INTERNATIONAL MONETARY FUND

IMF Country Report No. 17/138

COLOMBIA

May 2017

2017 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR COLOMBIA

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2017 Article IV consultation with Colombia, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its May 1, 2017 consideration of the staff report that concluded the Article IV consultation with Colombia.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on May 1, 2017, following discussions that ended on March 17, 2017 with the officials of Colombia on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on April 17, 2017.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for Colombia.

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

Selected Issues

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

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May 4, 2017

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IMF Executive Board Concludes 2017 Article IV Consultation with Colombia

On May 1, 2017, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Colombia.

In 2016, Colombia continued a remarkably smooth adjustment to a combination of large external and domestic shocks, with economic growth outpacing regional peers and achieving further improvements in poverty and inequality. Growth moderated as investment declined and exports were constrained by weak demand from neighbor countries. A further decline in oil prices eroded fiscal revenue and contributed to peso depreciation. Inflation reached a multi-year high in July partly due to El Niño and other supply shocks, but has moderated since. Despite declining exports, the current account deficit narrowed faster than expected as imports contracted, with FDI and portfolio inflows providing ample financing. The central bank continued to increase rates early in the year to anchor inflation expectations, but lowered them in recent months as inflation pressures subsided. The central government complied with the fiscal rule deficit target through primary expenditure cuts and some improvements in tax administration while protecting priority social and infrastructure spending.

Colombia faces a favorable outlook underpinned by the peace agreement and the structural tax reform together with the authorities' infrastructure agenda. Economic activity will rebound slightly this year as investment will strengthen boosted by reduced corporate taxation and confidence stemming from the peace agreement. Non-traditional exports are gaining steam in part due to ongoing efforts to reduce trade barriers and this will contribute to bring the current account deficit to its equilibrium level. Medium-term growth will be driven by economic diversification away from oil which will benefit from the infrastructure agenda and the peace agreement that will improve competitiveness and regional development. Risks to this outlook are to the downside with the main near-term risk stemming from the still large (but moderating) external financing needs. Domestically, while the banking system appears sound and broadly resilient to shocks, some pockets of corporate vulnerability have emerged. On the upside, a faster

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

than expected implementation of the peace agreement could strengthen medium-term growth even more.

Executive Board Assessment[2]

Executive Directors commended the authorities for their strong policy framework and timely policy actions, which supported Colombia's smooth adjustment to a combination of external and domestic shocks. Despite the growth slowdown, the country achieved social gains with improvements in poverty and inequality. While the medium-term outlook is favorable, downside risks remain including possible financial volatility amid the country's relatively high gross external financing needs.

Directors noted that Colombia's favorable medium-term outlook will be helped by the implementation of the peace agreement and the structural reform agenda. After a decade of favorable demographics and a commodity-related investment boom, growth prospects will depend in part on finding new engines of growth. The peace agreement stands to improve regional development and foster social inclusion; while the infrastructure agenda will help reduce important infrastructure gaps and improve productivity. Directors welcomed ongoing efforts to reduce trade barriers to facilitate export diversification, and encouraged further measures to improve the business environment and develop human capital.

Directors welcomed the structural tax reform approved last year, which will help finance key social and infrastructure programs while adhering to the fiscal rule. They concurred that reduced corporate taxation and the overall simplification of the tax system will improve competitiveness. Directors also noted that continued efforts on tax administration will be essential to achieve the target revenue yield. They welcomed the authorities' efforts to finance the implementation of the peace agreement, while noting that the mild negative fiscal impulse is appropriate and will help place the public debt-to-GDP ratio firmly on a downward path.

Directors welcomed the central bank's focus on guiding inflation expectations back to the target range while protecting the external adjustment. Timely policy decisions helped offset inflationary pressures last year and supported a welcome moderation in domestic demand. Directors noted that there is scope to ease the policy stance this year depending on the evolution of inflation expectations, but emphasized that the path of policy rate cuts should remain data-dependent. They considered that the flexible exchange rate regime has served the country well and should remain the first line of defense against global shocks, and the Flexible Credit Line with the Fund represents an additional buffer.

Directors were encouraged by the authorities' plans to further strengthen financial sector supervision and regulation. While the strength of the financial system has withstood the economic slowdown in recent years, some pockets of vulnerabilities have emerged. In this regard, they called for continued monitoring of household and corporate balance sheets.

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

Directors also encouraged the authorities to implement the remaining key recommendations from the FSAP. They agreed that the adoption of Basel III capital standards and the approval of the Conglomerates Law will provide additional tools to manage corporate and overseas risks. Adopting international standards on loan classification and restructuring practices will further enhance the resilience of the financial system.

Colombia: Selected Economic Indicators

	2015	2016	Proj. 2017
	(Annual percentage changes, unless otherwise indicated)		
National Income and Prices			
Real GDP	3.1	2.0	2.3
Consumer price index (period average)	5.0	7.5	4.5
Consumer price index (end of period)	6.8	5.7	4.1
GDP deflator	2.5	5.9	4.3
Terms of trade (deterioration -)	-18.8	-0.5	6.4
Real effective exchange rate (depreciation -)	-20.6	-3.9	3.4
	(In percent of GDP, unless otherwise indicated)		
Public finances			
Central government balance	-3.0	-4.0	-3.6
Combined public sector	-3.4	-3.1	-2.9
Public debt 1/	50.6	50.2	48.5
External Sector			
Current account (deficit -)	-6.4	-4.4	-3.8
External debt	42.5	49.2	48.5
Of which: Public sector	27.3	31.9	31.2
GIR in percent of short-term debt	133.9	127.2	138.0
Savings and Investment			
Gross domestic investment	26.7	25.5	25.5
Gross national saving	20.3	21.0	21.7
	(12-month percentage changes, unless otherwise indicated)		
Money and credit			
Broad money (M2)	11.7	13.2	12.8
Credit to the private sector	16.8	7.9	6.7
Interest rate (90-day time deposits; percent per year)			
Nominal	5.2	6.9	...

Sources: Colombian authorities; and Fund staff estimates and projections.
1/ Includes Ecopetrol and Banco de la Republica's outstanding external debt.

INTERNATIONAL MONETARY FUND

COLOMBIA

STAFF REPORT FOR THE 2017 ARTICLE IV CONSULTATION

April 17, 2017

Context. Colombia has a strong policy framework and fundamentals. Timely policy decisions have guided an orderly adjustment process to the large drop in the terms of trade experienced since 2014, aligning domestic demand with dimmer external conditions. Despite the growth slowdown last year and high inflation, poverty and inequality further improved. The current account deficit has narrowed significantly and inflationary pressures are gradually moderating. The banking system remains sound, but pockets of corporate vulnerability have emerged. The peace agreement with the FARC and the structural tax reform are important milestones that have reduced uncertainty and set the stage for a favorable outlook.

Outlook and risks. After a further slowdown in 2016, staff projects a mild growth rebound in 2017. The infrastructure agenda, the positive impact of the tax reform on investment, and improved confidence stemming from peace will underpin a gradual strengthening in medium-term growth. Downside risks relate in part to the sizeable (but declining) gross external financing needs and include volatility associated with the uncertain U.S. policy outlook and EM growth. Delays in investment including infrastructure projects, amid somewhat weak confidence and exports would hamper growth while a faster than expected implementation of the peace agreement will further strengthen the medium-term outlook.

Macro-financial policies. Further adjustment is needed this year, but policies could be eased somewhat. Policy easing should remain conditional on anchoring inflation expectations and further reducing the current account deficit. Strong policies and robust buffers should continue to cushion the impact of external shocks. Adopting Basel III standards and the conglomerates law will help manage corporate and cross-border risks.

Medium-term challenges. During the last decade, Colombia's growth benefited from favorable demographics and high investment in response to the commodities boom. Going forward, inclusive growth will depend more on diversification supported by structural reforms including on improving infrastructure, streamlining regulation, easing trade barriers and strengthening the efficiency of public expenditure. The tax reform will boost medium-term inclusive growth by allowing a strengthening in public investment and social spending. The implementation of the peace agreement will foster regional development and improve the investment climate.

Approved By
Robert Rennhack and Mary Goodman

Discussions took place in Bogotá during March 6−17, 2017. The team comprised Jorge Roldós (Head), Sergi Lanau, Francisco Roch, and Daniel Rodríguez-Delgado (all WHD), Manrique Saenz (SPR), and Nombulelo Braiton (MCM). Tomás González (OED) participated in most of the meetings. Cristina Barbosa and Adrian Robles provided support from Headquarters.

CONTENTS

APPENDIX

RECENT DEVELOPMENTS: ORDERLY EXTERNAL ADJUSTMENT

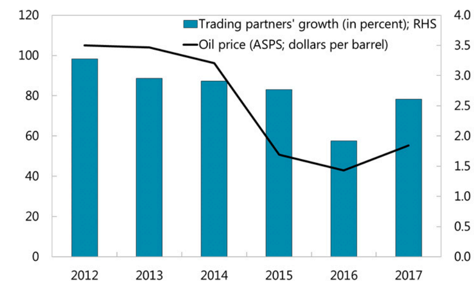
1. Colombia faced a further worsening in the external environment during 2016. Trading partners' growth slowed and average oil prices declined further. On the upside, foreign appetite for Colombian assets remained strong with record high foreign participation in the local bond market.

2. Domestic shocks compounded the effect of dimmer external conditions. Growth moderated to 2 percent in 2016 driven by a slowdown in domestic demand with investment declining by about 4 percent. Many sectors suffered from a transport strike in June–July. Despite the slowdown, the economy continued to operate near its potential and unemployment remained relatively resilient (Figure 1). Temporary factors pushed inflation to 9 percent in July, but it declined markedly thereafter as food prices normalized and depreciation stopped, to reach 5.7 percent by year-end.

3. Strong import compression narrowed the current account deficit. The current account deficit declined from 6.4 percent of GDP in 2015 to 4.4 percent in 2016, despite a continued decline in oil exports. Non-traditional exports gained strength in the last quarter of 2016. The deficit was mostly financed by FDI, while net portfolio inflows declined (Figure 2). Reserves remained at US$46.3 billion. External debt increased to about 49 percent of GDP due to higher foreign holdings of government debt (7 percent of GDP).

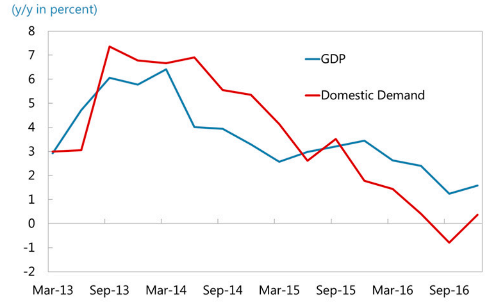
4. The monetary policy tightening cycle continued through most of 2016. The policy rate was raised by 200 bps between January and September while financial conditions indices also showed some tightening (Figure 3). As inflationary pressures began to ease, the central bank started an easing cycle in December when the policy rate was cut by 25 bp to 7.5 percent.

Headwinds Stemming from External Conditions



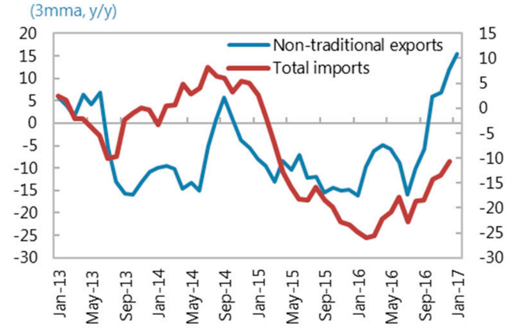
Sources: WEO and Fund staff estimates.

Domestic Demand Driving the Slowdown
(y/y in percent)



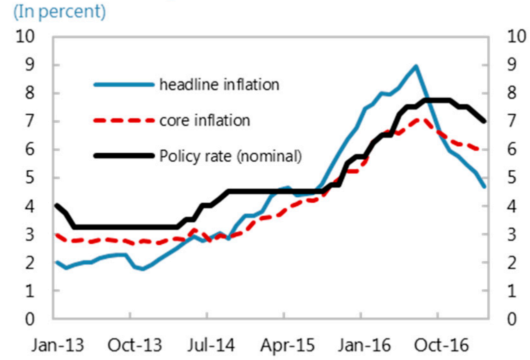
Sources: Haver and Fund staff estimates.

Imports and Non-tTaditional Exports
(3mma, y/y)



Sources: Fund staff estimates.

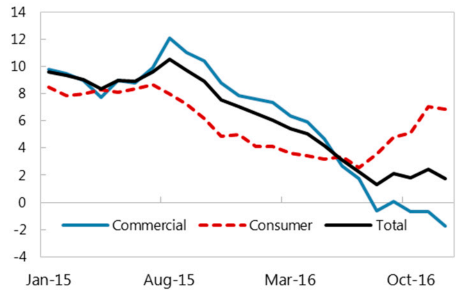
Inflation and Policy Rate
(In percent)



Sources: Branrep and Fund staff estimates.

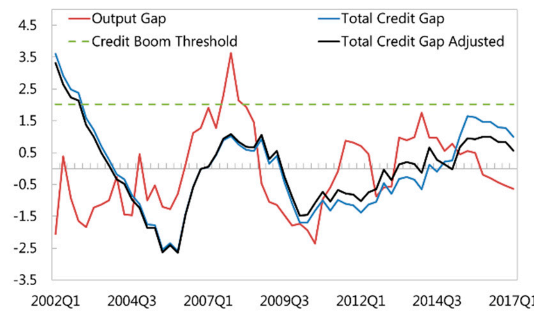
5. Credit activity remains broadly aligned with the business cycle. The credit gap remained well below levels associated with booms and is moderating. Nevertheless, consumer (especially credit card lending), and mortgage credit remained brisk (see Figure 4).

Real Credit Growth by Segment
(In percent)



Sources: Superintendencia Financiera de Colombia; Banrep and Fund staff estimates.

Output Gap vs Credit Gap



Sources: BanRep and Fund staff estimates.

6. Fiscal policy tightened as prescribed by the fiscal rule. The central government headline deficit widened to 4 percent of GDP as oil revenue declined (by about 0.9 pp) and interest expenses increased (0.3 pp). Nevertheless, the structural deficit declined to 2.8 percent of GDP (2.1 percent of GDP using official parameters for long-run oil prices and potential GDP) and was consistent with the fiscal rule and implied a negative fiscal impulse of -½ percent of GDP. Further, low spending execution by local governments also contributed to a combined negative fiscal impulse of about 2¼ percent of GDP at the consolidated public sector level (Figure 3). In December, Congress approved a structural tax reform that increased *inter-alia* the VAT rate by 3 percentage points in January 2017.

7. Colombia's inclusive growth continued despite adverse shocks. Both global and domestic shocks became headwinds for growth in 2016. Nonetheless, Colombia's performance outshined some of its peers and social indicators further improved. Poverty[1] declined from 20 percent of the population in 2015 to 18 percent in 2016, and income inequality declined slightly but remained high as measured by the Gini coefficient (51.7 percent in 2016, from 52.2 percent in 2015).

8. The peace agreement represents a historic milestone. The government and the FARC reached an agreement in September 2016 which was marginally rejected in a referendum on October 2nd. A promptly revised agreement that addressed key objections from the opposition was approved by Congress on December 1st, eliminating a key source of political uncertainty. The agreement has a strong focus on rural development and institutional development in conflict-affected areas. Negotiations with the remaining guerrilla group, ELN, are underway.

[1] Multidimensional poverty measured by the Colombian National Administrative Department of Statistics, quantifies shortfalls/scarcity that Colombian households face on different areas including education, health, work and access to public services.

Colombia: Progress Consistent with IMF Recommendations *(Policy measures taken since the 2016 Article IV have been broadly aligned with past Fund advice with no major area of disagreement)*		
	2016 Article IV Advice	**Actions since 2016 Article IV**
Tighter policies	Tighten monetary and fiscal policies to adjust to lower oil prices.	Monetary and fiscal tightening continued in 2016, helping current account adjustment. Policy rates were cut by 75bp since December but remain restrictive.
Structural tax reform	Adopt a structural tax reform to help adjustment without an undue compression of public spending.	A structural tax reform broadly aligned with Fund advice was adopted.
Adoption of Basel III	Adopt Basel III capital and liquidity elements into the regulatory framework to align it with international best practice	The authorities are moving forward to adopt Basel III standards in regulation and supervision.
Conglomerates law	Enact a law to increase regulatory powers over holding companies of financial conglomerates.	A draft conglomerates law is under discussion in congress.

9. Latest data suggest economic activity could remain subdued in the first quarter of 2017. Retail sales and industrial production withered in January, and consumer confidence, a key leading indicator, has remained weak. Employment growth has declined and inflation developments have been mixed with headline inflation decelerating faster than expected but core inflation moderating only slightly and still well above the target band. Non-traditional exports have strengthened lately suggesting the boost from past depreciation is finally materializing. With declining inflation and weak activity, the central bank has further cut the policy rate by 50bp during Q1.

10. Staff has completed the safeguards procedures for Colombia's 2016 FCL arrangement.[2] The authorities provided the necessary authorization for Fund staff to communicate directly with the Banco de la República Colombia’s external auditor, Deloitte & Touche Ltd (Deloitte) Colombia. Deloitte issued an unqualified audit opinion on the Banco de la República Colombia’s 2015 financial statements on February 17, 2016. Staff reviewed the 2015 audit results and discussed these with Deloitte. No significant safeguards issues emerged from the conduct of these procedures.

OUTLOOK AND RISKS

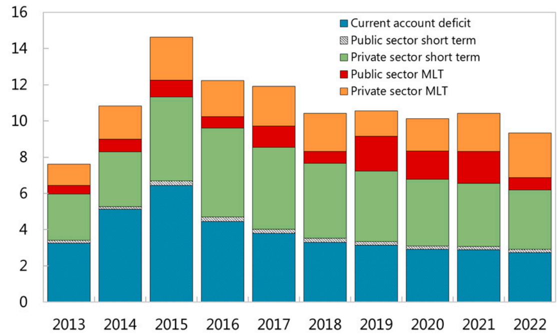
11. The near-term outlook is for a gradual growth pickup. Staff projects growth to increase to 2.3 percent in 2017 as the economy gradually diversifies away from commodities. Lower inflation will partly offset the drag on private consumption from the VAT increase while investment is expected to pick up in the second half of the year. Credit growth will be subdued as lending standards tighten in response to somewhat weaker corporate financial strength and due to softening consumers’ credit demand. Medium-term growth of about 3.5 percent will be

[2] The FCL arrangement for Colombia was approved by the Executive Board in June 2016. The safeguards procedures were completed on August 9, 2016.

underpinned by non-commodity exports, infrastructure spending, and improved confidence stemming from the peace agreement.

12. The convergence of inflation toward the target will be gradual. Despite falling headline inflation, core inflation remains relatively high. Near-term inflation expectations are slightly below the upper limit of the range (2–4 percent), while long-term expectations have declined and remain well within the target range. The initial impact on inflation of the VAT increase has been limited but the still high non-tradable inflation suggests indexation including from increases in the minimum wage are a latent risk for convergence to the target range in early 2018.

Gross External Financing Needs
(In percent of GDP)



Sources: National authorities and Fund staff estimates and projections.

13. The current account deficit is projected to narrow further in 2017 and gradually converge to its medium-term equilibrium. Additional import compression due to sluggish domestic demand, improved tourism receipts, and growing non-traditional exports will reduce the deficit to 3.8 percent of GDP in 2017. While this suggests the external position is somewhat weaker than implied by fundamentals,[3] the gap is expected to narrow gradually over the medium-term. The lagged effects of the large real exchange rate depreciation, combined with the effects of tight policies, will support the convergence to the medium-term equilibrium. The authorities agreed with staff external assessment but noted they have a somewhat smaller current account deficit forecast for 2017. Gross external financing needs will decline to about 12 percent of GDP in 2017, composed mostly of private short and medium-term debt, and hover around 10 percent of GDP over the medium term.

14. The balance of risks is to the downside (see RAM). Gross external financing needs have fallen from a high of 14.7 percent in 2015 but remain sizeable. Colombia remains vulnerable to capital flow volatility and rollover risks, but strong policies, the flexible exchange rate, and robust buffers (reserves at 139 percent of the ARA metric and the FCL) would cushion the impact of external shocks. Exposure to the U.S. is fairly limited but changes in trade policy or corporate taxes could affect efforts to diversify exports, as the U.S. buys 20 percent of Colombia's non-traditional exports. Domestically, pockets of corporate vulnerability have emerged. The authorities agreed with the balance of risks and noted that changes in U.S. taxes (e.g. BAT) could affect both portfolio and FDI flows with the latent risk of investment relocation to the U.S. On the domestic front, they also noticed that the latest weakness in high frequency indicators suggests a risk of a more protracted slowdown than expected by staff, while a faster than expected implementation of the peace agreement could strengthen medium-term growth even more.

[3] As described in the annex, staff estimates the CA norm at -2.6 percent of GDP which implies about 1 percent of GDP gap versus the 2016 (cyclically adjusted) CA balance of -3.6 percent of GDP.

Global Risk Assessment Matrix[1]

Source of Risks *(Probability in red/green; time horizon in Italics)*	**Impact**	**Policy Advice**
Retreat from cross-border integration. A fraying consensus about the benefits of globalization could lead to protectionism and economic isolationism, leading to reduced global and regional policy collaboration with negative consequences for trade, capital and labor flows, sentiment, and growth. **H**. *Short to Medium-Term*	**Medium**	Speed up structural reforms and pro-diversification measures.
Policy uncertainty and divergence. Two-sided risks to U.S. growth with difficult-to-predict policies and global spillovers. In Europe, uncertainty associated with negotiating post-Brexit arrangements and with upcoming major elections. Policy divergence could lead to rising global imbalances and exacerbate exchange rate and capital flow volatility. **H.** *Short to Medium-Term*	**Medium**	Use the exchange rate and international reserves as shock absorber.
Financial conditions: Significant further strengthening of the U.S. dollar and/or higher rates. As investors reassess policy fundamentals, as term premia decompress, or if there is a more rapid Fed normalization, leveraged firms, lower-rated sovereigns and those with un-hedged dollar exposures could come under stress. Could also result in capital account pressures for some economies. **H.** *Short-term*	**Medium**	Use the exchange rate and international reserves as shock absorber. Foreign exchange intervention to smooth disorderly behavior
Weaker-than-expected global growth:		
Significant China slowdown and its spillovers: Key near-term risks are disruptive drying up of liquidity for weaker borrowers in the interbank market and a stronger U.S. dollar increasing pressure on the Renminbi. Weak domestic demand further suppresses commodity prices, roils global financial markets, and reduces global growth. **L/M.** *Short to Medium Term*	**High**	Monetary policy support only if expectations anchored; speed up high return public investment projects and measures to foster diversification.
Structurally weak growth in key advanced and emerging economies: Low productivity growth (U.S., the Euro Area, and Japan), a failure to fully address crisis legacies and undertake structural reforms, and persistently low inflation (the Euro Area, and Japan) undermine medium-term growth in advanced economies (high likelihood). Resource misallocation and policy missteps, including insufficient reforms, exacerbate declining productivity growth in emerging markets (medium likelihood). **H/M** *Medium Term*	**Medium**	Speed up high return public investment projects and measures to foster diversification
Lower energy prices, Production cuts by OPEC and other major producers may not materialize as agreed while other sources of supply could increase production. **L.** *Short to Medium Term*	**High**	Use the exchange rate and international reserves as shock absorber. Speed up measures to foster diversification
Country-specific shocks:		
Economic distress in Central America affecting Colombia's banks. **L.** *Short to Medium Term*	**Medium**	Provide liquidity support to systemic institutions
Further delays in infrastructure PPP projects **M,** *Short to Medium Term*	**Medium**	Develop new financing instruments in line with fiscal sustainability. Speed up measures to foster diversification.
Reassessment of sovereign risk. Potential that rating agencies downgrade Colombia *leading to higher spreads and sovereign and corporate financing costs,* **M,** *Short to Medium Term*	**Medium**	Use the exchange rate and international reserves as shock absorber. Foreign exchange intervention to smooth disorderly behavior.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. "Short term" and "medium term" are meant to indicate that the risk could materialize within 1 year and 3 years, respectively.

KEY POLICY ISSUES

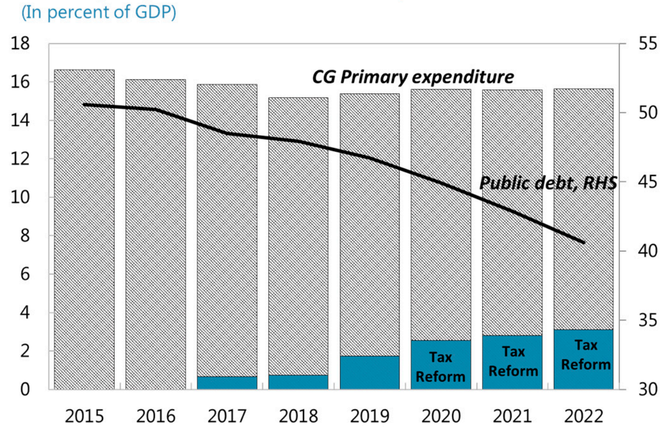
The policy mix has to carefully balance the final reduction of imbalances with support for the recovery. A gradual softening of monetary and fiscal policy has already begun, and combined with the tax reform and peace process will support the recovery. Peace will further buttress medium-term inclusive growth.

A. Policies to Facilitate the Adjustment and Recovery

15. **The authorities agreed with staff that the pace of monetary easing is contingent on the evolution of inflation expectations and should continue to contribute to the external adjustment.** Further progress on disinflation is needed, and inertial inflation from indexation poses risks to the expected convergence to the 2–4 percent target range. Nonetheless, with inflation expectations broadly anchored, one-off supply and tax shocks dissipating and a negative output gap (about -1 percent of GDP), there is scope to cut rates gradually as the current policy rate implies a real-ex ante rate of about 3 percent, exceeding the neutral real rate of around 1−2 percent (see Box 1). The nominal policy rate could fall to around 6 percent in the second half of the year which will still imply a restrictive stance (2 percent real), but its path will depend on the evolution of inflation and external indicators. Staff and the authorities agreed that external demand should lead the rebound in activity to ensure a continued reduction of the current account deficit toward sustainable levels.

16. **The structural tax reform will help achieve a more balanced fiscal consolidation in 2017.** In line with the fiscal rule, the central government deficit will narrow to 3.6 percent of GDP with the tax reform proceeds (0.7 percent of GDP) protecting social expenditure programs. Budget measures include a continuation of mortgage subsidies and civil works (school) expansion while some savings will come from the discontinuation of one-off expenses such as the peace referendum and reduction in some transfers. The consolidated public sector would post a deficit of 2.9 percent of GDP as subnational spending execution strengthens. The planned consolidation is adequate and implies a mild negative fiscal impulse (-0.1 percent of GDP), and a somewhat stronger one to comply with the fiscal rule in 2018. Staff and the government shared the priority to place public debt on a downward path starting this year including along the implementation of the peace agreement. On the expenditure side, recent efforts to improve the targeting of subsidies and call for expert recommendations to improve expenditure efficiency are also welcome.

Primary Expenditure Protected by Tax Reform
(In percent of GDP)

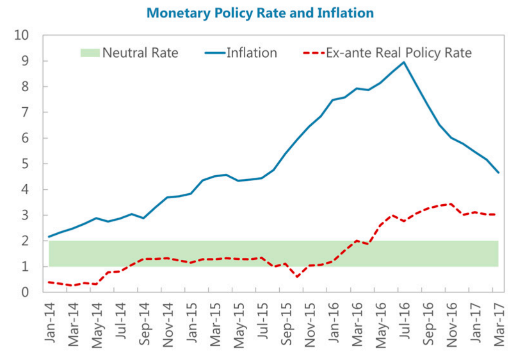


Sources: WEO and Fund staff estimates.

Box 1. Monetary and Financial Conditions

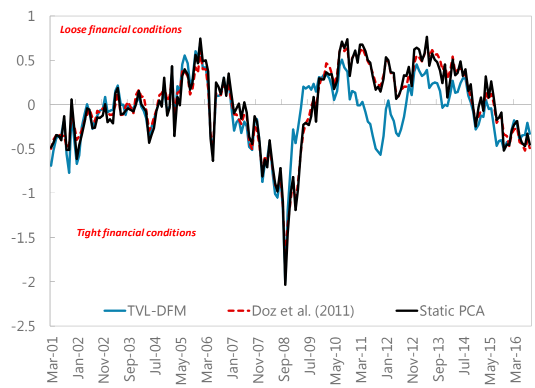
Staff's updated estimates suggest that both monetary policy and broad financial conditions have remained tight in 2016. However, the housing sector has been resilient with robust mortgage credit growth and house prices slightly misaligned with fundamentals.

The range for the real neutral interest rate is assessed to be 1–2 percent. Different methodologies were used to estimate the neutral interest rate: uncovered interest parity; a Taylor rule; a standard consumption-smoothing model; a DSGE model; and the Hodrick-Prescott (HP) filter (see SIP Chapter 1). Moreover, the Central Bank also provided a range of estimates for the real neutral rate with the median at 1.4 percent. This implies that the (ex-ante) real monetary policy rate has been at contractionary levels during 2016, contributing to attenuate inflation pressures and anchoring expectations.



Sources: Banrep and Fund staff estimates.

Financial conditions have remained tight during 2016, amplifying monetary policy impact. Staff constructed an FCI purged of cyclical influence (by controlling for GDP growth), and the direct effects of monetary policy decisions (by controlling for the policy rate). Following Koop and Korobilis (2014), the FCI is normalized around 0 over the observation period (2001–16) and values above zero indicate "loose" and below zero "tight" conditions. Tightening financial conditions contributed to the slowdown in economic activity. The impulse response function analysis shows that a 1 standard deviation tightening of financial conditions lowers GDP growth by about 0.25 percentage points within 12 months. Hence, this suggests that the observed cumulative tightening in financial conditions would continue weighing on growth in 2017 (by about 0.2 ppts).



Source: Fund staff estimates.

Mortgage credit is still growing rapidly. In line with the tightening suggested by the FCI, overall credit growth decelerated significantly in 2016. However, the mortgage credit segment has remained resilient with a real growth of 6.8 percent. This is partly due to the various government subsidy programs: around 30 percent of the mortgages originated in 2016 were subsidized. These developments, together with the significant expansion of house prices since 2002, generate questions about the macro-financial risks associated with potential reversals in the housing and mortgage markets. Staff estimated that house prices are slightly misaligned with respect to economic fundamentals, with an estimated price gap of 13.5 percent (see SIP Chapter 2). However, after the 1999 financial crisis the authorities have adopted macroprudential measures such as the use of LTV limits, and other housing financing characteristics (e.g., full recourse, no prepayment penalties, fixed-rate mortgages) that limit the vulnerabilities stemming from the housing market.

Near-Term Fiscal Outlook 1/

(In percent of GDP, unless otherwise indicated)

	2015	2016	2017	2018	2019	2020	2021	2022
Central Government Fiscal Stance								
Headline balance	-3.0	-4.0	-3.6	-2.7	-2.2	-1.6	-1.2	-1.0
Expenditure	19.2	19.1	18.9	18.0	18.2	18.4	18.2	18.2
of which: Fixed capital formation	2.7	2.1	2.0	1.6	2.0	2.3	2.3	2.3
Structural primary non-oil balance	-1.7	-1.2	-0.7	0.0	0.3	0.8	0.9	0.9
Fiscal Impulse	-1.3	-0.5	-0.5	-0.7	-0.3	-0.4	-0.1	0.0
Consolidated Public Sector								
Headline Balance	-3.4	-3.1	-2.9	-2.1	-1.6	-0.9	-0.5	-0.3
of which: Subnationals balance	-0.5	0.3	0.1	0.1	0.1	0.1	0.1	0.1
Structural primary non-oil balance	-2.4	-0.2	-0.1	0.5	0.8	1.3	1.4	1.5
Fiscal Impulse	-1.0	-2.2	-0.1	-0.6	-0.3	-0.5	-0.1	-0.1
Memorandum items:								
Public sector gross debt	50.6	50.2	48.5	47.9	46.7	44.9	42.9	40.6
Public sector net debt 2/	42.2	40.5	40.4	40.5	39.9	38.7	37.2	35.5

Source: National authorities and Fund staff estimates.
1/ The medium-term fiscal outlook is broadly based on the authorities' medium-term fiscal framework.
It assumes the full implementation of the structural tax reform as approved by Congress and in line with official estimates.
2/ Gross debt minus public sector deposits.

17. The authorities and staff agreed that the flexible exchange rate will remain the first line of defense against external shocks. The authorities noted that exchange rate flexibility is an integral part of the policy framework and has been effective in dealing with the oil price shock given limited mismatches in bank and corporate balance sheets. At the same time, the central bank will continue to consider all available intervention tools when facing shocks and select the most appropriate ones according to cost/benefit analysis. Reserves are ample and the FCL represents an additional buffer against tail-risk events.

B. Preserving Financial Stability

18. Corporate balance sheets have worsened somewhat and pockets of vulnerability exist. Corporate debt, composed mostly of local bank loans, is modest by international standards (46 percent of GDP) but has increased due in part to valuation effects from the depreciation. As of 2015, corporate leverage and profitability were worse than their historical average. Data up to September 2016 show that agriculture, mining and transport —which combined represent 15 percent of total commercial loans—exhibit the largest share of problem loans. Staff analysis confirms corporate performance has deteriorated in recent years, with increased leverage in the airlines, and oil and gas industries (Figure 5) which nonetheless represent a small share of banks' loan portfolio. Household debt remains modest (20 percent of GDP) and debt service burden (10 percent of disposable income) is limited. At the same time, credit card debt is rising, posing upward risks to NPLs amid the recent softening of the labor market.

19. The financial system appears to be sound and broadly resilient to shocks but risks remain. As of 2016Q3, capital adequacy (17.6 percent) is well-above the regulatory minimum and bank profitability is within the historical average despite the slowdown in credit (Table 7). Non-performing loans increased marginally during 2016, but spiked in January 2017 (to 3.7 percent) reflecting a delayed increase that is likely to continue amid weak corporate performance and economic slowdown (see Box 2). Strong prudential standards (including on provisioning and collateral) have cushioned the impact of shocks. Performance of the largest non-bank financial companies (pension funds, insurance companies, and trust companies) remains strong, while earnings of stock-brokerage firms—who account for 1.4 percent of financial system assets—has weakened partly due to low stock market trading volumes and structural issues.

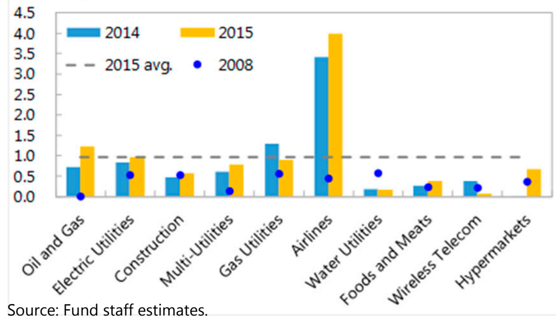
20. Official stress tests suggest existing countercyclical provisions would help banks withstand large macro-financial shocks. The authorities' stress tests assessed the impact of a sudden and temporary increase in EMBIG spreads (200 basis points) and a drop in global confidence calibrated to mimic the impact of a sovereign downgrade. The scenario would lead to a significant increase in commercial NPLs (from their current level of about 3 percent to near 10 percent in a two-year horizon) driven mostly by an increase in country risk which would affect particularly firms with higher reliance on external debt. Cumulative bank losses would reach 21.1 percent of bank equity. However, bank solvency would remain above the 9 percent regulatory minimum as part of provisioning needs would be covered from existing countercyclical buffers.[1]

[1] Last July, Moody's placed Colombian banks on a negative outlook based in part on their stress test, which assessed the scenario of a 33 percent drop in net interest income, 55 percent drop in other income and stable expenditures on five banks. Aggregate NPLs rose from 2 to 9 and capital adequacy declined below the regulatory minimum. However, the authorities have noted that Moody's stress test overestimated bank loses by ignoring existing hedges (see Financial Stability Report September 2016).

Box 2. Slowdown Increases Credit Risk

Corporate sector performance has deteriorated over the past two years following external and domestic economic shocks. The combination of a decline in oil prices, the depreciation of the peso, and weaker domestic activity contributed to an increase in corporate leverage in several sectors, especially in mining. Increasingly more firms have an interest coverage ratio below 2; the increase of this debt-at-risk indicator in 2015 should be read with caution as it also includes the effect of large firms moving to IFRS reporting.

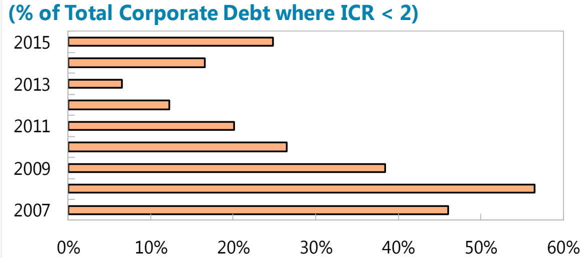
Total Debt to Total Equity by Sector
(multiple, median)



Source: Fund staff estimates.

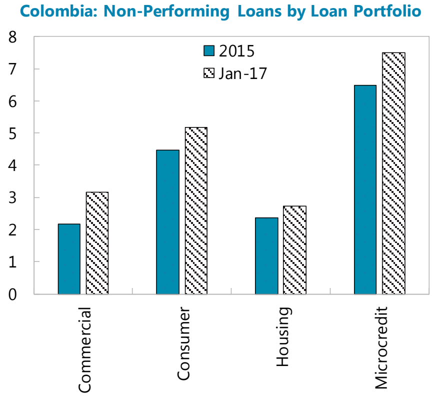
The banking system has so far been resilient but credit risk is rising. The banking system capital adequacy ratio remains above the regulatory minimum and non-performing loans (NPLs) have increased only to 3.7 percent in January 2017. By sector, the increase in non-performing loans has been the largest in mining with other sectors also affected—commerce, construction, transportation, agriculture. NPLs are increasing in all loan portfolios; they are the largest in microcredit (7.5 percent NPLs in January 2017), however this sector accounts for only 2.8 percent of the total loan portfolio. The commercial loan book accounts for the largest share (55 percent of total loans) followed by consumer loans (27.7 percent of total loans). There has been a strong increase in some consumer loans, especially credit card indebtedness, which is reflective of tighter economic conditions and raises risks going forward. Unemployment is also picking up, which will likely result in a further increase in NPLs in the coming months.

Debt at Risk1/
(% of Total Corporate Debt where ICR < 2)



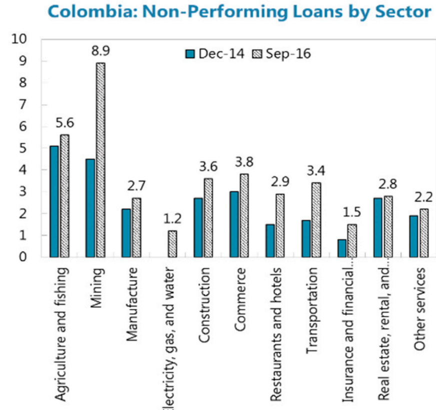
1/ Large firms moved to IFRS reporting in 2015, reducing comparability with previous years.
Source: Fund staff estimates.

Colombia: Non-Performing Loans by Loan Portfolio



Source: Banrep.

Colombia: Non-Performing Loans by Sector

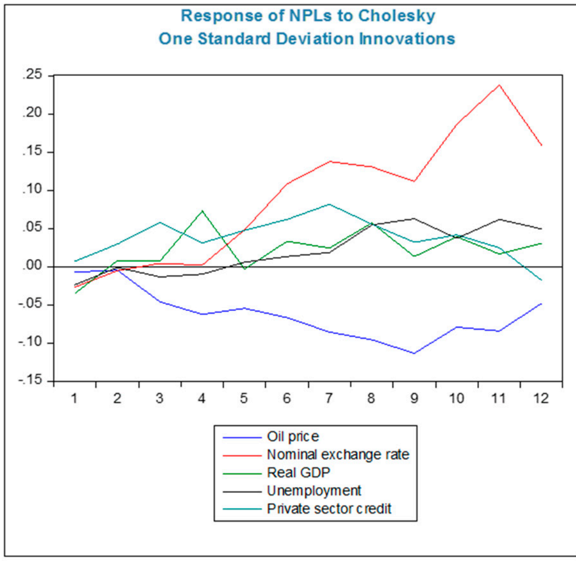


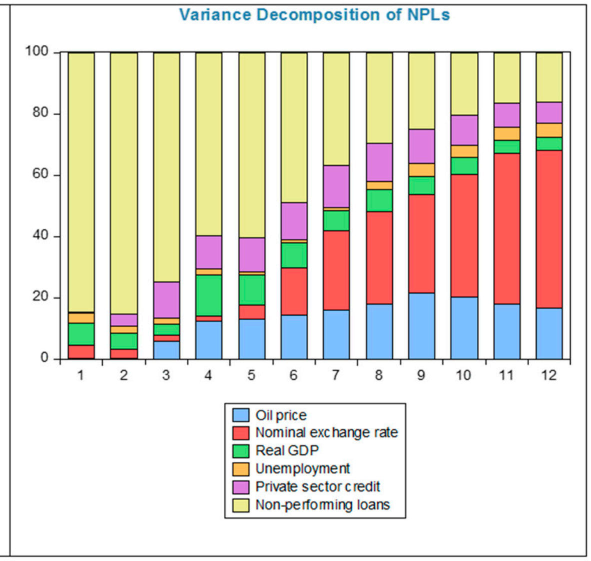
Source: Banrep.

Staff estimates indicate long lags in the response of banking system NPLs to economic shocks. Evidence from a vector autoregression suggests that oil prices affect NPLs after three quarters, with the highest impact occurring after 9 quarters. The exchange rate has a small immediate impact but the largest impact occurs after 6 quarters. Real GDP also has an immediate impact, with the largest impact

Box 2. Slowdown Increases Credit Risk (Concluded)

occurring after 4 quarters. Credit growth affects NPLs mostly after 3 quarters. The relative impact of unemployment is smaller compared to the other economic variables. These results show that NPLs in Colombia can respond to shocks even one to two years after the initial shock and thus suggests that NPLs could further increase from current levels.





Source: Fund staff estimates.

21. Brisk mortgage credit growth has contributed to a moderate misalignment of house prices. Despite tighter financial conditions, real mortgage credit growth accelerated to about 7 percent at end-2016, including mortgages related to government-subsidies for low and middle income households. Staff estimate real estate prices are about 13 percent above the level implied by fundamentals (forthcoming Selected Issues Paper, Chapter 2). However, risks stemming from house prices are mitigated by low loan-to-value ratios (well below the 70 percent regulatory ratio) and the small mortgage portfolios of banks (13 percent of total).

22. Staff and the authorities agreed on the need for continued vigilance of corporate risks and further advance key pending FSAP recommendations. Continued progress to ensure strong financial supervision by the supervisory authority (SFC) including proper bank loan classification, will help monitor the risks associated with a further increase in NPLs. Further, staff urged the authorities to monitor closely restructuring loan practices among banks and upgrade regulations to best practice guidelines. Authorities' plans to bring financial sector regulation and supervision closer to Basel III over the coming year are welcome.[2] Adoption of Basel's capital buffers including Tier 1 requirements (6 percent) will further strengthen the resilience of the banking system. The

[2] Plans include to deduct goodwill from common Tier 1 capital while buffers (countercyclical, conservation and systemic risk buffers) are under study. There are also plans to incorporate country and operational risk into the risk framework.

conglomerates law is expected be adopted during the first half of the year. Its implementation, along the lines of FSAP recommendations, and the planned staff increase at the SFC will strengthen its powers to align conglomerates' capital level with group-wide risks and hence help manage risks stemming from corporate balance sheets and overseas exposures.[3]

C. Tax Reform, Peace and Fiscal Sustainability

23. The structural tax reform is closely aligned with past Fund advice and will help protect investment and social spending from the medium-term fiscal consolidation mandated by the fiscal rule. The reform includes a comprehensive simplification of the tax code and measures to improve formalization and tax administration. Measures include a 3 percentage point increase in the VAT, and a reduction in the high corporate tax burden, a key business obstacle. Staff noted that achieving the 3 percent of GDP medium-term reform target yield is predicated on gradual gains in tax administration which might not fully materialize. In response, the authorities emphasized they are revamping training and staffing at the tax authority (DIAN) and expect positive results from electronic invoicing and the simplification of the tax system.[4] Measures to reduce evasion such as higher penalties and revamp taxation for not-for-profit firms will also contribute to achieve the target yield. At the same time, strengthening personal income taxation represents a pending task, which would help further improve the progressivity of the tax system.

Colombia: Key Elements of Structural Tax Reform

Key objectives and corresponding measures	
1. Replace lost oil revenue to protect key spending	VAT increase
2. Improve competitiveness and progressivity of the tax system	Reduce corporate tax burden; limit tax exemptions in personal income tax
3. Simplify tax code	Unify multiple income taxes; single simple tax for small tax payers
4. Reduce tax evasion and strengthen tax administration	Increase penalties for tax evasion; revamp non-for-profit taxation

Expected revenue from selected measures (in percent of GDP)	2017	2018	2022
Total	0.67	0.75	3.11
VAT and consumption tax	0.73	0.80	0.89
Green taxes	0.07	0.08	0.08
Personal income tax	0.00	0.08	0.09
Corporate income tax	-0.14	-0.27	-0.07
Financial Transaction Tax	0.00	0.00	0.89
Formalization and Growth 1/	0.00	0.06	0.67
Anti-evasion measures	0.00	0.00	0.57

Source: National authorities and Fund staff estimates

1/ Includes revenue from taxation to non-profit entities; single tax for small taxpayers (monotributo)

[3] LEG will conduct an AML/CFT assessment in December 2017 aimed to strengthen the existing framework.

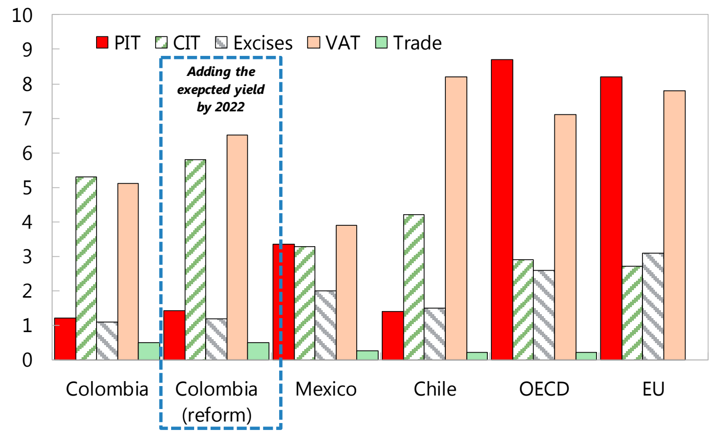
[4] Recent estimates suggest that tax evasion on VAT and income tax combined could be around 4 percent of GDP providing large room for improvement. See OECD Economic Surveys Colombia, January 2015.

Box 3. Structural Tax Reform

Recent studies have highlighted Colombia's tax system as complex, prone to evasion and with limited progressivity. The complexity stems in part from multiple taxes for personal and corporate income and together with limited resources at the tax authority has led to widespread tax evasion (OECD, 2015). Relatively ample deductions and exemptions in personal income tax (PIT) reduce the progressivity of the system and erodes tax revenue. Further, the corporate income tax (CIT) rate was scheduled to reach 43 percent by 2018 which is relatively high and hinders business competitiveness. Colombia's total tax revenue is similar to other regional peers (Chile and Mexico) but is low compared to the OECD average.

Components of General Government Revenue (% GDP)

Colombia and comparator countries, 2015



Source: OECD Revenue Statistics. Colombia data from 2014.

The 2016 structural tax reform aims to improve the efficiency and competitiveness of the tax system while increasing tax revenue. The reform replaces multiple overlapping taxes with a single tax for corporates and similarly establishes a single personal income tax with slightly reduced exemptions. The marginal CIT rate will be reduced gradually (to reach 33 percent in 2019) and VAT paid on capital goods will be credited against the CIT. Most of the reform's expected yield will come from an increase in the VAT rate and from gains in tax administration, formality and growth; while PIT revenue will increase only slightly.

Staff calibrated the FSGM model to simulate the growth impact of key measures of the reform. The model captures the fact that the reform will lead to higher public investment levels which would otherwise have been cut in order to meet the deficit targets included in the fiscal rule. Higher public capital would contribute to higher productivity (TFP). The combination of higher productivity and reduced corporate taxation will boost private investment and result in additional growth of about 0.3 pp. Staff also simulated the combined impact of the tax reform and the building phase of the 4G infrastructure agenda which would result in a combined growth boost of about 0.5 pp. (see SIP Chapter 3).

24. **Staff estimates that the tax reform could boost medium-term annual growth by about 0.3 percentage points if accompanied by higher public investment (see Box 3).** Model simulations indicate that the combination of lower corporate taxation and more public capital would boost private investment.[5] The authorities broadly agreed with the assessment and also noted that recent tax incentives for the oil industry could also boost investment (capex on exploration could be credited against future tax obligations).

25. **The authorities and staff agreed that fiscal sustainability should remain a key criterion in the implementation of the peace agreement.** With public debt levels and gross financing needs below stress-benchmarks, Colombia has some fiscal space for additional peace expenditure

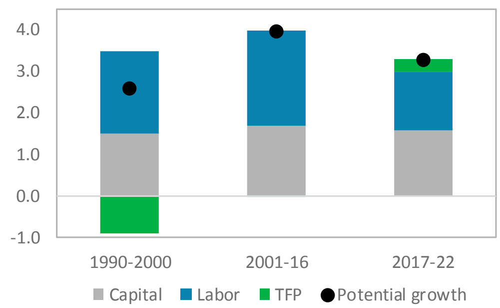
[5] Estimates obtained in collaboration with RES, using the FSGM Model calibrated to Colombian data (forthcoming Selected Issues Paper, Chapter 3).

while protecting the credibility of the fiscal rule. Ensuring debt sustainability remains a priority amid sizeable gross external financing needs and higher foreign holdings of debt. The government estimates peace-related outlays will be initially modest and within the fiscal rule in 2017–18, grow gradually and average about 1 percent of GDP per year over the medium term. About ½ percent of GDP will be covered by expenditure reallocation while the other ½ percent of GDP will represent additional expenditure as reflected in the financial plan of the peace agreement to be published in April and in the next medium-term fiscal framework to be published in June. This additional expenditure would be mostly covered by the central government and to a lesser extent by subnational governments. On the latter, the authorities sent to Congress a law to modify the oil-royalty system to free up about 0.1 percent of GDP per year for peace. Financing for peace-related expenditures will come in part from peace-funds established by IFIs and donors. The government noted that by reducing large institutional and public goods gaps in some regions, the implementation of the peace agreement should boost GDP growth. Staff agreed with the importance of ensuring a declining path for public debt as a ratio of GDP as in the staff baseline but noted that *short-run* growth effects could be somewhat dimmer than in the authorities' estimates.

D. Policies to Strengthen Medium-Term Potential Growth

26. Staff and the authorities broadly agreed that the sources of potential GDP growth will be different going forward. In the last 15 years, high oil investment and large increases in the labor force pushed potential growth above 4 percent. The latest data suggest these two factors are unlikely to be growth engines over the medium-term. The staff 's central scenario is for annual potential GDP growth to slow down to about 3½ percent between 2017 and 2022 and includes the boost from ongoing structural reforms (see Box 4). The government noted that employment growth could turn out stronger than assumed by staff if the natural rate of unemployment (NAIRU) continues to decrease over time.

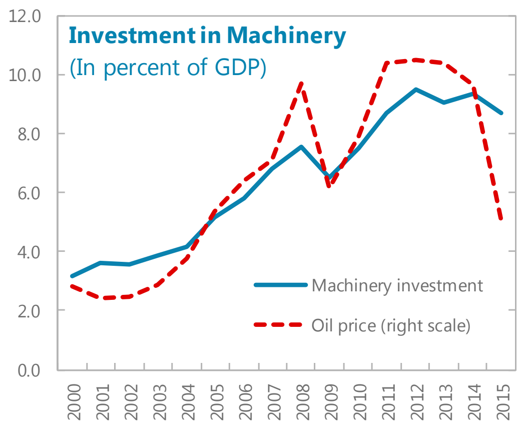
Average Potential Growth and Contributions
(Percent)

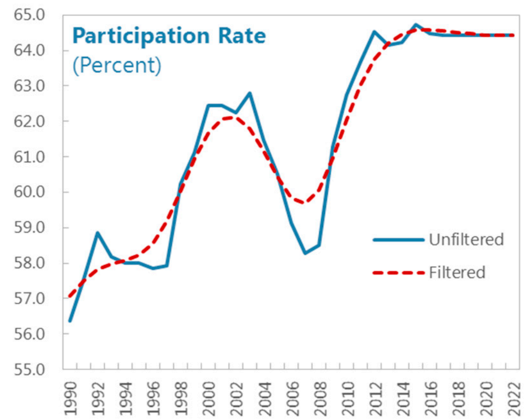


Sources: DANE; PWT and Fund staff estimates.

Box 4. Potential GDP Growth Outlook

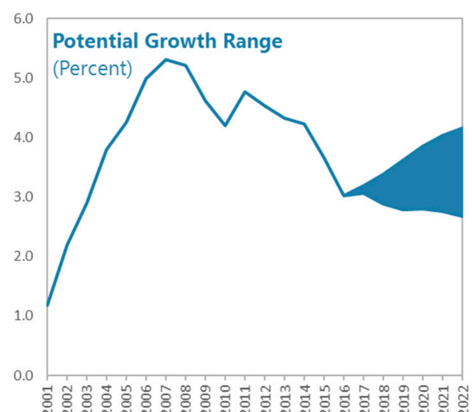
Colombia's GDP grew at an average of 4.6 percent in 2006-15, during a period of very favorable external conditions. High oil prices pushed investment to historic highs, especially in mining-related machinery. The contribution of labor to growth was also significant, as labor force participation increased and unemployment fell. Productivity gains were modest.





Source: IMF staff calculations.

Potential growth is projected to moderate to a range of 2.8 to 4.1 percent, with a central projection of 3.5 percent in 2022 (see SIP Chapter 4). The positive effects of 4G investment projects and the structural tax reform will partially offset the drag on investment from subdued oil prices, resulting in an average contribution of capital to potential growth of 1.5 percentage points in 2017−22. Falling population growth and limited scope for further participation increases will cap the average contribution of labor to potential growth to 1.4 percentage points in 2017−22, down from 2.3 percentage points in 2001−16.



Productivity gains are essential to achieve a potential growth rate of 3.5 percent or above. Productivity growth could reach 0.6 to 1.1 percent by 2022 under strong implementation of the following structural reforms: (i) development plans related to the peace agreement (up to 0.5 percentage points); (ii) productivity gains from better infrastructure (up to 0.25 percentage points); and (iii) improvements in the business environment and removal of barriers to trade (up to 0.1 percentage points).

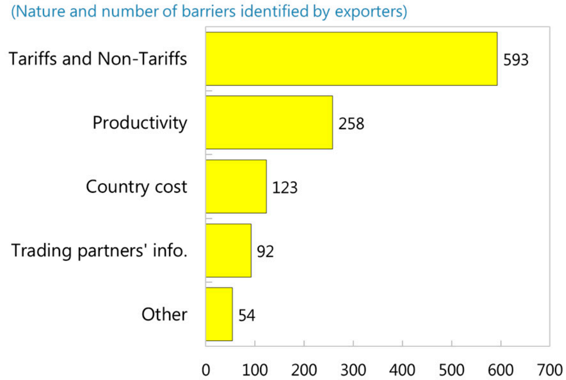
27. Key items in the authorities' structural reform agenda stand to buttress medium-term potential growth.

a. **Peace.** The peace agreement will support growth by further improving security and confidence and reducing infrastructure and social gaps across the regions most affected by the conflict (see Box 5). Staff expects peace to improve medium-term growth up to 0.5 percentage points, and further over the long term.

b. **4G agenda.** A reduction in the large infrastructure gap will foster private investment and help exporters access markets.[6] The authorities' agenda to improve tertiary roads will complement the yield from the three waves of 4G PPP-based projects.

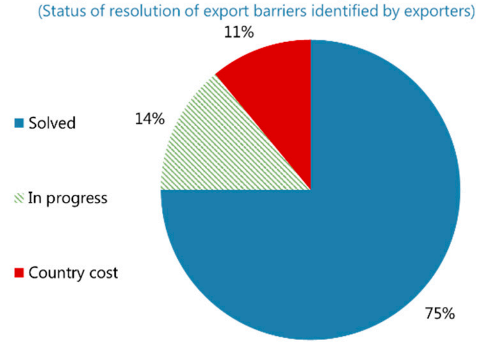
c. **Reduction of tariff and non-tariff barriers**. Despite recent efforts to improve customs procedures there are still large barriers to trade, including elevated tariffs in some sectors and widespread and onerous non-tariffs barriers which, if removed, could unleash Colombia's diversification potential.[7] The government noted recent efforts have removed 75 percent of export barriers identified by the private sector; and thanks to pilot projects on innovation and managerial skills, Colombia is exporting more products and to additional markets than in previous years.

Key Export Barriers
(Nature and number of barriers identified by exporters)



Sources: Ministry of Commerce.

Progress Report on Addressing Export Barriers
(Status of resolution of export barriers identified by exporters)



Sources: Ministry of Commerce.

28. The authorities are working to protect the 4G infrastructure agenda from recent delays. Bank lending standards to 4G projects have recently tightened amid the cancellation of a previous generation PPP-project. The government efforts to compensate creditor banks as well as to more broadly strengthen the PPP legal framework stand to facilitate private financing. FDN resources, including those from the sale of ISAGEN, will remain an important source of financing.

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[6] See Staff Report for the 2016 Article IV Consultation (IMF Country Report No. 16/129).

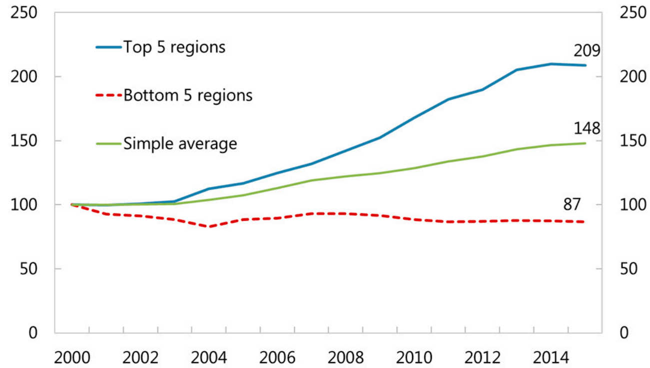
[7] Recent studies estimate that while average tariff amount to about 5 percent, non-tariff barriers are 5 times larger (tariff equivalent of 25 percent); See García et al. 2016, Banco de la República, Borrador 974.

Box 5. Regional Convergence and Peace Agreement

Colombia's strong economic performance during the last decades masks important differences across regions. On average, GDP per capita expanded by 50 percent during 2000-2015. However, while the top 5 regions (*departmentos*) doubled their GDP per capita during that time, in the bottom 5 regions GDP per capita actually declined by about 13 percent. Human capital differences are likely a contributing factor. While the national education attainment improved from 7 to 9 years (among 15 or older population), large difference remains with a 3-year gap between the top and bottom region (Bogota and Vichada, respectively).

Regional GDP per Capita

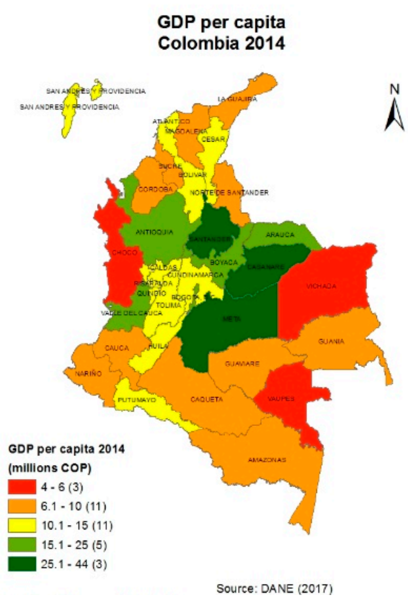
(By regions *departamentos*; index 2000=100)



Sources: DANE and Fund staff calculations

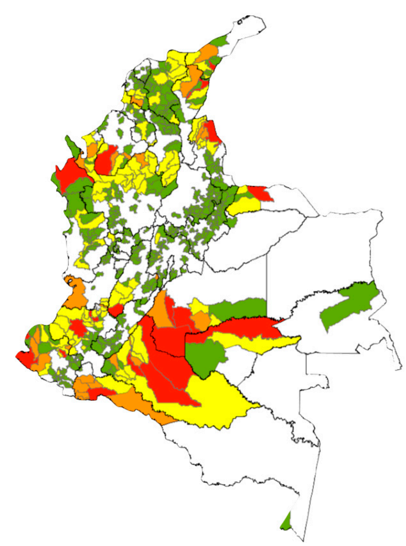
The peace agreement has a strong focus on rural development and social inclusion. The agreement aims to reduce gaps in education, health, infrastructure and other public services among rural areas and help people displaced by the conflict back to agriculture activity including through land reform. The agreement also includes financial incentives to replace illicit drugs with alternative crops and measures to reincorporate guerrilla members into society. Tax incentives will be given to firms that invest/relocate to regions affected by the conflict. The agreement includes special courts to handle conflict-related crimes and allows guerrilla members to compete for political positions. The agreement also extends the victims' reparations program that started in 2011.

The implementation of the agreement will give priority to regions with the largest institutional and social gaps. The agreement will be implemented over 15 years. Short-term priorities include municipalities with significant coca production, FARC presence or lacking state presence. Other priority group includes municipalities affected by the conflict and with low income per capita, where private participation is expected to complement government programs as in the south and west part of the country (see maps).



Incidence of Peace-Related Measures

(high intensity; low intensity)



STAFF APPRAISAL

29. **Colombia's continued success in achieving a growth-friendly adjustment despite multiple shocks reflects its strong policy frameworks and timely policy decisions.** Colombia withstood multiple domestic and external shocks in 2016, yet achieved relatively strong GDP growth with declining poverty and reducing income inequality modestly. The authorities reacted flexibly to ensure an orderly adjustment. The decisive monetary policy response helped anchor inflation expectations, while fiscal restraint protected key social and infrastructure spending from the need to adjust to lower oil revenue. As a result, domestic demand continues a gradual adjustment to the end of the commodities boom and the current account deficit has narrowed, reducing external risks.

30. **Further adjustment is needed but the policy stance could be eased somewhat to set the stage for a gradual recovery.** The current account remains slightly above the level consistent with medium-term fundamentals and policies but adjusted faster than expected in 2016. Growth will rebound toward the second part of 2017, as exports recover and investment improves underpinned by the 4G infrastructure agenda, the peace agreement and the structural tax reform. Conditional on preserving well-anchored inflation expectations, withdrawing some of the monetary tightening that took place last year will support the recovery while further bringing the current account deficit towards its medium-term equilibrium. The mild negative fiscal impulse expected this year is adequate and will help place the public debt-to-GDP ratio firmly on a downward path and also help the external adjustment. Credit growth will remain subdued with banks' lending standards tightening in response to some weakness in corporate balance sheets; consumer credit growth will also moderate.

31. **The balance of risks remains to the downside.** Despite the narrowing of the current account deficit, gross external financing needs remain relatively large and hence Colombia remains exposed to global financial volatility. U.S. tax policy decisions could negatively affect Colombia's exports and capital inflows, while delays in the structural reform agenda could hinder the expected recovery in private investment and potential growth. The flexible exchange rate regime will remain the first line of defense against global shocks and volatility while reserves are adequate for precautionary purposes and the FCL represents an additional buffer.

32. **The peace agreement and the structural tax reform are important milestones that will buttress medium-term inclusive growth, together with the infrastructure agenda.** The tax reform will help meet the fiscal rule deficit targets while protecting growth-enhancing social and infrastructure spending. The authorities' continued and strengthened efforts to improve tax administration will be important for achieving the reform target yield. Improved competitiveness will foster private investment and facilitate the much needed growth diversification. Ongoing efforts to strengthen expenditure efficiency including through the recommendations of an expert commission will further improve the quality of the planned consolidation. At the same time, the implementation of the peace agreement will target existing gaps in infrastructure and basic services while ensuring a declining debt-to-GDP ratio.

33. Continued progress to ensure strong financial supervision and regulation, including by adopting best international standards, will enhance the resilience of the financial system. The financial system is well capitalized, liquid, and profitable. Attention to proper bank loan classification and restructuring practices together with additional staff at the Financial Superintendency will help manage credit risks associated with the recent economic slowdown. The timely introduction of Basel III capital standards and the conglomerates law will further expand the regulatory toolkit to better manage corporate and overseas risks.

34. Staff does not recommend approval of the retention of the exchange restriction arising from the special regime for the hydrocarbon sector, since the authorities have no plans for its removal. Colombia has a floating exchange rate regime (de jure: free floating; de facto: floating) and maintains an exchange restriction subject to Fund approval under Article VIII arising from the special regime for the hydrocarbon sector (see IMF Country Report No. 13/35 for details).

35. Staff recommends that the next Article IV consultation takes place on the standard 12–month cycle.

Table 1. Colombia: Selected Economic and Financial Indicators

I. Social and Demographic Indicators

Population (million), 2015	48.2	Unemployment rate, 2015 (percent)	8.9
Urban population (percent of total), 2014	76.2	Physicians (per 1,000 people), 2010	1.5
GDP, 2015		Adult illliteracy rate (ages 15 and older), 2011	6.4
Per capita (US$)	6,048	Net secondary school enrollment rate, 2013	73.8
In billion of Col$	799,312	Access to water (percent of population), 2015	91.4
In billion of US$	292	Gini coefficient, 2015	52.2
Life expectancy at birth (years), 2013	73.8	Poverty rate (US$3.1 a day, PPP), 2013	5.3
Mortality rate, (under 5, per 1,000 live births), 2015	15.9	Extreme poverty rate (US$1.9 a day, PPP), 2013	2.5

II. Economic Indicators

					Projections					
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
					(In percentage change, unless otherwise indicated)					
National income and prices										
Real GDP	4.9	4.4	3.1	2.0	2.3	3.0	3.5	3.6	3.6	3.6
Potential GDP	4.2	4.3	3.3	3.0	3.1	3.2	3.3	3.4	3.5	3.5
Output Gap	0.6	1.1	0.5	-0.1	-0.9	-1.0	-0.6	-0.4	-0.2	0.0
GDP deflator	2.0	2.1	2.5	5.9	4.3	3.2	3.0	3.0	3.0	3.0
Consumer prices (average)	2.0	2.9	5.0	7.5	4.5	3.2	3.0	3.0	3.0	3.0
Consumer prices (end of period)	1.9	3.7	6.8	5.7	4.1	3.0	3.0	3.0	3.0	3.0
External sector										
Exports (f.o.b.)	-2.1	-5.6	-33.1	-13.4	13.9	5.0	5.7	6.8	6.3	6.7
Imports (f.o.b.)	0.8	7.8	-15.4	-17.0	6.3	2.1	4.1	5.3	5.6	5.1
Export volume	5.2	-1.5	-3.2	-5.2	2.7	5.8	5.7	6.2	5.2	5.5
Import volume	6.0	7.9	-6.3	-11.2	2.2	1.1	3.4	4.5	4.6	4.3
Terms of trade (deterioration -)	-2.2	-3.2	-18.8	-0.5	6.4	-1.4	-1.0	-0.7	-0.4	0.0
Real effective exchange rate (depreciation -)	-2.9	-6.9	-20.6	-3.9	3.4	-0.1	-0.1	0.0	-0.1	0.1
Money and credit										
Broad money	13.4	10.0	11.7	13.2	12.8	12.5	12.7	12.8	12.7	12.6
Credit to the private sector	12.1	14.7	16.8	7.9	6.7	7.4	8.3	9.5	10.7	11.6
Policy rate (end of period)	3.25	4.5	5.75	7.5	…	…	…	…	…	…
					(In percent of GDP)					
Central government balance	-2.3	-2.4	-3.0	-4.0	-3.6	-2.7	-2.2	-1.6	-1.2	-1.0
Central government structural balance	-3.5	-3.4	-3.7	-2.9	-2.5	-2.3	-2.0	-1.5	-1.2	-1.0
Combined public sector (CPS) balance 1/	-0.9	-1.8	-3.4	-3.1	-2.9	-2.0	-1.6	-0.9	-0.5	-0.3
CPS non-oil structural primary balance	-2.8	-3.4	-2.4	-0.2	-0.1	0.6	0.8	1.3	1.4	1.5
CPS fiscal impulse	0.7	0.6	-1.0	-2.2	-0.1	-0.7	-0.3	-0.5	-0.1	-0.1
Public debt	37.8	43.7	50.6	50.2	48.5	47.9	46.7	44.9	42.9	40.6
Public debt, excluding Ecopetrol	36.1	40.9	45.9	45.8	44.1	43.7	43.0	41.2	39.5	37.3
Gross domestic investment	24.3	26.3	26.7	25.5	25.5	25.6	25.7	25.7	25.6	25.4
Gross national savings	21.1	21.1	20.3	21.0	21.7	22.3	22.5	22.8	22.7	22.7
Current account (deficit -)	-3.2	-5.1	-6.4	-4.4	-3.8	-3.3	-3.1	-2.9	-2.9	-2.7
External debt 2/	25.7	30.1	42.5	49.2	48.5	48.6	48.3	47.8	49.0	46.4
Of which: public sector 2/	15.3	19.1	27.3	31.9	31.2	30.8	29.9	29.1	28.7	27.2
					(In percent of exports of goods and services)					
External debt service	30.1	39.9	62.4	65.7	66.8	60.3	62.4	60.4	62.0	55.4
Of which: public sector	7.3	9.0	14.2	13.7	16.3	12.4	20.3	17.1	18.2	9.9
Interest payments	5.4	6.3	10.0	11.7	12.8	13.1	13.4	13.1	12.9	12.6
Of which: public sector	3.5	4.1	6.8	7.6	7.1	6.7	6.3	5.7	5.5	4.4
					(In billion of U.S. dollars; unless otherwise indicated)					
Exports (f.o.b.)	60.3	56.9	38.1	33.0	37.5	39.4	41.7	44.5	47.3	50.4
Of which: Petroleum products	32.0	28.9	14.2	10.1	12.9	12.7	12.2	12.0	11.9	11.9
Gross official reserves 3/	43.2	46.8	46.3	46.2	46.2	46.5	46.5	46.7	46.4	46.6
Share of ST debt at remaining maturity + CA deficit	105	110	134	127	138	130	128	119	124	n.a.

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

1/ Includes the quasi-fiscal balance of Banco de la República, sales of assets, phone licenses, and statistical discrepancy.

2/ Includes foreign holdings of locally issued public debt (TES); does not include Banco de la República's outstanding external debt.

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

Table 2A. Colombia: Summary Balance of Payments

(In millions of US$, unless otherwise indicated)

					Projections					
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Current account balance	**-12,347**	**-19,435**	**-18,780**	**-12,541**	**-11,634**	**-10,665**	**-10,723**	**-10,479**	**-11,029**	**-11,003**
Goods balance	3,181	-4,640	-13,970	-10,261	-8,431	-7,505	-7,196	-6,987	-7,107	-6,722
Exports, f.o.b.	60,282	56,899	38,080	32,965	37,535	39,426	41,676	44,495	47,278	50,425
Commodities	43,361	41,019	23,854	19,712	23,297	22,924	22,775	22,811	23,047	23,388
Fuel	32,011	28,885	14,239	10,101	12,902	12,656	12,250	12,014	11,920	11,911
Non-fuel	11,350	12,134	9,614	9,612	10,396	10,269	10,526	10,796	11,127	11,477
Non-traditional exports	12,488	11,880	10,493	9,614	10,416	12,291	14,275	16,607	18,715	21,042
Other	4,433	4,000	3,733	3,639	3,822	4,210	4,626	5,078	5,515	5,994
Imports, f.o.b.	57,101	61,539	52,050	43,226	45,966	46,931	48,872	51,482	54,384	57,146
Consumer goods	12,073	13,120	11,185	10,275	10,933	11,191	11,677	12,309	12,938	13,543
Intermediate goods	24,145	26,278	21,814	18,811	20,016	20,314	21,073	22,181	23,558	24,819
Capital goods	18,795	20,160	17,407	12,527	13,341	13,670	14,277	15,065	15,849	16,606
Other	2,088	1,980	1,643	1,613	1,676	1,755	1,845	1,928	2,039	2,178
Services balance	-6,037	-6,903	-4,536	-3,020	-2,622	-2,329	-2,417	-2,635	-2,921	-3,105
Exports of services	7,013	7,128	7,407	7,796	8,474	9,271	9,872	10,431	10,902	11,511
Imports of services	13,050	14,031	11,943	10,816	11,096	11,599	12,289	13,066	13,823	14,616
Primary income balance	-14,220	-12,367	-5,526	-4,910	-6,448	-6,883	-7,373	-7,338	-7,716	-8,144
Receipts	3,624	3,997	4,483	4,974	5,438	5,355	5,661	6,319	6,604	6,869
Expenditures	17,844	16,364	10,009	9,884	11,886	12,239	13,034	13,656	14,321	15,013
Secondary income balance	4,729	4,475	5,251	5,650	5,867	6,052	6,263	6,481	6,715	6,967
Financial account balance	**-11,854**	**-19,412**	**-18,293**	**-12,764**	**-11,634**	**-10,665**	**-10,723**	**-10,479**	**-11,029**	**-11,003**
Direct Investment	-8,557	-12,264	-7,514	-9,076	-7,837	-8,375	-8,871	-9,399	-9,951	-10,550
Assets	7,652	3,899	4,218	4,516	2,556	2,619	2,685	2,747	2,811	2,878
Liabilities	16,209	16,163	11,732	13,593	10,393	10,994	11,556	12,146	12,762	13,428
Oil sector	5,112	4,732	2,512	2,512	2,734	2,727	2,685	2,575	2,495	2,433
Non-oil sectors	11,097	11,431	9,220	11,081	7,659	8,267	8,871	9,571	10,267	10,995
Portfolio Investment	-7,438	-11,565	-9,532	-3,693	-2,477	-1,255	-731	-735	-751	-711
Assets	3,635	7,096	276	5,213	3,352	2,258	2,552	2,677	2,796	2,978
Liabilities	11,073	18,661	9,808	8,907	5,829	3,513	3,283	3,412	3,546	3,690
Equity	1,921	3,594	1,760	691	615	648	685	723	764	807
Debt instruments	9,152	15,067	8,047	8,215	5,213	2,865	2,599	2,689	2,783	2,883
General government	4,913	11,063	5,647	6,615	3,403	1,353	1,000	1,000	1,000	1,000
Banks	1,300	-17	400	1,100	1,568	1,257	1,329	1,403	1,482	1,565
Corporates and households	2,939	4,020	2,000	500	243	255	270	285	301	318
Derivatives	2	527	2,129	-640	0	0	0	0	0	0
Other Investments	-2,808	-547	-2,952	481	-1,316	-1,358	-1,060	-639	-22	133
Change in reserve assets	6,946	4,437	-423	165	-5	323	-61	295	-305	125
Net errors and omissions	**493**	**23**	**487**	**-223**	**0**	**0**	**0**	**0**	**0**	**0**
Memorandum items:										
GDP (billion USD)	380	378	292	282	306	323	341	360	380	402
GIR (IMF Definition)	43.2	46.8	46.3	46.2	46.2	46.5	46.5	46.7	46.4	46.6
GIR/(st debt at remaining maturity + ca deficit)	105.3	109.9	133.9	127.2	138.0	129.9	127.9	118.5	124.4	...
GIR/GDP	11.4	12.4	15.9	16.4	15.1	14.4	13.6	13.0	12.2	11.6
GIR (months of imports of G&S)	6.9	8.8	10.3	9.7	9.5	9.1	8.6	8.2	7.8	n.a.
GIR/ARA	141.3	145.0	148.8	140.4	136.9	130.8	130.7	131.5	130.6	131.0

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

Table 2B. Colombia: Summary Balance of Payments

(In Percent of GDP)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
					Projections					
Current account balance	**-3.2**	**-5.1**	**-6.4**	**-4.4**	**-3.8**	**-3.3**	**-3.1**	**-2.9**	**-2.9**	**-2.7**
Goods balance	0.8	-1.2	-4.8	-3.6	-2.8	-2.3	-2.1	-1.9	-1.9	-1.7
Exports, f.o.b.	15.9	15.0	13.1	11.7	12.2	12.2	12.2	12.4	12.4	12.6
Commodities	11.4	10.8	8.2	7.0	7.6	7.1	6.7	6.3	6.1	5.8
Fuel	8.4	7.6	4.9	3.6	4.2	3.9	3.6	3.3	3.1	3.0
Non-fuel	3.0	3.2	3.3	3.4	3.4	3.2	3.1	3.0	2.9	2.9
Non-traditional exports	3.3	3.1	3.6	3.4	3.4	3.8	4.2	4.6	4.9	5.2
Other	1.2	1.1	1.3	1.3	1.2	1.3	1.4	1.4	1.5	1.5
Imports, f.o.b.	15.0	16.3	17.9	15.3	15.0	14.5	14.3	14.3	14.3	14.2
Consumer goods	3.2	3.5	3.8	3.6	3.6	3.5	3.4	3.4	3.4	3.4
Intermediate goods	6.4	6.9	7.5	6.7	6.5	6.3	6.2	6.2	6.2	6.2
Capital goods	4.9	5.3	6.0	4.4	4.4	4.2	4.2	4.2	4.2	4.1
Other	0.5	0.5	0.6	0.6	0.5	0.5	0.5	0.5	0.5	0.5
Services balance	-1.6	-1.8	-1.6	-1.1	-0.9	-0.7	-0.7	-0.7	-0.8	-0.8
Exports of services	1.8	1.9	2.5	2.8	2.8	2.9	2.9	2.9	2.9	2.9
Imports of services	3.4	3.7	4.1	3.8	3.6	3.6	3.6	3.6	3.6	3.6
Primary income balance	-3.7	-3.3	-1.9	-1.7	-2.1	-2.1	-2.2	-2.0	-2.0	-2.0
Receipts	1.0	1.1	1.5	1.8	1.8	1.7	1.7	1.8	1.7	1.7
Expenditures	4.7	4.3	3.4	3.5	3.9	3.8	3.8	3.8	3.8	3.7
Secondary income balance	1.2	1.2	1.8	2.0	1.9	1.9	1.8	1.8	1.8	1.7
Financial account balance	**-3.1**	**-5.1**	**-6.3**	**-4.5**	**-3.8**	**-3.3**	**-3.1**	**-2.9**	**-2.9**	**-2.7**
Direct Investment	-2.3	-3.2	-2.6	-3.2	-2.6	-2.6	-2.6	-2.6	-2.6	-2.6
Assets	2.0	1.0	1.4	1.6	0.8	0.8	0.8	0.8	0.7	0.7
Liabilities	4.3	4.3	4.0	4.8	3.4	3.4	3.4	3.4	3.4	3.3
Oil sector	1.3	1.3	0.9	0.9	0.9	0.8	0.8	0.7	0.7	0.6
Non-oil sectors	2.9	3.0	3.2	3.9	2.5	2.6	2.6	2.7	2.7	2.7
Portfolio Investment	-2.0	-3.1	-3.3	-1.3	-0.8	-0.4	-0.2	-0.2	-0.2	-0.2
Assets	1.0	1.9	0.1	1.8	1.1	0.7	0.7	0.7	0.7	0.7
Liabilities	2.9	4.9	3.4	3.2	1.9	1.1	1.0	0.9	0.9	0.9
Equity	0.5	1.0	0.6	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Debt instruments	2.4	4.0	2.8	2.9	1.7	0.9	0.8	0.7	0.7	0.7
General government	1.3	2.9	1.9	2.3	1.1	0.4	0.3	0.3	0.3	0.2
Banks	0.3	0.0	0.1	0.4	0.5	0.4	0.4	0.4	0.4	0.4
Corporates and househo	0.8	1.1	0.7	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Derivatives	0.0	0.1	0.7	-0.2	0.0	0.0	0.0	0.0	0.0	0.0
Other Investments	-0.7	-0.1	-1.0	0.2	-0.4	-0.4	-0.3	-0.2	0.0	0.0
Change in Reserve Assets	1.8	1.2	-0.1	0.1	0.0	0.1	0.0	0.1	-0.1	0.0
Net errors and omissions	**0.1**	**0.0**	**0.2**	**-0.1**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

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

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

(In percent of GDP, unless otherwise indicated)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
					Projections					
Total revenue	**16.9**	**16.6**	**16.2**	**15.1**	**15.2**	**15.3**	**15.9**	**16.7**	**17.0**	**17.2**
Current revenue	**14.3**	**14.4**	**14.6**	**13.8**	**14.4**	**14.4**	**15.1**	**15.9**	**16.1**	**16.2**
Tax revenue	**14.2**	**14.3**	**14.5**	**13.7**	**14.3**	**14.3**	**15.0**	**15.8**	**16.0**	**16.1**
Net income tax and profits 2/	6.3	5.0	4.5	4.1	4.0	4.1	4.2	4.3	4.5	4.5
Goods and services	4.9	5.1	5.2	5.1	6.0	6.0	6.0	6.1	6.1	6.1
Value-added tax	4.9	5.1	5.2	5.1	5.9	6.0	6.0	6.0	6.0	6.0
International trade	0.5	0.5	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Financial transaction tax	0.8	0.9	0.9	0.8	0.7	0.7	0.7	0.7	0.7	0.7
Stamp and other taxes	1.6	2.8	3.3	3.2	3.2	3.0	3.6	4.2	4.4	4.4
Nontax revenue	**2.7**	**2.3**	**1.7**	**1.3**	**1.0**	**1.0**	**1.0**	**1.0**	**1.0**	**1.1**
Property income	0.1	0.2	0.4	0.4	0.4	0.4	0.4	0.5	0.5	0.5
Other	2.6	2.2	1.3	0.9	0.5	0.5	0.5	0.5	0.5	0.6
Total expenditure and net lending	**19.2**	**19.1**	**19.2**	**19.1**	**18.9**	**18.0**	**18.2**	**18.4**	**18.2**	**18.2**
Current expenditure	**14.6**	**14.8**	**15.2**	**15.7**	**15.5**	**15.2**	**14.9**	**14.9**	**14.8**	**14.6**
Wages and salaries	2.1	2.3	2.4	2.4	2.5	2.5	2.5	2.5	2.4	2.4
Goods and services	0.9	0.8	0.8	0.8	0.9	0.9	0.9	0.9	0.9	0.9
Interest	2.3	2.2	2.6	2.9	3.0	2.8	2.8	2.7	2.7	2.6
External	0.5	0.5	0.6	0.7	0.8	0.7	0.7	0.7	0.7	0.7
Domestic	1.8	1.7	2.1	2.3	2.2	2.1	2.1	2.1	2.0	1.9
Current transfers	9.3	9.4	9.4	9.5	9.1	8.9	8.7	8.7	8.7	8.7
Capital expenditure	**4.5**	**4.3**	**4.0**	**3.4**	**3.3**	**2.8**	**3.2**	**3.5**	**3.5**	**3.5**
Fixed capital formation	3.2	2.9	2.7	2.1	2.0	1.6	2.0	2.3	2.3	2.3
Capital transfers	1.3	1.3	1.3	1.3	1.3	1.2	1.2	1.2	1.2	1.2
Net lending	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall balance	**-2.3**	**-2.4**	**-3.0**	**-4.0**	**-3.6**	**-2.7**	**-2.2**	**-1.6**	**-1.2**	**-1.0**
Memorandum items:										
Oil-related revenues 3/	3.3	2.6	1.1	0.2	0.2	0.3	0.4	0.4	0.6	0.7
Structural balance 4/	-3.5	-3.4	-3.7	-2.9	-2.5	-2.3	-2.0	-1.5	-1.2	-1.0
Structural primary non-oil balance	-3.5	-3.0	-1.7	-1.2	-0.7	0.0	0.3	0.8	0.9	0.9
Fiscal Impulse	1.1	-0.5	-1.3	-0.5	-0.5	-0.7	-0.3	-0.4	-0.1	0.0
Non-oil balance	-5.7	-5.0	-4.1	-4.2	-3.8	-3.0	-2.6	-2.1	-1.8	-1.7
Primary balance	0.0	-0.2	-0.5	-1.1	-0.7	0.1	0.6	1.1	1.4	1.6

Sources: Ministry of Finance; Banco de la República; and Fund staff estimates and projections.
1/ Includes central administration only.
2/ The increase in tax revenue in 2012 reflects the elimination of the fixed asset tax credit, which was part of the end-2010 tax reform.
3/ Includes income tax payments and dividends from Ecopetrol corresponding to earnings from the previous year.
4/ In percent of potential GDP. Adjusts non-commodity revenues for the output gap and commodity revenues for differentials between estimated equilibrium oil price and production levels. Adjustments are made to account for fuel subsidy expenditures and the accrual of Ecopetrol dividends.

Table 4. Colombia: Operations of the Combined Public Sector 1/

(In percent of GDP, unless otherwise indicated)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
					Projections					
Total revenue	**28.1**	**27.7**	**26.4**	**24.9**	**25.4**	**25.4**	**26.0**	**26.7**	**26.9**	**27.1**
Tax revenue	19.8	19.9	20.1	19.3	19.9	20.0	20.6	21.4	21.7	21.7
Nontax revenue	8.3	7.7	6.3	5.6	5.5	5.5	5.4	5.3	5.2	5.3
Financial income	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Operating surplus of public enterprises	-0.1	-0.3	-0.3	-0.3	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Other 2/	7.8	7.5	6.1	5.4	5.1	5.1	5.0	4.9	4.9	5.0
Total expenditure and net lending 3/	**29.1**	**29.4**	**29.8**	**28.3**	**28.5**	**27.6**	**27.8**	**27.8**	**27.6**	**27.5**
Current expenditure	21.5	21.9	22.0	22.5	22.7	22.4	22.3	22.2	22.0	21.9
Wages and salaries	5.2	5.3	5.2	5.3	5.4	5.4	5.3	5.3	5.3	5.3
Goods and services	3.1	3.1	3.1	3.1	3.2	3.2	3.2	3.2	3.2	3.2
Interest	2.6	2.6	3.2	3.6	3.5	3.3	3.2	3.1	3.0	2.8
External	0.6	0.6	0.8	1.0	1.1	1.0	1.0	1.0	1.0	0.9
Domestic	2.0	2.0	2.3	2.5	2.4	2.3	2.2	2.1	2.0	1.9
Transfers to private sector	7.8	8.0	7.7	7.7	7.7	7.7	7.7	7.7	7.7	7.7
Other 4/	2.7	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9
Capital expenditure	7.6	7.6	7.8	5.8	5.9	5.2	5.5	5.6	5.6	5.7
Statistical discrepancy	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Nonfinancial public sector balance	**-0.9**	**-1.8**	**-3.4**	**-3.4**	**-3.2**	**-2.2**	**-1.8**	**-1.1**	**-0.7**	**-0.5**
Quasi-fiscal balance (BR cash profits)	-0.1	-0.1	-0.1	0.1	0.1	0.0	0.1	0.1	0.1	0.1
Fogafin balance	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 5/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Combined public sector balance	**-0.9**	**-1.8**	**-3.4**	**-3.1**	**-2.9**	**-2.0**	**-1.6**	**-0.9**	**-0.5**	**-0.2**
Overall financing	**0.9**	**1.8**	**3.4**	**3.1**	**2.9**	**2.0**	**1.6**	**0.9**	**0.5**	**0.2**
Foreign, net	1.2	2.8	2.6	1.6	1.1	1.2	1.5	1.1	1.1	0.0
Domestic, net	-0.3	-1.0	0.8	1.5	1.8	0.9	0.1	-0.1	-0.5	0.2
Memorandum items:										
Overall structural balance 6/	-2.5	-3.0	-3.5	-2.8	-3.2	-1.9	-1.6	-1.0	-0.6	-0.4
Primary balance 7/	1.8	0.7	-0.2	0.4	0.6	1.3	1.6	2.2	2.4	2.6
Oil-related revenues 8/	4.9	4.0	2.0	0.8	1.0	1.0	1.0	1.0	1.1	1.1
Total public debt 9/	37.8	43.7	50.6	50.2	48.5	47.9	46.7	44.9	42.9	40.6

Sources: Ministry of Finance; Banco de la República; and Fund staff estimates and projections.
1/ The combined public sector includes the central, regional and local governments, social security, and public sector enterprises.
Excludes Ecopetrol.
2/ Includes royalties, dividends and social security contributions.
3/ Expenditure reported on commitments basis.
4/ Includes adjustments to compute spending on commitment basis and the change in unpaid bills of nonfinancial public enterprises.
5/ Interest payments on public banks restructuring bonds and mortgage debt relief related costs.
6/ 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.
Excludes private pension transfers from revenues.
7/ Includes statistical discrepancy. Overall balance plus interest expenditures
8/ Includes income tax payments and dividends from Ecopetrol that correspond to earnings from the previous year, and royalties to local governments.
9/ Includes Ecopetrol and Banco de la República's outstanding external debt.

Table 5. Colombia: Monetary Indicators

					Projections					
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
	(In billion of Col$, unless otherwise indicated)									
Central Bank										
Net Foreign Assets	83,092	112,111	145,917	143,409	145,151	148,198	150,679	154,805	159,563	165,714
Gross official reserve assets	88,928	112,101	145,726	140,599	139,637	141,041	141,384	142,107	142,855	143,722
In billion of US$	46.2	46.9	46.3	46.9	47.3	47.3	47.1	46.8	46.6	46.4
Short-term foreign liabilities	5,770	25	43	1,946	671	887	1,168	909	988	1,022
Other net foreign assets	2,298	2,812	3,657	4,756	6,186	8,045	10,462	13,606	17,696	23,014
Net domestic assets	-17,993	-42,429	-63,395	-54,928	-50,595	-47,445	-43,167	-39,916	-36,909	-34,898
Net credit to the public sector	-14,526	-21,026	-9,270	-8,032	-7,398	-6,937	-6,312	-5,837	-5,397	-5,103
Net credit to the financial system	3,732	6,768	6,525	5,653	5,207	4,883	4,443	4,108	3,799	3,592
Other	-7,199	-28,171	-60,651	-52,549	-48,404	-45,391	-41,298	-38,188	-35,311	-33,387
Monetary base	65,099	69,682	82,522	88,482	94,557	100,754	107,512	114,889	122,654	130,817
Currency in circulation	39,751	45,429	53,865	57,755	61,720	65,765	70,177	74,992	80,060	85,388
Deposit money banks reserves	25,254	24,170	28,586	30,415	32,562	34,752	37,054	39,565	42,261	45,329
Other deposits	94	83	71	71	71	71	71	71	71	71
Financial system										
Net foreign assets	67,826	92,815	131,857	128,334	129,040	131,032	132,361	135,230	138,665	143,426
In billion of US$	35.2	38.8	41.9	42.8	43.7	44.0	44.0	44.6	45.2	46.3
Net domestic assets	261,480	269,523	272,760	418,050	482,085	550,866	629,836	718,197	816,360	924,659
Net credit to public sector	33,151	30,800	32,253	30,596	38,269	45,179	56,998	60,600	67,044	68,670
Credit to private sector	281,747	323,152	377,281	407,170	434,310	466,249	504,983	552,762	611,678	682,360
Other net	-53,417	-84,429	-136,774	-19,716	9,506	39,438	67,854	104,835	137,638	173,629
Broad money	329,307	362,338	404,617	457,901	516,569	581,144	654,684	738,538	832,371	937,268
	(Annual percentage change)									
Credit to private sector	12.1	14.7	16.8	7.9	6.7	7.4	8.3	9.5	10.7	11.6
Currency	13.4	14.3	18.6	7.2	6.9	6.6	6.7	6.9	6.8	6.7
Monetary base	15.3	7.0	18.4	7.2	6.9	6.6	6.7	6.9	6.8	6.7
Broad money	13.4	10.0	11.7	13.2	12.8	12.5	12.7	12.8	12.7	12.6
	(In percent of GDP)									
Credit to private sector	39.7	42.7	47.2	47.2	47.2	47.6	48.4	49.7	51.5	53.9
Currency	5.6	6.0	6.7	6.7	6.7	6.7	6.7	6.7	6.7	6.7
Monetary base	9.2	9.2	10.3	10.3	10.3	10.3	10.3	10.3	10.3	10.3
Broad money	46.3	47.9	50.6	53.1	56.1	59.4	62.8	66.4	70.1	74.0
Memorandum items:										
Central bank inflation target	2.0-4.0	2.0-4.0	2.0-4.0	2.0-4.0	2.0-4.0	2.0-4.0	2.0-4.0	2.0-4.0	2.0-4.0	2.0-4.0
CPI inflation, eop	1.9	3.7	6.8	5.7	4.1	3.0	3.0	3.0	3.0	3.0
Nominal GDP (In Col$ billion)	710,497	757,065	799,312	862,675	920,369	978,618	1,043,262	1,112,707	1,186,775	1,266,383

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

Table 6. Colombia: Medium-Term Outlook

	2013	2014	2015	2016	Projections 2017	2018	2019	2020	2021	2022
	(In percent of GDP, unless otherwise indicated)									
Real GDP (in percent change)	4.9	4.4	3.1	2.0	2.3	3.0	3.5	3.6	3.6	3.6
Consumer prices (in percent change; end of period)	1.9	3.7	6.8	5.7	4.1	3.0	3.0	3.0	3.0	3.0
Gross national savings	21.1	21.1	20.3	21.0	21.7	22.3	22.5	22.8	22.7	22.7
Private sector	14.6	15.6	16.4	18.5	18.9	19.3	18.8	18.2	17.8	17.4
Public sector	6.5	5.6	3.9	2.5	2.8	3.0	3.7	4.5	4.9	5.3
Gross domestic investment	24.3	26.3	26.7	25.5	25.5	25.6	25.7	25.7	25.6	25.4
Private sector	17.0	18.9	19.5	19.8	19.9	20.2	20.4	20.6	20.8	20.9
Public sector	7.3	7.4	7.2	5.6	5.6	5.5	5.3	5.1	4.8	4.5
	(In percent change)									
Credit to the private sector										
Commercial	10.8	15.5	18.4	8.1	6.8	7.5	8.4	9.6	10.8	11.7
Consumption	10.5	12.5	13.2	7.6	6.3	6.9	7.9	9.0	10.2	11.1
Mortgage	26.2	17.9	16.1	8.0	7.1	7.8	8.8	9.9	11.1	12.0
Microcredit	15.8	8.9	16.1	8.0	6.7	7.4	8.3	9.5	10.7	11.6
Total	12.1	14.7	16.8	7.9	6.7	7.4	8.3	9.5	10.7	11.6
	(In percent of GDP, unless otherwise indicated)									
Nonfinancial public sector 1/										
Revenue	28.1	27.7	26.4	24.9	25.4	25.4	26.0	26.7	26.9	27.1
Expenditure	29.1	29.4	29.8	28.3	28.5	27.6	27.8	27.8	27.6	27.5
Current expenditure	21.5	21.9	22.0	22.5	22.7	22.4	22.3	22.2	22.0	21.9
Capital expenditure	7.6	7.6	7.8	5.8	5.9	5.2	5.5	5.6	5.6	5.7
Primary balance 2/	1.8	0.8	-0.2	0.2	0.4	1.1	1.4	2.0	2.2	2.4
Overall balance 2/	-0.9	-1.8	-3.4	-3.4	-3.2	-2.2	-1.8	-1.1	-0.7	-0.5
Combined public sector balance	-0.9	-1.8	-3.4	-3.1	-2.9	-2.0	-1.6	-0.9	-0.5	-0.2
External financing	1.2	2.8	2.6	1.6	1.1	1.2	1.5	1.1	1.1	0.0
Domestic financing	-0.3	-1.0	0.8	1.5	1.8	0.9	0.1	-0.1	-0.5	0.2
External current account balance	-3.2	-5.1	-6.4	-4.4	-3.8	-3.3	-3.1	-2.9	-2.9	-2.7
Trade balance	0.8	-1.2	-4.8	-3.6	-2.8	-2.3	-2.1	-1.9	-1.9	-1.7
Exports	15.9	15.0	13.1	11.7	12.2	12.2	12.2	12.4	12.4	12.6
Imports	15.0	16.3	17.9	15.3	15.0	14.5	14.3	14.3	14.3	14.2
Financial account balance	-3.1	-5.1	-6.3	-4.5	-3.8	-3.3	-3.1	-2.9	-2.9	-2.7
Direct Investment	-2.3	-3.2	-2.6	-3.2	-2.6	-2.6	-2.6	-2.6	-2.6	-2.6
Portfolio Investment	-2.0	-3.1	-3.3	-1.3	-0.8	-0.4	-0.2	-0.2	-0.2	-0.2
Other Investments and Derivatives	-0.7	0.0	-0.3	-0.1	-0.4	-0.4	-0.3	-0.2	0.0	0.0
Change in Reserve Assets	1.8	1.2	-0.1	0.1	0.0	0.1	0.0	0.1	-0.1	0.0
Gross public sector debt 3/	37.8	43.7	50.6	50.2	48.5	47.9	46.7	44.9	42.9	40.6
Gross public sector debt, excluding Ecopetrol	36.1	40.9	45.9	45.8	44.1	43.7	43.0	41.2	39.5	37.3
Total public net debt 4/	27.0	33.2	42.2	40.5	40.4	40.5	39.9	38.7	37.2	35.5
Memorandum items:										
Nominal GDP (in Col$ billion)	710,497	757,065	799,312	862,675	920,369	978,618	1,043,262	1,112,707	1,186,775	1,266,383
Crude oil, spot price	104.1	96.2	50.8	42.8	55.2	55.1	54.1	54.0	54.4	55.2

Sources: Colombian authorities and Fund staff estimates and projections.
1/ Excludes Ecopetrol.
2/ Includes statistical discrepancy.
3/ Includes debt of the non-financial public sector, plus Ecopetrol, FOGAFIN and FINAGRO.
4/ Gross debt minus financial assets (public sector deposits in domestic and foreign financial institutions).

Table 7. Colombia: Financial Soundness Indicators 1/

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

	2009	2010	2011	2012	2013	2014	2015	2016
Capital Adequacy								
Regulatory capital to risk-weighted assets	17.2	17.3	16.9	18.1	17.0	17.0	16.9	17.5
Regulatory Tier 1 capital to risk-weighted assets	13.4	13.0	13.4	13.7	12.0	11.7	11.4	11.4
Capital (net worth) to assets 2/	14.2	14.2	14.3	14.7	14.8	14.9	14.1	16.3
Asset Quality and Distribution								
Nonperforming loans to gross loans	4.0	2.9	2.5	2.8	2.8	2.9	2.8	3.1
Provisions to nonperforming loans	140.1	175.0	182.0	163.9	160.7	151.3	155.5	153.4
Gross loans to assets	64.3	67.9	70.4	69.6	68.2	69.3	70.2	69.3
Earnings and Profitability								
ROAA	3.5	3.4	3.3	3.1	2.8	2.9	2.7	3.1
ROAE	26.2	23.7	23.0	21.2	19.5	19.8	18.9	19.0
Interest margin to gross income	54.0	55.6	58.4	58.7	61.3	60.6	58.7	53.0
Noninterest expenses to gross income	43.2	47.0	49.3	47.2	47.0	44.6	43.4	40.7
Liquidity								
Liquid assets to total assets 3/	24.6	22.1	21.5	21.6	21.4	19.8	18.9	18.0
Liquid assets to short-term liabilities 3/	47.8	42.7	43.7	43.6	41.9	40.3	39.9	39.9
Deposit to loan ratio	98.8	93.5	91.4	94.7	96.3	91.6	88.3	88.4
Other								
Foreign-currency-denominated loans to total loans	4.2	6.9	7.7	7.5	7.3	8.4	8.3	6.9
Foreign-currency-denominated liabilities to total liabilities	7.1	9.8	11.5	10.5	11.9	13.5	13.9	11.8
Net open position in foreign exchange to capital 4/	0.5	0.6	1.0	0.6	0.5	0.7	1.3	5.5

Source: Superintendencia Financiera.

1/ Total Banking System. All deposit taking institutions.

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

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

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

Table 8. Colombia: Indicators of External Vulnerability 1/

(In billions of US$, unless otherwise indicated)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
					Projections					
External indicators										
Exports of GNFS 1/	67.3	64.0	45.5	40.8	46.0	48.7	51.5	54.9	58.2	61.9
Imports of GNFS 1/	70.2	75.6	64.0	54.0	57.1	58.5	61.2	64.5	68.2	71.8
Terms of trade (12-month percent change)	147.2	142.4	115.7	115.0	122.4	120.7	119.5	118.6	118.2	118.2
Current account balance	-12.3	-19.4	-18.8	-12.5	-11.6	-10.7	-10.7	-10.5	-11.0	-11.0
In percent of GDP	-3.2	-5.1	-6.4	-4.4	-3.8	-3.3	-3.1	-2.9	-2.9	-2.7
Financial account balance	-11.9	-19.4	-18.3	-12.8	-11.6	-10.7	-10.7	-10.5	-11.0	-11.0
Of which: Foreign direct investment (net)	-8.6	-12.3	-7.5	-9.1	-7.8	-8.4	-8.9	-9.4	-10.0	-10.5
Of which: Portfolio investment (net)	-7.4	-11.6	-9.5	-3.7	-2.5	-1.3	-0.7	-0.7	-0.8	-0.7
Total external debt 2/	97.9	113.9	123.8	138.8	148.6	156.8	164.6	172.2	179.2	186.4
Of which: Public sector 2/	58.0	72.3	79.5	90.1	95.7	99.3	102.0	104.7	106.9	109.3
In percent of gross international reserves	226.8	243.1	267.6	300.6	321.7	337.1	354.4	368.3	385.9	400.2
Short-term external debt 3/	12.0	14.2	14.6	14.5	14.1	14.0	14.0	13.9	13.9	13.9
Of which: Public sector	0.5	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Of which: Private sector	11.5	13.5	13.9	13.9	13.4	13.3	13.3	13.3	13.2	13.2
Amortization of MLT external debt (in percent of GNFS exports)	9.3	15.0	21.1	18.2	22.4	18.3	21.9	21.9	25.2	20.3
External interest payments (in percent of GNFS exports)	5.4	6.3	10.0	11.7	12.8	13.1	13.4	13.1	12.9	12.6
Gross international reserves 4/ 5/	43.2	46.8	46.3	46.2	46.2	46.5	46.5	46.7	46.4	46.6
In months of prospective GNFS imports	6.9	8.8	10.3	9.7	9.5	9.1	8.6	8.2	n.a.	n.a.
In percent of broad money	24.5	25.9	31.3	31.0	27.0	24.4	21.8	19.6	n.a.	n.a.
In percent of short-term external debt on residual maturity plus current account deficit	105.3	109.9	133.9	127.2	138.0	129.9	127.9	118.5	124.4	n.a.
Nominal exchange rate (Col$/US$, period average)	1,869	2,001	2,742	3,055	...	...	...	...	...	...
Real effective exchange rate (percentage change, + = appreciation)	-2.9	-6.9	-20.6	-3.9	3.4	-0.1	-0.1	0.0	-0.1	0.1

Sources: Banco de la República; and Fund staff estimates and projections.
1/ GNFS stands for goods and nonfactor services; MLT stands for medium and long-term.
2/ Includes foreign holdings of locally issued public debt (TES).
3/ Original maturity of less than 1 year. Stock at the end of the previous period.
4/ Estimate for 2009 includes the SDR allocation (US$972 million).
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.

Table 9. Colombia: Public Sector Debt Sustainability Analysis (DSA) – Baseline Scenario

(In percent of GDP, unless otherwise indicated)

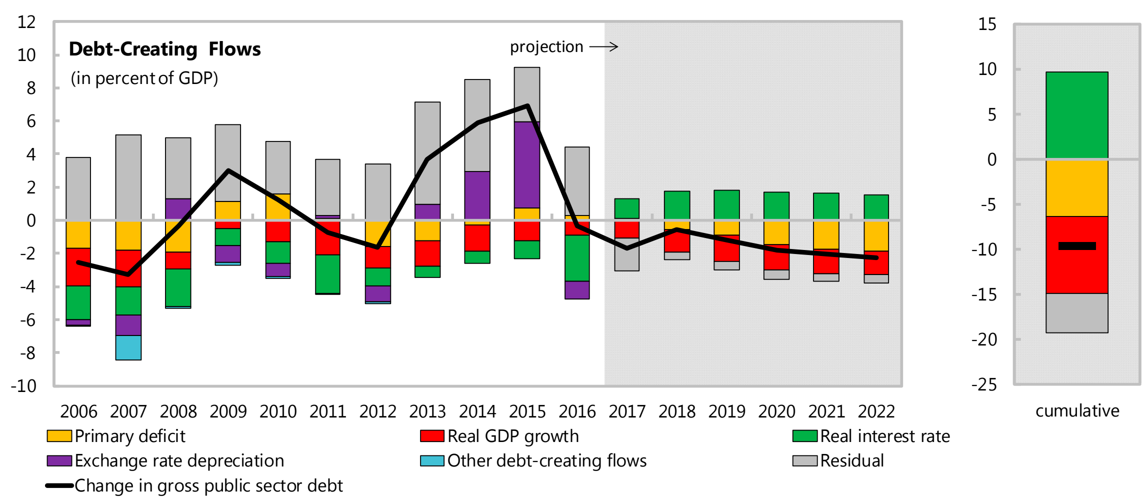
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2006-2014 [2/]	2015	2016	2017	2018	2019	2020	2021	2022
Nominal gross public debt	35.9	50.6	50.2	48.5	47.9	46.7	44.9	42.9	40.6
Public gross financing needs	6.7	6.4	5.5	5.3	3.7	4.7	3.4	2.9	1.8
Real GDP growth (in percent)	4.7	3.1	2.0	2.3	3.0	3.5	3.6	3.5	3.6
Inflation (GDP deflator, in percent)	4.4	2.5	5.9	4.3	3.2	3.0	3.0	3.0	3.0
Nominal GDP growth (in percent)	9.3	5.6	7.9	6.7	6.3	6.6	6.7	6.7	6.7
Effective interest rate (in percent) [4/]	9.8	7.7	7.7	6.9	7.2	7.1	7.0	7.0	7.0

As of January 25, 2017		
Sovereign Spreads		
EMBIG (bp) 3/		211
5Y CDS (bp)		151
Ratings	Foreign	Local
Moody's	Baa2	Baa2
S&Ps	BBB	BBB+
Fitch	BBB	BBB+

Contribution to Changes in Public Debt

	Actual			Projections							
	2006-2014	2015	2016	2017	2018	2019	2020	2021	2022	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	0.6	6.9	-0.3	-1.7	-0.6	-1.2	-1.8	-2.0	-2.2	-9.6	
Identified debt-creating flows	-3.7	3.6	-4.5	0.2	-0.2	-0.7	-1.3	-1.6	-1.7	-5.2	
Primary deficit	-0.6	0.7	0.3	0.1	-0.6	-0.9	-1.5	-1.7	-1.9	-6.4	0.11
Primary (noninterest) revenue and gra	26.1	25.9	24.4	24.9	24.9	25.5	26.2	26.4	26.6	154.4	
Primary (noninterest) expenditure	25.4	26.6	24.7	25.0	24.3	24.6	24.7	24.7	24.7	148.0	
Automatic debt dynamics [5/]	-2.9	2.9	-4.8	0.1	0.4	0.2	0.2	0.1	0.1	1.1	
Interest rate/growth differential [6/]	-3.0	-2.3	-3.7	0.1	0.4	0.2	0.2	0.1	0.1	1.1	
Of which: real interest rate	-1.5	-1.0	-2.8	1.2	1.8	1.8	1.7	1.6	1.6	9.7	
Of which: real GDP growth	-1.5	-1.3	-0.9	-1.1	-1.4	-1.6	-1.6	-1.5	-1.4	-8.6	
Exchange rate depreciation [7/]	0.1	5.2	-1.1	…	…	…	…	…	…	…	
Other identified debt-creating flows	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Privatization (incl. concessions) (nega	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Please specify (2) (e.g., ESM and Euro	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes [8/]	4.3	3.3	4.1	-2.0	-0.4	-0.5	-0.5	-0.5	-0.5	-4.4	



Source: Fund staff estimates.

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

2/ Based on available data.

3/ EMBIG.

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

5/ Derived as [(r - 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).

6/ 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.

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

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

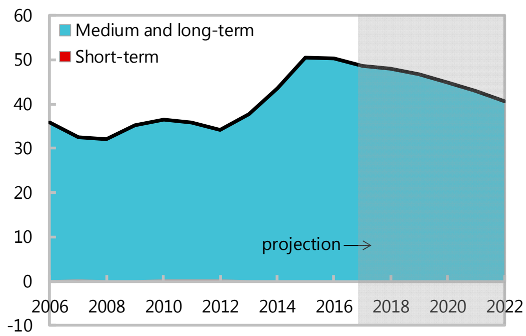
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Table 10. Colombia: Public DSA – Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

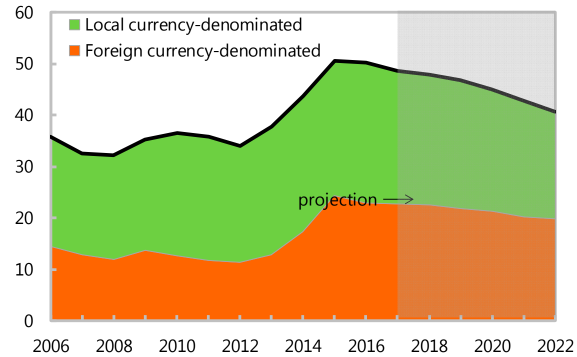
By Maturity

(In percent of GDP)



By Currency

(In percent of GDP)

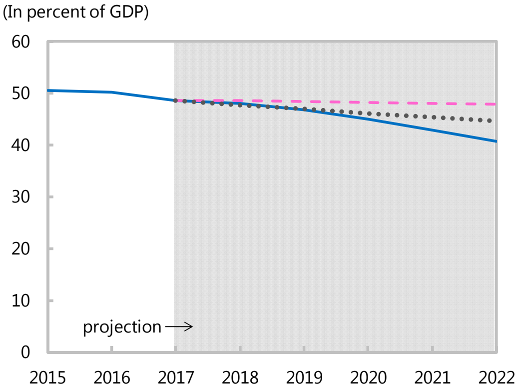


Alternative Scenarios

Baseline Historical Constant Primary Balance

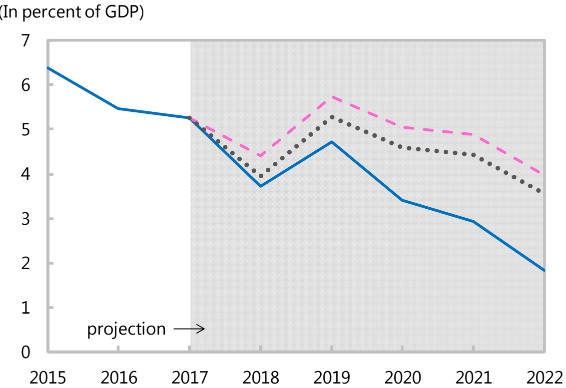
Gross Nominal Public Debt

(In percent of GDP)



Public Gross Financing Needs

(In percent of GDP)



Underlying Assumptions

(In percent)

Baseline Scenario	2017	2018	2019	2020	2021	2022
Real GDP growth	2.3	3.0	3.5	3.6	3.5	3.6
Inflation	4.3	3.2	3.0	3.0	3.0	3.0
Primary Balance	-0.1	0.6	0.9	1.5	1.7	1.9
Effective interest rate	6.9	7.2	7.1	7.0	7.0	7.0
Constant Primary Balance Scenario						
Real GDP growth	2.3	3.0	3.5	3.6	3.5	3.6
Inflation	4.3	3.2	3.0	3.0	3.0	3.0
Primary balance	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Effective interest rate	6.9	7.2	7.1	7.0	7.0	6.9

Historical Scenario	2017	2018	2019	2020	2021	2022
Real GDP growth	2.3	4.1	4.1	4.1	4.1	4.1
Inflation	4.3	3.2	3.0	3.0	3.0	3.0
Primary balance	-0.1	0.3	0.3	0.3	0.3	0.3
Effective interest rate	6.9	7.2	7.2	7.3	7.3	7.4

Source: Fund staff estimates.

Table 11. Colombia: External Debt Sustainability Framework, 2012-2022
(In percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2012	2013	2014	2015	2016			2017	2018	2019	2020	2021	2022	Debt-stabilizing non-interest current account 6/
1 **Baseline: External debt**	22.2	25.7	30.1	42.5	49.2			**48.5**	**48.6**	**48.3**	**47.8**	**47.1**	**46.4**	**-2.6**
2 Change in external debt	-1.1	3.6	4.4	12.4	6.7			-0.7	0.1	-0.3	-0.5	-0.7	-0.7	
3 Identified external debt-creating flows (4+8+9)	-3.8	0.4	1.3	12.1	3.9			1.1	0.2	-0.3	-0.6	-0.6	-0.8	
4 Current account deficit, excluding interest payments	2.1	2.3	4.1	4.9	2.8			1.9	1.3	1.1	0.9	0.9	0.8	
5 Deficit in balance of goods and services	0.2	0.8	3.1	6.3	4.7			3.6	3.0	2.8	2.7	2.6	2.4	
6 Exports	18.4	17.7	16.9	15.6	14.4			15.0	15.1	15.1	15.2	15.3	15.4	
7 Imports	18.6	18.5	20.0	22.0	19.1			18.6	18.1	17.9	17.9	17.9	17.9	
8 Net non-debt creating capital inflows (negative)	-4.7	-2.2	-3.9	-2.1	-1.4			-1.6	-1.7	-1.8	-1.8	-1.9	-2.0	
9 Automatic debt dynamics 1/	-1.2	0.3	1.1	9.3	2.6			0.9	0.6	0.4	0.4	0.4	0.3	
10 Contribution from nominal interest rate	0.9	1.0	1.1	1.6	1.7			1.9	2.0	2.0	2.0	2.0	1.9	
11 Contribution from real GDP growth	-0.9	-1.0	-1.1	-1.2	-0.9			-1.0	-1.4	-1.6	-1.6	-1.6	-1.6	
12 Contribution from price and exchange rate changes 2/	-1.3	0.4	1.2	9.0	1.7			...	...	...	...	...	...	
13 Residual, incl. change in gross foreign assets (2-3) 3/	2.8	3.2	3.1	0.3	2.8			-1.8	-0.1	0.0	0.1	-0.1	0.1	
External debt-to-exports ratio (in percent)	120.4	145.4	177.9	272.2	340.6			322.9	322.0	319.3	313.4	308.1	300.9	
Gross external financing need (in billions of US dollars) 4/	33.6	28.9	41.0	42.6	34.5			37.4	32.1	33.5	33.2	35.1	31.4	
in percent of GDP	9.1	7.6	10.8	14.6	12.2	10-Year	10-Year	12.2	9.9	9.8	9.2	9.2	7.8	
Scenario with key variables at their historical averages 5/								**48.5**	**48.5**	**48.4**	**48.4**	**48.3**	**48.3**	**-3.4**
Key Macroeconomic Assumptions Underlying Baseline						Historical Average	Standard Deviation							
Real GDP growth (in percent)	4.0	4.9	4.4	3.1	2.0	4.1	1.7	2.3	3.0	3.5	3.5	3.6	3.6	
GDP deflator in US dollars (change in percent)	5.9	-1.9	-4.7	-25.2	-5.0	2.4	13.6	6.1	2.2	2.1	2.0	2.0	2.0	
Nominal external interest rate (in percent)	4.4	4.4	4.1	4.0	3.8	5.1	1.1	4.2	4.3	4.4	4.4	4.3	4.4	
Growth of exports (US dollar terms, in percent)	6.5	-1.1	-4.9	-29.0	-10.4	5.3	20.4	12.9	5.8	5.9	6.6	5.9	6.5	
Growth of imports (US dollar terms, in percent)	9.4	1.9	7.7	-15.3	-15.6	7.1	17.3	5.6	2.6	4.5	5.5	5.7	5.2	
Current account balance, excluding interest payments	-2.1	-2.3	-4.1	-4.9	-2.8	-2.4	1.2	-1.9	-1.3	-1.1	-0.9	-0.9	-0.8	
Net non-debt creating capital inflows	4.7	2.2	3.9	2.1	1.4	2.7	1.3	1.6	1.7	1.8	1.8	1.9	2.0	

Sources: International Monetary Fund, Country desk data, and Fund 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.

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.

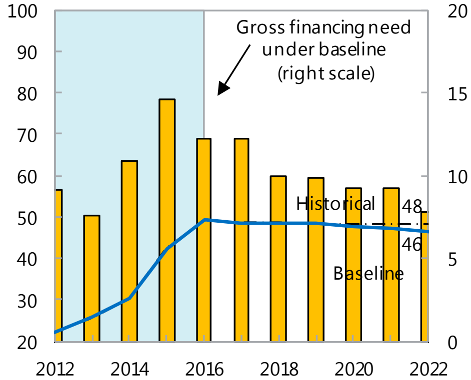
5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

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

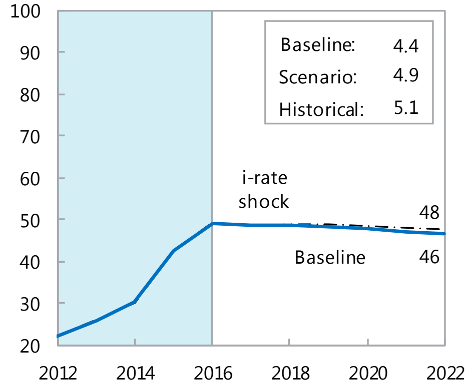
Table 12. Colombia: External Debt Sustainability: Bound Tests 1/ 2/

(External debt in percent of GDP)

Baseline and Historical Scenarios

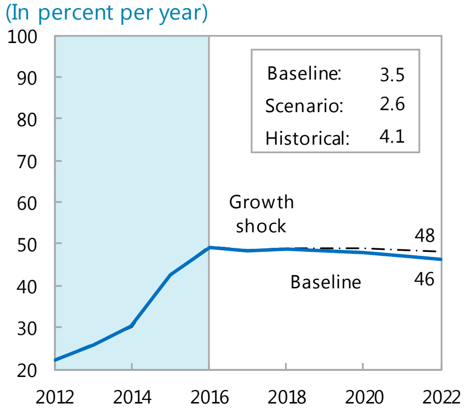


Interest Rate Shock (In percent)



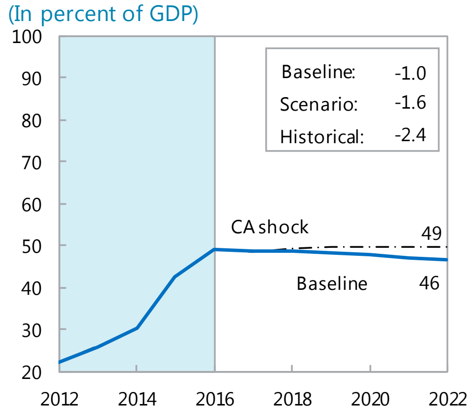
Growth Shock

(In percent per year)

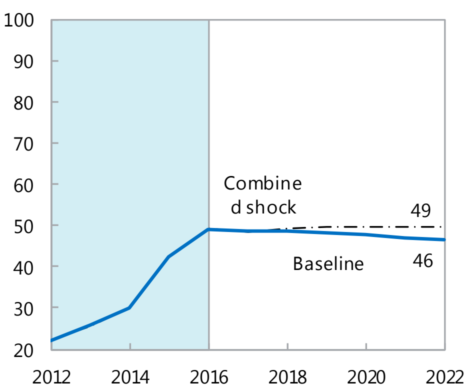


Non-Interest Current Account Shock

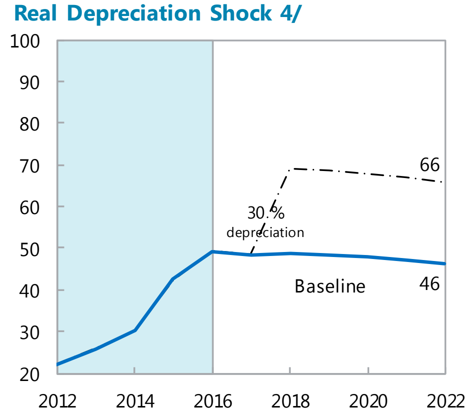
(In percent of GDP)



Combined Shock 3/



Real Depreciation Shock 4/



Sources: International Monetary Fund, Country desk data, and staff estimates.

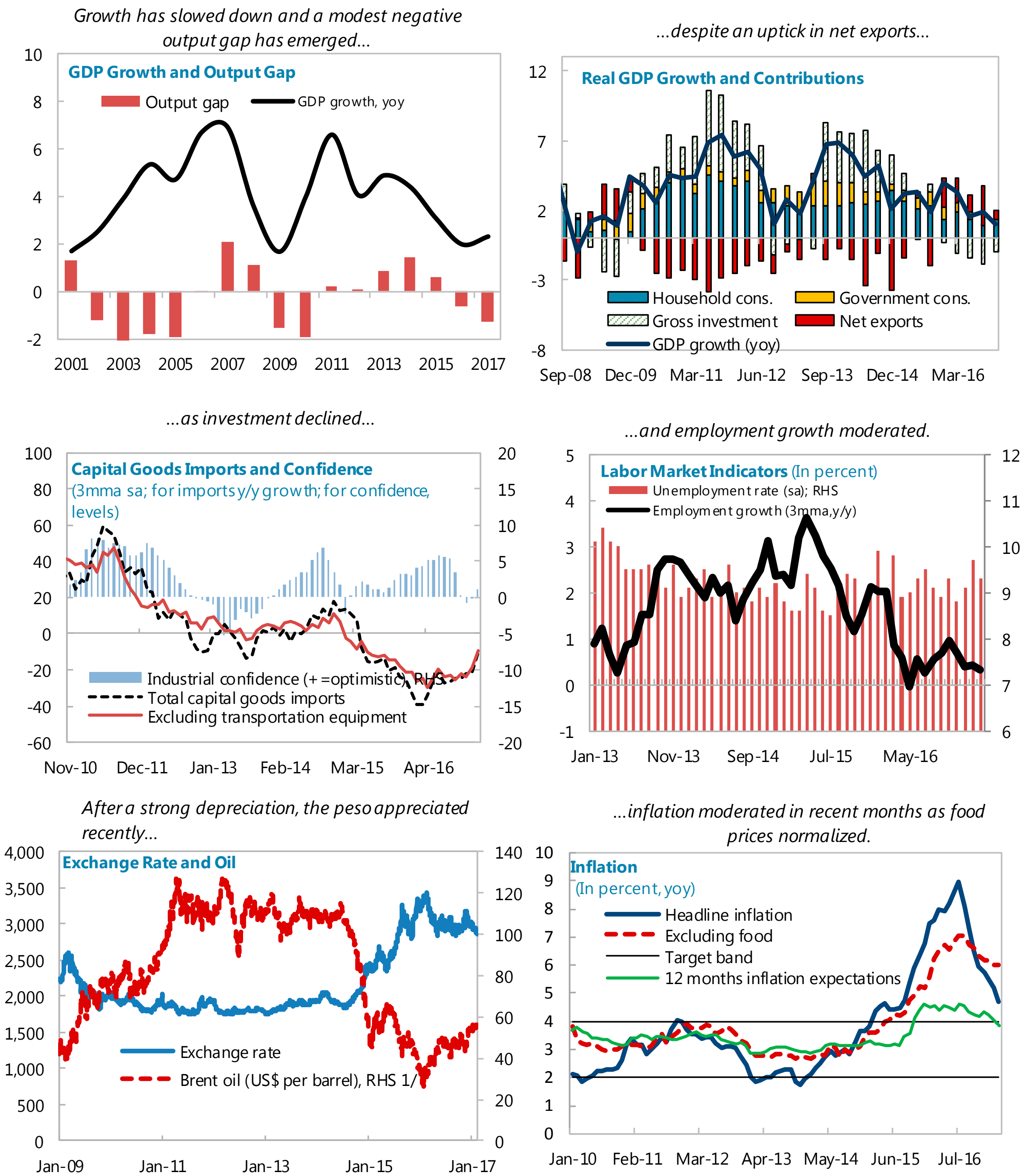
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.

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

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

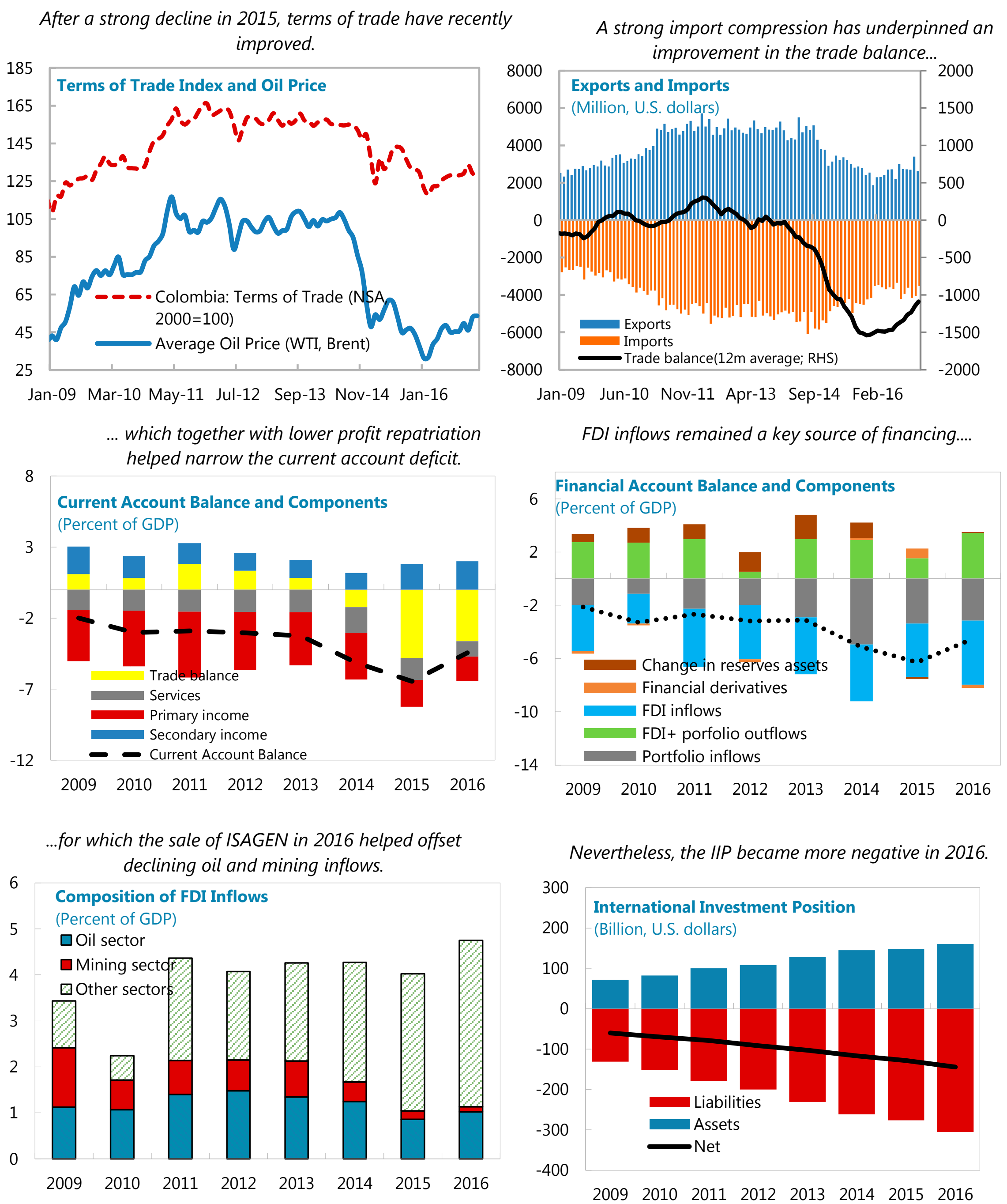
4/ One-time real depreciation of 30 percent occurs in 2017.

Figure 1. Colombia: Recent Economic Developments



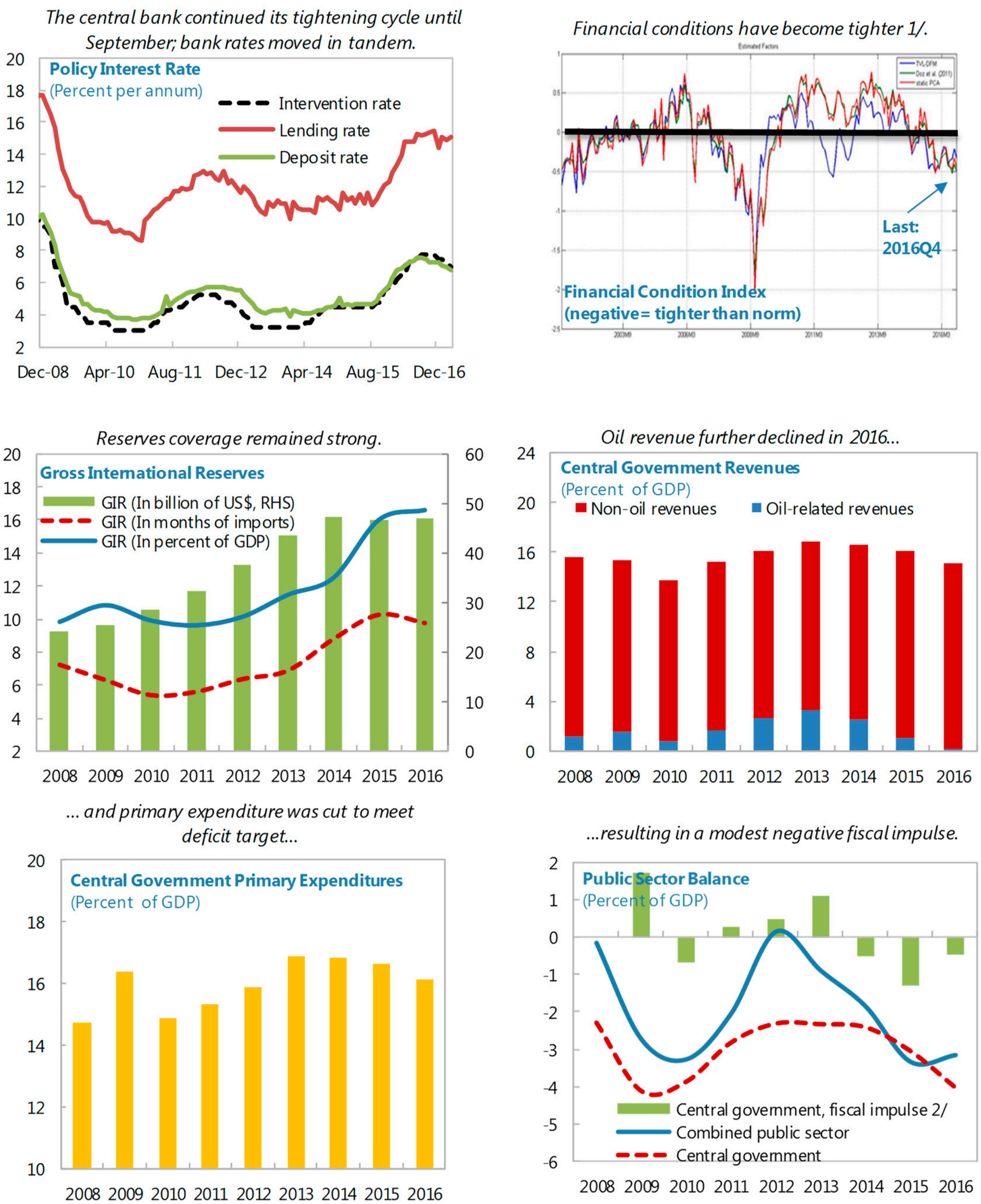
Sources: Banco de la República; DANE; Bloomberg; and Fund staff estimates.
1/ Colombia mix follows closely Brent oil prices.

Figure 2. Colombia: External Sector Developments



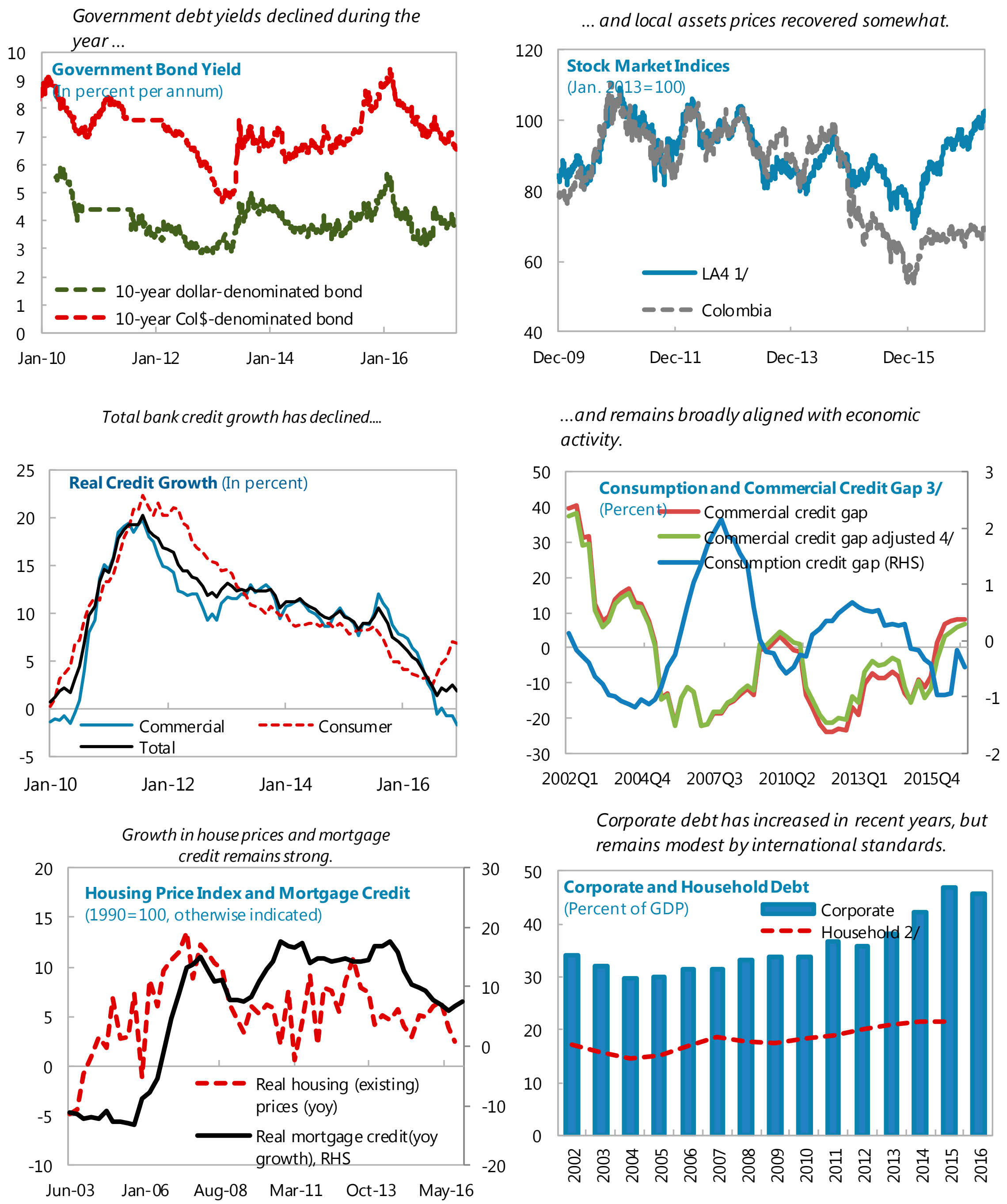
Sources: Banco de la República; Haver Analytics; and Fund staff estimates.

Figure 3. Colombia: Macroeconomic Policies



Sources: Banco de la República; and Fund staff estimates.
1/ See annex for methodology and estimation results.
2/ Corresponds to the change in the non-oil structural primary deficit.

Figure 4. Colombia: Recent Macro-Financial Developments

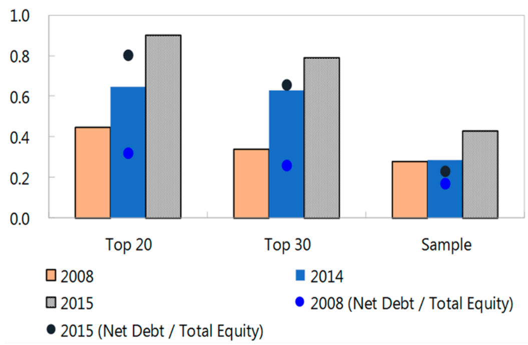


Sources: Banco de la República; DANE; Bloomberg; and Fund staff estimates.
1/ LA4 corresponds to the average of Brazil, Colombia, Peru and Mexico.
2/Data for 2015 refers to December 2015.
3/ Consumer and commercial credit gaps are computed as percentage-point deviations from an HP-filtered consumer-credit-to-private-consumption ratio and commercial-to-private-investment ratio, respectively.
4/ Commercial credit valued at end-June 2014 exchange rate.

Figure 5. Corporate Developments

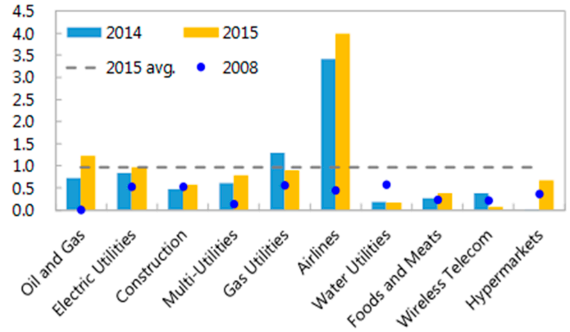
Corporate leverage increased in recent years...

Total Debt to Total Equity
(multiple, median)



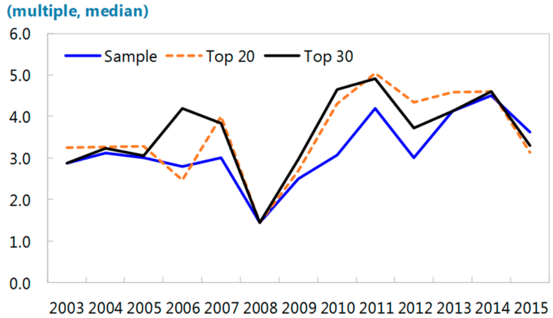
...driven in part by oil, gas and airlines.

Total Debt to Total Equity by Sector
(multiple, median)



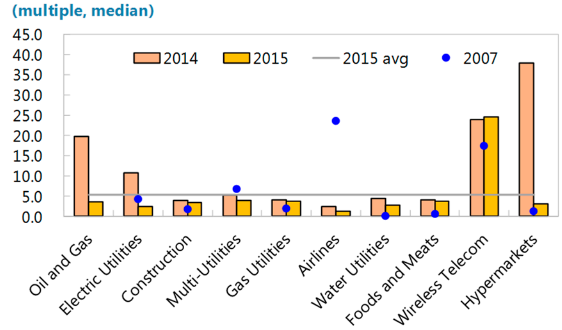
Debt service capacity has declined but remains near the historical average

ICR (EBIT / Interest Expense)
(multiple, median)



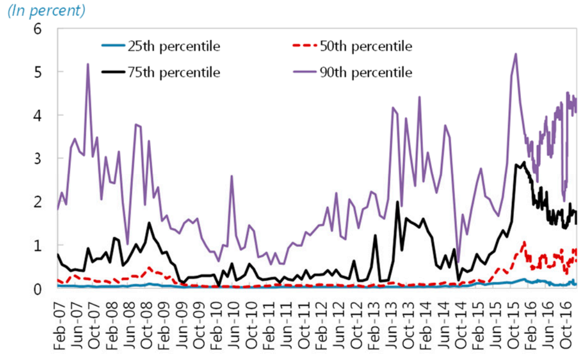
The decline in debt payment capacity is pronounced in the oil and gas, hypermarket, and electric utilities

ICR (EBIT / Interest Expense) by Sector
(multiple, median)



Moody's EDF confirm recent worsening in debt service capacity, driven by weak tail.

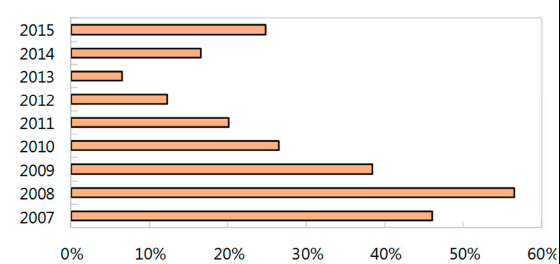
Colombia Corporates: Expected Default Frequency (EDF) 1/
(In percent)



Source: Moody's KMV CreditEdge.
1/ The Expected Default Frequency (EDF) is the probability that a company will default within a given time horizon, typically one year, where default means the failure to make a scheduled debt payment.

Debt at risk has increased but remains well-below levels seen during global financial crisis.

Debt at Risk
(% of Total Corporate Debt where ICR < 2)

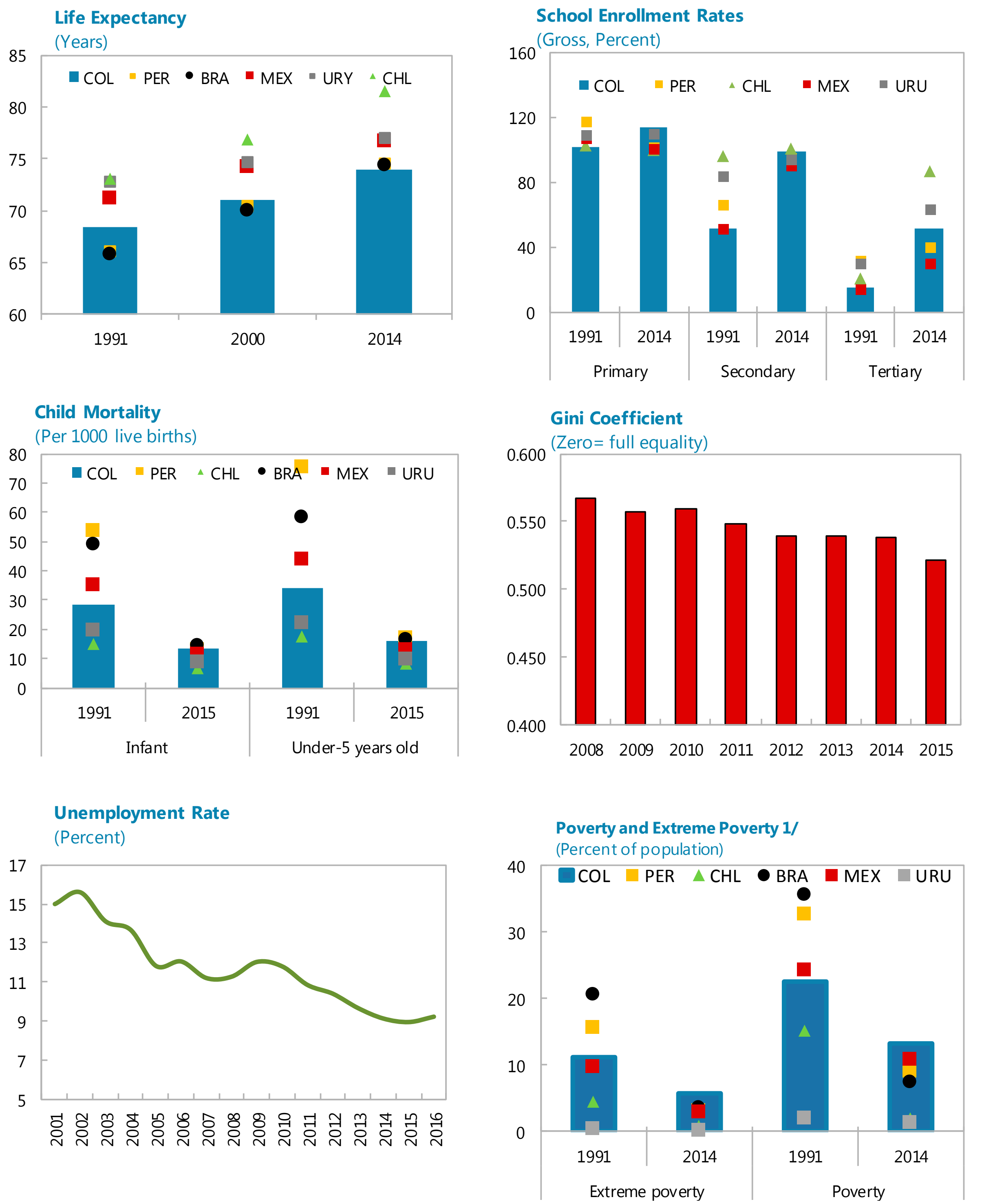


Sources: S&P Capital IQ and IMF staff calculations

Figure 6. Colombia: Structural Issues and Potential Growth

Sources: Banco de la República; OECD; World Economic Forum; DANE; World Bank; and Fund staff estimates.

Figure 7. Colombia: Social Indicators



Sources: World Development Indicators; and DANE.

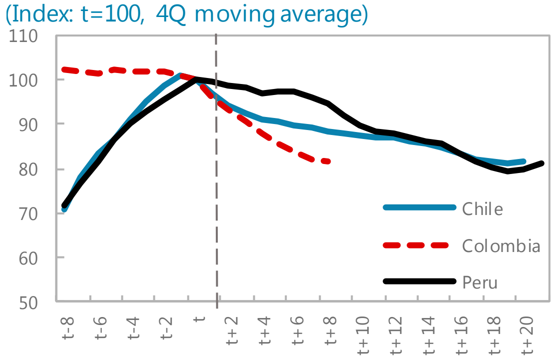
1/ Poverty corresponds to the poverty headcount ratio at $3.10 a day (2011 PPP) and extreme poverty to the headcount ratio at $1.90 a day (2011 PPP).

Appendix I. External Sector Assessment

1. **Faced with a faster and larger deterioration in the terms of trade (TOT) than Chile and Peru, Colombia has also narrowed its current account deficit at a faster pace, although further adjustment is still required.** With a larger real exchange rate depreciation than in Chile and Peru and a sharper slowdown in domestic demand, imports contracted significantly in real terms. Nevertheless, Colombia's current account balance was already below its peers' and its norm before the shock, and the drop in oil prices initially caused a further decline. The adjustment in trade quantities observed until now was barely enough to revert this initial deterioration and bring Colombia's current account in line with its peers' two years after the TOT shock. A further narrowing of the current account deficit will be required to bring it back to the norm and in line with that of its peers.

Terms of Trade

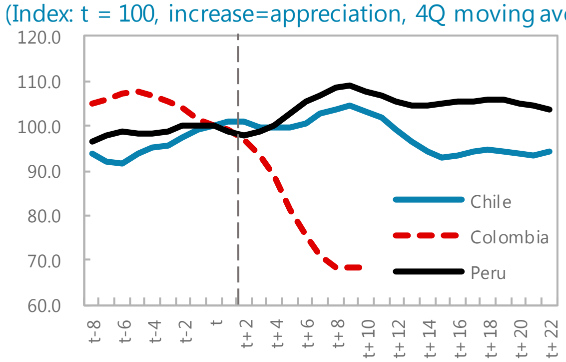
(Index: t=100, 4Q moving average)



Source: Haver Analytics and Fund staff calculations.
Note: For Chile and Peru t = 2011Q1, and for Colombia t = 2014Q2.

Real Effective Exchange Rate

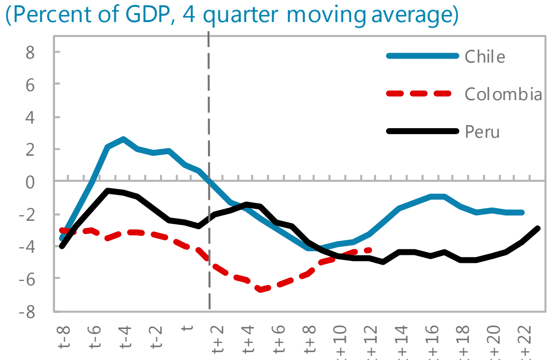
(Index: t = 100, increase=appreciation, 4Q moving average)



Sources: IMF, IFS database and Fund staff calculations.
Note: For Chile and Peru t = 2011Q1, and Colombia t = 2014Q2.

Current Account

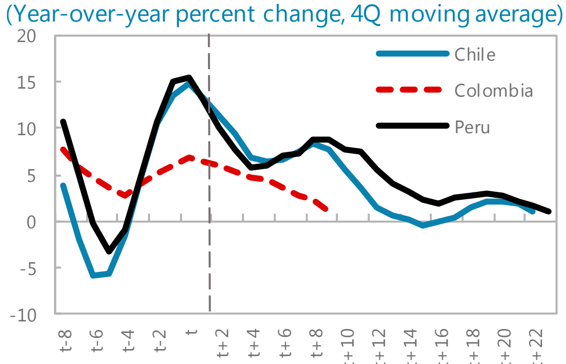
(Percent of GDP, 4 quarter moving average)



Sources: Haver Analytics and Fund staff calculations.
Note: For Chile and Peru t = 2011Q1, and for Colombia t = 2014Q2.

Total Domestic Demand

(Year-over-year percent change, 4Q moving average)



Sources: Haver Analytics and Fund staff calculations.
Note: For Chile and Peru t = 2011Q1; and for Colombia t = 2014Q2.

2. **As the adjustment continues, the external position appears slightly weaker than implied by fundamentals.** The external current account has adjusted at a much faster pace than expected last Article IV consultation, thereby reducing but not yet eliminating the CA gap. In staff's view, the ES estimate of current account norm (-2.6) is the one that better reflects the underlying external position, as the EBA_CA methodology does not account for substantial repatriation of profits and the EBA REER is driven in part by delayed response of exports to the recent depreciation. The associated current account gap is -1 percent of GDP which corresponds to a 5 percent exchange rate overvaluation.

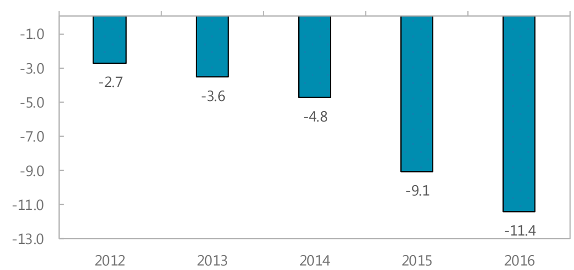
Exchange Rate Assessment

	Cyclically Adjusted CA in 2016	Cyclically Adjusted CA Norm	CA Gap	ER Misalignment
ES	-3.6	-2.6	-1.0	5.0
CA	-3.6	0.8	-4.4	22.0
REER	-3.6			-25.4

Source: EBA.

3. **The net position in portfolio and other investment in percent of GDP continued to decline in 2016, albeit at a slower pace than in 2015**. This reflects a narrowing but still substantial current account deficit that is only partially financed by FDI. It also reflects recovering but still tepid GDP growth. More than two thirds of the 2016 increase in external debt corresponds to public sector long-term debt mainly the Central Government, Ecopetrol, and Medellin's public companies.

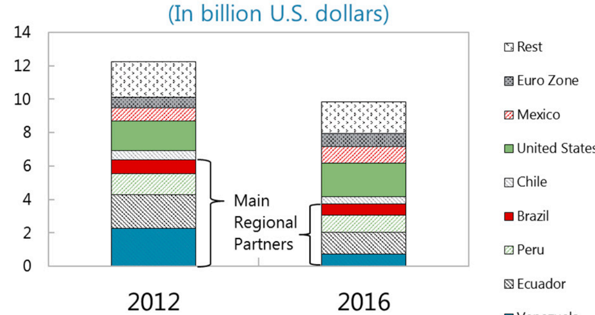
Net Position in Portfolio and Other Investment
(Percent of GPD)



Source: IMF staff calculations.

4. **Looking forward, the dynamism of non-traditional exports will play an important role in supporting economic growth.** The U.S. has become the most important market for non-traditional exports as sales to the neighboring countries have declined sharply over the last few years. The existing comprehensive set of free trade agreements (FTAs) together with the 4G infrastructure projects together with the government's export promotion efforts should help strengthen export.

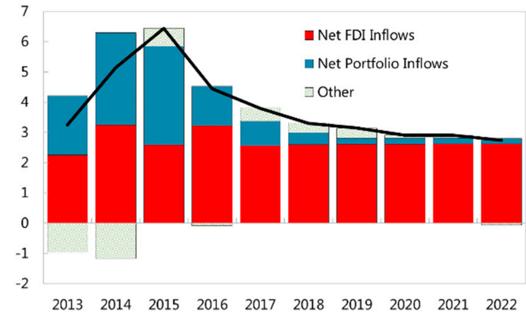
Non-Traditional Exports by Destination
(In billion U.S. dollars)



Source: Fund staff calculations.

5. **As the current account deficit narrows, capital inflows are expected to decline too**. Net FDI saw a significant increase in 2016 mainly as a result of the sale of ISAGEN, a state-owned electricity company, but is expected to return to levels similar to those observed in 2015, as still-low oil prices continue to impact investment in that sector.

Financial Account
(in percent of GDP)



Sources: National authorities and Fund staff estimates.

INTERNATIONAL MONETARY FUND

COLOMBIA

April 17, 2017

STAFF REPORT FOR THE 2017 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By

The Western Hemisphere Department
(In collaboration with other Departments)

CONTENTS

FUND RELATIONS

(As of March 31, 2017)

Membership status: Joined: December 27, 1945; Article VIII.

General Resources Account:

	SDR million	Percent Quota
Quota	2,044.50	100.00
Fund holding of currency (Exchange rate)	2,005.40	98.09
Reserve position	39.11	1.91

SDR Department:

	SDR million	Percent Quota
Net cumulative allocation	738.32	100.00
Holdings	694.00	94.00

Outstanding Purchases and Loans: None.

Latest Financial Arrangements:

			In million of SDR	
Type	**Date of Arrangement**	**Expiration Date**	**Amount Approved**	**Amount Drawn**
FCL	Jun 13, 2016	Jun 12, 2018	8,180.00	0.00
FCL	Jun 17, 2015	Jun 12, 2016	3,870.00	0.00
FCL	Jun 24, 2013	Jun 16, 2015	3,870.00	0.00

Projected Payments to the Fund (in SDR million):

	forthcoming				
	2017	**2018**	**2019**	**2020**	**2021**
Principal					
Charges/interest	0.16	0.21	0.21	0.21	0.21
Total	0.16	0.21	0.21	0.21	0.21

Implementation of HIPC Initiative: Not applicable.

Implementation of Multilateral Debt Relief Initiative (MDRI): Not applicable.

Exchange Rate: Arrangement: Colombia has a floating exchange rate regime (de jure: free floating; de facto: floating) and maintains an exchange restriction subject to Fund approval under Article VIII arising from the special regime for the hydrocarbon sector (see IMF Country Report No. 13/35 for details).

Article IV Consultation: The last Article IV Consultation was concluded on May 5, 2016 (IMF Country Report No. 16/129).

FSAP participation and ROSCs: The FSAP took place in 2000 and was updated in 2008 and 2013. A data ROSC took place in 2006 and a fiscal ROSC in 2003.

Technical Assistance:

Department	Time of Delivery	Purpose
STA	Jan. 14	National Accounts Statistics
STA	Jan. 14	Consumer Prices/Producer Price
MCM	Jul. 14	Bank Supervision & Regulations
FAD	Jul. 14	RA Gap
FAD	Jun. 14	Customs Administration
FAD	Feb. 15	Tax Policy
FAD	Nov. 14	Public Financial Management
FAD	Sep. 14	Tax and Customs Administration
FAD	Oct. 14	Tax Administration
FAD	Nov. 14	2012 Tax reform and New Challenges for Tax Policy
MCM	Jan. 15	Enhancing the Macroprudential Stress Testing Framework of Banco de la Republica.
FAD	Aug. 16	Discussion of the 2017 structural tax reform
FAD	Feb. 17	Revenue Administration
FAD	Mar. 17	Fiscal Transparency Assessment

WORLD BANK RELATIONS[1]

The World Bank Group Country Partnership Framework (CPF) for FY 16–21 was discussed by the Board on April 7, 2016. The new CPF is well aligned with both the Government's National Development Plan and the Bank Group's twin goals. Informed by a Systematic Country Diagnostic, the demand expressed by Colombian authorities and the WBG's comparative advantage in Colombia, the CPF selectively focuses on three strategic areas for engagement: (i) fostering balanced territorial development; (ii) enhancing social inclusion and mobility through improved service delivery; and (iii) supporting fiscal sustainability and productivity. Support for the peace building process cuts across all areas of Bank Group engagement, from land property rights in rural areas, for instance, to improving justice service delivery and access to justice.

The CPF proposes a flexible approach enabling ready adjustments to respond to changing client needs and macroeconomic developments. In implementing the new CPF the World Bank Group will continue to provide integrated packages of services spanning World Bank, IFC and MIGA contributions to address Colombia's ambitious development agenda with complementary financial, knowledge and convening services. In addition to providing programmatic knowledge services, a large number of South-South Knowledge Exchanges have been organized by the Bank under the different engagement areas. These include a number of study tours for high-ranking government officials to and from Israel, Pakistan, Indonesia, Vietnam and Peru, to learn more about social assistance programs, health policies, conditional cash transfers and a variety of other issues.

As of March 2016, Colombia is IBRD's 7th largest Bank borrower with US$9.6 billion in outstanding debt. The active portfolio is composed of 11 IBRD and 2 stand-alone GEF projects totaling US$3.6 billion in net commitments. Colombia also has a considerable Trust Fund (TF) portfolio amounting to US$36 million, not including Global Environment Facility (GEF) projects, and representing a variety of sectors. In FY 16, two Development Policy Financing (DPF) operations of US$700 million each for Sustainable Development and Sustained Growth and Income Convergence, respectively, were approved. Lending in FY 17 includes two DPF operations in the areas of Territorial Development (US$800 million; approved December 2016) and Fiscal and Growth (US$600 million; approved March 16), along with two Investment Project Financing (IPF) operations (both already approved) in the water and tertiary education sectors (the former supporting Plan Pazcifico) with a combined total of US$287 million. The FY 18 pipeline, detailed further below, amounts to US$1.5 billion and includes 2 DPFs for US$500 million each, 3 IPFs in the total amount of US$340 million, and 2 guarantees whose total IBRD portion is US$162 million. A GEF-funded Additional Financing operation is also anticipated in FY 18, to consolidate forest and biodiversity conservation efforts in the Amazon. A Multi-Donor Trust Fund is currently under implementation to support the peace and post-conflict initiatives. Current overall contributions from the Swedish Development Cooperation and the WB-administered State and Peace Building Fund are at US$6.5 million.

[1] Prepared by World Bank staff.

IFC's committed portfolio in Colombia stands at a near record US$1,087.2 million in 65 projects. It is the 10th largest portfolio worldwide and 3rd regionally. The top sectors are: finance and insurance (58 percent), collective investment vehicles (12 percent), transportation and warehousing (8 percent) and extractives (6 percent). In terms of products, 52 percent is in loans, 40 percent in equity, and the balance in guarantees, risk management and mix-type products. Participants' and IFC Asset Management Company (AMC) committed balances total US$164.0 million and US$543.3 million, respectively. IFC Advisory in Colombia is active in Public-Private Partnerships (PPPs) (schools, hospitals, physical infrastructure), corporate governance, collateral registries, microfinance and sustainable energy finance, royalties management, sustainable community investment, investment policy promotion, Cities, taxes, and green building codes. So far in FY 17, IFC has committed 5 projects for US$363.7 million, of which US$214.1 million is in mobilization, including US$183 million for Colombian Roads, US$117 million for Bancolombia green bonds subscription, US$30 million for Unijaveriana modernization and expansion, US$30 million parallel loan mobilized for Banco Pichincha, and US$2.4 million (IFC and AMC) Pacific Infrastructure (port). In December 2016, IFC eclipsed the US$8 billion mark in total historical investment commitments for own account and mobilization.

MIGA current portfolio in Colombia stands close to US$100 million. MIGA coverage is entirely in the financial service sector across two projects: (i) Findeter, the first Non-Honoring of a Financial Obligation of a State-Owned Enterprise (US$95 million); and (ii) ProCredit Holding, the insurance of mandatory reserve at the Central Bank of Colombia (US$2 million). The Findeter project was issued in December 2015 and supports the expansion of lending operations by Findeter to intermediary financial institutions for urban infrastructure development projects in a number of cities across Colombia; tenor is 10 years. The ProCredit Holding project was issued in December 2010, with a focus on banks' capital optimization, i.e., reduction of risk weighting for mandatory reserves on a group's consolidated balance sheet thereby reducing capital provisioning; tenor is 10 years.

INTER-AMERICAN DEVELOPMENT BANK RELATIONS[1]

Colombia's current Country Strategy covers the period 2015–18 and identifies three policy areas of dialogue with the government: productivity, effectiveness of public management and social mobility. These areas are part of a comprehensive vision for the development process of the country, aimed at a vision where the country can achieve a path of sustainable growth and become a developed country in the long run. There are cross-cutting requirements associated with this objective and to growth and overcome conditions of poverty and inequity, which are: (i) increase tax-fiscal revenues in order to ensure a sizable flow of public goods, and (ii) recognizing both infrastructure development, and human and social capital development as necessary factors for greater productivity and strengthen the middle class.

The sovereign guarantee lending envelope (approvals) under the current Strategy is estimated at US$890 million in 2015 and US$800 million per year during 2016–18 term, which total US$3.3 billion for the years 2015 to 2018. In 2016, the Bank approved 5 operations for US$970 million in sovereign guarantee operations, of which US$800 million in Policy Based Loans.

As of January 2017, the Bank portfolio is currently composed of 27 sovereign guarantee operations, totaling US$2.1 billion, with a disbursed percentage of 38 percent. Operations are concentrated in infrastructure (58 percent), governance (17 percent), Climate Change and Sustainable Development (22 percent) and social development and integration (20 percent). The IDB is the second multilateral creditor with a total debt owed of US$7.3 billion (41 percent of Colombia's total multilateral debt). The non-reimbursable technical cooperation portfolio includes 53 operations, with an approved value of US$54.8 million.

The current portfolio of private sector initiatives (non-sovereign guarantee) in Colombia totals US$577 million. The Inter-American Investment Corporation has a portfolio of US$367 million.

Colombia: Sovereign Loan Portfolio

	Number of Operations	Current Approved US$ million	Disbursement (Percent)
Infrastructure	11	1224	38.2
Integration and Trade	1	21	46.6
Climate change and sustainable development	4	464	32.3
Institutions for development	10	359	54.4
Social	1	42	37.3
TOTAL	**27**	**2,110**	**38**

[1] Prepared by IADB staff.

STATISTICAL ISSUES

(As of April 12, 2017)

I. Assessment of Data Adequacy for Surveillance
General: Data provision is adequate for surveillance.
National Accounts: The National Department of Statistics (DANE) is responsible for the compilation of the national accounts, although the Banco de la República (BdR) compiles the financial accounts. Annual and quarterly estimates of GDP by the production and the expenditure approaches use 2005 as the reference year for the annually chained volume measures. GDP compilation conforms to the methodological recommendations of the System of National Accounts 1993 (1993 SNA) and some recommendations of the 2008 SNA. Development has recently begun, collaboratively between DANE and BdR, of the quarterly accounts for institutional sectors, expected to be completed by mid-2018. DANE also publishes a monthly indicator of economic activity Índice Mensual de Actividad Económica de Colombia (IMACO).
Price Statistics: DANE is also responsible for price statistics, and currently compiles and disseminates the consumer price index (CPI) and the producer price index (PPI). The basket and weights of the CPI have not been updated since 2008 and are based on the Income-Expenditure Survey (2006–07). These CPI weights are out of date and may not reflect current expenditure patterns. DANE disseminated an updated and revised PPI in 2015. There is need to expand PPI coverage to include additional economic activities.
Government Finance Statistics: The Ministry of Finance and Public Credit (MFPC) is responsible for the compilation of public revenue, expenditure, and financing data. The Colombian authorities have reaffirmed their commitment to adopt the GFSM 2001 framework, enhance inter-institutional coordination, and increase the resources allocated to compiling government finance statistics. While progress has been made, and the authorities submit comprehensive GFS to the IMF's Statistics Department, there are concerns regarding data quality. The latest reported data has been published in the Government Finance Statistics Yearbook (GFSY). The priority is to improve data compilation and consistency of time series data, and correct unusual data patterns. Next steps include: improving classification of revenue and expense, consolidation, adopting a common list of public sector entities, and disseminating high-frequency data on a national and international level. The General Accounting Office (GAO) developed a single accounting framework for the public sector based on International Public Sector Accounting Standards and maintains a financial management information system containing accounting information of all public sector units. The MFPC's Macroeconomic Policy Unit and the GAO developed a bridge table that converts national accounting classification to the GFSM 2001 framework to compile GFS on accrual and cash bases.

I. Assessment of Data Adequacy for Surveillance (Concluded)
Monetary and Financial Statistics: The *Bank of the Republic* (BdR) reports the Standardized Report Forms (SRFs) 1SR for BdR, 2SR for the other depository corporations (ODCs), and 5SR for monetary aggregates for publication in the IMF's *International Financial Statistics (IFS)* on a monthly basis with a lag of two to 5 months. The *Superintendencia Financiera de Colombia* (SFC) compiles data on 4SR for other financial corporations (OFC). However, the last reported OFC data are for December 2014. This delay in reporting is due to an ongoing review of the SFC and efforts to map the former to the International Financial Reporting Standards (IFRS). The classification of financial instruments and economic sectors follows the *MFSM* with some exceptions. For December 2001 through November 2004, some financial assets and liabilities where economic sectorization is unavailable are allocated to the economic sector having the largest volume of transactions in the category and accrued interest on various financial instruments is included in Other Items (Net) rather than in the outstanding amounts of the financial assets and liabilities.
Financial Sector Surveillance: Colombia is currently reporting some of the core Financial Soundness Indicators (FSI).
External Sector Statistics: The BdR is in charge of compiling and disseminating quarterly balance of payments and international investment position (IIP) statistics, which are produced on a sixth edition of the Balance of Payments and International Investment Position Manual (BPM6) basis. Improved surveys, particularly in the services sector, have enhanced the coverage of balance of payments statistics. Recording of transactions in securities between residents and nonresidents in secondary markets could be improved. The BdR also monthly compiles and disseminates the Data Template on International Reserves and Foreign Currency Liquidity, reports semi-annual data to the Coordinated Portfolio Investment Survey (CPIS), and submits quarterly external debt statistics to the Quarterly External Debt Statistics (QEDS) database. However, Colombia has not reported data to the Coordinated Direct Investment Survey (CDIS) yet.

II. Data Standards and Quality	
Colombia subscribes to the Special Data Dissemination Standard (SDDS) and metadata are posted on the Fund's Dissemination Standards Bulletin Board (DSBB).	A data ROSC was published in October 2006.

Colombia: Table of Common Indicators Required for Surveillance
(As of March 24, 2017)

	Date of Latest Observation	Date Received	Frequency of Data[1]	Frequency of Reporting[1]	Frequency of Publication[1]	Memo Items: Data Quality – Methodological Soundness[8]	Memo Items: Data Quality – Accuracy and Reliability[9]
Exchange Rates	Mar. 24, 2017	Mar. 24, 2017	D	D	D		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[2]	Feb. 2017	Mar. 2017	M	M	M		
Reserve/Base Money	Mar. 2017	Mar. 2017	W	W	W	LO, O, LO, LO	O, O, O, O, O
Broad Money	Mar. 2017	Mar. 2017	W	W	W		
Central Bank Balance Sheet	Jan. 2017	Mar. 2017	W	W	W		
Consolidated Balance Sheet of the Banking System	Nov. 2016	Mar. 2017	M	M	M		
Interest Rates[3]	Mar. 23, 2017	Mar. 24, 2017	D	D	D		
Consumer Price Index	Feb. 2017	Mar. 2017	M	M	M		
Revenue, Expenditure, Balance and Financing Composition[4] – General Government (GG)[5]	Q4 2016	Mar. 2017	Q	Q	Q	O, O, LO, O	LO, O, O, O, NO
Revenue, Expenditure, Balance and Composition of Financing[4] – Central Government	Nov. 2017	Mar. 2017	M	M	M		
Stocks of Central Government and Central Government-Guaranteed Debt[6]	Feb. 2017	Mar. 2017	M	M	M		
External Current Account Balance	Q4 2016	Mar. 2017	Q	Q	Q	O, LO, LO, LO	O, O, O, O, LO
Exports and Imports of Goods and Services	Q4 2016	Mar. 2017	Q	Q	Q		
GDP/GNP	Q4 2016	Mar. 2017	Q	Q	Q	O, LO, O, O	LO, O, LO, LO, NO
Gross External Debt	Nov. 2016	Mar. 2017	M	M	M		
International Investment Position[7]	Q4 2016	Mar. 2017	Q	Q	Q		

[1] Daily (D); Weekly (W); Monthly (M); Bi-monthly (B); Quarterly (Q); Annually (A); Irregular (I); Not Available (NA).
[2] Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.
[3] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[4] Foreign, domestic bank, and domestic nonbank financing.
[5] The GG consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[6] Including currency and maturity composition.
[7] Includes external gross financial asset and liability positions vis-à-vis nonresidents.
[8] Reflects the assessment provided in the data ROSC published in October 2006 for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O); largely observed (LO); largely not observed (LNO); not observed (NO); and not available (NA).
[9] Same as Footnote 8, except referring to international standards concerning (respectively) source data, assessment of source data, statistical techniques, assessment and validation of intermediate data and statistical outputs, and revision studies.

Statement by Carlos Hurtado, Executive Director for Colombia and Tomas Gonzalez, Senior Advisor to Executive Director
May 1, 2017

We thank staff for its comprehensive and insightful report, and for a timely selected issues paper that focuses on topics currently relevant to Colombia's economy. Discussions with authorities were extensive, constructive and useful. We broadly agree with their analysis and recommendations, but would like to provide further context and expand on some of the issues presented in the report.

Background

Colombia's current government set an ambitious reform agenda in 2010 to tackle the country's most pressing problems. On the social side, it focused on reducing poverty rates—which stood above 30 percent per multidimensional measures—and lowering inequality. On the economy, it concentrated on reducing structural unemployment—persistently above 12 percent—and removing barriers to growth, particularly the large infrastructure gap that has been a historic drag on productivity. And on security, on putting an end to the five-decade-long civil conflict that killed 200,000 Colombians and displaced six million.

A strong macroeconomic framework was an essential underpinning for these reforms as they entailed significant changes to public spending, a substantial pressure on the financial system to fund infrastructure projects, and flexibility to absorb potential external shocks. The chosen pillars were thus to maintain exchange rate flexibility as the primary shock absorber; a cautious monetary and financial policy to keep low and stable rates of inflation, contain credit growth and avoid currency mismatches; and commitment to a medium-term fiscal rule to keep spending and debt at sustainable levels.

From 2010 to 2014 authorities had to deal with the effects of a sustained increase in oil prices that was compounded by the doubling in production arising from prior reforms to modernize the hydrocarbons sector. Recognizing the temporary nature of the shock was essential in managing the substantial increase in government revenue and the large appreciation of the peso that followed, while trying to preserve space to adjust once the boom came to an end.

Fall in oil prices and Policy Response

Starting in mid-2014 and lasting over a year, the rapid decline in oil prices generated one of the largest adverse external shocks Colombia's economy has faced with exports falling 46 percent—a reduction unseen since the great depression of the 1930s. The government's oil revenue dropped 3 pp of GDP, the current account deficit widened to 6.5 percent of GDP, followed by a reduction in aggregate that led to a slowdown in growth to 2 percent—less than half of pre-crisis levels.

The policy response focused on helping the economy adjust without derailing the structural reform agenda as noted in the report. Building on the strength of the existing macroeconomic framework, authorities opted for an approach in line with Fund's recommendations in which monetary and fiscal policy recognized the permanent component of the shock and undertook the necessary corrective actions.

On the monetary side, the Central Bank embarked on a tightening cycle with a hike of 325 bp between September 2015 and July 2016, as it had to confront two additional shocks: a severe drought caused by El Niño that led to food shortages and increased energy prices—Colombia's electricity matrix is largely hydroelectrical—and a truck drivers' strike that disrupted the supply of goods to major urban areas. The combined effects of the two and the peso's 60 percent nominal depreciation increased headline inflation to 8.97 percent in July, almost three times the target.

Inflation responded to policy by braking its trend in August and starting a decline to 5.75 percent in December. With expectations now anchored within the target range, inflation continuing to fall and a negative output gap, the Bank has now started to cautiously ease monetary policy with a 25 bp cut in the policy rate in December, and further 25 bp cuts in February and March.

Moving forward the Central Bank will follow a prudent stance based on three factors. First, the increased inflation inertia after two years of exceeding the 3 percent target and the still imperfect anchoring of expectations. These conditions heighten the risk that any supply shock could weaken the credibility of the target.

Second, the uncertainty about potential growth and natural interest rates. Lower terms of trade and smaller growth of the labor force are going against the productivity gains from peace and infrastructure investment, leaving considerable uncertainty on the size of the output gap. Also, smaller potential growth should not necessarily imply lower natural interest rates given the possibility of higher risk premia and rising external interest rates.

And thirdly, the consolidation of external adjustment. Ensuring the current account deficit —expected to fall to 3.5 percent this year—reaches its sustainable level is critical to reduce the external vulnerability of the economy. Ideally, the adjustment will switch to exports, which have started to grow at 30 percent following the recovery in commodity prices and, to a lesser extent, the lagged effects of depreciation and increased efforts at diversification.

Monetary policy should also consider its effects on financial imbalances and risk-taking. Low real interest rates and available external funding can lead to an excessive risk taking by agents that could delay adjustment. However, with the slowdown in credit growth, capital adequacy ratios above regulatory requirements and stress tests indicating provisions would help banks withstand large macro-financial shocks, we fully agree with the report's assessment that the financial system is sound and broadly resilient.

In any case, authorities are fully aware of the importance of safeguarding the financial system given its potential role as a magnifier of risks. They thus stand ready to expand the use of prudential tools, including additional provisions in consumer loans, speedier convergence to Basel III capital standards, and further regulation aimed at limiting currency mismatches and FX liquidity risk of financial intermediaries. It is precisely the fact that currency mismatches of both the private and public sectors have been contained, what allowed the exchange rate to work fully as an automatic stabilizer of external shocks.

Regulatory measures will therefore continue to consolidate capital and liquidity buffers to absorb shocks, as has been done throughout the adjustment process—and as exemplified by the conglomerates bill currently under discussion in Congress.

On the fiscal front, efforts have focused on consolidation in line with the medium-term fiscal rule, while ensuring key structural reforms can be completed and priority social spending protected. Along these lines, last year there was a structural deficit reduction despite an increase in the central government's headline deficit due to lower oil revenue and higher interest payments. Together with lower spending by local authorities, it amounted to a negative impulse of more than 2 percent that was duly followed by the approval of a comprehensive tax reform in December.

The reform was carefully designed to meet the key macroeconomic requirements of the adjustment strategy. It increased the general VAT rate by 3 percentage points and limited exemptions in personal income tax to replace revenue lost to the oil price shock; reduced corporate taxes rates and simplified tax procedures for small businesses to encourage investment; modernized non-profits taxation and introduced penalties to tackle evasion; created a new carbon tax in line with the stated goal of increasing clean energy sources; and strengthened the tax administration to improve overall efficiency.

In terms of additional revenue, it is expected to produce 0.67 percent of GDP in 2017, gradually increasing to over 3 percent of GDP in the next five years. The immediate increase in VAT rates will certainly have a negative short-run effect on growth via consumption and slow the convergence of inflation to target, but the positive effects on investment of lower corporate tax rates and medium-term growth are estimated to be around 0.3pp, in line with Fund estimates.

Overall, it is a growth friendly reform that balances short-term needs for revenue with the medium-term structural agenda: protects the credibility of the fiscal rule, fosters debt sustainability and ensures infrastructure programs and the peace agreement have sufficient and timely funding.

Outlook and risks

This policy response has so far allowed a relatively smooth adjustment—especially when considering the magnitude and speed of the shocks experienced in the past two years. Growth is expected to rise to 2.5 percent and continue increasing to 3.5 percent by the end of the decade; inflation is falling and set to reach its target in the second half of next year; the labor market has been able to sustain previous years' gains and maintain unemployment at the 9 percent level; investment rates are the highest among the large Latin American economies; and commodity and non-commodity exports have started to grow and are poised to help lower the current account deficit to sustainable levels.

Moreover, authorities have started to build some policy space that will be critical in facing the more volatile and uncertain external environment described in the report. Together with a strong reserves position and a continued access to the Flexible Credit Line, the policy stance is strengthening confidence in the economy as shown by recent trends in capital flows, credit default swap prices and the stability in credit ratings.

Over the medium term the focus will be on increasing potential growth and ensuring the successful completion of the structural reform agenda. Chiefly among them is the biggest road-building program in the country's history that will provide faster and cheaper connections among the country's main centers of production, consumption and trade, and the implementation of the peace agreement. Both will be essential in transforming Colombia into a more prosperous and democratic country.

Finally, and despite the magnitude of the crisis, cumulative efforts have brought significant improvements to millions of Colombians, including through universal healthcare, free basic education and training, and access to sanitation, drinking water and electricity. Sound macroeconomic policy and targeted programs have contributed to almost halving poverty, reducing inequality and maintaining growth in a hostile and uncertain external environment.

Authorities remain committed to a policy of firm and balanced adjustment that takes appropriate account of risks, and to a continued and productive work with the IMF.