INTERNATIONAL MONETARY FUND

IMF Country Report No. 24/82

COLOMBIA

March 2024

2024 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 2024 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 27, 2024 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 27, 2024, following discussions that ended on February 14, 2024, 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 8, 2024.
- 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

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

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International Monetary Fund
Washington, D.C.

PRESS RELEASE

PR24/99

IMF Executive Board Concludes 2024 Article IV Consultation with Colombia

FOR IMMEDIATE RELEASE

Washington, DC – **March 28, 2024:** The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Colombia on March 27, 2024

With the sharp growth slowdown in 2023 from an overheated post-pandemic position, the Colombian economy has reached more sustainable levels of economic activity and domestic demand. This has been underpinned by appropriately tight macroeconomic policies over the last two years, which have supported an impressive reduction in domestic and external imbalances built up during 2021-22.

The Colombian economy is set to continue its transition toward a more sustainable level of demand and economic activity with domestic imbalances continuing to narrow further in 2024. Real GDP is expected to expand by 1.1 percent and inflation to gradually fall to around 5 percent (y/y) by end-2024 on the back of prudent macroeconomic policies. Meanwhile, the current account deficit is projected to stabilize around 3.0 percent of GDP this year.

Although risks to the outlook remain elevated and to the downside, Colombia's very strong economic fundamentals, policies, and policy frameworks support its resilience. On the external front, risks emanate from an intensification of geopolitical tensions, tighter global financial conditions, and disruptions to supply chains, which could adversely impact Colombia's growth and inflation. Domestically, a stronger *El Niño*, weaker private demand, miscalibration of policies, or reform uncertainties could hinder economic activity and/or lead to higher inflation. The two-year Flexible Credit Line (FCL) arrangement, with access amount equivalent to SDR7.1557 billion (about US$9.8 billion) approved in April 2022, provides additional external buffers against tail risk scenarios on a precautionary basis, enhancing Colombia's already strong resilience.

Executive Board Assessment[2]

Executive Directors commended the authorities for their very strong macroeconomic policies and policy frameworks, which have facilitated a marked reduction in domestic and external imbalances despite a challenging environment. Directors highlighted that the Flexible Credit Line (FCL) further supports resilience by providing additional external buffers against tail risks and enhancing market confidence. Noting the downside risks to the outlook, Directors emphasized the importance of continued careful calibration of macroeconomic policies to durably reduce remaining imbalances, while also advancing Colombia's social agenda.

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[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.

Structural reforms aimed at boosting productivity and supporting the energy transition would also be important.

Directors commended the fiscal consolidation efforts in the past two years as well as the continued gradual removal of distortive fuel subsidies. They also welcomed the authorities' continued commitment to the fiscal rule. Noting that the fiscal plan for 2024 poses risks, Directors broadly encouraged the authorities to take proactive steps to scale back current spending plans while protecting the vulnerable. Directors underscored that this would help lower borrowing costs and also support disinflation efforts. Reorienting public expenditures toward investment would also facilitate the energy and climate transition and enhance potential growth.

Directors commended the central bank's tight monetary policy stance which resulted in a significant decline in the inflation rate. Moving forward, a cautious and data driven monetary policy normalization remains important with effective communication to better anchor inflation expectations. Directors also agreed that Colombia's flexible exchange rate regime should continue to facilitate external adjustments and welcomed the central bank's plan to proactively build additional international reserves.

Directors agreed that the financial sector remains resilient and recommended continued close monitoring of risks, including given rising NPLs, and encouraged continued progress in implementing the 2022 FSAP recommendations. They emphasized that managing potential financial stability risks from the proposed pension reform would be important.

To boost sustainable medium term growth, Directors recommended reforms aimed at lifting productivity and encouraging private investment. They emphasized that reforms to healthcare, pensions, and labor markets should be designed within the existing policy frameworks, while preserving fiscal and financial stability, and balancing equity and efficiency considerations. Directors commended the authorities' objective of reducing the country's reliance on oil and coal and noted the importance of a well designed and executed energy transition and export diversification plan. They also encouraged the authorities to step up efforts to further strengthen governance and transparency, and mitigate corruption risks.

Table 1. Colombia: Selected Economic and Financial Indicators, 2020-29

I. Social and Demographic Indicators

Population (million), 2023. Projection	51.0	Unemployment rate, Dec. 2023 (NSA, percent)	10.2
Urban population (percent of total), 2022	82.1	Physicians (per 1,000 people), 2021	2.4
GDP, 2023		Adult illiteracy rate (ages 15 and older), 2020	4.4
Per capita (US$)	7,168	Net secondary school enrollment rate, 2018	77.5
In billion of Col$	1,572,658	Gini coefficient (national), 2022	55.6
In billion of US$	365.8	Poverty rate (national), 2022	36.6
Life expectancy at birth (years), 2021	72.8		
Mortality rate, (under 5, per 1,000 live births), 2021	12.8		

II. Economic Indicators

				Estimate[1]	Projections					
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
	(In percentage change, unless otherwise indicated)									
National Income and Prices										
Real GDP	-7.2	10.8	7.3	0.6	1.1	2.5	3.0	3.0	3.0	3.0
Potential GDP	-1.1	4.8	4.6	2.4	2.3	2.0	2.2	3.0	3.0	3.0
Output Gap	-6.4	-1.0	1.6	-0.2	-1.3	-0.8	0.0	0.0	0.0	0.0
GDP deflator	1.5	7.8	14.9	6.3	5.6	3.0	3.0	3.0	3.0	3.0
Consumer prices (average)	2.5	3.5	10.2	11.7	6.4	3.6	3.0	3.0	3.0	3.0
Consumer prices, end of period (eop)	1.6	5.7	13.2	9.3	5.3	3.0	3.0	3.0	3.0	3.0
External Sector										
Exports (f.o.b.)	-20.5	32.3	39.2	-11.7	-2.3	0.5	2.5	2.3	3.2	3.6
Imports (f.o.b.)	-18.5	37.7	26.3	-17.1	-0.2	3.1	3.4	3.8	3.7	3.6
Current account (deficit -)	-3.4	-5.6	-6.2	-2.7	-3.0	-3.3	-3.4	-3.5	-3.6	-3.6
Terms of trade (deterioration -)	-2.1	6.6	25.0	-5.2	-2.0	-1.2	-1.4	-0.5	-1.1	-0.5
Real exchange rate (depreciation -) 2/	-7.7	-3.2	-4.7	6.1						
Central Government										
Revenue	-11.2	16.9	33.6	24.1	5.9	5.4	7.0	7.3	5.7	6.5
Expenditure	16.4	19.5	14.8	14.8	11.1	1.8	4.1	6.1	4.8	4.3
Money and Credit										
Broad money	10.3	13.6	4.8	3.9	4.4	5.4	6.1	6.2	6.2	6.2
Credit to the private sector	-0.8	12.5	5.9	4.0	4.5	5.8	6.4	6.5	6.5	6.5
	(In percent of GDP)									
Public Sector										
Central government (CG) balance 3/	-7.8	-8.1	-5.3	-4.3	-5.3	-4.5	-3.9	-3.7	-3.5	-3.1
Central government structural balance 4/	-6.3	-7.6	-5.5	-4.8	-5.1	-4.4	-3.9	-3.8	-3.6	-3.1
Consolidated public sector (CPS) balance 5/	-6.9	-7.0	-6.1	-2.6	-3.2	-3.0	-2.7	-2.5	-2.3	-2.0
CPS non-oil structural primary balance	-4.3	-4.9	-4.6	-0.9	-0.2	0.0	-0.2	0.0	-0.1	-0.2
CPS fiscal impulse (excluding Social Security) 6/	2.3	1.0	-1.2	-2.2	-1.3	-0.3	0.2	-0.2	0.1	0.2
Public sector gross debt 7/	65.7	64.0	60.1	52.5	54.4	55.6	55.7	55.4	55.2	54.5
External Financing Needs 8/	18.0	17.6	19.3	15.6	15.5	16.2	16.7	16.8	16.7	15.6
External debt	66.6	61.6	60.3	59.7	57.5	56.6	57.1	57.3	57.5	57.1
Of which: public sector 6/	42.7	39.9	37.4	36.0	34.9	34.8	35.0	34.9	34.7	34.7
Memorandum Items										
Gross domestic investment (in percent of GDP)	19.1	18.9	19.7	12.8	12.9	14.5	14.7	14.6	14.6	14.4
Gross national savings (in percent of GDP)	15.7	13.3	13.6	10.1	9.9	11.2	11.4	11.1	11.0	10.8
Gross international reserves (USD billion) 9/	58.5	58.0	56.7	59.1	60.4	61.2	61.8	62.4	63.2	64.1
Private consumption (in percent of GDP)	71.3	73.8	76.1	76.5	76.4	75.8	75.3	74.9	74.9	74.9
Public consumption (in percent of GDP)	17.2	17.1	16.1	16.1	15.8	15.7	15.5	15.4	15.4	15.4
Private investment (in percent of GDP)	14.4	14.1	14.8	13.3	13.7	14.7	15.4	15.8	15.8	15.9
Public investment (in percent of GDP)	3.5	4.8	4.9	4.5	3.6	3.3	3.3	3.4	3.5	3.5
Share of ST debt at remaining maturity + CA deficit	106	89	103	101	95	89	85.9	82.8	85.3	84.0
CG primary expenditures (in percent of GDP)	20.2	19.7	17.2	19.1	19.5	18.9	18.6	18.6	18.8	18.8
CPS primary expenditures (in percent of GDP)	30.6	31.1	29.7	30.8	29.2	28.5	28.2	28.2	28.3	28.4

Sources: Colombian authorities; UNDP Human Development Report; World Development Indicators; and IMF staff estimates.
1/ Estimate for monetary sector variables and fiscal sector variables (consolidated public sector-CPS) .
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Private investment (in percent of GDP)	14.4	14.1	14.8	13.3	13.7	14.7	15.4	15.8	15.8	15.9
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Sources: Colombian authorities; UNDP Human Development Report; World Development Indicators; and IMF staff estimates.

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INTERNATIONAL MONETARY FUND

COLOMBIA

STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION

March 8, 2024

KEY ISSUES

Context. With the sharp growth slowdown in 2023 from an overheated post-pandemic recovery, the Colombian economy has reached more sustainable levels of economic activity and domestic demand, with a marked reduction in domestic and external imbalances owing to appropriately tight macroeconomic policies. Market confidence has improved, but risk premia remain high compared to peers. Meanwhile, progress on the social reforms in Congress has been limited.

Outlook and Risks. Economic growth is projected to slightly increase in 2024 as macroeconomic policies are gradually normalized. Inflation is set to gradually decline and reach 3 percent by end-2025. Risks to the outlook have improved but remain elevated and to the downside. Maintaining the track record of very strong policies would continue to help support Colombia's capacity to respond to shocks.

Recommendations. While important gains have been achieved in reducing imbalances, policies should aim to durably eliminate them while facilitating a smooth convergence of the economy to potential levels. This will require continuing to gradually normalize macroeconomic policy stances and advancing on the structural reform agenda to boost productivity, encourage investment, and diversify the economy.

- *Monetary and Exchange Rate Policies*. Cuts in the monetary policy rate should continue with caution with a backloaded pace aiming to bring inflation durably to target by mid-2025. Further strengthening communication can help more strongly anchor inflation expectations. The exchange rate should continue to flexibly respond to shocks, as it appropriately has done, unless disorderly market conditions arise, in line with the Integrated Policy Framework (IPF). A further gradual strengthening of international reserves would be appropriate as conditions allow.

- *Fiscal Policy*. While the underlying fiscal policy stance remains tight, the planned increases in the overall deficit and debt this year pose fiscal risks. Given revenue uncertainties, proactively scaling back certain expenditure plans would reduce the risk of needing to again identify spending cuts later in the year to meet the fiscal rule. Reorienting expenditures towards investment within this lower spending envelope could support the energy transition and enhance growth potential.

- *Financial Sector Policies*. While the financial sector has been resilient, continuing to monitor rising nonperforming loans (NPLs) and maturity risks will be important. Progress should continue in implementing FSAP recommendations. Thorough analyses of potential implications of the pension reform on financial stability should help inform reform discussions.

- *Social and Structural Reforms*. The broad objectives of the administration's equity and climate agenda are welcomed. It remains important to design reforms within Colombia's very strong policy frameworks and in a manner that addresses problems in the current system while ensuring alignment of economic incentives and encourages investment. Clear communication on policy direction and broad political support are essential for the reforms to be durable. Further advancing structural reforms to enhance productivity and diversify the economy remains essential.

- *Governance*. Reform efforts should be complemented with a further strengthening of governance and transparency and reduction of corruption risks, including through (i) the development of a comprehensive risk-based anti-corruption strategy; (ii) the continuous publication of comprehensive and easily accessible income and asset declarations of politically-exposed persons; and (iii) the public access to effective beneficial ownership information.

Approved By
Luis Cubeddu (WHD) and Martin Čihák (SPR)

Discussions took place in Bogotá during January 31-February 14, 2024. The team comprised Ceyda Oner (head), Marco Arena, Vu Chau, and Roberto Perrelli (all WHD), Zoltan Jakab (MCM), and Sergio Rodríguez (SPR). José De Haro (COM) led the press interactions and Alice French (LEG) led meetings on governance issues. Mr. Betancur (OED) also participated in the discussions. The mission met with the Central Bank Governor and Board, and the Minister of Finance, as well as the Ministers of Health, Environment and Sustainable Development and senior officials from the Ministries of Labor, Energy and Mines, Commerce, Financial Superintendency, Financial Guarantee Fund, and the National Infrastructure Agency. The mission also met with think tanks, civil society organizations, and private-sector representatives. A press conference was held at the end of the mission on February 14, 2024. Daria Kolpakova (WHD) provided valuable inputs to the report. Kristine Laluces and Eliana Porras (all WHD) provided excellent administrative coordination.

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TABLES

ANNEXES

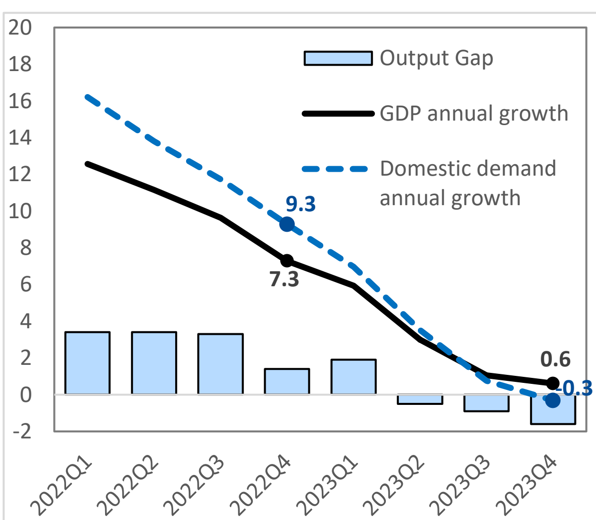
CONTEXT

1. **The Colombian economy is converging to a more sustainable level of economic activity and domestic demand, with a marked narrowing of imbalances**. Appropriately tight macroeconomic policies over the last two years have allowed for an impressive reduction in domestic and external imbalances that had built up during 2021-22. Market indicators have generally improved over the last year, although perceived risk remains high compared to peers. Macroeconomic policy priorities are to manage the transition to a more sustainable path, durably eliminating remaining imbalances and gearing up the economy for a more productive, diversified, lower carbon future. Congressional debates on social reforms continue.

RECENT DEVELOPMENTS

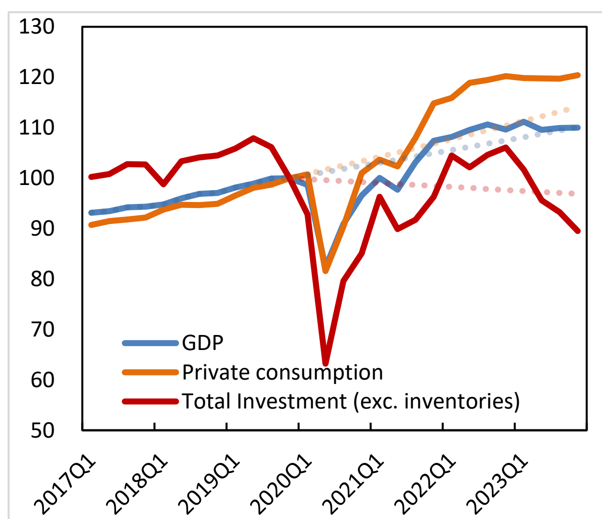
2. **The economy slowed sharply in 2023 from an overheated post-pandemic recovery, stabilizing near its trend at a high level of activity** (Figure 1). Real GDP expanded by 0.6 percent in 2023; a substantial moderation from 7.3 percent in 2022 and the lowest growth rate since the 1990s except for the pandemic downturn in 2020. Notwithstanding the slowdown, real GDP returned to its pre-pandemic trend by 2023:Q4, after two years of operating well above trend. In fact, the large positive output gap that had opened up during the post-pandemic recovery closed during 2023, although estimates of economic slack are subject to high uncertainty. Construction, manufacturing, and the commerce sectors saw relatively larger declines, while services continued to be resilient.

Growth and Output Gap
(Percent)



Sources: DANE and IMF staff calculations.

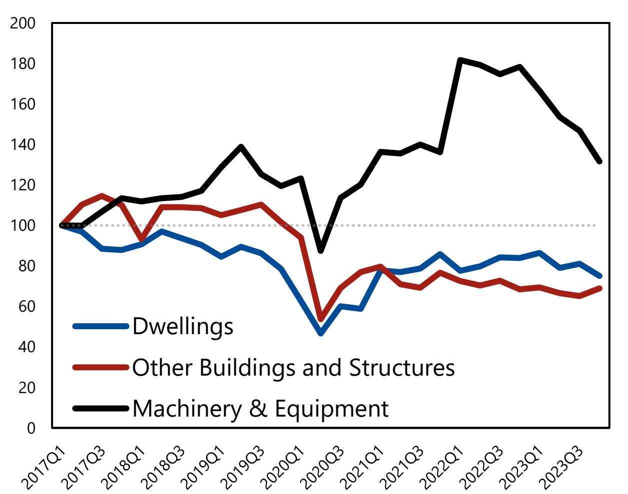
GDP Levels Versus Pre-Pandemic Trends
(Index, 2019 Q4 = 100)



Sources: DANE and IMF staff calculations.

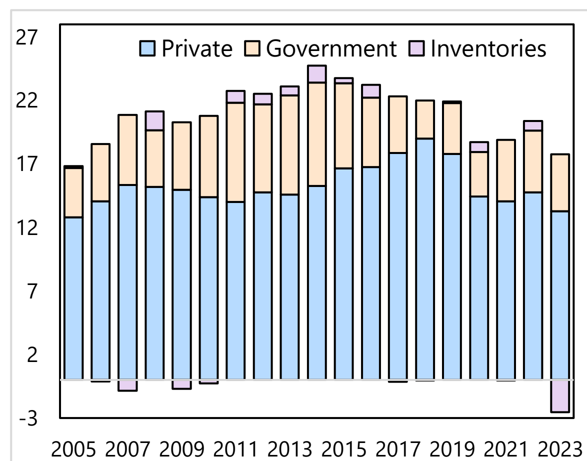
3. The overall trends hide important diverging consumption and investment dynamics. Private consumption has remained resilient and is now 5 percentage points above its pre-pandemic trend, in the context of a robust labor market and real wages.[1] Meanwhile, investment, which had been weakening even before the pandemic, has fallen sharply over the past year and now stands 10 percent below its pre-pandemic trend, led more recently by declines in machinery and equipment investment from post-pandemic peaks. In contrast, longer-term weakness in investment comes from housing (*dwellings*) and civil works (*other buildings and structures*, mainly infrastructure). The sharp contraction in overall investment likely reflects not only tight policies but also general uncertainties (see Box 1).

Total Investment by Type
(Index, 2017Q1 = 100)



Sources: DANE and IMF staff calculations.
Note: *Dwellings*, *Other Buildings and Structures*, and *Machinery & Equipment* are the three largest items which together account for more than 90 percent of fixed capital formation.

Public and Private Investment
(Percent of GDP)



Sources: DANE and IMF staff calculations.

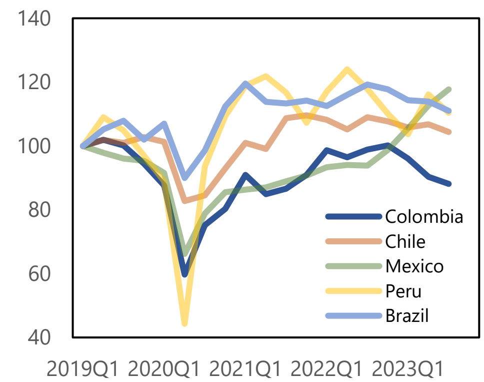
4. The labor market has remained resilient yet has started to soften more recently (Figure 2). Colombia's labor market was strong during most of 2023, with labor force participation reaching pre-pandemic levels and unemployment falling well below the pre-pandemic average (around 10 percent) by mid-2023, reflecting in part the strength of the services sector. Labor market conditions began to soften in the second half of 2023, as unemployment started rising (reaching 10.8 percent by end-2023). The softening was across the board, including women and youth, where unemployment remains highest.

[1] Real wages moderated in the first half of 2023 from a historically high level, though they have started rising again in recent months as inflation declined.

Box 1. Understanding Recent Investment Trends in Colombia 1/

Since the pandemic, Colombia's investment recovery has lagged regional peers. After suffering one of the largest drops in investment during the pandemic (second among the LA5), its recovery has been much slower than peers. Investment only returned to 2019 levels in late-2022 before declining sharply again in 2023. While part of the recent contraction in investment reflects policy efforts to dampen overheated demand, lags in Colombia's investment relative to peers (with similar, albeit earlier, tightening cycles) suggests that additional factors could be weighing on investment.

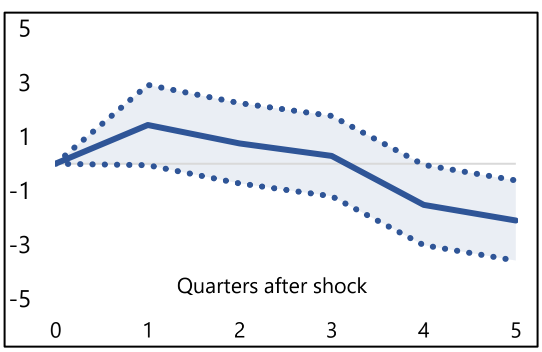
Investment in LA5 Countries
(Index, 2019:Q1=100)



Sources: WEO and IMF staff elaborations.

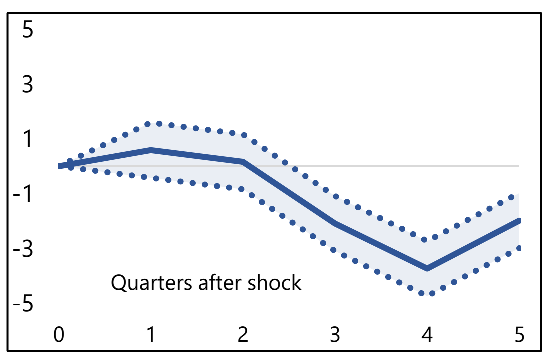
One such factor is uncertainty. To study the impact of uncertainty (and separate it from the impact of monetary policy), a local projection exercise (Jordà, 2005) is conducted on historical data of LA5 countries (Brazil, Chile, Colombia, Mexico, and Perú). Two sources of uncertainty are studied: *politics/institution/policy* uncertainty and *macroeconomic* uncertainty. While the results confirm the negative impact of tighter monetary policies on investment, they also suggest that political/policy uncertainty has played an important role. In the case of Colombia, the increase in the uncertainty index of 2 points during 2021-2022 could explain more than two-thirds of the investment decline during 2022-23 (while uncertainty instead declined and contributed positively to investment in other LA5 countries, except for Brazil). However, recent declines in Colombia's uncertainty index suggest that investment could improve in the coming years. Unlike political uncertainty, macroeconomic uncertainty is not found to be important for investment dynamics.

Investment Response to Monetary Policy
(Percent)



Sources: WEO, Economist Intelligent Unit (EIU), and IMF staff calculations.
This chart plots the impulse response function (IRF) of investment to a one-percent increase in the ex-ante real interest rate and a 68-percent confidence band.

Investment Response to Policy Uncertainty
(Percent)

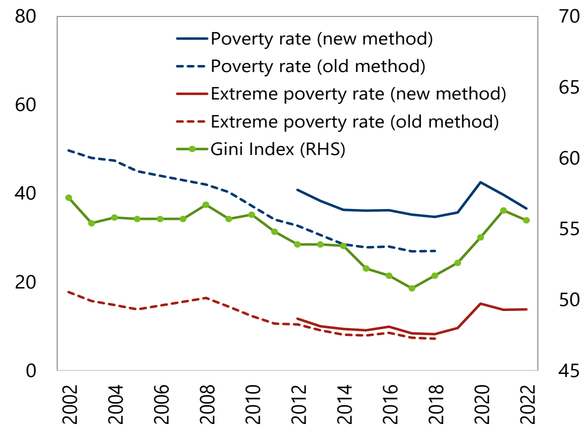


Sources: WEO, EIU, and IMF staff calculations.
This chart plots the IRF of investment to a one-point increase in the EIU Politics/Institution risk index and a 68-percent confidence band.

[1/] Prepared by Vu Chau.

5. Social indicators have recovered yet remain below pre-pandemic levels. Colombia had made progress in reducing poverty over the two decades before the pandemic (Text chart). After rising sharply with the pandemic, the poverty rate has returned to pre-pandemic levels by end-2022, but extreme poverty has lagged, likely reflecting the persistently high food inflation during 2022. The recent rise in income inequality, after important declines, reflects a series of factors, possibly including a lasting impact of the pandemic.

Poverty and Inequality
(Percent)



Source: DANE.

6. Tight policies facilitated continued reductions in headline inflation and inflation expectations, although core inflation has been stickier (Figure 3). Headline inflation declined from a peak of 13.3 percent (y/y) in March 2023 to 7.7 percent (y/y) in February 2024, led by lower food inflation, and notwithstanding the effects of the significant but necessary increase in regulated prices. Core inflation has also declined, albeit more slowly, from 10.6 percent (y/y) in April 2023 to 7.6 percent in February. Stubbornly high services inflation, which in part is due to high indexation to past inflation, added to the persistence of both headline and core inflation. That said, one and two-year ahead inflation expectations have been trending down, reaching 4.8 and 3.5 percent, respectively, in February.

7. The central bank started reducing monetary policy rates in December. The policy rate was kept unchanged since April 2023 (at 13.25 percent) until the first two consecutive cuts of 25 bps each in December and January. This implied a tightening in the policy stance in real (ex-ante) terms throughout 2023 and kept it tight in early 2024 as inflation (and inflation expectations) continued declining during the period (Figure 3). In its recent communiques, the central bank reiterated its objective to bring inflation towards the 3 percent target and conveyed that the economy continues on the adjustment path necessary for inflation to converge towards the target by the first half of 2025 at the latest.

8. Tight policies also facilitated a significant current account adjustment (Figures 4-5). The current account deficit narrowed sharply to 2.7 percent of GDP in 2023, from 6.2 percent in 2022, despite less favorable terms of trade, amid tight policies (*à la* twin deficits; see Selected Issues Paper, Chapter 3) and a broad-based import compression. The continued strength of tourism receipts and remittances as well as lower import services due to the normalization of international shipping costs also helped improve the current account. The current account deficit was financed by foreign direct investment (FDI) inflows, which reached 4.8 percent of GDP, helping to more than compensate for net portfolio outflows, mainly from residents increasing their assets abroad. Meanwhile, the real effective exchange rate (REER) appreciated about 28 percent in 2023 (end-of-period), partly reversing the depreciation in 2022. On a preliminary basis, Colombia's external position for 2023 is assessed to be broadly in line with a level consistent with medium-term fundamentals and desired policy settings (Annex II), with uncertainty surrounding point estimates.

9. **International reserves remain adequate**. International reserves were relatively unchanged last year, standing at a comfortable $59.1 billion by end-2023 (119 percent of the ARA metric). Last December, the central bank announced a plan to gradually accumulate reserves, market conditions permitting, for up to US$1.5 billion over the next two years, to maintain adequate reserves as access under the Flexible Credit Line (FCL) is expected to be reduced while global uncertainty is expected to persist. As of end-January, almost USD 0.2 billion were already purchased under Banrep's plan.

10. **Supported by the recent tax reforms, fiscal consolidation continued in 2023.** The central government's (CG) overall deficit narrowed from 5.3 percent of GDP in 2022 to 4.3 percent of GDP last year (Text table and Figure 6), largely owing to the lagged impact of the 2021-22 tax reforms, slightly over-performing the fiscal rule deficit limit for the second consecutive year. Nevertheless, primary expenditures (excluding payments to the Fuel Price Stabilization Fund, FEPC) increased by 1.5 ppt of GDP, mostly reflecting increases in social transfers. The overall policy stance last year was contractionary, with the overall combined public sector deficit narrowing from 6.1 percent of GDP in 2022 to 2.6 percent of GDP in 2023.[2] This consolidation, together with the nominal appreciation of the peso (¶11) and relatively high inflation, supported a reduction in public debt from 60.1 percent of GDP in 2022 to an estimated 52.5 percent at end-2023, with the currency appreciation contributing about 6¼ ppt of GDP of the decline. Meanwhile, net CG debt—the medium-term anchor in the fiscal rule—is estimated to have dropped from 57.9 percent of GDP at end-2022 to an estimated 52.8 percent of GDP, also mainly on account of the nominal peso appreciation, falling below the 55 percent anchor much earlier than expected.

Selected Fiscal Indicators, 2020-23

(Percent of GDP)

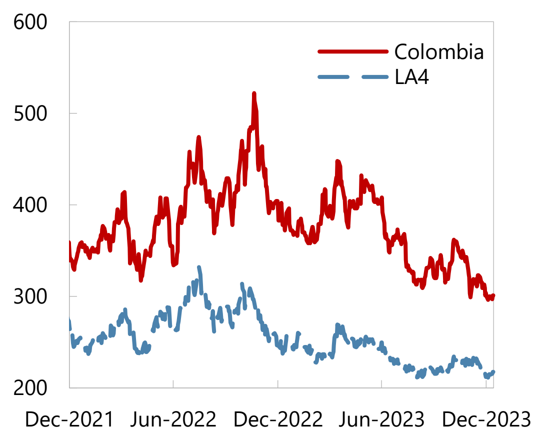
	2020	2021	2022	2023 (est.)
Central Government				
Headline Balance 1/	-7.8	-8.1	-5.3	-4.3
Total Revenue	15.3	15.0	16.2	18.8
o/w Tax Revenue	13.1	13.6	14.4	16.7
Expenditure	23.1	23.1	21.5	23.1
Primary Expenditure	20.2	19.7	17.2	19.1
Interest Payments	2.8	3.3	4.3	3.9
Structural Primary Non-Oil Balance	-5.0	-4.9	-2.7	-2.8
Combined Public Sector (CPS)				
Headline Balance 2/	-6.9	-7.0	-6.1	-2.6
Total Revenue	26.6	27.2	27.8	32.3
Total Expenditure	33.5	34.3	33.9	35.0
Structural Primary Non-Oil Balance	-4.3	-4.9	-4.6	-0.9
Fiscal Impulse 3/ ("-" = contractionary)	*2.3*	*1.0*	*-1.2*	*-2.2*
CPS Gross Debt 4/	65.7	64.0	60.1	52.5

Sources: Ministry of Finance and IMF staff estimates.
1/ For 2021, includes privatization receipts that, under GSFM 1986 used by the authorities, produces a headline deficit of 7 percent of GDP.
2/ Includes the quasi-fiscal balance of Banco de la República, sales of assets, phone licenses, and statistical discrepancy. For 2021, excludes privatization receipts (see 1/ above).
3/ To control for valuation effects, it excludes changes in Social Security balances.
4/ Includes Ecopetrol, Fogafin, and Finagro.

[2] The FEPC deficit declined to 1.1 percent of GDP in 2023 (from 2.7 percent of GDP in 2022) owing to the ongoing adjustments to gasoline prices, which reached international levels by end-2023.

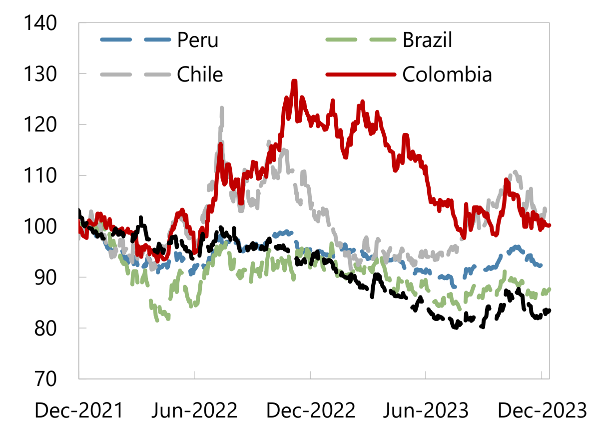
11. Improved global sentiment and efforts to reduce domestic imbalances supported a recovery in Colombian assets prices, although sovereign spreads remain elevated compared to peers. Last year, the peso appreciated by about 21 percent (y/y) against the USD in nominal terms (end-of-period), one of the highest appreciations among EMs, largely on account of the confidence effects related to improvements in the fiscal and external positions, with global factors playing a less important role. Government bond yields and EMBIG spreads declined to pre-election levels, though they remain above those of peer countries (Text Charts and Figure 7).

EMBIG Spreads
(In bps)



Note: LA4 is unweighted average for Brazil, Chile, Mexico, and Peru.
Sources: Bloomberg L.P. and IMF staff elaborations.

Exchange Rate
(Relative to USD; Index, January 2022=100)



Sources: Haver Analytics and IMF staff calculations.

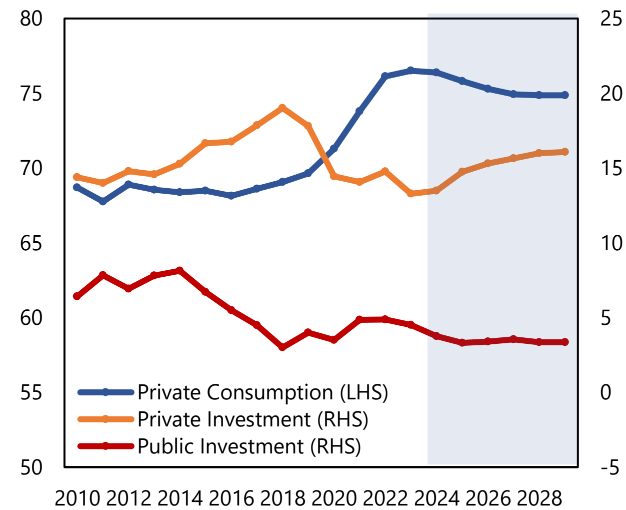
12. The financial sector remains resilient amid slowing credit growth, rising NPLs, and regulatory actions (Table 7, Figures 7-8). Credit growth has declined to more sustainable levels (from 18 percent y/y in August 2022 to about 3.3 percent y/y in December 2023) owing to tight macroeconomic policies, higher provisioning requirements for consumer loans, and tightened lending standards. With economic growth slowing sharply, NPLs have been rising, especially in consumer loans, from 4.5 percent in early 2022 to 8.4 percent in November 2023. As a result, the provisioning coverage ratio has declined from 136 percent (December 2022) to about 115 percent (November 2023) but remains adequate.[3] Some funding pressures that arose around mid-2023 due to a culmination of factors, including the full implementation of Net Stable Funding Ratio (NSFR) regulation, were quickly addressed with the Financial Superintendency (SFC) delaying NSFR's full implementation by two years and Banrep providing temporary liquidity in the secondary market. The banking sector remains liquid and well-capitalized, with the capital adequacy ratio well above regulatory minimum and the liquid assets to total asset ratio above 17 percent.

[3] In late November, the Financial Superintendency issued a norm (*Circular Externa 017*), which includes a reduction from 4 to 3 of the indicators to trigger the deaccumulation phase and an extension from 18 to 24 months the period to rebuild countercyclical provisions.

OUTLOOK AND RISKS

13. The economy is set to continue its transition toward a more sustainable level of economic activity and demand. Real GDP is expected to grow by 1.1 percent in 2024 on the back of less-tight macroeconomic policies, and gradually converge to potential by early 2026. Private consumption growth is expected to moderate as the labor market softens and consumer credit remains tight, while private investment is expected to slowly recover from its depressed levels as the direction of policies becomes clearer and financial conditions normalize (text chart). Over the medium-term, real GDP growth is expected to reach its potential growth rate of around 3 percent, supported by economic gains from large-scale infrastructure projects (e.g., the fifth generation (5G) infrastructure agenda) and the integration of Venezuelan migrants. The long-term potential growth estimate is somewhat lower (¼ ppt of GDP) than previously estimated, reflecting prolonged weaknesses in investment.

Consumption and Investment Shares of GDP
(Percent)



Sources: DANE and staff projections.

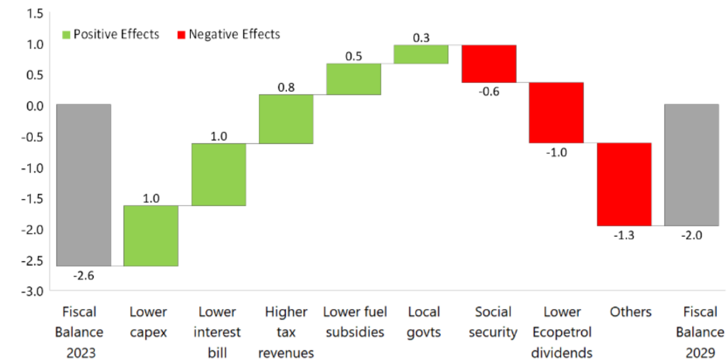
14. In addition, domestic imbalances are expected to narrow further, while the current account is expected to converge to its medium-term average. The tight but normalizing macroeconomic policies (see ¶15) are projected to support a gradual reduction in inflation close to 5 percent (y/y) by end-2024 before reaching 3 percent by end-2025. Meanwhile, the current account deficit is projected to increase to around 3 percent of GDP this year, on account of lower commodity prices and some recovery in imports driven by slightly higher domestic demand growth, before converging to its medium-term average of about 3¾ percent of GDP. Over the medium-term the current account is also supported by continued strength in non-traditional exports (Section D).

15. Fiscal and monetary policies are expected to remain tight during 2024 and fully normalize afterwards (Tables 3-4). The fiscal stance—measured as the changes in the CPS structural non-oil primary balances (excluding valuation changes)—is expected to remain in contractionary territory this year, despite a widening CG balance (see ¶22), before shifting toward a neutral stance in 2025-26.[4] Over the medium term, the overall CPS deficit is projected to converge to around 2 percent of GDP, with further increases in tax revenues, along with lower subsidies, investment, and interest expenditures, more than offsetting higher social spending, and lower

[4] Other indicators (e.g., the changes in CG non-oil headline and structural primary balances) also show a tight stance.

profits from the state-owned oil-company (see text table and Section B). Monetary policy is also expected to remain tight this year, but increasingly less so, until 2025 (see Section A).

Main Drivers of Medium-Term Fiscal Consolidation
(Combined Public Sector, in percent of GDP)



Sources: Ministry of Finance and IMF Staff Estimates.

16. While risks to the outlook have receded, they remain elevated and to the downside (Annex III). Risks to the global economy have moderated, although they remain high. An intensification of geopolitical tensions around the world could further tighten global financial conditions, disrupt supply chains, and raise global food prices, adversely impacting Colombia's growth outlook and adding to inflation pressures. Tighter global financial conditions could lead to exchange rate pressures, fuel domestic inflation, risk premia, and exacerbate growth-inflation trade-offs. Domestically, a stronger-than-expected *El Niño* could also hinder economic activity and raise inflation. A miscalibration of the timing and pace of policy rate cuts could hinder disinflation, jeopardizing central bank credibility. Weaker-than-expected private demand due to tighter financial conditions and/or a softer labor market also pose downside risks to growth. While risk premia have declined from last year, uncertainties over the direction of policies could raise borrowing costs and undermine private investment.

17. In this context, contingency planning and agile policy responses to shocks will remain essential to preserving Colombia's macroeconomic stability. Colombia's adequate buffers (including the FCL) and its sustained track record of very strong policy implementation should mitigate risks and continue to support the country's resilience and capacity to respond to shocks. Should shocks exacerbate inflationary pressures and/or raise external imbalances, macroeconomic policies would need to remain tighter for longer to avoid a de-anchoring of inflation expectations and to contain debt servicing costs. Additional efforts may be necessary to protect the most vulnerable while respecting the fiscal rule limits.

Authorities' Views

18. The authorities broadly agree with the characterization of risks. The current balance of risks is characterized by high levels of uncertainty. On the external front, key risks include geopolitical tensions, the fragmentation of international trade and the volatility of international capital markets. While inflation has declined considerably despite significant increases in fuel prices, upward risks still exist, mainly from climate shocks and the persistence of services inflation. Risks to GDP growth are to the downside which heighten policy trade-offs. Uncertainty regarding possible non-linear responses of inflation to aggregate demand and of aggregate demand to the cumulative effects of monetary tightening is a particular concern.

POLICY DISCUSSIONS

With inflation and borrowing costs still high and growth slowing sharply, macroeconomic policies will need to be carefully calibrated to durably reduce imbalances, strengthen public finances, and manage a smooth transition to potential activity levels over the medium term. Monetary policy rate cuts should proceed with caution and be effectively communicated to continue reducing inflation and expectations to target. Scaling back expenditure plans to pursue slightly smaller deficits than allowed by the fiscal rule and reorienting spending towards investment can reduce fiscal risks and borrowing costs, support a faster normalization of monetary policy, and create space to address climate and social reform needs. Meanwhile, social reforms should be designed and implemented in compliance with Colombia's very strong policy frameworks, addressing problems in the current system while aligning economic incentives to encourage private investment. Structural reforms should aim to boost productivity and domestic saving, which are low relative to peers. Reducing dependence on oil and coal will require carefully calibrated energy transition and export diversification strategies. Reform efforts should be usefully complemented with further strengthening governance, transparency, and reducing corruption risks.

A. Monetary and Exchange Rate Policies: Proceed with Caution, with Exchange Rate Flexibility

19. Monetary policy normalization should proceed with caution and be effectively communicated to continue reducing inflation and expectations to target. Notwithstanding the improvements noted above, inflation remains well above peers' and has shown more persistence than expected, even after considering the impact of the commendable regulated price adjustments. Similarly, inflation expectations, while falling, have remained above the central bank's inflation target of 3 percent since July 2021. Given upside risks to inflation, including from El Niño and high indexation, it will be necessary to proceed with caution in future policy rate reductions. Aiming to bring inflation firmly to the 3 percent target by mid-2025 would strike an appropriate balance between strengthening credibility while safeguarding economic activity. Achieving this objective would in turn imply gradually reducing the policy rate in a backloaded way, maintaining a tight stance as inflation and expectations decline further, while remaining data-dependent and adjusting the pace of cuts as needed to reach the target within the desired time frame. Enhanced communication, focusing on the inflation target level and the expected time horizon to bring inflation to that target, while recognizing risks and uncertainties, can help more strongly anchor inflation expectations.

20. The flexible exchange rate should continue to play its role as a shock absorber, with intervention limited to certain circumstances, as guided by the *Integrated Policy Framework* (IPF). Colombia's flexible exchange rate regime is one of the pillars of its inflation targeting framework and has served the economy well. Against an unfavorable external backdrop, the exchange rate should continue to adjust flexibly to shocks. In line with the IPF guidance, foreign exchange market intervention (FXI) should be used only if large shocks lead to disruptive illiquidity, risk de-anchoring inflation expectations, or there are FX mismatches that pose significant risks to financial stability. The announced plan to gradually accumulate $1.5 billion in reserves (¶9) is appropriate and would help keep reserves well within the adequacy range going forward.

Authorities' Views

21. Banrep shared the view that monetary policy normalization should proceed with caution. They recognize that while inflation and inflation expectations have been declining significantly, they remain elevated and are above target. They also see higher near-term risks to inflation, justifying caution with the pace of future reductions in the policy rate, which will remain data dependent. They conveyed that monetary policy needs to balance reaching its inflation objective and safeguarding credibility while also avoiding an unduly contractionary stance. They noted the high degree of uncertainty in the forecast horizon, which they saw as warranting avoiding undue specificity in their public communications. The fully flexible exchange rate is seen as a key pillar of Colombia's policy framework and would continue playing its shock absorbing role. FXI is limited to addressing disorderly market conditions and reserve purchases aimed at strengthening coverage ratios. The authorities noted that Colombia maintains adequate levels of international reserves and they perceive the IMF's Flexible Credit Line as a valuable complement to the external liquidity buffers.

B. Fiscal Policy: Continued Prudent Fiscal Management is Essential

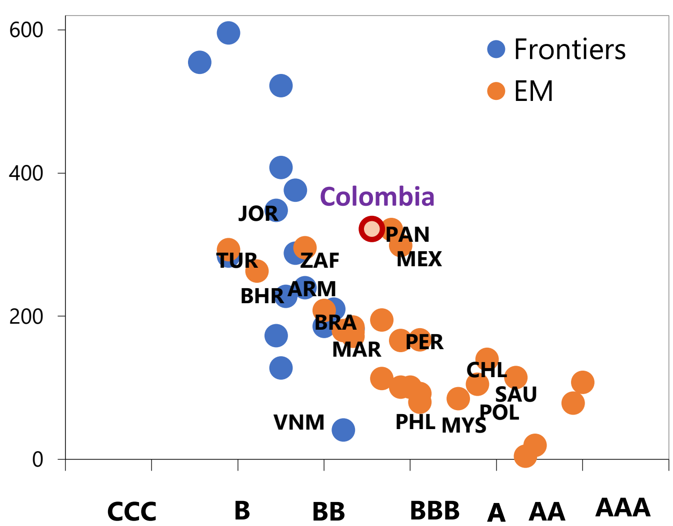
22. The planned increases in the deficit and debt for 2024 pose fiscal risks. Over the past two years, the fiscal deficits and public debt were lowered significantly, commendably over-complying with the fiscal rule, and greatly reducing the vulnerabilities built up during the pandemic years. The 2024 Financial Plan (FP) targets an improvement in the net structural primary balance by 1.2 percentage points (as per the fiscal rule), although the overall deficit is set to increase to 5.3 percent of GDP, and net CG debt to 57 percent of GDP this year, reversing much of the gains achieved last year when borrowing costs remain high. Behind the larger deficit are ambitious but uncertain gains from faster resolutions of tax arbitrations and a 1 percentage point of GDP increase in primary CG expenditures to above pandemic highs, reflecting mostly higher social transfers.[5] The higher CG deficit is projected to increase the CPS deficit to 3.2 percent of GDP in 2024, with public debt reaching 54.4 percent of GDP, despite the expected reduction of the fuel subsidy account deficit and higher surpluses of subnational governments. Should revenues fall short of expectations, expenditure plans would need to be scaled back relative to the Budget law, as done in 2023, to comply with the fiscal rule. Moreover, reducing primary expenditures over time to the goal in the Medium-Term Fiscal Framework (MTFF) toward 19 percent of GDP (compared to 20 percent of GDP

[5] Staff's baseline projections exclude gains from faster resolutions of tax arbitrations with concomitantly lower expenditures in 2024 relative to the FP reflecting the fact that the law needed for arbitrations has not advanced in Congress.

this year) would be difficult given budget rigidities on transfers and may require compressing much-needed public investment to comply with the fiscal rule.[6]

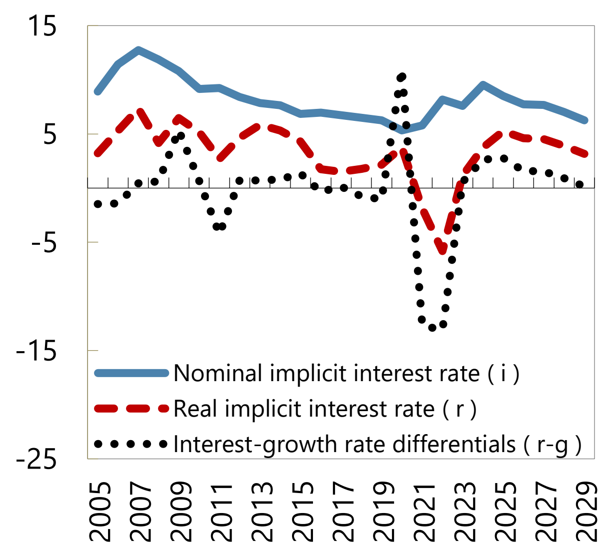
23. Proactively scaling back expenditure plans would help lower borrowing costs and allow monetary policy to normalize faster. While Colombia has some fiscal space and its public sector debt is assessed to be sustainable with high probability under a wide range of plausible shock scenarios (Annex IV), borrowing costs have been above that of peers since Colombia lost investment grade in 2021. In fact, Colombia's borrowing costs are higher compared to countries with similar credit ratings (Text Chart). Moreover, assuming a similar currency composition and maturity structure of the outstanding stock of debt, the favorable real interest rate and growth rate differential (r-g) that supported debt dynamics in recent years is projected to reverse going forward (Text Chart).[7] As such, scaling back expenditure plans and thereby pursuing slightly smaller deficits than allowed by the fiscal rule would not only reduce the risk of needing to identify spending cuts later in the year, but also lower debt and financing needs. Importantly, this strategy would support a faster normalization of the monetary policy stance, which in turn would help support competitiveness, lower private sector borrowing costs, and pave the way for Colombia to regain investment grade in a timely manner. This strategy would also leave space under the fiscal rule to scale up future spending in the event of negative shocks and to cover the potential costs of the climate and social reforms (see ¶30 and Section D).

Maturity-Weighted Average Yield on Dollar Bonds
(Percent)



Sources: Bloomberg and IMF staff elaborations.

Interest Growth Rate Differentials
(Percent)



Sources: Haver Analytics, BanRep, Staff Estimates.

[6] Transfers are indexed to past and projected revenues, which further increase budget rigidities.

[7] Colombia's r-g averaged about negative 3.8 percent during 2020-23 compared with almost zero during 2005-19. Staff projects r-g to turn positive over the medium term, reflecting lower GDP deflator and nominal potential growth rates and a normalization of domestic and foreign interest rates.

24. Reorienting expenditures towards investment, within a scaled back spending envelope, would support the energy transition and enhance growth potential. Colombia's ambitious climate and energy transition plans will require increased public and private investment. Shifting some of the public spending envelope to infrastructure and climate-related projects would promote Colombia's objective of boosting its growth potential and being a global leader in the climate transition agenda. Within the envelope proposed above, a "spending shift" from current to capital expenditures would also restore public investment to its historical average. Moreover, fully eliminating diesel subsidies would generate savings of about 0.5 ppt of GDP per year during 2024-25, while reducing reliance on fossil fuels in line with Colombia's climate goals. Reducing budget rigidities and assessing the quality and targeting of social transfers and public investment could improve resource allocation and further support social and climate objectives.

Authorities' Views

25. The authorities reiterated their firm commitment to meet the fiscal rule. They highlighted the substantial fiscal consolidation in 2022 and 2023, which resulted in an overcompliance of the fiscal rule targets and reduced debt below the 55 percent of GDP anchor. They also underscored that the deficit and debt plans in the 2024 Financing Plan (FP) are fully aligned with the fiscal rule, and revenue projections already include lower gains from tax litigations, with concomitantly lower spending—relative to both the 2024 Budget Law and last year's MTFF. The flexibility afforded by the fiscal rule to handle shocks and one-off transactions is adequate to meet the fiscal objectives of maintaining debt close to the anchor and underpinning sustainability. While recognizing that borrowing costs are elevated, they noted the improvements in sovereign spreads over the last year. They stressed that, during 2024, expenditures will be executed according to the pace of revenue collections and that budget cuts to comply with the deficit limit, if needed, will be made during the fiscal year. To this end, the authorities issued a Presidential decree in late February to improve the efficiency and effectiveness of public resources.[8] They noted the importance of boosting public investment but acknowledged that budget rigidities (e.g., pertaining to current transfers) limit the scope for spending shifts, often resulting in reliance on public investment cuts to meet deficit targets.

C. Financial Sector Policies: Reinforcing Resilience

26. Close monitoring of NPLs, household indebtedness, and maturity risks should continue. As the economy continues its adjustment towards more sustainable growth, NPLs are likely to continue rising before recovering and household indebtedness will remain elevated, following a lagged cycle relative to the economic cycle. Developments in NPLs, particularly in consumer loans, and household indebtedness should be monitored closely. Allowing banks to use counter-cyclical provisions is a welcome development and creates some breathing space for banks.

[8] "The 2024 Expenditure Austerity Plan", Presidential Decree n. 0199 (February 20, 2024).

27. Potential implications of the pension reform on financial stability should be carefully analyzed and inform ongoing discussions. The reform that is currently under debate in Congress envisages redirecting a large portion of workers' contributions from private pension funds to a national savings fund (see Annex I). While the governance and investment mandates of the national savings fund are not yet determined, given the systemically important role private pension funds play in the financial and capital markets, a careful assessment and debate around the broader impact of reform proposals (i.e., on the foreign exchange market, the government bond (TES) market, the external portfolio flows, the banking sector and financial conglomerates) will be critical, and should inform the debates on the reform to mitigate financial stability risks.

28. The implementation of the 2022 FSAP recommendations and follow up actions should continue. Notwithstanding increased focus on borrower characteristics in loan origination and regulations, expanding debt-service-to-income (DSTI) and loan-to-value (LTV) regulations to cover non-mortgage consumer loans could complement supervisory oversight and bolster systemic financial stability. Going forward, carefully monitoring banks' maturity and liquidity risks in preparation for full NSFR implementation will be important to avoid temporary funding pressures or maturity bunching. The SFC continues working in the update of definitions of related parties for each of the industries in accordance with current regulations. Efforts to align large exposure regulations with Basel III would control credit concentration risks. Regarding cross-border exposures, SFC is now collecting data on the exposures on foreign counterparties and is working with counterparts in other countries to fill the information gaps and conduct joint risk evaluations. After receiving IMF's technical assistance, a preliminary version of a network analysis model has been developed, and cross-border contagion risks have been incorporated in both the SFC's and Banco de la República's stress-testing exercises. These efforts should continue to further strengthen cross-border oversight.

Authorities' Views

29. The authorities emphasized that proactive supervision along with adequate buffers allowed credit institutions to absorb the materialization of credit risk last year. The authorities stressed that banks had built up capital and liquidity above minimum regulatory levels during the high credit growth period, which has allowed them, together with the countercyclical provisioning scheme, to absorb the deterioration in asset quality. They conveyed that credit growth has slowed down significantly in response to a contractionary monetary policy stance and the tightening of credit standards by banks. They noted that NPLs have increased, although they have moderated recently for consumer loans. The authorities considered that the adjustment in the credit market and the deterioration occurred in an orderly manner and as expected. They did not see a need to extend the toolkit with borrower-based prudential measures, and emphasized that with proactive supervision, banks with large exposures to borrowers with high debt service have enhanced their origination processes and are implementing more stringent cutoff points for debt-service ratios, effectively tightening standards as borrower-based measures would. The authorities explained that their stress tests show the financial system is highly resilient and is in a solid position to face a tail risk scenario. Currency mismatches for private sector are low, in their view, facilitating the role of a highly flexible exchange rate regime as a shock absorber without compromising financial stability. Regarding the foreign exposure of Colombia's financial conglomerates, the authorities noted that their exposure risk monitoring from local and cross-border exposures will continue and will be strengthened with the regional stress testing exercises and information sharing with regional supervisors. The ongoing next phase of regulatory reforms is expected to focus on banking, supervision, and data protection, including large exposures, open finance, and open data.

D. Social and Structural Reforms: Lifting Productivity and Supporting the Energy Transition

30. Planned social reforms should be designed within policy frameworks, balancing equity and efficiency considerations. The broad objectives of the planned social reforms, to increase equity and inclusion in the society, are welcomed (Annex I). Their design and implementation, however, must be within Colombia's policy frameworks, with any fiscal costs fitting within the fiscal rule. Reforms should also address problems in the current system while at the same time ensuring that incentives support investment and that changes be clearly communicated to enhance credibility and safeguard broader stability. To be successful and durable, the reforms should be formulated in close consultation with relevant stakeholders, with as broad political support as possible.

31. Lifting productivity, which has long stagnated in Colombia, is essential to boosting potential growth in the medium-term. Colombia's average total factor productivity (TFP) growth has declined over the last three decades, although the extent and nature these declines vary across sectors (see Selected Issues Paper, Chapter 1). Where low, TFP growth appears to be depressed well below its potential due to resource misallocation between firms. As such, reversing productivity growth declines will require improving resource allocation, including by streamlining regulations, lowering labor market rigidity, providing more policy certainty (e.g., on regulated prices), and removing bottlenecks that keep firms smaller and outside the recorded economy, among others. In addition, actions are necessary to boost Colombia's low national saving, which has been well below the EM average and the level implied by the country's fundamentals (see Annex VI). Aside from raising public saving, efforts should continue to deepen capital markets and strengthen competitiveness.

32. A well-designed and executed energy transition and export diversification plan is vital to secure medium-term sustainability and resilience. The administration's goal of reducing dependence on oil and coal is commendable and rightly a priority given Colombia's declining fossil fuel reserves and the ongoing global energy transition. Diversifying exports would be an essential part of the transition strategy, which requires identifying comparative advantages, upgrading export quality, further integrating into global value chains, and removing entry barriers, while avoiding protectionist measures (see Selected Issues Paper 2). Implementing the strategy would require time and strong partnerships between public and private entities, along with the proper pricing of energy. The pace and timing of the transition needs to balance achieving climate goals and preserving growth, fiscal, and external stability.

Authorities' Views

33. The authorities reaffirmed that the social reforms will be within policy frameworks. Regarding the pension and healthcare reforms, the authorities conveyed that discussions in Congress are ongoing, and the goal is to garner as broad support as possible for their approval before the summer recess. They also confirmed that both draft laws contain provisions that subject their implementation to budget availability and require them to fit within the medium-term fiscal framework and the fiscal rule. Elements of the healthcare reform are already being implemented through decrees (e.g., on expanding access to primary care), given the urgent needs. With respect to the labor reform, the authorities emphasized that a key objective of the reform is to improve worker rights and that in considering tradeoffs it would be important to weigh the potential costs of discouraging formal employment against the potential positive effects the reform would have on aggregate demand.

34. The authorities reiterated the importance and the urgency of a prudent energy transition and export diversification strategies to reduce gradually dependence on hydrocarbons and achieve climate and equity goals. On the energy supply side, they remain committed not to grant new exploration contracts and rely on existing contracts and enhanced recovery for hydrocarbon production in the coming years. Diversifying energy production, both by involving more energy sources (e.g. renewables) and enabling production by other agents (e.g., households) in the economy, is an integral part of their strategy, which should also lower the cost of energy. On the demand side, the strategy includes increasing the use of electric vehicles throughout the transportation sector. The export diversification strategy is a crucial part of the energy transition and involves increasing productivity, strengthening production chains, developing new export sectors, and deepening economic integration with Latin America, the Caribbean, Asia, and Africa. In addition, the authorities highlighted that current and upcoming large infrastructure projects (5G agenda) are expected to contribute to reducing logistic costs (as observed for 4G projects), increasing productivity and international competitiveness.

E. Governance: Further Strengthening Governance and Advancing on the Anti-Corruption Agenda

35. Reform efforts should be usefully complemented with a further strengthening of governance and transparency and reducing corruption risks (Box 2). Strengthening governance and the rule of law and advancing on the anti-corruption agenda remain important priorities, which would also support improvements in the business and investment climate. Ensuring publication of asset declarations in line with past good practice, with information detailing assets held domestically and abroad (as per the model OAS law) is warranted to strengthen accountability of government officials.[9,10] Beneficial ownership declaration should be enhanced by allowing access to information

[9] https://www.oas.org/juridico/PDFs/model_law_declaration.pdf

[10] Beneficial Ownership register is managed by DIAN but it is not publicly available so there are issues with verification and quality of information submitted.

currently held by DIAN.[11/] Ensuring the continuous publication of comprehensive and easily accessible income and asset declarations of politically exposed persons and providing public access to effective beneficial ownership information would bring more transparency and accountability to the public sector. The Secretary of Transparency has led the preparation of a draft of the Whistleblowing Protection Law, which is scheduled to be discussed in this upcoming parliamentary session. As per the new development plan, Art. 200, the Secretary of Transparency should focus efforts on formulating a comprehensive shared risk-based strategy to combat corruption in collaboration with the control bodies and civil society organizations. Special attention to improving the advancement of grand corruption cases through the judicial system with enhanced investigation capacity could demonstrate the state's resolve in tackling corruption and foster greater trust within the public.

Authorities' Views

36. The authorities emphasized that Colombia is committed to continuing to improve transparency. They noted that an anti-corruption strategy is being developed by the Secretary of Transparency that will aim to strengthen and coordinate efforts across relevant agencies, including the control bodies (*Procuraduría*), Ministry of Justice, and the Prosecutor's Office (*Fiscalía*). Regarding beneficial ownership, the information is currently held at DIAN, but there are ongoing efforts to expand information access by key agencies. A specific action against non-reporters of beneficial ownership information is also being developed, and a taskforce to assess judicial congestion has been set up to tackle backlog issues and review the criminal procedure code. Asset declarations have been restored partially, albeit data security concerns weigh on some information not being made public. The authorities acknowledged that the key bottleneck is in the investigative capacity of processing corruption cases. The authorities are hopeful that the draft Whistleblowing Protection Law will be enacted, which is scheduled to be discussed in the upcoming parliamentary sessions.

Box 2. Governance and Anti-Corruption Agenda in Colombia: Progress and Challenges 1/

Recent Progress. Colombia has firmed up a robust legal and institutional anti-corruption framework. Pursuant to Law 2013 of 2019, public servants must publicly declare information on assets, income, and conflicts of interest through a governmental portal. The Transparency and Access to Information Law mandates all government officials to provide clear records on how public funds are spent and disclose information of public interest to citizens upon request.[2] Law 2195 of 2022 allows for due diligence on beneficial ownership reporting (albeit compliance and access are still issues to be addressed). The Comptroller General (*Contraloria*) has launched the fiscal control and oversight observatory to centralize information on budget transparency in a consolidated database. A judicial commission has been recently established to address judicial reform and alleviate judicial congestion. A draft law on protection of whistleblowers (Bill 291) was submitted to Congress in November 2023 and is set to be tabled in the current legislative period.

[11] As per the latest information provided by authorities, only 45 percent of the required taxpayers have provided their beneficial ownership information to the Registro Unico de Beneficiarios Finales (RUB), and noncompliance sanctions are still under development.

Box 2. Governance and Anti-Corruption Agenda in Colombia: Progress and Challenges (concluded)

Corruption Risks. Corruption risks are significant. Public procurement practices, including the influence of political power in decision making, pose significant governance risks. Political patronage networks appear to exert strong influence on the allocation of public sector contracts and public private partnerships.[3] Natural resource exploitation also poses significant governance risks related to logging and environmental licensing in gold mining, oil and gas sectors.[4] Customs is a high risk for corruption, where weaknesses can contribute to facilitating illicit cross-border financial flows (including for illegal gold mining) and transnational organized crime networks (including for drug trafficking). [5,6] Extensive backlogs in the judiciary system have caused extended delays on processing corruption cases, raising the perception of impunity. A perception of politicization of key control and anti-corruption bodies, lack of enforcement of judicial decisions and excessive use of extra-budgetary funds at the subnational level also contribute to governance risks. [7,8]

Remaining Challenges. Challenges remain, particularly in relation to asset declarations and enforcement efforts. A backsliding on the publication of information in the asset declarations is concerning with information incomplete and not disaggregated. Extensive backlogs in the judiciary system have caused delays on processing corruption cases and levels of indictments and conviction in corruption crimes are very low and do not effectively progress through investigations. This could create perceptions of politicization of key control bodies and exemption of enforcement for prominent individuals, due to the limited enforcement of judicial decisions.

1/ Prepared by Alice French (LEG).
2/ *Ley de Transparencia y Acceso a la información Pública Nacional* 1712 of 2014.
3/ According to *Transparencia Colombia's* report, one in four campaign financers at the municipal level are awarded with public procurement contracts.
4/ See Colombia's Experience Tackling Subnational Corruption in the Hydrocarbon Sector | Natural Resource Governance Institute.
5/ See The Gold Standard: Addressing Illicit Financial Flows in the Colombian Gold Sector through Greater Transparency, Global Financial Integrity, 2021.
6/ National Drug Policy 2023 – 2033 « La Nueva Política de Drogas de Colombia Busca Transformar el Paradigma Hacia la Protección de la Vida y el Medio Ambiente » (presidencia.gov.co).
7/ OECD Phase 3 follow up report "Implementing the OECD Anti-Bribery Convention in Colombia: Phase 3 Two Year Written Follow-Up Report."
8/https://www.sic.gov.co/sites/default/files/files/2023/RESOLUCIO%CC%81N%202986%20DEL%201%20DE%20FEBRERO%20DE%202023.pdf

STAFF APPRAISAL

37. The Colombian economy has made important strides in reducing domestic and external imbalances, transitioning to a more sustainable level of economic activity and demand. Appropriately tight macroeconomic policies have helped reduce inflation, the fiscal deficit, public debt, excessive credit growth, and the large current account deficit observed in the last two years. The narrowing of the current account deficit, also supported by tourism and remittances, has contributed to an improvement of the external position in 2023 relative to 2022, with staff assessing the external position as being in line with the level implied by medium-term fundamentals and desirable policies.

38. While risks to the outlook remain on the downside, very strong policies and policy frameworks continue to underpin Colombia's resilience and capacity to respond to shocks. Sharply lower domestic and external imbalances have significantly reduced vulnerabilities, and sizable buffers reinforce a favorable medium-term assessment even in the face of downside and elevated risks. The FCL continues to provide additional external buffers against tail risks and enhances market confidence, further supporting resilience. In this regard, the authorities' commitment to maintain a sustained track record of very strong policy implementation, including by carefully calibrating policies to durably eliminate remaining imbalances and strengthening domestic and external buffers, would further support Colombia's resilience and capacity to respond to shocks. Contingency planning and agile policy making will remain necessary.

39. Monetary policy normalization should continue to proceed with caution, while enhanced communication could help better anchor expectations. Given upside risks to inflation, future policy rate reductions should proceed with caution and remain data dependent. Aiming to bring inflation firmly to the 3 percent target by mid-2025 would strike a good balance between safeguarding economic activity and policy credibility. Focusing policy communications on the inflation target level and the expected time horizon to bring inflation to that target, while recognizing risks and uncertainties, could help anchor inflation expectations more strongly. The exchange rate should continue to flexibly respond to shocks, as it appropriately has done, unless disorderly market conditions arise, as per the IPF, with gradual and opportunistic purchases to further strengthen reserve coverage.

40. Continued prudence in fiscal management is necessary given elevated borrowing costs. The authorities' unwavering commitment to meeting the fiscal rule is welcomed, as well as the tight overall public sector fiscal stance this year. That said, the planned increases in the overall deficit and debt pose fiscal risks. Proactively scaling back expenditure plans rather than relying on ad-hoc spending restraint would be a more transparent and effective way of implementing the priorities in the budget while ensuring meeting the fiscal rule. Pursing smaller deficits than implied by the rule would help lower debt and financing needs at a time when spreads and borrowing costs remain high, especially relative to peers, and reduce the burden on monetary policy. Given substantial budget rigidities, standing ready to activate contingency plans will be essential in case revenues fall short of expectations.

41. Improving the structure of spending to boost public investment should remain a priority. Reorienting expenditures towards investment, within a scaled back spending envelope, would support the energy transition and enhance growth potential, including by crowding in private investment. One way to create budget space for public investment and save scarce public resources would be to continue removing fuel subsidies, following the exemplary removal of gasoline subsidies by end-2023. This would also align well with Colombia's goal of reducing reliance on fossil fuels.

42. While the banking sector remains resilient, financial stability risks need to continue to be carefully monitored. As the economy continues to stabilize, NPLs could continue rising, warranting close monitoring. The countercyclical provisioning framework's rules-based mechanisms should be maintained to avoid creating expectations that frameworks can be adjusted at times of pressure, and with due consultation across stakeholders. Continuing to closely monitor liquidity and maturity risks and following international best practice in stable funding regulations will be important for containing funding pressures. Given the systemically important role private pension funds play in the financial system, a comprehensive analysis of the potential impact of the pension reform should inform the reform discussions. As further progress is made in enhancing data coverage, expanding the macroprudential toolkit towards more borrower-based tools would complement the existing tools and supervisory practices. Continuing to monitor cross-border exposures, interconnectedness, and contagion risks will be important.

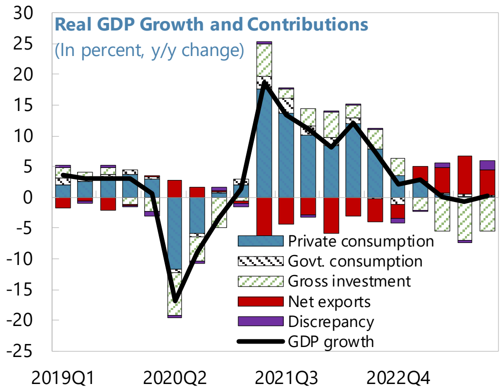
43. Further advancing structural reforms is key to lift productivity and support the energy transition. The broader objectives of the social reforms to increase equity and inclusion in the society are welcomed; they should be designed and implemented in compliance with Colombia's fiscal frameworks, addressing problems in the current system while ensuring that economic incentives are well-aligned. Reducing policy uncertainty and improving the business climate, including by simplifying regulations, lowering labor market rigidity, and removing barriers to entry, can boost investment and productivity. Higher public and private savings, including through a deepening of capital markets, can ensure that a greater share of investment is domestically financed. Meanwhile, export diversification would be an essential part of the energy transition strategy and will require identifying sectors with comparative advantage and removing market frictions, while avoiding protectionist measures. Implementing the energy transition strategy would take time and will need strong partnerships between public and private entities, along with the proper pricing of energy.

44. Reform efforts should be usefully complemented with a further strengthening of governance and transparency and reducing corruption risks. Developing a comprehensive anti-corruption strategy, ensuring the continuous publication of comprehensive and easily accessible income and asset declarations of politically exposed persons, and providing public access to effective beneficial ownership information would bring more transparency and accountability.

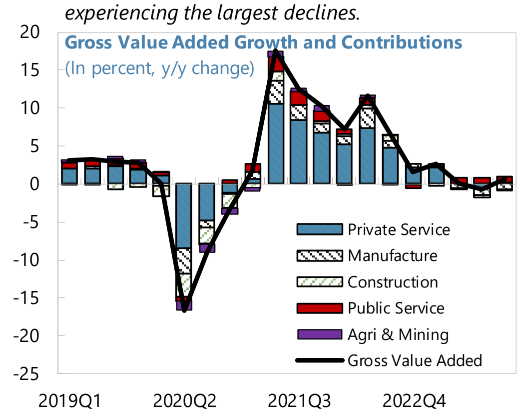
45. Staff recommends that the next Article IV consultation take place on the standard 12-month cycle.

Figure 1. Colombia: Real Sector Developments

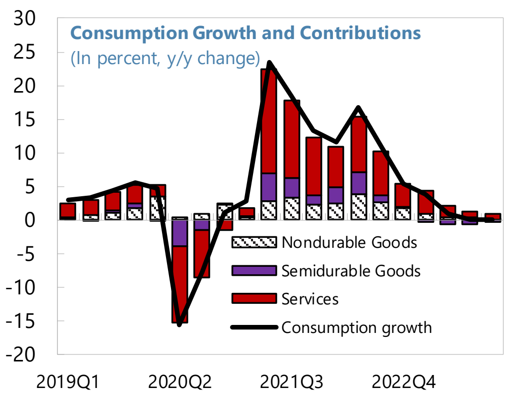
The consumption led expansion declined in



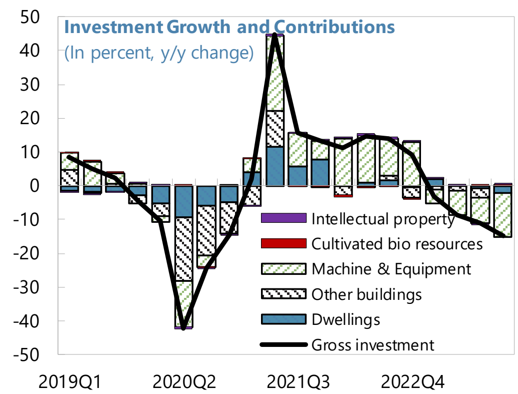
...with manufacturing, retail, and construction experiencing the largest declines.



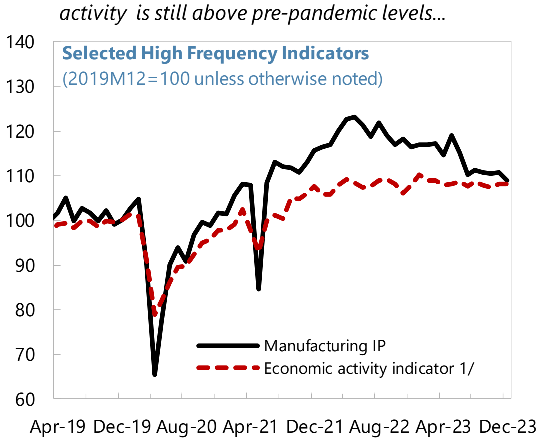
Consumption growth sharply declined...



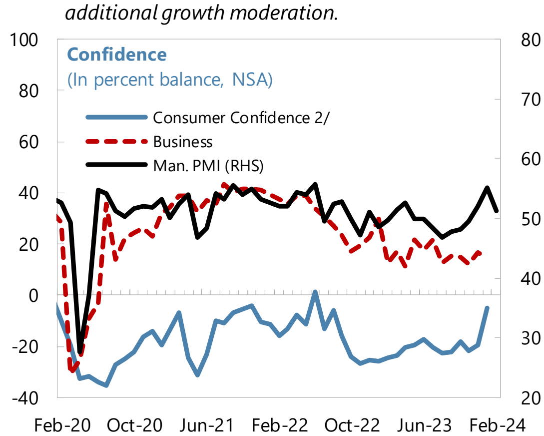
... and investment registered negative growth rates.



While GDP growth is declining; however, economic activity is still above pre-pandemic levels...



... with leading indicators still pointing to additional growth moderation.



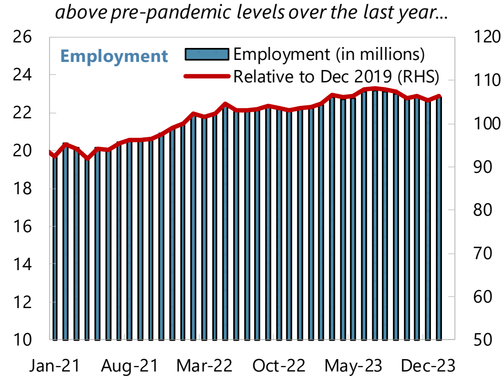
Sources: Departamento Administrativo Nacional de Estadísticas (DANE); Dirección de Impuestos y de Aduanas Nacionales (DIAN), La Fundación Para la Educación Superior y el Desarollo; Davidienda, Haver Analytics; and IMF staff estimates.

1/ Seasonally and working days adjusted.

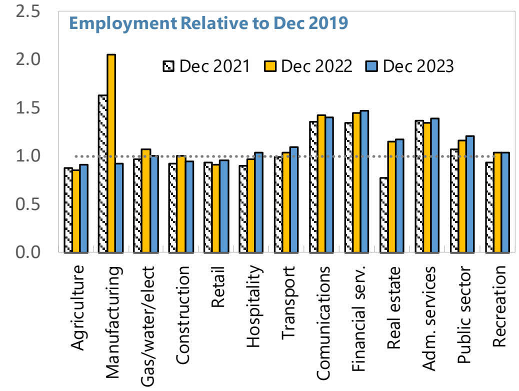
2/ Balances between favorable and unfavorable responses, in percent.

Figure 2. Colombia: Labor Market Developments

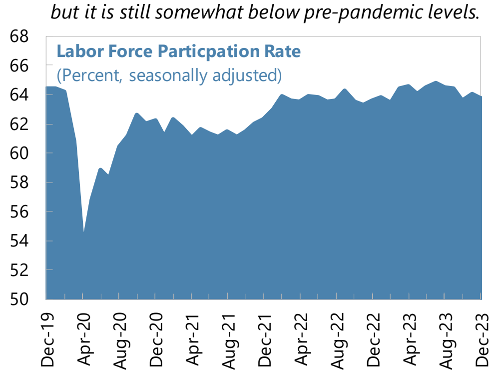
The level of formal employment has remained above pre-pandemic levels over the last year…



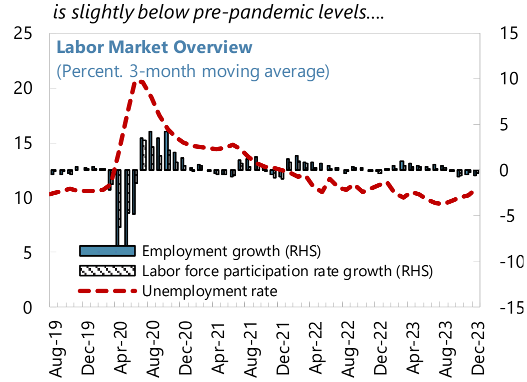
…but with some heterogeneity across sectors.



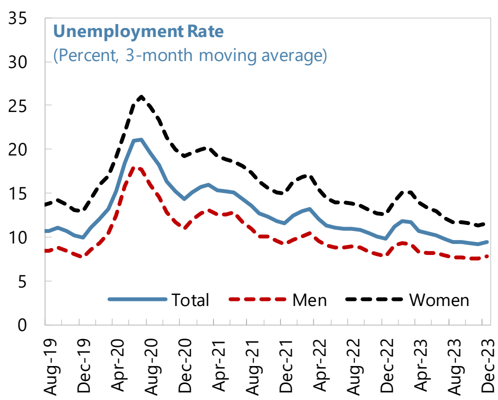
Labor force participation rate has mostly recovered but it is still somewhat below pre-pandemic levels.



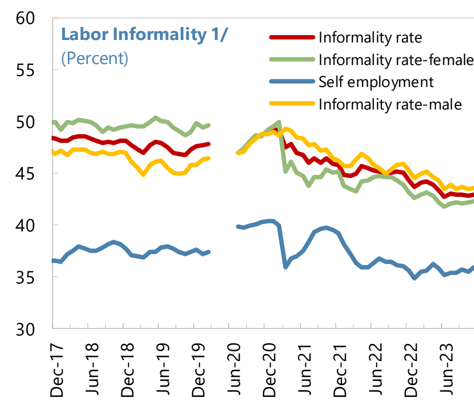
The unemployment rate has declined and it is slightly below pre-pandemic levels.…



…but it is still higher for women.



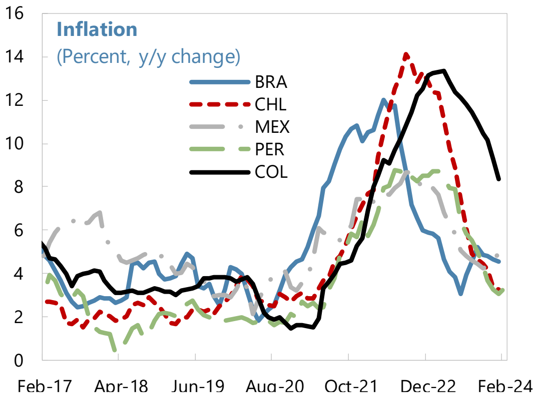
The informality rate continued to gradually decline.



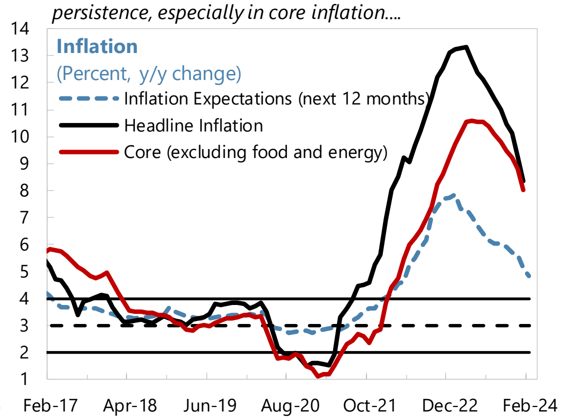
Sources: DANE; Banco de la República; Haver Analytics; and IMF staff estimates.
1/ The reporting of informality data was suspended during the pandemic.

Figure 3. Colombia: Inflation and Monetary Policy

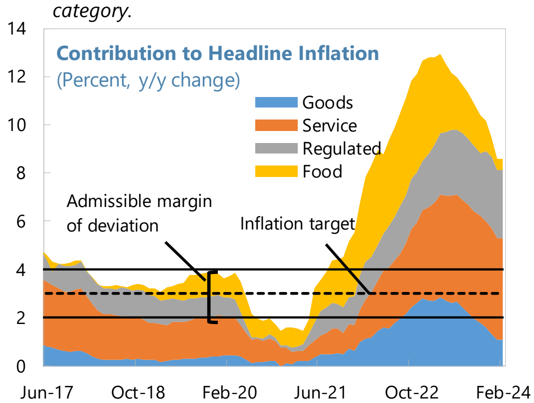
Inflation peaked in March 2023…



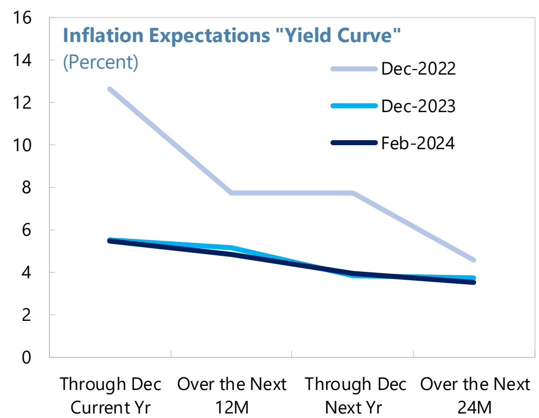
…but the inflation decline has shown a degree of persistence, especially in core inflation.…



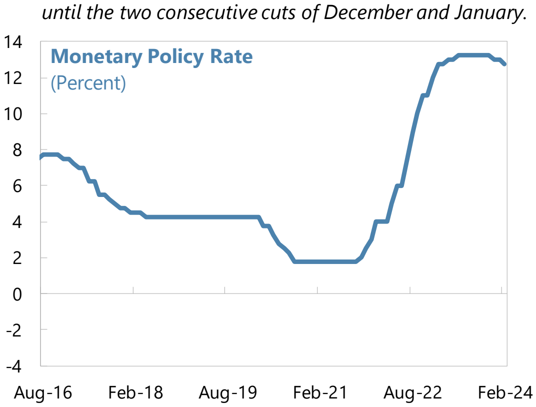
…mainly reflecting the behavior of the services category.



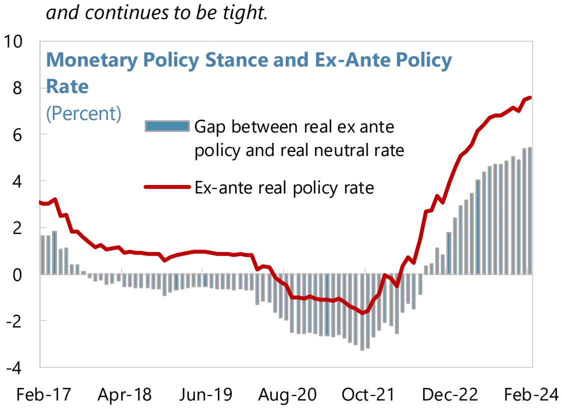
Inflation expectations have declined.



Banrep kept the policy rate unchanged since April 2023 until the two consecutive cuts of December and January.

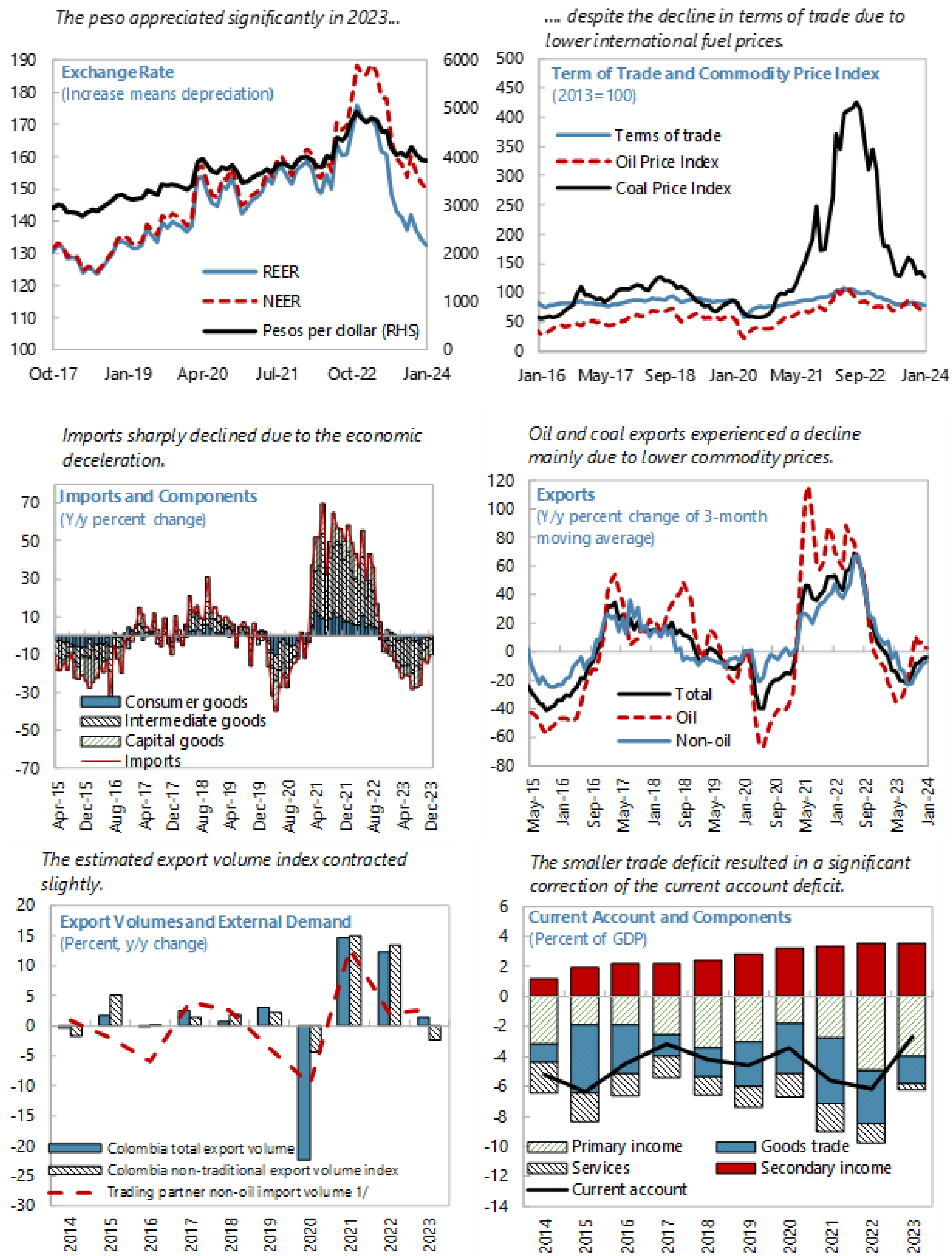


The monetary policy stance became tighter in 2023 and continues to be tight.



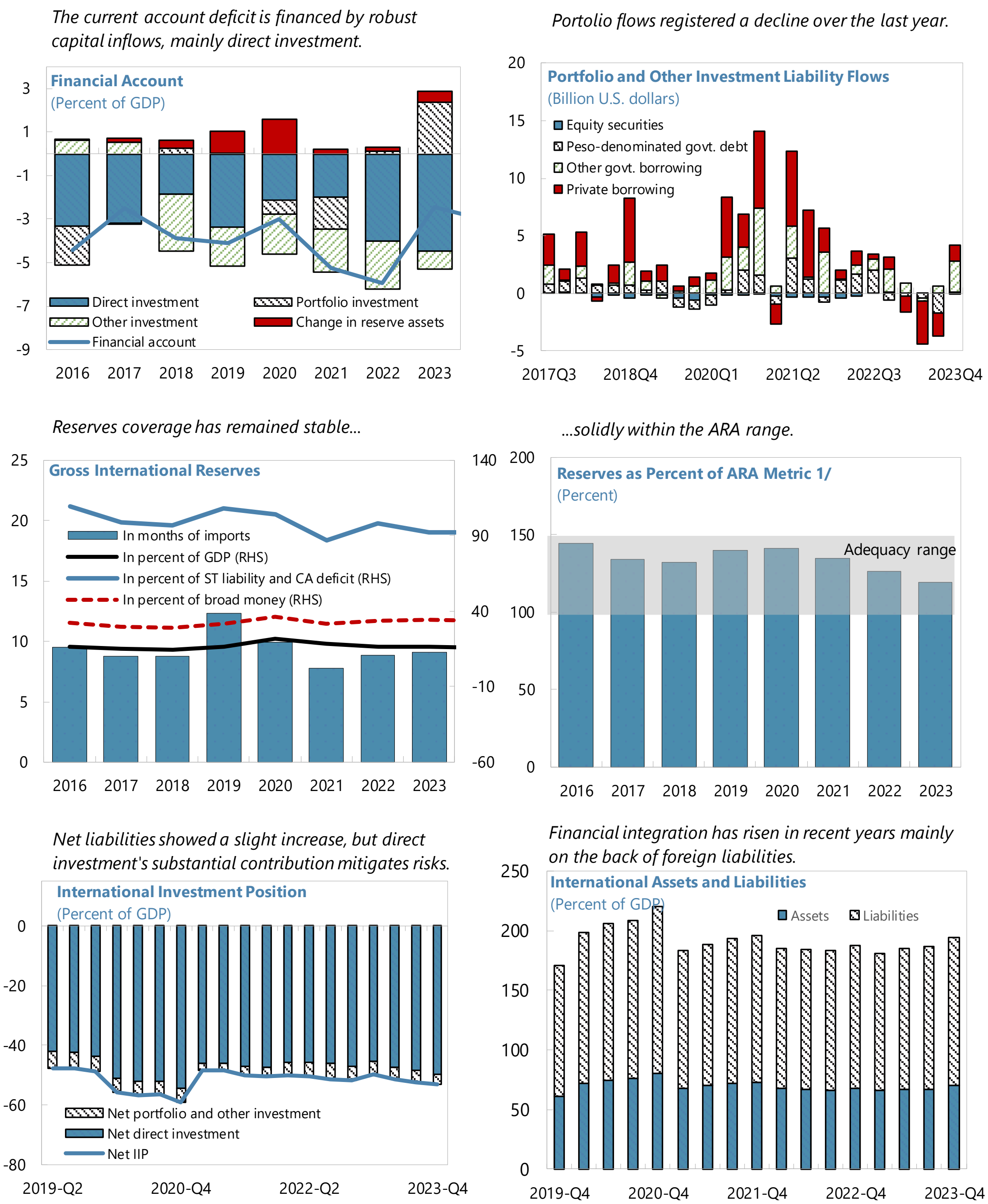
Sources: DANE; Banco de la República; Haver Analytics; and IMF staff estimates.

Figure 4. Colombia: Current Account Developments



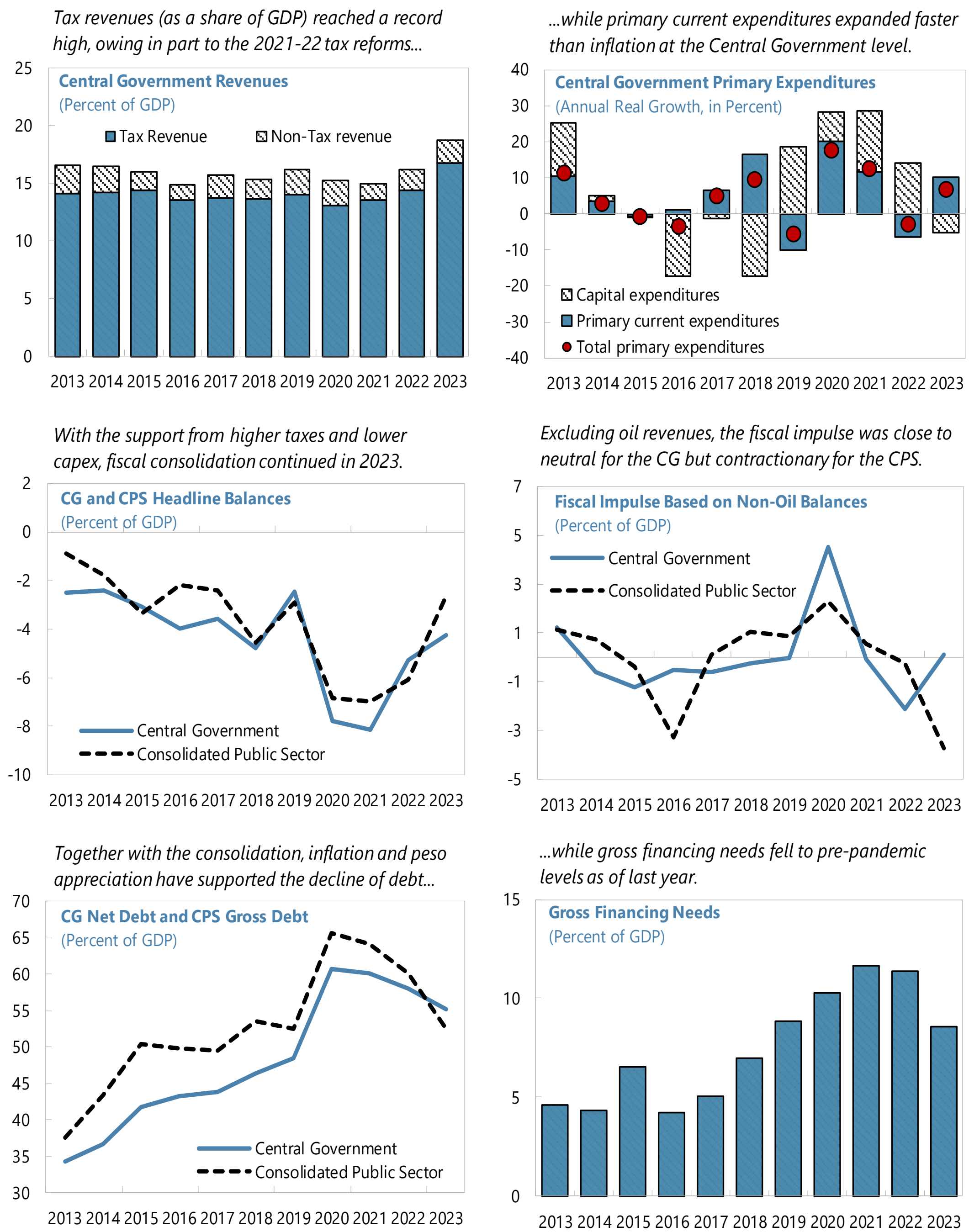
Sources: DANE; Banco de la República; Bloomberg; Haver Analytics; and IMF staff estimates.
1/ Weighted by destinations of Colombia's non-traditional exports.

Figure 5. Colombia: Financial Account Developments



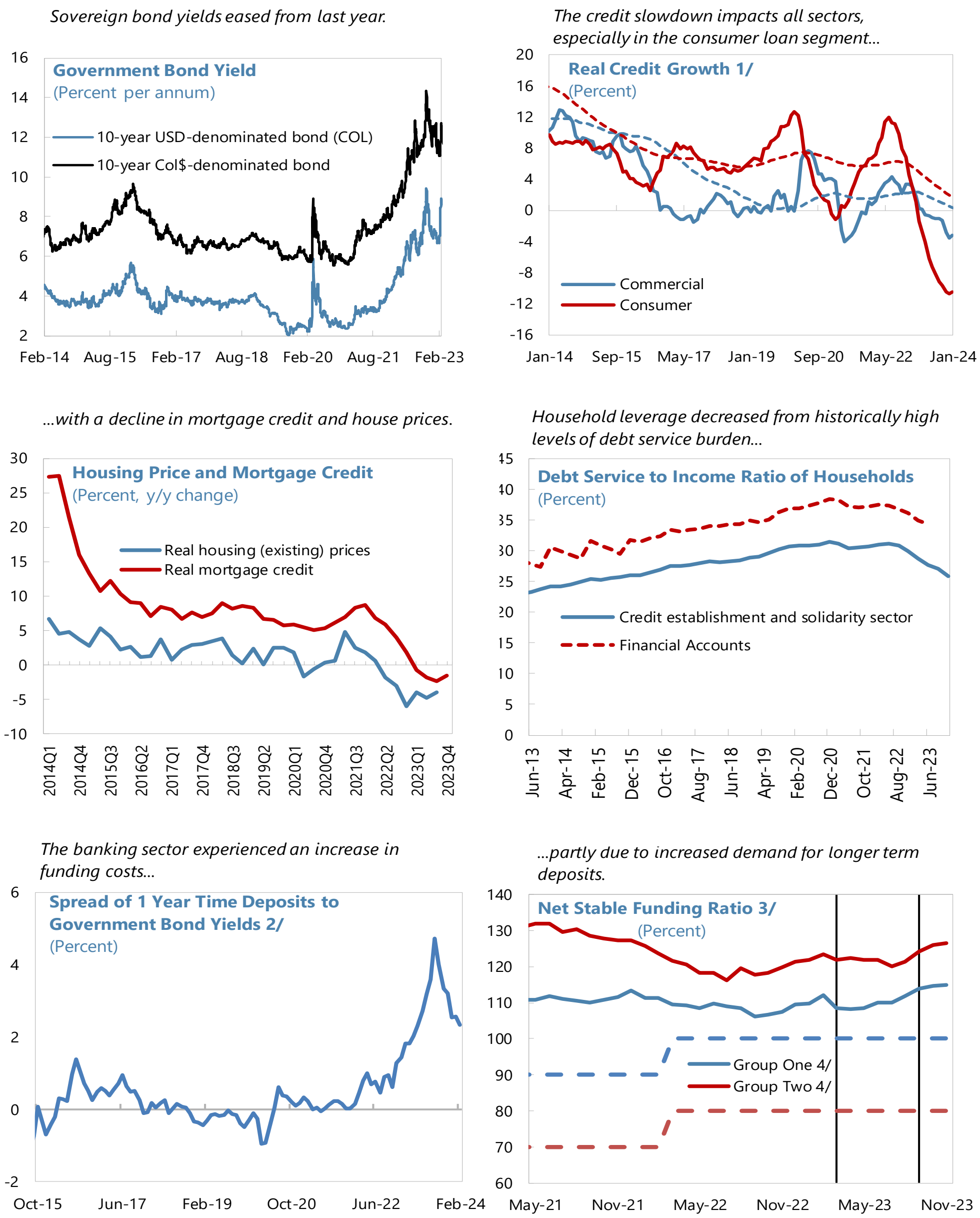
Sources: Banco de la República; DANE; Haver Analytics; Bloomberg; and IMF staff estimates.
1/ Does not include commodity buffers. Uses metric for floating exchange rates.

Figure 6. Colombia: Fiscal Developments



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

Figure 7. Colombia: Financial Soundness Indicators
(End-of-period values)



Sources: Banco de la República; BanRep Financial Stability Report; Bloomberg; DANE, Haver Analytics, Superintendencia Financiera; Tullet Prebon Information; and IMF staff estimates.
1/ Dashed lines indicate the 3 year moving average of the series of the same color.
2/ Spread between 1 year implied cash deposit mid rate (% p.a., Tullet Prebon Information) and zero coupon yield curve (peso-denominated, 1 year average, % p.a., BanRep).
3/ On 1 April, 2023 the NSFR regulation on deposits between financial intermediaries was implemented, on 6 Sep, 2023 the implementation was suspended for 2 years. Vertical lines correspond to these dates.
4/ Dashed lines of the same color indicate the group limits.

Table 1. Colombia: Selected Economic and Financial Indicators, 2020-29

I. Social and Demographic Indicators

Population (million), 2023. Projection	51.0	Unemployment rate, Dec. 2023 (NSA, percent)	10.2
Urban population (percent of total), 2022	82.1	Physicians (per 1,000 people), 2021	2.4
GDP, 2023		Adult illliteracy rate (ages 15 and older), 2020	4.4
Per capita (US$)	7,168	Net secondary school enrollment rate, 2018	77.5
In billion of Col$	1,572,658	Gini coefficient (national), 2022	55.6
In billion of US$	365.8	Poverty rate (national), 2022	36.6
Life expectancy at birth (years), 2021	72.8		
Mortality rate, (under 5, per 1,000 live births), 2021	12.8		

II. Economic Indicators

				Estimate[1/]	Projections					
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
	(In percentage change, unless otherwise indicated)									
National Income and Prices										
Real GDP	-7.2	10.8	7.3	0.6	1.1	2.5	3.0	3.0	3.0	3.0
Potential GDP	-1.1	4.8	4.6	2.4	2.3	2.0	2.2	3.0	3.0	3.0
Output Gap	-6.4	-1.0	1.6	-0.2	-1.3	-0.8	0.0	0.0	0.0	0.0
GDP deflator	1.5	7.8	14.9	6.3	5.6	3.0	3.0	3.0	3.0	3.0
Consumer prices (average)	2.5	3.5	10.2	11.7	6.4	3.6	3.0	3.0	3.0	3.0
Consumer prices, end of period (eop)	1.6	5.7	13.2	9.3	5.3	3.0	3.0	3.0	3.0	3.0
External Sector										
Exports (f.o.b.)	-20.5	32.3	39.2	-11.7	-2.3	0.5	2.5	2.3	3.2	3.6
Imports (f.o.b.)	-18.5	37.7	26.3	-17.1	-0.2	3.1	3.4	3.8	3.7	3.6
Current account (deficit -)	-3.4	-5.6	-6.2	-2.7	-3.0	-3.3	-3.4	-3.5	-3.6	-3.6
Terms of trade (deterioration -)	-2.1	6.6	25.0	-5.2	-2.0	-1.2	-1.4	-0.5	-1.1	-0.5
Real exchange rate (depreciation -) 2/	-7.7	-3.2	-4.7	6.1						
Central Government										
Revenue	-11.2	16.9	33.6	24.1	5.9	5.4	7.0	7.3	5.7	6.5
Expenditure	16.4	19.5	14.8	14.8	11.1	1.8	4.1	6.1	4.8	4.3
Money and Credit										
Broad money	10.3	13.6	4.8	3.9	4.4	5.4	6.1	6.2	6.2	6.2
Credit to the private sector	-0.8	12.5	5.9	4.0	4.5	5.8	6.4	6.5	6.5	6.5
	(In percent of GDP)									
Public Sector										
Central government (CG) balance 3/	-7.8	-8.1	-5.3	-4.3	-5.3	-4.5	-3.9	-3.7	-3.5	-3.1
Central government structural balance 4/	-6.3	-7.6	-5.5	-4.8	-5.1	-4.4	-3.9	-3.8	-3.6	-3.1
Consolidated public sector (CPS) balance 5/	-6.9	-7.0	-6.1	-2.6	-3.2	-3.0	-2.7	-2.5	-2.3	-2.0
CPS non-oil structural primary balance	-4.3	-4.9	-4.6	-0.9	-0.2	0.0	-0.2	0.0	-0.1	-0.2
CPS fiscal impulse (excluding Social Security) 6/	2.3	1.0	-1.2	-2.2	-1.3	-0.3	0.2	-0.2	0.1	0.2
Public sector gross debt 7/	65.7	64.0	60.1	52.5	54.4	55.6	55.7	55.4	55.2	54.5
External Financing Needs 8/	18.0	17.6	19.3	15.6	15.5	16.2	16.7	16.8	16.7	15.6
External debt	66.6	61.6	60.3	59.7	57.5	56.6	57.1	57.3	57.5	57.1
Of which: public sector 6/	42.7	39.9	37.4	36.0	34.9	34.8	35.0	34.9	34.7	34.7
Memorandum Items										
Gross domestic investment (in percent of GDP)	19.1	18.9	19.7	12.8	12.9	14.5	14.7	14.6	14.6	14.4
Gross national savings (in percent of GDP)	15.7	13.3	13.6	10.1	9.9	11.2	11.4	11.1	11.0	10.8
Gross international reserves (USD billion) 9/	58.5	58.0	56.7	59.1	60.4	61.2	61.8	62.4	63.2	64.1
Private consumption (in percent of GDP)	71.3	73.8	76.1	76.5	76.4	75.8	75.3	74.9	74.9	74.9
Public consumption (in percent of GDP)	17.2	17.1	16.1	16.1	15.8	15.7	15.5	15.4	15.4	15.4
Private investment (in percent of GDP)	14.4	14.1	14.8	13.3	13.7	14.7	15.4	15.8	15.8	15.9
Public investment (in percent of GDP)	3.5	4.8	4.9	4.5	3.6	3.3	3.3	3.4	3.5	3.5
Share of ST debt at remaining maturity + CA deficit	106	89	103	101	95	89	85.9	82.8	85.3	84.0
CG primary expenditures (in percent of GDP)	20.2	19.7	17.2	19.1	19.5	18.9	18.6	18.6	18.8	18.8
CPS primary expenditures (in percent of GDP)	30.6	31.1	29.7	30.8	29.2	28.5	28.2	28.2	28.3	28.4

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

1/ Estimate for monetary sector variables and fiscal sector variables (consolidated public sector-CPS) .

2/ Multilateral real effective exchange rate. Annual variation (average).

3/ For 2021 excludes privatization receipts worth 1.1 percent of GDP that, under GFSM 1986 which is used by the authorities, produces a headline deficit of -7 percent of GDP.

4/ IMF staff estimate, excludes one-off recognition of arrears.

5/ Includes the quasi-fiscal balance of Banco de la República, sales of assets, phone licenses, and statistical discrepancy. For 2021 excludes privatization receipts, see 3/ above.

6/ To control for valuation effects, it excludes changes in Social Security balances.

7/ Includes Ecopetrol, Fogafin, and Finagro.

8/ Includes foreign holdings of TES; does not include Banco de la República's outstanding external debt.

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

Table 2. Colombia: Summary Balance of Payments, 2022-29
(In percent of GDP)

			Projections					
	2022	2023	2024	2025	2026	2027	2028	2029
Current Account Balance	**-6.2**	**-2.7**	**-3.0**	**-3.3**	**-3.4**	**-3.5**	**-3.6**	**-3.6**
Goods balance	-3.5	-1.9	-2.1	-2.4	-2.5	-2.6	-2.7	-2.6
Exports, f.o.b.	17.2	14.4	13.3	12.9	12.6	12.3	12.1	11.9
Commodities	11.3	8.6	7.6	7.1	6.8	6.4	6.1	5.8
Fuel	5.4	4.3	4.2	3.8	3.6	3.4	3.2	3.0
Non-fuel	5.9	4.3	3.4	3.3	3.2	3.0	2.9	2.8
Non-traditional exports	4.2	3.9	3.7	3.8	3.8	3.9	4.0	4.1
Other	1.7	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Imports, f.o.b.	20.7	16.3	15.3	15.3	15.1	14.9	14.7	14.5
Consumer goods	4.1	3.3	3.1	3.1	3.1	3.0	3.0	2.9
Intermediate goods	10.1	7.9	7.4	7.4	7.2	7.1	7.0	6.9
Capital goods	6.0	4.7	4.4	4.4	4.4	4.3	4.3	4.3
Other	0.6	0.4	0.4	0.4	0.4	0.4	0.5	0.5
Services balance	-1.3	-0.4	-0.4	-0.5	-0.7	-0.7	-0.8	-0.8
Exports of services	3.9	4.2	4.0	3.9	3.8	3.8	3.7	3.6
Imports of services	5.2	4.6	4.4	4.5	4.5	4.5	4.5	4.4
Primary income balance	-4.9	-4.0	-3.9	-3.8	-3.6	-3.4	-3.4	-3.4
Receipts	2.0	2.4	2.1	1.9	1.8	1.7	1.7	1.7
Expenditures	7.0	6.4	6.0	5.7	5.3	5.2	5.2	5.2
Secondary income balance	3.6	3.6	3.3	3.4	3.3	3.3	3.2	3.2
Financial Account Balance	**-5.9**	**-2.4**	**-3.0**	**-3.3**	**-3.4**	**-3.5**	**-3.6**	**-3.6**
Direct Investment	-4.0	-4.5	-3.3	-3.2	-3.2	-3.0	-2.9	-2.9
Assets	1.0	0.3	0.5	0.6	0.7	0.8	1.0	1.1
Liabilities	5.0	4.8	3.7	3.8	3.9	3.9	3.9	3.9
Oil sector	0.8	0.7	0.7	0.6	0.6	0.6	0.6	0.5
Non-oil sectors	4.1	4.1	3.1	3.2	3.2	3.3	3.4	3.4
Portfolio Investment	0.1	2.4	1.8	1.8	0.2	-0.1	-0.3	-0.4
Assets	1.0	2.7	1.5	1.4	1.4	1.5	1.3	1.3
Liabilities	0.8	0.3	-0.3	-0.4	1.2	1.6	1.6	1.6
Equity	-0.2	0.0	0.0	0.0	0.0	0.2	0.2	0.2
Debt instruments	1.0	0.3	-0.3	-0.4	1.2	1.4	1.5	1.5
General government	1.5	0.1	0.5	0.1	0.7	0.6	0.6	0.7
Banks	-0.4	-0.3	-0.4	-0.2	0.2	0.3	0.4	0.4
Corporates and households	-0.1	0.5	-0.4	-0.2	0.2	0.5	0.4	0.4
Derivatives	0.2	-0.7	0.0	0.0	0.0	0.0	0.0	0.0
Other Investments	-2.5	-0.1	-1.9	-2.1	-0.6	-0.5	-0.6	-0.6
Assets 1/	1.2	1.1	-1.1	-1.3	0.2	0.2	0.2	0.3
Liabilities	3.6	1.2	0.8	0.8	0.8	0.8	0.8	0.9
Net use of IMF Credit	0.0	0.0	-0.7	-0.6	0.0	0.0	0.0	0.0
Change in Reserve Assets	0.2	0.5	0.4	0.2	0.1	0.1	0.2	0.2
Net Errors and Omissions	**0.3**	**0.2**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

Sources: Banco de la República and IMF staff estimates and projections.
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, 2022-29 1/
(In percent of GDP, unless otherwise indicated)

			Projections					
	2022	2023	2024	2025	2026	2027	2028	2029
Total Revenue	**16.2**	**18.8**	**18.7**	**18.6**	**18.8**	**19.0**	**18.9**	**19.0**
Current Revenue 2/	**14.5**	**16.9**	**16.8**	**16.9**	**17.2**	**17.4**	**17.4**	**17.4**
Tax Revenue	**14.4**	**16.7**	**16.7**	**16.8**	**17.1**	**17.2**	**17.3**	**17.3**
Net income tax and profits	6.5	8.3	8.1	8.2	8.3	8.5	8.5	8.6
Goods and services	6.2	5.5	5.9	5.9	6.1	6.0	6.1	6.0
Value-added tax	6.2	5.5	5.9	5.9	6.1	6.0	6.1	6.0
International trade	0.4	0.3	0.4	0.4	0.4	0.4	0.4	0.4
Financial transaction tax	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Stamp and other taxes	0.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Nontax Revenue	**1.8**	**2.1**	**2.0**	**1.9**	**1.7**	**1.8**	**1.7**	**1.7**
Property income	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Other	1.6	2.0	1.9	1.8	1.6	1.7	1.6	1.6
Total Expenditure and Net Lending	**21.5**	**23.1**	**24.0**	**23.1**	**22.7**	**22.7**	**22.4**	**22.1**
Current Expenditure	**17.8**	**19.4**	**20.5**	**20.2**	**19.8**	**19.8**	**19.4**	**18.9**
Wages and salaries	1.9	2.0	2.1	2.1	2.1	2.1	2.1	2.1
Goods and services	0.7	0.7	1.0	1.1	1.1	1.1	1.1	1.1
Interest	4.3	3.9	4.5	4.2	4.1	4.1	3.7	3.2
External	0.8	0.9	1.1	1.2	1.4	1.3	1.0	0.8
Domestic	3.5	3.0	3.4	3.0	2.7	2.8	2.6	2.4
Current transfers	10.9	12.8	13.0	12.8	12.6	12.6	12.6	12.6
Capital Expenditure	**3.7**	**3.6**	**3.4**	**2.9**	**2.9**	**2.9**	**3.1**	**3.2**
Fixed capital formation	2.7	2.6	2.4	2.0	2.0	2.0	2.2	2.3
Capital transfers	1.0	1.0	1.0	0.9	0.9	0.9	0.9	0.9
Net Lending	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall Balance 3/	**-5.3**	**-4.3**	**-5.3**	**-4.5**	**-3.9**	**-3.7**	**-3.5**	**-3.1**
Memorandum Items:								
Oil-related revenues 3/	1.5	2.5	1.1	0.8	0.8	0.8	0.8	0.8
Structural balance 4/	-5.5	-4.8	-5.1	-4.4	-3.9	-3.8	-3.6	-3.1
Primary balance	-1.0	-0.3	-0.9	-0.3	0.2	0.4	0.2	0.2
Structural primary non-oil balance	-2.7	-2.8	-1.7	-0.9	-0.6	-0.4	-0.6	-0.7
Non-oil balance	-6.8	-6.8	-6.4	-5.3	-4.7	-4.5	-4.3	-3.9
Real growth of primary expenditures	-2.6	6.9	4.2	-3.3	0.7	3.0	3.7	3.4
Nominal GDP (in Col$ trillion)	1,470	1,573	1,679	1,773	1,881	1,996	2,117	2,246

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 income tax payments and dividends from Ecopetrol corresponding to earnings from the previous year.
4/ In percent of potential GDP. Adjusts non-commodity revenues for the output gap and commodity revenues for differentials between estimated equilibrium oil price and production levels. Adjustments are made to account for fuel subsidy expenditures and the accrual of Ecopetrol dividends.

Table 4. Colombia: Operations of the Combined Public Sector, 2022-29 1/

(In percent of GDP, unless otherwise indicated)

	Estimate		Projections					
	2022	2023	2024	2025	2026	2027	2028	2029
Total Revenue	**27.8**	**32.3**	**30.6**	**29.8**	**29.4**	**29.6**	**29.6**	**29.6**
Tax revenue	22.1	25.2	25.4	25.5	25.9	25.9	26.0	26.0
Nontax revenue	5.7	7.1	5.2	4.3	3.6	3.7	3.7	3.6
Financial income	0.4	0.4	0.4	0.5	0.5	0.5	0.5	0.5
Operating surplus of public enterprises	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3
Other 2/	2.9	4.3	2.5	1.5	0.8	0.9	0.9	0.8
Total Expenditure and Net Lending 3/	**33.9**	**35.0**	**33.9**	**32.9**	**32.3**	**32.3**	**32.0**	**31.7**
Current expenditure	29.0	30.5	30.2	29.5	28.9	28.9	28.6	28.1
Wages and salaries	5.2	4.9	5.1	5.1	5.1	5.1	5.1	5.1
Goods and services	3.5	3.3	3.6	3.5	3.5	3.5	3.5	3.5
Interest	4.3	4.3	4.7	4.4	4.1	4.0	3.7	3.3
External	0.6	0.9	1.2	1.3	1.3	1.1	1.0	0.9
Domestic	3.6	3.4	3.5	3.1	2.8	2.9	2.6	2.4
Transfers to private sector	12.3	14.2	13.2	13.3	13.0	13.1	13.2	13.2
Other 4/	3.8	3.8	3.6	3.2	3.1	3.1	3.0	3.0
Capital expenditure	4.9	4.6	3.7	3.4	3.4	3.4	3.4	3.6
Statistical discrepancy	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Nonfinancial Public Sector Balance	**-6.2**	**-2.7**	**-3.3**	**-3.1**	**-2.8**	**-2.6**	**-2.4**	**-2.1**
Fogafin balance	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Net cost of financial restructuring 5/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Combined Public Sector Balance	**-6.1**	**-2.6**	**-3.2**	**-3.0**	**-2.7**	**-2.5**	**-2.3**	**-2.0**
Overall Financing	**6.1**	**2.6**	**3.2**	**3.0**	**2.7**	**2.5**	**2.3**	**2.0**
Foreign, net	0.5	1.6	2.2	2.0	1.6	1.7	1.7	1.6
o/w IFIs	0.9	0.4	-0.2	-0.3	0.0	0.0	0.0	0.0
o/w FCL	0.0	0.0	-0.7	-0.7	0.0	0.0	0.0	0.0
Domestic, net	5.5	1.1	1.0	1.0	1.1	0.8	0.6	0.3
Memorandum Items:								
Oil-related revenues 6/	2.8	3.2	1.7	1.4	1.3	1.3	1.3	1.3
Overall structural balance 7/	-6.9	-3.1	-3.0	-2.8	-2.8	-2.6	-2.4	-2.1
Primary balance 8/	-1.8	1.6	1.5	1.4	1.4	1.5	1.4	1.3
Structural primary non-oil balance	-4.6	-0.9	-0.2	0.0	-0.2	0.0	-0.1	-0.2
Fiscal Impulse (excluding Social Security) 9/	-1.2	-2.2	-1.3	-0.3	0.2	-0.2	0.1	0.2
Public sector gross debt 10/	60.1	52.5	54.4	55.6	55.7	55.4	55.2	54.5
Nominal GDP (In Col$ trillion)	1,470	1,573	1,679	1,773	1,881	1,996	2,117	2,246

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/ Includes royalties, dividends and social security contributions.
3/ Expenditure reported on commitments basis.
4/ Includes adjustments to compute spending on commitment basis and the change in unpaid bills of nonfinancial public enterprises.
5/ Interest payments on public banks restructuring bonds and mortgage debt relief related costs.
6/ Includes income tax payments and dividends from Ecopetrol that correspond to earnings from the previous year, and royalties to local governments.
7/ In percent of potential GDP. Adjusts non-commodity revenues for the output gap and commodity revenues for differentials between estimated equilibrium oil price and productic levels. Adjustments are made to account for fuel subsidy expenditures and the accrual of Ecopetrol dividends.
8/ Includes statistical discrepancy. Overall balance plus interest expenditures.
9/ To control for valuation effects, it excludes changes in Social Security balances.
10/ Includes Ecopetrol, Fogafin, and Finagro.

Table 5. Colombia: Monetary Indicators, 2022-29

	2022	Estimate[2/] 2023	Projections 2024	2025	2026	2027	2028	2029
	(In billions of Col$, unless otherwise indicated)							
Central Bank								
Net Foreign Assets	258,455	214,154	253,489	260,816	268,017	273,421	279,480	286,303
Gross official reserve assets	272,757	225,657	264,995	272,325	279,529	284,937	290,999	297,824
In billions of US$	57	59	60	61	62	62	63	64
Short-term foreign liabilities	0	0	0	0	0	0	0	0
Other net foreign assets	-14,302	-11,503	-11,506	-11,509	-11,512	-11,516	-11,519	-11,522
Net domestic assets	-103,724	-59,388	-88,215	-84,759	-80,306	-73,280	-66,080	-58,760
Net credit to the public sector	28,885	37,118	55,135	52,975	50,192	45,800	41,301	36,725
Net credit to the financial system	3,454	389	579	556	527	481	433	385
Other	-136,063	-96,895	-143,929	-138,290	-131,024	-119,561	-107,814	-95,870
Monetary base	154,731	154,766	165,274	176,057	187,711	200,141	213,400	227,543
Currency in circulation	135,179	134,263	141,531	147,480	154,581	163,596	173,135	183,230
Deposit money banks reserves	19,207	19,947	45,359	48,148	50,965	54,068	57,361	60,854
Other deposits	345	555	555	555	555	555	555	555
Financial System								
Net foreign assets	239,565	214,819	245,051	251,907	258,566	263,394	268,843	275,017
In billions of US$	50	56	56	57	57	58	58	59
Net domestic assets	515,920	558,989	536,218	570,819	613,961	662,944	714,626	769,105
Net credit to public sector	102,339	97,014	103,548	116,086	130,347	142,868	158,738	171,979
Credit to private sector	646,045	671,846	702,040	742,628	790,453	842,148	897,225	955,903
Other net	-232,227	-209,581	-269,370	-287,895	-306,839	-322,073	-341,337	-358,778
Broad money	719,789	748,051	781,269	822,726	872,526	926,338	983,469	1,044,122
	(Annual percentage change)							
Credit to private sector	5.9	4.0	4.5	5.8	6.4	6.5	6.5	6.5
Currency	7.8	-0.7	5.4	4.2	4.8	5.8	5.8	5.8
Monetary base	6.4	0.0	6.8	6.5	6.6	6.6	6.6	6.6
Broad money 1/	4.8	3.9	4.4	5.4	6.1	6.2	6.2	6.2
	(In percent of GDP)							
Credit to private sector	44.0	42.7	41.8	41.9	42.0	42.2	42.4	42.6
Currency	9.2	8.5	8.4	8.3	8.2	8.2	8.2	8.2
Monetary base	10.5	9.8	9.8	9.9	10.0	10.0	10.1	10.1
Broad money	49.0	47.6	46.5	46.4	46.4	46.4	46.5	46.5
Memorandum Items:								
CPI inflation, eop	13.2	9.3	5.3	3.0	3.0	3.0	3.0	3.0
Nominal GDP (In Col$ trillions)	1,469,791	1,572,658	1,679,432	1,773,168	1,881,153	1,995,716	2,117,255	2,246,196

Sources: Banco de la Republica; and IMF staff estimates and projections.
1/ Broad money includes nonliquid liabilities to the domestic nonfinancial private sector.
2/ Estimate for the financial system.

Table 6. Colombia: Medium-Term Outlook, 2019-29

					Estimate [1/]	Projections					
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
					(In percent of GDP, unless otherwise indicated)						
Real GDP (in percent change)	3.2	-7.2	10.8	7.3	0.6	1.1	2.5	3.0	3.0	3.0	3.0
Consumer prices (in percent change; eop)	3.8	1.6	5.7	13.2	9.3	5.3	3.0	3.0	3.0	3.0	3.0
Gross national savings	16.8	15.7	13.3	13.6	10.1	9.9	11.2	11.4	11.1	11.0	10.8
Private sector	15.8	19.0	15.4	14.9	8.3	9.5	10.8	10.8	10.3	9.9	9.5
Public sector	1.0	-3.3	-2.1	-1.3	1.8	0.4	0.3	0.5	0.8	1.1	1.3
Gross domestic investment	21.4	19.1	18.9	19.7	12.8	12.9	14.5	14.7	14.6	14.6	14.4
					(In percent of GDP, unless otherwise indicated)						
Nonfinancial Public Sector 2/											
Revenue	29.4	26.6	27.2	27.8	32.3	30.6	29.8	29.4	29.6	29.6	29.6
Expenditure	31.8	33.5	34.3	33.9	35.0	33.9	32.9	32.3	32.3	32.0	31.7
Current expenditure	27.6	29.8	29.2	29.0	30.5	30.2	29.5	28.9	28.9	28.6	28.1
Capital expenditure	4.2	3.8	5.1	4.9	4.6	3.7	3.4	3.4	3.4	3.4	3.6
Primary balance 3/	0.4	-5.0	-4.8	-1.0	-0.3	-0.9	-0.3	0.2	0.4	0.2	0.2
Overall balance 3/	-3.5	-7.0	-7.1	-6.2	-2.7	-3.3	-3.1	-2.8	-2.6	-2.4	-2.1
Combined public sector balance	-2.9	-6.9	-7.0	-6.1	-2.6	-3.2	-3.0	-2.7	-2.5	-2.3	-2.0
External financing	0.9	7.9	2.9	0.5	1.6	2.2	2.0	1.6	1.7	1.7	1.6
Domestic financing	2.0	-1.0	4.1	5.5	1.1	1.0	1.0	1.1	0.8	0.6	0.3
External current account balance	-4.6	-3.4	-5.6	-6.2	-2.7	-3.0	-3.3	-3.4	-3.5	-3.6	-3.6
Trade balance	-3.1	-3.3	-4.4	-3.5	-1.9	-2.1	-2.4	-2.5	-2.6	-2.7	-2.6
Exports	12.6	12.0	13.4	17.2	14.4	13.3	12.9	12.6	12.3	12.1	11.9
Imports	15.6	15.2	17.8	20.7	16.3	15.3	15.3	15.1	14.9	14.7	14.5
Financial account balance	-4.1	-3.0	-5.2	-5.9	-2.4	-3.0	-3.3	-3.4	-3.5	-3.6	-3.6
Direct Investment	-3.4	-2.1	-2.0	-4.0	-4.5	-3.3	-3.2	-3.2	-3.0	-2.9	-2.9
Portfolio Investment	0.0	-0.7	-1.4	0.1	2.4	1.8	1.8	0.2	-0.1	-0.3	-0.4
Other Investments and Derivatives	-1.8	-1.8	-2.0	-2.2	-0.8	-1.9	-2.1	-0.6	-0.5	-0.6	-0.6
Change in Reserve Assets	1.0	1.6	0.2	0.2	0.5	0.4	0.2	0.1	0.1	0.2	0.2
Public sector gross debt 4/	52.4	65.7	64.0	60.1	52.5	54.4	55.6	55.7	55.4	55.2	54.5
Public sector gross debt, excluding Ecopetrol	49.4	61.5	58.8	55.0	48.5	51.2	53.0	53.5	53.3	53.2	52.5
Memorandum Items:											
Nominal GDP (in Col$ trillion)	1,060,068	998,471	1,192,634	1,469,791	1,572,658	1,679,432	1,773,168	1,881,153	1,995,716	2,117,255	2,246,196

Sources: Colombian authorities and IMF staff estimates and projections.
1/ Estimate for fiscal variables.
2/ Excludes Ecopetrol.
3/ Includes statistical discrepancy.
4/ Includes Ecopetrol, Fogafin, and Finagro.

Table 7. Colombia: Financial Soundness Indicators, 2019-23
(In percent, unless otherwise indicated; end-of-period values)

	2019	2020	2021	2022	2023M11
Capital Adequacy 1/					
Regulatory capital to risk-weighted assets	16.9	19.2	22.2	18.9	17.9
Regulatory Tier 1 capital to risk-weighted assets	11.8	14.4	18.2	15.3	15.1
Capital (net worth) to assets	9.0	9.8	12.2	10.7	10.6
Asset Quality and Distribution					
Provisions to nonperforming loans	122.6	125.2	129.7	136.4	115.0
Gross loans to assets	71.2	65.4	69.4	71.4	67.4
Earnings and Profitability					
ROAA	2.2	0.9	2.3	2.2	1.2
ROAE	13.2	5.9	14.3	13.7	6.8
Interest margin to gross income	57.5	56.0	58.1	58.6	50.0
Noninterest expenses to gross income	49.6	52.6	48.3	48.7	51.2
Liquidity					
Liquid assets to total assets	17.0	19.5	20.1	17.0	17.9
Liquid assets to short-term liabilities	36.6	37.9	37.3	33.9	35.7
Deposit to loan ratio	89.4	98.4	98.2	95.0	100.0
Other					
Foreign-currency-denominated loans to total loans	5.2	4.6	5.1	5.0	4.0
Foreign-currency-denominated liabilities to total liabilities	11.8	11.4	11.5	10.8	9.5
Net open position in foreign exchange to capital 2/	0.9	1.1	0.7	1.1	0.9

Source: Superintendencia Financiera; IMF's Financial Soundness Indicators (FSI).
1/ The large changes in capital adequacy between 2020 and 2021 are mostly due to the adoption of Basel III capital definitions and risk weights. In early 2022, the spin-off of 75 percent of BAC from Banco de Bogota reduced requirement of credit institutions by 14.5 tn COP (as of November 2022).
2/ Since January 2016, goodwill and retained earnings started to be recorded in foreign currency. Before January of 2016, they were recorded in Colombian pesos and weren't included in the foreign exchange position.

Table 8. Colombia: Indicators of External Vulnerability, 2022-29 1/

(In billions of US$, unless otherwise indicated)

	2022	2023	2024	2025	2026	2027	2028	2029
			Projections					
Exports of GNFS	73.1	67.8	66.7	67.3	68.9	70.6	72.7	75.1
Imports of GNFS	89.6	76.0	76.2	79.0	82.0	85.3	88.6	91.7
Terms of trade (y/y percent change)	25.0	-5.2	-2.0	-1.2	-1.4	-0.5	-1.1	-0.5
Current account balance	-21.4	-9.7	-11.7	-13.3	-14.1	-15.5	-16.7	-17.6
In percent of GDP	-6.2	-2.7	-3.0	-3.3	-3.4	-3.5	-3.6	-3.6
Financial account balance	-20.5	-8.9	-11.7	-13.3	-14.1	-15.5	-16.7	-17.6
Of which: Foreign direct investment (net)	-13.8	-16.2	-12.7	-13.0	-13.2	-13.4	-13.6	-13.9
Of which: Portfolio investment (net)	0.4	8.7	6.8	7.1	1.0	-0.4	-1.3	-1.8
Total external debt (in percent of GDP) 2/	60.3	59.7	57.5	56.6	57.1	57.3	57.5	57.1
Of which: Public sector (in percent of GDP) 2/	37.4	36.0	34.9	34.8	35.0	34.9	34.7	34.7
In percent of gross international reserves	367.3	367.2	367.3	370.6	385.8	402.9	420.4	433.0
Short-term external debt (in percent of GDP) 3/	8.6	8.3	8.1	8.1	8.1	7.9	7.8	7.7
Of which: Public sector (in percent of GDP)	0.3	0.3	0.3	0.3	0.3	0.3	0.2	0.2
Of which: Private sector (in percent of GDP)	8.3	8.0	7.9	7.8	7.8	7.7	7.5	7.4
Amortization of MLT external debt (in percent of GNFS exports)	26.4	23.1	24.7	27.6	31.7	32.3	32.8	32.7
External interest payments (in percent of GNFS exports)	16.0	17.8	19.0	18.0	16.8	16.9	17.2	17.4
Gross international reserves 4/	56.7	59.1	60.4	61.2	61.8	62.4	63.2	64.1
In months of prospective GNFS imports	9.0	9.3	9.2	9.0	8.7	8.5	8.3	8.1
In percent of broad money 5/	37.9	30.2	33.9	33.1	32.1	30.8	29.6	30.0
In percent of short-term debt on residual maturity basis plus current account deficit	102.7	101.1	95.5	89.4	85.9	82.8	85.3	84.0
In percent of ARA (including commodity buffer)	112	106	111	112	108	105	102	101
In percent of ARA (excluding commodity buffer)	126	119	124	124	119	115	111	109
Real effective exchange rate (percentage change, + = appreciation)	-4.7	6.1	...	...	...	...	...	...

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/ Estimated for 2023.

Table 9. Colombia: External Debt Sustainability Framework, 2020-29
(In percent of GDP, unless otherwise indicated)

	Actual						Projections						
	2020	2021	2022	2023			2024	2025	2026	2027	2028	2029	**Debt-Stabilizing Non-Interest Current Account 6/**
Baseline: External Debt	66.6	61.6	60.3	59.7			**57.5**	**56.6**	**57.1**	**57.3**	**57.5**	**57.1**	**-2.3**
Change in external debt	16.4	-5.0	-1.2	-0.7			-2.2	-0.8	0.4	0.2	0.2	-0.4	
Identified external debt-creating flows (4+8+9)	11.6	-5.5	-2.6	-4.1			0.0	-0.4	-0.5	-0.4	-0.2	-0.1	
Current account deficit, excluding interest payments	0.1	2.7	2.8	-0.6			-0.3	0.3	0.6	0.8	0.9	0.9	
Deficit in balance of goods and services	4.8	6.3	4.8	2.3			2.5	2.9	3.1	3.3	3.4	3.4	
Exports	14.1	16.0	21.2	18.6			17.3	16.8	16.5	16.1	15.7	15.5	
Imports	19.0	22.3	26.0	20.9			19.7	19.7	19.6	19.4	19.2	18.9	
Net non-debt creating capital inflows (negative)	-0.6	-0.9	-3.1	-3.6			-2.4	-2.3	-2.2	-2.3	-2.2	-2.1	
Automatic debt dynamics 1/	12.1	-7.2	-2.3	0.1			2.6	1.7	1.1	1.1	1.1	1.0	
Contribution from nominal interest rate	3.3	2.9	3.4	3.3			3.3	3.0	2.8	2.7	2.7	2.7	
Contribution from real GDP growth	4.3	-6.1	-4.1	-0.4			-0.6	-1.4	-1.6	-1.6	-1.6	-1.6	
Contribution from price and exchange rate changes 2/	4.5	-4.1	-1.6	-2.8			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	4.9	0.5	1.4	3.4			-2.2	-0.5	0.9	0.6	0.4	-0.2	
External debt-to-exports ratio (in percent)	470.7	385.1	285.2	320.1			332.9	337.0	346.0	356.4	365.6	369.5	
Gross External Financing Need (in billions of US dollars) 4/	46.8	55.2	65.3	55.2			58.4	63.3	68.5	72.0	75.4	78.1	
in percent of GDP	17.3	17.3	18.9	15.2			15.1	15.8	16.4	16.4	16.3	16.1	
Scenario with Key Variables at their Historical Averages 5/					10-Year Historical Average	10-Year Standard Deviation	**57.5**	**60.7**	**65.7**	**71.1**	**76.8**	**81.9**	**2.5**
Key Macroeconomic Assumptions Underlying Baseline													
Real GDP growth (in percent)	-7.2	10.8	7.3	0.6	2.8	4.6	1.1	2.5	3.0	3.0	3.0	3.0	
GDP deflator in US dollars (change in percent)	-9.8	6.3	1.0	4.7	-2.6	10.1	5.0	1.2	1.3	2.1	2.1	2.0	
Nominal external interest rate (in percent)	5.5	5.2	6.0	5.8	5.9	0.4	5.8	5.5	5.1	5.0	5.0	4.9	
Growth of exports (US dollar terms, in percent)	-25.5	33.2	43.5	-7.3	2.2	23.3	-1.6	1.0	2.4	2.5	2.9	3.3	
Growth of imports (US dollar terms, in percent)	-21.6	38.2	26.4	-15.2	2.2	19.6	0.3	3.6	3.9	4.0	3.9	3.5	
Current account balance, excluding interest payments	-0.1	-2.7	-2.8	0.6	-1.8	1.6	0.3	-0.3	-0.6	-0.8	-0.9	-0.9	
Net non-debt creating capital inflows	0.6	0.9	3.1	3.6	2.1	1.0	2.4	2.3	2.2	2.3	2.2	2.1	

Source: IMF staff estimates.

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

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

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

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

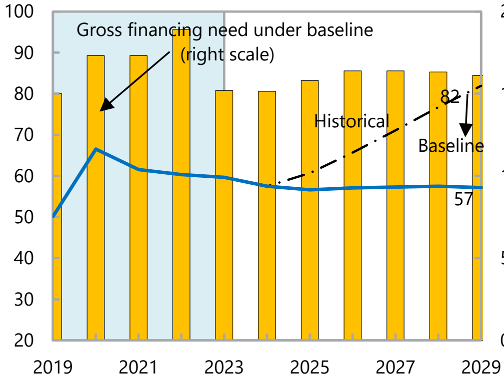
6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

Table 10. Colombia: External Debt Sustainability: Bound Tests[1/ 2/]

(External debt in percent of GDP)

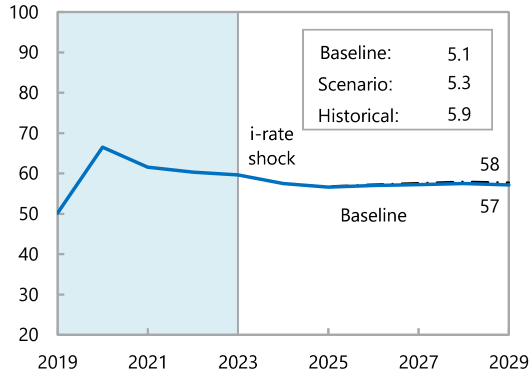
Baseline and Historical Scenario

(In percent of GDP)



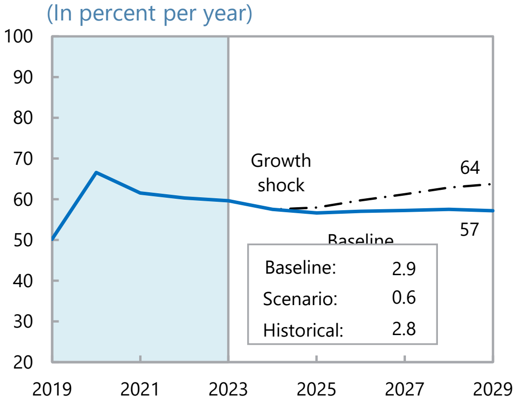
Interest Rate Shock

(In percent)



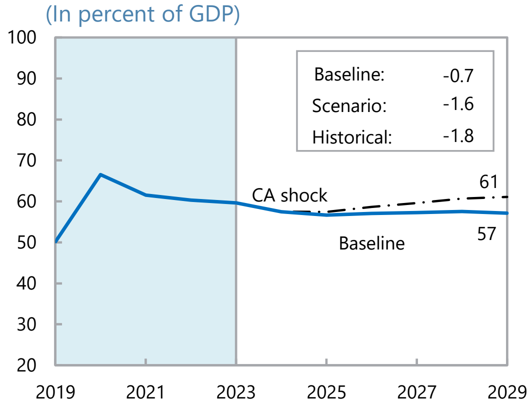
Growth Shock

(In percent per year)

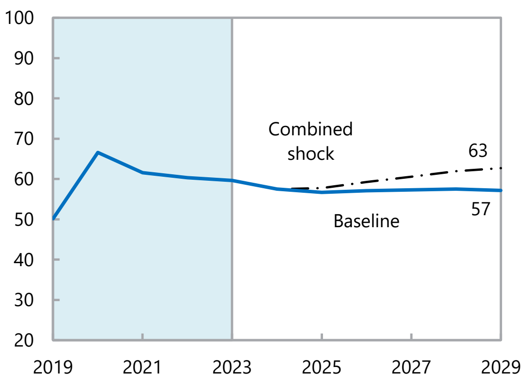


Non-Interest Current Account Shock

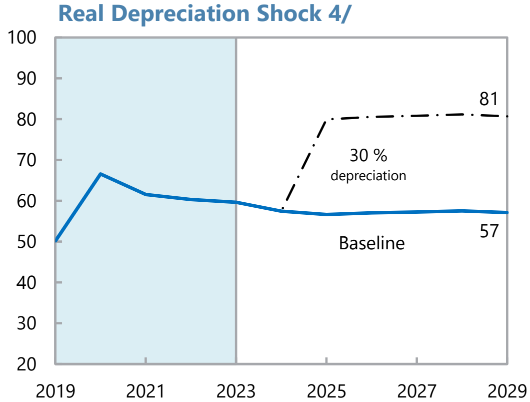
(In percent of GDP)



Combined Shock 3/



Real Depreciation Shock 4/



Sources: Country authorities and 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 2024.

Table 11. Colombia: Capacity to Repay Indicators Under Adverse Scenario, 2021-2029 1/

	2021	2022	2023	2024	2025	2026	2027	2028	2029
Exposure and Repayments (In SDR millions)									
GRA credit to Colombia	3,750.0	3,750.0	3,750.0	9,030.7	7,155.7	7,155.7	4,472.3	894.5	--
(In percent of quota)	183.4	183.4	183.4	441.7	350.0	350.0	218.7	43.7	--
Charges due on GRA credit 2/	--	--	455.1	594.6	531.8	440.8	399.6	161.1	16.0
Debt service due on GRA credit 2/	--	--	455.1	2,469.6	2,406.8	440.8	3,083.0	3,739.0	910.4
Debt and Debt Service Ratios 3/									
In percent of GDP									
Total external debt	62.2	63.0	61.9	78.7	59.3	59.2	59.4	59.5	59.6
Public external debt	40.6	40.0	37.8	50.0	38.1	37.8	37.6	37.2	37.7
GRA credit to Colombia	1.7	1.5	1.4	4.1	2.4	2.3	1.4	0.3	--
Total external debt service 4/	13.5	13.6	15.0	18.1	14.9	16.1	15.9	14.6	14.3
Public external debt service 4/	3.2	1.8	3.0	3.3	1.8	3.3	2.9	1.9	1.9
Debt service due on GRA credit	--	--	0.2	1.1	0.8	0.1	1.0	1.1	0.3
In percent of Gross International Reserves									
Total external debt	239.8	285.4	289.0	346.6	347.5	360.5	375.4	389.5	402.9
Public external debt	156.5	181.1	176.5	220.5	223.0	230.6	237.8	244.0	255.2
GRA credit to Colombia	9.2	8.8	8.5	24.3	19.1	19.0	11.7	2.3	--
In percent of Exports of Goods and Services									
Total external debt service 4/	84.8	63.8	81.2	86.9	86.4	96.4	97.6	92.6	93.4
Public external debt service 4/	20.3	8.5	16.3	16.0	10.6	19.7	17.7	11.9	12.6
Debt service due on GRA credit	--	--	0.9	5.5	4.8	0.9	5.9	7.0	1.7
In percent of Total External Debt									
GRA credit to Colombia	2.7	2.3	2.2	5.3	4.1	3.9	2.3	0.4	--
In percent of Public External Debt									
GRA credit to Colombia	4.1	3.7	3.6	8.3	6.4	6.1	3.7	0.7	--
Memo Items:									
U. S. dollars per SDR (period average)	1.42	1.34	1.33	--	--	--	--	--	--
Oil Price (WEO APSP, US$ per barrel)	69.2	96.4	80.9	79.1	75.3	72.1	69.7	67.8	66.5

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

1/ Assumes full drawing on the current FCL (350 percent of quota) in 2024. The adverse scenario is taken from the 2022 FCL approval: a shock to oil exports (about 25 percent), reduced disbursements (20 and 30 percent for public and private sectors, respectively), and use of reserves.

2/ Based on interest rate of 5.099 percent (as of January 11, 2024).

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. Summary of Social Reforms

Healthcare Reform

1. A healthcare reform proposal was submitted to Congress in February 2023 with the **aim** of increasing access and coverage of services in rural areas, improving the quality of primary care, and replacing private insurers with a public system. The draft law is awaiting discussion in the Senate.

2. The **current system** is a contributory health insurance model where a public institution collates contributions from formal workers and the government and pays mostly private insurers on a capitation basis, who in turn purchase services from health care providers. The system has nearly universal coverage with low out-of-pocket payments and is generally favored by the public, but access in rural areas remains limited.

3. The **draft proposal** seeks to create a network of primary care centers throughout the country to whom payments would go directly from the public fund. The role of private insurers would be reduced to payment administration. Some analysts have warned that making the government responsible for paying for the services is likely to politicize healthcare and lead to governance issues. The reform has been controversial in Congress; the role of private insurers being a divisive aspect. The authorities estimate that the fiscal cost of the reform could reach close to 0.2 percent of GDP in 2024 and average about 0.8 percent of GDP per year between 2025 and 2033.[1]

Pension Reform

4. The pension reform, submitted to Congress in March 2023, **aims** to expand the coverage to almost the whole retirement-age population, tackling legacy issues related to high informality rates and long contribution spans. It envisages expanding solidarity pillar for low-income people (transfer from the budget). It also guarantees a minimum pension to those who do not fully meet the contribution requirement. The proposal also seeks to improve the system's progressivity, reduce subsidies to the defined-benefit scheme (*Regimen de Prima Media*) managed by the public sector, and eliminate competition between private and public pensions. The draft law is awaiting a second round of debates in Congress.

5. The **current system** is a dual one in which workers must contribute to either the public defined-benefit scheme or to the private retirement scheme and can switch between the systems under certain conditions. The system benefits workers with stable formal sector jobs. Fewer than 40 percent of the workforce contributes and about 20 percent of the elderly receive contributory pensions.

6. The **proposal** is to move to a single unified system, with complementary public and private accounts. About 80 percent of future pension contributions would go to the public scheme and be saved in a new "National Saving Fund" (*Fondo de Ahorro del Pillar Contributivo—FPAC*). Only

[1] See Escenario de Factibilidad de la Reforma de Salud (November,2023).

contributions above a certain income level would go to the private system. The proposal also includes increasing the currently very small non-contributory social pensions to eliminate extreme poverty.

7. Regarding **fiscal costs** of the reform, the authorities estimate that, in comparison with the scenario without a pension reform, the net present value (NPV) of the impact of the reform is approximately 74 percent of GDP until 2069 and 126 percent of GDP by 2100.[2] The FPAC savings would reduce these costs to approximately 0.3 percent of GDP per year until 2069 (equivalent to the fiscal costs of the solidarity pillar) and 2 percent of GDP afterwards (encompassing the costs of all pillars after the savings of FPAC are exhausted). While many agree that a reform is needed, experts recommend lowering the threshold of contributions that will go to the public system from 3 to 1-2 minimum wages to limit the increase in pension liabilities. It is also critical to strengthen the transition regime and to ensure a strong governance and investment mandate for the FPAC.

Labor Reform

8. The labor reform was presented to Congress in mid-March 2023 with **the aim** of increasing formal workers' rights. The draft law is being discussed in a sub-commission in Congress.

9. The draft **proposal** seeks to grant greater remuneration and protection to formal employees. This is done through several measures, among which are: (i) the reduction in the daytime (night shift would start at 7:00 pm); (ii) an increase in the surcharge of Sundays and holidays, which would gradually go from 75 percent to 100 percent by 2026; and (iii) an increase in severance pay without just cause, which would go from 30 days' salary for the first year of service plus 20 days' salary for each additional year, to 45 days' salary for the first year of service plus 45 days' salary for each additional year.

10. Although the objectives are laudable, such changes are likely to add to the already-large informal economy. A study done by Banrep finds that the draft labor reform, if approved in its current format, would increase the average labor cost due to both higher salaries (recurrent costs) and higher compensation (effective in case of unjustified dismissals).[3] The study estimates that the increase in labor costs could reduce formal jobs by 454,000 (in a range between 152,000 and 746,000, depending on the estimated response of formal employment to wage costs), reducing the formality rate by 2.1 ppt over three to four years.

[2] See Concepto de Impacto Fiscal (October, 2023).

[3] Estabilidad en el mercado laboral y análisis cuantitativo de algunos impactos del proyecto de ley de reforma laboral (2023).

Annex II. External Sector Assessment, 2023

Overall Assessment: *Staff assesses that the external position in 2023 is in line with the level implied by medium-term fundamentals and desirable policies. A tight policy mix has supported a significant contraction in import volumes which has helped narrow the current account deficit, despite weaker terms of trade. The external position continues to benefit from a relatively stable and diversified capital flows with a high FDI component, the negative correlation between the income balance and the trade balance, adequate reserve coverage, the favorable composition of external debt (e.g., long maturities, sizable peso-denominated debt for sovereign bonds, high natural and financial hedges for corporate bonds), and a flexible exchange rate that has continued as a long-serving primary mechanism of adjustment to external shocks.*

Potential Policy Responses: *Fiscal consolidation should proceed, preferably at a faster pace than dictated by the fiscal rule, while monetary policy rate cuts should continue with caution to bring inflation and inflation expectations durably to the target. Reform efforts should continue to boost domestic saving, bolster human capital, and strengthen competitiveness (i.e., address logistic bottlenecks, lower barriers to entry). In addition, the energy transition needs to be carefully calibrated to protect Colombia's very strong policy frameworks and external sustainability, while efforts continue to diversify the country's export base.*

Foreign Assets and Liabilities: Position and Trajectory

Background. Colombia's net international investment position (NIIP) at end-2023 reached -52.8 percent of GDP, broadly unchanged from its end-2022 level (-51.6 percent of GDP). The net increase in FDI was almost compensated by lower net portfolio liabilities and other net investments. During the previous five years (2018-2022), the increase in liabilities (up 20 points of GDP driven mainly by FDI) was more than offset by the increase in assets (up 13 points of GDP, mainly driven by portfolio investment). Excluding FDI, the NIIP stood at only -3 percent of GDP, smaller in absolute value than the 5-year average (-5 percent of GDP). Considering only reserve assets and debt liabilities, the net position was -46 percent.

Assessment. Estimated gross external financing needs amounted to 16 percent of GDP for 2023, three percentage points lower than in 2022. The external stability (ES) approach suggests a need for an external adjustment. The estimated medium-term current account balance required to stabilize the NIIP at its end-2023 level is -3.2 percent of GDP, close to the medium-term baseline. The large share of FDI, as well as a net long foreign currency position, help mitigate any shock to the NIIP.

2023 (% GDP)	NIIP: -53	Gross Assets: 72	Reserve Assets: 16	Gross Liab.: 124	Debt Liab.: 63

Current Account

Background. The current account (CA) deficit adjusted from 6.2 percent of GDP in 2022 to 2.7 percent of GDP for 2023, amid a tight policy mix and despite weaker terms of trade (down 5 percent y/y). The lower CA deficit mainly reflected the sharp contraction in goods import volumes (down 12 percent y/y), as well as the continued strength of tourism receipts (up 22 percent y/y) and remittances (up 7 percent y/y) along with lower import services on account of the normalization of international freight rates. Reflecting the significant FDI in Colombia, profit transfers abroad remained an important driver of the deficit, although smaller than in 2022.

Assessment. Model estimates indicate a cyclically adjusted CA norm of -0.7 percent of GDP and a CA gap of -2.4 percent of GDP for 2023. Identified policy gaps are 1.8 percent of GDP, with the fiscal gaps contributing 1.0 percent of GDP. As in previous exercises (2019-22), adjustments to account for Colombia-specific factors remain necessary, and involve: (i) reducing the contribution of oil exports to the norm by 1.3 percent of

GDP, given Colombia's investment needs necessary to boost competitiveness; [1] and (ii) reducing the norm by an additional 0.5 percent of GDP, given the need to absorb the large stock of migrants from Venezuela.[2] The combined adjustments above reduce the CA gap to -0.6 percent of GDP, with a standard error of +/-0.6 percent of GDP.

2023 (% GDP)	Estimated CA: -2.7	Cycl., Adj. CA: -3.1	EBA CA Norm: -0.7	EBA CA Gap: -2.4	COVID-19 Adj.: 0.0	Other Adj.: 1.8	Staff CA Gap: -0.6

Real Exchange Rate

Background. The average Real Effective Exchange Rate (REER) appreciated 6.1 percent in 2023, following a depreciation of about 8 percent during 2021-22. The REER is still about 38 percent weaker than in 2014, in part reflecting declining terms of trade since the earlier commodity boom.

Assessment. Overall, staff judges the REER gap consistent with the CA gap at 3.4 percent, with a range of uncertainty (+/- 3.5 percentage points). Applying a semi-elasticity of -0.17 to the gap from the CA approach suggests a REER overvaluation of between -0.2 and 6.9 percent. Under the External Sustainability approach the implied overvaluation is -0.8 percent. EBA REER approaches estimate an undervaluation of 34.8 percent (index method) and 15.4 percent (level method).

Capital and Financial Accounts: Flows and Policy Measures

Background. The current account continues to be financed primarily by capital inflows in the form of FDI, with portfolio inflows or foreign borrowing playing a more minor role. For 2023 net FDI liabilities (inflows) reached 4.8 percent of GDP, diversified across sectors. Portfolio investment recorded net outflows for 2.4 percent of GDP, as non-residents reduced their exposure to the domestic government debt market (down 0.7 percent of GDP) and residents increased positions overseas (up 1.7 percent of GDP). Short-term debt, mainly private, represented only 8.3 percent of total external debt, similar to its level in 2022. In 2023 the government issued sovereign bonds to partially pre-finance 2024 needs and further diversified its foreign funding sources by borrowing from multilateral institutions.

Assessment. The relative stability of FDI flows, diversification of creditors, very strong policy frameworks, and uninterrupted market access have underpinned capital inflows, including around periods of stress. Colombia's attractiveness as an investment destination should continue to support external investment flows, particularly as uncertainty around structural reforms, including related to the energy transition, dissipates, although efforts to improve the investment climate remain essential.

FX Intervention and Reserves Level

Background. Gross international reserves reached \$59.1 billion at end-2023, \$2.3 billion more than in 2022—mainly from returns on reserve assets. The central bank did not intervene in the FX market during 2023. The central bank announced (in December 2023) a plan to gradually accumulate reserves, market conditions permitting, for up to US\$1.5 billion over the next two years.

Assessment. The flexible exchange rate has served the economy well. It has been 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 remains adequate. For 2023, reserve coverage reached 119 percent of the ARA metric, and 106 percent if the commodity buffer is included.[3] Access to unused resources available under Colombia's FCL provides an additional liquidity buffer equivalent to 19 percent of the ARA metric. Further reserve accumulation would help insure against elevated external risks.

[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, 2020, 2021, and 2022 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.
[2] The adjustment is the same as in the 2020, 2021, 2022, and 2023 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] To capture the uncertainty in commodity prices, we apply to the baseline oil export values one standard deviation in the oil price (1980-2023), which is similar to the price volatility embodied in oil option prices.

Annex III. Risk Assessment Matrix

Risk Assessment Matrix (February)[1]		
Source of Risks (Likelihood in color)	**Impact**	**Policy Advice for Colombia**
Global		
Abrupt Global Slowdown or Recession. Global and idiosyncratic risk factors cause a synchronized sharp growth downturn, with recessions in some countries, adverse spillovers through trade and financial channels, and market fragmentation triggering sudden stops in EMDEs. **Medium**	**High.** Colombia would be affected by a reduction of global trade and rising import prices. Lower exports and falling terms of trade would dent growth and exert downward pressure on the exchange rate.	In a global recession scenario, use existing policy space to support the economy and protect the most vulnerable, consistent with the inflation targeting framework and fiscal sustainability. The strength and mix of the monetary and fiscal response would depend on Colombia's cyclical position and the impact of shocks. Allow the exchange rate to play its role as shock absorber.
Systemic Financial Instability. High interest rates and risk premia and asset repricing amid economic slowdowns and political uncertainty (e.g., from elections) trigger market dislocations, with cross-border spillovers and an adverse macro-financial feedback loop affecting weak banks and NBFIs. **Medium**	**Medium.** Colombia is vulnerable to a sudden exit of foreign investors, which hold a relatively large share of its sovereign bonds. The risk is mitigated by policy buffers, including access to an FCL.	Use the flexible exchange rate as the first line of defense against external shocks. Targeted liquidity interventions, including unconventional measures like asset purchases, can address disorderly market conditions, as can the use of international reserves, if needed. The government needs to continue implementing its medium-term fiscal consolidation adjustment plans to build credibility in the fiscal framework and reduce further pressures on sovereign yields.
Monetary policy miscalibration. Amid high economic uncertainty, major central banks loosen policy stance prematurely, hindering disinflation, or keep it tight for longer than warranted, causing abrupt adjustments in financial markets and weakening the credibility of central banks. **Medium**	**High.** Spillovers to financial markets would affect Colombia through tighter financial conditions and capital outflows.	Use the exchange rate act as a shock absorber. Tighten monetary policy, within the inflation-targeting framework, if inflation is affected by additional price pressures. Use fiscal policy to address the shock within the flexibility of the fiscal framework, including targeting support to the most vulnerable using the flexibility of the fiscal framework.

Source of Risks (Likelihood in color)	**Impact**	**Policy Advice for Colombia**
Intensification of Regional Conflict(s). Escalation or spread of the conflict in Gaza and Israel, Russia's war in Ukraine, and/or other regional conflicts or terrorism disrupt trade (e.g., energy, food, tourism, supply chains), remittances, FDI and financial flows, payment systems, and increase refugee flows. **High**	**Medium.** Colombia has been negatively affected by the war in Ukraine mainly through the commodity price channel for non-oil products.	If inflationary pressures build up, extend the tightening cycle within the inflation-targeting framework. Allow the exchange rate to play its role as a shock absorber. Provide targeted fiscal support to vulnerable groups, mindful of the need to comply with the medium-term fiscal framework and curb demand pressures.
Commodity Price Volatility. A succession of supply disruptions (e.g., due to conflicts, export restrictions, and OPEC+ decisions) and demand fluctuations causes recurrent commodity price volatility, external and fiscal pressures in EMDEs, cross-border spillovers, and social and economic instability. **High**	**High.** Colombia would be affected by volatile export and import prices. Oil and food price shocks feed through to headline and core inflation.	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. Tighten monetary policy if second round effects materialize and/or inflation expectations are not well anchored, mindful of different effects from the demand and supply sides as oil exporters. Reduce reliance on oil-related tax revenues. Speed up structural reforms to enhance external competitiveness and economic diversification.
Deepening geoeconomic fragmentation. Broader conflicts, inward-oriented policies, and weakened international cooperation result in a less efficient configuration of trade and FDI, supply disruptions, protectionism, policy uncertainty, technological and payments systems fragmentation, rising shipping and input costs, financial instability, a fracturing of international monetary system, and lower growth. **High**	**Medium.** Reduced global productivity and demand and higher input costs will weigh on Colombian economic growth, but potential nearshoring elements (e.g., with the U.S.) could have a net positive impact.	Implement structural reforms to ensure the economy can adjust flexibly to potential variations/modifications in export demand. Measures could include reforms to strengthen the business climate (e.g., infrastructure, rule of law, human capital formation), competition, and labor market reforms to reduce informality and allow for smoother sectoral reallocation.
Colombia Specific Risks		
A disorderly transition towards cleaner energy Medium	**High.** A sudden stop in the exploration and exploitation of oil will have significant negative effects on the external and fiscal accounts.	Reprioritize structural reforms to enhance external competitiveness and export diversification. A tighter fiscal stance than the one set out by the Financing Plan would be necessary.

Source of Risks (Likelihood in color)	**Impact**	**Policy Advice for Colombia**
Social Unrest. Persistently high inflation, including in energy and food, slowing economic growth, unmet social demands, or the protracted constitutional reform amplify risks of social unrest. Political polarization and instability weaken policymaking and confidence. **Medium**	**High.** Political uncertainty and social conflict could affect private investment and provoke capital outflows. A decline in political support for key institutions and policy frameworks could have significant medium-term implications.	Advance reforms to tackle social demands, anchored on broad political support. Continue with policies to achieve the inflation target and maintain fiscal sustainability, while providing targeted support to the most vulnerable.
Missing fiscal rule. Given a decline of expected revenues due to economic deceleration and to court rulings on specific revenue sources (e.g., non-deductibility of royalties), smaller-than-needed spending cuts increase the risk of non-compliance with the fiscal rule **Low**	**Medium.** Deviation or non-complying with the fiscal rule would affect fiscal consolidation and could have a negative market reaction, which could raise borrowing costs.	Comply with the fiscal rule by identifying the necessary spending cuts, including a reprioritization of public investment projects, while protecting vulnerable population.
Monetary policy miscalibration. A miscalibration in the timing and pace of policy rate cuts would jeopardize central bank's credibility and increase the risk of policy reversals. **Medium**	**High.** Increasing the policy rate because upside risks materialize after a period of a faster-than-expected decline in the rate could prove to be costly in terms of output and credibility.	Keep still a higher-for-longer tight monetary policy stance until inflation (headline and core) and inflation expectations are in a firm downward trajectory.
Venezuelan recovery. A stronger than expected economic recovery in Venezuela and a reopening of trade relations. **Medium**	**High.** Historically, Venezuela has been a key trading partner for Colombia. A reopening would lead to increased demand for Colombian exports, positively affecting growth and narrowing the current account deficit.	Speed up structural reforms and diversification measures. Continue with policies to integrate Venezuelan migrants to the labor force.

Source of Risks (Likelihood in color)	**Impact**	**Policy Advice for Colombia**
Potential conflict in the Latin American and Caribbean Region. Low	**Medium.** Over the last decade, Colombia have received more than 2.5 million migrants from Venezuela. An escalation of a regional conflict could increase migration flows from Venezuela.	Seek financing and aid to cover for net fiscal costs in assimilating migrants. Use available fiscal resources within the limits of the fiscal framework. Continue implementing policies to integrate migrants into the labor force and maximize economic benefits.
[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.		

Annex IV. Public Debt Sustainability Analysis

Figure 1. Colombia: Risk of Sovereign Stress

Horizon	Mechanical signal	Final assessment	Comments
Overall	...	Moderate	The overall risk of sovereign stress is moderate. Fiscal consolidation, together with inflation and the appreciation of the peso, has brought down public debt from 60.1 percent of GDP in 2022 to an estimated 52.5 percent at end-2023. Gross financing needs have declined too. However, risks associated with commodity prices, exchange rate, and interest-growth rate differentials may pose challenges to Colombia over the medium term. Debt stabilization critically depends on meeting the fiscal targets.
Near term 1/	...	...	...
Medium term	Low	Moderate	The medium-term analysis suggests a low level of risks of sovereign stress over that time horizon, supported by moderate financing needs. Debt stabilization critically depends on meeting the fiscal targets. Risks associated with commodity prices, exchange rate, and interest-growth rate differentials may pose challenges over the medium term. Hence, staff assesses medium-term risks as moderate.
Fanchart	Moderate	...	
GFN	Moderate	...	
Stress test	Comm. Prices FX rate Nat. Disast.	...	
Long term	...	Moderate	While debt is projected to reach the medium-term debt anchor, a drastic shift away from oil and coal production could affect long-term fiscal sustainability.
Sustainability assessment 2/	...	Sustainable with high probability	The projected debt path is expected to stabilize and GFNs will remain at manageable levels, conditional on the sustained implementation of the fiscal adjustment path set out by the fiscal rule and medium-term fiscal framework.
Debt stabilization in the baseline			Yes

DSA Summary Assessment

Commentary: Public sector debt is assessed to be sustainable with high probability under a wide range of plausible shock scenarios, with moderate medium- and long-term risks. Realism scenarios suggest that Colombia's fiscal adjustment and debt reduction feature close to the median of its peers. Given financing conditions at home and abroad, adherence to the fiscal rule and sustained implementation of fiscal plans are critical for debt stabilization.

Source: IMF staff.

Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.

1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.

2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.

Figure 2. Colombia: Debt Coverage and Disclosures

						Comments
1. Debt coverage in the DSA: 1/	CG	GG	NFPS	CPS	Other	
1a. If central government, are non-central government entities insignificant?					n.a.	
2. Subsectors included in the chosen coverage in (1) above:						

CPS / NFPS / GG: expected / CG		Subsectors captured in the baseline	Inclusion	Comments
CPS, NFPS, GG: expected, CG	1	Budgetary central government	Yes	
CPS, NFPS, GG: expected, CG	2	Extra budgetary funds (EBFs)	No	Not applicable
CPS, NFPS, GG: expected, CG	3	Social security funds (SSFs)	Yes	
CPS, NFPS, GG: expected	4	State governments	Yes	
CPS, NFPS, GG: expected	5	Local governments	Yes	
CPS, NFPS	6	Public nonfinancial corporations	Yes	
CPS	7	Central bank	No	
CPS	8	Other public financial corporations	Yes	

3. Instrument coverage:	Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/

4. Accounting principles:	Basis of recording		Valuation of debt stock		
	Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/

5. Debt consolidation across sectors:	Consolidated	Non-consolidated

Color code: chosen coverage; Missing from recommended coverage; Not applicable

Reporting on Intra-Government Debt Holdings

		Issuer \ Holder	Budget. central govt	Extra-budget. funds	Social security funds	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total
CPS, NFPS, GG: expected, CG	1	Budget. central govt									0
CPS, NFPS, GG: expected, CG	2	Extra-budget. funds									0
CPS, NFPS, GG: expected, CG	3	Social security funds									0
CPS, NFPS, GG: expected	4	State govt.									0
CPS, NFPS, GG: expected	5	Local govt.									0
CPS, NFPS	6	Nonfin pub. corp.									0
CPS	7	Central bank									0
CPS	8	Oth. pub. fin. corp									0
		Total	0	0	0	0	0	0	0	0	0

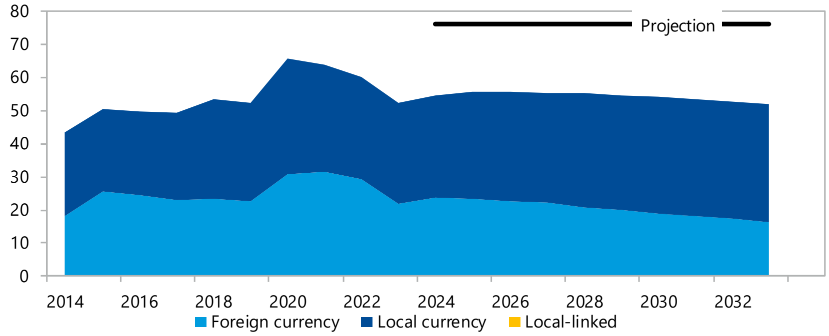
1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.
2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.
3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.
4/ Includes accrual recording, commitment basis, due for payment, etc.
5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).
6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.
7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.

Commentary: The public debt figures reported for Colombia cover the non-financial public sector and the financial public sector (Finagro and Fogafin). The non-financial public sector covers the central government, regional and local governments, decentralized entities, and Ecopetrol. Public debt also includes the recognition of public debt arrears stemming from past court rulings, social security, energy subsidies and liabilities from pension bonds and FOMAG (see IMF Country Report 20/104). Domestic debt is defined on a currency basis.

Source: IMF staff.

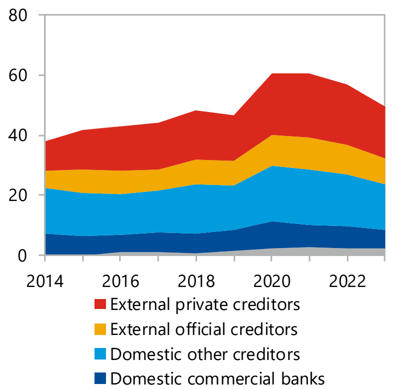
Figure 3. Colombia: Public Debt Structure Indicators

Debt by Currency (Percent of GDP)



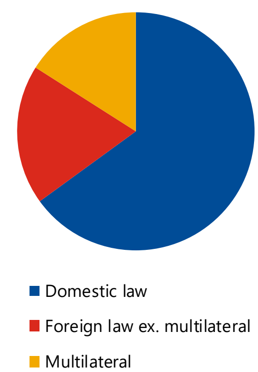
Note: The perimeter shown is nonfinancial public sector.

Public Debt by Holder (Percent of GDP)



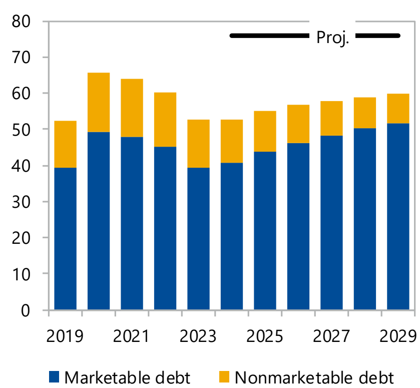
Note: The perimeter shown is nonfinancial public sector.

Public Debt by Governing Law, 2023 (percent)



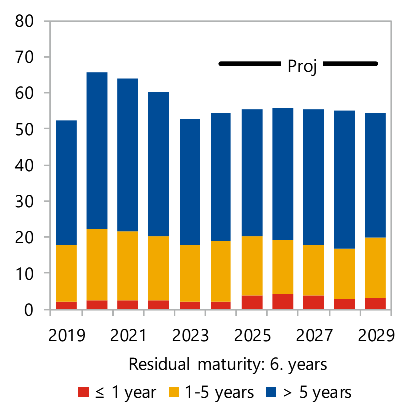
Note: The perimeter shown is nonfinancial public sector.

Debt by Instruments (Percent of GDP)



Note: The perimeter shown is nonfinancial public sector.

Public Debt by Maturity (Percent of GDP)



Note: The perimeter shown is nonfinancial public sector.

Commentary: The share of foreign currency debt increased during the pandemic, due in part to the partial drawdown of the FCL. Over the medium-term, the share of foreign currency debt is expected to converge to historical averages.

Source: IMF staff.

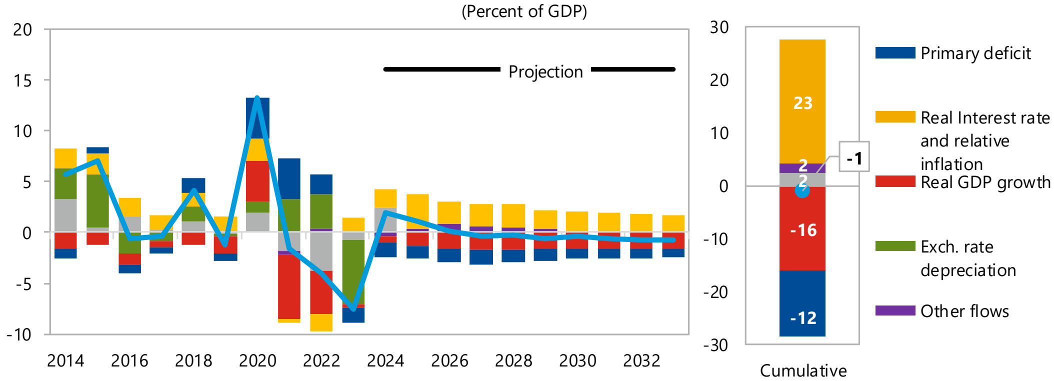
Figure 4. Colombia: Baseline Scenario

(Percent of GDP unless indicated otherwise)

	Actual	Medium-term projection						Extended projection			
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Public debt	52.5	54.4	55.6	55.7	55.4	55.2	54.5	54.1	53.5	52.7	52.0
Change in public debt	-7.5	1.9	1.1	0.1	-0.3	-0.2	-0.7	-0.4	-0.6	-0.8	-0.7
Contribution of identified flows	-6.8	-0.5	1.0	0.0	-0.3	-0.2	-0.6	-0.4	-0.6	-0.7	-0.7
Primary deficit	-1.5	-1.4	-1.3	-1.3	-1.4	-1.3	-1.2	-0.9	-0.9	-0.9	-0.9
Noninterest revenues	32.3	30.6	29.8	29.4	29.6	29.6	29.6	29.6	29.6	29.6	29.6
Noninterest expenditures	30.8	29.2	28.5	28.2	28.2	28.3	28.4	28.7	28.7	28.7	28.7
Automatic debt dynamics	-5.3	1.3	2.1	0.6	0.6	0.7	0.2	0.5	0.4	0.2	0.2
Real interest rate and relative inflation	1.4	1.9	3.4	2.2	2.2	2.3	1.8	2.1	1.9	1.8	1.7
Real interest rate	0.7	1.2	3.2	2.0	2.0	2.0	1.6	1.9	1.7	1.6	1.6
Relative inflation	0.7	0.7	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Real growth rate	-0.4	-0.6	-1.3	-1.6	-1.6	-1.6	-1.6	-1.6	-1.6	-1.6	-1.5
Real exchange rate	-6.3	…	…	…	…	…	…	…	…	…	…
Other identified flows	0.0	-0.4	0.3	0.6	0.6	0.5	0.3	0.0	0.0	0.0	0.0
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(minus) Interest Revenues	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other transactions	0.0	-0.4	0.3	0.6	0.6	0.5	0.3	0.0	0.0	0.0	0.0
Contribution of residual	-0.7	2.4	0.1	0.1	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0
Gross financing needs	6.5	4.9	5.3	5.9	6.0	6.1	4.8	5.4	5.2	5.0	5.0
of which: debt service	8.0	6.3	6.6	7.2	7.5	7.4	6.0	6.3	6.1	6.0	5.9
Local currency	5.6	3.9	3.9	4.3	4.9	4.8	3.5	3.6	3.4	3.3	3.3
Foreign currency	2.4	2.4	2.7	2.9	2.5	2.7	2.6	2.7	2.7	2.6	2.6
Memo:											
Real GDP growth (percent)	0.6	1.1	2.5	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Inflation (GDP deflator; percent)	6.3	5.6	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Nominal GDP growth (percent)	7.0	6.8	5.6	6.1	6.1	6.1	6.1	6.1	6.1	6.1	6.1
Effective interest rate (percent)	7.6	8.1	9.2	6.8	6.8	6.9	6.1	6.7	6.4	6.1	6.2

Contribution to Change in Public Debt

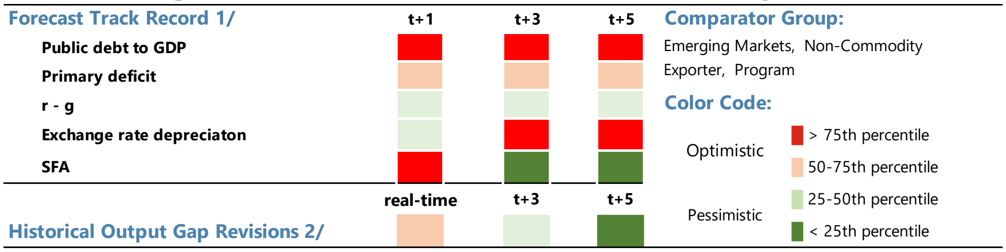
(Percent of GDP)



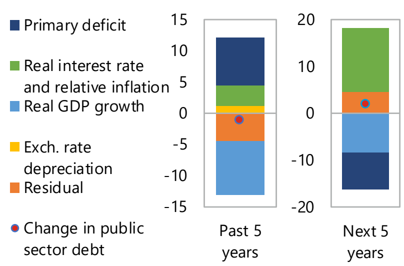
Commentary: Public debt will stabilize, reflecting expectations of a narrowing of primary deficits (driven by sustained primary surpluses at the central government level) and stable economic conditions.

Source: IMF staff.

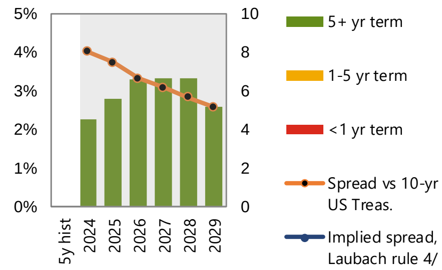
Figure 5. Colombia: Realism of Baseline Assumptions



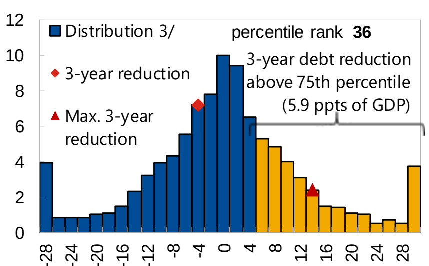
Public Debt Creating Flows
(Percent of GDP)



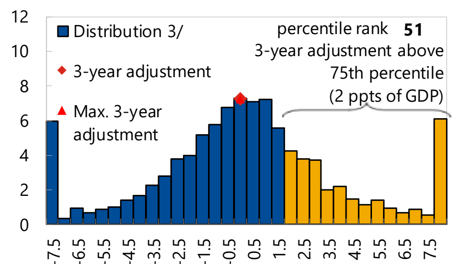
Bond Issuances (Bars, debt issuances (RHS, percent of GDP); lines, avg marginal interest rates (LHS, percent))



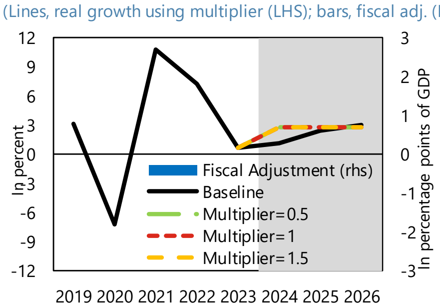
3-Year Debt Reduction
(Percent of GDP)



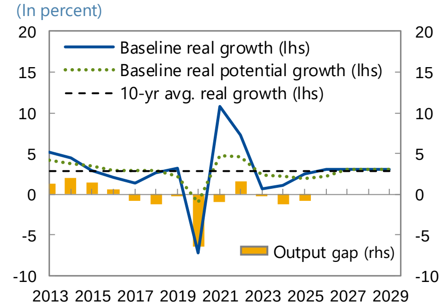
3-Year Adjustment in Cyclically-Adjusted Primary Balance (Percent of GDP)



Fiscal Adjustment and Possible Growth Paths
(Lines, real growth using multiplier (LHS); bars, fiscal adj. (RHS))



Real GDP Growth
(In percent)



Commentary: The fiscal adjustment is guided by a fiscal rule and medium-term fiscal framework that are sanctioned by law. Adherence to the fiscal consolidation path is critical for debt stabilization.

Source: IMF staff.

1/ Projections made in the October and April WEO vintages. Program status not used in creating comparator group due to lack of d

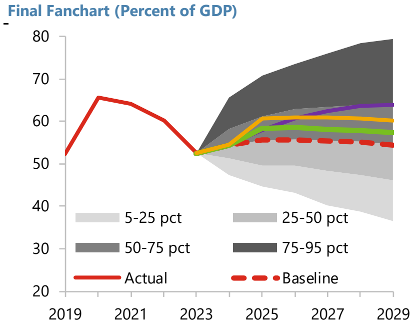
2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates

3/ Data cover annual obervations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical

4/ The Laubach (2009) rule is a linear rule assuming bond spreads increase by about 4 bps in response to a 1 ppt increase in the projected debt-to-GDP ratio.

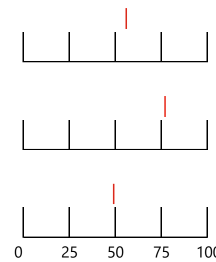
Figure 6. Colombia: Medium-Term Risk Analysis

Final Fanchart (Percent of GDP)

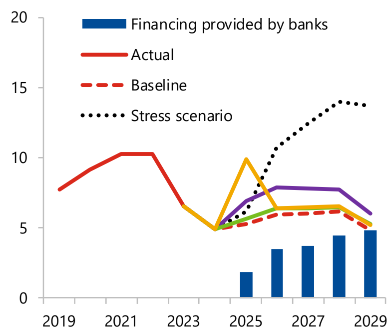


Debt fanchart module

	Value	Contrib 1/	Percentile in peer group 2/
Fanchart width *(percent of GDP)*	42.8	0.6	
Probability of debt non-stabilizaiton *(percent)*	14.1	0.1	
Terminal debt-to-GDP x institutions index	30.9	0.7	
Debt fanchart index (DFI)		1.4	
Risk signal: 3/		**Moderate**	

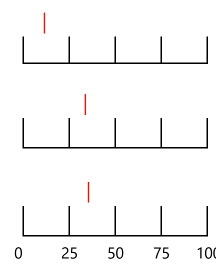


Gross Financing Needs (Percent of GDP)



Gross financing needs (GFN) module

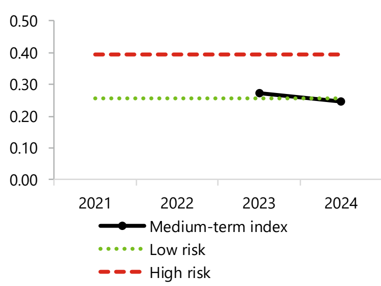
	Value	Contrib 1/	Percentile in peer group 2/
Average baseline GFN *(percent of GDP)*	5.5	1.9	
Initial Banks' claims on the gen. govt *(pct bank assets)*	9.8	3.2	
Chg. In banks' claims in stress *(pct banks' assets)*	12.9	4.3	
GFN financeability index (GFI)		9.4	
Risk signal: 4/		**Moderate**	



Triggered stress tests (stress tests not activated in gray)

Banking crisis | Commodity prices | Exchange rate | Contingent liab. | Natural disaster

Medium-Term Index (Index Number)



Medium-Term Risk Analysis

	Value	Value (normal)	Weight	Contribution
Debt fanchart index	1.4	0.3	0.5	0.2
GFN finaceability index	9.4	0.2	0.5	0.1
Medium-term index		**0.2**		
Risk signal: 5/		**Low**		
Final assessment:		**Moderate**		

Prob. of missed crisis, 2024-2029, if stress not predicted: 9.1 pct.
Prob. of false alarms, 2024-2029, if stress predicted: 42.0 pct.

Commentary: The medium-term analysis suggests a low level of risks of sovereign stress over that time horizon, supported by moderate financing needs. Debt stabilization crticially depends on meeting the fiscal targets. Risks associated with commodity prices, exchange rate, and interest-growth rate differentials may pose challenges to Colombia over the medium term. Hence, staff assesses medium-term risks as moderate.

Source: IMF staff.

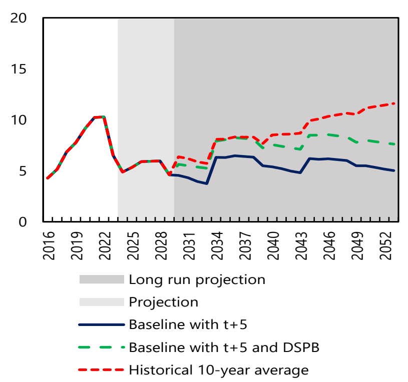
1/ See Annex IV of IMF, 2022, Staff Guidance Note on the Sovereign Risk and Debt Sustainability Framework for details on index calculation.
2/ The comparison group is emerging markets, non-commodity exporter, program.
3/ The signal is low risk if the DFI is below 1.13; high risk if the DFI is above 2.08; and otherwise, it is moderate risk.
4/ The signal is low risk if the GFI is below 7.6; high risk if the DFI is above 17.9; and otherwise, it is moderate risk.
5/ The signal is low risk if the GFI is below 0.26; high risk if the DFI is above 0.40; and otherwise, it is moderate risk.

Figure 7. Colombia: Long-Term Risk Assessment: Large Amortization and Health

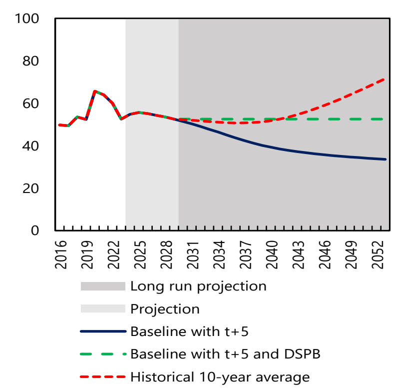
Colombia: Long-Term Risk Assessment: Large Amortization

Projection	Variable	Risk Indication
Medium-term extrapolation	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Medium-term extrapolation with debt stabilizing primary balance	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Historical average assumptions	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Overall Risk Indication		

GFN-to-GDP Ratio

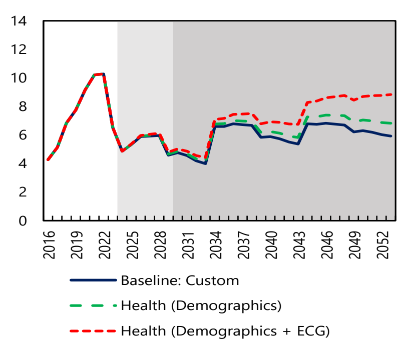


Total Public Debt-to-GDP Ratio

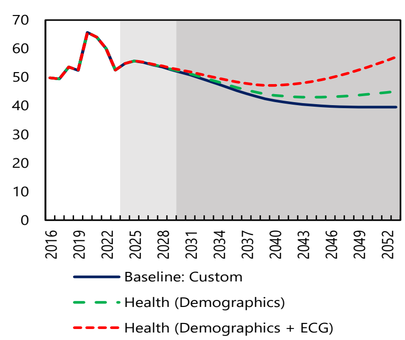


Colombia: Demographics: Health

GFN-to-GDP Ratio



Total Public Debt-to-GDP Ratio



Commentary: The LT analysis suggests low and manageable financing risks (GFN-to-GDP) in all scenarios except the historical one, which is affected by the pandemic. High amortization risks in the scenarios also reflect the pandemic. LT risks pertaining to the health module do not account for the impact of the healthcare reform being discussed in Congress. Staff overall assessment of LT risks is moderate because Colombia's fiscal rule sets a firm debt limit, and the healthcare reform is expected to attenuate these risks at a moderate fiscal cost to be fully incorporated in the budget.

Source: IMF staff.

Annex V. Implementation of the 2022 FSAP Key Recommendations[1]

Recommendation	Time[1]
Banking Supervision	
Introduce necessary legal amendments to strengthen the independence of the SFC: (i) specifying that the Superintendent is appointed for a minimum term and removed from office only for reasons specified in the law; and (ii) provide explicit legal protections to the SFC. Update: The appointment and the condition for removing the Superintendent is regulated via Decree 1817 issued on September 15 of 2015. The conditions are regulated by the mentioned decree. However, the minimum term has not yet been regulated by higher order legislation.	**MT**
Develop more specific guidance/regulations on concentration, transfer and country risks, related party transactions, internal capital assessment and the IRRBB. Update: − External Circular 025, 2022 (November 17, 2022) was issued with explicit instructions on the Interest Rate Risk on the Banking Book Risk Management (IRRBB). These requirements were also added to the Internal Risk Management Framework (SIAR, for its Spanish acronym), which compiles all the instructions regarding the identification, measurement, control, and monitoring of each risk that financial institutions are expected to manage. − Concentration risk: The SFC has issued External Circular 003 of 2024, by which it has established instructions regarding concentration risks in financial institutions. − Transfer and country risk: The SFC included explicit requirements on the transfer and country risk management in External Circular 18, 2021 (September 22, 2021), which compiles each individual risk management framework on a single chapter named SIAR (Chapter 31 on Integrated Risk Management Framework of the Circular Básica Contable y Financiera (Basic Accounting and Financial Circular). − Internal capital assessment and liquidity: Draft regulation on ICAAP and ILAAP was released for external comments by November 2023. The SFC is currently analyzing the comments to continue the issuance process this year. − IRRBB Significant Activity Guide: Since 2023, the SMS has been working with the DRCC to develop a guide to deepen the supervision of this risk, which addresses the particularities, including specific criteria that guide the supervision and evaluation regarding the suitability of the IRRBB management process, by the Joint Supervisory Team. It is planned to be published in the first semester of 2024. − External Circular 003 de of 2024 – Large Exposure: By means of External Circular 003 of 2024, the SFC enacted instructions to implement the large exposure Basel standard to supervised entities to control credit concentration risk in line with Decree 1533 of 2022.	**MT**

[1] This Annex gives a factual update on the implementation of FSAP recommendations and contains the views of the authorities.

Recommendation	Time
Establish a consolidated body of requirements on related-party transactions. Update: Decree 1533 (August 4, 2022) was issued to establish rules for managing large exposures following the Basel framework. Secondary regulation by SFC was issued on February 1, 2024 (External Circular 003, 2024). Supervised entities must comply with this new framework no later than August 4th, 2026. The SFC has been working on an update to ANNEX 3. RELATED DEFINITIONS AND REGULATORY LIMITS BY INDUSTRY, which is part of the Comprehensive Supervision Framework, through which the definitions of related parties are updated for each of the industries in accordance with current regulations. The update is planned to be published in the first semester of 2024. Finally, The URF is working on a decree that will regulate the criteria to identify a related party of a given bank.	**ST**
Readjust or determine some parameters used in the computation of the local LCR and NSFR ratios to further align with Basel III requirements and require the local NSFR ratio to be also calculated at a consolidated level. Update: NSFR: According to External Circular 013 of 2023, the SFC defined the "operational deposits" concept for deposits made by: (i) large customers of the real sector, (ii) open investment funds, and (iii) supervised financial entities. The SFC requires qualitative and quantitative analysis to determine which of their deposits meet the requirements outlined in the SFC's instructions. The methodologies must be submitted to the SFC for non-objection 4 months prior to their application. LCR: the SFC considers deviations from the Basel III standard, particularly those referring to the run-off factors are not planned to be modified soon, since they reflect the particularities of the local market, unless there is statistical evidence to suggest the parameters that were calibrated using historical data have changed (Basel III, paragraph 70 allows some discretionary choice).	**MT**
Maintain a direct and intrusive supervision of banks by the SFC, including an adequate level of on-site inspections, and avoid over-reliance on external and internal auditors when performing supervisory tasks. Update: Acknowledging the existence of the risk-based supervision framework (MIS, for its Spanish acronym or Comprehensive Supervisory Framework), the SFC does not rely on internal audits to perform its supervisory procedures. Internal audit results become relevant whenever this function is rated as Strong (Table 1).	**ST**

	2018	2019	2020	2021	2022	2023
IA Function Rated Strong	0	0	3	5	2	3

On-site supervision is a fundamental part of the supervisory exercises carried out by the SFC. Changes in the figures (see below table) are the outcome of adopting new supervisory tools (post COVID-19), rather than relying on internal auditors.

<table>
<tr><th>Recommendation</th><th>Time</th></tr>
<tr><td>In the first half of 2023, the SFC published Annex 6-Internal Audit, which is part of the Comprehensive Supervision Framework, to provide supervisors with more detailed criteria in the evaluation of the Audit Committee and the Internal Audit.
<table><tr><th></th><th>2018</th><th>2019</th><th>2020</th><th>2021</th><th>2022</th><th>2023</th></tr><tr><td>On-Site inspections by year</td><td>100</td><td>106</td><td>36</td><td>75</td><td>60</td><td>67</td></tr></table></td><td></td></tr>
<tr><td>Macroprudential Oversight</td><td></td></tr>
<tr><td>Strengthen the role of the central bank in systemic risk monitoring and of the Banco de la República (BR) and the Superintendency of Financial Institutions in macroprudential decision-making.

Update: The CCSSF’s (Financial System Coordination and Monitoring Committee - Comité de Coordinación para el Seguimiento al Sistema Financiero) rules of procedures were updated to strengthen the role of the Central Bank. Common stress scenarios were prepared by the SFC and the Central Bank, and they were presented to CCSSF on December 4, 2023.</td><td>ST</td></tr>
<tr><td>Expand LTV and DSTI tools to cover leasing products and the DSTI tool to include nonmortgage debt.

Update: Authorities view that External Circular 026, 2022 [29 November 2022] with the term provisioning aims at preventing debt overhang in the consumer loan portfolio.

DSTI metrics, analyzed by the SFC regularly, cover all loans portfolio and products (Consumer/Credit Card/Payroll/Mortgage/Open Destination/Vehicle).</td><td>ST</td></tr>
<tr><td>Close data gaps in the areas of cross-border exposures and household indebtedness.

Update:
Household indebtedness: SFC merged data from the Social Protection System and individual indebtedness reports. This information is used to provide quantitative inputs for designing prudential measures.
Cross border exposures: SFC gathers data of financial conglomerates and common stress test with other jurisdictional supervisors in CAM (CCSBSO) and Memoranda of Understanding (MoU) were signed between each authority (allowing on-site supervision, data, technical assistance, cyber risks). These MoUs have allowed the SFC to perform on-site inspections in most of the jurisdictions where Colombian Financial Conglomerates operate. These inspections have had the cooperation of home supervisors and there is always a valuable exchange of results and planned supervisory activities resulting from them. Multilateral Memorandum on Information Exchange and Mutual Cooperation for Consolidated and Cross-Border Supervision with the Central American Council of Superintendents of Banks, Insurance, and Other Financial Institutions (CCSBSO, for its acronym in Spanish). On November 16th, 2016, the MoU text and its Addendum of 2015 were unified into a single document. The CCSBSO General Assembly of December 19th, 2022 approved the text of another MoU between the members of the Council for resolution matters. The Central Bank also included cross-border exposure risks into its stress testing.</td><td>I</td></tr>
</table>

Recommendation	Time
• The SFC has forms that collect the exposures of its supervised entities with local and foreign counterparties in portfolios, investments and other products. Likewise, the SFC has access to information on the exposures of subordinates segmented by client, country or economic sector. The SFC has also used the Central American Council of supervisors (CCSBSO) to fill the information gaps by participating in the construction of regional stress tests and other risk evaluations of banking groups. One of the strategic initiatives of CCSBSO is also to work on optimization of the information usage to explore opportunities for improvement.	
Risk Analysis	
Strengthen the ability to monitor cross-border exposures and conduct a fully consolidated stress-testing by filling data gaps on the exposures and risk metrics of ultimate subsidiaries. Update: Memoranda of Understanding were signed between supervisors in CAM and Colombia (see above) on data exchange and stress tests using consolidated data on exposures and risk metrics. Stress-testing exercises comprise foreign exposure risks. The available information on cross-border exposures has been linked to the monitoring dashboards that the SFC has built. The SFC will continue through available channels to request additional information to strengthen oversight of cross-border risks. In addition, one of the strategic initiatives of the Central American Council of Supervisors will be to develop capital, liquidity and contagion regional stress tests that will complement the local initiatives.	**ST**
Extend data collection to monitor liquidity risks by currency. Collect more granular data on assets and liabilities generating cashflows, including those related to cross-border exposures. Update: Over the short term, the SFC and the BR requested information from credit institutions to measure the NSFR by currency. Information was submitted in June 2023 and the draft regulation will be issued in 2S 2024. Since Banco de la República calculates liquidity ratios by different currencies (the Individual Exposure Index on the Short-Run (IEI) and the Consolidated Exposure Index (IEC)), over the medium term SFC plans to work together with the Central Bank to merge the short-term liquidity indicators (IRL, IEI, and IRL) to arrive at a common indicator by currency.	**ST**
Develop network analysis tools and improve data coverage to bolster EWS for domestic and cross-border contagion. Update: A preliminary version of network analysis model was developed by SFC after IMF's Technical Assistance mission that took place in March 2023. Cross-border contagion risks were incorporated in both the SFC's and Banco de la República's stress-testing exercises. The SFC has made progress in mapping interconnections for different types of exposure and building centrality metrics to analyze the relative importance of some entities in the system network. The SFC will continue to develop the comprehensive contagion exercise to identify contagious and vulnerable entities.	**ST**

Recommendation	Time
Climate Risks and Opportunities	
Adopt a risk-based approach in supervision for climate-related risks and continuously improve information disclosures (both by nonfinancial corporates and by financial institutions) and data availability. Update: • Implementation of green taxonomy for the financial system (External Circular 005, 2022 (April 8, 2022)) would improve availability of climate related data. • SFC issued guidelines on the supervisory expectations on ESG management in credit institutions (Technical Document for the Administration of Climate Risks and Opportunities for Credit Establishments). • The SFC's document "Risk management and climate opportunities for the insurance sector" (June 09, 2023) guides the integration of these risks into their strategies. It encourages adaptation in risk management and innovation in insurance products, strengthening the sector's resilience to climate change. Its implementation benefits financial stability and promotes sustainable practices in the insurance market. • SFC issued "Roadmap for Greening the Colombian Banking System" on the taxonomy, financial innovation, ESG adoption, data metrics and information, and climate risk measurement and supervision. • External Circular 031, 2021 (December 22, 2021) for issuers regarding ESG and climate reporting. It specifically asks the largest issuers to disclose their ESG and climate risks and opportunities against TCFD and SASB. • SFC issued External Circular 07 (May 10, 2021), External Circular 008, 2021 (April 26, 2021), and a Draft guideline on supervisory regulation on ESG management for pension fund administrators (November 04, 2020, updated on May 3, 2021). • Climate risk exercise was performed with banks (2020) and pension funds (2021). • The document "Results of the Colombian Green Taxonomy Pilots" by SFC, released in March 2023, details the results of the pilots for the implementation of Colombia's Green Taxonomy. This document marks a significant step in promoting sustainable financial practices in the country. By establishing a clear classification of economic activities and assets contributing to environmental objectives, the Green Taxonomy facilitates the identification of sustainable projects, encouraging investment in these areas. The impact of this document is multi-faceted: promotion of sustainable investments, alignment with environmental objectives, development of green capital markets and enhanced transparency and risk management. • The SFC in December 2023 published the glossary of sustainability terms. Directly, the SFC have been working on the development of a sustainability guide in order to provide supervisors with the criteria to carry out the evaluation and incorporation into the evaluation of the risk profile of the supervised entities. It is planned to publish it in the first semester of 2024, and with it, a series of trainings will be carried out in order to instruct supervisors on the subject.	**MT**

Recommendation	Time
• In the supervision program for 2024, a pilot test was scheduled with entities from different industries to verify the criteria incorporated in the guide mentioned in the previous script. • The supervision program for 2024 also includes a monitoring exercise on compliance with External Circular 031 regarding ESG disclosure by issuers, and another exercise for financial products and services labeled as sustainable to monitor potential greenwashing.	
Resolution, Crisis Management and Safety Nets	
Strengthen the operational independence of the Resolution Unit (GR). Update: SFC structure and its operational functioning is currently underway.	**ST**
Make the financial institutions responsible for recovery planning, requiring use of a wide range of risk scenarios and identification of mitigating measures. Make the GR responsible for resolution planning. Update: Currently, the SFC is analyzing the viability of regulating this topic. The comments of the first external circular draft are being reviewed. Draft regulation on ICAAP, ILAAP and recovery planning was released for external comments by November 2023. The regulation in Colombia does not have recovery plans prepared by the supervised entities in accordance with the guidelines of the Key Attributes, so it has not been considered that the Resolution Unit prepares resolution plans based on them. Colombia follows the United States' model for resolution plans. Additionally, holding financial institutions accountable for recovery planning requires the use of a wide range of risk scenarios and the identification of mitigation measures.	**ST**
The mandates and tasks of the resolution unit and the deposit insurer (Fogafin) should be streamlined. These entities manage different parts of the resolution process that should be brought together. Update: The execution of the coordinated resolution strategy (by SFC and Fogafin) corresponds to each authority according to its own mandate. The law provides a framework for the action of each authority and coordination instances to discuss interventions. Unifying the resolution process would require a drastic structural reform that must be passed in Congress (reform of the EOSF). The SFC performs recovery planning exercises, and the systemic entities have been required to develop resolution plans (RP). The Intersectoral Resolution Commission -CIR-, which is a technical body made up of officials specifically designated by both the SFC and Fogafin. In 2023, the SFC received the first version of these RP from the 4 systemic entities, and in the first half of 2024 it will issue a concept on this version. The SFC has established criteria to define which new entities will be required to present RP. In 2024 two more banks must present RP.	**MT**
Strengthen resolution tools by: (i) giving Fogafin the flexibility to conduct purchase and assumption powers with only insured deposits (as opposed to current obligation to package all deposits, both insured and uninsured); (ii) restrict the ability of Fogafin to be the shareholder of restructured or bridge banks; and (iii) consider establishing bail-in powers as a resolution tool.	**MT**

Recommendation	Time
Update: (i) Authorities deem that meeting the objectives to preserve the stability of the financial system requires minimizing the negative impact of the bankruptcy of one or more banks in the economic activity and maintaining the confidence of depositors, as well as preserving the value of deposits and productive assets that are transferred as part of the operation. Including all deposits in a P&A. According to the authorities' view, the regulation is flexible in the selection of other liabilities, in case Fogafín considers their transfer important to maintain the stability of the financial system. However, Fogafín will work on requesting an adjustment to Decree 521 of 2018, to achieve greater leeway to select only the insured amount. (ii) In Colombia, Fogafín provides the necessary resources to achieve the matching of assets and liabilities in the structuring of a P&A and is, therefore, the main shareholder of the bridge bank to which such items are transferred if the operation is not carried out with another credit institution already operating in the market. In addition to the matching mentioned above, it is also necessary to provide capital resources for the operation of the bridge bank. Fogafín understands that there is tension between its role as a shareholder of the bridge bank and its role as a resolution authority. According to Fogafin, this tension is mitigated by the temporary nature of its ownership, as well as by the compliance of the bridge bank with the general structural and prudential regulation and the convergence towards compliance with those regulatory aspects from which the bank has been exempted in Colombia. To establish mechanisms that strengthen control of the potential conflict of interest, Fogafín included in its 2021-2025 strategic planning, elaborating a study with the purpose of mitigating this effect. (iii) According to Fogafin, as banks' liability structure in Colombia is mainly composed of deposits, so a bail-in mechanism is not currently applicable or practicable. However, the Financial System Safety Net acknowledges that the ability to execute a bail-in reduces resolution costs and promotes market discipline. Hence, its adoption as a resolution tool is a matter of further analysis. Fogafín has planned to conduct a study on this subject in its 2021-2025 strategic plan.	
Fogafin's financing should be limited to resolution funding (i.e., financing that is used to support the use of resolution powers and achieve the resolution objectives). Update: According to Fogafin the broad set of interventions to handle the crisis at the end of the 90s, are present in the legal framework and are of the essence of the Colombian regime. A different approach would require a structural legal reform to be discussed in Congress.	**ST**
Establish guaranteed backup liquidity facility for Fogafin. Update: According to the authorities, the law expressly defines Fogafín as an autonomous entity and to fully comply with its purpose, which is to minimize the use of public resources. Fogafin seeks to prioritize and develop the source related to the premiums paid by registered entities, with which the Deposit Insurance reserve is formed, and not to resort in the first instance to the legal possibility of requesting resources from Colombia´s General Budget. In any case, when the resources of the Deposit Insurance reserve are	**ST**

Recommendation	Time
insufficient, the legal framework establishes the adoption of a plan to reconstitute it, which, if it incorporates resources from Colombia´s General Budget or debt operations with a sovereign guarantee, this must be approved with the favorable vote of the Minister of Finance (who holds the position of President of the Board of Directors of Fogafín). This becomes imperative for the Ministry of Finance and Public Credit, since the rule (second clause, paragraph d, Section 2, Article 319, EOSF) is a matter of national public order, and provides, in the relevant part, that once the Fund makes the request related to its funding requirement, the Ministry of Finance must incorporate in the General Budget the necessary resources, or carry out any other operations that may be necessary, in order to preserve the protected legal interest of the financial system's stability. Fogafin is reviewing the operability of the request for resources to the Ministry of Finance, in order to strengthen the procedure for fulfilling this mandate.	
Anti- Money Laundering/ Combating the Financing of Terrorism	
Ensure a swift implementation of the 2018 MER's recommendations to strengthen the overall effectiveness of the AML/CFT regime. Update: As a result of the Mutual Evaluation process carried out by GAFILAT (FATF, in English) in 2016 on the AML/CFT/CFPWMD System, Colombia has been correcting the issues that were pending. Regarding the Financial Superintendency of Colombia, the pending improvement actions were approved in the plenary session of GAFILAT representatives held in 2022 in Buenos Aires, Argentina, obtaining as a result of the requalification and the monitoring processes, the maximum Complied rating, which implies the absence of regulatory deficiencies for the following Recommendations: 13 Correspondent Banking, 16 Electronic Transfers, 19 Higher Risk Countries, 33 Statistics, 34 Guidance and Feedback. The Mostly Complied rating was obtained for Recommendations 10 Customer Due Diligence and 12 Politically Exposed Persons. Likewise, Colombia, through the Financial Information and Analysis Unit (UIAF, as its acronym in Spanish), in its condition of National coordinator before GAFILAT of the authorities that are part of the AML/CFT/CFPADM System, has attended the meetings of the plenary sessions of GAFILAT representatives and in the same way, has presented the intensified monitoring reports, providing the progress in terms of technical compliance and effectiveness of the aforementioned system.	**MT**
Continue efforts to enhance sanctioning practices so that effective, proportionate, and dissuasive sanctions are applied for AML/CFT breaches. Update: The SFC continues developing the sanctioning power according with the powers granted both in Decree 2555 of 2010 and in the Financial System Organic Statute, and therefore, in the year 2022 imposed four (4) sanctions, three (3) of them of an institutional and pecuniary nature, and one (1) personal consisting of a reprimand. During the year 2023, it imposed one (1) institutional sanction consisting of a monetary fine. Additionally, the SFC issued four (4) administrative orders in 2022, and in 2023, a total of eight (8) administrative orders. On the other hand, the SFC published two reports called "Compliance Officers and Responsible Officials" in 2021 and 2022, in which a diagnosis of	**MT**

Recommendation	Time
compliance with the obligations of the Supervised Entities in the appointing and possession of such officials is carried out. Said report shows how the pecuniary sanctions imposed on the Supervised Entities that fail to comply with this obligation are decreasing, which demonstrates their exemplary and dissuasive nature.	
Address ML/TF risks associated with crypto assets and ensure virtual asset service providers are properly licensed, monitored and supervised for AML/CFT compliance. Update: The SFC has cooperated in the working groups developed in the meetings held in the Technical Committee for the Prevention of Money Laundering and Terrorist Financing of the Central American Council of Superintendents of Banks, Insurance and Other Financial Institutions, aimed at updating the Virtual Asset regulations in Colombia. At the same time, the SFC carried out a cross-border supervision process in El Salvador in July 2022, aimed at understanding the way in which the virtual asset market, especially Bitcoin, works in that jurisdiction. Additionally, in the supervision processes developed by the SFC, the reviewing of the rules and instructions regarding clients, was incorporated. On the other hand, the aforementioned supervision processes also included topics relating to the rules and instructions of users in acquisition schemes and bin sponsors, in response to the warnings in force in local regulations, which required, a particular risk analysis and specific measures for its control. The above means that the VASP were linked to the Supervised Entities, either as direct clients or as users thereof, through acquisition schemes and bin sponsors (rechargeable cards), as mentioned above. Interaction of the financial system with Virtual Asset Service Providers (VASPs) through a sandbox approach: The SFC developed a pilot project in the sandbox (laArenera SFC), where specific risk management and consumer protection measures adopted by the entities supervised by the SFC were tested to manage the risks inherent to the process of linking VASPs to the financial system, through the granting of a financial deposit product. The pilot project is already in its closing phase, with 5 alliances that have already completed their operations and 2 that will complete their operations in the first quarter of 2024. As of December 31, 2023, the pilot project has demonstrated that the entities supervised by the SFC have adequately managed the risks inherent to the provision of financial services to the VASPs. Regarding ML/FT risk, the SFC has monitored pilot projects of cash-in/cash-out of fiat money alliances with the purpose of purchase and sale of virtual assets, and the participants have been complying with the ML/FT risk management measures that were required for the development of the pilot. As part of these measures, the VASPs were required to: • Implement the SFC's AML/FT Risk Management System. • Apply standards and guidelines of the Financial Action Task Force (FATF), regarding virtual assets, including: i. Store information records; ii. Report suspicious transactions; iii. Obtain, retain and securely transmit originator and beneficiary information when carrying out virtual transactions.	**ST**

Recommendation	Time
Among the results of the pilot program, the following stand out: 4057 individuals have participated through cash-in or cash-out operations. The average ticket for deposit operations amounted to COP $539,962. The average ticket for withdrawals amounted to COP $332,649. Likewise, 40 suspicious operations and 820 unusual operations were reported, 1,238 advisory services have been provided, and 546 complaints were attended to (as of December 2023). These results have provided essential information on the risks faced by both consumers and the entities supervised by the SFC when interacting with VASPs. As a result, the SFC has prepared a technical document on virtual assets and provision of financial services to VASPs containing two approaches: i) Conceptual: provides an approach to the basic concepts that explain what virtual assets are, how they are classified, what their characteristics are, and what uses are given to them. It also provides details of the operations carried out with these instruments and the stakeholders that participate in the development of these markets. ii) Principles and good practices: measures are established that seek to promote effective risk management in order to guarantee an adequate provision of financial services to VASPs, while safeguarding the protection of consumers and investors, and protecting the stability and integrity of the financial system. Regarding AML/FT, it is recommended that supervised entities, prior to the provision of a financial service to a VASPs, verify that it: (i) reports to the Financial Information and Analysis Unit as a subject that provides virtual asset services; (ii) has an AML/FT risk management system with a risk-based approach that addresses the guidelines issued by the FATF; (iii) has the technological and operational capacity to perform a knowledge of transactions -KYT-, as well as to obtain, preserve and transmit the information that allows identifying the originator and beneficiary of each transaction with AV, in accordance with the guidelines issued by the FATF. This technical document was published on March 2023, together with the results report of the pilot project in the SFC sandbox. Regulation and supervision of VASP technical proposal and public policy: Regarding the progress to regulate and supervise VASPs, between July 2023 and January 2024, the Ministry (MFPC), with the technical proposal and support of the SFC, has drafted a bill on virtual assets that seeks to provide a general regulatory framework for the activities of management, use and intermediation of public resources with virtual assets, which is aligned with the recommendations of BIS, FSB, OECD, IOSCO and FATF. This initiative would be filed by the MFPC in Congress in the first semester of 2024. The bill contains: (i) categorization of virtual assets, VASPs and activities performed by VASPs; focusing on allowing operations with pseudo-anonymous virtual assets (does not regulate DeFi and CBDC); (ii) definition of a VASPs licensing processes in charge of the SFC, ensuring that only actors that comply with prudential, security and transparency standards, adequately manage risks and have an adequate corporate governance scheme may legally operate; iii) it is proposed that the SFC be the competent authority for supervision, control and oversight of regulated activities, which includes the adoption of the sanctioning regime for those VASPs that fail to comply with the rules, protecting investors, consumers and the market in general; iv) prioritizing the protection of users through solid policies that ensure transparency in operations and adequate disclosure of information related to operations with virtual assets and the risks inherent to them, and v) promoting cooperation and coordination mechanisms to share information and prevent activities.	

Recommendation	Time
This proposal takes into account the recommendations issued by FATF, such as: Recommendation 15, which calls for ensuring that VASPs are regulated for AML/FT purposes, are subject to authorization and licensing, and are subject to monitoring systems; Recommendation 16, which calls for ensuring that VASPs obtain and maintain originator and beneficiary information on transfer of virtual assets (travel rule); Recommendations 37 to 40, related to information exchange and cooperation in relation to AML/FT that could occur with virtual assets. It should be noted that the bill must go through the corresponding procedure in Congress, until it is issued as a law of the Republic. Subsequently, the National Government will have to issue the corresponding regulations in terms of regulatory Decrees of the MFPC, and subsequently, External Circulars and the development of SFC procedures. Likewise, work must be done for the development of human and technical capacities for supervision.	
[1] Immediate" is within one year; "NT-near-term" is 1–3 years; "MT-medium-term" is 3–5 years.	

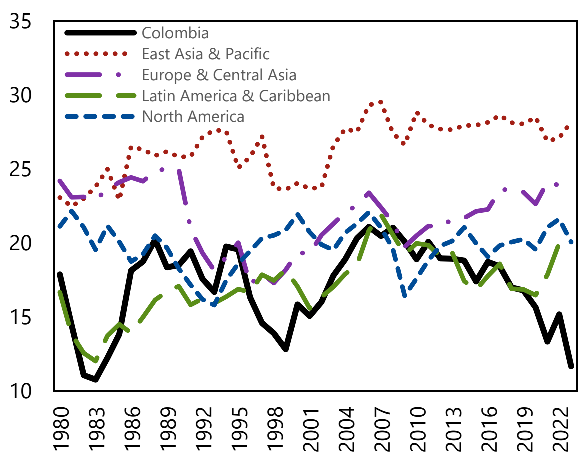
Annex VI. Understanding Colombia's Low Saving Rate[1]

Colombia's saving rate has been persistently lower than the global average, and lower than the level implied by traditional determinants of cross-country saving rates, such as income levels, demographics, institutions, and foreign capital availability. Identifying and addressing the potential frictions that depress national savings would be important for long-term competitiveness, innovation, and sustained growth.

Stylized Facts about Colombia's Saving Rate

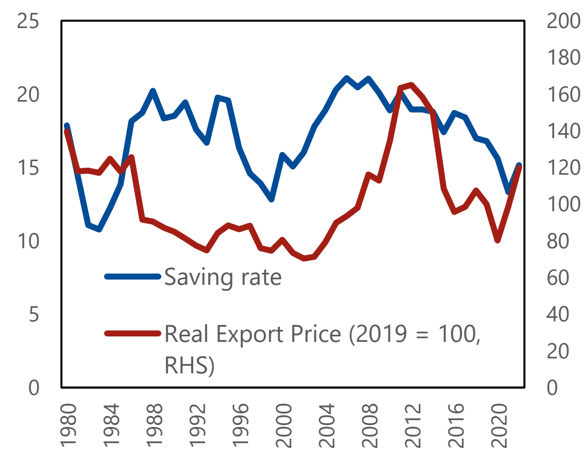
1. **Colombia's saving rate, while in line with the regional peers, has been lower compared to emerging economies outside of Latin America.** Gross national savings in Colombia has fluctuated between 10-20 percent of GDP and averaged 17 percent between 1980-2023. While Colombia's saving rate has tracked closely the Latin America regional average, it has stayed well below the levels observed in other regions (20 percent or above for North America and Europe, and around 30 percent for Asia) and the emerging market average of 19 percent. Importantly, while Latin America's saving rate has recovered to pre-pandemic levels, Colombia's saving rate has continued to decline.

Gross National Savings
(Percent of GDP)



Sources: WEO and staff elaboration. Regional averages are simple averages.

Saving and Export Price
(Percent of GDP (LHS), Index (RHS))



Sources: Haver and staff elaboration. Saving rate is gross national savings over GDP. Real export price is the PPI-based export price index deflated by nominal exchange rate.

2. **As in other commodity-producing countries, Colombia's saving rate tends to comove with commodity prices.** Historically, Colombia's saving rate tends to be higher during and following years of commodity price booms (e.g., early 1980s and late 2000s). Such high correlation between saving and commodity prices is frequently observed in commodity producing countries and reflects the tendency to save windfalls from commodity booms (Adler and Magud, 2013). The more recent decline of the saving rate from a peak of 20 percent of GDP could be partly attributed

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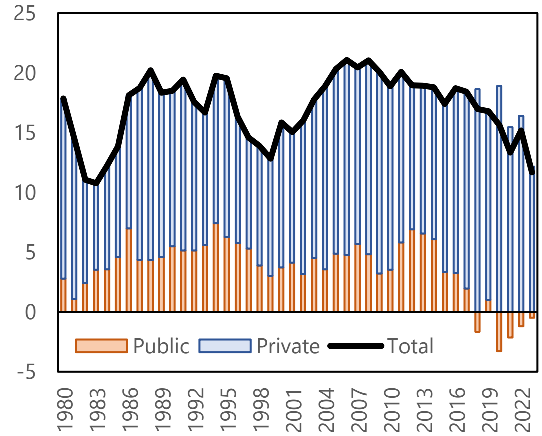
[1] Prepared by Vu Chau.

to a worsening of the terms of trade that started with the collapse of oil prices in late 2014, although they have recovered temporarily due to the recent rising in geopolitical tensions.

3. Changes in aggregate saving has typically been driven by private saving, although public saving contributes more to the decline in recent years. Private saving dominates public savings by magnitude and tends to correlate better with changes in aggregate saving. Private saving is also negatively correlated with public saving (correlation = -0.42), in part reflecting the counter-cyclical role the government often plays. More generally, public saving has played a larger role in explaining the aggregate savings decline since 2016 (where Colombia starts to diverge from the regional average, see ¶1), contributing over half of the decline (compared to a median contribution of around 15 percent in earlier periods).

Savings in Colombia: Public versus Private
(Percent of GDP)



Sources: WEO and staff elaborations.

Explaining Colombia's Low Saving Rate

4. There is an extensive literature on the determinants of cross-country saving rates. Saving rates could vary depending on the income level, as countries tend to save less when income is low and increase the saving rate as they get richer to smooth consumption (Barro, 1991). After reaching a peak, saving rate could fall with income since the abundance of accumulated capital stock reduces the returns on saving (Antras, 2001). Edwards (1996) finds that aggregate savings could be low if public savings are low, as private savings would not move to sufficiently offset public savings when agents are non-Ricardian. Demographics is also an important driver, as the working-age population is more inclined to save (Coeurdacier et. al., 2015). Other explanations include the availability of foreign capital, which could substitute for domestic saving, and political instability/weak institutions, which tends to depress public saving (Edwards, 1996; IMF, 2018).

5. Using an updated dataset for 65 countries, we perform a similar empirical exercise on the determinants of savings and draw lessons for Colombia. We revisit the cross-country regression of saving rates on potential determinants (Barro, 1991) with an updated dataset covering 65 countries between 1980-2023. The determinants considered are motivated by the literature reviewed above and include: GDP per capita, GDP per capita squared (to capture the humped-shape relationship of saving and income), public saving/GDP,[2] working-age share of total population,

[2] While public saving is a part of domestic saving, the inclusion of public saving as a RHS variable serves to test the response of private saving: if private agents are Ricardian and anticipate that lower public saving today will be compensated by higher taxes in the future, they will increase private saving one-to-one to prepare for those future taxes. Under that null hypothesis, the coefficient on public saving would be zero.

financial development index, current account/GDP (to proxy for foreign capital availability),[3] and a political stability index.[4] We perform two panel data OLS regressions, with one including only time fixed effects to account for global economic cycles (column 1 in table below), and another including both time and country fixed effects to account for potential country-specific omitted variables (column 2).

6. Cross-country regression results confirm that Colombia's saving rate is roughly 5 percent of GDP below fundamental levels:

Panel Data OLS Regressions (1980-2023)

	Dependent Variable: Saving Rate	
	(1)	(2)
Log GDP	8.61***	26.14**
	(2.90)	(10. 31)
Log GDP squared	-0.38**	-1.16*
	(0.17)	(0.60)
Public saving / GDP	0.31***	0.43***
	(0.03)	(0.04)
Working-age population	0.25***	0.67***
	(0.06)	(0.13)
Financial development	1.71	2.39
	(1.34)	(2.25)
Current account / GDP	0.32***	0.24***
	(0.06)	(0.05)
Political stability	-0.18**	0.04
	(0.09)	(0.05)
Constant	-42.66***	-163.57***
	(13.58)	(46.54)
Fixed effects	Time	Time & Country
No. observations	1750	1750
R-squared	0.44	0.35

General Findings. The saving rate rises with income (positive coefficient for log GDP), although there is a humped-shape relationship (i.e., saving rate will start to fall again after income reaches a threshold), as shown by the negative coefficient for log GDP squared. Aggregate saving is also positively associated with public saving, supporting the notion that stronger public finances lead to higher overall domestic savings (non-Ricardian in the long-run). A higher working-age population is associated with higher aggregate saving, as well as the degree of financial development, although the latter is not statistically significant. This is consistent with the IMF's EBA methodology (IMF, 2018) and Chinn, Eichengreen, and Ito (2011), where the current account is not found to be significantly associated with measures of financial development. While a more financially developed market creates more instruments for saving, it also reduces the need for precautionary savings, thus the impact on saving is not as clear as it is for investment. Political stability has a negative effect on savings in column 1, which points to

[3] In a world with perfect capital mobility, domestic saving and domestic investment will be uncorrelated, a point made by seminal work by Feldstein and Horioka (1980). In this case, the coefficient in front of the current account, or saving net investment, would be 1. At the other extreme, in a world without any foreign capital, domestic investment has to be financed entirely by domestic savings, so the current account (S-I) will reflect factors orthogonal to savings, and the coefficient would be 0. Including the current account as a RHS variable would be an appropriate proxy for the availability of foreign financing.

[4] Data on GDP, current account, and public saving are from the World Economic Outlook. The financial development index captures both a measure of financial markets and institutions development and is constructed by the IMF. Demographics information is provided by the World Bank's World Development Indicators. Finally, the political stability index is constructed by the Polity5 Project.

a pre-cautionary channel (i.e., private agents have a higher desire to save in environments with more risks), though that effect disappears in column 2 when controlling for omitted variables.[5] Finally, the coefficient of the current account balance is significant, positive, and less than one, indicating that a higher extent of foreign capital availability crowds out domestic saving (more foreign-financing current account deficit is associated with lower domestic savings), though in a less than one-to-one fashion (foreign capital is an imperfect substitute of domestic capital).

Colombia Findings. The estimated country fixed effects for Colombia from the regression above is -5 percent, indicating that the saving rate of Colombia is well below the level that is consistent with Colombia's level of income, demographics, public saving, and foreign capital availability. This finding is consistent with the IMF's EBA model, which looks at the difference between saving and investment, suggesting that low saving rather than high investment is the driver of Colombia's high current account deficit. One missing factor that could explain the low saving rate is taxation (Cardenas and Escobar, 1998), as higher profit taxes reduce the net rate of returns. Further work will be needed to explore other potential omitted variables.

[5] Barro (1996) points out that while controlling for country fixed-effects could help avoid omitted variables bias, they also remove the cross-country comparison that is the value of a panel data set, leaving researchers with only within-country variations that could be noisy (especially important for political stability, as that measure varies more slowly over time).

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Annex VII. Energy Transition – Authorities' Policies

1. The Petro administration has placed the energy transition among its top policy priorities from the outset, emphasizing its importance in fighting climate change and reducing Colombia's economic dependence on hydrocarbons in the context of the global energy transition. To clarify the objectives and policies underlying the energy transition, the authorities recently published a draft Roadmap for the Just Energy Transition (JET), centered around four pillars:

- *Equity and democratization*: ensuring social, environmental, and energy justice and equity; promoting greater democracy regarding ownership and management of energy.
- *Gradualness, sovereignty, and reliability*: gradual replacement of the energy matrix while ensuring national energy security.
- *Social participation*: giving greater influence to communities affected by the energy transition;
- *Knowledge development*: leveraging the energy transition to reactivate industrial and agricultural sectors; creating alternatives to the extractive economic model.

2. On the demand side, policies will aim to promote the electrification of transportation fleets, industrial processes, and residential uses; increase the adoption of alternative energy such as bioenergy, hydrogen, and solar; and develop infrastructures supporting with the transition, such as a multimodal transport system combining land, rail, and river. Besides acting through national programs and regulatory frameworks, the authorities also consider creating incentives (e.g., for the adoption of electric vehicles) or financing mechanisms (e.g., low-interest loans and financial guarantees to facilitate adoption by industrial enterprises). Notably, the JET strategy lacks details on policies to reduce emissions from agriculture and land use, even though the sector accounts for more than half of greenhouse gases emission in the country.

3. On the supply side, the JET will involve not issuing new contracts for hydrocarbon extraction and concessions for open-pit mining; developing green hydrogen production for domestic use and exports; and increasing the use of renewable resources (biogas, biomass, geothermal, solar, wind). Policies would include (but not be limited to) developing regulations and frameworks around the goals of JET, advancing mining closures and retirements of coal-fired power plants, promoting the diversification of Ecopetrol's green investments, and ensuring sufficient gas supply for the transition.

4. Policies would also focus on reindustrialization, including by investing in retrofitting existing infrastructures to store and transport alternative energy sources and increasing value chain participation (e.g., local manufacturing or assembly of components needed for the energy transition). The energy transition strategy also entails labor market policies to transition workers from affected sectors into new sectors, ensuring a just and smooth transition.

Annex VIII. Recommendations of the 2023 Article IV Consultation and Authorities' Actions

Fund Recommendation	Policy Action
Monetary Policy	
Further hikes in the policy rate may be needed depending on the evolution of factors, including actual inflation, inflation expectations, and demand conditions. Based on currently available information, a tight monetary policy stance-with the policy rate above the neutral rate- would need to be maintained beyond 2023 to durably restrain internal demand and anchor inflation expectations.	In response to inflation pressures, the central bank increased the policy rate twice in 2023Q1 and kept it at the same level until November. In December, Banrep cut its policy rate by 25bps. Based on one-year ahead inflation expectations, the ex-ante real rate (around 7 percent) was between 400 and 500 basis points above the neutral rate by end-2023.
Financial Sector	
Close monitoring of consumer leverage and financial conglomerates' exposure to Central America should continue. Also, progress in the implementation of the 2022 FSAP needs to continue.	The authorities continue closely monitoring financial sector vulnerabilities, while reinforcing an already sound regulatory framework, including by (i)improving data collection on household balance sheets: (ii)strengthening stress-testing and systemic risk analysis; and (iv) enhancing the monitoring of financial conglomerates' exposure to Central America, including TA from the Fund.
Fiscal Policy	
Staff considered that the proposed fiscal adjustment for 2023 by the authorities (under the 2023 Financing Plan), which was one of the larger one-year consolidations in decades, was appropriate. In addition, beyond 2023, further improvements in fiscal balances over the fiscal rule path should be considered to ensure convergence to the debt anchor.	With the support from higher taxes, the fiscal consolidation continued in 2023. However, there was not overperformance with respect to the target deficit given by the fiscal rule. The Central Government continued its payments to FEPC.
Structural Reforms	
Planned reforms on healthcare, pensions, and labor markets would need to be formulated in compliance with fiscal rules while appropriate balancing equity, efficiency, and sustainability considerations. Also, a well-designed and executed energy transition and export diversification plan is vital to secure medium-term sustainability and resilience.	Social reforms (healthcare, pensions, and labor) were submitted to Congress. The authorities have emphasized that the fiscal cost of reforms will be in compliance with the fiscal rule. Regarding energy transition, a final government decision regarding oil exploration and exploitation is pending.

COLOMBIA

STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

March 8, 2024

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

CONTENTS

FUND RELATIONS

(As of January 31, 2024)

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

General Resources Account:

	SDR million	Percent Quota
Quota	2,044.50	100.00
IMF Holdings of Currency (Holdings Rate)	5,299.69	259.22
Reserve Tranche Position	494.81	24.20

SDR Department:

	SDR million	Percent Quota
Net cummulative allocation	2,697.88	100.00
Holdings	2,537.31	94.05

Outstanding Purchases and Loans:

	SDR million	Percent Quota
Flexible Credit Line	3,750.00	183.42

Latest Financial Arrangements:

			In million of SDR	
	Date of Arrangement	Expiration Date	Amount Approved	Amount Drawn
FCL	Apr 29, 2022	Apr 28, 2024	7,155.70	0.00
FCL	May 01, 2020	Apr 28, 2022	12,267.00	3,750.00
FCL	May 25, 2018	Apr 30, 2020	7,848.00	0.00

Projected Payments to the Fund (in SDR million):

	Forthcoming				
	2024	2025	2026	2027	2028
Principal	1875.00	1875.00			
Charges/interest	167.47	73.82	8.60	6.58	6.58
Total	**2042.47**	**1948.82**	**8.60**	**6.58**	**6.58**

Implementation of HIPC Initiative: Not applicable.

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

Exchange Arrangements: Colombia's currency is the Colombian peso. Colombia's de jure exchange rate arrangement is free floating, and the de facto exchange rate arrangement is classified as floating. All foreign exchange transactions are conducted at the market-determined exchange rate. Colombia has accepted the obligations under Article VIII, Sections 2(a), 3, and 4, of the IMF's Articles of Agreement and maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions and multiple currency practices.

Article IV Consultation: The last Article IV Consultation was concluded on March 23, 2023 (IMF Country Report No. 23/120).

FSAP Participation and ROSCs: The FSAP took place in 2000 and was updated in 2008, 2013, and 2022. 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

Department	Time of Delivery	Purpose
FAD	Oct 2019	Strengthening the fiscal risk management office and managing fiscal risks from SOEs
STA	Apr 2020	Sectoral accounts
FAD	Jul 2020	TADAT Assessment
FAD	Oct 2020	BRP Treasury Reporting
STA	Apr. 2021	Fiscal and Public Debt Data Compilation
STA	Apr. 2021	Improve Capacity for Residential Property Price Index
ICD	Sep. 2021, Nov. 2021, Jan. 2022, Mar. 2022, Jul. 2022, Oct. 2022	Strengthening Macro-Fiscal Analysis and Forecasting Capacity.
STA	Aug. 2021	Compilation of Financial Soundness Indicators (FSIs)
FAD	Aug. 2021	Revenue Administration
FAD	Nov. 2021	Strengthening Fiscal Risks Analysis and Reporting
MCM	Sep. 2022	Assessment of Financial Stability Report
FAD	Mar. 2023	Public Financial Management-Inception Mission
MCM	Mar. 2023	Contagion Risk Analysis
STA	Jul. 2023	Data Management and Operations Mission.
FAD	Jul. 2023	Funding Program Assessment-Colombia: Revenue Administration.
STA	Oct. 2023	Monetary and Financial Statistics
STA	Nov. 2023	Government Financial Statistics
FAD	Nov. 2023	Bases to improve customs compliance by adopting comprehensive risk management.
MCM	Nov. 2023	Systemic Risk Analysis- IFRS 9 Developing an Expected Loss Model.
ICD	Jun. 2023, Sep.-Dec. 2023, Jan. -Mar. 2024	Macroeconomic Frameworks-Minsitry of Finance-CARF
ICD	Oct. 2023	Macroeconomic Frameworks-Ministry of Finance.

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, 2024)

I. Assessment of Data Adequacy for Surveillance

General. Provision of macroeconomic statistics is adequate for surveillance.

National Accounts: The National Department of Statistics (DANE) is responsible for compiling the national accounts, and 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 expenditure approaches use 2015 as the reference year for the annually chained volume measures; in addition, a monthly indicator for monitoring the economy is disseminated. Furthermore, the accounts and tables identified as minimum requirements and recommended for implementation of the *2008 SNA* are compiled regularly, 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 2016-2020, IMF STA assisted DANE and BdR in developing quarterly financial and non-financial accounts by institutional sector. Since June 30, 2021, BdR, jointly with DANE, began compiling and disseminating the "Integrated Quarterly National Accounts by Institutional Sector."

Price Statistics: DANE is also responsible for price statistics and currently compiles and disseminates the consumer price index (CPI) and the producer price index (PPI) monthly. The CPI basket and weights were updated in 2019, with the support of STA technical assistance, based on 2016/17 household expenditures. The producer price index (PPI) was redesigned in 2015 using a weighting structure from the year 2011 and covers agriculture, livestock, fishing, mining, and industry. DANE also publishes a quarterly new home price index (IPVN). The IPVN covers the capital Bogotá only.

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 are working to adopt the Government Finance Statistics Manual (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 expenditure 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 2014 framework to compile GFS on accrual and cash bases.

Monetary and Financial Statistics: The classification of financial instruments and economic sectors follows the *2016* Monetary and Financial Statistics Manual *and Compilation Guide* (MFSM*CG*). The BdR reports 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 BdR reports data on several series indicators of the Financial Access Survey (FAS) including mobile and internet banking, mobile money, gender-disaggregated data, and 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. Colombia reports all 13 core and 8 additional FSIs for deposit takers on a monthly basis according to the list of FSIs prescribed in the 2019 Financial Soundness Indicators Compilation Guide. 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 compiles and disseminates the monthly 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.

II. Data Standards and Quality

Colombia subscribes to the Special Data Dissemination Standard (SDDS) since 1996 and metadata are posted on the Fund's Dissemination Standards Bulletin Board (DSBB).

Colombia: Table of Common Indicators Required for Surveillance
(As of February 26, 2024)

	Date of Latest Observation	Date Received	Frequency of Data[1]	Frequency of Reporting[1]	Frequency of Publication[1]
Exchange Rates	Feb. 26, 2024	Feb. 26, 2024	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[2]	Jan. 2024	Feb. 2024	M	M	M
Reserve/Base Money	Feb. 2, 2024	Feb. 22, 2024	W	W	W
Broad Money	Feb. 2, 2023	Feb. 22, 2024	W	W	W
Central Bank Balance Sheet	Jan. 2024	Feb. 2024	M	M	M
Consolidated Balance Sheet of the Banking System	Nov 2023	Feb. 2024	M	M	M
Interest Rates[3]	Feb. 22, 2024	Feb. 22, 2024	D	D	D
Consumer Price Index	Dec. 2023	Feb. 2024	M	M	M
Revenue, Expenditure, Balance and Financing Composition[4] – General Government (GG)[5]	Q4 2022	Dec. 2023	Q	Q	Q
Revenue, Expenditure, Balance and Financing Composition[4] – Central Government	Nov. 2023	Jan. 2024	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt[6]	Jan. 2024	Feb. 2024	M	M	M
External Current Account Balance	Q3 2023	Dec. 2023	Q	Q	Q
Exports and Imports of Goods	Dec. 2023	Feb. 2024	M	M	M
GDP/GNP	Q4 2023	Feb. 2024	Q	Q	Q
Gross External Debt	Nov. 2023	Feb. 2024	M	M	M
International Investment Position[7]	Q3 2023	Dec. 2024	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 Juan Sebastian Betancur Mora, Alternate Executive Director for Colombia March 25, 2024

On behalf of the Colombian authorities, I thank staff for their engaged dialogue and feedback throughout the Article IV Consultation. The perspectives shared during these sessions serve as an essential guide for Colombian policymakers.

Colombia is well-advanced in transitioning towards a more sustainable macroeconomic situation after a period of exceptional GDP growth, high inflation, a large external deficit, and rapid loan portfolio growth. The country's very strong macroeconomic framework continues to work effectively, with tight policies playing a pivotal role in reducing sources of overheating and containing risks. Credit spreads and sovereign bond yields have corrected substantially, reflecting lower—although still above historical averages—risk premia. In contrast to the 2022–2023 period, 2024 is expected to show heightened economic policy trade-offs. The calibration of economic policies needs to balance the objectives of bringing inflation to the target by mid-2025, ensuring fiscal and external sustainability, and keeping output and employment in line with trend levels in a context of rapid deceleration of economic activity. External risks, stemming from geopolitical tensions, economic fragmentation, and the high volatility of international capital markets, remain elevated and affect the country's outlook. The Flexible Credit Line is highly valuable to the authorities and contributes to complementing external liquidity buffers. The authorities remain fully committed to the solid macroeconomic policy framework that has helped the Colombian economy navigate various shocks in the past and will continue to do so in the future. In parallel, the government is advancing a structural agenda to unlock inclusive growth capacity, implement a prudent energy transition, and strengthen the social safety net. These initiatives have been formulated within the existing fiscal policy framework.

Recent Developments and Outlook

After a rapid recovery from the pandemic, the Colombian economy entered a period of adjustment towards a more sustainable path. After an annual growth rate of 7.3% in 2022 and 10.8% in 2021, the Colombian economy grew by 0.6% in 2023. While below the central bank's forecast of 1%, the slowdown in economic activity was not a surprise in the midst of a period of monetary, fiscal, and financial policy tightening. It should be noted that year-on- year changes only tell half the story, as output and consumption levels are still above the pre- pandemic trend; however, investment did decline in 2023, and its levels are below the pre- pandemic trend. The dynamics of investment seem to reflect the ongoing macroeconomic adjustment and also specific sectoral bottlenecks, which the government is currently trying to address. For 2024, growth is expected to remain weak, with consumption growing at low rates and investment gradually recovering.

Inflation has been declining steadily but remains above the central bank's target of 3%. The annual inflation rate was 7.7% in February 2024, 5.6 percentage points below the peak (13.3%) reached in March 2023. The latter reflects a fast pace of disinflation, despite the sizable but necessary increase in regulated fuel prices, which rose more than 50% in 2023. Since 2023, food inflation, which explained an important part of the surge in overall prices, has fallen significantly and now stands at 1.9% after reaching more than 27% in 2022. Colombia's inflation, similarly to other economies in the region, has been relatively sticky, which might be explained by significant increases on the minimum wage, price indexation, the elimination of fuel subsidies, and the sharp depreciation of the exchange rate in 2021 and 2022. The central bank forecasts a decrease in inflation to 5.9% by the end of 2024 and expects it to reach the 3% target by mid-2025. The main risks for the inflation outlook are a higher degree of persistence in service price inflation, increases in regulated prices, and El Niño. The latter two could generate new pressures on domestic food and energy prices.

The external position is assessed by staff as in line with the level implied by medium- term fundamentals and desirable policies. Lower levels of domestic demand have helped reduce Colombia's current account deficit, diminishing external vulnerability. The current account deficit decreased from 6.2% in 2022 to 2.7% of GDP in 2023 and is expected to remain stable at around 2.9% of GDP in 2024. Apart from the significant adjustment in domestic demand, the resilience of non-traditional exports and the positive performance of service exports have also contributed to a more balanced external account.

Monetary Policy, Exchange Rate, and External Buffers

Colombia follows an inflation-targeting regime with a highly flexible exchange rate, which allows the central bank to respond swiftly to macroeconomic shocks. Starting in September 2021, the central bank increased interest rates by 11.5 percentage points, the policy rate reached 13.25% in May 2023 and remained unchanged at that level until December 2023. As highlighted in the staff report, this contractionary policy has contributed to reducing inflation and inflation expectations.

The central bank has publicly stated that its aim is to bring inflation to the target by mid-2025. The authorities note that their forecasts of inflation through 2025 are broadly aligned with IMF staff calculations. Communicating monetary policy decisions at this juncture has been a challenging task. The authorities have sent the message that monetary policy will remain contractionary throughout 2024 to ensure convergence of inflation towards the 3% target. However, given the highly uncertain outlook, they have not committed to any specific path for the interest rate and have emphasized that they will act cautiously and follow a data-dependent monetary policy approach, with the clear aim of bringing inflation to target by mid-2025. Following this approach and after 8 months of downward inflation, the Board of Directors began a cycle of reductions in the policy rate in December 2023, with a monetary policy rate that currently still stands at 12.75%.

Last year, the Colombian peso outperformed its regional peers and corrected the depreciation observed in 2021 and 2022. The exchange rate appreciation of more than 20% in 2023 contributed to the reduction of inflation. Risk premia have fallen, and sovereign bond yields have also seen a sizable decline, although their current levels are still above historical averages.

At the December 2023 meeting, the Board of Directors of the Central Bank announced a reserve accumulation program of up to USD 1.5 billion, which aims to strengthen international liquidity coverage ratios. This is a crucial decision, as it signals the authorities commitment to maintaining an adequate level of reserves and external liquidity buffers in anticipation of a gradual reduction of FCL access. The authorities made clear communication regarding the objectives of the program, highlighting the importance of accumulating international reserves in a highly uncertain external environment. So far, the central bank has accumulated USD 423.9 million of international reserves through this program without producing any pressure on the level or volatility of the exchange rate.

Fiscal Policy

A Fiscal Rule and a Medium-Term Fiscal Framework govern Colombia's fiscal policy. The country has continuously enhanced its fiscal framework, supported by IMF recommendations, including by linking structural primary balance targets to debt levels. Moreover, the country created the Autonomous Fiscal Rule Committee, an independent council that enhances the public debate on fiscal policy issues.

The significant fiscal consolidation process continued in 2023, and the government over-complied with the fiscal rule for the second year in a row. Indeed, the headline deficit of the general government declined by 4pp of GDP between 2022 and 2023 and closed at 2.5 percent. This is the largest improvement since comparable data is available. Regarding the central government, the primary deficit went down from 1% of GDP in 2022 to 0.3% in 2023, while the total deficit decreased from 5.3% to 4.3% of GDP. These results mainly reflect higher revenue mobilization from the 2021 and 2022 tax reforms—indeed, tax revenues reached historical highs—and the bold measures taken by the authorities, including gradually phasing out fuel subsidies. The central government's net debt closed 2023 at 52.8% of GDP, below the 55% medium-term anchor established by the Fiscal Rule.

The authorities remain firmly committed to continuing to comply with the fiscal rule looking ahead. The latest Financial Plan for 2024 is aligned with the fiscal space provided by the fiscal rule. The fiscal strategy balances the need to accommodate additional expenditure pressures, promote public investment recovery, and ensure public finances sustainability. The fiscal rule rightly provides flexibility to absorb transitions along the economic cycle as well as sharp changes in volatile sources, like oil revenues, so that spending adjusts smoothly over time. At the same time, the law requires a tight policy stance in 2024; the structural net primary balance improves by 1,1pp compared to 2023. All in all, the fiscal deficit and public debt will temporarily increase in 2024 to 5.3% and 57% of GDP. Acknowledging the risks surrounding the fiscal scenario for this year, the authorities have pledged to take any measures to scale back spending, if necessary, to meet the objectives and safeguard fiscal sustainability. In fact, the latest Financial Plan already included a reduction in planned spending compared to the previous fiscal scenario—contained in the 2023 Medium-Term Fiscal Framework. From a medium-term perspective, the structural primary balance will continue to augment so that debt stabilizes around the anchor, as stipulated in the law. The additional fiscal consolidation will be guided by a gradual increase in non-oil revenues, including from the tax administration strategy and the recovery of economic activity, as well as the gradual reduction of diesel subsidies.

Financial Sector

Following tighter monetary policy, tighter bank credit standards, and the economic slowdown, the loan portfolio has recorded negative real growth rates since May 2023. The consumer loan portfolio has seen the most significant decline, currently contracting 11% in real terms after growing at a rate of more than 14% in July 2022. Although non- performing loans have increased for all credit types, this expected deterioration has been contained.

The financial burden of households (identified as a key indicator to follow in the last Article IV) has fallen as a result of the significant drop in the real growth of consumer loans and the lower dynamics of mortgage loans. Households' debt-to-income ratio has decreased in line with a recovery in the savings of these agents.
Financial institutions are highly resilient and have sufficient buffers to face the current macroeconomic adjustment. The Colombian financial system maintains adequate levels of capital and liquidity, well above Basel III requirements, and the provisioning coverage ratio remains appropriate. The countercyclical provisioning scheme has worked as an effective absorption mechanism, and the stress tests show that the financial system is highly resilient even in tail risk scenarios. The Colombian authorities are strongly committed to continuing to strengthen their regulatory framework through the implementation of the IMF recommendations formulated in the recent FSAP. A close monitoring of cross-border exposures and contagion risks will continue.

There is a serious commitment by the authorities to coordinate their actions and initiatives through the Committee for Coordination and Oversight of the Financial System. The existence of robust financial supervision and regulation, aligned with Basel III standards, remains a cornerstone of Colombia's macroeconomic policy framework. The authorities remain open to engaging with relevant stakeholders ahead of administrative decisions.

Governance and transparency

The governance, transparency, and anti-corruption agenda has been strengthened, with all relevant stakeholders actively participating in the formulation of regulatory measures. The assets and income declarations of public officials are being published on an annual basis and in accordance with the law. Regarding customs and anti-corruption issues, the National Tax and Customs Directorate (DIAN) has promoted the publication of import, export, and transportation declaration data in formats accessible to the general public. Likewise, in 2023, the apprehension committee was created to increase the efficiency and effectiveness of the customs system. Moreover, DIAN is applying AI to enhance its ability to detect corruption. The entity is also working with the Directorate of Audit Management to promote due diligence in the reporting of beneficial owners, using information from the Chamber of Commerce. Careful consideration of legal constraints to facilitate the publication of this information is being assessed. In order to prevent influence peddling in the use of public resources, the Transparency Secretariat is developing different tools for managing corruption risks and promoting a culture of legality. At the subnational level, public entities must have a Transparency and Public Ethics Program that guarantees, among other things, internal policies of compliance, due diligence, and risk management.

Final Remarks

The Colombian economy is going through a necessary adjustment phase after a recovery from the pandemic that was characterized by exceptional growth rates of domestic absorption and output. As anticipated, the loan portfolio is contracting, domestic demand is adjusting, inflation is declining and converging towards the 3% target, and the external and fiscal balances are reaching more sustainable levels.

Against this backdrop, the authorities remain committed to maintaining very strong economic fundamentals and institutional policy frameworks. Colombia has an independent central bank with an inflation-targeting regime, a fully flexible exchange rate, and an adequate level of international reserves. The country's financial framework and regulation protocols meet Basel III standards, and fiscal sustainability is ensured through the Medium-Term Fiscal Framework and the Fiscal Rule, which, in the case of the latter, has been enhanced following IMF recommendations.

Within this policy framework, the authorities have taken and continue to take decisive actions to safeguard fiscal sustainability, ensure price stability, create the conditions for higher and more inclusive medium-term growth, guarantee effective financial regulation and supervision while encouraging better levels of financial inclusion in the country. These actions, together with the maintenance of adequate external buffers through international reserves and the FCL, place Colombia in a strong position to confront external risks. These macroeconomic policies and institutions have proven effective in the past and will continue to play a crucial role in meeting future challenges amid uncertain global developments.