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COLOMBIA

May 2020

REQUEST FOR AN ARRANGEMENT UNDER THE FLEXIBLE CREDIT LINE AND CANCELLATION OF THE CURRENT ARRANGEMENT—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR COLOMBIA

In the context of the arrangement under the Flexible Credit Line and cancellation of current arrangement with Colombia, 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 1, 2020. Based on information available at the time of these discussions, the staff report was completed on April 24, 2020.
- A **Staff Supplement** of April 24, 2020 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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International Monetary Fund
Washington, D.C.

IMF Executive Board Approves New Two-Year US$10.8 Billion Flexible Credit Line Arrangement for Colombia

FOR IMMEDIATE RELEASE

- The IMF approved today a successor two-year arrangement for Colombia under the Flexible Credit Line (FCL), designed for crisis prevention, of about US$10.8 billion.
- Colombia qualifies for the FCL by virtue of its very strong institutional policy frameworks and track record of economic performance and policy implementation.
- The arrangement should boost market confidence, and combined with the comfortable level of international reserves, provide insurance against downside risks.

Washington, DC – **May 1, 2020**. 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 7.8496 billion (about US$10.8 billion) and noted the cancellation by Colombia of the previous arrangement.

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 large, upfront access with no ongoing conditions 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. Geoffrey Okamoto, First Deputy Managing Director and Chair, issued the following statement:

"Colombia has very strong policy frameworks—anchored by a flexible exchange rate, a credible inflation targeting-regime, effective financial sector supervision and regulation, and a structural fiscal rule— that have served as a basis for the economy's resilience prior to the Covid-19 pandemic. During this time, Colombia has made remarkable efforts to integrate a substantial number of migrants from Venezuela that boosted domestic demand but widened external vulnerabilities.

"In the wake of the pandemic, Colombia's economy is expected to contract for the first time in two decades. Consistent with their very strong track record of economic management, the authorities' early actions to mitigate the spread of the pandemic, monetary and macroprudential policy responses, and fiscal plans—including the creation of a crisis mitigation fund to support health spending, vulnerable households and businesses—will help the economy through recession. Nevertheless, the balance of risks to the economy is sharply skewed to the downside and an exceptionally weak external environment raises Colombia's vulnerability to still lower commodity prices, additional financial market volatility, and a further deterioration of Venezuela's crisis.

“The new arrangement under the FCL will help Colombia manage heightened external risks, protect ongoing efforts to effectively respond to the pandemic, integrate migrants, foster inclusive growth, and reduce external vulnerabilities. Despite higher external vulnerabilities, risks, and stress, the new arrangement can be maintained at the same access level because the authorities have built higher external buffers by accumulating significant additional reserves since the 2018 FCL request. The arrangement should boost market confidence, and combined with the comfortable level of international reserves, provide insurance against downside risks. The authorities intend to continue to treat this instrument as precautionary and to gradually phase out its use conditional on a reduction of external risks.”

COLOMBIA

REQUEST FOR AN ARRANGEMENT UNDER THE FLEXIBLE CREDIT LINE AND CANCELLATION OF THE CURRENT ARRANGEMENT

April 24, 2020

EXECUTIVE SUMMARY

Background: Before the Covid-19 pandemic and subsequent global disruption, Colombia's recovery showed resilience despite a weak external environment thanks to 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 adherence to the fiscal rule, allowed the country to smooth the impact of a large permanent terms of trade deterioration between 2014-2016, laying the foundations for the economic recovery that was underway. Moreover, Colombia made remarkable efforts to receive and integrate a substantial number of migrants from Venezuela that helped boost domestic demand and imports. However, exports were weighed down by unfavorable commodity prices and weak partner country growth. Thus, the external deficit widened, though it was comfortably financed, largely through FDI.

Outlook: In the wake of the Covid-19 pandemic, Colombia's economy is expected to contract for the first time in two decades, alongside a looming global contraction, lower oil prices, and tightening financial conditions. Although there is considerable uncertainty about the course of the pandemic and economic slowdown, growth should rebound in 2021 as the global health situation stabilizes and Colombia's previous growth drivers—including immigration from Venezuela and investment-friendly tax reforms—gradually return. Inflation should gradually moderate towards the central bank's three percent target but likely remain within its deviation range. Despite weaker internal demand—including from shutdown efforts—the current account deficit is projected to rise in 2020 before gradually declining, financed primarily by FDI. The authorities are firmly committed to maintaining their very strong framework in the period covered by the proposed arrangement.

Risks: The balance of risks is sharply skewed to the downside. A prolonged Covid-19 outbreak could result in further global economic and financial dislocation. Increased external financing needs from a weak external environment raise Colombia's vulnerability to a further fall in commodity prices and additional financial market volatility amid heightened global uncertainty. Venezuela's ongoing crisis and spillovers from regional and global social tensions constitute additional external sources of risk. Domestic economic disruption from the pandemic, if more prolonged, could result in a deeper recession.

FCL: The authorities are requesting a two-year FCL arrangement for 384 percent of quota (SDR 7.8496 billion), which they intend to treat as precautionary, and are notifying the Fund of the cancellation of the current arrangement (SDR 7.848 billion) which expires on May 24, 2020. They consider that a new FCL arrangement for the requested amount would

complement existing buffers and provide sufficient insurance against elevated external risks and protect Colombia's ongoing efforts to integrate migrants, foster inclusive growth, and reduce external vulnerabilities. In staff's view, access levels can be maintained at the same level as in the current arrangement despite higher external vulnerabilities, risks, and stress because the authorities have built higher external buffers by accumulating significant additional reserves since the 2018 FCL request. Staff's assessment is that Colombia meets the qualification criteria for access to Fund resources under the FCL arrangement. Conditional on a meaningful reduction of global and regional risks, the authorities are open to possibly reducing access during the mid-term review, with a view to gradually phasing out Colombia's use of the FCL arrangement. They intend to prepare a communication strategy to prepare markets for eventual exit from the arrangement, risks permitting.

Fund liquidity: The proposed new commitment and cancellation of the current arrangement will not affect 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 9, 2020.

Approved By
Aasim H Husain and Kevin Fletcher

The report was prepared by a team comprised of Hamid Faruqee (Head), Jorge Alvarez, Emilio Fernandez-Corugedo (all WHD), Alberto Behar (SPR), and Felix Vardy (MCM) with support from Anaysa Delsid, and Danjing Shen (all WHD).

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CONTEXT AND OVERVIEW

1. **Colombia's macroeconomic policies and policy frameworks remain very strong.** The inflation-targeting regime, flexible exchange rate, sound financial supervision, rules-based fiscal framework, and strong democratic institutions have allowed the country to withstand sizeable external shocks, address internal tensions, and integrate Venezuelan migrants into Colombian society. The current account has been financed by stable sources of funding, mainly FDI, and reserve coverage ratios are adequate for standard shocks and according to the IMF ARA methodology. The 2013 FSAP found that the financial regulatory and supervisory framework was sound and most of the recommendations that were made have been implemented. The 2020 Article IV Staff Report found that Colombia's public debt is expected to remain sustainable in the medium term and the non-interest current account deficit is lower than its debt-stabilizing level.

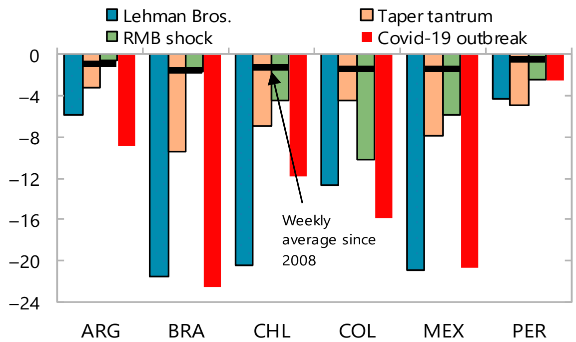
2. **Before arrival of the Covid-19 pandemic, Colombia's economic conditions and policy settings supported a resilient recovery but with rising external deficit and vulnerabilities (Figure 2)**. Despite weak regional and global growth, Colombia's economy managed growth near potential—supported by strong internal demand and substantial migration inflows from Venezuela. From a policy standpoint, monetary accommodation and fiscal measures, including tax reform and civil works spending, provided support to demand-led growth. In a context of low commodity prices and weak external demand, however, the external deficit noticeably widened, raising Colombia's external financing needs and exposure to changing market conditions (Figure 3).

3. **Asset prices were volatile last year, largely reflecting increased uncertainty in the region before the global pandemic forcefully hit** (Figure 4). Like regional peers, the Colombian peso depreciated throughout most of 2019 only to appreciate sharply at year-end in line with an increase in oil prices and market perceptions that social protests had a limited impact on the economy. With the Covid-19 outbreak, equity markets fell sharply and financial conditions tightened significantly in late February and March 2020, before easing somewhat in April. This led to a major repricing of risk assets and sizeable portfolio outflows.

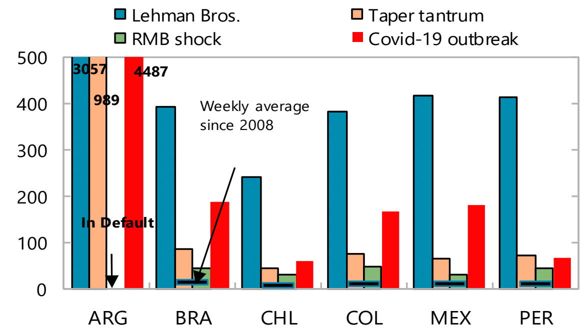
4. **In the wake of the Covid-19 shock and sharp deterioration in the global environment, the domestic impact will likely push Colombia into a recession.** Colombia's economy had been relatively resilient despite regional economic weakness and social tensions during 2019. However, despite its very strong fundamentals and policy frameworks with a sustained track record of implementing very strong policies, Colombia has not been immune to recent global economic and financial shocks triggered by the Covid-19 pandemic (Box 1). Moreover, public health efforts to contain the spread of the virus (e.g., mandatory five-week nationwide quarantine, business closures and social distancing) is severely disrupting domestic activity—particularly in services (e.g., travel, tourism and hospitality sectors). For Colombia and regional peers that rely on commodity exports where prices have fallen noticeably—alongside asset price declines and the rise in spreads that have been larger than during the 2014-16 oil price shock and only comparable to the Global Financial Crisis of 2008-09—growth is being disrupted.

Figure 1. Colombia: Financial Market Developments: Global Pandemic vs. Other Episodes

Exchange Rates
(Percent change; US$/NC)

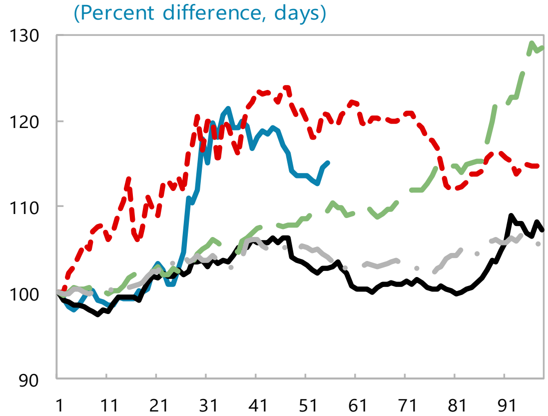


Changes in CDS Spreads, 5-year
(Basis points)

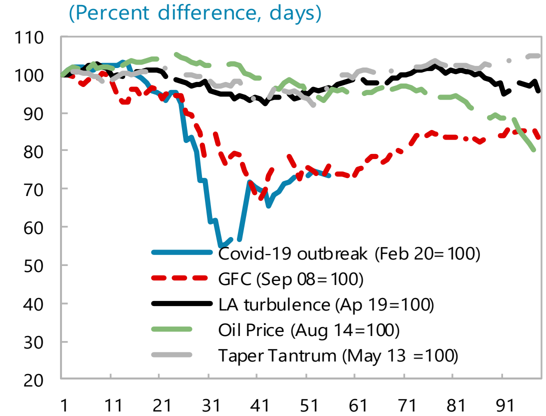


Sources: Thomson Reuters Datastream; and IMF staff calculations.
Note: Lehman Bros. (9/15–10/24/2008); Taper tantrum (5/2–6/25/2013); RMB shock (8/10–8/24/2015); Covid-19 outbreak (1/23–4/17/2020).

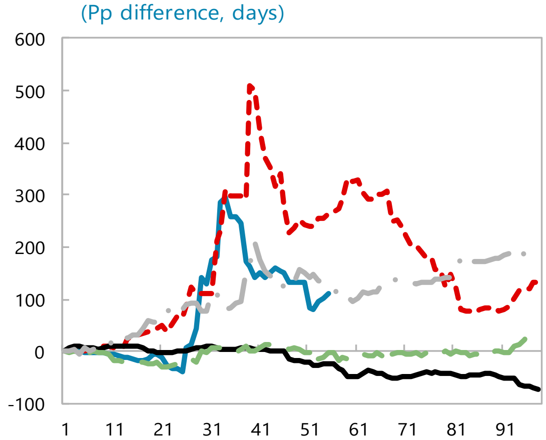
Colombian Peso vs USD Exchange Rate
(Percent difference, days)



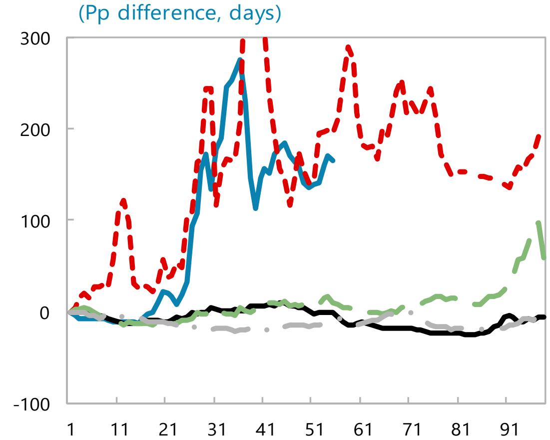
Colombia Stock Market
(Percent difference, days)



Colombia 10-Year Yield (TES)
(Pp difference, days)



CDS 5-Year Spread
(Pp difference, days)



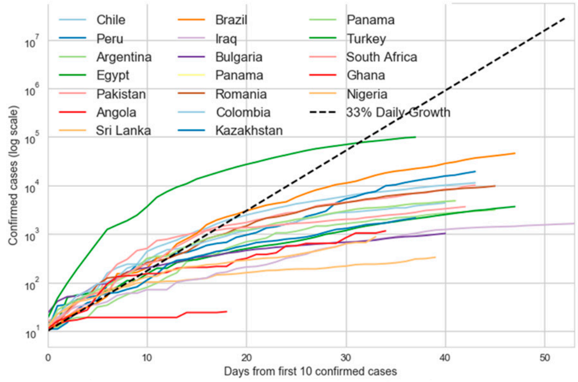
Source: Bloomberg; Haver analytics; and IMF staff calculations.

5. Large downside external risks threaten the domestic recovery. As described in the April 2020 WEO and GFSR, there has been a pronounced increase in downside global risks, including prolonged disruptions from the Covid-19 outbreak, financial market pressures, and lower-than-expected oil prices. Furthermore, the April 2020 GFSR notes that several years of easy financial conditions and ample risk appetite have left emerging markets more vulnerable to potential capital outflows. The materialization of any of these risks would affect Colombia despite its very strong fundamentals, especially if foreign investors abruptly reduce their holdings of local currency debt. Moreover, the effects on Colombia could be amplified since its regional trading partners are exposed to the same global risks.

Box 1. The Covid-19 Pandemic and Financial Sector Developments in Emerging Markets

Emerging markets (EMs) face unprecedented domestic pressures and spillovers owing to the Covid-19 pandemic, a severe risk-off episode, and, for oil exporters, plunging oil prices.

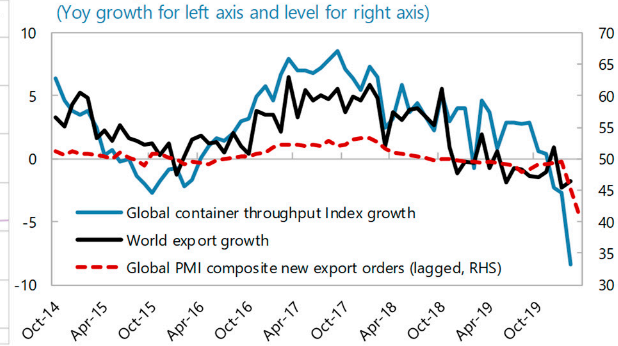
COVID-19 Confirmed Cases



Sources: Johns Hopkins Case (April 22,2020). Adapted from Thomas Wiecki.

World Exports

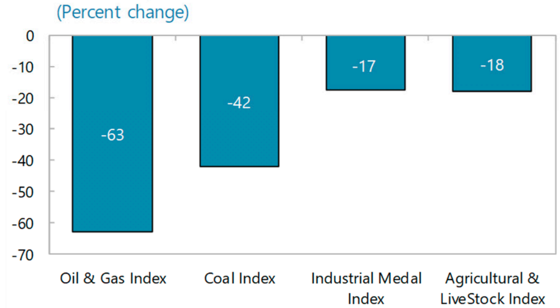
(Yoy growth for left axis and level for right axis)



Source: Haver Analytics; CPB World Trade Monitor; IHS Markit; JPMorgan; Leibniz Institute for Economic Research; and IMF staff calculations.

Commodity Prices Index

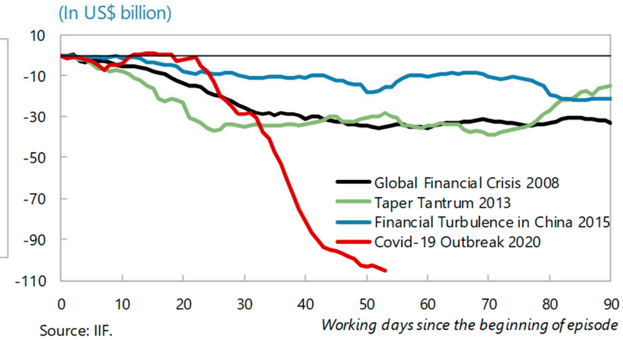
(Percent change)



Source: S&P; Financial Times; Haver; and IMF staff calculations.
Note: Chart represents select commodity index movements between January 17, 2020 and April 23, 2020.

Cumulative Change in Portfolio Flows to EMs

(In US$ billion)



Source: IIF.
Note: The start dates used for the shock events are September 15, 2008 (Global Financial Crisis); May 23, 2013 (Taper Tantrum); July 25, 2015 (Financial Turbulence in China); and January 23, 2020 (Covid-19 Outbreak).

The Covid-19 pandemic has triggered an unprecedented global health and economic crisis. Colombia, like many other EMs, has infections growing by more than 30% per day —doubling in the number of infections every two days. Globally, the pandemic and widespread containment and mitigation measures are producing a massive supply and demand shock. EMs are severely affected by the economic fallout, including through a sharp downgrade in global trade prospects. Most commodity prices declined with falling global demand, but oil prices fell particularly sharply following the breakdown of negotiations for production cuts between OPEC and Russia. Over the same period, unprecedented portfolio outflows from EMs showed little discrimination across markets.

RECENT DEVELOPMENTS

6. Despite a challenging external environment in 2019, Colombia's economy showed remarkable resilience. Timely policy actions following the 2014-16 terms of trade shock, contained inflation and the deterioration of the current account and laid the foundations for the recovery that was underway. Before this year, monetary policy had been moderately accommodative since 2018H1 and the fiscal stance tightened as the recovery took hold. In contrast to regional peers, the economy accelerated to 3.3 percent growth in 2019, supported by strong private domestic demand. Inward remittances, higher real wages, increased supply of credit and migration supported robust private consumption, while strong execution of civil works, improving corporate balance sheets and corporate-friendly tax reform supported an investment rebound. Headline inflation approached the upper end of the band around the three percent target due to temporary weather factors and moderate passthrough from earlier peso depreciation but began to fade at year-end as shocks dissipated. Core inflation and inflation expectations remained close to the three percent inflation target in 2019.

7. The current account deficit widened further alongside demand-led growth. The trade deficit widened as demand-driven growth, including from the migrants Colombia has welcomed from Venezuela, spurred imports. At the same time, weak external demand, especially from regional trading partners—and lower commodity prices—depressed exports.[1] The current account deficit widened to 4.3 percent of GDP despite higher inflows of remittances and transfers and lower outflows of profits. Direct foreign investment financed a large part of the deficit, while net portfolio inflows fell. Reserves rose to US$53 billion in 2019 owing to the central bank's reserve accumulation program, which purchased US$2.8 billion through a market-based mechanism, and accumulated returns of US$2.3 billion. Since the 2018 FCL was approved, the central bank has not intervened other than through its well-specified reserve accumulation program in the FX market, which has remained liquid and orderly despite bouts of volatility in 2019 and early 2020.

8. Fiscal policy continues to be anchored by the structural fiscal rule. The central government headline deficit narrowed further to 2.5 percent of GDP in 2019, more ambitious than the Fiscal Rule Consultative Committee's recommendation of 2.7 percent of GDP. The gradual reduction in the structural fiscal balance in recent years has been achieved through a combination of revenue measures stemming from recent tax reforms since 2014, improving tax administration and expenditure restraint.

9. The financial sector remains sound. In the banking system, NPLs started to decline after peaking in the first half of 2018 and were expected to continue improving in line with the economic recovery. Bank profitability rose in 2019 with ROA increasing to 2.9 percent as credit quality increased. Before the current economic downturn, the rapid growth of consumer credit deserved heightened supervisory attention. With regulatory capital as of the end of-February, 2020 at

[1] Staff estimates suggest regional spillovers, including lower trading partner demand and large migration flows from Venezuela, added more than 1 percent to the current account deficit in 2019.

17.4 percent of risk-weighted-assets, (Tier-1 capital was at 12.1 percent) and a liquidity coverage ratio of around 200 percent, banks remained well capitalized and had a strong liquidity position going into the global pandemic-related crisis. Provisions were stable and solid, at approximately 140 percent of NPLs. In financial markets, the onset of the global crisis led to stress in certain market segments, including in domestic bond and currency markets. An economic downturn underway is highly likely to weaken credit portfolios and could affect credit supply. In particular, sectors hardest hit by the Covid-19 shock—such as mining, travel and accommodations—pose higher credit risks to banks but their exposure to these sectors is seen as modest. Also, recent stress tests conducted by the central bank that assume a shallower but more prolonged recession than currently projected suggest that bank solvency ratios would remain above regulatory minimums. Moreover, if needed, the authorities can make use of the deposit insurance fund (FOGAFIN) with resources worth around 2 percent of 2019 GDP.

OUTLOOK AND POLICIES

10. With the exceptional global shock, a recession is expected in Colombia. Consistent with the latest high frequency indicators, Colombia's shutdown is disrupting economic activity severely and real GDP is projected to contract by about 2½ percent in 2020—the first recession since 1999.[2] The sharp economic downturn will likely dampen credit growth substantially. Under staff's assumption that the direct effects of the Covid-19 pandemic recede by mid-year and global growth bounces back, growth is expected to rebound in 2021 to around 4¼ percent in Colombia, partly supported by additional fiscal policy support that staff assumes will begin at the end of 2020Q2.[3] With respect to health system capacity, share of elderly population, and quality of epidemic response capacity, Colombia's health vulnerability is comparable to other emerging market economies.[4] Over the medium term, the drivers that propelled the recovery in 2019—including the boost from migration flows— are expected to gradually return and support recovery of the economy toward its potential.

11. The shock is expected to widen the current account deficit, leaving Colombia's external vulnerabilities more elevated as well. Against the backdrop of a weaker external environment, the current account deficit is expected to rise to 4.7 percent of GDP in 2020. Specifically, commodity and other exports (e.g. tourism) are projected to decline in response to global shocks, resulting in a deterioration of the trade balance. However, much of this will be offset

[2] The growth revision is driven by both domestic effects from the Covid-19 pandemic as well as the impact of lower oil prices and tighter financial conditions. The domestic disruptions are concentrated in 2020Q2 and are expected to depress private consumption and investment. The oil price decline is close to 40 percent since the January WEO. Relative to the 2020 Article IV Staff Report, the disruptions from Covid-19 are assumed to be slightly larger at the end of 2020Q1 and in 2020Q2 in light of weaker-than-expected high frequency data in March.

[3] Staff projections are based on the IMF's April 2020 World Economic Outlook assumptions for oil prices and external partner growth.

[4] World Bank World Development Indicators; Johns Hopkins Global Health Security Index. See 2020 Article IV Staff Report.

by lower imports resulting from weaker internal demand and profit outflows will also moderate.[5] Against this setting, external financing needs for Colombia are expected to remain high by regional comparisons. The current account deficit is projected to narrow to less than 4 percent of GDP by the end of staff's medium-term projections, as non-traditional exports of goods and services as well as remittances gradually recover alongside global growth.

12. The macroeconomic framework provides flexibility to deliver a coordinated response to the exceptional external shock. Macroeconomic policies should be deployed, where possible, to further support the recovery given the global pandemic shock. Monetary and fiscal policy are well placed to support domestic demand in the near term. Exchange rate flexibility remains the first line of defense against external shocks.

- **Monetary policy.** Monetary accommodation should continue, and further easing beyond the 50bp reduction announced on March 27 can be considered as long as underlying inflation pressures do not significantly rise. In the medium term, accommodation can be gradually withdrawn as the adverse shocks to growth recede, activity resumes its strong trajectory and output and credit gaps close or if underlying inflation pressures intensify. Improved central bank communication measures in recent years have further strengthened the policy framework and can help guide markets through the present uncertainty. In response to liquidity concerns from pandemic-related financial disruptions, the central bank has demonstrated it has several tools to boost liquidity in both domestic financial markets and foreign currency markets. These have included expanding access and allotments in Repo operations, the purchase of private and public bonds, the lowering of reserve requirements, and the usage of SWAPs and Non-Deliverable Forwards without permanent reductions in reserves. Further liquidity measures can be implemented as the need arises. These measures can improve market functioning, address potential market dislocation, and ensure the monetary transmission mechanism remains effective.

- **Fiscal policy.** In response to the recent Covid-19 outbreak, the authorities should use all available fiscal space under the fiscal rule to help accommodate additional short-term spending needs such as health expenditures and to support the economy through recession. In this regard, as signaled by the Fiscal Rule Consultative Committee (FRCC) following its April 16 meeting, the structural balance rule is sufficiently flexible to buffer against (short-term) fluctuations in GDP and oil prices, allowing for a smoother adjustment of expenditure than otherwise. The fiscal framework also allows for contingencies to accommodate large shocks, and staff assume that headline deficits will be substantially larger than assumed at the time of the

[5] For example, the assumed decline in oil prices between 2019 and 2020 will add almost 1 percent to the current account deficit, compounding the effects of migration as well as slow regional and global growth.

2020 Article IV Staff Report.[6] [7] This policy response is consistent with staff's advice given the exceptional pandemic-related crisis and economic downturn. To finance emergency [health and social] spending and the larger headline deficit in 2020, resources from the National Emergency Mitigation Fund (FOME) will be used worth up to 2.8 percent of GDP. [To complement these measures, the authorities are making use of the National Guarantee Fund (FNG) to guarantee commercial loans for SMEs for up to 1.2 percent of GDP.] [8] Notwithstanding an expected increase in public debt due to the depreciation of the exchange rate in 2020 and to the contraction in real GDP, continued adherence to the fiscal rule over the medium-term will place debt on a firmly declining path. Additionally, the authorities' active debt management policies have in recent years reduced interest costs, extended maturities, reduced the share of debt denominated in foreign currency, and minimized roll-over risk.

- **Exchange rate.** The authorities' commitment to the flexible exchange rate regime continues to play an important role in helping the economy adjust to changing global conditions. *Banco de la República* (BanRep) auctioned FX swaps[9] to enhance liquidity in the spot market and auctioned 30-day non-deliverable dollar forward contracts[10] with a notional value of two billion US dollars to help market functioning by improving the availability of these instruments to allow banks to hedge their foreign currency risk. To date, the central bank has not felt a need to use reserves and intervene in the spot exchange market to limit excess volatility or disorderly market conditions.

- **Reserve accumulation.** Reserves remained adequate in 2019 at 125 percent of the ARA metric (including a commodity buffer) but would not fully meet financing needs in a severe stress

[6] While the FRCC did not provide a revised headline deficit target path for 2020 and beyond, the press statement noted that the conditions for using additional countercyclical spending (Article 6) had been met. The press statement also noted that, based on the government's GDP projections (GDP growth of -1.6 percent), the headline deficit target for 2020 would be least 4.9 percent of GDP, an increase of 2.6 percent relative to the previous deficit target. [The higher deficit target stems from counter cyclical spending (1.7) and the economic cycle (around 1).] The FRCC did, however, note that there is considerable uncertainty about the projections for 2020 and 2021 and that these could be weaker and duly requested alternative scenarios for sensitivity analysis for a subsequent meeting in the coming weeks. Staff currently assume a headline deficit target of 4.9 percent for 2020 in its projections and that the headline deficits from 2021 will be larger than previously announced as countercyclical provisions and the output gap unwind.

[7] The FRCC did not mention the activation of the escape clause (Article 11) that would suspend the rule if additional resources were needed to address the Covid-19 pandemic. If the clause were triggered, the authorities should clearly state upfront the size and duration of the deviation from the rule, and subsequent correction mechanisms and path.

[8] Governance safeguards with regard to the use of the FOME and the FNG should apply for transfers made from the Funds to beneficiaries. Specifically, the transfer information to be registered should include at least the beneficiary name, the amount, and the expenditure object. If these transfers are not subject to regular control procedures, then a comprehensive ex-post audit should be conducted soon, and corrective measures implemented if necessary. Additionally, for the FNG, recording each request will allow the government to track the availability of resources and calculate the probability for the FNG to afford the due payments if all the guarantees were to be called.

[9] The program involves USD 800 million of FX swaps (in US dollars) through which the Central Bank sells reserves and buys them back in 60 days.

[10] NDFs are transacted in local currency and do not imply the use of reserves.

scenario under the authorities' framework. In a proactive step, the Central Bank announced in September 2018 a program to accumulate reserves as part of the authorities' efforts to enhance the economy's resilience to shocks and prepare for a gradual reduction in FCL access in the future, risk permitting. Under the program's market-based mechanism, the central bank acquired US$2.8bn in reserves, and added another US$2.3bn through accumulated returns over this period, consistent with Fund advice, before the program was subsequently ended in October 2019. Over the medium term, Colombia is expected to maintain adequate coverage as measured by the ARA metric, and could keep reserves at the prevailing ratio if accumulation were resumed.

13. FCL. Colombia's successive FCL arrangements have provided an important backstop of international liquidity and complemented the authorities' gradual policy adjustment following the global financial crisis and the large terms of trade shock in 2014-16. FCL qualification also sent a positive signal to international financial markets about the underlying strength of the economy and policy framework as reflected by Colombia's investment-grade assessment by rating agencies.

14. The regulatory and supervisory response to the pandemic-related crisis should maintain an appropriate balance between safeguarding financial stability and supporting economic activity. The disruptive economic impact of the pandemic will affect borrowers' capacity to service loans, particularly in severely affected sectors. In the wake of market turbulence, BanRep has launched a COP 10 trillion asset program to purchase short-term debt securities issued by credit institutions to further support credit supply. The Staff Report for the 2020 Article IV Consultation contains a list of additional measures that the authorities can consider to alleviate financial dislocation. At the same time, it is important that loan classification and provisioning rules (other than the counter-cyclical ones) not be eased, as it is critical to measure NPLs and potential losses as accurately as possible. Finally, supervisors should heighten the monitoring of financial soundness, enhance the frequency of dialogue with regulated entities, and prioritize discussions on business continuity planning and operational resilience. Transparent risk disclosure and clear communication of supervisory expectations in dealing with the implications of the outbreak are essential for market discipline to work effectively.

15. The financial sector policy agenda to further strengthen the regulatory and supervisory framework is on track. The financial supervisor is implementing the Conglomerates Law and Basel III capital and liquidity standards in line with previous staff advice. These standards will be gradually introduced over a four-year period ending in 2024 and will further strengthen the regulatory framework. With regulatory capital at the end of February, 2020, at 17.4 percent of risk-weighted-assets and Tier-1 at 12.1 percent, banks were well capitalized going into the global pandemic crisis and already met the new solvency standards or planned on meeting them well before the end of the transition period. An FSAP mission to review the soundness of the financial system and progress on regulatory reforms will be undertaken later during 2020-21.

16. The authorities' structural reform agenda should strengthen competitiveness and governance. The authorities have started programs aimed at advancing innovation, access to export markets, reducing trade barriers, firm formalization and productivity growth as part of the 2018-2022 national development plan (NDP). To reduce informality, the authorities have recently reduced business registration costs, simplified reporting requirements for small firms–including for tax filings—and have expanded work and residence permit programs to integrate migrants from Venezuela into the labor market. After initial delays, the 4G infrastructure investment program picked up pace starting in 2018 and will help reduce large infrastructure gaps. The implementation of the peace agreement is broadly on track. The authorities have introduced legislation requiring civil servants to publish their tax returns and made improvements to procurement at the local level to improve governance and reduce corruption. Some of the recommendations of the Detailed Assessment Report on AML/CFT have been implemented, including an update of the national risk assessment.

ROLE OF THE FLEXIBLE CREDIT LINE ARRANGEMENT

A. Benefits of the FCL

17. The FCL has served Colombia well. The previous FCL arrangements have enhanced Colombia's buffers as insurance against heightened external risks in recent years, complementing the authorities' policy response to shocks such as the 2014−16 drop in commodity prices and the collapse of the Venezuelan economy. In addition, the instrument provides a cushion of international liquidity for the country, creating space to further strengthen the policy framework and to rebuild policy buffers, while sending a positive signal to international financial markets on the strength of the economy.[11]

18. Since its first FCL arrangement in 2009, Colombia has taken decisive steps to build its resilience. The fiscal rule that started in 2012 has become the main fiscal anchor in Colombia and aims to ensure debt sustainability while allowing automatic stabilizers to operate. This complements a credible inflation-targeting regime that has been in place since 1999. The implementation of FSAP recommendations has strengthened the supervisory and regulatory framework and progress continues. The continued commitment to the flexible exchange rate has been a useful first line of defense against external shocks, while the gradual accumulation of international reserves has helped insure against risks, protect confidence, and create space to smooth disorderly exchange rate volatility when needed. The implementation of the peace agreement signed in 2016 will further strengthen the business environment and reduce regional inequality over time. Capping a series of institutional reviews and reforms, Colombia is set to join the OECD soon.

19. Colombia requests a 2-year FCL arrangement at unchanged access levels. The authorities' FCL request is for SDR 7.8496 billion (about US$10.8 billion) or 384 percent of quota and are notifying the cancellation of the current arrangement that expires on May 24, 2020. They note

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

that less favorable external conditions have contributed to higher external financing needs and hence greater vulnerability to a given set of external shocks. They consider that external risks have risen–not only from the potential fallout of the Covid-19 pandemic and oil price shock, but also from continued migration flows from the Venezuelan crisis—and warrant continued access to contingent external financing from the Fund.

- Specifically, the FCL arrangement is considered to provide important added insurance that, if tail risks materialize, would complement a stronger reserve position. Even though risks and vulnerabilities have increased, the requested arrangement is the same as the 2018 arrangement in percent of quota (and lower in U.S. dollars) because the authorities have been able to augment their internal buffers through reserve accumulation. They consider that the FCL arrangement reinforces market confidence, especially during periods of global volatility, and provides breathing space to navigate through shocks without derailing the structural reform agenda aimed to foster economic diversification and inclusive growth.

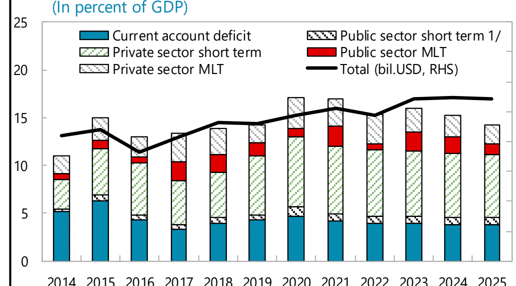
- Finally, as before, the authorities continue to treat the FCL as precautionary and acknowledge that, while a successor arrangement can be requested, the credit line should be viewed as a temporary and not open-ended instrument.

B. Evolution of Risks and Exposures

20. Colombia's exposures to global risks have increased. An unfavorable global environment has contributed to increased financing needs and hence external vulnerability to further declines in the terms of trade and capital inflow reversals:

- **Colombia's gross external financing needs are elevated.** External financing needs (17 percent of GDP in 2020-21) are high by regional standards. In addition to the expected current account deficit, debt amortization needs are also higher to finance past external deficits. The largest component is short-term private sector debt, which has risen recently and is typically in the form of trade credits, denominated in domestic currency, and/or intermediated by banks (reducing currency and liquidity mismatches). Notwithstanding its relatively modest corporate and sovereign debt and very strong policy framework, Colombia's higher financing needs increase its vulnerability to a tail-risk retrenchment from the emerging market asset class.

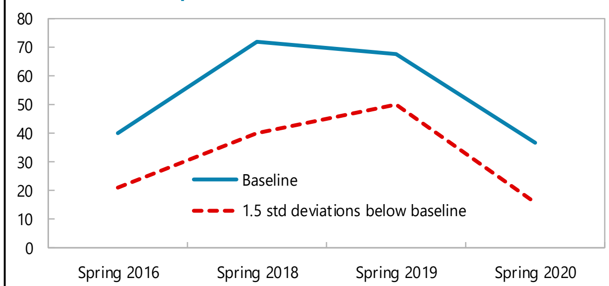
Gross External Financing Needs
(In percent of GDP)



Sources: National authorities; and IMF staff estimates.
1/Includes amortization of TES.

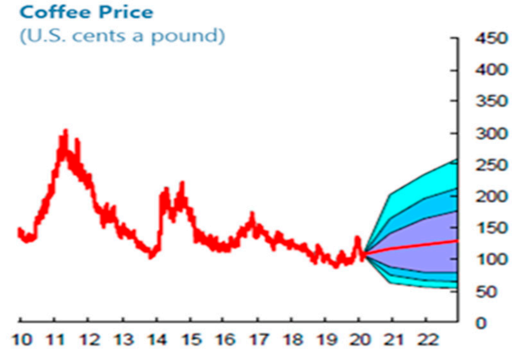
- **Lower oil prices have reduced oil export shares, but Colombia remains exposed to volatility in oil and other commodity prices**. Alongside growth in exports of services and non-traditional goods, declining oil prices have reduced the share of net oil exports in goods and services exports from 39 percent in 2013 to 25 percent in 2019 and to a projected 18 percent in 2020. Oil FDI was 19 percent of total FDI in 2019. Oil-related fiscal revenues rose from 0.2 percent of GDP in 2017 to 1.3 percent in 2019 as the oil price recovered representing around 8 percent of all central government revenues. While the baseline scenario is for Brent prices to rise gradually later in 2020 and approach US$50 dollars per barrel over the medium term, options prices continue to show both upside and downside risk despite the recent price adjustment.[12] 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. Other commodities, which contribute about 25 percent to exports and (in the case of mining) almost ½ percent of GDP to the 2019-2020 Royalties budget, also face risks from price shocks.

Oil Price Assumptions and Uncertainties



Sources: Bloomberg; and IMF staff calculations. Derived from prices of futures and options on March 30, 2020.

Coffee Price
(U.S. cents a pound)



Sources: Bloomberg L.P. and IMF staff calculations.
Note: Derived from prices of futures options on Feb 25, 2020.

- **Colombia's very strong policies and fundamentals attract diversified foreign investment, but shorter maturities add to vulnerabilities**. External deficits have in the last decade been financed primarily by capital inflows through FDI and portfolio debt securities.[13] Net private portfolio flows, especially into Colombian equities, were negative in 2019, showing signs of higher volatility than in the past and potentially reflecting regional social tensions. Portfolio flow data suggest Colombia experienced capital outflows in the first quarter of 2020, especially in March. However, sovereign debt issuance on the international market in January 2020 was heavily oversubscribed at more favorable terms than in 2019. The issuance secured the authorities' planned foreign borrowing for the year and helped increase the average maturity of debt. Regarding domestically-issued sovereign debt securities, non-residents' holdings (e.g., by sovereign wealth funds and pension funds) increased by 13 percent in peso terms cumulatively in 2018 and 2019, but declined slightly as a proportion of total holdings to 24 percent. In the first quarter of 2020, non-residents' holdings declined by 3 percent in peso terms and to 23

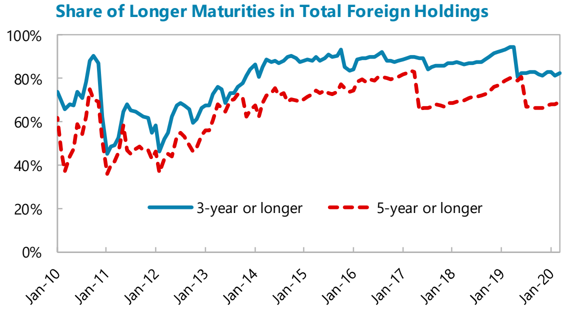
[12] For example, option prices suggest prices below US$ 20 per barrel are within 1.5 standard deviations.

[13] Net FDI into Colombia amounted to 4.5 percent of GDP in 2019, while direct investment by Colombians abroad totaled 1 percent of GDP. In 2019, inward investment continued to be diversified across sectors.

percent of total holdings. Foreign holdings have become less concentrated owing to Colombia's very strong policies and fundamentals, its relative regional stability, and OECD accession.[14] Private sector FDI and equity investment could face further pressure if oil prices remain low. In addition to outflows already experienced owing to tighter global financial market conditions, outflows could persist. In particular, updated estimates of the capital-flows-at-risk analysis suggests that substantial net outflows could occur in the case of a historical tail risk scenario, which is the most relevant currently. Moreover, the updated analysis suggests that these risks have increased.

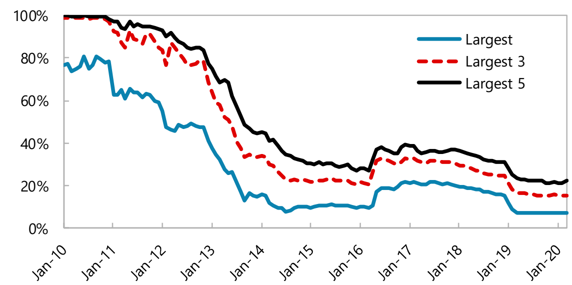
Foreign Investors' Participation in Local Government Debt

Share of Longer Maturities in Total Foreign Holdings



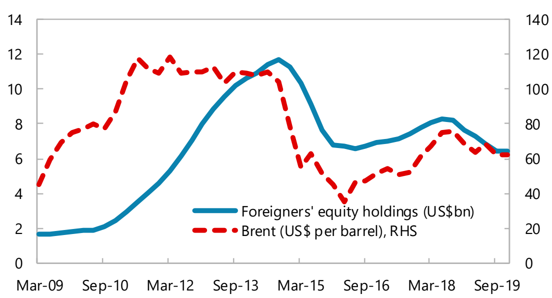
Source: BanRep and IMF staff calculations.

Concentration



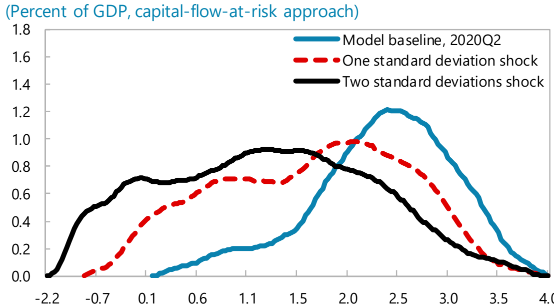
Source: BanRep and IMF staff calculations.

NIIP Portfolio Equity and Oil Prices



Sources: Haver; and IMF staff calculations.

Frequency Distribution of Net Portfolio Inflows
(Percent of GDP, capital-flow-at-risk approach)

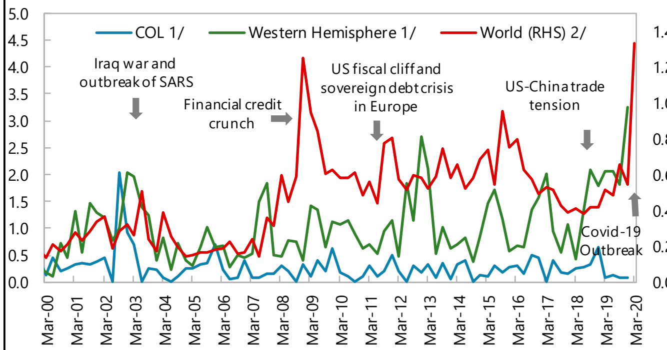


Sources: Haver Analytics; and IMF staff calculations and estimates.

[14] In particular, the share held by the five largest nonresident investors declined from 37 percent at end-2017 to 22 percent at end-2019. However, in 2019, the proportion of non-resident holdings of shorter maturities (less than 3 years) increased from 7.5 to 17.1 percent as their sizeable sales of longer maturities in the second half of the year were broadly offset by purchases of shorter maturities. In March 2020, the proportion increased further to 17.5 percent. Together with higher private-sector debt, this adds to estimated rollover needs and increases Colombia's vulnerabilities to capital flow reversals.

21. **Global risks have increased since the last FCL arrangement.** Perceived uncertainty increased for both the world and the region in 2018 and 2019, and February indicators already reflected increased global concern with the pandemic. The Risk Assessment Matrix (RAM) in the 2020 Article IV staff report shows higher downside risk likelihoods associated with lower oil prices, global integration, and growth in China than at the time of 2018 staff report. The 2020 RAM highlights new risks associated with social tensions and the Covid-19 pandemic. Tighter financial conditions, spillovers from Venezuela's crisis (e.g. migration), and slower growth in other trading partners continue to present salient risks.

Risk Indices



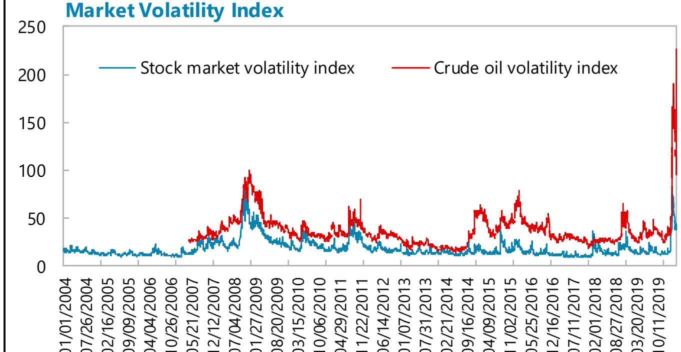
Sources: IMF staff calculations.
1/ World Uncertainty Index, last data point in Q4 2019.
2/ News-based sentiment indicator, last data point is March 2020.

- **A more severe Covid-19 pandemic could cause more prolonged disruptions to global economic activity and financing.** Beyond direct domestic effects, it can disrupt Colombia's access to imports of final and intermediate goods, reduce its export prices and volumes, and cause external financing to reverse for a sustained period.

- **Higher than expected migration flows from Venezuela would raise fiscal and external deficits.** A doubling of forecast inflows for 2020 could raise imports and hence the current account deficit as well as government spending needs. At such a pace, gains to potential growth could be undone by additional difficulties in assimilating migrants. Another risk is that a re-escalation of social discontent in some neighboring countries triggers capital flight from the region including Colombia.

- **Other global risks also continue to be important.** Uncertainty could be triggered by protectionism, a retreat from multilateralism, policy uncertainty, high debt, geopolitical tensions, as well as policy missteps or paralysis in the current uncertain environment brought about by fragmentation and resistance to reform attempts. Such uncertainties are among the potential triggers for a sharp rise in risk premia that exposes financial vulnerabilities globally.[15]

Market Volatility Index



Sources: Wall Street Journal; and Haver Analytics.

[15] Staff Global Risk Assessment Matrix scenarios using the Flexible System of Global Models prepared for the Fall 2019 Vulnerability Exercise suggest the confluence of such factors would reduce global growth by a further 1 percent.

22. The external economic stress index (ESI) for Colombia indicates high stress, even under the baseline (Box 2). After some improvement in mid-2019, the ESI entered above-average stress territory in early 2020 as the global environment deteriorated. An adverse scenario in which conditions do not improve as quickly as expected under the baseline would result in stress levels in excess of those from the 2018 FCL request and 2019 Review.

23. Within Colombia, a larger-than-expected Covid-19 infection rate or protracted economic stoppages could lead to a more severe or prolonged recession than expected. Containment measures might need to be intensified or remain in place for longer or may need to be re-introduced in the event of a second outbreak. Longer shutdowns and uncertainties about the course of the pandemic could further disrupt domestic supply and demand, compounding the external channels affecting Colombia from the pandemic. Thus, Colombia's growth could be significantly lower than the baseline for both 2020 and 2021.[16] Other internal risks include a further deterioration of labor market conditions, deterioration of the credit portfolio affecting credit supply, and tax revenue shortfalls that could prompt cuts in social and infrastructure spending.

C. Access Considerations Under an Adverse Scenario

24. Staff 's assessment is that the level of access of 384 percent of quota requested by Colombia should provide sound coverage against higher global risks. Although the Covid-19 pandemic has already contributed to an adverse environment under the baseline, the intensity and duration of this shock is subject to unusually high degrees of uncertainty, while other external risks continue to be salient. A further significant decline in global output and commodity prices as well as a large retrenchment from emerging market assets could persist for several quarters. In such an adverse scenario stemming from external shocks, there would be significant adverse effects on the current account and external financing, and GDP growth. The fall in growth would be even larger if domestic economic disruption from the pandemic were also considered.

25. In staff's view, higher external buffers allow unchanged access levels compared to the current arrangement despite Colombia's higher exposure to pronounced global risks. The requested access of 384 percent of quota—which will provide lower coverage measured in US$ owing to the appreciation of the dollar—is based on rollover rates congruent with historical stress experiences (Figure 7), applied to somewhat different exposures in the baseline. Since the 2018 request, the risk of higher-than-anticipated migration from Venezuela, given its ongoing economic and humanitarian crisis, that increases imports by more than anticipated has also been added. Otherwise, the key assumptions are unchanged since the 2018 request although they imply more severe outcomes given the noticeably weaker baseline. However, the resulting contributors to the

[16] In the April 2020 *World Economic Outlook*, combined external and domestic effects on Emerging Market Economies could reduce growth by an additional 3 percent in 2020 and, in the most adverse scenario, by a further 4 percent relative to the baseline in 2021.

estimated financing gap differ as a result of the updated baseline and external vulnerabilities (see text tables and Table 3).[17]

- *Specifically, changes in the nature of current account exposures affect the impact of downside risks.* Significantly lower baseline commodity prices than at the time of the 2018 request imply a smaller contribution to total exports from this group. That is why, despite the new migration shock, the current account shock is slightly *smaller* in this scenario than in 2018.

- *For the financial account, however, higher external vulnerability raises the impact of downside risks*. The mirror image of higher external deficits is higher baseline financial flows, including those needed to roll over short-term private debt. Therefore, preserving the 2018 assumptions in percentage terms translates to a *larger* financial account shock in dollar terms than under the 2018 request. Taking these two components together, the overall BOP shock of US$ 20 billion exceeds that of the 2018 request.

- *Finally, the assumed drawdown of reserves is substantially higher since the authorities have accumulated significant additional reserves since the 2018 FCL request*. Overall, staff finds that larger balance of payments financing needs under the external risk scenario can be partly met by larger reserve drawdowns and with similar FCL coverage.

Assumptions Underlying the Illustrative Adverse Scenario(In percent change vis-à-vis baseline, unless otherwise indicated)

Assumption	New Arrangement	Current Arrangement
Oil price decline	28	28
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	80
Equity outflows (US$ billion)	1.0	1.0

Source: IMF staff calculations.

Key contributors to Financing Gap under Adverse Scenario, 2020
(US$ millions, unless otherwise indicated)

Assumption	New Arrangement	Current Arrangement
Current Account Deficit	4,722	5,646
Financial Account Shock	15,578	12,968
Reserve drawdown	9,459	7,200
Remaining gap	10,841	11,414

Source: IMF staff calculations.

[17] The adverse scenario focuses only on external shocks, that could materialize within the next two years and is assumed to last one year. After the first year, BOP flows return to their baseline forecasts.

26. Both traditional and non-traditional exports are likely to decline further under the adverse scenario. Commodity prices are sensitive to global economic activity that faces pronounced downside risks, and oil has additional supply-side uncertainties that could keep the oil price more depressed for longer. Relative to the April 2018 WEO, the Brent oil price forecast for 2020 has declined by US$21 to US$37 – a price that is lower than the adverse scenario in the 2018 request. A further decline in the price of oil to US$ 27 on average for 2020 (well within the 86 percent confidence interval implied by options prices and comparable to the adverse scenario from the 2016 FCL request) would imply the lowest annual average oil price in 20 years. However, since the baseline oil price is already low, the decline in the oil price of only US$10 implies a smaller additional shock to exports in the current scenario. At the same time, the associated decline in global output, including in those countries in the region who have already experienced a sharp slowdown, will lower non-traditional exports for Colombia. If migration flows from Venezuela are twice as high as expected in the baseline for 2020, additional imports could add US$½ billion to the deficit. Overall, the estimated impact on the current account is US$ 4.7 billion.[18]

27. Private sector corporate debt may face heightened rollover difficulties in an adverse scenario. Under favorable external financing conditions, short-term private external debt, including loans and trade credits, rose by about 30 percent between 2017 and 2019.[19] During 2020 and 2021, about US$30 billion of private sector debt comes due per year, compared to US$ 25 billion in 2018. Reflecting tighter financial conditions amid global uncertainty, non-FDI inflows to the private sector are expected to cover most but not all of these amortization needs under the baseline scenario. However, under a risk scenario, including further retrenchment from the emerging market asset class, disbursements are likely to decline despite the broad health of the Colombian corporate sector. The assumed lower rollover rates for private short and long-term debt (80 percent and 73 percent respectively) are within historical benchmarks (Figure 7) and match those in the current FCL arrangement. Because of the higher baseline rollover needs, such rollover assumptions generate a shortfall in disbursements in the adverse scenario (US$ 8 billion lower than under the baseline) that is substantially more acute than in the current arrangement's adverse scenario.

28. FDI and government financing shortfalls could also materialize. After a substantial increase in the wake of the 2014-6 oil price shock, external public debt stabilized. The government's external borrowing plan and amortization schedule means baseline inflow needs for 2020 are lower than in 2018, and financing was already secured at favorable terms in January. Moreover, the government are exploring additional financing from multilateral organizations over and above those already programmed. With a shock such that the rollover rate is 80 percent, as in the current arrangement, the resulting amount (US$ 4 billion) is more moderate. Shocks to FDI and equity flows (US$ 3½ billion), are broadly similar to those in the current arrangement. Together with

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

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

private-sector debt shortfalls, the combined shock of US$ 15½ billion to the financial account is US$2½ billion higher than under the current arrangement.

29. While the authorities are in a better position to cover a larger proportion of an adverse shock through reserves, the requested FCL access level will help cover the financing gap. The combined shocks to the current account deficit and capital flows would amount to US$20.3 billion, which is US$ 1.7 billion greater than under the current arrangement. Recent reserve accumulation permits greater use of international reserves to cover a portion of the gap while preserving sufficient buffers to maintain confidence as the economy absorbs the shock. The assumed reserve drawdown would leave reserves US$ 9.5 billion lower than under the baseline and would cover almost half the shock. Despite a substantially higher drawdown than under the current arrangement, the remaining reserves would still amount to 117 percent of the ARA metric, in line with previous arrangements. Adjusting for a commodity buffer would leave reserve coverage at 103 percent of the ARA metric, and the reserves-to-gross external financing needs ratio at only 88 percent.[20] A larger reserve drawdown would lower this coverage further below the 100 percent benchmark—a commonly used risk adequacy metric by the authorities and international investors—and could have an adverse impact on market confidence. Even after a larger contribution by international reserves, which is consistent with decreasing relative reliance on the FCL, a financing gap of US$10.8 billion would remain.

D. Exit Strategy

30. The authorities consider access to the FCL to be temporary with the path dependent on the state of external risks. Their request for a similar level of access is motivated by increased vulnerability to global risks being broadly offset by higher internal buffers. Continued access to the FCL will help navigate adverse external conditions, boost market confidence, and reduce the severity of further disruptions, allowing space to make policy adjustments to the shock and advance structural reforms to enhance inclusive growth and external competitiveness.

31. The authorities remain committed to a gradual exit from the FCL, risk permitting, including the possibility of a modest reduction during the mid-term review if global risks recede. The authorities note that, before the Covid-19 and oil prices shocks hit the economy, Colombia was facing a challenge from large inflows of migrants from Venezuela that were placing pressure on the current account of the balance of payments. Exceptional global risks have increased substantially with the Covid-19 outbreak and resulting commodity and financial market disruptions. In this context, the FCL is important to reinforce market confidence and to provide room to navigate through shocks to support the recovery without derailing the much-needed structural reform agenda. As this atypical situation normalizes, the authorities remain committed to reducing access and eventually phasing out Colombia's use of the instrument .[21] In particular, the authorities are

[20] The reserve drawdown would generate a moderately larger decline in terms of the ARA metric than in recent arrangements.

[21] Colombia reduced access to the FCL, from 900 percent in the first arrangement (2009) to 300 percent in the second arrangement (2010).

open to the possibility of modestly reducing access at the time of the mid-term review conditional on the reduction of aggregate external risks. Over a longer horizon, if external financing needs moderate as expected, and if downside risks to global growth, commodity prices, financial conditions, and regional spillovers decline, there would be space to further reduce access in any subsequent FCL arrangements.

Box 2. Updated External Economic Stress Index

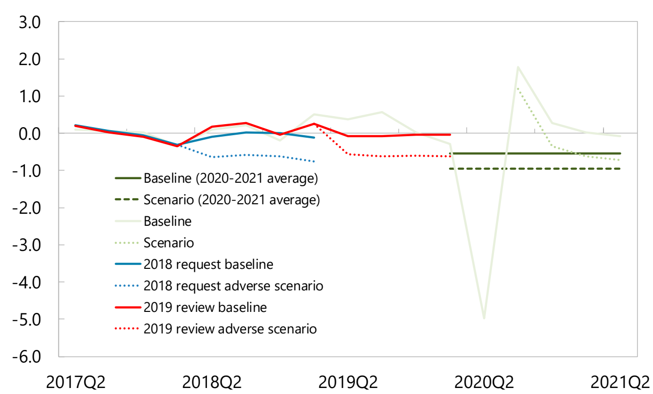
The updated ESI shows that prolonged Covid-19 effects in an adverse scenario would leave external economic stress at higher levels than modelled at the time of the 2018 FCL request and review.

The external ESI summarizes Colombia's external shocks and exposures to these shocks. It was initially presented in the staff report for the June 2015 FCL arrangement. The methodology is explained in "Flexible Credit Line—Operational Guidance Note," IMF Policy Paper, July 2018.

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. real GDP 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. Treasury yield as proxies for risks to equity and debt portfolio flows, respectively, although the former does not capture declines resulting from safe-haven flows, which often raise sovereign spreads. The methodology and weights are unchanged from previous Colombia FCL reports.

Baseline external stress is in line with recent stress scenarios. For 2019, external stress was lower than anticipated at the time of the 2019 review because U.S. bond yields unexpectedly declined. Although yields declined again late in the first quarter of 2020, sharply higher emerging market volatility and lower oil prices pushed the index below previous adverse scenarios. Since the baseline assumes a sharp contraction in U.S. GDP in the second quarter and bounce back in subsequent quarters, as well as a gradual return of volatility towards its average, the ESI shows severe stress in the second quarter and lower stress thereafter. Averaged over 2020 and 2021, the baseline ESI is at the same level as the stress scenarios in the 2018 FCL Request and 2019 Review.

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



Source: IMF staff calculations.

The adverse scenario reflects external risks from prolonged Covid-19 effects. In the adverse scenario, U.S. growth is weaker by 2 percentage points. Oil prices are assumed to fall 28 percent below the baseline such that they remain below $30 per barrel. Persistent stress in financial markets due to policy uncertainty is assumed to leave the VXEEM two standard deviations higher than under the baseline, and a decompression of term premia is assumed to trigger a 100bps increase in 10-year U.S. Treasury yields. The assumed shocks to the oil price, VXEEM, and yields are unchanged compared to the 2018 FCL request and 2019 review. The U.S. growth shock is larger than in the 2019 Review (0.75 percent) and 2018 FCL request (1.5 percent), bringing it into line with adverse Cov-19 scenarios used for the *World Economic Outlook*. For 2020-2021, the updated ESI adverse scenario indicates external economic stress higher than in the adverse scenario at the time of the 2018 FCL request and review.

E. Assessment of Qualification

32. Staff's assessment is that Colombia continues to meet the qualification criteria for an FCL arrangement. In the 2020 Article IV consultation with Colombia completed on April 9th, the IMF Executive Board noted that Colombia maintains 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. Moreover, Colombia has a sustained track record of implementing very strong policies, and the authorities are firmly committed to maintaining such policies going forward.

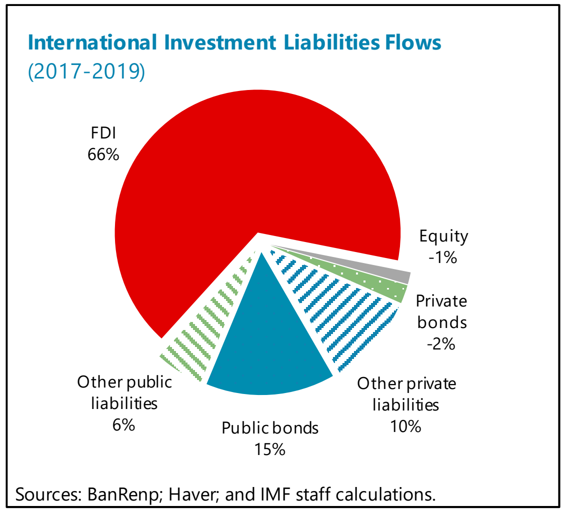
- **Sustainable external position.** Overall, staff assesses the external position to be sustainable, based on the external assessment conducted for the 2020 Article IV consultation. The current account deficit widened to 4.3 percent of GDP in 2019 and is estimated to decrease modestly in the medium term. Under staff projections, the estimated current account gap of 1.7 percent of GDP in the EBA current account approach implies that it is moderately weaker than implied by fundamentals and desirable policies. Ongoing fiscal consolidation according to the fiscal rule is likely to raise national saving over the medium term. Going forward, the authorities remain committed to allowing the flexible exchange rate to serve as the primary mechanism of adjustment to external shocks.

- **Capital account position dominated by private flows.** Public liabilities account for 22 percent of Colombia's international investment liability stocks, while FDI accounts for 58 percent of liabilities. These proportions have been broadly maintained in recent flows. Public flows accounted for only 21 percent of Colombia's direct, portfolio, and other asset and liabilities flows on average over the last three years, while FDI accounted for 66 percent. The reliance on portfolio inflows is projected to remain low over the medium term at about 1 percent of GDP. Stable funding sources—especially FDI—are expected to continue to finance the bulk of the current account deficit in the medium term.

- **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 around 480 percent of Colombia's Fund quota (for the central government). The three major credit rating agencies all continue to assign an investment grade rating to Colombia.[22] Sovereign bond spreads have performed in line with spreads in the region, including a steady decline over

[22] Moody's assigns a rating of Baa2. Fitch and S&P assign ratings of BBB-.

the last two years. With the arrival of the global pandemic, the risk-off episode adversely affected Colombia's spreads, as was the case regionally and globally, but spreads remain below the EMBI average.



- **International reserve position which, notwithstanding potential balance of payments pressures that justify Fund assistance, remains comfortable.** Gross international reserves rose in 2019 in response to the reserve accumulation program and stood at US$53 billion as of end-2019, or 125 percent of the ARA metric including a commodity buffer, and 141 percent excluding the buffer. 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 firmly committed to fiscal sustainability by adhering to their structural balance rule which will place public debt on a declining path in the medium-term. The recognition of previously unrecognized expenditures from past years enhances fiscal transparency and measures put in place to prevent future arrears strengthen public finances.[23] Notwithstanding the large expected increase in the fiscal deficit due to the pandemic and related recession, staff assesses Colombia's public debt to be sustainable over the medium term. A strong fiscal framework and moderate levels of public debt helped Colombia adjust policies to absorb the permanent oil price shock in 2014-16 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.** Colombia has maintained single digit inflation since 2000, with monetary policy set to help inflation close to target in most years. This has resulted in better anchored inflation expectations. Following the oil price shock of 2014-16, the central bank adjusted its policy rate to guide inflation toward the target and inflation has steadily declined since mid-2016. Monetary easing since then has been compatible with moderating inflation and well-anchored inflation expectations while supporting the recovery. The authorities remain committed to their inflation targeting framework and flexible exchange rate.

- **Sound financial system and absence of solvency problems that may threaten systemic stability.** The financial system is dominated by banks. Going into the pandemic-related crisis, their solvency and liquidity had remained sound, notwithstanding less favorable external financing conditions, sectoral credit issues, and changes in local funding conditions. As of December 2019, the banking system's capital adequacy ratio stood at 17.6 percent, with Tier-1

[23] See 2020 Article IV Staff Report for Colombia (Annex III).

capital at 12.2 percent. Both are well above regulatory limits. Banks' liquidity position was also comfortable, with an LCR of around 200 percent. BanRep's biannual stress test and the most recent Article IV consultation did not highlight significant solvency risks or recapitalization needs going into the global pandemic crisis. However, with a contraction of 0.17 percent, BanRep's stress scenario was less severe than staff's current projections for the economic downturn. [24]

- **Effective financial sector supervision.** The authorities have finalized and implemented many of the 2013 FSAP recommendations. Capital and liquidity standards are being brought into line with Basel III standards, including definitions of risk-weighted assets and regulatory capital. Capital conservation and systemic risk buffers are also being implemented, with a phased introduction over 2020-24 to mitigate any adverse impact on credit supply. The authorities remain committed to heightened supervisory vigilance during the transition period. Moreover, a capital requirement for operational risk for banks was introduced in 2019Q3. The conglomerates law, approved in September 2017, is being implemented and will enhance the effectiveness of consolidated supervision over cross-border banking groups—including capital adequacy requirements at the group and subsidiary levels—and provide guidelines for dealing with conflicts of interest within financial conglomerates.

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

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

33. Colombia has a very strong institutional policy framework. Since the Constitutional Reform of 1991, Colombia has significantly strengthened its institutional framework. 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 safeguard financial stability. Colombia's accession to the OECD is almost complete. 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 in 2014-16, through an effective and coordinated policy response. The fiscal rule remains as the fiscal anchor for the medium-term

[24] To develop its macroeconomic stress scenario, BanRep uses the IMF's GDP-at-Risk (GaR) methodology. For the two-year stress test, it calibrates growth at the 97-th quantile, corresponding to an average annual contraction of 0.17%. In this scenario, capital adequacy ratios fall by 2.5 percentage points, remaining comfortably above regulatory minima.

sustainability of public debt. As described above, the central bank has credibly anchored expectations despite facing very large terms of trade and inflation shocks and helped adjust domestic demand to the lower level of national income.

34. Regarding government effectiveness, Colombia compares relatively well to peers and has seen improvements in recent years. Colombia's government effectiveness and control of corruption scores from the Worldwide Governance Indicators improved from -0.3 in 2000 to -0.085 in 2018 and from -0.4 to -0.3 respectively. Colombia used to trail the regional average for both indicators in 2000 and rose above the regional average in 2018 for government effectiveness and matched peers on control of corruption. While Colombia has a largely comprehensive anti-corruption legal framework (Country Report 18/128), some indicators point to weak public perceptions, with corruption being high in the agenda of last year's social protests, and capabilities for detection and enforcements against corruption are not fully effective. The authorities have combined the strengthening of the legal framework for governance and transparency with wider access to information and organizational changes to improve governance (see Country report 18/128). 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.[25] Going forward, further strengthening of the anti-corruption framework is required to fully implement the recent law requiring public servants to publicly declare their income and assets and to improve the efficiency of the courts to reduce backlog and publication of detailed statistics.

F. Impact on Fund Finances, Risks, and Safeguards

35. The Fund's liquidity is expected to remain adequate after the approval of the proposed FCL arrangement and cancellation of the current arrangement (SDR 7.848 billion or 384 percent of quota). Further discussions are provided in the supplement assessing the impact on the Fund's finances and liquidity position[26].

36. Risks to the Fund are judged to remain moderate from the current FCL arrangement. Colombia has been implementing very strong policies, and the authorities have indicated that they intend to treat the new FCL arrangement as precautionary. Even if Colombia were to draw all the resources available under the new FCL arrangement, its capacity to repay the Fund under an adverse scenario would remain adequate (Table 11, supplement[27]). Colombia's external debt is expected to rise to 59 percent of GDP this year on account of adverse exchange rate effects. However, even if an adverse scenario of further depreciation were to materialize, Colombia's external debt would peak at 81 percent of GDP in 2021 and remain on a sustainable medium-term path (Table 13 and Figure 8). The external balance sheet is sustainable given sizeable non-debt-creating capital inflows. Debt

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

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

[27] Ibid.

service continues to be manageable. Furthermore, Colombia has an excellent track-record of meeting its financial obligations**.**

37. Safeguards procedures are substantially completed for Colombia's 2020 FCL arrangement. No significant issues have emerged from these procedures. The Banco de la República de Colombia provided the most recently completed audit reports, and Fund staff discussed them with the external auditors.

STAFF APPRAISAL

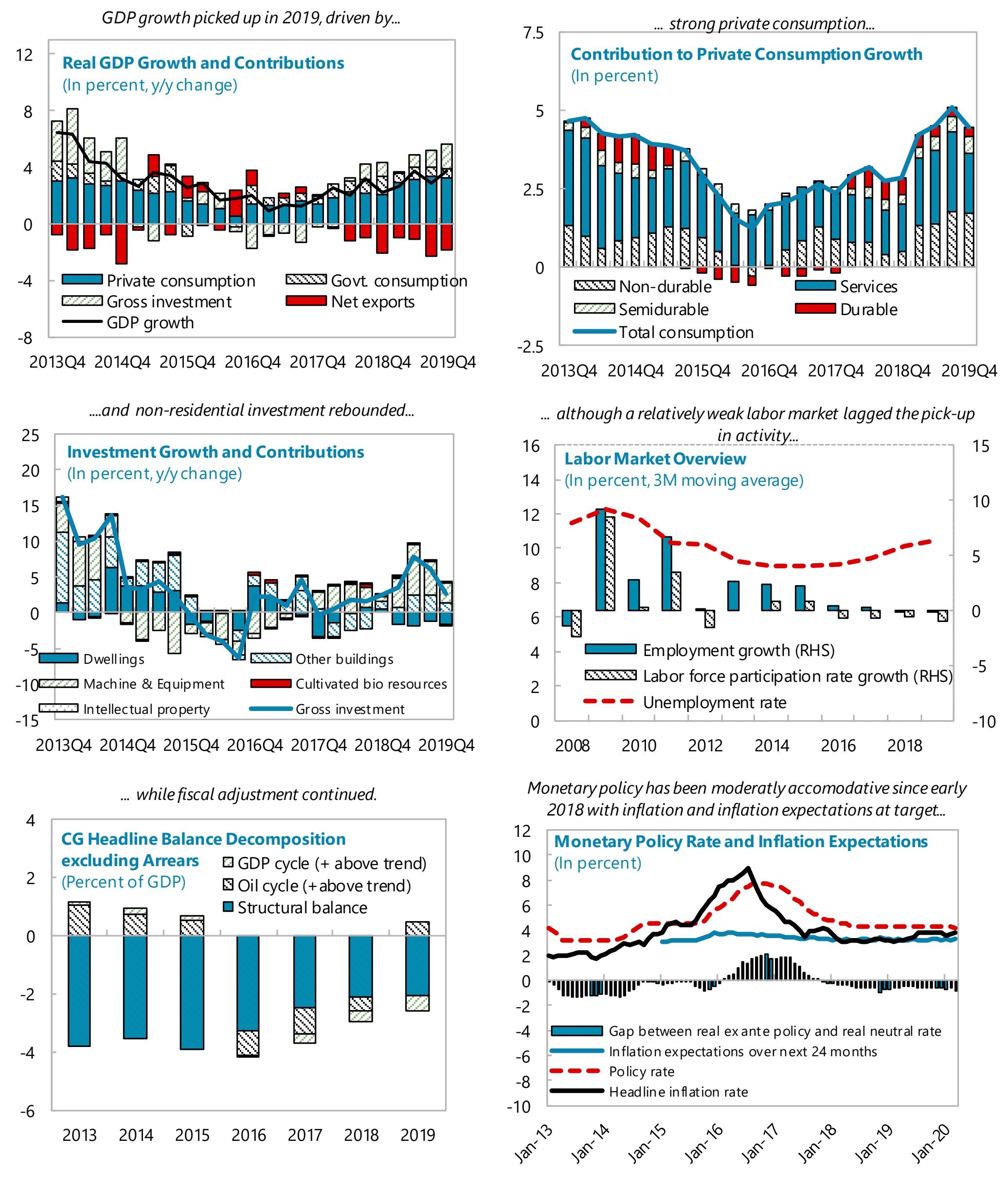
38. Staff's assessment is that Colombia continues to meet the qualification criteria for access to FCL resources. As discussed above, Colombia has very strong policy frameworks and economic fundamentals. The authorities have a successful track record of very strong policy management, are firmly committed to maintaining prudent policies, and continue to strengthen policy buffers. The migration inflows from Venezuela and Colombia's commitment to provide humanitarian support has resulted in fiscal and external pressures, and a rapid increase in migration flows would increase those pressures. The recent volatility in financial and oil markets highlights that prolonged periods of low oil prices or capital outflows from emerging markets remain an important risk. Downside risks to global growth and financial stability have increased in recent months. In that context, the FCL provides important insurance against external tail risks.

39. Staff considers the proposed access level to be appropriate. Notwithstanding very strong underlying fundamentals and policies, Colombia has high exposure to external tail risks. As noted in previous staff reports (country report 19/141), these risks can be interlinked and the materialization of one risk could trigger the realization of others. A new FCL arrangement for 384 percent of quota, which the authorities intend to treat as precautionary, would provide breathing space and serve as appropriate temporary insurance that reinforces market confidence against the backdrop of heightened global uncertainties. Thus, staff recommends approval of the authorities request for an FCL arrangement for Colombia.

40. Staff welcomes the authorities' commitment to an exit strategy from the FCL. As the exceptional set of external shocks and risks clearly recede, Colombia should consider reducing access to the FCL given its very strong policy framework and comfortable reserve position. The reserve accumulation program of 2018-2019, for example, further enhanced Colombia's external buffers and its capacity to respond to adverse external shocks. Once risks sufficiently subside and market conditions clearly improve, resuming reserve accumulation would in staff's view help meet the authorities' objective to sufficiently cover financing needs in their adverse scenarios and facilitate a gradual exit from the FCL from a strong reserve position.

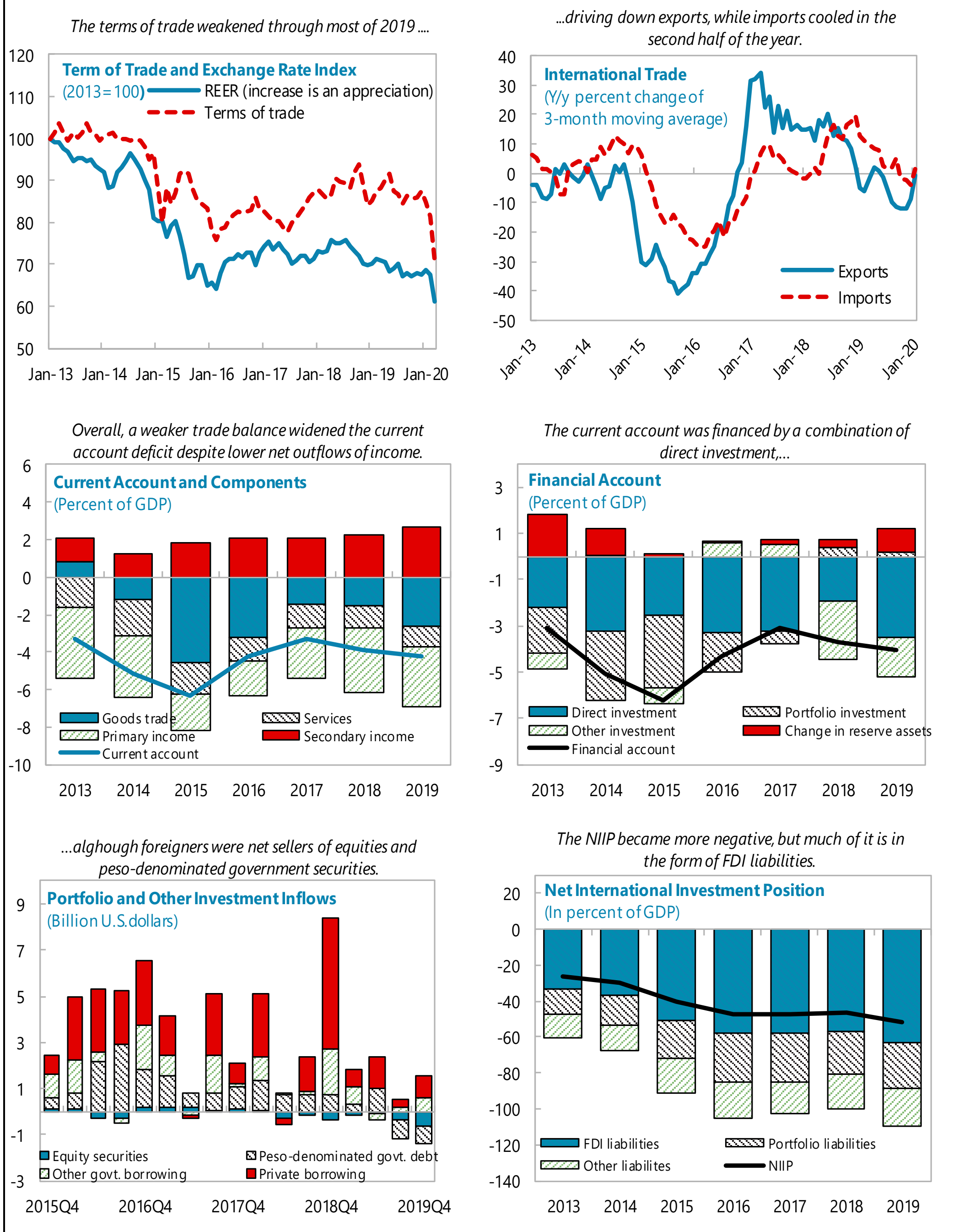
41. Staff considers that the proposed FCL arrangement carries moderate risks to the Fund. While Colombia intends to treat the FCL arrangement as precautionary, the Fund's credit exposure to Colombia would remain moderate, even with a drawing. Risks are further contained by Colombia's very strong repurchasing record with the Fund and manageable external debt service profile. The proposed new commitment and cancellation of the current arrangement will not change the Fund's liquidity.

Figure 2. Colombia: Recent Economic Developments



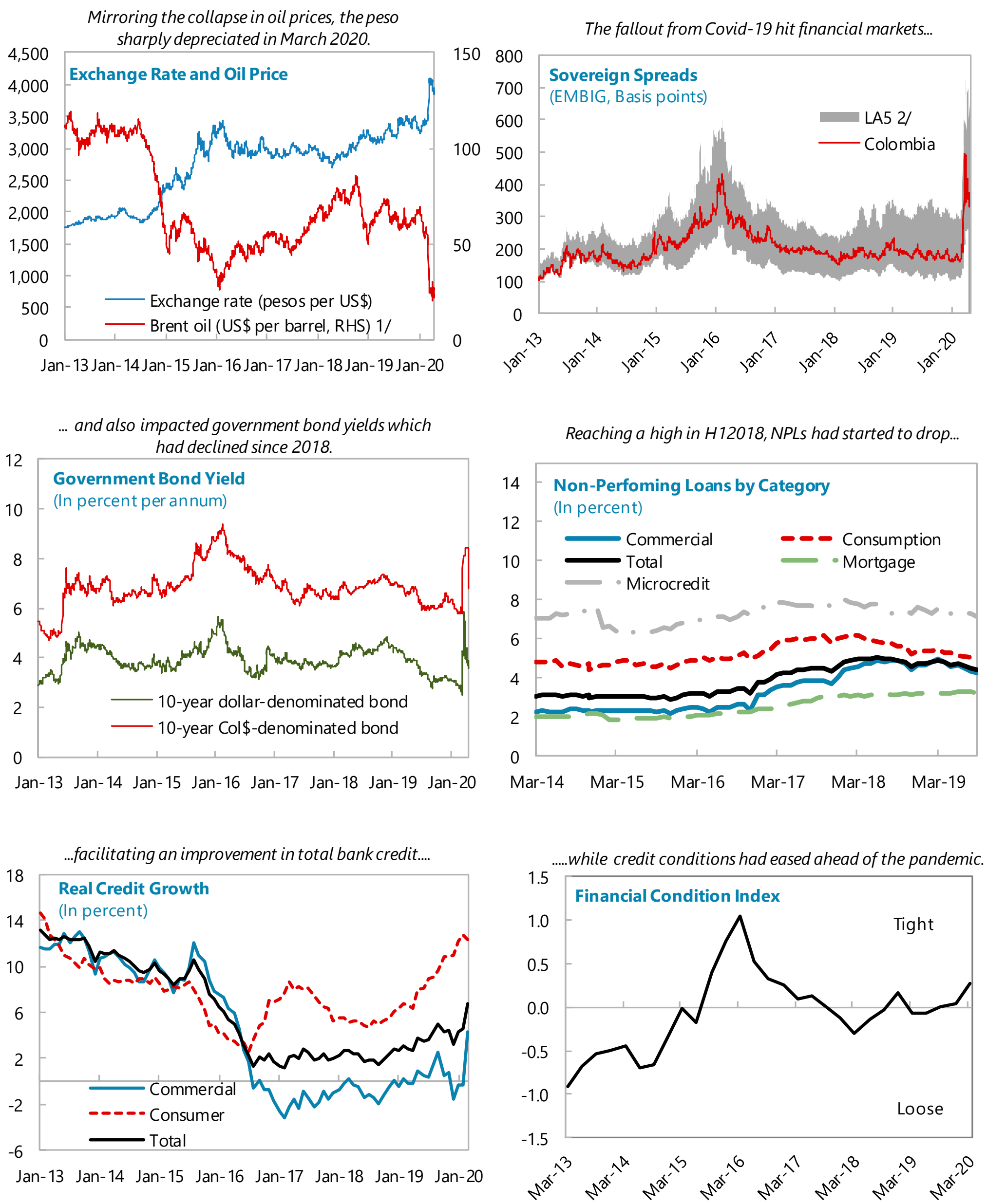
Sources: Departamento Administrativo Nacional de Estadísticas (DANE); La Fundación Para la Educación Superior y el Desarollo; Banco de la República; Haver Analytics; and IMF staff estimates.

Figure 3. Colombia: External Sector Developments



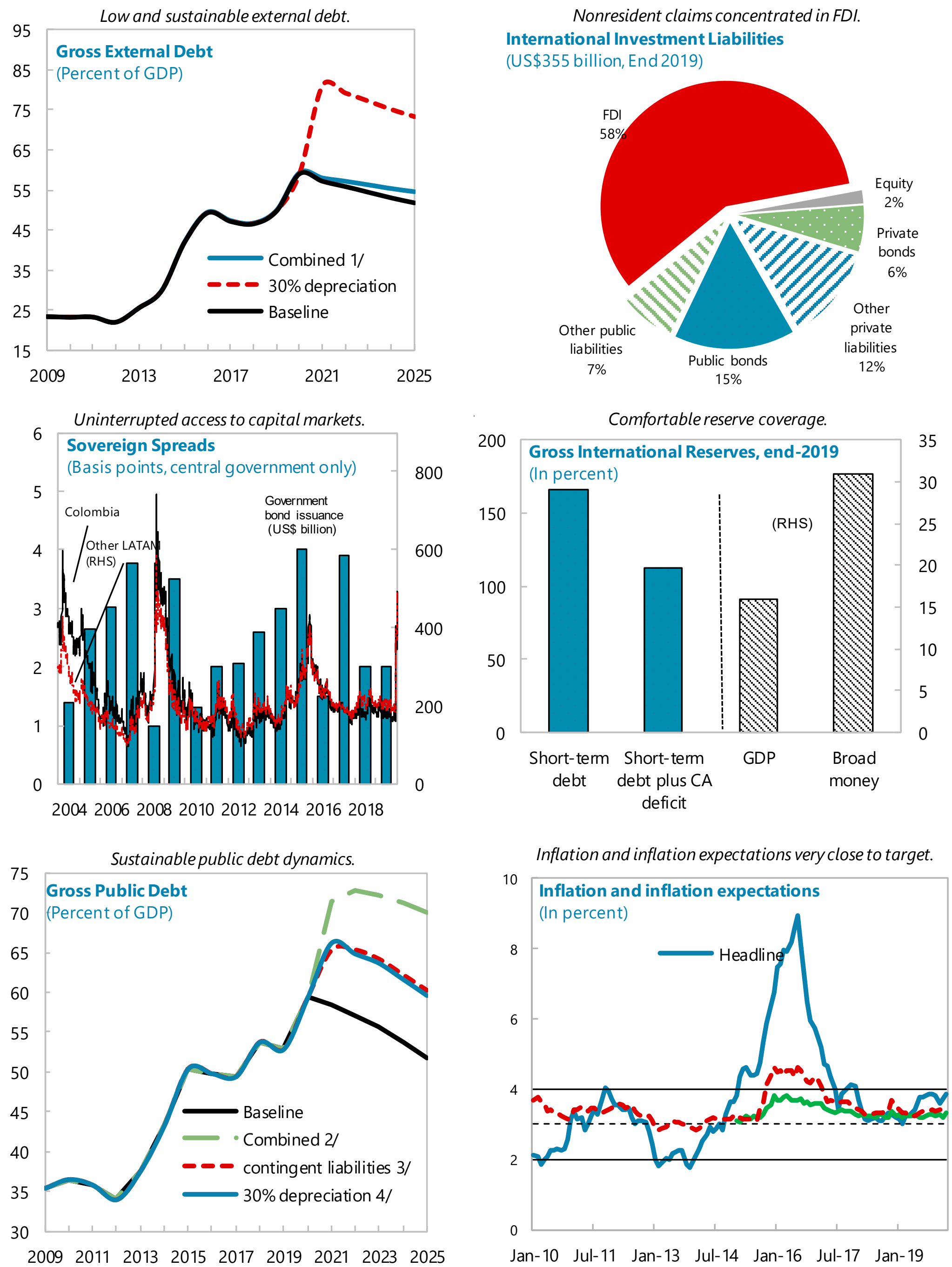
Sources: DANE; Banco de la República; Ministerio de Hacienda y Crédito Público; Haver Analytics; and IMF staff estimates.

Figure 4. Colombia: Recent Financial Developments



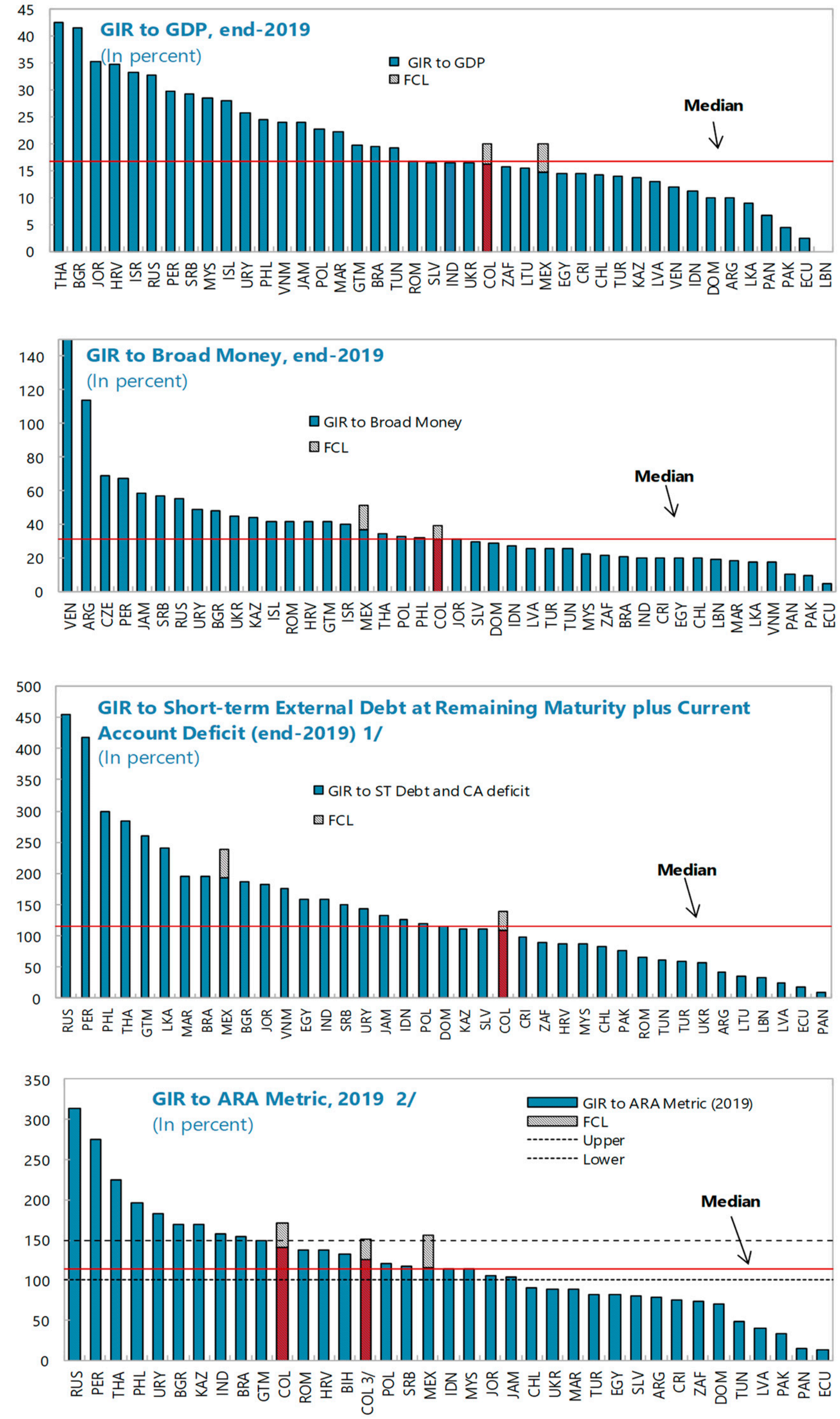
Source: Bloomberg; Superintendencia Financiera de Colombia; Banco de la República; and IMF staff estimates.
1/ Colombia mix follows closely Brent oil prices.
2/ LA5 corresponds to the maximum and minimum sovereign spreads among Brazil, Peru, Mexico, Chile, and Uruguay.

Figure 5. Colombia: FCL Qualification Criteria



Sources: Banco de la República; Ministerio de Hacienda y Crédito Público; Datastream; Haver, and IMF staff estimates.
1/ Combined permanent 1/4 standard deviation shocks applied to interest rate; growth; and non-interest current account balance.
2/ Combined 2 year shock to primary balance (1/2 standard deviation) and growth (1 standard deviation) shocks to primary balance; permanent shock to interest rate (to historical maximum) and exchange rate (about 30 percent real).
3/ One-time increase in non-interest expenditures equivalent to 10 percent of banking sector assets leads to a real GDP growth shock (see above): growth is reduced by 1 standard deviation for 2 consecutive years; interest rate increases as a function of the widening of the primary deficit.
4/ 30 percent permanent real depreciation in 2020.

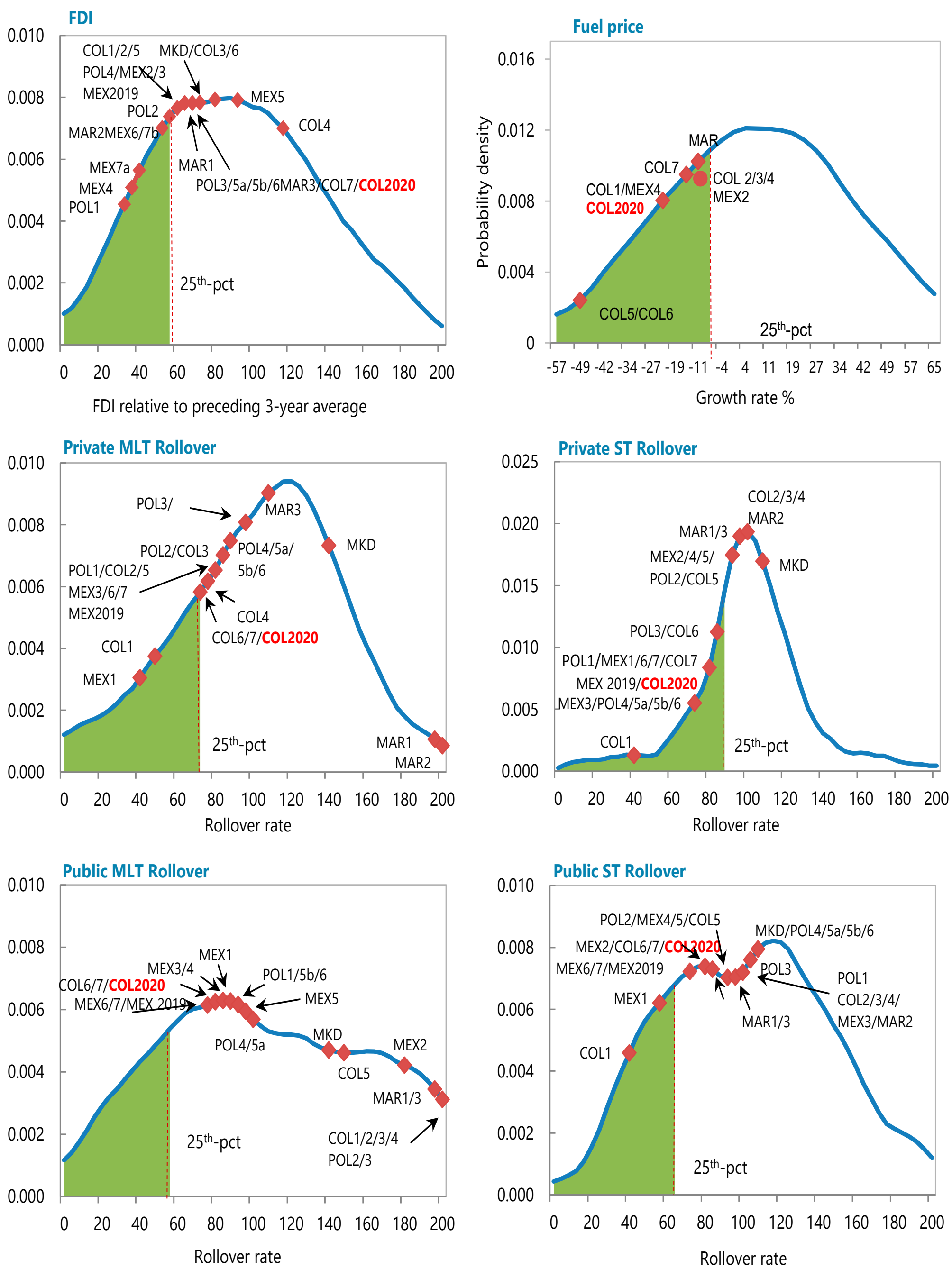
Figure 6. Colombia: Reserve Coverage in an International Perspective



Sources: World Economic Outlook; IFS; and IMF staff estimates.
1/ The current account is set to zero if it is in surplus.
2/ The upper and lower 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 7. Colombia and Selected Countries: Comparing Adverse Scenarios /1

(Probability density)

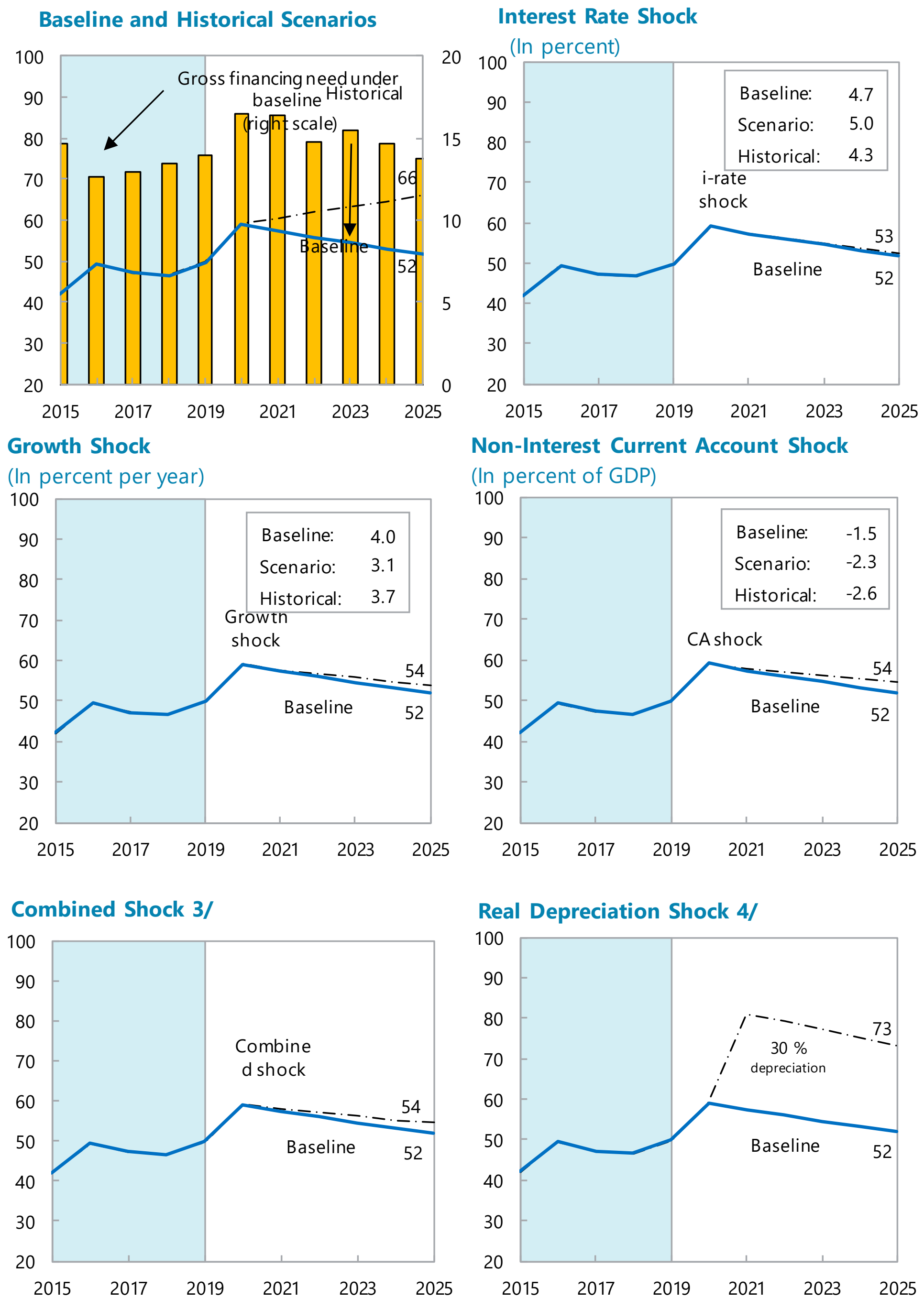


Source: IMF staff calculations.

1/ The countries shown are previous FCL/PCL/PLL arrangements, numbered consecutively by country. MEX2019 is the current FCL arrangement for Mexico. COL2020 refers to proposed arrangement for Colombia.

Figure 8. Colombia: External Debt Sustainability: Bound Tests 1/ 2/

(External debt in percent of GDP)



Sources: IMF staff estimates.

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

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 2021.

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

(In percent of GDP, unless otherwise indicated)

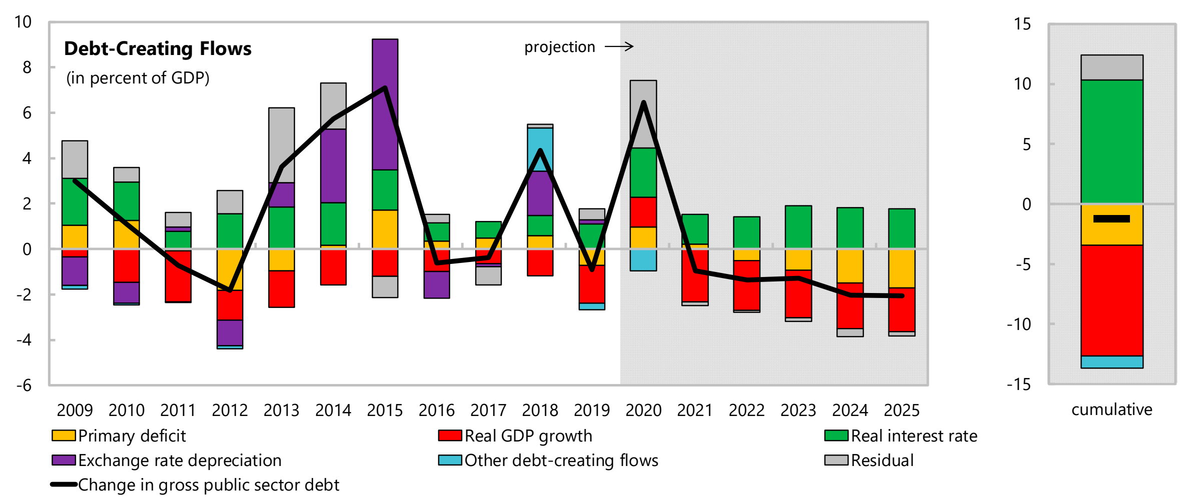
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2009-2017 [2/]	2018	2019	2020	2021	2022	2023	2024	2025
Nominal gross public debt	41.4	53.8	52.9	59.3	58.4	57.0	55.7	53.7	51.6
Public gross financing needs	5.4	6.9	6.9	5.5	6.9	5.8	6.2	5.1	4.4
Real GDP growth (in percent)	3.6	2.5	3.3	-2.5	4.2	4.0	3.9	3.8	3.8
Inflation (GDP deflator, in percent)	3.9	4.5	4.3	4.4	3.5	3.2	3.1	3.0	3.0
Nominal GDP growth (in percent)	7.6	7.1	7.8	1.8	7.9	7.4	7.2	7.0	7.0
Effective interest rate (in percent) [4/]	8.2	6.5	6.6	8.5	6.1	6.0	6.8	6.7	6.7

As of April 16, 2020		
Sovereign Spreads		
EMBIG (bp) 3/		372
5Y CDS (bp)		247
Ratings	Foreign	Local
Moody's	Baa2	Baa2
S&Ps	BBB-	BBB
Fitch	BBB-	BBB-

Contribution to Changes in Public Debt

	Actual			Projections							
	2009-2017	2018	2019	2020	2021	2022	2023	2024	2025	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	1.9	4.3	-0.9	6.5	-1.0	-1.4	-1.3	-2.0	-2.1	-1.2	
Identified debt-creating flows	1.0	4.2	-1.4	3.5	-0.8	-1.3	-1.1	-1.7	-1.9	-3.3	
Primary deficit	0.2	0.6	-0.7	1.0	0.2	-0.5	-0.9	-1.5	-1.7	-3.5	-0.1
Primary (noninterest) revenue and grants	27.1	29.2	31.2	28.1	28.7	29.1	29.0	28.9	28.9	172.7	
Primary (noninterest) expenditure	27.3	29.8	30.5	29.0	28.9	28.6	28.1	27.4	27.1	169.2	
Automatic debt dynamics [5/]	0.8	1.7	-0.4	3.5	-1.0	-0.8	-0.2	-0.2	-0.1	1.1	
Interest rate/growth differential [6/]	0.2	-0.3	-0.6	3.5	-1.0	-0.8	-0.2	-0.2	-0.1	1.1	
Of which: real interest rate	1.5	0.9	1.1	2.1	1.3	1.4	1.9	1.8	1.8	10.4	
Of which: real GDP growth	-1.3	-1.2	-1.7	1.3	-2.3	-2.2	-2.1	-2.0	-1.9	-9.2	
Exchange rate depreciation [7/]	0.6	2.0	0.2	…	…	…	…	…	…	…	
Other identified debt-creating flows	0.0	1.9	-0.3	-1.0	0.0	0.0	0.0	0.0	0.0	-1.0	
Privatization (incl. concessions) (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Contingent liabilities	0.0	1.9	-0.3	-1.0	0.0	0.0	0.0	0.0	0.0	-1.0	
Residual, including asset changes [8/]	0.9	0.2	0.5	3.0	-0.1	-0.1	-0.1	-0.4	-0.2	2.1	



Source: IMF staff.

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).

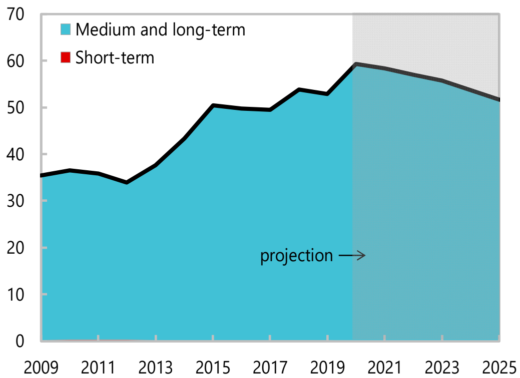
8/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

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.

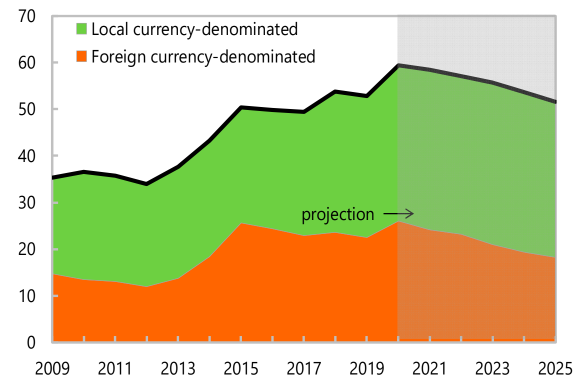
Figure 10. Colombia: Public DSA – Composition of Public Debt and Alternative Scenario

Composition of Public Debt

By Maturity
(in percent of GDP)



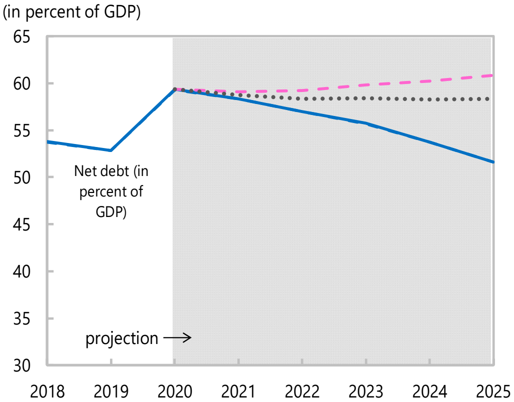
By Currency
(in percent of GDP)



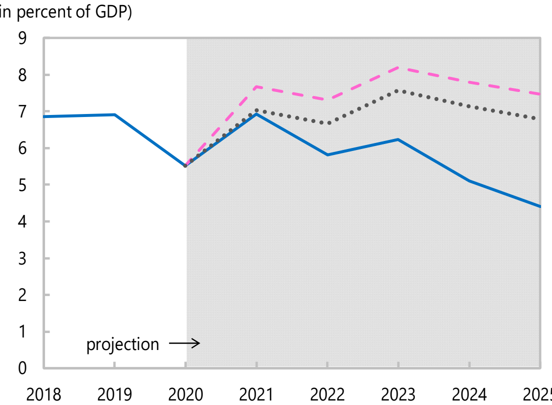
Alternative Scenarios

Baseline   Historical   Constant Primary Balance

Gross Nominal Public Debt
(in percent of GDP)



Public Gross Financing Needs
(in percent of GDP)



Underlying Assumptions
(in percent)

Baseline Scenario	2020	2021	2022	2023	2024	2025
Real GDP growth	-2.5	4.2	4.0	3.9	3.8	3.8
Inflation	4.4	3.5	3.2	3.1	3.0	3.0
Primary Balance	-1.0	-0.2	0.5	0.9	1.5	1.7
Effective interest rate	8.5	6.1	6.0	6.8	6.7	6.7
Constant Primary Balance Scenario						
Real GDP growth	-2.5	4.2	4.0	3.9	3.8	3.8
Inflation	4.4	3.5	3.2	3.1	3.0	3.0
Primary Balance	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0
Effective interest rate	8.5	6.1	6.0	6.8	6.6	6.6

Historical Scenario	2020	2021	2022	2023	2024	2025
Real GDP growth	-2.5	3.7	3.7	3.7	3.7	3.7
Inflation	4.4	3.5	3.2	3.1	3.0	3.0
Primary Balance	-1.0	-0.3	-0.3	-0.3	-0.3	-0.3
Effective interest rate	8.5	6.1	6.0	6.9	6.8	6.8

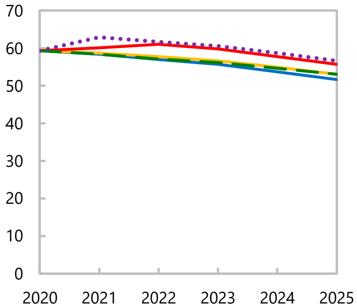
Source: IMF staff.

Figure 11. Colombia: Public DSA – Stress Tests

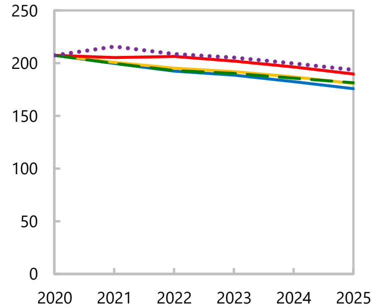
Macro-Fiscal Stress Tests

Baseline
Real GDP Growth Shock
Primary Balance Shock
Real Exchange Rate Shock
Real Interest Rate Shock

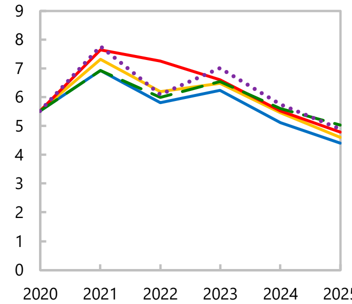
Gross Nominal Public Debt
(in percent of GDP)



Gross Nominal Public Debt
(in percent of Revenue)



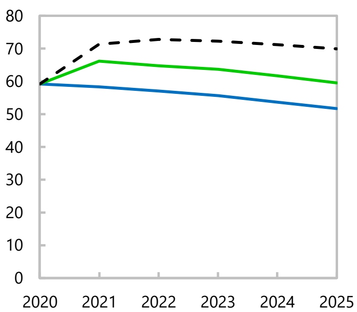
Public Gross Financing Needs
(in percent of GDP)



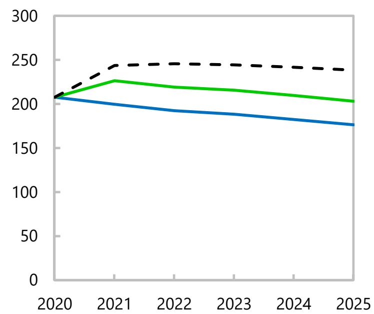
Additional Stress Tests

Baseline
30 percent depreciation
Combined Macro-Fiscal Shock

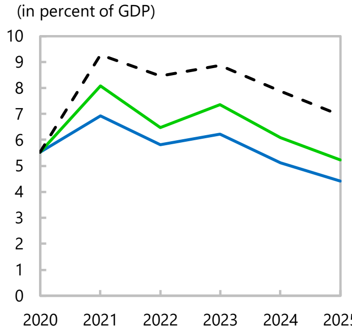
Gross Nominal Public Debt
(in percent of GDP)



Gross Nominal Public Debt
(in percent of Revenue)



Public Gross Financing Needs
(in percent of GDP)



Underlying Assumptions
(in percent)

Primary Balance Shock	2020	2021	2022	2023	2024	2025
Real GDP growth	-2.5	4.2	4.0	3.9	3.8	3.8
Inflation	4.4	3.5	3.2	3.1	3.0	3.0
Primary balance	-1.0	-0.6	0.1	0.7	1.2	1.6
Effective interest rate	8.5	6.1	6.0	6.8	6.7	6.7
Real Interest Rate Shock						
Real GDP growth	-2.5	4.2	4.0	3.9	3.8	3.8
Inflation	4.4	3.5	3.2	3.1	3.0	3.0
Primary balance	-1.0	-0.2	0.5	0.9	1.5	1.7
Effective interest rate	8.5	6.1	6.3	7.4	7.5	7.8
Combined Shock						
Real GDP growth	-2.5	2.6	2.4	3.9	3.8	3.8
Inflation	4.4	3.1	2.8	3.1	3.0	3.0
Primary balance	-1.0	-0.8	-0.7	0.7	1.2	1.6
Effective interest rate	8.5	7.4	6.4	7.6	7.6	7.8

Real GDP Growth Shock	2020	2021	2022	2023	2024	2025
Real GDP growth	-2.5	2.6	2.4	3.9	3.8	3.8
Inflation	4.4	3.1	2.8	3.1	3.0	3.0
Primary balance	-1.0	-0.8	-0.7	0.9	1.5	1.7
Effective interest rate	8.5	6.1	6.0	6.9	6.7	6.7
Real Exchange Rate Shock						
Real GDP growth	-2.5	4.2	4.0	3.9	3.8	3.8
Inflation	4.4	14.1	3.2	3.1	3.0	3.0
Primary balance	-1.0	-0.2	0.5	0.9	1.5	1.7
Effective interest rate	8.5	7.4	6.1	6.9	6.7	6.6

Source: IMF staff.

Table 1. Colombia: Selected Economic and Financial Indicators

I. Social and Demographic Indicators

Population (million), 2018	48.3	Unemployment rate, 2019 (percent)	10.5
GDP, 2018		Adult illliteracy rate (ages 15 and older), 2018	4.9
Per capita (US$)	6,911	Net secondary school enrollment rate, 2018	77.5
In billion of Col$	985,931	Gini coefficient, 2018	51.7
In billion of US$	333	Poverty rate, 2018	27.0
Life expectancy at birth (years), 2017	76.9		
Mortality rate, (under 5, per 1,000 live births), 2018	14.2		

II. Economic Indicators

	2015	2016	2017	2018	2019	Projections 2020	2021	2022	2023	2024	2025
	(In percentage change, unless otherwise indicated)										
National income and prices											
Real GDP	3.0	2.1	1.4	2.5	3.3	-2.5	4.2	4.0	3.9	3.8	3.8
Potential GDP	3.4	3.1	2.9	3.1	3.2	0.3	3.0	3.0	3.1	3.2	3.2
Output Gap	1.5	0.5	-1.1	-1.7	-1.5	-4.3	-3.2	-2.3	-1.6	-1.0	-0.4
GDP deflator	2.4	5.1	5.1	4.5	4.3	4.4	3.5	3.2	3.1	3.0	3.0
Consumer prices (average)	5.0	7.5	4.3	3.2	3.5	3.7	3.3	3.1	3.0	3.0	3.0
Consumer prices, end of period (eop)	6.8	5.8	4.1	3.2	3.8	3.3	3.1	3.0	3.0	3.0	3.0
External sector											
Exports (f.o.b.)	-32.2	-11.7	16.8	11.7	-4.6	-19.1	8.2	7.1	5.7	4.7	4.8
Imports (f.o.b.)	-15.4	-16.9	2.3	12.1	2.5	-12.3	6.9	5.1	4.9	4.7	4.3
Export volume	1.7	-0.2	2.6	0.8	3.1	-4.3	5.6	3.8	3.2	2.9	3.2
Import volume	-1.1	-3.5	1.0	5.8	9.2	-7.3	7.3	4.4	4.0	3.2	2.9
Terms of trade (deterioration -)	-17.5	3.6	9.3	5.8	0.1	-8.9	3.3	1.8	1.6	0.7	0.6
Real exchange rate (depreciation -) 1/	-20.6	-4.7	5.7	0.6	-9.1	NA	NA	NA	NA	NA	NA
Money and credit											
Broad money	11.6	9.5	6.4	5.7	10.0	4.4	10.8	10.1	9.5	9.0	8.9
Credit to the private sector	16.7	7.7	12.8	6.8	11.6	4.8	10.8	10.1	9.5	9.0	8.9
Policy rate, eop	5.8	7.5	4.8	4.3	4.3	NA	NA	NA	NA	NA	NA
	(In percent of GDP)										
Central government balance 2/	-3.1	-4.0	-3.6	-4.8	-2.5	-4.9	-3.7	-2.6	-1.7	-1.3	-1.0
Central government structural balance 3/	-3.9	-3.3	-2.6	-2.2	-2.1	-4.1	-2.5	-1.7	-1.2	-1.0	-0.9
Combined public sector (CPS) balance 4/	-3.4	-2.2	-2.4	-4.5	-2.0	-3.8	-3.1	-2.3	-1.9	-1.3	-1.0
CPS non-oil structural primary balance	-3.3	0.0	-0.1	-1.0	-1.4	-1.5	-0.5	-0.3	-0.3	0.2	0.2
CPS fiscal impulse	-0.4	-3.3	0.1	1.0	0.4	0.1	-1.0	-0.2	-0.1	-0.4	-0.1
Public debt	50.4	49.8	49.4	53.8	52.9	59.3	58.4	57.0	55.7	53.7	51.6
Public debt, excluding Ecopetrol	45.7	45.4	46.1	51.2	50.7	57.2	56.3	55.0	53.7	51.7	49.7
Gross domestic investment	23.8	23.2	21.6	21.3	22.3	18.9	18.9	19.2	19.7	20.0	20.2
Gross national savings	17.4	18.9	18.3	17.4	18.0	14.3	14.6	15.1	15.7	16.0	16.3
Current account (deficit -)	-6.3	-4.3	-3.3	-3.9	-4.3	-4.7	-4.3	-4.0	-4.0	-4.0	-3.9
External debt 5/	42.1	49.4	47.2	46.6	49.8	59.2	57.3	55.9	54.5	53.1	51.9
Of which: public sector 5/	26.5	31.9	30.3	28.9	30.1	35.5	33.6	32.8	30.7	29.2	28.1
	(In percent of exports of goods and services)										
External debt service	63.2	68.1	73.6	69.5	74.0	98.5	95.9	86.2	91.1	86.0	80.8
Interest payments	9.9	11.3	10.9	10.6	14.4	19.5	16.9	16.4	16.4	16.0	15.9
	(In billion of U.S. dollars; unless otherwise indicated)										
Exports (f.o.b.)	38.6	34.1	39.8	44.4	42.4	34.3	37.1	39.7	42.0	44.0	46.1
Of which: Petroleum products	14.6	10.8	13.3	16.8	16.0	9.2	10.0	11.1	11.8	12.2	12.5
Gross international reserves 6/	46.3	46.2	47.1	47.9	52.7	52.9	53.7	55.1	56.7	58.4	60.1

Sources: Colombian authorities; UNDP Human Development Report; World Development Indicators; and IMF staff estimates.
1/ Based on bilateral COL Peso/USD exchange rate.
2/ Includes one-off recognition of previously unrecognized accounts payable worth 1.9 percent of GDP in 2018 and central bank profits.
3/ IMF staff estimate, excludes one-off recognition of arrears.
4/ Includes the quasi-fiscal balance of Banco de la República, sales of assets, phone licenses, and statistical discrepancy.
5/ Includes foreign holdings of locally issued public debt (TES); does not include Banco de la República's outstanding external debt.
6/ Excludes Colombia's contribution to FLAR; includes valuation changes of reserves denominated in currencies other than U.S. dollars.

Table 2a. Colombia: Summary Balance of Payments

(In millions of US$, unless otherwise indicated)

						Projections					
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Current account balance	**-18,564**	**-12,036**	**-10,241**	**-13,047**	**-13,800**	**-13,263**	**-12,919**	**-13,029**	**-13,650**	**-14,421**	**-14,949**
Goods balance	-13,479	-9,176	-4,470	-5,144	-8,447	-10,288	-10,523	-10,324	-10,475	-10,961	-11,194
Exports, f.o.b.	38,572	34,063	39,777	44,440	42,374	34,265	37,085	39,727	42,004	43,999	46,110
Commodities	24,180	20,407	25,890	29,441	26,870	20,024	21,508	23,100	24,295	25,021	25,731
Fuel	14,566	10,796	13,308	16,843	15,969	9,189	9,966	11,084	11,815	12,189	12,500
Non-fuel	9,614	9,612	12,582	12,598	10,901	10,835	11,542	12,015	12,481	12,832	13,231
Non-traditional exports	10,418	9,520	10,062	10,716	10,571	9,504	9,973	10,675	11,396	12,254	13,206
Other	3,974	4,136	3,825	4,283	4,933	4,736	5,604	5,952	6,312	6,724	7,174
Imports, f.o.b.	52,051	43,239	44,247	49,584	50,821	44,552	47,609	50,051	52,479	54,960	57,304
Consumer goods	11,103	10,114	10,161	11,273	11,688	10,442	10,939	11,542	12,067	12,622	13,151
Intermediate goods	21,814	18,809	18,889	21,502	21,796	18,927	20,207	21,219	22,290	23,316	24,292
Capital goods	17,407	12,527	13,210	14,814	15,477	13,672	14,528	15,219	15,911	16,644	17,299
Other	1,726	1,789	1,987	1,995	1,860	1,511	1,935	2,071	2,211	2,377	2,562
Services balance	-4,788	-3,530	-3,977	-3,782	-3,720	-2,928	-3,041	-3,373	-3,444	-3,360	-3,202
Exports of services	7,426	7,771	8,461	9,654	9,988	8,074	9,602	10,050	10,636	11,315	12,043
Imports of services	12,214	11,301	12,438	13,436	13,708	11,002	12,642	13,423	14,079	14,675	15,245
Primary income balance	-5,727	-5,229	-8,405	-11,764	-10,309	-8,126	-8,075	-8,473	-9,297	-10,111	-11,026
Receipts	4,483	4,996	5,479	6,117	6,934	5,279	5,907	6,621	7,055	7,253	7,469
Expenditures	10,211	10,225	13,884	17,881	17,243	13,404	13,981	15,094	16,351	17,364	18,495
Secondary income balance	5,430	5,898	6,611	7,643	8,676	8,078	8,719	9,141	9,566	10,011	10,473
Financial account balance	**-18,244**	**-12,273**	**-9,558**	**-12,415**	**-13,102**	**-13,263**	**-12,919**	**-13,029**	**-13,650**	**-14,421**	**-14,949**
Direct Investment	-7,506	-9,330	-10,147	-6,409	-11,279	-9,604	-11,761	-12,437	-13,135	-13,741	-14,378
Assets	4,218	4,517	3,690	5,126	3,214	2,184	2,200	2,241	2,282	2,323	2,364
Liabilities	11,724	13,848	13,837	11,535	14,493	11,788	13,961	14,679	15,417	16,064	16,743
Oil sector	2,566	2,386	3,106	2,540	2,818	1,542	2,326	2,446	2,568	2,676	2,789
Non-oil sectors	9,157	11,462	10,730	8,995	11,676	10,247	11,635	12,233	12,848	13,387	13,953
Portfolio Investment	-9,166	-4,839	-1,617	1,297	506	-1,639	-2,396	-2,989	-2,432	-2,299	-3,172
Assets	-475	5,190	6,200	1,646	540	820	336	1,085	835	335	835
Liabilities	8,691	10,029	7,817	349	33	2,459	2,732	4,075	3,267	2,634	4,006
Equity	640	-363	472	-823	-1,232	-229	-465	-484	-686	-656	-534
Debt instruments	8,051	10,392	7,345	1,172	1,265	2,688	3,197	4,559	3,953	3,290	4,540
General government	5,651	8,792	6,011	4,529	366	3,188	3,197	4,559	3,953	3,040	4,290
Banks	400	1,100	300	-800	0	-250	0	0	0	250	250
Corporates and households	2,000	500	1,034	-2,557	899	-250	0	0	0	0	0
Derivatives	1,956	-621	365	21	84	0	0	0	0	0	0
Other Investments	-3,943	2,353	1,296	-8,511	-5,746	-2,220	415	1,019	270	-59	873
Change in reserve assets	415	165	545	1,187	3,332	200	822	1,379	1,646	1,678	1,727
Net errors and omissions	**320**	**-237**	**683**	**632**	**698**	**0**	**0**	**0**	**0**	**0**	**0**
Memorandum items:											
Brent Crude Oil Price (US$/barrel)	52	44	54	71	64	37	39	43	45	47	49
Nominal exchange rate (Col$/US$, period average)	2,742	3,055	2,951	2,956	3,281	3,806	3,844	3,883	3,922	3,961	4,001

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

Table 2b. Colombia: Summary Balance of Payments

(In Percent of GDP)

						Projections					
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Current account balance	**-6.3**	**-4.3**	**-3.3**	**-3.9**	**-4.3**	**-4.7**	**-4.3**	**-4.0**	**-4.0**	**-4.0**	**-3.9**
Goods balance	-4.6	-3.2	-1.4	-1.5	-2.6	-3.6	-3.5	-3.2	-3.1	-3.0	-2.9
Exports, f.o.b.	13.1	12.0	12.8	13.3	13.1	12.1	12.2	12.3	12.3	12.1	12.0
Commodities	8.2	7.2	8.3	8.8	8.3	7.0	7.1	7.2	7.1	6.9	6.7
Fuel	5.0	3.8	4.3	5.1	4.9	3.2	3.3	3.4	3.4	3.4	3.3
Non-fuel	3.3	3.4	4.0	3.8	3.4	3.8	3.8	3.7	3.6	3.5	3.4
Non-traditional exports	3.5	3.4	3.2	3.2	3.3	3.3	3.3	3.3	3.3	3.4	3.4
Other	1.4	1.5	1.2	1.3	1.5	1.7	1.8	1.8	1.8	1.9	1.9
Imports, f.o.b.	17.7	15.3	14.2	14.9	15.7	15.7	15.7	15.5	15.3	15.1	14.9
Consumer goods	3.8	3.6	3.3	3.4	3.6	3.7	3.6	3.6	3.5	3.5	3.4
Intermediate goods	7.4	6.7	6.1	6.4	6.7	6.7	6.7	6.6	6.5	6.4	6.3
Capital goods	5.9	4.4	4.2	4.4	4.8	4.8	4.8	4.7	4.6	4.6	4.5
Other	0.6	0.6	0.6	0.6	0.6	0.5	0.6	0.6	0.6	0.7	0.7
Services balance	-1.6	-1.2	-1.3	-1.1	-1.1	-1.0	-1.0	-1.0	-1.0	-0.9	-0.8
Exports of services	2.5	2.7	2.7	2.9	3.1	2.8	3.2	3.1	3.1	3.1	3.1
Imports of services	4.2	4.0	4.0	4.0	4.2	3.9	4.2	4.2	4.1	4.0	4.0
Primary income balance	-2.0	-1.8	-2.7	-3.5	-3.2	-2.9	-2.7	-2.6	-2.7	-2.8	-2.9
Receipts	1.5	1.8	1.8	1.8	2.1	1.9	1.9	2.1	2.1	2.0	1.9
Expenditures	3.5	3.6	4.5	5.4	5.3	4.7	4.6	4.7	4.8	4.8	4.8
Secondary income balance	1.9	2.1	2.1	2.3	2.7	2.8	2.9	2.8	2.8	2.8	2.7
Financial account balance	**-6.2**	**-4.3**	**-3.1**	**-3.7**	**-4.0**	**-4.7**	**-4.3**	**-4.0**	**-4.0**	**-4.0**	**-3.9**
Direct Investment	-2.6	-3.3	-3.3	-1.9	-3.5	-3.4	-3.9	-3.9	-3.8	-3.8	-3.7
Assets	1.4	1.6	1.2	1.5	1.0	0.8	0.7	0.7	0.7	0.6	0.6
Liabilities	4.0	4.9	4.4	3.5	4.5	4.1	4.6	4.5	4.5	4.4	4.4
Oil sector	0.9	0.8	1.0	0.8	0.9	0.5	0.8	0.8	0.7	0.7	0.7
Non-oil sectors	3.1	4.1	3.4	2.7	3.6	3.6	3.8	3.8	3.7	3.7	3.6
Portfolio Investment	-3.1	-1.7	-0.5	0.4	0.2	-0.6	-0.8	-0.9	-0.7	-0.6	-0.8
Assets	-0.2	1.8	2.0	0.5	0.2	0.3	0.1	0.3	0.2	0.1	0.2
Liabilities	3.0	3.5	2.5	0.1	0.0	0.9	0.9	1.3	1.0	0.7	1.0
Equity	0.2	-0.1	0.2	-0.2	-0.4	-0.1	-0.2	-0.1	-0.2	-0.2	-0.1
Debt instruments	2.7	3.7	2.4	0.4	0.4	0.9	1.1	1.4	1.2	0.9	1.2
General government	1.9	3.1	1.9	1.4	0.1	1.1	1.1	1.4	1.2	0.8	1.1
Banks	0.1	0.4	0.1	-0.2	0.0	-0.1	0.0	0.0	0.0	0.1	0.1
Corporates and households	0.7	0.2	0.3	-0.8	0.3	-0.1	0.0	0.0	0.0	0.0	0.0
Derivatives	0.7	-0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Investments	-1.3	0.8	0.4	-2.6	-1.8	-0.8	0.1	0.3	0.1	0.0	0.2
Change in Reserve Assets	0.1	0.1	0.2	0.4	1.0	0.1	0.3	0.4	0.5	0.5	0.4
Net errors and omissions	**0.1**	**-0.1**	**0.2**	**0.2**	**0.2**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

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

GDP (Billion, Us dollars)	293	283	312	333	324	284	304	323	343	363	384

Table 3. Colombia: External Financing Requirements and Sources, 2018–21

(In millions of U.S. dollars)

	2018	2019	2020 (Staff Projections)			2021 (Staff Projections)			Rollover/shock	2018 rollover/shock	2016 rollover/shock	2015 rollover/shock
			Baseline	Adverse Scenario	Contribution to gap	Baseline	Adverse Scenario	Contribution to gap				
Gross financing requirements	**46,100**	**48,364**	**46,895**	**42,158**	**(4,737)**	**50,634**	**45,002**	**(5,632)**				
External current account deficit 1/	13,047	13,800	13,263	17,985	4,722	12,919	17,369	4,449	28% shock to oil price; 10% shock to commodity prices	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
Debt amortization	31,866	31,232	33,432	33,432		36,892	36,892					
Medium and long term debt	15,440	10,482	11,761	11,761		14,696	14,696					
Public sector 2/	6,254	4,742	2,594	2,594		6,293	6,293					
Private sector	9,185	5,740	9,166	9,166		8,403	8,403					
Short-term debt 3/	16,426	20,749	21,671	21,671		22,196	22,196					
Public sector	591	766	766	766		766	766					
Private sector	15,835	19,984	20,906	20,906		21,431	21,431					
Gross reserves accumulation 4/	1,187	3,332	200	-9,259	(9,459)	822	-9,259	(10,081)				
Available financing	**46,100**	**48,364**	**46,895**	**31,317**	**15,578**	**50,634**	**34,416**	**16,217**				
Foreign direct investment (net)	6,409	11,279	9,604	7,247		11,761	8,968					
o/w inward (net)	11,535	14,493	11,788	9,431	2,358	13,961	11,168	2,792	20% reduction	20% reduction	20% reduction	20% reduction
Other K inflows												
Medium and LT debt disbursements	17,444	13,110	16,055	8,764		17,745	10,409					
Public sector 2/	7,580	5,844	5,988	2,075	3,913	7,542	3,629	3,913	80%	80%	80%	149%
Private sector	9,864	7,266	10,066	6,689	3,378	10,203	6,780	3,424	73%	73%	73%	80%
Short-term debt 3/	20,803	21,671	22,196	17,337		22,918	17,900					
Public sector	766	766	766	612	153	766	612	153	80%	80%	80%	90%
Private sector	20,037	20,906	21,431	16,724	4,706	22,152	17,288	4,865	80%	80%	85%	90%
Other capital flows (net) 4/	1,444	2,305	-960	-2,031	1,071	-1,790	-2,861	1,071	100% reduction in equity portfolio investment + $1 bln sell-off	100% reduction in equity portfolio investment + $1 bln sell-off	100% reduction in equity portfolio investment	No shock
Financing gap (in US$ millions)					**10,841**			**10,586**				
Percent of quota 5/					*384*			*373*				
Gross international reserves 6/	47,897	52,654	52,854	43,595		53,676	44,417					
Net international reserves 4/	48,402	51,734	51,934	42,675		52,756	52,756					
Net international reserves (program definition) 6/	47,888	51,221	51,421			26,202						
o/w portfolio flows (including pension funds)	48,393	51,725	51,925									
GIR/ARA (constant ARA)	132	141	142	117		137	114					
GIR/ARA (adjusting ARA)	132	141	142	130		137	124					
GIR / (st debt at remaining maturity + ca deficit) 7/	106	113	106	88		112	93					
GIR (months of imports of G&S in same year) 7/	9	10	11	9		11	9					

Sources: Colombian authorities; and IMF staff estimates.

1/ Including lower oil-related imports and lower oil-related income outflows reflecting the decline in oil prices as well as improvements from depreciation.
of the peso. The latter comprises a slight expansion of nontraditional exports, a compression of the imports of goods and services, and a reduction of the U.S. dollar value of peso-denominated interest payments.
2/ Including financial public sector.
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 2020 and 2021, respectively.
6/ IMF definition that excludes Colombia's contribution to Fondo Latinoamericano de Reservas (FLAR) and includes valuation changes of reserves denominated in other currencies than U.S. dollars.
7/ Adverse scenarios hold denominator (imports, st debt, or current account) constant. Debt excludes TES.

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

						Projections					
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Total revenue	**16.0**	**14.9**	**15.7**	**15.3**	**16.5**	**15.0**	**15.2**	**15.6**	**15.6**	**15.6**	**15.6**
Current revenue	**14.6**	**13.7**	**14.4**	**13.8**	**14.4**	**13.0**	**14.1**	**14.4**	**14.4**	**14.4**	**14.4**
Tax revenue	**14.5**	**13.6**	**13.8**	**13.7**	**14.2**	**12.8**	**13.9**	**14.2**	**14.2**	**14.2**	**14.3**
Net income tax and profits	4.8	4.7	5.7	6.5	6.7	5.5	5.8	6.0	6.1	6.1	6.1
Goods and services	5.2	4.8	5.5	5.7	6.1	5.4	6.2	6.2	6.2	6.2	6.2
Value-added tax	5.2	4.8	5.5	5.7	6.0	5.4	6.2	6.1	6.1	6.1	6.1
International trade	0.6	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Financial transaction tax	0.8	0.8	0.7	0.7	0.8	0.7	0.8	0.8	0.8	0.8	0.8
Stamp and other taxes	3.1	2.8	1.4	0.5	0.3	0.7	0.9	0.8	0.8	0.8	0.8
Nontax revenue	**1.6**	**1.3**	**1.9**	**1.6**	**2.3**	**2.3**	**1.3**	**1.3**	**1.3**	**1.3**	**1.3**
Property income	0.2	0.4	0.4	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Other	1.3	0.8	1.0	1.3	2.0	1.9	0.9	1.0	1.0	1.0	1.0
Total expenditure and net lending	**19.1**	**18.9**	**19.3**	**20.1**	**19.0**	**19.9**	**18.9**	**18.1**	**17.3**	**16.9**	**16.6**
Current expenditure	**15.0**	**15.5**	**16.0**	**17.5**	**16.0**	**17.5**	**16.9**	**16.3**	**15.8**	**15.5**	**15.3**
Wages and salaries	2.4	2.4	2.2	2.3	2.2	2.2	2.1	2.1	2.1	2.1	2.1
Goods and services	0.5	0.5	0.7	0.4	0.6	1.1	0.8	0.5	0.4	0.4	0.4
Interest	2.6	2.9	2.9	2.8	3.0	3.3	3.3	3.3	3.1	3.2	3.1
External	0.7	0.7	0.7	0.7	0.9	1.1	1.0	0.9	0.8	0.8	0.7
Domestic	1.9	2.2	2.2	2.1	2.1	2.3	2.4	2.4	2.3	2.4	2.3
Current transfers	9.5	9.7	10.2	12.1	10.3	10.8	10.7	10.4	10.1	9.9	9.8
Capital expenditure	**4.1**	**3.4**	**3.3**	**2.6**	**3.0**	**2.5**	**2.0**	**1.9**	**1.6**	**1.4**	**1.3**
Fixed capital formation	3.0	2.3	2.1	1.5	1.9	1.5	1.1	0.9	0.6	0.4	0.4
Capital transfers	1.1	1.2	1.2	1.1	1.1	1.0	1.0	1.0	0.9	0.9	0.9
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/	**-3.1**	**-4.0**	**-3.6**	**-4.8**	**-2.5**	**-4.9**	**-3.7**	**-2.6**	**-1.7**	**-1.3**	**-1.0**
Memorandum items:											
Oil-related revenues 3/	1.1	0.2	0.2	0.6	1.3	0.9	0.6	0.7	0.8	0.8	0.8
Structural balance 4/	-3.9	-3.3	-2.6	-2.2	-2.1	-4.1	-2.5	-1.7	-1.2	-1.0	-0.9
Structural primary non-oil balance	-1.8	-1.3	-0.7	-0.4	0.1	-1.7	0.0	0.6	1.1	1.3	1.4
Fiscal Impulse	-1.2	-0.5	-0.6	-0.3	-0.5	1.8	-1.7	-0.6	-0.5	-0.2	-0.1
Non-oil balance	-4.2	-4.2	-3.8	-3.5	-3.2	-5.8	-3.9	-3.1	-2.4	-2.0	-1.8
Primary balance	-0.5	-1.1	-0.7	-2.0	0.5	-1.5	-0.3	0.7	1.4	1.9	2.1
Nominal GDP (in Col$ trillion)	804.7	863.8	920.5	985.9	1,062.3	1,081.3	1,167.1	1,253.5	1,343.8	1,437.9	1,537.9

Sources: Ministry of Finance; Banco de la República; and IMF staff estimates and projections.

1/ Includes central administration only.

2/ Includes central bank profits. For 2018, it includes recognition of accounts payable worth 1.9 percent of GDP. From 2020 ownwards, the deficits are staff estimates that may not be consistent with announced headline deficit targets by the Fiscal Rule Consultative Committee.

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					
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Total revenue 2/	**27.8**	**27.7**	**26.8**	**30.0**	**31.6**	**28.6**	**29.2**	**29.6**	**29.5**	**29.4**	**29.3**
Tax revenue	19.0	18.2	18.8	21.3	21.8	20.5	21.6	21.8	21.8	21.7	21.8
Nontax revenue	8.8	9.5	8.0	8.8	9.8	8.1	7.7	7.8	7.8	7.7	7.5
Financial income	1.0	1.3	1.1	0.8	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Operating surplus of public enterprises 3/	2.2	2.0	2.3	2.3	2.1	2.1	2.1	2.1	2.1	2.1	2.1
Other 4/	5.6	6.1	4.6	5.6	7.2	5.5	5.0	5.2	5.1	5.0	4.9
Total expenditure and net lending 5/	**31.2**	**30.1**	**29.4**	**34.6**	**33.8**	**32.6**	**32.5**	**32.0**	**31.5**	**30.9**	**30.4**
Current expenditure	24.3	24.4	24.9	31.5	29.3	30.0	28.7	27.9	27.4	27.1	26.8
Wages and salaries	5.5	5.5	5.6	5.3	5.2	5.3	5.2	5.2	5.1	5.1	5.1
Goods and services	3.2	3.4	3.8	2.3	2.3	2.9	2.5	2.2	2.1	2.1	2.1
Interest	2.8	3.3	3.1	3.0	3.3	3.6	3.5	3.5	3.4	3.4	3.3
External	0.8	0.9	0.7	0.7	1.3	1.4	1.3	1.2	1.1	1.0	0.9
Domestic	2.0	2.4	2.4	2.3	2.1	2.1	2.2	2.3	2.3	2.4	2.4
Transfers to private sector	8.0	7.7	8.0	13.5	13.0	13.2	12.4	12.1	11.7	11.5	11.4
Other 6/	4.8	4.6	4.3	7.4	5.4	5.1	5.1	5.0	5.0	4.9	4.9
Capital expenditure	6.9	5.7	4.6	3.1	4.5	2.6	3.8	4.1	4.1	3.7	3.7
Statistical discrepancy	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Nonfinancial public sector balance	**-3.5**	**-2.3**	**-2.5**	**-4.7**	**-2.1**	**-4.0**	**-3.2**	**-2.5**	**-2.0**	**-1.5**	**-1.1**
Fogafin balance	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Net cost of financial restructuring 7/	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 8/	**-3.4**	**-2.2**	**-2.4**	**-4.5**	**-2.0**	**-3.8**	**-3.1**	**-2.3**	**-1.9**	**-1.3**	**-1.0**
Overall financing	**3.4**	**2.2**	**2.4**	**4.5**	**2.0**	**3.8**	**3.1**	**2.3**	**1.9**	**1.3**	**1.0**
Foreign, net	2.5	1.6	2.6	1.3	0.9	1.0	0.2	1.0	-0.3	0.0	0.4
Domestic, net	0.8	0.6	-0.2	3.2	1.1	2.8	2.9	1.3	2.3	1.4	0.6
Memorandum items:											
Overall structural balance 9/	-3.8	-1.5	-1.3	-2.0	-1.8	-2.5	-1.2	-1.0	-1.2	-1.1	-0.9
Primary balance 10/	-0.6	1.1	0.8	-1.5	1.3	-0.3	0.4	1.2	1.5	2.1	2.3
Oil-related revenues 11/	2.2	1.0	1.1	1.9	3.3	2.2	1.8	2.0	2.0	2.0	2.0
Total public debt 12/	50.4	49.8	49.4	53.8	52.9	59.3	58.4	57.0	55.7	53.7	51.6
Nominal GDP (In Col$ trillion)	804.7	863.8	920.5	985.9	1,062.3	1,081.3	1,167.1	1,253.5	1,343.8	1,437.9	1,537.9

Sources: Ministry of Finance; Banco de la República; and IMF staff estimates and projections.

1/ The combined public sector includes the central, regional and local governments, social security, and public sector enterprises.

2/ From 2018, tax revenues include social contributions collected by public health providers.

3/ For 2016, excludes proceeds from the sale of ISAGEN and for 2018, it includes the recognition of accounts payable worth 1.9 percent of GDP. From 2020 ownwards, the deficits are staff estimates that may not be consistent with announced headline deficit targets by the Fiscal Rule Consultative Committee for the central government.

4/ Includes royalties, dividends and social security contributions.

5/ Expenditure reported on commitments basis. From 2015 onwards, previously recorded capital expenditures have been reclassified as wages and salaries and goods and services.

6/ Includes adjustments to compute spending on commitment basis and the change in unpaid bills of nonfinancial public enterprises.

7/ Interest payments on public banks restructuring bonds and mortgage debt relief related costs.

8/ For 2019, includes the recognition of arrears worth 1.8 percent of GDP.

9/ 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.

10/ Includes statistical discrepancy. Overall balance plus interest expenditures.

11/ Includes income tax payments and dividends from Ecopetrol that correspond to earnings from the previous year, and royalties to local governments.

12/ Includes Ecopetrol and Banco de la República's outstanding external debt.

Table 6. Colombia: Monetary Indicators

						Projections					
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
	(In billions of Col$, unless otherwise indicated)										
Central Bank											
Net Foreign Assets	145,823.2	138,859.3	140,586.1	155,542.5	172,577.7	200,908.9	206,084.8	213,489.4	222,073.1	230,930.6	240,141.0
Gross official reserve assets	145,726.0	138,631.7	140,724.9	155,646.7	172,548.8	200,938.5	206,089.8	213,499.7	222,085.8	230,940.5	240,151.7
In billions of US$	46.3	46.2	47.2	47.9	52.7	52.9	53.7	55.1	56.7	58.4	60.1
Short-term foreign liabilities	43.1	20.2	64.8	0.0	0.0	21.6	7.2	9.6	12.8	9.9	10.8
Other net foreign assets	140.3	247.9	-74.0	-104.2	28.9	-8.0	2.2	-0.6	0.2	0.0	0.0
Net domestic assets	-63,301.3	-54,259.4	-51,773.4	-57,461.5	-60,123.9	-86,451.3	-82,537.9	-80,802.7	-79,821.1	-78,725.5	-77,349.7
Net credit to the public sector	-9,268.0	-5,987.7	-2,490.6	-1,524.9	3,034.3	4,362.9	4,165.4	4,077.8	4,028.3	3,973.0	3,903.6
Net credit to the financial system	6,525.0	5,678.6	3,808.4	9,016.5	8,435.0	12,128.6	11,579.6	11,336.1	11,198.4	11,044.7	10,851.7
Other	-60,558.2	-53,950.3	-53,091.3	-64,953.1	-71,593.1	-102,942.8	-98,282.9	-96,216.6	-95,047.8	-93,743.2	-92,105.0
Monetary base	82,522.0	84,599.9	88,812.7	98,081.0	112,453.8	114,457.6	123,546.9	132,686.8	142,252.1	152,205.1	162,791.2
Currency in circulation	66,739.5	69,222.0	74,057.6	80,653.3	91,659.3	93,292.5	100,701.1	108,150.8	115,947.3	124,059.9	132,688.5
Deposit money banks reserves	15,711.5	15,283.3	14,671.5	17,322.5	20,649.2	38,613.3	40,439.9	43,542.9	46,723.7	50,043.2	53,534.4
Other deposits	70.9	94.7	83.6	105.2	145.3	145.3	145.3	145.3	145.3	145.3	145.3
Financial system											
Net foreign assets	131,762.9	130,824.5	128,443.1	131,230.3	145,975.5	173,832.7	176,858.4	182,101.0	188,421.9	194,924.8	201,630.9
In billions of US$	41.8	43.6	43.0	40.4	44.5	45.7	46.1	47.0	48.1	49.3	50.5
Net domestic assets	272,762.2	312,194.1	343,014.5	367,175.1	402,159.3	398,689.0	457,275.1	516,366.1	576,745.1	639,341.4	706,848.0
Net credit to public sector	32,255.2	34,554.5	42,089.3	43,902.9	57,916.7	77,055.8	88,385.6	95,504.4	106,598.5	114,740.7	119,741.1
Credit to private sector	377,443.9	406,445.7	458,444.5	489,621.5	546,519.9	572,521.7	634,133.5	698,467.1	765,167.0	834,266.2	908,478.9
Other net	-136,774.0	-128,640.6	-157,352.6	-166,212.3	-202,096.3	-249,738.5	-270,710.6	-297,395.8	-335,084.0	-384,478.5	-438,836.2
Broad money	404,525.1	443,018.6	471,457.6	498,405.4	548,134.8	572,521.7	634,133.5	698,467.1	765,167.0	834,266.2	908,478.9
	(Annual percentage change)										
Credit to private sector	16.7	7.7	12.8	6.8	11.6	4.8	10.8	10.1	9.5	9.0	8.9
Currency	18.3	3.7	7.0	8.9	13.6	1.8	7.9	7.4	7.2	7.0	7.0
Monetary base	18.4	2.5	5.0	10.4	14.7	1.8	7.9	7.4	7.2	7.0	7.0
Broad money 1/	11.6	9.5	6.4	5.7	10.0	4.4	10.8	10.1	9.5	9.0	8.9
	(In percent of GDP)										
Credit to private sector	46.9	47.1	49.8	49.7	51.4	52.9	54.3	55.7	56.9	58.0	59.1
Currency	8.3	8.0	8.0	8.2	8.6	8.6	8.6	8.6	8.6	8.6	8.6
Monetary base	10.3	9.8	9.6	9.9	10.6	10.6	10.6	10.6	10.6	10.6	10.6
Broad money	50.3	51.3	51.2	50.6	51.6	52.9	54.3	55.7	56.9	58.0	59.1
Memorandum items:											
CPI inflation, eop	6.8	5.8	4.1	3.2	3.8	3.3	3.1	3.0	3.0	3.0	3.0
Nominal GDP (In Col$ billions)	804,692	863,783	920,470	985,931	1,062,343	1,081,273	1,167,139	1,253,482	1,343,845	1,437,870	1,537,877

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

1/Broad money includes nonliquid liabilities to the domestic nonfinancial private sector.

Table 7. Colombia: Medium-Term Outlook

						Projections					
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
					(In percent of GDP, unless otherwise indicated)						
Real GDP (in percent change)	3.0	2.1	1.4	2.5	3.3	-2.5	4.2	4.0	3.9	3.8	3.8
Consumer prices (in percent change; eop)	6.8	5.8	4.1	3.2	3.8	3.3	3.1	3.0	3.0	3.0	3.0
Gross national savings	17.4	18.9	18.3	17.4	18.0	14.3	14.6	15.1	15.7	16.0	16.3
Private sector	14.1	15.7	16.3	19.1	15.9	15.8	14.2	13.6	13.8	13.9	14.0
Public sector	3.3	3.3	2.0	-1.7	2.2	-1.5	0.4	1.5	1.9	2.1	2.4
Gross domestic investment	23.8	23.2	21.6	21.3	22.3	18.9	18.9	19.2	19.7	20.0	20.2
					(In percent of GDP, unless otherwise indicated)						
Nonfinancial public sector 1/											
Revenue	27.8	27.7	26.8	30.0	31.6	28.6	29.2	29.6	29.5	29.4	29.3
Expenditure	31.2	30.1	29.4	34.6	33.8	32.6	32.5	32.0	31.5	30.9	30.4
Current expenditure	24.3	24.4	24.9	31.5	29.3	30.0	28.7	27.9	27.4	27.1	26.8
Capital expenditure	6.9	5.7	4.6	3.1	4.5	2.6	3.8	4.1	4.1	3.7	3.7
Primary balance 2/3/	-0.5	-1.1	-0.7	-2.0	0.5	-1.5	-0.3	0.7	1.4	1.9	2.1
Overall balance 2/3/	-3.5	-2.3	-2.5	-4.7	-2.1	-4.0	-3.2	-2.5	-2.0	-1.5	-1.1
Combined public sector balance 3/	-3.4	-2.2	-2.4	-4.5	-2.0	-3.8	-3.1	-2.3	-1.9	-1.3	-1.0
External financing	2.5	1.6	2.6	1.3	0.9	1.0	0.2	1.0	-0.3	0.0	0.4
Domestic financing	0.8	0.6	-0.2	3.2	1.1	2.8	2.9	1.3	2.3	1.4	0.6
External current account balance	-6.3	-4.3	-3.3	-3.9	-4.3	-4.7	-4.3	-4.0	-4.0	-4.0	-3.9
Trade balance	-4.6	-3.2	-1.4	-1.5	-2.6	-3.6	-3.5	-3.2	-3.1	-3.0	-2.9
Exports	13.1	12.0	12.8	13.3	13.1	12.1	12.2	12.3	12.3	12.1	12.0
Imports	17.7	15.3	14.2	14.9	15.7	15.7	15.7	15.5	15.3	15.1	14.9
Financial account balance	-6.2	-4.3	-3.1	-3.7	-4.0	-4.7	-4.3	-4.0	-4.0	-4.0	-3.9
Direct Investment	-2.6	-3.3	-3.3	-1.9	-3.5	-3.4	-3.9	-3.9	-3.8	-3.8	-3.7
Portfolio Investment	-3.1	-1.7	-0.5	0.4	0.2	-0.6	-0.8	-0.9	-0.7	-0.6	-0.8
Other Investments and Derivatives	-0.7	0.6	0.5	-2.5	-1.7	-0.8	0.1	0.3	0.1	0.0	0.2
Change in Reserve Assets	0.1	0.1	0.2	0.4	1.0	0.1	0.3	0.4	0.5	0.5	0.4
Gross public sector debt 4/	50.4	49.8	49.4	53.8	52.9	59.3	58.4	57.0	55.7	53.7	51.6
Gross public sector debt, excluding Ecopetrol	45.7	45.4	46.1	51.2	50.7	57.2	56.3	55.0	53.7	51.7	49.7
Total public net debt 5/	42.1	38.6	38.6	43.2	44.0	43.9	42.2	40.7	39.7	38.4	37.3
Memorandum items:											
Nominal GDP (in Col$ billion)	804,692	863,783	920,470	985,931	1,062,343	1,081,273	1,167,139	1,253,482	1,343,845	1,437,870	1,537,877
Crude oil, spot price	50.8	42.8	52.8	68.3	61.4	35.6	37.9	40.9	43.2	45.0	46.4

Sources: Colombian authorities and IMF staff estimates and projections.

1/ Excludes Ecopetrol.

2/ Includes statistical discrepancy.

3/ For 2016, excludes proceeds from the sale of ISAGEN and for 2018, it includes recognition of accounts payable worth 1.9 percent of GDP. From 2020 ownwards, the deficits are staff estimates that may not be consistent with announced headline deficit targets by the Fiscal Rule Consultative Committee for the central government.

4/ Includes debt of the non-financial public sector, plus Ecopetrol, FOGAFIN and FINAGRO.

5/ Gross debt minus financial assets (public sector deposits in domestic and foreign financial institutions) including Fogafin and Finagro.

Table 8. Colombia: Financial Soundness Indicators 1/

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

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Capital Adequacy										
Regulatory capital to risk-weighted assets	17.3	16.9	18.1	17.0	17.0	16.9	17.5	18.6	18.5	17.6
Regulatory Tier 1 capital to risk-weighted assets	13.0	13.4	13.7	12.0	11.7	11.4	11.4	12.4	12.7	12.2
Capital (net worth) to assets 2/	14.2	14.3	14.7	14.8	14.9	14.1	16.2	16.1	16.6	17.0
Asset Quality and Distribution										
Nonperforming loans to gross loans (30-day)	NA	NA	NA	NA	NA	2.9	3.2	4.3	4.6	4.3
Nonperforming loans to commercial loans (90-day)	NA	NA	NA	NA	NA	1.6	1.8	3.0	3.8	3.4
Provisions to nonperforming loans	175.0	182.0	163.9	160.7	151.3	155.5	153.5	134.7	137.5	142.4
Gross loans to assets	67.9	70.4	69.6	68.2	69.3	70.2	69.3	70.1	70.5	69.2
Earnings and Profitability										
ROAA	3.4	3.3	3.1	2.8	2.9	2.7	3.0	2.2	2.6	2.9
ROAE	23.7	23.0	21.2	19.5	19.8	18.9	18.3	13.7	16.0	17.3
Interest margin to gross income	55.6	58.4	58.7	61.3	60.6	58.7	53.7	59.2	57.3	56.4
Noninterest expenses to gross income	47.0	49.3	47.2	47.0	44.6	43.4	41.2	43.9	41.9	40.4
Liquidity										
Liquid assets to total assets 3/	22.1	21.5	21.6	21.4	19.8	18.9	18.0	18.6	19.2	17.7
Liquid assets to short-term liabilities 3/	42.7	43.7	43.6	41.9	40.3	39.9	39.9	42.6	43.0	40.0
Deposit to loan ratio	93.5	91.4	94.7	96.3	91.6	93.2	92.6	92.7	92.0	91.2
Other										
Foreign-currency-denominated loans to total loans	6.9	7.7	7.5	7.3	8.4	8.3	6.9	6.1	5.9	5.0
Foreign-currency-denominated liabilities to total liabilities	9.8	11.5	10.5	11.9	13.5	13.9	11.8	11.0	11.6	11.4
Net open position in foreign exchange to capital 4/	0.6	1.0	0.6	0.5	0.7	1.3	5.5	6.4	7.1	0.7

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					
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Exports of GNFS	46.0	41.8	48.2	54.1	52.4	42.3	46.7	49.8	52.6	55.3	58.2
Imports of GNFS	64.3	54.5	56.7	63.0	64.5	55.6	60.3	63.5	66.6	69.6	72.5
Terms of trade (y/y percent change)	-17.5	3.6	9.3	5.8	0.1	-8.9	3.3	1.8	1.6	0.7	0.6
Current account balance	-18.6	-12.0	-10.2	-13.0	-13.8	-13.3	-12.9	-13.0	-13.6	-14.4	-14.9
In percent of GDP	-6.3	-4.3	-3.3	-3.9	-4.3	-4.7	-4.3	-4.0	-4.0	-4.0	-3.9
Financial account balance	-18.2	-12.3	-9.6	-12.4	-13.1	-13.3	-12.9	-13.0	-13.6	-14.4	-14.9
Of which: Foreign direct investment (net)	-7.5	-9.3	-10.1	-6.4	-11.3	-9.6	-11.8	-12.4	-13.1	-13.7	-14.4
Of which: Portfolio investment (net)	-9.2	-4.8	-1.6	1.3	0.5	-1.6	-2.4	-3.0	-2.4	-2.3	-3.2
Total external debt (in percent of GDP) 2/	42.1	49.4	47.2	46.6	49.8	59.2	57.3	55.9	54.5	53.1	51.9
Of which: Public sector (in percent of GDP) 2/	26.5	31.9	30.3	28.9	30.1	35.5	33.6	32.8	30.7	29.2	28.1
In percent of gross international reserves	267.0	302.1	312.6	324.8	306.5	318.0	323.9	327.9	329.5	330.1	331.6
Short-term external debt (in percent of GDP) 3/	5.5	5.3	5.3	6.2	6.7	7.8	7.5	7.4	7.2	7.1	6.9
Of which: Public sector (in percent of GDP)	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.2	0.2	0.2	0.2
Of which: Private sector (in percent of GDP)	5.3	5.0	5.1	6.0	6.5	7.5	7.3	7.2	7.0	6.9	6.7
Amortization of MLT external debt (in percent of GNFS exports)	20.9	18.1	31.8	28.5	20.0	27.8	31.5	23.8	29.4	25.2	20.7
External interest payments (in percent of GNFS exports)	9.9	11.3	10.9	10.6	14.4	19.5	16.9	16.4	16.4	16.0	15.9
Gross international reserves 4/	46.3	46.2	47.1	47.9	52.7	52.9	53.7	55.1	56.7	58.4	60.1
In months of prospective GNFS imports	10.2	9.8	9.0	8.9	11.4	10.5	10.1	9.9	9.8	9.7	9.5
In percent of broad money	36.0	31.3	29.8	31.2	31.5	35.1	32.5	30.6	29.0	27.7	26.4
In percent of short-term debt on residual maturity basis plus current account deficit	129.2	114.2	105.0	106.4	112.8	106.1	112.4	103.9	106.7	110.8	112.0
In percent of ARA 5/	156	144	135	132	141	142	137	136	133	132	132
Nominal exchange rate (Col$/US$, period average)	2,742	3,055	2,951	2,956	3,281	NA	NA	NA	NA	NA	NA
Real effective exchange rate (percentage change, + = appreciation)	-20.6	-4.7	5.7	0.6	-9.1	NA	NA	NA	NA	NA	NA

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

1/ GNFS stands for goods and nonfactor services; MLT stands for medium and long-term.

2/ 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/ 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.

5/ Excluding commodity buffer. Coverage including a buffer for oil price uncertainty was 119 percent of the metric at end-2018.

Table 10. Colombia: FCL Arrangement for Colombia—Impact of GRA Finances
(In SDR millions, unless otherwise indicated)

	As of 4/17/20
Liquidity measures	
Current Forward Commitment Capacity (FCC) 1/	194,800
FCC on approval 2/	194,798
Change in percent	0.0
Prudential measures, assuming full FCL drawing	
Fund credit to Colombia	
In percent of total GRA credit outstanding 3/	10.7
In percent of current precautionary balances	44.3
Fund credit outstanding to five largest debtors	
In percent of total GRA credit outstanding, before approval	86.0
In percent of total GRA credit outstanding including Colombia's assumed full drawing 3/	87.5
Memorandum items	
Current precautionary balances (end-FY2019)	17,700
Total FCL commitments, including proposed FCL	52,413
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 slightly increases the FCC as the access amount for the proposed FCL is below the existing.

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

Table 11. Colombia: Indicators of Fund Credit, 2019–25 1/

(In SDR million, unless otherwise indicated)

		Projections					
	2019	2020	2021	2022	2023	2024	2025
Stocks from prospective drawings 2/							
Fund credit (Millions of SDR)	0	7,850	7,850	7,850	5,887	1,962	0
In percent of quota	0	383.9	383.9	383.9	288.0	96.0	0.0
In percent of GDP	0	5.0	4.7	4.4	3.1	1.0	0.0
In percent of exports of goods and services	0	29.3	23.3	22.0	15.6	5.0	0.0
In percent of gross reserves	0	24.9	24.5	23.9	17.3	5.6	0.0
Flows from prospective drawings							
Amortization (SDR millions)	0	0	0	0	1,962	3,925	1,962
Charges (SDR millions)	0	119	163	163	173	73	8
Debt Service due on GRA credit (SDR millions)	0	119	163	163	2,135	3,998	1,971
In percent of quota	0.0	5.8	8.0	8.0	104.4	195.5	96.4
In percent of GDP	0.0	0.1	0.1	0.1	1.1	2.0	0.9
In percent of exports of goods and services	0.0	0.4	0.5	0.5	5.7	10.1	4.8
In percent of gross official reserves	0.0	0.4	0.5	0.5	6.3	11.4	5.4
Memorandum Item:							
Total External Debt (percent of GDP)	49.8	71.6	69.4	68.0	66.5	64.9	63.5
Total External Debt Service (percent of GDP) 3/	12.0	19.1	17.1	17.3	18.2	17.1	15.9

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

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

2/ Stocks as of end of period.

3/ Excluding local-currency government securities TES (which have foreign participation).

Table 12. Colombia: Capacity to Repay Indicators, 2019–25 1/
(In SDR million, unless otherwise indicated)

	2019	2020	2021	2022	2023	2024	2025
Exposure and Repayments (In SDR millions)							
GRA credit to Colombia	--	7,849.6	7,849.6	7,849.6	5,887.2	1,962.4	--
(In percent of quota)	--	383.9	383.9	383.9	288.0	96.0	--
Charges due on GRA credit 2/	--	118.5	162.7	162.8	173.0	72.7	8.3
Debt service due on GRA credit 2/	--	118.5	162.7	162.8	2,135.4	3,997.5	1,970.7
Debt and Debt Service Ratios 3/							
In percent of GDP							
Total external debt	49.8	71.6	69.4	68.0	66.5	64.9	63.5
Public external debt	30.1	44.4	42.1	41.1	38.5	36.6	35.2
GRA credit to Colombia	--	5.0	4.7	4.4	3.1	1.0	--
Total external debt service 4/	12.0	19.1	17.1	17.3	18.2	17.1	15.9
Public external debt service 4/	2.7	3.0	4.3	2.3	3.9	3.3	1.8
Debt service due on GRA credit	--	0.1	0.1	0.1	1.1	2.0	0.9
In percent of Gross International Reserves							
Total external debt	306.5	357.7	364.0	367.7	368.2	367.6	368.1
Public external debt	185.1	222.0	220.7	222.2	213.2	207.3	204.1
GRA credit to Colombia	--	24.9	24.5	23.9	17.3	5.6	--
In percent of Exports of Goods and Services							
Total external debt service 4/	74.0	112.7	85.5	86.2	91.1	86.0	80.8
Public external debt service 4/	16.7	17.6	21.6	11.4	19.6	16.5	9.0
Debt service due on GRA credit	--	0.4	0.5	0.5	5.7	10.1	4.8
In percent of Total External Debt							
GRA credit to Colombia	--	7.0	6.7	6.5	4.7	1.5	--
In percent of Public External Debt							
GRA credit to Colombia	--	11.2	11.1	10.7	8.1	2.7	--
Memo Items:							
U. S. dollars per SDR (period average)	1.38	1.38	1.39	1.39	1.40	1.40	1.40
U. S. dollars per SDR (end of period)	1.38	1.38	1.39	1.39	1.40	1.40	1.41
Oil Price (WEO APSP, US$ per barrel)	61.39	35.61	37.87	40.90	43.17	45.01	46.44

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

1/ Assumes full drawing under the FCL upon approval and materialization of an adverse scenario, even though the authorities intend to treat the arrangement as precautionary.
2/ Based on the rate of charge as of April 9, 2020. 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, based on the materialization of of the adverse scenario adjusted for the impact of the assumed FCL drawing.
4/ Excluding local-currency government securities TES (which have foreign participation).

Table 13. Colombia: External Debt Sustainability Framework, 2015–25

(In percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2015	2016	2017	2018	2019			2020	2021	2022	2023	2024	2025	**Debt-stabilizing non-interest current account 6/**
1 **Baseline: External debt**	42.1	49.4	47.2	46.6	49.8			**59.2**	**57.3**	**55.9**	**54.5**	**53.1**	**51.9**	**-3.8**
2 Change in external debt	12.1	7.3	-2.1	-0.6	3.2			9.3	-1.9	-1.3	-1.4	-1.4	-1.2	
3 Identified external debt-creating flows (4+8+9)	12.4	4.1	-4.0	-0.8	2.5			3.4	-1.2	-1.3	-1.2	-1.1	-1.2	
4 Current account deficit, excluding interest payments	4.8	2.6	1.6	2.2	1.9			1.8	1.7	1.5	1.5	1.5	1.5	
5 Deficit in balance of goods and services	6.2	4.5	2.7	2.7	3.8			4.7	4.5	4.2	4.1	3.9	3.7	
6 Exports	15.7	14.8	15.5	16.2	16.2			14.9	15.4	15.4	15.4	15.2	15.1	
7 Imports	21.9	19.3	18.2	18.9	19.9			19.6	19.8	19.7	19.4	19.2	18.9	
8 Net non-debt creating capital inflows (negative)	-1.7	-1.4	-2.9	-1.6	-2.4			-2.7	-3.1	-3.1	-3.1	-3.1	-3.1	
9 Automatic debt dynamics 1/	9.3	2.8	-2.7	-1.4	3.0			4.4	0.2	0.4	0.4	0.5	0.5	
10 Contribution from nominal interest rate	1.6	1.7	1.7	1.7	2.3			2.9	2.6	2.5	2.5	2.4	2.4	
11 Contribution from real GDP growth	-1.2	-0.9	-0.6	-1.1	-1.6			1.4	-2.4	-2.2	-2.1	-2.0	-1.9	
12 Contribution from price and exchange rate changes 2/	8.9	2.1	-3.8	-2.0	2.2			...	...	...	...	...	...	
13 Residual, incl. change in gross foreign assets (2-3) 3/	-0.3	3.2	1.9	0.2	0.7			5.9	-0.7	-0.1	-0.2	-0.3	-0.1	
External debt-to-exports ratio (in percent)	268.5	333.6	305.4	287.6	308.2			397.0	372.4	362.7	354.9	348.4	342.8	
Gross external financing need (in billions of US dollars) 4/	43.1	35.8	40.5	44.9	45.0			46.7	49.8	47.8	53.0	53.1	52.7	
in percent of GDP	14.7	12.7	13.0	13.5	13.9			16.4	16.4	14.8	15.5	14.6	13.7	
Scenario with key variables at their historical averages 5/						10-Year Historical Average	10-Year Standard Deviation	**59.2**	**60.3**	**62.0**	**63.4**	**64.6**	**66.1**	**-2.3**
Key Macroeconomic Assumptions Underlying Baseline														
Real GDP growth (in percent)	3.0	2.1	1.4	2.5	3.3	3.7	1.6	-2.5	4.2	4.0	3.9	3.8	3.8	
GDP deflator in US dollars (change in percent)	-25.2	-5.6	8.8	4.3	-6.0	0.4	11.9	-10.0	2.5	2.2	2.1	2.0	2.0	
Nominal external interest rate (in percent)	4.0	3.8	3.8	3.9	4.8	4.3	0.5	5.1	4.7	4.7	4.8	4.7	4.8	
Growth of exports (US dollar terms, in percent)	-28.2	-9.1	15.3	12.1	-3.2	4.6	18.3	-19.1	10.3	6.6	5.7	5.1	5.1	
Growth of imports (US dollar terms, in percent)	-15.3	-15.1	3.9	11.2	2.4	6.0	14.5	-13.9	8.5	5.3	4.9	4.6	4.2	
Current account balance, excluding interest payments	-4.8	-2.6	-1.6	-2.2	-1.9	-2.6	1.0	-1.8	-1.7	-1.5	-1.5	-1.5	-1.5	
Net non-debt creating capital inflows	1.7	1.4	2.9	1.6	2.4	2.3	1.2	2.7	3.1	3.1	3.1	3.1	3.1	

Source: IMF staff estimates.

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

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

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

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

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

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

Appendix I. Written Communication

Bogota, April 10, 2020

Ms. KRISTALINA GEORGIEVA
Managing Director
International Monetary Fund
Washington, D.C.

Dear Ms. Georgieva,

Colombia has held a fruitful and longstanding relationship with the IMF. Over the years, different types of assistance have served as a basis to improve Colombia's macroeconomic framework. A fully-fledged inflation targeting regime with a free-floating exchange rate, public finances anchored by a fiscal rule and adequate financial regulation constitute the pillars of Colombia's strong policy framework.

The country access to the Flexible Credit Line (FCL) provided by the IMF has served as a buffer to deal with external tail risks and, in conjunction with the sound economic policies implemented by the Colombian authorities, has increased the international confidence on the country's economy.

Since the previous renewal of the FCL arrangement, Colombia has exhibited strong rates of growth, explained mainly by a strong domestic demand. Prior to the COVID-19 pandemic and oil price shocks, inflation was expected to converge to the 3% target in 2020, once temporary supply shocks became undone. Growth was expected to remain around or above the 3.3% rate observed in 2019, which was consistent with a gradual reduction of excess capacity in the economy. The external deficit has widened due to the conjunction of a strong domestic demand with a weaker external outlook. The current account deficit has been mostly financed by foreign direct investment in a wide array of sectors. On the fiscal side, policy remains well anchored by the fiscal rule and the Medium-Term Fiscal Framework anticipates a declining path for public debt ensuring long-term sustainability. The financial system has remained sound and liquid.

Current external environment is characterized by high volatility and increasing uncertainty. Recent developments related to the COVID-19 pandemic could represent not only a health problem at a global scale, but the repercussions on financial and macroeconomic developments can be significant. Even if the potential effects of COVID-19 pandemic remain unclear, both domestically and abroad, the negative effects on commodity prices, economic activity, foreign direct investment flows and international appetite for emerging markets' assets are generating big economic and policy challenges. Moreover, the recent large drop in oil prices has resulted in strong pressures on the currency that have been adequately absorbed by a flexible exchange rate regime that is a fundamental part of the country´s strong macroeconomic policy framework.

In addition to the above-mentioned global external risks, Colombia is experiencing another exceptional external shock associated with the large migration flows from Venezuela, given the critical humanitarian and economic crises in that country. Colombian people and authorities are committed to aiding migrants and facilitating their integration into the local economy. A good incorporation of the migrant population could have some positive effects on the potential output of the economy. However, migration flows have also created additional burdens on fiscal and external accounts.

Following its reserve adequacy framework, *Banco de la República* purchased USD 2.8 billion between September 2018 and October 2019, which together with interest revenues of more than USD 2.3 billion reinforced Colombia's strong international reserve position. Despite Colombia's continuing efforts to assist people arriving from Venezuela, the substantial migrant flows have contributed to the deterioration of the current account deficit. Likewise, recent developments on Coronavirus and the turbulence in oil and global financial markets have emerged as new external threats with macroeconomic and financial effects at a global scale.

Consequently, Colombian authorities consider that maintaining the same level of access to the IMF's FCL as the previous arrangement (384% of quota) would be essential to provide a sufficient buffer to face tail external risks under the current circumstances. Considering the soundness of the macroeconomic policy framework, the temporary nature of the FCL instrument and as part of a gradual exit strategy, Colombian authorities are open to the possibility of reducing access at the mid-term review, conditional on external risks receding and as the current situation in the global economy improves.

Accordingly, we hereby request a new two-year FCL arrangement, with an access level of 384 percent of quota, and are notifying of the cancellation of the current arrangement. As with the current and previous FCL arrangements we intend to treat it as precautionary—that is, as insurance against severe stress situations. We welcome the confidence signal that an approval would send to economic agents, both local and external.

Finally, let us reiterate our belief that the FCL will constitute an outstanding complement to our very strong economic policy framework. This instrument, together with the continuation of very strong macroeconomic policies and the IMF's continuous support and cooperation, will preserve the confidence in the economy's ability to withstand and respond appropriately to large negative shocks.

Sincerely yours,

/s/	/s/
Juan José Echavarría	Alberto Carrasquilla
Governor, Central Bank of Colombia	Minister of Finance and Public Credit

INTERNATIONAL MONETARY FUND

COLOMBIA

April 24, 2020

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

Approved By
Andrew Tweedie (FIN) and Kevin Fletcher (SPR)

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

CONTENTS

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 7.85 billion (384 percent of quota). The existing FCL arrangement for SDR 7.85 billion (384 percent of quota) 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 seven FCL arrangements since 2009 (Table I.1). 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 8.180 billion (400 percent of quota) on June 13, 2016. This was followed by another two-year successor FCL arrangement in the amount of SDR 7.848 billion (384 percent of quota) which was approved on May 25, 2018 and is due to expire on May 24, 2020. No drawings have been made under any of the FCL arrangements. Colombia has had ten arrangements since 1999 but has not drawn on Fund resources since 1971 (Annex 1).

3. Colombia's successive FCL arrangements have provided an important backstop of international liquidity and complemented the authorities' very strong policies and policy frameworks. The authorities have implemented a gradual policy adjustment following the global financial crisis and the large terms of trade shock in 2014-16. More recently, Colombia weathered a challenging external environment in 2019 relatively well, supported by its very strong policy frameworks and timely policy actions. Indeed, in contrast to regional peers, Colombia's economy accelerated in 2019 and the economy grew by 3.3 percent. Against this challenging context, the FCL arrangement has provided an additional liquidity buffer against external shocks and helped limit the (fiscal and balance-of-payments) impact of the influx of refugees from Venezuela, of sharply lower oil prices, and of the global Covid-19 pandemic, including by providing reassurance to global

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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.

financial markets and external creditors regarding the strength of Colombia's macro-economic fundamentals and institutional policy framework.

4. While Colombia's external debt is expected to rise in 2020, it is expected to gradually fall over the medium term, and, under more severe stress, remain on a sustainable medium-term path. Colombia's economy is expected to contract in 2020 for the first time in two decades as a result of the outbreak of the Covid-19 pandemic, lower commodity prices, volatile financial market conditions, and a sharp deterioration in the global and regional environment. Since 2015, public external debt has been fairly stable as a share of GDP while private external debt has been rising somewhat (Table 1). Staff's updated external debt sustainability analysis (DSA) suggests that Colombia's external debt will rise to 59 percent of GDP this year under the baseline scenario on account of rising fiscal pressures and adverse exchange rate effects. However, even if an adverse scenario of a further real exchange rate depreciation of 30 percent were to materialize in 2021, DSA stress tests indicate that Colombia's external debt would peak at 81 percent of GDP in 2021 owing to exchange rate changes and remain on a sustainable medium-term path. Furthermore, Colombia has an excellent track-record of meeting its financial obligations, and its refinancing risks are mitigated by a diversified foreign investor base.

Table 1. Colombia: Total External Debt, 2014–20

	2014	2015	2016	2017	2018	2019	2020 Proj. 1/
				(In millions of US Dollars)			
Total External Debt	114,263	123,505	139,569	147,338	155,550	161,369	168,077
Private	42,142	45,760	49,319	52,767	59,198	63,914	67,229
Public	72,120	77,745	90,250	94,572	96,353	97,454	100,849
				(In percent of GDP)			
Total External Debt	33.7	46.0	48.8	47.2	46.6	49.8	59.2
Private	11.1	15.6	17.4	16.9	17.8	19.7	23.7
Public	22.6	30.4	31.4	30.3	28.9	30.1	35.5

Source: Colombian Authorities and IMF staff estimates.

1/ Baseline scenario.

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

5. Risks and impact on Fund finances from Colombia's FCL arrangement are assessed in the context of a downside scenario. Consistent with the idea that the FCL serves as insurance in the face of the potential realization of downside risks, any drawing on the FCL would be expected to take place only when macroeconomic conditions notably worsen vis-a-vis the baseline macroeconomic projections. Therefore, risks and impact on Fund finances in this report are assessed in the context of a downside scenario, made consistent with the realization of shocks considered by staff to justify FCL access, instead of in the context of staff's baseline macroeconomic projections. While this makes comparisons with earlier assessments more complicated, it provides a more realistic and consistent assessment of risks to the Fund. Table 2 provides a comparison of the main macroeconomic assumptions underlying the baseline and adverse scenarios.[3] The adverse scenario considered here draws on the assumptions taken for the current and financial account justifying FCL access, and assumes that the shock that occurs in 2020 is temporary. In addition to the BOP financing gap, the shock reduces real GDP by 4.1% relative to the baseline in 2020 and results in a nominal exchange rate depreciation of 20%, which also lowers nominal GDP measured in U.S. dollars. After a temporary drop, flows (e.g. real GDP growth) return to those assumed under the baseline, but with no bounce back in subsequent years, and the depreciation is permanent. Reserves increase by the same amount as under the baseline from 2021 onwards. The 2020 fiscal gap is assumed to be covered by issuing domestic debt.

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[3] The key driving factor behind the rising external-public-debt-to-GDP ratio in both staff’s adverse drawing scenario outlined here, and in the DSA’s adverse stress tests discussed in ¶4, is the same, namely the exchange rate. However, staff’s adverse drawing scenario, used also for the Capacity to Repay indicators, differs from the DSA stress tests in terms of timing (2020) and size (20 percent) of the depreciation, and hence in the timing and size of the peak in the external debt-to-GDP ratio.

Table 2. Colombia: Comparison of Key Assumptions under Baseline and Adverse Scenarios
(in millions of US dollars, unless otherwise indicated)

	2019	2020	2021	2022	2023	2024	2025
Baseline scenario							
Real GDP growth (percent)	3.3	-2.5	4.2	4.0	3.9	3.8	3.8
Nominal GDP	323,748	284,066	303,589	322,820	342,665	363,010	384,414
Gross international reserves	52,654	52,854	53,676	55,055	56,701	58,379	60,106
in months of next year's imports of goods and services	11.4	10.5	10.1	9.9	9.8	9.7	9.5
Exports of goods and services	52,362	42,338	46,687	49,778	52,640	55,314	58,153
Total external debt (in percent of GDP)	49.8	59.2	57.3	55.9	54.5	53.1	51.9
of which: public external debt (in percent of GDP)	30.1	35.5	33.6	32.8	30.7	29.2	28.1
Adverse scenario							
Real GDP growth (percent)	3.3	-6.7	4.2	4.0	3.9	3.8	3.8
Nominal GDP	323,748	217,879	232,852	247,603	262,824	278,429	294,845
Gross international reserves	52,654	43,595	44,417	45,796	47,442	49,120	50,847
in months of next year's imports of goods and services	11.4	8.7	8.4	8.3	8.2	8.1	8.1
Exports of goods and services	52,362	37,004	46,687	49,778	52,640	55,314	58,153
Total external debt (in percent of GDP)	49.8	71.6	69.4	68.0	66.5	64.9	63.5
of which: public external debt (in percent of GDP)	30.1	44.4	42.1	41.1	38.5	36.6	35.2

Source: Colombian Authorities and IMF staff projections.

6. If the full amount available under the proposed FCL arrangement were disbursed under the realization of such a downside scenario:

- Colombia's total external debt would temporarily peak, but with Fund credit representing still a relatively modest fraction (Table 3). Total external debt and public external debt would reach 72 and 44 percent of GDP respectively in 2020 under an adverse drawing scenario, with Fund credit representing 5.0 percent of GDP.[4] At its peak, Colombia's outstanding use of GRA resources would account for 7.0 percent of total external debt, 11.2 percent of public external debt, and 24.9 percent of gross international reserves.

- External debt service including obligations to the Fund would increase over the medium term, but would remain manageable (Table 3). Colombia's projected debt service to the Fund would temporarily peak in 2024 at just under SDR 4.0 billion, around 2.0 percent of GDP (over half of total public external debt service), or around 10.1 percent of exports of goods and services, but quickly fall to moderate levels.[5] Indeed, if the full amount available under the FCL arrangement were to be drawn at once, Colombia's external debt and debt service indicators as a share of exports of goods and services would be in the top quintile when compared with similar normal

[4] The main driver is lower U.S. dollar nominal GDP following a 20 percent depreciation.

[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.

access SBA and EFF arrangements in the past, but the same indicators taken as a share of GDP or reserves would be well below the top quintile.

7. The proposed renewal of the FCL arrangement would not affect the Fund's overall liquidity position, and potential credit risk exposure to Colombia would be moderate:

- Cancellation of the current arrangement and approval of the new proposed FCL arrangement would have a minimal net impact on the FCC, of around SDR 2 million as access is increased from SDR 7,848 million to SDR 7,850 million. 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.[6]

- If the resources available under the FCL arrangement were fully drawn, GRA credit to Colombia would be about 10.7 percent of total GRA credit outstanding as of April 17, 2020. This would make Colombia a borrower with the third largest credit outstanding among current arrangements and increase the concentration of Fund credit in the top five users of Fund resources very slightly, from about 86 percent to about 87½ percent of total GRA credit outstanding.

- 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 44 percent of the Fund's current precautionary balances.

[6] Taking into account resources held as prudential balance, the decline in the FCC would be equal to 80 percent of Colombia’s quota. See Financial Transactions Plan for the Period November 2019–April 2020 (EBS/19/91, and EBS/19/91 Sup. 1).

Table 3. Colombia: Capacity to Repay Indicators 1/

(in SDR millions, unless otherwise indicated)

	2019	2020	2021	2022	2023	2024	2025
Exposure and Repayments (In SDR millions)							
GRA credit to Colombia	--	7,849.6	7,849.6	7,849.6	5,887.2	1,962.4	--
(In percent of quota)	--	383.9	383.9	383.9	288.0	96.0	--
Charges due on GRA credit 2/	--	118.5	162.7	162.8	173.0	72.7	8.3
Debt service due on GRA credit 2/	--	118.5	162.7	162.8	2,135.4	3,997.5	1,970.7
Debt and Debt Service Ratios 3/							
In percent of GDP							
Total external debt	49.8	71.6	69.4	68.0	66.5	64.9	63.5
Public external debt	30.1	44.4	42.1	41.1	38.5	36.6	35.2
GRA credit to Colombia	--	5.0	4.7	4.4	3.1	1.0	--
Total external debt service 4/	12.0	19.1	17.1	17.3	18.2	17.1	15.9
Public external debt service 4/	2.7	3.0	4.3	2.3	3.9	3.3	1.8
Debt service due on GRA credit	--	0.1	0.1	0.1	1.1	2.0	0.9
In percent of Gross International Reserves							
Total external debt	306.5	357.7	364.0	367.7	368.2	367.6	368.1
Public external debt	185.1	222.0	220.7	222.2	213.2	207.3	204.1
GRA credit to Colombia	--	24.9	24.5	23.9	17.3	5.6	--
In percent of Exports of Goods and Services							
Total external debt service 4/	74.0	112.7	85.5	86.2	91.1	86.0	80.8
Public external debt service 4/	16.7	17.6	21.6	11.4	19.6	16.5	9.0
Debt service due on GRA credit	--	0.4	0.5	0.5	5.7	10.1	4.8
In percent of Total External Debt							
GRA credit to Colombia	--	7.0	6.7	6.5	4.7	1.5	--
In percent of Public External Debt							
GRA credit to Colombia	--	11.2	11.1	10.7	8.1	2.7	--
Memo Items:							
U. S. dollars per SDR (period average)	1.38	1.38	1.39	1.39	1.40	1.40	1.40
U. S. dollars per SDR (end of period)	1.38	1.38	1.39	1.39	1.40	1.40	1.41
Oil Price (WEO APSP, US$ per barrel)	61.39	35.61	37.87	40.90	43.17	45.01	46.44

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

1/ Assumes full drawing under the FCL upon approval and materialization of an adverse scenario, even though the authorities intend to treat the arrangement as precautionary.
2/ Based on the rate of charge as of April 9, 2020. 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 reflect the adverse, and not the baseline, scenario under which the full FCL drawing is assumed.
4/ Excluding local-currency government securities TES (which have foreign participation).

Table 4. FCL Arrangement for Colombia—Impact on GRA Finances
(in SDR millions, unless otherwise indicated)

	As of 4/17/20
Liquidity measures	
Current Forward Commitment Capacity (FCC) 1/	194,800
FCC on approval 2/	194,798
Change in percent	0.0
Prudential measures, assuming full FCL drawing	
Fund credit to Colombia	
In percent of total GRA credit outstanding 3/	10.7
In percent of current precautionary balances	44.3
Fund credit outstanding to five largest debtors	
In percent of total GRA credit outstanding, before approval	86.0
In percent of total GRA credit outstanding including Colombia's assumed full drawing 3/	87.5
Memorandum items	
Current precautionary balances (end-FY2019)	17,700
Total FCL commitments, including proposed FCL	52,413
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 from currently unactivated lines of credit, including the New Arrangements to Borrow or bilateral commitments from members to boost IMF resources.
2/ Current FCC minus access under the proposed arrangement plus the quota-financed portion of the arrangement being cancelled. The arrangement to be cancelled 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 decreases the FCC as the access amount for the proposed FCL is marginally higher than the existing FCL.
3/ Based on current Fund credit outstanding plus full drawings under the proposed FCL.

ASSESSMENT

8. The proposed arrangement will not change the Fund's overall liquidity position. The cancellation of the current FCL in the amount of SDR 7.848 billion followed by approval of a new FCL in the amount of SDR 7.850 billion, is expected to have only a marginal effect on the Fund's overall liquidity**.** Even if Colombia were to draw, the effect on the Fund's liquidity would also be relatively small. While the Fund's overall liquidity position is expected to remain adequate after the approval of the proposed FCL arrangement, in view of highly elevated risks to global growth and financial stability at present, a close monitoring of the liquidity position is warranted. In particular, the scale of potential new demand for Fund resources in the aftermath of the global Covid-19 pandemic is subject to large uncertainty and could be unprecedented - as noted in the latest Liquidity Review.[7]

9. 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 10.7 percent of total GRA credit outstanding and be below the existing level of precautionary balances. Some capacity to repay indicators, analyzed in this report under an adverse drawing scenario, point to a temporary peak of relatively sizeable debt service obligations to the Fund relative to some metrics, but would fall quickly to moderate levels. In addition, the external debt trajectory, including Fund borrowing, is still assessed as sustainable over the medium-term. Moreover, Colombia's sustained track record of implementing very strong policies, including during the global financial crisis and the subsequent sharp drop in oil prices, and its commitment to maintain such policies in the future 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 elevated external risks associated with the negative global economic effects of a prolonged Covid-19 outbreak, volatile financial market conditions, and spillovers from Venezuela's ongoing crisis.

10. The authorities remain committed to a gradual exit from the FCL, risks permitting, including through consideration of a modest reduction of access during the mid-term review if global risks recede. Since exceptional global risks have increased substantially with the Covid-19 outbreak and resulting commodity and financial market disruptions, the FCL is important to reinforce market confidence and to provide room to navigate through shocks to support the recovery without derailing the much-needed structural reform agenda. The authorities remain committed to reduce access and eventually phase out Colombia's use of the instrument and are open to the possibility of modestly reducing access at the time of the mid-term review, conditional on the reduction of aggregate external risks.[8]

[7] The Fund's Liquidity Position—Review and Outlook, EBS/20/50, April 2020.

[8] Colombia reduced access to the FCL, from 900 percent in the first agreement (2009) to 300 percent in the second agreement (2010).

Annex I. History of IMF Arrangements

1. Colombia had ten Fund arrangements since 1999, but has not drawn on Fund resources since 1971 (Table I.1). A one-year FCL arrangement equivalent to SDR 6.966 billion was approved on May 11, 2009 to support Colombia's economic policies and bolster confidence during the crisis. A successor one-year FCL arrangement equivalent to SDR 2.322 billion was approved on May 7, 2010. This arrangement was cancelled and a new two-year FCL was approved on May 6, 2011 increasing the access to SDR 3.870 billion. This was followed by two successor FCLs with the same access, which were approved on June 24, 2013 and June 15, 2015, respectively. 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. The current two-year FCL arrangement, in the amount of SDR 7.85 billion (384 percent of quota), was approved on May 25, 2018 and is due to expire on May 24, 2020.

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 I.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: SDR millions	Amount of New Arrangement: in % of quota	Amount Drawn	Purchases	Repurchases	Amount Outstanding
1999	EFF	20-Dec-99	19-Dec-02	1,957	253	0	0	0	0
2003	SBA	15-Jan-03	2-May-05	1,548	200	0	0	0	0
2005	SBA	2-May-05	2-Nov-06	405	52	0	0	0	0
2009	FCL	11-May-09	6-May-10	6,966	900	0	0	0	0
2010	FCL	7-May-10	5-May-11	2,322	300	0	0	0	0
2011	FCL	6-May-11	5-May-13	3,870	500	0	0	0	0
2013	FCL	24-Jun-13	16-Jun-15	3,870	500	0	0	0	0
2015	FCL	17-Jun-15	12-Jun-16	3,870	500	0	0	0	0
2016	FCL	13-Jun-16	24-May-18	8,180	400	0	0	0	0
2018	FCL	25-May-18	24-May-20	7,848	384	0	0	0	0

Source: Finance Department.

Statement by Mr. Villar, Executive Director on Colombia
May 1, 2020

On behalf of my Colombian authorities, I want to thank staff for the formal note on the Flexible Credit Line (FCL) arrangement and for the clear assessment according to which Colombia continues to meet the qualification criteria for access to FCL resources.

This report comes three weeks after the formal Board discussion on the Art. IV consultation. My authorities are grateful for the support Directors expressed when commending Colombia's very strong policy frameworks and track record. They also acknowledge Directors' recognition of Colombia's efforts to support and integrate the large inflow of migrants from Venezuela in recent years and the early actions taken to mitigate the dire new shocks we are facing today as a consequence of the COVID-19 pandemic and the dramatic decline in oil prices.

Colombia has held a fruitful and longstanding relationship with the IMF, which has been instrumental to further strengthen its economic policies and institutions. A fully-fledged inflation targeting regime with a free-floating exchange rate, public finances anchored by a fiscal rule and adequate financial regulation constitute the pillars of such very strong policy framework that the IMF has helped Colombia to consolidate.

As we saw in the Art. IV discussion, Colombia's policy framework should help the country to overcome the challenges posed by the unprecedented crisis we are facing today. The developments related to the COVID-19 pandemic and the need for social distancing have implied an abrupt disruption in many economic activities and sources of revenue for households, firms and the government. Moreover, the recent large drop in oil prices and the large reduction in investors' risk appetite have resulted in strong pressures on the currency's value and on public finances.

So far, the current shocks have been adequately absorbed by a flexible exchange rate regime that is a fundamental part of the country´s very strong macroeconomic policy framework, together with a high level of international reserves. Following its reserve adequacy framework, *Banco de la República* purchased USD 2.8 billion between September 2018 and October 2019, which together with interest revenues of more than USD 2.3 billion reinforced

Colombia's strong international reserve position. This is in addition to foreign currency funds held by the public sector, such as the resources of the financial deposit insurance fund and the royalties fund that play an important role under the conditions we are facing today.

As highlighted in the staff's report, Colombia has benefitted from the FCL successive arrangements since May 2009, when first signed during the global financial crisis. Even if Colombia has never withdrawn from this facility, the country's access to the FCL has served as an additional buffer to deal with external tail risks and has increased international confidence in the country's economy. Under the current very difficult circumstances, Colombian authorities consider that maintaining the same level of access to the FCL as in the previous arrangement would be essential to provide a much-needed buffer amid heightened global uncertainty and risks.

Accordingly, my authorities have requested a new two-year FCL program, with an access level of 384 percent of quota, and the cancellation of the current arrangement upon approval of the new one. As with the current and previous FCL arrangements, authorities intend to treat it as a confidence signal for economic agents, both local and external. My authorities have always treated the FCL as a precautionary line. Even in past stressful situations like the large drop in the oil price in 2014–16, the FCL was kept as a precautionary resource. However, given an unprecedented global crisis with the pandemic, which is evolving so rapidly, the use of the FCL cannot be ruled out under the current circumstances.

As mentioned in the staff report, the government had already completed in January the external funding for the whole year that was required before the COVID-19 shock. This shock has obviously increased financing needs by a large amount, which will be covered only partially by the sources that are identified in the regulations already issued (royalties fund, special contribution of public employees out of their salaries, etc.). At the same time, despite risk aversion in international financial markets and some observed capital outflows, the central bank has not made outright sales of international reserves so far, allowing the exchange rate to adjust and intervening in the FX market only through derivative instruments. However, a persistently low oil price and possible tighter external financial conditions could imply stronger pressures on the balance of payments.

Thus, the possibility of disbursing from the FCL will depend very much on the situation of the BoP going forward and on the response of other multilateral institutions (mainly the WBG, the IADB and CAF), and some official bilateral lenders, as well as on the ability to obtain additional funding from private investors under volatile conditions. However, concrete decisions on these issues are contingent on the extremely rapid evolution of events. There is still too much uncertainty to have a clear picture of external financing needs during this crisis.

My authorities have explored the possibility of short-term liquidity arrangements with central banks of reserve currency issuers. Recently, the Federal Reserve granted the Central Bank of Colombia access to the FIMA Repo Facility, which allows the central bank to obtain liquidity from its holdings of U.S. treasuries without having to sell them in the secondary market. Access to this facility will be useful in case of stress in the Treasuries market and it highlights the efforts of my authorities to broaden the set of external buffers instead of relying solely on the FCL.

Going forward, considering the soundness of the macroeconomic policy framework, the Colombian authorities recognize the temporary nature of the FCL facility and they are open to the possibility of reducing access at the mid-term review, as part of a gradual exit strategy, conditional on external risks receding and as the current situation in the global economy improves.

On behalf of my Colombian authorities, I want to express a special appreciation to Mr. Hamid Faruqee, mission chief, and his team for their very hard work in bringing both Art. IV and FCL reports to the Board under the current very difficult and changing circumstances. My authorities see this facility as an outstanding complement to the Colombian very strong economic policy framework. This instrument, together with the continuation of sound macroeconomic policies and the IMF's continuous support and cooperation, will preserve the confidence in the economy's ability to withstand and respond to large negative shocks. My authorities look forward to getting a favorable decision and support from the Board for this FCL renewal.