IMF Country Report No. 21/59

COLOMBIA

March 2021

2021 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR COLOMBIA

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2021 Article IV consultation with Colombia, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its March 19, 2021 consideration of the staff report that concluded the Article IV consultation with Colombia.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on March 19, 2021, following discussions that ended on February 21, 2021, with the officials of Colombia on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on March 9, 2021.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for Colombia.

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

Selected Issues

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International Monetary Fund
Washington, D.C.

PR21/78

IMF Executive Board Concludes 2021 Article IV Consultation with Colombia

FOR IMMEDIATE RELEASE

Washington, DC – **March 23, 2021:** The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Colombia on March 19, 2021.

Colombia has been hit hard by the pandemic, but the policy response has been timely and well-coordinated. COVID-19 has taken a severe social and economic toll, including more than 60,000 deaths. Over 5 million jobs were temporarily affected and GDP contracted by 6.8 percent in 2020, the largest recession on record in Colombia. The authorities used the flexibility afforded by their very strong policy framework to deliver a coordinated and timely response to the exceptional shock. Alongside a crisis mitigation fund created to aid the pandemic response, emergency measures have supported the health care sector, households and businesses. A flexible exchange rate, monetary policy accommodation and liquidity support, temporary suspension of the fiscal rule and macroprudential measures mitigated the fallout from the pandemic. A national vaccination program to cover most of the population started in February.

A gradual recovery is underway with growth expected to rebound to around 5 percent in 2021. Under staff assumptions for declining infections, rising vaccinations and limited lockdowns, GDP is projected to recover gradually this year, although it is not projected to return to pre-pandemic levels until the second half of 2022. Labor markets have partly rebounded with unemployment declining from its peak although local lockdowns have recently dampened employment gains. Both external and domestic risks to growth remain tilted to the downside. The current account deficit is projected to widen to 3¾ percent of GDP on account of higher growth and imports picking up. External financing needs are expected to remain elevated. However, as non-oil FDI recovers and public borrowing needs decline, the share of private capital flows in external financing is expected to increase. Finally, Colombia's unwavering efforts to integrate Venezuelan migrants into the economy, most recently by granting them Temporary Protective Status, should raise Colombia's potential growth in the medium term.

Executive Board Assessment[2]

Directors recognized Colombia's very strong policy frameworks and track record, allowing a well-executed and timely policy response to the COVID-19 pandemic. Noting the still nascent recovery amid considerable uncertainty and downside risks, Directors emphasized the need

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

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

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for sustained policy support in the near term, while safeguarding financial stability and medium-term fiscal sustainability.

Directors took note of the temporary suspension of the fiscal rule to accommodate emergency spending to support the health care sector, households, and firms. As the pandemic subsides, emergency measures should be gradually removed. Directors welcomed the planned fiscal reform, anchored in durable revenue mobilization and improved tax administration. They agreed that a return to the fiscal rule would safeguard the fiscal framework and anchor medium-term adjustment and public debt sustainability. In doing so, Directors stressed the importance of striking the right balance between flexibility and credibility. They encouraged the authorities to consider enhancements to the fiscal framework and its implementation.

Directors welcomed the central bank's actions to provide liquidity and the balanced use of regulatory and supervisory flexibility to support credit through the downturn. While monetary policy can be eased further, if needed, there is a need for continued vigilance in financial supervision and use of macroprudential policies to safeguard financial stability. Directors also welcomed the authorities' commitment to maintain a flexible exchange rate. They noted that Colombia's first-ever purchase under the Flexible Credit Line (FCL) complemented public and external financing and helped maintain strong external buffers. Directors welcomed the authorities' intention to treat remaining access under the FCL as precautionary. Continued accumulation of reserves over time would help preserve reserve coverage.

Directors encouraged continued efforts to promote employment, inclusive growth, and external competitiveness, by implementing the National Development Plan and Peace Accords. They commended the authorities for their efforts to integrate Venezuelan migrants into the economy. Directors also acknowledged the progress on governance and transparency, and encouraged sustained efforts to strengthen the anti-corruption and AML/CFT frameworks.

Table 1. Colombia: Selected Economic and Financial Indicators

I. Social and Demographic Indicators

Population (million), 2019	50.3	Unemployment rate, 2019 (percent)	9.7
Urban population (percent of total), 2019	81.1	Physicians (per 1,000 people), 2018	2.2
GDP, 2020		Adult illliteracy rate (ages 15 and older), 2018	4.9
Per capita (US$)	5,393	Net secondary school enrollment rate, 2018	77.5
In billion of Col$	1,002,587	Gini coefficient, 2019	52.6
In billion of US$	271	Poverty rate, 2019	35.7
Life expectancy at birth (years), 2018	77.1		
Mortality rate, (under 5, per 1,000 live births), 2018	14.2		

II. Economic Indicators

						Projections					
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
	(In percentage change, unless otherwise indicated)										
National income and prices											
Real GDP	2.1	1.4	2.6	3.3	-6.8	5.1	3.6	4.0	3.8	3.8	3.6
Potential GDP	3.0	2.9	3.0	3.1	-2.0	2.7	2.8	2.9	3.0	3.1	3.2
Output Gap	0.6	-0.8	-1.2	-1.0	-5.9	-3.7	-2.9	-1.9	-1.1	-0.4	0.0
GDP deflator	5.1	5.1	4.6	4.0	1.4	3.0	3.1	3.2	3.3	3.4	3.5
Consumer prices (average)	7.5	4.3	3.2	3.5	2.5	2.1	2.6	2.7	2.8	2.9	2.9
Consumer prices, end of period (eop)	5.7	4.1	3.1	3.8	1.6	2.5	2.6	2.7	2.8	2.9	3.0
External sector											
Exports (f.o.b.)	-11.7	16.8	11.7	-4.7	-21.0	24.9	4.5	3.7	3.5	4.0	4.1
Imports (f.o.b.)	-16.9	2.3	12.1	2.5	-18.5	16.4	4.2	5.4	5.0	5.1	4.6
Export volume	-0.2	2.6	0.6	3.1	-10.1	6.3	6.5	4.5	3.4	3.6	3.5
Import volume	-3.5	1.0	5.8	7.3	-16.0	7.8	5.9	5.2	3.5	3.5	3.3
Terms of trade (deterioration -)	3.6	9.3	5.9	-1.7	-11.8	8.0	0.0	0.0	-0.3	-0.7	-0.4
Real exchange rate (depreciation -) 1/	-4.7	5.7	0.6	-9.1	-11.1	NA	NA	NA	NA	NA	NA
Money and credit											
Broad money	9.5	6.4	5.7	10.0	-3.0	11.1	9.5	9.9	9.9	9.9	9.7
Credit to the private sector	7.7	12.8	6.8	11.6	2.8	9.4	10.9	11.3	11.3	11.4	11.3
Policy rate, eop	7.5	4.8	4.3	4.3	1.8	NA	NA	NA	NA	NA	NA
	(In percent of GDP)										
Central government balance 2/	-4.0	-3.6	-4.8	-2.5	-7.7	-9.5	-4.4	-3.5	-2.9	-2.5	-2.4
Central government structural balance 3/	-3.3	-2.6	-2.3	-2.2	-6.4	-8.0	-3.5	-3.0	-2.7	-2.4	-2.3
Consolidated public sector (CPS) balance 4/	-2.2	-2.4	-4.5	-1.9	-6.8	-8.6	-3.3	-2.9	-1.8	-1.6	-1.5
CPS non-oil structural primary balance	0.0	-0.1	-1.2	-0.8	-4.4	-5.6	-0.6	-1.1	-0.5	-0.4	-0.3
CPS fiscal impulse	-3.3	0.1	1.0	-0.4	3.6	1.3	-5.1	0.5	-0.6	-0.1	0.0
Public debt sector gross debt 5/	49.8	49.4	53.6	52.3	62.8	64.2	64.3	63.5	61.4	59.3	57.2
Gross domestic investment	23.2	21.6	21.2	21.5	18.8	19.2	19.8	20.5	20.8	20.8	20.8
Gross national savings	18.6	18.2	17.1	17.1	15.5	15.4	16.0	16.6	16.8	16.9	16.9
Current account (deficit -)	-4.5	-3.4	-4.1	-4.4	-3.3	-3.8	-3.9	-3.9	-3.9	-3.9	-3.9
External Financing Needs	13.2	13.5	14.2	15.1	17.4	16.3	15.2	15.4	16.1	15.6	15.5
External debt 6/	49.4	47.2	46.6	49.9	64.4	62.4	61.9	61.1	60.2	59.2	58.3
Of which: public sector 6/	31.9	30.3	29.0	30.0	39.3	38.2	37.5	36.3	34.2	32.6	31.5
	(In percent of exports of goods and services)										
External debt service	66.6	72.0	68.9	75.1	109.3	88.4	80.2	81.3	85.2	83.8	84.5
Interest payments	11.1	10.7	10.5	14.2	16.8	14.9	15.3	15.1	14.8	15.0	15.2
	(In billions of U.S. dollars; unless otherwise indicated)										
Exports (f.o.b.)	34.1	39.8	44.4	42.4	33.5	41.8	43.7	45.3	46.9	48.8	50.8
Of which: Petroleum products	10.8	13.3	16.8	16.0	8.8	13.5	13.4	13.3	12.9	12.9	13.0
Gross international reserves 7/	46.2	47.1	47.9	52.7	58.5	60.7	61.6	62.4	63.3	64.4	65.5
Share of ST debt at remaining maturity + CA deficit	113	103	100	116	124	132	124	113	111	108	104.5

Sources: Colombian authorities; UNDP Human Development Report; World Development Indicators; and IMF staff estimates.
1/ Based on bilateral COL Peso/USD exchange rate.
2/ Includes one-off recognition of previously unrecognized accounts payable worth 1.9 percent of GDP in 2018 and central bank profits. For 2021 includes privatization receipts worth 1.1 percent of GDP that, under GFSM 1986 which is used by the authorities, produces a headline deficit of -8.4 percent of GDP.
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. For 2021 includes privatization receipts, see 2/ above.
5/ Includes Ecopetrol and Banco de la República's outstanding external debt.
6/ Current account deficit plus amortization due including holdings of locally issued public debt (TES).
7/ Excludes Colombia's contribution to FLAR; includes valuation changes of reserves denominated in currencies other than U.S. dollars.

INTERNATIONAL MONETARY FUND

COLOMBIA

STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION

March 9, 2021

KEY ISSUES

Outlook and risks. COVID-19 has taken a severe social and economic toll, including almost 60,000 deaths. With over 5 million jobs temporarily affected, Colombia recorded its largest recession on record. Since 2020H2, an uneven recovery with intermittent growth has been underway, led by private domestic demand. Staff expects only a gradual recovery in 2021 with economic activity not expected to return to pre-pandemic levels until the second half of 2022. Vaccinations began in February with plans to effectively cover the adult population. However, both external and domestic risks remain skewed to the downside.

Policies. The authorities used the flexibility afforded by their very strong policy framework to deliver a coordinated and timely response to the exceptional external shock. A flexible exchange rate, monetary policy and liquidity support, temporary suspension of the fiscal rule and macroprudential measures mitigated the fallout from the pandemic. A fiscal reform, including a tax reform is expected this year to facilitate adjustment in public finances following the pandemic. The financial sector remains sound, and Basel III and Conglomerates' Law implementation remains on track. The authorities' purchase under the Flexible Credit Line (FCL) complemented other public and external financing and helped maintain strong external buffers.

Policy recommendations. Continue to focus on saving lives, cementing recovery, limiting scarring, and supporting inclusive growth while preserving debt sustainability.

Monetary and financial sector. Maintain monetary accommodation and exchange rate flexibility. Closely monitor financial stability risks, ensure sufficient bank provisioning and informativeness of FSIs, keep bank capital distributions to a minimum, and continue to implement recovery and resolution planning for SIFs. Continue accumulating international reserves over time given vulnerabilities to external risks.

Fiscal policy. Maintain critical emergency support and begin gradual fiscal adjustment as the recovery strengthens via durable tax reform, and through tax administration and expenditure efficiency gains. Reinstate the fiscal rule upfront and reset the period to reach the fiscal anchor over the medium term. Consider creating an independent fiscal council to oversee reinstatement of the fiscal rule, improve the escape clause, and strengthen performance with respect to containing debt through new mechanisms.

Structural reforms. Continue implementation of infrastructure programs, the National Development Plan, and the Peace Process. Consider further reforms to tackle informality and inequality and strengthen governance.

Approved By
Aasim M. Husain (WHD) and Kevin Fletcher (SPR)

Hamid Faruqee (Head), Jorge Alvarez, Emilio Fernandez-Corugedo, M. Belen Sbrancia (all WHD), Alberto Behar (SPR), Alice French and Carolina Claver (all LEG), and Felix Vardy (MCM) held a remote mission during February 1–21, 2021. Jose Andres Romero (ED) also participated in the policy discussions. Nicolas Landeta, Nischel Pedapudi and Danjing Shen (all WHD) also supported the mission.

CONTENTS

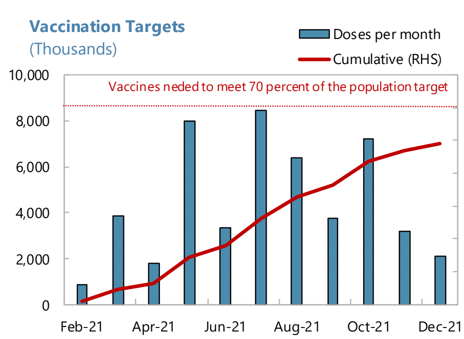
ANNEXES

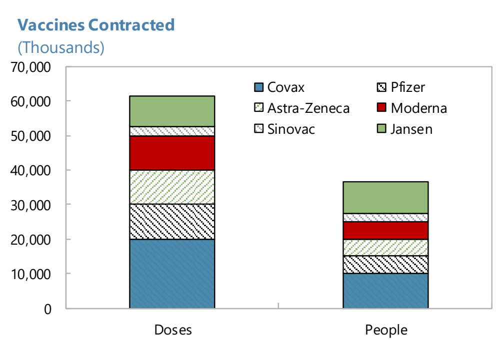
CONTEXT AND THE COVID SHOCK

1. **Before the onset of the pandemic, Colombia's very strong policy frameworks and timely policy actions supported its economic resilience**. A flexible exchange rate, central bank credibility under inflation targeting, effective financial sector supervision and regulation, a medium-term fiscal rule, and strong institutions allowed the country to withstand external shocks. Financial inclusion improved and poverty and inequality fell since the turn of the century. A historic peace agreement, to be implemented across three presidencies, established an ongoing agenda to boost regional, social and economic inclusion.

2. **Past Fund Advice: Colombia's coordinated policy response in 2020 focused on the pandemic and was in line with previous Fund advice.** The central bank lowered its policy rate to historic lows and ensured adequate liquidity provision to financial markets. The financial regulator (SFC) allowed banks to use flexibility in existing regulations, granted relief to troubled borrowers, and maintained close supervision while implementation of Basel III standards and the Conglomerates Law remained on track. The fiscal rule was suspended for two years to deploy emergency spending. Although progress was partly disrupted by the pandemic, the National Development Plan (NDP), infrastructure plans, and Peace Process implementation continued. Humanitarian support and efforts to integrate Venezuelan migrants were deepened by a recently announced Temporary Protection Status (TPS) program. Progress on AML/CFT included completion of a new risk assessment (NRA). Governance measures included implementation of the Institutional Anti-Corruption Network and further improvements in the public procurement process.

3. **Colombia has been among the hardest hit by the pandemic.** A strict nationwide lockdown to mitigate the outbreak in March 2020 introduced restrictions throughout the economy that were gradually lifted (Figure 1). Although the nationwide lockdown ended in September, selective restrictions remain with some departments imposing temporary lockdowns to control infection surges. Infections rose in December and January, surpassing the August peak but fell during February in response to localized lockdowns. As of February 19, total COVID-19 cases exceeded 2.2 million, with new cases per million around 100 per day and with about 56 percent occupation of ICU beds, mostly with COVID-19 patients. Colombia has secured access to enough vaccines to cover about 90 percent of the adult population when vaccinations are completed. A nationwide campaign started in February prioritizing healthcare workers and seniors.

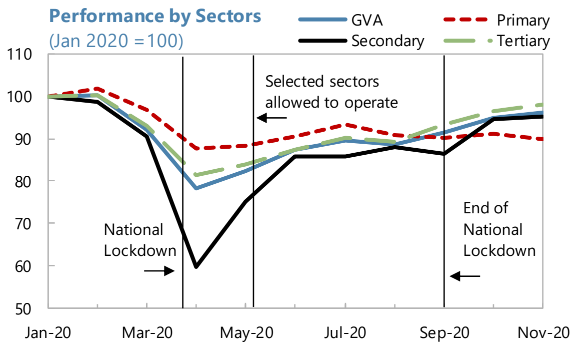




Sources: Ministry of Health and Social Protection; and IMF staff calculations.

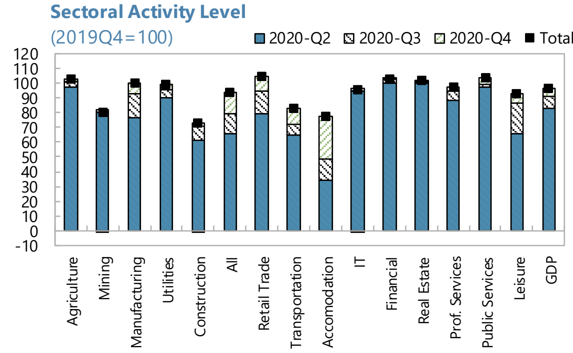
4. Colombia is recovering, albeit intermittently and unevenly, from its largest recorded economic contraction in response to the exceptional nature of the shock (Figure 3). GDP fell 6.8 percent in 2020 in response to lockdowns, lower oil prices and the collapse of global growth. As restrictions were eased, activity recovered led by manufacturing, retail and wholesale trade and public services. However, localized temporary restrictions in January likely dampened the growth momentum in 2021Q1.

Performance by Sectors
(Jan 2020 = 100)



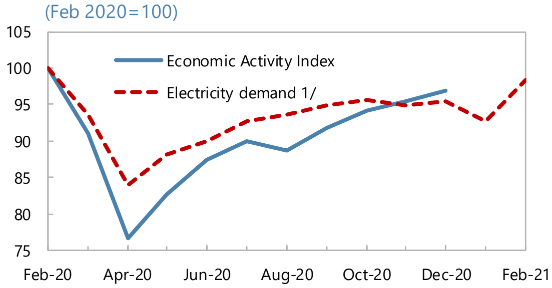
Sources: DANE; and IMF staff calculations.

Sectoral Activity Level
(2019Q4=100)



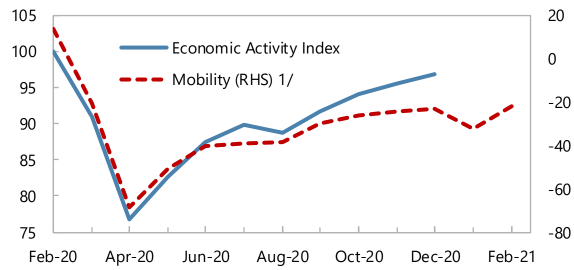
Sources: DANE; and IMF staff calculations.

Monthly GDP Index and Electricity Demand Index
(Feb 2020=100)



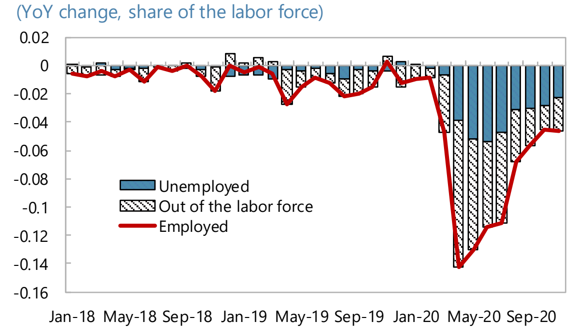
Sources: Haver; DANE; XM; and IMF staff calculations.
1/ Feb 2021 electricity demand is the average with data up til Feb 20, 2021.

Monthly GDP Index and Mobility
(Index: Feb 2020=100)



Sources: Haver; DANE; Google; and IMF staff calculations.
1/ Feb 2021 google mobility is the average with data up til Feb 19, 2021.

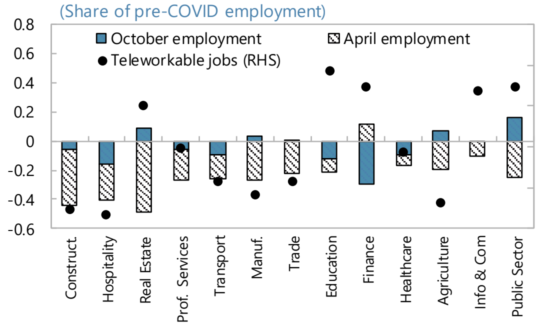
Employment Losses
(YoY change, share of the labor force)



Sources: GEIH; and IMF staff calculations.

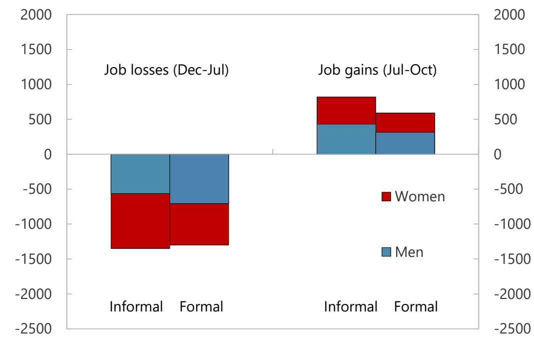
5. The pandemic affected about a quarter of employment—primarily informal workers—but a rebound is taking place. The unemployment rate peaked at 20 percent at the height of the lockdowns, while the participation rate dropped 11 percentage points. Flexible informal jobs absorbed the brunt of the shock but recovered more quickly, lowering the unemployment rate to 13 percent alongside a sharp snapback in labor force participation by end-2020. Sectors most affected by the lockdowns recovered faster, but a gap of 1.4 million jobs remained relative to pre-COVID levels. Further improvement may face resistance as employment gains decelerated at the end of 2020 and were interrupted by renewed lockdowns in January, formal sector job recovery has lagged, and displaced women have been slower to rejoin the labor force amidst increased household burdens and school closures.[1]

Employment Shock and Recovery
(Share of pre-COVID employment)



Sources: GEIH; and IMF staff calculations.

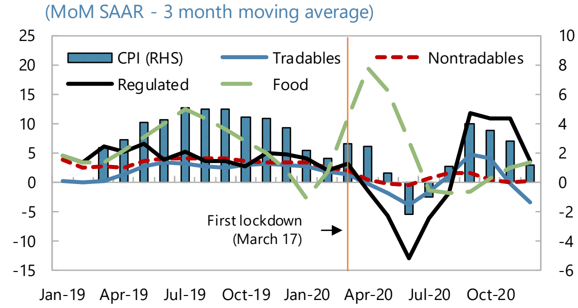
Jobs Losses and Gains by Formality by Status



Sources: DANE; and staff calculations.

6. With recession, inflation is low and price pressures remain subdued. Headline and core inflation fell below the central bank's inflation target reflecting a wider output gap as well as temporary relief measures for taxes and regulated prices. Short-term inflation expectations have fallen below the three percent target, although medium-term inflation expectations remain well anchored (Figure 6).

Inflation
(MoM SAAR - 3 month moving average)



Sources: Haver; and staff calculations.

7. The current account deficit narrowed but external financing needs increased (Figure 4). The current account deficit fell from 4.4 percent of GDP in 2019 to 3.3 percent in 2020. A sharp domestic demand contraction reduced imports and primary income outflows while remittances inflows rose – see Selected Issues Paper (SIP). These factors outweighed the decline in goods exports stemming from lower prices and production for some commodities including coal (where strikes hampered production) and oil. Nonetheless, estimated external gross financing needs rose from 14¾ to 17½ percent of GDP between 2019 and 2020 due to higher scheduled debt amortization by the private sector. Accordingly, Colombia's external position is moderately weaker than the level consistent with medium-term fundamentals and desired policy settings (Annex I).

8. With improved financial conditions, private portfolio flows recovered while public financing flows were prominent in the financial account. Alongside more favorable global financing conditions in 2020H2, the FCL augmentation in September and purchase in December coincided with lower spreads and a stronger Colombian peso (Figure 2). Portfolio and other investment flows rose as the government financed a larger share of its fiscal deficit abroad through

[1] See SIP for further details.

multilateral institutions including the IMF.[2] Regarding the private sector, portfolio inflows recovered but were exceeded by Colombian acquisition of assets abroad. Foreign direct investment into Colombia declined substantially, reflecting lower new investment and lower re-invested profits (Figure 5).

9. Hit by an unprecedented economic contraction, the financial system has remained resilient but faces risks. Banks entered the pandemic from a position of relative strength, with adequate capitalization and healthy liquidity. Real credit grew by 2.2 percent by end 2020 but reflecting different dynamics across credit categories[3] (Figure 8). Non-Performing Loans (NPLs) *fell b*etween March and July due to broad-based payments moratoria, reaching a low of 3.9 percent at end-July. With moratoria expiring and the introduction of the much more targeted PAD (Program to Support Debtors, see Annex IV and country report 20/284 for details), NPLs began edging up, reaching 5.0 percent at end-2020.[4] Total provisioning rose sharply in 2020 and bank profits tumbled, though they remained positive. Average CARs fell to 17.2 percent at end-2020 based on lower average risk weights under Basel III.[5]

10. The authorities used the flexibility of their macroeconomic framework to deliver a coordinated and timely response (see country reports 20/104 and 20/284 for details).

- **Monetary policy and liquidity provision.** The policy rate was eased by 250bp since March and remains accommodative with effective monetary transmission (Box 1).[6] To prevent financial disruptions, the authorities provided ample liquidity via foreign and domestic currency operations—including asset purchases—and by expanding the range of admissible collateral and counterparts in domestic liquidity operations. These operations were concentrated in the first half of 2020. In addition, the authorities allowed the exchange rate to sharply depreciate.[7]

- **International reserves accumulation reflected central bank purchases from the Treasury and realized valuation gains.** The central bank (BanRep) purchased US$ 2 billion from the

[2] The government liquidated about 1 percent of GDP of foreign assets in May. Following the December FCL purchase, the government converted US$ 1.5 billion to pesos and, as at end-2020, kept the remaining US$ 3.9 billion abroad with the intent to help meet early 2021 budget support needs. These external buffers are separate from central bank reserves.

[3] Initially, commercial credit boomed during the national lockdown as firms drew down credit lines to support their working capital, while household credit slowed down significantly. Subsequently, as corporates conserved cash and scaled down investment, commercial credit became more subdued. Mortgages rose in response to government support programs for low-income housing and historically low interest rates.

[4] Banks have relatively low exposure to the sectors most severely affected by the pandemic. Credit to firms in mining, hospitality and transportation account for 1.1, 1.5 and 8.3 percent of all outstanding corporate credit respectively.

[5] Average risk weights in Colombia were higher than under (the standardized approach of) Basel III. Hence, the transition to the Basel III framework has reduced risk weights and increased banks' CARs by about 1 to 1.5 percentage points on average.

[6] Staff estimates of the neutral real rate are between 1 and 2 percent.

[7] The authorities only intervened in the FX market to provide short-term FX liquidity through Swaps and Non-Deliverable Forward (NDF) contracts that do not imply a permanent use of reserves.

central government (CG) following the government's liquidation of overseas assets and purchased another US$ 1.5 billion as the CG immediately exchanged part of its purchase under the FCL arrangement for pesos. Coverage increased to 145 percent of the ARA metric (128 percent after including a commodity buffer).

- **Fiscal policy.** Consistent with previous staff advice, the fiscal rule was appropriately suspended for two years with the pandemic.[8] Key emergency measures in 2020 focused on additional health spending and support to vulnerable households and firms (including credit lines for SMEs).[9] As a result of the emergency spending and deteriorating tax revenues, the 2020 headline deficit widened to 7.7 percent of GDP (Figure 7). The deficit was smaller than anticipated as discretionary emergency spending measures –notably healthcare and payroll support[10]—were lower than expected and tax revenues proved to be more resilient. Execution of the non-emergency budget was in line with expectations. To cement the recovery in 2021, unspent resources from the emergency mitigation fund (FOME) created last year will be used in 2021, including to finance extension of some transfer programs during 2021H1 as well as to fund the vaccination program, and additional infrastructure spending is planned to support the recovery.

Central Government Announced Emergency Covid-19 Measures 1/
(Percent of 2020 GDP)

	Total	2020	2021
Expenditure	**4.2**	**1.8**	**2.4**
Health 2/	1.4	0.5	0.9
Household transfers 3/	1.4	0.9	0.6
Support for firms 4/	0.9	0.4	0.5
Investment 5/	0.5	0.0	0.5
Taxes 6/	**0.5**	**0.3**	**0.2**
Below the line 7/	**2.8**	**1.6**	**1.3**
Total	**7.5**	**3.6**	**3.9**

Source: IMF staff estimates
1/ Resources earmarked from the Spending Mitigation Fund (FOME) except for investment
2/ Includes: Bonues for health workers, increased capacity, vaccines
3/ Includes: additional transfers of standard social programs, VAT refunds, support for informal workers, energy subsidies
4/ Includes: Payroll support, extraordinary bonus payments for June and December
5/ Compromiso por Colombia program, not part of FOME
6/ Includes: VAT and import tax deductions
7/ Credit lines for firms and capitalization of various guarantee funds

- **Regulatory and supervisory policies have sought to maintain prudential standards, while ensuring credit flows to support economic activity** (Annex IV). In response to the pandemic, the SFC released countercyclical bank buffers and allowed for grace periods and loan modifications without requiring a change to the credit rating of the debtor or a reclassification of the loan as non-performing. While they were broad-based during the first few months of the crisis, these measures became considerably more selective thereafter. Since the start of the crisis, the SFC has conducted monthly top-down stress tests, allowing for early intervention where needed. Somewhat longer-horizon (through end-2021) stress tests by BanRep suggest that expected but not yet realized credit losses do not pose a risk to financial stability so far. The financial sector policy agenda to further strengthen the regulatory and supervisory framework

[8] Relaxation of fiscal rules at the local government level are also in line with staff advice.

[9] It will be important to closely monitor the implicit fiscal risks associated with large infrastructure programs and credit guarantees which may necessitate capital injections or loans in the future.

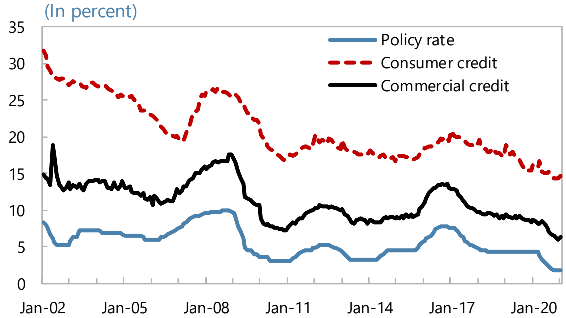
[10] Healthcare spending was around ½ percent of GDP lower than expected at the onset of the pandemic as fewer patients were treated and vaccine spending was delayed to 2021. Corporate take-up for the payroll support program was also lower than anticipated (around 0.2 percent of GDP).

remains on track with no expected changes to the timeline for implementing Basel III, recovery and resolution planning, and the Conglomerates Law.

Box 1. On the Impact of Monetary and Fiscal Measures

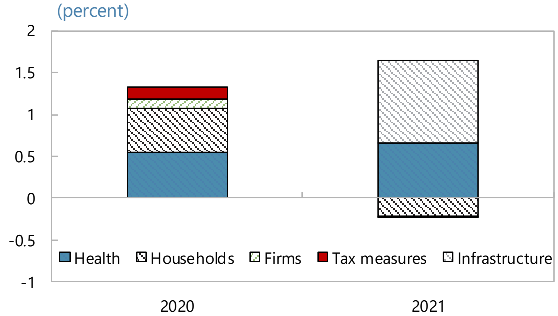
The policy rate reduction has translated into lower lending rates consistent with historical passthrough. The 250bp reduction in the policy rate has resulted in a decline of lending rates of around 200bp and with larger movements in commercial than consumer interest rates, all consistent with historical passthrough.

Interest Rates
(In percent)



Source: Banco de la Republica, Haver; and IMF staff estimates.

Fiscal Measures Growth Impact
(percent)

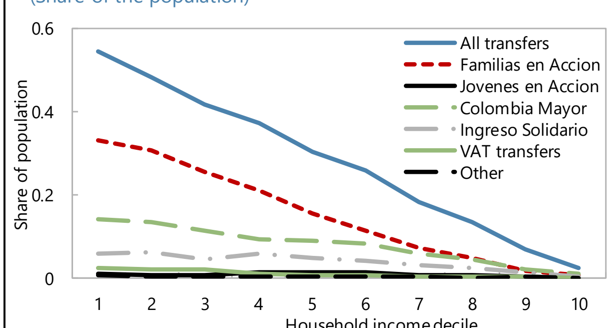


Source: IMF staff calculations using GIMF.

Discretionary tax and spending measures mitigated the impact of the pandemic in 2020 and are projected to support growth in 2021. Using the IMF's GIMF model, staff estimated the impact on growth from the fiscal support in 2020 (worth 2.2 percent of GDP) and the announced measures for 2021 (worth 2.5 percent of GDP, see table above). For 2020, the largest support is coming from transfers to households and health care support (0.6 each), and firm support via payrolls (0.2) and economy wide tax relief measures (0.1). For 2021, infrastructure (1.0) and healthcare (0.7) measures have the largest growth impact.

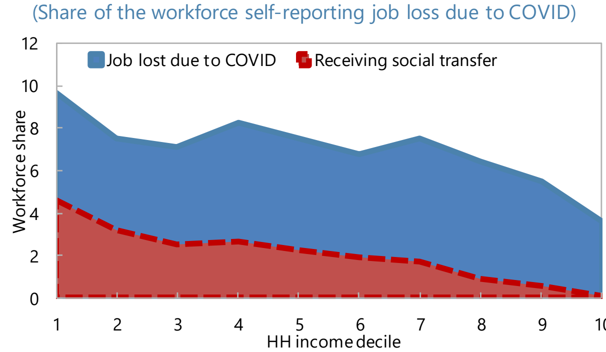
Payroll subsidies and expanded transfer programs mitigated the impact among vulnerable households. As part of emergency measures transfer and employment protection measures worth 1.3 percent of GDP in 2020, subsidies equivalent to 40 percent of the minimum wage for formal workers at firms experiencing falls of over 20 percent in sales was implemented. To help informal workers, a new unconditional transfer program (Ingreso Solidario) was established aimed at populations at risk not covered under other programs, and better-targeted existing social protection programs were expanded. This expansion was concentrated among poorer households, though expansions were observed across a significant portion of the household income distribution.[1]

Coverage of Transfers by Household Income Decile
(Share of the population)



Sources: GEIH; and IMF staff calculations.

Transfer and Job Losses due by Household Income
(Share of the workforce self-reporting job loss due to COVID)



Sources: GEIH; and IMF staff calculations.

[1] See Selected Issues Paper for further details.

11. Financial inclusion improved considerably through electronic payment of pandemic-related social transfers, while digitalization of the payments system proceeds apace. Pandemic-related government support programs to the poorest and most vulnerable households (Box 1) have boosted financial inclusion metrics. Reflecting wider income transfers with digital delivery, 87 percent of the adult population had one or more financial products as of September 2020, exceeding the authorities' 2022 target of 85 percent. Of the more than 1 million recipients of support programs, 62 percent withdrew money from their accounts and made electronic payments, while 45 percent deposited additional funds.

12. While the pandemic disrupted implementation of structural reforms and partly reversed migration flows from Venezuela, progress was still seen on several policy fronts.

- **Public investment**. The lockdown disrupted the 4G infrastructure agenda, but a new 5G infrastructure program worth around 5 percent of GDP was announced. Programs aimed at advancing innovation, access to export markets, firm formalization, and productivity growth as part of the NDP continued.

- **Peace agreement**. The Kroc Institute—which monitors the implementation of the peace agreement—and the UN reported continued progress as the agreement moved from short-term commitments. However, work remains as the focus shifts towards the ambitious territorial development phase and the re-integration of ex-combatants into society. Security challenges remain in outlying areas with minimal state presence.

- **Migration policy**. Deterioration of economic activity and border closure with Venezuela led to temporary migrant outflows, slightly decreasing the total of Venezuelan migrants to 1.73 million. However, a new TPS program was announced to integrate Venezuelan migrants which is expected to be signed into law in March. The TPS will be valid for 10 years and allows a path to permanent residence visas after 5 years.

13. Colombia has made progress in enhancing procurement transparency, the roll out of the electronic procurement system and strengthening the anti-corruption framework. The adoption of the second phase of the Electronic Government Procurement System (SECOP II) and the initiative of Colombia Compra Eficiente (CCE) on establishing a tracking tool for the public to view coronavirus procurement purchases is a welcome initiative.[11] Audits of emergency spending are ongoing, including of FOME resources that will be finalized by June 2021. Law 2013 of 2019 was an important achievement in introducing declaration of assets for public officials and making the information available to the public through a web platform managed by the Departamento Administrativo de Función Pública.

14. Colombia has taken steps to strengthen its Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) regime in line with international standards. An updated national AML/CFT policy (CONPES) in line with the findings of the 2019 money laundering and terrorism financing (ML/TF) national risk assessment is expected to be adopted in the coming months. Furthermore, a tax reform law created a Beneficial Owner (BO) Register under the Directorate of Taxes and Customs and a regulation defining the operability of the Register is under

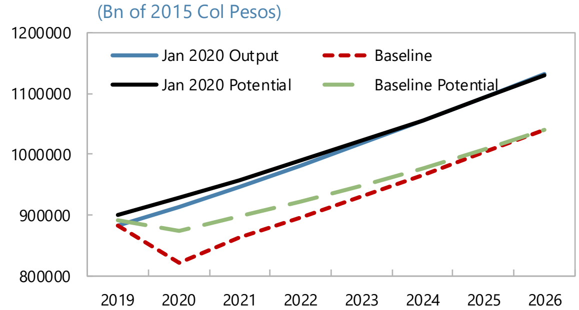
[11] SG/MESICIC/doc.507/17 rev. 4, 2017.

process. A draft "Due Diligence Law" (L. 341/2020), which is intended to reinforce all customer due diligence requirements, is pending in Senate.

OUTLOOK AND RISKS

15. The economy is projected to gradually recover in 2021. Under staff's assumptions for declining infections, rising vaccinations and limited lockdowns, growth is expected to rebound in 2021 to around 5 percent—supported by monetary accommodation, fiscal policy and increased mobility. Thereafter, pre-pandemic economic drivers[12] are expected to slowly return to support growth, with a 4½ percent output gap closing gradually by 2026. From a macrofinancial perspective, credit growth should begin to rebound starting this year, in response to continued policy support provided by the authorities and the ongoing recovery. While credit quality, NPLs and capital ratios are likely to worsen further initially, due to lagged effects from the recession and expiry of grace periods for loans under the PAD and expiry of the PAD itself, they are projected to subsequently improve as economic activity continues to recover, raising household incomes and firms' cash flow.

GDP Projections over Different Vintages
(Bn of 2015 Col Pesos)



Sources: Colombian authorities; and IMF staff estimates.

16. External financing needs are expected to remain elevated. The current account deficit is projected to widen to 3¾ percent of GDP in 2021 as recovering domestic demand drives imports and income outflows and commodity export volumes remain sluggish (partly owing to secular declines in coal). Over the medium-term, the current account deficit is expected to be almost 4 percent of GDP as commodity prices retreat from current highs. Gross external financing needs are expected to moderate in 2021 (to 16¼ percent of GDP) and thereafter as private-sector amortization needs soften but to remain elevated by historical standards. The composition of capital flows is projected to gradually revert to higher private flows as public needs moderate and non-oil FDI recovers. With moderate reserve accumulation, Colombia's reserves coverage is envisaged to decline alongside rising external liabilities in nominal terms but would still be adequate according to the ARA metric.[13]

17. Downside external risks have moderated since September, but, as is the case for domestic risks, remain tilted to the downside (Annex III). While an improved economic and financial outlook indicate moderating external risks, continuing challenges and uncertainty in

[12] These include migration from Venezuela, public works, 2019 growth-friendly tax reform, and implementation of the NDP, peace process and infrastructure agenda.

[13] As a share of GDP, amortization needs are expected to decline over the medium term. Over 80 percent of estimated amortization is from the private sector and the share is expected to decline slightly over the medium term. Private-sector exposures are mitigated by a large domestic-currency component, foreign-currency earnings, and creditors that also have foreign direct investments.

eradicating the pandemic in Colombia and elsewhere may lead to further lockdowns that could not be offset by additional policy support. At the same time, faster-than-expected recovery due to rapid vaccine deployment and reopened borders to migration flows presents an upside risk to global and domestic growth. Colombia's elevated financing needs leave it vulnerable to external shocks including lower commodity prices and a sharp rise in global risk premia. A more difficult global and regional financing environment would increase the risk of a sharp rise in yields in the event of a loss of investment grade, which could be triggered by delayed or insufficiently comprehensive fiscal reform. Prolonged pandemic-induced economic dislocation could pose a risk to financial stability, through its effect on domestic credit quality. Through subsidiaries, Colombian financial conglomerates have sizable exposures to Central America, and losses there could have a material effect on their profitability.

18. The authorities concur with prospects for a gradual recovery and for inflation to gradually return to target. In their view, policy measures and pre-pandemic growth drivers should support recovery, although considerable uncertainty remains alongside the ongoing pandemic. The authorities expect risky loans to total gross loans ratio to peak between 12.2 and 15.3 percent of gross loans in December 2021—i.e., 6 points above pre-pandemic levels. They do not envisage any major "cliff-edge" effects from the PAD program's expiration as credit institutions designed tailored solutions to each borrower while acknowledging their risk profile and properly revealing their risk. During the Article IV discussions, the authorities shared staff's general view on the balance of risks—particularly, those derived from the uncertain evolution and impact of the pandemic and potentially tighter external and domestic financing conditions. Fiscal reform is seen as a priority to strengthen social protection, restore fiscal space, and anchor market confidence. The authorities broadly agreed with staff's overall external sector assessment, although they expect the current account to widen only slightly in the near term, financed increasingly by both portfolio and FDI flows in 2021, as public external borrowing recedes.

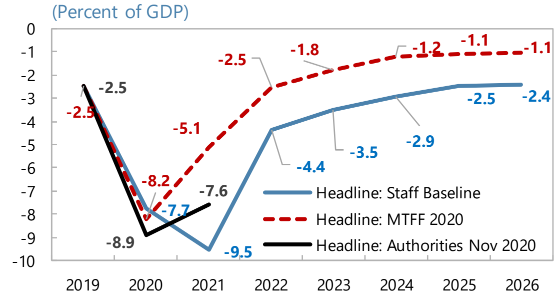
SAVING LIVES AND SECURING THE RECOVERY: THE POLICY RESPONSE

Near-term policies should focus on defeating the pandemic and cementing the recovery using the monetary and fiscal policy space available. At the same time, committing to reinstate an enhanced fiscal rule, resetting the horizon for adjustment, and undertaking gradual fiscal adjustment once the recovery is secured will be crucial. Continued implementation of financial sector reforms and rebuilding buffers will safeguard financial stability, while tackling long-standing structural challenges would set the stage for durable and inclusive growth.

A. Fiscal Policy

19. In the near term, targeted fiscal support includes maintaining pandemic-related spending to protect a nascent recovery. The authorities' latest fiscal plans point to a deficit for 2021 that is wider than 2020 and larger than anticipated by them in November, allocating undisbursed FOME resources to help finance various emergency measures (including the vaccination program), whilst introducing recovery support measures. [14] Staff's baseline fiscal deficit for 2021 is based on staff's understanding of the authorities' latest plans.[15] Specifically, under execution of spending in key areas in 2020, is assumed to occur in 2021, as well as recovery measures specified under the *Compromiso for Colombia* program. For 2021, staff supported the latest authorities' plans for critical spending for vaccination, other healthcare, and targeted support for the most vulnerable households, making some use of the unspent FOME resources. Staff supports the targeted and gradual phasing out of emergency spending as the pandemic subsides, and, in view of anticipated cyclical improvements in tax revenues, recommended a small narrowing of the fiscal deficit in 2021 by limiting low-priority spending.[16] This will help avoid a sharper medium-term fiscal adjustment.

Central Government Fiscal Balance
(Percent of GDP)



Sources: Colombian authorities; and IMF staff estimates.

20. After 2021, gradual but steady fiscal consolidation is needed to return to the fiscal anchor. Returning to the fiscal rule in 2022, as currently planned in the 2020 Medium Term Fiscal Framework (MTFF) would result in a sharp fiscal tightening that could jeopardize the recovery. Instead the 2021 MTFF should consider restoring the structural deficit rule/fiscal anchor but resetting the adjustment horizon over the next five years in the wake of an exceptionally large shock. Creating an independent fiscal council to oversee the return and implementation of the fiscal rule and improving the existing escape clause would enhance fiscal credibility (country report 20/106). Over the longer term, the structural fiscal rule could be further complemented with measures that improve performance with respect to containing debt through a longer-term debt ceiling or other stabilizing mechanisms (Annex V). Under staff's baseline, the headline deficit is projected to gradually decline to place debt on a firmly downward path from 2022 and thus Colombia's public debt is expected to remain sustainable in the medium term. (Annex II).

[14] In November, the authorities announced that the headline fiscal deficit for 2021 would be wider than anticipated at the time of the fiscal rule suspension in June (7.6 percent of GDP vs 5.1 percent) due to the weaker economic outlook and the planned use of additional resources to respond to the pandemic and support the economy.

[15] The authorities financing plans for 2021 envisage 2/3 of all debt issuance to be domestic, in line with the pre-pandemic debt strategy. The headline deficit for 2021 assumes privatization proceeds from the sale of ISA worth 1.1. percent of GDP, that under GFSM 1986 which the authorities use, produces a headline deficit of 8.4 percent of GDP. The Fund is providing technical assistance to Colombia to support transition to GFSM 2014 at both the central and subnational level.

[16] The authorities' specific recovery measures amount to around ½ percent of GDP in 2021 and were not part of the 2020 fiscal deficit.

Fiscal Outlook 1/

(In percent of GDP; unless otherwise indicated)

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Central Government Fiscal Stance										
Headline balance 2/	-3.6	-4.8	-2.5	-7.7	-9.5	-4.4	-3.5	-2.9	-2.5	-2.4
Total revenue 2/	15.7	15.3	16.2	15.2	14.8	15.8	16.5	16.7	16.7	16.6
Expenditure 3/	19.3	20.1	18.7	23.0	24.3	20.2	20.0	19.6	19.2	19.0
Structural primary non-oil balance 3/	-0.7	-0.5	-0.2	-4.9	-5.5	-0.7	-0.6	-0.5	-0.2	-0.1
CG Fiscal Impulse	-0.6	-0.2	-0.3	4.7	0.6	-4.8	-0.1	-0.1	-0.3	0.0
Consolidated Public Sector										
Headline Balance 3/	-2.4	-4.5	-1.9	-6.8	-8.6	-3.3	-2.9	-1.8	-1.6	-1.5
Total revenue	26.8	30.0	29.4	26.5	27.0	29.1	29.4	29.5	29.3	29.0
Expenditure 3/	29.4	34.5	31.8	33.4	35.3	32.7	32.4	31.4	31.0	30.7
Structural primary non-oil balance 4/	-0.1	-1.2	-0.8	-4.4	-5.6	-0.6	-1.1	-0.5	-0.4	-0.3
CPS Fiscal Impulse	0.1	1.0	-0.4	3.6	1.3	-5.1	0.5	-0.6	-0.1	0.0
Public sector gross debt 5/	49.4	53.6	52.3	62.8	64.2	64.3	63.5	61.4	59.3	57.2
Public sector net debt 6/	38.6	43.1	43.0	53.0	57.0	56.8	56.4	54.9	53.2	51.5

Source: National authorities and Fund staff estimates.

1/ The medium-term fiscal outlook deviates somewhat from authorities' 2020 medium-term fiscal framework (MTFF). For 2020 it includes preliminary outturns for the central government but projections for the consolidated public sector. For 2021 projections take updated expenditure plans by the authorities. For 2022, a tax reform raising 1.2 percent of GDP is assumed, while medium-term expenditure plans are broadly consistent with the MTFF.

2/ Includes one-off telecom fine in 2017 (0.5 percent of GDP) and central bank utilities. For 2018 it includes the recognition of arrears worth 1.9 percent of GDP.

3/ For 2018 it includes the recognition of arrears worth 1.9 percent of GDP.

4/ Includes adjustments for Venezuelan migration, excludes one-offs for contingent liabilities, extraordinary oil dividends and central bank utilites.

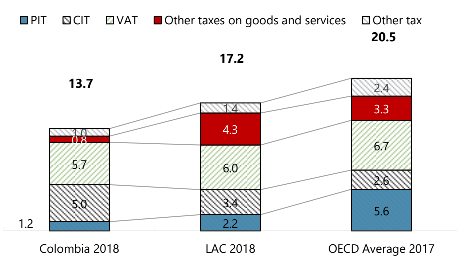
5/ Includes the recognition of arrears and associated debt from 2018.

6/ Gross debt minus public sector deposits.

21. Beyond a gradual phasing out of emergency spending, further durable revenue mobilization as well as tax and spending efficiency gains will be needed. Returning to the fiscal rule's one percent structural headline deficit in 2026 would necessitate a budgetary adjustment of around 8 percent of GDP between 2021-26 (of which 2½ percent would come from unwinding emergency and recovery expenditures in 2022). While tax revenues are projected to increase by around ½ percent of GDP in 2022—in line with the economic recovery and higher oil prices—staff estimates that a further adjustment worth 5 percent of GDP will be needed.[17] To safeguard key public spending, revenues should accordingly be increased gradually and durably by 2-3 percent of GDP. Tax policy measures to achieve this should focus on eliminating preferential regimes for businesses, base-broadening for personal income taxes and removing VAT

Tax Structure

(Percent of GDP, central government)



Sources: OECD Database; and IMF staff calculation.

[17] Staff's baseline projections assume a central government tax reform yielding around 1.2 percent of GDP, comprising increases in VAT (1 percent of GDP) and higher PIT (0.2 percent of GDP) from expanding the tax base. It is assumed that around 0.2 percent of GDP will be rebated back to households to compensate for the VAT increase. Staff assume that the authorities' 2020 MTFF spending plans from 2022 onwards are broadly maintained. These plans include an unwinding of 2½ percent of GDP emergency and recovery expenditures by 2022. To achieve a gradual increase in revenues, both the VAT base could be gradually expanded further, and corporate exemptions further reduced to yield around additional ½ percent of GDP of revenue between 2022 and 2025.

exemptions.[18] Given the low intake from excise and other taxes on goods and services, raising additional tax revenue from other sources (excluding trade taxes) could include a carbon tax which is being considered and would assist climate-change mitigation efforts. On tax administration, continued improvements to DIAN's IT system and governance should produce administrative efficiency gains of ½-1 percent of GDP over the medium term and reduce tax evasion. On the spending side, the authorities should build upon recent improvements to spending efficiency—including the new system to better identify social benefit recipients (SISBEN IV), further implementation of energy subsidy reforms, continued gains from public procurement reforms, and faster payment of recognized previous arrears (country reports 20/106, 20/284). These measures are estimated to produce added efficiency gains of over ½ percent of GDP and further mitigate corruption vulnerabilities. [19] IMF technical assistance to further improve the identification, monitoring and management of fiscal risks at all levels of government could support these efforts.

22. The authorities remain committed to tackling the pandemic and supporting the recovery through strong fiscal actions, while matching this with fiscal reform to preserve credibility. They believe continuation of health emergency spending measures (mainly vaccinations), social assistance, and recovery support is necessary given high uncertainty with the pandemic and its protracted nature. Thus, the authorities see a wider headline deficit relative to last year as appropriate. To demonstrate their commitment to the fiscal anchor and sound public finances, the authorities will be proposing an ambitious fiscal reform package that will include: strengthening social protection programs, improving the fiscal rule and tax reform that will take into account the recommendations of an expert commission.

B. Monetary, Exchange Rate, and Reserves

23. Monetary policy accommodation should continue to support economic recovery. Given central bank credibility and available policy space, further monetary policy easing can be considered if subdued inflation remains below target or downside risks to growth materialize. If required, the authorities are well-positioned to again provide liquidity to ensure the adequate functioning of markets. Colombia's flexible exchange rate should continue to be an effective first line of defense against external shocks. The central bank emphasized that it continues to monitor inflation and output risks closely and that monetary policy decisions remain data-dependent to produce as smooth an adjustment as possible to pandemic or other shocks. The central bank also stands ready to ensure adequate liquidity provision to preserve credit supply and the adequate functioning of markets.

[18] Country report 19/107 discusses some of the revenue losing exceptions such as those associated with trade free zones, supports to the hotel, agricultural and entertainment industries and the loss of revenues associated with the tax bases for VAT and PIT.

[19] Many of these improvements were proposed by Bernal and others (2018). SISBEN IV will allow for better targeting of social programs (see e.g. Box 1) and subsidies, including of electricity which according to the FAD TA report 'Reforming Energy Pricing" by Abdallah and others (2019) could save around 0.3 percent of GDP. Reforms to the fuel stabilization fund (FEPC) are estimated by Abdallah and others to yield between 0.2 to 0.4 percent of GDP. Authorities estimate that the payment of arrears will save around 1 percent of GDP between 2020-22 (MTFF 2019) by avoiding high interest rates (above 20 percent) on these arrears.

24. Given elevated external financing needs and external risks, reserve accumulation should continue. Continued reserve accumulation of approximately US$ 3 billion per year, for example, would maintain reserve coverage at current ratios over the medium term and, within the authorities' risk-based approach to reserve adequacy, move them close to covering external financing needs sufficiently in their adverse scenario without supplementary sources of international liquidity. Authorities remain committed to maintaining adequate international liquidity cushions based on the outlook for the balance of payments and risks to capital flows.

C. Financial Sector Policies

25. Supervisory authorities should continue to encourage banks to make full use of system-wide capital buffers. With borrowers under pressure and a need to avoid procyclical tightening of credit conditions to support credit supply, authorities should continue to ensure recognition of expected credit losses and encourage banks to dip into their system-wide capital buffers if needed to safeguard stability risks.

26. The authorities should ensure that FSIs regain their full informativeness as soon as practicable. Due to grace periods and other temporary measures in support of debtors and banks, FSIs and credit scores have temporarily lost some of their information content. To regain the full informativeness of indicators as relief programs expire, any loans subject to pandemic-related measures should continue to be transparently reported and provisioned for. The PAD should not be extended further to avoid future bank balance sheet problems. Under a severely adverse scenario, prolonged pandemic-induced economic dislocation could pose a risk to financial stability, through its effect on credit quality. Hence amid high uncertainty about the economic outlook, for now, all capital distributions (including dividend payouts) should be kept to a minimum to preserve adequate capital buffers. Authorities should continue to implement recovery and resolution planning for systemic financial institutions. Authorities mostly concur with these policy recommendations. However, they believe that FSIs already fully reflect banks' and borrowers' economic realities ever since the expiry of first-phase grace periods for loans at the end of January (see Annex IV).

27. A joint IMF-WB Financial Sector Assessment Program (FSAP) has recently commenced. The FSAP will gauge the stability and soundness of the financial sector and assess its potential contribution to growth and development. The previous FSAP for Colombia took place in 2012.

D. Structural Policies

28. Structural reforms can support the recovery and would set the foundation for sustainable, inclusive growth. A full, equitable recovery will require the continued support of poorer households, along with structural reforms that reduce unemployment during the recovery phase and enhance productivity in the medium term. Priorities include:

- An effective and inclusive vaccination program that allows a prompt re-opening of the economy.

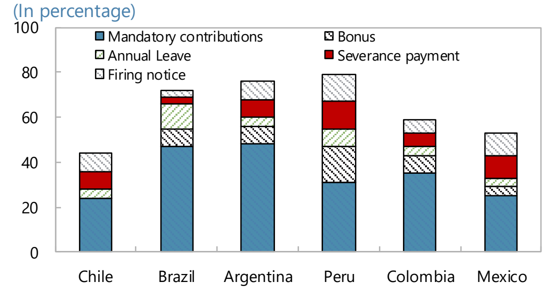
- Continued transfer programs with increased targeting—including more progressive and focalized pension subsidies[20] and the implementation of SISBEN IV.

- Measures that facilitate the recovery of formal sector jobs—including addressing structurally high non-wage labor costs (see figure), high minimum-to-median wage ratios and formalization barriers.

- Continued integration of migrants into formal markets through the implementation of TPS.

- Effective implementation of the NDP and Peace Accords to support regional, social, and economic inclusion.

Non-wage Labor Costs
(In percentage)



Sources: IADB SIMS database.
Note: Cost of hiring a salaried labor shown as a percentage of the average of net wages of formal salaried worker.

- Continued implementation of the national and regional infrastructure agenda.

- Measures to boost competitiveness while addressing logistics bottlenecks and trade-restricting tariff and non-tariff barriers[21]—including handling of goods at ports and inspection processes. To this end, implementation of initiatives under the Logistics National Public Policy approved in 2020 should continue along with other initiatives underway[22] aimed at facilitating trade.

29. Further efforts are needed to enhance transparency in procurement and to ensure the effectiveness of the anti-corruption framework. There should be increased implementation of the electronic government procurement system to ensure that the tool covers all emergency-related contracts, that there is verification to ensure the quality of data and that it is also rolled out at the subnational level. Efforts should be made to allow for analysis of big data and to include beneficial ownership information of companies that are awarded procurement contracts. Enhancing whistleblower protection by adopting an appropriate legal framework is key for reducing corruption risks and ensuring the detection of misuse of emergency funds[23] and further efforts are also needed to enhance the enforcement against corruption offenses. Fund technical assistance for audits on emergency spending could support these actions so that they can be conducted promptly and

[20] This can include an expansion of the non-contributory Colombia Mayor program and pension coverage for workers earning less than the minimum wage, while removing regressive subsidies for higher-income pensions Country report 18/128).

[21] Reduction of non-trade barriers, including non-automatic import licensing would not only reduce trade costs but reduce the scope for corruption.

[22] These include the modernization of a trade single window, the promotion of import advance declaration, and the implementation of the Maritime Single Window.

[23] The inspector general has launched a number of investigations: see https://worldjusticeproject.org/sites/default/files/documents/Corruption%20Design%20File%20V2.pdf

efficiently. Furthermore, the declaration of assets should be easily accessible and verified to detect illicit enrichment. Effective sanctions should be imposed for failure or false declarations.

30. Continued efforts are needed to strengthen contract enforcement. The courts back log remains a challenge for Colombia despite the authorities' efforts to expedite out-of-court settlements.[24] Delays in debt recovery and increasing transaction costs could contribute to an overall negative impact on access to credit, especially for SMEs.

31. Efforts should continue to enhance the effectiveness of the AML/CFT regime. Although progress was noted, ML investigations and enforcement are still not commensurate with Colombia's risk profile. The authorities should continue working towards achieving a swift and effective implementation of the 2018 Fund-led AML/CFT assessment (MER) recommendations, in particular in the area of preventive measures, supervision and ML investigation and enforcement. The revised CONPES should serve as a roadmap for the prioritization of actions and a swift adoption and communication is encouraged. The authorities should continue with their efforts to ensure that accurate, verified, and up-to-date basic beneficial ownership information is available, therefore, speeding-up the adoption of the regulation and operationalizing the Beneficial Ownership Register will be critical. It is key to ensure that all financial and non-financial institutions properly implement the revised CDD framework and proper risk management systems. Efforts to investigate and prosecute money laundering should continue to achieve more meaningful results.

32. The authorities report progress on the structural reform agenda and transparency, with several new initiatives underway. The authorities expect the TPS, affecting nearly 2 million Venezuela migrants, to raise Colombia's economic potential. Trade and labor reform missions have been established—led by independent academic consultants—that are due to present a reform agenda in the first half of the year with an aim to boost formal employment and exports. In addition, guided by the NDP, the authorities report progress on firm formalization initiatives and efficiency improvements in logistics and export-import systems. To further aid employment reactivation and competitiveness, the *Compromiso por Colombia* strategy was launched aiming to generate one million jobs through the acceleration of large infrastructure projects, mainly toll road concessions, airports and fluvial. The government also remains committed to the continued implementation of the Peace Accords and has continued to make progress on all pillars of the agreement, notably on regional developments via the finalization of Development Plans with a Territorial Focus (PDET), update of the cadastre and securing additional resources for peace from the royalties' system. The authorities report that the AML/CFT preventive framework, for both the financial and non-financial sectors has been strengthened, with reforms aimed at addressing the technical gaps identified in the MER's recommendations, including through the SFC's adoption of a revised risk-based supervisory methodology, enhanced cross-border supervisory activities, and a more robust approach towards sanctions for AML/CFT breaches.

[24] Decree 560 has sped-up insolvency proceedings.

STAFF APPRAISAL

33. Very strong policy frameworks and well-executed, coordinated policies have allowed Colombia to effectively respond to the pandemic and lay the foundations for the recovery. The temporary suspension of the fiscal rule was appropriate and allowed the authorities to accommodate pandemic-related spending needs while maintaining other spending plans. Monetary policy was appropriately eased, and swift central bank actions to provide liquidity amid heightened volatility and dislocation in financial markets ensured that lower policy rates were transmitted to key market rates. To support banks during the crisis and avoid a tightening of credit supply, the SFC appropriately released countercyclical bank buffers, and through the PAD allowed banks to modify loans on a case-by-case basis to grant relief to banks and borrowers.

34. Near-term policies should focus on effectively eradicating the pandemic and securing the recovery. Specifically, available monetary and fiscal policy space should be deployed in the near term to support domestic demand as high uncertainty continues. Given central bank credibility, further monetary policy easing should be considered if subdued inflation remains well below target or downside risks to growth materialize. On fiscal policy, the use of undisbursed FOME resources to fund vaccinations, healthcare, and successful transfer programs targeted to poorer households is necessary.[25] Certain emergency measures—such as payroll subsidies and credit guarantee programs— and other fiscal support should also continue but can be gradually phased out as the pandemic subsides and the economy recovers.[26] Even with emergency support continuing, a modest narrowing of the deficit relative to GDP appears achievable this year with recovering tax revenues and by limiting new spending, which will help avoid a larger medium-term fiscal adjustment. Macroprudential policies should continue to support credit supply while safeguarding stability risks through intensive monitoring of the financial system. Colombia’s flexible exchange rate should continue to be an effective first line of defense against external shocks.

35. Gradual but steady fiscal consolidation led by fiscal reform should ensure a return to the fiscal anchor over the next five years. The authorities should present a medium-term fiscal strategy for adjustment and reform that continues to ensure the sustainability and credibility of the public finances but avoids a sharp fiscal tightening that could derail the recovery. This includes restoring the structural deficit goal as the anchor and resetting the adjustment horizon beyond 2022 as currently planned (under the MTFF). Fiscal reform will require durable and growth-friendly revenue mobilization of at least 2 percent of GDP focusing on tax efficiency, progressivity, sustainability, and fairness—including base broadening for personal income taxes and reducing VAT exemptions (with compensation mechanisms to protect the poorest households) and elimination of

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[25] Available resources from local governments, which also have fiscal space, can provide added support, including for health care spending.

[26] All emergency spending measures from FOME and local government resources should continue to be reported and monitored, including identifying potential future risks.

preferential special regimes for businesses. Further efforts to improve tax administration and spending efficiency will complement these measures and strengthen governance.

36. To enhance fiscal credibility, the MTFF's robustness and oversight should be reinforced. While the fiscal rule has served Colombia well since its introduction in 2011, enhancements should be considered to its contingency framework and through the creation of an independent fiscal council (with its own staff and resources). Specifically, the escape clause could be further defined to better specify the duration of any temporary suspension and the correction mechanism in the future. Over the longer term, the existing structural deficit rule could be complemented with mechanisms to contain public debt through a longer-term debt ceiling or other stabilizing mechanisms.

37. Reserve accumulation has strengthened Colombia's capacity to deal with adverse shocks. Colombia's external position is assessed as moderately weaker than the level consistent with medium-term fundamentals and desired policy settings. Amid heightened global uncertainty, higher external financing needs raise Colombia's vulnerability to external risks. Past reserve accumulation has increased reserve adequacy and helps position the country well to manage external risks. Market conditions permitting, reserve accumulation should continue over time to preserve its coverage of external liquidity risks.

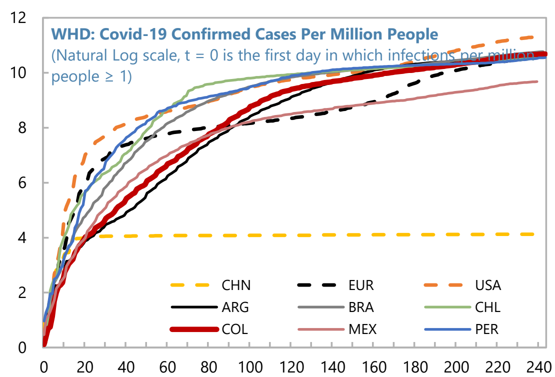
38. Colombia's well-regulated financial sector has shown itself to be resilient, but risks that call for continued vigilance remain. Colombian banks entered the pandemic with adequate capital and liquidity buffers. These have allowed the financial system to weather the crisis—and it is expected to continue to do so under the baseline as well as mildly adverse scenarios. Beyond intensive monitoring during a period of high uncertainty, continued development of recovery and resolution plans for systemically important financial institutions remains important, especially under a severely adverse scenario. High uncertainty justifies keeping bank capital distributions to a minimum. Colombia's policy framework for financial sector regulation and supervision continues to be very strong.

39. Structural reforms and migrant integration should continue to boost productivity growth in the medium term. As the growth of formal employment remains the key priority to reduce high structural unemployment, staff welcomes the recently established labor reform mission and the progress on simplifying firm formalization through single-window programs, and commends the recently announced measures to legalize the status of over a million migrants currently under irregular status. Staff also welcomes progress on the implementation of the Peace Agreement and the NDP, and recommends a continued emphasis on elements supporting regional, social, gender and economic inclusion. Progress on governance and transparency has been made, but further efforts are needed on enacting whistleblowing protection, and improving the efficiency of the courts. On AML/CFT, continued progress in the areas of preventive measures, supervision and ML investigation and enforcement would help achieve a swift and effective implementation of the MER's recommendations.

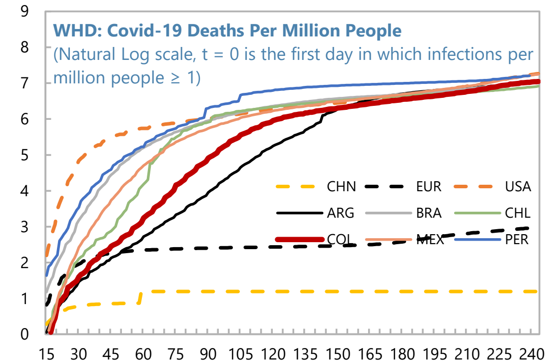
40. Staff recommends that the next Article IV takes place on the standard 12-month cycle.

Figure 1. Colombia: COVID-19 Developments

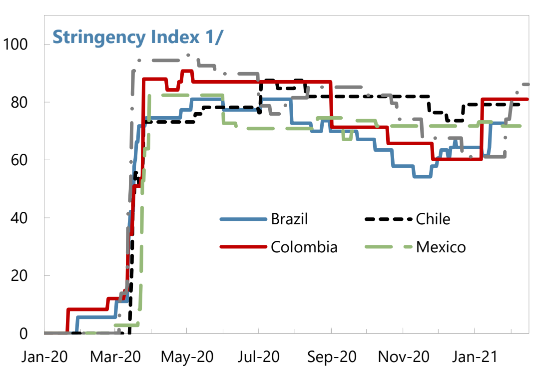
Colombia managed the numbers of cases…



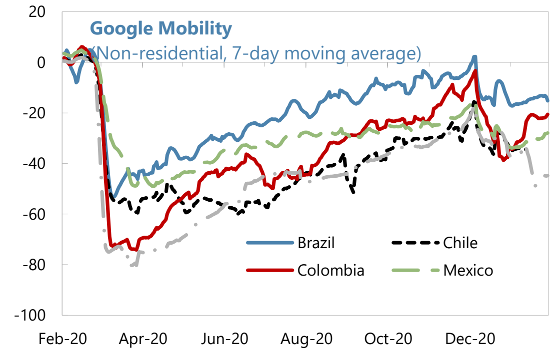
…and deaths at the start of the pandemic in March 2020…



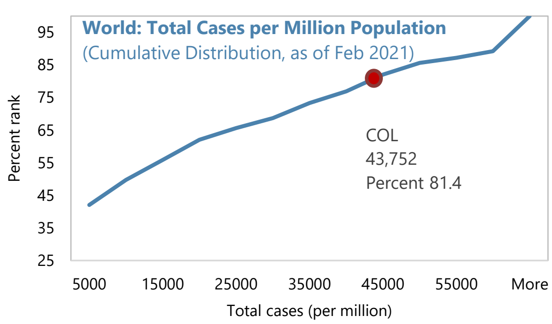
… through a strict lockdown…



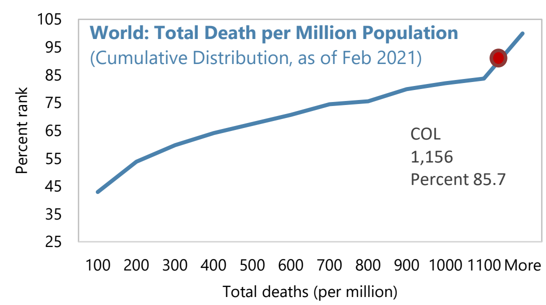
…with a gradual easing of mobility



Nonetheless, Colombia has been hard hit in total cases…



… and deaths.



Sources: John Hopkins University; Haver; Google Covid-19 Community Mobility Reports; Our World in Data; and IMF staff estimates.

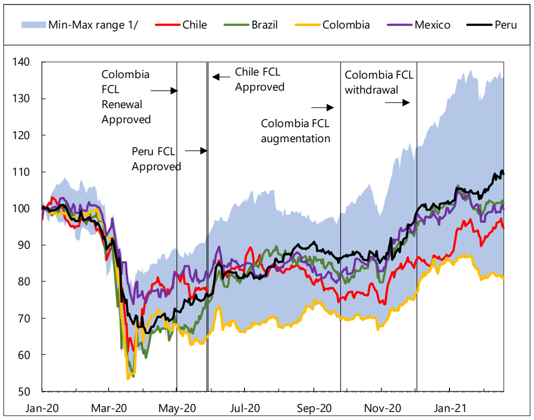
1/ Higher stringency index indicates stricter COVID containment measures.

Figure 2. Colombia: Financial Conditions Relative to LA5 and Other EMs

Equities have been hit hard given oil reliance.

Domestic Equity Indices 2/

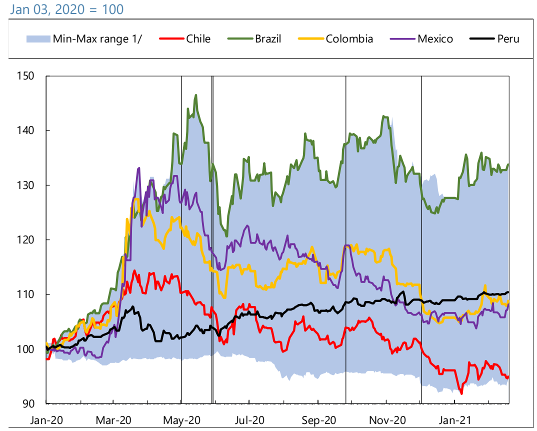
Jan 03, 2020 = 100



The sharp depreciation...

Local Currency per US Dollar Indices

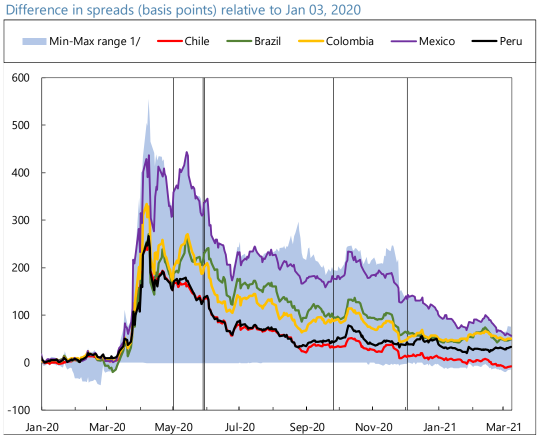
Jan 03, 2020 = 100



... and increases in EMBI,

EMBIG Spreads 3/

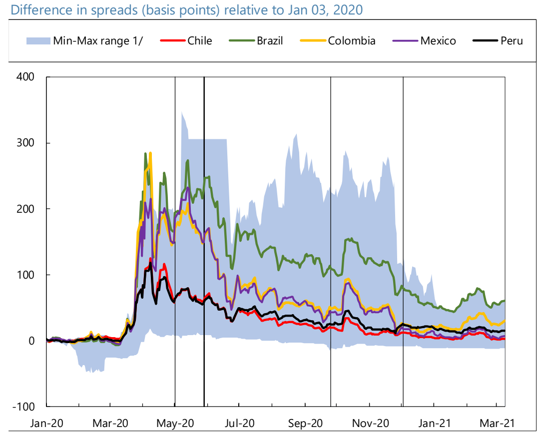
Difference in spreads (basis points) relative to Jan 03, 2020



...CDS spreads...

CDS Spreads

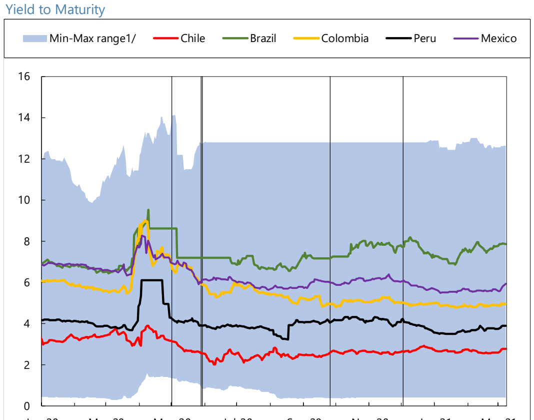
Difference in spreads (basis points) relative to Jan 03, 2020



...and domestic yields in March 2020...

Domestic Currency Sovereign Bond Yields 4/

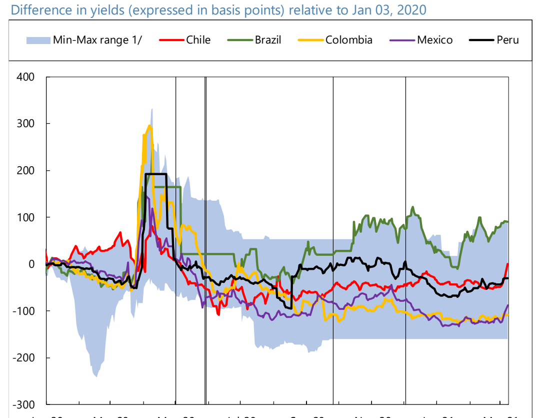
Yield to Maturity



... have reverted to pre-pandemic levels.

Domestic Currency Sovereign Bond Yields 4/

Difference in yields (expressed in basis points) relative to Jan 03, 2020



Sources: Haver Analytics and Bloomberg LLP.

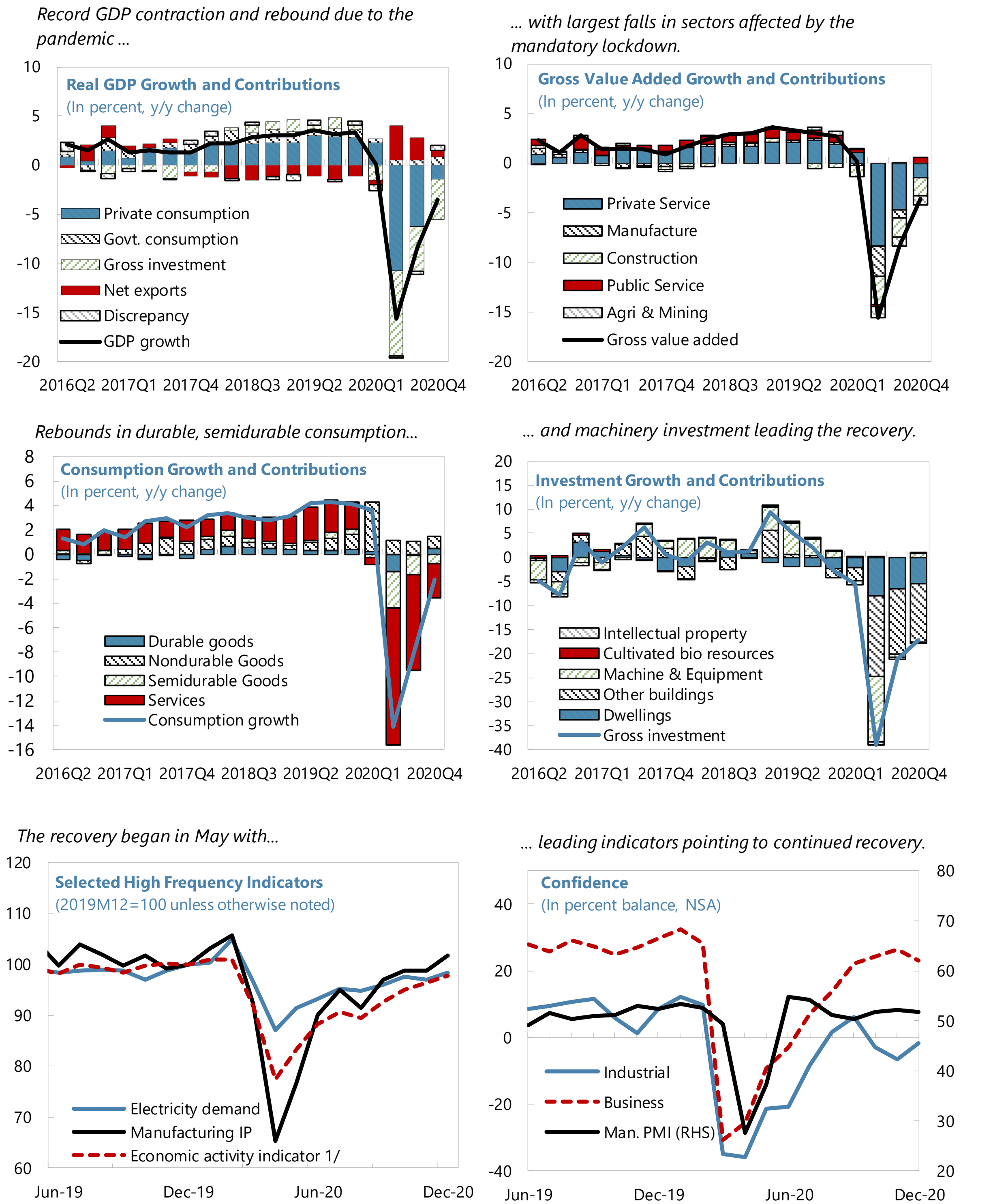
1/ Selected sample of emerging market countries including Brazil, Chile, Colombia, Mexico, Peru, Uruguay, Czech Republic, Croatia, Hungary, Poland, Russia, Turkey, India, Indonesia, Malaysia, Philippines, Thailand and Vietnam.

2/ Naitonal benchmark share price indices.

3/ Mexico's EMBIG includes Sovereign and Quasi.

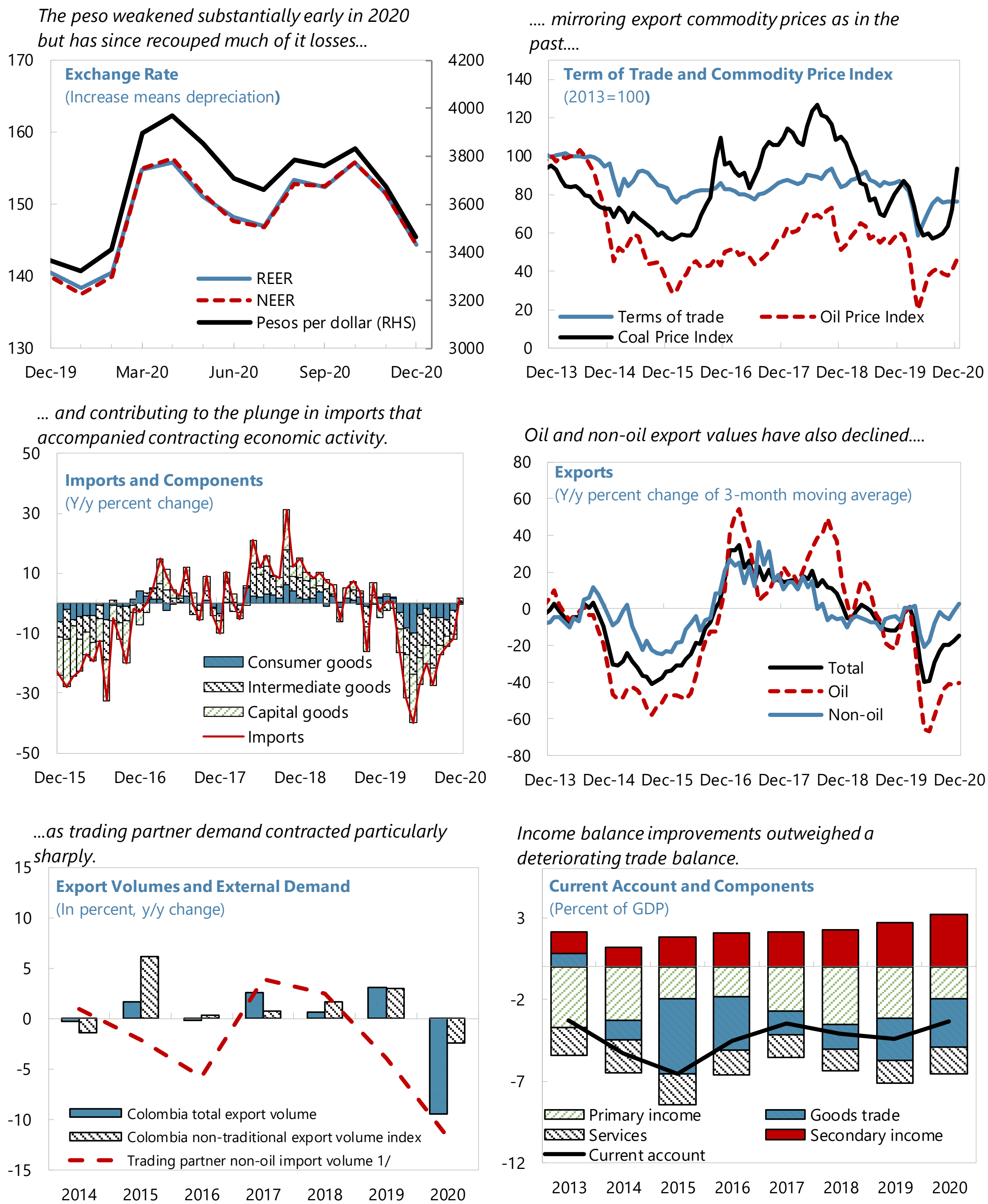
4/ 10 year government bond or closest available maturity.

Figure 3. Colombia: Real Sector Developments



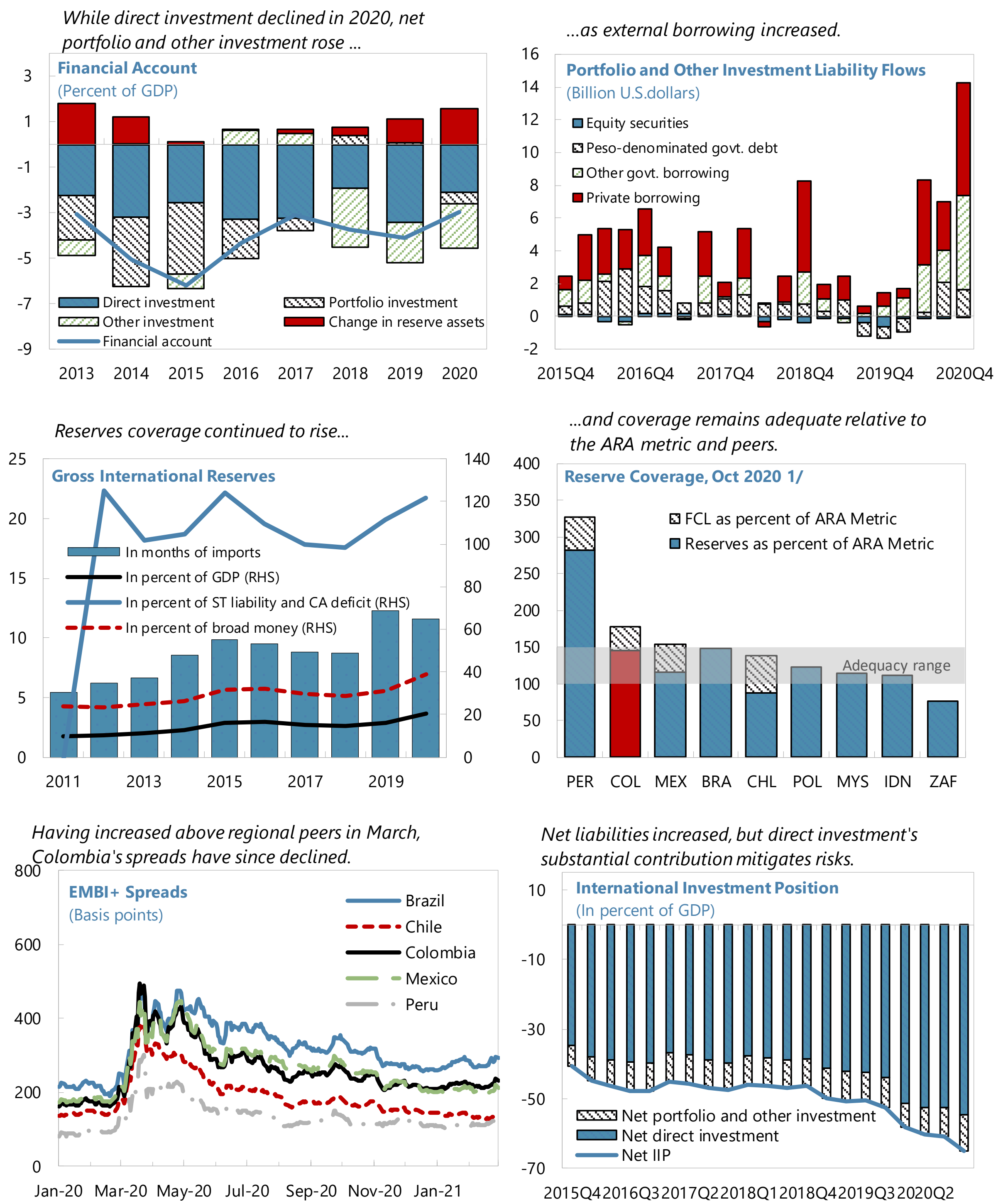
Sources: Departamento Administrativo Nacional de Estadísticas (DANE); Dirección de Impuestos y de Aduanas Nacionales (DIAN), La Fundación Para la Educación Superior y el Desarrollo; Davidienda, Haver Analytics; and IMF staff estimates.
1/ Seasonally & working days adjusted.

Figure 4. Colombia: Current Account Developments



Sources: DANE; Banco de la República; Bloomberg; Haver Analytics; and IMF staff estimates.
1/ Weighted by destinations of Colombia's non-traditional exports.

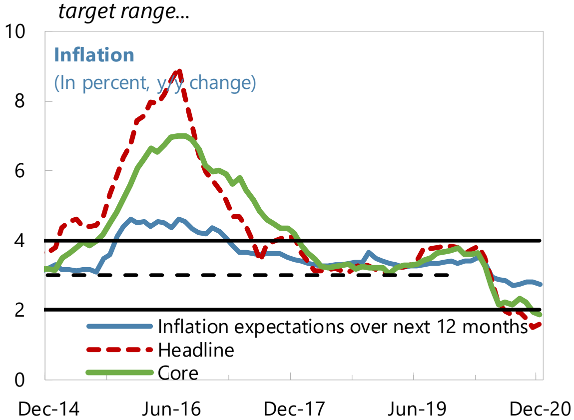
Figure 5. Colombia: Financial Account Developments



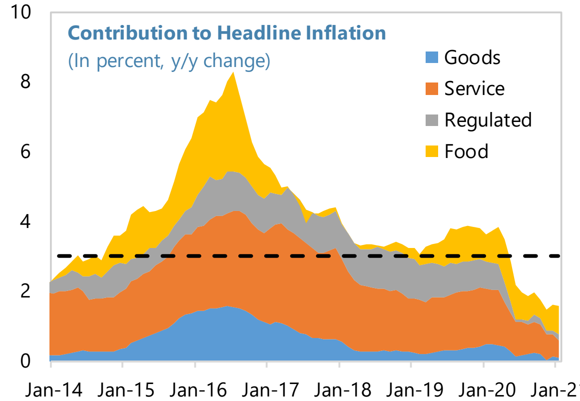
Sources: Banco de la República; DANE; Haver Analytics; Bloomberg; and IMF staff estimates.
1/ Does not include commodity buffers. Uses metric for floating exchange rates.

Figure 6. Colombia: Inflation, Monetary Policy and Labor Market

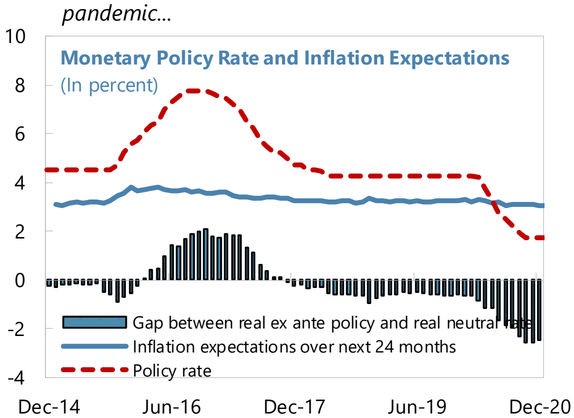
Headline inflation fell below the lower-bound of its target range...



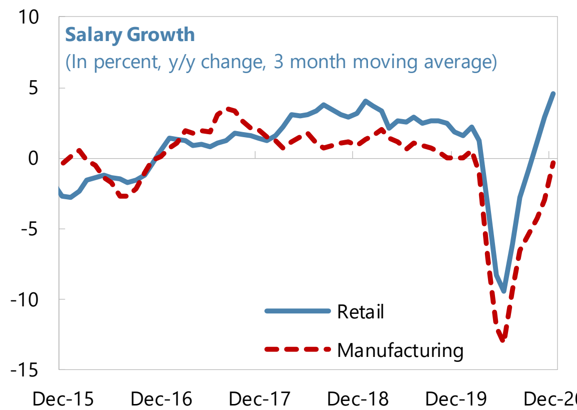
...due to increased slack and temporary fiscal measures.



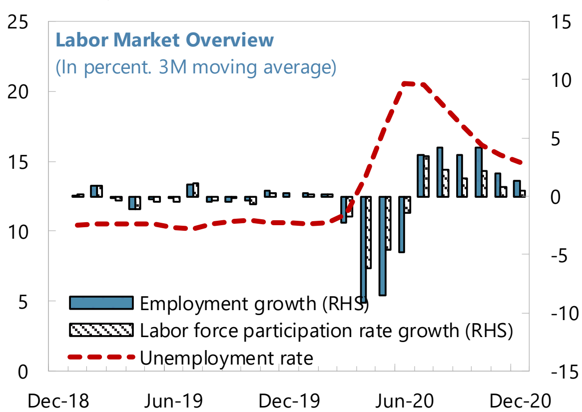
Monetary policy swiftly responded to the pandemic...



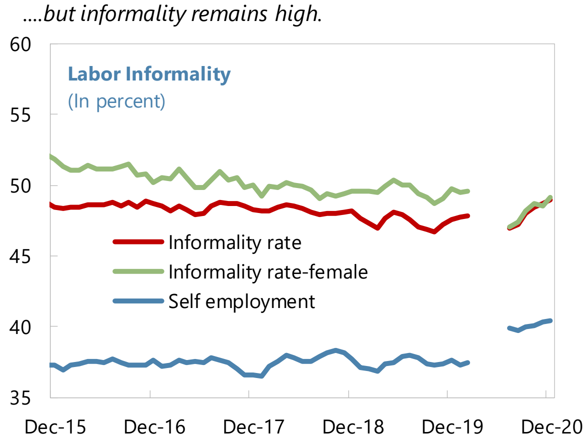
... as labor markets weakened.



Unemployment has started to come down...

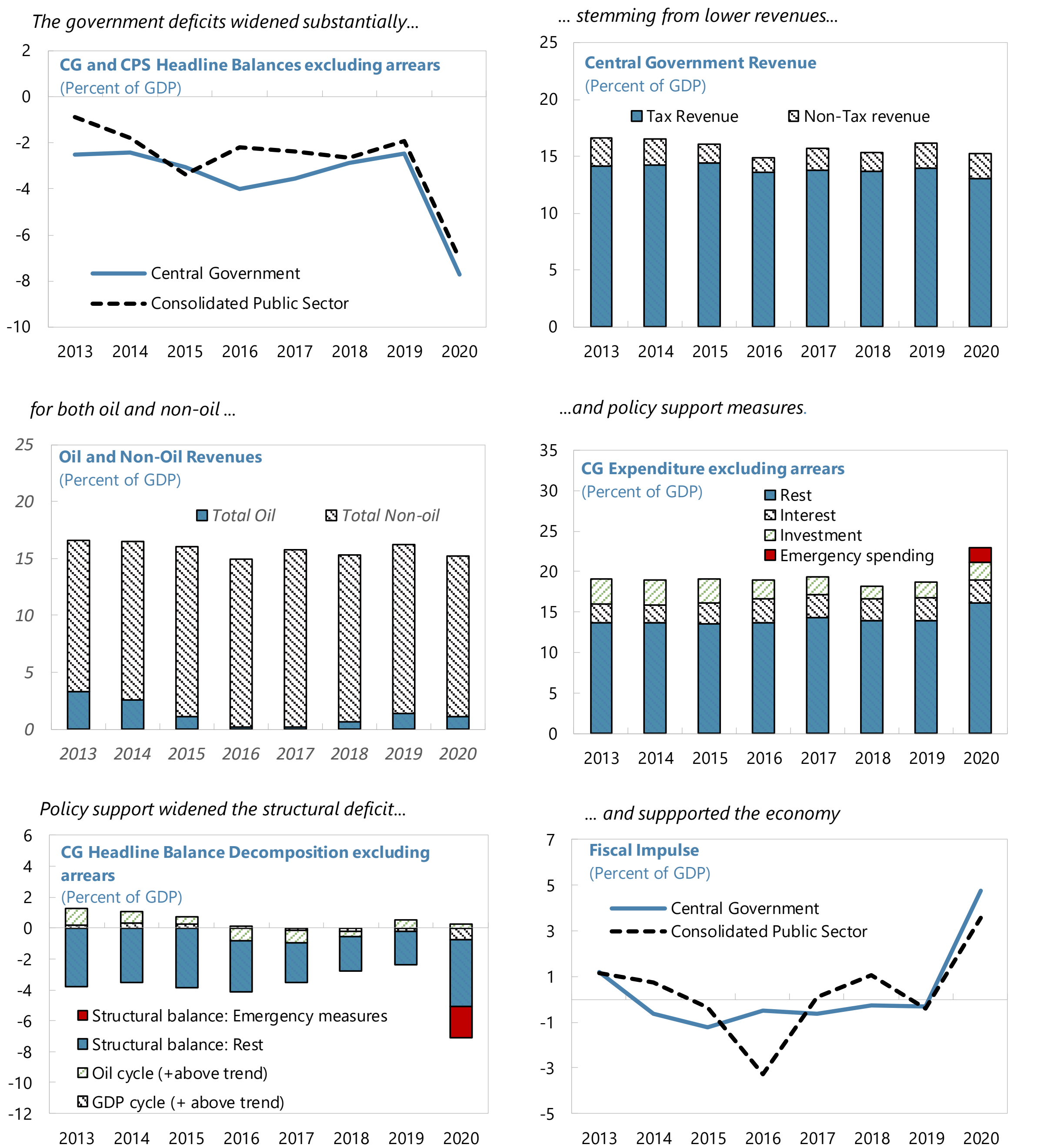


....but informality remains high.



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

Figure 7. Colombia: Fiscal Developments



Sources: Ministerio de Hacienda y Crédito Público; DANE; and IMF staff estimates.

Figure 8. Colombia: Recent Macro-Financial Developments

The Covid-19 outbreak temporary reversed the falls in bond yields seen in recent years...

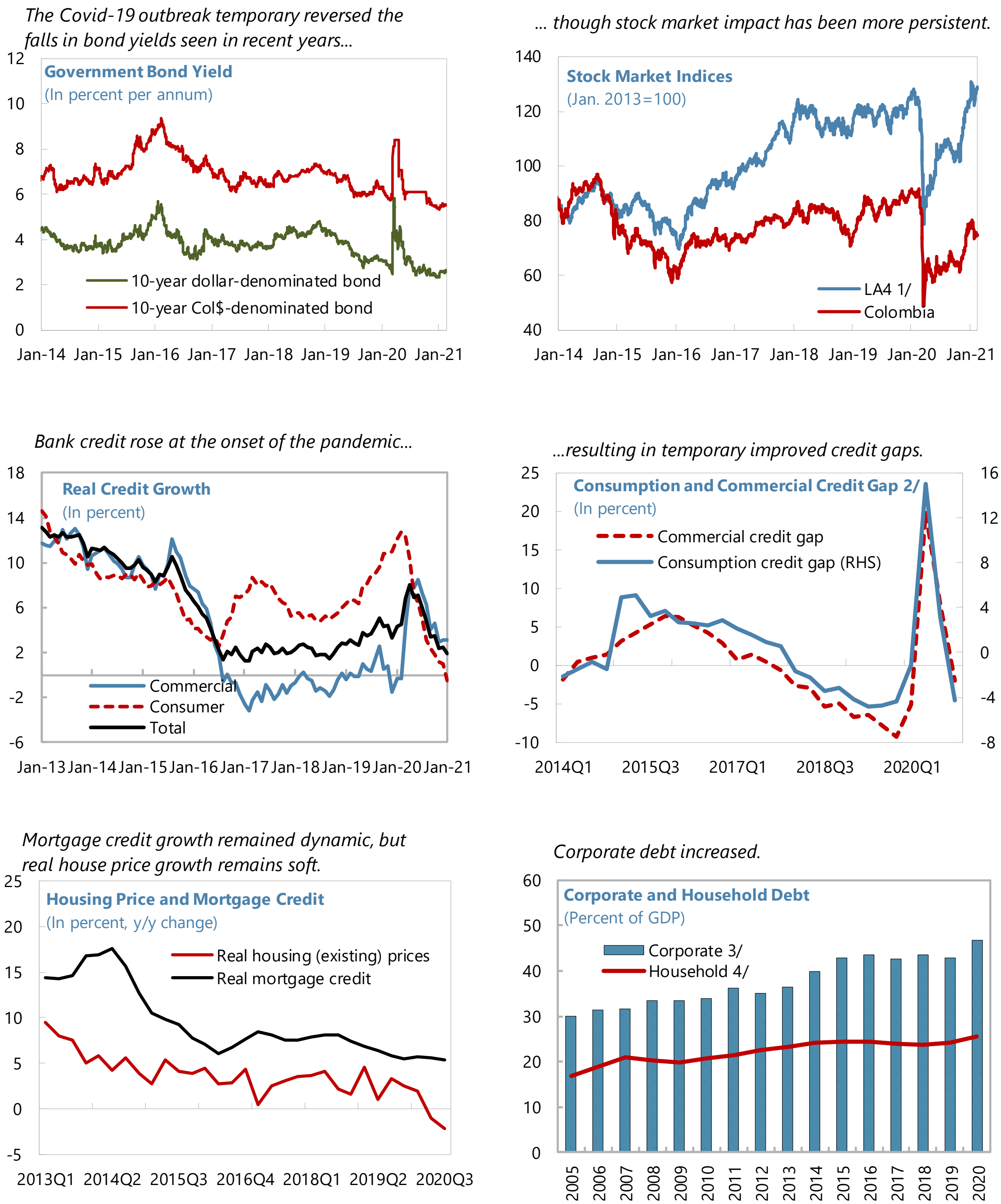
... though stock market impact has been more persistent.

Bank credit rose at the onset of the pandemic...

...resulting in temporary improved credit gaps.

Mortgage credit growth remained dynamic, but real house price growth remains soft.

Corporate debt increased.



Sources: Banco de la República; DANE; Bloomberg; and IMF staff estimates.
1/ LA4 corresponds to the average of Brazil, Colombia, Peru and Mexico.
2/ Consumer and commercial credit gaps are computed as percentage-point deviations from an HP-filtered consumer-credit-to-private-consumption ratio and commercial-to-private-investment ratio, respectively. Prior to 2020, estimates up to 2019Q4 were used and spliced onto estimates using the full sample from 2020 to account for the structural break in the data.
3/ Data for 2020 refers to June 2020.
4/ Data for 2020 refers to August 2020.

Table 1. Colombia: Selected Economic and Financial Indicators

I. Social and Demographic Indicators

Population (million), 2020	49.4	Unemployment rate, 2020 (percent)	16.1
Urban population (percent of total), 2019	81.1	Physicians (per 1,000 people), 2018	2.2
GDP, 2020		Adult illiteracy rate (ages 15 and older), 2018	4.9
Per capita (US$)	5,495	Net secondary school enrollment rate, 2018	77.5
In billion of Col$	1,002,587	Gini coefficient, 2019	52.6
In billion of US$	271	Poverty rate, 2019	35.7
Life expectancy at birth (years), 2018	77.1		
Mortality rate, (under 5, per 1,000 live births), 2018	14.2		

II. Economic Indicators

						Projections					
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
	(In percentage change, unless otherwise indicated)										
National income and prices											
Real GDP	2.1	1.4	2.6	3.3	-6.8	5.1	3.6	4.0	3.8	3.8	3.6
Potential GDP	3.0	2.9	3.0	3.1	-2.0	2.7	2.8	2.9	3.0	3.1	3.2
Output Gap	0.6	-0.8	-1.2	-1.0	-5.9	-3.7	-2.9	-1.9	-1.1	-0.4	0.0
GDP deflator	5.1	5.1	4.6	4.0	1.4	3.0	3.1	3.2	3.3	3.4	3.5
Consumer prices (average)	7.5	4.3	3.2	3.5	2.5	2.1	2.6	2.7	2.8	2.9	2.9
Consumer prices, end of period (eop)	5.7	4.1	3.1	3.8	1.6	2.5	2.6	2.7	2.8	2.9	3.0
External sector											
Exports (f.o.b.)	-11.7	16.8	11.7	-4.7	-21.0	24.9	4.5	3.7	3.5	4.0	4.1
Imports (f.o.b.)	-16.9	2.3	12.1	2.5	-18.5	16.4	4.2	5.4	5.0	5.1	4.6
Export volume	-0.2	2.6	0.6	3.1	-10.1	6.3	6.5	4.5	3.4	3.6	3.5
Import volume	-3.5	1.0	5.8	7.3	-16.0	7.8	5.9	5.2	3.5	3.5	3.3
Terms of trade (deterioration -)	3.3	9.6	5.9	-1.8	-11.8	8.0	0.0	0.0	-0.3	-0.7	-0.4
Real exchange rate (depreciation -) 1/	-4.7	5.7	0.6	-9.1	-11.1	NA	NA	NA	NA	NA	NA
Money and credit											
Broad money	9.5	6.4	5.7	10.0	-3.0	11.1	9.5	9.9	9.9	9.9	9.7
Credit to the private sector	7.7	12.8	6.8	11.6	2.8	9.4	10.9	11.3	11.3	11.4	11.3
Policy rate, eop	7.5	4.8	4.3	4.3	1.8	NA	NA	NA	NA	NA	NA
	(In percent of GDP)										
Central government balance 2/	-4.0	-3.6	-4.8	-2.5	-7.7	-9.5	-4.4	-3.5	-2.9	-2.5	-2.4
Central government structural balance 3/	-3.3	-2.6	-2.3	-2.2	-6.4	-8.0	-3.5	-3.0	-2.7	-2.4	-2.3
Consolidated public sector (CPS) balance 4/	-2.2	-2.4	-4.5	-1.9	-6.8	-8.6	-3.3	-2.9	-1.8	-1.6	-1.5
CPS non-oil structural primary balance	0.0	-0.1	-1.2	-0.8	-4.4	-5.6	-0.6	-1.1	-0.5	-0.4	-0.3
CPS fiscal impulse	-3.3	0.1	1.0	-0.4	3.6	1.3	-5.1	0.5	-0.6	-0.1	0.0
Public sector gross debt 5/	49.8	49.4	53.6	52.3	62.8	64.2	64.3	63.5	61.4	59.3	57.2
Gross domestic investment	23.2	21.6	21.2	21.5	18.8	19.2	19.8	20.5	20.8	20.8	20.8
Gross national savings	18.6	18.2	17.1	17.1	15.5	15.4	16.0	16.6	16.8	16.9	16.9
Current account (deficit -)	-4.5	-3.4	-4.1	-4.4	-3.3	-3.8	-3.9	-3.9	-3.9	-3.9	-3.9
External Financing Needs	13.2	13.5	14.2	15.1	17.4	16.3	15.2	15.4	16.1	15.6	15.5
External debt 6/	49.4	47.2	46.6	49.9	64.4	62.4	61.9	61.1	60.2	59.2	58.3
Of which: public sector 6/	31.9	30.3	29.0	30.0	39.3	38.2	37.5	36.3	34.2	32.6	31.5
	(In percent of exports of goods and services)										
External debt service	66.6	72.0	68.9	75.1	109.3	88.4	80.2	81.3	85.2	83.8	84.5
Interest payments	11.1	10.7	10.5	14.2	16.8	14.9	15.3	15.1	14.8	15.0	15.2
	(In billion of U.S. dollars; unless otherwise indicated)										
Exports (f.o.b.)	34.1	39.8	44.4	42.4	33.5	41.8	43.7	45.3	46.9	48.8	50.8
Of which: Petroleum products	10.8	13.3	16.8	16.0	8.8	13.5	13.4	13.3	12.9	12.9	13.0
Gross international reserves 7/	46.2	47.1	47.9	52.7	58.5	60.7	61.6	62.4	63.3	64.4	65.5
Share of ST debt at remaining maturity + CA deficit	113	103	100	116	124	132	124	113	111	108	104.5

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

1/ Based on bilateral COL Peso/USD exchange rate.

2/ Includes one-off recognition of previously unrecognized accounts payable worth 1.9 percent of GDP in 2018 and central bank profits. For 2021 includes privatization receipts worth 1.1 percent of GDP that, under GFSM 1986 which is used by the authorities, produces a headline deficit of -8.4 percent of GDP.

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. For 2021 includes privatization receipts, see 2/ above.

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

6/ Current account deficit plus amortization due including holdings of locally issued public debt (TES).

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

Table 2A. Colombia: Summary Balance of Payments

(In millions of US$, unless otherwise indicated)

						Projections					
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Current account balance	**-12,782**	**-10,742**	**-13,634**	**-14,285**	**-9,083**	**-11,125**	**-12,107**	**-13,094**	**-13,917**	**-14,738**	**-15,501**
Goods balance	-9,176	-4,470	-5,144	-8,451	-7,918	-6,374	-6,542	-7,653	-8,757	-9,702	-10,364
Exports, f.o.b.	34,063	39,777	44,440	42,368	33,481	41,832	43,706	45,315	46,884	48,763	50,778
Commodities	20,407	25,890	29,441	26,866	18,204	24,987	25,531	25,771	25,762	26,160	26,620
Fuel	10,796	13,308	16,843	15,962	8,756	13,455	13,379	13,295	12,913	12,935	13,014
Non-fuel	9,612	12,582	12,598	10,904	9,449	11,532	12,151	12,476	12,849	13,225	13,606
Non-traditional exports	9,520	10,062	10,716	10,571	9,732	10,726	11,703	12,700	13,832	14,912	16,047
Other	4,136	3,825	4,283	4,931	5,544	6,119	6,473	6,845	7,290	7,691	8,111
Imports, f.o.b.	43,239	44,247	49,584	50,818	41,400	48,206	50,248	52,968	55,641	58,465	61,141
Consumer goods	10,114	10,161	11,273	11,868	9,944	11,601	12,074	12,714	13,338	14,001	14,626
Intermediate goods	18,809	18,889	21,502	21,665	17,493	20,408	21,239	22,366	23,463	24,629	25,728
Capital goods	12,527	13,210	14,814	15,646	12,544	14,634	15,230	16,038	16,825	17,661	18,449
Other	1,789	1,987	1,995	1,638	1,418	1,563	1,705	1,851	2,016	2,173	2,338
Services balance	-4,276	-4,476	-4,357	-4,425	-4,503	-5,224	-5,479	-5,544	-5,526	-5,702	-5,838
Exports of services	8,706	9,536	10,617	10,589	5,662	7,288	8,746	10,172	11,977	12,630	13,320
Imports of services	12,982	14,012	14,974	15,014	10,165	12,511	14,225	15,716	17,503	18,333	19,158
Primary income balance	-5,228	-8,407	-11,776	-10,114	-5,386	-8,740	-9,710	-9,980	-10,189	-10,374	-10,847
Receipts	4,996	5,479	6,117	7,044	4,449	6,344	6,839	6,913	7,149	7,697	8,072
Expenditures	10,224	13,886	17,893	17,157	9,835	15,084	16,549	16,893	17,338	18,071	18,919
Secondary income balance	5,898	6,611	7,643	8,704	8,724	9,212	9,623	10,083	10,555	11,040	11,547
Financial account balance	**-12,273**	**-9,701**	**-12,559**	**-13,240**	**-8,092**	**-11,125**	**-12,107**	**-13,094**	**-13,917**	**-14,738**	**-15,501**
Direct Investment	-9,330	-10,147	-6,409	-11,095	-5,724	-6,697	-8,403	-9,468	-10,624	-11,884	-13,270
Assets	4,517	3,690	5,126	3,219	1,966	2,422	2,463	2,505	2,549	2,595	2,643
Liabilities	13,848	13,837	11,535	14,314	7,690	9,119	10,866	11,973	13,174	14,479	15,913
Oil sector	2,386	3,106	2,540	2,755	1,247	1,681	1,681	1,681	1,681	1,681	1,681
Non-oil sectors	11,462	10,730	8,995	11,558	6,443	7,438	9,186	10,292	11,493	12,798	14,232
Portfolio Investment	-4,839	-1,617	1,297	250	-1,346	-2,142	-3,470	-3,975	-4,587	-5,242	-3,999
Assets	5,190	6,200	1,646	541	6,169	1,523	539	39	-213	-341	-406
Liabilities	10,029	7,817	349	291	7,515	3,665	4,009	4,013	4,374	4,901	3,593
Equity	-363	472	-823	-1,232	-454	-261	-277	-294	-313	-333	-353
Debt instruments	10,392	7,340	1,172	1,523	7,969	3,926	4,286	4,308	4,687	5,234	3,946
General government	8,792	6,011	4,529	366	6,124	2,706	4,036	3,558	2,187	2,734	2,196
Banks	1,100	295	-800	60	-328	0	0	500	1,000	1,000	750
Corporates and households	500	1,034	-2,557	1,097	2,172	1,220	250	250	1,500	1,500	1,000
Derivatives	-621	365	21	84	-507	0	0	0	0	0	0
Other Investments	2,353	1,153	-8,656	-5,812	-4,843	-4,501	-1,069	-528	389	1,340	605
Assets 1/	2,879	-387	407	-3,385	-1,926	-2,050	507	636	894	1,029	1,497
Liabilities	526	-1,540	9,062	2,428	2,916	2,451	1,576	1,164	505	-310	892
Net use of IMF Credit (General Government)	0	0	0	0	5,370	0	0	0	-2,685	-2,685	0
Change in reserve assets	165	545	1,187	3,333	4,328	2,214	836	877	905	1,049	1,163
Net errors and omissions	**509**	**1,046**	**1,075**	**1,045**	**992**	**0**	**0**	**0**	**0**	**0**	**0**
Memorandum items:											
Brent Crude Oil Price (US$/barrel)	44	54	71	64	42	60	56	54	53	52	52
Nominal exchange rate (Col$/US$, period average)	3,055	2,951	2,956	3,281	3,693	3,675	3,704	3,739	3,777	3,815	3,855

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

1/ Includes liquidation of government assets held abroad of US$ 3 billion in 2020. Of the FCL purchase, US$ 3.9 billion was held abroad as government international liquidity as at end-2020 for use in 2021.

Table 2B. Colombia: Summary Balance of Payments

(In Percent of GDP)

						Projections					
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Current account balance	**-4.5**	**-3.4**	**-4.1**	**-4.4**	**-3.3**	**-3.8**	**-3.9**	**-3.9**	**-3.9**	**-3.9**	**-3.9**
Goods balance	-3.2	-1.4	-1.5	-2.6	-2.9	-2.2	-2.1	-2.3	-2.5	-2.6	-2.6
Exports, f.o.b.	12.0	12.8	13.3	13.1	12.3	14.2	13.9	13.6	13.2	12.9	12.7
Commodities	7.2	8.3	8.8	8.3	6.7	8.5	8.1	7.7	7.3	6.9	6.7
Fuel	3.8	4.3	5.0	4.9	3.2	4.6	4.3	4.0	3.6	3.4	3.3
Non-fuel	3.4	4.0	3.8	3.4	3.5	3.9	3.9	3.7	3.6	3.5	3.4
Non-traditional exports	3.4	3.2	3.2	3.3	3.6	3.6	3.7	3.8	3.9	4.0	4.0
Other	1.5	1.2	1.3	1.5	2.0	2.1	2.1	2.1	2.1	2.0	2.0
Imports, f.o.b.	15.3	14.2	14.8	15.7	15.3	16.3	16.0	15.9	15.7	15.5	15.3
Consumer goods	3.6	3.3	3.4	3.7	3.7	3.9	3.9	3.8	3.8	3.7	3.7
Intermediate goods	6.7	6.1	6.4	6.7	6.4	6.9	6.8	6.7	6.6	6.5	6.4
Capital goods	4.4	4.2	4.4	4.8	4.6	5.0	4.9	4.8	4.8	4.7	4.6
Other	0.6	0.6	0.6	0.5	0.5	0.5	0.5	0.6	0.6	0.6	0.6
Services balance	-1.5	-1.4	-1.3	-1.4	-1.7	-1.8	-1.7	-1.7	-1.6	-1.5	-1.5
Exports of services	3.1	3.1	3.2	3.3	2.1	2.5	2.8	3.1	3.4	3.4	3.3
Imports of services	4.6	4.5	4.5	4.6	3.7	4.2	4.5	4.7	4.9	4.9	4.8
Primary income balance	-1.8	-2.7	-3.5	-3.1	-2.0	-3.0	-3.1	-3.0	-2.9	-2.8	-2.7
Receipts	1.8	1.8	1.8	2.2	1.6	2.1	2.2	2.1	2.0	2.0	2.0
Expenditures	3.6	4.5	5.4	5.3	3.6	5.1	5.3	5.1	4.9	4.8	4.7
Secondary income balance	2.1	2.1	2.3	2.7	3.2	3.1	3.1	3.0	3.0	2.9	2.9
Financial account balance	**-4.3**	**-3.1**	**-3.8**	**-4.1**	**-3.0**	**-3.8**	**-3.9**	**-3.9**	**-3.9**	**-3.9**	**-3.9**
Direct Investment	-3.3	-3.3	-1.9	-3.4	-2.1	-2.3	-2.7	-2.8	-3.0	-3.2	-3.3
Assets	1.6	1.2	1.5	1.0	0.7	0.8	0.8	0.8	0.7	0.7	0.7
Liabilities	4.9	4.4	3.5	4.4	2.8	3.1	3.5	3.6	3.7	3.8	4.0
Oil sector	0.8	1.0	0.8	0.9	0.5	0.6	0.5	0.5	0.5	0.4	0.4
Non-oil sectors	4.1	3.4	2.7	3.6	2.4	2.5	2.9	3.1	3.2	3.4	3.6
Portfolio Investment	-1.7	-0.5	0.4	0.1	-0.5	-0.7	-1.1	-1.2	-1.3	-1.4	-1.0
Assets	1.8	2.0	0.5	0.2	2.3	0.5	0.2	0.0	-0.1	-0.1	-0.1
Liabilities	3.5	2.5	0.1	0.1	2.8	1.2	1.3	1.2	1.2	1.3	0.9
Equity	-0.1	0.2	-0.2	-0.4	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Debt instruments	3.7	2.4	0.4	0.5	2.9	1.3	1.4	1.3	1.3	1.4	1.0
General government	3.1	1.9	1.4	0.1	2.3	0.9	1.3	1.1	0.6	0.7	0.5
Banks	0.4	0.1	-0.2	0.0	-0.1	0.0	0.0	0.2	0.3	0.3	0.2
Corporates and households	0.2	0.3	-0.8	0.3	0.8	0.4	0.1	0.1	0.4	0.4	0.3
Derivatives	-0.2	0.1	0.0	0.0	-0.2	0.0	0.0	0.0	0.0	0.0	0.0
Other Investments	0.8	0.4	-2.6	-1.8	-1.8	-1.5	-0.3	-0.2	0.1	0.4	0.2
Assets 1/			0.1	-1.0	-0.7	-0.7	0.2	0.2	0.3	0.3	0.4
Liabilities			2.7	0.8	1.1	0.8	0.5	0.3	0.1	-0.1	0.2
Net use of IMF Credit		0.0	0.0	0.0	2.0	0.0	0.0	0.0	-0.8	-0.7	0.0
Change in Reserve Assets	0.1	0.2	0.4	1.0	1.6	0.7	0.3	0.3	0.3	0.3	0.3
Net errors and omissions	**0.2**	**0.3**	**0.3**	**0.3**	**0.4**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

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

1/ Includes liquidation of government assets held abroad of US$ 3 billion in 2020. Of the FCL purchase, US$ 3.9 billion was held abroad as government international liquidity as at end-2020 for use in 2021.

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

(In percent of GDP, unless otherwise indicated)

	2016	2017	2018	2019	2020	Projections 2021	2022	2023	2024	2025	2026
Total revenue	**14.9**	**15.7**	**15.3**	**16.2**	**15.2**	**14.8**	**15.9**	**16.5**	**16.7**	**16.7**	**16.6**
Current revenue 2/	**13.7**	**14.4**	**13.8**	**14.1**	**13.2**	**13.8**	**15.3**	**15.4**	**15.4**	**15.5**	**15.5**
Tax revenue	**13.6**	**13.8**	**13.7**	**14.0**	**13.0**	**13.7**	**15.3**	**15.4**	**15.3**	**15.4**	**15.4**
Net income tax and profits	4.7	5.7	6.5	6.4	6.1	6.1	6.3	6.3	6.3	6.4	6.4
Goods and services	4.8	5.5	5.7	5.8	5.3	5.9	7.0	7.0	7.0	7.0	7.0
Value-added tax	4.8	5.5	5.7	5.8	5.3	5.9	7.0	7.0	7.0	7.0	7.0
International trade	0.5	0.4	0.4	0.4	0.3	0.4	0.4	0.4	0.4	0.4	0.4
Financial transaction tax	0.8	0.7	0.7	0.8	0.7	0.8	0.8	0.8	0.8	0.8	0.8
Stamp and other taxes	2.8	1.4	0.5	0.7	0.5	0.5	0.7	0.8	0.8	0.8	0.8
Nontax revenue	**1.3**	**1.9**	**1.6**	**2.2**	**2.2**	**1.1**	**0.6**	**1.1**	**1.4**	**1.3**	**1.2**
Property income	0.4	0.4	0.2	0.4	0.1	0.1	0.2	0.3	0.4	0.4	0.4
Other	0.8	1.0	1.3	1.7	1.9	1.1	0.4	0.8	1.0	0.9	0.8
Total expenditure and net lending	**18.9**	**19.3**	**20.1**	**18.7**	**23.0**	**24.3**	**20.2**	**20.0**	**19.7**	**19.2**	**19.0**
Current expenditure	**15.5**	**16.0**	**17.5**	**15.6**	**19.4**	**19.6**	**18.0**	**17.3**	**17.0**	**16.7**	**16.4**
Wages and salaries	2.4	2.2	2.3	2.1	2.4	2.2	2.2	2.2	2.2	2.2	2.2
Goods and services	0.5	0.7	0.4	0.6	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Interest	2.9	2.9	2.8	2.9	2.8	3.3	3.6	3.5	3.4	3.2	3.2
External	0.7	0.7	0.7	0.7	0.8	0.8	0.8	0.8	0.9	0.8	0.7
Domestic	2.2	2.2	2.1	2.2	2.0	2.5	2.8	2.6	2.5	2.4	2.4
Current transfers	9.7	10.2	12.1	10.1	13.9	13.8	11.9	11.4	11.1	10.9	10.8
Capital expenditure	**3.4**	**3.3**	**2.6**	**3.0**	**3.5**	**4.7**	**2.2**	**2.6**	**2.7**	**2.5**	**2.6**
Fixed capital formation	2.3	2.1	1.5	1.8	2.2	3.4	1.1	1.6	1.6	1.5	1.5
Capital transfers	1.2	1.2	1.1	1.2	1.3	1.3	1.1	1.1	1.0	1.0	1.0
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/	**-4.0**	**-3.6**	**-4.8**	**-2.5**	**-7.7**	**-9.5**	**-4.4**	**-3.5**	**-2.9**	**-2.5**	**-2.4**
Memorandum items:											
Oil-related revenues 4/	0.2	0.2	0.6	1.3	1.1	0.3	0.7	1.0	1.2	1.0	0.9
Structural balance 5/	-3.3	-2.6	-2.3	-2.2	-6.4	-8.0	-3.5	-3.0	-2.7	-2.4	-2.3
Structural primary non-oil balance	-1.3	-0.7	-0.5	-0.2	-4.9	-5.5	-0.7	-0.6	-0.5	-0.2	-0.1
Fiscal Impulse	-0.5	-0.6	-0.2	-0.3	4.7	0.6	-4.8	-0.1	-0.1	-0.3	0.0
Non-oil balance	-4.2	-3.8	-3.5	-3.3	-8.9	-9.5	-4.8	-4.4	-4.1	-3.5	-3.3
Primary balance	-1.1	-0.7	-2.0	0.4	-4.9	-6.3	-0.8	0.0	0.4	0.7	0.8
Net FCL financing (US$ million)	0.0	0.0	0.0	0.0	5370.1	0	0	0	-2685	-2685	0
Nominal GDP (in Col$ trillion)	863.8	920.5	987.8	1,061.1	1,002.6	1,086.3	1,161.0	1,246.2	1,337.4	1,436.6	1,541.6

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 includes privatization receipts worth 1.1 percent of GDP that, under GFSM 1986 which is used by the authorities, produces a headline deficit of -8.4 percent of GDP. From 2022 deficits are estimates.

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 4. Colombia: Operations of the Combined Public Sector 1/
(In percent of GDP, unless otherwise indicated)

						Projections					
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Total revenue 2/	**27.7**	**26.8**	**30.0**	**29.4**	**26.5**	**27.0**	**29.2**	**29.4**	**29.5**	**29.3**	**29.0**
Tax revenue	18.2	18.8	21.2	21.7	20.7	21.4	23.0	23.0	23.0	23.0	23.0
Nontax revenue	9.5	8.0	8.8	7.7	5.8	5.6	6.2	6.3	6.6	6.3	6.0
Financial income	1.3	1.1	0.8	0.7	0.4	0.4	0.5	0.5	0.5	0.5	0.5
Operating surplus of public enterprises 3/	2.0	2.3	2.3	2.4	2.1	2.1	2.3	2.4	2.4	2.4	2.4
Other 4/	6.1	4.6	5.6	4.6	3.3	3.0	3.3	3.5	3.7	3.4	3.2
Total expenditure and net lending 5/	**30.1**	**29.4**	**34.5**	**31.8**	**33.4**	**35.3**	**32.7**	**32.4**	**31.4**	**31.0**	**30.7**
Current expenditure	24.4	24.9	31.4	27.6	29.7	29.5	28.6	27.5	27.1	26.7	26.3
Wages and salaries	5.6	5.4	5.4	5.1	5.4	5.3	5.3	5.3	5.3	5.3	5.3
Goods and services	3.4	3.8	3.5	3.4	3.2	3.3	3.4	3.4	3.3	3.3	3.3
Interest	3.3	3.1	3.0	3.1	3.0	3.2	3.6	3.5	3.4	3.3	3.2
External	0.9	0.7	0.7	0.8	1.0	1.0	1.1	1.2	1.1	1.1	1.0
Domestic	2.4	2.4	2.3	2.4	2.0	2.2	2.5	2.3	2.2	2.2	2.2
Transfers to private sector	7.7	8.0	13.5	12.2	14.3	14.0	12.5	11.6	11.5	11.3	11.1
Other 6/	4.5	4.5	6.0	3.8	3.8	3.8	3.8	3.7	3.7	3.6	3.5
Capital expenditure	5.7	4.6	3.1	4.2	3.7	5.8	4.1	4.9	4.3	4.3	4.3
Statistical discrepancy	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Nonfinancial public sector balance	**-2.3**	**-2.5**	**-4.7**	**-2.5**	**-6.9**	**-8.3**	**-3.6**	**-3.0**	**-1.9**	**-1.7**	**-1.6**
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/	**-2.2**	**-2.4**	**-4.5**	**-1.9**	**-6.8**	**-8.6**	**-3.3**	**-2.9**	**-1.8**	**-1.6**	**-1.5**
Overall financing	**2.2**	**2.4**	**4.5**	**1.9**	**6.8**	**8.6**	**3.3**	**2.9**	**1.8**	**1.6**	**1.5**
Foreign, net	1.6	2.6	1.3	0.9	7.6	2.4	1.5	0.4	-0.6	-0.2	0.3
o/w IFIs	N.A.	0.6	-0.1	0.3	2.7	0.7	-0.1	-0.2	-0.7	-1.0	-0.3
o/w FCL	0.0	0.0	0.0	0.0	2.0	0.0	0.0	0.0	-0.8	-0.7	0.0
Domestic, net	0.6	-0.2	3.2	1.0	-0.8	6.2	1.8	2.6	2.4	1.8	1.2
Memorandum items:											
Overall structural balance 9/	-1.5	-1.3	-2.0	-1.9	-5.1	-6.6	-2.4	-2.3	-1.5	-1.5	-1.6
Primary balance 10/	1.1	0.8	-1.5	1.2	-3.8	-5.4	0.3	0.6	1.6	1.6	1.6
Oil-related revenues 11/	1.0	1.1	1.9	2.4	1.9	1.4	1.6	1.9	1.9	1.7	1.6
Public sector gross debt 12/	49.8	49.4	53.6	52.3	62.8	64.2	64.3	63.5	61.4	59.3	57.2
Nominal GDP (In Col$ trillion)	863.8	920.5	987.8	1,061.1	1,002.6	1,086.3	1,161.0	1,246.2	1,337.4	1,436.6	1,541.6

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

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

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

3/ For 2016, excludes proceeds from the sale of ISAGEN and for 2018, it includes the recognition of accounts payable worth 1.9 percent of GDP. From 2022 the deficits are staff estimates.

4/ Includes royalties, dividends and social security contributions.

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

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

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

8/ For 2018, includes the recognition of arrears worth 1.9 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 5. Colombia: Monetary Indicators

						Projections					
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
	(In billions of Col$, unless otherwise indicated)										
Central Bank											
Net Foreign Assets	138,859.3	140,586.1	155,542.5	172,577.7	182,193.2	193,635.5	197,565.8	204,123.2	206,365.6	220,175.4	208,099.5
Gross official reserve assets	138,631.7	140,724.9	155,646.7	172,548.8	200,801.4	199,649.1	206,203.9	214,152.9	217,128.6	223,901.0	230,871.8
In billions of US$	46.2	47.2	47.9	52.7	58.5	55.3	56.1	57.0	57.9	59.0	60.1
Short-term foreign liabilities	20.2	64.8	0.0	0.0	18,539.0	6,179.7	8,239.5	10,986.0	8,468.4	9,231.3	9,561.9
Other net foreign assets	247.9	-74.0	-104.2	28.9	-69.2	166.1	-398.6	956.3	-2,294.6	5,505.7	-13,210.4
Net domestic assets	-54,259.4	-51,773.4	-57,461.5	-60,123.9	-49,519.7	-49,883.0	-43,923.8	-39,218.4	-29,390.9	-30,063.5	-4,093.5
Net credit to the public sector	-5,987.7	-2,490.6	-1,524.9	3,034.3	6,625.4	6,674.0	5,876.7	5,247.2	3,932.3	4,022.3	547.7
Net credit to the financial system	5,678.6	3,808.4	9,016.5	8,435.0	6,948.8	6,999.8	6,163.6	5,503.3	4,124.3	4,218.7	574.4
Other	-53,950.3	-53,091.3	-64,953.1	-71,593.1	-63,093.9	-63,556.8	-55,964.1	-49,968.8	-37,447.6	-38,304.5	-5,215.6
Monetary base	84,599.9	88,812.7	98,081.0	112,453.8	132,673.6	143,752.6	153,642.1	164,904.8	176,974.7	190,111.8	204,005.9
Currency in circulation	69,222.0	74,057.6	80,653.3	91,659.3	111,373.9	120,674.3	128,976.1	138,430.7	148,562.9	159,590.9	171,254.5
Deposit money banks reserves	15,283.3	14,671.5	17,322.5	20,649.2	20,928.1	39,303.4	42,298.1	45,302.2	48,620.5	52,204.2	56,049.8
Other deposits	94.7	83.6	105.2	145.3	371.5	371.5	371.5	371.5	371.5	371.5	371.5
Financial system											
Net foreign assets	130,824.5	128,443.1	131,230.3	145,975.5	157,058.5	166,401.9	168,458.6	172,882.2	172,838.1	184,159.0	169,450.9
In billions of US$	43.6	43.0	40.4	44.5	45.8	47.6	47.8	48.5	48.0	50.6	46.0
Net domestic assets	312,194.1	343,014.5	367,175.1	402,159.3	374,456.3	424,249.7	478,594.2	538,525.9	608,801.9	675,013.4	773,449.0
Net credit to public sector	34,554.5	42,089.3	43,902.9	57,916.7	66,500.7	85,166.9	94,575.7	107,156.5	120,150.2	131,696.8	141,680.5
Credit to private sector	406,445.7	458,444.5	489,621.5	546,519.9	561,698.7	614,220.8	681,044.9	758,210.8	844,035.0	940,450.5	1,046,800.4
Other net	-128,640.6	-157,352.6	-166,212.3	-202,096.3	-253,743.1	-275,137.9	-297,026.4	-326,841.4	-355,383.3	-397,134.0	-415,032.0
Broad money	443,018.6	471,457.6	498,405.4	548,134.8	531,514.8	590,651.6	647,052.8	711,408.1	781,640.1	859,172.4	942,899.9
	(Annual percentage change)										
Credit to private sector	7.7	12.8	6.8	11.6	2.8	9.4	10.9	11.3	11.3	11.4	11.3
Currency	3.7	7.0	8.9	13.6	21.5	8.4	6.9	7.3	7.3	7.4	7.3
Monetary base	2.5	5.0	10.4	14.7	18.0	8.4	6.9	7.3	7.3	7.4	7.3
Broad money 1/	9.5	6.4	5.7	10.0	-3.0	11.1	9.5	9.9	9.9	9.9	9.7
	(In percent of GDP)										
Credit to private sector	47.1	49.8	49.6	51.5	56.0	56.5	58.7	60.8	63.1	65.5	67.9
Currency	8.0	8.0	8.2	8.6	11.1	11.1	11.1	11.1	11.1	11.1	11.1
Monetary base	9.8	9.6	9.9	10.6	13.2	13.2	13.2	13.2	13.2	13.2	13.2
Broad money	51.3	51.2	50.5	51.7	53.0	54.4	55.7	57.1	58.4	59.8	61.2
Memorandum items:											
CPI inflation, eop	5.7	4.1	3.1	3.8	1.6	2.5	2.6	2.7	2.8	2.9	3.0
Nominal GDP (In Col$ billions)	863,783	920,470	987,791	1,061,119	1,002,587	1,086,309	1,161,041	1,246,152	1,337,361	1,436,636	1,541,631

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

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

Table 6. Colombia: Medium-Term Outlook

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
						Projections					
	(In percent of GDP, unless otherwise indicated)										
Real GDP (in percent change)	2.1	1.4	2.6	3.3	-6.8	5.1	3.6	4.0	3.8	3.8	3.6
Consumer prices (in percent change; eop)	5.7	4.1	3.1	3.8	1.6	2.5	2.6	2.7	2.8	2.9	3.0
Gross national savings	18.6	18.2	17.1	17.1	15.5	15.4	16.0	16.6	16.8	16.9	16.9
Private sector	15.4	16.2	18.8	15.1	18.8	18.5	15.4	14.8	14.5	14.4	14.3
Public sector	3.3	2.0	-1.6	2.0	-3.3	-3.1	0.6	1.7	2.3	2.5	2.6
Gross domestic investment	23.2	21.6	21.2	21.5	18.8	19.2	19.8	20.5	20.8	20.8	20.8
	(In percent of GDP, unless otherwise indicated)										
Nonfinancial public sector 1/											
Revenue	27.7	26.8	30.0	29.4	26.5	27.0	29.2	29.4	29.5	29.3	29.0
Expenditure	30.1	29.4	34.5	31.8	33.4	35.3	32.7	32.4	31.4	31.0	30.7
Current expenditure	24.4	24.9	31.4	27.6	29.7	29.5	28.6	27.5	27.1	26.7	26.3
Capital expenditure	5.7	4.6	3.1	4.2	3.7	5.8	4.1	4.9	4.3	4.3	4.3
Primary balance 2/3/	-1.1	-0.7	-2.0	0.4	-4.9	-6.3	-0.8	0.0	0.4	0.7	0.8
Overall balance 2/3/	-2.3	-2.5	-4.7	-2.5	-6.9	-8.3	-3.6	-3.0	-1.9	-1.7	-1.6
Combined public sector balance 3/	-2.2	-2.4	-4.5	-1.9	-6.8	-8.6	-3.3	-2.9	-1.8	-1.6	-1.5
External financing	1.6	2.6	1.3	0.9	7.6	2.4	1.5	0.4	-0.6	-0.2	0.3
Domestic financing	0.6	-0.2	3.2	1.0	-0.8	6.2	1.8	2.6	2.4	1.8	1.2
External current account balance	-4.5	-3.4	-4.1	-4.4	-3.3	-3.8	-3.9	-3.9	-3.9	-3.9	-3.9
Trade balance	-3.2	-1.4	-1.5	-2.6	-2.9	-2.2	-2.1	-2.3	-2.5	-2.6	-2.6
Exports	12.0	12.8	13.3	13.1	12.3	14.2	13.9	13.6	13.2	12.9	12.7
Imports	15.3	14.2	14.8	15.7	15.3	16.3	16.0	15.9	15.7	15.5	15.3
Financial account balance	-4.3	-3.1	-3.8	-4.1	-3.0	-3.8	-3.9	-3.9	-3.9	-3.9	-3.9
Direct Investment	-3.3	-3.3	-1.9	-3.4	-2.1	-2.3	-2.7	-2.8	-3.0	-3.2	-3.3
Portfolio Investment	-1.7	-0.5	0.4	0.1	-0.5	-0.7	-1.1	-1.2	-1.3	-1.4	-1.0
Other Investments and Derivatives	0.6	0.5	-2.6	-1.8	-2.0	-1.5	-0.3	-0.2	0.1	0.4	0.2
Change in Reserve Assets	0.1	0.2	0.4	1.0	1.6	0.7	0.3	0.3	0.3	0.3	0.3
Gross public sector debt 4/	49.8	49.4	53.6	52.3	62.8	64.2	64.3	63.5	61.4	59.3	57.2
Gross public sector debt, excluding Ecopetrol	45.4	46.1	51.0	49.3	60.4	62.1	62.3	61.5	59.4	57.3	55.2
Memorandum items:											
Nominal GDP (in Col$ billion)	863,783	920,470	987,791	1,061,119	1,002,587	1,086,309	1,161,041	1,246,152	1,337,361	1,436,636	1,541,631

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 2022 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 Ecopetrol and Banco de la República's outstanding external debt.

Table 7. 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 7/
Capital Adequacy 2/											
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	19.2
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	13.2
Capital (net worth) to assets 3/	14.2	14.3	14.7	14.8	14.9	14.1	16.2	16.1	16.6	17.0	16.5
Asset Quality and Distribution 4/											
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	148.5
Gross loans to assets	67.9	70.4	69.6	68.2	69.3	70.2	69.3	70.1	70.5	69.2	64.8
Earnings and Profitability											
ROAA	3.4	3.3	3.1	2.8	2.9	2.7	3.0	2.2	2.6	2.9	1.9
ROAE	23.7	23.0	21.2	19.5	19.8	18.9	18.3	13.7	16.0	17.3	11.8
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	56.5
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	41.0
Liquidity 2/											
Liquid assets to total assets 5/	22.1	21.5	21.6	21.4	19.8	18.9	18.0	18.6	19.2	17.7	19.5
Liquid assets to short-term liabilities 5/	42.7	43.7	43.6	41.9	40.3	39.9	39.9	42.6	43.0	40.0	41.4
Deposit to loan ratio	93.5	91.4	94.7	96.3	91.6	93.2	92.6	92.7	92.0	91.2	98.3
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	5.5
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	12.9
Net open position in foreign exchange to capital 6/	0.6	1.0	0.6	0.5	0.7	1.3	5.5	6.4	7.1	0.7	0.9

Source: Superintendencia Financiera.

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

2/ Over CY2020, Basel III risk weights came into force, resulting in a rise of about 1 to 1.5 percentage points in average CARs.

3/ 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.

4/ Implementation of emergency measures (Circulars 7 and 14) and the PAD make that series are not fully comparable across time.

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

6/ 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.

7/ Up to 2020 Q3.

Table 8. Colombia: Indicators of External Vulnerability 1/

(In billions of US$, unless otherwise indicated)

						Projections					
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Exports of GNFS	42.8	49.3	55.1	53.0	39.1	49.1	52.5	55.5	58.9	61.4	64.1
Imports of GNFS	56.2	58.3	64.6	65.8	51.6	60.7	64.5	68.7	73.1	76.8	80.3
Terms of trade (y/y percent change)	3.3	9.6	5.9	-1.8	-11.8	8.0	0.0	0.0	-0.3	-0.7	-0.4
Current account balance	-12.8	-10.7	-13.6	-14.3	-9.1	-11.1	-12.1	-13.1	-13.9	-14.7	-15.5
In percent of GDP	-4.5	-3.4	-4.1	-4.4	-3.3	-3.8	-3.9	-3.9	-3.9	-3.9	-3.9
Financial account balance	-12.3	-9.7	-12.6	-13.2	-8.1	-11.1	-12.1	-13.1	-13.9	-14.7	-15.5
Of which: Foreign direct investment (net)	-9.3	-10.1	-6.4	-11.1	-5.7	-6.7	-8.4	-9.5	-10.6	-11.9	-13.3
Of which: Portfolio investment (net)	-4.8	-1.6	1.3	0.3	-1.3	-2.1	-3.5	-4.0	-4.6	-5.2	-4.0
Total external debt (in percent of GDP) 2/	49.4	47.2	46.6	49.9	64.4	62.4	61.9	61.1	60.2	59.2	58.3
Of which: Public sector (in percent of GDP) 2/	31.9	30.3	29.0	30.0	39.3	38.2	37.5	36.3	34.2	32.6	31.5
In percent of gross international reserves	302.1	312.6	325.3	306.5	299.0	303.7	315.1	326.0	336.6	346.5	356.0
Short-term external debt (in percent of GDP) 3/	5.3	5.3	6.1	6.9	7.5	7.0	6.8	6.5	6.3	6.1	5.9
Of which: Public sector (in percent of GDP)	0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.2	0.2	0.2
Of which: Private sector (in percent of GDP)	5.0	5.1	5.8	6.7	7.2	6.7	6.5	6.3	6.1	5.8	5.6
Amortization of MLT external debt (in percent of GNFS exports)	17.7	31.1	28.6	25.0	35.1	31.8	25.5	27.9	33.4	32.4	33.5
External interest payments (in percent of GNFS exports)	11.1	10.7	10.5	14.2	16.8	14.9	15.3	15.1	14.8	15.0	15.2
Gross international reserves 4/	46.2	47.1	47.9	52.7	58.5	60.7	61.6	62.4	63.3	64.4	65.5
In months of prospective GNFS imports	9.5	8.8	8.7	12.3	11.6	11.3	10.8	10.2	9.9	9.6	9.4
In percent of broad money	31.3	29.8	31.2	31.5	37.8	36.0	33.5	31.3	29.2	27.3	25.6
In percent of short-term debt on residual maturity basis plus current account deficit	112.8	102.9	100.2	116.3	124.0	131.5	123.5	112.9	111.2	107.5	104.5
In percent of ARA 5/	144	135	132	140	145	144	141	136	132	130	126
Nominal exchange rate (Col$/US$, period average)	3,055	2,951	2,956	3,281	3,693	3,675	3,704	3,739	3,777	3,815	3,855
Real effective exchange rate (percentage change, + = appreciation)	-4.7	5.7	0.6	-9.1	-11.1	0.8	0.0	-0.1	-0.2	-0.1	-0.1

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 commodity price uncertainty was 128 percent of the metric at end-2020.

Table 9. Colombia: Gross External Financing Needs and Sources, 2020-21

(In millions of U.S. dollars, unless otherwise indicated)

	2020	2021
	Preliminary	Projection
Gross external financing needs	**-45,270**	**-47,188**
External current account balance	-9,083	-11,125
Debt amortization	-36,187	-36,062
Medium and long term debt	-13,755	-15,600
Public sector 1/	-2,706	-4,079
Private sector	-11,049	-11,522
Short-term debt	-22,432	-20,462
Public sector	-863	-863
Private sector	-21,569	-19,599
Gross external financing sources	**44,229**	**49,402**
Foreign direct investment (net)	5,724	6,697
Medium and LT debt disbursements	21,228	21,757
Public sector 1/	6,823	10,516
Private sector	14,405	11,242
Short-term debt disbursements	20,462	20,682
Public sector	863	863
Private sector	19,599	19,819
Other capital flows (net) 2/	-3,186	265
Change in international reserves	4,328	2,214
Use of IMF credit	**5,370**	**0**
Percent of quota 3/	*183*	0
Memo: Gross international reserves	58,500	60,714

1/ Including financial public sector; excluding non-financial public sector. Net of TES flows. Excludes IMF FCL.

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

3/ Based on SDR per US$ exchange rate at time of purchase (2020).

Table 10. Colombia: Capacity to Repay Indicators [1/]

	2019	2020	2021	2022	2023	2024	2025	2026
Exposure and Repayments (In SDR millions)								
GRA credit to Colombia	--	3,750.0	12,267.0	12,267.0	12,267.0	8,262.8	2,129.3	--
(In percent of quota)	--	183.4	600.0	600.0	600.0	404.1	104.1	--
Charges due on GRA credit 2/	--	18.8	203.0	297.5	297.5	306.2	133.0	8.8
Debt service due on GRA credit 2/	--	18.8	203.0	297.5	297.5	4,310.4	6,266.5	2,138.0
Debt and Debt Service Ratios 3/								
In percent of GDP								
Total external debt	49.9	64.4	87.3	86.7	85.6	84.5	83.2	82.0
Public external debt	30.0	39.3	55.8	54.7	52.8	49.7	47.5	45.8
GRA credit to Colombia	--	1.9	8.6	8.1	7.7	4.9	1.2	--
Total external debt service 4/	12.3	15.8	21.1	17.3	19.4	21.8	21.4	19.8
Public external debt service 4/	3.0	2.5	4.1	2.4	3.9	6.4	5.8	4.2
Debt service due on GRA credit	--	0.0	0.1	0.2	0.2	2.6	3.5	1.1
In percent of Gross International Reserves								
Total external debt	306.5	299.0	385.3	398.6	411.0	423.1	433.8	443.9
Public external debt	184.5	182.3	246.2	251.4	253.4	249.1	247.6	247.9
GRA credit to Colombia	--	8.9	37.8	37.5	37.0	24.5	6.2	--
In percent of Exports of Goods and Services								
Total external debt service 4/	75.1	109.3	105.2	72.4	81.7	91.7	91.9	86.4
Public external debt service 4/	18.4	17.1	20.3	10.2	16.4	26.8	25.0	18.4
Debt service due on GRA credit	--	0.1	0.7	0.8	0.8	10.8	15.0	4.9
In percent of Total External Debt								
GRA credit to Colombia	--	3.0	9.8	9.4	9.0	5.8	1.4	--
In percent of Public External Debt								
GRA credit to Colombia	--	4.9	15.4	14.9	14.6	9.8	2.5	--
Memo Items:								
U. S. dollars per SDR (period average)	1.38	1.39	1.45	1.46	1.46	1.47	1.47	1.48
U. S. dollars per SDR (end of period)	1.38	1.44	1.45	1.46	1.47	1.47	1.48	1.48
Oil Price (WEO APSP, US$ per barrel)	61.4	41.3	58.5	54.8	52.5	51.3	50.7	50.5

Sources: Colombian authorities, Finance Department, World Economic Outlook, and IMF staff estimates.
1/ Assumes drawing of 416.6 percent of quota in 2021 and materialization of an adverse scenario.
2/ Based on the rate of 1.05 (as of February 25, 2021).
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).

Annex I. External Sector Assessment

<table>
<tr><th colspan="6">External Sector Assessment</th></tr>
<tr><td colspan="6">Overall Assessment: The external position is moderately weaker than implied by medium-term fundamentals and desirable policies. This assessment is driven by the estimated current account gap of -1.1 percent of GDP. Mitigating factors include the diversity and relative stability of capital flows, the negative correlation between the income balance and the trade balance, adequate reserve coverage, and a flexible exchange rate that has continued as a long serving primary mechanism of adjustment to external shocks.
Potential Policy Responses: Fiscal consolidation once the recovery is underway is expected to raise national saving. Structural policies to improve competitiveness and boost non-commodity exports remain essential but will only aid the external position over the medium term. Priorities include lowering nontariff barriers, enhancing customs procedures, reducing transportation costs, and improving infrastructure.</td></tr>
<tr><td>Foreign Asset and Liability Position and Trajectory</td><td colspan="5">Background. Colombia's preliminary NIIP was -65 percent of 2020 GDP in December 2020, a decline of 12 percent of GDP compared to end-2019. The decline is attributable to mechanical denominator effects of Colombia's declining US$ GDP. Regarding the numerator, the NIIP decreased by only US$ 5.6 billion (about 2 percent of 2020 GDP) because cumulative net inflows of financial liabilities were moderated by accelerated Colombian acquisition of assets abroad and, in the first half of the year, foreign sales of Colombian portfolio assets. Taking a longer-term perspective, the data represent a decline of 21 percent of 2020 GDP relative to end-2015, which matches the cumulative net inflows of financial liabilities. This match is consistent with broadly offsetting effects of the exchange rate depreciation and more recent decline in real GDP. Direct investment (DI) contributes a substantial portion to the NIIP; excluding DI, the NIIP stood at only -10 percent of GDP, compared to -6 percent at end-2015. Considering only reserve assets and debit liabilities, the net position was -48 percent.
Assessment. Gross external financing needs rose to an estimated 17.4 percent of GDP in 2020. The external stability (ES) approach suggests a need for eventual external adjustment once the recovery is fully underway. The estimated medium-term current account balance required to stabilize the NIIP at its end-2019 level is -3.4 percent of GDP, which is close to the estimate for 2020 but narrower than the medium-term baseline. The large share of FDI, whose risk-sharing properties can mitigate the risks of a falling NIIP, and a net long foreign currency position may permit a smaller or slower adjustment.</td></tr>
<tr><td>end-2020 (% GDP)</td><td>NIIP: -65</td><td>Gross Assets: 77</td><td>Reserve Assets: 22</td><td>Gross Liab.: 141</td><td>Debt Liab.: 70</td></tr>
<tr><td>Current Account</td><td colspan="5">Background. The current account balance (CAB) of -3.3 percent of GDP in 2020 was a smaller deficit than the -4.4 percent in 2019 and the -4.6 percent of GDP 2015-19 average. (Refinements to services trade data released in March 2021 have led to increases in historical deficits averaging 0.1 percent of GDP.) The sharp contraction in domestic demand and depreciation reduced imports and primary income outflows, while remittances inflows were resilient. Exports declined owing to unfavorable prices and production declines for some commodities (e.g., oil, coal). Substantial declines in services exports and imports (including tourism) had broadly offsetting effects. The medium-term CAB is projected to widen to about –4 percent of GDP because the pace of commodity-based export growth is not expected to match that of rebounding imports and profit outflows commensurate with a recovering Colombian economy.
Assessment. Model estimates indicate a cyclically-adjusted CAB norm of -0.6 percent of GDP and a CAB gap of -3.1 percent of GDP for 2020. Identified policy gaps were assessed to be improving the CAB. Policy gap contributors include reserve accumulation and fiscal policy (Colombia's domestic fiscal policy gap resulting from the response to the pandemic is smaller than that estimated for the rest of the EBA sample). The following three adjustments follow the 2019 and 2020 Article IV consultations: 1) the contribution of oil exports to the norm is reduced by 1.5 percent of GDP given Colombia's investment needs and the channeling of government oil revenue to infrastructure investment projects with a high social return and that are also expected to boost competitiveness in the medium term;[1] 2) the large stock of migrants from Venezuela justifies a downward adjustment of 0.5 percent to the norm;[2] and 3) the cyclically-adjusted CAB is adjusted up by 0.7 percent of GDP to account for highly depressed demand in Venezuela and other markets for Colombia's non-traditional exports.[3] For the assessment in this Article IV, the cyclically-adjusted CAB is adjusted back down by 0.7 percent of GDP to account for Colombia's temporary sharp reduction in primary income outflows.[4] Unrecorded illicit exports are likely underestimating exports, although associated imports may also be underestimated, while goods crossing the border into Venezuela are possibly being recorded as consumption. The combined adjustments above reduce the CAB gap by 2 percent to –1.1 percent of GDP. The range of the gap is 0.2 to -2.4 percent of GDP given the EBA model's wide standard error for Colombia. Staff assesses the CAB to be moderately weaker than justified by medium-term fundamentals and desirable policies.</td></tr>
<tr><td colspan="6">1/ The contribution of oil exports is adjusted downward to account for Colombia's investment needs relative to the EBA sample. As in the 2019 and 2020 Article IV reports, this is based on Colombia's infrastructure gap relative to rivals in export markets; higher public fixed capital formation; and relatively efficient practices in public investment management. The contribution is lower than in the recent AIV reports because oil prices that were lower than in 2018-9 reduced the modelled contribution to the norm.
2/ The adjustment is the same as in the 2020 Article IV, which is consistent with a constant stock of migrants. The adjustment is lower than in the 2019 Article IV and conservative relative to the adjustment implied by the EBA model's population coefficient.
3/ The main component of the standard cyclical adjustment is based on the GDP-weighted output gap of the EBA sample, while the relevant concept for Colombia's current account is demand from non-traditional export destinations, which is a driver of export volumes of these products. There has been an exceptional decline in demand from Venezuela to less than 0.1 percent of GDP (compared to exports of 1.5 percent of GDP historically), and this is not reflected in the standard cyclical adjustment since Venezuela is not included in the model, so adjustment is warranted to capture a part of the reduction in Colombia's non-traditional goods exports to Venezuela. In 2020, the contraction in (especially) Venezuela and elsewhere in the region is estimated to be even sharper than for the EBA sample. Despite further deterioration in trading partner demand in 2020 (Figure 3) that the EBA model does not fully capture, we have kept the adjustment unchanged from the 2020 Article IV. The adjustment is still only a fraction of lost exports to Venezuela alone, as some regional exports may have been diverted to other markets.
4/ Net primary income outflows are estimated to have been 0.7 percent of GDP lower in 2020 than the average for the previous five years. Although income flows may implicitly be captured in the EBA model (e.g., output gap, terms of trade, NFA), the model is unlikely to fully account for the risk-sharing properties of Colombia's foreign liabilities and the strong negative correlation between Colombia's trade and income balance (see SIP). The adjustment would be larger if we were to account for above-average secondary income receipts.</td></tr>
</table>

External Sector Assessment (concluded)						
2020 (% GDP)	Estimated CA: –3.3	Cycl. Adj. CA: -3.7	EBA Cycl. Adj. CA Norm: –0.6	EBA CA Gap: –3.1	Staff Adj.: –2.0	Staff CA Gap: –1.1
Real Exchange Rate	**Background.** The period average real effective exchange rate (REER) index depreciated by 11 percent in 2020 and was 35 percent weaker than in 2014 owing to lower oil prices. **Assessment.** EBA REER approaches estimate an undervaluation of 26 percent (index method) and 23 percent (level method) in 2020. Applying a semi-elasticity of -0.12 to the gap from the CAB approach suggests a REER overvaluation of between -2 and 20 percent, while application to the external sustainability approach implies an overvaluation of 2 percent in 2020. Overall, staff judges the REER gap consistent with the CAB gap at 9 percent, though with a wide range of uncertainty (+/- 11 percent) given: the poor fit of the EBA CAB model for Colombia, with large unexplained residuals that have been persistently biased and which are amplified by the arithmetic of a low semi-elasticity, and the substantial differences in results across the REER and CA approaches. Fiscal consolidation once the recovery is firmly underway would support CAB adjustment. Additional improvements could materialize if key non-commodity export markets perform strongly and the structural distortions that are holding back exports are alleviated. Priorities include lowering nontariff trade barriers that raise input costs for exporters, enhancing customs procedures, reducing transportation costs, and improving infrastructure (see IMF Country Reports 18/128, 18/129, and 20/105).					
Capital and Financial Accounts: Flows and Policy Measures	**Background.** Current account deficits have in the last decade been financed primarily by capital inflows (FDI and portfolio debt securities). Net DI inflows in 2020 were an estimated 2.1 percent of GDP, which is lower than the historical average owing to a drop in FDI into Colombia from 4.4 to 2.8 percent of GDP. FDI is diversified across sectors and the decline was broad-based. The private sector (including SOEs) received portfolio inflows but this was exceeded by acquisitions of assets abroad by financial institutions. Sovereign issuances on the international market in January and June 2020 were heavily oversubscribed, and at more favorable terms than in 2019, and the trend has so far continued in 2021. Having decreased during the period of global market turmoil earlier in 2020, non-residents' holdings of domestically issued government debt securities increased substantially in response to higher financing needs and Colombia's inclusion in global bond indices. The proportion of shorter maturities (less than 3 years) decreased from 17 to 7 percent, erasing the increase observed in 2019, and the diversification of holders continued to rise slightly. The government has further diversified its foreign funding sources by borrowing from multilateral institutions. **Assessment.** The relative stability of FDI flows, diversification of creditors, very strong macroeconomic policies, and a track record of uninterrupted market access have underpinned capital inflows, including around periods of stress such as the global financial crisis and the emerging markets selloff prompted by the pandemic. Colombia's attractiveness as an investment destination and favorable global monetary conditions should allow temporarily withheld investments to resume once the acute phase of the pandemic has passed and fiscal reform uncertainties have abated.					
FX Intervention and Reserves Level	**Background.** Colombia's gross reserves increased by about US$6 billion in 2020 owing to realized valuation gains and two purchases from the Treasury coinciding with the latter's sale of overseas assets and FCL purchase. There was a similar FX intervention in 2019. Together with the reserve accumulation program of 2018-9, reserves have increased by a quarter since 2017. **Assessment.** The flexible exchange rate has long served as the primary mechanism of adjustment to external shocks. Depreciations have cushioned export receipts, albeit mostly through local-currency prices owing to dollar-pricing of exports, and aided import compression. Reserve coverage as measured by the ARA metric has increased since 2017 but has declined since 2015 because higher liabilities have contributed to a higher metric. For 2020, coverage is estimated at 128 percent of the ARA metric including a commodity buffer[5] and 145 percent excluding the commodity buffer. Access to unused resources available under Colombia's FCL provides an additional liquidity buffer equivalent to 27 percent of the ARA metric including the commodity buffer.					
5/ To capture the uncertainty in commodity prices, we proxy commodity price volatility by that embodied in oil options prices and apply that to baseline commodity export values. In the 2020 Article IV, only deviations from baseline oil exports were included.						

Annex II. Public Sector Debt Sustainability Analysis

The public debt figures reported for Colombia cover the non-financial public sector. Debt rose by 10.5 percent of GDP in 2020 owing to the sharp contraction in GDP, the large primary deficit and peso depreciation due to the economic impact of the pandemic and the policy response. Under the baseline scenario, the non-financial public sector gross debt ratio is projected to gradually decline from around 64½ percent of GDP in 2022 to around 57 percent in 2026. Risks largely reflect a slower-than-anticipated recovery. The long average maturity and favorable currency composition of the debt mitigate short-term financing risks arising from high but diversified foreign ownership. Colombia's public debt is expected to remain sustainable in the medium term.

Baseline Scenario

1. At the end of 2020, the non-financial public sector (NFPS) gross debt is estimated to have increased to around 63 percent of GDP from 52.3 in 2019. In terms of composition, around 95 percent of NFPS debt corresponds to central government debt.[1] The share of local currency denominated debt fell from around 66 percent in 2019 to 64 in 2020 as the authorities increased reliance on external financing via markets and multilateral lending institutions to mitigate the potential impact on domestic market conditions from the larger financing needs associated with a higher deficit. Around 90 percent of external public debt is denominated in US dollars.

2. The NFPS gross debt ratio is expected to further increase in 2021 in response to continued fiscal policy support but should decline gradually thereafter as the authorities seek a return to the fiscal rule[2] and thus to expected primary surpluses. Favorable growth dynamics will also contribute to the decline of NFPS level (Figure 3). If real GDP growth, real interest rates, and other debt-creating flows remain at the level of the last projection year (2026), the debt-stabilizing primary balance is estimated at -0.8 percent of GDP. During the projection period, the expected primary surpluses starting in 2024 should place the NFPS gross debt on a declining path. Overall, Colombia's public debt is expected to remain sustainable in the medium term.

Realism of Baseline Scenario

3. The baseline assumptions seem plausible as staff's forecasts are not systematically biased (based on historical projection errors).[3] Furthermore, fan charts show limited uncertainty around the baseline (the symmetric fan chart has a width of about 20 percent of GDP). However, there is considerable uncertainty around staff's projections both around the near-term growth outlook (which does not assume further lockdowns) and the central government's deficit from 2022 as the authorities seek a return to the fiscal rule. While the authorities' medium-term plans (as represented in the 2020 MTFF) envisage additional revenue-enhancing (worth 2 percent of GDP) and expenditure

[1] Ecopetrol's debt at around 2½ percent of GDP is included as part of the NFPS.
[2] Subnationals are also expected to re-introduce their fiscal rules from 2022.
[3] The 2018 primary balance forecast error corresponds to the recognition of previously unrecognized accounts payable worth around 1.9 percent of 2018 GDP (see country report 20/104).

efficiency measures from 2022, staff's projections assume a less ambitious tax reform (worth 1.2 percent of GDP) and thus higher headline deficits relative to the authorities' plans. While the resulting fiscal adjustment is large compared to those made historically by other countries, much of this adjustment corresponds to 2022, when all of the COVID-19 spending is withdrawn and revenues are projected to increase (Figure 2). A historical scenario based on the large primary deficit in 2021 yields an upward sloping path for debt.

Risks

4. The share of NFPS debt held by non-residents is above its risks benchmark reflecting a rapid increase of foreign investors' participation in Colombia's local currency public debt market since 2013. This largely reflects the reduction of the capital gains tax as part of the tax reform in 2013 and the inclusion of Colombian bonds in JP Morgan's EM-GBI in 2014. Refinancing risks are mitigated by a more diversified foreign investor base, cash on hand, pre-financing secured in 2020. Additionally, the authorities made further progress in their strategy to increase the proportion of loans carrying fixed interest rates, to extend maturities (including through swaps and the successful launch of a 30 year bond last year), increase liquidity in the local market (as demonstrated, for example, by a decrease in bid-ask spreads to levels below those of regional peers) and minimize roll-over risk.[4] Market turbulence in some Emerging Markets in 2019 and in the first half of 2020 resulted in volatile portfolio flows in Colombia relative to peers and a slight decline in the value of domestic bonds held by foreign investors (1.3 percent in 2019) both highlight the risk that non-residents sell and exit for a sustained period. Risks are also elevated with respect to external financing requirements which rose notably in 2020 due to the pandemic, as short-term external debt rose while nominal growth contracted.

[4] See Estrategia de gestión de la deuda de mediano plazo 2018–22.

Figure 1. Colombia: Public Sector DSA Risk Assessment

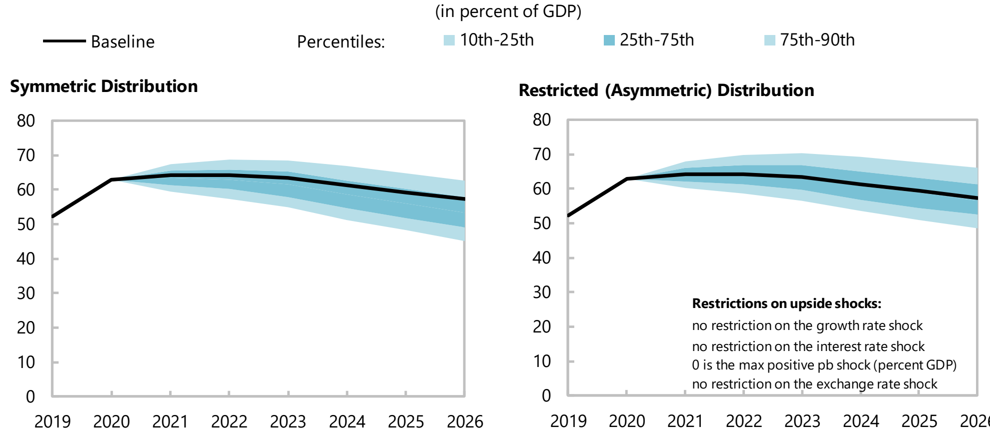
(Nonfinancial Public Sector Debt)

Heat Map

Debt level [1/]	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability shock
Gross financing needs [2/]	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Debt profile [3/]	Market Perception	External Financing Requirements	Change in the Share of Short-Term Debt	Public Debt Held by Non-Residents	Foreign Currency Debt

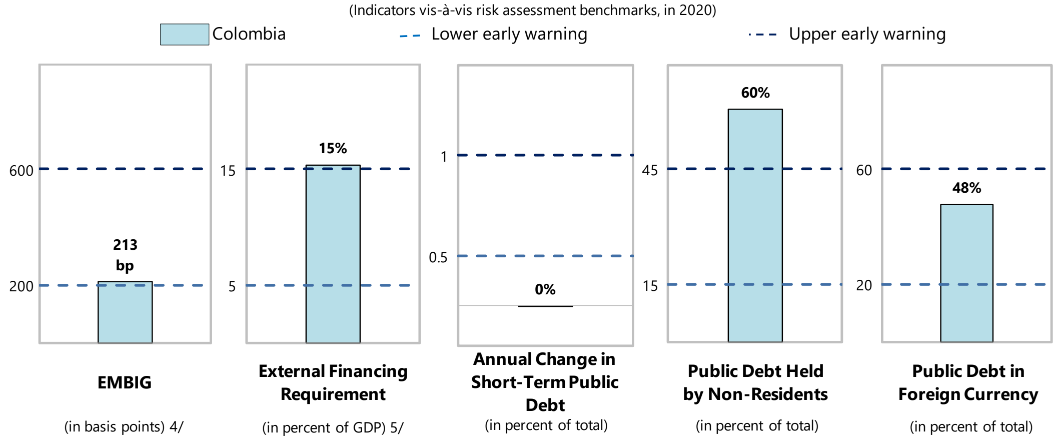
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2020)



Source: IMF staff.

1/ The cell is highlighted in green if debt burden benchmark of 70% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

2/ The cell is highlighted in green if gross financing needs benchmark of 15% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

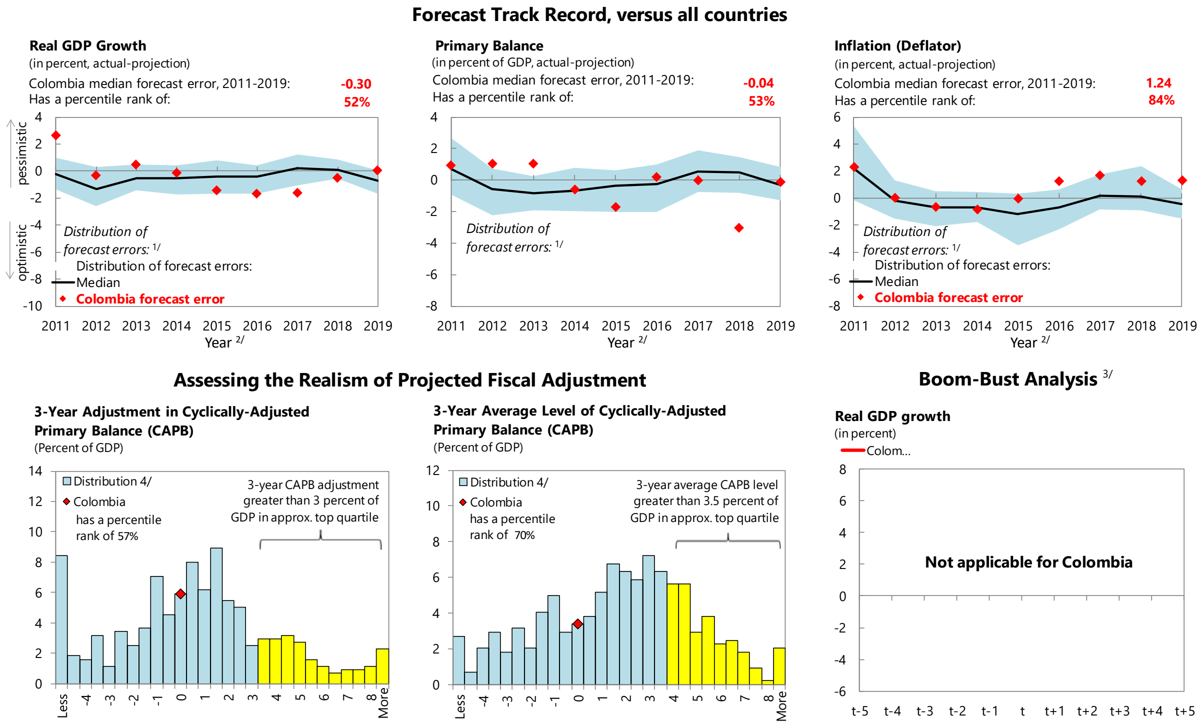
3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, cell is white.
Lower and upper risk-assessment benchmarks are:

200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

4/ EMBIG, an average over the last 3 months, 21-Nov-19 through 19-Feb-20.

5/ External financing requirement is defined as the sum of current account deficit, amortization of medium and long-term total external debt, and short-term total external debt at the end of previous period.

Figure 2. Colombia: Public Sector DSA – Realism of Baseline Assumptions



Source : IMF Staff.

1/ Plotted distribution includes all countries, percentile rank refers to all countries.

2/ Projections made in the spring WEO vintage of the preceding year.

3/ Not applicable for Colombia, as it meets neither the positive output gap criterion nor the private credit growth criterion.

4/ Data cover annual obervations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

Figure 3. Colombia: Public Sector Debt Sustainability Analysis (DSA) – Baseline Scenario

(In percent of GDP, unless otherwise indicated)

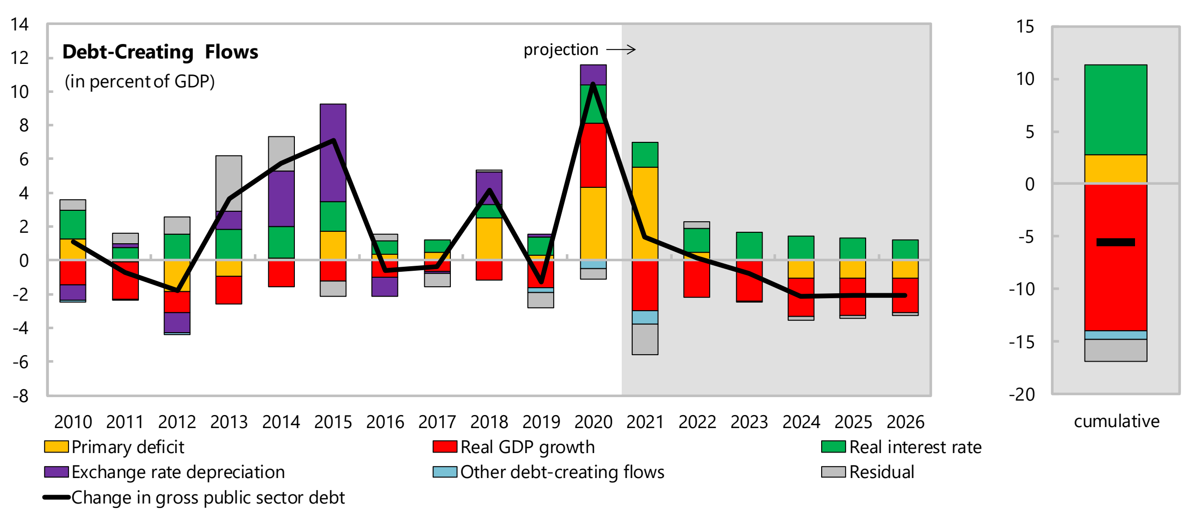
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2010-2018 [2/]	2019	2020	2021	2022	2023	2024	2025	2026
Nominal gross public debt	43.4	52.3	62.8	64.2	64.3	63.5	61.4	59.3	57.2
Public gross financing needs	5.3	7.3	8.7	9.7	7.0	7.0	6.6	6.1	5.7
Real GDP growth (in percent)	3.8	3.3	-6.8	5.1	3.6	4.0	3.8	3.8	3.6
Inflation (GDP deflator, in percent)	3.9	4.0	1.4	3.0	3.1	3.2	3.3	3.4	3.5
Nominal GDP growth (in percent)	7.8	7.4	-5.5	8.4	6.9	7.3	7.3	7.4	7.3
Effective interest rate (in percent) [4/]	7.7	6.3	5.4	5.8	5.6	6.2	5.9	5.9	5.8

As of February 19, 2020		
Sovereign Spreads		
EMBIG (bp) 3/		210
5Y CDS (bp)		103
Ratings	Foreign	Local
Moody's	Baa2	Baa2
S&Ps	BBB-	BBB
Fitch	BBB-	BBB-

Contribution to Changes in Public Debt

	Actual			Projections							
	2010-2018	2019	2020	2021	2022	2023	2024	2025	2026	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	2.0	-1.3	10.5	1.4	0.1	-0.8	-2.1	-2.1	-2.1	-5.5	
Identified debt-creating flows	1.3	-0.4	11.1	3.2	-0.3	-0.7	-1.9	-1.9	-1.9	-3.5	
Primary deficit	0.4	0.3	4.3	5.5	0.5	0.0	-1.0	-1.1	-1.1	2.8	-0.8
Primary (noninterest) revenue and grants	27.4	28.7	26.1	26.5	28.6	28.9	29.1	28.8	28.6	170.5	
Primary (noninterest) expenditure	27.8	29.0	30.4	32.0	29.1	28.9	28.0	27.7	27.5	173.3	
Automatic debt dynamics [5/]	0.9	-0.4	7.2	-1.5	-0.8	-0.7	-0.8	-0.8	-0.8	-5.5	
Interest rate/growth differential [6/]	0.0	-0.6	6.1	-1.5	-0.8	-0.7	-0.8	-0.8	-0.8	-5.5	
Of which: real interest rate	1.3	1.1	2.3	1.5	1.4	1.7	1.4	1.3	1.2	8.6	
Of which: real GDP growth	-1.4	-1.6	3.8	-3.0	-2.2	-2.4	-2.3	-2.2	-2.0	-14.0	
Exchange rate depreciation [7/]	1.0	0.2	1.2	…	…	…	…	…	…	…	
Other identified debt-creating flows	0.0	-0.3	-0.5	-0.8	0.0	0.0	0.0	0.0	0.0	-0.8	
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	-0.3	-0.5	-0.8	0.0	0.0	0.0	0.0	0.0	-0.8	
Residual, including asset changes [8/]	0.7	-0.9	-0.6	-1.8	0.4	-0.1	-0.2	-0.2	-0.2	-2.1	



Source: IMF staff.

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

2/ Based on available data.

3/ EMBIG.

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

5/ Derived as [(r - π(1+g) - g + ae(1+r)]/(1+g+π+gπ)) times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

6/ The real interest rate contribution is derived from the numerator in footnote 5 as r - π (1+g) and the real growth contribution as -g.

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

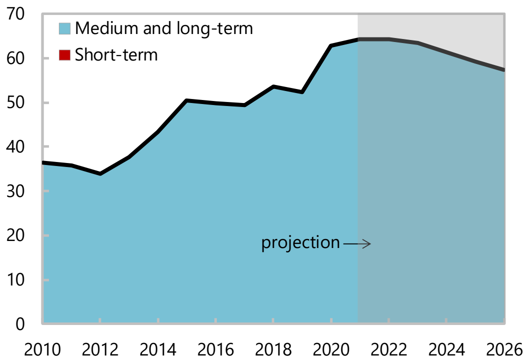
8/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

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

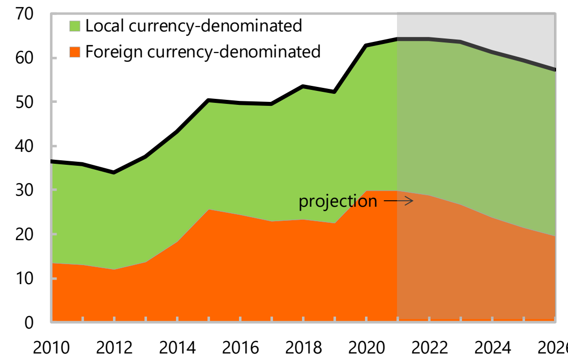
Figure 4. Colombia: Public DSA – Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

By Maturity
(in percent of GDP)



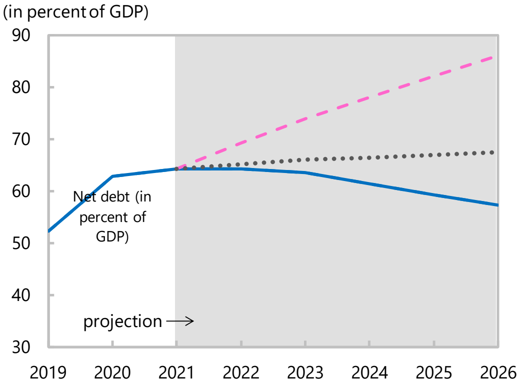
By Currency
(in percent of GDP)



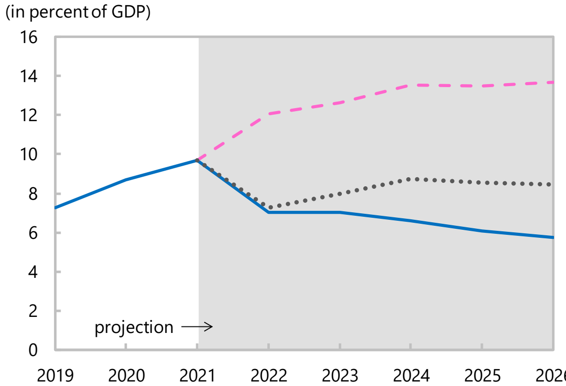
Alternative Scenarios

Baseline   Historical   Constant Primary Balance

Gross Nominal Public Debt
(in percent of GDP)



Public Gross Financing Needs
(in percent of GDP)



Underlying Assumptions
(in percent)

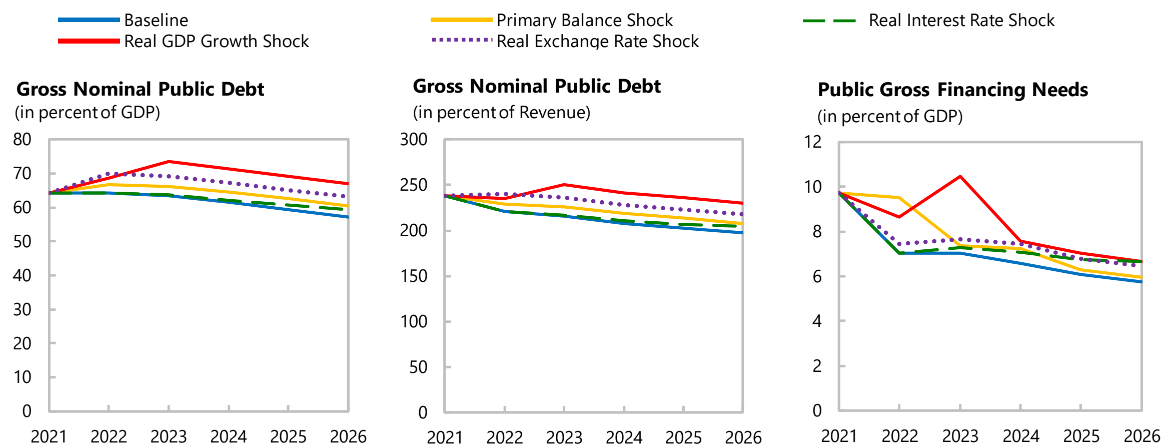
Baseline Scenario	2021	2022	2023	2024	2025	2026
Real GDP growth	5.1	3.6	4.0	3.8	3.8	3.6
Inflation	3.0	3.1	3.2	3.3	3.4	3.5
Primary Balance	-5.5	-0.5	0.0	1.0	1.1	1.1
Effective interest rate	5.8	5.6	6.2	5.9	5.9	5.8
Constant Primary Balance Scenario						
Real GDP growth	5.1	3.6	4.0	3.8	3.8	3.6
Inflation	3.0	3.1	3.2	3.3	3.4	3.5
Primary Balance	-5.5	-5.5	-5.5	-5.5	-5.5	-5.5
Effective interest rate	5.8	5.6	6.0	5.7	5.7	5.6

Historical Scenario	2021	2022	2023	2024	2025	2026
Real GDP growth	5.1	2.6	2.6	2.6	2.6	2.6
Inflation	3.0	3.1	3.2	3.3	3.4	3.5
Primary Balance	-5.5	-0.7	-0.7	-0.7	-0.7	-0.7
Effective interest rate	5.8	5.6	6.3	6.1	6.2	6.2

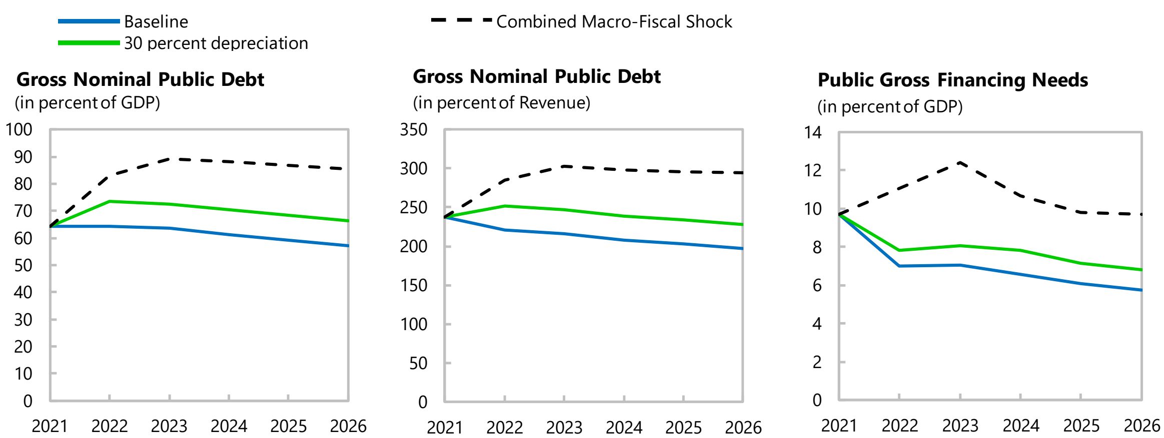
Source: IMF staff.

Figure 5. Colombia: Public DSA – Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions
(in percent)

Primary Balance Shock	2021	2022	2023	2024	2025	2026
Real GDP growth	5.1	3.6	4.0	3.8	3.8	3.6
Inflation	3.0	3.1	3.2	3.3	3.4	3.5
Primary balance	-5.5	-3.0	-0.2	0.5	1.1	1.1
Effective interest rate	5.8	5.6	6.2	5.9	6.0	5.9
Real Interest Rate Shock						
Real GDP growth	5.1	3.6	4.0	3.8	3.8	3.6
Inflation	3.0	3.1	3.2	3.3	3.4	3.5
Primary balance	-5.5	-0.5	0.0	1.0	1.1	1.1
Effective interest rate	5.8	5.6	6.6	6.7	7.1	7.3
Combined Shock						
Real GDP growth	5.1	-0.1	0.3	3.8	3.8	3.6
Inflation	3.0	2.2	2.3	3.3	3.4	3.5
Primary balance	-5.5	-3.0	-2.7	0.5	1.1	1.1
Effective interest rate	5.8	7.1	6.6	6.7	7.1	7.3

Real GDP Growth Shock	2021	2022	2023	2024	2025	2026
Real GDP growth	5.1	-0.1	0.3	3.8	3.8	3.6
Inflation	3.0	2.2	2.3	3.3	3.4	3.5
Primary balance	-5.5	-1.8	-2.7	1.0	1.1	1.1
Effective interest rate	5.8	5.6	6.2	6.0	6.0	5.9
Real Exchange Rate Shock						
Real GDP growth	5.1	3.6	4.0	3.8	3.8	3.6
Inflation	3.0	13.7	3.2	3.3	3.4	3.5
Primary balance	-5.5	-0.5	0.0	1.0	1.1	1.1
Effective interest rate	5.8	7.1	6.2	5.9	5.9	5.8

Source: IMF staff.

Table 1. Colombia: External Debt Sustainability Framework, 2016-2026

(In percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2016	2017	2018	2019	2020			2021	2022	2023	2024	2025	2026	**Debt-stabilizing non-interest current account 6/**
Baseline: External debt	49.4	47.2	46.6	49.9	64.4			**62.4**	**61.9**	**61.1**	**60.2**	**59.2**	**58.3**	**-3.0**
Change in external debt	7.3	-2.1	-0.6	3.3	14.5			-2.1	-0.5	-0.8	-0.9	-1.0	-0.9	
Identified external debt-creating flows (4+8+9)	4.3	-3.9	-0.7	2.9	11.3			-0.5	0.3	0.0	0.0	-0.1	-0.1	
Current account deficit, excluding interest payments	2.8	1.8	2.4	2.1	0.9			1.3	1.3	1.4	1.5	1.5	1.4	
Deficit in balance of goods and services	4.8	2.9	2.8	4.0	4.6			3.9	3.8	4.0	4.0	4.1	4.1	
Exports	15.1	15.8	16.5	16.4	14.4			16.6	16.7	16.7	16.6	16.3	16.0	
Imports	19.9	18.7	19.3	20.4	19.0			20.5	20.6	20.6	20.7	20.4	20.1	
Net non-debt creating capital inflows (negative)	-1.4	-2.9	-1.6	-2.3	-0.6			-1.2	-1.5	-1.6	-1.7	-1.8	-1.9	
Automatic debt dynamics 1/	2.8	-2.7	-1.4	3.1	11.0			-0.6	0.4	0.2	0.3	0.3	0.4	
Contribution from nominal interest rate	1.7	1.7	1.7	2.3	2.4			2.5	2.6	2.5	2.5	2.5	2.4	
Contribution from real GDP growth	-0.9	-0.6	-1.1	-1.6	4.1			-3.0	-2.1	-2.3	-2.2	-2.2	-2.0	
Contribution from price and exchange rate changes 2/	2.1	-3.8	-2.0	2.4	4.5			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	3.0	1.8	0.1	0.3	3.2			-1.6	-0.8	-0.9	-0.9	-0.9	-0.8	
External debt-to-exports ratio (in percent)	326.3	298.8	283.0	304.8	446.8			375.4	369.8	366.8	362.2	363.3	364.0	
Gross external financing need (in billions of US dollars) 4/	36.5	41.0	45.8	47.8	45.3			47.2	46.2	49.8	55.3	57.0	59.9	
in percent of GDP	12.9	13.1	13.7	14.8	16.7			16.0	14.7	15.0	15.6	15.1	15.0	
Scenario with key variables at their historical averages 5/						10-Year Historical Average	10-Year Standard Deviation	**62.4**	**65.9**	**69.5**	**73.2**	**77.2**	**81.4**	**0.9**
Key Macroeconomic Assumptions Underlying Baseline														
Real GDP growth (in percent)	2.1	1.4	2.6	3.3	-6.8	2.6	3.7	5.1	3.6	4.0	3.8	3.8	3.6	
GDP deflator in US dollars (change in percent)	-5.6	8.8	4.5	-6.3	-9.9	-2.4	10.5	3.6	2.3	2.3	2.3	2.4	2.5	
Nominal external interest rate (in percent)	3.8	3.8	3.9	4.8	4.1	4.2	0.4	4.2	4.3	4.3	4.3	4.3	4.4	
Growth of exports (US dollar terms, in percent)	-9.0	15.3	11.6	-3.8	-26.1	0.0	19.7	25.5	6.8	5.8	6.1	4.3	4.4	
Growth of imports (US dollar terms, in percent)	-14.8	3.6	10.8	2.0	-21.7	1.6	15.5	17.8	6.2	6.5	6.5	5.0	4.6	
Current account balance, excluding interest payments	-2.8	-1.8	-2.4	-2.1	-0.9	-2.6	1.2	-1.3	-1.3	-1.4	-1.5	-1.5	-1.4	
Net non-debt creating capital inflows	1.4	2.9	1.6	2.3	0.6	2.3	1.2	1.2	1.5	1.6	1.7	1.8	1.9	

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.

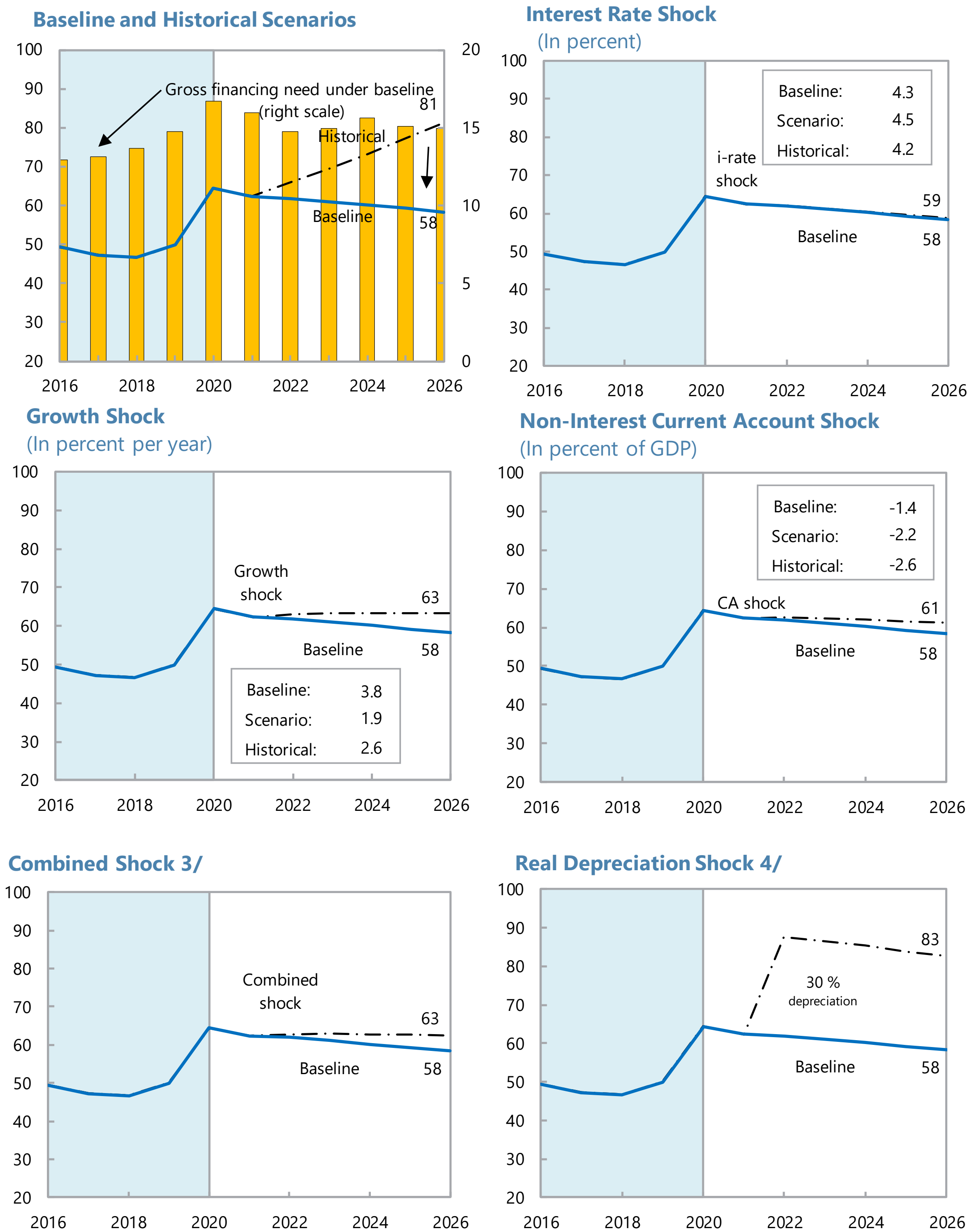
4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period. Excludes estimated amortization of TES.

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

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

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

(External debt in percent of GDP)



Sources: 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 2022.

Annex III. Risk Assessment Matrix

Risk Assessment Matrix[1]

Source of Risks (Probability in color; time horizon in bold)	**Impact**	**Policy Advice for Colombia**
Global		
Unexpected shifts in the Covid-19 pandemic. ▪ **Asynchronous progress.** Limited access to, and longer-than-expected deployment of, vaccines in some countries—combined with dwindling policy space—prompt a reassessment of their growth prospects (for some Emerging and Frontier Markets triggering capital outflows, depreciation and inflation pressures, and debt defaults). **Medium** ▪ **Prolonged pandemic.** The disease proves harder to eradicate (e.g., due to new virus strains, short effectiveness of vaccines, or widespread unwillingness to take them), requiring costly containment efforts and prompting persistent behavioral changes rendering many activities unviable. For countries with policy space, prolonged support—while needed to cushion the economy—exacerbates stretched asset valuations, fueling financial vulnerabilities. For those with limited space, especially EMs, policy support is insufficient. **Medium** ▪ **Faster containment.** Pandemic is contained faster than expected due to the rapid production and distribution of vaccines, boosting confidence and economic activity. **Medium**	**High**	Continue to allow the flexible exchange rate to weaken in response to lower commodity prices. Fiscal policy should accommodate extended urgent temporary spending needs and support the recovery, including extending the suspension of the fiscal rule. Monetary policy should offset demand reductions absent inflationary pressures and supply-side shocks. Faster recovery and a more favorable external environment provide opportunities for quicker reduction in debt.
Sharp rise in global risk premia exposes financial and fiscal vulnerabilities. A reassessment of market fundamentals (e.g., in response to adverse Covid-19 developments) triggers a widespread risk-off event. Risk asset prices fall sharply and volatility spikes, leading to significant losses in major non-bank financial institutions. Higher risk premia generate financing difficulties for leveraged firms (including those operating in unviable activities) and households, and a wave of bankruptcies erode banks' capital buffers. Financing difficulties extend to sovereigns with excessive public debt, leading to cascading debt defaults **Medium**	**High**	Use the flexible exchange rate as the first line of defense against external shocks. Targeted liquidity interventions can address disorderly market conditions, as can use of international reserves, if needed. Reserve accumulation, and controlled build-up of short-term external debt would reduce likelihood and impact of subsequent capital outflows. Allow banks to draw down their capital and liquidity buffers, while updating contingency plans for recovery and, *in extremis*, resolution of banks.
Widespread social discontent and political instability. Social tensions erupt as the pandemic and inadequate policy response cause socioeconomic hardship (unemployment, higher incidence of poverty, and shortages and higher prices of essentials—often exacerbating pre-existing inequities), or due to unequal access to vaccines. Economic activity is disrupted. Growing political polarization and instability weaken policymaking and confidence. **High**	**Low**	To reduce the risk of domestic tensions and protests reaching the intensity observed elsewhere in the region, speed up implementation of NDP and Peace Agreement, with a focus on inequality. If growth slows, further monetary policy accommodation is appropriate. If tax revenue measures are delayed, reprioritize public investment. To reduce the risk or impact of capital flight owing regional contagion, proceed with fiscal consolidation, structural reforms to enhance external competitiveness
Oversupply and volatility in the oil market. Higher supply (due to, e.g., OPEC+ disagreements) and lower demand (including due to a slower global recovery from COVID-19) leads to renewed weakness in energy prices. Uncertainty about production cuts, prospects for the shale gas industry, and the pace of demand recovery lead to bouts of volatility. **Medium**	**High**	Use the flexible exchange rate as the first line of defense against external shocks. If needed, deploy reserves to mitigate the impact of potentially weaker capital outflows. Reduce reliance on oil-related tax revenues.
Accelerating de-globalization. Despite renewed efforts to reach multilateral solutions to existing tensions, geopolitical competition leads to further fragmentation. Reshoring and less trade reduce potential growth. **Medium**	**Medium**	Speed up structural reforms to enhance external competitiveness and economic diversification. Diversify export destinations.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). Non-mutually exclusive risks may interact and materialize jointly.

Risk Assessment Matrix (concluded)		
Colombia Specific		
Renewed delays in infrastructure projects, continued weakness in exports and softer private consumption. **Low**	**High**	Speed up structural reforms to enhance external competitiveness and diversification. Maintain monetary accommodation. Reprioritize public investment projects.
Higher than expected migration flows from Venezuela, greater than anticipated costs per migrant, and/or challenges in assimilating migrants results in additional net fiscal costs and lower potential output. **Low**	**Medium**	Consider extending the suspension of the fiscal rule but ensure medium-term declining path for public debt. Seek concessional financing and aid. Speed-up policies to integrate migrants into the labor force and maximize economic benefits.
Double dip recession or a very sluggish recovery raises risks of deteriorating credit portfolios, while exposures to Central American banks could be a drag on profitability and the balance sheets of Colombian conglomerates **Medium**	**Medium**	Allow banks to draw down their available capital and liquidity buffers, while maintaining strict loan classification and provisioning standards. Step in with additional measures if needed, including subsidies and tax relief aimed at smaller borrowers as well as credit guarantees and (further) asset purchase programs to support banks.
Lack of confidence about tax reform and/or fiscal sustainability leads to a loss of investment grade and higher financing costs. **High** Shortfalls in mobilizing tax revenue leads to large cuts in public investment and social spending, adversely affecting growth and poverty reduction or lead to relaxation of the fiscal rule and higher public debt. **Medium,**	**High** **High**	Eliminate preferential regimes for businesses and broaden the base for personal income taxes and VAT (with targeted transfers for vulnerable groups affected) and strengthen revenue administration. Reprioritize public investment projects. Speed up structural reforms and economic diversification measures.

Annex IV. Supervisory Response to the Pandemic: A Balancing Act

1. In response to the pandemic, the SFC has sought to maintain a delicate balance between upholding regulatory standards and granting temporary relief to borrowers and banks. Like supervisors elsewhere, the SFC has faced a difficult tradeoff: on the one hand, insufficient supervisory flexibility in the face of the extraordinary Covid shock could lead to a sudden and harmful procyclical contraction of credit. On the other hand, failure to properly account for NPLs and sufficiently provision for expected credit losses in a timely manner could lead to hidden losses, bank balance sheet problems, and financial instability down the line.

2. To execute this difficult balancing act, the SFC formulated a two-phase response. The first phase, from March until the end of July, consisted of emergency measures (circulars 7 and 14). These measures allowed banks to provide payment relief to all debtors in good standing, through reductions in interest rates and grace periods of up to 6 months. Countercyclical provisions were also released during this period. However, only about a quarter of banks chose to use them. The second phase, starting in August and expected to last until end-June 2021, consisted of the rollout of the PAD.

3. First-phase measures were broad based with a very high uptake. Banks could grant or refuse payment relief on a case-by-case base.[1] However, due to a very high volume of applications, most banks chose to grant relief including grace periods upon request. Thus, by July-end when these circulars expired, 43 percent of loans by value had obtained some kind of assistance. None of the debtors were reported to credit bureaus as delinquent, and loan classifications remained frozen. Since the maximum grace period was 6 months, the last first-phase grace periods expired at end-Jan 2021. By December 2020, 92.7 percent of loans by value had resumed normal repayment, while 7.3 percent were more than 30 days past due.

4. Second-phase measures under circular 22, which established the PAD, were more targeted and have seen considerably lower take up. The PAD became effective on August 1, allowing for loan restructuring without penalty in terms of loan classification or credit rating. However, while previously all borrowers in good standing could receive relief, qualification criteria under the PAD are more stringent, as banks must provide "objective reasons" for why loan repayments are likely. As a result, only 6.1 percent of loans in terms of value had entered the PAD at end-2020, of which 88 percent had also been covered by the first wave of measures.

5. While uptake is limited, the average relief provided is significant. Qualifying loans under the PAD have benefitted from maturity extensions of 37 months on average, average grace periods have amounted to 6 months and the size of installments has fallen by 28 percent. The average interest rate charged was reduced by 1.6 percentage points.

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[1] Banks also could—and did—grant relief unilaterally, meaning that customers only needed to contact the bank if they *did not* want the relief.

6. Under the PAD, loans may retain their existing loan classification, at least initially. Restructuring under the PAD does not trigger an automatic reclassification of loans. However, from that moment onward, ratings must be reviewed and updated at least twice a year, according to the normal process. As long as borrowers comply with the new payment conditions, which may include lengthy grace periods, they are not reported to the credit bureau. While penalty-less restructuring will come to an end with the PAD's (expected) expiration at the end of June, all then-existing loan modifications will remain in force. Also, during the PAD, banks are required to normally provision for expected losses, as well as for accrued interest.

Annex V. Colombia's Fiscal Rule: Evaluation and Design

A. Background

1. **The structural deficit rule for the central government (CG) was introduced in 2011.**[1] The fiscal rule sets a limit of 1 percent of GDP for the CG structural deficit starting in 2022. To ensure a smooth transition toward this medium-term objective, the law mandated that (i) structural deficits should be declining every year until the limit was reached, and (ii) specific limits for 2014 and 2018 be met. The structural deficit corrects the overall deficit (revenues) for the output gap, and for the difference between actual and long-term oil prices. An independent Consultative Committee on the Fiscal Rule (CCFR) assesses compliance with the rule *ex post* and proposes the headline deficit consistent with the rule *ex-ante*. A Technical Group on Potential Output and a Technical Group on Mining and Energy elaborate 10-year ahead projections for potential growth and oil prices respectively to support the CCFR.

2. **The rule design allows for countercyclical policy and tracking compliance with debt sustainability.** The structural deficit rule not only permits a certain degree of flexibility to accommodate cyclical shocks (letting automatic stabilizers work) but also allows for additional (countercyclical) spending in case growth disappoints due to large shocks. It also contains a well-defined suspension clause if severe events threaten macroeconomic stability. With strong implementation and ex post compliance, the structural deficit objectives would stabilize debt at a low level. The structural deficit targets thus provide clear criteria to evaluate the rule and separate public institutions (the CCRF, the General Comptroller, and the Central Bank) publicly inform about rule compliance, including to congress.

B. Performance of the Rule Before the Pandemic

3. **The rule has always been met before it was suspended.** Since the rule became operational in 2012, headline budget deficit plans for the following years have been formulated consistently with the rule (*ex-ante* compliance). Moreover, real-time estimates of the underlying structural deficits at year-end have always been at or below the deficit limits imposed by the rule (*ex-post* compliance).[2] Neither additional countercyclical spending nor the escape clause had been triggered before 2020, given the rule's design to account for cyclical and oil price shocks.[3] In response to the COVID-19 pandemic, the CCFR first allowed additional countercyclical spending to meet the spending needs associated with the pandemic and then agreed to temporarily suspend the rule given the exceptional nature of the shock.

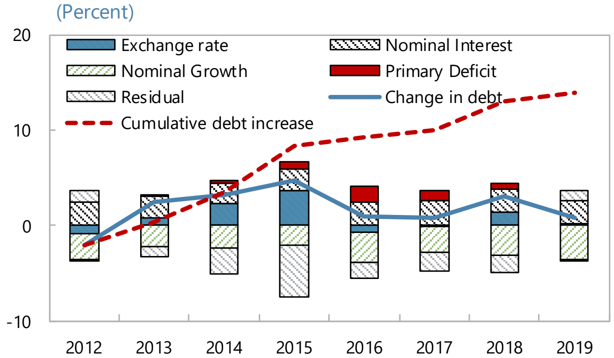
[1] Law 1473 of 2011.

[2] Also, although growth turned out lower than expected in most years, the conditions necessary to trigger extra flexibility or a suspension of the rule have never materialized.

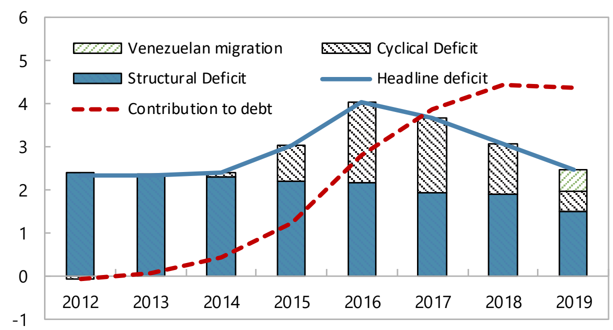
[3] In 2019, the CCFR allowed additional flexibility (outside the rule's remit) to accommodate the fiscal costs associated with support for Venezuelan migrants (see country report 19/106).

4. Despite consistent compliance with the fiscal rule, public debt steadily rose in the aftermath of the 2015 oil price shock. Between 2012–14, high oil prices were deemed in line with their long-term trend (i.e., no oil price "gap") thereby supporting higher headline deficits than otherwise (despite large oil revenues in the budget).[4] The 2015 oil price shock provoked a sustained loss of oil revenues (cumulative loss of about 5½ percent of GDP over 2015-2018). Part of this loss was absorbed by increasing non-oil revenues (through various tax reforms) and reducing primary spending as a share of potential GDP. However, the rest was accommodated through higher overall headline deficits, as oil prices were assessed to be substantially below their long-run trend and as economic slack opened. As a result, despite full compliance with the fiscal rule, gross CG debt increased by about 14 percent of GDP between 2012–19, reaching 50 percent of GDP given the pattern of persistent oil price shocks and challenges in determining the long-run equilibrium in oil prices.[5]

Debt to GDP Decomposition 2012-2019
(Percent)



Deficit to GDP Decomposition 2012-2019
(Percent)



Sources: IMF staff calculations.

5. More conservative estimates of oil revenues would have been the most effective at containing the rise in public debt.[6] More conservative approaches to determine structural oil prices (for example, by subtracting one standard deviation of oil estimates from the estimates of long-term prices) would have led to 3.5 percent of GDP less debt accumulation. Different estimates of the output gap would also have had an impact on debt accumulation but less so. A faster reduction of the structural deficit (for example, limiting the structural deficit to 1 percent of GDP starting in 2016) would have led to lower debt accumulation at end-2018 by only 2.5 percent of GDP. Indeed, current updated estimates of past structural deficits point to a cumulative deviation of only 2 percent of GDP.

[4] Central government revenues include not only income taxes paid by Ecopetrol but also dividends (the government holds 88 percent of Ecopetrol stock).

[5] Of the debt increase, around 6 ½ percent of the increase was driven by the cyclical components (oil and output). Another 6 ½ percent of GDP increase was driven by the sharp depreciation of the exchange in response to the drop in oil prices. These estimates do not include the recognition of other accounts payable worth 1.9 percent of 2018 GDP (see country report 20/106 for more).

[6] To account for the effect that a tighter counterfactual fiscal stance would have had on GDP, it is assumed that all adjustment would have been through spending, with an impact multiplier of 1.

C. Strengthening the Fiscal Rule: Escape Clause, Treatment of One-Offs, Independent Fiscal Council and Mechanisms to Control Debt

6. While the fiscal rule contains a well-drafted escape clause in case of a growth slowdown, its suspension clause for exceptional shocks that threaten economic stability is unspecified and there are not provisions for the treatment of one-offs. Article 6 of the fiscal rule, defines the conditions for and the amount of countercyclical spending should growth disappoint (when growth is 2 percentage points below its long-run level and the output gap is negative) and establishes that counter-cyclical spending must be unwound in two years, in equal parts, if the output gap is positive. Article 11 allows the suspension of the fiscal rule, prior consent by the FRCC, in case severe events threaten macroeconomic stability. However, the suspension clause does not clarify the duration of the suspension, nor the required adjustment once the rule is re-instated.

7. From international best practice on contingency frameworks, credible and effective escape clauses for Colombia should specify:

- **The nature and the size of the triggers.** Events under which fiscal rules can be relaxed or suspended typically include severe economic recessions, large natural disasters, and state of emergency. When these events are well defined and measurable, the rules of some countries specify a minimum size that is required to trigger the clause and the cap on the size of the deviation.

- **The authority to activate and monitor the escape clause.** Activating an escape clause typically requires a body independent of the government such us independent fiscal councils or in some cases parliamentary approval.

- **The mechanisms for returning to the rule.** Escape clauses often predefine the timeframe for (i) re-instating rule compliance and/or (ii) correcting for the cumulative deviation attained during the rule suspension, which typically varies between 3 to 6 years.

8. One-off revenues and spending should be excluded from the calculation of the structural balance given their non-recurrent nature. Establishing clear principles to identify and adjust for one-offs would improve the implementation of Colombia's fiscal rule. While there is no consensus about what determines a one-off, an indicative list of one-off measures has emerged from fiscal surveillance by the OECD, EU, and IMF. On the revenue side, one-offs include i) sales of nonfinancial assets, concessions, licenses, real estate and other immovables, ii) proceeds from tax amnesties, and iii) exceptional revenues from public and private companies, and transfers of pension contributions to the government. On the expenditure side, one-offs include exceptional interventions such as emergency relief after a natural disaster, financial assistance to the banking/private sector under exceptional circumstances, and expenditures related to deposit insurance. Changes in revenues and expenditures resulting from a court ruling, or a temporary change in the timing of collection or payments, or a short implementation period also qualify as one-off. Conversely, exceptional dividends from and repeated financial support to SOEs, as well as large scale military operations and infrastructure projects are not classified as one-offs.

9. International experience also suggests that overseeing compliance is best conducted by an independent fiscal institution. This institution would need to have operational independence, technical capacity, and budget resources that would enable it to undertake its remit.[7] Fiscal councils typically have a statutory mandate to assess publicly and independently the government's fiscal policies, plans, and performance against macroeconomic objectives related to fiscal and macroeconomic stability.[8] In the case of Colombia, the FRCC could form the basis of an independent fiscal council with a clear remit—which should be selected, along with its members, by a political body such as the Executive, Congress, or the congressional budget and finance committee. The council should also have its own staff and resources and timely access to all pertinent data and information.

10. The existing rule lacks an explicit debt anchor. About three-quarters of countries with a fiscal rule combine limits on debt or stock variable with limits on a flow variable (spending or the balance). The benefits for the fiscal framework are as follows. By considering accumulated flows, a debt limit (generally expressed as a ceiling on gross debt-to-GDP ratio) anchors fiscal policy over the long term. To complement this, limits on a flow variable under the direct influence of the government's fiscal policy and that directly affect debt provide guidance over the shorter-run.

[7] Safeguards should be put in place to guarantee that resources remain commensurate to the council's remit at all times, and that funding is subject neither to discretionary executive or political decisions, nor to political interference.

[8] An independent fiscal council should be accountable to the broader public and its political principal. Its actions can be evaluated through peer-reviews, regular hearings before parliamentary committees, uncensored and timely public release of the council's reports, and ex-post assessments by a supreme auditing institution of the fiscal council's fulfillment of its mandate and efficient use of its resources.

INTERNATIONAL MONETARY FUND

COLOMBIA

March 9, 2021

STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared by: The Western Hemisphere Department (In collaboration with other Departments)

CONTENTS

FUND RELATIONS

(As of January 31, 2021)

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

General Resources Account:

	SDR million	Percent Quota
Quota	2,044.50	100.00
Fund holding of currency (Exchange rate)	5,299.69	259.22
Reserve position	494.81	24.20

SDR Department:

	SDR million	Percent Quota
Net cumulative allocation	738.32	100.00
Holdings	619.40	83.89

Outstanding Purchases and Loans:

	SDR million	Percent Quota
Flexible Credit Line	3,750.00	183.42

Latest Financial Arrangements:

			In million of SDR	
Type	**Date of Arrangement**	**Expiration Date**	**Amount Approved**	**Amount Drawn**
FCL	May 1, 2020	Apr 30, 2022	12,267.00	3,750.00
FCL	May 25, 2018	May 24, 2020	7,848.00	0.00
FCL	Jun 13, 2016	May 24, 2018	8,180.00	0.00
FCL	Jun 17, 2015	Jun 12, 2016	3,870.00	0.00

Projected Payments to the Fund (in SDR million):

	Forthcoming				
	2021	**2022**	**2023**	**2024**	**2025**
Principal	0.00	0.00	0.00	1,875.00	1,875.00
Charges/interest	36.58	39.83	39.83	33.62	14.13
Total	**36.58**	**39.83**	**39.83**	**1,908.62**	**1,889.13**

Implementation of HIPC Initiative: Not applicable.

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

Exchange Rate Arrangement: Colombia has a floating exchange rate regime (de jure: free floating; de facto: floating). There are no exchange restrictions subject to Fund approval under Article VIII.

Article IV Consultation: The last Article IV Consultation was concluded on April 17, 2020 (IMF Country Report No. 20/104).

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

Technical Assistance:

Department	Time of Delivery	Purpose
FAD	Aug. 2016	Discussion of the 2017 structural tax reform
STA	Dec. 2016	National Accounts
FAD	Feb. 2017	Revenue Administration
FAD	Mar. 2017	Fiscal Transparency Assessment
STA	Jun. 2017	National Accounts
FAD	Aug. 2017	Tax and Customs Administration
FAD	Sep. 2017	Treasury Management
STA	Sep. 2017	National Accounts
STA	Nov. 2017	Government Finance Statistics
STA	Dec. 2017	National Accounts
STA	Apr. 2018	Sectoral Accounts
STA	Apr. 2018	Residential Property Prices Indices
STA	May. 2018	National Accounts
STA	Sep. 2018	Residential Property Price Index
FAD	Oct. 2018	Tax Administration
STA	Oct. 2018	Consumer Price Index
STA	Dec. 2018	Sectoral Accounts
FAD	Mar. 2019	Compliance and Core Procedures
FAD	Mar. 2019	Fiscal Rule and Fiscal Risks
STA	Mar. 2019	Sectoral Accounts
FAD	Apr. 2019	Energy Subsidy Reform
FAD	Aug. 2019	Establishing a debt anchor and updating the fiscal rule
FAD	Oct 2019	Strengthening the fiscal risk management office and managing fiscal risks from SOEs
FAD	Jul 2020	TADAT Assessment
FAD	Oct 2020	BRP Treasury Reporting

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

World Bank Group:

- Country page: https://www.worldbank.org/en/country/colombia
- Overview of Word Bank Group lending to Colombia: http://financesapp.worldbank.org/en/countries/Colombia/
- IBRD-IDA project operations: http://projects.worldbank.org/search?lang=en&searchTerm=&countrycode_exact=CO

Inter-American Development Bank:

- Country page: https://www.iadb.org/en/countries/colombia/overview
- IADB's lending portfolio: https://www.iadb.org/en/countries/colombia/projects-glance

STATISTICAL ISSUES

(As of February 26, 2021)

General. Provision of macroeconomic statistics is adequate for surveillance. Colombia subscribes to the Special Data Dissemination Standard (SDDS) since 1996 and metadata are posted on the Fund's Dissemination Standards Bulletin Board (DSBB).

National Accounts: The National Department of Statistics (DANE) is responsible for compiling the national accounts, although the Banco de la República (BdR) compiles the financial accounts and stocks according to the *2008 SNA*. Annual and quarterly estimates of GDP by the production and the expenditure approaches use 2015 as the reference year for the annually chained volume measures. The accounts and tables which the Inter secretariat Working Group on National Accounts (ISWGNA) identified as minimum requirements and recommended for implementation of *2008 SNA* are compiled on a regular basis, as listed below: annual value added and GDP at current and at previous year prices, and chain-linked volume series by economic activity; annual expenditure GDP components at current and at previous year prices, and chain-linked volume series; components of annual value added at current prices by economic activity; the sequence of accounts for the economy as a whole (up to net lending) with annual frequency; annual accounts of the rest of the world (up to net lending); quarterly value added and GDP at current and chain-linked volume series by economic activity; quarterly expenditure GDP components at current and chain-linked volume series; and annual supply-use tables. During 2016-20, the Fund assisted DANE and BdR to develop quarterly financial and non-financial accounts by institutional sector. Estimates are available for Q1 2016 – Q2 2020, although they are not expected to be officially published until end-2021 when the non-financial and financial accounts should be fully integrated.

Price Statistics: DANE is also responsible for price statistics and currently compiles and disseminates monthly the consumer price index (CPI) and the producer price index (PPI). The CPI basket and weights were updated in 2019, with the support of STA technical assistance, based on 2016/17 household expenditures. The PPI (December 2014=100) covers agriculture, livestock, fishing, mining, and industry. STA is assisting DANE and BdR to improve residential property price statistics.

Government Finance Statistics: The Ministry of Finance and Public Credit (MFPC) is responsible for the compilation of public revenue, expenditure, and financing data. The Colombian authorities have reaffirmed their commitment to adopt the GFSM 2014 framework, enhance inter-institutional coordination, and increase the resources allocated to compiling government finance statistics. The latest reported data has been published in the Government Finance Statistics Yearbook (GFSY). Next steps include aligning classification of revenue and expense with GFSM 2014 framework, improving consolidation, adopting a common list of public sector entities, and disseminating high-frequency data on a national and international level. The General Accounting Office (GAO) developed a single accounting framework for the public sector based on International Public Sector Accounting Standards and maintains a financial management information system containing accounting information of all public sector units. The MFPC's Macroeconomic Policy Unit and the GAO developed a bridge table that converts national accounting classification to the GFSM 2001 framework to compile GFS on accrual and cash bases.

Monetary and Financial Statistics: The Banco de la Repúblicareports the Standardized Report Forms (SRFs) 1SR for the central bank, 2SR for the other depository corporations (ODCs), and 5SR for monetary aggregates for publication in the IMF's International Financial Statistics (IFS) on a monthly basis with a lag of two months for the 1SR and 4 months for the 2SR. The Superintendencia Financiera de Colombia (SFC) compiles data for other financial corporations (OFC) using SRF 4SR. However, the last reported OFC data are for December 2014. This delay in reporting is due to an ongoing review of the SFC and efforts to map the former to the International Financial Reporting Standards (IFRS). The classification of financial instruments and economic sectors follows the MFSM.

The Banco de la República reports data on several series indicators of the Financial Access Survey (FAS) including the two indicators (commercial bank branches per 100,000 adults and ATMs per 100,000 adults) adopted by the UN to monitor Target 8.10 of the Sustainable Development Goals (SDGs).

Financial Sector Surveillance: Colombia has reported Financial Soundness Indicators (FSI) beginning from 2005 and latest data is available up to October 2020. Colombia reports all core and ten encouraged FSIs for deposit takers on a regular monthly basis. The FSIs along with metadata and the underlying series are available on the IMF's data portal (http://data.imf.org/).

External Sector Statistics: The BdR is in charge of compiling and disseminating quarterly balance of payments and international investment position (IIP) statistics, which are produced on a sixth edition of the Balance of Payments and International Investment Position Manual (BPM6) basis. Improved surveys, particularly in the services sector, have enhanced the coverage of balance of payments statistics. Recording of transactions in securities between residents and nonresidents in secondary markets could be improved. The BdR also monthly compiles and disseminates the Data Template on International Reserves and Foreign Currency Liquidity, reports semi-annual data to the Coordinated Portfolio Investment Survey (CPIS), and submits quarterly external debt statistics to the Quarterly External Debt Statistics (QEDS) database. However, Colombia has not reported data to the Coordinated Direct Investment Survey (CDIS) yet.

Colombia: Table of Common Indicators Required for Surveillance
(As of February 26,2021)

	Date of Latest Observation	Date Received	Frequency of Data[1]	Frequency of Reporting[1]	Frequency of Publication[1]
Exchange Rates	Feb. 18, 2021	Feb. 18, 2021	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[2]	Jan. 2021	Feb. 2021	M	M	M
Reserve/Base Money	Jan. 2021	Feb. 2021	W	W	W
Broad Money	Jan. 2021	Feb. 2021	W	W	W
Central Bank Balance Sheet	Jan. 2021	Feb. 2021	W	W	W
Consolidated Balance Sheet of the Banking System	Nov. 2020	Feb. 2021	M	M	M
Interest Rates[3]	Feb. 18 2021	Feb. 18, 2021	D	D	D
Consumer Price Index	Jan. 2021	Feb. 2021	M	M	M
Revenue, Expenditure, Balance and Financing Composition[4] – General Government (GG)[5]	Q1 2020	Sep. 2020	Q	Q	Q
Revenue, Expenditure, Balance and Financing Composition[4] – Central Government	Sep. 2020	Nov. 2020	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt[6]	Dec. 2020	Jan 2021	M	M	M
External Current Account Balance	Q3 2020	Dec. 2020	Q	Q	Q
Exports and Imports of Goods and Services	Q4 2020	Feb. 2021	Q	Q	Q
GDP/GNP	Q4 2020	Feb. 2021	Q	Q	Q
Gross External Debt	Nov. 2020	Feb. 2021	M	M	M
International Investment Position[7]	Q3 2020	Dec. 2020	Q	Q	Q

[1] Daily (D); Weekly (W); Monthly (M); Bi-monthly (B); Quarterly (Q); Annually (A); Irregular (I); Not Available (NA).
[2] Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.
[3] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[4] Foreign, domestic bank, and domestic nonbank financing.
[5] The GG consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[6] Including currency and maturity composition.
[7] Includes external gross financial asset and liability positions vis-à-vis nonresidents.

Statement by Mr. Romero Tarazona on Colombia
March 19, 2021

On behalf of the Colombian authorities, I would like to thank staff for a helpful and concise report on the country as it handles the COVID-19 pandemic; and for the deep and open discussion during the Article IV Consultation. The staff´s insights have been valuable to enrich the authorities' policy analysis in these challenging times.

Recent developments

The pandemic has led to the largest recession on record, with significant economic and social consequences, particularly for vulnerable groups whose work opportunities have been hampered by the necessary lockdowns and mobility restrictions. The Colombian economy contracted by 6.8 percent in 2020. Despite the large drop in economic activity, GDP performance in 2020Q4 was encouragingly better than expected, growing by 6 percent with respect to 2020Q3. Despite the magnitude of the shock, the Colombian authorities have been using a credible and flexible policy framework to support the economy and foster aggregate demand in 2021, which is key to reactivate the economy and restore employment.

Although the gradual recovery now underway is expected to continue in the coming months, a second outbreak in January could transitorily dampen the projected pace of economic recovery. Output is estimated to reach pre-pandemic levels in the second half of 2022. In the meantime, inflation has remained subdued, below the 3 percent target of the Central Bank and standing at 1.56 percent as of February, according to the latest figures. Inflation is expected to rise throughout the year as the effects of the pandemic-related price relief measures vanish and economic activity picks up. Despite this, anchored inflation expectations along with a weak labor market and subdued pressures on the demand side point to a gradual convergence to target over the policy horizon. The current account deficit fell in 2020 as a result of the contraction in domestic absorption, and it is expected to widen marginally with the recovery and local spending.

Regarding global risks, changing external economic and financial conditions may impinge on economic performance and the macro forecast. The recent steepening of the yield curve in the United States may have an impact on the foreign exchange market and on local financial conditions. So far, however, ample international liquidity continues to favor the country's access to external financing. Higher commodity prices, especially oil prices, are improving the Colombian terms of trade, buttressing external and fiscal revenues, FDI, as well as local economic activity.

On the fiscal side, my authorities are contributing to the recovery of our economy through maintaining some emergency support measures for the most vulnerable households and firms, and a significant increase in public investment in 2021 while ensuring fiscal sustainability by means of a fiscal reform that would mainly take effect in 2022 and over the medium term.

As it happens every year, my Government has recently published the country's financial plan for 2021. The document shows that the effects of the pandemic on the fiscal outcome in 2020 was substantial, reversed the primary surplus achieved in 2019 and carries into 2021. As compared with previous estimates, discussed in October with the independent committee that overlooks the fiscal rule, the observed deficit was a bit smaller in 2020 and a bit larger in 2021.

The financial plan projects higher levels of fiscal deficit in 2021 compared to 2020, this considering the following: i) the carry-over of health care spending from 2020 not yet completed; ii) the vaccination process that will cost around 0,5 percent of GDP; iii) social spending and subsidies for the poorest, including Venezuelan immigrants; and iv) the current pandemic should not be seen as one-year shock but as a two-year shock—considering the difficulties for certain sectors to bounce back quickly, and the possible secondary wave of infections and new lockdowns.

Recognizing that the pandemic's impact extends well beyond last year, it is very important to remark that the Colombian authorities have been active in the containment of COVID-19 and are advancing with an ambitious vaccination program that would be completed in 2021. They also remain committed to supporting the income and welfare of the most vulnerable groups of society, aiding affected companies to avoid loss of formal sector jobs, and taking steps to regularize two million Venezuelan migrants through a Temporary Protection Status (TPS) program, a humanitarian cost that nonetheless will boost the growth potential of the economy in the medium term.

In this scenario, my authorities expect that the strong macroeconomic policy framework and the soundness of policies implemented in response to the shocks will allow economic agents to maintain their confidence in the Colombian economy and its overall strength.

Monetary policy, exchange rate, and external buffers

Colombia follows a fully-fledged inflation-targeting regime that has successfully responded to previous shocks. Since the beginning of the pandemic, the Central Bank has been committed to stabilize key markets under stress, support credit supply and stimulate aggregate demand. Given the large increases in excess capacity stemming from the COVID 19 shock and the sharp decrease in headline and core inflation, the policy interest rate was reduced by 250 bps since March 2020, standing today at a historical low of 1.75 percent.

In the course of the pandemic, the implementation of a broad array of measures allowed the Central Bank to effectively address pressures arising from the shock. The enlargement of temporary liquidity facilities by expanding the allotment, maturity, admissible collateral, and admissible counterparts for its repo operations helped reduce liquidity problems observed in public and private debt markets. In addition, the Central Bank auctioned USD through NDFs and FX swaps to provide liquidity in the FX market. While providing liquidity and supporting local financial markets, the Central Bank increased its foreign liquidity buffers by accumulating nearly 5 billion dollars in international reserves during 2020. International reserves are within the adequacy range suggested by the Fund's ARA metric and have remained within that range during the last years. This, together with the increased access to the Fund's Flexible Credit Line (FCL), reinforced confidence in the Colombian macro-economic framework among foreign creditors and investors. Communication regarding increased access under the FCL last September was actively managed, and the signals to the markets were appropriate and well received, helping the country navigate the pandemic´s uncertainty.

My authorities are allowing the exchange rate to adjust to the shocks within the inflation-targeting regime. Low currency mismatches allow for limited balance sheet effects for government, banks and the real sector, while the credibility of the Central Bank mitigates the effects of currency depreciation on inflation expectations.

The partial disbursement of the FCL arrangement in the amount of SDR 3.75 billion (about US$5.3 billion, or 183 percent of quota, or about 2 percent of GDP) last year helped to meet balance of payments needs and provided support for the budgetary response to the COVID-19 crisis. The Central Bank purchased part of these funds from the Government in order to maintain sufficient international liquidity to insure against heightened external risks.

Fiscal policy

Since 2011, with the Fiscal Responsibility Law, a fiscal rule complemented a medium-term framework to anchor the fiscal policy. However, the pandemic has added considerable uncertainty to the fiscal outlook, mainly due to the sharp contraction in revenues and the continuous pressure on public accounts caused by the expenditure efforts to contain the outbreak, support formal employment and protect the incomes of the most vulnerable segments of the population. A year ago, in response to the pandemic, the government created the National Emergency Mitigation Fund (FOME), further supporting the healthcare sector and vaccines negotiation, acquisition and logistics, creating new credit lines for businesses and social transfers for vulnerable households. Returning to the fiscal rule is a safeguard to anchor debt sustainability over the medium term and remains a commitment of my authorities following the increase in public debt caused by the crisis.

In addition, the government will present a fiscal reform to promote inclusive growth and ensure sound public finances by raising revenues equitably and efficiently while safeguarding key social spending and public investment. This includes modifications to the Value Added Tax structure, reducing VAT exceptions and fostering VAT refunds to vulnerable population (a program that began last year). This bill will also expand the tax basefor individuals' income tax, and it will propose rules to strengthen Tax Administration and itsmodernization process.

Financial sector

The financial sector in Colombia remains liquid, solvent and well capitalized, although the pandemic´s impact has hurt profitability of financial institutions and quality of the loan portfolio, and it constitutes a source of uncertainty going forward. The financial system behaved very well after the COVID-19 shock, allowing for transmission of the countercyclical monetary policy response, preserving credit supply and channeling a substantial fraction of government subsidies to the most fragile segments of the population. Implementation of the Basel III standards remains on track.

Stress tests carried by the Central Bank highlight the robustness of the sector, while careful supervision by the Office of the Financial Superintendent will continue. My authorities are grateful to the Fund for the current FSAP, which will allow the country to continue strengthening its regulatory framework and tackle any vulnerabilities found due to the COVID-19 outbreak.

Final remarks

During the last two decades, Colombia has made impressive progress in reducing poverty and inequality, consolidating the middle class while taking very important steps to strengthen its policy framework and foster economic growth with the constant support of the IMF. The extreme shock that the country has been facing is a remarkable challenge for my authorities and the country's policy framework. The flexibility and soundness of our policies enabled the authorities to respond swiftly to the pandemic on several fronts, promptly resuming a path of economic growth. After this spending and investment plan, and once the economy is stabilized in 2022, my Government is planning to reinstate the fiscal rule, strengthen the fiscal committee and reestablish the debt anchor. Furthermore, the Government has announced a fiscal reform as it considers better to start early this hard but necessary process to maintain confidence in the economy's underlying fundamentals and in our policy frameworks.