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Colombia: 2007 Article IV Consultation—Staff Report; Staff Supplement; and Public Information Notice on the Executive Board Discussion

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

- The staff report for the 2007 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on November 9, 2007, with the officials of Colombia on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on December 21, 2007. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- A staff supplement of January 14, 2008 updating information on recent developments.

- A Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its January 16, 2008 discussion of the staff report that concluded the Article IV consultation.

The document listed below has been or will be separately released.

Selected Issues Paper

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

To assist the IMF in evaluating the publication policy, reader comments are invited and may be sent by e-mail to publicationpolicy@imf.org.

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INTERNATIONAL MONETARY FUND

COLOMBIA

Staff Report for the 2007 Article IV Consultation

Prepared by the Staff Representatives for the 2007 Article IV
Consultation with Colombia

Approved by Caroline Atkinson and Michael T. Hadjimichael

December 21, 2007

Executive Summary

Economic context: Colombia's economic strategy since 1999 has yielded considerable success. Growth has been above the Latin American average over the past three years, supported by structural reforms and prudent macroeconomic policies. Colombia has weathered well the recent turbulence in global financial markets. Large capital inflows, primarily comprising foreign direct investment, have contributed to an appreciation of the real exchange rate. In light of the improved security situation and continued commitment of the government to sound macroeconomic policies and further structural reforms, long-term economic growth in the neighborhood of about 5 percent per year appears feasible.

Challenges: The rapid pace of activity in 2006 and 2007 has resulted in overheating pressures, which have been manifested in higher inflation and an increase in the external current account deficit to 4 percent of GDP, one of the highest in the region. The authorities are targeting a gradual reduction of growth to a more sustainable level in 2008 and beyond, which will help ease inflationary pressures and reduce the external current account deficit. Achieving this soft landing will require the firm application of prudent macroeconomic policies to slow down the growth of domestic demand.

Staff's views: While the short-term outlook is promising, a tighter fiscal policy stance could help alleviate overheating pressures and diminish risks and vulnerabilities, including from the relatively high external current account deficit. At the same time, it would accelerate the decline in public debt and improve prospects for achieving the government's goal of recovering investment grade status. A further deepening of the structural reform agenda would also help underpin long-term growth prospects.

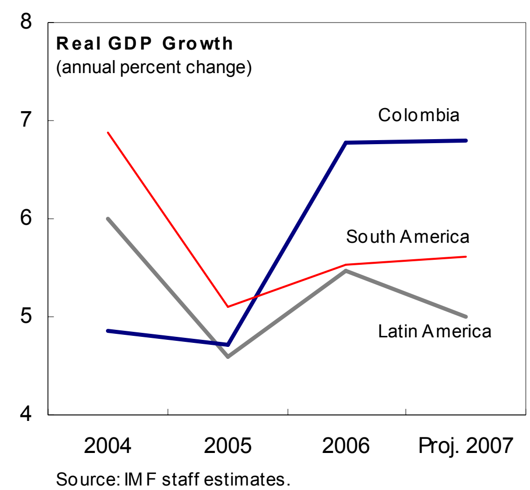
Authorities' views: The authorities broadly shared the staff's assessment, while pointing to uncertainty about the size of the output gap and the strength of excess demand pressures. They viewed the risks associated with the high current account deficit as manageable. The staff recommendation to implement further fiscal adjustment would be taken under consideration.

Contents

I. Introduction and Background

1. **Colombia's economic strategy since 1999 has yielded considerable success.** Structural reforms have advanced in a wide range of areas, and prudent macroeconomic policies have resulted in a declining trend in inflation and public debt ratios, while the financial system has been strengthened. Unemployment and poverty rates have fallen.

2. **Colombia's recent economic growth has been especially strong, contributing to overheating pressures.**



- Economic growth in 2005–06 exceeded the Latin American average and, at close to 7 percent in 2006 and the first half of 2007, equaled its fastest pace since the late 1970s. Growth is projected at 6¾ percent for the year as a whole. The Banco de la República (BdR) estimates a positive output gap for the second quarter of 2007 of about 3 percent. Unemployment, while still high, has fallen below estimates of the natural rate (Figure 1).

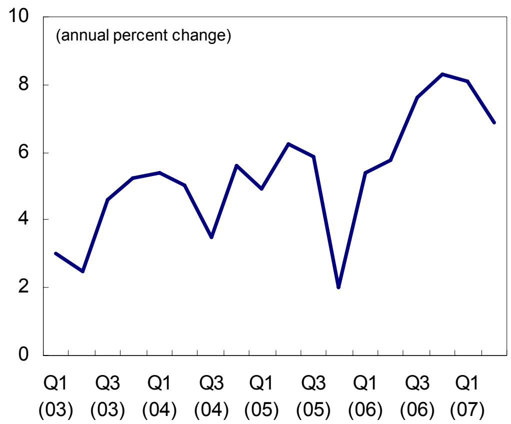
- Inflation rose from 4½ percent in December 2006 to 6¼ percent in April (y/y), reflecting excess demand pressures and a surge in food prices (Figure 2). While inflation has declined in recent months as the food price shock unwinds and the effects of monetary tightening begin to take hold, it is projected to close the year at about 5¼ percent, outside the BdR's target range of 3½–4½ percent. Inflation in the nontraded sector (excluding food and regulated prices)—a good measure of underlying overheating pressures—was 5¼ percent in November, up from 4¾ percent in December 2006.

- Imports grew at over 27 percent (y/y) through September, contributing to a projected doubling in the current account deficit to 4 percent of GDP for 2007 (Figure 3).

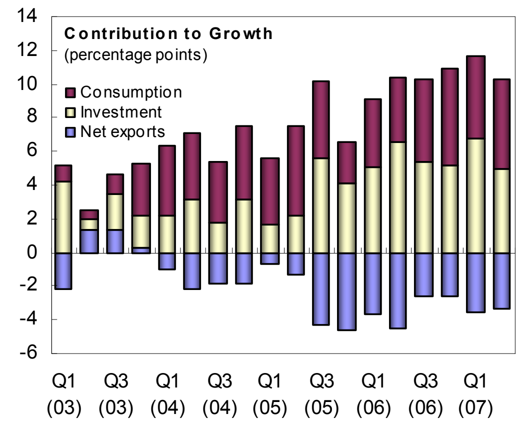
- Credit growth has cooled slightly in the past few months, but as of October remained high at 27 percent (y/y, based on gross loan data).

Figure 1. Colombia: Real Sector Developments

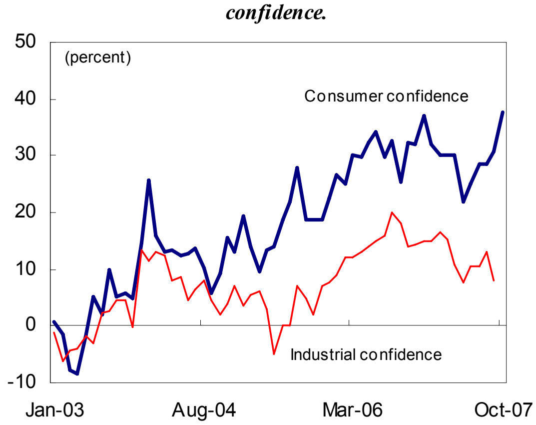
GDP has been growing strongly...



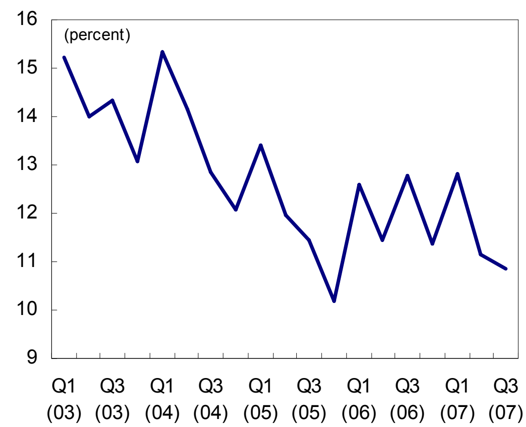
... led by rapid domestic demand growth, notably in investment...



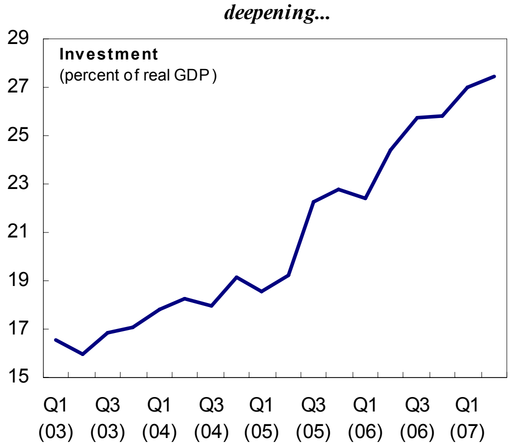
... aided by strong consumer and business confidence.



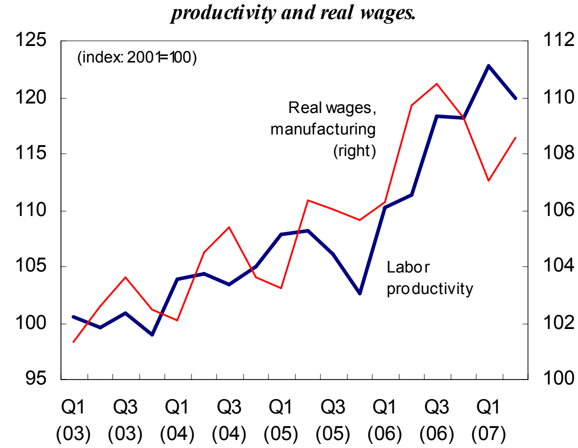
Unemployment has declined over the past year.



At the same time, there has been rapid capital deepening...

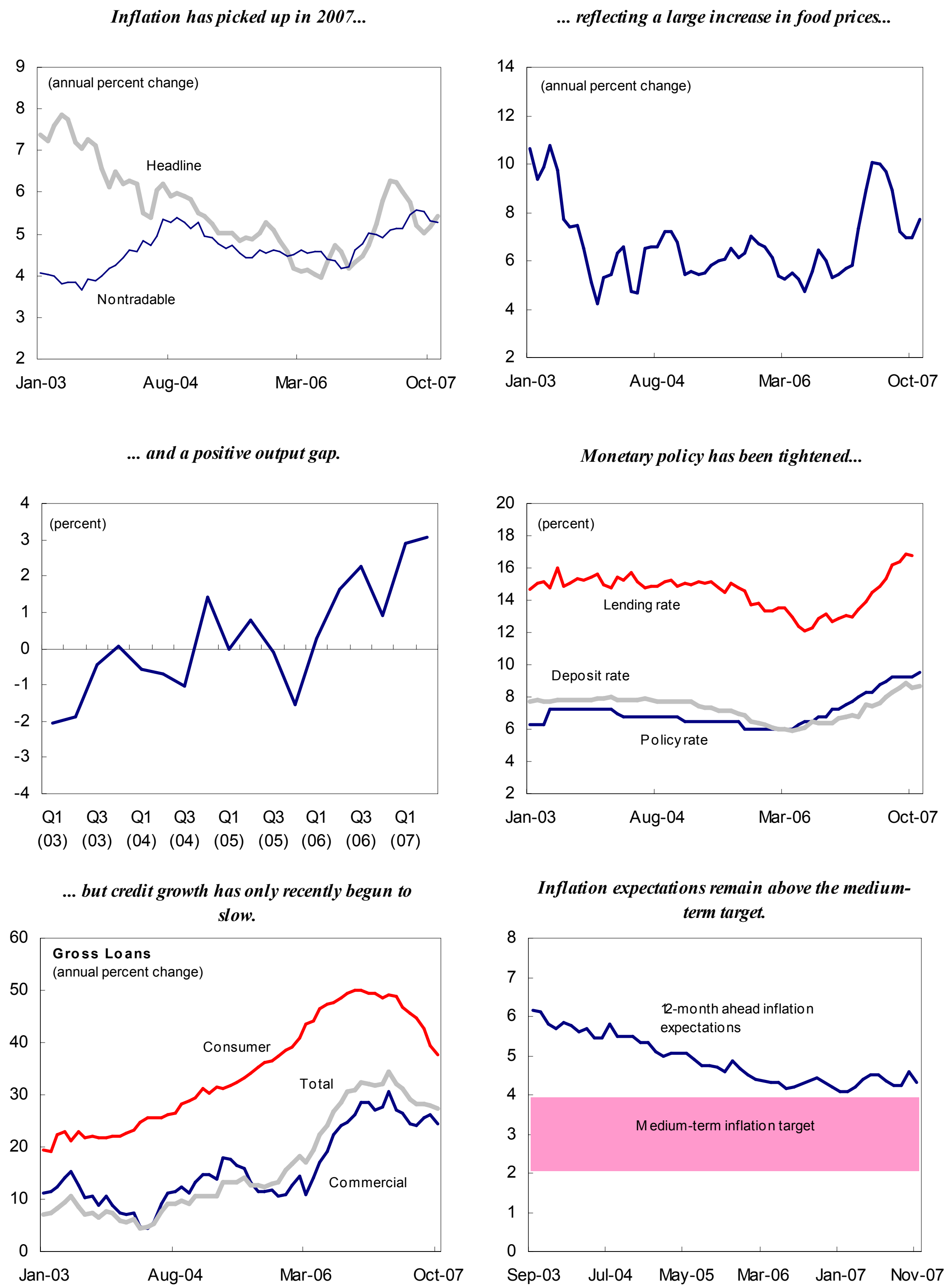


... resulting in strong growth in labor productivity and real wages.



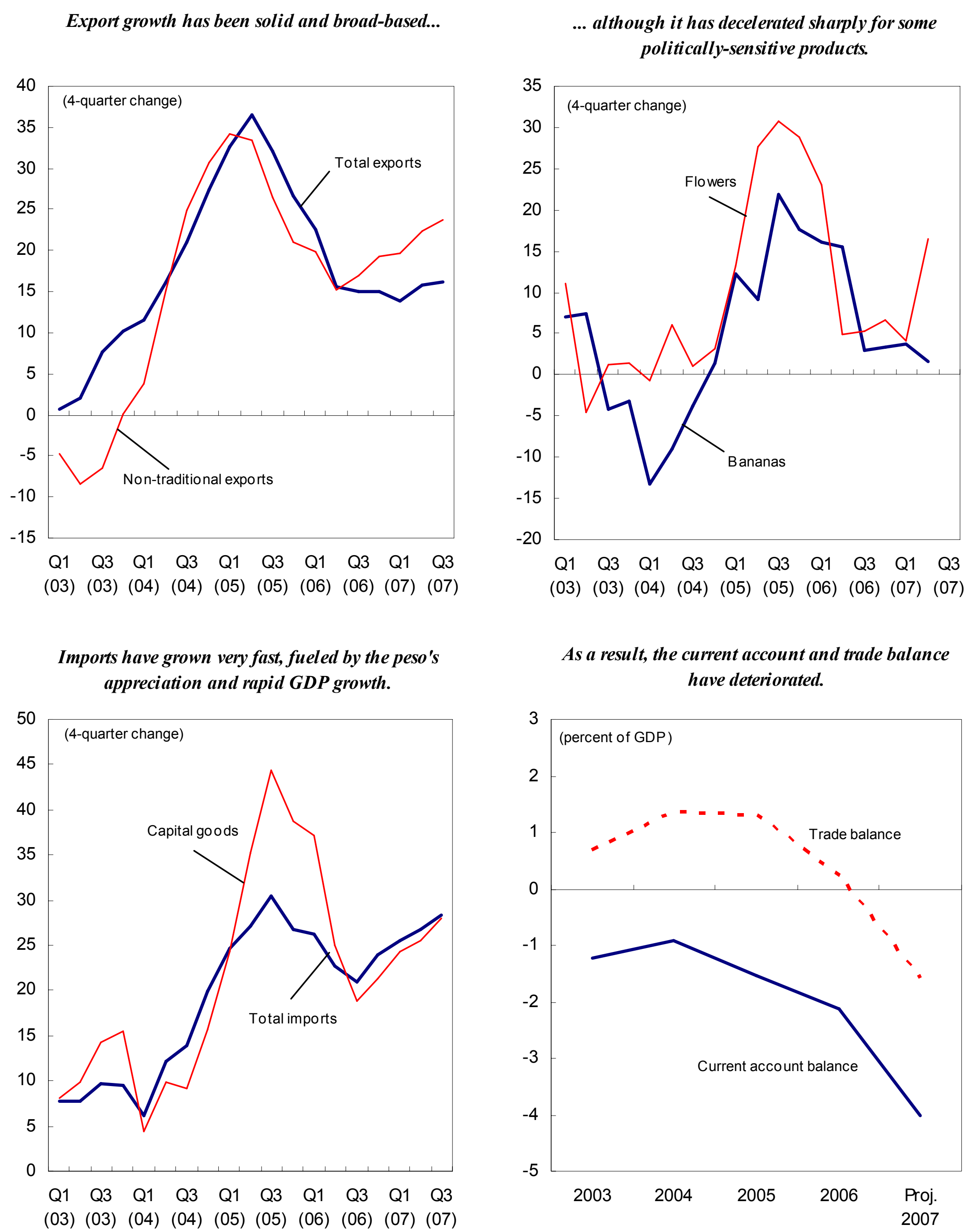
Sources: Banco de la República; Department of National Statistics; Fedesarrollo; and Fund staff calculations.

Figure 2. Colombia: Inflation and Monetary Policy Developments



Sources: Banco de la República; Department of National Statistics; Superintendencia Financiera de Colombia; and Fund staff estimates and projections.

Figure 3. Colombia: External Sector Developments



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

3. **Strong capital inflows intensified pressures for currency appreciation in the first half of 2007, which the authorities tried to resist with heavy foreign exchange (FX) intervention and capital controls.**

- The nominal exchange rate vis-à-vis the U.S. dollar, and the real effective rate, appreciated sharply in the first half of the year (Figure 4). The authorities attempted to alleviate these pressures during January–April with sterilized intervention amounting to US$4.5 billion (38 percent of base money). Since end-April, however, the BdR has not intervened, indicating that sterilized foreign currency purchases had become more difficult over time, and that continued intervention would have compromised achieving its inflation objectives.[1]

- In May, capital controls were implemented with an unremunerated reserve requirement (URR) of 40 percent on external borrowing and portfolio inflows. To limit inflows seeking to take advantage of interest rate differentials, a ceiling on banks' gross positions in derivative markets was also imposed. Capital inflows have slowed, although this also reflected other developments. Capital controls were relaxed somewhat in mid-December.

4. **Monetary policy has aimed to restrain strong demand growth and contain rising inflation, while the fiscal stance has been neutral.** The BdR has raised its policy interest rate to 9½ percent (a 350 basis point increase since April 2006). With lending rates and credit growth showing little response to monetary tightening through early 2007, and inflation still high, the BdR also imposed an unremunerated reserve requirement on new deposits in May. For the central government, the fiscal deficit is projected to decline in 2007, and the primary structural balance is expected to improve. For the nonfinancial public sector (NFPS), however, the primary structural balance is projected to remain broadly unchanged following a weakening in 2006 (Figure 5).

5. **Overheating pressures are expected to ease in the wake of monetary tightening.** Reflecting in part the new unremunerated reserve requirement, lending rates have risen sharply since mid-2007 and are at 6-year highs in real terms. For the second half of the year, the economy is projected to expand at about 5 percent. There are already incipient signs of a slowdown in the second quarter, particularly in construction. Third quarter figures on industrial production also suggest an easing of the pace of activity.

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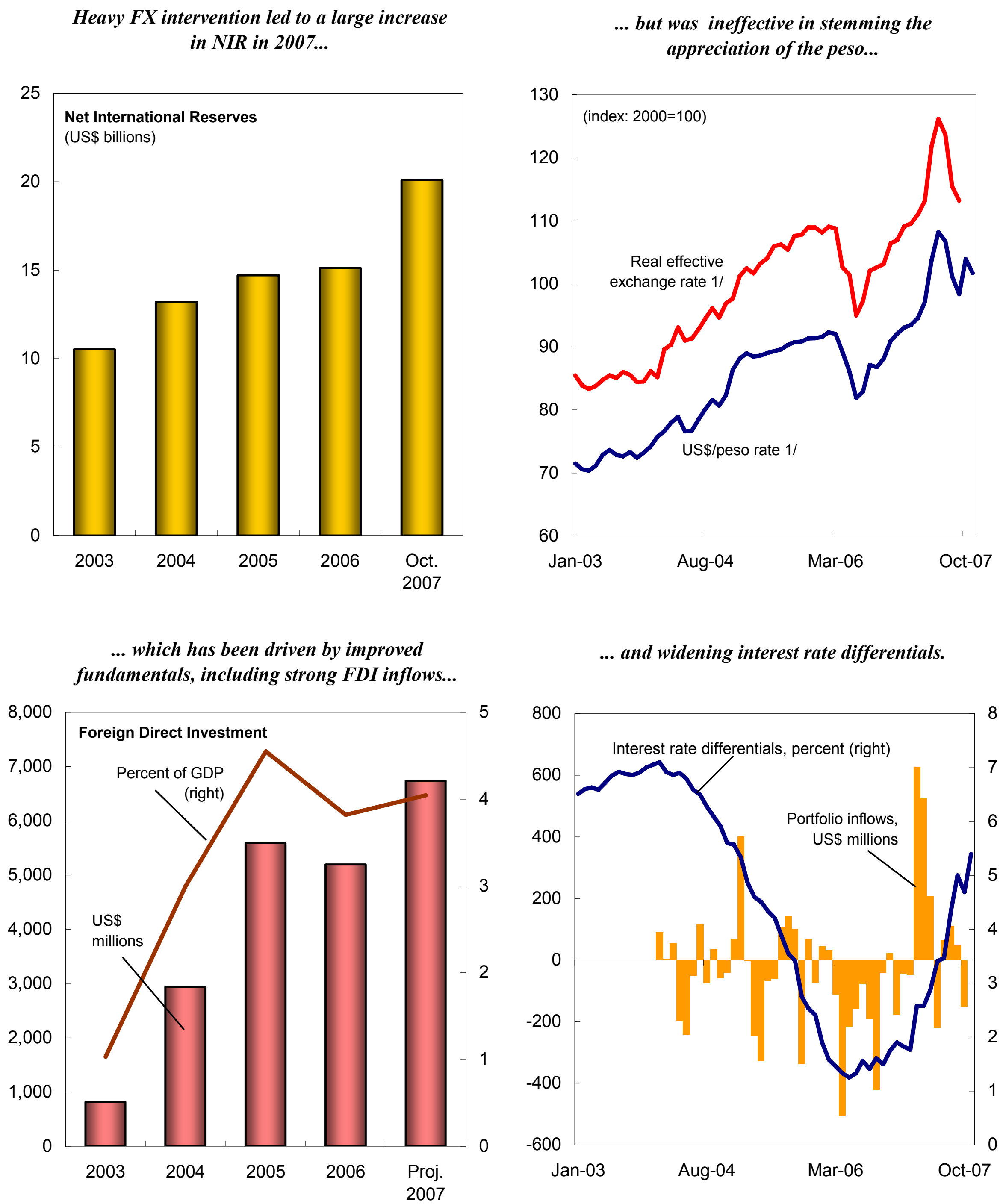
[1] Chapter 3 of the Selected Issues paper concludes that discretionary intervention in 2007 had no lasting effect on the exchange rate, owing in part to market expectations that monetary policy would remain committed to reducing inflation.

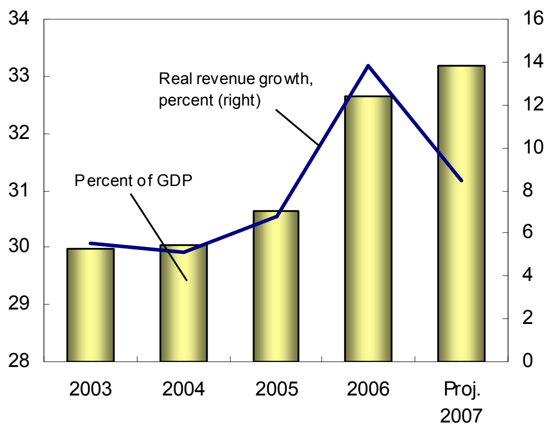
Figure 4. Colombia: Exchange Rate Developments



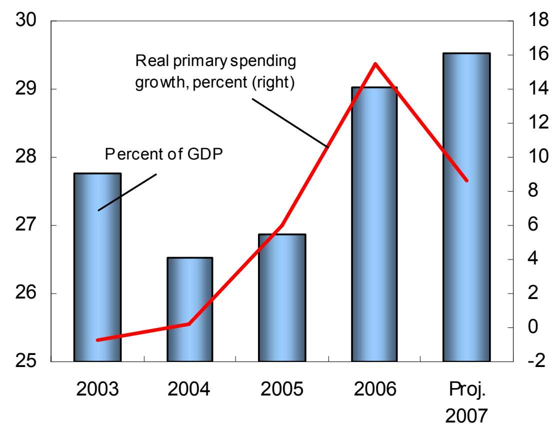
Sources: Banco de la República; Information Notice System; and Fund staff estimates and projections.
1/ An increase denotes appreciation.

Figure 5. Colombia: Fiscal Sector Developments

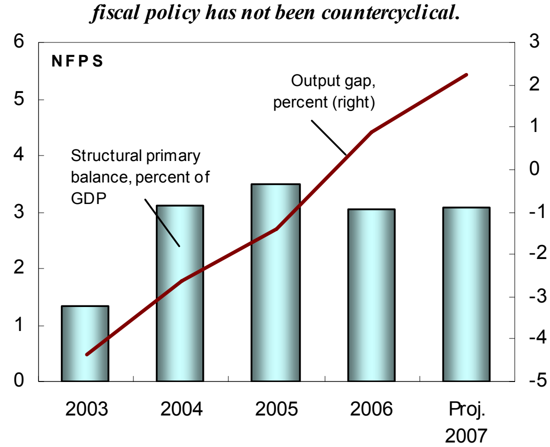
Revenue growth has been strong...



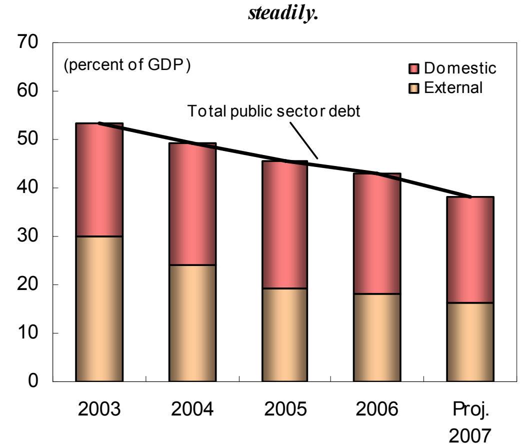
... offsetting sharp increases in spending.



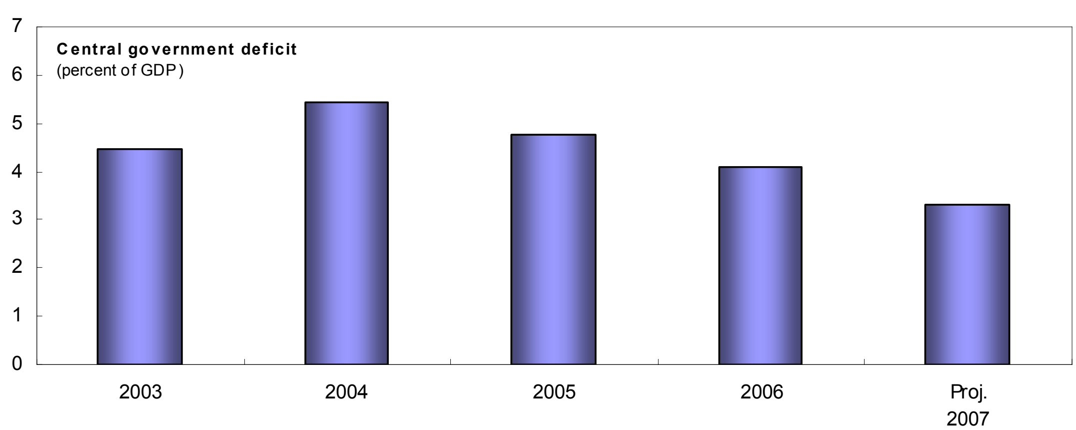
Primary balances have been positive, although fiscal policy has not been countercyclical.



Public debt has nevertheless been declining steadily.



The central government deficit has also fallen, but remains high.



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

6. **Structural fiscal reforms have advanced over the past year.** Corporate income tax rates will fall from 38½ percent in 2006 to 33 percent in 2008; the tax on outward profit remittances of 7 percent is being phased out, as well as the stamp tax on bank loans. A reform of the intergovernmental transfer system is expected to help maintain central government transfers broadly constant as a share of GDP through 2012. Energy subsidies have been reduced, while the issuance of new shares in the state oil company (ECOPETROL)—worth 10 percent of the firm—was completed in August, and steps to place the enterprise on a commercial basis were completed and endorsed by a shareholder assembly in November. An additional 10 percent of shares will be issued in 2008.

7. **Colombia has weathered well the recent turbulence in global markets.** Equity prices and spreads have moved broadly in line with regional averages (Figure 6). There have been no disruptions to debt markets. The exchange rate has been allowed to respond flexibly in recent months, and the nominal effective rate depreciated by 6 percent between mid-July and early December.

Recent Financial Market Developments
(As of cob December 7, 2007)
(In percent, unless otherwise indicated; cumulative change since July 23, 2007)

	Colombia	Other Major Latin America 1/
Equities	-3.6	-2.9
Nominal exchange rate (U.S. dollar) 2/	-5.0	2.6
Nominal effective exchange rate 2/	-6.4	...
EMBI+ spread (basis points)	46.2	43.3
1-year credit default swaps (basis points)	44.8	33.0

Sources: Bloomberg; and Datastream.

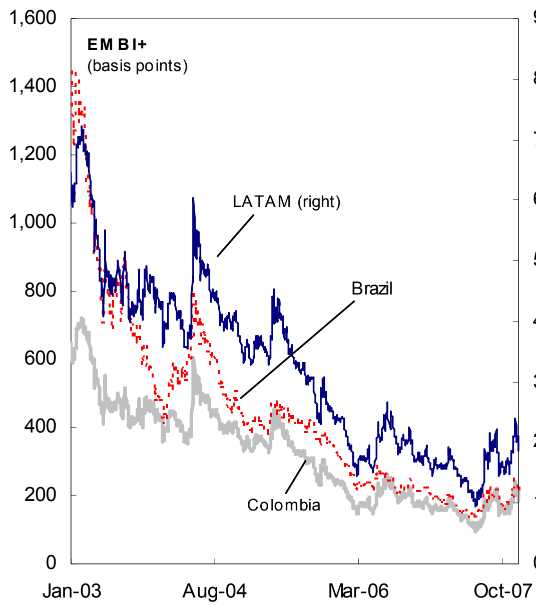
1/ Unweighted average for Argentina, Brazil, Chile, Mexico, and Peru.
2/ A negative value denotes a depreciation.

II. Outlook for 2008 and the Medium Term

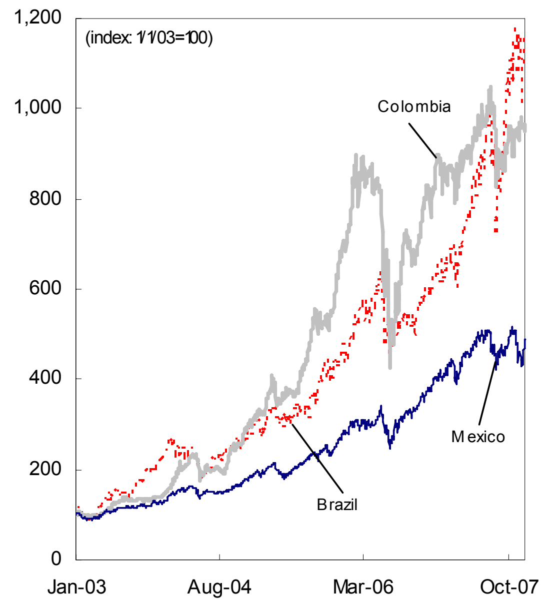
8. **The authorities aim to achieve a "soft landing" from the economic boom.** The authorities are targeting a gradual reduction of growth to a more sustainable level over the remainder of 2007 and beyond, which they expect to achieve through tight monetary policy. This would, in turn, lead to a reduction in inflation toward the long-term target of 2–4 percent. Over the medium term, they expect growth to average 5 percent, fueled by continued high rates of private investment. Fiscal deficits would average about 1 percent of GDP and public debt would continue to decline. The external current account deficit would also ease over the medium term.

Figure 6. Colombia: Financial Sector Developments

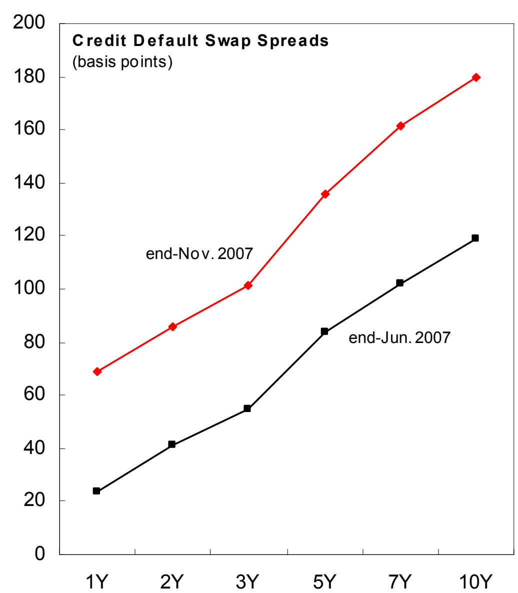
Colombia's spreads have moved in line with the region...



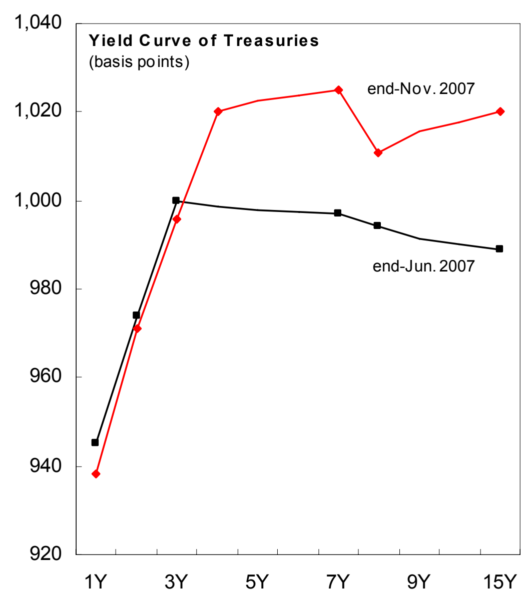
... while equity markets have lagged since early 2006.



With diminished appetite for EM assets since mid-2007, credit conditions in Colombia have tightened since end-June...



... and yields have increased at longer maturities.



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

9. **Staff projections indicate these objectives are broadly within reach.** The continued tight stance of monetary policy is expected to help ease the pace of economic growth to 5 percent in 2008 and beyond. Inflation is projected to decline to 4.3 percent by end-December 2008, within the BdR's target for 2008 of 3½–4½ percent. Inflation is projected to decline slowly over the medium term, in line with the gradual closing of the output gap. The current account deficit is forecast to rise in 2008, in part owing to a temporary spike in security-related imports. Thereafter, it is expected to decline slowly with the unwinding of cyclical factors and prudent macroeconomic policies. The improvement in the external current account would reflect an increase in public savings and a reduction in private investment from its peak levels during the boom of 2006–07.

Medium-Term Outlook (Based on Authorities' Policies)

	2006	2007	2008	2009	2010	2011	2012
	(Annual percentage change)						
Real GDP growth	6.8	6.8	5.0	5.0	5.0	4.8	4.8
Inflation, eop	4.5	5.3	4.3	4.0	3.8	3.5	3.3
	(In percent of GDP)						
Structural primary balances							
Central government	-0.3	0.6	-0.4	0.7	1.2	1.3	1.4
NFPS	3.0	3.1	2.0	2.0	2.1	2.2	2.5
Combined public sector balance	-0.8	-0.7	-1.4	-1.3	-1.2	-1.0	-0.7
Total public debt	43.0	38.3	37.8	35.6	34.3	32.5	30.6
External current account balance	-2.1	-4.0	-5.0	-3.9	-3.6	-3.1	-2.9
Financial account inflows	2.0	6.7	5.4	4.2	3.5	3.2	3.1
Of which: FDI	3.8	4.0	4.0	3.2	2.4	2.3	2.2

Sources: Colombian authorities; and Fund staff estimates and projections.

Savings and Investment Balance
(In percent of GDP)

	2006	2007	2008	2009	2010	2011	2012
Current account balance	**-2.1**	**-4.0**	**-5.0**	**-3.9**	**-3.6**	**-3.1**	**-2.9**
Private sector balance	**-1.5**	**-3.3**	**-3.7**	**-2.8**	**-3.0**	**-2.9**	**-3.1**
Savings	17.2	14.3	13.9	14.0	14.2	14.4	14.1
Investment	18.7	17.6	17.5	16.9	17.2	17.3	17.1
Public sector balance	**-0.7**	**-0.7**	**-1.3**	**-1.1**	**-0.7**	**-0.3**	**0.2**
Savings	4.2	4.7	5.0	5.7	5.8	5.8	6.1
Investment	4.9	5.4	6.3	6.8	6.5	6.1	5.9

Sources: Colombian authorities; and Fund staff estimates and projections.

10. **The external environment, however, poses an important risk to the outlook in the near term.** Staff estimates that a 1 percent reduction in world growth reduces Colombian

output by about 1½ percent—more than the Latin American average of about 1 percent.[2] A sudden reduction in demand from Venezuela would particularly weaken growth and the external accounts. A reduction in exports to Venezuela to the 2005 level, for example, would reduce receipts by about 1½ percent of GDP.[3] Colombia compares well to the emerging market average on most vulnerability indicators, although external debt sustainability analysis indicates a relatively high degree of sensitivity to a real exchange rate shock (Table A1). Public debt is below the emerging market average, but higher than average for emerging market countries at investment grade.

Selected Vulnerability Indicators, 2007
(In percent of GDP, unless otherwise indicated)

	Colombia 1/	Median, sample of 48 emerging market countries 1/
External sector		
Gross reserves in percent of short-term debt at remaining maturity	159.3	139.7
Total gross external debt	25.0	45.8
Current account balance	-4.0	-3.3
Foreign direct investment	4.0	3.8
Gross external financing requirement 2/	10.8	15.1
Public sector		
Overall balance	-0.7	-1.8
Public sector gross debt	38.3	41.5
Of which: Exposed to exchange rate risk 3/	16.4	16.3
Exposed to rollover risk (ST debt, residual maturity) 4/	4.0	4.2
Financial system		
Capital adequacy ratio, in percent	10.4	13.8
Non-performing loans, in percent of total loans	3.2	3.8
Return on average assets, in percent	2.5	1.7
Change in credit-to-GDP ratio, in percentage points 5/	4.9	3.0

Source: Fund staff estimates.

1/ For Colombia, data refer to 2007 where available. For other emerging markets, data refer to 2006 for stocks and mostly 2007 for flows.
2/ Current account balance plus maturing external debt.
3/ Debt in foreign currency or linked to the exchange rate, domestic and external.
4/ Short-term debt and maturing medium- and long-term debt, domestic and external, excluding external debt to official creditors.
5/ Credit to the private sector.

11. **Domestic risks are also important, including for inflation and the current account.** Staff views the risks for the projection for inflation and the current account as slanted to the upside. The economy may not slow as quickly as envisaged, resulting in higher inflation and a larger current account deficit than expected.

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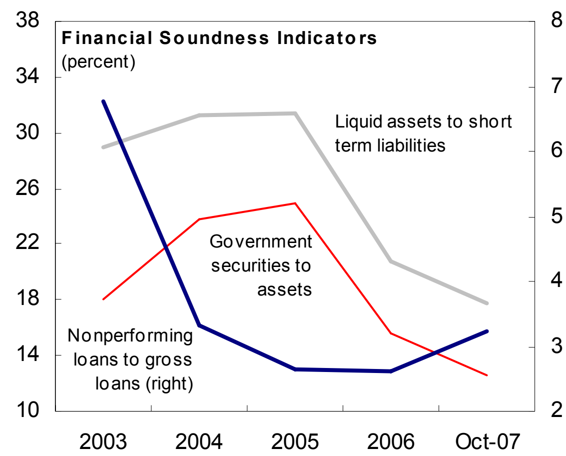
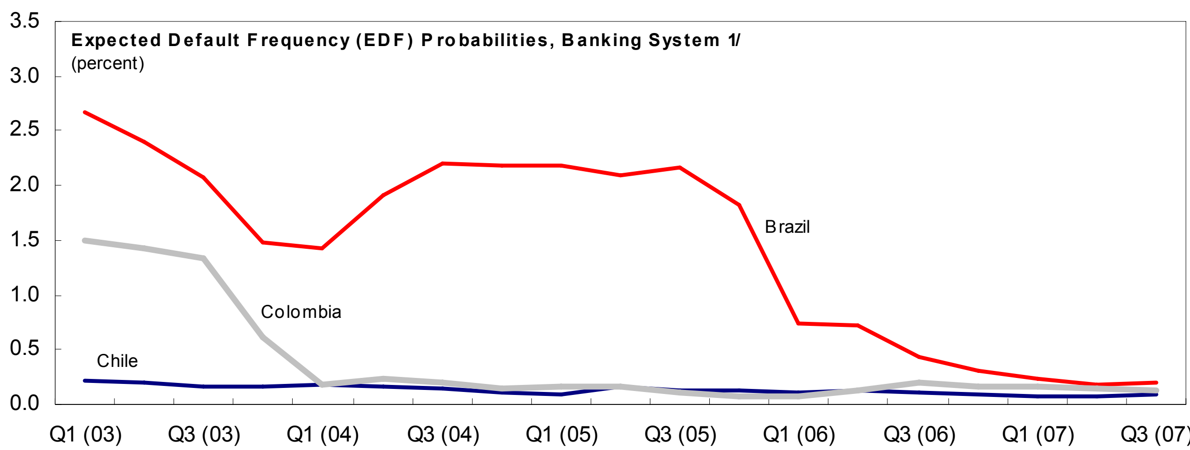
[2] See Chapter 2 of the Selected Issues paper for further examination of this issue.

[3] Manufactured goods comprise a large share of exports to Venezuela, and finding alternative markets for these products would be difficult in the short run.

12. **Financial sector indicators remain sound and point to relatively small chances of adverse macroeconomic spillovers in the near term.** While credit growth has been rapid, credit-to-GDP ratios are below their peak of the late 1990s and close to the emerging market average. The share of nonperforming loans has remained low, both on average and for the weakest performing banks. In light also of the high levels of provisioning, credit risk for the banking sector as a whole remains low. Liquidity ratios have declined, although liquidity remains sufficient to cover short-term maturity mismatches. Market risk remains the predominant risk to the financial system, with the BdR estimating that a 200 basis point increase in interest rates would reduce the profits of the banking system by 20 percent. Commercial banks appear resilient, with low estimated default probabilities.



Source: Superintendencia Financiera.



Sources: Creditedge (Moody's-KMV); and Fund staff estimates and projections.
1/ EDF refers to the probability that the banking system will default on non-equity obligations. This is based on the contingent claims approach, which uses equity market data to estimate risk indicators.

13. **The risk of contagion from a further worsening of problems in the subprime market, through its effect on parent banks in developed countries, is small.** Foreign banks account for about 20 percent of banking sector assets, compared with an average of over 30 percent in other large Latin American countries.

III. Policy Discussions

14. Against this background, the discussions focused on four interrelated areas, in line with the 2007 surveillance decision:

- ***An assessment of external stability and the level of the real effective exchange rate;***
- ***Policy options for achieving and maintaining external and domestic stability;***
- ***The appropriate mix of monetary and fiscal policy for achieving a soft landing; and***
- ***An assessment of financial stability in light of the recent turbulence in global financial markets.***

External stability and the real exchange rate

15. **The increase in the external current account deficit reflects mostly the cyclical position of the economy.** Both the authorities and staff envisage that prudent macroeconomic policies will ease domestic overheating pressures and reduce the growth of imports from the rapid pace of the past two years. Over the next five years, the current account is expected to improve as cyclical and temporary factors unwind, matched by a decline in public and private capital inflows. Adjusting for cyclical factors, staff estimates that the underlying current account deficit for 2007 is 2½–3 percent of GDP, similar to its estimate of the sustainable long-run equilibrium level (see Boxes 1 and 2). This assessment is consistent with the staff's analysis of the real effective exchange rate, which suggests that the real rate is in line with fundamentals. Reducing the current account deficit toward this long-run equilibrium level will nevertheless require judicious management of macroeconomic policies to slow the current rapid growth of domestic demand and imports.

16. **The authorities considered the risks posed by its growing dependence on exports to Venezuela as manageable.** The authorities viewed export growth to Venezuela as likely to remain robust in the short term, even if oil prices eased from their current high levels. At the same time, in order to further diversify trade and reduce dependence on any one country, they were actively pursuing free trade agreements (FTAs) with a broad range of trade partners. This included the FTA with the United States, whose approval by the U.S. Congress is still pending.

Box 1. Estimating the Underlying Current Account Balance in Colombia

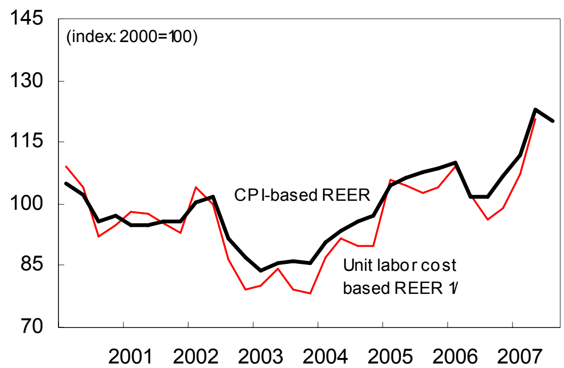
The methodology for assessing the underlying current account captures the temporary factors influencing both the trade balance and income flows. The table below shows the adjustment factors to the projected current account balance, based on econometric estimates of the influence of cyclical developments. A positive adjustment factor implies that the underlying current account is stronger than its present level. For example, a positive output gap in Colombia in 2007 is leading to a high level of imports relative to a cyclically-neutral position. Summing positive and negative adjustments together, the underlying current account in 2007 is estimated to be 2½–3 percent of GDP.

Underlying Current Account Balance in 2007: Adjustment Factors

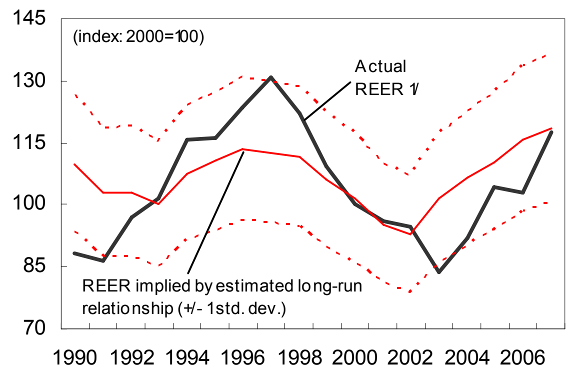
Current Account (as a share of GDP)	Adjustment Factor (as a share of GDP)	Concept	Explanation
-3.9 (Projected)			
	0.5	Output gap in Colombia	High level of imports, reflecting the fact that GDP is above potential in 2007.
	-0.5	Output gap trading partners	Exports benefiting from above-trend growth in its key trading partners, in particular Venezuela.
	0.6	Effect of cycle on RER	Real exchange rate more appreciated than its trend value; affects trade balance.
	0.0	Commodity prices	Net effect of cyclically adjusted prices for main exports (coal, coffee and oil).
	0.1	Labor remittances	Inward remittances are lower than predicted in 2007, based on emigration flows.
	-0.1	Factor income transfers (oil)	Oil prices below long-term level, reducing profit transfers relative to normal levels.
	0.6	Factor income transfers (non-oil)	High GDP growth, real exchange more appreciated than trend, and high FDI flows lead to above-trend profit transfers. Includes temporary effect of recent decreases in taxes on remittances.
-2.8 (Underlying)			

Box 2. Assessments of the Equilibrium Real Exchange Rate and Current Account

The peso appreciated rapidly in the first half of 2007. The nominal effective rate (NEER) appreciated by 18 percent from end-2006 through mid-June. Most of this has been reversed in the wake of recent global turbulence, but as of end-November, the NEER had still appreciated by about 7 percent since the beginning of the year.



1/ Based on partner countries with ULC data, which comprises 56 percent of Colombia's trade.



1/ 2007 based on the average for November.

A country-specific model of the equilibrium real exchange rate suggests that the value of the peso is consistent with fundamentals.[1] The model suggests that improvements in fundamentals—e.g., strong commodity prices and improved security—explain more than 40 percent of the appreciation since 2003. The remainder of the change can be explained by a reversal of the estimated undervaluation. The actual exchange rate, as of November, is at the point estimate of the equilibrium rate.

Alternative approaches also suggest the real exchange rate is in line with fundamentals. On average, panel estimates under the three methods for the CGER—based on the average exchange rate for November—suggest that the real rate is within 0–10 percent of its equilibrium value.[2]

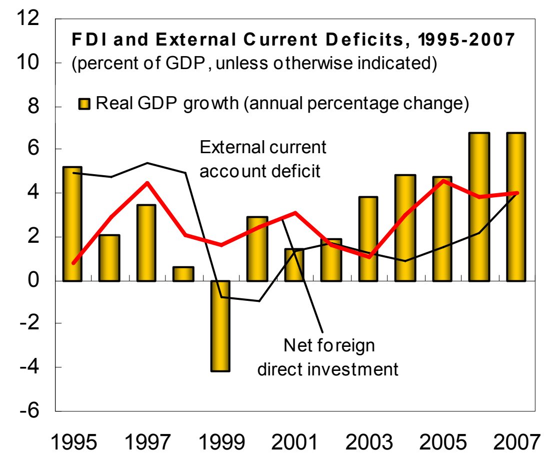
The real exchange rate is consistent with the staff estimate of the equilibrium current account deficit (2½–3 percent of GDP). Foreign direct investment (FDI) has increased sharply as a result of the improved business environment. This increase implies a reduction in net foreign assets (NFA) towards the emerging market average. In light of this, staff estimates the equilibrium current account deficit at about 2½–3 percent of GDP.

Other indicators suggest competitiveness remains strong. Developments in the REER, based on unit labor costs, closely track those of the CPI-based REER and indicate the current rate is close to its historical average. The continued strong growth of nontraditional exports (which surged by 20 percent (y/y) in the first three quarters of 2007) also suggests that the external sector remains competitive.

[1] See IMF Country Report No. 06/401.

[2] The average exchange rate for November is within 1 percent of the projected annual average for the year.

17. **Staff noted that the relatively high external current account deficit remained a potential vulnerability in light of the uncertain global environment.** Export growth was likely to remain robust in the short run. However, risks to the global environment had increased, with potential spillover effects on Colombian export growth. While the current account would be largely financed by FDI, this still entailed some risks, as this source of financing had shown considerable volatility in the past and tended to follow a procyclical pattern. The authorities noted that FDI was attracted not only by export opportunities, improved security, and high commodity prices, but by Colombia's large domestic market, which should help provide some stability to these flows going forward.



Source: IMF staff estimates.

Policies for achieving and maintaining external and domestic stability

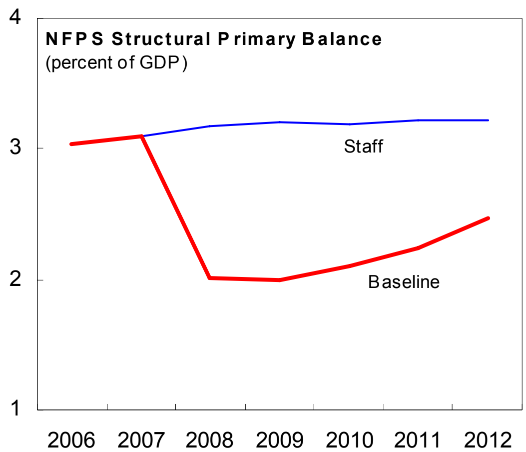
18. **The authorities concurred that overheating pressures remained a key challenge.** They broadly agreed with staff on the macroeconomic outlook, while pointing to uncertainty about the size of the output gap and the strength of excess demand pressures.

19. **The staff encouraged the authorities to incorporate fiscal adjustment into the policy mix.** Staff suggested that fiscal consolidation could help alleviate overheating pressures—especially in terms of lowering the external current account deficit—and reduce the burden on monetary policy for demand management. This policy mix would also help reduce upward pressures on the currency associated with monetary tightening and capital inflows.

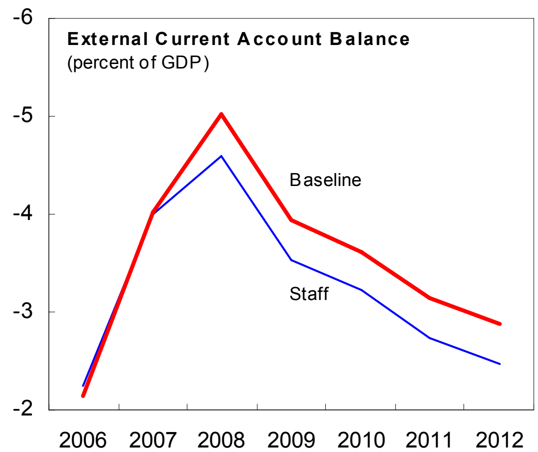
Fiscal policy

20. **The authorities are targeting a broadly neutral stance in 2007, followed by a fiscal expansion in 2008.** Fiscal balances are projected to remain broadly unchanged in 2007. Despite firm control of discretionary current expenditures, rising outlays for pensions and a one-off increase in security spending are projected to weaken the structural primary balance by 1 percentage point of GDP in 2008.

21. **Staff recommended a fiscal adjustment of ½–1 percent of GDP compared to the authorities' 2008 budget.** Under the scenario proposed by the mission, the CPS deficit would be no more than ½–1 percent of GDP in 2008. Assuming a 1 percent of GDP adjustment, the staff's estimates suggest that the external current account deficit would be reduced by about ½ percentage point of GDP below the baseline for 2008 and beyond.



Source: IMF staff estimates.



Source: IMF staff estimates.

Medium-Term Staff Scenario: Main Elements

	2004	2005	2006	Projections 2007	2008	2009	2010	2011	2012
	(Annual percentage changes)								
Real GDP growth	4.9	4.7	6.8	6.8	4.5	4.7	5.3	5.5	5.5
Inflation, eop	5.5	4.9	4.5	5.3	4.3	3.9	3.6	3.3	3.0
	(In percent of GDP)								
NFPS primary balance 1/	3.2	4.0	3.4	3.6	3.6	3.4	3.3	3.2	3.2
NFPS structural primary balance 1/	3.1	3.5	3.0	3.1	3.2	3.2	3.2	3.2	3.2
Combined public sector balance 1/	-1.3	0.0	-0.8	-0.7	-0.5	-0.2	0.0	0.4	0.7
Total public debt 1/	49.2	45.7	43.0	38.3	37.2	34.0	31.6	28.5	25.4
External current account balance	-0.9	-1.5	-2.2	-4.0	-4.6	-3.5	-3.2	-2.7	-2.5

Sources: Colombian authorities; and Fund staff estimates.

1/ Reflects adjustment of one percent of GDP in 2008 relative to the baseline.

22. **A stronger fiscal stance would also accelerate debt reduction and improve prospects for a rapid return to investment grade rating**. Under the staff scenario, the primary structural balance would remain broadly constant over 2007–12. This tighter stance would allow public debt to fall to below 30 percent of GDP by 2011, which would further increase the resilience of the Colombian economy to an uncertain global environment.[4] The staff agreed that there was no single public debt target (as a percent of GDP) to anchor fiscal policy, although some studies estimate that debt levels greater than 25 percent may be vulnerable.[5] The authorities noted they would give consideration to the staff's proposal to

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[4] Chapter 1 of the Selected Issues paper suggests that fiscal consolidation—through its favorable effects on risk premia and private investment—could also help raise growth over the medium term.

[5] See International Monetary Fund, 2003, *World Economic Outlook 2003: Public Debt in Emerging Countries* (Washington).

raise the primary balance by 1 percentage point of GDP over the next two years, and reiterated their commitment to continue to save any overperformance on revenues relative to the budget.

Structural fiscal reforms

23. **The commercialization of ECOPETROL is an important reform that will further strengthen Colombia's long-term growth prospects.** A sizable program of investment is now underway, financed by the issuance of shares to the private sector. The investment program is expected to lead to an increase in ECOPETROL's production by one-third between 2007 and 2011. Staff considers that the authorities have taken the required steps to place ECOPETROL's operations on a commercial basis, and that the fiscal risk posed by the enterprise is low.[6] Staff thus agreed that starting in 2008, ECOPETROL could be taken out of the fiscal indicators used to measure the fiscal policy stance, such the overall public sector deficit. These efforts have closely followed those undertaken to commercialize a national electricity company (ISA), which was subsequently removed from fiscal indicators under the Fund-supported program in 2004.

24. **Staff recommended that information on ECOPETROL's operations nevertheless continue to be reported in budget documents.** Given that the government remains the majority owner of the enterprise, and for reasons of fiscal transparency, it would still be useful to also report a combined public sector balance that includes ECOPETROL. The authorities agreed that operations on all public enterprises could be included in budget documents, but were not convinced of the need to provide an overall balance figure that included these firms.

Impact of ECOPETROL on the Fiscal Accounts
(In percent of GDP)

	2007	2008	2009	2010	2011	2012
Combined public sector balance						
Including ECOPETROL	-0.7	-2.3	-1.9	-1.4	-0.9	-0.7
Excluding ECOPETROL	-0.4	-1.4	-1.3	-1.2	-1.0	-0.7
Memorandum item:						
ECOPETROL investment	1.2	1.6	1.4	1.5	1.1	0.9
Of which: Direct investment abroad	0.0	0.3	0.3	0.2	0.2	0.1

Sources: Colombian authorities; and Fund staff estimates and projections.

25. **Reforms to improve the efficiency of public health care spending have also advanced.** The private sector is taking an increasingly important role in the management of

[6] As of November 2007, the authorities had taken all the remaining steps to place ECOPETROL's operations on a commercial basis. These included (i) removing the financial burden of the fuel subsidy from the enterprise to the budget; (ii) ensuring adequate protection of minority shareholder rights; and (iii) providing the firm the same independence as the private sector in personnel decisions.

public health insurance and the provision of health services. This has resulted in a sizable reduction in administrative costs and is expected to improve the efficiency of the public health system.

26. **Efforts to move forward on privatization are also underway, and a discussion on trade reform has been initiated.** The government is assessing the timetable for a possible privatization of two national electricity companies (ISA and ISAGEN). Initial proposals for rationalization of the import tariff structure were discussed with the private sector in November. The staff noted the importance of including import-competing sectors in the tariff reductions, as envisaged under the government's original proposal, to avoid an increase in effective rates of protection.

27. **The staff recommended a further deepening of the reform agenda:**

- On *tax reform*, important items in the original proposal excluded from the 2006 reform, notably a more aggressive reduction in the number VAT rates and tax exemptions, could be reexamined. In addition, a reduction of payroll taxation, and the elimination of the financial transactions tax, could be considered. While broadly agreeing on the desirability of these reforms, the authorities saw little political scope for moving forward in the near future.

- *Reducing revenue earmarking and budget rigidities.* Revenue earmarking and mandatory expenditure continue to hamper budget management, and options to alleviate these rigidities should continue to be explored. The results from the analysis of rigidities in the proposed annual budget should be assessed carefully, with a view to developing new proposals to address rigidities in the 2009 budget. Furthermore, shifting additional spending responsibilities for local roads to regional governments—as recommended by the Expenditure Commission—would provide more breathing room for the central government budget.[7] To minimize fiscal risks, this should only be extended to governments that have the capacity to undertake these additional spending responsibilities.

28. **The recent decree creating new special tax zones (*zonas francas*) should be assessed carefully**. The measure widens the eligibility of firms qualifying for a much lower income tax rate and other tax benefits. The full revenue effects of this measure are still being assessed by the authorities. Staff recommended that this measure be administered carefully to minimize its fiscal effects. The mission expressed its concern that the measure was at odds with the authorities' desire to improve the efficiency of the tax system and provide a level playing field across activities. The authorities indicated that they remained committed to the overall fiscal targets, and would take offsetting measures if needed.

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[7] The Expenditure Commission comprised a group of eminent economists in Colombia, assembled by the government in May 2007, to examine options for reducing public expenditures.

Monetary and exchange rate policy

29. **Staff endorsed the tighter monetary policy stance being implemented by the BdR.** Both staff and the authorities agreed that economic developments would need to be monitored carefully to determine whether additional tightening was needed.

30. **There may be scope to further strengthen the inflation targeting framework.** Under the present framework, each November the BdR announces a 1 percent target band for end-December inflation for the following year. It also announces a range for the mid-point of the target for the subsequent year.[8] Staff noted that there may be advantages for Colombia to move to an 18- or 24-month ahead target on a rolling basis. Given that the full effect of monetary policy on inflation took longer than a year, more frequent communication on the targeted disinflation path, beyond immediate calendar year targets, would enhance the public's understanding of monetary policy decisions.

31. **The authorities viewed their present system as more desirable for Colombia at this juncture.** They viewed the present framework—based on a very narrow range—as sufficient to anchor inflation expectations. They also thought that quarterly revisions of the targeted inflation path could lead to requests for more frequent wage negotiations. At the same time, they agreed with staff that there were some advantages in adopting an 18–24 month target, but only after reaching the long-term inflation goal of 2–4 percent.

32. **Staff saw advantages in gradual phasing out of the marginal reserve requirement.** This measure had increased borrowing spreads and reduced the efficiency of the financial system. The authorities agreed that the measure had undesirable effects, but noted that its removal would need to wait until credit growth had sufficiently slowed.

33. **Staff commended the BdR's decision to refrain from discretionary foreign exchange intervention and allow for more exchange rate flexibility.** The exchange rate regime is classified as a managed float. The mission suggested that consideration be given to widening the band of the automatic exchange intervention target or phasing it out completely. The team noted that continued flexibility of the exchange rate would be an important anchor for external stability going forward, as it would allow the external accounts to adjust rapidly to changes in the international environment without the buildup of large imbalances.

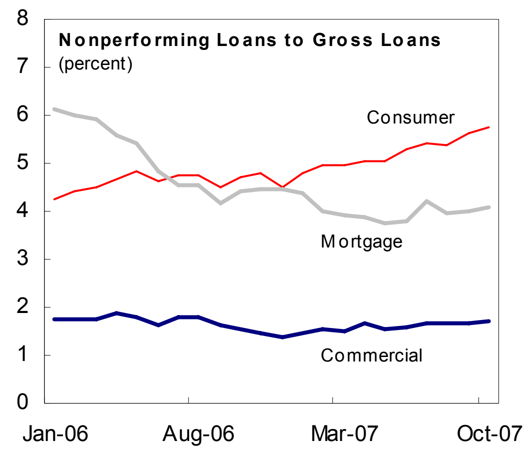
34. **Staff suggested that the impact of capital controls be examined carefully.** The controls are unlikely to be effective over the longer term and are at odds with the government's desire to deepen Colombia's financial markets through the increased participation of foreign capital. The staff's preliminary assessment is that in the short run, the controls reduced portfolio inflows and borrowing. Given the small share these comprise in

[8] The mid-point for the 2009 target range is 3–3.5 percent, which implies a target range of 2½–4 percent.

total capital inflows, however, the effect on the exchange rate was probably modest (Box 3). In light of their possible adverse effects on capital market development over the medium term and limited effectiveness, staff argued that the best course of action would be to eliminate the controls. The authorities noted that they viewed the controls as temporary, although no timetable for their elimination could be established at the present time.

Strengthening financial stability

35. **While financial indicators remain strong, the authorities agreed that the increase in nonperforming loans for consumer credit required vigilance.** With interest rates expected to remain high and economic growth to slow, nonperforming loans in this segment—which had risen to over 5½ percent—could rise further in the future and thus required careful monitoring. For the financial system as a whole, the introduction of a countercyclical element to provisioning had led to a strengthening of the financial system during the current economic upswing. At the same time, it would be important to examine whether the countercyclical adjustment to provisioning levels was sufficient to cover the duration of a typical economic slowdown. The decline in liquidity ratios, associated with a recomposition of bank assets toward lending, would also require close monitoring.

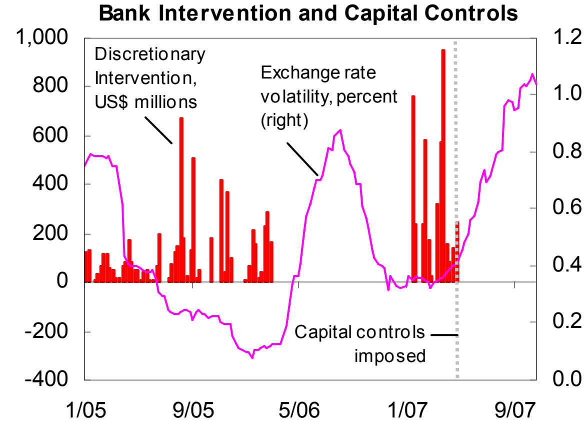


36. **There is also scope to strengthen further the assessment of risks relating to the rapid growth of credit.** Staff noted it would be useful to assess the potential risks associated with any concentration of banks' lending portfolios (e.g., lending to sectors that are highly dependent on Venezuela). Consideration could also be given to strengthening the assessment of lending standards being followed by the banks, perhaps through a high-frequency survey of bank lending officers. Such a survey would be useful, for example, to understand how episodes of global economic turbulence, or other shocks, affect lending behavior.

Box 3. Assessing the Impact of Capital Controls

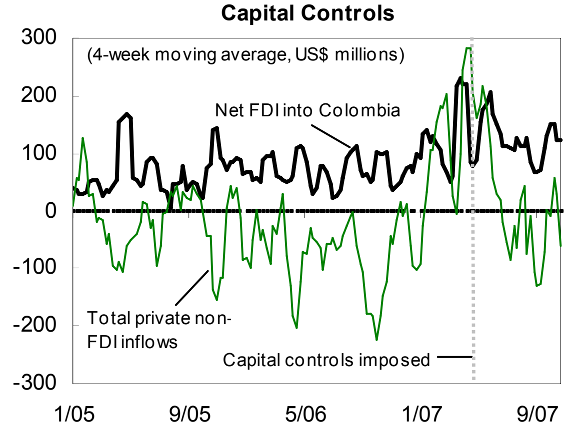
The decline in capital inflows since May has coincided with both the introduction of capital controls and changes in other determinants of these inflows. Their introduction coincided with a steep increase in exchange rate volatility, which reduced the incentives for foreign investors to exploit interest rate differentials. The authorities also imposed, simultaneously, new limits on derivative positions, and the BdR abandoned its policy of discretionary foreign exchange intervention—both of which had facilitated the carry trade by providing a conduit for investors seeking to purchase Colombian assets (Figure 1).

Figure 1. Exchange Rate Volatility, Central Bank Intervention and Capital Controls



Despite these caveats, it is likely that the controls had some modest effects. Econometric analysis by staff suggests that controls have significantly reduced inflows on the specific categories affected by the controls (foreign borrowing and portfolio inflows). However, staff estimates also indicate that the capital controls have had no statistically significant effect on the overall level of inflows, which are mostly explained by foreign direct investment (FDI) and the net drawdown of residents' bank accounts abroad (Figure 2). Because debt and portfolio inflows only account for about a fourth of total capital inflows, the impact of the controls on the exchange rate has probably been small.

Figure 2. FDI and Non-FDI inflows and Capital Controls



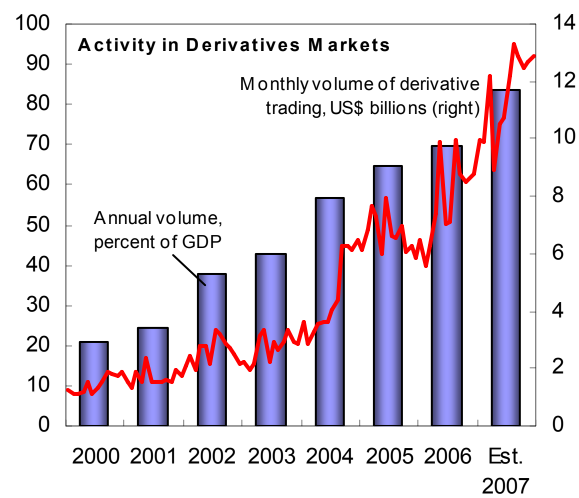
Further research will be needed to provide a comprehensive assessment of the effect of capital controls. Further work is needed to assess the effect of controls on banks' derivative positions on the spot and forward exchange rates. The role of FDI operations and special vehicle purposes in evading the controls also deserves further examination. Previous research suggests that the effects of capital controls in emerging markets are likely to be short-lived, and entail significant microeconomic costs.[1]

[1] See International Monetary Fund, 2007, *World Economic Outlook 2007: Globalization and Inequality* (Washington).

37. **The staff welcomed the authorities' plans to strengthen further their capacity for risk-based supervision.** The planned sequencing of reforms—to invest substantially in training before implementing the Basel II risk-based supervisory framework—is appropriate. The new risk-based framework is being implemented gradually, with banks now being allowed to submit their credit risk models for commercial loans this year, while consumer credit and mortgage-based models would be eligible for submission in 2008 and 2009, respectively.

38. **The authorities are undertaking important reforms to develop the financial system.** The government's proposed financial sector reform would help promote universal banking, develop the pension system, and further liberalize the insurance sector. The staff viewed steps to strengthen the independence of the Financial Superintendent—by providing a fixed-term appointment—as among the most important of the proposed reforms. It welcomed the proposal to explicitly delineate a narrow set of conditions under which the Superintendent could be dismissed, which would be essential for ensuring independence. Staff suggested that the fixed term might also be designed so as to overlap with the presidential term, further increasing the autonomy of the Superintendent. Looking forward, it would also be useful to broaden financial sector reform by including steps to strengthen creditor rights.

39. **The government's intention to improve the framework for the regulation and supervision of derivatives markets is appropriate.** The derivatives market has grown briskly in recent years, and these instruments have played a key role as a conduit for carry trade. The Banco de la República, Financial Superintendency, and Ministry of Finance are carefully examining the recommendations of the recent IMF technical assistance mission and planning to incorporate many of them into the revised regulations. The staff noted that further cooperation across these three institutions will be necessary to make further progress in this area.



40. **Colombia maintains two exchange measures subject to Article VIII.**[9] An exchange restriction and multiple currency practice arise from a tax on remittances abroad of nonresident profits earned before 2007 and retained in the country for less than five years. The Board has approved the retention of this restriction and multiple currency practice until

[9] See Appendix I.

January 15, 2009. Colombia also maintains an exchange restriction arising from the special regime for the hydrocarbons sector.

IV. Staff Appraisal

41. **Supported by sound economic policies, Colombia's economic performance has been strong**. The economic reforms adopted since 1999 have helped to increase private investment, raise economic growth, and reduce inflation, while strengthening the public finances and the financial system. Provided that sound policies are maintained, Colombia's medium-term prospects are favorable, with solid economic growth in the context of low inflation, external stability, and declining public debt ratios.

42. **Rapid economic growth in 2006–07 has, however, led to overheating pressures.** The authorities have relied on monetary policy to address these pressures, with fiscal policy being broadly neutral in 2007, following some easing the previous year. While inflation has declined from its peak of 6¼ percent in April 2007, staff project it would close 2007 at some 5¼ percent, outside the Banco de la República's target of 3½–4½ percent. The current account deficit is forecast to double to 4 percent of GDP, one of the highest in the region.

43. **The near-term macroeconomic outlook is positive, although important risks remain.** As the effects of monetary tightening are fully realized, growth is expected to ease to a more sustainable rate in 2008, contributing to a decline in inflation. The current account deficit, however, is projected to rise to almost 5 percent of GDP, partly because of a temporary spike in security-related imports. The uncertain global environment poses an important risk to the outlook in the near term. There are also important domestic risks, as a slower-than-expected response of domestic demand to monetary tightening could lead to continued inflationary pressures.

44. **A tighter fiscal policy stance could help alleviate overheating pressures and diminish some of these risks.** The 2008 budget implies an expansionary fiscal stance in 2008, with the primary structural balance deteriorating by 1 percentage point of GDP. A tighter fiscal stance would help reduce excess demand pressures and lower the current account deficit, while easing the burden on monetary policy for demand management. At the same time, it would help to reduce public debt more rapidly and build Colombia's resilience to shocks, and improve prospects for achieving the government's goal of recovering investment grade status.

45. **Colombia's flexible exchange rate regime is consistent with the maintenance of external stability.** The recent appreciation of the peso has been driven largely by increased confidence and stronger economic fundamentals, and the real exchange rate is close to its equilibrium level. The rising external current account deficit has largely reflected the cyclical position of the economy. With prudent demand management policies in place, excess demand pressures are expected to ease and the actual current account deficit to decline gradually toward its estimated equilibrium level of about 2½–3 percent of GDP. Going

forward, it would be important that the exchange rate continue to be allowed to move flexibly to help the economy respond rapidly to changes in external conditions. Staff welcomes the relaxation of capital controls undertaken in December, and recommends that the authorities consider a complete phasing out of the controls in the near term, given their limited effectiveness.

46. **Structural fiscal reforms continue to move forward**. While less comprehensive than the original government proposal, the 2006 tax reform reduced some of the system's distortions, while the reform of the intergovernmental transfers system will help contain the growth of central government spending. The commercialization of ECOPETROL is expected to further enhance Colombia's growth prospects over the medium term. In keeping with Colombia's excellent track record of fiscal transparency, staff recommends that ECOPETROL's operations, and a measure of the CPS balance including this enterprise, continue to be reported in budget documents. On trade reform, staff notes the importance of ensuring that changes in the tariff structure do not result in an increase in the level or dispersion of effective protection. Staff recommends careful administration of the recent decree on special tax zones to minimize negative revenue effects, and fully supports the authorities' plans to take offsetting measures, if needed, in order to protect the fiscal targets.

47. **There is scope to deepen the agenda of fiscal reform.** Staff would support the reconsideration of earlier tax reform proposals seeking to improve the efficiency of the tax system, notably by reducing the number of VAT rates and tax exemptions, phasing out the financial transactions tax, and reducing payroll taxation. There is also scope to limit revenue earmarking and other budget rigidities. Finally, staff encourages the authorities to move forward with the privatization of ISA and ISAGEN.

48. **Efforts to strengthen the financial system are continuing.** The introduction of countercyclical provisioning in the banking system, and plans for further strengthening the authorities' capacity for risk-based supervision, are welcome. Steps to increase the independence of the Financial Superintendent—by providing a fixed-term appointment—are among the most important of the proposed financial sector reforms. Looking forward, the reform agenda could also be broadened to include the strengthening of creditor rights.

49. **The authorities have made progress on the removal of exchange restrictions.** They have eliminated the tax on remittances of nonresident profits earned in 2007 and beyond. Colombia maintains one unapproved exchange restriction arising from the special regime for the hydrocarbons sector. Staff does not recommend approval of the retention of this restriction, since there is no timetable for its removal.

50. It is recommended that the next Article IV consultation be held on the 12-month cycle.

Table 1. Colombia: Selected Economic and Financial Indicators

I. Social and Demographic Indicators

Population (millions), 2006	46.8	Physicians (per 100,000 people), 2000-04	135.0
GDP, 2006		Adult illiteracy rate (percent ages 15+), 1995-05	7.2
per capita (US$)	2,910	Sustainable access to safe water, 2004	
in billions of Col$	321,018	(percent of population)	93.0
in billions of US$	136.1	Gini index, 2003	58.6
Unemployment rate, Oct. 2007 (percent)	10.0	Inequality (ratio of richest 20% to poorest 20%), 2003	25.3
Life expectancy at birth (years) (HDI), 2000-05	72.3	Poverty rate, 2006	45.1
Under 5 mortality rate (per 1,000 live births), 2005	21.0	Extreme poverty rate, 2006	12.0

II. Economic Indicators

					Projections	
	2003	2004	2005	2006	2007	2008
(Percentage changes, unless otherwise indicated)						
National income and prices						
Real GDP	3.9	4.9	4.7	6.8	6.8	5.0
GDP deflator	8.1	7.6	5.7	5.4	2.0	5.2
Consumer prices (average)	7.1	5.9	5.0	4.3	5.6	4.8
Consumer prices (end of period)	6.5	5.5	4.9	4.5	5.3	4.3
External sector (on the basis of US$)						
Exports (f.o.b.)	12.1	24.7	26.2	15.9	15.2	10.8
Imports (f.o.b.)	9.8	19.8	26.8	23.5	27.3	16.9
Terms of trade (deterioration -)	1.7	8.1	12.6	3.0	0.6	7.4
Real effective exchange rate (depreciation -)	-2.6	13.3	11.6	-1.9	...	...
Central government						
Revenue	-0.5	31.2	14.8	22.8	14.3	17.6
Expenditure	-6.7	32.7	10.3	16.8	9.5	16.9
Money and credit						
Broad money	10.6	19.2	17.6	18.0	17.5	12.5
Credit to the private sector	8.8	29.8	11.3	38.5	25.0	17.5
Interest rate (90-day time deposits; percent per year) 1/						
Nominal	8.0	7.8	6.3	6.8	8.6	…
Real	1.5	2.3	1.4	2.3	3.3	…
(In percent of GDP)						
Central government balance	-4.5	-5.4	-4.8	-4.1	-3.3	-3.4
Nonfinancial public sector balance	-3.2	-1.5	0.0	-1.2	-1.0	-1.7
NFPS primary balance	1.5	3.2	4.0	3.4	3.6	2.6
Combined public sector balance	-2.7	-1.3	0.0	-0.8	-0.7	-1.4
Foreign financing	1.0	0.5	-1.7	-0.1	0.9	0.6
Domestic financing 2/	1.8	0.9	1.6	1.0	-0.1	0.8
Privatization	-0.1	0.0	0.0	0.0	0.0	0.1
Public debt 3/	53.3	49.2	45.7	43.0	38.3	37.8
Gross domestic investment 4/	17.2	19.2	20.8	23.5	22.9	23.9
Gross national savings	16.0	18.3	19.2	21.4	18.9	18.8
Current account (deficit -)	-1.2	-0.9	-1.5	-2.1	-4.0	-5.0
External debt	46.2	36.6	30.8	27.9	24.9	25.9
Of which: public sector	29.8	23.9	19.3	18.3	16.4	17.1
NIR in percent of short-term debt	118.0	99.0	108.1	153.4	159.3	152.7
(In percent of exports of goods, services, and income)						
External debt service	55.8	37.8	45.8	36.0	28.8	28.6
Of which: public sector	33.0	18.3	31.0	20.0	15.3	14.1
Interest payments	14.8	11.7	11.8	9.4	9.1	9.4
Of which: public sector	10.5	8.4	8.7	6.4	6.5	6.8
(In millions of U.S. dollars)						
Overall balance of payments	-183.8	2,541.1	1,728.7	22.8	4,627.2	702.2
Net official reserves	10,524	13,197	14,721	15,127	19,910	20,391
Net official reserves (in months of imports of goods and services)	6.4	6.4	5.8	4.8	5.5	5.6

Sources: Colombian authorities; UNDP Human Development Report 2007/2008; World Development Indicators; and Fund staff estimates and projections.

1/ Data for 2007 refer to October 2007.
2/ Includes the quasi-fiscal balance of Banco de la República, sales of assets, phone licenses, and statistical discrepancy.
3/ Includes bonds issued to recapitalize financial institutions.
4/ Data on fixed capital formation were revised starting in 2003.

Table 2. Colombia: Operations of the Combined Public Sector 1/
(In percent of GDP)

					Projections					
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Total revenue	**30.0**	**30.0**	**30.6**	**32.7**	**33.2**	**31.6**	**31.5**	**31.7**	**31.4**	**31.3**
Tax revenue	19.5	19.5	19.9	23.0	24.1	24.8	24.9	25.0	24.6	24.5
Nontax revenue	10.5	10.6	10.8	9.6	9.1	6.8	6.6	6.7	6.8	6.8
Financial income	1.1	1.5	1.5	1.4	1.5	1.3	1.3	1.3	1.3	1.3
Operating surplus of public enterprises	4.6	3.4	3.9	4.3	3.9	0.1	0.2	0.2	0.2	0.2
Of which : Ecopetrol	2.9	3.4	3.6	4.1	3.7	...	...	...	...	...
Other	4.8	5.6	5.4	4.0	3.7	5.4	5.1	5.2	5.3	5.3
Total expenditure and net lending 2/	**32.5**	**31.2**	**30.8**	**33.7**	**34.2**	**33.3**	**33.1**	**33.3**	**32.8**	**32.4**
Current expenditure	**24.3**	**25.6**	**25.0**	**27.1**	**27.0**	**26.4**	**26.2**	**26.5**	**26.2**	**25.8**
Wages and salaries	7.3	6.9	6.7	7.0	7.0	7.0	7.0	6.9	6.8	6.6
Goods and services	3.3	4.4	4.3	4.3	4.4	3.9	3.8	3.8	3.7	3.7
Interest	4.7	4.7	4.0	4.6	4.7	4.3	4.0	4.0	3.7	3.6
External	2.1	1.9	1.6	1.4	1.2	1.3	1.3	1.4	1.5	1.5
Domestic	2.7	2.8	2.4	3.3	3.5	3.1	2.7	2.5	2.3	2.2
Transfers to private sector	9.1	7.7	7.9	8.8	9.3	9.2	9.7	10.2	10.2	10.3
Of which: from social security	6.9	6.8	6.8	7.6	8.1	8.5	9.0	9.5	9.6	9.6
Other 5/	-0.1	1.9	2.1	2.4	1.7	1.9	1.7	1.7	1.7	1.6
Capital expenditure	**8.2**	**5.6**	**5.8**	**6.6**	**7.2**	**6.9**	**6.9**	**6.8**	**6.7**	**6.6**
Fixed capital formation (cash basis)	8.1	5.5	5.8	6.5	7.1	6.7	6.8	6.7	6.6	6.5
Transfers	0.1	0.1	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Other (including floating debt) 3/	0.1	0.0	0.0	0.1	0.0	0.1	0.1	0.0	0.0	0.0
Net lending	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Statistical discrepancy	-0.7	-0.3	0.2	-0.2	0.0	0.0	0.0	0.0	0.0	0.0
Nonfinancial public sector balance	**-3.2**	**-1.5**	**0.0**	**-1.2**	**-1.0**	**-1.7**	**-1.7**	**-1.6**	**-1.4**	**-1.2**
Quasi-fiscal balance (BR cash profits)	0.6	0.5	0.2	0.4	0.5	0.4	0.4	0.3	0.3	0.3
FOGAFIN balance	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Net cost of financial restructuring 4/	-0.4	-0.5	-0.4	-0.3	-0.3	-0.3	-0.2	-0.1	-0.1	0.0
Combined public sector balance	**-2.7**	**-1.3**	**0.0**	**-0.8**	**-0.7**	**-1.4**	**-1.3**	**-1.2**	**-1.0**	**-0.7**
Memorandum items:										
NFPS primary balance	1.5	3.2	4.0	3.4	3.6	2.6	2.4	2.4	2.3	2.5
NFPS primary structural balance	1.3	3.1	3.5	3.0	2.8	3.0	3.0	2.8	2.6	2.7
NFPS operations including ECOPETROL										
Revenue	30.0	30.0	30.6	32.7	33.2	32.4	32.3	32.7	32.4	32.3
Expenditure	32.5	31.2	30.8	33.7	34.2	35.0	34.6	34.5	33.8	33.5
Overall CPS balance including ECOPETROL	-2.7	-1.3	0.0	-0.8	-0.7	-2.3	-1.9	-1.4	-0.9	-0.7

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

1/ Excludes operations of ECOPETROL from 2008-12.
2/ Expenditure reported on commitments basis.
3/ Includes adjustments to put spending on commitment basis and the change in unpaid bills of selected nonfinancial public enterprises.
4/ Interest payments on public banks restructuring bonds and mortgage debt relief related costs.

Table 3. Colombia: Operations of the Central Government 1/
(In percent of GDP)

	2003	2004	2005	2006	Projections 2007	2008	2009	2010	2011	2012
Total revenue	**13.3**	**15.5**	**16.1**	**17.6**	**18.4**	**19.6**	**18.9**	**19.0**	**18.6**	**18.6**
Current revenue	**13.3**	**15.5**	**16.1**	**17.6**	**18.4**	**19.6**	**18.9**	**19.0**	**18.6**	**18.6**
Tax revenue 2/	12.1	14.2	14.8	16.0	16.8	17.4	17.3	17.6	17.2	17.2
Net income tax and profits	4.5	6.1	6.1	6.7	6.4	6.2	6.4	6.7	6.8	6.8
Goods and services	5.5	6.2	6.5	6.9	7.7	8.1	8.2	8.3	8.3	8.3
Value-added tax	5.1	5.8	6.1	6.6	7.3	7.7	7.8	7.9	7.9	7.9
Gasoline tax	0.4	0.4	0.4	0.4	0.4	0.4	0.3	0.3	0.3	0.3
International trade	0.8	0.9	1.0	1.1	1.2	1.2	1.2	1.2	1.2	1.2
Financial transaction tax	0.6	0.9	0.8	0.8	0.9	0.9	0.9	0.9	0.9	0.9
Stamp and other taxes	0.7	0.2	0.4	0.4	0.6	1.0	0.6	0.5	0.0	0.0
Nontax revenue	1.2	1.2	1.3	1.6	1.6	2.2	1.6	1.4	1.4	1.4
Property income	0.2	0.2	0.2	0.3	0.2	0.2	0.2	0.2	0.2	0.2
Other	1.0	1.1	1.1	1.3	1.5	2.0	1.4	1.3	1.3	1.2
Total expenditure and net lending	**17.8**	**20.9**	**20.9**	**21.6**	**21.7**	**23.0**	**21.8**	**21.3**	**20.8**	**20.7**
Current expenditure	**14.7**	**17.5**	**17.7**	**18.2**	**18.2**	**18.7**	**17.8**	**17.7**	**17.4**	**17.2**
Wages and salaries	2.6	2.8	2.5	2.6	2.6	2.6	2.6	2.6	2.5	2.5
Goods and services	1.3	1.4	1.5	1.6	1.5	1.5	1.5	1.4	1.4	1.3
Interest	3.5	3.8	3.5	4.2	4.3	4.0	3.8	3.7	3.6	3.5
External	1.6	1.6	1.5	1.2	1.1	1.2	1.2	1.2	1.2	1.1
Domestic	1.8	2.2	2.0	2.9	3.2	2.8	2.6	2.5	2.4	2.4
Other expenditure 3/	-0.5	0.5	0.2	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Current transfers 4/	7.8	9.1	10.0	9.7	9.9	10.6	10.0	10.0	9.9	9.9
Capital expenditure	**2.7**	**3.3**	**3.0**	**3.3**	**3.4**	**4.2**	**3.9**	**3.6**	**3.4**	**3.4**
Fixed capital formation 3/	1.0	1.4	1.5	1.8	1.9	2.7	2.4	2.1	1.9	2.0
Capital transfers	1.7	1.9	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.4
Net lending	**0.3**	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**	**0.0**	**0.0**
Overall balance	**-4.5**	**-5.4**	**-4.8**	**-4.1**	**-3.3**	**-3.4**	**-2.9**	**-2.3**	**-2.2**	**-2.1**
Memorandum item:										
Primary balance	**-1.0**	**-1.6**	**-1.4**	**0.1**	**1.0**	**0.6**	**0.9**	**1.4**	**1.4**	**1.4**

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

1/ Includes central administration only.
2/ Excludes proceeds of financial transaction tax in 1999 from revenue and expenditure.
3/ Includes change in the budget carryover. A negative number corrects for current cash payments of expenditures incurred in previous periods.
4/ Includes interest payment to the rest of the nonfinancial public sector.

Table 4. Colombia: Monetary Indicators

	2002	2003	2004	2005	2006	Sep 2007
(In billions of Colombian pesos, unless otherwise indicated)						
Central Bank						
Net Foreign Assets	31,534	31,680	33,442	35,192	35,647	42,603
Gross international reserves	30,667	30,857	32,635	34,557	34,878	41,843
in billions of US$	10.7	11.1	13.5	15.1	15.7	20.8
Short-term foreign liabilities	114	218	269	398	326	280
Other net foreign assets	1,411	1,457	1,266	1,228	1,257	1,168
Net domestic assets	-17,429	-15,065	-14,180	-12,387	-8,615	-16,564
Net credit to the public sector	2,095	2,862	-202	-1,541	-284	-6,364
TES	2,362	3,193	975	2,594	2,439	1,447
Other	-267	-331	-1,177	-4,135	-2,722	-7,811
Net credit to the financial system	2,186	3,626	2,513	3,954	6,598	612
Other	-21,709	-21,553	-16,492	-14,800	-14,930	-10,811
Monetary base	14,105	16,615	19,262	22,805	27,032	26,039
Currency in circulation	9,991	12,036	13,784	16,377	20,120	18,093
Deposit money banks reserves	4,086	4,530	5,441	6,412	6,896	7,924
Other deposits	28	48	36	16	16	22
Financial system						
Net foreign assets	25,797	28,466	34,724	34,933	37,351	44,940
in billions of US$	9.0	10.2	14.4	15.3	16.8	22.3
Net domestic assets	41,561	46,009	54,081	69,530	85,868	89,068
Net credit to public sector	12,756	20,933	23,039	28,102	20,587	10,315
Credit to private sector	52,535	57,177	74,239	82,660	114,502	134,641
Other net	-23,730	-32,101	-43,197	-41,231	-49,221	-55,888
Broad money	67,358	74,476	88,805	104,463	123,219	134,008
(Annual percentage change)						
Credit to public sector, net	-40.0	64.1	10.1	22.0	-26.7	-44.7
Credit to private sector	6.2	8.8	29.8	11.3	38.5	34.5
Currency	-3.5	20.5	14.5	18.8	22.9	8.0
Monetary base	21.1	17.8	15.9	18.4	18.5	12.8
Broad money	4.6	10.6	19.2	17.6	18.0	18.5
(In percent of GDP)						
Credit to public sector, net	6.3	9.2	8.9	9.8	6.4	3.0
Credit to private sector	25.8	25.0	28.8	29.0	35.7	39.4
Currency	4.9	5.3	5.3	5.7	6.3	5.3
Monetary base	6.9	7.3	7.5	8.0	8.4	7.6
Broad money	33.1	32.6	34.5	36.6	38.4	39.3
(In percent, unless otherwise indicated)						
Memorandum items:						
Central bank inflation target (end-year)	6.0	5.9	5.5	4.5-5.5	4.0-5.0	3.5-4.5
CPI inflation	7.0	6.5	5.5	4.9	4.5	5.0
Exchange rate depreciation	24.5	-2.9	-13.3	-5.3	-2.6	-16.0
Nominal GDP (COP billions)	203,451	228,517	257,746	285,313	321,018	342,641

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

Table 5. Colombia: Summary Balance of Payments

	2003	2004	2005	2006	Projections 2007	2008	2009	2010	2011	2012
	(In millions of U.S. dollars)									
Current account balance	**-974**	**-906**	**-1,881**	**-3,057**	**-6,710**	**-9,190**	**-7,441**	**-7,197**	**-6,780**	**-6,674**
Trade balance	555	1,346	1,595	322	-2,652	-4,880	-3,309	-3,014	-2,632	-2,113
Exports, f.o.b.	13,812	17,224	21,729	25,181	28,997	32,125	33,984	35,730	37,806	41,232
Coffee	809	949	1,471	1,461	1,560	1,365	1,327	1,283	1,267	1,259
Petroleum products	3,383	4,227	5,559	6,328	6,463	8,385	8,016	6,944	5,674	6,011
Non-traditional	6,234	8,149	9,863	11,749	14,371	16,083	18,372	21,197	24,184	27,184
Other	3,385	3,898	4,836	5,642	6,602	6,293	6,269	6,307	6,681	6,778
Imports, f.o.b.	13,258	15,878	20,134	24,859	31,650	37,005	37,292	38,744	40,438	43,345
Services (net)	-1,439	-1,680	-2,102	-2,120	-2,305	-2,709	-2,765	-2,914	-3,074	-3,295
Income (net)	-3,398	-4,297	-5,456	-6,003	-7,047	-7,365	-7,243	-7,333	-6,700	-7,093
Interest (net)	-1,996	-1,996	-2,051	-1,693	-1,530	-1,855	-1,719	-1,809	-2,080	-2,196
Of which: public sector	-1,447	-1,475	-1,587	-1,209	-1,233	-1,391	-1,332	-1,425	-1,464	-1,572
Other Income (net)	-1,402	-2,300	-3,405	-4,310	-5,518	-5,510	-5,524	-5,523	-4,620	-4,897
Current transfers (net)	3,309	3,724	4,082	4,743	5,294	5,765	5,875	6,064	5,625	5,827
Financial account balance	**657**	**3,205**	**3,230**	**2,800**	**11,110**	**9,892**	**7,945**	**6,935**	**6,865**	**7,126**
Public sector (net)	378	-36	-2,978	-432	2,740	2,350	1,280	1,797	1,657	1,658
Nonfinancial public sector	619	472	-2,133	722	2,930	2,358	1,347	1,828	1,686	1,677
Medium- and long-term (net)	1,457	912	-1,189	2,085	3,388	1,491	2,697	1,503	-371	1,061
Disbursements	4,915	2,890	4,312	5,869	6,212	3,950	4,741	3,886	1,701	3,903
Amortization	3,459	1,977	5,501	3,784	2,824	2,459	2,044	2,383	2,071	2,842
Other long-term flows	-29	-50	-47	-46	-47	-47	-47	-47	-47	-47
Short term 1/	-809	-390	-897	-1,317	-411	914	-1,303	373	2,104	664
Of which: change in public assets	-582	-727	-849	-1,599	-419	914	-1,303	373	2,104	664
Financial public sector	-241	-508	-845	-1,154	-190	-8	-67	-31	-29	-19
Private sector (net)	279	3,241	6,208	3,232	8,370	7,542	6,666	5,138	5,208	5,468
Nonfinancial private sector (net)	765	2,660	6,120	3,289	7,500	7,642	6,764	5,191	5,219	5,450
Direct investment	783	2,873	5,578	5,365	6,739	7,359	6,086	4,778	4,922	5,158
Leasing finance	-319	122	116	62	-97	-133	-205	-20	174	218
Long-term loans	-688	-1,094	-432	-208	36	-228	-269	-351	0	0
Short term 2/	990	758	857	-1,929	821	644	1,152	783	123	73
Financial private sector (net)	-487	582	88	-57	870	-101	-99	-52	-11	18
Net errors and omissions	**133**	**242**	**380**	**280**	**227**	**0**	**0**	**0**	**0**	**0**
Changes in GIR 3/	**-184**	**2,541**	**1,729**	**23**	**4,627**	**702**	**505**	**-262**	**85**	**452**
Changes in NIR, program definition 3/	**17**	**2,672**	**1,525**	**405**	**4,783**	**481**	**552**	**566**	**581**	**596**
	(In percent of GDP)									
Current account balance	-1.2	-0.9	-1.5	-2.2	-4.0	-5.0	-3.9	-3.6	-3.1	-2.9
	(In months of imports of goods and services)									
Gross international reserves 4/	6.6	6.5	5.9	4.9	5.6	5.7	5.6	5.3	5.0	4.8

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

1/ Includes movements of short-term assets owned by the public sector abroad.
2/ Includes net portfolio investment.
3/ Does not include valuation changes of reserves denominated in other currencies than U.S. dollars.
4/ Not including Fund purchases under the standby arrangement.

Table 6. Colombia: Financial Soundness Indicators, 2000-07
Total Banking System
(In percent, unless otherwise indicated; end-of-period values)

	2000	2001	2002	2003	2004	2005	2006	Oct-07
Capital Adequacy								
Regulatory capital to risk-weighted assets	12.5	12.2	12.2	13.0	14.2	14.7	13.1	13.4
Regulatory Tier 1 capital to risk-weighted assets	9.4	9.2	9.6	10.3	10.7	10.4	9.7	10.4
Capital (net worth) to assets	11.3	11.2	11.0	11.6	12.1	12.3	12.0	11.7
Asset Quality and Distribution								
Nonperforming loans to gross loans	11.0	9.7	8.7	6.8	3.3	2.7	2.6	3.2
Provisions to nonperforming loans	56.6	77.5	86.7	98.1	149.7	166.9	153.6	130.1
Government securities to assets	7.8	11.4	18.4	18.0	23.8	24.9	15.5	12.5
Gross loans to assets	55.1	52.3	52.1	50.9	52.0	52.3	60.6	65.1
Earnings and Profitability								
ROAA	-2.3	0.1	1.1	1.9	2.7	2.7	2.5	2.4
ROAE	-20.6	1.1	9.6	17.1	23.0	22.1	20.2	20.3
Interest margin to gross income	38.6	32.7	35.6	37.4	38.9	40.2	46.6	53.7
Interest income to gross income 1/	...	...	...	...	...	...	...	40.3
Operating expenses to gross income	92.9	85.6	80.6	69.7	60.7	57.2	60.4	55.0
Liquidity								
Liquid assets to total assets	12.9	16.5	19.7	18.7	20.6	20.8	14.0	11.9
Liquid assets to short-term liabilities	20.4	25.2	30.2	29.0	31.2	31.3	20.7	17.7
Short-term maturity mismatch 2/	90.4	70.8	53.7	38.0	31.5	28.7	42.7	43.8
Other								
Foreign currency assets to total assets 1/	...	...	...	...	...	...	...	5.9
Foreign currency liabilities to total liabilities 1/	...	...	...	...	...	...	...	6.7
Net open position in foreign exchange to regulatory capital	...	...	...	...	...	...	...	0.0
Expected default probability (banking system average)	...	...	4.7	1.2	0.2	0.1	0.2	0.1

Sources: Superintendencia Financiera; and Creditedge (Moody's-KMV).

1/ As of September 2007.
2/ The difference between liabilities and assets maturing in 90 days as a share of liquid assets.

Table 7. Colombia: Medium-Term Outlook (Baseline Scenario)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
I. Output and Prices										
(Annual percentage changes)										
Real GDP	3.9	4.9	4.7	6.8	6.8	5.0	5.0	5.0	4.8	4.8
Consumer prices										
End of period	6.5	5.5	4.9	4.5	5.3	4.3	4.0	3.8	3.5	3.3
(In percent of GDP, unless indicated otherwise)										
II. Saving and Investment										
Gross national savings	16.0	18.3	19.2	21.4	18.9	18.8	19.7	20.1	20.3	20.2
Private sector	11.7	13.0	12.5	17.2	14.3	13.9	14.0	14.2	14.4	14.1
Public sector 1/	4.3	5.3	6.7	4.2	4.7	5.0	5.7	5.8	5.8	6.1
Gross domestic investment	17.2	19.2	20.8	23.5	22.9	23.9	23.6	23.7	23.4	23.1
Private sector	10.3	12.7	14.1	18.7	17.6	17.5	16.9	17.2	17.3	17.1
Public sector 1/	6.9	6.5	6.7	4.9	5.4	6.3	6.8	6.5	6.1	5.9
External current account balance	-1.2	-0.9	-1.5	-2.1	-4.0	-5.0	-3.9	-3.6	-3.1	-2.9
III. Nonfinancial and Consolidated Public Sector										
Nonfinancial public sector 2/										
Revenue	30.0	30.0	30.6	32.7	33.2	31.6	31.5	31.7	31.4	31.3
Expenditure	32.5	31.2	30.8	33.7	34.2	33.3	33.1	33.3	32.8	32.4
Current expenditure	24.3	25.6	25.0	27.1	27.0	26.4	26.2	26.5	26.2	25.8
Capital expenditure	8.2	5.6	5.8	6.6	7.2	6.9	6.9	6.8	6.7	6.6
Primary balance 3/	1.5	3.2	4.0	3.4	3.6	2.6	2.4	2.4	2.3	2.5
Overall balance 3/	-3.2	-1.5	0.0	-1.2	-1.0	-1.7	-1.7	-1.6	-1.4	-1.2
Combined public sector balance	-2.7	-1.3	0.0	-0.8	-0.7	-1.4	-1.3	-1.2	-1.0	-0.7
External financing	1.0	0.5	-1.7	-0.1	0.9	0.6	0.7	0.9	0.8	0.7
Domestic financing	1.8	0.8	1.6	1.0	-0.1	0.8	0.6	0.3	0.2	0.0
Privatization	-0.1	0.1	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0
IV. Balance of Payments										
External current account balance	-1.2	-0.9	-1.5	-2.1	-4.0	-5.0	-3.9	-3.6	-3.1	-2.9
Trade balance	0.7	1.4	1.3	0.2	-1.6	-2.7	-1.8	-1.5	-1.2	-0.9
Exports	17.4	17.6	17.7	18.5	17.4	17.6	18.0	17.9	17.5	17.7
Imports	16.7	16.2	16.4	18.3	19.0	20.2	19.8	19.5	18.7	18.7
Capital and financial account balance	0.8	3.3	2.6	2.0	6.7	5.4	4.2	3.5	3.2	3.1
Public sector	0.5	0.0	-2.4	-0.3	1.6	1.3	0.7	0.9	0.8	0.7
Private sector	0.4	3.3	5.1	2.3	5.0	4.1	3.5	2.6	2.4	2.4
Overall balance	-0.2	2.6	1.4	0.0	2.8	0.4	0.3	-0.1	0.0	0.2
V. Debt										
Total public gross debt 4/	53.3	49.2	45.7	43.0	38.3	37.8	35.6	34.3	32.5	30.6
Domestic debt	23.5	25.3	26.4	24.7	22.0	20.7	18.2	16.9	16.3	15.1
External debt	29.8	23.9	19.3	18.3	16.4	17.1	17.4	17.5	16.2	15.5
Total public net debt 5/	44.7	38.8	33.4	30.5	26.8	28.5	27.3	26.7	25.5	24.2
Memorandum items:										
CPS balance including Ecopetrol	-2.7	-1.3	0.0	-0.8	-0.7	-2.3	-1.9	-1.4	-0.9	-0.7
Nominal GDP (billions of COP)	228,517	257,746	285,313	321,018	349,849	386,287	429,935	472,558	517,959	560,971
Crude oil, spot price	28.9	37.8	53.4	64.3	71.3	88.5	83.0	81.0	80.5	80.3

Sources: Colombian authorities; and Fund staff estimates.

1/ The definition of public savings and investment changes starting in 2006 and includes only the general government.
2/ Excludes ECOPETROL for 2008-12.
3/ Includes statistical discrepancy.
4/ Includes debt of the non-financial public sector plus FOGAFIN and FINAGRO.
5/ Defined as gross debt minus financial assets (deposits).

Table A1. Colombia: External Debt Sustainability Framework, 2002-12
(In percent of GDP, unless otherwise indicated)

	Actual							Projections							
	2002	2003	2004	2005	2006			2007	2008	2009	2010	2011	2012		
										I. Baseline Projections					Debt-stabilizing non-interest current account 6/
External debt	52.6	46.2	36.6	30.8	27.9			**24.9**	**25.9**	**26.6**	**27.0**	**25.4**	**24.2**		**-2.3**
Change in external debt	5.1	-6.4	-9.6	-5.8	-2.8			-3.0	1.0	0.7	0.4	-1.7	-1.1	0.0	
Identified external debt-creating flows (4+8+9)	7.7	-7.0	-12.9	-8.0	-5.6			-6.0	0.9	-1.0	0.2	-0.9	-1.1	0.0	
Current account deficit, excluding interest payments	-1.6	-1.7	-1.5	-0.7	0.1			2.0	3.3	2.1	1.8	1.4	1.2	2.3	
Deficit in balance of goods and services	1.7	1.1	0.3	0.4	1.2			2.7	4.1	3.1	2.9	2.6	2.3		
Exports	20.0	19.1	18.1	19.5	19.9			17.9	19.6	19.4	19.6	19.3	19.5		
Imports	21.7	20.2	18.4	19.9	21.2			20.6	23.7	22.5	22.5	21.9	21.8		
Net non-debt creating capital inflows (negative)	-1.8	-1.0	-2.7	-4.5	-3.6			-3.7	-4.0	-3.1	-2.4	-2.3	-2.2	-2.2	
Automatic debt dynamics 1/	11.1	-4.3	-8.6	-2.8	-2.0			-4.3	1.6	0.0	0.8	0.0	-0.1	-0.1	
Contribution from nominal interest rate	3.5	2.9	2.4	2.2	1.9			1.6	1.7	1.7	1.8	1.7	1.6	1.5	
Contribution from real GDP growth	-1.1	-1.8	-1.7	-1.5	-1.8			-1.5	-1.2	-1.2	-1.3	-1.2	-1.1	-1.1	
Contribution from price and exchange rate changes 2/	8.6	-5.4	-9.3	-3.5	-2.1			-4.5	1.1	-0.4	0.3	-0.5	-0.6	-0.6	
Residual, incl. change in gross foreign assets (2-3)	-2.6	0.6	3.2	2.2	2.7			3.0	0.1	1.6	0.2	-0.8	0.0	0.0	
External debt-to-exports ratio (in percent)	263.2	241.6	202.5	157.6	140.3			139.2	132.2	137.4	138.1	131.3	124.2		
Gross external financing need (in billions of U.S. dollars) 3/	11.5	10.9	10.9	15.8	15.4			19.3	23.9	24.9	27.5	27.4	28.0		
in percent of GDP	16.2	13.3	10.1	12.6	10.7			10.6	13.0	12.7	13.5	12.6	12.0		
Key Macroeconomic Assumptions						10-Year Historical Average	10-Year Standard Deviation							For debt stabilization	Projected Average
Real GDP growth (in percent)	1.9	3.9	4.9	4.7	6.8	2.6	2.9	6.8	5.0	5.0	5.0	4.8	4.8	4.8	4.9
Exchange rate appreciation (U.S. dollar value of local currency, change in percent)	-20.0	3.1	16.3	4.6	2.0	-7.8	13.2	17.0	-9.1	-4.1	-5.6	-2.5	-0.8	-0.8	-4.4
GDP deflator in U.S. dollars (change in percent)	-15.3	11.5	25.0	10.6	7.5	0.5	13.2	19.4	-4.4	1.6	-1.2	2.0	2.5	2.5	0.1
Nominal external interest rate (in percent)	6.4	6.3	6.7	7.0	7.2	6.9	0.5	7.4	7.0	6.9	7.0	6.8	6.9	6.9	6.9
Growth of exports (U.S. dollar terms, in percent)	-5.7	10.9	23.8	25.2	17.1	7.3	11.8	14.7	9.8	5.4	4.8	5.4	8.5		6.8
Growth of imports (U.S. dollar terms, in percent)	-3.1	8.1	19.2	25.7	21.9	14.4	33.4	24.3	15.5	1.0	3.8	4.2	6.8		6.3
Current account balance, excluding interest payments	1.6	1.7	1.5	0.7	-0.1	1.0	2.4	-2.0	-3.3	-2.1	-1.8	-1.4	-1.2		-2.0
Net non-debt creating capital inflows	1.8	1.0	2.7	4.5	3.6	2.7	1.2	3.7	4.0	3.1	2.4	2.3	2.2		2.8
										II. Stress Tests for External Debt Ratio					Debt-stabilizing non-interest current account 6/
A. Alternative Scenarios															
A1. Key variables are at their historical averages in 2006-10 4/								**24.9**	**22.2**	**21.0**	**18.2**	**14.3**	**11.0**		**-2.3**
B. Bound Tests															
B1. Nominal interest rate is at baseline plus one-half standard deviation								**24.9**	**26.0**	**26.7**	**27.2**	**25.6**	**24.5**		**-2.3**
B2. Real GDP growth is at baseline minus one-half standard deviations								**24.9**	**26.2**	**27.3**	**28.0**	**26.5**	**25.6**		**-2.1**
B3. Non-interest current account is at baseline minus one-half standard deviations								**24.9**	**27.1**	**29.0**	**30.6**	**30.1**	**30.1**		**-2.4**
B4. Combination of B1-B3 using 1/4 standard deviation shocks								**24.9**	**26.7**	**28.2**	**29.4**	**28.5**	**28.1**		**-2.2**
B5. One time 30 percent real depreciation in 2008								**24.9**	**32.4**	**32.7**	**32.7**	**30.1**	**28.3**		**-3.0**

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).

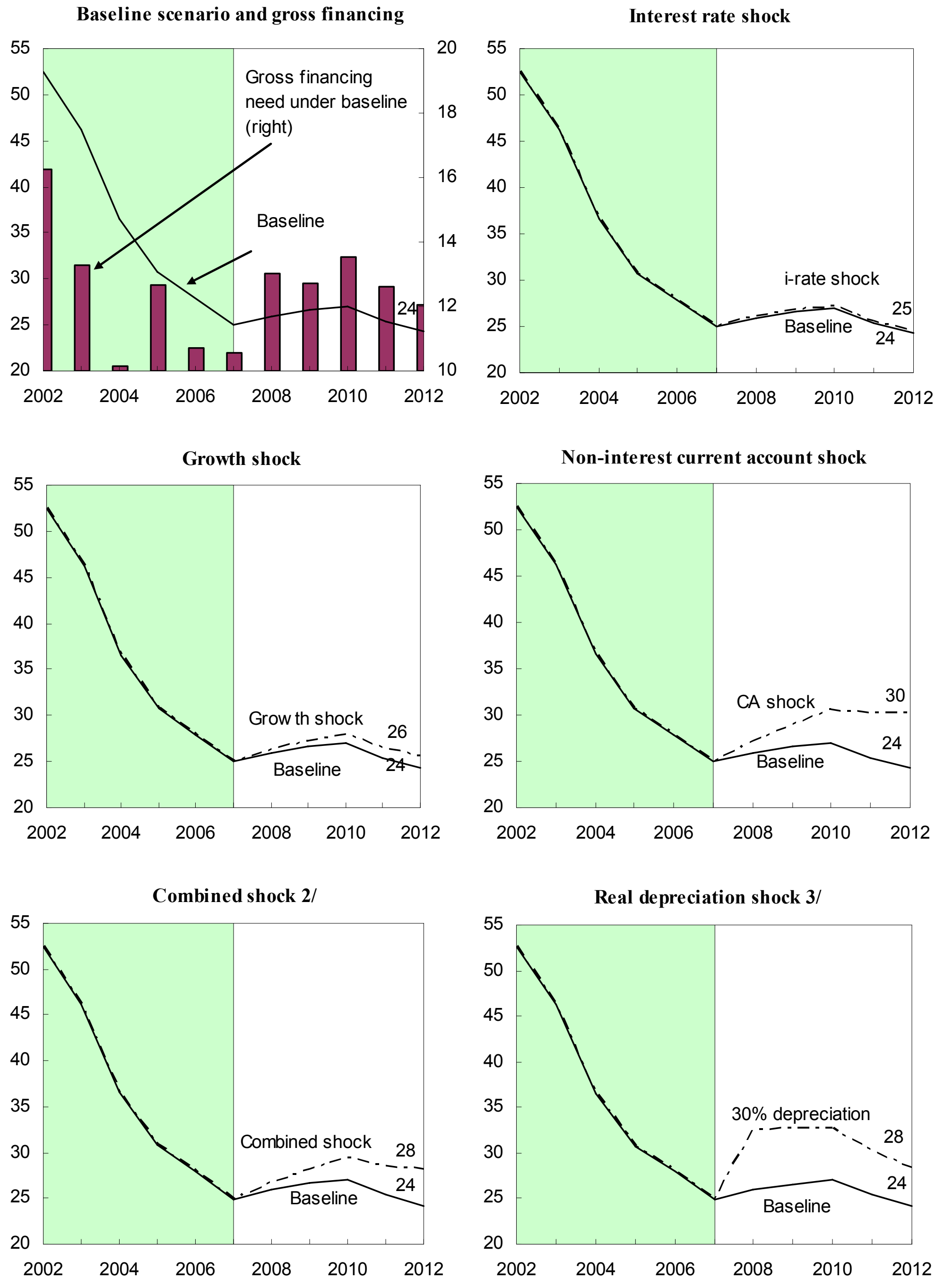
3/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

4/ 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.

5/ The implied change in other key variables under this scenario is discussed in the text.

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

Figure A1. Colombia: External Debt Sustainability: Bound Tests 1/
(External debt in percent of GDP)



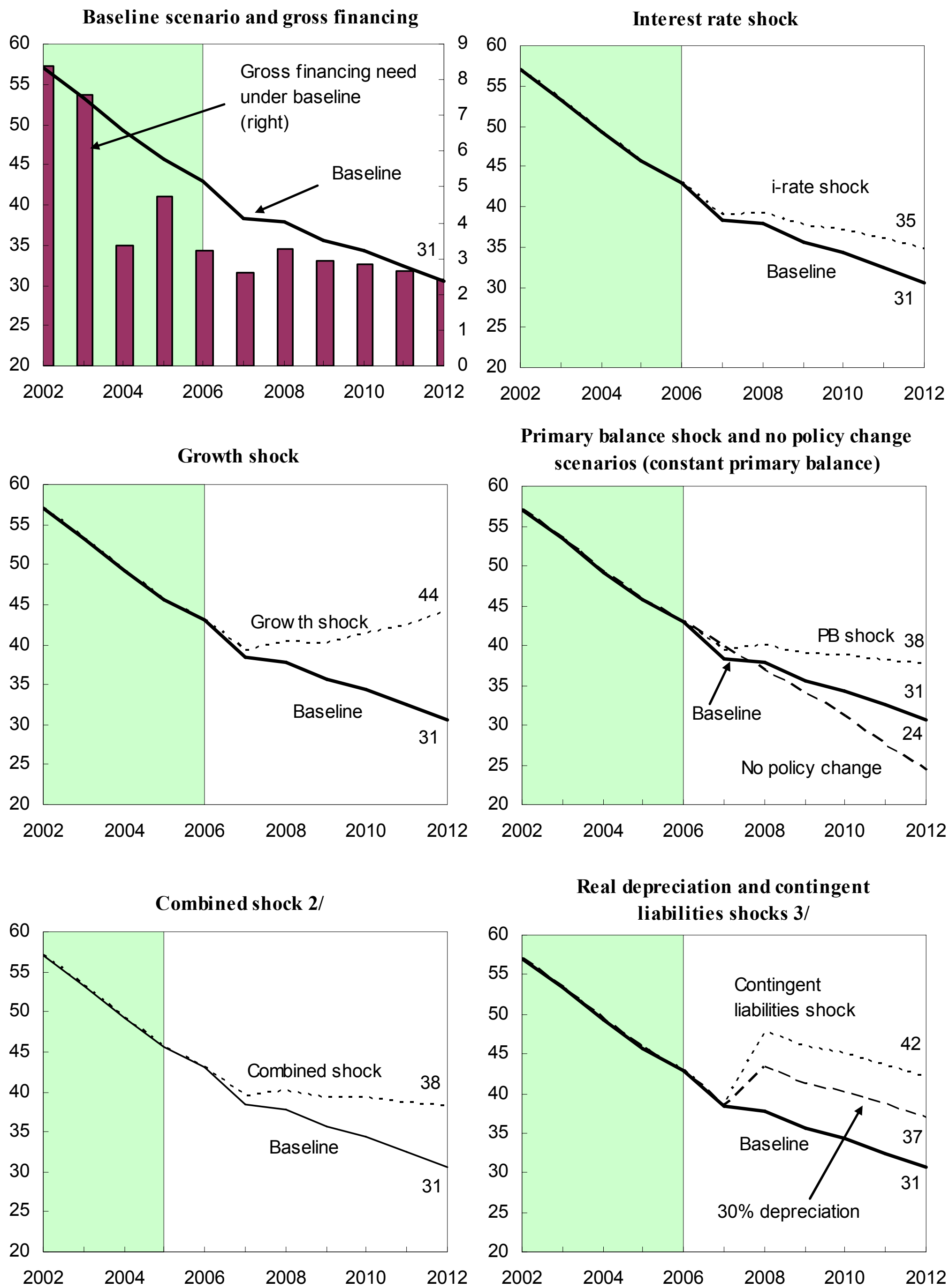
Sources: Banco de la República; and Fund staff estimates and projections.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and alternative scenarios being presented. Ten-year historical average for the variable is also shown.
2/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
3/ One-time real depreciation of 30 percent occurs in 2008.

Table A2. Colombia: Public Sector Debt Sustainability Framework, 2002-12
(In percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2002	2003	2004	2005	2006			2007	2008	2009	2010	2011	2012	
								I. Baseline Projections						**Debt-stabilizing primary balance 9/**
Public sector debt 1/	57.0	53.3	49.2	45.7	43.0			**38.3**	**37.8**	**35.6**	**34.3**	**32.5**	**30.6**	**2.5**
Of which: Foreign-currency denominated	32.1	29.8	23.9	19.3	18.3			16.4	17.1	17.4	17.5	16.2	15.5	
Change in public sector debt	8.1	-3.6	-4.1	-3.5	-2.7			-4.7	-0.5	-2.2	-1.3	-1.8	-1.9	
Identified debt-creating flows (4+7+12)	7.7	-4.6	-8.8	-5.6	-4.2			-5.1	-0.3	-1.5	-0.6	-1.2	-1.2	
Primary deficit	-0.5	-2.2	-3.5	-3.8	-3.4			-3.6	-2.6	-2.4	-2.4	-2.3	-2.5	
Revenue and grants	29.5	30.0	30.0	30.6	32.7			33.2	31.6	31.5	31.7	31.4	31.3	
Primary (noninterest) expenditure	29.0	27.8	26.5	26.9	29.2			29.5	29.0	29.1	29.3	29.1	28.8	
Automatic debt dynamics 2/	8.0	-2.4	-5.3	-1.8	-0.8			-1.5	2.3	0.9	1.8	1.2	1.3	
Contribution from interest rate/growth differential 3/	0.9	-1.5	-1.3	-0.8	-0.4			1.1	0.7	0.2	0.8	0.7	1.1	
Of which contribution from real interest rate	1.8	0.4	1.0	1.3	2.3			3.8	2.4	1.9	2.4	2.2	2.6	
Of which contribution from real GDP growth	-0.9	-2.0	-2.3	-2.1	-2.8			-2.7	-1.7	-1.7	-1.6	-1.5	-1.4	
Contribution from exchange rate depreciation 4/	7.1	-0.9	-4.0	-1.0	-0.3			-2.6	1.6	0.7	1.0	0.4	0.1	
Other identified debt-creating flows	0.1	0.1	0.0	0.0	0.0			0.0	-0.1	0.0	0.0	0.0	0.0	
Privatization receipts (negative)	0.1	0.1	0.0	0.0	0.0			0.0	-0.1	0.0	0.0	0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0	
Other (specify, e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes (2-3)	0.4	1.0	4.6	2.1	1.5			0.4	-0.2	-0.7	-0.7	-0.7	-0.7	
Public sector debt-to-revenue ratio 1/	193.1	177.9	163.8	149.1	131.6			115.5	119.8	113.2	108.4	103.4	97.8	
Gross financing need 5/	8.4	7.6	3.4	4.7	3.2			2.6	3.2	2.9	2.8	2.7	2.4	
in billions of U.S. dollars	6.8	6.0	3.3	5.8	4.4	10-Year Historical Average	10-Year Standard Deviation	4.3	5.9	5.5	5.7	5.8	5.6	Projected Average
Key Macroeconomic and Fiscal Assumptions														
Real GDP growth (in percent)	1.9	3.9	4.9	4.7	6.8	2.6	3.0	6.8	5.0	5.0	5.0	4.8	4.8	5.2
Average nominal interest rate on public debt (in percent) 6/	9.9	9.3	10.0	8.9	11.4	11.0	1.3	11.9	12.5	11.9	12.2	11.9	12.1	12.1
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	4.1	1.2	2.4	3.2	6.0	1.4	3.5	9.8	7.3	5.9	7.6	7.3	8.8	7.9
Nominal appreciation (increase in U.S. dollar value of local currency, in percent)	-20.0	3.1	16.3	4.6	2.0	-6.9	13.2	17.0	-9.1	-4.1	-5.6	-2.5	-0.8	-0.9
Inflation rate (GDP deflator, in percent)	5.9	8.1	7.6	5.7	5.4	9.5	4.2	2.0	5.2	6.0	4.7	4.6	3.4	4.2
Growth of real primary spending (deflated by GDP deflator, in percent)	5.1	-0.7	0.2	6.0	15.4	3.5	6.3	8.6	3.0	5.5	5.7	4.1	3.7	4.9
Primary deficit	-0.5	-2.2	-3.5	-3.8	-3.4	-1.1	2.1	-3.6	-2.6	-2.4	-2.4	-2.3	-2.5	-2.6
								II. Stress Tests for Public Debt Ratio						**Debt-stabilizing primary balance 9/**
A. Alternative Scenarios														
A1. Key variables are at their historical averages in 2007-12 7/								**39.3**	**39.0**	**37.3**	**35.9**	**34.0**	**31.8**	**-0.2**
A2. No policy change (constant primary balance) in 2007-12								**39.8**	**36.8**	**33.9**	**31.0**	**27.5**	**24.2**	**0.9**
B. Bound Tests														
B1. Real interest rate is at baseline plus one-half standard deviation								**39.0**	**39.1**	**37.6**	**37.1**	**35.9**	**34.7**	**1.9**
B2. Real GDP growth is at baseline minus one-half standard deviation								**39.3**	**40.3**	**40.1**	**41.3**	**42.4**	**44.1**	**2.1**
B3. Primary balance is at baseline minus one-half standard deviation								**39.4**	**40.0**	**38.9**	**38.8**	**38.2**	**37.6**	**1.5**
B4. Combination of B1-B3 using one-quarter standard deviation shocks								**39.5**	**40.2**	**39.2**	**39.2**	**38.6**	**38.1**	**2.1**
B5. One time 30 percent real depreciation in 2008 8/								**38.3**	**43.3**	**41.2**	**40.2**	**38.6**	**36.9**	**1.4**
B6. 10 percent of GDP increase in other debt-creating flows in 2008								**38.3**	**47.8**	**45.9**	**45.1**	**43.6**	**42.1**	**1.5**

1/ Covers the combined public sector (Non-financial public sector balance plus quasi-fiscal balance of the central bank and costs of financial reestructuring- FOGAFIN and FINAGRO). Debt is measured in gross terms.
2/ Derived as [(r - p(1+g) - g + ae(1+r)/(1+g+p+gp)] times previous period debt ratio, with r = interest rate; p = 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).
3/ The real interest rate contribution is derived from the denominator in footnote 2/ as r - π (1+g) and the real growth contribution as -g.
4/ The exchange rate contribution is derived from the numerator in footnote 2/ as ae(1+r).
5/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.
6/ Derived as nominal interest expenditure divided by previous period debt stock.
7/ The key variables include real GDP growth; real interest rate; and primary balance in percent of GDP.
8/ Real depreciation is defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Figure A2. Colombia: Public Debt Sustainability: Bound Tests 1/
(Public debt in percent of GDP)



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

1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and alternative scenarios being presented.

2/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and primary balance.

3/ One-time real depreciation of 30 percent and 10 percent of GDP shock to contingent liabilities occur in 2008, with real depreciation defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

APPENDIX I. BACKGROUND AND SUMMARY OF INFORMATIONAL ANNEXES

Discussions. The 2007 Article IV consultation discussions were held in Bogotá during October 29–November 9, 2007. The mission met with the Minister of Finance and Public Credit, Mr. Óscar Iván Zuluaga; the General Manager of the Banco de la República (BdR), Mr. José Darío Uribe; the Board of Directors of the BdR; the Director of the National Planning Department, Ms. Carolina Rentería; senior staff of several government ministries and agencies; members of congress; and representatives of the private sector and a major labor union. The staff team comprised B. Clements (Head), L. Abrego, E. Flores, H. Kamil (all WHD), D. Leigh (FAD), and M. Souto (MCM). Ms. Agudelo (OED) participated in most meetings.

Fund relations

The last Article IV consultation with Colombia was on October 30, 2006 (IMF Country Report No. 06/408). Colombia has no outstanding credit from the Fund. An FSAP update was carried out in September–October 2004 and the FSSA was discussed in April, 2005 (IMF Country Report No. 05/287). STA and MCM have provided technical assistance since 2005.

Exchange arrangements

Colombia has had a flexible exchange rate regime since September 1999, which is classified as a managed float. It maintains two exchange measures subject to Fund approval under Article VIII: (1) a multiple currency practice and an exchange restriction arising from a tax on outward remittances of nonresident profits earned before 2007 and that have been retained in the country for less than five years; and (2) an exchange restriction arising from the special regime for the hydrocarbon sector. Branches of foreign corporations are required to either surrender their export proceeds or agree to a government limitation on their access to the foreign exchange market. While Colombia is free under the Articles to impose surrender requirements and to exempt the application of those requirements, conditioning such exemptions to the acceptance of limitations on the availability of foreign exchange for the making of payments and transfers for current international transactions is inconsistent with Article VIII, section 2 (a) of the Fund's Articles.

Statistical issues

The quality of data in Colombia is generally adequate for surveillance. Colombia observes the Special Data Dissemination Standards (SDDS) and its metadata are posted on the Dissemination Standards Bulletin Board (DSBB). Colombia is availing itself of a flexibility option on the timeliness of certain production, monetary and external data. A data ROSC was completed in September 2006 and was subsequently published as IMF Country Report No. 06/356.

Relations with the World Bank Group

As of October 31, 2007, Colombia's outstanding debt to the IBRD was US$3.9 billion. The Bank's portfolio consists of 18 active projects, with a total undisbursed balance of US$0.7 billion. A new Country Partnership Strategy is being prepared and it is expected to be approved by end-2007.

INTERNATIONAL MONETARY FUND

COLOMBIA

Staff Report for the 2007 Article IV Consultation—Informational Annex

Prepared by the Western Hemisphere Department

December 21, 2007

Annexes

Tables

ANNEX I. COLOMBIA: FUND RELATIONS

(As of October 31, 2007)

I. Membership Status: Joined: December 27, 1945; Article XIV

II. General Resources Account:	**SDR Million**	**% Quota**
Quota	774.00	100.00
Fund holdings of currency	488.20	63.08
Reserve Position	285.80	36.93
Holdings Exchange Rate		

III. SDR Department:	**SDR Million**	**% Allocation**
Net cumulative allocation	114.27	100.00
Holdings	136.41	119.37

IV. Outstanding Purchases and Loans: None

V. Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
Stand-By	May 02, 2005	Nov 02, 2006	405.00	0.00
Stand-By	Jan 15, 2003	May 02, 2005	1,548.00	0.00
EFF	Dec 20, 1999	Dec 19, 2002	1,957.00	0.00

VI. Projected Payments to Fund (in SDR Million)

		Forthcoming			
	2007	2008	2009	2010	2011
Principal					
Charges/Interest		0.01	0.01	0.01	0.01
Total		0.01	0.01	0.01	0.01

VII. Implementation of HIPC Initiative: Not applicable.

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

ANNEX II. COLOMBIA: WORLD BANK RELATIONS

The World Bank and Colombia's development strategy[1]

Colombia's National Development Plan is built on four pillars: (i) provide security to all Colombians; (ii) foster sustainable economic growth and employment generation under macroeconomic and price stability; (iii) build a more equitable society; and (iv) increase the transparency and efficiency of the State. The World Bank Group's (WBG's) strategy seeks to support Colombia's quest for development and peace. The Country Assistance Strategy (CAS) for Colombia was discussed by the Bank's Board in January 2003 and since then Colombia has received about US$2 billion in loans, of which nearly 60 percent consists of fast-disbursing operations. A CAS Progress Report was prepared in September 2005. It follows along the same pillars of the original CAS with an additional "peace pillar" that envisions activities to support social policies for populations affected by conflict. A new CPS is being prepared and it is expected to be approved by the Board by the end of this calendar year.

The World Bank program for FY 2006–07

In line with the CAS, since June 2004, the IBRD has continued the preparation of development policy loans to support fiscal reform, financial sector reform, the labor and social sector reform, and environmental management. Labor and social sector reforms are being supported by a development policy loan and a technical assistance loan that aims to improve knowledge, develop effective instruments, and strengthening ability to carry out such reforms. The environment development policy loan is being complemented by a technical assistance loan to support the inclusion of environmental and social policies in government programs and to strengthen the capacity of the major relevant institutions.

The WBG's International Bank for Reconstruction and Development (IBRD) will also support a program to increase the business productivity and efficiency, and a program in monitoring and evaluation. The Bank's support for the Government of Colombia's program for promoting greater business productivity would consist of a three-phased programmatic development policy lending operation. The third phase extends the support to other areas of microeconomic reform, including addressing regulatory issues in infrastructure to facilitate private investment in the electricity and logistics sectors, key bottlenecks to firms' expansion. Additionally, this phase will also support second generation reforms in the financial sector to foster the development of a universal banking structure as well as to facilitate the entry of foreign banks to the country. The Bank will continue its support in strengthening Colombia's Monitoring and Evaluation system through an investment loan. The WBG's International Finance Corporation (IFC) focuses on supporting new forms of public-private partnerships,

[1] Prepared by World Bank staff. Questions may be addressed to Mr. David Rosenblatt, Lead Economist, at (202) 473-7930 or drosenblatt@worldbank.org.

while the Multilateral Investment Guarantee Agency (MIGA) focuses on the provision of political risk guarantees for private sector investments; hands-on technical assistance for investment promotion intermediaries; and the dissemination of information on investment opportunities in Colombia.

Bank-Fund collaboration in specific areas

The WBG is helping Colombia implement its reform agenda in the following areas of Bank-Fund collaboration:

- Assisting fiscal reforms, notably reforming the tax system, strengthening tax administration, implementing a fiscal responsibility law, and reforming the public sector.
- Reforming the transfers from the central government to subnational governments.
- Reforming the pension and social security systems.
- Fostering financial sector and capital market developments.
- Broadening and deepening the scope of Colombia's anticorruption program.
- Combating money laundering.

Operations Portfolio (IBRD/IDA and grants)
As of October 31, 2007

Closed Projects	**175**
Active Projects	**18**
IBRD/IDA *	
Total Disbursed (Active)	346.10
of which has been repaid	268
Total Disbursed (Closed)	12,329.75
of which has been repaid	8,748.21
Total Disbursed (Active + Closed)	12,675.85
of which has been repaid	8,748.21
Total Undisbursed (Active)	723.09
Total Undisbursed (Closed)	0.00
Total Undisbursed (Active + Closed)	723.09

Loan Information (IBRD)
As of October 31, 2007
(In millions of U.S. dollars)

Fiscal Year*	2002	2003	2004	2005	2006	2007
Total disbursements	369	948	491	567	692	830
Repayment amount	243	223	205	254	223	338
Net disbursements	126	725	286	313	469	492

*Fiscal Year: July 1 – October 31.

IFC Operations
As of November 28, 2007
(In millions of U.S. dollars)

	Loans	Equity (+Quasi)	Participation	Total
Total commitments	562.2.2	212.9	231.9	1007.0
Total undisbursed	135.1	44.9	49.6	229.6

ANNEX III. COLOMBIA: STATISTICAL ISSUES

The data provided by the authorities are generally adequate for surveillance. Colombia is in observance of the Special Data Dissemination Standard (SDDS) and metadata are posted on the Fund's Dissemination Standards Bulletin Board (DSBB). However, Colombia is availing itself of an SDDS flexibility option on the timeliness of the Production Index and the Depository Corporations Survey. Colombia is also using the "as relevant" flexibility option for the exchange rate data category. A mission visited Bogotá during September 5–16, 2005 to prepare a data ROSC, which was published in October 2006.

Real sector

The National Department of Statistics (DANE) is responsible for the compilation of the national accounts, although the Banco de la República (BdR) compiles the financial accounts. Estimates of GDP and expenditures are based on an outdated base year (1994). In late 2006, the DANE completed the compilation of a new series with 2000 as the new base year. The data comparing national accounts estimates under the old and new base years for 2000 have been posted on the DANE's website (*Boletín de Prensa*, December 29, 2006). Compilation has conformed to the recommendations of the 1993 SNA since 1995. However, there are shortcomings in estimates of gross fixed capital formation as some agencies use different source data and sampling techniques. Estimates of illicit activities focus on agricultural output and do not include downstream value added.

Government finance statistics

The Ministry of Finance and Public Credit (MFPC) is responsible for the compilation of public revenue, expenditure, and financing data. While significant progress has been made, there is still a need to improve the timeliness and coverage of fiscal data, develop timely and reliable data on the finances of local governments, and improve monitoring of floating debts. Data cover the nonfinancial public sector (NFPS), but coverage of "above-the-line" operations of units outside the national administration is not exhaustive due to capacity constraints.

The General Accounting Office (GAO) has developed a single accounting database for the public sector. The GAO accounting classification is bridged to the *GFSM 2001* framework to compile GFS on accrual and cash bases. The information is sent to the Statistics Department of the IMF for publication in the *Government Finance Statistics Yearbook (GFS Yearbook)*.

Monthly data have been reported for publication in *IFS* and annual data for subsectors of general government on accrual and cash bases have been reported for publication in the *2007 GFS Yearbook*, with data up to 2006. Data for the consolidated general government have not been published yet because of shortcomings in the consolidation process.

Financial sector statistics

The BdR is in charge of compiling data on the financial sector, while the Superintendency of Banks and the Superintendency of Securities compile data in their respective areas. Fund technical assistance missions have placed special emphasis on issues supportive of data quality, including interagency cooperation and procedures to ensure data consistency. The introduction of a new call report form in March 2005 significantly improved the quality of monetary statistics. In mid-2007, the authorities migrated to the new standardized forms for reporting to STA monetary data for the central bank (form 1SR) and other depository corporations (form 2SR). Currently, they are finalizing the migration to the standardized forms for other financial corporations (form 4SR).

Balance of payments and external debt

The BdR is in charge of compiling and disseminating balance of payments data. Quarterly data have been produced since 1994, and the BdR adopted the *BPM5* standard in 1998. Balance of payment statistics have been extended to cover transactions in the free trade zones. Improved surveys, particularly in the service sector, have enhanced coverage and consistency and financial account data are now based on actual disbursement rather than registers.

The 2005 data ROSC mission recommended that the BdR, in consultation with the DANE, develop a methodology to include unrecorded trade in the balance of payments on a timely basis. The BdR should reclassify FDI intercompany debt transactions from “other investment” to FDI and some FDI equity transactions to portfolio equity, and adjust the related investment income series accordingly. Also, it should continue efforts to identify government bonds issued abroad and purchased by residents as well as those purchased by residents on the secondary market.

The BdR also compiles and disseminates data on International Investment Position statistics, External Debt statistics, and the Data Template on International Reserves and Foreign Currency Liquidity.

Colombia: Table of Common Indicators Required for Surveillance
As of December 4, 2007

	Date of latest observation	Date received	Frequency of Data[1]	Frequency of Reporting[1]	Frequency of publication[1]	Memo Items:	
						Data Quality – Methodological soundness[7]	Data Quality – Accuracy and reliability[8]
Exchange Rates	Oct. 2007	11/8/07	D	W	D		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[2]	Oct. 2007	11/8/07	M	M	M		
Reserve/Base Money	Oct. 2007	11/15/07	D	W	W	LO, O, LO, LO	O, O, O, O, O
Broad Money	Sept. 2007	11/19/07	D	W	W		
Central Bank Balance Sheet	Oct. 2007	11/19/07	M	M	M		
Consolidated Balance Sheet of the Banking System	Sept. 2007	11/19/07	M	M	M		
Interest Rates[3]	Oct. 2007	11/7/07	D	W	D		
Consumer Price Index	Oct. 2007	11/19/07	M	M	M		
Revenue, Expenditure, Balance and Composition of Financing[4] – General Government[5]	Q2 2007	Oct. 2007	Q	Q	Q	O, O, LO, O	LO, O, O, O, NO
Revenue, Expenditure, Balance and Composition of Financing[4] – Central Government	June 2007	Oct. 2007	M	M	M		
Stocks of Central Government and Central Government-Guaranteed Debt[6]	Q2 2007	Oct. 2007	Q	Q	Q		
External Current Account Balance	Q2 2007	Oct. 2007	Q	Q	Q	O, LO, LO, LO	O, O, O, O, LO
Exports and Imports of Goods and Services	Q2 2007	Oct. 2007	Q	Q	Q		
GDP/GNP	Q2 2007	Nov. 2007	Q	Q	Q	O, LO, O, O	LO, O, LO, LO, NO
Gross External Debt	Aug. 2007	Sept. 07	M	M	M		

[1] Daily (D); Weekly (W); Monthly (M); Bi-monthly (B); Quarterly (Q); Annually (A); Irregular (I); Not Available (NA).
[2] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
[3] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[4] Foreign, domestic bank, and domestic nonbank financing.
[5] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[6] Including currency and maturity composition.
[7] Reflects the assessment provided in the data ROSC on published on October 16, 2006 and based on the findings of the mission that took place during September 5-16, 2005 for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O); largely observed (LO); largely not observed (LNO); not observed (NO); and not available (NA).
[8] Same as footnote 7, except referring to international standards concerning (respectively) source data, assessment of source data, statistical techniques, assessment and validation of intermediate data and statistical outputs, and revision studies.

INTERNATIONAL MONETARY FUND

COLOMBIA

Staff Report for the 2007 Article IV Consultation

Supplementary Information

Prepared by Western Hemisphere Department

Approved by Caroline Atkinson and Michael T. Hadjimichael

January 14, 2008

1. **Colombia maintains an exchange restriction and multiple currency practice arising from a tax on remittances abroad of nonresident profits which is withheld at the time the foreign exchange is purchased.** This measure is subject to Fund approval under Article VIII, Sections 2(a) and 3. The tax has recently been eliminated for remittances of profits earned in 2007 and beyond and applies only in respect of profits earned before 2007 and retained in the country for less than five years. On December 27, 2007 the Executive Board, on a lapse of time basis, approved the retention of the restriction and multiple currency practice "until January 15, 2009 or the next Article IV Consultation, whichever is earlier." Thus, this approval expires upon conclusion of the pending Article IV Consultation.

2. Given that the exchange restriction and multiple currency practice are of a temporary nature as the underlying measure will be phased out over the next four years, are maintained for balance of payments reasons, and are nondiscriminatory in application, staff at this stage recommends approval of their retention until April 15, 2009.

INTERNATIONAL MONETARY FUND
Public Information Notice
EXTERNAL
RELATIONS
DEPARTMENT

Public Information Notice (PIN) No. 08/07
FOR IMMEDIATE RELEASE
January 28, 2008

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2007 Article IV Consultation with Colombia

On January 16, 2008, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Colombia.[1]

Background

Colombia's economic performance in recent years has been strong, aided by sound economic policies. The combination of wide-ranging structural reforms and prudent macroeconomic policy management has contributed to increased private investment, higher economic growth, and lower inflation. At the same time, both the public finances and the financial system have been strengthened.

The rapid economic growth of recent years, however, has led to a rise in inflation and a widening of the external current account deficit. Economic growth in 2005–06 exceeded the Latin American average and, at close to 7 percent in 2006 and the first half of 2007, equaled its fastest pace since the late 1970s. Growth is projected at 6¾ percent for the year as a whole. Driven by excess demand pressures and a surge in food prices, inflation rose in 2007 and closed the year at 5.7 percent, above the official target of 3½-4½ percent. The current account deficit is projected to double to 4 percent of GDP in 2007, reflecting rapid import growth.

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.

The authorities have been tightening monetary policy, with the aim of reducing inflation. Since April 2006, the Banco de la República has raised its policy interest rate by 350 basis points to 9½ percent. Combined with the introduction of an unremunerated reserve requirement on new deposits in May 2007, this has led to a substantial increase in lending rates and reduced the rate of credit growth, although the latter remains high.

The peso has appreciated over the last year, driven by strong capital inflows, especially foreign direct investment. The nominal exchange rate vis-à-vis the U.S. dollar and the real effective rate appreciated sharply in the first half of 2007. The authorities attempted to alleviate these pressures through sterilized intervention in the foreign exchange market and later through capital controls. The Banco de la República stopped intervening in May, as continued intervention would have compromised achieving its inflation objectives. The capital controls remain in place, however, although they were relaxed somewhat in mid-December.
Fiscal policy was broadly neutral in 2007. The combined public sector deficit is expected to remain roughly unchanged at ¾ percentage point of GDP, with strong increases in revenues offsetting a rise in investment expenditures. The public debt ratio is expected to fall by almost 5 percentage points of GDP to 38 percent of GDP, reflecting strong economic growth.

Aided by its flexible exchange rate regime, Colombia has weathered well the recent turbulence in global markets. Equity prices and spreads have moved broadly in line with the rest of the region, and there have been no disruptions to debt markets.

Colombia’s financial sector indicators remain strong. Despite rapid credit growth, credit-to-GDP ratios are below their peak in the late 1990s and close to the emerging market average. Liquidity has declined, but remains sufficient to cover short-term maturity mismatches. Nonperforming loans remain a small share of total credit.

Executive Board Assessment

The Executive Directors commended the Colombian authorities for their implementation of significant economic reforms and prudent macroeconomic policies, which, in the context of a favorable global environment, have increased private investment, strengthened economic growth and reduced unemployment, lowered inflation, reduced the public debt ratio, and increased international reserves.

Directors shared the authorities’ concern that the rapid economic growth of 2006-07 has led to overheating pressures, with inflation exceeding the 2007 end-year target and the external current account deficit rising. Key policy challenges facing the authorities are to achieve sustainable economic growth with price stability through an appropriate macroeconomic policy mix, while further enhancing productivity through the ongoing structural reforms. In this context, Directors endorsed the authorities’ tightening of the monetary policy stance, and welcomed the strengthening of the fiscal position and the authorities’ commitment to long-term fiscal sustainability. Given the prospect of an expansionary fiscal stance in 2008, many Directors urged the authorities to stand ready to tighten fiscal policy to help reduce excess demand pressures. Some Directors considered that further fiscal steps should await an assessment of the impact on domestic demand of the recent monetary policy tightening.

Directors noted that the current inflation targeting framework has served Colombia well, and generally agreed that it would be premature at this juncture to adapt the framework by moving to a longer-term inflation target on a rolling basis. They agreed that the flexible exchange rate regime is consistent with external stability. They noted that the value of the peso remains consistent with fundamentals, with the recent real appreciation of the peso being driven largely by increased confidence and stronger economic fundamentals. Most Directors stressed that continued flexibility of the exchange rate is important to underpin the inflation targeting framework and allow the economy to respond rapidly to changes in external conditions, while some Directors saw merit in the automatic intervention rule aimed at controlling exchange rate volatility. They viewed the rising current account deficit as reflecting the cyclical phase of the economy. Directors welcomed the relaxation of capital controls in late 2007, and endorsed the authorities' view that capital controls are ineffective in the long run. A number of Directors emphasized the importance of phasing out capital controls, while some others supported them as a short-term measure.

Directors welcomed the continued progress on structural fiscal reform, including tax reform, intergovernmental transfers, and the commercialization of the state oil company. Many Directors saw merit in continued reporting on the state oil company's operations in budget documents, and a few Directors suggested that the authorities also publish a measure of the fiscal balance that includes this enterprise. Directors urged careful administration of the recent decree on special tax zones to minimize negative revenue effects. They also encouraged the authorities to deepen the agenda of fiscal reform. On the revenue side, Directors emphasized the importance of a comprehensive tax reform, including a reduction of the number of value added tax rates and tax exemptions, and encouraged the authorities to build the necessary political support for such a reform. On the expenditure side, there is scope for steps to reduce revenue earmarking and other budget rigidities. Some Directors encouraged the authorities to move forward with the privatization of two national electricity companies.

Directors welcomed the finding that the banking sector remains well capitalized, with a low level of non-performing loans and a high level of loan loss provisioning. They urged continued vigilance in view of the increase in nonperforming loans for consumer credit. In this regard, they commended the ongoing efforts to further strengthen the financial system, including the introduction of counter-cyclical provisioning in the banking system, reinforcement of risk-based supervision, improvement of the regulatory framework for the supervision of derivatives markets, and further liberalization of the insurance sector. They also emphasized the importance of increasing the independence of the Financial Superintendent.

A few Directors encouraged the authorities to remove the exchange restriction arising from the special regime for the hydrocarbons sector.

Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case. The staff report (use the free Adobe Acrobat Reader to view this pdf file) for the 2007 Article IV Consultation with Colombia is also available.

Colombia: Selected Economic Indicators

	2003	2004	2005	2006	Proj. 2007
(Annual percentage change, unless otherwise indicated)					
National income and prices					
Real GDP	3.9	4.9	4.7	6.8	6.8
Consumer prices (end-of-period) 1/	6.5	5.5	4.9	4.5	5.7
Nominal exchange rate (depreciation+, end-of-period)	-3.1	-16.3	-4.6	-2.0	...
Real effective exchange rate (depreciation-)	-2.6	13.3	11.6	-1.9	...
Money and credit					
Broad money	10.6	19.2	17.6	18.0	17.5
Credit to the private sector	8.8	29.8	11.3	38.5	25.0
Real interest rate (90-day time deposits; percent per year) 2/	1.5	2.3	1.4	2.3	3.3
(In percent of GDP, unless otherwise indicated)					
External sector					
Current account (deficit-)	-1.2	-0.9	-1.5	-2.1	-4.0
External debt	46.2	36.6	30.8	27.9	24.9
Of which: public sector	29.8	23.9	19.3	18.3	16.4
Net official reserves (in months of imports of goods and services)	6.4	6.4	5.8	4.8	5.5
Savings and investment					
Gross domestic investment 3/	17.2	19.2	20.8	23.5	22.9
Gross national savings	16.0	18.3	19.2	21.4	18.9
Public finances					
Combined public sector balance	-2.7	-1.3	0.0	-0.8	-0.7
Nonfinancial public sector balance	-3.2	-1.5	0.0	-1.2	-1.0
Central government balance	-4.5	-5.4	-4.8	-4.1	-3.3
Public sector debt 4/	53.3	49.2	45.7	43.0	38.3

Sources: Colombian authorities; and IMF staff estimates and projections.

1/ Actual figure for 2007.
2/ Data for 2007 refer to October 2007.
3/ Data on fixed capital formation were revised starting in 2003.
4/ Includes bonds issued to recapitalize financial institutions.