INTERNATIONAL MONETARY FUND

IMF Country Report No. 19/106

COLOMBIA

April 2019

2019 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR COLOMBIA

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2019 Article IV consultation with Colombia, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its April 19, 2019 consideration of the staff report that concluded the Article IV consultation with Colombia.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on April 19, 2019, following discussions that ended on March 8, 2019, 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 April 8, 2019.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for Colombia.

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

Selected Issues

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

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International Monetary Fund
Washington, D.C.

Press Release No. 19/132
FOR IMMEDIATE RELEASE
May 1, 2019

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

IMF Executive Board Concludes 2019 Article IV Consultation with Colombia

On April 19, 2019, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Colombia.

Colombia's economy is gaining momentum. Despite slowing global and regional growth, GDP growth strengthened in 2018 to 2.7 percent—underpinned by private consumption and a modest recovery in investment. Substantial migration inflows from Venezuela have added to domestic demand, especially for services. With demand-led growth, the current account deficit widened to 3.8 percent of GDP last year, as non-oil exports remained sluggish while imports surged. In terms of financing, the current account continues to be comfortably financed through foreign direct investment, as well as robust portfolio flows from a more diversified set of foreign investors. Inflation eased to near 3 percent at the start of 2018 and has remained stable thereafter. Inflation expectations also remain anchored near the central bank's inflation target.

Following rate cuts in the first half of 2018, monetary policy has been moderately accommodative to support the economic recovery. Meanwhile, fiscal policy was broadly neutral, as the central government narrowed its headline deficit, mainly through expenditure cuts, to comply with the fiscal rule. A Financing Law should raise tax revenues in 2019 but may curb them in 2020 in response to a lower tax burden on corporates that nonetheless should stimulate business investment. Meanwhile, fiscal costs associated with migration flows from Venezuela are estimated to be around ½ percent of GDP this year, suggesting fiscal challenges are rising.

In terms of the outlook, Colombia's economy should accelerate further this year and next. Staff expects growth around 3.6 percent in 2019 and 2020 in response to policy

[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.

accommodation, migrants from Venezuela, investment-friendly tax reform, infrastructure spending and improving corporate balance sheets. Subdued corporate credit growth should pick up with the investment recovery and as loan quality improves. The structural reform agenda embodied in the National Development Plan aims to boost inclusive growth and enhance external competitiveness, while implementation of the peace agreement should further strengthen regional development. Heightened downside risks to the outlook stem primarily from the external side, including weaker global growth amid rising protectionism and a possible tightening of global financial conditions.

Executive Board Assessment[2]

Directors commended the authorities for their very strong policy framework and well executed policy actions, that have supported economic recovery and continued progress toward reducing poverty and inequality. While the outlook remains favorable, external imbalances have widened and the economy remains vulnerable to risks, including from lower global growth, tighter financial conditions, and ongoing migration pressures from Venezuela. Going forward, Directors encouraged continued efforts to appropriately calibrate the policy mix to support recovery, enhance resilience and build buffers, while implementing structural reforms necessary to boost inclusive growth and enhance external competitiveness. Directors commended the authorities for the substantial relief and support efforts for the large inflow of migrants from Venezuela.

Directors welcomed the authorities’ strong commitment to the fiscal rule, which has served the economy well. In the context of the large migration shock from Venezuela, they supported the use of flexibility within the rule to accommodate related spending, while preserving the integrity of the fiscal anchor and the medium term structural balance objective. Directors noted that the authorities’ commitment to fiscal sustainability should be supplemented by structural fiscal reforms to safeguard social spending and public investment. In order to boost revenue and enhance spending efficiency, they encouraged efforts to broaden the tax base, improve tax administration, eliminate preferential regimes for businesses, reform the energy subsidy and strengthen investment project selection and evaluation.

Directors welcomed the convergence of headline inflation to its target and the continued anchoring of inflation expectations. They noted that the current monetary policy stance is appropriate, but should be tightened if credit and economic activity recover as projected. Directors welcomed the central bank’s reserve accumulation program as a proactive step to maintain external buffers. They noted that the flexible exchange rate should continue to be

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

the first line of defense against external shocks, with adequate international reserves and the Flexible Credit Line acting as additional buffers.

Against a backdrop of a sound banking system, Directors commended the authorities for continued advances in financial regulation and supervision, including the steps taken to align regulation with Basel III standards over time and through the implementation of the Conglomerates Law that should further strengthen the financial system.

Directors emphasized the need to continue with structural reform implementation. They noted that further efforts are needed to improve the business environment, reduce trade barriers, address skills mismatches, close infrastructure gaps, strengthen governance and the rule of law, and reduce corruption. A pension reform that improves coverage and progressivity should also remain a priority. Directors welcomed the National Development Plan's focus on many of these issues and called for its steadfast implementation.

Colombia: Selected Economic Indicators

	2017	2018	Proj 2019
	(Annual percentage changes, unless otherwise indicated)		
National Income and Prices			
Real GDP	1.4	2.7	3.6
Consumer price index (period average)	4.3	3.2	3.4
Consumer price index (end of period)	4.1	3.2	3.2
GDP deflator	5.1	4.2	3.4
Terms of trade (deterioration -)	9.3	10.3	-4.1
Real effective exchange rate (depreciation -)	5.6	0.8	-4.4
	(In percent of GDP, unless otherwise indicated)		
Public finances			
Central government balance 1/	-3.6	-3.1	-3.0
Combined public sector 1/	-2.4	-2.0	-2.1
Public debt 2/	49.5	51.8	50.6
External Sector			
Current account (deficit -)	-3.3	-3.8	-3.9
External debt	47.3	46.7	48.7
of which: Public sector	30.3	28.9	29.5
GIR in percent of short-term debt	105.9	108.0	106.7
Savings and Investment			
Gross domestic investment	22.3	21.0	22.1
Gross national saving	19.0	17.2	18.2
	(12-month percentage changes, unless otherwise indicated)		
Money and credit			
Broad money (M2)	6.4	6.9	10.2
Credit to the private sector	12.8	8.4	9.8
Interest rate (90-day time deposits; percent per year; nominal)	5.3	4.5	n.a.

Sources: Colombian authorities; and IMF staff estimates and projections.
1/ Excludes projected privatization proceeds.
2/ Includes Ecopetrol and Banco de la Republica's outstanding external debt.

COLOMBIA

STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION

April 8, 2019

KEY ISSUES

Context. Supported by very strong policy frameworks and well-executed policies, Colombia's recovery strengthened. The demand-led pick-up in growth is moving the economy toward internal balance but away from external balance. Looking ahead, without additional tax revenues and increased spending efficiency the fiscal tightening required by the fiscal rule will exert pressure to cut key public spending.

The recovery is gaining momentum and external imbalances have widened. Despite weaker-than-expected external demand, activity should accelerate in 2019. Rebounding investment, continued policy support, and substantial migration from Venezuela are expected to lift growth to 3.6 percent while the current account deficit is expected to remain wide. Inflation is projected to remain close to target.

A broadly neutral fiscal stance in 2019 is appropriate and will need to turn more restrictive thereafter, ideally via higher structural tax revenues. Given robust domestic demand and the current account deficit, the central government should reduce its deficit but using some flexibility under the fiscal rule is understandable given the sizable and persistent migration shock from Venezuela and related fiscal costs. Looking forward, achieving the fiscal consolidation consistent with the medium-term fiscal framework will be challenging given migration-related costs, spending rigidities, and expected revenue losses from recent tax policy changes. Thus, the authorities should pursue a broad-based strategy to raise structural tax revenues and enhance spending efficiency. The moderately expansionary monetary policy stance remains appropriate, but it should move towards neutral if credit and GDP growth recover as expected.

Credit growth is picking up with the investment recovery in 2019. NPLs are somewhat elevated but well provisioned for and banks remain well capitalized. The implementation of the Conglomerates Law and Basel III capital and liquidity standards will strengthen the regulatory framework.

Structural reforms are needed to boost inclusive growth and enhance external competitiveness. Addressing infrastructure gaps, strengthening governance and the rule of law, reducing informality, and enhancing customs and other trade practices are crucial. The draft National Development Plan rightly identifies key priorities and lays out a roadmap for reforms.

Approved By
Krishna Srinivasan (WHD) and Vitaliy Kramarenko (SPR)

The team comprising Hamid Faruqee (Head), Emilio Fernandez-Corugedo, Frederik Toscani and Juan Yepez-Albornoz (all WHD), Andrew Swiston (SPR), Farid Jimmy Boumediene (MCM) and Roberto Schatan (FAD) visited Colombia during February 25–March 8. Leonardo Villar (ED) also participated in the policy discussions.

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A RESILIENT RECOVERY WITH MEDIUM-RUN CHALLENGES

A. Background

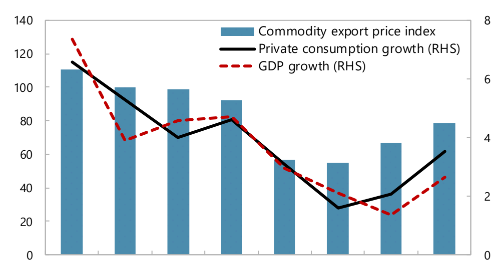
1. Colombia's very strong policies and pursuit of equity and inclusion—including implementation of the peace agreement—continued in 2018. In the last decade, Colombia's strong policies underpinned high and stable growth and an orderly adjustment to the large terms of trade shock of 2014–16. Notwithstanding an economic slowdown since 2014, key social indicators gained ground. Poverty and inequality measures kept declining and financial inclusion improved. The peace agreement's emphasis on rural development stands to reduce income inequality across regions. Additionally, structural and tax reforms have improved the business climate. Colombia was invited to become a full member of the OECD on May 30, 2018.

2. Past Fund Advice. Recent policy measures have been broadly aligned with past Fund advice. Since the 2018 Article IV Consultation, the central bank's policy stance has continued to be data-dependent and has been well communicated, avoiding any policy surprises. The central government continued to meet the headline deficit target mandated by the fiscal rule. The implementation of the Conglomerates Law and Basel III are proceeding as planned. The 2018–22 National Development Plan (NDP) focuses on alleviating structural bottlenecks identified in past advice, including raising productivity, tackling informality, and improving governance.

B. Recent Developments

3. Colombia's recovery gained momentum in 2018 (Figure 1). Growth strengthened to 2.7 percent in 2018 from 1.4 percent in 2017, on the back of stronger private consumption, and a modest investment recovery. The recovery was driven by continued policy support, real wage growth, and a dissipation of political uncertainty following the presidential election. Upon taking office, President Duque's government re-iterated its commitment to policy continuity and maintaining Colombia's strong macroeconomic policy framework.

Commodity Prices, Private Consumption and GDP Growth



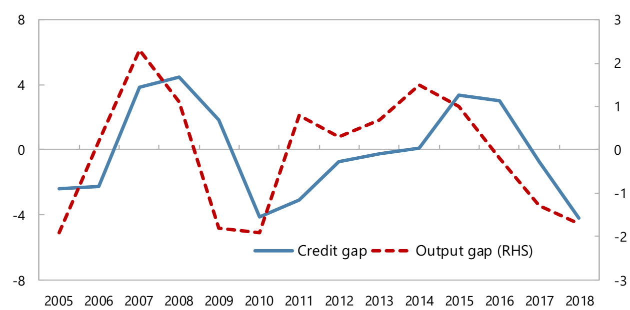
Sources: : Departamento Administrativo Nacional de Estadísticas (DANE) and IMF staff calculations.
Note: Index used rolling weight, 2012M6=100.

4. With demand-driven growth, external imbalances widened (Figure 2). The current account deficit widened to 3.8 percent of GDP in 2018 as recovering domestic demand spurred imports, including for investment goods, while non-oil exports remained sluggish. Capital inflows were robust notwithstanding stress in other EMs during 2018 (Figure 3), and the government has already met its external borrowing plan for 2019 with oversubscribed Eurobond issuances in October and January. The peso depreciated by 7 percent against the U.S. dollar during the year but strengthened by 1 percent in real effective terms. Accordingly, Colombia's external position is moderately weaker than the level consistent with medium-term fundamentals and desired policy settings. Reserves remained adequate at 118 percent of the ARA metric (130 percent excluding a commodity buffer) (Annex I).

5. Inflation stood at target in February 2019 (Figure 4). Headline inflation eased to 3.1 percent in 2018Q1, as base effects from the 2017 VAT increase dropped out. Since then, inflation has been stable around its target,[1] as core and nontradable inflation both fell close to three percent for the first time in four years. Two-year inflation expectations remain anchored near the central bank's inflation target. Despite continued slack in the labor market, real wages grew by 2 percent in 2018 as inflation fell.

6. Subdued credit growth evolved in line with the economic cycle (Figure 6). Commercial credit growth moderated in the first half of 2018, in line with weak investment. Credit quality deteriorated over the same period, particularly for corporate borrowers. However, NPLs have since started to decline and domestic banks have become increasingly willing to lend.

Credit to GDP and Output Gaps



Sources: BanRep; DANE; and IMF staff calculations.
Note: Output gap estimated through a multivariate filter, credit to GDP gap through an HP Filter.

7. The policy mix has remained somewhat supportive. Monetary policy has been moderately accommodative, after the central Bank cut interest rates by 50bps in 2018H1. At the same time, the fiscal stance was neutral overall last year. Consistent with the fiscal rule, the central government's headline deficit narrowed to 3.1 percent of GDP in 2018 from 3.6 in 2017, yielding a slightly negative impulse last year (Figure 5), but subnational spending was strong.

8. The 2018 Financing Law should raise tax revenues in 2019 but will likely create shortfalls thereafter. Tax revenues should increase by 0.7 percent of GDP in 2019 stemming from base changes to VAT and consumption taxes and rate changes to personal income (PIT), wealth and dividend taxes, and from improved administration. A gradual reduction in corporate income tax (CIT) rates and allowing VAT credits on capital goods should lower tax burdens on businesses and will boost investment, but curb tax revenues from 2020 onwards at a time when the fiscal rule calls for significant tightening (Box I, SIP).[2]

9. Accelerating migration flows from Venezuela pose fiscal challenges (Annex III). According to *Migracion Colombia*, 1.5 million migrants from Venezuela (including more than 350,000 returning Colombian nationals) reside in Colombia as of December 2018. Staff's baseline

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[1] The CPI basket was rebased to December 2018.

[2] The originally proposed Financing Law proved contentious in Congress and its initial revenue-raising measures were watered down, partly reflecting the government's small governing majority.

projects that the number of migrants will reach 2½ million by end 2020. A commitment to provide humanitarian support such as health care and education to migrants will result in additional near-term net fiscal costs for Colombia that will peak at around 0.4 percent of GDP in 2020, and gradually decline to 0.1 by 2024, as migrants integrate into the economy and associated growth gains rise over time. In response, the Fiscal Rule Consultative Committee (FRCC) recommended on March 29th to use flexibility within the fiscal rule to modestly relax the deficit target over the next few years. Market reactions to date have been muted.

10. The peace agreement is progressing on most fronts. The Kroc Institute, tasked with monitoring the agreement, reports that steady progress had been made, in line with other major peace accords. The Special Jurisdiction for Peace (JEP) remains under review,[3] following the President's objections to 6 of over 150 articles in the JEP's Statutory Law. These articles are expected to be reconsidered by Congress and would need further approval by the Constitutional Court.

Box 1. The 2018 Financing Law[1]

Despite numerous tax reforms, non-oil revenues in Colombia remain comparatively low. Relative to other Latin American and OECD countries, Colombia retains a complex tax code and collects relatively low revenues from PIT and VAT. On the other hand, Colombia has a relatively high CIT rate. The complexity of the tax system together with limited resources at the tax authority has led to widespread evasion (OECD 2015).

The financing law addressed some of these issues in a growth-friendly way. Three higher PIT rates and a wealth tax were introduced to improve progressivity; the corporate tax burden was reduced by lowering CITs, avoiding double taxation at the subnational level and allowing input credit for VAT on capital goods, and more instruments were created to improve tax administration outcomes, including making electronic invoicing compulsory and adoption of tougher sanctions and criminal penalties.

Colombia: 2018 Financing Law Expected Static Revenue Impact (% GDP)

	2019	2020	2021	2022
Total	**0.7**	**-0.1**	**-0.2**	**-0.6**
VAT and consumption tax	0.3	0.3	0.3	0.3
Personal income tax	0.2	0.2	0.2	0.2
Wealth and dividend taxes	0.1	0.1	0.1	0.1
Reduction of corporate income tax, presuntive tax rate, municipal tax	0.0	-0.2	-0.4	-0.6
Allowing input credit for VAT on capital goods	0.0	-0.6	-0.6	-0.6
Revenue administration gains/anti-evasion	0.1	0.1	0.1	0.1

Sources: National authorities and IMF staff estimates.

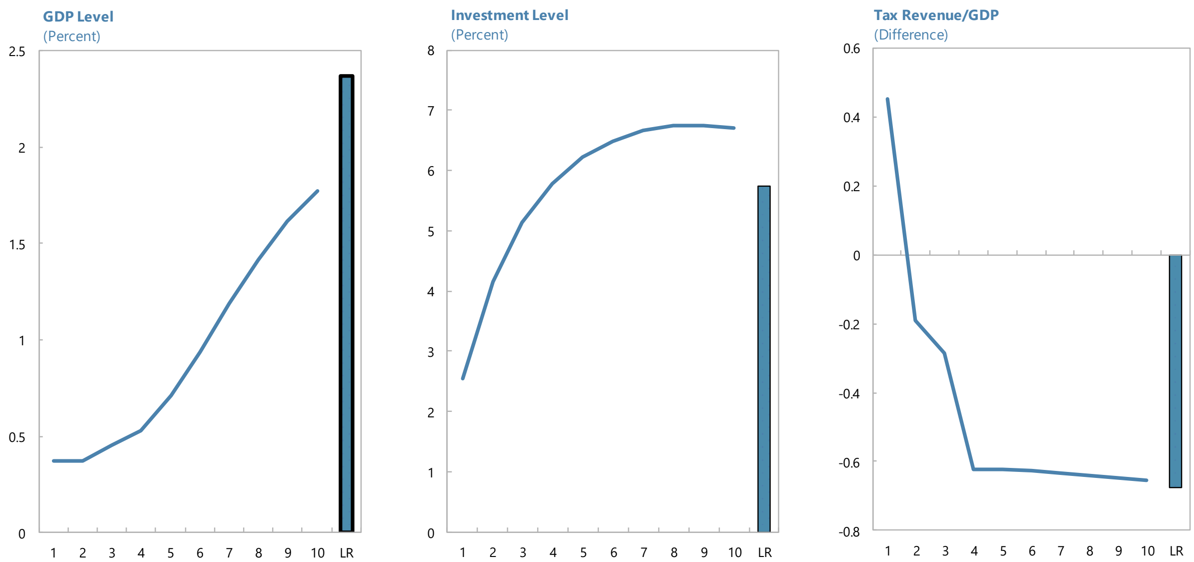
[1] A Staff Issues Note provides further details.

[3] As part of the accord, the JEP was established as a transitional justice system to investigate war crimes committed during Colombia's internal conflict.

Box 1. The 2018 Financing Law (concluded)

Model-based simulations point to sizeable private investment effects from financing Law. Staff simulations suggest that the Law could boost medium-term growth by around 0.2 percent of GDP but will reduce tax revenues in the medium-term. A lower corporate burden through lower CIT and allowing input credit for VAT on capital goods will likely boost investment and potential growth but will not be enough to offset the associated revenue losses (see Figure 1).

Figure 1. Colombia: Impact of Financing Law on Key Variables

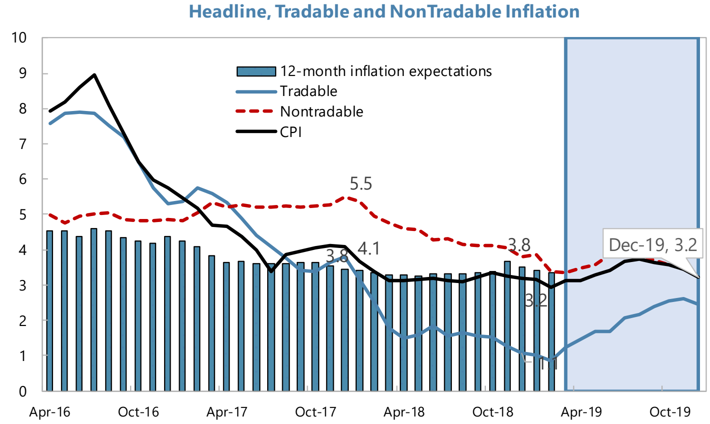


Source:GIMF Simulations.
Note: LR denotes the long-run or steady-state.

C. Outlook and Risks

11. Growth at 3.6 percent this year and beyond is expected to close the output gap. Moderately accommodative monetary policy, higher fiscal spending at the subnational level,[4] and migrants from Venezuela should support domestic demand in 2019. Despite external headwinds, staff projects growth to increase to 3.6 percent this year, driven by continued strength in consumption and an investment rebound—further underpinned by recovering

Headline, Tradable and NonTradable Inflation



Sources: Banrep; Haver; and IMF staff forecasts.

[4] Higher subnational spending is expected ahead of mid-year local elections.

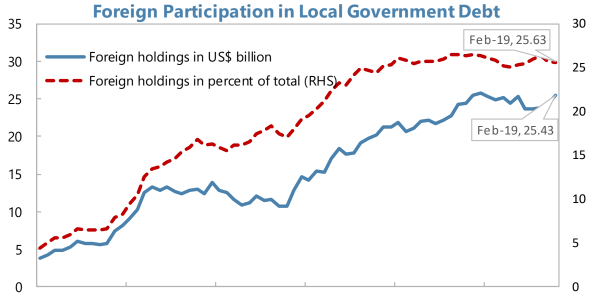
construction, 4G infrastructure spending, improved corporate balance sheets and investment-friendly tax reforms. Correspondingly, credit growth should pick up with the investment recovery. Medium-term potential growth slightly below 3½ percent includes the positive impact of migration flows from Venezuela (Annex III) and incorporates the latest (preliminary) census estimates.

12. Inflation should remain near target despite temporary factors. Supply-side shocks (VAT hikes from the Financing Law, el Nino) could lead to transitory increases in inflation. Also, the 2019 minimum wage increase (2.8 percent in real terms) exceeded productivity growth, posing some risk of higher inflation and informality. But with nontradable inflation expected to stay close to 3 percent given favorable indexation dynamics and continued slack, inflation is projected to end 2019 near target.

13. The current account deficit is projected to remain elevated. Strong import growth is expected as domestic demand continues recovering. Export volumes of oil and other commodities are projected flat, but momentum in tourism is expected to continue, while the previous expectation of a rebound in non-traditional exports has been tempered as regional activity picks up slowly. However, the current account deficit is being comfortably financed by stable foreign direct investment and robust portfolio inflows from a more diversified foreign investor base. A challenge will be to reduce external deficits over the medium term to contain the build-up in net foreign liabilities.

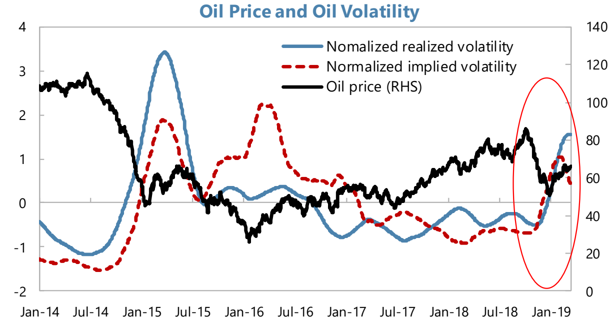
14. Heightened risks remain tilted to the downside (RAM). Lower global growth, amid rising protectionism, and a retreat from multilateralism pose risks to Colombia's exports, including indirectly through lower oil prices. On the financial side, nonresident participation in the local bond market rose encouragingly to an all-time high in 2018 (7.9 percent of GDP), but raises Colombia's exposure to tightening global financial conditions. Colombia's strong policies, flexible exchange rate, reserve buffers and FCL access should continue to cushion the effect of external shocks, as confirmed in the staff analysis of risks to capital flows (Annex IV). On the domestic front, risks are broadly balanced. Heightened uncertainty in Venezuela could lead to a further acceleration of migration inflows, with spillovers in terms of fiscal costs for Colombia. Larger migration flows that double the number of Venezuelan migrants by 2024 could result in additional near-term fiscal costs of around ½ percent of GDP relative to the baseline (Annex III). Domestic confidence weakened sharply around the tax debate in congress last year, and a failure to mobilize tax revenues in the

Foreign Participation in Local Government Debt



Sources: National authorities and IMF staff calculations.

Oil Price and Oil Volatility



Sources: Bloomberg, Energy Information Administrationand IMF staff calculations.

future could lead to large cuts in social and investment spending, adversely affecting growth and poverty reduction.

15. The authorities expect the recovery to gather momentum in 2019 and inflation to remain close to target. Like staff, they project GDP growth to be between 3.4−3.6 percent, supported by strong private consumption and an investment rebound. They also note that there is great uncertainty about the impact of Venezuelan migrants on demand at various horizons given high informality and limited household survey information. The authorities expect inflation to remain close to target. They share staff's general view on risks and Colombia's exposures, although they place more weight on domestic risks than staff, including the possibility of further waves of migration that may raise fiscal costs. They agreed with staff's views on near-term prospects for the current account and capital flows and the potential medium-term external risks of a widening deficit. The authorities broadly agreed with staff's overall external sector assessment, although they emphasized investment-driven imports, robust foreign direct investment, and diversified portfolio flows as mitigating factors.

Global Risk Assessment Matrix[1]

Source of Risks (Probability in color; time horizon in bold)	**Impact**	**Policy Advice**
Global		
Rising protectionism and retreat from multilateralism. In the near term, escalating and sustained trade actions threaten the global trade system, regional integration, as well as global and regional collaboration. Additional barriers and the threat of new actions reduce growth both directly and through adverse confidence effects (increasing financial market volatility). In the medium term, geopolitical competition and fraying consensus about the benefits of globalization lead to economic fragmentation and undermine the global rules-based order, with adverse effects on growth and stability. **High** **ST, MT**	**Medium**	Speed up structural reforms and pro-diversification measures.
Sharp tightening of global financial conditions causes higher debt service and refinancing risks; stress on leveraged firms, households, and vulnerable sovereigns; capital account pressures; and a broad-based downturn. The tightening could be a result of: • Market expectations of tighter U.S. monetary policy triggered by strong wage growth and higher-than-expected inflation. **Low** **ST** • A sustained rise in risk premiums in reaction to concerns about debt levels in some euro area countries, a disorderly Brexit, or idiosyncratic policy missteps in large emerging markets. **Medium** **ST**	**High**	Use the flexible exchange rate as the first line of defense against external shocks and international reserves where needed to address disorderly market behavior.

Global Risk Assessment Matrix (concluded)		
Weaker-than-expected global growth in key economies: **Euro Area**: In the near term, weak foreign demand makes euro area businesses delay investment, while faltering confidence reduces private consumption. Adverse financial market reaction to debt sustainability concerns further dampens growth. A disorderly Brexit could cause market disruption with negative spillovers. In the medium term, disregard for the common fiscal rules and rising sovereign yields for high-debt countries test the euro area policy framework, with adverse impact on confidence and growth. **High ST, MT** **U.S.**: Confidence wanes against a backdrop of a long expansion with stretched asset valuations, rising leverage, and unwinding of the fiscal stimulus, leading to abrupt closure of the output gap rather than a smooth landing. **Medium ST, MT** **China**: In the short term, intensification of trade tensions and/or a housing market downturn prompt a slowdown, which is not fully offset by policy easing. Deleveraging is delayed and financial stresses, including capital outflow and exchange rate pressures, emerge. In the medium term, insufficient progress in deleveraging and rebalancing reduces growth and raises the probability of a larger disruptive adjustment. There would be negative spillovers on the global economy through trade volumes, commodity prices, and financial markets. **Medium ST, MT**	**Medium** **Medium** **Medium**	Speed up structural reforms and pro-diversification measures. Monetary policy support if expectations are anchored. Reprioritize public investment projects. Any fiscal measure should preserve the declining debt path.
Large swings in energy prices. Risks to prices are broadly balanced, reflecting offsetting—but large and uncertain—supply and demand shocks. In the near term, uncertainty surrounding the shocks translates to elevated price volatility, complicating economic management and adversely affecting investment in the energy sector. As shocks materialize, they may cause large and persistent price swings. While, on aggregate, higher oil prices would harm global growth, they would benefit oil exporters. **Medium ST, MT**	**High**	Use the flexible exchange rate as the first line of defense against external shocks and international reserves where needed to address disorderly market behavior.
Colombia Specific		
Further delays in infrastructure projects, deterioration of credit portfolio quality, continued weakness in exports and softer private consumption. **Medium ST, MT**	**Medium**	Speed up structural reforms and diversification measures. Delay mon. pol. tightening. Reprioritize public investment projects.
Higher than expected migration flows from Venezuela, and/or greater than anticipated costs per migrant, and/or challenges in assimilating migrants results in additional net fiscal costs and lower potential output. **Medium ST**	**Medium**	Consider invoking temporary escape clause in fiscal rule, ensure medium-term declining debt path. Seek concessional financing and aid. Speed-up policies to integrate migrants into the labor force.
Shortfalls in mobilizing tax revenue lead to large cuts in public investment and social spending, adversely affecting growth and poverty reduction. **Medium MT**	**Medium**	Speed up structural reforms and diversification measures. Reprioritize public investment projects. Strengthen revenue administration.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). Non-mutually exclusive risks may interact and materialize jointly. "Short term (ST)" and "medium term (MT)" are meant to indicate that the risk could materialize within 1 year and 3 years, respectively.

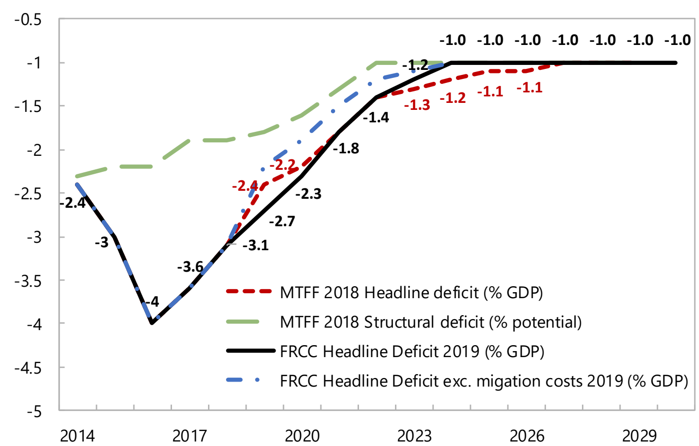
MACROECONOMIC POLICIES

16. The policy mix should balance continued support for the recovery against the need to contain external imbalances. Against a background of robust domestic demand, a narrowing output gap, and an elevated current account deficit, the central government should reduce the fiscal deficit in line with the fiscal rule and rebuild fiscal space. While the central government is constrained by the fiscal rule, there is some space at the general government level where local governments at the subnational level can provide stimulus to support the ongoing recovery. At 4.25 percent, both staff and the Central Bank estimate that the policy rate is moderately below the nominal neutral rate to support demand and subdued credit.[5]

17. If the recovery materializes as expected, monetary accommodation can be gradually removed. In the near-term, with inflation close to target, anchored inflation expectations, weak credit growth, and the prevailing negative output gap, monetary policy should remain accommodative to safeguard the recovery and insure against heightened downside risks. If the recovery in credit and GDP materializes as projected, the Central Bank should shift to a tightening bias towards the second half of the year to move monetary policy to neutral territory.

18. Adhering to the fiscal rule remains appropriate and would place public debt firmly on a downward path over the medium term. Reducing the central government's budget deficit is part of a multi-year adjustment required by the fiscal anchor. Following the FRCC recommendations to make some allowances for the Venezuelan migration shock, the revised headline path implies higher deficits in 2019 and 2020 but lower deficits from 2023 to 2024 relative to the 2018 Medium Term Fiscal Framework (MTFF) (see chart).[6,7] At the subnational level, low spending execution is expected after local elections, suggesting the consolidated public sector fiscal stance will be contractionary in 2020. Public sector

Central Government's Envisaged Deficit Paths
(Percent of GDP)



Source: Authorities and FRCC.

[5] Staff and the Central Bank both estimate that the real neutral rate is around 1.5 percent.

[6] Staff estimates that to achieve the headline deficits mandated by the fiscal rule, sizeable cuts to fixed capital formation will be needed, although privatization proceeds in 2019 may partly be used to maintain expenditures at 2018 levels. This would create an accounting discrepancy between staff's and authorities' figures. Note that the authorities employ the GFSM 1986 manual whereby privatization proceeds may be reported as government revenues. Under GFSM 2014, this is not the case.

[7] The revised deficit path also includes a reassessment of the economy's cyclical position which was deemed to be stronger relative to the 2018 MTFF, implying lower headline deficits between 2019 and 2026.

gross debt is projected to steadily decline from about 51 percent in 2018 to around 40 percent of GDP by 2024.

19. During the Article IV mission, staff recommended that the escape clause could be considered under strict conditions to safeguard the MTFF. Uncertainty around migration flows from Venezuela and its effects pose risks of higher-than-expected fiscal costs that could crowd out key public investment and social spending programs. To work explicitly within the fiscal rule's contingency framework, the escape clause can be invoked "in case of extraordinary events that may compromise the country's macroeconomic stability." However, invoking the clause for the first time involves a trade-off between smoothing the shock versus setting a precedent with possible credibility costs for the fiscal framework. Given this, staff recommended that the following strict conditions be satisfied if the escape clause were to be used in response to an exceptional migration shock from Venezuela: (i) the trigger must be clearly defined as migration-related costs; (ii) temporary deviations from the target should be commensurate with those costs; and (iii) a well-defined plan specifying the fiscal measures to return to the rule's deficit path in the medium term should be specified. To support confidence in the fiscal anchor, the plan should be well-communicated, and include a calendar and prospective revenue and expenditure measures and be published in the MTFF.

20. Since then, the authorities decided to use flexibility within the fiscal rule in a well-defined manner starting in 2019. Invoking the escape clause would suspend the rule altogether and likely require creating a *provisional* rule to operate during the suspension period. Instead of this approach, the authorities explored the legal option of adjusting the deficit target in the *existing* rule to accommodate spending pressures from the Venezuela migration shock, working with the FRCC. The FRCC recommended a modestly relaxed headline deficit path—defined for a fixed period with a pre-specified ceiling on the deviation in the budget deficit in response to the migration shock. Under the proposal, the headline deficit would be allowed to widen in line with migration-related spending pressures, up to ½ percent of GDP in 2019, given the authorities' projections of around 2½ million migrants residing Colombia by the end of this year. This deviation in the deficit target will decrease by 0.1 percent each year until 2024. The FRCC will monitor implementation annually based on the evolution of the migration shock, as well as its economic and fiscal impact, and can reassess if the deficit path should be modified going forward. This detailed and upfront recommendation from the FRCC to adjust the headline deficit path in response to the migration shock is broadly in line with staff advice for the contingent rule, but the authorities approach relies on introducing flexibility to the existing rule following the shock.

Fiscal Outlook 1/

(In percent of GDP; unless otherwise indicated)

	2016	2017	2018	2019	2020	2021	2022	2023	2024
Central Government Fiscal Stance									
Headline balance 1/	-4.0	-3.6	-3.1	-3.0	-2.3	-1.8	-1.4	-1.2	-1.0
Total revenue 2/	15.0	15.6	15.1	15.5	15.4	15.4	15.3	15.2	15.2
Tax revenue	13.6	13.8	13.6	14.0	13.9	13.9	13.8	13.7	13.7
Expenditure	19.0	19.2	18.2	18.5	17.7	17.2	16.7	16.3	16.2
o/w Fixed capital formation	2.0	2.4	1.7	1.5	0.8	0.7	0.4	0.4	0.6
Structural primary non-oil balance	-1.2	-0.5	-0.3	-0.4	-0.1	0.0	0.3	0.4	0.3
CG Fiscal Impulse	-0.4	-0.7	-0.2	0.1	-0.3	-0.1	-0.4	-0.1	0.1
Consolidated Public Sector									
Headline Balance 3/	-2.3	-2.4	-2.0	-2.1	-0.6	-0.3	-0.4	-0.4	0.0
of which: Subnationals balance	0.3	0.5	0.7	-0.1	0.5	0.5	0.0	-0.2	0.3
Total revenue	25.2	25.4	25.2	26.1	26.2	26.0	25.6	25.5	25.5
Expenditure	27.6	28.0	27.4	28.7	27.2	26.7	26.4	26.2	25.9
Structural primary non-oil balance	0.4	0.3	0.3	-0.8	0.5	0.6	0.4	0.2	0.4
CPS Fiscal Impulse	-2.9	0.1	0.0	1.1	-1.3	-0.1	0.2	0.2	-0.2
Public sector gross debt	49.8	49.5	51.8	50.6	48.5	46.2	44.2	42.2	39.9
Public sector net debt 4/	38.6	38.7	41.3	41.6	40.3	38.7	37.3	35.9	34.2

Source: National authorities and Fund staff estimates.

1/ The medium-term fiscal outlook is broadly based on the authorities' medium-term fiscal framework. For 2019, it excludes expected privatization proceeds (0.3 percent of GDP) that, under GFSM 1986, produces a headline deficit of -2.7 percent of GDP estimated by the authorities.

2/ Includes one-off telecom fine in 2017 (0.5 percent of GDP)

3/ For 2016 excludes proceeds from the sale of ISAGEN and for 2019 excludes projected privatization proceeds (0.3 percent of GDP).

4/ Gross debt minus public sector deposits.

21. **The authorities broadly agreed on the appropriate mix of macroeconomic policies but see a need for temporary flexibility under the fiscal rule**. Given the exceptional migration shock and its attendant fiscal costs that are expected to be persistent, the authorities are using the flexibility embedded *within* the fiscal rule's framework. To safeguard the fundamental characteristics of the fiscal rule, the authorities welcomed staff's advice of defining upfront the trigger, deviation from target, and correction mechanism if the escape clause were to be implemented. The current legal framework suspends the fiscal rule when the escape clause is invoked which was viewed by the authorities and the rules committee as problematic. Hence, they concurred on modestly relaxing the headline deficit targets within the existing rule in response to the Venezuelan migration shock. The authorities believe the FRCC recommendations and monitoring of the fiscal rule under these revisions to be consistent with staff's approach. To preserve the integrity of the fiscal anchor, there were no changes to the medium-term structural balance objective. On monetary policy, the central bank agreed that policy decisions will continue to be data dependent and that accommodation can be gradually withdrawn if GDP and credit strengthen as expected.

22. **Building dollar reserves for the first time since 2014, the central bank's reserve accumulation program is an appropriate step to maintain external buffers.** The Central Bank announced in September 2018 a program to accumulate reserves to enhance the economy's resilience to external shocks and as part of the authorities' efforts to prepare for a possible gradual reduction in FCL access, risks permitting (Annex V). Reserves are currently adequate, in line with standard metrics, but will need to rise over time to maintain a sufficient buffer given external financing needs and risks. The program's market-based mechanism has allowed reserve

accumulation without disrupting the smooth functioning of the foreign exchange market, while permitting the flexible exchange rate to remain the primary mechanism of adjustment to external shocks. Staff sees scope, without disrupting the market, for a modestly faster pace of reserve accumulation that would keep the IMF's standard metric at its current level. The authorities' stated objective of offsetting reduced FCL access in the future with own reserves would involve additional accumulation. As the economy strengthens, accumulated reserves should continue to be sterilized, as needed, to maintain short-term interest rates close to the policy rate that the central bank judges consistent with attaining its inflation target.

23. The central bank was satisfied with its new program and the pace of reserve accumulation. The authorities agreed that further reserve accumulation was necessary to maintain external liquidity buffers as a backstop to the flexible exchange rate, which remains the first line of defense against external shocks. The authorities view the program as functioning successfully. They thought a faster pace was *not* necessary under current conditions, but this may change if circumstances do.

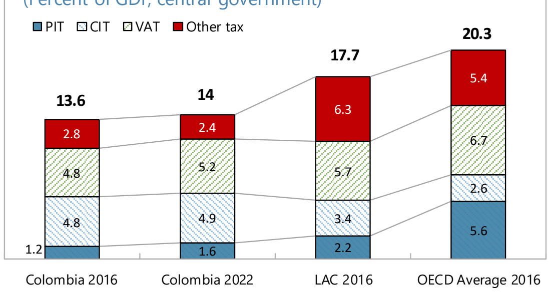
STRUCTURAL POLICIES

A. Increasing Tax Revenue and Improving Spending Efficiency

24. Rising fiscal challenges will soon require policy actions to address them. At the heart of Colombia's strong policy frameworks, the MTFF includes the fiscal rule's structural deficit goal of one percent of GDP by 2022. Within this tightening budgetary envelope, and with tax revenue reductions approved in the Financing Law, staff estimates that in the absence of further revenue mobilization, expenditure reductions in excess of 2 percent of GDP between 2020–24 would be needed. This may be difficult given near-term spending rigidities, including pension commitments, and protracted fiscal costs from migration-related spending. To avoid undesirable cuts in public investment and social spending, the authorities should consider undertaking structural measures on both tax revenues and government spending to build fiscal buffers and maintain investor confidence.

25. Tax revenues should be gradually built up structurally to safeguard key spending given downside risks of revenue shortfalls. Raising tax revenues by 2−3 percentage points, to 16 percent of GDP, would help safeguard key public investment and social spending to support inclusive growth. Measures to lift tax revenues should include: the elimination of preferential regimes for businesses; base broadening for personal income taxes (including a reduction in the standard exemption and threshold at which tax is levied) and the VAT (with direct transfers to the most vulnerable to offset any adverse impact on poverty). These measures could resulting in

Tax Structure
(Percent of GDP, central government)



Sources: OECD Database and IMF staff calculations.
Note: Colombia data is estimated by Fund staff.

added revenue gains of around 2 percent of GDP. On tax administration, this could be improved, including through changes to the arrears process, the VAT refunds process and to high-coverage audits. Improvements to DIAN's IT systems and governance, increased staffing, and training to reduce widespread tax evasion are imperative.

26. Spending efficiency should be enhanced. Efficiency improvements in line with the recommendations made by the expert commission on spending should be pursued.[8] These include energy subsidy reform as many of the wealthiest households receive subsidies; and stronger investment project selection and evaluation. The latter, as well as DIAN improvements, should help reduce governance and corruption vulnerabilities. Additionally, increasing the participation of subnational governments in health and education provision using the central government public procurement system's guidelines would boost the efficiency and progressivity of social programs. Unifying a fragmented budget process between the central government, royalties' system, and investment budget merits consideration to improve consistency and to better integrate medium-term programs.

27. The authorities agreed in principle to raise tax revenues but believe sufficient gains can be attained through higher growth potential and more efficient tax administration. The authorities share the objective of raising central government tax revenue as a share of GDP toward levels seen in regional peers. The authorities however do not see staff's projected revenue losses from the Financing Law, expecting instead that the lower tax burden on corporates would provide a larger boost to both GDP growth and tax revenues. On measures, there are plans to introduce new IT systems and electronic invoicing, increase staffing and training and create incentives to foster the careers of strong performers at the DIAN. The authorities have submitted an NDP proposal to unify the operational and investment budgets and streamline subsidies to make them more progressive.

B. Financial Sector Policies

28. Credit growth is expected to increase and NPLs to gradually decline in line with the economic recovery. Alongside the investment rebound, commercial credit demand is expected to strengthen. Last year, credit portfolio quality and a consequent increase in provisions weighed on bank profitability in the first three quarters of 2018 with ROA falling to 1.4 percent in mid-2018 (1 percentage point lower than a year earlier), but now bank profitability and willingness to lend is expected to improve as the corporate credit portfolio strengthens. Banks remain well capitalized with provisions stable at approximately 130 percent of NPLs and core Tier-1 and regulatory capital having been raised to 13.2 percent and 18.9 percent of risk-weighted-assets (RWAs) respectively.[9]

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[8] Bernal and others (2018), Informe Final de la Comision del Gasto y la Inversion Publica.

[9] The authorities' stress testing exercise showed an aggregate solvency ratio remaining above the 9 percent regulatory requirement, although for some institutions (less than 10 percent of assets) solvency would fall below the regulatory minimum.

29. The financial supervisor (SFC) is implementing the Conglomerates Law and Basel III capital and liquidity standards, in line with previous staff advice. The SFC has the authority to supervise 13 identified financial conglomerates covered by the conglomerates law. These will have to comply with capital adequacy requirements by November 2019 and guidelines for conflicts of interest within financial conglomerates will be introduced in February 2020. To bring capital standards closer in line with Basel III, the parameters for calculating risks weighted assets (RWA) will be redefined and the definition of technical capital will be modified to exclude intangible assets in February 2020. The net effect of these two changes will raise most banks' capital ratios.[10] Meanwhile, capital conservation buffers and systemic risk buffers for DSIBs will be gradually introduced over a four-year period (Feb 2020−Feb 2024). The liquidity coverage ratio (LCR) has been modified with the assumed run-off rates now varying with deposit type. By June 2020, banks will also have to comply with the net-stable-funding-ratio (NSFR). The authorities revealed their intention to introduce a capital requirement for operational risk for banks, with a decree outlining the specific details to be published in Q4 2019. Staff welcomed this initiative.

30. The planned regulatory measures should further strengthen the regulatory framework. The introduction of the Conglomerates Law is an important step to strengthen the stability of the financial system and mitigate risks associated with Colombian banks' exposure to Central America. The gradual implementation of additional capital buffers is appropriate to prevent credit supply bottlenecks. However, redefining technical capital and risk weighted assets in 2020 will temporarily lower required capital ratios for most banks until Basel III capital standards are fully implemented. Heightened supervisory vigilance would therefore be appropriate during this transitional period. With NPLs elevated, the SFC should remain alert and proactive to ensure that problem assets continue to be sufficiently provisioned for. Furthermore, staff welcome the SFC's continued commitment to closely monitor the modified loans portfolio to avoid build-up of excess credit risk.

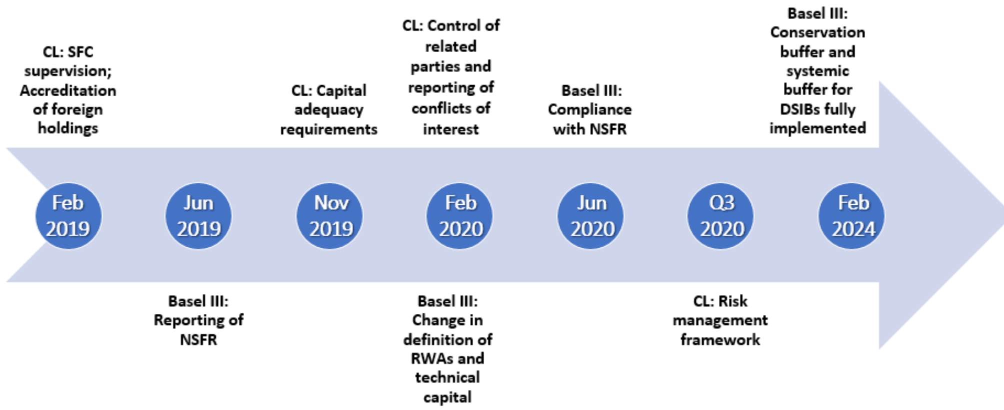
Box 2. The Conglomerates Law and Implementing Basel III Capital Standards

The Conglomerates Law follows previous FSAP recommendations. 13 financial conglomerates have been identified of which 6 with holding companies in Colombia. The new law grants the SFC supervisory powers at the conglomerates level and focuses on risk management, capital adequacy, exposure limits and conflicts of interest—specified in its three decrees:

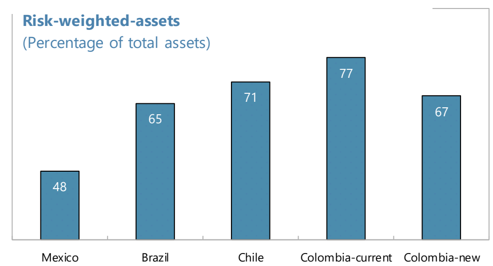
- Decree 246 of 2018: Grants the SFC the authority to exclude entities from consolidated supervision.
- Decree 774 of 2018: Stipulates capital adequacy level for conglomerates and aggregates consolidated technical capital and capital requirements to avoid double counting.
- Decree 1486 of 2018: i) Defines related parties of financial conglomerates, ii) gives guidelines for identifying, administrating and revealing conflicts of interest, and iii) policy for defining exposure limits, intra-group and with related parties.

[10] The redefining of RWAs is expected to lower them from circa 77 percent to closer to 67 percent of total assets (Box 2).

Box 2. The Conglomerates Law and Implementing Basel III Capital Standards (concluded)

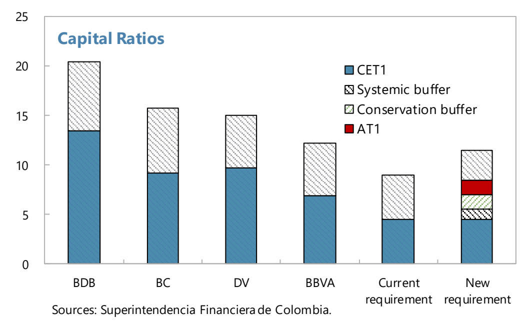


Redefining RWAs and technical capital in February 2020 will increase capital ratios on average. RWAs currently correspond to 77 percent of total assets in Colombia, higher than in comparable countries. When applying the new weights for RWAs for 14 banks, they currently account for 67 percent of total assets. The positive effect this will have on banks' capital ratio will only be partially offset by the exclusion of intangible assets from technical capital.



Sources: Superintendencia Financiera de Colombia.
Note: Colombia-new refers to 14 banks with new weights (active Feb 2020).

Banks are well capitalized ahead of the introduction of additional capital buffers. By February 2024, the conservation buffer of 1.5 percent and the systemic buffer for domestic systemically important banks (DSIBs) will be in effect. This will increase the total capital requirement for DSIBs to 11.5 percent (8.5 for tier 1 capital (T1)) compared to todays' 9 percent (4.5 percent for T1). However, DSIBs currently meet this requirement (see graph) and no disruption to the supply of credit is expected during the transition period.



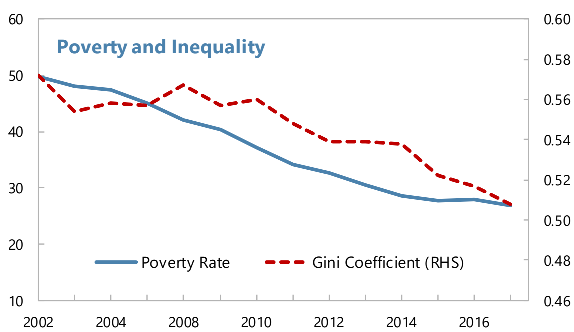
Sources: Superintendencia Financiera de Colombia.
Note: New requirement will be active in Feb 2024.

31. The authorities communicated that they will be more reliant on financial supervision during the transition period for new financial regulations. The SFC expressed their continued commitment to exercise vigilance following a period of rising NPLs and to continue to closely monitor banks' modified loans portfolios. The authorities also agreed that during the transition period under which additional capital buffers are introduced, financial stability would be more reliant on financial supervision.

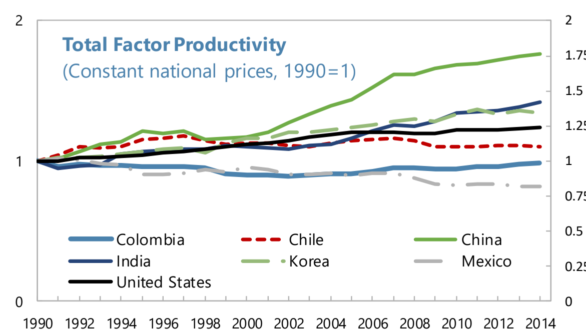
C. Structural Reforms to Boost Inclusive Growth and Improve External Competitiveness

32. The impressive social gains of the last decade have continued but at reduced speed. While the slowdown since the end of the commodity boom has resulted in a slower pace of poverty eradication, the poverty rate in 2017 was roughly half the level of 2002. Inequality has continued to fall over the past years but remains at a high level in absolute terms, requiring continued policy attention.

33. Weak productivity growth has been a long-standing concern and will need to be tackled for Colombia to converge to high income status. Colombia's total factor productivity (TFP) level remains close to that of 1990. As highlighted in previous staff reports, a repetition of the oil-driven investment boom of the 2000s is unlikely and labor force participation is already high by international standards (although there is room for higher female participation). Higher productivity growth is thus crucial to boost potential growth. And while structural improvements allowed progress in several dimensions of competitiveness, notably tertiary education enrollment expanded significantly since 2010 and labor informality fell continuously since the 2012 tax reform, international indicators suggest a need for additional reforms (figure 7). Lack of innovation, infrastructure gaps and an inefficient legal system are among the factors holding back productivity and competitiveness.



Sources: DANE.



Source: Penn World Tables 9.

34. The draft NDP rightly emphasizes entrepreneurship and improvements to the business environment to strengthen Colombia's cost competitiveness. The plan recognizes that stagnant productivity growth constitutes a major challenge to Colombia's developmental ambitions and thus proposes several concrete measures to improve it. These include providing firms with information and incentives for technology adoption, improving human capital and reducing skills mismatches (most prominently, by pushing forward a new national qualification system) and expanding access to credit for SMEs and start-ups.

35. To address transport costs, a continued focus on closing Colombia's substantial infrastructure gaps is warranted. The flagship 4G infrastructure program has progressed more slowly than expected, partly due to uncertainty created by Odebrecht-related corruption revelations in a previous generation infrastructure project, and partly due to red tape, particularly on environmental permits. The government expects eight new projects to achieve financial closure this year but official support for implementation remains important.

36. On trade-related costs, non-tariff barriers should be reviewed. While the level of tariffs is relatively low on average, a reduction in tariff dispersion remains important. Furthermore, enhancing the efficiency of procedures to export and import—including handling of goods at ports and inspection processes—would reduce trade costs and reduce the scope for corruption.[11]

37. The NDP also serves as a roadmap for reducing regulatory costs and improving governance. Several important reforms are included in the areas of state efficiency (such as the introduction of a compulsory regulatory impact assessment) and the fight against corruption (preventive measures to improve transparency and monitoring, strengthened enforcement) (Box 3). As noted in the 2018 Article IV Staff Report for Colombia, the anti-corruption framework has already been strengthened substantially over the past years and tackling corruption at the subnational level was identified as an important priority going forward. The NDP proposes giving targeted technical assistance to municipalities as a first step. Pending priorities to tackle corruption include legislation to protect whistleblowers and regulation on lobbying activities.

Box 3. The 2018−22 National Development Plan (NDP)

A new 4-year NDP is expected to be approved by Congress in May 2019. The national development plan carries legal power and is a constitutional requirement for any incoming administration. It consists of three pieces: (i) the so-called bases of the plan, a document which sets out strategic guidelines as well as specific policy actions, (ii) the investment plan and (iii) the key legal dispositions which are debated by Congress. After extensive consultation around the country, the national development plan is being debated in Congress during Spring 2019.[1]

The NDP aims to increase equity via the pillars of entrepreneurship and legality:

- **A major aim of the NDP is to boost productivity.** The NDP also emphasizes a reduction in firm informality which it aims to achieve by redesigning the firm registration fee (previous staff advice) and further advancing the single business window, among other measures.
- **Improving efficiency is another important focus.** To guarantee higher-quality regulations, a compulsory regulatory impact assessment will be introduced, and ex post evaluation of standards will be strengthened. The government will also aim to cut red tape. To boost efficiency of private markets, the competition authority will be strengthened.
- **The fight against corruption features prominently.** The discussion acknowledges high corruption perceptions and the erosion of public trust associated with it. To tackle corruption, it proposes preventive measures to improve transparency and monitoring as well as strengthening enforcement and increasing punishments.

[1] The NDP will provide an important test of the government's ability to pass key structural reforms.

[11] While non-automatic import licenses are more prevalent than for other OECD countries, this does not seem to be a key binding constraint on trade since the licenses are security-related, mainly confined to weaponry and chemicals that could be used in the production of illegal drugs.

38. The authorities' efforts to facilitate labor market integration and deepen financial inclusion are welcome. On financial inclusions, account ownership increased significantly over the past years, including for women and in rural zones, but a strong urban-rural divide remains (Figure 8).[12] The NDP sets out several initiatives to stimulate the use of digital payment methods and focus attention on rural financial inclusion. The authorities have also made substantial efforts to integrate migrants from Venezuela into the labor market, regularizing many of them (Annex III), asking for minimum documentation to register migrants with the national employment service and facilitating the certification of skills and diplomas.

39. Looking beyond the NDP, justice and pension reform remain priorities. While legal reform has proven difficult in previous attempts, it would have a large positive effect on productivity, as well as improving governance and reducing the scope for corruption, and currently enjoys relatively broad public support (Annex VI). In addition, pension reform that improves progressivity and coverage while guaranteeing sustainability of pension benefits remains crucial.

40. The authorities expect substantial productivity gains from measures taken in the NDP. The NDP is estimated to raise productivity growth by 0.5 percentage points due to a combination of structural reforms and investment programs, in turn contributing to a further lowering in poverty as job creation rises. The authorities are confident that the 4G infrastructure program will make additional progress this year (around 0.5 percent of GDP) given further financial closures and higher appetite from financial institutions to participate in the program following the resolution of pending legal cases. The authorities believe that the strategies to reduce inequality (including measures to make pensions more equitable) put forward in the NDP will lead to substantial improvements over the coming four years. Finally, the NDP provides measures to improve the coordination between agencies to address the migration flows from Venezuela.

STAFF APPRAISAL

41. Supported by its very strong policy frameworks and well-executed policies, Colombia's recovery is gaining momentum amid heightened risks. The last interest rate cuts by the Central Bank in 2018 appropriately reduced the ex-ante real policy rate to moderately accommodative levels. If the recovery in credit and GDP materializes as expected, monetary policy should shift to a tightening bias towards the second half of the year. Fiscal consolidation should continue to reduce headline deficits in line with those mandated by the fiscal rule, which have been modestly relaxed to accommodate persistent spending pressures associated with the migration shock.

42. Monetary policy and a flexible currency are the best instruments to guard against downside risks if they were to materialize. Risks to growth remain tilted to the downside. Lower

[12] There is a discrepancy in the World Bank's survey based Findex data on account ownership (demand-side data) and the authorities data reported in the Financial Inclusion Report which is collected from financial institutions (supply-side data). The latter shows somewhat higher account-ownership. Both data sources show a positive trend over the past years, however.

global growth, amid rising protectionism, poses risks to Colombia's exports. And while market expectations for higher U.S. interest rates have receded, a sudden tightening in global financial conditions remains a risk. On the domestic front, the projected rebound in investment by Colombian businesses may not fully materialize, particularly if infrastructure spending and construction remain sluggish.

43. The external sector position is moderately weaker than implied by fundamentals and desirable policy settings. While ongoing fiscal consolidation according to the fiscal rule should raise national saving, structural policies to strengthen external competitiveness and boost non-oil exports remain essential. The Central Bank's reserve accumulation program is a proactive step to maintain external buffers and has been well-executed—permitting a continued smooth functioning of the foreign exchange market. Staff sees scope, without disrupting the market, for a modestly faster pace of reserve accumulation that would keep the IMF's standard metric at its current level.

44. Structural fiscal policy efforts are needed to rebuild policy space and reduce public debt. Faced with a tightening budgetary envelope, spending pressures stemming from migration flows, as well as prospective revenue shortfalls from the Financing Law, the authorities should raise structural tax revenues through tax reforms, including the elimination of preferential regimes for businesses and base broadening for personal income taxes and VAT, and improved tax administration. This would safeguard the fiscal framework and insure against downside risks of revenue shortfalls by bringing down debt on a durable basis without having to rely on undesirable cuts in public investment and social spending. Moreover, further spending efficiency gains should be made in line with the expert commission's findings, including energy subsidy reform and stronger investment project selection and evaluation. Further strengthening tax administration, including through stronger sanctions, would complement the structural fiscal adjustment effort whilst safeguarding future spending priorities.

45. The authorities' use of flexibility within the fiscal rule is understandable given the sizeable and persistent nature of the migration shock, and well-defined implementation and future measures to reduce the deficit will be important for credibility. Uncertainty around accelerating migration flows and its effects pose risks of higher-than-expected fiscal costs that could crowd out key public investment and social spending programs. Staff supports adjusting the deficit targets under the strict conditions outlined by the FRCC but revising the fiscal rule's contingency framework would be instrumental to handle exceptional shocks in the future without having to modify the existing fiscal rule after the shock has occurred. Staff welcomes the FRCC's recommendations to revise the fiscal rule's law along these lines. To reinforce confidence in the fiscal anchor, the plan should also include prospective revenue raising and expenditure tightening measures to be published in the MTFF. International support for Colombia's highly commendable policy responses and relief measures to assist the Venezuela crisis would reinforce its efforts.

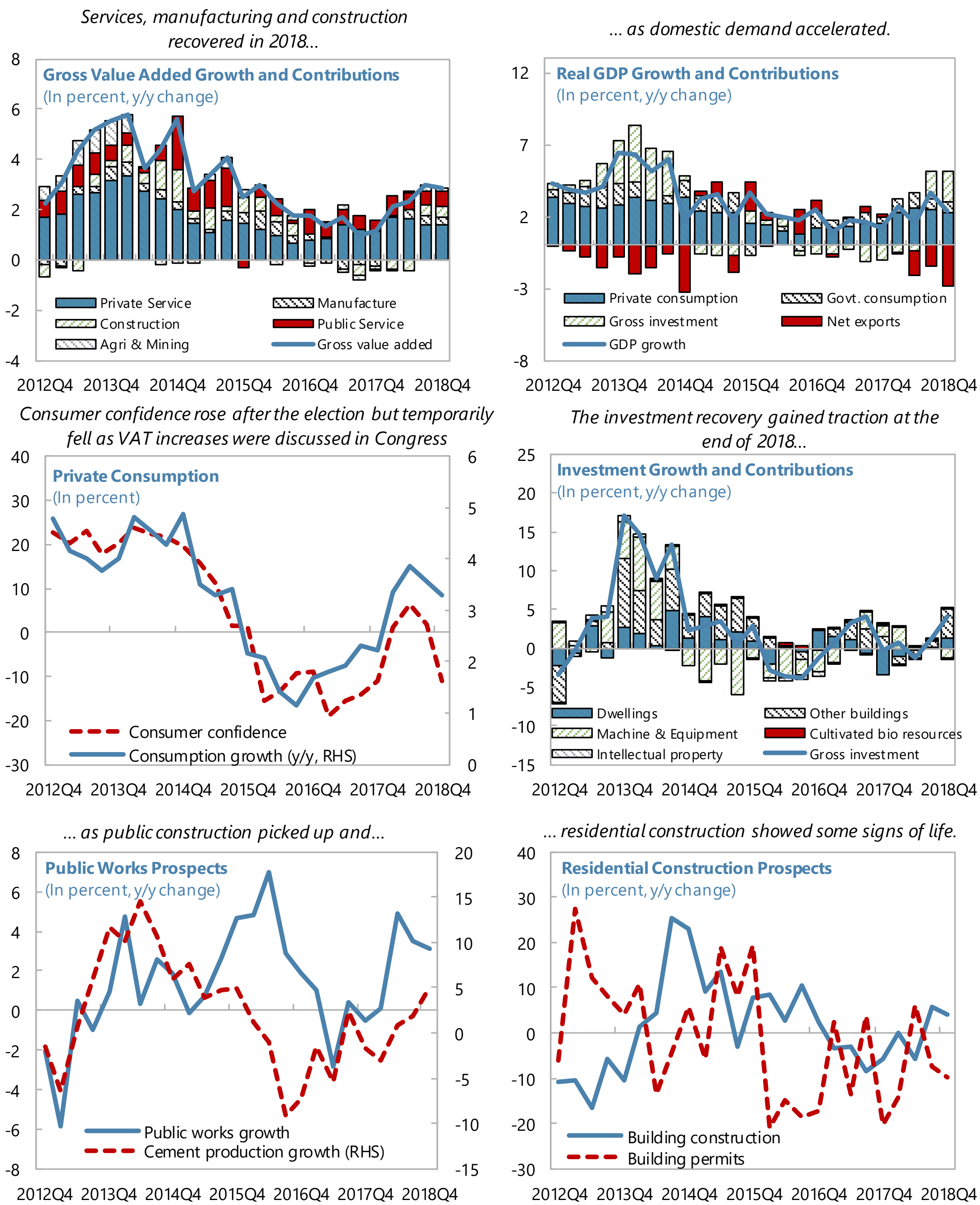
46. Banks have adjusted well to the previous economic downturn and the transition to a new regulatory framework and supervisory agenda appears on track. Staff supports the implementation of the Conglomerates Law as an important step towards preserving financial stability. The gradual convergence of capital and liquidity requirements towards Basel III standards will further strengthen the financial regulatory framework and improve its transparency, without unduly dampening of credit supply. The SFC's monitoring of modified loans will help avoid delayed recognition of asset deterioration.

47. Structural reforms remain instrumental to foster inclusive growth and enhance external competitiveness. Colombia has made impressive progress in reducing poverty and inequality over the past fifteen years. Better targeted subsidies, closing infrastructure gaps, and reducing skills mismatches would help cement social gains. Emphasis on entrepreneurship and improving the business environment take on renewed importance to strengthen external competitiveness. Strengthening the rule of law and reducing corruption is also an important challenge as is legal reform that receive wide popular support and are growth friendly (Annex VI). The national development plan rightly identifies many of these issues, providing a strategic roadmap for reforms—including fighting informality, improving efficiency, and enhancing productivity. In addition, pension reform that improves progressivity and coverage while guaranteeing sustainability of pension benefits remains crucial.

48. Staff does not recommend approval of the retention of the exchange restriction arising from the special regime for the hydrocarbon sector, since the authorities have no plans for its removal. Colombia has a floating exchange rate regime (*de jure*: free floating; *de facto*: floating) and maintains an exchange restriction subject to Fund approval under Article VIII arising from the special regime for the hydrocarbon sector (see IMF Country Report No. 13/35 for details).

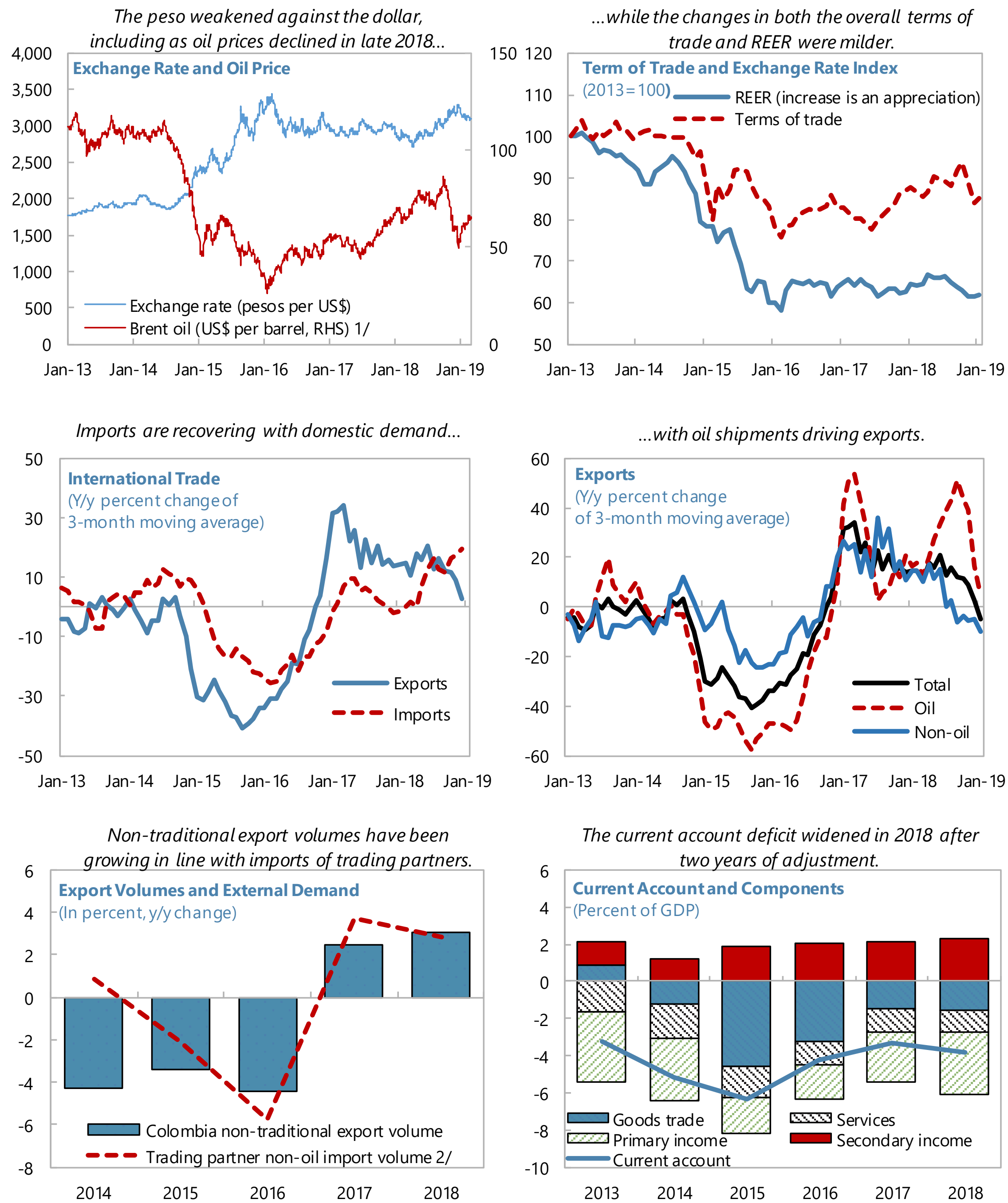
49. Staff recommends that the next Article IV takes place on the standard 12-month cycle.

Figure 1. Colombia: Recent Economic Developments



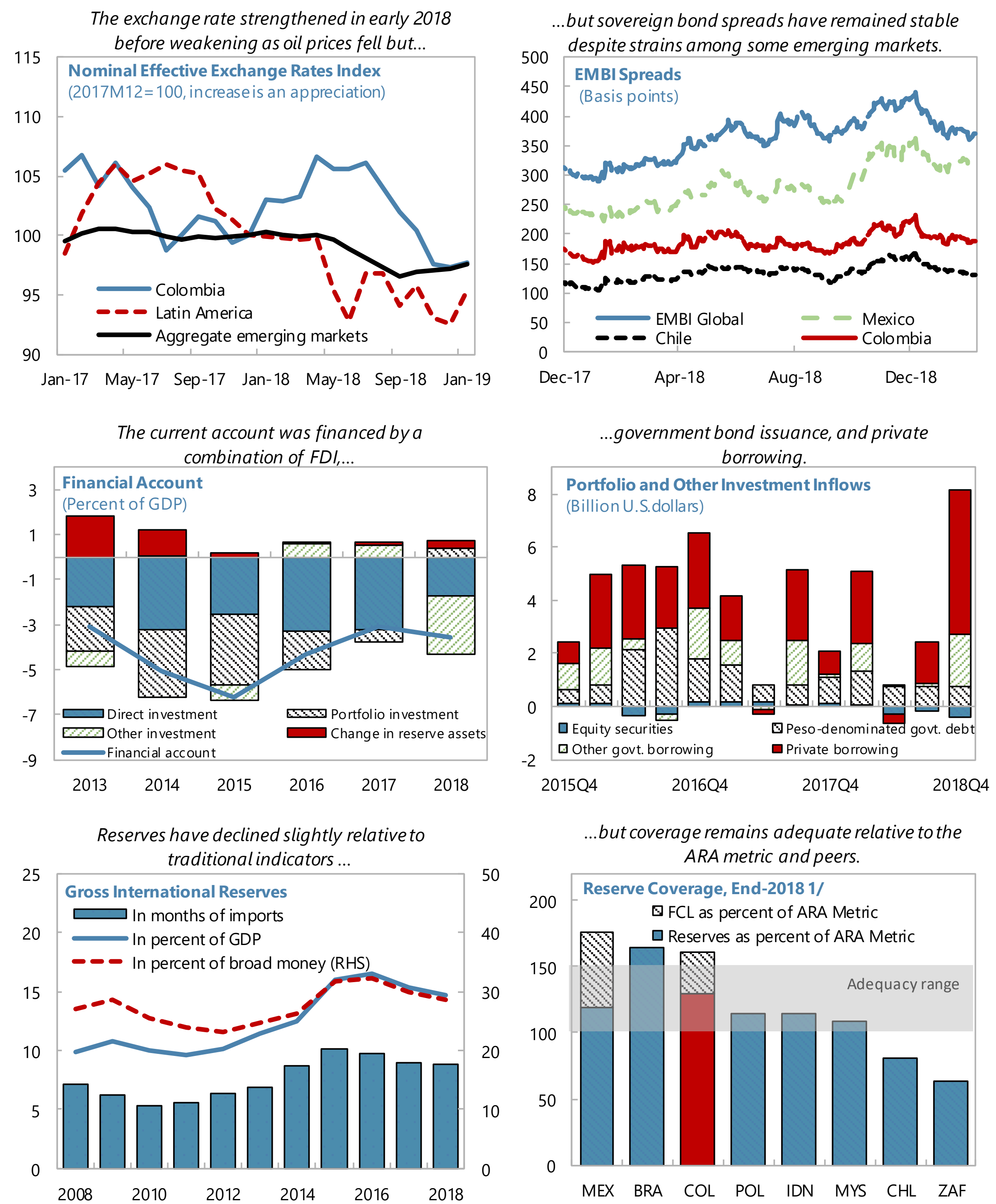
Sources: Departamento Administrativo Nacional de Estadísticas (DANE); La Fundación Para la Educación Superior y el Desarollo; Haver Analytics; and IMF staff estimates.

Figure 2. Colombia: Current Account Developments



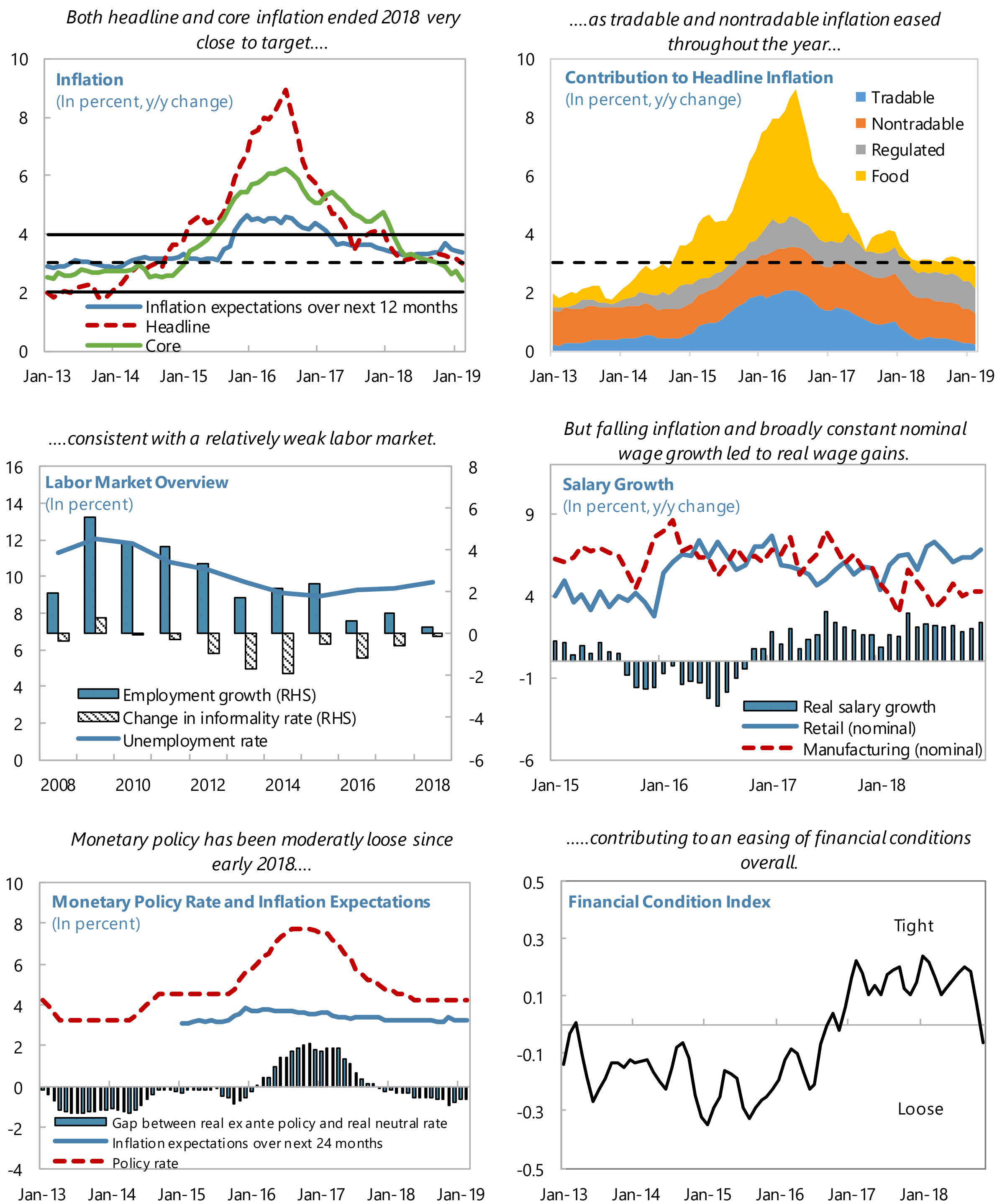
Sources: DANE; Banco de la República; Bloomberg; Haver Analytics; and IMF staff estimates.
1/ Colombia mix follows closely Brent oil prices.
2/ Weighted by destinations of Colombia's non-traditional exports.

Figure 3. Colombia: Financial Account Developments



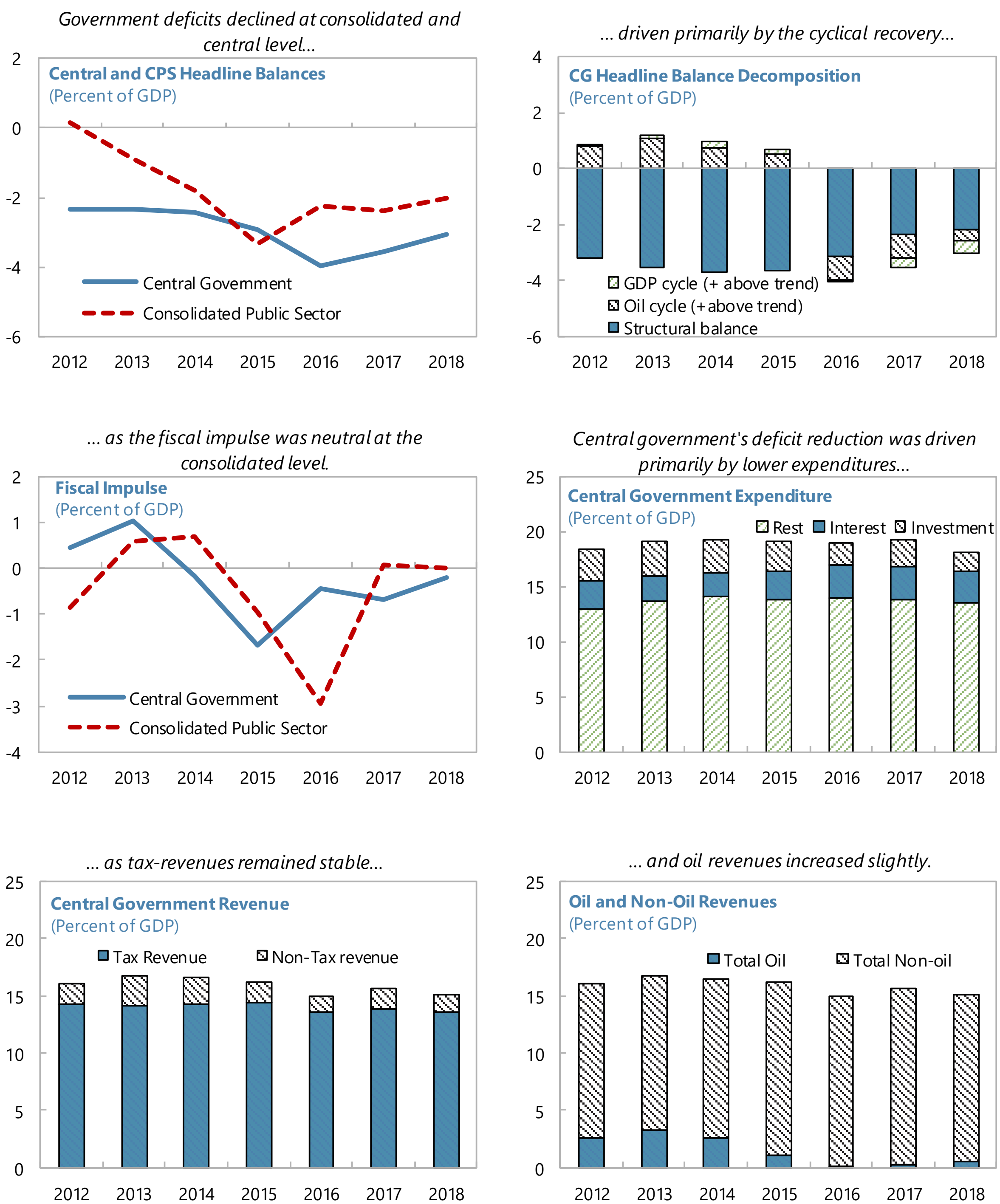
Sources: Banco de la República; DANE; Haver Analytics; Bloomberg; and IMF staff estimates.
1/ Does not include commodity buffers. Uses metric for floating exchange rates.

Figure 4. Colombia: Inflation, Monetary Policy and Labor Market



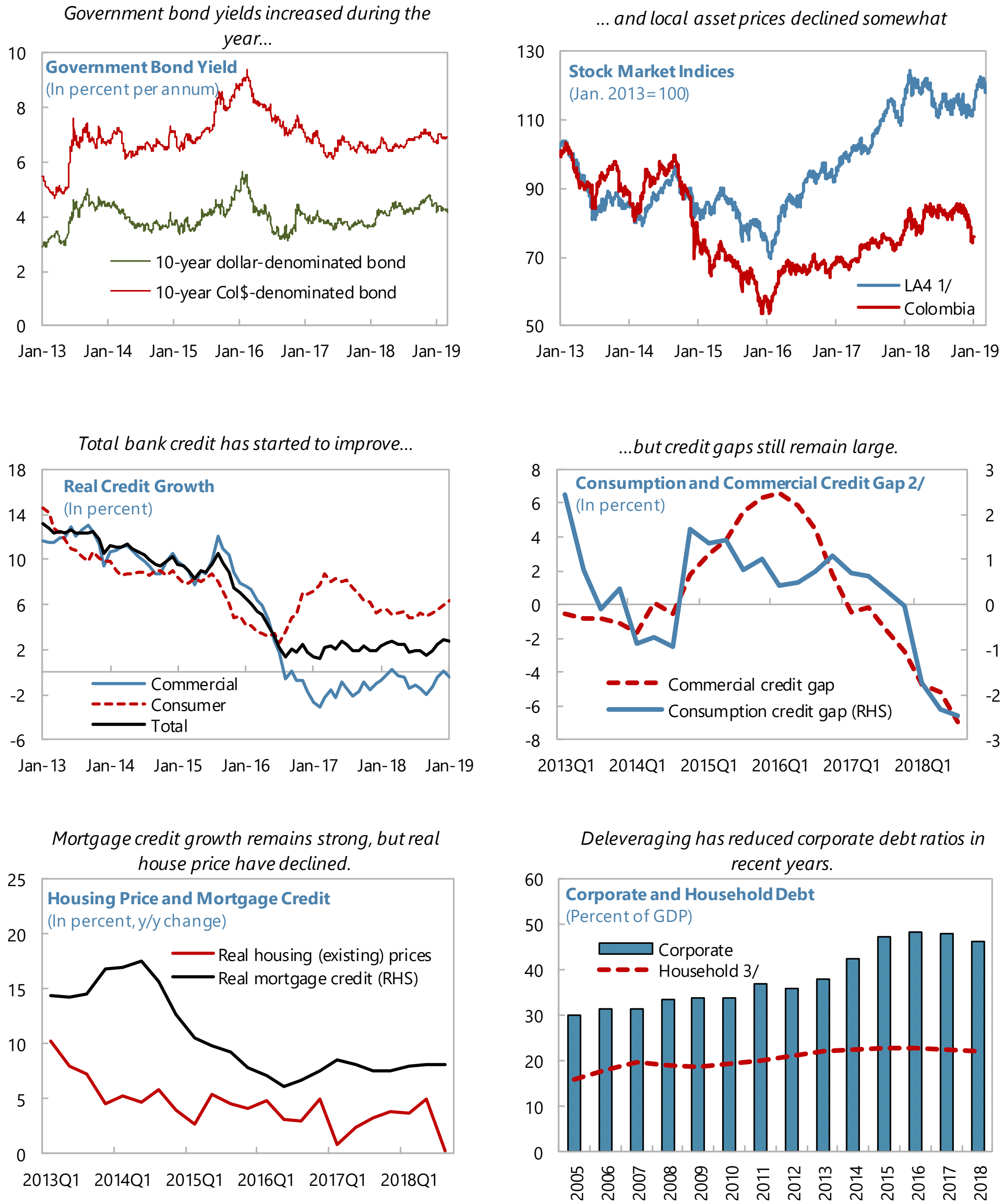
Sources: DANE; Banco de la República; Haver Analytics; and IMF staff estimates.

Figure 5. Colombia: Fiscal Developments



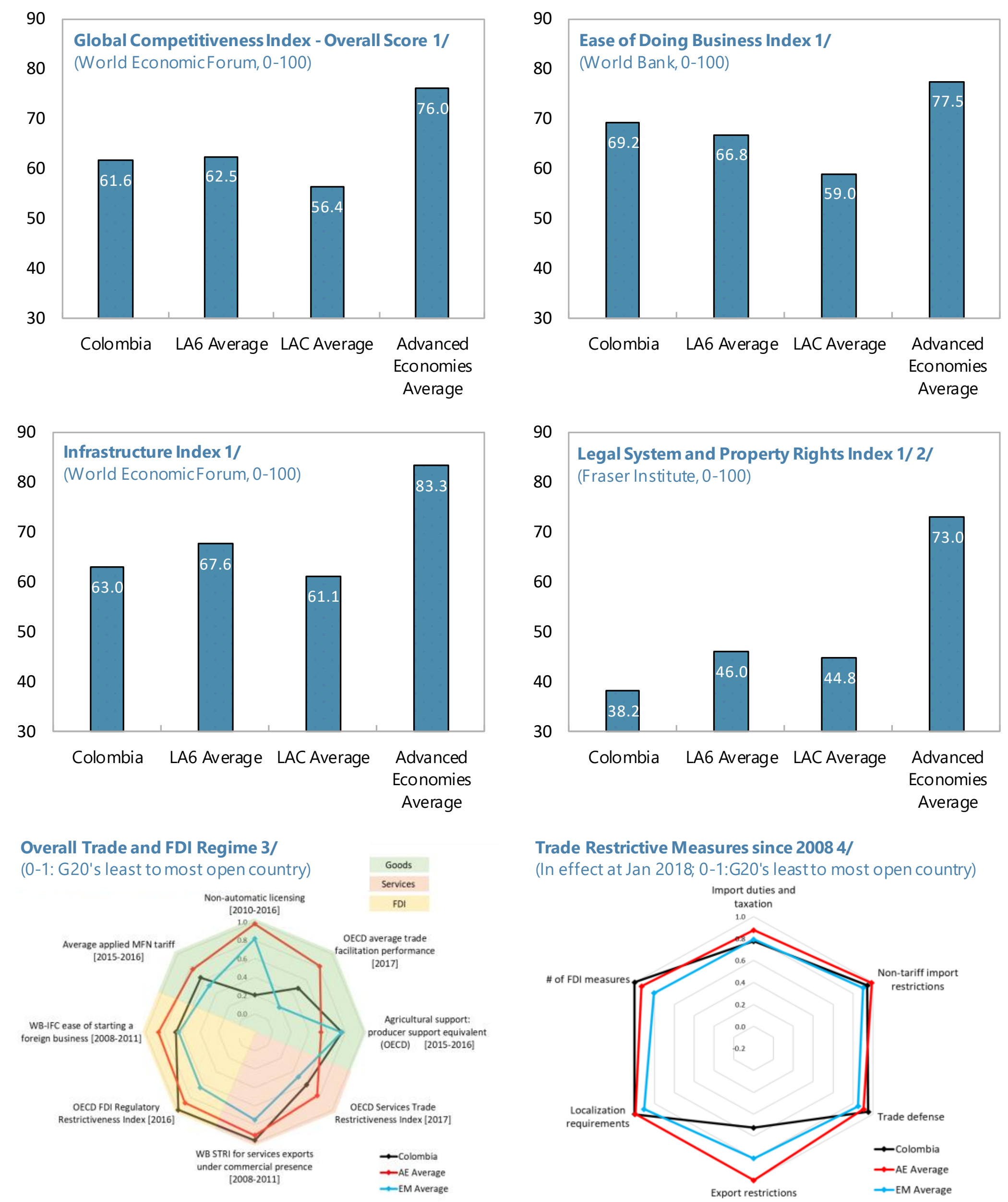
Sources: Ministerio de Hacienda y Crédito Público; DANE; and IMF staff estimates.

Figure 6. Colombia: Recent Macro-Financial Developments



Sources: Banco de la República; DANE; Bloomberg; and IMF staff estimates.
1/ LA4 corresponds to the average of Brazil, Colombia, Peru and Mexico.
2/ Consumer and commercial credit gaps are computed as percentage-point deviations from an HP-filtered consumer-credit-to-private-consumption ratio and commercial-to-private-investment ratio, respectively.
3/ Data for 2018 refers to Aug 2018.

Figure 7. Colombia: Structural Indicators



Sources: World Economic Forum; World Bank; Fraser Institute; World Trade Organization (WTO); Global Trade Alert; Organization for Economic Co-operation and Development (OECD); United Nations (UN); and IMF staff estimates.

1/ LAC and Advanced Economies refer to IMF WEO classification. LA6 refers to Argentina, Brazil, Chile, Colombia, Mexico, and Peru.

2/ The scale is adjusted to 0-100 from the original scale of 0-10 by multiplying 10.

3/ The indicators reflect no judgment as to WTO compliance of underlying measures, nor whether certain measures (such as trade defense) are an appropriate response to the actions of other countries. The "ease of starting a business" indicator is based on perceptions as part of an established IFC survey process.

4/ Import (export) coverage ratio, except for "# of FDI measures".

Figure 8. Colombia: Financial Inclusion

Source: Global Findex.
1/ The percent of adults (age15+) who report having an account at a finanical institution or personally using a mobile money service in the past 12 months.
2/ LAC refers to Latin America & Caribbean (excluding high income). MIC refers to Middle income countries. Both LAC and MIC refer to the World Bank Global Findex classification.
3/ The percent of adults (age15+) who report personally using a mobile money service in the past 12 months.
4/ The percent of adults (age15+) who report personally receiving payments from the government in the past 12 months directly into a financial institution account or into a card.

Table 1. Colombia: Selected Economic and Financial Indicators

I. Social and Demographic Indicators

Population (million), 2018	49.8	Unemployment rate, 2018 (percent)	9.7
GDP, 2018		Adult illliteracy rate (ages 15 and older), 2016	5.3
Per capita (US$)	6,684	Net secondary school enrollment rate, 2017	78.8
In billion of Col$	984,803	Gini coefficient, 2017	50.8
In billion of US$	333	Poverty rate, 2017	26.9
Life expectancy at birth (years), 2016	74.4		
Mortality rate, (under 5, per 1,000 live births), 2017	14.7		

II. Economic Indicators

						Projections					
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
	(In percentage change, unless otherwise indicated)										
National income and prices											
Real GDP	4.7	3.0	2.1	1.4	2.7	3.6	3.7	3.6	3.7	3.7	3.6
Potential GDP	3.9	3.5	3.1	2.9	3.3	3.3	3.2	3.3	3.3	3.3	3.4
Output Gap	1.5	1.0	0.0	-1.6	-2.2	-1.8	-1.4	-1.0	-0.7	-0.3	0.0
GDP deflator	2.1	2.4	5.1	5.1	4.2	3.4	3.1	3.0	3.0	3.0	3.0
Consumer prices, end of period (eop)	3.7	6.8	5.8	4.1	3.2	3.2	3.0	3.0	3.0	3.0	3.0
External sector											
Exports (f.o.b.)	-5.6	-32.2	-11.6	16.4	11.7	-2.6	7.4	0.0	3.6	4.5	4.2
Imports (f.o.b.)	7.8	-15.4	-16.9	2.3	12.2	4.0	6.3	3.8	5.1	5.2	5.3
Export volume	-0.3	1.7	-0.2	2.5	-2.7	4.1	6.9	-0.1	3.6	3.7	3.1
Import volume	7.8	-1.1	-3.5	1.2	6.8	4.6	5.9	3.1	4.2	4.4	4.1
Terms of trade (deterioration -)	-4.5	-17.5	3.7	9.3	10.3	-4.1	0.0	1.0	-0.1	0.6	0.7
Real exchange rate (depreciation -) 1/	-6.9	-20.6	-4.8	5.6	0.8	NA	NA	NA	NA	NA	NA
Money and credit											
Broad money	10.0	11.6	9.5	6.4	6.9	10.2	9.9	9.7	9.8	9.4	9.0
Credit to the private sector	14.7	16.8	7.7	12.8	8.4	9.8	9.7	10.8	11.8	11.7	12.7
Policy rate, eop	4.5	5.8	7.5	4.8	4.3	NA	NA	NA	NA	NA	NA
	(In percent of GDP)										
Central government balance 2/	-2.4	-2.9	-4.0	-3.6	-3.1	-3.0	-2.3	-1.8	-1.4	-1.2	-1.0
Central government structural balance 3/	-3.7	-3.6	-3.2	-2.3	-2.2	-2.4	-2.0	-1.6	-1.2	-1.0	-1.0
Combined public sector (CPS) balance 4/	-1.8	-3.4	-2.3	-2.4	-2.0	-2.1	-0.6	-0.3	-0.4	-0.4	0.0
CPS non-oil structural primary balance	-3.5	-2.6	0.4	0.3	0.3	-0.8	0.5	0.6	0.4	0.2	0.4
CPS fiscal impulse	0.7	-0.9	-2.9	0.1	0.0	1.1	-1.3	-0.1	0.2	0.2	-0.2
Public debt	43.3	50.4	49.8	49.5	51.8	50.6	48.5	46.2	44.2	42.2	39.9
Public debt, excluding Ecopetrol	40.5	45.7	45.4	46.1	49.3	48.5	46.5	44.6	42.8	41.2	39.2
Gross domestic investment	24.0	23.8	23.3	22.3	21.0	22.1	21.7	22.3	22.4	22.6	22.7
Gross national savings	18.8	17.4	19.0	19.0	17.2	18.2	17.9	18.6	18.7	18.8	19.0
Current account (deficit -)	-5.2	-6.3	-4.3	-3.3	-3.8	-3.9	-3.8	-3.7	-3.7	-3.7	-3.8
External debt 5/	30.0	42.1	49.4	47.3	46.7	48.7	48.7	48.1	47.9	47.2	46.2
Of which: public sector 5/	18.9	26.5	31.9	30.3	28.9	29.5	28.9	28.0	27.5	26.6	25.5
	(In percent of exports of goods and services)										
External debt service	40.2	63.2	68.1	73.7	69.9	74.1	75.7	78.4	74.9	76.9	76.5
Interest payments	6.2	9.9	11.3	10.9	10.7	15.0	15.1	15.1	14.9	14.9	14.8
	(In billion of U.S. dollars; unless otherwise indicated)										
Exports (f.o.b.)	56.9	38.6	34.1	39.7	44.3	43.1	46.3	46.4	48.0	50.2	52.3
Of which: Petroleum products	29.0	14.6	10.8	13.2	16.8	15.2	16.5	14.3	14.1	14.3	14.3
Gross international reserves 6/	46.8	46.3	46.2	47.1	48.3	51.2	53.2	55.1	57.0	58.9	60.8

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

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

2/ For 2019, it excludes expected privatization proceeds (0.3 percent of GDP) that, under GFSM 1986, produces a headline deficit of -2.7 percent of GDP estimated by the authorities.

3/ IMF staff estimate.

4/ Includes the quasi-fiscal balance of Banco de la República, sales of assets, phone licenses, and statistical discrepancy.

5/ Includes foreign holdings of locally issued public debt (TES); does not include Banco de la República's outstanding external debt.

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

Table 2a. Colombia: Summary Balance of Payments
(In millions of US$, unless otherwise indicated)

	2014	2015	2016	2017	2018	Projections 2019	2020	2021	2022	2023	2024
Current account balance	**-19,761**	**-18,564**	**-12,028**	**-10,295**	**-12,660**	**-13,264**	**-13,356**	**-13,941**	**-14,717**	**-15,569**	**-16,543**
Goods balance	-4,640	-13,478	-9,149	-4,572	-5,317	-8,453	-8,510	-10,570	-11,777	-12,730	-13,930
Exports, f.o.b.	56,899	38,572	34,090	39,676	44,316	43,150	46,344	46,364	48,041	50,210	52,333
Commodities	41,122	24,180	20,407	25,749	29,074	27,264	29,338	27,739	27,808	28,411	28,847
Fuel	28,988	14,566	10,796	13,167	16,769	15,184	16,475	14,336	14,145	14,320	14,309
Non-fuel	12,134	9,614	9,612	12,582	12,304	12,080	12,864	13,403	13,663	14,091	14,538
Non-traditional exports	11,651	10,418	9,520	10,062	10,715	11,391	12,189	13,408	14,614	15,784	17,046
Other	4,126	3,974	4,163	3,865	4,233	4,495	4,817	5,217	5,619	6,015	6,440
Imports, f.o.b.	61,539	52,050	43,239	44,248	49,633	51,603	54,854	56,934	59,819	62,940	66,264
Consumer goods	13,120	11,103	10,114	10,161	11,273	11,466	12,222	12,816	13,590	14,402	15,273
Intermediate goods	26,278	21,814	18,809	18,889	21,502	21,935	23,490	24,397	25,505	26,773	28,124
Capital goods	20,160	17,407	12,527	13,210	14,814	16,016	16,831	17,313	18,185	19,089	20,052
Other	1,980	1,726	1,789	1,988	2,044	2,187	2,310	2,407	2,538	2,677	2,815
Services balance	-7,222	-4,789	-3,531	-3,917	-3,809	-3,528	-3,682	-3,274	-3,132	-3,013	-2,802
Exports of services	7,156	7,426	7,771	8,461	9,457	10,147	10,829	11,577	12,422	13,315	14,233
Imports of services	14,378	12,215	11,302	12,378	13,266	13,675	14,511	14,851	15,554	16,327	17,035
Primary income balance	-12,521	-5,728	-5,229	-8,404	-11,140	-9,346	-9,691	-9,139	-9,396	-9,989	-10,581
Receipts	3,997	4,483	4,996	5,478	6,112	6,985	7,336	7,816	8,322	8,746	9,187
Expenditures	16,518	10,211	10,225	13,882	17,252	16,331	17,027	16,956	17,718	18,735	19,769
Secondary income balance	4,622	5,431	5,881	6,598	7,606	8,064	8,527	9,042	9,588	10,163	10,771
Financial account balance	**-19,287**	**-18,244**	**-12,278**	**-9,641**	**-11,975**	**-13,264**	**-13,356**	**-13,941**	**-14,717**	**-15,569**	**-16,543**
Direct Investment	-12,268	-7,507	-9,334	-10,145	-5,890	-8,209	-9,391	-10,004	-10,687	-11,410	-12,063
Assets	3,899	4,218	4,516	3,690	5,121	3,959	4,035	4,124	4,216	4,308	4,399
Liabilities	16,167	11,725	13,850	13,835	11,011	12,168	13,426	14,128	14,903	15,718	16,462
Oil sector	4,732	2,502	2,386	3,106	2,115	2,337	2,578	2,713	2,862	3,018	3,161
Non-oil sectors	11,435	9,223	11,464	10,729	8,896	9,831	10,848	11,415	12,041	12,700	13,300
Portfolio Investment	-11,564	-9,166	-4,839	-1,618	1,224	-5,368	-3,579	-3,575	-3,631	-3,287	-3,091
Assets	7,097	-475	5,189	6,200	1,572	1,042	1,325	1,443	1,530	1,624	1,711
Liabilities	18,661	8,691	10,028	7,818	348	6,410	4,904	5,018	5,160	4,911	4,801
Equity	1,823	640	-364	473	-823	1,108	1,257	1,241	1,133	889	779
Debt instruments	16,838	8,051	10,392	7,345	1,171	5,302	3,647	3,777	4,027	4,022	4,022
General government	12,835	5,651	8,792	6,011	4,529	3,580	2,301	2,385	2,635	2,630	2,630
Banks	-17	400	1,100	300	-800	385	239	286	286	286	286
Corporates and households	4,020	2,000	500	1,034	-2,558	1,337	1,107	1,107	1,107	1,107	1,107
Derivatives	609	1,956	-622	362	66	0	0	0	0	0	0
Other Investments	-501	-3,943	2,353	1,246	-8,563	-2,607	-2,306	-2,282	-2,319	-2,791	-3,309
Change in reserve assets	4,437	416	164	514	1,188	2,920	1,920	1,920	1,920	1,920	1,920
Net errors and omissions	**472**	**320**	**-249**	**652**	**679**	**0**	**0**	**0**	**0**	**0**	**0**

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

Table 2b. Colombia: Summary Balance of Payments

(In percent of GDP)

						Projections					
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Current account balance	**-5.2**	**-6.3**	**-4.3**	**-3.3**	**-3.8**	**-3.9**	**-3.8**	**-3.7**	**-3.7**	**-3.7**	**-3.8**
Goods balance	-1.2	-4.6	-3.2	-1.5	-1.6	-2.5	-2.4	-2.8	-3.0	-3.1	-3.2
Exports, f.o.b.	14.9	13.1	12.1	12.7	13.3	12.8	13.1	12.4	12.2	12.1	11.9
Commodities	10.8	8.2	7.2	8.3	8.7	8.1	8.3	7.4	7.1	6.8	6.6
Fuel	7.6	5.0	3.8	4.2	5.0	4.5	4.7	3.8	3.6	3.4	3.3
Non-fuel	3.2	3.3	3.4	4.0	3.7	3.6	3.6	3.6	3.5	3.4	3.3
Non-traditional exports	3.1	3.5	3.4	3.2	3.2	3.4	3.5	3.6	3.7	3.8	3.9
Other	1.1	1.4	1.5	1.2	1.3	1.3	1.4	1.4	1.4	1.4	1.5
Imports, f.o.b.	16.1	17.7	15.3	14.2	14.9	15.3	15.5	15.3	15.2	15.1	15.1
Consumer goods	3.4	3.8	3.6	3.3	3.4	3.4	3.5	3.4	3.5	3.5	3.5
Intermediate goods	6.9	7.4	6.7	6.1	6.5	6.5	6.7	6.5	6.5	6.4	6.4
Capital goods	5.3	5.9	4.4	4.2	4.4	4.8	4.8	4.6	4.6	4.6	4.6
Other	0.5	0.6	0.6	0.6	0.6	0.6	0.7	0.6	0.6	0.6	0.6
Services balance	-1.9	-1.6	-1.2	-1.3	-1.1	-1.0	-1.0	-0.9	-0.8	-0.7	-0.6
Exports of services	1.9	2.5	2.7	2.7	2.8	3.0	3.1	3.1	3.2	3.2	3.2
Imports of services	3.8	4.2	4.0	4.0	4.0	4.1	4.1	4.0	4.0	3.9	3.9
Primary income balance	-3.3	-2.0	-1.8	-2.7	-3.3	-2.8	-2.7	-2.5	-2.4	-2.4	-2.4
Receipts	1.0	1.5	1.8	1.8	1.8	2.1	2.1	2.1	2.1	2.1	2.1
Expenditures	4.3	3.5	3.6	4.5	5.2	4.8	4.8	4.5	4.5	4.5	4.5
Secondary income balance	1.2	1.9	2.1	2.1	2.3	2.4	2.4	2.4	2.4	2.4	2.5
Financial account balance	**-5.1**	**-6.2**	**-4.3**	**-3.1**	**-3.6**	**-3.9**	**-3.8**	**-3.7**	**-3.7**	**-3.7**	**-3.8**
Direct Investment	-3.2	-2.6	-3.3	-3.3	-1.8	-2.4	-2.7	-2.7	-2.7	-2.7	-2.7
Assets	1.0	1.4	1.6	1.2	1.5	1.2	1.1	1.1	1.1	1.0	1.0
Liabilities	4.2	4.0	4.9	4.4	3.3	3.6	3.8	3.8	3.8	3.8	3.7
Oil sector	1.2	0.9	0.8	1.0	0.6	0.7	0.7	0.7	0.7	0.7	0.7
Non-oil sectors	3.0	3.1	4.1	3.4	2.7	2.9	3.1	3.1	3.1	3.1	3.0
Portfolio Investment	-3.0	-3.1	-1.7	-0.5	0.4	-1.6	-1.0	-1.0	-0.9	-0.8	-0.7
Assets	1.9	-0.2	1.8	2.0	0.5	0.3	0.4	0.4	0.4	0.4	0.4
Liabilities	4.9	3.0	3.5	2.5	0.1	1.9	1.4	1.3	1.3	1.2	1.1
Equity	0.5	0.2	-0.1	0.2	-0.2	0.3	0.4	0.3	0.3	0.2	0.2
Debt instruments	4.4	2.7	3.7	2.4	0.4	1.6	1.0	1.0	1.0	1.0	0.9
General government	3.4	1.9	3.1	1.9	1.4	1.1	0.7	0.6	0.7	0.6	0.6
Banks	0.0	0.1	0.4	0.1	-0.2	0.1	0.1	0.1	0.1	0.1	0.1
Corporates and households	1.1	0.7	0.2	0.3	-0.8	0.4	0.3	0.3	0.3	0.3	0.3
Derivatives	0.2	0.7	-0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Investments	-0.1	-1.3	0.8	0.4	-2.6	-0.8	-0.7	-0.6	-0.6	-0.7	-0.8
Change in Reserve Assets	1.2	0.1	0.1	0.2	0.4	0.9	0.5	0.5	0.5	0.5	0.4
Net errors and omissions	**0.1**	**0.1**	**-0.1**	**0.2**	**0.2**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

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

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

(In percent of GDP, unless otherwise indicated)

	2014	2015	2016	2017	2018	Projections 2019	2020	2021	2022	2023	2024
Total revenue	**16.5**	**16.1**	**15.0**	**15.6**	**15.1**	**15.5**	**15.4**	**15.4**	**15.3**	**15.2**	**15.2**
Current revenue	**14.3**	**14.6**	**13.7**	**13.9**	**13.7**	**14.1**	**14.0**	**14.0**	**13.9**	**13.8**	**13.8**
Tax revenue	**14.3**	**14.5**	**13.6**	**13.8**	**13.6**	**14.0**	**13.9**	**13.9**	**13.8**	**13.7**	**13.7**
Net income tax and profits	5.0	4.8	4.6	6.0	6.4	6.8	6.9	6.8	6.8	6.8	6.8
Goods and services	5.1	5.1	4.8	5.2	5.4	5.5	5.0	5.0	5.0	5.0	5.0
Value-added tax	5.1	5.1	4.8	5.0	5.2	5.3	4.8	4.8	4.8	4.8	4.8
International trade	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Financial transaction tax	0.8	0.8	0.8	0.7	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Stamp and other taxes	2.8	3.2	2.9	1.5	0.6	0.4	0.7	0.8	0.6	0.6	0.5
Nontax revenue	**2.3**	**1.7**	**1.3**	**1.8**	**1.5**	**1.5**	**1.5**	**1.5**	**1.4**	**1.4**	**1.4**
Property income	0.2	0.4	0.4	0.4	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Other	2.1	1.2	0.9	1.4	1.3	1.2	1.3	1.4	1.3	1.3	1.3
Total expenditure and net lending	**19.2**	**19.1**	**19.0**	**19.2**	**18.2**	**18.5**	**17.7**	**17.2**	**16.7**	**16.3**	**16.2**
Current expenditure	**14.7**	**15.1**	**15.6**	**15.5**	**15.2**	**15.7**	**15.7**	**15.3**	**15.0**	**14.7**	**14.4**
Wages and salaries	2.2	2.4	2.3	2.3	2.2	2.2	2.2	2.2	2.2	2.2	2.2
Goods and services	0.8	0.8	0.8	0.9	0.9	1.1	1.2	1.1	1.0	1.0	1.0
Interest	2.2	2.6	2.9	2.9	2.9	2.9	2.8	2.8	2.8	2.6	2.5
External	0.5	0.5	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Domestic	1.7	2.0	2.3	2.3	2.2	2.3	2.1	2.0	2.1	1.9	1.9
Current transfers	9.4	9.4	9.6	9.4	9.2	9.4	9.5	9.3	9.1	8.9	8.8
Capital expenditure	**4.3**	**4.0**	**3.4**	**3.7**	**3.0**	**2.8**	**2.1**	**2.0**	**1.7**	**1.7**	**1.8**
Fixed capital formation	2.9	2.7	2.0	2.4	1.7	1.5	0.8	0.7	0.4	0.4	0.6
Capital transfers	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.2	1.2
Net lending	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall balance 2/	**-2.4**	**-2.9**	**-4.0**	**-3.6**	**-3.1**	**-3.0**	**-2.3**	**-1.8**	**-1.4**	**-1.2**	**-1.0**
Memorandum items:											
Oil-related revenues 3/	2.6	1.1	0.2	0.2	0.6	1.0	1.0	1.2	1.2	1.1	1.2
Structural balance 4/	-3.7	-3.6	-3.2	-2.3	-2.2	-2.4	-2.0	-1.6	-1.2	-1.0	-1.0
Structural primary non-oil balance	-3.3	-1.6	-1.2	-0.5	-0.3	-0.4	-0.1	0.0	0.3	0.4	0.3
Fiscal Impulse	-0.2	-1.7	-0.4	-0.7	-0.2	0.1	-0.3	-0.1	-0.4	-0.1	0.1
Non-oil balance	-5.3	-4.0	-4.1	-3.8	-3.6	-4.0	-3.3	-3.0	-2.6	-2.3	-2.2
Primary balance	-0.2	-0.4	-1.0	-0.6	-0.2	-0.1	0.5	1.0	1.4	1.5	1.5
Nominal GDP (in Col$ trillion)	762.9	804.7	863.8	920.2	984.8	1,055.7	1,129.0	1,205.8	1,288.5	1,376.6	1,469.7

Sources: Ministry of Finance; Banco de la República; and IMF staff estimates and projections.
1/ Includes central administration only.
2/ For 2019, it excludes expected privatization proceeds (0.3 percent of GDP) that, under GFSM 1986, produces a headline deficit of -2.7 percent of GDP estimated by the authorities.
3/ Includes income tax payments and dividends from Ecopetrol corresponding to earnings from the previous year.
4/ In percent of potential GDP. Adjusts non-commodity revenues for the output gap and commodity revenues for differentials between estimated equilibrium oil price and production levels. Adjustments are made to account for fuel subsidy expenditures and the accrual of Ecopetrol dividends.

Table 4. Colombia: Operations of the Combined Public Sector 1/

(In percent of GDP, unless otherwise indicated)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
						Projections					
Total revenue	**27.6**	**26.3**	**25.2**	**25.4**	**25.2**	**26.1**	**26.2**	**26.0**	**25.6**	**25.5**	**25.5**
Tax revenue	19.9	20.1	19.3	19.4	19.2	19.6	19.5	19.5	19.4	19.3	19.3
Nontax revenue	7.7	6.2	5.9	6.0	6.0	6.5	6.7	6.5	6.2	6.1	6.2
Financial income	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Operating surplus of public enterprises 2/	-0.3	-0.3	-0.2	-0.3	-0.2	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3
Other 3/	7.5	6.0	5.6	5.8	5.7	6.3	6.5	6.3	5.9	5.9	6.0
Total expenditure and net lending 4/	**29.4**	**29.7**	**27.6**	**28.0**	**27.4**	**28.7**	**27.2**	**26.7**	**26.4**	**26.2**	**25.9**
Current expenditure	21.8	22.0	22.3	22.1	21.7	22.0	21.9	21.7	21.5	21.3	21.1
Wages and salaries	5.3	5.2	5.1	5.1	5.1	5.0	5.0	5.0	5.0	5.0	5.0
Goods and services	3.1	3.1	3.1	3.1	3.1	3.4	3.4	3.3	3.2	3.2	3.2
Interest	2.6	3.1	3.6	3.4	3.2	3.2	3.1	3.0	2.8	2.7	2.5
External	0.6	0.8	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Domestic	2.0	2.3	2.6	2.4	2.3	2.1	2.1	1.9	1.8	1.7	1.5
Transfers to private sector	8.0	7.7	7.7	7.7	7.5	7.6	7.6	7.6	7.6	7.6	7.6
Other 5/	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8
Capital expenditure	7.6	7.7	5.3	5.9	5.7	6.7	5.3	5.0	4.9	4.9	4.7
Statistical discrepancy	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Nonfinancial public sector balance	**-1.8**	**-3.4**	**-2.4**	**-2.6**	**-2.2**	**-2.6**	**-1.0**	**-0.7**	**-0.8**	**-0.8**	**-0.3**
Quasi-fiscal balance (BR cash profits)	-0.1	0.0	0.1	0.1	0.1	0.3	0.3	0.2	0.3	0.3	0.3
Fogafin balance	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Net cost of financial restructuring 6/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Combined public sector balance 7/	**-1.8**	**-3.4**	**-2.3**	**-2.4**	**-2.0**	**-2.1**	**-0.6**	**-0.3**	**-0.4**	**-0.4**	**0.0**
Overall financing	**1.8**	**3.3**	**2.8**	**3.0**	**2.6**	**1.8**	**0.8**	**0.7**	**0.6**	**0.4**	**0.0**
Foreign, net	2.8	2.5	1.6	1.1	1.2	1.5	1.1	1.1	1.1	1.1	1.1
Domestic, net	-1.0	0.8	1.3	1.9	1.4	0.3	-0.2	-0.4	0.6	-0.7	-1.1
Memorandum items:											
Overall structural balance 8/	-3.1	-3.5	-1.3	-0.9	-1.2	-1.9	-0.7	-0.3	-0.4	-0.6	-0.3
Primary balance 9/	0.8	-0.2	1.4	1.0	1.2	1.1	2.5	2.7	2.4	2.3	2.5
Oil-related revenues 10/	4.0	2.0	1.1	1.2	1.6	2.4	2.5	2.4	2.2	2.2	2.2
Total public debt 11/	43.3	50.4	49.8	49.5	51.8	50.6	48.5	46.2	44.2	42.2	39.9
Nominal GDP (In Col$ trillion)	762.9	804.7	863.8	920.2	984.8	1,055.7	1,129.0	1,205.8	1,288.5	1,376.6	1469.7

Sources: Ministry of Finance; Banco de la República; and IMF staff estimates and projections.
1/ The combined public sector includes the central, regional and local governments, social security, and public sector enterprises. Excludes Ecopetrol.
2/ For 2016, excludes proceeds from the sale of ISAGEN and for 2019, it excludes projected privatization proceeds.
3/ Includes royalties, dividends and social security contributions.
4/ Expenditure reported on commitments basis.
5/ Includes adjustments to compute spending on commitment basis and the change in unpaid bills of nonfinancial public enterprises.
6/ Interest payments on public banks restructuring bonds and mortgage debt relief related costs.
7/ For 2019, excludes privatization proceeds.
8/ Adjusts non-commodity revenues for the output gap and commodity revenues for differentials between estimated equilibrium oil price and production levels. Adjustments are made to account for fuel subsidy expenditures and the accrual of Ecopetrol dividends. Excludes private pension transfers from revenues.
9/ Includes statistical discrepancy. Overall balance plus interest expenditures.
10/ Includes income tax payments and dividends from Ecopetrol that correspond to earnings from the previous year, and royalties to local governments.
11/ Includes Ecopetrol and Banco de la República's outstanding external debt.

Table 5. Colombia: Monetary Indicators 1/

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
						Projections					
	(In billions of Col$, unless otherwise indicated)										
Central Bank											
Net Foreign Assets	112,111.1	145,823.2	138,859.3	140,586.1	155,540.8	166,226.6	176,078.0	184,747.5	193,598.9	202,429.2	211,429.6
Gross official reserve assets	112,101.2	145,726.0	138,631.7	140,724.9	161,491.6	172,173.1	182,032.7	190,698.2	199,549.6	208,381.2	217,380.8
In billions of US$	46.9	46.3	46.2	47.2	49.7	52.6	54.5	56.4	58.4	60.3	62.2
Short-term foreign liabilities	25.0	43.1	20.2	64.8	49.0	44.7	52.8	48.8	48.8	50.1	49.2
Other net foreign assets	34.9	140.3	247.9	-74.0	-5,901.9	-5,901.9	-5,901.9	-5,901.9	-5,901.9	-5,901.9	-5,901.9
Net domestic assets	-42,428.7	-63,301.3	-54,259.4	-51,773.4	-57,459.8	-61,085.2	-63,635.0	-64,658.5	-65,272.4	-65,324.1	-65,058.3
Net credit to the public sector	-21,025.7	-9,269.8	-5,989.4	-2,492.2	-1,525.1	-1,621.3	-1,689.0	-1,716.1	-1,732.4	-1,733.8	-1,726.7
Net credit to the financial system	6,768.0	6,525.0	5,678.6	3,808.4	9,016.5	9,585.4	9,985.5	10,146.2	10,242.5	10,250.6	10,208.9
Other	-28,171.0	-60,556.5	-53,948.6	-53,089.6	-64,951.3	-69,049.4	-71,931.6	-73,088.5	-73,782.5	-73,840.9	-73,540.5
Monetary base	69,682.4	82,522.0	84,599.9	88,812.7	98,081.0	105,141.4	112,443.0	120,089.1	128,326.5	137,105.1	146,371.3
Currency in circulation	56,393.8	66,739.5	69,222.0	74,057.6	80,653.3	86,459.2	92,463.4	98,750.9	105,524.6	112,743.4	120,363.1
Deposit money banks reserves	13,205.2	15,711.5	15,283.3	14,671.5	17,322.5	34,497.5	36,935.7	39,473.2	42,169.5	45,058.0	48,121.3
Other deposits	83.4	70.9	94.7	83.6	105.2	105.2	105.2	105.2	105.2	105.2	105.2
Financial system											
Net foreign assets	92,814.8	131,762.9	130,824.5	128,443.1	142,180.9	151,905.0	160,761.9	168,389.9	176,119.3	183,753.8	191,492.1
In billions of US$	38.8	41.8	43.6	43.0	43.8	46.4	48.2	49.8	51.5	53.2	54.8
Net domestic assets	269,523.0	272,760.4	312,192.4	343,012.9	361,655.9	403,252.6	449,350.2	501,130.4	558,695.2	619,818.6	684,359.0
Net credit to public sector	30,800.1	32,253.4	34,552.8	42,087.7	46,375.2	62,308.5	67,212.5	72,854.4	74,695.0	76,362.4	77,262.1
Credit to private sector	323,152.2	377,281.0	406,280.2	458,277.8	496,870.2	545,556.0	598,718.4	663,379.5	741,389.0	828,434.6	933,301.7
Other net	-84,429.2	-136,774.0	-128,640.6	-157,352.6	-181,589.5	-204,611.9	-216,580.7	-235,103.6	-257,388.8	-284,978.3	-326,204.8
Broad money	362,337.8	404,523.3	443,016.9	471,456.0	503,836.8	555,157.6	610,112.0	669,520.3	734,814.5	803,572.4	875,851.1
	(Annual percentage change)										
Credit to private sector	14.7	16.8	7.7	12.8	8.4	9.8	9.7	10.8	11.8	11.7	12.7
Currency	14.9	18.3	3.7	7.0	8.9	7.2	6.9	6.8	6.9	6.8	6.8
Monetary base	7.0	18.4	2.5	5.0	10.4	7.2	6.9	6.8	6.9	6.8	6.8
Broad money	10.0	11.6	9.5	6.4	6.9	10.2	9.9	9.7	9.8	9.4	9.0
	(In percent of GDP)										
Credit to private sector	42.4	46.9	47.0	49.8	50.5	51.7	53.0	55.0	57.5	60.2	63.5
Currency	7.4	8.3	8.0	8.0	8.2	8.2	8.2	8.2	8.2	8.2	8.2
Monetary base	9.1	10.3	9.8	9.7	10.0	10.0	10.0	10.0	10.0	10.0	10.0
Broad money	47.5	50.3	51.3	51.2	51.2	52.6	54.0	55.5	57.0	58.4	59.6
Memorandum items:											
CPI inflation, eop	3.7	6.8	5.8	4.1	3.2	3.2	3.0	3.0	3.0	3.0	3.0
Nominal GDP (In Col$ billions)	762,903	804,692	863,782	920,194	984,803	1,055,693	1,129,007	1,205,779	1,288,488	1,376,632	1,469,671

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

1/ For the year of 2018: Preliminary. Data from the Other Depository Corporations Survey only available through October 2018.

Table 6. Colombia: Medium-Term Outlook

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
						Projections					
	(In percent of GDP, unless otherwise indicated)										
Real GDP (in percent change)	4.7	3.0	2.1	1.4	2.7	3.6	3.7	3.6	3.7	3.7	3.6
Consumer prices (in percent change; eop)	3.7	6.8	5.8	4.1	3.2	3.2	3.0	3.0	3.0	3.0	3.0
Gross national savings	18.8	17.4	19.0	19.0	17.2	18.2	17.9	18.6	18.7	18.8	19.0
Private sector	13.2	13.6	16.1	15.7	13.7	13.9	13.4	14.1	14.4	14.6	14.5
Public sector	5.6	3.8	2.9	3.4	3.5	4.3	4.4	4.4	4.3	4.2	4.4
Gross domestic investment	24.0	23.8	23.3	22.3	21.0	22.1	21.7	22.3	22.4	22.6	22.7
	(In percent of GDP, unless otherwise indicated)										
Nonfinancial public sector 1/											
Revenue	27.6	26.3	25.2	25.4	25.2	26.1	26.2	26.0	25.6	25.5	25.5
Expenditure	29.4	29.7	27.6	28.0	27.4	28.7	27.2	26.7	26.4	26.2	25.9
Current expenditure	21.8	22.0	22.3	22.1	21.7	22.0	21.9	21.7	21.5	21.3	21.1
Capital expenditure	7.6	7.7	5.3	5.9	5.7	6.7	5.3	5.0	4.9	4.9	4.7
Primary balance 2/3/	-0.2	-0.4	-1.0	-0.6	-0.2	-0.1	0.5	1.0	1.4	1.5	1.5
Overall balance 2/3/	-1.8	-3.4	-2.4	-2.6	-2.2	-2.6	-1.0	-0.7	-0.8	-0.8	-0.3
Combined public sector balance 3/	-1.8	-3.4	-2.3	-2.4	-2.0	-2.1	-0.6	-0.3	-0.4	-0.4	0.0
External financing	2.8	2.5	1.6	1.1	1.2	1.5	1.1	1.1	1.1	1.1	1.1
Domestic financing	-1.0	0.8	1.3	1.9	1.4	0.3	-0.2	-0.4	0.6	-0.7	-1.1
External current account balance	-5.2	-6.3	-4.3	-3.3	-3.8	-3.9	-3.8	-3.7	-3.7	-3.7	-3.8
Trade balance	-1.2	-4.6	-3.2	-1.5	-1.6	-2.5	-2.4	-2.8	-3.0	-3.1	-3.2
Exports	14.9	13.1	12.1	12.7	13.3	12.8	13.1	12.4	12.2	12.1	11.9
Imports	16.1	17.7	15.3	14.2	14.9	15.3	15.5	15.3	15.2	15.1	15.1
Financial account balance	-5.1	-6.2	-4.3	-3.1	-3.6	-3.9	-3.8	-3.7	-3.7	-3.7	-3.8
Direct Investment	-3.2	-2.6	-3.3	-3.3	-1.8	-2.4	-2.7	-2.7	-2.7	-2.7	-2.7
Portfolio Investment	-3.0	-3.1	-1.7	-0.5	0.4	-1.6	-1.0	-1.0	-0.9	-0.8	-0.7
Other Investments and Derivatives	0.0	-0.7	0.6	0.5	-2.6	-0.8	-0.7	-0.6	-0.6	-0.7	-0.8
Change in Reserve Assets	1.2	0.1	0.1	0.2	0.4	0.9	0.5	0.5	0.5	0.5	0.4
Gross public sector debt 4/	43.3	50.4	49.8	49.5	51.8	50.6	48.5	46.2	44.2	42.2	39.9
Gross public sector debt, excluding Ecopetrol	40.5	45.7	45.4	46.1	49.3	48.5	46.5	44.5	42.8	41.2	39.3
Total public net debt 5/	32.9	42.1	38.6	38.7	41.3	41.6	40.3	38.7	37.3	35.9	34.2
Memorandum items:											
Nominal GDP (in Col$ billion)	762,903	804,692	863,782	920,194	984,803	1,055,693	1,129,007	1,205,779	1,288,488	1,376,632	1,469,671
Crude oil, spot price	96.2	50.8	42.8	52.8	68.3	59.2	59.0	58.1	57.6	57.6	58.0

Sources: Colombian authorities and IMF staff estimates and projections.

1/ Excludes Ecopetrol.

2/ Includes statistical discrepancy.

3/ For 2016, excludes proceeds from the sale of ISAGEN and for 2019, it excludes projected privatization proceeds.

4/ Includes debt of the non-financial public sector, plus Ecopetrol, FOGAFIN and FINAGRO.

5/ Gross debt minus financial assets (public sector deposits in domestic and foreign financial institutions).

Table 7. Colombia: Financial Soundness Indicators 1/

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

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018 2/
Capital Adequacy										
Regulatory capital to risk-weighted assets	17.2	17.3	16.9	18.1	17.0	17.0	16.9	17.5	18.6	18.9
Regulatory Tier 1 capital to risk-weighted assets	13.4	13.0	13.4	13.7	12.0	11.7	11.4	11.4	12.4	13.2
Capital (net worth) to assets 3/	14.2	14.2	14.3	14.7	14.8	14.9	14.1	16.2	16.1	16.5
Asset Quality and Distribution										
Nonperforming loans to gross loans	4.0	2.9	2.5	2.8	2.8	2.9	2.8	3.1	4.2	4.8
Provisions to nonperforming loans	140.1	175.0	182.0	163.9	160.7	151.3	155.5	153.5	134.7	127.3
Gross loans to assets	64.3	67.9	70.4	69.6	68.2	69.3	70.2	69.3	70.1	69.9
Earnings and Profitability										
ROAA	3.5	3.4	3.3	3.1	2.8	2.9	2.7	3.0	2.2	2.5
ROAE	26.2	23.7	23.0	21.2	19.5	19.8	18.9	18.3	13.7	15.9
Interest margin to gross income	54.0	55.6	58.4	58.7	61.3	60.6	58.7	53.7	59.2	58.5
Noninterest expenses to gross income	43.2	47.0	49.3	47.2	47.0	44.6	43.4	41.2	43.9	41.3
Liquidity										
Liquid assets to total assets 4/	24.6	22.1	21.5	21.6	21.4	19.8	18.9	18.0	18.6	18.7
Liquid assets to short-term liabilities 4/	47.8	42.7	43.7	43.6	41.9	40.3	39.9	39.9	42.6	42.1
Deposit to loan ratio	98.8	93.5	91.4	94.7	96.3	91.6	93.2	92.6	92.7	91.5
Other										
Foreign-currency-denominated loans to total loans	4.2	6.9	7.7	7.5	7.3	8.4	8.3	6.9	6.1	5.7
Foreign-currency-denominated liabilities to total liabilities	7.1	9.8	11.5	10.5	11.9	13.5	13.9	11.8	11.0	10.5
Net open position in foreign exchange to capital 5/	0.5	0.6	1.0	0.6	0.5	0.7	1.3	5.5	6.4	5.1

Source: Superintendencia Financiera.

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

2/ Data updated until 2018 Q3.

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

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

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

Table 8. Colombia: Indicators of External Vulnerability 1/

(In billions of US$, unless otherwise indicated)

						Projections					
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Exports of GNFS	64.1	46.0	41.9	48.1	53.8	53.3	57.2	57.9	60.5	63.5	66.6
Imports of GNFS	75.9	64.3	54.5	56.6	62.9	65.3	69.4	71.8	75.4	79.3	83.3
Terms of trade (y/y percent change)	-4.5	-17.5	3.7	9.3	10.3	-4.1	0.0	1.0	-0.1	0.6	0.7
Current account balance	-19.8	-18.6	-12.0	-10.3	-12.7	-13.3	-13.4	-13.9	-14.7	-15.6	-16.5
In percent of GDP	-5.2	-6.3	-4.3	-3.3	-3.8	-3.9	-3.8	-3.7	-3.7	-3.7	-3.8
Financial account balance	-19.3	-18.2	-12.3	-9.6	-12.0	-13.3	-13.4	-13.9	-14.7	-15.6	-16.5
Of which: Foreign direct investment (net)	-12.3	-7.5	-9.3	-10.1	-5.9	-8.2	-9.4	-10.0	-10.7	-11.4	-12.1
Of which: Portfolio investment (net)	-11.6	-9.2	-4.8	-1.6	1.2	-5.4	-3.6	-3.6	-3.6	-3.3	-3.1
Total external debt (in percent of GDP) 2/	30.0	42.1	49.4	47.3	46.7	48.7	48.7	48.1	47.9	47.2	46.2
Of which: Public sector (in percent of GDP) 2/	18.9	26.5	31.9	30.3	28.9	29.5	28.9	28.0	27.5	26.6	25.5
In percent of gross international reserves	243.9	267.0	302.1	312.6	321.9	320.4	323.4	325.6	330.7	333.0	333.4
Short-term external debt (in percent of GDP) 3/	3.9	5.5	5.3	5.3	6.2	6.5	6.4	6.4	6.3	6.3	6.2
Of which: Public sector (in percent of GDP)	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Of which: Private sector (in percent of GDP)	3.7	5.3	5.0	5.1	6.0	6.2	6.2	6.2	6.1	6.1	6.0
Amortization of MLT external debt (in percent of GNFS exports)	15.0	20.9	18.1	31.9	28.7	20.2	22.6	24.0	20.5	22.8	22.6
External interest payments (in percent of GNFS exports)	6.2	9.9	11.3	10.9	10.7	15.0	15.1	15.1	14.9	14.9	14.8
Gross international reserves 4/	46.8	46.3	46.2	47.1	48.3	51.2	53.2	55.1	57.0	58.9	60.8
In months of prospective GNFS imports	8.7	10.2	9.8	9.0	8.9	8.9	8.9	8.8	8.6	8.5	8.3
In percent of broad money	25.9	31.4	31.9	29.5	28.4	28.9	27.9	26.6	25.4	24.3	23.2
In percent of short-term debt on residual maturity basis plus current account deficit	108.7	129.3	114.0	105.9	108.0	106.7	105.1	108.1	103.7	102.3	105.6
In percent of ARA 5/	151.9	152.4	137.9	129.4	130.1	130.6	128.0	125.7	123.8	121.2	119.7
Nominal exchange rate (Col$/US$, period average)	2,001	2,742	3,055	2,951	2,956	NA	NA	NA	NA	NA	NA
Real effective exchange rate (percentage change, + = appreciation)	-6.9	-20.6	-4.8	5.6	0.8	NA	NA	NA	NA	NA	NA

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

1/ GNFS stands for goods and nonfactor services; MLT stands for medium and long-term.

2/ Includes foreign holdings of locally issued public debt (TES).

3/ Original maturity of less than 1 year. Stock at the end of the previous period.

4/ IMF definition that excludes Colombia's contribution to Fondo Latinoamericano de Reservas (FLAR) and includes valuation changes of reserves denominated in other currencies than U.S. dollars.

5/ Excluding commodity buffer. Coverage including a buffer for oil price uncertainty was 118 percent of the metric at end-2018.

Table 9. Colombia: External Debt Sustainability Framework, 2014–24

(In percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2014	2015	2016	2017	2018			2019	2020	2021	2022	2023	2024	Debt-stabilizing non-interest current account 6/
Baseline: External debt	30.0	42.1	49.4	47.3	46.7			**48.7**	**48.7**	**48.1**	**47.9**	**47.2**	**46.2**	**-2.9**
Change in external debt	4.3	12.1	7.3	-2.1	-0.6			2.0	-0.1	-0.6	-0.2	-0.7	-1.0	
Identified external debt-creating flows (4+8+9)	1.8	12.4	4.1	-4.0	-0.7			-0.1	-0.6	-0.6	-0.6	-0.6	-0.5	
Current account deficit, excluding interest payments	4.1	4.8	2.6	1.6	2.1			1.6	1.3	1.4	1.4	1.5	1.5	
Deficit in balance of goods and services	3.1	6.2	4.5	2.7	2.7			3.6	3.5	3.7	3.8	3.8	3.8	
Exports	16.8	15.7	14.8	15.4	16.1			15.8	16.2	15.5	15.4	15.3	15.2	
Imports	19.9	21.9	19.3	18.2	18.9			19.4	19.6	19.3	19.1	19.1	19.0	
Net non-debt creating capital inflows (negative)	-3.3	-1.7	-1.4	-2.9	-1.5			-2.4	-2.6	-2.7	-2.7	-2.6	-2.6	
Automatic debt dynamics 1/	1.0	9.3	2.8	-2.7	-1.3			0.7	0.7	0.7	0.6	0.6	0.6	
Contribution from nominal interest rate	1.0	1.6	1.7	1.7	1.7			2.4	2.4	2.3	2.3	2.3	2.2	
Contribution from real GDP growth	-1.2	-1.2	-0.9	-0.6	-1.2			-1.7	-1.7	-1.7	-1.7	-1.7	-1.6	
Contribution from price and exchange rate changes 2/	1.1	8.9	2.1	-3.8	-1.9			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	2.5	-0.3	3.2	1.9	0.2			2.1	0.5	0.0	0.4	-0.1	-0.5	
External debt-to-exports ratio (in percent)	178.4	268.5	333.4	306.1	289.3			308.1	300.7	309.6	311.8	308.9	###	
Gross external financing need (in billions of US dollars) 4/	41.5	43.1	35.8	40.5	44.5			44.8	48.0	50.6	51.0	54.9	57.6	
in percent of GDP	10.9	14.7	12.7	13.0	13.4			13.3	13.6	13.6	12.9	13.2	13.1	
Scenario with key variables at their historical averages 5/						10-Year Historical Average	10-Year Standard Deviation	**48.7**	**50.2**	**51.5**	**53.2**	**54.5**	**55.3**	**-2.1**
Key Macroeconomic Assumptions Underlying Baseline														
Real GDP growth (in percent)	4.7	3.0	2.1	1.4	2.7	3.5	1.9	3.6	3.7	3.6	3.7	3.7	3.6	
GDP deflator in US dollars (change in percent)	-4.7	-25.2	-5.6	8.8	4.1	0.4	11.8	-2.4	1.1	1.8	1.8	1.9	1.9	
Nominal external interest rate (in percent)	4.1	4.0	3.8	3.8	3.9	4.5	0.7	5.1	5.2	5.1	5.0	5.0	5.0	
Growth of exports (US dollar terms, in percent)	-4.8	-28.2	-9.0	15.0	11.7	3.8	18.8	-0.9	7.3	1.3	4.4	5.1	4.8	
Growth of imports (US dollar terms, in percent)	7.7	-15.3	-15.1	3.8	11.1	4.4	15.7	3.8	6.3	3.5	5.0	5.2	5.1	
Current account balance, excluding interest payments	-4.1	-4.8	-2.6	-1.6	-2.1	-2.4	1.2	-1.6	-1.3	-1.4	-1.4	-1.5	-1.5	
Net non-debt creating capital inflows	3.3	1.7	1.4	2.9	1.5	2.3	1.2	2.4	2.6	2.7	2.7	2.6	2.6	

Source: IMF staff estimates.

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

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

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

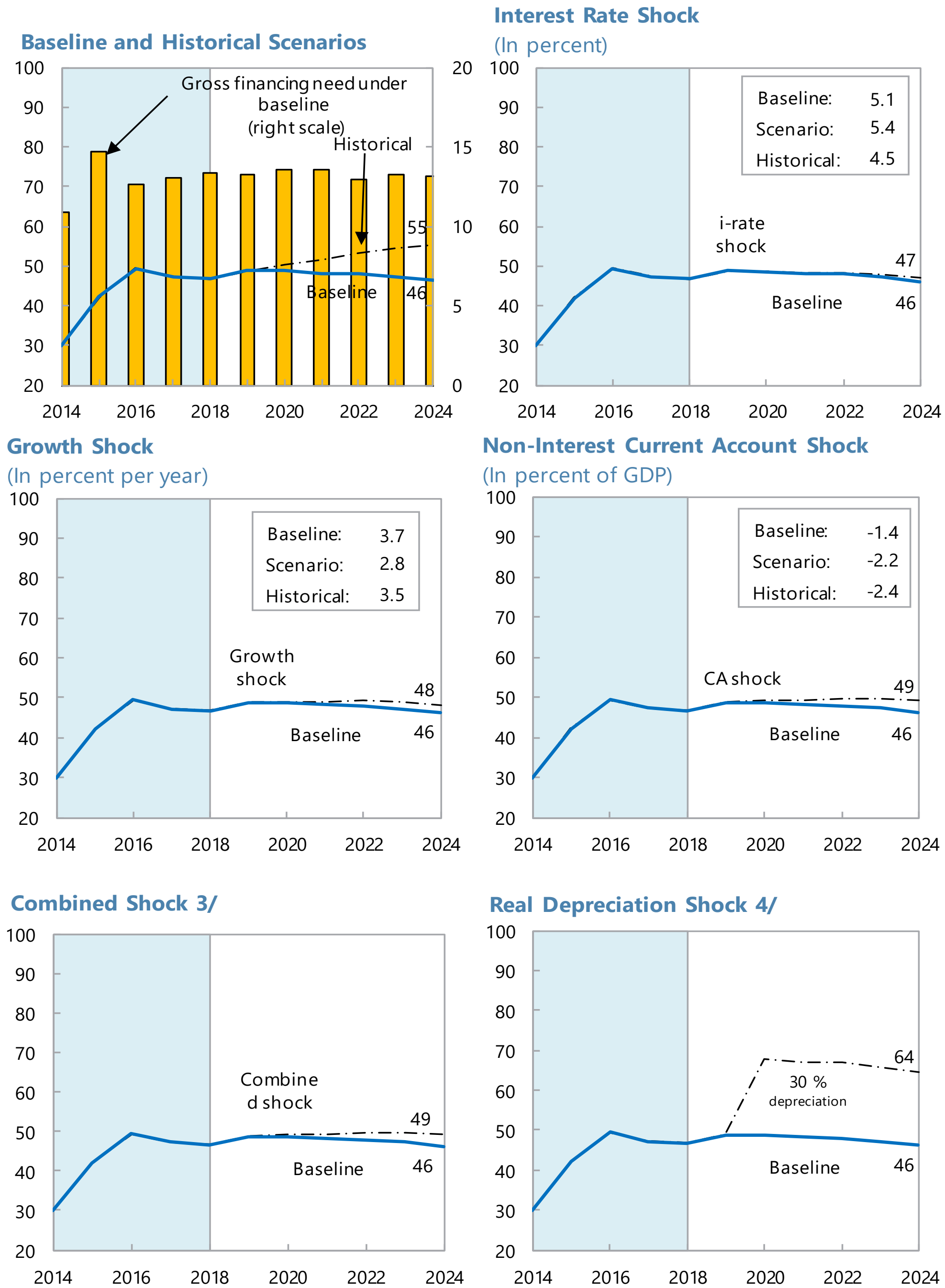
4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

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

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

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

(External debt in percent of GDP)



Sources: IMF staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
4/ One-time real depreciation of 30 percent occurs in 2020.

Colombia: External Assessment

		Overall Assessment
Foreign asset and liability position and trajectory (NIIP)	**Background**. Colombia's NIIP was -46 percent of GDP at end-2018, a decline of 19 percent of GDP compared to end-2013. Cumulative net inflows of financial liabilities contributed 22 percent of GDP to this decline. This was partially offset by valuation gains of 4 percent of GDP arising from the depreciation of the peso versus reserve currencies, since a large portion of external liabilities is denominated in pesos (most FDI, plus a large proportion of portfolio liabilities). **Assessment**. While gross external financing needs are moderate at about 13 percent of GDP annually, the external stability (ES) approach suggests a need for eventual external adjustment, as the projected medium-term current account balance is about 1.5 percent of GDP lower than that required to stabilize the NIIP at its end-2018 level.	**Overall Assessment**: *The external position is moderately weaker than implied by medium-term fundamentals and desirable policies. This assessment is driven by the estimated current account gap of -1.8 percent of GDP. However, there is a wide range of uncertainty surrounding this estimate. Mitigating factors include the composition and stability of capital flows, adequate reserve coverage, and a flexible exchange rate that has long served as the primary mechanism of adjustment to external shocks.* **Potential policy responses**: Ongoing fiscal consolidation according to the fiscal rule is likely to raise national saving over the medium term. Structural policies to improve competitiveness and boost non-oil exports remain essential but will only improve the external position over the medium term. Key priorities include lowering non-tariff trade barriers that raise input costs for exporters, enhancing customs procedures, reducing transportation costs, and improving infrastructure.
Current account	**Background**. The current account balance (CAB) of -3.8 percent of GDP in 2018 was a larger deficit than the 3.3 percent in 2017 but smaller deficit than the -4.5 percent of GDP 2013–17 average. Imports increased as domestic demand recovered, offsetting higher oil exports. Non-oil exports were sluggish, reflecting soft regional growth and one-off factors such as weak harvests. Investment growth increased to 3.5 percent, the strongest performance since the oil price decline of 2014–15, while an increase in public saving from fiscal consolidation was offset by lower private saving. The medium-term CAB is projected at -3.8 percent of GDP, with expected declines in oil exports-GDP, modestly higher non-traditional exports as regional growth recovers, and buoyant tourism exports as that sector continues its recent deepening. **Assessment**. The EBA model estimates a cyclically-adjusted CAB norm of -0.1 percent of GDP and a cyclically-adjusted CAB gap of -4.7 percent of GDP for 2018. Nevertheless, identified policy gaps were assessed to be improving the CAB by 0.6 percent of GDP. Staff assesses the CAB to be moderately weaker than justified by medium-term fundamentals and desirable policies, with a point estimate for the CAB gap of -1.8 percent of GDP and a range of -0.5 to -3.1 percent of GDP given the EBA model's wide standard error for Colombia. This incorporates the following adjustments (see technical background notes for details): 1) the contribution of oil exports to the norm is reduced by 1.8 percent of GDP given Colombia's investment needs and the channeling of government oil revenue to infrastructure investment projects with a high social return and that are also expected to boost competitiveness in the medium term; 2) the contribution of demographic variables to the norm is reduced by 0.6 percent of GDP given a large recent jump in migration from Venezuela that is not captured in the population statistics in the EBA model; and 3) the cyclically-adjusted CAB is adjusted up by 0.5 percent of GDP to account for highly depressed demand in markets for Colombia's non-traditional exports.	
CA Assessment 2018	Actual CA -3.8 | Cycl. Adj. CA -4.7 | EBA CA Norm -0.1 | EBA CA Gap -4.7 | Staff Adj. -2.9 | Staff CA Gap -1.8	
Real exchange rate	**Background**. The period average real effective exchange rate (REER) index appreciated by 1 percent in 2018 and was 33 percent weaker than in 2013, driven by lower oil prices. **Assessment**. EBA REER level and index approaches estimated an undervaluation of 12-13 percent in 2018. Applying a semi-elasticity of -0.14 to the gap from the CAB approach suggests a REER overvaluation of between 4 and 22 percent. Overall, staff judges the REER gap consistent with the CAB gap at 13 percent, though with a wide range of uncertainty (+/- 9 percent) given: the poor fit of the EBA CAB model for Colombia, with large unexplained residuals that have been persistently biased; the substantial differences in results across the REER and CA approaches; the delayed recovery in non-oil exports despite the flexible exchange rate that has been permitted to adjust in response to external shocks, which suggests that additional CAB adjustment could be in the pipeline if activity picks up in key non-oil export markets; and the structural distortions that are holding back exports (see IMF Country Reports 18/128 and 18/129 for further discussion).	

	Colombia: External Assessment (concluded)
Capital and financial accounts: flows and policy measures	**Background**. Current account deficits have in the last decade been financed primarily by capital inflows to FDI and portfolio debt securities. Net FDI inflows in 2018 were 1.8 percent of GDP, below the historical average but within the normal range of variation, and were diversified across the petroleum, mining, financial, and other sectors. Net inflows into domestically-issued government debt remained robust at 1.1 percent of GDP, and sovereign issuance on the international market in October 2018 and January 2019 was heavily oversubscribed. **Assessment**. The stability of FDI flows, sound macroeconomic policies, and a track record of uninterrupted market access have underpinned capital inflows, including during periods of stress such as the global financial crisis and the recent emerging markets selloff.
FX intervention and reserves level	**Background**. Colombia's gross reserves increased by US$750 million in 2018, including through purchases of US$400 million in December under a program to accumulate reserves (see Annex V). This was the first FX intervention since 2014. End-2018 reserves amounted to US$47.9 billion, equivalent to14.5 percent of GDP and 8.9 months of prospective imports. Reserve purchases so far in Q1-2019 are $2.1 billion (an increase of over 4 percent), including a one-off $1 billion purchase from the Treasury stemming from the proceeds of a recently-issued Eurobond. **Assessment**. The flexible exchange rate has long served as the primary mechanism of adjustment to external shocks. Reserve coverage has declined since 2015 but remains adequate. For 2018, coverage is estimated at 118 percent of the ARA metric including a commodity buffer (given the uncertainty of future oil exports as embodied in options contracts on oil futures prices), and 130 percent excluding the commodity buffer. Access to resources available under Colombia's FCL provides an additional liquidity buffer equivalent to about 27 percent of the ARA metric.
Technical Background Notes	The details of the adjustments made to the CAB assessment are as follows: 1) The contribution of oil exports is adjusted downward to account for Colombia's investment needs relative to the EBA sample. This is based on Colombia's: i) infrastructure gap relative to rivals in export markets (see IMF Country Report 16/129); ii) higher public fixed capital formation (5.6 percent of GDP compared to 4.0 percent of GDP for the EBA sample and 2.8 percent of GDP for other Latin American economies); and iii) relatively efficient practices in public investment management—on par with OECD peers and significantly higher than other Latin American economies (see April 2016 IMF Regional Economic Outlook, *Western Hemisphere: Managing Transitions and Risks*). 2) An estimated 1.2 million immigrants from Venezuela have taken up residence in Colombia, of which a large share arrived in 2018. This implies annual average population growth of over 2.5 percent, substantially above the underlying growth of about 0.8 percent used in the CAB model. Furthermore, in staff's baseline the stock of the immigrant population is projected to remain high throughout the forecast horizon, and this population is relatively younger than the overall Colombian population (Annex III). A conservative adjustment based on the model's coefficients has been applied (one third of the model's estimated impact), given the uncertainty surrounding the impact and that higher population growth via immigration could affect both the actual CAB and the norm through various channels. 3) The main component of the standard cyclical adjustment is based on the GDP-weighted output gap of the EBA sample, while the relevant concept for Colombia's current account is demand from non-traditional export destinations, which is a driver of export volumes of these products (export volumes of petroleum and mining products are assumed to be inelastic to external demand). Given the exceptional decline in demand from Venezuela (which is otherwise not reflected in the standard cyclical adjustment since Venezuela is not included in the model), this adjustment aims to capture a part of the reduction in Colombia's non-traditional goods exports to Venezuela, which have historically been above 1.5 percent of GDP.

Annex II. Public Sector Debt Sustainability Analysis (DSA)

The public debt figures reported for Colombia cover the non-financial public sector. Debt rose significantly in the aftermath of the large terms of trade shock in 2014 but has been broadly stable since 2015. Under the baseline scenario, the non-financial public sector gross debt ratio is projected to gradually decline for 51.8 percent in 2018 to around 40 percent in 2024. Risks largely reflect the rapid increase in non-resident holdings of local currency debt but reflects a more diversified investor base. Colombia's public debt is expected to remain sustainable with high probability in the medium term.

Baseline Scenario

1. At the end of 2018, the non-financial public sector (NFPS) gross debt is estimated to have increased to 51.8 percent of GDP from 49.5 percent in 2017. The increase was primarily driven by an increase in externally denominated debt in response to last year's exchange rate depreciation. In terms of composition, around 91 percent of NFPS debt corresponds to central government debt.[1] Of the central government debt, around 2/3 is denominated in local currency with the remainder primarily denominated in U.S. dollars.

2. The NFPS gross debt ratio is expected to decline gradually over the forecast scenario, driven primarily by expected primary surpluses at general government level, and to a lesser extent by favorable growth dynamics. If real GDP growth, real interest rates, and other debt-creating flows remain at their projected levels for 2024, the debt-stabilizing primary balance is estimated at -0.1 percent of GDP. Projected primary balances exceed this value and, thus, place NFPS on a declining path.

Realism of Baseline Scenario

3. The baseline assumptions seem plausible as staff's forecasts are not systematically biased (based on historical projection errors). Furthermore, fan charts show limited uncertainty around the baseline (the symmetric fan chart has a width of about 20 percent of GDP). The assumed adjustment in the primary balance reflects a gradual reduction in structural expenditures, in the absence of higher tax revenues, which is realistic when compared to similar adjustments made by other countries (Figure 2). A historical scenario also yields a downward sloping path for debt, albeit as slower pace, reflecting lower historical primary surpluses relative to the baseline scenario.

Risks

4. The share of NFPS debt held by non-residents is above its risks benchmark, partly reflecting a rapid increase of foreign investors' participation in Colombia's local currency public debt market since 2013. This largely reflects the reduction of the capital gains tax as part of the tax reform in 2013 and the inclusion of Colombian bonds in JP Morgan's EM-GBI in 2014. Refinancing risks are

[1] Ecopetrol's debt at around 3.0 percent of GDP is included as part of the NFPS.

mitigated by a more diversified foreign investor base and given continued robustness of portfolio inflows (including during periods of stress such the global financial crisis and the recent emerging markets selloff). Additionally, the authorities continue to emphasize on extending maturities and minimizing roll-over risk.[2]

[2] See Estrategia de gestion de la deuda de mediano plazo 2018–22.

Figure 1. Colombia: Public Sector DSA Risk Assessment

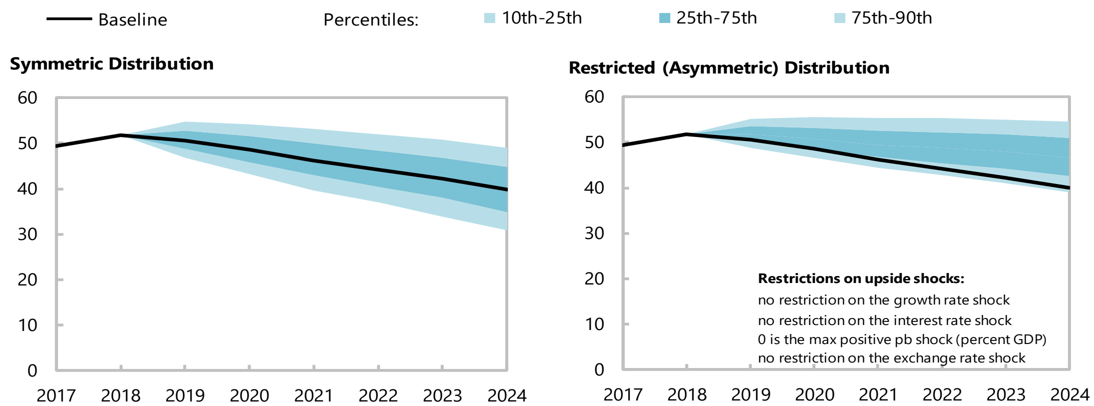
(Nonfinancial Public Sector Debt)

Heat Map

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

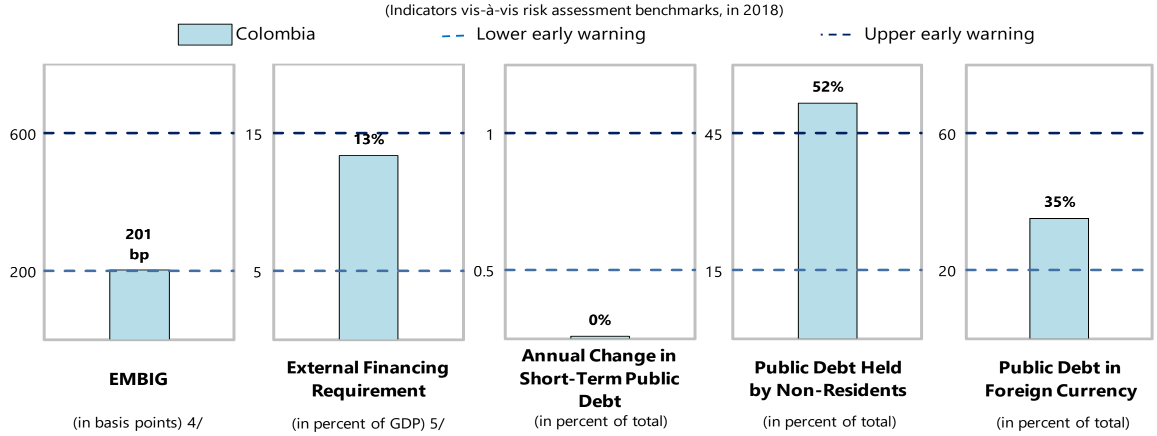
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2018)



Source: IMF staff estimates.

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

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

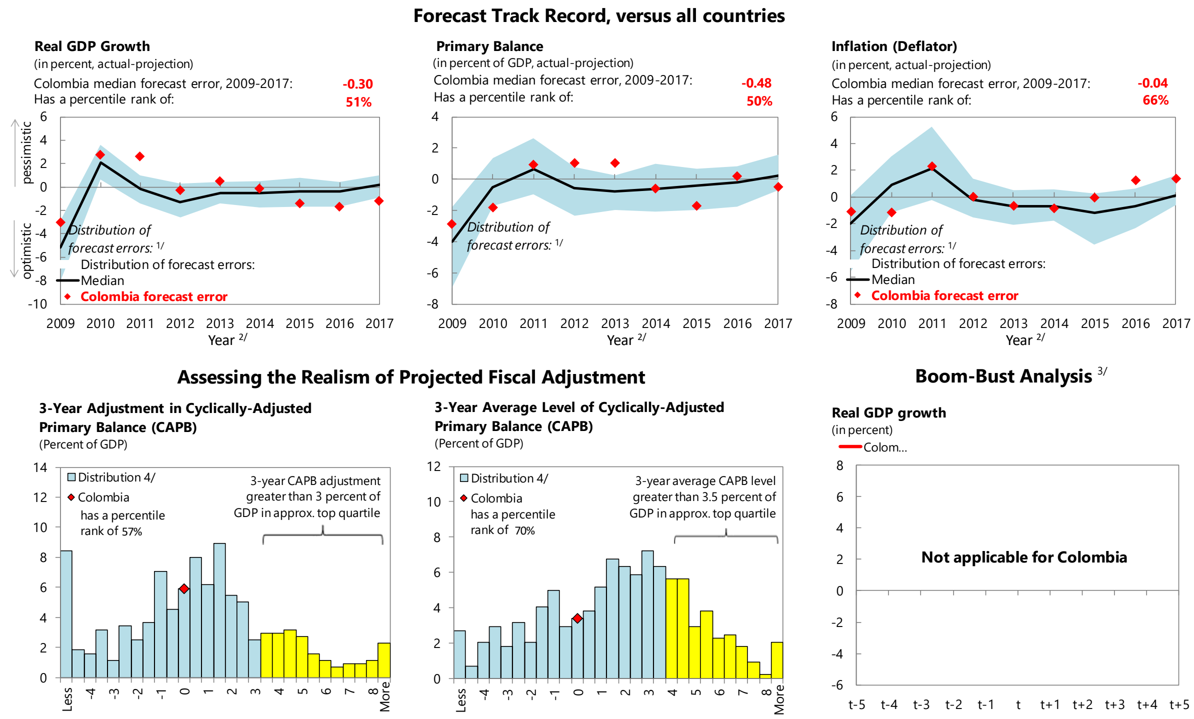
3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant,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

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

4/ EMBIG, an average over the last 3 months, 30-Nov-18 through 28-Feb-19.

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

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



Source : IMF staff estimates.

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

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

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

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

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

(In percent of GDP, unless otherwise indicated)

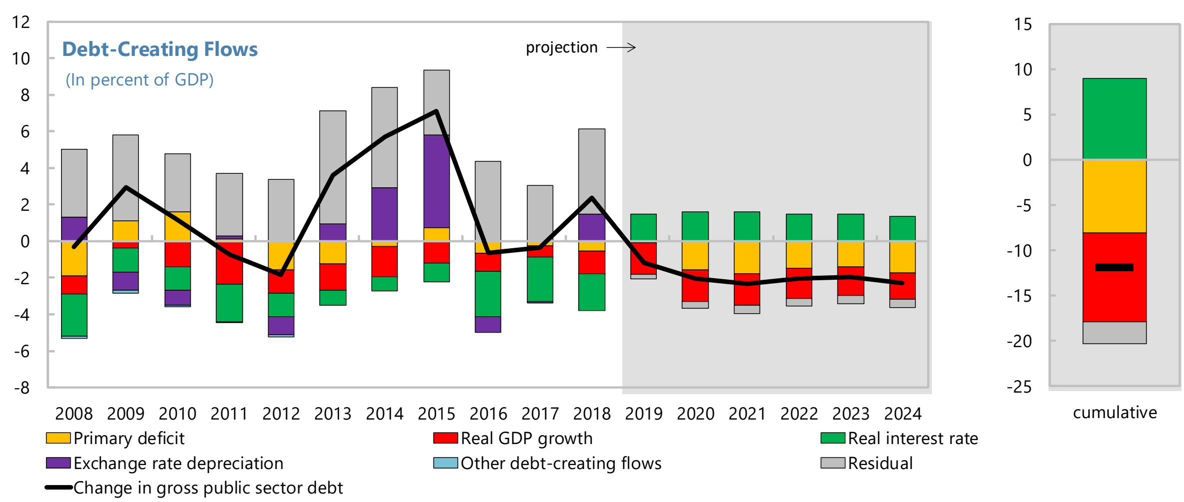
Debt, Economic and Market Indicators [1]

	Actual			Projections					
	2008-2016 [2]	2017	2018	2019	2020	2021	2022	2023	2024
Nominal gross public debt	39.5	49.5	51.8	50.6	48.5	46.2	44.2	42.2	39.9
Public gross financing needs	5.6	5.3	3.9	6.4	3.7	3.3	2.3	3.4	2.2
Real GDP growth (in percent)	3.8	1.4	2.7	3.6	3.7	3.6	3.7	3.7	3.6
Inflation (GDP deflator, in percent)	4.2	5.1	4.2	3.4	3.1	3.0	3.0	3.0	3.0
Nominal GDP growth (in percent)	8.2	6.5	7.0	7.2	6.9	6.8	6.9	6.8	6.8
Effective interest rate (in percent) [4]	8.8	7.2	7.0	6.7	6.6	6.6	6.6	6.7	6.5

As of February 28, 2019		
Sovereign Spreads		
EMBIG (bp) 3/		191
5Y CDS (bp)		103
Ratings	Foreign	Local
Moody's	Baa2	Baa2
S&Ps	BBB-	BBB
Fitch	BBB	BBB

Contribution to Changes in Public Debt

	Actual			Projections							
	2008-2016	2017	2018	2019	2020	2021	2022	2023	2024	cumulative	debt-stabilizing primary balance [9]
Change in gross public sector debt	1.9	-0.3	2.4	-1.2	-2.1	-2.3	-2.1	-2.0	-2.3	-11.9	
Identified debt-creating flows	-2.3	-3.4	-2.3	-0.3	-1.7	-1.9	-1.6	-1.5	-1.8	-8.9	
Primary deficit	-0.2	-0.3	-0.5	-0.1	-1.6	-1.8	-1.5	-1.4	-1.7	-8.1	-0.10
Primary (noninterest) revenue and grant	25.9	24.9	24.7	25.6	25.7	25.5	25.1	25.0	25.0	152.0	
Primary (noninterest) expenditure	25.7	24.7	24.1	25.5	24.1	23.7	23.6	23.6	23.3	143.9	
Automatic debt dynamics [5]	-2.0	-3.1	-1.7	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.7	
Interest rate/growth differential [6]	-2.8	-3.0	-3.2	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.7	
Of which: real interest rate	-1.5	-2.4	-2.0	1.5	1.6	1.6	1.5	1.5	1.3	9.0	
Of which: real GDP growth	-1.3	-0.6	-1.2	-1.8	-1.7	-1.7	-1.6	-1.5	-1.4	-9.8	
Exchange rate depreciation [7]	0.7	-0.1	1.5	…	…	…	…	…	…	…	
Other identified debt-creating flows	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Privatization (incl. concessions) (negativ	-0.1	0.0	0.0	-0.3	0.0	0.0	0.0	0.0	0.0	-0.3	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Please specify (2) (e.g., ESM and Euroar	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes [8]	4.2	3.1	4.7	-0.3	-0.3	-0.4	-0.4	-0.5	-0.5	-2.4	



Source: IMF staff estimates.

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

2/ Based on available data.

3/ EMBIG.

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

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

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

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

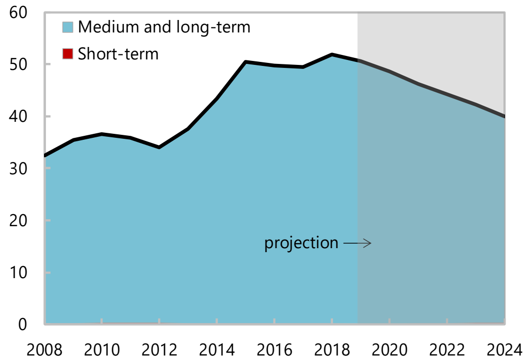
8/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

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

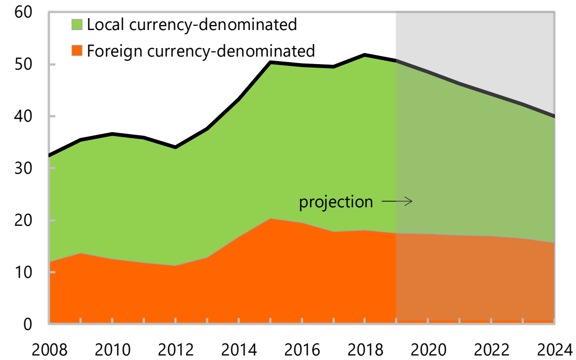
Figure 4. Colombia: Public DSA – Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

By Maturity
(In percent of GDP)



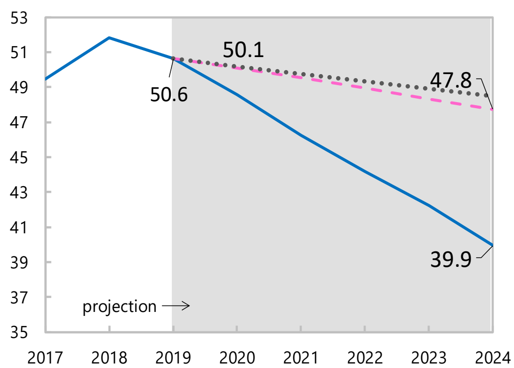
By Currency
(In percent of GDP)



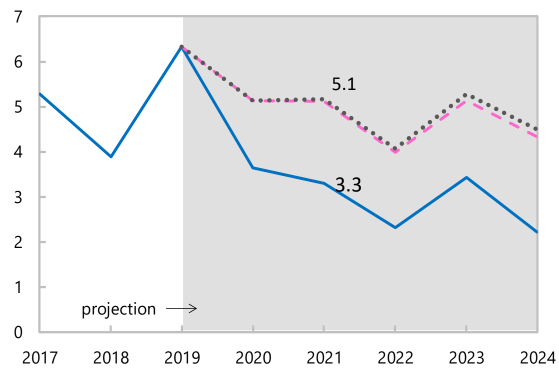
Alternative Scenarios

Baseline   Historical   Constant Primary Balance

Gross Nominal Public Debt
(In percent of GDP)



Public Gross Financing Needs
(In percent of GDP)



Underlying Assumptions

(In percent)

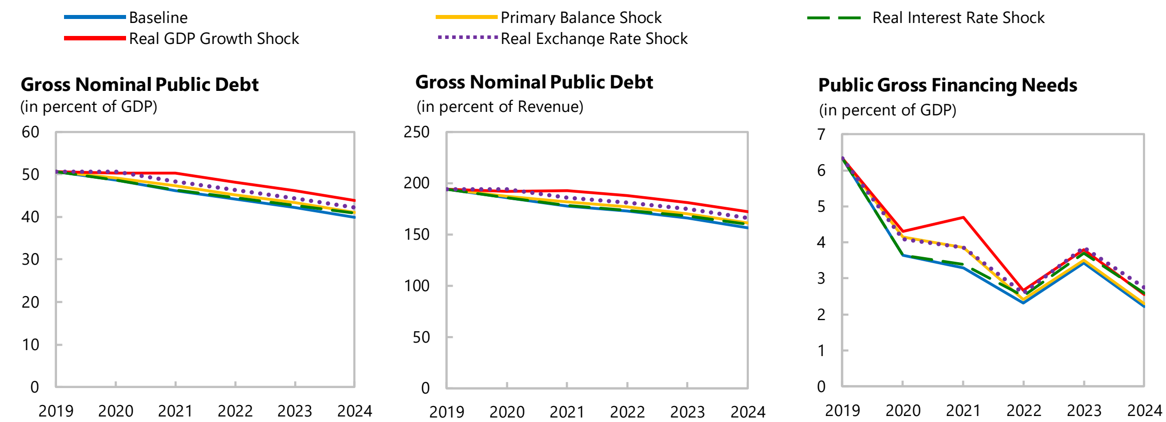
Baseline Scenario	2019	2020	2021	2022	2023	2024
Real GDP growth	3.6	3.7	3.6	3.7	3.7	3.6
Inflation	3.4	3.1	3.0	3.0	3.0	3.0
Primary Balance	0.1	1.6	1.8	1.5	1.4	1.7
Effective interest rate	6.7	6.6	6.6	6.6	6.7	6.5
Constant Primary Balance Scenario						
Real GDP growth	3.6	3.7	3.6	3.7	3.7	3.6
Inflation	3.4	3.1	3.0	3.0	3.0	3.0
Primary balance	0.1	0.1	0.1	0.1	0.1	0.1
Effective interest rate	6.7	6.6	6.6	6.6	6.7	6.5

Historical Scenario	2019	2020	2021	2022	2023	2024
Real GDP growth	3.6	3.5	3.5	3.5	3.5	3.5
Inflation	3.4	3.1	3.0	3.0	3.0	3.0
Primary balance	0.1	0.1	0.1	0.1	0.1	0.1
Effective interest rate	6.7	6.6	6.7	6.7	6.8	6.7

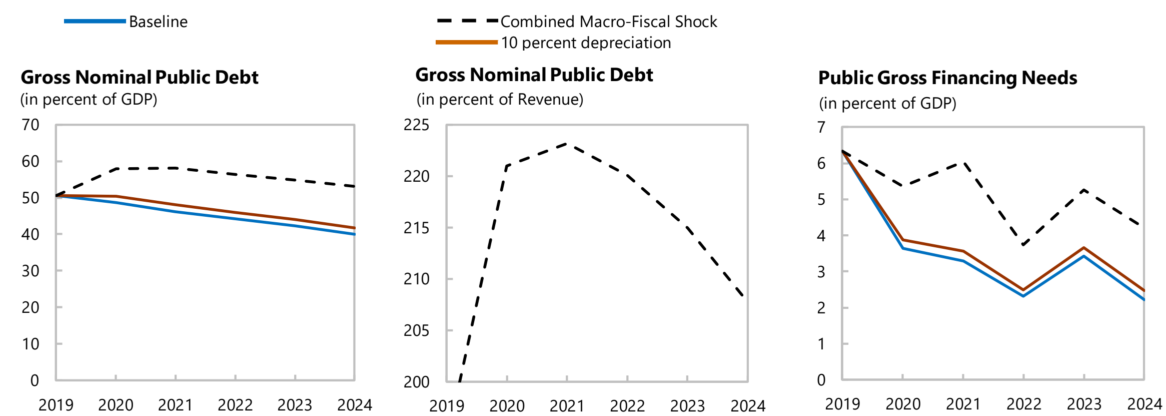
Source: IMF staff estimates.

Figure 5. Colombia: Public DSA – Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions

(in percent)

	2019	2020	2021	2022	2023	2024
Primary Balance Shock						
Real GDP growth	3.6	3.7	3.6	3.7	3.7	3.6
Inflation	3.4	3.1	3.0	3.0	3.0	3.0
Primary balance	0.1	0.7	1.7	1.5	1.4	1.6
Effective interest rate	6.7	6.6	6.6	6.6	6.7	6.5
Real Interest Rate Shock						
Real GDP growth	3.6	3.7	3.6	3.7	3.7	3.6
Inflation	3.4	3.1	3.0	3.0	3.0	3.0
Primary balance	0.1	1.6	1.8	1.5	1.4	1.7
Effective interest rate	6.7	6.6	6.8	7.0	7.3	7.3
Combined Shock						
Real GDP growth	3.5	1.8	1.9	3.7	3.7	3.6
Inflation	3.4	2.7	2.6	3.0	3.0	3.0
Primary balance	0.1	0.7	0.7	1.5	1.4	1.6
Effective interest rate	6.7	7.4	6.7	7.0	7.3	7.4

	2019	2020	2021	2022	2023	2024
Real GDP Growth Shock						
Real GDP growth	3.6	1.8	1.9	3.7	3.7	3.6
Inflation	3.4	2.7	2.6	3.0	3.0	3.0
Primary balance	0.1	1.0	0.7	1.5	1.4	1.7
Effective interest rate	6.7	6.6	6.6	6.6	6.7	6.5
Real Exchange Rate Shock						
Real GDP growth	3.6	3.7	3.6	3.7	3.7	3.6
Inflation	3.4	13.7	3.0	3.0	3.0	3.0
Primary balance	0.1	1.6	1.8	1.5	1.4	1.7
Effective interest rate	6.6	7.4	6.5	6.4	6.6	6.4

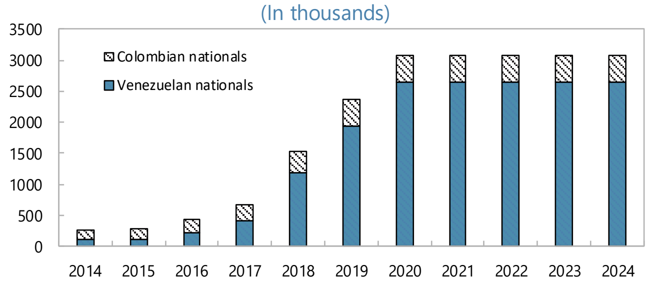
Source: IMF staff estimates.

Annex III. Quantifying the Macroeconomic Effects of Migration Flows from Venezuela

Context and Size of Shock

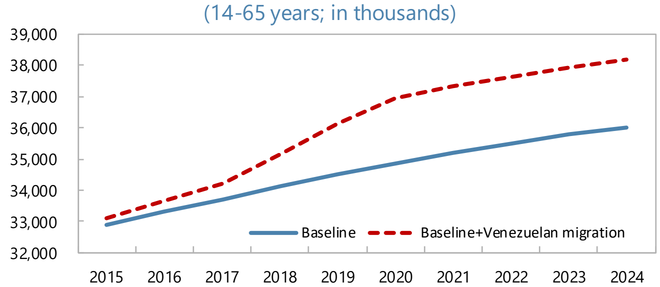
1. **Official estimates suggest that 1.2 million Venezuelans were permanently residing in Colombia by end-2018.** At the same time, nearly 350,000 Colombians that were residing in Venezuela have returned to their home country. The influx of Venezuelan migrants into Colombia accelerated last year, increasing almost threefold compared to 2017. In the baseline scenario, similar migrant inflows are expected for 2019 and 2020 but net inflow are projected to be zero thereafter. Assuming the same demographic profile of migrants as in 2018 (67 percent of arriving Venezuelan migrants were of working age), implies Colombia's working age population will rise by around 2 million by the end of the forecast horizon.[1]

Stock of Venezuelan Migrants Permanently Residing in Colombia
(In thousands)



Sources: National authorities: Reina and others (2018): and IMF staff estimates.

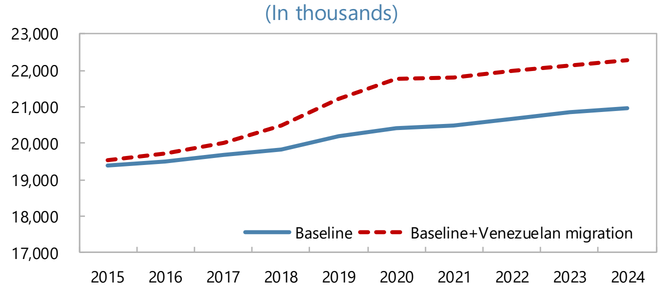
Working Age Population
(14-65 years; in thousands)



Sources: DANE and IMF staff estimates.

2. **Venezuelan migrants have shown a higher participation rate as compared to Colombians (77 versus 64 percent).** However, the participation rates should gradually converge in the medium-term. On the other hand, migrants to date have shown lower employment rates compared to natives in the first year after arrival (82 versus 91 percent). The employment rates are also assumed to converge to that of natives over the medium-term. Based on these assumptions, the number of employed workers will increase by around 1.3 million by 2024.

Employed Workers
(In thousands)



Sources: DANE and IMF staff estimates.

[1] Working age population defined as individuals between ages 14-65. These numbers are highly uncertain.

Effects on Potential Growth

3. **Production function methods use information on capital, labor and productivity to estimate potential growth.** This annex uses this approach to estimate the effects of migration flows from Venezuela on potential output. The production function takes the following form:

$$Y = AK^{\alpha}L^{1-\alpha}$$

where Y is potential output, A is total factor productivity, K is the capital stock in the economy, L is the potential labor input, and $1-\alpha$ is the labor share in national income. Potential growth is calculated as $\Delta\ln(A) + \alpha\Delta\ln(K) + (1-\alpha)\Delta\ln(L)$. A similar decomposition can be made for actual GDP. As in Lanau and others (2017)[2], the labor share is set at 66 percent, labor is adjusted by human capital using the index in the Penn World Tables, and capital is utilization adjusted.[3]

4. **Results suggest that the effects of migration flows from Venezuela on Colombia's potential GDP growth are sizable in the near-term.** However, the contribution of labor accumulation was partly offset by an important reduction in TFP. This deterioration in TFP can be explained by (i) many migrants joining the informal sector, and (ii) evidence of significant skills mismatches. These frictions are expected to ease over the medium-term, particularly after 2020, as migrants get fully absorbed into the labor market and migrant flows recede. Against this backdrop, potential growth is expected to settle around 3.4 percent, 0.1 percentage points above the previous baseline in the medium-term, although the near-term impact is more sizeable at around 0.2–0.3 in 2018–19.

Decomposition of Potential GDP Growth

	Potential GDP Growth		Capital		Labor		TFP	
	Baseline	w/ Migration	Baseline	w/ Migration	Baseline	w/ Migration	Baseline	w/ Migration
2018	**3.0**	**3.3**	1.6	1.6	1.4	2.5	0.0	-0.8
2019	**3.0**	**3.2**	1.5	1.5	1.4	2.4	0.1	-0.7
2020	**3.3**	**3.3**	1.7	1.7	1.3	2.2	0.3	-0.5
2021	**3.3**	**3.3**	1.6	1.6	1.2	1.2	0.5	0.5
2022	**3.4**	**3.3**	1.6	1.6	1.2	1.2	0.6	0.6
2023	**3.3**	**3.3**	1.6	1.6	1.1	1.1	0.6	0.6
2024	**3.3**	**3.4**	1.6	1.6	1.1	1.1	0.6	0.7

Sources: Authorities; Penn World Tables; and IMF staff estimates.

[2] IMF Working Paper No. 17/238.

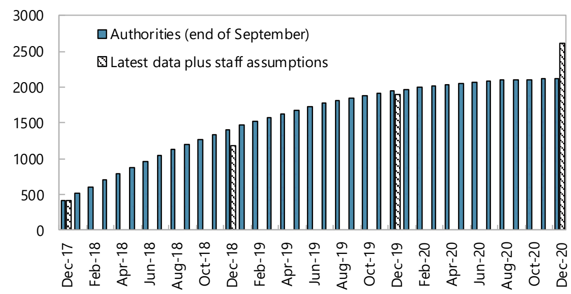
[3] Migrants and natives are assumed to have the same human capital levels. This is broadly borne out in the data for end-2018 but there is uncertainty about the educational composition of the 2019–20 migrant waves.

5. **Staff estimates are close to those produced by other organizations.** World Bank estimates point to potential output increases around 0.2 percent of GDP if 500,000 migrants are able to enter the labor market. Preliminary work undertaken by the authorities (National Planning Department – DNP for Spanish initials, 2018) point to larger gains between 0.2−0.9 percent in GDP growth between 2018 and 2021. The main channel in the DNP study is through the generation of between 500,000 and 2 million informal jobs which would boost consumption by 0.3 to 1.1 percent, and investment by 0.2 to 0.6 percent. Reina and others (2018) estimate that migration could boost potential output between 0.1 and 0.5 percent depending on the number of migrants that integrate into the labor market.

Fiscal Costs

6. **Colombia is providing substantial humanitarian support.** The authorities' initial set of responses sought to support refugees such as guaranteeing emergency health care access and making documentation requirements for access to education for children more flexible.

Venezuelan Migration Projections
(In thousands)



Source: Authorities and IMF staff projections.

7. **Staff's starting point for quantifying the fiscal costs of the migration are based on the authorities' estimates of observed expenditure** outcomes**.** Staff assumes that the fiscal costs per migrant are the same as those used by the authorities.

8. **The key assumptions used by the authorities:**

- Education: costs include expenditure on preschool, primary and secondary education and these are computed from certified per capita cost for education services. It also includes costs associated with the school feeding program and school transportation.
- Healthcare: costs include subsidized capitation payments (UPC), average emergency costs per-patient without public insurance and vaccination and public health costs.
- Early childhood care: per capita costs for early childhood care are used.
- Humanitarian help: use the average cost of providing immediate humanitarian help for displaced persons.

Estimates of Near-Term Fiscal Cost of Migration flows from Venezuela

(Percent of GDP)

	Authorities		Desk					
Costs	**2019**	**2020**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**
Education	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1
Health	0.1	0.2	0.1	0.2	0.2	0.2	0.1	0.1
Childhood	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0
Humanitarian	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Housing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Water/Sanitation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Inst. Strength	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Security	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Labor	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	**0.4**	**0.4**	**0.4**	**0.5**	**0.4**	**0.4**	**0.3**	**0.3**

Source: National authorities and IMF staff estimates.

9. **On the revenue side, staff made the following assumptions:**

- Per capita revenues from VAT and consumption taxes were computed for 2017. These per capita revenues were scaled by the relative wage of migrants from Venezuela migrants in 2017 relative to Colombians with a further adjustment to capture lower productivity effects in 2018. The resulting per capita revenues were multiplied by the stock of Venezuelan migrants.

- Total revenues from personal and corporate income taxes were divided by the stock of employment in 2017 to obtain revenues by employed worker. These were scaled by the same relative wage rate for Venezuelans to Colombians to obtain personal and corporate income taxes per Venezuelan worker. These were multiplied by the stock of employed workers.

Estimates of Net Fiscal Cost from Migrants from Venezuela

(Percent of GDP)

	2019	**2020**	**2021**	**2022**	**2023**	**2024**
Education	0.2	0.2	0.2	0.2	0.1	0.1
Health	0.1	0.2	0.2	0.2	0.1	0.1
Childhood	0.1	0.1	0.1	0.1	0.0	0.0
Humanitarian	0.0	0.0	0.0	0.0	0.0	0.0
Housing	0.0	0.0	0.0	0.0	0.0	0.0
Water/Sanitation	0.0	0.0	0.0	0.0	0.0	0.0
Inst. Strength	0.0	0.0	0.0	0.0	0.0	0.0
Security	0.0	0.0	0.0	0.0	0.0	0.0
Labor	0.0	0.0	0.0	0.0	0.0	0.0
Total Expenditure	0.4	0.5	0.5	0.4	0.3	0.3
Goods & Services	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
PIT & CIT	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Total	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2
Net effect	0.3	0.4	0.2	0.2	0.1	0.1

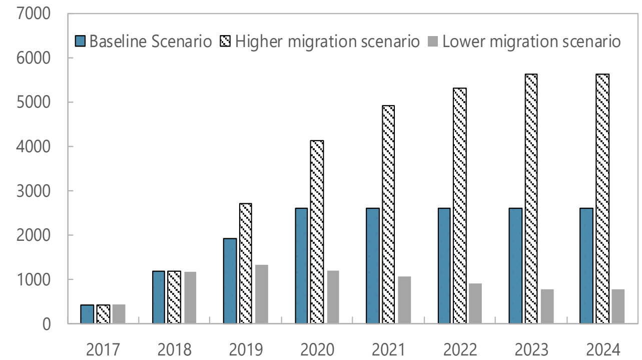
Source: IMF staff estimates.

10. **The overall net fiscal costs are significant over the near term but fade over the medium term as migrants from Venezuela are gradually integrated into the labor force.**

Sensitivity Analysis

11. **A further deterioration of the economic and social crisis in Venezuela could result in a surge of migration flows to Colombia.** Assuming that the number of Venezuelan migrants in Colombia doubles by the end of the forecast horizon to around 6 million could increase potential GDP growth by an additional ½ percentage point in the near term relative to the baseline with migration, without affecting potential growth in the medium term. The net fiscal costs would be roughly double throughout the projection period relative to the baseline.

Venezuela Migration Scenarios
(In thousands)



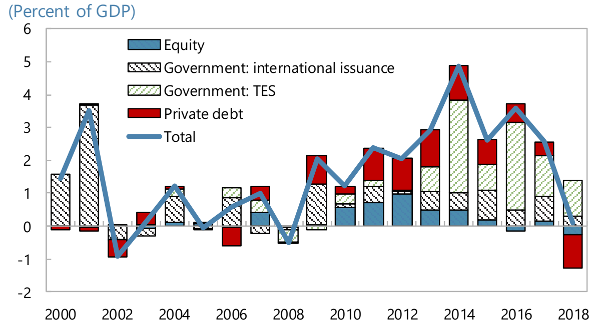
Source: Authorities and Staff estimates

12. **A rapid and peaceful resolution of current political and social conflicts could result in several of Venezuelan migrants returning to their home country.** In a scenario in which the number of Venezuelan migrants in Colombia is halved by 2024 to 700 thousand, could result in a minor deceleration in potential growth in the near-term, with no effect in the medium term. The net fiscal costs would be roughly halved in the near term and dissipate by 2024.

Annex IV. Portfolio Inflows: A Capital Flows at Risk Approach

1. **Colombia has attracted large portfolio inflows in the last decade.** After low levels in the early 2000s, there has been a significant upward shift since 2009, with flows to various instruments (Figure 1). These include private debt, equity inflows (predominantly from 2010–14), government foreign currency issuance, and since 2013 sizable inflows to local currency government bonds (TES).[1] In 2018 inflows were flat, with continued government inflows but outflows of equity and private debt.

Figure 1. Colombia: Composition of Net Portfolio Liability Flows
(Percent of GDP)

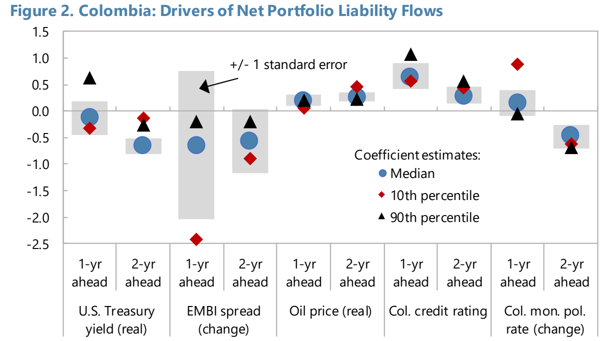


Sources: Haver Analytics and IMF staff calculations.

2. **The drivers of and prospects for portfolio inflows are assessed using the capital-flows-at-risk approach.[2]** This approach models portfolio flows using quantile regressions. This permits the entire distribution of flows to be modeled, allows the drivers of flows to be different during periods of large inflows than at times of large outflows, and enables the evaluation of risks in addition to a baseline scenario. Given their magnitude and sensitivity to external conditions, the net flow of liabilities to non-residents is modeled. The model uses information in a given period to predict flows one year and two years ahead, which also helps minimize endogeneity concerns.

3. **Both external and domestic factors affect the distribution of portfolio inflows.** Figure 2 highlights a few important facts by comparing the coefficients (and corresponding standard errors) for the regression on median portfolio inflows with the coefficients for the tenth and 90th percentiles of the distribution:

Figure 2. Colombia: Drivers of Net Portfolio Liability Flows



Source: IMF staff estimates.

- Higher ten-year U.S. Treasury yields typically reduce portfolio flows to Colombia, except when inflows are high, e.g. in periods when sentiment toward emerging markets (EMs) is positive.

- Increases in the Colombian monetary policy rate tend to increase inflows for the next year, especially when flows are depressed. However, by the second year the tighter policy is likely to lead to outflows as economic activity slows.

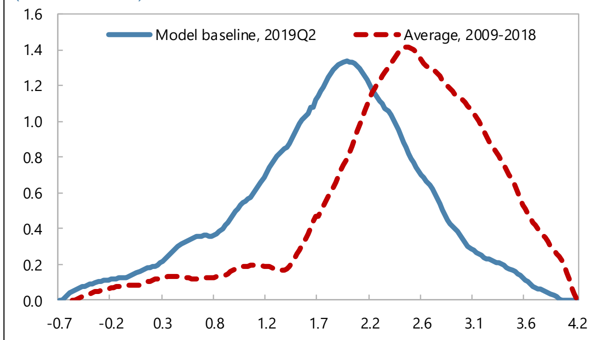
[1] This was partly in response to a reduction in the tax rate on foreign holdings (IMF, 2014) and an increase in the weight in global indexes tracking emerging market local currency bonds (Arslanalp and Tsuda, 2015).

[2] The methodology was originally developed by Adrian and others (2018) to assess risks to GDP growth, and applied to capital flows by Goel and Koepke (2018).

- Higher real oil prices and a higher sovereign rating tend to raise inflows and higher EMBI spreads tend to lower them over the entire distribution at both the one-year and two-year horizons (though with a wide range of uncertainty surrounding the estimate on EMBI spreads).

4. **The baseline outlook for portfolio inflows is less favorable than in recent years but does not signal a large probability of outflows.** Figure 3 compares the historical distribution of flows since 2009 with the predicted frequency distribution of flows generated using staff's baseline scenario and the external assumptions for the April 2019 *World Economic Outlook*. The forecast distribution of inflows is lower than the historical data owing to lower real oil prices and higher real U.S. interest rates than the 2009–18 average, but still signals net inflows of almost two percent of GDP. In addition, the left tail of the forecast distribution is close to that of the historical data, suggesting a continued low probability of extreme outflows.

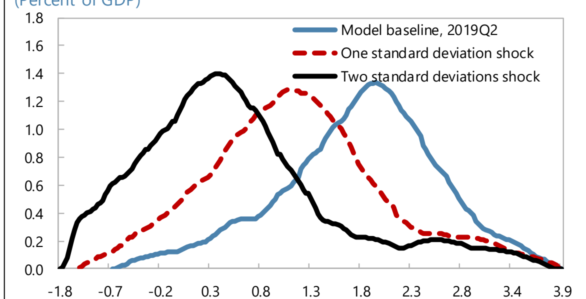
Figure 3. Colombia: Frequency Distribution of Net Portfolio Inflows
(Percent of GDP)



Sources: Haver Analytics; and IMF staff calculations and estimates.

5. **The range of potential outcomes would be more adverse if external conditions deteriorated.** To gauge the sensitivity of the forecast distribution of inflows, model predictions were generated assuming shocks to the three external variables of either one or two standard deviations.[3] Figure 4 compares the resulting forecast distributions with the baseline. Under the one standard deviation shock, median inflows are projected at about 1.4 percent of GDP, with just under 10 percent probability of net outflows. Under a shock of two standard deviations, median projected inflows are less than 0.4 percent of GDP, with a 30 percent probability of net outflows. This illustrates both the resilience of portfolio flows to Colombia under most plausible external conditions, and the magnitude of potential tail risks.

Figure 4. Colombia: Frequency Distribution of Net Portfolio Inflows
(Percent of GDP)



Sources: Haver Analytics; and IMF staff calculations and estimates.

[3] The two standard deviations shock implies an extreme tail event, with an increase of over 200 basis points in real U.S. Treasury yields and a decline in real oil prices to near their lows after the 2014–15 oil price shock. While the results illustrate the potential magnitudes, the estimated flows are likely lower bounds, as no policy response is incorporated.

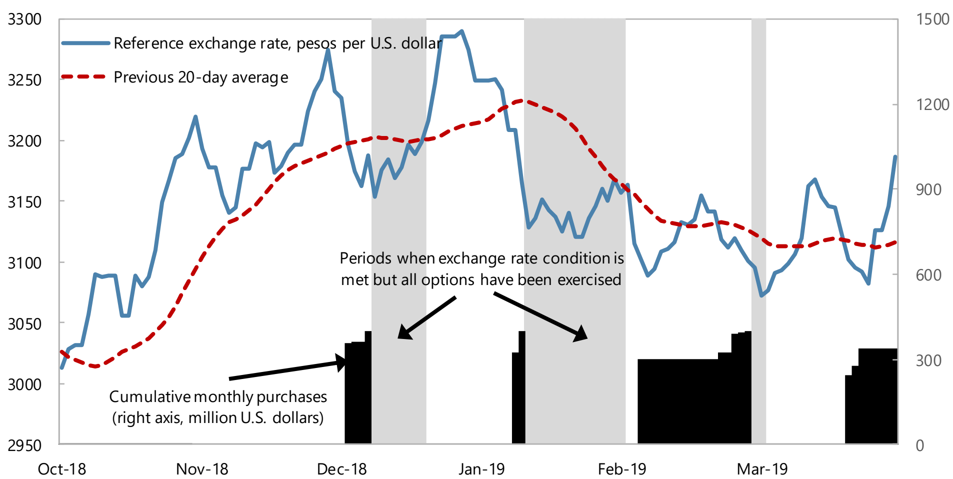
Annex V. Reserve Accumulation Program

1. **The Central Bank announced a program to accumulate international reserves in September 2018.** The announcement explicitly linked this decision to preparations for "a potential reduction of the Flexible Credit Line."[1] The duration and amount of purchases are at the discretion of the central bank, which has so far set an accumulation ceiling of up to US$400 million per month.

2. **The Central Bank conducts this program through monthly auctions of "put" options.** These options permit market participants to sell U.S. dollars to the Central Bank at the prevailing market rate, during any period in which the peso-dollar exchange rate is stronger than its previous 20 business days average. Partly based on previous experience, the authorities believe this mechanism minimizes the impact on the spot exchange rate since purchases depend on market conditions and the actions of market participants. Their communications have also emphasized that the program is not designed to engineer a depreciation or target a specific exchange rate level.

3. **Market reaction to the program has been favorable, with substantial excess demand for the options.** Through end-March, Central Bank purchases have amounted to US$1.5 billion.[2] All options were quickly exercised in December and January, with periods following when the conditions for further purchases still would have been met, which suggests the monthly ceiling on the amount of options available could be higher without disrupting the smooth functioning of the foreign exchange market (Figure 1).

Figure 1. Colombia: Reserve Accumulation: Exchange Rate Condition and Monthly Purchases



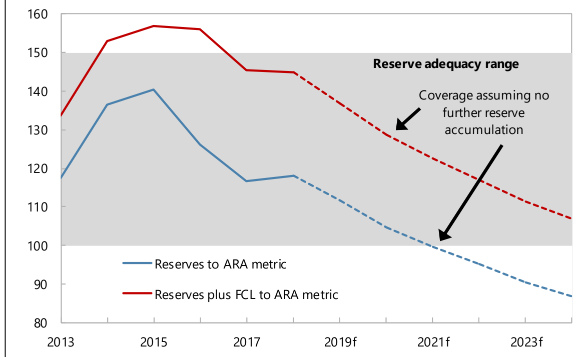
Sources: National authorities; Haver Analytics; and IMF staff estimates.

[1] See http://www.banrep.gov.co/en/press-release/28-september-2018-2.

[2] On February 1, the Central Bank purchased US$1 billion from the Treasury at the prevailing market rate. This was a one-off transaction to monetize the proceeds of a recently-issued Eurobond.

4. **Reserve accumulation is bolstering external buffers.** Reserve coverage has declined since 2015 but remains adequate, estimated at 118 percent of the ARA metric including the oil buffer at end-2018, and 130 percent excluding the oil buffer (Figure 2). Looking to the medium term, without further reserve accumulation, coverage would decline given continued projected increases in external liabilities, exports, and broad money (Figure 3), implying some accumulation would be necessary to maintain coverage in the adequate range (Figure 2). Indeed, reserve accumulation would need to be maintained at the pace likely under the authorities' program or modestly faster throughout the forecast horizon to keep ARA coverage at the current level. The authorities' stated objective of offsetting reduced FCL access with own reserves would involve additional accumulation.

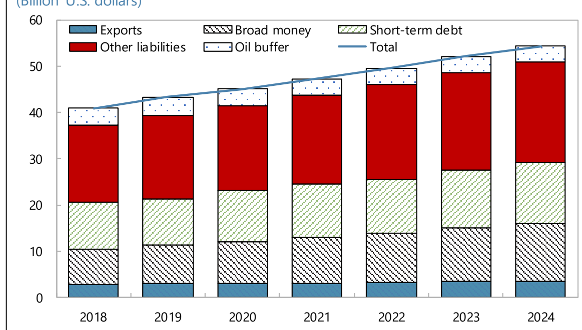
Figure 2. Colombia: Liquidity Buffers (as percent of ARA metric)



Source: IMF staff calculations.

5. **The Central Bank will sterilize FX purchases as needed to pursue its inflation target.** To date, there has been no significant money market impact from the additional liquidity associated with FX purchases. Indeed, other factors have led the central bank to increase liquidity provision through repo operations. Sterilization to maintain short-term interest rates at their target will likely involve additional interest costs or foregone interest revenue, if the inflation outlook requires tightening the monetary stance, but the costs should be manageable given the modest differential between Colombian interest rates and the return on international reserves, and the positive net income of the central bank in recent years.

Figure 3. Colombia: Reserve Adequacy Metric
(Billion U.S. dollars)



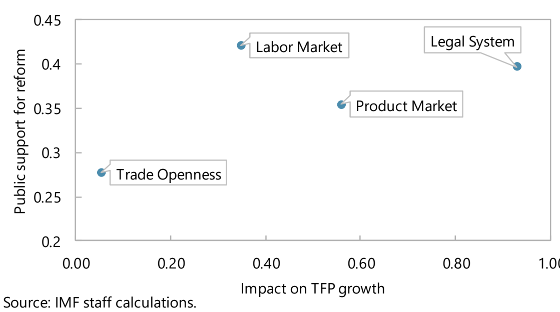
Sources: IMF, WEO; and IMF staff calculations.

Annex VI. Reform Priorities for Colombia

1. **Given the large number of possible structural reforms the government could focus on, which ones should it prioritize?** To provide a high-level assessment of reform priorities, staff followed the approach described in Biljanovska and Sandri (2018) which combines information on public support for reform areas with estimates of their TFP impact.[1] The analysis only considers individual reforms, thus potentially overlooking interaction effects of reform packages. Given the complexity of the link between structural reforms and TFP gains, the analysis in this Annex should be taken as indicative rather than definite. Other measures, such as closing infrastructure gaps, which are not considered as part of this annex, also remain key priorities and are discussed in the main body of the staff report.

2. **The analysis suggests that reforms to the legal system should be a priority.** Structural reforms in the areas of banking, trade openness, labor markets, product markets and the legal system are considered. Improvements to the legal system are estimated to have the strongest economic impact and according the *Latinobarometro* survey data also have relatively high public support.[2]

Economic Impact and Public Support for Reforms



Source: IMF staff calculations.

3. **Survey data indicates that within the legal system, impartiality of courts and legal enforcement of contracts are two areas of concern for economic agents.** Congestion of courts appears to be a major constraint on legal efficiency in practice. Legal practitioners in Colombia point out that it is not uncommon for delays of around 8 years from the start of an investigation to the final judgement. And in a typical commercial litigation case, it is likely that due to court congestion a first-instance ruling might be rendered three years from the date of admission, even though in theory judges are bound to produce their decision on commercial disputes within one year.

[1] "Structural Reform Priorities for Brazil", IMF Working Paper No. 18/224.

[2] The TFP impact refers to the estimated increase in the one-year ahead TFP growth rate from closing the structural gap with the advanced country average. Latinobarometro data refers to the question "What is the most important for the development of Colombia?". Responses are averaged for 2016 and 2017 and mapped into structural reforms as explained in Biljanovska and Sandri (2018). Banking sector reform is not shown in the matrix figure given that Colombia is estimated to have a strong framework already.

INTERNATIONAL MONETARY FUND

COLOMBIA

STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

April 8, 2019

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

CONTENTS

FUND RELATIONS

(As of February 28, 2019)

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

General Resources Account:

	SDR million	Percent Quota
Quota	2,044.50	100.00
Fund holding of currency (Exchange rate)	1,716.89	83.98
Reserve position	327.61	16.02

SDR Department:

	SDR million	Percent Quota
Net cumulative allocation	738.32	100.00
Holdings	656.18	88.87

Outstanding Purchases and Loans: None.

Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	In million of SDR Amount Approved	Amount Drawn
FCL	May 25, 2018	May 24, 2020	7,848.00	0.00
FCL	Jun 13, 2016	May 24, 2018	8,180.00	0.00
FCL	Jun 17, 2015	Jun 12, 2016	3,870.00	0.00
FCL	Jun 24, 2013	Jun 16, 2015	3,870.00	0.00

Projected Payments to the Fund (in SDR million):

	forthcoming				
	2019	2020	2021	2022	2023
Principal					
Charges/interest	0.71	0.95	0.95	0.95	0.95
Total	**0.71**	**0.95**	**0.95**	**0.95**	**0.95**

Implementation of HIPC Initiative: Not applicable.

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

Exchange Rate: Arrangement: Colombia has a floating exchange rate regime (de jure: free floating; de facto: floating) and maintains an exchange restriction subject to Fund approval under Article VIII arising from the special regime for the hydrocarbon sector (see IMF Country Report No. 13/35 for details).

Article IV Consultation: The last Article IV Consultation was concluded on April 30, 2018 (IMF Country Report No. 18/128).

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

Technical Assistance:

Department	Time of Delivery	Purpose
MCM	Jan. 2015	Enhancing the Macroprudential Stress Testing Framework of Banco de la República.
FAD	Feb. 2015	Tax Policy
STA	Dec. 2015	National Accounts: Quarterly Sectoral Accounts
FAD	Aug. 2016	Discussion of the 2017 structural tax reform
STA	Dec. 2016	National Accounts
FAD	Feb. 2017	Revenue Administration
FAD	Mar. 2017	Fiscal Transparency Assessment
STA	Jun. 2017	National Accounts
FAD	Aug. 2017	Tax and Customs Administration
FAD	Sep. 2017	Treasury Management
STA	Sep. 2017	National Accounts
STA	Nov. 2017	Government Finance Statistics
STA	Dec. 2017	National Accounts
STA	Apr. 2018	Sectoral Accounts
STA	Apr. 2018	Residential Property Prices Indices
STA	May. 2018	National Accounts
STA	Sep. 2018	Residential Property Price Index
FAD	Oct. 2018	Tax Administration
STA	Dec. 2018	Sectoral Accounts
FAD	Mar. 2019	Compliance and Core Procedures
FAD	Mar. 2019	Fiscal Rule and Fiscal Risks
STA	Mar. 2019	Sectoral Accounts
FAD	Apr. 2019	Energy Subsidy Reform

RELATIONS WITH OTHER INTERNATIONAL INSTITUTIONS

World Bank Group:

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

Inter-American Development Bank:

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

STATISTICAL ISSUES

(As of March 19, 2019)

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

National Accounts: The National Department of Statistics (DANE) is responsible for the compilation of the national accounts, although the Banco de la República (BdR) compiles the financial accounts. Annual and quarterly estimates of GDP by the production and the expenditure approaches use 2015 as the reference year for the annually chained volume measures. The national accounts statistics cover the accounts and aggregates included in SNA2008. The corresponding SNA2008 accounts and tables which the inter-ministerial working group on national accounts (GITCN) identified as minimum requirements and recommended for implementation of SNA2008 are compiled on a regular basis, as listed below: annual value added and GDP at current and constant prices for the previous year, and with a chain volume series in 2015 cop by activity; annual expenditure on GDP at current and constant prices for the previous year, and with a chain volume series in 2015 cop; components of annual value added at current prices by activity; sequence of accounts of the economy as a whole (up to net lending) with annual frequency; annual accounts of the rest of the world (up to net lending); quarterly value added and GDP at current and chain volume series in 2015 cop by activity; quarterly expenditure on GDP at current and chain volume series in 2015 cop; and annual supply-use tables. STA continues to assist DANE and BdR on improving sectoral accounts and developing quarterly accounts by institutional sectors.

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

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

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

Financial Sector Surveillance: Colombia has reported Financial Soundness Indicators (FSI) beginning from 2005 up to 2018. Colombia reports all (except one) core and all (except one) encouraged Financial Soundness Indicators (FSI) for deposit takers on a regular monthly basis. The FSIs indicators along with metadata are available on the IMF's website (http://data.imf.org/).

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

Colombia: Table of Common Indicators Required for Surveillance
(As of March 19, 2019)

	Date of Latest Observation	Date Received	Frequency of Data[1]	Frequency of Reporting[1]	Frequency of Publication[1]
Exchange Rates	Mar. 19, 2019	Mar. 19, 2019	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[2]	Feb. 2019	Mar. 2019	M	M	M
Reserve/Base Money	Mar. 2019	Mar. 2019	W	W	W
Broad Money	Mar. 2019	Mar. 2019	W	W	W
Central Bank Balance Sheet	Mar. 2019	Mar. 2019	W	W	W
Consolidated Balance Sheet of the Banking System	Dec. 2018	Mar. 2019	M	M	M
Interest Rates[3]	Mar. 19 2019	Mar. 19, 2019	D	D	D
Consumer Price Index	Feb. 2019	Mar. 2019	M	M	M
Revenue, Expenditure, Balance and Financing Composition[4] – General Government (GG)[5]	Q2 2018	Dec. 2018	Q	Q	Q
Revenue, Expenditure, Balance and Financing Composition[4] – Central Government	Nov. 2018	Dec. 2018	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt[6]	Feb. 2018	Mar. 2019	M	M	M
External Current Account Balance	Q4 2018	Mar. 2019	Q	Q	Q
Exports and Imports of Goods and Services	Q4 2018	Mar. 2019	Q	Q	Q
GDP/GNP	Q4 2018	Mar. 2019	Q	Q	Q
Gross External Debt	Dec. 2018	Mar. 2019	M	M	M
International Investment Position[7]	Q4 2018	Mar. 2019	Q	Q	Q

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

Statement by Leonardo Villar, Executive Director for Colombia
April 19, 2019

On behalf of the Colombian authorities, we would like to thank the mission team for its insightful and comprehensive report, as well as for the open and constructive discussions during the Art. IV consultation with Colombia. We broadly agree with the staff's analysis and recommendations but would like to expand on some of the key issues discussed.

Recent Developments

The Colombian economy has faced four important shocks in the last few years: First, the drop in international oil prices in 2014 implied a sharp decline in the value of exports, induced a sharp depreciation of the currency and involved fiscal revenue losses for the central government of around 3 percentage points of GDP. Second, a severe drought in 2016 added to the effects of the currency depreciation and led inflation up to 8 percent in August 2016, well above the 3 percent target set by the central bank. Third, the peace agreement reached with the biggest guerrilla group in America signed in 2017—after 55 years of war—allowed for a very important decline in violent deaths and created a space for urgent development in rural areas but, from the point of view of fiscal accounts, also implied short-run macroeconomic challenges, particularly through public expenditure commitments. Finally, but not least, the collapse of the Venezuelan economy—which used to be Colombia's second main trading partner for non-commodity exports and a traditional destination of Colombian emigration—implied a dramatic contraction in exports and the largest immigration process that Colombia has ever experienced. According to most estimates, more than 1.2 million people have moved from Venezuela to Colombia during the last five years, most of them in the last 18 months. Nearly 30 percent of those immigrants are Colombians that emigrated to Venezuela in previous decades.

Despite those shocks, Colombia has been able to manage a process of economic adjustment in an orderly manner. Annual inflation in March 2019 was 3.2 percent, very close to the central bank target. After a period of economic activity deceleration, which however did not imply negative rates of growth in any recent year, GDP growth is recovering and is expected to reach 3.6 percent in 2019. With regards to the balance of payments, the current account deficit—which had reached 6.3 percent of GDP after the collapse in oil prices in 2015—is down to 3.6 percent of GDP in 2018 and is expected to remain below 4 percent of GDP and be mostly financed by foreign investment in 2019 and the following years.

Following the fiscal rule, the central government deficit has systematically gone down since it reached 4 percent of GDP in 2016. It was 3.7 percent in 2017 and 3.1 percent in 2018. The target for 2019 is to reduce it further, to 2.7 percent. Compliance with a decreasing fiscal deficit every year is more remarkable as corporate taxation has been reduced to stimulate the economy and enhance competitiveness.

IMF staff is forecasting a fiscal deficit of 3 percent of GDP in 2019, slightly higher than the one expected by the government, although still lower than its level in 2018. The difference between the government's number and the staff's report projection arises from the accounting of revenues that the government is planning to get from privatizations and which would be used to pay non-recorded liabilities, such as those associated with judicial sentences that are not currently included in the official public debt figures. As far as such operations would improve public balance, my authorities consider that they should not be considered as increasing the deficit.

Monetary Policy, Exchange Rate and International Reserves

The Colombian central bank follows a well consolidated inflation targeting regime that has proved its effectiveness. With inflation close to the target and with well-anchored expectations, monetary policy has played a moderately accommodative role. In fact, after a cycle of reductions in the policy interest rate during 2017 and the first half of 2018, such rate has been kept at 4.25 percent since mid-2018. The authorities agree with staff that a future adjustment towards a more neutral stance should be data dependent and carefully calibrated.

Consistent with the inflation targeting regime, exchange rate flexibility is significant. Still, after a depreciation of more than 50 percent that followed the collapse in international oil prices of 2014, the peso has shown remarkable stability. In September 2018, the central bank announced a program to accumulate international reserves through a market-based mechanism and small monthly amounts that do not disrupt the smooth functioning of the foreign exchange market. It is important to mention that the level of international reserves is well above the ARA metric used by the Fund. Even so, the central bank considers that accumulating additional reserves will allow for an even more comfortable level and provide room to gradually reduce reliance on the FCL with the IMF.

However, my authorities do not necessarily share the staff's recommendation for "a modestly faster pace of reserve accumulation," as it could affect expectations and disrupt the so far well-behaved exchange rate market. The central bank follows a clear methodology to assess international reserve adequacy that depends on a periodic quantification of international liquidity risk. Any change in the pace of international reserves accumulation will depend on such an assessment.

My authorities also want to restate that the monetary effect of any dollar accumulated in international reserves is automatically sterilized as far as the monetary framework is based on the use of the short-term interest rate as the instrumental variable. Sales and purchases of domestic securities by the central bank are undertaken according to market conditions to keep the short-term interest rate at the level set by the central bank board of directors.

Fiscal Policy

As described in detail in the Staff's Issues Paper, in December 2018 the Colombian government obtained Congress approval for a financing law that is expected to yield additional revenues in 2019, especially from an expansion of VAT and higher rates on dividend and personal income taxes. The same law reduced the tax burden on corporations, mainly through lower corporate income tax (CIT) rates, an input credit for VAT on capital goods and crediting municipal taxes. These measures are expected to have a static cost in terms of lost revenue from 2020 onwards, but the staff models estimate that their direct impact on investment and economic activity will boost GDP growth by 0.2 pp over ten years.

Together with tax reform, public expenditure austerity will allow the government to adhere to the fiscal rule, which in turn implies a continued process of reduction in the central government deficit as a share of GDP towards a structural steady state deficit of 1 percent of GDP that is expected to be attained by 2023. According to the fiscal rule law, the Fiscal Rule Consultative Committee (FRCC) can allow for adjustment in the yearly deficit target according to the output gap cycle and to the evolution of exported commodity prices (mainly oil), relative to their long-run level. In addition to these considerations, the FRCC considered in its 2019 meeting that the short-term fiscal impact of the Venezuelan migration merited some allowances, bearing in mind that it is a temporary situation that in the long run can have positive effects on potential GDP and fiscal revenues. The adjustment made on the fiscal rule in relation to the fiscal costs of the Venezuelan migration followed the criteria proposed by the IMF's staff mission in terms of its temporariness and of a well-defined path to recover the original deficit path in the medium run. Under these conditions, the FRCC and the government agreed that the central government deficit would be 2.7 percent of GDP in 2019, down from 3.1 percent in 2018.

As mentioned before, the staff report is forecasting a deficit of 3 percent of GDP for 2019, a number that is slightly higher than the one used by the FRCC and the Colombian government. The difference arises from the accounting of expected revenues from privatization, which the government plans to use to improve the public balance, especially through paying non-recorded liabilities, such as those associated with judicial sentences that are not currently included in official public debt figures.

Going forward, my authorities agree with staff on the need to increase tax revenues. The original financing law project contained many of the measures recommended in paragraph 25 of the staff report, which unfortunately were not approved in its entirety by Congress. The Colombian government is, however, confident on the possibility of obtaining very important gains from a more efficient tax administration and is already introducing sweeping reforms within the tax administration office that are expected to yield results soon.

Along the same lines, although recent developments in oil markets are having a better-than-expected impact on government revenue, our authorities will continue working towards stricter cost and investment discipline to improve the profitability of Ecopetrol—Colombia's national oil company—and incentivizing activity of private oil companies, which will be key for better prospects in public revenues.

Our government is receiving technical assistance from the Fund that will help Colombia to enhance public spending efficiency, mainly through improving the budgetary process and subsidy focalization.

Moving forward, authorities are committed to the structural deficit path in accordance with the fiscal rule. The combination of tax administration gains, expected recovery in economic activity and expenditure efficiency, will guarantee that public debt indicators will follow the required—and projected—downward path.

Financial Policy and Supervision

After a period of credit growth deceleration and deterioration in credit quality, especially in the commercial credit sector, credit growth is expected to increase and NPL to gradually decline. The financial sector is strong and financial supervision has been undertaking important reforms in line with previous recommendations of IMF missions. In particular, the Conglomerates Law approved in 2017 is being implemented and the financial supervisor (SFC) is also advancing in the regulatory reform towards the Basel III capital and liquidity standards. Our authorities are committed to continue strengthening regulation and supervision and have asked the IMF for a new FSAP mission, which would be particularly relevant for this purpose

Structural Policies and OECD Accession

As stressed by staff, Colombia has made impressive progress in reducing poverty and inequality over the past fifteen years. My authorities are committed to continue advancing in that process as reflected in the national development plan that is under Congress consideration, in which much emphasis is given to reducing regional disparities, strengthening the rule of law, closing infrastructure gaps, promoting entrepreneurship, fighting informality and improving the mechanisms for targeting public subsidies. The Colombian authorities are also aware of the enormous fiscal costs, extremely poor coverage and lack of progressivity of the current pension system and are taking steps towards an integral reform that would be presented to Congress no later than 2020.

In May 2018 Colombia was invited to become a full member of the OECD. Accession to such organization will reinforce the institutional framework and enhance the quality of policies in the same direction as the goals presented in the National Development Plan.

Exchange Restriction and the Hydrocarbon and Mining Sectors

A final word on a non-material issue that unfortunately has been present in Art. IV reports on Colombia during many years. Colombia requires all exporters to sell the proceeds from their exports in the exchange market or to register them if holding them in accounts abroad. There is one exemption for the hydrocarbon and mining sectors, where foreign companies that wish to do so have the possibility of paying some of their domestic operations in foreign currency and are not required to transfer abroad the amounts derived from their domestic sales of oil, gas or services in Colombian local currency. My authorities are convinced that this especial regime does not constitute an exchange restriction, and that it does not affect the functioning of exchange rate markets in any significant way. Removing it may imply unnecessary difficulties for foreign companies that are already operating in Colombia.