June 2006
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Colombia: Second Review Under the Stand-By Arrangement and Request for Rephasing of Purchases—Staff Report; Staff Supplement; and Press Release on the Executive Board Consideration

In the context of the second review under the Stand-By Arrangement for Colombia and its request for rephasing of purchases, the following documents have been released and are included in this package:

- the staff report for the Second Review Under the Stand-By Arrangement and Request for Rephasing of Purchases, prepared by a staff team of the IMF, following discussions that ended on May 15, 2006, with the officials of Colombia on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on May 24, 2006. 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 June 7, 2006 updating information on recent developments.

- a Press Release summarizing the views of the Executive Board consideration of the staff report that completed the request and review.

The documents listed below have been or will be separately released.

Letter of Intent sent to the IMF by the authorities of Colombia*
Memorandum of Economic and Financial Policies by the authorities of Colombia*
Technical Memorandum of Understanding*

*Also included in Staff Report

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

Second Review Under the Stand-By Arrangement and Request for Rephasing of Purchases

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

Approved by José Fajgenbaum and Michael T. Hadjimichael

May 24, 2006

- **Fund support.** In April 2005, the Board approved an 18-month Stand-By Arrangement (precautionary) in the amount of SDR 405 million (35 percent of quota on an annual basis). The authorities are using this arrangement to provide a transparent policy framework during the current political cycle and intend to exit from formal Fund support when this arrangement ends on November 2, 2006. Colombia has no outstanding credit from the Fund and has accepted the obligations of Article VIII, Sections 2, 3, and 4.

- **Economic program.** The authorities' program has sought to continue to reduce the economy's vulnerabilities and promote sustained real economic growth. Key policies have included reducing public debt to more comfortable levels, while adopting a comprehensive tax reform, further reform of the pension system, a new securities markets law, addressing budgetary rigidities and continuing to strengthen the financial system.

- **Performance under the program has been sound.** In 2005, real growth performed better than expected, while inflation declined as targeted. The combined public sector was in balance, below the targeted deficit of 1.6 percent of GDP. The external current account deficit rose to 1.6 percent of GDP, higher than expected.

- **Second review.** Staff recommends completion of the second review, as performance has been very strong and understandings have been reached on economic policies and objectives for 2006. This would enable Colombia to purchase up to SDR 320.4 million (41.4 percent of quota).

- **Mission.** The discussions on the second review took place in Bogotá during February 28–March 10, 2006. The staff team comprised R. Rennhack (Head), R. García-Saltos, C. Schnure, R. Portillo (all WHD), I. Adenauer (FAD), and S. Reichold (PDR) and held many meetings, including with the Minister and Vice Minister of Finance and the Executive Board of the Banco de la República. Mr. Steiner (OED) joined the discussions.

- **Next steps.** In August 2006, a mission will visit Bogotá to conduct the discussions for the third review and for the 2006 Article IV consultation.

Contents Page

Contents Page

Appendices

EXECUTIVE SUMMARY

The economy performed strongly in 2005. Real GDP grew by over 5 percent in 2005, while consumer price inflation slowed to below 5 percent. The combined public sector achieved an overall balance of zero, owing in part to temporary factors. The external current account deficit rose to 1.6 percent of GDP, higher than expected. Net international reserves reached US$14.7 billion (128 percent of short-term external debt), as the central purchased foreign exchange to slow the appreciation of the peso. Structural reforms advanced.

The elections for president are underway. Current polls indicate that President Uribe is likely to win re-election in the first round on May 28. The new government will take office in early August.

The authorities lowered the target for the combined public sector (CPS) deficit to 1.5 percent of GDP in 2006, from 2.0 percent previously programmed. The weaker fiscal position relative to 2005 is explained by a change in the accounting treatment of interest expenses (which raises the reported deficit by 0.6−0.8 percent of GDP) and increases in priority spending. In July 2006, the authorities will submit a 2007 budget consistent with a CPS deficit of 1.7 percent of GDP.

The authorities reaffirmed their commitment to the program's medium-term policy framework. Real GDP growth would taper off to 4.5 percent in 2006 and to 4.0 percent a year in 2007 and beyond. Inflation is targeted to fall to 4½ percent in 2006 and then to 2–4 percent over the medium term. The external sector would remain strong, although private capital inflows and declining oil production would raise the current account deficit starting in 2007. Public debt would decline to 41 percent of GDP by 2010, as envisaged in the program.

The authorities intend to deepen structural reforms, once the new government takes office. Their strategy is to concentrate first on reforms of the tax code and intergovernmental transfers. They will continue with reforms of the public enterprise sector and revenue earmarking, but see no need for another round of pension reform at this stage. They are also preparing reforms to strengthen creditor rights, promote universal banking and give political independence to the financial superintendency.

The central bank underscored that its top priority is achieving the inflation target. The authorities noted that inflation trends suggested that excess demand pressures remained in check. With the policy interest rate relatively low, however, the central bank stood ready to adjust policy as needed to achieve its inflation target. Staff recommended that foreign exchange interventions be limited so as not to undermine the inflation objective.

Economic performance under the arrangement continues to be favorable. The economy has performed better than expected, and understandings have been reached on economic policies for 2006 that should strengthen economic performance further. On this basis, staff recommends completion of the review.

I. Recent Developments

Political situation

1. **The campaign for the presidential election is underway.** Recent polls indicate that President Uribe is likely to win by a wide margin in the first round on May 28.[1] In the March congressional elections, President Uribe's coalition of six parties won a majority in both houses of congress. The new congress will take office in late July, while the new government will begin in early August.

2. **The security situation remains much better than a few years ago, but some turbulence has surfaced ahead of the elections.** A significant share of the paramilitary forces has demobilized under the legal framework approved in June 2005, and the government has initiated peace talks with the ELN (*Ejército de Liberación Nacional*)—the smaller and weaker of the two guerilla armies. The FARC (*Fuerzas Armadas Revolucionarias de Colombia*)—the main guerilla army—recently announced that it would not try to disrupt the vote in the upcoming presidential election, after it realized that its attempts to disrupt the congressional elections in March strengthened support for President Uribe.

Economic developments

3. **In 2005, the economy performed very well, on the strength of economic policies, as well as the favorable external environment (Table 1, Figure 1).** Real GDP grew by over 5 percent, led by a sharp rise in nonresidential investment. With strong confidence, demand for peso-denominated assets picked up, leading to a doubling of equity prices and a 400 basis point decline in yields on domestic government securities, and the peso appreciated by 4½ percent vis-à-vis the U.S. dollar during the year. Inflation eased further to 4.9 percent, just below target, aided by low price increases of traded goods (Table 2). Continued strong growth in exports helped contain the external current account deficit to 1.6 percent of GDP, which was still higher than projected as private oil companies repatriated more profits than anticipated. At the same time net foreign direct investment surged to over 4 percent of GDP. Net international reserves rose to US$14.7 billion (128 percent of short-term external debt), as the central bank purchased foreign exchange to moderate the appreciation of the peso. Nonetheless the peso appreciated by 4 1/2 percent during the year.

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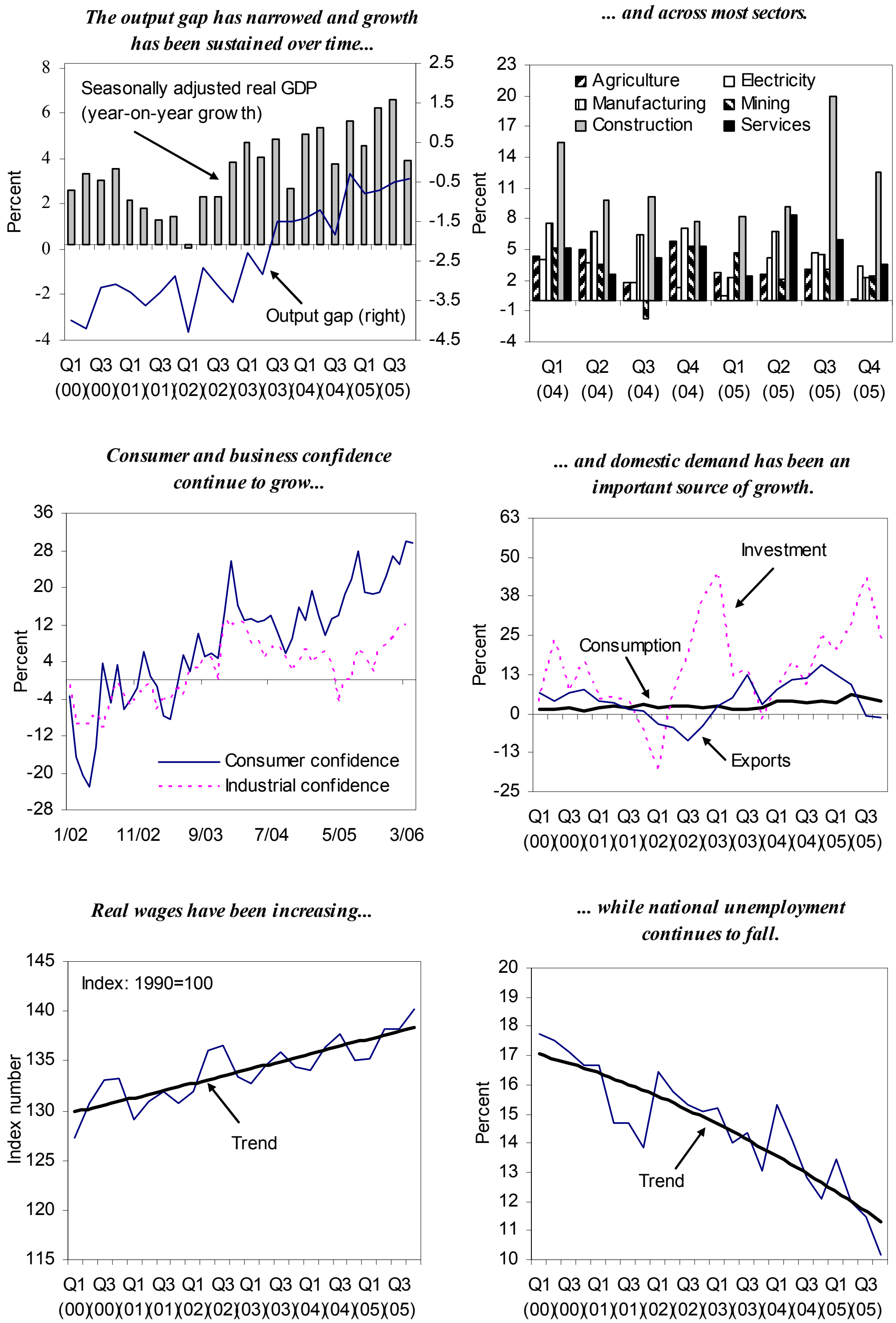
[1] A second round between the top two candidates would be held in June if no candidate wins a simple majority in May.

Figure 1. Colombia: Real Sector Developments



Sources: Central Bank of Colombia; Department of National Statistics (DANE); and Fund staff estimates and projections.

4. **The sustained economic recovery has led to continued improvements in unemployment and poverty**. Urban unemployment fell to 12.2 percent by end-2005, compared with about 16 percent in 2000-2002, reflecting steady growth in total employment. The poverty rate declined to 49 percent in 2005, down from about 56 percent in 2000-2002. Income distribution improved, as the poorest 50 percent of the population have earned a growing share of national income and the share of the wealthiest 20 percent has declined slightly. Nonetheless, inequality remains high, as the Gini coefficient was 0.55 in 2005.

5. **Fiscal policy was unusually strong in 2005 (Figure 2).** The financial position of the combined public sector (CPS) improved from a deficit of 1.3 percent of GDP in 2004 to balance in 2005, well below the program target of a deficit of 1.6 percent (Table 3).[2] The primary surplus reached 4 percent of GDP, helping reduce gross public debt to 47½ percent of GDP and boost public deposits to 12.4 percent of GDP (Table 4). This strong performance reflects in part a sharp decline in interest expenses.[3] The deficit of the central government (which comprises the central administration, social security and decentralized agencies) fell to 2.6 percent of GDP, significantly better than expected, as growth and better enforcement boosted tax revenues and the government restrained noninterest spending (Tables 5 and 6). Also social security registered a somewhat higher surplus, reflecting increased contributions from other parts of the public sector. Local governments ran an overall surplus of 1.2 percent of GDP, slightly more than programmed. Ecopetrol's operating surplus amounted to 3.6 percent of GDP, as expected in the program, benefiting from high world oil prices. Also, the government raised domestic prices of diesel and regular gasoline faster than inflation, although still well below the increase in world prices for these products and the implicit subsidy amounted to 1.8 percent of GDP in 2005 (Box 1). The government improved the structure of public debt by making net repayments of foreign currency debt while issuing domestic currency securities at fixed interest rates and longer maturities. (Box 2**).**

[2] The authorities have consolidated the information on local governments from different sources, leading to a more accurate reporting on local government operations, as recommended by a FAD mission on public investment. This upgrade has not affected the reported measurement of the CPS deficit.

[3] In line with program methodology, these expenses were recorded on a cash basis. The government often reopens benchmark issues with fixed coupon rates, and in 2005 it sold many bonds at a substantial premium, as market interest rates fell, reducing cash interest expenses by an estimated 0.6–0.8 percent of GDP.

Key Fiscal Trends

(In percent of GDP)

	2001	2002	2003	2004	2005 Prog.	2005 Est.	2006 Prog.	2006 Proj.
CPS balance	-3.2	-3.6	-2.7	-1.3	-1.6	0.0	-2.0	-1.5
Of which:								
Central government	-4.8	-5.6	-3.7	-3.7	-3.0	-2.6	-3.5	-3.2
Ecopetrol operating surplus	2.5	2.3	2.9	3.4	3.5	3.6	3.3	3.7
At baseline price					3.1	3.1	3.3	3.7
Benefit from higher prices and production					0.4	0.5	...	...
Local and regional overall balance	0.3	0.9	0.6	1.7	1.1	1.2	1.1	1.1
Non-interest public spending	28.2	29.0	27.8	26.7	28.9	27.0	28.9	27.9
Public debt	50.0	58.5	54.8	51.9	47.8	47.4	46.4	45.9

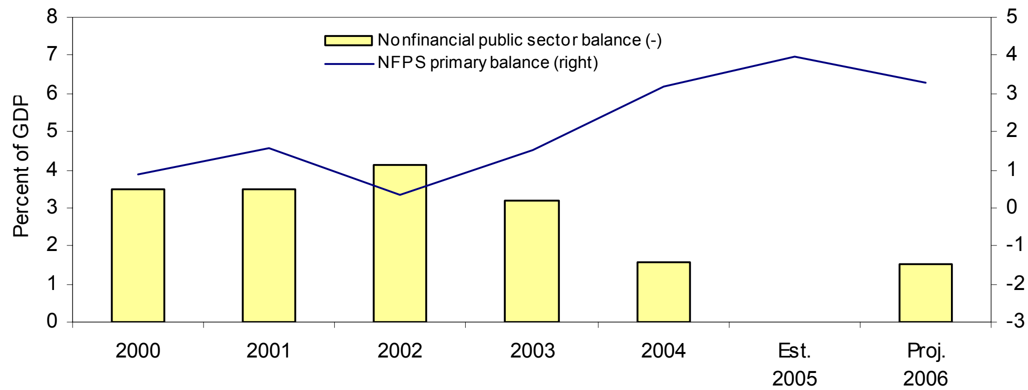
Sources: Colombian authorities; and Fund staff estimates.

6. **The Banco de la República (BR) eased monetary policy and, supported by fiscal policy, sought to slow the appreciation of the peso (Table 7, Figure 3).** The BR reduced its policy interest rate by 50 basis points during the year to 6 percent in September 2005. It also purchased US$4.7 billion of foreign exchange and sold US$3.3 billion to the government to finance prepayments of external debt. The remaining increase in net reserves was sterilized.

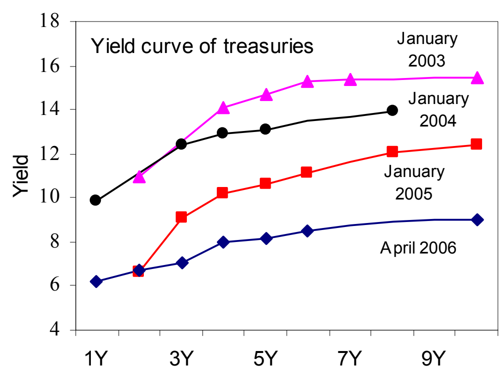
7. **Structural reforms advanced (Memorandum of Economic Policies, Table 2).** In June 2005, Congress enacted a new securities market law and a third round of pension reform. The information on local government finances was improved considerably (structural benchmark). In December, the government issued a decree to implement various elements of the revised budget code, which had not been approved by congress. The bank restructuring agency (FOGAFIN) sold Granahorrar—a mortgage bank intervened in 1999—in November (structural benchmark) and Megabanco—another intervened bank—in March 2006. The superintendencies of securities and financial institutions were merged in December into a unified financial superintendency to limit the scope for regulatory arbitrage. In February 2006 Colombia and the United States reached agreement in principle on a Free Trade Agreement, which is to be presented for legislative approval most likely later this year or in early 2007. In contrast, the government has not yet prepared a draft law that would begin to scale back revenue earmarking (structural benchmark for March 2006).

Figure 2. Colombia: Fiscal Sector Developments

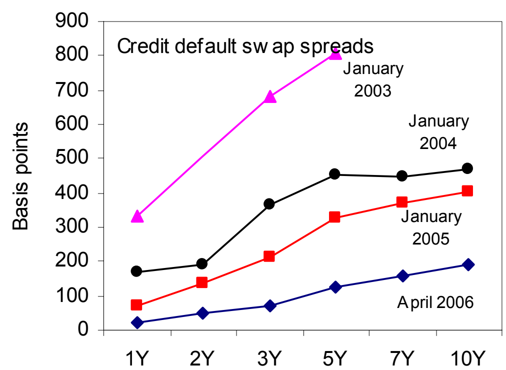
An increase in the primary surplus helped to reduce the NCPS deficit...



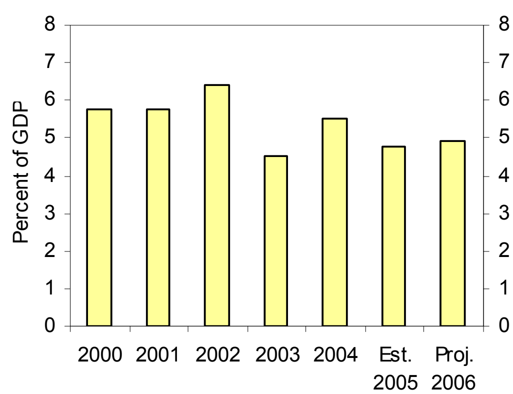
... while the yield curve for domestic bonds has shifted downward...



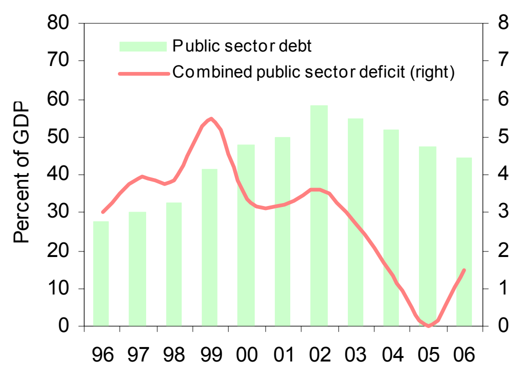
... as well as the yield curve for foreign currency denominated government bonds.



However, the deficit in the central administration remains high...



... and the key objective is to keep public debt on a declining path.



Sources: Ministry of Finance; Central Bank of Colombia; Bloomberg; and Fund staff estimates.

Box 1. Colombia: Effect of Oil Revenues on the Public Sector

Colombia's public sector has benefited from higher world oil prices. Ecopetrol (the national oil company) currently extracts 59 percent of the country's total oil production and accounts for 35 percent of Colombia's total oil exports. It also retains monopoly power over the production of petroleum products.

Allocation of Ecopetrol's Operating Surplus
(In percent of GDP)

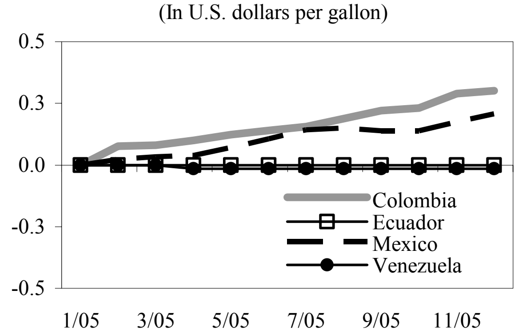
	2003	2004	2005	Proj. 2006
Ecopetrol operating surplus	**3.0**	**3.4**	**3.6**	**3.6**
Central Administration	0.7	0.9	0.8	1.1
Local Governments (royalties)	1.0	1.1	1.1	1.2
FAEP	0.0	0.1	0.2	0.2
Ecopetrol Pension Fund	0.1	0.4	0.3	0.0
Ecopetrol (Residual)	1.2	0.8	1.2	1.2
Fuel subsidies	**1.2**	**1.3**	**1.8**	**...**
Notional operating surplus	**4.2**	**4.7**	**5.4**	**...**

With the sharp rise in world oil prices since 2003, the operating surplus of Ecopetrol rose by 0.6 percent of GDP between 2003 and 2005. This increase was limited by the secular decline in Colombia's oil production and in Ecopetrol's share of the oil sector. Furthermore, the company has to purchase crude oil for its refinery at world prices but then sells diesel and regular gasoline domestically at wholesale prices well below world market prices, creating an implicit subsidy that reduces the operating surplus.

Oil revenues are distributed to other parts of the public sector as royalties, dividends, income taxes and automatic savings. The central government receives dividends and income taxes, net royalties accrue to territorial entities, and part of the revenues are deposited in a stabilization fund (FAEP) through a complex formula. A residual is left over to cover Ecopetrol's investment and exceptional contributions to its pension funds.

The implicit subsidy increased to 1.8 percent of GDP in 2005. Regular gasoline and diesel retail prices went up by 11 and 15 percent, while the peso appreciated by 5 percent, leading to faster domestic price increases than in neighboring oil exporting countries. However world wholesale gasoline prices rose by 50 percent in U.S. dollar terms. Without this subsidy, the operating surplus in 2005 would have been 5.4 percent of GDP, 0.7 percent of GDP higher than in 2004. The subsidy has most likely widened so far in 2006, as Colombia's wholesale prices of regular gasoline and diesel were 50 percent below world levels in April 2006.

Cumulative Changes in the Retail Price of Gasoline of Selected Oil Exporting Countries
(In U.S. dollars per gallon)



Source: Fund staff estimates.

Box 2. Colombia: Debt Management

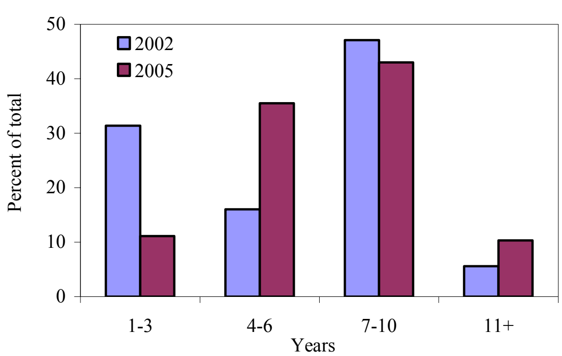
Improvements in debt management since 2002, together with the lower fiscal deficit, have reduced financing costs and cut rollover and market risks. Specific steps include:

- *Diversified funding sources.* Bonds have been issued in the United States and Europe and the local government securities (TES) market has been developed. Issues have included both nominal and inflation-linked bonds, with both fixed and floating interest rates.
- *Reduced foreign exchange exposures.* Colombia has engaged in debt swaps and buybacks to reduce its foreign currency liabilities, as well as issuing a global peso-denominated bond in 2004.
- *Lengthened maturity of debt.* Colombia conducts regular auctions of nominal TES at 10- and 15-year maturities. Inflation-indexed (UVR) debt has been issued at 10 year maturity.
- *Improved liquidity of the domestic TES yield curve.* The depth and liquidity of the domestic market has been cultivated through regular auctions of 3-, 5-, 10-, and 15-year TES.

The global peso bond was an innovative step to further broaden the investor base while reducing exchange rate exposure. The bond has several provisions to enhance its appeal to international investors. Most importantly, it is denominated in pesos but payable in dollars at the exchange rate prevailing on the payment date, so the investor bears the exchange rate risk but not convertibility risk.

These steps have changed the distribution of risk but have not necessarily reduced overall risk. The decreased exposure of the government to foreign currency risk has resulted in increased exposures of banks and pension funds to the sovereign and to interest rates. To reduce aggregate risks would require further decreases in overall public debt.

Government Securities by Maturity



Gross Debt of the Nonfinancial Public Sector

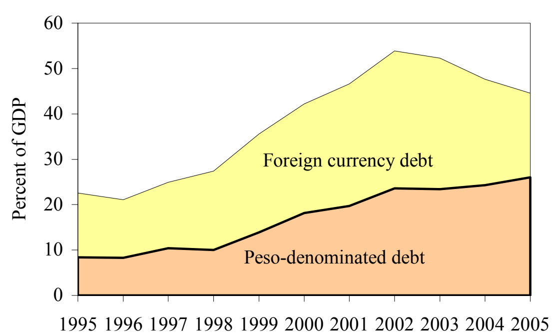
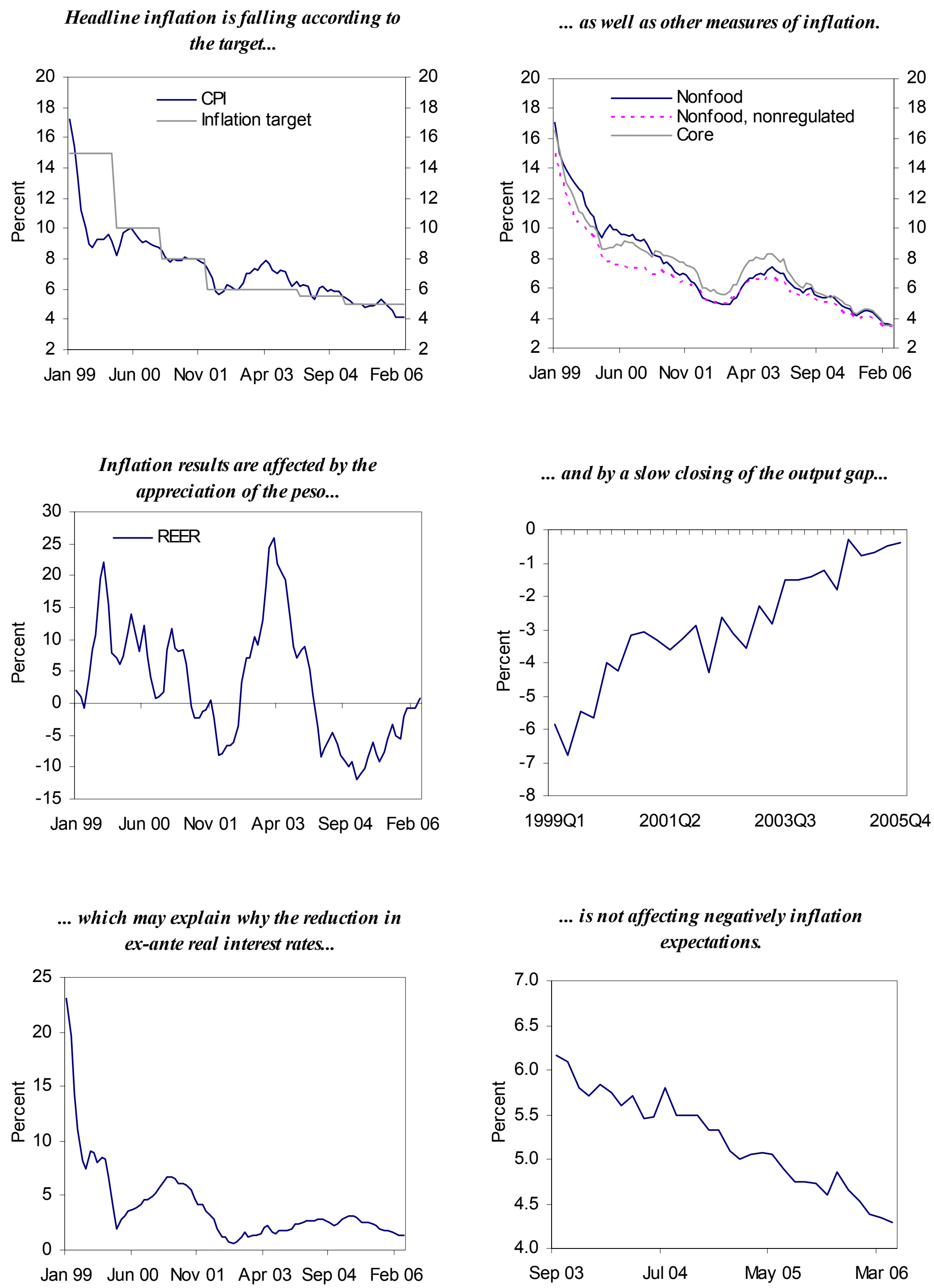


Figure 3. Colombia: Inflation and Monetary Policy Developments



Source: Central Bank of Colombia.

8. **Financial indicators remain sound.** In 2005, bank credit to the private sector grew 16 percent, while bank liquidity improved and loan portfolio quality strengthened. The risk-weighted capital adequacy ratio amounted to 10.4 percent, above the regulatory minimum of 9 percent. In its December 2005 Financial Stability Report, the BR raised concerns about the continued rapid growth in prices of equity and upper income housing and the possible losses banks could experience if interest rates on government securities rise.

Colombia: Financial Soundness Indicators

(In percent, unless otherwise indicated)

	2000	2002	2004	2005
Regulatory Tier I capital to risk-weighted assets	9.2	9.7	10.8	10.4
Nonperforming loans to total loans 1/	11.0	8.7	3.3	2.7
Provisions to nonperforming loans 1/	56.6	86.7	149.7	166.9
Operating margin to assets	-0.1	2.7	4.1	4.0
Return on average equity	-20.6	9.6	23.0	22.1
Liquid assets to assets	12.9	19.7	20.6	20.8

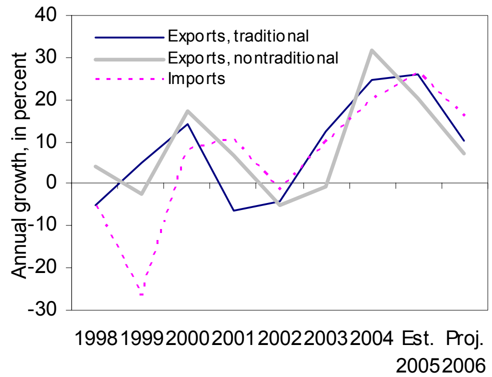
Sources: Superintendencia Bancaria; and Fund staff estimates.

1/ Excludes leases.

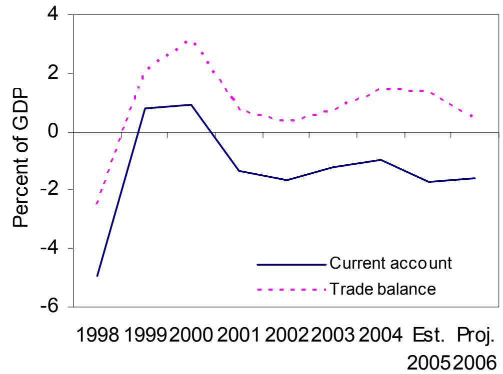
9. **The external position remains strong (Table 8, Figure 4).** During 2005, the strength of the peso contributed to considerable growth in imports. Nonetheless, exports rose by 26 percent, reflecting favorable prices for oil, coal and coffee as well as robust increases in the volume of nontraditional exports, which benefited from good performance in key export markets. Net private capital inflows reached 5 percent of GDP, as foreign direct investment, especially in oil and mining, surged. At the same time, the public sector registered net capital outflows as the government prepaid US$3.5 billion of external debt and built up deposits abroad. The overall balance of payments registered a surplus of US$1.4 billion, reflecting the net foreign exchange purchases of the BR.

Figure 4. Colombia: External Sector Developments

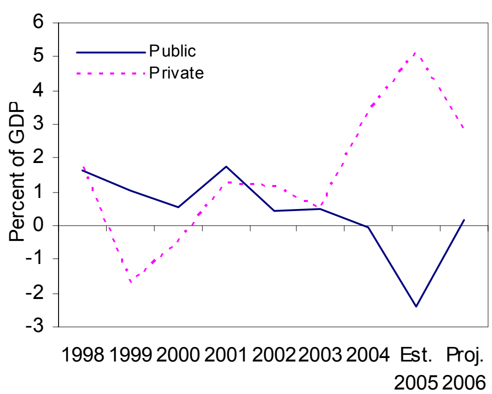
Strong performance of the export sector...



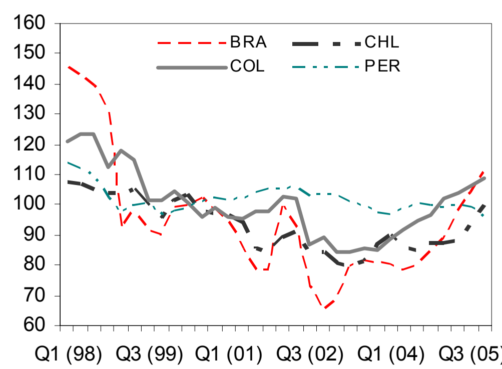
... has helped contain the current account deficit, despite higher imports.



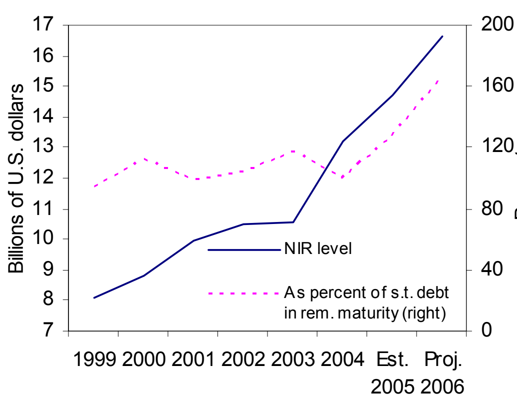
Fueled by strong private capital inflows...



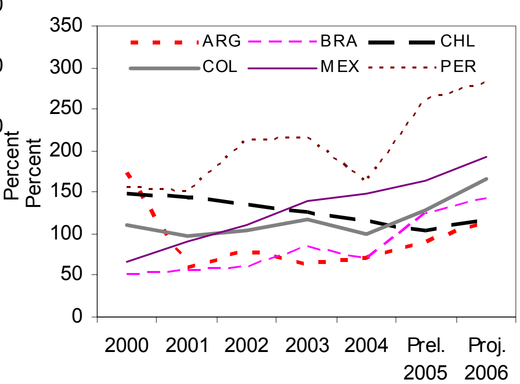
... the peso further appreciated...



... notwithstanding central bank intervention.



Selected LatAm Countries: Gross Reserves (as percent of s.t. debt in remaining maturity)



Sources: Central Bank of Colombia; Department of National Statistics (DANE); and Fund staff estimates and projections.

10. **So far in 2006, the economic performance has been favorable.** Several leading indicators suggest that real GDP is growing at annual pace of 4–5 percent, while inflation fell to 4.1 percent year on year in April. The recent increases in interest rates on 10-year U.S. treasury bonds triggered a depreciation of the peso of about 8 percent vis-à-vis the U.S. dollar starting in late February, together with a fall in equity prices and a rise in yields on government securities (Figure 5). Colombia's risk premium has ranged from 170-200 basis points in recent weeks, low by historical standards, and in March Moody's upgraded its outlook for Colombia's foreign currency rating to stable, from negative.[4] Also, in March, the major banks sharply cut their interest rates on mortgages, and Bancolombia—the country's largest bank—was able to fund much of these new operations by issuing 10-year certificates of deposits at a nominal interest rate of 8 percent.

II. Policy Discussions

11. **The authorities and the staff agreed that the policy strategy is paying off but that further reforms are required to sustain the strong economic performance.** In particular, while the global economic outlook appears highly favorable, there are risks to this outlook—such as a disorderly unwinding of the global economic imbalances or a decline in world commodity prices. Lower public debt and more flexible public expenditure management would give the country more room for maneuver in the event of external difficulties. For this reason, economic policies would focus on:

- *Keeping fiscal policy on a path to reduce public debt to close to 40 percent of GDP by 2010.* The authorities remain committed to their announced medium-term fiscal framework, which has enhanced the credibility of fiscal policy. They added that the strong fiscal outturn in 2005—while welcome—was influenced by temporary factors, such as the accounting treatment of interest expenses. Moreover, there were benefits to additional spending in productive areas, such as security, investment in oil exploration and infrastructure, and social programs. For these reasons, they preferred to continue to aim at achieving primary surpluses of 2½ to 3 percent a year.

- *Relying on monetary policy to target inflation in the context of a managed floating exchange rate policy***.**

[4] Colombia's foreign currency debt has a credit rating of BB from Standard and Poors and Ba2 from Moody's.

Macroeconomic Framework: Main Elements 2003–11

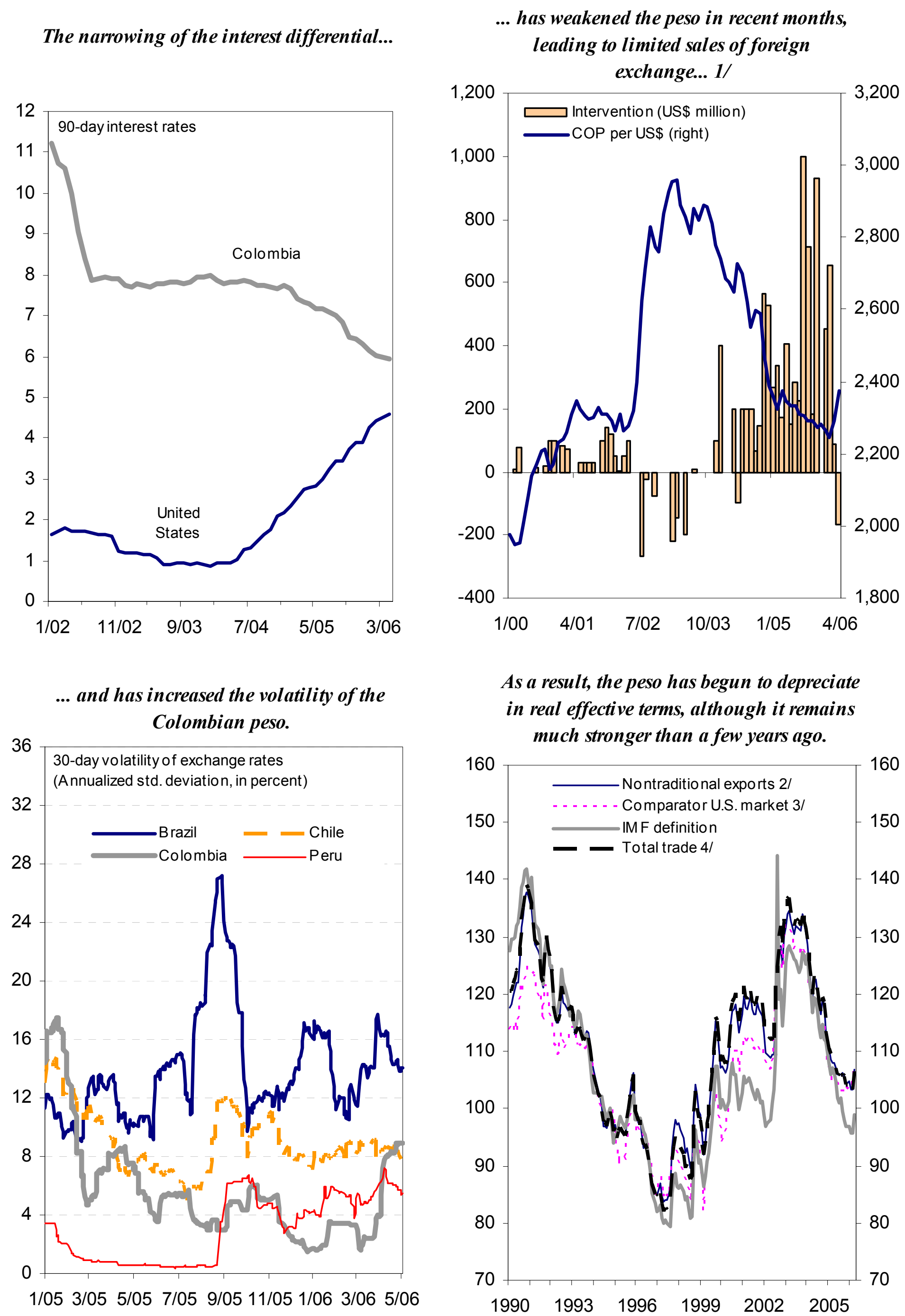
	2003	2004	2005 Prog.	2005 Est.	Projections 2006	Projections 2007	Projections 2011
Real growth	3.9	4.8	4.0	5.1	4.5	4.0	4.0
Inflation 1/	6.5	5.5	5.0	4.9	4.5	4.0	3.0
(In percent of GDP)							
External current account balance 2/	-1.2	-1.0	-1.0	-1.6	-1.3	-2.6	-2.4
NFPS primary balance 3/	1.5	3.2	3.1	4.0	3.2	2.7	2.7
Combined public sector balance 3/	-2.7	-1.4	-1.6	0.0	-1.5	-1.7	-0.3
Total public debt	54.8	51.9	47.8	47.4	45.9	45.2	39.3
Public deposits	8.7	10.4	…	12.4	…	…	…
(In billions of U.S. dollars)							
Net international reserves 4/	10.5	13.2	15.2	14.7	15.2	15.6	16.9
(In U.S. dollars per barrel)							
Crude oil, spot price 5/	28.9	37.8	54.2	53.4	68.0	71.0	66.0

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

1/ For 2007 and beyond, inflation projection consistent with achieving medium-term inflation target of 2 to 4 percent a year.
2/ At projected WEO price of oil in 2006, adjusted to reflect Colombia export price.
3/ For 2005, average export price of US$47 per barrel. For 2006, assumes a baseline export price of US$47 per barrel.
4/ IMF definition.
5/ WEO petroleum price is average of spot prices for U.K. Brent, Dubai, and West Texas Intermediate.

- *Moving forward with structural reforms.* The authorities are developing key structural reforms to be presented to the new congress. In particular, they intend to prepare proposals to simplify the tax code and modify the revenue sharing system. They are also developing comprehensive financial sector reforms to strengthen creditor rights, encourage universal banking, and give more independence to the financial superintendency.

Figure 5. Colombia: Exchange Rate Developments



Sources: Central Bank of Colombia; Bloomberg; Haver Analytics; and Fund staff estimates.
1/ In April 2006, the central bank sold about US$168 million through its volatility window for intervention.
2/ Using weights from nontraditional exports and imports from 20 trading partners.
3/ Relative to 23 countries that compete with Colombia in the U.S. market.
4/ Relative to the main 20 trading partners.

12. **The medium-term outlook remains favorable (Table 9)**. This framework is based on a conservative assumption that real GDP would rise by 4½ percent in 2006 and then by 4 percent a year in 2007 and beyond, in line with the authorities' estimates of the growth in potential output. Inflation is targeted at 4½ percent in 2006 and then to the range of 2–4 percent a year over the medium term. The external sector would remain strong, although the secular decline in oil production and private capital inflows would raise the external current account deficit to 2½ to 3 percent of GDP in 2007 and beyond.

A. Fiscal Policy

13. **In 2006, the authorities will limit the CPS deficit to 1.5 percent of GDP, below the original target of 2.0 percent of GDP.** The primary surplus would amount to 3.2 percent of GDP, helping to reduce public debt to 45.9 percent of GDP by end-2006. Tax revenues are expected to rise, based on higher payments of taxes on income earned in 2005 (which are settled in April 2006). Starting in 2006, interest expenses will be measured on an accrual basis, as recommended by GFS 2001, which explains most of the increase in interest payments to 4.8 percent of GDP, from 4.0 percent of GDP in 2005. Noninterest spending would rise by 0.9 percent of GDP to 27.9 percent in 2006, reflecting additional investment as well as higher current spending on security and social programs. The government might also assist certain sectors that could be adversely affected by the free trade agreement with the United States. The central government is expected to run a deficit of 3.2 percent of GDP, while the surplus of the local and regional governments and enterprises is projected to fall slightly to 1.1 percent of GDP.

14. **Ecopetrol's operating surplus would rise to 3.7 percent of GDP, even though oil production will fall in 2006.** Colombia's oil export price is expected to stay at about US$47 per barrel, and the government will continue to raise the domestic price of diesel and gasoline in real terms. However, as world oil prices are likely to remain high over the medium term, Ecopetrol will step up its investment in oil exploration and enhanced recovery techniques to try to slow the decline in its oil production. The authorities agreed to lower (raise) the target for the CPS deficit for 2006 in the context of the third review, if world oil prices are well above (below) the projection. Staff estimates indicate that Ecopetrol's operating surplus would rise by 0.1−0.2 percent of GDP for every US$10 per barrel increase in the export price of oil.

15. **Debt management will seek further reductions in exposures to currency and rollover risks.** The authorities do not plan any new issuance of foreign currency bonds in 2006, but will continue to rely significantly on borrowing in local currency and drawing down foreign currency deposits. As a result, net external financing is projected at 0.2 percent of GDP. The financing plan has also considered the need to develop further local capital markets. The government continues to conduct forward and swap operations to minimize the carrying cost of foreign currency assets.

16. **The government will submit a budget for 2007 consistent with a CPS deficit of 1.7 percent of GDP.** The primary surplus would amount to 2.7 percent of GDP, while public debt would decline to 45.2 percent of GDP by end-2007.

B. Structural Fiscal Reforms

17. **The authorities remain fully committed to advancing structural reforms to keep fiscal policy on a sustainable path over the medium term**. Their strategy is to concentrate first on reforms of the tax code and intergovernmental transfers. They will also continue with reforms of the public enterprise sector, domestic fuel pricing and revenue earmarking, but see no need for another round of pension reform at this stage.

18. **Tax reform**. The authorities will submit legislation by August 2006 to reform the tax system, which is highly complex and distortionary with 9 VAT rates and the highest top income tax rate in the region at 38.5 percent (structural benchmark). Key elements of the authorities' proposals would include reducing the number of VAT rates, and broadening the base; lowering the top income tax rate and curtailing exemptions and deductions, and possibly reducing the minimum threshold of income subject to tax; and diminishing the distortionary effects of the financial transactions tax (FTT) by lowering the rate (currently 0.4 percent) or by making FTT payments deductible from the income tax. They are also considering a proposal to retain the tax on wealth (which was set to expire), with the revenues to be earmarked for additional military spending. The staff urged the authorities to also trim the so-called *parafiscal* taxes,[5] which raise nonwage labor costs and deter formal sector employment. The authorities were sympathetic to this view but saw little political support for progress in this area.

19. **Intergovernmental transfers (Box 3).** Under a constitutional amendment approved in 2001, these transfers are set to grow by 2½ percent a year in real terms through 2008 and then starting in 2009 revert to the pre-2001 arrangement, which required transfers to rise in line with current revenues of the central administration. By August 2006, the authorities intend to submit a constitutional amendment (which requires approval by two consecutive sessions of congress) that would contain the growth in these transfers in real terms in 2009 and beyond (structural benchmark). Otherwise, the central administration deficit would rise over time, widening the imbalance within the public sector. The authorities found that real transfer growth similar to the growth in population would be necessary to make progress towards reaching universal primary education by 2015. In the health sector, additional resources would need to be identified to reach full service coverage by 2010.

[5] These are numerous small payroll taxes earmarked to fund various social programs.

Box 3. Colombia: The Reform of the Intergovernmental Transfer System

The 1991 Constitution mandates that the central administration transfer some of its revenues to territorial governments to support spending, especially on health and education. In 2005, these transfers reached 4.9 percent of GDP, and about 40 percent of public expenditure was carried out at the decentralized level.

This requirement created difficulties for fiscal management. Initially the constitution stated that these transfers should rise in line with the growth in current revenues of the central administration. However, this led to a sharp growth in transfers between 1996 and 2001 and discouraged tax collection by the central administration and local governments. Large swings in the level of transfers complicated fiscal planning and management.

As a result, in 2001, a Constitutional reform adopted a new system for a transition period (2002–08). Transfers grew by 2 percent a year in real terms in the period 2002–05 and are to rise by 2.5 percent a year in real terms for the period 2006–08. From 2009 onwards, transfers will increase in line with the central administration's current revenue again.

This reform, coupled with the adoption of fiscal responsibility laws, promoted fiscal discipline. The system ensured a more stable and predictable flow of resources for local administrations, helped address some of the incentive problems and control local spending. The reform also helped control mandated growth in central administration expenditure.

The authorities have concluded that the transfers should remain decoupled from the central administration's revenues. They intend to propose a reform that keeps transfer growth at 2.5 percent in real terms, which is expected to provide for sufficient social expenditure needed to make progress towards the MDGs.

20. **Public enterprise reform.** In April 2006, Telefónica of Spain purchased a majority stake in Telecom, the state telecommunications enterprise, for an initial payment equivalent to 0.3 percent of GDP plus payments over time to help cover pension costs. Ecogas, the state natural gas distribution company, is expected to be brought to the point of sale in July 2006. Ecopetrol will modernize the Cartagena refinery in the context of a joint venture, and expects to select the private partner in July 2006.

21. **Fuel price subsidies.** The government is raising domestic prices of diesel and regular gasoline with a view to becoming consistent with a reference price of WTI crude oil of US$48 per barrel by end-2007. Over the next few years, these prices would be liberalized to allow the refinery to sell its products at international prices and any remaining subsidies incorporated into the budget. Staff urged the authorities to move more quickly to liberalize these prices, as the current system has led to sizable and persistent gaps between domestic and world prices and a large implicit subsidy. Liberalized domestic prices would generate

more resources for Ecopetrol's investment and would ensure a more efficient allocation of resources.

22. **Revenue earmarking.** The authorities are committed to implementing the budget decree issued in December 2005, which includes provisions to evaluate earmarked revenues in the 2007 budget. Based on this evaluation, the government would develop legislation to phase out revenue earmarking that has achieved its objective and to limit the introduction of new earmarking to a well-specified time period.

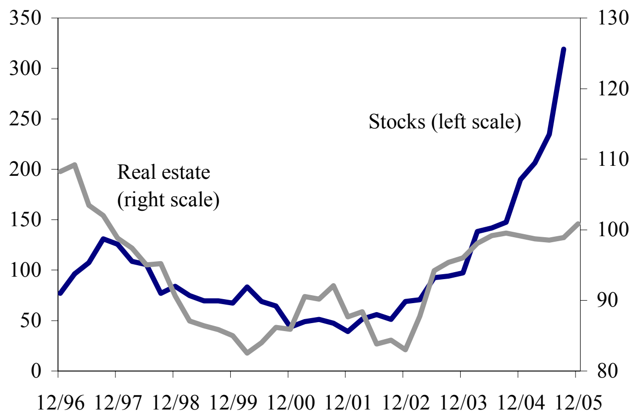
23. **Pension reform.** The authorities noted that another round of pension reforms was not an immediate priority. Through 2010, the central administration will need to keep its transfers to social security at 5 percent of GDP a year to help cover payments of pension benefits, which are projected to average about 6½ percent of GDP a year in the period 2006−11 regardless of any reform that could be adopted in the near term. The three reforms approved in 2002–05, together with demographic trends, are expected to reduce payments of pension benefits by 1 percentage point of GDP by 2015. The key possible remaining reform would be a gradual increase in the retirement age from 62 to 65 years old (for men), which would be politically controversial and take effect over a very long time horizon. Instead, they were prepared to keep the nonpension balance of the CPS strong enough to meet the overall fiscal objectives.

C. Monetary and Exchange Rate Policy

24. **The BR stands ready to adjust monetary policy as needed to achieve its inflation target.** On April 28, it raised its policy interest rate by 25 basis points to 6.25 percent. The authorities noted that the performance of inflation through April, especially for nontraded goods, suggested that demand pressures remained in check for now, but wanted to take steps at this stage to ensure that inflation falls as targeted later in 2006 and in 2007. The staff asked whether the stance of monetary policy over the past few years had contributed to the strong growth in the demand for equity and government securities during 2005. The authorities emphasized that the growth in holdings of equities and government securities represented financial savings that was unlikely to spill over into excess demand for goods (Box 4).

Box 4. Colombia: Asset Prices and Financial Stability

Price/Earnings Indicators in Stocks and Real Estate 1/



Source: March 2006 report to congress from the central bank.
1/ Both indicators measure deviation from trend of the price to earnings ratio (for stocks) and housing prices to rents ratio (for real estate).

Prices of assets denominated in pesos rose sharply in 2005. Share prices more than doubled in 2005, following an 85 percent increase in 2004, and the average price-earnings ratio rose sharply above trend. Housing prices recovered, especially in upper income areas. Yields on government securities fell by 400 basis points during 2005, producing sizable valuation gains that represented 65 percent of annual profits of the banking system.

This runup in asset prices poses some manageable risks for financial stability:

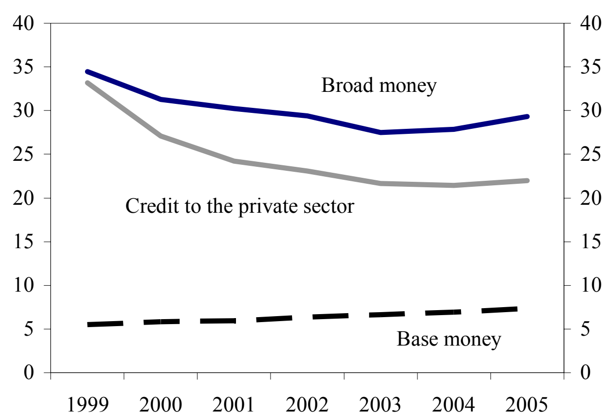
- While stock market capitalization is about 40 percent of GDP, holdings of equity are narrowly concentrated, and the central bank estimates that any fall in prices would probably have only limited effects on domestic demand.

- Real estate prices are just recovering from their 1999 collapse. While mortgage lending is still weak, non-performing mortgages have declined sharply in recent years.

- The higher asset prices reflect growing demand for peso-denominated assets, resulting from the strong economic recovery, continued reduction in inflation, improved confidence, and low interest rates in the United States. Broad money and credit as a share of GDP are still below pre-1999 levels.

- However, the exposure of banks and pension funds to government securities is a source of concern**.** The central bank estimates that a 200 basis points shift in the yield curve for TES would produce losses equal to one-third of financial intermediaries' annual profits. It will be crucial to ensure that banks and pension funds are adequately provisioned for this type of risk.

Monetary Aggregates
(In percent of GDP)



Source: Central Bank of Colombia.

25. **The BR is prepared to continue foreign exchange intervention but without compromising the inflation objective.** With the recent peso depreciation, the BR purchased only US$86 million in March, after buying US$1.1 billion in January–February, and then sold about US$350 million in April and May under its automatic volatility intervention rule.[6] The authorities agreed that the recent drop of the peso was mainly a response to rising long-term interest rates in the United States. Net international reserves are projected to rise to US$15.2 billion by end-2006 (about 150 percent of short-term external debt), although the program floor on net international reserves will be set at US$12.215 billion—the same as the floor for 2005.[7]

D. Financial Sector

26. **The authorities are developing a package of reforms designed to deepen the financial sector.** In particular, they want to propose legislation to strengthen creditor rights, possibly through modifications to the laws regarding insolvency and collateral; facilitate the development of an annuities market; and adapt financial sector legislation and regulation to allow for more universal banking. The proposed reforms will be presented in more detail at a conference in mid-May.

27. **The authorities plan to strengthen financial supervision further.** In particular, the government intends to submit legislation by August 2006 that would strengthen the independence of the financial superintendency from political interference and grant legal immunity for supervisors for their official acts (structural benchmark). In mid-May, the government offered to sell Granbanco—which was created from the restructuring of Bancafé—for Col$1 billion (0.3 percent of GDP) first to workers and non-governmental organizations, and if they decline, then to private investors. The authorities are implementing the recommendations of MFD to strengthen the governance of Banco Agrario. MFD is providing technical assistance to improve measurement of interest rate risk and to strengthen the analytical framework for assessing financial stability. ICM is providing technical assistance to facilitate the hedging of exchange and interest rate risk. In June, the government created an agency to promote microcredit, which would be funded with the proceeds of privatization.

E. Medium-Term Outlook

28. **The medium-term outlook is broadly as envisaged in the first program review, provided the global economic outlook remains favorable.** Confidence would support

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[6] The central bank writes options to sell (purchase) up to US$180 million if the peso depreciates (appreciates) by more than 2 percent in a day with respect to the moving average of the previous 20 days. This rule was last activated in October 2002.

[7] The program will no longer include the downward adjustor to the reserve floor for foreign exchange sales of up to US$2 billion.

further rapid growth in investment, which is projected to reach 23 percent of GDP by 2011. At the same time, private savings is conservatively assumed to stay constant at about 15 percent of GDP over the medium term, resulting in an external current account deficit ranging from 2½ to 3 percent a year during 2007–11. The sensitivity of the debt profile to various shocks is broadly the same is in the first review (Tables 10 and 11).

29. **Fiscal policy would continue to aim at a primary surplus of 2½ to 3 percent a year to reduce gross public debt to close to 40 percent of GDP by 2010.**[8] The central government deficit would decline gradually over the medium term, provided intergovernmental transfers grow by 2½ percent a year in real terms in 2009 and beyond. This projection also assumes that local governments would channel most of their surplus—which would fall gradually—to retiring their own debt or building up bank deposits and would allocate a small share to buying central government debt.

F. Program Monitoring and Other Issues

30. **The authorities are requesting the completion of the second review under the arrangement.** All quantitative performance criteria at end-December 2005 were observed with ample margins, and all but one structural benchmarks were met, albeit with minor delays. Understandings have been reached on economic policies and objectives for 2006. Upon completion of the second review, Colombia would be eligible to purchase SDR 320.4 million (41.4 percent of quota). The authorities will continue to treat the arrangement as precautionary.

31. **Program conditionality.** Quantitative performance criteria would continue to apply to the CPS deficit, inflation, the stock of net international reserves of the BR and the change in short-term external public debt and an indicative target would apply to net disbursement of foreign currency debt to the public sector. The target for the stock of net international reserves would no longer be subject to the downward adjustor for foreign exchange sales of up to US$2 billion. These criteria would apply to June 2006 but not September 2006, because data on the CPS deficit and short-term external public debt for this date would not be available before the program expires on November 2. The third review will be completed by mid-October 2006 and will be based on end-June 2006 performance criteria, and on the relevant structural and continuous performance criteria. In this context, the authorities are requesting the rephasing of purchases, which would be combined into a single final purchase in an amount equivalent to SDR 84.60 million to become available upon completion of the third review (Table 13).

32. **Structural conditions**. Submission of a 2007 budget consistent with a CPS deficit of 1.7 percent of GDP would be a structural performance criterion for July 2006. New structural benchmarks include (i) the submission of a law for tax reform by August 2006; (ii) the submission of a constitutional amendment to reform the system of intergovernmental

[8] This projection assumes that public sector deposits would decline gradually to 11 percent of GDP by 2011.

transfers by August 2006; and (iii) the submission of a law to strengthen the independence of the financial supervisor by August 2006. The structural benchmark for the preparation of a draft law to trim revenue earmarking would be moved to June 2006, from March 2006 under the program. The structural benchmark regarding the issuance of regulations to implement the securities market law has been modified to include only key regulations, and the rest of regulations would be considered in tandem with other financial sector reforms proposals. The other structural benchmarks approved in the first review will remain in effect.

33. **If all purchases were made under the proposed arrangement, Colombia would be able to repay the Fund.** Fund credit would be equivalent to 0.4 percent of GDP in 2006. Debt service to the Fund would peak at 1.0 percent of exports of goods and nonfactor services in 2010 (Table 14).

34. **The economy has become more resilient, and faces risks stemming largely from the global environment, as well as from high public debt.** While the global outlook is favorable, economic growth in Colombia's key trading partners could be less than expected, or global economic imbalances could unwind in a disorderly fashion. The government has made good progress in reducing and improving the structure of public debt, but this still remains high and sensitive to exchange rate fluctuations. The domestic environment appears stable, as the political transition is proceeding smoothly and the security situation has improved considerably compared with several years ago.

III. STAFF APPRAISAL

35. **The authorities' policy strategy has been successful.** By strengthening fiscal policy and effectively managing the inflation targeting framework, the authorities have taken advantage of the favorable global economy to strengthen confidence further. This has enabled the economy to grow at a healthy pace, leading to steady declines in unemployment and poverty. The external current account deficit is relatively low, supported by rapid growth in exports even though the peso has strengthened in recent years.

36. **The prospects for sustained growth over the medium term are favorable, in view of the robust growth in nonresidential investment and exports.** Nonetheless, there are some risks to this outlook—possibly a less favorable global economy. And the fiscal situation, while much improved, still faces challenges over the medium term. Going forward, the authorities will need to continue to manage policies carefully to build up further the resilience of the economy.

37. **In 2006, fiscal policy will remain on a sustainable path.** The medium-term fiscal framework, which is presented to congress each year, calls for a primary surplus of 2½ to 3 percent a year to reduce public debt to almost 40 percent of GDP by 2010 and even lower by 2015. In 2006, the target for the CPS deficit is consistent with a primary surplus higher than 3 percent of GDP, reflecting mainly the effect of continued high world oil prices. The CPS deficit will rise in 2006, compared with 2005, mainly because of the effect of a different accounting treatment of interest expenses and the need to increase investment in certain

areas, such as oil exploration. The authorities have agreed to revisit the fiscal target for 2006 if world oil prices differ significantly from the projection. The staff would encourage the authorities to stand ready to curb spending if domestic demand appears to be growing too quickly.

38. **Key structural reforms will move forward, once the new congress and government take office.** The staff agrees with the plan to give top priority to reforms of the tax code and the system of intergovernmental transfers. A simpler tax code can increase efficiency by reducing the number of VAT rates, cutting the top tax rate on income and broadening the tax base. There are also important benefits to eliminating the financial transactions tax and the tax on bank loans, which harm the financial system. The staff would also encourage the authorities to try to reduce the *parafiscal* taxes, which raise nonwage labor costs and deter employment in the formal sector. It will be crucial to limit the real growth in intergovernmental transfers in 2009 and beyond to the growth in population to avoid a deterioration in the position of the central government. Implementing regulations to phase out revenue earmarking and avoiding new earmarked taxes as put forth in the budget code decree of December 2005, will help reduce budget rigidities. Public enterprise reform will be important to reduce potential fiscal risks. A more rapid reduction in domestic fuel price subsidies would help pay for higher investment in oil exploration and production, encourage conservation and allow Ecopetrol to operate on a more commercial basis. The staff agrees that another round of pension reform may not be an immediate priority. However, it would be important to adopt further reform in a few years to reduce further the large actuarial deficit of the pension system, which still poses a risk to the medium-term fiscal outlook.

39. **The inflation targeting framework has provided a useful anchor for expectations and confidence.** The easing of monetary policy during 2005—through a lowering of the policy interest rate as well as purchases of foreign exchange—was supported by an unusually strong fiscal policy, which helped sterilize the monetary effects of the foreign exchange intervention. In 2006, a shift to a more neutral monetary policy—which appears to have begun—would help keep domestic demand in line with the growth in potential output, especially in view of the somewhat weaker fiscal stance. It would also be important to keep foreign exchange intervention to a minimum—as was done in April and May—to ensure that monetary policy remains focused on the inflation target.

40. **The authorities are developing several reforms to deepen the financial system.** They also intend to submit to congress legislation granting political independence to the new consolidated financial supervisor and confer legal immunity to its supervisors for their official acts. It will be important to closely monitor financial stability and improve the measurement of credit and interest rate risk and to reduce barriers to hedging of exchange and interest rate risk. The sale of Granbanco is an important step forward to help make the banking system more efficient. It will be important to manage very carefully the operations of the new promotion agency for microfinance to avoid creating fiscal exposures.

41. **Economic performance under the arrangement continues to be favorable.** The economy has performed better than expected, and understandings have been reached on economic policies for 2006 that should strengthen economic performance further. On this basis, staff recommends completion of the review.

Table 1. Colombia: Selected Economic and Financial Indicators

	2001	2002	2003	Prel. 2004	2005 Prog.	2005 Est.	Proj. 2006
(Percentage changes, unless otherwise indicated)							
National income and prices							
Real GDP	1.5	1.9	3.9	4.8	4.0	5.1	4.5
GDP deflator	6.2	6.5	8.1	6.3	5.2	6.1	3.5
Consumer prices (average)	8.0	6.3	7.1	5.9	5.2	5.0	4.7
Consumer prices (end of period)	7.6	7.0	6.5	5.5	5.0	4.9	4.5
External sector (on the basis of US$)							
Exports (f.o.b.)	-6.4	-4.1	12.3	24.7	20.3	26.0	13.4
Imports (f.o.b.)	10.6	-1.6	9.8	19.8	26.0	26.8	15.9
Export volume	2.4	-4.4	2.6	6.9	4.8	6.8	6.5
Import volume	12.6	-1.8	2.6	11.6	13.2	24.7	15.7
Terms of trade (deterioration -)	-6.9	0.0	2.2	8.8	3.2	16.1	6.3
Real effective exchange rate (depreciation -)	1.5	-17.4	-5.2	11.4	…	10.9	…
Central administration							
Revenue	20.8	10.1	13.4	16.0	12.5	14.8	16.7
Expenditure	16.7	12.6	6.4	17.4	11.8	10.3	15.5
Money and credit 1/							
Broad money	7.1	2.9	9.6	16.6	17.1	15.8	17.2
Credit to the private sector	1.7	4.0	9.2	12.0	17.4	15.7	15.5
Interest rate (90-day time deposits; percent per year)							
Nominal	11.5	7.7	7.9	7.7	…	…	…
Real	3.6	0.7	1.4	2.2	…	…	…
Broad money (as ratio to net international reserves) 3/	2.9	2.4					
(In percent of GDP)							
Central administration balance	-5.7	-6.4	-4.5	-5.4	-5.5	-4.8	-4.9
Nonfinancial public sector balance	-3.5	-4.2	-3.2	-1.5	-1.4	0.0	-1.5
Nonfinancial public sector savings 1/	4.7	4.1	5.7	4.4	5.0	5.7	5.0
NFPS primary balance	1.5	0.3	1.5	3.2	3.1	4.0	3.2
Public sector balance	-3.2	-3.6	-2.7	-1.3	-1.6	0.0	-1.5
Foreign financing	2.3	0.6	1.0	0.1	-1.0	-2.4	0.3
Domestic financing 2/	0.9	3.1	1.8	1.3	2.6	2.2	1.2
Privatization	0.0	-0.1	-0.1	0.0	-0.1	0.2	0.0
Public debt 3/ 4/	51.8	58.5	54.8	51.9	47.8	47.4	45.9
Gross domestic investment 5/	14.3	15.3	17.2	17.6	19.4	19.2	19.8
Gross national savings	12.9	13.6	15.9	16.7	18.3	17.6	18.5
Current account (deficit -)	-1.3	-1.7	-1.2	-1.0	-1.0	-1.6	-1.3
External debt	47.5	52.6	46.3	37.0	31.2	30.9	30.7
Of which: public sector	28.5	32.1	29.8	24.2	20.3	19.4	19.5
NIR in percent of short-term debt	98.4	106.1	117.5	100.6	139.4	130.4	151.6
(In percent of exports of goods, services, and income)							
External debt service	50.2	64.0	55.8	37.7	45.1	45.0	29.8
Of which: public sector	28.2	37.0	33.0	18.3	29.6	31.0	16.4
Interest payments	16.3	16.8	14.8	11.6	11.3	11.8	10.1
Of which: public sector	10.4	11.3	10.5	8.4	8.2	8.7	7.2
(In millions of U.S. dollars)							
Overall balance of payments	1,217.3	138.2	-183.8	2,541.1	1,940.6	1,728.7	439.9
Net official reserves 4/	9,981.9	10,506.9	10,524.2	13,196.6	15,156.1	14,721.2	15,161.1
Net official reserves (in months of imports of goods and services)	7.8	7.6	6.4	6.4	6.8	6.3	5.9

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

1/ All annual changes in foreign currency stocks valued at constant exchange rate.
2/ Includes the quasi-fiscal balance of Banco de la Republica, sales of assets, phone licenses, and statistical discrepancy.
3/ Includes bonds issued to recapitalize financial institutions.
4/ Program definition. Assumes no purchases under the current SBA arrangement. Includes valuation changes.
5/ Data on fixed capital formation were revised starting in 2003.

Table 2. Colombia: Performance Criteria for 2005–2006 Program 1/

		2005				
	Outturn	Indicative Targets	Performance Criteria			
	Dec. 31, 2004	Mar. 31	Jun. 30	Sept. 30	Dec. 31	
I. Performance Criteria						
Cumulative flows from beginning of calendar year (In billions of Colombian pesos)						
Overall balance of the combined public sector						
Ceiling 2/	…					
Original		-1,485	-1,393	-3,403	-6,890	
Modified		…	…	0	-4,557	
Outturn	-3,447	-1,774	1,959	2,651	-24	
Margin (+) or shortfall (-)	…	-289	3,352	2,651	4,533	
Inflation rate 3/ (12-month inflation rate)						
Inflation—Consultation band						
Upper limit	…	6.5	6.3	6.2	6.0	
Target	…	5.5	5.3	5.2	5.0	
Lower limit	…	4.5	4.3	4.2	4.0	
Outturn	5.5	5.0	4.8	5.0	4.9	√
(In millions of U.S. dollars)						
Net international reserves of the Banco de la República						
Floor	…	12,215	12,215	12,215	12,215	
Outturn	13,195	12,645	13,560	14,881	14,721	√
Margin (+) or shortfall (-)	…	430	1,345	2,666	2,506	
Change in the outstanding stock of short-term external debt of the public sector						
Ceiling	…	200	200	200	200	
Outturn	…	-146	-162	-109	-92	√
Margin (+) or shortfall (-)	…	346	362	309	292	
II. Indicative Targets						
Cumulative net disbursement from beginning of calendar year (In millions of U.S. dollars)						
Net disbursement of foreign currency debt to the public sector						
Ceiling	...	300	-800	-650	-750	
Outturn	…	-1,100	-1,723	-1,895	-2,835	√
Margin (+) or shortfall (-)	…	1,400	923	1,245	2,085	

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

1/ Definitions of concepts and adjustments to the performance criteria are explained in the technical memorandum of understanding (TMU) attached to IMF Country Report No. 05/154.

2/ The indicative ceiling for March 2005 has been adjusted downward by Col$121 billion and the performance criterion for June 2005 has been adjusted downward by Col$121 billion, in accordance with the adjustor explained the TMU attached to IMF Country Report No. 05/154

3/ Deviations from the quarterly path for inflation will trigger consultations with the Fund, as set out in the TMU.

Table 3. Colombia: Operations of the Combined Public Sector 1/

(In percent of GDP)

	2001	2002	2003	2004	2005 Prog.	2005 Proj.	2006 Prog.	2006 Proj
Total revenue	**29.5**	**29.5**	**30.0**	**30.3**	**31.9**	**30.8**	**31.6**	**31.2**
Current revenue	**29.5**	**29.5**	**30.0**	**30.3**	**31.9**	**30.8**	**31.6**	**31.2**
Tax revenue	19.2	19.1	19.5	19.6	21.2	20.1	21.3	20.9
Nontax revenue	10.3	10.4	10.5	10.7	10.6	10.7	10.3	10.2
Financial income	1.3	0.9	1.1	1.5	1.1	1.5	1.1	1.5
Operating surplus of public enterprises	4.2	4.0	4.6	3.4	5.5	3.9	4.9	3.8
Of which : Ecopetrol	2.5	2.3	2.9	3.4	3.5	3.6	3.3	3.7
Other	4.8	5.4	4.8	5.7	4.0	5.3	4.4	4.9
Total expenditure and net lending 2/	**33.2**	**33.5**	**32.5**	**31.5**	**33.4**	**31.0**	**33.7**	**32.7**
Current expenditure	**24.9**	**25.9**	**24.3**	**25.9**	**25.3**	**25.1**	**25.9**	**26.3**
Wages and salaries	7.5	8.0	7.3	7.0	6.9	6.7	6.8	7.0
Goods and services	3.5	3.4	3.3	4.4	3.6	4.3	3.7	4.4
Interest	5.0	4.5	4.7	4.8	4.5	4.0	4.8	4.8
External	2.3	2.1	2.1	1.9	1.6	1.6	1.5	1.5
Domestic	2.8	2.4	2.7	2.8	2.9	2.4	3.3	3.4
Transfers to private sector	9.8	9.8	9.1	7.8	10.8	7.9	10.7	7.9
Of which: from social security	6.5	6.7	6.9	6.9	7.5	6.8	7.6	6.9
Other 3/	-0.9	0.2	-0.1	1.9	-0.4	2.1	0.0	2.1
Capital expenditure	**8.2**	**7.6**	**8.2**	**5.7**	**8.1**	**5.9**	**7.7**	**6.4**
Fixed capital formacition (cash basis)	8.2	7.4	8.1	5.6	8.6	5.8	7.7	6.3
Other (including floating debt) 3/	0.0	0.0	0.1	0.0	-0.5	0.0	0.0	0.0
Transfers	0.1	0.2	0.1	0.1	0.1	0.0	0.1	0.0
Net lending	**0.1**	**0.1**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Statistical discrepancy	0.2	-0.1	-0.3	-0.3	0.1	0.2	0.0	**0.0**
Nonfinancial public sector balance	**-3.5**	**-4.2**	**-3.2**	**-1.5**	**-1.4**	**0.0**	**-2.0**	**-1.5**
Quasi-fiscal balance (BR cash profits)	0.7	0.8	0.6	0.5	0.1	0.2	0.2	0.3
Fogafin balance	0.2	0.3	0.3	0.3	0.1	0.2	0.1	0.1
Net cost of financial restructuring 4/	-0.7	-0.6	-0.4	-0.5	-0.5	-0.4	-0.3	-0.4
Overall balance	**-3.2**	**-3.6**	**-2.7**	**-1.3**	**-1.6**	**0.0**	**-2.0**	**-1.5**
Overall financing	**3.2**	**3.6**	**2.7**	**1.3**	**1.6**	**0.0**	**2.0**	**1.5**
Foreign, net	2.3	0.6	1.0	0.1	-1.0	-2.4	0.6	0.3
Of which								
Changes in assets held abroad (-increase)	-1.9	1.9	-0.7	-0.7	-0.1	-1.4	-1.0	-0.2
Domestic, net	0.9	3.1	1.8	1.3	2.6	2.2	1.4	1.2
Financial system	-1.1	-1.4	-0.6	-1.5	1.2	-0.6	-0.5	0.8
Bonds	2.8	3.9	2.5	2.1	2.1	2.8	1.8	0.6
Change in floating debt and accrual adjustments	-0.7	0.7	-0.2	0.7	-0.8	-0.1	0.0	-0.2
Privatization (including concessions)	0.0	-0.1	-0.1	0.0	-0.1	0.2	0.0	0.0
Memorandum items								
NFPS savings	4.7	4.1	5.7	4.4	6.6	5.7	6.3	4.9
NFPS primary balance	1.5	0.3	1.5	3.2	3.1	4.0	2.7	3.3
NFPS non-oil balance	-5.3	-5.9	-5.2	-3.9	-3.5	-2.9	-4.1	-4.1
NFPS non-oil primary balance	-2.1	-1.4	-0.3	0.8	1.0	1.1	0.7	0.7

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

1/ The information on local governments has been significantly revised starting in 2004, leading to large changes in reported public investment and other nontax revenues and other current spending.

2/ Expenditure reported on commitments basis.

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

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

Table 4. Colombia: Public Debt and Deposits

(In percent of GDP)

	2001	2002	2003	2004	Est. 2005
Total outstanding gross debt 1/	**50.0**	**58.5**	**54.8**	**51.9**	**47.4**
Domestic debt	21.4	26.4	24.9	27.7	28.0
External debt	28.5	32.1	29.8	24.2	19.4
Nonfinancial public sector gross debt	**47.0**	**55.5**	**52.4**	**49.9**	**45.5**
Domestic debt	20.1	25.0	23.6	26.4	26.7
External debt	26.9	30.5	28.8	23.5	18.8
Financial public sector gross debt	**2.9**	**3.0**	**2.4**	**2.0**	**1.9**
Domestic debt	1.3	1.4	1.4	1.3	1.3
External debt	1.6	1.6	1.0	0.7	0.6
Total public sector deposits	**9.3**	**8.2**	**8.7**	**10.4**	**12.4**
Domestic	4.4	4.8	4.9	6.5	7.9
Foreign	4.9	3.4	3.8	3.9	4.5
Nonfinancial public sector deposits	**9.3**	**8.2**	**8.7**	**10.1**	**11.6**
Domestic	4.4	4.8	4.9	6.5	7.8
Foreign	4.9	3.4	3.8	3.6	3.8
Financial public sector deposits	**0.0**	**0.0**	**0.0**	**0.3**	**0.8**
Domestic	0.0	0.0	0.0	0.0	0.0
Foreign	0.0	0.0	0.0	0.3	0.8
Total outstanding net debt 1/	**40.7**	**50.3**	**46.1**	**41.5**	**35.0**
Domestic debt	17.0	21.6	20.0	21.2	20.2
External debt	23.6	28.6	26.0	20.3	14.9
Nonfinancial public sector net debt	**37.7**	**47.2**	**43.7**	**39.9**	**33.9**
Domestic debt	15.7	20.2	18.7	19.9	18.9
External debt	22.1	27.0	25.1	19.9	15.0
Financial public sector net debt	**2.9**	**3.0**	**2.3**	**1.6**	**1.1**
Domestic debt	1.3	1.4	1.4	1.3	1.3
External debt	1.6	1.6	1.0	0.4	-0.1
Memorandum items					
Floating debt	1.7	2.0	1.6	2.3	1.8
GDP (billions of Col$)	188,559	203,451	228,517	254,405	283,848

Sources: Colombian authorities; and Fund staff estimates.

` 1/ Includes floating debt.

Table 5. Colombia: Operations of the Central Government 1/
(In percent of GDP)

	2000	2001	2002	2003	Est. 2004	2005 Est.	2005 Prog.	2006 Proj.	2006 Prog.
Total revenue	**18.7**	**20.3**	**19.7**	**20.8**	**22.0**	**22.0**	**22.4**	**23.2**	**22.5**
Current revenue	**18.5**	**20.3**	**19.7**	**20.7**	**21.6**	**21.7**	**21.9**	**23.2**	**22.2**
Tax revenue	14.6	16.5	16.4	16.9	17.7	17.4	18.4	18.5	18.2
Nontax revenue	3.2	3.0	2.6	3.2	3.4	3.2	3.0	3.3	3.5
Property income	0.8	1.1	0.7	0.9	0.9	1.2	1.0	1.2	1.0
Other	2.4	1.9	1.8	2.3	2.6	1.9	2.0	2.1	2.5
Current transfer receipts	0.7	0.8	0.8	0.6	0.5	1.2	0.5	1.4	0.5
Local government	0.0	0.0	0.0	0.0	0.0	0.7	0.0	0.7	0.0
Local enterprises	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Local nonfinancial public sector	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
National enterprises	0.7	0.7	0.8	0.6	0.5	0.5	0.5	0.7	0.5
Private sector	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital revenue	**0.2**	**0.0**	**0.0**	**0.1**	**0.4**	**0.3**	**0.5**	**0.0**	**0.3**
Sale of fixed assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital transfer receipts	0.2	0.0	0.0	0.1	0.4	0.3	0.5	0.0	0.3
Local government	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Local enterprises	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Local nonfinancial public sector	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
National enterprises	0.2	0.0	0.0	0.1	0.4	0.3	0.5	0.0	0.3
Private sector	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total expenditure and net lending	**23.0**	**25.1**	**25.3**	**24.5**	**25.7**	**24.6**	**25.4**	**26.3**	**25.9**
Current expenditure	**19.1**	**20.4**	**22.0**	**20.6**	**21.8**	**20.8**	**21.8**	**22.3**	**22.5**
Wages and salaries	3.4	3.5	3.4	3.2	3.0	2.7	3.1	2.9	3.0
Goods and services	2.2	2.4	2.2	2.3	2.3	2.1	2.6	2.4	2.6
Interest	3.0	3.7	3.5	3.9	3.8	3.5	3.9	4.2	3.9
External	1.2	1.7	1.7	1.8	1.6	1.5	1.5	1.3	1.4
Domestic	1.8	1.9	1.7	2.1	2.2	2.0	2.5	2.9	2.5
Transfers to	10.6	11.7	12.3	11.7	12.2	12.4	12.6	12.8	13.0
Local government	3.0	3.4	4.0	3.5	3.4	3.3	3.4	3.3	3.4
Local enterprises	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Local nonfinancial public sector	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
National enterprises	0.0	0.0	0.2	0.1	0.1	0.0	-0.1	0.0	0.3
Private sector	7.7	8.3	8.0	8.1	8.8	9.1	9.3	9.5	9.4
Other current expenditure	-0.1	-0.9	0.6	-0.5	0.5	0.0	-0.4	0.0	0.0
Capital expenditure	**3.4**	**4.2**	**3.0**	**3.5**	**3.8**	**3.9**	**3.5**	**4.2**	**3.2**
Fixed capital formation	1.6	2.1	1.9	1.8	2.1	2.4	1.8	2.7	1.5
Transfers to	1.8	2.2	1.1	1.8	1.7	1.6	1.7	1.5	1.7
Local government	1.7	1.9	1.0	1.6	1.5	1.5	1.5	1.5	1.5
Local enterprises	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Local nonfinancial public sector	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
National enterprises	0.1	0.2	0.0	0.1	0.1	0.0	0.1	0.0	0.1
Private sector	0.1	0.1	0.0	0.1	0.1	0.0	0.0	0.0	0.1
Net lending	**0.4**	**0.5**	**0.4**	**0.4**	**0.1**	**-0.1**	**0.2**	**-0.2**	**0.1**
Overall balance	**-4.3**	**-4.8**	**-5.6**	**-3.7**	**-3.7**	**-2.6**	**-3.0**	**-3.1**	**-3.5**

Sources: Colombian authorities; and Fund staff estimates.

1/ Includes the central administration, social security, and national decentralized agencies.

Table 6. Colombia: Operations of the Central Administration

(In percent of GDP)

					2005		2006	
	2001	2002	2003	2004	Est.	Prog.	Proj.	Prog.
Total revenue	**14.7**	**15.0**	**13.3**	**15.5**	**16.1**	**16.0**	**17.4**	**16.3**
Current revenue	**14.7**	**15.0**	**13.3**	**15.5**	**16.1**	**16.0**	**17.4**	**16.3**
Tax revenue 1/	13.2	13.4	12.1	14.2	14.9	14.9	15.8	15.2
Net income tax and profits	5.3	5.3	4.5	6.1	6.1	6.1	6.9	6.1
Goods and services	5.9	5.8	5.5	6.2	6.5	6.6	6.6	6.8
Value-added tax	5.3	5.3	5.1	5.8	6.1	6.1	6.2	6.3
Gasoline tax	0.6	0.5	0.4	0.4	0.4	0.5	0.4	0.4
International trade	1.1	1.0	0.8	0.9	1.0	1.0	1.0	1.0
Financial transaction tax	0.8	0.7	0.6	0.9	0.8	0.9	0.8	0.9
Stamp and other taxes	0.0	0.7	0.7	0.2	0.4	0.4	0.5	0.4
Nontax revenue	1.5	1.6	1.2	1.2	1.2	1.1	1.6	1.2
Property income	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2
Other	1.2	1.3	1.0	1.1	1.1	0.9	1.5	1.0
Total expenditure and net lending	**20.4**	**21.4**	**17.8**	**20.9**	**21.0**	**21.5**	**22.4**	**22.1**
Current expenditure	**15.8**	**18.2**	**14.7**	**17.5**	**17.9**	**18.3**	**19.0**	**18.9**
Wages and salaries	3.0	3.0	2.6	2.8	2.5	2.8	2.6	2.7
Goods and services	1.5	1.5	1.3	1.4	1.5	1.5	1.6	1.6
Interest	3.5	3.5	3.5	3.8	3.6	3.9	4.6	4.6
External	1.6	1.7	1.6	1.6	1.5	1.4	1.3	1.5
Domestic	1.9	1.7	1.8	2.2	2.1	2.5	3.2	3.0
Other expenditure 2/	-0.9	0.7	-0.5	0.5	0.0	-0.4	0.0	0.0
Current transfers 3/	8.6	9.5	7.8	9.1	10.2	10.4	10.2	10.2
Capital expenditure	**3.8**	**2.5**	**2.7**	**3.3**	**3.0**	**3.1**	**3.2**	**3.1**
Fixed capital formation 2/	1.3	1.3	1.0	1.4	1.1	1.1	1.8	1.1
Capital transfers	2.5	1.2	1.7	1.9	1.9	2.0	1.5	2.0
Net lending	**0.8**	**0.6**	**0.3**	**0.1**	**0.1**	**0.2**	**0.2**	**0.1**
Overall balance	**-5.7**	**-6.4**	**-4.5**	**-5.4**	**-4.8**	**-5.5**	**-4.9**	**-5.8**
Memorandum items:								
Primary Balance	-2.2	-2.9	-1.0	-1.6	-1.2	-1.6	-0.4	-1.2

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

1/ Excludes proceeds of financial transaction tax in 1999 from revenue and expenditure.
2/ Includes change in the budget carryover. A negative number corrects for current cash payments of expenditures incurred in previous periods.
3/ Includes interest payment to the rest of the nonfinancial public sector.

Table 7. Colombia: Monetary Indicators

	2001	2002	2003	2004	2005 Prog.	2005 Est.	Proj. 2006
(In billions of Colombian pesos, unless otherwise indicated)							
Central bank							
Net international reserves 1/	23,027	29,576	29,544	31,537	34,888	33,627	36,465
billions of US$	10.0	10.5	10.5	13.2	15.2	14.7	15.2
Net domestic assets	-11,379	-15,471	-12,929	-12,277	-11,680	-10,823	-9,747
Net credit to public sector	1,675	2,101	2,866	-199	-1,205	-1,595	-2,016
TES	2,016	2,363	3,193	975	3,846	2,594	n.a
Other, including deposits and REPOs	-341	-263	-327	-1,174	-5,051	-4,189	n.a
Net credit to financial system	1,907	3,173	4,656	3,479	3,827	4,915	5,320
Other	-14,961	-20,745	-20,451	-15,557	-14,301	-14,143	-13,051
Monetary base	11,648	14,105	16,615	19,260	23,209	22,804	26,718
Currency in circulation	8,349	10,014	12,007	13,836	16,742	16,308	19,107
Banking system reserves	3,299	4,091	4,608	5,424	6,467	6,496	7,611
Banking system							
Net foreign assets	21,498	27,012	28,714	29,163	30,542	31,528	35,897
Billions of US$	9.3	9.6	10.2	12.2	13.3	13.8	14.9
Net domestic assets	37,401	33,594	37,731	48,317	60,140	58,176	69,205
Net credit to public sector	11,452	13,020	14,277	13,968	14,354	15,354	15,167
Credit to private sector	46,049	47,891	52,287	58,581	68,762	67,760	78,272
Other net	-20,100	-27,317	-28,833	-24,231	-22,976	-24,937	-24,234
Broad money 2/	58,899	60,606	66,445	77,480	90,682	89,704	105,102
(Annual percentage change)							
Credit to public sector, net	4.5	13.7	9.7	-2.2	2.8	9.9	-1.2
Credit to private sector	1.7	4.0	9.2	12.0	17.4	15.7	15.5
Currency	14.8	19.9	19.9	15.2	21.0	17.9	17.2
Monetary base	8.8	21.1	17.8	15.9	20.5	18.4	17.2
Broad money 2/	7.1	2.9	9.6	16.6	17.0	15.8	17.2
(In percent of GDP)							
Credit to public sector, net	6.1	6.4	6.2	5.5	5.1	5.4	4.9
Credit to private sector	24.4	23.5	22.9	22.9	24.5	23.9	25.5
Currency	4.4	4.9	5.3	5.4	6.0	5.7	6.2
Monetary base	6.2	6.9	7.3	7.5	8.3	8.0	8.7
Broad money	31.2	29.8	29.1	30.3	32.3	31.6	34.2
(Annual percentage change)							
Central bank inflation target	8.0	6.0	5.9	5.5	4.5-5.5	4.5-5.5	3-5
Consumer price index	7.6	7.0	6.5	5.5	5.0	5.0	4.5
Exchange rate (+ depreciation)	2.7	20.0	-3.1	-16.3	...	-4.6	...

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

1/ Assets on and liabilities to nonresident entities.

2/ Currency in circulation plus deposit liabilities of the private sector.

Table 8. Colombia: Summary Balance of Payments, 2001–2006

	2001	2002	2003	2004	2005 Prog.	2005 Est.	Proj. 2006
	(In millions of U.S. dollars)						
Current account balance	**-1,089**	**-1,359**	**-974**	**-938**	**-1,263**	**-1,930**	**-1,694**
Trade balance	579	238	555	1,346	739	1,594	1,306
Exports, f.o.b.	12,848	12,315	13,812	17,224	20,744	21,727	24,632
Coffee	764	772	809	949	1,460	1,471	1,407
Petroleum products	3,285	3,275	3,383	4,227	4,987	5,559	7,446
Non-traditional	6,613	6,287	6,234	8,149	9,539	9,860	10,590
Other	2,186	1,981	3,385	3,898	4,758	4,837	5,190
Imports, f.o.b.	12,269	12,077	13,258	15,878	20,004	20,132	23,327
Services (net)	-1,412	-1,435	-1,439	-1,679	-1,817	-2,089	-1,949
Income (net)	-2,610	-2,867	-3,398	-4,332	-3,984	-5,525	-5,032
Interest (net)	-1,733	-1,898	-1,996	-1,998	-1,766	-2,052	-1,384
Of which : public sector	-1,082	-1,256	-1,447	-1,476	-1,371	-1,591	-1,063
Other Income (net)	-877	-969	-1,402	-2,334	-2,218	-3,473	-3,648
Current transfers (net)	2,354	2,706	3,309	3,727	3,799	4,089	3,982
Financial account balance	**2,458**	**1,304**	**703**	**3,192**	**3,204**	**3,334**	**2,133**
Public sector (net)	1,435	349	378	-36	-1,157	-2,730	223
Nonfinancial public sector	2,010	490	619	472	-1,088	-2,131	1,186
Medium- and long-term (net)	3,462	-1,093	1,457	912	-840	-1,187	659
Disbursements	5,743	2,469	4,915	2,890	4,138	4,312	2,837
Amortization	2,281	3,561	3,459	1,977	4,978	5,499	2,178
Other long-term flows	-35	-29	-29	-50	-29	-47	-29
Short term 1/	-1,418	1,612	-809	-390	-219	-897	556
Of which : change in public assets	-1,534	1,567	-582	-727	-101	-849	556
Financial public sector	-575	-141	-241	-508	-69	-599	-963
Private sector (net)	1,023	956	325	3,229	4,361	6,064	1,910
Nonfinancial private sector (net)	1,054	1,130	766	2,693	4,015	6,240	1,844
Direct investment	2,509	1,283	820	2,975	3,280	5,569	3,833
Leasing finance	-211	-160	-319	-66	-60	32	-165
Long-term loans	126	-970	-726	-1,162	-903	-700	-382
Short term 2/	-1,369	976	990	946	1,698	1,339	-1,442
Financial private sector (net)	-31	-174	-441	536	346	-176	66
Net errors and omissions	**-152**	**193**	**87**	**287**	**0**	**325**	**0**
Changes in GIR 3/	**1,217**	**138**	**-184**	**2,541**	**1,941**	**1,729**	**440**
Changes in NIR, program definition 3/	**1,182**	**525**	**17**	**2,672**	**1,960**	**1,525**	**440**
	(In percent of GDP)						
Current account balance	-1.3	-1.7	-1.2	-1.0	-1.0	-1.6	-1.3
	(In months of imports of goods and services)						
Gross international reserves 4/	8.0	7.8	6.6	6.5	6.8	6.4	6.0

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

1/ Includes movements of short-term assets owned by the public sector abroad.
2/ Includes net portfolio investment.
3/ Does not include valuation changes of reserves denominated in other currencies than U.S. dollars.
4/ Not including Fund purchases under the Stand-By Arrangement.

Table 9. Colombia: Medium-Term Outlook

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
I. Output and Prices											
(Annual percentage changes)											
Real GDP	1.5	1.9	3.9	4.8	5.1	4.5	4.0	4.0	4.0	4.0	4.0
Consumer prices											
End of period	7.6	7.0	6.5	5.5	4.9	4.5	4.0	3.5	3.0	3.0	3.0
(In percent of GDP, unless otherwise indicated)											
II. Saving and Investment											
Gross national savings	12.9	13.6	15.9	16.7	17.6	18.5	18.4	18.6	19.4	20.5	21.1
Private sector	7.9	9.7	10.5	12.3	11.8	13.7	13.9	13.4	13.7	14.7	15.0
Public sector	5.0	4.0	5.4	4.3	5.8	4.9	4.5	5.2	5.7	5.8	6.1
Gross domestic investment	14.3	15.3	17.2	17.6	19.2	19.8	21.0	21.6	22.2	22.9	23.5
Private sector	6.0	7.7	9.0	12.0	13.4	13.4	14.9	15.2	15.8	16.5	17.1
Public sector capital expenditure	8.2	7.6	8.2	5.7	5.8	6.4	6.1	6.4	6.4	6.4	6.4
External current account balance	-1.3	-1.7	-1.2	-1.0	-1.6	-1.3	-2.6	-3.0	-2.8	-2.4	-2.4
III. Nonfinancial and Consolidated Public Sector											
Nonfinancial public sector											
Revenue	29.5	29.5	30.0	30.3	30.8	31.2	30.1	30.1	30.0	30.1	29.9
Expenditure	33.2	33.5	32.5	31.5	30.9	32.7	31.8	31.2	30.7	30.7	30.3
Current expenditure	24.9	25.9	24.3	25.9	25.1	26.3	25.6	24.8	24.3	24.3	23.9
Capital expenditure	8.2	7.6	8.2	5.7	5.8	6.4	6.1	6.4	6.4	6.4	6.4
Primary balance	1.5	0.3	1.5	3.2	4.0	3.2	2.7	2.7	2.7	2.7	2.7
Overall balance	-3.5	-4.2	-3.2	-1.5	0.0	-1.5	-1.6	-1.2	-0.7	-0.6	-0.4
Combined public sector balance	-3.2	-3.6	-2.7	-1.3	0.0	-1.5	-1.7	-1.2	-0.7	-0.6	-0.3
External financing	2.3	0.6	1.0	0.1	-2.4	0.3	0.4	0.2	0.3	0.4	0.4
Domestic financing	0.9	3.1	1.8	1.3	2.2	1.2	1.3	1.0	0.5	0.3	0.0
IV. Financial System											
Velocity (GDP/broad money)	3.2	3.4	3.4	3.3	3.2	2.9	3.1	3.2	3.2	3.2	3.2
Real growth in private sector credit	-5.8	-2.2	1.9	5.8	10.1	10.3	4.0	4.0	4.0	4.0	4.0
V. Balance of Payments											
External current account balance	-1.3	-1.7	-1.2	-1.0	-1.6	-1.3	-2.6	-3.0	-2.8	-2.4	-2.4
Trade balance	0.7	0.3	0.7	1.4	1.3	1.0	-0.6	-1.4	-1.3	-1.1	-1.1
Exports	15.7	15.2	17.4	17.8	17.8	18.8	18.5	18.0	18.4	19.4	19.9
Imports	15.0	14.9	16.7	16.4	16.5	17.8	19.2	19.4	19.7	20.4	21.0
Capital and financial account balance	3.0	1.6	0.9	3.3	2.7	1.6	3.0	3.4	3.2	2.9	2.9
Public sector	1.7	0.4	0.5	0.0	-2.2	0.2	0.4	0.3	0.3	0.4	0.4
Private sector	1.2	1.1	0.5	3.4	5.0	1.5	2.5	3.1	2.9	2.6	2.5
Overall balance	1.5	0.2	-0.2	2.6	1.4	0.3	0.3	0.4	0.4	0.5	0.5
VI. Debt											
Total external debt	47.5	52.6	46.3	37.0	30.9	30.7	30.7	29.8	28.8	27.9	26.9
Public debt	28.5	32.1	29.8	24.2	19.4	19.5	20.1	20.0	19.6	19.0	18.4
Private debt	19.0	20.5	16.5	12.8	11.5	11.2	10.6	9.8	9.3	9.0	8.4
Total public debt	50.0	58.5	54.8	51.9	47.4	45.9	45.2	44.1	42.3	40.8	39.3
Domestic debt	21.4	26.4	24.9	27.7	28.0	26.3	25.1	24.1	22.8	21.8	20.8
External debt	28.5	32.1	29.8	24.2	19.4	19.5	20.1	20.0	19.6	19.0	18.4
Memorandum items											
Nominal GDP (billions of Col$)	188,559	203,451	228,517	254,405	283,848	307,090	331,446	357,133	383,248	409,821	438,237
Risk Premium	602	645	430	400	300	300	300	300	300	300	300
US LIBOR	3.7	1.9	1.2	1.8	3.8	5.0	5.1	5.1	5.1	5.1	5.1
Crude oil, spot price	24.3	25.0	28.9	37.8	53.4	68.0	71.0	69.5	68.3	67.0	66.0

Sources: Colombian authorities; and Fund staff estimates.

Table 10. Colombia: External Debt Sustainability Framework, 2001-2011
(In percent of GDP, unless otherwise indicated)

	Actual							Projections							
	2001	2002	2003	2004	2005			2006	2007	2008	2009	2010	2011		
								I. Baseline Projections							**Debt-stabilizing non-interest current account 6/**
1 **External debt**	47.5	52.6	46.3	37.0	30.9			**30.7**	**30.7**	**29.8**	**28.8**	**27.9**	**26.9**		**-2.3**
2 Change in external debt	1.5	5.1	-6.3	-9.3	-6.1			-0.2	0.0	-0.9	-1.0	-0.9	-1.1	0.0	
3 Identified external debt-creating flows (4+8+9)	-3.9	7.7	-7.0	-12.4	-8.2			-2.5	-2.0	-2.0	-1.9	-1.8	-1.7	0.0	
4 Current account deficit, excluding interest payments	-2.1	-1.6	-1.6	-1.5	-0.7			-0.8	0.7	1.1	0.9	0.6	0.6	2.3	
5 Deficit in balance of goods and services	1.0	1.7	1.1	0.3	0.4			0.5	2.2	3.0	2.9	2.7	-4.0		
6 Exports	18.3	20.0	19.1	18.3	19.6			21.4	20.7	20.0	20.3	21.2	21.8		
7 Imports	19.3	21.7	20.2	18.6	20.0			21.9	22.9	23.0	23.3	24.0	17.8		
8 Net non-debt creating capital inflows (negative)	-3.0	-1.8	-1.0	-2.8	-4.5			-3.0	-2.9	-3.2	-2.9	-2.6	-2.5	-2.5	
9 Automatic debt dynamics 1/	1.2	11.1	-4.3	-8.1	-3.1			1.2	0.2	0.1	0.1	0.2	0.2	0.2	
10 Contribution from nominal interest rate	3.4	3.5	2.9	2.4	2.2			2.1	1.9	1.9	1.9	1.9	1.8	1.7	
11 Contribution from real GDP growth	-0.6	-1.1	-1.8	-1.7	-1.6			-1.4	-1.2	-1.2	-1.1	-1.1	-1.1	-1.0	
12 Contribution from price and exchange rate changes 2/	-1.5	8.6	-5.4	-8.8	-3.7			0.5	-0.6	-0.6	-0.6	-0.6	-0.6	-0.5	
13 Residual, incl. change in gross foreign assets (2-3)	5.3	-2.6	0.7	3.2	2.1			2.3	2.0	1.1	0.9	0.9	0.6	0.0	
External debt-to-exports ratio (in percent)	260.1	263.3	241.7	201.8	157.4			143.7	148.3	149.0	141.7	131.6	123.6		
Gross external financing need (in billions of US dollars) 3/	8.9	11.5	11.0	11.2	16.2			14.0	15.0	17.1	17.6	18.8	19.5		
in percent of GDP	10.9	16.2	13.4	10.5	13.0			11.0	11.1	11.9	11.5	11.6	11.4		
Key Macroeconomic Assumptions						10-Year Historical Average	10-Year Standard Deviation							For debt stabilization	Projected Average
Real GDP growth (in percent)	1.5	1.9	3.9	4.8	5.1	2.2	2.7	4.5	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Exchange rate appreciation (US dollar value of local currency, change in percent)	-2.7	-20.0	3.1	16.3	4.6	-7.2	13.0	-5.0	-1.9	-1.4	-1.0	-0.8	-0.8	-0.8	-1.2
GDP deflator in US dollars (change in percent)	3.4	-15.3	11.5	23.5	11.0	2.3	12.8	-1.7	1.8	2.1	2.1	2.0	2.0	2.0	2.0
Nominal external interest rate (in percent)	7.7	6.4	6.3	6.7	7.0	7.0	0.5	7.0	6.6	6.7	6.7	6.9	6.8	6.8	6.8
Growth of exports (US dollar terms, in percent)	-4.6	-5.7	11.0	24.0	24.9	7.6	11.2	11.9	2.6	2.7	7.9	10.7	8.7		6.5
Growth of imports (US dollar terms, in percent)	10.2	-3.1	8.1	19.2	25.5	10.0	38.7	12.2	11.0	6.7	7.4	9.2	-21.2		2.6
Current account balance, excluding interest payments	2.1	1.6	1.6	1.5	0.7	0.7	2.7	0.8	-0.7	-1.1	-0.9	-0.6	-0.6		-0.8
Net non-debt creating capital inflows	3.0	1.8	1.0	2.8	4.5	2.8	1.2	3.0	2.9	3.2	2.9	2.6	2.5		2.8
								II. Stress Tests for External Debt Ratio							**Debt-stabilizing non-interest current account 6/**
A. Alternative Scenarios															
A1. Key variables are at their historical averages in 2006-10 4/								**30.7**	**30.0**	**28.4**	**26.5**	**24.7**	**22.4**		**-2.2**
B. Bound Tests															
B1. Nominal interest rate is at baseline plus one-half standard deviation								**30.7**	**30.8**	**30.0**	**29.0**	**28.2**	**27.3**		**-2.2**
B2. Real GDP growth is at baseline minus one-half standard deviations								**30.7**	**31.1**	**30.6**	**29.9**	**29.3**	**28.5**		**-2.1**
B3. Non-interest current account is at baseline minus one-half standard deviations								**30.7**	**32.1**	**32.6**	**32.9**	**33.4**	**33.7**		**-2.3**
B4. Combination of B1-B3 using 1/4 standard deviation shocks								**30.7**	**31.6**	**31.6**	**31.5**	**31.5**	**31.4**		**-2.1**
B5. One time 30 percent real depreciation in 2007								**30.7**	**40.7**	**39.1**	**37.5**	**36.1**	**34.4**		**-3.1**

1/ Derived as [r - g - ρ(1+g) + εα(1+r)]/(1+g+ρ+gρ) times previous period debt stock, with r = nominal effective interest rate on external debt; ρ = 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 [-ρ(1+g) + εα(1+r)]/(1+g+ρ+gρ) times previous period debt stock. ρ increases with an appreciating domestic currency (ε > 0) and rising inflation (based on GDP deflator).
3/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.
4/ 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.
5/ The implied change in other key variables under this scenario is discussed in the text.
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.

Table 11. Colombia: Public Sector Debt Sustainability Framework, 2001-2011
(In percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2001	2002	2003	2004	2005			2006	2007	2008	2009	2010	2011	
								I. Baseline Projections						**Debt-stabilizing primary balance 10/**
1 **Public sector debt 1/**	51.8	58.5	54.8	51.9	47.4			**45.9**	**45.2**	**44.1**	**42.3**	**40.8**	**39.3**	**0.7**
o/w foreign-currency denominated	28.5	32.1	29.8	24.2	19.4			19.5	20.1	20.0	19.6	19.0	18.4	
2 Change in public sector debt	4.0	6.7	-3.7	-2.8	-4.5			-1.5	-0.7	-1.1	-1.8	-1.6	-1.5	
3 Identified debt-creating flows (4+7+12)	0.9	7.4	-4.8	-8.3	-6.4			-1.8	-0.9	-1.6	-2.0	-1.9	-2.0	
4 Primary deficit	-1.3	-0.5	-2.2	-3.5	-3.8			-3.2	-2.7	-2.7	-2.7	-2.7	-2.7	
5 Revenue and grants	29.5	29.5	30.0	30.4	30.8			31.2	30.1	30.1	30.0	30.1	29.9	
6 Primary (noninterest) expenditure	28.2	29.0	27.8	26.9	27.0			27.9	27.4	27.4	27.2	27.4	27.1	
7 Automatic debt dynamics 2/	2.3	7.8	-2.6	-4.8	-2.4			1.4	1.8	1.1	0.8	0.8	0.7	
8 Contribution from interest rate/growth differential 3/	1.6	0.7	-1.7	-0.8	-1.4			1.2	1.1	0.7	0.5	0.6	0.5	
9 Of which contribution from real interest rate	2.2	1.6	0.3	1.6	1.0			3.2	2.8	2.4	2.1	2.2	2.0	
10 Of which contribution from real GDP growth	-0.7	-0.9	-2.0	-2.3	-2.4			-2.0	-1.7	-1.7	-1.6	-1.6	-1.5	
11 Contribution from exchange rate depreciation 4/	0.7	7.1	-0.9	-4.0	-1.0			0.2	0.7	0.3	0.3	0.2	0.2	
12 Other identified debt-creating flows	0.0	0.1	0.1	0.0	-0.2			0.0	0.0	0.0	0.0	0.0	0.0	
13 Privatization receipts (negative)	0.0	0.1	0.1	0.0	-0.2			0.0	0.0	0.0	0.0	0.0	0.0	
14 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	
15 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	
16 Residual, including asset changes (2-3)	3.1	-0.7	1.0	5.5	2.0			0.3	0.2	0.6	0.2	0.3	0.5	
Public sector debt-to-revenue ratio 1/	175.4	198.3	182.7	170.6	154.0			147.1	150.1	146.7	141.2	135.5	131.4	
Gross financing need 5/	6.3	8.4	7.6	3.6	4.8			4.0	3.8	3.3	2.9	2.8	2.4	
in billions of U.S. dollars	5.1	6.8	6.0	3.5	5.9			5.2	5.2	4.8	4.4	4.5	4.2	
Key Macroeconomic and Fiscal Assumptions						10-Year Historical Average	10-Year Standard Deviation							Projected Average
Real GDP growth (in percent)	1.5	1.9	3.9	4.8	5.1	2.2	2.7	4.5	4.0	4.0	4.0	4.0	4.0	4.0
Average nominal interest rate on public debt (in percent) 6/	11.3	9.4	9.1	9.7	8.6	11.0	1.7	11.0	10.5	9.4	8.5	8.4	8.3	9.0
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	5.1	3.5	0.9	3.5	2.4	0.4	3.4	7.4	6.7	5.8	5.3	5.6	5.5	5.8
Nominal appreciation (increase in US dollar value of local currency, in percent)	-2.7	-20.0	3.1	16.3	4.6	-7.3	12.9	-1.0	-3.5	-1.7	-1.2	-0.9	-0.8	-1.6
Inflation rate (GDP deflator, in percent)	6.2	5.9	8.1	6.3	6.1	10.6	4.6	3.5	3.8	3.6	3.2	2.8	2.8	3.2
Growth of real primary spending (deflated by GDP deflator, in percent)	5.5	5.1	-0.7	1.5	5.4	3.4	6.0	8.2	2.2	3.7	3.6	4.6	3.0	3.4
Primary deficit	-1.3	-0.5	-2.2	-3.5	-3.8	-0.8	2.0	-3.3	-2.7	-2.7	-2.7	-2.7	-2.7	-2.7
								II. Stress Tests for Public Debt Ratio						**Debt-stabilizing primary balance 10/**
A. Alternative Scenarios														
A1. Key variables are at their historical averages in 2006-10 7/								**45.9**	**45.2**	**44.5**	**43.4**	**42.4**	**41.6**	**-0.6**
A2. No policy change (constant primary balance) in 2006-10								**45.9**	**44.6**	**43.0**	**40.6**	**38.4**	**36.4**	**0.6**
B. Bound Tests														
B1. Real interest rate is at baseline plus one standard deviations								**45.9**	**45.9**	**45.6**	**44.6**	**43.8**	**43.0**	**1.4**
B2. Real GDP growth is at baseline minus one-half standard deviation								**45.9**	**46.2**	**46.5**	**46.4**	**47.0**	**48.1**	**1.5**
B3. Primary balance is at baseline minus one-half standard deviation								**45.9**	**46.2**	**46.1**	**45.4**	**44.9**	**44.4**	**0.8**
B4. Combination of B1-B3 using one-quarter standard deviation shocks								**45.9**	**46.4**	**46.5**	**46.0**	**45.6**	**45.4**	**1.4**
B5. One time 30 percent real depreciation in 2006 9/								**45.9**	**51.6**	**50.7**	**49.0**	**47.6**	**46.2**	**0.8**
B6. 10 percent of GDP increase in other debt-creating flows in 2006								**45.9**	**55.2**	**54.4**	**52.7**	**51.4**	**50.0**	**0.8**

1/ Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.
2/ 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).
3/ 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.
4/ The exchange rate contribution is derived from the numerator in footnote 2/ as $\alpha\varepsilon(1+r)$.
5/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.
6/ Derived as nominal interest expenditure divided by previous period debt stock.
7/ The key variables include real GDP growth; real interest rate; and primary balance in percent of GDP.
8/ The implied change in other key variables under this scenario is discussed in the text.
9/ Real depreciation is defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).
10/ 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 12. Colombia: External Financing Requirements and Sources, 2001–2006
(In millions of U.S. dollars)

	2001	2002	2003	2004	Est. 2005	Proj. 2006
1. Gross financing requirements	**10,809**	**12,012**	**10,836**	**13,990**	**17,933**	**13,944**
External current account deficit	1,089	1,359	974	938	1,930	1,694
Debt amortization	8,503	10,515	10,046	10,510	14,274	11,811
Medium and long term debt	5,380	7,023	6,681	5,599	8,227	5,243
Public sector	2,824	3,821	3,670	2,122	5,544	2,464
Private sector	2,556	3,202	3,011	3,476	2,683	2,779
Short-term debt 1/	3,122	3,492	3,365	4,911	6,047	6,568
Public sector	320	429	224	391	399	332
Private sector	2,802	3,063	3,141	4,521	5,648	6,236
Gross reserves accumulation	1,217	138	-184	2,541	1,729	440
2. Available financing	**10,809**	**12,012**	**10,836**	**13,990**	**17,933**	**13,944**
Foreign direct investment (net)	2,509	1,283	820	2,975	5,569	3,833
Medium and long-term debt disbursements	7,904	4,239	6,485	4,852	6,104	4,733
Public sector	5,763	2,518	4,934	2,905	4,323	2,910
Private sector	2,141	1,720	1,551	1,947	1,781	1,823
Public sector use of external assets	-1,534	1,567	-582	-727	-849	556
Short-term debt 2/	3,122	3,492	3,365	4,911	6,047	6,568
Public sector	320	429	224	391	399	332
Private sector	2,802	3,063	3,141	4,521	5,648	6,236
Other capital flows (net) 3/	-1,193	1,431	748	1,979	1,062	-1,746
Exceptional financing and arrears	0	0	0	0	0	0
Of which: IMF 4/	0	0	0	0	0	0
3. Financing gap	**0**	**0**	**0**	**0**	**0**	**0**
Memorandum items (in stocks):						
Gross international reserves	10,245	10,844	10,921	13,540	14,957	15,396
Net international reserves (traditional concept) 5/	10,192	10,841	10,916	13,536	14,947	15,387
Net international reserves (program definition) 6/	9,982	10,507	10,524	13,197	14,721	15,161

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/ Original maturity of less than 1 year. Stock at the end of the current period.
3/ Includes all other net financial flows, and errors and omissions.
4/ Assumes no purchases under the Stand-by Arrangement.
5/ The traditional balance of payments concept of net international reserves, which excludes central bank short term foreign liabilities and liabilities to the Fund.
6/ In contrast to the traditional concept, foreign currency liabilities of the central bank to residents are excluded (among other things). A complete definition is given in the Technical Memorandum of Understanding (Attachment II of IMF Country Report No. 05/154).

Table 13. Colombia: Schedule of Purchases Under the SBA, 2005–06

Date	Amount (In millions of SDR)	Amount (In percent of quota)	Conditions
May 2, 2005	193.50	25.0	Board approval.
September 15, 2005	42.30	5.5	Observance of end-June 2005 performance criteria and completion of first review.
December 15, 2005	42.30	5.5	Observance of end-September 2005 performance criteria.
March 15, 2006	42.30	5.5	Observance of end-December 2005 performance criteria and completion of second review.
October 15, 2006	84.60	10.9	Observance of end-June 2006 performance criteria and completion of third review.
Total	**405.00**	**52.3**	

Source: Fund staff estimates.

Table 14. Colombia: Indicators of Capacity to Repay the Fund, 2005–11 1/

	2005	2006	2007	2008	2009	2010	2011
Fund repurchases and charges							
In millions of SDRs	0.0	12.0	17.2	17.2	141.5	211.5	78.6
In millions of U.S. dollars	0.0	17.2	24.7	24.7	203.1	303.3	112.6
In percent of exports of goods and NFS	0.0	0.1	0.1	0.1	0.7	0.9	0.3
In percent of GDP	0.0	0.0	0.0	0.0	0.1	0.2	0.1
In percent of quota	0.0	1.6	2.2	2.2	18.3	27.3	10.1
In percent of overall debt service	0.0	0.1	0.2	0.2	1.3	1.7	0.6
In percent of gross foreign reserves	0.0	0.1	0.1	0.1	1.2	1.7	0.6
Fund credit outstanding							
In millions of SDRs	0.0	405.0	405.0	405.0	279.6	77.1	0.0
In millions of U.S. dollars	0.0	580.1	580.6	581.1	401.1	110.5	0.0
In percent of exports of goods and NFS	0.0	2.1	2.1	2.0	1.3	0.3	0.0
In percent of GDP	0.0	0.4	0.4	0.4	0.3	0.1	0.0
In percent of quota	0.0	52.3	52.3	52.3	36.1	10.0	0.0
In percent of overall debt service	0.0	4.0	4.2	3.8	2.5	0.6	0.0
In percent of gross foreign reserves	0.0	3.6	3.5	3.4	2.3	0.6	0.0
(In millions of U.S. dollars; unless otherwise stated)							
Memorandum items							
Exports of goods and NFS	24,392	27,284	28,003	28,760	31,022	34,353	37,335
Quota (millions of SDRs)	774	774	774	774	774	774	775
GDP	122,269	130,972	136,481	144,612	153,278	162,411	172,315
U.S. dollar per SDR (WEO projection)	1.48	1.43	1.43	1.43	1.43	1.43	1.43
Public sector external debt	24,125	24,939	27,164	28,779	29,825	30,703	31,666
Overall external debt service	16,584	14,580	13,727	15,240	15,874	17,556	18,128
Overall external debt	38,297	37,187	38,937	40,463	41,501	42,376	43,432
Gross foreign reserves	14,927	15,947	16,492	17,062	17,558	18,059	18,777

Source: Fund staff estimates.

1/ Projections assume that scheduled purchases under the proposed Stand-By Arrangement are made.

COLOMBIA: FUND RELATIONS

(As of March 31, 2006)

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

II. General Resources Account:	**SDR Million**	**% Quota**
Quota	774.00	100.00
Fund holdings of currency	488.20	63.08
Reserve position in Fund	285.80	36.93

III. SDR Department:	**SDR Million**	**% Allocation**
Net cumulative allocation	114.27	100.00
Holdings	122.53	107.23

IV. Outstanding Purchases and Loans: None

V. Latest Financial Arrangements:

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
SBA	May 2, 2005	Nov. 2, 2006	405.00	0.00
SBA	Jan. 15, 2003	May 2, 2005	1,548.00	0.00
EFF	Dec. 20, 1999	Dec. 19, 2002	1,957.00	0.00

VI. Projected Obligations to Fund (in SDR Million):

			Forthcoming		
Type	**2006**	**2007**	**2008**	**2009**	**2010**
Principal	0.00	0.00	0.00	0.00	0.00
Charges/Interest	0.01	0.01	0.01	0.01	0.01
Total	0.01	0.01	0.01	0.01	0.01

VII. Safeguards Assessments:

A safeguards assessment of the Banco de la República (BRC), completed on October 24, 2005, found that the recommendations from the 2003 assessment had been implemented. The assessment report concluded that there continue to be no major vulnerabilities in the BRC's safeguards framework, and consistent with the 2003 assessment, it recommended that the BRC continue progress toward the full adoption of IFRS.

VIII. Exchange Rate Arrangement:

In September 1999 the Banco de la República floated the peso. The authorities accepted the obligations of Article VIII in August 2004. At end-December 2005, the exchange rate was Col$2,284 per U.S. dollar.

IX. Last Article IV Consultation:

The 2005 Article IV consultation was concluded on April 29, 2005.

X. FSAP Participation:

The Executive Board discussed the Financial Sector Stability Assessment update (FSSA) in April, 2005.

XI. Statistics: Colombia subscribes to the SDDS. A ROSC mission visited Bogotá in September 2005.

XII. Recent Technical Assistance:

Dept.	**Purpose**	**Time of Delivery**
MFD	Inflation forecast under inflation target framework	May 2004
FAD	Assessment of fiscal decentralization	May 2004
STA	National Income Accounts	June 2005
MFD	Governance of Public Banks	October 2005
ICM	Developing Hedging Instruments	October 2005

XIII. Resident Representative: None.

XIV. Fourth Amendment: Colombia has accepted this amendment.

Colombia: World Bank Relations[1]

The World Bank and Colombia's Development Strategy

Colombia's National Development Plan is built on four pillars: (i) provide security to all Colombians; (ii) foster sustainable economic growth and employment generation under macroeconomic and price stability; (iii) build a more equitable society; and (iv) increase the transparency and efficiency of the State. The World Bank Group's (WBG's) strategy seeks to support Colombia's quest for development and peace. The Country Assistance Strategy (CAS) for Colombia was discussed by the Bank's Board in January 2003 and since then Colombia has received about US$2 billion in loans, of which nearly 60 percent consists of fast-disbursing operations. A CAS Progress Report was prepared in September 2005. It follows along the same pillars of the original CAS with an additional "peace pillar" that envisions activities to support social policies for populations affected by conflict.

The World Bank Program for FY 2005–06

In line with the CAS, since June 2004, the IBRD has continued the preparation of development policy loans to support fiscal reform, financial sector reform, the labor and social sector reform, and environmental management. Labor and social sector reforms are being supported by a development policy loan and a technical assistance loan that aims to improve knowledge, develop effective instruments, and strengthening ability to carry out such reforms. The environment development policy loan is being complemented by a technical assistance loan to support the inclusion of environmental and social policies in government programs and to strengthen the capacity of the major relevant institutions.

The WBG's International Bank for Reconstruction and Development (IBRD) will also support a program in the infrastructure sector, and a program to increase the business productivity and efficiency. In particular, in the water sector the IBRD will support a project in the Guajira region. The Bank's support for the Government of Colombia's program for promoting greater business productivity would consist of a three-phased programmatic development policy lending operation. The first phase focuses on making improvements in the regulatory framework; and improving access to financial services for micro, small and medium enterprises. The WBG's International Finance Corporation (IFC) focuses on supporting new forms of public-private partnerships, while the Multilateral Investment Guarantee Agency (MIGA) focuses on the provision of political risk guarantees for private sector investments; hands-on technical assistance for investment promotion intermediaries; and the dissemination of information on investment opportunities in Colombia.

Bank-Fund Collaboration in Specific Areas

The WBG is helping Colombia implement its reform agenda in the following areas of Bank-Fund collaboration:

[1] Prepared by World Bank staff. Questions may be addressed to Mr. David Rosenblatt, Lead Economist, at (202) 473-7930 or drosenblatt@worldbank.org.

- Assisting fiscal reforms, notably reforming the tax system, strengthening tax administration, implementing a fiscal responsibility law, and reforming the public sector.
- Reforming the pension and social security systems.
- Fostering financial sector and capital market developments.
- Broadening and deepening the scope of Colombia's anticorruption program.
- Combating money laundering.

Operations Portfolio (IBRD/IDA and grants)
As of February 15, 2006
(In millions of U.S. dollars)

Closed Projects	**168**
Active Projects	**20**
IBRD/IDA *	
Total Disbursed (Active)	322.0
of which has been repaid	7.7
Total Disbursed (Closed)	10723.9
of which has been repaid	8634.8
Total Disbursed (Active + Closed)	11045.9
of which has been repaid	8642.5
Total Undisbursed (Active)	913.8
Total Undisbursed (Closed)	4.2
Total Undisbursed (Active + Closed)	918.0

Loan Information (IBRD)
As of February 15, 2006
(In millions of U.S. dollars)

Fiscal Year*	**2002**	**2003**	**2004**	**2005**	**2006**
Total disbursements	369	948	491	567	534
Repayment amount	243	223	205	254	121
Net disbursements	126	725	286	313	412

* Fiscal Year: July 1–June 30.

IFC Operations
As of December 31, 2005
(In millions of U.S. dollars)

	Loans	Equity (+Quasi)	Participation	Total
Total commitments	357.4	130.6	3.9	491.9
Total undisbursed	242.3	26.0	3.9	272.2

COLOMBIA: RELATIONS WITH THE INTER-AMERICAN DEVELOPMENT BANK[1]

(As of April 21, 2006)

I. Background and Objectives

In September 2003, the IADB Board of Directors approved the Bank's strategy for Colombia for the period 2003–2006. The strategy identifies three overarching objectives: (i) lay the foundations for economic revival and jump-starting growth; (ii) foster social progress and make sure society's most vulnerable are protected; and (iii) strengthen governance and further modernization of the State. These objectives constitute the framework for the Bank activities in Colombia.

To help **reinvigorate the economy** the Bank is working to foster competitiveness and will support agricultural development and natural resources management. **To foster social progress and ensure that society's most vulnerable are protected**, Bank's actions will improve social protection systems and will promote the coverage, quality, and efficiency of essential social services. In the **governance and modernization of the State** area the Bank will support national public sector reforms and local governments management capacity building, moreover, the Bank will promote initiatives to foster transparency and combat corruption, and will support judicial branch reforms.

From the Bank's standpoint, the implementation of the strategy is constrained by the country's fiscal deficit and security issues. Both constraints have implications for the size of the lending program, the mix of lending and non-lending products, and the prospects for achieving the strategy objectives.

The Bank is initialing the process of preparation of a new country Strategy for Colombia that will cover the period 2007–2010.

II. LENDING

As of April 21, 2006 the country's portfolio consists of 26 loans an amount equivalent to US$1,969 million. These resources are distributed among 25 investment loans (US$1,369 million) and one policy-based loans (US$600 million). In addition, the country portfolio with Colombia includes 37 non-reimbursable technical cooperation (US$20.0 million). Through the Multilateral Investment Fund (MIF), which finances private sector investment projects, Colombia has 37 non-reimbursable operations (US$27.5 million) and two loans (US$2.2 million). The IIC has 13 active projects totaling US$151.2 millions, and the Private Sector has active three operations totaling US$138.9 million.

[1] Prepared by IADB staff. Questions may be addressed to Mr. Kim Staking, Country Economist, at (202) 623-3003 or kims@iadb.org.

In 2005 five investment loans for US$561 million were approved to support Colombian national and sub-national governments in the areas of transportation, health, energy and agriculture. For 2006, the Bank projects approving nine operations totaling US$802 million, 49% of the funding correspond to two programmatic loans supporting competitiveness (US$200 million) and social development (US$200 million).

COLOMBIA: FINANCIAL RELATIONS WITH THE INTER-AMERICAN DEVELOPMENT BANK
(As of April 21, 2006)

I. IDB OPERATIONS
(In millions of U.S. dollars)

	Commitments	Disbursements	Undisbursed amounts
Agricultural and rural development	20.5	12.0	8.5
Modernization of State	722.3	250.7	471.6
Social Investment	301.3	296.3	5.0
Education	26.0	16.8	9.2
Health	217.0	108.8	108.2
Sanitation	25.1	10.4	14.7
Natural resource management	55.4	34.7	20.7
Urban development and household	180.0	97.4	82.6
Energy	200.0	0.0	200.0
Transportation	221.7	16.4	205.3
Grand total	**1,969.3**	**843.6**	**1,125.7**

II. IDB LOAN TRANSACTIONS
(In millions of U.S. dollars)

	1999	2000	2001	2002	2003	2004	2005	2006*
Gross disbursement	952.4	241.2	785.3	151.8	2,011.7	329.6	361.6	1,060.5
Amortization, interest and contributions	445.8	473.2	408.2	819.4	1,017.5	661.3	1,757.8	459.8
Net cash flow	506.6	-232.0	377.1	-667.6	994.2	-331.7	-1,396.2	600.7

(*) Projections. Note: 2005 included prepayment of Emergency Loan (US$1,250 million) issued in 2003.

Source: IADB.

COLOMBIA: WORK PROGRAM

Mission to conduct third review of SBA program.	August 2006
Board discussion of Article IV and third review.	October 2006

Bogotá, Colombia
May 23, 2006

Mr. Rodrigo de Rato
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Mr. de Rato:

In 2005, Colombia's economic performance surpassed expectations, owing to the government's continued prudent economic policies as well as the favorable external environment. Real GDP rose by 5 percent, helping reduce poverty and unemployment. The external current account deficit remained low, while net foreign direct investment rose to the highest level in almost a decade. At the same time, inflation declined to the lowest level in decades. The Fund's support through the 18-month Stand-By Arrangement (SBA) approved in April 2005 has helped provide a transparent policy framework and fortify confidence.

We are requesting the completion of the second review as well as the rephasing of the remaining purchases under this arrangement. All performance criteria at end-December 2005 have been observed, all continuous performance criteria have been observed, and most structural benchmarks have been met (Tables 1 and 2). The attached Memorandum of Economic Policies (MEP)—which supplements our MEP of April 13, 2005 and of September 26, 2005—describes our economic policies and objectives for 2006.

We remain fully committed to exiting from formal Fund support once the current arrangement expires later this year, and we will continue to treat the arrangement as precautionary.

Sincerely yours,

____________/s/______________
Alberto Carrasquilla
Minister of Finance
and Public Credit

____________/s/______________
José Dario Uribe
General Manager
Banco de la República

Attachments

MEMORANDUM OF ECONOMIC POLICIES

Achievements

42. In 2005, Colombia's economic performance surpassed expectations in many areas. Real GDP rose by 5 percent, contributing to lower unemployment and a decline in the poverty rate to 49 percent (from 57 percent in 2002). Inflation fell to 4.9 percent during the year, with slower increases in prices of both traded and nontraded goods. High world prices of oil, coal and coffee as well as robust growth in nontraditional exports contained the external current account deficit to 1.6 percent of GDP. At the same time, net foreign direct investment reached 4⅓ percent of GDP—the highest level since 1997—reflecting projects mainly in oil, coal, and manufacturing.

43. A strong fiscal policy, together with an accommodative monetary policy, supported growth and smoothed the rate of appreciation of the peso. The combined public sector (CPS) was in balance, compared with a revised program target of a deficit of 1.6 percent of GDP. Strong growth in tax revenues and spending restraint cut the deficit of the central administration to 4.8 percent of GDP. Higher than expected world oil prices, together with the policy of raising domestic fuel prices in real terms, boosted the operating surplus of Ecopetrol to 3.6 percent of GDP, and territorial entities ran a surplus of 1.1 percent of GDP. The primary surplus rose to 4.0 percent of GDP, helping to lower gross public debt to about 47 percent of GDP while public deposits rose to 12 percent of GDP. While meeting the established inflation target, the Banco de la República reduced its policy interest rate to 6 percent (1½ percent in real terms) and intervened in the foreign exchange market to contain the appreciation of the peso vis-à-vis the U.S. dollar to 4½ percent during the year. The structure of public debt improved quite significantly through steps to lengthen the maturity of and broaden the investor base for domestic currency debt and through prepayments of foreign currency debt using in part the foreign exchange purchased from the Banco de la República. With these policies, Colombia's risk premium fell to historic lows, outperforming the average for emerging markets, and domestic bond yields declined significantly.

44. Structural reforms advanced. In June 2005, Congress approved the new securities market law and the pension reform (the third such reform under this government). The government improved its information on the operations of local governments and issued in December a decree to strengthen budgetary procedures. The financial restructuring agency (FOGAFIN) sold Granahorrar—a mortgage bank intervened in 1999—to BBVA. The superintendencies of securities and financial institutions were merged in December to limit the scope for regulatory arbitrage and promote a deeper financial system. In February 2006, the government reached agreement in principle on a free-trade agreement with the United States. The report that evaluates the revenue sharing system will be published in March.

45. The financial system has strengthened. The solvency and profitability of the banking system has recovered, reflecting a pick up in the growth of the loan portfolio in tandem with stronger macroeconomic conditions. Nonperforming loans declined to less than 3 percent of total loans by end-2005 and were more than fully covered by provisions. Furthermore, solvency indicators are now as high as prior to the 1998–99 crisis.

Outlook for 2006

46. The government intends to maintain strong economic policies in 2006 to ensure that the economy continues to perform well. Fiscal policy would continue to aim at reducing public debt to 40 percent of GDP by 2010, and save most of the additional revenues from high world oil prices, while improving the non-oil balance. For 2006, the CPS deficit would be targeted to decline to 1.5 percent of GDP, at a projected export price for Colombian oil of US$47 per barrel (consistent with a WTI price of US$60 per barrel), with a primary surplus of 3.2 percent of GDP. Over the medium term the primary surplus would taper off to 2½ to 3 percent of GDP, as world oil prices (adjusted for inflation) and Ecopetrol's oil production decline gradually. Structural reforms will continue to advance. The government is preparing reforms of the tax code, revenue sharing, and the financial sector, and plans to submit legislation to congress by August 2006, if voters choose to re-elect President Uribe.

47. Based on these policies, the medium term outlook is favorable. The economy is expected to grow by 4½ percent in 2006 and then by 4 percent in 2007 and beyond, consistent with expected growth in the economy's productive capacity. Inflation would decline to the range of 4−5 percent in 2006 and then to 2−4 percent over the medium term. Based on the continued strength of the terms of trade, the external current account deficit is projected to amount to 1.3 percent of GDP, while confidence would sustain strong private capital inflows. Net international reserves are expected to rise to US$15.2 billion by end-2006 (about 150 percent of short-term debt at a remaining maturity), and to rise gradually over the medium term, consistent with maintaining exchange rate flexibility and achieving the inflation targets.

Macroeconomic Framework: Main Elements 2003–11

			2005		Projections		
	2003	2004	Prog.	Est.	2006	2007	2011
Real growth	3.9	4.8	4.0	5.1	4.5	4.0	4.0
Inflation 1/	6.5	5.5	5.0	4.9	4.5	4.0	3.0
	(In percent of GDP)						
External current account balance 2/	-1.2	-1.0	-1.0	-1.6	-1.3	-2.6	-2.4
NFPS primary balance 3/	1.5	3.2	3.1	4.0	3.2	2.7	2.7
Combined public sector balance 3/	-2.7	-1.4	-1.6	0.0	-1.5	-1.7	-0.3
Total public debt	54.8	51.9	47.8	47.4	45.9	45.2	39.3
Public deposits	8.7	10.4	…	12.4	…	…	…
	(In billions of U.S. dollars)						
Net international reserves 4/	10.5	13.2	15.2	14.7	15.2	15.6	16.9
	(In U.S. dollars per barrel)						
Crude oil, spot price 5/	28.9	37.8	54.2	53.4	68.0	71.0	66.0

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

1/ For 2007 and beyond, inflation projection consistent with achieving medium-term inflation target of 2 to 4 percent a year.
2/ At projected WEO price of oil in 2006, adjusted to reflect Colombia export price.
3/ For 2005, average export price of US$47 per barrel. For 2006, assumes a baseline export price of US$47 per barrel.
4/ IMF definition.
5/ WEO petroleum price is average of spot prices for U.K. Brent, Dubai, and West Texas Intermediate.

Fiscal policy

48. For 2006, the primary surplus would amount to 3.2 percent of GDP and would reduce gross public debt to about 44 percent of GDP, with public deposits falling slightly in relation to GDP. The deficit of the central administration would amount to 4.9 percent of GDP, as economic growth and improved tax administration bolster tax receipts, while spending remains under control. This profile for the central administration takes into account the cost of programs to assist certain sectors that might be adversely affected by the free-trade agreement with the United States. Ecopetrol's operating surplus would amount to 3.7 percent of GDP, based on the projected export price and continued declines in the implicit subsidies on sales of regular gasoline and diesel. Territorial entities are expected to run a surplus of slightly more than 1 percent of GDP. The government intends to save a significant share of any windfall if world oil prices were to evolve differently than expected. The end-year deficit target would be adjusted accordingly in the context of the third review under this arrangement. The specific targets for the CPS deficit at end-June and end-September 2006 are presented in Table 1.

49. The government intends to submit a budget for 2007 budget that aims at a CPS deficit of 1.7 percent of GDP and a primary surplus of 2.7 percent of GDP which should allow for a further decline in public debt. The submission of such a budget to congress by end-July 2006 is a structural performance criterion.

50. The government will continue to reduce the vulnerability of public debt, including to exchange rate fluctuations. In 2006, it will seek to limit net foreign currency financing to about 0.2 percent of GDP, as targeted in the indicative quarterly limits presented in the TMU. The government recently agreed to prepay US$0.6 billion of foreign currency debt, financed with the proceeds from re-opening the global peso bond introduced in 2004 as well as a drawdown of the government's foreign currency deposits. The global peso bond can now be traded in local financial markets, which will enhance its appeal. The government will continue to seek opportunities to prepay other foreign currency obligations when conditions are favorable and will continue to prudently manage its forward foreign exchange operations, as discussed with Fund staff previously.

51. The government is preparing several comprehensive fiscal reforms that it would submit to congress by August 2006 as indicated in Table 2, if President Uribe wins re-election. These reforms include:

- *Tax reform.* The government is developing a proposal for a revenue-neutral reform that would simplify the current system, in particular by reducing tax rates, and enlarging the tax base. The government would seek to reduce the number of VAT rates and lower income tax rates, while cutting exemptions and deductions. The government intends to implement its already announced plan to phase out the effects of the financial transaction tax (currently at 0.4 percent) and the tax of 1.5 percent on medium- and long-term bank loans, which discourage financial intermediation and tilt lending towards shorter maturities. This reform would be supplemented by the ongoing successful efforts to strengthen tax administration.

- *Revenue sharing.* Starting in 2009, the revenue sharing arrangement is scheduled to return to the pre-2001 system, which required central administration transfers to territorial entities to rise in line with the growth in current revenues of the central administration. This shift would undermine the sustainability of the central administration's finances. For this reason, the government will submit to congress a constitutional amendment that in broad terms would seek to make the current transitory arrangement permanent.

- *Revenue earmarking*. In the context of the 2007 budget, we will analyze earmarked revenues not mandated by the Constitution and then propose steps to phase out those that no longer serve their original purpose.

52. We will continue to take other measures to strengthen public sector finances and intend to press ahead with the on-going process of public enterprise reform. The system of setting domestic prices of regular gasoline and diesel will be strengthened. In 2005, this system led to an implicit subsidy of 1.7 percent of GDP, which weakens Ecopetrol's capacity to invest and operate increasingly on a commercial basis. The current reference medium-term price of oil is US$48.50 per barrel and the ministry of mines intends to close the gap between domestic wholesale prices of gasoline and diesel and this reference price by end 2007. Over the next few years, domestic prices will be liberalized, and any remaining subsidies would appear as an explicit expenditure item.

Monetary and exchange rate policy

53. The Banco de la República attaches top priority to achieving the inflation target. It is fully committed to reduce inflation to a range of 4 to 5 percent during 2006. Inflation expectations both from surveys of market participants and those implicit in financial instruments continue to be well-anchored. The central bank may also continue to intervene in the foreign exchange market, as long as it does not compromise the inflation target.

Financial sector

54. The government is taking the steps needed to make the new unified financial superintendency fully operational. We intend to submit to congress by August 2006 a law that gives this agency political independence and grants legal immunity to supervisors for their official acts. The new superintendency is about to issue new regulations on the computation of market risk, and we have requested technical assistance from MFD to improve the measurement of credit and interest rate risk. The superintendency also plans to develop a detailed reporting system of the financial derivative positions of financial intermediaries. The regulations required to implement the securities market law approved in 2005 will be issued by June, 2006.

55. An investment bank is currently reviewing options for the business strategy of Granbanco, which was created out of the restructuring of Bancafé. In June 2006, the government will open a second-tier bank to provide special credit lines to banks to support micro-lending. This bank will not put any pressure on the public finances, as it will remain relatively small, will not incur any losses and will compete on a level playing field with private banks. In line with the recommendations of MFD, the government will strengthen the governance of public banks, including Banco Agrario and the new second-tier bank.

56. The government is developing, with assistance from the World Bank, several financial sector reforms to deepen domestic capital markets. These proposals will be discussed at a conference in May, 2006. Areas for reforms under study include assessing the convenience of implementing a multifunctional banking system, strengthening creditor rights, removing impediments to the development of an annuities market, and strengthening consolidated supervision.

Other issues

57. We request that the last two purchases under the arrangement be rephased into a single final purchase in an amount equivalent to SDR 84.60 millions to become available upon completion of the third review. This review will be completed by mid-October 2006

and will be based on end-June 2006 performance criteria, and on the relevant structural and continuous performance criteria.

58. The government continues to believe that the policies set forth in this Memorandum of Economic and Financial Policies (MEFP) are adequate to achieve the objectives of its program, and as usual we will maintain a close policy dialogue with the Fund. We stand ready to take additional measures, as necessary, to achieve the objectives of the program. The Fund's management or the authorities can request a consultation on the stance of policies when appropriate.

Table 1. Colombia: Performance Criteria for 2006 1/

		2006			
	Outturn	Indicative Targets	Performance Criteria	Indicative Targets	
	Dec. 31, 2005	Mar. 31	Jun. 30	Sept. 30	Dec. 31
I. Performance Criteria					
Cumulative flows from beginning of calendar year (In billions of Colombian pesos)					
Overall balance of the combined public sector					
Ceiling	-4,557	-1,657	-1,383	-1,995	-4,711
Outturn	-24	…	…	…	…
Margin (+) or shortfall (-)	4,533	…	…	…	…
Inflation rate 3/ (12-month inflation rate)					
Inflation - Consultation band					
Upper limit	6.0	5.8	**5.1**	**5.1**	…
Target	5.0	4.8	4.1	4.1	4.5
Lower limit	4.0	3.8	3.1	3.1	…
Outturn	4.9	4.1	…	…	…
(In millions of U.S. dollars)					
Net international reserves of the Banco de la Republica					
Floor	12,215	12,215	12,215	12,215	12,215
Outturn	14,721	15,011	...	...	...
Margin (+) or shortfall (-)	2,506	2,796	…	…	…
Change in the outstanding stock of short-term external debt of the public sector					
Ceiling	200	100	100	100	100
Outturn	-92	…	…	…	…
Margin (+) or shortfall (-)	292	…	…	…	…
II. Indicative Targets					
Cumulative net disbursement from beginning of calendar year (In millions of U.S. dollars)					
Net disbursement of foreign currency debt to the public sector					
Ceiling	-750	-400	-100	100	200
Outturn	-2,835	…	…	…	…
Margin (+) or shortfall (-)	2,085	…	…	…	…

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

1/ Definitions of concepts and adjustments to the performance criteria are explained in the technical memorandum of understanding (TMU) attached to IMF Country Report No. 05/154 and IMF Country Report No. 05/392.

2/ Deviations from the quarterly path for inflation will trigger consultations with the Fund, as set out in the TMU.

Table 2. Colombia: Structural Conditionality Under the 2005−06 Program SBA[9]

	Prior Action for Approval of Arrangement	Status
	Issue circular that requires banks to treat the annexes pertaining to their operations with the nonfinancial public sector as part of their reports on their balance sheets.	Done.
	Structural Performance Criteria	
June 30, 2005	Congressional approval of the changes to the Budget Code. The revision will (a) adopt a budget classification according to international standards that fits into the context of Colombia's legal framework; (b) require that the annual budget law include information on tax expenditures, quasifiscal activities, subsidies, contingent fiscal liabilities, medium-term fiscal projections, and a fiscal sustainability analysis; (c) establish a mid-year budget report to Congress; (d) gradually phase out most revenue earmarking not mandated by the constitution by subjecting these earmarking provisions to explicit sunset provisions; (e) limit the budget carry over by eliminating the "reserva presupuestal"; and (f) limit the power of the government to make spending commitments for future years on projects not authorized under the Development Plan.	Not observed. Several of these issues have been addressed in the context of the Fiscal Responsibility Law approved in 2003. The authorities have reduced the budgetary carry over and issued a decree in December 2005.
July, 31 2005	Submission to Congress of 2006 budget consistent with combined public sector deficit of 2.0 percent of GDP in 2006.	Done.
July 31, 2006	*Submission to Congress of 2007 budget consistent with CPS deficit of 1.7 percent of GDP.*	
	Structural Benchmarks	
June 30, 2005	Congressional approval of a constitutional amendment to eliminate special pension regimes, end 14th monthly pension and cap maximum pension at no more than 25 minimum salaries. Congressional approval of new securities law.	Done. Done.
September 30, 2005	Issue the regulations needed to improve the quality of information reported for the operations of local and regional governments.	Revised information without having to issue regulations.
October 31, 2005	Issue decree that adopts as many elements of the revised budget code as possible, including a requirement to present expenditure according to an international classification system.	Done in December 2005.
December 31, 2005	Publish a report evaluating the current system of sharing revenue among the different levels of government. Bring Granahorrar to the point of sale.	Prepared in February 2006 but not yet published. Done in October 2005.
March 30, 2006	Prepare draft law on revenue earmarking not mandated by the constitution.	To be done by June 2006.
June 30, 2006	Complete issuance of the *key* regulations needed to fully implement the securities market law approved in June 2005. Complete process of finding private investor for joint venture to modernize the Cartagena refinery.	
August 31, 2006	*Submit tax reform to Congress .* *Submit revenue sharing reform to Congress.* *Submit to Congress law to strengthen independence of financial superintendency .*	

[9] New measures presented in italics.

COLOMBIA—TECHNICAL MEMORANDUM OF UNDERSTANDING

1. This Technical Memorandum of Understanding (TMU) is a supplement to the TMUs dated April 13, 2005 and September 26, 2005.

2. For all bond issuance beginning in 2006, any premium or discount resulting from a difference between the market rate of interest and the coupon rate of interest will be amortized over the remaining maturity of the bond. The amount of the premium or discount will be calculated as the difference between the gross issuance proceeds and the face value of the bond, minus interest accumulated since the date of the last coupon payment (if any). The resulting premium (discount) will be added to (subtracted from) a reserve account ("reserva en caja"). Shares of these premia (discounts) will be recorded as reductions in (additions to) interest expenses in the period during which coupon payments occur, and this will be matched by reductions in (additions to) the reserve account. The reserve account will be recorded as a financing item.

3. Debt management and debt buyback operations will not change the amortization profile of premiums or discounts generated at issuance, which will continue to be amortized according to the procedure established in paragraph 2.

4. Any premium or discount resulting from debt management operations undertaken in 2006 and beyond will be amortized according to the procedure in paragraph 2. For bonds that have been retired, any premium or discount will be amortized over the period corresponding to the original maturity of the bond. For newly issued bonds in an exchange or swap, the premium or discount will be amortized over its lifetime.

5. For June 2006, the target for inflation and the associated upper and lower limits that trigger consultations with the Fund (Executive Board), as specified in Section V of the TMU dated April 13, 2005 (Inflation Consultation Band), shall be as specified in table 1 of the MEP (attachment 1).

6. For June 2006, the floor for Net International Reserves and the associated decline that triggers consultations with the Fund (Executive Board), as specified in Section VI.A of the TMU dated April 13, 2005 shall be as specified in table 1 of the MEP (attachment 1). The floor for Net International Reserves will no longer be adjusted downward by up to US$2 billion for foreign exchange sales.

INTERNATIONAL MONETARY FUND

COLOMBIA

Second Review Under the Stand-By Arrangement, and Request for Rephasing of Purchases

Supplementary Information

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

Approved by José Fajgenbaum and Michael T. Hadjimichael

June 7, 2006

1. **This supplement provides additional information since the staff report for the second review was issued**. The thrust of the staff appraisal remains valid.

2. **On May 28, President Uribe won re-election for a second four-year term with 62 percent of the votes.**

3. **The authorities intend to strengthen some policies with respect to the program.** They see scope for introducing a constitutional amendment that reduces the growth on intergovernmental transfers below 2½ percent a year starting in 2009, based on the recent national census that indicates that population growth has been less than had been expected. The authorities have decided to set up a promotion agency—instead of creating a second–tier public bank—to facilitate lending to small and medium-sized enterprises.

4. **With regard to other developments**, net international reserves amounted to US$14.3 billion as of June 5, down from US$15.0 billion on May 15. The central bank sold foreign exchange to limit volatility of the peso, which—like other currencies in the region—has depreciated vis-à-vis the U.S. dollar. These sales were triggered by the central bank's published intervention rule designed to limit volatility and are consistent with policies under the program. (The program, however, includes a provision under which a decline in net international reserves of more than US$1 billion in any 30-day period would trigger a consultation with the Fund.) In the first quarter of 2006, the CPS deficit amounted to 0.7 percent of GDP, 0.2 percent of GDP above the indicative target, reflecting several one-off factors. The authorities reaffirmed their commitment to achieving the program fiscal targets.

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FOR IMMEDIATE RELEASE
June 14, 2006

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Second Review of Colombia's Stand-By Arrangement

The Executive Board of the International Monetary Fund (IMF) on June 12, 2006 approved on a lapse-of-time basis the second review of Colombia's performance under an 18-month SDR 405 million (about US$ 597 million) Stand-By Arrangement approved on April 29, 2005 (see Press Release No. 05/95). The Board also approved Colombia's request for a rephasing of the remaining purchases under the arrangement.

Completion of this review makes an amount equivalent to SDR 320.4 million (about US$ 472 million) immediately available to Colombia. However, the authorities continue to treat the arrangement as precautionary, and do not intend to draw on the credit available.