's assumptions on the shock to the financial account are broadly similar to those used for the 2020 FCL arrangement and the 2020 augmentation (text tables). One difference is that the shock to MLT public debt is not calibrated as a percent of baseline amortization in 2022 (that is, as a rollover rate) since baseline amortization of MLT public debt is unusually low in 2022. Rather, the shock is calibrated to be a 40 percent decline in disbursements relative to baseline. In US dollar terms, this shock to MLT public debt flows is US$5.2 billion—an amount in between that assumed at the time of the 2020 FCL approval (US$3.9 billion) and the one assumed at the time of the 2020 augmentation (US$7.2 billion).

- **Current account**. A slowdown in global growth from faster-than-expected monetary tightening and/or new developments from the war in Ukraine could lower global commodity prices from

their currently elevated levels assumed in the baseline (for instance, USD 111 per barrel average price for Brent crude in 2022). At the same time, the nature of these risks may mitigate such declines in commodity prices (for example, further supply disruptions from the war could put upward pressure on commodity prices, and faster-than-expected monetary tightening may occur in a scenario in which monetary tightening's dampening effect on prices and inflation is less than expected). Against this backdrop, the oil price shock is reduced to a 24 percent price decline from baseline levels (compared to 28 percent in the 2020 request and 35 percent for the augmentation request).

- **Finally, the assumed drawdown of reserves is higher since the authorities have accumulated additional reserves since the 2020 FCL request**. Overall, staff finds that larger balance of payments financing needs under the external risk scenario can be partly met by a larger reserve drawdown. In the current scenario, the drawdown still leaves reserves modestly above 100 percent of ARA.

Assumptions Underlying the Illustrative Adverse Scenarios

(In percent change vis-à-vis baseline, unless otherwise indicated)

Assumption	2022 (New arrangement)	2021 (2020 FCL augmentation)	2020 (2020 FCL arrangement)
Oil price decline	24	35	28
FDI reduction	20	20	20
MLT public sector rollover	60 percent of baseline disbursement	80	80
ST public sector rollover	80	80	80
MLT private sector rollover	73	73	73
ST private sector rollover	80	80	80
Other portfolio flows	1 standard deviation	1 standard deviation	$1 billion outflow

Source: IMF Staff calculations

Key contributors to Financing Gap under Adverse Scenarios 1/

(US$ millions, unless otherwise indicated)

Assumption	2022 (New arrangement)	2021 (2020 FCL augmentation)	2020 (2020 FCL arrangement)
Current Account Deficit	5,274	6,564	4,722
Financial Account Shock	17,246	17,697	15,578
Reserve drawdown	12,491	11,986	9,459
Remaining gap	10,029	12,275	10,841
in percent of quota	350	420	384

Source: IMF Staff calculations

1/ Deviations from baseline. Note that 600 percent of quota was approved in September 2020 (from the original 384), of which 183 percent of quota has been disbursed.

20. Both traditional and non-traditional exports are expected to decline under the adverse scenario. Commodity prices are sensitive to global economic activity and current geopolitical events. A projected decline in the price of oil by 24 percent on average for 2022 will lead to a proportional decline in oil exports in the adverse scenario. At the same time, the associated decline

in global output, including in regional partners, will lower non-traditional exports for Colombia. Overall, the estimated impact on the current account deficit is US$ 5.3 billion.[17]

21. Private sector corporate debt would face rollover difficulties in an adverse scenario. Under favorable external financing conditions, short-term private external debt, including loans and trade credits, rose by about 30 percent between 2017 and 2019.[18] During 2020, 2021, and 2022 more than US$33 billion of private sector debt comes due per year, compared to US$25 billion in 2018. Under an adverse scenario, disbursements are likely to decline despite the broad health of the Colombian corporate sector. The assumed lower rollover rates for private short and long-term debt (80 percent and 73 percent respectively) are within historical benchmarks (Figure 6) and are aligned with those in the current FCL arrangement. These rollover assumptions generate a financing gap of roughly US$7 billion under the adverse scenario in 2022.

22. FDI and government financing shortfalls could also materialize. After a substantial increase in the wake of the 2014-16 oil price shock, external public debt had stabilized until the pandemic. With strong recovery and lower public debt, the government's external borrowing plan and amortization schedule implies that baseline inflow needs for 2022 are lower than in 2020; however, expected disbursements remain sizable. A shock, such that that expected disbursements would fall by 40 percent, generates a resulting financing gap of US$ 5.2 billion. Shocks to FDI and other capital flows (US$ 4.8 billion), are broadly similar to those in the current arrangement. Together with private-sector debt shortfalls, the combined shock of US$ 17.2 billion to the financial account is between the adverse scenario used at the time of the 2020 FCL approval and that used at the time of the 2020 FCL augmentation.

23. While the authorities are better placed to finance more of the balance of payments shock through reserves, the requested FCL access level will help cover the financing gap. The combined shocks to the current account deficit and financial account would amount to US$22.5 billion. While continued exchange rate flexibility would remain a key shock absorber, recent reserve accumulation permits greater use of international reserves (than assumed in the adverse scenario under the current arrangement) to cover a portion of the gap, if necessary, to prevent disorderly market conditions while preserving sufficient buffers to maintain confidence as the economy absorbs the shock. The assumed drawdown would reduce reserves by US$ 12.5 billion and would cover roughly half the balance of payments shock. Despite a substantially higher drawdown than under the current arrangement, reserve coverage as measured by the ARA metric would be 103 percent—lower compared with previous arrangements, but still within the 100-150 adequate range. Despite a larger reliance on international reserves, which is consistent with decreasing relative

[17] The scenario includes some small offsets from a peso depreciation likely to follow the realization of the shock as well as lower net income outflows owing to lower profits for foreign investors.

[18] Most of the increase is due to the non-financial sector, which now accounts for an estimated three quarters of the stock.

reliance on the FCL, a financing gap of US$10 billion would nonetheless remain—consistent with the requested level of access.

IMPACT ON FUND FINANCES, RISKS, AND SAFEGUARDS

24. **The Fund's liquidity is expected to remain adequate after the approval of the proposed FCL arrangement (SDR 7.1557 billion or 350 percent of quota) and cancellation of the current arrangement**. Further analysis is provided in the supplement assessing the impact on the Fund's finances and liquidity position.[19]

25. **Credit related risks to the Fund are judged to remain moderate from the current FCL arrangement**. Colombia has been implementing very strong policies, and the authorities have indicated that they intend to treat the new FCL arrangement as precautionary. Even if Colombia were to draw all the resources available under the new FCL arrangement, its capacity to repay the Fund would remain adequate (Table 10). Colombia's external debt is expected to decline to 58.1 percent of GDP this year on account of a better-than-expected fiscal outturn. However, even if an adverse scenario of further depreciation were to materialize, Colombia's external debt would peak at 82 percent of GDP in 2024 and remain on a sustainable medium-term path (Table 11 and Figure 7). The external balance sheet is sustainable given sizeable non-debt-creating capital inflows. Debt service continues to be manageable. Furthermore, Colombia has an excellent track-record of meeting its financial obligations**.**

26. **Safeguards procedures are substantially completed for Colombia's 2022 FCL arrangement.** No significant issues have emerged from these procedures. The *Banco de la República de Colombia* provided the most recently completed audit reports, and Fund staff discussed them with the external auditors. KPMG Colombia (the external auditor) issued an unmodified audit opinion on the BRC's 2021 financial statements, which are published on the BRC's website.

STAFF APPRAISAL

27. **Colombia continues to benefit from the FCL.** The authorities value the FCL as insurance against external risks and as a signal of the quality of their macroeconomic policies and institutional policy frameworks. The authorities intend to resume a gradual decline in access under the FCL arrangement that had existed across arrangements in the years prior to the pandemic.

[19] See "Assessment of the impact of the proposed arrangement under the flexible credit line arrangement on the Fund's finances and liquidity position" supplement.

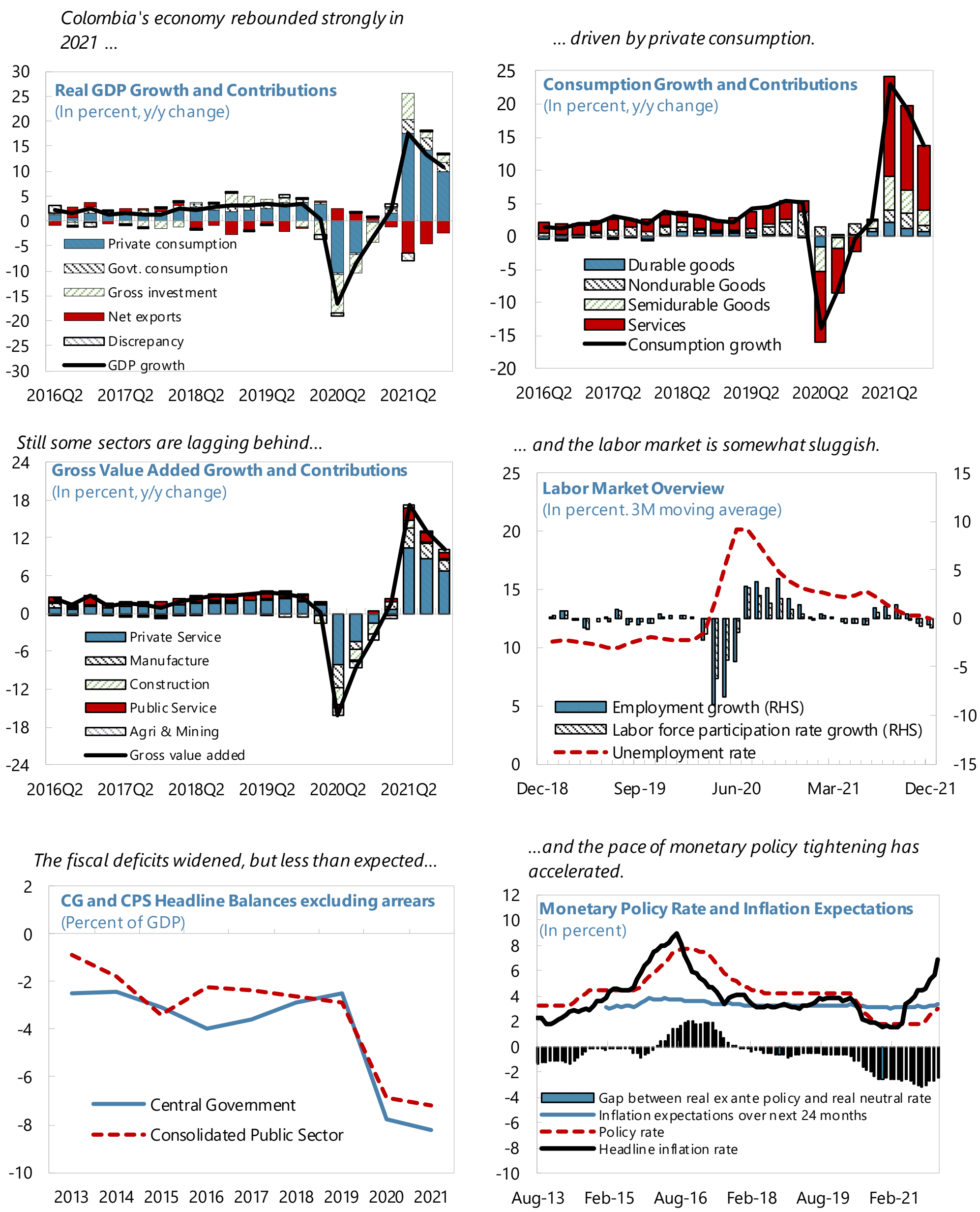
28. Colombia is assessed as meeting the qualification criteria for an FCL arrangement. Colombia continues to demonstrate external, financial, and fiscal stability and the strength of Colombia's policy frameworks was in evident in its resilience to the pandemic. Colombia meets all quantitative qualification criteria, and its macroeconomic policies and institutional policy frameworks continue to be very strong. The authorities remain firmly committed to maintaining very strong macroeconomic policies going forward. Although a new administration will take office on August 7, 2022, political assurances on continuity of key policies and maintaining very strong policy frameworks from the leading presidential candidates provide appropriate safeguards for the proposed arrangement.

29. Staff considers the proposed reduction in access to 350 percent of quota to be appropriate. Lower access reflects the authorities' strategy of gradually phasing out Colombia's use of the FCL, risks permitting, and is facilitated by the authorities' reserve accumulation in recent years. At the same time, with high external financing needs, Colombia remains vulnerable to a sharp rise in global risk premia and other external shocks in a context of elevated global uncertainty and the war in Ukraine. The FCL, combined with an adequate level of international reserves, provides important insurance against external risks to the balance of payments given Colombia's external exposures.

30. Staff welcomes the authorities' commitment to an exit strategy from the FCL. As the exceptional set of external shocks and risks clearly recede, Colombia should consider further reducing access to the FCL given its very strong policy framework and adequate reserve position. As market conditions improve, resuming reserve accumulation would in staff's view help meet the authorities' objective to sufficiently cover financing needs in their adverse scenarios and facilitate a steady exit from the FCL from a stronger international liquidity position.

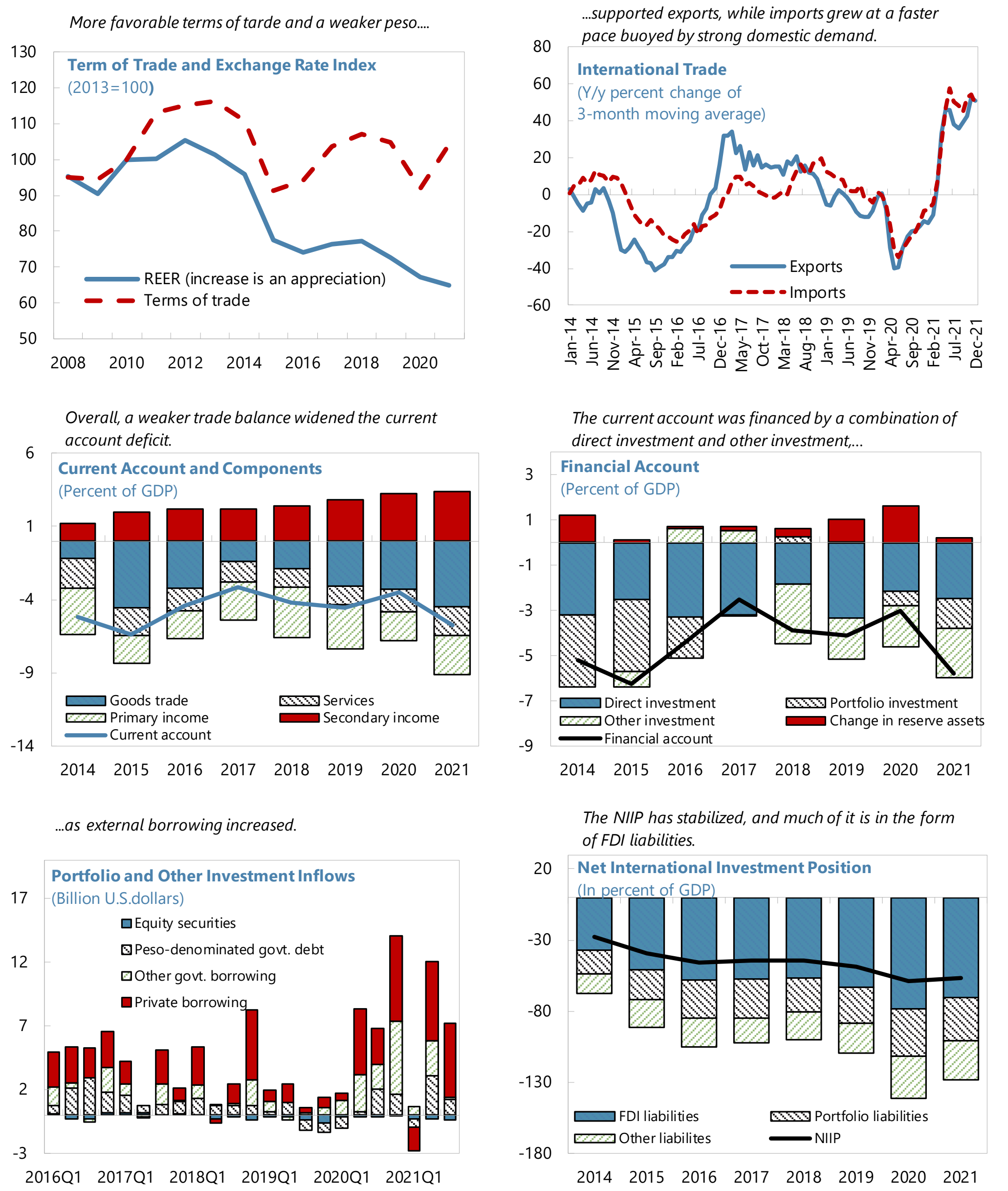
31. Staff considers that the proposed FCL arrangement carries moderate risks to the Fund. While Colombia intends to treat the FCL arrangement as precautionary, the Fund's credit exposure to Colombia, including the past FCL disbursement, would remain moderate even with a possible drawing under the new arrangement. Risks are further contained by Colombia's very strong repurchasing record with the Fund and manageable external debt service profile. The proposed new commitment and cancellation of the current arrangement would have a net positive impact on the Fund's liquidity position.

Figure 1. Colombia: Recent Economic Developments



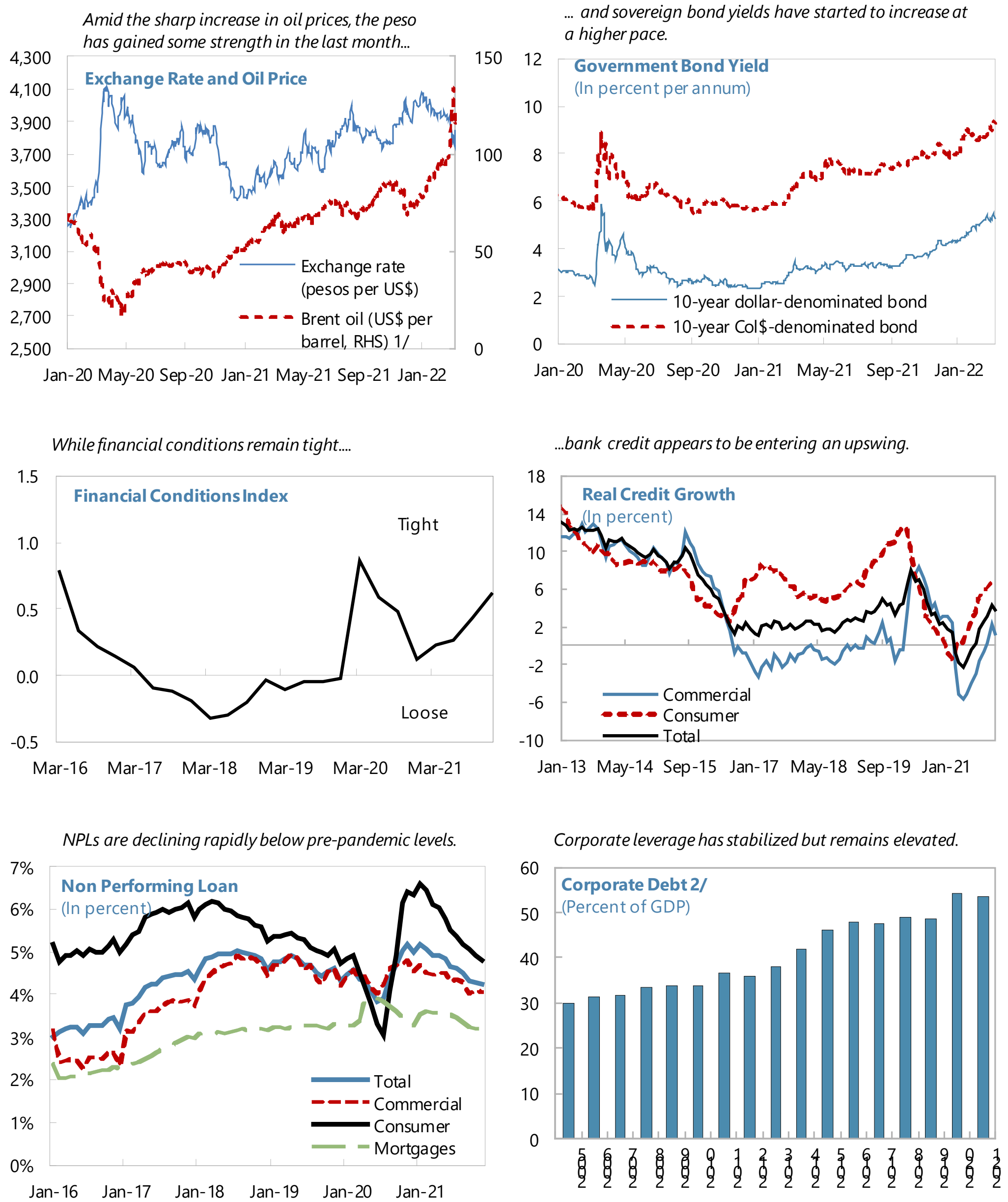
Sources: Departamento Administrativo Nacional de Estadísticas (DANE); Dirección de Impuestos y de Aduanas Nacionales (DIAN); Haver Analytics; and IMF staff estimates.

Figure 2. Colombia: External Sector Developments



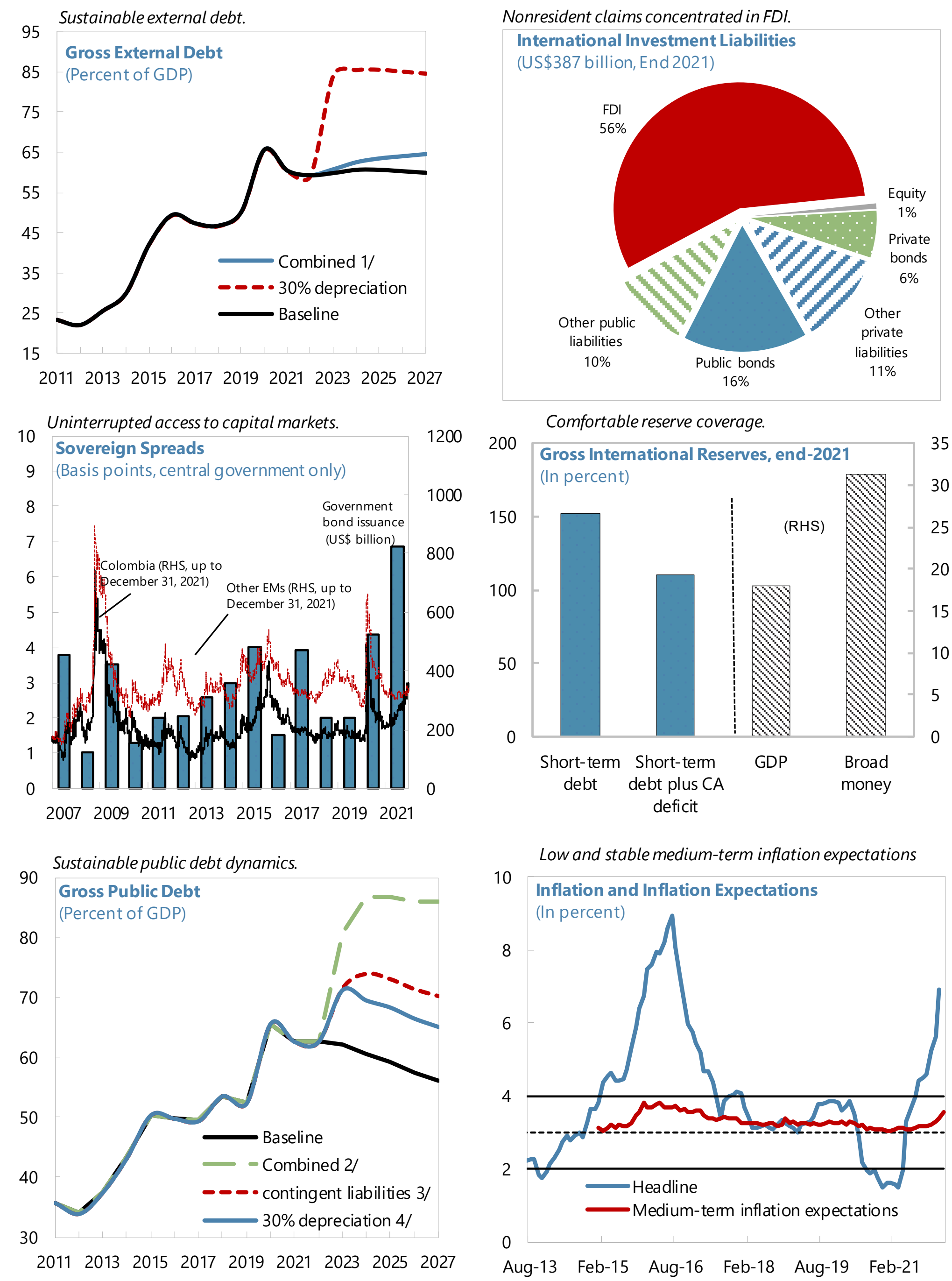
Sources: DANE; Banco de la República; Ministerio de Hacienda y Crédito Público; Haver Analytics; and IMF staff estimates.

Figure 3. Colombia: Recent Financial Developments



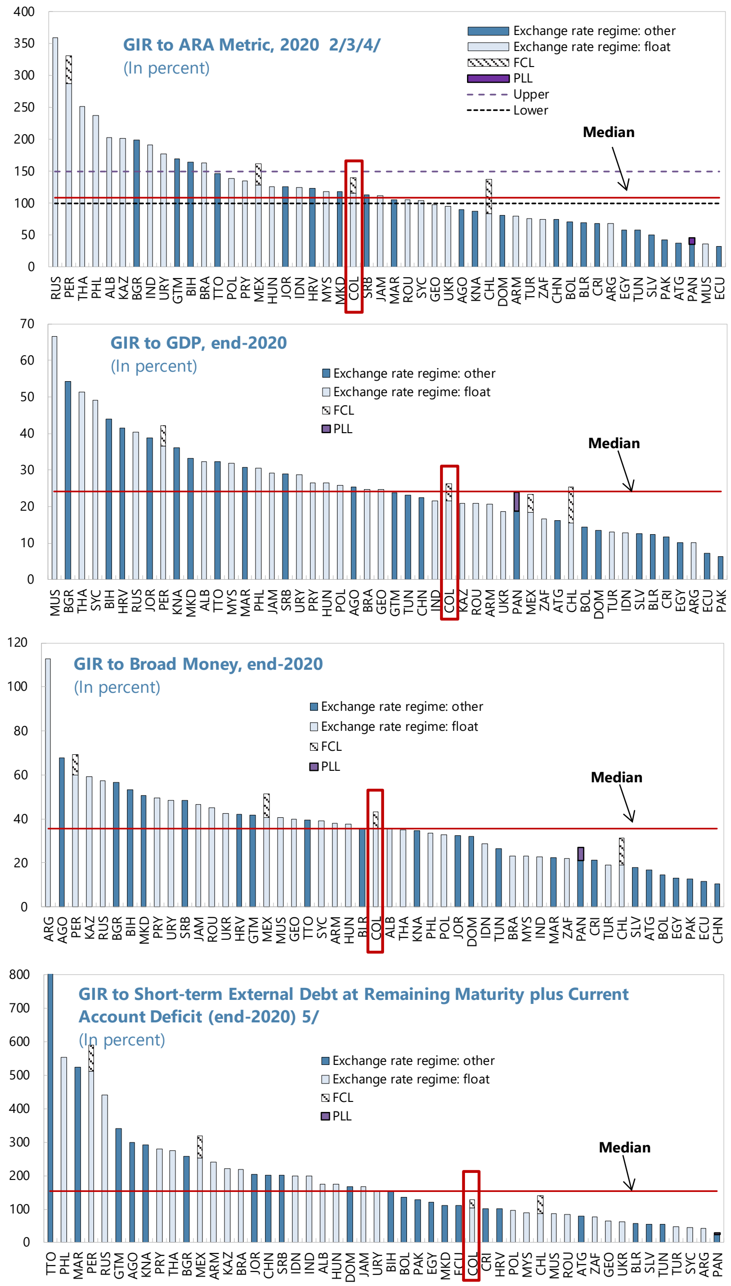
Sources: Bloomberg; Superintendencia Financiera de Colombia; Banco de la República; and IMF staff estimates.
1/ Colombia mix follows closely Brent oil prices.
2/ Data for 2021 refers to June 2021.

Figure 4. Colombia: FCL Qualification Criteria



Sources: Banco de la República; Ministerio de Hacienda y Crédito Público; Datastream; Haver; and IMF staff estimates.
1/ Combined permanent 1/4 standard deviation shocks applied to interest rate; growth; and non-interest current account balance.
2/ Combined 2 year shock to primary balance (1/2 standard deviation) and growth (1 standard deviation) shocks to primary balance; permanent shock to interest rate (to historical maximum) and exchange rate (about 30 percent real).
3/ One-time increase in non-interest expenditures equivalent to 10 percent of banking sector assets leads to a real GDP growth shock (see above): growth is reduced by 1 standard deviation for 2 consecutive years; interest rate increases as a function of the widening of the primary deficit.
4/ 30 percent permanent real depreciation in 2022.

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



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

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

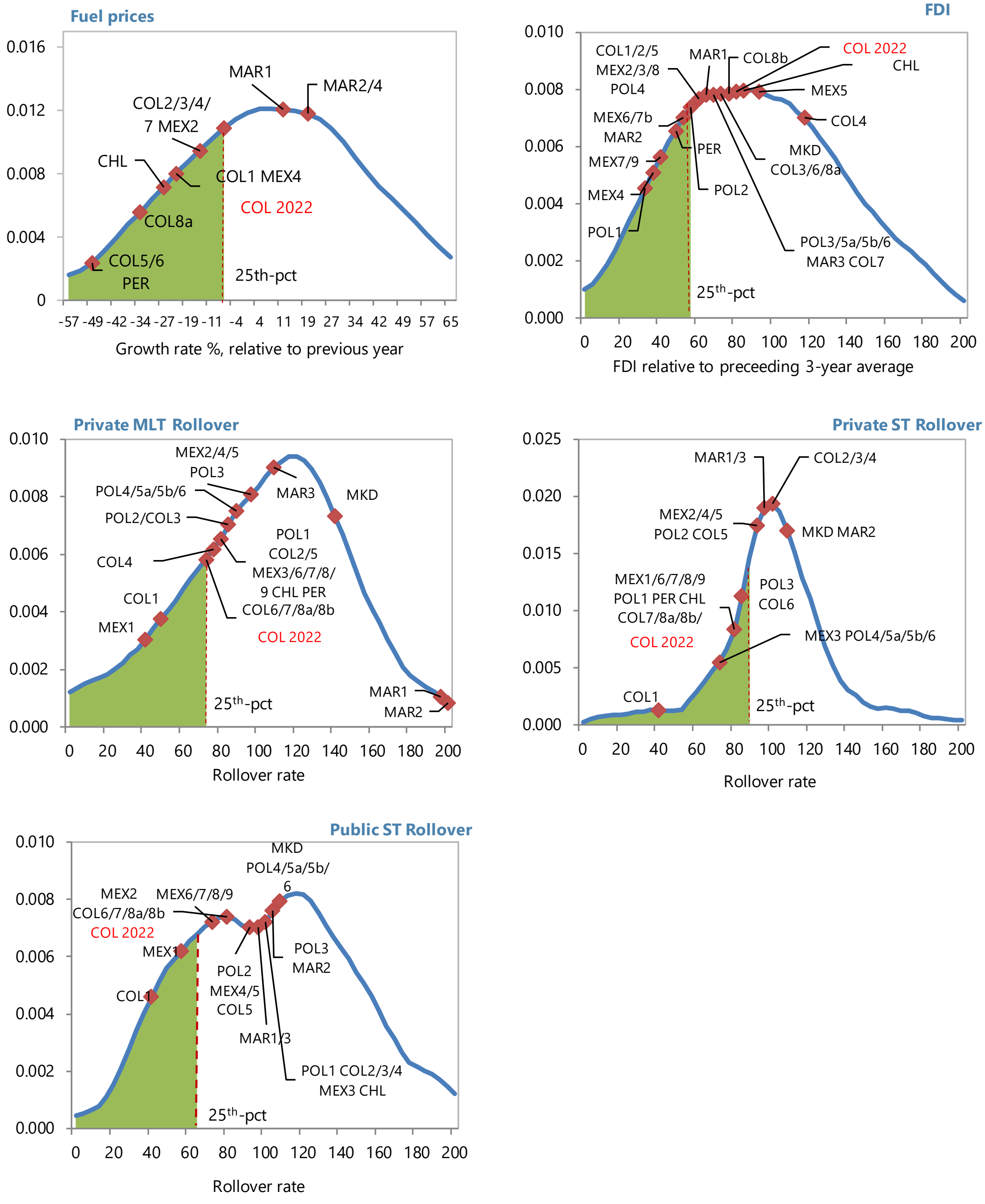
2/ The ARA metric provides a tool to help inform reserve adequacy assessments, but individual circumstances (for example, access to swap lines, market maturity, etc.) require additional judgment and, for this reason, mechanistic comparisons of the ARA metric do not provide a complete view.

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

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

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

Figure 6. Colombia and Selected Countries: Comparing Adverse Scenarios 1/
(Probability density)

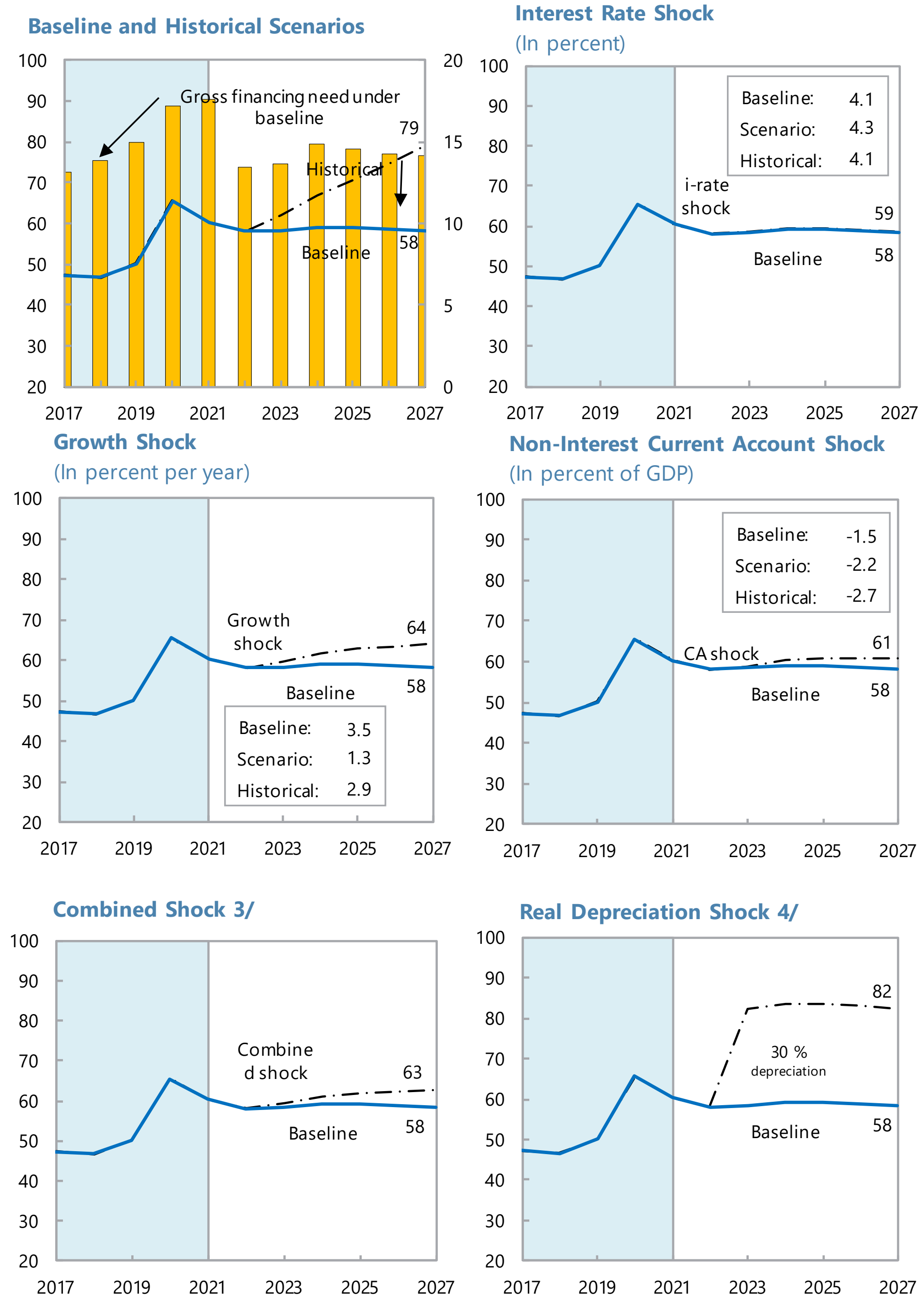


Source: IMF staff calculations.

1/ The countries shown are previous FCL/PCL/PLL arrangements, numbered consecutively by country. COL 2022 refers to the proposed arrangement.

Figure 7. Colombia: External Debt Sustainability: Bound Tests 1/2/

(External debt in percent of GDP)



Sources: Country authorities and 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. 2021 data is
2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
4/ One-time real depreciation of 30 percent occurs in 2022.

Figure 8. Colombia: Public Sector Debt Sustainability Analysis – Baseline Scenario

(In percent of GDP, unless otherwise indicated)

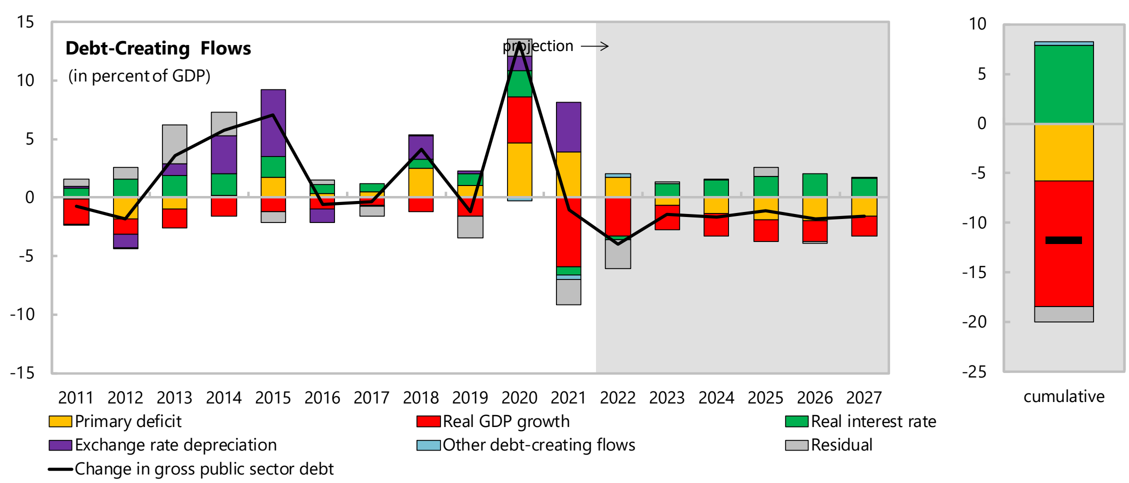
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2011-2019 [2/]	2020	2021 [3/]	2022	2023	2024	2025	2026	2027
Nominal gross public debt	45.1	65.7	64.6	60.6	59.2	57.5	56.3	54.5	52.9
Public gross financing needs	5.4	8.7	10.0	6.3	5.6	5.5	5.0	6.2	4.9
Real GDP growth (in percent)	3.6	-7.0	10.6	5.8	3.6	3.4	3.4	3.4	3.4
Inflation (GDP deflator, in percent)	3.9	1.4	6.6	7.5	3.4	3.1	3.1	3.1	3.1
Nominal GDP growth (in percent)	7.7	-5.8	17.8	13.7	7.2	6.7	6.6	6.6	6.6
Effective interest rate (in percent) [5/]	7.4	5.4	6.0	7.4	5.6	5.9	6.6	7.0	6.5

As of February 17, 2022		
Sovereign Spreads		
EMBIG (bp) 4/		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 [3/]	2022	2023	2024	2025	2026	2027	cumulative	debt-stabilizing primary balance [10/]
Change in gross public sector debt	1.8	13.3	-1.0	-4.0	-1.4	-1.7	-1.1	-1.8	-1.6	-11.7	
Identified debt-creating flows	1.3	11.8	1.1	-1.5	-1.6	-1.8	-1.9	-1.7	-1.6	-10.2	
Primary deficit	0.4	4.7	3.9	1.7	-0.7	-1.4	-1.9	-1.9	-1.6	-5.8	-0.1
Primary (noninterest) revenue and grants	27.7	26.2	27.2	29.3	31.4	30.9	30.3	29.7	29.3	180.8	
Primary (noninterest) expenditure	28.0	30.8	31.2	31.0	30.7	29.6	28.4	27.7	27.7	175.0	
Automatic debt dynamics [6/]	1.0	7.4	-2.4	-3.6	-0.9	-0.4	0.0	0.2	-0.1	-4.7	
Interest rate/growth differential [7/]	-0.1	6.2	-6.6	-3.6	-0.9	-0.4	0.0	0.2	-0.1	-4.7	
Of which: real interest rate	1.2	2.3	-0.7	-0.3	1.2	1.5	1.8	2.0	1.7	7.9	
Of which: real GDP growth	-1.4	3.9	-5.9	-3.3	-2.1	-1.9	-1.8	-1.8	-1.8	-12.7	
Exchange rate depreciation [8/]	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 [9/]	0.4	1.5	-2.2	-2.5	0.1	0.1	0.8	-0.1	0.1	-1.5	



Sources: Country authorities and IMF staff estimates.

1/ Public sector is defined as non-financial public sector, including Ecopetrol, Fogafin, and Finagro.

2/ Based on available data.

3/ Estimate for 2021.

4/ EMBIG.

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

6/ Derived as [(r - π(1+g) - g + ae(1+r)]/(1+g+π+gπ)) 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).

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

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

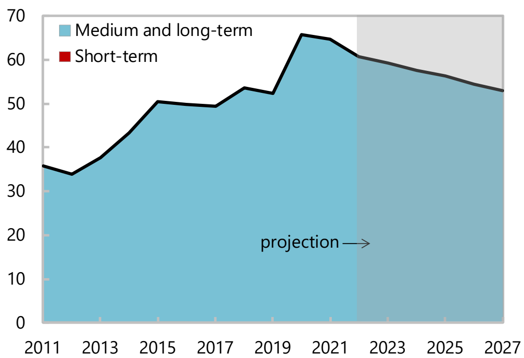
9/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

10/ 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.

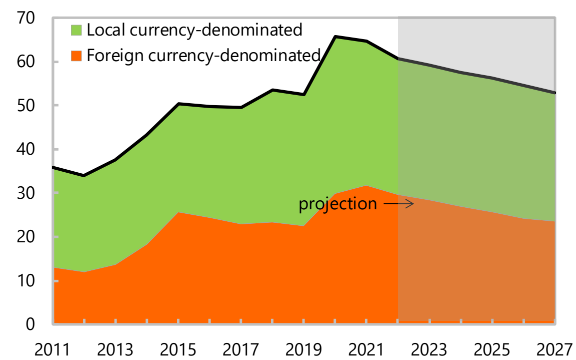
Figure 9. Colombia: Public Debt Sustainability Analysis – Composition of Public Debt and Alternative Scenario

Composition of Public Debt

By Maturity
(in percent of GDP)



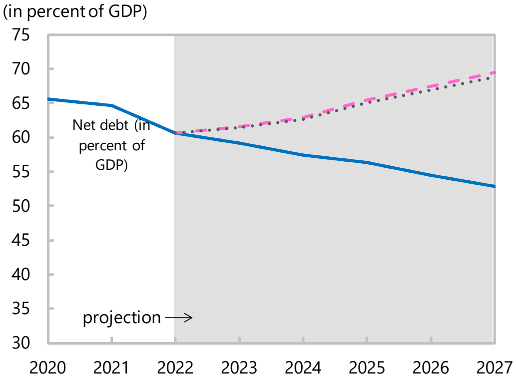
By Currency
(in percent of GDP)



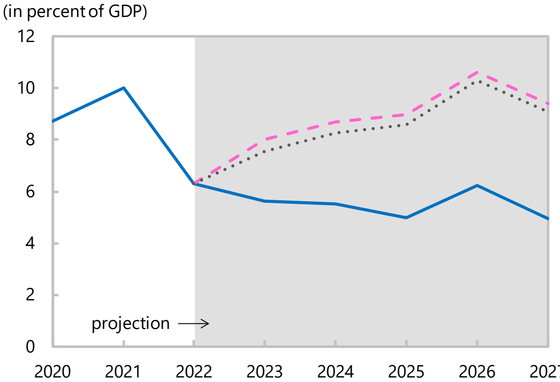
Alternative Scenarios

Baseline   Historical   Constant Primary Balance

Gross Nominal Public Debt
(in percent of GDP)



Public Gross Financing Needs
(in percent of GDP)



Underlying Assumptions
(in percent)

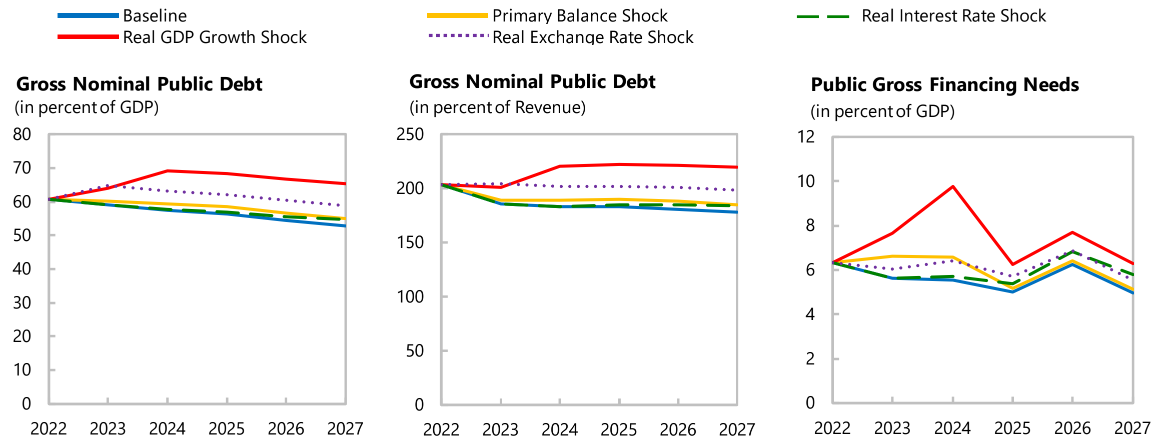
Baseline Scenario	2022	2023	2024	2025	2026	2027
Real GDP growth	5.8	3.6	3.4	3.4	3.4	3.4
Inflation	7.5	3.4	3.1	3.1	3.1	3.1
Primary Balance	-1.7	0.7	1.4	1.9	1.9	1.6
Effective interest rate	7.4	5.6	5.9	6.6	7.0	6.5
Constant Primary Balance Scenario						
Real GDP growth	5.8	3.6	3.4	3.4	3.4	3.4
Inflation	7.5	3.4	3.1	3.1	3.1	3.1
Primary Balance	-1.7	-1.7	-1.7	-1.7	-1.7	-1.7
Effective interest rate	7.4	5.6	6.0	6.7	7.2	6.8

Historical Scenario	2022	2023	2024	2025	2026	2027
Real GDP growth	5.8	2.9	2.9	2.9	2.9	2.9
Inflation	7.5	3.4	3.1	3.1	3.1	3.1
Primary Balance	-1.7	-1.2	-1.2	-1.2	-1.2	-1.2
Effective interest rate	7.4	5.6	6.0	6.8	7.4	7.1

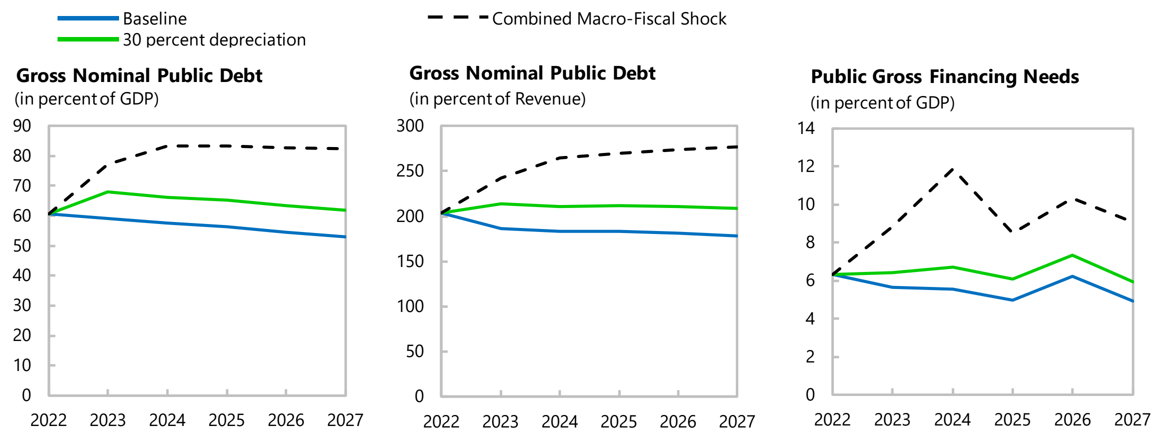
Sources: Country authorities and IMF staff estimates.

Figure 10. Colombia: Public Debt Sustainability Analysis – Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions

(in percent)

Primary Balance Shock	2022	2023	2024	2025	2026	2027
Real GDP growth	5.8	3.6	3.4	3.4	3.4	3.4
Inflation	7.5	3.4	3.1	3.1	3.1	3.1
Primary balance	-1.7	-0.3	0.4	1.9	1.9	1.6
Effective interest rate	7.4	5.6	6.0	6.7	7.1	6.6
Real Interest Rate Shock						
Real GDP growth	5.8	3.6	3.4	3.4	3.4	3.4
Inflation	7.5	3.4	3.1	3.1	3.1	3.1
Primary balance	-1.7	0.7	1.4	1.9	1.9	1.6
Effective interest rate	7.4	5.6	6.2	7.3	8.0	7.9
Combined Shock						
Real GDP growth	5.8	-0.7	-0.9	3.4	3.4	3.4
Inflation	7.5	2.3	2.0	3.1	3.1	3.1
Primary balance	-1.7	-1.0	-2.0	1.9	1.9	1.6
Effective interest rate	7.4	6.7	6.3	7.6	8.3	8.2

Real GDP Growth Shock	2022	2023	2024	2025	2026	2027
Real GDP growth	5.8	-0.7	-0.9	3.4	3.4	3.4
Inflation	7.5	2.3	2.0	3.1	3.1	3.1
Primary balance	-1.7	-1.0	-2.0	1.9	1.9	1.6
Effective interest rate	7.4	5.6	6.0	6.9	7.3	6.8
Real Exchange Rate Shock						
Real GDP growth	5.8	3.6	3.4	3.4	3.4	3.4
Inflation	7.5	14.0	3.1	3.1	3.1	3.1
Primary balance	-1.7	0.7	1.4	1.9	1.9	1.6
Effective interest rate	7.4	6.7	5.9	6.6	7.0	6.5

Sources: Country authorities and IMF staff estimates.

Table 1. Colombia: Selected Economic and Financial Indicators, 2017-27

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	3.8
GDP, 2021		Adult illliteracy rate (ages 15 and older), 2020	4.4
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), 2020	13.2		

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

Sources: Colombian authorities; UNDP Human Development Report; World Development Indicators; and IMF staff estimates.
1/ Estimate for monetary sector variables (except for policy rate) and fiscal sector variables.
2/ Based on bilateral COL Peso/USD exchange rate.
3/ Includes one-off recognition of previously unrecognized accounts payable worth 1.9 percent of GDP in 2018 and central bank profits. For 2021 includes privatization receipts worth 1.2 percent of GDP that, under GFSM 1986 which is used by the authorities, produces a headline deficit of -7.0 percent of GDP.
4/ IMF staff estimate, excludes one-off recognition of arrears.
5/ Includes the quasi-fiscal balance of Banco de la República, sales of assets, phone licenses, and statistical discrepancy. For 2021 includes privatization receipts, see 3/ above.
6/ Includes Ecopetrol, Fogafin, and Finagro.
7/ Current account deficit plus amortization due including holdings of locally issued public debt (TES).
8/ Excludes Colombia's contribution to FLAR; includes valuation changes of reserves denominated in currencies other than U.S. dollars.

Table 2a. Colombia: Summary Balance of Payments, 2017-27
(In millions of US$, unless otherwise indicated)

						Projections					
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Current account balance	**-9,924**	**-14,041**	**-14,808**	**-9,207**	**-17,830**	**-11,730**	**-12,530**	**-14,725**	**-16,112**	**-16,934**	**-17,933**
Goods balance	-4,285	-6,394	-9,863	-8,870	-13,981	-3,120	-4,429	-8,563	-10,095	-10,956	-12,088
Exports, f.o.b.	39,786	42,993	40,656	32,309	42,735	62,828	63,952	61,774	61,587	63,188	64,561
Commodities	25,890	29,441	26,866	18,204	25,529	43,638	44,819	41,385	39,711	39,783	39,841
Fuel	13,308	16,843	15,962	8,755	13,512	21,371	23,471	22,415	19,934	19,260	18,482
Non-fuel	12,582	12,598	10,904	9,449	12,017	22,267	21,349	18,970	19,777	20,522	21,359
Non-traditional exports	10,062	10,716	10,571	9,733	12,507	14,383	15,519	16,564	17,812	19,095	20,179
Other	3,834	2,837	3,219	4,372	4,562	4,808	3,614	3,825	4,063	4,310	4,540
Imports, f.o.b.	44,070	49,387	50,518	41,179	56,716	65,948	68,381	70,337	71,682	74,145	76,649
Consumer goods	10,161	11,273	11,868	10,027	12,334	14,442	15,020	15,320	15,768	16,338	16,953
Intermediate goods	18,889	21,502	21,665	17,743	27,147	31,246	32,099	33,060	33,034	33,982	34,665
Capital goods	13,210	14,814	15,646	12,436	15,794	18,811	19,700	20,290	21,086	21,902	22,999
Other	1,810	1,798	1,338	972	1,441	1,448	1,563	1,668	1,794	1,923	2,032
Services balance	-4,477	-4,162	-4,283	-4,286	-6,517	-6,500	-6,914	-6,746	-6,892	-7,154	-7,452
Exports of services	9,536	10,731	10,668	5,837	7,641	9,368	10,303	11,375	12,079	12,801	13,530
Imports of services	14,013	14,893	14,952	10,124	14,158	15,868	17,217	18,122	18,970	19,955	20,982
Primary income balance	-8,046	-11,442	-9,717	-4,839	-8,054	-12,950	-12,657	-11,467	-11,764	-12,065	-12,252
Receipts	5,577	6,177	6,976	4,405	5,852	7,193	7,926	8,439	8,306	8,037	8,379
Expenditures	13,623	17,619	16,693	9,243	13,906	20,144	20,583	19,906	20,071	20,102	20,631
Secondary income balance	6,883	7,957	9,055	8,788	10,722	10,840	11,471	12,052	12,639	13,242	13,860
Financial account balance	**-7,859**	**-12,954**	**-13,298**	**-8,191**	**-17,830**	**-11,730**	**-12,530**	**-14,725**	**-16,112**	**-16,934**	**-17,933**
Direct Investment	-10,011	-6,172	-10,836	-5,803	-7,189	-6,421	-8,576	-9,811	-11,158	-12,632	-14,228
Assets	3,690	5,126	3,153	1,656	2,422	4,524	3,631	3,706	3,782	3,856	3,929
Liabilities	13,701	11,299	13,989	7,459	9,611	10,945	12,206	13,517	14,940	16,488	18,157
Oil sector	3,106	2,540	2,755	505	1,001	1,001	1,001	1,001	1,001	1,001	1,001
Non-oil sectors	10,595	8,759	11,234	7,731	8,610	9,944	11,205	12,516	13,939	15,487	17,156
Portfolio Investment	-34	862	24	-1,792	-4,178	-5,372	-4,617	-3,482	-3,617	-3,059	-3,156
Assets	7,779	1,211	315	5,747	428	-105	-170	-210	-230	-241	-247
Liabilities	7,812	349	291	7,539	4,605	5,267	4,447	3,272	3,387	2,818	2,908
Equity	472	-823	-1,232	-454	-761	-980	-533	-564	-596	-629	6
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	-7,087	-979	-662	-2,885	-2,557	-2,143	-1,434
Assets 1/	-264	211	-3,476	-1,885	-752	3,607	2,499	3,972	1,152	618	1,779
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	1,041	1,325	1,453	1,221	899	884
Net errors and omissions	**2,065**	**1,087**	**1,509**	**1,016**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Memorandum items:											
Brent Crude Oil Price (US$/barrel)	54	71	64	42	70	111	96	87	81	78	75

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

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

Table 2b. Colombia: Summary Balance of Payments, 2017-27
(In Percent of GDP)

						Projections					
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Current account balance	**-3.2**	**-4.2**	**-4.6**	**-3.4**	**-5.7**	**-3.3**	**-3.4**	**-3.8**	**-3.9**	**-3.9**	**-3.9**
Goods balance	-1.4	-1.9	-3.1	-3.3	-4.4	-0.9	-1.2	-2.2	-2.4	-2.5	-2.6
Exports, f.o.b.	12.8	12.9	12.6	11.9	13.6	17.9	17.3	15.8	14.9	14.5	14.0
Commodities	8.3	8.8	8.3	6.7	8.1	12.4	12.1	10.6	9.6	9.1	8.6
Fuel	4.3	5.0	4.9	3.2	4.3	6.1	6.3	5.7	4.8	4.4	4.0
Non-fuel	4.0	3.8	3.4	3.5	3.8	6.3	5.8	4.8	4.8	4.7	4.6
Non-traditional exports	3.2	3.2	3.3	3.6	4.0	4.1	4.2	4.2	4.3	4.4	4.4
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	18.8	18.5	18.0	17.3	17.0	16.6
Consumer goods	3.3	3.4	3.7	3.7	3.9	4.1	4.1	3.9	3.8	3.7	3.7
Intermediate goods	6.1	6.4	6.7	6.6	8.6	8.9	8.7	8.4	8.0	7.8	7.5
Capital goods	4.2	4.4	4.8	4.6	5.0	5.4	5.3	5.2	5.1	5.0	5.0
Other	0.6	0.5	0.4	0.4	0.5	0.4	0.4	0.4	0.4	0.4	0.4
Services balance	-1.4	-1.2	-1.3	-1.6	-2.1	-1.9	-1.9	-1.7	-1.7	-1.6	-1.6
Exports of services	3.1	3.2	3.3	2.2	2.4	2.7	2.8	2.9	2.9	2.9	2.9
Imports of services	4.5	4.5	4.6	3.7	4.5	4.5	4.6	4.6	4.6	4.6	4.5
Primary income balance	-2.6	-3.4	-3.0	-1.8	-2.6	-3.7	-3.4	-2.9	-2.8	-2.8	-2.7
Receipts	1.8	1.8	2.2	1.6	1.9	2.0	2.1	2.2	2.0	1.8	1.8
Expenditures	4.4	5.3	5.2	3.4	4.4	5.7	5.6	5.1	4.8	4.6	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**	**-5.7**	**-3.3**	**-3.4**	**-3.8**	**-3.9**	**-3.9**	**-3.9**
Direct Investment	-3.2	-1.8	-3.4	-2.1	-2.3	-1.8	-2.3	-2.5	-2.7	-2.9	-3.1
Assets	1.2	1.5	1.0	0.6	0.8	1.3	1.0	0.9	0.9	0.9	0.9
Liabilities	4.4	3.4	4.3	2.8	3.1	3.1	3.3	3.4	3.6	3.8	3.9
Oil sector	1.0	0.8	0.9	0.2	0.3	0.3	0.3	0.3	0.2	0.2	0.2
Non-oil sectors	3.4	2.6	3.5	2.9	2.7	2.8	3.0	3.2	3.4	3.5	3.7
Portfolio Investment	0.0	0.3	0.0	-0.7	-1.3	-1.5	-1.2	-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	0.8	0.8	0.6	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	1.3	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	0.2
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	-2.3	-0.3	-0.2	-0.7	-0.6	-0.5	-0.3
Assets 1/		0.1	-1.1	-0.7	-0.2	1.0	0.7	1.0	0.3	0.1	0.4
Liabilities		2.7	0.8	0.9	2.0	1.3	0.9	1.7	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	-0.6	0.0	0.0
Change in Reserve Assets	0.2	0.4	1.0	1.6	0.2	0.3	0.4	0.4	0.3	0.2	0.2
Net errors and omissions	**0.7**	**0.3**	**0.5**	**0.4**	**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/ Includes liquidation of government assets held abroad of US$ 3 billion in 2020. Of the FCL purchase, US$ 3.9 billion was held abroad as government international liquidity as at end-2020 for use in 2021.

Table 3. Colombia: External Financing Requirements and Sources, 2021–23

(In millions of U.S. dollars)

	2021	2022 Baseline	2022 Adverse Scenario	2022 Contribution to gap in adverse scenario	2023 Baseline	2023 Adverse Scenario	2023 Contribution to gap in adverse scenario	Current	Rollover/shock 8/ (2020 Augmentation)	Rollover/shock (May 2020 Approval)
		Staff Projections								
Gross financing requirements	**55,789**	**48,365**	**41,148**	**(7,218)**	**52,005**	**44,863**	**(7,143)**			
External current account deficit 1/	17,830	11,730	17,004	5,274	12,530	18,162	5,633	24% shock to oil price; 5% shock to commodity prices	35% shock to oil exports (prices and volumes); 10% shock to non-oil exports; migration shock (imports); remittances	28% shock to oil price; 10% shock to non-oil exports; migration shock
Debt amortization	37,335	35,594	35,594		38,150	38,150				
Medium and long term debt	15,440	13,506	13,506		15,576	15,576				
Public sector 2/	3,918	1,815	1,815		5,415	5,415				
Private sector	11,522	11,691	11,691		10,161	10,161				
Short-term debt 3/	21,896	22,088	22,088		22,575	22,575				
Public sector	690	690	690		690	690				
Private sector	21,206	21,397	21,397		21,885	21,885				
Gross reserves accumulation	624	1,041	-11,450	(12,491)	1,325	-11,450	(12,775)			
Available financing	**55,789**	**48,365**	**31,119**	**17,246**	**52,005**	**34,865**	**17,140**			
Foreign direct investment (net)	7,189	6,421	4,232		8,576	6,134				
o/w inward (net)	9,611	10,945	8,756	2,189	12,206	9,765	2,441	20% reduction	20% reduction	20% reduction
Other K inflows										
Medium and LT debt disbursements	24,156	23,852	16,281		23,251	16,140				
Public sector 2/	13,135	12,911	7,747	5,164	11,090	6,654	4,436	40% reduction	80%	80%
Private sector	11,022	10,941	8,534	2,407	12,161	9,486	2,675	73%	73%	73%
Short-term debt 3/	22,088	22,575	17,670		23,041	18,035				
Public sector	690	690	552	138	690	552	138	80%	80%	80%
Private sector	21,397	21,885	17,118	4,767	22,351	17,483	4,868	80%	80%	80%
Other capital flows (net) 4/	2,356	-4,482	-7,064	2,582	-2,862	-5,444	2,582	1 std deviation other portfolio investment	1 std deviation other portfolio investment	100% reduction in equity portfolio investment + $1 bln sell-off
Financing gap (in US$ millions)		**0**	**10,029**	**10,029**			**9,998**			
Percent of quota 5/		*0*	*350*	*350*			*345*			
Gross international reserves 6/	59,124	60,165	48,715		61,490	50,040				
Net international reserves 4/	56,687	57,728	46,278		59,053	47,603				
Net international reserves (program definition) 6/	56,173	57,214			58,540					
o/w portfolio flows (including pension funds)	56,678	57,719								
GIR/ARA (constant ARA)	137	127	103		124	101				
GIR/ARA (adjusting ARA)	137	127	102		124	100				
GIR / (st debt at remaining maturity + ca deficit) 7/	125	114	93		130	106				
GIR (months of imports of G&S in same year) 7/	10	9	7		9	7				

Sources: Colombian authorities; and IMF staff estimates.

1/ Including lower oil-related imports and lower oil-related income outflows reflecting the decline in oil prices as well as improvements from depreciation.
of the peso. The latter comprises a slight expansion of nontraditional exports, a compression of the imports of goods and services, and a reduction of the U.S. dollar value of peso-denominated interest payments.
2/ Including financial public sector. Excludes IMF FCL. Net of TES flows.
3/ Original maturity of less than 1 year. Stock at the end of the previous period.
4/ 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.
5/ Based on the IMF projection for the SDR per US$ rate, average for 2020 and 2021, respectively.
6/ 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.
7/ Adverse scenarios hold denominator (imports, st debt, or current account) constant. Debt excludes TES.
8/ Calibrations apply to 2021, which is the year used to justify precautionary access.

Table 4. Colombia: Operations of the Central Government, 2017-27 1/
(In percent of GDP, unless otherwise indicated)

	2017	2018	2019	2020	2021 2/	Projections 2022	2023	2024	2025	2026	2027
Total revenue	**15.7**	**15.3**	**16.2**	**15.3**	**15.4**	**16.0**	**18.0**	**17.6**	**17.4**	**17.1**	**17.0**
Current revenue 3/	**14.4**	**13.8**	**14.1**	**13.3**	**14.1**	**14.7**	**15.8**	**15.7**	**15.6**	**15.5**	**15.5**
Tax revenue	**13.8**	**13.7**	**14.0**	**13.1**	**14.0**	**14.6**	**15.7**	**15.6**	**15.4**	**15.4**	**15.4**
Net income tax and profits	5.7	6.5	6.4	6.2	6.3	6.5	7.5	7.6	7.5	7.5	7.6
Goods and services	5.5	5.7	5.8	5.4	6.0	6.3	6.3	6.1	6.1	6.0	5.9
Value-added tax	5.5	5.7	5.8	5.4	6.1	6.3	6.3	6.1	6.1	6.0	5.9
International trade	0.4	0.4	0.4	0.3	0.4	0.5	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**	**2.4**	**2.0**	**2.0**	**1.7**	**1.6**
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	2.1	1.7	1.7	1.4	1.3
Total expenditure and net lending	**19.3**	**20.1**	**18.7**	**23.1**	**23.7**	**22.0**	**21.7**	**21.2**	**20.0**	**19.6**	**19.5**
Current expenditure	**16.0**	**17.5**	**15.7**	**19.5**	**20.8**	**18.9**	**18.4**	**18.0**	**17.6**	**17.3**	**16.9**
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	0.4	0.4	0.4	0.4	0.4
Interest	2.9	2.8	2.9	2.8	3.4	3.5	3.4	3.3	3.4	3.6	3.3
External	0.7	0.7	0.7	0.8	0.7	0.8	1.0	1.1	1.2	1.2	1.1
Domestic	2.2	2.1	2.2	2.0	2.7	2.7	2.3	2.1	2.2	2.4	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**	**2.9**	**3.2**	**3.3**	**3.2**	**2.5**	**2.4**	**2.6**
Fixed capital formation	2.1	1.5	1.8	2.2	1.5	2.0	2.2	2.1	1.4	1.3	1.5
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**	**-6.1**	**-3.7**	**-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	1.6	1.9	1.6	1.3	1.2
Structural balance 6/	-2.6	-2.2	-2.1	-6.1	-7.3	-5.8	-3.9	-3.9	-2.7	-2.5	-2.5
Structural primary non-oil balance	-0.7	-0.5	-0.2	-4.9	-4.6	-3.1	-1.8	-2.2	-0.7	-0.2	-0.4
Fiscal Impulse	-0.6	-0.2	-0.3	4.7	-0.3	-1.5	-1.3	0.4	-1.4	-0.5	0.2
Non-oil balance	-3.8	-3.5	-3.3	-9.0	-8.2	-6.5	-5.2	-5.5	-4.1	-3.8	-3.7
Primary balance	-0.7	-2.0	0.4	-4.9	-4.8	-2.6	-0.3	-0.3	0.8	1.1	0.8
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	1,338.3	1,434.6	1,530.0	1,630.4	1,738.1	1,853.1

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 5. Colombia: Operations of the Combined Public Sector, 2017-27 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**	**29.8**	**31.8**	**31.4**	**30.8**	**30.1**	**29.8**
Tax revenue	18.8	21.2	21.7	20.8	21.7	22.3	23.4	23.3	23.0	23.0	23.0
Nontax revenue	8.0	8.8	7.7	5.8	6.0	7.5	8.5	8.1	7.7	7.1	6.8
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	4.6	5.6	5.3	4.9	4.3	4.0
Total expenditure and net lending 6/	**29.4**	**34.5**	**31.8**	**33.6**	**34.5**	**34.4**	**34.0**	**32.8**	**31.6**	**31.1**	**30.9**
Current expenditure	24.9	31.4	27.6	29.8	30.7	29.4	28.5	28.0	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	3.5	3.5	3.5	3.5	3.5
Interest	3.1	3.0	3.1	3.0	3.3	3.5	3.4	3.2	3.2	3.4	3.1
External	0.7	0.7	0.8	1.0	1.0	1.1	1.4	1.5	1.5	1.5	1.4
Domestic	2.4	2.3	2.4	2.0	2.4	2.3	2.0	1.7	1.7	1.9	1.7
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	5.0	5.5	4.8	4.2	4.1	4.3
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**	**-4.6**	**-2.2**	**-1.4**	**-0.9**	**-1.0**	**-1.1**
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**	**-4.4**	**-2.1**	**-1.3**	**-0.8**	**-0.9**	**-1.0**
Overall financing	**2.4**	**4.5**	**2.9**	**6.9**	**7.2**	**4.4**	**2.1**	**1.3**	**0.8**	**0.9**	**1.0**
Foreign, net	2.6	1.3	0.9	7.9	2.9	2.7	0.9	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	-0.6	0.0	0.0
Domestic, net	-0.2	3.2	2.0	-1.0	4.2	1.7	1.1	0.1	-0.2	0.1	-0.1
Memorandum items:											
Overall structural balance 10/	-1.2	-1.9	-1.5	-4.5	-5.6	-4.6	-2.9	-2.0	-1.0	-0.9	-1.0
Primary balance 11/	0.8	-1.5	0.2	-3.9	-3.8	-0.9	1.3	1.9	2.5	2.5	2.1
Oil-related revenues 12/	1.1	1.9	2.4	1.9	1.4	2.2	3.0	3.1	2.6	2.3	2.1
Public sector gross debt 13/	49.4	53.6	52.4	65.7	64.6	60.6	59.2	57.5	56.3	54.5	52.9
Nominal GDP (In Col$ trillion)	920.5	987.8	1,060.1	998.7	1,176.7	1,338.3	1,434.6	1,530.0	1,630.4	1,738.1	1,853.1

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, Fogafin, and Finagro.

Table 6. Colombia: Monetary Indicators, 2017-27

	2017	2018	2019	2020	2021 2/	Projections 2022	2023	2024	2025	2026	2027
	(In billions of Col$, unless otherwise indicated)										
Central Bank											
Net Foreign Assets	140,586.1	155,542.5	172,577.7	200,732.2	220,143.1	215,470.5	222,400.5	229,997.1	236,986.6	242,783.8	248,860.8
Gross official reserve assets	140,724.9	155,646.7	172,548.8	200,801.4	230,981.6	226,309.0	233,239.0	240,835.6	247,825.1	253,622.3	259,699.3
In billions of US$	47.2	47.9	52.7	58.5	58.0	59.1	60.4	61.8	63.1	64.0	64.8
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	-49,918.6	-43,391.9	-37,636.0	-30,449.3	-21,199.4	-11,102.7
Net credit to the public sector	-2,490.6	-1,524.9	3,034.3	6,625.4	20,055.7	13,391.1	11,640.3	10,096.2	8,168.3	5,687.0	2,978.4
Net credit to the financial system	3,808.4	9,016.5	8,435.0	6,948.8	7,994.2	5,337.7	4,639.8	4,024.4	3,255.9	2,266.8	1,187.2
Other	-53,091.3	-64,953.1	-71,593.1	-81,632.9	-102,812.0	-68,647.5	-59,672.0	-51,756.6	-41,873.5	-29,153.2	-15,268.4
Monetary base	88,812.7	98,081.0	112,453.8	132,673.6	145,381.0	165,551.9	179,008.6	192,361.1	206,537.4	221,584.4	237,758.1
Currency in circulation	74,057.6	80,653.3	91,659.3	111,373.9	125,450.8	141,743.2	151,937.4	161,895.2	172,352.0	183,389.7	195,150.6
Deposit money banks reserves	14,671.5	17,322.5	20,649.2	20,928.1	19,533.2	42,154.9	46,706.4	49,956.5	53,260.4	56,764.8	60,516.8
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	178,017.8	182,254.2	187,179.3	191,360.1	194,143.3	197,002.6
In billions of US$	43.0	40.4	44.5	58.2	47.0	46.5	47.2	48.1	48.7	49.0	49.2
Net domestic assets	343,014.5	367,175.1	402,159.3	404,826.1	491,842.1	583,933.1	644,188.5	703,372.2	766,911.5	836,130.6	910,701.4
Net credit to public sector	42,089.3	43,902.9	57,916.7	83,018.3	82,776.7	90,911.5	99,389.4	104,496.6	108,691.1	113,592.5	117,456.1
Credit to private sector	458,444.5	489,621.5	546,519.9	542,246.1	604,489.2	680,254.4	738,022.2	795,990.7	857,757.1	922,996.6	992,361.1
Other net	-157,352.6	-166,212.3	-202,096.3	-220,235.1	-195,423.7	-187,232.8	-193,223.1	-197,115.0	-199,536.7	-200,458.5	-199,115.8
Broad money	471,457.6	498,405.4	548,134.8	604,554.9	679,055.2	761,951.0	826,442.7	890,551.5	958,271.6	1,030,273.9	1,107,704.0
	(Annual percentage change)										
Credit to private sector	12.8	6.8	11.6	-0.8	11.5	12.5	8.5	7.9	7.8	7.6	7.5
Currency	7.0	8.9	13.6	21.5	12.6	13.0	7.2	6.6	6.5	6.4	6.4
Monetary base	5.0	10.4	14.7	18.0	9.6	13.9	8.1	7.5	7.4	7.3	7.3
Broad money 1/	6.4	5.7	10.0	10.3	12.3	12.2	8.5	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	53.6
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	6.9	3.8	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	1,338,299	1,434,551	1,530,014	1,630,379	1,738,079	1,853,055

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 7. Colombia: Medium-Term Outlook, 2017-27

	2017	2018	2019	2020	2021[1/]	Projections 2022	2023	2024	2025	2026	2027
					(In percent of GDP, unless otherwise indicated)						
Real GDP (in percent change)	1.4	2.6	3.2	-7.0	10.6	5.8	3.6	3.4	3.4	3.4	3.4
Consumer prices (in percent change; eop)	4.1	3.1	3.8	1.6	5.6	6.9	3.8	3.0	3.0	3.0	3.0
Gross national savings	18.4	17.0	16.8	15.8	14.1	15.6	15.9	15.1	15.0	15.2	15.4
Private sector	16.5	18.6	15.8	19.2	17.7	15.2	12.7	11.8	11.8	12.1	12.2
Public sector	2.0	-1.6	1.0	-3.3	-3.6	0.4	3.2	3.3	3.2	3.1	3.2
Gross domestic investment	21.6	21.2	21.4	19.2	19.7	19.0	19.2	18.9	18.9	19.0	19.3
					(In percent of GDP, unless otherwise indicated)						
Nonfinancial public sector 2/											
Revenue	26.8	30.0	29.4	26.6	27.7	29.8	31.8	31.4	30.8	30.1	29.8
Expenditure	29.4	34.5	31.8	33.6	34.5	34.4	34.0	32.8	31.6	31.1	30.9
Current expenditure	24.9	31.4	27.6	29.8	30.7	29.4	28.5	28.0	27.4	27.0	26.5
Capital expenditure	4.6	3.1	4.2	3.8	3.8	5.0	5.5	4.8	4.2	4.1	4.3
Primary balance 3/4/	-0.7	-2.0	0.4	-4.9	-4.8	-2.6	-0.3	-0.3	0.8	1.1	0.8
Overall balance 3/4/	-2.5	-4.7	-3.5	-7.0	-6.8	-4.6	-2.2	-1.4	-0.9	-1.0	-1.1
Combined public sector balance 4/	-2.4	-4.5	-2.9	-6.9	-7.2	-4.4	-2.1	-1.3	-0.8	-0.9	-1.0
External financing	2.6	1.3	0.9	7.9	2.9	2.7	0.9	1.2	0.9	0.8	1.1
Domestic financing	-0.2	3.2	2.0	-1.0	4.2	1.7	1.1	0.1	-0.2	0.1	-0.1
External current account balance	-3.2	-4.2	-4.6	-3.4	-5.7	-3.3	-3.4	-3.8	-3.9	-3.9	-3.9
Trade balance	-1.4	-1.9	-3.1	-3.3	-4.4	-0.9	-1.2	-2.2	-2.4	-2.5	-2.6
Exports	12.8	12.9	12.6	11.9	13.6	17.9	17.3	15.8	14.9	14.5	14.0
Imports	14.1	14.8	15.6	15.2	18.0	18.8	18.5	18.0	17.3	17.0	16.6
Financial account balance	-2.5	-3.9	-4.1	-3.0	-5.7	-3.3	-3.4	-3.8	-3.9	-3.9	-3.9
Direct Investment	-3.2	-1.8	-3.4	-2.1	-2.3	-1.8	-2.3	-2.5	-2.7	-2.9	-3.1
Portfolio Investment	0.0	0.3	0.0	-0.7	-1.3	-1.5	-1.2	-0.9	-0.9	-0.7	-0.7
Other Investments and Derivatives	0.5	-2.6	-1.8	-1.8	-2.3	-0.3	-0.2	-0.7	-0.6	-0.5	-0.3
Change in Reserve Assets	0.2	0.4	1.0	1.6	0.2	0.3	0.4	0.4	0.3	0.2	0.2
Gross public sector debt 5/	49.4	53.6	52.4	65.7	64.6	60.6	59.2	57.5	56.3	54.5	52.9
Gross public sector debt, excluding Ecopetrol	46.1	51.0	49.4	61.5	59.4	56.0	55.1	54.2	53.7	52.3	50.9
Memorandum items:											
Nominal GDP (in Col$ billion)	920,471	987,791	1,060,068	998,718	1,176,695	1,338,299	1,434,551	1,530,014	1,630,379	1,738,079	1,853,055

Sources: Colombian authorities and IMF staff estimates and projections.
1/ Estimate for fiscal 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, Fogafin, and Finagro.

Table 8. Colombia: Financial Soundness Indicators, 2015-21
(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 9. Colombia: Indicators of External Vulnerability, 2017-27 1/
(In billions of US$, unless otherwise indicated)

						Projections					
	2017	2018	2019	2020	2021[2/]	2022	2023	2024	2025	2026	2027
Exports of GNFS	49.3	53.7	51.3	38.1	50.4	72.2	74.3	73.1	73.7	76.0	78.1
Imports of GNFS	58.1	64.3	65.5	51.3	70.9	81.8	85.6	88.5	90.7	94.1	97.6
Terms of trade (y/y percent change)	9.9	3.5	-2.3	-12.2	13.4	26.6	-11.1	-6.3	-1.8	-1.4	-0.7
Current account balance	-9.9	-14.0	-14.8	-9.2	-17.8	-11.7	-12.5	-14.7	-16.1	-16.9	-17.9
In percent of GDP	-3.2	-4.2	-4.6	-3.4	-5.7	-3.3	-3.4	-3.8	-3.9	-3.9	-3.9
Financial account balance	-7.9	-13.0	-13.3	-8.2	-17.8	-11.7	-12.5	-14.7	-16.1	-16.9	-17.9
Of which: Foreign direct investment (net)	-10.0	-6.2	-10.8	-5.8	-7.2	-6.4	-8.6	-9.8	-11.2	-12.6	-14.2
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	60.3	58.1	58.4	59.1	59.0	58.6	58.2
Of which: Public sector (in percent of GDP) 3/	30.3	29.0	30.1	41.6	38.7	37.8	37.4	36.8	36.0	35.1	34.2
In percent of gross international reserves	312.9	325.8	307.6	303.1	320.5	339.1	351.8	367.9	380.8	393.6	407.0
Short-term external debt (in percent of GDP) 4/	5.3	6.1	7.1	8.1	7.0	6.4	6.2	6.0	5.8	5.6	5.4
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	0.1
Of which: Private sector (in percent of GDP)	5.1	5.9	6.8	7.8	6.8	6.2	6.0	5.8	5.6	5.4	5.3
Amortization of MLT external debt (in percent of GNFS exports)	32.9	29.2	25.8	37.8	30.6	18.7	21.0	28.0	28.0	28.3	29.3
External interest payments (in percent of GNFS exports)	10.7	10.7	14.7	16.4	12.9	10.2	11.2	12.6	13.2	12.9	13.1
Gross international reserves 5/	47.1	47.9	52.7	58.5	59.1	60.2	61.5	62.9	64.2	65.1	65.9
In months of prospective GNFS imports	8.8	8.8	12.3	9.9	8.7	8.4	8.3	8.3	8.2	8.0	7.8
In percent of broad money	29.8	31.2	31.5	33.2	34.7	30.3	28.7	27.5	26.3	25.0	23.8
In percent of short-term debt on residual maturity basis plus current account deficit	101.7	98.8	113.1	106.0	124.9	118.7	105.6	104.4	102.7	99.7	102.6
In percent of ARA 6/	134	132	140	141	137	127	124	120	119	116	113
Nominal exchange rate (Col$/US$, period average)	2,951	2,956	3,281	3,693	3,744	3,809.8	3,872.2	3,904.8	3,939.5	3,978.1	4,017.9
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 externa debt in 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 10. Colombia: Indicators of Fund Credit, 2019–27 1/

(In SDR million, 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	10,905.7	10,905.7	9,030.7	5,366.8	1,788.9	--
(In percent of quota)	--	183.4	183.4	533.4	533.4	441.7	262.5	87.5	--
Charges due on GRA credit 2/	--	18.8	37.2	188.4	278.1	259.1	210.4	67.9	8.6
Debt service due on GRA credit 2/	--	18.8	37.2	188.4	278.1	2,134.1	3,874.3	3,645.8	1,797.5
Debt and Debt Service Ratios 3/									
In percent of GDP									
Total external debt	50.1	65.6	60.3	84.2	84.3	84.9	84.3	83.2	82.1
Public external debt	30.1	41.6	38.7	57.4	56.4	55.1	53.5	51.8	50.1
GRA credit to Colombia	--	1.9	1.7	6.4	6.1	4.8	2.7	0.9	--
Total external debt service 4/	12.4	15.9	13.9	16.0	18.4	21.0	20.5	18.5	17.8
Public external debt service 4/	3.0	2.7	2.8	2.7	3.5	6.1	5.6	3.8	3.0
Debt service due on GRA credit	--	0.0	0.0	0.1	0.2	1.1	2.0	1.7	0.8
In percent of Gross International Reserves									
Total external debt	222.7	217.6	225.0	293.4	299.6	309.4	316.4	324.1	332.6
Public external debt	133.5	138.1	144.5	200.0	200.5	200.9	200.8	201.9	203.1
GRA credit to Colombia	--	8.9	9.0	31.6	31.1	25.2	14.8	4.9	--
In percent of Exports of Goods and Services									
Total external debt service 4/	77.8	113.0	87.0	59.0	62.9	77.4	80.0	74.5	73.7
Public external debt service 4/	19.0	19.4	17.5	10.1	12.0	22.5	21.7	15.3	12.5
Debt service due on GRA credit	--	0.1	0.1	0.4	0.5	4.2	7.6	7.0	3.4
In percent of Total External Debt									
GRA credit to Colombia	--	2.9	2.8	7.6	7.3	5.7	3.2	1.0	--
In percent of Public External Debt									
GRA credit to Colombia	--	4.6	4.4	11.2	10.9	8.7	5.1	1.7	--
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	106.8	92.6	84.2	78.5	74.7	72.5

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

1/ Assumes full drawing of 350 percent of quota under the new access.
2/ Based on the GRA rate of charge 1.249 (as of March 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 11. Colombia: External Debt Sustainability Framework, 2017–27

(In percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2017	2018	2019	2020	2021			2022	2023	2024	2025	2026	2027	**Debt-stabilizing non-interest current account 6/**
Baseline: External debt	47.3	46.7	50.1	65.6	60.3			**58.1**	**58.4**	**59.1**	**59.0**	**58.6**	**58.2**	**-2.8**
Change in external debt	-2.1	-0.6	3.4	15.4	-5.3			-2.2	0.3	0.7	-0.1	-0.4	-0.4	
Identified external debt-creating flows (4+8+9)	-4.1	-0.5	3.2	11.5	-4.7			-0.3	0.3	0.6	0.6	0.4	0.2	
Current account deficit, excluding interest payments	1.5	2.5	2.3	1.1	3.6			1.2	1.1	1.4	1.6	1.6	1.7	
Deficit in balance of goods and services	2.8	3.2	4.4	4.9	6.5			2.7	3.1	3.9	4.1	4.1	4.2	
Exports	15.8	16.1	15.9	14.1	16.0			20.6	20.0	18.7	17.8	17.4	16.9	
Imports	18.6	19.2	20.3	19.0	22.6			23.3	23.1	22.6	21.9	21.5	21.2	
Net non-debt creating capital inflows (negative)	-2.9	-1.6	-2.2	-0.7	-1.1			-0.6	-1.1	-1.2	-1.4	-1.5	-1.8	
Automatic debt dynamics 1/	-2.7	-1.4	3.2	11.1	-7.2			-1.0	0.2	0.4	0.5	0.3	0.3	
Contribution from nominal interest rate	1.7	1.7	2.3	2.3	2.1			2.1	2.2	2.3	2.3	2.2	2.2	
Contribution from real GDP growth	-0.6	-1.1	-1.5	4.2	-6.0			-3.1	-2.0	-1.9	-1.9	-1.9	-1.9	
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	3.9	-0.6			-1.9	0.0	0.1	-0.7	-0.9	-0.6	
External debt-to-exports ratio (in percent)	299.1	290.4	315.6	464.8	376.1			282.6	291.3	316.6	331.7	337.1	343.7	
Gross external financing need (in billions of US dollars) 4/	41.0	46.3	48.5	46.5	55.2			47.3	50.7	58.2	60.3	62.5	65.3	
in percent of GDP	13.1	13.9	15.0	17.2	17.6			13.5	13.7	14.9	14.6	14.3	14.2	
Scenario with key variables at their historical averages 5/						10-Year Historical Average	10-Year Standard Deviation	**58.1**	**62.1**	**66.8**	**70.7**	**74.6**	**78.9**	**0.9**
Key Macroeconomic Assumptions Underlying Baseline														
Real GDP growth (in percent)	1.4	2.6	3.2	-7.0	10.6	2.9	4.3	5.8	3.6	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	5.6	1.8	2.2	2.2	2.1	2.0	
Nominal external interest rate (in percent)	3.8	3.9	4.8	3.9	3.7	4.1	0.4	3.9	4.1	4.3	4.2	4.0	4.0	
Growth of exports (US dollar terms, in percent)	15.3	8.9	-4.5	-25.7	32.1	-1.0	18.1	43.3	2.9	-1.5	0.7	3.2	2.8	
Growth of imports (US dollar terms, in percent)	3.3	10.7	1.9	-21.6	38.1	2.2	17.1	15.4	4.6	3.3	2.5	3.8	3.8	
Current account balance, excluding interest payments	-1.5	-2.5	-2.3	-1.1	-3.6	-2.7	1.2	-1.2	-1.1	-1.4	-1.6	-1.6	-1.7	
Net non-debt creating capital inflows	2.9	1.6	2.2	0.7	1.1	2.2	1.2	0.6	1.1	1.2	1.4	1.5	1.8	

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.

Appendix I. Written Communication

Bogotá, March 31, 2022

Ms. Kristalina Georgieva
Managing Director
International Monetary Fund
Washington, D.C.

Dear Ms. Georgieva,

The Colombian authorities thank IMF's management and staff for their continued support and cooperation. The authorities are particularly grateful for the approval of the Flexible Credit Line (FCL) in May 2020 and the augmentation of access to the FCL from 384 percent to 600 percent of quota in September 2020. The FCL approval and augmentation have provided an important signaling and confidence-enhancing mechanism about the strength of the country's international liquidity position and provided security against external risks, particularly with the global pandemic. The partial disbursement, equivalent to 183 percent of quota, announced transparently with the augmentation, was effectively made at the end of 2020—mitigating the risk of pressures on the Balance of Payments given the Government's increasing emergency spending needs related to the Covid-19 pandemic. The impact of the augmentation and the subsequent partial disbursement on markets and investors was favorable, through a closely coordinated communication strategy with the IMF. The Government, as well as private financial institutions and corporates maintained ample access to domestic and international markets, a key factor contributing to the strength of the ongoing economic recovery.

Colombia's experience with the FCL highlights the importance of flexible, precautionary financing instruments in the IMF's toolkit. The experience has been positive since 2009, when Colombia was first granted access to the instrument. On the one hand, the FCL represents a good complement to the country's external liquidity buffers; on the other, it supports market confidence, signaling the presence of very strong institutional policy frameworks and economic fundamentals.

Since the augmentation of the FCL arrangement in 2020, the Colombian economy has recovered significantly from the pandemic shock. The GDP growth rate for 2021 was 10.6 percent and the level of output already surpasses the observed level of 2019. The economic expansion has been broad-based and led by private consumption, which is now above pre-pandemic levels. Looking forward, the economy is expected to expand in a range of 4.3 percent to 5.0 percent in 2022, with investment and net exports as the main drivers of growth.

The fiscal position has strengthened on the back of the strong economic recovery, successful revenue-enhancing measures and a gradual phasing out of pandemic expenditures, allowing the

Government to improve its fiscal outlook significantly. The fiscal deficit in 2021 was 7.1 percent of GDP, substantially better than the 8.6 percent projected by the Ministry of Finance in the 2021 Medium Term Fiscal Framework. For 2022 the Government is now expecting a deficit of 6.2 percent, 0.8 percentage points lower than the previous forecast. Noteworthy, the improvement in the fiscal balance has put the public debt burden in a sustained declining trajectory, three years earlier than expected. Central government debt decreased from 64.7 percent of GDP in 2020 to 63.9 percent in 2021 and an estimated reduction to 62.8 percent in 2022.

Besides an improved fiscal outlook, measures introduced reflect the Government's commitment to the continued consolidation of public finances. The Social Investment Law (SIL), approved by Congress in 2021, enhances the social protection network for the most vulnerable, increase permanent revenues through higher rates in corporate income tax and introduce provisions that should deliver tangible reductions of tax evasion and informality. Furthermore, the SIL strengthened Colombia´s fiscal management framework by reinstating the fiscal rule in 2022, explicitly outlining a consolidation path toward a structural balance rule with a new medium-term debt anchor of 55 percent of GDP and bolstering independent oversight by a new Autonomous Fiscal Rule Committee (CARF).

On the monetary front, the Central Bank began a process of policy normalization in September 2021, starting from very low real and nominal interest rates. Considering the fast pace of economic recovery and the risks to de-anchoring expectations posed by large and persistent supply shocks, the policy interest rate has been raised 225 basis points. The Central Bank will continue to monitor conditions closely and take the steps needed to deliver on its price stability mandate. Finally, the financial sector remains sound, resilient and well supervised, as stated in the recent IMF FSAP.

Looking ahead, the external outlook remains uncertain and external risks loom. A tightening of international financial conditions is expected, given the higher inflation in advanced economies, which could lead to a faster normalization of monetary policy abroad. Indeed, the pace of net capital inflows to emerging market economies has slowed down in recent months. International liquidity is still abundant, but cannot be taken for granted in the face of policy normalization in advanced economies. Even if Colombia has been recovering well and the effects of the pandemic have been successively less severe, new external shocks cannot be ruled out. Thus, continued signaling support to Colombia´s strong policy frameworks and precautionarily complementing the coverage provided by an adequate level of international reserves through the approval of the FCL remains important.

Based on the economic context described above and the Colombian authorities' commitment to maintaining very strong macroeconomic policies and fundamentals, we hereby request a new two-year FCL arrangement, with an access level of 350 percent of quota (SDR 7.1557 billion) and are notifying the cancellation of the current arrangement. We consider that this *reduced* level of access to the IMF's FCL will provide a sufficient buffer to face external risks in the context of stronger global and domestic economies, and it is consistent with the Article IV assessment. We intend to treat the new FCL arrangement as precautionary and are committed to gradually reducing access as external

risks recede. Notably, the lower access requested resumes the steady decline in Colombia's FCL access levels over time that was the trend prior to the pandemic.

Finally, we reiterate that the FCL will constitute an outstanding complement to our very strong institutional policy framework and that the authorities of Colombia will maintain a productive policy dialogue with the Fund. Our strong institutions, rooted in our Constitution include as key elements maintaining the independence of powers and an independent Central Bank. These elements are essential to ensuring the future macroeconomic stability of the country.

Sincerely,

/s/	/s/
Leonardo Villar	José Manuel Restrepo
Governor, Central Bank of Colombia	Minister of Finance and Public Credit