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ASSESSMENT OF THE IMPACT OF THE PROPOSED FLEXIBLE CREDIT LINE ARRANGEMENT ON THE FUND'S FINANCES AND LIQUIDITY POSITION

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INTRODUCTION

1. **This note assesses the impact of the proposed Flexible Credit Line (FCL) arrangement for Colombia on the Fund's finances and liquidity position, in accordance with the policy on FCL arrangements.**[1] The proposed arrangement would cover a two-year period and access would be in an amount equivalent to SDR 8.18 billion (400 percent of quota). The existing FCL arrangement for SDR 3.87 billion (500 percent of pre-14th Review quota), which was approved on June 17, 2015, will be cancelled. The full amount of access proposed would be available throughout the arrangement period, in one or multiple purchases.[2] The authorities intend to treat the Fund-supported arrangement as precautionary.

BACKGROUND

2. **Colombia has had five FCL arrangements since 2009.** Against the backdrop of a global economic and financial crisis, a one-year FCL arrangement in an amount equivalent to SDR 6.966 billion (900 percent of quota) was approved on May 11, 2009, which the authorities treated as precautionary. This arrangement was succeeded by another one-year FCL arrangement in an amount equivalent to SDR 2.322 billion (300 percent of quota) approved on May 7, 2010, followed by three two-year FCL arrangements in the amount of SDR 3.870 billion (500 percent of quota) approved on May 6, 2011, June 24, 2013, and June 17, 2015, respectively, which were also treated as precautionary. Colombia's strong economic fundamentals and institutional policy frameworks allowed the authorities to cushion the impact of the global financial crisis through countercyclical monetary and fiscal policies and, more recently, tighten policies gradually in response to the oil price decline. The FCL arrangements supported the policy framework and provided additional insurance against a deterioration of global conditions or specific shocks. No drawings have been made under any of the FCL arrangements. As discussed in Annex I, Colombia has had eight arrangements since 1999, but has not drawn on Fund resources since 1971.

3. **Colombia's total external debt has increased following the oil price shock, but is expected to decline over the medium-term (Table 1).** External debt relative to GDP remained stable at about 22-26 percent up to 2013. It increased to 30.1 percent in 2014 and further to 41.8 percent in 2015, due mostly to valuation effects of exchange rate depreciation but also widened current account deficits.[3] The bulk of this debt is long term and owed by the public sector. Private sector external debt is low, although it has increased from 8.8 percent of GDP in 2010 to 15.2 percent of GDP in 2015, reflecting the country's track record of steady access to international

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[1] See *GRA Lending Toolkit and Conditionality—Reform Proposals (3/13/09) and Flexible Credit Line (FCL) Arrangements*, Decision No.14283-(09/29), adopted March 24, 2009, as amended.

[2] If the full amount is not drawn in the first year of the arrangement, subsequent purchases are subject to a review of Colombia's continued qualification for the FCL arrangement.

[3] For comparison, Mexico and Poland's external debt in percent of GDP was about 36.5 percent and 74.7 percent (projection) in 2015, respectively.

markets and the valuation impact of exchange rate depreciation. Over the medium-term, the current account deficit, which surged to 6.5 percent of GDP in 2015 driven by a reduction in commodity exports, is expected to gradually narrow to about 4 percent of GDP by 2019. Staff's updated external debt sustainability analysis suggests that external debt ratios would decline over the medium-term and remain manageable even under significant negative shocks.[4]

Table 1. Colombia: Total External Debt, 2010–15

	2010	2011	2012	2013	2014	2015
			(In Millions of US Dollars)			
Total External Debt	66,267	77,853	81,830	97,777	113,769	122,222
Private	25,192	33,135	32,669	39,856	41,637	44,255
Public	41,075	44,719	49,162	57,921	72,132	77,967
			(In Percent of GDP)			
Total External Debt	23.1	23.2	22.2	25.7	30.1	41.8
Private	8.8	9.9	8.8	10.5	11.0	15.2
Public	14.3	13.3	13.3	15.2	19.1	26.7

Sources: Colombian authorities and IMF staff estimates.

THE PROPOSED FLEXIBLE CREDIT LINE ARRANGEMENT—RISKS AND IMPACT ON FUND FINANCES

4. **If the full amount available under the proposed FCL arrangement were disbursed:**

- **Colombia's total external debt would remain moderate, with Fund credit representing still a relatively modest fraction:** total external debt and public external debt would initially reach 55.8 and 36.5 percent of GDP, respectively, with Fund credit representing 4.5 percent of GDP (Table 2). At its peak, Colombia's outstanding use of GRA resources would account for 8.1 percent of total external debt, 14.1 percent of public external debt, and 20.0 percent of gross international reserves.[5]

[4] A more detailed description of external and public debt is provided in the staff report.

[5] Since drawing would typically occur after a shock, the macroeconomic variables are likely to be worse than under the baseline presented in Table 2; for example, under an illustrative adverse scenario employed to measure access (see *Colombia—Arrangement Under the Flexible Credit Line and Cancellation of the Current Arrangement*, 6/1/16) in which world oil prices are assumed to decline by 26 percent relative to the baseline), reserves may be drawn down by US$6.9 billion in 2016, suggesting that Colombia's peak GRA credit would rise from 19.8 percent to 29 percent of

- **External debt service including obligations to the Fund would increase over the medium term, but would remain manageable.** Colombia's projected debt service to the Fund would peak in 2020 at about SDR 4.18 billion, or close to 1.6 percent of GDP.[6] In the same year, external debt service to the Fund would peak at 11.1 percent of exports of goods and services, and account for about 45 percent of public external debt service.

5. **Despite more than doubling of access, the approval of the arrangement would have a marginal impact on the Fund's liquidity, and the Fund's potential credit risk exposure would be moderate**:

- **The proposed arrangement would reduce the Fund's modified forward commitment capacity (FCC) by SDR 6.2 billion or about 2.7 percent (Table 3).**[7] The proposed FCL arrangement would decrease the FCC by SDR 8.18 billion, which would be partially offset by the cancellation of the current FCL arrangement for its quota-financed portion (SDR 1.94 billion).[8] If Colombia were to draw under the FCL arrangement, it would be automatically excluded from the Financial Transaction Plan (FTP) and the FCC would decline by an additional SDR 1.6 billion.[9]

- **If the resources available under the FCL arrangement were fully drawn, GRA credit to Colombia would be about 15.0 percent of total GRA credit.** This would make Colombia the third largest borrower among current arrangements, and reduce the concentration of Fund credit in the top five users of Fund resources from about 89 percent to about 83 percent.

- **Potential GRA exposure to Colombia would be below the current level of the Fund's precautionary balances.** If the resources available under the arrangement were fully drawn, Fund credit to Colombia would be equivalent to about half of the Fund's current precautionary balances.

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gross international reserves in 2016. This does not materially impact staff's current view of Colombia's capacity to repay.

[6] The figures on debt service used in this report are calculated assuming that the full amount available under the arrangement is purchased upon approval of the arrangement, and that all repurchases are made as scheduled.

[7] In accordance with this definition, the FCC reflects resources available under the NAB during the current NAB activation period. The FCC does not include the 2012 Borrowing Agreements. These resources will only be counted towards the FCC once: (i) individual bilateral agreements are effective and (ii) the associated resources are available for use by the IMF, in accordance with the borrowing guidelines and the terms of these agreements.

[8] The NAB-financed portion of the current FCL (SDR 1.94 billion) cannot be used for FCC until the NAB is reactivated.

[9] Taking into account resources held as prudential balance, the decline in the FCC would be equal to 80 percent of Colombia's quota.

Table 2. Colombia: Capacity to Repay Indicators 1/

(In SDR millions, unless otherwise indicated)

	2015	2016	2017	2018	2019	2020	2021
Exposure and Repayments (In SDR millions)							
GRA credit to Colombia	--	8,178.0	8,178.0	8,178.0	6,133.5	2,044.5	--
(In percent of quota)	--	(400.0)	(400.0)	(400.0)	(300.0)	(100.0)	(0.0)
Charges due on GRA credit 2/	--	112.2	172.7	172.8	184.1	89.6	10.9
Debt service due on GRA credit 2/	--	112.2	172.7	172.8	2,228.6	4,178.6	2,055.4
Debt and Debt Service Ratios 3/							
In percent of GDP							
Total external debt	41.8	55.8	53.2	51.3	49.0	46.5	45.6
Public external debt	26.7	36.5	34.5	33.1	31.1	28.8	27.8
GRA credit to Colombia	--	4.5	4.1	3.8	2.6	0.8	--
Total external debt service	9.6	11.3	12.0	10.7	12.1	12.2	11.8
Public external debt service	2.2	2.5	2.8	2.1	4.0	3.7	3.7
Debt service due on GRA credit	--	0.1	0.1	0.1	0.9	1.6	0.8
In percent of Gross International Reserves							
Total external debt	264.2	245.4	257.8	272.4	294.9	326.9	344.3
Public external debt	168.6	200.0	208.4	219.7	222.0	214.3	210.0
GRA credit to Colombia	--	19.8	19.8	20.0	15.7	5.6	--
In percent of Exports of Goods and Services							
Total external debt service	61.7	71.7	75.9	69.9	80.5	82.4	80.1
Public external debt service	14.1	15.7	18.0	13.7	26.7	24.7	25.3
Debt service due on GRA credit	--	0.4	0.5	0.5	6.3	11.1	5.1
In percent of Total External Debt							
GRA credit to Colombia	--	8.1	7.7	7.3	5.3	1.7	--
In percent of Public External Debt							
GRA credit to Colombia	--	14.1	13.5	12.8	9.1	2.9	--
U. S. dollars per SDR (period average)	1.40	1.39	1.40	1.40	1.40	1.41	1.41
U. S. dollars per SDR (end of period)	1.39	1.40	1.40	1.40	1.41	1.41	1.41
Oil Price (Colombian mix US$ per barrel)	44.5	28.9	34.0	37.0	39.5	41.0	41.9

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

1/ Assumes full drawings under the FCL upon approval.
2/ Based on the rate of charge as of May 31, 2016. Includes surcharges under the system currently in force and service charges.
3/ Staff projections for external debt, GDP, gross international reserves, and exports of goods and services, as used in the staff report that requests the proposed FCL, adjusted for the impact of the assumed FCL drawing.

Table 3. FCL Arrangement for Colombia—Impact on GRA Finances
(In SDR millions, unless otherwise indicated)

	As of 5/31/16
Liquidity measures	
Current Forward Commitment Capacity (FCC) 1/	232,028
FCC on approval 2/	225,785
Change in percent	-2.7
Prudential measures, assuming full FCL drawing	
Fund credit to Colombia	
In percent of total GRA credit outstanding 3/	14.8
In percent of current precautionary balances	53.8
Fund credit outstanding to five largest debtors	
In percent of total GRA credit outstanding, before approval	88.1
In percent of total GRA credit outstanding including Colombia's assumed full drawing 3/	83.1
Memorandum items	
Current precautionary balances (FY 2016)	15,200
Total FCL commitments, including proposed FCL	83,567
Quota of FTP members with actual and proposed FCLs, in percent of total quota of FTP members	3.8

Source: Finance Department.

1/ The FCC is defined as the Fund's stock of usable resources less undrawn balances under existing arrangements, plus projected repurchases during the coming 12 months, less repayments of borrowing due one year forward, less a prudential balance. The FCC does not include resources under the 2012 Borrowing Agreements; these will only be counted towards the FCC once: (i) individual bilateral agreements are effective and (ii) the associated resources are available for use by the IMF, in accordance with the borrowing guidelines and the terms of the agreeements.

2/ The FCC will decrease due to the approval of the new FCL by its full amount, which will be partially offset by the cancellation of the current FCL by the amount of its quota-financed portion for SDR 1,935 million under the 1:1 NAB-quota financing ratio.

3/ Based on current Fund credit outstanding plus full drawings under the proposed FCL.

ASSESSMENT

6. **Despite more than doubling of access in SDR terms, the proposed arrangement will have a marginal effect on the Fund's liquidity.** The Fund's liquidity is expected to remain adequate after the approval of the proposed FCL arrangement for Colombia. Even if Colombia were to draw, the effect on the Fund's liquidity would be small. Nevertheless, in view of persistent risks to global growth and financial stability, a close monitoring of the liquidity position is warranted.

7. **Colombia intends to treat the FCL arrangement as precautionary, but the Fund's credit exposure would remain moderate in the event of a drawing.** If fully drawn, the arrangement would account for about 15 percent of total GRA credit outstanding and be below the existing level of precautionary balances. Moreover, Colombia's sustained track record of implementing very

strong policies, including during the global financial crisis and the recent sharp drop in oil prices, its commitment to maintain such policies in the future, and its moderate external debt mitigate risks to the Fund from potential exposure to Colombia. Against this background, while Colombia's capacity to repay the Fund has marginally weakened compared to last year when the current FCL was approved, it is projected to remain strong even if potential downside risks from an additional decline in oil prices and unfavorable external financing conditions were to arise.

Annex I. History of IMF Arrangements

Colombia had eight Fund-supported arrangements since 1999, but has not drawn on Fund resources since 1971 (Table I.1). A one-year FCL arrangement equivalent to SDR 6.966 billion was approved on May 11, 2009 to support Colombia's economic policies and bolster confidence during the crisis. A successor one-year FCL arrangement equivalent to SDR 2.322 billion was approved on May 7, 2010. This arrangement was cancelled and a new two-year FCL was approved on May 6, 2011 increasing the access to SDR 3.870 billion. This was followed by two successor FCLs with the same access, which were approved on June 24, 2013 and June 15, 2015, respectively.

Prior to the FCL arrangement approved in 2009, Colombia had a series of Stand-by Arrangements (SBAs) from the late 1950s to the mid-1970s. It last made purchases in 1971 and settled its remaining outstanding obligations to the Fund in 1972. Following a quarter century without Fund arrangements, Colombia´s economic performance deteriorated markedly in 1998-99 as a result of external shocks and intensified domestic tensions. To address the economic difficulties, a three-year Extended Arrangement under the Extended Fund Facility (EFF) was approved in 1999 to support the authorities' economic reform program. No drawings were made under this arrangement, which was followed by two precautionary SBAs, the last of which expired in November 2006. In the period covered by these three Fund arrangements, Colombia successfully adopted wide ranging macroeconomic and structural reforms.

Table I.1. Colombia: IMF Financial Arrangements, 1999–2015
(In millions of SDR)

Year	Type of Arrangement	Date of Arrangement	Date of Expiration or Cancellation	Amount of New Arrangement	Amount Drawn	Purchases	Repurchases	Fund Exposure
1999	EFF	20-Dec-99	19-Dec-02	1,957	--	--	--	--
2003	SBA	15-Jan-03	2-May-05	1,548	--	--	--	--
2005	SBA	2-May-05	2-Nov-06	405	--	--	--	--
2009	FCL	11-May-09	6-May-10	6,966	--	--	--	--
2010	FCL	7-May-10	5-May-11	2,322	--	--	--	--
2011	FCL	6-May-11	5-May-13	3,870	--	--	--	--
2013	FCL	24-Jun-13	23-Jun-15	3,870	--	--	--	--
2015	FCL	17-Jun-15	16-Jun-17	3,870				

Source: Finance Department.