IMF Country Report No. 17/149

COLOMBIA

June 2017

REVIEW UNDER THE FLEXIBLE CREDIT LINE ARRANGEMENT—PRESS RELEASE AND STAFF REPORT

In the context of the review under the Flexible Credit Line arrangement the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on June 5, 2017. Based on information available at the time of these discussions, the staff report was completed on May 19, 2017.
- A **Statement by the Executive Director** for Colombia.

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

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Press Release No. 17/211
FOR IMMEDIATE RELEASE
June 6, 2017

International Monetary Fund
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IMF Executive Board Completes Review of Colombia's Performance under the Flexible Credit Line Arrangement

- IMF Board reaffirms Colombia's continued qualification to access US$ 11.35 bln Flexible Credit Line
- Colombia is adapting smoothly to the oil price shock, but country continues to face elevated global and regional risks
- The FCL will help authorities' efforts to complete the adjustment to the oil shock and serve as an additional buffer against external shocks

On June 5, 2017, the Executive Board of the International Monetary Fund (IMF) completed its review of Colombia's qualification for the arrangement under the Flexible Credit Line (FCL) and reaffirmed Colombia's continued qualification to access FCL resources. The Colombian authorities stated their intention to continue treating the arrangement as precautionary.

Following the Executive Board's discussion on Colombia, Mr. Tao Zhang, Deputy Managing Director and Acting Chairman of the Board, issued the following statement:

"Colombia is adapting smoothly to the oil price shock experienced since 2014, but the country continues to face elevated global and regional downside risks, including possible capital flow reversals. Despite these uncertainties, the outlook is for a gradual increase in growth and a further reduction of the current account deficit.

"The resilience of the Colombian economy in the face of a complex external environment reflects the country's very strong policy and institutional frameworks and excellent track record of policy implementation. The inflation-targeting regime, flexible exchange rate, fiscal rule, and effective financial supervision and regulation will continue to be integral parts of Colombia's strong policy framework.

"The FCL arrangement will support the authorities' efforts to complete the adjustment to the oil shock and will serve as an additional buffer against external shocks. The authorities will continue to treat the arrangement as precautionary, and intend to reduce access in possible requests for subsequent FCL arrangements, to the extent that the reduction of the global risks affecting Colombia allow it."

Background:

The two-year FCL arrangement for Colombia in an amount equivalent to SDR 8.18 billion (about US$11.350 billion[1]) was approved by the IMF's Executive Board on June, 2016 (see Press Release No. 16/279). Colombia's first FCL arrangement was approved on May 11, 2009 (see Press Release No. 09/161) and was renewed on May 7, 2010 (see Press Release No. 10/186), May 6, 2011 (see Press Release No. 11/165), June 24, 2013 (see Press Release No. 13/229), and June 17, 2015 (see Press Release 15/281). The FCL was established on March 24, 2009 and further enhanced on August 30, 2010 (see Press Release No. 10/321). The FCL is available to countries with very strong fundamentals, policies, and track records of policy implementation and is particularly useful for crisis prevention purposes. FCL arrangements are approved for countries meeting pre-set qualification criteria (see Press Release No. 09/85). The FCL is a renewable credit line, which could be approved for either one or two years. Two-year arrangements involve a review of eligibility after the first year. If the country draws on the credit line, the repayment period is between three and a quarter and five years. There is no cap on access to Fund resources under the FCL, and access is determined on a case-by-case basis. Qualified countries have the full amount available up-front, with no ongoing conditions. There is flexibility to either draw on the credit line at the time it is approved, or treat it as precautionary.

[1] Amount based on the Special Drawing Right (SDR) quote of June 06, 2017 of 1 USD = SDR 0.720682.

INTERNATIONAL MONETARY FUND

COLOMBIA

REVIEW UNDER THE FLEXIBLE CREDIT LINE ARRANGEMENT

May 19, 2017

KEY ISSUES

Context. Colombia is adjusting smoothly to a large and persistent oil price shock against the backdrop of a complex external environment. Growth fell in response to policy tightening and lower oil prices but is projected to recover gradually. Inflation rose above the target band due to temporary shocks but has started to moderate and is projected to converge to the band guided by tight monetary policy. Oil-related risks have receded but capital-account risks remain elevated. Colombia's exposure to financial account shocks increased with higher nonresident participation in the local bond market. A faster-than-expected pace of interest rate hikes in the U.S. could tighten financial conditions in emerging markets. Global policy uncertainty and protectionism could affect global growth and generate spillovers to emerging markets.

Policies. Colombia continues to have very strong economic fundamentals and institutional policy frameworks. The policy adjustment to permanently lower oil prices was timely and decisive. Tight monetary policy helped anchor inflation expectations in the face of large but temporary inflation shocks. The exchange rate continued to float. Fiscal policy tightened as prescribed by the fiscal rule, while protecting social and infrastructure spending. A structural tax reform, including a 3 percentage-point increase in the VAT, became effective in January 2017. The peace agreement with the FARC and a comprehensive structural reform agenda stand to boost medium-term growth prospects.

FCL. On June 13, 2016, the Executive Board approved a two-year arrangement for Colombia under the FCL in an amount equivalent to SDR 8.18 billion (400 percent of quota, US$11.5 billion). The authorities plan to continue to treat the arrangement as precautionary. The authorities would intend to reduce access to Fund resources in any subsequent FCL arrangements conditional on a substantial reduction in some of the global risks affecting Colombia.

Qualification. Staff assesses that Colombia continues to meet the qualification criteria for access to Fund resources specified under the Executive Board decision on FCL arrangements (Decision No. 14283-(09/29), adopted on March 24, 2009, as amended). Staff therefore recommends completion of the review under the FCL arrangement.

Approved By
Robert Rennhack and Mary Goodman

This report was prepared by a team comprising Jorge Roldós (head) Sergi Lanau, Francisco Roch, Daniel Rodriguez-Delgado, (all WHD), Nombulelo Braiton (MCM), and Alina Iancu (SPR). Cristina Barbosa and Adrian Robles provided outstanding support.

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CONTEXT AND RECENT DEVELOPMENTS

1. **Colombia is adapting smoothly to the large terms of trade shock experienced since 2014.** Growth moderated to 2 percent in 2016 due in part to the cumulative effects of a 50 percent decline in oil prices since June 2014 and slowing trading partner growth. Inflation started declining in August 2016 but remained above the target band due to the lagged impact of the large depreciation that accompanied the fall in oil prices and weather-related shocks. Inflation expectations converged to the target band guided by monetary policy tightening. Strong import compression narrowed the current account deficit to 4.4 percent of GDP in 2016, from 6.4 percent of GDP a year earlier. The fiscal deficit widened to 4 percent of GDP as oil revenue declined but the structural fiscal balance improved. The financial system remained well capitalized and liquid but corporate balance sheets worsened somewhat.

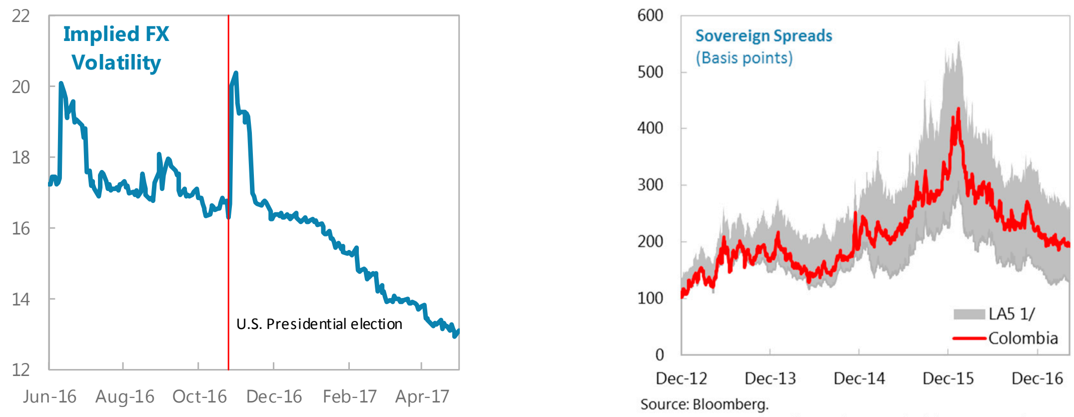
Nominal Exchange Rate
(Pesos per U.S. dollar)

Source: Banrep.

2. **The timely policy adjustment to lower oil prices underscores the strength of Colombia's policy framework and fundamentals.** The decisive monetary policy response to the spike in inflation helped anchor inflation expectations and narrow external imbalances. The central bank started a gradual easing cycle in December as inflationary pressures started to abate and the current account deficit fell more than expected. The exchange rate continued to float and was effective in dealing with the oil price shock given limited balance-sheet mismatches. Fiscal policy tightened as prescribed by the fiscal rule, while protecting essential social and infrastructure spending. A structural tax reform closely aligned with past Fund advice was approved in December 2016. The reform increased the VAT rate by 3 percentage points, simplified the tax code comprehensively, reduced the high corporate tax burden, and included measures to improve formalization and tax administration.

3. **Colombia's FCL arrangement provided support to pursue policy adjustments against a background of global and regional uncertainties, and signaled policy strength.** Colombia made a very significant adjustment effort in a complex external environment, while maintaining relatively strong growth, and reducing poverty and inequality. Strong buffers, including the FCL arrangement, complemented the adjustment effort and insulated Colombia well from external shocks. The U.S. presidential elections resulted in short-lived volatility in Colombian financial markets. The External Stress Index also worsened significantly in this episode (see Box 1). Recent episodes of falling oil prices (13.4 percent in October–November, 2016, and 10.8 percent in February–March, 2017) were associated with currency depreciations but had limited impact on other Colombian markets, as shown by steadily declining sovereign spreads. Regional uncertainties, especially in Venezuela, persisted and were a headwind to Colombia's efforts to increase non-commodity exports.

Colombia—Financial Markets



Source: Bloomberg.

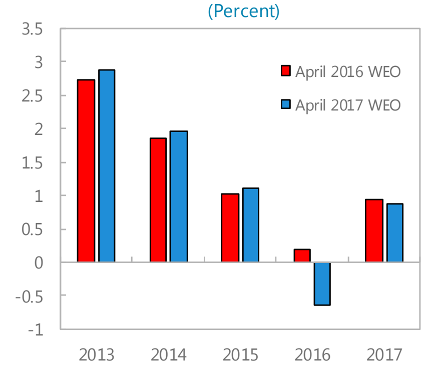
Source: Bloomberg.
1/ LA5 corresponds to the maximum and minimum sovereign spreads among Brazil, Peru, Mexico, Chile, and Uruguay.

4. **The peace agreement with the FARC and the structural reform agenda set the foundations for medium-term inclusive growth.** The peace agreement signed in December 2016 was a historic milestone that put 50 years of armed conflict to an end and included plans to reduce infrastructure and social gaps across the regions most affected by the conflicts. The construction phase of a large wave of infrastructure projects has begun, setting the stage for increasing potential growth in the medium term. Many export barriers were removed and pilot projects on innovation and managerial skills are helping diversify exports. During the Board discussion of the 2017 Article IV Consultation, Directors commended the strong performance of the Colombian economy and the encouraging prospects of the peace agreement for inclusive growth.

OUTLOOK AND RISKS

5. **The outlook is for a gradual increase in growth.** Staff projects growth to increase to 2.3 percent in 2017, as policies ease somewhat and the economy diversifies away from commodities. After a worse-than-expected outturn in 2016, the growth outlook in key regional markets for Colombia's non-commodity exports remains subdued, partly due to the deep economic crisis in Venezuela. Infrastructure spending, the positive effects of the tax reform on investment, and improved confidence from the peace agreement with the FARC are expected to lift growth to 3.5 percent in the medium term.

Nontraditional Exports-Trading Partner Growth
(Percent)

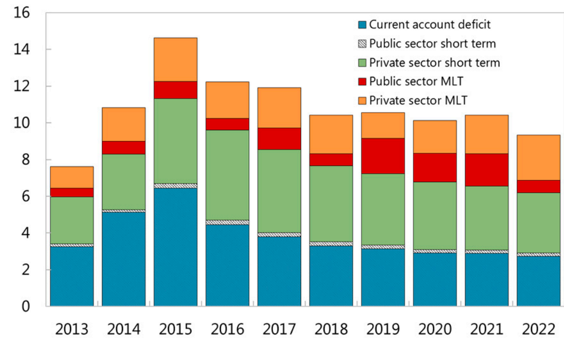


Source: IMF WEO.

6. **Inflation is projected to converge to the target band in early 2018.** Inflation is on a declining path but the effects of the VAT increase and indexation will delay convergence to the target band to early 2018. The improved outlook for inflation will allow the central bank to continue the easing cycle started in December, at a pace contingent on preserving well-anchored inflation expectations.

7. Tight policies will help narrow the current account deficit further to 3.8 percent of GDP in 2017. Additional import compression due to sluggish domestic demand, improved tourism receipts, and growing non-commodity exports will contribute to a reduction in the current account deficit of 0.6 percentage points of GDP. Gross external financing needs will decline to about 12 percent of GDP in 2017 and remain around 10 percent of GDP in the medium term. Net capital inflows, including portfolio flows, are expected to decline as the current account deficit narrows. FDI saw a significant increase in 2016 due to the sale of a state-owned company but is expected to return to 2015 levels, as low oil prices continue to depress investment in the oil sector.

Gross External Financing Needs
(In percent of GDP)



Sources: National authorities and Fund staff estimates and projections.

8. Fiscal sustainability will remain a key criterion in the implementation of the peace agreement. Colombia has some fiscal space for additional peace expenditure, while placing public debt firmly on a downward path and protecting the credibility of the fiscal rule.

9. As noted in the WEO and GFSR, the global environment has improved somewhat since June 2016 but global risks have evolved and remain tilted to the downside.

- Global economic activity is picking up and higher commodity prices have provided some relief to commodity exporters. Financial markets are buoyant and expect continued policy support in China. Certain tail risks identified at the time of the current FCL arrangement such as oil below US$30/barrel are less severe now.

- But notwithstanding these positive developments, the risks that remains tilted to the downside. As noted in the flagships, global policy uncertainty and protectionism are new risks that could affect global growth and generate spillovers to emerging markets. Uncertainty about U.S. policy actions and their effects could lead to tighter-than-expected financial conditions and a rise in volatility and risk aversion. A faster-than-expected pace of interest rate hikes in the U.S. could tighten financial conditions elsewhere. A global shift toward protectionism could adversely affect trade and global growth. In such a scenario, emerging markets open to trade would face rising risk premiums amid declining global trade and commodity prices.

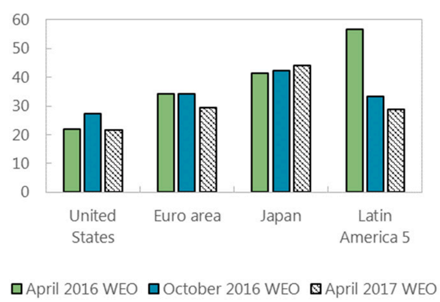
- Emerging market economies continued to enhance their resilience, but higher inflation volatility in some countries and rising financial vulnerabilities in China left emerging market risks elevated and unchanged.

- The updated External Stress Index shows that the baseline external conditions Colombia faces going forward are better than at the time of the FCL approval but would worsen significantly in the adverse scenarios described above (Box 1).

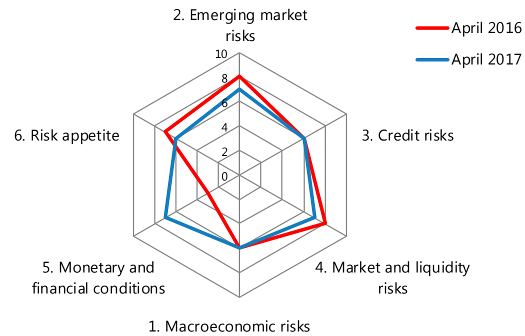
10. The regional outlook has improved slightly but risks persist. Spreads in two of Colombia's main regional trading partners—Brazil and Ecuador—have fallen, suggesting risks have diminished somewhat. The growth outlook in Brazil is slightly more positive than at the time of Colombia's FCL request but the LAC growth projection for 2017 was downgraded. Venezuela continues to be the regional outlier and remains mired in a deep economic crisis with a very uncertain outlook. Spillovers from a potential humanitarian crisis in Venezuela are difficult to estimate but could be disruptive for Colombia.

Colombia—Global and Regional Risks Remain High

Probability of Recession
(Percent)



Comparable GFSR Global Financial Stability Map



Note: Away from center signifies higher risks, easier monetary and financial conditions, or higher risk appetite.

Sources: IMF WEO and GFSR.

11. Colombia's vulnerability to capital account shocks has increased as foreign participation in the local government debt market reached an all-time high. Nonresident holdings of local-currency government bonds increased 39 percent to US$21 billion since the FCL request and account for 25 percent of total domestic public debt. Moreover, nonresidents hold about 50 percent of the outstanding 10-year benchmark bonds. Purchases were driven by Colombia's strong policies and performance relative to the region, and robust investor demand for EM debt.[1] Strong policies make debt outflows less likely but large global shocks could still trigger a sell-off in local-currency bond markets.

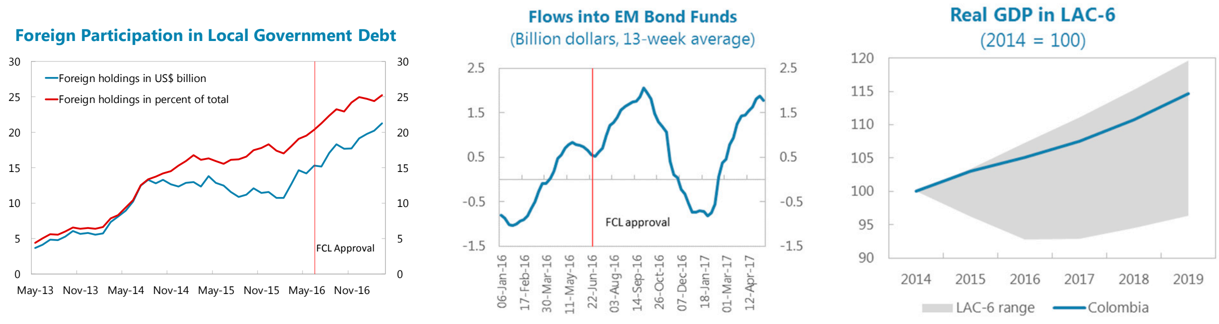
[1] Inflows could also be related to a 68bp increase in Colombia's weight in the GBI-EM bond indices by J.P. Morgan since November 2016, as well as an increase in interest rate differentials associated with monetary tightening.

Colombia—Higher Vulnerability to Capital Account Shocks

Nonresident holdings of local-currency government debt increased…

… on the back of strong investor appetite for EM debt…

… and Colombia's strong performance in regional perspective



Sources: EPFR Global; IMF WEO; Ministry of Finance.

12. The authorities reiterated their intention to continue treating the FCL arrangement as precautionary and to reduce access to Fund resources as risks to the global outlook recede. The FCL arrangement has supported the authorities' efforts to adjust to a large terms-of-trade shock in an orderly fashion. The FCL arrangement has boosted confidence in Colombia's very strong policy frameworks in an uncertain global environment. The authorities consider that, while policy adjustments have reduced Colombia's vulnerability to current account shocks, inflows to the local-currency bond market have increased, amplifying the potential effects of still large external risks, including from a faster-than-expected pace of interest rate hikes in the U.S. They are committed to continue enhancing Colombia's resilience to external shocks by completing the gradual adjustment to lower oil prices. The authorities have retained the exit strategy presented at the time of the FCL approval in June 2016. With a substantial reduction of some of the global risks affecting Colombia, including those listed in the FCL arrangement (¶23 of IMF Country Report No. 16/154) and other policy uncertainties, the authorities would intend to reduce access to Fund resources in any subsequent FCL arrangements and to phase out Colombia's use of the facility. Successful and complete adjustment to permanently lower oil prices and the ongoing productive transformation of the economy should also build resilience and reduce future access to Fund resources.

REVIEW OF QUALIFICATION

13. Staff assesses that Colombia continues to meet the qualification criteria for an arrangement under the FCL.[2] Colombia still has very strong economic fundamentals and institutional policy frameworks, anchored by an inflation-targeting regime, a flexible exchange rate, a fiscal rule, and effective financial supervision and regulation. The authorities took timely and decisive policy actions to respond to the term-of-trade shock and remain committed to maintaining

[2] The Executive Board last assessed Colombia's adherence to the FCL qualification criteria on June 13, 2016, during the approval of the current two-year FCL arrangement for 400 percent of quota (IMF Country Report No. 16/154).

their very strong policy framework going forward. Staff's assessment of Colombia's continued qualification is based, in particular, on the following criteria:

- **Sustainable external position.** Colombia's external debt is sustainable and relatively low, at 49 percent of GDP at end-2016. Methodological changes and the large depreciation contributed to the recent increase in external debt. The increase since 2015 was lower than projected at the time of the FCL approval, and was partly due to the need to smooth the impact of the oil price decline and a decision to pre-finance 2017 borrowing needs. External debt is projected to decline slightly to 46 percent of GDP in 2022 and would remain manageable under negative shocks (Table 11). The current account deficit narrowed substantially in 2016 and is projected to decline further to 3.8 percent of GDP in 2017, down from a peak of 6.4 percent of GDP in 2015. The external position is moderately weaker than implied by fundamentals but the large real depreciation, tight policies, and structural policies to foster diversification will help narrow the gap in the medium term. Gross external financing needs declined but remain sizeable at 12 percent of GDP.

- **Capital account position dominated by private flows.** Capital account flows in Colombia are predominantly private, mostly in the form of FDI and portfolio investment. FDI inflows in 2016 were lower than projected at the time of the FCL approval. The reliance on portfolio inflows is projected to decline substantially in the medium-term as the current account deficit narrows and interest rates converge to neutral levels. FDI inflows are projected to remain around 3.4 percent of GDP in the next five years, although foreign investment in the non-oil sector was revised down. As a result, the current account deficit will continue to be financed largely through stable funding sources.

- **Track record of steady sovereign access to international capital markets at favorable terms.** Colombia has had uninterrupted access to international capital markets at favorable terms since the early 2000s. All major credit rating agencies rate Colombia at investment grade level. Sovereign bond and CDS spreads (202 and 133 basis points) have declined significantly since June 2016. The authorities pre-financed 2017 borrowing needs for about 1 percent of GDP taking advantage of favorable market conditions.

- **A reserve position that is relatively comfortable.** Gross international reserves have been roughly stable since the approval of the current FCL arrangement. They stood at US$46.9 billion as of April 2017. This is equivalent to 140 percent of the ARA metric and 127 percent of the sum of short-term external debt at remaining maturity and the projected current account deficit, which is relatively comfortable.[3]

- **Sound public finances, including a sustainable public debt position.** The authorities are committed to fiscal sustainability by adhering to their structural balance rule. Fiscal policy tightened in 2016 to adjust to lower oil revenue. The authorities adopted a structural tax reform in late 2016 to help achieve fiscal targets while protecting social and infrastructure spending.

[3] 125 percent in the case of the ARA metric augmented by the buffer for commodity exporters (Figure 4).

The reform aims to increase revenue by about 3 percent of GDP over the medium-term. Public debt declined marginally to 50.2 percent of GDP in 2016 but is projected to fall to 41 percent of GDP in 2022 and remain sustainable (Figure 3).

- **Low and stable inflation in the context of a sound monetary and exchange rate policy framework.** A series of temporary shocks pushed inflation out of the target band in early 2015. The central bank responded appropriately with a 325bps tightening cycle that finished in December 2016. As a result, inflation is converging to the target band steadily (4.7 percent in April, down from a peak of 9 percent in July 2016). 12- and 24-month-ahead inflation expectations are within the target band. The authorities remain committed to the flexible exchange rate regime and consider it the first line of defense against external shocks.

- **Sound financial system and absence of solvency problems that may threaten systemic stability.** The financial system remains well capitalized, liquid, and profitable despite the economic slowdown. Non-performing loans increased but remain relatively low (3.7 percent in January 2017). Attention to proper loan classification and restructuring practices will help manage credit risks. House prices are marginally misaligned but risks are mitigated by low loan-to-value ratios and small mortgage portfolios. Official stress tests suggest existing countercyclical provisions would help banks remain above the 9 percent minimum regulatory capital following large macro-financial shocks.[4] Corporate balance sheets have worsened somewhat but corporate debt is modest by international standards (46 percent of GDP).

- **Effective financial sector supervision.** The authorities have implemented many of the 2013 FSAP recommendations and plan to bring financial sector regulation and supervision closer to Basel III over the coming year. A law awarding further regulatory powers over holding companies of financial conglomerates is expected to be adopted during the first half of 2017. These steps will strengthen powers to align capital with group-wide risks, and help manage corporate and overseas risks.

- **Data transparency and integrity.** Colombia's data continue to meet the high standards found during the 2006 data ROSC. Colombia remains in observance of the Special Data Dissemination Standards (SDDS). The authorities worked with the Statistics Department in 2016 to improve the information and procedures relating to the submission of Government Finance Statistics.

14. Colombia's government effectiveness continues to be strong. Colombia scores well, and has improved its ranking, in the government effectiveness and corruption control indicators by the World Bank (Figure 5). The regional development plans in the peace agreement with the FARC will boost the presence and effectiveness of the government in the regions worst-hit by the armed conflict.

[4] The authorities have conducted a number of stress tests, including one assessing the impact of a sudden and temporary increase in EMBIG spreads by 200 basis points and a drop in global confidence calibrated to mimic the impact of a sovereign downgrade.

SAFEGUARDS ASSESSMENT

15. Staff has completed the safeguards procedures for Colombia's 2016 FCL arrangement. 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.

STAFF APPRAISAL

16. The FCL arrangement for Colombia provides valuable protection against tail risks. The successive FCL arrangements have provided a buffer against tail risks and signaled the strength of Colombia’s policy framework. The FCL arrangement provided the authorities space to continue adjusting to the permanent oil price shock, while shielding Colombia from external risks. In this regard, staff agree with the authorities that Colombia’s international reserves and the FCL arrangement in an amount equivalent to SDR 8.18 billion (400 percent of quota) would continue to serve as useful buffers against external risks.

17. Oil-price risks have receded but policy uncertainty and protectionism are new risks that could affect global growth and generate spillovers to emerging markets. Moreover, Colombia’s vulnerability to capital account shocks increased as foreign participation in the local-currency government debt market reached an all-time high.

18. In staff’s assessment, Colombia continues to meet the qualification criteria for access to FCL resources. The IMF Board assessment of the 2017 Article IV Consultation completed in May 2017 commended Colombia for the strength of its policy framework and excellent track record of policy implementation. The authorities are firmly committed to maintaining very strong policies going forward. Staff therefore recommends the completion of the review under the FCL arrangement for Colombia. Staff agrees with the authorities’ strategy and would encourage a reduction in access in any future arrangement as risks to the global outlook and commodity prices recede. A carefully-crafted communication strategy will help facilitate exit.

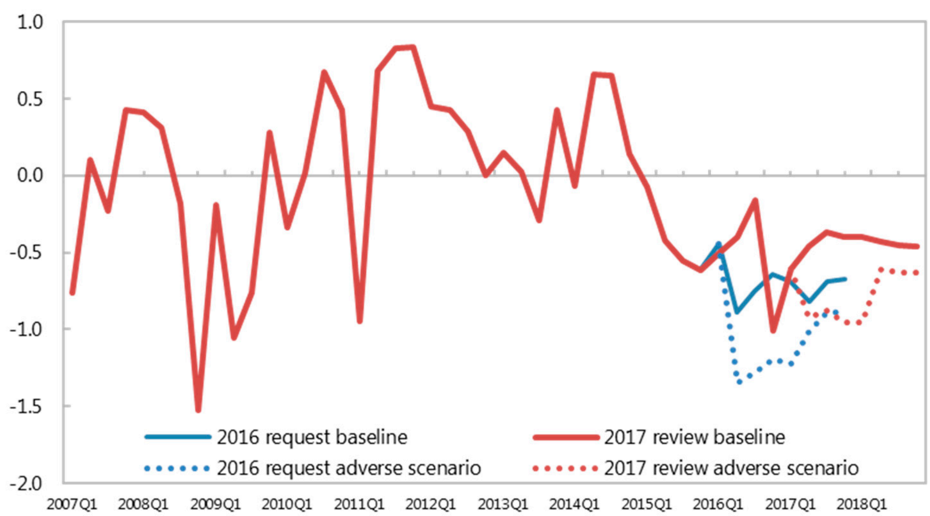
Box 1. Updated External Economic Stress Index

The external economic stress index summarizes external shocks and Colombia's exposures. It was initially presented in Colombia's staff report on the June 2015 FCL arrangement. Its methodology is explained in "Review of the Flexible Credit Line, the Precautionary and Liquidity Line, and the Rapid Financing Instrument—Specific Proposals".

The index is based on four major variables which capture external risks for Colombia: the level of the oil price, a proxy for oil exports as well as oil-related FDI; U.S. growth, a proxy for exports, remittances, and other inward FDI; the emerging market volatility index (VXEEM); and the change in the 10-year U.S. government bond yield, proxies for risks to equity and debt portfolio flows. The methodology and weights are unchanged from previous Colombia FCL reports. These unchanged weights do not capture Colombia's reduced exposure to current-account shocks nor its increased exposure to capital-account shocks.

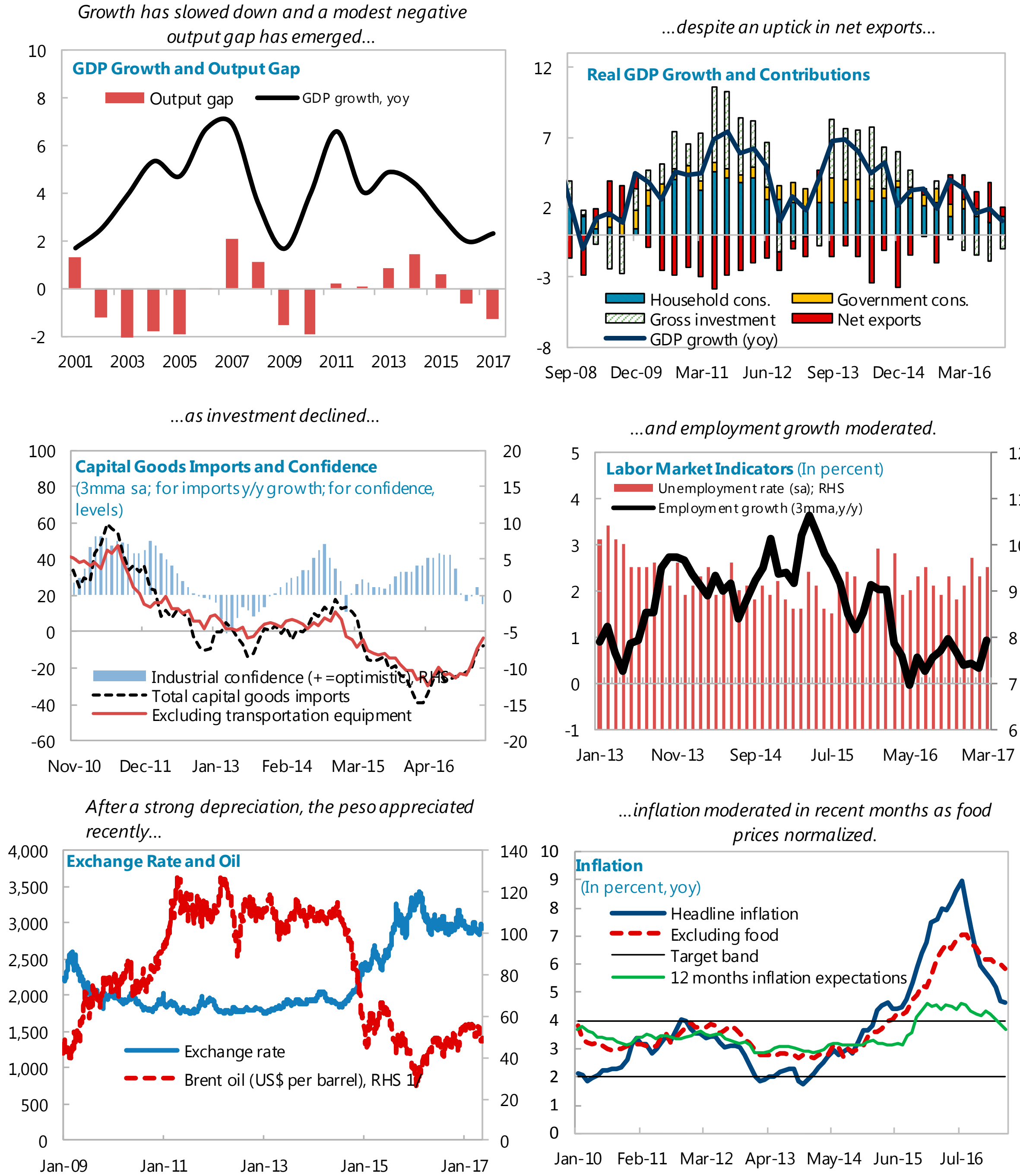
The downside scenario reflects external risks from policy uncertainty and a global growth slowdown if protectionism gained traction. In the adverse scenario, stress in financial markets due to policy uncertainty would lead to an increase of the VXEEM by two standard deviations. Policy uncertainty or protectionism would lower U.S. growth by ½ percentage points. Volatile global financial conditions and decompression of term premia would trigger a 100bps increase in long-term U.S. interest rates. Oil prices would fall 24 percent with respect to the baseline due to weak global growth. The ESI in the adverse scenario would remain above the levels in the adverse scenario described in the FCL request, but its decline with respect to the baseline would be slightly lower.

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



Source: Fund staff calculations.

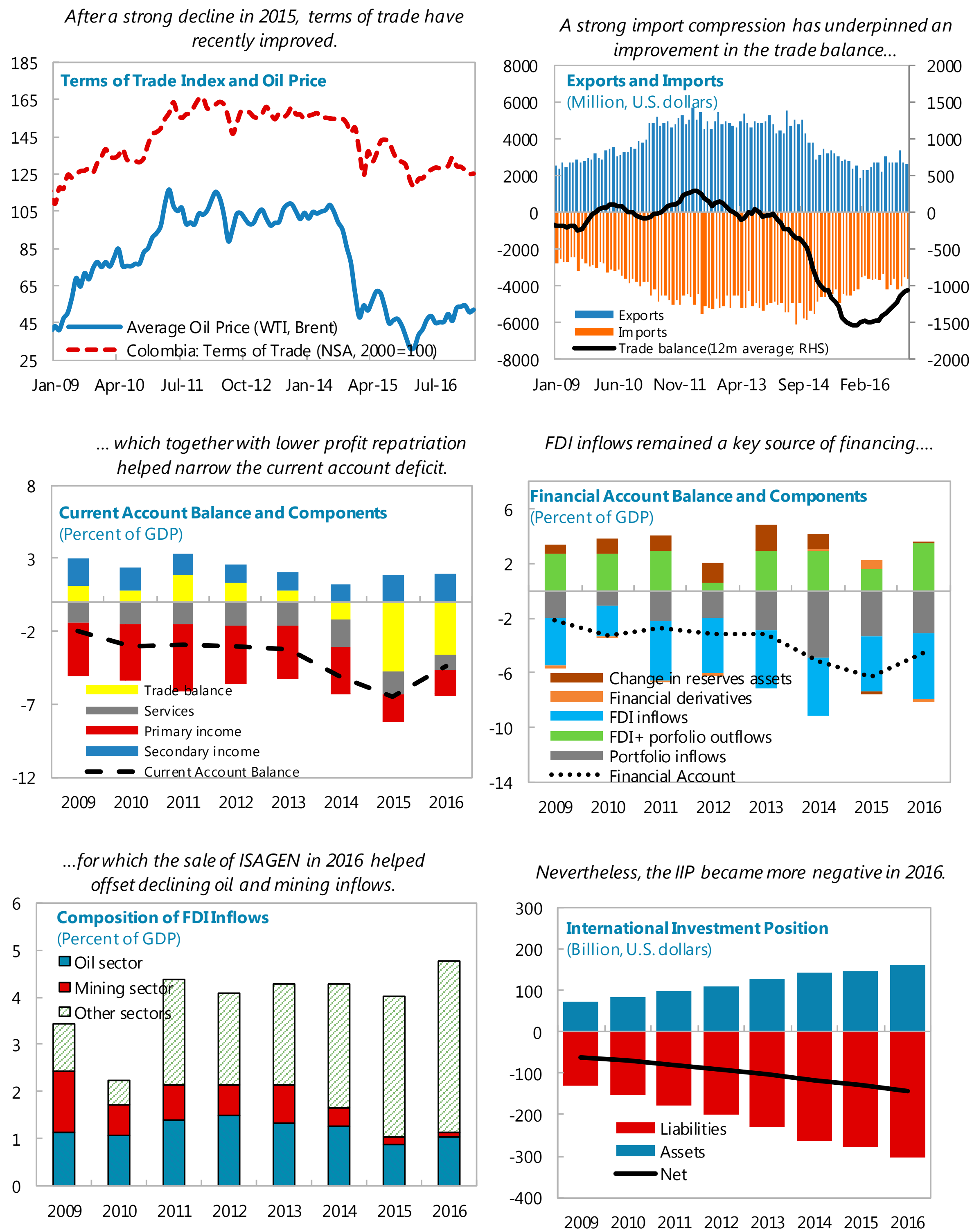
Figure 1. Colombia: Recent Economic Developments



Sources: Banco de la República; DANE; Bloomberg; and Fund staff estimates.

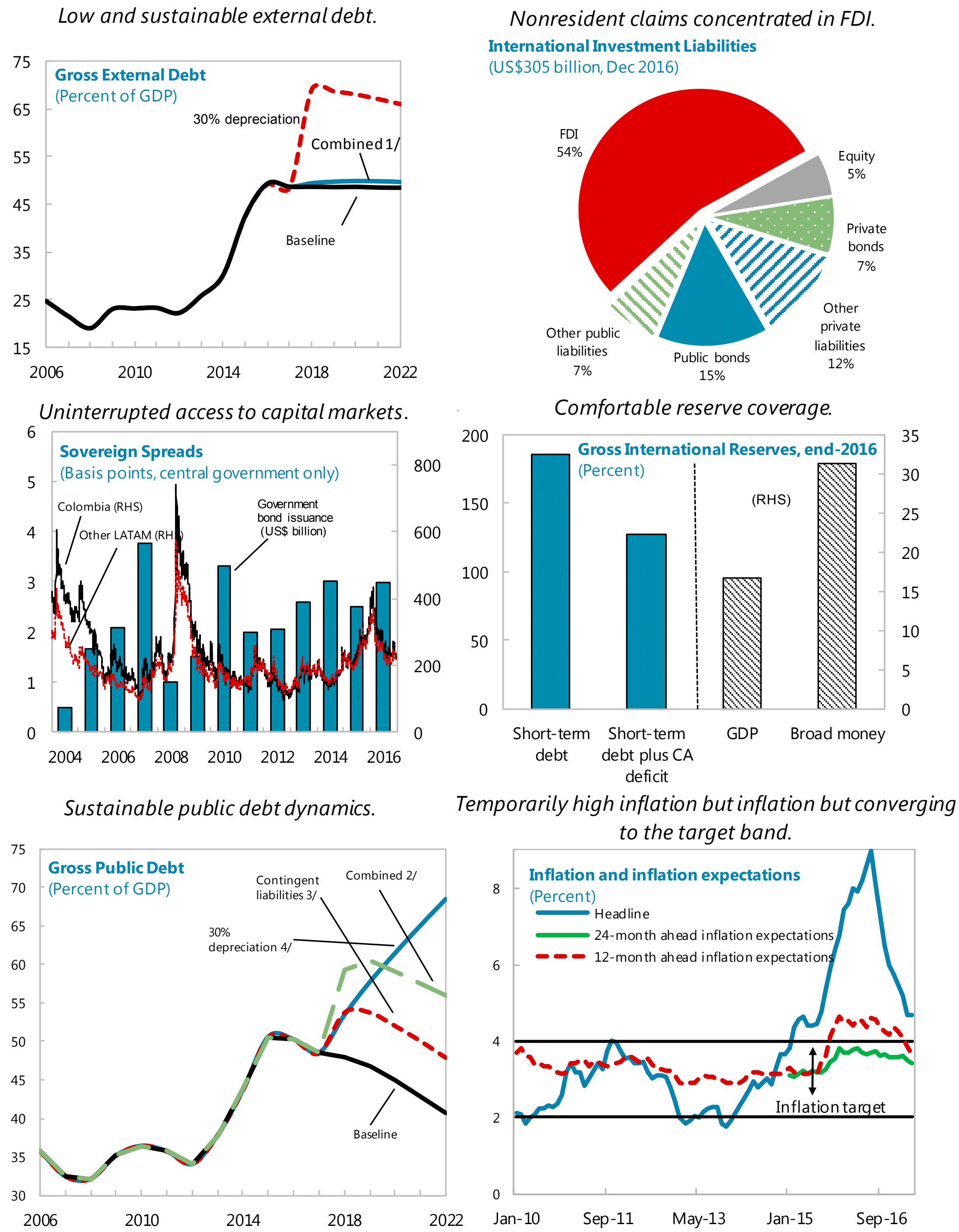
1/ Colombia mix follows closely Brent oil prices.

Figure 2. Colombia: External Sector Developments



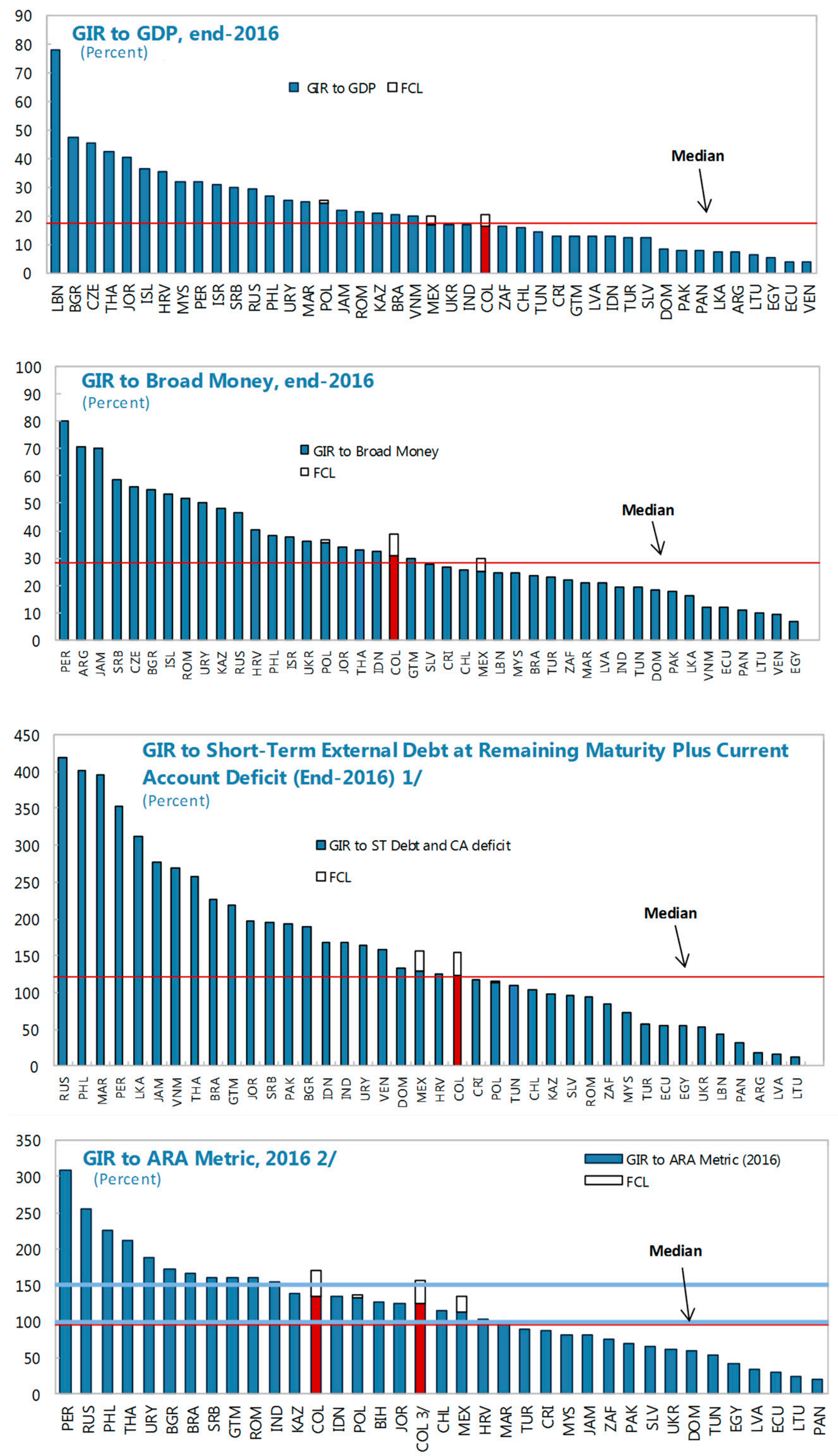
Sources: Banco de la República; Haver Analytics; and Fund staff estimates.

Figure 3. Colombia: FCL Qualification Criteria



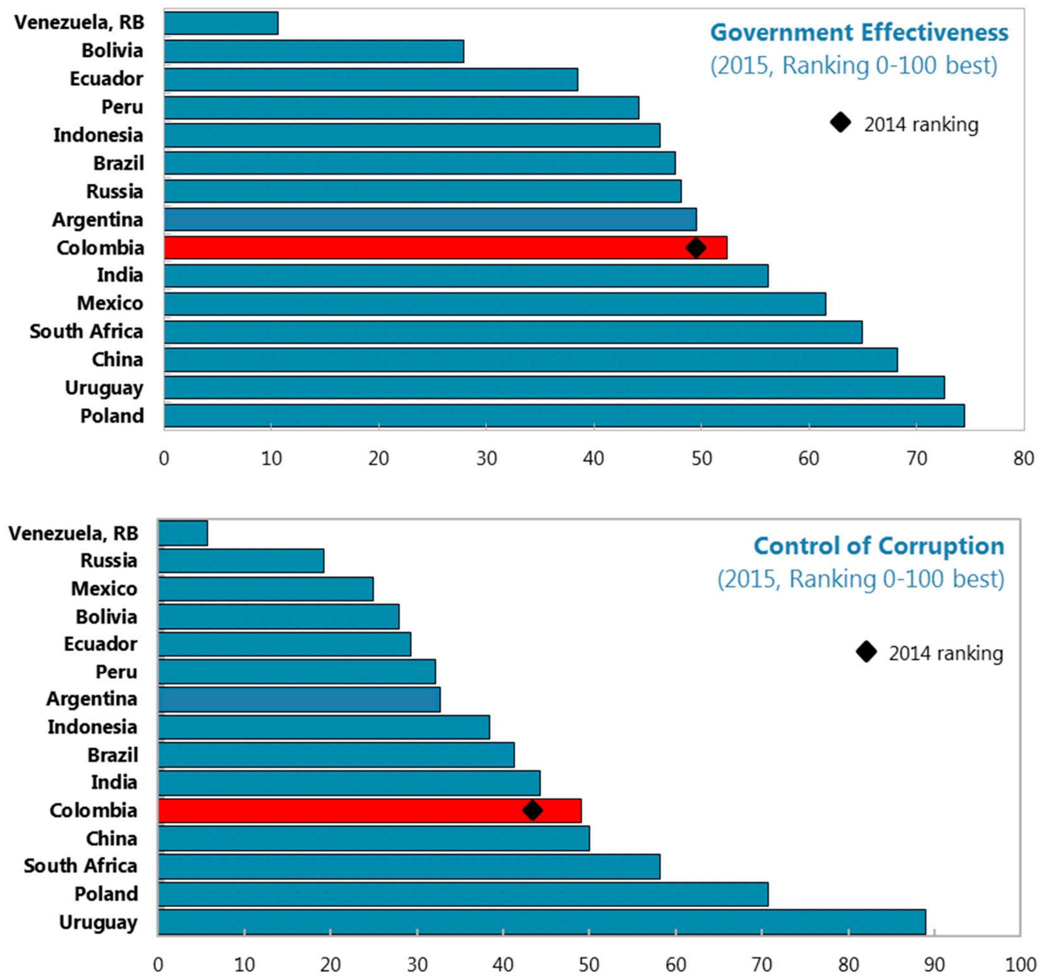
Sources: Banco de la República; Ministerio de Hacienda y Crédito Público; Datastream; Haver; and Fund staff estimates.
1/ Combined permanent 1/4 standard deviation shocks applied to interest rate; growth; and non-interest current account balance.
2/ Combined 2 year shock to primary balance (1/2 standard deviation) and growth (1 standard deviation) shocks to primary balance; permanent shock to interest rate (to historical maximum) and exchange rate (about 30 percent real).
3/ One-time increase in non-interest expenditures equivalent to 10 percent of banking sector assets leads to a real GDP growth shock (see above): growth is reduced by 1 standard deviation for 2 consecutive years; interest rate increases as a function of the widening of the primary deficit.
4/ 30 percent permanent real depreciation in 2017.

Figure 4. Colombia: Reserve Coverage in International Perspective



Sources: World Economic Outlook; IFS; and Fund staff estimates.
1/ The current account is set to zero if it is in surplus.
2/ The blue lines denote the 100-150 percent range of reserve coverage regarded as adequate for a typical country under this metric.
3/ Calculated based on the ARA metric augmented by a buffer for commodity exporters.

Figure 5. Colombia: Indicators of Institutional Quality



Sources: World Bank and Fund staff estimates.

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) 1/	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.

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

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 households	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)

					Projections					
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
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
Nominal GDP (in Col$ trillion)	710.5	757.1	799.3	862.7	920.4	978.6	1,043.3	1,112.7	1,186.8	1,266.4

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	Projections 2017	2018	2019	2020	2021	2022
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 2/	-0.1	-0.3	-0.3	-0.3	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Other 3/	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 4/	**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 5/	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 6/	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 7/	-2.5	-3.0	-3.5	-2.8	-3.2	-1.9	-1.6	-1.0	-0.6	-0.4
Primary balance 8/	1.8	0.7	-0.2	0.4	0.6	1.3	1.6	2.2	2.4	2.6
Oil-related revenues 9/	4.9	4.0	2.0	0.8	1.0	1.0	1.0	1.0	1.1	1.1
Total public debt 10/	37.8	43.7	50.6	50.2	48.5	47.9	46.7	44.9	42.9	40.6
Nominal GDP (In Col$ trillion)	710.5	757.1	799.3	862.7	920.4	978.6	1,043.3	1,112.7	1,186.8	1266.4

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/ For 2016, excludes proceeds from the sale of
3/ Includes royalties, dividends and social security contributions.
4/ Expenditure reported on commitments basis.
5/ Includes adjustments to compute spending on commitment basis and the change in unpaid bills of nonfinancial public enterprises.
6/ Interest payments on public banks restructuring bonds and mortgage debt relief related costs.
7/ 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.
8/ Includes statistical discrepancy. Overall balance plus interest expenditures
9/ Includes income tax payments and dividends from Ecopetrol that correspond to earnings from the previous year, and royalties to local governments.
10/ Includes Ecopetrol and Banco de la República's outstanding external debt.

Table 5. Colombia: Monetary Indicators

	2013	2014	2015	2016	Projections 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

					Projections					
	2013	2014	2015	2016	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	7.8	...
In percent of broad money	24.5	25.9	31.3	31.0	27.0	24.4	21.8	19.6	...	...
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	...
Nominal exchange rate (Col$/US$, period average)	1,869	2,001	2,742	3,055	...	...	...	...	...	...

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)

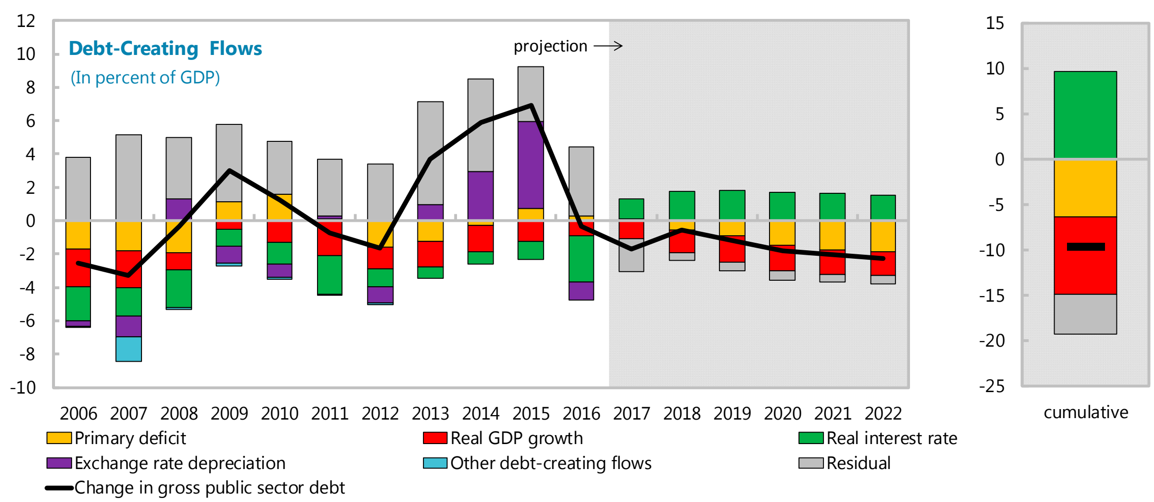
Debt, Economic and Market Indicators [1/]

	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).

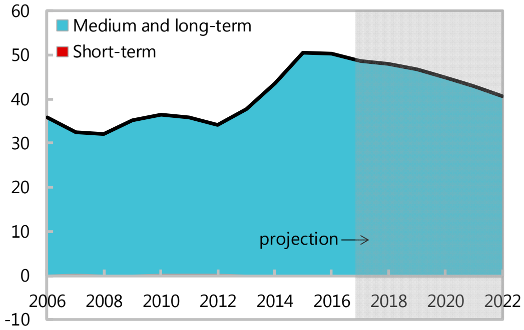
8/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

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.

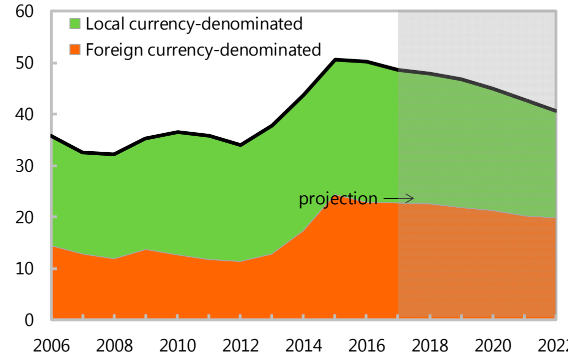
Table 10. Colombia: Public DSA – Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

By Maturity
(In percent of GDP)



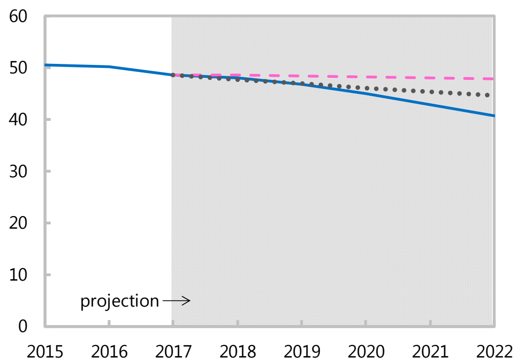
By Currency
(In percent of GDP)



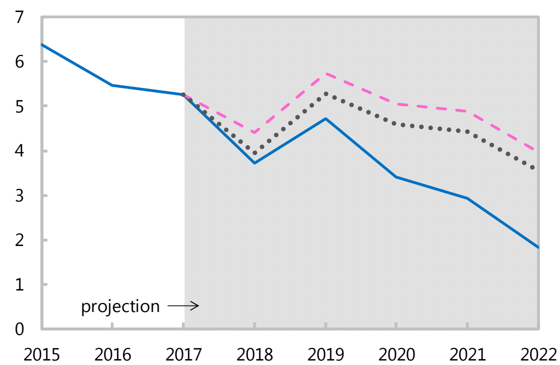
Alternative Scenarios

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, 2012–22

(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/
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**
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	
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	
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	
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	
Exports	18.4	17.7	16.9	15.6	14.4			15.0	15.1	15.1	15.2	15.3	15.4	
Imports	18.6	18.5	20.0	22.0	19.1			18.6	18.1	17.9	17.9	17.9	17.9	
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	
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	
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	
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	
Contribution from price and exchange rate changes 2/	-1.3	0.4	1.2	9.0	1.7			...	...	...	...	...	...	
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**
						Historical	Standard							
Key Macroeconomic Assumptions Underlying Baseline						Average	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	

1/ Derived as [r - g - r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

2/ The contribution from price and exchange rate changes is defined as [-r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock. r increases with an appreciating domestic currency (e > 0) and rising inflation (based on GDP deflator).

3/ For projection, line includes the impact of price and exchange rate changes.

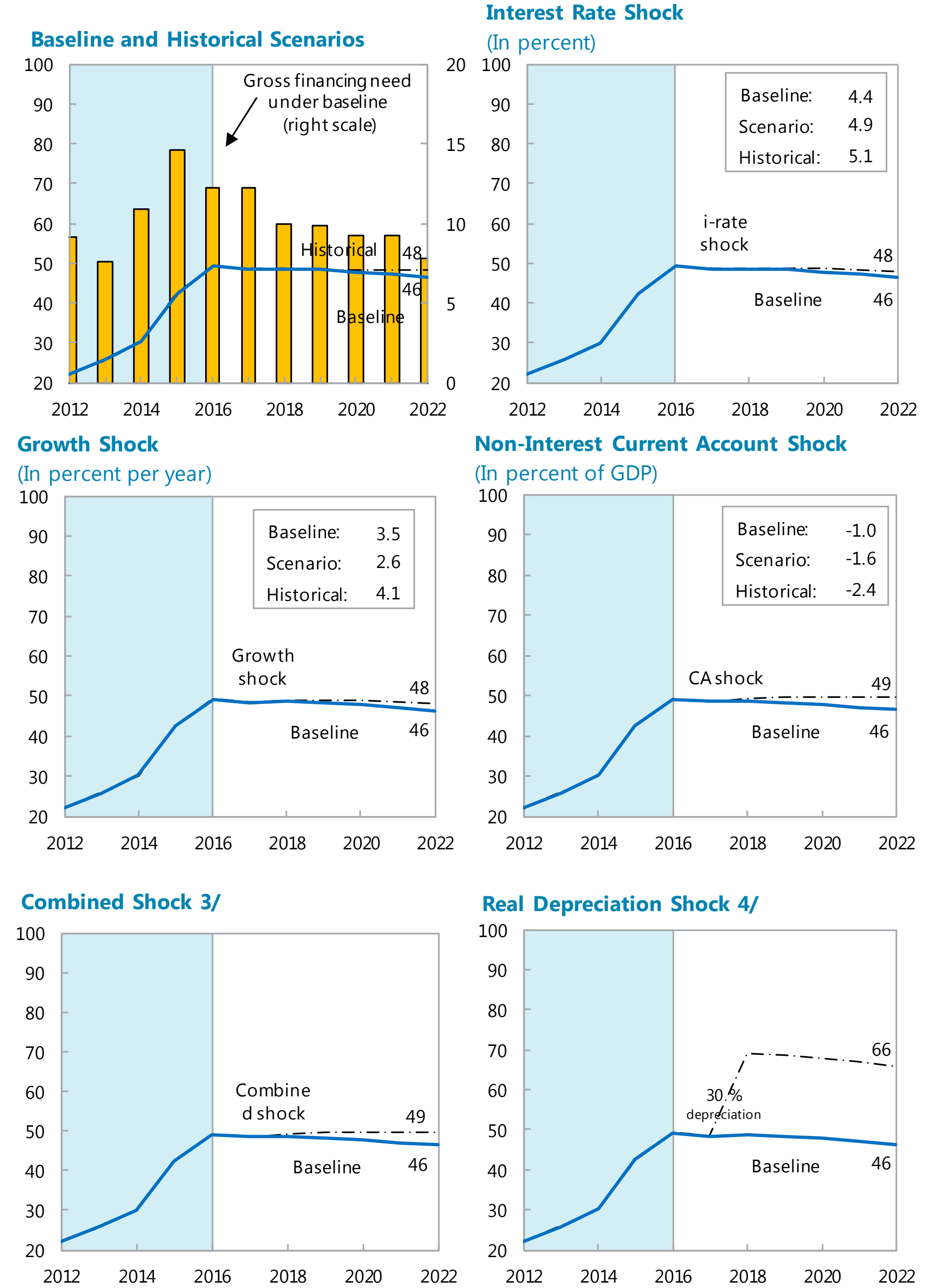
4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

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.

Figure 6. Colombia: External Debt Sustainability: Bound Tests 1/ 2/

(External debt in percent of GDP)



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.

Table 12. Colombia: Indicators of Fund Credit, 2016–22 1/

(External debt in percent of GDP)

		Projections					
	2016	2017	2018	2019	2020	2021	2022
Stocks from prospective drawings 2/							
Fund credit (Millions of SDR)	0	8,180	8,180	8,180	6,135	2,045	0
In percent of quota	0	400	400	400	300	100	0
In percent of GDP	0	3.6	3.4	3.2	2.3	0.7	0.0
In percent of exports of goods and services	0	24.0	22.7	21.4	15.1	4.7	0.0
In percent of gross reserves	0	19.1	19.0	19.0	14.9	5.5	0.0
Flows from prospective drawings							
Amortization	0	0	0	0	2,045	4,090	2,045
Charges (Millions of SDR)	0	128.5	207.4	207.4	218.1	108.8	15.0
Debt Service due on GRA credit (Millions SDR)	0	128.5	207.4	207.4	2,263.1	4,198.8	2,060.0
In percent of quota	0	6.3	10.1	10.1	110.7	205.4	100.8
In percent of GDP	0	0.1	0.1	0.1	0.8	1.5	0.7
In percent of exports of goods and services	0	0.4	0.6	0.5	5.6	9.7	4.5
In percent of gross reserves	0	0.4	0.6	0.6	6.4	12.0	5.9
Memorandum Item:							
Total External Debt (percent of GDP)	49.2	52.1	52.0	51.5	50.1	47.9	46.4
Total Debt Service (percent of GDP)	9.5	10.1	9.2	9.5	10.1	11.0	9.2

Sources: IMF Finance Department; Colombian authorities, and Fund staff estimates.

1/ Assumes full drawings under the FCL upon approval of the review. The Colombian authorities have expressed their intention to treat the arrangement as precautionary.

2/ Stocks as of end of period.

Statement by Carlos Hurtado, Executive Director for Colombia and Tomas Gonzalez, Senior Advisor to Executive Director
June 5, 2017

We would like to thank staff for a detailed and complete report on the review of Colombia's Flexible Credit Line Arrangement.

The report comes a month after the Board discussion on the Article IV consultation when Directors assessed the medium-term outlook as favorable and expressed their support for the chosen policy course, but warned about the risks still faced by the economy.

As noted at the time in our Buff statement, the country has maintained sound macroeconomic policies while pursuing an ambitious reform agenda focused on reducing poverty and inequality, lowering structural unemployment, finding new sources for long-term growth and putting an end to a sixty-year old conflict that has caused so much suffering. This agenda has required careful macroeconomic management given the substantial changes to public spending involved, the pressure on the financial system to support massive infrastructure projects, and the likely variation in a volatile external environment.

The latter has been especially true since mid-2014 when the rapid decline in oil prices put the economy under severe stress by cutting exports and growth by half, and lowered government revenue by more than 3 percentage points of GDP.

Policy Framework

Authorities have opted for a response with a medium-term focus that favors adjustment but takes care not to derail the structural reform agenda.

On the fiscal side, it has meant a strict adherence to the medium-term fiscal rule with a sustained effort on consolidation while protecting the financing of key reforms and priority social spending. In fact, last year we saw a negative impulse of more than 2 percent of GDP followed by the approval in Congress of a comprehensive tax reform consistent with previous Fund advice. The reform increased the general VAT rate by 3 percentage points and limited exemptions in personal income tax, reduced corporate tax rates and procedures for small businesses, modernized non-profits taxation, created new penalties on evasion and strengthened the general tax administration.

Overall it was a reform designed to carefully balance the key requirements of adjustment by finding new sources of revenue, encouraging investment, and increasing efficiency. As expected, the immediate increase in VAT rates has had a negative short-run effect on growth via consumption and slowed the convergence of inflation to target; however, both effects should be out-weighted by lower corporate tax rates that are expected to encourage investment and raise medium-term growth by around 0.3pp.

On the monetary side, policy has involved, above all, flexibility. First by committing to a flexible exchange regime and allowing the peso to depreciate 60 percent in its role as primary shock absorber. And, second, by tightening policy interest rates to anchor inflation expectations in the face of a sequence of strong supply shocks, and later easing it when inflation and inflationary expectations declined and economic activity weakened.

With expectations now anchored within the target range, a negative output gap and first-quarter growth slower than expected, the Central Bank has continued successive cuts in its policy rate, including a 25bp last Friday—its fifth since December.

Outlook and Risks

Moving forward authorities will continue to pursue a policy of balanced adjustment while maintaining a strong macro framework and a firm commitment to a flexible exchange rate regime. With the tax reform expected to produce additional revenue of 0.67 percent of GDP in 2017—increasing gradually to over 3 percent of GDP in the next five years—the government will focus on implementing the peace agreement, maintaining infrastructure investment and pursuing the rest of its reform agenda while strictly complying with the fiscal rule.

The Central Bank will follow a prudent stance considering the increased inflation inertia after two years of exceeding the 3 percent target, uncertainty about potential growth and natural interest rates, and the consolidation of external adjustment. The financial system remains strong with capital adequacy ratios above regulatory requirements and stress tests indicating that Colombian banks would be able to withstand large macro-financial shocks.

In the short run, this policy mix is still expected to be demand restrictive, leading to only modest growth recovery. Together with exports that have started to grow at 30 percent annually following the recovery in commodity prices and, to a lesser extent, the lagged effects of depreciation and increased efforts of diversification, it should help narrow the current account deficit to 3.8 percent of GDP. Policy will also facilitate inflation convergence to the target band in early 2018 and to the 3 percent target later during the year.

In the medium run, it is expected that growth should continue increasing to 3.5 percent by the end of the decade, as well as a sustainable path of external debt for further progress in the fight against poverty and inequality.

FCL Arrangement

Overall Colombia has achieved a relatively smooth adjustment despite the magnitude and speed of the shocks. To a large extent this has been possible by the role of the FCL arrangement in supporting policy by signaling a strong macro framework and ensuring external liquidity in a highly uncertain external environment.

But risks remain tilted to the downside despite commodity prices having seen a modest recovery and global economic activity gaining some momentum. As noted in the recent WEO update, potential restrictions to trade, capital flows, and migration could have significant negative spillovers to emerging economies, as well as policy decisions in the U.S. that could raise interest rates above expectations and tighten financial conditions significantly.

The country will also face a more complex regional environment as the growth projection for LAC has been downgraded since the approval of the FCL, political uncertainty has risen, and the situation in Venezuela deteriorated.

Risks are further compounded by foreign participation reaching an all-time high in local government debt market: nonresident investors have now acquired a quarter of domestic public debt and increased their holdings of peso-denominated government bonds by more than a third. Colombia is thus more vulnerable to any global shock that triggers local bond market sell-offs—a point stressed in the latest REO that finds a higher sensitivity of capital flows to its determinants in countries with larger participation of foreign investors in local markets.

The FCL has undoubtedly played a fundamental role in helping the economy adjust and move forward. But Colombia does not intend to make permanent use of it. Contingent on the evolution of relevant risks and policy uncertainties, authorities intend to lower access to any future potential FCL arrangements in line with the gradual exit strategy presented at the time of approval.