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COLOMBIA

May 2024

REQUEST FOR AN ARRANGEMENT UNDER THE FLEXIBLE CREDIT LINE AND CANCELLATION OF THE CURRENT ARRANGEMENT—PRESS RELEASE; STAFF REPORT; STAFF SUPPLEMENT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR COLOMBIA

In the context of the Request for an Arrangement Under the Flexible Credit Line and Cancellation of the Current Arrangement, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on April 26, 2024. Based on information available at the time of these discussions, the staff report was completed on April 10, 2024.
- A **Staff Supplement—**Assessment of the Impact of the Proposed Arrangement Under the Flexible Credit Line on the Fund's Finances and Liquidity Position**.**
- A **Statement by the Executive Director** for Colombia.

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PRESS RELEASE

PR24/125

IMF Executive Board Approves New Two-Year US$8.1 Billion Flexible Credit Line Arrangement for Colombia

FOR IMMEDIATE RELEASE

- The IMF approved today a successor two-year arrangement for Colombia under the Flexible Credit Line (FCL), designed for crisis prevention, of about US$8.1 billion.
- Colombia qualifies for the FCL by virtue of its very strong economic fundamentals and institutional policy frameworks and track record of implementing very strong policies and commitment to maintaining such policies.
- The authorities intend to treat the new FCL arrangement as precautionary. The lower access reflects the authorities' goal of continuing to reduce access as risks permit in the context of their gradual exit strategy. The arrangement should boost market confidence, and combined with the comfortable level of international reserves, provide insurance against external downside risks.

Washington, DC – April 26, 2024. The Executive Board of the International Monetary Fund (IMF) approved today a successor two-year arrangement for Colombia under the Flexible Credit Line (FCL) in an amount equivalent to SDR 6.1335 billion (about US$8.1 billion) and noted the cancellation by Colombia of the previous arrangement. The Colombian authorities stated their intention to treat the new arrangement as precautionary.

The FCL was established on March 24, 2009, as part of a major reform of the Fund's lending framework (see Press Release No. 09/85). The FCL allows its recipients to draw on the credit line at any time and is designed to flexibly address both actual and potential balance of payments needs to help boost market confidence. Drawings under the FCL are not phased nor tied to ex-post conditionality as in regular IMF-supported programs. This large, upfront access with no ex-post conditionality is justified by the very strong policy fundamentals and institutional policy frameworks and sustained track records of countries that qualify for the FCL, which gives confidence that they will respond appropriately to the balance of payments difficulties that they are encountering or could encounter.

Colombia has maintained access to the FCL instrument since 2009, and this is the country's tenth FCL arrangement. Prior to the pandemic in 2020, Colombia had been gradually lowering access in successive FCL arrangements. The arrangement approved on June 15, 2016 (see Press Release No. 16/279) was for an access amount equivalent to SDR 8.18 billion (about US$11.5 billion). The arrangement approved on May 25, 2018 (see Press Release No. 18/196) was for an access amount equivalent to SDR 7.848 billion (about US$11.4 billion). The arrangement approved on May 1, 2020, was for the same level of access as the 2018 FCL arrangement (see Press Release No. 20/201) and later augmented on September 25, 2020 to SDR 12.267 billion (see Press Release No. 20/300) due to the pandemic. The arrangement approved on April 29, 2022 (see Press Release No. 22/135) was for an access amount equivalent to SDR 7.1557 billion (about US$9.8 billion).

Following the Executive Board's discussion on Colombia, Ms. Antoinette Sayeh, Deputy Managing Director and Acting Chair, made the following statement:

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“Colombia has very strong economic fundamentals and policy frameworks anchored by a credible inflation targeting regime, strong medium-term fiscal framework, flexible exchange rate, and effective financial sector supervision and regulation. The authorities remain committed to sustain their track record of very strong policies and to maintain such policies in the future.

“Appropriately tight macroeconomic policies over the last two years have allowed for an impressive reduction in Colombia’s domestic and external imbalances. This has improved the resilience of the Colombian economy, which is further bolstered by the ongoing program to accumulate further international reserves.

“Going forward, careful normalization of monetary and fiscal policies and decisive progress on structural reforms are key to durably eliminate imbalances, reinvigorate investment, diversify the economy away from fossil fuels, and raise potential growth.

“External risks have moderated but remain high and to the downside. A global growth slowdown, for example caused by geopolitical tensions in regions critical to global manufacturing value chains, could further tighten global financial conditions, disrupt supply chains, and depress commodity prices, resulting in exchange rate pressures and costly growth-inflation trade-offs. Uncertainties about the global outlook and the direction of policies could raise borrowing costs and undermine already weak private investment. Climate shocks could exacerbate external risks.

“The new arrangement under the Flexible Credit Line will provide added insurance against downside external risks and maintain market confidence. The authorities intend to continue to treat this new arrangement as precautionary and to further reduce access under the FCL arrangement, risks permitting, in the context of their gradual exit strategy.”

INTERNATIONAL MONETARY FUND

COLOMBIA

April 10, 2024

REQUEST FOR AN ARRANGEMENT UNDER THE FLEXIBLE CREDIT LINE AND CANCELLATION OF THE CURRENT ARRANGEMENT

EXECUTIVE SUMMARY

Context and Overview. Colombia's very strong policies and policy frameworks have helped to significantly reduce domestic and external imbalances and brought the economy to more sustainable levels of activity and demand. Market confidence has improved, but risk premia remain high compared to peers. The authorities remain committed to sustaining their track record of very strong policies to durably eliminate imbalances while facilitating a smooth convergence of the economy to potential levels and enhancing the country's resilience and capacity to respond to shocks.

Risks. External risks to the outlook have moderated but remain elevated and to the downside. A global growth slowdown, for example caused by geopolitical tensions in regions critical to global manufacturing value chains could further tighten global financial conditions, disrupt supply chains, and depress global commodity prices, adversely impacting Colombia's growth outlook and adding to inflation pressures. A global growth slowdown accompanied by depressed commodity prices could prompt capital outflows from some emerging markets, including Colombia. Tighter global financial conditions could lead to exchange rate pressures, raise risk premia, and exacerbate growth-inflation trade-offs, further prompting capital outflows. Climate shocks could exacerbate above-mentioned external risks.

FCL. The authorities have requested a two-year FCL arrangement in the amount of SDR 6.1335 billion (300 percent of quota) and are notifying the Fund of the cancellation of the current arrangement, approved in April 2022 (350 percent of quota, SDR 7.1557 billion). They intend to treat the new arrangement as precautionary. The lower requested access reflects the authorities' strategy of continuing to reduce access as risks permit in the context of their gradual exit strategy. Staff assesses that Colombia continues to meet the qualification criteria for access under the FCL arrangement and supports the authorities' request.

Fund Liquidity. The proposed new commitment and cancellation of the current arrangement would have a net positive impact on the Fund's liquidity position.

Process. The Executive Board concluded Colombia's 2024 Article IV Consultation on March 27, 2024.

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

The report was prepared by a team comprised of Ceyda Oner (head), Marco Arena, Vu Chau, and Roberto Perrelli (all WHD), Zoltan Jakab (MCM), and Sergio Rodríguez (SPR). Daria Kolpakova (WHD) provided valuable inputs to the report. Kristine Laluces and Eliana Porras (both WHD) provided excellent administrative coordination.

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CONTEXT

1. **Notwithstanding Colombia's success in reducing imbalances and lowering vulnerabilities, external risks remain high and tilted to the downside.** Appropriately tight macroeconomic policies over the last two years have allowed for an impressive reduction in Colombia's domestic and external imbalances. Market indicators have improved. Nevertheless, a global growth slowdown accompanied by lower commodity prices, together with tighter global financial conditions, could lead to external pressures and raise risk premia, causing financial stress.

2. **Colombia has maintained access to the Flexible Credit Line (FCL) since 2009.** The authorities value the FCL as a complement to their international reserves, serving as a buffer against external risks and as a signal of their very strong macroeconomic policies and policy frameworks. Previous FCL arrangements have enhanced Colombia's resilience in responding to shocks to commodity prices, the collapse of the neighboring Venezuelan economy, and the Covid-19 crisis. In March 2024, the authorities completed the first repurchase operation for the drawing under the FCL arrangement in December 2020; the repurchases will be completed by end-2025.

3. **The authorities have requested a successor two-year FCL arrangement with a further reduction in access.** Given the lower yet still-elevated external risks, the Colombian authorities see as desirable maintaining sufficient external buffers in the form of international reserves and access to the FCL. They have requested access of 300 percent of quota, commensurate with their assessment of lower external risks and vulnerabilities in the period ahead.

DEVELOPMENTS AND OUTLOOK

4. **The economy has slowed sharply, stabilizing at potential levels.** Real GDP expanded by 0.6 percent in 2023 (from 7.3 percent in 2022), closing the output gap. Private consumption has remained resilient while investment has fallen sharply (Figure 1), the latter reflecting a combination of tight policies and general uncertainties.[1] Labor force participation reached pre-pandemic levels and the unemployment rate fell below the pre-pandemic average (around 10 percent) by mid-2023, gradually only rising since then.

5. **Tight policies have lowered inflation and inflation expectations.** The central bank kept the policy rate unchanged at 13.25 percent from April until December 2023, gradually reducing it to 12.25 percent by end-March 2024, keeping a tight stance in real (ex-ante) terms. This has facilitated headline inflation declining from its peak of 13.3 percent (y/y) in March 2023 to 7.4 percent (y/y) in March 2024, notwithstanding persistence in inflation due to the full elimination of gasoline price subsidies during 2023, along with high indexation to past inflation (especially in the services sector).

[1] See Box 1 in the 2024 Article IV Staff Report (SM/24/60, March 2024).

In tandem, one-and two-year ahead inflation expectations have dropped to 4.7 and 3.6 percent (y/y) in March 2024, respectively.

6. **The fiscal policy stance has remained contractionary, with lower deficits and debt.** The Combined Public Sector (CPS) overall deficit narrowed to 2.6 percent of GDP in 2023 (from 6.1 percent of GDP in 2022), consistent with an over-performance of the fiscal rule for a second consecutive year, as the Central Government (CG) overall deficit narrowed to 4.3 percent of GDP (from 5.3 percent of GDP in 2022). The consolidation was largely owing to the 2021-22 tax reforms and the elimination of gasoline subsidies. This consolidation, together with the peso appreciation, supported a reduction in CPS gross debt to 52.5 percent (from 60.1 percent of GDP in 2022), with the CG net debt falling below the medium-term anchor earlier than expected.

7. **The current account deficit narrowed markedly.** The current account deficit fell to 2.7 percent of GDP in 2023 (from 6.2 percent in 2022), amid import compression from tight monetary and fiscal policies, despite weaker terms of trade and an appreciation of the real exchange rate that partly reverted the sharp depreciation in 2022 (Figure 2). Meanwhile, FDI remained the main source of external-deficit financing. Reflecting these developments, Colombia's external position for 2023 was assessed to be broadly in line with medium-term fundamentals and desired policy settings.

8. **The financial sector remains resilient.** Amid tightened lending standards and higher provisioning requirements, credit growth declined to more sustainable levels. The banking sector remains liquid and well-provisioned, notwithstanding some decline in profitability reflecting higher nonperforming loans (NPLs), with the capital adequacy ratio well above regulatory minimum and the liquid assets to total asset ratio above 17 percent.

9. **Colombian asset prices have recovered, though spreads remain elevated compared to peers.** The nominal appreciation of the peso against the U.S. dollar during 2023 (about 21 percent y/y, end-of-period) was one of the highest among EMs, largely reflecting confidence effects related to improvements in the fiscal and external positions. The currency has been stable against the dollar so far during 2024. Colombia’s government bond yields and EMBIG spreads have declined to around mid-2021 levels but remain above that of peers’ (Figure 3).

10. **The economy is set to gradually converge to potential output by 2026, with inflation reaching the target next year.** Real GDP is expected to grow by 1.1 percent in 2024, on the back of less-tight macroeconomic policies, and gradually converge to potential (3 percent) by 2026 as policies normalize. Inflation is projected to fall to 5 percent (y/y) by end-2024 before reaching the 3 percent target by end-2025. The current account deficit is projected to reach 3 percent of GDP in 2024 before converging to its medium-term average of about 3¾ percent of GDP, supported by the continued strength in Colombia’s non-traditional exports. Robust FDI is expected to finance the bulk of the current account deficit over the medium term.

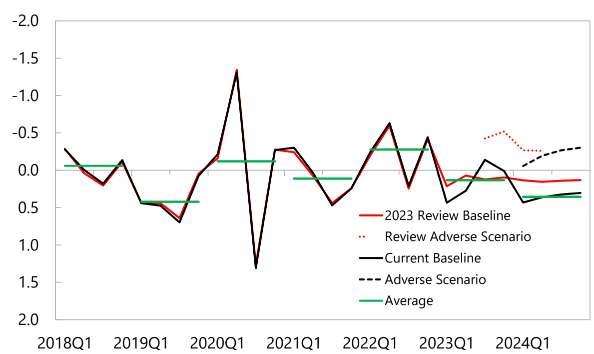
11. External risks have moderated but remain high and tilted to the downside. A global growth slowdown, for example caused by geopolitical tensions in regions critical to global manufacturing value chains, could further tighten global financial conditions, disrupt supply chains, and depress global commodity prices, adversely impacting Colombia's outlook (Box 1). Tighter financial conditions could lead to exchange rate pressures, fuel inflation, and costly growth-inflation trade-offs. While Colombia's risk premia have declined, uncertainties about the global outlook and the direction of policies could raise borrowing costs and undermine private investment. Climate shocks could exacerbate above-mentioned external risks.

Box 1. Updated External Economic Stress Index

The External Economic Stress Index (ESI) summarizes Colombia's external shocks and the exposure to these shocks. The main methodology is described in "Flexible Credit Line—Operational Guidance Note," IMF Policy Paper, July 2018. The index is based on four variables—standardized around their mean—that capture Colombia's external risks: level of the oil price, U.S. real GDP growth, emerging market volatility index (VXEEM), and the change in the 10-year U.S Treasury yield. These variables and the respective weights remain unchanged from recent Colombia FCL reports. Lower values indicate lower stress.

As expected, external stress, as measured by the ESI, declined during 2023. On average, in 2023 stress was lower than in 2022, as forecasted at the time of the 2023 FCL Review. The main drivers of lower external stress were higher U.S. growth and lower U.S. interest rates. Had oil prices remained at the same high levels observed in 2022, external stress would have been lower. Average stress, however, masks considerable variation—as illustrated in the ESI chart.

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



Source: IMF staff calculations. April 2024 WEO.

Under the current baseline, external stress is projected to fall further in 2024. Based on the April 2024 WEO, lower stress reflects a further lowering of U.S. interest rates, which would more than compensate for the marginally lower U.S. growth and global oil prices expected in 2024. Projected external stress in 2024, however, would still be marginally higher than 2019 levels—i.e., before the COVID-19 pandemic hit. For 2025, projected external stress is marginally higher than in 2024 due to slightly lower projected oil prices, despite marginally higher U.S. growth projections.

The adverse scenario shows that external risks remain elevated.[1] In this adverse scenario, where U.S. GDP is 0.4 percent below the 2024 baseline, external stress is lower compared with past adverse scenarios, although external risks remain elevated for Colombia.

[1] The adverse scenario for U.S. growth mirrors the one in the April 2024 WEO, which features a deterioration in China's outlook due to a deeper-than-expected contraction in the real estate sector and weaker consumption, and an escalation of the Middle East conflict. As assumed in the adverse scenarios in Colombia's FCL Requests and Reviews starting with the 2020 Request, relative to the baseline, oil prices fall by 28 percent (about one standard deviation), the VXEEM rises by two standard deviations, and U.S. Treasury yields rise 100 bps.

VIEWS ON POLICIES

12. **Macroeconomic policies should aim to durably eliminate imbalances while facilitating a smooth convergence to potential levels of economic activity.** This will require a gradual and carefully calibrated normalization of monetary and fiscal policies and decisive progress on structural reforms to boost productivity, encourage investment, enhance governance, improve social outcomes, and promote sustainable economic diversification.

- **Monetary and Exchange Rate Policy.** Monetary policy stance has been kept appropriately tight in real (ex-ante) terms, including following the additional 50 bps reduction in the policy rate to 12.25 percent in late March. The authorities remain committed to normalizing monetary policy with caution, and to bring inflation to the target by mid-2025 (¶5). Aiming to decisively bring inflation to the 3 percent target by mid-2025 would strike a good balance between strengthening credibility while safeguarding economic activity. This would imply a backloaded reduction of the policy rate, maintaining a tight stance as inflation and expectations decline in a data-dependent way. Enhanced communication, focusing on the target level and the expected time horizon to meet it, can help to anchor inflation expectations more strongly. The flexible exchange rate should continue to play its role as a shock absorber. In line with the Integrated Policy Framework, sales in foreign exchange market should be used only if large shocks lead to disruptive illiquidity, risk de-anchoring inflation expectations, or there are FX mismatches that pose significant risks to financial stability. Meanwhile, some FX purchases could be considered as conditions permit to further strengthen buffers (see ¶13, bullet 4).

- **Fiscal Policy.** The fiscal stance is expected to remain contractionary in structural terms this year, despite a widening of the CG and CPS overall deficits, before shifting toward a neutral stance in 2025-26. The planned increases in the deficit and debt for 2024 pose fiscal risks, although the authorities remain firmly committed to adhere to the fiscal rule and to take the measures necessary to ensure compliance.[2] In staff's view, proactively scaling back expenditure plans, including by continuing to eliminate fuel subsidies, would help improve fiscal management, lower borrowing costs and allow monetary policy to normalize faster. Reorienting expenditures towards productive investment projects, within a scaled back spending envelope, would support the energy transition and enhance growth potential. Reducing budget rigidities and assessing the quality and targeting of social transfers and public investment could improve resource allocation and further support meeting social and climate objectives.

- **Financial Sector Policies.** Closely monitoring NPLs, maturity and liquidity risks would be essential to avoid temporary funding pressures. Expanding the macroprudential toolkit with borrower-based regulations to cover non-mortgage loans could complement supervisory oversight and bolster systemic financial stability. Continuing to implement recommendations

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[2] See IMF Country Report 24/82.

from the 2022 FSAP and strengthening cross-border oversight and AML/CFT should remain priorities.[3]

- **Social and Structural Reforms.** Congressional debates on the pension and labor reforms are ongoing; the healthcare reform bill was not passed by Congress in early April. These reforms should be designed within Colombia's very strong policy frameworks, aiming to address problems in the current system while ensuring that incentives support investment. Changes should be clearly communicated to enhance credibility and safeguard stability. Fiscal costs should fit within the fiscal rule. Potential implications of the pension reform on financial stability should inform ongoing discussions. Structural reforms should be geared towards improving resource allocation within the economy, facilitating a diversification of production and exports away from fossil fuels by building on comparative advantages, in partnership with the private sector.[4] Efforts to strengthen governance and transparency, and reduce corruption risks, should usefully complement structural reforms. To address operational and financial issues, the government has recently intervened in some large healthcare insurance providers.[5] Such interventions should proceed carefully to safeguard healthcare provision, limit fiscal costs, be temporary and in line with the legal and regulatory frameworks.

ASSESSMENT OF FCL QUALIFICATION

13. **Staff's assessment is that Colombia continues to meet the qualification criteria for a successor FCL arrangement.** As described in the 2024 Article IV Staff Report (SM/24/60, March 2024), and endorsed by the IMF's Executive Board, Colombia's policies continue to be very strong, based on very strong fundamentals and institutional policy frameworks, along with a sustained track record of implementing very strong policies. The authorities remain committed to maintaining Colombia's track record of very strong macroeconomic policies and institutional policy frameworks (Text Table 1).

- **Sustainable external position.** The 2024 AIV for Colombia assessed its external position in 2023 to be broadly in line with the level implied by medium-term fundamentals and desirable policies. A tight policy mix has supported a significant contraction in import volumes, which has helped narrow the current account deficit from 6.2 percent of GDP in 2022 to 2.7 percent of GDP in 2023. The continued strength of tourism receipts and remittances also supported last year's adjustment. For 2024, staff projects a current account deficit of 3 percent of GDP on the back of some recovery of imports driven by slightly higher domestic demand growth as tight macroeconomic policies gradually normalize. Over the medium term, the current account deficit

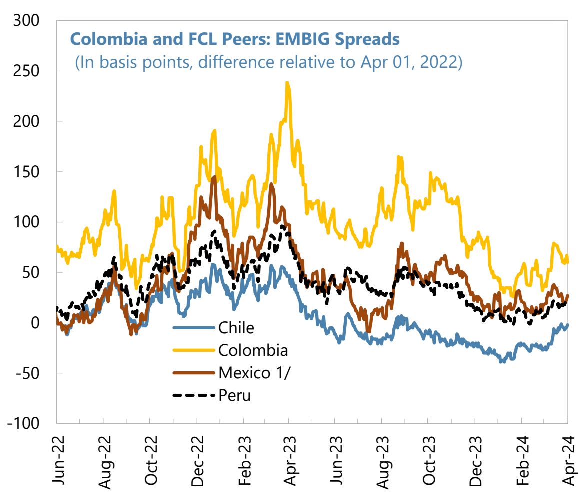
[3] See SM/24/60 Annex V on the implementation of FSAP recommendations.

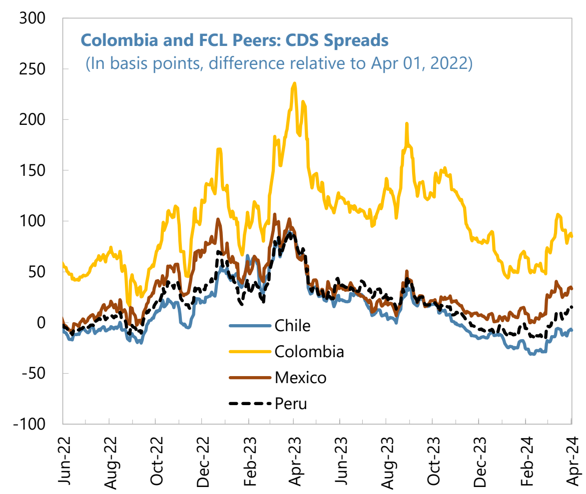
[4] See SM/24/61, March 2024.

[5] Interventions and liquidations in the healthcare system have been made in the past, including under former governments.

is expected to converge to about 3¾ percent of GDP, supported in part by continued strength of non-traditional exports, with FDI flows remaining the main source of external financing. At end-2023, Colombia's Net International Investment Position (NIIP) reached -52.8 percent of GDP, broadly unchanged from its end-2022 level.[6] External debt remains sustainable and is projected to decline to 57½ percent of GDP this year and stabilize around that level over the medium term. The composition of external debt is favorable with long maturities, sizable peso-denominated sovereign bonds, and high natural and financial hedges for corporate bonds.

- **Capital account dominated by private flows.** During 2021-23, FDI accounted on average for 57 percent of Colombia's stock of International Investment Liabilities (IIL). The remaining is split between, (i) public liabilities (23 percent), mainly in the form of public bonds (15 percent); (ii) private bonds (6 percent); and (iii) other private liabilities (14 percent). Colombia's IIL composition has been broadly stable since 2019, but with the small share of equity liabilities shrinking even further. Stable funding sources—especially FDI—are expected to continue to finance the bulk of the current account deficit in the medium term.





Sources: Haver Analytics and Bloomberg LLP.
1/ Mexico's EMBIG includes Sovereign and Quasi.

- **Track-record of steady sovereign access to international capital markets at favorable terms.** Colombia has had uninterrupted access to international capital markets at favorable terms since the early 2000s. The public sector issued external bonds in international markets during each of the last 5 years, in a cumulative amount over that period equivalent to around 786 percent of Colombia's Fund quota, which is well above the FCL threshold of 50 percent of quota. Colombia's first ESG social bond of US$2.5 billion, issued in November 2023, was

[6] During the previous five years (2018-2022), the increase in liabilities (up 20 ppt of GDP)— driven mainly by FDI— more than offset the increase in assets (up 13 ppt of GDP)— led by portfolio investment. Excluding FDI, the NIIP stood at only -3 percent of GDP, smaller in absolute value than the 5-year average (-5 percent of GDP).

oversubscribed by five times.[7] The latest global bond issuance of US$1.3 billion in April 2024 was oversubscribed by nearly eight times.[8] While Colombia's sovereign spreads remain elevated, the levels, as well as their distance from the average of other FCL countries, have declined since the 2022 FCL arrangement (Figure 4).

- **Adequate international reserves.** As of end-2023, Gross International Reserves (GIR) stood at US$59.1 billion (from US$56.7 billion in end-2022), comfortably meeting standard reserve coverage indicators (Figure 4) and at the median of FCL peers (Figure 5). During 2021-23, Colombia's GIR holdings averaged 127 percent of the ARA metric excluding the commodity buffer (113 percent of the ARA metric including the commodity buffer), exceeding the FCL threshold of 100 percent by a comfortable margin. Moreover, GIR has never been below 80 percent of the ARA metric during at least the last three years. Last December, the central bank announced a plan to gradually accumulate reserves, market conditions permitting, for up to US$1.5 billion over the next two years. This welcomed plan would help keep reserves well within the adequacy range as access under the FCL is reduced while global uncertainty is expected to persist. As of March 15, 2024, reserve accumulation under the program amounted to US$424 million.

- **Sound public finances, including a sustainable public debt position.** Fiscal policy is underpinned by a sound and strong framework, last updated in 2021, with a fiscal rule guided by a structural balance rule, a medium-term debt anchor, and a debt ceiling.[9] Demonstrating the authorities' full commitment to the fiscal framework, the 2023 CG deficit slightly over-performed relative to the fiscal rule limit for the second consecutive year. Public debt is projected to stabilize around 55 percent of GDP over the medium term and is assessed to be sustainable with high probability under a wide range of plausible shock scenarios (Figures 8-10).[10] Gross financing needs are also manageable under the shock scenarios. The favorable maturity structure and currency composition of public debt mitigate sustainability risks. Overcompliance with the fiscal targets two years in a row is a testament to Colombia's very strong policy implementation.

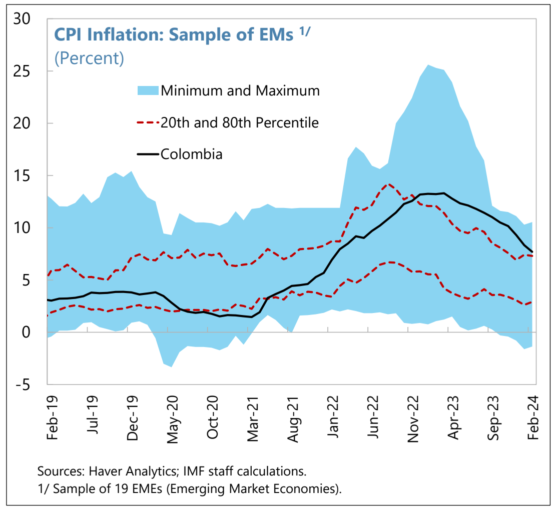
[7] The bond was issued in two equal tranches at 12 and 30 years with coupons of 8.0 and 8.75 percent, respectively.

[8] Two equal tranches maturing in 2035 and 2053, with yields of 7.55 and 8.15 percent, respectively.

[9] See IMF Country Reports 22/97 and 22/129 for details.

[10] For further details, see Annex IV of the 2024 Article IV Staff Report (SM/24/60, March 2024).

- **Low and stable inflation, in the context of a sound monetary and exchange rate policy.** Colombia's well-established inflation targeting framework had kept inflation in single-digits (average of 5 percent) from mid-1999 through mid-2022. A combination of external shocks and some domestic factors led to double-digit inflation in 2022-23, the global nature of which was reflected in many countries seeing high inflation over this period (Text Chart).[11] The authorities demonstrated their strong commitment to the inflation targeting framework by sharply tightening monetary policy in response to the inflationary pressures in the aftermath of the pandemic and Russia's invasion of Ukraine, tightening it further in real (ex-ante) terms throughout 2023, and keeping it tight so far during 2024. This policy stance, together with the central bank's communication on aiming to converge inflation to target by mid-2025, have facilitated a reduction in headline inflation and inflation expectations to single digits notwithstanding the significant upward pressure on inflation caused by the necessarily but sizable increase in regulated prices, and persistence from high indexation, mainly in services (Figures 1 and 4). As of last February, annual inflation declined to 7.7 percent, and one- and two-year ahead inflation expectations reached 4.8 and 3.5 percent, respectively. Staff projects annual inflation in 2024 to be around Colombia's historical average of 5 percent (Table 1). Continued prudent policies are expected to keep inflation on a declining path toward reaching the target in 2025. The authorities remain strongly committed to their inflation targeting framework and the flexible exchange rate regime.



Sources: Haver Analytics; IMF staff calculations.
1/ Sample of 19 EMEs (Emerging Market Economies).

- **Sound financial system and absence of solvency problems that may threaten systemic stability.** Notwithstanding rising NPLs, the 2024 AIV assessed that the financial system remains well-capitalized and liquid, without any significant solvency risks or recapitalizations needs. As of December 2023, the banking system's capital adequacy ratio stood at 18.5 percent, with Tier-1 capital at 15.7 percent—both well above regulatory minima. Meanwhile, the liquid assets to total assets ratio stood above 18.2 percent and the liquidity coverage ratio was around 200 percent. The 2022 FSAP concluded that banks are largely resilient to solvency and liquidity shocks, and many of the recommendations are being implemented.

- **Effective financial sector supervision.** Colombia has considerably strengthened its regulatory and supervisory frameworks, which have added to the resilience of the financial sector. Capital and liquidity standards have mostly been brought into line with Basel III, including definitions of risk-weighted assets and regulatory capital. Capital buffers and injections have also been effectively used. The dynamic provisioning framework in effect during the recent credit cycle

[11] See Chapter 2 of IMF Country Report 23/121, and IMF Country Report 23/150.

helped banks be better prepared for rising NPLs. The authorities remain committed to continue strengthening supervisory capacity and practices, including on cross border exposures, in line with FSAP recommendations. As covered in the 2024 AIV, Colombia has made progress in strengthening the effectiveness of the AML/CFT framework including through enhancing risk-based supervision of the financial sector and the establishment of a beneficial ownership registry, but further improvements are needed.

- **Data transparency and integrity.** Colombia's macroeconomic data continues to meet high quality standards. Colombia subscribes to the Special Data Dissemination Standards (SDDS) since 1996 and metadata are posted on the Fund's Dissemination Standards Bulletin Board (DSBB).[12] The provision of macroeconomic statistics is adequate for surveillance. Colombia has been implementing the recommendations from the fiscal transparency evaluation of 2017, including by strengthening its reporting on fiscal risks in the Medium-Term Fiscal Framework. The authorities are working to adopt the Government Finance Statistics Manual 2014 framework, enhance inter-institutional coordination, and increase the resources allocated to compiling government finance statistics and public sector debt statistics. 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.

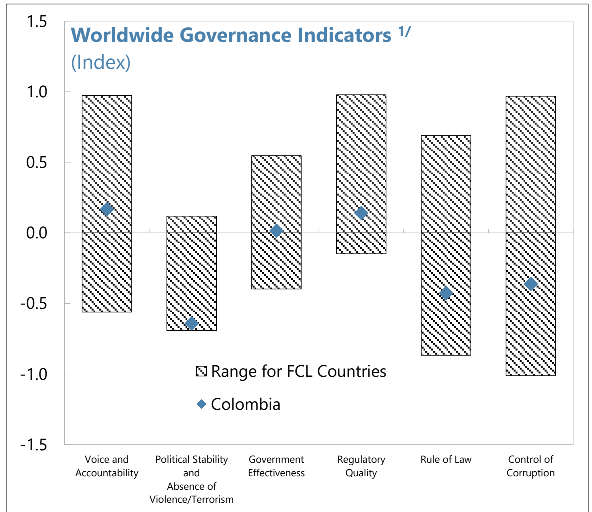
- **Track record.** Colombia continues to have a sustained track record of implementing very strong policies, including according to staff's assessment that all relevant core indicators were met in each of the five most recent years. As described above, the authorities reacted to rising imbalances by rapidly tightening monetary and fiscal policy stances, which have resulted in an impressive reduction in inflation, the fiscal deficit, public debt, excessive credit growth, and the external current account deficit over the past year. An appropriately cautious and gradual normalization of macroeconomic policies is now underway.

14. Colombia has firmed up a robust legal and institutional anti-corruption framework, and strengthening governance and rule of law remain important priorities.[13] A number of laws have been passed in recent years requiring public servants to publicly declare information on assets, income, conflicts of interest, and use of public funds. A judicial commission has been established to address judicial reform and alleviate judicial congestion. A draft law on protection of whistleblowers was submitted to Congress in November 2023. According to the *Worldwide Governance Indicators*, Colombia scores well relative to peers and other FCL countries in the areas of government effectiveness and voice and accountability. Notwithstanding progress and this favorable comparison with peers, challenges remain: (i) public procurement practices, including the influence of political power in decision making, pose significant governance risks; and (ii) customs weaknesses can

[12] See Informational Annex on statistical issues (SM/24/60, Supplement 1, March 2024).

[13] See Box 2 in the 2024 Article IV Staff Report (SM/24/60, March 2024) for an update on the status of previous and ongoing governance reforms.

contribute to facilitating illicit cross-border financial flows and transnational organized crime networks. Meanwhile, Colombia ranks below peers in other governance indicators, including rule of law, control of corruption, security. For example, a perception of politicization of key control and anti-corruption bodies, lack of control and anti-corruption bodies, lack of enforcement of judicial decisions and excessive use of extra-budgetary funds at the subnational level add to governance risks. These vulnerabilities, however, do not hamper Colombia's ability to respond to shocks. Priority reforms to address these vulnerabilities moving forward include ensuring publication of asset declarations in line with past good practice and enhancing investigation capacities to improve the advancement of grand corruption cases through the judicial system.



Source: D. Kaufmann, A. Kraay and M. Mastruzzi (2010). "The Worldwide Governance Indicators: A Summary of Methodology, Data and Analytical Issues."
1/ Estimate for each category ranges from -2.5 (weak) to 2.5 (strong) governance performance.

Text Table 1. Summary of FCL Qualification Assessments

	2022 FCL Request	2023 FCL Review	2024 FCL Request
1. A sustainable external position (EBA assessment at least "moderately weaker")	Moderately weaker	Weaker	Broadly in Line
2. A capital account dominated by private flows (share of private flows in total capital flows>50 percent, on average over the last three years)	68 percent	67 percent	81 percent
3. A track record of steady sovereign access to sovereign markets at favorable terms (public sector bonds issued or loans disbursed in international markets in at least 3 of the last 5 years; cumulative amount during the last 5 years>50 percent of the country's quota at the Fund)	641 percent of quota	647 percent of quota	786 percent of quota
4. A comfortable reserve position (reserves>100 percent of ARA metric, on average over three (the current and the two previous) years, excluding commodity buffers)	134 percent	127 percent	123 percent
5. Sound public finances (debt sustainable with high probability)	Debt is sustainable with high probability	Debt is sustainable with high probability	Debt is sustainable with high probability
6. Low and stable inflation (inflation in single digits in the last 5 years)[1]	3.4 percent	4.6 percent	6.3 percent
7. Sound financial system	Well-provisioned, well-capitalized, and liquid. No significant solvency risks or recapitalization needs.	Well-provisioned, well-capitalized, and liquid. No significant solvency risks or recapitalization needs.	Well-provisioned, well-capitalized, and liquid. No significant solvency risks or recapitalization needs.
8. Effective financial sector supervision	No substantial concern in supervisory framework	No substantial concern in supervisory framework	No substantial concern in supervisory framework
9. Data transparency and integrity	SDDS subscriber	SDDS subscriber	SDDS subscriber

1/ Headline and core inflation, as well as inflation expectations, were in single digits in each of the five years preceding the 2022 Request. Headline inflation in 2022 and 2023 were double digits (Table 1). See ¶13 for qualification for the 2024 Request and IMF Country Report 23/150 for qualification in the 2023 Review.

CONSIDERATIONS AND STRATEGY FOR REDUCING ACCESS

15. Staff considers that access of 300 percent of quota, as requested by Colombia, would provide sufficient coverage against balance of payments risks under a plausible adverse scenario. As elaborated in the Executive Summary, Box 1, and ¶11, risks to the global economy have moderated since the approval of the 2022 FCL arrangement, but they remain elevated and tilted to the downside. Realization of these risks could depress global growth and commodity prices and prompt capital outflows from emerging markets, including Colombia.

16. The illustrative adverse scenario is broadly similar to those used in previous FCL requests (Table 3). Relative to the baseline, the adverse scenario considers a combination of shocks to the current and financial account. The shock sizes are plausible and well-aligned with those assumed in other FCL arrangements, including for Colombia (Text Table 2, Figure 6). Specifically:

- **Current account.** A global growth slowdown, for example one caused by geopolitical tensions in regions critical to global manufacturing value chains, is assumed to depress commodity prices and lower trading partners' demand for non-oil exports. Accordingly, the adverse scenario assumes (i) a 24-percent drop in oil prices relative to baseline levels, which in turn leads to a proportional decline in oil exports, and (ii) a decline in global growth, including in trading partners, lowering Colombia's non-traditional exports by 5 percent. The combined impact of these shocks is a decline of US$4.2 billion in Colombia's trade balance.[14]

- **Financial account.** Tighter global financial conditions are assumed to lead to exchange rate pressures, increase Colombia's sovereign risk premium, and prompt capital outflows, including from the private corporate sector. Accordingly, the adverse scenario includes shocks of (i) a 20-percent reduction in FDI flows; (ii) a 20-percent reduction in the rollover rates of short-term (ST) public and private debt; (iii) a 40-percent reduction in disbursements of medium- and long-term (MLT) public debt;[15] (iv) a 27-percent reduction in the rollover rates of medium- and long-term private debt, and (v) a drop in other portfolio flows equivalent to one standard deviation.[16] In U.S. dollar terms, the overall impact of these shocks on the financial account is US$17.6 billion.

- **Use of reserves.** The combined shocks to the current and financial accounts would add up to US$21.9 billion (Text Table 3). While continued exchange rate flexibility would remain Colombia's primary shock absorber, part of the financing gap could be covered by drawing down on international reserves to prevent disorderly market conditions while keeping sufficient buffers to preserve confidence as the economy absorbs the shocks.[17] In this scenario, GIR would fall by US$13.7 billion, covering almost two-thirds of the balance of payments shock (compared with US$12.5 billion assumed in the 2022 FCL arrangement). The post-shock GIR would be around 100 percent of the Assessing Reserve Adequacy (ARA) metric, i.e., at the lower bound of adequacy.

17. The requested access level would help cover the financing gap. The combination of the above shocks and reserve drawdown would result in a remaining external financing gap of

[14] The scenario includes some small offsets from a peso depreciation likely to follow the realization of the shock as well as lower net income outflows owing to lower profits for foreign investors. See Table 3 for details.

[15] For comparison purposes with past scenarios, the shock to MLT public debt flows is US$3.7 billion.

[16] The assumed lower rollover rates for private debt are within historical benchmarks (Figure 6).

[17] Against the backdrop of heightened external vulnerabilities during the Covid-19 pandemic, the augmentation of the 2020 FCL arrangement provided insurance against higher potential and actual financing gaps and kept international reserves at adequate levels, allowing Colombia to use over US$9 billion of its international reserves.

US$8.2 billion (300 percent of quota). This level of access would strike a good balance between a somewhat larger reserve drawdown than in the adverse scenario of previous FCL requests while prudently keeping post-shock reserves adequate relative to the ARA metric (Table 3).[18] Against this background, the reduction of access to 300 percent of quota would be appropriate and in line with the authorities' long-standing gradual exit strategy (See Appendix 1).

Text Table 2. Assumptions Underlying the Illustrative Adverse Scenarios
(In percent change vis-à-vis baseline, unless otherwise indicated)

Assumption	New Arrangement, 2024	FCL Request, 2022	FCL Augmentation, 2020	FCL Request, 2020
Oil price decline	24	24	35	28
FDI reduction	20	20	20	20
MLT public sector rollover	60 percent of baseline disbursement	60 percent of baseline disbursement	80	80
ST public sector rollover	80	80	80	80
MLT private sector rollover	73	73	73	73
ST private sector rollover	80	80	80	80
Other portfolio flows	1 standard deviation	1 standard deviation	1 standard deviation	$1 billion outflow

Source: IMF Staff calculations.

Text Table 3. Key Contributors to Financing Gap under the Illustrative Adverse Scenarios
(Deviations from baseline in US$ millions, unless otherwise indicated)

Assumption	New Arrangement, 2024	FCL Request, 2022	FCL Augmentation, 2020	FCL Request, 2020
Current Account Deficit	4,232	5,274	6,564	4,722
Financial Account Shock	17,643	17,246	17,697	15,578
Reserve drawdown	13,718	12,491	11,986	9,459
Remaining gap	8,157	10,029	12,275	10,841
in percent of quota	300	350	420	384

Source: IMF Staff calculations.

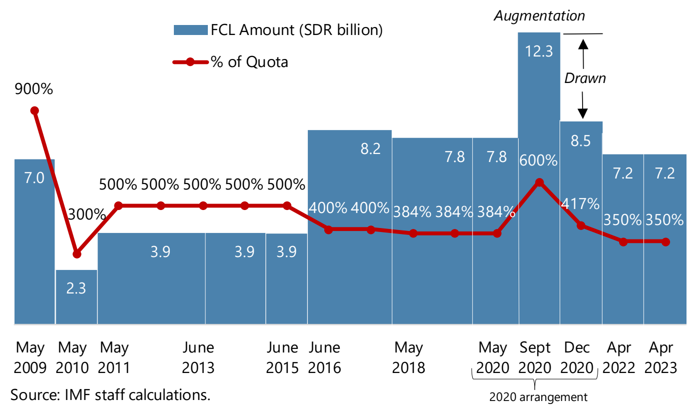
18. **The authorities remain committed to further reduce access under the FCL arrangement, risks permitting, in the context of their gradual exit strategy.** Between 2015 and 2020, Colombia substantially lowered its FCL access—from 500 to 400 percent of quota in 2016, and then to 384 percent of quota in 2018. That access level remained in place until the pandemic crisis hit the country, and an augmentation to 600 percent of quota was granted in September 2020.[19] In

[18] Adequate post-shock reserves are also relevant for Colombia's capacity to repay the Fund. In this regard, the scheduled repurchases associated with the drawings under the 2020 FCL arrangement are included in both the baseline and adverse scenarios.

[19] Prior to its augmentation in September 2020, the FCL arrangement initially approved on May 1, 2020, was for 384 percent of quota (SDR 7.8496 billion)—the same level of access as under the 2018 FCL arrangement.

2022, Colombia resumed lowering access under the FCL arrangement to below pre-pandemic levels at 350 percent of quota (Text Chart). The authorities' current request for a successor arrangement of 300 percent of quota demonstrates their commitment to further reduce access, risks permitting, in the context of their gradual exit strategy.

Historical Access to IMF Flexible Credit Line



Source: IMF staff calculations.

19. From staff's perspective, Colombia's further reductions of access should depend on the evolution of key external risks, while maintaining very strong policy frameworks. Colombia is subject to a range of external risks as elaborated above. As the outlook for these risks dissipate over time, further reductions in access in future FCL arrangements would be appropriate. The planned reserve accumulation, as market conditions permit, would further add to Colombia's own buffers, helping to meet the authorities' objective of maintaining adequate reserves even after drawing on them if adverse shocks materialize. Adherence to very strong policies and policy frameworks, to which the authorities are committed, would ensure that Colombia remains resilient to shocks, allowing future reductions in access if the risk outlook improves. In a scenario where external risks recede (e.g., reflected in significantly lower ESI measures) and become more idiosyncratic rather than persistent and systemic in nature, such that Colombia's own resources would be able to sufficiently address any potential balance of payment need without jeopardizing market confidence, a successor arrangement may no longer be needed. All this said, new risks could emerge, or current risks could intensify, which could alter this outlook. As such, future decisions on access should remain guided by the authorities' long-standing strategy of gradually reducing access, in the context of their exit strategy, contingent on the state of the external risk outlook.

IMPACT ON FUND FINANCES, RISKS, AND SAFEGUARDS

20. The Fund's liquidity is expected to remain adequate after the approval of the proposed FCL arrangement (SDR 6.1335 billion or 300 percent of quota) and cancellation of the current arrangement. Further analysis is provided in the supplement assessing the impact on the Fund's finances and liquidity position.[20]

[20] See "Assessment of the impact of the proposed arrangement under the flexible credit line arrangement on the Fund's finances and liquidity position" supplement.

21. Credit related risks to the Fund are judged to remain moderate from the current FCL arrangement. The Colombian economy has experienced a marked reduction in domestic and external imbalances owing to appropriately tight macroeconomic policies. The authorities remain committed to maintaining their sustained track record of very strong policies to durably eliminate remaining imbalances while enhancing the country's resilience and capacity to respond to shocks. Colombia's external debt is expected to decline to 57.5 percent of GDP this year; its' external balance sheet is sustainable given sizeable non-debt-creating capital inflows; and debt service continues to be manageable. The authorities have indicated their intent to treat the new FCL arrangement as precautionary. Even if Colombia were to draw all the resources available under the new FCL arrangement, its capacity to repay all outstanding obligations to the Fund (including remaining credit outstanding from its purchase under the 2020 FCL arrangement) would remain adequate (Table 10). Under such a drawing scenario, Colombia's total external debt would peak at 80 percent of GDP in 2024 and remain on a sustainable medium-term path.[21] Its obligations to the Fund would peak at 3.9 percent of GDP (about 22 percent of GIR), which would represent less than 5 percent of Colombia's total external debt (Table 10). An additional safeguard is the fact that Colombia has an excellent track-record of meeting all its financial obligations.[22]

22. Safeguards procedures for Colombia's 2024 FCL arrangement have been initiated. The *Banco de la República de Colombia* provided the most recently completed audit reports, and Fund staff will discuss them with the external auditors. KPMG Colombia (the external auditor) issued an unmodified audit opinion on the BRC's 2023 financial statements, which are published on the BRC's website.

23. Enterprise risks associated with the requested arrangement are mitigated by the strength of the authorities' policies, frameworks, and commitments. As described above, financial risks to the Fund would be the adequacy of liquidity resources (liquidity risk, Annex 1) and credit risk. In general, countries that qualify for FCLs are those with very strong policies and frameworks, which substantially mitigate the Fund's residual financial risks. In the case of Colombia, liquidity risks to the Fund would decline with the approval of the arrangement, since requested access is lower than that of the current arrangement and would therefore improve the Fund's Forward Commitment Capacity (FCC). Credit risks to the Fund would also decline with the approval of the current arrangement owing to reduced exposure. If Colombia were to draw all the resources available under the new FCL arrangement upon approval (i.e., before upcoming scheduled repurchases) credit outstanding to Colombia would rise to around 38 percent of precautionary balances. This credit risk is mitigated by (i) the fact that the authorities intend to treat the arrangement as precautionary; (ii) the strength of the Colombian economy, its comfortable buffers,

[21] Public debt would initially rise to 66.1 percent of GDP, mainly due to the exchange rate depreciation. Meanwhile, higher NPLs would reduce banks' profitability and provision ratios but would not generate systemic risks, in line with stress test results.

[22] In March 2024, Colombia initiated the repayment of the FCL amounts withdrawn during the pandemic. Full repayment of the FCL credit outstanding is expected to be completed in 2025.

and the plans to build further buffers with the reserve purchase program (¶13); (iii) Colombia's very strong policies and the authorities' commitments to maintain policies as such (¶21); and (iv) the payment of the upcoming repurchases, which will eliminate credit outstanding from the 2020 purchase by end-2025. Going forward, both risks are mitigated by the fact that the authorities intend to gradually reduce access in the future, risks permitting, allowing the FCC to increase and potential exposure to Colombia to decline (¶18). Balancing financial risks would be the reputational risk to the Fund of not providing sufficient support to a qualifying member facing significant and persistent external shocks, which could jeopardize its economic and financial stability, with negative potential spillovers on other emerging economies.

STAFF APPRAISAL

24. Colombia continues to benefit from the FCL. The authorities value the FCL as insurance against external risks and as a signal of the quality of their very strong macroeconomic policies and institutional policy frameworks. The lower access in the requested FCL arrangement, which the authorities plan to treat as precautionary, reflects their view that external risks have declined but remain elevated, and is in line with their long-standing strategy of gradually reducing access, risks permitting, in the context of their exit strategy.

25. Colombia meets all the qualification criteria for an FCL arrangement. In the 2024 Article IV Consultation with Colombia completed on March 27, 2024, the IMF Executive Board recognized that Colombia continues to demonstrate external, financial, and fiscal stability, supported by very strong macroeconomic policies and policy frameworks. The Colombian authorities remain firmly committed to maintaining very strong macroeconomic policies going forward.

26. Staff considers the proposed reduction in access to 300 percent of quota to be appropriate. The requested access level is justified by the outlook for lower yet-elevated external risks and strikes a good balance between drawing on international reserves while maintaining them at adequate levels in a plausible tail risk scenario.

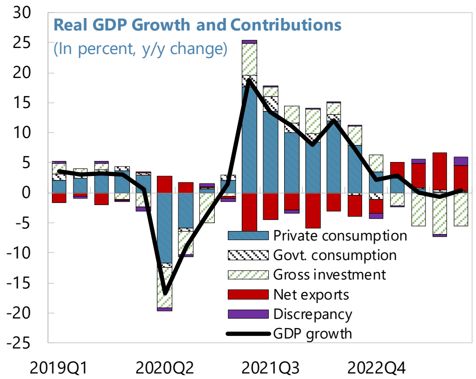
27. Staff welcomes the authorities' commitment to continue to gradually reduce access in the future, as risks permit. Given its very strong policy framework and comfortable reserve position, Colombia should consider further reducing access to the FCL. Pursuing the planned reserve accumulation, as market conditions permit and within the flexible exchange rate framework, would help meet the authorities' objective of maintaining adequate reserves as they reduce access under the FCL.

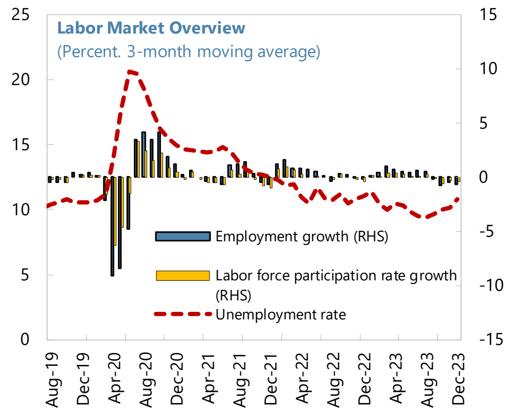
28. Staff considers that the risks to the Fund from the proposed FCL arrangement are manageable. While Colombia intends to treat the FCL arrangement as precautionary, the Fund's credit exposure to Colombia would remain moderate even if there were drawings under the new arrangement. Risks are further mitigated by Colombia's manageable external debt service profile and the fact that the Colombian authorities will continue to make timely repurchases through 2025, eliminating credit outstanding before the requested FCL arrangement expires. The proposed new access and cancellation of the current arrangement would have a net positive impact on the Fund's liquidity position.

Figure 1. Colombia: Recent Economic Developments

The consumption-led expansion declined in 2023...

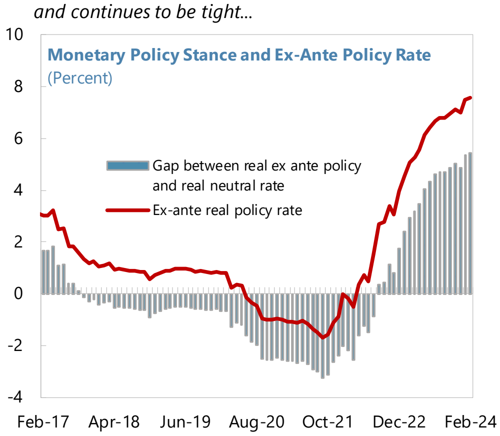
...while the unemployment rate reached pre-pandemic levels.

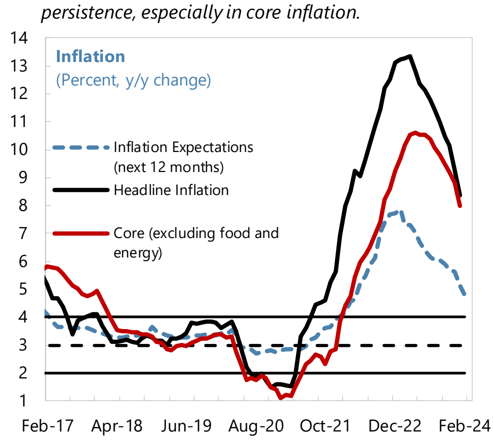




The monetary policy stance became tighter in 2023 and continues to be tight...

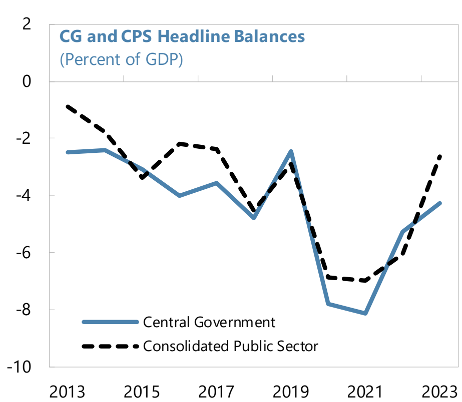
...but the inflation decline has shown a degree of persistence, especially in core inflation.

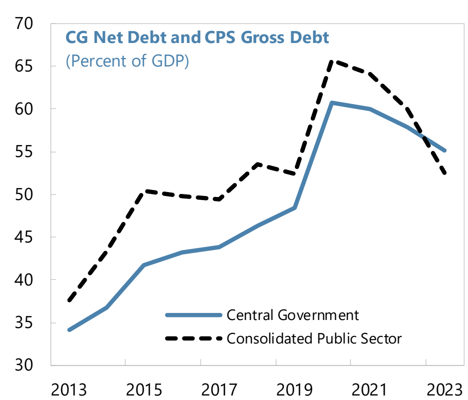




With the support from higher taxes and lower capex, fiscal consolidation continued in 2023.

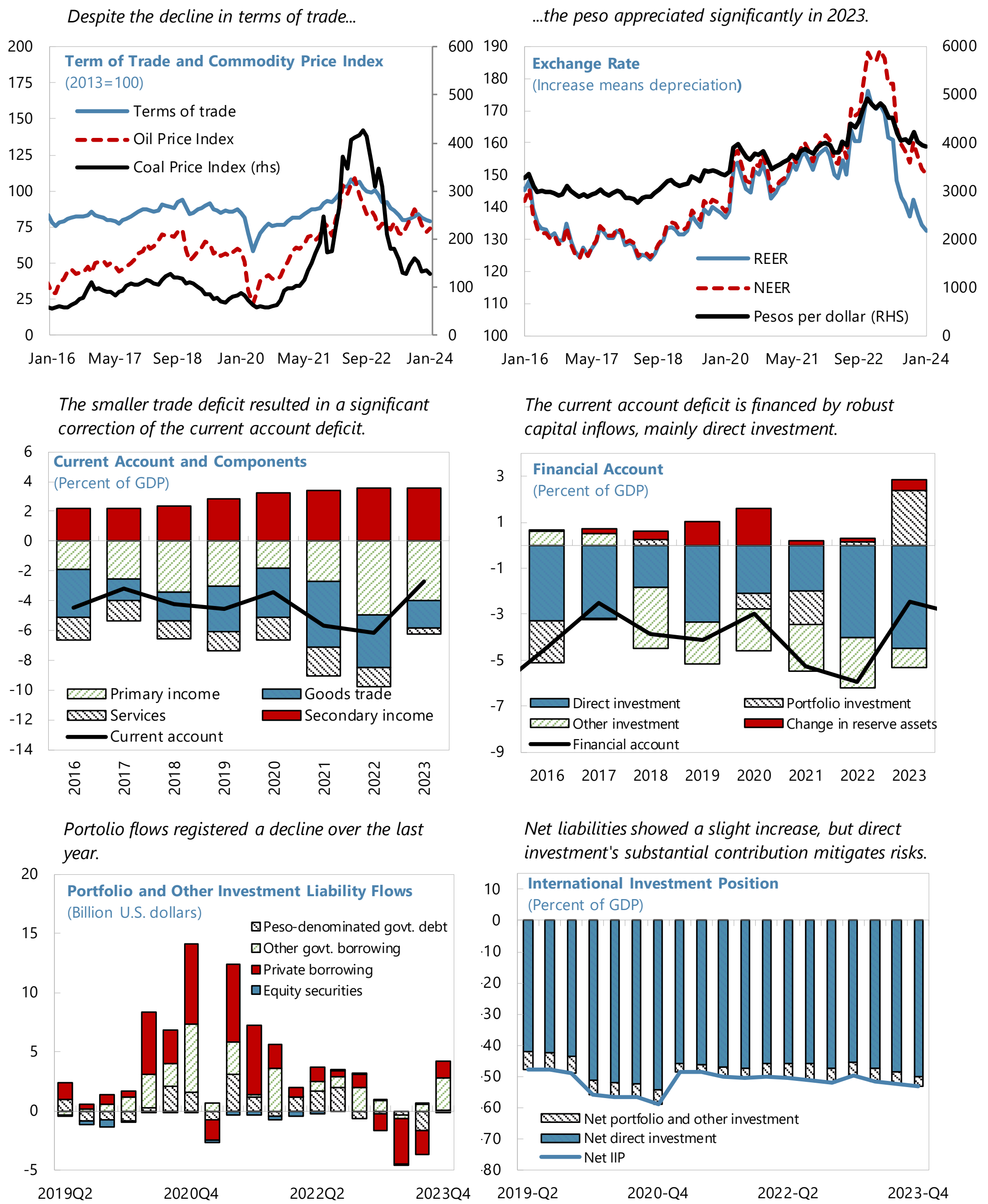
Together with the consolidation, inflation and peso appreciation have supported the decline of debt.





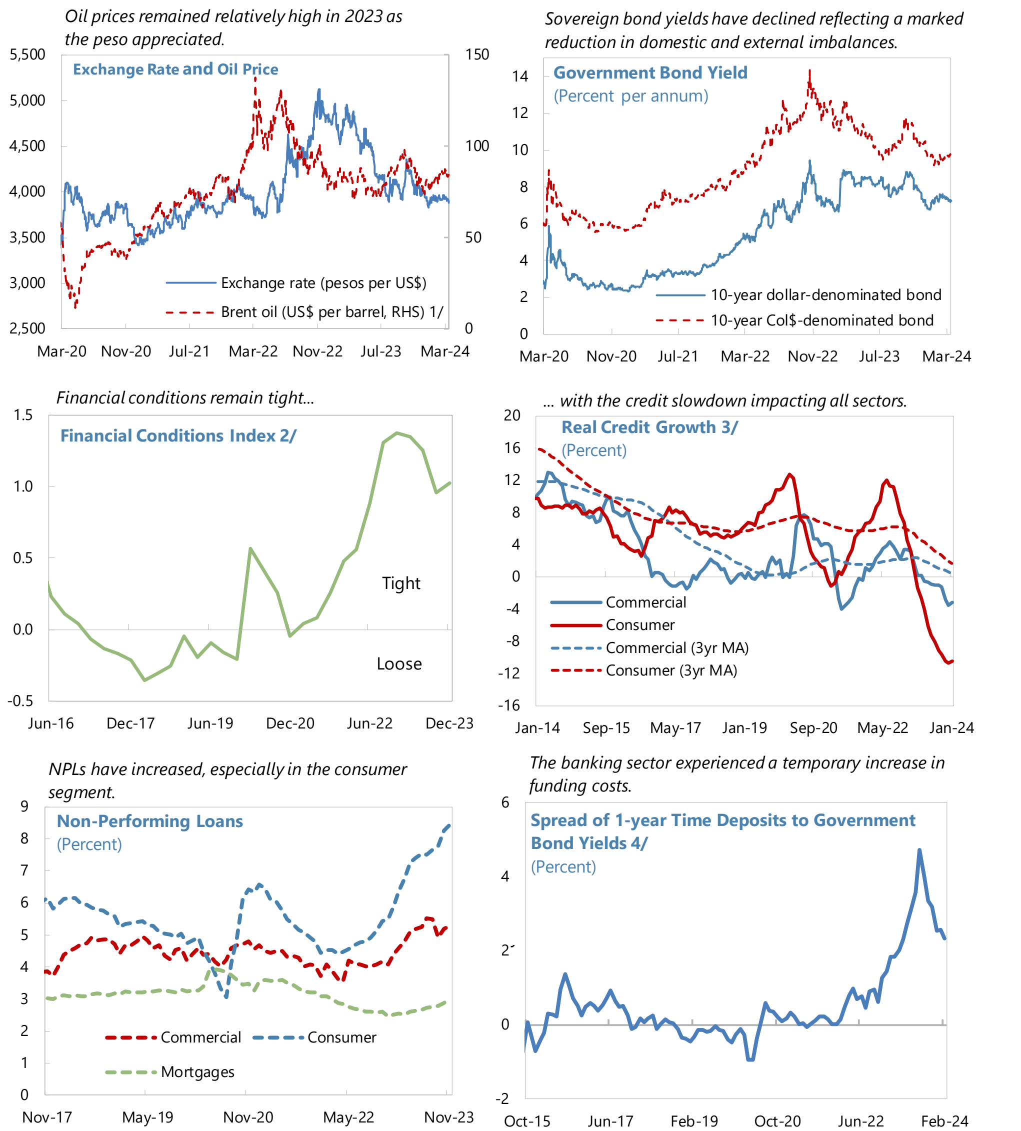
Sources: Departamento Administrativo Nacional de Estadísticas (DANE); Banco de la Republica; Ministerio de Hacienda y Crédito Público; Haver Analytics, and IMF staff estimates.

Figure 2. Colombia: External Sector Developments



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

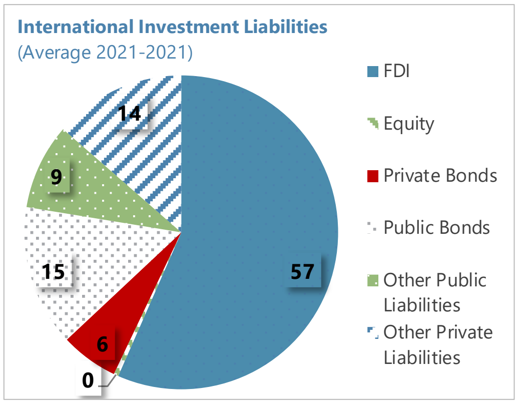
Figure 3. Colombia: Recent Financial Developments



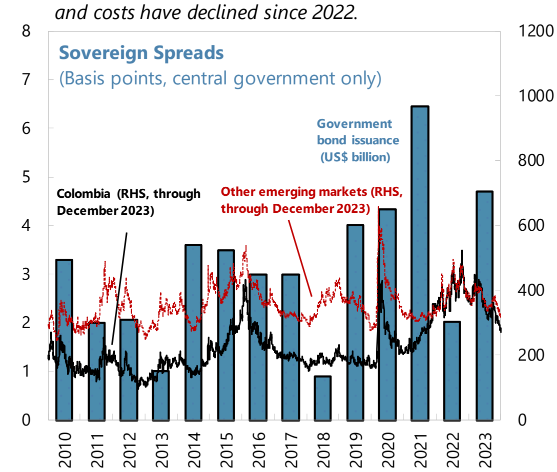
Sources: Bloomberg; Superintendencia Financiera de Colombia; Banco de la República; and IMF staff estimates.
1/ Colombia mix follows closely Brent oil prices.
2/ For technical details on the construction of the financial conditions index, see April 2017 Global Financial Stability Report, Chapter 3, Annex 3.1.
3/ Dashed lines indicate the 3-year moving average of the series of the same color.
4/ Spread between 1-year implied cash deposit mid rate (% p.a., Tullet Prebon Information) and zero coupon yield curve (peso-denominated, one year average, % p.a., BanRep).

Figure 4. Colombia: FCL Qualification Criteria

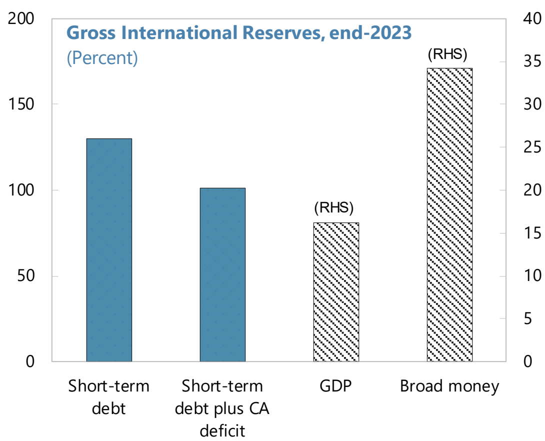
Non-resident claims are concentrated in FDI.



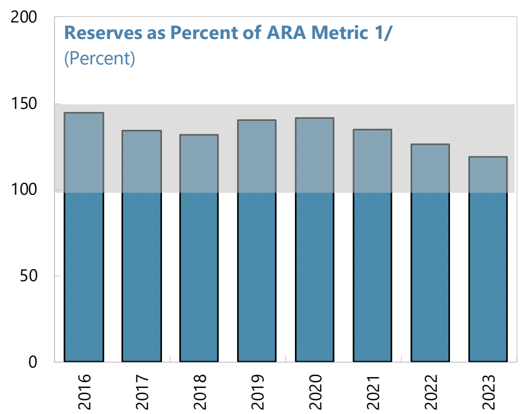
Access to capital markets remains uninterrupted, and costs have declined since 2022.



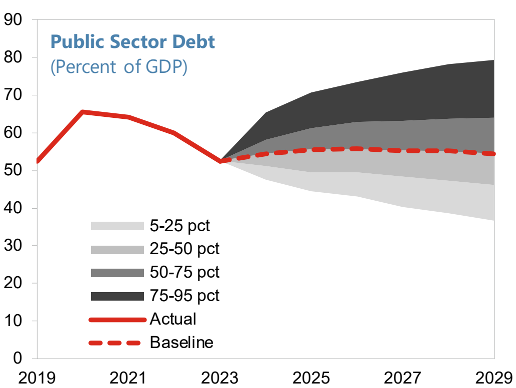
Reserve coverage is comfortable…



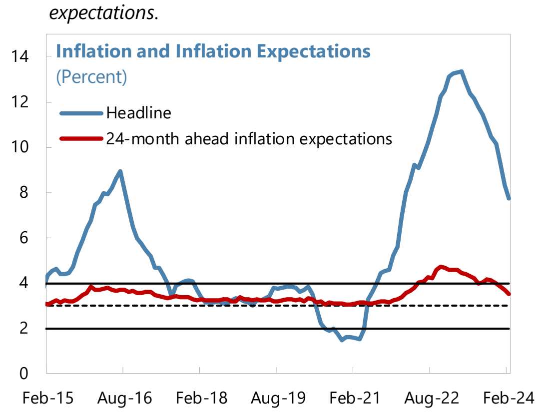
…and solidly within the ARA range.



Public debt is sustainable with high probability.

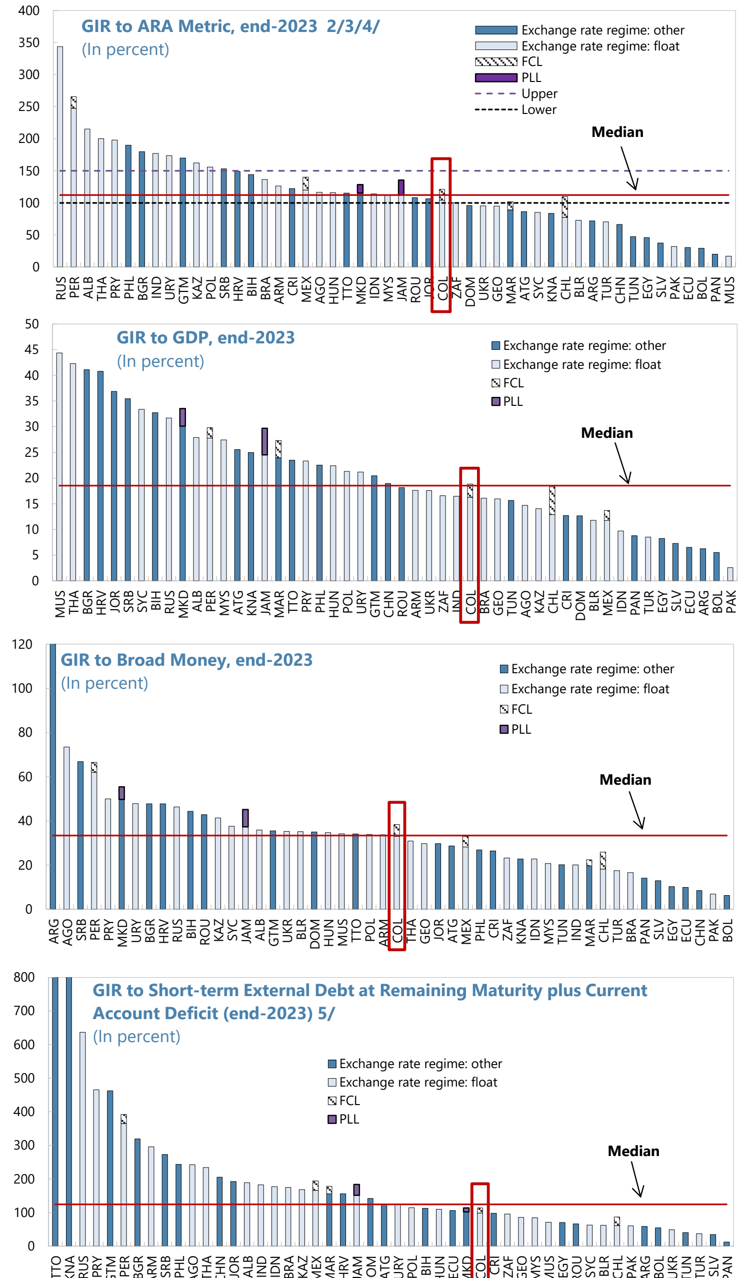


Tight policies have lowered inflation and Inflation expectations.



Sources: Banco de la República; Ministerio de Hacienda y Crédito Público; Datastream; Haver; and IMF staff estimates.
1/ Does not include commodity buffers. Uses metric for floating exchange rate.

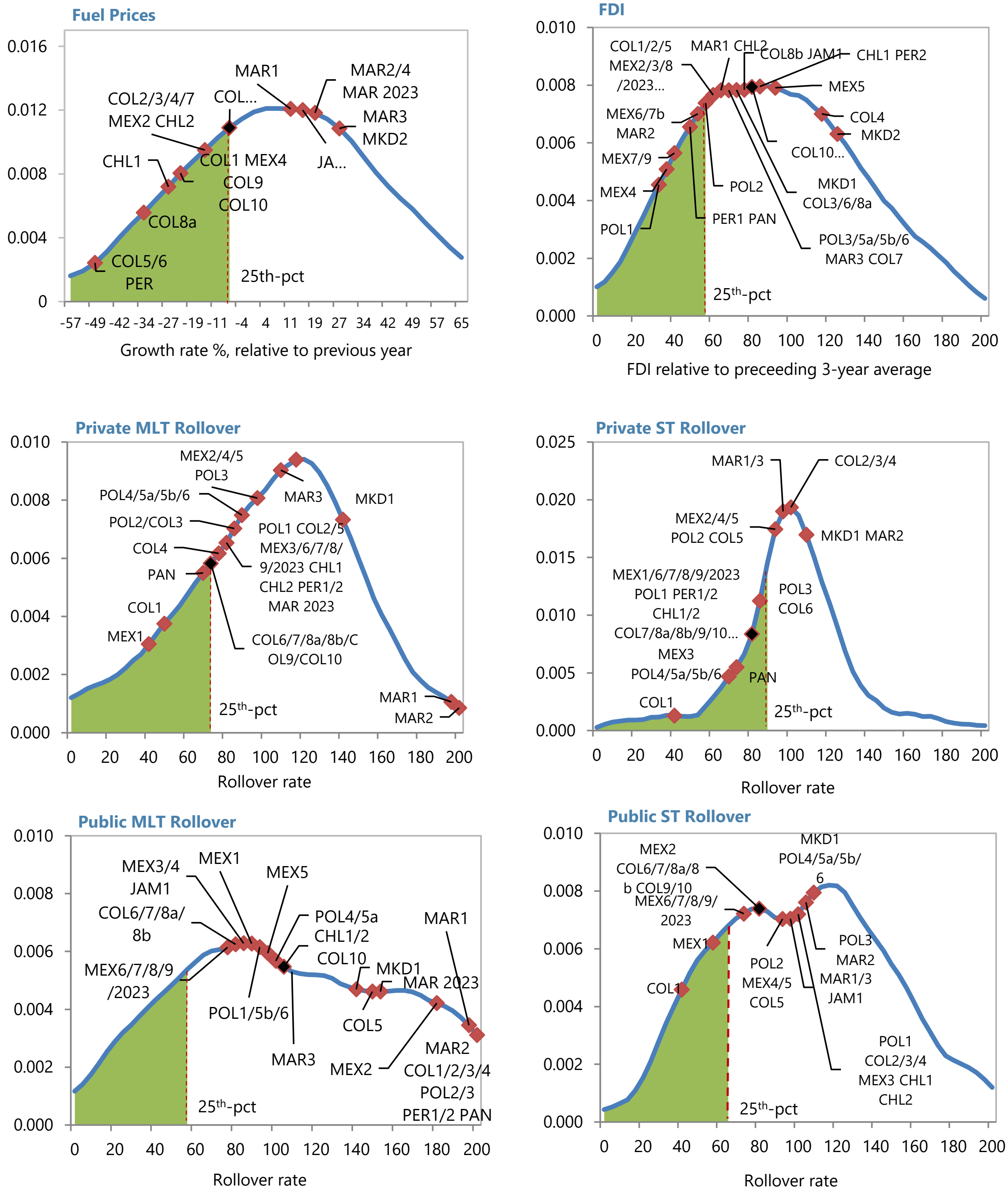
Figure 5. Colombia: Reserve Coverage in an International Perspective 1/



Sources: World Economic Outlook; IFS; and IMF staff estimates.
1/ The sample of countries included in these charts includes all EMEs for which data is available. For Colombia, FCL amount refers to remaining precautionary access.
2/ The ARA metric provides a tool to help inform reserve adequacy assessments, but individual circumstances (for example, access to swap lines, market maturity, etc.) require additional judgment and, for this reason, mechanistic comparisons of the ARA metric do not provide a complete view.
3/ The ARA Metric is a weighted sum of potential drains on the BoP, depending on the country's exchange rate regime. For fixed exchange rates, ARA Metric = 10% × Exports + 10% × Broad Money + 30% × Short-term Debt + 20% × Other Liabilities. For floating exchange rates, ARA Metric = 5% × Exports + 5% × Broad Money + 30% × Short-term Debt + 15% × Other Liabilities. See "Guidance Note on the Assessment of Reserve Adequacy and Related Considerations", IMF, 2016. For Colombia, includes a commodity buffer. Without the buffer, reserves coverage excluding the FCL is 135 percent (2021).
4/ The upper and lower lines denote the 100-150 percent range of ARA metric, which are considered broadly adequate for precautionary purposes.
5/ The current account balance is set to zero if it is in surplus.

Figure 6. Colombia and Selected Countries: Comparing Adverse Scenarios 1/

(Probability Density)

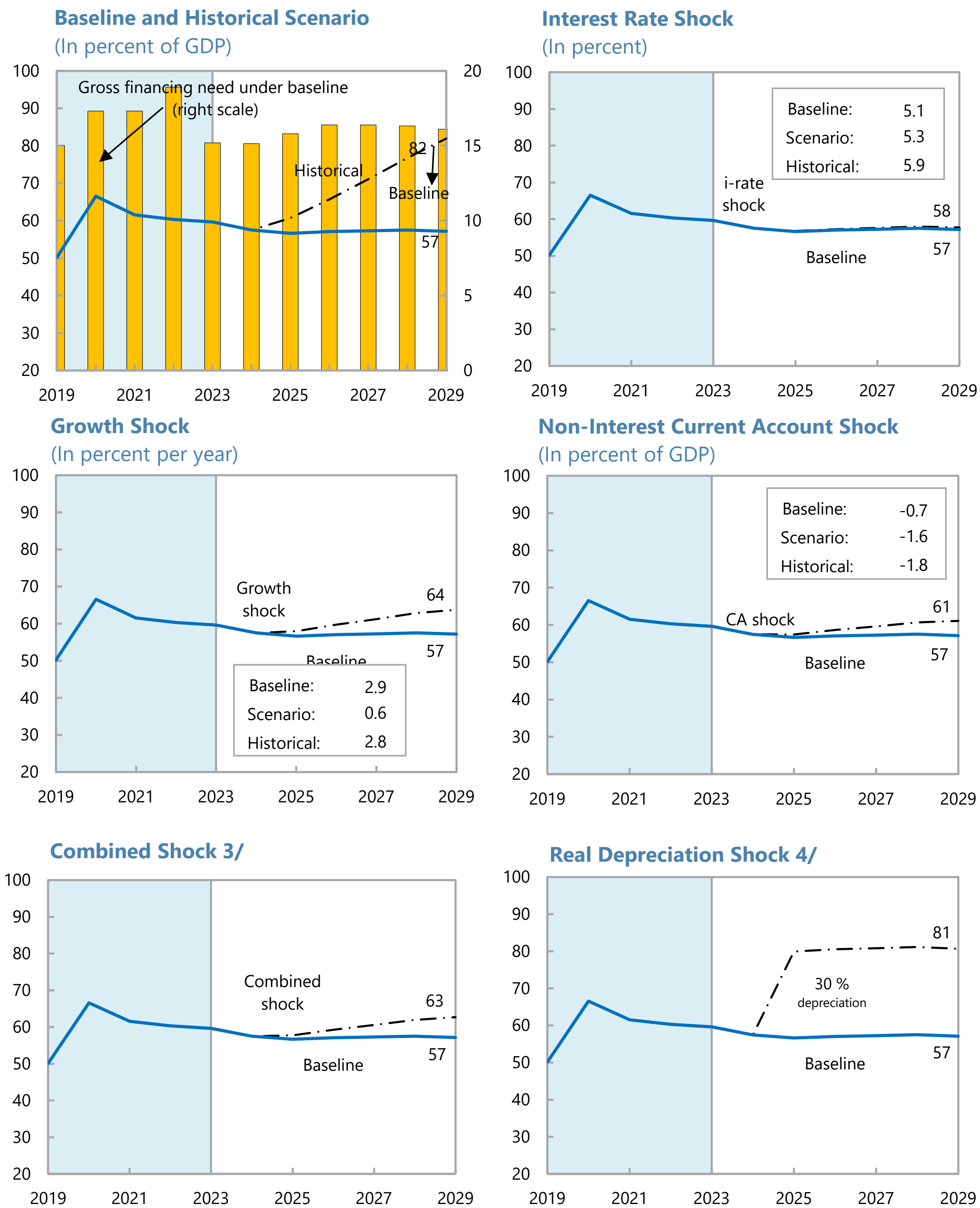


Source: IMF staff calculations.

1/ The countries shown are previous FCL/PCL/PLL arrangements numbered consecutively by country. Colombia's proposed arrangement (COL10) is identified in the figure with a black diamond symbol.

Figure 7. Colombia: External Debt Sustainability: Bound Tests[1/ 2/]

(External debt in percent of GDP)



Sources: Country authorities and IMF staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
4/ One-time real depreciation of 30 percent occurs in 2024.

Figure 8. Colombia: Sovereign Risk and Debt Sustainability Framework (SRDSF)— Risk of Sovereign Stress

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

DSA Summary Assessment

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

Source: IMF staff.

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

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

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

Figure 9. Colombia: SRDSF—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	Comments
CPS	NFPS	GG: expected	CG	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

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

Reporting on Intra-Government Debt Holdings

					Holder / Issuer	Budget. central govt	Extra-budget. funds	Social security funds	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total
CPS	NFPS	GG: expected	CG	1	Budget. central govt									0
				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

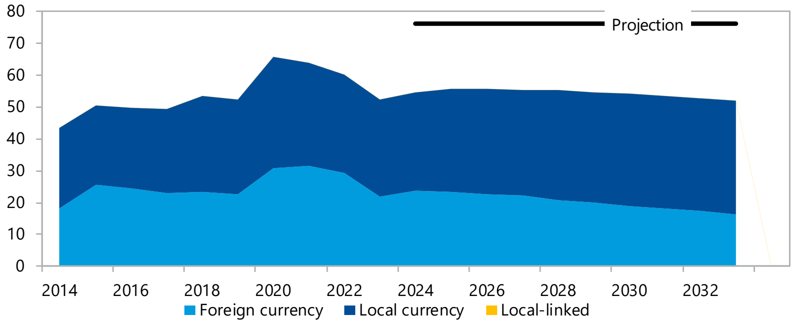
1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.
2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.
3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee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

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

Source: IMF staff.

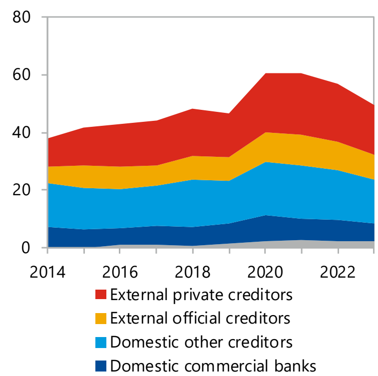
Figure 10. Colombia: SRDSF—Public Debt Structure Indicators

Debt by Currency (Percent of GDP)



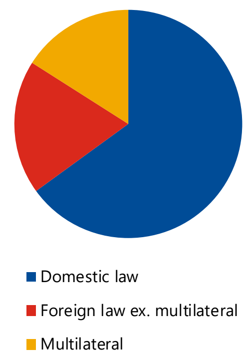
Note: The perimeter shown is nonfinancial public sector.

Public Debt by Holder (Percent of GDP)



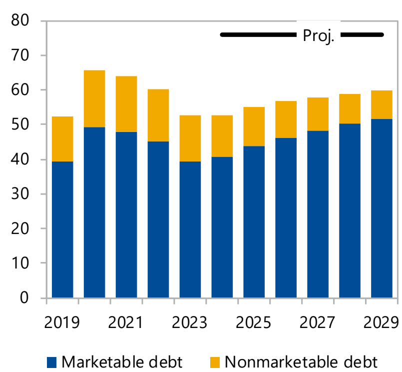
Note: The perimeter shown is nonfinancial public sector.

Public Debt by Governing Law, 2023 (percent)



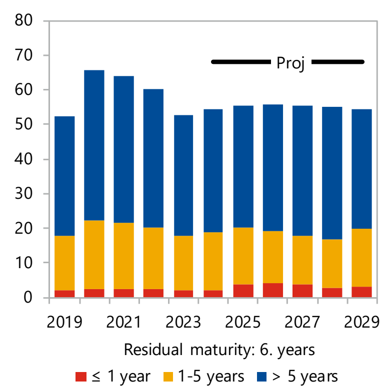
Note: The perimeter shown is nonfinancial public sector.

Debt by Instruments (Percent of GDP)



Note: The perimeter shown is nonfinancial public sector.

Public Debt by Maturity (Percent of GDP)



Note: The perimeter shown is nonfinancial public sector.

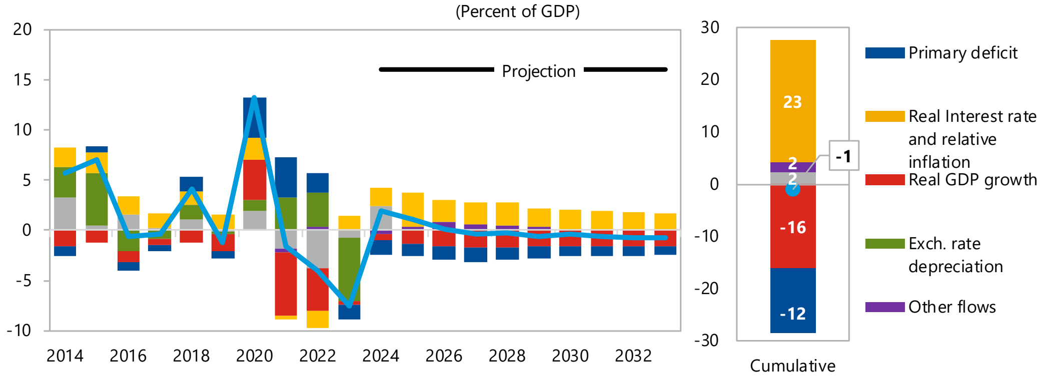
Commentary: The share of foreign currency debt increased during the pandemic, due in part to the partial drawdown of the FCL. Over the medium-term, the share of foreign currency debt is expected to converge to historical averages.

Source: IMF staff.

Figure 11. Colombia: SRDSF—Baseline Scenario
(In percent of GDP, unless otherwise indicated)

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

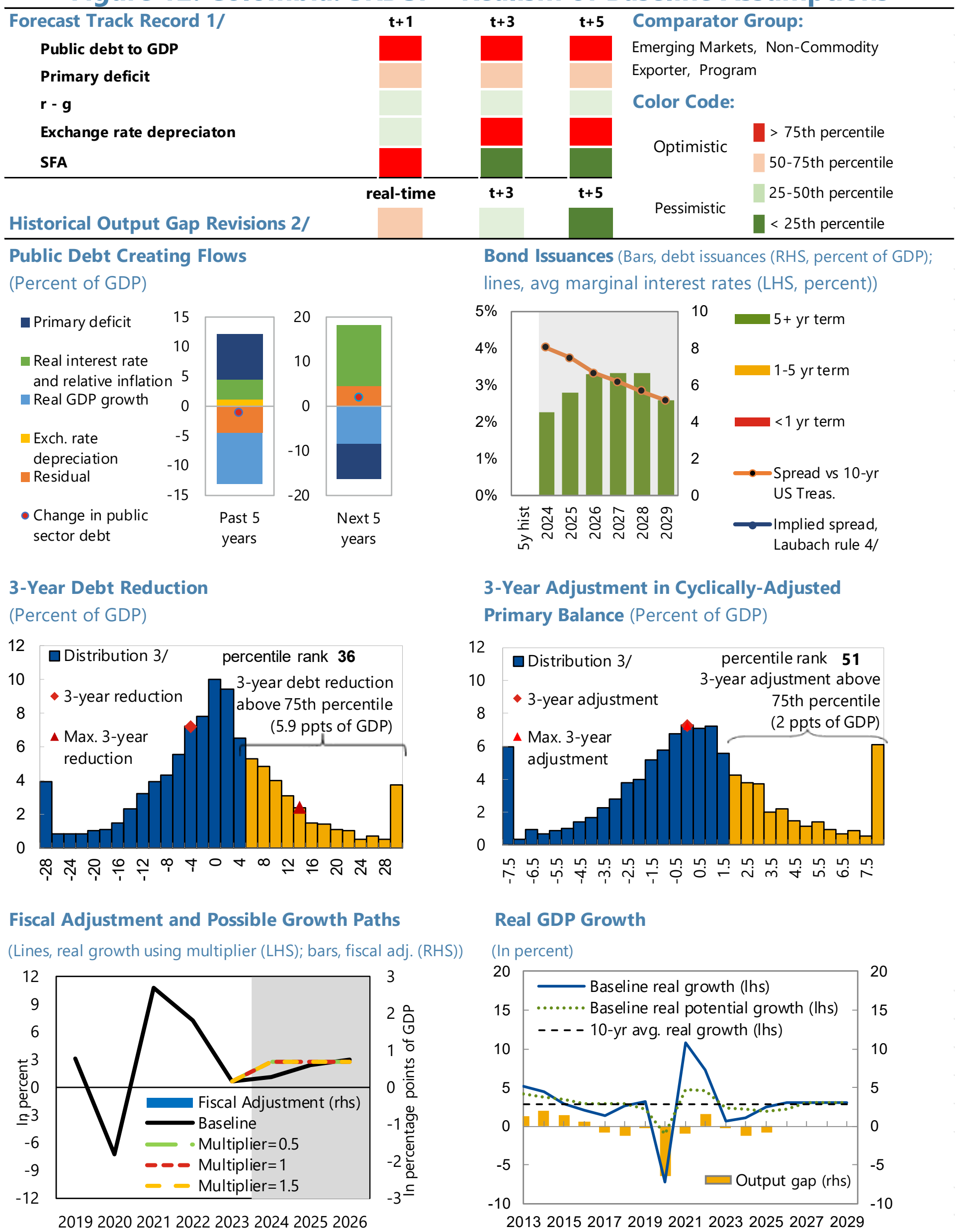
Contribution to Change in Public Debt
(Percent of GDP)



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

Source: IMF staff.

Figure 12. Colombia: SRDSF—Realism of Baseline Assumptions



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

Source: IMF staff.

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

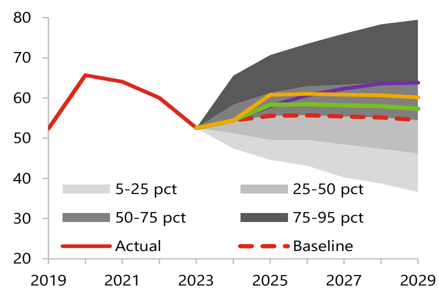
2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates

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

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

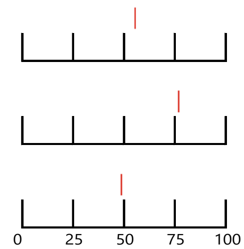
Figure 13. Colombia: SRDSF—Medium-Term Risk Analysis

Final Fanchart (Percent of GDP)

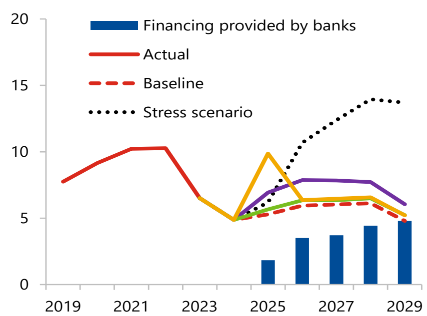


Debt fanchart module

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

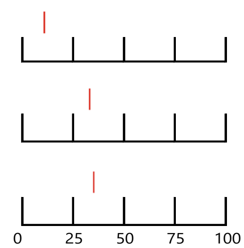


Gross Financing Needs (Percent of GDP)



Gross financing needs (GFN) module

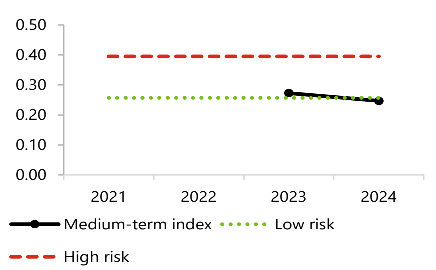
	Value	Contrib 1/	Percentile in peer group 2/
Average baseline GFN *(percent of GDP)*	5.5	1.9	
Initial Banks' claims on the gen. govt *(pct bank assets)*	9.8	3.2	
Chg. In banks' claims in stress *(pct banks' assets)*	12.9	4.3	
GFN financeability index (GFI)		9.4	
Risk signal: 4/		**Moderate**	



Triggered stress tests (stress tests not activated in gray)

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

Medium-Term Index (Index Number)



Medium-Term Risk Analysis

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

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

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

Source: IMF staff.

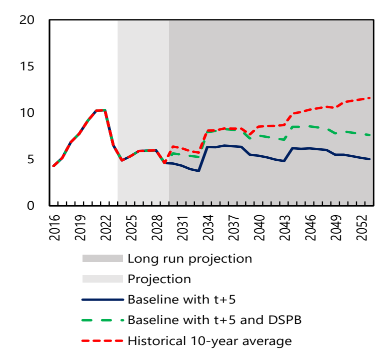
1/ See Annex IV of IMF, 2022, Staff Guidance Note on the Sovereign Risk and Debt Sustainability Framework for details on index calculation.
2/ The comparison group is emerging markets, non-commodity exporter, program.
3/ The signal is low risk if the DFI is below 1.13; high risk if the DFI is above 2.08;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

Figure 14. Colombia: SRDSF—Long-Term Risk Assessment: Large Amortization and Health

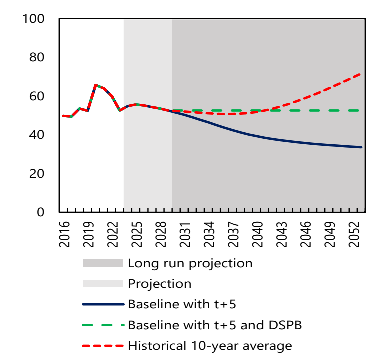
Colombia: Long-Term Risk Assessment: Large Amortization

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

GFN-to-GDP Ratio

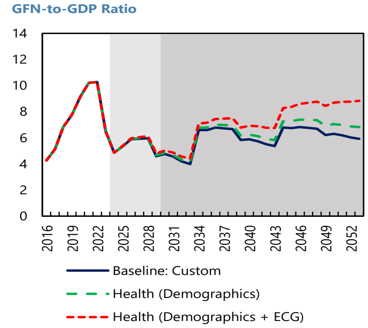


Total Public Debt-to-GDP Ratio

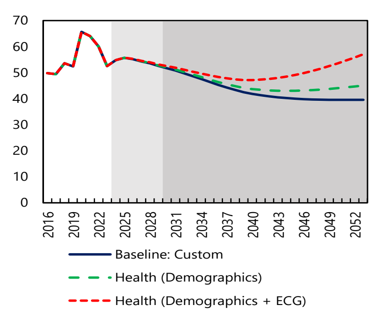


Colombia: Demographics: Health

GFN-to-GDP Ratio



Total Public Debt-to-GDP Ratio



Commentary: The LT analysis suggests low and manageable financing risks (GFN-to-GDP) in all scenarios except the historical one, which is affected by the pandemic. High amortization risks in the scenarios also reflect the pandemic. Staff overall assessment of LT risks is moderate because Colombia's fiscal rule sets a firm debt limit, and the country has very strong policy frameworks.

Source: IMF staff.

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

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

II. Economic Indicators

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

Sources: Colombian authorities; UNDP Human Development Report; World Development Indicators; and IMF staff estimates.
1/ Estimate for fiscal sector variables (consolidated public sector-CPS) .
2/ Multilateral real effective exchange rate. Annual variation (average).
3/ For 2021 excludes privatization receipts worth 1.1 percent of GDP that, under GFSM 1986 which is used by the authorities, produces a headline deficit of -7 percent of GDP.
4/ IMF staff estimates, excludes one-off recognition of arrears.
5/ Includes the quasi-fiscal balance of Banco de la República, sales of assets, phone licenses, and statistical discrepancy. For 2021 excludes privatization receipts, see 3/ above.
6/ To control for valuation effects, it excludes changes in Social Security balances.
7/ Includes Ecopetrol, Fogafin, and Finagro.
8/ Includes foreign holdings of TES; does not include Banco de la República's outstanding external debt.
9/ Excludes Colombia's contribution to FLAR; includes valuation changes of reserves denominated in currencies other than U.S. dollars.

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

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

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

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

Table 3. Colombia: External Financing Requirements and Sources, 2023–25

(In millions of U.S. dollars, unless otherwise indicated)

	2023	2024 Baseline	2024 Adverse Scenario	2024 Contribution to gap in adverse scenario	2025 Baseline	2025 Adverse Scenario	2025 Contribution to gap in adverse scenario
		Staff Projections					
Gross Financing Requirements	**56,955**	**59,806**	**50,320**	**(9,486)**	**64,088**	**53,765**	**(10,323)**
External current account deficit 1/	9,715	11,695	15,927	4,232	13,283	17,382	4,098
Debt amortization	45,522	46,753	46,753		50,010	50,010	
Medium and long term debt	15,686	16,439	16,439		18,577	18,577	
Public sector 2/	5,525	5,400	5,400		5,740	5,740	
Private sector	10,161	11,039	11,039		12,837	12,837	
Short-term debt 3/	29,836	30,314	30,314		31,432	31,432	
Public sector	1,125	1,125	1,125		1,125	1,125	
Private sector	28,711	29,189	29,189		30,308	30,308	
Gross reserves accumulation	1,718	1,358	(12,360)	(13,718)	796	(13,626)	(14,422)
Available Financing	**56,955**	**59,806**	**42,163**	**17,643**	**64,088**	**45,606**	**18,482**
Foreign direct investment (net)	16,235	12,687	9,800		12,967	9,917	
o/w inward (net)	17,446	14,432	11,546	2,886	15,250	12,200	3,050
Other K inflows							
Medium and LT debt disbursements	20,910	17,317	13,625		19,166	15,056	
Public sector 2/	7,149	9,278	5,567	3,711	10,329	6,197	4,132
Private sector	13,761	8,039	8,059	(19)	8,837	8,858	-21
Short-term debt 3/	30,314	31,432	24,251		32,556	25,117	
Public sector	1,125	1,125	900	225	1,125	900	225
Private sector	29,189	30,308	23,352	6,956	31,431	24,217	7,214
Other capital flows (net) 4/	(10,504)	-1,630	-5,514	3,883	-600	-4,484	3,883
Financing Gap (in US$ millions)				**8,157**			**8,159**
Percent of quota 5/				*300*			*300*
Gross international reserves (IMF Definition) 6/	59,069	60,427	48,067		61,222	47,596	
Gross international reserves (COL Definition) 4/	59,639	60,997	48,637		60,997	47,371	
Net international reserves (IMF Definition) 6/	59,038	60,396			60,396		
GIR/ARA (constant ARA)	119	124	99		124	96	
GIR/ARA (adjusting ARA)	119	124	105		124	104	
GIR / (st debt at remaining maturity + ca deficit) 7/	101	95	76		97	75	
GIR (months of imports of G&S in same year) 7/	9	10	8		10	8	

Sources: Colombian authorities; and IMF staff estimates.

1/ Including lower oil-related imports and lower oil-related income outflows reflecting the decline in oil prices as well as improvements from the peso depreciation. The latter comprises a slight expansion of nontraditional exports, a compression of the imports of goods and services, and a reduction of the U.S. dollar value of peso-denominated interest payments.

2/ Including financial public sector. Excludes IMF FCL. Net of TES flows.

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

4/ Includes all other net financial flows (i.e., pension funds, other portfolio flows, government assets held abroad), Colombia's contribution to FLAR, and errors and omissions.

5/ Based on the IMF projection for the SDR per US$ rate, average for 2024 and 2025, respectively.

6/ 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. The following indicators are displayed in percent: GIR/ARA (constant ARA), GIR/ARA (adjusting ARA), and GIR/(short-term debt at remaining maturity + current account deficit).

7/ Adverse scenarios hold denominator (imports, short-term debt, or current account) constant. Debt excludes TES.

Table 4. Colombia: Operations of the Central Government, 2022-29 1/

(In percent of GDP, unless otherwise indicated)

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

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

1/ Includes central administration only.

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

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

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

Table 5. Colombia: Operations of the Combined Public Sector, 2022-29 1/
(In percent of GDP, unless otherwise indicated)

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

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

Table 6. Colombia: Monetary Indicators, 2022-29

	2022	2023	2024	2025	2026	2027	2028	2029
			Projections					
	(In billions of Col$, unless otherwise indicated)							
Central Bank								
Net Foreign Assets	258,455	214,154	253,489	260,816	268,017	273,421	279,480	286,303
Gross official reserve assets	272,757	225,657	264,995	272,325	279,529	284,937	290,999	297,824
In billions of US$	57	59	60	61	62	62	63	64
Short-term foreign liabilities	0	0	0	0	0	0	0	0
Other net foreign assets	-14,302	-11,503	-11,506	-11,509	-11,512	-11,516	-11,519	-11,522
Net domestic assets	-103,724	-59,388	-88,215	-84,759	-80,306	-73,280	-66,080	-58,760
Net credit to the public sector	28,885	37,118	55,135	52,975	50,192	45,800	41,301	36,725
Net credit to the financial system	3,454	389	579	556	527	481	433	385
Other	-136,063	-96,895	-143,929	-138,290	-131,024	-119,561	-107,814	-95,870
Monetary base	154,731	154,766	165,274	176,057	187,711	200,141	213,400	227,543
Currency in circulation	135,179	134,263	141,531	147,480	154,581	163,596	173,135	183,230
Deposit money banks reserves	19,207	19,947	45,359	48,148	50,965	54,068	57,361	60,854
Other deposits	345	555	555	555	555	555	555	555
Financial System								
Net foreign assets	239,565	201,883	240,385	246,981	253,339	257,849	262,960	268,776
In billions of US$	50	53	55	55	56	56	57	58
Net domestic assets	515,920	593,706	555,736	592,173	637,409	688,163	741,744	798,259
Net credit to public sector	102,339	97,014	103,548	116,086	130,347	142,868	158,738	171,979
Credit to private sector	645,808	668,784	699,143	739,563	787,191	838,673	893,523	951,959
Other net	-232,227	-201,681	-246,955	-263,476	-280,129	-293,379	-310,517	-325,679
Broad money	719,789	762,474	796,121	839,154	890,748	946,012	1,004,704	1,067,035
	(Annual percentage change)							
Credit to private sector	5.9	3.6	4.5	5.8	6.4	6.5	6.5	6.5
Currency	7.8	-0.7	5.4	4.2	4.8	5.8	5.8	5.8
Monetary base	6.4	0.0	6.8	6.5	6.6	6.6	6.6	6.6
Broad money	4.8	5.9	4.4	5.4	6.1	6.2	6.2	6.2
	(In percent of GDP)							
Credit to private sector	43.9	42.5	41.6	41.7	41.8	42.0	42.2	42.4
Currency	9.2	8.5	8.4	8.3	8.2	8.2	8.2	8.2
Monetary base	10.5	9.8	9.8	9.9	10.0	10.0	10.1	10.1
Broad money	49.0	48.5	47.4	47.3	47.4	47.4	47.5	47.5
Memorandum Items:								
CPI inflation, eop	13.2	9.3	5.3	3.0	3.0	3.0	3.0	3.0
Nominal GDP (In Col$ trillions)	1,469,791	1,572,658	1,679,432	1,773,168	1,881,153	1,995,716	2,117,255	2,246,196

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

Table 7. Colombia: Medium-Term Outlook, 2019-29

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

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

Table 8. Colombia: Financial Soundness Indicators, 2019-23
(In percent, unless otherwise indicated; end-of-period values)

	2019	2020	2021	2022	2023
Capital Adequacy 1/					
Regulatory capital to risk-weighted assets	16.9	19.2	22.2	18.9	18.5
Regulatory Tier 1 capital to risk-weighted assets	11.8	14.4	18.2	15.3	15.7
Capital (net worth) to assets	9.0	9.8	12.2	10.7	10.7
Asset Quality and Distribution					
Provisions to nonperforming loans	122.6	125.2	129.7	136.4	116.1
Gross loans to assets	71.2	65.4	69.4	71.4	67.0
Earnings and Profitability					
ROAA	2.2	0.9	2.3	2.2	1.2
ROAE	13.2	5.9	14.3	13.7	7.0
Interest margin to gross income	57.5	56.0	58.1	58.6	49.5
Noninterest expenses to gross income	49.6	52.6	48.3	48.7	51.4
Liquidity					
Liquid assets to total assets	17.0	19.5	20.1	17.0	18.2
Liquid assets to short-term liabilities	36.6	37.9	37.3	33.9	36.8
Deposit to loan ratio	89.4	98.4	98.2	95.0	100.6
Other					
Foreign-currency-denominated loans to total loans	5.2	4.6	5.1	5.0	3.7
Foreign-currency-denominated liabilities to total liabilities	11.8	11.4	11.5	10.8	8.4
Net open position in foreign exchange to capital 2/	0.9	1.1	0.7	1.1	0.4

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

Table 9. Colombia: Indicators of External Vulnerability, 2022-29 1/
(In billions of US$, unless otherwise indicated)

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

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

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

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

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

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

5/ Estimated for 2023.

Table 10. Colombia: Capacity to Repay Indicators Under Adverse Scenario, 2021–29 1/
(In SDR million, unless otherwise indicated)

	2021	2022	2023	2024	2025	2026	2027	2028	2029
Exposure and Repayments (In SDR millions)									
GRA credit to Colombia	3,750.0	3,750.0	3,750.0	8,008.5	6,133.5	6,133.5	4,600.1	1,533.4	--
(In percent of quota)	183.4	183.4	183.4	391.7	300.0	300.0	225.0	75.0	--
Charges due on GRA credit 2/	36.4	67.1	177.7	413.9	461.6	370.1	361.4	186.5	34.7
Debt service due on GRA credit 2/	36.4	67.1	177.7	2,288.9	2,336.6	370.1	1,894.8	3,253.3	1,568.1
Debt and Debt Service Ratios 3/									
In percent of GDP									
Total external debt	61.6	60.3	59.7	79.4	77.7	78.2	78.5	78.9	78.4
Public external debt	39.9	37.4	36.0	50.3	49.8	49.9	49.6	49.4	49.3
GRA credit to Colombia	1.7	1.5	1.4	3.9	2.8	2.7	1.9	0.6	--
Total external debt service 4/	14.6	16.1	15.8	19.0	21.7	22.0	22.4	22.6	21.6
Public external debt service 4/	3.3	2.7	2.6	3.4	3.5	3.9	4.1	4.8	4.2
Debt service due on GRA credit	0.0	0.0	0.1	1.1	1.1	0.2	0.8	1.3	0.6
In percent of Gross International Reserves									
Total external debt	237.2	274.7	275.3	343.2	353.7	366.4	381.1	395.3	405.4
Public external debt	153.8	170.3	166.0	217.4	226.4	234.0	241.1	247.4	254.8
GRA credit to Colombia	9.2	8.8	8.5	22.1	17.2	17.0	12.6	4.1	--
In percent of Exports of Goods and Services									
Total external debt service 4/	91.4	76.2	85.0	86.6	93.1	96.4	100.4	103.9	100.8
Public external debt service 4/	20.6	13.0	13.9	15.5	14.9	17.0	18.3	21.9	19.4
Debt service due on GRA credit	0.1	0.1	0.3	5.0	4.6	0.7	3.6	6.0	2.8
In percent of Total External Debt									
GRA credit to Colombia	2.7	2.4	2.3	4.9	3.6	3.5	2.5	0.8	--
In percent of Public External Debt									
GRA credit to Colombia	4.2	3.9	3.8	7.7	5.7	5.4	3.9	1.2	--
Memo Items:									
U. S. dollars per SDR (period average)	1.42	1.34	1.33	--	--	--	--	--	--
Oil Price (WEO APSP, US$ per barrel)	69.2	96.4	80.6	78.6	73.7	70.6	68.7	67.8	67.5

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

1/ Assumes full drawing under this FCL request (300 percent of quota) in 2024. The adverse scenario is taken from the 2022 FCL approval: a shock to oil exports (about 25 percent), reduced disbursements (20 and 30 percent for public and private sectors, respectively), and use of reserves.

2/ Based on interest rate of 5.131 percent (effective date March 21, 2024).

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

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

Table 11. Colombia: External Debt Sustainability Framework, 2020–29

(In percent of GDP, unless otherwise indicated)

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

Source: IMF staff estimates.

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

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

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

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

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

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

Appendix I. Written Communication

Bogota, April 8, 2024

Ms. KRISTALINA GEORGIEVA
Managing Director
International Monetary Fund
Washington, D.C.

Dear Ms. Georgieva,

The Colombian authorities are very grateful for the continued support of the IMF's management and staff, especially during the challenging years during and after the pandemic. This support has translated not only into the Fund's welcome surveillance and its commitment to improving our technical capabilities, but also into the request of the Flexible Credit Line (FCL) arrangement. The purchase made in December 2020 worked well and was in line with FCL's objectives. Given the impact of the COVID-19 shock on the country's external and fiscal accounts, the purchase helped not only anchor market confidence, but also mitigate the risk of pressures on the balance of payments and crowding out of the private sector, in the face of growing financing needs of the government during the pandemic. The Colombian authorities have completed the first repurchase and remain committed to continue fulfilling our obligations in a timely manner, as has been our country's tradition over the years.

Colombia has had access to the FCL since the establishment of the instrument in 2009 and, as such, has firsthand experience regarding its benefits. It has appropriately complemented the country's international liquidity position, while serving as a tool to strengthen market confidence thanks to its signals of very strong economic fundamentals, policies, and institutional policy frameworks. This was particularly the case during the pandemic crisis, sending a positive message to the markets that bolstered confidence in our economy.

After the pandemic, the Colombian economy has experienced a remarkable recovery, expanding 10.8% in 2021 and 7.3% in 2022. This development, though positive, coincided with external and idiosyncratic shocks which brought about the emergence of macroeconomic imbalances, namely a large positive output gap, a rate of inflation above the 3% target and a wide current account deficit. Indeed, inflation increased up to a maximum of 13.34% in March 2023 and the current account deficit reached 6.2% of GDP in 2022.

At present these imbalances have corrected to a large extent in response to adequate macroeconomic policies. The authorities are committed to reducing inflation and guaranteeing the sustainability of the fiscal and external accounts. To this end, since the second half of 2021 they began to implement adjustments in monetary and fiscal policies that were tightened even more in 2022 and 2023. The monetary policy interest rate was raised from 1.75% to 13.25% between

September 2021 and April 2023. A gradual and cautious reduction of the nominal rate started only in December 2023 when inflation was already experiencing a significant reduction and converging towards the central bank target. The fiscal accounts also showed a significant adjustment in 2023, continuing the post-pandemic consolidation process and the overcompliance of the fiscal rule targets for the second year in a row. The central government deficit declined from 5.3% of GDP in 2022 to 4.3% in 2023, while primary deficit did so from 1% of GDP in 2022 to 0.3% of GDP in 2023. The main driver of these results was the increase in tax revenues thanks to the tax reforms of 2021 and 2022. As a result, the economy began to show signals of a slowdown that has allowed for a significant reduction in inflation, a closure of the output gap and a substantial decline in the current account deficit, which went from 6.2% of GDP in 2022 to 2.7% of GDP in 2023. Public debt reached 52.8% of GDP in 2023, a level below the long-term anchor stablished in our fiscal rule.

Going forward, the adjustment will continue. The central bank maintains its strong commitment to reduce inflation and bring it to the target by mid-2025 and, to this end, will keep a contractionary monetary policy stance throughout 2024, within the inflation targeting framework that has been successfully implemented for more than two decades. A flexible exchange rate will remain as the first line of defense against external shocks and international reserves are expected to remain well within the ARA range. Economic activity would remain temporarily weak, explained by subdued domestic demand, before resuming a stronger pace in 2025, when inflation should be around its target. The current account deficit is expected to remain stable in 2024, at around 2.9% of GDP.

The government remains strongly committed to abiding by the fiscal rule, which is one of the pillars of our strong institutionality. The fiscal situation for 2024 is expected to be more challenging given the slowdown in the economy and weaker terms of trade. The central government deficit for this year is expected to rise to 5.3% and the primary deficit to 0.9%. These figures are consistent with the fiscal rule, which rightly provides flexibility and allows the central government to: (i) temporarily increase its deficit on account of the economic slowdown, lower oil revenues and contingencies outside of its control; and (ii) achieve a reduction of 1.2% of GDP of its net primary structural deficit. This will allow the government to face a challenging situation without undermining public investment nor the resources needed to support the most vulnerable groups in society. Consequently, public debt would increase to 57% of GDP, but only temporarily, since it will resume its downward trend in 2025 and reach the anchor in the medium term, as a reflection of the Government's commitment to the sustainability of public finances.

Despite the successful macroeconomic adjustment process undertaken and the reduction of external vulnerabilities, exogenous external risks have improved but remain elevated and to the downside due to the existing volatile and uncertain global economic conditions. A global economic slowdown, geopolitical tensions, volatility in international capital markets and important electoral processes around the world are factors behind the highly uncertain external outlook. Thus, Colombia sees as desirable to maintain sufficient external buffers in the form of international reserves and access to the FCL. For this reason, convinced of the important benefits of the FCL and committed to maintaining very strong macroeconomic policies and policy frameworks, which were endorsed by the IMF Executive Board at the 2024 Article IV, we hereby notify our decision to cancel the current FCL arrangement and request a new two-year FCL arrangement, with an access level of 300% of quota (SDR 6.1335 billion). The cancellation shall become effective upon the IMF Executive Board’s approval of the successor arrangement. This represents a decline with respect to the current arrangement's access level of 350% of quota (SDR 7.1557 billion), is the lowest access -as percentage of quota- since 2010 and is consistent with the commitment of a gradual reduction in access, risk permitting, in the context of our exit strategy. We intend to treat the new FCL arrangement as precautionary and consent to the publication of the report.

Aware of the importance of ensuring adequate buffers, in January 2024 the central bank began a reserve accumulation program which, without compromising full exchange rate flexibility, will allow the country to accumulate up to USD$1.5 billion, an amount that would strengthen liquidity buffers coverage even after accounting for the expected decrease in access to the FCL.

Finally, let us reiterate that the FCL will complement our very strong policy frameworks which, together with the continued support and open dialogue with the IMF, will allow us to continue the macroeconomic adjustment process, maintain market confidence, thus remaining in a solid position to face external shocks.

Sincerely,

/s/	/s/
Leonardo Villar Gómez	Ricardo Bonilla González
Governor, Central Bank of Colombia	Minister of Finance and Public Credit

INTERNATIONAL MONETARY FUND

COLOMBIA

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

April 11, 2024

Approved By
Zuzana Murgasova (FIN) and Martin Čihák (SPR)

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

CONTENTS

INTRODUCTION

1. **A two-year Flexible Credit Line (FCL) arrangement with reduced access is proposed to succeed the current FCL arrangement approved in 2022.** The proposed two-year FCL arrangement, which the authorities intend to treat as precautionary, would be in the amount of SDR 6.1335 billion (300 percent of quota). This arrangement would succeed the existing FCL arrangement, approved in April 2022, with access of SDR 7.1557 billion (350 percent of quota). The existing arrangement would be cancelled. The reduced access under the proposed arrangement is in line with the authorities' strategy of gradually exiting the use of the instrument, risks permitting. The full amount of access would be available throughout the arrangement period, in one or multiple purchases. Staff's baseline projections envisage no purchase, in line with the authorities' intention to treat the successor arrangement as precautionary.

2. **This note assesses the impact of the proposed successor arrangement under the FCL for Colombia on the Fund's finances and liquidity position, in accordance with the policy on FCL arrangements.**[1] The analysis focuses on the impact of Colombia's reduced FCL access on the Fund's finances and liquidity position against the backdrop of improved but still elevated downside external risks to Colombia, triggered by a global growth slowdown, for example caused by geopolitical tensions in regions critical to global manufacturing value chains, and tighter global financial conditions. An adverse scenario where all FCL access would be drawn is included.

BACKGROUND

3. **Colombia has had nine FCL arrangements since 2009 (Annex I).** A one-year FCL arrangement in an amount equivalent to SDR 6.966 billion (900 percent of quota) was approved in the context of the global financial crisis on May 11, 2009, and was treated as precautionary by the authorities. This arrangement was succeeded by another one-year FCL arrangement in an amount equivalent to SDR 2.322 billion (300 percent of quota), followed by three two-year FCL arrangements in the amount of SDR 3.870 billion (500 percent of quota), which were also treated as precautionary. The third was cancelled before its expiration on June 13, 2016, and a successor two-year FCL arrangement in the amount of SDR 8.180 billion (400 percent of quota) was approved on the same day. This was followed by another two-year successor FCL arrangement in the amount of SDR 7.848 billion (384 percent of quota) approved on May 25, 2018, and subsequently another new FCL arrangement was approved on May 1, 2020, for another two years at access of SDR 7.8496 billion (384 percent of quota). During the Covid-19 pandemic, an augmentation of access to 600 percent of quota (SDR 12.267 billion) under the existing arrangement was approved in September 2020. In December 2020, the authorities made partial FCL drawing of 183.4 percent of quota (SDR 3.75 billion) to help meet higher budget financing needs and avoid additional market pressures while maintaining strong external buffers in a context of heightened global uncertainty. This was the first-ever FCL drawing by Colombia, and, more generally by any Fund member under an FCL

[1] See GRA Lending Toolkit and Conditionality—Reform Proposals (3/13/09), Flexible Credit Line (FCL) Arrangements, Decision No.14283-(09/29), adopted March 24, 2009, as amended, and Review of the Flexible Credit Line, The Short Term Liquidity Line and the Precautionary and Liquidity Line, and Proposals for Reform

arrangement. It was well communicated by the authorities to markets and did not cause any market disruption.[2] In April 2022, a two-year FCL arrangement in the amount of SDR 7.156 billion (350 percent of quota) succeeded the 2020 arrangement. In addition to these FCL arrangements, Colombia has had extended arrangements under the Extended Fund Facility (EFF) and Stand-By Arrangement (SBA), making a total of twelve arrangements since 1999, with only one drawing so far.

4. **Colombia's successive FCL arrangements have provided an important backstop to international reserves and complemented the authorities' very strong policies and policy frameworks.** Colombia's very strong policy frameworks and timely policy actions have allowed the authorities to successfully adjust to important external shocks (such as the 2008-09 global financial crisis, the 2014-16 terms of trade shock, and the Covid-19 pandemic). The successive FCL arrangements have provided an additional liquidity buffer to international reserve holdings against external shocks and have helped limit their fiscal and balance-of-payments impact. The partial FCL drawing in December 2020 was instrumental to help meet higher budget financing needs and avoiding market pressures while maintaining strong external buffers in a context of heightened global uncertainty during the Covid-19 crisis. The partial FCL drawing highlighted the usefulness of the facility given the exceptional nature of the COVID-19 crisis.

5. **Colombia's external debt is sustainable in the baseline of the Debt Sustainability Analysis's (DSA).** The debt-to-GDP ratio is expected to decline slightly this year and remain stable over the medium term under the baseline. After peaking at 66.6 percent of GDP in 2020, Colombia's external debt is expected to decline from 61.6 percent of GDP in 2021 to 57.5 percent this year (Table 1). The external debt-to-GDP ratio is projected to hover around 56-58 percent from 2024 onwards under the baseline (Table 2). External public debt is expected to remain below 35 percent of GDP under the baseline.

Table 1. Colombia: Total External Debt, 2018-24

	2018	2019	2020	2021	2022	2023	2024 Proj. 1/
				(In millions of US Dollars)			
Total External Debt	156,028	161,988	179,920	196,052	208,343	216,916	221,946
Private	59,223	64,848	64,548	68,909	79,176	86,126	87,278
Public	96,805	97,140	115,372	127,144	129,167	130,791	134,669
				(In percent of GDP)			
Total External Debt	46.7	50.1	66.6	61.6	60.3	59.7	57.5
Private	17.7	20.1	23.9	21.6	22.9	23.7	22.6
Public	29.0	30.1	42.7	39.9	37.4	36.0	34.9

Sources: Colombian authorities and IMF staff estimates.
1/ Baseline scenario.

[2] See IMF Country Report No. 21/87.

6. External debt is also expected to remain sustainable under the DSA's stress scenarios. Multiple scenarios with various macroeconomic shocks were modelled to identify potential vulnerabilities in the DSA. If a real exchange rate depreciation of 30 percent, which is the largest shock in the external DSA, were to materialize in 2024, Colombia's external debt would peak at about 81 percent of GDP but remain on a sustainable medium-term path (Figure 7 of the main report). Furthermore, Colombia has an excellent track-record of meeting its financial obligations, has already repurchased the financial obligations to the Fund related to the 2020 FCL drawing, and its refinancing risks are mitigated by a diversified foreign investor base.

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

7. Risks and impact on Fund finances from the proposed FCL arrangement for Colombia are assessed in an adverse scenario in which the arrangement would be drawn. Under staff's baseline, Colombia is assumed not to make any purchase, in line with the authorities' intention to treat the new FCL arrangement as precautionary. Staff developed an adverse scenario which assumes that a global growth slowdown, for example caused by geopolitical tensions in regions critical to global manufacturing value chains, could further tighten global financial conditions, disrupt supply chains, and depress global commodity prices, adversely impacting Colombia's growth outlook. Tighter global financial conditions could lead to exchange rate pressures, fuel inflation, and costly growth-inflation trade-offs. While Colombia's risk premia have declined, uncertainty about the global outlook and the direction of policies could raise borrowing costs and undermine private investment. Climate shocks could exacerbate the above-mentioned risks. Under this adverse scenario, Colombia is assumed to purchase the full approved amount under the proposed FCL arrangement. Macroeconomic conditions in the adverse scenario are assumed to notably worsen vis-à-vis the baseline projections, after the full realization of potential shocks (Table 2).

8. The adverse scenario is broadly similar to those used in previous FCL requests. Relative to the baseline, the adverse scenario considers a combination of shocks to the current and financial accounts broadly similar to those used at the time of the approval of the 2022 FCL arrangement. In the current account, the adverse scenario assumes (i) a decline in oil prices which in turn leads to a proportional decline in oil exports and (ii) a decline in global growth that lowers non-traditional exports. In the financial account, the adverse scenario includes (i) a reduction in FDI flows; (ii) lower rollover rates of short-term public and private debt (all maturities); (iii) a reduction in disbursements of medium- and long-term public debt; and (iv) a drop in other portfolio flows. The specific magnitudes of each shock are described in Text Table 2 in the main paper. The current scenario assumes a larger decline in Colombia's international reserves than in the adverse scenario in the 2022 FCL arrangement, given that the authorities have accumulated additional reserves in the past years. In addition to increasing the external financing gap, the combined shocks reduce real GDP by 5.4 percentage points relative to the baseline in 2024, and result in a persistent nominal exchange rate depreciation, which lower nominal GDP measured in U.S. dollars.[3] While continued exchange rate flexibility would remain Colombia's primary shock absorber, the authorities would tap the FCL arrangement to cover a portion of the financing gap, if necessary, to prevent disorderly market conditions while preserving sufficient buffers to preserve confidence as the economy absorbs the shock. After a temporary drop, real GDP growth rebounds to the rates projected under the baseline. However, the real output level remains below the baseline, and the nominal GDP remains weaker than in the baseline (Table 2).

Table 2. Colombia: Comparison of Key Assumptions under Baseline and Adverse Scenarios
(in millions of US dollars, unless otherwise indicated)

	2021	2022	2023	2024	2025	2026	2027	2028	2029
Baseline scenario									
Real GDP growth (percent)	10.8	7.3	0.6	1.1	2.5	3.0	3.0	3.0	3.0
Nominal GDP	318,525	345,330	363,616	386,076	400,480	417,861	439,433	462,100	485,350
Gross international reserves	58,019	56,721	59,069	60,427	61,222	61,805	62,449	63,218	64,054
in months of next year's imports of goods and services	7.8	9.0	9.3	9.2	9.0	8.7	8.5	8.3	8.1
Exports of goods and services	50,907	73,060	67,762	66,663	67,314	68,915	70,611	72,682	75,054
Total external debt (in percent of GDP)	61.6	60.3	59.7	57.5	56.6	57.1	57.3	57.5	57.1
of which: public external debt (in percent of GDP)	39.9	37.4	36.0	34.9	34.8	35.0	34.9	34.7	34.7
Adverse scenario									
Real GDP growth (percent)	10.8	7.3	0.6	-4.3	2.5	3.0	3.0	3.0	3.0
Nominal GDP	318,525	345,330	363,616	276,238	288,377	301,615	317,186	333,547	350,329
Gross international reserves	58,019	56,721	59,069	48,067	47,596	48,179	48,823	49,592	50,428
in months of next year's imports of goods and services	7.8	9.0	9.4	7.4	7.2	7.1	6.9	6.7	6.6
Exports of goods and services	50,907	73,060	67,762	60,695	67,314	68,915	70,611	72,682	75,054
Total external debt (in percent of GDP)	61.6	60.3	59.7	79.4	77.7	78.2	78.5	78.9	78.4
of which: public external debt (in percent of GDP)	39.9	37.4	36.0	50.3	49.8	49.9	49.6	49.4	49.3

Sources: Colombian authorities and IMF staff projections.

9. If the full amount available under the proposed FCL arrangement were purchased under the realization of an adverse scenario, Colombia's capacity to repay would remain adequate:

- Colombia's total external debt would increase by 22 percentage points of GDP compared with the baseline in 2024, but Fund credit would represent still a relatively modest fraction (Table 2 and 3). Total external debt and public external debt would peak at 79.4 percent of GDP in 2024 and 50.3 percent in 2024, respectively. The Fund credit-to-GDP ratio would peak at 3.9 percent of GDP in 2024. Total external debt-to-GDP ratio, public external debt-to-GDP ratio, and total public debt-to-GDP ratio at time of approval would be above the median of exceptional access cases and FCL arrangements approved since 2008 (Figure 1). However, peak Fund exposure relative to GDP, gross international reserves and total external debt would be below the median of recent exceptional access and FCL arrangements (Figure 2). At its peak, Colombia's outstanding use of GRA resources would account for 3.9 percent of GDP, 22.1 percent of gross international reserves, and 4.9 percent of total external debt. Projected outstanding Fund credit

[3] Staff's adverse drawing scenario, used also for the Capacity to Repay indicators, differs from the DSA stress tests in terms of size of the shocks to key macroeconomic assumptions, and hence in the size of the peak in the external debt-to-GDP ratio.

in percent of quota around the peak would be well below that of recent exceptional access cases and FCL arrangements (Figure 3).

- External debt service including obligations to the Fund would increase over the medium term to relatively high levels (Table 3). Colombia's projected debt service to the Fund would peak in 2028 at SDR 3.3 billion, around 1.3 percent of GDP and about 6 percent of exports of goods and services, before quickly falling to more moderate levels by 2029.[4] However, if the amount available under the FCL arrangement were to be fully drawn in 2024, Colombia's total external debt service as a share of exports of goods and services would be higher than the median of recent exceptional access cases, reflecting Colombia’s relatively small share of exports in GDP (Figure 2).

10. The approval of the proposed FCL arrangement and cancellation of the existing one would have a positive net impact on the Fund's liquidity as measured by the forward commitment capacity (FCC). Commitments for the new arrangement would continue to be covered in full from quota resources. The cancellation of the existing arrangement would free up SDR 7.1557 billion, compared with SDR 6.1335 billion committed upon approval of the proposed arrangement. Thus, other things equal, approval of the proposed FCL arrangement would increase the FCC slightly from SDR 166.2 billion currently to SDR 167.2 billion as of March 15, 2024.

11. Fund exposure to Colombia would increase but remain moderate even in the event of full drawing. If the entire amount available under the proposed FCL arrangement were drawn, credit to Colombia would be about 9.6 percent of total GRA credit outstanding as of March 15, 2024.[5] This would make Colombia the third largest GRA borrower among current arrangements.[6] The concentration of Fund credit toward the top five users of Fund resources would decline modestly, from 69.3 percent to about 68.6 percent of total GRA credit outstanding (Table 4). Potential GRA exposure to Colombia would be about 38 percent of the Fund's current precautionary balances.

12. The proposed FCL arrangement would slightly reduce the concentration of the Fund's lending portfolio in terms of regions and among Fund facilities:

- **Regional concentration to Latin America would decline slightly.** Currently, the Western Hemisphere accounts for about 59 percent of GRA credit and undrawn balances, including for arrangements treated as precautionary (Figure 4). With the proposed FCL arrangement for Colombia and the cancellation of the current FCL arrangement, that share would decline

[4] The figures on debt service used in this report are calculated assuming that purchase of 300 percent of quota would be made in April 2024 upon approval and that all repurchases are made as scheduled. Colombia’s repurchases would reach 75 percent and 150 percent of quota in 2027 and 2028, respectively, before falling to 75 percent in 2029 and 0 in 2030. Its payments of GRA charges would be 18.9 percent of quota, 17.7. percent of quota and 17.4 percent of quota in 2025, 2026 and 2027, respectively.

[5] The proposed FCL arrangement accounts for 6.3 percent of the total GRA credit outstanding while Colombia’s existing credit outstanding accounts for 3.3 percent the total GRA credit outstanding.

[6] The size of exposure would be about 86 percent of the second largest exposure and 29 percent of the largest exposure.

marginally. The Fund experienced comparable regional concentration in the past, including in the aftermath of the global financial crisis, when lending to Europe accounted for the bulk of the Fund's lending exposure.

- **Among the Fund's different facilities, the share of FCL commitments would fall marginally.** Commitments under FCL arrangements, which represent the bulk of precautionary arrangements, stood at around SDR 55.6 billion on March 15, 2024, or 46 percent of total GRA commitments (Figure 4). With the proposed FCL for Colombia and the cancellation of the current FCL arrangement, the share of commitments from FCL arrangements in total would decrease to SDR 54.6 billion or 45.5 percent of total GRA commitments.

Table 3. Colombia: Capacity to Repay Indicators Under Adverse Scenario [1/]

(in SDR millions, unless otherwise indicated)

	2021	2022	2023	2024	2025	2026	2027	2028	2029
Exposure and Repayments (In SDR millions)									
GRA credit to Colombia	3,750.0	3,750.0	3,750.0	8,008.5	6,133.5	6,133.5	4,600.1	1,533.4	--
(In percent of quota)	183.4	183.4	183.4	391.7	300.0	300.0	225.0	75.0	--
Charges due on GRA credit 2/	36.4	67.1	177.7	413.9	461.6	370.1	361.4	186.5	34.7
Debt service due on GRA credit 2/	36.4	67.1	177.7	2,288.9	2,336.6	370.1	1,894.8	3,253.3	1,568.1
Debt and Debt Service Ratios 3/									
In percent of GDP									
Total external debt	61.6	60.3	59.7	79.4	77.7	78.2	78.5	78.9	78.4
Public external debt	39.9	37.4	36.0	50.3	49.8	49.9	49.6	49.4	49.3
GRA credit to Colombia	1.7	1.5	1.4	3.9	2.8	2.7	1.9	0.6	--
Total external debt service 4/	14.6	16.1	15.8	19.0	21.7	22.0	22.4	22.6	21.6
Public external debt service 4/	3.3	2.7	2.6	3.4	3.5	3.9	4.1	4.8	4.2
Debt service due on GRA credit	0.0	0.0	0.1	1.1	1.1	0.2	0.8	1.3	0.6
In percent of Gross International Reserves									
Total external debt	237.2	274.7	275.3	343.2	353.7	366.4	381.1	395.3	405.4
Public external debt	153.8	170.3	166.0	217.4	226.4	234.0	241.1	247.4	254.8
GRA credit to Colombia	9.2	8.8	8.5	22.1	17.2	17.0	12.6	4.1	--
In percent of Exports of Goods and Services									
Total external debt service 4/	91.4	76.2	85.0	86.6	93.1	96.4	100.4	103.9	100.8
Public external debt service 4/	20.6	13.0	13.9	15.5	14.9	17.0	18.3	21.9	19.4
Debt service due on GRA credit	0.1	0.1	0.3	5.0	4.6	0.7	3.6	6.0	2.8
In percent of Total External Debt									
GRA credit to Colombia	2.7	2.4	2.3	4.9	3.6	3.5	2.5	0.8	--
In percent of Public External Debt									
GRA credit to Colombia	4.2	3.9	3.8	7.7	5.7	5.4	3.9	1.2	--
Memo Items:									
U. S. dollars per SDR (period average)	1.42	1.34	1.33	--	--	--	--	--	--
Oil Price (WEO APSP, US$ per barrel)	69.2	96.4	80.6	78.6	73.7	70.6	68.7	67.8	67.5

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

1/ Assumes full drawing under this FCL request (300 percent of quota) in 2024 and materialization of an adverse scenario.

2/ Based on the rate of charge as of March21, 2024. Includes surcharges under the system currently in force and service charges.

3/ Staff projections for external debt, GDP, gross international reserves, and exports of goods and services 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).

Table 4. FCL Arrangement—Impact on GRA Finances
(in SDR millions, unless otherwise indicated)

	As of 3/15/24
Liquidity measures	
Current Forward Commitment Capacity (FCC) 1/	166,172
FCC on approval 2/	167,194
Change in percent	0.6
Prudential measures, assuming full FCL drawing	
Fund credit to Colombia	
In percent of total GRA credit outstanding 3/	9.6
In percent of current precautionary balances	38.3
Fund credit outstanding to five largest debtors	
In percent of total GRA credit outstanding, before approval	69.3
In percent of total GRA credit outstanding including Colombia's assumed full drawing 3/	68.6
Memorandum items	
Current precautionary balances (January 31st, 2024)	24,557
Total FCL commitments, including proposed FCL arrangement	61,711
Quota of FTP members with actual and proposed FCLs, in percent of total quota of FTP members	3.1

Source: Finance department.
1/ The FCC is defined as the Fund's sotck of usable resources less undrawn balances under existing arrangements, plus projected repurchases during the coming 12 months, less repayments of borrowing due one year forward, less a prudential balance. The FCC does not include resources from currently unactivated lines of credit, including the New Arrangements to Borrw of bilateral commitments from members to boost IMF resources.
2/ Current FCC minus access under the proposed FCL arrangement plus the remaining access under the current FCL arrangement.
3/ Based on current Fund credit outstanding plus full drawings under the proposed FCL arrangement.

ASSESSMENT

13. **The proposed new arrangement would have a positive net impact on the Fund's overall liquidity position.** The cancellation of the current FCL arrangement in the amount of SDR 7.1557 billion (fully undrawn) followed by approval of a new FCL arrangement in the amount of SDR 6.1335 billion is expected to marginally increase the Fund's overall liquidity. If Colombia were to draw the full amount of access under the new arrangement, the effect on the Fund's liquidity would also be relatively small. While the Fund's overall liquidity position is expected to remain adequate after the approval of the proposed FCL arrangement, a close monitoring would still be warranted in view of highly elevated risks to global growth and financial stability amid spillovers, that could result in higher demand for Fund resources.

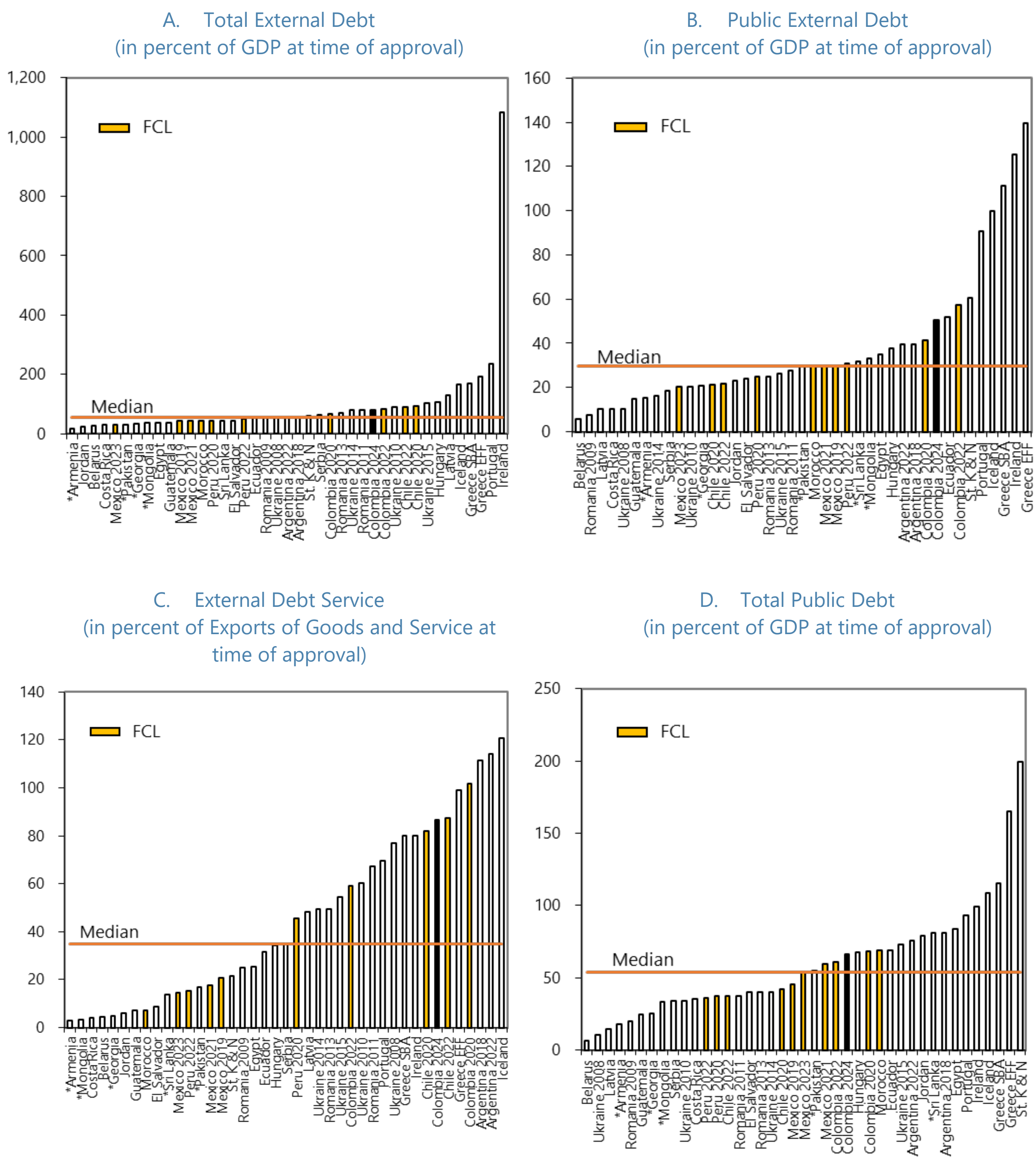
14. **Staff considers that the proposed FCL arrangement carries moderate credit risks to the Fund**. If fully drawn, the Fund's credit exposure to Colombia would increase but remain moderate. These potential credit risks are mitigated by several factors. Colombia intends to treat the FCL arrangement as precautionary. Moreover, Colombia has a sustained track record of implementing

very strong policies, including during the global financial crisis, the subsequent sharp drop in oil prices, and the pandemic. The authorities' commitment to maintain a sustained track record of very strong policy implementation, including by carefully calibrating policies to durably eliminate remaining imbalances and strengthening domestic and external buffers, would further support Colombia's resilience and capacity to respond to shocks. Against this background of strong policies, Colombia's capacity to repay is projected to remain adequate, both under the baseline and the adverse scenario requiring full drawing. The external debt trajectory is assessed as sustainable over the medium term including in an adverse scenario. Furthermore, Colombia has an excellent track-record of meeting its financial obligations.

15. The authorities remain committed to further reducing access under the FCL arrangement, risks permitting, in the context of their gradual exit strategy. Colombia's access to FCL arrangements have been reduced from 500 percent of quota in 2015 to 350 percent in 2022. The authorities' current request for a successor arrangement of 300 percent of quota demonstrates their commitment to further reduce access, risk permitting, in the context of their gradual exit strategy. Once the outlook for the external risks dissipate over time, further reducing access to the FCL arrangement would be appropriate. Depending on market conditions, the planned reserve accumulation would help meet the authorities' objective to sufficiently cover financing needs in their adverse scenarios. However, new risks could emerge, or current risks could intensify, which could alter the outlook. Therefore, future decisions on access should remain guided by the authorities' long-standing strategy of gradually reducing access, contingent on the state of the external risk outlook.

Figure 1. Debt Ratios of Recent Exceptional Access Cases 1/ 2/

(EA and FCL cases since September 2008)



Sources: Finance Department and IMF staff estimates.

[1/] Estimates as reported in relevant staff reports on the request of SBAs or arrangements under the EFF approved since September 2008. Also includes ratios reported in relevant staff reports of FCL arrangements for Mexico (2019, 2021, and 2023), Colombia (2020, 2022, and 2024 (reflecting the existing credit outstanding and full drawing under this FCL arrangement request)), Peru (2020 and 2022), Chile (2020, 2022), and Morocco (2023).

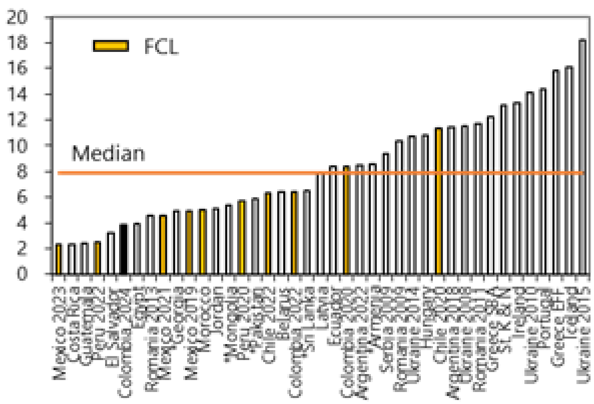
[2/] Asterisks indicate PRGT-eligible countries at the time of the program.

Figure 2. Peak Fund Exposure and Debt Service Ratios for Recent Exceptional Access Cases [1/ 2/]

(EA and FCL cases since September 2008)

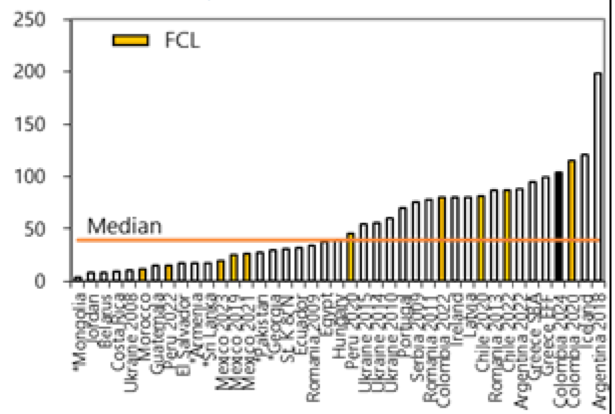
Peak Fund Exposure Ratios

A. In Percent of GDP

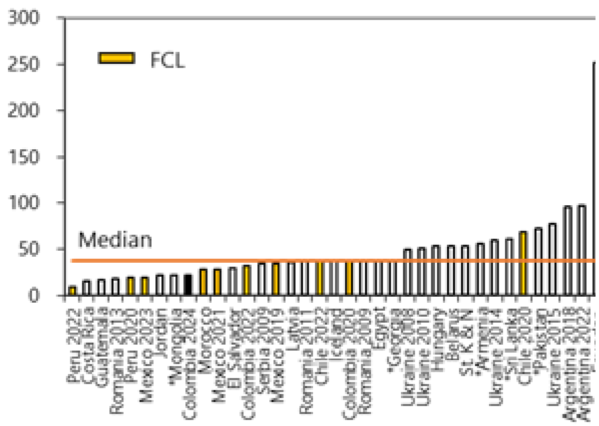


Peak Debt Service Ratios

B. Total External Debt Service in Percent of Exports of Goods and Services



C. In Percent of Gross International Reserves [3/]



D. Debt Service to the Fund in Percent of Exports of Goods and Services [4/]

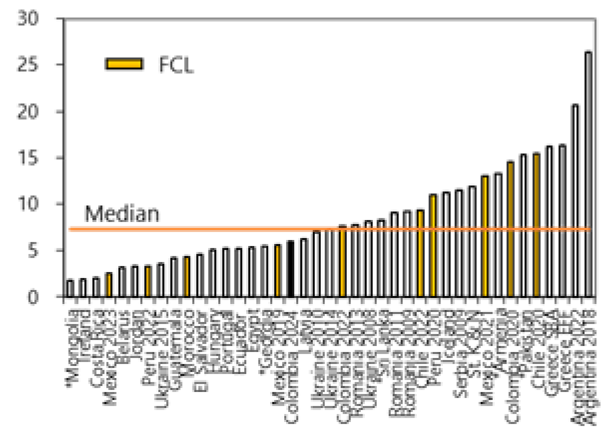
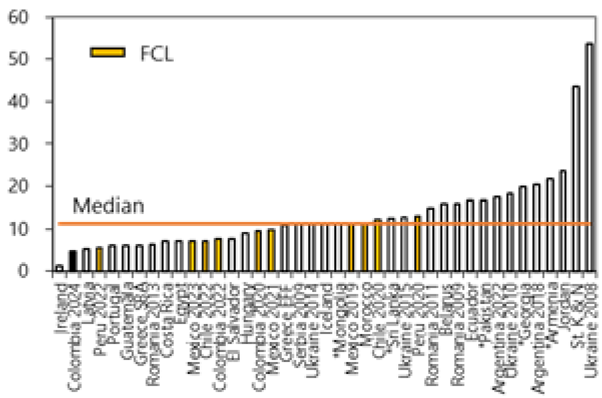


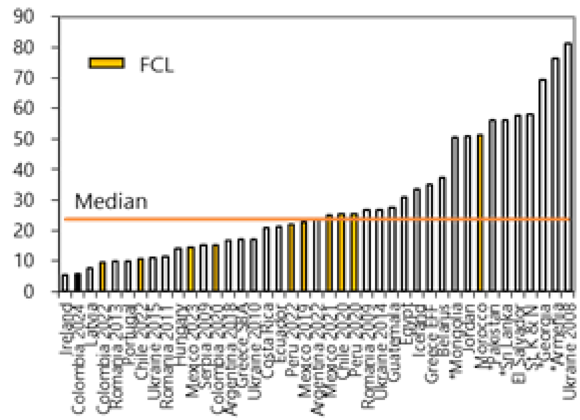
Figure 2. Peak Fund Exposure and Debt Service Ratios for Recent Exceptional Access Cases (concluded) 1/ 2/

(EA and FCL cases since September 2008)

E. In Percent of Total External Debt 4/



F. Debt Service to the Fund in Percent of Total External Debt Service 4/



Sources: Finance Department and IMF staff estimates.

1/ Estimates as reported in relevant staff reports on the request of SBAs or arrangements under the EFF approved since September 2008. Also includes ratios reported in relevant staff reports of FCL arrangements for Mexico (2019, 2021, and 2023), Colombia (2020, 2022, and 2024 (reflecting the existing credit outstanding and full drawing under this FCL arrangement request)), Peru (2020 and 2022), Chile (2020, 2022), and Morocco (2023).

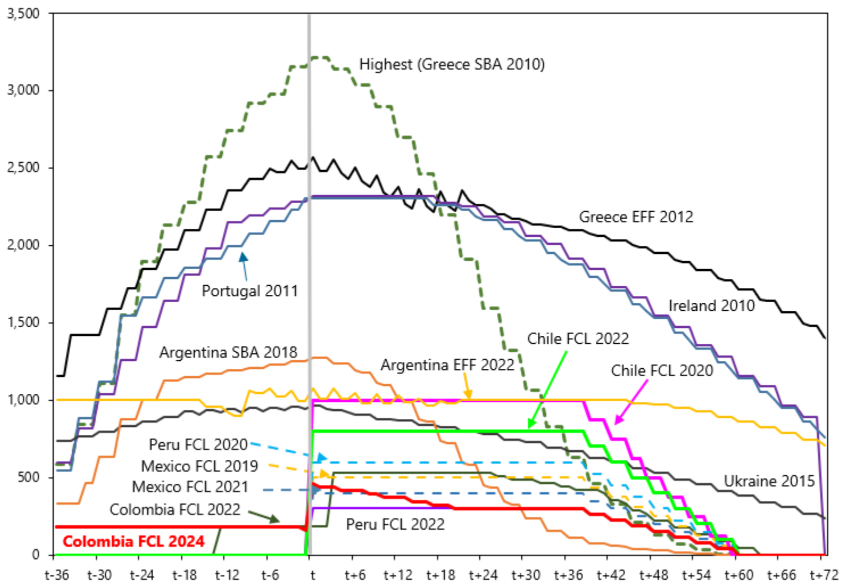
2/ Asterisks indicate PRGT-eligible countries at the time of the program.

3/ Excluding arrangements with members belonging to the euro area at the time of the approval of the arrangement: Greece, Ireland, and Portugal.

4/ For arrangements of which total external debt (or debt service) ratio is not available, public external debt ratio is shown instead.

Figure 3. Projected Fund Credit Outstanding in the GRA Around Peak Borrowing [1/] [2/]

(in percent of quota)



Sources: Finance Department and IMF staff estimates.

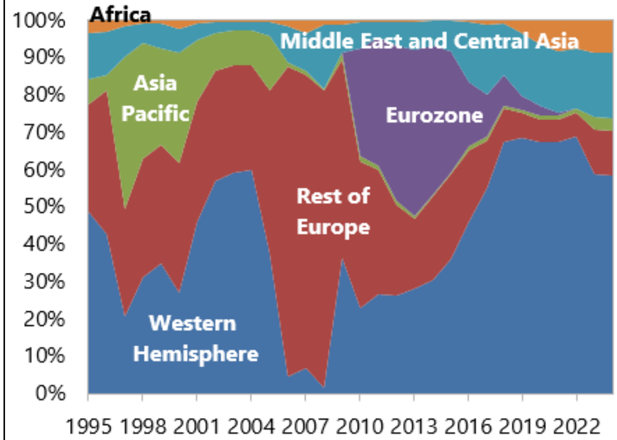
[1/] t represents the time when outstanding credit to the Fund is at its peak. Time is expressed in months.

[2/] GRA credit outstanding of Peru 2020 FCL arrangement overlaps with that of Colombia 2020 FCL arrangement, after the latter's augmentation, at 600 percent of quota for the majority of the period. Colombia 2024 FCL reflects the existing credit outstanding and full drawing under this FCL arrangement request,

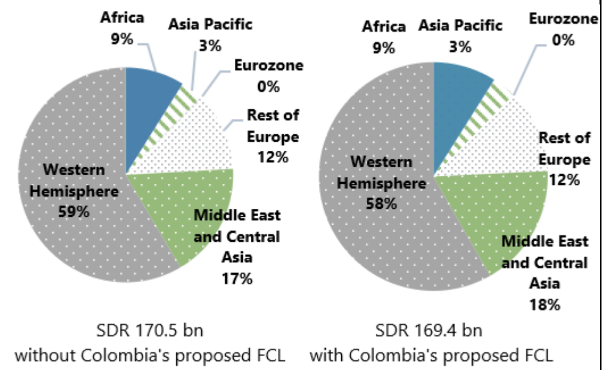
Figure 4. IMF Lending Concentration-By Region and by Lending Instrument

(in percent, as of March 15, 2024)

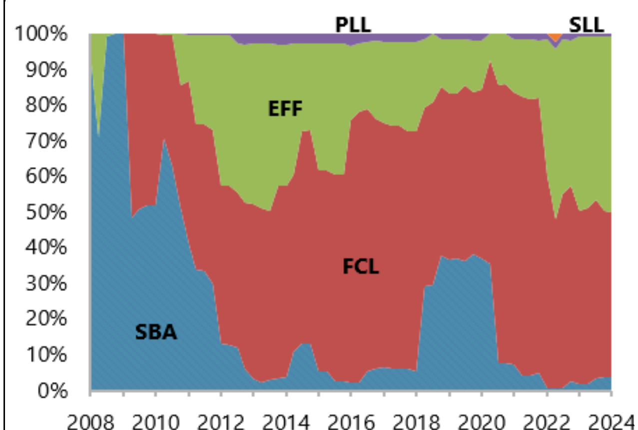
Regional Concentration of Credit and Precautionary Arrangements [1/ 2/]



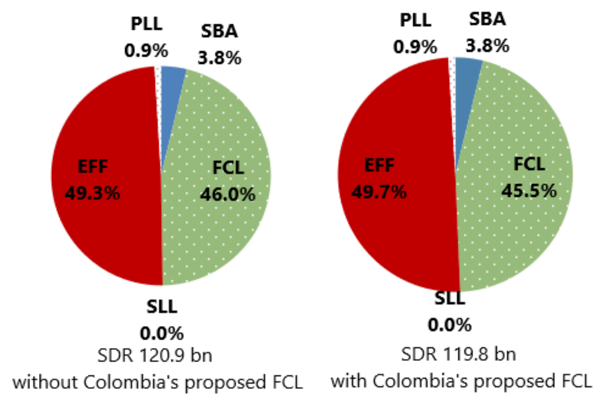
Regional Concentration of Credit and Precautionary Arrangements [1/]



Commitments under Current GRA Arrangements



Commitments under Current GRA Arrangements



Source: Finance Department.

[1/] GRA credit outstanding plus undrawn balances, by region, as a share of total GRA balances and total GRA undrawn balances. The latter include undrawn balances under existing arrangements as well as commitments under precautionary arrangements.

[2/] The Colombia FCL arrangement is included in the credit and precautionary arrangements within the region of Western Hemisphere in the charts on the left-hand side.

Annex I. History of IMF Arrangements

1. Colombia had eleven Fund arrangements since 1999 and has drawn on Fund resources in 2020 (Table I.1). A one-year FCL arrangement equivalent to SDR 6.966 billion was approved on May 11, 2009, to support Colombia's economic policies and bolster confidence during the crisis. A successor one-year FCL arrangement equivalent to SDR 2.322 billion was approved on May 7, 2010. This arrangement was cancelled and a new two-year FCL arrangement was approved on May 6, 2011, increasing the access to SDR 3.870 billion. This was followed by two successor FCL arrangements with the same access, which were approved on June 24, 2013, and June 15, 2015, respectively. The arrangement approved in 2015 was cancelled before its expiration and a successor two-year FCL arrangement with the increased access of SDR 8.18 billion was approved on June 13, 2016. A two-year FCL arrangement, in the amount of SDR 7.85 billion (384 percent of quota), was approved on May 25, 2018. On May 1, 2020, a new FCL arrangement was approved for another two years at unchanged access (384 percent of quota), with the access being augmented in September to 12.267 billion (600 percent of quota) and Colombia made a purchase of SDR 3.75 billion in December 2020. On April 29, 2022, a successor FCL arrangement in the amount of SDR 7.1557 billion was approved. The proposed FCL arrangement in 2024 is the thirteenth Fund arrangement for Colombia.

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

Annex I Table 1. Colombia: IMF Financial Arrangements, 1999-2022
(in millions of SDR)

Year	Type of Arrangement	Date of Arrangement	Date of Expiration or Cancellation	Amount of New Arrangement SDR millions	Amount of New Arrangement in % of quota	Purchases	Repurchases	Amount Outstanding
1999	EFF	20-Dec-99	19-Dec-02	1,957	253	0	0	0
2003	SBA	15-Jan-03	2-May-05	1,548	200	0	0	0
2005	SBA	2-May-05	2-Nov-06	405	52	0	0	0
2009	FCL	11-May-09	6-May-10	6,966	900	0	0	0
2010	FCL	7-May-10	5-May-11	2,322	300	0	0	0
2011	FCL	6-May-11	5-May-13	3,870	500	0	0	0
2013	FCL	24-Jun-13	16-Jun-15	3,870	500	0	0	0
2015	FCL	17-Jun-15	12-Jun-16	3,870	500	0	0	0
2016	FCL	13-Jun-16	24-May-18	8,180	400	0	0	0
2018	FCL	25-May-18	24-May-20	7,848	384	0	0	0
2020	FCL	1-May-20	30-Apr-22	12,267 [1/]	600	3,750	469	3,281
2022	FCL	29-Apr-22	28-Apr-24	7,156	350	0	0	0

Source: Finance Department.
1/ The initial access approved starting May 1st, 2020 was SDR 7.8496 billion, which was later augmented to SDR 12.267 billion in September 2020.

Statement by Juan Sebastian Betancur Mora, Alternate Executive Director for Colombia
April 26, 2024

On behalf of the Colombian authorities, I extend our gratitude to the IMF Executive Board and Management for their constructive involvement and continued support of the Flexible Credit Line (FCL) for Colombia. I would also like to thank staff for their positive assessment of the authorities' request for a new two-year FCL arrangement.

The recent Article IV consultation for Colombia positively assessed the economy's path towards a more sustainable macroeconomic situation. The Board and staff commended the well-calibrated macroeconomic policies implemented over the past two years, which substantially reduced the internal and external imbalances accumulated after the pandemic and, more specifically, during 2021 and 2022. Colombia's very strong institutional framework and the policies implemented have led to a significant decline in inflation, a moderation of domestic demand, and a sizable reduction in the external deficit, and have guaranteed the resilience of the financial system amid lower economic growth.

In this context, the authorities remain fully committed to maintaining their track record of very strong policies, which include compliance with the fiscal rule and the inflation-targeting regime. Aware that elevated global risks persist and that the country continues to meet the qualification criteria, the Colombian authorities have requested a new 2-year FCL arrangement to complement the country's external buffers with a reduced level of access. The authorities reiterate their commitment to treat the FCL as precautionary, to continue with the gradual reduction of access in the context of their exit strategy, risks permitting, and to preserve the very strong policies that have made Colombia eligible for this temporary instrument. The authorities have completed the first repurchase under the 2020 FCL arrangement and will comply with this obligation within the established schedule, as has been the country´s tradition.

Recent Economic Developments

Colombia is undergoing a necessary adjustment towards more sustainable macroeconomic conditions. This adjustment includes a tightening of monetary policy since September 2021, with a markedly contractionary stance in the past several quarters. After a remarkable recovery following the pandemic, the Colombian economy expanded by only 0.6% in 2023, closing the output gap. Inflation has experienced a significant decrease, and the latest data (March) places it at 7.36%. Inflation expectations have also shown an adjustment, and food inflation, which explained an important part of the inflationary episode, has reached 1.7% after a decrease of more than 25 percentage points since November 2022. The current account deficit (CAD) is also falling, going from 6.2% of GDP in 2022 to 2.7% in 2023. Conditions in credit markets continue to normalize, converging to more sustainable growth paths. Furthermore, financial conditions have eased along with the global trend, with the Colombian peso being among the most appreciated currencies in 2023, which helped reduce inflationary pressures.

FCL qualification

Colombia continues to satisfy all the necessary conditions for a successor FCL arrangement. Below, I refer to certain aspects to complement the detailed analysis already provided by the staff:

- **The external position has shown significant improvement and would remain stable at a sustainable level, according to central bank projections.** The CAD was 2.7% of GDP in 2023, which represents a reduction of more than 50% in one year. This reflects a substantial adjustment in domestic absorption, brought about in part by tightening macroeconomic policies. The authorities expect the CAD to remain relatively stable throughout 2024 and end the year at around 3.0% of GDP.
- **Access to international financing is ample:** FDI amounted to 4.8% of GDP in 2023, 1.5 percentage points more than the previous year and sufficient to largely finance the external deficit. The Colombian economy is expected to preserve its track record of FDI flows financing most of the external deficit. Access to international market financing will continue to be wide in the context of lower global borrowing costs. The government has issued external bonds in international capital markets during each of the last 5 years, including in 2024.
- **The level of international reserves is adequate and reached USD 60 billion in March 2024**. This level is appropriate, according to several reserve coverage ratios, including the IMF's ARA metric. To maintain adequate levels of external liquidity and in line with the authorities' objective of gradually reducing the Flexible Credit Line access as global risks diminish, the central bank announced in December 2023 a reserve accumulation program of up to USD 1.5 billion. To minimize potential impacts on the level and volatility of the exchange rate, the central bank auctions put options that can only be exercised when the COP/USD exchange rate falls below its 20-day average and for a total value of only USD 200 million a month (much lower than the FX market daily turnover). As of April 15, the central bank has accumulated USD 624,9 million in international reserves (around 42% of the total goal).
- **Colombia has maintained fiscal stability and public debt sustainability, and the government will keep its strong commitment to doing so in the future.** 2023 was the second consecutive year of overcompliance with the Fiscal Rule, and the central government's net debt of 52.8% of GDP was significantly below the medium-term anchor of 55%. For 2024, the deficit is expected to be 1.1 pp higher and the debt to reach 57%, both within the limits of the Fiscal Rule. This temporary increase is explained by the expected economic slowdown and lower oil revenues, along with social spending that continues to be a priority. In the medium term, fiscal policy will continue the planned adjustment in line with the commitment to the Fiscal Rule and the Medium-Term Fiscal Framework.

- **Inflation is steadily declining**. Monetary policy remains contractionary, and the central bank has emphasized that a data-dependent approach guides its policy decisions, given the high uncertainty and significant risks to inflation. The *Board* of Directors of the central bank has stated that it will reach the inflation target by mid-2025 while aiming to minimize disruptions to economic activity. The central bank began tightening policy in September 2021, with an increase in interest rates of 11.5 pp, reaching a maximum of 13.25% in May 2023. Consequently, the annual inflation rate has declined from 13.34% in March 2023 to 7.36% in March 2024, and inflation expectations have decreased accordingly. This downward trend in inflation has allowed the central bank to begin a gradual monetary easing last December, with a total reduction of 100 basis points, while keeping the real interest rate in a contractionary zone.
- **Exchange rate flexibility remains a cornerstone of Colombia's policy framework, safeguarding the economy from external shocks**. After a significant depreciation in 2022, the Colombian peso outperformed emerging market currencies in 2023, with a nominal appreciation of 20.5% last year. The authorities remain committed to exchange rate flexibility as a first line of defense against external shocks and have therefore not intervened in the FX market with the purpose of influencing the level or volatility of the COP.
- **The Colombian financial system remains solid, supported by effective regulatory and supervisory frameworks.** Capital and liquidity levels are adequate and largely exceed Basel III requirements, and stress tests show the financial system's resilience to withstand even a tail-risk scenario. As a consequence of the necessary expenditure and credit adjustment, non-performing loans are increasing across various loan categories, but this deterioration has occurred in an orderly manner and is limited, given the scale of monetary tightening and the economic slowdown. The authorities reiterate their commitment to strong financial supervision and to keep improving Colombia's regulatory framework by gradually incorporating the remaining IMF recommendations outlined in the 2022 FSAP. Authorities will continue to closely monitor NPLs and solvency, provisions, and liquidity indicators in the financial sector.

Final Remarks

The Colombian authorities remain committed to the country's well-established macroeconomic policy framework. Currently, inflation is returning to the central bank's target, and economic activity is converging towards a more sustainable path after a necessary adjustment. The central bank continues to manage Colombia's monetary policy independently, within an inflation-targeting regime, a flexible exchange rate, and an ample level of international reserves. Fiscal policy is guided by a fiscal rule and a medium-term policy framework, which have helped the country through this period of adjustment. Financial supervision is strict, follows international standards, and remains key in this environment. These robust macroeconomic policies and institutions have proven effective in the past and, together with the Flexible Credit Line, ground an appropriate and crucial framework to address future shocks.

There is still significant uncertainty in the current global landscape. Risks to the Colombian economy include an increase in global risk aversion, higher borrowing costs for emerging markets, a global growth slowdown, and volatile commodity prices. Faced with these challenges, the authorities thank the Directors' consideration of the new two-year agreement. They perceive it as a positive signal to economic agents and markets since it reflects the strength of the macroeconomic policy framework and complements the country´s external buffers.

The Colombian authorities underscore that they will continue to treat the FCL as precautionary. As in the past, a new two-year FCL agreement provides a remarkable benefit for the country, given its capacity to mitigate crises and improve confidence by sending the message to the markets that Colombia continues to be a country with very strong economic fundamentals, policies, and institutional policy frameworks. At the same time, this new agreement allows Colombia to maintain a strong external liquidity position and ample access to international markets under favorable conditions. The commitment to this precautionary treatment is in line with the recent macroeconomic adjustment that has allowed the country to reduce its external vulnerability through the improvement in the current account. In addition, the authorities believe that they will be able to further reduce FCL access in the context of their gradual exit strategy if external risks recede. Notably, the requested access is the lowest since 2010.

The authorities completed the first repurchase under the 2020 FCL arrangement last March and want to emphasize their commitment to honoring their obligations in a timely manner, as has been Colombia's tradition with its obligations throughout history. To this end, the Colombian government has programmed the 2024 payments in the 2024 National Budget that was approved by Congress and included the remaining payments for 2025 in the medium-term fiscal framework.

Finally, the Colombian authorities remain committed to maintaining a constructive dialogue with the Fund and reiterate their gratitude to the Board and staff for their continued constructive feedback.