May 2010
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# Colombia: 2010 Article IV Consultation—Staff Report; Public Information Notice on the Executive Board Discussion; and Statement by the Authorities of Colombia

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2010 Article IV consultation with Colombia, the following documents have been released and are included in this package:

- The staff report for the 2010 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on February 12, 2010, with the officials of Colombia on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on March 17, 2010. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- A Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its March 31, 2010 discussion of the staff report that concluded the Article IV consultation.

- A statement by the authorities of Colombia.

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

Selected Issues

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

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INTERNATIONAL MONETARY FUND

COLOMBIA

# Staff Report for the 2010 Article IV Consultation

Prepared by the Staff Representatives for the 2010 Consultation with Colombia
(In consultation with other departments)

Approved by Miguel Savastano and Tamim Bayoumi

March 17, 2010


## Executive Summary

- **Context and recent developments.** Following near zero growth in 2009, economic activity is expected to pick up in 2010, supported by accommodative monetary and fiscal policies and a sound financial system. Key short term challenges include containing second-round effects on inflation from anticipated supply shocks, as well as mitigating the effects of a possible surge in capital inflows. A strong institutional policy framework bodes well for sustained growth and low inflation in the medium term.

- **Key policy recommendations:**
    - *Near-term policy stance.* Monetary and fiscal policies should protect the nascent recovery. A tightening of the policy stance should await stronger evidence that the recovery is self-sustained.
    - *Capital flows*. The exchange rate should continue to be the main shock absorber in the event of a surge in capital inflows. If the recovery is firm, fiscal tightening should also be considered.
    - *Reserve coverage.* While the current level of reserves is broadly adequate, there is scope to increase coverage as the balance of payments strengthens.
    - *Fiscal consolidation.* While the fiscal position is not weak, lower levels of debt would help protect against risks, and improve prospects of regaining investment grade.
    - *Fiscal rule.* Setting a target on a "broad" structural balance (including the central and regional governments) would establish a clear link to public debt and ensure consistency between the stances of the different levels of government.

- **Authorities' views:** The authorities concur with staff's advice on the policy stance for 2010; and on the key role of exchange rate flexibility to absorb external shocks. They regard their reserve levels as adequate, but agree that higher levels would be desirable if conditions allow. They consider their medium term debt targets as reasonably ambitious, but agree that lower debt levels would provide more space to deal with contingent risks. They see the benefits of a fiscal rule applicable to a broad aggregate, but tend to favor a central government rule that is more under their control.

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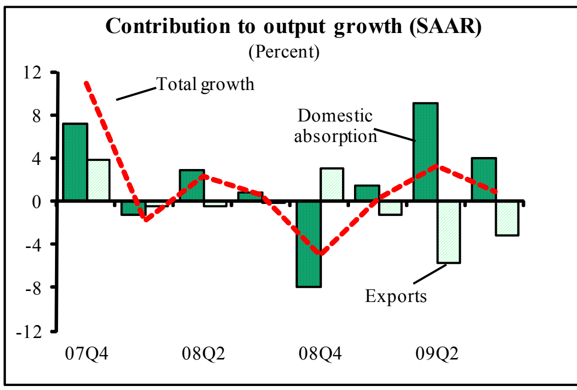
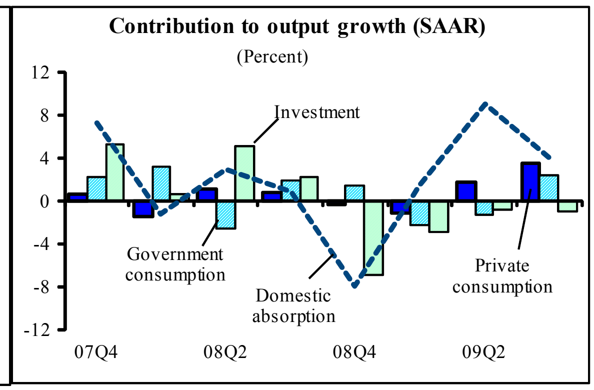
## I. Recent Economic Developments

1. **Colombia was not affected too severely by the global crisis.** The economy had begun to slow down in early 2008, as policies had been tightened to address overheating, but the global crisis caused private investment to collapse in the last quarter of 2008 (Figure 1). Domestic demand began recovering in the second quarter of 2009, led by public investment and consumption. For the year as a whole, real GDP growth was about zero. With near zero food price inflation and an output gap of about 2 percent at end-2009, end-year inflation fell to 2 percent from 7.7 percent at end-2008, well below the official inflation target range of 4½–5 ½ percent.

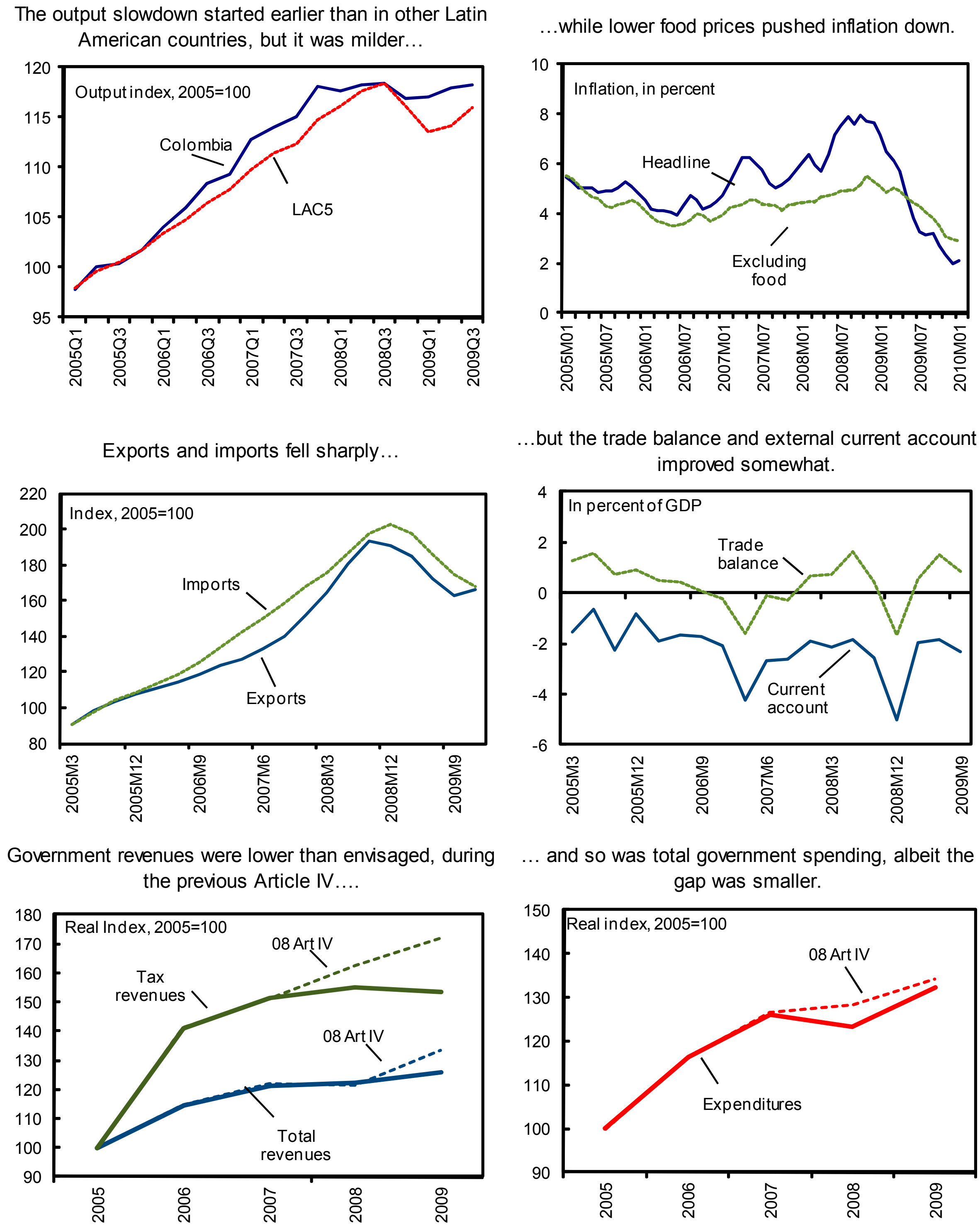



2. **The overall reserves position remained broadly stable during 2009.** The peso depreciated sharply in the first quarter of 2009 but recovered fairly quickly and, by mid-June, was above pre-Lehman levels. With only moderate intervention, central bank net international reserves (excluding the SDR allocation) remained broadly constant at the end-2008 level of US$24 billion.[1] Weak exports and workers' remittances were more than offset by a fall in imports and, as a result, the external current account deficit narrowed to 1.8 percent of GDP (from 2.9 percent the previous year). The capital account surplus declined only moderately, as a sharp increase in public inflows (up by US$8.4 billion) compensated for lower private inflows. Rollover rates of private external debt only declined moderately and the US$10.9 billion in contingent reserves from the FCL approved in May 2009 were not used.

[1] In October 2009, the authorities decided to keep abroad resources from the placement of external bonds (of about US$2.6 billion) to mitigate appreciation pressures.

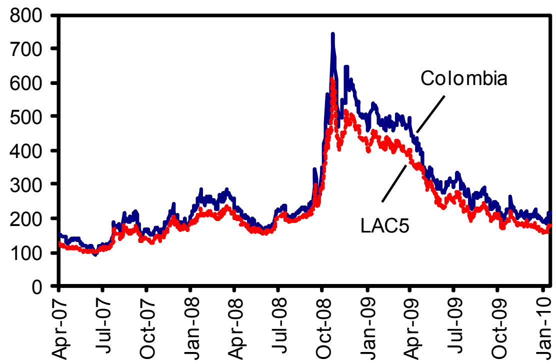
Figure 1. Colombia: Recent Economic Developments



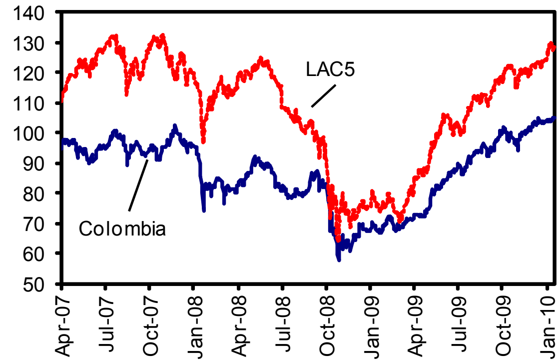

Sources: IFS, Haver, Datastream, and Fund staff estimates.
Note: LAC5 represents the average of Chile, Colombia, Brazil, Mexico, and Peru. Fiscal expenditures adjust for the timing of fuel subsidies granted in 2007-08 but recorded in the 2007-09 budgets.

Figure 2. Colombia: Impact of the Global Financial Crisis

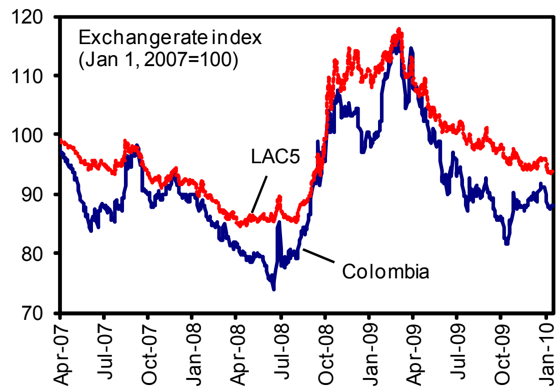
Sovereign spreads moved in tandem with the region….



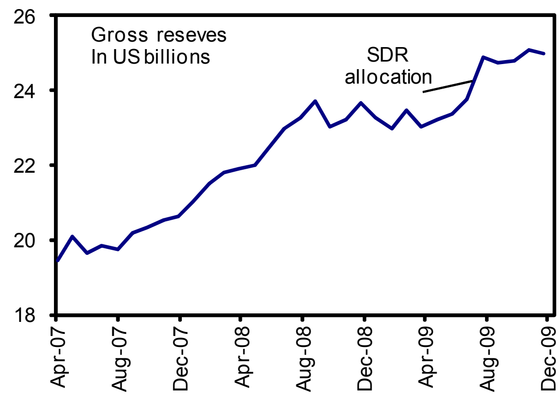

…while equity prices were more stable.



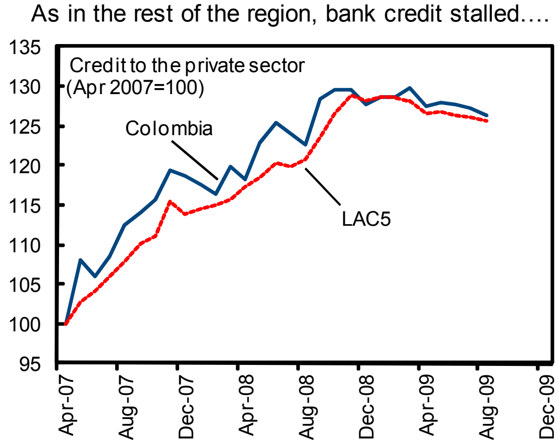

The exchange rate was an important shock absober….



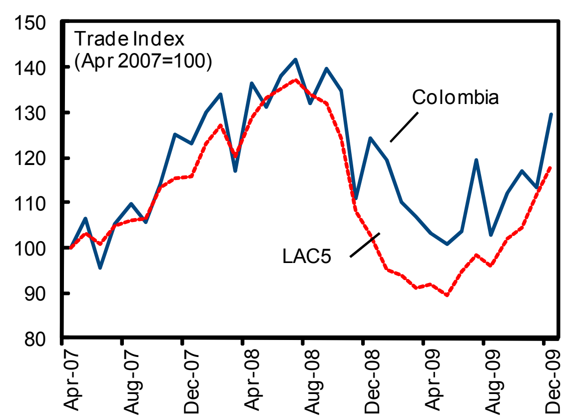

…while gross reserves remained stable.




As in the rest of the region, bank credit stalled….



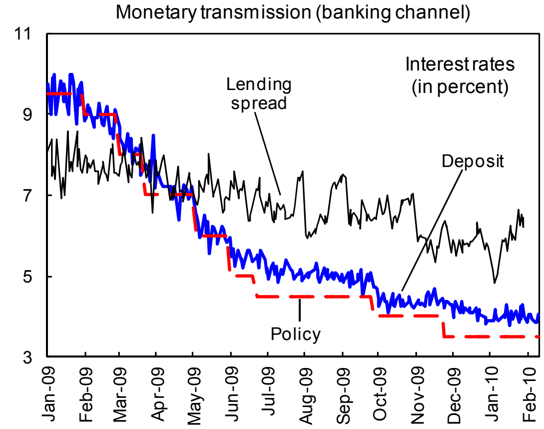

…while international trade flows fell.




Sources: IFS, Haver, Datastream, and Fund staff estimates.

Note: LAC5 represents the average of Chile, Colombia, Brazil, Mexico, and Peru. The trade index is the sum of exports and imports of goods (in U.S. dollars).

3. **Monetary policy responded swiftly.** Since late 2008 the policy rate was lowered by 650 basis points (to 3½ percent). Bank lending rates fell, but credit to the private sector decelerated sharply (to about 1 percent growth at end-2009). Corporates took advantage of the low interest rate environment by making sizable placements of domestic bonds in 2009 (US$11 billion, twice the level of 2008).




4. **Fiscal policy also contributed to support demand.** The overall fiscal deficit rose from broad balance in 2008 to 2.8 percent of GDP in 2009, providing more stimulus than the one anticipated in the budget (mainly due to lower-than-budgeted tax revenues).[2] The structural deficit[3] deteriorated from 1.2 percent of GDP in 2008 to 2.2 percent of GDP in 2009, imparting a fiscal impulse of about 1 percent of GDP. Total revenues remained broadly constant in real terms, as oil revenues (based on 2008 profits) compensated for weak proceeds from the VAT and international trade.[4] Meanwhile, total spending (adjusting for fuel subsidies) grew by 7 percent in real terms, with capital expenditure—which has important multiplier effects—increasing by 25 percent in real terms, as regional governments made up for budget under-spending in 2008.

Colombia: Combined Public Sector Balance
(Percent of GDP)

| | Headline 1/ | | | Adjusted for fuel subsidies 2/ | | |
|---|---|---|---|---|---|---|
| | 2008 | Budget 2009 | Est. 2009 | 2008 | Budget 2009 | Est. 2009 |
| **Combined public sector overall balance** | **-0.1** | **-1.2** | **-2.8** | **-1.0** | **-0.2** | **-1.8** |
| Total revenues | 26.6 | 27.5 | 27.0 | 26.6 | 27.5 | 27.0 |
| Oil related revenues | 2.7 | 3.5 | 3.5 | 2.7 | 3.5 | 3.5 |
| Non-oil related revenues | 24.0 | 24.0 | 23.5 | 24.0 | 24.0 | 23.5 |
| Total expenditure | 26.5 | 29.0 | 29.7 | 27.4 | 28.0 | 28.7 |
| *of which:* Fuel subsidies | 0.1 | 1.0 | 1.0 | 1.0 | 0.0 | 0.0 |
| Financial sector bal. and stat. discrep. | -0.2 | 0.3 | -0.1 | -0.2 | 0.3 | -0.1 |
| *Memorandum items:* | | | | | | |
| Structural overall balance 3/ | … | … | … | -1.2 | -1.8 | -2.2 |

1/ Payments for fuel subsidies granted in 2007-08 were recorded in the budgets for 2007-2009.
2/ Fuel subsidies are included in the year in which they were granted to the public, instead of the year in which they were recorded.
3/ Adjusts for the output gap, oil price expectations, and fuel subsidies, and one-off pension related revenues in 2009.

[2] A better measure of the change in the fiscal position would exclude from the 2009 expenditures oil subsidies received by consumers during 2008 but recorded in the 2009 budget. With this one-off adjustment, the overall fiscal deficit would increase from 1 percent of GDP in 2008 to 1.8 percent of GDP in 2009.

[3] The structural fiscal balance adjusts for the output gap, future oil prices, the timing of fuel subsidies, and one-off pension-related revenues in 2009.

[4] Transfers of dividends from Ecopetrol (89 percent government-owned) to the government take place with a lag of one year (i.e., are based on profits of the previous year).

5. **Government foreign borrowing increased preemptively.** With sound fundamentals, supported by the FCL, Colombia had uninterrupted access to capital markets at favorable rates, and considerable space for countercyclical policies. Gross official external borrowing exceeded US$6 billion in 2009 (compared with US$3.2 billion in 2008) with sovereign bond placements totaling US$3.5 billion. In net terms, official external borrowing rose to 2 percent of GDP, and the government was able to increase its deposits abroad by about 1.4 percent of GDP.

Colombia: Financing of the Fiscal Deficit
(In percent of GDP)

| | 2008 | Est. 2009 |
|---|---|---|
| Combined Public Sector Balance | -0.1 | -2.8 |
| External financing | 0.2 | 0.6 |
| Net borrowing | 0.4 | 2.0 |
| Deposits abroad (increase (-)) | -0.2 | -1.4 |
| Domestic financing | -0.2 | 2.0 |
| Net borrowing | 0.1 | 1.9 |
| Domestic deposits (increase (-)) | -0.3 | 0.1 |
| Privatization 1/ | 0.1 | 0.2 |

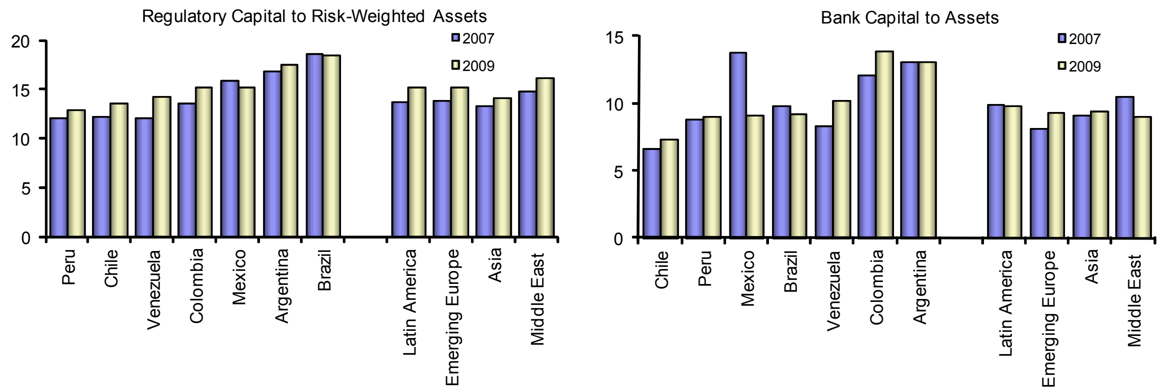
1/ Includes privatization of electricity companies projected for 2010.

6. **Financial soundness indicators remained solid, despite the global shocks and the downturn in activity.** The largely domestically-owned and locally-financed financial system did not experience major strains from the global crisis. Colombian banks did not have complex off-balance sheet financial instruments, and had limited cross-border linkages. Liquidity indicators improved as credit demand slowed and banks increased their holdings of government securities (the ratio of liquid to total assets increased by about 3¾ percentage points). Capital adequacy remained strong, and valuation gains helped maintain profits high (Figure 3). NPL indicators reached 4½ percent in mid-2009 but declined to 4.1 percent by the end of the year, backed by high provisions. The corporate sector's strong balance sheets and the moderate levels of household debt also helped avoid financial distress.

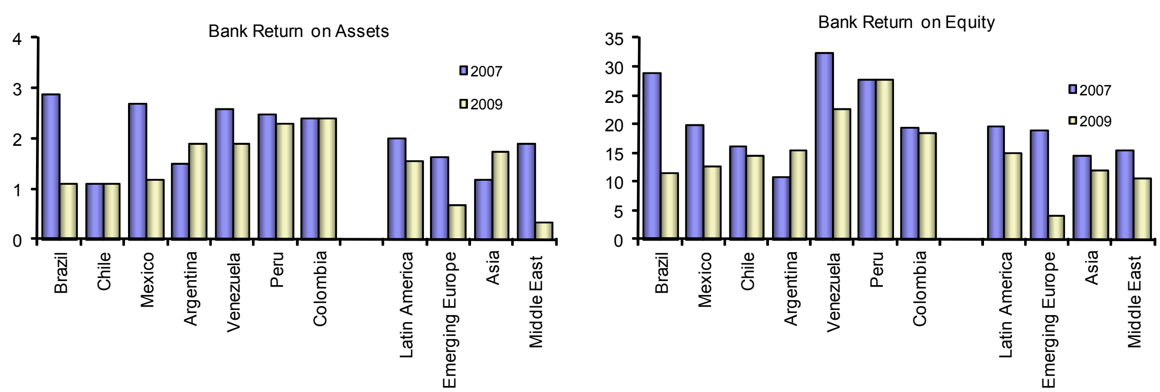
7. **Measures taken since late 2008 also contributed to financial sector resilience.** At end-2008, banks reached agreement with the superintendent to retain a portion of their 2008 profits, increasing their capital adequacy ratio from 13.4 to around 15 percent. In early 2009, the authorities raised the effective coverage of the deposit insurance, improved risk-based deposit insurance premia, and introduced a new liquidity risk management system. In July 2009, Congress approved a financial sector law increasing flexibility in pension funds' investment portfolios (with effect in September 2010) and enhancing consumer protection and financial education. In September 2009, it was decided that countercyclical provisioning would be more rules-based and bank-specific starting in April 2010.

Figure 3. Financial Soundness Indicators: Colombia and Other Emerging Markets

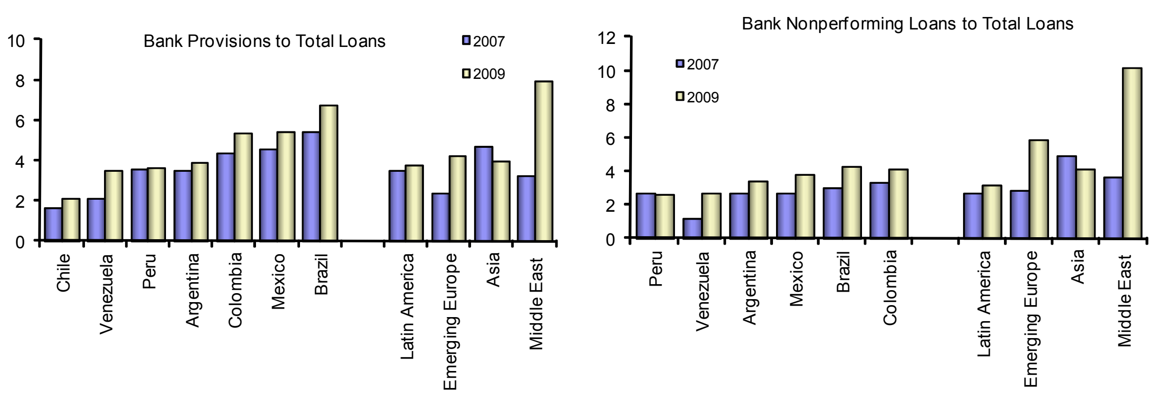
*Colombian banks weathered the crisis with strengthened capitalization...*




*and robust and growing profitability.*




*Nonperforming loans have increased, but remain moderate and well covered by provisions.*



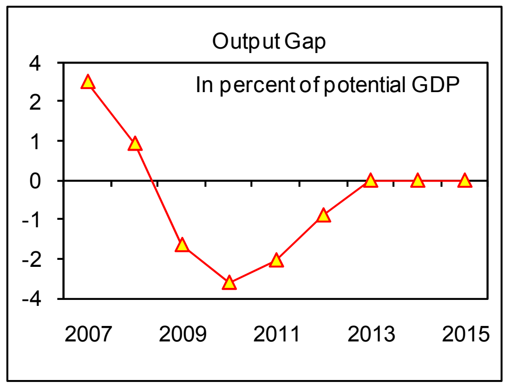

Source: GFSR. December data for 2007, latest available for 2009 (December in the case of Colombia).

## II. Macroeconomic Outlook

8. **The electoral calendar of 2010 is not expected to weaken Colombia's solid policy framework.** Congressional elections were held in March, and presidential elections are scheduled for May with a second round, if necessary, for June. The new government will take office in August. Colombia's strong institutions and broad domestic consensus for economic stability bodes well for the continuation of sound policies under the next government.

9. **The outlook for 2010 and the medium term is generally positive**.

- **Economic growth is expected to pick up gradually**. Real GDP growth in 2010 is projected at about 2¼ percent, reflecting the upturn in the world economy and the impact of the expansionary policies of 2009. The full-year effect of lower exports to Venezuela (which staff estimates will lower 2010 growth by ¾ percentage points) will dampen the recovery.[5] Over the medium-term, real GDP growth is expected to rise to 5 percent until the output gap is closed, and thereafter settle at 4½ percent.




- **Inflation is likely to remain within the central bank target range.** Inflation expectations indicators in early 2010 suggest that end-year inflation may be around 3.8 percent, near the top of the target range. However, the effects of El Niño on food inflation are likely to be offset by the output gap and peso appreciation. Over the medium-term, inflation is expected to remain well within the target range of 2–4 percent.

- **The external current account deficit is expected to narrow over the medium term.** The combination of lower exports to Venezuela and an envisaged increase in oil investment-related imports are projected to widen the external current account deficit to 3.1 percent of GDP in 2010. The bulk of the deficit would be financed by FDI, with other private flows also expected to recover. Over the medium term, the current account deficit is expected to decline to about 1 percent of GDP, driven by higher exports (including from the expected increase in oil

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[5] In July 2009, Venezuela began a process of closing most border trade with Colombia, reducing imports during the last quarter of the year to US$535 million, about one quarter of its previous levels (Colombia's exports to Venezuela, mostly manufactures and beef, amounted to US$2 billion in the last quarter of 2007).

production), improvements in commodity prices, and a gradual recovery in trade with Venezuela.[6]

Colombia: Medium-Term Outlook
(Percent of GDP, unless otherwise indicated)

| | | Projections | | | | | |
|---|---|---|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
| Real GDP growth (annual percent change) | 0.1 | 2.3 | 4.0 | 5.0 | 5.0 | 4.5 | 4.5 |
| Inflation, end of period (annual percent change) | 2.0 | 3.8 | 3.4 | 3.4 | 3.3 | 3.0 | 3.0 |
| External current account balance | -1.8 | -3.1 | -2.9 | -2.2 | -1.6 | -1.3 | -1.1 |
| Consolidated public sector overall balance | -2.8 | -3.5 | -3.0 | -2.5 | -2.1 | -1.8 | -1.6 |
| Gross public debt (excluding Ecopetrol) | 34.1 | 33.6 | 34.0 | 34.0 | 33.2 | 32.6 | 31.3 |

Sources: Fund staff estimates.

10. **The overall fiscal deficit would continue rising in 2010, but start declining in 2011.** Staff updated the authorities' medium-term fiscal framework (MTFF), published in mid-2009, with the revised 2010 budget, the latest WEO assumptions, an improved outlook for oil production, and higher spending in roads and health care. The updated projection shows a combined public sector deficit of 3.5 percent of GDP in 2010, and a gradual decline thereafter to levels around 1½ percent of GDP.[7] This fiscal consolidation would bring the public debt to GDP ratio to about 32 percent by 2014-15 (similar to the end-2008 level).

**Colombia: Combined Public Sector Structural Balances**
(Percent of GDP)

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|
| **Combined public sector (CPS) overall balance** | **-3.5** | **-3.0** | **-2.5** | **-2.1** | **-1.8** | **-1.6** |
| Oil revenues | 2.0 | 2.4 | 2.5 | 2.6 | 2.7 | 2.8 |
| Non-oil revenues | 22.7 | 23.1 | 23.2 | 23.2 | 23.2 | 23.2 |
| Primary expenditure | 24.8 | 25.2 | 25.3 | 25.0 | 24.9 | 24.9 |
| **CPS structural overall balance 1/** | **-2.3** | **-2.0** | **-2.0** | **-2.0** | **-1.7** | **-1.5** |
| *Memorandum items:* | | | | | | |
| Central government (CG) overall balance | -4.5 | -4.1 | -3.8 | -3.5 | -2.9 | -2.5 |
| CG structural overall balance | -3.8 | -3.5 | -3.5 | -3.4 | -2.9 | -2.5 |

1/ Include adjustments for the output gap, oil price expectations, fuel subsidies, and one-off pension-related revenues in 2009.

[6] Ecopetrol (treated as public sector in the balance of payments and debt statistics) is carrying out substantial investments. It projects that oil and gas production by the company and its associates would double from 2009 to 2015 (from 500 thousand barrels of oil equivalent (BOE) per day in 2009 to 1 million BOE per day in 2015).

[7] Given prospects for higher oil production and the related revenues, the structural overall deficit would decline from 2.3 percent of GDP in 2010 to about 1.5 percent of GDP in 2015; the improvement at the central government level would be larger.

11. **Risks to the growth outlook are broadly balanced.** While the baseline scenario assumes an important increase in oil production over the medium term, there is significant upside potential in the oil sector. This could result in significant higher oil production, and overall output, over the medium to long term. Key downside risks to growth include the uncertainty surrounding the strength of the global recovery, and increased political tensions with Venezuela, which could have a larger and more protracted adverse impact on activity.

## III. Policy Discussions

12. **Discussions centered on the appropriate policy stance during 2010 and possible improvements to the policy framework.** In particular, the discussions covered (a) the policy mix to protect the nascent economic recovery; and (b) measures to further strengthen the medium term policy framework, including through the adoption of a structural fiscal rule, and other policies to contain downside fiscal risks. Discussions also assessed the strength of the financial sector following the global crisis.

### Near term policy stance

13. **There was agreement that macroeconomic policies should remain supportive until there is firm evidence that the recovery is self-sustained.** Avoiding an early withdrawal of stimulus would be especially important in light of the dampening effect on 2010 growth of the trade disruptions with Venezuela.

14. **Staff agreed that the current stance of monetary policy remained appropriate, and that a premature tightening cycle ought to be avoided**. Staff noted that the significant easing of monetary conditions in 2009 had supported domestic demand without endangering the inflation objective, and that monetary policy lags would continue providing support during 2010. In addition, it noted that the rise in inflation in 2010 would be driven by supply factors and should not call for an immediate policy response. There was agreement, however, that with short and medium term inflation expectations near the top of the target range, the central bank should remain vigilant and stand ready to tighten at the first signs of domestic demand pressures. In this regard, staff noted that it would be important to monitor closely the effects of higher food prices on inflation expectations.

15. **The fiscal stance envisaged for 2010 strikes a reasonable balance between supporting domestic demand and safeguarding medium term sustainability.** Given weaknesses on the revenue side, linked both to cyclical and noncyclical factors, staff welcomed the spending cuts of 0.7 percent of GDP adopted in early 2010 to prevent a further widening of the deficit. With these measures, the structural fiscal balance would remain broadly at the same level as in 2009.

16. **It would be advisable to consider possible responses to a surge in private capital inflows.** The authorities' baseline scenario assumes that non-FDI outflows in 2010 would be only slightly lower than those observed in 2009, although they acknowledge that improved

domestic investment opportunities and low global interest rates could induce larger gross inflows. They considered that, in such a scenario, exchange rate flexibility would continue to be the first line of defense, possibly supported by rules-based intervention to smooth volatility. The authorities agreed that macroeconomic policies could play an important role in moderating capital inflows, including through some fiscal tightening once the recovery is on more solid footing. While not contemplating capital controls at the time, the authorities indicated that they could be an option if warranted by the type and size of foreign inflows. Staff noted that, in general, the effectiveness of controls is rather limited as a permanent measure, although they could be useful to manage a temporary surge in capital flows.[8]

**Strengthening the policy framework**

17. **Although the medium term outlook was seen as positive, there was agreement that policies should aim at reducing downside risks.** Prudent macroeconomic policies, a sound financial system, and limited vulnerabilities bode well for the economy. However, there are important risks stemming from external conditions (including the strength of the global recovery and relations with Venezuela) and domestic uncertainties, particularly on the fiscal side.

**Fiscal Policy**

18. **Staff discussed the implications of the updated global outlook for the authorities' medium-term fiscal framework.** Although the authorities had not formally revised their medium term fiscal framework, they recognized that external conditions had significantly improved since the publication of the current framework in June 2009. In particular, fiscal revenues are now expected to benefit from sizable increases in oil production. At the same time, however, key expenditure risks have materialized, particularly on health as a result of court-mandated decisions. It was agreed that these factors would likely result in higher fiscal deficits and public debt levels than those envisaged during the 2008 Article IV consultation.

19. **More ambitious medium term fiscal targets would be beneficial.** Although oil-related revenues will be higher than previously envisaged, public debt is projected to be 8 percentage points of GDP above the medium term level suggested as a target during the 2008 Article IV consultation. Staff argued that, while the overall debt level remains moderate, lower medium term debt levels were feasible and would create fiscal space to absorb fiscal risks if these were to materialize. In addition, they would likely improve the prospects for an upgrade from credit rating agencies (Box 1). The authorities agreed that the country would benefit from lower debt levels, but stressed that the envisaged fiscal stance ensures debt sustainability.

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[8] The authorities imposed capital controls on non-FDI flows in mid-2007, mainly in the form of unremunerated reserve requirements. The controls were removed in October 2008.

20. **Staff supported the authorities' plans to adopt a fiscal rule.** It noted that Colombia is a good candidate for adopting a fiscal rule owing to its moderate public debt and strong fiscal institutions, including an effective fiscal responsibility law, a medium term fiscal framework, and budget rules for regional governments. A fiscal rule would help signal more firmly the commitment to fiscal consolidation, and facilitate the use of countercyclical policies to limit the impact of exogenous shocks on the economy. In addition, a rule could be useful to shield the economy from the volatility in oil receipts. Staff stressed, however, that a fiscal rule would not be effective to prevent an equilibrium exchange rate appreciation.

21. **Staff recommended that Colombia's fiscal rule:**

- **Targets a broad structural fiscal balance (including the central and subnational governments).** Staff noted that such a target would provide a clear link to overall public debt and ensure consistency between the fiscal stances of the central and subnational governments. While recognizing the advantages of a broad aggregate, the authorities indicated that that they are currently considering all options, including a central government target that would be easier to control.

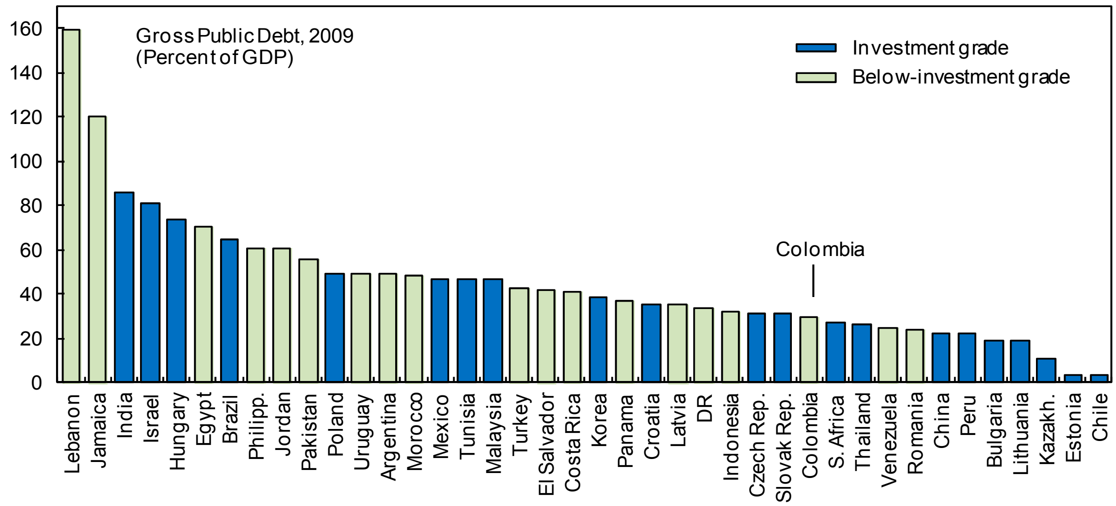
- **Aims at a significant decline in public debt.** Staff argued that adopting a formal framework to reduce the public debt ratio in a five-year period to the level reached prior to the global crisis (32 percent of GDP) may represent somewhat of a missed opportunity. It noted that a more ambitious target[9] would send a powerful signal of Colombia's commitment to fiscal prudence and debt sustainability. The authorities agreed that the fiscal rule ought to be consistent with an ambitious decline in public debt levels.

22. **Staff acknowledged that an ambitious medium term debt target may require a phased adoption of the fiscal rule.** A rule that targets a zero structural balance for the combined public sector starting in, say, 2011 would require a fiscal adjustment of about 2 percent of GDP in the first year of operation. Staff recognized that an upfront adjustment of this magnitude may not be warranted, and would entail risks for aggregate demand. Considering this, it was agreed that a phased implementation of the fiscal rule could be based on a less ambitious target for a transitional period (e.g., a structural deficit of about ¾−1 percent of GDP for two to three years) while announcing that a more ambitious target would be adopted at a specific date (e.g. zero structural overall balance by 2013).

[9] A zero structural balance target for the combined public sector starting in 2011 would lower the public debt ratio to about 22 percent of GDP by end 2015, which is broadly the debt level that was suggested as a medium term target prior to the global crisis.

## Box 1. Debt Levels and Sovereign Debt Ratings

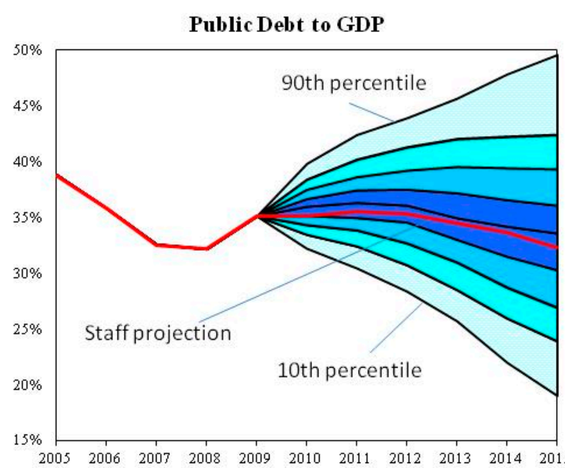
Colombia's sovereign debt had an investment grade rating from international rating agencies during 1995–98. Its downgrade to below-investment status was one of the fallouts from the 1998–99 financial crisis. Fiscal consolidation efforts during the 2000s have lowered Colombia's public debt from 50 percent of GDP at end-2002 to 32 percent of GDP at end-2008. Notwithstanding increased government borrowing during 2009, Colombia's current public debt to GDP ratio is broadly similar to those of emerging markets whose sovereign debt is rated as investment grade (see chart).




The level of public debt, however, is only one of several indicators used by rating agencies to assess country risk. An analysis of panel data from 48 emerging markets made by staff finds that, in addition to public debt levels, rating agencies attach significant weight to three other factors when assessing country risk: the size of the export sector, the depth of the financial system, and political risk.

These findings suggest that Colombia's efforts toward regaining investment grade status should focus on reducing further its public debt level. A significant decline in public debt rates could allow Colombia to compensate for its relative disadvantages (compared to other emerging economies) in the other, more "structural" factors considered by rating agencies in their assessments.

Prospects for a future reduction in Colombia's debt levels are favorable. Results from a debt simulation model suggest that there is a fifty percent probability that, by 2015, Colombia's public debt to GDP ratio will be below the level it had prior to the global crisis in 2008 (32 percent of GDP); and only a 25 percent probability that it will exceed 40 percent of GDP. The likely adoption of an explicit fiscal rule, and the overall debt targets associated with it, also bodes well for progress in fiscal consolidation and public debt reduction in the coming years.



## Box 2. Alternative Fiscal Rules for Colombia

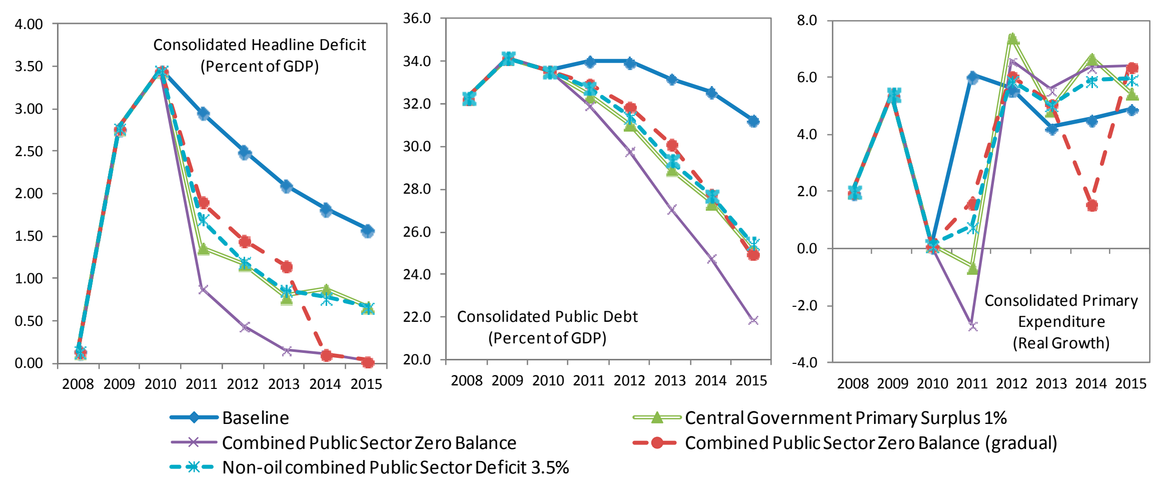
**Staff analyzed the implications of several types of fiscal rules on debt levels, the scope for countercyclical policies, and the expenditure path.** As point of reference, staff used the authorities' 2009 medium term fiscal framework with updated assumptions (see paragraph 10). In all scenarios, except where noted otherwise, the structural fiscal balance includes adjustments for the output gap, future oil prices, the timing of fuel subsidies, and one-off pension-related revenues in 2009. The scenarios assumed that the fiscal rule would be in place starting in 2011. The main results of three scenarios are summarized below:

- **A zero overall balance for the combined public sector.** Adoption of this rule would lower the debt ratio to about 22 percent of GDP by 2015, almost 10 percent of GDP below the baseline scenario. To achieve this target, however, measures equivalent to about 2 percent of GDP would need to be adopted in the first year (2011). If this adjustment were achieved only through expenditure cuts, it would imply a reduction in real government spending of about 2.6 percent in 2011, which would be followed by 6 percent real growth in 2012. A zero balance rule would be easy to communicate, and ensure consistency between the regional and central governments.

- **A nonoil deficit for the combined public sector of 3.5 percent of GDP.** Under this rule, debt would decline to about 25 percent of GDP by 2015, significantly lower than in the baseline. With no revenue measures, this rule would entail a reduction in expenditure of about 1.3 percent of GDP in 2011 with respect to the baseline. However, if oil prices and production were lower than in the baseline, overall deficits and debt would rise.

- **Primary surplus for the central government of 1 percent of GDP.** This rule would also reduce public sector debt to 25 percent of GDP. Upfront measures of about 1.6 percent of GDP would be needed to reach the target in 2011. Compared to rules applicable to a broader fiscal aggregate, this one would be more directly under the control of the government. However, under this rule local governments could adopt a stance that undermines the intended effect of fiscal policy on domestic demand and overall public debt.

**A transition period for the fiscal rule based on a two-step approach would avoid a sharp upfront adjustment.** If the rule of a zero overall balance for the combined public sector were implemented fully after a three year transition period with a deficit of 1 percent of GDP, the implied adjustment for 2011 would be 1 percentage point of GDP and the debt would decline to 25 percent of GDP by 2015. A similar transition period could be adopted for the central government structural primary surplus rule. In that case, a three year period with a primary surplus target of 0.5 percent of GDP would require an adjustment of 1 percent of GDP, and would lower public debt to 27 percent of GDP by 2015.



23. **Staff encouraged the authorities to address two major sources of medium term fiscal vulnerabilities.**

- ***Risks arising from special regimes and tax incentives for investment.***[10] Staff cautioned that continued increases in the number of beneficiaries of special tax regimes would lead to a significant erosion of the tax base. The authorities were of the view that the positive impact of the incentives on new investment had so far outweighed their costs, but reiterated their readiness to reconsider the need for and scope of these incentives. For example, they noted that the tax reform approved at end-2009 had helped limit tax benefits by reducing the income tax deduction of fixed-asset investments from 40 percent to 30 percent, and eliminating the possibility of combining the income tax deduction with the special free trade zone regime.

- ***Risk from social security expenditure, in particular higher health care costs.*** Staff welcomed the decision to incorporate explicit assumptions of higher health care costs (estimated at 0.9 percent of GDP, starting in 2011), but argued that these fiscal contingencies remained large and uncertain. The authorities noted their commitment to continue to work to reduce the impact of these outlays on the deficit, as evidenced by recent steps taken in January 2010 to set up a comprehensive framework to restrain the increase in health costs, identify new revenues (0.2 percent of GDP), and reallocate existing resources (0.2 percent of GDP).

24. **A more systematic approach to detect and respond to fiscal contingencies would be advisable.** Concretely, staff recommended giving a more forward looking orientation to the assessment of contingences in the medium term fiscal framework. For example, the analysis could be expanded from the current assessment of the costs of tax exemptions for the year in question, to a multi-year assessment of potential costs. Staff also stressed the need to identify contingency measures that would be adopted if those risks materialized.

25. **There remains scope for improving the efficiency of the tax system and reducing expenditure rigidities.** In line with previous Fund recommendations, staff suggested simplifying the tax system (by broadening the VAT base and reducing the number of rates), and phasing out the financial transaction tax. It argued that a more efficient tax system would facilitate compliance with the targets set under a fiscal rule. Staff noted that expenditure rigidities remain high and constrain the country's ability to prioritize high impact spending, especially under a fiscal rule. The authorities agreed that a tax reform would be beneficial and noted that spending rigidities are expected to decline gradually as a result of previous reforms.

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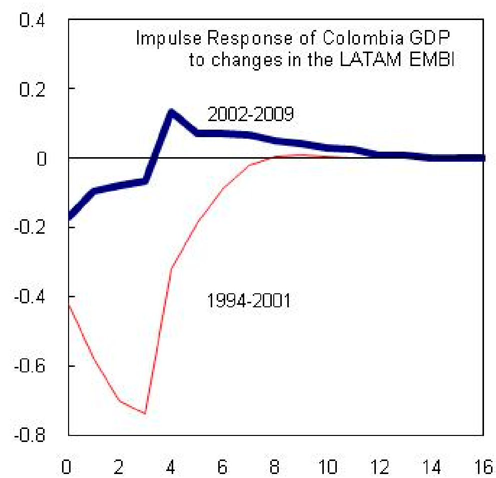
[10] Investment incentives include an income tax deduction of 30 percent from fixed-asset investments, a regime of special free trade zones (not location specific) with a 15 percent income tax rate, and stability contracts that guarantee no changes in direct taxes for up to 20 years.

## Monetary policy framework

26. **The recent adoption of an inflation target range for 2010, in line with the long term objective of 2–4 percent is welcome.** This measure will help lock in the gains of the sharp drop in inflation in 2009 and strengthen the inflation targeting framework. Staff encouraged the authorities to discontinue making reference to annual and medium-term targets for inflation in favor of a single, permanent target. The authorities saw merit in this proposal but noted that such change would require amending the central bank law, a step they are not considering at the moment. However, the authorities agreed to emphasize in their communication strategy that the near-term and long-term target ranges are expected to remain the same.

## External sector

27. **Colombia's solid policy framework and reduced balance sheet risks helped mitigate the impact of the global crisis.** The capital account shocks of the late 1990s had a severe impact on economic performance due to large unhedged exposures of the private sector and a rigid exchange rate regime. There was agreement that the strengthening of the policy framework over the last decade made those channels significantly less important.



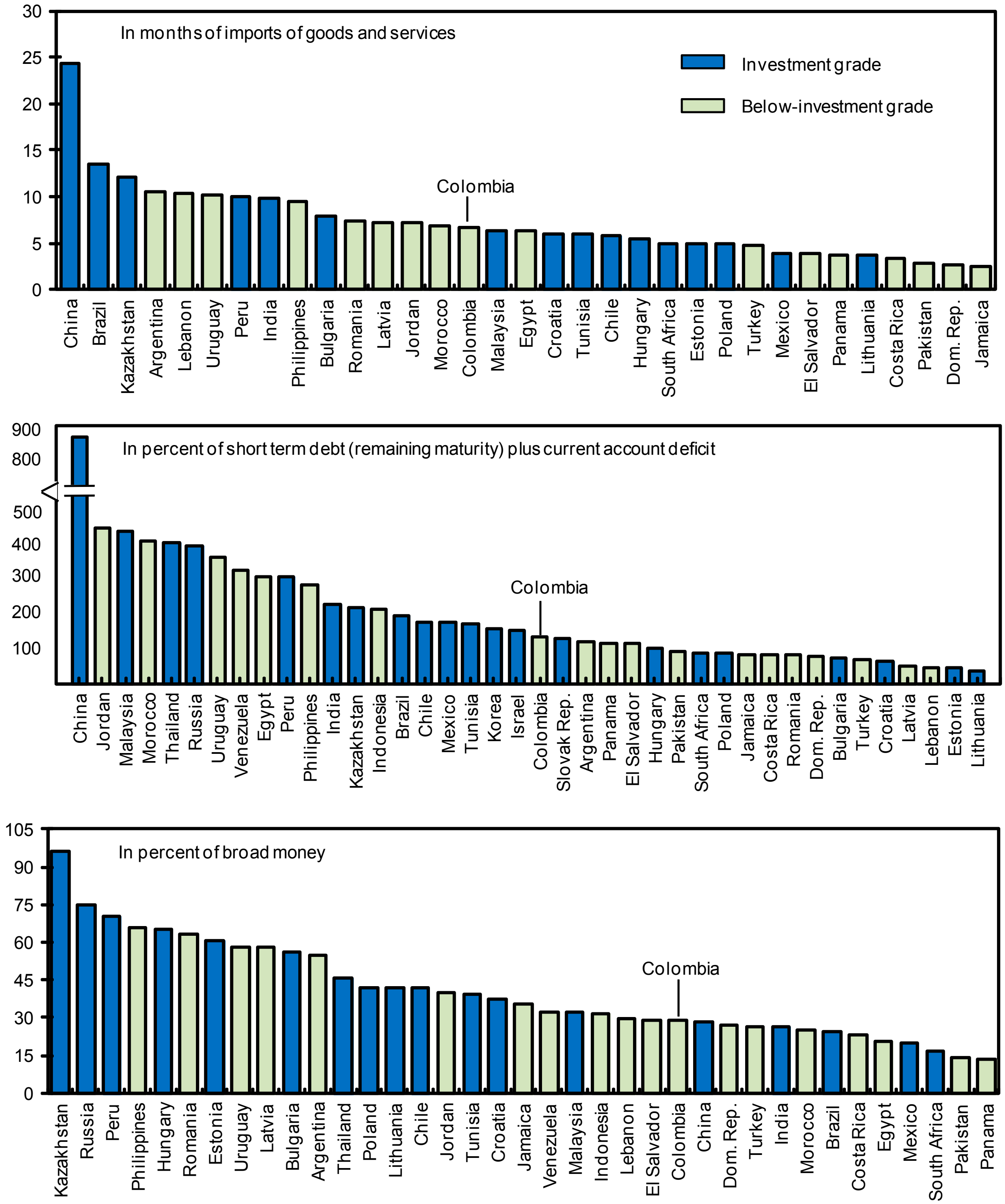

Selected Vulnerability Indicators, 2009 1/
(In percent of GDP, unless otherwise indicated)

| | Colombia | Median, sample of 51 emerging markets | Median, sample of 21 investment grade emerging markets |
|---|---|---|---|
| **External sector** | | | |
| Gross reserves in percent of short-term debt at remaining maturity | 223.7 | 197.0 | 164.5 |
| Total gross external debt | 21.3 | 40.1 | 40.1 |
| Current account balance | -1.8 | -2.1 | 0.2 |
| Foreign direct investment | 2.6 | 1.8 | 1.4 |
| Gross external financing requirement 2/ | 8.3 | 12.3 | 16.3 |
| **Public sector** | | | |
| Overall balance | -2.8 | -4.8 | -4.3 |
| Public sector gross debt | 35.1 | 37.7 | 32.9 |
| *Of which:* Exposed to exchange rate risk 3/ | 15.4 | 16.0 | 5.5 |
| Exposed to rollover risk (ST debt, residual maturity) 4/ | 4.4 | 5.0 | 5.3 |
| **Financial system 5/** | | | |
| Capital adequacy ratio, in percent | 15.2 | 14.6 | 13.6 |
| Non-performing loans, in percent of total loans | 4.1 | 4.8 | 5.7 |
| Return on average assets, in percent | 2.4 | 1.1 | 1.0 |

Source: Fund staff estimates.

1/ End-year staff projections.
2/ Current account balance plus maturing external debt.
3/ Debt in foreign currency or linked to the exchange rate, domestic and external.
4/ Short-term debt and maturing medium- and long-term debt, domestic and external, excluding external debt to official creditors.
5/ Latest available observation. In the case of Colombia, it refers to December 2009.

Figure 4. Emerging Markets: Gross International Reserves, 2009[1]




Source: Fund staff estimates.
1/ End-year staff projections.

28. **Higher reserve levels may help lessen remaining external vulnerabilities.** The authorities considered that the current level of reserves is broadly adequate for "normal" times and that the FCL had served them well during the global crisis. They acknowledged, however, that higher reserve levels would be desirable as additional protection against large shocks. In this connection, staff noted that the authorities could take advantage of the projected strengthening of the balance of payments to gradually build reserves. The authorities agreed in principle, emphasizing that they would make sure that any intervention to build reserves is carried out transparently and is fully consistent with exchange rate flexibility and the monetary policy objectives.[11]

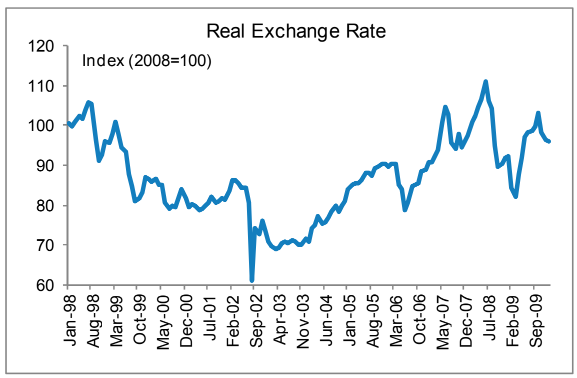
29. **There was agreement that the real exchange rate was broadly in equilibrium.** Staff's updates of the macrobalance and external stability approaches point to a moderate undervaluation within the margin of error. These results are in line with a gradual strengthening of the external current account balance expected over the medium term as a result of higher oil production and exports, as well as stronger nontraditional exports.[12] Moreover, given the large investments in exploration in recent years, there is further upside potential for oil production and exports that would tend to appreciate the equilibrium real exchange rate over the medium term.

Colombian peso: Equilibrium Assessments

| Reference period | Jan-2010 |
|---|---|
| **Methodology** | (In percent) |
| Macrobalance | -3 |
| External stability | -16 |
| Equilibrium exchange rate | 12 |
| **Average** | **-2** |
| **Change in exchange rate** | |
| Ref period to proj date | 11 |
| 2009 average to ref period (Jan-10) | 1 |
| 2009 average to proj date (2015) | 13 |

Source: Fund staff estimates

30. **There have been no changes in Colombia's exchange restrictions since the last Article IV consultation.** Colombia maintains two exchange measures subject to Fund approval under Article VIII: (1) a multiple currency practice and an exchange restriction arising from a tax on outward remittances of nonresident profits earned before 2007 and that have been retained in the country for less than five years; and (2) an exchange restriction




[11] On March 3, the central bank announced that it would start a program of US$20 million of daily purchases of foreign exchange for the first half of the year (i.e., cumulative purchases of US$1.6 billion for the whole period). The central bank cited the rapid strengthening of the peso as the key reason for adopting the intervention strategy.

[12] The equilibrium exchange rate approach points to overvaluation. However, the variables used in that approach do not capture the impact of the expected increases in productivity in the tradeable sector.

arising from the special regime for the hydrocarbon sector, in which branches of foreign corporations are required to either surrender their export proceeds or agree to a government limitation on their access to the foreign exchange market. Staff noted that it would recommend approval of the first measure (given that it is of a temporary nature, maintained for balance of payments reasons, and non-discriminatory in application), and encouraged the authorities to set a timetable for the removal of the second.

**Financial system**

31. **Colombia's strong financial system will help sustain a rapid credit recovery.** The system's relative strength, particularly compared to other emerging markets, should allow banks to satisfy any prospective increase in credit demand, and bodes well for higher output growth (Figure 5). Stress tests conducted in late 2009 suggest that banks remain resilient and strengthened further following the crisis. NPLs increased modestly during 2009 but commercial loan portfolios need continued monitoring. Banks' exposure to market risk also increased, owing to their increased holdings of government paper, which could affect profitability when the monetary tightening cycle starts.

32. **There has been further progress in capital market development, financial regulation and safety nets.** A financial reform law approved on July 15, 2009, broadened the range of permissible assets in repo operations (to facilitate provision of liquidity support by the central bank), introduced greater investment strategy options for pension funds, and opened the doors for foreign issuers in the domestic stock exchange. There were also improvements in the OTC market infrastructure and in the regulation for collective investment vehicles. In addition, a new liquidity risk management system was adopted, the coverage of deposit insurance was broadened, and bank resolution procedures were improved.

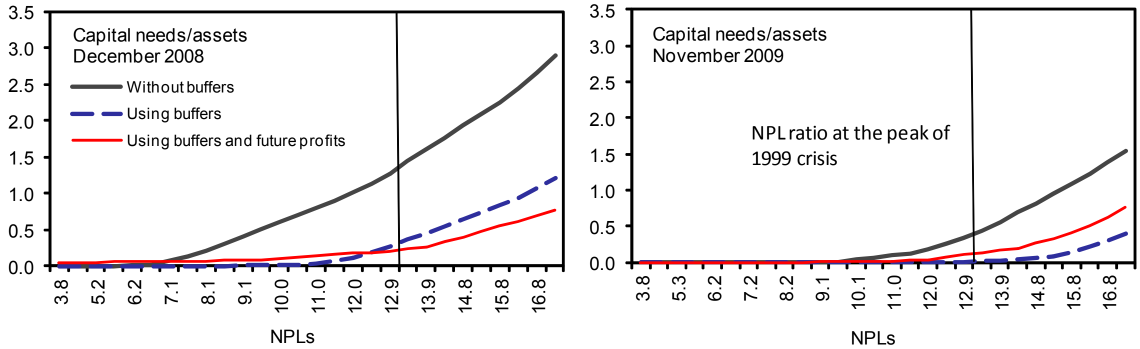
33. **Staff welcomed recent regulatory changes for banks' provisions, though noted that shortcomings remain** (Box 3)**.** The new regulations introduced a rules-based determination of the phase of the cycle, on a bank-specific basis (taking into account delinquency rates and the financial strength of individual banks) rather than the system. Staff noted, however, that the regulation is complex compared to those adopted in other countries, and may not be too effective at reducing pro-cyclicality.

## IV. STAFF APPRAISAL

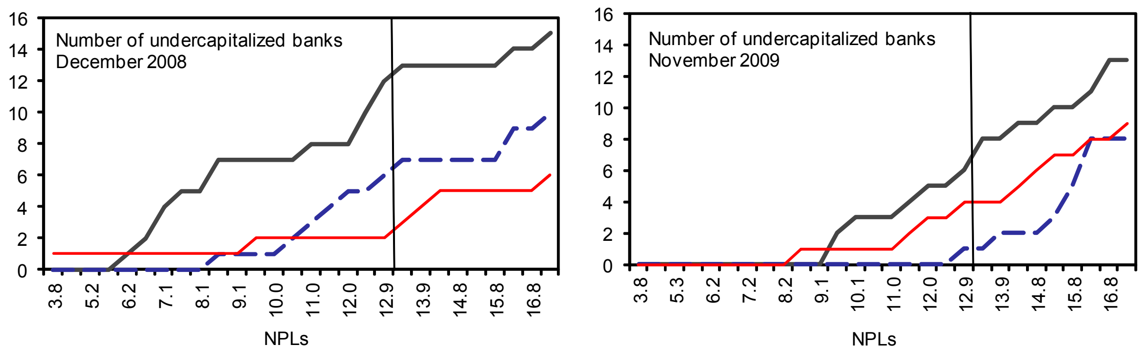
34. **With strong policy and institutional frameworks, the global crisis did not have too severe effects on Colombia's economy.** The slowdown in activity preceded the crisis as policies had been tightened in 2008 to correct an overheated economy. This, together with a solid policy framework, a sound financial system, and limited trade linkages mitigated the effect of the global crisis on output growth in 2009. The rebound in output in 2010 is not likely to be strong, however, in part due to the full-year effect of trade disruptions with Venezuela.

Figure 5. Surge in Nonperforming Loans: Simulation Results

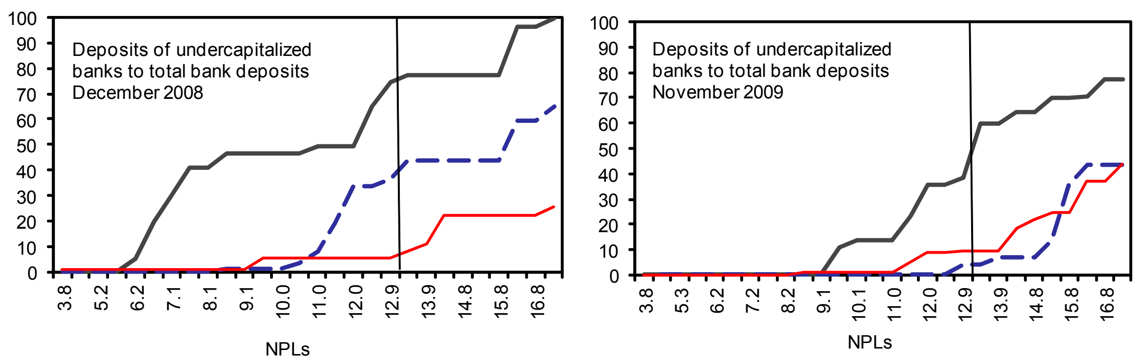
If nonperforming loans soared to the level observed in the 1998-99 crisis,
banks would be in a better position to protect their capital in 2009 than at end-2008,




…fewer banks' capital adequacy would be eroded,...




…and a smaller deposit base would potentially be endangered.




Sources: BdR and staff calculations.

**Box 3. Reducing the Procyclicality of Prudential Regulations**

**The Colombian authorities have been ahead of most countries in implementing countercyclical prudential regulations, a pillar of the ongoing global financial reforms.** In mid-2007, they adopted dynamic provisioning for commercial loans and, in mid-2008, they extended it to consumer loans. The new systems aimed at accumulating provisions during the upcycle, on the basis of through-the-cycle expected losses. Moreover, in late 2008, in agreement with the supervisory authorities, banks were encouraged to retain a large share of profits from 2008 (1.4 percent of risk-weighted assets) as an additional capital buffer to absorb potential losses related to the global slowdown.

**In September 2009, the system of dynamic provisioning was strengthened.** The system had been criticized for providing too much discretion to the supervisor in determining the cycle, and for not providing enough flexibility to the banks to reallocate provisions across loans. Countercyclical provisions—which are not taxed—had been designed to cover losses only of the loans against which they were accumulated, given that provisions accumulated for general loan loss coverage are taxed. The changes implemented (with effect as of April 2010) introduced a rules-based determination of the phase of the cycle, on a bank-specific basis—taking into account delinquency rates and the financial strength of individual banks—rather than the banking system. The changes provide the banks with a possibility to lower the countercyclical provisions in bad times by a proportion (40 percent) of the procyclical provisions.

**Further enhancements should be considered.** The recent changes strike a balance between reducing systemic credit risk and accommodating the use of provisions by financial institutions. Nonetheless, the countercyclical provisioning rules are still more complex than those adopted by other countries—such as Spain, often seen as a benchmark for countercyclical regulations. The countercyclical effect of the provisions is also dampened by the requirement to comply with a set of stringent indicators, as well as the fact that the accumulation of the procyclical component of provisions increases in bad times due to greater expected losses. Moving toward a countercyclical rule for provisions that could be reallocated freely across loans would be desirable, although such a step would require deciding the future treatment of the outstanding stock of countercyclical provisions, as well as the tax treatment of provisions.

35. **The support provided by monetary policy was effective in limiting the impact of weaker external conditions.** The tightening during 2008, declining food inflation, and well-anchored inflation expectations created room for letting the exchange rate absorb the brunt of the external shock, while easing monetary conditions. With expectations still inside the target range, the monetary stance during 2010 should remain accommodative until there is clear evidence of a sustained recovery. Close monitoring of forward looking indicators of activity and inflation will be critical to decide the timing of the change in stance. In particular, the authorities should prevent anticipated increases in food prices to affect long-term inflation expectations.

36. **Fiscal policy was also supportive.** The deterioration of the fiscal position in 2009, including through a modest fiscal stimulus, did not jeopardize medium-term sustainability. The fiscal stance envisaged for 2010 is also appropriate, with an additional deterioration explained mostly by transitory factors. Going forward, the fiscal deficit is expected to fall

below 2 percent of GDP and public debt to resume a downward trend as the output gap is closed, growth returns to potential, government spending is kept in check, and oil-related revenues increase.

37. **The response to a possible surge in capital inflows should be comprehensive and well-coordinated.** Staff supports the authorities' strategy of relying on the exchange rate as the first line of defense if large inflows materialize, but the response may have to involve other instruments. In particular, fiscal policy may need to be tightened. If the response were also to include some type of capital controls, these should be price-based and applied to a wide range of transactions.

38. **The intention to adopt a fiscal rule is welcome.** A rule would provide stronger assurances that the recent increase in public debt is temporary and greater clarity regarding fiscal policy going forward. In addition, the authorities' recent efforts to contain health costs, and their intention to take compensatory measures if fiscal risks materialize, are also important. Staff underscores the need to develop a strategy to minimize medium-term fiscal risks, including those resulting from investment tax incentives and special tax regimes, and pension spending.

39. **There is scope to strengthen further Colombia's reserve position.** Higher oil-related revenues over the medium term would provide the opportunity to gradually build up reserves and continue lowering external vulnerabilities. The mechanisms to build those reserves would have to continue being transparent and consistent with exchange rate flexibility and monetary policy objectives.

40. **Recent further reforms to develop capital markets and improve financial regulation are welcome.** Improvements in the OTC market infrastructure, new regulations on collective investment vehicles, and the broader investment strategy options for pension funds will contribute to financial deepening. At the same time, crisis preparedness will be enhanced by the new liquidity management system, the broader coverage of deposit insurance, and the tools to facilitate bank resolution. The recent regulatory changes on banks' provisions are also an improvement, but the regulation is complex compared to that in other countries and has limited scope to reduce procyclicality.

41. **There have been no changes in Colombia's exchange restrictions since the last Article IV consultation.** Staff recommends approval of the retention of the restriction and multiple currency practice arising from taxing remittances of nonresident profits earned prior to 2007, given that they are non-discriminatory in application, maintained for balance of payments reasons, and will have been fully phased out by January 1, 2012. Staff does not recommend approval of the retention of the restriction derived from the special regime in the hydrocarbons sector, since there is no timetable for its removal.

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

## Table 1. Colombia: Selected Economic and Financial Indicators

### I. Social and Demographic Indicators

| | | | |
|---|---|---|---|
| Population (millions), 2008 | 44.5 | Physicians (per 100,000 people), 2000-2004 | 135.0 |
| GDP, 2008 | | Adult illiteracy rate (percent ages 15 and older | 7.2 |
| per capita (US$) | 5,404 | Sustainable access to safe w ater, 2004 | |
| in billions of Col$ | 478,360 | (percent of population) | 93.0 |
| in billions of US$ | 240.2 | Gini index, 2003 | 58.6 |
| Unemployment rate, October 2009 (percent) | 11.5 | Inequality (ratio of richest 20% to poorest 20% | 25.3 |
| Life expectancy at birth (years) (HDI), 2005 | 72.3 | Poverty rate, 2006 | 45.1 |
| Under 5 mortality rate (per 1,000 live births), 2005 | 21.0 | Extreme poverty rate, 2006 | 12.0 |

### II. Economic Indicators

| | | | | | | Projections |
|---|---|---|---|---|---|---|
| | 2005 | 2006 | 2007 | 2008 | 2009 (p) | 2010 |
| | (Percentage changes, unless otherw ise indicated) | | | | | |
| **National income and prices** | | | | | | |
| Real GDP | 5.7 | 6.9 | 7.5 | 2.4 | 0.1 | 2.3 |
| GDP deflator | 6.1 | 6.8 | 4.8 | 8.1 | 3.1 | 4.1 |
| Consumer prices (average) | 5.0 | 4.3 | 5.5 | 7.0 | 4.2 | 3.5 |
| Consumer prices (end of period) | 4.9 | 4.5 | 5.7 | 7.7 | 2.0 | 3.8 |
| **External sector (on the basis of US$)** | | | | | | |
| Exports (f.o.b.) | 26.2 | 15.9 | 21.4 | 26.0 | -12.3 | 6.9 |
| Imports (f.o.b.) | 26.8 | 23.5 | 25.4 | 20.5 | -17.3 | 19.4 |
| Terms of trade (deterioration -) | 12.6 | 2.8 | 4.2 | 11.4 | -8.0 | 5.3 |
| Real effective exchange rate (depreciation -) | 11.6 | -1.9 | 8.2 | -5.7 | 9.7 | ... |
| **Central government** | | | | | | |
| Revenue | 15.1 | 22.8 | 14.8 | 16.4 | 2.4 | -3.1 |
| Expenditure | 10.4 | 16.9 | 9.9 | 13.2 | 13.0 | 0.6 |
| **Money and credit** | | | | | | |
| Broad money | 17.6 | 18.0 | 17.4 | 18.5 | 8.1 | 6.5 |
| Credit to the private sector | 11.3 | 38.5 | 23.5 | 5.7 | 0.9 | 6.4 |
| Interest rate (90-day time deposits; percent per year) | | | | | | |
| Nominal | 6.3 | 6.8 | 9.0 | 10.2 | 4.1 | … |
| Real | 1.4 | 2.3 | 3.3 | 2.5 | 2.1 | … |
| | (In percent of GDP) | | | | | |
| Central government balance | -4.0 | -3.4 | -2.7 | -2.3 | -4.1 | -4.5 |
| Combined public sector balance | 0.0 | -0.7 | -0.7 | -0.1 | -2.8 | -3.5 |
| Foreign financing | -1.4 | 0.3 | 1.8 | 0.2 | 0.6 | 1.3 |
| Domestic financing 1/ | 1.4 | 0.4 | -1.1 | -0.2 | 2.0 | 1.3 |
| Privatization | 0.0 | 0.0 | 0.0 | 0.1 | 0.2 | 0.8 |
| Public debt | 38.8 | 35.8 | 32.4 | 32.3 | 35.1 | 35.1 |
| Public debt, excluding Ecopetrol | 38.8 | 35.8 | 32.4 | 32.3 | 34.1 | 33.6 |
| Gross domestic investment | 21.6 | 24.3 | 24.3 | 25.0 | 23.1 | 23.0 |
| Gross national savings | 20.3 | 22.5 | 21.5 | 22.1 | 21.3 | 19.9 |
| Current account (deficit -) | -1.3 | -1.8 | -2.8 | -2.9 | -1.8 | -3.1 |
| External debt | 26.2 | 23.4 | 20.6 | 21.6 | 21.3 | 20.6 |
| *Of which:* public sector | 16.4 | 15.3 | 13.4 | 13.8 | 15.2 | 14.9 |
| NIR in percent of short-term debt | 108.1 | 147.0 | 198.8 | 216.2 | 223.7 | 260.8 |
| | (In percent of exports of goods, services, and income) | | | | | |
| External debt service | 45.8 | 35.4 | 25.0 | 22.5 | 21.8 | 24.2 |
| *Of which:* public sector | 31.0 | 20.0 | 14.4 | 12.5 | 9.8 | 12.0 |
| Interest payments | 11.8 | 9.4 | 9.0 | 8.7 | 8.1 | 8.9 |
| *Of which:* public sector | 8.7 | 6.4 | 6.2 | 6.2 | 5.4 | 6.6 |
| | (In millions of U.S. dollars) | | | | | |
| Overall balance of payments | 1,729 | 23 | 4,698 | 2,623 | 1,231 | 2,559 |
| Exports (f.o.b.) | 21,729 | 25,181 | 30,577 | 38,531 | 33,787 | 36,114 |
| *Of which:* Petroleum products | 5,559 | 6,328 | 7,318 | 12,204 | 10,261 | 14,060 |
| Coffee | 1,471 | 1,461 | 1,714 | 1,883 | 1,514 | 1,639 |
| Gross official reserves (US millions) | 14,634 | 15,109 | 20,607 | 23,672 | 24,995 | 27,554 |
| Share of ST debt at remaining maturity + CA deficit | 98 | 94 | 122 | 154 | 128 | 143 |
| In months of imports of goods and services | 5.8 | 4.8 | 5.5 | 7.6 | 6.7 | 6.9 |

Sources: Colombian authorities; UNDP Human Development Report 2007/08; World Development Indicators; and Fund staff estimates and projections.

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

Table 2. Colombia: Summary Balance of Payments

| | | | | | | Projections | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
| | | | | | (In millions of U.S. dollars) | | | | | | |
| **Current account balance** | **-1,886** | **-2,989** | **-5,824** | **-6,846** | **-4,232** | **-8,384** | **-8,437** | **-6,742** | **-5,195** | **-4,676** | **-4,169** |
| Trade balance | 1,595 | 322 | -596 | 976 | 2,733 | -968 | -896 | 836 | 2,725 | 3,922 | 5,228 |
| Exports, f.o.b. | 21,729 | 25,181 | 30,577 | 38,531 | 33,787 | 36,114 | 39,304 | 44,201 | 49,418 | 54,421 | 59,967 |
| Of w hich: Venezuela | 2,098 | 2,702 | 5,210 | 6,100 | 4,179 | 2,400 | 2,612 | 3,612 | 4,612 | 6,212 | 6,845 |
| Coffee | 1,471 | 1,461 | 1,714 | 1,883 | 1,514 | 1,639 | 1,685 | 1,797 | 1,959 | 2,093 | 2,281 |
| Petroleum products | 5,559 | 6,328 | 7,318 | 12,204 | 10,261 | 14,060 | 16,678 | 19,456 | 21,969 | 23,551 | 27,603 |
| Non-traditional | 9,863 | 11,749 | 15,174 | 17,101 | 14,373 | 12,792 | 13,020 | 14,734 | 16,941 | 19,817 | 20,850 |
| Other | 4,836 | 5,642 | 6,370 | 7,344 | 7,639 | 7,623 | 7,921 | 8,214 | 8,549 | 8,960 | 9,233 |
| Imports, f.o.b. | 20,134 | 24,859 | 31,173 | 37,556 | 31,054 | 37,083 | 40,200 | 43,365 | 46,693 | 50,498 | 54,739 |
| Services (net) | -2,102 | -2,119 | -2,607 | -3,051 | -2,325 | -3,071 | -3,183 | -3,397 | -3,622 | -3,872 | -4,200 |
| Income (net) | -5,461 | -5,935 | -7,852 | -10,285 | -8,891 | -8,783 | -9,044 | -9,169 | -9,629 | -10,423 | -11,162 |
| Interest (net) | -2,055 | -1,699 | -1,737 | -2,132 | -2,513 | -2,923 | -2,755 | -2,215 | -2,007 | -2,027 | -1,975 |
| *Of which*: public sector | -1,591 | -1,214 | -1,284 | -1,567 | -1,646 | -2,162 | -2,440 | -2,228 | -2,199 | -2,189 | -2,099 |
| Other Income (net) | -3,405 | -4,236 | -6,115 | -8,153 | -6,378 | -5,860 | -6,289 | -6,954 | -7,622 | -8,395 | -9,187 |
| Current transfers (net) | 4,082 | 4,743 | 5,231 | 5,514 | 4,251 | 4,438 | 4,686 | 4,989 | 5,331 | 5,696 | 5,965 |
| **Financial account balance** | 3,236 | 2,890 | 10,345 | 9,480 | 5,880 | 10,943 | 9,866 | 9,329 | 7,173 | 7,407 | 7,598 |
| Public sector (net) | -2,974 | -432 | 2,198 | -309 | 6,269 | 5,549 | 1,599 | 3,103 | 903 | 840 | 641 |
| Nonfinancial public sector | -2,129 | 722 | 1,928 | -95 | 5,147 | 5,373 | 1,452 | 2,931 | 817 | 729 | 667 |
| Medium- and long-term (net) | -1,189 | 2,085 | 1,298 | 998 | 6,113 | 3,339 | 2,285 | 1,352 | 816 | 728 | 666 |
| Disbursements | 4,312 | 5,869 | 4,096 | 3,246 | 7,681 | 5,379 | 4,189 | 4,085 | 3,450 | 4,328 | 4,749 |
| Amortization | 5,501 | 3,784 | 2,798 | 2,248 | 1,567 | 2,041 | 1,905 | 2,733 | 2,634 | 3,600 | 4,083 |
| Other long-term flow s | -47 | -46 | -19 | 0 | -1 | -1 | -1 | -1 | -1 | -1 | -1 |
| Short term 1/ | -893 | -1,317 | 649 | -1,093 | -965 | 2,035 | -831 | 1,580 | 2 | 2 | 2 |
| *Of which*: change in public assets | -849 | -1,598 | -662 | -50 | -1,076 | 2,035 | -831 | 1,580 | 2 | 2 | 2 |
| Financial public sector | -845 | -1,154 | 270 | -215 | 1,121 | 176 | 147 | 172 | 86 | 111 | -26 |
| Private sector (net) | 6,210 | 3,322 | 8,147 | 9,789 | -388 | 5,394 | 8,267 | 6,226 | 6,270 | 6,567 | 6,958 |
| Nonfinancial private sector (net) | 6,122 | 3,380 | 7,916 | 8,793 | 115 | 5,582 | 8,367 | 6,245 | 6,229 | 6,506 | 6,867 |
| Direct investment | 5,590 | 5,558 | 8,136 | 8,329 | 5,883 | 6,006 | 7,911 | 6,058 | 6,013 | 6,158 | 6,445 |
| Direct investment abroad | 4,662 | 1,098 | 913 | 2,254 | 2,302 | 2,331 | 2,384 | 2,447 | 2,519 | 2,595 | 2,646 |
| Direct investment in Colombia | 10,252 | 6,656 | 9,049 | 10,583 | 8,185 | 8,337 | 10,295 | 8,504 | 8,532 | 8,752 | 9,091 |
| Leasing finance | 116 | 62 | 116 | 277 | -429 | 180 | 137 | 253 | 341 | 269 | 450 |
| Disbursements | 378 | 501 | 656 | 1,004 | 568 | 675 | 725 | 782 | 836 | 912 | 977 |
| Amortization | 262 | 439 | 540 | 726 | 997 | 495 | 588 | 530 | 495 | 643 | 527 |
| Long-term loans | -436 | -79 | 951 | 398 | -475 | -327 | 0 | 0 | 0 | 0 | 0 |
| Disbursements | 1,948 | 2,837 | 3,031 | 2,250 | 1,902 | 2,946 | 2,147 | 3,657 | 2,546 | 3,273 | 3,106 |
| Amortization | 2,385 | 2,916 | 2,080 | 1,853 | 2,377 | 3,273 | 2,147 | 3,657 | 2,546 | 3,273 | 3,106 |
| Short term 2/ | 853 | -2,161 | -1,288 | -211 | -4,864 | -277 | 319 | -66 | -125 | 79 | -27 |
| Financial private sector (net) | 88 | -57 | 231 | 996 | -503 | -188 | -100 | -18 | 41 | 62 | 90 |
| **Net errors and omissions** | **378** | **121** | **175** | **-16** | **-415** | **0** | **0** | **0** | **0** | **0** | **0** |
| **Changes in GIR 3/ 4/** | **1,729** | **23** | **4,698** | **2,623** | **1,231** | **2,559** | **1,429** | **2,587** | **1,978** | **2,731** | **3,429** |
| *Memorandum Items:* | | | | | | | | | | | |
| Current account balance (in percent of GDP) | -1.3 | -1.8 | -2.8 | -2.9 | -1.8 | -3.1 | -2.9 | -2.2 | -1.6 | -1.3 | -1.1 |
| Oil Price (Colombian mix) | 49.8 | 58.3 | 66.2 | 90.2 | 59.0 | 72.4 | 78.1 | 80.7 | 82.4 | 84.3 | 86.7 |
| Gross international reserves (in US$ billion) | 14.6 | 15.1 | 20.6 | 23.7 | 25.0 | 27.6 | 29.0 | 31.6 | 33.5 | 36.3 | 39.7 |
| Gross international reserves / (st debt at remaining maturity + ca deficit) | 97.8 | 94.2 | 121.9 | 154.3 | 127.8 | 142.5 | 143.1 | 177.3 | 171.2 | 184.0 | 201.4 |
| Gross international reserves (months of imports of G&S) | 5.8 | 4.8 | 5.5 | 7.6 | 6.7 | 6.9 | 6.7 | 6.8 | 6.7 | 6.7 | 6.9 |

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

1/ Includes movements of short-term assets ow ned by the public sector abroad.
2/ Includes net portfolio investment.
3/ Does not include valuation changes of reserves denominated in other currencies than U.S. dollars.
4/ Figures for 2009 include SDR allocation to Colombia amounting to US$972 million.

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

| | | | | | | Projections | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
| **Total revenue** | **13.7** | **14.7** | **15.0** | **15.7** | **15.6** | **14.2** | **14.6** | **14.9** | **14.9** | **15.0** | **15.0** |
| **Current revenue** | **13.7** | **14.7** | **15.0** | **15.7** | **15.6** | **14.2** | **14.6** | **14.9** | **14.9** | **15.0** | **15.0** |
| Tax revenue | 12.6 | 13.4 | 13.4 | 13.5 | 13.2 | 12.7 | 13.2 | 13.4 | 13.5 | 13.5 | 13.5 |
| Net income tax and profits | 5.2 | 5.5 | 5.6 | 5.1 | 5.7 | 5.1 | 5.5 | 5.7 | 5.7 | 5.7 | 5.7 |
| Goods and services | 5.5 | 5.9 | 5.7 | 5.9 | 5.5 | 5.6 | 5.8 | 5.9 | 5.9 | 5.9 | 5.9 |
| Value-added tax | 5.2 | 5.6 | 5.4 | 5.7 | 5.2 | 5.4 | 5.6 | 5.6 | 5.6 | 5.7 | 5.7 |
| Gasoline tax | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 |
| International trade | 0.8 | 0.9 | 1.0 | 0.9 | 0.8 | 0.8 | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 |
| Financial transaction tax | 0.7 | 0.7 | 0.7 | 0.7 | 0.6 | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 |
| Stamp and other taxes | 0.3 | 0.3 | 0.5 | 0.9 | 0.6 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 |
| Nontax revenue | 1.1 | 1.3 | 1.6 | 2.2 | 2.4 | 1.5 | 1.4 | 1.4 | 1.5 | 1.5 | 1.5 |
| Property income | 0.2 | 0.3 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 |
| Other | 0.9 | 1.1 | 1.4 | 2.0 | 2.3 | 1.4 | 1.2 | 1.3 | 1.3 | 1.3 | 1.4 |
| **Total expenditure and net lending** | **17.7** | **18.1** | **17.7** | **18.1** | **19.8** | **18.7** | **18.8** | **18.7** | **18.5** | **17.9** | **17.5** |
| **Current expenditure** | **15.1** | **15.2** | **14.5** | **14.6** | **16.1** | **15.7** | **15.7** | **15.6** | **15.4** | **14.9** | **14.5** |
| Wages and salaries | 2.1 | 2.1 | 2.0 | 2.0 | 2.2 | 2.2 | 2.1 | 2.1 | 2.0 | 1.9 | 1.9 |
| Goods and services | 1.3 | 1.3 | 1.2 | 1.2 | 1.1 | 1.3 | 1.2 | 1.1 | 1.1 | 1.1 | 1.0 |
| Interest | 3.1 | 3.6 | 3.7 | 3.2 | 3.1 | 3.3 | 3.2 | 3.1 | 3.1 | 3.0 | 2.9 |
| External | 1.3 | 1.0 | 0.9 | 0.8 | 0.8 | 0.8 | 0.9 | 0.7 | 0.7 | 0.6 | 0.5 |
| Domestic | 1.9 | 2.6 | 2.8 | 2.5 | 2.3 | 2.5 | 2.3 | 2.4 | 2.4 | 2.4 | 2.4 |
| Current transfers | 8.5 | 8.2 | 7.6 | 8.1 | 9.7 | 9.0 | 9.2 | 9.3 | 9.1 | 8.9 | 8.7 |
| *Of which* : fuel subsidies 2/ | 0.0 | 0.0 | 0.1 | 0.1 | 1.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Capital expenditure** | **2.5** | **2.8** | **3.1** | **3.5** | **3.7** | **2.9** | **3.0** | **3.0** | **3.1** | **3.0** | **2.9** |
| Fixed capital formation | 1.2 | 1.5 | 1.9 | 2.3 | 2.2 | 1.5 | 1.6 | 1.7 | 1.7 | 1.6 | 1.6 |
| Capital transfers | 1.3 | 1.2 | 1.3 | 1.2 | 1.4 | 1.4 | 1.4 | 1.4 | 1.3 | 1.3 | 1.3 |
| **Net lending** | 0.1 | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Overall balance** | **-4.0** | **-3.4** | **-2.7** | **-2.3** | **-4.1** | **-4.5** | **-4.1** | **-3.8** | **-3.5** | **-2.9** | **-2.5** |
| *Memorandum item:* | | | | | | | | | | | |
| Oil-related revenues 3/ | 0.7 | 0.9 | 1.1 | 1.3 | 2.4 | 0.8 | 1.1 | 1.2 | 1.2 | 1.3 | 1.3 |
| Overall structural balance 4/ | -3.9 | -3.7 | -3.4 | -3.2 | -3.5 | -3.8 | -3.5 | -3.5 | -3.4 | -2.9 | -2.5 |
| Primary balance | -0.9 | 0.2 | 1.0 | 0.9 | -1.1 | -1.2 | -0.9 | -0.7 | -0.4 | 0.1 | 0.4 |
| Primary structural balance 4/ | -0.8 | 0.0 | 0.4 | 0.1 | -0.4 | -0.6 | -0.4 | -0.4 | -0.3 | 0.2 | 0.4 |

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

1/ Includes central administration only.

2/ Payments for fuel subsidies granted in 2007-08 w ere distributed across the 2007-2009 budgets. A fuel price stabilization fund w as created at end-2008 to eliminate fuel subsidies.

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

4/ Adjusts for the output gap, oil price expectations, and fuel subsidies.

Table 4. Colombia: Operations of the Combined Public Sector 1/
(In percent of GDP)

| | | | | | | Projections | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
| **Total revenue** | **26.1** | **27.3** | **27.1** | **26.6** | **27.0** | **24.7** | **25.5** | **25.7** | **25.8** | **25.9** | **26.0** |
| Tax revenue | 14.9 | 19.3 | 19.3 | 19.3 | 18.9 | 18.4 | 19.0 | 19.2 | 19.2 | 19.2 | 19.2 |
| Nontax revenue | 11.1 | 8.1 | 7.8 | 7.3 | 8.1 | 6.3 | 6.5 | 6.6 | 6.6 | 6.7 | 6.8 |
| Financial income | 1.3 | 1.2 | 1.4 | 1.3 | 1.6 | 1.3 | 1.3 | 1.3 | 1.3 | 1.3 | 1.3 |
| Operating surplus of public enterprises | 3.3 | 3.6 | 3.2 | 0.4 | 0.2 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| *Of which* : Ecopetrol | 3.1 | 3.4 | 3.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other | 6.6 | 3.3 | 3.2 | 5.6 | 6.4 | 4.9 | 5.0 | 5.1 | 5.2 | 5.2 | 5.3 |
| **Total expenditure and net lending 2/** | **26.2** | **28.2** | **28.2** | **26.5** | **29.7** | **28.2** | **28.6** | **28.6** | **28.3** | **28.1** | **28.0** |
| Current expenditure | 21.2 | 22.6 | 21.8 | 21.5 | 23.5 | 22.5 | 22.8 | 22.9 | 22.5 | 22.3 | 22.1 |
| Wages and salaries | 5.7 | 5.8 | 5.6 | 5.6 | 5.9 | 5.7 | 5.7 | 5.7 | 5.6 | 5.6 | 5.6 |
| Goods and services | 3.6 | 3.6 | 3.6 | 3.4 | 3.4 | 3.4 | 3.3 | 3.2 | 3.2 | 3.2 | 3.2 |
| Interest | 3.4 | 3.9 | 4.0 | 3.5 | 3.3 | 3.5 | 3.4 | 3.3 | 3.3 | 3.2 | 3.1 |
| External | 1.4 | 1.2 | 1.0 | 0.8 | 0.9 | 0.9 | 0.9 | 0.8 | 0.7 | 0.7 | 0.6 |
| Domestic | 2.0 | 2.7 | 3.1 | 2.7 | 2.4 | 2.6 | 2.5 | 2.5 | 2.6 | 2.5 | 2.5 |
| Transfers to private sector | 6.7 | 7.3 | 7.2 | 7.5 | 9.3 | 8.5 | 8.9 | 9.2 | 9.1 | 9.0 | 8.9 |
| *Of which* : social security | 5.8 | 6.4 | 6.4 | 6.7 | 7.6 | 7.7 | 7.9 | 8.0 | 7.8 | 7.8 | 7.7 |
| fuel subsidies 3/ | 0.0 | 0.0 | 0.1 | 0.1 | 1.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other 4/ | 1.8 | 2.0 | 1.3 | 1.5 | 1.7 | 1.5 | 1.5 | 1.5 | 1.3 | 1.3 | 1.3 |
| Capital expenditure | 5.0 | 5.5 | 6.4 | 5.1 | 6.2 | 5.8 | 5.8 | 5.7 | 5.8 | 5.9 | 5.9 |
| Statistical discrepancy | 0.1 | -0.2 | 0.2 | -0.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Nonfinancial public sector balance** | **0.0** | **-1.0** | **-0.8** | **-0.3** | **-2.7** | **-3.5** | **-3.2** | **-2.8** | **-2.5** | **-2.3** | **-2.0** |
| Quasi-fiscal balance (BR cash profits) | 0.2 | 0.4 | 0.4 | 0.3 | 0.0 | 0.0 | 0.1 | 0.2 | 0.2 | 0.3 | 0.3 |
| Fogafin balance | 0.2 | 0.2 | 0.1 | 0.1 | 0.2 | 0.2 | 0.1 | 0.2 | 0.2 | 0.2 | 0.2 |
| Net cost of financial restructuring 5/ | -0.4 | -0.3 | -0.3 | -0.3 | -0.2 | -0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Combined public sector balance** | **0.0** | **-0.7** | **-0.7** | **-0.1** | **-2.8** | **-3.5** | **-3.0** | **-2.5** | **-2.1** | **-1.8** | **-1.6** |
| Overall financing | 0.0 | 0.7 | 0.7 | 0.1 | 2.8 | 3.5 | 3.0 | 2.5 | 2.1 | 1.8 | 1.6 |
| Foreign, net | -1.4 | 0.4 | 1.8 | 0.2 | 0.6 | 1.3 | 1.2 | 0.6 | 0.3 | 0.4 | 0.4 |
| Domestic, net | 1.4 | 0.3 | -1.1 | -0.2 | 2.0 | 1.3 | 1.8 | 1.9 | 1.8 | 1.4 | 1.2 |
| Privatization (including concessions) | 0.0 | 0.0 | 0.0 | 0.1 | 0.2 | 0.8 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| *Memorandum items:* | | | | | | | | | | | |
| CPS overall structural balance 6/ | -0.1 | -1.0 | -1.7 | -1.2 | -2.2 | -2.3 | -2.0 | -2.0 | -2.0 | -1.7 | -1.5 |
| Oil-related revenues 7/ | 3.1 | 3.4 | 3.0 | 2.7 | 3.5 | 2.0 | 2.4 | 2.5 | 2.6 | 2.7 | 2.8 |
| Total public debt | 38.8 | 35.8 | 32.4 | 32.3 | 34.1 | 33.6 | 34.0 | 34.0 | 33.2 | 32.6 | 31.3 |

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

1/ Combined public sector includes the central, regional and local governments, social security, and public sector enterprises. Figures for 2008 and projections reflect exclusion of Ecopetrol operations and privatization of health care, w hich reduces revenue and spending by about 2 percent of GDP and 1.5 percent of GDP, respectively, in 2008.

2/ Expenditure reported on commitments basis.

3/ Payments for fuel subsidies granted in 2007-08 w ere distributed across the 2007-2009 budgets. At end-2008, a fuel price stabilization fund w as created to eliminate fuel subsidies.

4/ Includes adjustments to put spending on commitment basis and the change in unpaid bills of selected nonfinancial public enterprises.

5/ Interest payments on public banks restructuring bonds and mortgage debt relief related costs.

6/ Adjusts for the output gap, oil price expectations, fuel subsidies, and one-off additional pension-related revenues.

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

Table 5. Colombia: Monetary Indicators

| | | | | | Projections | |
|---|---|---|---|---|---|---|
| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
| | (In billions of Colombian pesos, unless otherwise indicated) | | | | | |
| **Central Bank** | | | | | | |
| Net Foreign Assets | 35,192 | 35,647 | 43,240 | 55,056 | 52,892 | 51,742 |
| Gross international reserves | 34,557 | 34,878 | 42,343 | 53,720 | 51,650 | 54,259 |
| In billions of US$ | 15.2 | 15.7 | 21.0 | 23.9 | 25.3 | 27.8 |
| Short-term foreign liabilities | 398 | 326 | 136 | 613 | 562 | 562 |
| Other net foreign assets | 1,228 | 1,257 | 1,161 | 2,106 | 1,955 | 1,955 |
| Net domestic assets | -12,372 | -8,615 | -10,825 | -18,861 | -13,346 | -9,881 |
| Net credit to the public sector | -1,541 | -284 | -4,038 | -1,792 | 622 | -166 |
| TES | 2,594 | 2,439 | 1,331 | 879 | 3,582 | 3,529 |
| Other | -4,135 | -2,722 | -5,369 | -2,671 | -2,961 | -3,696 |
| Net credit to the financial system | 3,954 | 6,598 | 5,039 | -143 | -419 | -419 |
| Other | -14,784 | -14,930 | -11,825 | -16,925 | -13,548 | -9,296 |
| Monetary base | 22,805 | 27,032 | 32,415 | 36,195 | 39,547 | 41,860 |
| Currency in circulation | 16,377 | 20,120 | 22,417 | 24,352 | 25,671 | 27,042 |
| Deposit money banks reserves | 6,412 | 6,896 | 9,970 | 11,832 | 13,865 | 14,772 |
| Other deposits | 16 | 16 | 29 | 12 | 10 | 46 |
| **Financial system** | | | | | | |
| Net foreign assets | 34,933 | 37,351 | 43,170 | 52,299 | 50,633 | 53,289 |
| In billions of US$ | 15.4 | 16.8 | 21.4 | 23.3 | 24.8 | 27.3 |
| Net domestic assets | 69,530 | 85,868 | 101,478 | 119,077 | 134,549 | 143,929 |
| Net credit to public sector | 28,102 | 20,587 | 14,321 | 17,883 | 32,352 | 31,867 |
| Credit to private sector | 82,660 | 114,502 | 141,363 | 163,871 | 150,766 | 160,415 |
| Other net | -41,231 | -49,221 | -54,206 | -62,677 | -48,569 | -48,352 |
| Broad money | 104,463 | 123,219 | 144,648 | 171,376 | 185,182 | 197,219 |
| | (Year-on-year percentage change) | | | | | |
| Credit to public sector, net | 22.0 | -26.7 | -30.4 | 24.9 | 100.3 | -1.5 |
| Credit to private sector | 11.3 | 38.5 | 23.5 | 15.9 | 0.9 | 6.4 |
| Currency | 18.8 | 22.9 | 11.4 | 8.6 | 5.4 | 5.3 |
| Monetary base | 18.4 | 18.5 | 19.9 | 11.7 | 9.3 | 5.9 |
| Broad money | 17.6 | 18.0 | 17.4 | 18.5 | 8.1 | 6.5 |
| | (In percent of GDP) | | | | | |
| Credit to public sector, net | 8.4 | 5.4 | 3.3 | 3.7 | 6.6 | 6.1 |
| Credit to private sector | 24.6 | 29.9 | 32.7 | 34.2 | 30.5 | 30.5 |
| Currency | 4.9 | 5.2 | 5.2 | 5.1 | 5.2 | 5.1 |
| Monetary base | 6.8 | 7.1 | 7.5 | 7.5 | 8.0 | 8.0 |
| Broad money | 31.1 | 32.1 | 33.5 | 35.7 | 37.5 | 37.5 |
| | (In percent, unless otherwise indicated) | | | | | |
| **Memorandum items:** | | | | | | |
| Central bank inflation target (end-year) | 4.5-5.5 | 4.0-5.0 | 3.5-4.5 | 3.5-4.5 | 4.5-5.5 | 2.0-4.0 |
| CPI inflation (eop, yoy) | 4.9 | 4.5 | 5.7 | 7.7 | 2.0 | 3.8 |
| Exchange rate depreciation (eop, yoy) | -5.3 | -2.6 | -9.5 | 11.4 | -8.9 | -4.6 |
| Nominal GDP (COP billions) | 335,547 | 383,323 | 431,839 | 479,619 | 493,600 | 525,400 |

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

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

| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|---|
| **Capital Adequacy** | | | | | | |
| Regulatory capital to risk-weighted assets | 14.2 | 14.7 | 13.1 | 13.6 | 13.4 | 15.2 |
| Regulatory Tier 1 capital to risk-weighted assets | 10.7 | 10.4 | 9.7 | 10.5 | 10.7 | 12.1 |
| Capital (net worth) to assets | 12.1 | 12.3 | 12.0 | 12.1 | 12.2 | 14.0 |
| **Asset Quality and Distribution** | | | | | | |
| Nonperforming loans to gross loans | 3.3 | 2.7 | 2.6 | 3.3 | 4.0 | 4.1 |
| Provisions to nonperforming loans | 149.7 | 166.9 | 153.6 | 132.6 | 120.5 | 136.5 |
| Government securities to assets | 23.8 | 24.9 | 15.5 | 12.2 | 13.5 | 16.3 |
| Gross loans to assets | 52.0 | 52.3 | 60.6 | 64.3 | 64.6 | 60.2 |
| **Earnings and Profitability** | | | | | | |
| ROAA | 2.7 | 2.8 | 2.5 | 2.4 | 2.5 | 2.4 |
| ROAE | 23.0 | 22.6 | 20.7 | 19.9 | 20.5 | 18.5 |
| Interest margin to gross income | 38.9 | 40.2 | 46.6 | 54.4 | 54.3 | 53.1 |
| Interest income to gross income | 39.3 | 42.8 | 39.6 | 44.9 | 48.5 | 52.1 |
| Operating expenses to gross income | 60.7 | 57.2 | 60.4 | 55.1 | 51.5 | 47.9 |
| **Liquidity** | | | | | | |
| Liquid assets to total assets | 20.6 | 20.8 | 14.0 | 13.0 | 13.9 | 17.7 |
| Liquid assets to short-term liabilities | 31.2 | 31.3 | 20.7 | 19.3 | 20.5 | 26.7 |
| Loan to deposit ratio 1/ | 78.8 | 79.0 | 89.7 | 95.8 | 95.3 | 90.9 |

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

1/ The denominator includes certificates of deposits.

Table 7. Colombia: Medium-Term Outlook

| | 2005 | 2006 | 2007 | 2008 | 2009 | Projections 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **I. Output and Prices** | | | | | | | | | | | |
| (Annual percentage changes) | | | | | | | | | | | |
| Real GDP | 5.7 | 6.9 | 7.5 | 2.4 | 0.1 | 2.3 | 4.0 | 5.0 | 5.0 | 4.5 | 4.5 |
| Consumer prices | | | | | | | | | | | |
| End of period | 4.9 | 4.5 | 5.7 | 7.7 | 2.0 | 3.8 | 3.4 | 3.4 | 3.3 | 3.0 | 3.0 |
| (In percent of GDP, unless indicated otherwise) | | | | | | | | | | | |
| **II. Saving and Investment** | | | | | | | | | | | |
| Gross national savings | 20.3 | 22.5 | 21.5 | 22.1 | 21.3 | 19.9 | 20.8 | 21.6 | 22.3 | 22.7 | 23.1 |
| Private sector | 13.6 | 18.2 | 16.8 | 17.3 | 18.0 | 17.7 | 18.0 | 18.6 | 18.7 | 18.8 | 18.9 |
| Public sector 1/ | 6.7 | 4.3 | 4.7 | 4.9 | 3.3 | 2.2 | 2.8 | 3.1 | 3.6 | 4.0 | 4.2 |
| Gross domestic investment | 21.6 | 24.3 | 24.3 | 25.0 | 23.1 | 23.0 | 23.7 | 23.8 | 23.9 | 24.1 | 24.3 |
| Private sector | 15.0 | 19.4 | 19.0 | 20.1 | 17.2 | 17.4 | 18.0 | 18.3 | 18.2 | 18.4 | 18.5 |
| Public sector 1/ | 6.7 | 4.9 | 5.4 | 4.9 | 6.0 | 5.6 | 5.7 | 5.5 | 5.7 | 5.7 | 5.8 |
| External current account balance | -1.3 | -1.8 | -2.8 | -2.9 | -1.8 | -3.1 | -2.9 | -2.2 | -1.6 | -1.3 | -1.1 |
| **III. Nonfinancial and Consolidated Public Sector** | | | | | | | | | | | |
| Nonfinancial public sector 2/ | | | | | | | | | | | |
| Revenue | 26.1 | 27.3 | 27.1 | 26.6 | 27.0 | 24.7 | 25.5 | 25.7 | 25.8 | 25.9 | 26.0 |
| Expenditure | 26.2 | 28.2 | 28.2 | 26.5 | 29.7 | 28.2 | 28.6 | 28.6 | 28.3 | 28.1 | 28.0 |
| Current expenditure | 21.2 | 22.6 | 21.8 | 21.5 | 23.5 | 22.5 | 22.8 | 22.9 | 22.5 | 22.3 | 22.1 |
| Capital expenditure | 5.0 | 5.5 | 6.4 | 5.1 | 6.2 | 5.8 | 5.8 | 5.7 | 5.8 | 5.9 | 5.9 |
| Primary balance 3/ | 3.4 | 2.9 | 3.2 | 3.2 | 0.6 | -0.1 | 0.2 | 0.5 | 0.8 | 1.0 | 1.1 |
| Overall balance 3/ | 0.0 | -1.0 | -0.8 | -0.3 | -2.7 | -3.5 | -3.2 | -2.8 | -2.5 | -2.3 | -2.0 |
| Combined public sector balance | 0.0 | -0.7 | -0.7 | -0.1 | -2.8 | -3.5 | -3.0 | -2.5 | -2.1 | -1.8 | -1.6 |
| External financing | -1.4 | 0.3 | 1.8 | 0.2 | 0.6 | 1.3 | 1.2 | 0.6 | 0.3 | 0.4 | 0.4 |
| Domestic financing | 1.4 | 0.4 | -1.1 | -0.2 | 2.0 | 1.3 | 1.8 | 1.9 | 1.8 | 1.4 | 1.2 |
| Privatization | 0.0 | 0.0 | 0.0 | 0.1 | 0.2 | 0.8 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **IV. Balance of Payments** | | | | | | | | | | | |
| External current account balance | -1.3 | -1.8 | -2.8 | -2.9 | -1.8 | -3.1 | -2.9 | -2.2 | -1.6 | -1.3 | -1.1 |
| Trade balance | 1.1 | 0.2 | -0.3 | 0.4 | 1.2 | -0.4 | -0.3 | 0.3 | 0.8 | 1.1 | 1.4 |
| Exports | 15.0 | 15.5 | 14.7 | 16.0 | 14.8 | 13.5 | 13.7 | 14.4 | 15.0 | 15.5 | 16.0 |
| Imports | 13.9 | 15.3 | 15.0 | 15.6 | 13.6 | 13.8 | 14.0 | 14.1 | 14.2 | 14.4 | 14.6 |
| Capital and financial account balance | 2.2 | 1.8 | 5.0 | 3.9 | 2.6 | 4.1 | 3.4 | 3.0 | 2.2 | 2.1 | 2.0 |
| Public sector | -2.1 | -0.3 | 1.1 | -0.1 | 2.7 | 2.1 | 0.6 | 1.0 | 0.3 | 0.2 | 0.2 |
| Private sector | 4.3 | 2.1 | 3.9 | 4.1 | -0.2 | 2.0 | 2.9 | 2.0 | 1.9 | 1.9 | 1.9 |
| Overall balance | 1.2 | 0.0 | 2.3 | 1.1 | 0.5 | 1.0 | 0.5 | 0.8 | 0.6 | 0.8 | 0.9 |
| **V. Debt** | | | | | | | | | | | |
| Total public gross debt 4/ | 38.8 | 35.8 | 32.4 | 32.3 | 35.1 | 35.1 | 35.5 | 35.3 | 34.5 | 33.7 | 32.3 |
| Domestic debt | 22.4 | 20.5 | 19.0 | 18.5 | 20.0 | 20.2 | 20.6 | 20.7 | 20.8 | 20.5 | 20.0 |
| External debt | 16.4 | 15.3 | 13.4 | 13.8 | 15.2 | 14.9 | 14.9 | 14.6 | 13.7 | 13.2 | 12.4 |
| Total public gross debt, excluding Ecopetrol | 38.8 | 35.8 | 32.4 | 32.3 | 34.1 | 33.6 | 34.0 | 34.0 | 33.2 | 32.6 | 31.3 |
| Total public net debt 5/ | 28.3 | 25.3 | 22.4 | 22.4 | 25.7 | 27.2 | 27.8 | 28.7 | 28.4 | 28.1 | 27.1 |
| **Memorandum items:** | | | | | | | | | | | |
| Nominal GDP (billions of COP) | 335,547 | 383,323 | 431,839 | 478,360 | 493,600 | 525,400 | 567,677 | 619,071 | 674,315 | 729,467 | 789,211 |
| Crude oil, spot price | 53.4 | 64.3 | 71.1 | 97.0 | 62.0 | 76.0 | 82.0 | 84.8 | 86.5 | 88.5 | 91.0 |
| Crude oil, spot price (Colombian mix) | 49.8 | 58.3 | 66.2 | 90.2 | 59.0 | 72.4 | 78.1 | 80.7 | 82.4 | 84.3 | 86.7 |

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

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

Table 8. Colombia: External Debt Sustainability Framework, 2005-2015
(In percent of GDP, unless otherwise indicated)

| | Actual | | | | | Staff projections 1/ | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | | **Debt-stabilizing non-interest current account 8/** |
| **Baseline: External debt 2/** | 26.6 | 24.7 | 21.4 | 19.2 | 22.5 | **20.7** | **20.4** | **19.7** | **18.9** | **18.1** | **17.3** | | **-2.3** |
| Change in external debt | -8.1 | -2.0 | -3.3 | -2.2 | 3.3 | -1.8 | -0.3 | -0.6 | -0.8 | -0.8 | -0.8 | 0.0 | |
| Identified external debt-creating flows (4+8+9) | -9.9 | -4.5 | -6.5 | -3.5 | 0.2 | 0.5 | -0.6 | -0.7 | -1.2 | -1.5 | -1.6 | 0.0 | |
| Current account deficit, excluding interest payments | -0.6 | 0.1 | 1.3 | 1.6 | 0.5 | 1.9 | 1.8 | 1.1 | 0.6 | 0.4 | 0.3 | 2.3 | |
| Deficit in balance of goods and services | 0.4 | 1.1 | 1.5 | 0.9 | -0.2 | 1.5 | 1.4 | 0.8 | 0.3 | 0.0 | -0.3 | | |
| Exports | 16.9 | 17.6 | 16.4 | 17.8 | 16.6 | 15.2 | 15.4 | 16.1 | 16.7 | 17.1 | 17.6 | | |
| Imports | 17.2 | 18.7 | 18.0 | 18.6 | 16.4 | 16.7 | 16.8 | 16.9 | 16.9 | 17.1 | 17.3 | | |
| Net non-debt creating capital inflows (negative) | -3.9 | -3.4 | -3.9 | -3.5 | -2.6 | -2.2 | -2.8 | -2.0 | -1.8 | -2.0 | -2.0 | -2.0 | |
| Automatic debt dynamics 3/ | -5.5 | -1.2 | -3.9 | -1.6 | 2.3 | 0.8 | 0.4 | 0.1 | 0.1 | 0.1 | 0.1 | -0.3 | |
| Contribution from nominal interest rate | 1.9 | 1.7 | 1.5 | 1.2 | 1.3 | 1.2 | 1.2 | 1.0 | 1.0 | 0.9 | 0.8 | 0.8 | |
| Contribution from real GDP growth | -1.6 | -1.6 | -1.5 | -0.5 | 0.0 | -0.4 | -0.8 | -1.0 | -0.9 | -0.8 | -0.8 | -0.7 | |
| Contribution from price and exchange rate changes 4/ | -5.8 | -1.3 | -3.9 | -2.4 | 1.0 | ... | ... | ... | ... | ... | ... | -0.4 | |
| Residual, incl. change in gross foreign assets (2-3) 5/ | 1.9 | 2.6 | 3.2 | 1.3 | 3.1 | -2.3 | 0.2 | 0.1 | 0.3 | 0.8 | 0.9 | 0.0 | |
| External debt-to-exports ratio (in percent) | 157.9 | 140.4 | 130.1 | 108.1 | 135.8 | 136.6 | 132.3 | 122.7 | 113.2 | 105.8 | 98.8 | | |
| **Gross external financing need (in billions of US dollars) 6/** | 15.0 | 16.2 | 16.1 | 17.2 | 15.2 | 19.6 | 19.0 | 19.9 | 17.5 | 19.1 | 19.3 | | |
| in percent of GDP | 10.3 | 10.0 | 7.7 | 7.2 | 6.6 | 7.3 | 6.6 | 6.5 | 5.3 | 5.5 | 5.1 | | |
| **Scenario with key variables at their historical averages 7/** | | | | | | **20.5** | **18.7** | **16.4** | **14.5** | **13.0** | **11.7** | | **-2.4** |
| **Key Macroeconomic Assumptions Underlying Baseline** | | | | | | | | | | | | For debt stabilization | |
| Real GDP growth (in percent) | 5.7 | 6.9 | 7.5 | 2.4 | 0.1 | 2.3 | 4.0 | 5.0 | 5.0 | 4.5 | 4.5 | 4.5 | |
| GDP deflator in US dollars (change in percent) | 20.2 | 5.1 | 19.0 | 12.7 | -4.8 | 14.6 | 2.9 | 1.9 | 2.1 | 2.1 | 2.3 | 2.1 | |
| Nominal external interest rate (in percent) | 7.0 | 7.2 | 7.6 | 6.6 | 6.6 | 6.4 | 6.1 | 5.5 | 5.3 | 5.2 | 5.0 | 5.0 | |
| Growth of exports (US dollar terms, in percent) | 25.2 | 17.1 | 19.8 | 24.7 | -11.1 | 7.1 | 8.6 | 11.7 | 11.2 | 9.6 | 9.6 | | |
| Growth of imports (US dollar terms, in percent) | 25.7 | 21.9 | 23.3 | 19.6 | -16.1 | 19.0 | 7.9 | 7.6 | 7.4 | 7.8 | 8.0 | | |
| Current account balance, excluding interest payments | 0.6 | -0.1 | -1.3 | -1.6 | -0.5 | -1.9 | -1.8 | -1.1 | -0.6 | -0.4 | -0.3 | | |
| Net non-debt creating capital inflows | 3.9 | 3.4 | 3.9 | 3.5 | 2.6 | 2.2 | 2.8 | 2.0 | 1.8 | 2.0 | 2.0 | | |

Source: IMF staff estimates.

1/ Does not assume any drawings under the Flexible Credit Line arrangement.

2/ The ratio is calculating by converting local currency GDP using the average exchange rate, rather than converting debt to local currency using the eop exchange rate as in table 1.

3/ 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.

4/ 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).

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

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

7/ 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.

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

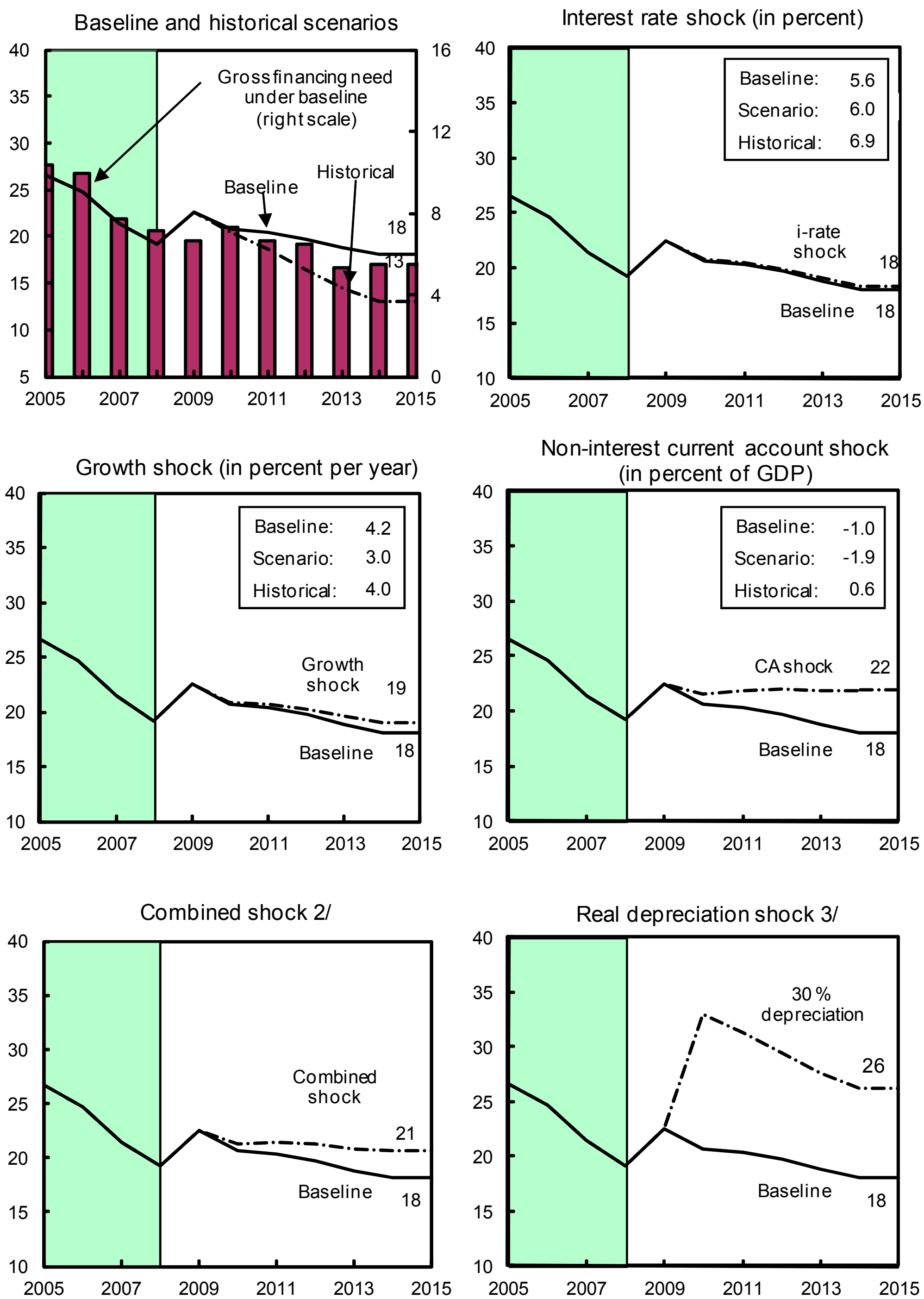
Table 9. Colombia: Public Sector Debt Sustainability Framework, 2005-2015
(In percent of GDP, unless otherwise indicated)

| | Actual | | | | | Staff Projections 1/ | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | **Debt-stabilizing primary balance 11/** |
| **Baseline: Public sector debt 2/** | 38.8 | 35.8 | 32.4 | 32.3 | 35.1 | **35.1** | **35.5** | **35.3** | **34.5** | **33.7** | **32.3** | **0.1** |
| o/w foreign-currency denominated | 16.4 | 15.3 | 13.4 | 13.8 | 15.2 | 14.9 | 14.9 | 14.6 | 13.7 | 13.2 | 12.4 | |
| Change in public sector debt | -3.6 | -3.0 | -3.4 | -0.1 | 2.9 | 0.0 | 0.3 | -0.1 | -0.9 | -0.7 | -1.4 | |
| Identified debt-creating flows (4+7+12) | -4.5 | -4.0 | -3.0 | -3.3 | 1.6 | 0.6 | 0.5 | -0.3 | -1.0 | -0.9 | -1.0 | |
| Primary deficit | -3.2 | -3.0 | -3.0 | -3.6 | -0.6 | 0.1 | -0.2 | -0.5 | -0.8 | -1.0 | -1.1 | |
| Revenue and grants | 26.1 | 27.3 | 27.1 | 26.6 | 27.0 | 24.7 | 25.5 | 25.7 | 25.8 | 25.9 | 26.0 | |
| Primary (noninterest) expenditure | 22.8 | 24.3 | 24.1 | 23.0 | 26.4 | 24.8 | 25.2 | 25.3 | 25.0 | 24.9 | 24.9 | |
| Automatic debt dynamics 3/ | -1.2 | -1.0 | 0.0 | 0.3 | 2.3 | 1.3 | 0.7 | 0.1 | -0.2 | 0.0 | 0.1 | |
| Contribution from interest rate/growth differential 4/ | -1.2 | -1.0 | 0.0 | 0.3 | 2.3 | 1.3 | 0.7 | 0.1 | -0.2 | 0.0 | 0.1 | |
| Of which contribution from real interest rate | 0.9 | 1.4 | 2.4 | 1.1 | 2.3 | 2.1 | 2.0 | 1.8 | 1.4 | 1.5 | 1.5 | |
| Of which contribution from real GDP growth | -2.2 | -2.4 | -2.4 | -0.7 | 0.0 | -0.7 | -1.3 | -1.6 | -1.6 | -1.4 | -1.4 | |
| Contribution from exchange rate depreciation 5/ | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | ... | ... | ... | ... | ... | ... | |
| Other identified debt-creating flows | 0.0 | 0.0 | 0.0 | -0.1 | -0.2 | -0.8 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| Privatization receipts (negative) | 0.0 | 0.0 | 0.0 | -0.1 | -0.2 | -0.8 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| Recognition of implicit or contingent liabilities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| Other (specify, e.g. bank recapitalization) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| Residual, including asset changes (2-3) 6/ | 0.9 | 1.0 | -0.4 | 3.2 | 1.3 | -0.5 | -0.2 | 0.2 | 0.2 | 0.2 | -0.4 | |
| Public sector debt-to-revenue ratio 2/ | 149.0 | 131.0 | 119.5 | 121.2 | 130.1 | 142.2 | 139.3 | 137.3 | 133.4 | 130.3 | 124.3 | |
| **Gross financing need 7/** | 9.1 | 10.5 | 9.0 | 6.8 | 8.2 | 8.4 | 7.0 | 7.4 | 6.5 | 6.6 | 6.3 | |
| in billions of U.S. dollars | 13.1 | 17.1 | 18.7 | 16.3 | 18.8 | 22.6 | 20.0 | 22.6 | 21.4 | 23.0 | 23.6 | |
| **Scenario with key variables at their historical averages 8/** | | | | | | **35.1** | **33.1** | **31.4** | **29.7** | **28.0** | **25.7** | **0.1** |
| **Scenario with no policy change (constant primary balance) in 2010-2015** | | | | | | **35.1** | **35.8** | **36.4** | **37.1** | **38.0** | **38.3** | **0.8** |
| **Key Macroeconomic and Fiscal Assumptions Underlying Baseline** | | | | | | | | | | | | |
| Real GDP growth (in percent) | 5.7 | 6.9 | 7.5 | 2.4 | 0.1 | 2.3 | 4.0 | 5.0 | 5.0 | 4.5 | 4.5 | |
| Average nominal interest rate on public debt (in percent) 9/ | 8.9 | 11.4 | 12.7 | 12.0 | 10.5 | 10.5 | 10.3 | 9.5 | 8.3 | 8.4 | 8.5 | |
| Average real interest rate (nominal rate minus change in GDP deflator, in p | 2.8 | 4.6 | 8.0 | 3.8 | 7.5 | 6.4 | 6.4 | 5.6 | 4.6 | 4.8 | 5.0 | |
| Nominal appreciation (increase in US dollar value of local currency, in perc | 4.6 | 2.0 | 11.1 | -10.4 | 10.0 | ... | ... | ... | ... | ... | ... | |
| Inflation rate (GDP deflator, in percent) | 6.1 | 6.8 | 4.8 | 8.1 | 3.1 | 4.1 | 3.9 | 3.9 | 3.7 | 3.6 | 3.5 | |
| Growth of real primary spending (deflated by GDP deflator, in percent) 10/ | 5.6 | 13.7 | 6.8 | -2.1 | 14.8 | -4.2 | 5.9 | 5.2 | 3.9 | 4.2 | 4.4 | |
| Primary deficit | -3.2 | -3.0 | -3.0 | -3.6 | -0.6 | 0.1 | -0.2 | -0.5 | -0.8 | -1.0 | -1.1 | |

Source: Fund staff estimates.

1/ Does not assume any drawings under the Flexible Credit Line arrangement.
2/ Gross debt of the combined public sector, including Ecopetrol.
3/ Derived as $[(r - \pi(1+g) - g + \alpha\varepsilon(1+r)]/(1+g+\pi+g\pi))$ times previous period debt ratio, with r = interest rate; $\pi$ = growth rate of GDP deflator; g = real GDP growth rate; $\alpha$ = share of foreign-currency denominated debt; and $\varepsilon$ = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).
4/ The real interest rate contribution is derived from the denominator in footnote 2/ as $r - \pi(1+g)$ and the real growth contribution as -g.
5/ The exchange rate contribution is derived from the numerator in footnote 2/ as $\alpha\varepsilon(1+r)$.
6/ For projections, this line includes exchange rate changes.
7/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.
8/ The key variables include real GDP growth; real interest rate; and primary balance in percent of GDP.
9/ Derived as nominal interest expenditure divided by previous period debt stock.
10/ 2009 includes one-off payment of fuel subsidies.
11/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Figure 6. Colombia: External Debt Sustainability: Bound Tests 1/
(External debt in percent of GDP)



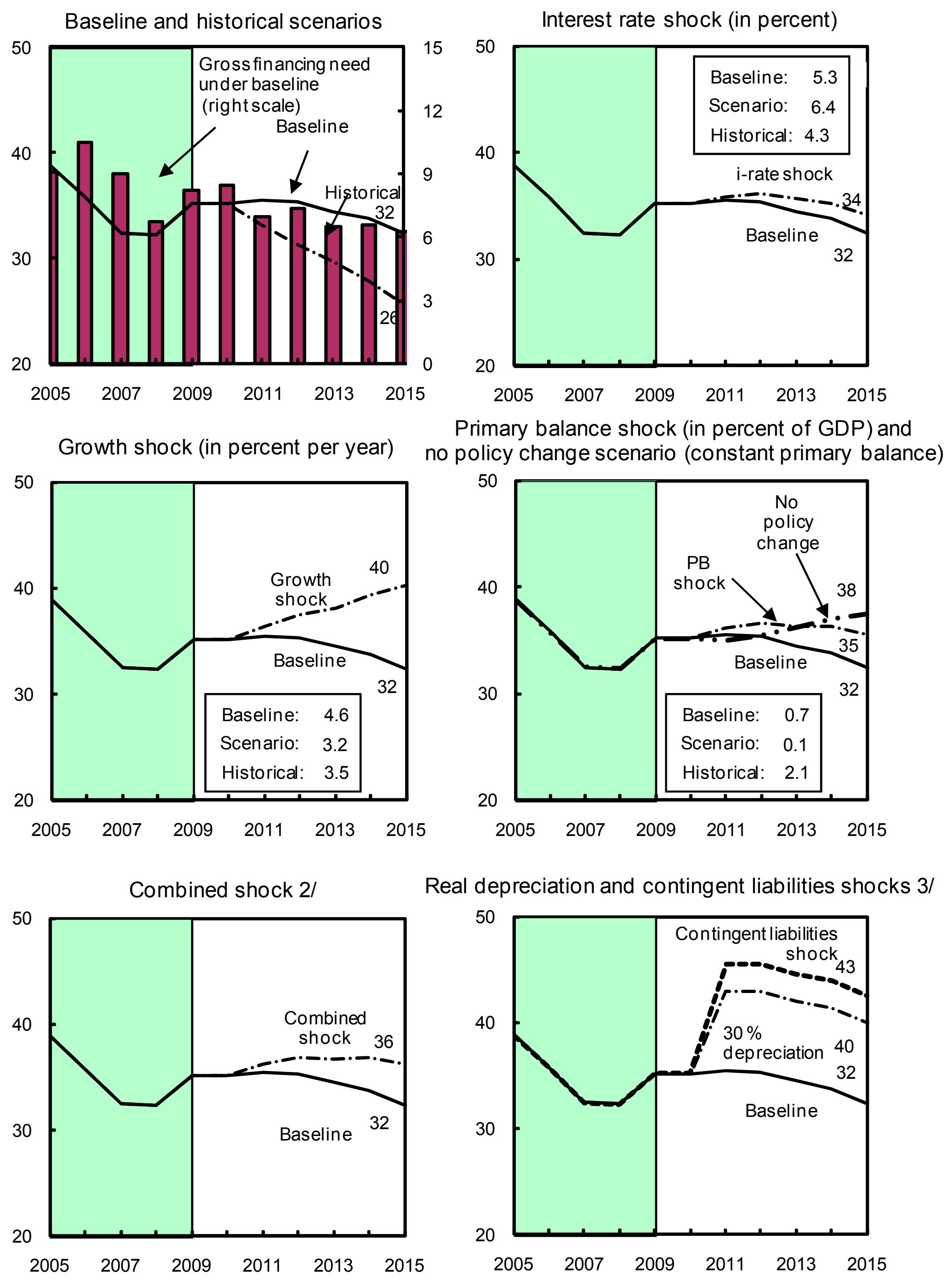

Sources: International Monetary Fund, Country desk data, and staff estimates.

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

3/ One-time real depreciation of 30 percent occurs in 2010.

Figure 7. Colombia: Public Debt Sustainability: Bound Tests 1/
(Public debt in percent of GDP)




Sources: International Monetary Fund, country desk data, and 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/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and primary balance.
3/ One-time real depreciation of 30 percent and 10 percent of GDP shock to contingent liabilities occur in 2009, with real depreciation defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

## Appendix. Background and Summary of Informational Annexes

### Discussions

The 2010 Article IV consultation discussions were held in Bogotá during February 2–16, 2010. The mission met with the Minister of Finance and Public Credit; the Board of Directors of the Banco de la República; senior staff of several government ministries and agencies; and representatives of the private sector and a major labor union. The staff team comprised M. Piñón (Head), E. Flores, L. Jaramillo, J. Jauregui (all WHD), E. Baldacci (FAD), I. Petrova (MCM), and M. Saenz (SPR). Ms. Agudelo (OED) participated in most meetings.

### Fund relations

The last Article IV consultation with Colombia was concluded on January 14, 2009 (IMF Country Report No. 09/23). Colombia has no outstanding credit from the Fund. An FSAP update was carried out in September–October 2004 and the FSSA was discussed in April, 2005 (IMF Country Report No. 05/287). FAD, STA and MCM have provided technical assistance since 2006.

### Exchange arrangements

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

### Statistical issues

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

## Relations with the World Bank Group

As of February 22, 2010, Colombia's outstanding debt to the IBRD was US$6.6 billion. The Bank's portfolio consisted of 17 active projects, with a total undisbursed balance of about US$1.3 billion. The latest Country Partnership Strategy was approved in April 2008.

| | Products | Amount (US$ million) | Provisional timing of mission | Expected approval / delivery date |
|---|---|---|---|---|
| Bank work program in next 12 months | **A. CAS, CAS Progress Report** | | | |
| | 1. CAS Progress Report | | | April 2010 |
| | **B. Development Policy Lending** | | | |
| | 1. Social DPL | 500 | | February 2010 |
| | **C. Investment Lending** | | | |
| | 1. Macro-Urban Projects/Low Income Land and Housing | 40 | | 1st Quarter 2010 |
| | 2. GEF - Mainstreaming Sustainable Development | 7 | | February 2010 |
| | 3. Natural Protectected Areas | 4 | | May 2010 |
| | 4. Cartagena Bus Rapid | 3.2 | | June 2010 |
| | 5. Solid Waste Management | 20 | | Approved |
| | 6. Justice Services Strengthening | 20 | | Approved |
| | 7. Peace and Development (AF) | 7.8 | | Approved |
| | 8. Integrated Mass Transport Systems (AFII) | 300 | | Approved |
| | 9. Science and Technology | 25 | | 3rd Quarter 2010 |
| | 10. Rio Bogota Environmental | 250 | | 1st Quarter 2010 |
| | 11. Strengthening Public Management | 25 | | Approved |
| | 12. Education System* | 26 | | TBD |
| | 13. Housing Finance for the Poor* | 75 | | TBD |
| | 14. Agricultural Transition* | 30 | | TBD |
| | 15. Integrated Mass Transport Systems (AFII)* | 280 | | TBD |
| | **D. Analytical Advisory Services** | | | |
| | 1. Policy Notes | | | May 2010 |
| | 2. Labor and Poverty | | | TBD |
| | 3. Financial Sector | | | TBD |
| | 4. Subnational 'Rapid Assessments' | | | TBD |
| | 5. Health Sector | | | January 2010 |
| | 6. Informality Report | | | February 2010 |
| IMF work program in next 12 months | **Technical Assistance** | | | |
| | 1. Deposit insurance system | | TBD | TBD |
| | 2. Tax administration | | TBD | TBD |
| | 3. Cash and debt management | | TBD | TBD |
| | **Staff Visit** | | July 2010 | … |
| | **Article IV Consultation** | | Early 2011 | Early 2011 |

* FY11 (1 July 2010 - 30 June 2011) Lending Program. Assumes unconstrained IBRD lending.

INTERNATIONAL MONETARY FUND

COLOMBIA

**Staff Report for the 2010 Article IV Consultation—Informational Annex**

Prepared by the Western Hemisphere Department

March 17, 2010

Annexes



Table

# ANNEX I. COLOMBIA: FUND RELATIONS

(As of February 28, 2010)

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

| **II. General Resources Account:** | **SDR Million** | **% Quota** |
|---|---|---|
| Quota | 774.00 | 100.00 |
| Fund holdings of currency | 515.33 | 66.58 |
| Reserve Position | 258.67 | 33.42 |
| Holdings Exchange Rate | | |

| **III. SDR Department:** | **SDR Million** | **% Allocation** |
|---|---|---|
| Net cumulative allocation | 738.32 | 100.00 |
| Holdings | 755.48 | 102.32 |

**IV. Outstanding Purchases and Loans:** None

**V. Latest Financial Arrangements:**

| Type | Date of Arrangement | Expiration Date | Amount Approved (SDR Million) | Amount Drawn (SDR Million) |
|---|---|---|---|---|
| FCL | May 11, 2009 | May 10, 2010 | 6,966.00 | 0.00 |
| Stand-By | May 02, 2005 | Nov 02, 2006 | 405.00 | 0.00 |
| Stand-By | Jan 15, 2003 | May 02, 2005 | 1,548.00 | 0.00 |

**VI. Projected Payments to Fund (in SDR Million)**

| | | | Forthcoming | | |
|---|---|---|---|---|---|
| | 2010 | 2011 | 2012 | 2013 | 2014 |
| Principal | | | | | |
| Charges/Interest | 0.06 | 0.06 | 0.06 | 0.06 | 0.06 |
| **Total** | 0.06 | 0.06 | 0.06 | 0.06 | 0.06 |

**VII. Implementation of HIPC Initiative:** Not applicable.

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

## ANNEX II. COLOMBIA: WORLD BANK RELATIONS[1]

**The Current Country Partnership Strategy (CPS) was presented to the Board in April 2008 and consists of five pillars:** (i) Sustained Equitable Growth; (ii) Poverty Alleviation and Equality of Opportunity; (iii) Environment and Natural Resource Management; (iv) Peace; and (v) a State at the Service of its Citizens. The Strategy is aligned with the priorities of the National Development Plan, and was designed to be flexible and innovative in responding to Colombia's financial and development needs. A CPS Progress Report will be presented to the Board on April 13, 2010.

**The Bank's response to the global financial crisis was rapid and significant.** The lending program proceeded faster than anticipated. Since April 2008, the Bank Board has approved loans to Colombia in the amount of US$2.57 billion. Approximately 55 percent of the lending was in the form of development policy loans. Disbursements since the endorsement of the CPS have been around US$2.1 billion, while the overall exposure to Colombia, following scheduled amortizations, has risen to approximately US$6.6 billion. The response by the Bank to the crisis has led to an acceleration of disbursements in the last couple years, not only because of fast disbursing policy based loans, but also because a few investment operations had front loaded disbursements profile. As a result, IBRD lending to Colombia increased from US$940 million in FY 08 to US$1,275 in FY 09.

**IBRD is currently Colombia's largest single creditor.** The country's close engagement with the Bank has placed Colombia as the 7th largest portfolio in the Bank Group (measured by level of exposure) and the 3rd largest in the region, behind Mexico and Brazil. Colombia's IBRD portfolio consists of 17 operations under implementation with 23 active grants (US$48 million).

**Aside from financial support, the Bank is also providing an array of knowledge services to Colombia.** The Bank's knowledge work is covering many issues, from labor markets, education, health policy, social protection, to poverty measurements, public debt and contingency liability management, and public sector reforms. Much of this work is being done in response to requests by the Government and also in conjunction with other partners. One important aspect of this work is its multi-year programmatic approach, where the Bank is actively engaged in a consistent manner over time, defining its work program in each area according to the needs of the country.

**The IFC also responded to increasing demand and accelerated the level of its activities in the last two years.** IFC's portfolio in Colombia has tripled in the last 4 years, from US$387 million committed in FY 05 to over US$900 million at the end of 2009. Growth has incorporated sector diversification from financial markets, increasing both amount and number of investments in Oil & Gas, General Manufacturing, Infrastructure, Sub-national

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[1] Prepared by World Bank staff. Questions may be addressed to Mr. Lars Christian Moller, Senior Economist, at (202) 473-9027 or lmoller@worldbank.org.

Finance, Private Equity and Agribusiness. The Country is the 3rd largest country exposure in LAC and 7th in the world.

**Recent Activities by Sector/Pillar**[2]

**The Banks' work under the *Sustained Equitable Growth* pillar has focused on competitiveness, financial sector development, and infrastructure.** Several loans were extended in this area. The most important were DPLs that supported important policy reforms in the areas of business efficiency and competitiveness, along with the reforms in the financial sector. These policy based loans also served to cover the fiscal needs during the crisis and to preserve macroeconomic stability. This was accompanied by project lending in the area of infrastructure—one of the main impediments to higher economic growth.

**Activities under the *Poverty Alleviation and Equality of Opportunity* also gained added significance with the onset of the crisis.** A loan was extended to provide continuity in the financing of *Familias en Accion*, an important conditional cash transfer program that is now reaching essentially all of the families in the lowest quintile of the income distribution. One of the most important elements of the program was the continued work to help build an inclusive and efficient social protection system supported by a Social Sector DPL approved in February 2010, and by continuous financial and technical support.

**The Bank has an important diverse and innovative program in Colombia to support the country in the area of *Environment and Natural Resource Management*.** The recent activities range from loans to support policy reforms and implementation, to grants designed to pilot key protection and adaptation programs. This has been complemented by many investment projects in areas of flood protection, water treatment, disaster risk management, and climate change adaptation programs.

**The Bank has also been playing an important role in supporting the country's efforts to achieve lasting *peace* and inclusive development.** The Bank is actively supporting the joint efforts by the Government and the International Community with both lending and coordination services. Recently the Board approved an Additional Financing for the Peace and Development Project (complemented by parallel co-financing from the European Union and other partners).

**The Bank's work has expanded considerably its support for *efficient and effective Government*.** Recent initiatives have ranged from strengthening the public management information systems, to integrating the tax and customs administration processes, implementing a system of monitoring and evaluation of government programs, expanding the assistance to sub-national governments, and assisting with the modernization of the judiciary.

[2] For full details about the Bank's engagement in Colombia, please refer to the Country Partnership Strategy Progress Report, 2010.

**Operations Portfolio (IBRD/IDA and Grants)**
As of February 22, 2010
(In millions of U.S. dollars)

| | |
|---|---|
| **Closed Projects** | **183** |
| **Active Projects** | **17** |
| | |
| **IBRD/IDA*** | |
| Total Disbursed (Active) | 1,240.43 |
| of which has been repaid | 170 |
| Total Disbursed (Closed) | 15,703.09 |
| of which has been repaid | 9,713.18 |
| Total Disbursed (Active + Closed) | 16,943.52 |
| of which has been repaid | 10.380 |
| | |
| Total Undisbursed (Active) | 1,278.3 |
| Total Undisbursed (Closed) | 0.00 |
| Total Undisbursed (Active + Closed) | 1,278.3 |

**Loan Information (IBRD)**
As of December 31, 2009
(In millions of U.S. dollars)

| **Fiscal Year*** | **2004** | **2005** | **2006** | **2007** | **2008** | **2009** |
|---|---|---|---|---|---|---|
| Total disbursements | 491 | 567 | 692 | 830 | 638 | 1,240 |
| Repayment amount | 205 | 254 | 223 | 278 | 381 | 170 |
| Net disbursements | 286 | 313 | 469 | 477 | 257 | 1,070 |

*Fiscal Year: July 1–June 30.

**International Finance Cooperation (IFC) Portfolio**

| **Debt ($m)** | **Equity ($m)** | **Quasi Equity ($m)** | **Total ($m)** | **Guarantee** |
|---|---|---|---|---|
| 457 | 250 | 155 (Loan+Equity) | 880 | 18 |
| **Investment Business -- Top sectors and Clients** | | | **TA Business -- Top sectors** | |
| Sector 1 | Oil & Gas: Petrocol | | Sector 1 | Oil & Gas |
| Sector 2 | Finance & Insurance: Davivienda-Protección | | Sector 2 | SME |
| Sector 3 | Pulp & Paper: Carvajal S.A. | | | |
| Sector 4 | Wholesale & Retail Trade: Sodimac Colombia | | | |
| Sector 5 | Agriculture & Forestry: Procafecol | | | |
| Top client | DAVIVIENDA | | | |

## ANNEX III. COLOMBIA: STATISTICAL ISSUES

Data provision is adequate for surveillance. Colombia subscribes to the Special Data Dissemination Standard (SDDS) and metadata are posted on the Fund's Dissemination Standards Bulletin Board (DSBB). A data ROSC was published in October 2006.

**Real sector**

The National Department of Statistics (DANE) is responsible for the compilation of the national accounts, although the Banco de la República (BdR) compiles the financial accounts. Estimates of GDP by the production and the expenditure approaches both use 2000 as their base year. GDP compilation conforms to the methodological recommendations of the System of National Accounts 1993 (*1993 SNA*). The revision of the national accounts' base year (announced in December 2006) resulted in step increases in nominal GDP levels of about 12 percent with respect to the prior official estimates. Most of the revisions reflected improvements in source data, although methodological improvements regarding GDP calculations/estimates also affected nominal GDP levels.

**Government finance statistics**

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

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

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

**Financial sector statistics**

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

**Balance of payments and external debt**

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

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

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

## Colombia: Table of Common Indicators Required for Surveillance
## As of March 09, 2010

| | Date of latest observation | Date received | Frequency of Data[1] | Frequency of Reporting[1] | Frequency of publication[1] | Memo Items: Data Quality – Methodological soundness[8] | Memo Items: Data Quality – Accuracy and reliability[9] |
|---|---|---|---|---|---|---|---|
| Exchange Rates | Mar 8, 2010 | Mar 09, 2010 | D | W | D | | |
| International Reserve Assets and Reserve Liabilities of the Monetary Authorities[2] | Jan. 2010 | Feb 15, 2010 | M | M | M | | |
| Reserve/Base Money | Jan. 2010 | Feb 15, 2010 | D | W | W | LO, O, LO, LO | O, O, O, O, O |
| Broad Money | Dec. 2009 | Feb 15, 2010 | D | W | W | | |
| Central Bank Balance Sheet | Jan. 2009 | Feb 15, 2010 | M | M | M | | |
| Consolidated Balance Sheet of the Banking System | Dec. 2009 | Feb 15, 2010 | M | M | M | | |
| Interest Rates[3] | Feb. 2010 | Feb 19, 2010 | D | W | D | | |
| Consumer Price Index | Feb. 2010 | Mar 5, 2010 | M | M | M | | |
| Revenue, Expenditure, Balance and Financing Composition[4] – General Government (GG)[5] | Q2 2009 | Feb.. 2010 | Q | Q | Q | O, O, LO, O | LO, O, O, O, NO |
| Revenue, Expenditure, Balance and Composition of Financing[4] – Central Government | Nov 2009 | Feb. 2010 | M | M | M | | |
| Stocks of Central Government and Central Government-Guaranteed Debt[6] | Q3 2009 | Jan. 2010 | Q | Q | Q | | |
| External Current Account Balance | Q3 2009 | Dec 26, 2009 | Q | Q | Q | O, LO, LO, LO | O, O, O, O, LO |
| Exports and Imports of Goods and Services | Q3 2009 | Dec 26, 2009 | Q | Q | Q | | |
| GDP/GNP | Q3 2009 | Dec 21, 2009 | Q | Q | Q | O, LO, O, O | LO, O, LO, LO, NO |
| Gross External Debt | Sep. 2009 | Jan. 2010 | M | M | M | | |
| International Investment Position[7] | Q3 2009 | Dec. 2010 | Q | Q | Q | | |

[1] Daily (D); Weekly (W); Monthly (M); Bi-monthly (B); Quarterly (Q); Annually (A); Irregular (I); Not Available (NA).
[2] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
[3] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[4] Foreign, domestic bank, and domestic nonbank financing.
[5] The GG consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[6] Including currency and maturity composition.
[7] Includes external gross financial asset and liability positions vis-à-vis nonresidents.
[8] Reflects the assessment provided in the data ROSC published in October 2006 for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O); largely observed (LO); largely not observed (LNO); not observed (NO); and not available (NA).[9] Same as footnote 8, except referring to international standards concerning (respectively) source data, assessment of source data, statistical techniques, assessment and validation of intermediate data and statistical outputs, and revision studies.
[9] Same as footnote 8, except referring to international standards concerning (respectively) source data, assessment of source data, statistical techniques, assessment and validation of intermediate data and statistical outputs, and revision studies.

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FOR IMMEDIATE RELEASE
March 31, 2010

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

# IMF Executive Board Concludes 2010 Article IV Consultation with Colombia

On March 31, 2010, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Colombia.[1]

## Background

With strong policy and institutional frameworks, the global crisis did not have too severe effects on Colombia's economy. The economy had begun to slow down in early 2008 as policies had been tightened to address overheating, but the global crisis caused private investment to collapse in the last quarter of 2008. Domestic demand began recovering in the second half of 2009, led by public investment and consumption. For the year as a whole, real gross domestic product (GDP) growth was 0.4 percent. With near zero food price inflation and a negative output gap, end-year inflation fell to 2 percent from 7.7 percent at end-2008. The exchange rate served as the main shock absorber, and net international reserves (excluding the special drawing rights (SDR) allocation) remained broadly constant at the end-2008 level of US$24 billion. The financial system did not experience major strains from the global crisis as capital

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm

adequacy remained strong and non-performing loans increased only slightly, backed by high provisions. The corporate sector's strong balance sheets and the moderate levels of household debt also helped avoid financial distress.

The authorities were able to adopt countercyclical monetary and fiscal policy measures. Monetary policy responded swiftly, with a 650 basis point reduction in the policy rate (to 3½ percent). Fiscal policy also contributed to support demand, imparting a fiscal impulse of about 1 percent of GDP in 2009 as measured by the change in the combined public sector overall structural balance. With uninterrupted access to capital markets, the government was able to preemptively increase its foreign borrowing (about 2 percent of GDP). Furthermore, several measures were taken to strengthen financial sector resilience, including an agreement between banks and the superintendent to retain a portion of 2008 profits.

The outlook for 2010 is generally positive. Real GDP growth in 2010 is projected at about 2¼ percent, reflecting the upturn in the world economy and the impact of the expansionary policies of 2009 (though dampened by lower exports to Venezuela). Inflation is likely to remain within the central bank target range of 2−4 percent, as the effects of El Niño on food inflation are expected to be short lived and likely to be offset by the output gap and peso appreciation. The external current account deficit is expected to widen in 2010 to 3.1 percent of GDP on account of lower exports to Venezuela and a pickup in oil investment-related imports. The bulk of this deficit would be financed by foreign direct investment, with other private flows also expected to recover.

**Executive Board Assessment**

Executive Directors commended the Colombian authorities for maintaining strong policy and institutional frameworks during the global crisis. This, together with an early request for a flexible credit line from the Fund, contributed to preserving external confidence and limiting the impact of the crisis. Directors considered that, with improved economic fundamentals and a healthy banking system, Colombia is well-placed to confront the challenges posed by the still uncertain global outlook.

Directors considered that monetary and fiscal policies should remain broadly supportive until there is clear evidence of sustained recovery. Consequently, close monitoring of forward looking indicators of activity and inflation will be essential to guide the size and timing of the withdrawal of support. Directors emphasized that the Colombian authorities should prevent anticipated increases in food prices from affecting long-term inflation expectations.

Directors noted that the deterioration of the fiscal position was mainly driven by weak domestic demand conditions. In the medium term, as economic activity recovers, oil-related revenues increase, and government spending is kept in check, the fiscal deficit is expected to fall and public debt to resume a downward trend. Directors welcomed the authorities' intention to establish a fiscal rule, which would provide stronger assurances that the recent increase in public debt will be undone. A number of Directors encouraged the authorities to broaden the coverage of the fiscal rule. Directors welcomed the authorities' commitment to contain health costs, and their intention to take compensatory measures if fiscal risks materialize. They also encouraged the authorities to further develop a strategy to minimize medium-term fiscal risks, including those resulting from investment tax incentives and special tax regimes, and pension spending.

Directors agreed that the flexible exchange rate policy has helped protect the external position in the face of adverse shocks. Some Directors considered that other temporary instruments could complement the flexible exchange rate regime and rule-based intervention in the foreign exchange market as a policy response if the risk of a surge in capital inflows were to materialize. Some Directors saw merit in further strengthening reserve coverage, while others stressed that the authorities pay close attention to the costs and externalities of reserve accumulation. Directors encouraged the authorities to remove the exchange restriction arising from the special regime for the hydrocarbons sector.

Directors noted the soundness of the financial system, and welcomed improvements in financial regulation and reforms to develop capital markets. The new liquidity management system, the broader coverage of deposit insurance, and the enhanced tools to facilitate bank resolution, further strengthen crisis preparedness. Directors commended the authorities for improvements in the over-the-counter market infrastructure, new regulations on collective investment vehicles, and the broader investment strategy options for pension funds, which will contribute to financial deepening.

***Public Information Notices (PINs)*** form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case.

Colombia: Selected Economic Indicators

| | 2005 | 2006 | 2007 | 2008 | Prel. 2009 |
|---|---|---|---|---|---|
| (Annual percentage change, unless otherwise indicated) | | | | | |
| **National income and prices** | | | | | |
| Real GDP | 5.7 | 6.9 | 7.5 | 2.4 | 0.4 |
| Consumer prices (average) | 5.0 | 4.3 | 5.5 | 7.0 | 4.2 |
| Consumer prices (end-of-period) | 4.9 | 4.5 | 5.7 | 7.7 | 2.0 |
| Real effective exchange rate (depreciation -) | 11.6 | -1.9 | 8.2 | -5.7 | 9.7 |
| **Money and credit** | | | | | |
| Broad money | 17.6 | 18.0 | 17.4 | 18.5 | 8.1 |
| Credit to the private sector | 11.3 | 38.5 | 23.5 | 5.7 | 0.9 |
| Interest rate (90-day time deposits; percent per year) | | | | | |
| Nominal | 6.3 | 6.8 | 9.0 | 10.2 | 4.1 |
| Real | 1.4 | 2.3 | 3.3 | 2.5 | 2.1 |
| (In percent of GDP, unless otherwise indicated) | | | | | |
| **External sector** | | | | | |
| Current account (deficit-) | -1.3 | -1.8 | -2.8 | -2.9 | -1.8 |
| External debt | 26.2 | 23.4 | 20.6 | 21.6 | 21.3 |
| *Of which:* Public sector | 16.4 | 15.3 | 13.4 | 13.8 | 15.2 |
| NIR in percent of short-term debt | 108.1 | 147.0 | 198.8 | 216.2 | 223.7 |
| **Savings and investment** | | | | | |
| Gross domestic investment | 21.6 | 24.3 | 24.3 | 25.0 | 23.1 |
| Gross national savings | 20.3 | 22.5 | 21.5 | 22.1 | 21.3 |
| **Public finances** | | | | | |
| Combined public sector balance 1/ | 0.0 | -0.7 | -0.7 | -0.1 | -2.8 |
| Nonfinancial public sector balance 1/ | 0.0 | -1.0 | -0.8 | -0.3 | -2.7 |
| Central government balance | -4.0 | -3.4 | -2.7 | -2.3 | -4.1 |
| Public debt | 38.8 | 35.8 | 32.4 | 32.3 | 35.1 |

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

1/ Excludes ECOPETROL in 2008-09.

Statement by Mr. Vargas

We thank staff for the very interesting and insightful discussions during the recent mission in Bogotá and for an accurate report. We are also grateful for the research papers written on issues relevant for the Colombian authorities. We appreciate the focus given to future challenges for macroeconomic policy under the changing circumstances of our economy. We are taking serious consideration of their recommendations.

As it was anticipated, the Colombian economy bore well the recent external crisis, which brought about a drop in terms of trade, a marked decline in the growth rates of our main markets and a sharp fall in consumer and business confidence. As a result, both domestic and external demand shrank. Since the second half of 2009, severe restrictions on Colombian exports to Venezuela added to the negative shocks hitting the economy.

The policy response consisted of a swift reduction of interest rates by the Central Bank (650 bps between December 2008 and November 2009) and a moderately countercyclical fiscal stance, which allowed for the operation of automatic stabilizers, increased public consumption growth and an acceleration of investment in infrastructure projects. We also tapped international markets and multilateral institutions to secure precautionary external financing for the economy.

This strategy helped sustain aggregate demand and growth. The reversion of the commodity price surge of 2008 worked in the same direction, producing a rapid fall in inflation and boosting household income. In consequence, GDP growth was 0.4 percent in 2009. CPI inflation fell from 7.7 percent in December 2008 to 2 percent in December 2009, falling into our long-term target (2-4 percent). Despite the fall in exports, the current account deficit narrowed to 2.2 percent of GDP in 2009, as a result of a larger reduction of imports related to the retrenchment of aggregate demand.

For 2010 GDP growth is expected to be in the lower part of the range of 2-4 percent, thanks to improving external conditions and the effects of expansionary macroeconomic policies. Some indicators are already showing an upturn in private consumption. Nonetheless, we coincide with staff that the recovery is still fragile and that withdrawal from last year's expansionary fiscal and monetary policies must take into account external factors, such as the uncertain strength of the global recovery and the full effects of the drastic reduction of exports to Venezuela.

Over the medium term, the main policy issues are progressing in the fiscal consolidation front, keeping inflation within the long-run target of 2-4 percent and dealing with the macroeconomic effects of the rapid expansion of the hydrocarbons and mining sectors. The large investment flows attracted by these sectors and the foreign currency revenues they are expected to generate pose a challenge to macroeconomic policy.

**Fiscal policy**

The Combined Public Sector deficit increased from 0.1 percent of GDP in 2008 to 2.7 percent of GDP in 2009, above the initial target set by the Government. This was mainly due to tax revenues significantly lower than originally planned.

The current budget reduces expenditures by 1.1 percent of GDP, as the central government investment is driven back to normal levels and further expenditure cuts were made in response to low tax revenues in the beginning of this year. The structural fiscal deficit would increase slightly in 2010, striking a balance between public debt sustainability and the fiscal stimulus on aggregate demand.

In the medium term the main challenge is to accommodate increasing health related expenditures. A Constitutional Court ruling has made full coverage of health services mandatory. The government has made progress in this front without endangering the fiscal balances, through efficiency gains. Full coverage of children and young adults has been already accommodated within the budget and current fiscal targets. In addition, in the beginning of this year the Government increased taxes to finance part of the bill and is working on a full assessment of the costs to take more actions on the revenue side. Another expenditure pressure is coming from the need to take care of the people displaced by the internal conflict.

While the staff's medium-term scenario seems reasonable, we would be more cautious with respect to the expected pick up in GDP growth and oil prices. In our view, the economic recovery would be more gradual and the current account deficit would narrow more slowly after 2010. This would be consistent with larger flows of FDI to commodity-producing sectors and a more paced upturn of export demand. Under these circumstances, the fiscal deficit adjustment might be more protracted.

Although we acknowledge that targeting lower debt levels could be beneficial, we see little room to achieve more ambitious primary fiscal balances. Going back to the pre-crisis debt targets over a relatively short span period, as proposed by staff, would require a large fiscal adjustment that is not warranted, especially under the current uncertainty on the robustness of the economic recovery and given possibly larger expenditures in health and displaced people care.

In our Medium Term Fiscal Framework published in mid 2009, we recognized that the crisis caused a deviation of public debt from previous targets and that we were expecting it to continue rising for the next four years. At the same time, it was stated that debt would revert to lower levels, following expected declines in pension outlays (as a percentage of GDP) after 2014 and the resumption of higher growth rates. In any case, the government is committed to save the revenues derived from the realization of upside risks (higher oil prices or larger economic growth). If this were the case, public debt would converge more rapidly to lower levels.

**Monetary and exchange rate policies**

Inflation reached historically low levels in 2009, as the commodity price shock of 2007-2008 was undone, producing a sharp reduction of food and regulated price inflation. The weakness of the economy also contributed to the decline of inflation. Headline and core measures, as well as inflation expectations fell to the long-term range target of 2 to 4 percent.

The expansionary monetary policy adopted in 2009 has supported private domestic demand. The channels of transmission of monetary policy have worked well, as reflected by the drop in lending interest rates, which are now 600 basis points lower than a year ago, following a reduction of 650 basis points in the policy interest rate since December 2008. There is no evidence of strong credit supply constraints, as evidenced by the reduction of interest rate spreads and the persistence of loan growth rates over GDP growth rates. This squares well with the findings of the Selected Issues paper on financial soundness and credit growth, since, as noted by staff, the Colombian financial system remains solid, liquid and profitable.

Our challenge for this year is to keep inflation expectations under control, avoiding the second round effects of the supply shock caused by the El Niño phenomenon. Food prices will increase through the second and third quarters of the year, but we expect a reversion in the fourth quarter. On the other hand, the weakness of the economy and the appreciation of the currency will keep core inflation subdued. Thus, our forecast is that headline inflation will be within the long-term target range by the end of the year. According to our inflation targeting framework, we will carefully assess the dynamics of the economy in order to set the policy stance.

We take note of the staff's views on having a yearly target announced by the Central Bank and the confusion that it might create with the long-term range target. While we understand their concerns, any institutional change in that sense will require passing a law through Congress, which we do not consider a priority under the current circumstances. Besides, the Central Bank has amply communicated to the public and the markets that the objective of monetary policy is to keep average inflation within the target range, and not only at year's end.

During 2009, the exchange rate floated freely with very limited intervention by the Central Bank in the foreign exchange market. Exchange rate flexibility remains a key element of Central Bank policy. At the same time, we concur with the staff's appraisal regarding the convenience of increasing the stock of international reserves. For that reason, the daily purchase of 20 million dollars was reintroduced in March 2010, taking advantage of a juncture in which there were some signs of overvaluation of the currency[1].

The daily purchases of international reserves are scheduled to take place throughout the first semester of the year, in a transparent way, and without any attempt to defend a particular level of exchange rate. The resulting monetary expansion will be sterilized to the extent necessary to keep the short term interest rates close to the policy rate

As noted by staff, if larger capital inflows enter the country in the future, the exchange rate will continue to be the main shock absorber. Capital controls are always an option in our tool kit. However, we deem capital controls as temporary measures that are implemented depending on the nature of capital inflows and in accordance with the overall macroeconomic situation. We believe that capital controls are ineffective in the long term and, if maintained for a prolonged period, affect negatively financial markets and stock markets.

[1] In particular, the Colombian peso has strengthened faster than other emerging market currencies in 2010, without significant differences in the behavior of current or expected local interest rates, sovereign risk premia, terms of trade or the fiscal stance. In fact, if anything, export demand is expected to grow faster elsewhere, due to the fall of trade with Venezuela. This contrasts with the real exchange rate assessment of the staff, which estimated a near-equilibrium level for January 2010. It must be noted, though, that the currency has appreciated around 6 percent in real terms since then, according to several indicators calculated by the Central Bank.

## Financial sector

We share the assessment of staff on financial sector issues. The Colombian financial sector has sound indicators, is well capitalized and has enough buffers to face extreme events. The Financial Reform Law approved in July 2009 enhanced the liquidity provision ability of the Central Bank and permitted an improvement in the match of pension fund portfolios with their customers' risk and age profiles.

Staff noticed some shortcomings in our countercyclical provisioning system. Specifically, provisions are tied to individual loans and counter cyclicality depends on triggers on bank-specific indicators. Staff contends that these features dampen the countercyclical effect of provisions and argues in favor of a rule that would allow provisions to be freely reallocated across loans.

We agree with these comments, but consider that a change in that direction would involve serious difficulties regarding taxation issues, since in Colombia general provisions are not deductible from the income tax. In addition, the system adopted is a clear improvement from the previous one. First, it is rules-based; second, the triggers take into account the average deterioration of the loan quality of a bank; and third, even though the system is driven by individual loan behavior, on average it will capture the general credit trends, ensuring a countercyclical movement of provisions.

## Structural Reforms

To strengthen the institutional policy structure, the government decided to complement the current Medium Term Fiscal Framework with a fiscal rule that secures public debt sustainability and allows for a countercyclical response of fiscal policy to changes in output and oil prices. The design of the rule is still in process. It has only been decided that it will be applied on the primary balance of the Central Government and that it will be supported by a law. We are grateful for the advice provided by staff on this subject.

Staff recommends that the rule be applied to a broader structural balance (including central and regional governments). From a sustainability point of view, we consider that the inclusion of local governments is unnecessary, since there are already stringent budget rules and a fiscal responsibility law for the regions. However, we agree with staff that a broader concept of fiscal balance has the advantage of synchronizing the countercyclical responses of several levels of government.

An obstacle to move in that direction is the political difficulty to involve the local governments in a rule supported by a law that must pass through Congress. The existing regional fiscal framework was put in place by means of legislation hard-fought since the 1990s. Thus, new constraints on local public finances would face strong political opposition and could jeopardize the adoption of the rule.

Finally, we share staff's view on the benefits of a tax reform that addresses current deficiencies of our tax system. This is a matter that would be addressed by the new government that will take office in August.