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Colombia: Arrangement Under the Flexible Credit Line and Cancellation of the Current Arrangement—Staff Report; Staff Supplement; Press Release on the Executive Board Discussion; and Statement by the authorities of Colombia

The following documents have been released and are included in this package:

- The staff report on Arrangement Under the Flexible Credit Line and Cancellation of the Current Arrangement, prepared by a staff team of the IMF, based on information available as of April 22, 2010. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- A staff supplement of April 22, 2010, on the Assessment of the Impact of the Proposed Flexible Credit Line Arrangement on the Fund's Finances and Liquidity Position.

- A Press Release summarizing the views of the Executive Board as expressed during its May 7, 2010 discussion of the staff report that completed the request.

- A statement by the authorities of Colombia.

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

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INTERNATIONAL MONETARY FUND

COLOMBIA

Arrangement Under the Flexible Credit Line and Cancellation of the Current Arrangement

Prepared by the Western Hemisphere Department
(In consultation with other departments)

Approved by Miguel A. Savastano and Tamim Bayoumi

April 22, 2010

Executive Summary

- ***Background***. Colombia's sound policies, underpinned by strong fiscal and monetary policy frameworks, contributed to a solid macroeconomic performance and a significant reduction in vulnerabilities prior to the global crisis. The impact of the global crisis was not too severe, in part owing to timely countercyclical policies.
- ***Outlook***. The outlook for 2010–11 is generally positive, with real GDP growth for 2010 projected at about 2¼ percent and end-year inflation within the 2–4 percent target range. Macroeconomic policies are expected to continue to support domestic demand until the recovery is self-sustained. Despite its very strong fundamentals, Colombia's near-term outlook could be affected if the global recovery falters or external financing conditions deteriorate.
- ***FCL***. A new FCL arrangement for 300 percent of quota—which the authorities intend to treat as precautionary—would provide Colombia with reasonable cover in an adverse external scenario. The staff assesses that Colombia meets the qualification criteria for access to Fund resources under a new Flexible Credit Line arrangement specified under the Board decision on such arrangements, and recommends its approval by the Board.
- ***Fund liquidity.*** The impact of the proposed commitment of SDR2.322 billion on the Fund's finances and liquidity position would be manageable.
- ***Process.*** An informal meeting was held on April 14, 2010 to consult with the Executive Board on a possible FCL arrangement for Colombia.
- ***Team***. This report was prepared by a staff team led by Marco Piñón, and comprising Enrique Flores, Laura Jaramillo (all WHD), and Manrique Saenz. (SPR).

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I. Background

Very strong economic fundamentals and institutional policy framework

1. **Colombia's sound policies underpinned a strong macroeconomic performance and significant reduction in vulnerabilities in recent years.** During 2004–09, real GDP growth averaged 4.6 percent—above the regional average—driven by a large increase in private investment, while inflation fell to low single digits. Public debt to GDP ratios declined by almost 10 percentage points from 2004 to 2008, while sound debt management reduced exposure to exchange rate and rollover risks. Growing domestic capital markets have financed the bulk of private investment and helped keep private external debt low. Financial soundness indicators remain solid, with adequate capitalization, liquidity buffers and profitability. The corporate sector has low leverage and comfortable liquidity levels.

2. **Strong fiscal and monetary frameworks supported the authorities' macroeconomic policies.** The inflation targeting regime, in place since the early 2000s, succeeded in anchoring inflation expectations, whereas the flexible exchange rate (supplemented by limited and rules-based intervention) has served as an effective shock absorber and helped contain balance sheet vulnerabilities. The government's medium-term fiscal framework has guided fiscal consolidation, achieved both through higher tax revenues as well as restraint on current spending. At the same time, strong supervision and regulation has helped keep the financial system sound, including through improvements highlighted in the 2005 FSAP.

3. **Colombia's institutional framework and policies have been assessed favorably by the Executive Board.** At the recent Board discussion of the 2010 Article IV consultation (IMF Country Report No. 10/105), Executive Directors commended the Colombian authorities for their appropriate policy response to the global crisis, including the substantial monetary easing and fiscal stimulus. They also welcomed the authorities' continued commitment to the flexible exchange rate and inflation targeting regime, and to preserving medium-term fiscal sustainability guided by their medium-term framework—which they plan to supplement with a fiscal rule. In addition, Directors welcomed the resilience of Colombia's financial system and the ongoing efforts to build additional buffers. Directors expressed similar views about Colombia's fundamentals during the May 2009 Board discussions of the request for a one-year FCL arrangement (IMF Country Report No. 09/153) and the six-month review of the arrangement (IMF Country Report No. 09/312).

Policy response to the global crisis

4. **Colombia was not affected too severely by the global crisis.** Although private investment fell sharply in the last quarter of 2008, real GDP growth remained in positive

territory in 2009 (0.4 percent) as domestic demand started to recover in the second half of the year, led by public investment and consumption (Table 1, Figure 1).[1] The external current account deficit narrowed to 1.8 percent of GDP (from 2.9 percent the previous year), with a fall in imports more than offsetting weak exports and workers' remittances. Uncertainties regarding access to external financial markets abated quickly and the capital account surplus did not fall too much, as a sharp increase in government borrowing (largely through bond placements in international markets) compensated for lower net flows to the private sector (Tables 2 and 3). International reserves remained stable at about US$24 billion (excluding the one-off general and special SDR allocations). The domestic financial system did not experience major strains as capital adequacy remained strong and non-performing loans increased only slightly, backed by high provisions (Table 5).

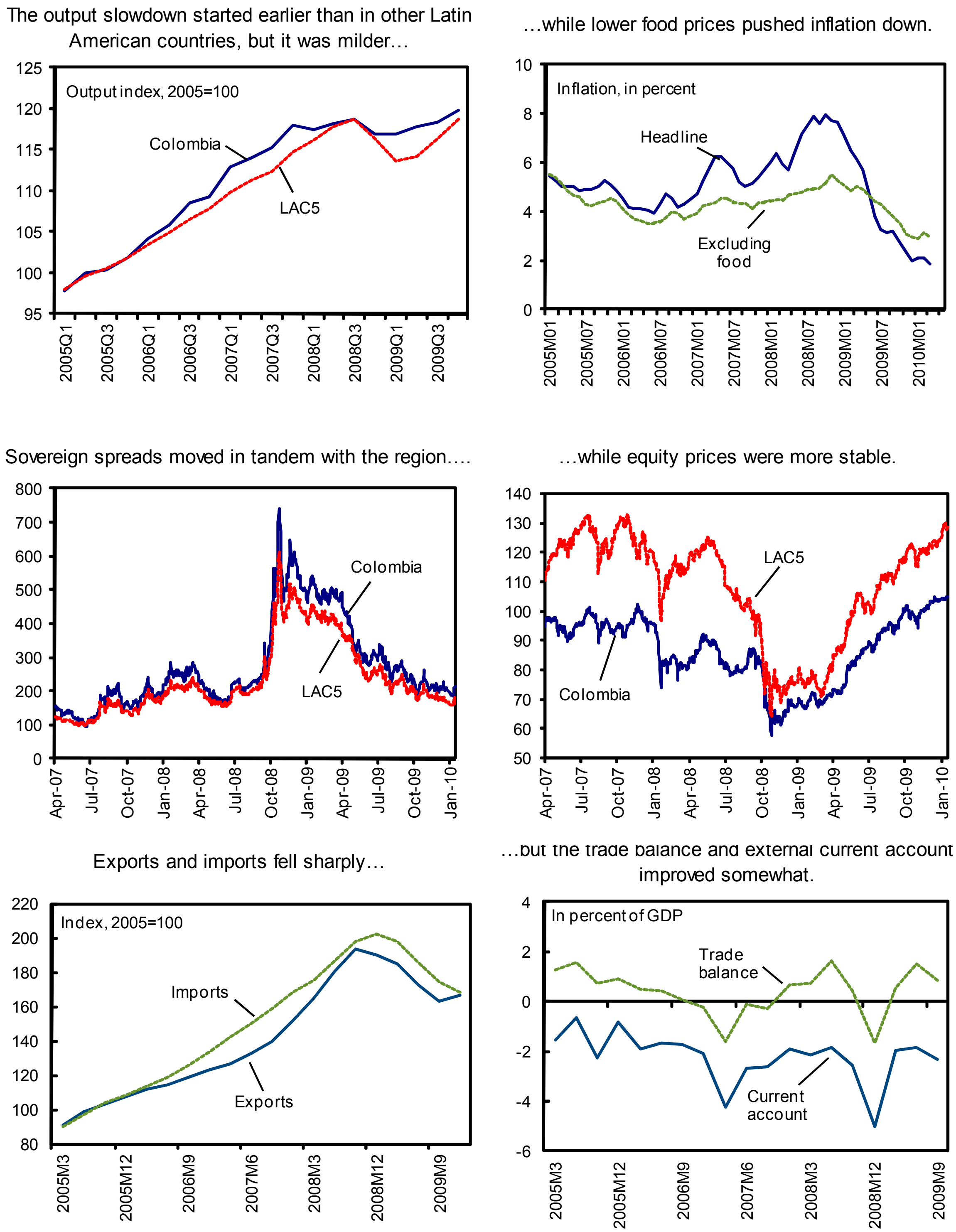
5. **The authorities cushioned the impact of the crisis through timely countercyclical monetary and fiscal policies.** Monetary policy responded swiftly, with a 650 basis points reduction in the policy rate (to 3½ percent). Fiscal policy also contributed to support demand, imparting a fiscal impulse of about 1 percent of GDP during 2009 (Table 4). The government increased liquidity buffers, supported by multilateral lending and uninterrupted access to international and domestic capital markets. In addition, measures were taken to strengthen financial sector resilience, including through an agreement between banks and the superintendent to retain a portion of 2008 profits and raising the effective coverage of the deposit insurance. The US$10.4 billion (900 percent of quota) FCL arrangement approved by the Fund on May 11, 2009 contributed to stabilize expectations and provided important insurance against a further deterioration of global conditions; in the event, that deterioration did not materialize and the authorities treated the arrangement as precautionary.

Near term outlook and risks

6. **The outlook for 2010 is generally positive.** Real GDP growth in 2010 is projected at about 2¼ percent, reflecting the expected upturn in the world economy and the impact of expansionary policies, with the disruption of trade with Venezuela dampening the recovery. Inflation is likely to remain within the 2–4 percent target range, with the expected effects of El Niño on food inflation likely to be transitory and offset by a negative output gap and a strengthening peso. The external current account deficit is projected to rise above 3 percent of GDP on account of lower exports to Venezuela and a pickup in oil investment-related imports, but is expected to decline to 1 percent of GDP over the medium term helped by higher oil-related exports.

[1] Data released since the 2010 Article IV consultation discussions has resulted in an upward revision in staff's estimate for real GDP growth in 2009 (0.4 percent compared to 0.1 percent previously).

Figure 1. Colombia: Recent Economic Developments



Sources: IFS, Haver, Datastream, and Fund staff estimates.
Note: LAC5 represents the average of Chile, Colombia, Brazil, Mexico, and Peru

7. **The macroeconomic policy stance remains appropriate.** As noted during the recent Article IV consultation, macroeconomic policies during 2010 will be geared at supporting domestic demand until the recovery is self-sustained. The fiscal stance envisaged for 2010 (consistent with an overall public sector deficit of 3.5 percent of GDP) strikes a reasonable balance between continuing to support domestic demand and safeguarding medium term sustainability, as it implies a broadly unchanged structural balance. As economic activity and oil revenues recover, and government spending is kept in check, the overall fiscal deficit is expected to decline below 2 percent of GDP and public debt to resume a downward trend (Table 4). Guided by the inflation targeting framework, the monetary stance is expected to remain supportive unless there were signs of domestic demand pressures or unhinged inflation expectations, while the exchange rate is expected to remain the first line of defense against external shocks.

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

	2008	2009	2010	2011
Combined public sector (CPS) overall balance	**-0.1**	**-2.8**	**-3.5**	**-3.0**
Oil revenues	2.7	3.5	2.0	2.4
Non-oil revenues	24.0	23.0	22.7	23.1
Primary expenditure	23.9	25.4	24.8	25.2
Memorandum items:				
CPS structural overall balance 1/	-1.2	-2.2	-2.3	-2.0

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

8. **Although global conditions have vastly improved since early 2009, downside risks remain**. While Colombia compares favorably to other emerging markets in terms of most indicators of vulnerability, the external environment continues to present risks. The strength of global economic recovery remains uncertain, as accommodative macroeconomic policies in advanced economies have not yet induced strong private sector demand growth, and concerns about fiscal sustainability have emerged in some countries. This represents a key downside risk to Colombia's GDP growth and external current account, particularly if commodity prices were sharply lower than expected. The unprecedented scale of government financing needs worldwide and rising sovereign risks also could limit the availability and access to external financing. In addition, increased political tensions with Venezuela could have a larger-than-expected impact on activity and/or destabilize domestic financial markets.

II. Role of the Flexible Credit Line Arrangement

9. **The authorities are of the view that a successor FCL arrangement would provide useful insurance against tail risks in the global outlook.** They consider that the arrangement that expires on May 11, 2010 increased their capacity to follow countercyclical fiscal and monetary policies in the aftermath of the global financial crisis without unsettling investors' confidence in Colombia's policies and contributed to its continued access to capital markets at favorable terms. Although the authorities believe that the probability of external risks (such as those noted in paragraph 8) materializing has diminished, they are of the view that a successor FCL arrangement, which they intend to treat as precautionary, would play an important role in supporting their economic strategy in a continued difficult external environment.

10. **Colombia is particularly vulnerable to commodity price shocks**. A slower than expected global recovery that results in lower prices for oil and other primary exports of Colombia (i.e. coal, coffee) could have significant effects on exports proceeds and the external current account balance. Oil-related FDI inflows could also be affected adversely by such a shock.

11. **Although its total external debt is not high, a shock to global financial markets would affect Colombia's external position**. Lower rollover rates on external debt would reduce the surplus in Colombia's financial account envisaged in the baseline balance of payments scenario (Table 2), even if the government maintains access to international markets. The low exposure of non-residents to Colombia's equity and debt markets, however, helps keep the downside risks to the capital account relatively contained.[2]

12. **In the staff's view, a one-year FCL arrangement with access in the order of US$3.5 billion (300 percent of quota) would provide reasonable coverage against the above noted risks.** Taking as the starting point the balance of payments projections presented in the staff report for the 2010 Article IV consultation, staff estimates that combined shocks to Colombia's external current and capital accounts could lower projected balance of payments inflows by close to US$5.5 billion in 2010−11.[3] While close to 40 percent of the shortfall could be absorbed by foregoing the increase in international reserves envisaged in the baseline scenario, external financing needs of about US$3.4 billion would still need to be covered and the FCL resources could be

[2] Available estimates indicate that, as of end-2008, total non-resident portfolio exposure to Colombia was in the order of US$16.5 billion (6.8 percent of GDP). By comparison, non-resident portfolio exposure to Mexico and Brazil is estimated to be in the order of US$232.5 billion and $287.5 billion, respectively.

[3] The scenario analysis was conducted on the basis of the average impact of shocks on Colombia's balance of payments during 2010−2011.

useful for that purpose (Box). The access proposed under the new FCL arrangement is in the lower range of most recent high access cases (Table 6).

Box. Adverse Scenario

An adverse illustrative scenario developed by staff suggests that Colombia's external financing shortfall during 2010–11 could be in the order of US$3.4 billion and could be covered by an FCL arrangement with an access level of 300 percent of quota. As in the request for the expiring FCL, the scenario assumes concurrent shocks to the current and capital accounts of Colombia's balance of payments, consistent with a worsening in global financial conditions and lower global economic growth. The shocks are assumed to lower commodity prices, which remain a key source of vulnerability for Colombia (commodity exports accounted for about 50 percent of export revenues in 2009), and reduce rollover rates on external debt.

Compared with the baseline balance of payments scenario and assuming that international reserves remain at their current level (rather than increasing by US$2 billion on average during 2010–11 as in the baseline), the concurrent shocks could create a shortfall of about US$3.4 billion (about 285 percent of quota) on average during 2010–11 (see Table 3). The proposed access contains a small margin above this estimate to cover additional potential risks.

The key assumptions underlying the scenario are as follows:

- A decline of 15 percent in world oil prices and a decline of one-half that size (7½ percent) in the prices of other commodities relative to the baseline for both 2010 and 2011.
- A fall in inward FDI inflows of 10 percent relative to the baseline for 2010 and 2011.
- A decline in external debt rollover rates of about 10–15 percentage points relative to the baseline in 2010 and 2011. Rollover rates of public sector debt would be about 15 percentage points lower than in the baseline, but would remain high (close to 200 percent), reflecting in part pre-committed financing of oil-related projects. Rollover rates of private sector debt are assumed to fall to about 90 percent, some 10 percentage points lower than under the baseline.

13. **Staff believes that Colombia continues to meet the qualification criteria identified in paragraph 2 of the FCL decision.**[4]

- **Sustainable external position**. As of end-2009, Colombia's external debt to GDP ratio stood at 21.3 percent, with public external debt remaining at moderate levels. Staff's external debt sustainability analysis (Figure 4, Table 8) suggests that external debt ratios will decline over the medium term and would remain manageable even under large negative shocks. A key driver of this result is the projected decline in the external current account deficit to about 1 percent of GDP over the medium term.

- **Capital account position dominated by private flows**. Capital account flows in Colombia are predominantly private, mostly in the form of FDI. As of end-2009,

[4] The last time the Executive Board assessed Colombia's continued adherence to the FCL qualification criteria was on October 28, 2009, during the six-month review of the FCL (IMF Country Report No. 09/312).

cumulative FDI flows represented close to 60 percent of Colombia's liabilities to non-residents (Figure 2).

- **Track record of steady sovereign access to external capital markets at favorable terms**. The Colombian government has maintained continued access to international markets at favorable terms. The government issued external bonds for more than US$5 billion during 2009, and in April 2010 it returned to markets with an issuance of US$800 million of peso-denominated bonds. Sovereign CDS spreads for Colombia have narrowed substantially since early 2009, and are presently 30–35 basis points above the average of investment grade countries in the region.

- **Relatively comfortable reserve position**. Colombia's current level of international reserves is comfortable, with coverage equivalent to about 7 months of imports of goods and services and 130 percent of the sum of external debt falling due and the current account deficit projected for 2010 (Figure 3).

- **Sustainable public debt and sound public finances**. The authorities' fiscal policy is anchored on a medium-term fiscal framework, which underscores their commitment to fiscal consolidation. Staff's recent debt sustainability analysis (Figure 5, Table 9) suggests that public debt would remain manageable and on a downward trajectory under alternative adverse scenarios.

- **Low and stable inflation, in the context of a sound monetary and exchange rate policy framework.** Inflation and inflation expectations are within the target range of 2–4 percent, and the authorities remain committed to their inflation targeting framework and a flexible exchange rate regime.

- **Absence of systemic bank solvency problems that pose an imminent threat of a systemic banking crisis.** Capital adequacy ratios remain strong at 15.2 percent. The deterioration of loans has been moderate, and, at end-2009, provisions represented 136 percent of nonperforming loans; liquidity also improved to 17.7 percent of total assets (Table 5). Stress tests conducted in late 2009 suggest that Colombian banks remain resilient and strengthened further in the last year.

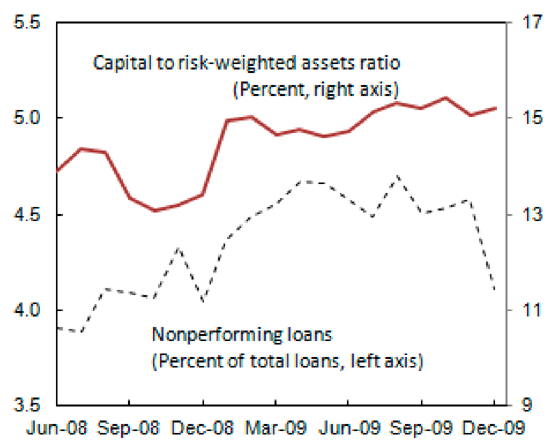
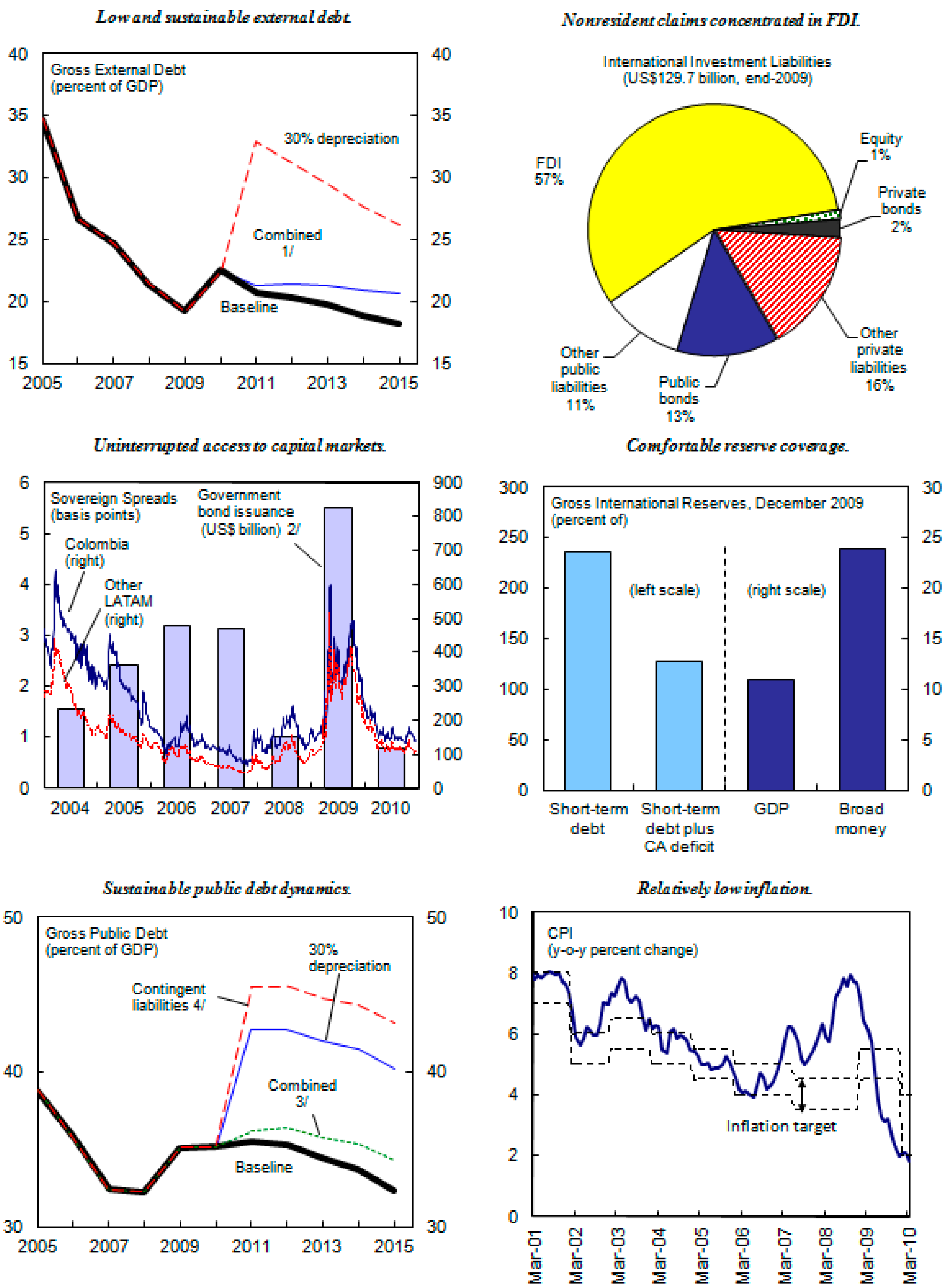
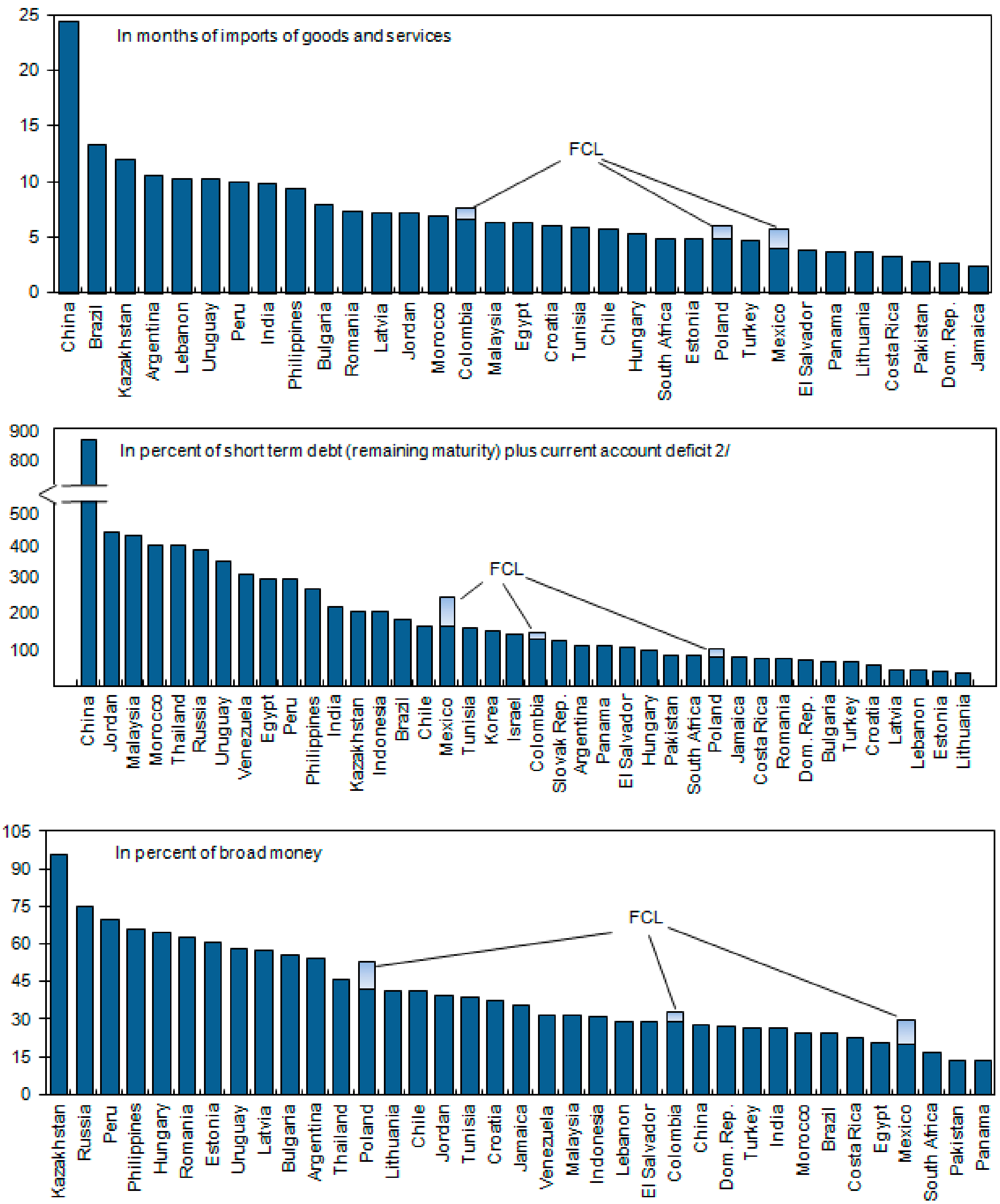


Figure 2. Colombia: Qualification Criteria



Sources: Banco de la Republica; Datastream; Haver, and IMF staff calculations.
1/ Combined permanent ¼ standard deviation shocks applied to interest rate, growth, and non-interest current account balance.
2/ Includes data through April 8, 2010.
3/ Combined permanent ¼ standard deviation shocks applied to real interest rate, growth, and primary balance.
4/ One-time 10 percent of GDP increase in debt-creating flows.

Figure 3. Colombia: Reserve Coverage in International Perspective[1]



Source: Fund staff estimates.
1/ End-2009 staff estimates for gross international reserves. In Mexico and Poland, the top bar represents approved access under the existing FCL arrangement; in Colombia it represents requested access under the new FCL.
2/ Gross international reserves at end 2009 in percent of external debt at remaining maturity in 2009, plus the current account deficit projected for 2010.

- **Effective financial sector supervision**. Colombia's regulatory and supervisory frameworks remain strong, with a well-established financial safety net. Further progress in financial sector reform includes a law approved in July 2009 that broadened the range of permissible assets in repo operations (to facilitate provision of liquidity support by the central bank), broadened investment options for pension funds, and allowed foreign issuers in the domestic stock exchange.

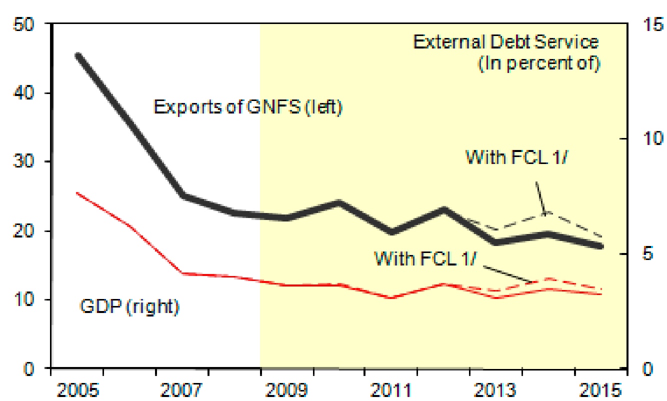
- **Data transparency and integrity**. The overall quality of Colombian macroeconomic data is good and continues to meet the high standards found during the 2006 data ROSC. Colombia remains in observance of the Special Data Dissemination Standard (SDDS) and the authorities provide all relevant data to the public on a timely basis.

14. **The authorities' written communication (Attachment) confirms their continued commitment to maintaining strong policy and institutional frameworks.** The authorities' priorities are to support the ongoing recovery while maintaining macroeconomic and financial stability. They are committed to continue strengthening their strong policy framework, anchored on a medium-term fiscal framework, inflation targeting, a flexible exchange rate, and strong financial sector supervision and regulation.

III. Impact on Fund Finances, Risks, and Safeguards

15. **Access under the proposed FCL arrangement for Colombia of 300 percent of quota (SDR 2.322 billion) would be manageable for Fund finances**. The Fund's liquidity is expected to remain adequate after the approval of the FCL arrangement for Colombia, as discussed further in the supplement assessing the impact on the Fund's finances and liquidity position.

16. **Risks to the Fund are expected to be contained.** The authorities intend to treat the FCL arrangement as precautionary. Even if a full drawing under the arrangement were to be made shortly after approval, Colombia's external debt service would remain manageable (Table 7). Colombia has an outstanding track record of meeting its obligations to all creditors, and the authorities have a strong commitment to macroeconomic stability and prudent fiscal policies. In addition, Colombia's growth and balance of payments prospects remain strong over the medium term.



1/ Assumes full drawing of the FCL in 2010, and projected exports and GDP as in the baseline scenario.

17. **Staff is in the process of completing the safeguards assessment procedures required for approval of an FCL arrangement.** Banco de la República (BR) has authorized PricewaterhouseCoopers (PwC) to communicate directly with Fund staff on the results of the 2009 audit. PwC issued an unqualified audit opinion on BR's 2009 annual financial statements on February 5, 2010. The opinion confirms that the audit was conducted in accordance with International Standards on Auditing. The audited financial statements and audit opinion are published in full in Spanish on BR's external website. PwC has provided staff with copies of its internal control recommendations, and a discussion with staff has been scheduled for April 29.

IV. Staff Appraisal

18. **A successor FCL arrangement for Colombia would play an important role in supporting the government's economic policy strategy**. Although Colombia's underlying fundamentals and medium-term prospects remain very strong, uncertainties about the global recovery and the resilience of international financial markets present risks to the near-term outlook. A successor FCL arrangement for 300 percent of quota—which the authorities intend to treat as precautionary—would provide Colombia with additional protection against a possible deterioration of global conditions (including lower commodity prices), and help maintain confidence in the authorities' capacity to withstand external shocks without jeopardizing macroeconomic stability.

19. **The staff assesses that Colombia continues to meet the qualification criteria for access to FCL resources and recommends approval of a one-year FCL arrangement for SDR 2.322 billion (300 percent of quota).** The authorities' policy response to the global crisis has been appropriate, and their commitment to very strong fundamentals and institutional frameworks was once again tested and confirmed. Staff is confident that the current and incoming governments will continue to adhere to sound policies, even if balance of payments difficulties were to arise. Risks to the Fund are contained by the very strong policy setting, the authorities' intent to treat the FCL arrangement as precautionary, and Colombia's very strong debt servicing record and manageable external debt service profile. As discussed above, the staff assesses that Colombia fully meets the qualification criteria for use of GRA resources under the FCL, and this is consistent with the very positive assessment of policies by the Executive Board in the context of the recently concluded Article IV consultation.

Table 1. Colombia: Selected Economic and Financial Indicators

I. Social and Demographic Indicators

Population (millions), 2008	44.5	Physicians (per 100,000 people), 2008	143.0
GDP, 2008		Adult illiteracy rate (percent ages 15 and older), 2007	7.3
per capita (US$)	5,404	Gross primary school enrollment rate, 2007	116.3
in billions of Col$	478,360	Sustainable access to safe water, 2006	
in billions of US$	240.2	(percent of population)	93.0
Unemployment rate, February 2010 (percent)	12.6	Gini index, 2006	58.5
Life expectancy at birth (years), 2007	72.8	Poverty rate, 2008	46.0
Under 5 mortality rate (per 1,000 live births), 2007	20.3	Extreme poverty rate, 2008	17.8

II. Economic Indicators

						Projections	
	2005	2006	2007	2008	2009 (p) 1/	2010	2011
	(Percentage changes, unless otherwise indicated)						
National income and prices							
Real GDP	5.7	6.9	7.5	2.4	0.4	2.3	4.0
GDP deflator	6.1	6.8	4.8	8.1	3.1	4.1	3.9
Consumer prices (average)	5.0	4.3	5.5	7.0	4.2	3.5	3.7
Consumer prices (end of period)	4.9	4.5	5.7	7.7	2.0	3.8	3.4
External sector (on the basis of US$)							
Exports (f.o.b.)	26.2	15.9	21.4	26.0	-12.3	6.9	8.8
Imports (f.o.b.)	26.8	23.5	25.4	20.5	-17.3	19.4	8.4
Terms of trade (deterioration -)	12.6	2.8	4.2	11.4	-8.0	5.3	0.5
Real effective exchange rate (depreciation -)	11.6	-1.9	8.2	-5.7	9.7	...	...
Central government							
Revenue	15.1	22.8	14.8	16.4	2.4	-3.1	11.2
Expenditure	10.4	16.9	9.9	13.2	13.0	0.6	8.4
Money and credit							
Broad money	17.6	18.0	17.4	18.5	8.1	6.5	8.0
Credit to the private sector	11.3	38.5	23.5	5.7	0.9	6.4	8.2
Interest rate (90-day time deposits; percent per year)							
Nominal	6.3	6.8	9.0	10.2	4.1	…	…
Real	1.4	2.3	3.3	2.5	2.1	…	…
	(In percent of GDP)						
Central government balance	-4.0	-3.4	-2.7	-2.3	-4.1	-4.5	-4.1
Combined public sector balance	0.0	-0.7	-0.7	-0.1	-2.8	-3.5	-3.0
Foreign financing	-1.4	0.3	1.8	0.2	0.6	1.3	1.2
Domestic financing 2/	1.4	0.4	-1.1	-0.2	2.0	1.3	1.8
Privatization	0.0	0.0	0.0	0.1	0.2	0.8	0.0
Public debt	38.8	35.8	32.4	32.3	35.0	35.1	35.4
Public debt, excluding Ecopetrol	38.8	35.8	32.4	32.3	34.1	33.5	33.9
Gross domestic investment	21.6	24.3	24.3	25.0	23.1	22.9	23.6
Gross national savings	20.3	22.5	21.5	22.1	21.2	19.8	20.7
Current account (deficit -)	-1.3	-1.8	-2.8	-2.9	-1.8	-3.1	-2.9
External debt	26.2	23.4	20.6	21.6	21.3	20.5	20.4
Of which: public sector	16.4	15.3	13.4	13.8	15.1	14.9	14.8
NIR in percent of short-term debt	108.1	147.0	198.8	216.2	223.7	260.8	220.3
	(In percent of exports of goods, services, and income)						
External debt service	45.8	35.4	25.0	22.5	21.8	24.2	20.0
Of which: public sector	31.0	20.0	14.4	12.5	9.8	12.0	11.5
Interest payments	11.8	9.4	9.0	8.7	8.1	8.9	8.7
Of which: public sector	8.7	6.4	6.2	6.2	5.4	6.6	7.1
	(In millions of U.S. dollars)						
Overall balance of payments	1,729	23	4,698	2,623	1,231	2,559	1,429
Exports (f.o.b.)	21,729	25,181	30,577	38,531	33,787	36,114	39,304
Of which: Petroleum products	5,559	6,328	7,318	12,204	10,261	14,060	16,678
Coffee	1,471	1,461	1,714	1,883	1,514	1,639	1,685
Gross official reserves (US millions)	14,634	15,109	20,607	23,672	24,995	27,554	28,983
Share of ST debt at remaining maturity + CA deficit	98	94	122	154	128	143	143
In months of imports of goods and services	5.8	4.8	5.5	7.6	6.7	6.9	6.7

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

1/ Preliminary estimates for 2009 are the same as those presented in the staff report for the 2010 Article IV consultation, except for real GDP growth in 2009 which has since been revised to 0.4 percent (from 0.1 percent).

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

Table 2. Colombia: Summary Balance of Payments

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

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

1/ Projections are the same as those presented in the staff report for the 2010 Article IV consultation (IMF Country Report No. 10/105).
2/ Includes movements of short-term assets owned by the public sector abroad.
3/ Includes net portfolio investment.
4/ Does not include valuation changes of reserves denominated in other currencies than U.S. dollars.
5/ Figures for 2009 include SDR allocation to Colombia amounting to US$972 million.

Table 3. Colombia: External Financing Requirements and Sources
(In millions of U.S. dollars)

	2007	2008	2009	Staff Projections			
				2010		2011	
			Prel.	Baseline	Adverse Scenario	Baseline	Adverse Scenario
Gross financing requirements	**21,363**	**19,529**	**16,576**	**22,117**	**22,281**	**20,431**	**22,133**
External current account deficit	5,824	6,846	4,232	8,384	11,107	8,437	11,568
Debt amortization	10,842	10,061	11,113	11,174	11,174	10,566	10,566
Medium and long term debt	5,662	5,224	5,481	6,236	6,236	4,952	4,952
Public sector	2,898	2,380	1,729	2,173	2,173	1,946	1,946
Private sector	2,764	2,844	3,751	4,063	4,063	3,006	3,006
Non financial	2,080	1,853	2,377	3,273	3,273	2,147	2,147
Financial	684	991	1,374	789	789	858	858
Short-term debt 1/	5,179	4,837	5,633	4,938	4,938	5,613	5,613
Public sector	859	552	716	716	716	716	716
Private sector	4,321	4,285	4,917	4,222	4,222	4,897	4,897
Gross reserves accumulation 2/	4,698	2,623	1,231	2,559	0	1,429	0
Available financing	**21,363**	**19,529**	**16,576**	**22,117**	**19,500**	**20,431**	**18,182**
Foreign direct investment (net)	8,136	8,329	5,883	6,006	5,172	7,911	6,882
o/w inward (net)	9,049	10,583	8,185	8,337	7,503	10,295	9,266
Medium and long-term debt disbursements	9,011	6,808	11,604	9,544	8,436	7,493	6,606
Public sector 3/	4,487	3,425	8,964	5,688	5,107	4,378	4,126
Private sector	4,524	3,382	2,640	3,857	3,329	3,116	2,480
Non financial	3,031	2,250	1,902	2,946	2,619	2,147	1,772
Financial	1,493	1,132	738	911	711	969	708
Public sector use of external assets	-662	-50	-1,076	2,035	2,035	-831	-831
Short-term debt 4/	5,144	5,469	4,938	5,613	4,938	5,945	5,613
Public sector	859	552	716	716	716	716	716
Private sector	4,285	4,917	4,222	4,897	4,222	5,229	4,897
Private sector use of external assets 5/	977	395	-1,439	-1,250	-1,250	-850	-850
Other capital flows (net) 6/	-1,243	-1,422	-3,334	168	168	763	763
Financing gap analysis (in US$ millions, unless specified)							
Financing needs (A+B-C)					**2,781**		**3,951**
In percent of quota					*236*		*335*
A. Current account shock					2,723		3,131
B. Capital account shock					2,617		2,249
C. Reseve accumulation in baseline					2,559		1,429
Memorandum items:							
100 percent of quota (in SDR million)					774		774
100 percent of quota (in US$ million)					1,180		1,180

Sources: Banco de la República and Fund staff estimates.

1/ Original maturity of less than 1 year. Stock at the end of the previous period.
2/ Estimate for 2009 includes the SDR allocation (US$972 million).
3/ Including financial public sector.
4/ Original maturity of less than 1 year. Stock at the end of the current period.
5/ Includes pension funds and other portfolio flows
6/ Includes all other net financial flows, and errors and omissions.

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

	2005	2006	2007	2008	2009	Projections 2/ 2010	2011	2012	2013	2014	2015
Total revenue	**26.1**	**27.3**	**27.1**	**26.6**	**27.0**	**24.7**	**25.5**	**25.7**	**25.8**	**25.9**	**26.0**
Tax revenue	14.9	19.3	19.3	19.3	18.9	18.4	19.0	19.2	19.2	19.2	19.2
Nontax revenue	11.1	8.1	7.8	7.3	8.1	6.3	6.5	6.6	6.6	6.7	6.8
Financial income	1.3	1.2	1.4	1.3	1.6	1.3	1.3	1.3	1.3	1.3	1.3
Operating surplus of public enterprises	3.3	3.6	3.2	0.4	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Of which: Ecopetrol	3.1	3.4	3.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	6.6	3.3	3.2	5.6	6.4	4.9	5.0	5.1	5.2	5.2	5.3
Total expenditure and net lending 3/	**26.2**	**28.2**	**28.2**	**26.5**	**29.7**	**28.2**	**28.6**	**28.6**	**28.3**	**28.1**	**28.0**
Current expenditure	21.2	22.6	21.8	21.5	23.5	22.5	22.8	22.9	22.5	22.3	22.1
Wages and salaries	5.7	5.8	5.6	5.6	5.9	5.7	5.7	5.7	5.6	5.6	5.6
Goods and services	3.6	3.6	3.6	3.4	3.4	3.4	3.3	3.2	3.2	3.2	3.2
Interest	3.4	3.9	4.0	3.5	3.3	3.5	3.4	3.3	3.3	3.2	3.1
External	1.4	1.2	1.0	0.8	0.9	0.9	0.9	0.8	0.7	0.7	0.6
Domestic	2.0	2.7	3.1	2.7	2.4	2.6	2.5	2.5	2.6	2.5	2.5
Transfers to private sector	6.7	7.3	7.2	7.5	9.3	8.5	8.9	9.2	9.1	9.0	8.9
Of which: social security	5.8	6.4	6.4	6.7	7.6	7.7	7.9	8.0	7.8	7.8	7.7
fuel subsidies 4/	0.0	0.0	0.1	0.1	1.0	0.0	0.0	0.0	0.0	0.0	0.0
Other 5/	1.8	2.0	1.3	1.5	1.7	1.5	1.5	1.5	1.3	1.3	1.3
Capital expenditure	5.0	5.5	6.4	5.1	6.2	5.8	5.8	5.7	5.8	5.9	5.9
Statistical discrepancy	0.1	-0.2	0.2	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Nonfinancial public sector balance	**0.0**	**-1.0**	**-0.8**	**-0.3**	**-2.7**	**-3.5**	**-3.2**	**-2.8**	**-2.5**	**-2.3**	**-2.0**
Quasi-fiscal balance (BR cash profits)	0.2	0.4	0.4	0.3	0.0	0.0	0.1	0.2	0.2	0.3	0.3
Fogafin balance	0.2	0.2	0.1	0.1	0.2	0.2	0.1	0.2	0.2	0.2	0.2
Net cost of financial restructuring 6/	-0.4	-0.3	-0.3	-0.3	-0.2	-0.1	0.0	0.0	0.0	0.0	0.0
Combined public sector balance	**0.0**	**-0.7**	**-0.7**	**-0.1**	**-2.8**	**-3.5**	**-3.0**	**-2.5**	**-2.1**	**-1.8**	**-1.6**
Overall financing	0.0	0.7	0.7	0.1	2.8	3.5	3.0	2.5	2.1	1.8	1.6
Foreign, net	-1.4	0.4	1.8	0.2	0.6	1.3	1.2	0.6	0.3	0.4	0.4
Domestic, net	1.4	0.3	-1.1	-0.2	2.0	1.3	1.8	1.9	1.8	1.4	1.2
Privatization (including concessions)	0.0	0.0	0.0	0.1	0.2	0.8	0.0	0.0	0.0	0.0	0.0
Memorandum items:											
CPS overall structural balance 7/	-0.1	-1.0	-1.7	-1.2	-2.2	-2.3	-2.0	-2.0	-2.0	-1.7	-1.5
Oil-related revenues 8/	3.1	3.4	3.0	2.7	3.5	2.0	2.4	2.5	2.6	2.7	2.8
Total public debt	38.8	35.8	32.4	32.3	34.1	33.6	34.0	34.0	33.2	32.6	31.3

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

1/ Combined public sector includes the central, regional and local governments, social security, and public sector enterprises. Figures for 2008 and projections reflect exclusion of Ecopetrol operations and privatization of health care, w hich reduces revenue and spending by about 2 percent of GDP and 1.5 percent of GDP, respectively, in 2008.
2/ Projections are the same as those presented in the staff report for the 2010 Article IV consultation (IMF Country Report No. 10/105).
3/ Expenditure reported on commitments basis.
4/ Payments for fuel subsidies granted in 2007-08 w ere distributed across the 2007-2009 budgets. At end-2008, a fuel price stabilization fund w as created to eliminate fuel subsidies.
5/ Includes adjustments to put spending on commitment basis and the change in unpaid bills of selected nonfinancial public enterprises.
6/ Interest payments on public banks restructuring bonds and mortgage debt relief related costs.
7/ Adjusts for the output gap, oil price expectations, fuel subsidies, and one-off additional pension-related revenues.
8/ Includes income tax payments and dividends from Ecopetrol that correspond to earnings from the previous year, and royalties to local governments.

Table 5. Colombia: Financial Soundness Indicators
Total Banking System
(In percent, unless otherwise indicated; end-of-period values)

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

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

1/ The denominator includes certificates of deposits.

Table 6. Recent High Access Cases

	Proposed Arrangement	Colombia FCL 05/11/09	Mexico FCL 03/25/10	Poland FCL 05/06/09	High-Access Cases 1/ 20th Percentile	80th Percentile	Median
					(Ratio)		
Access							
In millions of SDRs	*2,322*	6,966	31,528	13,690	1,169	12,903	5,276
Average annual access (percent of total)	*300*	900	1,000	1,000	165	525	244
Total access in percent of: 2/							
Actual quota	*300*	900	1,000	1,000	300	941	559
Gross domestic product	*1*	5	5	5	3	9	6
Gross international reserves	*13*	44	44	34	27	84	49
Exports of goods and nonfactor services	*10*	33	17	11	11	39	23
Imports of goods and nonfactor services	*10*	29	16	11	10	33	20
Total debt stock							
Public	*5*	15	12	10	9	33	15
External	*7*	22	24	8	7	20	12
Short-term external 3/	*33*	84	105	21	20	102	36
Broad Money	*4*	12	8	11	8	29	14

Source: Executive Board documents, MONA database, and Fund staff estimates.

1/ High access cases include available data at approval and on augmentation for all the requests to the Board since 1997 which involved the use of the exceptional circumstances clause or SRF resources and arrangements under the FCL. Exceptional access augmentations are counted as separate observations. For the purpose of measuring access as a ratio of different metrics, access includes augmentations and previously approved and drawn amounts.

2/ The data used to calculate ratios is the actual value for the year prior to approval for public and short-term debt, and the projection at the time of program approval for the year in which the program was approved for all other variables.

3/ Refers to residual maturity.

Table 7. Colombia: Indicators of Fund Credit, 2009-15

		Staff Projections					
	2009	2010	2011	2012	2013	2014	2015
Stocks from prospective drawings 1/							
Fund credit in millions SDR		2,322	2,322	2,322	1,742	581	0
In percent of quota		300	300	300	225	75	0
In percent of GDP		1.3	1.2	1.2	0.8	0.3	0.0
In percent of exports of goods and services		8.7	8.0	7.2	4.8	1.5	0.0
In percent of gross reserves		11.4	10.9	10.1	7.3	2.4	0.0
Flows from prospective drawings 2/							
Amortization		0	0	0	581	1,161	581
GRA Charges		14.4	29.5	29.5	28.6	16.8	2.9
Service Charge		11.6	0.0	0.0	0.0	0.0	0.0
Debt service due on GRA credit (millions SDR)		26.1	29.5	29.6	609.2	1,177.9	583.5
In percent of quota		3.4	3.8	3.8	78.7	152.2	75.4
In percent of GDP		0.0	0.0	0.0	0.3	0.5	0.2
In percent of exports of goods and services		0.1	0.1	0.1	1.7	3.0	1.4
In percent of gross reserves 2/		0.1	0.2	0.1	2.8	5.0	2.2
Memorandum Item:							
Total External Debt, assuming full drawing (% of GDP)	22.5	21.9	21.6	20.8	19.8	18.3	17.3
Total Debt Service, assuming full drawing (% of GDP)	3.8	3.7	3.1	3.6	3.3	3.9	3.4

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

1/ End of period. Assumes full drawings under the FCL upon approval. The Colombian authorities have expressed their intention to treat the arrangement as precautionary. At an SDR/US$ rate of 0.65537 as of April 14, 2010.

2/ Million SDRs, unless otherwise indicated. Calculations based on the rate of charge as of April 14, 2010.

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

	Actual					Staff Projections 1/						
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	**Debt-stabilizing non-interest current account 7/**
Baseline: External debt	26.6	24.7	21.4	19.2	22.5	**20.7**	**20.4**	**19.7**	**18.9**	**18.1**	**17.3**	**-2.3**
Change in external debt	-8.1	-2.0	-3.3	-2.2	3.3	-1.8	-0.3	-0.6	-0.8	-0.8	-0.8	
Identified external debt-creating flows (4+8+9)	-9.9	-4.5	-6.5	-3.5	0.2	0.5	-0.6	-0.7	-1.2	-1.5	-1.6	
Current account deficit, excluding interest payments	-0.6	0.1	1.3	1.6	0.5	1.9	1.8	1.1	0.6	0.4	0.3	
Deficit in balance of goods and services	0.4	1.1	1.5	0.9	-0.2	1.5	1.4	0.8	0.3	0.0	-0.3	
Exports	16.9	17.6	16.4	17.8	16.6	15.2	15.4	16.1	16.7	17.1	17.6	
Imports	17.2	18.7	18.0	18.6	16.4	16.7	16.8	16.9	16.9	17.1	17.3	
Net non-debt creating capital inflows (negative)	-3.9	-3.4	-3.9	-3.5	-2.6	-2.2	-2.8	-2.0	-1.8	-2.0	-2.0	
Automatic debt dynamics 2/	-5.5	-1.2	-3.9	-1.6	2.3	0.8	0.4	0.1	0.1	0.1	0.1	
Contribution from nominal interest rate	1.9	1.7	1.5	1.2	1.3	1.2	1.2	1.0	1.0	0.9	0.8	
Contribution from real GDP growth	-1.6	-1.6	-1.5	-0.5	0.0	-0.4	-0.8	-1.0	-0.9	-0.8	-0.8	
Contribution from price and exchange rate changes 3/	-5.8	-1.3	-3.9	-2.4	1.0	...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 4/	1.9	2.6	3.2	1.3	3.1	-2.3	0.2	0.1	0.3	0.8	0.9	
External debt-to-exports ratio (in percent)	157.9	140.4	130.1	108.1	135.8	136.6	132.3	122.7	113.2	105.8	98.8	
Gross external financing need (in billions of US dollars) 5/	15.0	16.2	16.1	17.2	15.2	19.6	19.0	19.9	17.5	19.1	19.3	
in percent of GDP	10.3	10.0	7.7	7.2	6.6	7.3	6.6	6.5	5.3	5.5	5.1	
Scenario with key variables at their historical averages 6/						**20.7**	**18.8**	**16.5**	**14.4**	**12.8**	**11.3**	**-2.4**
Key Macroeconomic Assumptions Underlying Baseline												
Real GDP growth (in percent)	5.7	6.9	7.5	2.4	0.1	2.3	4.0	5.0	5.0	4.5	4.5	
GDP deflator in US dollars (change in percent)	20.2	5.1	19.0	12.7	-4.8	14.6	2.9	1.9	2.1	2.1	2.3	
Nominal external interest rate (in percent)	7.0	7.2	7.6	6.6	6.6	6.4	6.1	5.5	5.3	5.2	5.0	
Growth of exports (US dollar terms, in percent)	25.2	17.1	19.8	24.7	-11.1	7.1	8.6	11.7	11.2	9.6	9.6	
Growth of imports (US dollar terms, in percent)	25.7	21.9	23.3	19.6	-16.1	19.0	7.9	7.6	7.4	7.8	8.0	
Current account balance, excluding interest payments	0.6	-0.1	-1.3	-1.6	-0.5	-1.9	-1.8	-1.1	-0.6	-0.4	-0.3	
Net non-debt creating capital inflows	3.9	3.4	3.9	3.5	2.6	2.2	2.8	2.0	1.8	2.0	2.0	

Source: IMF staff estimates.

1/ Does not assume any drawings under the Flexible Credit Line arrangement.
2/ 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.
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.

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

	Actual					Staff Projections 1/						
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	**Debt-stabilizing primary balance 11/**
Baseline: Public sector debt 2/	38.8	35.8	32.4	32.3	35.0	**35.1**	**35.5**	**35.3**	**34.5**	**33.7**	**32.3**	**0.1**
o/w foreign-currency denominated	16.4	15.3	13.4	13.8	15.2	14.9	14.9	14.6	13.7	13.2	12.4	
Change in public sector debt	-3.6	-3.0	-3.4	-0.1	2.8	0.1	0.3	-0.1	-0.9	-0.7	-1.4	
Identified debt-creating flows (4+7+12)	-5.3	-4.3	-4.5	-1.7	0.1	0.7	0.5	-0.3	-1.0	-0.9	-1.0	
Primary deficit	-3.2	-3.0	-3.0	-3.6	-0.6	0.1	-0.2	-0.5	-0.8	-1.0	-1.1	
Revenue and grants	26.1	27.3	27.1	26.6	26.9	24.7	25.5	25.7	25.8	25.9	26.0	
Primary (noninterest) expenditure	22.8	24.3	24.1	23.0	26.4	24.8	25.2	25.3	25.0	24.9	24.9	
Automatic debt dynamics 3/	-2.0	-1.3	-1.5	2.0	0.9	1.4	0.7	0.1	-0.2	0.0	0.1	
Contribution from interest rate/growth differential 4/	-1.2	-1.0	0.0	0.3	2.2	1.4	0.7	0.1	-0.2	0.0	0.1	
Of which contribution from real interest rate	0.9	1.4	2.4	1.1	2.3	2.1	2.0	1.8	1.4	1.5	1.5	
Of which contribution from real GDP growth	-2.2	-2.4	-2.4	-0.7	-0.1	-0.7	-1.3	-1.6	-1.6	-1.4	-1.4	
Contribution from exchange rate depreciation 5/	-0.8	-0.3	-1.5	1.6	-1.4	...	...	...	...	...	...	
Other identified debt-creating flows	0.0	0.0	0.0	-0.1	-0.2	-0.8	0.0	0.0	0.0	0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0	-0.1	-0.2	-0.8	0.0	0.0	0.0	0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes (2-3) 6/	1.7	1.3	1.1	1.6	2.7	-0.5	-0.2	0.2	0.2	0.2	-0.4	
Public sector debt-to-revenue ratio 2/	149.0	131.0	119.5	121.2	130.1	142.2	139.3	137.3	133.4	130.3	124.3	
Gross financing need 7/	9.1	10.5	9.0	6.8	8.2	8.4	7.0	7.4	6.5	6.6	6.3	
in billions of U.S. dollars	13.1	17.1	18.7	16.3	18.8	22.6	20.0	22.6	21.4	23.0	23.6	
Scenario with key variables at their historical averages 8/						**35.1**	**33.1**	**31.3**	**29.6**	**27.9**	**25.6**	**0.1**
Scenario with no policy change (constant primary balance) in 2010-2015						**35.1**	**35.0**	**35.4**	**36.2**	**37.0**	**37.5**	**0.8**
Key Macroeconomic and Fiscal Assumptions Underlying Baseline												
Real GDP growth (in percent)	5.7	6.9	7.5	2.4	0.4	2.0	4.0	5.0	5.0	4.5	4.5	
Average nominal interest rate on public debt (in percent) 9/	8.9	11.4	12.7	12.0	10.5	10.5	10.3	9.5	8.3	8.4	8.5	
Average real interest rate (nominal rate minus change in GDP deflator, in p	2.8	4.6	8.0	3.8	7.5	6.4	6.4	5.6	4.6	4.8	5.0	
Nominal appreciation (increase in US dollar value of local currency, in perc	4.6	2.0	11.1	-10.4	10.0	...	...	...	...	...	...	
Inflation rate (GDP deflator, in percent)	6.1	6.8	4.8	8.1	3.1	4.1	3.9	3.9	3.7	3.6	3.5	
Growth of real primary spending (deflated by GDP deflator, in percent) 10/	5.6	13.7	6.8	-2.1	14.8	-4.2	5.9	5.2	3.9	4.2	4.4	
Primary deficit	-3.2	-3.0	-3.0	-3.6	-0.6	0.1	-0.2	-0.5	-0.8	-1.0	-1.1	

Source: Fund staff estimates.

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

2/ Gross debt of the combined public sector, including Ecopetrol.

3/ Derived as $[(r - \pi(1+g) - g + \alpha\varepsilon(1+r)]/(1+g+\pi+g\pi))$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; α = share of foreign-currency denominated debt; and ε = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

4/ The real interest rate contribution is derived from the denominator in footnote 2/ as $r - \pi(1+g)$ and the real growth contribution as -g.

5/ The exchange rate contribution is derived from the numerator in footnote 2/ as $\alpha\varepsilon(1+r)$.

6/ For projections, this line includes exchange rate changes.

7/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.

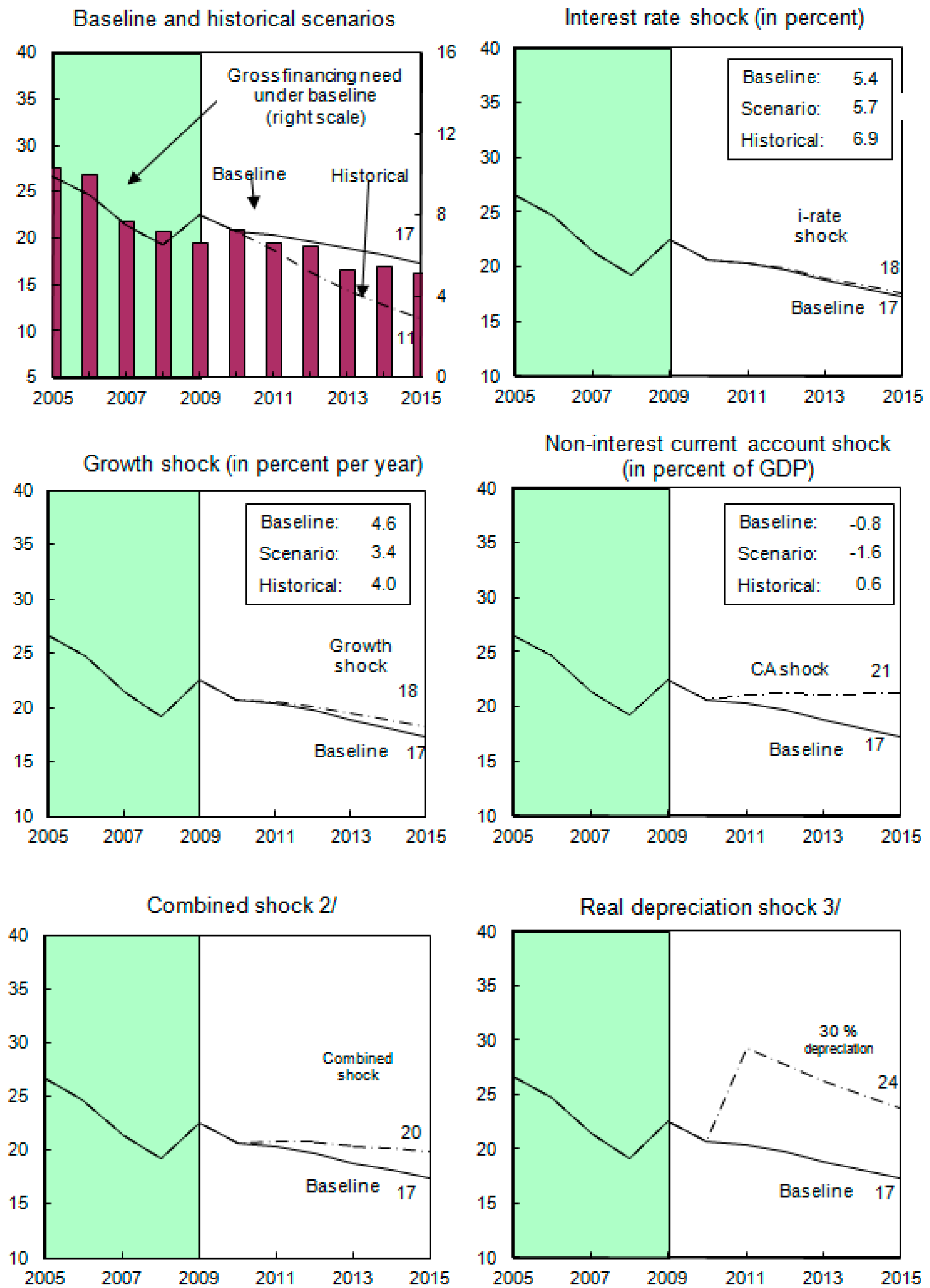
8/ The key variables include real GDP growth; real interest rate; and primary balance in percent of GDP.

9/ Derived as nominal interest expenditure divided by previous period debt stock.

10/ 2009 includes one-off payment of fuel subsidies.

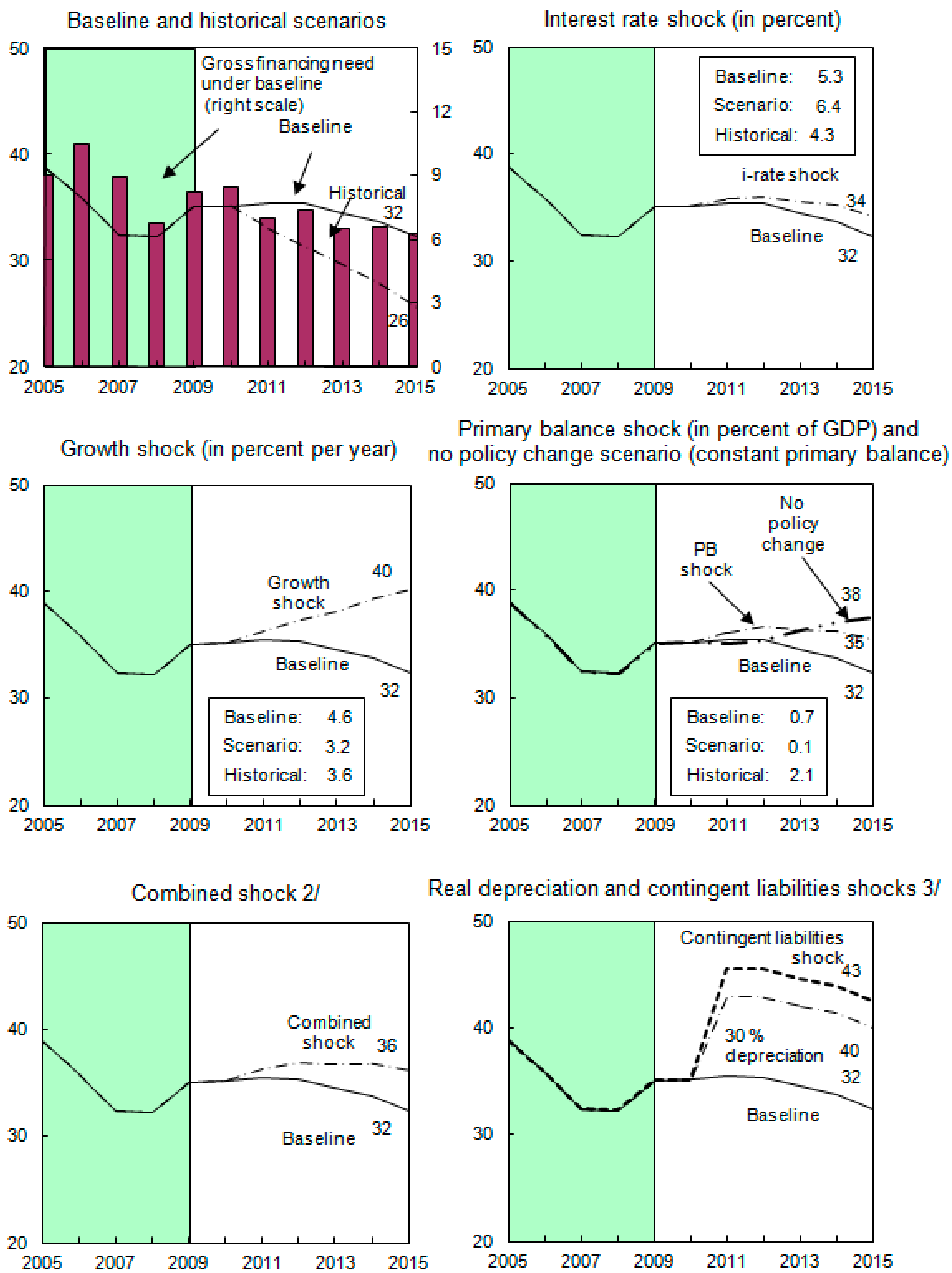
11/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Figure 4. Colombia: External Debt Sustainability: Bound Tests 1/
(External debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
3/ One-time real depreciation of 30 percent occurs in 2009.

Figure 5. Colombia: Public Debt Sustainability: Bound Tests 1/
(Public debt in percent of GDP)



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

1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.

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

3/ One-time real depreciation of 30 percent and 10 percent of GDP shock to contingent liabilities occur in 2009, with real depreciation defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

Bogotá, April 16, 2010

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
Washington

Dear Mr. Strauss-Kahn,

We are grateful to the Fund for the FCL expiring in May 2010. It was a useful and timely instrument, in a difficult juncture for the World and the Colombian economies. The FCL was part of a wider policy response to the global crisis, that involved exchange rate flexibility, countercyclical fiscal and monetary policies, securing precautionary external funding for the economy and ensuring a cushion of international liquidity for the country. An adequate stock of international reserves and access to the FCL were the key components of the latter. In addition, the FCL arrangement signaled the strength of the economy and the policy framework to the markets.

The World economy and global financial conditions have markedly improved since our request last year, rendering a much lower probability of a severe world economic downturn or of a sharp cut in foreign financing for emerging countries, or of contagion from economic troubles elsewhere. Nonetheless, the world economic recovery faces substantial downside risks, stemming from strains in the fiscal position of several countries and persistent fragility in some segments of the financial system. These risks translate into a highly uncertain outlook for our terms of trade, external demand, workers´ remittances, risk aversion and capital flows.

Colombia is still recovering from the effects of the global crisis and idiosyncratic shocks to our export demand. In this context, it is crucial to sustain a stimulative stance of macroeconomic policy and to carefully unwind it when conditions warrant it. It is important to protect this strategy from the impact of negative external shocks and to avoid undesirable pro-cyclical policy responses. For these reasons, we are interested in a successor arrangement with the IMF under the Flexible Credit Line.

However, since the external conditions of the economy have substantially improved over the past 12 months, the probability of a large, damaging shock to our external financing has decreased significantly. If an adverse event were to occur, it would probably involve a milder impact on our balance of payments. Further, the international liquidity position of the economy has been consolidated after the SDR allocations of last year and the program of daily purchases of international reserves currently in place, improving the country´s ability to withstand an external financing shock. These factors motivate a reduction in the amount requested under a new FCL arrangement.

Hence, we are asking for an FCL arrangement in the amount of SDR 2.322 billion (300 percent of quota), covering a period of 12 months. As we are confident that Colombia is well prepared to weather the current adverse external environment, we intend to treat the arrangement as precautionary. We request that immediately prior to the approval of this new FCL arrangement, the existing one be cancelled. Our expectation is that the arrangement will continue bolstering confidence that Colombia is in a position to withstand a wide range of adverse external shocks.

Thanks to our strong macroeconomic policies and solid institutional framework, Colombia has attained a comfortable external position and greatly reduced its external vulnerabilities. Public debt is relatively low and our fiscal policies are anchored on a medium-term fiscal framework with an objective to resume a gradual, declining path for the public debt/GDP ratio. We are also in a process to complement our medium term fiscal framework with a fiscal rule that would enhance sustainability and introduce a countercyclical component to fiscal policy.

The flexible exchange rate regime has served as an effective shock absorber. Our monetary policy framework, based on an inflation targeting regime, has helped us attain our long term inflation range target (2–4 percent) since 2009 and has contributed to anchoring inflation expectations in that range. Reserve coverage in terms of imports, short term debt and the money stock is comfortable. As in the case of the public debt, the external debt-to GDP ratio is relatively low and sustainable.

Our strong policies and institutional framework have facilitated continued access to international capital markets at favourable terms for the government and private sector. In addition, our financial supervisory and regulatory framework is strong and banks remain healthy, liquid and profitable. Capital to risk-weighted assets for the system as a whole is well above requirements and provisioning levels comfortable. Credit growth has remained above GDP growth and has increased recently.

Overall, we believe that Colombia track record on the macroeconomic front added to its solid institutional framework provides ample assurances of the country's preparedness to withstand adverse shocks. It also signals our strong commitment to maintaining sound policies in the future and to continue to react as needed if further shocks were to materialize in the period covered by the FCL arrangement. In this regard, we take this opportunity to inform you that Banco de la República will continue providing the Fund staff with all needed information and that we have sent the requested authorizations to the bank's external auditors, in accordance with the safeguards policy for the FCL. In sum, we fully concur with the views expressed by the Fund's Executive Board during the last Article IV consultation, namely, that Colombia is well placed to confront the challenges posed by a still uncertain global outlook.

Sincerely yours,

/s/ /s/

José Darío Uribe
Governor
Central Bank of Colombia

Oscar Iván Zuluaga
Minister of Finance and Public Credit

INTERNATIONAL MONETARY FUND

Colombia —Assessment of the Impact of the Proposed Flexible Credit Line Arrangement on the Fund's Finances and Liquidity Position

Prepared by the Finance and Strategy, Policy and Review Departments

(In consultation with other Departments)

Approved by Andrew Tweedie and Tamim Bayoumi

April 22, 2010

1. **This note assesses the impact of the proposed Flexible Credit Line (FCL) arrangement for Colombia on the Fund's finances and liquidity position, in accordance with the policy on FCL arrangements.**[5] The proposed arrangement would cover a 12-month period, be in an amount of SDR 2.322 billion (300 percent of quota), and succeed the existing FCL arrangement of SDR 6.966 billion (900 percent of quota), which would be cancelled upon approval of the new arrangement. The full amount of access proposed would be available throughout the arrangement period, in one or multiple purchases.[6] The authorities intend to treat the arrangement as precautionary.

V. BACKGROUND

2. **Against the backdrop of a global economic and financial crisis, a one-year precautionary FCL arrangement equivalent to SDR 6.966 billion was approved on May 11, 2009.** Colombia's strong economic fundamentals and institutional policy framework helped the authorities cushion the impact of the crisis through countercyclical monetary and fiscal policies, with the FCL arrangement providing additional insurance against a further deterioration of global conditions; no drawings have been made under the existing FCL arrangement. As discussed in Annex I, Colombia had four arrangements during the past decade, but has not drawn on Fund resources since 1971.

3. **Colombia's level of total external debt is moderate and expected to remain sustainable even in the event of further significant negative shocks (Table 1).** External debt, which was declining relative to GDP during the years preceding the recent crisis,

[5] See *GRA Lending Toolkit and Conditionality—Reform Proposals* (3/13/09) and *Flexible Credit Line (FCL) Arrangements,* Decision No.14283-(09/29), adopted March 24, 2009.

[6] If the full amount is not drawn in the first six months of the arrangement, subsequent purchases are subject to a review of Colombia's continued qualification for the FCL arrangement.

increased from 19.2 percent of GDP in 2008 to 22.5 percent in 2009. The bulk of this debt is long term and owed by the public sector. Private sector external debt has declined to about 6.5 percent of GDP. Over the medium term the external current account deficit is expected to decline as a share of GDP, and to be largely financed by FDI. Debt sustainability analysis suggests that external debt ratios would remain manageable even under significant negative shocks.[7]

Table 1. Colombia: Total External Debt, 2005 -09

	2005	2006	2007	2008	2009
	(In Millions of US Dollars)				
Total External Debt	38,506	40,103	44,511	46,145	51,523
Private	14,317	13,803	15,528	16,698	14,892
Public	24,189	26,299	28,983	29,447	36,631
	(In Percent of GDP)				
Total External Debt	26.6	24.7	21.4	19.2	22.5
Private	9.9	8.5	7.5	6.9	6.5
Public	16.7	16.2	13.9	12.2	16.0

Source: Colombian authorities and IMF staff estimates.

4. **Colombia has no outstanding debt to the Fund.** Full drawing under the proposed FCL arrangement—which the authorities intend to treat as precautionary—would bring Colombia's outstanding use of GRA resources to SDR 2.322 billion.

5. **In case the full amount available under the proposed FCL arrangement is disbursed in 2010:**

- **Colombia's external debt would remain moderate, with Fund credit representing still a relatively modest part of this debt:** Total external debt and public external debt would initially reach about 22 and 16 percent of GDP, with Fund credit being 1.3 percent of GDP (Table 2). At its peak, Colombia's outstanding use of GRA resources would account for 6 percent of total external debt, 8.1 percent of public external debt, and 11.4 percent of gross international reserves.

- **External debt service would increase over the medium term, but would remain manageable.** Colombia's projected debt service to the Fund would peak in 2014 at

[7] A more detailed description of external and public debt is provided in the staff report.

about SDR 1.2 billion, or close to 0.5 percent of GDP.[8] In terms of exports of goods and services, external debt service to the Fund would peak at 3 percent, accounting for slightly over 20 percent of public external debt service, which would increase to 14.5 percent of exports of goods and services.

Table 2. Colombia: Capacity to Repay Indicators 1/

	2009	2010	2011	2012	2013	2014	2015
Exposure and Repayments (In SDR millions)							
GRA credit to Colombia	--	2,322.0	2,322.0	2,322.0	1,741.5	580.5	--
(In percent of quota)	--	(300.0)	(300.0)	(300.0)	(225.0)	(75.0)	(0.0)
Charges due on GRA credit 2/	--	26.1	29.5	29.6	28.7	16.9	3.0
Debt service due on GRA credit 2/	--	26.1	29.5	29.6	609.2	1,177.9	583.5
Debt and Debt Service Ratios 3/							
In percent of GDP							
Total external debt	22.5	21.9	21.6	20.8	19.8	18.3	17.3
Public external debt	16.0	16.2	16.1	15.5	14.5	13.3	12.4
GRA credit to Colombia	--	1.3	1.2	1.2	0.8	0.3	--
Total external debt service	3.8	3.7	3.1	3.6	3.3	3.9	3.4
Public external debt service	1.7	1.8	1.8	1.9	2.1	2.5	2.2
Debt service due on GRA credit	--	0.0	0.0	0.0	0.3	0.5	0.2
In percent of Gross International Reserves							
Total external debt	206.1	189.9	190.4	182.4	178.7	173.5	164.0
Public external debt	146.6	140.5	141.8	135.7	131.6	125.7	117.1
GRA credit to Colombia	--	11.4	10.9	10.1	7.3	2.4	--
In percent of Exports of Goods and Services							
Total external debt service	23.0	24.4	20.0	22.6	19.9	22.7	19.6
Public external debt service	10.3	12.1	11.6	12.1	12.5	14.5	12.5
Debt service due on GRA credit	--	0.1	0.1	0.1	1.7	3.0	1.4
In percent of Total External Debt							
GRA credit to Colombia	--	6.0	5.7	5.5	4.1	1.4	--
In percent of Public External Debt							
GRA credit to Colombia	--	8.1	7.7	7.4	5.6	1.9	--

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

1/ Assumes full drawings under the FCL upon approval.
2/ Based on the rate of charge as of April 14, 2010. Includes surcharges under the system currently in force and service charges.
3/ Staff projections for external debt, GDP, gross international reserves, and exports of goods and services, as used in the staff report that requests the proposed FCL, adjusted for the impact of the assumed FCL drawing.

[8] The figures on debt service used in this report are calculated assuming that full amount available under the arrangement is purchased upon approval of the arrangement, and that all repurchases are made as scheduled.

6. **Reflecting the level of access under the arrangement, the impact on the Fund's liquidity, and on its potential exposure to credit risk, would be modest:**

- **The proposed arrangement would reduce the Fund's one-year forward commitment capacity (FCC) by about 1.5 percent (Table 3).** The liquidity impact of the proposed arrangement would initially be more than offset by the cancellation of the existing FCL arrangement. In the absence of a new arrangement, however, the FCC would have increased by SDR 6.966 billion at the expiration of the existing FCL arrangement in mid-May. The availability of supplementary resources under the bilateral loan and note purchase agreements greatly bolsters the Fund's resources and thus mitigates the relative impact that the proposed arrangement would have on the Fund's liquidity position.

- **If the resources available under the FCL arrangement were fully drawn, GRA credit to Colombia as a share of total GRA credit would be about 5 percent.** This would make Colombia the sixth largest borrower among current arrangements and reduce the concentration of Fund credit in the top five users of Fund resources from about 78 percent to 74 percent.

- **Potential GRA exposure to Colombia would be moderate in relation to the current level of the Fund's precautionary balances.** If the resources available under the arrangement were fully drawn, Fund credit to Colombia would be equivalent to about one-third of the Fund's current precautionary balances.

Table 3. FCL Arrangement for Colombia --Impact on GRA Finances
(In SDR millions, unless otherwise indicated)

	As of 4/14/10
Liquidity measures	
Current one-year Forward Commitment Capacity (FCC) 1/	162,870
Impact on FCC on approval of FCL	2,322
Prudential measures, assuming full FCL drawing	
Fund credit to Colombia	
In percent of total GRA credit outstanding 2/	5.3
In percent of current precautionary balances	32.7
Fund credit outstanding to five largest debtors	
In percent of total GRA credit outstanding, before approval	77.8
In percent of total GRA credit outstanding, upon approval of the FCL 2/	73.7
Memorandum items	
Current precautionary balances (end-April 2009)	7,093
Total FCL commitments, including proposed FCL 3/	47,540
Quota of FTP members with actual and proposed FCLs, in percent of total quota of FTP members	2.9

Sources: Finance Department.

1/ The FCC measures the Fund's capacity to make new credit commitments over the next 12 months. It includes the liquidity effects of resources made available under borrowing and note purchase agreements.
2/ Based on current Fund credit outstanding plus full drawings under the proposed FCL.
3/ Excluding Colombia's existing FCL.

VI. Assessment

7. **The proposed arrangement has a modest and manageable impact on the Fund's liquidity.** The current liquidity position is sufficiently strong to accommodate the liquidity impact of the proposed arrangement, in particular as the proposed cancellation of Colombia's existing FCL arrangement would more than offset the initial reduction in FCC arising from the new FCL arrangement. However, the liquidity position could change quickly, particularly if there is further demand for large arrangements. This underscores the need for continued close monitoring of liquidity, and to continue the efforts to bring new borrowing agreements on line to supplement the Fund's resources.

8. **Colombia intends to treat the FCL arrangement as precautionary, but even if it did prove necessary to draw, the Fund's credit exposure to Colombia would be moderate.** Colombia's overall external debt and debt service ratios are expected to remain moderate even with a drawing under the arrangement. Hence, given Colombia's sustained track record of implementing very strong policies, including during the global financial crisis, and commitment to maintaining such policies in the future, Colombia's capacity to repay is projected to remain strong. Nonetheless, the scale of the Fund's potential exposure to Colombia—in conjunction with the recent increase in lending to other members and the prospects for further credit expansion under already existing or possible new Fund arrangements—underscores the need to strengthen the Fund's precautionary balances.

ANNEX I. COLOMBIA: HISTORY OF IMF ARRANGEMENTS

Colombia had four Fund arrangements during the past decade but has not drawn on Fund resources since 1971 (Table I.1). Prior to the one-year precautionary FCL arrangement approved in May 2009, Colombia had a series of Stand-by Arrangements (SBAs) from the late 1950s to the mid-1970s. It last made purchases in 1971 and settled its remaining outstanding obligations to the Fund in 1972. Following a quarter century without Fund arrangements, Colombia´s economic performance deteriorated markedly in 1998-99 as a results of external shocks and intensified domestic tensions. To address the economic difficulties, a three-year Extended Arrangement under the Extended Fund Facility (EFF) was approved in 1999 to support the authorities' economic reform program. No drawings were made under this arrangement, which was followed by two precautionary SBAs, the last of which expired in November 2006. In the period covered by these three Fund arrangements, Colombia successfully adopted wide ranging macroeconomic and structural reforms.

Table I.1. Colombia: IMF Financial Arrangements, 1999–2009
(In millions of SDR)

Year	Type of Arrangement	Date of Arrangement	Date of Expiration or Cancellation	Amount of New Arrangement	Amount Drawn	Purchases	Repurchases	Fund Exposure
1999	EFF	20-Dec-99	19-Dec-02	1,957.0	--	--	--	--
2000						--	--	--
2001						--	--	--
2002						--	--	--
2003	SBA	15-Jan-03	2-May-05	1,548.0	--	--	--	--
2004						--	--	--
2005	SBA	2-May-05	2-Nov-06	405.0	--	--	--	--
…								
2009	FCL	11-May-09	10-May-10	6,966.0	--	--	--	--

Source: Finance Department.

INTERNATIONAL MONETARY FUND EXTERNAL RELATIONS DEPARTMENT

Press Release No. 10/186
FOR IMMEDIATE RELEASE
May 7, 2010

International Monetary Fund
Washington, D. C. 20431 USA

IMF Executive Board Approves US$3.46 billion Arrangement for Colombia Under the Flexible Credit Line

The Executive Board of the International Monetary Fund (IMF) today approved a successor one – year, SDR 2.322 billion (about US$3.46 billion) arrangement for Colombia under the Flexible Credit Line (FCL). The Colombian authorities have stated they intend to treat the arrangement as precautionary and not draw on the line. This arrangement succeeds the previous one-year FCL agreed by the Executive Board in May 2009 (see Press Release No. 09/149).

The FCL is available to countries, such as Colombia, that have demonstrated a very strong track record of sound macroeconomic policies and institutional frameworks. Colombia is the second country to formally request a successor FCL arrangement, following Mexico (see Press Release No. 10/114).

The FCL was established on March 24, 2009 as part of a major reform of the Fund's lending framework (see Press Release No. 09/85). The FCL is designed for crisis prevention purposes as it provides the flexibility to draw on the credit line at any time. Disbursements are not phased nor conditioned on compliance with policy targets as in traditional IMF-supported programs. This flexible access is justified by the very strong track records of countries that qualify for the FCL, which gives confidence that their economic policies will remain strong.

Following the Executive Board discussion, Mr. John Lipsky, First Deputy Managing Director and Acting Chair, made the following statement:

"Colombia's solid macroeconomic performance in recent years has been underpinned by a very strong policy framework. Before the global crisis, inflation was brought down to low single digits under the inflation targeting regime and the medium-term fiscal framework allowed for a substantial reduction in debt ratios, while a flexible exchange rate and prudent debt management helped to reduce vulnerabilities. At the same time, strong prudential supervision and regulation have kept the financial system sound.

"The strong policy framework allowed the authorities to conduct countercyclical monetary and fiscal policies in response to the global crisis. In addition, the authorities secured official external financing (including a one-year FCL for about US$10.5 billion) and took further steps to strengthen financial regulation. In the event, the domestic financial system did not experience major strains and the government of Colombia maintained access to international capital markets at favorable terms.

"Appropriate economic policies and the improvement in global financial conditions led to resumed growth in mid-2009. The exchange rate has strengthened and equity prices have recovered from troughs seen at the height of the crisis, and sovereign risk premia have declined. Looking forward, the outlook for 2010 is generally positive, with output growth expected to exceed 2 percent. Policies will remain underpinned by the rule-based macroeconomic framework, and the authorities will remain vigilant to any future shock.

"While global conditions have vastly improved since early 2009, the authorities recognize that downside risks remain. The strength of the global recovery remains uncertain and the stimulus measures in advanced economies have not yet produced strong private sector demand. It is against this background that, at the authorities' request, the Executive Board today approved a one-year arrangement under the FCL for 300 percent of quota; which the authorities intend to treat as precautionary.

"Colombia's strong economic fundamentals and institutional framework, its proven track record of sound macroeconomic policies, and the additional insurance provided by the new FCL arrangement, give confidence that the authorities are well prepared to manage risks and pressures in the event that the global environment deteriorates" Mr. Lipsky said.

Statement by Mr. Vargas on the Request for a Successor Arrangement Under the Flexible Credit Line

May 4, 2010

1. I thank the staff for the paper and the Board for considering our request. I want to begin by expressing our gratitude to the Fund for the current FCL expiring in this month. It was a useful and timely instrument, offered to countries with certain characteristics during a difficult juncture for the world and the Colombian economies.

2. From our point of view, the current FCL was part of a wider policy response to the global crisis that involved exchange rate flexibility, countercyclical fiscal and monetary policies, securing precautionary external funding and ensuring a cushion of international liquidity for the country. An adequate stock of international reserves and access to the FCL were key components of this strategy. In addition, the FCL signaled the strength of our economy and policy framework.

3. As such, the FCL gave support to the adoption of countercyclical policies and contributed to a satisfactory performance of the economy in the midst of the global crisis.

4. Economic conditions have improved since our last Article IV Consultation. Leading indicators point to a growth rate higher than previously expected. The Central Bank staff is now expecting economic growth to be around 3 percent for 2010. At the same time, the observed effects of the El Niño supply shock have been smaller than initially projected, while core inflation turned out to be lower. As a result, annual inflation hovers around the lower end of the 2-4 percent inflation target.

5. Even with a better outlook, growth is expected to remain below potential. Hence, we expect that the current negative output gap will probably widen in 2010. Inflation expectations have declined and we do not foresee a large depreciation of the Colombian peso. Under this scenario and with no extreme shocks to commodity prices or to external demand, inflation is forecasted near the lower end of the target range in 2011, with a significant probability for smaller numbers.

6. Facing surprisingly low core inflation figures, the fact that the negative supply shock is apparently smaller than expected and a lower inflation forecast, efficient monetary policy calls for a greater impulse to the economy in order to close the output gap faster. This, in addition to the fall in inflation expectations, prompted the Central Bank during its last meeting to reduce the policy interest rates by fifty basis points to three percent. The Central Bank remains vigilant and ready to adjust the monetary policy stance when serious indications of inflation or financial instability risks emerge.

7. We want to take this opportunity to convey to the Board the motivation of our request to renew the FCL arrangement and, in particular, the rationale for requesting a lower access.

8. The world economy and global financial conditions have markedly improved since our previous request, rendering a much lower probability of a deep world economic downturn, or of a sharp cut in foreign financing for emerging countries, or of contagion from economic troubles elsewhere.

9. Nonetheless, the world economic recovery faces substantial downside risks, stemming from strains in the fiscal position of several countries and persistent fragility in some segments of the financial system. These risks translate into a highly uncertain outlook for our terms of trade, external demand, workers´ remittances, risk aversion and capital flows. The recent behavior of the exchange rates and the price of some commodities is an indication of the degree of uncertainty regarding the markets´ reaction to shocks around the world.

10. Colombia is still recovering from the effects of the global crisis and idiosyncratic shocks to export demand. In this context, it is crucial to sustain a stimulative stance of macroeconomic policy and to carefully unwind it when conditions warrant it. It is important, then, to protect this strategy from the impact of negative external shocks and to avoid undesirable pro-cyclical policy responses. Hence the need for an insurance against such an eventuality in the current state of the world and the Colombian economies.

11. Why are we requesting a lower access? There are two complementary ways to understand this decision. One is to recognize that adverse external shocks are likely to be less serious than a year ago. This is the view reflected in the staff´s paper, in which a milder negative shock is included in the adverse scenario. An alternative view is to acknowledge that the country wants protection against a larger, highly damaging external financing shock that would occur with a probability that is today much lower than a year ago.

12. In other words, despite the absence of large macroeconomic and financial imbalances, we want insurance against a tail risk that, if realized, would involve a severe contraction of expenditure and production, even after a substantial reduction of international reserves.

13. Conventional economic theory states that a risk averse agent will fully insure himself against a potential loss, provided that the probability of the loss is greater than the insurance premium. When the probability of the event is lower than the insurance premium, the amount insured will be less than the potential loss.

14. We consider that the probability of a large, negative shock has declined significantly over the last year, but is still not much lower than the FCL premium. An indication in this regard may be obtained from the behavior of one-year CDS for Colombia, which came down from around 280 bps in the first four months of 2009 to 80 bps in the same period of 2010.

15. Further, our international liquidity position has been consolidated after the SDR allocation and with the program of daily purchases of international reserves currently

in place, improving the country´s ability to withstand a large external financing shock.

16. In sum, a lower probability of a negative event and an improved international reserve position are behind the decision to request a lower access under the FCL. In addition, as discussed in the last Article IV consultation, under low foreign currency and term mismatches, anchored inflation expectations and a credible macroeconomic policy framework, exchange rate flexibility would be the main component of our response to an external shock.

17. Communication of the decision to scale back the access to the FCL has followed the basic argument previously presented; that is, under better, but still uncertain external conditions, Colombia still needs an insurance, but a smaller one. The announcement of the request of a smaller access has not produced any negative reaction by the public or the markets. The announcement was made in the context of a stronger local and international position, with unchanged, adequate policy frameworks. The move should be viewed as part of a gradual convergence of macroeconomic policies towards a more normal situation.

18. As pointed in the staff´s document, Colombia continues to meet the qualification criteria for the FCL. The external and fiscal positions are sustainable, the international reserves position is strong, inflation is low and stable, private flows are significant in the capital account of the balance of payments, the financial system is solid and profitable, the country continues to access international capital markets and, above all, monetary and fiscal institutional policy frameworks are strong and credible.

19. As with the current FCL arrangement and previous support facilities from the Fund, we intend to treat the new FCL agreement as precautionary.

20. Support by the Fund to this request will be greatly appreciated and will send an important signal to markets about the Colombian authorities´ commitment to keep implementing sound economic policies and to further enhance strong policy frameworks.

21. Finally, based on our experience and perceptions, we want to offer some general thoughts on the FCL facility that may be helpful in the current and future discussions of this type of arrangements. First, we believe that instruments like the FCL "complete" international liquidity markets and we value the role that the Fund plays in that respect. Counterparty risk is a crucial obstacle in the development of these mechanisms, as highlighted by the events of the global financial crisis. Until this and other problems are solved, origination of insurance instruments like the FCL by the private sector will continue to be limited.

22. Second, since the FCL and other similar contingent mechanisms complete international liquidity markets and are useful to countries, one should expect a positive demand for them at a reasonable price at all times. This implies that international reserves adequacy indicators must be adjusted by the existence and use

of those instruments. The calculation of an "optimal" or "adequate" level of international reserves changes when insurance products like the FCL are available, in the same way that household savings may change in the presence of life or property insurance policies.

23. Third, the value of the FCL from the point of view of the insured country significantly depends on the other countries deemed as eligible for the same facility. There is an important signaling effect that depends on the peer countries accessing the facility. This is a key factor to take into account for the success of the FCL or other similar arrangements.