INTERNATIONAL MONETARY FUND

IMF Country Report No. 16/154

COLOMBIA

June 2016

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

In the context of the arrangement under the Flexible Credit Line and cancellation of Current Arrangement, the following documents have been released and are included in This package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on June 13, 2016. Based on information available at the time of these discussions, the staff report was completed on June 1, 2016.
- A **Staff Supplement** of June 6, 2016 on the assessment of the impact of the proposed Flexible Credit Line arrangement on the Fund's finances and liquidity position.
- A **Statement by the Executive Director** for Colombia.

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

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International Monetary Fund
Washington, D.C.

Press Release No. 16/279
FOR IMMEDIATE RELEASE
June 13, 2016

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Approves New Two-Year US$11.5 Billion Flexible Credit Line Arrangement for Colombia

The Executive Board of the International Monetary Fund (IMF) today approved a successor two-year arrangement for Colombia under the Flexible Credit Line (FCL) in an amount equivalent to SDR 8.18 billion (about US$11.5 billion) and canceled the previous arrangement (SDR 3.87 billion, about US$5.4 billion). The Colombian authorities stated their intention to treat the new arrangement as precautionary and do not intend to draw on it.

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

"Colombia has a track record of very strong policy frameworks, including an inflation-targeting regime, a flexible exchange rate, effective financial sector supervision and regulation, and a fiscal policy guided by a structural balance rule. The authorities are firmly committed to maintaining these policies and undertaking further initiatives to strengthen the resilience of the economy and boost competitiveness and growth.

"Colombia's macroeconomic policies have provided flexibility to deliver a coordinated and gradual response to the large decline in oil prices. Exchange rate flexibility continues to be the main shock absorber, while the fiscal rule allows for a smooth adjustment of expenditure to a weaker medium-term oil outlook. The ongoing monetary policy tightening cycle will gradually bring inflation back to the target range, and the banking and corporate sectors remain in good financial health. International reserves are adequate for normal times.

"Nevertheless, global risks have risen with the potential to increase the severity of shocks that Colombia could suffer, despite the strength of its fundamentals and policy frameworks. The new arrangement under the Flexible Credit Line (FCL), with higher access, will provide added buffers and continue to play a significant role in supporting the authorities' policies in the presence of these increased downside risks. It will also provide policy flexibility and serve as a temporary insurance that reinforces market confidence. The authorities intend to continue to treat this facility as precautionary and to phase out its use as risks to the global outlook and commodity prices substantially recede."

Background:

Colombia's first FCL arrangement was approved on May 11, 2009 (see Press Release No. 09/161) and was renewed on May 7, 2010 (see Press Release No. 10/186), May 6, 2011 (see Press Release No. 11/165), June 24, 2013 (see Press Release No. 13/229), and June 17, 2015 (see Press Release 15/281). The FCL was established on March 24, 2009 and further enhanced on August 30, 2010 (see Press Release No. 10/321). The FCL is available to countries with very strong fundamentals, policies, and track records of policy implementation and is particularly useful for crisis prevention purposes. FCL arrangements are approved for countries meeting pre-set qualification criteria (see Press Release No. 09/85). The FCL is a renewable credit line, which could be approved for either one or two years. Two-year arrangements involve a review of eligibility after the first year. If the country draws on the credit line, the repayment period is between three and a quarter and five years. There is no cap on access to Fund resources under the FCL, and access is determined on a case-by-case basis. Qualified countries have the full amount available up-front, with no ongoing conditions. There is flexibility to either draw on the credit line at the time it is approved, or treat it as precautionary.

INTERNATIONAL MONETARY FUND

COLOMBIA

June 1, 2016

ARRANGEMENT UNDER THE FLEXIBLE CREDIT LINE AND CANCELLATION OF THE CURRENT ARRANGEMENT

EXECUTIVE SUMMARY

Background: Colombia's strong economic policy framework, comprising an inflation-targeting regime, a flexible exchange rate, effective financial sector supervision and regulation, and a fiscal policy guided by a structural balance rule, has underpinned a strong policy response and growth resilience to a large terms-of-trade shock.

Outlook: Growth is expected to decelerate to 2.5 percent in 2016 but gradually return toward potential over the medium term. Inflation increased due to temporary shocks but is projected to converge to the target band during 2017. The current account deficit will gradually shrink to 3½ percent, while net private capital inflows will remain stable. The authorities are firmly committed to maintaining their sound policy framework and strengthening policy buffers in the period covered by the proposed arrangement.

Risks: External risks have increased significantly since the current FCL arrangement was approved. Intensified global risks have increased the size of potential shocks and their transmission to Colombia may be more severe, despite strong fundamentals. Key risks include slower-than-expected global growth in risks to commodity prices, and turbulence in global financial markets.

FCL: The authorities are requesting a successor two-year FCL arrangement for 400 percent of quota (SDR 8.18 billion), which they intend to treat as precautionary, and thus will cancel the current arrangement (SDR 3.87 billion) which expires on June 16, 2017. They consider that a new FCL in the requested amount would provide stronger insurance against heightened external risks, help sustain market confidence, and support their economic strategy. The access requested would provide Colombia with adequate cover in an adverse external scenario. Staff assesses that Colombia meets the qualification criteria for access to Fund resources under the FCL arrangement, and recommends its approval by the Executive Board. The authorities stated that, conditional on a reduction of global risks, they intend to lower access to Fund resources in any subsequent FCL arrangements, with a view to gradually phasing out Colombia's use of this arrangement.

Fund liquidity: The proposed commitment of SDR 8.18 billion would have a marginal impact on the Fund's liquidity position.

Process: An informal meeting to consult with the Executive Board on a possible FCL arrangement for Colombia was held on May 25, 2016.

Approved By
Robert Rennhack and Mary Goodman

The report was prepared by a team comprised of Jorge Roldos (Head), Sergi Lanau, Francisco Roch, Daniel Rodríguez-Delgado (all WHD), Manrique Saenz (SPR), and Mohamed Norat (MCM) with support from Cristina Barbosa, Andrea Herrera, and Adrian Robles (all WHD).

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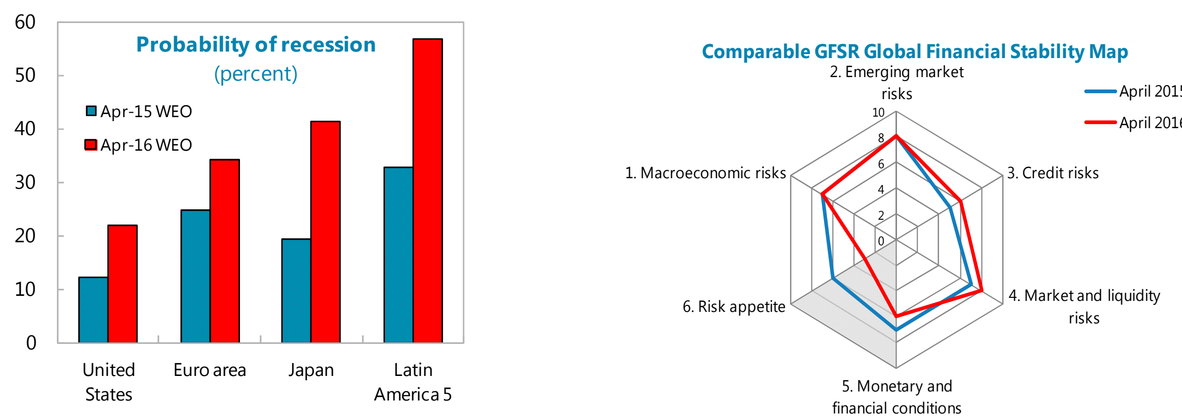
CONTEXT

1. **Colombia's macroeconomic policies and policy frameworks remain very strong.** The inflation-targeting regime, flexible exchange rate, and fiscal policy guided by the structural balance fiscal rule allowed Colombia to start adjusting smoothly to permanently lower oil prices. The current account is largely financed by stable sources of funding and reserve coverage ratios are adequate. The 2013 FSAP found that the financial regulatory and supervisory framework was sound. At the conclusion of the 2016 Article IV Consultation, Executive Directors expressed confidence in Colombia's very strong policies.

2. **External risks to the global economic outlook have increased.** The April 2016 WEO notes that there is a pronounced increase in downside risks that revolve around the threat of a disorderly pull-back of capital flows, the international ramifications of developments in China, further spells of depressed oil prices, as well as the ongoing risk of adverse spillovers from the process of normalization of U.S. monetary policy. The April 2016 GFSR elaborates on balance sheet stresses in China as a result of slowing growth and warns of the negative spillovers if China experienced a disorderly deleveraging. In any of these scenarios, Colombia could be affected despite its sound fundamentals, as commodity prices would fall and global risk aversion would increase. The effects on Colombia could be amplified since its regional trading partners are exposed to the same global risks and suffer from idiosyncratic weaknesses.

Colombia—Increased Global and Regional Risks

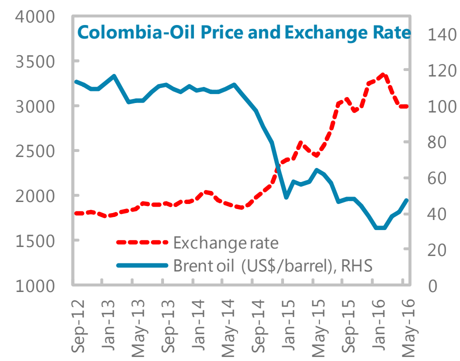


Source: IMF WEO.

Note: Away from center signifies higher risks, easier monetary and financial conditions, or higher risk appetite.

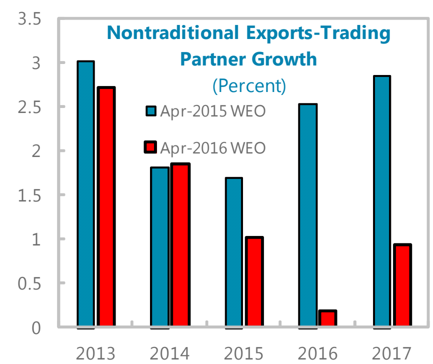
RECENT DEVELOPMENTS

3. **Despite a large external shock, Colombia's economy showed remarkable resilience in 2015.** The price of oil fell 40 percent between the approval of the current FCL arrangement and March 2016, delivering a much larger terms-of-trade-shock than the regional average. Falling oil prices led to a reduction in national income and a strong peso depreciation. Growth in key regional markets for Colombia's nontraditional exports weakened more than expected. Growth moderated to 3.1 percent as investment weakened, while private consumption remained brisk. Inflation remained above the target band (2−4 percent) since February 2015 because of the depreciation and weather-related food shocks. Near-term inflation expectations are also above the target band. Nevertheless, 24-month-ahead inflation expectations remain anchored within the target band. The central government fiscal deficit widened to 3 percent of GDP in 2015 as oil revenue fell but was in line with the parameters of the fiscal rule.



Source: Haver.

4. **The current account deficit reached a record level in 2015 but reserves remained stable.** The deficit widened to 6.5 percent of GDP but in nominal terms it remained close to its 2014 level. The depreciation led to a reduction in imports and in the income and services accounts that broadly matched the decline in exports caused by lower commodity prices. Capital inflows remained strong as non-oil FDI and portfolio inflows proved resilient. International reserves remained broadly constant at US$46.3 billion since the rules-based FX intervention mechanism was not triggered in 2015. Reserve coverage in months of imports and in percent of the current account deficit plus short-term debt at remaining maturity improved in 2015.



Source: IMF WEO.

5. **The NIIP deteriorated to minus 44 percent of GDP in 2015 but is still dominated by FDI.** Most of the drop (12 percentage points since 2014) reflects the valuation impact from the exchange rate depreciation that lowers the dollar value of GDP. FDI accounts for half of gross external liabilities. While the NIIP is sustainable, the increase in portfolio liabilities to 25 percent of GDP could lead to heightened vulnerability to global financial volatility.

6. **The banking system and corporate sector remained in good financial health.** The financial system was resilient to changing global and local conditions. Financial soundness indicators remained strong. Funding costs increased, especially for small entities, but liquidity stress tests do not raise systemic funding concerns. Corporate debt is modest by international standards. Debt indicators worsened mainly in the oil and airline industries but solvency problems remain contained. Moreover, debt service capacity improved for the largest 100 firms through end-2014, although

these gains have been partially erased by the materialization of commodity price and depreciation shocks.

OUTLOOK AND POLICIES

7. Growth will be subdued in the near future but is projected to gradually return toward potential. Staff projects growth to slow to 2.5 percent in 2016 and gradually increase over the medium-term supported by the construction phase of the fourth generation infrastructure investment program (4G). Tighter policies and reduced national income will weigh on growth in the near term but, on the positive side, the depreciation will boost exports and promote import substitution. The acceleration in inflation is expected to reverse in the second half of 2016 as the temporary effects of weather-related shocks and the depreciation die out. Inflation is projected to return to the target range in early 2017.

8. The macroeconomic framework provides flexibility to deliver a coordinated and gradual response to the large external shock. The authorities are tightening policies progressively to achieve a soft landing and align domestic demand with the subdued outlook for national income.

- **Fiscal policy.** The structural fiscal rule is the anchor that drives the smooth adjustment of revenue and expenditure to permanently lower oil prices. Public debt rose in 2015 but remains relatively moderate and sustainable, and is projected to decline in the medium term in line with the planned fiscal consolidation and projected growth path. A structural tax reform is expected to be approved by year-end.

- **Monetary policy.** The ongoing tightening cycle (275 bps since August 2015) will gradually bring inflation and near-term inflation expectations back to the target range and help align credit growth with weaker domestic demand. Solidly anchored medium-term inflation expectations underscore the credibility of the inflation-targeting framework.

- **Exchange rate and reserves.** The flexible exchange rate regime continues to play an important role in helping the economy adapt to changing global conditions. The rules-based FX auction program discontinued on May 31, 2016, was an effective mechanism to prevent disorderly depreciations and was triggered only on May 20, 2016. Colombia has an adequate international reserve level for normal times, though it might be insufficient to cope with tail risks. With the peso broadly aligned with fundamentals, weak commodity prices, and already strong buffers, reserves are projected to remain constant in the next two years.

- **FCL.** The successive FCL arrangements have provided a cushion of international liquidity and complemented the authorities' gradual policy adjustment to lower oil prices, and sent a positive signal to international financial markets on the strength of the economy. In past episodes of heightened external risks such as the 2008–09 global financial crisis, the FCL supported a countercyclical policy response.

9. The authorities are implementing an ambitious structural reform package and further strengthening the macroeconomic and financial frameworks.[1] The 4G program of road concessions is expected to improve productivity and regional integration, and boost Colombia's competitiveness and medium-term economic prospects. Initiatives such as a recently approved customs code, plans to streamline regulations and reduce subsidies, and a program to expand school coverage will support the productive transformation away from commodities. The implementation of peace-related initiatives will have important consequences for regional development and competitiveness. The authorities will seek the approval of a structural tax reform this year to help offset the decline in oil revenue, while protecting key expenditure areas. They are also implementing FSAP recommendations to further strengthen the resilience of the financial system.

ROLE OF THE FLEXIBLE CREDIT LINE ARRANGEMENT

A. Benefits of the FCL

10. The FCL has served Colombia well. The previous FCL arrangements have been instrumental to cope with heightened external risks in recent years, complementing the authorities' policy response to shocks such as the recent drop in commodity prices and the 2008–09 global financial crisis. In addition, the instrument has ensured a cushion of international liquidity for the country, providing space to strengthen the policy framework and to rebuild policy buffers, while sending a positive signal to international financial markets on the strength of the economy.

11. The FCL has also enhanced the economy's resilience to adverse external shocks. As discussed in IMF Country Report No. 15/206, empirical analyses by the Colombian central bank and IMF staff found that access to the FCL reduced the sovereign risk premium for Colombia had an important positive impact on consumer confidence and growth, and helped ease exchange rate pressures faster.

12. The authorities are requesting a successor 2-year FCL arrangement for SDR 8.18 billion (about US$11.4 billion) or 400 percent of quota, which they intend to treat as precautionary, and thus, will cancel the current arrangement which expires on June 16, 2017. They consider that the increase in external uncertainty and risks warrants larger reliance on contingent external financing from the Fund. The authorities consider that the FCL provides useful temporary insurance that reinforces market confidence and provides breathing space as they adjust smoothly to a lower level of national income against a background of heightened global and regional uncertainties.

[1] The Staff Report for the 2016 Article IV Consultation (IMF Country Report No. 16/129) includes further details on the outlook and policies to adjust to permanently lower oil prices.

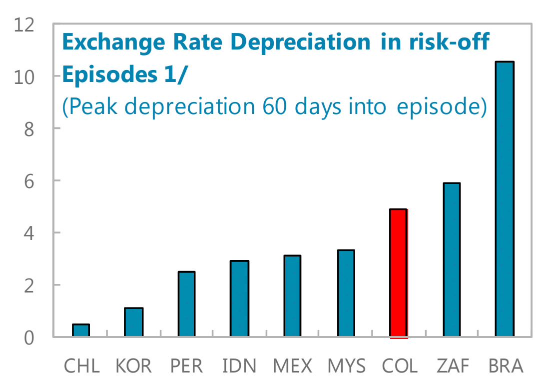
B. Evolution of Risks

13. Global risks have increased significantly since the current FCL arrangement was approved. Intensified global risks have augmented the size of potential shocks and their transmission to Colombia may be now more severe. As the April 2016 WEO notes, there is a pronounced increase in downside risks that revolve around the threat of a disorderly pull-back of flows and the international ramifications of the economic transition in China (Chapter 1, Section III). In addition, tighter financial conditions and bouts of financial market volatility could affect confidence and growth.

- ***Growing risks to global growth.*** The risk of protracted shortfall in domestic demand in advanced countries remains a concern. Moreover, the transition to a new growth model in China has had a larger than expected global impact, possibly exacerbated by the overreaction of financial markets—as happened in the August 2015 and January 2016 episodes. A sharper-than-forecast slowdown in China could have strong international spillovers through trade, commodity prices, and confidence. In addition, there is a risk of a significant slowdown in other large EMs and frontier economies, resulting from a downturn in the credit cycle and potentially intensified by domestic factors.

- ***Further spells of depressed commodity prices.*** Weak global demand, together with possible further increases in supply and other factors such as a strong U.S. dollar, could lower commodity prices.[2] Falling commodity prices would weaken Colombia's current account and currency.

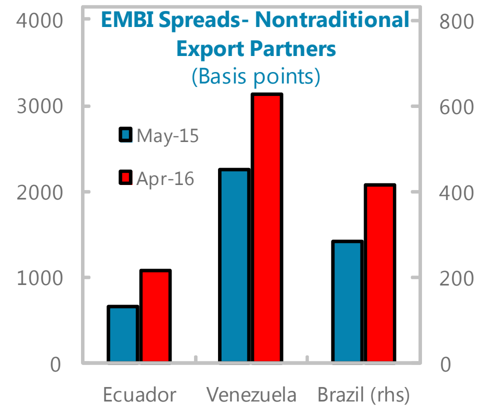
- ***Turbulence in financial markets.*** Events such as the April 2016 GFSR's risk of a loss in policy confidence leading to rising global risk premiums, possible delays in normalization of conditions in economies in recession, or asymmetric shifts of monetary policy in advanced countries could result in safe-haven flows and a sharp retreat in the overall EM asset-class. The impact on Colombia would be much larger than the current account impact described above. An analysis of recent risk-off episodes shows that the Colombian peso is one of the most sensitive EM currencies to risk sentiment. Staff analysis indicates that a two-standard-deviation increase in the VIX is associated with a 1 percent of GDP decline in portfolio flows to Colombia.



Source: Haver and staff calculations.
1/ Average of two risk-off episodes: new exchang rate mechanism in China (8/21/15) and Fed tightening coupled with commodity and China concerns (1/15/16).

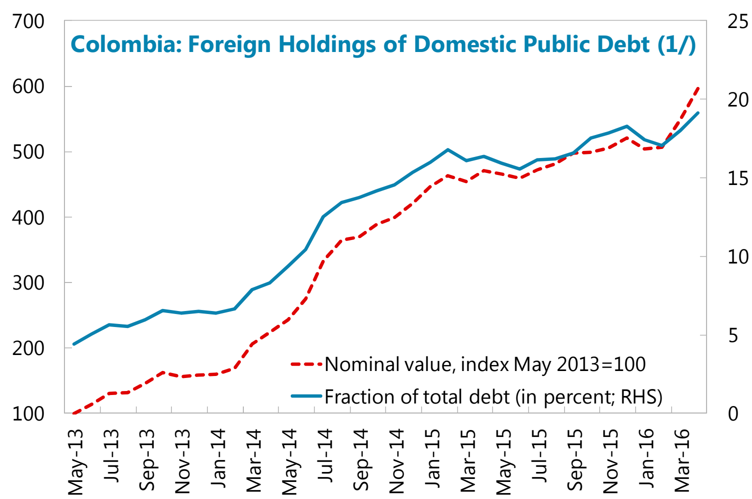
[2] In the case of China, a recent estimate indicates that a one percent decline in growth would cause a 2.8 percent decline in oil prices (IMF Working Paper No. 16/63).

- ***Further deterioration in Colombia's vulnerable neighbors.*** In the last year, the outlook for Brazil, Ecuador, and Venezuela has deteriorated significantly. These countries account for 27 percent of Colombia's nontraditional exports, and the dramatic growth slowdown is already hindering Colombia's export recovery in the baseline scenario. Furthermore, increased sovereign spreads in these neighboring countries suggest an increased risk of sliding into an adverse downside scenario where Colombia's nontraditional exports decline significantly. A shock to commodity prices would also increase the likelihood that such an adverse scenario would materialize and could lead investors to reassess their exposure to the region. There is also a risk that some of Colombia's neighbors take protectionist measures to improve their trade balances.



Source: Bloomberg.

14. Colombia's vulnerability to global and regional risks increased due to the likely non-linear impact of the above-mentioned shocks. Despite falling commodity prices since the current FCL arrangement was approved, commodities still account for more than 50 percent of exports, and the indirect risk through Colombia's neighbors would magnify the damage of a further negative shock. Moreover, sharp and persistent drops in oil prices to below the US$30/barrel level could suddenly make large swathes of the Colombian oil industry unprofitable and reduce oil production drastically. The worse outlook for oil production could prompt capital outflows. This could be particularly harmful for the local-currency sovereign bond market, where nonresident holdings have increased sharply since 2013 and now stand at around US$14 billion (5 percent of GDP). The 11 percent depreciation of the peso since June 2015 added to investors' unrealized losses in dollar terms (between June 2014 and June 2015, the exchange rate already depreciated 34 percent). As unrealized losses accumulate, the possibility of global shocks suddenly triggering stop-loss strategies in Colombia-focused portfolios increases the risk of a foreign investor sell-off.



Source: National authorities and Fund staff calculations.
1/ Includes TES for monetary control.

15. The external economic stress index for Colombia worsened significantly in the last year and would deteriorate further under the downside scenario (Box 1). Colombia has seen a strong deterioration of the external environment in recent quarters driven by falling oil prices and increased financial market volatility. The projected baseline ESI in 2016 Q2 reaches levels similar to those in the adverse scenario in the current FCL arrangement. In the updated adverse scenario behind the request for increased access under the FCL, the ESI would come close to the level last seen in the global financial crisis.

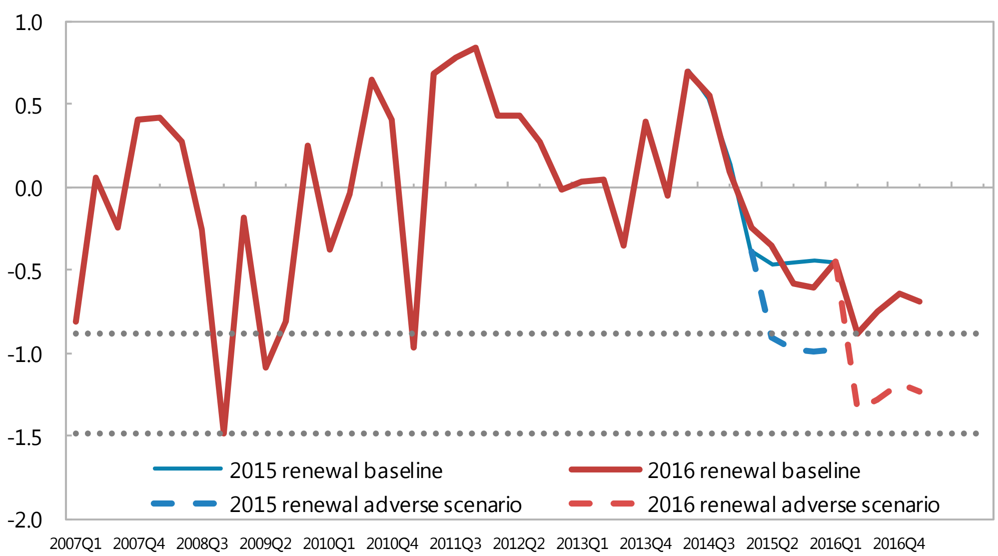
Box 1. External Economic Stress Index

The External Economic Stress Index (ESI) for Colombia is calculated according to the methodology outlined in "Review of the Flexible Credit Line, the Precautionary and Liquidity Line, and the Rapid Financing Instrument—Specific Proposals."

The index is based on four major variables which capture external risks for Colombia. The external risk variables include: the level of the oil price, a proxy for oil exports as well as oil-related FDI; U.S. growth, a proxy for exports, remittances and other inward FDI; the emerging market volatility index (VXEEM); and the change in the 10 year U.S. government bond yield, proxies for risks to equity and debt portfolio flows. The index is then calculated as a weighted sum of standardized deviations of the above variables from their means. The weights are estimated using balance of payments and international investment position data, all expressed as shares of GDP. The weight on oil prices (0.32) corresponds to the sum of oil and coal exports and oil-related FDI. The weight on U.S. growth (0.24) corresponds to exports to the U.S. The weight on the VXEEM (-0.04) comes from the equity portfolio investment stock and the weight on the U.S. government bond (-0.40) from the debt portfolio investment stock. The methodology is unchanged from previous FCL requests.

The calculation of the downside scenario reflects external risks stemming from potential heightened financial volatility as a result of a significant global growth slowdown. In the new adverse scenario, stress in financial markets following a significant global growth slowdown leads to an increase of the EM VIX by two standard deviations. Growth weakness would be transmitted to commodity markets, with oil prices falling 26 percent with respect to the baseline. Structurally weak growth in advanced economies would lower U.S. growth by ½ percentage points. More volatile global financial conditions, sharp price adjustments, and decompression of term premia would trigger a 100 bps increase in long-term U.S. interest rates.

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



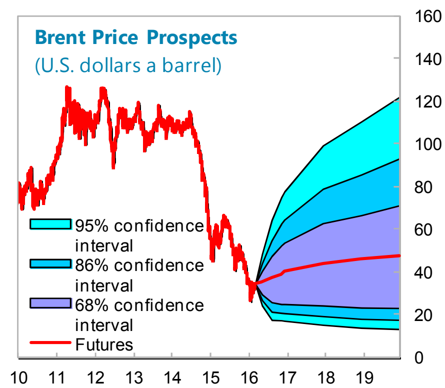
Source: IMF staff calculations.

C. Access Considerations Under an Adverse Scenario

16. Staff's assessment is that the level of access of 400 percent of quota requested by Colombia would provide reasonable coverage against increased global risks. A significant slowdown in global growth coupled with a flight to quality could trigger a drop in oil prices, a current account shock, and a sharp reduction in capital inflows—outflows for some instruments—that could be fairly persistent. This type of shock would deliver an adverse scenario that could be as impactful as Lehman's shock was for Colombia, with somewhat more persistence (see, for instance, what is implied by the ESI in Box 1). Other shocks to commodity prices could equally trigger the type of current account shocks and associated capital flow reversals as the one described in Table 3.

17. In staff's view, more than doubling access relative to the current FCL arrangement is justified given Colombia's increased exposure to heightened global risks.[3] Despite the increased shocks, the requested access of 400 percent of quota is based on rollover rates above the 25th percentile of historical experiences (Figure 3). The key adjustments are: (i) a larger oil price shock; (ii) significantly lower public sector rollover rates, mostly because of higher risks to nonresident holdings of local-currency public debt; (iii) somewhat lower private sector rollover rates due to the possibly nonlinear effects of external shocks; and (iv) increased use of international reserves, which are drawn down from 150 to 127 percent of the ARA metric, in line with the larger external shock.[4]

18. A decline in the price of oil to the US$25 dollar range would impact negatively both traditional and nontraditional exports. This decline in the price of oil, within the 68 percent confidence interval for WEO projections, combined with a 10 percent decline in export volumes, would yield a decline in the value of oil exports of around 35 percent.[5] The oil price decline would also affect Colombia's neighbors, reducing nontraditional exports and contributing to a current account shock of around US$4 billion. Imports would contract, marginally offsetting the impact of lower oil prices on the current account.



Sources: Bloomberg, L.P.; and IMF staff estimates.
Note: Derived from prices of futures options on February 26, 2016.

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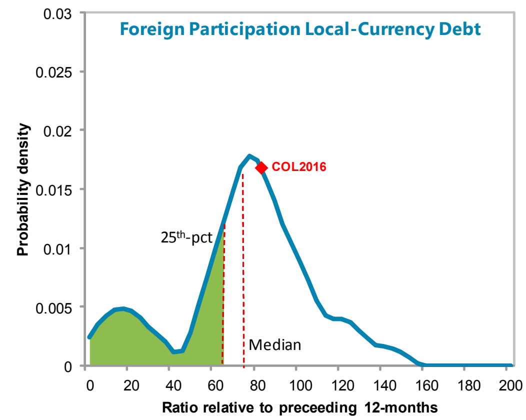
[3] The shocks from the current FCL arrangement applied to the 2016 Article IV baseline would justify an increase in access of around US$0.6 billion.

[4] This ensures a broadly similar relative use of reserves to FCL access as the current arrangement.

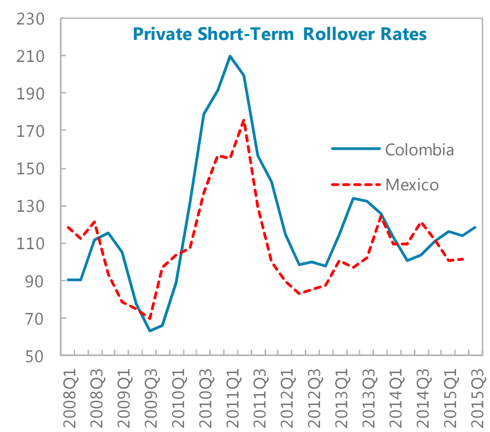
[5] This assumption is relatively conservative: the Colombian Association of Petroleum Producers estimates that a reduction in the price of the Colombian mix to levels around the ones in our alternative scenario would imply much larger falls in the volume of production.

19. A sharp depreciation linked to falling oil prices and/or a flight to quality would affect the local-currency bond market severely as foreign investors cut losses. A temporary interruption in international bond issuance and a US$1.5 billion net sell-off in the local-currency bond markets (about 11 percent of the stock held by foreigners) would result in a large reduction in external financing to the public sector. As a result, public sector rollover rates in the adverse scenario would be significantly lower than in the current FCL arrangement. The assumed sell-off in the local-currency market has precedent in international perspective (see kernel figure estimated for 20 EMs in the latest stress episodes) and is plausible given the accumulated unrealized dollar losses from peso depreciation.



Source: Ministry of Finance.

20. Large private sector debt maturities may face rollover difficulties in such an adverse scenario. A total of US$21 billion of private sector external debt comes due in 2016, and a larger figure in 2017 (Table 3). A fraction of these debts is from commodity-related firms and are unlikely to be rolled over in an adverse scenario. A 73 percent rollover rate for MLT private external debt is above the 25th percentile of the distribution of rollover rates observed in past crises (Figure 3). Judging from the experience of Colombia and Mexico around the Lehman episode and that of other EM crises, a drop in private short-term rollover rates to 85 percent is within historical experience. Combined with zero net inflows to the domestic equity market, this would imply around US$8 billion in private sector net capital outflows. Falling oil-related investment would reduce FDI by 20 percent (70 percent in the oil sector and 10 percent in other sectors).[6] The total capital account shock would be US$14.4 billion. Even after significant use of international reserves (US$6.8 billion), a financing gap of US$11.4 billion would remain.



Sources: Central Banks of Colombia and Mexico.

[6] A similar percent decline was assumed in the current FCL arrangement.

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

Assumption	Current Arrangement	Proposed New Arrangement
Oil price decline	15	26
FDI reduction	20	20
MLT Public sector rollover	149	80
ST public sector rollover	90	80
MLT private sector rollover	80	73
ST private sector rollover	90	85
Reserve drawdown (US$ billion)	4.6	6.8
Reduction in equity inflows (US$ billion)	0.0	1.0

Source: IMF staff calculations.

D. Exit Strategy

21. **The authorities consider access to the FCL to be temporary and dependent on external conditions.** Indeed, they have demonstrated their commitment to an exit strategy by reducing access when risks attenuated. In particular, Colombia's first FCL arrangement was approved in May 2009 in the amount of 900 percent of old quota, but successor FCL arrangements starting in mid-2011 have been only 500 percent of old quota, reflecting the authorities' assessment that risks related to the global financial crisis had receded.

22. **The authorities request for higher access under the FCL is motivated by heightened risks to the global economic outlook.** They note that global risks have increased, particularly those concerning developments in China, commodity markets, and financial volatility. If risks materialized, the authorities would likely tighten fiscal and monetary policies further and use their reserve buffers. In this context, a new FCL arrangement with increased access would boost confidence, and afford them additional space and time to pursue the adjustment in an orderly fashion.

23. **The authorities have outlined conditions that would facilitate exit.** They expect that as the growth transition in China progresses smoothly, investor concerns about stressed emerging market economies recede, and monetary policy normalizes in advanced countries, uncertainties will abate, and associated commodity price and global financial risks will recede. They also expect the outlook in regional trading partners to improve gradually as they undergo adjustments to restore internal and external balance. With substantial reduction of some of the global risks affecting Colombia, the authorities would intend to reduce access to Fund resources in any subsequent FCL arrangements, and to phase out Colombia's use of the facility. Successful adjustment to permanently lower oil prices and the ongoing productive transformation of the economy should also build resilience and reduce future access to Fund resources.

E. Assessment of Qualification

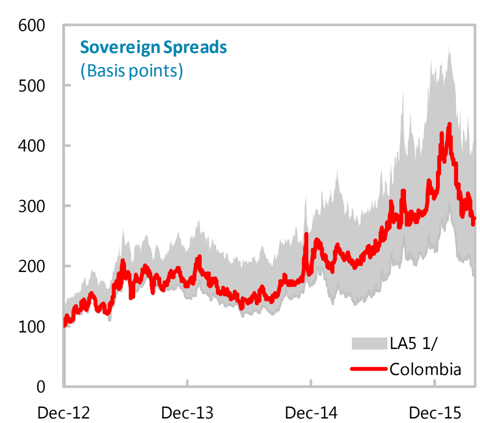
24. **Staff's assessment is that Colombia continues to meet the qualification criteria for an FCL arrangement identified in paragraph 2 of the FCL decision.** Colombia has very strong

economic fundamentals and institutional policy frameworks, with an inflation targeting framework and a flexible exchange regime, a fiscal policy framework anchored by a structural balance rule, and financial system oversight based on a sound regulatory and supervisory framework. Colombia has a sustained track record of implementation of very strong policies and the authorities are firmly committed to maintaining such policies going forward.[7] Staff's assessment of Colombia's qualification is based, in particular, on the following criteria:

- **Sustainable external position.** Colombia's external debt is relatively low, at 42 percent of GDP at end-2015. This is higher than projected at the time of the last FCL request (31 percent of GDP) to a large extent because of the sizeable depreciation and a methodological change to include nonresident holdings of local-currency public debt in the external debt statistics (5 percent of GDP). Staff's updated external debt sustainability analysis shows that external debt ratios would decline over the medium term and remain manageable even under large negative shocks (Table 11). The current account deficit is projected to narrow to 6.0 percent of GDP this year and gradually fall to about 3.6 percent by 2021. The real effective exchange rate was broadly in line with fundamentals by the end of 2015; the external position appears weaker than implied by fundamentals, while the economy is adjusting to a new equilibrium, but is projected to strengthen as trade volumes adjust to the new relative prices.

- **Capital account position dominated by private flows.** Capital account flows in Colombia are predominantly private, mostly in the form of net flows of foreign direct investment and portfolio investment (2.7 and 3.3 percent of GDP in 2015). The reliance on portfolio inflows is projected to decline in 2016 and remain stable around 1.2 percent of GDP over the medium term. FDI inflows are expected to remain resilient, financing about 80 percent of the current account deficit over the medium-term. As a result, the current account deficit will continue to be financed largely through stable funding sources.

- **Track-record of steady sovereign access to international capital markets at favorable terms.** Colombia has had uninterrupted access to international capital markets at favorable terms since the early 2000s. All major credit rating agencies rate Colombia at investment grade level. Sovereign bond and CDS spreads (281 and 218 basis points) have increased since the time of the last FCL arrangement but they sit comfortably on the regional median.



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

- **International reserve position remains relatively comfortable.** Gross international reserves increased slightly during the current FCL arrangement despite

[7] The Executive Board last assessed Colombia's adherence to the FCL qualification criteria on June 17, 2015 during the request for a FCL arrangement for 500 percent of old quota that expires on June 16, 2017 (IMF Country Report No. 15/206).

the large drop in oil prices and currency depreciation. They stood at US$47 billion as of March 2016. This is broadly equivalent to coverage of 10 months of imports, 150 percent of the ARA metric,[8] and 116 percent of the sum of short term external debt at remaining maturity and the projected current account deficit, which is relatively comfortable (Figure 2).

- **Sound public finances, including a sustainable public debt position.** The authorities are committed to fiscal sustainability by adhering to their structural balance rule. A strong fiscal framework and moderate levels of public debt helped Colombia adjust policies to absorb the permanent oil price shock. The authorities have committed to approving a structural tax reform by year-end. At 50.6 percent of GDP, public debt is some 4 percentage points higher than a year ago—partly due to the valuation effects of the peso depreciation and, to a lesser extent, the cyclical widening of the central government deficit. Public debt is projected to decline gradually over time and remain sustainable (Figure 5).

- **Low and stable inflation, in the context of a sound monetary and exchange rate policy.** The ongoing spell of inflation above the target band (7.9 percent y/y in April 2016) is mainly due to temporary shocks that are expected to unwind later this year. As the exchange rate stabilizes in line with oil prices, the pass-through to tradable goods prices will decrease. The effects of El Niño weather phenomenon on food prices will subside when the wet season beings in the second half of the year.[9] Medium-term inflation expectations remain anchored within the target range of 2−4 percent. The authorities remain committed to their inflation targeting framework and flexible exchange rate, and have increased the policy rate by 275bps since August 2015 to contain inflationary pressures.

- **Sound financial system and absence of solvency problems that may threaten systemic stability.** The financial system solvency and liquidity has remained strong amid less favorable external financing conditions, sectoral credit issues, and changes in local funding conditions. According to a central bank stress test conducted in 2015, the banking sector would remain solvent even under an extreme macroeconomic shock. Banks' exposure to companies in the oil sector is low, mitigating the risk from low oil prices to direct lending portfolios.

- **Effective financial sector supervision.** The authorities have finalized and implemented many of the January 2013 FSAP recommendations, including those that help address cross-border risks. Since December 2015, the supervisor has the authority to impose higher levels of capital and liquidity to individual financial institutions that exhibit a higher risk profile. In addition, laws granting independence and legal protection of the supervisor came into effect in January 2016. Laws awarding further regulatory powers over holding companies of financial conglomerates are currently before Congress. Work on addressing the identification of systemic financial conglomerates has progressed but assessing risks from mixed conglomerates remains

[8] 135 percent in the case of the ARA metric augmented by the buffer for commodity exporters (see Figure 2 and Table 3).

[9] See IMF Country Report No. 16/134 for more details on the dynamics of inflation in Colombia.

challenging given complex ownership and offshore structures where regulatory reach is limited. Colombia has consolidated a comprehensive risk-based supervisions scheme of AML/CFT for financial institutions that is a reference in Latin America. The authorities plan to further embed Basel III elements in their regulatory framework and enhance their resolution frameworks.

- **Data transparency and integrity.** Colombia's macroeconomic data continues to meet the high standards found during the 2006 data ROSC. Colombia remains in observance of the Special Data Dissemination Standards (SDDS), and the authorities provide all relevant data to the public on a timely basis. The authorities continue to work with staff in the Statistics Department to improve information, methodology, and procedures concerning the submission of Government Finance Statistics as noted in IMF Country Report No. 16/129.

25. International indicators of institutional quality show that Colombia has strong government effectiveness. Colombia ranks third in Latin America and the Caribbean in the World Bank's indicators on the ease of doing business and compares favorably to many EMs. Furthermore, reflecting the authorities' continuing efforts to further strengthen the already sound institutions and policy frameworks, Colombia ranks relatively well in international perspective on a number of institutional quality indicators, including government effectiveness (Figure 4).

F. Impact on Fund Finances, Risks, and Safeguards

26. Access under the proposed two-year FCL arrangement (SDR 8.18 billion or 400 percent of quota) would have only marginal effects on the Fund's liquidity. The Fund's liquidity is expected to remain adequate after the approval of the proposed FCL arrangement for Colombia, as discussed in the supplement assessing the impact on the Fund's finances and liquidity position. In particular, the reduction in the Forward Commitment Capacity arising from the new arrangement would be small, partially offset by the expiration of Colombia's existing FCL arrangement (Table 13).

27. Risks to the Fund are judged to be moderate, although they have increased compared the current FCL arrangement. The authorities have indicated that they intend to treat the new FCL arrangement as precautionary. Even if Colombia were to draw all the resources available under the new FCL arrangement, its capacity to meet its financial obligations to the Fund would remain adequate, despite a marginal weakening in the repayment capacity indicators with respect to the current FCL arrangement (Table 13). Colombia has an excellent track-record of meeting its financial obligations, the government has a strong commitment to macroeconomic stability and prudent policies. Even if the adverse scenario were to materialize, Colombia's external debt would remain on a sustainable medium-term path, and debt service would continue to be manageable. Further policy adjustment in the event that the adverse scenario materializes would also help debt sustainability.

28. Staff has completed the safeguards procedures for Colombia's 2015 FCL arrangement. The authorities provided the necessary authorization for Fund staff to communicate directly with the Banco de la República Colombia's external auditor, Deloitte & Touche Ltd. (Deloitte) Colombia. Deloitte issued an unqualified audit opinion on the Banco de la República Colombia's 2014 financial statements on February 6, 2015. Staff reviewed the 2014 audit results and discussed these with

Deloitte. No significant safeguards issues emerged from the conduct of these procedures. In preparation for the proposed successor arrangement, the BRC has provided the authorization needed for an update of the safeguards procedures to be conducted by Fund staff in relation to the proposed arrangement.

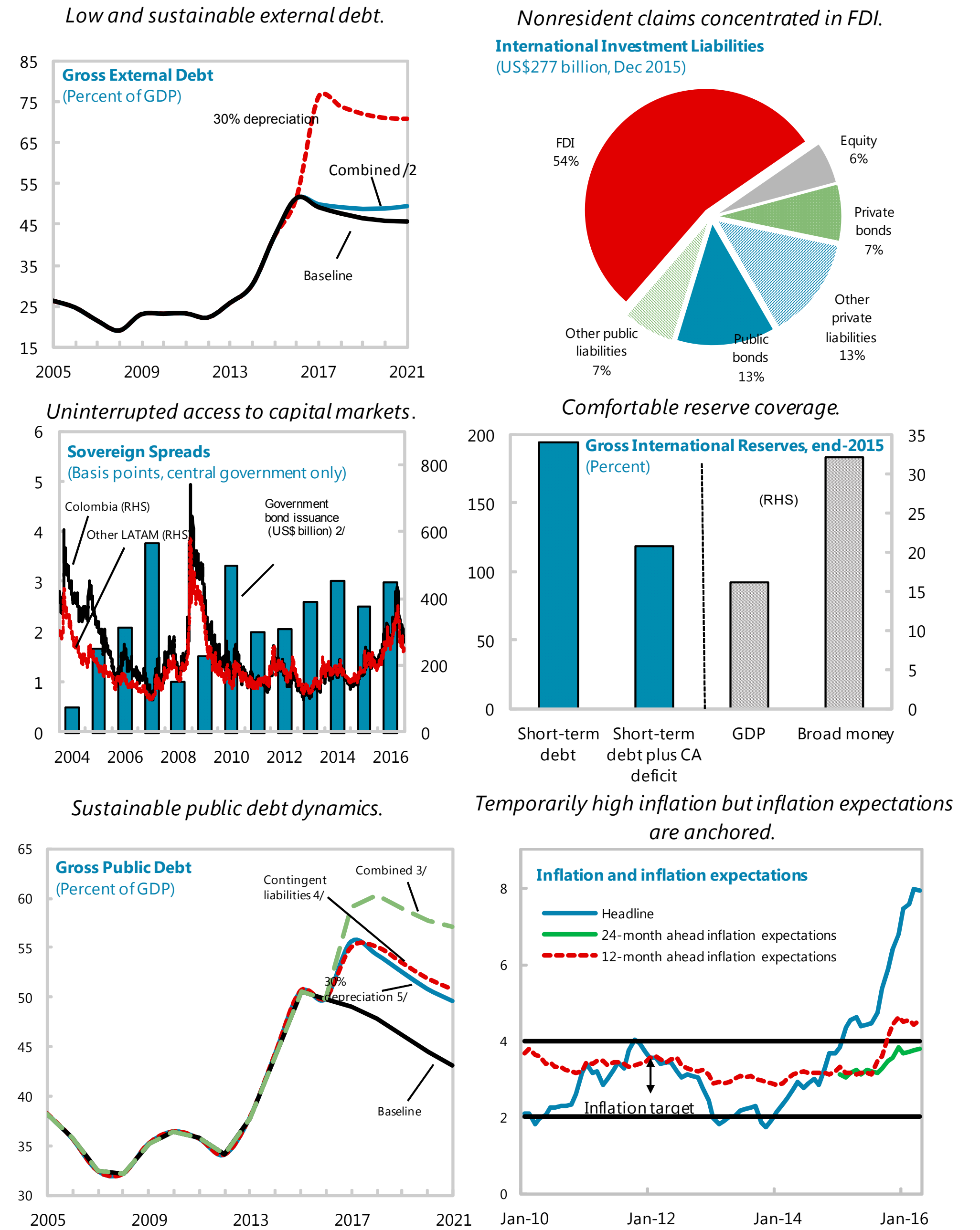
G. Staff Appraisal

29. Staff's assessment is that Colombia continues to meet the qualification criteria for access to FCL resources. As discussed above, Colombia has very strong policy frameworks and economic fundamentals. The authorities have a successful track record of sound policy management and are firmly committed to maintaining prudent policies and continue strengthening policy buffers. They are adjusting in an orderly fashion to a large external shock. At the same time, they are implementing an ambitious structural reform package, which is expected to boost medium-term economic prospects.

30. Staff recommends the approval of a two-year FCL arrangement for the equivalent of SDR 8.18 billion (400 percent of quota). Despite very strong underlying fundamentals and policies, Colombia is facing a permanent adjustment to weaker external conditions while being vulnerable to tail risks, including a sharper-than-forecast global slowdown, and the interaction between further declines in oil prices and capital flows. A new FCL arrangement for 400 of quota, which the authorities intend to treat as precautionary, would provide breathing space as they continue adjusting to the terms-of-trade shock and would serve as an appropriate temporary insurance that reinforces market confidence against the backdrop of heightened global uncertainties. Staff welcomes the authorities' exit strategy and would encourage a reduction in access in any future arrangements as risks to the global outlook and commodity prices recede. A carefully-crafted communication strategy will help facilitate exit.

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

Figure 1. Colombia: FCL Qualification Criteria



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

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

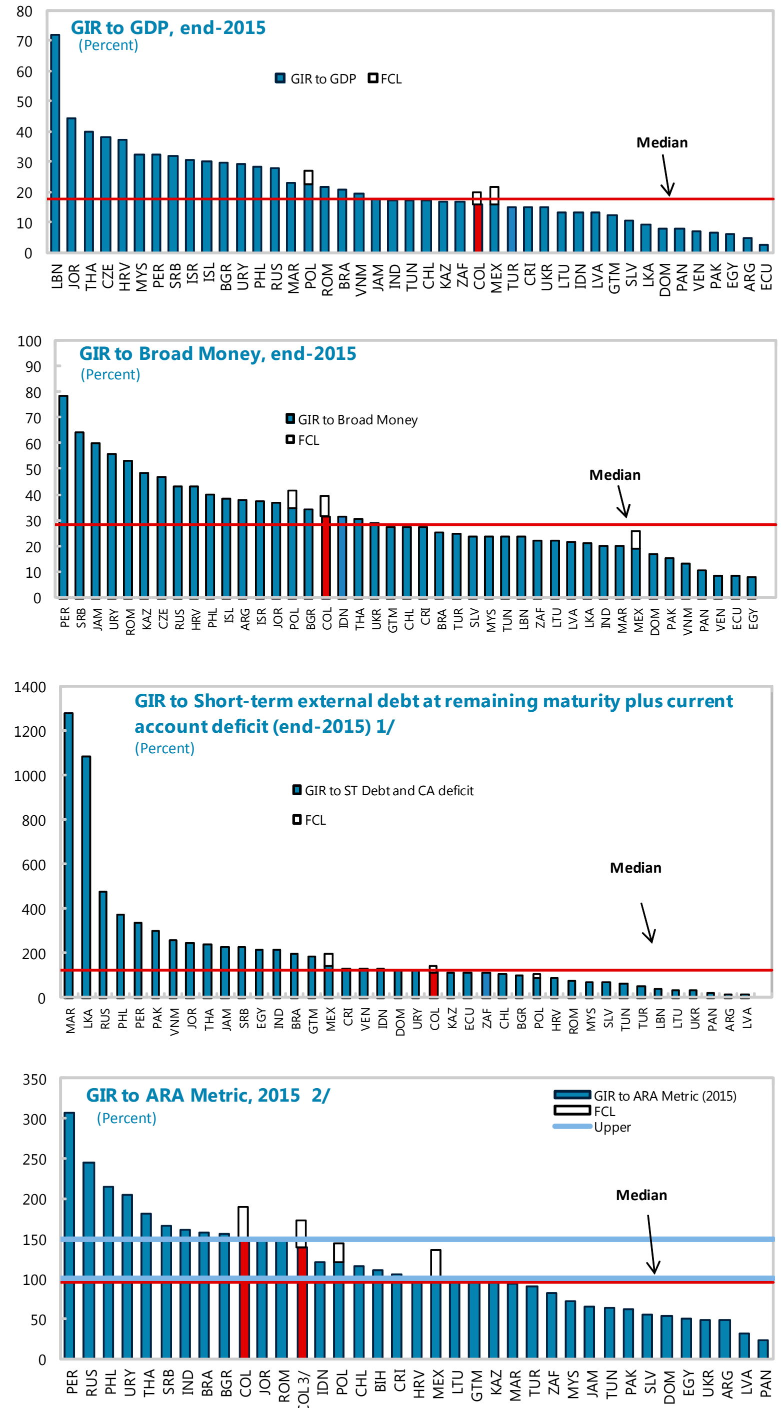
2/ Data for 2016 corresponds to issuance up to April 2016.

3/ Combined 2 year shock to primary balance (1/2 standard deviation) and growth (1 standard deviation) shocks to primary balance; permanent shock to interest rate (to historical maximum) and exchange rate (about 30 percent real).

4/ One-time increase in non-interest expenditures equivalent to 10 percent of banking sector assets leads to a real GDP growth shock (see above): growth is reduced by 1 standard deviation for 2 consecutive years; interest rate increases as a function of the widening of the primary deficit.

5/ 30 percent permanent real depreciation in 2016.

Figure 2. Colombia: Reserve Coverage in an International Perspective



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

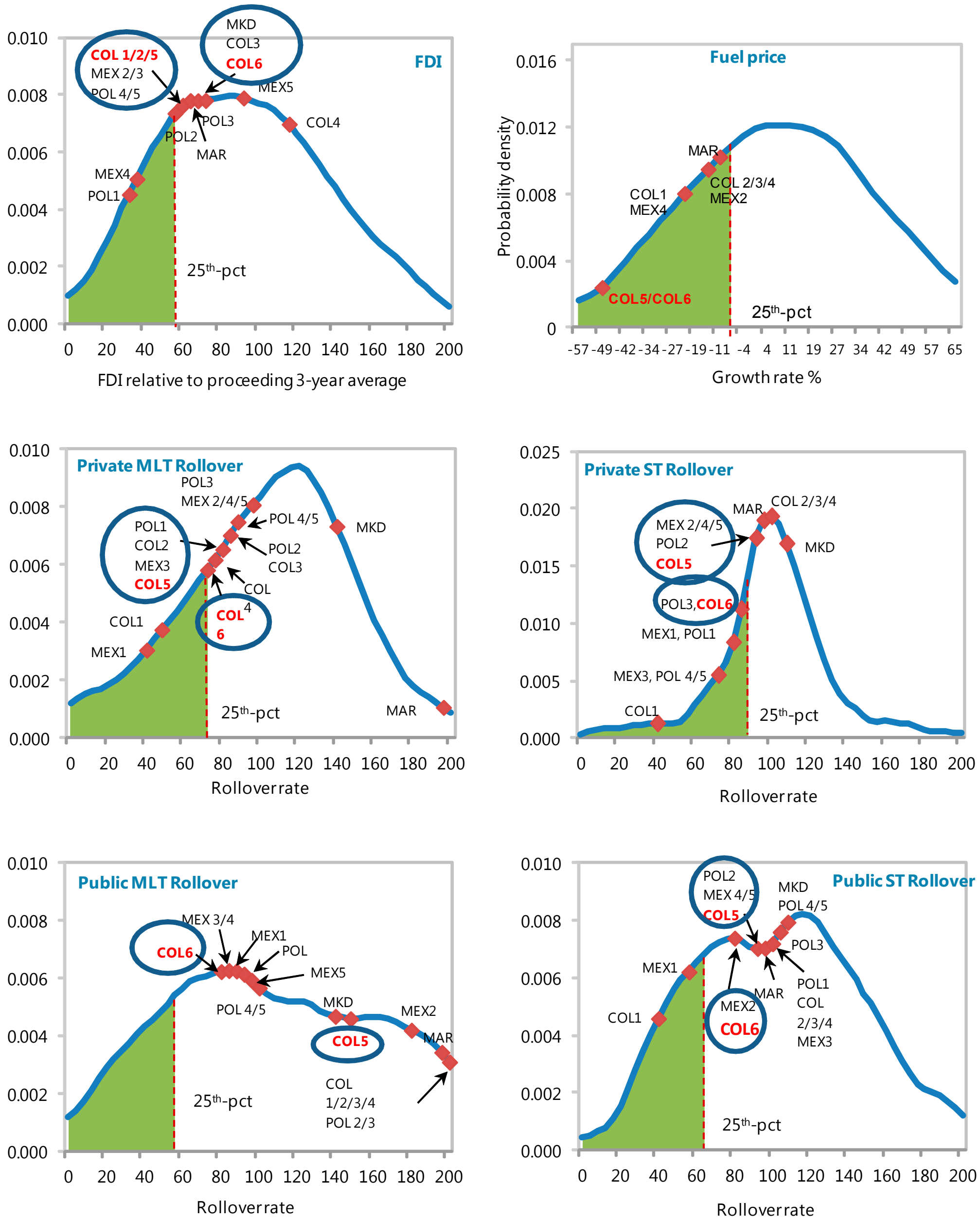
1/ The current account is set to zero if it is in surplus.

2/ The blue lines denote the 100-150 percent range of reserve coverage regarded as adequate for a typical country under this metric.

3/ Calculated based on the ARA metric augmented by a buffer for commodity exporters.

Figure 3. Colombia and Selected Countries: Comparing Adverse Scenarios 1/

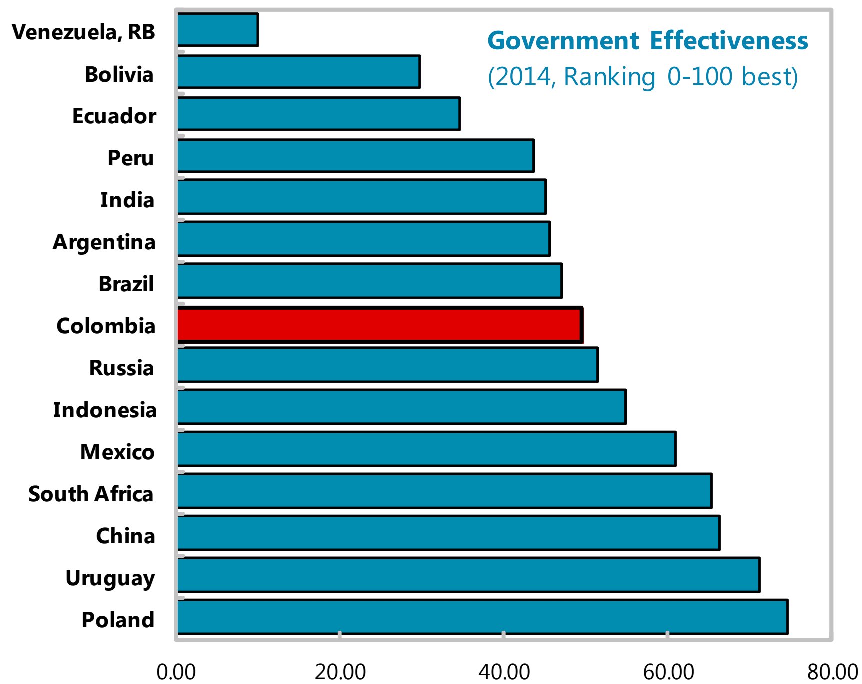
(Probability density)

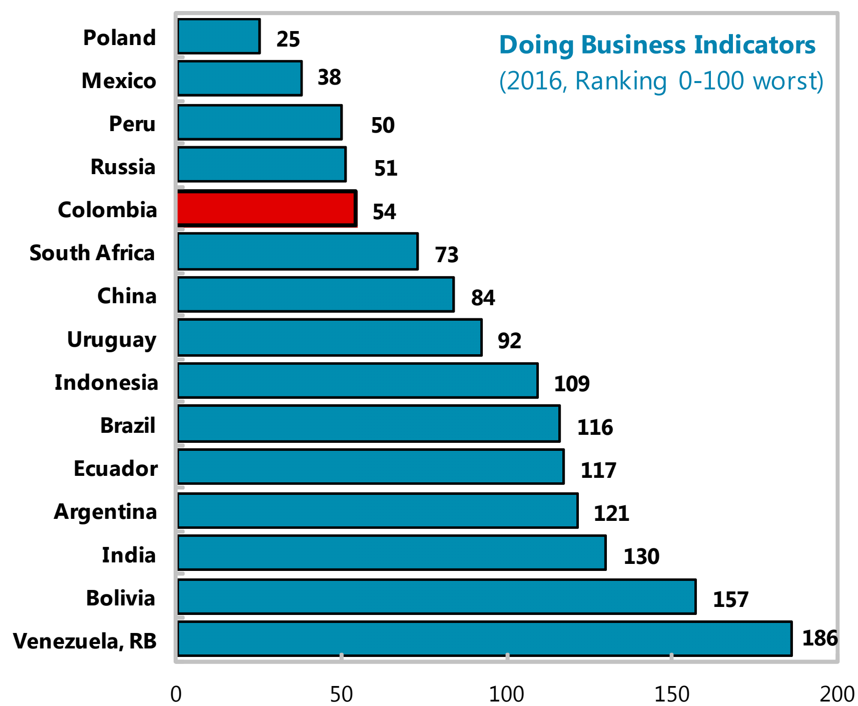


Source: Fund staff calculations.

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

Figure 4. Colombia: Indicators of Doing Business and Institutional Quality





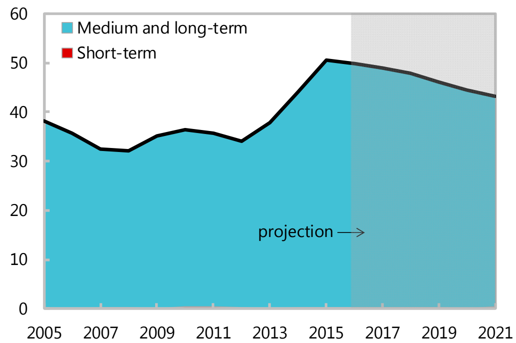
Sources: World Bank and Fund staff estimates.

Figure 5. Colombia: Public DSA—Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

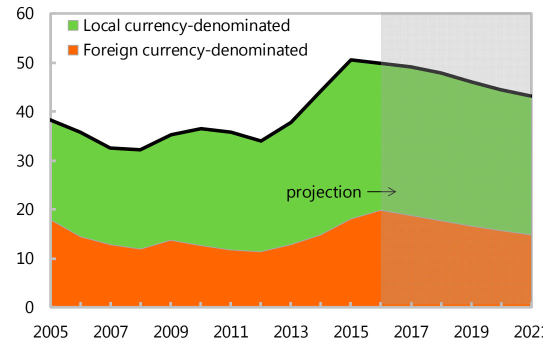
By Maturity

(In percent of GDP)



By Currency

(In percent of GDP)

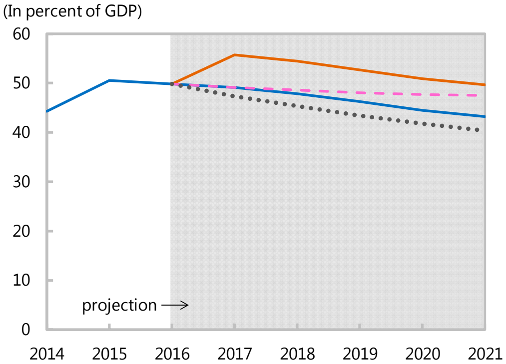


Alternative Scenarios

Baseline
Historical
Constant Primary Balance
30 percent depreciation

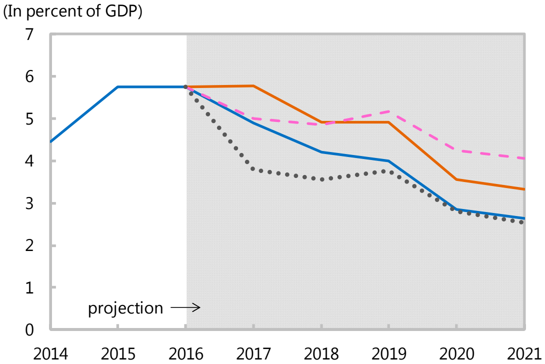
Gross Nominal Public Debt

(In percent of GDP)



Public Gross Financing Needs

(In percent of GDP)



Underlying Assumptions

(In percent)

Baseline Scenario	2016	2017	2018	2019	2020	2021
Real GDP growth	2.5	3.0	3.7	4.1	4.3	4.0
Inflation	3.9	3.6	3.2	3.1	3.0	2.8
Primary Balance	0.5	0.6	1.1	1.6	1.8	1.7
Effective interest rate	7.9	7.5	7.6	7.6	7.8	7.9
Constant Primary Balance Scenario						
Real GDP growth	2.5	3.0	3.7	4.1	4.3	4.0
Inflation	3.9	3.6	3.2	3.1	3.0	2.8
Primary Balance	0.5	0.5	0.5	0.5	0.5	0.5
Effective interest rate	7.9	7.5	7.6	7.7	7.8	7.9

Historical Scenario	2016	2017	2018	2019	2020	2021
Real GDP growth	2.5	4.6	4.6	4.6	4.6	4.6
Inflation	3.9	3.6	3.2	3.1	3.0	2.8
Primary Balance	0.5	1.6	1.6	1.6	1.6	1.6
Effective interest rate	7.9	7.5	7.6	7.8	8.0	8.1
30 percent depreciation						
Real GDP growth	2.5	3.0	3.7	4.1	4.3	4.0
Inflation	3.9	3.6	3.2	3.1	3.0	2.8
Primary Balance	0.5	0.6	1.1	1.6	1.8	1.7
Effective interest rate	7.9	8.4	7.5	7.6	7.8	7.9

Source: Fund staff estimates.

Table 1. Colombia: Selected Economic and Financial Indicators, 2013–21

I. Social and Demographic Indicators

Population (million), 2015	48.2	Unemployment rate, 2015 (percent)	8.9
Urban population (percent of total), 2014	76.2	Physicians (per 1,000 people), 2010	1.5
GDP, 2015		Adult illliteracy rate (ages 15 and older), 2011	6.4
per capita (US$)	6,060	Net secondary school enrollment rate, 2013	73.8
in billion of Col$	800,849	Access to water (percent of population), 2015	91.4
in billion of US$	292	Gini coefficient, 2015	52.2
Life expectancy at birth (years), 2013	73.8	Poverty rate (US$3.1 a day, PPP), 2013	5.3
Mortality rate, (under 5, per 1,000 live births), 2015	15.9	Extreme poverty rate (US$1.9 a day, PPP), 2013	2.5

II. Economic Indicators

						Projections			
	2013	2014	2015	2016	2017	2018	2019	2020	2021
	(In percentage change, unless otherwise indicated)								
National income and prices									
Real GDP	4.9	4.4	3.1	2.5	3.0	3.7	4.1	4.3	4.0
Potential GDP	4.2	3.9	3.6	3.4	3.4	3.6	3.7	3.8	3.7
Output Gap	0.6	1.1	0.6	-0.3	-0.8	-0.6	-0.2	0.2	0.4
GDP deflator	2.0	2.1	2.6	3.9	3.6	3.2	3.1	3.0	2.8
Consumer prices (average)	2.0	2.9	5.0	7.5	3.5	3.0	3.0	3.0	3.0
Consumer prices (end of period)	1.9	3.7	6.8	5.6	3.3	3.0	3.0	3.0	3.0
Exchange rate (average)	1868.9	2001.1	2741.8	3356.5	…	…	…	…	…
(% change)	3.9	7.1	37.0	22.4	…	…	…	…	…
External sector									
Exports (f.o.b.)	-2.1	-5.6	-33.0	-15.3	11.2	5.7	7.0	6.7	6.6
Imports (f.o.b.)	0.8	7.8	-15.3	-13.6	1.5	4.3	4.5	4.2	4.6
Export volume	5.2	-1.3	-3.6	2.3	6.9	3.0	4.9	5.3	5.6
Import volume	6.0	7.8	-5.0	-6.9	-1.1	2.7	3.0	3.1	4.0
Terms of trade (deterioration -)	-2.0	-3.4	-16.9	-8.3	0.9	0.7	0.1	-0.5	-0.2
Real effective exchange rate (depreciation -)	-3.4	-5.5	-24.1	…	…	…	…	…	…
Money and credit									
Broad money	13.4	10.0	9.1	9.9	10.1	10.5	10.8	10.8	10.3
Credit to the private sector	12.1	14.7	15.5	9.2	7.1	8.0	9.0	10.0	11.0
	(In percent of GDP)								
Central government balance	-2.3	-2.4	-3.0	-3.6	-3.3	-2.7	-2.1	-1.8	-1.4
Central government structural balance	-3.6	-3.4	-3.8	-3.0	-2.8	-2.5	-2.1	-1.8	-1.5
Combined public sector (CPS) balance 1/	-0.9	-1.8	-2.8	-3.2	-2.9	-2.3	-1.8	-1.5	-1.3
CPS non-oil structural primary balance	-2.8	-3.4	-1.8	-0.2	0.0	0.5	0.9	1.0	0.9
CPS fiscal impulse	0.7	0.6	-1.6	-1.6	-0.2	-0.5	-0.4	-0.1	0.1
Public debt	37.8	44.2	50.6	49.9	49.0	47.9	46.1	44.4	43.2
Public debt, excluding Ecopetrol	36.1	41.4	45.9	45.2	44.5	43.5	42.3	40.6	39.4
Gross domestic investment	24.3	26.3	27.7	27.2	27.0	27.2	27.3	27.4	27.2
Gross national savings	21.1	21.1	23.3	21.4	23.0	23.4	23.9	24.1	24.2
Current account (deficit -)	-3.2	-5.2	-6.5	-6.0	-4.3	-4.2	-4.0	-3.8	-3.6
External debt 2/	25.7	30.1	41.8	51.3	49.1	47.6	46.4	45.7	45.6
Of which: public sector 2/	15.2	19.1	26.7	32.0	30.4	29.4	28.5	28.0	27.8
	(In percent of exports of goods and services)								
External debt service	30.1	40.1	61.7	71.4	75.3	69.4	74.2	71.4	75.0
Of which: public sector	7.3	9.0	14.1	15.3	17.5	13.2	20.4	13.7	20.2
Interest payments	5.4	6.2	9.9	11.8	12.1	12.8	13.0	13.2	13.4
Of which: public sector	3.5	4.1	6.8	8.1	7.3	6.9	6.4	5.8	5.5
	(In billion of U.S. dollars; unless otherwise indicated)								
Exports (f.o.b.)	60.3	56.9	38.1	32.3	35.9	37.9	40.6	43.3	46.2
Of which: Petroleum products	32.0	28.9	14.2	9.1	10.6	11.1	11.4	11.5	11.3
Gross official reserves 3/	43.6	47.3	46.7	46.9	46.8	46.4	46.9	48.7	51.5
Share of ST debt at remaining maturity + CA deficit	105	110	118	116	119	105	104	98.6	n.a.

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

1/ Includes the quasi-fiscal balance of Banco de la República, sales of assets, phone licenses, and statistical discrepancy.
2/ Includes foreign holdings of locally issued public debt (TES); does not include Banco de la República's outstanding external debt.
3/ Excludes Colombia's contribution to FLAR and includes valuation changes of reserves denominated in currencies other than U.S. dollars.

Table 2a. Colombia: Summary Balance of Payments, 2013–21

(In millions of US$, unless otherwise indicated)

				Projections					
	2013	2014	2015	2016	2017	2018	2019	2020	2021
Current account balance	**-12,326**	**-19,593**	**-18,925**	**-15,281**	**-12,070**	**-12,650**	**-13,213**	**-13,585**	**-13,979**
Goods balance	3,180	-4,630	-14,026	-12,741	-9,800	-9,751	-9,228	-8,580	-8,112
Exports, f.o.b.	60,281	56,923	38,125	32,298	35,902	37,931	40,589	43,310	46,157
Commodities	43,361	41,019	23,868	17,063	18,596	19,345	19,917	20,247	20,336
Fuel	32,011	28,885	14,224	9,083	10,623	11,089	11,430	11,487	11,294
Non-fuel	11,350	12,134	9,644	7,981	7,972	8,256	8,487	8,760	9,043
Non-traditional exports	12,447	11,846	10,443	11,090	12,788	13,805	15,511	17,473	19,724
Other	4,473	4,057	3,814	4,144	4,519	4,780	5,161	5,590	6,097
Imports, f.o.b.	57,101	61,553	52,151	45,038	45,702	47,682	49,817	51,890	54,270
Consumer goods	12,073	13,120	11,040	9,459	9,416	9,786	10,225	10,696	11,143
Intermediate goods	24,145	26,277	21,608	19,296	19,323	20,036	20,834	21,622	22,564
Capital goods	18,795	20,160	17,792	14,989	15,414	16,227	17,034	17,751	18,524
Other	2,088	1,996	1,711	1,294	1,549	1,633	1,724	1,821	2,038
Services balance	-5,943	-6,682	-3,981	-2,685	-2,116	-2,265	-2,483	-2,807	-3,041
Exports of services	6,859	6,876	7,265	7,674	8,274	8,777	9,358	9,876	10,422
Imports of services	12,802	13,558	11,247	10,358	10,390	11,042	11,841	12,683	13,463
Primary income balance	-14,157	-12,638	-5,989	-5,105	-5,603	-6,264	-7,347	-8,269	-9,139
Receipts	3,627	3,999	4,439	5,217	5,665	6,143	6,206	6,992	7,460
Expenditures	17,783	16,637	10,427	10,322	11,268	12,407	13,553	15,261	16,599
Secondary income balance	4,594	4,358	5,071	5,249	5,449	5,631	5,845	6,072	6,313
Financial account balance	**-11,845**	**-19,836**	**-19,201**	**-15,281**	**-12,070**	**-12,650**	**-13,213**	**-13,585**	**-13,979**
Direct Investment	-8,557	-12,426	-7,890	-10,753	-8,778	-9,107	-9,952	-10,533	-11,209
Assets	7,652	3,899	4,218	2,785	2,798	2,863	2,926	2,989	2,989
Liabilities	16,209	16,325	12,108	13,538	11,576	11,970	12,878	13,522	14,198
Oil sector	5,112	4,732	3,708	2,337	2,225	2,369	2,474	2,405	2,305
Non-oil sectors	11,097	11,593	8,399	11,201	9,350	9,601	10,404	11,117	11,893
Portfolio Investment	-6,978	-11,654	-9,685	-2,651	-3,726	-2,986	-3,662	-4,454	-4,953
Assets	4,096	7,007	122	1,364	2,023	3,294	3,958	4,926	5,742
Liabilities	11,073	18,661	9,807	4,016	5,749	6,280	7,620	9,380	10,695
Equity	1,926	3,883	1,780	1,013	1,408	1,900	2,240	2,850	3,330
Debt instruments	9,147	14,778	8,027	3,003	4,340	4,380	5,380	6,531	7,365
General government	4,908	10,775	7,228	3,426	4,227	4,527	5,577	6,552	7,364
Banks	1,300	-17	366	50	633	549	411	631	630
Corporates and households	2,939	4,020	434	-473	-520	-696	-608	-652	-630
Derivatives	-33	268	1,526	0	0	0	0	0	0
Other Investments	-3,225	-461	-3,567	-1,991	492	-189	-113	-337	-615
Change in reserve assets	6,946	4,437	415	114	-58	-368	513	1,739	2,797
Net errors and omissions	**480**	**-243**	**-276**	**0**	**0**	**0**	**0**	**0**	**0**
Memorandum items:									
GDP (billion USD)	380	379	292	254	280	305	332	359	385
Gross international reserves (billion USD) - IMF definition	43.2	46.8	46.3	46.4	46.3	45.9	46.5	48.2	51.0
GIR/(st debt at remaining maturity + ca deficit)	104.7	110.4	118.4	116.0	118.5	104.9	104.3	98.6	n.a.
GIR/GDP	11.4	12.4	15.8	18.3	16.6	15.1	14.0	13.5	13.3
GIR (months of imports of G&S)	6.9	8.9	10.0	9.9	9.5	8.9	8.6	8.5	n.a.

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

Table 2b. Colombia: Summary Balance of Payments, 2013–21

(In percent of GDP)

				Projections					
	2013	2014	2015	2016	2017	2018	2019	2020	2021
Current account balance	**-3.2**	**-5.2**	**-6.5**	**-6.0**	**-4.3**	**-4.2**	**-4.0**	**-3.8**	**-3.6**
Goods balance	0.8	-1.2	-4.8	-5.0	-3.5	-3.2	-2.8	-2.4	-2.1
Exports, f.o.b.	15.9	15.0	13.1	12.7	12.8	12.4	12.2	12.1	12.0
Commodities	11.4	10.8	8.2	6.7	6.6	6.3	6.0	5.6	5.3
Fuel	8.4	7.6	4.9	3.6	3.8	3.6	3.4	3.2	2.9
Non-fuel	3.0	3.2	3.3	3.1	2.8	2.7	2.6	2.4	2.3
Non-traditional exports	3.3	3.1	3.6	4.4	4.6	4.5	4.7	4.9	5.1
Other	1.2	1.1	1.3	1.6	1.6	1.6	1.6	1.6	1.6
Imports, f.o.b.	15.0	16.3	17.9	17.7	16.3	15.6	15.0	14.5	14.1
Consumer goods	3.2	3.5	3.8	3.7	3.4	3.2	3.1	3.0	2.9
Intermediate goods	6.4	6.9	7.4	7.6	6.9	6.6	6.3	6.0	5.9
Capital goods	4.9	5.3	6.1	5.9	5.5	5.3	5.1	4.9	4.8
Other	0.5	0.5	0.6	0.5	0.6	0.5	0.5	0.5	0.5
Services balance	-1.6	-1.8	-1.4	-1.1	-0.8	-0.7	-0.7	-0.8	-0.8
Exports of services	1.8	1.8	2.5	3.0	3.0	2.9	2.8	2.8	2.7
Imports of services	3.4	3.6	3.9	4.1	3.7	3.6	3.6	3.5	3.5
Primary income balance	-3.7	-3.3	-2.1	-2.0	-2.0	-2.1	-2.2	-2.3	-2.4
Receipts	1.0	1.1	1.5	2.1	2.0	2.0	1.9	1.9	1.9
Expenditures	4.7	4.4	3.6	4.1	4.0	4.1	4.1	4.3	4.3
Secondary income balance	1.2	1.2	1.7	2.1	1.9	1.8	1.8	1.7	1.6
Financial account balance	**-3.1**	**-5.2**	**-6.6**	**-6.0**	**-4.3**	**-4.2**	**-4.0**	**-3.8**	**-3.6**
Direct Investment	-2.3	-3.3	-2.7	-4.2	-3.1	-3.0	-3.0	-2.9	-2.9
Assets	2.0	1.0	1.4	1.1	1.0	0.9	0.9	0.8	0.8
Liabilities	4.3	4.3	4.1	5.3	4.1	3.9	3.9	3.8	3.7
Oil sector	1.3	1.3	1.3	0.9	0.8	0.8	0.7	0.7	0.6
Non-oil sectors	2.9	3.1	2.9	4.4	3.3	3.2	3.1	3.1	3.1
Portfolio Investment	-1.8	-3.1	-3.3	-1.0	-1.3	-1.0	-1.1	-1.2	-1.3
Assets	1.1	1.9	0.0	0.5	0.7	1.1	1.2	1.4	1.5
Liabilities	2.9	4.9	3.4	1.6	2.1	2.1	2.3	2.6	2.8
Equity	0.5	1.0	0.6	0.4	0.5	0.6	0.7	0.8	0.9
Debt instruments	2.4	3.9	2.7	1.2	1.5	1.4	1.6	1.8	1.9
General government	1.3	2.8	2.5	1.3	1.5	1.5	1.7	1.8	1.9
Banks	0.3	0.0	0.1	0.0	0.2	0.2	0.1	0.2	0.2
Corporates and households	0.8	1.1	0.1	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
Derivatives	0.0	0.1	0.5	0.0	0.0	0.0	0.0	0.0	0.0
Other Investments	-0.8	-0.1	-1.2	-0.8	0.2	-0.1	0.0	-0.1	-0.2
Change in Reserve Assets	1.8	1.2	0.1	0.0	0.0	-0.1	0.2	0.5	0.7
Net errors and omissions	**0.1**	**-0.1**	**-0.1**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

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

Table 3. Colombia: External Financing Requirements and Sources, 2014–17

(In millions of U.S. dollars)

	2014	2015	Staff Projections 2016 Baseline	2016 Adverse Scenario	2016 Contribution to gap	2017 Baseline	2017 Adverse Scenario	2017 Contribution to gap	2016 rollover /shock	2015 rollover/ shock	2013 rollover/ shock
Gross financing requirements	**45,649**	**42,835**	**39,185**	**36,251**	**(2,934)**	**39,922**	**36,777**	**(3,145)**			
External current account deficit	19,593	18,925	15,281	19,246	3,965	12,070	15,202	3,132	26% shock to oil price; 10% shock to commodity prices	15% shock to oil price; 10% shock to commodity prices	15% shock to oil price; 7.5% shock to commodity prices; 7.5% shock to remittances
Debt amortization	21,619	23,495	23,790	23,790		27,910	27,910				
Medium and long term debt	9,578	9,177	9,162	9,162		12,470	12,470				
Public sector 1/	2,611	2,644	2,178	2,178		3,798	3,798				
Private sector	6,967	6,533	6,984	6,984		8,672	8,672				
Short-term debt 2/	12,041	14,317	14,628	14,628		15,440	15,440				
Public sector	515	703	702	702		702	702				
Private sector	11,526	13,614	13,926	13,926		14,738	14,738				
Gross reserves accumulation 3/	4,437	415	114	-6,786	(6,900)	-58	-6,336	(6,277)			
Available financing	**45,649**	**42,835**	**39,185**	**24,816**	**14,369**	**39,922**	**25,338**	**14,584**			
Foreign direct investment (net)	12,426	7,890	10,753	7,997		8,778	6,421				
o/w inward (net)	16,325	12,108	13,538	10,782	2,756	11,576	9,219	2,356	20% reduction	20% reduction	10% reduction
Other K inflows											
Medium and LT debt disbursements	15,586	17,297	14,365	6,806		19,159	11,035				
Public sector 1/	11,419	10,463	5,534	1,743	3,791	7,546	4,376	3,169	80%	149%	232%
Private sector	4,167	6,834	8,831	5,063	3,768	11,614	6,659	4,955	73%	80%	74%
Short-term debt 4/	14,317	14,628	15,440	12,399		15,754	12,650				
Public sector	703	702	702	561	140	702	561	140	80%	90%	100%
Private sector	13,614	13,926	14,738	11,837	2,901	15,052	12,089	2,963	85%	90%	100%
Other capital flows (net) 5/	3,320	3,020	-1,373	-2,385	1,013	-3,769	-4,769	1,000	100% reduction in equity portfolio investment	No shock	No shock
Financing gap (in US$ millions)					**11,435**			**11,439**			
Percent of quota					*400*			*400*			
Gross international reserves 4/	46,846	46,256	46,370	39,471		46,312	40,035				
GIR/ARA 6/	138	151	150	127		146	126				
GIR/ARA augmented by buffer for commodity exporters 6/	123	136	135	115		132	114				
GIR / (st debt at remaining maturity + ca deficit)	110	118	116	92		119	95				
GIR (months of imports of G&S)	9	10	10	8		9	8				

Sources: Colombian authorities and IMF staff estimates.

1/ Including financial public sector.
2/ Original maturity of less than 1 year. Stock at the end of the previous period.
3/ 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.
4/ Original maturity of less than 1 year. Stock at the end of the current period.
5/ Includes all other net financial flows (i.e. pension funds, other portfoloi flows), Colombia's contribution to FLAR, and errors and omissions.
6/ ARA metric based on latest weights and published WEO.

Table 4. Colombia: Operations of the Combined Government, 2013–21 1/

(In percent of GDP, unless otherwise indicated)

	2013	2014	2015	2016	2017	2018	2019	2020	2021
			Projections						
Total revenue	**16.9**	**16.6**	**16.2**	**14.9**	**14.9**	**15.0**	**15.0**	**15.0**	**15.0**
Current revenue	**14.3**	**14.4**	**14.6**	**14.1**	**14.1**	**14.2**	**14.2**	**14.2**	**14.2**
Tax revenue	**14.2**	**14.3**	**14.5**	**14.0**	**14.0**	**14.1**	**14.1**	**14.1**	**14.1**
Net income tax and profits 2/	6.3	5.0	4.6	3.9	3.9	4.0	4.1	4.2	4.2
Goods and services	4.9	5.1	5.2	5.6	5.5	5.6	5.5	5.4	5.4
Value-added tax	4.9	5.1	5.2	5.6	5.5	5.6	5.5	5.4	5.4
International trade	0.5	0.5	0.5	0.5	0.5	0.4	0.4	0.4	0.4
Financial transaction tax	0.8	0.9	0.9	0.7	0.7	0.7	0.7	0.7	0.7
Stamp and other taxes	1.6	2.8	3.3	3.2	3.4	3.4	3.4	3.4	3.4
Nontax revenue	**2.7**	**2.3**	**1.7**	**1.0**	**0.9**	**0.9**	**0.9**	**0.9**	**0.9**
Property income	0.1	0.2	0.4	0.2	0.2	0.2	0.2	0.2	0.2
Other	2.6	2.2	1.3	0.8	0.7	0.7	0.7	0.7	0.7
Total expenditure and net lending	**19.2**	**19.0**	**19.3**	**18.5**	**18.1**	**17.7**	**17.1**	**16.8**	**16.5**
Current expenditure	**14.6**	**14.8**	**15.2**	**15.7**	**15.3**	**15.0**	**14.6**	**14.5**	**14.1**
Wages and salaries	2.1	2.3	2.5	2.5	2.4	2.3	2.2	2.1	2.0
Goods and services	0.9	0.8	0.8	0.9	0.9	0.9	0.9	0.8	0.8
Interest	2.3	2.2	2.6	3.0	2.9	2.9	3.0	2.9	2.6
External	0.5	0.5	0.8	0.9	0.9	0.8	0.8	0.8	0.7
Domestic	1.8	1.7	2.2	2.2	2.0	2.1	2.2	2.2	2.0
Current transfers	9.3	9.4	9.4	9.2	9.1	8.8	8.6	8.6	8.6
Capital expenditure	**4.5**	**4.3**	**4.0**	**2.8**	**2.8**	**2.7**	**2.5**	**2.3**	**2.4**
Fixed capital formation	3.2	2.9	2.7	1.5	1.4	1.2	1.0	0.9	0.9
Capital transfers	1.3	1.3	1.3	1.3	1.4	1.5	1.5	1.4	1.5
Net lending	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall balance	**-2.3**	**-2.4**	**-3.0**	**-3.6**	**-3.3**	**-2.7**	**-2.1**	**-1.8**	**-1.4**
Memorandum items:									
Oil-related revenues 3/	3.3	2.6	1.2	0.1	0.0	0.0	0.0	0.0	0.0
Structural balance 4/	-3.6	-3.4	-3.8	-3.0	-2.8	-2.5	-2.1	-1.8	-1.5
Structural primary non-oil balance	-3.5	-3.0	-1.7	-0.6	-0.3	0.4	0.9	1.1	1.1
Fiscal Impulse	1.1	-0.5	-1.2	-1.1	-0.3	-0.6	-0.5	-0.3	0.0
Non-oil balance	-5.7	-5.0	-4.2	-3.7	-3.3	-2.7	-2.1	-1.8	-1.5
Primary balance	0.0	-0.2	-0.4	-0.6	-0.4	0.3	0.8	1.2	0.0

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

1/ Includes central administration only.

2/ The increase in tax revenue in 2012 reflects the elimination of the fixed asset tax credit, which was part of the end-2010 tax reform.

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

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

Table 5. Colombia: Operations of the Combined Public Sector, 2013–21 1/

(In percent of GDP, unless otherwise indicated)

				Projections					
	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total revenue	**28.1**	**27.7**	**26.7**	**25.4**	**25.4**	**25.5**	**25.4**	**25.3**	**25.3**
Tax revenue	19.8	19.9	20.2	19.6	19.6	19.7	19.7	19.7	19.7
Nontax revenue	8.3	7.7	6.6	5.8	5.8	5.7	5.7	5.6	5.5
Financial income	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Operating surplus of public enterprises	-0.1	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other 2/	7.8	7.5	6.1	5.3	5.3	5.2	5.2	5.1	5.0
Total expenditure and net lending 3/	**29.1**	**29.4**	**29.6**	**28.7**	**28.2**	**27.8**	**27.2**	**26.9**	**26.6**
Current expenditure	21.5	21.9	22.6	22.9	22.5	22.4	22.2	22.0	21.6
Wages and salaries	5.2	5.3	5.3	5.4	5.3	5.2	5.1	5.0	4.9
Goods and services	3.1	3.1	3.1	3.2	3.2	3.2	3.2	3.1	3.1
Interest	2.6	2.6	3.6	3.7	3.5	3.5	3.4	3.3	3.0
External	0.6	0.6	1.1	1.3	1.3	1.2	1.1	1.1	1.0
Domestic	2.0	2.0	2.5	2.4	2.2	2.3	2.3	2.3	2.0
Transfers to private sector	7.8	8.0	7.7	7.7	7.7	7.7	7.7	7.7	7.7
Other 4/	2.7	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9
Capital expenditure	7.6	7.6	7.0	5.8	5.7	5.4	5.0	4.9	5.0
Statistical discrepancy	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Nonfinancial public sector balance	**-0.9**	**-1.8**	**-2.9**	**-3.2**	**-2.9**	**-2.3**	**-1.8**	**-1.6**	**-1.3**
Quasi-fiscal balance (BR cash profits)	-0.1	-0.1	0.0	0.0	-0.1	0.0	0.0	-0.1	0.0
Fogafin balance	0.1	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	0.0
Combined public sector balance	**-0.9**	**-1.8**	**-2.8**	**-3.2**	**-2.9**	**-2.3**	**-1.8**	**-1.5**	**-1.3**
Overall financing	**0.9**	**1.8**	**2.8**	**3.2**	**2.9**	**2.3**	**1.8**	**1.5**	**1.3**
Foreign, net	1.2	2.8	2.5	1.8	1.2	1.3	1.5	1.1	1.1
Domestic, net	-0.3	-1.0	0.3	1.4	1.6	1.0	0.2	0.5	0.2
Memorandum items:									
Overall structural balance 6/	-2.5	-3.1	-3.3	-2.1	-1.7	-1.8	-1.7	-1.7	-1.5
Structural primary non-oil balance	-2.8	-3.4	-1.8	-0.2	0.0	0.5	0.9	1.0	0.9
Fiscal Impulse	0.7	0.6	-1.6	-1.6	-0.2	-0.5	-0.4	-0.1	0.1
Primary balance 7/	1.8	0.7	0.8	0.6	0.6	1.2	1.6	1.8	1.7
Oil-related revenues 8/	4.9	4.0	2.4	1.0	0.9	0.9	0.8	0.8	0.7
Total public debt 9/	37.8	44.2	50.6	49.9	49.0	47.9	46.1	44.4	43.2

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

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

2/ 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/Adjusts non-commodity revenues for the output gap and commodity revenues for differentials between estimated equilibrium oil price and production levels. Adjustments are made to account for fuel subsidy expenditures and the accrual of Ecopetrol dividends. Excludes private pension transfers from revenues.

7/ Includes statistical discrepancy. Overall balance plus interest expenditures

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

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

Table 6. Colombia: Monetary Indicators, 2013–21

	2013	2014	2015	2016	2017	2018	2019	2020	2021
				Projections					
	(In billion of Col$, unless otherwise indicated)								
Central Bank									
Net Foreign Assets	83,092	112,111	145,917	160,097	156,700	154,938	157,010	164,516	176,661
Gross official reserve assets	88,928	112,101	145,726	157,287	151,186	147,780	147,716	151,818	159,953
In billion of US$	46.2	46.9	46.3	47.0	46.5	46.2	46.8	48.5	51.3
Short-term foreign liabilities	5,770	25	43	1,946	671	887	1,168	909	988
Other net foreign assets	2,298	2,812	3,657	4,756	6,186	8,045	10,462	13,606	17,696
Net domestic assets	-17,993	-42,429	-63,395	-72,212	-62,921	-54,557	-49,223	-48,777	-52,981
Net credit to the public sector	-14,526	-21,026	-9,270	-10,559	-9,200	-7,977	-7,197	-7,132	-7,747
Net credit to the financial system	3,732	6,768	6,525	7,432	6,476	5,615	5,066	5,020	5,453
Other	-7,199	-28,171	-60,651	-69,085	-60,197	-52,195	-47,092	-46,665	-50,688
Monetary base	65,099	69,682	82,522	87,885	93,779	100,381	107,787	115,739	123,680
Currency in circulation	39,751	45,429	46,755	49,794	53,133	56,874	61,070	65,575	70,074
Deposit money banks reserves	25,254	24,170	32,283	22,891	24,404	26,084	27,967	30,031	32,164
Other deposits	94	83	84	84	84	84	84	84	84
Financial system									
Net foreign assets	67,826	92,815	145,917	138,371	133,517	130,123	130,364	135,904	146,086
In billion of US$	35.2	38.8	46.3	41.3	41.1	40.7	41.3	43.4	46.9
Net domestic assets	261,480	269,523	352,446	384,157	438,893	498,924	563,143	628,764	693,201
Net credit to public sector	33,151	30,800	25,081	29,308	38,191	47,552	60,727	69,178	79,591
Credit to private sector	281,747	323,152	373,344	407,689	436,456	471,546	513,881	565,154	627,100
Other net	-53,417	-84,429	-45,979	-52,839	-35,754	-20,174	-11,465	-5,567	-13,491
Broad money	329,307	362,338	395,441	434,643	478,631	528,666	585,720	648,929	715,607
	(Annual percentage change)								
Credit to private sector	12.1	14.7	15.5	9.2	7.1	8.0	9.0	10.0	11.0
Currency	13.4	14.3	2.9	6.5	6.7	7.0	7.4	7.4	6.9
Monetary base	15.3	7.0	18.4	6.5	6.7	7.0	7.4	7.4	6.9
Broad money	13.4	10.0	9.1	9.9	10.1	10.5	10.8	10.8	10.3
	(In percent of GDP)								
Credit to private sector	39.7	42.7	46.6	47.8	48.0	48.4	49.1	50.3	52.2
Currency	5.6	6.0	5.8	5.8	5.8	5.8	5.8	5.8	5.8
Monetary base	9.2	9.2	10.3	10.3	10.3	10.3	10.3	10.3	10.3
Broad money	46.3	47.8	49.4	51.0	52.6	54.3	56.0	57.8	59.6
Memorandum items:									
Central bank inflation target	2.0-4.0	2.0-4.0	2.0-4.0	2.0-4.0	2.0-4.0	2.0-4.0	2.0-4.0	2.0-4.0	2.0-4.0
CPI inflation, eop	1.9	3.7	6.8	5.6	3.3	3.0	3.0	3.0	3.0
Nominal GDP (In Col$ billion)	710,497	757,506	800,849	852,899	910,097	974,164	1,046,037	1,123,209	1,200,272

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

Table 7. Colombia: Medium-Term Outlook, 2013–21

	2013	2014	2015	2016	2017	Projections 2018	2019	2020	2021
	(In percent of GDP, unless otherwise indicated)								
Real GDP (in percent change)	4.9	4.4	3.1	2.5	3.0	3.7	4.1	4.3	4.0
Consumer prices (in percent change; end of period)	1.9	3.7	6.8	5.6	3.3	3.0	3.0	3.0	3.0
Gross national savings	21.1	21.1	23.3	21.4	23.0	23.4	23.9	24.1	24.2
Private sector	14.8	15.7	19.4	18.3	20.0	19.9	19.9	20.1	20.0
Public sector	6.2	5.4	3.9	3.1	3.1	3.6	4.0	4.1	4.2
Gross domestic investment	24.3	26.3	27.7	27.2	27.0	27.2	27.3	27.4	27.2
Private sector	17.2	19.0	21.0	20.9	21.1	21.3	21.6	21.7	21.7
Public sector	7.1	7.2	6.7	6.3	5.9	5.8	5.7	5.6	5.5
	(In percent change)								
Credit to the private sector									
Commercial	10.8	15.5	17.2	9.4	7.2	8.1	9.1	10.1	11.1
Consumption	10.5	12.5	12.0	8.8	6.7	7.6	8.6	9.6	10.5
Mortgage	26.2	17.9	15.0	9.2	7.5	8.5	9.5	10.5	11.4
Microcredit	15.8	8.9	15.0	9.2	7.1	8.0	9.0	10.0	11.0
Total	12.1	14.7	15.5	9.2	7.1	8.0	9.0	10.0	11.0
	(In percent of GDP, unless otherwise indicated)								
Nonfinancial public sector 1/									
Revenue	28.1	27.7	26.7	25.4	25.4	25.5	25.4	25.3	25.3
Expenditure	29.1	29.4	29.6	28.7	28.2	27.8	27.2	26.9	26.6
Current expenditure	21.5	21.9	22.6	22.9	22.5	22.4	22.2	22.0	21.6
Capital expenditure	7.6	7.6	7.0	5.8	5.7	5.4	5.0	4.9	5.0
Primary balance 2/	1.8	0.8	0.8	0.5	0.6	1.1	1.6	1.8	1.7
Overall balance 2/	-0.9	-1.8	-2.9	-3.2	-2.9	-2.3	-1.8	-1.6	-1.3
Combined public sector balance	-0.9	-1.8	-2.8	-3.2	-2.9	-2.3	-1.8	-1.5	-1.3
External financing	1.2	2.8	2.5	1.8	1.2	1.3	1.5	1.1	1.1
Domestic financing	-0.3	-1.0	0.3	1.4	1.6	1.0	0.2	0.5	0.2
External current account balance	-3.2	-5.2	-6.5	-6.0	-4.3	-4.2	-4.0	-3.8	-3.6
Trade balance	0.8	-1.2	-4.8	-5.0	-3.5	-3.2	-2.8	-2.4	-2.1
Exports	15.9	15.0	13.1	12.7	12.8	12.4	12.2	12.1	12.0
Imports	15.0	16.3	17.9	17.7	16.3	15.6	15.0	14.5	14.1
Financial account balance	-3.1	-5.2	-6.6	-6.0	-4.3	-4.2	-4.0	-3.8	-3.6
Direct Investment	-2.3	-3.3	-2.7	-4.2	-3.1	-3.0	-3.0	-2.9	-2.9
Portfolio Investment	-1.8	-3.1	-3.3	-1.0	-1.3	-1.0	-1.1	-1.2	-1.3
Other Investments and Derivatives	-0.9	-0.1	-0.7	-0.8	0.2	-0.1	0.0	-0.1	-0.2
Change in Reserve Assets	1.8	1.2	0.1	0.0	0.0	-0.1	0.2	0.5	0.7
Gross public sector debt 3/	37.8	44.2	50.6	49.9	49.0	47.9	46.1	44.4	43.2
Gross public sector debt, excluding Ecopetrol	36.1	41.4	45.9	45.2	44.5	43.5	42.3	40.6	39.4
Total public net debt 4/	27.0	33.7	42.2	43.9	43.5	42.7	41.3	39.9	38.9
Memorandum items:									
Nominal GDP (in Col$ billion)	710,497	757,506	800,849	852,899	910,097	974,164	1,046,037	1,123,209	1,200,272
Crude oil, spot price	104.1	96.2	50.8	34.8	41.0	44.5	47.6	49.4	50.5

Sources: Colombian authorities and Fund staff estimates and projections.
1/ Excludes Ecopetrol.
2/ Includes statistical discrepancy.
3/ Includes debt of the non-financial public sector, plus Ecopetrol, FOGAFIN and FINAGRO.
4/ Gross debt minus financial assets (public sector deposits in domestic and foreign financial institutions).

Table 8. Colombia: Financial Soundness Indicators, 2009–15 1/

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

	2009	2010	2011	2012	2013	2014	2015
Capital Adequacy							
Regulatory capital to risk-weighted assets	17.2	17.3	16.9	18.1	17.0	17.0	16.6
Regulatory Tier 1 capital to risk-weighted assets	13.4	13.0	13.4	13.7	12.0	11.7	11.7
Capital (net worth) to assets	14.2	14.2	14.3	14.7	14.8	14.9	14.0
Asset Quality and Distribution							
Nonperforming loans to gross loans	4.0	2.9	2.5	2.8	2.8	2.9	3.0
Provisions to nonperforming loans	140.1	175.0	182.0	163.9	160.7	151.3	148.3
Gross loans to assets	64.3	67.9	70.4	69.6	68.2	69.3	69.6
Earnings and Profitability							
ROAA	3.5	3.4	3.3	3.1	2.8	2.9	2.9
ROAE	26.2	23.7	23.0	21.2	19.5	19.8	21.0
Interest margin to gross income	54.0	55.6	58.4	58.7	61.3	60.6	58.8
Noninterest expenses to gross income	43.2	47.0	49.3	47.2	47.0	44.6	42.2
Liquidity							
Liquid assets to total assets 2/	9.2	7.5	8.6	21.6	21.4	19.8	18.9
Liquid assets to short-term liabilities 2/	14.2	12.1	13.9	43.6	41.9	40.3	38.7
Deposit to loan ratio	98.8	93.5	91.4	94.7	96.3	91.6	88.8
Other							
Foreign-currency-denominated loans to total loans	4.2	6.9	7.7	7.5	7.3	8.4	8.0
Foreign-currency-denominated liabilities to total liabilities	6.6	9.4	10.5	10.5	11.9	13.5	12.7
Net open position in foreign exchange to capital	5.3	4.5	4.8	0.6	0.5	0.7	0.4

Source: Superintendencia Financiera.

1/ Total Banking System. All deposit taking institutions.

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

Table 9. Colombia: Indicators of External Vulnerability, 2013–21 1/
(In billion of US$, unless otherwise indicated)

	2013	2014	2015	Projections 2016	2017	2018	2019	2020	2021
External indicators									
Exports of GNFS 1/	67.1	63.8	45.4	40.0	44.2	46.7	49.9	53.2	56.6
Imports of GNFS 1/	69.9	75.1	63.4	55.4	56.1	58.7	61.7	64.6	67.7
Terms of trade (12-month percent change)	147.4	142.3	118.3	108.5	109.5	110.3	110.4	109.9	109.7
Current account balance	-12.3	-19.6	-18.9	-15.3	-12.1	-12.6	-13.2	-13.6	-14.0
In percent of GDP	-3.2	-5.2	-6.5	-6.0	-4.3	-4.2	-4.0	-3.8	-3.6
Financial account balance	-11.8	-19.8	-19.2	-15.3	-12.1	-12.6	-13.2	-13.6	-14.0
Of which: Foreign direct investment (net)	-8.6	-12.4	-7.9	-10.8	-8.8	-9.1	-10.0	-10.5	-11.2
Of which: Portfolio investment (net)	-7.0	-11.7	-9.7	-2.7	-3.7	-3.0	-3.7	-4.5	-5.0
Total external debt 2/	97.8	113.8	122.2	130.4	137.4	144.9	153.8	164.1	175.6
Of which: Public sector 2/	57.9	72.1	78.0	81.3	85.1	89.5	94.5	100.4	107.1
In percent of gross international reserves	226.6	242.9	264.2	281.3	296.8	315.5	331.1	340.5	344.3
Short-term external debt 3/	12.0	14.3	14.6	15.4	15.8	16.3	16.9	17.3	17.9
Of which: Public sector	0.5	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Of which: Private sector	11.5	13.6	13.9	14.7	15.1	15.6	16.2	16.6	17.2
Amortization of MLT external debt (in percent of GNFS exports)	9.3	15.0	20.2	22.9	28.2	22.8	28.5	26.5	31.0
External interest payments (in percent of GNFS exports)	5.4	6.2	9.9	11.8	12.1	12.8	13.0	13.2	13.4
Gross international reserves 4/ 5/	43.2	46.8	46.3	46.4	46.3	45.9	46.5	48.2	51.0
In months of prospective GNFS imports	6.9	8.9	10.0	9.9	9.5	8.9	8.6	8.5	n.a.
In percent of broad money	24.5	25.9	31.8	35.8	31.4	27.6	24.7	22.7	n.a.
In percent of short-term external debt on residual maturity plus current account deficit	104.7	110.4	118.4	116.0	118.5	104.9	104.3	98.6	n.a.
Nominal exchange rate (Col$/US$, period average)	1,869	2,001	2,742	…	…	…	…	…	…
Real effective exchange rate (percentage change, + = appreciation)	-3.4	-5.5	-24.1	-13.2	5.2	2.4	2.0	1.6	1.3

Sources: Banco de la República; and Fund staff estimates and projections.
1/ GNFS stands for goods and nonfactor services; MLT stands for medium and long-term.
2/ Includes foreign holdings of locally issued public debt (TES).
3/ Original maturity of less than 1 year. Stock at the end of the previous period.
4/ Estimate for 2009 includes the SDR allocation (US$972 million).
5/ IMF definition that excludes Colombia's contribution to Fondo Latinoamericano de Reservas (FLAR) and includes valuation changes of reserves denominated in other currencies than U.S. dollars.

Table 10. Colombia: Public Sector Debt Sustainability Analysis (DSA)—Baseline Scenario, 2005–21

(In percent of GDP unless otherwise indicated)

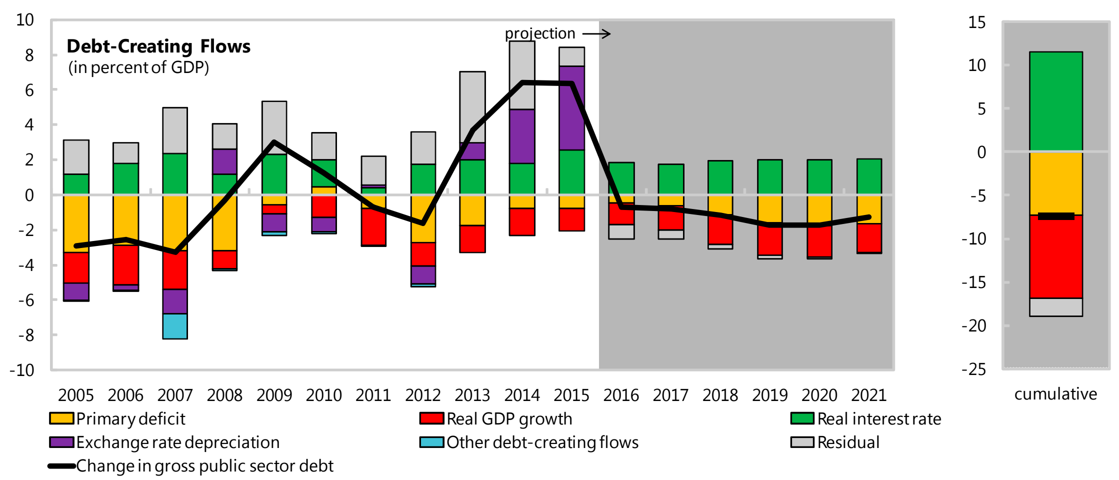
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2005-2013 [2/]	2014	2015	2016	2017	2018	2019	2020	2021
Nominal gross public debt	35.3	44.2	50.6	49.9	49.0	47.9	46.1	44.4	43.2
Public gross financing needs	7.2	4.5	5.7	5.7	4.9	4.2	4.0	2.9	2.6
Real GDP growth (in percent)	4.8	4.4	3.1	2.5	3.0	3.7	4.1	4.3	4.0
Inflation (GDP deflator, in percent)	4.8	2.1	2.6	3.9	3.6	3.2	3.1	3.0	2.8
Nominal GDP growth (in percent)	9.8	6.6	5.7	6.5	6.7	7.0	7.4	7.4	6.9
Effective interest rate (in percent) [4/]	10.0	7.3	8.7	7.9	7.5	7.6	7.6	7.8	7.9

As of February 09, 2016		
Sovereign Spreads		
EMBIG (bp) 3/		425
5Y CDS (bp)		308
Ratings	Foreign	Local
Moody's	Baa2	Baa2
S&Ps	BBB	BBB+
Fitch	BBB	BBB+

Contribution to Changes in Public Debt

	Actual			Projections							
	2005-2013	2014	2015	2016	2017	2018	2019	2020	2021	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	-0.4	6.4	6.4	-0.7	-0.8	-1.2	-1.7	-1.7	-1.3	-7.4	
Identified debt-creating flows	-2.5	2.5	5.3	0.2	-0.3	-0.9	-1.5	-1.6	-1.3	-5.4	
Primary deficit	-2.0	-0.8	-0.8	-0.5	-0.6	-1.1	-1.6	-1.8	-1.7	-7.3	0.42
Primary (noninterest) revenue and grants	27.0	27.7	26.7	25.4	25.4	25.5	25.4	25.3	25.3	152.3	
Primary (noninterest) expenditure	24.9	26.9	26.0	24.9	24.8	24.3	23.8	23.6	23.6	145.0	
Automatic debt dynamics [5/]	-0.3	3.3	6.0	0.7	0.3	0.2	0.1	0.2	0.4	2.0	
Interest rate/growth differential [6/]	0.0	0.2	1.3	0.7	0.3	0.2	0.1	0.2	0.4	2.0	
Of which: real interest rate	1.6	1.8	2.5	1.9	1.7	1.9	2.0	2.0	2.1	11.5	
Of which: real GDP growth	-1.6	-1.6	-1.3	-1.2	-1.4	-1.7	-1.8	-1.8	-1.6	-9.6	
Exchange rate depreciation [7/]	-0.3	3.1	4.8	...	...	...	...	...	...	...	
Other identified debt-creating flows	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Privatization proceeds (negative)	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Short-term debt 1/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes [8/]	2.2	3.9	1.1	-0.9	-0.6	-0.3	-0.2	-0.1	0.0	-2.1	



Source: Fund staff estimates.

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

2/ Based on available data.

3/ EMBIG.

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

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

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

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

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

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

Table 11. Colombia: External Debt Sustainability Framework, 2011–21

(In percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2011	2012	2013	2014	2015			2016	2017	2018	2019	2020	2021	Debt-stabilizing non-interest current account 6/
Baseline: External debt	23.2	22.2	25.7	30.1	41.8			**51.3**	**49.1**	**47.6**	**46.4**	**45.7**	**45.6**	**-3.8**
Change in external debt	0.1	-1.1	3.6	4.3	11.8			9.5	-2.3	-1.5	-1.2	-0.6	-0.1	
Identified external debt-creating flows (4+8+9)	-2.8	-3.8	0.4	1.4	13.1			1.6	0.6	0.1	-0.3	-0.6	-0.7	
Current account deficit, excluding interest payments	2.0	2.1	2.3	4.1	4.9			4.2	2.4	2.2	2.0	1.8	1.7	
Deficit in balance of goods and services	-0.3	0.2	0.7	3.0	6.2			6.1	4.3	3.9	3.5	3.2	2.9	
Exports	19.0	18.4	17.7	16.9	15.5			15.7	15.8	15.3	15.1	14.8	14.7	
Imports	18.8	18.6	18.4	19.8	21.7			21.8	20.0	19.3	18.6	18.0	17.6	
Net non-debt creating capital inflows (negative)	-2.3	-4.7	-2.2	-3.9	-2.3			-3.3	-2.3	-2.4	-2.5	-2.6	-2.7	
Automatic debt dynamics 1/	-2.5	-1.2	0.3	1.2	10.4			0.7	0.5	0.3	0.1	0.1	0.3	
Contribution from nominal interest rate	0.9	0.9	1.0	1.0	1.5			1.9	1.9	2.0	2.0	2.0	2.0	
Contribution from real GDP growth	-1.3	-0.9	-1.0	-1.1	-1.2			-1.2	-1.4	-1.7	-1.8	-1.8	-1.7	
Contribution from price and exchange rate changes 2/	-2.1	-1.2	0.4	1.2	10.1			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	2.9	2.7	3.1	2.9	-1.3			7.9	-2.8	-1.6	-0.9	0.0	0.6	
External debt-to-exports ratio (in percent)	121.8	120.3	145.6	178.3	269.3			326.3	311.1	310.3	307.9	308.5	310.3	
Gross external financing need (in billions of US dollars) 4/	23.9	33.7	28.9	41.2	42.4			39.1	40.0	39.1	43.8	44.5	48.9	
in percent of GDP	7.1	9.1	7.6	10.9	14.5	10-Year	10-Year	15.4	14.3	12.8	13.2	12.4	12.7	
Scenario with key variables at their historical averages 5/								**51.3**	**49.9**	**48.6**	**47.8**	**47.6**	**47.8**	**-4.1**
						Historical	Standard							
Key Macroeconomic Assumptions Underlying Baseline						Average	Deviation							
Real GDP growth (in percent)	6.6	4.0	4.9	4.4	3.1	4.6	1.7	2.5	3.0	3.7	4.1	4.3	4.0	
GDP deflator in US dollars (change in percent)	10.0	5.6	-1.9	-4.6	-25.1	3.3	13.4	-15.1	7.0	4.9	4.5	3.8	3.3	
Nominal external interest rate (in percent)	4.8	4.4	4.4	4.1	4.0	5.3	1.2	3.9	4.1	4.4	4.5	4.5	4.6	
Growth of exports (US dollar terms, in percent)	39.3	6.5	-1.3	-5.0	-28.9	8.0	19.8	-11.9	10.5	5.7	6.9	6.5	6.4	
Growth of imports (US dollar terms, in percent)	31.8	9.4	1.5	7.5	-15.6	10.7	15.9	-12.6	1.3	4.7	5.0	4.7	4.9	
Current account balance, excluding interest payments	-2.0	-2.1	-2.3	-4.1	-4.9	-2.1	1.4	-4.2	-2.4	-2.2	-2.0	-1.8	-1.7	
Net non-debt creating capital inflows	2.3	4.7	2.2	3.9	2.3	2.9	1.3	3.3	2.3	2.4	2.5	2.6	2.7	

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

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

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

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

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

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

Table 12. FCL Arrangement for Colombia—Impact of GRA Finances

(In SDR millions, unless otherwise indicated)

	As of 5/31/16
Liquidity measures	
Current Forward Commitment Capacity (FCC) 1/	232,028
FCC on approval 2/	225,785
Change in percent	-2.7
Prudential measures, assuming full FCL drawing	
Fund credit to Colombia	
In percent of total GRA credit outstanding 3/	14.8
In percent of current precautionary balances	53.8
Fund credit outstanding to five largest debtors	
In percent of total GRA credit outstanding, before approval	88.1
In percent of total GRA credit outstanding including Colombia's assumed full drawing 3/	83.1
Memorandum items	
Current precautionary balances (FY 2016)	15,200
Total FCL commitments, including proposed FCL	83,567
Quota of FTP members with actual and proposed FCLs, in percent of total quota of FTP members	3.8

Source: Finance Department.

1/ The FCC is defined as the Fund's stock of usable resources less undrawn balances under existing arrangements, plus projected repurchases during the coming 12 months, less repayments of borrowing due one year forward, less a prudential balance. The FCC does not include resources under the 2012 Borrowing Agreements; these will only be counted towards the FCC once: (i) individual bilateral agreements are effective and (ii) the associated resources are available for use by the IMF, in accordance with the borrowing guidelines and the terms of the agreeements.

2/ The FCC will decrease due to the approval of the new FCL by its full amount, which will be partially offset by the cancellation of the current FCL by the amount of its quota-financed portion for SDR 1,935 million under the 1:1 NAB-quota financing ratio.

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

Table 13. Colombia: Indicators of Fund Credit, 2015–21 1/

(In SDR million, unless otherwise indicated)

		Projections					
	2015	2016	2017	2018	2019	2020	2021
Stocks from prospective drawings 2/							
Fund credit (millions of SDR)	0	8,178	8,178	8,178	6,134	2,045	0
In percent of quota	0	400	400	400	300	100	0
In percent of GDP	0.0	4.5	4.1	3.8	2.6	0.8	0.0
In percent of exports of goods and services	0.0	28.6	25.9	24.5	17.3	5.4	0.0
In percent of gross reserves	0.0	19.8	19.8	20.0	15.7	5.6	0.0
Flows from prospective drawings							
Amortization	0	0	0	0	2,045	4,089	2,045
Charges (millions of SDR)	0.0	112.2	172.7	172.8	184.1	89.6	10.9
Level Based Surcharge							
Debt Service due on GRA credit (millions SDR)	0.0	112.2	172.7	172.8	2,228.6	4,178.6	2,055.4
In percent of quota	0.0	5.5	8.4	8.5	109.0	204.4	100.5
In percent of GDP	0.0	0.1	0.1	0.1	0.9	1.6	0.8
In percent of exports of goods and services	0.0	0.4	0.5	0.5	6.3	11.1	5.1
In percent of gross reserves	0.0	0.3	0.5	0.5	6.7	12.2	5.7
Memorandum Items:							
Total External Debt (percent of GDP)	41.8	55.8	53.2	51.3	49.0	46.5	45.6
Total Debt Service (percent of GDP)	9.6	11.3	12.0	10.7	12.1	12.2	11.8

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

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

2/ Stocks as of end of period.

Appendix I. Letter from the Authorities Requesting FCL

Bogota, May 27, 2016

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

Dear Ms. Lagarde,

We would like to thank the IMF for the Flexible Credit Line (FCL) arrangements that have been approved for Colombia since 2009. The FCL has been an important support to the economy during the financial crisis, the prolonged global downturn and the commodity price shock. The facility has served as a complement to the wide range of policy responses grounded on maintaining exchange rate flexibility, adopting appropriate fiscal and monetary policies, and securing precautionary external funding through keeping an adequate level of international reserves. In addition, the FCL has signaled the strength of the economy and policy framework with positive impact on the markets, and Colombia has continued to have full access to international capital markets with favorable funding conditions.

The Colombian economy showed resilience during the global crisis. However, it has been hard hit by the sharp decline in the terms of trade since 2014, compounded by a severe supply shock stemming from El Niño weather phenomenon, weaker growth among trading partners—notably Venezuela and Ecuador—and tighter and volatile financial conditions.

As a result of these shocks, the Colombian peso depreciated significantly, the current account deficit widened as a percentage of GDP, the sovereign bond spreads rose, and inflation and fiscal pressures mounted. Against this backdrop, we have tightened the monetary policy and undertaken a fiscal adjustment in order to maintain macroeconomic and external stability, realign fundamentals and support confidence. The 4G PPP infrastructure agenda, coupled with the re-entrance into operation of the Cartagena oil refinery, has added to growth and partially offset the negative impact of shocks. In addition, the government has adopted other important structural reforms to boost non-traditional exports that will contribute to the adjustment of the current account deficit, diversify the economy and help sustain growth.

Given the permanent nature of the decline in oil prices, the economy has been gradually adjusting to a new reality. Growth slowed down in 2015 to 3.1 percent, and lower domestic absorption is expected to continue in 2016. We have been taking actions to make this adjustment as orderly and smooth as possible through preserving appropriate macroeconomic policies and, to this end, access to the FCL has been an important component.

At the same time, despite improvements in some advanced economies, particularly the U.S., significant external risks persist. The main hazards stem from instability and higher volatility in global financial conditions, disorderly slowdown in China, rising vulnerabilities in emerging markets, further decline in oil prices and weaker growth in Colombian trading partners. Given the presence of these downside risks, we strongly believe the FCL will continue to play a significant role in supporting a smooth adjustment of the economy. For this reason, we would like to request a new two-year FCL with higher access, and cancel the current arrangement effective upon approval of the new FCL arrangement.

Based on the quantification of the potential impact of the aforementioned shocks, we are requesting an access level of 8.18 billion SDR, 400 percent of the quota. According to our estimations, the potential financing needs under a stress scenario would be larger, but part of the shock could be absorbed through international reserves. Nonetheless, the current level of reserves, although within adequate ranges, would fall short of absorbing the bulk of the impact of this tail event while maintaining reserves at a prudent level.

The new precautionary arrangement would complement our strategy to cope with global financial risks consisting of maintaining a solid institutional framework, good macroeconomic policies, floating exchange rate, improving our external position, and ensuring financial stability.

The fiscal stance embedded in the Medium-Term Fiscal Framework is well anchored by the fiscal rule, whose compliance is our priority. The drop in oil prices has posed significant fiscal challenges, but the shortfall of revenues has been absorbed through higher non-oil related revenues and spending cuts. These measures permitted compliance of the Central Government’s fiscal deficit target of 3 percent of GDP in 2015, and 3.6 percent of GDP in 2016. We are aware that further revenue mobilization is needed in the years to come and are in the preparation phase of a structural tax reform that will be submitted to Congress in the second semester of this year and that should be approved no later than December 2016.

Inflation targeting continues to serve the economy well. As a result of the supply shock and the depreciation of the Colombian peso, inflation breached the upper bound of the target in 2015 (range of 2-4 percent) and continued to increase in 2016. We started increasing the policy rate in September 2015 to contain temporary inflation pressures and anchor inflation expectations. We expect inflation to return to target in 2017, as supply shocks recede and the pass-through from depreciation fades.

Exchange rate flexibility has been the main shock absorber and the peso depreciated strongly until early 2016, with a slight reversal in the last month. The freely floating framework has been complemented since October 2015 by a rules-based contingent FX auction program aiming at mitigating excess volatility. The current account deficit widened last year to 6.5 percent of GDP, and is expected to narrow gradually as domestic absorption adjusts and expenditure switching effects kick in. For 2016 the deficit is projected at 6 percent of GDP, remaining comfortably financed by FDI and portfolio inflows.

The financial sector remains sound, liquid, profitable, well provisioned and capitalized, and has sufficient buffers to cope with shocks. We continue to push ahead with the reform agenda and are finalizing the implementation of the FSAP recommendations. We are moving forward with the adoption of best practices in line with Basel III. In addition, since December 2015 the supervisor has the authority to request higher buffers (levels of capital and liquidity) to individual financial institutions that reveal higher risks. Finally, an important law that grants more power to regulate and supervise financial conglomerates is being discussed in Congress.

We continue to closely monitor financial stability risks. Corporate debt has increased as well as that of households in line with deeper financial inclusion, but both remain low by international standards. In addition, the share of foreign currency denominated debt of corporate is low with no evidence of large currency mismatches. The regulation of foreign currency in banks' balance sheets is stringent, so their exposure and currency mismatches are contained. We continue to conduct and improve stress tests in order to detect vulnerabilities and ensure financial stability.

The continuous reform process is at the core of the government's agenda. In particular, improving competitiveness and infrastructure are critical for the transition to a more diversified economy and less dependent on commodity exports. We are making enormous progress on infrastructure with the successful 4G PPP program. At the same time, we are implementing other reforms to boost nontraditional exports, such as a new simplified custom status, tariff reform, and education and human capital reforms.

Overall, the track record of prudent macroeconomic policies and the strong institutional framework provide ample assurances of our ability to withstand adverse shocks and react as needed, should risks materialize. Looking ahead, continuing building fiscal and external buffers while maintaining exchange rate flexibility, keeping inflation within the target range and expectations well anchored, and preserving financial stability will strengthen resilience to external shocks.

We expect thapt as the growth transition in China progresses smoothly, investor concerns about stressed emerging market economies recede, and monetary policy normalizes in advanced countries, uncertainties will abate, and associated commodity price and global financial risks will recede. We also expect the outlook in regional trading partners to improve gradually as they undergo adjustments to restore internal and external balance. With substantial reduction of some of the global risks affecting Colombia, we would intend to reduce access to Fund resources in any subsequent FCL arrangements, and to phase out Colombia's use of the facility. Successful adjustment to permanently lower oil prices and the ongoing productive transformation of the economy should also build resilience and reduce future access to Fund resources.

Finally, let us take this opportunity to state again that the Banco de la República will continue providing Fund's staff with all needed information, and that we have sent the requested authorizations to the Bank's external auditors in accordance with the FCL safeguard policy.

Sincerely yours,

/s/	/s/
José Darío Uribe Escobar	Mauricio Cárdenas Santamaría
Governor Central Bank of Colombia	Minister of Finance and Public Credit

INTERNATIONAL MONETARY FUND

COLOMBIA

June 6, 2016

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

Approved By
Andrew Tweedie and Mary Goodman

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

CONTENTS

INTRODUCTION

1. **This note assesses the impact of the proposed Flexible Credit Line (FCL) arrangement for Colombia on the Fund's finances and liquidity position, in accordance with the policy on FCL arrangements.**[1] The proposed arrangement would cover a two-year period and access would be in an amount equivalent to SDR 8.18 billion (400 percent of quota). The existing FCL arrangement for SDR 3.87 billion (500 percent of pre-14th Review quota), which was approved on June 17, 2015, will be cancelled. The full amount of access proposed would be available throughout the arrangement period, in one or multiple purchases.[2] The authorities intend to treat the Fund-supported arrangement as precautionary.

BACKGROUND

2. **Colombia has had five FCL arrangements since 2009.** Against the backdrop of a global economic and financial crisis, a one-year FCL arrangement in an amount equivalent to SDR 6.966 billion (900 percent of quota) was approved on May 11, 2009, which the authorities treated as precautionary. This arrangement was succeeded by another one-year FCL arrangement in an amount equivalent to SDR 2.322 billion (300 percent of quota) approved on May 7, 2010, followed by three two-year FCL arrangements in the amount of SDR 3.870 billion (500 percent of quota) approved on May 6, 2011, June 24, 2013, and June 17, 2015, respectively, which were also treated as precautionary. Colombia's strong economic fundamentals and institutional policy frameworks allowed the authorities to cushion the impact of the global financial crisis through countercyclical monetary and fiscal policies and, more recently, tighten policies gradually in response to the oil price decline. The FCL arrangements supported the policy framework and provided additional insurance against a deterioration of global conditions or specific shocks. No drawings have been made under any of the FCL arrangements. As discussed in Annex I, Colombia has had eight arrangements since 1999, but has not drawn on Fund resources since 1971.

3. **Colombia's total external debt has increased following the oil price shock, but is expected to decline over the medium-term (Table 1).** External debt relative to GDP remained stable at about 22-26 percent up to 2013. It increased to 30.1 percent in 2014 and further to 41.8 percent in 2015, due mostly to valuation effects of exchange rate depreciation but also widened current account deficits.[3] The bulk of this debt is long term and owed by the public sector. Private sector external debt is low, although it has increased from 8.8 percent of GDP in 2010 to 15.2 percent of GDP in 2015, reflecting the country's track record of steady access to international

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

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

[3] For comparison, Mexico and Poland's external debt in percent of GDP was about 36.5 percent and 74.7 percent (projection) in 2015, respectively.

markets and the valuation impact of exchange rate depreciation. Over the medium-term, the current account deficit, which surged to 6.5 percent of GDP in 2015 driven by a reduction in commodity exports, is expected to gradually narrow to about 4 percent of GDP by 2019. Staff's updated external debt sustainability analysis suggests that external debt ratios would decline over the medium-term and remain manageable even under significant negative shocks.[4]

Table 1. Colombia: Total External Debt, 2010–15

	2010	2011	2012	2013	2014	2015
			(In Millions of US Dollars)			
Total External Debt	66,267	77,853	81,830	97,777	113,769	122,222
Private	25,192	33,135	32,669	39,856	41,637	44,255
Public	41,075	44,719	49,162	57,921	72,132	77,967
			(In Percent of GDP)			
Total External Debt	23.1	23.2	22.2	25.7	30.1	41.8
Private	8.8	9.9	8.8	10.5	11.0	15.2
Public	14.3	13.3	13.3	15.2	19.1	26.7

Sources: Colombian authorities and IMF staff estimates.

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

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

- **Colombia's total external debt would remain moderate, with Fund credit representing still a relatively modest fraction:** total external debt and public external debt would initially reach 55.8 and 36.5 percent of GDP, respectively, with Fund credit representing 4.5 percent of GDP (Table 2). At its peak, Colombia's outstanding use of GRA resources would account for 8.1 percent of total external debt, 14.1 percent of public external debt, and 20.0 percent of gross international reserves.[5]

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

[5] Since drawing would typically occur after a shock, the macroeconomic variables are likely to be worse than under the baseline presented in Table 2; for example, under an illustrative adverse scenario employed to measure access (see *Colombia—Arrangement Under the Flexible Credit Line and Cancellation of the Current Arrangement*, 6/1/16) in which world oil prices are assumed to decline by 26 percent relative to the baseline), reserves may be drawn down by US$6.9 billion in 2016, suggesting that Colombia's peak GRA credit would rise from 19.8 percent to 29 percent of

- **External debt service including obligations to the Fund would increase over the medium term, but would remain manageable.** Colombia's projected debt service to the Fund would peak in 2020 at about SDR 4.18 billion, or close to 1.6 percent of GDP.[6] In the same year, external debt service to the Fund would peak at 11.1 percent of exports of goods and services, and account for about 45 percent of public external debt service.

5. **Despite more than doubling of access, the approval of the arrangement would have a marginal impact on the Fund's liquidity, and the Fund's potential credit risk exposure would be moderate**:

- **The proposed arrangement would reduce the Fund's modified forward commitment capacity (FCC) by SDR 6.2 billion or about 2.7 percent (Table 3).**[7] The proposed FCL arrangement would decrease the FCC by SDR 8.18 billion, which would be partially offset by the cancellation of the current FCL arrangement for its quota-financed portion (SDR 1.94 billion).[8] If Colombia were to draw under the FCL arrangement, it would be automatically excluded from the Financial Transaction Plan (FTP) and the FCC would decline by an additional SDR 1.6 billion.[9]

- **If the resources available under the FCL arrangement were fully drawn, GRA credit to Colombia would be about 15.0 percent of total GRA credit.** This would make Colombia the third largest borrower among current arrangements, and reduce the concentration of Fund credit in the top five users of Fund resources from about 89 percent to about 83 percent.

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

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gross international reserves in 2016. This does not materially impact staff's current view of Colombia's capacity to repay.

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

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

[8] The NAB-financed portion of the current FCL (SDR 1.94 billion) cannot be used for FCC until the NAB is reactivated.

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

Table 2. Colombia: Capacity to Repay Indicators 1/

(In SDR millions, unless otherwise indicated)

	2015	2016	2017	2018	2019	2020	2021
Exposure and Repayments (In SDR millions)							
GRA credit to Colombia	--	8,178.0	8,178.0	8,178.0	6,133.5	2,044.5	--
(In percent of quota)	--	(400.0)	(400.0)	(400.0)	(300.0)	(100.0)	(0.0)
Charges due on GRA credit 2/	--	112.2	172.7	172.8	184.1	89.6	10.9
Debt service due on GRA credit 2/	--	112.2	172.7	172.8	2,228.6	4,178.6	2,055.4
Debt and Debt Service Ratios 3/							
In percent of GDP							
Total external debt	41.8	55.8	53.2	51.3	49.0	46.5	45.6
Public external debt	26.7	36.5	34.5	33.1	31.1	28.8	27.8
GRA credit to Colombia	--	4.5	4.1	3.8	2.6	0.8	--
Total external debt service	9.6	11.3	12.0	10.7	12.1	12.2	11.8
Public external debt service	2.2	2.5	2.8	2.1	4.0	3.7	3.7
Debt service due on GRA credit	--	0.1	0.1	0.1	0.9	1.6	0.8
In percent of Gross International Reserves							
Total external debt	264.2	245.4	257.8	272.4	294.9	326.9	344.3
Public external debt	168.6	200.0	208.4	219.7	222.0	214.3	210.0
GRA credit to Colombia	--	19.8	19.8	20.0	15.7	5.6	--
In percent of Exports of Goods and Services							
Total external debt service	61.7	71.7	75.9	69.9	80.5	82.4	80.1
Public external debt service	14.1	15.7	18.0	13.7	26.7	24.7	25.3
Debt service due on GRA credit	--	0.4	0.5	0.5	6.3	11.1	5.1
In percent of Total External Debt							
GRA credit to Colombia	--	8.1	7.7	7.3	5.3	1.7	--
In percent of Public External Debt							
GRA credit to Colombia	--	14.1	13.5	12.8	9.1	2.9	--
U. S. dollars per SDR (period average)	1.40	1.39	1.40	1.40	1.40	1.41	1.41
U. S. dollars per SDR (end of period)	1.39	1.40	1.40	1.40	1.41	1.41	1.41
Oil Price (Colombian mix US$ per barrel)	44.5	28.9	34.0	37.0	39.5	41.0	41.9

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

1/ Assumes full drawings under the FCL upon approval.
2/ Based on the rate of charge as of May 31, 2016. Includes surcharges under the system currently in force and service charges.
3/ Staff projections for external debt, GDP, gross international reserves, and exports of goods and services, as used in the staff report that requests the proposed FCL, adjusted for the impact of the assumed FCL drawing.

Table 3. FCL Arrangement for Colombia—Impact on GRA Finances
(In SDR millions, unless otherwise indicated)

	As of 5/31/16
Liquidity measures	
Current Forward Commitment Capacity (FCC) 1/	232,028
FCC on approval 2/	225,785
Change in percent	-2.7
Prudential measures, assuming full FCL drawing	
Fund credit to Colombia	
In percent of total GRA credit outstanding 3/	14.8
In percent of current precautionary balances	53.8
Fund credit outstanding to five largest debtors	
In percent of total GRA credit outstanding, before approval	88.1
In percent of total GRA credit outstanding including Colombia's assumed full drawing 3/	83.1
Memorandum items	
Current precautionary balances (FY 2016)	15,200
Total FCL commitments, including proposed FCL	83,567
Quota of FTP members with actual and proposed FCLs, in percent of total quota of FTP members	3.8

Source: Finance Department.

1/ The FCC is defined as the Fund's stock of usable resources less undrawn balances under existing arrangements, plus projected repurchases during the coming 12 months, less repayments of borrowing due one year forward, less a prudential balance. The FCC does not include resources under the 2012 Borrowing Agreements; these will only be counted towards the FCC once: (i) individual bilateral agreements are effective and (ii) the associated resources are available for use by the IMF, in accordance with the borrowing guidelines and the terms of the agreeements.
2/ The FCC will decrease due to the approval of the new FCL by its full amount, which will be partially offset by the cancellation of the current FCL by the amount of its quota-financed portion for SDR 1,935 million under the 1:1 NAB-quota financing ratio.
3/ Based on current Fund credit outstanding plus full drawings under the proposed FCL.

ASSESSMENT

6. **Despite more than doubling of access in SDR terms, the proposed arrangement will have a marginal effect on the Fund's liquidity.** The Fund's liquidity is expected to remain adequate after the approval of the proposed FCL arrangement for Colombia. Even if Colombia were to draw, the effect on the Fund's liquidity would be small. Nevertheless, in view of persistent risks to global growth and financial stability, a close monitoring of the liquidity position is warranted.

7. **Colombia intends to treat the FCL arrangement as precautionary, but the Fund's credit exposure would remain moderate in the event of a drawing.** If fully drawn, the arrangement would account for about 15 percent of total GRA credit outstanding and be below the existing level of precautionary balances. Moreover, Colombia's sustained track record of implementing very

strong policies, including during the global financial crisis and the recent sharp drop in oil prices, its commitment to maintain such policies in the future, and its moderate external debt mitigate risks to the Fund from potential exposure to Colombia. Against this background, while Colombia's capacity to repay the Fund has marginally weakened compared to last year when the current FCL was approved, it is projected to remain strong even if potential downside risks from an additional decline in oil prices and unfavorable external financing conditions were to arise.

Annex I. History of IMF Arrangements

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

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

Table I.1. Colombia: IMF Financial Arrangements, 1999–2015
(In millions of SDR)

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

Source: Finance Department.

Statement by Ms. Maria Angelica Arbelaez, Alternate Executive Director for Colombia
June 13, 2016

On behalf of the Colombian authorities, I would like to thank staff and management for their continued support and the positive response to their request for a new Flexible Credit Line (FCL). I would also like to express the authorities' gratitude to the Board for the previous FCL arrangements approved for Colombia since 2009. Colombia belongs to a group of countries where special swap lines are not available, and regional liquidity arrangements do not provide adequate coverage. Consequently, the FCLs have been instrumental to cope with heightened external risks and commodity price shocks in recent years and have suited well the country's need for liquidity risk coverage in a highly uncertain environment.

The FCL arrangements have served as a complement to the wide range of policy responses based on maintaining exchange rate flexibility, adopting appropriate fiscal and monetary policies, and securing precautionary external funding through keeping an adequate level of international reserves. They have also signaled the strength of the economy and policy framework with positive impact on the markets.

The Colombian economy has been hard hit by the sharp decline in the terms of trade since 2014, weaker growth among trading partners—notably Venezuela and Ecuador—tighter and volatile financial conditions, and a severe weather-related supply shock. As a result of these coincident shocks, the Colombian peso depreciated significantly, the current account deficit widened as a percentage of GDP, the sovereign bond spreads rose, and inflation and fiscal pressures emerged. The authorities have responded by tightening monetary policy and undertaking fiscal adjustments in order to preserve macroeconomic and external stability while fostering confidence.

External shocks have also taken their toll on economic growth. Growth slowed down in 2015 to 3.1 percent, and the adjustment is expected to continue in 2016. However, the economy has shown resilience as the infrastructure agenda and the re-entrance into operation of the Cartagena oil refinery have partially offset the negative impact of shocks and policy responses. Looking ahead, and considering the new lower oil prices reality, the authorities have also adopted structural reforms to boost non-traditional exports that will contribute to the adjustment of the current account deficit, help transition to a more diversified growth model and sustain growth.

At the same time, significant external risks persist stemming from instability and higher volatility in global financial conditions, disorderly slowdown in China, rising vulnerabilities in emerging markets, further decline in oil prices and weaker growth in Colombian trading partners. Because of the presence of these downside risks, the authorities strongly believe that the FCL continues to be an important protection tool to support an orderly and smooth structural adjustment of the economy.

Recent developments and policy responses

For the Colombian authorities the first line of defense against the outcomes of these shocks is a strong macroeconomic policy framework that provides resilience to the country. This framework rests on three pillars, namely: an inflation targeting regime with exchange rate flexibility; a sustainable fiscal policy; and a strong financial system.

Inflation targeting guides the conduct of monetary policy. As a result of the supply shock and the depreciation of the Colombian peso, inflation breached the upper bound of the target in 2015 (range of 2-4 percent) and continued to increase in 2016. In September 2015, the central bank started increasing the policy rate to contain temporary inflation pressures and anchor inflation expectations. Inflation is expected to return to the target range in 2017 as supply shocks recede and the pass-through from depreciation fades.

Exchange rate flexibility has been the main shock absorber and the peso depreciated strongly until early 2016. In October 2015 the central bank put in place an FX auction program aiming at mitigating excess volatility that has been recently discontinued. The current account deficit widened last year to 6.5 percent of GDP (although in nominal terms remains at the 2014 level), and is expected to narrow gradually as domestic absorption adjusts and expenditure switching effects take place. For 2016 the deficit is projected at 6 percent of GDP, comfortably financed by FDI and portfolio inflows, and to decline to around 4.3 percent in 2017.

The fiscal stance is well anchored by the fiscal rule whose compliance is a priority for the authorities. The shortfall of fiscal revenues that emerged from the drop in oil prices was absorbed through higher revenues and spending cuts. These adjustments have allowed the government to meet the headline deficit of 3 percent of GDP in 2015 and 3.6 percent of GDP in 2016, according to the fiscal rule targets. In order to continue complying with the fiscal rule, while preserving social and investment spending in the years to come, a structural tax reform will be submitted to Congress for approval no later than December 2016. Public debt remains sustainable and will decline gradually in accordance to fiscal rule targets.

The financial sector remains sound, liquid, profitable, well provisioned and capitalized, with sufficient buffers to cope with shocks. The authorities continue to push ahead with the reform agenda and are finalizing the implementation of the FSAP recommendations. They are also moving forward with the adoption of best practices in line with Basel III. In addition, since December 2015 the supervisor has the authority to request higher buffers (levels of capital and liquidity) for individual financial institutions that reveal higher risks. Finally, an important law that grants more power to regulate and supervise financial conglomerates is currently being discussed in Congress.

The authorities continue to closely monitor financial stability risks. Corporate debt has increased as well as that of households in line with deeper financial inclusion, but both remain low by international standards. In addition, the share of foreign currency denominated debt of corporate is low (1/3 of total debt) with no evidence of large currency mismatches. The regulation of foreign currency in banks' balance sheets is stringent, so their exposure and currency mismatches are contained. The Central Bank has recently tightened the regulation to limit currency mismatches and extended it to conglomerates, and has also imposed liquidity requirements at a consolidated level, all important steps to manage cross-border risks.

Request for FCL

Given the presence of heightened downside risks, the authorities strongly believe the FCL will continue to play a significant role in supporting a smooth adjustment of the economy. For this reason, they are cancelling the current arrangement and requesting a new two-year FCL with higher access.

Based on the quantification of the potential impact of the aforementioned shocks that would result in much larger financing needs than in previous arrangements, the authorities are requesting a new arrangement with an access of 8.2 billion SDR (400 percent of the quota). This access level would help cover an important part of financing needs in an adverse scenario, and the remaining would be absorbed through international reserves. The current level of reserves, although within adequate ranges, would fall short of absorbing the bulk of the impact of this tail event while maintaining reserves at a prudent level.

The new precautionary arrangement would complement our strategy to cope with global financial risks consisting of maintaining a solid institutional framework, good macroeconomic policies, floating exchange rate, improving our external position, and ensuring financial stability.

The authorities want to reiterate that they consider the FCL to be a temporary facility and its exit dependent on external conditions. Consistent with this, Colombia lowered the access in 2010, and since then it has remained almost half of the amount requested in 2009.

As mentioned in the formal request letter, they expect that as the growth transition in China progresses smoothly, investor concerns about stressed emerging market economies recede, and monetary policy normalizes in advanced countries, uncertainties will abate and associated commodity price and global financial risks will recede. They also expect the outlook for regional trading partners to improve gradually as they undergo adjustments to restore internal and external balance. With substantial reduction of some of the global risks affecting Colombia, they would intend to reduce access to Fund resources in any subsequent FCL arrangements, and to phase out Colombia's use of the facility. Successful adjustment to permanently lower oil prices and the ongoing productive transformation of the economy should also build resilience and reduce future access to Fund resources.