INTERNATIONAL MONETARY FUND

IMF Country Report No. 19/141

COLOMBIA

May 2019

REVIEW UNDER THE FLEXIBLE CREDIT LINE ARRANGEMENT—PRESS RELEASE AND STAFF REPORT

In the context of the review under the Flexible Credit Line 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 May 20, 2019. Based on information available at the time of these discussions, the staff report was completed on May 3, 2019.
- 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.

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May 22, 2019

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IMF Executive Board Completes Review of Colombia's Performance under the Flexible Credit Line Arrangement

On May 20, 2019, the Executive Board of the International Monetary Fund (IMF) completed its review of Colombia's qualification for the arrangement under the Flexible Credit Line (FCL) and reaffirmed Colombia's continued qualification to access FCL resources. The Colombian authorities stated their intention to continue treating the arrangement as precautionary. The current two-year FCL arrangement for Colombia in an amount equivalent to SDR 7.848 billion (about US$11 billion) was approved by the IMF's Executive Board on May 25, 2018 (see Press Release No. 18/196).

Colombia's FCL arrangement was first approved on May 11, 2009 (see Press Release No. 09/161) and successor arrangements were approved on May 7, 2010 (see Press Release No. 10/186), May 6, 2011 (see Press Release No. 11/165), June 24, 2013 (see Press Release No. 13/229), June 17, 2015 (see Press Release 15/281) and June 15, 2016 (see Press Release No. 16/279).

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

"Colombia's economic recovery is gaining momentum, supported by its very strong policy frameworks and well-executed policies. Fiscal policy remains anchored over the medium term by the structural deficit rule and monetary policy is governed by a credible inflation targeting framework that has delivered inflation close to target and anchored inflation expectations. The financial system remains sound and financial sector supervision is being further strengthened, including through a gradual convergence to Basel III standards. A flexible exchange rate continues to be the primary mechanism of adjustment to external shocks.

"With elevated downside risks to global growth, Colombia remains exposed to the materialization of external tail risks. Given the importance of the oil sector for the Colombian economy and the relatively high share of non-resident holdings of domestic government bonds, these risks include a sharp correction in the price of oil or a repricing of risk in global financial markets. In that context, the authorities are further strengthening their policy frameworks and building policy space to ensure Colombia's continued resilience to external shocks, including through a well-communicated program to gradually accumulate international reserves.

“The FCL arrangement continues to provide a cushion of international liquidity and signals the strength of Colombia’s economy and its policy frameworks. The authorities have clearly stated their intention to continue to treat the FCL arrangement as precautionary and have taken proactive steps to prepare for a gradual phasing out, risks permitting, of the FCL in line with the temporary nature of the instrument. A careful communication strategy remains important to facilitate a smooth exit from the FCL.”

INTERNATIONAL MONETARY FUND

COLOMBIA

REVIEW UNDER THE FLEXIBLE CREDIT LINE ARRANGEMENT

May 3, 2019

EXECUTIVE SUMMARY

Context. Colombia's recovery is gaining momentum on the back of strong domestic demand, with a wider current account deficit. As a key external shock, migration flows from Venezuela accelerated in 2018 and by end-December 1.5 million migrants were estimated to live in Colombia.

Risks. Risks to global growth and financial stability are tilted to the downside and have increased somewhat relative to the last FCL approval according to the April 2019 WEO and GFSR. Given the importance of oil exports and non-resident holdings of local-currency bonds, Colombia remains exposed to lower global growth, including indirectly through lower oil prices, and a sudden reversal in investor sentiment. Colombia weathered last year's financial and oil market volatility well, however, as evidenced by stable spreads and local currency bond yields.

Policies. Colombia continues to have very strong policies and policy frameworks. The authorities have been proactively accumulating reserves through a market-based mechanism that allows the exchange rate to remain the first line of defense against external shocks. The financial regulatory framework is being further strengthened by the implementation of the Conglomerates Law and Basel III capital and liquidity standards. To accommodate spending pressures associated with migration, the authorities decided to use flexibility within the fiscal rule to modestly relax the deficit target in a well-defined manner starting in 2019 while safeguarding the medium-term fiscal anchor.

Flexible Credit Line (FCL). On 25 May 2018, the Executive Board of the IMF approved a two-year arrangement for Colombia under the FCL in an amount equivalent to SDR 7.848 billion (384 percent of quota). The authorities stated their continued intention to treat the arrangement as precautionary and no change in access levels is being sought during this mid-term review. They are committed to the exit strategy communicated during the 2018 approval and see the reserve accumulation program as an important step in preparing for a phased reduction in access to Fund resources under the FCL, risks permitting.

Qualification. In staff's assessment, Colombia continues to meet the qualification criteria for access to FCL resources as specified under the Executive Board decision on FCL arrangements (Decision No. 14283 – (09/29), adopted on March 24, 2009, as amended). Staff therefore recommends completion of the review under the FCL arrangement.

Approved By
Aasim M. Husain (WHD) and Zuzana Murgasova (SPR)

This report was prepared by a team comprising Hamid Faruqee (Head), Emilio Fernandez-Corugedo and Frederik Toscani (all WHD), Andrew Swiston (SPR) and Farid Jimmy Boumediene (MCM). Cristina Barbosa and Danjing Shen provided excellent assistance.

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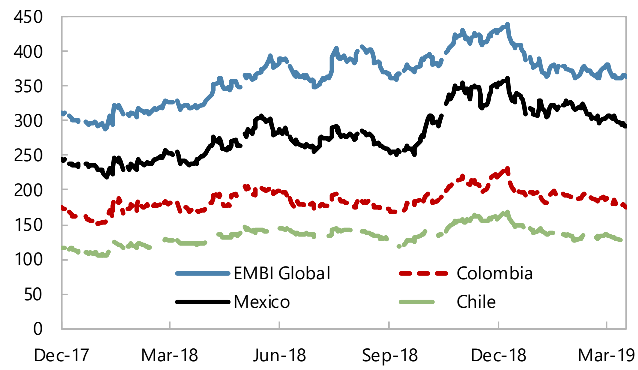
CONTEXT

1. **Colombia's macroeconomic policies and policy framework remain very strong.** Upon taking office in August 2018, President Duque's government re-iterated its commitment to policy continuity and maintaining Colombia's strong macroeconomic policy framework. Fiscal policy remains anchored over the medium term by the structural deficit rule and monetary policy decisions under the inflation targeting framework delivered inflation close to target, with well anchored inflation expectations, in 2018. The flexible exchange rate continues to be the primary mechanism of adjustment to external shocks.

2. **The FCL arrangement provides valuable insurance against external tail risks.** As noted in the April 2019 WEO and GFSR, global risks are tilted to the downside. Given the importance of the oil sector for the Colombian economy and the elevated share of non-resident holdings of domestic government bonds, Colombia remains exposed to the materialization of external risks, including a sharp correction in the price of oil or a general risk-off episode in financial markets. Against this backdrop, the FCL continues to provide a cushion of international liquidity and a signal of the strength of the Colombian economy and policy frameworks, contributing to Colombia being well-shielded from EM financial volatility in 2018, as evidenced by stable sovereign spreads and local currency bond yields.

EMBIG Spreads
(Basis points)



Source: Bloomberg.

3. **Colombia has been the main recipient of migrants from Venezuela, leading to fiscal pressures.** Following a sharp acceleration in inflows during 2018, 1.5 million migrants from Venezuela resided in Colombia as of December 2018, according to Migracion Colombia. The authorities' commitment and efforts to provide humanitarian support such as health care and education to migrants will result in net fiscal costs for Colombia that will likely peak at around ½ percent of GDP in 2020 according to staff's baseline estimates. The net costs should gradually decline, as migrants integrate into the economy and associated gains in their economic output rise over time. In response to the substantial near-term spending pressures, the Fiscal Rule Consultative Committee (FRCC) recommended on March 29th to use flexibility within the fiscal rule to modestly relax the headline deficit target over the next few years. Market reactions to date have been muted.

RECENT DEVELOPMENTS

4. Growth picked up in 2018 while external imbalances widened. GDP growth strengthened to 2.7 percent in 2018 from 1.4 percent in 2017, supported by stronger private consumption, and a modest investment pick-up (Figure 1). With demand-driven growth spurring imports while non-oil exports remained sluggish, the current account deficit increased to 3.8 percent of GDP (Figure 2). Inflation has been stable around the 3 percent target since 2018Q1 and inflation expectations remain well-anchored. NPLs started to decline in 2018H2 and domestic banks have become increasingly willing to lend as the economy and investment recovers (Figure 3).[1]

5. The financial sector remains sound. Banks remain well capitalized with provisions stable at approximately 130 percent of NPLs and Tier-1 and regulatory capital having been raised to 13.2 percent and 18.9 percent of risk-weighted-assets (RWAs) respectively (Table 7).

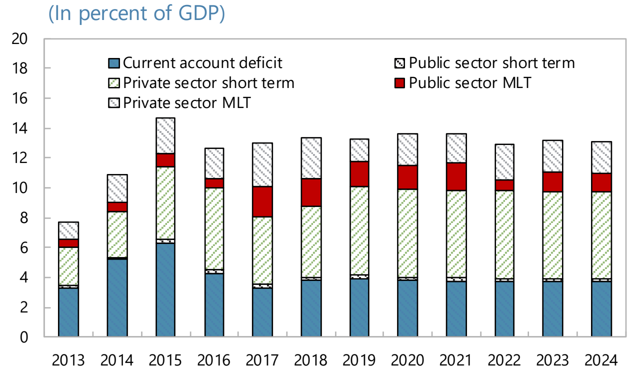
6. The central government reduced its deficit in 2018 as mandated by the fiscal rule. Consistent with the fiscal rule, the central government's headline deficit narrowed to 3.1 percent of GDP in 2018 from 3.6 in 2017. Government debt increased modestly to 51.8 percent of GDP, primarily driven by an increase in the value of foreign currency-denominated debt in peso terms.

OUTLOOK AND RISKS

7. Despite external headwinds, growth is expected to strengthen further this year, while the current account deficit is projected to remain elevated. Notwithstanding a slowdown in global growth, staff projects growth to rise to 3.6 percent this year, driven by continued strength in consumption and an investment rebound. High-frequency indicators for early 2019 corroborate a further pick-up in growth. Key investment supports include implementation of 4G infrastructure spending, improved corporate balance sheets and investment-friendly tax reform. Inflation should remain near target despite possible temporary factors, given favorable indexation dynamics and continued slack. But with strong domestic demand, the current account deficit is projected to remain elevated. While the current account deficit is being comfortably financed by stable foreign direct investment and robust portfolio inflows from a more diversified

Gross External Financing Needs

(In percent of GDP)



Sources: National authorities and IMF staff estimates.

[1] See 2019 Article IV Report for Colombia for a comprehensive discussion of recent economic developments.

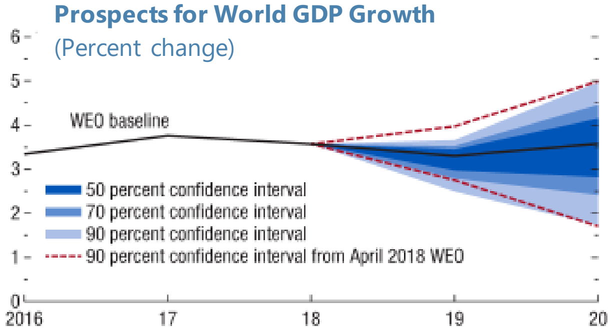
investor base, the projection for broadly unchanged deficits over the medium term would imply a modest build-up in net foreign liabilities.[2]

8. Global risks remain skewed to the downside amid high policy uncertainty, posing external sector risks to Colombia.

- *Current account:* As noted in the April 2019 WEO and GFSR, lower global growth—amid a further escalation in trade tensions and downside risks in systemic economies, including an increase in policy uncertainty—poses risks to Colombia's exports, including indirectly through lower oil prices (with oil exports in 2018 amounting to one-third of total exports). The downside risks to global growth have increased somewhat relative to the time of the approval of the current FCL while the risk of lower oil prices is broadly similar.

Colombia: Update on Global Risks

Prospects for World GDP Growth
(Percent change)



Source: IMF staff estimates.
Note: This fan chart is from April 2019 World Economic Outlook (WEO).

Brent Crude Oil
(U.S. dollars barrel)

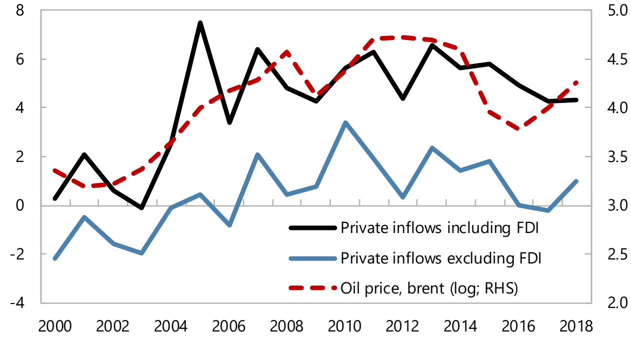
Source: Bloomberg and IMF staff calculations.
Note: Derived from prices of futures options on Mar 12, 2019.

- *Capital flows:* Financial conditions facing emerging markets (EMs) tightened in mid-2018 as several EMs underwent turmoil, then eased in early 2019 as prospective policy tightening by systemic central banks was delayed or reduced. While capital flows to Colombia have remained robust, the potential remains for a sharp deterioration in market sentiment, which could result in a rapid tightening in global financial conditions or a generalized risk-off episode. In addition to the gross external financing requirement of about 13 percent of GDP (Table 11), Colombia remains exposed to external financial conditions via nonresident participation in the local bond market, which rose to an all-time high in 2018 (7.9 percent of GDP or 26 percent of the total holdings), although increased diversification of the investor base has reduced concentration risk and a continued lengthening of average maturities has reduced roll-over risks (Figure 4).

[2] The government has already met its external borrowing plan for 2019 with oversubscribed Eurobond issuances in October and January.

- *Correlation of risks:* The balance of payments could be affected through multiple channels if negative external shocks materialize simultaneously. In 2009 and 2015, oil prices declined, demand for non-oil exports weakened, and EM financial conditions tightened together. This led to lower oil revenues, non-oil exports, and reduced private capital inflows. In this context, given the current account deficit, a large fall in oil prices could also negatively affect capital inflows. This correlation of risks is consistent with previous staff analysis finding a strong positive relationship between commodity prices and capital inflows in Latin America.[3] Capital-flows-at-risk analysis suggests that while the baseline outlook is for continued robust portfolio inflows, substantial net outflows could occur in the case of a tail risk scenario.[4]

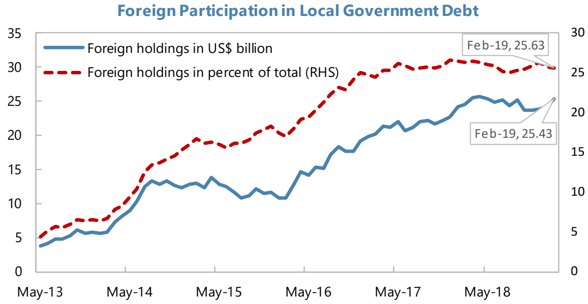
Gross Private Capital Inflows and the Oil Price
(percent of GDP)



Sources: IMF, *International Financial Statistics;* Haver Analytics; and IMF staff calculations.

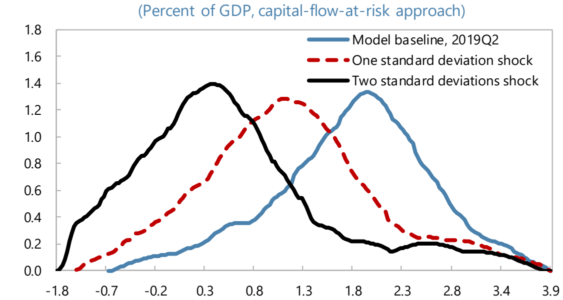
Colombia - Vulnerability to Capital Account Shocks

Foreign Participation in Local Government Debt



Sources: National authorities and IMF staff estimates.

Frequency Distribution of Net Portfolio Inflows
(Percent of GDP, capital-flow-at-risk approach)



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

- The updated External Stress Index (ESI) shows that the external conditions Colombia faces under the baseline are broadly similar to those at the time of the FCL approval. A tail-risk scenario continues to imply a significant deterioration in conditions relative to the baseline (Box 1).

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[3] See *Regional Economic Outlook, Western Hemisphere: Tale of Two Adjustments* (April 2017).

[4] This is proxied by simultaneous two-standard-deviation shocks to oil prices, U.S. Treasury yields, and EM sovereign spreads. See Staff Report for the 2019 Article IV Consultation for Colombia, Annex IV.

Box 1. Updated External Economic Stress Index

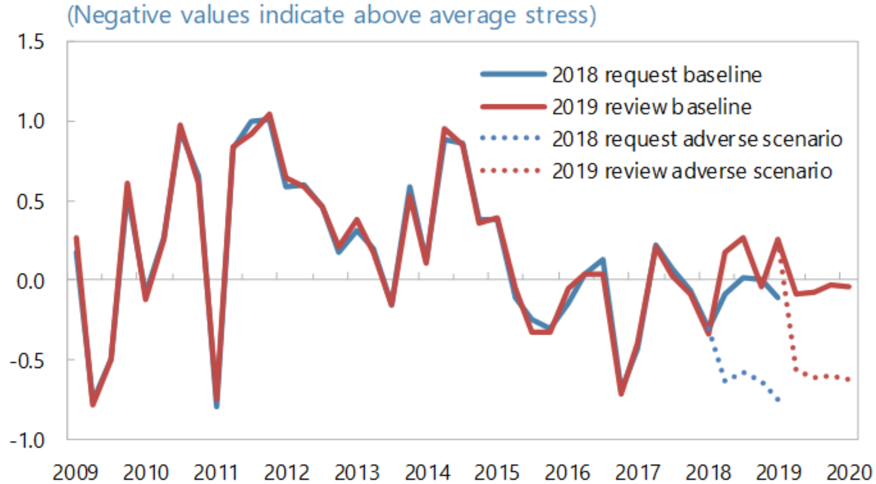
The updated ESI shows that the estimated impact of tail risks in the adverse scenario remain about the same as at the time of the FCL approval last year.

The external ESI summarizes Colombia's external shocks and exposures to these shocks. It was initially presented in the staff report for the June 2015 FCL arrangement. The methodology is explained in "Flexible Credit Line—Operational Guidance Note," IMF Policy Paper, July 2018.

The index is based on four major variables which capture external risks for Colombia: the level of the oil price (a proxy for oil exports as well as oil-related FDI); U.S. real GDP growth (a proxy for exports); remittances, and other inward FDI; and the emerging market volatility index (VXEEM) and the change in the 10-year U.S. Treasury yield as proxies for risks to equity and debt portfolio flows, respectively. The methodology and weights are unchanged from previous Colombia FCL reports. These unchanged weights, which were formulated when Colombia's oil exports-GDP were higher and external liabilities to non-residents were lower, do not fully capture the more recent reduced exposure to current account shocks nor increased exposure to capital account shocks, but the results would be broadly similar with updated weights.

The adverse scenario reflects external risks from global policy uncertainty and a global growth slowdown. In the adverse scenario, policy uncertainty or protectionism combined with a rise in risk premium are assumed to lower U.S. growth by 0.75 percentage point. Oil prices are assumed to fall 28 percent with respect to the baseline due to weak global growth, in line with the risks currently priced into futures markets. Stress in financial markets due to policy uncertainty is assumed to increase the VXEEM by two standard deviations, and a decompression of term premia is assumed to trigger a 100bps increase in 10-year U.S. Treasury yields. The assumed shocks to the oil price, VXEEM, and yields are unchanged compared to the 2018 FCL approval, while the 0.75 assumption for the U.S. growth shock was lowered from a 1.5 percent shock in the 2018 FCL approval, bringing it into line with the latest scenarios used for the *World Economic Outlook*. Overall, the updated ESI is now significantly stronger than at the time of the FCL approval last year, but is projected to fall towards a similar level under the baseline and under the tail risk scenario.

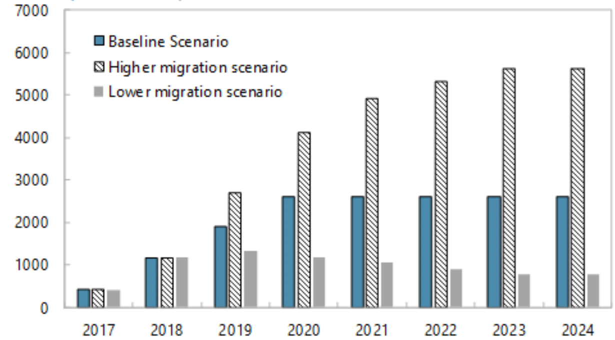
Colombia: External Economic Stress Index
(Negative values indicate above average stress)



Source: IMF staff calculations.

9. On the domestic front risks are broadly balanced. Heightened uncertainty in Venezuela adds to fiscal risks for Colombia. The number of migrants is projected to reach 2½ million by end 2020 in staff's baseline projection, with spillovers in terms of public spending for Colombia. But there exists substantial uncertainty around migration flows depending on how the Venezuela crisis evolves. A high migration scenario could result in additional near-term fiscal costs of around ½ percent of GDP relative to the baseline.[5] A failure to mobilize tax revenues in the future could lead to large cuts in social and investment spending, adversely affecting growth and poverty reduction. Lower-than-expected subnational and private investment are a risk to the 2019 growth forecast. On the upside, 4G infrastructure investment could proceed more quickly than expected.

Venezuela Migration Scenarios
(In thousands)



Sources: Authorities and IMF staff estimates.

POLICIES

10. The authorities are further strengthening the policy framework and building policy space to ensure Colombia's continued resilience to external shocks.

- ***Reserve accumulation:*** Reserves remained adequate in 2018 at 118 percent of the ARA metric (130 percent excluding a commodity buffer). In a proactive step, in September 2018 the Central Bank announced a program to accumulate reserves as part of the authorities' efforts to enhance the economy's resilience to external shocks and prepare for a gradual reduction in FCL access in the future, risks permitting. The program's market-based mechanism has allowed reserve accumulation without disrupting the smooth functioning of the foreign exchange market, while permitting the flexible exchange rate to remain the primary mechanism of adjustment to external shocks.[6] As of April 2019 the Central Bank has purchased close to US$2.9 billion since last October.[7]

- ***Financial sector supervision*:** The financial supervisor is implementing the Conglomerates Law and Basel III capital and liquidity standards, in line with previous staff advice. These standards

[5] See 2019 Article IV Report for Colombia, Annex III.

[6] The program involves monthly auctions of "put" options allowing market participants to sell U.S. dollars to the Central Bank at the previous day's market rate during any period when the dollar weakens against the peso below its 20 business-day moving average. See 2019 Article IV Report for Colombia, Annex IV for a detailed description of the program.

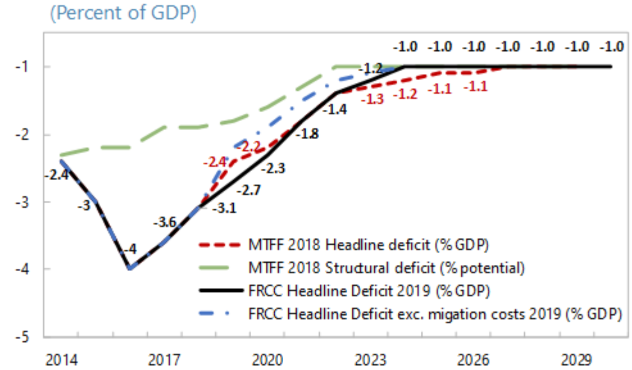
[7] The purchases include US$1.9 billion through the market-based program and a US$1 billion direct purchase from the treasury at the prevailing market rate on February 1. This was a one-off transaction to monetize the proceeds of a Eurobond issued shortly before that date.

will be gradually introduced over a four year period (Feb. 2020–Feb. 2024). The measures should further strengthen the regulatory framework.[8]

11. The 2018−22 national development plan (NDP) should strengthen competitiveness and governance. The plan is focused on measures to improve productivity growth, such as providing firms with incentives for technology adoption, improving human capital and reducing skills mismatches (most prominently, by pushing forward a new national qualification system) and expanding access to credit for SMEs and start-ups. The authorities are also focused on closing infrastructure gaps and reducing transport costs, including by pushing ahead with an ambitious 4G investment agenda. These measures should boost Colombia's external competitiveness and help lay the foundation for higher medium-term exports. The NDP also includes welcome initiatives to improve the efficiency of the state and fight corruption.

12. Fiscal policy remains anchored by the fiscal framework and should place public debt on a declining path. The authorities' medium-term fiscal framework (MTFF) requires reducing the structural deficit of the central government to 1 percent of GDP over the medium term. Given the large migration shock and its attendant fiscal costs, a modestly relaxed *headline* deficit path has been defined for a fixed period with a pre-specified ceiling on the deviation in the budget deficit, but the *structural* deficit objective remains unchanged as a medium-term anchor. The new headline deficit path implies higher deficits in 2019 and 2020 but lower deficits from 2023 to 2024 relative to the 2018 MTFF.[9] Notwithstanding these revisions, adhering to the fiscal rule will keep public debt on a declining path over the coming years. In the baseline, public sector gross debt is projected to steadily decline from about 51 percent in 2018 to around 40 percent of GDP by 2024.[10] In that context, durably raising tax revenues as a share of GDP, aligned with the authorities' policy intentions, would help build fiscal buffers and minimize the risk of slower debt reduction while avoiding cuts in public investment and social spending that would adversely affect inclusive growth.

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



Source: Authorities and FRCC.

13. The moderately expansionary monetary stance is appropriate in the near term. With inflation close to target, anchored inflation expectations, weak credit growth, and the prevailing negative output gap, monetary policy should remain accommodative to safeguard the recovery and insure against heightened downside risks. If the recovery in credit and GDP materializes as

[8] See 2019 Article IV Report for Colombia for further details on the regulatory changes.

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

[10] See 2019 Article IV Report for Colombia, Annex II for a discussion of the Debt Sustainability Analysis (DSA).

projected, the Central Bank can shift to a tightening bias towards the second half of the year to move monetary policy to neutral territory.

14. The authorities reiterated their intention to continue treating the FCL arrangement as precautionary and to gradually reduce access to Fund resources, risks permitting. The authorities continue to view external risks as elevated, in particular a possible sharp tightening in global financial conditions and a renewed decline in oil prices and continue to value the precautionary liquidity buffer provided by the FCL. The authorities see implementation of the Conglomerates Law and convergence to Basel III as well as continued adherence to the structural balance rule as important steps to further build resilience. They remain committed to the exit strategy communicated at the time of the 2018 FCL approval and see the reserve accumulation program as an important step in preparing for an eventual and gradual reduction, risks permitting, in FCL access.[11]

REVIEW OF QUALIFICATION

15. Staff's assessment is that Colombia continues to meet the qualification criteria for an FCL arrangement. Colombia maintains very strong economic fundamentals and institutional policy frameworks, with an inflation-targeting regime and flexible exchange rate, fiscal policy anchored by a well-defined medium-term fiscal framework, and financial system oversight based on a sound regulatory and supervisory framework (Figure 5). Moreover, Colombia has a sustained track record of implementing very strong policies and the authorities remain committed to maintaining such policies going forward. Specifically:

- *Sustainable external position.* Overall, staff assesses the external position to be sustainable, based on the external assessment conducted for the 2019 Article IV consultation.[12] The current account deficit widened to 3.8 percent of GDP in 2018 and is expected to remain around that level in the medium term. Under staff projections, the estimated current account gap of 1.8 percent of GDP in the EBA current account approach implies it is moderately weaker than implied by fundamentals and desirable policies. The external balance sheet is sustainable given sizable non-debt-creating capital inflows. Moreover, staff's debt sustainability analysis projects external debt to be broadly stable over the medium term near its end-2018 level of 47 percent of GDP and to remain manageable even under large negative shocks (Table 11 and Figure 7). Going forward, the authorities remain committed to allowing the flexible exchange rate to serve as the primary mechanism of adjustment to external shocks, which should limit the risk of episodes of unsustainable external deficits.

[11] The press release announcing the reserve accumulation program explicitly noted that one purpose was to prepare for a possible reduction in FCL access. See "The Board of Directors of Banco de la República Announces Program of Accumulation of International Reserves (28 September 2018)."

[12] See 2019 Article IV Report for Colombia, Annex I.

- *Capital account position dominated by private flows*. Capital account flows in Colombia are predominantly private. Public flows accounted for only around 25 percent of Colombia's direct, portfolio, and other asset and liabilities flows on average over the last three years. Capital flows have been mostly in the form of net flows of foreign direct investment (FDI) and portfolio investment (averaging 2.8 and 0.6 percent of GDP, respectively, over 2016–18). Stable funding sources—especially FDI—are expected to continue to finance the bulk of the current account deficit in the medium term.

- *Track record of steady sovereign access to international capital markets at favorable terms*. Colombia has had uninterrupted access to international capital markets at favorable terms since the early 2000s. The cumulative amount of external bonds issued by the sovereign between 2014 and 2018, is equivalent to more than 500 percent of Colombia's Fund quota. In addition, cumulative non-resident acquisition of peso-denominated sovereign bonds during the period amounted to over nine times quota. The three major credit rating agencies all continue to assign an investment grade rating to Colombia.[13] Sovereign bond spreads have performed in line with spreads on similarly-rated countries, remaining below the aggregate EMBI-Global spread.

- *A reserve position that is relatively comfortable*. Colombia's reserves have exceeded 100 percent of the ARA metric in each of the last three years, with end-2018 coverage estimated at 118 percent of the metric including a commodity buffer, and 130 percent excluding the commodity buffer. Coverage is also adequate according to other traditional metrics (Figure 6). Based on projected ARA metrics, the reserve accumulation currently being undertaken by the authorities will help maintain these strong external buffers in terms of reserve adequacy over the medium term.

- *Sound public finances, including a sustainable public debt position*. In recent years, the strong fiscal framework and moderate levels of public debt helped Colombia absorb the oil price shock of 2014–15 through a combination of expenditure restraint and revenue measures. Notwithstanding an increase in public debt in the wake of the oil price shock, debt has stabilized in recent years, and staff assesses it to be sustainable with high probability, including under alternative scenarios and encompassing consideration of potential contingent liability realizations. The authorities are committed to fiscal sustainability by adhering to their structural deficit target as an anchor that will place public debt on a declining path. The current use of flexibility within the fiscal rule to address the costs of migration from Venezuela is understandable to avoid crowding out key public investment and social spending. The well-defined adjustment to the fiscal rule—in terms of the trigger, size, and duration—is welcome and is not expected to appreciably alter Colombia's debt dynamics.

- *Low and stable inflation in the context of a sound monetary and exchange rate policy framework*. Colombia has maintained single digit inflation since 2000. Monetary policy has been set to help keep inflation close to target in most years, with inflation expectations becoming more well-

[13] Fitch and Moody's assign (equivalent) ratings of BBB and Baa2, respectively. S&P assigns a rating of BBB-.

anchored. After the oil price shock and subsequent currency depreciation led to a temporary deviation in inflation in 2015–16, the central bank tightened policy to guide inflation back to target. Monetary policy easing from late 2016 to early 2018 was compatible with moderating inflation, and with inflation at target and inflation expectations well-anchored, policy has appropriately been on hold since April 2018. The authorities remain committed to their inflation targeting framework and flexible exchange rate regime.

- *Sound financial system and absence of solvency problems that may threaten systemic stability.* Financial system solvency and liquidity has remained strong notwithstanding credit issues in specific sectors. As of September 2018, the banking system's capital adequacy ratio stood at 18.9 percent, well above the regulatory limit, and other financial soundness indicators are well within adequate ranges (Table 7). While NPLs increased in the past few years, they declined in the last quarter of 2018 and are expected to further decline as the economy continues to recover. The 2019 Article IV mission did not find significant solvency risks or recapitalization needs. According to periodic central bank stress tests, the banking sector remains robust to adverse macroeconomic shocks.

- *Effective financial sector supervision.* The authorities are taking measures to further strengthen the supervisory framework. They are bringing capital and liquidity standards into line with Basel III, including definitions of risk-weighted assets and regulatory capital, and the size of capital conservation and additional risk buffers for domestic systemically important banks (D-SIBs), with a phased introduction over 2020–24 to minimize any adverse impact on the supply of credit. The authorities remain committed to heightened supervisory vigilance during the transition period to Basel III. In addition, a capital requirement for operational risk for banks is expected to be introduced, with a decree outlining the specific details to be published in Q4 2019. The authorities are also implementing the conglomerates law (approved in September 2017), which should enhance the effectiveness of supervision over cross-border banking groups, including capital adequacy requirements at the group and subsidiary levels, and guidelines for conflicts of interest within financial conglomerates.

- *Data transparency and integrity.* Colombia's macroeconomic statistics continue to meet high standards and are adequate to conduct effective surveillance. Colombia remains in observance of the Special Data Dissemination Standards (SDDS), and the authorities publish relevant data on a timely basis.

- *Track record.* Colombia has a sustained track record of implementing very strong policies, grounded in staff's assessment that all relevant criteria were met in each of the five most recent years. The authorities also remain firmly committed to maintaining such policies going forward.

16. Colombia has a very strong institutional policy framework. Fiscal sustainability and the independence of the central bank were enshrined in the Constitution in 1991. Effective financial regulation and supervision, with major reforms in the wake of the 1999 crisis, have provided a robust policy framework to ensure financial stability. Regarding the cyclicality of policies, Colombia achieved a smooth adjustment to the 2014–16 oil price shock through effective monetary and fiscal policy responses, as described above.

17. Colombia's government effectiveness indicators continue to improve. The World Bank's government effectiveness score improved from -0.3 in 2000 to 0–0.1 in 2017, converging to the regional average, and most other governance indicators have also improved substantially. Behind this, the authorities have combined strengthening of the legal framework for governance and transparency with wider access to information and organizational changes to improve governance (IMF, 2018, Box 2). Colombia has been invited to become an OECD member, having introduced reforms on labor standards, the justice system, corporate governance of state-owned enterprises, anti-bribery issues, and trade practices.[14] Progress in implementing the governance agenda has been noted by the OECD[15] and going forward, it is important for the government to continue to strengthen implementation of governance and anti-corruption measures.

SAFEGUARDS ASSESSMENT

18. Staff has completed the safeguards procedures for Colombia's 2018 FCL arrangement. On February 7, 2018, Deloitte Colombia (the external auditor) issued an unmodified audit opinion on Banco de la República's 2017 financial statements, which are published. Staff reviewed the 2017 audit results and discussed them with Deloitte. No significant issues emerged from the conduct of these procedures. Since then, the 2018 financial statements have been published with an unmodified audit opinion.

STAFF APPRAISAL

19. Colombia continues to benefit from the FCL arrangement. The FCL has contributed to Colombia weathering last year's emerging market financial market turmoil well and continues to boost confidence in Colombia's very strong policy framework. The volatility in oil markets in late 2018 highlighted that an oil price shock remains an important risk, as is a shock to risk premia in emerging markets. Downside risks to global growth and financial stability have increased somewhat over the past months. In that context, the FCL provides important insurance against tail risks.

20. The authorities' commitment to maintaining very strong policies and policy frameworks is welcome. The authorities' proactive step to accumulate reserves will help maintain reserve adequacy metrics near current levels and underscores their commitment to the exit strategy communicated during the 2018 FCL approval. Implementation of the Conglomerates Law and Basel III capital and liquidity standards will further strengthen the regulatory framework. Fiscal policy remains anchored by the structural balance rule while the modest adjustment to the headline deficits targets is understandable given the additional spending due to exceptional migration

[14] See *OECD countries agree to invite Colombia as 37th member*.

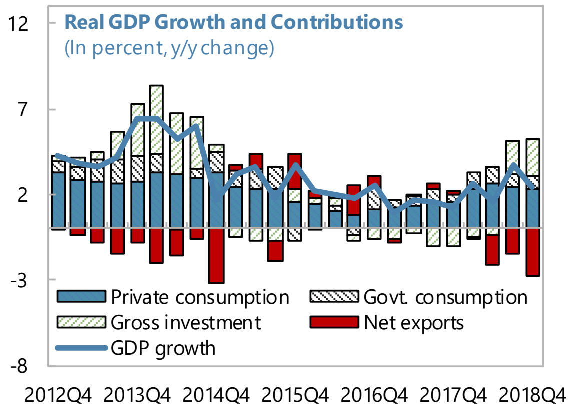
[15] *OECD Integrity Review of Colombia*.

inflows. Staff welcomes adjusting the deficit targets in a well-defined manner under the strict conditions outlined by the FRCC and welcomes the FRCC's recommendations to revise the fiscal rule's contingency framework to handle exceptional shocks in the future, which should avoid situations where the deficit target is modified after the occurrence of a shock. Going forward, reforms to raise tax revenue would help to rebuild fiscal space while meeting future spending priorities.

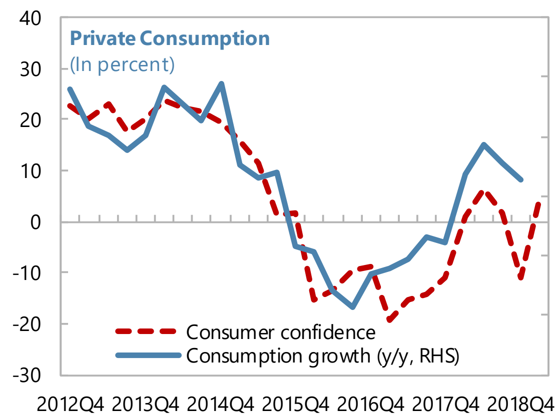
21. In staff's view, Colombia continues to meet the qualification criteria for access to FCL resources. The IMF Board assessment of the recently-completed 2019 Article IV consultation noted Colombia's accelerating economic recovery in a setting of very strong policy frameworks. Colombia has a track-record of very strong macroeconomic policies, anchored by its inflation-targeting regime, flexible exchange rate, structural fiscal balance rule, and effective financial system regulatory and supervisory framework. The authorities remain committed to maintaining such policies going forward. Staff therefore recommends completion of the review under the FCL arrangement for Colombia.

Figure 1. Colombia: Recent Economic Developments

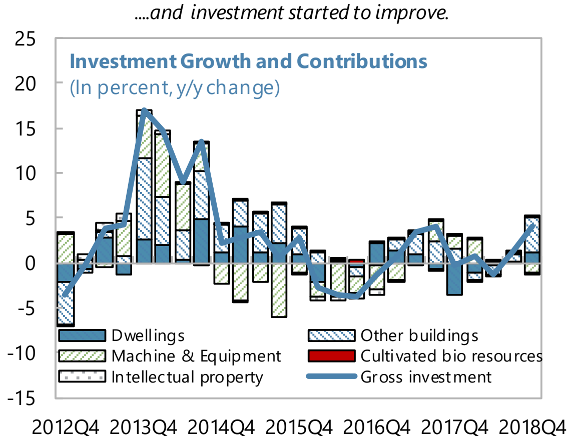
GDP growth picked up in H22018, driven by domestic demand...



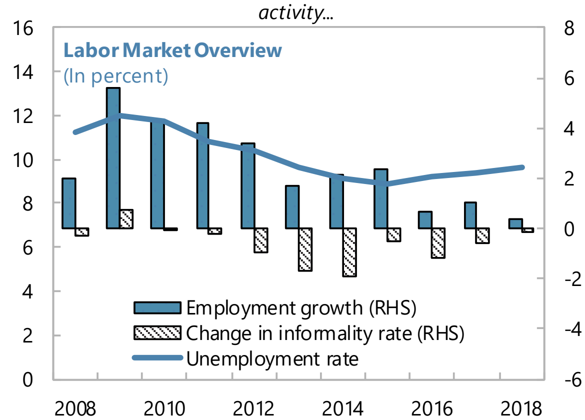
....as consumer confidence recovered...



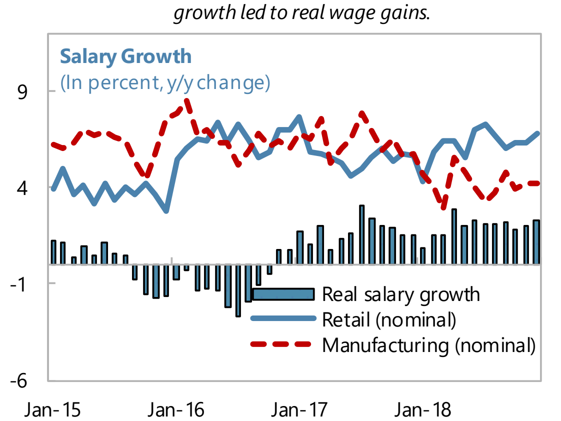
....and investment started to improve.



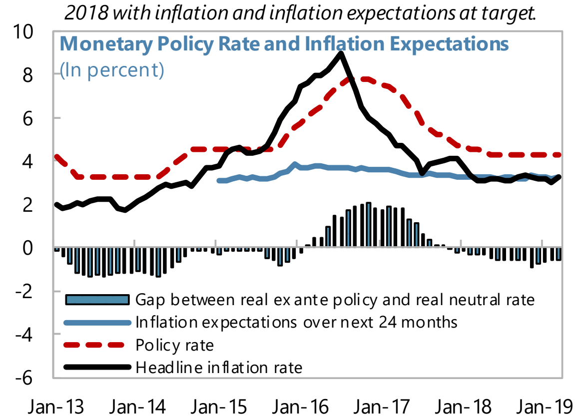
A relatively weak labor market is lagging the pick-up in activity...



...but falling inflation and broadly constant nominal wage growth led to real wage gains.



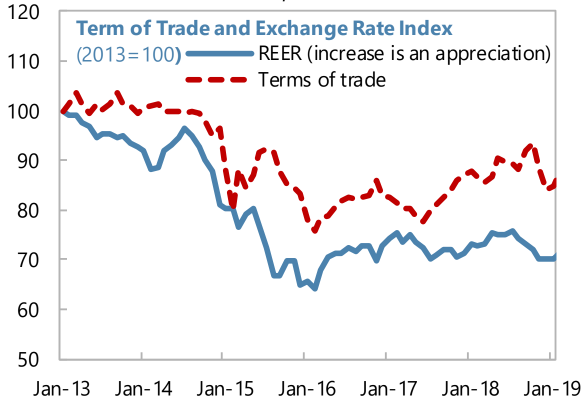
Monetary policy has been moderately accomodative since early 2018 with inflation and inflation expectations at target.



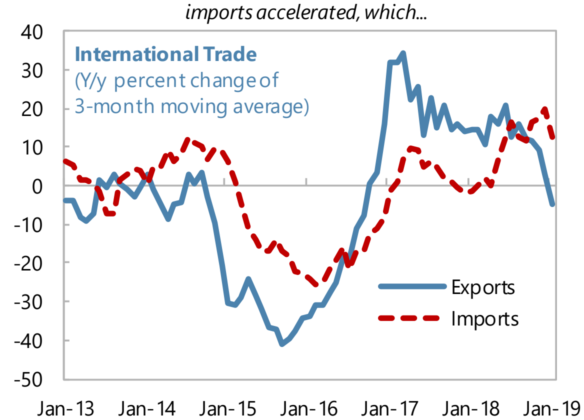
Sources: Departamento Administrativo Nacional de Estadísticas (DANE); La Fundación Para la Educación Superior y el Desarollo; Banco de la República; Haver Analytics; and IMF staff estimates.

Figure 2. Colombia: External Sector Developments

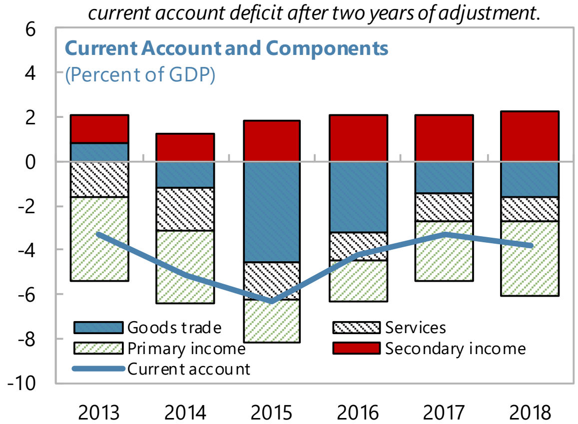
The terms of trade improved in 2018, driven by oil prices....



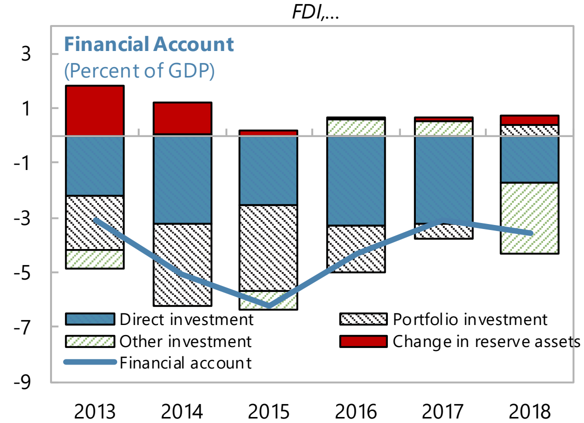
...but export growth weakened late in the year while imports accelerated, which...



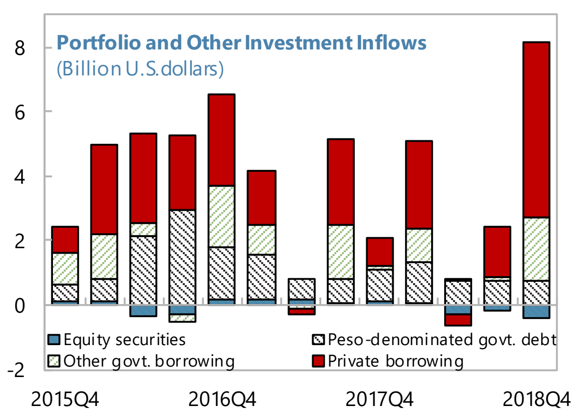
...along with higher income outflows, widened the current account deficit after two years of adjustment.



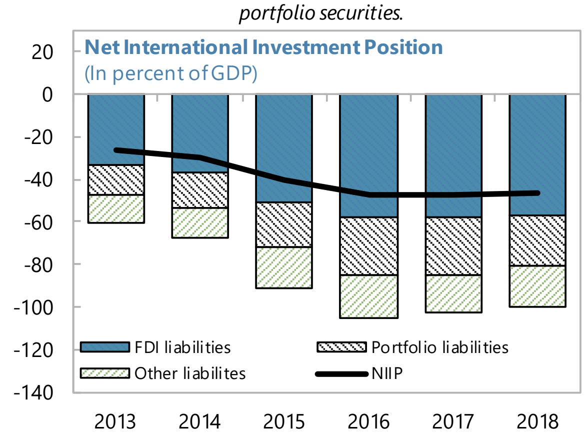
The current account was financed by a combination of FDI,...



...government bond issuance, and private borrowing.

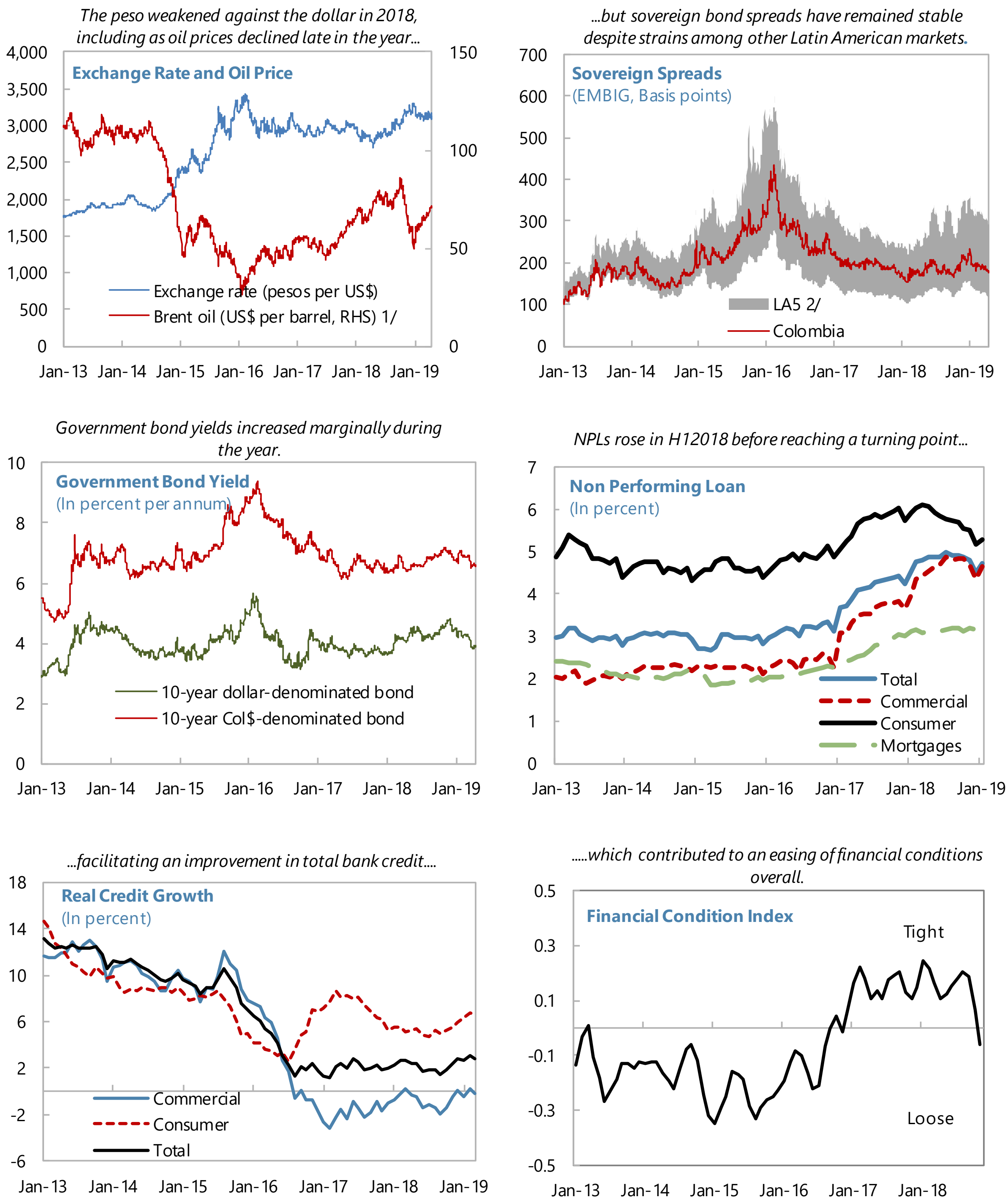


Liabilities to non-residents are primarily in FDI and portfolio securities.



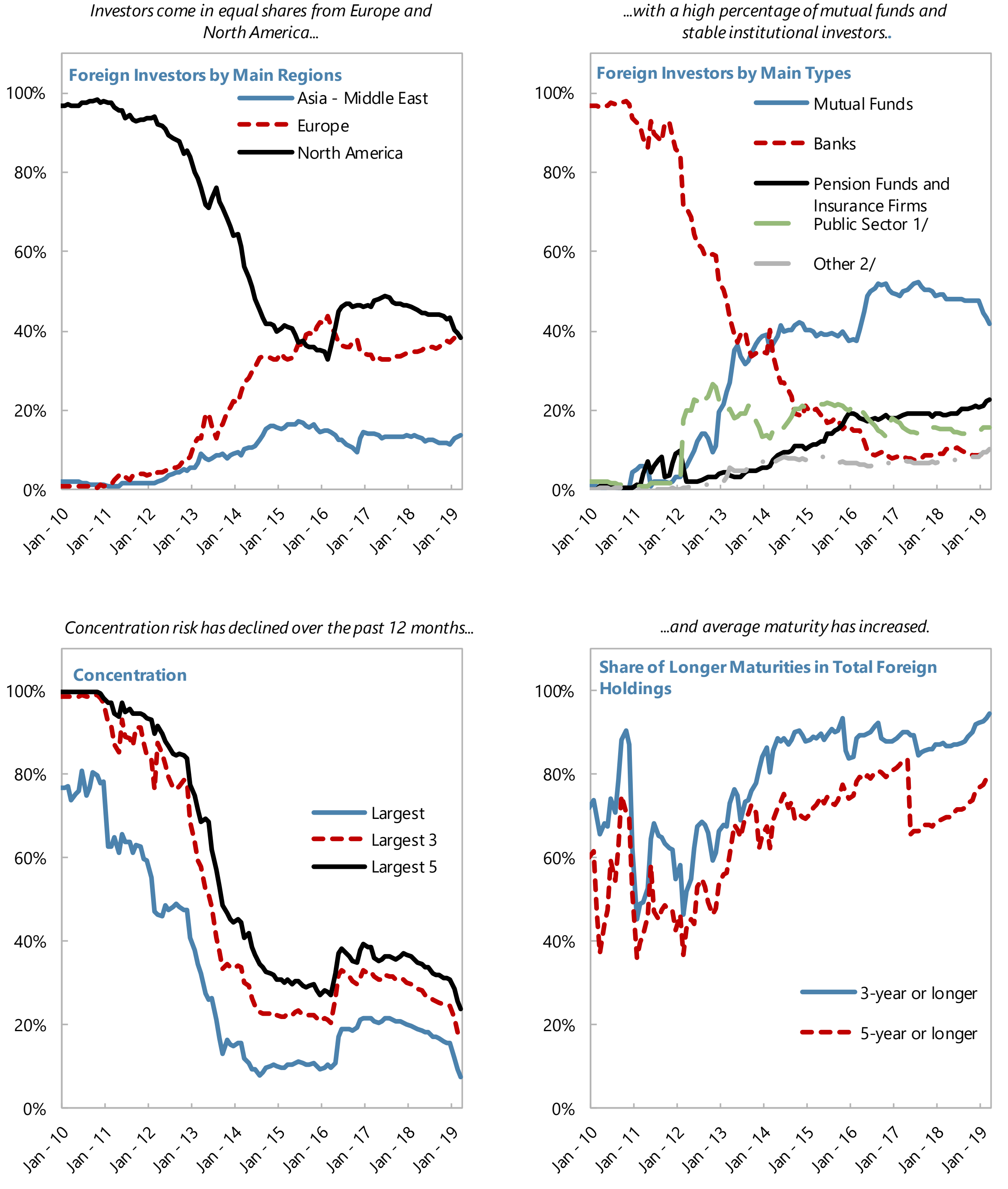
Sources: DANE; Banco de la República; Ministerio de Hacienda y Crédito Público; Haver Analytics; and IMF staff estimates.

Figure 3. Colombia: Recent Financial Developments



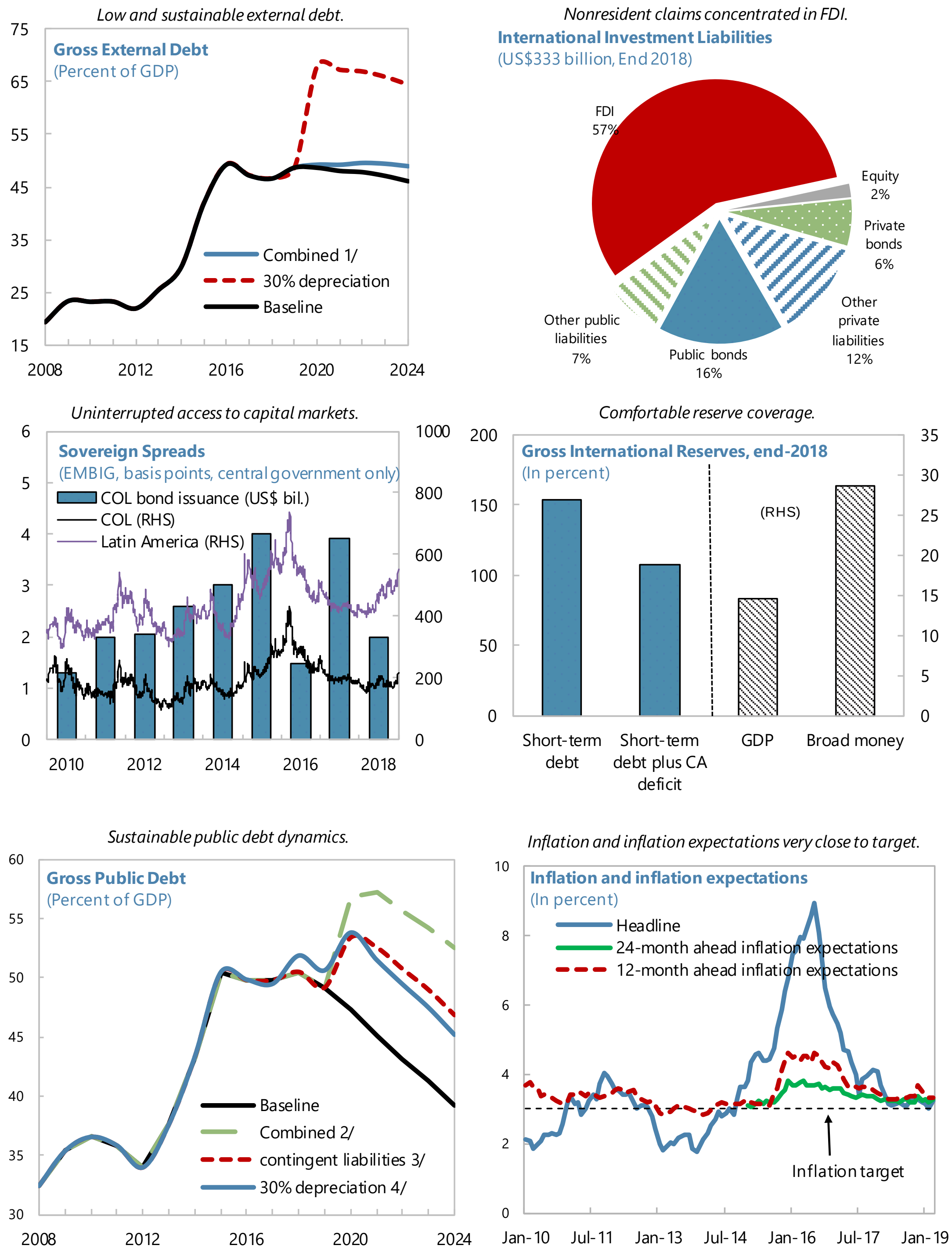
Source: Bloomberg; Superintendencia Financiera de Colombia; Banco de la República; and IMF staff estimates.
1/ Colombia mix follows closely Brent oil prices.
2/ LA5 corresponds to the maximum and minimum sovereign spreads among Brazil, Peru, Mexico, Chile, and Uruguay.

Figure 4. Colombia: Non-Resident Investors in Local Currency Government Debt



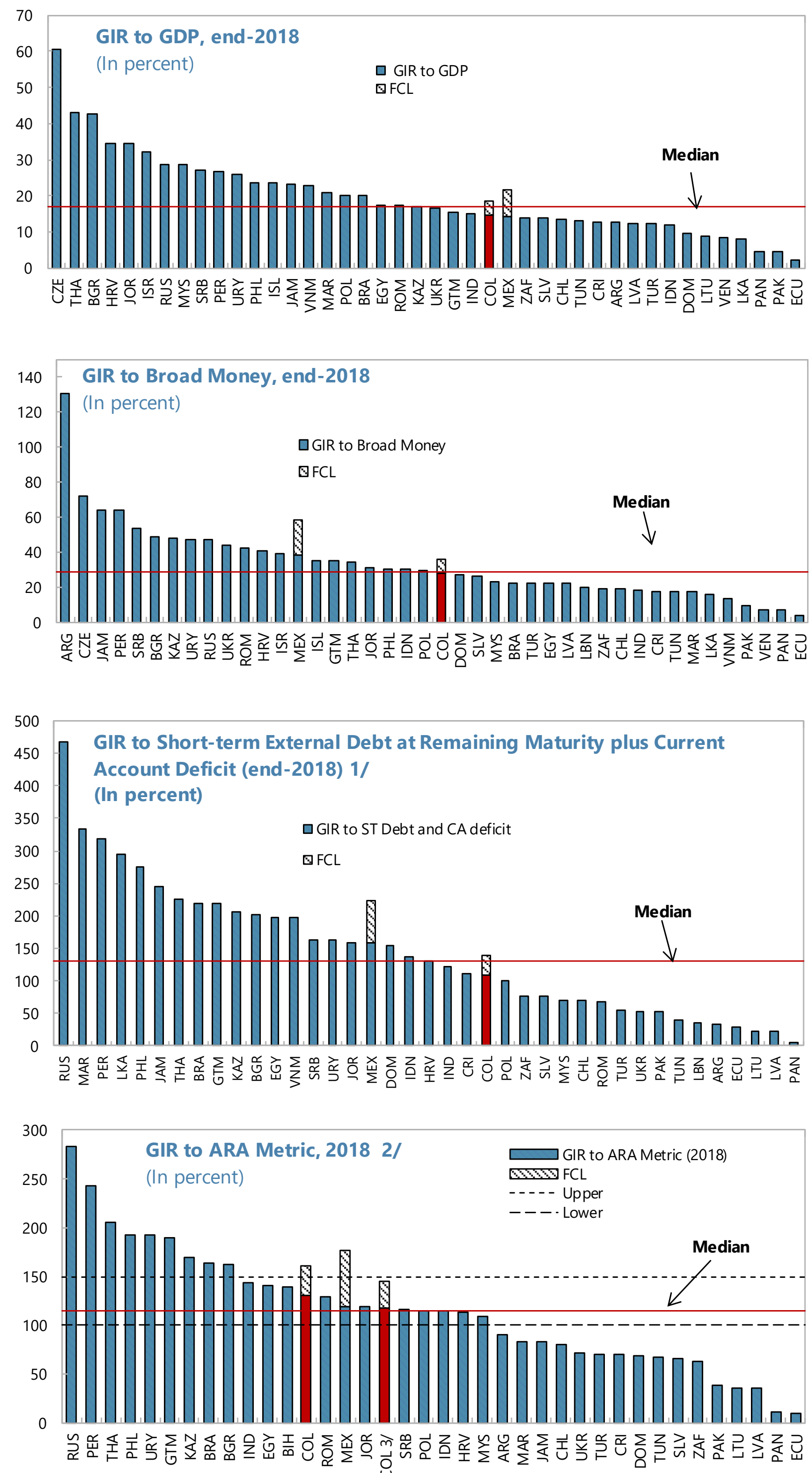
Source: Banco de la República.
1/ Public Sector includes IFIs, monetary authorities and sovereign wealth funds.
2/ Others includes Hedge Funds, Endowments and 'Not Classified'.

Figure 5. Colombia: FCL Qualification Criteria



Sources: Banco de la República; Ministerio de Hacienda y Crédito Público; Datastream; Haver, and IMF staff estimates.
1/ Combined permanent 1/4 standard deviation shocks applied to interest rate; growth; and non-interest current account balance.
2/ 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 (about 30 percent real).
3/ 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.
4/ 30 percent permanent real depreciation in 2020.

Figure 6. Colombia: Reserve Coverage in an International Perspective



Sources: World Economic Outlook; IFS; and IMF staff estimates.
1/ The current account is set to zero if it is in surplus.
2/ The upper and lower lines denote the 100-150 percent range of reserve coverage regarded as adequate for a typical country under this metric.
3/ Calculated based on the ARA metric augmented by a buffer for commodity exporters.

Table 1. Colombia: Selected Economic and Financial Indicators

I. Social and Demographic Indicators

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

II. Economic Indicators

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

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

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

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

3/ IMF staff estimate.

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

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

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

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

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

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

Table 2b. Colombia: Summary Balance of Payments
(In percent of GDP)

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

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

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

(In percent of GDP, unless otherwise indicated)

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

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

1/ Includes central administration only.

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

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

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

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

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

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

Table 5. Colombia: Monetary Indicators 1/

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

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

1/ For 2018: IMF staff estimates.

Table 6. Colombia: Medium-Term Outlook

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

Sources: Colombian authorities and IMF staff estimates and projections.
1/ Excludes Ecopetrol.
2/ Includes statistical discrepancy.
3/ For 2016, excludes proceeds from the sale of ISAGEN and for 2019, it excludes projected privatization proceeds.
4/ Includes debt of the non-financial public sector, plus Ecopetrol, FOGAFIN and FINAGRO.
5/ Gross debt minus financial assets (public sector deposits in domestic and foreign financial institutions).

Table 7. Colombia: Financial Soundness Indicators 1/

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

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Capital Adequacy										
Regulatory capital to risk-weighted assets	17.2	17.3	16.9	18.1	17.0	17.0	16.9	17.5	18.6	18.5
Regulatory Tier 1 capital to risk-weighted assets	13.4	13.0	13.4	13.7	12.0	11.7	11.4	11.4	12.4	12.7
Capital (net worth) to assets 2/	14.2	14.2	14.3	14.7	14.8	14.9	14.1	16.2	16.1	16.6
Asset Quality and Distribution										
Nonperforming loans to gross loans	4.0	2.9	2.5	2.8	2.8	2.9	2.8	3.1	4.2	4.4
Provisions to nonperforming loans	140.1	175.0	182.0	163.9	160.7	151.3	155.5	153.5	134.7	127.3
Gross loans to assets	64.3	67.9	70.4	69.6	68.2	69.3	70.2	69.3	70.1	69.9
Earnings and Profitability										
ROAA	3.5	3.4	3.3	3.1	2.8	2.9	2.7	3.0	2.2	2.6
ROAE	26.2	23.7	23.0	21.2	19.5	19.8	18.9	18.3	13.7	16.0
Interest margin to gross income	54.0	55.6	58.4	58.7	61.3	60.6	58.7	53.7	59.2	57.3
Noninterest expenses to gross income	43.2	47.0	49.3	47.2	47.0	44.6	43.4	41.2	43.9	41.9
Liquidity										
Liquid assets to total assets 3/	24.6	22.1	21.5	21.6	21.4	19.8	18.9	18.0	18.6	19.2
Liquid assets to short-term liabilities 3/	47.8	42.7	43.7	43.6	41.9	40.3	39.9	39.9	42.6	43.0
Deposit to loan ratio	98.8	93.5	91.4	94.7	96.3	91.6	93.2	92.6	92.7	92.0
Other										
Foreign-currency-denominated loans to total loans	4.2	6.9	7.7	7.5	7.3	8.4	8.3	6.9	6.1	5.9
Foreign-currency-denominated liabilities to total liabilities	7.1	9.8	11.5	10.5	11.9	13.5	13.9	11.8	11.0	11.6
Net open position in foreign exchange to capital 4/	0.5	0.6	1.0	0.6	0.5	0.7	1.3	5.5	6.4	7.1

Source: Superintendencia Financiera.

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

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

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

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

Table 8. Colombia: Indicators of External Vulnerability 1/

(In billions of US$, unless otherwise indicated)

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

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

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

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

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

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

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

Table 9. Colombia: Public Sector Debt Sustainability Analysis – Baseline Scenario

(In percent of GDP, unless otherwise indicated)

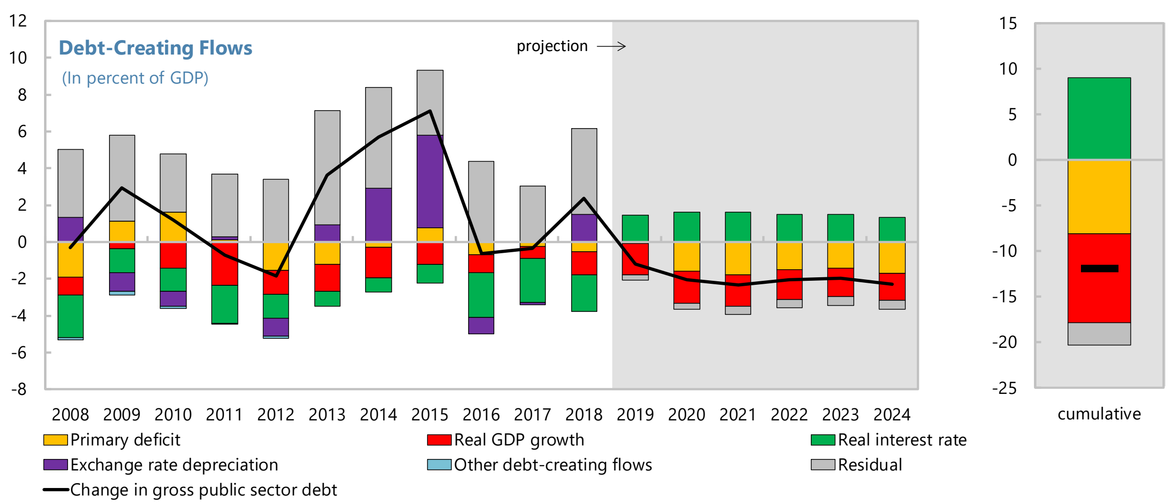
Debt, Economic and Market Indicators [1/]

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

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

Contribution to Changes in Public Debt

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



Source: IMF staff estimates.

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

2/ Based on available data.

3/ EMBIG.

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

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

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

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

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

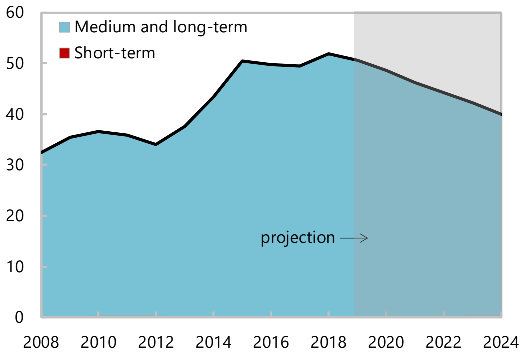
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Table 10. Colombia: Public Sector Debt Sustainability Analysis – Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

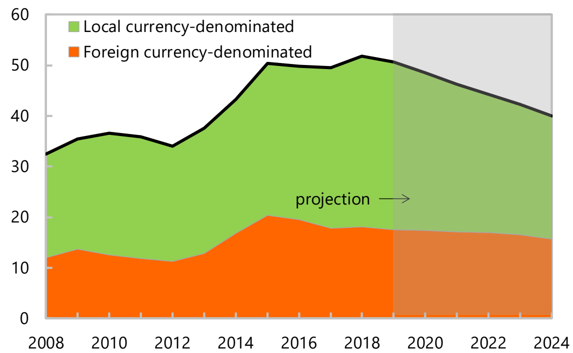
By Maturity

(In percent of GDP)



By Currency

(In percent of GDP)

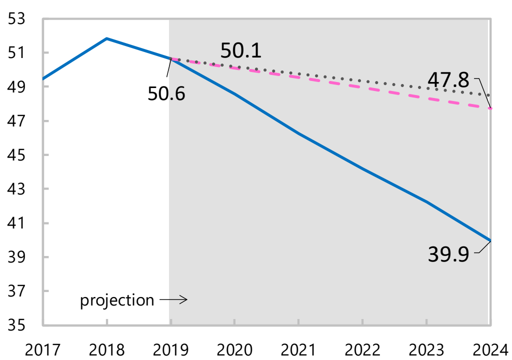


Alternative Scenarios

Baseline Historical Constant Primary Balance

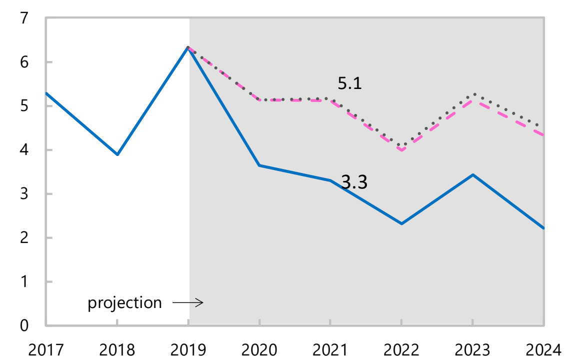
Gross Nominal Public Debt

(In percent of GDP)



Public Gross Financing Needs

(In percent of GDP)



Underlying Assumptions

(In percent)

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

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

Source: IMF staff estimates.

Table 11. Colombia: External Debt Sustainability Framework

(In percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2014	2015	2016	2017	2018			2019	2020	2021	2022	2023	2024	**Debt-stabilizing non-interest current account 6/**
Baseline: External debt	30.0	42.1	49.4	47.3	46.7			**48.7**	**48.7**	**48.1**	**47.9**	**47.2**	**46.2**	**-2.9**
Change in external debt	4.3	12.1	7.3	-2.1	-0.6			2.0	-0.1	-0.6	-0.2	-0.7	-1.0	
Identified external debt-creating flows (4+8+9)	1.8	12.4	4.1	-4.0	-0.7			-0.1	-0.6	-0.6	-0.6	-0.6	-0.5	
Current account deficit, excluding interest payments	4.1	4.8	2.6	1.6	2.1			1.6	1.3	1.4	1.4	1.5	1.5	
Deficit in balance of goods and services	3.1	6.2	4.5	2.7	2.7			3.6	3.5	3.7	3.8	3.8	3.8	
Exports	16.8	15.7	14.8	15.4	16.1			15.8	16.2	15.5	15.4	15.3	15.2	
Imports	19.9	21.9	19.3	18.2	18.9			19.4	19.6	19.3	19.1	19.1	19.0	
Net non-debt creating capital inflows (negative)	-3.3	-1.7	-1.4	-2.9	-1.5			-2.4	-2.6	-2.7	-2.7	-2.6	-2.6	
Automatic debt dynamics 1/	1.0	9.3	2.8	-2.7	-1.3			0.7	0.7	0.7	0.6	0.6	0.6	
Contribution from nominal interest rate	1.0	1.6	1.7	1.7	1.7			2.4	2.4	2.3	2.3	2.3	2.2	
Contribution from real GDP growth	-1.2	-1.2	-0.9	-0.6	-1.2			-1.7	-1.7	-1.7	-1.7	-1.7	-1.6	
Contribution from price and exchange rate changes 2/	1.1	8.9	2.1	-3.8	-1.9			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	2.5	-0.3	3.2	1.9	0.2			2.1	0.5	0.0	0.4	-0.1	-0.5	
External debt-to-exports ratio (in percent)	178.4	268.5	333.4	306.1	289.3			308.1	300.7	309.6	311.8	308.9	304.8	
Gross external financing need (in billions of US dollars) 4/	41.5	43.1	35.8	40.5	44.5			44.8	48.0	50.6	51.0	54.9	57.6	
in percent of GDP	10.9	14.7	12.7	13.0	13.4			13.3	13.6	13.6	12.9	13.2	13.1	
Scenario with key variables at their historical averages 5/						10-Year Historical Average	10-Year Standard Deviation	**48.7**	**50.2**	**51.5**	**53.2**	**54.5**	**55.3**	**-2.1**
Key Macroeconomic Assumptions Underlying Baseline														
Real GDP growth (in percent)	4.7	3.0	2.1	1.4	2.7	3.5	1.9	3.6	3.7	3.6	3.7	3.7	3.6	
GDP deflator in US dollars (change in percent)	-4.7	-25.2	-5.6	8.8	4.1	0.4	11.8	-2.4	1.1	1.8	1.8	1.9	1.9	
Nominal external interest rate (in percent)	4.1	4.0	3.8	3.8	3.9	4.5	0.7	5.1	5.2	5.1	5.0	5.0	5.0	
Growth of exports (US dollar terms, in percent)	-4.8	-28.2	-9.0	15.0	11.7	3.8	18.8	-0.9	7.3	1.3	4.4	5.1	4.8	
Growth of imports (US dollar terms, in percent)	7.7	-15.3	-15.1	3.8	11.1	4.4	15.7	3.8	6.3	3.5	5.0	5.2	5.1	
Current account balance, excluding interest payments	-4.1	-4.8	-2.6	-1.6	-2.1	-2.4	1.2	-1.6	-1.3	-1.4	-1.4	-1.5	-1.5	
Net non-debt creating capital inflows	3.3	1.7	1.4	2.9	1.5	2.3	1.2	2.4	2.6	2.7	2.7	2.6	2.6	

Source: IMF staff estimates.

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

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

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

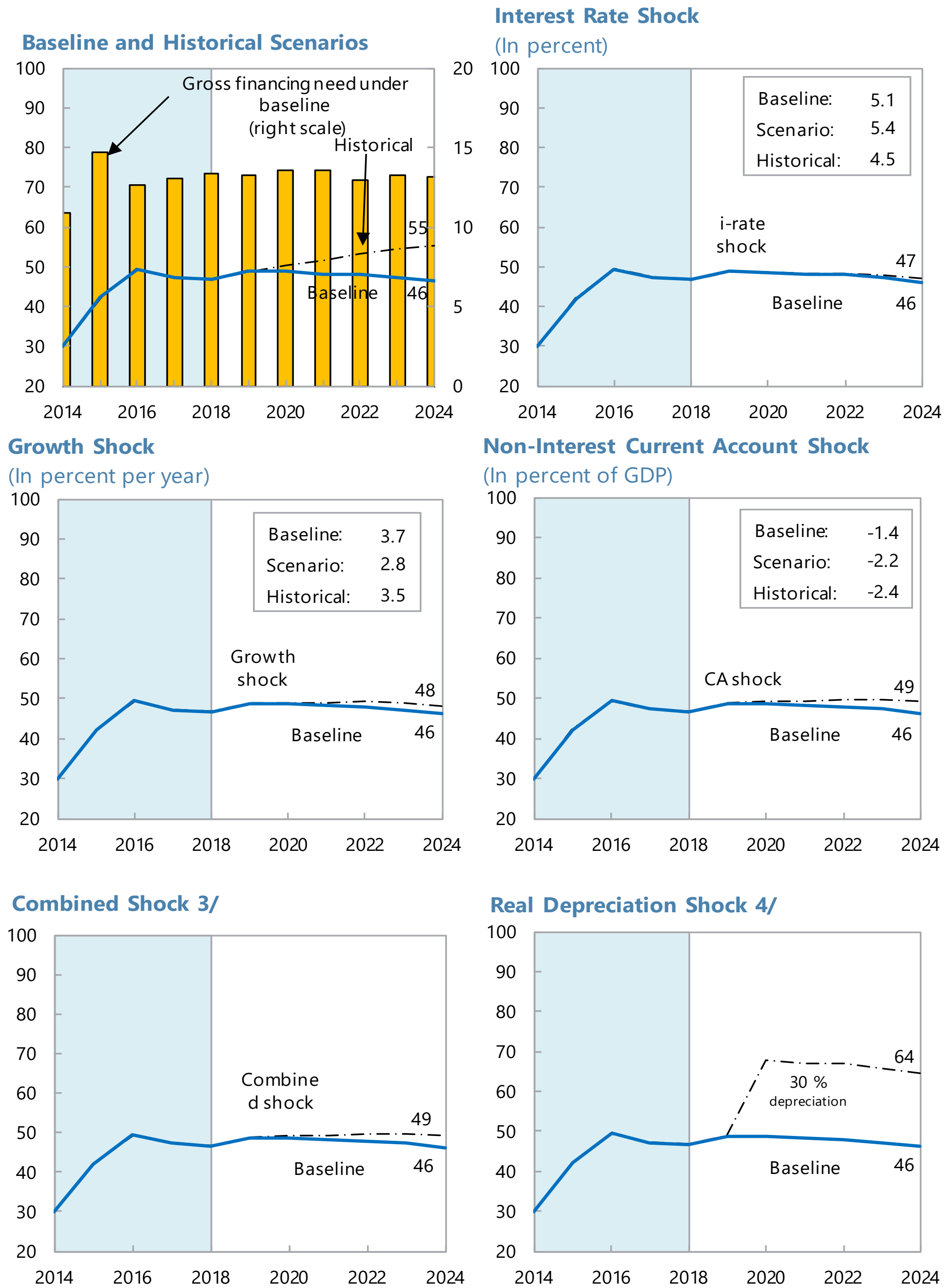
4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

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

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

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

(External debt in percent of GDP)



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

Table 12. Colombia: Indicators of Fund Credit 1/

		Projections					
	2018	2019	2020	2021	2022	2023	2024
Stocks from prospective drawings 2/							
Fund credit (Millions of SDR)	0	7,848	7,848	7,848	5,886	1,962	0
In percent of quota	0	384	384	384	288	96	0
In percent of GDP	0.0	3.3	3.1	3.0	2.1	0.7	0.0
In percent of exports of goods and services	0.0	20.6	19.4	19.2	13.9	4.4	0.0
In percent of gross reserves	0.0	21.5	20.8	20.2	14.8	4.8	0.0
Flows from prospective drawings							
Amortization	0	0	0	0	1,962	3,924	1,962
Charges (Millions of SDR)	0	149.1	249.1	248.9	257.2	129.9	19.7
Debt Service due on GRA credit (Millions SDR)	0	149.1	249.1	248.9	2,219.2	4,053.9	1,981.7
In percent of quota	0.0	7.3	12.2	12.2	108.5	198.3	96.9
In percent of GDP	0.0	0.1	0.1	0.1	0.8	1.4	0.7
In percent of exports of goods and services	0.0	0.4	0.6	0.6	5.2	9.1	4.3
In percent of gross reserves	0.0	0.4	0.7	0.6	5.5	9.9	4.7
Memorandum Item:							
Total External Debt (percent of GDP)	46.7	48.7	48.7	48.1	47.9	47.2	46.2
Total Debt Service (percent of GDP)	11.3	11.7	12.3	12.2	11.5	11.7	11.6

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

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

2/ Stocks as of end of period.

Statement by Leonardo Villar, Executive Director for Colombia
May 20, 2019

On behalf of the Colombian authorities, I want to thank staff for the review under the Flexible Credit Line arrangement and the clear assessment according to which Colombia continues to meet the qualification criteria for access to FCL resources.

This review comes a month after the formal Board discussion on the Article IV consultation. We are grateful for the support Directors expressed commending the authorities for the strong policy framework and well executed policy actions, that despite significant negative shocks have supported economic recovery in a context of subdued inflation, flexible exchange rate, adherence to fiscal balance rule and enhanced financial regulation and supervision.

Still, it is clear Colombia continues facing important risks that are somewhat tilted to the downside relative to the situation that could be envisaged one year ago, when the current FCL arrangement was approved. This is certain in the case of global risks, but even more so at the regional level as consequence of the continued deterioration of the Venezuelan situation that has led to an unprecedented process of massive immigration. The current number of migrants is close to 1.5 million and is projected to reach 2.5 million by end 2020 in staff's baseline projection.

As highlighted in the staff's document, Colombia has benefitted from the FCL arrangement. The FCL contributed to Colombia weathering last year's emerging market turmoil and it provides important insurance against tail risks.

My authorities have reiterated their intention to continue treating the FCL arrangement as precautionary and to gradually reduce access to Fund resources, risk permitting. They remain committed to the exit strategy communicated when the current FCL was approved in August 2018. Authorities would intend to reduce access to the Fund resources in any subsequent FCL arrangement and to phase out Colombia's use of the facility, contingent on the evolution of risks.

To that end, in September 2018 the Central Bank of Colombia—Banco de la República (BoR)—announced a program to accumulate international reserves through a market-based mechanism. The press release announcing the program explicitly noted that the BoR Board of Directors decided to initiate a program of gradual international reserve accumulation "ïn order to be prepared for a potential reduction of the Flexible Credit Line that Colombia has with IMF in the year 2020"[1].

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

In my authorities' view, cautious policy continuity is Colombia's main line of defense against uncertainty and external volatility and it will help the country to respond appropriately to any shock that may arise in the future. A comfortable level of international reserves is part of the same strategy. Still, access to the FCL has also been very important to maintain confidence in the economy and to allow for a sound management of the adjustment process after the shocks that the economy has faced in the recent past and is experiencing today. My authorities are therefore grateful to the IMF for the support and for the staff's recommendation of completion of the review under the FCL arrangement.