INTERNATIONAL MONETARY FUND

IMF Country Report No. 18/150

COLOMBIA

June 2018

ARRANGEMENT UNDER THE FLEXIBLE CREDIT LINE AND CANCELLATION OF CURRENT ARRANGEMENT—PRESS RELEASE AND STAFF REPORT

In the context of the arrangement under the Flexible Credit Line and cancellation of current 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 May 25, 2018. Based on information available at the time of these discussions, the staff report was completed on May 14, 2018.
- A **Staff Supplement** of May 18, 2018 on the assessment of the impact of the proposed Flexible Credit Line arrangement on the Fund's finances and liquidity position.
- 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. 18/196
FOR IMMEDIATE RELEASE
May 25, 2018

IMF Executive Board Approves New Two-Year US$11.4 Billion Flexible Credit Line Arrangement with Colombia

The Executive Board of the International Monetary Fund (IMF) approved today a successor two-year arrangement for Colombia under the Flexible Credit Line (FCL) in an amount equivalent to SDR 7.848 billion (about US$11.4 billion) and canceled the previous arrangement in the amount of SDR 8.18 billion. The Colombian authorities stated their intention to treat the arrangement as precautionary.

The FCL was established on March 24, 2009 as part of a major reform of the Fund's lending framework (see Press Release No. 09/85). The FCL is designed for crisis prevention purposes as it provides the flexibility to draw on the credit line at any time. Disbursements are not phased nor conditioned on compliance with policy targets as in traditional IMF-supported programs. This flexible access is justified by the very strong track records of countries that qualify for the FCL, which gives confidence that their economic policies will remain strong.

Following the Executive Board's discussion on Colombia, Mr. Mitsuhiro Furusawa, Deputy Managing Director and Chair, issued the following statement:

"Colombia has very strong economic fundamentals and policy frameworks, anchored in an inflation-targeting regime, a structural fiscal rule, a flexible exchange rate, and effective financial sector supervision and regulation. The authorities are firmly committed to maintaining strong policies and implementing their ambitious structural reform agenda to strengthen the resilience of the economy and boost inclusive growth. There is also a broad consensus in Colombia on the importance of preserving macroeconomic stability and very strong policy frameworks.

"Colombia also has a proven track record of macroeconomic management, including a timely response to recent large external shocks. Exchange rate flexibility has continued to be the main shock absorber. The 2016 structural tax reform has helped smooth the impact of the decline in oil revenue and improved business competitiveness, which will support medium-term growth. The monetary policy easing cycle has supported the recovery while anchoring inflation expectations. International reserves are adequate for normal times. The authorities' structural reform agenda is ambitious and rightly targets areas that will foster productivity growth and economic diversification.

"Global risks have evolved over the past few years. While the near-term outlook is improving, some external risks have increased, including those related to a potential reversal of cross-border integration. Colombia's exposure to some of these tail risks has increased. The new arrangement under the Flexible Credit Line will provide added buffers and continue supporting the authorities' policies. The arrangement will serve as temporary insurance that reinforces market confidence. The authorities intend to continue to treat this instrument as precautionary and to phase out its use conditional on a reduction of external risks. A communication strategy is being developed to prepare markets for a gradual exit from the instrument."

INTERNATIONAL MONETARY FUND

COLOMBIA

ARRANGEMENT UNDER THE FLEXIBLE CREDIT LINE AND CANCELLATION OF CURRENT ARRANGEMENT

May 14, 2018

EXECUTIVE SUMMARY

Background: Colombia is near completion of a successful adjustment to large external shocks guided by its very strong economic policy framework and timely policy actions. The flexible exchange rate, combined with an inflation-targeting regime, effective financial sector supervision and regulation, and a fiscal rule, allowed the country to smooth the impact of a large permanent terms of trade deterioration. Amid continued strong appetite for Colombian assets, foreign participation in the local public debt and equity markets has continued to increase.

Outlook: Growth is expected to accelerate this year and further over the medium term underpinned by a rebound in investment and non-traditional exports. The current account deficit will continue to gradually decline, financed mostly by FDI. The authorities are firmly committed to maintaining their strong policy frameworks and strengthening policy buffers in the period covered by the proposed arrangement. Colombia is in the middle of the campaign for the presidential election, scheduled for May 27. Political assurances on policy continuity from the leading candidates provide a necessary safeguard for the proposed arrangement.

Risks: While the ongoing recovery in global growth has reduced some near-term external risks, global financial markets are vulnerable to a sudden, sharp tightening of financial conditions as a result of an unexpected increase in inflation and/or an escalation of trade or geopolitical tensions. Colombia's exposure to some of these tail risks has increased in line with larger foreign participation in the local government debt market.

FCL: The authorities are requesting a two-year FCL arrangement for 384 percent of quota (SDR 7.848 billion), which they intend to treat as precautionary, and are notifying the Fund of the cancellation of the current arrangement (SDR 8.18 billion) which expires on June 12, 2018. They consider that a new FCL arrangement in the requested amount would complement existing buffers to provide sufficient insurance against external tail risks and protect Colombia's ongoing efforts to foster economic diversification and inclusive growth. Staff's assessment is that Colombia meets the qualification criteria for access to Fund resources under the FCL arrangement. The authorities stated that, conditional on a reduction of global risks, they intend to lower access to Fund resources in any subsequent FCL arrangements, with a view to gradually phasing out Colombia's use of the FCL instrument. They also intend to prepare a communication strategy to prepare markets for an eventual exit from the instrument.

Fund liquidity: The proposed commitment of SDR 7.848 billion would have a marginal impact on the Fund's liquidity position.

Process: An informal meeting to consult with the Executive Board on a possible new FCL arrangement for Colombia was held on April 27, 2018.

Approved By
Robert Rennhack and Mary Goodman

The report was prepared by a team comprised of Jorge Roldós (Head), Frederik Toscani, Daniel Rodríguez-Delgado (all WHD), Alina Iancu (SPR), and Farid Jimmy Boumediene (MCM) with support from Cristina Barbosa, and Adrian Robles (all WHD).

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CONTEXT

1. Colombia's macroeconomic policies and policy frameworks remain very strong. The inflation-targeting regime, flexible exchange rate, sound financial supervision, and fiscal policy guided by a structural balance rule have allowed Colombia to be near completion of its adjustment to large external shocks. The current account is mainly financed by stable sources of funding and reserve coverage ratios are adequate for standard shocks. The 2012 FSAP found that the financial regulatory and supervisory framework was sound. At the conclusion of the 2018 Article IV Consultation, Executive Directors welcomed the Colombian authorities' commitment to maintain very strong policies.

2. Despite the ongoing global growth recovery, reducing some risks recent events have increased some external risks to the global economic outlook. As described in the April 2018 WEO, the expected strengthening in global growth in the baseline scenario is predicated in part on emerging markets facing accommodative financial conditions and sustained risk appetite. The balance of risks is seen as two-sided and broadly balanced, but a recent intensification of trade tensions and associated market turbulence suggest that downside risks have increased. This worsening of trade frictions and the associated policy uncertainty could not only take a direct toll on global economic activity but also weaken confidence and commodity prices, with adverse repercussions for capital flows to emerging markets. Furthermore, the April 2018 GFSR notes that several years of easy financial conditions and ample risk appetite have left emerging markets more vulnerable to potentially flighty investors. The effects on Colombia could be amplified since its regional trading partners are exposed to the same global risks.

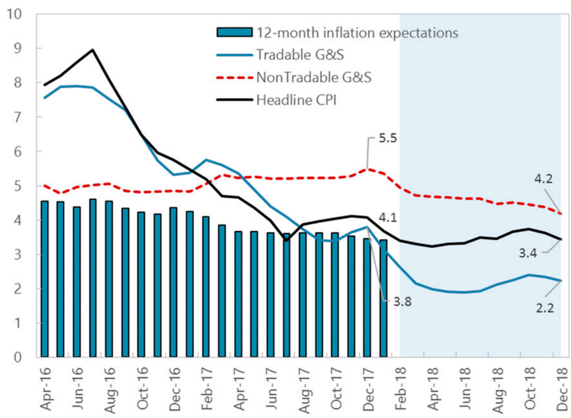
3. Colombia is in the middle of the campaign for the election of the next president; all candidates have stated publicly they support Colombia's fiscal sustainability and strong economic policy frameworks (see the 2018 Article IV Staff Report). The first round is scheduled to take place on May 27. If no candidate wins a simple majority, the top two candidates would compete in a second-round election on June 17. The new president takes office on August 7, 2018. There are four main candidates—two from the center-right, one from the center, and one from the left. The center-right candidate Ivan Duque leads the candidate from the left, Gustavo Petro (with 37 percent versus 26 percent of voting intentions, according to an average of four leading pollsters). Political assurances on policy continuity from the leading candidates provide a necessary safeguard for the proposed arrangement.

RECENT DEVELOPMENTS

4. Since the approval of the current FCL arrangement, Colombia has further advanced its orderly adjustment to global shocks, with GDP growth recovering since the second half of 2017. Monetary and fiscal policies were appropriately tightened in 2015−16 to guide the adjustment toward permanently lower commodity prices. GDP growth moderated to below 2 percent (YoY) on average over the past 2 years, as private consumption and investment continued their adjustment to the decline in national income and export growth remained weak due to the lagged response of exports to the peso depreciation. The timely policy actions allowed for somewhat looser policies in 2017 and the economy experienced a turnaround by mid-2017, with near-term growth continuing to strength. Inflation fell steadily after peaking in July 2016 as the effects of weather shocks and peso depreciation faded, while medium-term inflation expectations remained well-anchored within the target band.

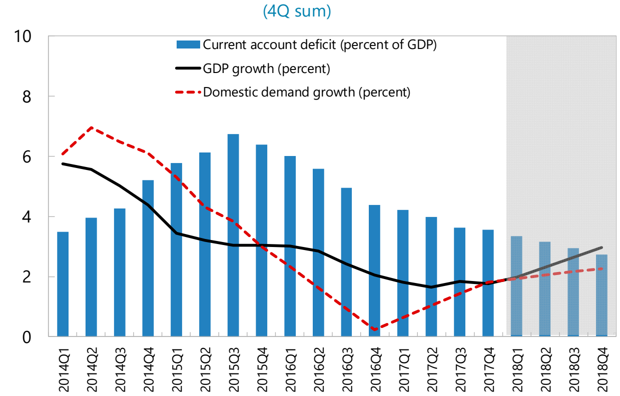
Successful Adjustment to External Shocks

Headline, Tradable and NonTradable Inflation



Sources: Banrep; and Haver.

Colombia: Adjustment to Permanently Lower Oil Prices
(4Q sum)

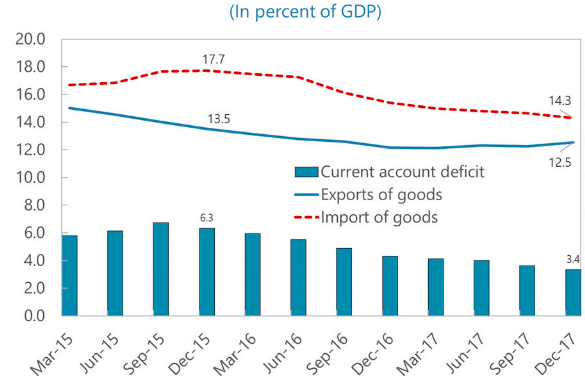


Sources: National authorities; Fund staff calculations.

5. **Fiscal policy has remained anchored by the structural fiscal rule.** The central government has achieved a gradual reduction in the structural fiscal balance through a combination of revenue measures including a structural tax reform, expenditure restraint and some widening of the fiscal deficit in 2014–16. The central government fiscal deficit declined to 3.6 percent of GDP in 2017.

6. **The current account deficit has narrowed faster than expected helped mostly by import compression.** Since its peak in 2015, the current account deficit has declined by about 3 percentage points of GDP to 3.4 percent of GDP in 2017, with a similar decline in imports. Exports increased recently, helped by some improvement in oil prices and exports of services and non-traditional goods. Capital inflows have remained ample and FDI inflows financed a large part of the deficit. Portfolio inflows have moderated from their 2015 peak but have remained broadly resilient and included a steady increase in foreign participation in the local government debt market. Reserves remained broadly constant at about US$47 billion. At end-2017, reserve coverage in percent of the current account deficit plus short-term debt at remaining maturity was about 135 percent, broadly the same level as of end-2015. The central bank has not intervened in the

Current Account Adjustment
(In percent of GDP)

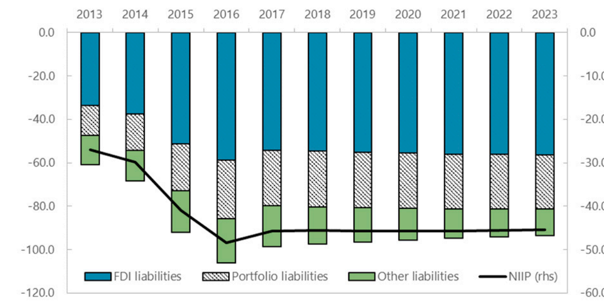


Source: Haver.

foreign exchange market since the current FCL arrangement was approved[1], with the market remaining liquid and orderly despite some bouts of volatility including in early-2018.

7. The NIIP worsened slightly since 2015 due to an increase in liabilities, but remains at a moderate level. The NIIP declined from -41 percent of GDP in 2015 to about -46 percent of GDP in 2017. Liabilities are near 100 percent of GDP of which about half is FDI. While the NIIP is sustainable, the increase in portfolio liabilities over the past few years to 26 percent of GDP could lead to heightened vulnerability to global financial volatility.

NIIP
(In percent of GDP)



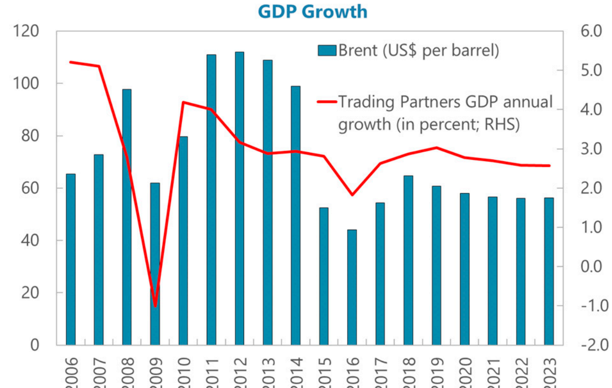
Sources: National authorities; and Fund staff estimates.

8. The banking system and corporate sector remained in broadly good financial health. The financial system has been resilient to changing global and local conditions. A recent increase in NPLs driven by the economic slowdown and a number of one-off events, is expected to reverse in the near term. Financial soundness indicators remain strong. The financial supervisor recently introduced regulation to foster early detection of credit risks and intensified bank-by-bank monitoring. While some pockets of corporate vulnerability remain in specific industrial sectors, corporate debt has stabilized (as the valuation effect of the peso depreciation dissipated) and remains modest by international standards.

OUTLOOK AND POLICIES

9. Colombia's growth outlook is favorably underpinned by some policy easing and structural reforms. Growth will pick up in 2018 to 2.7 percent and further over the medium term driven by an acceleration in investment and exports. Investment will benefit from the reduction in corporate taxes included in the 2016 tax reform and the 4G infrastructure agenda. It will also include a pickup in oil-related investment in response to the late improvement in oil prices. Recent monetary policy easing and a broadly neutral fiscal stance this year will also support the recovery. The authorities' structural reform agenda rightly targets areas that could unleash Colombia's medium-term growth; continued reform efforts will help further buttress growth to about 3.5 percent per year.

Baseline Outlook for Oil Prices and Trading Partners' GDP Growth



Sources: GAS; and GEE International Monetary Fund.

[1] The rules-based FX auction program which was restarted in October 2015 and discontinued on May 31, 2016. It was triggered only once on May 20, 2016.

10. The current account deficit will gradually decline over the medium term helped in part by the expected pickup in global growth. After its large narrowing since 2015, the current account deficit in 2017 is only about 1 percent of GDP higher than its medium-term level. The gradual elimination of this gap will be driven by stronger non-traditional export growth amid some improvement in trade partners' growth. Despite the recent increase in oil prices, oil exports will decline as a share of GDP as oil production is expected to remain subdued. The bulk of the financing of the current account deficit will come from net FDI, with some moderation in net portfolio inflows in line with the expected normalization of the U.S. monetary policy stance.

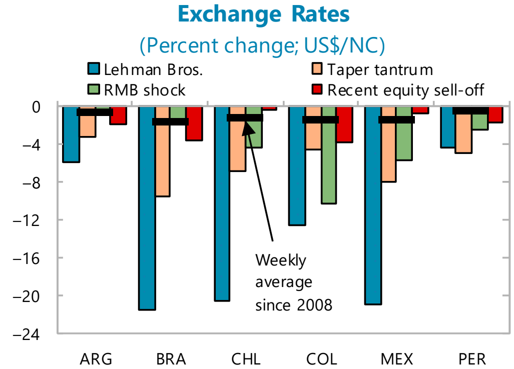
11. Under a continued strong policy framework some fine tuning of policies will complete the adjustment and help rebuild buffers for normal shocks. Limited further monetary policy easing may be feasible in a scenario with below-baseline growth and continued convergence of inflation expectations to target, while the authorities medium-term fiscal plan will appropriately place public debt on a downward path.

- **Fiscal policy.** The structural fiscal rule remains an important anchor which calls for continued fiscal consolidation consistent with declining public debt. Public debt will decline to about 40 percent of GDP by 2023, well below the average among emerging markets. The 2016 tax reform and continued efforts to improve tax administration will help achieve a more balanced consolidation by creating space for social programs and public investment.[2] At the same time, the rule allows some limited flexibility to shift the consolidation path expected for 2019 and 2020 if downside risk materialize. The authorities' agenda to improve the profile of public debt amortizations has included swap and buy-back operations of some bonds due in 2018 and the recent issuance of a 30-year bond.

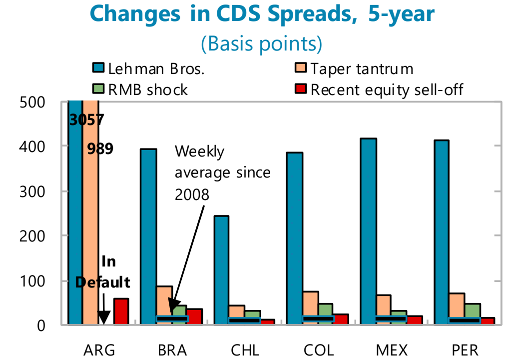
- **Monetary policy.** The easing cycle that started in December 2016 helped reduce the impact of shocks while protecting the anchoring of inflation expectations as headline inflation converged to the target band. Recent central bank measures to reduce the number of policy-decision meetings to strengthen the analysis and to align them better with data releases stand to further strengthen the policy framework.

- **Exchange rate and reserves.** The authorities' commitment to the flexible exchange rate regime continues to play an important role in helping the economy adapt to changing global conditions. Liquidity and market conditions have remained orderly throughout the depreciation spell and some bouts of volatility including in early 2018. Over the projection period, Colombia would maintain an adequate international reserves level for normal times, though it might be insufficient to cope with tail risks.

[2] The Staff Report for the 2018 Article IV Consultation includes a description of tax and expenditure measures envisaged in the authorities' medium-term fiscal framework.



Sources: Thomson Reuters Datastream; and IMF staff calculations.
Note: Lehman Bros. (9/15–10/24/2008); Taper tantrum (5/2–6/25/2013); RMB shock (8/10–8/24/2015); Recent equity sell-off (1/31–2/9/2018).



Sources: Thomson Reuters Datastream; and IMF staff calculations.
Note: Lehman Bros. (9/15–10/24/2008); Taper tantrum (5/2–6/25/2013); RMB shock (8/10–8/24/2015); Recent equity sell-off (1/31–2/9/2018).

- **FCL.** The successive FCL arrangements have provided a cushion of international liquidity and complemented the authorities' gradual policy adjustment to lower oil prices. They also sent a positive signal to international financial markets on the strength of the economy as reflected by the assessment of rating agencies. The FCL arrangement supported the rebuilding of buffers after the 2008−09 global financial crisis.

12. The authorities' ambitious structural reform package and efforts to further strengthen the macroeconomic and financial frameworks are broadly on track.[3] The 2016 structural tax reform will not only create some space for public investment but also improve competitiveness for private investment to lead the recovery. After some delays, the 4G infrastructure investment program stands to strengthen in 2018 and will help reduce large infrastructure gaps. Recent efforts to reduce trade barriers, improve access to education and improve labor formality have yielded initial results. The implementation of the peace agreement is broadly on track. Also, the implementation of the conglomerates law, a key pending FSAP recommendation that will further strengthen the toolkit to manage risks stemming from corporates and cross-border risks, is scheduled for later this year.

ROLE OF THE FLEXIBLE CREDIT LINE ARRANGEMENT

A. Benefits of the FCL

13. The FCL has served Colombia well. The previous FCL arrangements have helped Colombia cope with heightened external risks in recent years, complementing the authorities' policy response to shocks such as the 2015−16 drop in commodity prices and the collapse of the Venezuelan economy. In addition, the instrument has ensured a cushion of international liquidity for the country, providing space to strengthen the policy frameworks and to rebuild policy buffers, while sending a

[3] The Staff Report for the 2018 Article IV Consultation includes further details on the outlook and policies to complete the adjustment and buttress potential GDP.

positive signal to international financial markets on the strength of the economy. Empirical analyses by the Colombian central bank and IMF staff found that access to the FCL reduced the sovereign risk premium for Colombia (see IMF Country Report No. 15/206), helped ease exchange rate pressures faster, and consequently contributed to financial system stability.[4]

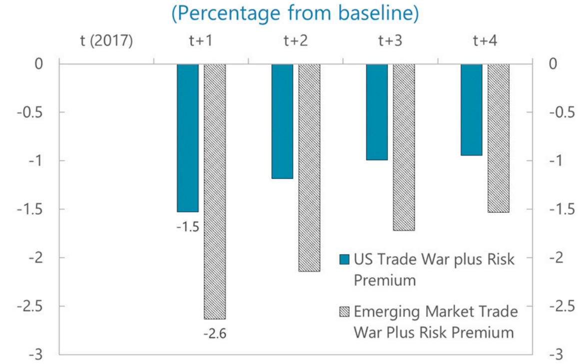
14. Since its first FCL arrangement in 2009, Colombia has taken decisive steps to build resilience. The structural fiscal rule that started in 2012 has become the main fiscal anchor in Colombia and aims to protect debt sustainability while allowing automatic stabilizers to help absorb shocks. The implementation of FSAP recommendations has strengthened the supervisory and regulatory framework. The continued commitment to the flexible exchange rate has been a useful first line of defense against external shocks, while the increase in international reserves has helped protect confidence and create space to smooth disorderly exchange volatility. The implementation of the peace agreement signed in 2016 will further strengthen the business environment and reduce regional inequality.

15. The authorities are requesting a 2-year FCL arrangement for SDR 7.848 billion (about US$11.4 billion) or 384 percent of quota, which they intend to treat as precautionary, and are notifying the Fund that they would like to cancel the current arrangement which expires on June 12, 2018. They consider that external risks remain high and warrant continued access to contingent external financing from the Fund. The authorities consider that the FCL arrangement provides useful temporary insurance that in the case of the materialization of tail risks would complement an adequate use of reserves. They consider that the FCL arrangement reinforces market confidence and provides breathing space to navigate through shocks without derailing the structural reform agenda aimed to foster economic diversification and inclusive growth.

B. Evolution of Risks and Exposures

16. Global risks have decreased somewhat since the approval of the current FCL arrangement but those related to cross-border integration have recently increased. While some risks have eased as the global recovery has gained steam and the oil outlook has improved, a prolonged period of easy global financial conditions and continued risk appetite have further exposed emerging markets to abrupt corrections. Prospects of a sharper tightening of financial conditions have increased as advanced economies continue their monetary policy

GDP Impact on WEO Trade War Scenario
(Percentage from baseline)



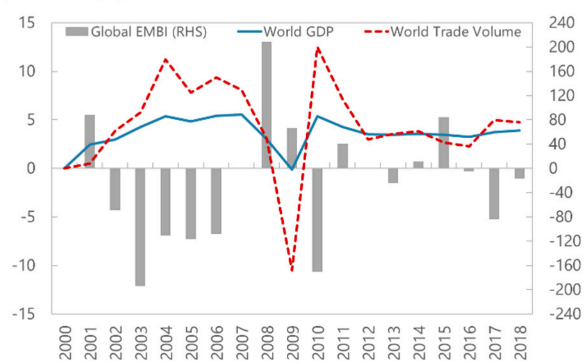
Sources: WEO; and Fund staff calculations

[4] A stress test by the Colombian central bank, published in the 2017 (March) Financial Stability Report estimates the effects of an adverse scenario that shares some elements with the one described in Section C below, including loss of confidence, increases in risk premia and a sell-off of foreign investors' position in government debt. That analysis estimated, capital ratios would fall by 2 percentage points, but would remain well above the regulatory minimum.

normalization. While policy uncertainty and retreat from cross-border integration risks had been falling over the last year or so, the recent escalation/intensification of trade and geopolitical tension has increased the probability of a risk aversion scenario. A near-term retreat from cross-border integration including disruptions of global production chains, would lead to lower global growth and investor's retrenchment from emerging markets. As noted by the Spring 2018 WEO, risks stemming from financial and trade channels are interlinked and the materialization of one of them could trigger the realization of others.

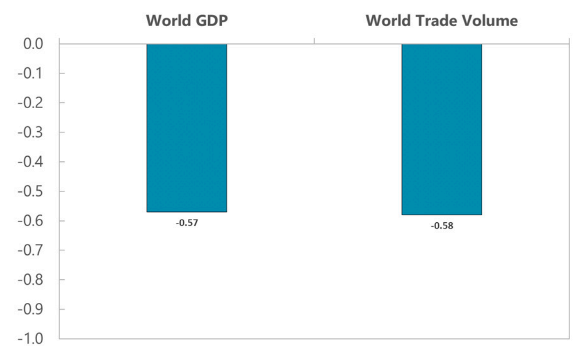
- **An escalation of trade frictions has increased the probability of a global retreat from cross-border integration with negative consequences for global growth, risk sentiment and capital flows.** The October 2016 WEO estimated that a broad-based increase of 10 percent in the cost of imports would lead to a decline in advanced economies and emerging markets output by about 1.5 and 2.6 percent, respectively, relative to baseline. These policy shifts could also reduce cross-border flows of trade and investment, with a negative impact on commodity prices and risk taking.

World GDP, Trade and Emerging Market Risk
(Annual changes)



Sources: WEO; and Fund staff calculations

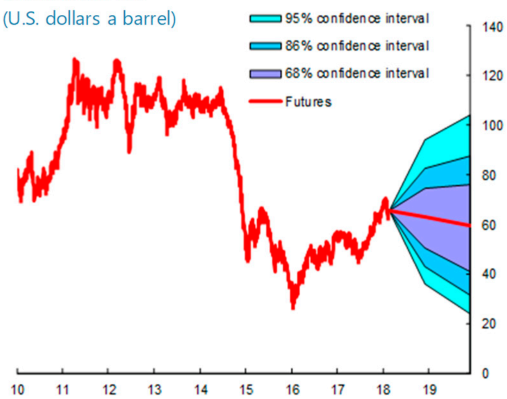
GDP, Trade and Emerging Market Risk
(Correlation with annual changes in EMBIG, 2001-2018)



Sources: WEO; and Fund staff calculations

- **Weaker than expected growth in global trade and activity could lead to lower energy prices.** Oil prices have recovered from the lows in 2016Q1, but are vulnerable to larger declines than at the time of the last FCL arrangement. The fan chart derived from option prices shows that markets could see Brent prices below US$45 within a tail-risk scenario. A weakening in advanced economies' demand under heightened policy uncertainty or weaker OPEC/Russia cohesion and/or recovery of oil production in the African continent could trigger a sharp decline in oil prices.

Brent Crude Oil
(U.S. dollars a barrel)



Source: Bloomberg.

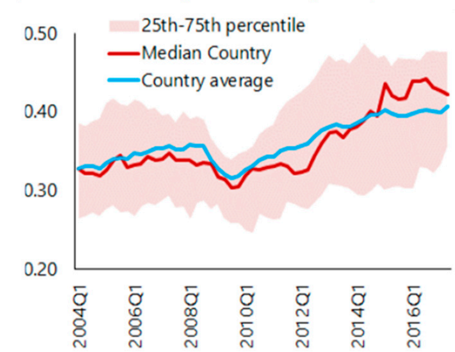
- **Global financial markets are vulnerable to a sudden, sharp tightening of financial conditions which could result from an escalation of trade or geopolitical tensions, or an**

inflation surprise in the U.S. Against a backdrop of stretched valuations across asset classes, events in February–March have demonstrated that trade tensions can lead to sharp corrections in asset prices and a tightening of financial conditions. An unexpected change or divergence in policies during the monetary normalization process, or increased policy uncertainty is likely to cause increased volatility, accelerate the decompression in term premia and have a further impact on risk premia across sovereigns and corporates. The associated portfolio adjustments could result in a reversal of capital inflows to emerging markets.

- **Episodes of financial market volatility will be amplified by emerging markets' heightened exposure to sudden changes in risk appetite and asset prices.** As noted in the 2018 Spring GFSR, emerging markets have benefited from easy financial conditions which have led to record high gross issuance of foreign currency corporate and sovereign debt. At the same time, the share of non-investment grade issuance has risen to more than 40 percent over the last year and there is a growing exposure to potentially flighty investors which makes countries more susceptible to a reversal of capital flows. Under a generalized retreat from EM, a more fickle investor base may not differentiate across EM with stronger/weaker fundamentals and policy frameworks.

The investor base for EM sovereign debt has become more fickle in recent years

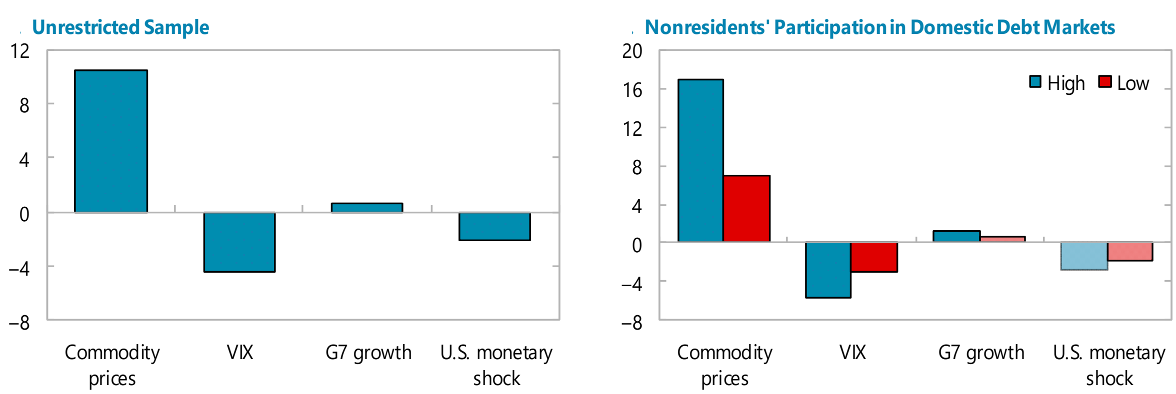
Investor Base Risk Index: Aggregates from 24 EMs
(Share of total holdings of EM sovereign debt)



Source: GFSR Spring 2018.

- **Recent WHD analysis confirms that the materialization of the global shocks mentioned above would have an important impact on capital inflows to Latin America.** Declines in commodity prices and advanced-countries' growth, as well as increases in risk aversion and monetary policy normalization tend to lower gross inflows into Latin America—especially in those countries with significant foreign participation in domestic debt markets, such as Colombia.

Impulse Response Functions of Gross Inflows to External Shocks
(Percent of trend GDP)



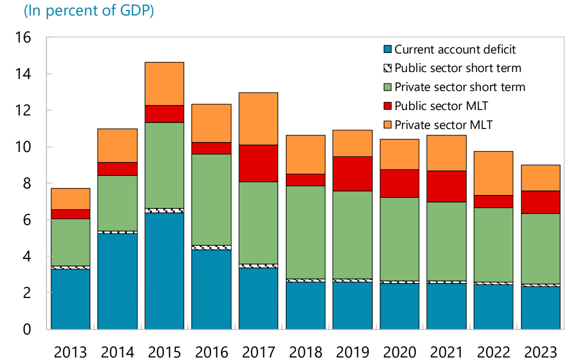
Source: IMF staff calculations.

17. Colombia's exposures to the global risks described above have also evolved. Exposures to oil price shocks have fallen somewhat, while those associated to capital inflow reversals have increased:

- **Despite being less reliant on oil proceeds than in recent years, Colombia remains exposed to oil price volatility which could arise as a byproduct of the scenarios described above.** Oil exports will represent about 34 percent of total exports over 2018 and 2019, while oil-related FDI will represent a similar share of total FDI. Oil-related investment is among the central drivers that will support the recovery in 2018, while the government medium-term fiscal consolidation includes an increase in oil revenue of 0.7 percent of GDP between 2017 and 2019. While the baseline scenario is for Brent prices to increase in 2018 and gradually decline to about US$60 per barrel by 2019, option prices suggest prices as low as US$40 per barrel are within the 86 percent confidence interval. A large decline in oil prices would weaken both export receipts and oil-related capital inflows and could also lead to less appetite for government debt.

- **The reduction in the 2017 current account deficit was larger than expected, still gross external financing needs remain sizeable** (10 percent of GDP or about US$34 billion in 2018 and 2019). The larger component is short-term private sector debt. Notwithstanding its relatively modest corporate and sovereign debt and strong policy frameworks, Colombia is likely to be affected in a tail-risk retrenchment from the emerging market asset class. Staff estimates for the GFSR suggest that under an adverse scenario with a moderate increase in risk aversion, Colombia could see lower inflows by about 1.8 percent of GDP (US$6 billion) during 2018–19, in part reflecting Fed policy normalization.

Gross External Financing Needs
(In percent of GDP)



Sources: National authorities; and Fund staff estimates and projections.

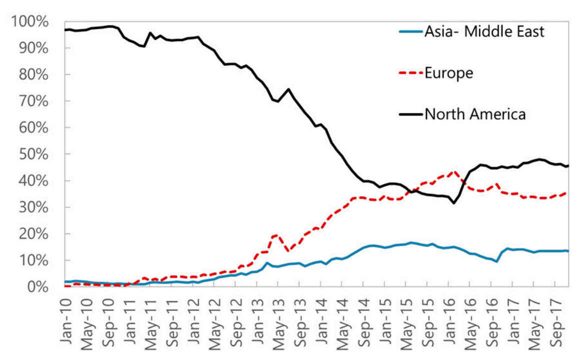
- **Although the current account deficits have been largely financed through FDI, Colombia's strong policies and fundamentals have also attracted a relatively large amount of portfolio flows.** Foreign participation in local government bond markets has increased from US$15.3 billion in June 2016, to US$25.3 billion (or 26.3 percent of the total) in March 2018. Foreign holdings of local equities have also increased, to a lesser extent, and are highly correlated with oil prices. Moreover, a lower carry trade margin, as the Colombian Central Bank lowered rates since late 2016 and the U.S. continues its monetary policy normalization process, is likely to increase foreign investors' sensitivity to global shocks. Colombia's exposure to a sell-off episode is also compounded by the high concentration of about 30 percent of the stock of local government debt (which represents about US$7 billion) in a few foreign holders (see Box 1).

Box 1. Foreign Investors' Participation in Local Government Debt

Foreign investors' participation in Colombia's local currency public debt market has seen a rapid increase since 2013. This reflects the reduction of the capital gains tax as part of the tax reform in 2013 and the inclusion of Colombian bonds in JP Morgan's EM-GBI in 2014, and, more recently, the ratification of the peace accord.

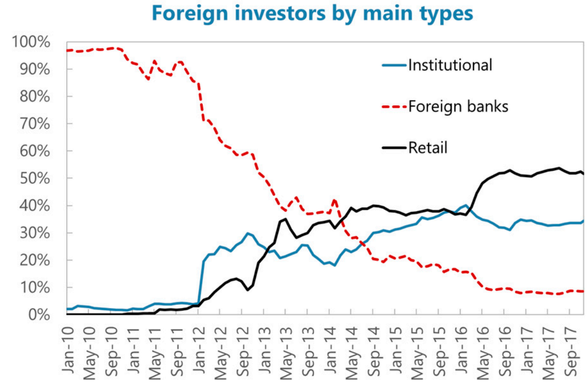
Mutual funds make up half of the foreign investor base, exposing the economy to global financial conditions. Investors are largely from North America (about 50 percent) and Europe (about 35 percent), with a relative small but stable share from Asia and the Middle East (10–15 percent). Retail investors, comprising mainly mutual funds, have overtaken foreign banks in 2014 and institutional investors in early 2016, and now dominate the market. Mutual funds tend to follow momentum trading strategies and are generally more sensitive to global factors than institutional investors. Institutional investors, however, are not always more stable, as they pull back more strongly than do mutual funds when faced with extreme shocks (see the April 2014 GFSR, *"How do Changes in the Investor Base and Financial Deepening Affect Emerging Market Economies?"*).

Foreign investors by main regions



Source: Fund staff calculations.

Foreign investors by main types



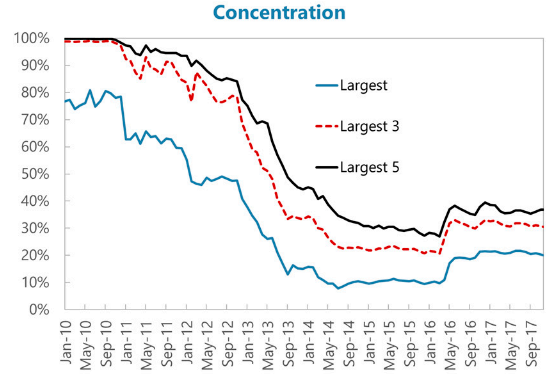
Source: Fund staff calculations.

Moreover, while most foreign holdings are of long maturities, they are concentrated in the hands of a few investors. Two-thirds of the foreign holdings have maturities of 5 years or longer. Although concentration has declined starkly from earlier years, it remains high—the largest investor holds 20 percent of the total foreign holdings, or about US$4.8 billion, while the largest three investors hold 30 percent, or about US$7.2 billion.

Share of longer maturities in total foreign holdings

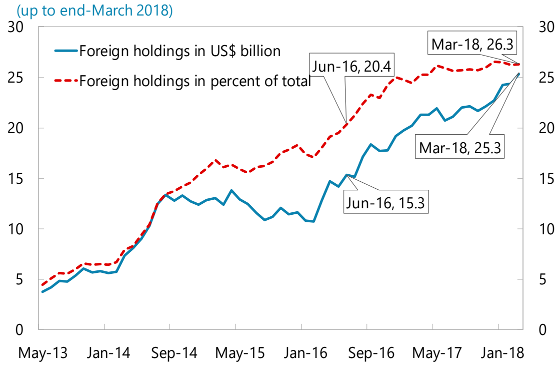
Source: Fund staff calculations.

Concentration



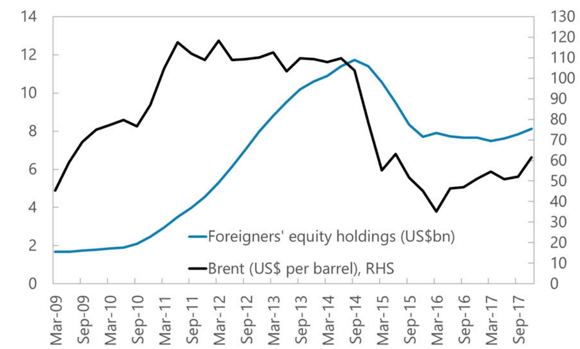
Source: Fund staff calculations.

Foreign participation in local government debt
(up to end-March 2018)



Sources: National authorities and Fund staff estimates.

Colombia: NIIP Portfolio Equity and Oil Prices



Sources: Haver; and Fund staff calculations

18. The external economic stress index (ESI) for Colombia would remain on a relatively stressed level over the near term and would deteriorate significantly under the downside scenario (Box 2). After some improvement in mid-2017, the ESI dipped into negative territory in early 2018 and will remain generally below zero and hence reflecting stress above the historical average. Furthermore, the estimated impact of tail risks now is slightly larger than in the current FCL arrangement, as reflected by the increased difference between the adverse and the baseline scenarios.

C. Access Considerations Under an Adverse Scenario

19. Staff 's assessment is that the level of access of 384 percent of quota requested by Colombia would provide reasonable coverage against continued high global risks. A broad-based retreat from cross-border integration paired with a sharp increase in risk aversion could lead to a significant decline in global output, commodity prices and a large retrenchment from emerging market assets which could last for several quarters.

20. In staff's view, a similar access level in dollar value compared to the current FCL arrangement, is warranted given Colombia's continued exposure to global risks. The requested access of 384 percent of quota—which will provide similar coverage measured in US$—is based on rollover rates congruent with historical stress experiences (Figure 3), applied to somewhat different exposures. The key adjustments from the 2016 request are: (i) a somewhat smaller oil export shock consistent with the latest option prices;[5] (ii) a larger nominal sell-off in public debt proportional to the observed increase in foreign participation; and the addition of an equity sell-off to reflect the likely response of investors to the shocks described in the previous section and the more "flighty" investor base (GFSR, Spring 2018); (iii) somewhat lower private sector rollover rates due to the sharp increase in short-term debt since 2010 including bank loans; and (iv) an increase in the use of international reserves.

[5] In the 2016 request the scenario included a 26 percent decline in oil prices and a 10 percent decline in export volumes for a combined 36 percent shock to oil exports. Now, the scenario includes only a 28 percent decline in oil prices.

Box 2. External Economic Stress Index

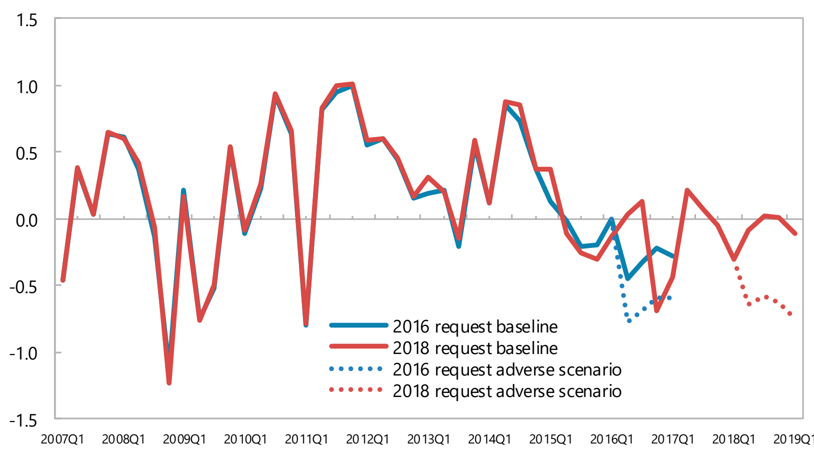
The updated ESI shows that the estimated impact of tail risks in the adverse scenario remain elevated, and larger than two years ago.

The external economic stress index summarizes Colombia's external shocks and exposures to these shocks. It was initially presented in Colombia's staff report for the June 2015 FCL arrangement. Its methodology is explained in the "*Flexible Credit Line—Operational Guidance Note*," IMF Policy Paper, June 2015.

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; and the emerging market volatility index (VXEEM) and the change in the 10-year U.S. government bond yield as proxies for risks to equity and debt portfolio flows, respectively. 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 further traction. In the adverse scenario, policy uncertainty or protectionism combined with a rise in risk premium would lower U.S. growth by 1.5 percentage points, consistent with the April 2017 WEO scenario—three times as large as in the 2016 FCL request. Oil prices would fall 28 percent with respect to the baseline due to weak global growth—a somewhat lower decline compared to the 36 percent (price and volume) assumed in the 2016 FCL request. Stress in financial markets due to policy uncertainty would lead to an increase of the VXEEM by two standard deviations. Volatile global financial conditions and decompression of term premia would trigger a 100bps increase in long-term U.S. interest rates. The VXEEM and bond yield assumptions are unchanged compared to the 2016 FCL request.

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

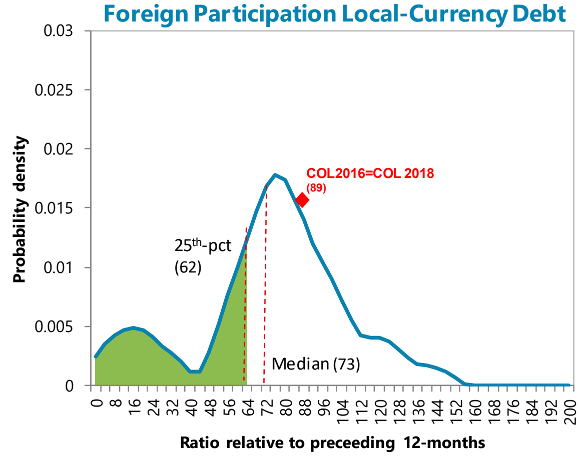


Source: Fund staff calculations.

21. Both traditional and non-traditional exports are likely to decline under the adverse scenario. A decline in the price of oil to US$45 (within the 86 percent confidence interval for WEO projections) will lead to a proportional decline in oil exports. At the same time, the associated decline in global output and its impact on Colombia's trading partners will lower non-traditional exports. The estimated impact on the current account of about US$5.6 billion includes some small offset from a peso depreciation likely to follow the realization of the shock (see footnote 1 in Table 3), associated mainly with some import compression.

22. The materialization of the risks in the adverse scenario is likely to lead to lower capital inflows and a foreign investor sell-off in local bond and equity markets. A temporary interruption in foreigners' purchases of local bonds (US$2.1 billion) combined with a US$2.4 billion net sell-off in the existing holdings (about 11 percent of the stock held by foreigners) would result in a large reduction in portfolio flows. The assumed sell-off in the local-currency bond market is plausible and very mild compared to international experience (see kernel figure estimated for 20 EMs in the latest stress episodes, and Box 1) as it assumes the same 11 percent share of sell-off as in the current FCL arrangement. Similarly, the downside scenario includes an equity sell-off of about US$1 billion, or about 13 percent of the current foreign holdings, undoing some of the sharp increase since the GFC. This outflow is similar to the one observed in the second half of 2016 amid low oil prices (see figure below). Both a decline in global equity and oil prices are likely to drive foreign investors away from Colombian equities. Falling oil-related investment would underpin a decline in FDI by 20 percent.

Foreign Participation Local-Currency Debt



Sources: Ministry of Finance; and Fund staff calculations.

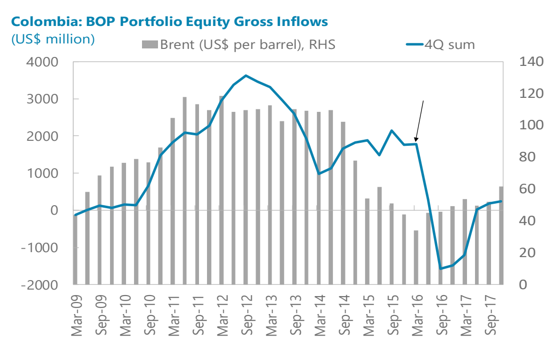
Equity Inflows

Stock Market Correlation

(Correlation of monthly changes; in percent)

Colombia Stock Exchange (in USD) vis-à-vis	
Dow Jones	0.5
SP500	0.53
NASDAQ	0.61
US Stock Market (average)	0.58

Source: Bloomberg; and Fund staff calculations.



Sources: Haver and Fund staff calculations

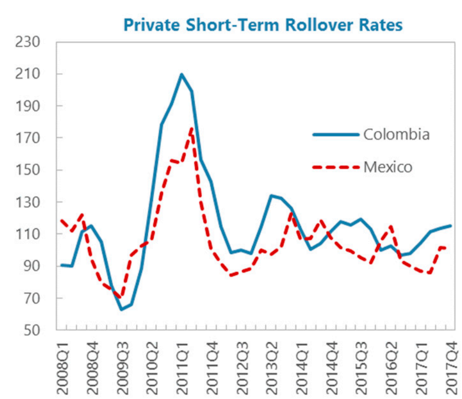
23. Private sector corporate debt may face rollover difficulties in such an adverse scenario. Under very loose external financing conditions, short-term private external debt has more than doubled since 2010. During 2018 and 2019, about US$23 billion of private sector debt comes due each year, almost all of which is expected to be renewed under the baseline scenario. However, under a risk scenario including some retrenchment from the emerging market asset class and despite the broad health of the Colombian corporate sector, disbursements are likely to decline. The assumed rollover rates for private short and long-term debt (80 percent and 73 percent respectively) are within historical benchmarks (Figure 3 and text chart). The rollover rate for short-term private debt is lower than in the current FCL arrangement (85 percent) partly in reflection of the recent rapid growth in short-term bank lending. Moreover, an 80 percent rollover rate for short-term debt is in line with the one assumed for EMs in the Adequacy of the Global Financial Safety Net (GFSN) Board paper. The assumed rollover rate implies nominal disbursement that are slightly larger than in the current FCL arrangement and consistent with disbursement levels observed in 2010–16 when financing costs were significantly lower (see chart).

External Debt Rollover Rates
(Percent)

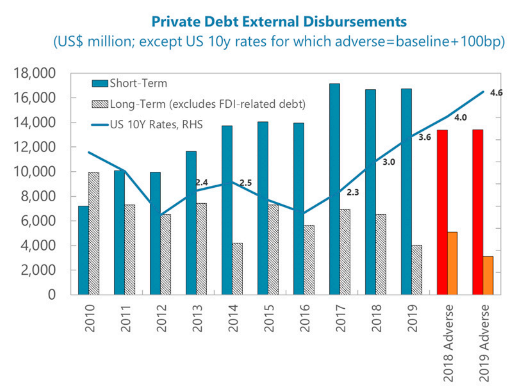
	FCL 2018	GFSN (1st year)	GFSN (2nd year)	GFSN Average
ST Debt Rollover	80	70	88	79
Private	80			
Public	80			
MLT Debt Rollver	75	50	65	58
Private	73			
Public	80			

Source: Board Paper on Adequacy of the Global Financial Safety Net and Fund staff estimates

Private Short-Term External Debt



Sources: Central Banks of Colombia and Mexico.



Sources: National authorities; and Fund staff projections

24. The requested FCL access level will help cover the financing gap left by the materialization of the shock in the adverse scenario. The current account deficit will worsen by about US$5.6 billion while the combined shock to private and public capital flows will amount to around US$13 billion. Some use of international reserves will be warranted to help cover a portion of the gap while preserving sufficient buffers to maintain confidence as the economy absorbs the shock. The use of US$7.2 billion of international reserves will bring down the reserves-to-gross external financing needs ratio to 93 percent, below the 100 percent benchmark—the use of reserves will cover about 40 percent of the total funding needs (US$18.6 billion), broadly in line with the current and previous arrangements[6]. A larger reserve drawdown could further lower this coverage—a commonly used risk adequacy metric by international investors—and could have an adverse impact on market confidence. Even after the use of international reserves, a financing gap of US$11.4 billion would remain.

Assumptions Underlying the Illustrative Adverse Scenarios

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

Assumption	New Arrangement	Current Arrangement
Oil price decline 1/	28	26
FDI reduction	20	20
MLT public sector rollover	80	80
ST public sector rollover	80	80
MLT private sector rollover	73	73
ST private sector rollover	80	85
Reduction in equity inflows (US$ billion) 2/	1.3	1.0
Reserve drawdown (US$ billion)	7.2	6.9

Source: IMF staff calculations.
1/ The current arrangement includes a 10 percent decline in export volumes, leading to a combined 36 percent shock to oil exports. The new arrangement does not assume any decline in oil volumes.
2/ The current arrangement assumes zero net inflows, while the new arrangement assumes a negative net inflow of about US$1 billion.

D. Exit Strategy

25. The authorities consider access to the FCL to be temporary and dependent on external conditions and their request for a similar level of access in dollar value is motivated by continued heightened vulnerability to global risks. They note that, some global risks and exposures have increased and their materialization could hamper Colombia's ongoing adjustment process. Continued access to the FCL will help navigate adverse external conditions without major disruptions. In this context, they foresee that a new FCL arrangement would boost confidence, and afford them additional space and time to finalize the adjustment process and set the stage for further advancing the much-needed structural reforms that stand to boost productivity and inclusive growth.

26. The authorities have outlined conditions that would facilitate access reductions and an eventual exit from the instrument. The proposed arrangement implies a slight reduction in access in percent of quota, and the authorities remain committed to reduce access to the FCL instrument and eventually phase out Colombia's use of the instrument as global risks recede.[7] In particular, the authorities would be ready to lower access if, barring the emergence of new external risks, there is a reduction in the likelihood and potential intensity of some of the current global risks affecting

[6] The reserve drawdown will generate a similar decline in Assessing Reserve Adequacy (ARA) metric as in the 2016 FCL arrangement (20–23 percentage points).
[7] Colombia reduced access to the FCL, from 900 percent in the first arrangement (2009) to 300 percent in the second arrangement (2010).

Colombia, including: (i) increased protectionism and a retreat from cross-border integration; (ii) an abrupt tightening of global financial conditions; (iii) a global slowdown in activity and associated decline in the price of oil. Greater information on how the global economy responded to fiscal, monetary, trade and geo-political shocks would facilitate a more accurate assessment of the global and regional risks to the Colombian economy. The authorities also remain committed to increasing resilience and further rebuilding buffers including further strengthening financial regulation and continuing fiscal consolidation as described in the Staff Report for the 2018 Article IV.

27. The authorities are planning to develop a communication strategy to provide guidance to markets about their exit plans. The authorities are already in close contact with investors and rating agencies. They are considering possible channels for outreach to investors and the general public to communicate their plans of gradual exit once external risks recede. Such communication would highlight Colombia's improved fundamentals and increased policy buffers, and the authorities' commitment to maintaining very strong policies and fundamentals. It could facilitate an exit from the FCL with muted market reaction.

E. Assessment of Qualification

28. Staff's assessment is that Colombia continues to meet the qualification criteria for an FCL arrangement. Colombia has very strong economic fundamentals and institutional policy frameworks, with an inflation targeting framework and a flexible exchange regime, a fiscal policy framework anchored by a structural balance rule, and financial system oversight based on a sound regulatory and supervisory framework. Colombia has a sustained track record of implementing very strong policies and the authorities are firmly committed to maintaining such policies going forward.[8]

- **Sustainable external position.** Colombia's external debt is relatively low and has declined since the last FCL arrangement to about 47.5 percent of GDP at end-2017. The large peso depreciation in 2015 increased external debt ratios by 9 percentage points of GDP and it has only been partially reversed. Staff's updated external debt sustainability analysis shows that external debt ratios would steadily decline over the medium term and remain manageable even under large negative shocks (Table 14). The current account deficit is projected to further narrow this year to about 2.6 percent of GDP, only 0.3 percent of GDP wider than its medium-term level. The external position appears moderately weaker than implied by fundamentals and desirable policies. However, staff's assessment is that policies are on their desirable course to contribute to a further narrowing of the current account deficit over the medium term, and there is no need for additional tightening beyond what is already planned.

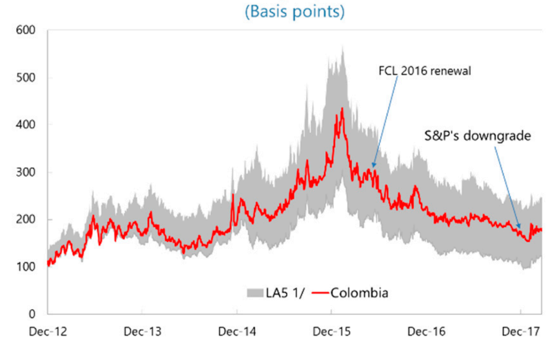
- **Capital account position dominated by private flows.** Capital account flows in Colombia are predominantly private, as public flows accounted for only around 25 percent of Colombia's direct, portfolio, and other asset and liabilities flows on average over the last three years. Capital flows are mostly in the form of net flows of foreign direct investment (FDI) and portfolio

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

investment (3.5 and 0.5 percent of GDP in 2017). The reliance on portfolio inflows is projected to remain at about 1–1.5 percent of GDP over the medium term. FDI inflows are expected to remain resilient, financing the bulk of current account deficit over the medium term. 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. The public sector issued or guaranteed external bonds or disbursements of public and publicly-guaranteed external commercial loans in international markets during each of the last five years, in a cumulative amount over that period equivalent to 450 percent of Colombia's Fund quota (for the central government). On December 11, 2017, due in part to some tax revenue underperformance, S&P downgraded Colombia to BBB- which still grants investment grade status. The other two major credit rating agencies rate Colombia one notch higher. Market reaction to the downgrade was muted as reflected in sovereign bond spreads, which have moved with the region average and are now lower than at the time of the renewal of current FCL arrangement.

Sovereign Spreads
(Basis points)



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

- **International reserve position remains relatively comfortable.** Gross international reserves have remained broadly unchanged in recent years. They stood at US$47 billion as of end-2017, which amounts to 146 percent of the ARA metric and 135 percent of the sum of short term external debt at remaining maturity and the projected current account deficit, which is relatively comfortable (Figure 2). Colombia's reserves have exceeded 100 percent of the ARA metric in each of the last three years.

- **Sound public finances, including a sustainable public debt position.** The authorities are committed to fiscal sustainability by adhering to their structural balance rule which will place public debt on a declining path. Staff assesses Colombia's public debt to be sustainable with high probability. A strong fiscal framework and moderate levels of public debt helped Colombia adjust policies to absorb the permanent oil price shock through a combination of expenditure restraint and revenue measures including a structural tax reform.

- **Low and stable inflation, in the context of a sound monetary and exchange rate policy.** The central bank has adjusted the policy rate to guide inflation toward the target while supporting economic activity and the external adjustment. Inflation has steadily declined since mid-2016 when weather-related shocks caused a spike in food inflation, helped by earlier tightening measures. Since late 2016, the monetary easing cycle has been compatible with moderating inflation and inflation expectations remain within the target range of 2–4 percent.

The authorities remain committed to their inflation targeting framework and flexible exchange rate. Colombia has maintained single digit inflation over the past five years.

- **Sound financial system and absence of solvency problems that may threaten systemic stability.** The financial system solvency and liquidity has remained strong amid less favorable external financing conditions, sectoral credit issues, and changes in local funding conditions. As of December 2017, the banking system's capital adequacy ratio stood at 18.6 percent, way above the regulatory limit. The 2018 Article IV mission did not find significant solvency risks or recapitalization needs. According to a recent central bank stress test, the banking sector is robust to adverse macroeconomic shocks.

- **Effective financial sector supervision.** The authorities have finalized and implemented many of the January 2013 FSAP recommendations, including those that help address cross-border risks. The conglomerates law was approved in September 2017 and will come into effect this year. Capital requirements are to be gradually strengthened over a six-year period to become more in line with Basel III. The financial supervisor introduced new regulation to foster early detection of credit risk and intensified bank-by-bank monitoring. The 2018 Article IV consultation did not raise substantial concerns regarding the supervisory framework.

- **Data transparency and integrity.** Colombia's macroeconomic data continues to meet high standards. Colombia remains in observance of the Special Data Dissemination Standards (SDDS), and the authorities publish relevant data to on a timely basis. A fiscal transparency evaluation took place in April 2017 and noted that in the last decade and a half, Colombia has made a significant progress in terms of building strong fiscal institutions, based on good transparency practices, resulting in a strong institutional framework. As a result, while opportunities for improvement exist, Colombia scores relatively high in a number of areas covered by the FTC (Fiscal Transparency Code).

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

29. Colombia has a very strong institutional policy framework. Since the Constitutional Reform of 1991, Colombia has significantly strengthened its institutional frameworks. Fiscal sustainability and the independence of the central bank were enshrined in the Constitution. Effective financial regulation and supervision has provided a consistent and robust policy framework to ensure financial stability. Colombia's accession to the OECD is almost complete and 24 out of 26 committees have granted their clearance. Regarding the cyclicality of policies, Colombia achieved a remarkably smooth adjustment despite facing a terms of trade shocks larger than the one faced by most of its peers, through an effective and coordinated policy response. The fiscal rule allowed some smoothing of the decline in oil revenue while protecting the medium-term sustainability of public debt. As described above, the central bank has skillfully protected the anchoring of expectations despite facing very large inflation shocks, and helped adjust domestic demand to the lower level of national income.

30. Regarding government effectiveness, Colombia compares well to some of its peers and has improved in recent years. The authorities have combined the strengthening of the legal framework for governance and transparency with wider access to information and organizational changes to improve governance (Staff Report for the 2018 Article IV, Box 2). The OECD has noted that Colombia has undergone profound changes over the last ten years and has made significant progress in implementing its governance agenda. Colombia's World Bank's government effectiveness score improved from -0.3 in 2000 to 0.023 in 2016; the country used to trail the regional average in 2006 while it matched the regional average in 2016.

F. Impact on Fund Finances, Risks, and Safeguards

31. The proposed arrangement for Colombia under the FCL (SDR 7.848 billion or 384 percent of quota) would have only marginal immediate effect on Fund's liquidity. The Fund's liquidity is expected to remain adequate after the approval of the proposed FCL arrangement, and the cancellation of the current arrangement and approval of the proposed one with slightly lower access level would have a marginal positive net impact on the Forward Commitment Capacity (Table 3 in the Supplement on the Assessment of the Impact of the Proposed Flexible Credit Line Arrangement on the Fund's Finances and Liquidity Position).

32. Risks to the Fund are judged to remain moderate, with the access level slightly reduced from the current FCL arrangement. Colombia has been implementing very strong policies, and the authorities have indicated that they intend to treat the new FCL arrangement as precautionary. Even if Colombia were to draw all the resources available under the new FCL arrangement, its capacity to repay to the Fund would remain adequate (Table 12). Even if the adverse scenario were to materialize, Colombia's external debt would peak at about 50.0 percent of GDP in 2018 and remain on a sustainable medium-term path. Debt service would continue to be manageable. Furthermore, Colombia has an excellent track-record of meeting its financial obligations**.**

33. Safeguards procedures were completed for Colombia's 2016 FCL arrangement. No significant issues emerged from the conduct of these procedures. In preparation for the proposed new arrangement, the Banco de la República de Colombia (BRC) has provided the necessary authorization for Fund staff to communicate directly with its external auditors and granted access to the most recently completed audit reports in accordance with the safeguards policy.

STAFF APPRAISAL

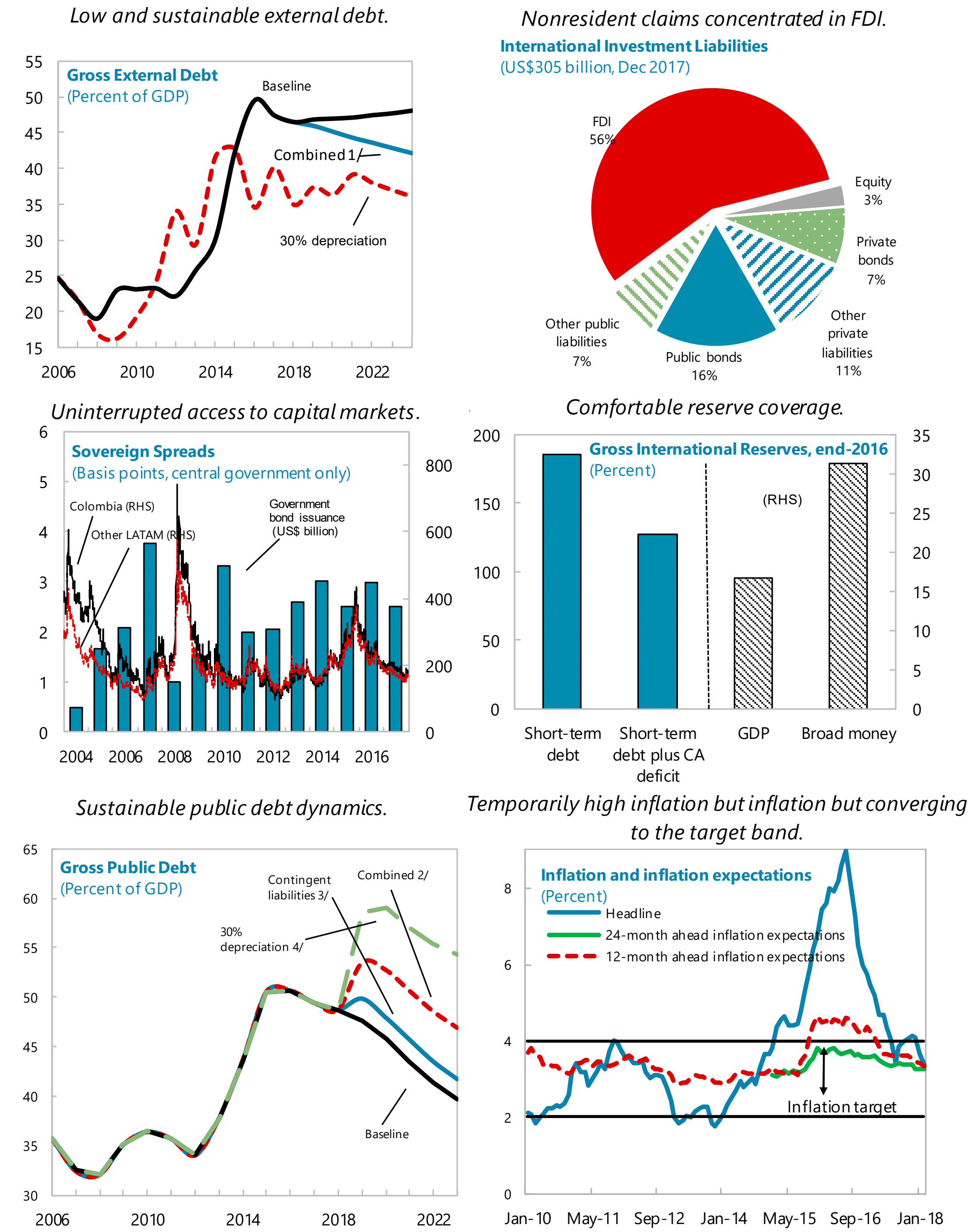
34. Staff's assessment is that Colombia continues to meet the qualification criteria for access to FCL resources. As discussed above, Colombia has very strong policy frameworks and economic fundamentals. The authorities have a successful track record of sound policy management, are firmly committed to maintaining prudent policies, and continue to strengthen policy buffers. They have completed most of the adjustment to the large external shocks and are rightly focused now on structural reforms that stand to foster productivity and inclusive growth over the medium term. Although a new president will take office on August 7, 2018, political assurances on policy continuity from the leading presidential candidates provide appropriate safeguards for the proposed arrangement.

35. Staff considers the proposed access level to be appropriate. Despite very strong underlying fundamentals and policies, Colombia is facing a high exposure to tail risks, including the possibility of a retreat from cross-border integration and an abrupt change in global risk appetite and commodity price correction notwithstanding the global growth recovery. As the April 2018 WEO notes, these risks can be interlinked and the materialization of one risk could trigger the realization of the others. A new FCL arrangement with a small reduction in access to about 384 percent of quota, which the authorities intend to treat as precautionary, would provide additional buffer as they complete the external adjustment, and would serve as an appropriate temporary insurance that reinforces market confidence against the backdrop of heightened global uncertainties.

36. Staff welcomes the authorities' exit strategy and would encourage a further reduction in access in any future arrangements as risks to the global outlook and commodity prices recede. A lower current account deficit and more stable growth rates would enhance the resilience of the economy and reduce its vulnerability to external shocks. Moving forward, a carefully crafted communication strategy as the authorities intend to develop, will help facilitate exit. Continued buildup of additional buffers will thus be essential to supporting Colombia's exit strategy in an orderly and well communicated manner.

37. Staff considers that the proposed FCL arrangement carries moderate risks to the Fund. While Colombia intends to treat the FCL arrangement as precautionary, the Fund's credit exposure to Colombia would remain moderate even with a drawing. Risks are further contained by Colombia's very strong repurchasing record with the Fund and manageable external debt service profile. The proposed arrangement would have a marginal impact on the Fund's liquidity.

Figure 1. Colombia: FCL Qualification Criteria



Sources: Banco de la República; Ministerio de Hacienda y Crédito Público; Datastream; Haver; and Fund staff estimates.

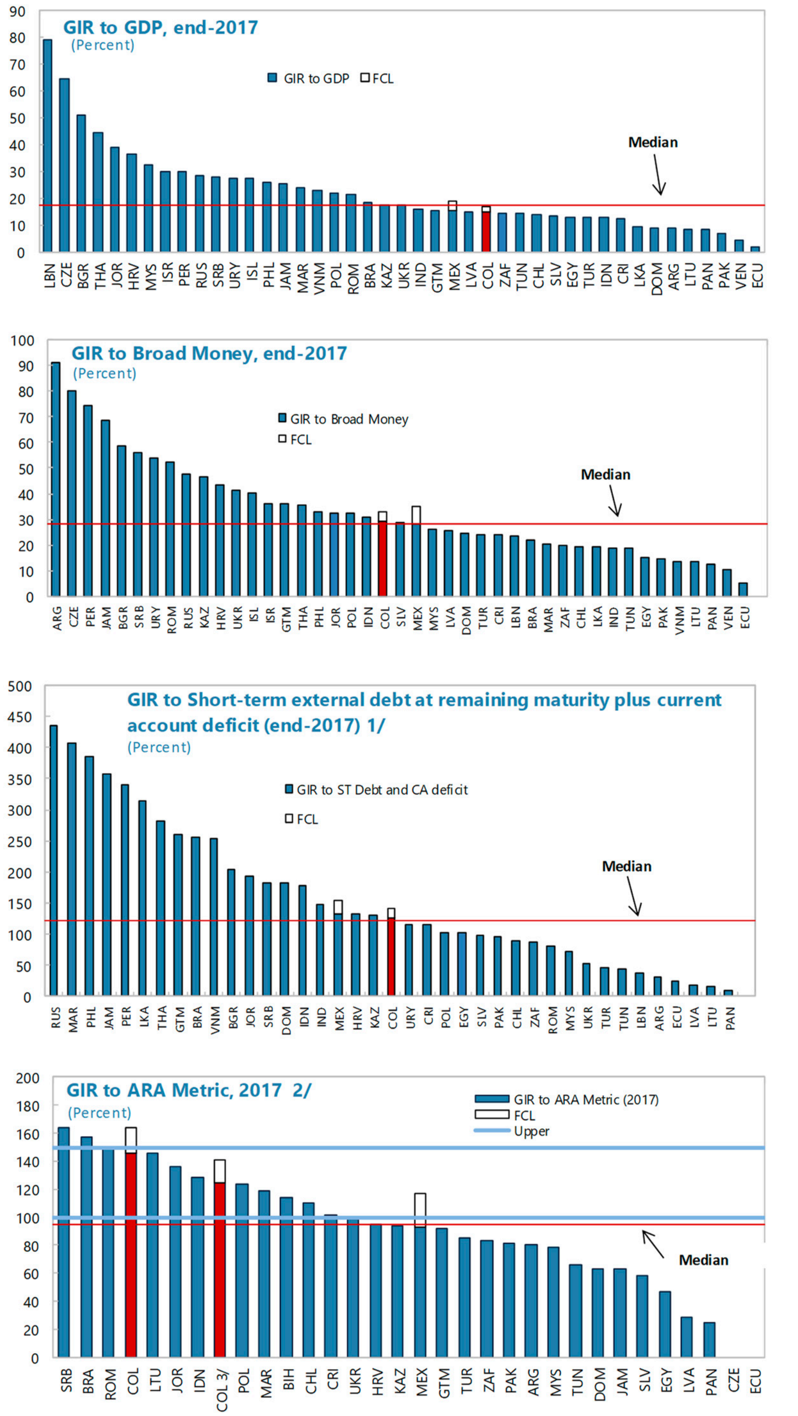
1/ Combined permanent 1/4 standard deviation shocks applied to interest rate; growth; and non-interest current account balance.

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 2. Colombia: Reserve Coverage in an International Perspective



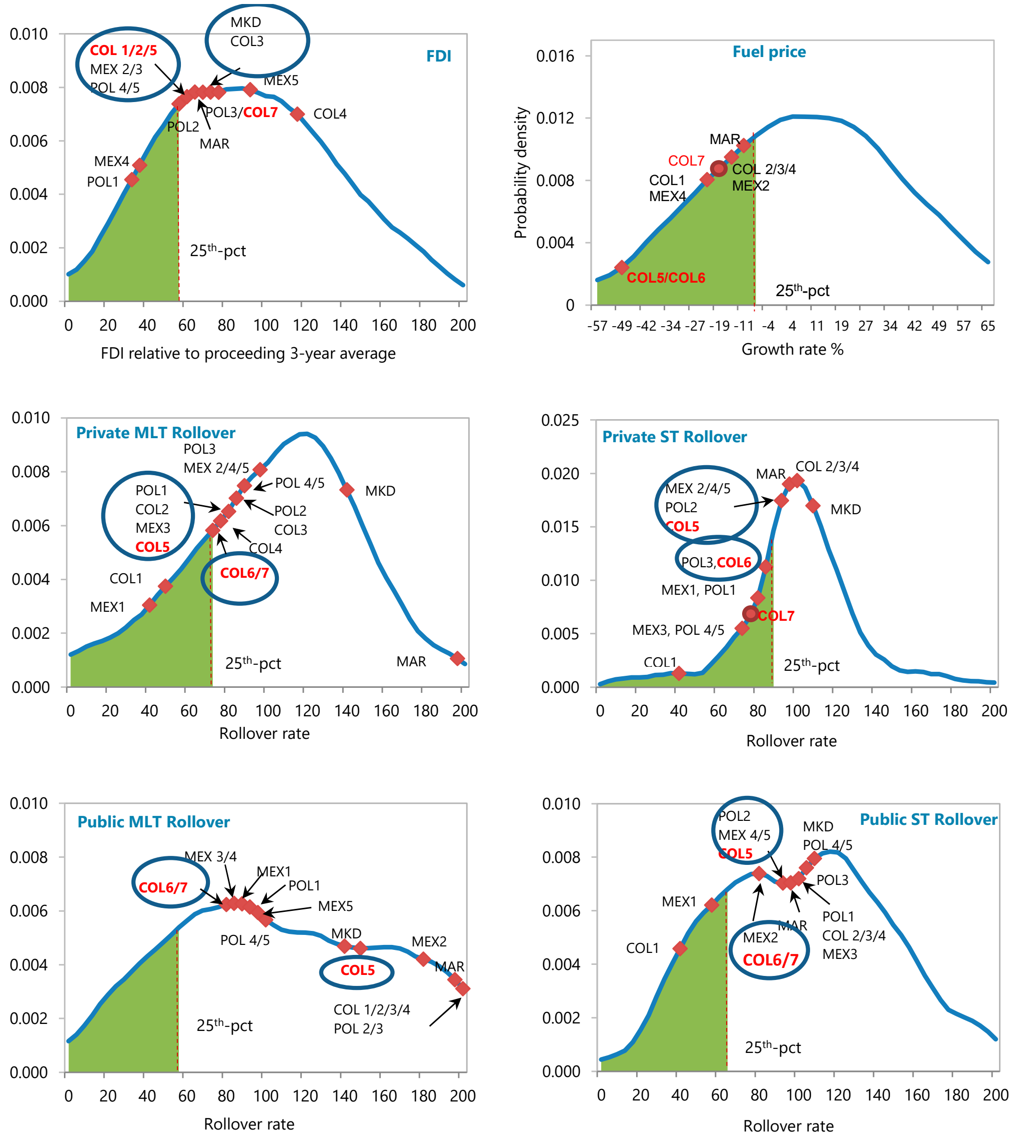
Sources: World Economic Outlook; IFS; and Fund staff estimates.

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



Source: Fund staff calculations.

1/ The empirical distributions are based on countries' actual experiences during the crisis year (for all four types of debt rollover rates), or countries' experiences during the crisis year relative to proceding 3-year average (for FDI). For the presented FCL/PLL country cases, shocks are defined according to the adverse scenario and placed on the kernel curve.

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, 2016		Adult illliteracy rate (ages 15 and older), 2011	6.4
Per capita (US$)	5,808	Net secondary school enrollment rate, 2013	73.8
In billion of Col$	855,432	Access to water (percent of population), 2015	91.4
In billion of US$	280	Gini coefficient, 2017	50.8
Life expectancy at birth (years), 2013	73.8	Poverty rate (US$3.2 a day, PPP), 2015	13.1
Mortality rate, (under 5, per 1,000 live births), 2015	15.9	Extreme poverty rate (US$1.9 a day, PPP), 2015	5.5

II. Economic Indicators

						Projections					
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
					(In percentage change, unless otherwise indicated)						
National income and prices											
Real GDP	4.9	4.4	3.1	2.0	1.8	2.7	3.3	3.6	3.6	3.6	3.5
Potential GDP	4.2	3.9	3.3	3.0	3.0	3.1	3.2	3.3	3.3	3.4	3.5
Output Gap	0.6	1.1	0.9	-0.1	-1.4	-1.5	-1.1	-0.7	-0.4	-0.1	0.0
GDP deflator	2.0	2.1	2.5	4.9	4.8	3.3	3.0	3.0	3.0	3.0	3.0
Consumer prices (end of period)	2.0	3.7	6.9	5.8	4.1	3.4	3.0	3.0	3.0	3.0	3.0
External sector											
Exports (f.o.b.)	-2.1	-5.6	-32.2	-11.6	15.8	14.3	2.9	6.5	5.8	5.8	6.0
Imports (f.o.b.)	0.8	7.8	-15.4	-16.9	2.3	6.8	5.6	6.3	5.7	5.4	5.6
Export volume	5.2	-1.5	-2.0	-2.5	0.0	4.6	5.7	7.2	6.0	5.8	5.8
Import volume	6.0	7.9	-6.8	-11.5	-2.0	-0.3	4.6	5.6	4.7	5.2	5.5
Terms of trade (deterioration -)	-2.1	-3.2	-19.3	-3.0	7.9	1.7	-2.3	-1.2	-1.0	-0.1	0.4
Real effective exchange rate (depreciation -)	-2.9	-6.9	-20.6	-4.7	2.8	0.6	0.1	0.0	-0.1	0.5	0.3
Money and credit											
Broad money	13.4	10.0	11.7	11.5	4.2	9.8	9.7	10.0	9.9	9.7	9.6
Credit to the private sector	12.1	14.7	16.8	7.7	11.0	7.5	8.9	9.6	10.8	11.6	11.6
Policy rate (end of period)	3.25	4.5	5.75	7.5	4.8	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
					(In percent of GDP)						
Central government balance	-2.3	-2.4	-3.0	-4.0	-3.6	-3.1	-2.2	-1.6	-1.3	-1.1	-1.1
Central government structural balance	-3.5	-3.4	-3.8	-3.1	-2.4	-2.3	-2.1	-1.9	-1.8	-1.5	-1.6
Combined public sector (CPS) balance 1/	-0.9	-1.8	-3.4	-2.8	-2.9	-2.5	-1.7	-0.6	-0.5	-0.4	-0.6
CPS non-oil structural primary balance	-2.8	-3.4	-2.5	-0.1	-0.2	-0.4	0.0	0.9	0.8	0.7	0.4
CPS fiscal impulse	0.7	0.6	-0.9	-2.4	0.1	0.2	-0.4	-0.9	0.1	0.1	0.3
Public debt	37.8	43.7	50.6	50.4	50.2	49.9	48.7	46.5	44.4	42.3	40.4
Public debt, excluding Ecopetrol	36.1	40.8	45.8	45.9	46.9	46.7	46.0	43.9	42.0	39.9	38.1
Gross domestic investment	24.3	26.3	26.7	24.7	23.4	23.6	23.7	23.7	23.6	23.5	23.4
Gross national savings	21.0	21.1	20.3	20.4	20.0	21.0	21.1	21.2	21.1	21.1	21.0
Current account (deficit -)	-3.3	-5.2	-6.4	-4.3	-3.4	-2.6	-2.6	-2.5	-2.5	-2.4	-2.3
External debt 2/	25.7	30.1	42.5	49.6	47.5	46.6	45.4	44.3	43.3	42.7	42.1
Of which: public sector 2/	15.3	19.1	27.3	32.1	30.5	30.0	29.4	28.8	27.9	27.3	26.6
					(In percent of exports of goods and services)						
External debt service	30.3	40.2	62.1	64.9	73.1	61.6	64.8	61.9	62.8	57.6	53.3
Of which: public sector	7.3	9.0	14.0	13.4	15.7	11.1	18.5	15.5	16.5	9.0	n.a.
Interest payments	5.4	6.3	9.9	11.4	11.0	13.0	13.7	13.8	13.5	13.3	13.2
Of which: public sector	3.5	4.1	6.7	7.4	7.0	6.0	5.7	5.2	5.0	4.0	3.7
					(In billion of U.S. dollars; unless otherwise indicated)						
Exports (f.o.b.)	60.3	56.9	38.6	34.1	39.5	45.1	46.4	49.5	52.3	55.4	58.7
Of which: Petroleum products	32.0	28.9	14.5	10.8	13.0	15.4	14.1	13.3	12.7	12.4	12.2
Gross official reserves 3/	43.2	46.8	46.3	46.2	47.1	47.9	48.9	50.2	51.5	52.9	54.2
Share of ST debt at remaining maturity + CA deficit	104	110	134	115	135	126	128	122	129	135	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	2023
Current account balance	**-12,504**	**-19,768**	**-18,586**	**-12,129**	**-10,359**	**-8,451**	**-8,967**	**-9,149**	**-9,720**	**-10,021**	**-10,176**
Goods balance	3,179	-4,641	-13,479	-9,160	-4,766	-2,114	-3,412	-3,532	-3,675	-3,661	-3,606
Exports, f.o.b.	60,282	56,899	38,572	34,079	39,474	45,114	46,445	49,455	52,334	55,383	58,725
Commodities	43,361	41,081	24,132	20,396	25,629	29,279	27,906	27,304	27,033	27,139	27,380
Fuel	32,011	28,947	14,518	10,784	13,047	15,377	14,130	13,252	12,685	12,353	12,155
Non-fuel	11,350	12,134	9,614	9,612	12,582	13,902	13,775	14,052	14,348	14,787	15,225
Non-traditional exports	12,488	11,879	10,493	9,614	10,256	11,795	13,972	16,892	19,426	21,777	24,251
Other	4,433	3,939	3,947	4,070	3,589	4,040	4,568	5,258	5,875	6,467	7,093
Imports, f.o.b.	57,103	61,539	52,051	43,239	44,241	47,228	49,857	52,986	56,009	59,044	62,331
Consumer goods	12,073	13,120	11,103	10,114	10,161	10,567	11,064	11,783	12,572	13,327	14,126
Intermediate goods	24,145	26,278	21,814	18,809	18,889	20,306	21,362	22,649	24,008	25,448	26,975
Capital goods	18,795	20,160	17,407	12,527	13,210	14,293	15,222	16,151	16,838	17,478	18,218
Other	2,090	1,980	1,726	1,789	1,981	2,061	2,209	2,404	2,591	2,791	3,011
Services balance	-6,340	-7,222	-4,776	-3,608	-4,111	-3,876	-3,650	-3,811	-3,995	-4,080	-4,094
Exports of services	7,022	7,156	7,426	7,677	8,326	9,211	10,203	10,927	11,590	12,370	13,281
Imports of services	13,362	14,378	12,203	11,284	12,438	13,087	13,853	14,739	15,585	16,450	17,376
Primary income balance	-14,230	-12,527	-5,761	-5,249	-8,167	-9,405	-9,131	-9,307	-9,836	-10,359	-10,865
Receipts	3,624	3,997	4,483	4,996	5,475	5,207	5,702	6,308	6,559	6,897	7,338
Expenditures	17,855	16,525	10,244	10,245	13,641	14,612	14,834	15,615	16,395	17,256	18,204
Secondary income balance	4,887	4,622	5,430	5,887	6,685	6,944	7,226	7,500	7,786	8,079	8,389
Financial account balance	**-11,739**	**-19,292**	**-18,263**	**-12,682**	**-9,694**	**-8,451**	**-8,967**	**-9,149**	**-9,720**	**-10,021**	**-10,176**
Direct Investment	-8,557	-12,268	-7,518	-9,332	-10,828	-7,709	-8,195	-8,798	-9,313	-9,845	-10,403
Assets	7,652	3,899	4,218	4,517	3,690	3,779	3,864	3,936	4,007	4,074	4,144
Liabilities	16,209	16,167	11,736	13,849	14,518	11,488	12,059	12,734	13,319	13,919	14,547
Oil sector	5,112	4,732	2,514	2,385	3,458	4,188	3,930	3,647	3,448	3,307	3,203
Non-oil sectors	11,098	11,435	9,222	11,463	11,060	7,300	8,129	9,087	9,872	10,612	11,344
Portfolio Investment	-7,438	-11,565	-10,283	-3,718	-1,577	-2,102	-1,805	-1,319	-1,744	-1,392	-1,004
Assets	3,635	7,096	-475	5,190	6,217	2,764	2,803	2,927	3,197	3,363	3,454
Liabilities	11,073	18,661	9,808	8,908	7,793	4,866	4,608	4,246	4,941	4,755	4,459
Equity	1,921	1,823	1,757	-1,484	245	260	275	291	308	326	345
Debt instruments	9,152	16,838	8,051	10,392	7,548	4,606	4,333	3,956	4,633	4,429	4,114
General government	4,913	12,835	5,651	8,792	6,011	3,369	3,024	2,572	3,167	2,878	2,474
Banks	1,300	-17	400	1,100	300	-76	-80	-85	-90	-95	-100
Corporates and households	2,939	4,020	2,000	500	1,237	1,312	1,389	1,468	1,555	1,647	1,741
Derivatives	118	608	1,956	-621	203	0	0	0	0	0	0
Other Investments	-2,808	-504	-2,833	823	1,963	582	4	-304	31	-123	-143
Change in reserve assets	6,946	4,437	415	165	545	778	1,029	1,272	1,305	1,339	1,374
Net errors and omissions	**765**	**476**	**323**	**-553**	**665**	**0**	**0**	**0**	**0**	**0**	**0**
Memorandum items:											
GDP (billion USD)	380	378	292	280	309	328	347	367	389	411	435
GIR (IMF Definition)	43.2	46.8	46.3	46.2	47.1	47.9	48.9	50.2	51.5	52.9	54.2
GIR/(st debt at remaining maturity + ca deficit)	103.9	110.0	134.2	115.3	135.3	126.4	128.1	121.7	128.7	135.3	n.a.
GIR/GDP	11.4	12.4	15.9	16.5	15.2	14.6	14.1	13.7	13.3	12.8	12.5
GIR (months of imports of G&S)	6.8	8.7	10.2	9.8	9.4	9.0	8.7	8.4	8.2	8.0	7.7
GIR/ARA	141.0	147.2	154.5	138.5	145.9	141.2	138.7	136.8	134.2	131.1	127.9

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

Table 2b. Colombia: Summary Balance of Payments

(In Percent of GDP)

					Projections						
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Current account balance	**-3.3**	**-5.2**	**-6.4**	**-4.3**	**-3.4**	**-2.6**	**-2.6**	**-2.5**	**-2.5**	**-2.4**	**-2.3**
Goods balance	0.8	-1.2	-4.6	-3.3	-1.5	-0.6	-1.0	-1.0	-0.9	-0.9	-0.8
Exports, f.o.b.	15.9	15.0	13.2	12.2	12.8	13.8	13.4	13.5	13.5	13.5	13.5
Commodities	11.4	10.9	8.3	7.3	8.3	8.9	8.0	7.4	7.0	6.6	6.3
Fuel	8.4	7.7	5.0	3.9	4.2	4.7	4.1	3.6	3.3	3.0	2.8
Non-fuel	3.0	3.2	3.3	3.4	4.1	4.2	4.0	3.8	3.7	3.6	3.5
Non-traditional exports	3.3	3.1	3.6	3.4	3.3	3.6	4.0	4.6	5.0	5.3	5.6
Other	1.2	1.0	1.4	1.5	1.2	1.2	1.3	1.4	1.5	1.6	1.6
Imports, f.o.b.	15.0	16.3	17.9	15.4	14.3	14.4	14.4	14.4	14.4	14.3	14.3
Consumer goods	3.2	3.5	3.8	3.6	3.3	3.2	3.2	3.2	3.2	3.2	3.2
Intermediate goods	6.4	6.9	7.5	6.7	6.1	6.2	6.2	6.2	6.2	6.2	6.2
Capital goods	4.9	5.3	6.0	4.5	4.3	4.4	4.4	4.4	4.3	4.2	4.2
Other	0.5	0.5	0.6	0.6	0.6	0.6	0.6	0.7	0.7	0.7	0.7
Services balance	-1.7	-1.9	-1.6	-1.3	-1.3	-1.2	-1.1	-1.0	-1.0	-1.0	-0.9
Exports of services	1.8	1.9	2.5	2.7	2.7	2.8	2.9	3.0	3.0	3.0	3.1
Imports of services	3.5	3.8	4.2	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Primary income balance	-3.7	-3.3	-2.0	-1.9	-2.6	-2.9	-2.6	-2.5	-2.5	-2.5	-2.5
Receipts	1.0	1.1	1.5	1.8	1.8	1.6	1.6	1.7	1.7	1.7	1.7
Expenditures	4.7	4.4	3.5	3.7	4.4	4.5	4.3	4.3	4.2	4.2	4.2
Secondary income balance	1.3	1.2	1.9	2.1	2.2	2.1	2.1	2.0	2.0	2.0	1.9
Financial account balance	**-3.1**	**-5.1**	**-6.3**	**-4.5**	**-3.1**	**-2.6**	**-2.6**	**-2.5**	**-2.5**	**-2.4**	**-2.3**
Direct Investment	-2.3	-3.2	-2.6	-3.3	-3.5	-2.4	-2.4	-2.4	-2.4	-2.4	-2.4
Assets	2.0	1.0	1.4	1.6	1.2	1.2	1.1	1.1	1.0	1.0	1.0
Liabilities	4.3	4.3	4.0	4.9	4.7	3.5	3.5	3.5	3.4	3.4	3.3
Oil sector	1.3	1.3	0.9	0.9	1.1	1.3	1.1	1.0	0.9	0.8	0.7
Non-oil sectors	2.9	3.0	3.2	4.1	3.6	2.2	2.3	2.5	2.5	2.6	2.6
Portfolio Investment	-2.0	-3.1	-3.5	-1.3	-0.5	-0.6	-0.5	-0.4	-0.4	-0.3	-0.2
Assets	1.0	1.9	-0.2	1.9	2.0	0.8	0.8	0.8	0.8	0.8	0.8
Liabilities	2.9	4.9	3.4	3.2	2.5	1.5	1.3	1.2	1.3	1.2	1.0
Equity	0.5	0.5	0.6	-0.5	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Debt instruments	2.4	4.5	2.8	3.7	2.4	1.4	1.2	1.1	1.2	1.1	0.9
General government	1.3	3.4	1.9	3.1	1.9	1.0	0.9	0.7	0.8	0.7	0.6
Banks	0.3	0.0	0.1	0.4	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Corporates and households	0.8	1.1	0.7	0.2	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Derivatives	0.0	0.2	0.7	-0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Other Investments	-0.7	-0.1	-1.0	0.3	0.6	0.2	0.0	-0.1	0.0	0.0	0.0
Change in Reserve Assets	1.8	1.2	0.1	0.1	0.2	0.2	0.3	0.3	0.3	0.3	0.3
Net errors and omissions	**0.2**	**0.1**	**0.1**	**-0.2**	**0.2**	**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: External Financing Requirements and Sources, 2016–19

(In millions of U.S. dollars)

	2016	2017	2018 (Staff Projections) Baseline	2018 Adverse Scenario	2018 Contribution to gap	2019 Baseline	2019 Adverse Scenario	2019 Contribution to gap	Rollover/ shock	2016 rollover/ shock	2015 rollover/ shock	2013 rollover/ shock
Gross financing requirements	**34,628**	**40,611**	**35,614**	**34,060**	**(1,554)**	**38,926**	**37,418**	**(1,509)**				
External current account deficit 1/	12,129	10,359	8,451	14,097	5,646	8,967	14,858	5,891	28% shock to oil price; 10% shock to commodity prices	26% shock to oil price; 10% shock to commodity prices	15% shock to oil price; 10% shock to commodity prices	15% shock to oil price; 7.5% shock to commodity prices; 7.5% shock to remittances
Debt amortization	22,334	29,706	26,385	26,385		28,930	28,930					
Medium and long term debt	7,572	15,094	9,078	9,078		11,660	11,660					
Public sector 2/	1,809	6,284	2,118	2,118		6,543	6,543					
Private sector	5,763	8,810	6,959	6,959		5,117	5,117					
Short-term debt 3/	14,762	14,612	17,307	17,307		17,270	17,270					
Public sector	702	673	591	591		591	591					
Private sector	14,060	13,939	16,716	16,716		16,679	16,679					
Gross reserves accumulation 4/	165	545	778	-6,422	(7,200)	1,029	-6,371	(7,400)				
Available financing	**34,628**	**40,611**	**35,614**	**22,646**	**12,968**	**38,926**	**26,102**	**12,824**				
Foreign direct investment (net)	9,332	10,828	7,709	5,385		8,195	5,755					
o/w inward (net)	13,849	14,518	11,488	9,163	2,324	12,059	9,619	2,440	20% reduction	20% reduction	20% reduction	10% reduction
Other K inflows												
Medium and LT debt disbursements	12,625	13,550	12,734	6,775		14,325	7,921					
Public sector 2/	7,000	6,599	6,213	1,689	4,524	10,334	4,809	5,526	80%	80%	149%	232%
Private sector	5,625	6,951	6,522	5,087	1,435	3,990	3,112	878	73%	73%	80%	74%
Short-term debt 3/	14,612	17,726	17,270	13,846		17,318	13,884					
Public sector	673	591	591	473	118	591	473	118	80%	80%	90%	100%
Private sector	13,939	17,135	16,679	13,373	3,306	16,727	13,411	3,316	80%	85%	90%	100%
Other capital flows (net) 4/	-1,941	-1,494	-2,100	-3,360	1,260	-911	-1,458	547	100% reduction in equity portfolio investment + $1 bln sell-off	100% reduction in equity portfolio investment	No shock	No shock
Financing gap (in US$ millions)					**11,414**			**11,316**				
Percent of quota 5/					*384*			*378*				
Gross international reserves 6/	46,193	47,139	47,918	40,717		48,946	42,575					
GIR/ARA (constant ARA)	139	146	133	113		136	118					
GIR/ARA (adjusting ARA)	139	146	141	129		139	129					
GIR / (st debt at remaining maturity + ca deficit)	115	135	126	93		128	96					
GIR (months of imports of G&S)	10.2	10.0	9.5	8.6		9.2	8.5					

Sources: Colombian authorities; and IMF staff estimates.

1/ Including lower oil-related imports (by US$940 million) and lower oil-related payments (by US$450 million) reflecting the decline in oil prices, and an improved current account balance (by about US$700 million) reflecting the depreciation of the peso. The latter comprises a slight expansion of nontraditional exports, a compression of the imports of goods and services, and a reduction of the U.S. dollar value of peso-denominated interest payments.

2/ Including financial public sector.

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

4/ Includes all other net financial flows (i.e., pension funds, other portofolio flows), Colombia's contribution to FLAR, and errors and omissions.

5/ Based on the IMF projection for the SDR per US$ rate, average for 2018 and 2019, respectively.

6/ IMF definition that excludes Colombia's contribution to Fondo Latinoamericano de Reservas (FLAR) and includes valuation changes of reserves denominated in other currencies than U.S. dollars.

Table 4. Colombia: Operations of the Central Government 1/

(In percent of GDP, unless otherwise indicated)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
					Projections						
Total revenue	**16.9**	**16.6**	**16.2**	**15.1**	**15.7**	**15.3**	**15.5**	**16.1**	**16.3**	**16.2**	**16.2**
Current revenue	**14.3**	**14.4**	**14.6**	**13.9**	**13.9**	**14.1**	**14.1**	**14.7**	**14.8**	**14.9**	**14.9**
Tax revenue	**14.2**	**14.3**	**14.5**	**13.8**	**13.8**	**14.0**	**14.0**	**14.6**	**14.7**	**14.8**	**14.8**
Net income tax and profits 2/	6.3	5.0	4.5	4.1	4.0	4.2	4.4	4.5	4.5	4.6	4.6
Goods and services	4.9	5.1	5.2	5.1	5.5	5.5	5.5	5.5	5.5	5.5	5.5
Value-added tax	4.9	5.1	5.2	5.1	5.4	5.4	5.4	5.5	5.5	5.5	5.5
International trade	0.5	0.5	0.5	0.4	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	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Stamp and other taxes	1.6	2.8	3.3	3.2	3.2	3.0	2.9	3.4	3.4	3.5	3.5
Nontax revenue	**2.7**	**2.3**	**1.7**	**1.3**	**1.8**	**1.3**	**1.5**	**1.5**	**1.5**	**1.4**	**1.4**
Property income	0.1	0.2	0.4	0.4	0.4	0.4	0.4	0.5	0.5	0.4	0.4
Other	2.6	2.2	1.3	0.9	1.4	0.8	1.0	1.0	1.1	1.0	1.0
Total expenditure and net lending	**19.2**	**19.1**	**19.2**	**19.1**	**19.3**	**18.4**	**17.7**	**17.7**	**17.6**	**17.3**	**17.3**
Current expenditure	**14.6**	**14.8**	**15.2**	**15.8**	**15.6**	**15.1**	**15.2**	**15.1**	**15.0**	**14.9**	**14.8**
Wages and salaries	2.1	2.3	2.4	2.4	2.5	2.5	2.5	2.5	2.4	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	0.9
Interest	2.3	2.2	2.6	3.0	2.9	2.9	2.9	2.8	2.8	2.7	2.5
External	0.5	0.5	0.6	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Domestic	1.8	1.7	2.1	2.3	2.2	2.2	2.2	2.2	2.1	2.0	1.9
Current transfers	9.3	9.4	9.4	9.6	9.3	8.8	8.9	8.9	8.9	8.9	8.9
Capital expenditure	**4.5**	**4.3**	**4.0**	**3.3**	**3.7**	**3.2**	**2.5**	**2.6**	**2.5**	**2.4**	**2.5**
Fixed capital formation	3.2	2.9	2.7	2.0	2.4	2.0	1.2	1.4	1.3	1.2	1.3
Capital transfers	1.3	1.3	1.3	1.3	1.3	1.2	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**	**0.0**
Overall balance	**-2.3**	**-2.4**	**-3.0**	**-4.0**	**-3.6**	**-3.1**	**-2.2**	**-1.6**	**-1.3**	**-1.1**	**-1.1**
Memorandum items:											
Oil-related revenues 3/	3.3	2.6	1.1	0.2	0.2	0.6	0.9	0.9	1.0	1.0	1.0
Structural balance 4/	-3.5	-3.4	-3.8	-3.1	-2.4	-2.3	-2.1	-1.9	-1.8	-1.5	-1.6
Structural primary non-oil balance	-3.5	-3.0	-1.7	-1.2	-0.7	-0.6	-0.1	0.4	0.5	0.5	0.4
Fiscal Impulse	1.1	-0.5	-1.2	-0.5	-0.5	-0.1	-0.5	-0.5	-0.1	-0.1	0.2
Non-oil balance	-5.7	-5.0	-4.1	-4.2	-3.8	-3.7	-3.1	-2.5	-2.3	-2.1	-2.1
Primary balance	0.0	-0.2	-0.5	-1.0	-0.7	-0.2	0.7	1.2	1.4	1.5	1.4
Nominal GDP (in Col$ trillion)	710.5	757.1	799.3	855.4	912.5	968.5	1,029.5	1,099.1	1,173.4	1,251.5	1,334.8

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 5. Colombia: Operations of the Combined Public Sector 1/

(In percent of GDP, unless otherwise indicated)

					Projections						
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total revenue	**28.1**	**27.7**	**26.4**	**25.1**	**25.6**	**25.7**	**25.9**	**26.5**	**26.6**	**26.4**	**26.2**
Tax revenue	19.8	19.9	20.1	19.4	19.5	19.6	19.6	20.3	20.4	20.5	20.4
Nontax revenue	8.3	7.7	6.3	5.7	6.1	6.1	6.3	6.2	6.2	6.0	5.8
Financial income	0.5	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	-0.2	-0.3	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
Other 3/	7.8	7.5	6.1	5.4	5.9	5.8	6.0	5.9	5.9	5.6	5.4
Total expenditure and net lending 4/	**29.1**	**29.4**	**29.8**	**28.1**	**28.7**	**28.4**	**27.9**	**27.4**	**27.4**	**27.1**	**27.0**
Current expenditure	21.5	21.9	22.0	22.6	22.5	22.1	22.4	22.3	22.1	21.9	21.7
Wages and salaries	5.2	5.3	5.2	5.3	5.4	5.4	5.3	5.3	5.3	5.3	5.3
Goods and services	3.1	3.1	3.1	3.1	3.1	3.0	3.0	3.0	3.0	3.0	3.0
Interest	2.6	2.6	3.2	3.6	3.4	3.3	3.3	3.2	3.0	2.9	2.7
External	0.6	0.6	0.8	1.1	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Domestic	2.0	2.0	2.3	2.6	2.4	2.3	2.3	2.2	2.1	1.9	1.8
Transfers to private sector	7.8	8.0	7.7	7.7	7.8	7.6	7.9	7.9	7.9	7.9	7.9
Other 5/	2.7	2.9	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	5.5	6.2	6.3	5.5	5.1	5.3	5.2	5.2
Statistical discrepancy	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0
Nonfinancial public sector balance	**-0.9**	**-1.8**	**-3.4**	**-3.0**	**-3.1**	**-2.7**	**-1.9**	**-0.9**	**-0.7**	**-0.7**	**-0.8**
Quasi-fiscal balance (BR cash profits)	-0.1	-0.1	-0.1	0.1	0.1	0.1	0.1	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	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	0.0
Combined public sector balance	**-0.9**	**-1.8**	**-3.4**	**-2.8**	**-2.9**	**-2.5**	**-1.7**	**-0.6**	**-0.5**	**-0.4**	**-0.6**
Overall financing	**0.9**	**1.8**	**3.4**	**2.8**	**2.9**	**2.5**	**1.7**	**0.6**	**0.5**	**0.4**	**0.6**
Foreign, net	1.2	2.8	2.6	1.6	1.1	1.2	1.5	1.0	1.0	0.0	0
Domestic, net	-0.3	-1.0	0.8	1.1	1.8	1.3	0.2	-0.4	-0.5	0.4	0.6
Memorandum items:											
Overall structural balance 7/	-2.5	-3.0	-3.5	-1.7	-1.4	-1.7	-1.8	-1.0	-1.1	-1.0	-1.2
Primary balance 8/	1.8	0.7	-0.2	0.9	0.5	0.8	1.6	2.5	2.5	2.4	2.1
Oil-related revenues 9/	4.9	4.0	2.0	1.1	1.2	1.7	1.9	1.8	1.7	1.7	1.6
Total public debt 10/	37.8	43.7	50.6	50.4	50.2	49.9	48.7	46.5	44.4	42.3	40.4
Nominal GDP (In Col$ trillion)	710.5	757.1	799.3	855.4	912.5	968.5	1,029.5	1,099.1	1,173.4	1251.5	1334.8

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 6. Colombia: Monetary Indicators

					Projections						
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
	(In billion of Col$, unless otherwise indicated)										
Central Bank											
Net Foreign Assets	83,091.8	112,111.1	145,917.4	138,945.7	140,672.1	146,961.8	150,573.4	155,728.4	161,316.7	166,495.9	172,140.9
Gross official reserve assets	88,927.7	112,101.2	145,726.0	138,631.7	140,724.9	143,819.6	147,587.6	152,899.0	158,623.8	163,938.5	169,712.5
In billion of US$	43.2	46.8	46.3	46.2	47.1	47.9	49.0	50.2	51.5	52.9	54.2
Short-term foreign liabilities	5,769.9	25.0	43.1	20.2	64.8	42.7	42.6	50.0	45.1	45.9	47.0
Other net foreign assets	2,298.1	2,812.1	3,657.2	3,522.8	3,349.6	3,185.0	3,028.4	2,879.5	2,737.9	2,603.3	2,475.4
Net domestic assets	-17,993.0	-42,428.7	-63,395.4	-54,345.8	-51,859.4	-52,699.3	-50,373.1	-48,756.1	-47,113.7	-44,691.0	-42,228.0
Net credit to the public sector	-14,526.1	-21,025.7	-9,269.8	-5,989.4	-2,492.2	-2,532.6	-2,420.8	-2,343.1	-2,264.2	-2,147.7	-2,029.4
Net credit to the financial system	3,732.0	6,768.0	6,525.0	5,678.6	3,808.4	3,870.1	3,699.3	3,580.6	3,459.9	3,282.0	3,101.1
Other	-7,198.9	-28,171.0	-60,650.6	-54,035.0	-53,175.6	-54,036.8	-51,651.6	-49,993.6	-48,309.5	-45,825.3	-43,299.8
Monetary base	65,098.8	69,682.4	82,522.0	84,599.9	88,812.7	94,262.5	100,200.3	106,972.3	114,203.0	121,804.9	129,912.9
Currency in circulation	39,751.0	45,428.6	53,864.8	49,457.8	52,172.4	55,373.9	58,862.0	62,840.2	67,087.8	71,553.5	76,316.5
Deposit money banks reserves	25,253.7	24,170.4	28,586.2	28,233.9	28,943.4	30,263.0	32,143.8	34,239.9	36,554.2	39,195.3	42,007.5
Other deposits	94.1	83.4	70.9	6,908.2	7,696.9	7,696.9	7,696.9	7,696.9	7,696.9	7,696.9	7,696.9
Financial system											
Net foreign assets	67,826.3	92,814.8	131,857.1	130,910.9	128,900.4	133,877.2	136,664.5	140,879.6	145,464.1	149,588.1	154,107.6
In billion of US$	35.2	38.8	41.9	43.6	43.2	44.6	45.3	46.3	47.3	48.3	49.3
Net domestic assets	261,480.4	269,523.0	272,760.4	320,394.6	341,456.8	382,360.8	429,771.5	482,237.4	539,414.1	601,828.7	669,671.5
Net credit to public sector	33,150.7	30,800.1	32,253.4	34,552.8	33,050.3	40,591.4	52,673.1	56,516.0	61,730.2	62,703.9	64,536.3
Credit to private sector	281,747.0	323,152.2	377,281.0	406,280.2	451,032.3	485,023.5	528,186.7	578,673.3	640,935.0	715,004.7	797,634.2
Other net	-53,417.3	-84,429.2	-136,774.0	-120,438.4	-142,625.8	-143,254.1	-151,088.3	-152,951.9	-163,251.1	-175,879.9	-192,499.0
Broad money	329,306.7	362,337.8	404,617.5	451,305.4	470,357.1	516,238.0	566,436.0	623,117.0	684,878.2	751,416.8	823,779.1
	(Annual percentage change)										
Credit to private sector	12.1	14.7	16.8	7.7	11.0	7.5	8.9	9.6	10.8	11.6	11.6
Currency	13.4	14.3	18.6	-8.2	5.5	6.1	6.3	6.8	6.8	6.7	6.7
Monetary base	15.3	7.0	18.4	2.5	5.0	6.1	6.3	6.8	6.8	6.7	6.7
Broad money	13.4	10.0	11.7	11.5	4.2	9.8	9.7	10.0	9.9	9.7	9.6
	(In percent of GDP)										
Credit to private sector	39.7	42.7	47.2	47.5	49.4	50.1	51.3	52.6	54.6	57.1	59.8
Currency	5.6	6.0	6.7	5.8	5.7	5.7	5.7	5.7	5.7	5.7	5.7
Monetary base	9.2	9.2	10.3	9.9	9.7	9.7	9.7	9.7	9.7	9.7	9.7
Broad money	46.3	47.9	50.6	52.8	51.5	53.3	55.0	56.7	58.4	60.0	61.7
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	2.0-4.0
CPI inflation, eop	2.0	3.7	6.9	5.8	4.1	3.4	3.0	3.0	3.0	3.0	3.0
Nominal GDP (In Col$ billion)	710,497	757,065	799,312	855,432	912,525	968,520	1,029,529	1,099,110	1,173,403	1,251,511	1,334,817

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

Table 7. Colombia: Medium-Term Outlook

					Projections						
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
	(In percent of GDP, unless otherwise indicated)										
Real GDP (in percent change)	4.9	4.4	3.1	2.0	1.8	2.7	3.3	3.6	3.6	3.6	3.5
Consumer prices (in percent change; end of period)	2.0	3.7	6.9	5.8	4.1	3.4	3.0	3.0	3.0	3.0	3.0
Gross national savings	21.0	21.1	20.3	20.4	20.0	21.0	21.1	21.2	21.1	21.1	21.0
Private sector	14.6	15.5	16.5	17.7	17.3	17.5	16.8	16.0	15.8	15.8	16.0
Public sector	6.5	5.6	3.8	2.7	2.7	3.5	4.3	5.3	5.3	5.2	5.0
Gross domestic investment	24.3	26.3	26.7	24.7	23.4	23.6	23.7	23.7	23.6	23.5	23.4
Private sector	16.9	18.4	19.2	19.1	17.3	17.4	17.7	17.9	17.8	17.8	17.7
Public sector	7.3	7.4	7.2	5.5	5.6	6.0	6.0	5.9	5.8	5.7	5.6
	(In percent of GDP, unless otherwise indicated)										
Nonfinancial public sector 1/											
Revenue	28.1	27.7	26.4	25.1	25.6	25.7	25.9	26.5	26.6	26.4	26.2
Expenditure	29.1	29.4	29.8	28.1	28.7	28.4	27.9	27.4	27.4	27.1	27.0
Current expenditure	21.5	21.9	22.0	22.6	22.5	22.1	22.4	22.3	22.1	21.9	21.7
Capital expenditure	7.6	7.6	7.8	5.5	6.2	6.3	5.5	5.1	5.3	5.2	5.2
Primary balance 2/	0.0	-0.2	-0.5	-1.0	-0.7	-0.2	0.7	1.2	1.4	1.5	1.4
Overall balance 2/	-0.9	-1.8	-3.4	-3.0	-3.1	-2.7	-1.9	-0.9	-0.7	-0.7	-0.8
Combined public sector balance	-0.9	-1.8	-3.4	-2.8	-2.9	-2.5	-1.7	-0.6	-0.5	-0.4	-0.6
External financing	1.2	2.8	2.6	1.6	1.1	1.2	1.5	1.0	1.0	0.0	0.0
Domestic financing	-0.3	-1.0	0.8	1.1	1.8	1.3	0.2	-0.4	-0.5	0.4	0.6
External current account balance	-3.3	-5.2	-6.4	-4.3	-3.4	-2.6	-2.6	-2.5	-2.5	-2.4	-2.3
Trade balance	0.8	-1.2	-4.6	-3.3	-1.5	-0.6	-1.0	-1.0	-0.9	-0.9	-0.8
Exports	15.9	15.0	13.2	12.2	12.8	13.8	13.4	13.5	13.5	13.5	13.5
Imports	15.0	16.3	17.9	15.4	14.3	14.4	14.4	14.4	14.4	14.3	14.3
Financial account balance	-3.1	-5.1	-6.3	-4.5	-3.1	-2.6	-2.6	-2.5	-2.5	-2.4	-2.3
Direct Investment	-2.3	-3.2	-2.6	-3.3	-3.5	-2.4	-2.4	-2.4	-2.4	-2.4	-2.4
Portfolio Investment	-2.0	-3.1	-3.5	-1.3	-0.5	-0.6	-0.5	-0.4	-0.4	-0.3	-0.2
Other Investments and Derivatives	0.0	0.2	0.7	-0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Change in Reserve Assets	1.8	1.2	0.1	0.1	0.2	0.2	0.3	0.3	0.3	0.3	0.3
Gross public sector debt 3/	37.8	43.7	50.6	50.4	50.2	49.9	48.7	46.5	44.4	42.3	40.4
Gross public sector debt, excluding Ecopetrol	36.1	40.8	45.8	45.9	46.9	46.7	46.0	43.9	42.0	39.9	38.1
Total public net debt 4/	27.0	33.2	42.2	39.1	39.3	39.9	39.5	38.1	36.6	35.2	33.9
Memorandum items:											
Nominal GDP (in Col$ billion)	710,497	757,065	799,312	855,432	912,525	968,520	1,029,529	1,099,110	1,173,403	1,251,511	1,334,817
Crude oil, spot price	104.1	96.2	50.8	42.8	52.8	62.3	58.2	55.6	54.1	53.6	53.6

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 8. Colombia: Financial Soundness Indicators 1/

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

	2009	2010	2011	2012	2013	2014	2015	2016	2017
Capital Adequacy									
Regulatory capital to risk-weighted assets	17.2	17.3	16.9	18.1	17.0	17.0	16.9	17.5	18.6
Regulatory Tier 1 capital to risk-weighted assets	13.4	13.0	13.4	13.7	12.0	11.7	11.4	11.4	12.4
Capital (net worth) to assets 2/	14.2	14.2	14.3	14.7	14.8	14.9	14.1	16.2	16.1
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	4.2
Provisions to nonperforming loans	140.1	175.0	182.0	163.9	160.7	151.3	155.5	153.5	126.5
Gross loans to assets	64.3	67.9	70.4	69.6	68.2	69.3	70.2	69.3	69.7
Earnings and Profitability									
ROAA	3.5	3.4	3.3	3.1	2.8	2.9	2.7	3.0	2.2
ROAE	26.2	23.7	23.0	21.2	19.5	19.8	18.9	18.3	13.8
Interest margin to gross income	54.0	55.6	58.4	58.7	61.3	60.6	58.7	53.7	59.2
Noninterest expenses to gross income	43.2	47.0	49.3	47.2	47.0	44.6	43.4	41.2	43.9
Liquidity									
Liquid assets to total assets 3/	24.6	22.1	21.5	21.6	21.4	19.8	18.9	18.0	18.6
Liquid assets to short-term liabilities 3/	47.8	42.7	43.7	43.6	41.9	40.3	39.9	39.9	42.6
Deposit to loan ratio	98.8	93.5	91.4	94.7	96.3	91.6	88.3	88.4	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	6.1
Foreign-currency-denominated liabilities to total liabilities	7.1	9.8	11.5	10.5	11.9	13.5	13.9	11.8	11.0
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	6.4

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 9. Colombia: Indicators of External Vulnerability 1/
(In billions of US$, unless otherwise indicated)

						Projections					
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
External indicators											
Exports of GNFS 1/	67.3	64.1	46.0	41.8	47.8	54.3	56.6	60.4	63.9	67.8	72.0
Imports of GNFS 1/	70.5	75.9	64.3	54.5	56.7	60.3	63.7	67.7	71.6	75.5	79.7
Terms of trade (12-month percent change)	146.5	141.8	114.4	111.0	119.9	121.9	119.2	117.8	116.5	116.4	116.9
Current account balance	-12.5	-19.8	-18.6	-12.1	-10.4	-8.5	-9.0	-9.1	-9.7	-10.0	-10.2
In percent of GDP	-3.3	-5.2	-6.4	-4.3	-3.4	-2.6	-2.6	-2.5	-2.5	-2.4	-2.3
Financial account balance	-11.7	-19.3	-18.3	-12.7	-9.7	-8.5	-9.0	-9.1	-9.7	-10.0	-10.2
Of which: Foreign direct investment (net)	-8.6	-12.3	-7.5	-9.3	-10.8	-7.7	-8.2	-8.8	-9.3	-9.8	-10.4
Of which: Portfolio investment (net)	-7.4	-11.6	-10.3	-3.7	-1.6	-2.1	-1.8	-1.3	-1.7	-1.4	-1.0
Total external debt 2/	97.9	113.9	123.8	138.9	146.8	152.7	157.6	162.5	168.5	175.6	183.1
Of which: Public sector 2/	58.0	72.3	79.5	89.9	94.3	98.3	102.1	105.5	108.5	112.3	115.8
In percent of gross international reserves	226.8	243.1	267.7	300.7	311.5	318.6	322.1	323.6	327.0	332.2	337.6
Short-term external debt 3/	12.2	14.4	14.8	14.6	17.3	17.3	17.3	17.3	17.4	17.4	17.4
Of which: Public sector	0.5	0.7	0.7	0.7	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Of which: Private sector	11.6	13.7	14.1	13.9	16.7	16.7	16.7	16.8	16.8	16.8	16.8
Amortization of MLT external debt (in percent of GNFS exports)	9.3	15.0	20.8	18.1	31.6	16.7	20.6	19.5	22.2	18.7	16.0
External interest payments (in percent of GNFS exports)	5.4	6.3	9.9	11.4	11.0	13.0	13.7	13.8	13.5	13.3	13.2
Gross international reserves 4/ 5/	43.2	46.8	46.3	46.2	47.1	47.9	48.9	50.2	51.5	52.9	54.2
In months of prospective GNFS imports	6.8	8.7	10.2	9.8	9.4	9.0	8.7	8.4	8.2	8.0	7.7
In percent of broad money	24.5	25.9	31.3	31.3	29.6	27.4	25.6	24.1	22.7	21.4	20.2
In percent of short-term external debt on residual maturity plus current account deficit	103.9	110.0	134.2	115.3	135.3	126.4	128.1	121.7	128.7	135.3	…
Nominal exchange rate (Col$/US$, period average)	1,869	2,001	2,742	3,055	2,951	2,953	…	…	…	…	…
Real effective exchange rate (percentage change, + = appreciation)	-2.9	-6.9	-20.6	-4.7	2.8	0.6	…	…	…	…	…

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

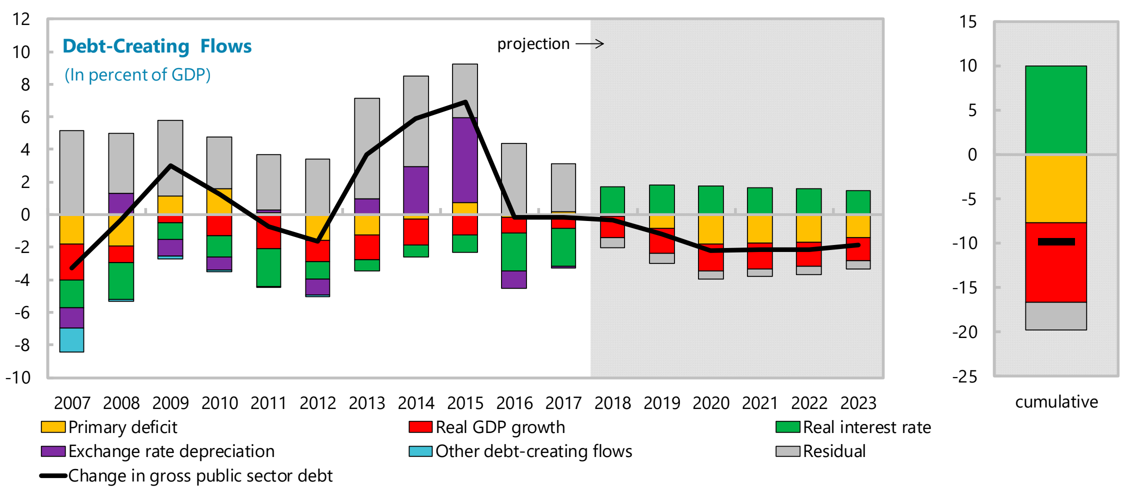
(In percent of GDP, unless otherwise indicated)

Debt, Economic and Market Indicators [1/]

	Actual			Projections						As of January 19, 2018		
	2007-2015 [2/]	2016	2017	2018	2019	2020	2021	2022	2023	Sovereign Spreads		
Nominal gross public debt	37.6	50.4	50.2	49.9	48.7	46.5	44.4	42.3	40.4	EMBIG (bp) 3/		157
Public gross financing needs	6.2	5.0	6.0	4.5	5.1	3.4	3.2	2.3	2.6	5Y CDS (bp)		91
Real GDP growth (in percent)	4.3	2.0	1.8	2.7	3.3	3.6	3.6	3.6	3.5	Ratings	Foreign	Local
Inflation (GDP deflator, in percent)	4.0	4.9	4.8	3.3	3.0	3.0	3.0	3.0	3.0	Moody's	Baa2	Baa2
Nominal GDP growth (in percent)	8.5	7.0	6.7	6.1	6.3	6.8	6.8	6.7	6.7	S&Ps	BBB-	BBB
Effective interest rate (in percent) [4/]	9.4	7.7	7.2	7.0	6.9	6.9	6.9	6.9	6.8	Fitch	BBB	BBB

Contribution to Changes in Public Debt

	Actual			Projections							
	2007-2015	2016	2017	2018	2019	2020	2021	2022	2023	cumulative	debt-stabilizing
Change in gross public sector debt	1.6	-0.2	-0.1	-0.3	-1.2	-2.2	-2.1	-2.1	-1.8	-9.8	primary
Identified debt-creating flows	-2.6	-4.5	-3.1	0.3	-0.6	-1.7	-1.7	-1.6	-1.3	-6.7	balance [9/]
Primary deficit	-0.4	-0.2	0.2	-0.1	-0.9	-1.8	-1.8	-1.7	-1.4	-7.7	0.07
Primary (noninterest) revenue and gra	26.0	24.6	25.1	25.2	25.4	26.0	26.1	25.9	25.7	154.4	
Primary (noninterest) expenditure	25.7	24.4	25.3	25.1	24.6	24.2	24.3	24.2	24.3	146.7	
Automatic debt dynamics [5/]	-2.1	-4.4	-3.3	0.4	0.3	0.1	0.1	0.1	0.1	1.0	
Interest rate/growth differential [6/]	-2.8	-3.3	-3.1	0.4	0.3	0.1	0.1	0.1	0.1	1.0	
Of which: real interest rate	-1.3	-2.3	-2.3	1.7	1.8	1.7	1.7	1.6	1.5	10.0	
Of which: real GDP growth	-1.4	-1.0	-0.8	-1.3	-1.5	-1.7	-1.6	-1.5	-1.4	-9.0	
Exchange rate depreciation [7/]	0.7	-1.1	-0.1	…	…	…	…	…	…	…	
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	4.4	2.9	-0.6	-0.6	-0.5	-0.4	-0.5	-0.5	-3.2	



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).

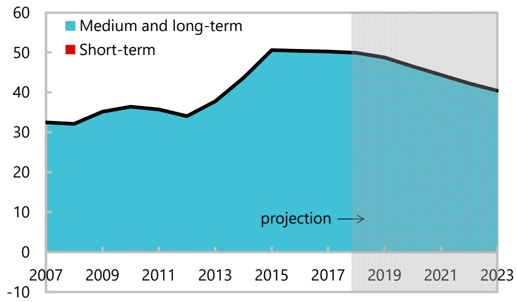
8/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

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.

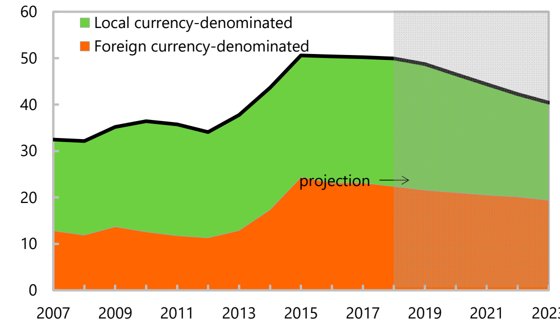
Table 11. Colombia: Public DSA – Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

By Maturity
(In percent of GDP)



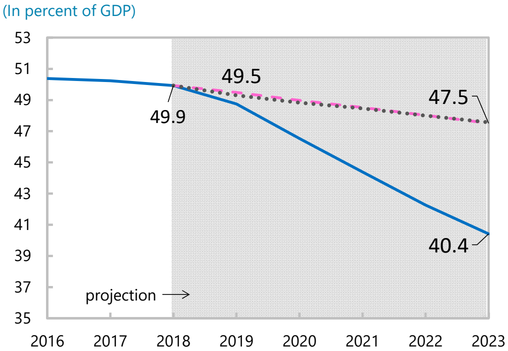
By Currency
(In percent of GDP)



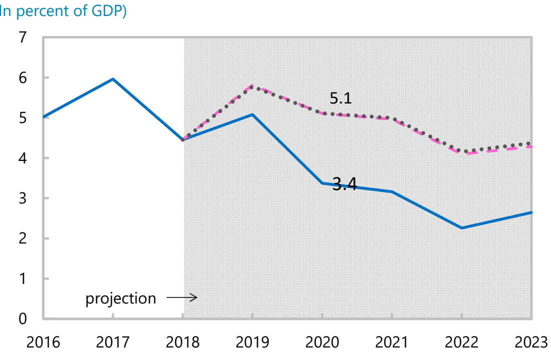
Alternative Scenarios

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	2018	2019	2020	2021	2022	2023
Real GDP growth	2.7	3.3	3.6	3.6	3.6	3.5
Inflation	3.3	3.0	3.0	3.0	3.0	3.0
Primary Balance	0.1	0.9	1.8	1.8	1.7	1.4
Effective interest rate	7.0	6.9	6.9	6.9	6.9	6.8
Constant Primary Balance Scenario						
Real GDP growth	2.7	3.3	3.6	3.6	3.6	3.5
Inflation	3.3	3.0	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	7.0	6.9	6.9	6.9	6.9	6.8

Historical Scenario	2018	2019	2020	2021	2022	2023
Real GDP growth	2.7	3.6	3.6	3.6	3.6	3.6
Inflation	3.3	3.0	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	7.0	6.9	7.0	7.0	7.0	7.0

Source: Fund staff estimates.

Table 12. Colombia: Indicators of Fund Credit, 2017–23 1/

(In SDR million, unless otherwise indicated)

		Projections					
	2017	2018	2019	2020	2021	2022	2023
Stocks from prospective drawings 2/							
Fund credit (Millions of SDR)	0	7,848	7,848	7,848	5,886	1,962	0
In percent of quota	0	384	384	384	288	96	0
In percent of GDP	0.0	3.5	3.3	3.2	2.2	0.7	0.0
In percent of exports of goods and services	0.0	21.1	20.3	19.1	13.6	4.3	0.0
In percent of gross reserves	0.0	19.3	19.0	18.7	14.5	5.2	0.0
Flows from prospective drawings							
Amortization	0	0	0	0	1,962	3,924	1,962
Charges (Millions of SDR)	0.0	139.9	229.2	229.3	237.8	118.9	18.1
Debt Service due on GRA credit (Millions SDR)	0.0	139.9	229.2	229.3	2,199.8	4,042.9	1,980.1
In percent of quota	0.0	6.8	11.2	11.2	107.6	197.7	96.8
In percent of GDP	0.0	0.1	0.1	0.1	0.8	1.5	0.7
In percent of exports of goods and services	0.0	0.4	0.6	0.6	5.1	8.8	4.1
In percent of gross reserves	0.0	0.4	0.7	0.7	6.3	11.3	5.4
Memorandum Item:							
Total External Debt (percent of GDP)	47.5	50.0	48.7	47.4	45.6	43.4	42.1
Total Debt Service (percent of GDP)	11.3	10.3	10.7	10.3	11.2	10.9	9.5

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

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

2/ Stocks as of end of period.

Table 13. Colombia: External Debt Sustainability Framework, 2013–24

(In percent of GDP, unless otherwise indicated)

	Actual							Projections							
	2013	2014	2015	2016	2017			2018	2019	2020	2021	2022	2023	2024	Debt-stabilizing non-interest current account 6/
Baseline: External debt	25.7	30.1	42.5	49.6	47.5			**46.6**	**45.4**	**44.3**	**43.3**	**42.7**	**42.1**	**41.5**	**-2.2**
Change in external debt	3.6	4.4	12.4	7.1	-2.1			-0.9	-1.1	-1.1	-0.9	-0.7	-0.6	-0.6	
Identified external debt-creating flows (4+8+9)	0.4	1.9	12.0	4.6	-4.1			-0.5	-0.7	-1.0	-1.0	-1.0	-1.1	-1.2	
Current account deficit, excluding interest payments	2.3	4.2	4.8	2.6	1.7			0.4	0.3	0.2	0.3	0.2	0.2	0.1	
Deficit in balance of goods and services	0.8	3.1	6.3	4.6	2.9			1.8	2.0	2.0	2.0	1.9	1.8	1.7	
Exports	17.7	16.9	15.8	14.9	15.5			16.6	16.3	16.5	16.4	16.5	16.6	16.6	
Imports	18.5	20.1	22.0	19.5	18.3			18.4	18.4	18.5	18.4	18.3	18.3	18.3	
Net non-debt creating capital inflows (negative)	-2.2	-3.3	-2.1	-1.0	-3.0			-1.8	-1.9	-1.9	-2.0	-2.0	-2.0	-2.0	
Automatic debt dynamics 1/	0.3	1.1	9.3	2.9	-2.8			0.9	0.8	0.7	0.7	0.7	0.7	0.7	
Contribution from nominal interest rate	1.0	1.1	1.6	1.7	1.7			2.2	2.2	2.3	2.2	2.2	2.2	2.2	
Contribution from real GDP growth	-1.0	-1.1	-1.2	-0.9	-0.8			-1.2	-1.4	-1.6	-1.5	-1.5	-1.4	-1.4	
Contribution from price and exchange rate changes 2/	0.4	1.2	9.0	2.1	-3.7			...	...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	3.1	2.4	0.4	2.5	1.9			-0.4	-0.4	-0.1	0.1	0.3	0.5	0.7	
External debt-to-exports ratio (in percent)	145.4	177.8	269.2	332.6	307.1			281.1	278.3	269.1	263.5	259.2	254.3	249.6	
Gross external financing need (in billions of US dollars) 4/	29.3	41.5	42.6	34.5	40.1			34.8	37.9	38.2	41.3	40.0	39.1	38.2	
in percent of GDP	7.7	11.0	14.6	12.3	13.0	10-Year	10-Year	10.6	10.9	10.4	10.6	9.7	9.0	8.3	
Scenario with key variables at their historical averages 5/								**46.6**	**47.2**	**47.9**	**48.8**	**50.0**	**51.4**	**52.9**	**-2.6**
						Historical	Standard							For debt	
Key Macroeconomic Assumptions Underlying Baseline						Average	Deviation							stabilization	
Real GDP growth (in percent)	4.9	4.4	3.1	2.0	1.8	3.6	1.5	2.7	3.3	3.6	3.6	3.6	3.5	3.5	
GDP deflator in US dollars (change in percent)	-1.9	-4.7	-25.2	-5.9	8.5	1.2	12.6	3.2	2.5	2.0	2.2	2.3	2.1	2.1	
Nominal external interest rate (in percent)	4.4	4.1	4.0	3.8	3.8	4.8	1.0	4.8	5.1	5.3	5.3	5.4	5.4	5.4	
Growth of exports (US dollar terms, in percent)	-1.1	-4.8	-28.2	-9.2	14.5	5.0	19.8	13.6	4.3	6.6	5.9	6.0	6.3	6.3	
Growth of imports (US dollar terms, in percent)	1.8	7.7	-15.4	-15.1	4.0	5.2	16.3	6.4	5.6	6.3	5.7	5.4	5.6	5.6	
Current account balance, excluding interest payments	-2.3	-4.2	-4.8	-2.6	-1.7	-2.4	1.2	-0.4	-0.3	-0.2	-0.3	-0.2	-0.2	-0.1	
Net non-debt creating capital inflows	2.2	3.3	2.1	1.0	3.0	2.4	1.2	1.8	1.9	1.9	2.0	2.0	2.0	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.

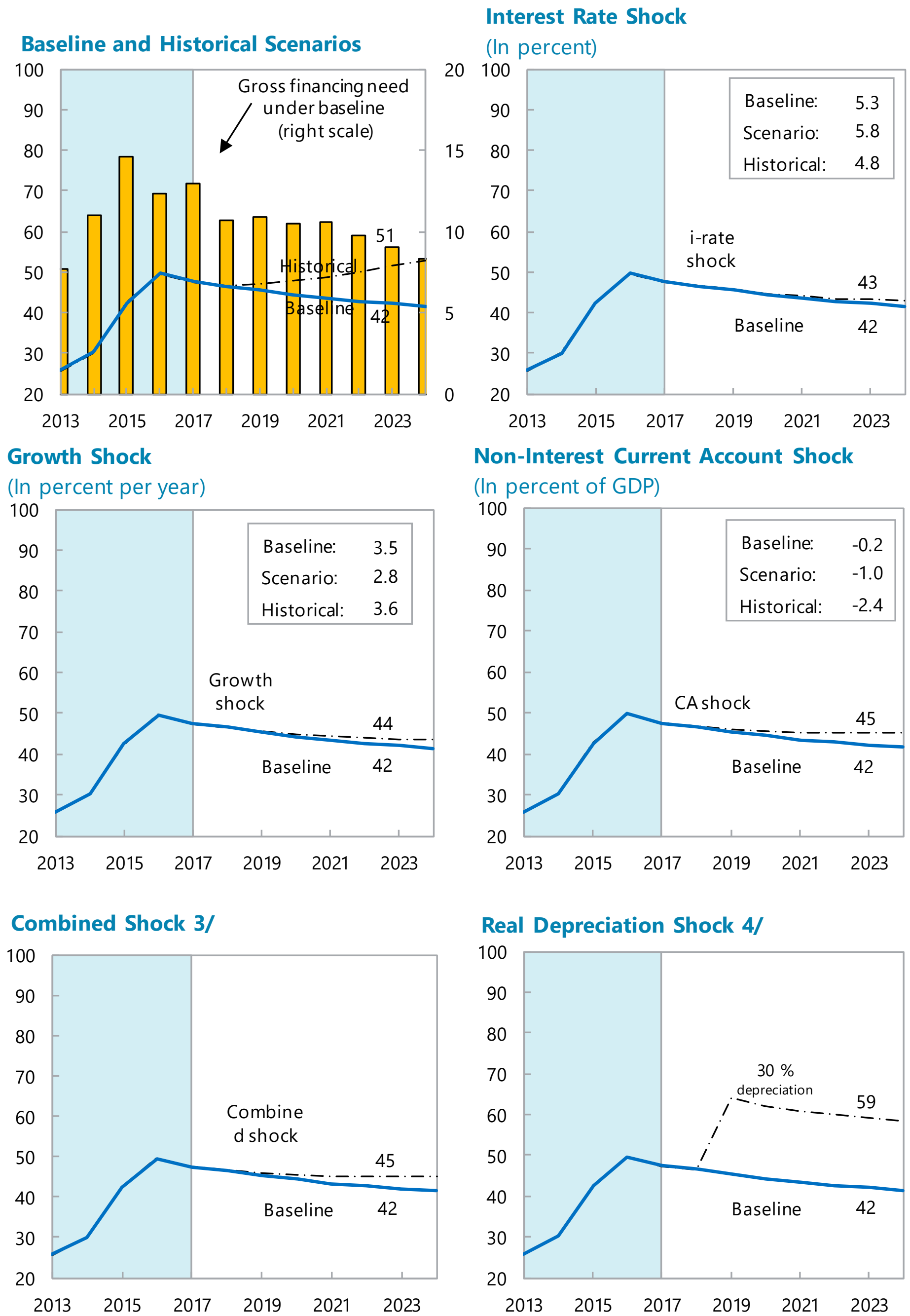
4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

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.

Table 14. 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 2019.

Appendix I. Written Communication

Bogota, May 9, 2018

Ms. CHRISTINE LAGARDE
Managing Director
International Monetary Fund
Washington, D.C.

Dear Ms. Lagarde,

Colombia has had a long and productive relationship with the IMF in which the Fund's technical expertise has helped us strengthen policy and—more recently—be better prepared to face adverse external shocks by giving the country access to successive Flexible Credit Line (FCL) arrangements.

As the current FCL arrangement comes to an end, Colombia is in the final stages of the adjustment process to a series of strong shocks that hit the economy between 2014 and 2016. The rapid decline in oil prices in the second half of 2014 was one of the largest adverse external shocks the country has ever had to face. Its impact on the terms of trade was greater than for most of our peers, leading in less than two years to a fall in exports, foreign direct investment and growth to half of their pre-crisis levels. So was the case with government oil-related revenues that declined almost to zero.

The policy response was structured around three specific pillars: allowing the exchange rate to act as the primary shock absorber given the presence of contained currency mismatches and a sound financial sector; cautious monetary policy to keep inflation under control; and commitment to a medium-term fiscal rule to keep spending and debt at sustainable levels.

These pillars were also critical in dealing with the supply shocks that in 2016 hit the economy in rapid succession—especially the severe drought caused by el Niño weather phenomenon, that led to food shortages and a sharp increase in energy prices given the weight of hydroelectricity in the country's electricity matrix. The combined effects of them, together with the peso's sharp nominal depreciation of over 80 percent, sent headline inflation in mid-2016 to three times the target.

The response by the Central Bank was a tightening cycle that helped break inflation's trend in the second half of 2016 and firmly anchor expectations at close to the 3 percent target rate. Data shows this downward trend was sustained as the effects of the currency depreciation and supply shocks subsided, leading to a headline inflation of only 13 basis points above the target in April. Domestic demand also appears to have adjusted and policy reactions—both fiscal and monetary—seem to have been successful in helping reduce capacity utilization and pressuring prices downwards.

Under a joint scenario of falling inflation, anchored inflation expectations and a negative output gap, the Bank has followed with a cautious cycle of monetary easing. Over the past year and a half, the policy rate has been cut by 350 basis points, indicating it will continue making data dependent decisions and closely monitoring expectations, the uncertainty about potential growth and natural interest rates, and the consolidation of the external adjustment.

Monetary authorities also intend to continue strengthening their decision-making process and paying close attention to the macro financial stability of the economy.

On the fiscal side, efforts have been centered on consolidation in line with the medium-term fiscal rule. This included passing a comprehensive tax reform that increased the general VAT rate by 3 percentage points, limited exemptions in personal income tax, reduced corporate tax rates and simplified tax procedures for small businesses, introducing also procedures to strengthen the tax administration and penalties to tackle evasion. The reform had some expected negative short-run effects on growth via consumption and slowed the convergence of inflation to target, but they will be outweighed by the positive effects on investment of lower corporate tax rates that should positively impact medium-term growth.

Along the same lines, recent developments in the oil markets are having a positive impact on government and external revenues. The combined effect of higher prices and strict cost and investment discipline has improved the profitability in Ecopetrol—Colombia's NOC—giving the government additional room to meet fiscal-rule targets, which adds to the ongoing efforts to improve the efficiency of tax collection, the profile of public debt amortizations and the quality of public spending.

Overall, these policy actions have facilitated a relatively smooth adjustment that now appears to be giving way to recovery. Growth reached 1.8 percent last year and is expected to reach 2.7 percent this year—with leading indicators in line with forecasts—and to continue increasing to 3.5 percent by the end of the decade; inflation is very close to target with expectations firmly anchored below 4 percent; the current account is estimated to fall to the 2-3 percent of GDP range deemed sustainable by authorities; the labor market has been resilient and capable of maintaining unemployment at 9 percent levels despite the slowdown; formality rates are now larger than informality rates and the upward trend brought about by education gains and tax reform is being maintained; and investment rates are at pre-crisis levels and FDI has substantially increased thanks to the recovery in oil and mining, but also by historic highs in the other sectors.

But we are well aware of the need to build policy buffers as recovery gains pace. And we know that despite a relatively smooth adjustment the economy is still vulnerable. We cannot afford a disorderly adjustment to any of the major identified global risks—namely the possibility of a sharp correction in financial markets, the buildup of vulnerabilities if financial conditions remain loose, a choke on growth via an escalation in trade restrictions, the fact that debt is reaching concerning levels in many advanced economies or the fact that commodity prices could fall abruptly in the face of a global downturn. And, obviously, the challenges posed by the humanitarian crisis in Venezuela.

Any of these risks would be further amplified by the substantial capital inflows the country has experienced, and by the large increase in participation of foreign investors in local debt markets. This is especially relevant in the face of evidence showing that the depth and composition of international investors can expand the impact of external shocks, and that large institutional investors can react more strongly and persistently to economic shocks.

Colombia's main line of defense against a more volatile and uncertain external environment will be maintaining the strong institutional policy framework that is part of our laws and Constitution, and the strong fundamentals that have been the backbone of our macro policy for more than a decade: an inflation targeting framework and flexible exchange rate regime, public finances firmly anchored on debt sustainability and a structural fiscal rule, and strong financial regulation and supervision.

Furthermore, policy continuity is underpinned by a strong consensus in Colombia about macroeconomic stability and very strong policy frameworks. The country remains firmly committed to maintaining very strong policies and responding appropriately to any shocks that arise.

But we know that if an adverse tail-risk scenario materialized, the FCL arrangement would provide critical support by allowing the economy to better absorb the shock and move along a smoother path of adjustment.

We would therefore like to request a new two-year FCL arrangement with an access level of 384 percent of quota, and cancel the current arrangement upon approval of the new one. Our analyses suggest we would still need SDR 7.848 billion to face an adverse shock scenario, even after a drawdown in reserves consistent with what markets deem as sustainable. As with the current arrangement, we intend to treat it as precautionary and welcome the fact that it also provides a positive signal regarding the ability of policy to deal with these types of shocks.

We also remain committed to a temporary use of the instrument. With substantial reduction of some of the global risks affecting Colombia, we would intend to reduce access to Fund resources in any subsequent FCL arrangements, and to phase out Colombia's use of the facility. Reducing access and exiting the FCL should be contingent on the evolution of risks, particularly if—barring the emergence of new external risks—there is a significant reduction in the likelihood of global slowdown that would adversely impact commodity prices, of an abrupt tightening of global financial conditions or of protectionism and a retreat from integration. And in any case, it would be underpinned by a careful communications strategy to provide adequate guidance to markets.

Finally, let us reiterate our conviction that the macro framework, together with an adequate reserves position and access to the Flexible Credit Line, has allowed the country to maintain confidence in the economy and balance adjustment and reform in the face of very large negative shocks. We believe this continues to be the most sensible course of action.

Sincerely yours,

/s/	/s/
Juan José Echavarría	Mauricio Cárdenas
Governor Central Bank of Colombia	Minister of Finance and Public Credit

COLOMBIA

May 18, 2018

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

Approved By
Andrew Tweedie and Mary Goodman

Prepared by the Finance and Strategy, Policy, and Review Departments.

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INTRODUCTION

1. This note assesses the impact of the proposed Flexible Credit Line (FCL) arrangement for Colombia on the Fund's finances and liquidity position, in accordance with the policy on FCL arrangements.[1] The proposed arrangement would cover a two-year period and access would be in an amount equivalent to SDR 7.848 billion (384 percent of quota). The existing FCL arrangement for SDR 8.18 billion (400 percent of quota), which was approved on June 13, 2016, will be cancelled. The full amount of access proposed would be available throughout the arrangement period, in one or multiple purchases.[2] The authorities intend to treat the arrangement as precautionary.

BACKGROUND

2. Colombia has had six FCL arrangements since 2009. Against the backdrop of a global economic and financial crisis, a one-year FCL arrangement in an amount equivalent to SDR 6.966 billion (900 percent of quota) was approved on May 11, 2009, which the authorities treated as precautionary. This arrangement was succeeded by another one-year FCL arrangement in an amount equivalent to SDR 2.322 billion (300 percent of quota) approved on May 7, 2010, followed by three two-year FCL arrangements in the amount of SDR 3.870 billion (500 percent of quota) approved on May 6, 2011, June 24, 2013, and June 17, 2015, respectively, which were also treated as precautionary. The third, approved on June 17, 2015, was cancelled before its expiration upon approval of a successor two-year FCL arrangement in the amount of SDR 8.18 billion (400 percent of quota) on June 13, 2016. Colombia's very strong economic fundamentals and institutional policy frameworks allowed the authorities to cushion the impact of the global financial crisis through countercyclical monetary and fiscal policies and, more recently, respond to shocks such as the 2015–16 drop in commodity prices and the collapse of the Venezuelan economy. The FCL arrangements supported the policy framework and provided additional insurance against a deterioration of global conditions or specific shocks. No drawings have been made under any of the FCL arrangements. As discussed in Annex, Colombia has had nine arrangements since 1999, but has not drawn on Fund resources since 1971.

3. Colombia's total external debt has increased following the oil price shock, but is expected to decline over the medium-term (Table 1). External debt relative to GDP remained stable at about 22 –26 percent up to 2013. It increased to 42.5 percent in 2015, due mostly to valuation effects of exchange rate depreciation but also to larger financing needs arising from the widening of current account deficits. After peaking at 49.6 percent in 2016, the ratio has been gradually declining. The bulk of this debt is long term and owed by the public sector. Private sector external debt is relatively low, although it has increased from 8.8 percent of GDP in 2012 to

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

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

17.0 percent of GDP in 2017. The current account deficit, which surged to 6.4 percent of GDP in 2015 driven by a reduction in commodity exports, has narrowed faster than expected to 3.4 percent of GDP in 2017, helped mostly by subdued imports. Staff's updated external debt sustainability analysis suggests that external debt ratios would steadily decline over the medium-term and remain manageable even under large negative shocks.[3]

Table 1. Colombia: Total External Debt, 2012–17

	2012	2013	2014	2015	2016	2017
			(In Millions of US Dollars)			
Total External Debt	81,881	97,874	113,891	123,812	138,889	146,816
Private	32,669	39,856	41,637	44,344	48,981	52,565
Public	49,213	58,018	72,254	79,468	89,908	94,251
			(In Percent of GDP)			
Total External Debt	22.2	25.7	30.1	42.5	49.6	47.5
Private	8.8	10.5	11.0	15.2	17.5	17.0
Public	13.3	15.3	19.1	27.3	32.1	30.5

Sources: Colombian authorities and IMF staff estimates.

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

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

- **Colombia's total external debt would remain moderate, with Fund credit representing still a relatively modest fraction.** Total external debt and public external debt would initially reach 50.0 and 33.5 percent of GDP, respectively, with Fund credit representing 3.5 percent of GDP (Table 2). At its peak, Colombia's outstanding use of GRA resources would account for 7.0 percent of total external debt, 11.6 percent of public external debt, and 22.0 percent of gross international reserves.[4]

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

[4] Since drawing would typically occur after a shock, the macroeconomic variables are likely to be worse than under the baseline presented in Table 2; for example, under an illustrative adverse scenario employed to measure access (see *Colombia—Arrangement Under the Flexible Credit Line and Cancellation of the Current Arrangement*, 5/14/18) in which world oil prices are assumed to decline by 28 percent relative to the baseline), reserves may be drawn down by US$7.2 billion in 2018, suggesting that Colombia's peak GRA credit would rise from 19.3 percent to 22.0 percent of gross international reserves in 2018. This does not materially impact staff's current view of Colombia's capacity to repay.

- **External debt service including obligations to the Fund would increase over the medium term, but would remain manageable.** Colombia's projected debt service to the Fund would peak in 2022 at about SDR 4.04 billion, or close to 1.5 percent of GDP.[5] In the same year, external debt service to the Fund would peak at 8.8 percent of exports of goods and services, and account for about 50 percent of public external debt service.

Table 2. Colombia: Capacity to Repay Indicators[1/]
(In SDR millions, unless otherwise indicated)

	2017	2018	2019	2020	2021	2022	2023
Exposure and Repayments (In SDR millions)							
GRA credit to Colombia	--	7,848.0	7,848.0	7,848.0	5,886.0	1,962.0	--
(In percent of quota)	--	(383.9)	(383.9)	(383.9)	(287.9)	(96.0)	(0.0)
Charges due on GRA credit 2/	--	139.9	229.2	229.3	237.8	118.9	18.1
Debt service due on GRA credit 2/	--	139.9	229.2	229.3	2,199.8	4,042.9	1,980.1
Debt and Debt Service Ratios 3/							
In percent of GDP							
Total external debt	47.5	50.0	48.7	47.4	45.6	43.4	42.1
Public external debt	30.5	33.5	32.7	31.9	30.2	28.0	26.6
GRA credit to Colombia	--	3.5	3.3	3.2	2.2	0.7	--
Total external debt service	11.3	10.3	10.7	10.3	11.2	10.9	9.5
Public external debt service	3.3	1.9	3.1	2.6	3.5	2.9	2.7
Debt service due on GRA credit	--	0.1	0.1	0.1	0.8	1.5	0.7
In percent of Gross International Reserves							
Total external debt	311.5	276.5	279.8	281.8	294.2	320.0	337.6
Public external debt	199.9	184.9	188.0	189.5	194.7	206.6	213.5
GRA credit to Colombia	--	19.3	19.0	18.7	14.5	5.2	--
In percent of Exports of Goods and Services							
Total external debt service	73.1	61.9	65.4	62.5	67.9	66.5	57.4
Public external debt service	21.5	11.3	18.9	15.9	21.5	17.7	16.1
Debt service due on GRA credit	--	0.4	0.6	0.6	5.1	8.8	4.1
In percent of Total External Debt							
GRA credit to Colombia	--	7.0	6.8	6.6	4.9	1.6	--
In percent of Public External Debt							
GRA credit to Colombia	--	11.6	11.3	11.0	8.0	2.6	--
U. S. dollars per SDR (period average)	1.39	1.45	1.46	1.47	1.48	1.48	1.49
U. S. dollars per SDR (end of period)	1.42	1.46	1.47	1.47	1.48	1.48	1.49
Oil Price (WEO, US$ per barrel)	52.8	62.3	58.2	55.6	54.1	53.6	53.6

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

1/ Assumes full drawings under the FCL upon approval.
2/ Based on the rate of charge as of April 30, 2018. Includes surcharges under the system currently in force and service charges.
3/ Staff projections for external debt, GDP, gross international reserves, and exports of goods and services, as used in the staff report that requests the proposed FCL, adjusted for the impact of the assumed FCL drawing.

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

5. The proposed arrangement under the FCL would have a marginal immediate impact on the Fund's liquidity, and the Fund's potential credit risk exposure would be moderate:

- **Relative to the current situation, the proposed arrangement would result in a slight increase in the Fund's modified forward commitment capacity (FCC), by SDR 0.3 billion or about 0.2 percent (Table 3).**[6] The cancellation of the current arrangement with access level of SDR 8.18 billion and approval of the proposed one with access level of 7.848 billion would have a marginal positive net impact on the FCC.[7] If Colombia were to draw under the FCL arrangement, it would be automatically excluded from the Financial Transaction Plan (FTP) and the FCC would decline by SDR 1.6 billion.[8]

- **If the resources available under the FCL arrangement were fully drawn, GRA credit to Colombia would be about 17.3 percent of total GRA credit.** This would make Colombia a borrower with the third largest credit outstanding among current arrangements, and reduce the concentration of Fund credit in the top five users of Fund resources from about 78 percent to about 74 percent.

- **Potential GRA exposure to Colombia would be below the current level of the Fund's precautionary balances.** If the resources available under the arrangement were fully drawn, Fund credit to Colombia would be about 45 percent of the Fund's current precautionary balances.

ASSESSMENT

6. The proposed arrangement will have only a marginal immediate effect on the Fund's liquidity. The Fund's liquidity is expected to remain adequate on approval of the proposed FCL arrangement as the concomitant cancellation of the current arrangement would fully offset the liquidity impact of the proposed new arrangement and result in a marginal positive net impact on the FCC. Even if Colombia were to draw, the effect on the Fund's liquidity would be small. Nevertheless, in view of persistent risks to global growth and financial stability, a close monitoring of the liquidity position is warranted.

7. Colombia intends to treat the FCL arrangement as precautionary, but the Fund's credit exposure would remain moderate in the event of a drawing. If fully drawn, the arrangement would account for about 17.3 percent of total GRA credit outstanding and be below the existing level of precautionary balances. Some indicators including external debt and debt service show that Colombia's capacity to repay the Fund has slightly strengthened compared to 2016 when the

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

[7] No NAB-financed portion exists for the current FCL arrangement, which was approved after February 2016.

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

current FCL arrangement was approved. Moreover, Colombia's sustained track record of implementing very strong policies, including during the global financial crisis and the recent sharp drop in oil prices, its commitment to maintain such policies in the future, and its moderate external debt mitigate risks to the Fund from potential exposure to Colombia. Against this background, Colombia's capacity to repay is projected to remain strong even if potential downside risks were to arise from a sudden, sharp tightening of financial conditions as a result of an unexpected increase in inflation and/or an escalation of trade or geopolitical tensions.

Table 3. Colombia: FCL Arrangement—Impact on GRA Finances

(In SDR millions, unless otherwise indicated)

	As of 5/10/18
Liquidity measures	
Current Forward Commitment Capacity (FCC) 1/	221,165
FCC on approval 2/	221,497
Change in percent	0.2
Prudential measures, assuming full FCL drawing	
Fund credit to Colombia	
In percent of total GRA credit outstanding 3/	17.3
In percent of current precautionary balances	45.1
Fund credit outstanding to five largest debtors	
In percent of total GRA credit outstanding, before approval	78.4
In percent of total GRA credit outstanding including Colombia's assumed full drawing 3/	73.6
Memorandum items	
Current precautionary balances (FY 2018)	17,400
Total FCL commitments, including proposed FCL	70,237
Quota of FTP members with actual and proposed FCLs, in percent of total quota of FTP members	2.7

Source: Finance Department.

1/ The FCC is defined as the Fund's stock of usable resources less undrawn balances under existing arrangements, plus projected repurchases during the coming 12 months, less repayments of borrowing due one year forward, less a prudential balance. The FCC does not include resources under the 2016 Borrowing Agreements; these will only be counted towards the FCC once: (i) individual bilateral agreements are effective and (ii) the associated resources are available for use by the IMF, in accordance with the borrowing guidelines and the terms of the agreeements.

2/ Current FCC minus access under the proposed arrangement plus the quota-financed portion of the arrangement being cancelled. The arrangement to be cancel was approved after the February 2016 de-activation of the NAB and is, as the proposed successor arrangement, fully financed with quota resources. The concomitant cancellation of the existing arrangement and approval of the proposed arrangement slightly increases the FCC as the access amount for the proposed FCL arrangement is below that of the existing FCL arrangement.

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

Annex. History of IMF Arrangements

1. Colombia had nine Fund-supported arrangements since 1999, but has not drawn on Fund resources since 1971 (Table I.1). A one-year FCL arrangement equivalent to SDR 6.966 billion was approved on May 11, 2009 to support Colombia's economic policies and bolster confidence during the crisis. A successor one-year FCL arrangement equivalent to SDR 2.322 billion was approved on May 7, 2010. This arrangement was cancelled and a new two-year FCL arrangement was approved on May 6, 2011 increasing the access to SDR 3.870 billion. This was followed by two successor FCL arrangements with the same access, which were approved on June 24, 2013 and June 15, 2015, respectively. The arrangement in 2015 was cancelled before its expiration upon approval of a successor two-year FCL arrangement with the increased access of SDR 8.18 billion on June 13, 2016.

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

Table 1. Colombia: IMF Financial Arrangements, 1999–2017
(In millions of SDR)

Year	Type of Arrangement	Date of Arrangement	Date of Expiration or Cancellation	Amount of New Arrangement	Amount Drawn	Purchases	Repurchases	Fund Exposure
1999	EFF	20-Dec-99	19-Dec-02	1,957	--	--	--	--
2003	SBA	15-Jan-03	2-May-05	1,548	--	--	--	--
2005	SBA	2-May-05	2-Nov-06	405	--	--	--	--
2009	FCL	11-May-09	6-May-10	6,966	--	--	--	--
2010	FCL	7-May-10	5-May-11	2,322	--	--	--	--
2011	FCL	6-May-11	5-May-13	3,870	--	--	--	--
2013	FCL	24-Jun-13	23-Jun-15	3,870	--	--	--	--
2015	FCL	17-Jun-15	16-Jun-17	3,870	--	--	--	--
2016	FCL	13-Jun-16	12-Jun-18	8,180				

Source: Finance Department.

Statement by Carlos Hurtado, Executive Director for Colombia
and Tomas Gonzalez, Senior Advisor to Executive Director
May 25, 2018

We want to thank staff for its report on Colombia's request for a Flexible Credit Line Arrangement (FCL). It comes a month after the formal Board discussion on the Article IV consultation and the informal discussion of a possible successor arrangement. We are grateful for the support Directors expressed to the country's macroeconomic management and by their favorable views on the medium-term outlook and recognized that the economy remains vulnerable to external risks.

As stated in the formal request for a successor arrangement, the current FCL is coming to an end at a time when Colombia is in the final stages of the adjustment process to the shocks that hit the economy between 2014 and 2016, including the sharp decline in oil prices in the second half of 2014 which became one of the largest adverse external shocks the country has ever had to face.

The policy response was structured around three specific pillars that have been at the core of our macroeconomic policy for many years: allowing the exchange rate to act as the primary shock absorber given the limited number of currency mismatches and a sound financial sector; cautious monetary policy to keep inflation under control; and commitment to a medium-term fiscal rule to keep spending and debt at sustainable levels.

These pillars were also critical in dealing with the supply shocks that followed—especially the severe drought caused by el Niño weather phenomenon in 2016 that led to food shortages and a sharp increase in energy prices. Their combined effect, together with the peso's sharp nominal depreciation, sent headline inflation up to three times the target.

The response by the Central Bank was a tightening cycle that helped break inflation's trend in the second half of 2016. This downward trend was sustained as the effects of the currency depreciation and supply shocks subsided, leading to a headline inflation of only 13 basis points above the target in April.

Faced with falling inflation and anchored expectations as well as a negative output gap, the Bank has followed a cautious cycle of monetary easing—cutting the policy rate by 350 basis points over the past year and a half—while continuing to strengthen their decision-making process and paying close attention to the macro financial stability of the economy.

On the fiscal front, efforts centered on consolidation in line with the medium-term fiscal rule. They included passing a comprehensive tax reform to increase general VAT rates, limit exemptions in personal income tax, reduce corporate tax rates, and strengthen tax administration and introduce new penalties to tackle evasion. To date most of the expected negative short-run impact of the reform has already taken place and the positive effects on investment of lower corporate tax rates to impact medium-term growth are starting to operate.

These policy actions have facilitated a relatively smooth adjustment that is now giving way to recovery. Growth was 1.8 percent last year and is expected to reach 2.7 percent this year—with first-quarter growth in line with forecasts—and to continue increasing to 3.5 percent by the end of the decade; inflation is very close to target with expectations firmly anchored below 4 percent; the current account is estimated to fall to the 2-3 percent of GDP range deemed sustainable by authorities; and the labor market has been resilient and capable of maintaining unemployment at 9 percent levels despite the slowdown.

Despite this progress authorities are well aware of the need to rebuild policy buffers as recovery gains pace, since the economy is still vulnerable. The country cannot afford a disorderly adjustment to any materialization of the major identified global risks—namely the possibility of a sharp correction in financial markets, the buildup of vulnerabilities if financial conditions remain loose, a choke on growth via an escalation in trade restrictions, the possibility that commodity prices can fall abruptly in the face of a global downturn, or the challenges posed by the humanitarian crisis in Venezuela.

Any of these risks could be further amplified by a reversal of the substantial capital inflows the country has experienced, and by the large increase in participation of foreign investors in local debt markets. This is particularly relevant, given the evidence that the depth and composition of international investors can expand the impact of external shocks, and that large institutional investors could react more strongly and persistently to economic shocks.

Colombia's main line of defense against a more volatile and uncertain external environment will be maintaining the strong institutional policy framework that is part of its laws and Constitution, and the strong fundamentals that have been the backbone of its macro policy for more than a decade: an inflation targeting framework and flexible exchange rate regime, public finances firmly anchored on debt sustainability and a structural fiscal rule, and strong financial regulation and supervision.

Furthermore, policy continuity is underpinned by a strong political consensus in Colombia on macroeconomic stability and very strong policy frameworks. The country remains firmly committed to maintaining solid policies and responding appropriately to any shocks that could arise.

Nevertheless, we know that if an adverse tail-risk scenario materialized, the FCL arrangement would provide critical support by allowing the economy to better absorb the shock and move along a smoother path of adjustment.

This is the main reason behind the authorities' request for a new two-year FCL arrangement with an access level of 384 percent of quota, and for the cancellation of the current arrangement. Our analyses suggest we would still need that level of support to face an adverse shock scenario, even after a drawdown in reserves consistent with what markets deem as sustainable. As with the current arrangement, we intend to treat it as precautionary and welcome the fact that it also provides a positive signal regarding the policy's ability to deal with these types of shocks.

We also remain committed to a temporary use of the instrument. With the substantial reduction of some of the global risks affecting Colombia, we would intend to reduce access to Fund resources in any subsequent FCL arrangements, and to phase out Colombia's use of the facility. Reducing access and exiting the FCL should be contingent on the evolution of risks, particularly if—barring the emergence of new ones—there is a significant reduction in the likelihood of a global slowdown that would adversely impact commodity prices, an abrupt tightening of global financial conditions or of protectionism, and a retreat from integration. In any case, it would be underpinned by a careful communications strategy to provide adequate guidance to markets.

Finally, let us reiterate our conviction that the current macro framework, together with an adequate reserves position and access to the FCL, has allowed the country to maintain confidence in the economy and balance adjustment and reform in the face of very large negative shocks. We believe this continues to be the most sensible course of action.