INTERNATIONAL MONETARY FUND

IMF Country Report No. 20/284

COLOMBIA

September 2020

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

In the context of the Request for Augmentation of Access Under the Flexible Credit Line Arrangement, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on September 25, 2020 and reflects virtual discussions with the Colombian authorities in July-August 2020. Based on information available at the time of these discussions, the staff report was completed on September 16, 2020.
- A **Staff Supplement** of September 17, 2020 on the assessment of the impact of the proposed augmentation under the 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 Augmentation of Colombia's Flexible Credit Line

FOR IMMEDIATE RELEASE

- The IMF Executive Board approved Colombia's request for an SDR 4.4174 billion augmentation of access under the Flexible Credit Line (FCL) arrangement. The total amount now available under the line stands at SDR 12.267 billion (about USD 17.2 billion).
- The augmentation was approved in light of Colombia's continued qualification with very strong institutional policy frameworks, track record of economic performance and policy implementation, and against a backdrop of higher external risks and a larger than expected adverse impact from COVID-19 pandemic.
- The FCL is designed to address both actual and potential balance of payment pressures and help boost market confidence. Combined with the comfortable level of international reserves that Colombia has, the FCL provides added insurance against downside risks.

Washington, DC – **September 25, 2020:** The Executive Board of the International Monetary Fund (IMF) approved today a request by the Colombian authorities to increase access under its current Flexible Credit Line (FCL) arrangement to about USD 17.2 billion (the equivalent 600 percent of quota, SDR 12.267 billion).This represents a USD 6.5 billion increase (SDR 4.4 billion) in relation to the two-year arrangement that was approved on May 1, 2020. The credit line approved in May had kept access unchanged relative to the previous FCL arrangement approved in 2018.

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 regular IMF-supported programs. This large, upfront access with no ongoing conditions is justified by the very strong policy frameworks and 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, Ms. Sayeh, Deputy Managing Director and Acting Chair, issued the following statement:

"Colombia's 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— continue to serve the country well and have allowed the authorities to deliver a coordinated and timely response to the Covid-19 pandemic.

"Colombia's economy was hit harder by the pandemic than anticipated at the time of the approval of the current Flexible Credit Line (FCL) arrangement in May and is now expected to experience its largest recession on record this year. The authorities' early response and continuing actions –including the temporary suspension of the fiscal rule to raise health spending, as well as to assist vulnerable households and businesses—are welcome and supporting the economy through the recession.

“The larger-than-anticipated deterioration in the macroeconomic and fiscal situation due to the pandemic has resulted in larger balance of payments (BOP) needs than envisaged in May. Moreover, external risks are higher and remain sharply skewed to the downside amid an exceptionally weak external environment that raises Colombia’s vulnerability to still lower commodity prices, additional financial market volatility, and a further deterioration of the Venezuelan crisis. The augmentation of access under the current FCL arrangement will help Colombia manage heightened external risks, protect ongoing efforts to effectively respond to the pandemic, continue to integrate migrants from Venezuela, foster inclusive growth, and reduce external vulnerabilities. Higher access under the arrangement should also boost market confidence, and combined with comfortable international reserves, provide adequate insurance against downside risks.

“The FCL instrument is flexible to address both actual BOP needs that have emerged and to adequately insure against potential BOP needs given higher external risks for Colombia. In this context, the authorities have expressed their intention to partially draw on the arrangement for budget support to help Colombia effectively respond to the pandemic. The authorities’ have also stated their intention to treat the bulk of the FCL arrangement as precautionary and remain committed to a gradual exit strategy from the instrument as exceptional global risks clearly recede.”

INTERNATIONAL MONETARY FUND

COLOMBIA

REQUEST FOR AUGMENTATION OF ACCESS UNDER THE FLEXIBLE CREDIT LINE ARRANGEMENT

September 16, 2020

EXECUTIVE SUMMARY

Background: The current FCL arrangement for Colombia was approved in May 2020. Colombia was cited for its 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—and a track record of very strong policy implementation that served as a basis for the economy's resilience prior to the Covid-19 pandemic.

Outlook: A larger than expected fallout from the Covid-19 pandemic from multiple channels, internal and external, is expected to result in a severe downturn—Colombia's first recession in over twenty years and the largest contraction on record. To create added policy space needed to respond to the crisis, the fiscal rule was suspended on a temporary basis. With a more severe downturn, inflation should fall noticeably below the central bank's three percent target this year before rising slowly but remain within its deviation range. Despite weaker external demand and lower remittances relative to the assessment at the time of the approval of the FCL in May, the current account is projected to narrow slightly in 2020 relative to 2019 due to significantly weaker internal demand and lower profit outflows. However, the financial account in 2020 is expected to deteriorate somewhat more than previously projected due to lower private investment flows. While considerable uncertainty about the course of the pandemic and economic slowdown remains, growth should rebound in 2021 as the global health situation stabilizes, lockdown restrictions are eased, policy actions gain traction and Colombia's previous growth drivers gradually return. The authorities remain firmly committed to maintaining their very strong policy framework, including reinstating the fiscal rule when the pandemic-related crisis recedes.

Risks: Since the approval of the FCL arrangement in May, external risks have increased while Colombia's risks remain sharply skewed to the downside. A prolonged or second 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.

FCL: In the wake of an unprecedented shock, the authorities are requesting an increase in access to 600 percent of quota (SDR 12.267 billion) under the current arrangement that expires on April 30, 2022. They consider that higher access is warranted given both

actual and potential pressures on the balance of payments. A moderate actual balance of payments need exists due to lower-than-expected net financial flows and the government's higher-than-expected external borrowing requirements relative to what was envisaged at the time of the approval of the FCL arrangement in May. Notwithstanding unforeseen developments, global risks have increased since May and remain largely skewed to the downside. In this context, the authorities intend to use the flexibility provided by the FCL arrangement to address this actual balance of payments need while helping to meet higher government borrowing requirements amidst an unprecedented pandemic. However, the authorities would treat the bulk of access as precautionary. Alongside increased international reserve holdings, higher access crucially strengthens buffers to confront the current challenges given Colombia's external vulnerabilities and higher external risks. It would complement existing buffers and protect Colombia's ongoing efforts to integrate migrants, foster inclusive growth, and reduce external vulnerabilities. Staff's assessment is that Colombia continues to meet the qualification criteria for access to Fund resources under the FCL arrangement and that augmentation of access is appropriate. Given actual balance of payments needs, a purchase commensurate with these needs could help avoid pressure on Colombian financial markets. Conditional on a meaningful reduction in exceptional global risks, the authorities remain committed to gradually reduce access and eventually phase out Colombia's use of the instrument. The sustained efforts by the authorities to reinforce the country's external liquidity position have been geared towards this aim.

Fund liquidity: The proposed augmentation of access under the FCL arrangement would have a limited negative impact on the Fund's overall liquidity position.

Approved By
Aasim M Husain and Kevin Fletcher

The report was prepared by a team comprised of Hamid Faruqee (Head), Jorge Alvarez, Emilio Fernandez-Corugedo, Belen Sbrancia (all WHD), Alberto Behar (SPR), and Felix Vardy (MCM) with support from Nicolas Landeta, and Danjing Shen (all WHD). On July 2, 2020, the team held virtual meetings with senior officials and staff from the Central Bank, Ministry of Finance and Public Credit, and Financial Superintendency of Colombia to update IMF staff views on the outlook, risks and policy setting for this report.

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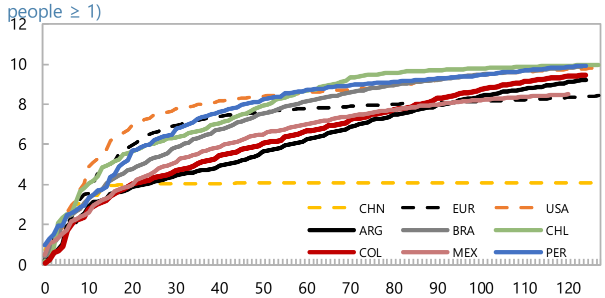
APPENDIX

CONTEXT AND RECENT DEVELOPMENTS

1. The current Flexible Credit Line (FCL) arrangement for Colombia was approved in May 2020. The IMF's Executive Board approved a successor two-year arrangement for Colombia under the FCL in an amount equivalent to SDR 7.8496 billion (about US$10.8 billion). Colombia was cited for its 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. Despite higher external vulnerabilities, risks, and stress, the new FCL arrangement maintained the same access level as the previous arrangement because the authorities had built higher external buffers by accumulating additional reserves since the previous FCL arrangement approved in 2018. At the time, the authorities intended to continue treating the instrument as precautionary and to gradually phase out its use conditional on a reduction of external risks.

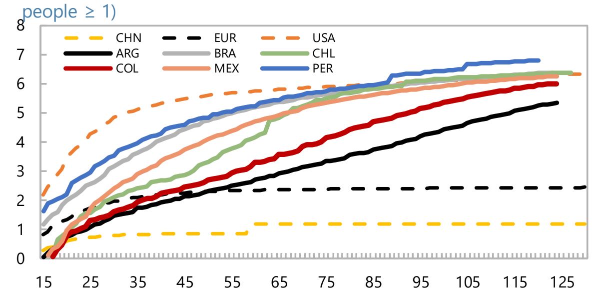
2. Since then, Colombia's economic downturn and outlook have appreciably worsened. In the wake of the pandemic and necessary shutdowns to mitigate its spread, the economy was expected to move into recession for the first time in two decades with growth at -2.5 percent at the time of the FCL approval. However, the latest data releases and the longer than previously assumed shutdown in response to rising infections and deaths point to a more severe downturn and weaker BOP flows.[1] Consequently, the outlook for growth has been revised down substantially to -8.2 percent for this year, the largest economic contraction on record, with a more gradual recovery anticipated in 2021. Notwithstanding a much weaker baseline, the economy remains susceptible to sizeable external downside risks given substantial uncertainty about the course of the pandemic.

WHD: Covid-19 Confirmed Cases Per Million People
(Natural Log scale, t = 0 is the first day in which infections per million people ≥ 1)



Sources: John Hopkins University; and IMF staff estimates.

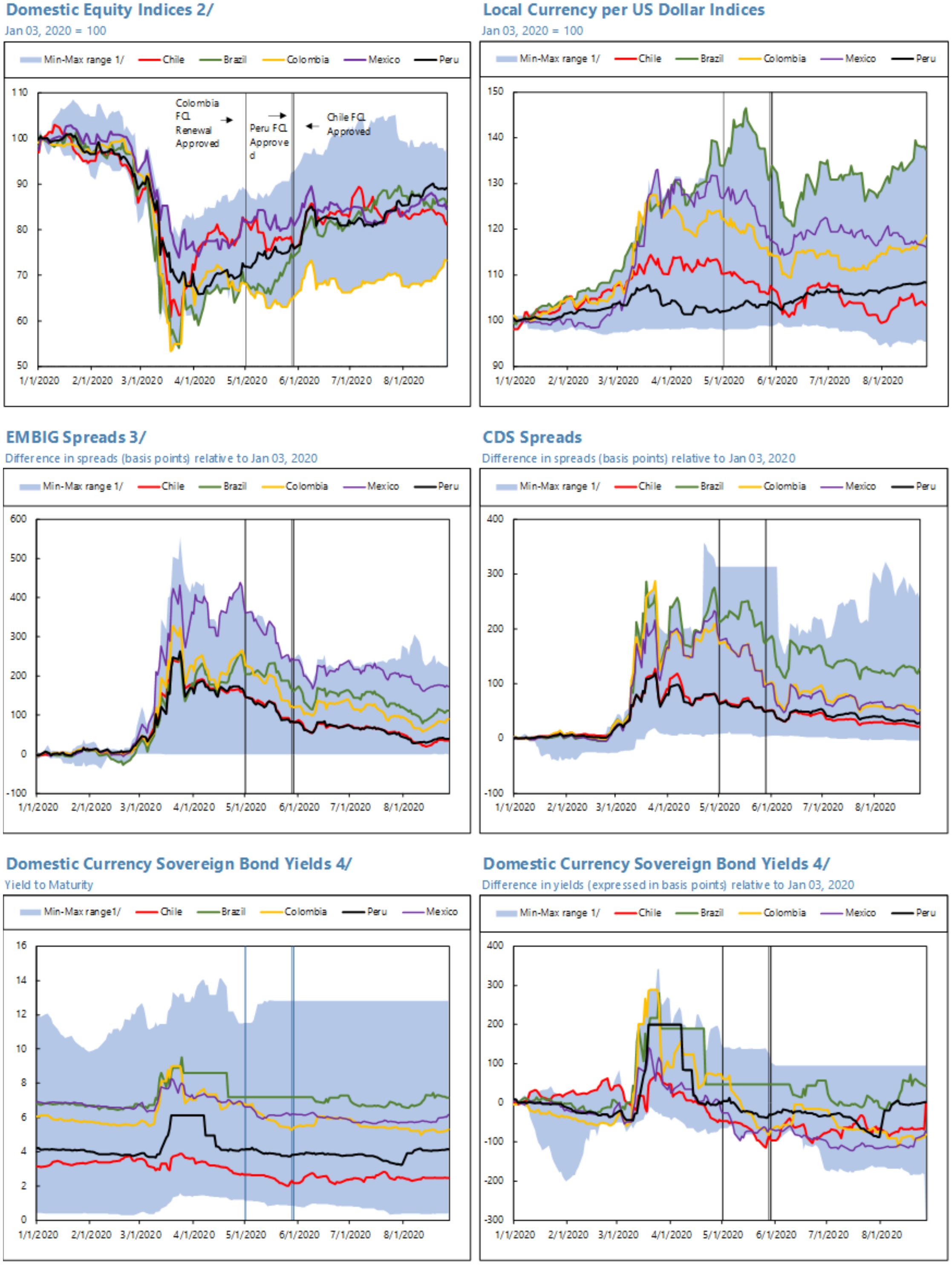
WHD: Covid-19 Deaths Per Million People
(Natural Log scale, t = 0 is the first day in which infections per million people ≥ 1)



Sources: John Hopkins University; and IMF staff estimates.

[1] The authorities' key health responses to the pandemic have centered on extending the lockdown (focusing on key areas, age groups and industries), increasing testing and tracing, and boosting ICU and ventilator capacity. With a projected peak in infections in September, the authorities announced the end of the national lockdown for September 1st but with restrictions, including on mass gatherings and international travel. Additionally, local authorities have more discretion to impose localized quarantines as needed.

Figure 1. Colombia: Comparison with LA5 and other EMEs



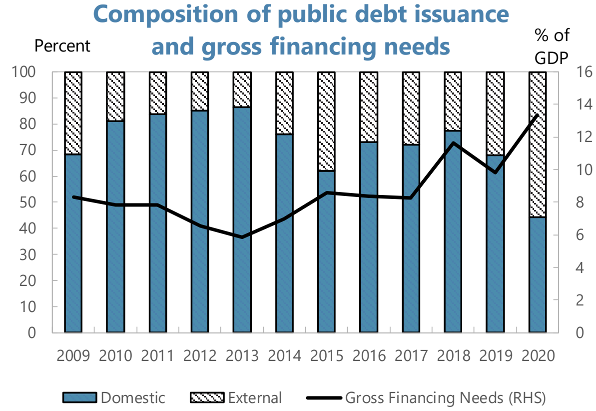
Sources: Haver Analytics and Bloomberg LLP.
1/ Selected sample of emerging market countries including Brazil, Chile, Colombia, Mexico, Peru, Uruguay, Czech Republic, Croatia, Hungary, Poland, Russia, Turkey, India, Indonesia, Malaysia, Philippines, Thailand and Vietnam.
2/ Naitonal benchmark share price indices.
3/ Mexico's EMBIG includes Sovereign and Quasi.
4/ 10 year government bond or closest available maturity.

3. The global recession is now expected to also be deeper while downside risks remain elevated. The global economy is in the midst of its worst recession since the Great Depression. As noted in the 2020 June World Economic Outlook (WEO), available data for 2020 point to a greater impact of the Covid-19 pandemic on global economic activity than previously anticipated. Moreover, the global recovery is now projected to be more gradual relative to the April WEO. As noted in the 2020 June Global Financial Stability Report (GFSR), a flight to quality in February and March led to capital outflows in EMs and tighter financial conditions. These conditions were partially reversed as central banks responded rapidly to limit the rise in borrowing costs—including policy easing, liquidity support, and swap lines for several emerging central banks that helped ease dollar liquidity shortages. Just like Colombia, despite the weaker baseline, the global economy faces considerable downside risks, including a second Covid-19 wave and another sharp tightening in global financial conditions.

4. Given the severity of Colombia's downturn and need to respond to the pandemic, the budget deficit will widen substantially, and the fiscal rule has been suspended. On June 15, the Fiscal Rules Consultative Committee (FRCC) agreed with the government's recommendation that Article 11 of the 2011 Fiscal Rule Law (FRL) be triggered to suspend the rule to counter exclusively the effects of the pandemic. Compared to a projected deficit under 5 percent of GDP at the time of the FCL approval, the deficit is now expected to exceed 8 percent this year –reflecting lower than expected fiscal revenues and additional pandemic-related fiscal expenditures—resulting in gross financing needs that are expected to exceed 13 and 10 percent of GDP in 2020 and 2021 respectively.[2]

5. The authorities have largely secured financing for the projected headline deficit increase in 2020, but some gaps remain. As noted at the time of the approval of the FCL arrangement in May (country report 20/148), to finance emergency spending, resources from the newly created National Emergency Mitigation Fund (FOME) were earmarked (around 2.8 percent of GDP) for the crisis,[3] alongside financing support from pre-pandemic domestic and foreign debt issuance plans. To meet larger financing needs from a higher deficit (around 3 percent of GDP) as well as earlier financing needs to be secured (1½ percent of GDP) since May, the authorities have noticeably increased

Composition of public debt issuance and gross financing needs



Source: IMF staff estimates

[2] Similarly, decree 678 of 2020 allows the suspension of the local governments' fiscal rules in 2020 and 2021 to deal with the pandemic. The decree temporarily suspends Law 358 of 1997, which controls territorial indebtedness, and Laws 617 of 2000 and 819 of 2003, which limit the operational expenses of local governments.

[3] Resources for the FOME come primarily from assets from the oil stabilization (FAE) and the regional pension funds (FONPET), together with the issuance of domestic sovereign bonds (solidarity bonds). FOME resources are not being used exclusively to finance the central government deficit, but also to provide credit guarantees to support lending to corporates.

reliance on external financing via markets and multilateral lending institutions given domestic market conditions. They issued another US$2.5bn of external debt (around 0.9 percent of GDP) and secured an additional US$2.7bn from multilateral organizations (around 1 percent of GDP). They have also increased their domestic issuance plans by 4 Col$ trillion (around ½ percent of GDP).[4] All in all, these resources together with pre-pandemic plans cover more than three quarters of the overall financing needs for 2020.[5] To fully meet budget needs this year without intensifying pressure on Colombian financial markets, staff estimates that remaining financing needs around 2 percent of GDP (or US$ 5bn) would need to come from additional external sources.[6]

6. Given the deterioration in the macroeconomic and fiscal situation due to the pandemic, the authorities are requesting augmentation of FCL access to address additional BOP needs. These needs are additional to those identified at the time of the approval of the FCL arrangement in May 2020. The access level approved at that time was somewhat conservative, as it remained unchanged from the level approved in May 2018. Moreover, since this past May, deeper-than expected global and domestic recessions have reduced Colombia's fiscal revenues and raised spending needs by significantly more than anticipated, while financing conditions remain fragile. Colombia has had to face the unprecedented impact of the pandemic with significantly higher government borrowing requirements. To some extent, these developments reflect a materialization of some external risks for the balance of payments, such as lower direct investment and other private flows that justified access levels back in May. To meet the actual BOP needs, the authorities intend to make a purchase under the FCL arrangement. Nonetheless, higher external risks—as well as an unanticipated fall in fiscal revenue from the realization of these risks—have also increased downside risks to this new baseline, relative to the downside risks identified in May. Consequently, even if the authorities do make a purchase, such a purchase does not fully obviate the need for insurance against these higher balance of payments risks. In light of actual and higher potential BOP needs, the authorities consider that raising the access level under the FCL is crucial to have sufficient buffers to confront the current challenges and heightened external risks. Accordingly, staff's baseline assumes that a portion of the funds are drawn in 2020 but that the bulk of the FCL remains precautionary. In this context, it is important to note that drawing on the FCL in and of itself has no effect on the appropriate access level, as drawing reduces both BOP needs and remaining access under the FCL in an offsetting manner. In Colombia's case, augmentation is being sought not because of the expected drawing, but rather because total BOP needs (actual plus potential) have risen relative to BOP needs (potential) identified when the FCL was renewed in May at a relatively conservative level.

[4] After the publication of the MTFF, the authorities increased the amount of long-term TES to be auctioned. The bid-cover ratio of the latest auctions in August 2020 has fluctuated between 2.5 and 3.5.

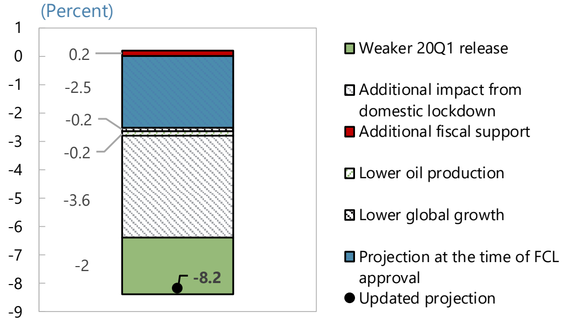
[5] Resources from the National Guarantee Fund (FNG) are also being used to guarantee commercial loans for SMEs for up to 1.2 percent of GDP, as noted in at the time of the approval of the FCL arrangement in May.

[6] Staff's estimates for additional fiscal financing required this year are in the range of 1½ to 2½ percent of GDP (or US$3-6bn), which reflects uncertainty about potential treasury operations that depend on market conditions as well as an option to partially draw on available cash buffers of the central government. At the time of the approval of the FCL in May 2020, staff's estimates were around 1½ percent of GDP with a range between 1 and 2 percent of GDP.

OUTLOOK AND POLICIES

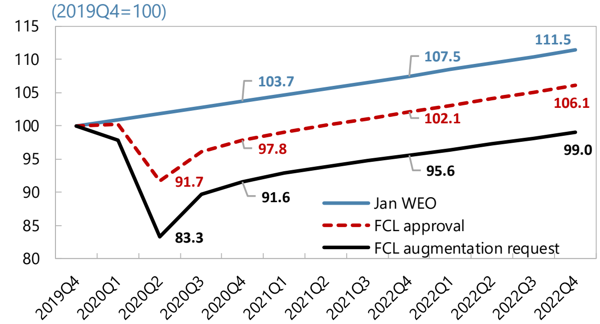
7. **Alongside weaker global growth and an extended domestic lockdown, a sharper recession is now projected in Colombia.** As demonstrated by the weak 2020H1 GDP growth outturn and the latest high-frequency indicators, Colombia's shutdown and spillovers from weaker-than-expected global growth and lower oil prices have disrupted economic activity more severely than previously thought, causing the largest quarterly decline on record in 2020Q2 (Figure 2).[7] In response, unemployment rose to over 20 percent in May and June, the highest level in over twenty years. Additionally, with the closure of the Venezuelan border and deteriorating economic prospects in Colombia, net migration flows from Venezuela are now projected to be zero in 2020. Staff now project that GDP will contract by about 8 percent in 2020, led by weaker private domestic demand and exports.[8] Consequently, consistent with recent trends (Figure 3), private credit growth is also projected to contract this year, led by lower household credit demand. Commercial credit is expected to be less affected in response to the authorities' policies to support credit lines for working capital and payrolls. Under staff's assumption that both the domestic and global effects of the Covid-19 pandemic moderate in the second half of 2020, growth is expected to rebound in 2021 to around 4 percent, partly supported by the additional monetary and fiscal policy support, in line with staff advice, since the approval of the May FCL arrangement. Over the medium term, the drivers that had propelled growth in 2019, including migration from Venezuela, (see country report 20/104) are expected to gradually return and further support the recovery.

2020 GDP Growth Projection
(Percent)



Source: IMF staff estimates.

GDP Projections over Different Vintages
(2019Q4=100)



Source: IMF staff estimates.

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[7] The sectors hardest hit by the pandemic in 20Q1 and 20Q2 were those exposed to oil and international trade as well as those where teleworking was not feasible (mining, manufacturing, transportation, construction, accommodation and entertainment services). The rebound in economic activity starting in May was led by the sectors where lockdown restrictions were first eased, such as construction, manufacturing and mining. Sectors that remain affected by the lockdown such as air transport and some services such as restaurants and accommodation remain depressed. These sectors are not projected to return to the pre-pandemic level during the projection horizon.

[8] The reduction in oil prices seen thus far in 2020 has led to greater decline in oil production relative to that expected in May, detracting a further 0.1-0.2 pp to GDP growth in 2020 relative to the projections made at the time of the FCL approval. Weaker external demand due to weaker global growth prospects is projected to detract a further 0.2 pp from GDP growth relative to previous assumptions. On the impact of the domestic lockdown, staff estimate a lower operation rate than previously assumed and an extended quarantine (to mid-July vs end-May) which is assumed to detract a further 5pp from growth relative to the time of the approval of the FCL. Of the 5pp reduction, around 2pp is due to the carryover effect in the data from the weaker than expected 20Q1 GDP outturn as a result of the lockdowns.

8. The current account deficit is expected to narrow slightly in 2020, but the financial account is projected to decline due to weak global conditions. At -4 percent of GDP, the revised current account forecast for 2020 is slightly lower than the 2019 deficit—around ¾ pp lower than at the time of the FCL arrangement approved in May. In dollar terms, lower imports and profits outflows associated with the downward revision in Colombia's internal demand exceed lower exports and remittances owing to the downward revision in global GDP growth.[9] Nevertheless, vulnerabilities remain elevated, as external financing needs remain significant at around 17 percent of GDP owing to denominator effects from the mark down to Colombia's U.S. dollar GDP. Such needs are expected to be partially met by portfolio and other investment inflows including public-sector borrowing. However, private flows including FDI have been marked down owing to weaker global conditions.[10] The resulting deterioration in the balance of payments would have been starker without the liquidation of overseas assets to finance the FOME. For 2021, the current account deficit forecast is slightly lower than 4 percent, and expected external financing needs are 16½ percent of GDP. Recovering economic activity and confidence are expected to help FDI resume its role as the primary source of external financing in 2021.

9. Large downside external risks continue to threaten the Colombian economy. A second Covid-19 outbreak in 2021 could cause more prolonged disruptions to economic activity domestically and abroad, with negative implications for exports and remittances. A sharp tightening of global financial conditions could slow global growth and interrupt the external financing needed to support Colombia's recovery. Moreover, the effects on Colombia could be amplified since its regional trading partners are exposed to similar risks.

10. The flexibility of the macroeconomic framework has allowed the authorities to deliver a coordinated and timely response to the exceptional external shock amid heightened uncertainty. The authorities remain committed to maintaining Colombia's very strong macroeconomic policy framework and their policy responses have remained within that framework. Policy support could be deployed, where possible, to further counter the larger-than-expected impact of the pandemic and to support the recovery. Monetary and fiscal policy are still well placed to support domestic demand in the near term, with exchange rate flexibility remaining the first line of defense against external shocks.

[9] In the second quarter of 2020, goods and services exports were US$ 6 billion (44 percent) lower than in the same quarter of 2019. Goods and services imports were also US$ 6 billion (37 percent) lower over the same period. Net income receipts increased by US$ 1.1 billion as primary income payments including profit outflows declined by 53 percent, although remittance inflows declined by 23 percent.

[10] The authorities' latest *Informe del comportamiento de la balanza de pagos de Colombia* covering the second quarter of 2020 documents foreign direct investment in Colombia of only US$ 1.3 billion (down by two-thirds relative to the same quarter of 2019), net outflows of other private foreign investment of US$ 0.8 billion, and private capital flows abroad by Colombians of US$ 3.1 billion.

- **Monetary policy.** With inflation moderating below target, the authorities have eased the policy rate by an additional 125bp since the May FCL approval, for a total reduction of 225bp since the start of the pandemic in March. Monetary accommodation should continue, and further easing may be considered if underlying inflation pressures remain depressed.[11] The central bank has continued to boost liquidity in both domestic financial markets and foreign currency markets in response to pandemic-related financial pressures. To prevent financial disruptions, the authorities have provided both short and longer-term liquidity through operations in foreign and domestic currency, and by expanding the range of admissible collateral and counterparts in domestic liquidity operations. [12]

Central Bank Response Measures to Covid-19
(as of Aug 31)

	Amounts	% GDP	US$ bn
Local currency operations (in COP billions)			
TES purchases 1/	3,589	0.4	1.0
Debt swap with government 2/	1,766	0.2	0.5
Purchase of private securities 3/	8,730	0.9	2.3
FX operations (in US millions)			
NDF (total 2020 sales) 4/	6,295	2.3	6.3
Swaps (total 2020 sales) 5/	400	0.1	0.4
FX purchase from government	2,000	0.7	2.0
Other			
225p policy rate cut			
Expansion of liquidity facilities in terms of amounts, applicable securities and eligible counterparts.			
Lowering of reserve requirements applicable to checking and fixed-term savings accounts.			

1/ 2020 TES purchases as of July 31.
2/ BanRep exchanged 2021 TES for TES with longer maturities in May.
3/ 2020 purchases of securities held by credit institutions.
4/ Accumulated NDF sales for 2020. Central Bank can renew expiring contracts
5/ No outstanding swaps as of June 30. The Central Bank can auction up to 400 million.

- **Exchange rate.** The authorities remain committed to the flexible exchange rate regime, only intervening to provide short-term FX liquidity through Swaps and Non-Deliverable Forward (NDF) contracts that do not imply a permanent use of reserves.

- **Reserve accumulation.** Reserves remained adequate in 2019 at 142 percent of the ARA metric (121 percent after including a commodity buffer) but would not fully meet financing needs in a severe stress scenario under the authorities' framework. Since the FCL arrangement was approved in May, the central bank purchased US$ 2bn from the central government after the latter liquidated overseas assets to meet budgetary needs. Over the medium term, Colombia's reserves coverage is expected to decrease slightly but remain adequate according to the ARA metric.

- **Fiscal policy.** The authorities suspended the fiscal rule for two years to accommodate short-term spending needs such as health expenditures and to support the economy through the recession—consistent with Fund advice.[13] Among the key measures include additional spending on health (increased ICU capacity), support for vulnerable households (including those in the informal sector and furloughed and unemployed workers) and support to firms (including

[11] Staff estimates of the neutral real rate are between 1 and 2 percent. Hence recent cuts to the policy rate continue to provide accommodation.

[12] The Central Bank has been careful to pursue policies that preserve its strong reserve position and balance sheet. For example, purchases of private securities have included only those of financial institutions that have high credit ratings and with a maturity of three years or less.

[13] The suspension of the fiscal rules at the local government level are also in line with IMF advice. This added flexibility allows the authorities to be able to respond to the pandemic more forcefully.

payroll support).[14] Notwithstanding an expected increase in public debt in 2020-21, reinstating the fiscal rule from 2022 onwards will place debt on a firmly declining path.

11. With added policy space from suspending the fiscal rule, the fiscal deficit is expected to widen substantially in 2020 and 2021. With the two-year suspension of the fiscal rule under Article 11, the headline deficits are now projected to be 8.2 and 5.1 percent of GDP this year and next.[15]

Central Government Covid-19 Measures for 2020

(Percent of GDP)

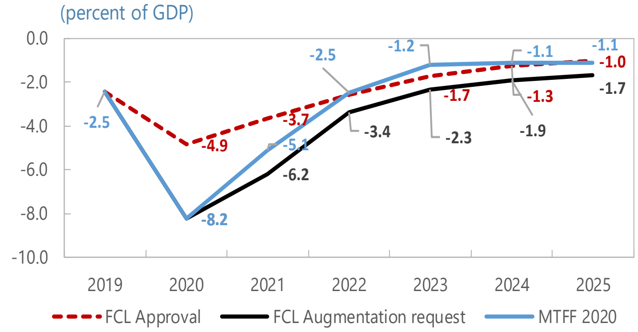
	Total	FCL	Difference
Health	0.8	0.7	0.1
Vulnerable household support	1.0	0.5	0.5
Firms & employment support	0.6	0.3	0.3
Automatic Stabilizers (lost revenue & maintained spending)	3.5	1.0	2.5
Pre Covid-19 headline deficit	2.3	2.3	-
Total	**8.2**	**4.9**	**3.3**

Source: IMF staff estimates

12. The temporary suspension of the fiscal rule in a well-defined manner and a commitment to return to the rule in 2022 as the crisis recedes are welcome. To manage the policy trade-off between additional flexibility and credibility of Colombia's fiscal framework, previous Fund advice (2019 Article IV consultation and at the time of the approval of the FCL arrangement in May[16]) recommended that any suspension of the fiscal rule be: (i) based on a clearly defined trigger; (ii) strictly temporary with the deviation from the target only covering near-term fiscal costs; and (iii) complemented by a well-defined plan specifying corrections needed to return to the rule's deficit path in the medium term. It should also be well communicated to the public, to support investor confidence in the fiscal anchor. The announcement by the authorities was in line with these recommendations:

Central Government Fiscal Balance

(percent of GDP)



Source: IMF staff estimates

- **Targeted.** The suspension, unanimously agreed by the FRCC, was triggered specifically by the pandemic and associated effects on fiscal revenues and spending. The suspension has been declared to provide space to exclusively finance expenditures for this purpose and to avoid expenditure cuts that would have otherwise been warranted due to the expected revenue falls.

- **Temporary.** The suspension is time-limited to two years (2020 and 2021). During this period, the authorities remain guided by principles of sustainability for public finances. To ensure this, the authorities have explicitly linked the larger headline deficits *relative* to the fiscal rule's

[14] The suspension of the rule also permits the authorities to maintain the pre-pandemic spending plans, most notably on investment and social programs.

[15] Staff's projected deficit of 6.2 percent of GDP in 2021 includes 1.1 percent of GDP of projected privatization proceeds which under GFSM 1986—used by the authorities—would yield a 5.1 percent deficit.

[16] See country reports 19/106, 20/148.

parameters to "Covid-19 related" spending and lost tax revenues, with the understanding that the increased flexibility will be used exclusively to finance the fiscal needs generated by the pandemic.

- **Well-specified to reinstate the rule.** The decision also includes an explicit commitment and financial plan to return to the rule by 2022, with a transitional budget in 2021 that details adjustments to expenditure and to fiscal revenues.[17] Any increased fiscal policy flexibility will be destined exclusively to finance the expenditure required to counter the effects of the pandemic. To further enhance credibility during this time, the Government requested and the FRCC agreed to take the task of monitoring fiscal aggregates against the government plans during the suspension of the rule on a quarterly basis.

- **Well communicated.** On June 26 the 2020 Medium Term Fiscal Framework (MTFF) provided guidance on their projected headline deficits for 2020 and 2021 with details on expenditure and revenue plans which form the basis for the 2021 budget that has been submitted to Congress for debate. The MTFF also published headline deficit targets for 2022 and beyond consistent with the fiscal rule and conditional on the authorities' economic and oil price projections and possible policy plans.[18]

13. All pandemic-related spending is subject to the same governance principles as other fiscal spending. All procurement contracts must be published in the SECOP (Public Procurement Electronic System) which is available to the public. The National Comptroller, with the support of the National Audit Office (NAO), conducts annual audits of all public expenditure both at the national and subnational levels and can also investigate any concerns made by the public. Moreover, the execution of public funds is being made using national systems and databases that are subject to fiscal control. With a high volume of procurement contracts expected due to the pandemic, the SECOP should ensure that these continue to be reported promptly—including the associated access to national databases—while the NAO should ensure that all independent external audits—including those associated with emergency financing—also continue to be published promptly.

14. The regulatory and supervisory response has tried to maintain an appropriate balance between safeguarding financial stability and supporting economic activity. To help banks deal

[17] The bulk of this adjustment is driven by unwinding the spending on Covid-19 related expenditures: health, support to the vulnerable population and to firms, worth around 2.5 percent of 2020 GDP (2.3 percent of 2021 GDP). On the revenue side while a partial recovery of tax revenues is projected, the authorities expect to reduce their stakes in public companies (yet to be determined) to the tune of 1.1 percent of GDP.

[18] The MTFF notes that additional tax revenues worth around 2 percent of GDP would be desired to be able to comfortably maintain investment spending from 2022 onwards. Such increase, together with lower expenditure as a share of GDP on wages and salaries, goods and services and some transfers would be consistent with the authorities' estimates of the ex-ante headline deficits consistent with the fiscal rule. To complement this, the authorities have started working on plans to increase tax revenue in the medium term. They have asked an independent advisory committee to work on a proposal to improve the tax structure, focusing on the effectiveness of existing tax benefits with a view of retaining only those that can foster productivity, employment, equity and formality. The advisory committee is expected to present their findings within the next 18 months.

with the crisis and avoid a tightening of credit supply,[19] the Superintendency of Financial Corporations (SFC) released countercyclical provisions built up in the past. Also, banks were allowed to provide temporary grace periods, extensions and other loan modifications on a case-by-case basis without affecting the credit rating of the debtor or leading to a reclassification of the loan as non-performing. In total, almost 11 million debtors benefited from these measures, representing 38 percent of loans. To put these temporary measures on a more sustainable footing, the SFC has launched the PAD (Program to Support Debtors) to support viable borrowers, and it triages them according to the degree to which they have been affected by the crisis with different classification and provisioning rules applying to each category. Non-viable debtors do not qualify for the PAD and are dealt with separately. To allow for early intervention, the SFC is running (top-down) stress tests on a monthly basis. The SFC has drawn up contingency plans to be activated if the need arises. The 2020 Article IV consultation report and report on request of the FCL arrangement in May (country reports 20/104, 20/148) contain a list of additional measures that the authorities can consider in order to alleviate financial dislocation and support the financial sector.

15. Supervisory authorities are encouraged to make full use of the capital buffers available in the banking system. With borrowers under pressure and a need to avoid procyclical tightening of credit conditions, authorities should allow and encourage banks to dip into their capital buffers as needed—i.e., regulatory capital exceeding the minimum requirement. The SFC should strive for the Financial Soundness Indicators (FSIs) to reflect the underlying situation of the banking sector to the extent possible, while giving banks the breathing space needed to absorb the unavoidable losses on their credit portfolios. Any loans subject to pandemic-related measures, should be transparently reported, while all capital distributions (dividend payouts, share buybacks, exceptional bonus payments) should be suspended during this period.

16. The financial sector policy agenda to further strengthen the regulatory and supervisory framework is on track. No changes are expected to the timeline for implementing Basel III and the Conglomerates Law. The 2020 Article IV consultation report and the request of the FCL arrangement report in May (Country reports 20/104 and 20/148) provide more details.

17. The authorities' structural reform agenda should strengthen competitiveness and governance. Due to the fallout from the pandemic Colombia faces a risk of setbacks to progress made in recent years in reducing income inequality and poverty. Medium-term reforms to reduce high structural unemployment and to generate economic prosperity on a broad basis become paramount (the 2020 Article IV and May FCL report contain more details on structural reforms and governance).

[19] The reduction in the policy rate has transmitted into lower lending rates (around 100bp), consistent with historical passthrough. Moreover, BanRep's Credit Situation Survey for 2020Q2 points to continued credit access for corporates but lower access for consumer and mortgage credit.

ROLE OF THE FLEXIBLE CREDIT LINE ARRANGEMENT

A. Benefits of the FCL

18. The FCL has served Colombia well and allowed the authorities to build resilience. Previous FCL arrangements have enhanced Colombia's buffers as insurance against heightened external risks in recent years and during the pandemic. 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. Since Colombia's FCL arrangement was approved in May, domestic financial conditions have eased, including lower risk spreads and yields (e.g., 10-year rates down by 150 basis points), alongside improved market conditions for emerging market economies more generally.[20]

19. The FCL instrument also provides sufficient flexibility to address actual and/or potential BOP needs. With a substantially wider budget deficit this year in response to the pandemic and with actual balance of payments needs due to lower net financial flows, drawing on FCL resources to help alleviate these needs and to provide budget support as needed could help avoid potential market disruptions and crowding out of private financing while supporting international reserves and associated market confidence.[21] Staff's baseline assumes that part of FCL resources (around USD 5 billion or 180 percent of quota) would help meet actual balance of payment needs in 2020 given the pandemic. In this regard, FCL resources would diversify and complement financing from other sources, allowing the authorities to fund their existing plans to respond to the pandemic while avoiding excessive pressures on Colombian credit markets and crowding out of private sector financing and investment.

20. Under the current FCL arrangement, remaining access would be insufficient due to the worse baseline and pronounced global risks. The authorities note that the impact of the Covid-19 pandemic has been greater than previously anticipated and that less favorable external conditions have contributed to higher external financing needs and BOP risks. With actual balance of payments needs and additional external risks, the authorities believe that the existing access level in the current arrangement provides insufficient added insurance, should further tail risks materialize, to complement a stronger reserve position. Under staff's baseline, the access level of the current arrangement would provide remaining access equivalent to only 204 percent of quota to meet potential additional BOP needs in an adverse scenario (discussed later).

[20] CDS spreads and spreads over EMBI fell by more than Latin American peers (Brazil, Chile, Mexico, Peru and Uruguay) after approval of the FCL arrangement (press release 20/142 on April 9th). Spreads also fell at the time of the approval of the FCL on May 1st in line with peers. While CDS and EMBI spreads have continued to fall, they remain around 50 and 100bp higher relative to pre-pandemic levels.

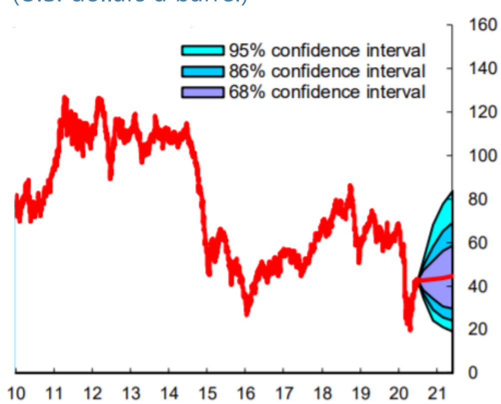
[21] See Flexible Credit Line – Operational Guidance Note (https://www.imf.org/en/Publications/Policy-Papers/Issues/2018/08/06/pp080618-flexible-credit-line-operational-guidance-note)

B. Evolution of Risks and Exposures

21. Colombia's exposures to global risks have increased. Colombia's elevated financing needs coincide with the materialization of the external risks identified since the approval of the FCL arrangement in May. As noted in the June 2020 WEO, there is a higher than usual degree of uncertainty about the outlook. The external economic stress index (ESI) for Colombia indicates higher stress than at the time of the approval (Box 1).

- **A second global Covid-19 outbreak in 2021 could cause more prolonged disruptions to global economic activity.** Alongside an upside scenario, the June WEO's downside scenario shows global GDP growth in 2021 would be 5 percent lower than under the baseline. This would hinder Colombia's modest recovery in exports and remittances and disrupt access to key imports.
- **A sharp tightening of global financial conditions could slow global growth and interrupt financing needed to support Colombia's recovery.** As the June 2020 GFSR Update notes, recent improvements in financial market sentiment appear to be disconnected from shifts in underlying economic fundamentals, raising the possibility that financial conditions may tighten more than expected and expose vulnerabilities that have been building owing to easy financial conditions. If such tightening were triggered by a second wave, for example, it would aggravate the global output effects in the WEO scenario. Moreover, it could prompt capital flight and disrupt the financing Colombia would need to cope with the shock and support its subsequent recovery.
- **Other regional and global risks also continue to be important.** Notwithstanding the recent slowdown in migrant flows, higher than expected migration flows from Venezuela would raise fiscal and external deficits. Re-escalation of social discontent in some neighboring countries could trigger capital flight from the region including Colombia. Global 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.
- **Oil and other commodity prices remain volatile.** Oversupply in the oil market could compound demand effects induced by any of the shocks above and prevent the expected moderate recovery from materializing. Lower-than-expected prices could be compounded by lower-than expected production in Colombia, as witnessed in early 2020.

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



Sources: Bloomberg L.P. and IMF staff calculations.
Note: Derived from prices of futures options on July 10, 2020.

22. Within Colombia, despite the worse baseline, considerable downside risks remain. A larger-than-expected Covid-19 infection rate or protracted economic stoppages could lead to a more severe or prolonged recession and weaker recovery than expected. Thus, Colombia's growth could be significantly lower than in the baseline for both 2020 and 2021.[22] Other internal risks have become more salient and include a further deterioration of labor market conditions, corrosion of the credit portfolio affecting credit supply, and tax revenue shortfalls that could prompt cuts in social and infrastructure spending needed to protect the vulnerable and aid the recovery.

Box 1. Updated External Economic Stress Index

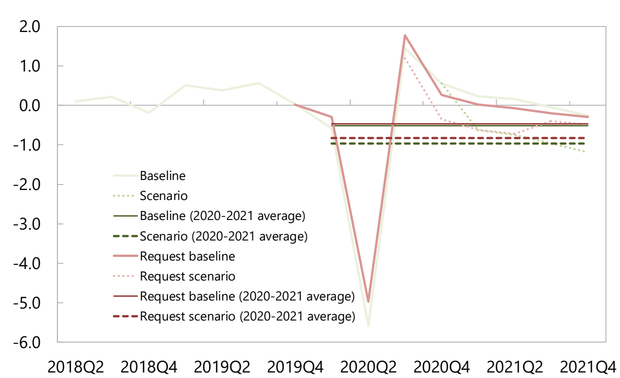
The updated ESI shows recent stress levels have exceeded those anticipated at the time of the approval of the FCL arrangement in May. A second Covid-19 wave would leave external economic stress higher than modelled at that time.

The external ESI summarizes Colombia's external shocks and exposures to these shocks. The methodology is explained in "Flexible Credit Line—Operational Guidance Note," IMF Policy Paper, July 2018. The variables and weights are unchanged from recent Colombia FCL reports. The four variables are the level of the oil price, U.S. real GDP growth, the emerging market volatility index (VXEEM) and the change in the 10-year U.S. Treasury yield.

Modelled baseline stress has increased substantially so far in 2020. For the first half of 2020, external stress is slightly higher than modelled at the time of the approval of the FCL arrangement in May. This is mainly because revised forecasts suggest U.S. economic activity contracted by more than expected. From the fourth quarter of 2020 onwards, the ESI shows less stress than at the time of the approval, but this is predicated on a sharper rebound in U.S. GDP growth. Updated contributions from other variables are broadly similar. On average for 2020-2021, the baseline ESI is broadly unchanged.

The adverse scenario reflects external risks from a second Covid-19 wave in 2021. The shock occurs throughout the 2021 calendar year – starting and ending two quarters later than at the time of the approval of the FCL in May. In the adverse scenario, U.S. GDP growth is weaker by 4½ percentage points. This shock is larger than assumed at the time of the approval of the FCL arrangement in May (2 percentage points) and reflects the more severe outcome for the U.S. in the scenario presented in the *June WEO* than in the *April WEO.* As assumed at the time of the approval of the FCL arrangement in May 2020, oil prices are 28 percent below baseline, the VXEEM two standard deviations above baseline, and yields 100 bps above baseline in the adverse scenario. The larger U.S. shock leads to slightly higher external economic stress than in the adverse scenario at the time of the request.

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



Source: IMF staff calculations.

C. Access Considerations

23. The new access level would be sufficient to meet both actual and potential balance of payment needs given pronounced global risks. The financing of actual needs will depend on

[22] In the June 2020 *World Economic Outlook*, combined external and domestic effects on Emerging Market Economies could reduce growth by almost 5 percent relative to the baseline in 2021.

market conditions. The requested augmentation to 600 percent of quota would help preserve buffers against heightened external vulnerabilities to higher risks for the remainder of the arrangement if the authorities decide to draw on the instrument, as is expected by staff, to cover the above-mentioned needs. In particular, with a purchase of 180 percent of quota assumed in staff's baseline, the remaining 420 percent of quota (US$ 12.3) billion would provide adequate insurance against potential financing gaps. The updated calculation in an adverse scenario, which remains congruent with historical experience (Figure 6), suggests somewhat higher potential gaps than at the time of the approval of the FCL arrangement in May. Beyond changes to the baseline, the main changes to staff's framework for the adverse scenario are as follows (see text tables and Table 3):

- *A larger current account shock that now includes lower oil production and lower remittances*.
- *A larger financial account shock that includes more acute portfolio outflows*.
- *A larger reserves drawdown*.

Assumptions Underlying the Illustrative Adverse Scenario
(In percent, unless otherwise indicated)

Assumption	Augmentation, 2021	Current Arrangement, 2020
Oil exports decline (vis-à-vis baseline for the year)	35	28
FDI reduction (vis-à-vis baseline for the year)	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
Portfolio flows[1]	1 standard deviation	$ 1.0 billion outflow

[1] Formula for calculating shock revised since approval of the FCL arrangement in May 2020; the resulting shock size has increased from $ 1.1 billion to $ 3.2 billion.

Source: IMF staff calculations.

Key contributors to Financing Gap under Adverse Scenario
(US$ millions)

Assumption	Augmentation, 2021	Current Arrangement, 2020
Current Account Deficit	6,564	4,722
Financial Account Shock	17,697	15,578
Reserve drawdown	11,986	9,459
Remaining gap	12,275	10,841

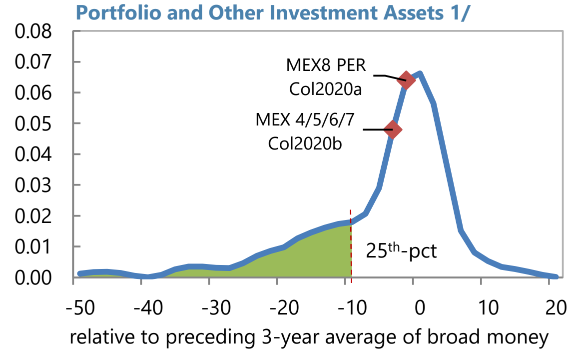
Source: IMF staff calculations.

24. Both traditional and non-traditional exports are likely to decline further under the adverse scenario. A 28 percent shock to the oil price, consistent with the approval of the FCL arrangement in May, would yield a price of US$ 27 per barrel on average for 2021. However, consistent with the 2016 request, the revised scenario compounds this effect with a 10 percent reduction in oil export volumes, such that export values decline by 35 percent in 2021.[23] The shock to other exports is unchanged from the FCL approval in May.

25. Lower inward remittances would aggravate the current account shock. Unlike recent arrangements but consistent with the 2013 FCL approval, and in light of the large effect on remittance flows already anticipated under the baseline, the adverse scenario now includes a shock to remittances inflows. The decline in global GDP in the WEO adverse scenario for 2021 could reduce Colombia's inward remittances by US$ 0.5 billion. Assuming migration inflows from Venezuela are twice as high as in the baseline, as was the case at the time of the FCL approval in May, could increase government spending needs and imports.

26. There could be private sector outflows alongside heightened rollover difficulties and lower foreign investment. The gradual FDI recovery assumed for 2021 would be postponed in this scenario. Incomplete debt rollover assumptions generate a shortfall in disbursements in the adverse scenario, which, commensurate with a smaller baseline assumption, is smaller than at the time of the FCL approval in May. Portfolio outflows could also include capital flight. To bring this risk more in line with other countries' recent FCL approvals,[24] the adverse scenario now assumes a one standard deviation shock to portfolio equity liability flows and a one standard deviation shock to overseas portfolio investment by Colombians. The resulting shock of US$ 3.2 billion is substantially larger than the US$ 1.1 billion shock calculated at the time of the approval of the FCL arrangement in May 2020 but still relatively small from a historical perspective.

Portfolio and Other Investment Assets 1/



1/ 2020a refers to current arrangement and 2020b refers to augmentation request, which uses a 2021 scenario.

27. Public-sector financing shortfalls could also materialize. In the context of unexpectedly higher external borrowing needs, bond issuances and multilateral financing could fall short of amortization needs in an adverse scenario, especially in 2021, and could be aggravated by a selloff of TES holdings by foreigners. An 80 percent rollover rate would result in a financing gap of US$ 7.4 billion relative to baseline. The gap is substantially larger than for the FCL approval in May (US$ 4 billion) because of the considerable increase in baseline external public borrowing.

[23] The placement of the oil price shock in historical context in Figure 6 refers to the year-on-year growth rate. The shock for 2020 used at the time of the approval of the FCL arrangement in May 2020 amplifies a baseline drop in the oil price, relative to 2019, that is already acute. The shock for 2021, relative to 2020, informing the current scenario takes broadly flat baseline oil prices as a starting point, so the year-on-year growth rate would be less negative than in 2020. For this reason, the shock appears more benign in the current scenario than at the time of the approval of the FCL in May.

[24] Specifically, the adverse scenario for Chile has a shock of one standard deviation while those for Mexico and Peru have shocks of 1.6 standard deviations.

28. Even after accounting for a larger reserve drawdown, the potential financing gap would be larger than at the time of the May approval of the FCL arrangement. The combined shocks to the current account deficit (US$ 6.6 billion) and capital flows (US$ 17.7 billion) would amount to US$24.3 billion, which is US$ 2.5 billion greater than under the current arrangement. Recent reserve accumulation since approval of the current arrangement 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$ 12 billion lower than under the baseline, compared to US$ 9.4 billion assumed at the time of the approval of the FCL arrangement in May 2020. After covering almost half the shock, the reserves remaining would amount to 112 percent of the ARA metric (99 percent with the commodity buffer included), which is in line with previous arrangements. A financing gap of US$ 12.3 billion, equivalent to 420 percent of quota and US$1.4 billion larger than in the request of the FCL arrangement in May, would remain. [25]

D. Exit Strategy

29. The authorities regard the FCL arrangement as temporary, with a future path for the level of access that should be decreasing, risks permitting. Following the unprecedented shocks from the global pandemic and its many consequences, the requested increase in access is considered as temporary and will allow the country to maintain its external liquidity buffers while overcoming potential challenges to the balance of payments in the current volatile global environment amid heightened uncertainty. Considering the country's very strong macroeconomic policy framework and the temporary nature of the FCL instrument, the Colombian authorities intend to reduce access as soon as the exceptional set of risks in the global economy clearly recede. Given the highly uncertain global environment, the evaluation in the mid-term review will be important to assess the magnitude of a potential reduction of access in 2022, assuming continued qualification, conditional on the evolution of external risks and the outlook for the balance of payments.

E. Assessment of Qualification

30. Staff's updated assessment is that Colombia continues to meet the qualification criteria for an FCL arrangement. In the 2020 Article IV consultation with Colombia, the IMF Executive Board noted that Colombia maintains very strong economic fundamentals and institutional policy frameworks, with sustained track record of implementing very strong policies, which the authorities are firmly committed to maintaining going forward. This year, the strength of Colombia's fundamentals and institutional policy framework has been showcased in how it is

[25] The adverse scenario focuses on 2021 but 2020 also presents risks that merit precautionary access. Current account shocks for 2020 are calibrated to half of those for 2021, consistent with the approximate halving of the time left in 2020 and the fact that some of the risks have already materialized. For private-sector financial flows, the same assumptions are employed as for 2021 as adverse episodes can be acute and short. For public-sector financial flows, a more modest shock of 25 percent of baseline flows is assumed because the authorities already have secured a substantial portion of expected financing. The resulting balance of payments shock ($ 15.5 billion) and financing gap ($ 8.1 billion) would be more moderate in 2020 than in 2021.

responding to the challenges brought about by the pandemic. Staff's updated assessment is that there is:

- **A sustainable external position.** Overall, staff assesses the external position to be sustainable. In the external sector assessment conducted for the 2020 Article IV, the EBA current account approach estimated a current account gap of 1.7 percent of GDP, suggesting that 2019 current account balance (-4¼ percent of GDP) was moderately weaker than implied by fundamentals and desirable policies. With the current account projected to narrow modestly in 2020, this assessment is unchanged. Over the medium term, the current account deficit is expected to continue narrowing, including because fiscal consolidation that is expected after the fiscal rule is reinstated in 2022 should help raise national saving. Since the start of the pandemic, the authorities have also continued to demonstrate their commitment to let the flexible exchange rate serve as the primary mechanism of adjustment to external shocks. In that regard, the exchange rate depreciated by about 20 percent in a two-week period in March but had appreciated by about 10 percent by September 9. Going forward, the authorities' commitment to a flexible exchange rate remains intact. FDI is expected to recover in 2021 and continue to finance the bulk of the current account deficit into the medium term.

- **Capital account position dominated by private flows.** Data for the second quarter of 2020 show public liabilities account for 22 percent of Colombia's international investment liability stocks, while FDI accounts for 58 percent of liabilities. Public flows accounted for only 21 percent of Colombia's direct, portfolio, and other asset and liabilities flows on average in 2017-2019 while FDI accounted for 66 percent. Although the larger government deficit, coupled with weak private investment, are forecast to raise the share of public flows to about one-half in 2020, recovering private flows and a falling fiscal deficit are expected to restore the dominance of private flows thereafter. The reliance on portfolio inflows is projected to remain low over the medium term at about 1 percent of GDP. From a longer-term perspective, 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 (two with a negative outlook for the rating) as at the time of the approval of the FCL in May 2020. Since the approval of the current FCL arrangement, Colombia has continued to have uninterrupted access to international capital markets, including the issuance of US$2.5bn on June 1st for longer-dated maturities (10 and 30 year bonds) , and sovereign bond spreads have continued to perform in line with spreads in the region (Figure 1).

- **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 121 percent of the ARA metric including a commodity buffer, and 142 percent excluding the buffer. Colombia's reserves have exceeded 100 percent of the ARA metric in each of the last three years. Reserves rose to US$57 billion by mid-2020 in part due to a purchase of foreign exchange from the government. Reserve coverage at the end of the year is expected to be 125 percent of the ARA metric including a commodity buffer and 146 percent excluding the buffer. Over the medium term, reserves are expected to continue to be adequate.

- **Sound public finances, including a sustainable public debt position.** 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. In the current crisis, the authorities have temporarily suspended the fiscal rule in 2020 and 2021 due to the fallout from and the need to address the health and economic costs of the pandemic. They have been very transparent regarding the suspension (trigger, magnitude and length of suspension, adjustment mechanisms to return to the rule) and have expressed their firm commitment to fiscal sustainability, tasking the FRCC to monitor fiscal aggregates against the government's plans to ensure that any deviations are solely due to pandemic-related effects. The authorities remain firmly committed to their fiscal sustainability framework including adherence to the structural balance rule which would place public debt on a declining path in the medium-term. As such, their plans embody a sharp headline deficit adjustment in 2021 to ensure that the structural balance rule returns in 2022. Moreover, to avoid a sharp reduction in public investment and social protection programs once the fiscal rule becomes operational in 2022, the authorities anticipate that additional revenue-enhancing and expenditure efficiency measures will be required and have tasked an independent advisory committee to evaluate the effectiveness of current tax exemptions. As these measures have not been enacted, staff project lower public investment and higher headline deficits relative to the authorities' plans. Nonetheless, staff's projected headline deficits will still place public debt on a firmly declining path over the medium term (with gross debt peaking at 68 percent of GDP in 2020), in line with projected primary surpluses under the reinstated rule and favorable growth dynamics (Figure 8). 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.[26]

- **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 keep 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. With the onset of

[26] These projections do not envisage the injection of public funds to support corporates that may face bankruptcy. The authorities' policy response has focused instead on providing credit guarantees of around 1½ percent of GDP.

the global pandemic, significant monetary easing has been compatible with moderating inflation (down to 1.9 percent at end August 2020) and well-anchored inflation expectations while supporting the economy through recession. While staff now projects inflation to be slightly below the deviation range around the three percent inflation target in the near term, it is projected to return rapidly to the deviation range. Although near-term inflation expectations have fallen, inflation expectations in the medium run (2 to 5 years) remain anchored and 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. Before 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 was liquid and well-capitalized. The pandemic crisis has led to a fall in the average capital adequacy ratio (CAR) from around 17 percent in March to 15 percent in July, largely due to an increase in provisions. It is expected to fall further to around 13 percent by year end, still comfortably above the 9 percent regulatory minimum. The Liquidity Coverage Ratio (LCR) for banks has remained relatively stable at around a comfortable 200 percent, while NPLs have *fallen*, from 4.5 percent in March to 4.1 percent at the end of June. This is explained by the grace periods and extensions afforded to creditors by the banks. Under the SFC's latest stress test, which assumes a cumulative GDP contraction of 9 percent, 82 percent of institutions holding 92 percent of assets will continue to satisfy capital requirements, including systemic buffers.

- **Effective financial sector supervision.** The authorities have finalized and implemented many of the 2013 FSAP recommendations. The timelines for implementing the Conglomerates' Law and Basel III remain unchanged, with the authorities committed to heightened supervisory vigilance during the transition period. Since the start of the pandemic, the authorities have enhanced financial sector supervision, including through monthly stress tests and associated supervisory responses. Appropriately, they have also released countercyclical provisions, which gives banks some additional breathing space. Finally, the newly launched PAD (Program to Support Debtors) puts earlier, temporary relief measures on a more sustainable footing. A FSAP mission is scheduled to start in 2021Q1.

- **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 2019 and 2020 Medium Term Fiscal Frameworks.

- **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. More recently, the authorities' response to the pandemic highlights the strength and flexibility of the macroeconomic framework and their commitment to preserving strong policies going forward.

31. 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. In recognition of its institutional strengths, Colombia became a member of the OECD in April 2020. Regarding the cyclicality of policies, Colombia's effective and coordinated policy response to the 2014 oil price shock achieved a remarkably smooth adjustment during 2014-16 despite facing a larger terms-of-trade shock than most of its peers. The fiscal rule remains the fiscal anchor for the medium-term sustainability of public debt with its temporary suspension allowing fiscal policy to provide more support to respond to the pandemic. The central bank continues to credibly anchor inflation expectations.

32. 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 (latest available data) 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 (IMF 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 IMF 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. Law No. 2022 enacted in July 2020 instructs Colombia's National Procurement Agency (NPA) to design and provide templates for all public bidding processes (national and subnational) under the National Procurement Law. This creates more efficient, effective and transparent tools to select contractors, promote competition and monitor compliance.[27] Going forward, fully implementing the recent law requiring public servants to publicly declare their income and assets, improving the efficiency of the courts to reduce backlogs, and publishing detailed statistics will be important elements of a required further strengthening in the anti-corruption framework.

[27] Law No 2022 defined the templates, based on good procurement practices, after an open and public discussion process with citizens, academics and the private sector. Compliance will be monitored on a permanent basis by the NPA, and the National and Subnational Comptrollers.

F. Impact on Fund Finances, Risks, and Safeguards

33. The Fund's liquidity is expected to remain adequate after the approval of the proposed augmentation of access under the FCL arrangement (to SDR 12.267 billion or 600 percent of quota). Further discussions are provided in the supplement assessing the impact on the Fund's finances and liquidity position[28].

34. The proposed augmentation of access and assumption of a purchase by Colombia under the FCL arrangement in staff's baseline will have a limited negative net impact on the Fund's overall liquidity position. Colombia has continued to implement very strong policies. Staff's baseline projection envisages a partial drawdown of under the FCL arrangement (around US$ 5bn or around 180 percent of quota) to meet an actual BOP need in 2020, with the bulk of access expected to be treated 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[29]). Colombia's external debt is expected to rise to 64 percent of GDP this year compared to 59 percent at the time of the approval of the FCL arrangement in May on account of higher fiscal pressures and deteriorating growth prospects. However, even if an adverse scenario of further depreciation were to materialize, Colombia's external debt would peak at 89 percent of GDP in 2021 and remain on a sustainable medium-term path (Table 13 and Figure 7). The external balance sheet is sustainable given sizeable non-debt-creating capital inflows. Debt service continues to be manageable. Furthermore, Colombia has an excellent track-record of meeting its financial obligations**.**

35. Safeguards procedures were completed for Colombia's 2020 FCL arrangement with no significant issues emerging.

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36. Staff's assessment is that Colombia continues to meet the qualification criteria for access to FCL resources. As discussed above, Colombia has very strong institutional policy frameworks and a very strong track record of policy implementation, and remains committed to maintaining such policies in the future. The volatility in financial and oil markets seen this year highlights that prolonged periods of low oil prices or capital outflows from emerging markets remain an important risk. External risks have increased and Colombia's risks remain sharply skewed to the downside. A resumption of significant migration inflows from Venezuela also remains a risk. In that context, the FCL provides important insurance against external tail risks.

37. Staff considers the augmented access level to be appropriate in light of both actual and potential BOP needs. Notwithstanding very strong underlying fundamentals and policies, Colombia has been affected by the global pandemic more severely than previously thought, with a

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

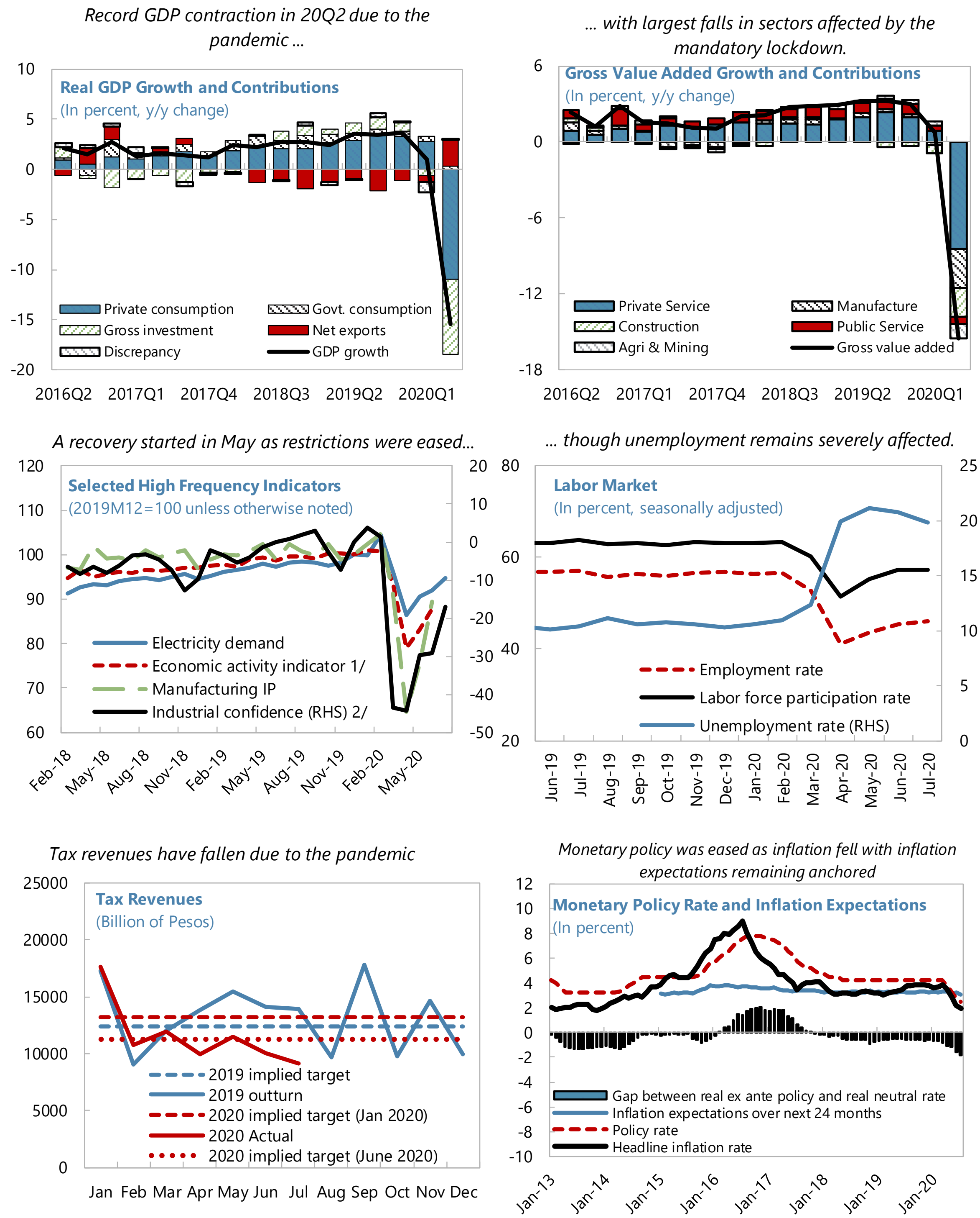
[29] Ibid.

materially worse recession, wider budget deficit, and weaker balance of payments. Given this and the flexibility of the FCL instrument, an increase in access to 600 percent of quota would provide sufficient resources to help meet actual balance of payments needs while retaining valuable insurance that reinforces market confidence, avoids instability, and diversifies financing options in a context of heightened global uncertainties. Specifically, staff's view is that a decision to draw on FCL resources, to meet actual balance of payments needs and budget financing in response to the pandemic, could help avoid excessive pressures on Colombian credit markets and a crowding out of private sector financing and investment while supporting vulnerable households during the pandemic. By supporting market confidence, it could also complement the additional market financing being sought by the authorities to meet their higher borrowing needs. Second, the bulk of augmented FCL access would continue to be treated as precautionary in staff's baseline to help insure against higher external risk by helping to maintain a sufficient internal liquidity position along with reserves. Thus, staff recommends approval of the authorities' request for increased access under the current FCL arrangement for Colombia.

38. Staff welcomes the authorities' continued commitment to an exit strategy from the FCL. As the exceptional set of external shocks and risks recede, Colombia should consider reducing access under the FCL arrangement given its very strong policy framework and comfortable reserve position. Assuming risks sufficiently subside and market conditions clearly improve, steady reserve accumulation over the medium term would enhance reserves coverage to 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.

39. Staff considers that the proposed augmentation of access under the FCL arrangement will have a limited negative net impact on the Fund's overall liquidity position. While the authorities view the FCL and requested increase in access as temporary and most of the arrangement as precautionary, the Fund's credit exposure to Colombia would be sizeable, with a full drawing. Risks are further contained by Colombia's very strong repurchasing record with the Fund and manageable external debt service profile. The Fund's overall liquidity position is expected to remain adequate after the approval of the proposed augmentation of access under the FCL arrangement. If Colombia were to draw under the FCL arrangement, as currently assumed in staff's baseline, it would automatically be excluded from the Financial Transaction Plan.

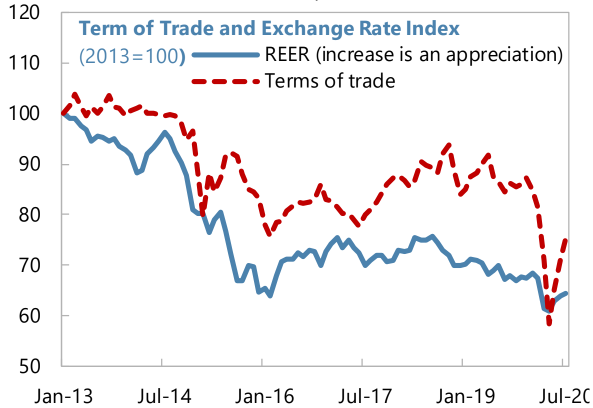
Figure 2. Colombia: Recent Economic Developments



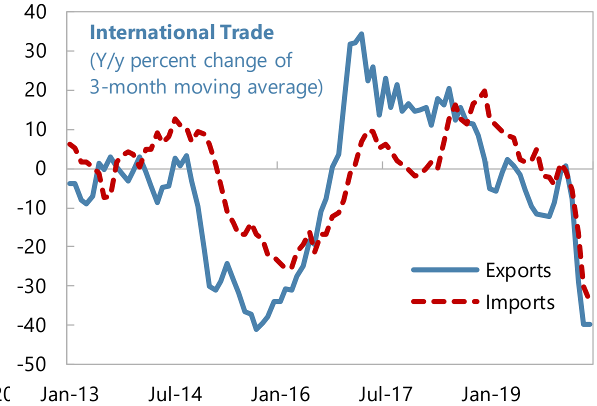
Sources: Departamento Administrativo Nacional de Estadísticas (DANE); Dirección de Impuestos y de Aduanas Nacionales (DIAN), La Fundación Para la Educación Superior y el Desarollo; Haver Analytics; and IMF staff estimates.
1/ Seasonally & working days adjusted. Other indicators in this chart are non-seasonal-adjusted.
2/ Index sets to 2019M12=0.

Figure 3. Colombia: External and Financial Sector Developments

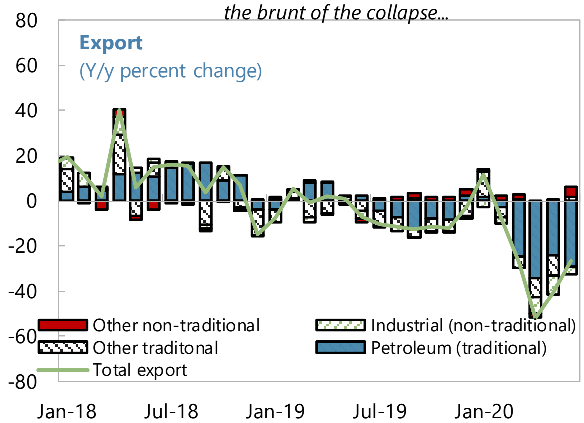
The pandemic and oil price collapse have weakened the terms of trade ....



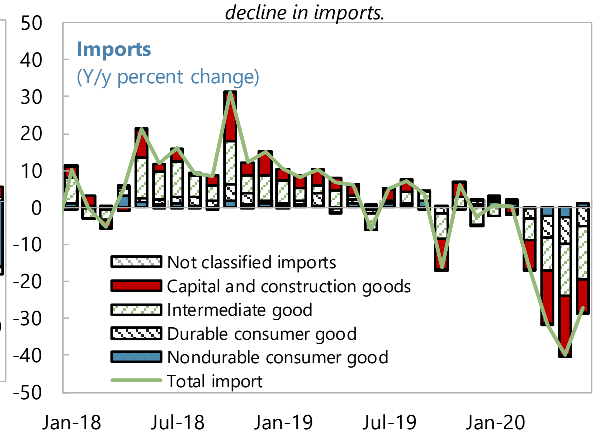
...driving down exports, as imports also fell.



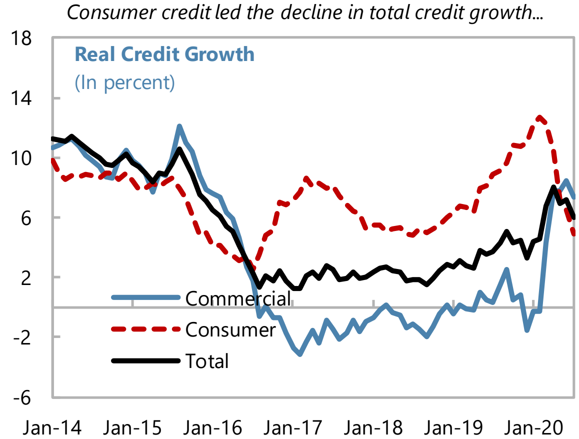
While all exports fell, petroleum-related exports took the brunt of the collapse...



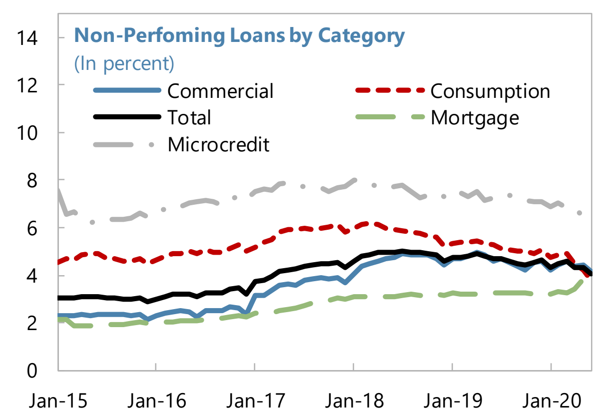
... and investment and intermediate inputs led the decline in imports.



Consumer credit led the decline in total credit growth...

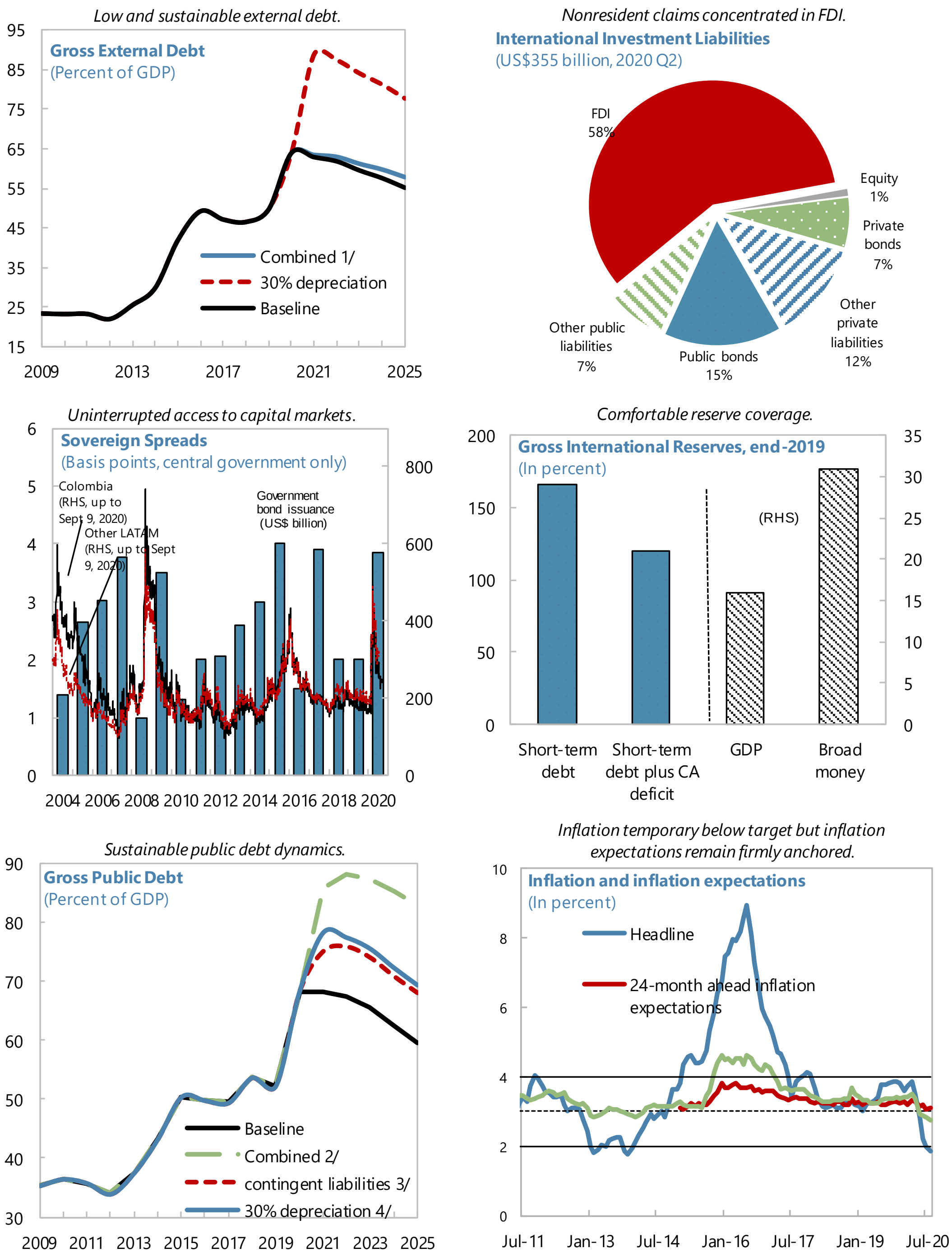


... as NPLs had continue to fall ahead of the pandemic.



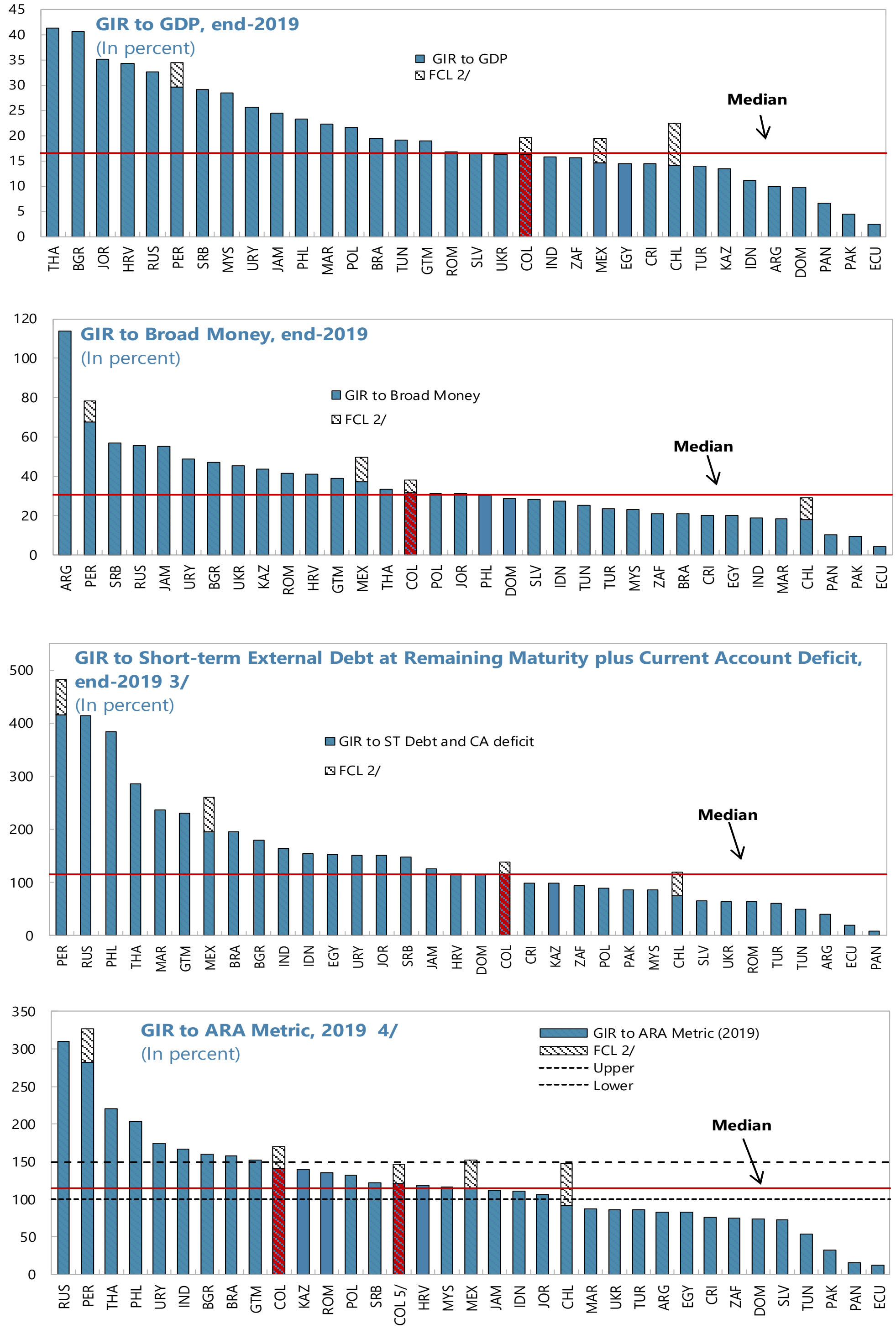
Source: DANE, Haver, Superintendencia Financiera de Colombia; Banco de la República; and IMF staff estimates.

Figure 4. 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.

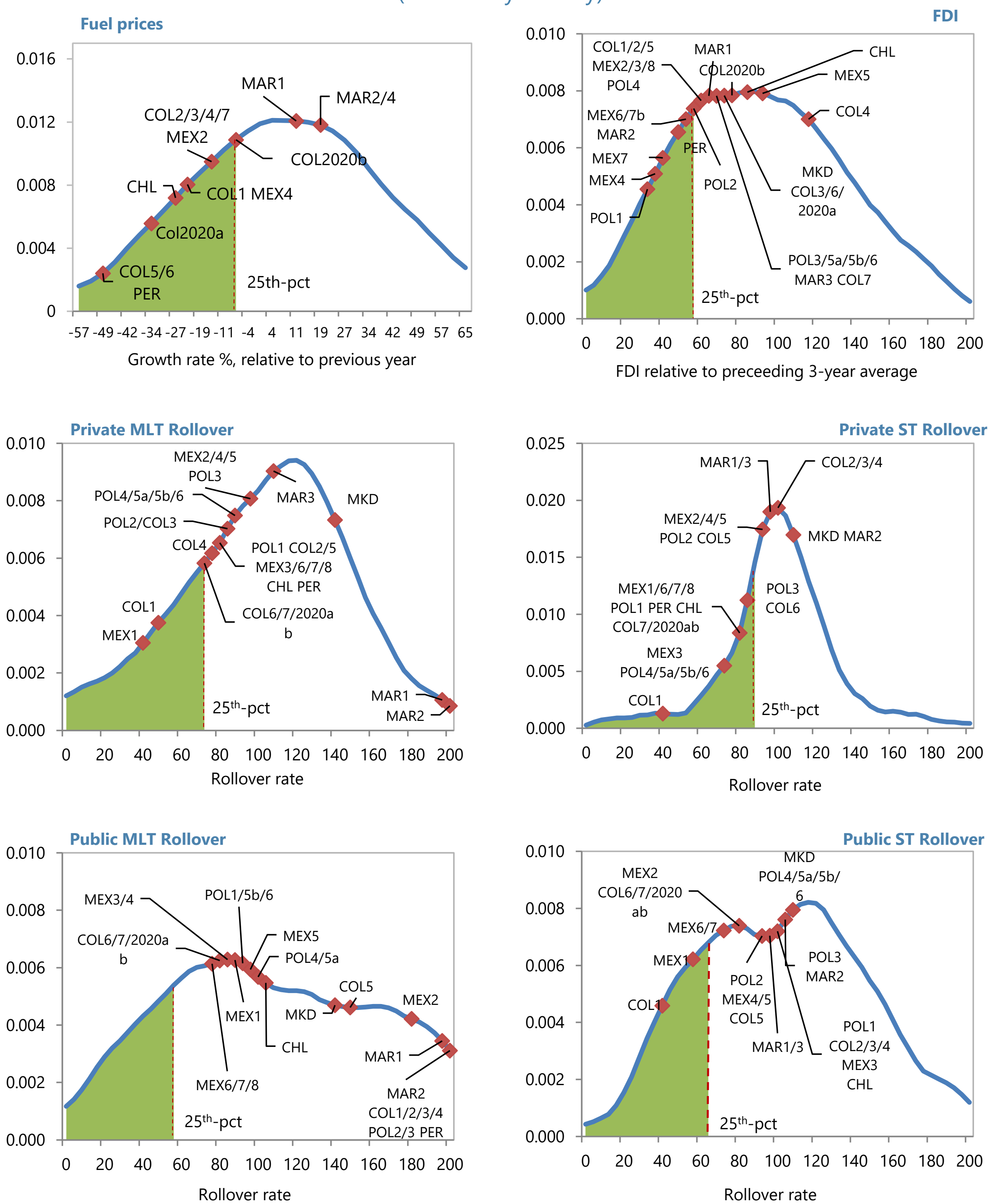
Figure 5. Colombia: Reserve Coverage and FCLs in an International Perspective 1/



Sources: World Economic Outlook; IFS; and IMF staff estimates.
1/ The sample consists of emerging market economies for which data are available for all measures.
2/ The FCL amount of Chile, Colombia, and Peru shown in charts are the latest amounts approved in year 2020.
3/ The current account is set to zero if it is in surplus.
4/ The upper and lower lines denote the 100-150 percent range of reserve coverage regarded as adequate for a typical country under this metric.
5/ Calculated based on the ARA metric augmented by a buffer for commodity exporters.

Figure 6. Colombia and Selected Countries: Comparing Adverse Scenarios 1/

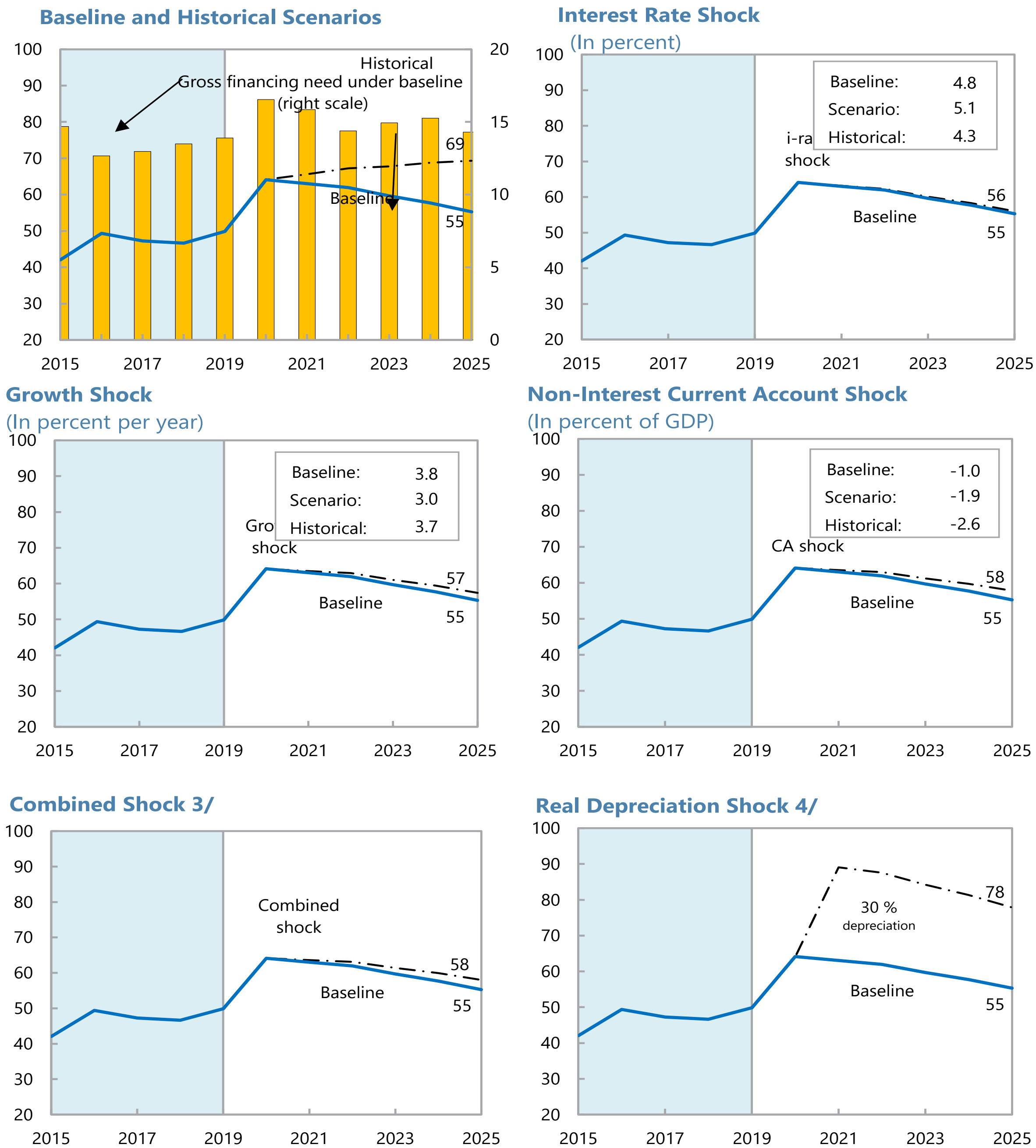
(Probability density)



Source: IMF staff calculations.

1/ The countries shown are previous FCL/PCL/PLL arrangements, numbered consecutively by country. COL2020a refers to the current arrangement for Colombia and COL2020b to the proposed augmentation of access, which uses a scenario for 2021.

Figure 7. 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 8. Colombia: Public Sector Debt Sustainability Analysis (DSA) – Baseline Scenario

(In percent of GDP, unless otherwise indicated)

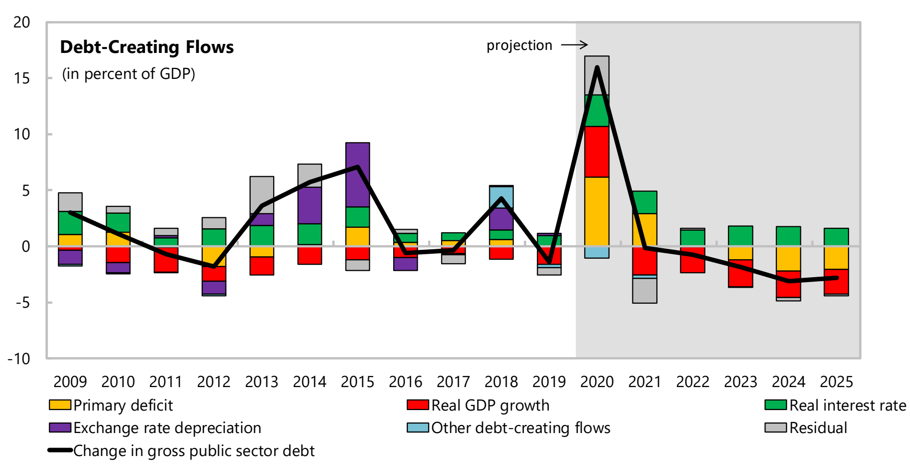
Debt, Economic and Market Indicators [1/]

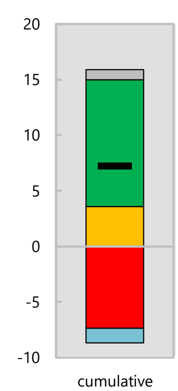
	Actual			Projections					
	2009-2017 [2/]	2018	2019	2020	2021	2022	2023	2024	2025
Nominal gross public debt	41.4	53.7	52.3	68.2	68.1	67.3	65.5	62.3	59.5
Public gross financing needs	5.4	6.9	7.3	10.8	9.1	6.6	6.3	5.9	5.6
Real GDP growth (in percent)	3.6	2.5	3.3	-8.2	4.0	3.6	3.8	3.8	3.7
Inflation (GDP deflator, in percent)	3.9	4.5	4.3	3.4	2.7	2.9	3.0	3.0	3.1
Nominal GDP growth (in percent)	7.6	7.1	7.7	-5.0	6.9	6.7	7.0	7.0	7.0
Effective interest rate (in percent) [4/]	8.2	6.5	6.3	8.3	6.0	5.3	6.1	6.0	6.0

As of August 28, 2020		
Sovereign Spreads		
EMBIG (bp) 3/		249
5Y CDS (bp)		113
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	4.2	-1.4	15.9	-0.2	-0.7	-1.9	-3.1	-2.8	7.2	
Identified debt-creating flows	1.0	4.2	-0.8	12.4	2.1	-0.9	-1.8	-2.8	-2.6	6.3	
Primary deficit	0.2	0.6	0.0	6.2	2.9	0.0	-1.2	-2.2	-2.1	3.6	-0.6
Primary (noninterest) revenue and grants	27.1	29.2	28.7	25.6	26.2	27.0	27.7	28.0	27.8	162.4	
Primary (noninterest) expenditure	27.3	29.8	28.7	31.8	29.1	26.9	26.5	25.8	25.8	165.9	
Automatic debt dynamics [5/]	0.8	1.7	-0.5	7.3	-0.6	-0.9	-0.6	-0.6	-0.6	4.1	
Interest rate/growth differential [6/]	0.2	-0.3	-0.7	7.3	-0.6	-0.9	-0.6	-0.6	-0.6	4.1	
Of which: real interest rate	1.5	0.9	0.9	2.8	2.0	1.4	1.8	1.7	1.6	11.4	
Of which: real GDP growth	-1.3	-1.2	-1.6	4.5	-2.6	-2.3	-2.4	-2.4	-2.2	-7.4	
Exchange rate depreciation [7/]	0.6	2.0	0.2	…	…	…	…	…	…	…	
Other identified debt-creating flows	0.0	1.9	-0.3	-1.0	-0.3	0.0	0.0	0.0	0.0	-1.3	
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	-0.3	0.0	0.0	0.0	0.0	-1.3	
Residual, including asset changes [8/]	0.9	0.1	-0.6	3.5	-2.2	0.2	-0.1	-0.3	-0.2	0.9	





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 $[(r - \pi(1+g) - g + ae(1+r)]/(1+g+\pi+g\pi))$ 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 $r - \pi(1+g)$ and the real growth contribution as $-g$.

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

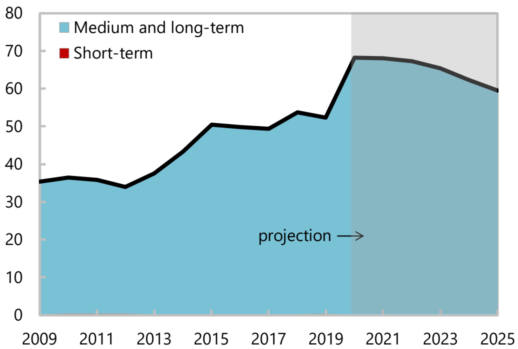
8/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

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.

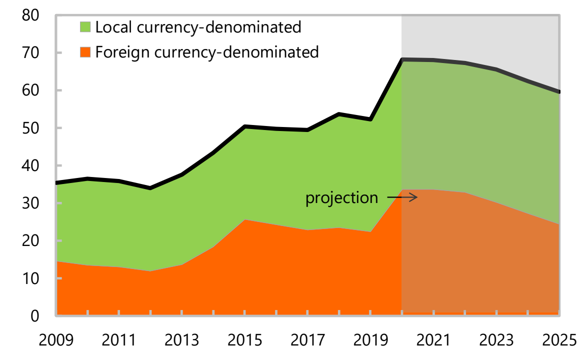
Figure 9. Colombia: Public DSA – Composition of Public Debt and Alternative Scenario

Composition of Public Debt

By Maturity
(in percent of GDP)



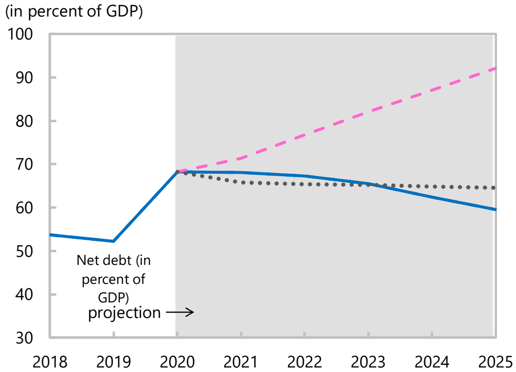
By Currency
(in percent of GDP)



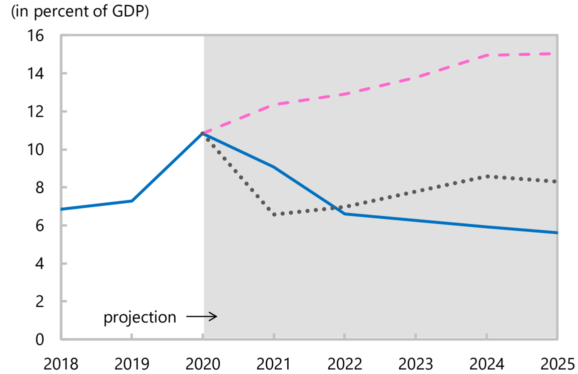
Alternative Scenarios

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)

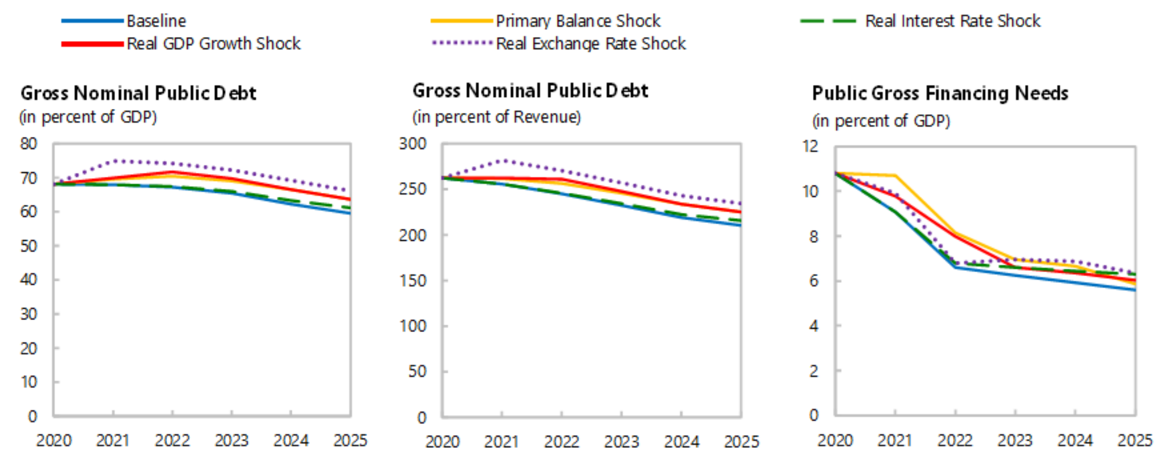
Baseline Scenario	2020	2021	2022	2023	2024	2025
Real GDP growth	-8.2	4.0	3.6	3.8	3.8	3.7
Inflation	3.4	2.7	2.9	3.0	3.0	3.1
Primary Balance	-6.2	-2.9	0.0	1.2	2.2	2.1
Effective interest rate	8.3	6.0	5.3	6.1	6.0	6.0
Constant Primary Balance Scenario						
Real GDP growth	-8.2	4.0	3.6	3.8	3.8	3.7
Inflation	3.4	2.7	2.9	3.0	3.0	3.1
Primary Balance	-6.2	-6.2	-6.2	-6.2	-6.2	-6.2
Effective interest rate	8.3	6.0	5.3	5.9	5.8	5.7

Historical Scenario	2020	2021	2022	2023	2024	2025
Real GDP growth	-8.2	3.7	3.7	3.7	3.7	3.7
Inflation	3.4	2.7	2.9	3.0	3.0	3.1
Primary Balance	-6.2	-0.4	-0.4	-0.4	-0.4	-0.4
Effective interest rate	8.3	6.0	5.4	6.2	6.1	6.2

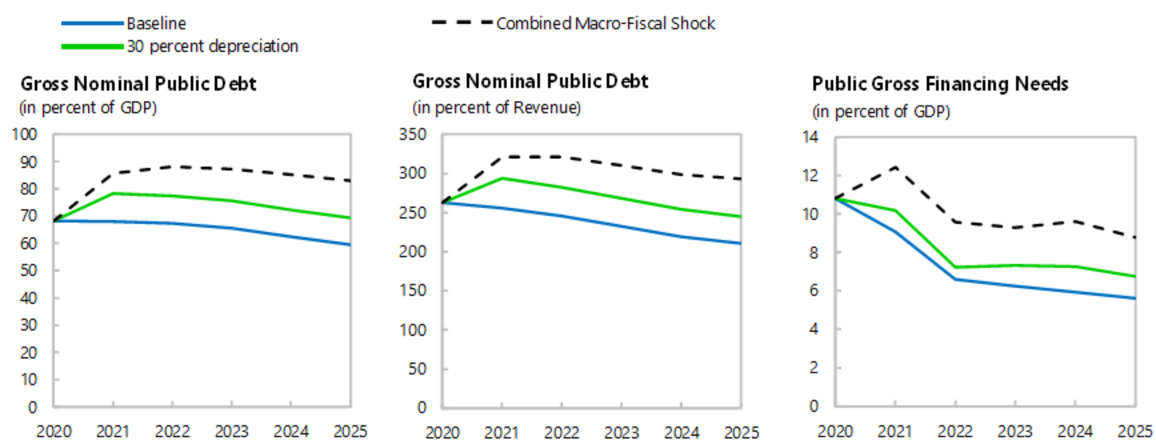
Source: IMF staff.

Figure 10. Colombia: Public DSA – Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions
(in percent)

Primary Balance Shock	2020	2021	2022	2023	2024	2025
Real GDP growth	-8.2	4.0	3.6	3.8	3.8	3.7
Inflation	3.4	2.7	2.9	3.0	3.0	3.1
Primary balance	-6.2	-4.5	-1.4	0.6	1.7	2.1
Effective interest rate	8.3	6.0	5.4	6.1	6.0	6.1
Real Interest Rate Shock						
Real GDP growth	-8.2	4.0	3.6	3.8	3.8	3.7
Inflation	3.4	2.7	2.9	3.0	3.0	3.1
Primary balance	-6.2	-2.9	0.0	1.2	2.2	2.1
Effective interest rate	8.3	6.0	5.6	6.6	6.8	7.1
Combined Shock						
Real GDP growth	-8.2	2.4	2.0	3.8	3.8	3.7
Inflation	3.4	2.3	2.5	3.0	3.0	3.1
Primary balance	-6.2	-4.5	-1.4	0.6	1.7	2.1
Effective interest rate	8.3	7.4	5.6	6.6	6.7	6.9

Real GDP Growth Shock	2020	2021	2022	2023	2024	2025
Real GDP growth	-8.2	2.4	2.0	3.8	3.8	3.7
Inflation	3.4	2.3	2.5	3.0	3.0	3.1
Primary balance	-6.2	-3.5	-1.1	1.2	2.2	2.1
Effective interest rate	8.3	6.0	5.3	6.1	6.0	6.0
Real Exchange Rate Shock						
Real GDP growth	-8.2	4.0	3.6	3.8	3.8	3.7
Inflation	3.4	13.3	2.9	3.0	3.0	3.1
Primary balance	-6.2	-2.9	0.0	1.2	2.2	2.1
Effective interest rate	8.3	7.4	5.3	6.0	5.9	5.8

Source: IMF staff.

Table 1. Colombia: Selected Economic and Financial Indicators

I. Social and Demographic Indicators

Population (million), 2019	50.4	Unemployment rate, 2019 (percent)	10.5
GDP, 2019		Adult illliteracy rate (ages 15 and older), 2018	4.9
Per capita (US$)	6,426	Net secondary school enrollment rate, 2018	77.5
In billion of Col$	1,061,730	Gini coefficient, 2018	51.7
In billion of US$	324	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

	2017	2018	2019	2020		2021		2022	2023	2024	2025
				20/148	Proj.	20/148	Proj.	Projections			
National income and prices											
Real GDP	1.4	2.5	3.3	-2.5	-8.2	4.2	4.0	3.6	3.8	3.8	3.7
Potential GDP	2.9	2.9	3.1	0.3	-1.2	3.0	1.4	2.0	2.3	2.6	2.8
Output Gap	-0.8	-1.3	-1.1	-4.3	-8.0	-3.2	-5.6	-4.0	-2.6	-1.4	-0.5
GDP deflator	5.1	4.5	4.3	4.4	3.4	3.5	2.7	2.9	3.0	3.0	3.1
Consumer prices (end of period)	4.1	3.2	3.8	3.3	1.4	3.1	2.4	2.6	2.7	2.9	3.0
External sector											
Exports (f.o.b.)	16.8	11.7	-4.7	-19.1	-21.3	8.2	9.0	7.7	6.1	4.8	4.7
Imports (f.o.b.)	2.3	12.1	2.5	-12.3	-18.7	6.9	6.9	6.1	4.9	4.9	4.3
Export volume	2.6	0.9	2.6	-4.3	-9.5	5.6	2.9	4.8	3.8	3.5	3.4
Import volume	1.0	5.8	8.1	-7.3	-15.0	7.3	6.7	5.0	3.7	3.1	2.6
Terms of trade (deterioration -)	9.3	5.7	-0.4	-8.9	-7.4	3.3	6.0	1.3	0.6	-0.7	-0.7
Real effective exchange rate (depreciation -) 1/	5.7	0.6	-9.1	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Money and credit											
Broad money	6.4	5.7	10.0	4.4	-2.5	10.8	9.7	9.4	9.4	9.0	9.0
Credit to the private sector	12.8	6.8	11.6	4.8	-2.2	10.8	9.7	9.4	9.4	9.0	9.0
Policy rate (end of period)	*4.8*	*4.3*	*4.3*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	n.a.	n.a.
Central government balance 2/	-3.6	-4.8	-2.5	-4.9	-8.2	-3.7	-6.2	-3.4	-2.3	-1.9	-1.7
Central government structural balance 3/	-2.6	-2.3	-2.2	-4.1	-6.6	-2.5	-4.5	-2.2	-1.6	-1.6	-1.5
Combined public sector (CPS) balance 4/	-2.4	-4.5	-1.9	-3.8	-8.9	-3.1	-6.1	-3.0	-1.8	-0.7	-0.8
CPS non-oil structural primary balance	-0.1	-1.2	-0.8	-1.5	-5.2	-0.5	-1.9	0.4	0.7	1.1	0.8
CPS fiscal impulse	0.1	1.0	-0.4	0.1	4.4	-1.0	-3.3	-2.3	-0.3	-0.4	0.3
Public debt	49.4	53.7	52.3	59.3	68.2	58.4	68.1	67.3	65.5	62.3	59.5
Gross domestic investment	21.6	21.3	22.3	18.9	19.7	18.9	20.7	21.1	21.4	21.9	21.9
Gross national savings	18.3	17.4	18.0	14.3	15.8	14.6	16.7	17.3	17.6	18.1	18.2
Current account (deficit -)	-3.3	-3.9	-4.2	-4.7	-4.0	-4.3	-3.9	-3.8	-3.8	-3.8	-3.8
External Financing Needs	13.3	13.9	14.2	17.1	17.3	16.9	16.3	14.8	15.4	15.7	14.8
External debt 6/	47.2	46.6	49.9	59.2	64.1	57.3	63.0	62.0	59.7	57.7	55.3
Of which: public sector 5/	30.3	28.9	30.1	35.5	42.3	33.6	42.2	41.2	38.7	36.1	33.6
External debt service	73.6	69.5	73.9	98.5	99.0	95.9	90.7	81.4	84.7	87.1	81.7
Interest payments	10.9	10.6	14.3	19.5	17.9	16.9	17.5	17.3	17.3	16.8	16.3
Exports (f.o.b.)	39.8	44.4	42.4	34.3	33.4	37.1	36.4	39.2	41.6	43.6	45.6
Of which: Petroleum products	13.3	16.8	16.0	9.2	9.8	10.0	11.5	11.9	12.5	12.8	13.1
Gross official reserves 6/	47.1	47.9	52.7	52.9	55.0	53.7	55.4	56.0	56.7	57.5	58.3

Sources: Colombian authorities; UNDP Human Development Report; World Development Indicators; and Fund 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. It excludes expected privatization proceeds (1.1 and 0.6 percent of GDP) in 2021 and 2022 that, under GFSM 1986, produces a headline deficit of 5.1 and 2.8 percent of GDP respectively.
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 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)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
						Projections					
Current account balance	**-18,564**	**-12,036**	**-10,241**	**-13,117**	**-13,740**	**-10,520**	**-10,982**	**-11,238**	**-11,937**	**-12,620**	**-13,232**
Goods balance	-13,479	-9,176	-4,470	-5,144	-8,451	-7,945	-7,789	-7,685	-7,572	-7,955	-8,116
Exports, f.o.b.	38,572	34,063	39,777	44,440	42,368	33,358	36,371	39,155	41,559	43,568	45,625
Commodities	24,180	20,407	25,890	29,441	26,866	19,309	21,205	22,744	24,037	24,621	25,337
Fuel	14,566	10,796	13,308	16,843	15,962	9,764	11,478	11,945	12,531	12,763	13,085
Non-fuel	9,614	9,612	12,582	12,598	10,904	9,545	9,727	10,798	11,506	11,859	12,253
Non-traditional exports	10,418	9,520	10,062	10,716	10,571	9,305	9,653	10,564	11,366	12,408	13,386
Other	3,974	4,136	3,825	4,283	4,931	4,743	5,513	5,848	6,156	6,538	6,902
Imports, f.o.b.	52,051	43,239	44,247	49,584	50,818	41,303	44,159	46,841	49,131	51,523	53,741
Consumer goods	11,103	10,114	10,161	11,273	11,688	10,055	10,706	11,342	11,884	12,441	12,957
Intermediate goods	21,814	18,809	18,889	21,502	21,795	17,442	18,572	19,675	20,615	21,581	22,476
Capital goods	17,407	12,527	13,210	14,814	15,477	12,385	13,188	13,971	14,638	15,325	15,960
Other	1,726	1,789	1,987	1,995	1,858	1,421	1,693	1,853	1,993	2,176	2,348
Services balance	-4,788	-3,530	-3,977	-3,852	-3,805	-2,384	-2,434	-2,675	-2,977	-3,319	-3,650
Exports of services	7,426	7,771	8,461	9,654	10,063	7,684	9,269	9,779	10,247	10,697	11,158
Imports of services	12,214	11,301	12,438	13,506	13,868	10,068	11,703	12,455	13,223	14,016	14,808
Primary income balance	-5,727	-5,229	-8,405	-11,764	-10,189	-7,908	-9,400	-10,010	-10,980	-11,390	-11,973
Receipts	4,483	4,996	5,479	6,117	7,047	4,417	5,952	6,398	6,540	6,914	7,151
Expenditures	10,211	10,225	13,884	17,881	17,236	12,325	15,351	16,408	17,520	18,303	19,124
Secondary income balance	5,430	5,898	6,611	7,643	8,704	7,717	8,640	9,133	9,592	10,044	10,506
Financial account balance	**-18,244**	**-12,273**	**-9,558**	**-12,415**	**-13,051**	**-10,520**	**-10,982**	**-11,238**	**-11,937**	**-12,620**	**-13,232**
Direct Investment	-7,506	-9,330	-10,147	-6,409	-11,342	-5,589	-8,258	-9,055	-9,856	-10,916	-11,812
Assets	4,218	4,517	3,690	5,126	3,230	2,778	2,900	2,954	3,009	3,064	3,121
Liabilities	11,724	13,848	13,837	11,535	14,572	8,367	11,158	12,009	12,865	13,980	14,933
Oil sector	2,566	2,386	3,106	2,540	2,755	1,452	2,104	2,264	2,426	2,636	2,816
Non-oil sectors	9,157	11,462	10,730	8,995	11,817	6,915	9,054	9,745	10,439	11,345	12,118
Portfolio Investment	-9,166	-4,839	-1,617	1,297	298	6,845	-1,476	-3,941	-2,071	-4,329	-4,698
Assets	-475	5,190	6,200	1,646	541	1,628	1,102	852	102	102	102
Liabilities	8,691	10,029	7,817	349	243	-5,216	2,578	4,793	2,173	4,431	4,800
Equity	640	-363	472	-823	-1,232	-1,750	472	499	528	560	593
Debt instruments	8,051	10,392	7,345	1,172	1,475	-3,466	2,105	4,295	1,645	3,872	4,207
General government	5,651	8,792	6,011	4,529	366	34	1,105	3,295	1,645	1,372	3,207
Banks	400	1,100	300	-800	0	-1,000	1,000	500	0	1,000	0
Corporates and households	2,000	500	1,034	-2,557	1,109	-2,500	0	500	0	1,500	1,000
Derivatives	1,956	-621	365	21	83	0	0	0	0	0	0
Other Investments	-3,943	2,353	1,296	-8,511	-5,423	-14,094	-1,668	1,150	-719	1,851	2,465
Net use of IMF Credit	0	0	0	0	0	5,118	0	0	-640	-2,559	-1,919
Change in reserve assets	415	165	545	1,187	3,333	2,318	420	609	710	774	813
Net errors and omissions	**320**	**-237**	**683**	**702**	**689**	**0**	**0**	**0**	**0**	**0**	**0**
Memorandum items:											
Brent Crude Oil Price (US$/barrel)	52	44	54	71	64	43	48	50	51	52	53
Nominal exchange rate (Col$/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)

	2015	2016	2017	2018	2019	Projections 2020	2021	2022	2023	2024	2025
Current account balance	**-6.3**	**-4.3**	**-3.3**	**-3.9**	**-4.2**	**-4.0**	**-3.9**	**-3.8**	**-3.8**	**-3.8**	**-3.8**
Goods balance	-4.6	-3.2	-1.4	-1.5	-2.6	-3.0	-2.8	-2.6	-2.4	-2.4	-2.3
Exports, f.o.b.	13.1	12.0	12.8	13.3	13.1	12.6	13.0	13.2	13.2	13.1	13.0
Commodities	8.2	7.2	8.3	8.8	8.3	7.3	7.6	7.7	7.7	7.4	7.2
Fuel	5.0	3.8	4.3	5.1	4.9	3.7	4.1	4.0	4.0	3.8	3.7
Non-fuel	3.3	3.4	4.0	3.8	3.4	3.6	3.5	3.6	3.7	3.6	3.5
Non-traditional exports	3.5	3.4	3.2	3.2	3.3	3.5	3.4	3.6	3.6	3.7	3.8
Other	1.4	1.5	1.2	1.3	1.5	1.8	2.0	2.0	2.0	2.0	2.0
Imports, f.o.b.	17.7	15.3	14.2	14.9	15.7	15.6	15.7	15.8	15.7	15.5	15.3
Consumer goods	3.8	3.6	3.3	3.4	3.6	3.8	3.8	3.8	3.8	3.7	3.7
Intermediate goods	7.4	6.7	6.1	6.4	6.7	6.6	6.6	6.6	6.6	6.5	6.4
Capital goods	5.9	4.4	4.2	4.4	4.8	4.7	4.7	4.7	4.7	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	-1.2	-1.2	-0.9	-0.9	-0.9	-0.9	-1.0	-1.0
Exports of services	2.5	2.7	2.7	2.9	3.1	2.9	3.3	3.3	3.3	3.2	3.2
Imports of services	4.2	4.0	4.0	4.0	4.3	3.8	4.2	4.2	4.2	4.2	4.2
Primary income balance	-2.0	-1.8	-2.7	-3.5	-3.1	-3.0	-3.4	-3.4	-3.5	-3.4	-3.4
Receipts	1.5	1.8	1.8	1.8	2.2	1.7	2.1	2.2	2.1	2.1	2.0
Expenditures	3.5	3.6	4.5	5.4	5.3	4.7	5.5	5.5	5.6	5.5	5.4
Secondary income balance	1.9	2.1	2.1	2.3	2.7	2.9	3.1	3.1	3.1	3.0	3.0
Financial account balance	**-6.2**	**-4.3**	**-3.1**	**-3.7**	**-4.0**	**-4.0**	**-3.9**	**-3.8**	**-3.8**	**-3.8**	**-3.8**
Direct Investment	-2.6	-3.3	-3.3	-1.9	-3.5	-2.1	-2.9	-3.1	-3.1	-3.3	-3.4
Assets	1.4	1.6	1.2	1.5	1.0	1.0	1.0	1.0	1.0	0.9	0.9
Liabilities	4.0	4.9	4.4	3.5	4.5	3.2	4.0	4.1	4.1	4.2	4.2
Oil sector	0.9	0.8	1.0	0.8	0.9	0.5	0.8	0.8	0.8	0.8	0.8
Non-oil sectors	3.1	4.1	3.4	2.7	3.7	2.6	3.2	3.3	3.3	3.4	3.4
Portfolio Investment	-3.1	-1.7	-0.5	0.4	0.1	2.6	-0.5	-1.3	-0.7	-1.3	-1.3
Assets	-0.2	1.8	2.0	0.5	0.2	0.6	0.4	0.3	0.0	0.0	0.0
Liabilities	3.0	3.5	2.5	0.1	0.1	-2.0	0.9	1.6	0.7	1.3	1.4
Equity	0.2	-0.1	0.2	-0.2	-0.4	-0.7	0.2	0.2	0.2	0.2	0.2
Debt instruments	2.7	3.7	2.4	0.4	0.5	-1.3	0.8	1.4	0.5	1.2	1.2
General government	1.9	3.1	1.9	1.4	0.1	0.0	0.4	1.1	0.5	0.4	0.9
Banks	0.1	0.4	0.1	-0.2	0.0	-0.4	0.4	0.2	0.0	0.3	0.0
Corporates and households	0.7	0.2	0.3	-0.8	0.3	-0.9	0.0	0.2	0.0	0.5	0.3
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	-1.7	-5.3	-0.6	0.4	-0.2	0.6	0.7
Net use of IMF Credit		0.0	0.0	0.0	0.0	1.9	0.0	0.0	-0.2	-0.8	-0.5
Change in Reserve Assets	0.1	0.1	0.2	0.4	1.0	0.9	0.1	0.2	0.2	0.2	0.2
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**
GDP (Billion, Us dollars)	293	283	312	333	324	265	280	296	314	333	352

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

Table 2c. Colombia: Summary Balance of Payments (Analytic Presentation)

(In millions of US$, unless otherwise indicated)

	2017	2018	2019	2020		2021		2022	2023	2024	2025
				20/148	Proj.	20/148	Proj.	Projections			
Current account balance	**-10,241**	**-13,117**	**-13,740**	**-13,263**	**-11,290**	**-12,919**	**-11,865**	**-11,760**	**-12,521**	**-13,275**	**-13,865**
Goods balance	-4,470	-5,144	-8,451	-10,288	-9,097	-10,523	-9,705	-8,781	-8,677	-9,022	-8,960
Exports, f.o.b.	39,777	44,440	42,368	34,265	32,110	37,085	33,863	37,367	40,017	42,278	44,644
Commodities	25,890	29,441	26,866	20,024	18,161	21,508	19,018	21,164	22,610	23,535	24,496
Fuel	13,308	16,843	15,962	9,189	8,552	9,966	9,293	10,279	11,334	11,924	12,500
Non-fuel	12,582	12,598	10,904	10,835	9,610	11,542	9,725	10,885	11,275	11,611	11,996
Non-traditional exports	10,062	10,716	10,571	9,504	9,261	9,973	9,552	10,507	11,335	12,259	13,231
Other	3,825	4,283	4,931	4,736	4,688	5,604	5,293	5,696	6,072	6,484	6,917
Imports, f.o.b.	44,247	49,584	50,818	44,552	41,207	47,609	43,568	46,148	48,694	51,301	53,605
Consumer goods	10,161	11,273	11,688	10,442	9,943	10,939	10,498	11,109	11,690	12,266	12,798
Intermediate goods	18,889	21,502	21,795	18,927	17,451	20,207	18,426	19,407	20,470	21,478	22,410
Capital goods	13,210	14,814	15,477	13,672	12,392	14,528	12,960	13,779	14,534	15,395	16,063
Other	1,987	1,995	1,858	1,511	1,421	1,935	1,684	1,853	1,999	2,162	2,333
Services balance	-3,977	-3,852	-3,805	-2,928	-2,449	-3,041	-2,542	-2,758	-3,072	-3,418	-3,747
Exports of services	8,461	9,654	10,063	8,074	7,549	9,602	9,028	9,495	9,919	10,347	10,801
Imports of services	12,438	13,506	13,868	11,002	9,998	12,642	11,570	12,253	12,991	13,766	14,548
Primary income balance	-8,405	-11,764	-10,189	-8,126	-7,254	-8,075	-8,042	-9,163	-10,157	-10,661	-11,435
Receipts	5,479	6,117	7,047	5,279	4,333	5,907	5,893	6,191	6,354	6,719	6,937
Expenditures	13,884	17,881	17,236	13,404	11,588	13,981	13,934	15,355	16,511	17,380	18,372
Secondary income balance	6,611	7,643	8,704	8,078	7,510	8,719	8,424	8,943	9,385	9,826	10,277
Financial account balance 1/ 2/	**10,103**	**13,602**	**16,384**	**13,463**	**8,623**	**13,742**	**12,304**	**12,338**	**13,828**	**16,548**	**16,556**
Direct Investment	10,147	6,409	11,342	9,604	5,670	11,761	8,098	8,833	9,573	10,581	11,449
Assets	3,690	5,126	3,230	2,184	2,678	2,200	2,700	2,747	2,795	2,845	2,895
Liabilities	13,837	11,535	14,572	11,788	8,348	13,961	10,798	11,579	12,368	13,426	14,344
Oil sector	3,106	2,540	2,755	1,542	1,452	2,326	2,104	2,256	2,410	2,616	2,795
Non-oil sectors	10,730	8,995	11,817	10,247	6,896	11,635	8,695	9,323	9,958	10,810	11,550
Portfolio Investment	1,617	-1,297	-298	1,639	-5,702	2,396	1,475	2,941	2,071	4,329	4,698
Assets	6,200	1,646	541	820	879	336	102	852	102	102	102
Liabilities	7,817	349	243	2,459	-4,823	2,732	1,578	3,793	2,173	4,431	4,800
Equity	472	-823	-1,232	-229	-1,750	-465	472	499	528	560	593
Debt instruments	7,345	1,172	1,475	2,688	-3,073	3,197	1,105	3,295	1,645	3,872	4,207
General government	6,011	4,529	366	3,188	284	3,197	1,105	3,295	1,645	1,372	3,207
Banks	300	-800	0	-250	-800	0	0	0	0	1,000	0
Corporates and households	1,034	-2,557	1,109	-250	-2,557	0	0	0	0	1,500	1,000
Derivatives	-365	-21	-83	0	0	0	0	0	0	0	0
Other Investments 2/	-1,296	8,511	5,423	2,220	8,656	-415	2,731	564	2,184	1,638	409
Net errors and omissions	**683**	**702**	**689**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Overall Balance	**545**	**1,187**	**3,333**	**200**	**-2,667**	**822**	**440**	**578**	**1,307**	**3,273**	**2,691**
Financing	**-545**	**-1,187**	**-3,333**	**-200**	**2,667**	**-822**	**-440**	**-578**	**-1,307**	**-3,273**	**-2,691**
Change in reserve assets (- = increase)	-545	-1,187	-3,333	-200	-2,363	-822	-440	-578	-678	-758	-805
Net use of IMF Credit	0	0	0	0	5,029	0	0	0	-629	-2,515	-1,886
Memorandum items:											
Brent Crude Oil Price (US$/barrel)	54	71	64	37	37	39	38	42	45	47	49
Nominal exchange rate (Col$/US$, period average)	2,951	2,956	3,281	3,806	3,806	3,844	3,844	3,883	3,922	3,961	4,001

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

1/ Excludes change in reserve assets

2/ Excludes use of IMF credit

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

(In millions of U.S. dollars)

	2018	2019	Staff Projections 2020 Baseline	2020 Adverse Scenario	2020 Contribution to gap in adverse scenario	2021 Baseline	2021 Adverse Scenario	2021 Contribution to gap in adverse scenario	Rollover/shock 8/	Rollover/shock (May 2020 Approval)
Gross financing requirements	**46,169**	**48,305**	**46,119**	**42,020**	**(4,099)**	**44,838**	**39,416**	**(5,422)**		
External current account deficit 1/	13,117	13,740	10,520	13,739	3,219	10,982	17,546	6,564	35% shock to oil exports (prices and volumes); 10% shock to non-oil exports; migration shock (imports); remittances	28% shock to oil price; 10% shock to non-oil exports; migration shock
Debt amortization	31,866	31,232	33,281	33,281		33,436	33,436			
Medium and long term debt	15,440	10,482	11,875	11,875		13,031	13,031			
Public sector 2/	6,254	4,742	2,709	2,709		4,627	4,627			
Private sector	9,185	5,740	9,166	9,166		8,403	8,403			
Short-term debt 3/	16,426	20,749	21,406	21,406		20,406	20,406			
Public sector	591	766	766	766		766	766			
Private sector	15,835	19,984	20,640	20,640		19,640	19,640			
Gross reserves accumulation 4/	1,187	3,333	2,318	-5,000	(7,318)	420	-11,566	(11,986)		
Available financing	**46,169**	**48,305**	**41,001**	**29,310**	**11,691**	**44,838**	**27,141**	**17,697**		
Foreign direct investment (net)	6,409	11,342	5,589	3,916		8,258	6,027			
o/w inward (net)	11,535	14,572	8,367	6,694	1,673	11,158	8,927	2,232	20% reduction	20% reduction
Other K inflows										
Medium and LT debt disbursements	17,444	13,217	14,920	11,397		18,353	9,828			
Public sector 2/	7,580	5,844	12,254	9,190	3,063	10,950	3,702	7,248	80%	80%
Private sector	9,864	7,374	2,666	2,206	460	7,403	6,126	1,277	73%	73%
Short-term debt 3/	20,803	21,406	20,406	17,124		20,052	16,324			
Public sector	766	766	766	612	153	766	612	153	80%	80%
Private sector	20,037	20,640	19,640	16,512	3,128	19,287	15,712	3,575	80%	80%
Other capital flows (net) 4/	1,514	2,340	86	-3,127	3,213	-1,825	-5,038	3,213	1 std deviation other portfolio investment	100% reduction in equity portfolio investment + $1 bln sell-off
Financing gap (in US$ millions)			**5,118**	**12,710**	**7,592**			**12,275**		
Percent of quota 5/			*180*	*447*	*267*			*420*		
Gross international reserves 6/	47,897	52,654	54,972	49,972		55,391	43,826			
Net international reserves 4/	48,402	51,735	54,052	49,052		54,472	54,472			
Net international reserves (program definition) 6/	47,888	51,221	53,539			26,202				
o/w portfolio flows (including pension funds)	48,393	51,726	54,044							
GIR/ARA (constant ARA)	132	142	146	133		141	112			
GIR/ARA (adjusting ARA)	132	142	146	153		141	129			
GIR / (st debt at remaining maturity + ca deficit) 7/	107	120	124	113		130	103			
GIR (months of imports of G&S in same year) 7/	9	10	13	12		12	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. Excludes IMF FCL. Net of TES flows.
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.
8/ Calibrations apply to 2021, which is the year used to justify precautionary access.

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

(In percent of GDP, unless otherwise indicated)

	2017	2018	2019	2020		2021		2022	2023	2024	2025
				20/148	Proj.	20/148	Proj.	Projections			
Total revenue	**15.7**	**15.3**	**16.2**	**15.0**	**14.6**	**15.2**	**14.6**	**14.8**	**15.3**	**15.6**	**15.7**
Current revenue 2/	**14.4**	**13.8**	**14.1**	**13.0**	**12.7**	**14.1**	**13.7**	**14.2**	**14.4**	**14.5**	**14.5**
Tax revenue	**13.8**	**13.7**	**14.0**	**12.8**	**12.5**	**13.9**	**13.6**	**14.1**	**14.3**	**14.4**	**14.4**
Net income tax and profits	5.7	6.5	6.3	5.5	5.5	5.8	5.6	6.0	6.0	6.0	6.1
Goods and services	5.5	5.7	5.8	5.4	5.1	6.2	5.8	6.0	6.2	6.2	6.2
Value-added tax	5.5	5.7	5.8	5.4	5.1	6.2	5.8	6.0	6.1	6.2	6.1
International trade	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Financial transaction tax	0.7	0.7	0.8	0.7	0.7	0.8	0.8	0.8	0.8	0.8	0.8
Stamp and other taxes	1.4	0.5	0.7	0.7	0.9	0.9	1.0	1.0	1.0	1.0	1.0
Nontax revenue	**1.9**	**1.6**	**2.2**	**2.3**	**2.1**	**1.3**	**1.0**	**0.7**	**1.0**	**1.2**	**1.3**
Property income	0.4	0.2	0.4	0.3	0.4	0.3	0.2	0.3	0.4	0.4	0.4
Other	1.0	1.3	1.7	1.9	1.7	0.9	0.8	0.5	0.7	0.8	0.9
Total expenditure and net lending	**19.3**	**20.1**	**18.6**	**19.9**	**22.8**	**18.9**	**20.8**	**18.2**	**17.6**	**17.5**	**17.3**
Current expenditure	**16.0**	**17.5**	**15.6**	**17.5**	**19.5**	**16.9**	**17.6**	**16.4**	**15.9**	**15.7**	**15.6**
Wages and salaries	2.2	2.3	2.1	2.2	2.4	2.1	2.3	2.2	2.1	2.1	2.1
Goods and services	0.7	0.4	0.6	1.1	1.5	0.8	1.0	0.6	0.5	0.4	0.4
Interest	2.9	2.8	2.9	3.3	3.3	3.3	3.4	3.3	3.2	3.1	3.1
External	0.7	0.7	0.7	1.1	1.0	1.0	1.1	1.0	1.0	0.9	0.8
Domestic	2.2	2.1	2.2	2.3	2.3	2.4	2.3	2.2	2.2	2.2	2.3
Current transfers	10.2	12.1	10.1	10.8	12.3	10.7	11.0	10.4	10.0	10.0	10.0
Capital expenditure	**3.3**	**2.6**	**3.0**	**2.5**	**3.3**	**2.0**	**3.2**	**1.8**	**1.7**	**1.8**	**1.8**
Fixed capital formation	2.1	1.5	1.8	1.5	2.0	1.1	2.0	0.7	0.6	0.7	0.7
Capital transfers	1.2	1.1	1.2	1.0	1.3	1.0	1.2	1.1	1.1	1.1	1.1
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 3/	**-3.6**	**-4.8**	**-2.5**	**-4.9**	**-8.2**	**-3.7**	**-6.2**	**-3.4**	**-2.3**	**-1.9**	**-1.7**
Memorandum items:											
Oil-related revenues 4/	0.2	0.6	1.3	0.9	1.1	0.6	0.4	0.5	0.8	1.0	0.9
Structural balance 5/	-2.6	-2.3	-2.2	-4.1	-6.6	-2.5	-4.5	-2.2	-1.6	-1.6	-1.5
Structural primary non-oil balance	-0.7	-0.5	-0.1	-1.7	-4.7	0.0	-1.8	0.3	0.8	0.6	0.7
Fiscal Impulse	-0.6	-0.2	-0.3	1.8	4.6	-1.7	-2.9	-2.2	-0.4	0.1	-0.1
Non-oil balance	-3.8	-3.5	-3.2	-5.8	-9.4	-3.9	-6.2	-3.6	-2.9	-2.8	-2.5
Primary balance	-0.7	-2.0	0.4	-1.5	-4.9	-0.3	-2.8	-0.1	1.0	1.3	1.5
Net FCL uses (US$ million)	0.0	0.0	0.0		5118.2		0.0		-639.8	-2559.1	-1919.3
Nominal GDP (in Col$ trillion)	920.5	985.9	1061.7	1081.3	1008.4	1167.1	1078.0	1150.3	1230.9	1317.1	1409.4

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

1/ Includes central administration only.

2/ Includes tax revenues, telecom and port concessions and other revenues.

3/ Includes central bank profits. For 2018, it includes recognition of accounts payable worth 1.9 percent of GDP. For 2021 and 2022, it excludes privatization receipts (1 .1 and 0.6 percent of GDP respectively) that under GFSM 1986 produces headline deficits of 5.1 and 2.8 percent of GDP.

4/ Includes income tax payments and dividends from Ecopetrol corresponding to earnings from the previous year.

5/ 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)

	2017	2018	2019	2020		2021		2022	2023	2024	2025
				20/148	Proj.	20/148	Proj.	Projections			
Total revenue 2/	**26.8**	**30.0**	**29.4**	**28.6**	**26.0**	**29.2**	**26.6**	**27.4**	**28.1**	**28.5**	**28.3**
Tax revenue	18.8	21.3	21.6	20.5	20.2	21.6	21.2	21.7	21.9	21.9	21.9
Nontax revenue	8.0	8.8	7.7	8.1	5.7	7.7	5.4	5.7	6.3	6.6	6.4
Financial income	1.1	0.8	0.7	0.5	0.4	0.5	0.4	0.5	0.5	0.5	0.5
Operating surplus of public enterprises 3/	2.3	2.3	2.4	2.1	2.2	2.1	2.3	2.4	2.4	2.4	2.4
Other 4/	4.6	5.6	4.6	5.5	3.2	5.0	2.8	2.9	3.4	3.7	3.6
Total expenditure and net lending 5/	**29.4**	**34.6**	**31.8**	**32.6**	**35.5**	**32.5**	**32.8**	**30.6**	**30.1**	**29.4**	**29.2**
Current expenditure	**24.9**	**31.5**	**27.6**	**30.0**	**31.3**	**28.7**	**28.6**	**27.3**	**26.8**	**26.5**	**26.2**
Wages and salaries	5.4	5.4	5.1	5.3	5.4	5.2	5.3	5.2	5.1	5.1	5.1
Goods and services	3.8	3.5	3.4	2.9	4.3	2.5	3.7	3.4	3.2	3.1	3.1
Interest	3.1	3.0	3.1	3.6	3.7	3.5	3.7	3.6	3.6	3.5	3.4
External	0.7	0.7	0.8	1.4	1.5	1.3	1.5	1.5	1.5	1.3	1.3
Domestic	2.4	2.3	2.4	2.1	2.2	2.2	2.2	2.2	2.1	2.2	2.1
Transfers to private sector	8.0	13.5	12.2	13.2	14.1	12.4	12.2	11.5	11.2	11.2	11.0
Other 6/	4.5	6.0	3.8	5.1	3.8	5.1	3.7	3.7	3.6	3.6	3.5
Capital expenditure	**4.6**	**3.1**	**4.2**	**2.6**	**4.2**	**3.8**	**4.2**	**3.3**	**3.3**	**2.8**	**3.0**
Statistical discrepancy	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Nonfinancial public sector balance	**-2.5**	**-4.7**	**-2.5**	**-4.0**	**-9.5**	**-3.2**	**-6.2**	**-3.2**	**-2.0**	**-0.9**	**-0.9**
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/	**-2.4**	**-4.5**	**-1.9**	**-3.8**	**-8.9**	**-3.1**	**-6.1**	**-3.0**	**-1.8**	**-0.7**	**-0.8**
Overall financing	**2.4**	**4.5**	**1.9**	**3.8**	**8.9**	**3.1**	**6.1**	**3.0**	**1.8**	**0.7**	**0.8**
Foreign, net	2.6	1.3	0.9	1.0	10.8	0.2	2.6	1.6	0.1	-0.4	-0.5
o/w IFIs	0.6	-0.1	0.3		2.8		0.4		-0.4	-0.9	-1.4
o/w FCL	0.0	0.0	0.0		1.9		0.0		-0.2	-0.8	-0.5
Domestic, net	-0.2	3.2	1.0	2.8	-1.9	2.9	3.5	1.4	1.7	1.2	1.3
Memorandum items:											
Overall structural balance 9/	-1.3	-2.1	-2.0	-2.5	-7.1	-1.2	-3.8	-1.5	-0.9	-0.4	-0.7
Primary balance 10/	0.8	-1.5	1.2	-0.3	-5.2	0.4	-2.3	0.6	1.8	2.8	2.7
Oil-related revenues 11/	1.1	1.9	2.4	2.2	2.0	1.8	1.3	1.5	1.7	1.8	1.7
Total public debt 12/	49.4	53.7	52.3	59.3	68.2	58.4	68.1	67.3	65.5	62.3	59.5
Nominal GDP (In Col$ trillion)	920.5	985.9	1061.7	1081.3	1008.4	1167.1	1078.0	1150.3	1230.9	1317.1	1409.4

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.
For 2021 and 2022, it excludes privatization receipts (1 .1 and 0.6 percent of GDP respectively) that under GFSM 1986 produces headline deficits of 5.1 and 2.8 percent of GDP respectively.
4/ Includes royalties, dividends and social security
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.
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$, unless otherwise indicated)										
Central Bank											
Net Foreign Assets	145,823.2	138,859.3	140,586.1	155,542.5	172,577.7	208,959.2	212,670.7	217,155.0	222,106.9	227,391.4	232,914.7
Gross official reserve assets	145,726.0	138,631.7	140,724.9	155,646.7	172,548.8	208,988.8	212,675.6	217,165.2	222,119.5	227,401.3	232,925.5
In billions of US$	46.3	46.2	47.2	47.9	52.7	55.0	55.4	56.0	56.7	57.5	58.3
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	-102,149.4	-98,494.1	-95,325.2	-91,738.1	-87,886.4	-83,632.2
Net credit to the public sector	-9,268.0	-5,987.7	-2,490.6	-1,524.9	3,034.3	5,155.1	4,970.7	4,810.8	4,629.7	4,435.3	4,220.6
Net credit to the financial system	6,525.0	5,678.6	3,808.4	9,016.5	8,435.0	14,330.9	13,818.1	13,373.5	12,870.3	12,329.9	11,733.1
Other	-60,558.2	-53,950.3	-53,091.3	-64,953.1	-71,593.1	-121,635.5	-117,282.9	-113,509.5	-109,238.1	-104,651.6	-99,585.9
Monetary base	82,522.0	84,599.9	88,812.7	98,081.0	112,453.8	106,809.8	114,176.5	121,829.8	130,368.8	139,505.1	149,282.6
Currency in circulation	66,739.5	69,222.0	74,057.6	80,653.3	91,659.3	87,058.9	93,063.4	99,301.5	106,261.5	113,708.3	121,677.8
Deposit money banks reserves	15,711.5	15,283.3	14,671.5	17,322.5	20,649.2	37,366.5	37,546.6	40,100.5	42,848.6	45,851.7	49,065.1
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	183,692.2	185,661.0	188,334.8	191,266.7	194,390.0	197,600.3
In billions of US$	41.8	43.6	43.0	40.4	44.5	48.3	48.4	48.6	48.8	49.1	49.5
Net domestic assets	272,762.2	312,194.1	343,014.5	367,175.1	402,159.3	350,596.8	400,427.4	453,066.8	510,113.0	570,455.5	635,754.7
Net credit to public sector	32,255.2	34,554.5	42,089.3	43,902.9	57,916.7	72,084.4	85,224.8	92,785.2	102,311.1	110,609.0	120,097.2
Credit to private sector	377,443.9	406,445.7	458,444.5	489,621.5	546,519.9	534,289.0	586,088.3	641,401.6	701,379.7	764,845.5	833,355.0
Other net	-136,774.0	-128,640.6	-157,352.6	-166,212.3	-202,096.3	-255,703.3	-277,227.2	-300,887.9	-332,105.9	-375,568.6	-427,598.9
Broad money	404,525.1	443,018.6	471,457.6	498,405.4	548,134.8	534,289.0	586,088.3	641,401.6	701,379.7	764,845.5	833,355.0
	(Annual percentage change)										
Credit to private sector	16.7	7.7	12.8	6.8	11.6	-2.2	9.7	9.4	9.4	9.0	9.0
Currency	18.3	3.7	7.0	8.9	13.6	-5.0	6.9	6.7	7.0	7.0	7.0
Monetary base	18.4	2.5	5.0	10.4	14.7	-5.0	6.9	6.7	7.0	7.0	7.0
Broad money 1/	11.6	9.5	6.4	5.7	10.0	-2.5	9.7	9.4	9.4	9.0	9.0
	(In percent of GDP)										
Credit to private sector	46.9	47.1	49.8	49.7	51.5	53.0	54.4	55.8	57.0	58.1	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	53.0	54.4	55.8	57.0	58.1	59.1
Memorandum items:											
CPI inflation, eop	6.8	5.8	4.1	3.2	3.8	1.4	2.4	2.6	2.7	2.9	3.0
Nominal GDP (In Col$ billions)	804,692	863,782	920,471	985,931	1,061,730	1,008,442	1,077,995	1,150,253	1,230,874	1,317,134	1,409,448

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

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
						Projections					
	(In percent of GDP, unless otherwise indicated)										
Real GDP (in percent change)	3.0	2.1	1.4	2.5	3.3	-8.2	4.0	3.6	3.8	3.8	3.7
Consumer prices (in percent change; eop)	6.8	5.8	4.1	3.2	3.8	1.4	2.4	2.6	2.7	2.9	3.0
Gross national savings	17.4	18.9	18.3	17.4	18.0	15.8	16.7	17.3	17.6	18.1	18.2
Private sector	14.1	15.7	16.3	19.0	16.1	20.7	18.8	17.2	16.3	16.1	16.1
Public sector	3.3	3.3	2.0	-1.7	2.0	-4.9	-2.0	0.1	1.3	2.0	2.1
Gross domestic investment	23.8	23.2	21.6	21.3	22.3	19.7	20.7	21.1	21.4	21.9	21.9
	(In percent of GDP, unless otherwise indicated)										
Nonfinancial public sector 1/											
Revenue	27.8	27.7	26.8	30.0	29.4	26.0	26.6	27.4	28.1	28.5	28.3
Expenditure	31.2	30.1	29.4	34.6	31.8	35.5	32.8	30.6	30.1	29.4	29.2
Current expenditure	24.3	24.4	24.9	31.5	27.6	31.3	28.6	27.3	26.8	26.5	26.2
Capital expenditure	6.9	5.7	4.6	3.1	4.2	4.2	4.2	3.3	3.3	2.8	3.0
Primary balance 2/3/	-0.5	-1.1	-0.7	-2.0	0.4	-4.9	-2.8	-0.1	1.0	1.3	1.5
Overall balance 2/3/	-3.5	-2.3	-2.5	-4.7	-2.5	-9.5	-6.2	-3.2	-2.0	-0.9	-0.9
Combined public sector balance 3/	-3.4	-2.2	-2.4	-4.5	-1.9	-8.9	-6.1	-3.0	-1.8	-0.7	-0.8
External financing	2.5	1.6	2.6	1.3	0.9	10.8	2.6	1.6	0.1	-0.4	-0.5
Domestic financing	0.8	0.6	-0.2	3.2	1.0	-1.9	3.5	1.4	1.7	1.2	1.3
External current account balance	-6.3	-4.3	-3.3	-3.9	-4.2	-4.0	-3.9	-3.8	-3.8	-3.8	-3.8
Trade balance	-4.6	-3.2	-1.4	-1.5	-2.6	-3.0	-2.8	-2.6	-2.4	-2.4	-2.3
Exports	13.1	12.0	12.8	13.3	13.1	12.6	13.0	13.2	13.2	13.1	13.0
Imports	17.7	15.3	14.2	14.9	15.7	15.6	15.7	15.8	15.7	15.5	15.3
Financial account balance	-6.2	-4.3	-3.1	-3.7	-4.0	-4.0	-3.9	-3.8	-3.8	-3.8	-3.8
Direct Investment	-2.6	-3.3	-3.3	-1.9	-3.5	-2.1	-2.9	-3.1	-3.1	-3.3	-3.4
Portfolio Investment	-3.1	-1.7	-0.5	0.4	0.1	2.6	-0.5	-1.3	-0.7	-1.3	-1.3
Other Investments and Derivatives	-0.7	0.6	0.5	-2.5	-1.7	-5.3	-0.6	0.4	-0.2	0.6	0.7
Change in Reserve Assets	0.1	0.1	0.2	0.4	1.0	0.9	0.1	0.2	0.2	0.2	0.2
Gross public sector debt 4/	50.4	49.8	49.4	53.7	52.3	68.2	68.1	67.3	65.5	62.3	59.5
Gross public sector debt, excluding Ecopetrol	45.7	45.4	46.1	51.1	49.2	65.8	65.9	65.3	63.5	60.3	57.5
Total public net debt 5/	42.1	38.6	38.6	43.1	43.0	58.3	60.9	60.3	58.8	56.3	53.8
Memorandum items:											
Nominal GDP (in Col$ billion)	804,692	863,782	920,471	985,931	1,061,730	1,008,442	1,077,995	1,150,253	1,230,874	1,317,134	1,409,448
Crude oil, spot price	52	44	54	71	64	43	48	50	51	52	53

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	2020 5/
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	16.9
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	11.9
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	15.8
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	140.6
Gross loans to assets	67.9	70.4	69.6	68.2	69.3	70.2	69.3	70.1	70.5	69.2	67.7
Earnings and Profitability											
ROAA	3.4	3.3	3.1	2.8	2.9	2.7	3.0	2.2	2.6	2.9	3.0
ROAE	23.7	23.0	21.2	19.5	19.8	18.9	18.3	13.7	16.0	17.3	18.2
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	53.7
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	37.7
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	18.3
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	41.1
Deposit to loan ratio	93.5	91.4	94.7	96.3	91.6	93.2	92.6	92.7	92.0	91.2	95.0
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	6.7
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	14.0
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	0.5

Source: Superintendencia Financiera.

1/ Total Banking System. All deposit-taking institutions.

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

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

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

5/ Up to 2020 Q1.

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	41.0	45.6	48.9	51.8	54.3	56.8
Imports of GNFS	64.3	54.5	56.7	63.1	64.7	51.4	55.9	59.3	62.4	65.5	68.5
Terms of trade (y/y percent change)	-17.5	3.6	9.3	5.7	-0.4	-7.4	6.0	1.3	0.6	-0.7	-0.7
Current account balance	-18.6	-12.0	-10.2	-13.1	-13.7	-10.5	-11.0	-11.2	-11.9	-12.6	-13.2
In percent of GDP	-6.3	-4.3	-3.3	-3.9	-4.2	-4.0	-3.9	-3.8	-3.8	-3.8	-3.8
Financial account balance	-18.2	-12.3	-9.6	-12.4	-13.1	-10.5	-11.0	-11.2	-11.9	-12.6	-13.2
Of which: Foreign direct investment (net)	-7.5	-9.3	-10.1	-6.4	-11.3	-5.6	-8.3	-9.1	-9.9	-10.9	-11.8
Of which: Portfolio investment (net)	-9.2	-4.8	-1.6	1.3	0.3	6.8	-1.5	-3.9	-2.1	-4.3	-4.7
Total external debt (in percent of GDP) 2/	42.1	49.4	47.2	46.6	49.9	64.1	63.0	62.0	59.7	57.7	55.3
Of which : Public sector (in percent of GDP) 2/	26.5	31.9	30.3	28.9	30.1	42.3	42.2	41.2	38.7	36.1	33.6
In percent of gross international reserves	267.0	302.1	312.6	324.8	306.4	309.1	319.0	327.7	330.2	333.8	334.2
Short-term external debt (in percent of GDP) 3/	5.5	5.3	5.3	6.2	6.6	7.7	7.2	6.9	6.6	6.4	6.2
Of which : Public sector (in percent of GDP)	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.2	0.2	0.2
Of which : Private sector (in percent of GDP)	5.3	5.0	5.1	6.0	6.4	7.4	6.9	6.6	6.4	6.2	6.0
Amortization of MLT external debt (in percent of GNFS exports)	20.9	18.1	31.8	28.5	20.0	28.9	28.6	23.1	28.1	31.8	27.7
External interest payments (in percent of GNFS exports)	9.9	11.3	10.9	10.6	14.3	17.9	17.5	17.3	17.3	16.8	16.3
Gross international reserves 4/	46.3	46.2	47.1	47.9	52.7	55.0	55.4	56.0	56.7	57.5	58.3
In months of prospective GNFS imports	10.2	9.8	9.0	8.9	12.3	11.8	11.2	10.8	10.4	10.1	9.8
In percent of broad money	36.0	31.3	29.8	31.2	31.5	39.1	36.3	33.9	31.7	29.7	27.9
In percent of short-term debt on residual maturity basis plus current account deficit	129.2	114.2	104.8	106.5	120.2	123.8	130.0	119.5	111.7	114.1	114.5
In percent of ARA 5/	156	144	135	132	142	146	141	139	135	133	133
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 8/27/20
Liquidity measures	
Current Forward Commitment Capacity (FCC) 1/	160,400
FCC after approval of augmented access 2/	155,983
Change in percent	-2.8
FCC after approval of augmented access and considering falling out of FTP effect:	154,383
Change in Percent	-3.8
Prudential measures, assuming full FCL drawing	
Fund credit to Colombia	
In percent of total GRA credit outstanding 3/	12.6
In percent of current precautionary balances	69.3
Fund credit outstanding to five largest debtors	
In percent of total GRA credit outstanding, before approval	73.0
In percent of total GRA credit outstanding including Colombia's assumed full drawing 3/	71.7
Memorandum items	
Current precautionary balances (end-FY2019)	17,700
Total FCL commitments, including proposed FCL augementation	82,281
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 augmentation.

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

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	3,680	12,267	12,267	11,807	6,747	1,073
In percent of quota	0	180.0	600.0	600.0	577.5	330.0	52.5
In percent of GDP	0	1.9	8.7	8.0	7.3	3.9	0.6
In percent of exports of goods and services	0	12.5	45.2	34.9	31.8	17.4	2.7
In percent of gross reserves	0	9.3	40.0	38.4	36.5	20.6	3.2
Flows from prospective drawings							
Amortization (SDR millions)	0	0	0	0	460	5,060	5,673
Charges (SDR millions)	0	25	291	299	299	287	77
Debt Service due on GRA credit (SDR millions)	0	25	291	299	759	5,347	5,751
In percent of quota	0.0	1.2	14.2	14.6	37.1	261.5	281.3
In percent of GDP	0.0	0.0	0.2	0.2	0.5	3.1	3.2
In percent of exports of goods and services	0.0	0.1	1.1	0.9	2.0	13.8	14.2
In percent of gross official reserves	0.0	0.1	0.9	0.9	2.3	16.3	17.3
Memorandum Item:							
Total External Debt (percent of GDP)	49.9	64.1	87.5	86.0	82.8	80.1	76.8
Total External Debt Service (percent of GDP) 3/	12.0	15.3	20.7	17.1	19.5	21.7	20.7

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	--	3,680.1	12,267.0	12,267.0	11,807.0	6,746.9	1,073.4
(In percent of quota)	--	180.0	600.0	600.0	577.5	330.0	52.5
Charges due on GRA credit 2/	--	24.8	291.2	298.8	298.8	286.6	77.5
Debt service due on GRA credit 2/	--	24.8	291.2	298.8	758.8	5,346.7	5,751.0
Debt and Debt Service Ratios 3/							
In percent of GDP							
Total external debt	49.9	64.1	87.5	86.0	82.8	80.1	76.8
Public external debt	30.1	42.3	61.1	59.5	55.9	52.2	48.5
GRA credit to Colombia	--	1.9	8.7	8.0	7.3	3.9	0.6
Total external debt service 4/	12.0	15.3	20.7	17.1	19.5	21.7	20.7
Public external debt service 4/	2.7	2.5	4.4	2.5	4.3	7.2	6.0
Debt service due on GRA credit	--	0.0	0.2	0.2	0.5	3.1	3.2
In percent of Gross International Reserves							
Total external debt	306.4	309.1	403.3	413.1	414.8	417.9	416.9
Public external debt	185.1	204.0	281.4	285.8	279.9	272.4	263.5
GRA credit to Colombia	--	9.3	40.0	38.4	36.5	20.6	3.2
In percent of Exports of Goods and Services							
Total external debt service 4/	73.9	99.0	107.5	74.4	85.3	96.0	92.6
Public external debt service 4/	16.7	16.1	23.1	10.9	18.8	32.0	26.8
Debt service due on GRA credit	--	0.1	1.1	0.9	2.0	13.8	14.2
In percent of Total External Debt							
GRA credit to Colombia	--	3.0	9.9	9.3	8.8	4.9	0.8
In percent of Public External Debt							
GRA credit to Colombia	--	4.6	14.2	13.4	13.0	7.6	1.2
Memo Items:							
U. S. dollars per SDR (period average)	1.38	1.39	1.43	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	41.69	33.86	48.09	49.21	50.20	51.16

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

1/ Assumes drawing of 180 percent of quota upon approval and drawing of 420 percent of quota in 2021, and materialization of an adverse scenario.
2/ Based on the rate of charge as of July 14th, 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

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/
Baseline: External debt	42.1	49.4	47.2	46.6	49.9			**64.1**	**63.0**	**62.0**	**59.7**	**57.7**	**55.3**	**-3.7**
Change in external debt	12.1	7.3	-2.1	-0.6	3.2			14.3	-1.1	-1.1	-2.3	-2.0	-2.4	
Identified external debt-creating flows (4+8+9)	12.4	4.1	-4.0	-0.8	2.6			8.0	-1.1	-1.1	-1.2	-1.3	-1.3	
Current account deficit, excluding interest payments	4.8	2.6	1.6	2.2	1.9			1.2	1.1	0.9	0.9	1.1	1.1	
Deficit in balance of goods and services	6.2	4.5	2.7	2.7	3.8			3.9	3.6	3.5	3.4	3.4	3.3	
Exports	15.7	14.8	15.5	16.2	16.2			15.5	16.3	16.5	16.5	16.3	16.1	
Imports	21.9	19.3	18.2	18.9	20.0			19.4	19.9	20.0	19.9	19.7	19.5	
Net non-debt creating capital inflows (negative)	-1.7	-1.4	-2.9	-1.6	-2.3			-1.0	-2.5	-2.7	-2.8	-3.0	-3.1	
Automatic debt dynamics 1/	9.3	2.8	-2.7	-1.4	3.0			7.8	0.4	0.7	0.6	0.6	0.6	
Contribution from nominal interest rate	1.6	1.7	1.7	1.7	2.3			2.8	2.8	2.9	2.9	2.7	2.6	
Contribution from real GDP growth	-1.2	-0.9	-0.6	-1.1	-1.6			5.0	-2.4	-2.2	-2.2	-2.2	-2.0	
Contribution from price and exchange rate changes 2/	8.9	2.1	-3.8	-2.0	2.2			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	-0.3	3.2	1.9	0.2	0.6			6.3	0.0	0.0	-1.1	-0.6	-1.1	
External debt-to-exports ratio (in percent)	268.5	333.6	305.4	287.6	307.7			414.0	387.2	375.1	361.5	353.6	343.1	
Gross external financing need (in billions of US dollars) 4/	43.1	35.8	40.5	45.0	45.0			43.8	44.4	42.6	46.9	50.7	50.4	
in percent of GDP	14.7	12.7	13.0	13.5	13.9			16.5	15.8	14.4	14.9	15.3	14.3	
Scenario with key variables at their historical averages 5/						10-Year Historical Average	10-Year Standard Deviation	**64.1**	**65.6**	**67.2**	**67.8**	**68.8**	**69.3**	**-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	-8.2	4.0	3.6	3.8	3.8	3.7	
GDP deflator in US dollars (change in percent)	-25.2	-5.6	8.8	4.3	-6.0	0.4	11.9	-10.8	1.7	1.9	2.0	2.0	2.1	
Nominal external interest rate (in percent)	4.0	3.8	3.8	3.9	4.8	4.3	0.5	4.6	4.7	4.8	4.9	4.9	4.8	
Growth of exports (US dollar terms, in percent)	-28.2	-9.1	15.3	12.1	-3.1	4.6	18.3	-21.7	11.2	7.2	5.9	4.7	4.6	
Growth of imports (US dollar terms, in percent)	-15.3	-15.1	3.9	11.3	2.5	6.0	14.5	-20.6	8.7	6.1	5.2	5.1	4.6	
Current account balance, excluding interest payments	-4.8	-2.6	-1.6	-2.2	-1.9	-2.6	1.0	-1.2	-1.1	-0.9	-0.9	-1.1	-1.1	
Net non-debt creating capital inflows	1.7	1.4	2.9	1.6	2.3	2.3	1.2	1.0	2.5	2.7	2.8	3.0	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, August 31, 2020

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

Dear Ms. Georgieva,

The large and unprecedented shocks that hit the global economy in 2020 have had a strong impact on Colombia. The spread of Covid-19 at a global scale and the subsequent containment measures have deteriorated global demand and increased risk aversion. The severe drop in oil prices has caused a decline in our terms of trade, external revenues, and foreign investment flows.

The Colombian authorities have reacted in a forceful manner in response to the pandemic. The Government remains committed to safeguarding lives and the protection of the most vulnerable citizens throughout the pandemic. The fiscal response includes the introduction of credit guarantees for SMEs, direct transfers for low-income households and payroll subsidies to protect formal employment, among other measures. At the same time, the contraction of economic activity caused by the shocks has led to an unexpected shortfall in tax revenues. Overall, the fiscal deficit is expected to rise significantly in 2020 on account of the temporary fall in revenues and the sanitary, humanitarian, and countercyclical fiscal policy responses.

On the monetary side, the Banco de la República has been providing significant liquidity to allow the orderly functioning of financial markets and payment systems. Since the beginning of the crisis in March, the allotment, maturity, admissible collateral and set of counterparties for repo operations have been expanded. To inject longer-term liquidity, the central bank also bought private and public debt securities in the secondary market, and it reduced the reserve requirements by 2 percentage points on average. The monetary policy rate has been significantly lowered with the aim of supporting the recovery of the economy.

Additionally, FX policies were implemented to enhance liquidity in the FX market, ensure foreign currency financing for local intermediaries and reduce the volatility of the exchange rate. They have been executed cautiously through the auctioning of non-deliverable forwards and FX swaps, which allowed the central bank to maintain the level of international reserves. Moreover, following its prudent approach, the Banco de la República purchased USD 2 billion from the Government in May which further reinforced Colombia's international liquidity position.

The active response by Colombian authorities has been made possible by a very strong and comprehensive policy framework, based on a fully-fledged inflation targeting regime with a flexible exchange rate, public finances anchored by a sound institutional arrangement, and adequate financial regulation and supervision. Despite this very strong policy framework and the recent measures implemented by Colombian authorities, the situation in global markets due to the pandemic has generated pressures on the country's balance of payments, as foreign demand, terms of trade, and external financial conditions have deteriorated and remain highly volatile.

New pressures on the balance of payments of the country could appear in the future. A deeper decline in external demand caused by the contraction of our trading partners and a greater reduction in our terms of trade remain key external risks. Likewise, a scenario with higher risk aversion affecting capital inflows and outflows cannot be ruled out. Hence, greater levels of external liquidity buffers, both in terms of international reserves and FCL access, are desirable and can help preserve confidence, avoid instability and diversify financing options during a severe crisis. Consequently, our authorities consider that increasing the access level under the FCL is crucial to face heightened external risks.

Given the fallout of the unprecedented shocks that hit the global economy, Colombia intends to use a portion of the proposed increase in access to the FCL for budgetary support. This would help address the above-mentioned balance of payments challenges, help support international reserves and associated market confidence, and avoid added pressures on Colombian credit markets and a crowding out of private agents without access to external sources of funds.

Accordingly, we hereby request an increase in access under the current FCL arrangement, with a new level of 600 percent of quota instead of the current 384 percent that was approved in May. Considering the soundness of the macroeconomic policy framework and the temporary nature of the FCL arrangement, Colombian authorities are willing to reduce access as soon as the current exceptional situation in the global economy improves and risks recede.

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

Sincerely yours,

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

Statement by Mr. Villar on Colombia
September 25, 2020

On behalf of my Colombian authorities, I would like to thank staff for its clear assessment according to which Colombia continues to meet the qualification criteria for the FCL, and for the recommendation to increase access to 600 percent of quota.

External risks have risen, and the pandemic effects are much worse since the last Board discussion on the renewal of Colombia's FCL, nearly five months ago. At that time, it was difficult to foresee the intensity of the current crisis and it is now clear that the contraction in Colombia and the global economy will be larger than what was expected in April. GDP growth forecasts for Colombia have decreased from -3.5 percent in April to around -8 percent nowadays, which implies the worst recession since a statistical record exists. Unemployment rate was skyrocketing to 20.2 percent last July exhibiting an increase of 8 pps since February. The strict but necessary lockdowns implemented to decrease the spread of the virus, together with the drop in oil prices, explain the magnitude of this unprecedented contraction. Inflation and inflation expectations have fallen below 2 percent, outside the range of +/-1 pps around the 3 percent target announced by the central bank.

The decline in economic activity has gone hand in hand with a significant increase in the fiscal deficit. A sharp reduction in tax revenues and an extraordinary pressure to increase public expenditures took place, partly to adapt the health system capacity to respond to the pandemic, and also to mitigate the deterioration in livelihoods of the most vulnerable population and to help firms avoid further damage to employment and economic activity. Under these circumstances the Central Government deficit is expected to reach 8.2 percent of GDP and authorities have agreed with the Fiscal Rule Committee to temporarily suspend the fiscal rule for two years to create the necessary policy space, with the commitment of reducing the fiscal deficit to -5.1 percent of GDP in 2021, and to reinstate the fiscal rule in 2022. Meanwhile, the Fiscal Rule Committee will play a role of quarterly oversight of the new fiscal targets.

The strength of the Colombian macroeconomic framework has allowed the authorities to provide a decisive and timely response to confront the shocks. The Government reacted to the crisis by providing additional resources to the health sector, expanding transfers to households, supplying loan guarantees and implementing programs to protect small firms and formal employment. The Central Bank intervened to stabilize key financial markets severely affected by the shocks during March and April. Since the start of the pandemic, the central bank also continued to demonstrate its commitment to allow the flexible exchange rate to serve as the primary mechanism of adjustment to external shocks. In that regard, the exchange rate depreciated by about 20 percent in a two-week period in March but has appreciated since then by about 10 percent by mid-September. Meanwhile, monetary authorities reduced policy interest rates by 225 bps to support economic activity and drive inflation and inflation expectations to target. Liquidity provision has been expanded through different types of instruments. The allotment, maturity, admissible collateral and set of counterparties for central bank repo operations have been expanded to ensure adequate funding of financial intermediaries and buttress loan supply. To inject longer-term liquidity, the central bank also bought private and public debt securities in the secondary market, and it reduced reserve requirements. External liquidity buffers were reinforced by means of increases in international reserves derived from returns on the reserve portfolio and purchases of USD 2 billion from the Government after the latter liquidated overseas assets. The Financial Superintendence facilitated debtor relief packages to be carried out by financial intermediaries and established a program to restructure debts while revealing loan quality and adjusting provisions accordingly. The regulatory and supervisory authorities have maintained the appropriate balance between safeguarding financial stability and mitigating procyclical tightening of credit conditions, while maintaining transparency on the financial system's health. It is worth noticing that, as stated in the staff report, Colombia has an effective financial sector supervision and the authorities have finalized and implemented many of the 2013 FSAP recommendations. Due to the operational difficulties created by the lockdown and social distancing rules, the FSAP mission that was planned for the second half of 2020 was postponed to the first semester of 2021.

Despite the comprehensive response by economic authorities, the uncertainty surrounding the strength and the speed of the recovery is still high. There is a very high degree of uncertainty regarding both the evolution of the pandemic and the world economic outlook. Indeed, even without a new wave of contagions, the outlook is still extremely uncertain for the terms of trade, the strength in the recovery in other countries, as well as liquidity conditions and risk aversion in the global financial markets.

The request for FCL augmentation is justified by the increase in the balance of payments needs and the higher level of risk. Under the current scenario, external risks continue to evolve and have increased when compared to those present during the last FCL discussion, when the COVID-19 pandemic was at an initial phase. Also, the severity of the downturn as a consequence of the pandemic has been worse than expected back in April, creating budget support and external financing needs unforeseen at the time of the FCL renewal. The requested augmentation of access will allow the country to maintain an adequate level of external buffers in a period of extreme uncertainty and provide support for its higher BOP needs. In this highly uncertain environment, greater access to the FCL will enhance the Colombian authorities' flexibility to respond to shocks and insure against external risks. Also, the augmentation of the FCL will reflect the IMF's support to the country's policy framework and its sustained track record of very strong and prudent macroeconomic policies, that strengthens the confidence of the markets and foreign investment.

As highlighted in the staff's assessment, Colombia continues to meet the qualification criteria for access to Fund resources under the FCL arrangement and the augmentation of access is appropriate. The required access is indeed significantly higher today than it was in March and April, when the analysis for the last FCL renewal was done. It is clear today that Colombia has experienced a larger-than-expected economic impact from the COVID-19 pandemic, the sharp decline in its terms of trade and the deterioration in the economic performance of the rest of the world. The increased risks associated with these unprecedented shocks have led my authorities to ask the Fund for an increase in access to the FCL from 384 percent of quota to 600 percent of quota. This augmentation is in line with the current assessment of actual and potential BOP needs and reflects the increase in risks relative to those identified when the FCL was renewed on May 1st.

The Colombian government has been successful in securing external and internal sources of financing for the increased fiscal deficit in 2020 and 2021. Notwithstanding market disruptions, Colombia has kept favorable access to international capital markets and the government has been able to negotiate a large increase in multilateral and bilateral foreign credit. At the same time, after the initial two months of the pandemic, in which volatility largely increased, domestic capital markets are working more smoothly, and the government has been able to increase its domestic issuance plans.

Still, under the current extremely uncertain circumstances, my authorities intend to make a partial drawing from the FCL, which would be commensurate with actual balance of payments needs and would work as a mechanism to complement budget financing, while avoiding excessive pressures on the markets. Regarding this intention, my authorities would like to highlight the complementary role of the instrument and the catalytic effect that is expected on other sources of financing to support the strong policy response to the pandemic. Despite sharply lower fiscal revenues and higher expenditures, which will take the fiscal deficit to 8.2 percent of GDP in 2020, the Government has retained access to funding from local and international financial markets at competitive rates. However, as the economic recovery begins, it is critical to avoid crowding out private borrowing.

My authorities remain committed to maintaining the very strong economic policy framework that has allowed them to respond rapidly to the crisis and most of the FCL would still be treated as precautionary. In that line, the FCL augmentation will allow the country to maintain its external liquidity buffers in the current volatile global environment amid heightened uncertainty. My authorities also would like to reiterate their commitment to treat the FCL augmentation as temporary and to pursue a gradual exit strategy. In line with previous plans, they intend to reduce access when the exceptional situation in the global economy improves and risks clearly recede.

The Colombian authorities plan to announce their intention to draw a portion of the FCL with a careful communication strategy and in full coordination with the IMF. Since it is the first time in which an FCL beneficiary would draw on the instrument, a comprehensive strategy to explain the intention will be used. Communication will highlight that drawing on the FCL offers a mechanism for diversifying financing sources to support the strong policy response to the pandemic, while mitigating a possible crowding out of private sector financing in order to secure stability during these uncertain times.

My authorities look forward to receiving a favorable decision and support from the Board for this FCL augmentation request. They also would like to express a special appreciation to Mr. Hamid Faruqee, mission chief, and his team for their engagement and very hard work, as well as for the open and very constructive discussions during recent months.

COLOMBIA

September 17, 2020

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

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

CONTENTS

INTRODUCTION

1. This note assesses the impact of the proposed augmentation of access under the 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 augmentation amounts to SDR 4.417 billion (216 percent of quota) and would bring total access to an amount equivalent to SDR 12.267 billion (600 percent of quota). The full amount of access following the proposed augmentation would be available throughout the arrangement period, in one or multiple purchases.[2] The authorities intend to treat the bulk of the access as precautionary. Staff's baseline projection envisages a partial purchase of around 180 percent of quota to meet an actual BOP need caused by the Covid-19 crisis, with the remaining access assumed to be treated as precautionary. This would be the first ever drawing under an FCL arrangement. This note analyzes the impact of Colombia's increased FCL access on the Fund's finances and liquidity position against the backdrop of a sharply deteriorated world economy, including in a downside scenario where all FCL access would be drawn.

BACKGROUND

2. Colombia is on its eighth FCL arrangement since 2009 (Table I.1). A one-year FCL arrangement in an amount equivalent to SDR 6.966 billion (900 percent of quota) was approved in the context of the global financial crisis 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), followed by three two-year FCL arrangements in the amount of SDR 3.870 billion (500 percent of quota), which were also treated as precautionary. The third was cancelled before its expiration on June 13, 2016 and a successor two-year FCL arrangement in the amount of SDR 8.180 billion (400 percent of quota) was approved on the same day. 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 subsequently another new FCL arrangement was approved on May 1, 2020 for another two years at unchanged access of SDR 7.850 billion (384 percent of quota). No purchases have so far been made under any of the FCL arrangements. Colombia is on its eleventh arrangement 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. As noted in the May staff report on Colombia's request for a new FCL arrangement[3],

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

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

[3] Colombia—Request for an Arrangement under the Fexible Credit Line and Cancellation of the Current Arrangement, IMF Country Report No. 20/148.

Colombia's very strong policy frameworks and timely policy actions have allowed the authorities to successfully adjust to important external shocks (such as the 2008-09 global financial crisis and the 2014-16 terms of trade shock). The FCL arrangement has provided an additional liquidity buffer to international reserve holdings 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 financial markets and external creditors regarding the strength of Colombia's macro-economic fundamentals and institutional policy framework. Since Colombia's FCL arrangement was approved in May, domestic financial conditions have eased, including lower yields (with 10-year rates down by 100 basis points), and lower spreads (EMBI and 5 year CDS spreads have fallen around 120bp and 200pp respectively, averaging below 300bp and 175bp) alongside improved market conditions for emerging market economies more generally.[4]

4. **Colombia's external debt is expected to rise sharply this year, before declining gradually over the medium term.** With the materialization of some of the downside risks identified at the time of the approval of the current arrangement, including a larger than expected domestic and external impact from the Covid-19 pandemic, Colombia's economy is expected to contract more sharply than previously projected. Staff's updated external debt sustainability analysis (DSA) suggests that Colombia's external debt will rise to 64.1 percent of GDP this year under the baseline scenario (compared to 59 percent of GDP at the time of the approval of the FCL arrangement in May) on account of higher external and fiscal financing needs and weaker growth prospects given the effects of the pandemic (Table 1).

Table 1. 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	169,899
Private	42,142	45,760	49,319	52,767	59,198	63,914	57,782
Public	72,120	77,745	90,250	94,572	96,353	97,454	112,118
			(In percent of GDP)				
Total External Debt	33.7	46.0	48.8	47.2	46.6	49.8	64.1
Private	11.1	15.6	17.4	16.9	17.8	19.7	21.8
Public	22.6	30.4	31.4	30.3	28.9	30.1	42.3

Sources: Colombian authorities and IMF staff estimates.
1/ Baseline scenario.

[4] EMBI ad CDS spreads fell by more than Latin American peers (Brazil, Chile, Mexico, Peru and Uruguay) in the aftermath of the official request for renewal of the FCL arrangement (press release 20/142 on April 9th). They also fell at the time of formal renewal of the FCL on May 1st in line with peers.

5. Debt is expected to remain sustainable, including under the DSA's stress scenarios. 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 87.5percent of GDP in 2021 (compared with 81 percent of GDP at the time of the approval of the FCL arrangement in May) but 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.

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

6. Risks and impact on Fund finances from augmentation of access under Colombia's FCL arrangement are assessed in the context of a downside scenario. The unprecedented global crisis caused by Covid-19 pandemic has already had a significant adverse impact on Colombia's economy, resulting in the proposed augmentation of access and the expectation of a first-ever (partial) drawing under an FCL. To stress-test the impact of Colombia's augmented access on the Fund's finances, staff has completed the baseline projections with a downside scenario.

- Under staff's baseline, Colombia is assumed to make a purchase of some SDR 3.7 billion (180 percent of quota) to meet actual balance of payments needs related to the Covid-19 crisis.

- Under the downside scenario, the purchase of the full approved amount under the FCL arrangement is expected to take place, assuming that macroeconomic conditions notably worsen vis-a-vis the baseline projections, consistent with the full realization of potential shocks considered by staff to justify the augmented access level under the FCL arrangement.

7. Table 2 provides a comparison of the main macroeconomic assumptions underlying the baseline and adverse scenarios.[5] The adverse scenario considered here draws on the assumptions taken for the current and financial account justifying FCL access. In addition to increasing the BOP financing gap, the shock reduces real GDP by 4.7 percentage points relative to the baseline in 2021 and results in a nominal exchange rate depreciation of 20 percent, 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 2022 onwards.

[5] 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 size (20 percent) of the depreciation, and hence in the size of the peak in the external debt-to-GDP ratio.

Table 2. 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	-8.2	4.0	3.6	3.8	3.8	3.7
Nominal GDP	323,561	264,933	280,401	296,234	313,858	332,528	352,311
Gross international reserves	52,654	54,972	55,391	56,000	56,710	57,484	58,298
in months of next year's imports of goods and services	12.3	11.8	11.2	10.8	10.4	10.1	9.8
Exports of goods and services	52,431	41,042	45,639	48,935	51,806	54,265	56,784
Total external debt (in percent of GDP)	49.9	64.1	63.0	62.0	59.7	57.7	55.3
of which: public external debt (in percent of GDP)	30.1	42.3	42.2	41.2	38.7	36.1	33.6
Adverse scenario							
Real GDP growth (percent)	3.3	-8.2	-0.7	3.6	3.8	3.8	3.7
Nominal GDP	323,561	264,933	201,985	213,390	226,085	239,534	253,784
Gross international reserves	52,654	54,972	43,826	44,434	45,144	45,918	46,732
in months of next year's imports of goods and services	12.3	11.9	8.9	8.6	8.3	8.1	7.9
Exports of goods and services	52,431	41,042	38,821	48,935	51,806	54,265	56,784
Total external debt (in percent of GDP)	49.9	64.1	87.5	86.0	82.8	80.1	76.8
of which: public external debt (in percent of GDP)	30.1	42.3	61.1	59.5	55.9	52.2	48.5

Sources: Colombian authorities and IMF staff projections.

8. If the full amount of access available under the FCL following access augmentation were purchased under the realization of a downside scenario, capacity to repay would remain adequate:

- 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 87.5 and 61.1 percent of GDP respectively in 2021 under an adverse drawing scenario, with Fund credit representing 8.7 percent of GDP.[6] These ratios would be just above the median of other exceptional access cases approved since 2008 (Figure 1). At its peak, Colombia's outstanding use of GRA resources would account for 9.9 percent of total external debt, 14.2 percent of public external debt, and 40 percent of gross international reserves. Peak Fund exposure relative to GDP, gross international reserves and total external debt would be close to the median of recent exceptional access arrangements (Figure 2). Projected outstanding Fund credit in percent of quota around the peak would be below that of recent exceptional access cases in the event of full drawdown (Figure 3).

- External debt service including obligations to the Fund would increase over the medium term to relatively high levels (Table 3). Colombia's projected debt service to the Fund would peak in 2025 at SDR 5.8 billion, around 3.2 percent of GDP (53.3 percent of total public external debt service), or around 14.2 percent of exports of goods and services, before quickly falling to more moderate levels after 2025.[7] This would be well above the typical exceptional access case—if the

[6] The main driver of higher external debt is lower U.S. dollar nominal GDP following a 20 percent depreciation.

[7] The figures on debt service used in this report are calculated assuming that purchase of 180 percent of quota will be made in September 2020 after approval and all the remaining amount available under the arrangement augmentation is purchased in January 2021, and that all repurchases are made as scheduled. Colombia's repurchases

(continued)

amount available under the FCL arrangement were to be fully drawn in 2021, Colombia's external debt service or debt service to the Fund as a share of exports of goods and services would be in the top quintile when compared with similar exceptional access SBA and EFF arrangements in the past, and would be above the same metric of other recent FCL cases except Chile, reflecting the fact that Colombia is a relatively closed economy (in terms of exports as a percent of GDP).

9. The proposed augmentation of access under the FCL arrangement along with an envisaged drawing under the staff's baseline scenario would have a moderate negative impact on the Fund's overall liquidity position. Augmentation of access under the FCL arrangement would have a noticeable but still limited negative net impact on the FCC, which would decline from currently SDR 160.4 billion to SDR 155.9 billion. The purchase under the FCL arrangement currently assumed in staff's baseline would automatically exclude Colombia from the Financial Transaction Plan (FTP) and the FCC would decline by a further SDR 1.6 billion, reducing the FCC by 3.8 percent.[8]

10. Potential credit risk exposure to Colombia would be sizeable under the adverse scenario. If the entire amount available under the FCL arrangement after the proposed access augmentation were fully drawn, GRA credit to Colombia would be about 12.6 percent of total GRA credit outstanding as of August 28, 2020. This would make Colombia the second largest GRA borrower among current arrangements. The concentration of Fund credit in the top five users of Fund resources would decline modestly, from about 73.0 percent to about 71.7 percent of total GRA credit outstanding, because the increase of total credit outstanding is faster than the increase of the credit outstanding of top five creditors. Potential GRA exposure to Colombia would be about 69 percent of the Fund's current precautionary balances.

11. The proposed augmentation of access under the FCL arrangement would have a moderate impact on the concentration of the Fund's lending portfolio, both in terms of regions and among Fund facilities:

- **Regional concentration to Latin America would increase further.** Currently, the Western Hemisphere accounts for about 65 percent of GRA credit and undrawn balances, including for arrangements treated as precautionary (Figure 4). With the proposed augmentation of access under the FCL arrangement for Colombia, that share would increase to 66 percent. The Fund experienced comparable regional concentration in the past, including in the aftermath of the global financial crisis, when lending to Europe accounted for the bulk of the Fund's lending exposure.

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will reach 247.5 percent and 277.5 percent of quota in 2024 and 2025, respectively, before falling to 52.5 percent in 2026 and 0 in 2027. Its payments of GRA charges will be 14.01 percent of quota, 3.79 percent of quota and 0.11 percent of quota in 2024, 2025 and 2026, respectively.

[8] 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).

- **Among the Fund's different facilities, the share of FCL commitments would rise moderately.** Commitments under FCL arrangements, which represent the bulk of precautionary arrangements, stood at around SDR 77.9 billion on August 28, 2020, or 81 percent of total GRA commitments (Figure 4). With the proposed FCL augmentation for Colombia, the share of commitments from FCL arrangements in total would increase to 82 percent.

Table 3. 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	--	3,680.1	12,267.0	12,267.0	11,807.0	6,746.9	1,073.4
(In percent of quota)	--	180.0	600.0	600.0	577.5	330.0	52.5
Charges due on GRA credit 2/	--	24.8	291.2	298.8	298.8	286.6	77.5
Debt service due on GRA credit 2/	--	24.8	291.2	298.8	758.8	5,346.7	5,751.0
Debt and Debt Service Ratios 3/							
In percent of GDP							
Total external debt	49.9	64.1	87.5	86.0	82.8	80.1	76.8
Public external debt	30.1	42.3	61.1	59.5	55.9	52.2	48.5
GRA credit to Colombia	--	1.9	8.7	8.0	7.3	3.9	0.6
Total external debt service 4/	12.0	15.3	20.7	17.1	19.5	21.7	20.7
Public external debt service 4/	2.7	2.5	4.4	2.5	4.3	7.2	6.0
Debt service due on GRA credit	--	0.0	0.2	0.2	0.5	3.1	3.2
In percent of Gross International Reserves							
Total external debt	306.4	309.1	403.3	413.1	414.8	417.9	416.9
Public external debt	185.1	204.0	281.4	285.8	279.9	272.4	263.5
GRA credit to Colombia	--	9.3	40.0	38.4	36.5	20.6	3.2
In percent of Exports of Goods and Services							
Total external debt service 4/	73.9	99.0	107.5	74.4	85.3	96.0	92.6
Public external debt service 4/	16.7	16.1	23.1	10.9	18.8	32.0	26.8
Debt service due on GRA credit	--	0.1	1.1	0.9	2.0	13.8	14.2
In percent of Total External Debt							
GRA credit to Colombia	--	3.0	9.9	9.3	8.8	4.9	0.8
In percent of Public External Debt							
GRA credit to Colombia	--	4.6	14.2	13.4	13.0	7.6	1.2
Memo Items:							
U. S. dollars per SDR (period average)	1.38	1.39	1.43	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	41.69	33.86	48.09	49.21	50.20	51.16

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

1/ Assumes drawing of 180 percent of quota upon aproval and drawing of 420 percent of quota in 2021, and materialization of an adverse scenario.

2/ Based on the rate of charge as of August 28th, 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 Augmentation—Impact on GRA Finances
(in SDR millions, unless otherwise indicated)

	As of 8/27/20
Liquidity measures	
Current Forward Commitment Capacity (FCC) 1/	160,400
FCC after approval of augmented access 2/	155,983
Change in percent	-2.8
FCC after approval of augmented access and considering falling out of FTP effect:	154,383
Change in Percent	-3.8
Prudential measures, assuming full FCL drawing	
Fund credit to Colombia	
In percent of total GRA credit outstanding 3/	12.6
In percent of current precautionary balances	69.3
Fund credit outstanding to five largest debtors	
In percent of total GRA credit outstanding, before approval	73.0
In percent of total GRA credit outstanding including Colombia's assumed full drawing 3/	71.7
Memorandum items	
Current precautionary balances (end-FY2019)	17,700
Total FCL commitments, including proposed FCL augementation	82,281
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 sotck 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 Borrw of bilateral commitments from members to boost IMF resources.
2/ Current FCC minus access under the proposed augmentation.
3/ Based on current Fund credit outstanding plus full drawings under the proposed FCL augmentation.

ASSESSMENT

12. **The proposed augmentation along with the assumed partial purchase under the staff's baseline scenario will have a moderate negative net impact the Fund's overall liquidity position.** The augmentation and envisaged partial purchase of the FCL is expected to have a limited negative effect on the Fund's overall liquidity. While the Fund's overall liquidity position is expected to remain adequate after the approval of the proposed augmentation of access under the 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.[9]

13. While Colombia intends to use the bulk of FCL access for precautionary purposes, the purchase of the full amount of approved access would result in a sizeable Fund exposure to Colombia. If fully drawn, the arrangement would account for about 12.6 percent of total GRA credit outstanding and about 69 percent of 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, before falling quickly to more moderate levels after 2025. 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 of strong policies, Colombia's capacity to repay is projected to remain adequate, both under the baseline purchase (of 180 percent of quota) or if the adverse scenario requiring full access were to materialize. Nonetheless, as in other cases, the unprecedented scale of the Covid-19 crisis and associated uncertainties point to increased risks and a need to monitor capacity to repay developments closely.

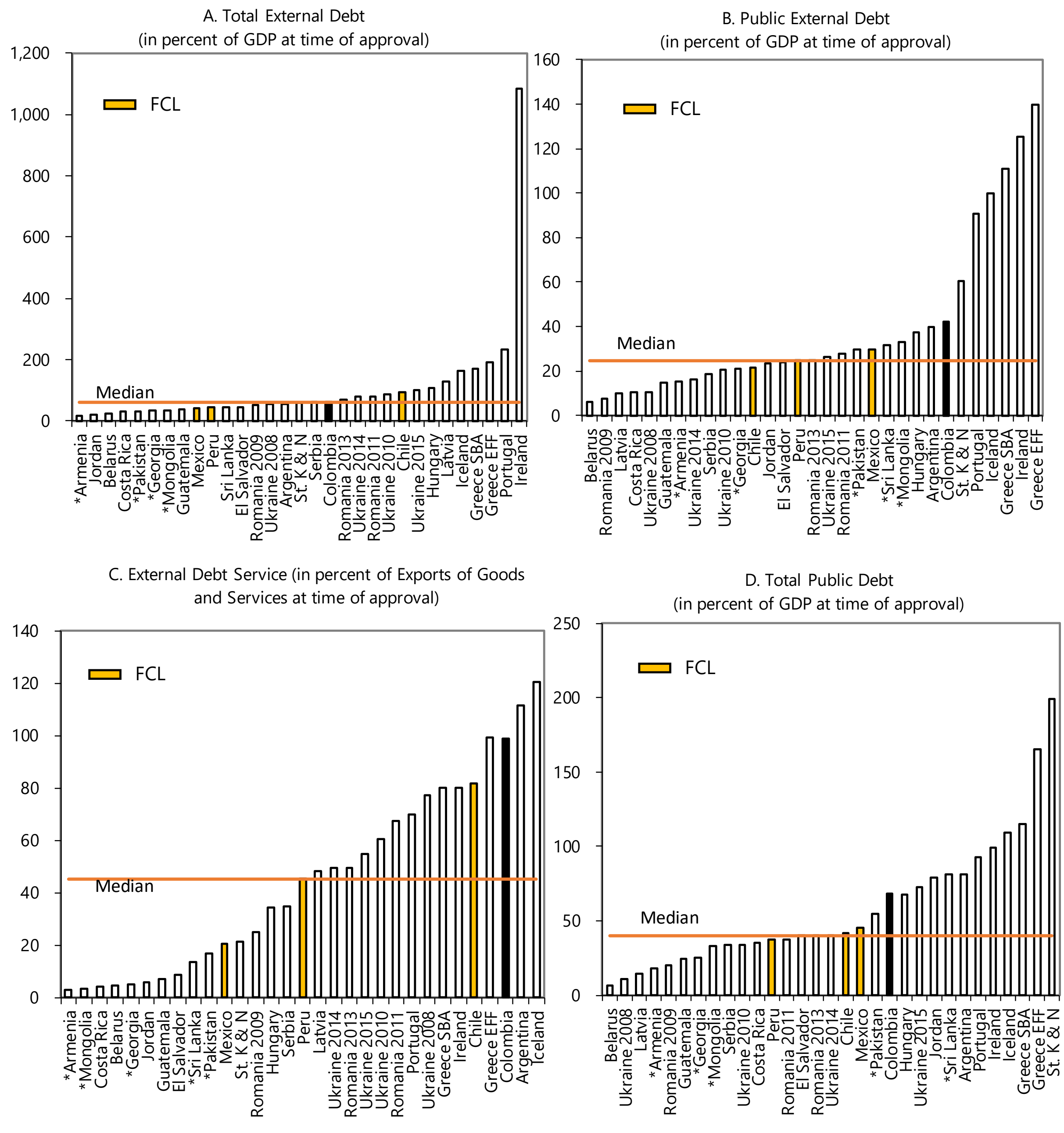
14. The authorities remain committed to a gradual exit from the FCL, risks permitting. Since exceptional global risks and uncertainty have increased substantially with the Covid-19 pandemic, the FCL is important to reinforce market confidence and maintain external liquidity buffers to overcome potential challenges to the balance of payments, while aiding policy responses to an unprecedented shock to support the recovery without derailing the much-needed structural reform agenda. The authorities view the FCL and requested increase in access as temporary and they remain committed to reduce access and eventually phase out Colombia's use of the instrument conditional on the reduction of exceptional external risks[10].

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

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

Figure 1. Debt Ratios of Recent Exceptional Access Cases [1/][2/]

(EA and FCL cases since September 2008)



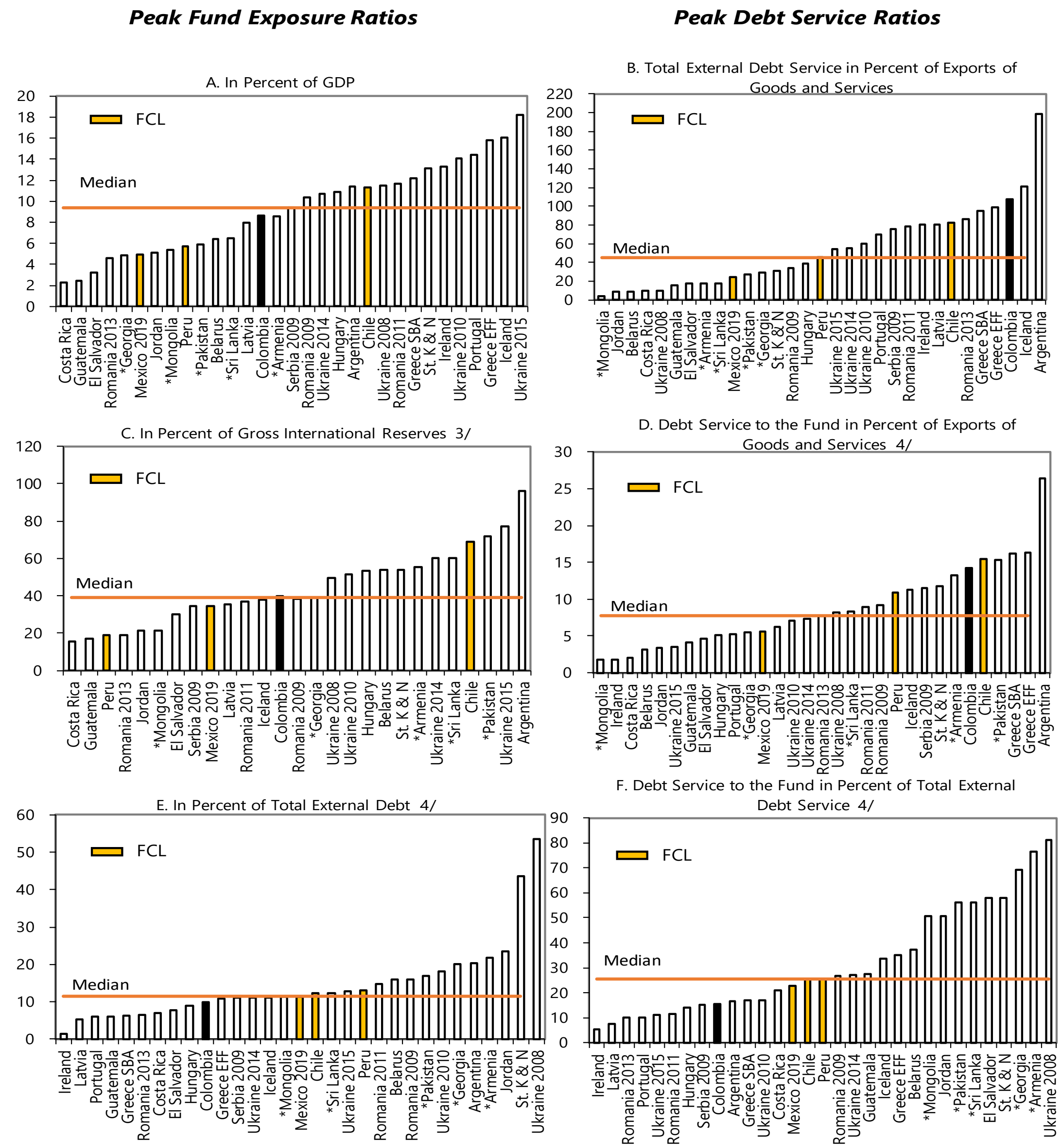
Sources: Finance Department and IMF staff estimates.

[1/] Estimates as reported in relevant staff reports on the request of SBAs or arrangements under the EFF approved since September 2008. Also includes ratios reported in relevant staff reports of FCL arrangements for Mexico (2019), Peru (2020), and Chile (2020).

[2/] Asterisks indicate PRGT-eligible countries at the time of the program.

Figure 2. Peak Fund Exposure and Debt Service Ratios for Recent Exceptional Access Cases [1/] [2/]

(EA and FCL cases since September 2008)



Sources: Finance Department and IMF staff estimates.

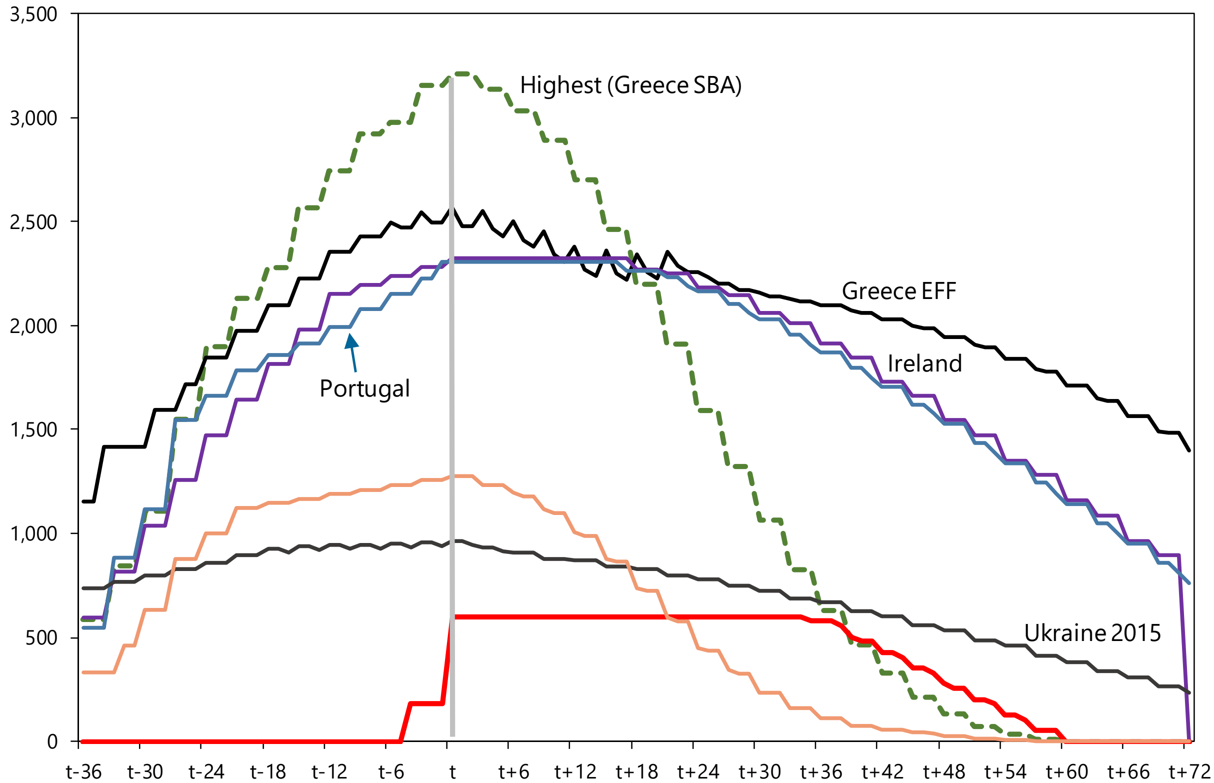
[1/] Estimates as reported in relevant staff reports on the request of SBAs or arrangements under the EFF approved since September 2008. Also includes ratios reported in relevant staff reports of FCL arrangements for Mexico (2019), Peru (2020), and Chile (2020).

[2/] Asterisks indicate PRGT-eligible countries at the time of the program. In Panel F, Georgia's debt service to the Fund includes one from PRGF loan.

[3/] Excluding arrangements with members belonging to the euro area at the time of the approval of the arrangement: Greece, Ireland, and Portugal.

[4/] For arrangements of which total external debt (or debt service) ratio is not available, public external debt ratio is shown instead.

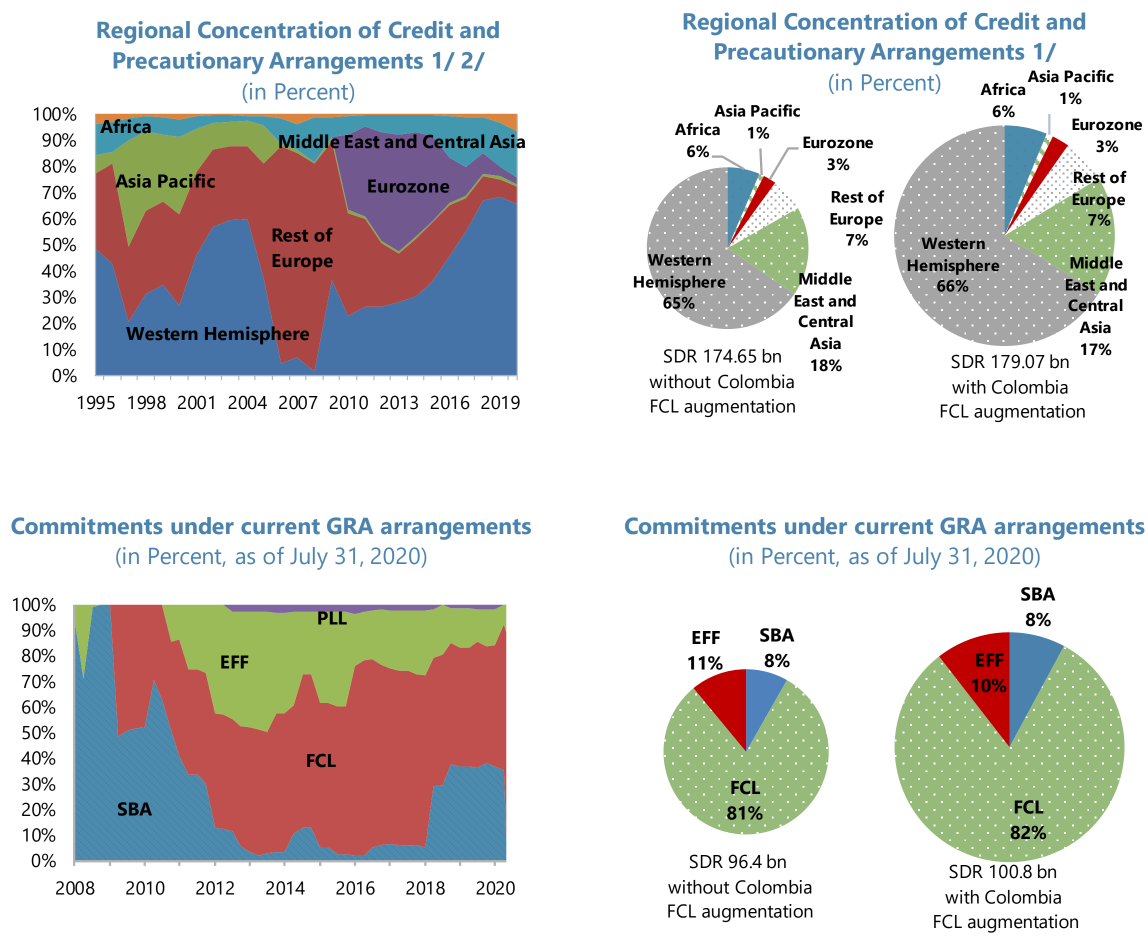
Figure 3. Projected Fund Credit Outstanding in the GRA around Peak Borrowing [1/]
(in percent of quota)



Sources: Finance Department and IMF staff estimates.

[1/] t represents the time when outstanding credit to the Fund is at its peak. Time is expressed in months.

Figure 4. IMF Lending Concentration-By Region and by Lending Instrument



Source: Finance Department.

[1/] GRA credit outstanding plus undrawn balances, by region, as a share of total GRA balances and total GRA undrawn balances. The latter include undrawn balances under existing arrangements as well as commitments under precautionary arrangements.

[2/] Colombia FCL augmentation is included in the credit and precautionary arrangements within the region of Western Hemisphere in the charts on the left-hand side.

Annex I. History of IMF Arrangements

1. Colombia had eleven 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 FCL arrangements with the same access, which were approved on June 24, 2013 and June 15, 2015, respectively. The arrangement in 2015 was cancelled before its expiration upon approval of a successor two-year FCL arrangement with the increased access of SDR 8.18 billion on June 13, 2016. A two-year FCL arrangement, in the amount of SDR 7.85 billion (384 percent of quota), was approved on May 25, 2018. On May 1, 2020, this FCL arrangement was renewed for another two years at unchanged access (384 percent of quota) and is the eleventh Fund arrangement for Colombia.

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

Table 1. IMF Financial Arrangements, 1999-2020
(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
2020	FCL	1-May-20	30-Apr-22	7,850	384	0	0	0	0

Source: Finance Department.