INTERNATIONAL MONETARY FUND

IMF Country Report No. 23/120

COLOMBIA

March 2023

2023 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 2023 Article IV consultation with Colombia, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its March 22, 2023 consideration of the staff report that concluded the Article IV consultation with Colombia.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on March 22, 2023, following discussions that ended on February 14, 2023, with the officials of Colombia on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on March 7, 2023.
- 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

PR23/90

IMF Executive Board Concludes 2023 Article IV Consultation with Colombia

FOR IMMEDIATE RELEASE

Washington, DC – **March 23, 2023:** The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Colombia on March 22, 2023.

Benefiting from an effective policy response to the pandemic and highly favorable terms of trade, Colombia's economy grew at 7.5 percent year-on-year in 2022; one of the fastest rates among emerging economies. Against this robust recovery, high commodity prices, and weather-related shocks, headline inflation reached 13.3 percent year-on-year in February 2023 and the current account deficit widened from 5.6 in 2021 to 6.2 percent of GDP in 2022.

The Colombian economy is now undergoing a necessary transition towards a more sustainable growth path. Macroeconomic policies that had been tightened last year and are expected to carry on this year, are facilitating this transition, along with a slowing global growth and higher global borrowing costs. This necessary cooling of the economy would in turn bring inflation towards the central bank's target by end-2024 and narrow the current account deficit gradually to its historical average (about 4 percent of GDP), the bulk of which will financed through foreign direct investment.

While downside risks persist and remain elevated, Colombia's very strong economic fundamentals, policies, and policy frameworks support its resilience. On the external front, global financial conditions could tighten more sharply than anticipated with negative knock-on effects on commodity prices, capital outflows and domestic demand. Domestic risks cannot be discarded; special care will be needed to prudently manage and keep communicating the sequence of reforms and ensure that macroeconomic policies are sufficiently tight to reduce internal and external imbalances. The two-year Flexible Credit Line (FCL) arrangement, with access amount equivalent to SDR7.1557 billion (about US$9.8 billion) that was approved in April 2022, provides additional external buffers against tail risk scenarios on a precautionary basis, enhancing Colombia's already strong resilience.

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

Executive Board Assessment[2]

Executive Directors agreed with the thrust of the staff appraisal. Following a robust recovery from the COVID-19 pandemic, the Colombian economy is undergoing a necessary transition toward sustainable growth. Directors noted, however, that downside risks—including related to tighter global financial conditions and high inflation—are elevated. They commended the authorities' very strong policies and institutional policy frameworks, which support the country's resilience and are helping correct macroeconomic imbalances, while improving equity and social inclusion.

Directors welcomed the strong fiscal adjustment in 2022 and the planned adjustment in 2023, which go beyond the consolidation required by the fiscal rule. They observed that the planned adjustment strikes a balance between improving the deficit while using the progressive tax reform to increase social spending. Directors welcomed the authorities' commitment to implement the fiscal rules going forward. They generally agreed that improving fiscal balances slightly beyond the fiscal rule path in the coming years would help reduce financing needs, strengthen the convergence of public debt to its medium-term anchor, build buffers, and durably reduce external imbalances, though a few Directors did not see a need for tightening beyond the fiscal rule in the medium term. Continued efforts to gradually remove distortive fuel subsidies remain important.

Directors commended the central bank's decisive monetary policy tightening consistent with its inflation targeting framework. They welcomed the commitment to maintain a tight monetary stance until price pressures and inflation expectations are on a firm downward trend, and emphasized the importance of effective central bank communication in this regard. Directors noted that the external position is sustainable, and that the flexible exchange rate should continue to play its role in facilitating external adjustment, as long as financial stability is not compromised. They noted that the Flexible Credit Line continues to provide additional external buffers against tail-risks and enhances market confidence. While the financial sector remains resilient, Directors emphasized the need to closely monitor risks and emerging vulnerabilities. They encouraged continued progress in implementing the 2022 FSAP recommendations supported by Fund technical assistance.

Directors were encouraged by the objectives of the healthcare, pensions, and labor markets reforms, and emphasized that reforms should be prudently implemented, while preserving fiscal and financial stability. They commended the authorities' objective of reducing Colombia's reliance on oil and coal, and noted that a successful transition would require developing a well-communicated and gradual plan that balances the energy needs of the domestic economy and its foreign exchange generation capacity with the transition of the global economy to a low-carbon one. Directors also encouraged the authorities to continue advancing on the governance and anti-corruption agenda.

[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.

Table 1. Colombia: Selected Economic and Financial Indicators

I. Social and Demographic Indicators

Population (million), 2022. Projection	51.6	Unemployment rate, 2022 (SA, percent)	11.3
Urban population (percent of total), 2020	81.4	Physicians (per 1,000 people), 2018	3.8
GDP, 2022		Adult illiteracy rate (ages 15 and older), 2020	4.4
Per capita (US$)	6,665	Net secondary school enrollment rate, 2018	77.5
In billion of Col$	1,463,873	Gini coefficient, 2021	52.3
In billion of US$	344	Poverty rate, 2021	39.3
Life expectancy at birth (years), 2019	76.8		
Mortality rate, (under 5, per 1,000 live births), 2020	13.2		

II. Economic Indicators

					Projections					
	2019	2020	2021	2022[1]	2023	2024	2025	2026	2027	2028
					(In percentage change, unless otherwise indicated)					
National Income and Prices										
Real GDP	3.2	-7.3	11.0	7.5	1.0	1.9	2.9	3.3	3.3	3.3
Potential GDP	2.1	-1.2	5.0	4.8	2.7	2.5	2.4	3.1	3.3	3.3
Output Gap	-0.2	-6.4	-1.0	1.6	-0.2	-0.8	-0.2	0.0	0.0	0.0
GDP deflator	4.0	1.5	7.7	14.2	8.0	3.9	3.0	3.0	3.0	3.0
Consumer prices (average)	3.5	2.5	3.5	10.2	10.9	5.4	3.0	3.0	3.0	3.0
Consumer prices, end of period (eop)	3.8	1.6	5.6	13.1	8.4	3.5	3.0	3.0	3.0	3.0
Nominal GDP (In Col$ trillion)	1,060	998	1,193	1,464	1,595	1,690	1,791	1,907	2,029	2,160
External Sector										
Exports (f.o.b.)	-5.4	-20.5	32.3	39.8	-9.5	-1.0	0.4	1.6	1.7	3.1
Imports (f.o.b.)	2.3	-18.5	37.7	26.2	-8.1	-1.2	-0.4	1.1	2.8	3.2
Terms of trade (deterioration -)	-2.3	-1.6	5.3	19.7	-10.7	-4.5	-2.5	-2.0	-1.4	-1.5
Real exchange rate (depreciation -) 2/	-5.9	-7.7	-3.2	-4.8	...	...	...	...	...	
Money and Credit										
Broad money	10.0	10.3	13.6	11.2	6.4	6.9	7.0	7.0	7.0	7.0
Credit to the private sector	11.6	-0.8	12.5	16.8	7.1	7.4	7.5	7.5	7.5	7.5
Policy rate, eop	4.3	1.8	3.0	12.0	...	...	...	...	...	...
					(In percent of GDP)					
Central government balance 3/	-2.5	-7.8	-8.1	-5.5	-3.8	-3.6	-3.4	-3.0	-2.9	-2.8
Central government structural balance 4/	-2.3	-6.1	-7.3	-4.6	-3.0	-3.8	-3.7	-3.2	-2.2	-1.2
Consolidated public sector (CPS) balance 5/	-2.9	-6.9	-7.1	-6.6	-3.8	-1.8	-2.2	-2.3	-2.2	-1.9
CPS non-oil structural primary balance	-2.0	-4.3	-4.9	-4.6	-2.1	-0.5	-1.2	-1.2	-1.0	-0.8
CPS fiscal impulse	0.8	2.3	0.6	-0.3	-2.5	-1.6	0.7	0.0	-0.2	-0.1
Public sector gross debt 6/	52.4	65.7	64.0	63.6	62.0	61.1	60.9	60.1	59.2	58.3
Gross domestic investment	21.4	19.1	19.0	21.8	20.8	21.0	21.4	22.0	22.3	22.4
Gross national savings	16.8	15.6	13.3	15.6	15.6	16.4	17.1	17.9	18.2	18.4
Current account (deficit -)	-4.6	-3.5	-5.6	-6.2	-5.1	-4.6	-4.3	-4.1	-4.1	-4.0
External Financing Needs 7/	15.3	18.1	17.6	17.6	18.3	18.7	17.6	17.8	17.7	17.1
External debt	50.1	66.6	62.2	63.0	68.1	68.3	67.9	66.8	65.9	65.4
					(In percent of exports of goods and services)					
External debt service	77.8	113.0	84.9	63.8	77.7	86.6	85.4	90.0	91.9	90.1
Interest payments	14.7	17.0	13.5	11.6	14.3	15.5	15.3	15.2	15.5	15.6
					(In billion of U.S. dollars; unless otherwise indicated)					
Exports (f.o.b.)	40.7	32.3	42.7	59.8	54.1	53.5	53.7	54.6	55.5	57.2
Of which: Petroleum products	16.0	8.8	13.5	18.9	16.3	15.4	14.7	14.5	14.1	14.1
Gross international reserves 8/	52.7	58.5	58.0	56.7	57.8	59.1	59.8	60.4	61.1	61.8

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

1/ Estimate for monetary sector variables (except for policy rate) and fiscal sector variables.

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

3/ For 2021 excludes privatization receipts worth 1.1 percent of GDP that, under GFSM 1986 which is used by the authorities, produces a headline deficit of -7.0 percent of GDP.

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

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

6/ Includes Ecopetrol, Fogafin, and Finagro.

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

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

INTERNATIONAL MONETARY FUND

COLOMBIA

STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION

March 7, 2023

KEY ISSUES

Context. Benefiting from an effective policy response to the pandemic and highly favorable terms of trade, Colombia's economy grew at one of the fastest rates among emerging economies in 2022. This demand-led recovery, however, contributed to internal and external imbalances, for which policy tightening has been now underway. A new administration took office in August 2022, with social equity and climate at the center of its ambitious reform agenda.

Policies. Policy implementation remains very strong, geared towards correcting macroeconomic imbalances that built up during the pandemic while protecting the most vulnerable and advancing structural reforms, consistent with past Fund Advice (Annex I). The authorities have publicly emphasized that the reform agenda will be subject to budget availability and will be designed to fit within the medium-term fiscal framework.

Outlook and Risks. The economy is expected to transition towards a more sustainable growth path in 2023, on account of tighter macroeconomic policies. Inflation is projected to gradually decline towards the central bank's target by end-2024 and the high current account deficit is expected to narrow. Downside risks continue to dominate, including from a stronger-than-anticipated tightening of global financial conditions and associated negative knock-on effects on commodity prices and capital inflows. Colombia's very strong policies and institutional policy frameworks continue to support the country's resilience and capacity to respond to shocks.

Recommendations. The Colombian economy is undergoing the necessary transition towards a more sustainable growth path. Macroeconomic policies should remain tight to durably reduce inflation and external imbalances and strengthen public finances.

- *Monetary and Exchange Rate Policies*. Further hikes in the policy rate may be needed depending on the evolution of factors including actual inflation, inflation expectations, and demand conditions. Based on currently available information, a tight monetary policy stance will need to be maintained beyond 2023. Effective communication, emphasizing that monetary policy will remain tight and data-dependent to achieve its target, remains key to reduce uncertainty, anchor expectations, and maintain central bank credibility. Meanwhile, the exchange rate should continue to be allowed to adjust flexibly to shocks as long as financial stability is not compromised.

- *Fiscal Policy*. The envisaged fiscal adjustment for 2023 is growth friendly and balances well the need to reduce imbalances while increasing social support. Beyond 2023, further improvements in fiscal balances over the fiscal rule path should be considered, to strengthen the convergence of public debt to its medium-term anchor, create buffers against downside shocks, and bolster the credibility of the fiscal policy framework.

- *Financial Sector Policies*. The financial sector has been resilient—overall non-performing loan (NPL) ratios remain contained, and banks hold adequate capital and liquidity buffers. After expanding at a rapid pace in 2022, consumer credit growth is moderating with some deterioration in the loan quality for this sector. Against this backdrop, continued strong oversight and proactive supervisory actions, including by raising provisioning and capital buffers as needed, remain necessary to maintain buffers and banks' preparedness. Recent enhancements in monitoring cross-border exposures are welcome and close oversight should continue. The important progress made in implementing FSAP recommendations should continue.

- *Structural Reforms*. The administration's equity agenda envisages improving the coverage and progressivity of the healthcare and pension systems as well as improving worker rights such as overtime pay. Implementing the reform agenda carefully and prudently, in close consultation with relevant stakeholders, will be essential to preserve fiscal and financial stability, and ensure that economic incentives are well aligned. Meanwhile, reducing Colombia's reliance on oil and coal will require a well-designed and executed energy transition and export diversification plan to secure medium-term sustainability and resilience. Continuing to improve coordination in policy messages will further support consumer and business confidence in the Colombian economy.

Approved By
Luis Cubeddu (WHD) and Anna Ilyina (SPR)

Discussions took place during January 31-February 14, 2023. The team comprised Ceyda Oner (head), Marco Arena and Juan Yépez Albornoz (all WHD), Sergio Rodríguez (SPR), Zoltan Jakab (MCM), and Vu Chau (RES). José De Haro (COM) led the press interactions. Emilia Berazategui (COM) and Alice French (LEG) participated in some meetings. Mr. Betancur (OED) also participated in the discussions. The mission met with the Central Bank Governor and Board, the Minister of Finance, the President's economic advisor, senior officials from the Ministries of Labor, Energy, Health, and Commerce, the Financial Superintendent, as well as the directors of the National Development Office, the Deposit Insurance Fund, and the National Guarantees and Infrastructure agencies. The mission also met with civil society organizations and private-sector representatives in Bogotá and Medellín. A press conference was held at the end of the mission on February 14. Daria Kolpakova (WHD) provided valuable inputs to the report. Kristine Laluces and Mariana Bravo (all WHD) provided administrative assistance.

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TABLES

ANNEXES

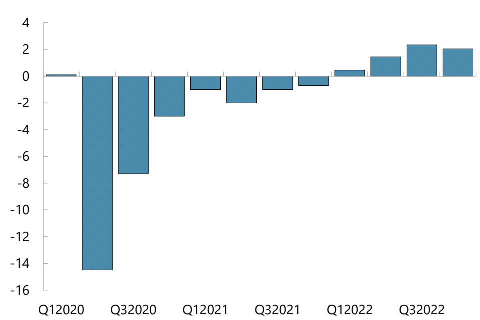
BACKGROUND

1. A new administration has been elected with a mandate to improve equity and diversify Colombia's economy. On the back of strong social demands, President Petro took office in August 2022, marking a shift in domestic politics. The new administration's agenda is centered on reducing inequality and transitioning towards a greener and more diversified economy. Despite a strong track record of macroeconomic stability and economic growth, income inequality and labor market informality remain elevated, and gaps persist in the access to healthcare, education, and social safety net coverage. Meanwhile, the economy's dependency on oil and gas has grown over the past decade—representing 56 percent of total exports and the bulk of energy produced for domestic consumption (see accompanying Selected Issues Paper, SIP).

2. The Flexible Credit Line (FCL) continues to provide additional external buffers to enhance Colombia's already strong resilience. On April 29, 2022, the IMF Executive Board approved a two-year FCL arrangement for Colombia in the amount of SDR7.1557 billion (about US$9.8 billion), which the authorities are treating as precautionary against external shocks.[1]

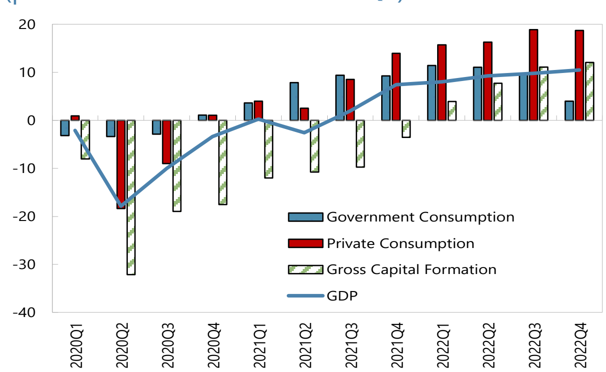
RECENT DEVELOPMENTS

Output Gap
(percent of potential GDP)



Sources: DANE and IMF staff calculations.

Economic Recovery and Expansion: Demand Side
(percent deviation from 2019Q4)



Sources: DANE and IMF staff calculations.

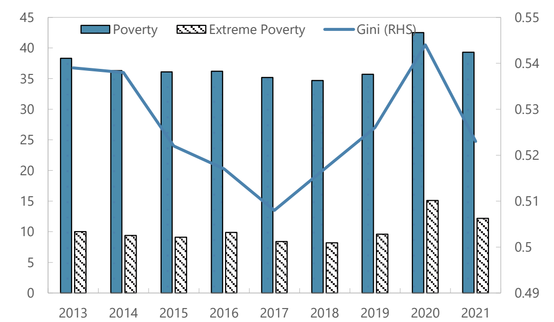
3. The Colombian economy is operating above potential with initial signs of slowing down. After a strong recovery in 2021 (11 percent y/y), the economy continued to expand at a rapid pace last year, with real GDP growing at 7.5 percent in 2022. Amid favorable terms of trade, a full post-pandemic reopening of the economy, and earlier accommodative policies, output reached pre-

[1] For further details, see IMF Country Report 2022/129.

pandemic trends and is now somewhat above potential. On the demand side, private consumption has been the major engine of growth, consistent with the strong expansion of commerce and manufacturing. Meanwhile, construction and mining sectors (including oil) remain well below pre-pandemic levels reflecting relative weaknesses in investment (Figure 1). Domestic demand growth started to slow in Q4:2022, with high frequency indicators pointing to a further moderation in economic growth, reflecting in part more recent policy tightening.

4. The labor market continues to perform strongly, with employment and hours worked at or above pre-crisis levels. The national unemployment rate reached 11.3 percent (s.a.) at end-2022, down from 12.1 percent at end-2021, but still above the pre-pandemic average (2015-2019) of about 10 percent. Meanwhile, employment levels reached historical highs, with labor force participation nearing pre-pandemic levels. That said, unemployment levels for women and the young remain somewhat above pre-pandemic levels (Figure 2). The modest but hard-won social gains were eroded by the pandemic shock, with poverty rates rising above the levels observed a decade ago.

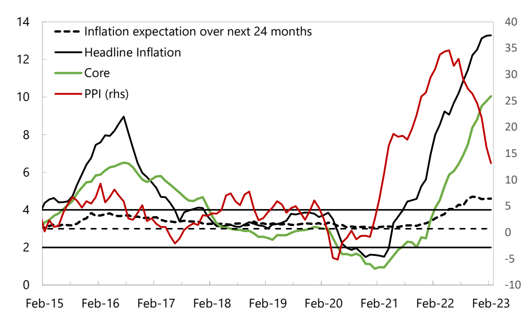
Poverty and Inequality
(poverty rates in percent; Gini coefficient is an index)



Sources: DANE and IMF staff calculations.

5. Meanwhile, inflation has surged over the past year and remains elevated. Annual headline inflation rose from 5.6 percent in December 2021 to 13.3 (y/y) percent in February 2023, with core inflation rising to over 10 percent. Staff analysis shows that inflation was broad-based and driven by supply and demand shocks, as well as domestic and external shocks (See SIP). Food inflation was 24 percent (y/y) in February 2023, well above regional peers (in part reflecting climate-related supply shocks) and accounting for about a third of the increase in headline inflation. Meanwhile, medium-term (two-years ahead) inflation expectations have been above 4 percent –the upper limit of the band around the 3 percent inflation target– since April 2022, albeit declining slightly in recent months.[2] Producer price annual inflation, on the other hand, has been declining since June 2022 as global commodity prices started moderating.

Inflation
(y/y percent change)



Sources: BanRep, Haver Analytics, and IMF staff calculations.

[2] Inflation expectations are taken from the central bank's survey of market analysts (including banks, stock exchange companies and other institutions).

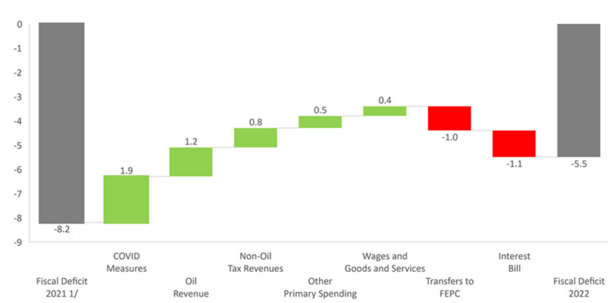
6. In response to inflationary pressures, the central bank has sharply hiked the policy rate. The central bank raised the policy rate from 1.75 percent in September 2021 to 12.75 percent in January 2023 (Figure 3). Based on one-year ahead inflation expectations, the ex-ante real rate is now around 250 basis points above the neutral rate. In recent statements, the central bank has reaffirmed its commitment to reaching the inflation target by end-2024 and stressed that subsequent policy rate decisions will remain data-dependent.

7. Despite favorable terms of trade, external imbalances widened further in 2022. The current account deficit widened from 5.6 in 2021 to 6.2 percent of GDP in 2022 (Figure 4), despite favorable terms of trade (up 20 percent, y/y) and robust non-traditional export growth, even though *La Niña* affected coffee production and exports. Consistent with the dynamism in domestic demand, annual import volumes grew 14 percent last year, albeit some moderation in the final quarter. Increased profit transfers abroad also contributed to the rising current account deficit, which was financed by remarkably strong FDI, the latter having almost doubled from 2021 to 2022. The average real effective exchange rate (REER) depreciated 4.8 percent in 2022, following a depreciation of 3.2 percent in 2021.

8. The external position in 2022 was deemed to be weaker than the level consistent with medium-term fundamentals and desired policy settings (Annex II). Policy tightening underway is expected to support an improvement in the current account balance and a further weakening of the REER (¶13). Mitigating factors to the external imbalance include adequate reserve coverage, the diversity and relative stability of capital flows, the high share of FDI, the negative correlation between the income balance and the trade balance, and the favorable composition of external debt (long maturities, sizable peso-denominated debt for sovereign bonds, high natural and financial hedges for corporate bonds). The central bank has not intervened in the foreign exchange market since February 2021, and foreign reserves stand around 113 percent of the ARA metric including the commodity buffer.

9. Following a period of strong policy easing, fiscal consolidation is now underway. The central government's overall deficit is estimated to have narrowed to 5.5 percent of GDP in 2022 from 8.1 percent of GDP (excluding privatization proceeds) in 2021, and was well below the 8.4 percent deficit target in the fiscal rule. This improvement was underpinned by buoyant revenues and expenditure discipline, including the roll back of COVID-related spending. At the same time, transfers to the Fuel Price Stabilization Fund (FEPC) rose to 1 percent of GDP in 2022 to cover FEPC's higher deficit resulting from the gasoline and diesel price freezes during the first half of

Decomposition of 2021-22 Fiscal Adjustment
(in percent of GDP)



Sources: Ministry of Finance and IMF staff estimates.
1/ For 2021 excludes privatization receipts worth 1.2 percent of GDP that, under GSFM 1986 which is used by the authorities, produces a headline deficit of 7 percent of GDP.

2022.[3] As such, the improvement in the consolidated public sector (CPS) balances was less than that of the central government, although still sizable. Gross public sector debt is estimated to have reached 63.6 percent of GDP at end-2022 (compared to 64.0 percent at end-2021).

Selected Fiscal Indicators
(in percent of GDP, unless otherwise indicated

	2019	2020	2021	2022 (est.)
Central Government				
Headline balance 1/	-2.5	-7.8	-8.1	-5.5
Total Revenue	16.2	15.3	15.0	16.3
o/w Tax Revenue	14.0	13.1	13.6	14.5
Expenditure	18.7	23.1	23.1	21.8
o/w interest	2.9	2.8	3.3	4.4
Structural primary non-oil balance	-0.3	-4.8	-4.6	-1.7
CG fiscal impulse	-0.2	4.5	-0.2	-2.9
Consolidated Public Sector				
Headline balance 2/	-2.9	-6.9	-7.1	-6.6
Total Revenue	29.4	26.6	27.2	27.6
Expenditure	31.8	33.6	34.4	34.2
Structural primary non-oil balance	-2.0	-4.3	-4.9	-4.6
CPS fiscal impulse	0.8	2.3	0.6	-0.3
Public sector gross debt 3/	52.4	65.7	64.0	63.6

Sources: National authorities and Fund staff estimates.
1/ Includes central bank profits. For 2021 excludes privatization receipts worth 1.1 percent of GDP that, under GFSM 1986 which is used by the authorities, produces a headline deficit of -7.0 percent of GDP.
2/ Includes the quasi-fiscal balance of Banco de la República, sales of assets, phone licenses, and statistical discrepancy. For 2021 excludes privatization receipts, see 1/ above.
3/ Includes Ecopetrol, Fogafin, and Finagro.

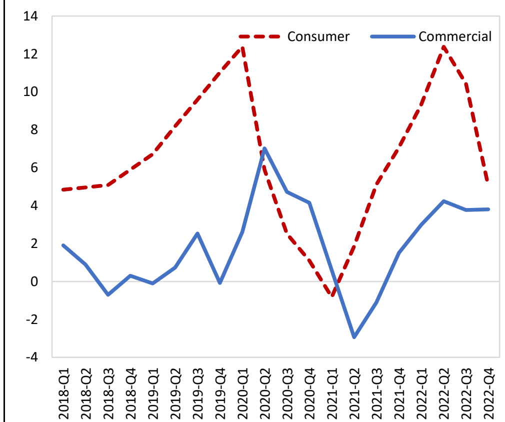
10. In the context of tighter global financial conditions and initial concerns over rising imbalances and policy uncertainty, Colombian assets prices were especially volatile. Between January and October 2022, the Colombian peso weakened by over 15 percent in nominal terms while bond yields on peso and U.S. dollar-denominated debt securities, which already were showing an upward trend in 2021, rose to their highest levels since the Global Financial Crisis. These trends have reversed in recent months, however, reflecting a combination of decisive policy actions, improved communication regarding policies, and some improvements in global financial conditions.

11. The financial sector remains liquid and well capitalized, and robust consumer credit growth is slowing. After growing at the fastest pace in over a decade last year (18.3 percent y/y), consumer credit cooled sharply in recent months, with credit growth in other segments remaining moderate. This healthy moderation in consumer credit growth reflects the saturation of post-

[3] Gasoline and diesel price smoothing is achieved through a fuel price stabilization fund (FEPC). The FEPC deficit is not part of the central government accounts but is included in the consolidated public sector balance. Domestic fuel prices have been kept below international prices, which resulted in the FEPC accruing a deficit of around 2.6 percent of GDP by end-2022.

pandemic pent-up demand, tighter monetary policy, and supervisory oversight, including higher provisioning requirements for consumer loans. In parallel, credit quality in consumer loan segments has deteriorated slightly, with non-performing loans reaching 5.4 percent in November 2022 (up from 4.7 per cent in June) amid higher interest rates and a slowing economy. Recent data suggest some increase in household leverage, with average debt service to income (DSTI) ratio reaching over 37 percent. For the banking sector overall, capital adequacy remains well above regulatory levels, liquidity buffers continue to be ample, and provisions coverage ratio remains high (about 150 percent).

Real Credit Growth
(in percent, y/y change; CPI deflated)

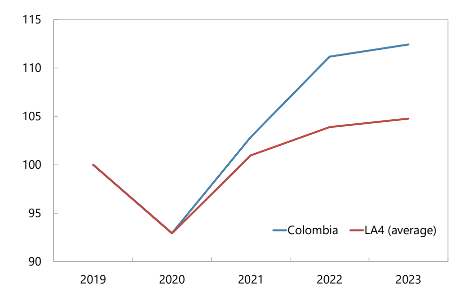


Sources: BanRep and Fund staff estimates.

OUTLOOK AND RISKS

12. **Under baseline policies, output growth is projected to slow and gradually converge to its potential over the medium term**. Continued macroeconomic policy tightening is expected to further moderate domestic demand and close the positive output gap in 2023, with positive contributions coming from net exports. Real GDP growth is expected to slow to 1.0 percent this year which would still put the level of economic activity in Colombia above that of peers. Over the medium term, growth is expected to converge towards Colombia's potential growth rate of 3¼ percent as macroeconomic policies normalize and financial conditions ease.

Real GDP Level
(2019=100)



LA4: Brazil, Chile, Mexico, and Peru.
Source: WEO; IMF staff elaboration.

13. **Meanwhile, internal and external imbalances are expected to gradually decline.** The consolidated overall fiscal deficit is projected to fall sharply from 6.6 percent of GDP in 2022 to 3.8 percent of GDP in 2023 and to around 2 percent of GDP over the medium term. These actions, together with the tight monetary policy stance, are projected to support a gradual reduction in annual inflation to about 8.4 percent (y/y) by end-2023 before reaching the 3 percent target by the first half of 2025. The current account deficit is projected to narrow to 5.1 percent of GDP in 2023, driven by the recovery of exports, particularly non-fuel commodities, services exports, and moderating growth in imports, supported by tighter monetary and fiscal policies. Over the medium-term, the current account deficit is expected to narrow to 4 percent of GDP, with FDI and portfolio flows remaining the main sources of external financing.

14. **Risks to the outlook remain elevated and tilted to the downside.** Global financial conditions could tighten more sharply than anticipated with negative knock-on effects on

commodity prices, capital outflows and growth. An escalation of Russia's war in Ukraine and resulting economic sanctions could disrupt trade and affect supply chain components and remittances. Domestically, renewed uncertainty over the government's structural reform agenda could raise borrowing costs and undermine investment. Meanwhile, the risk of increased social tensions cannot be discarded, and delays in implementing the reform agenda or uncertainty regarding the energy transition strategy could hamper potential growth and external sustainability. In this regard, maintaining a sustained track record of very strong policy implementation, including by continuing to adhere to the fiscal rule and inflation targeting framework, would help support Colombia's resilience and capacity to respond to shocks.

15. In this context, contingency planning and agile policy making will remain necessary. In particular, more persistent global inflationary pressures and even tighter global financial conditions could lead to exchange rate pressures, fuel domestic inflation, increase risk premia, and exacerbate the already difficult growth-inflation tradeoff in Colombia. In the context of higher-than-expected inflation or persistent external imbalances, macroeconomic policies would need to remain tighter for longer to avoid the de-anchoring of inflation expectations and to contain debt servicing costs. Meanwhile, additional efforts may be necessary to protect the most vulnerable, while respecting the limits prescribed by the fiscal rule. The exchange rate should continue playing its shock absorbing role, with foreign exchange intervention limited to addressing market failure (¶22).

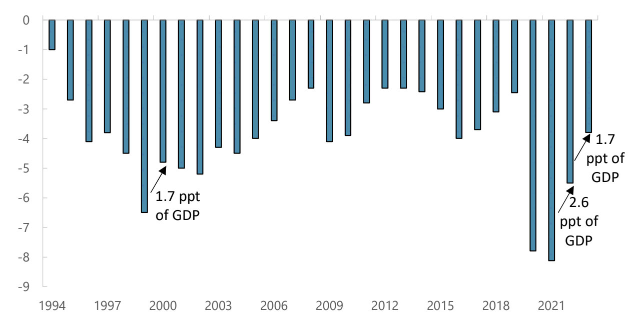
POLICY DISCUSSIONS

In the context of a positive albeit narrowing output gap, high debt servicing costs, and an external position weaker than implied by medium-term fundamentals and desirable policies, maintaining a tight policy stance will be required to durably reduce inflation and external imbalances. The proposed fiscal adjustment in 2023, one of the largest one-year consolidations in decades, for the second year in a row, remains appropriate. Beyond 2023, further improvements in fiscal balances over the fiscal rule path should be considered to ensure convergence to the debt anchor and avoid overburdening monetary policy. Meanwhile, the monetary policy rate may need to be raised further depending on data developments and should remain tight given the upside risks to the inflation outlook and to anchor inflation expectations. The exchange rate should continue playing its shock absorbing role and support the external adjustment process. Financial supervision should continue to remain vigilant of elevated household leverage. Prudently advancing key structural reforms, ensuring that they are consistent with Colombia's very strong policy frameworks, and continually strengthening communication, will be essential to facilitate a gradual and well-sequenced transition to a more equitable and greener economy.

A. Fiscal Policy: Tighter for Longer

16. The fiscal adjustment that started in 2022 will continue in 2023 with the second largest adjustment in decades. The authorities are committed to reducing the central government deficit to 3.8 percent of GDP; a larger adjustment than required by the fiscal rule, and one of the largest adjustments in decades. The planned adjustment strikes the right balance between reducing

Headline Fiscal Balance
(percent of GDP; central government)



Sources: Ministry of Finance and Fund staff estimates.
Note: For 2021 excludes privatization receipts worth 1.2 percent of GDP that, under GSFM 1986 which is used by the authorities, produces a headline deficit of 7 percent of GDP.

domestic and external imbalances, while also expanding social support. The adjustment is underpinned on the revenue side by the 2021 and 2022 progressive tax reforms, expected to yield 1 and 1¼ percent of GDP, respectively, while also strengthening the equity, effectiveness, and simplicity of Colombia's tax system.[4] Revenues would be further supported by dividends and taxes from the majority state-owned energy company Ecopetrol (around 3 percent of GDP), on account of the high oil prices of last year. This significant boost to revenues will allow an expansion in social spending of around 2 percent of GDP to address social gaps while reducing untargeted energy subsidies and the FEPC deficit. In a welcome effort to strengthen the credibility and transparency of the fiscal framework, payments related to debt obligations of FEPC are being accounted as central government expenditure (although with a one-year lag, given Colombia's cash-based fiscal accounting). Gradually moving away from the current price smoothing mechanism using a fuel stabilization fund would further increase transparency and lower the need for financing operations by the Ministry of Finance.

17. Beyond 2023, the Financing Plan envisages a path that is fully consistent with the fiscal framework.[5] The central government primary surpluses are expected to hover around 0.3-0.6 ppt of GDP, allowing for gradual convergence of public debt towards its anchor. To ensure that the medium-term consolidation path is consistent with the planned expansion of social spending, it will be critical to continue to gradually unwind distortive fuel subsidies, reduce budget rigidities, improve spending efficiency, and ensure that windfall revenues are saved and that permanent spending is financed with permanent revenue sources (as per the fiscal rule).

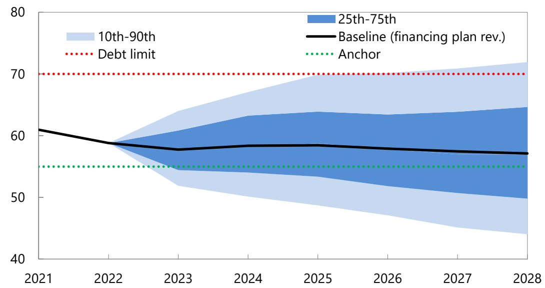
18. Further improvements in fiscal balances over the fiscal rule path for 2024-26 should be considered to strengthen the convergence of public debt to its medium-term anchor. The downside risks that dominate the economic outlook (¶14) could result in a debt path that is higher than projected—a sharper-than-expected growth slowdown, a spike in borrowing costs or a larger depreciation of the peso could increase the fiscal deficit and push debt up (see Annex V). Given the balance of risks, planning for larger primary surpluses than those implied by the fiscal rule (by about 0.4 ppt of GDP per year) over 2024-26 would increase the likelihood of debt converging to its

[4] The pillars of the reform revolve around making the tax system more progressive, securing resources to finance an expansion in social spending, and entrenching fiscal sustainability. Most of the expected yield comes from higher marginal corporate income tax rates (around 1.1 percent of GDP) and higher taxes on commodity producing companies (around 0.8 percent of GDP).

[5] See IMF Country Report No. 22/97 for a detailed description of Colombia's revamped medium term fiscal framework.

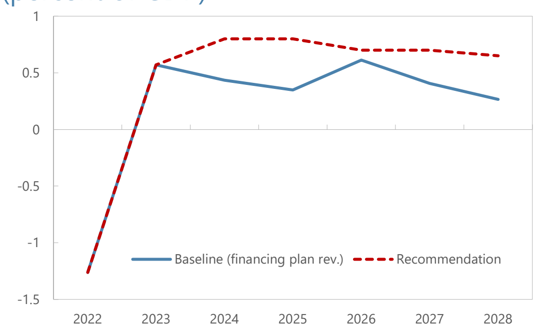
anchor, create buffers against negative shocks, and strengthen the credibility of the fiscal framework; a key element of Colombia's very strong institutional policy frameworks. A tighter fiscal policy would also support narrowing internal and external imbalances and help avoid overburdening monetary policy (see SIP).[6]

Fanchart for Central Government Net Debt
(percent of GDP)



Source: IMF staff calculations.

Central Government Primary Balance
(percent of GDP)



Source: IMF staff calculations.

19. Strengthened fiscal efforts will also help reduce future financing needs. According to the latest Financing Plan, the government is expecting to secure around 2.3 percent of GDP in domestic financing (three-fourths of which in local currency) and 1.6 percent of GDP in external financing, with roughly 1 percent of GDP coming from multilateral sources. Following the preemptive US$3.8 billion bond issuance in November 2022 and January 2023, external financing needs for 2023 as a whole are now fully met. Targeting higher primary surpluses in the coming years would also help reduce borrowing needs and costs, especially given uncertain global financial conditions. Public sector debt is assessed to be sustainable with high probability under a wide range of plausible shock scenarios (Annex V), with near-term gross financing needs averaging 5.5 percent of GDP over the next three years (2023-25).

Authorities' Views

20. The authorities broadly agreed with these recommendations and reiterated their strong commitment to the fiscal rule. The authorities stressed that all fiscal plans adhere to the fiscal rule and would continue to do so going forward in line with Colombia' very strong fiscal policy framework. They noted that the revenue projections in the Financing Plan are conservative as they do not include the expected yields from the significant boost to the tax administration agency DIAN's resources. As such, they see potential for the fiscal deficit at year end to be better than projected in case downside risks materialize. To complement higher revenues, the government's expenditure efficiency measures focus on the gradual removal of distortive fuel subsidies, including

[6] The debt convergence analysis was done with ICD's Debt Dynamics Tool (DDT). See Acosta Ormaechea and Martinez, 2021 "A Guide and Tool for Projecting Public Debt and Fiscal Adjustment Paths with Local and Foreign Debt" International Monetary Fund Technical Note No. 2021/005.

by considering modifications to the current fuel price smoothing mechanism, and better utilizing the social benefit system (SISBEN IV) and by building a new social registry to better identify social transfer recipients.

B. Monetary and Exchange Rate Policies: Keeping It Tight

21. Durably reducing inflation to its target and anchoring expectations will require a tight policy stance and effective communication. Further hikes in the policy rate may be needed depending on the evolution of factors, including actual inflation, inflation expectations, and demand conditions. Based on currently available information, a tight monetary policy stance—with the policy rate above the neutral rate—would need to be maintained beyond 2023 to durably restrain internal demand and anchor inflation expectations. A tightening bias is also warranted as a risk-based approach against upside risks to inflation and to safeguard the central bank's credibility, since indexation to past inflation (e.g. rents) creates persistence in inflation dynamics and inflationary shocks, which, even if supply-driven, can have second-round effects on core inflation and inflation expectations (see SIP). A tighter fiscal policy stance can further support disinflation and avoid overburdening monetary policy (see SIP). Effective communication, emphasizing that monetary policy will remain tight and data-dependent, remains key to reduce uncertainties, anchor expectations, and maintain central bank credibility.

22. The flexible exchange rate should continue to facilitate external adjustment, with intervention limited to certain circumstances. Colombia's flexible exchange rate regime is one of the pillars of its very strong inflation targeting framework and has served the economy well. Going forward, against a potentially volatile external backdrop, allowing the exchange rate to continue to adjust flexibly to shocks, as long as financial stability is not compromised, would facilitate the needed reduction of external imbalances. In line with the Fund's *Integrated Policy Framework* (IPF), FXI should be used only if large shocks lead to disruptive market illiquidity, risk de-anchoring inflation expectations, or there are FX mismatches that pose significant risks to financial stability objectives. No pressing frictions associated with FX currency mismatches and/or FX market depth have been identified to warrant FXI beyond addressing cases of market failure (Annex VII). While reserves remain adequate (Figure 5), reserve coverage could be gradually strengthened over the medium term as market conditions allow. The latter could facilitate an eventual smooth exit from the FCL, conditional on the evolution of external risks.

Authorities' Views

23. The central bank emphasized that policy decisions will be data dependent. The authorities mentioned that the policy interest rate has been raised by 11 ppt since the tightening cycle began in September 2021. While inflation has not peaked yet, the tightening to date has already begun to have an impact on aggregate demand, imports, and credit in recent months. Moreover, the downtrend of PPI inflation could be seen as a leading indicator for CPI inflation. The authorities emphasized that monetary policy is close to the stance required to induce a convergence of inflation toward its 3 percent target, and that the tight stance would be kept for a while. If upside risks to inflation materialize, policy decisions would take into account the nature of such upside surprises, and the broader implications for the economy, including economic activity and inflation expectations. Meanwhile, in line with the Integrated Policy Framework (IPF), the authorities are of the view that the exchange rate should continue playing its shock absorbing role, with foreign exchange intervention limited to addressing market failure. The central bank clarified that their assessment of market failure is based on a comprehensive judgment of market dynamics that pose systemic financial sector risks, including the origin, nature, and persistence of shocks, and a wide range of indicators.

C. Financial Sector Policies: Reinforcing Stability

24. Close monitoring of consumer leverage should continue. The recent increase in provisioning requirements for consumer loans and the changes in the Net Stable Funding Ratio requirements are steps in the right direction. Stress testing exercises (both at the Financial Superintendency (SFC) and the central bank) were amended to cover risks from increasing household leverage and conglomerates' exposure to Central America. As credit growth is expected to slow, asset quality could deteriorate, in which case further raising provisioning and capital buffers would continue to support financial stability. Expanding data collection on household indebtedness and debt burden by the Financial Superintendency is a welcome development towards better monitoring household leverage. Going forward, expanding debt-service-to-income (DSTI) regulations to cover non-mortgage consumer loans and leases could complement supervisory oversight and help prevent systemic financial stability risks. The recent enhancements in monitoring exposure to Central America is welcome and should continue in close collaboration with host country supervisors.

25. Progress on the implementation of the 2022 FSAP recommendations and follow up actions has continued (see Annex IV). The authorities have already adopted some recommendations, including strengthening the role of the regulator in systemic risk monitoring and strengthening the risk management framework. The central bank's role in financial oversight was strengthened. Data collection on household indebtedness was also intensified and micro level data are also used to improve early warning systems. While many recommendations relevant to the regulator are under review, the authorities have requested Technical Assistance (TA) on i) network analysis tools and early warning indicators for contagion risks, ii) quantitative tools to study concentration risk, and iii) conglomerate supervision. Regarding AML/CFT, progress was made in updating the correspondent banking legal framework and should continue for the nonfinancial sector.

Authorities' Views

26. The authorities emphasized that proactive supervision, along with adequate capital and liquidity buffers, are expected to allow the financial system to absorb potential shocks. The authorities noted their supervisory priorities as preserving financial stability, strengthening financial institutions' balance sheets, and preventing procyclicality. They agreed that the recent deterioration in consumer credit quality and increase in household leverage warrant continued careful monitoring. Recent measures of marginal provisioning on consumer loans have helped in preventing additional exposure and increasing buffers. They noted that the provisioning coverage ratio is well above 100 percent, and that all credit institutions have enough funds to meet the liquidity coverage ratio (LCR). With respect to exposures to Central America, the authorities' stress tests showed that, even in extreme scenarios, capital buffers were adequate in each jurisdiction and in the holding companies in Colombia. They have made headway in monitoring exposures and risks of financial conglomerates, including by establishing collaboration with host country supervisors. The authorities are committed to continue implementing the recommendations of the 2022 FSAP. Expanding the macroprudential and microprudential toolkit, in particular having a DSTI regulation, requires the development of more granular household income information and a detailed micro analysis.

D. Structural Reforms: Gearing Up for a More Equitable and Greener Economy

27. The government plans to move forward with an ambitious reform agenda in line with its equity and climate goals. A new four-year national development plan (NDP) was submitted to Congress in February, laying out the administration's strategic guidelines of its social and economic reform agendas.[7] The NDP aims to increase equity and protect the environment via five pillars: i) better use of land and water; ii) human security; iii) food security; iv) internationalization and climate action; and v) a reduction in social and economic gaps across regions. The plan aims to lower the population living in extreme poverty, transition the economy away from coal and oil, and achieve total peace within Colombia to further strengthen regional development.

28. Planned reforms on healthcare, pensions, and labor markets would need to be formulated in compliance with fiscal rules while appropriately balancing equity, efficiency, and sustainability considerations. The *healthcare reform* that was submitted to Congress in February seeks to improve the accessibility and quality of healthcare services (including primary care) around the country. The fiscal implications of the reform are expected to be limited and subject to the medium-term fiscal framework. Proposals to expand the coverage and progressivity of the pension system and to reform labor markets (by improving worker rights, such as overtime pay) are planned for submission in the coming months. Depending on the overall design of the pension reform (Colombia has a mixed pension system), fiscal (see Annex V) and financial stability implications could be important, as private pension funds are a key capital market investor. Designing the reforms so as to address social needs while adhering to the medium-term fiscal framework, a cornerstone of Colombia's very strong policy frameworks, will be critical.

[7] The NDP 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, 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.

29. A well-designed and executed energy transition and export diversification plan is vital to secure medium-term sustainability and resilience. While the administration's plans to reduce the economy's dependence on oil and coal is commendable, a comprehensive and carefully calibrated transition strategy is needed. Such a strategy should support growth, ensure that sufficient and affordably priced energy is available for domestic consumption, and protect the country's FX generation capacity and medium-term external sustainability (see SIP). Diversifying the economy and developing new export sectors would take time and require a market-oriented strategy to sustain the strong dynamism of non-traditional exports of recent years. Import substitution and protectionist measures should be avoided. The energy transition, which envisages an unwinding of untargeted fuel subsidies, should balance the low-carbon transition of the domestic economy with that of the global economy, carefully calibrating trade-offs and risks.[8]

30. Reform efforts can be usefully complemented with strengthening governance and competitiveness. Improving the investment climate by addressing logistics bottlenecks, reducing red tape, encouraging competition, and lowering barriers to entry take on renewed importance given the need to improve external competitiveness and productivity, which has been a long-standing concern in Colombia. Strengthening governance and the rule of law and advancing on the anti-corruption agenda remain as important priorities. In particular, conducting enhanced risk-based monitoring of the asset declaration regime, including for politically exposed persons (PEPs), strengthening the implementation of the Transparency Law, and introducing whistleblower protection norms would be crucial. In addition, introducing internal controls in public procurement, strengthening ethics and compliance programs, limiting direct contracting, collecting and publishing beneficial ownership information of companies awarded public contracts would also support governance efforts.

Authorities' Views

31. The authorities emphasized that the reforms would indeed be formulated to comply with Colombia's track record of very strong policy frameworks, safeguarding fiscal and financial sustainability. The Ministry of Finance has publicly emphasized that all reforms will be subject to budget availability and will legally need to fit within the medium-term fiscal framework; a provision to this effect is included in the submitted healthcare bill. On *healthcare*, the goal of improving primary care services is combined with better access to drinking water, food, and sanitary conditions. On *pensions*, the authorities stressed their willingness to expand coverage while respecting the principles of equity and fiscal sustainability. Regarding the *energy transition*, the authorities stressed that implementation will be gradual. They saw the energy transition and export diversification strategy as part of the productive transformation and internationalization policy, which will aim to increase productivity, strengthen production chains, develop new export sectors, and deepen the integration with Latin America and the Caribbean. Regarding governance issues, the government has advanced with the development and implementation of procurement tools, such as

[8] The domestic transition proposed policy measures include the expansion of renewable energy sources and carbon pricing, while the global transition implies that Colombia needs to gradually move away from the fossil fuel production to reduce vulnerability to declines in global demand and prices of fossil fuels.

early warning systems, to better control asset declaration of public officials. The government has also sent a draft whistleblower protection law to Congress in late 2022.

STAFF APPRAISAL

32. The Colombian economy is undergoing a necessary transition towards a more sustainable growth path. Amid challenging global conditions, the Colombian economy outperformed expectations in 2022, growing at one of the fastest rates among emerging economies. With the economy operating above potential, the continued implementation of tight macroeconomic policies remains necessary to address internal and external imbalances. Specifically, the necessary cooling of the economy would support bringing inflation down towards the central bank's target by end-2024 and lower the high current account deficit. While staff judges that the external position in 2022 was weaker than implied by medium-term fundamentals and desirable policies, the policy tightening underway should support a correction of the external imbalance. Importantly, these policies, coupled with mitigating factors , including adequate reserve coverage, the diversity and relative stability of capital flows, the high share of FDI, the negative correlation between the income balance and the trade balance, the favorable composition of external debt (with long maturities, sizable peso-denominated debt for sovereign bonds, high natural and financial hedges for corporate bonds), and a proven flexible exchange rate, support a resilient and sustainable external position.

33. The outlook is challenging, but very strong fundamentals and policy frameworks continue to underpin Colombia's resilience and capacity to respond to shocks. Very strong fundamentals and sizable buffers reinforce a favorable medium-term assessment even in the face of downside and elevated risks. The FCL continues to provide additional external buffers against tail risks and enhances market confidence, further supporting resilience. In this regard, maintaining a sustained track record of very strong policy implementation, including by keeping macroeconomic policies sufficiently tight to durably address internal and external imbalances would help support Colombia's resilience and capacity to respond to shocks. Contingency planning and agile policy making will remain necessary.

34. The envisaged growth friendly fiscal adjustment for 2023 is welcome, with higher revenues supporting inclusive goals. The consolidation path assumed in the 2023 Financing Plan, among the largest in the country's history, strikes a careful balance between improving the deficit while using the progressive tax reform to increase social spending to address social gaps and mitigate any potential negative distributional and growth effects of the consolidation. The boosted resources for tax administration are welcome and should strengthen tax revenues. The medium-term plans are fully in line with the fiscal rules, demonstrating a commitment to comply with the very strong fiscal framework. Further improvements in fiscal balances over the fiscal rule path should be considered to reduce financing needs, strengthen the convergence of public debt to its medium-term anchor, create buffers against downside shocks, and bolster the credibility of the fiscal policy framework. As social safety nets are expanded, better targeting social spending will ensure that public resources reach Colombia's most vulnerable households. Efforts to continue to gradually remove distortive fuel subsidies, reduce budget rigidities, improve spending efficiency, and ensure that permanent spending is financed with permanent revenues would also support medium term consolidation plans.

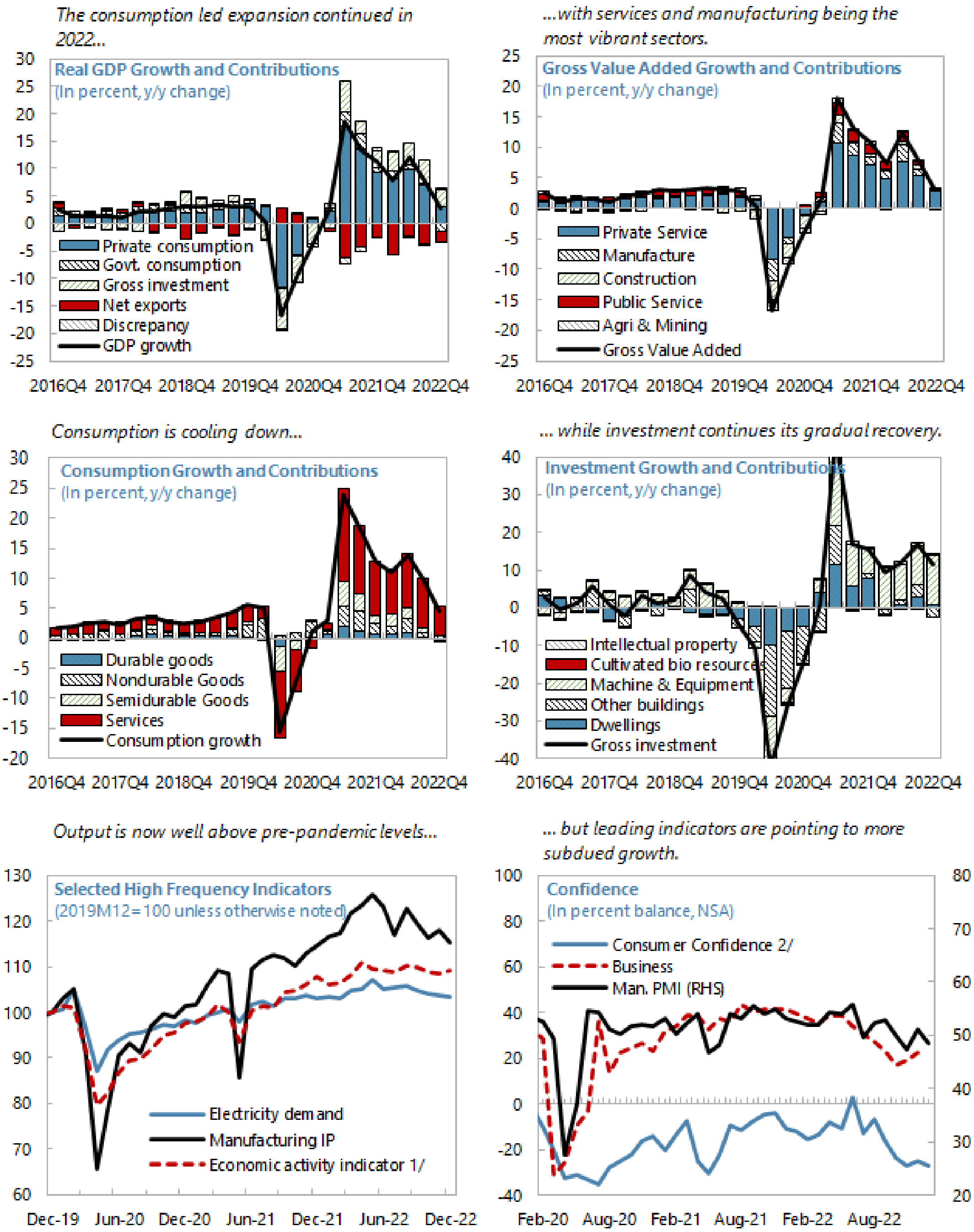
35. **Continued vigilance and effective communication will be required to durably reduce inflation to its target.** Further hikes in the policy rate may be needed depending on the evolution of factors including actual inflation, inflation expectations, and demand conditions. Based on currently available information, a tight monetary policy stance will need to be maintained beyond 2023. Effective communication, emphasizing that monetary policy will remain tight and data-dependent to achieve its target, remains key to reduce uncertainty, anchor expectations, and maintain central bank credibility. The exchange rate should continue to be allowed to adjust flexibly to shocks, as it appropriately has been, as long as financial stability is not compromised.

36. **Financial stability risks need to continue to be carefully monitored.** Continued strong oversight and proactive supervisory actions, including to raise provisioning and capital buffers if and as needed, remain necessary to maintain buffers and improve banks' preparedness in the event of a further deterioration in credit quality, especially in the consumer sector. In addition, it will be important to continue to closely monitor the rising indebtedness of households as growth moderates. Going forward, as further progress is made in enhancing data coverage, expanding the macro and microprudential toolkit could serve a complementary role to the robust supervisory oversight. Recent enhancements in monitoring the exposure of conglomerates to Central America is welcome; these linkages would require continued close oversight in collaboration with host country supervisors. Important progress has been made in implementing the recommendations of the 2022 FSAP, especially in monitoring and supervising cross-border linkages and households' balance sheets; continued progress is encouraged.

37. **Prudently advancing structural reforms within Colombia's very strong policy frameworks can foster a successful and durable transition to a more equitable and greener economy.** Careful and prudent implementation of the National Development Plan, in close consultation with relevant stakeholders, will be essential to preserve fiscal and financial stability, and ensure that economic incentives are well aligned. The objective of reducing Colombia's reliance on oil and coal is commendable. A successful transition would require developing a well-communicated and gradual plan that balances the energy needs of the domestic economy and its foreign exchange generation capacity with the transition of the global economy to a low-carbon one. Strengthening the rule of law, transparency, and advancing on the anti-corruption agenda, particularly in preventive areas, remain as important priorities. Importantly, continuing to improve coordination in messages will further support consumer and business confidence in the Colombian economy.

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

Figure 1. Colombia: Real Sector Developments

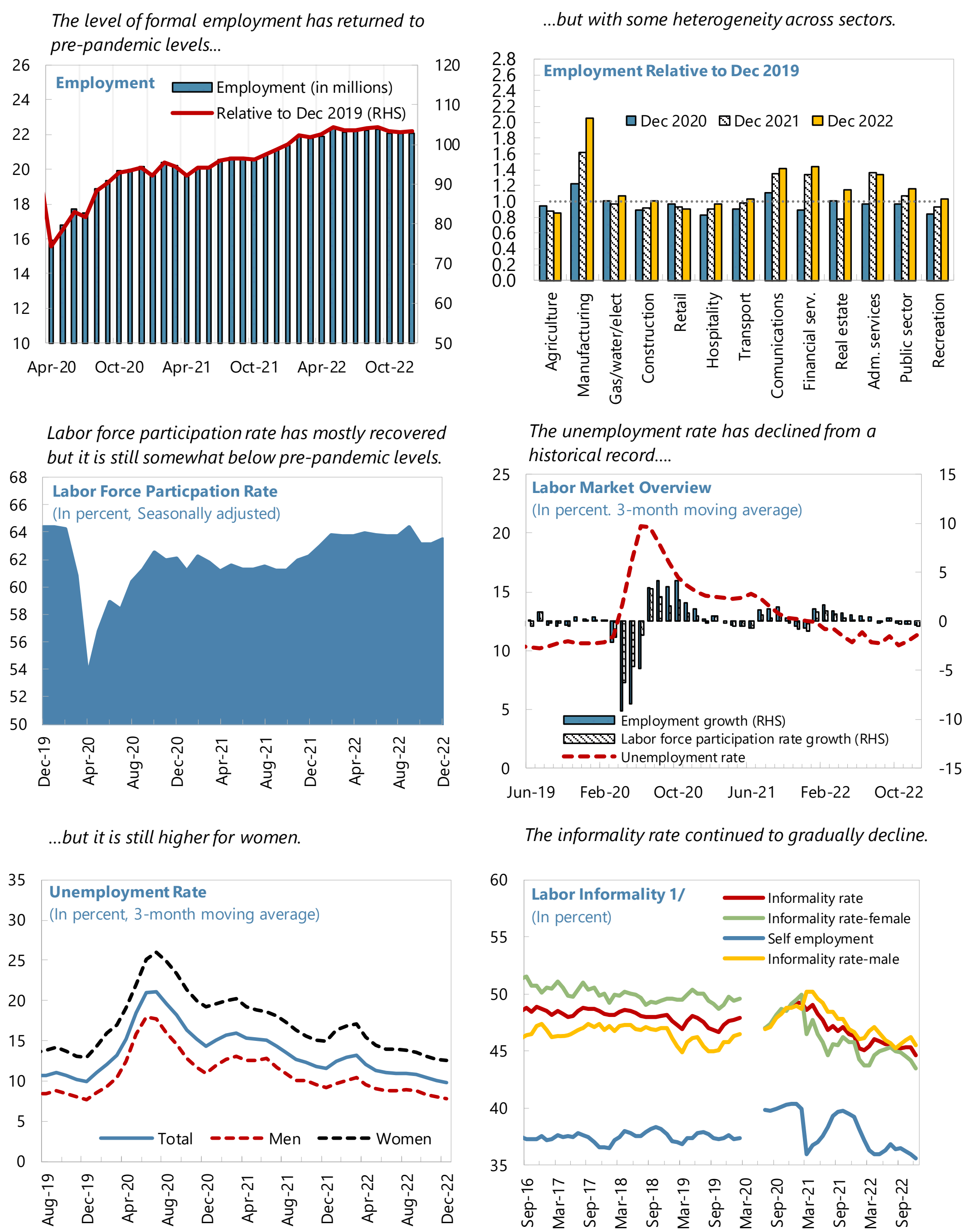


Sources: Departamento Administrativo Nacional de Estadísticas (DANE); Dirección de Impuestos y de Aduanas Nacionales (DIAN), La Fundación Para la Educación Superior y el Desarollo; Davidienda, Haver Analytics; and IMF staff estimates.

1/ Seasonally and working days adjusted.

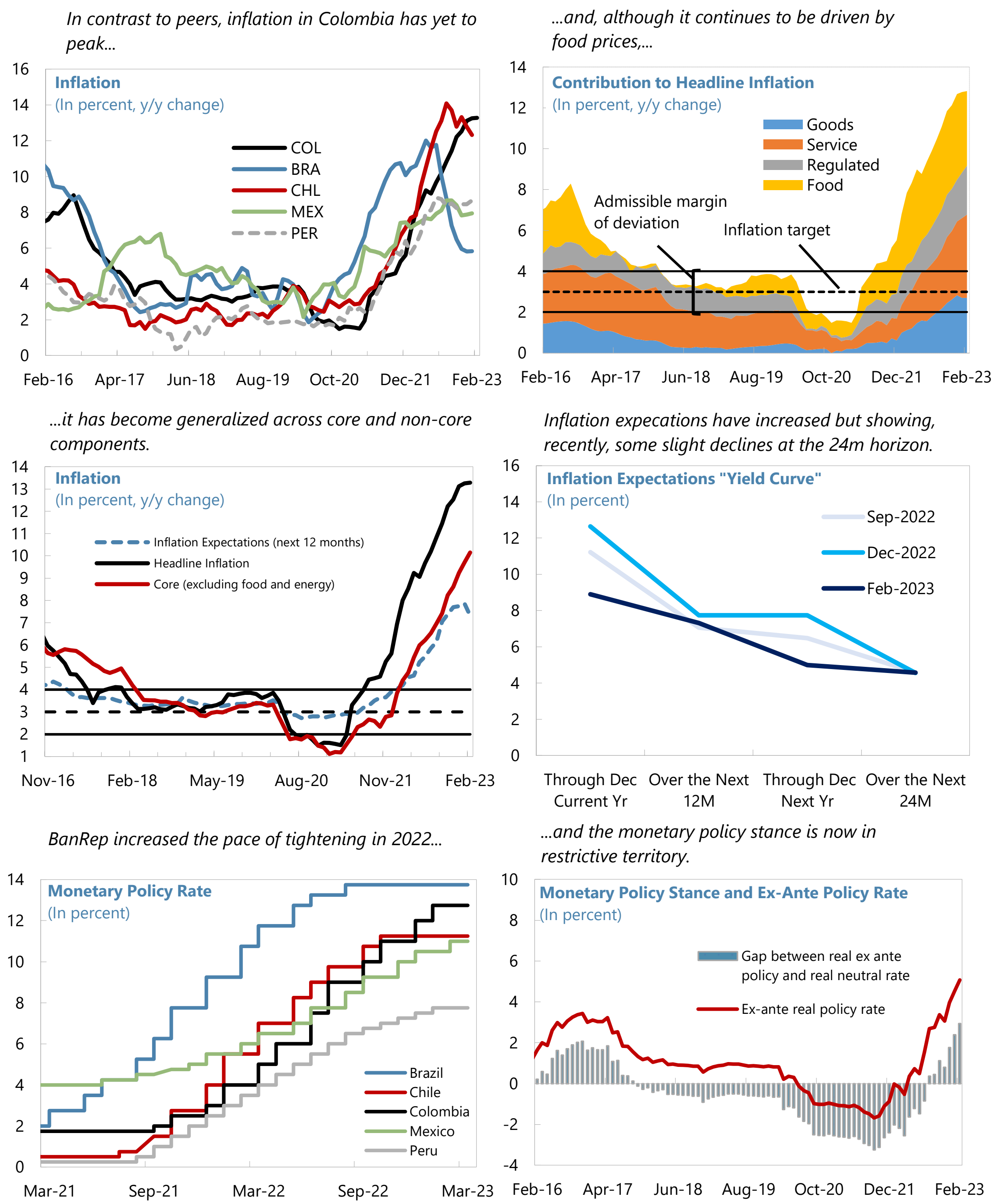
2/ Balances between favorable and unfavorable responses, in percent.

Figure 2. Colombia: Labor Market Developments



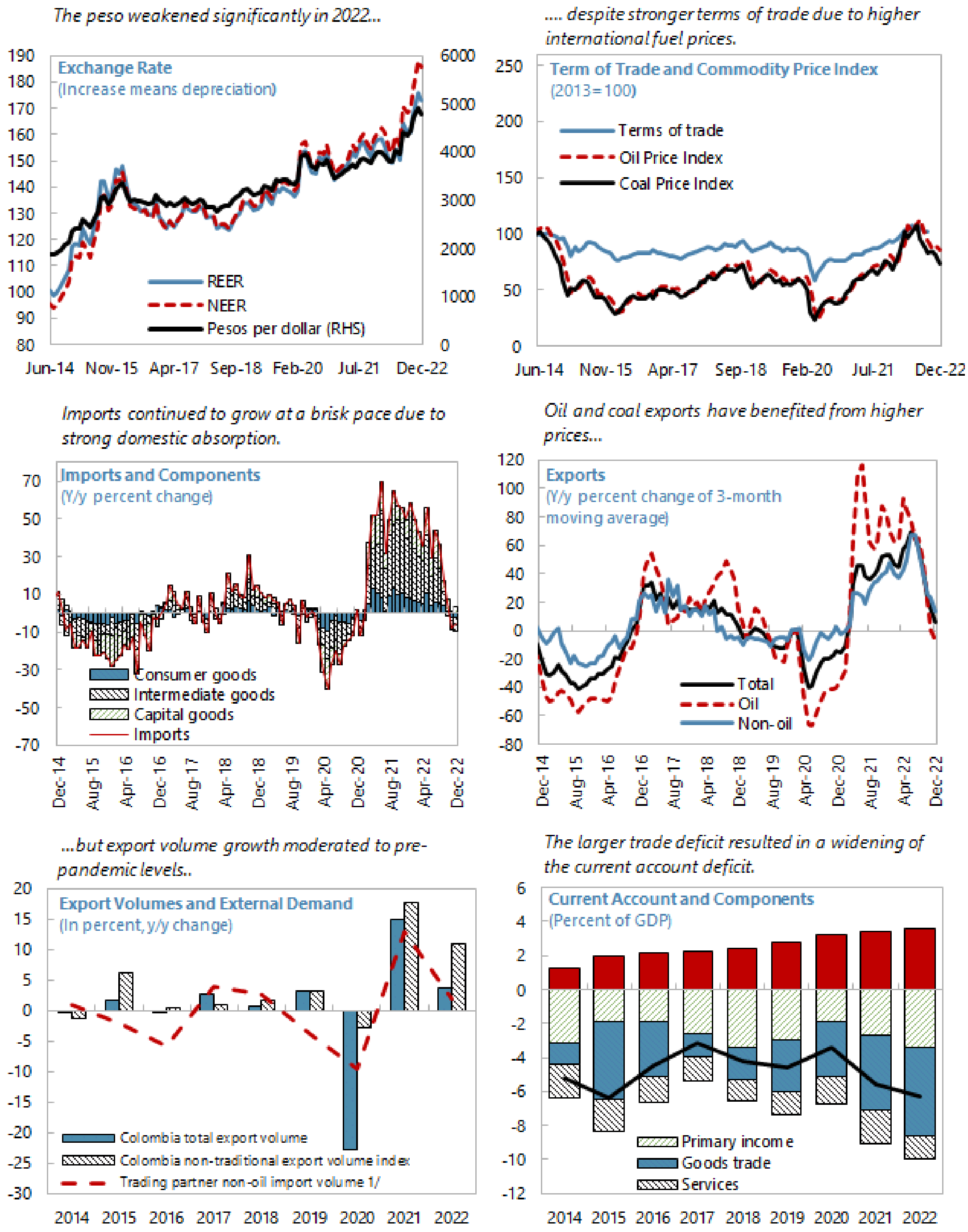
Sources: DANE; Banco de la República; Haver Analytics; and IMF staff estimates.
1/ The reporting of informality data was suspended during the pandemic.

Figure 3. Colombia: Inflation and Monetary Policy



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

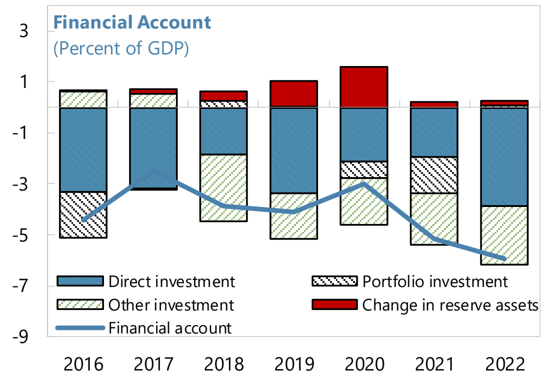
Figure 4. Colombia: Current Account Developments



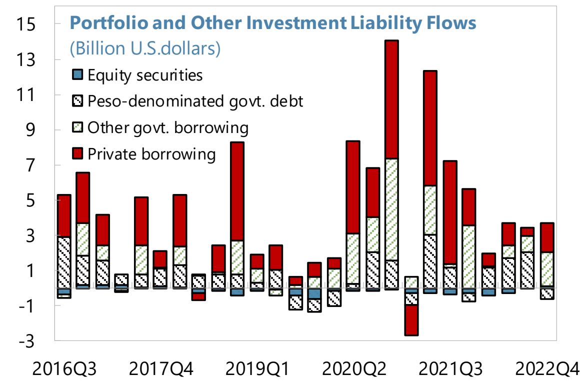
Sources: DANE; Banco de la República; Bloomberg; Haver Analytics; and IMF staff estimates.
1/ Weighted by destinations of Colombia's non-traditional exports.

Figure 5. Colombia: Financial Account Developments

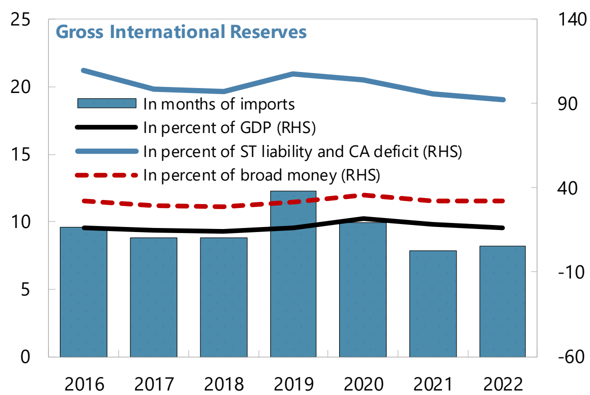
The current account deficit is financed by robust capital inflows, mainly direct investment.



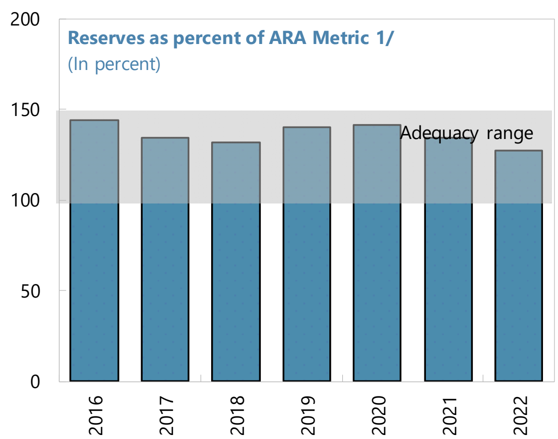
Investor appetite for local currency bonds have recovered...



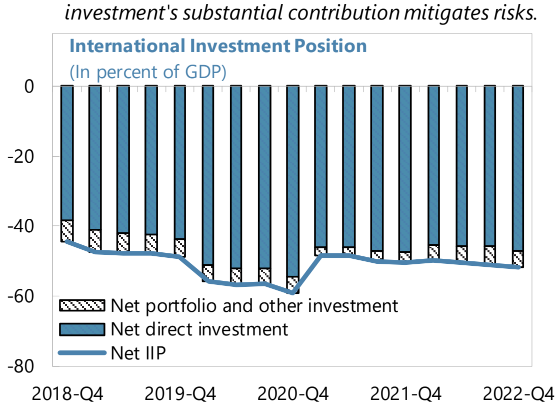
Reserves coverage has remained stable...



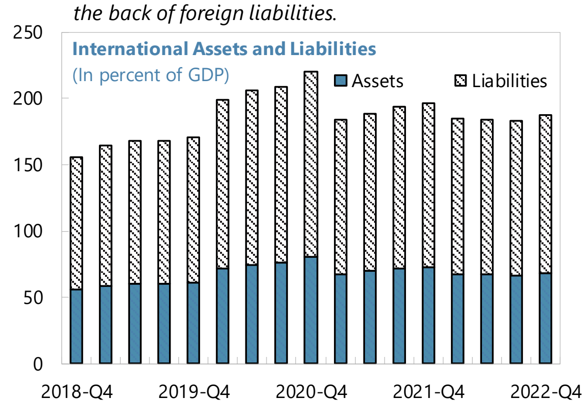
...solidly within the ARA range.



Net liabilities showed a slight increase, but direct investment's substantial contribution mitigates risks.

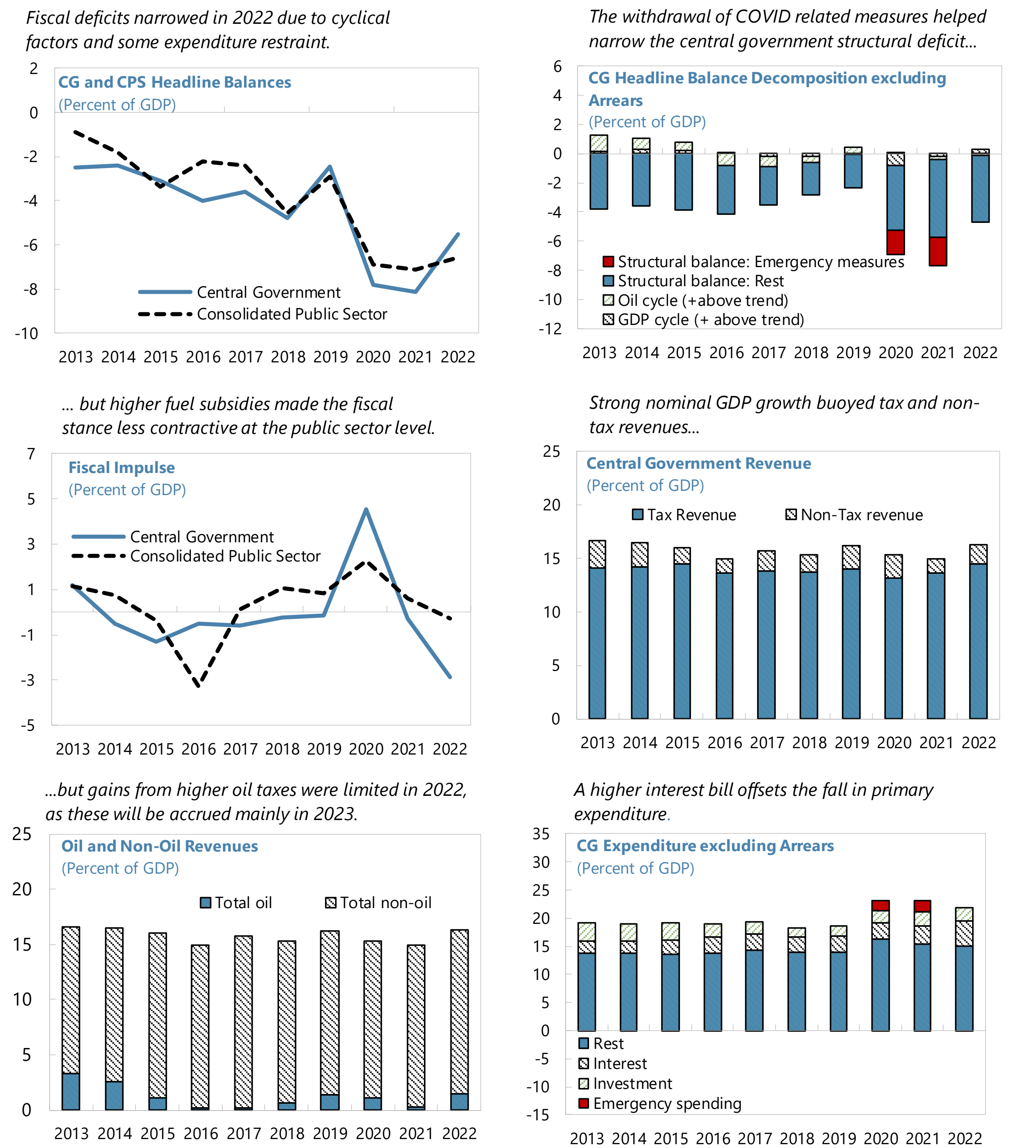


Financial integration has risen in recent years mainly on the back of foreign liabilities.



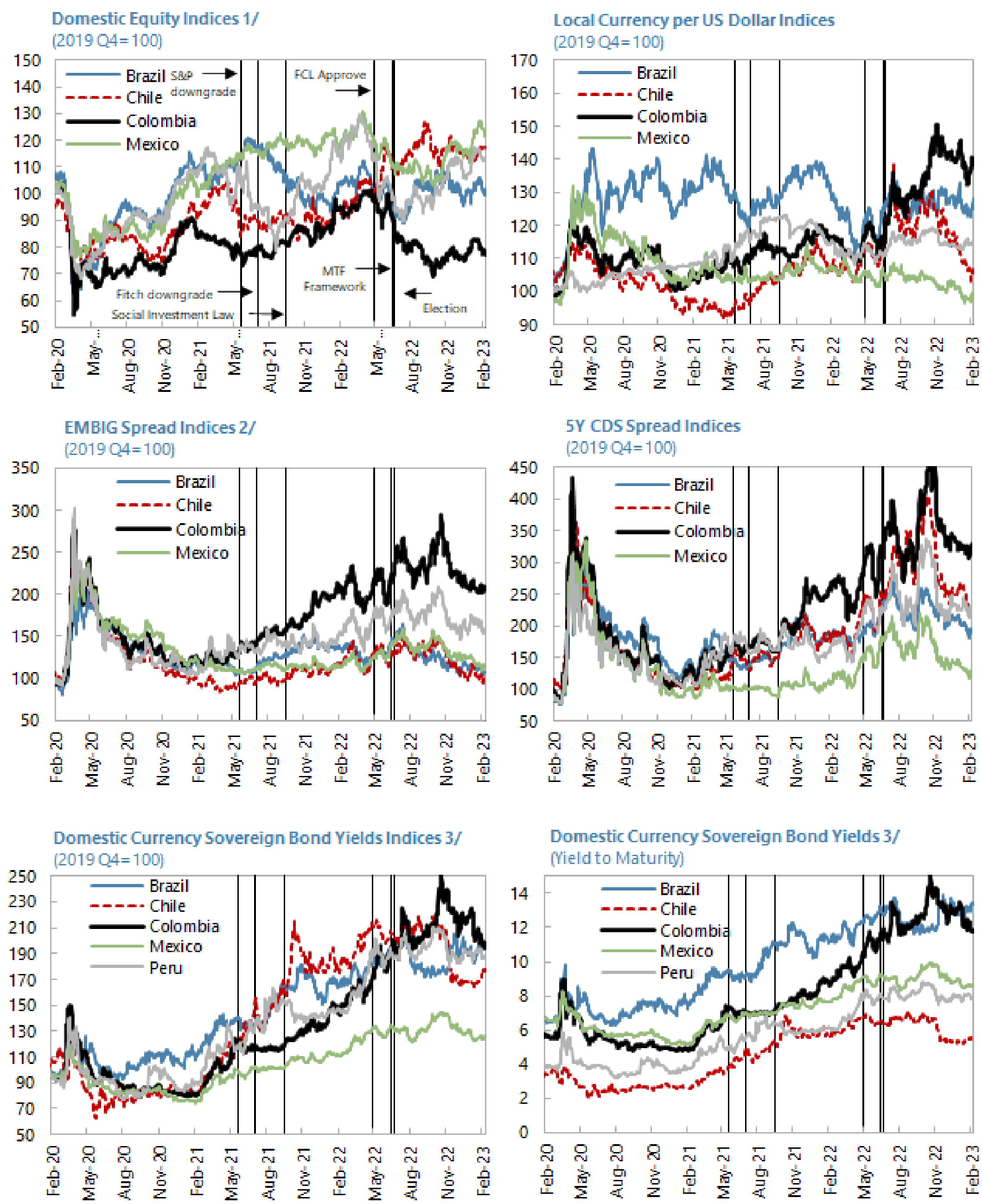
Sources: Banco de la República; DANE; Haver Analytics; Bloomberg; and IMF staff estimates.
1/ Does not include commodity buffers. Uses metric for floating exchange rates.

Figure 6. Colombia: Fiscal Developments



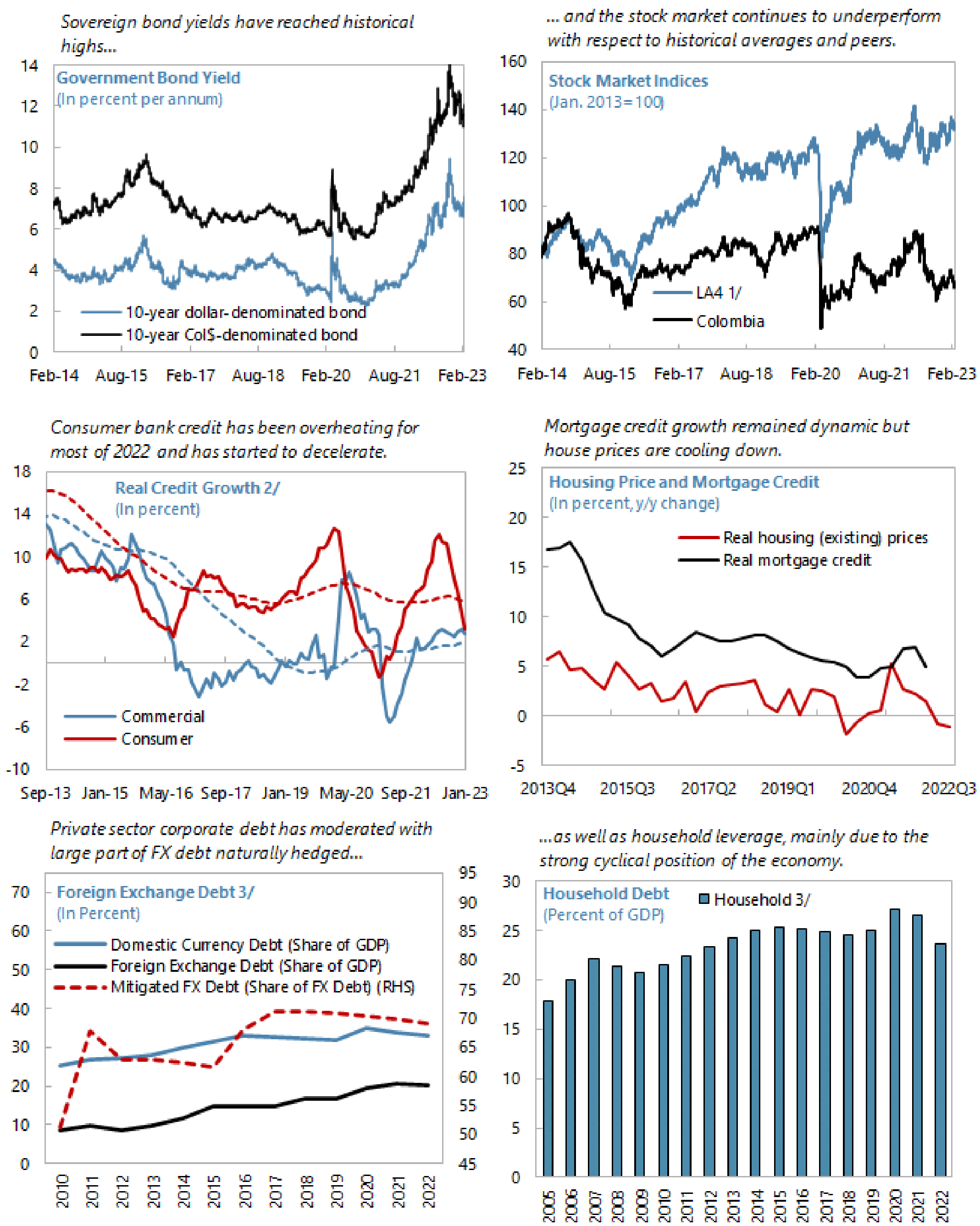
Sources: Ministerio de Hacienda y Crédito Público; DANE; and IMF staff estimates.

Figure 7. Colombia: Financial Markets Developments



Sources: Haver Analytics and Bloomberg LLP.
1/ National benchmark share price indices.
2/ Mexico's EMBIG includes Sovereign and Quasi.
3/ 10 year government bond or closest available maturity.

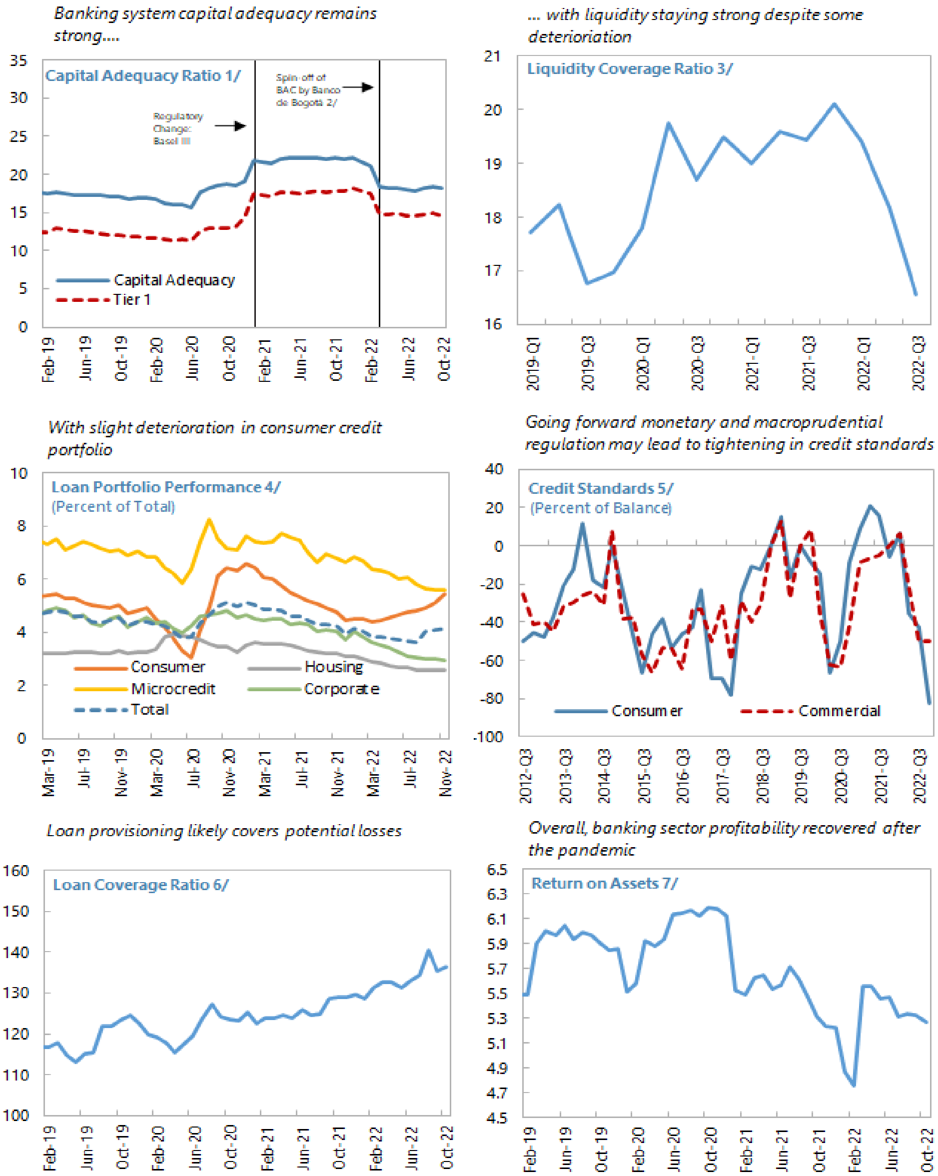
Figure 8. Colombia: Recent Macro-Financial Developments



Sources: Banco de la República; DANE; Bloomberg; and IMF staff estimates.
1/ LA4 corresponds to the average of Brazil, Colombia, Peru and Mexico.
2/ Dashed lines indicate the 3 year moving average of the series of the same color.
3/ Data for 2022 refers to June 2022.

Figure 9. Colombia: Financial Soundness Indicators

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



Sources: Banco de la República; DANE; Haver Analytics, IMF Financial Soundness Indicators Database, IMF staff estimates, and Superintendencia Financiera de Colombia.
1/ Capital Adequacy Ratio is defined as the ratio of capital to risk-weighted assets.
2/ The spin-off of 75 percent of BAC from Banco de Bogota reduced the capital requirement of credit institutions by 14.5 tn COP (as of November 2022).
3/ Liquidity Ratio defined as the ratio of liquid assets to total assets.
4/ Loan Portfolio Performance defined as percent of overdue loans out of total gross loans.
5/ Credit Standards defined as the change in new consumer loan requirements; negative values denote tightening of loan standards.
6/ Loan Coverage ratio defined as the ratio of provisions to nonperforming loans .
7/ Return on Assets defined as the ratio of net returns before taxes to total assets.

Table 1. Colombia: Selected Economic and Financial Indicators, 2019-28

I. Social and Demographic Indicators

Population (million), 2022. Projection	51.6	Unemployment rate, 2022 (SA, percent)	11.3
Urban population (percent of total), 2020	81.4	Physicians (per 1,000 people), 2018	3.8
GDP, 2022		Adult illiteracy rate (ages 15 and older), 2020	4.4
Per capita (US$)	6,665	Net secondary school enrollment rate, 2018	77.5
In billion of Col$	1,463,873	Gini coefficient, 2021	52.3
In billion of US$	344	Poverty rate, 2021	39.3
Life expectancy at birth (years), 2019	76.8		
Mortality rate, (under 5, per 1,000 live births), 2020	13.2		

II. Economic Indicators

					Projections					
	2019	2020	2021	2022 1/	2023	2024	2025	2026	2027	2028
	(In percentage change, unless otherwise indicated)									
National income and prices										
Real GDP	3.2	-7.3	11.0	7.5	1.0	1.9	2.9	3.3	3.3	3.3
Potential GDP	2.1	-1.2	5.0	4.8	2.7	2.5	2.4	3.1	3.3	3.3
Output Gap	-0.2	-6.4	-1.0	1.6	-0.2	-0.8	-0.2	0.0	0.0	0.0
GDP deflator	4.0	1.5	7.7	14.2	8.0	3.9	3.0	3.0	3.0	3.0
Consumer prices (average)	3.5	2.5	3.5	10.2	10.9	5.4	3.0	3.0	3.0	3.0
Consumer prices, end of period (eop)	3.8	1.6	5.6	13.1	8.4	3.5	3.0	3.0	3.0	3.0
Nominal GDP (In Col$ trillion)	1,060	998	1,193	1,464	1,595	1,690	1,791	1,907	2,029	2,160
External sector										
Exports (f.o.b.)	-5.4	-20.5	32.3	39.8	-9.5	-1.0	0.4	1.6	1.7	3.1
Imports (f.o.b.)	2.3	-18.5	37.7	26.2	-8.1	-1.2	-0.4	1.1	2.8	3.2
Terms of trade (deterioration -)	-2.3	-1.6	5.3	19.7	-10.7	-4.5	-2.5	-2.0	-1.4	-1.5
Real exchange rate (depreciation -) 2/	-5.9	-7.7	-3.2	-4.8	...	...	...	...	...	
Money and credit										
Broad money	10.0	10.3	13.6	11.2	6.4	6.9	7.0	7.0	7.0	7.0
Credit to the private sector	11.6	-0.8	12.5	16.8	7.1	7.4	7.5	7.5	7.5	7.5
Policy rate, eop	4.3	1.8	3.0	12.0	...	...	...	...	...	...
	(In percent of GDP)									
Central government balance 3/	-2.5	-7.8	-8.1	-5.5	-3.8	-3.6	-3.4	-3.0	-2.9	-2.8
Central government structural balance 4/	-2.3	-6.1	-7.3	-4.6	-3.0	-3.8	-3.7	-3.2	-2.2	-1.2
Consolidated public sector (CPS) balance 5/	-2.9	-6.9	-7.1	-6.6	-3.8	-1.8	-2.2	-2.3	-2.2	-1.9
CPS non-oil structural primary balance	-2.0	-4.3	-4.9	-4.6	-2.1	-0.5	-1.2	-1.2	-1.0	-0.8
CPS fiscal impulse	0.8	2.3	0.6	-0.3	-2.5	-1.6	0.7	0.0	-0.2	-0.1
Public sector gross debt 6/	52.4	65.7	64.0	63.6	62.0	61.1	60.9	60.1	59.2	58.3
Gross domestic investment	21.4	19.1	19.0	21.8	20.8	21.0	21.4	22.0	22.3	22.4
Gross national savings	16.8	15.6	13.3	15.6	15.6	16.4	17.1	17.9	18.2	18.4
Current account (deficit -)	-4.6	-3.5	-5.6	-6.2	-5.1	-4.6	-4.3	-4.1	-4.1	-4.0
External Financing Needs 7/	15.3	18.1	17.6	17.6	18.3	18.7	17.6	17.8	17.7	17.1
External debt	50.1	66.6	62.2	63.0	68.1	68.3	67.9	66.8	65.9	65.4
	(In percent of exports of goods and services)									
External debt service	77.8	113.0	84.9	63.8	77.7	86.6	85.4	90.0	91.9	90.1
Interest payments	14.7	17.0	13.5	11.6	14.3	15.5	15.3	15.2	15.5	15.6
	(In billion of U.S. dollars; unless otherwise indicated)									
Exports (f.o.b.)	40.7	32.3	42.7	59.8	54.1	53.5	53.7	54.6	55.5	57.2
Of which: Petroleum products	16.0	8.8	13.5	18.9	16.3	15.4	14.7	14.5	14.1	14.1
Gross international reserves 8/	52.7	58.5	58.0	56.7	57.8	59.1	59.8	60.4	61.1	61.8

Sources: Colombian authorities; UNDP Human Development Report; World Development Indicators; and IMF staff estimates.
1/ Estimate for monetary sector variables (except for policy rate) and fiscal sector variables.
2/ Based on bilateral COL Peso/USD exchange rate.
3/ For 2021 excludes privatization receipts worth 1.1 percent of GDP that, under GFSM 1986 which is used by the authorities, produces a headline deficit of -7.0 percent of GDP.
4/ IMF staff estimate, excludes one-off recognition of arrears.
5/ Includes the quasi-fiscal balance of Banco de la República, sales of assets, phone licenses, and statistical discrepancy. For 2021 excludes privatization receipts, see 3/ above.
6/ Includes Ecopetrol, Fogafin, and Finagro.
7/ Current account deficit plus amortization due including holdings of locally issued public debt (TES).
8/ 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, 2019-28
(In millions of US$, unless otherwise indicated)

					Projections					
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Current account balance	**-14,808**	**-9,346**	**-17,981**	**-21,446**	**-17,157**	**-16,011**	**-15,623**	**-15,894**	**-16,785**	**-17,091**
Goods balance	-9,863	-8,870	-13,984	-11,818	-11,690	-11,474	-11,041	-10,880	-11,793	-12,270
Exports, f.o.b.	40,656	32,309	42,736	59,764	54,060	53,512	53,707	54,582	55,521	57,223
Commodities	26,866	18,204	25,532	39,215	33,548	32,192	31,469	31,765	31,765	32,348
Fuel	15,962	8,755	13,514	18,938	16,251	15,378	14,674	14,525	14,061	14,148
Non-fuel	10,904	9,449	12,017	20,277	17,297	16,814	16,795	17,241	17,704	18,200
Non-traditional exports	10,571	9,733	12,310	14,493	14,317	14,853	15,474	15,809	16,433	17,198
Other	3,219	4,372	4,894	6,056	6,195	6,467	6,764	7,008	7,323	7,677
Imports, f.o.b.	50,518	41,179	56,719	71,582	65,750	64,986	64,747	65,463	67,314	69,493
Consumer goods	11,868	10,027	12,244	14,363	12,996	12,696	12,633	12,667	12,993	13,512
Intermediate goods	21,665	17,743	27,301	34,951	32,148	32,050	31,889	32,295	33,450	34,451
Capital goods	15,646	12,436	15,733	20,440	18,801	18,367	18,275	18,507	18,799	19,362
Other	1,338	972	1,441	1,827	1,805	1,873	1,951	1,993	2,072	2,168
Services balance	-4,283	-4,220	-6,049	-4,761	-4,104	-4,796	-5,142	-5,635	-5,848	-5,831
Exports of services	10,668	5,915	8,081	12,733	12,970	12,709	12,870	13,020	13,563	14,404
Imports of services	14,952	10,135	14,129	17,494	17,074	17,504	18,012	18,655	19,410	20,235
Primary income balance	-9,717	-5,044	-8,723	-17,209	-13,735	-11,823	-11,891	-12,220	-12,385	-12,644
Receipts	6,976	4,448	5,932	6,850	8,012	8,275	8,205	8,083	8,455	8,872
Expenditures	16,693	9,493	14,656	24,059	21,747	20,098	20,096	20,303	20,840	21,516
Secondary income balance	9,055	8,788	10,775	12,342	12,372	12,082	12,451	12,840	13,241	13,655
Financial account balance	**-13,298**	**-8,161**	**-16,513**	**-20,460**	**-17,157**	**-16,011**	**-15,623**	**-15,894**	**-16,785**	**-17,091**
Direct Investment	-10,836	-5,772	-6,209	-13,327	-10,536	-11,267	-12,057	-12,879	-13,713	-14,586
Assets	3,153	1,686	3,181	3,720	3,195	3,263	3,323	3,383	3,445	3,508
Liabilities	13,989	7,459	9,390	17,048	13,731	14,530	15,379	16,263	17,158	18,094
Oil sector	2,755	457	736	3,074	2,242	2,242	2,242	2,242	2,242	2,242
Non-oil sectors	11,234	7,731	8,654	13,974	11,489	12,288	13,137	14,020	14,915	15,852
Portfolio Investment	24	-1,768	-4,586	265	-3,783	-3,886	-5,684	-3,109	-3,384	-3,457
Assets	315	5,747	3,760	3,145	1,288	1,326	1,289	1,249	1,205	1,165
Liabilities	291	7,515	8,347	2,880	5,071	5,212	6,973	4,358	4,589	4,622
Equity	-1,232	-454	-1,189	-551	-36	-38	-39	-42	626	660
Debt instruments	1,523	7,969	9,536	3,431	5,107	5,249	7,012	4,399	3,962	3,962
General government	366	6,124	6,774	5,016	4,107	2,749	4,512	2,649	2,212	2,212
Banks	60	-328	827	-1,374	500	1,000	1,000	750	750	750
Corporates and households	1,097	2,172	1,934	-211	500	1,500	1,500	1,000	1,000	1,000
Derivatives	84	-513	365	823	0	0	0	0	0	0
Other Investments	-5,904	-4,435	-6,736	-8,792	-3,962	-2,089	1,348	-454	-353	169
Assets 1/	-3,476	3,485	2,771	4,301	-953	-1,093	1,493	877	2,050	4,832
Liabilities	2,428	7,921	9,507	13,093	3,010	996	145	1,331	2,404	4,663
Net use of IMF Credit (General Government)	0	5,370	0	0	0	-2,685	-2,563	0	0	0
Change in reserve assets	3,333	4,328	654	571	1,124	1,232	769	548	665	783
Net errors and omissions	**1,509**	**1,186**	**1,468**	**986**	**0**	**0**	**0**	**0**	**0**	**0**
Memorandum items:										
Brent Crude Oil Price (US$/barrel)	64	43	71	99	84	79	75	72	70	68

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

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

Table 2b. Colombia: Summary Balance of Payments, 2019-28
(In Percent of GDP)

					Projections					
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Current account balance	**-4.6**	**-3.5**	**-5.6**	**-6.2**	**-5.1**	**-4.6**	**-4.3**	**-4.1**	**-4.1**	**-4.0**
Goods balance	-3.1	-3.3	-4.4	-3.4	-3.5	-3.3	-3.0	-2.8	-2.9	-2.9
Exports, f.o.b.	12.6	12.0	13.4	17.4	16.2	15.4	14.7	14.2	13.7	13.4
Commodities	8.3	6.7	8.0	11.4	10.0	9.3	8.6	8.3	7.8	7.6
Fuel	4.9	3.2	4.2	5.5	4.9	4.4	4.0	3.8	3.5	3.3
Non-fuel	3.4	3.5	3.8	5.9	5.2	4.8	4.6	4.5	4.4	4.3
Non-traditional exports	3.3	3.6	3.9	4.2	4.3	4.3	4.2	4.1	4.1	4.0
Other	1.0	1.6	1.5	1.8	1.9	1.9	1.9	1.8	1.8	1.8
Imports, f.o.b.	15.6	15.2	17.8	20.8	19.6	18.7	17.8	17.0	16.6	16.3
Consumer goods	3.7	3.7	3.8	4.2	3.9	3.7	3.5	3.3	3.2	3.2
Intermediate goods	6.7	6.6	8.6	10.2	9.6	9.2	8.7	8.4	8.3	8.1
Capital goods	4.8	4.6	4.9	5.9	5.6	5.3	5.0	4.8	4.6	4.5
Other	0.4	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Services balance	-1.3	-1.6	-1.9	-1.4	-1.2	-1.4	-1.4	-1.5	-1.4	-1.4
Exports of services	3.3	2.2	2.5	3.7	3.9	3.7	3.5	3.4	3.3	3.4
Imports of services	4.6	3.8	4.4	5.1	5.1	5.0	4.9	4.9	4.8	4.7
Primary income balance	-3.0	-1.9	-2.7	-5.0	-4.1	-3.4	-3.3	-3.2	-3.1	-3.0
Receipts	2.2	1.6	1.9	2.0	2.4	2.4	2.3	2.1	2.1	2.1
Expenditures	5.2	3.5	4.6	7.0	6.5	5.8	5.5	5.3	5.1	5.0
Secondary income balance	2.8	3.3	3.4	3.6	3.7	3.5	3.4	3.3	3.3	3.2
Financial account balance	**-4.1**	**-3.0**	**-5.2**	**-5.9**	**-5.1**	**-4.6**	**-4.3**	**-4.1**	**-4.1**	**-4.0**
Direct Investment	-3.4	-2.1	-1.9	-3.9	-3.1	-3.2	-3.3	-3.4	-3.4	-3.4
Assets	1.0	0.6	1.0	1.1	1.0	0.9	0.9	0.9	0.9	0.8
Liabilities	4.3	2.8	2.9	5.0	4.1	4.2	4.2	4.2	4.2	4.2
Oil sector	0.9	0.2	0.2	0.9	0.7	0.6	0.6	0.6	0.6	0.5
Non-oil sectors	3.5	2.9	2.7	4.1	3.4	3.5	3.6	3.6	3.7	3.7
Portfolio Investment	0.0	-0.7	-1.4	0.1	-1.1	-1.1	-1.6	-0.8	-0.8	-0.8
Assets	0.1	2.1	1.2	0.9	0.4	0.4	0.4	0.3	0.3	0.3
Liabilities	0.1	2.8	2.6	0.8	1.5	1.5	1.9	1.1	1.1	1.1
Equity	-0.4	-0.2	-0.4	-0.2	0.0	0.0	0.0	0.0	0.2	0.2
Debt instruments	0.5	2.9	3.0	1.0	1.5	1.5	1.9	1.1	1.0	0.9
General government	0.1	2.3	2.1	1.5	1.2	0.8	1.2	0.7	0.5	0.5
Banks	0.0	-0.1	0.3	-0.4	0.1	0.3	0.3	0.2	0.2	0.2
Corporates and households	0.3	0.8	0.6	-0.1	0.1	0.4	0.4	0.3	0.2	0.2
Derivatives	0.0	-0.2	0.1	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Other Investments	-1.8	-1.6	-2.1	-2.6	-1.2	-0.6	0.4	-0.1	-0.1	0.0
Assets 1/	-1.1	1.3	0.9	1.3	-0.3	-0.3	0.4	0.2	0.5	1.1
Liabilities	0.8	2.9	3.0	3.8	0.9	0.3	0.0	0.3	0.6	1.1
Net use of IMF Credit	0.0	2.0	0.0	0.0	0.0	-0.8	-0.7	0.0	0.0	0.0
Change in Reserve Assets	1.0	1.6	0.2	0.2	0.3	0.4	0.2	0.1	0.2	0.2
Net errors and omissions	**0.5**	**0.4**	**0.5**	**0.3**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

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

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

Table 3. Colombia: Operations of the Central Government, 2019-28 1/

(In percent of GDP, unless otherwise indicated)

	2019	2020	2021	2022 2/	Projections 2023	2024	2025	2026	2027	2028
Total revenue	**16.2**	**15.3**	**15.0**	**16.3**	**20.5**	**20.0**	**19.4**	**19.2**	**19.1**	**19.1**
Current revenue 3/	**14.1**	**13.3**	**13.7**	**14.8**	**18.4**	**18.2**	**17.7**	**17.6**	**17.7**	**17.6**
Tax revenue	**14.0**	**13.1**	**13.6**	**14.5**	**18.1**	**17.9**	**17.4**	**17.4**	**17.4**	**17.4**
Net income tax and profits	6.4	6.2	6.1	6.0	8.1	8.1	7.7	7.9	8.0	7.8
Goods and services	5.8	5.4	5.8	6.7	7.3	7.0	6.9	6.8	6.7	6.9
Value-added tax	5.8	5.4	5.8	6.7	7.2	7.0	6.9	6.8	6.7	7.0
International trade	0.4	0.3	0.4	0.5	0.4	0.4	0.4	0.4	0.4	0.4
Financial transaction tax	0.8	0.7	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Stamp and other taxes	0.7	0.5	0.5	0.5	1.5	1.5	1.5	1.5	1.5	1.4
Nontax revenue	**2.2**	**2.2**	**1.4**	**1.8**	**2.5**	**2.1**	**2.0**	**1.9**	**1.7**	**1.7**
Property income	0.4	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Other	1.7	1.9	1.1	1.6	2.2	1.9	1.8	1.6	1.5	1.5
Total expenditure and net lending	**18.7**	**23.1**	**23.1**	**21.8**	**24.3**	**23.6**	**22.8**	**22.2**	**22.0**	**21.9**
Current expenditure	**15.7**	**19.5**	**19.5**	**18.5**	**21.2**	**19.7**	**19.6**	**19.0**	**18.7**	**18.7**
Wages and salaries	2.1	2.4	2.2	2.2	2.3	2.1	2.2	2.2	2.1	2.2
Goods and services	0.6	0.2	0.3	0.4	1.1	1.1	1.3	1.3	1.3	1.3
Interest	2.9	2.8	3.3	4.4	4.4	4.0	3.7	3.6	3.3	3.1
External	0.7	0.8	0.8	1.0	1.2	1.2	1.0	0.9	0.8	0.7
Domestic	2.2	2.0	2.5	3.4	3.2	2.8	2.7	2.7	2.5	2.4
Current transfers	10.1	14.1	13.7	11.5	13.4	12.5	12.4	12.0	12.0	12.1
Capital expenditure	**3.0**	**3.6**	**3.6**	**3.3**	**3.2**	**3.9**	**3.2**	**3.2**	**3.4**	**3.3**
Fixed capital formation	1.8	2.2	2.4	2.3	2.0	2.9	2.1	2.1	2.3	2.2
Capital transfers	1.2	1.3	1.2	1.0	1.2	1.1	1.1	1.0	1.0	1.0
Net lending	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall balance 4/	**-2.5**	**-7.8**	**-8.1**	**-5.5**	**-3.8**	**-3.6**	**-3.4**	**-3.0**	**-2.9**	**-2.8**
Memorandum items:										
Oil-related revenues 5/	1.3	1.1	0.3	1.5	2.8	1.3	1.1	1.0	1.0	0.9
Structural balance 6/	-2.3	-6.1	-7.3	-4.6	-3.0	-3.8	-3.7	-3.2	-2.2	-1.2
Structural primary non-oil balance	-0.3	-4.8	-4.6	-1.7	-0.7	-1.0	-1.0	-0.6	-0.8	-0.9
Fiscal Impulse	-0.2	4.5	-0.3	-2.9	-1.0	0.3	0.0	-0.4	0.2	0.1
Non-oil balance	-3.3	-9.0	-8.1	-5.8	-5.2	-5.1	-4.8	-4.2	-3.2	-2.2
Primary balance	0.4	-5.0	-4.8	-1.1	0.6	0.4	0.3	0.6	0.4	0.2
Net FCL financing (US$ million)	0.0	5,370	0	0	0	-2,637	-2,638	0	0	0
Nominal GDP (in Col$ trillion)	1,060	998	1,193	1,464	1,595	1,690	1,791	1,907	2,029	2,160

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

1/ Includes central administration only.

2/ Estimate for 2022.

3/ Includes tax revenues, telecom and port concessions and other revenues.

4/ For 2021 excludes privatization receipts worth 1.1 percent of GDP that, under GFSM 1986 which is used by the authorities, produces a headline deficit of -7.0 percent of GDP.

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

6/ 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, 2019-28 1/

(In percent of GDP, unless otherwise indicated)

	2019	2020	2021	2022/2	Projections 2023	2024	2025	2026	2027	2028
Total revenue	**29.4**	**26.6**	**27.2**	**27.6**	**31.4**	**32.1**	**31.0**	**30.6**	**30.7**	**30.7**
Tax revenue	21.7	20.8	21.3	22.2	25.8	25.5	25.0	25.0	25.0	25.0
Nontax revenue	7.7	5.8	5.9	5.3	5.6	6.5	6.0	5.6	5.7	5.7
Financial income	0.7	0.4	0.4	0.4	0.4	0.4	0.5	0.5	0.5	0.5
Operating surplus of public enterprises	2.4	2.1	2.1	2.3	2.3	2.3	2.3	2.3	2.3	2.3
Other 3/	4.6	3.3	3.3	2.5	2.8	3.8	3.2	2.8	2.9	2.9
Total expenditure and net lending 4/	**31.8**	**33.6**	**34.4**	**34.2**	**35.4**	**34.1**	**33.4**	**33.1**	**33.1**	**32.8**
Current expenditure	27.6	29.8	29.4	29.2	31.7	30.1	29.9	29.4	28.9	28.7
Wages and salaries	5.1	5.4	5.2	5.2	5.3	5.1	5.2	5.2	5.1	5.3
Goods and services	3.4	3.1	3.3	3.5	4.2	4.1	4.3	4.6	4.6	4.6
Interest	3.1	3.0	3.3	4.6	4.8	4.3	4.0	3.8	3.5	3.2
External	0.8	1.0	1.0	1.4	1.6	1.5	1.2	1.1	1.0	0.9
Domestic	2.4	2.0	2.3	3.2	3.1	2.9	2.7	2.6	2.5	2.3
Transfers to private sector	12.2	14.6	13.8	12.2	13.7	12.8	12.7	12.3	12.3	12.4
Other 5/	3.8	3.8	3.8	3.8	3.7	3.7	3.6	3.5	3.4	3.3
Capital expenditure	4.2	3.8	5.1	5.0	3.8	4.1	3.6	3.7	4.2	4.1
Statistical discrepancy	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Nonfinancial public sector balance	**-3.5**	**-7.0**	**-7.2**	**-6.7**	**-4.0**	**-2.1**	**-2.4**	**-2.5**	**-2.4**	**-2.1**
Fogafin balance	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
Combined public sector balance	**-2.9**	**-6.9**	**-7.1**	**-6.6**	**-3.8**	**-1.8**	**-2.2**	**-2.3**	**-2.2**	**-1.9**
Overall financing	**2.9**	**6.9**	**7.1**	**6.6**	**3.8**	**1.8**	**2.2**	**2.3**	**2.2**	**1.9**
Foreign, net	0.9	7.9	2.9	0.0	1.4	1.2	0.8	0.9	1.2	2.1
o/w IFIs	0.3	2.7	1.2	0.1	-0.2	-0.7	-1.0	-0.3	-0.5	-0.4
o/w FCL	0.0	2.0	0.0	0.0	0.0	-0.8	-0.7	0.0	0.0	0.0
Domestic, net	2.0	-1.0	4.2	6.5	2.4	0.6	1.4	1.5	1.0	-0.2
Memorandum items:										
Overall structural balance 7/	-1.9	-4.6	-6.3	-6.3	-3.2	-2.4	-2.8	-2.7	-2.6	-2.3
Primary balance 8/	0.2	-3.9	-3.8	-2.0	1.0	2.5	1.7	1.4	1.3	1.3
Oil-related revenues 9/	2.4	1.9	1.4	2.8	3.9	2.4	2.1	1.9	1.8	1.7
Public sector gross debt 10/	52.4	65.7	64.0	63.6	62.0	61.1	60.9	60.1	59.2	58.3
Nominal GDP (In Col$ trillion)	1,060	998	1,193	1,464	1,595	1,690	1,791	1,907	2,029	2,160

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

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

2/ Estimate for 2022.

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/ 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.

8/ Includes statistical discrepancy. Overall balance plus interest expenditures.

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

10/ Includes Ecopetrol, Fogafin, and Finagro.

Table 5. Colombia: Monetary Indicators, 2019-28 1/

					Projections					
	2019	2020	2021	2022 2/	2023	2024	2025	2026	2027	2028
	(In billions of Col$, unless otherwise indicated)									
Central Bank										
Net Foreign Assets	172,578	200,732	220,143	258,455	259,694	271,103	277,719	283,346	289,637	296,620
Gross official reserve assets	172,549	200,801	230,982	272,757	273,990	285,394	292,003	297,624	303,910	310,886
In billions of US$	53	59	58	57	58	59	60	60	61	62
Short-term foreign liabilities	0	0	0	0	0	0	0	0	0	0
Other net foreign assets	29	-69	-10,838	-14,302	-14,296	-14,290	-14,284	-14,278	-14,272	-14,266
Net domestic assets	-60,124	-68,059	-74,762	-103,724	-94,547	-94,464	-88,752	-81,063	-73,180	-64,988
Net credit to the public sector	3,034	6,625	20,056	28,885	26,329	26,306	24,716	22,574	20,379	18,098
Net credit to the financial system	8,435	6,934	7,940	3,454	3,149	3,146	2,956	2,700	2,437	2,164
Other	-71,593	-81,618	-102,757	-136,063	-124,025	-123,917	-116,424	-106,337	-95,996	-85,250
Monetary base	112,454	132,674	145,381	154,731	165,147	176,639	188,966	202,283	216,457	231,632
Currency in circulation	91,659	111,374	125,451	135,179	139,351	145,724	152,457	160,433	170,358	180,897
Deposit money banks reserves	20,649	20,928	19,533	19,207	44,853	48,229	51,092	54,265	57,772	61,492
Other deposits	145	372	397	345	345	345	345	345	345	345
Financial system										
Net foreign assets	145,976	199,729	227,252	243,265	243,139	253,571	259,139	263,561	268,579	274,206
In billions of US$	45	58	57	51	51	52	53	53	54	55
Net domestic assets	402,159	404,812	459,372	520,260	569,602	615,349	670,781	731,185	796,082	865,249
Net credit to public sector	57,917	83,018	88,250	96,298	114,908	131,220	145,988	161,581	175,087	184,114
Credit to private sector	546,520	542,246	609,786	712,253	762,736	819,231	880,447	946,323	1,017,673	1,094,403
Other net	-202,096	-220,250	-238,434	-288,291	-308,041	-335,103	-355,653	-376,719	-396,678	-413,268
Broad money	548,135	604,541	686,624	763,526	812,741	868,920	929,920	994,746	1,064,661	1,139,455
	(Annual percentage change)									
Credit to private sector	11.6	-0.8	12.5	16.8	7.1	7.4	7.5	7.5	7.5	7.5
Currency	13.6	21.5	12.6	7.8	3.1	4.6	4.6	5.2	6.2	6.2
Monetary base	14.7	18.0	9.6	6.4	6.7	7.0	7.0	7.0	7.0	7.0
Broad money 1/	10.0	10.3	13.6	11.2	6.4	6.9	7.0	7.0	7.0	7.0
	(In percent of GDP)									
Credit to private sector	51.6	54.3	51.1	48.7	47.8	48.5	49.2	49.6	50.1	50.7
Currency	8.6	11.2	10.5	9.2	8.7	8.6	8.5	8.4	8.4	8.4
Monetary base	10.6	13.3	12.2	10.6	10.4	10.5	10.6	10.6	10.7	10.7
Broad money	51.7	60.6	57.6	52.2	50.9	51.4	51.9	52.2	52.5	52.7
Memorandum items:										
CPI inflation, eop	3.8	1.6	5.6	13.1	8.4	3.5	3.0	3.0	3.0	3.0
Nominal GDP (In Col$ trillions)	1,060	998	1,193	1,464	1,595	1,690	1,791	1,907	2,029	2,160

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

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

2/ Estimate for financial system variables.

Table 6. Colombia: Medium-Term Outlook, 2019-28

	2019	2020	2021	2022[1/]	2023	2024	2025	2026	2027	2028
					Projections					
	(In percent of GDP, unless otherwise indicated)									
Real GDP (in percent change)	3.2	-7.3	11.0	7.5	1.0	1.9	2.9	3.3	3.3	3.3
Consumer prices (in percent change; eop)	3.8	1.6	5.6	13.1	8.4	3.5	3.0	3.0	3.0	3.0
Gross national savings	16.8	15.6	13.3	15.6	15.6	16.4	17.1	17.9	18.2	18.4
Private sector	15.8	18.9	15.6	17.4	15.9	14.4	16.0	16.6	16.4	16.4
Public sector	1.0	-3.3	-2.3	-1.8	-0.3	2.0	1.1	1.3	1.8	2.0
Gross domestic investment	21.4	19.1	19.0	21.8	20.8	21.0	21.4	22.0	22.3	22.4
	(In percent of GDP, unless otherwise indicated)									
Nonfinancial public sector 2/										
Revenue	29.4	26.6	27.2	27.6	31.4	32.1	31.0	30.6	30.7	30.7
Expenditure	31.8	33.6	34.4	34.2	35.4	34.1	33.4	33.1	33.1	32.8
Current expenditure	27.6	29.8	29.4	29.2	31.7	30.1	29.9	29.4	28.9	28.7
Capital expenditure	4.2	3.8	5.1	5.0	3.8	4.1	3.6	3.7	4.2	4.1
Primary balance 3/	0.4	-5.0	-4.8	-1.1	0.6	0.4	0.3	0.6	0.4	0.2
Overall balance 3/	-3.5	-7.0	-7.2	-6.7	-4.0	-2.1	-2.4	-2.5	-2.4	-2.1
Combined public sector balance	-2.9	-6.9	-7.1	-6.6	-3.8	-1.8	-2.2	-2.3	-2.2	-1.9
External financing	0.9	7.9	2.9	0.0	1.4	1.2	0.8	0.9	1.2	2.1
Domestic financing	2.0	-1.0	4.2	6.5	2.4	0.6	1.4	1.5	1.0	-0.2
External current account balance	-4.6	-3.5	-5.6	-6.2	-5.1	-4.6	-4.3	-4.1	-4.1	-4.0
Trade balance	-3.1	-3.3	-4.4	-3.4	-3.5	-3.3	-3.0	-2.8	-2.9	-2.9
Exports	12.6	12.0	13.4	17.4	16.2	15.4	14.7	14.2	13.7	13.4
Imports	15.6	15.2	17.8	20.8	19.6	18.7	17.8	17.0	16.6	16.3
Financial account balance	-4.1	-3.0	-5.2	-5.9	-5.1	-4.6	-4.3	-4.1	-4.1	-4.0
Direct Investment	-3.4	-2.1	-1.9	-3.9	-3.1	-3.2	-3.3	-3.4	-3.4	-3.4
Portfolio Investment	0.0	-0.7	-1.4	0.1	-1.1	-1.1	-1.6	-0.8	-0.8	-0.8
Other Investments and Derivatives	-1.8	-1.8	-2.0	-2.3	-1.2	-0.6	0.4	-0.1	-0.1	0.0
Change in Reserve Assets	1.0	1.6	0.2	0.2	0.3	0.4	0.2	0.1	0.2	0.2
Public sector gross debt 4/	52.4	65.7	64.0	63.6	62.0	61.1	60.9	60.1	59.2	58.3
Public sector gross debt, excluding Ecopetrol	49.4	61.5	58.8	59.1	58.1	57.9	58.4	57.9	57.1	56.3
Memorandum items:										
Nominal GDP (in Col$ trillion)	1,060	998	1,193	1,464	1,595	1,690	1,791	1,907	2,029	2,160

Sources: Colombian authorities and IMF staff estimates and projections.

1/ Estimate for fiscal sector variables.

2/ Excludes Ecopetrol.

3/ Includes statistical discrepancy.

4/ Includes Ecopetrol, Fogafin, and Finagro.

Table 7. Colombia: Financial Soundness Indicators, 2019-22 1/

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

	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Nov-22
Capital Adequacy 2/													
Regulatory capital to risk-weighted assets	16.9	16.3	15.7	18.5	19.2	21.4	22.1	22.0	22.2	18.3	18.0	18.4	18.4
Regulatory Tier 1 capital to risk-weighted assets	11.8	11.5	11.4	12.9	14.4	17.0	17.5	17.7	18.2	14.8	14.6	14.9	14.9
Capital (net worth) to assets	9.0	8.6	8.5	9.1	9.8	11.7	11.9	12.1	12.2	10.2	10.3	10.6	10.5
Asset Quality and Distribution													
Provisions to nonperforming loans	122.6	118.0	119.4	124.3	125.2	123.8	125.8	128.6	129.7	132.5	133.0	135.4	136.3
Gross loans to assets	71.2	70.1	68.0	66.5	65.4	66.3	67.1	68.1	69.4	66.6	69.0	70.5	71.2
Earnings and Profitability													
ROAA	5.9	5.9	6.1	6.1	6.1	5.6	5.6	5.5	5.2	5.6	5.5	5.3	5.2
ROAE	38.7	39.4	43.6	44.2	44.2	39.2	39.1	37.5	35.4	36.2	37.1	37.0	36.4
Interest margin to gross income	57.5	48.8	53.9	55.6	56.0	59.9	60.0	58.4	58.1	55.2	57.5	58.1	58.3
Noninterest expenses to gross income	49.6	57.6	53.9	52.6	52.6	48.9	48.6	47.6	48.3	44.8	45.6	45.9	47.4
Liquidity													
Liquid assets to total assets	17.0	17.8	19.8	18.7	19.5	19.0	19.6	19.4	20.1	19.4	18.2	16.6	16.8
Liquid assets to short-term liabilities	36.6	38.0	40.2	38.0	37.9	36.4	36.8	36.4	37.3	35.7	34.2	32.1	33.0
Deposit to loan ratio	89.4	93.2	96.4	96.3	98.4	97.5	97.3	94.8	98.2	96.4	96.0	93.8	94.4
Other													
Foreign-currency-denominated loans to total loans	5.2	7.0	6.2	5.7	4.6	4.9	4.9	5.1	5.1	4.1	4.5	5.1	5.2
Foreign-currency-denominated liabilities to total liabilities	11.8	14.8	13.3	13.5	11.4	10.9	11.1	10.8	11.5	10.5	10.5	10.4	12.0
Net open position in foreign exchange to capital 3/	0.9	0.7	1.2	1.2	1.1	0.8	0.8	0.6	0.7	0.8	0.9	0.9	2.5

Source: Superintendencia Financiera, Financial Soundness Indicators (FSI), International Monetary Fund.

1/ FSI indicators take into account the following deposit-taking institutions as per the IMF's FSI compilation guide: twenty-five commercial banks, ten financing companies, six financial corporations, five financial cooperatives, and two specialized financial institutions, namely Banco de Comercio Exterior de Colombia S.A. (BANCOLDEX) and Fondo Nacional del Ahorro (FNA).

The following nine specialized financial institutions are not included in the definition of deposit-taking institutions: FINDETER, FNG, FDN, ICETEX, ENTERRITORIO, FINAGRO, FOGAFIN, FOGACOOP, and Caja Promotora de Vivienda Militar y de Policía.

2/ The large changes in capital adequacy between 2020 and 2021 are mostly due to the adoption of Basel III capital definitions and risk weights.

In early 2022, the spin-off of 75 percent of BAC from Banco de Bogota reduced the capital requirement of credit institutions by 14.5 tn COP (as of November 2022).

3/ 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, 2019-28 1/

(In billions of US$, unless otherwise indicated)

					Projections					
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Exports of GNFS	51.3	38.2	50.8	72.5	67.0	66.2	66.6	67.6	69.1	71.6
Imports of GNFS	65.5	51.3	70.8	89.1	82.8	82.5	82.8	84.1	86.7	89.7
Terms of trade (y/y percent change)	-2.3	-1.6	5.3	19.7	-10.7	-4.5	-2.5	-2.0	-1.4	-1.5
Current account balance	-14.8	-9.3	-18.0	-21.4	-17.2	-16.0	-15.6	-15.9	-16.8	-17.1
In percent of GDP	-4.6	-3.5	-5.6	-6.2	-5.1	-4.6	-4.3	-4.1	-4.1	-4.0
Financial account balance	-13.3	-8.2	-16.5	-20.5	-17.2	-16.0	-15.6	-15.9	-16.8	-17.1
Of which: Foreign direct investment (net)	-10.8	-5.8	-6.2	-13.3	-10.5	-11.3	-12.1	-12.9	-13.7	-14.6
Of which: Portfolio investment (net)	0.0	-1.8	-4.6	0.3	-3.8	-3.9	-5.7	-3.1	-3.4	-3.5
Total external debt (in percent of GDP) 2/	50.1	66.6	62.2	63.0	68.1	68.3	67.9	66.8	65.9	65.4
Of which: Public sector (in percent of GDP) 2/	30.1	42.7	40.6	39.9	42.6	41.2	40.3	39.1	38.2	37.7
In percent of gross international reserves	307.6	307.6	341.6	382.1	393.8	401.3	413.6	425.1	436.8	451.5
Short-term external debt (in percent of GDP) 3/	7.1	8.2	7.8	7.9	8.4	8.4	8.2	8.1	7.9	7.7
Of which: Public sector (in percent of GDP)	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.2	0.2
Of which: Private sector (in percent of GDP)	6.8	7.9	7.4	7.6	8.1	8.1	8.0	7.8	7.7	7.5
Amortization of MLT external debt (in percent of GNFS exports)	25.8	38.2	29.7	18.1	23.0	28.8	26.5	30.4	31.5	29.8
External interest payments (in percent of GNFS exports)	14.7	17.0	13.5	11.6	14.3	15.5	15.3	15.2	15.5	15.6
Gross international reserves 4/	52.7	58.5	58.0	56.7	57.8	59.1	59.8	60.4	61.1	61.8
In months of prospective GNFS imports	12.3	9.9	7.8	8.2	8.4	8.6	8.5	8.5	8.2	8.0
In percent of broad money 5/	31.5	33.2	33.6	35.7	33.7	32.9	31.4	29.9	28.6	27.3
In percent of short-term debt on residual maturity basis plus current account deficit	112.3	106.0	97.9	95.0	91.7	94.9	90.0	86.8	86.6	88.5
In percent of ARA (including commodity buffer)	121	124	119	113	112	111	110	107	105	102
In percent of ARA (excluding commodity buffer)	140	141	135	128	124	122	121	117	114	111
Real effective exchange rate (percentage change, + = appreciation)	-5.9	-7.7	-3.2	-4.8	...	...	...	...	...	...

Sources: Banco de la República; and IMF staff estimates and projections.
1/ GNFS stands for goods and nonfactor services; MLT stands for medium and long-term.
2/ Includes foreign holdings of locally issued public debt (TES).
3/ Original maturity of less than 1 year. Stock at the end of the previous period.
4/ IMF definition that excludes Colombia's contribution to Fondo Latinoamericano de Reservas (FLAR) and includes valuation changes of reserves denominated in other currencies than U.S. dollars.
5/ Estimated for 2022.

Table 9. Colombia: External Debt Sustainability Framework, 2019-28

(In percent of GDP, unless otherwise indicated)

	Actual						Projections						
	2019	2020	2021	2022			2023	2024	2025	2026	2027	2028	**Debt-stabilizing non-interest current account 6/**
Baseline: External debt	50.1	66.6	62.2	63.0			**68.1**	**68.3**	**67.9**	**66.8**	**65.9**	**65.4**	**-3.5**
Change in external debt	3.4	16.5	-4.4	0.8			5.0	0.2	-0.3	-1.1	-0.9	-0.4	
Identified external debt-creating flows (4+8+9)	3.2	11.6	-5.5	-2.3			2.2	1.0	0.0	-0.5	-0.6	-0.8	
Current account deficit, excluding interest payments	2.3	1.1	3.5	3.8			2.3	1.7	1.5	1.5	1.5	1.4	
Deficit in balance of goods and services	4.4	4.8	6.3	4.8			4.7	4.7	4.4	4.3	4.4	4.2	
Exports	15.9	14.1	16.0	21.1			20.0	19.1	18.3	17.6	17.1	16.8	
Imports	20.3	19.0	22.2	25.9			24.7	23.7	22.7	21.9	21.4	21.0	
Net non-debt creating capital inflows (negative)	-2.2	-0.7	-0.9	-3.1			-2.3	-2.4	-2.4	-2.5	-2.7	-2.7	
Automatic debt dynamics 1/	3.2	11.2	-8.1	-3.1			2.2	1.7	0.9	0.5	0.5	0.5	
Contribution from nominal interest rate	2.3	2.4	2.1	2.5			2.9	3.0	2.8	2.7	2.6	2.6	
Contribution from real GDP growth	-1.5	4.3	-6.2	-4.3			-0.6	-1.3	-1.9	-2.2	-2.1	-2.1	
Contribution from price and exchange rate changes 2/	2.4	4.5	-4.0	-1.2			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	0.2	4.8	1.1	3.1			2.8	-0.8	-0.3	-0.6	-0.3	0.3	
External debt-to-exports ratio (in percent)	315.6	470.7	390.1	299.0			339.8	358.0	371.8	379.7	386.1	389.8	
Gross external financing need (in billions of US dollars) 4/	48.5	46.9	55.2	59.3			59.7	63.1	62.3	66.5	69.6	70.5	
in percent of GDP	15.0	17.4	17.3	17.2			17.8	18.2	17.1	17.3	17.2	16.5	
Scenario with key variables at their historical averages 5/					10-Year Historical Average	10-Year Standard Deviation	**68.1**	**72.3**	**77.4**	**82.4**	**88.0**	**94.7**	**1.9**
Key Macroeconomic Assumptions Underlying Baseline													
Real GDP growth (in percent)	3.2	-7.3	11.0	7.5	3.3	4.7	1.0	1.9	2.9	3.3	3.3	3.3	
GDP deflator in US dollars (change in percent)	-6.3	-9.8	6.2	0.5	-3.4	9.7	-3.6	1.8	1.9	2.0	2.0	2.0	
Nominal external interest rate (in percent)	4.8	4.0	3.8	4.3	4.1	0.3	4.4	4.5	4.3	4.2	4.2	4.2	
Growth of exports (US dollar terms, in percent)	-4.5	-25.5	32.9	42.7	2.7	22.9	-7.5	-1.2	0.5	1.5	2.2	3.7	
Growth of imports (US dollar terms, in percent)	1.9	-21.6	38.1	25.7	3.8	18.5	-7.0	-0.4	0.3	1.6	3.1	3.5	
Current account balance, excluding interest payments	-2.3	-1.1	-3.5	-3.8	-2.9	1.2	-2.3	-1.7	-1.5	-1.5	-1.5	-1.4	
Net non-debt creating capital inflows	2.2	0.7	0.9	3.1	2.0	0.9	2.3	2.4	2.4	2.5	2.7	2.7	

Source: IMF staff estimates.

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

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

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

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

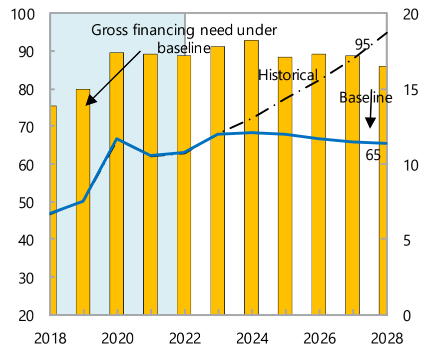
5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

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

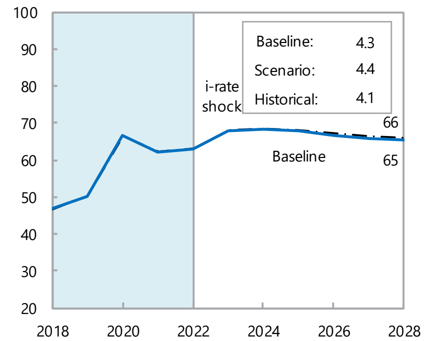
Table 10. Colombia: External Debt Sustainability: Bound Tests 1/ 2/

(External debt in percent of GDP)

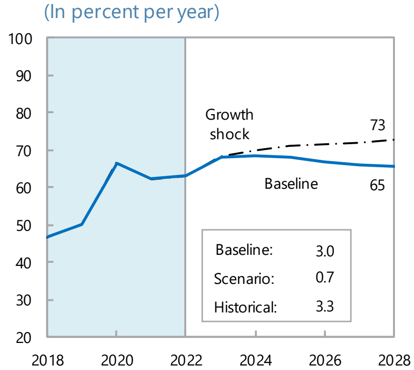
Baseline and Historical Scenario
(In percent of GDP)



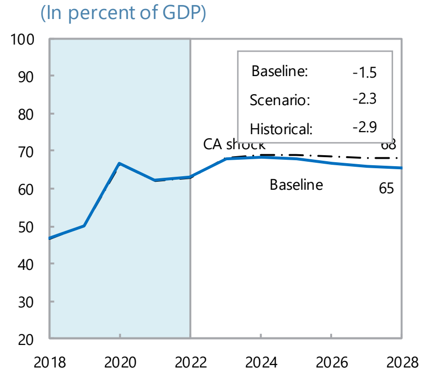
Interest Rate Shock
(In percent)



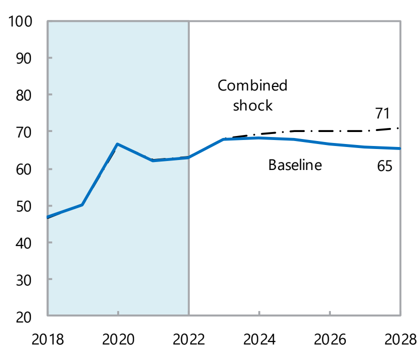
Growth Shock
(In percent per year)



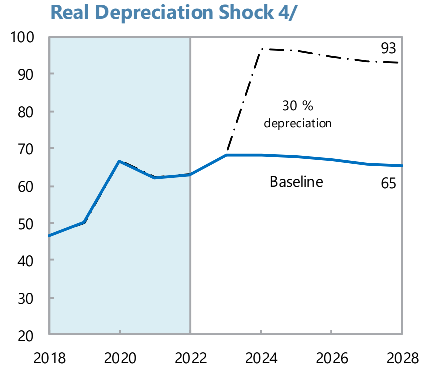
Non-Interest Current Account Shock
(In percent of GDP)



Combined Shock 3/



Real Depreciation Shock 4/



Sources: Country authorities and IMF staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
4/ One-time real depreciation of 30 percent occurs in 2022.

Table 11. Colombia: Capacity to Repay Indicators Under Adverse Scenario, 2019-28 1/

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Exposure and Repayments (In SDR millions)										
GRA credit to Colombia	--	3,750.0	3,750.0	3,750.0	10,905.7	9,030.7	7,155.7	4,472.3	894.5	--
(In percent of quota)	--	183.4	183.4	183.4	533.4	441.7	350.0	218.7	43.7	--
Charges due on GRA credit 2/	--	--	--	--	445.6	528.9	421.5	336.7	150.7	21.1
Debt service due on GRA credit 2/	--	--	--	--	445.6	2,403.9	2,296.5	3,020.1	3,728.6	915.6
Debt and Debt Service Ratios 3/										
In percent of GDP										
Total external debt	50.1	66.6	62.2	63.0	88.0	67.3	67.0	65.9	65.0	64.6
Public external debt	30.1	42.7	40.6	39.9	58.2	43.0	42.0	40.7	39.6	39.1
GRA credit to Colombia	--	1.9	1.7	1.5	5.8	3.5	2.6	1.6	0.3	--
Total external debt service 4/	12.4	16.0	13.5	13.4	18.1	16.6	15.7	17.3	17.0	15.1
Public external debt service 4/	3.0	2.7	3.2	1.8	4.1	3.4	2.4	4.0	3.5	2.0
Debt service due on GRA credit	--	--	--	--	0.2	0.9	0.8	1.1	1.2	0.3
In percent of Gross International Reserves										
Total external debt	222.7	220.8	239.8	285.6	365.9	370.1	381.1	392.0	403.7	417.9
Public external debt	133.5	141.6	156.5	181.0	242.2	236.3	238.6	242.0	246.0	252.8
GRA credit to Colombia	--	8.9	9.2	8.8	32.2	26.0	20.3	12.5	2.5	--
In percent of Exports of Goods and Services										
Total external debt service 4/	77.8	113.0	84.9	63.8	75.8	87.2	86.0	98.2	99.6	90.1
Public external debt service 4/	19.0	19.3	20.3	8.6	17.3	18.0	13.0	22.5	20.8	11.9
Debt service due on GRA credit	--	--	--	--	1.0	4.9	4.6	6.0	7.2	1.7
In percent of Total External Debt										
GRA credit to Colombia	--	2.9	2.7	2.3	6.5	5.2	3.9	2.4	0.5	--
In percent of Public External Debt										
GRA credit to Colombia	--	4.5	4.1	3.7	9.9	8.2	6.3	3.8	0.7	--
Memo Items:										
U. S. dollars per SDR (period average)	1.38	1.39	1.42	1.34	1.35	1.35	1.35	1.34	1.34	1.33
Oil Price (WEO APSP, US$ per barrel)	61.4	41.8	69.2	96.4	81.9	77.1	72.6	69.1	66.4	64.3

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

1/ Assumes full drawing on the current FCL (350 percent of quota) on March 15, 2023. The adverse scenario is taken from the 2022 FCL approval: a shock to exports (about 25 percent), reduced disbursements (20 and 30 percent for public and private sectors, respectively), and use of reserves.

2/ Based on interest rate of 3.824 percent (as of December 15, 2022).

3/ Staff projections for external debt, GDP, gross international reserves, and exports of goods and services reflect the adverse, and not the baseline, scenario under which the full FCL drawing is assumed.

4/ Excluding local-currency government securities TES (which have foreign participation).

Annex I. Recommendations of the 2022 Article IV Consultation and Authorities' Actions

Fund Recommendation	Policy Action
Monetary Policy	
Amid low excess capacity and negative real interest rates, accelerated monetary tightening by the central bank is appropriate to control rising consumer prices and prevent second-round effects from supply side factors.	The central bank pro-actively reacted to the buildup of inflationary pressures and raised the policy rate by 900 basis points in 2022.
Financial Sector	
Given legacy effects and debt vulnerabilities from past credit cycles, monitoring of household and corporate indebtedness remains important for managing macrofinancial risks. If consumer debt maturities were to lengthen, provisioning requirements should be raised accordingly.	The authorities are closely monitoring financial sector vulnerabilities, while reinforcing an already sound regulatory framework, including by (i) improving data collection on household balance sheets, (ii) strengthening systemic risk analysis, and (iii) increasing provisioning requirements when consumer loan maturities are lengthened.
Fiscal Policy	
The strong economic recovery is an opportunity to strengthen public finances that were weakened by the pandemic, including further deficit reduction in the near term. Securing new revenue sources will be paramount to safeguarding key social protection programs and public investment in the future, while supporting a faster reduction in the debt level. These new revenue sources should be complemented by spending efficiency measures.	The authorities enacted a tax reform making Colombia's tax system more progressive, while mobilizing about 1¼ percent of GDP to expand social spending and reduce high inequality, while facilitating fiscal consolidation. The new national development plan includes initiatives to strengthen the social benefit system (SISBEN IV), including through the creation of a new social registry to better identify recipients.
Structural Reforms	
Structural policies should be deployed to bolster inclusive growth and external competitiveness—including reducing labor market informality, completing the infrastructure agenda, strengthening governance, and further addressing trade (tariff and non-tariff) barriers. Continued implementation of the National Policy on Climate Change is key to pursuing a sustainable, green recovery.	Following the tax reform, the government is extending an unconditional transfer program, enhancing the role of public service provision, and improving quality and access. The government is also advancing the climate and productivity agenda.

Annex II. External Sector Assessment, 2022

Overall Assessment: *Staff assesses that the external position in 2022 was weaker than implied by medium-term fundamentals and desirable policies, although policy tightening underway is supporting a slowdown in import volumes and a depreciation of the real exchange rate to help correct the imbalance. Mitigating factors include the diversity and relative stability of capital flows, the high share of FDI, the negative correlation between the income balance and the trade balance, adequate reserve coverage, the favorable composition of external debt with long maturities, sizable peso-denominated debt for sovereign bonds, high natural and financial hedges for corporate bonds, and a flexible exchange rate that has continued as a long-serving primary mechanism of adjustment to external shocks.*

Potential Policy Responses: *Continued tightening of macroeconomic policies will be critical to narrow the current account deficit. In particular, and against a backdrop of tighter global financial conditions, efforts will be required to sustain fiscal consolidation over the medium term. Consideration should be given to secure a fiscal balance path above the fiscal rule path to strengthen the convergence of public debt to its medium-term anchor. In addition, the energy transition and other reform efforts will need to be carefully calibrated to protect Colombia's very strong policy framework and external sustainability. Efforts to diversify the country's export base should continue through measures that strengthen the investment climate and bolster human capital, openness to trade, and competitiveness. For strengthening competitiveness, efforts should be directed to address logistic bottlenecks, foster competition, and lower barriers to entry.*

Foreign Assets and Liabilities: Position and Trajectory

Background. Colombia's NIIP was -51.7 percent of GDP at end-2022, 1.3 percent of GDP lower compared to end-2021 (-50.4 percent of 2021 GDP). The change was driven mainly by an increase in other investment liabilities and some reduction in the value of portfolio assets. During the last five years (2017-2022), the increase in liabilities (up 18 percent of GDP driven by FDI) has more than offset the increase in assets (up 11 percent of GDP, driven by portfolio investment). Excluding FDI, the NIIP stood at only -5 percent of GDP, the same as at end-2017. Considering only reserve assets and debt liabilities, the net position was -44 percent.

Assessment. Estimated gross external financing needs amounted to 17.2 percent of GDP for 2022, broadly the same as in 2021 (17.3 percent of GDP). The external stability (ES) approach suggests a need for an external adjustment. The estimated medium-term current account balance required to stabilize the NIIP at its end-2022 level is -3.5 percent of GDP, which is narrower than the medium-term baseline. The large share of FDI, whose risk-sharing properties can mitigate the risks of a falling NIIP, as well as a net long foreign currency position, may permit a slower adjustment.

2022 (% GDP)	NIIP: -52	Gross Assets: 69	Reserve Assets: 17	Gross Liab.: 121	Debt Liab.: 61

Current Account

Background. The current account deficit (CAD) rose from 5.6 percent of GDP in 2021 to 6.2 percent of GDP in 2022, despite terms or trade improving (about 20 percent y/y) and robust export growth, including in non-traditional exports (18 percent in value; 10 percent volumes), even though *La Niña* affected coffee production and exports. Reflecting dynamic domestic demand, imports grew 26 percent in value and 14 percent in volume, with trade data showing lower volume growth during 2022Q4. Weakness in oil export volumes reflect the still lingering effects from the production shutdowns during the 2021 protests. Increased profit transfers abroad, reflecting the significant FDI in Colombia, also contributed to the increase in the current account deficit. Policy tightening underway is helping to reduce the current account imbalance, which is expected to narrow over the medium-term to around 4 percent of GDP. Prospects of increased exports to Venezuela could lead to a faster and stronger narrowing.

Assessment. Model estimates indicate a cyclically-adjusted CAB norm of -1.3 percent of GDP and a CAB gap of -6.5 percent of GDP for 2022. Identified policy gaps are assessed to be small (-0.2 percent of GDP), with the fiscal gaps are contributing -0.3 percent of GDP. As in previous exercises (2019-21), adjustments to account for Colombia-specific factors remain necessary and involve: (i) reducing the contribution of oil exports to the norm by 1.3 percent of GDP, given Colombia's investment needs necessary to boost competitiveness;[1] and (ii) reducing the norm by an additional 0.5 percent of GDP, given the need to absorb the large stock of migrants from Venezuela.[2] Additional adjustments are warranted in 2022 to properly take into account the cyclical effects of the COVID-19 crisis (0.8 percent of GDP);[3] weather effects (*La Niña*) that affected agricultural production and exports (0.12 percent of GDP). The combined adjustments above reduce the CAB gap to -3.7 percent of GDP, with a standard error of +/-0.7 percent of GDP.

2022 (% GDP)	Estimated CA: -6.2	Cycl., Adj. CA: -7.8	EBA Cycl. Adj. CA Norm: -1.3	EBA CA Gap: -6.5	COVID-19 Adj.: 0.8	Other Adj.: 1.9	Staff CA Gap: -3.7

Real Exchange Rate

Background. The average Real Effective Exchange Rate (REER) depreciated 4.8 percent in 2022, following a depreciation of 3.2 percent in 2021 and 7.7 percent in 2020. The REER was 35 percent weaker than in 2014 owing to generally lower terms of trade. The average nominal effective exchange rate (NEER) depreciated 7.3 percent in 2022.

Assessment. Overall, staff judges the REER gap consistent with the CAB gap as 31 percent, although with a wide range of uncertainty (+/- 6 percentage points), given large unexplained residuals that have been persistently biased, and which are amplified by the arithmetic of a low semi-elasticity. Applying a semi-elasticity of -0.12 to the gap from the CAB approach suggests a REER overvaluation of between 25 and 37 percent, while application of the external sustainability approach implies an overvaluation of 35 percent in 2022. EBA REER approaches estimate an undervaluation of 46 percent (index method) and 25 percent (level method) in 2022.

Capital and Financial Accounts: Flows and Policy Measures

Background. In the past several years CADs have been financed primarily by capital inflows (FDI and portfolio debts securities). For 2022 net FDI inflows are estimated at 5 percent of GDP, diversified across sectors. Portfolio inflows, mostly in the form of non-residents in the domestic government debt market, amounted to 0.8 percent of GDP. Short-term debt, mainly private, represented 7.9 percent of external debt, similar to its level in 2021 (7.8 percent). The government issued sovereign bonds to partly pre-finance 2023 needs and further diversified its foreign funding sources by borrowing from multilateral institutions.

Assessment. The relative stability of FDI flows, diversification of creditors, strong policy frameworks, and a track record of uninterrupted market access have underpinned capital inflows, including around periods of stress. Colombia's attractiveness as an investment destination should continue to support external investment flows particularly once uncertainties around energy transition policies are dissipated.

FX Intervention and Reserves Level

Background. Gross international reserves amounted to $56.7 billion at end-2022, $1.3 billion less than in 2021 mainly due to valuation effects. The central bank did not intervene in the FX market during 2022.

Assessment. The flexible exchange rate has long served as the primary mechanism of adjustment to external shocks. Depreciations have cushioned export receipts, albeit mostly through local-currency prices owing to dollar-pricing of exports, and aided import compression. Reserve coverage remains adequate. For 2022, reserve coverage (including the commodity buffer) reached 113 percent of the ARA metric, and 128 percent if the commodity buffer is excluded.[4] Access to unused resources available under Colombia's FCL provides an additional liquidity buffer equivalent to 19 percent of the ARA metric that includes the commodity buffer. Further reserve accumulation would help insure against elevated external risks.

[1] The contribution of oil exports is adjusted downward to account for Colombia's investment needs relative to the EBA sample. As in the 2019, 2020, and 2021 Article IV reports, this is based on Colombia's infrastructure gap relative to rivals in export markets, higher public fixed capital formation, and relatively efficient practices in public investment management.

[2] The adjustment is the same as in the 2020, 2021 and 2022 Article IV, which is consistent with a constant stock of migrants. The adjustment is lower than in the 2019 Article IV and conservative relative to the adjustment implied by the EBA model's population coefficient.

[3] This adjustor relates to the impact of the crisis on (1) the travel services balance (including tourism) due to restrictions on international travel; (2) trade in medical products triggered by the health emergency; and (3) the shift in household consumption composition from services to durables and other consumer goods.

[4] To capture the uncertainty in commodity prices, we proxy commodity price volatility using oil options prices and apply that to baseline oil export values.

Annex III. Risk Assessment Matrix

Risk Assessment Matrix (February)[1]		
Source of Risks (Probability in color; time horizon in bold)	**Impact**	**Policy Advice for Colombia**
Global		
Abrupt Global Slowdown or Recession. Global and idiosyncratic risk factors combine to cause a synchronized sharp growth downturn, with recessions in some countries, adverse spillovers through trade and financial channels, and markets fragmentation. **EMDEs**: A new bout of global financial tightening, possibly combined with volatile commodity prices, leads to spiking risk premia, debt distress, widening of external imbalances, fiscal pressures, and sudden stops. **Medium**	**High**	In a global recession scenario, use existing policy space to support the economy and protect the most vulnerable, consistent with the inflation targeting framework and fiscal sustainability. The strength and mix of the monetary and fiscal response would depend on Colombia's cyclical position and the impact of shocks. Allow the exchange rate to play its role as shock absorber.
Systemic Financial Instability. Sharp swings in real interest rates, risk premia, and assets repricing amid economic slowdowns and policy shifts trigger insolvencies in countries with weak banks or non-bank financial institutions, causing market dislocations and adverse cross-border spillovers. **Medium**	**High**	Use the flexible exchange rate as the first line of defense against external shocks. Targeted liquidity interventions, including unconventional measures like asset purchases, can address disorderly market conditions, as can the use of international reserves, if needed. The government needs to continue implementing its medium-term fiscal consolidation adjustment plans to build credibility in the fiscal framework and reduce further pressures on sovereign yields.
Intensification of Regional Conflict(s). Escalation of Russia's war in Ukraine or other regional conflicts and resulting economic sanctions disrupt trade (e.g., energy, food, tourism, and/or critical supply chain components), remittances, refugee flows, FDI and financial flows, and payment systems. **High**	**Medium**	If inflationary pressures build up, extend the tightening cycle within the inflation-targeting framework. Allow the exchange rate to play its role as a shock absorber. Provide targeted fiscal support to vulnerable groups, mindful of the need to comply with the medium-term fiscal framework and curb demand pressures.
Commodity Price Volatility. A succession of supply disruptions (e.g., due to conflicts and export restrictions) and demand fluctuations (e.g., reflecting China reopening) causes recurrent commodity price volatility, external and fiscal pressures, and social and economic instability. **Medium**	**High**	Use the flexible exchange rate as the first line of defense against external shocks. If needed, deploy reserves to mitigate the impact of potentially weaker capital

Risk Assessment Matrix (February)[1]		
Source of Risks (Probability in color; time horizon in bold)	**Impact**	**Policy Advice for Colombia**
		outflows. Reduce reliance on oil-related tax revenues. Speed up structural reforms to enhance external competitiveness and economic diversification.
Colombia Specific Risks		
A disorderly transition towards cleaner energy **Low**	**High**	Reprioritize structural reforms to enhance external competitiveness and diversification. A tighter fiscal stance than the one set out by the medium-term fiscal framework would be necessary. Provide monetary accommodation.
Social Unrest. Persistently high inflation, including in energy and food, slowing economic growth, unmet social demands, or the protracted constitutional reform amplify risks of social unrest. Political polarization and instability weaken policymaking and confidence. **Medium**	**High**	Advance reforms to tackle social demands, anchored on broad political support. Continue with policies to achieve the inflation target and maintain fiscal sustainability, while providing targeted support to the most vulnerable.
Shortfalls in mobilizing tax revenue leads to large cuts in public investment and social spending, adversely affecting growth and poverty reduction or lead to relaxation of the fiscal rule and higher public debt. **Medium**	**High**	Broaden the base for personal income taxes and VAT (with targeted transfers for vulnerable groups affected) and strengthen revenue administration over time. Reprioritize public investment projects.
A stronger than expected economic recovery in Venezuela and a reopening of trade relations leads to increased demand for Colombian exports, positively affecting growth and narrowing the current account deficit. **Medium**	**High**	Speed up structural reforms and diversification measures. Continue with policies to integrate Venezuelan migrants to the labor force.

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

Annex IV. Implementation of the 2022 FSAP Key Recommendations

Recommendation	Time[1]
Banking Supervision	
Introduce necessary legal amendments to strengthen the independence of the SFC: (i) specifying that the Superintendent is appointed for a minimum term and removed from office only for reasons specified in the law; and (ii) provide explicit legal protections to the SFC. **Update**: The appointment and the condition for removing the Superintendent is regulated via Decree 1817 issued in September 15 of 2015. The conditions are regulated by the mentioned decree. However, the minimum term has not yet be regulated by higher order legislation.	MT
Develop more specific guidance/regulations on concentration, transfer and country risks, related party transactions, internal capital assessment and the IRRBB. **Update:** – External Circular 025, 2022 (November 17, 2022) was issued with explicit instructions on the Interest Rate Risk on the Banking Book Risk Management (IRRBB). These requirements were also added to the Internal Risk Management Framework (SIAR for its Spanish acronym) which compiles all the instructions regarding the identification, measurement, control, and monitoring of each risk financial institutions are expected to manage. – Concentration risk: Analytical work continues to be in place (Technical Assistance planned for March, 2023). – Transfer and country risk: The SFC included explicit requirements on the transfer and country risk management in External Circular 18, 2021 (September 22, 2021) which compiles each individual risk management framework on a single chapter named SIAR (Chapter 31 on Integrated Risk Management Framework of *Circular Básica Contable y Financiera*). – Internal capital assessment and liquidity: An internal draft was prepared, and it is under review and due by end of February, 2023.	MT
Establish a consolidated body of requirements on related-party transactions. **Update:** Decree 1533 (August 4, 2022) was issued to establish rules for managing large exposures following the Basel framework. Secondary regulation by SFC is under preparation and expected to be issued before January 2024. Supervised entities must comply with this new framework no later than august 4th, 2026.	ST
Readjust or determine some parameters used in the computation of the local LCR and NSFR ratios to further align with Basel III requirements and require the local NSFR ratio to be also calculated at a consolidated level. **Update:** NSFR: according to External Circular 021 of 2022, the transition period for some weights ends in March 2023. Specifically, ASF (*Available Stable Funding*) weights for deposits of financial institutions and open-end mutual funds will be decreased from 25 percent (as a gradual implementation was considered) to 0 percent, which constitutes the last remaining deviation from the Basel III standard in this indicator. LCR: the SFC considers deviations from the Basel III standard, particularly those referring to the run-off factors are not planned to be modified in the near future, since they reflect the particularities of the local market, unless there is statistical evidence to suggest the parameters that were calibrated using historical data have changed. (Basel III, paragraph 70 allows some discretionary choice).	MT

<table>
<tr><th>Recommendation</th><th>Time</th></tr>
<tr><td>Maintain a direct and intrusive supervision of banks by the SFC, including an adequate level of on-site inspections, and avoid over-reliance on external and internal auditors when performing supervisory tasks.</td><td>ST</td></tr>
<tr><td>Update: Acknowledging the existence of the risk-based supervision framework (MIS, for its Spanish acronym or Integrated Supervisory Framework), the SFC does not rely on internal audits to perform its supervisory procedures. Internal audit results become relevant whenever this function is rated as <u>Strong</u>. On-site supervision is a fundamental part of the supervisory exercises carried out in the SFC. Changes in the figures (see below table) are the outcome of adopting new supervisory tools (post COVID-19), rather than relying on internal auditors.

<table>
<tr><th></th><th>2018</th><th>2019</th><th>2020</th><th>2021</th><th>2022</th></tr>
<tr><td>On-Site inspections by year</td><td>100</td><td>106</td><td>36</td><td>75</td><td>60</td></tr>
</table>
</td><td></td></tr>
<tr><td>Macroprudential Oversight</td><td></td></tr>
<tr><td>Strengthen the role of the central bank in systemic risk monitoring and of the Banco de la República (BR) and the Superintendency of Financial Institutions in macroprudential decision-making.

Update: The CCSSF's (Financial System Coordination and Monitoring Committee - Comité de Coordinación para el Seguimiento al Sistema Financiero) rules of procedures were updated to strengthen the role of the central bank. Common stress scenarios were prepared by SFC and the central bank, and they were presented to CCSSF on December 5, 2022.</td><td>ST</td></tr>
<tr><td>Expand LTV and DSTI tools to cover leasing products and the DSTI tool to include nonmortgage debt.

Update: Authorities view that External Circular 026, 2022 (29 November 2022) with the term provisioning aims at preventing debt overhang in the consumer loan portfolio. DSTI metrics cover all loans portfolio and products (Consumer/Credit Cards/Payrolls/Mortgages/Open Destination/Vehicles).</td><td>ST</td></tr>
<tr><td>Close data gaps in the areas of cross-border exposures and household indebtedness.

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

Recommendation	Time
its Addendum of 2015 were unified into a single document.) The CCSBSO General Assembly of December 19th, 2022, it was approved the text of another MoU between the members of the Council for resolution matters. The central bank also included cross-border exposure risks into its stress testing.	
Risk Analysis	
Strengthen the ability to monitor cross-border exposures and conduct a fully consolidated stress-testing by filling data gaps on the exposures and risk metrics of ultimate subsidiaries. **Update:** Memoranda of Understanding were signed between supervisors in CAM and Colombia (see above) on data exchange and stress tests using consolidated data on exposures and risk metrics. Stress testing exercises comprise foreign exposure risks.	ST
Extend data collection to monitor liquidity risks by currency. Collect more granular data on assets and liabilities generating cashflows, including those related to cross-border exposures. **Update:** Over the short term, the SFC and the BR requested information from credit institutions to measure the NSFR by currency. Information is expected to be submitted in June 2023 and the draft regulation will be issued in 1H2024. Since Banco de la Republica calculates liquidity ratios by different currencies (the Individual Exposure Index on the Short-Run (IEI) and the Consolidated Exposure Index (IEC)), over the medium term SFC plans to work together with the central bank to merge the short term liquidity indicators (IRL, IEI, and IRL) to arrive at a common indicator by currency.	ST
Develop network analysis tools and improve data coverage to bolster EWS for domestic and cross-border contagion. **Update:** Preliminary version of network analysis model was developed by SFC and a Technical Assistance mission is scheduled in March 2023 to further refine the methodology, including some parameters that are expected to be calibrated using local data. Cross-border contagion risks were incorporated in both the SFC's and Banco de la Republica's stress testing exercises.	ST
Climate Risks and Opportunities	
Adopt a risk-based approach in supervision for climate-related risks and continuously improve information disclosures (both by nonfinancial corporates and by financial institutions) and data availability. **Update:** – Implementation of green taxonomy for the financial system (External Circular 005, 2022; April 8, 2022) would improve availability of climate related data. – SFC issued guidelines on the supervisory expectations on ESG management in credit institutions. (Documento Técnico para la Administración de Riesgos y Oportunidades Climáticas para los Establecimientos de Crédito, April 20, 2022.) – SFC issued "Roadmap for Greening the Colombian Banking System" on the taxonomy, financial innovation, ESG adoption, data metrics and information, and climate risk measurement and supervision. – External Circular 031, 2021 (22 December 2021), for issuers regarding ASG and climate reporting. It specifically asks the largest issuers to disclose their ASG and climate risks and opportunities against TCFD and SASB. – SFC issued External Circular 07 (10 May 2021), External Circular 08, 2021 (26 April 2021), and a draft guideline on supervisory regulation on ESG management for pension fund administrators (November 04, 2020, updated on May 3, 2021). – Climate risk exercise was performed with asset managers and pension funds.	MT

Recommendation	Time
Resolution, Crisis Management and Safety Nets	
Strengthen the operational independence of the Resolution Unit (GR). **Update:** According to the authorities view, the operational independence of the Resolution Unit (Grupo de Resolución - GR) is well established even though it directly reports to the Deputy Superintendent for Financial Intermediaries and Insurance Companies, and it is separated from other SFC divisions.	ST
Make the financial institutions responsible for recovery planning, requiring use of a wide range of risk scenarios and identification of mitigating measures. Make the GR responsible for resolution planning. **Update:** Four systemic banks have submitted resolution plans to SFC and these plans are under evaluation. Draft regulation on ICAAP, ILAAP and recovery planning was released for internal comments by the end of February 2022 at SFC.	ST

Recommendation	Time
The mandates and tasks of the resolution unit and the deposit insurer (Fogafin) should be streamlined. These entities manage different parts of the resolution process that should be brought together. **Update:** The execution of the coordinated resolution strategy (by SFC and Fogafin) corresponds to each authority according to its own mandate. The law provides a framework for the action of each authority and coordination instances to discuss interventions. Unifying the resolution process would require a drastic structural reform that must be passed in Congress (reform of the EOSF). The SFC performs recovery planning exercises, and the systemic entities have been required to develop resolution plans (RP). The Intersectoral Resolution Commission -CIR-, which is a technical body made up of officials specifically designated by both the SFC and Fogafin. In 2022 the SFC received the first version of these RP, and therefore is working on the first comments. The SFC has set criteria to define which new entities will be obliged to present RP. In the first quarter of 2023, two more entities will have to establish RP and have their first version by the end of the year.	MT
Strengthen resolution tools by: (i) giving Fogafin the flexibility to conduct purchase and assumption powers with only insured deposits (as opposed to current obligation to package all deposits, both insured and uninsured); (ii) restrict the ability of Fogafin to be the shareholder of restructured or bridge banks; and (iii) consider establishing bail-in powers as a resolution tool. **Update:** (i) Authorities view that to meet the objectives of preserving the stability of the financial system by minimizing the negative impact of the bankruptcy of one or more banks in the economic activity and maintaining the confidence of depositors, as well as preserving the value of deposits and productive assets that are transferred as part of the operation. Including all deposits in a P&A. According to the authorities view the regulation is flexible in the selection of other liabilities, in case Fogafin considers their transfer important to maintain the stability of the financial system. However, Fogafin will work on requesting an adjustment to Decree 521 of 2018, to achieve greater leeway to select only the insured amount. (ii) In Colombia, it is Fogafin that provides the necessary resources to achieve the matching of assets and liabilities in the structuring of a P&A and is, therefore, the main shareholder of the bridge bank to which such items are transferred if the operation is not carried out with another credit institution already	MT

Recommendation	Time
operating in the market. In addition to the matching mentioned above, it is also necessary to provide capital resources for the operation of the bridge bank. Fogafin understands that there is tension between its role as a shareholder of the bridge bank and its role as a resolution authority. According to Fogafin this tension is mitigated by the temporary nature of its ownership, as well as by the compliance of the bridge bank with the general structural and prudential regulation and the convergence towards compliance with those regulatory aspects from which the bank has been exempted in Colombia. To establish mechanisms that strengthen control of the potential conflict of interest, Fogafin included in its 2021-2025 strategic planning, elaborating a study with the purpose of mitigating this effect. (iii) According to Fogafin, as banks liability structure in Colombia is mainly composed of deposits, so a bail-in mechanism is not currently applicable or practicable. However, the Financial System Safety Net acknowledges that the ability to execute a bail-in reduces resolution costs and promotes market discipline. Hence, its adoption as a resolution tool is a matter of further analysis Fogafin has planned to conduct a study on this subject in its 2021-2025 strategic plan.	
Fogafin's financing should be limited to resolution funding (i.e., financing that is used to support the use of resolution powers and achieve the resolution objectives). **Update:** According to Fogafin the broad set of interventions to handle the crisis at the end of the 90s, are present in the legal framework and are of the essence of the Colombian regime. A different approach would require a structural legal reform to be discussed in Congress	ST
Establish guaranteed backup liquidity facility for Fogafin. **Update:** According to the authorities the law expressly defines Fogafin as an autonomous entity and to fully comply with its purpose is to minimize the use of public resources. Fogafin seeks to prioritize and develop the source related to the premiums paid by registered entities, with which the Deposit Insurance reserve is formed, and not to resort in the first instance to the legal possibility of requesting resources from Colombia´s General Budget. In any case, when the resources of the Deposit Insurance reserve are insufficient, the legal framework establishes the adoption of a plan to reconstitute it, which, if it incorporates resources from Colombia´s General Budget or debt operations with a sovereign guarantee, must be approved with the favorable vote of the Minister of Finance and Public Credit (who holds the position of President of the Board of Directors of Fogafin). This becomes imperative for the Ministry of Finance and Public Credit, since the rule (second clause, letter d, numeral 2 of Article 319 of the EOSF) is a matter of national public order, and provides, in the relevant part, that once the Fund makes the request related to its funding requirement, the Ministry of Finance and Public Credit must incorporate in the General Budget the necessary resources or carry out any other operations that may be necessary, in order to preserve the protected legal interest of financial system stability. The Fogafin; the Fund is reviewing the operability of the request for resources to the Ministry of Finance and Public Credit, in order to strengthen the procedure for fulfilling this mandate.	ST
Anti- Money Laundering/ Combating the Financing of Terrorism	
Ensure a swift implementation of the 2018 MER's recommendations to strengthen the overall effectiveness of the AML/CFT regime. **Update**: Colombia provided regular follow-up report to GAFILAT. Recent reports highlighted upgrades in Colombia's AML/CFT framework related to correspondent banking, electronic transfers, high risk countries, statistics, guidance and feedback, customer due diligence, and politically exposed persons.	-

Recommendation	Time
Continue efforts to enhance sanctioning practices so that effective, proportionate, and dissuasive sanctions are applied for AML/CFT breaches **Update:** In mid-2020, the Office of the Deputy Superintendent for money laundering/terrorism financing Risk (DRLAFT) issued upgraded AML/CFT guideline related to preventative measures and imposition of sanctions for lack of compliance with AML/CFT requirements. Due to the new rules, the issuing of administrative orders and the time to initiate sanctioning processes decreased in 2022 which is enhancing the SFC sanctioning practices.	MT
Address ML/TF risks associated with crypto assets and ensure virtual asset service providers are properly licensed, monitored and supervised for AML/CFT compliance **Update:** A pilot project started in September 2020, and to date, 4.057 direct users have participated and 12.317 operations have been generated for a total value of $COP4.9 billion, and 472 unusual operations were identified, which were managed accordingly, identifying and controlling ML/TF risk typologies related to agents that could work indirectly with Darknet, agents sanctioned by the Office of Foreign Assets Control (OFAC), Scams, money laundering by illicit money capture of the public and possible irregular activity by Peer to Peer activity. In addition, some of the participating supervised entities adjusted their alert standards according to the client's profile and the information was integrated into the cryptographic world as in the traditional financial world. SFC has considered that the pilot project results show that supervised entities can adequately manage the risks inherent to linking and providing financial services to such providers or enter into alliances with them. All these activities carried out in this regard by the SFC, will contribute that this entity have a clear position on this issue, in the event that the National Government makes a decision on the matter.	ST

[1] "I- Immediate" is within one year; "NT-near-term" is 1–3 years; "MT-medium-term" is 3–5 years.
Source: Colombian authorities and IMF 2022 FSAP.

Annex V. Public Debt Sustainability Analysis

Figure 1. Colombia: Risk of Sovereign Stress

Horizon	Mechanical Signal	Final Assessment	Comments
Overall	…	Moderate	The overall risk of sovereign stress is moderate. Peso depreciation and tighter financial conditions are preventing a faster reduction in the still-elevated debt level. However, as the medium-term fiscal framework will help contain the debt path and lower financing costs, debt is projected decline over the extended 10-year period. In this regard, debt stabilization crticially depends on meeting the fiscal targets.
Near Term 1/	…	…	
	…	…	
Medium Term	Moderate	Moderate	Medium-term risks are assessed as moderate, mainly as a result of the strength of the fiscal framework in guiding fiscal policy and rebuilding buffers.
Fanchart	Moderate	…	
GFN	Moderate	…	
Stress Test	…	…	
Long Term	…	Moderate	While debt is projected to reach the medium-term debt anchor, the ambitious pension reform and/or a drastic shift away from oil and coal production could affect long-term fiscal sustainability.
Sustainability Assessment 2/	…	Sustainable with high probability	The projected debt path is expected to stabilize and GFNs will remain at manageable levels, conditional on the sustained implementation of fiscal adjustment path set out by the fiscal rule and medium-term fiscal framework. Therefore debt is assessed as sustainable with high probability.
Debt Stabilization in the Baseline			Yes

DSA Summary Assessment

Commentary: Public sector debt is assessed to be sustainable under a wide range of plausible shock scenarios and with high probability, with moderate medium-term sovereign and financing risks. Realism scenarios suggest that the consolidation efforts going forward are somewhat ambitious. However, given tighter financing conditions at home and abroad, the tight fiscal stance and sustained implementation of fiscal plans are critical for debt stabilization. The ambitious pension reform could be an important risk to long-term fiscal sustainability.

Source: Fund staff.

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

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

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

Figure 2. Colombia: Debt Coverage and Disclosures

						Comments
1. Debt coverage in the DSA: 1/	CG	GG	NFPS	CPS	Other	
1a. If central government, are non-central government entities insignificant?					n.a.	
2. Subsectors included in the chosen coverage in (1) above:						
Subsectors Captured in the Baseline					Inclusion	
1 Budgetary Central Government					Yes	
2 Extra Budgetary Funds (EBFs)					No	Not Applicable
3 Social Security Funds (SSFs)					Yes	
4 State Governments					Yes	
5 Local Governments					Yes	
6 Public Nonfinancial Corporations					Yes	
7 Central Bank					No	
8 Other Public Financial Corporations					Yes	
3. Instrument Coverage:	Currency & Deposits	Loans	Debt Securities	Oth Acct. Payable 2/	IPSGSs 3/	
4. Accounting Principles:	Basis of Recording		Valuation of Debt Stock			
	Non-Cash Basis 4/	Cash Basis	Nominal Value 5/	Face Value 6/	Market Value 7/	
5. Debt Consolidation across Sectors:		Consolidated		Non-Consolidated		

Subsector groupings (rows): CG = 1; GG: Expected = 1–5; NFPS = 1–6; CPS = 1–8.

Color Code: Chosen Coverage; Missing from Recommended Coverage; Not Applicable

Chosen coverage: NFPS; subsectors 1, 3, 4, 5, 6, 8; Currency & Deposits, Loans, Debt Securities; Cash Basis; Nominal Value 5/; Consolidated. Missing from recommended coverage: Extra Budgetary Funds (EBFs); Oth Acct. Payable 2/; IPSGSs 3/. Not applicable: Central Bank.

Reporting on Intra-Government Debt Holdings

Issuer \ Holder	Budget. Central Govt	Extra-Budget. Funds (EBFs)	Social Security Funds (SSFs)	State Govt.	Local Govt.	Nonfin. Pub. Corp.	Central Bank	Oth. Pub. Fin Corp	Total
1 Budget. Central Govt									0
2 Extra-Budget. Funds									0
3 Social Security Funds									0
4 State Govt.									0
5 Local Govt.									0
6 Nonfin Pub. Corp.									0
7 Central Bank									0
8 Oth. Pub. Fin. Corp									0
Total	0	0	0	0	0	0	0	0	0

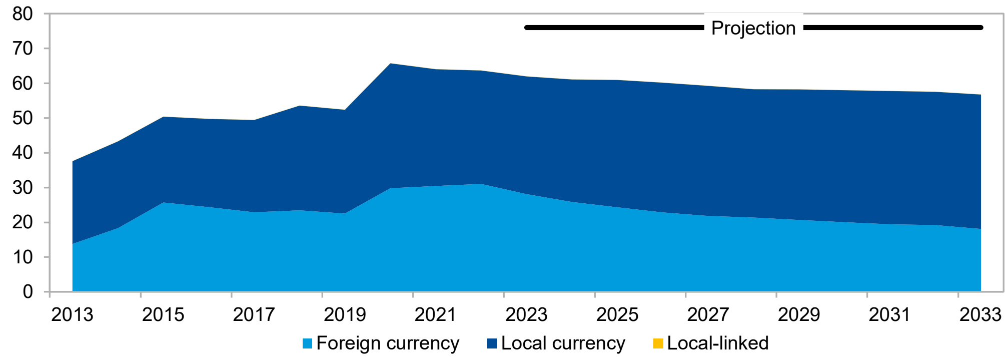
Commentary: The public debt figures reported for Colombia cover the non-financial public sector and the financial public sector (Finagro and Fogafin). The non-financial public sector covers the central government, regional and local governments, decentralized entities, and Ecopetrol. Public debt also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

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

Figure 3. Colombia: Public Debt Structure Indicators

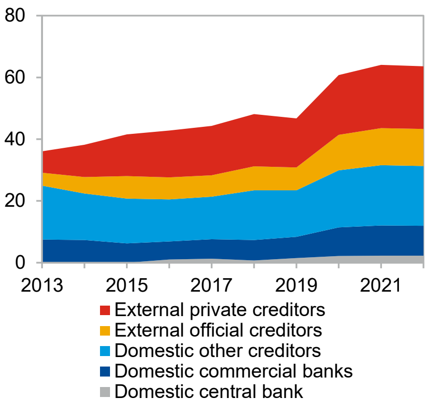
Debt by Currency (percent of GDP)

Debt by Currency (percent of GDP)



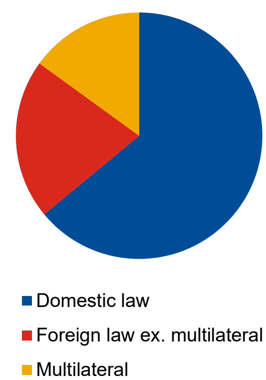
Note: The perimeter shown is nonfinancial public sector.

Public Debt by Holder (percent of GDP)



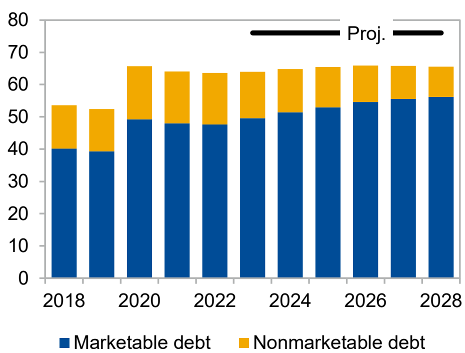
Note: The perimeter shown is nonfinancial public sector.

Public Debt by Governing Law, 2022 (percent)



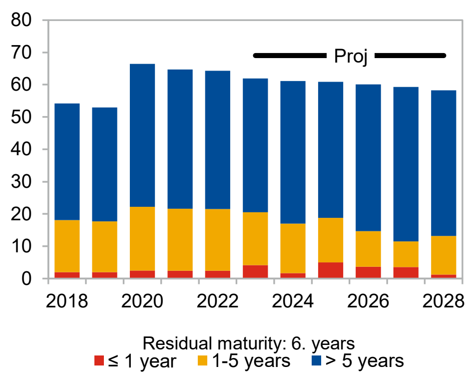
Note: The perimeter shown is nonfinancial public sector.

Debt by Instruments (percent of GDP)



Note: The perimeter shown is nonfinancial public sector.

Public Debt by Maturity (percent of GDP)



Note: The perimeter shown is nonfinancial public sector.

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

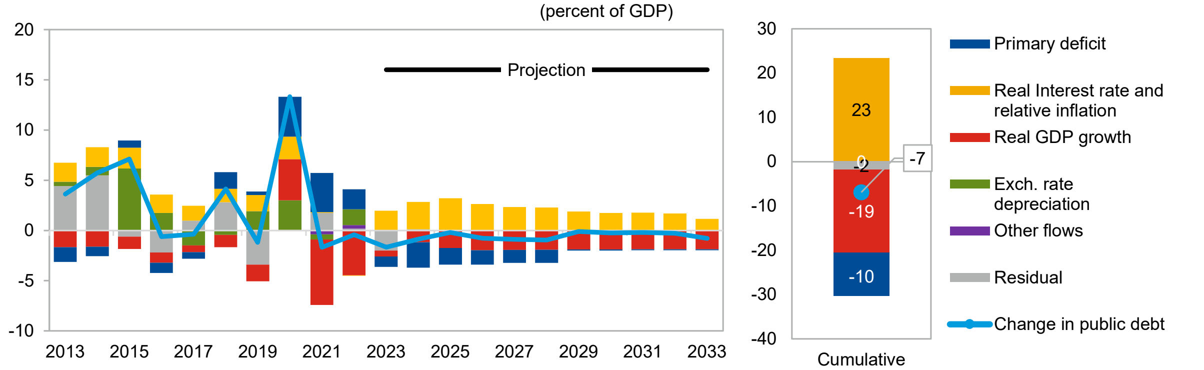
Figure 4. Colombia: Baseline Scenario

(percent of GDP unless indicated otherwise)

	Actual	Medium-term projection						Extended projection				
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Public debt	63.6	62.0	61.1	60.9	60.1	59.2	58.3	58.2	58.0	57.8	57.5	56.7
Change in public debt	-0.4	-1.6	-0.9	-0.2	-0.8	-0.9	-0.9	-0.1	-0.2	-0.2	-0.3	-0.8
Contribution of identified flows	-0.6	0.3	-1.0	-0.2	-0.8	-0.9	-0.9	-0.1	-0.2	-0.2	-0.3	-0.8
Primary deficit	2.0	-1.0	-2.5	-1.7	-1.4	-1.3	-1.3	-0.1	-0.1	-0.1	-0.1	-0.1
Noninterest revenues	27.6	31.4	32.1	31.0	30.6	30.7	30.7	29.8	30.3	30.4	31.0	31.0
Noninterest expenditures	29.6	30.4	29.6	29.3	29.2	29.4	29.4	29.7	30.2	30.3	30.9	30.9
Automatic debt dynamics	-2.9	1.4	1.5	1.4	0.7	0.4	0.4	0.0	-0.1	-0.1	-0.2	-0.7
Real interest rate and relative inflation	-0.1	2.0	2.7	3.2	2.6	2.3	2.3	1.9	1.7	1.8	1.7	1.2
Real interest rate	-2.8	0.4	2.3	3.0	2.4	2.1	2.1	1.7	1.6	1.6	1.5	0.8
Relative inflation	2.8	1.6	0.4	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.4
Real growth rate	-4.5	-0.6	-1.2	-1.7	-2.0	-1.9	-1.9	-1.9	-1.9	-1.9	-1.9	-1.9
Real exchange rate	1.6	…	…	…	…	…	…	…	…	…	…	…
Other identified flows	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contingent liabilities	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other transactions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contribution of residual	0.2	-2.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross financing needs	9.6	6.9	6.0	4.6	7.4	6.0	5.9	4.4	6.2	4.1	3.6	6.5
of which: debt service	7.3	7.9	8.5	6.2	8.8	7.3	7.2	4.5	6.3	4.2	3.7	6.6
Local currency	5.4	4.6	5.1	4.1	6.6	5.2	5.4	3.3	5.3	3.2	3.2	5.1
Foreign currency	1.9	3.3	3.5	2.2	2.2	2.1	1.8	1.2	1.0	1.0	0.6	1.5
Memo:												
Real GDP growth (percent)	7.5	1.0	1.9	2.9	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3
Inflation (GDP deflator; percent)	14.2	8.0	3.9	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	4.0
Nominal GDP growth (percent)	22.7	9.0	5.9	6.0	6.5	6.4	6.4	6.4	6.4	6.4	6.4	7.5
Effective interest rate (percent)	8.8	8.7	7.8	8.1	7.2	6.8	6.8	6.1	5.8	5.9	5.8	5.5

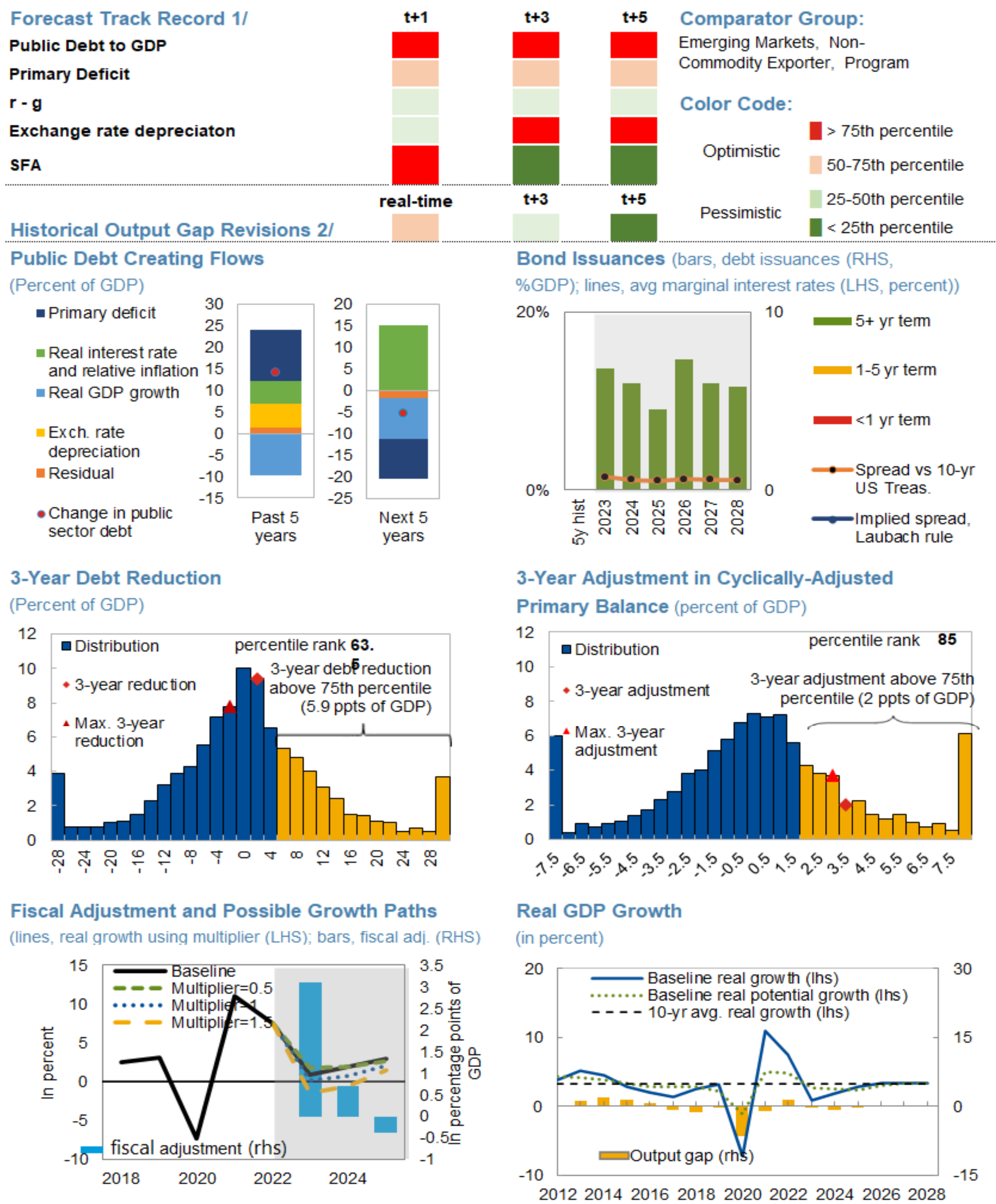
Contribution to Change in Public Debt

(percent of GDP)



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

Figure 5. Colombia: Realism of Baseline Assumptions



Commentary: While the fiscal adjustment appears large, it is guided by a fiscal rule and medium-term fiscal framework that is sanctioned by law. Adherence to the fiscal consolidation path is critical for debt stabilization.

Source : IMF Staff.

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

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

Figure 6. Colombia: Medium-Term Risk Analysis

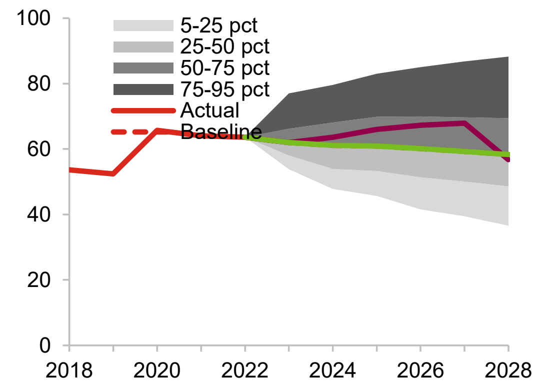
Debt Fanchart and GFN Financeability Indexes

(percent of GDP unless otherwise indicated)

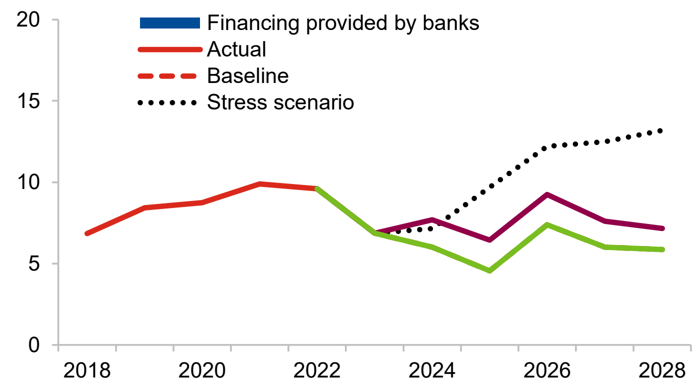
Module	Indicator	Value	Risk Index	Risk Signal	Adv. Econ., Non-Com. Exp, Program (0 25 50 75 100)
Debt Fanchart Module	Fanchart width	51.7	0.8	…	
	Probability of debt not stabilizing (pct)	24.5	0.2	…	
	Terminal debt level x institutions index	33.1	0.7	…	
	Debt fanchart index	**…**	**1.7**	**Moderate**	
GFN Finance-Ability Module	Average GFN in baseline	6.1	2.1	…	
	Bank claims on government (pct bank assets)	10.3	3.3	…	
	Chg. in claims on govt. in stress (pct bank assets)	10.9	3.6	…	
	GFN Financeability Index	**…**	**9.0**	**Moderate**	

Legend: Interquartile Range | Colombia

Final Fanchart (pct of GDP)



Gross Financing Needs (pct of GDP)

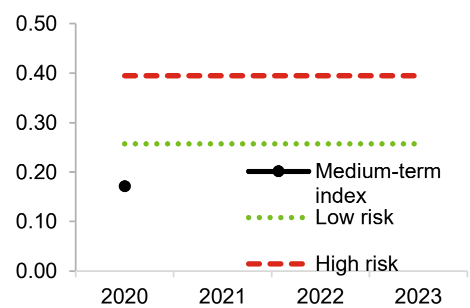


Triggered stress tests (stress tests not activated in gray)

Banking Crisis | Commodity Prices | Exchange Rate | Contingent liab. | Natural disaster

Medium-Term Index

(index number)



Medium-Term Risk Analysis

	Low Risk Threshold	High Risk Threhsold	Weight in MTI	Normalized Level
Debt Fanchart Index	1.1	2.1	0.5	0.4
GFN Finaceability Index	7.6	17.9	0.5	0.2
Medium-Term Index (MTI)	0.3	0.4	…	0.3, Moderate

Prob. of missed crisis, 2023-2028 (if stress not predicted): 18.2 pct.

Prob. of false alarm, 2023-2028 (if stress predicted): 38.6 pct.

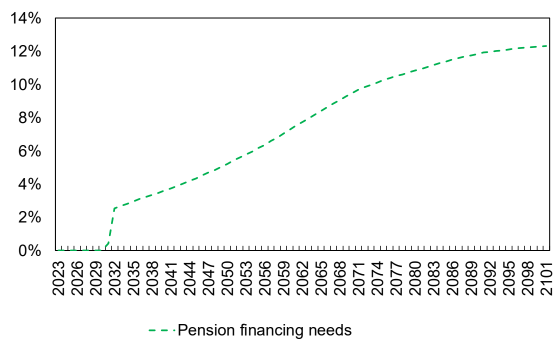
Commentary: The medium-term analysis suggests a moderate level of risks of sovereign stress over that time horizon. The main issue suggested by the analysis is the possibility of substantial increases in the public debt ratio under low probability downside scenarios. However, this risk is contained as Colombia has set a debt limit of 70 percent of GDP (at the central government level). The stress of gross financing needs under a stress scenario is moderate.

Figure 7. Colombia: Long-Term Risk Analysis

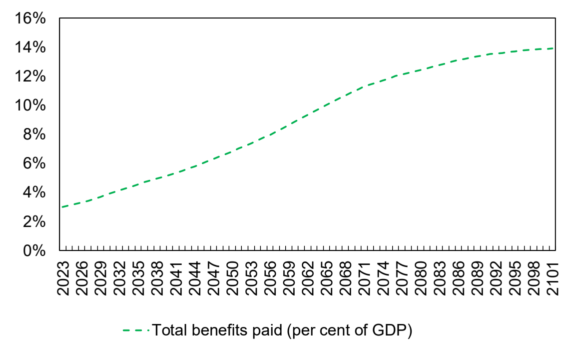
Demographics: Pension

Permanent adjustment needed in the pension system (pp of GDP per year)	To keep pension assets positive for:		
	30 years	50 years	Until 2100
	2.88%	5.03%	7.70%

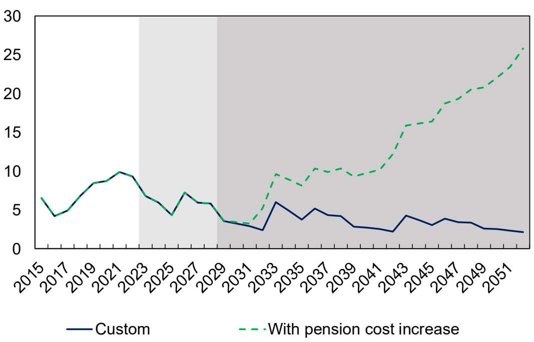
Pension Financing Needs



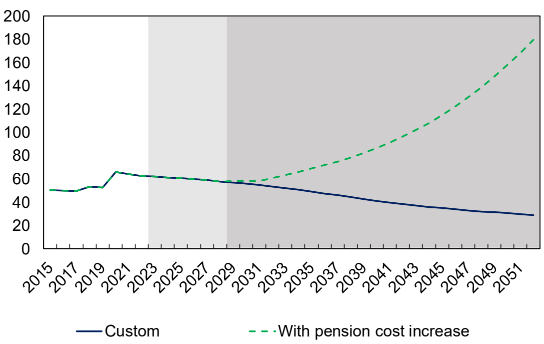
Total Benefits Paid



GFN-to-GDP Ratio

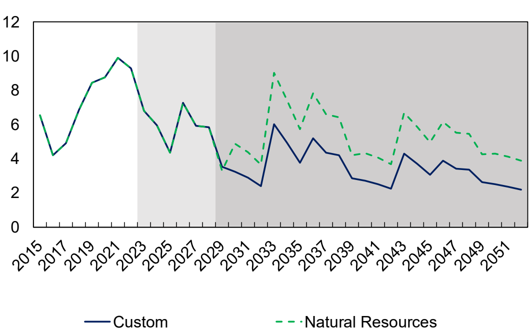


Total Public Debt-to-GDP Ratio

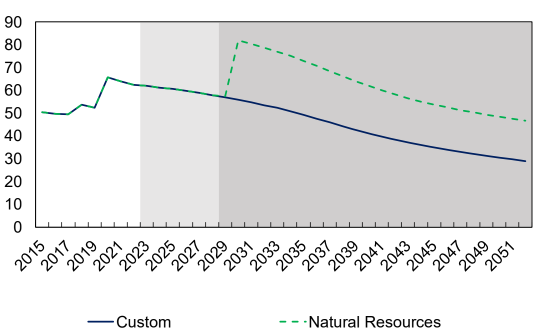


Natural Resources

GFN-to-GDP Ratio

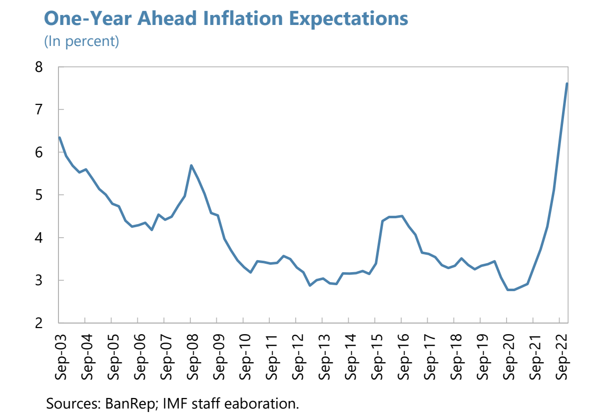


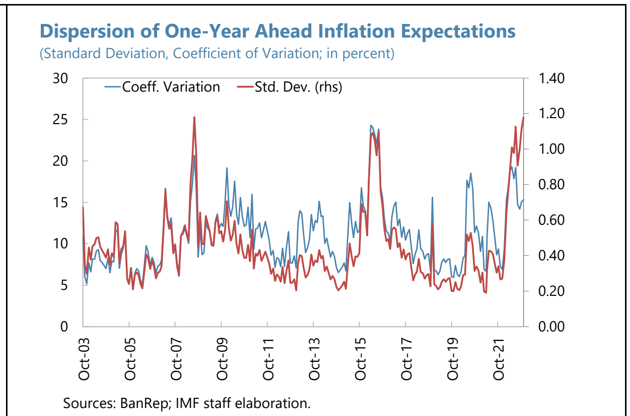
Total Public Debt-to-GDP Ratio



Annex VI. To Tighten or not to Tighten? A Risk Approach to Monetary Policy

1. A higher degree of dispersion around inflation expectations is commonly viewed as a sign of higher uncertainty around a baseline inflation forecast. In Colombia, both the level of one-year ahead inflation expectations and its degree of dispersion have shown an upward trend during 2022.[1]





2. The increased dispersion around the near-term outlook is related to the elevated level of external and domestic inflation risks. Main external risks include an uncertainty regarding the dynamics of inflation in the United States and external financial conditions (specifically, regarding the evolution of the Fed interest rate and the risk premium), the uncertainty associated with the impact of Russia's invasion of Ukraine, and the cost pressures generated by the disruption of global supply chains. Domestic risks include a slower convergence of inflation towards the target given the possibility of persistence of supply shocks that have mainly affected the baskets of goods and food, continued strong domestic demand, and/or higher-than-expected adjustments in fuel prices.

3. The uncertainty regarding the path of inflation is not only high, but also the overall balance of risks is biased to the upside. This is reflected in the degree of skewness around central bank's inflation projections over the 2-year horizon.

4. In most standard models optimal policy involves adjusting the interest rate in response to the mean of the distribution of shocks ("certainty equivalence" principle). However, there is an extensive literature covering departures from this result based on a non-linear economic environment or uncertain policy parameters that would justify a risk management approach. Risk management could be understood as the principle that policy should be formulated taking into account the dispersion of shocks around their means; i.e., higher moments of the

[1] Based on BanRep's Monthly Survey of Expectations, the degree of skewness around inflation expectations has also increased for available data points in 2022 (April and September). Skewness is defined as the difference between the mean and the mode of inflation expectations.

distribution of shocks can influence the policy setting (Greenspan, 2004 and Evans et al, 2015). In periods of high economic risk or when a large shock becomes evident, monetary authorities tend to respond aggressively while the degree of inertia is lower than in normal circumstances (Mishkin 2008).

Central Bank's Balance of Risks for Inflation

	Mode for 2023Q4	Probability inflation < mode	Probability inflation > 4
July's forecast	5.7	44.8	83.3
October's forecast	7.1	37.0	96.4

5. To the extent that the balance of risks to inflation continues to be tilted to the upside, the central bank can have a tightening bias to insure itself against the materialization of imminent upside risks. The latter will help to safeguard central bank's credibility and anchor inflation expectations. The exact calibration of monetary policy decisions to the balance of risks would require further analysis that incorporated nonlinearities and linkages within the economy.

Annex VII. Foreign Exchange Intervention Under the Integrated Policy Framework: Some Considerations for Colombia

1. **In 2022, the exchange rate exhibited two episodes of marked volatility**: one in July, when the peso depreciated by about 8 percent in one month, and another one from early October to mid-November when the peso depreciated by about 12 percent. The first episode was associated with the post-election period and the second one with government's statements that created uncertainty and concern about the direction of economic policies, all against the backdrop of volatile global financial markets. While lower in magnitude to the exchange rate volatility episode observed at beginning of the pandemic, these episodes in 2022 exhibited a significant a degree of volatility as measured by a high coefficient of variation, a large differential between the maximum and the minimum FX rate, and large bid-ask spreads in the spot and NDF markets (Figure 1).

2. **The FX market continued to function well during these episodes**. While Colombia's FX market can be considered less deep than the ones in more developed and sophisticated financial markets, it had sufficient liquidity during these periods of volatility. During the July's episode of volatility, the spot FX market absorbed increases in the number of operations (amount transacted) of up to 50 (40) percent relative to the average number of operations (amount transacted) in July. Similarly, during the episode of October/November, the FX market absorbed increases in the number of operations (amount transacted) of up to 40 (30) percent relative to the average number of operations (amount transacted) in those months.

3. **Accordingly, the central bank did not intervene in the FX market in 2022**. In practice, FX intervention (FXI) has been limited in Colombia.[1] The last episode of FXI occurred between February 2020 and March 2021 in the context of disorderly market conditions related to the pandemic. The central bank sold just above US$9 billion through non-deliverable forward contracts (NDF) cumulatively during that period.

4. **Staff has not identified the presence of frictions that would have warranted FXI during the episodes of volatility in 2022**:

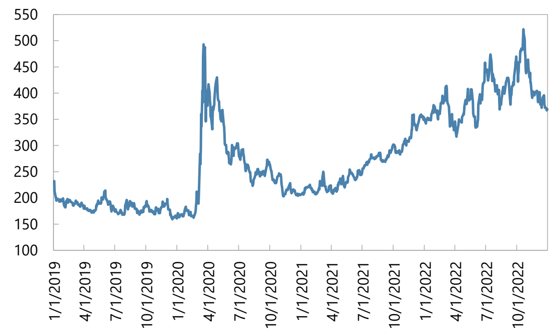
- *Increases in UIP risk premia*. Over the last two years, there has not been destabilizing risk premia movements due to capital flows shocks (inflows or outflows). Movements in the country risk premium have mainly reflected shocks that could affect the economic outlook and/or repayment capacity (e.g., global financial crisis (GFC), oil price shock 2014-2016, the pandemic, loss of investment grade in 2021). To the extent that risk premia movements are associated with fiscal

[1] Banco de la República's stated intention with foreign exchange intervention (FXI) is to: i) increase the level of international reserves in order to reduce external vulnerability and improve access conditions to external credit; ii) mitigate movements in the exchange rate that do not clearly reflect the performance of the economy's fundamentals and may negatively affect inflation and economic activity; and iii) curb rapid and sustained deviations of the exchange rate from its trend, so as to avoid disorderly performance in financial markets.

developments and uncertainty about the direction of policies (fundamentals), FXI would not be warranted.

EMBIG Spreads

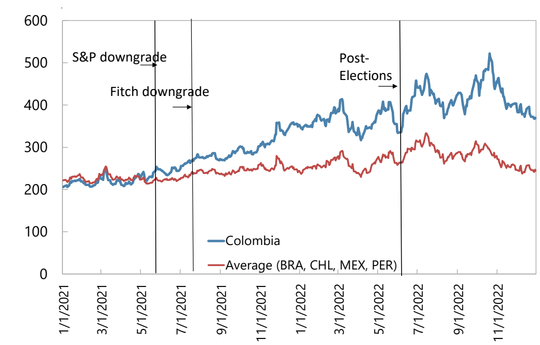
(in bps)



Sources: Bloomberg LLP; IMF staff elaboration.

EMBIG Spreads

(in bps)



Sources: Bloomberg LLP; IMF staff elaboration.

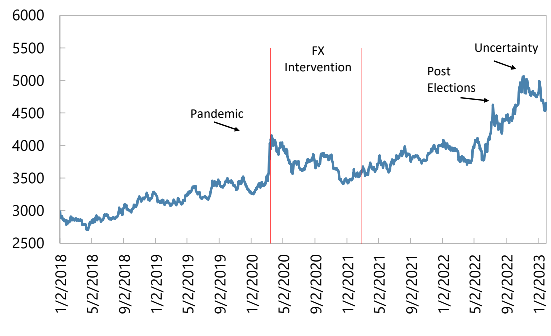
- *FX mismatches*. Prudential regulations limit FX open positions in the banking sector. The FX exposure of the financial system increased during the fourth quarter of 2022 but is close to historical levels. As of December 2022, debt in foreign currency represented 9.2 percent of total bank liabilities. Regarding the non-financial corporate sector (NFC), 40 percent of its debt is in FX (around 20 percent of GDP), about 70 percent of which is hedged in various ways (e.g., export receipts in FX, financial hedging instruments, or FDI participation). Still, careful monitoring is needed to assess the liquidity of the used hedging instruments.

- *De-anchoring of inflation expectations*. While inflation expectations (IEs) have at times deviated from target in the context of large shocks, such as the GFC, and the oil price shock 2014-2016, they soon reverted to the target as a sign of being anchored. With the pandemic, the ensuing supply shocks as well as expansionary policies, IEs have increased over the last year, albeit much less at the 2-yr horizon, which have started to come down in response to the tightening.

Figure 1. Colombia: FX Market Characteristics

In the post-pandemic era, there were two important episodes of volatility…

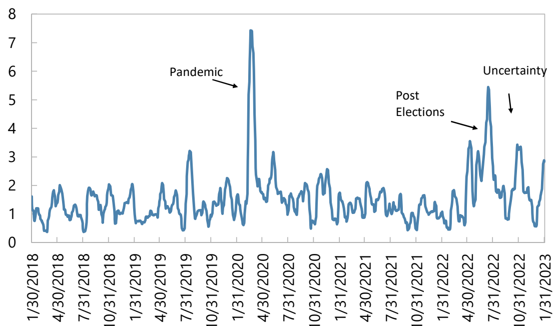
Exchange Rate: Peso/USD



Sources: BanRep; IMF staff elaboration.

…associated to the post-election period (July) and statements that raised concerns about policies (Oct/Nov).

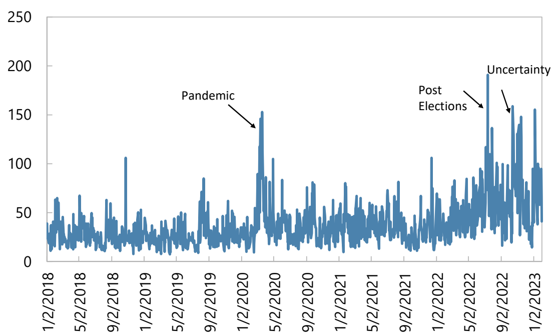
Exchange Rate Volatility
(Coefficient of Variation)



Sources: BanRep, IMF staff elaboration.

Volatility was reflected in large gaps between the maximum and minimum exchange rate,…

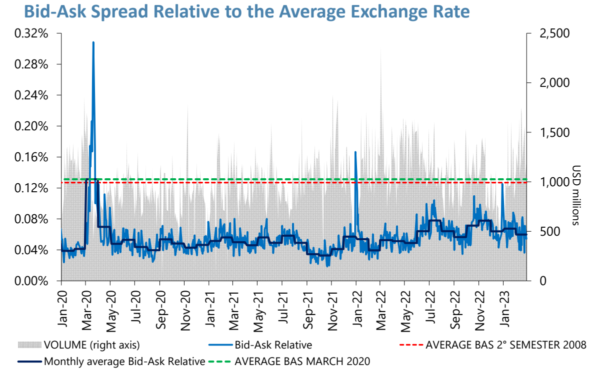
Exchange Rate: Maximum-Minimum Rate
(Peso/USD)



Sources: BanRep; IMF staff elaboration.

…with increases in bid-ask spreads in the FX spot market

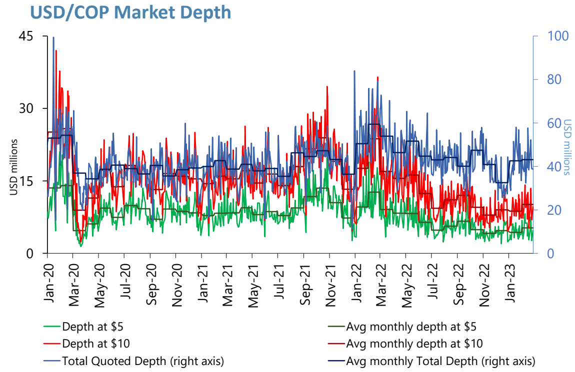
Bid-Ask Spread Relative to the Average Exchange Rate



Source: Banco de la República.

While some decline in FX market depth was observed around those episodes…

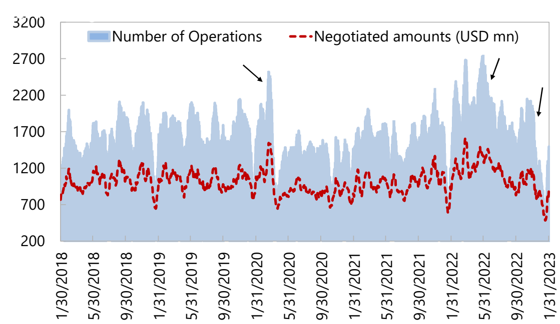
USD/COP Market Depth



Source: Banco de la República.

…there were no signs of dysfunctionality or price formation problems in the FX market

Number of Operations and Negotiated Amounts in the FX Interbank Market



Sources: BanRep, IMF staff elaboration.

INTERNATIONAL MONETARY FUND

COLOMBIA

STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

March 7, 2023

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

CONTENTS

FUND RELATIONS

(As of January 31, 2023)

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

General Resources Account:

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

SDR Department:

	SDR million	Percent Quota
Net Cummulative Allocation	2,697.88	100.00
Holdings	2,544.66	94.32

Outstanding Purchases and Loans:

	SDR million	Percent Quota
Flexible Credit Line	3,750.00	183.42

Latest Financial Arrangements:

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

Projected Payments to the Fund (in SDR million):

	Forthcoming				
	2023	2024	2025	2026	2027
Principal		1875	1875		
Charges/interest	160.18	138.92	61.1	6.67	4.99
Total	**160.18**	**2013.92**	**1936.1**	**6.67**	**4.99**

Implementation of HIPC Initiative: Not applicable.

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

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

Article IV Consultation: The last Article IV Consultation was concluded on March 25, 2022 (IMF Country Report No. 22/97).

FSAP Participation and ROSCs: The FSAP took place in 2000 and was updated in 2008, 2013, and 2022. A data ROSC took place in 2006 and a fiscal ROSC in 2003.

Technical Assistance:

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

Department	Time of Delivery	Purpose
FAD	Oct 2019	Strengthening the fiscal risk management office and managing fiscal risks from SOEs
STA	Apr 2020	Sectoral accounts
FAD	Jul 2020	TADAT Assessment
FAD	Oct 2020	BRP Treasury Reporting
STA	Apr. 2021	Fiscal and Public Debt Data Compilation
STA	Apr. 2021	Improve Capacity for Residential Property Price Index
ICD	Sep. 2021, Nov. 2021, Jan. 2022, Mar. 2022, Jul. 2022, Oct. 2022	Strengthening Macro-Fiscal Analysis and Forecasting Capacity.
STA	Aug. 2021	Compilation of FSIs
FAD	Aug. 2021	Revenue Administration
FAD	Nov. 2021	Strengthening Fiscal Risks Analysis and Reporting
MCM	Sep. 2022	Assessment of Financial Stability Report

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

World Bank Group:

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

Inter-American Development Bank:

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

STATISTICAL ISSUES

(As of February 22, 2023)

I. Assessment of Data Adequacy for Surveillance

General. Provision of macroeconomic statistics is adequate for surveillance.

National Accounts: The National Department of Statistics (DANE) is responsible for compiling the national accounts, and the Banco de la República (BdR) compiles the financial accounts and stocks according to the *2008 SNA*. Annual and quarterly estimates of GDP by the production and expenditure approaches use 2015 as the reference year for the annually chained volume measures; in addition, a monthly indicator for monitoring the economy is disseminated. Furthermore, the accounts and tables identified as minimum requirements and recommended for implementation of the *2008 SNA* are compiled regularly, as listed below: annual value added and GDP at current and at previous year prices, and chain-linked volume series by economic activity; annual expenditure GDP components at current and at previous year prices, and chain-linked volume series; components of annual value added at current prices by economic activity; the sequence of accounts for the economy as a whole (up to net lending) with annual frequency; annual accounts of the rest of the world (up to net lending); quarterly value added and GDP at current and chain-linked volume series by economic activity; quarterly expenditure GDP components at current and chain-linked volume series; and annual supply-use tables. During 2016-2020, IMF STA assisted DANE and BdR in developing quarterly financial and non-financial accounts by institutional sector. Since June 30, 2021, BdR, jointly with DANE, began compiling and disseminating the "Integrated Quarterly National Accounts by Institutional Sector."

Price Statistics: DANE is also responsible for price statistics and currently compiles and disseminates the consumer price index (CPI) and the producer price index (PPI) monthly. The CPI basket and weights were updated in 2019, with the support of STA technical assistance, based on 2016/17 household expenditures. The PPI (December 2014=100) was redesigned in 2015 using a weighting structure from the year 2011 and covers agriculture, livestock, fishing, mining, and industry. STA assisted DANE to improve residential property price statistics based on the RPPI Practical Compilation Guide 2020. The quarterly index currently compiled covers the capital Bogota only.

Government Finance Statistics: The Ministry of Finance and Public Credit (MFPC) is responsible for the compilation of public revenue, expenditure, and financing data. The Colombian authorities are working to adopt the Government Finance Statistics Manual (GFSM) 2014 framework, enhance inter-institutional coordination, and increase the resources allocated to compiling government finance statistics. The latest reported data has been published in the Government Finance Statistics Yearbook (GFSY). Next steps include aligning classification of revenue and expenditure with GFSM 2014 framework, improving consolidation, adopting a common list of public sector entities, and disseminating high-frequency data on a national and international level. The General Accounting Office (GAO) developed a single accounting framework for the public sector based on International

Public Sector Accounting Standards and maintains a financial management information system containing accounting information of all public sector units. The MFPC's Macroeconomic Policy Unit and the GAO developed a bridge table that converts national accounting classification to the GFSM 2014 framework to compile GFS on accrual and cash bases.

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

The BdR reports data on several series indicators of the Financial Access Survey (FAS) including mobile and internet banking, mobile money, gender-disaggregated data, and the two indicators (commercial bank branches per 100,000 adults and ATMs per 100,000 adults) adopted by the UN to monitor Target 8.10 of the Sustainable Development Goals (SDGs).

Financial Sector Surveillance: Colombia has reported Financial Soundness Indicators (FSI) beginning from 2005. Colombia reports all 13 core and 8 additional FSIs for deposit takers on a monthly basis according to the list of FSIs prescribed in the 2019 Financial Soundness Indicators Compilation Guide. The FSIs along with metadata and the underlying series are available on the IMF's data portal (http://data.imf.org/).

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

II. Data Standards and Quality

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

Colombia: Table of Common Indicators Required for Surveillance (As of February 28, 2023)					
	Date of Latest Observation	Date Received	Frequency of Data[1]	Frequency of Reporting[1]	Frequency of Publication[1]
Exchange Rates	Feb. 28, 2022	Feb. 28, 2022	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[2]	Jan. 2023	Feb. 2023	M	M	M
Reserve/Base Money	Feb. 10, 2023	Feb. 28, 2023	W	W	W
Broad Money	Feb. 10, 2023	Feb. 28, 2023	W	W	W
Central Bank Balance Sheet	Jan. 2023	Feb. 2023	M	M	M
Consolidated Balance Sheet of the Banking System	Oct. 2022	Feb. 2023	M	M	M
Interest Rates[3]	Feb. 28, 2023	Feb. 28, 2023	D	D	D
Consumer Price Index	Jan. 2023	Feb. 2023	M	M	M
Revenue, Expenditure, Balance and Financing Composition[4] – General Government (GG)[5]	Q2 2022	Dec. 2022	Q	Q	Q
Revenue, Expenditure, Balance and Financing Composition[4] – Central Government	Nov. 2022	Jan. 2023	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt[6]	Dec. 2022	Feb. 2023	M	M	M
External Current Account Balance	Q3 2022	Dec. 2022	Q	Q	Q
Exports and Imports of Goods	Dec. 2022	Feb. 2023	M	M	M
GDP/GNP	Q4 2022	Feb. 2023	Q	Q	Q
Gross External Debt	Nov. 2022	Feb. 2023	M	M	M
International Investment Position[7]	Q3 2022	Dec. 2022	Q	Q	Q

[1] Daily (D); Weekly (W); Monthly (M); Bi-monthly (B); Quarterly (Q); Annually (A); Irregular (I); Not Available (NA).

[2] Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.

[3] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

[4] Foreign, domestic bank, and domestic nonbank financing.

[5] The GG consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

[6] Including currency and maturity composition.

[7] Includes external gross financial asset and liability positions vis-à-vis nonresidents.

Statement by Juan Sebastian Betancur Mora, Alternate Executive Director for Colombia
March 22, 2023

On behalf of the Colombian authorities, I would like to thank the staff for the open dialogue, excellent work, and feedback during the Art. IV Consultation. The insights provided during the meetings are a strategic input for policymakers in Colombia.

Overall, the economic recovery has been remarkable in Colombia, with no apparent significant scarring effects from the pandemic. The long track record of very strong policy and institutional frameworks is fully operating to prevent the buildup of macroeconomic imbalances amid atypically high external risks affecting Emerging Markets, including Colombia. The tightening of monetary, fiscal, and financial policies is already influencing private consumption and imports. The strong resilience of the Colombian economy, complemented by the current Flexible Credit Line, has served to absorb numerous shocks in the past and is expected to continue to contain risks in the future. In parallel, the Government is leading an ambitious structural reform agenda to strengthen social policy, diversify the production structure, promote the energy transition, and implement peace agreements. Ongoing efforts aim to accelerate the integration process of Venezuelan migrants in the formal economy. All the initiatives are being formulated within the existing macroeconomic framework.

Recent Developments and Outlook

The Colombian economy recovered rapidly from the pandemic and continued to exhibit high growth rates, even after reaching a level of economic activity above that of the pre-pandemic period. After growing 11% in 2021, the Colombian economy grew 7.5% in 2022, one of the fastest growth rates among emerging markets and even when compared globally. This fast economic recovery was led by domestic demand, particularly private consumption, with GDP figures constantly surprising on the upside during recent quarters. The employment figures have also been vigorous because of the robust economic activity, while machinery and equipment investment dynamics have been outstanding, supporting the expansion of output capacity. The latest data suggest that private consumption is adjusting in a context of monetary and fiscal policy tightening.

Inflation has increased well above the Central Bank's target. In addition to the persistent supply shocks (both external and domestic), particularly on food supplies, the depreciation of the Colombian peso, the strength of domestic demand, and the indexation mechanisms explain the large increase in prices. Headline inflation reached 13.28% in February (annually), explained mainly by the 24.14% food inflation, although core inflation has also been high and reached 10%. Inflation expectations have also risen in line with higher observed inflation and indexation effects. One-year ahead inflation expectations stand at 7.2%, and two-year ahead inflation expectations are 4.1%, above the 3% target.

On the external front, despite better terms of trade, the current account deficit widened in 2022 due to strong domestic demand and higher import costs. The current account deficit reached 6.2% of GDP in 2022, higher than the 5.7% observed one year before. Although a large external deficit is a source of risk in a context of tighter international financial conditions, great uncertainty, and a global economic slowdown, the Colombian economy maintains ample access to international financial markets, and FDI flows keep financing most of the external deficit. Both the Government and the Central Bank are forecasting an important reduction in the current account deficit, which would be lower than 4% of GDP in 2023. Indeed, recent figures reflect that the dollar value of imports declined in absolute terms in the last two months of 2022, a turning point when compared to the growth rates of more than 40% in the first half of the year.

Like global financial markets, local markets (bonds, stocks, and FX) have experienced setbacks and significant volatility, given high inflation, rising interest rates, and uncertainty about global economic activity. The risk premium reached a peak in October 2022 but has partially corrected in recent months, guided by domestic factors and some improvements in external financial conditions. Thus, the exchange rate and, especially, domestic sovereign bond yields and international risk margins have shown a downward trend since then, although with volatility.

Currently, a very strong economic policy framework is operating to reduce macroeconomic imbalances. Looking forward, the effects of tighter monetary conditions, the reduction of excess demand—partly driven by a significant reduction in the fiscal stimulus—, the correction of the consumer credit boom, and the anchoring of inflation expectations should consolidate a downward trend in inflation and the current account deficit.

Monetary Policy, Exchange Rate, and External Buffers

Monetary policy in Colombia follows a fully-fledged inflation targeting regime with exchange rate flexibility. This framework has allowed the Central Bank to respond promptly to inflationary shocks in the past and during the current inflationary period. At the current juncture, the Central Bank remains strongly committed to its price stability mandate and bringing inflation back to the 3% target by end-2024.

Against a backdrop of high inflation, excess demand, and inflation expectations above target, the Central Bank's stance is clearly contractionary. The policy rate has been raised by 11 percentage points since September 2021, bringing it to its current level of 12.75%. With lower pressures stemming from the PPI and food prices, and monetary policy tightening already influencing domestic demand, inflation is expected to start declining very soon. In fact, thanks to the reduction in food price growth, inflation already declined for low-income households in February.

The Colombian authorities reiterate that monetary policy follows a data-dependent decision strategy that will bring inflation back to the target with limited costs to economic activity while maintaining clear communication to the public. The slowdown already seen, together with the dissipation of supply shocks and lower inflation expectations, will help inflation to converge towards the target in a 2-year horizon.

The Colombian peso depreciated close to 20% between January and October 2022 amid tighter international financial conditions and global uncertainty but has shown an appreciation trend since then—with volatility—as already pointed out. Local factors have also affected the behavior of the exchange rate in an environment of political transition and a new reform agenda. As in other episodes of currency depreciation, the Central Bank is allowing the exchange rate to float, acting as a shock absorber. Low currency mismatches in the real and financial sectors limit the risks on balance sheets caused by the recent depreciation, while the credibility of the Central Bank contributed to mitigating the passthrough of a weaker currency to inflation expectations.

Colombia maintains a strong level of external buffers. International reserves are adequate using different metrics. The projected increased profitability of international reserves for this and coming years will increase external buffers. The access to the Flexible Credit Line represents an outstanding complement to international reserves, and the authorities welcome the positive signal it sends to economic agents in terms of the presence of a very strong policy framework and sound economic fundamentals. They acknowledge the temporary nature of the instrument and remain committed to a gradual exit.

Fiscal Policy

Fiscal policy in Colombia is anchored by a fiscal rule and a medium-term fiscal framework. The latest Financial Plan anticipates that the fiscal deficit in 2023 will over comply the Fiscal Rule target for a second year in a row. From 2024 onwards, the plan is fully aligned with the Fiscal Rule and promotes a gradual convergence of debt to the medium-term anchor. The Colombian authorities remain committed to the current macroeconomic framework and the sustainability of public finances. To improve this framework, the 2021 tax reform, called the *Social Investment Law,* strengthened the Fiscal Rule by linking structural fiscal deficit targets to debt levels, as suggested by the IMF. Additionally, it created the Autonomous Fiscal Rule Committee, which serves as an independent fiscal council that has positively influenced fiscal policy decisions by providing constructive recommendations to the Ministry of Finance.

The fiscal outlook has improved on the back of better economic activity and higher revenues reflecting the 2021 *Social Investment Law* and the 2022 *Tax Reform for Equality and Social Justice*. The General Government fiscal deficit is expected to decrease from 6.4% of GDP in 2022 to 3.5% of GDP in 2023, the largest since comparable data is available. This year, the Central Government also expects to return to positive primary balances. Among the measures undertaken to improve the fiscal deficit are the gradual cutback of fuel subsidies and the enhancement of the focalization of social programs. Central Government net debt is expected to decline from 58.8% of GDP in 2022 to 57.6% in 2023, maintaining a decreasing trend that started in 2021—three years earlier than the initial plan—and in line with the bounds set by the Fiscal Rule. Social demands will be met within the fiscal space that is allowed by the fiscal rule and the medium-term fiscal framework.

Financial Sector

During 2022, lending activity exhibited substantial dynamism. The loan portfolio grew strongly, while the Non-Performing Loans recovered from the pandemic highs. The consumer loan portfolio reached real growth rates of 14% in mid-2022, in line with the strength of private consumption, while households' indebtedness hit historical highs. Nevertheless, the consumer loan portfolio has recently slowed down, consistent with the adjustment of domestic demand, the process of monetary policy tightening, and the prudential policy measures of the Financial Superintendence. More specifically, against a backdrop of robust consumer credit growth, some banking provisions for consumer loans were reinforced.

Careful monitoring of the financial system is a cornerstone of the economic policy framework in Colombia. Regulation, macroprudential oversight, and banking supervision have been effective and aligned with Basel III standards. The pandemic highlighted the robust state of the financial sector, which, despite the large shock, withstood it successfully and remains liquid, solvent, and well provisioned. Stress testing shows the financial system has good buffers to face extreme scenarios, including potential shocks affecting the assets of Colombian banks in Central American markets. Despite all this, the authorities will continue their rigorous supervision of the financial sector, with a special emphasis on the household segment. They are grateful to the Fund for the recommendations of the 2022 FSAP, and they are committed to their implementation to further strengthen the regulatory framework.

Policy Reforms

The Government is undertaking a significant number of reforms that aim to reduce the levels of poverty and inequality and guarantee better pension and health coverage. A supplementary budget proposal was sent to Congress, including a significant increase in social spending fully funded with higher tax revenues derived from the 2022 tax reform. Financial inclusion has been set as the first objective of the public sector financial institutions. The authorities have continued to implement measures to accelerate the integration process of Venezuelan migrants in the formal economy. Production sector strategies are being implemented to promote some changes in the production structure, notably reducing dependence on exports of oil and coal. Likewise, the Government has committed to an energy transition, which allows the country to contribute to the fight against climate change. Other top priorities on the Government's agenda are the implementation of the Peace Agreements, as well as the implementation of the Total Peace strategy, which aims to include other armed groups in further dialogues.

Although better communication and coordination among the Ministries is desirable, it is worth mentioning that the public debate has pointed to the need to include some gradualism in these structural reforms, and the authorities have highlighted that they must be in accordance with the fiscal framework. The Ministry of Finance is acting as a coordinator of the structural economic agenda and has explicitly stated that the reforms will continue to be formulated within the current macroeconomic policy framework.

Final Remarks

Colombia made impressive efforts to overcome the pandemic and recover from it. The fiscal and monetary response supported firms and households, allowing the economy to recoup quickly from that shock. Now the Colombian economy is heading for an adjustment after a period of extraordinary growth. The slowdown expected for this year is necessary for the cooling of economic activity and credit, the adjustment of the current account deficit, and preventing the buildup of imbalances while helping inflation return to target.

The Colombian authorities maintain their commitment to a strong macroeconomic policy within an institutional framework. The latter includes a fiscal rule—recently strengthened using IMF TA inputs—that complements a medium-term fiscal framework, an independent Central Bank (with an inflation targeting regime, a flexible exchange rate, and an adequate level of international reserves), and regulation and supervision of the financial sector that follow international standards. In this context, the authorities are acting resolutely to underpin the public finances, fulfilling the Central Bank's price stability mandate, reducing the current account deficit, and ensuring the continuity of adequate supervision of the financial system. This set of solid macroeconomic policies and institutions has served the country well in the past and, together with external buffers, including the FCL, will contribute to successfully navigating further challenges in the future in the context of persistent global uncertainty.