INTERNATIONAL MONETARY FUND

IMF Country Report No. 15/206

COLOMBIA

July 2015

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

In the context of the arrangement under the Flexible Credit Line and cancellation of the current arrangement, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on June 17, 2015. Based on information available at the time of these discussions, the staff report was completed on June 2, 2015.
- A **Statement by the Executive Director** for Colombia.

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

Copies of this report are available to the public from

International Monetary Fund • Publication Services
PO Box 92780 • Washington, D.C. 20090
Telephone: (202) 623-7430 • Fax: (202) 623-7201
E-mail: publications@imf.org Web: http://www.imf.org
Price: $18.00 per printed copy

International Monetary Fund
Washington, D.C.

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

Press Release No. 15/281
FOR IMMEDIATE RELEASE
June 17, 2015

IMF Executive Board Approves New Two-Year US$5.45 Billion Flexible Credit Line Arrangement for Colombia

The Executive Board of the International Monetary Fund (IMF) today approved a successor two-year arrangement for Colombia under the Flexible Credit Line (FCL) in an amount equivalent to SDR 3.87 billion (about US$5.45 billion). The Colombian authorities stated their intention to treat the new arrangement as precautionary and do not intend to draw on it.

Following the Executive Board's discussion on Colombia, Mr. David Lipton, First Deputy Managing Director and Acting Chairman of the Board, issued the following statement:

"Colombia has a track record of very strong policy frameworks, including an inflation-targeting regime, a flexible exchange rate, effective financial sector supervision and regulation, and a fiscal policy guided by a structural balance rule. The authorities are firmly committed to maintain such policies and undertake further initiatives to strengthen the resilience of the economy, boost competitiveness, and foster inclusive growth.

"Colombia's macroeconomic policies have provided flexibility to mitigate the impact of the recent sharp decline in world oil prices. The fiscal rule represents an important buffer against oil price fluctuations, allowing a smooth adjustment of expenditure to a dimmer medium-term oil outlook. The flexible exchange rate regime continues to play an important shock-absorbing role in helping the economy adapt to shifts in global economic and financial conditions, and the banking and corporate sectors remain in good financial health. The central bank has also taken advantage of abundant capital inflows to further build up international reserves.

"However, adverse external risks pose strong headwinds, and, if they materialize, could weaken the country's external position. Access to the Fund's FCL will continue to play a significant role in supporting the authorities' policies in the presence of these downside risks. A successor FCL arrangement, which the authorities intend to continue to treat as precautionary, will provide policy flexibility and serve as a temporary insurance that reinforces market confidence. The authorities intend to phase out the use of the FCL facility as global risks affecting Colombia decrease substantially."

Background:

Colombia's first FCL arrangement was approved on May 11, 2009 (see Press Release No. 09/161) and was renewed on May 7, 2010 (see Press Release No. 10/186), May 6, 2011 (see Press Release No. 11/165), and June 24, 2013 (see Press Release No. 13/229).

The FCL was established on March 24, 2009 and further enhanced on August 30, 2010 (see Press Release No. 10/321). The FCL is available to countries with very strong fundamentals, policies, and track records of policy implementation and is particularly useful for crisis prevention purposes. FCL arrangements are approved for countries meeting pre-set qualification criteria (see Press Release No. 09/85). The FCL is a renewable credit line, which could be approved for either one or two years. Two-year arrangements involve a review of eligibility after the first year. If the country draws on the credit line, the repayment period is between three and five years. There is no cap on access to Fund resources under the FCL, and access is determined on a case-by-case basis. Qualified countries have the full amount available up-front, with no ongoing conditions. There is flexibility to either draw on the credit line at the time it is approved, or treat it as precautionary.

COLOMBIA

June 2, 2015

ARRANGEMENT UNDER THE FLEXIBLE CREDIT LINE AND CANCELLATION OF THE CURRENT ARRANGEMENT

EXECUTIVE SUMMARY

Background: Colombia's strong economic policy framework, comprising an inflation-targeting regime, a flexible exchange rate, effective financial sector supervision and regulation, and a fiscal policy guided by a structural balance rule, has underpinned strong economic performance in recent years. These policies and institutions also help smooth the large terms of trade shock the country is facing, allowing a gradual adjustment to a new equilibrium.

Outlook: In the baseline scenario, growth is expected to decelerate to 3.4 percent in 2015 but gradually return toward potential (4¼ percent) over the medium term and inflation to remain at the midpoint of the central bank's 2–4 percent target range. The current account deficit would gradually narrow in line with the expected mild rebound in oil prices and the sustained growth in Colombia's trading partners, while net private capital inflows would remain strong. The authorities are firmly committed to maintaining their sound policy framework and strengthening policy buffers in the period covered by the proposed arrangement.

Risks: Risks associated with emerging markets have increased since the 2014 Article IV consultation. Despite strong fundamentals, Colombia is facing a permanent adjustment to weaker external conditions while being vulnerable to tail risks, especially a surge in financial volatility, protracted growth slowdown in trading partners, and a further decline in oil prices.

Flexible Credit Line (FCL): The authorities are requesting a successor two-year FCL arrangement for 500 percent of quota (SDR 3.87 billion), which they intend to treat as precautionary, and cancellation of the current arrangement which expires on June 23, 2015. The access requested would provide Colombia with reasonable cover in an adverse external scenario. The authorities consider access to the FCL to be temporary and have signaled their intention to phase out its use as external risks recede. Staff assesses that Colombia meets the qualification criteria for access to Fund resources under the FCL arrangement, and recommends its approval by the Executive Board.

Fund liquidity: The proposed commitment of SDR 3.87 billion would have only a marginal impact on the Fund's liquidity position.

Process: An informal meeting to consult with the Executive Board on a possible FCL arrangement for Colombia was held on May 22, 2015.

Approved By
Robert Rennhack and Mary Goodman

The report was prepared by a team comprised of Valerie Cerra (Head), Izabela Karpowicz, Kristine Vitola, and Daniel Rodríguez-Delgado (all WHD), Christina Kolerus (SPR), and Mohamed Norat (MCM).

CONTENTS

TABLES

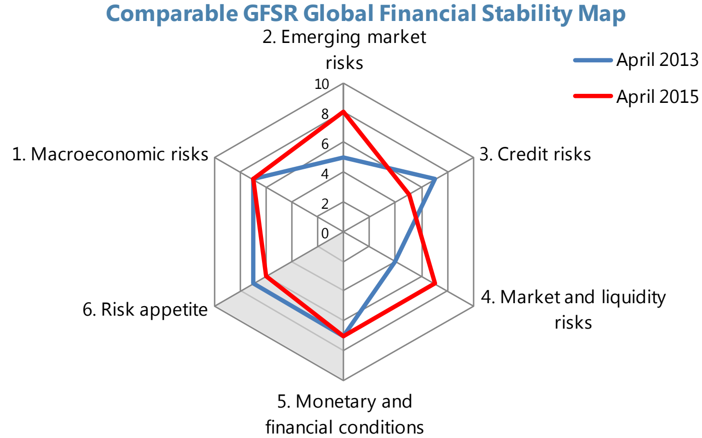
APPENDIX

BACKGROUND

1. **A strong policy framework and prudent macroeconomic management have underpinned Colombia's vigorous economic growth during the last several years.** Colombia's robust and broad-based growth in recent years has exceeded that of most Latin American peers and contributed to an improvement in social indicators. The inflation targeting framework has served to maintain low and stable inflation and anchor inflation expectations. The central bank has taken advantage of the abundant capital inflows, especially FDI, to rebuild net international reserves. Prudent financial supervision and regulation have supported financial deepening and macro-financial stability. Four successive FCL arrangements have supported the authorities' policies by providing a significant buffer against global tail risks. During the Board discussion of the 2015 Article IV Consultation (concluded on May 18, 2015), Executive Directors commended the authorities for their prudent management and strong policy framework that have underpinned Colombia's continued robust economic performance and financial stability (IMF Country Report No. 15/142).

2. **Large adverse external risks threaten the outlook.** The April 2015 WEO notes that global medium-term prospects have become less optimistic, especially for emerging markets, with risks to global growth tilted to the downside. The most salient risks are related to disruptive asset price shifts in financial markets, and—in advanced economies—stagnation and low inflation. Further, the April 2015 GFSR warns that continued financial risk taking by economic agents and structural changes in credit markets have shifted the locus of financial stability risks from advanced economies to emerging markets and from solvency to market and liquidity risks. The decline in structural liquidity in fixed-income markets in both the U.S. and other economies has amplified asset price responses to shocks, increasing potential spillovers. In this regard, a critical global risk stems from the expected normalization of U.S. monetary policy where a faster decompression of term premiums could lead to rapidly rising yields and substantially higher volatility, which coupled with further dollar appreciation and surging global risk aversion could have strong knock-on effects on emerging markets' growth and commodity prices, including oil. Further, an intensification of sovereign distress in the Euro Area could generate a surge in bond yields, large movements in the value of major currencies, or an increase in global financial volatility. After a prolonged period of private capital inflows (as in Colombia over the last years), foreign investors could abruptly reduce their holdings of local currency debt, thereby increasing turbulence and

Comparable GFSR Global Financial Stability Map



Note: Away from center signifies higher risks, easier monetary and financial conditions, or higher risk appetite.

undermining debt rollover. Lower global demand and idiosyncratic supply factors, such as reduced geopolitical tensions in Iran, could trigger further decline in commodity prices, including oil.

3. **The authorities have continued to strengthen their policy framework and policy buffers, supported by previous FCL arrangements.** A strengthened fiscal framework during the last few years and moderate levels of public debt have helped Colombia to absorb adverse external shocks. The flexible exchange rate regime, credible inflation targeting framework, and comfortable level of international reserves have provided the central bank with powerful tools to respond to shifts in cyclical economic and financial conditions. With inflation expectations well-anchored within the official target range, there has been ample policy space on the monetary front, which the central bank has used judiciously. Moreover, the authorities are making good progress in implementing FSAP recommendations to further strengthen the resilience of the financial system and address cross-border risks. They also continue to advance an agenda of fostering inclusive growth and boosting competitiveness, with measures set out in the recent development plan.

RECENT DEVELOPMENTS

4. **Brisk growth continued in 2014, with mildly supportive macroeconomic policies.** Despite strong headwinds from the external environment, real GDP increased by 4.6 percent in 2014, driven by domestic demand. Strong economic growth underpinned historically low unemployment rates and increased labor formality. As inflation returned quickly to the midpoint of the target band from a low level in 2013 and Q1 growth surged to 6.3 percent, the central bank normalized the monetary stance, increasing the policy rate by 125 bps between May and August, to 4.5 percent. However, real interest rates remained moderately supportive. The central government fiscal balance remained broadly unchanged from 2013, and met the structural balance target embedded in the fiscal rule. However, subnational governments posted strong expenditure growth, which drove a widening of the consolidated public sector deficit to 1.8 percent of GDP which, together with the effects of peso depreciation pushed public debt to 44 percent of GDP.

5. **From position of strong growth, Colombia confronted a severe oil price shock in the second half of 2014.** The economy was operating slightly above potential in mid-2014 and inflation expectations were anchored near the center of the central bank's 2–4 percent target band. During the second half of 2014, oil prices plummeted by about 40 percent, leading to a moderation of portfolio inflows as well as a decline in asset prices. Reflecting some pass-through from a sharp peso depreciation (17 percent during Q4), and a weather-related agricultural output supply shock, inflation accelerated to 3.7 percent at end-December.

6. **Despite a higher current account deficit, reserve buffers remained strong through 2014.** The current account deficit widened to 5.2 percent of GDP, owing to strong import demand from buoyant economic activity, declining exports and the temporary shutdown of the Cartagena oil refinery. Partly due to its favorable economic conditions, Colombia experienced heightened portfolio inflows from the beginning of the year, triggered by an increase in Colombia's weight in the J.P. Morgan's Emerging Markets Bond Index. Despite some moderation in the last part of the

year, portfolio inflows added to the ample inward foreign direct investment to more than finance the current account deficit, and consequently gross international reserves rose to US$46.8 billion at end-2014, representing 131 percent of the reserve adequacy metric augmented by the buffer for commodity exporters and 175 percent without augmentation. Using the augmented metric is appropriate in the case of Colombia given the country's greater exposure to oil price volatility and other commodity related risks which warrant additional buffers, see Box 1.[1] Total external debt remained low (29.3 percent of GDP). Reserve accumulation stopped in November 2014 and a moderate loss of reserves of around US$500 million, mainly due to valuation effects, accompanied the slowdown in exports and capital inflows until March 2015.

7. **While portfolio inflows have strengthened over the past 5 years, the NIIP is mainly in the form of FDI, with net liabilities expected to increase over the medium term.** Colombia's NIIP reached about -30 percent of GDP at end 2014 and is projected to further decline to about -47 percent of GDP over the next five years. FDI liabilities—about 40 percent of GDP—are twice as large as portfolio liabilities. While the NIIP is sustainable, recent trends in portfolio investments could lead to heightened vulnerability to global financial volatility. Notably, portfolio liabilities increased on average by 26 percent in the past 5 years, twice as high as the average growth rate of FDI liabilities.

8. **The banking system and corporate sector remained in good financial health.** Financial soundness indicators remained strong. Following the implementation of new enhanced capital standards in August 2013, capital adequacy declined marginally but stayed well above the regulatory minimum. Growth in credit to the private sector was buoyant, and vulnerabilities stemming from the cyclical increases in house prices in recent years remained contained, and the mortgage subsidy on middle-income households was discontinued. Corporate profitability was strong, and liquidity remained adequate. Corporate debt increased to some 29 percent of GDP of which over ⅔ was due to domestic banks, but remained modest by international standards and total leverage was within historical norms.

OUTLOOK AND POLICIES

9. **Economic growth is expected to decelerate in 2015 but gradually return toward potential.** Real GDP growth is projected to slow to 3.4 percent in 2015 on account of a deceleration of private investment, especially in the oil sector, and a slowdown in private consumption, but gradually rise toward 4¼ percent by 2018, driven by a slight improvement in external demand and private investment associated with the authorities' infrastructure program. With some pass-through from the exchange rate depreciation and food-related supply effects, inflation will likely increase temporarily in 2015, but is projected to remain at the midpoint of the central bank's 2–4 percent target range over the medium term, with inflation expectations anchored. The current account

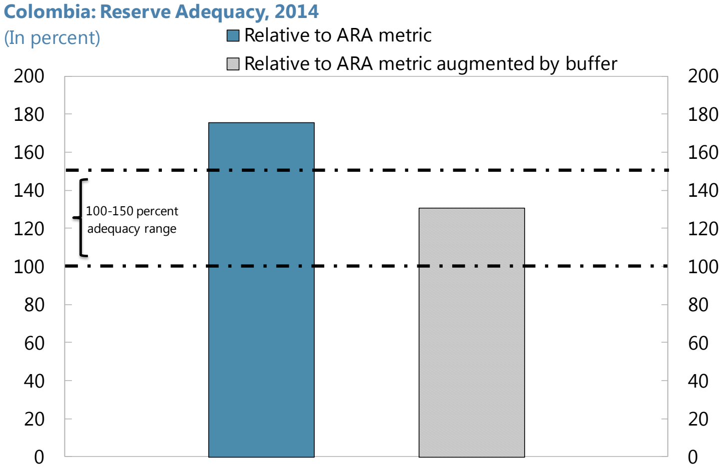
[1]For a more detailed analysis on reserve adequacy in Colombia, see also Box 6 in 2014 Article IV Consultation Staff Report (IMF Country Report No. 14/141).

Box 1. Reserve Adequacy for Commodity Exporters: the Case of Colombia

Commodity exporters, such as Colombia, are exposed to more volatile terms of trade and have greater difficulty in adjusting to commodity price shocks. As shown in IMF 2015,[1] commodity intensive economies tend to face inelastic supply. They are therefore more strongly exposed to price shocks and tend to have a more limited ability to adjust to fluctuations in their terms of trade. In the case of Colombia, oil revenues amount to more than 50 percent of total exports. As experienced during the recent oil price shock, the country's economy is vulnerable to oil price volatility, leading to significant exchange rate movements, widening of the current account and fall in FDI. While prices move quickly, non-commodity exports and investments only gradually respond to-partially-replace losses in oil export revenues and FDI.

Higher precautionary buffers may be needed to smooth commodity related shocks. These buffers could be met in various ways including through savings under a sovereign wealth fund, price hedging mechanisms, and longer term contracts. Another possibility is to hold additional international reserves as a buffer against this additional price risk. The Colombian authorities prefer to meet this additional buffer by holding additional reserves. IMF 2015 proposes to calculate the additional buffer using a forward-looking measure of price risk. In this case the buffer associated with commodity price risk is calculated by multiplying the gap between current oil prices and one year futures prices at the 68 percent confidence interval by the value of oil exports.

Colombia: Reserve Adequacy, 2014
(In percent)



Source: Fund staff estimates.

Taking into account both the general need for reserves (captured by the ARA metric), and the additional buffer, Colombia's gross international reserves of US$46.8 billion in 2014 correspond to 131 percent of the ARA metric augmented by the buffer for commodity price risk. Reserves amount to 175 percent of the original ARA metric, which is calculated based on a weighted sum of four components reflecting potential drains on the balance of payments, including export income, broad money, short-term debt, and other liabilities, and depends on the weights used. Reserves are 5.1 times the estimated commodity price buffer. The metric is based on ARA data available March/April 2015 and the calculation of the augmentation follows the guidelines detailed in IMF 2015.

[1] IMF, Assessing Reserve Adequacy—Specific Proposals, January 2015.

deficit is projected to widen in 2015 due to the oil price decline, but would gradually narrow over the medium term in line with the expected mild rebound in oil prices and the sustained growth in Colombia's trading partners, especially the U.S.

10. The macroeconomic framework provides flexibility to mitigate the impact of the sharp decline in world oil prices so far and smooth the adjustment to a lower level of national income.

- **Fiscal policy.** The structural fiscal rule represents an important buffer against short-term fluctuations in oil prices and GDP and will also allow smoothing the adjustment of expenditure to a dimmer medium-term oil outlook. Public debt ratios remain moderate and sustainable, and after rising somewhat in 2014–15, would decline over the medium term in line with the planned fiscal consolidation.

- **Monetary policy.** The monetary policy rate, at 4.5 percent, is currently near its neutral level. With a low exchange rate pass-through to prices, the projected decline in domestic energy prices, and unwinding temporary food-related supply effects, inflation pressures are expected to ease later this year, especially as the slowdown in domestic demand takes hold. If growth slows more than expected there would be scope for monetary policy easing as long as inflation expectations remain anchored near the mid-point of the target band.

- **Exchange rate and reserves.** The flexible exchange rate regime continues to play an important role in helping the economy adapt to shifts in global economic and financial conditions. Colombia has an adequate international reserve level for normal times, though it might be insufficient to cope with tail risks. With the peso broadly aligned with fundamentals and already strong buffers, the pace of reserve accumulation will likely abate, partly as a result of lower oil prices, as reflected by the central bank's decision to suspend foreign currency purchases since November 2014.

11. The authorities are implementing an ambitious structural reform package and further strengthening the macroeconomic and financial frameworks.[2] The fourth generation infrastructure investment program of road concessions is expected to foster inclusive growth, by improving productivity and regional integration, and boost Colombia's competitiveness and medium-term economic prospects. Efforts to foster innovation and economic diversification would reduce reliance on the oil sector and help improve growth prospects and external sustainability. The government is putting a high priority on mobilizing additional fiscal revenue, especially to offset the decline in oil-related revenue. They have established a tax commission to consider options for tax reform to ensure that the medium-term fiscal deficit targets can be achieved while also improving the progressivity and efficiency of the tax system and protecting key social and infrastructure spending in line with the priorities of the development plan. On the social inclusion front, the authorities are working on a pension reform to increase the coverage and progressivity of the system. They are also undertaking measures to improve labor market formalization, increase access to quality education, and strengthen the social safety net for the poor. Good progress is also being made in implementing FSAP recommendations to further strengthen the resilience of the financial system and address cross-border risks.

[2] The Staff Report for the 2015 Article IV Consultation (IMF Country Report No. 15/142) includes further details on the outlook, including policies to mitigate the short-run impact of the oil price shock and adjust to a dimmer outlook for oil prices.

ROLE OF THE FLEXIBLE CREDIT LINE ARRANGEMENT

A. Benefits of the FCL

12. The FCL has served Colombia well. The previous FCL arrangements have been instrumental to cope with heightened external risks in recent years, including after the 2008–09 global financial crisis and during the euro area crisis. Indeed, the FCLs have complemented the authorities' policy response to the global crisis, including the flexible exchange rate and countercyclical fiscal and monetary policies. In addition, the instrument has ensured a cushion of international liquidity for the country, providing space to strengthen the policy framework and to rebuild policy buffers, while sending a positive signal to international financial markets on the strength of the economy.

13. The FCL has also enhanced the economy's resilience to adverse external shocks. Empirical analysis conducted by the Colombian central bank found that access to the FCL reduced the sovereign risk premium (EMBI) for Colombia, and had an important positive impact on the consumer confidence index and growth.[3] Consistently, staff's econometric analysis suggests that exchange rate pressures eased more rapidly after the taper talk episode in mid-2013 for emerging markets with an FCL arrangement. Another IMF exercise found that the FCL mitigated the surge in sovereign yields for the three FCL countries after the taper talk and had been effective in bolstering confidence.[4]

14. The authorities are requesting a successor 2-year FCL arrangement for an amount equivalent to SDR 3.87 billion (about US$5.38 billion) or 500 percent of quota, which they intend to treat as precautionary, and the cancellation of the current arrangement which expires on June 23, 2015. They consider that the persistence of large global risks makes it premature to reduce their reliance on contingent external financing from the Fund. They further note that, notwithstanding their efforts to rebuild buffers, with ample international reserves amounting to 131 percent of the reserve adequacy metric augmented by the buffer for commodity exporters in 2014 (Figure 5), some reserves benchmarks are still below values prevailing before the global financial crisis (Table 2a). The authorities consider that the FCL provides useful temporary insurance that reinforces market confidence, providing the breathing space as they continue rebuilding policy buffers, helps smooth the adjustment to a lower level of national income, and provides policy flexibility in the face of heightened global and regional uncertainties.

[3] "Impacto macroeconómico de la línea de crédito flexible con el Fondo Monetario Internacional," Manuscript. *Departamento de Modelos Macroeconómicos, Banco de la República*, March 2011.

[4] Review of the Flexible Credit Line, the Precautionary and Liquidity Line, and the Rapid Financing Instrument, IMF, January, 2014.

B. Evolution of Risks

15. Adverse external risks pose strong headwinds to Colombia's economic outlook. Colombia faced a massive oil price shock in 2014 and risks associated with emerging markets have increased since the 2014 Article IV consultation. Given the country's high exposure to commodities and increasing reliance on portfolio flows for the public as well as the private sector, these elevated downside risks are particularly challenging for Colombia and, if they materialize, could weaken Colombia's external position.

16. A surge in global risk aversion would adversely affect Colombia through financial market and trade linkages. The expected asymmetric exit from unconventional monetary policy in the U.S. and faster than expected decompression of U.S. term premia could generate a surge in bond yields or an increase in global financial volatility, which coupled with further dollar appreciation and surging global risk aversion could have strong knock-on effects on emerging markets' growth and commodity prices, including oil. In the context of Colombia's greater economic vulnerability after the oil price decline, including a stronger reliance on portfolio inflows, it could lead to sharp repricing of Colombian assets and exchange rate, as well as spillovers to export revenue, FDI, and growth. Further, the decline capital inflows could lead to lower investment, tightening liquidity conditions, and rising bond yields.

17. Negative growth shocks in key trading partners could slow Colombia's growth and capital inflows and weaken world oil prices further. Potential growth has been repeatedly revised down in advanced and emerging countries, pointing to a latent protracted period of slower growth, including in China. Given Colombia's strong trade links with the U.S., Europe, and China, slower growth in trading partners could lessen Colombia's exports receipts, FDI inflows, and further weaken oil prices.

18. Colombia would be particularly affected by further declines in commodity prices, especially oil. In 2014, commodity exports accounted for about 72 percent of total export revenues. The outlook for oil prices is uncertain and will remain exposed to bouts of volatility. In addition, given the large share of FDI inflows channeled to commodity-related projects, oil companies' cutbacks in investment associated with the cash flow constraints after the fall in prices will likely limit the growth of the sector over the medium term. Further oil price declines due to weak external demand or positive supply shocks, such as easing tensions in the Middle East and technological improvements in oil production, would therefore notably weaken Colombia's balance of payments and increase its external financing needs.

19. Regional risks have risen significantly. Growth in neighboring countries is projected to decline, thereby undermining Colombia's potential export boost from the peso depreciation. The recent fall in oil prices is likely to dampen growth in Ecuador (which has also recently raised import tariffs), and to exacerbate the economic distress in Venezuela, both of which remain key destinations for Colombia's nontraditional exports. Potential civil unrest in Venezuela could also spillover to Colombia's border areas, where unemployment could increase due to migration. In addition, economic distress in Central America could adversely affect the subsidiaries of Colombian banks that have expanded into the region.

20. Domestic risks could also weaken medium-term growth prospects. While the authorities are optimistic about a full implementation of the infrastructure investment program of road concessions, delays in project execution could put a drag on raising potential growth, boosting competitiveness, and fostering social inclusion.

21. The external economic stress index remains elevated for Colombia and would worsen under the downside scenario (Box 2). Colombia has seen a strong deterioration in the external environment throughout 2014 until the first quarter of 2015, mainly driven by the sharp fall in oil prices. With energy prices increasing somewhat and U.S. growth picking up in Q2 under the baseline, the index would stabilize but remain in negative territory as the overall level of oil price projections is significantly lower than prices observed in the past decade. In the downside scenario however, the downward trend would continue for another quarter due to a faster-than-expected increase in U.S. interest rates and heightened volatility in EMs.

Box 2. External Economic Stress Index

The External Economic Stress Index for Colombia is calculated according to the methodology outlined in "Review of the Flexible Credit Line, the Precautionary and Liquidity Line, and the Rapid Financing Instrument—Specific Proposals."

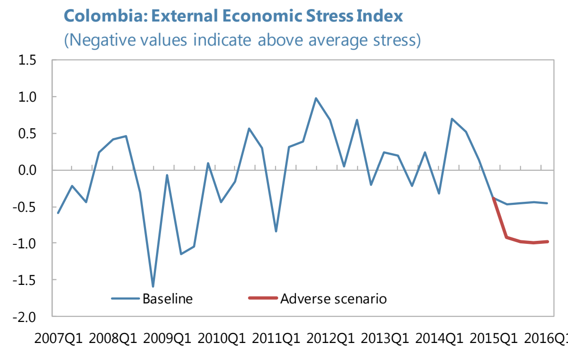
The index is based on four major variables which capture external risks for Colombia. The external risk variables include: the level of the oil price, a proxy for oil exports as well as oil-related FDI; U.S. growth, a proxy for exports, remittances and other inward FDI; the emerging market volatility index (VXEEM); and the change in the 10 year U.S. government bond yield, proxies for risks to equity and debt portfolio flows. The index is then calculated as a weighted sum of standardized deviations of the above variables from their means. The weights are estimated using balance of payments and international investment position data, all expressed as shares of GDP. The weight on oil prices (0.32) corresponds to the sum of oil and coal exports and oil-related FDI. The weight on U.S. growth (0.24) corresponds to exports to the U.S. The weight on the VXEEM (-0.04) comes from the equity portfolio investment stock and the weight on the U.S. government bond (-0.40) from the debt portfolio investment stock.

The calculation of the downside scenario reflects external risks stemming from potential heightened financial volatility following the lift-off of U.S. federal funds rate. A stronger or earlier than expected increase in U.S. interest rates for other reasons than a positive U.S. growth shock would trigger financial volatility and tightening financial conditions, notably in EMs. Moreover, a stronger U.S. dollar would put further strains on the EM growth outlook and slow down the recovery of commodity prices. The assumptions underlying the scenario are as follows:

- Similar to the 2014 Spillover report, long-term U.S. interest rates increase by 100 basis points relative to the baseline, spread over the next four quarters.
- U.S. growth by 0.5 percent lower than in the baseline, spread over the next four quarters.

Box 2. External Economic Stress Index (concluded)

- Stress in financial markets leads to an increase in the VXEEM by two standard deviations which remains at this level over the next two quarters, falling to 1.5 standard deviation in 2015Q4 and to 1 standard deviation in 2016Q1.
- With a stronger dollar, oil prices decline slightly relative to their 2015Q1 value (by about 12 percent by end 2015), as opposed to a slight improvement from Q2 onwards as under the baseline.



Source: IMF staff calculations.

C. Access Considerations under an Adverse Scenario

22. Staff considers that the level of access of 500 percent of quota requested by Colombia would provide reasonable coverage against the balance of payments needs arising from the materialization of global risks. While the 2015 baseline already incorporates the realization of the 2014 oil price shock—a price decline of 40 percent—and the subsequent decline in mainly oil-related FDI of around 25 percent, an illustrative adverse scenario (Box 3) applies additional elements of external stress which could materialize in the coming two years. The main source of risks for the Colombian economy stems from an increase in U.S. interest rates leading to rising yields and substantially higher volatility in international capital markets, which coupled with higher global risk aversion could put further downward pressure on growth in emerging markets, including China. Further oil price declines stemming from weaker global demand would lessen Colombia's exports receipts and FDI inflows even more. With oil prices falling further to close to production costs, the impact could be magnified by insolvencies in the oil sector and closing of oil fields, implying lower production going forward.[5] According to the adverse scenario, if this shock were to materialize over the next two years, Colombia's balance of payments would deteriorate by about US$5.5 billion (520−525 percent of quota) relative to the baseline projection for 2015 and 2016 (Table 3).

23. Given the current external environment, assumptions on the components of the adverse scenario have been adjusted relative to previous FCL arrangements. The changes include (i) a smaller decline in oil prices (and no decline in remittances); (ii) slightly lower rollover rates for portfolio flows, which is consistent with the recent increase in portfolio inflows and market expectations of U.S. interest rate increases; (iii) a stronger decline in FDI and longer term capital flows; and (iv) a drawdown of reserves. On this final point, the scenario assumes that in the event of external stress the authorities use some of Colombia's international reserves (about US$4.1−4.6 billion) to help cover the estimated potential financing needs, bringing end-2016

[5] The adverse scenario incorporates only the downside risk to oil prices, but not the additional risk of a decline in oil production.

reserves to around 110 percent of the IMF's Assessing Reserves Adequacy (ARA) metric augmented by the buffer for commodity exporters.

Box 3. Illustrative Adverse Scenario

An illustrative adverse scenario suggests that the requested access level of SDR 3.87 billion (about US$5.8 billion) is justified. The proposed access level, combined with a drawdown of reserves of about US$4.1–4.6 billion, would help fill the estimated potential financing needs of US$5.5 billion in 2015 and US$5.6 billion in 2016.

Assumptions underlying the adverse scenario for 2015 and 2016 are as follows:

- Rollover rates decrease to around 90 percent for short-term debt. Given strong portfolio inflows in 2014 as well as signs of foreign investor sell-offs in early 2015, a reduction in rollover rates seems justified in light of an expected asymmetric monetary exit in advanced markets and Colombia's exposure to U.S. financial markets. Short-term rollover rates are lower than in all but one FCL request for Colombia, but comparable to Mexico, for instance.
- Longer term public debt inflows are 25 percent lower than under the baseline but still reach a rollover rate of around 150 percent.
- Longer term private inflows decrease by 20 percent for non-financial flows and 25 percent for financial flows.
- World oil prices decline by 15 percent relative to the baseline and commodity prices by 10 percent. Under the adverse scenario, APSP oil prices would be about US$49.5 per barrel on average in 2015. The price shock is significantly smaller than the one experienced in the previous months and above the price of the GRAM's medium (<30 percent) downside scenario.
- FDI declines by 20 percent relative to the baseline. The decline is comparable to the first three FCL requests and smaller than the decline expected in the 2015 baseline.
- Reserves are drawn down by US$4.6 billion in 2015 and US$4.1 billion in 2016.

D. Exit Strategy

24. The authorities consider access to the FCL to be temporary and dependent on external conditions. Indeed, they have demonstrated their commitment to an exit strategy by reducing access when risks attenuated. In particular, Colombia's first FCL arrangement was approved in May 2009 in the amount of 900 percent of quota, but successor FCL arrangements starting in mid-2011 have been only 500 percent of quota reflecting the authorities' assessment that risks related to the global financial crisis had receded.

25. The authorities consider it premature to scale back access further in the current global environment. They note that global risks remain elevated, particularly risks of a potential surge in financial market volatility associated with the expected U.S. monetary policy normalization. In this context, access to the FCL is important to ensure a smooth adjustment of the Colombian economy to the sharp and persistent decline in oil prices.

26. The authorities have outlined conditions that would facilitate exit. They expect that as U.S. monetary policy normalizes, any associated global financial market volatility will recede. In addition, the Colombian economy will adjust over time to the much lower oil prices. As these adjustments take place, with substantial reduction of global risks affecting Colombia, the authorities would intend to phase out Colombia's use of the facility.

E. Review of Qualifications

27. Staff's assessment is that Colombia continues to meet the qualification criteria identified in paragraph 2 of the FCL decision (Figure 4) on access to Fund resources under an FCL arrangement. Colombia has very strong economic fundamentals and institutional policy frameworks,[6] with an inflation targeting framework and a flexible exchange regime, a fiscal policy framework anchored by a structural balance rule, and financial system oversight based on a sound regulatory and supervisory framework. Colombia has a sustained track record of implementation of very strong policies and the authorities are firmly committed to maintaining such policies going forward.[7] Staff's assessment of Colombia's qualification is based, in particular, on the following criteria:

- **Sustainable external position.** Colombia's external debt is low, at an estimated 29.3 percent of GDP at end-2014. Staff's updated external debt sustainability analysis shows that external debt ratios would decline further over the medium term and remain manageable even under large negative shocks. Based on the latest WEO projections for commodity prices, the external current account deficit is projected to widen to 5.9 percent of GDP this year, but would gradually narrow to about 3.7 percent by 2020. The real effective exchange rate was broadly in line with fundamentals by the end of 2014.

- **Capital account position dominated by private flows.** Capital account flows in Colombia are predominantly private, mostly in the form of net flows of foreign direct investment (estimated at US$12.2 billion or 3.2 percent of GDP in 2014). The reliance on portfolio inflows is projected to remain stable before gradually declining over the medium term. FDI inflows are expected to moderate from recent high levels, but will finance about 80 percent of the current account deficit over the medium-term. As a result, the current account deficit will continue to be financed largely through stable funding sources, as in the past.

- **Track-record of steady sovereign access to international capital markets at favorable terms.** Colombia has had uninterrupted access to international capital markets at favorable terms since the early 2000s. All major credit rating agencies upgraded Colombia's sovereign rating to investment grade level in recent years. While both sovereign spreads (about 210 basis points) and CDS spreads (at around 150 basis points) have increased somewhat since the time of

[6] The Executive Board concluded Colombia's 2015 Article IV Consultation on May 18, 2015. Accordingly, the assessment of qualification criteria is based on the analysis in the "Colombia—Staff Report for the 2015 Article IV Consultation" (IMF Country Report No. 15/142).

[7] The Executive Board last assessed Colombia's adherence to the FCL qualification criteria on June 18, 2014 during the review under the FCL arrangement for 500 percent of quota that expires on June 23, 2015 (IMF Country Report No. 14/172).

the last FCL arrangement (from about 140 and 90 basis points, respectively) they are broadly at par with other highly rated emerging sovereigns.

- **International reserve position remains relatively comfortable.** Gross international reserves increased during the current FCL arrangement and reached US$46.8 billion as of December 2014. This is broadly equivalent to coverage of 8.7 months of imports and over 100 percent of the sum of short term external debt at remaining maturity plus the projected current account deficit, which is relatively comfortable.

- **Sound public finances, including a sustainable public debt position.** The authorities are committed to fiscal sustainability by adhering to their structural balance rule. Strengthened fiscal framework and moderate levels of public debt helped Colombia to absorb the recent oil price shock. While public debt (44.3 percent of GDP at end-2014) is now 6.5 percentage points higher than in 2013—due in part to the cyclical widening of the public sector deficit and the valuation effects of the peso depreciation— it will gradually decline over time and remain sustainable, and in line with other investment-grade countries.

- **Low and stable inflation, in the context of a sound monetary and exchange rate policy.** The recent hike in inflation (4.6 percent y/y in April 2015) above the upper bound of the target range was mainly due to temporary supply effects which are expected to unwind later this year, especially as the disinflationary impact of the slowdown in domestic demand takes hold. Medium-term inflation expectations remain anchored at close to mid-target range of 2−4 percent. The authorities remain committed to their inflation targeting framework and flexible exchange rate.

- **Sound financial system and the absence of solvency problems that may threaten systemic stability.** Financial indicators are strong, and, according to a central bank stress test conducted in June 2014, the banking sector would remain solvent even under an extreme macroeconomic shock. Banks' exposure to companies in the oil sector is extremely low, mitigating the risk from the oil shock to direct lending portfolios.

- **Effective financial sector supervision.** The authorities made good progress in implementing FSAP recommendations, and are continuing their efforts to help address cross-border risks. The financial sector supervisor *(Superintendencia Financiera de Colombia (SFC))* continues to move ahead with risk-based supervision. The Ministry of Finance is working on proposals to implement the Basel III capital adequacy measure, Basel II (Pillar 2) buffers, conservation capital buffers, and capital surcharges for domestic systemically important banks to increase loss absorbency against cross-border and domestic risks. The authorities have also put a draft law before Congress which will strengthen independence of the SFC by requiring a clear fixed-term appointment and reasons for removal. SFC staff will be provided legal assistance and protection from lawsuits when acting in good faith. The SFC will also be given supervisory and regulatory powers over the holding company of a financial conglomerate and will be able to obtain information from domestic and foreign entities currently not subject to supervision. The SFC does not have, however, any enforcement powers over non-financial institutions that form part of mixed conglomerates.

- **Data transparency and integrity.** Colombia's macroeconomic data continues to meet the high standards found during the 2006 data ROSC. Colombia remains in observance of the Special Data Dissemination Standards (SDDS), and the authorities provide all relevant data to the public on a timely basis.

28. International indicators of institutional quality show that Colombia has strong and improving government effectiveness. Colombia has sharply improved its ranking in the World Bank's indicators of the ease of doing business, rising 19 places over the past year to a ranking of 34, the best in Latin America. Furthermore, reflecting the authorities' continuing efforts to further strengthen the already sound institutions and policy frameworks, Colombia compares favorably with other regional peers and emerging markets on a number of institutional quality indicators, including government effectiveness (Figure 7).

F. Impact on Fund Finances, Risks, and Safeguards

29. Access under the proposed two-year FCL arrangement (SDR 3.87 billion or 500 percent of quota) would have only marginal effect on Fund's liquidity. The Fund's liquidity is expected to remain adequate after the approval of the proposed FCL arrangement for Colombia, and will be further discussed in the supplement assessing the impact on the Fund's finances and liquidity position if Board approval for the proposed FCL arrangements is requested. In particular, the reduction in the Forward Commitment Capacity arising from the new arrangement would be small, partially offset by the expiration of Colombia's existing FCL arrangement (Table 12).

30. Risks to the Fund are judged to be low. The authorities have indicated that they intend to treat the new FCL arrangement as precautionary. Nevertheless, even if Colombia were to draw all the resources available under the new FCL arrangement, its capacity to meet its financial obligations to the Fund would remain strong (Table 13). Colombia has an excellent track record of meeting its financial obligations, the government has a strong commitment to macroeconomic stability and prudent policies, and the economy's medium-term growth prospects are good. Even if the adverse scenario were to materialize, Colombia's external debt would remain on a sustainable medium-term path, and debt service would continue to be manageable.

31. Staff has completed the safeguards procedures for Colombia's 2013 FCL arrangement. The authorities provided the necessary authorization for Fund staff to communicate directly with the central bank's external auditor, PricewaterhouseCoopers (PwC) Colombia, for the current FCL arrangement. As such, staff reviewed the 2012 audit results and discussed these with PwC. Staff concluded that no significant safeguards issues emerged for the conduct of these procedures. In preparation for the proposed successor arrangement, the BRC has provided the authorization needed for an update of the safeguards procedures to be conducted by Fund staff in relation to the proposed arrangement.

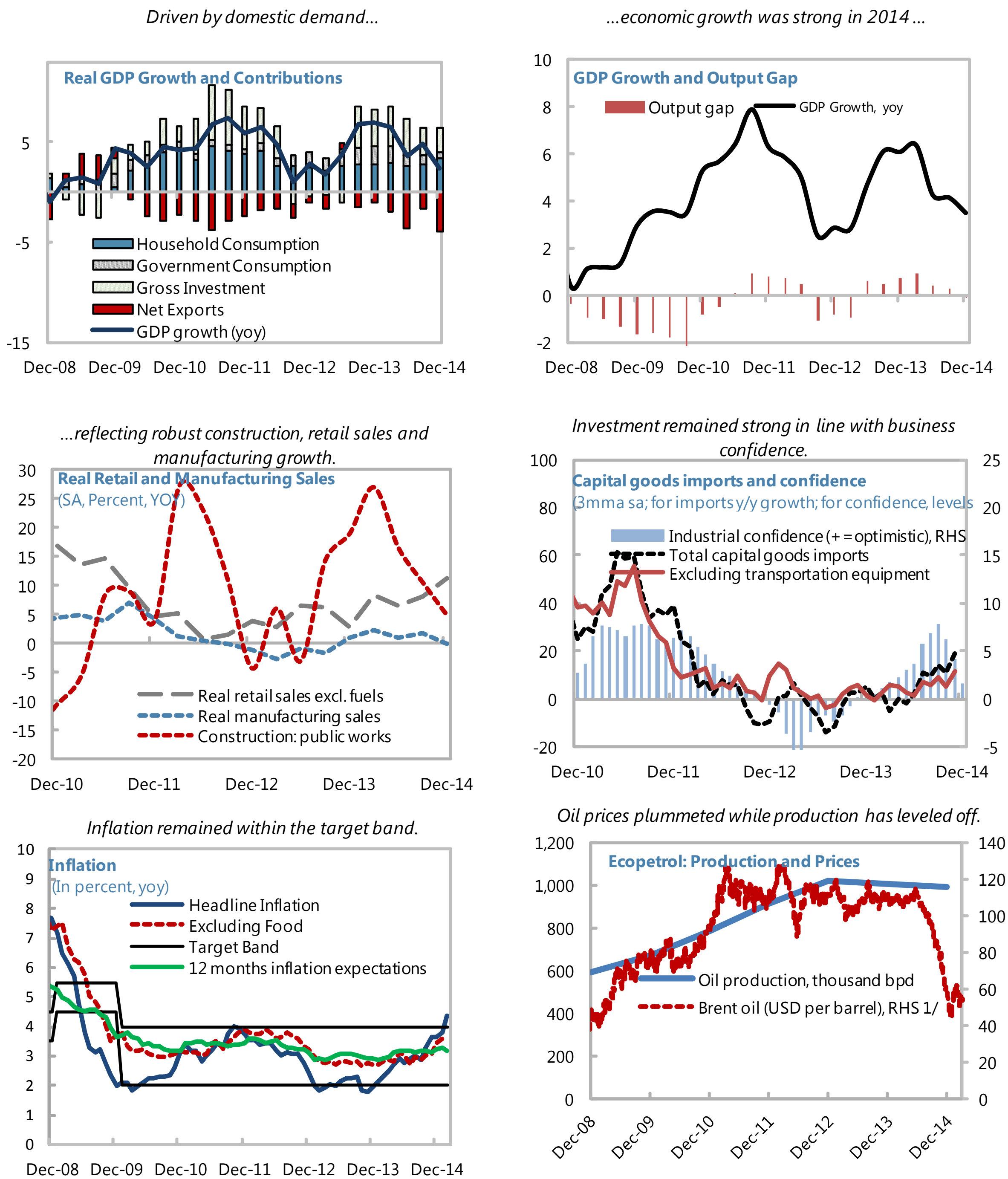
G. Staff Appraisal

32. Staff assesses that Colombia continues to meet the qualification criteria for access to FCL resources. As discussed above, Colombia has very strong policy frameworks and economic fundamentals. The authorities have a successful track record of sound policy management and are firmly committed to maintaining prudent policies and continue strengthening policy buffers. At the same time, they are implementing an ambitious structural reform package, which is expected to boost medium-term economic prospects.

33. Staff recommends approval of a two-year FCL arrangement for the equivalent of SDR 3.87 billion (500 percent of quota). Despite very strong underlying fundamentals and policies, Colombia is facing a permanent adjustment to weaker external conditions while being vulnerable to tail risks including a surge in financial volatility, a protracted growth slowdown in trading partners, and a further decline in oil prices. A new FCL arrangement for 500 of quota, which the authorities intend to treat as precautionary, would provide the breathing space as they continue rebuilding policy buffers, serve as an appropriate temporary insurance that reinforces market confidence, help smooth the adjustment to a lower level of national income, and provide policy flexibility in the face of heightened global and regional uncertainties. Staff welcomes the authorities' exit strategy and would encourage the authorities to phase out their use of the facility as risks to the global outlook affecting Colombia recede. The authorities might find some benefit in clearly communicating an exit strategy.

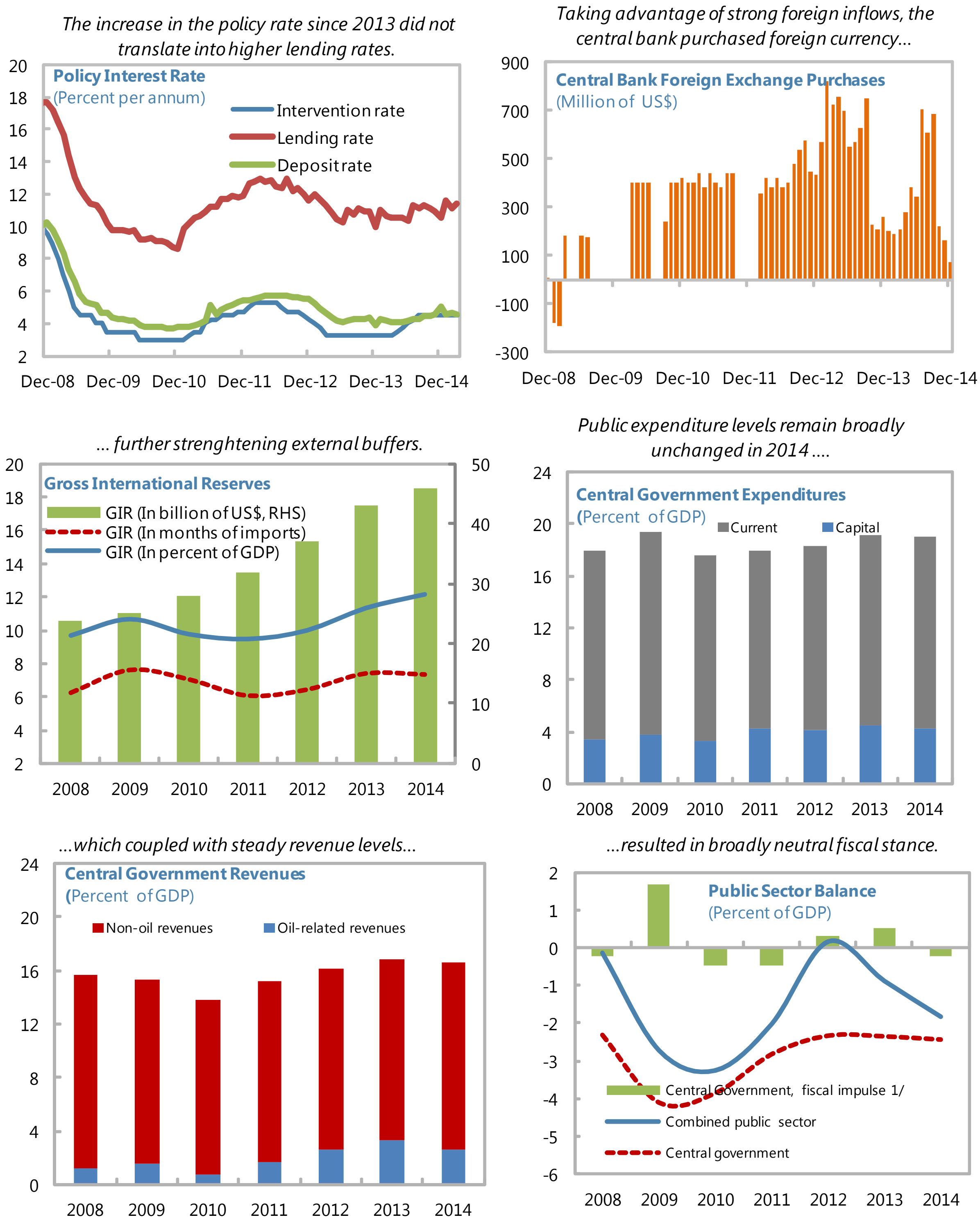
34. Staff deems that the proposed FCL arrangement carries low risks to the Fund. The proposed arrangement will have only a marginal effect on the Fund's liquidity and while Colombia intends to treat the FCL as precautionary, the Fund's credit exposure to Colombia would remain moderate even with a drawing. Risks are further contained by Colombia's very strong repurchasing record with the Fund and manageable external debt service profile.

Figure 1. Colombia: Recent Economic Developments



Source: Banco de la República; DANE; Bloomberg; and Fund staff estimates.
1/ Colombia mix follows closely Brent oil prices.

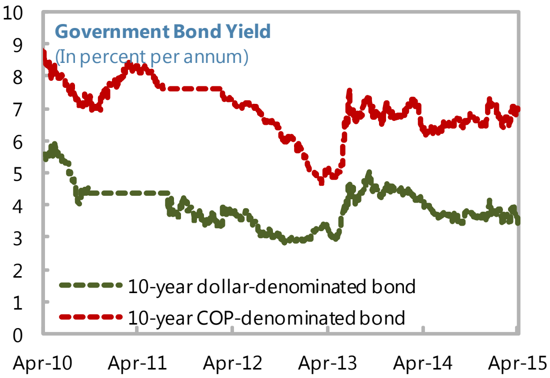
Figure 2. Colombia: Macroeconomic Policies



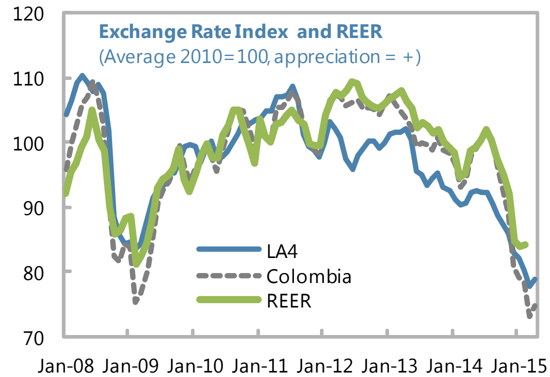
Sources: Banco de la República; and Fund staff estimates.
1/ Corresponds to the change in the structural primary deficit.

Figure 3. Colombia: Recent Macro-Financial Developments 1/

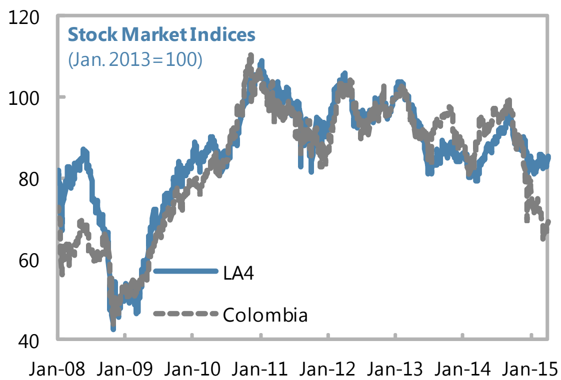
Government debt yields increased ...



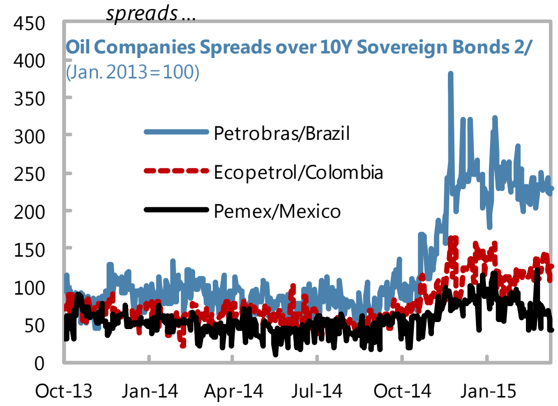
... as the peso depreciated against other currencies...



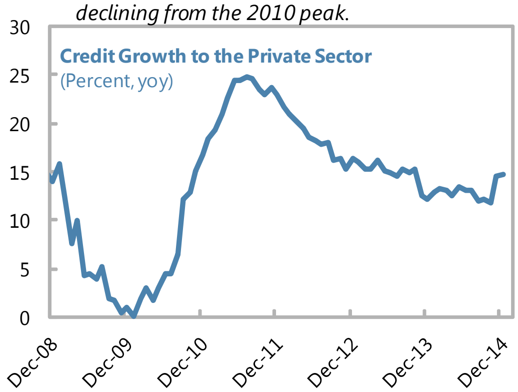
... and local assets prices declined.



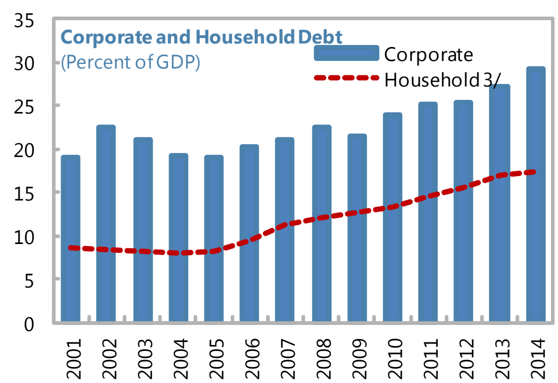
Ecopetrol spreads increased more than the sovereign spreads...



Private credit was strong in 2014 although declining from the 2010 peak.



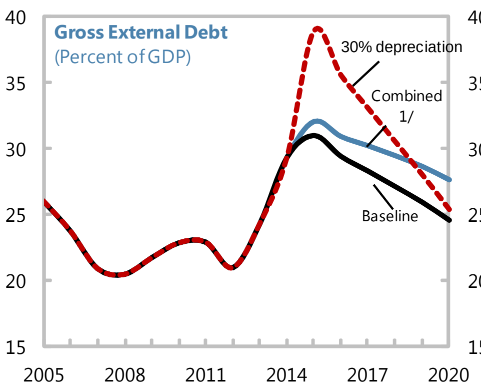
Households and corporate debt increased but remained moderate.



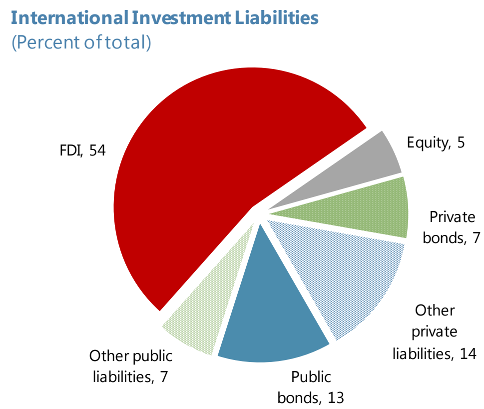
Source: Banco de la República; DANE; Bloomberg; and Fund staff estimates.
1/ LA4 corresponds to the average of Brazil, Colombia, Peru and Mexico.
2/ Spreads are calculated using yields on 2024 soveing bonds in USD and 2023 bonds for oil companies.
3/Data for 2014 refers to June 2014.

Figure 4. Colombia: FCL Qualification Criteria

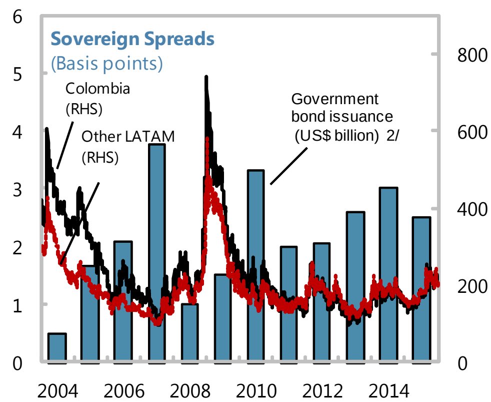
Low and sustainable external debt.



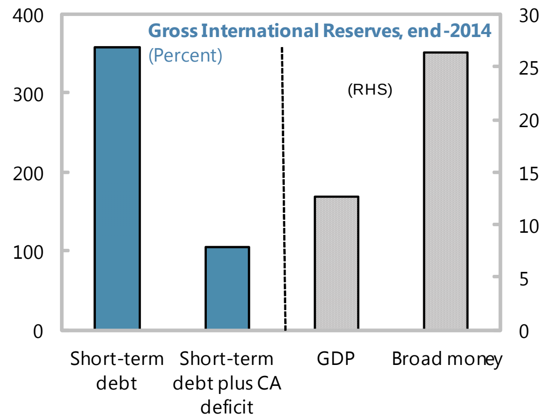
Nonresident claims concentrated in FDI.



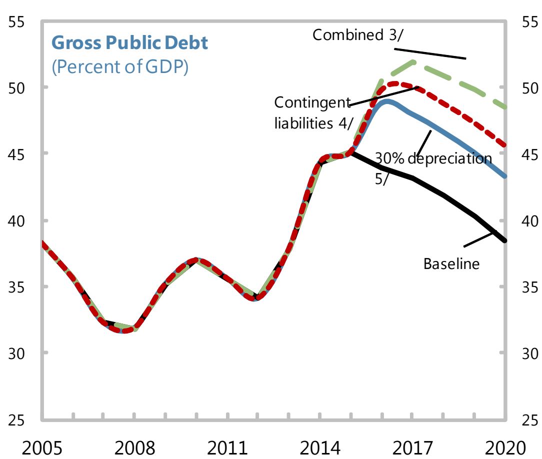
Uninterrupted access to capital markets.



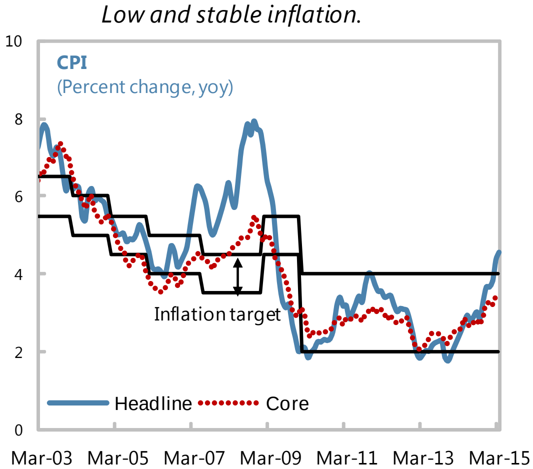
Comfortable reserve coverage.



Sustainable public debt dynamics.



Low and stable inflation.



Sources: Banco de la República; Ministerio de Hacienda y Crédito Público; Datastream; Haver; and Fund staff estimations.

1/ Combined permanent 1/4 standard deviation shocks applied to interest rate; growth; and non-interest current account balance.

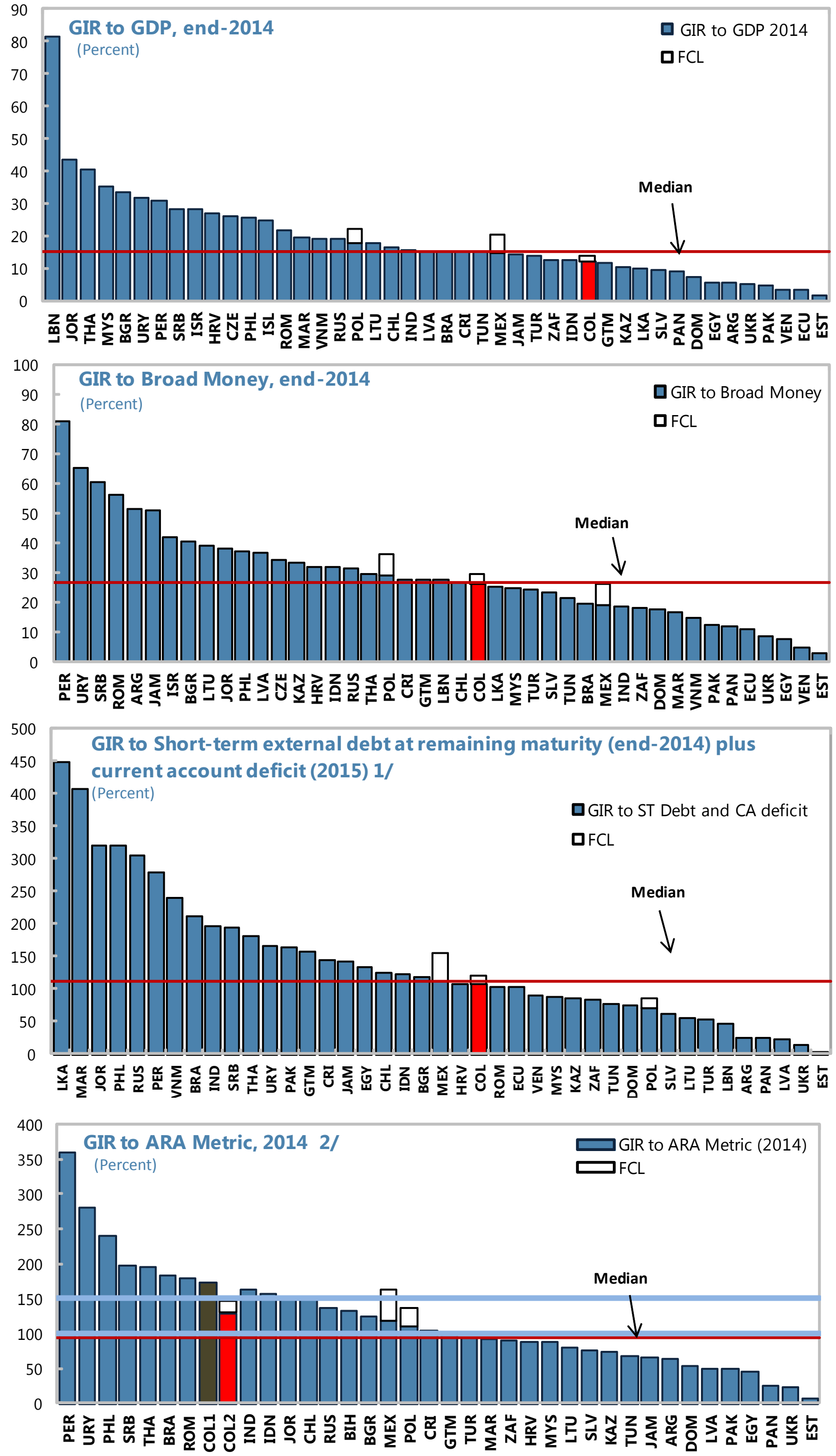
2/ Data for 2015 corresponds to issuance up to March 2015.

3/ Combined 2 year shock to primary balance (1/2 standard deviation) and growth (1 standard deviation) shocks to primary balance; permanent shock to interest rate (to historical maximum) and exchange rate (30 percent nominal).

4/ One-time increase in non-interest expenditures equivalent to 10 percent of banking sector assets leads to a real GDP growth shock (see above): growth is reduced by 1 standard deviation for 2 consecutive years; interest rate increases as a function of the widening of the primary deficit

5/ 30 percent permanent nominal depreciation in 2016.

Figure 5. Colombia: Reserve Coverage in an International Perspective

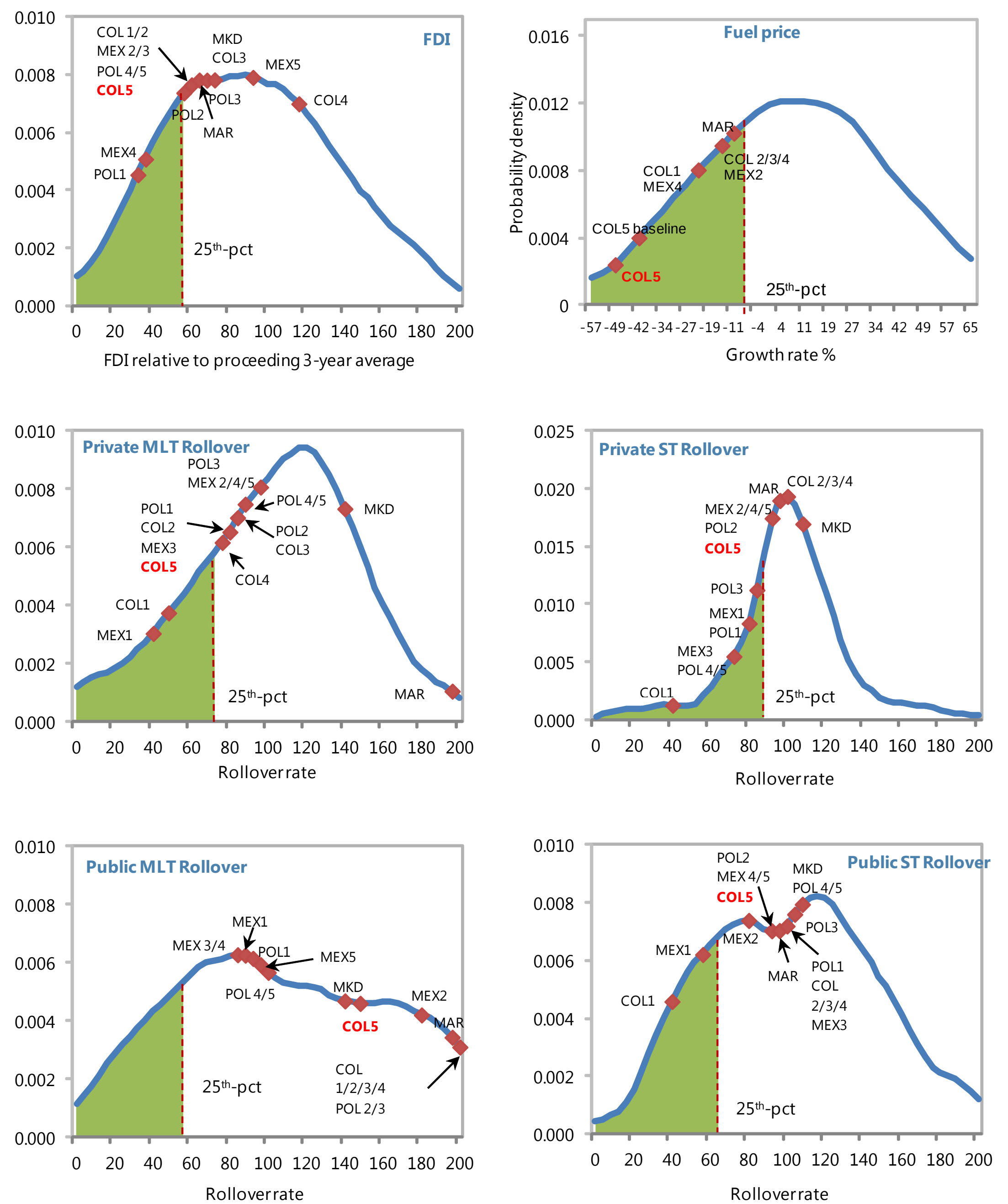


Sources: World Economic Outlook ; IFS; and Fund staff estimates.

1/ The current account is set to zero if it is in surplus.

2/ The blue lines denote the 100-150 percent range of reserve coverage regarded as adequate for a typical country under this metric. COL1 displays the reserve ratio using the original ARA metric. COL2 reflects the ARA metric for Colombia augmented by the buffer for commodity exporters.

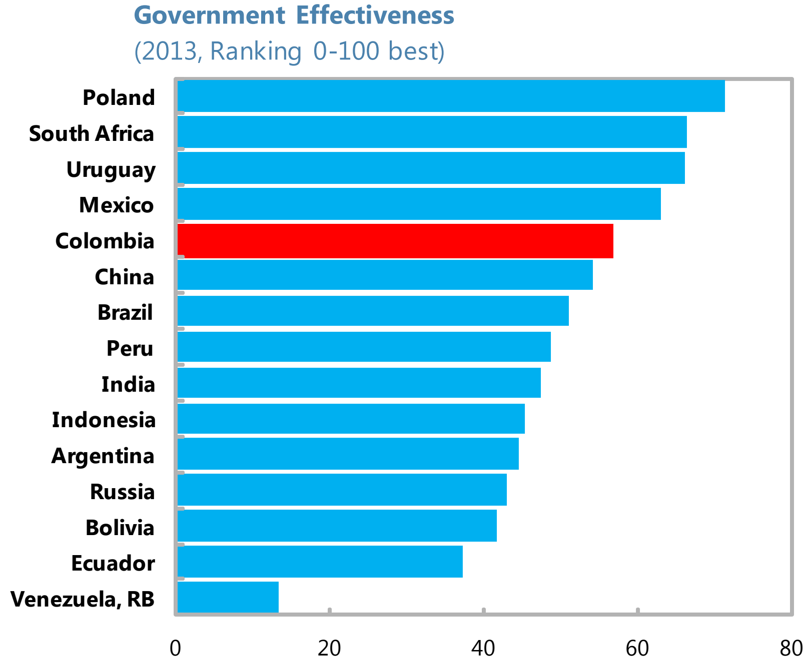
Figure 6. Colombia and Selected Countries: Comparing Adverse Scenarios 1/

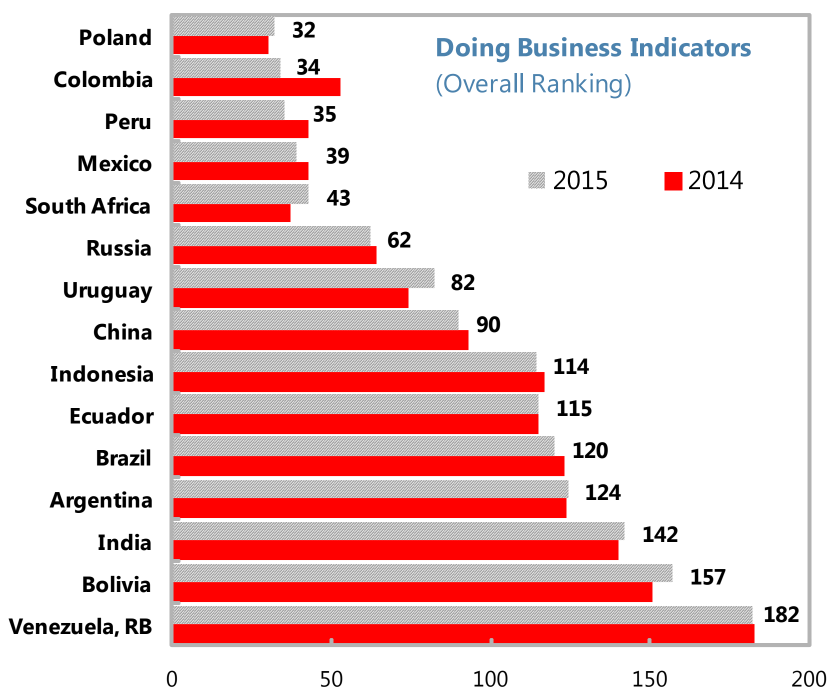


Source: Fund staff calculations.

1/ The empirical distributions are based on countries' actual experiences during the crisis year (for all four types of debt rollover rates), or countries' experiences during the crisis year relative to proceeding 3-year average (for FDI). For the presented FCL/PLL country cases, shocks are defined according to the adverse scenario (with the exception of the 2015 fuel price growth rate labeled COL 5 baseline) and placed on the kernel curve.

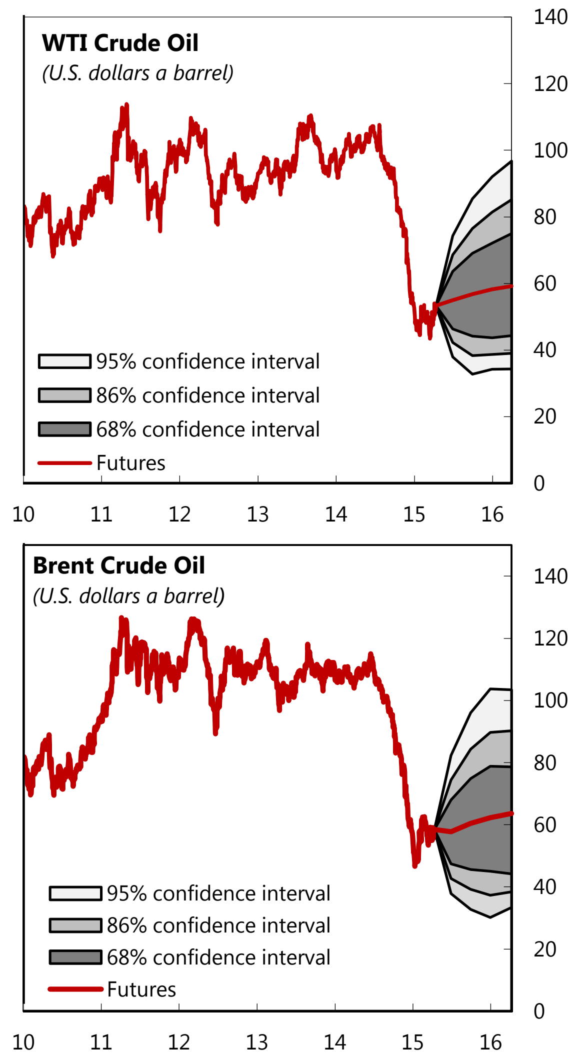
Figure 7. Colombia: Indicators of Doing Business and Institutional Quality





Sources: World Bank and Fund staff estimates.

Figure 8. Oil Price Fan Chart



Source: Fund staff estimates.

Table 1. Colombia: Selected Economic and Financial Indicators

I. Social and Demographic Indicators

Population (million), 2014	47.7	Unemployment rate, December 2014 (percent)	9.1
Urban population (percent of total), 2013	75.9	Physicians (per 1,000 people), 2010	1.5
GDP, 2014		Adult illliteracy rate (ages 15 and older), 2011	6.4
per capita (US$)	7,928	Gross primary school enrollment rate, 2012	106.9
in billion of Col$	710,257	Access to water (percent of population), 2011	92.9
in billion of US$	378	Gini coefficient, 2014	53.8
Life expectancy at birth (years), 2012	73.8	Poverty rate (US$2 a day, PPP), 2012	12.0
Mortality rate, (under 5, per 1,000 live births), 2013	16.9	Extreme poverty rate (US$1.25 a day, PPP), 2012	5.6

II. Economic Indicators

					Projections			
	2013	2014	2015	2016	2017	2018	2019	2020
	(In percentage change, unless otherwise indicated)							
National income and prices								
Real GDP	4.9	4.6	3.4	3.7	4.0	4.2	4.3	4.3
GDP deflator	1.9	1.8	1.0	3.7	3.1	3.0	2.9	3.0
Consumer prices (average)	2.0	2.9	3.9	3.4	3.0	3.0	3.0	3.0
Consumer prices (end of period)	1.9	3.7	3.6	3.2	3.0	3.0	3.0	3.0
External sector								
Exports (f.o.b.)	-2.1	-5.5	-21.4	12.0	8.0	5.1	4.4	3.9
Imports (f.o.b.)	0.8	8.0	-15.6	4.5	4.3	3.9	3.5	3.7
Export volume	4.0	0.3	4.8	6.7	5.3	4.1	4.0	3.1
Import volume	2.7	10.9	-7.7	3.0	3.1	3.1	2.9	3.2
Terms of trade (deterioration -)	-4.1	-3.2	-18.0	3.4	1.3	0.2	-0.2	0.3
Real effective exchange rate (depreciation -)	-3.3	-5.3	-14.3	2.6	1.8	0.8	0.9	0.9
Money and credit								
Broad money	13.4	10.0	13.0	13.0	13.5	13.5	13.5	13.5
Credit to the private sector	12.1	14.7	11.9	9.9	12.0	12.0	12.0	12.1
	(In percent of GDP)							
Central government balance	-2.3	-2.4	-2.7	-2.5	-2.2	-2.0	-1.7	-1.4
Central government structural balance	-3.4	-3.1	-2.8	-2.1	-2.0	-1.9	-1.6	-1.4
Combined public sector balance 1/	-0.9	-1.8	-3.3	-2.4	-2.2	-1.6	-1.3	-1.0
Public debt	37.8	44.3	45.1	44.0	43.2	41.8	40.3	38.5
Public debt, excluding Ecopetrol	36.1	41.5	42.3	41.3	40.6	39.4	38.2	36.4
Gross domestic investment	24.2	26.0	24.4	23.6	23.5	23.4	23.2	23.1
Gross national savings	20.9	20.8	18.5	18.6	19.1	19.2	19.2	19.4
Current account (deficit -)	-3.2	-5.2	-5.9	-5.0	-4.4	-4.2	-4.0	-3.7
External debt 2/	24.2	29.3	31.3	29.6	28.5	27.3	26.1	24.7
Of which: public sector	13.8	18.5	19.0	18.0	17.2	16.4	15.6	14.7
GIR in percent of short-term debt 3/	181.9	187.0	198.8	174.5	180.9	166.1	175.0	179.1
	(In percent of exports of goods and services)							
External debt service	29.9	44.7	58.2	47.5	49.1	46.8	49.8	47.0
Of which: public sector	7.4	10.0	13.0	9.1	11.2	8.3	11.1	7.4
Interest payments	5.9	7.6	10.1	7.7	7.1	6.8	6.4	5.8
Of which: public sector	3.9	4.4	6.1	4.6	4.2	4.0	3.7	3.2
	(In billion of U.S. dollars; unless otherwise indicated)							
Overall balance of payments	6.7	4.4	-0.8	-0.3	1.7	1.7	2.0	2.1
Exports (f.o.b.)	60.3	57.0	44.8	50.2	54.2	56.9	59.5	61.8
Of which: Petroleum products	32.0	28.9	18.3	21.0	22.5	23.0	23.3	23.3
Of which: Coffee	1.9	2.5	2.0	2.2	2.4	2.5	2.6	2.7
Gross official reserves 4/	43.2	46.8	46.0	45.7	47.4	49.2	51.1	53.3
Share of ST debt at remaining maturity + CA deficit	99	105	112	106	109	104	109	112
In months of imports of goods and services	6.9	8.7	8.2	7.8	7.7	7.7	7.7	8.0

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

1/ Includes the quasi-fiscal balance of Banco de la República, sales of assets, phone licenses, and statistical discrepancy.
2/ Does not include Banco de la República's outstanding external debt.
3/ GIR refers to Gross International Reserves.
4/ Excludes Colombia's contribution to FLAR and includes valuation changes of reserves denominated in currencies other than U.S. dollars.

Table 2a. Colombia: Summary of Balance of Payments

	2013	2014	2015	2016	2017	2018	2019	2020
			Projections					
Current account balance	**-12,330**	**-19,781**	**-19,361**	**-17,968**	**-17,057**	**-17,363**	**-17,892**	**-17,883**
Trade balance	3,180	-4,694	-7,283	-4,260	-2,574	-2,044	-1,571	-1,510
Exports, f.o.b.	60,281	56,982	44,799	50,179	54,189	56,944	59,462	61,782
Coffee	1,884	2,473	1,980	2,163	2,378	2,497	2,622	2,727
Petroleum products	32,011	28,885	18,305	21,029	22,500	22,988	23,259	23,297
Non-traditional	12,447	11,846	11,846	13,472	14,888	16,216	17,482	18,850
Other	13,939	13,777	12,668	13,515	14,423	15,243	16,099	16,908
Imports, f.o.b.	57,101	61,676	52,082	54,438	56,762	58,987	61,032	63,292
Services (net)	-5,929	-6,586	-5,356	-5,433	-5,714	-6,085	-6,495	-7,049
Income (net)	-14,175	-12,857	-11,062	-12,797	-13,503	-14,195	-15,031	-14,581
Interest (net)	-3,097	-4,129	-4,181	-2,603	-1,858	-1,283	-953	-596
Of which : Public sector	-2,126	-2,516	-2,612	-1,766	-1,593	-1,428	-1,288	-1,007
Other Income (net)	-11,430	-8,303	-6,880	-10,194	-11,645	-12,912	-14,078	-13,985
Current transfers (net)	4,594	4,357	4,339	4,522	4,733	4,961	5,205	5,257
Financial account balance	**18,782**	**23,949**	**18,529**	**17,656**	**18,805**	**19,087**	**19,860**	**19,997**
Public sector (net)	8,448	11,470	7,719	4,905	3,597	3,749	3,842	4,011
Nonfinancial public sector	8,715	11,262	7,616	4,706	3,591	3,734	3,850	4,019
Medium- and long-term (net)	6,141	6,955	2,806	2,254	1,721	1,416	1,122	914
Disbursements	7,918	10,115	5,963	4,406	5,584	3,788	5,682	3,460
Amortization	1,651	3,041	3,044	2,045	3,761	2,275	4,467	2,421
Other long-term flows	-125	-119	-113	-108	-102	-97	-92	-125
Short term 1/	2,574	4,307	4,810	2,453	1,871	2,318	2,728	3,106
Of which : change in public assets	-184	1,389	102	99	94	80	101	111
Financial public sector	-267	208	104	199	5	15	-8	-8
Private sector (net)	10,302	12,476	10,810	12,751	15,208	15,338	16,018	15,986
Nonfinancial private sector (net)	7,769	12,356	10,038	11,888	14,231	14,461	15,339	15,405
Direct investment	8,548	12,155	9,753	11,156	12,623	13,077	13,665	14,380
Direct investment abroad	7,652	3,899	2,346	1,191	1,219	1,246	1,273	1,300
Direct investment in Colombia	16,200	16,054	12,099	12,347	13,841	14,323	14,938	15,680
Leasing finance	186	11	-580	18	116	202	285	97
Long-term loans	505	43	471	85	295	50	253	78
Short term 2/	-1,470	147	394	630	1,198	1,132	1,137	849
Financial private sector (net)	2,533	120	772	862	977	877	678	581
Valuation changes/Contribution to FLAR 3/	-539	-746	0	0	0	0	0	0
Overall balance of payments	**6,947**	**4,436**	**-832**	**-312**	**1,748**	**1,724**	**1,968**	**2,114**
Net errors and omissions	495	268	0	0	0	0	0	0
Changes in GIR 4/	**6,160**	**3,688**	**-832**	**-312**	**1,748**	**1,724**	**1,968**	**2,114**
Memorandum Items:								
Current account balance (in percent of GDP)	-3.2	-5.2	-5.9	-5.0	-4.4	-4.2	-4.0	-3.7
Oil Price (Colombian mix US$ per barrel)	100.3	91.9	55.5	62.7	66.6	68.5	69.8	70.7
Gross international reserves (in US$ billion)	43.2	46.8	46.0	45.7	47.4	49.2	51.1	53.3
In percent of short-term external debt 5/	361.5	364.1	373.9	351.9	335.6	325.1	322.2	325.0
In percent of ST external debt plus CA	99.2	105.5	111.9	105.7	108.8	103.5	108.6	111.8
In months of prospective GNFS imports	6.9	8.7	8.2	7.8	7.7	7.7	7.7	8.0
Nominal GDP (US$ billion)	380.1	377.9	329.4	357.4	387.2	415.6	446.1	479.3

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

1/ Deposit flows of public sector entities abroad.
2/ Includes net portfolio investment.
3/ FLAR is Fondo Latinoamericano de Reservas.
4/ IMF definition that excludes Colombia's contribution to Fondo Latinoamericano de Reservas (FLAR) and includes valuation changes of reserves denominated in other currencies than U.S. dollars.
5/ Original maturity of less than 1 year. Stock at the end of the previous period.

Table 2b. Colombia: Summary Balance of Payments

(In percent of GDP)

	2013	2014	2015	2016	2017	2018	2019	2020
			Projections					
Current account balance	**-3.2**	**-5.2**	**-5.9**	**-5.0**	**-4.4**	**-4.2**	**-4.0**	**-3.7**
Trade balance	0.8	-1.2	-2.2	-1.2	-0.7	-0.5	-0.4	-0.3
Exports, f.o.b.	15.9	15.1	13.6	14.0	14.0	13.7	13.3	12.9
Coffee	0.5	0.7	0.6	0.6	0.6	0.6	0.6	0.6
Petroleum products	8.4	7.6	5.6	5.9	5.8	5.5	5.2	4.9
Non-traditional	3.3	3.1	3.6	3.8	3.8	3.9	3.9	3.9
Other	3.7	3.6	3.8	3.8	3.7	3.7	3.6	3.5
Imports, f.o.b.	15.0	16.3	15.8	15.2	14.7	14.2	13.7	13.2
Services (net)	-1.6	-1.7	-1.6	-1.5	-1.5	-1.5	-1.5	-1.5
Income (net)	-3.7	-3.4	-3.4	-3.6	-3.5	-3.4	-3.4	-3.0
Interest (net)	-0.8	-1.1	-1.3	-0.7	-0.5	-0.3	-0.2	-0.1
Of which: Public sector	-0.6	-0.7	-0.8	-0.5	-0.4	-0.3	-0.3	-0.2
Other Income (net)	-3.0	-2.2	-2.1	-2.9	-3.0	-3.1	-3.2	-2.9
Current transfers (net)	1.2	1.2	1.3	1.3	1.2	1.2	1.2	1.1
Financial account balance	**5.0**	**6.3**	**5.6**	**4.9**	**4.9**	**4.6**	**4.5**	**4.2**
Public sector (net)	2.2	3.0	2.3	1.4	0.9	0.9	0.9	0.8
Nonfinancial public sector	2.3	3.0	2.3	1.3	0.9	0.9	0.9	0.8
Medium- and long-term (net)	1.6	1.8	0.9	0.6	0.4	0.3	0.3	0.2
Disbursements	2.1	2.7	1.8	1.2	1.4	0.9	1.3	0.7
Amortization	0.4	0.8	0.9	0.6	1.0	0.5	1.0	0.5
Other long-term flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Short term 1/	0.7	1.1	1.5	0.7	0.5	0.6	0.6	0.6
Financial public sector	-0.1	0.1	0.0	0.1	0.0	0.0	0.0	0.0
Private sector (net)	2.7	3.3	3.3	3.6	3.9	3.7	3.6	3.3
Nonfinancial private sector (net)	2.0	3.3	3.0	3.3	3.7	3.5	3.4	3.2
Direct investment	2.2	3.2	3.0	3.1	3.3	3.1	3.1	3.0
Direct investment abroad	2.0	1.0	0.7	0.3	0.3	0.3	0.3	0.3
Direct investment in Colombia	4.3	4.2	3.7	3.5	3.6	3.4	3.3	3.3
Leasing finance	0.0	0.0	-0.2	0.0	0.0	0.0	0.1	0.0
Long-term loans	0.1	0.0	0.1	0.0	0.1	0.0	0.1	0.0
Short term 2/	-0.4	0.0	0.1	0.2	0.3	0.3	0.3	0.2
Financial private sector (net)	0.7	0.0	0.2	0.2	0.3	0.2	0.2	0.1
Valuation changes/Contribution to FLAR 3/	-0.1	-0.2	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance of payments	**1.9**	**1.2**	**-0.3**	**-0.1**	**0.5**	**0.4**	**0.4**	**0.4**
Net errors and omissions	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0

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

1/ Deposit flows of public sector entities abroad.

2/ Includes net portfolio investment.

3/ FLAR is Fondo Latinoamericano de Reservas.

Table 3. Colombia: External Financing Requirements and Sources

(In millions of U.S. dollars)

			Staff Projections			
			Baseline	Adverse Scenario	Baseline	Adverse Scenario
	2013	2014		2015		2016
Gross external financing requirements	**35,174**	**47,719**	**43,575**	**42,348**	**40,801**	**39,969**
External current account deficit	12,330	19,781	19,361	21,902	17,968	20,962
Debt amortization	16,145	23,723	25,046	25,046	23,145	23,145
Medium and long term debt	5,812	11,785	12,179	12,179	10,839	10,839
Public sector 1/	1,694	3,082	3,083	3,083	2,093	2,093
Private sector	4,118	8,703	9,097	9,097	8,746	8,746
Short-term debt 2/	10,333	11,937	12,867	12,867	12,306	12,306
Public sector	665	515	515	515	515	515
Private sector	9,669	11,422	12,352	12,352	11,791	11,791
Gross reserves accumulation 3/	6,699	4,215	-832	-4,600	-312	-4,139
Available external financing	**35,321**	**47,719**	**43,575**	**36,828**	**40,801**	**34,402**
Foreign direct investment (net)	8,548	12,155	9,753	7,333	11,156	8,686
o/w inward (net)	16,200	16,054	12,099	9,679	12,347	9,878
Medium and long-term debt disbursements	15,864	19,171	15,442	11,840	13,864	10,614
Public sector 1/	8,164	10,414	6,105	4,579	4,653	3,490
Private sector	7,701	8,758	9,336	7,261	9,211	7,124
Public sector use of external assets 4/	-184	1,389	102	102	99	99
Short-term debt 5/	11,937	12,867	12,306	11,580	12,986	12,306
Public sector	515	515	515	464	515	515
Private sector	11,422	12,352	11,791	11,117	12,471	11,791
Other capital flows (net) 6/	-845	2,137	5,973	5,973	2,697	2,697
Financing gap analysis (in US$ millions, unless specified)						
Financing needs (A+B-C)				**5,520**		**5,567**
In percent of quota				*520*		*525*
A. Current account shock				2,541		2,994
In percent of quota				*239*		*282*
B. Capital account shock				6,747		6,399
In percent of quota				*636*		*603*
Combined shock				**9,288**		**9,393**
In percent of quota				*875*		*885*
C. Reserve depletion relative to baseline				3,768		3,827
In percent of quota				*355*		*361*
Memorandum items:						
100 percent of quota (in SDR million)				774		774
100 percent of quota (in US$ million)				1,061		1,061
Gross international reserves 4/	43,158	46,846	46,014	42,246	45,701	38,107
Gross international reserves / (st debt at remaining maturity + ca deficit)	99.2	105.5	111.9	95.8	105.7	82.7
Gross international reserves (months of imports of G&S)	6.9	8.7	8.2	7.5	7.8	6.5

Sources: Banco de la República and Fund staff estimates.

1/ Including financial public sector.
2/ Original maturity of less than 1 year. Stock at the end of the previous period.
3/ IMF definition that excludes Colombia's contribution to Fondo Latinoamericano de Reservas (FLAR) and includes valuation changes of reserves denominated in other currencies than U.S. dollars.
4/ Assumes build-up of Ecopetrol dividends as a safeguard against long-term fiscal liabilities.
5/ Original maturity of less than 1 year. Stock at the end of the current period.
6/ Includes all other net financial flows (i.e. pension funds, other portfolio flows), Colombia's contribution to FLAR, and errors and

Table 4a. Colombia: Operations of the Central Government 1/

(In percent of GDP, unless otherwise indicated)

			Projections					
	2013	2014	2015	2016	2017	2018	2019	2020
Total revenue	**16.9**	**16.7**	**15.9**	**15.8**	**15.7**	**15.8**	**15.8**	**15.7**
Current revenue	**14.3**	**14.4**	**14.5**	**14.4**	**14.4**	**14.5**	**14.4**	**14.4**
Tax revenue	**14.2**	**14.3**	**14.4**	**14.3**	**14.3**	**14.4**	**14.3**	**14.3**
Net income tax and profits 2/	6.3	5.0	4.6	4.5	4.5	4.6	4.6	4.7
Goods and services	4.9	5.1	5.0	5.1	5.0	5.1	5.0	5.0
Value-added tax	4.9	5.1	5.0	5.1	5.0	5.1	5.0	5.0
Gasoline tax	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
International trade	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Financial transaction tax	0.8	0.9	0.8	0.8	0.8	0.8	0.8	0.8
Stamp and other taxes	1.6	2.8	3.4	3.4	3.4	3.4	3.4	3.4
Nontax revenue	**2.7**	**2.3**	**1.5**	**1.5**	**1.4**	**1.4**	**1.4**	**1.4**
Property income	0.1	0.2	0.3	0.3	0.3	0.3	0.3	0.3
Other	2.6	2.2	1.3	1.2	1.2	1.2	1.1	1.1
Total expenditure and net lending	**19.2**	**19.1**	**18.6**	**18.3**	**18.0**	**17.8**	**17.4**	**17.1**
Current expenditure	**14.6**	**14.8**	**15.2**	**15.0**	**14.9**	**14.8**	**14.7**	**14.5**
Wages and salaries	2.1	2.3	2.3	2.3	2.2	2.2	2.1	2.1
Goods and services	0.9	0.8	0.8	0.8	0.7	0.7	0.6	0.6
Interest	2.3	2.2	2.6	2.5	2.4	2.4	2.4	2.4
External	0.5	0.5	0.7	0.7	0.7	0.6	0.6	0.6
Domestic	1.8	1.8	1.9	1.8	1.8	1.8	1.8	1.8
Current transfers	9.3	9.4	9.4	9.4	9.4	9.4	9.4	9.4
Capital expenditure	**4.5**	**4.3**	**3.4**	**3.3**	**3.1**	**3.1**	**2.8**	**2.6**
Fixed capital formation	3.2	3.0	2.0	1.9	1.7	1.7	1.4	1.2
Capital transfers	1.3	1.3	1.4	1.4	1.4	1.4	1.4	1.4
Net lending	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall balance	**-2.3**	**-2.4**	**-2.7**	**-2.5**	**-2.2**	**-2.0**	**-1.7**	**-1.4**
Memorandum items:								
Oil-related revenues 3/	3.3	2.6	1.2	1.0	0.9	0.9	0.8	0.8
Structural balance 4/	-3.4	-3.1	-2.8	-2.1	-2.0	-1.9	-1.6	-1.4
Adjusted overall balance 5/	-2.7	-2.7	-2.9	-2.7	-2.4	-2.2	-1.8	-1.5
Structural primary non-oil balance	-3.2	-2.9	-1.3	-1.0	-0.7	-0.5	-0.1	0.3
Fiscal Impulse	0.9	-0.3	-1.5	-0.3	-0.3	-0.2	-0.4	-0.3
Non-oil balance	-5.7	-5.0	-3.9	-3.5	-3.2	-2.9	-2.5	-2.2
Primary balance	0.0	-0.2	-0.1	-0.1	0.2	0.4	0.8	1.0
Nominal GDP (in Col$ trillion)	710.3	756.2	789.3	849.1	910.8	977.4	1,049.1	1,127.3

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

1/ Includes central administration only.

2/ The increase in tax revenue in 2012 reflects the elimination of the fixed asset tax credit, which was part of the end-2010 tax reform.

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

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

5/ Excludes private pension transfers from revenues.

Table 4b. Colombia: Operations of the Central Government 1/

(In trillion of Col$)

			Projections					
	2013	2014	2015	2016	2017	2018	2019	2020
Total revenue	**119.7**	**125.9**	**125.5**	**133.9**	**143.1**	**154.5**	**165.4**	**177.3**
Current revenue	**101.8**	**109.0**	**114.3**	**122.0**	**130.9**	**141.5**	**151.6**	**162.7**
Tax revenue	**100.8**	**108.3**	**113.5**	**121.1**	**130.0**	**140.5**	**150.5**	**161.6**
Net income tax and profits 2/	44.8	37.6	36.1	38.0	40.9	44.9	48.5	52.5
Goods and services	34.8	38.8	39.7	43.1	45.8	49.7	52.8	56.2
Value-added tax	34.6	38.8	39.7	43.1	45.8	49.7	52.8	56.2
Gasoline tax	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
International trade	3.9	4.0	4.3	4.5	4.8	5.0	5.2	5.6
Financial transaction tax	5.9	6.4	6.6	7.1	7.6	8.1	8.7	9.4
Stamp and other taxes	11.4	21.5	26.9	28.5	31.0	32.8	35.2	37.8
Nontax revenue	**19.0**	**17.6**	**12.0**	**12.8**	**13.1**	**14.0**	**14.9**	**15.8**
Property income	0.5	1.2	2.0	2.2	2.4	2.6	2.9	3.3
Other	18.4	16.4	10.0	10.6	10.7	11.3	11.9	12.5
Total expenditure and net lending	**136.4**	**144.3**	**147.0**	**155.3**	**163.5**	**174.5**	**183.1**	**192.8**
Current expenditure	**103.5**	**111.8**	**120.2**	**127.4**	**135.5**	**144.4**	**154.0**	**163.9**
Wages and salaries	15.2	17.0	18.5	19.5	20.5	21.5	22.5	23.6
Goods and services	6.0	6.4	6.7	6.8	6.8	6.8	6.8	6.7
Interest	16.4	17.0	20.4	20.9	22.2	23.9	25.6	27.2
External	3.5	3.7	5.7	5.8	6.0	6.2	6.5	6.6
Domestic	12.8	13.2	14.7	15.1	16.2	17.6	19.1	20.5
Current transfers	65.8	71.4	74.5	80.2	86.0	92.3	99.1	106.4
Capital expenditure	**32.2**	**32.4**	**26.8**	**27.8**	**27.9**	**29.9**	**28.9**	**28.8**
Fixed capital formation	22.7	22.3	15.5	15.9	15.2	16.3	14.4	13.2
Capital transfers	9.5	10.1	11.2	11.9	12.7	13.5	14.5	15.6
Net lending	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Overall balance	**-16.6**	**-18.4**	**-21.6**	**-21.4**	**-20.4**	**-20.0**	**-17.7**	**-15.5**
Memorandum items:								
Oil-related revenues 3/	23.6	19.7	9.3	8.2	8.3	8.6	8.7	8.7
Structural balance 4/	-23.9	-23.5	-22.5	-17.9	-18.3	-18.7	-17.2	-15.7
Adjusted overall balance 5/	-19.1	-20.4	-23.1	-22.7	-21.8	-21.4	-19.3	-17.2
Structural primary non-oil balance	-22.8	-21.7	-10.4	-8.4	-6.1	-4.5	-0.7	2.9
Fiscal Impulse	6.1	-2.5	-12.2	-2.9	-2.8	-2.1	-4.2	-3.7
Non-oil balance	-40.3	-38.0	-30.9	-29.6	-28.7	-28.6	-26.4	-24.2
Primary balance	-0.3	-1.4	-1.1	-0.5	1.8	3.9	7.9	11.7

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

1/ Includes central administration only.

2/ The increase in tax revenue in 2012 reflects the elimination of the fixed asset tax credit, which was part of the end-2010 tax reform.

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

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

5/ Excludes private pension transfers from revenues.

Table 5a. Colombia: Operations of the Combined Public Sector 1/

	2013	2014	Projections 2015	2016	2017	2018	2019	2020
Total revenue	**28.1**	**27.7**	**26.6**	**26.5**	**26.4**	**26.4**	**26.3**	**26.1**
Tax revenue	19.8	20.0	20.0	19.9	19.9	20.0	20.0	20.0
Nontax revenue	8.3	7.7	6.6	6.6	6.4	6.4	6.3	6.2
Financial income	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Operating surplus of public enterprises	-0.1	-0.3	-0.1	-0.1	-0.2	-0.1	-0.1	-0.1
Other 2/	7.8	7.5	6.2	6.2	6.1	6.0	5.9	5.8
Total expenditure and net lending 3/	**29.1**	**29.5**	**29.9**	**28.8**	**28.5**	**28.0**	**27.6**	**27.1**
Current expenditure	21.5	21.9	22.7	22.4	22.3	21.9	21.7	21.4
Wages and salaries	5.2	5.3	5.3	5.2	5.2	5.1	5.1	5.0
Goods and services	3.1	3.1	3.1	3.1	3.0	3.0	2.9	2.9
Interest	2.6	2.6	3.2	3.1	3.0	2.9	2.9	2.8
External	0.6	0.6	1.1	1.0	1.0	0.9	0.9	0.8
Domestic	2.0	2.0	2.1	2.0	2.0	2.0	2.0	1.9
Transfers to private sector	7.8	8.0	8.0	8.0	8.0	7.9	7.9	7.9
Other 4/	2.7	2.9	3.1	3.1	3.1	3.0	2.9	2.8
Capital expenditure	7.6	7.6	7.2	6.4	6.2	6.1	5.9	5.7
Statistical discrepancy	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Nonfinancial public sector balance	**-0.9**	**-1.8**	**-3.2**	**-2.4**	**-2.1**	**-1.6**	**-1.3**	**-1.0**
Quasi-fiscal balance (BR cash profits)	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Fogafin balance	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Net cost of financial restructuring 5/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Combined public sector balance	**-0.9**	**-1.8**	**-3.3**	**-2.4**	**-2.2**	**-1.6**	**-1.3**	**-1.0**
Overall financing	**0.9**	**1.8**	**3.3**	**2.4**	**2.2**	**1.6**	**1.3**	**1.0**
Foreign, net	1.2	2.8	2.3	1.3	0.9	0.9	1.2	0.8
Domestic, net	-0.3	-1.0	1.0	1.1	1.3	0.7	0.2	0.2
Memorandum items:								
Overall structural balance 6/	-2.2	-2.5	-2.9	-1.7	-1.7	-1.4	-1.3	-1.0
Adjusted overall balance	-1.3	-2.1	-3.5	-2.5	-2.3	-1.7	-1.5	-1.1
Structural primary non-oil balance	-2.8	-3.2	-2.5	-1.3	-1.1	-0.6	-0.2	0.1
Fiscal Impulse	0.8	0.3	-0.7	-1.2	-0.2	-0.5	-0.3	-0.4
Non-oil balance	-5.3	-5.7	-5.7	-4.4	-4.1	-3.5	-3.1	-2.6
Primary balance 7/	1.2	0.3	-0.6	0.2	0.3	0.8	1.0	1.3
Oil-related revenues 8/	4.9	4.0	2.3	2.1	2.0	1.9	1.8	1.6
Total public debt 9/	37.8	44.3	45.1	44.0	43.2	41.8	40.3	38.5
Nominal GDP (In Col$ trillion)	710.3	756.2	789.3	849.1	910.8	977.4	1,049.1	1,127.3

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

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

2/ Includes royalties, dividends and social security contributions.

3/ Expenditure reported on commitments basis.

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

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

6/Adjusts non-commodity revenues for the output gap and commodity revenues for differentials between estimated equilibrium oil price and production levels. Adjustments are made to account for fuel subsidy expenditures and the accrual of Ecopetrol dividends. Excludes private pension transfers from revenues.

7/ Includes statistical discrepancy.

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

9/ Includes Ecopetrol and Banco de la República's outstanding external debt.

Table 5b. Colombia: Operations of the Combined Public Sector 1/

(In trillion of Col$)

	2013	2014	Projections 2015	2016	2017	2018	2019	2020
Total revenue	**199.9**	**209.4**	**209.9**	**224.6**	**240.1**	**258.1**	**275.6**	**294.7**
Tax revenue	140.8	151.0	158.0	169.0	181.4	195.6	209.7	225.1
Nontax revenue	59.0	58.5	52.0	55.6	58.7	62.5	65.9	69.6
Financial income	3.8	3.8	3.9	4.2	4.6	4.9	5.2	5.6
Operating surplus of public enterprises	-0.5	-2.1	-0.6	-1.2	-1.5	-1.2	-1.5	-1.6
Other 2/	55.3	56.8	48.6	52.6	55.6	58.8	62.1	65.6
Total expenditure and net lending 3/	**206.6**	**222.7**	**235.6**	**244.6**	**259.2**	**273.2**	**289.1**	**305.4**
Current expenditure	152.7	165.6	179.0	190.5	202.7	214.1	227.2	240.7
Wages and salaries	36.9	40.1	41.8	44.6	47.3	50.3	53.5	56.8
Goods and services	22.3	23.7	24.8	26.2	27.7	29.2	30.8	32.5
Interest	18.7	19.5	25.4	26.0	27.2	28.7	30.0	31.1
External	4.2	4.4	8.7	8.7	8.9	9.1	9.3	9.4
Domestic	14.6	15.1	16.7	17.3	18.3	19.6	20.7	21.7
Transfers to private sector	55.4	60.5	62.8	67.6	72.5	76.8	82.8	88.9
Other 4/	19.3	21.7	24.3	26.1	28.0	29.1	30.1	31.3
Capital expenditure	53.9	57.2	56.6	54.1	56.5	59.1	61.9	64.7
Statistical discrepancy	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Nonfinancial public sector balance	**-6.1**	**-13.3**	**-25.6**	**-20.0**	**-19.2**	**-15.2**	**-13.5**	**-10.8**
Quasi-fiscal balance (BR cash profits)	-0.8	-1.1	-0.9	-1.1	-1.2	-1.2	-1.4	-1.5
Fogafin balance	0.7	0.6	0.7	0.8	0.9	0.9	1.0	1.1
Net cost of financial restructuring 5/	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Combined public sector balance	**-6.3**	**-13.8**	**-25.8**	**-20.3**	**-19.6**	**-15.5**	**-13.9**	**-11.1**
Overall financing	**6.3**	**13.8**	**25.8**	**20.3**	**19.6**	**15.5**	**13.9**	**11.1**
Foreign, net	8.4	21.2	17.8	10.7	8.0	9.1	12.1	9.0
Domestic, net	-2.1	-7.4	8.0	9.5	11.6	6.4	1.8	2.1
Memorandum items:								
CPS overall structural balance 6/	-15.5	-19.2	-22.9	-14.7	-15.8	-13.4	-13.2	-10.9
Adjusted overall balance	-9.3	-15.9	-27.5	-21.5	-20.9	-16.9	-15.4	-12.7
Structural primary non-oil balance	-20.1	-23.8	-19.6	-10.9	-10.1	-5.5	-2.4	1.6
Fiscal Impulse	5.3	2.5	-5.2	-10.2	-1.6	-5.4	-3.5	-4.1
Non-oil balance	-38.0	-43.0	-45.1	-37.4	-37.4	-34.0	-32.4	-29.4
Primary balance 7/	12.5	5.7	-0.5	5.8	7.6	13.2	16.1	20.0
Oil-related revenues 8/	35.0	30.5	18.5	17.8	17.9	18.6	18.5	18.4
Total public debt 9/	268.2	334.8	355.8	373.5	393.1	408.9	422.7	433.8

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

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

2/ Includes royalties, dividends and social security contributions.

3/ Expenditure reported on commitments basis.

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

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

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

7/ Includes statistical discrepancy.

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

9/ Includes Ecopetrol and Banco de la República's outstanding external debt.

Table 6. Colombia: Monetary Indicators

	2011	2012	2013	2014	Projection 2015
	(In billion of Col$, unless otherwise indicated)				
Central Bank					
Net Foreign Assets	61,750	65,356	83,092	112,111	114,685
Gross official reserve assets	63,566	65,824	88,928	112,101	113,310
In billion of US$	32.7	37.2	46.3	46.9	47.2
Short-term foreign liabilities	1,575	403	5,770	25	2,066
Other net foreign assets	2,117	2,096	2,298	2,812	3,441
Net domestic assets	-10,408	-8,892	-17,993	-42,429	-38,054
Net credit to the public sector	-4,624	-8,008	-14,526	-21,026	-18,858
Net credit to the financial system	3,078	1,831	3,732	6,771	6,073
Other	-8,863	-2,715	-7,199	-28,174	-25,269
Monetary base	51,342	56,464	65,099	69,682	76,631
Currency in circulation	33,367	35,063	39,751	45,429	47,358
Deposit money banks reserves	17,946	21,374	25,254	24,170	21,570
Other deposits	29	27	94	83	83
Financial system					
Net foreign assets	47,389	53,145	67,826	92,815	94,543
In billion of US$	24.4	30.0	35.3	38.8	39.4
Net domestic assets	202,773	237,166	261,480	269,526	391,534
Net credit to public sector	32,455	34,824	33,151	30,800	46,414
Credit to private sector	216,234	251,410	281,747	323,152	361,556
Other net	-45,916	-49,068	-53,417	-84,426	-76,631
Broad money	250,162	290,310	329,307	362,341	409,446
	(Annual percentage change)				
Credit to private sector	23.0	16.3	12.1	14.7	11.9
Currency	12.4	5.1	13.4	14.3	4.2
Monetary base	14.4	10.0	15.3	7.0	10.0
Broad money	17.6	16.0	13.4	10.0	13.0
	(In percent of GDP)				
Credit to private sector	34.8	37.8	39.7	42.7	45.8
Currency	5.4	5.3	5.6	6.0	6.0
Monetary base	8.3	8.5	9.2	9.2	9.7
Broad money	40.2	43.7	46.4	47.9	51.9
Memorandum items:					
Central bank inflation target	2.0-4.0	2.0-4.0	2.0-4.0	2.0-4.0	2.0-4.0
CPI inflation, eop	3.7	2.4	1.9	3.7	3.6
Nominal GDP (In Col$ billion)	621,615	664,473	710,257	756,152	789,303

Sources: Banco de la Republica and Fund staff estimates.

Table 7. Colombia: Medium-Term Outlook

			Projections					
	2013	2014	2015	2016	2017	2018	2019	2020
	(In percent of GDP, unless otherwise indicated)							
Real GDP (in percent change)	4.9	4.6	3.4	3.7	4.0	4.2	4.3	4.3
Consumer prices (in percent change; end of per	1.9	3.7	3.6	3.2	3.0	3.0	3.0	3.0
Gross national savings	20.9	20.8	18.5	18.6	19.1	19.2	19.2	19.4
Private sector	14.5	15.2	14.8	14.8	15.2	14.9	14.8	14.8
Public sector	6.4	5.6	3.7	3.8	3.9	4.3	4.4	4.6
Gross domestic investment	24.2	26.0	24.4	23.6	23.5	23.4	23.2	23.1
Private sector	17.1	18.8	17.5	17.6	17.6	17.6	17.7	17.7
Public sector	7.1	7.2	6.9	6.1	5.9	5.8	5.6	5.4
	(In percent change)							
Credit to the private sector								
Commercial	10.8	15.5	12.2	9.9	12.0	12.0	12.0	12.1
Consumption	10.5	12.5	5.2	3.5	5.1	4.7	4.2	3.7
Mortgage	26.2	17.9	23.8	20.9	22.2	21.4	20.7	20.2
Microcredit	15.8	8.9	31.2	26.5	26.7	25.0	23.7	22.7
Total	12.1	14.7	11.9	9.9	12.0	12.0	12.0	12.1
	(In percent of GDP, unless otherwise indicated)							
Nonfinancial public sector 1/								
Revenue	28.1	27.7	26.6	26.5	26.4	26.4	26.3	26.1
Expenditure	29.1	29.5	29.9	28.8	28.5	28.0	27.6	27.1
Current expenditure	21.5	21.9	22.7	22.4	22.3	21.9	21.7	21.4
Capital expenditure	7.6	7.6	7.2	6.4	6.2	6.1	5.9	5.7
Primary balance 2/	1.8	0.8	0.0	0.7	0.9	1.4	1.6	1.8
Overall balance 2/	-0.9	-1.8	-3.2	-2.4	-2.1	-1.6	-1.3	-1.0
Combined public sector balance	-0.9	-1.8	-3.3	-2.4	-2.2	-1.6	-1.3	-1.0
External financing	1.2	2.8	2.3	1.3	0.9	0.9	1.2	0.8
Domestic financing	-0.3	-1.0	1.0	1.1	1.3	0.7	0.2	0.2
External current account balance	-3.2	-5.2	-5.9	-5.0	-4.4	-4.2	-4.0	-3.7
Trade balance	0.8	-1.2	-2.2	-1.2	-0.7	-0.5	-0.4	-0.3
Exports	15.9	15.1	13.6	14.0	14.0	13.7	13.3	12.9
Imports	15.0	16.3	15.8	15.2	14.7	14.2	13.7	13.2
Capital and financial account balance	5.0	6.3	5.6	4.9	4.9	4.6	4.5	4.2
Public sector	2.2	3.0	2.3	1.4	0.9	0.9	0.9	0.8
Private sector	2.7	3.3	3.3	3.6	3.9	3.7	3.6	3.3
Overall balance	1.9	1.2	-0.3	-0.1	0.5	0.4	0.4	0.4
Gross public sector debt 3/	37.8	44.3	45.1	44.0	43.2	41.8	40.3	38.5
Domestic debt	24.0	25.8	26.1	26.0	25.9	25.4	24.7	23.8
External debt	13.8	18.5	19.0	18.0	17.2	16.4	15.6	14.7
Gross public sector debt, excluding Ecopetrol	36.1	41.5	42.3	41.3	40.6	39.4	38.2	36.4
Total public net debt 4/	27.0	33.8	35.7	35.2	35.0	34.2	33.2	31.8
Memorandum items:								
Nominal GDP (in Col$ billion)	710,257	756,152	789,303	849,098	910,772	977,419	1,049,145	1,127,274
Crude oil, spot price	104.1	96.2	58.1	65.7	69.7	71.8	73.1	74.0
Crude oil, spot price (Colombian mix)	100.3	91.9	55.5	62.7	66.6	68.5	69.8	70.7

Sources: Colombian authorities and Fund staff estimates and projections.
1/ Excludes Ecopetrol.
2/ Includes statistical discrepancy.
3/ Includes debt of the non-financial public sector, plus Ecopetrol, FOGAFIN and FINAGRO.
4/ Gross debt minus financial assets (public sector deposits in domestic and foreign financial institutions).

Table 8. Colombia: Financial Soundness Indicators 1/

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

	2009	2010	2011	2012	2013	2014
Capital Adequacy						
Regulatory capital to risk-weighted assets	17.2	17.3	16.9	18.1	17.0	17.0
Regulatory Tier 1 capital to risk-weighted assets	13.4	13.0	13.4	13.7	12.0	11.7
Capital (net worth) to assets	14.2	14.2	14.3	14.7	14.8	14.9
Asset Quality and Distribution						
Nonperforming loans to gross loans	4.0	2.9	2.5	2.8	2.8	2.9
Provisions to nonperforming loans	140.1	175.0	182.0	163.9	160.7	151.3
Gross loans to assets	64.3	67.9	70.4	69.6	68.2	68.6
Earnings and Profitability						
ROAA	3.5	3.4	3.3	3.1	2.8	2.9
ROAE	26.2	23.7	23.0	21.2	19.5	19.8
Interest margin to gross income	54.0	55.6	58.4	58.7	61.3	60.6
Noninterest expenses to gross income	43.2	47.0	49.3	47.2	47.0	44.6
Liquidity						
Liquid assets to total assets 2/	9.2	7.5	8.6	32.4	30.5	27.2
Liquid assets to short-term liabilities 2/	14.2	12.1	13.9	52.1	49.0	44.5
Deposit to loan ratio	98.8	93.5	91.4	94.7	96.3	91.6
Other						
Foreign-currency-denominated loans to total loans	4.2	6.9	7.7	7.5	7.3	8.4
Foreign-currency-denominated liabilities to total liabilities	6.6	9.4	10.5	10.5	11.9	13.5
Net open position in foreign exchange to capital	5.3	4.5	4.8	0.6	0.5	0.7

Source: Superintendencia Financiera.

1/ Total Banking System. All deposit taking institutions.

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

Table 9. Colombia: Indicators of External Vulnerability 1/

(In billion of US$, unless otherwise indicated)

			Projections					
	2013	2014	2015	2016	2017	2018	2019	2020
External indicators								
Exports of GNFS 1/	67.2	63.9	52.1	58.0	62.4	65.5	68.3	70.9
Imports of GNFS 1/	69.9	75.2	64.8	67.7	70.7	73.6	76.4	79.5
Terms of trade (12-month percent change)	-4.1	-3.2	-18.0	3.4	1.3	0.2	-0.2	0.3
Current account balance	-12.5	-19.8	-19.4	-18.0	-17.1	-17.4	-17.9	-17.9
In percent of GDP	-3.2	-5.2	-5.9	-5.0	-4.4	-4.2	-4.0	-3.7
Capital and financial account balance	18.7	23.9	18.5	17.7	18.8	19.1	19.9	20.0
Of which: Foreign direct investment (net)	8.5	12.2	9.8	11.2	12.6	13.1	13.7	14.4
Of which: Portfolio investment (net)	0.7	3.6	5.8	2.5	2.3	2.7	3.2	3.5
Total external debt	90.7	99.2	102.8	106.6	110.3	113.5	116.4	118.4
In percent of gross international reserves	210.1	211.8	223.5	233.1	232.5	230.8	227.6	222.4
Short-term external debt 2/	11.9	12.9	12.3	13.0	14.1	15.1	15.9	16.4
Of which : Public sector	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Of which : Private sector	11.4	12.4	11.8	12.5	13.6	14.6	15.4	15.9
Amortization of MLT external debt (in percent of GNFS	8.7	18.4	23.4	18.7	21.2	18.5	21.2	18.8
External interest payments (in percent of GNFS exports)	5.9	7.6	10.1	7.7	7.1	6.8	6.4	5.8
Gross international reserves 3/ 4/	43.2	46.8	46.0	45.7	47.4	49.2	51.1	53.3
In months of prospective GNFS imports	6.9	8.7	8.2	7.8	7.7	7.7	7.7	8.0
In percent of broad money	24.5	25.9	26.9	23.5	21.3	19.4	17.8	16.3
In percent of short-term external debt 2/	361.5	364.1	373.9	351.9	335.6	325.1	322.2	325.0
In percent of short-term external debt on residual plus current account deficit	99.2	105.5	111.9	105.7	108.8	103.5	108.6	111.8
Nominal exchange rate (Col$/US$, period average)	1,869	2,001	2,396	2,376	2,352	2,352	2,352	2,352
Real effective exchange rate (percentage change, + = appreciation)	-3.3	-5.3	-14.3	2.6	1.8	0.8	0.9	0.9

Sources: Banco de la República; and Fund staff estimates.
1/ GNFS stands for goods and nonfactor services; MLT stands for medium and long-term.
2/ Original maturity of less than 1 year. Stock at the end of the previous period.
3/ Estimate for 2009 includes the SDR allocation (US$972 million).
4/ IMF definition that excludes Colombia's contribution to Fondo Latinoamericano de Reservas (FLAR) and includes valuation changes of reserves denominated in other currencies than U.S. dollars.

Table 10. Colombia: Public Sector Debt Sustainability Analysis (DSA)—Baseline Scenario

(In percent of GDP unless otherwise indicated)

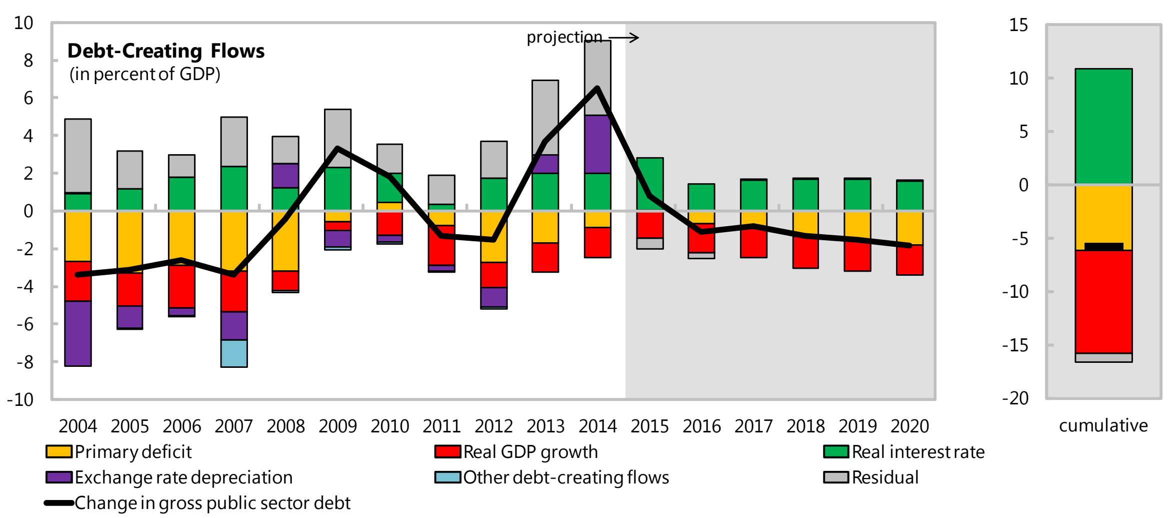
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2004-2012 [2/]	2013	2014	2015	2016	2017	2018	2019	2020
Nominal gross public debt	35.7	37.8	44.3	45.1	44.0	43.2	41.8	40.3	38.5
Public gross financing needs	7.5	4.6	4.6	6.4	4.7	3.8	3.3	3.2	2.1
Real GDP growth (in percent)	4.8	4.9	4.6	3.4	3.7	4.0	4.2	4.3	4.3
Inflation (GDP deflator, in percent)	5.4	1.9	1.8	1.0	3.7	3.1	3.0	2.9	3.0
Nominal GDP growth (in percent)	10.5	6.9	6.5	4.4	7.6	7.3	7.3	7.3	7.4
Effective interest rate (in percent) [4/]	10.2	8.3	7.5	7.6	7.3	7.3	7.3	7.4	7.4

As of April 02, 2015		
Sovereign Spreads		
EMBIG (bp) 3/		218
5Y CDS (bp)		155
Ratings	Foreign	Local
Moody's	Baa2	Baa2
S&Ps	BBB	BBB+
Fitch	BBB	BBB+

Contribution to Changes in Public Debt

	Actual			Projections							
	2004-2012	2013	2014	2015	2016	2017	2018	2019	2020	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	-1.2	3.7	6.5	0.8	-1.1	-0.8	-1.3	-1.5	-1.8	-5.8	
Identified debt-creating flows	-3.3	-0.3	2.6	1.4	-0.8	-0.8	-1.3	-1.5	-1.8	-5.0	
Primary deficit	-2.1	-1.7	-0.9	0.0	-0.7	-0.8	-1.3	-1.6	-1.8	-6.2	0.0
Primary (noninterest) revenue and grar	26.6	28.1	27.8	26.6	26.5	26.4	26.4	26.3	26.1	158.3	
Primary (noninterest) expenditure	24.5	26.4	26.9	26.7	25.8	25.5	25.1	24.7	24.3	152.1	
Automatic debt dynamics [5/]	-1.0	1.4	3.5	1.4	-0.1	0.0	0.0	0.0	0.0	1.2	
Interest rate/growth differential [6/]	-0.1	0.4	0.4	1.4	-0.1	0.0	0.0	0.0	0.0	1.2	
Of which: real interest rate	1.5	2.0	2.0	2.8	1.4	1.6	1.7	1.7	1.6	10.8	
Of which: real GDP growth	-1.6	-1.6	-1.6	-1.4	-1.6	-1.6	-1.7	-1.7	-1.6	-9.6	
Exchange rate depreciation [7/]	-0.9	1.0	3.1	…	…	…	…	…	…	…	
Other identified debt-creating flows	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Privatization proceeds (negative)	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Short-term debt 1/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes [8/]	2.1	4.0	3.9	-0.6	-0.3	0.0	0.0	0.0	0.0	-0.8	



Source: Fund staff estimates.

1/ Public sector is defined as general government.

2/ Based on available data.

3/ EMBIG.

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

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

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

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

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

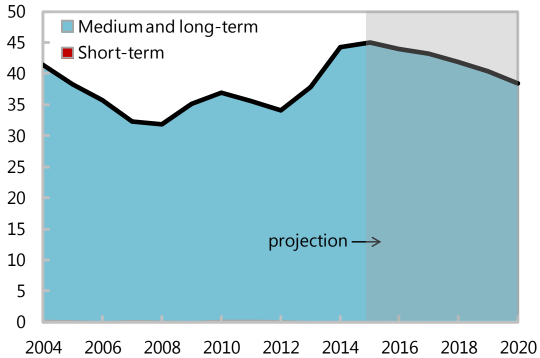
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Figure 9. Colombia: Public DSA—Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

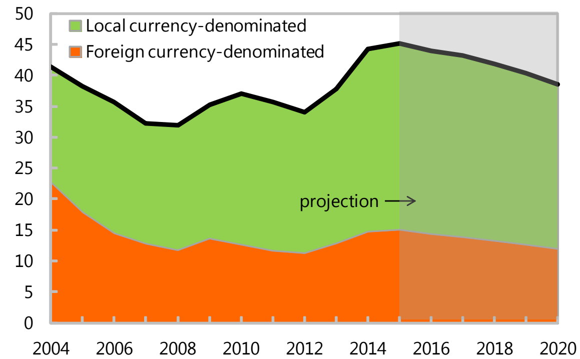
By Maturity

(In percent of GDP)



By Currency

(In percent of GDP)

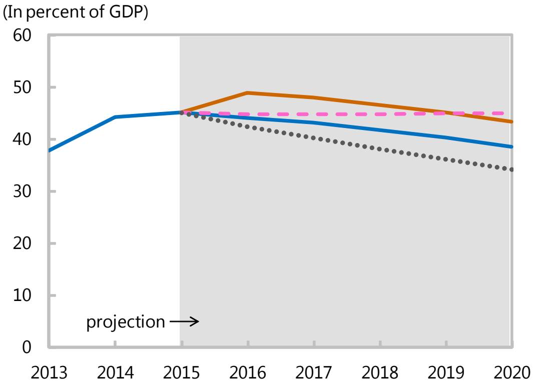


Alternative Scenarios

Baseline
Historical
Constant Primary Balance
30 percent depreciation

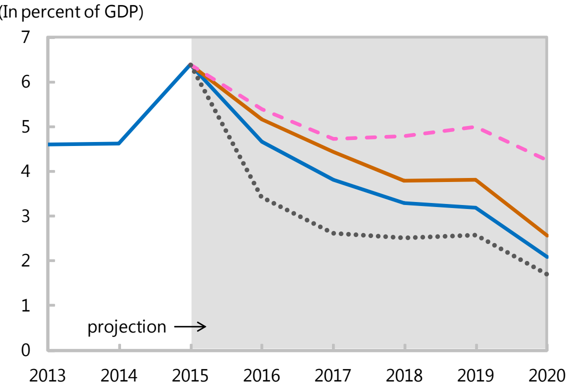
Gross Nominal Public Debt

(In percent of GDP)



Public Gross Financing Needs

(In percent of GDP)



Underlying Assumptions

(In percent)

Baseline Scenario	2015	2016	2017	2018	2019	2020
Real GDP growth	3.4	3.7	4.0	4.2	4.3	4.3
Inflation	1.0	3.7	3.1	3.0	2.9	3.0
Primary Balance	0.0	0.7	0.8	1.3	1.6	1.8
Effective interest rate	7.6	7.3	7.3	7.3	7.4	7.4
Constant Primary Balance Scenario						
Real GDP growth	3.4	3.7	4.0	4.2	4.3	4.3
Inflation	1.0	3.7	3.1	3.0	2.9	3.0
Primary Balance	0.0	0.0	0.0	0.0	0.0	0.0
Effective interest rate	7.6	7.3	7.3	7.3	7.4	7.4

Historical Scenario	2015	2016	2017	2018	2019	2020
Real GDP growth	3.4	4.8	4.8	4.8	4.8	4.8
Inflation	1.0	3.7	3.1	3.0	2.9	3.0
Primary Balance	0.0	1.9	1.9	1.9	1.9	1.9
Effective interest rate	7.6	7.3	7.3	7.4	7.5	7.5
30 percent depreciation						
Real GDP growth	3.4	3.7	4.0	4.2	4.3	4.3
Inflation	1.0	3.7	3.1	3.0	2.9	3.0
Primary Balance	0.0	0.4	0.4	0.6	0.9	1.0
Effective interest rate	8.9	9.2	8.0	7.9	7.9	7.9

Source: Fund staff estimates.

Table 11. Colombia: External Debt Sustainability Framework, 2011–20

(In percent of GDP, unless otherwise indicated)

	Actual				Projections 1/						
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	**Debt-stabilizing non-interest current account 7/**
Baseline: External debt	22.8	20.9	24.2	29.3	31.3	29.6	28.5	27.3	26.1	24.7	**-2.6**
Change in external debt	0.1	-2.0	3.3	5.0	2.0	-1.6	-1.1	-1.2	-1.2	-1.4	
Identified external debt-creating flows (4+8+9)	-2.3	-3.2	0.4	2.1	7.3	0.3	-2.0	0.2	-1.7	-0.1	
Current account deficit, excluding interest payments	1.9	2.2	2.3	4.1	4.1	3.5	3.0	2.8	2.7	2.5	
Deficit in balance of goods and services	-0.3	0.2	0.7	3.0	3.8	2.7	2.1	2.0	1.8	1.8	
Exports	19.0	18.4	17.7	16.9	15.8	16.2	16.1	15.8	15.3	14.8	
Imports	18.7	18.6	18.4	19.9	19.7	18.9	18.3	17.7	17.1	16.6	
Net non-debt creating capital inflows (negative)	-1.9	-4.2	-2.2	-3.2	-3.0	-2.3	-4.1	-2.1	-3.8	-2.1	
Automatic debt dynamics 2/	-2.3	-1.1	0.4	1.3	6.1	-0.9	-0.9	-0.6	-0.6	-0.6	
Contribution from nominal interest rate	1.0	0.9	0.9	1.2	1.9	1.5	1.4	1.4	1.3	1.2	
Contribution from real GDP growth	-1.3	-0.8	-1.0	-1.1	-1.1	-1.1	-1.1	-1.1	-1.1	-1.0	
Contribution from price and exchange rate changes 3/	-2.1	-1.2	0.4	1.2	...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 4/	2.3	1.2	2.9	2.9	-5.3	-1.9	0.9	-1.4	0.5	-1.2	
External debt-to-exports ratio (in percent)	120.4	113.6	137.2	173.1	197.4	182.5	176.8	173.3	170.3	167.0	
Gross external financing need (in billions of U.S. dollars) 5/	23.9	32.1	28.6	43.5	44.4	41.1	43.3	43.6	47.5	47.1	
in percent of GDP	7.1	8.7	7.5	11.5	13.5	11.5	11.2	10.5	10.6	9.8	
Scenario with key variables at their historical averages 6/					**20.3**	**18.0**	**17.4**	**15.7**	**15.1**	**13.6**	**-3.1**
Key Macroeconomic Assumptions Underlying Baseline											
Real GDP growth (in percent)	6.6	4.0	4.9	4.6	3.4	3.7	4.0	4.2	4.3	4.3	
GDP deflator in US dollars (change in percent)	9.9	5.7	-2.1	-4.9	-15.7	4.6	4.2	3.0	2.9	3.0	
Nominal external interest rate (in percent)	5.1	4.4	4.6	4.7	5.8	5.3	5.2	5.1	5.1	5.0	
Growth of exports (U.S. dollar terms, in percent)	39.2	6.5	-1.2	-4.8	-18.4	11.3	7.5	4.9	4.3	3.7	
Growth of imports (U.S. dollar terms, in percent)	31.8	9.4	1.5	7.6	-13.9	4.5	4.4	4.1	3.8	4.0	
Current account balance, excluding interest payments	-1.9	-2.2	-2.3	-4.1	-4.1	-3.5	-3.0	-2.8	-2.7	-2.5	
Net non-debt creating capital inflows	1.9	4.2	2.2	3.2	3.0	2.3	4.1	2.1	3.8	2.1	

Source: Fund staff estimates.

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

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

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

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

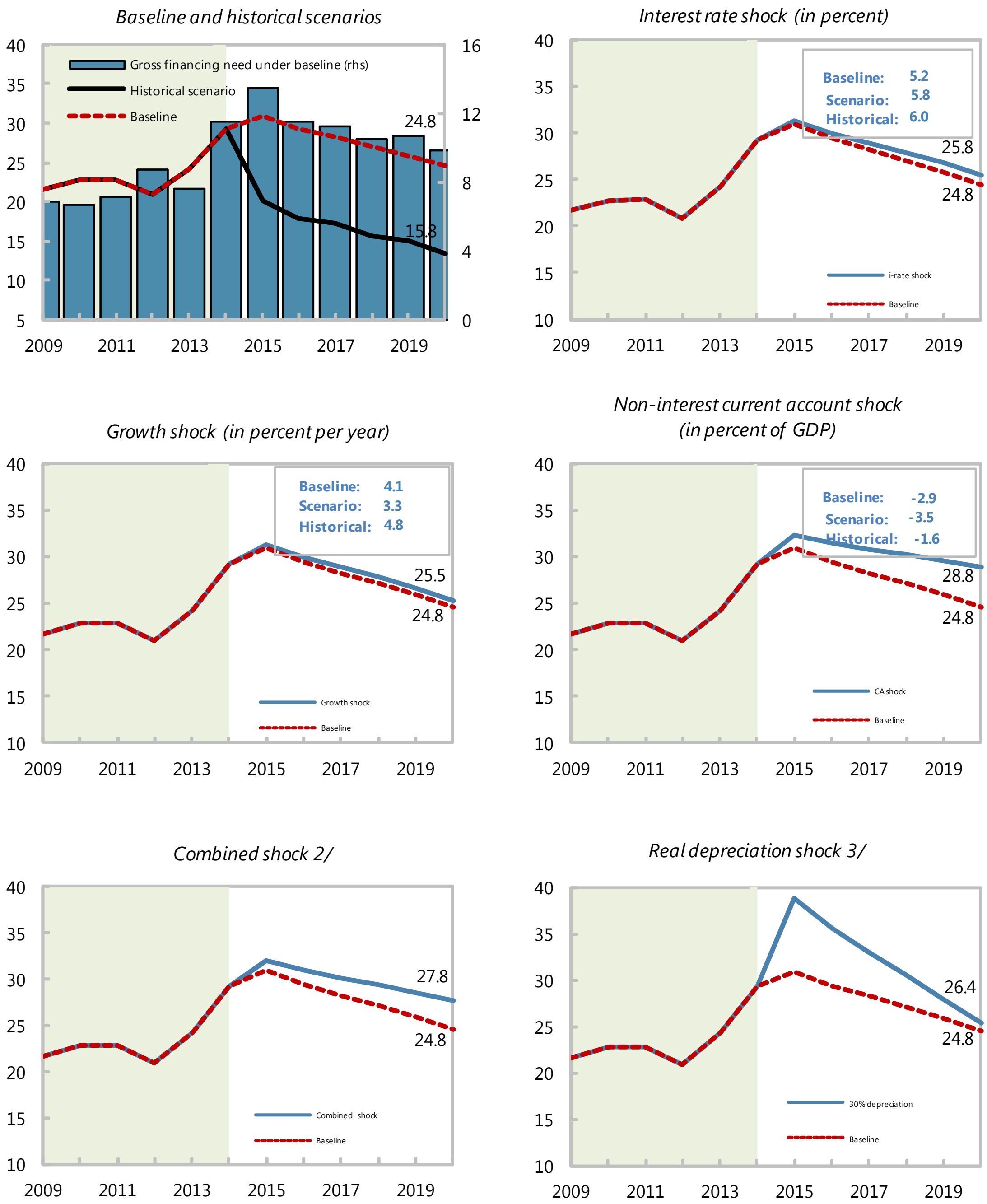
5/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

6/ 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.

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

Figure 10. Colombia: External Debt Sustainability: Bound Test 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 2013, with real depreciation defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

Table 12. FCL Arrangement for Colombia—Impact of GRA Finances

	As of 5/21/15
Liquidity measures	
Current Forward Commitment Capacity (FCC) 1/	301,982
FCC on approval 2/	299,080
Change in percent	-1.0
Prudential measures, assuming full FCL drawing	
Fund credit to Colombia	
In percent of total GRA credit outstanding 3/	6.6
In percent of current precautionary balances	27.6
Fund credit outstanding to five largest debtors	
In percent of total GRA credit outstanding, before approval	88.3
In percent of total GRA credit outstanding including Colombia's assumed full drawing 3/	82.4
Memorandum items	
Current precautionary balances (FY 2015)	14,000
Total FCL commitments, including proposed FCL	66,662
Quota of FTP members with actual and proposed FCLs, in percent of total quota of FTP members	3.1

Source: Finance Department.

1/ The FCC is defined as the Fund's stock of usable resources less undrawn balances under existing arrangements, plus projected repurchases during the coming 12 months, less repayments of borrowing due one year forward, less a prudential balance. The FCC does not include resources under the 2012 Borrowing Agreements; these will only be counted towards the FCC once: (i) individual bilateral agreements are effective and (ii) the associated resources are available for use by the IMF, in accordance with the borrowing guidelines and teh terms of the agreeements.

2/ Current FCC minus the NAB-financed portion of of the proposed FCL (about SDR 2,903 million). The NAB amount that has been earmarked for the current FCL (about SDR 2,903 million) will be freed up after expiration of the current FCL, and it could only be included in FCC when the NAB is reactivated.

3/ Based on current Fund credit outstanding plus full drawings under the proposed FCL.

Table 13. Colombia: Indicators of Fund Credit, 2014–20 1/
(In SDR million, unless otherwise indicated)

		Projections					
	2014	2015	2016	2017	2018	2019	2020
Stocks from prospective drawings 2/							
Fund credit (Million of SDR)	0	3,870	3,870	3,870	2,903	968	0
In percent of quota	0	500	500	500	375	125	0
In percent of GDP	0.0	1.7	1.5	1.4	1.0	0.3	0.0
In percent of exports of goods and services	0.0	10.5	9.4	8.8	6.4	2.0	0.0
In percent of gross reserves	0.0	10.6	10.7	10.4	7.8	2.7	0.0
Flows from prospective drawings							
Amortization	0	0	0	0	968	1,935	968
Charges (Million of SDR)	0.0	46.2	71.7	71.6	75.0	34.4	5.7
Debt Service due on GRA credit (Million of SDR)	0.0	46.2	71.7	71.6	1,042.5	1,969.4	973.2
In percent of quota	0.0	6.0	9.3	9.2	134.7	254.4	125.7
In percent of GDP	0.0	0.0	0.0	0.0	0.4	0.6	0.3
In percent of exports of goods and services	0.0	0.1	0.2	0.2	2.3	4.2	2.0
In percent of gross reserves	0.0	0.1	0.2	0.2	2.8	5.4	2.7
Memorandum Item:							
Total External Debt (percent of GDP)	29.3	32.9	31.1	29.9	28.3	26.4	24.7
Total Debt Service (percent of GDP)	7.6	9.2	7.7	7.9	7.7	8.3	7.2

Sources: IMF Finance Department; Colombian authorities, and Fund staff estimates.

1/ Assumes full drawings under the FCL upon approval. The Colombian authorities have expressed their intention to treat the arrangement as precautionary.

2/ Stocks as of end of period.

Appendix. Letter from the Authorities Requesting FCL

Bogota, May 28, 2015

Ms. CHRISTINE LAGARDE
Managing Director
International Monetary Fund
Washington, D.C.

Dear Ms. Lagarde,

We would like to thank the Fund for the Flexible Credit Line (FCL) arrangements that have been approved for Colombia since early 2009. The FCL has been an important support to the economy during the financial crisis and the prolonged global downturn. It has served as a complement to the wide range of policy responses grounded on maintaining exchange rate flexibility, adopting countercyclical fiscal and monetary policies and securing precautionary external funding through increasing levels of international reserves. In addition, the FCL has signaled the strength of the economy and policy framework and has had a highly positive impact in the markets, and Colombia has had full access to international capital markets with favorable funding conditions.

The Colombian economy has shown resilience during the global crisis. However, the recent sharp decline in oil prices and lower- than- expected external demand have changed the economic outlook. Growth is projected to slow down to around 3.5 percent in 2015 and start to recover in 2016, and to gradually converge to a long-term growth of around 4.5 percent.

Since part of the decline in oil prices is of a permanent nature, the economy needs to adjust to a new reality in the coming years. We are taking actions to make this adjustment as orderly and smooth as possible, particularly through preserving good macroeconomic policies and fundamentals, as well as executing an ambitious infrastructure package.

At the same time, despite improvements in some advanced economies, particularly the U.S., significant external risks persist. The main hazards stem from instability and higher volatility in global financial markets associated with monetary policy normalization in the U.S.; rising vulnerabilities in emerging markets; lower growth in China and other important Colombian trading partners; and a further decline in oil prices. Given the presence of these downside risks, we strongly believe the FCL will continue to play a significant role in supporting a smooth adjustment of the economy. For this reason, we would like to request a new two-year FCL and cancel the current arrangement effective upon approval of the new FCL arrangement.

Based on the quantification of the potential impact of the aforementioned shocks, we are requesting an access level of 3.87 billion SDR, 500 percent of the quota. According to our estimations, the potential financing needs under a stress scenario would be even larger, but part of the shock could be absorbed through international reserves. Nonetheless, the current level of reserves, although higher than in previous FCLs arrangements and within adequate ranges, would fall short of absorbing the whole impact of these tail events while maintaining reserves at a prudent level.

The precautionary arrangement would complement our strategy to cope with global financial risks. Strong macroeconomic policies and a solid institutional framework have enabled both fiscal and monetary policies to work counter-cyclically and maintain a comfortable external position.

The fiscal stance embedded in the Medium-Term Fiscal Framework is well-anchored by the fiscal rule. In 2014 the government met the structural deficit target of 2.3 percent of GDP for the Central Government and reached 1.8 percent for the Combined Public Sector. For 2015, even though the situation is more challenging, adjustments have been undertaken to meet the fiscal target, while protecting social spending. Complying with the fiscal rule is our priority, even in the midst of less favorable conditions. We are persuaded by the virtual cycle of fiscal discipline: smaller fiscal deficit leads to higher confidence, lower interest rates, more investment, stronger economic growth and higher tax revenues. Fiscal consolidation is also necessary to strengthen the current account balance over the medium term.

Inflation targeting serves the economy well and inflation expectations are firmly anchored. In 2014, inflation was 3.6 percent and it is expected to end this year in the upper level of the target range of 2-4 percent. The monetary policy stance has remained supportive in the context of an economy expected to slow down starting from near- full utilization of productive capacity. Looking ahead, the room for monetary easing will depend on whether the expected slowdown exceeds or falls short of the adjustment required to ensure the nominal and financial stability of the economy, on the extent to which inflation expectations remain anchored to target and on the size of the pass-through effect.

Fueled by capital flows, the central bank of Colombia (Banco de la República) continued to build up international reserves in 2014 and stopped its program of FX purchases by the end of that year, as reserve buffers became broadly adequate for a normal range of risks and most indicators were close to pre-crisis levels.

Exchange rate flexibility has been the main shock absorber and the peso has depreciated quickly and strongly, although it is broadly aligned with fundamentals. The current account deficit widened last year to 5.2 percent of GDP, and is expected to narrow gradually in dollar terms as domestic absorption adjusts and expenditure switching effects kick in. As a percentage of GDP the deficit will remain close to 5 percent due to the impact of the real depreciation of the COP on the dollar valuation of GDP. The reduction in dollar terms of the current account deficit will be mirrored by declines in FDI and portfolio inflows. The decrease in FDI will be especially felt in the oil and mining sectors. The reduction in portfolio investment will occur after an atypical year 2014, when the increase of the weight of Colombian local public bonds in Emerging Economy benchmark indices induced record inflows of this kind.

The financial sector remains sound, profitable, and well provisioned and capitalized. Given that 2015 will be marked by lower growth, depreciated exchange rate and lower oil prices, we are devoting efforts to preventing negative spillovers to the financial system both through adopting regulatory measures and implementing a strict vigilance. We also continue to closely monitor financial stability through banks, corporate and households' balance sheets. We continue to make significant progress in adopting the 2012 FSAP recommendations. Among other measures, we are strengthening financial institutions' capital and moving forward with the adoption of best practices in line with Basel III and Pillar 2 of Basel II.

Overall, the track record of prudent macroeconomic policies and the very strong institutional framework provide ample assurances of our ability to withstand adverse shocks and react as needed, should risks materialize. Looking ahead, continuing building fiscal and external buffers while maintaining exchange rate flexibility, keeping inflation within the target range and expectations well anchored, and preserving financial stability will strengthen the resilience to external shocks.

We expect that as U.S. monetary policy normalizes, any associated global financial market volatility will subside. In addition, the Colombian economy will adjust over time to the much- lower oil prices. As these adjustments take place, with substantial reduction of global risks affecting Colombia, we would intend to phase out Colombia's use of the FCL. In the meantime, the arrangement will help us undertake a smooth and orderly structural adjustment while reinforcing market confidence.

Finally, let us take this opportunity to state again that the Banco de la República will continue providing the Fund's staff with all needed information, and that we have sent the requested authorizations to the Bank's external auditors in accordance with the FCL safeguard policy.

Sincerely yours,

/s/	/s/
José Darío Uribe Escobar	Mauricio Cárdenas Santamaría
Governor Central Bank of Colombia	Minister of Finance and Public Credit

Statement by Maria Angelica Arbelaez, Alternate Executive Director for Colombia
June 17, 2015

On behalf of the Colombian authorities, I want to thank staff and management for their continued support and the positive response to their request for a new Flexible Credit Line (FCL). I also wish to express the authorities' gratitude to the Board for the previous FCL arrangements that have been approved for Colombia since 2009. Colombia belongs to a group of countries for which special swap lines are not available and regional liquidity arrangements do not provide adequate coverage. Consequently, the FCL arrangements have been instrumental to cope with heightened external risks in recent years, and have suited well the country's need for liquidity risk coverage in a highly uncertain environment.

Moreover, the FCL arrangements have been an important complement to the authorities' wide range of countercyclical policy responses. They have also sent a positive signal to international financial markets on the strength of the economy and enhanced its resilience in the face of adverse external shocks, as reflected in the market assessment of Colombia's credit risk. A study carried out by the central bank (*Banco de la República*) found that access to the FCL reduced the sovereign risk premium (EMBI) for Colombia and Mexico, a result shared by the IMF in the reviews of the FCL, PLL, and RFI.

In addition, the instrument's availability has provided space to strengthen the policy framework and to build policy buffers. Indeed, since 2010 economic fundamentals have strengthened. The fiscal stance has substantially improved; inflation has remained most of the time within the target range of 2–4 percent and expectations well anchored; the current account deficit continued being comfortably financed by FDI; international reserves have been continuously building up; flexible exchange rate has played the main shock absorber role, and Colombia has had full access to international capital markets with improved funding conditions. The financial sector has remained sound and the authorities have made significant progress in strengthening regulation and supervision.

The authorities have also continued to undertake important structural reforms in key areas such as fiscal, labor market and formalization, royalties, health system and infrastructure, among others. Congress recently approved a Development Plan that outlines reforms for the next four years founded on three main pillars: peace, equity, and education. These objectives will be developed through several measures to improve competitiveness and infrastructure, social mobility, and rural transformation, besides others. Colombia has also made enormous progress in reducing poverty, informality and unemployment, as well as in boosting financial inclusion.

The Colombian economy has shown resilience during the global crisis. However, the recent sharp decline in oil prices and the lower-than-expected external demand have changed the economic outlook. Growth is projected to slow down in 2015 and start to recover in 2016 to gradually converge to long-term growth. Since part of the decline in oil prices is of a permanent nature, the economy needs to adjust to a new reality in the coming years.

At the same time, significant external risks persist; in particular, higher volatility in global financial markets associated with monetary policy normalization in the U.S.; rising vulnerabilities in emerging markets; lower growth in China and in other important Colombian trading partners; and a further decline in oil prices. Under the presence of these downside risks, the Colombian authorities see the FCL as an important protection tool to support an orderly and smooth structural adjustment of the economy.

Recent developments and policy responses

For the Colombian authorities it is clear that a first line of defense against the outcomes of these shocks is a strong macroeconomic policy framework that provides the country with resilience and with the ability to pursue countercyclical policy responses. This framework rests on three pillars, namely: an inflation targeting regime with exchange rate flexibility; a sustainable fiscal policy; and a strong financial system.

Backed by the inflation targeting regime and with inflation expectations firmly anchored, in 2014 inflation was close to the midpoint of the target range of 2–4 percent and it is expected to finish this year in the upper bound. The monetary policy stance has remained supportive in the context of the slowdown of the economy, and some room for monetary easing may linger looking ahead, provided that inflation expectations continue to be anchored and the pass-through effect remains low. The central bank continued to build up international reserves in 2014 and stopped its program of FX purchases by the end of that year, as exchange rate depreciated strongly and reserve buffers became broadly adequate for normal times. The current account deficit widened last year although comfortably financed by FDI and is expected to narrow gradually in dollar terms as domestic absorption adjusts and expenditure switching effects kick in.

The fiscal stance is guided by the fiscal rule. In 2014 the Central Government posted a structural deficit smaller to that recorded in 2013. The Combined Public Sector reached a slightly higher deficit resulting from a reduction in the surplus of sub-national governments due to the political cycle and higher investment. In 2015 oil-related revenues are expected to drop and debt service to increase as a result of the exchange rate depreciation. Owing to the smoothing of the mining and economic cycles, the fiscal rule allows this year for a higher total deficit and the rest of the adjustment will come from increasing revenues from the tax reform approved in December 2014 and a budget cut, although protecting social spending. Under the new normal of oil prices, the government is fully aware that further revenue mobilization will be needed in the years to come in order to comply with the fiscal rule and has commissioned a group of independent experts to design a comprehensive tax reform.

The financial sector remains profitable and well provisioned and capitalized, and the authorities have been making significant progress in adopting the FSAP recommendations. They are committed to strengthening financial institutions' capital and moving forward with the adoption of best practices in line with Basel III and Pillar 2 of Basel II, as well as improving the supervision of conglomerates. They continue to closely monitor financial stability risks. Data show that household debt has risen but remains below the level established by the IMF as risky; corporate private debt is also manageable with a low share of foreign currency denominated debt and no evidence of large currency mismatches; and the strict regulation of foreign currency in banks' balance sheets contain their exposure and currency mismatches.

Request of the FCL

Based on the authorities' estimations of the impact of the materialization of the aforementioned external shocks, they are requesting a new FCL for 3.87 billion SDR, 500 percent of the quota and the cancellation of the current arrangement. This access level would help cover the bulk of financing needs in an adverse scenario, and the remaining would be absorbed through international reserves.

The authorities want to reiterate that they consider the FCL as a temporary facility and its exit dependent on external conditions. Consistent with this, the access requested today as a percentage of the quota is almost half of that obtained in 2009. In addition, the amounts requested relative to the scale of the economy have been declining since 2009, which means that the relative level of protection against tail risks provided has been reduced (see table below).

Selected Indicators: Size of the FCL

(in percentage)

	2009	2011	2013	2015
FCL / Broad money (M3)	14.3	5.2	3.5	3.7
FCL / 12-month imports	23.8	12.0	12.8	7.2
FCL / Current account deficit plus external short-term debt	55.9	23.1	19.0	13.3
FCL / GDP	5.4	2.0	1.6	1.4

Source: Banco de la República

As mentioned in the formal request letter, the authorities expect that as U.S. monetary policy normalizes, related global financial volatility will recede. In addition the economy will adjust over time to much lower oil prices. As the adjustments take place and global risks affecting Colombia reduce substantially, the authorities' intention is to phase-out the use of the facility. They also remain committed to continue strengthening the policy framework, fundamentals and buffers to further reinforce resilience to external shocks.