INTERNATIONAL MONETARY FUND

IMF Country Report No. 20/104

COLOMBIA

April 2020

2020 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR COLOMBIA

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2020 Article IV consultation with Colombia, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its April 9, 2020 consideration of the staff report that concluded the Article IV consultation with Colombia.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on April 9, 2020 and reflects discussions with the Colombian authorities in Bogota in February 2020 and subsequently from Washington D.C. It is based on information available as of April 2, 2020. The COVID-19 global pandemic has greatly amplified uncertainty and downside risks around the outlook. IMF staff is closely monitoring the situation and will continue to work on assessing its impact and the related policy response in Colombia and globally.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for Colombia.

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

Selected Issues

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

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International Monetary Fund
Washington, D.C.

IMF Executive Board Concludes 2020 Article IV Consultation with Colombia

FOR IMMEDIATE RELEASE

WASHINGTON, DC – April 17, 2020. The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Colombia.

Despite regional headwinds and global shocks, Colombia's economy remained resilient in 2019 owing to very strong policy frameworks and well-executed policies. Immigration from Venezuela, private and public investment, inward remittances, higher real wages, and increased supply of consumer credit supported strong internal demand and lifted economic growth to 3.3 percent in 2019. Despite exchange rate volatility and temporary inflation shocks, inflation expectations remained well-anchored and monetary accommodation was appropriately maintained. Meanwhile, gradual fiscal adjustment, consistent with the fiscal rule, continued to provide adequate fiscal support. With stagnant exports, however, demand-led growth widened the current account deficit to 4.3 percent, increasing external vulnerabilities even before the Covid-19 and oil shocks hit in 2020.

With the disruptions associated with the Covid-19 pandemic and with lower oil prices, real GDP is projected to contract by 2.4 percent in 2020, Colombia's first recession since 1999. While external financing needs are expected to increase, these should continue to be financed by relatively stable and diversified FDI. As the Covid-19 pandemic abates and external conditions improve, growth is projected to rebound in 2021 and to remain around 3½ percent over the medium term supported by the 2019 domestic demand growth drivers–including the boost from migration flows.

Executive Board Assessment[2]

Directors commended the authorities for their very strong policy frameworks and track record, as well as commendable efforts to support and integrate the large inflow of migrants from Venezuela in recent years. Directors noted, however, that the economy is expected to contract due to the severe impact of the COVID-19 pandemic, creating heightened uncertainty for the outlook.

Directors welcomed the early actions taken by the authorities to mitigate the spread of COVID-19. In light of the pandemic and sizeable disruption to economic activity, Directors welcomed the creation of a crisis mitigation fund to support the health sector, households and

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.

businesses; encouraged countercyclical spending; and supported using all available fiscal space to provide further support to the economy.

Directors welcomed the authorities’ commitment to maintaining a flexible exchange rate as the first line of defense against external shocks. They agreed that monetary policy should remain accommodative and that further easing may be needed, provided inflation expectations remain anchored. In the context of heightened volatility and dislocation in financial markets, the central bank’s actions to support market liquidity and funding have been timely and appropriate. Directors urged continued regulatory and supervisory flexibility and the use of appropriate macroprudential policies.

Once the crisis from the global pandemic abates, Directors emphasized the need to appropriately calibrate the policy mix to support the recovery, enhance resilience, and rebuild buffers. In that context, they welcomed the authorities’ strong commitment to the fiscal rule and to enhancing transparency. To safeguard social spending and public investment, Directors encouraged additional revenue mobilization over the medium-term through higher structural taxes and improvements to tax administration.

Colombia has made welcome progress toward further reducing poverty and inequality. Directors encouraged further efforts to tackle informality, integrate migrants to increase productivity, and enhance external competitiveness.

Colombia: Selected Economic Indicators

	2018	2019	Proj 2020
	(Annual percentage changes, unless otherwise indicated)		
National Income and Prices			
Real GDP	2.5	3.3	-2.4
Consumer price index (period average)	3.2	3.5	3.5
Consumer price index (end of period)	3.2	3.8	3.2
GDP deflator	4.5	4.3	4.2
Terms of trade (deterioration -)	5.8	0.1	-8.9
Real effective exchange rate (depreciation -)	0.6	-9.1	n.a.
	(In percent of GDP, unless otherwise indicated)		
Public finances			
Central government balance 1/	-4.8	-2.5	-2.3
Combined public sector 1/	-4.5	-2.1	-2.3
Public debt 2/	53.8	52.9	57.8
External Sector			
Current account (deficit -)	-3.9	-4.3	-4.7
External debt	46.6	49.8	59.2
of which: Public sector	28.9	30.1	35.5
GIR in percent of short-term debt	106.4	112.7	106.9
Savings and Investment			
Gross domestic investment	21.3	22.3	19.1
Gross national saving	17.4	18.0	14.5
	(12-month percentage changes, unless otherwise indicated)		
Money and credit			
Broad money (M2)	5.7	10.0	4.4
Credit to the private sector	6.8	11.6	4.7
Interest rate (90-day time deposits; percent per year)			
Nominal	4.5	4.5	n.a.

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

1/ Includes central bank profits. For 2018, it includes recognition of accounts payable worth 1.9 percent of GDP.

2/ Includes Ecopetrol and Banco de la Republica's outstanding external debt.

INTERNATIONAL MONETARY FUND

COLOMBIA

STAFF REPORT FOR THE 2020 ARTICLE IV CONSULTATION

April 2, 2020

KEY ISSUES

Context. Before the arrival of the Covid-19 pandemic, Colombia's economy had remained resilient—owing to very strong policy frameworks, well-executed policies and immigration from Venezuela. External vulnerabilities increased, however, alongside wider external imbalances. Strong internal demand lifted economic growth to 3.3 percent in 2019 and widened the current account deficit to 4.3 percent of GDP. In the wake of a global shock from the pandemic, Colombia's economy is expected to contract for the first time in two decades, alongside a looming global contraction, lower oil prices, and tightening financial conditions. In response to disrupted activity, the authorities have adopted a set of measures to boost liquidity and support growth domestically.

Outlook and risks. In the near term, disruptions associated, directly and indirectly, with the pandemic are expected to generate a recession of -2.4 percent in 2020. Weaker domestic demand from the shutdown efforts is expected to partially offset lower external demand and commodity prices, such that the current account deficit is projected to rise to 4.7 percent of GDP. Increased external financing needs have raised Colombia's vulnerability to elevated external downside risks amid heightened global uncertainty. As the health situation stabilizes, global growth should rebound in 2021, and Colombia's previous growth drivers—including immigration from Venezuela and investment-friendly tax reforms—should support economic recovery. The balance of risks, however, remains skewed to the downside and stems from a more prolonged spread of the Covid-19 outbreak and need to extend the shutdowns that could lead to further economic and financial dislocation.

Policy advice. In the wake of exceptional shocks and risks, recent monetary easing is welcome and accommodation should continue to support the economy as long as underlying inflation and inflation expectations remain moderate. Continued liquidity support should be provided as required, and available capital buffers in the banking system should be used as needed. All available space under the fiscal rule can be used to meet unforeseen health expenditures and for countercyclical spending to further support the economy through recession. Subnational governments have the resources to provide additional support. To safeguard social spending and infrastructure investment over the medium term, once the pandemic subsides, higher structural tax revenues will be needed while public indebtedness, anchored by the fiscal rule, is expected to eventually decline. Structural reforms to boost inclusive growth, migrant integration, and external competitiveness remain key. Effective implementation of recent financial laws should reinforce the regulatory framework and help preserve financial stability.

Approved By
Aasim M. Husain (WHD) and Kevin Fletcher (SPR)

The team comprising Hamid Faruqee (Head), Jorge Alvarez, Emilio Fernandez-Corugedo (all WHD), Alberto Behar (SPR), and Felix Vardy (MCM) visited Colombia during February 10−21, 2020. Leonardo Villar (ED) also participated in the policy discussions. Anaysa Delsid, and Danjing Shen (all WHD) supported the mission from headquarters.

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GROWTH DISRUPTED BY EXCEPTIONAL GLOBAL SHOCKS AND RISKS

Economic activity accelerated to 3.3 percent growth in 2019, despite challenging external conditions and social tensions throughout Latin America. The Covid-19 pandemic and sharp oil price decline have severely disrupted the recovery in the near term likely causing a recession this year given the extent of shutdowns needed to contain and mitigate the virus outbreak domestically.

A. Background

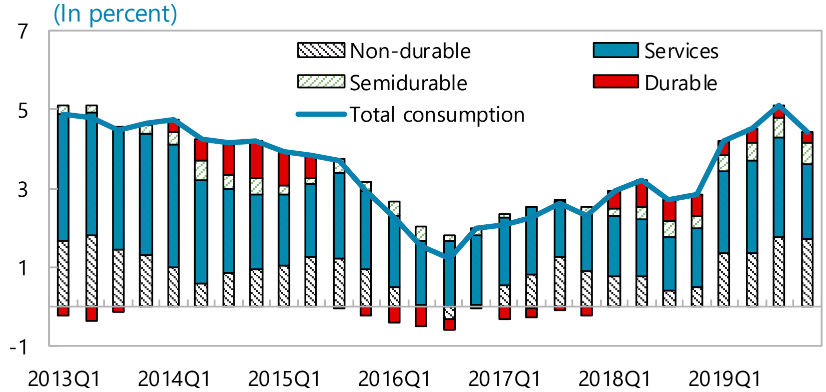
1. **Despite a challenging external environment, Colombia's relative resilience continued to be guided by its very strong policy frameworks and timely policy actions.** A flexible exchange rate, central bank credibility under inflation targeting, effective financial sector supervision and regulation, a medium-term fiscal rule, and strong institutions have allowed the country to withstand external shocks and address internal tensions. With falling oil prices and terms of trade deterioration since 2014, for example, key social indicators continued to gain ground as poverty and inequality fell and financial inclusion improved, despite the ensuing growth slowdown between 2014-2017. Tax and structural reforms have since improved the business climate and an historic peace agreement to be implemented across three presidencies should boost inclusive growth. Colombia will soon join the OECD, capping a series of institutional reviews and reforms.

2. **Past fund advice.** Recent policy measures have been broadly aligned with past Fund advice. Progress has been slower-than-expected in key structural areas, however, and social and economic inclusion challenges remain. The central bank has improved its communication strategy and retains a flexible exchange rate regime as a primary external shock absorber. Having acquired US$2.8bn in reserves through a reserve accumulation program, the authorities suspended the program shortly after publication of the 2019 Article IV—which supported the reserve accumulation—and subsequently ended it in October 2019. The central government met a more ambitious headline deficit target than mandated by the fiscal rule in 2019 partly supported by improved tax administration, and reforms have been enacted to improve local government procurement. Implementation of the Conglomerates Law (CL) and Basel III are proceeding broadly as planned. The 2018-22 National Development Plan (NDP) was passed in 2019 with policies aimed at raising productivity, tackling informality, and improving governance. Partly due to rising social tensions and a lack of majority in Congress, ambitious parts of the reform agenda —including pension and labor market reforms— had yet to be presented. The Peace Agreement continues to be implemented. Commendably, the authorities continue to provide humanitarian support and access to public services to migrants from Venezuela and have recently expanded residency and work permit programs to facilitate integration into the economy.

B. Recent Developments

3. In contrast to regional peers, Colombia's economy accelerated in 2019 (Figure 1). Despite slower regional and global growth, real GDP grew 3.3 percent in 2019 led by internal demand. Private consumption was robust, supported by inward remittances, higher real wages, and increased supply of consumer credit. Moreover, Venezuelan migration inflows, by adding to the number of consumers, boosted real consumption growth by around 0.3 percent, particularly in non-durables and services. Meanwhile, investment rebounded further—mainly reflecting civil works, improving corporate balance sheets and investment-friendly tax reform. Largely peaceful social protests had limited economic impact.

Contribution to Private Consumption Growth
(In percent)



Source: DANE and IMF staff calculations.

Growth in Selected Countries
(In percent)

	2018	2019
Argentina	-2.5	-3.1
Brazil	1.3	1.2
Chile	4.0	1.0
Colombia	2.5	3.3
Ecuador	1.3	-0.5
Mexico	2.1	0.0
Peru	4.0	2.4
LA7 Average	**1.8**	**0.6**

Source: IMF Staff Projections.

4. Venezuelan migration boosted domestic demand but poses policy challenges (Box 1). In 2019, the number of migrants, including returning Colombians, from Venezuela surpassed two million—600,000 more than end-2018. Notwithstanding the border closure with Venezuela from March to May 2020 due to the Covid-19 pandemic, staff projects that the migrant population in Colombia could reach 3½ million by 2024 as the Venezuelan crisis continues. For 2019 alone, migration is assessed to have boosted GDP growth by around ¼ percent; resulted in net fiscal costs of ½ percent of GDP; and widened the current account deficit by ½ percent of GDP.

5. External imbalances widened further alongside demand-led growth (Figure 2). Robust domestic demand raised imports, but exports declined due to weak external demand, a decline in commodity prices, and structural constraints on external competitiveness. The export benefits of depreciation operated more through prices than volumes – see Selected Issues Paper (SIP)[1]. Higher remittances and transfer inflows, and lower profit outflows improved the income balance to partly offset the trade balance deterioration. Overall, the current account deficit widened to 4.3 percent of GDP. However, capital flows (predominantly FDI) comfortably financed the deficit (Figure 3). Reserve coverage remains adequate at 125 percent of the ARA metric (including a commodity buffer).

[1] "Colombia's Export Performance Following The 2014-2015 Oil Shock and Peso Depreciation", SIP, IMF, 2020.

Box 1. Venezuelan Migration and Twin Deficits in Colombia

Colombia's support to migrants is estimated at around ½ percent of GDP. Support centers around humanitarian and health care; education and childcare; security; housing and infrastructure needs and labor policies. The largest annual costs pertain to health care and humanitarian provision (around 0.2 percent of GDP) and education and childcare support (around ¼). Compared to staff's previous estimates, (Country report 19/106), the fiscal costs are marginally lower in 2019 and 2020, but higher from 2021 onwards, reflecting updated migration projections stemming from expected continued push factors from Venezuela (see SIP "Venezuelan Migration and The Labor Market").

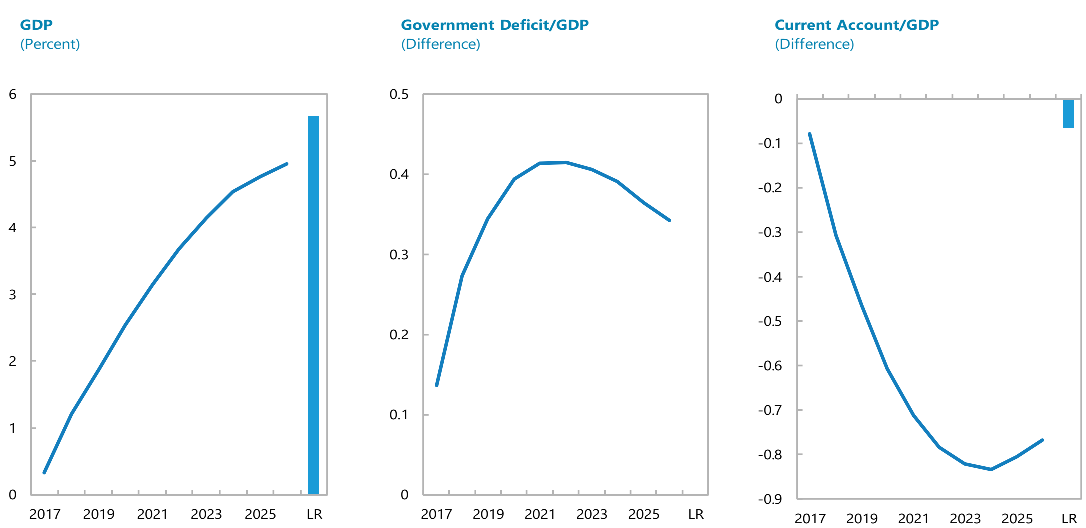
Table 1. Estimates of Near-Term Fiscal Cost of Migration flows from Venezuela

(Percent of GDP)

Costs	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**
Education and Childcare	0.2	0.3	0.3	0.3	0.3	0.3
Health and Humanitarian	0.2	0.2	0.2	0.1	0.1	0.1
Housing, Water/Sanitation	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0
Total Expenditure	**0.4**	**0.5**	**0.5**	**0.5**	**0.5**	**0.5**
Difference with 2019 AIV	0.0	0.0	0.1	0.1	0.2	0.2

Source: National authorities and IMF staff estimates.

Migration-related spillovers include sizeable output gains but twin-deficits. Model-based simulations take estimated migration flows and their demographic characteristics; make adjustments for observed labor market frictions - higher unemployment rates of migrants and their inability to initially find jobs commensurable with their skills; and account for the fiscal costs of providing assistance. Taken together, migration flows are estimated to boost GDP growth by around ¼ percent per year over 10 years (figure below).[1] The estimated net fiscal cost of migration is estimated to be slightly smaller than the expenditure costs reported in Table 1 (with a peak impact of around 0.4 percent of GDP in 2021) due to increased tax revenues, as migrants pay consumption and income taxes when they integrate into the labor market. The current account deteriorates not only from the fiscal costs associated with providing support to migrants but also in response to higher imports due to higher private sector consumption and investment.



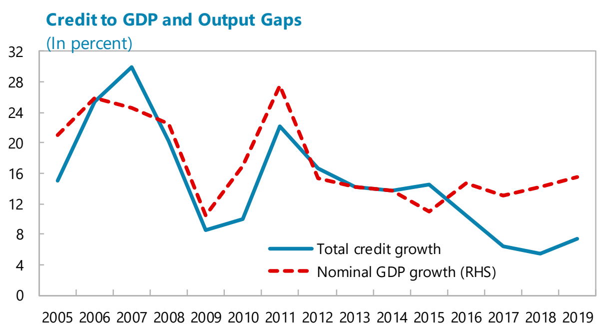
Source:FSGM Simulations and IMF Staff Calculations. LR = Long-run

[1] The estimates assume that migrants do not return to Venezuela, that their unemployment rate eventually converges to that of the local population and that the labor misallocation is partially reversed.

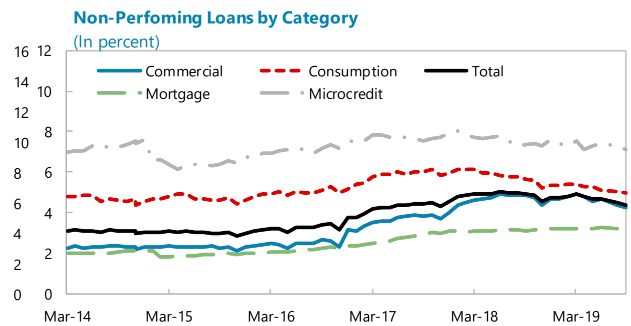
Box 1. Venezuelan Migration and Twin Deficits in Colombia (concluded)

To fully reap the economic rewards from migration, Colombia's integration policies will be important. A large majority of recent migrants do not have access to social security, and most are employed in the informal sector. Because of formal-sector entry barriers, highly educated migrants are misallocated, limiting the GDP gains and placing downward pressure on low-skill, non-migrant wages. Such misallocation prevents the full realization of migrant's potential and exacerbates inequality. Authorities have taken positive steps towards improving integration by expanding the existing Special Permanence Program (PEP) and have introduced a new Special Permanence Program for Formalization (PEPF) aimed at facilitating the regularization and integration of migrants into the formal economy. These could be complemented by further actions that accelerate the validation of Venezuelan skills and degrees along with active labor policies that ease the integration of migrants into the labor and educational systems.

6. Credit recovered in line with the economic cycle (Figure 6). Commercial credit recovered in 2019 following several quarters of negative growth, in line with the strong rebound in business investment. Meanwhile, increased competition in the banking sector for consumer loans reduced interest rate margins and raised consumer credit growth to a high level at 15 percent—now representing 1/3 of all loans, up from around 1/4 in 2015. Financial system solvency and liquidity have remained strong, while Returns on Assets increased to 2.9 percent, on the back of an increase in credit quality. NPLs have fallen after peaking in the first half of 2018.



Sources: BanRep, DANE, and IMF staff calculations.



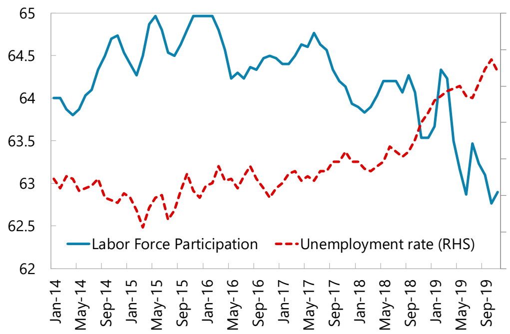
Sources: Superfinanciera and IMF staff calculations.

7. Headline inflation approached the upper end of the band around the three-percent target owing to temporary supply shocks and a weaker currency. Temporary weather factors and moderate passthrough from earlier peso depreciation pushed headline inflation modestly above the central bank's three-percent target through 2019 but began fading at year-end. Core inflation (excluding food and regulated prices) remained slightly below three percent and inflation expectations remained well-anchored.

8. Despite resilient growth last year, the labor market weakened. Job creation and the labor market weakened as unemployment rose from 9.8 to 10.5 percent in 2019 and labor force participation fell from 64.0 to 63.3 percent. Migration did *not* appear to be behind these trends as regions that received most migrants did not systematically experience the greatest unemployment increases or participation declines. Instead, the informal labor market has absorbed most migrants, with little evidence of local worker displacement in either the formal or informal sectors. Recent labor dynamics were more likely driven by temporary sector-specific factors (Box 2).

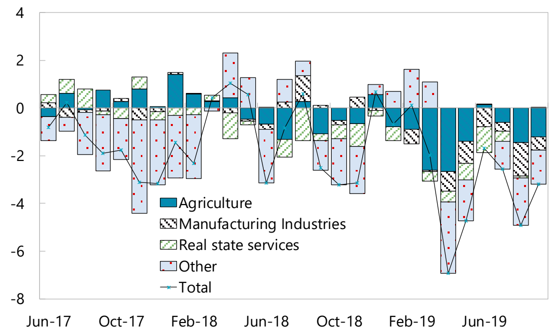
Box 2. Labor Market Dynamics

Unemployment and Labor Force Participation
(Percentage of population; 3-month average)



Sources: DANE; and staff calculations.

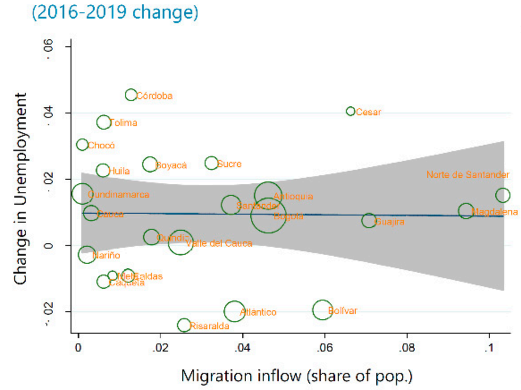
Employment growth
(Yearly growth; percentage)



Sources: DANE; and staff calculations.

Weak employment growth contributed to rising unemployment and lower participation in 2019. An agricultural sector hit by adverse weather factors disproportionally contributed to the decline, along with significant negative contributions from other underperforming sectors such as manufacturing and real estate services.

Unemployment and migration
(2016-2019 change)

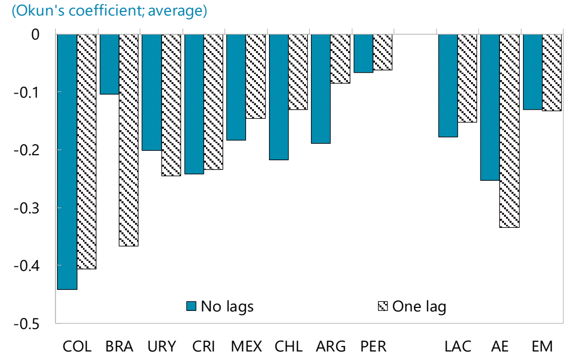


Source: DANE; and staff calculations
Note: Change in unemployment from 2016 to 2019.

Staff analysis suggests that the rise in unemployment was not driven by migrants (see SIP[1]). Regions receiving greater migrant inflows have not seen the largest unemployment increases or decreases in participation. Unemployment rose across most departments in Colombia, while declines in participation were in fact less pronounced in regions with greater migrant inflows.

Colombia's unemployment rate moves closely with GDP. Colombia's unemployment rate has historically been more elastic to GDP growth than regional peers. This suggests that unemployment could increase significantly in the short-term due to the Covid-19 pandemic but should eventually decline as the output gap narrows. Beyond these short-term dynamics, Colombia does have a structural unemployment problem. The stubbornly high rate above 9 percent over the last decade indicates the need for structural policy actions.

Unemployment's responsiveness to GDP changes
(Okun's coefficient; average)



Sources: Staff calculations.

[1] "Venezuelan Migration and The Labor Market", SIP, IMF 2020.

9. Continued accommodative monetary policy stance together with gradual fiscal adjustment supported the recovery. The policy rate remained at 4.25 percent since April 2018, moderately below staff's estimate of the neutral real rate[2], before being cut by 50 bp in response to the Covid-19 shock in March 2020. Meanwhile, the central government's (CG) headline budget deficit narrowed to 2.5 percent of GDP in 2019— more ambitious than the Fiscal Rule Consultative Committee's (FRCC) recommendation of 2.7 percent of GDP—reflecting stronger tax administration performance (from increased staffing and training, more targeted audits, and better IT systems and analytics at the DIAN) and one-off revenues (e.g., high central bank profits and Ecopetrol dividends). The consolidated public sector (CPS) deficit also improved despite subnational governments' increased expenditure ahead of local elections as public enterprises' losses fell. After the Constitutional Court overturned the 2018 Financing Law (FL) in October 2019 on procedural grounds, a replacement Growth Law (GL) was swiftly approved in December 2019. Against the backdrop of social tensions, modest VAT changes to benefit low-income individuals and lower pension contribution requirements for minimum wage earners were added to the GL.[3]

10. Structural measures have focused on boosting productivity and public investment, as the Peace Agreement implementation continues. The 4G infrastructure agenda accelerated, and the authorities started programs aimed at advancing innovation, access to export markets, firm formalization, and productivity growth as part of the NDP. Tasked with monitoring the peace agreement, the Kroc Institute continues to report steady progress. Notwithstanding last year's Presidential Objections, the Special Jurisdiction for Peace's Statutory Law was ratified by Congress.

11. From a starting point of relative resilience, Colombia's recovery has now been interrupted by the Covid-19 pandemic and steep oil price declines. As the outbreak spread globally after January 2020, economic activity was disrupted on a wide scale in an effort to contain the pandemic, including a mandatory national quarantine. Amid heightened global uncertainty, equity markets fell sharply and financial conditions tightened significantly since early March 2020. This has led to sizeable portfolio outflows from emerging market economies, despite policy responses by the major central banks. With its reliance on oil (38 percent of goods exports in 2019) and its sizeable external deficit, Colombia's exchange rate sharply depreciated, accompanied by a steep asset price fall and sharp rise in spreads. The current shock is the largest in recent years and comparable to the Global Financial Crisis of 2008-09.

12. In response to rapidly unfolding developments, a national state of emergency has been declared and support measures have been announced. These included the creation of a new National Emergency Mitigation Fund (FOME), additional health sector budgetary support, faster direct contracting for services associated with the reponse, a new credit line to provide liquidity and support available for all tourism-related companies, delayed tax collection and utility payments, a

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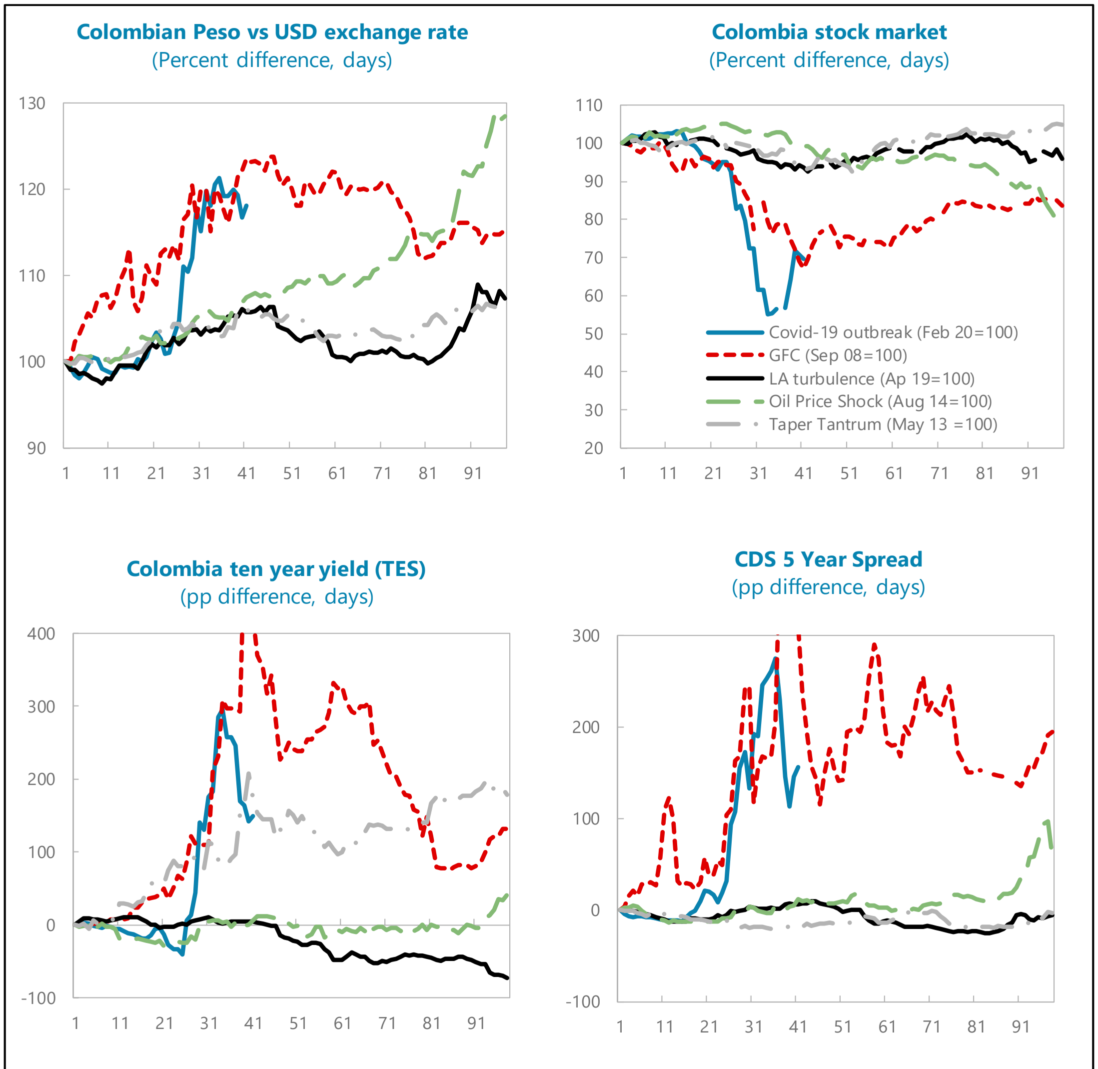
[2] Staff estimates for the neutral real rate range from 1-2 percent.

[3] The GL also aims to increase structural tax revenues by improving tax administration through implementation of electronic invoicing, better targeted tax audits, and increased DIAN resources. Nevertheless, staff expects the law to create tax revenue shortfalls starting in 2021 (Country report 19/106).

reduction of tariffs for strategic health imports, credit support for SMEs, and expanded transfers for vulnerable groups. A mandatory nation-wide quarantine was put in place on March 25 for three weeks and several regions have issued curfews to contain virus transmission. All borders have been closed. The Central Bank eased interest rates and has adopted a set of measures to ensure the adequate provision of liquidity in both the domestic financial market and foreign exchange rate markets in order to support credit supply.[4]



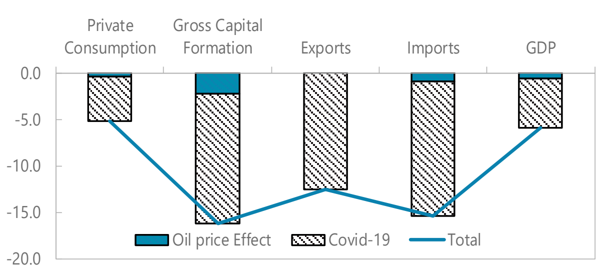
Source: Bloomberg, Haver analytics and Fund-Staff's calculation's

[4] These include: (i) a new mechanism of exchange-rate hedging through a USD 2bn auction of Non-Deliverable Forwards with a 30-day maturity, (ii) an extension of access of their liquidity overnight and term facilities to managed funds, stock brokerage companies, trusts, and investment companies, (iii) an expansion of their liquidity operations (REPOS) allotment to COP 23.5 trillion, and (iv) USD 800 million of FX swaps (in US dollars) through which the Central Bank sells reserves and buy them back in 60 days, (v) COP 10 trillion program to purchase securities issued by credit institution, and (vi) COP 2 trillion in TES purchases. The net lender position of Central Bank is expected to increase substantially with these transactions.

C. Outlook and Risks

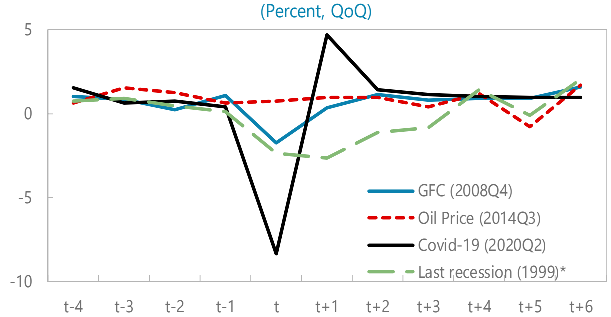
13. A recession is expected in Colombia given an exceptional global shock. With a projected global contraction in 2020, sharply lower oil prices in response to the failure of oil producers to cut production, and sizeable domestic disruptions to activity from the Covid-19 outbreak, real GDP is projected to contract by 2.4 percent in 2020. This would be Colombia's first recession since 1999.[5] With respect to health system capacity (e.g., hospital beds, doctors, and health coverage), the share of population over 65 –particularly vulnerable to the virus—and the quality of epidemic response capacity, Colombia's health vulnerability is comparable to other emerging market economies.[6] Under the assumption that the Covid-19 pandemic recedes, growth is expected to rebound in 2021 in line with the anticipated strong bounce back in global growth. Inflation is expected to moderate as past supply shocks recede, but the path will depend on exchange rate pass-through and economic slack resulting from the shock. Last year's growth drivers are expected to gradually return and remain in place over the medium term—including the boost from migration flows. These factors are projected to lift growth above 3½ percent from 2021. While corporate credit and NPLs had improved with the economic recovery, recent financial market turbulence—including the oil price collapse—are expected to temporarily halt or reverse these trends.

2020 Revisions vs January 2020 WEO
(pp)



Source: IMF staff estimates

GDP Growth Rate
(Percent, QoQ)

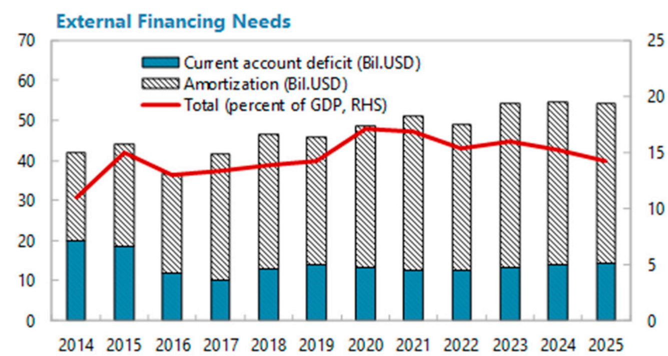


Source: DANE, IMF Staff estimates. Data for 1999 not produced under SNA 2008

[5] The growth revision is driven by both domestic effects from the Covid-19 pandemic as well as the impact of lower oil prices and tighter financial conditions. The domestic disruptions are concentrated in 2020Q2 and are guided by the impact observed thus far in China, Singapore in 2020Q1 and high frequency data in some advanced economies. This is expected to depress private consumption and investment by around 5 and 14 pp respectively relative to the January WEO forecast. The impact on exports from global growth revisions associated with the Covid-19 outbreak is around 12pp. According to staff's estimates, a 10 percent decline in oil prices will reduce GDP growth by 0.1-0.2pp, oil-related revenues by around 0.2-0.3 percent of GDP and widen the current account by around 0.2 percent of GDP. The oil price decline of close to 40 percent since the January WEO update will lower GDP by around 0.5pp, consumption by 0.4pp and investment by 2.2pp, in line with Ecopetrol's announced capital expenditure cuts of USD 1.2bn. Oil production is not expected to further decline in response to the oil price drop, also consistent with Ecopetrol's announced production targets for 2020.

[6] World Bank World Development Indicators; Johns Hopkins Global Health Security Index.

14. Colombia's external financing needs are expected to remain high. Against the backdrop of weaker external and internal demand and an adverse terms of trade shock, the current account deficit is expected to rise to 4.7 percent of GDP. Exports are forecast to decline as global growth has been disrupted by the pandemic. Imports will likely fall in response to the recession. Recent increases in the current account deficit and private short-term debt imply increased external financing needs that are high by regional standards (17 percent of GDP in 2020-21). However, given Colombia's FDI track record and attractiveness as an investment destination, financing needs are expected to be met substantially through FDI, especially once the acute phase of the pandemic subsides and any withheld investment can resume. However, FDI inflows are expected to be more modest than in 2019. Expected portfolio inflows include market financing already secured by the authorities in January of this year, but private flows are not expected to contribute to financing needs.



Sources: National authorities and IMF staff estimates.

15. Amid considerable global uncertainty, Colombia's vulnerabilities have risen to heightened external downside risks (RAM). Higher financing needs increase Colombia's exposure to external shocks, such as a further fall in commodity prices and a sharp rise in risk premia. In light of rapidly deteriorating growth prospects in the U.S. and elsewhere in efforts to contain the pandemic, further pressure on commodity prices, and prolonged periods of tighter financial conditions, risks remain for a deeper recession in Colombia. In particular, a more widespread and prolonged Covid-19 pandemic could lead to more prolonged shutdowns globally and domestically that could not be offset by policy support. Venezuela's ongoing crisis could yield accelerated migration to Colombia—including from a possible Covid-19 crisis there—that would raise short-term fiscal costs and external deficits, while spillovers from regional social tensions could reduce capital inflows to Latin America for a sustained period. Internal risks include a further deterioration of labor market conditions, deterioration of the credit portfolio affecting credit supply, and tax revenue shortfalls that could prompt cuts in social and infrastructure spending. Upside risks include higher-than-expected commodity prices.

16. In late February, the authorities expected the recovery to continue and for inflation to converge to target by year end. Excluding the effect of Covid-19, they had projected GDP growth between 3.3 to 3.7 percent for 2020, supported by private consumption and private investment. They agreed that risks remain elevated—including of further waves of migration, adverse Covid-19 effects and oil market volatility that may impact growth and inflation, raise fiscal costs, and put additional pressure on the current account. Since March, very adverse Covid-19 effects and oil price risks were realized, with strong negative effects on output and downward pressures on the exchange rate. These effects will dramatically change the macroeconomic outlook.

Risk Assessment Matrix[1]		
Source of Risks (Probability in color; time horizon in bold)	**Impact**	**Policy Advice for Colombia**
Global		
Rising protectionism and retreat from multilateralism. In the near term, escalating and unpredictable protectionist actions and an inoperative WTO dispute resolution framework imperil the global trade system. Additional actions or the threat thereof, including investment restrictions, reduce growth directly and through adverse confidence effects. In the medium term, geopolitical competition, protracted tensions, and fraying consensus about the benefits of globalization leads to further fragmentation, with adverse effects on investment, productivity, growth, and stability. **High ST, MT**	**Medium**	Speed up structural reforms to enhance external competitiveness and economic diversification. Diversify export destinations.
Sharp rise in risk premia that exposes financial vulnerabilities. An abrupt reassessment of market fundamentals triggers widespread risk-off events that expose financial vulnerabilities that have been building in a period of low interest rates and a search for yield. Risk asset prices fall sharply, leading to significant losses in major financial institutions. Higher risk premia generate debt service and refinancing difficulties; stress on leveraged firms, households, and vulnerable sovereigns; and capital outflows. **High ST, Medium MT**	**High**	Use the flexible exchange rate as the first line of defense against external shocks. Targeted liquidity interventions can address disorderly market conditions, as can use of international reserves, if needed -). Reserve accumulation, and controlled build-up of short-term external debt would reduce likelihood and impact of subsequent capital outflows. Allow banks to draw down their ample capital and liquidity, while macroprudential policies can limit the future build-up of financial vulnerabilities.
Social discontent that causes economic disruption and policy missteps. Social tensions persist and protests intensify amid slowing growth and political fragmentation. Beyond immediate economic disruption and adverse confidence effects, reform paralysis and policy missteps reduce medium-term growth, especially in countries needing adjustment. **Medium ST, MT**	**Medium**	To reduce the risk of domestic tensions and protests reaching the intensity observed elsewhere in the region, speed up implementation of NDP and Peace Agreement, with a focus on inequality. If growth slows, further monetary policy accommodation is appropriate. If tax revenue measures are delayed, reprioritize public investment adhere to the fiscal rule. To reduce the risk or impact of capital flight owing regional contagion, proceed with fiscal consolidation, structural reforms to enhance external competitiveness
More severe Covid-19 pandemic causes more widespread and prolonged disruptions to economic activity directly, through global trade and supply chain spillovers, and via confidence effects on financial markets and investment. **High ST**	**High**	Allow the flexible exchange rate to weaken in response to lower commodity prices. Within the fiscal rule, fiscal policy should accommodate urgent temporary spending needs and bolster subsequent recovery. Monetary policy should accommodate demand reductions, absent inflationary pressures from the depreciation and supply-side shocks.
Large swings in energy prices. With the recent break of the OPEC+ alliance, oil supply has become less predictable. Potential price wars, together with demand shocks, have raised oil market uncertainty and volatility, complicating economic management. As shocks materialize, they cause large and persistent price swings. **High ST, MT**	**High**	Use the flexible exchange rate as the first line of defense against declines in oil and other commodity prices. Reduce reliance on oil-related tax revenues.

Risk Assessment Matrix (concluded)		
Weaker-than-expected global growth. Other risks and idiosyncratic factors in the U.S., Europe, China, and other large emerging markets feed off each other in a synchronized and prolonged slowdown: • **U.S.:** Confidence wanes against a backdrop of a long expansion, stretched asset valuations, rising leverage, and reduced policy space, leading to weaker consumption and investment. **High** **ST, MT** • **Europe:** Weak foreign demand or an unanticipated Brexit outcome delays investment, reduces private consumption, and strains banks. With limited policy space, the region enters a prolonged period of anemic growth and low inflation. **High** **ST, MT** • **China:** In the near term, Covid-19 and renewed escalation of trade tensions reduce growth directly and by damping confidence and exposing financial vulnerabilities. In the medium term, the reversal of globalization alongside insufficient progress on SOE reform and opening-up weigh on growth. Excessive policy easing—reversing progress in deleveraging and rebalancing—increases risks over time of a disruptive adjustment or a marked growth slowdown. **High** **ST, MT** • **Large emerging economies:** Policy missteps, idiosyncratic shocks, and/or contagion prevent expected stabilization or recovery from materializing, generating negative spillovers and reducing global growth. **High** **ST**	**High** **Low** **Medium** **Low**	Speed up structural reforms to enhance external competitiveness and economic diversification. Monetary policy support if inflation expectations remain well anchored. Reprioritize public investment projects. Any fiscal measure should maintain adherence to the fiscal rule.
Colombia Specific		
Renewed delays in infrastructure projects, continued weakness in exports and softer private consumption. **Low** **MT**	**High**	Speed up structural reforms to enhance external competitiveness and diversification. Maintain monetary accommodation. Reprioritize public investment projects.
Higher than expected migration flows from Venezuela, greater than anticipated costs per migrant, and/or challenges in assimilating migrants results in additional net fiscal costs and lower potential output. **Low** **ST, MT**	**Medium**	Consider invoking temporary escape clause in fiscal rule, ensure medium-term declining path for public debt. Seek concessional financing and aid. Speed-up policies to integrate migrants into the labor force and maximize economic benefits.
Sharp slowdown in growth raises risks of deteriorating credit portfolios. **Medium** **ST,** **MT**	**Medium**	Allow banks to draw down their available capital and liquidity buffers, while maintaining strict loan classification and provisioning standards. Step in with additional measures if needed, including subsidies and tax relief aimed at smaller borrowers as well as credit guarantees and (further) asset purchase programs to support banks.
Shortfalls in mobilizing tax revenue lead to large cuts in public investment and social spending, adversely affecting growth and poverty reduction or lead to relaxation of the fiscal rule and higher public debt. **Medium** **MT**	**High**	Reprioritize public investment projects. Strengthen revenue administration, eliminate preferential regimes for businesses and broaden the base for personal income taxes and VAT (with targeted transfers for vulnerable groups affected). Speed up structural reforms and economic diversification measures.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). Non-mutually exclusive risks may interact and materialize jointly. "Short term (ST)" and "medium term (MT)" are meant to indicate that the risk could materialize within 1 year and 3 years, respectively.

POLICIES TO WITHSTAND A GLOBAL SHOCK AND MITIGATE RECESSION

In the wake of the Covid-19 shock, macroeconomic and macroprudential frameworks provide flexibility to mitigate the recessionary impact of the sharp decline in oil prices and the global economic downturn. A policy mix of monetary accommodation, using all available fiscal space, including under the fiscal rule, countercyclical macroprudential policies, and exchange rate flexibility would be an appropriate response to the exceptional circumstances Colombia now faces.

17. Monetary policy accommodation should continue and further easing should be considered as long as underlying inflation pressures do not rise. As in the past, Colombia's flexible exchange rate serves as an effective first line of defense against external shocks, especially since balance sheet effects are seen as relatively modest. To complement this, monetary policy is well placed to further reduce policy rates in the near term as needed, provided inflation expectations do not increase as the currency depreciates. In the medium term, policy accommodation can be gradually withdrawn as recessionary forces recede and growth resumes a strong trajectory to close output and credit gaps, or if underlying inflation pressures rise. The central bank emphasized that it continues to monitor inflation and output risks closely. They have also highlighted that the COVID-19 shock dramatically changed the macroeconomic outlook, with a substantial downgrade of expected growth, while the sharp drop in oil prices heightened pressures on the exchange rate. Monetary policy will be set to produce as smooth an adjustment as possible to these very strong shocks. The initial responses of the central bank were aimed at lowering interest rates and ensuring an adequate provision of liquidity to financial markets in order to preserve credit supply and an adequate functioning of markets. Monetary policy decisions remain data dependent. Staff welcomes the liquidity measures taken as well as communication improvements implemented last year—including the prompter publication of minutes after policy decisions and the monetary policy report detailing BanRep staff's projections.

18. The regulatory and supervisory response to the current turmoil should be flexible and principled. The disruptive economic impact of the pandemic will affect borrowers' capacity to service loans and compress banks' earnings. In anticipation, the financial supervisor (SFC) has given banks permission to make use of their countercyclical provisions, while BanRep has launched a COP 10 trillion program to purchase securities with a remaining maturity of less than three years issued by credit institutions. To prevent a credit contraction that could amplify the economic slowdown the authorities should also consider the following measures depending on how the situation unfolds:

- **a.** Encourage banks to use flexibility in existing regulations and undertake prudent renegotiation of loan terms for stressed borrowers.
- **b.** Encourage banks, which are well capitalized with an average CAR of 17.6%, to draw upon existing capital buffers to absorb costs of loan restructuring. Nonetheless, banks should always maintain credible capital plans, and supervisors should set down timetables for

rebuilding capital buffers as the crisis abates. Loan classification and provisioning rules (other than the counter-cyclical ones) should not be eased, as it is critical to measure NPLs and potential losses as accurately as possible.

c. Use available liquidity buffers if needed and introduce enhanced supervisory reporting to monitor liquidity strains. The system-wide LCR stands currently at around 200%.

d. Heighten monitoring of financial soundness, enhance frequency of dialogue between the SFC and regulated entities, and prioritize discussions on business continuity planning and operational resilience.

e. Step in with additional support measures as needed, including subsidies and tax relief aimed at smaller borrowers as well as credit guarantees and expand asset purchase programs to support banks. Assets should be of high quality, in order not to introduce or increase credit risk to the central bank's balance sheet, and the program should be compatible with monetary policy operations with respect to managing inflation.

19. The fiscal rule provides sufficient flexibility to respond to the substantial weakening of private demand and deploying all available fiscal space is important. At the time of the mission, the authorities were aiming for a headline deficit target in 2020 below the FRCC's recommendation that included allowances for Venezuelan migration expenditures. In response to the Covid-19 pandemic, the authorities have issued an emergency decree allowing the central government to make use of regional and stabilization funds (e.g. FAE, FONPET, worth up to 1.4 percent of GDP) to be channeled through FOME to cover emergency spending. Staff assumes that 1 percent of GDP will be deployed from these resources.[7] In addition, the authorities should explore flexibility within the rule under exceptional circumstances to provide additional demand support.[8] Relying on local governments—which also have fiscal space—for health and education provision using the central government public procurement system's guidelines would further support demand and boost the efficiency and progressivity of social programs. Beyond 2020, the authorities are committed to matching the FRCC headline deficit path over the medium term through tax administration gains

[7] The use of the regional stabilization funds would result in an increase to the headline deficit for the consolidated public sector (as assumed in staff's baseline) but not to the headline deficit of the central government as the additional expenditure is matched by a transfer receipt (recorded as capital resources). Staff further assume that the authorities will use all of the fiscal space granted by the FRCC last year, that is, a deficit of 2.3 percent of GDP.

[8] The fiscal rule has a clause for additional countercyclical spending (Article 6) which maybe activated in the current environment *without the need to suspend the rule*. Specifically, additional spending can be undertaken when it is projected that in a particular year that economic growth is two percentage points or more below potential growth and that a negative output gap is also projected. This countercyclical spending cannot exceed 20% of the estimated output gap, with this expenditure allowed to be transitory and to be completely dismantled after two years. Staff estimates that the conditions to activate Article 6 are met allowing for additional expenditures in 2020 and 21. In the case of more severe and prolonged Covid-19 pandemic, there is also an escape clause under the fiscal rule that could be triggered under "extraordinary circumstances beyond government control". If the escape clause is triggered, the authorities should clearly state the size and duration of the allowed deviation from the rule, and correction mechanisms when the rule is reinstated. The FRCC is expected to meet in early April.

and spending efficiency. If the fiscal rule is met, public debt will decline from around 58 percent of GDP in 2020 to about 48 percent by 2025. [9]

Fiscal Outlook 1/

(In percent of GDP; unless otherwise indicated)

	2017	2018	2019	2020	2021	2022	2023	2024	2025
Central Government Fiscal Stance									
Headline balance (excluding recognition of arrears) 2/	-3.6	-2.9	-2.5	-2.3	-1.8	-1.4	-1.2	-1.0	-1.0
Headline balance (including recognition of arrears) 2/	-3.6	-4.8	-2.5	-2.3	-1.8	-1.4	-1.2	-1.0	-1.0
Total revenue 2/	15.7	15.3	16.5	15.7	15.4	15.6	15.6	15.6	15.6
Tax revenue	13.8	13.7	14.2	12.5	14.2	14.2	14.2	14.3	14.3
Expenditure (exc. recognition of liabilities)	19.3	18.2	19.0	18.0	17.2	17.0	16.8	16.6	16.6
Expenditure (including recognition of liabilities)	19.3	20.1	19.0	18.0	17.2	17.0	16.8	16.6	16.6
o/w Fixed capital formation	2.1	1.5	2.0	0.5	0.6	0.7	0.7	0.7	0.8
Structural primary non-oil balance 3/	-0.7	-0.4	0.1	0.7	1.7	1.5	1.4	1.2	1.1
CG Fiscal Impulse	-0.7	-0.3	-0.4	-0.6	-1.0	0.2	0.2	0.1	0.2
Consolidated Public Sector									
Headline Balance (excluding recognition of arrears)	-2.4	-2.6	-2.1	-2.3	-1.1	-1.1	-1.3	-1.0	-1.0
Headline Balance (including recognition of arrears)	-2.4	-4.5	-2.1	-2.3	-1.1	-1.1	-1.3	-1.0	-1.0
Total revenue	26.8	30.0	31.6	28.5	29.4	29.6	29.6	29.4	29.3
Expenditure (exc. recognition of liabilities)	29.4	32.7	33.8	30.9	30.7	30.9	30.9	30.5	30.3
Expenditure (including recognition of liabilities)	29.4	34.6	33.8	30.9	30.7	30.9	30.9	30.5	30.3
Structural primary non-oil balance 3/	0.0	-1.0	-1.4	0.1	1.4	0.8	0.2	0.3	0.0
CPS Fiscal Impulse	0.0	0.9	0.5	-1.5	-1.4	0.7	0.5	-0.1	0.3
Public sector gross debt 4/	49.4	53.8	52.9	57.8	55.3	53.1	51.5	49.5	47.7
Public sector net debt 5/	38.6	43.2	44.0	49.0	47.1	45.3	44.0	42.5	41.1

Source: National authorities and Fund staff estimates.

1/ The medium-term fiscal outlook is broadly based on the authorities' medium-term fiscal framework.

2/ Includes one-off telecom fine in 2017 (0.5 percent of GDP) and central bank utilities.

3/ Includes adjustments for Venezuelan migration, excludes one-offs for contingent liabilities, extraordinary oil dividends and central bank utilites.

4/ Includes the recognition of arrears and associated debt from 2018.

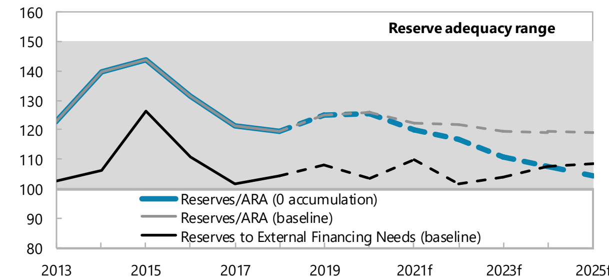
5/ Gross debt minus public sector deposits.

20. To enhance fiscal transparency, the authorities have recognized past arrears. Previously unrecognized expenditures or accounts payable for the central government over the past decade or so amounted to 1.9 percent of 2018 GDP (Annex III). The authorities have put in place specific mechanisms for clearing arrears and avoiding their future build-up—including managing legal claims, improved provisioning and use of the contingency funds, and auditing of health expenditures. They stress that the recognition of arrears and adherence to the fiscal rule anchor their commitment to fiscal responsibility and will continue to deploy any necessary measures to meet all targets in the medium term.

[9] For 2020, this assumes that the authorities will meet the FRCC's 2.3 percent of GDP headline deficit target. With the substantial reduction in tax revenues with recession and lower oil prices, notwithstanding use of resources from FOME, this implies that growth in public sector nominal wages and salaries would be close to zero and that capital spending would need to be cut significantly to meet the target unless additional space under the fiscal rule is sought (see footnote 5).

21. Given elevated external risks, Colombia's reserve position should help it withstand the exceptional global shock. Colombia's past reserve accumulation has helped maintain its reserve adequacy based on IMF ARA metrics, enhancing the country's capacity to intervene in the event of disorderly market conditions should the authorities deem it necessary. However, once current Covid-19 effects and risks subside and market conditions improve, staff recommends resuming reserve accumulation to continue meeting the authorities' objective to sufficiently cover financing needs in their adverse scenario. Without further reserve accumulation, Colombia's reserve coverage would eventually decline towards ARA metric thresholds over the medium term.

Reserve Coverage
(In percent)



Source: IMF staff calculations.

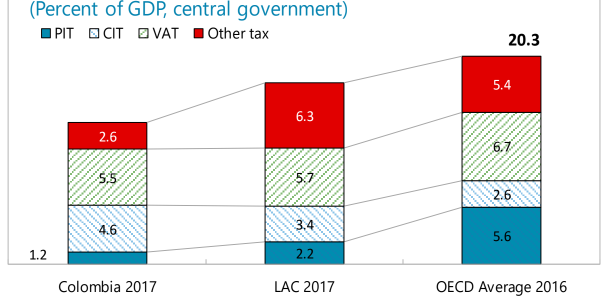
22. As indicated by the reserve accumulation program of 2018-2019, the authorities see the value of insurance through reserves but would only be willing to pursue accumulation when market conditions are favorable. Authorities consider current reserve buffers including FCL access as sufficient to cover baseline external financing needs and a stress scenario. After significant reserve build-up in 2018-19, they are mindful of market perceptions that the central bank program reduced upward flexibility of the COP and could have increased the sensitivity of the currency to EM risk shocks, though their analysis did not reach firm conclusions in this regard. Given recent high volatility in global markets following disruptions caused by the pandemic and the oil price drop, the central bank intervened in the FX market through derivative instruments (NDF and FX Swaps) to provide hedging and liquidity to the market. As of March 22, it had not sold reserves outright. In this context, it does not have any plans to restart their reserve accumulation program while current conditions prevail favorable again.

STRUCTURAL POLICIES: RAISING INCLUSIVE GROWTH AND EXTERNAL COMPETITIVENESS

A. Fiscal policies

23. Colombia faces rising fiscal challenges over time. Colombia not only faces a tightening budgetary envelope under its fiscal rule but also near-term spending rigidities and potential revenue losses from recent tax reforms and from the expected recession. One-off measures and oil revenues have helped meet headline deficit targets in recent years.

Tax Structure
(Percent of GDP, central government)

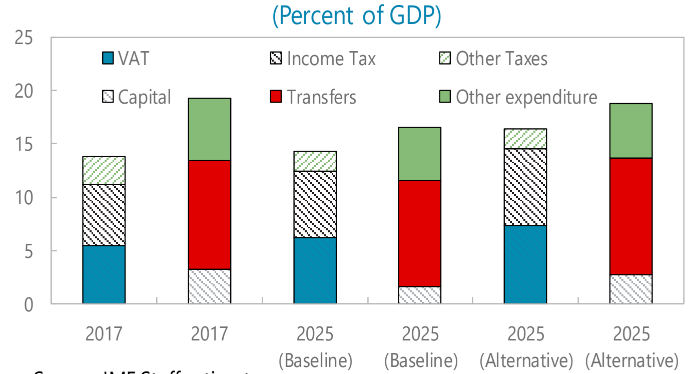


Sources: OECD Database and IMF staff calculation.

24. Once the recovery from the Covid-19 pandemic is under way, revenue mobilization over the medium term and enhanced spending efficiency would create needed fiscal space to meet growth and inclusiveness challenges and mitigate lower oil revenues. Raising tax revenues gradually by 2-3 percent of GDP would safeguard public investment and social spending programs, while rebuilding fiscal space over the medium term and offset lower tax revenues from lower oil prices. On tax policy, revenue mobilization should focus on eliminating preferential regimes for businesses, base-broadening for personal income taxes (including a reduction in the standard exemption and threshold at which tax is levied) and VAT (with targeted transfers to support the most vulnerable affected). On tax administration, continued improvements to DIAN's IT system and governance (including electronic invoicing); changes to the arrears and VAT refunds processes and to high-coverage audits; and increased staffing and training should help to reduce widespread tax evasion.

Tax Revenue and Expenditure

(Percent of GDP)



Source: IMF Staff estimates

25. Public spending efficiency and transparency should be further enhanced. Following NDP provisions, the authorities expect to roll out the new system to identify recipients of social benefits (SISBEN IV) this year to better target key social programs and subsidies.[10] To complement this, energy subsidy reform includes changes to the price smoothing mechanism formula of the fuel stabilization fund (FEPC) to fuel prices to be better aligned with international ones. These measures are estimated to produce efficiency gains of up to 0.6 percent of GDP.[11] The authorities are also supporting local and regional governments' efforts to improve procurement, improve spending efficiency, and mitigate corruption vulnerabilities

26. Expenditure reforms at the subnational level are expected to come into effect this year. Reforms to the Royalties' System (SGR) approved by Congress last year include more funds for resource-extracting municipalities, regional investment, poorest regions, and the peace process. However, less funds are earmarked for the saving and stabilization fund. At the subnational level, significant improvements in procurement have been made as local governments must now open all contracts to standardized public bidding (Pliegos tipo) and use the CG public procurement system (Colombia Compra Eficiente). At the subnational government level, the authorities expect royalties' reform to maintain capital expenditure at current levels, and procurement changes are expected to improve efficiency and reduce corruption. Additionally, the Planning Office periodically audits key local investment projects.

[10] SISBEN IV is an update of the existing targeting system for social programs.

[11] See Colombia: Reforming Energy Pricing (2019), FAD Technical Assistance Report for more details on the electricity, and fuel subsidies that the authorities are implementing.

27. The authorities agree about the desirability to raise tax revenues towards regional peers but through more efficient tax administration and higher growth. They do not expect revenue losses from the GL and believe the lower tax burden on corporates will provide a large boost to both GDP growth and tax revenues. Moreover, efficiency gains from DIAN improvements (including additional tools given by the GL), and subsidy targeting enhancements would support medium-term fiscal adjustment.

B. Financial Sector Policies

28. Colombia has continued to strengthen its financial regulatory frameworks (see Box 3). Remaining decrees of the CL are going into effect in early 2020, and the SFC is adding resources to meet its new supervisory role over conglomerates. Basel III definitions of capital ratios will also be implemented in 2020. As this raises capital adequacy ratios for most banks while new conservation and systemic capital buffer requirements are only introduced gradually, maintaining heightened supervisory vigilance is appropriate during the transitional period, especially in light of the high growth in consumer credit. The authorities expect to submit a law to parliament later this year implementing the Capital Markets Mission's recommendations (see Box 3). A Financial Sector Assessment Program (FSAP) will be undertaken later during 2020-21 to review in-depth Colombia's financial frameworks, oversight, and soundness.

29. The authorities remain confident in their financial supervision during the transition period to new financial regulation. They agreed with staff's views on financial sector issues, but they stress that the growth of consumer loans is not widespread, but concentrated in two large banks, upon which the SFC is conducting focalized supervision.

Box 3. Financial Regulatory Developments in Colombia

Colombia has continued to strengthen its financial regulatory framework. Three noteworthy developments are: 1) Basel III Implementation; 2) Conglomerates Law; and 3) Capital Market reforms.

Basel III implementation

Basel III-compliant definitions of risk weighted assets and capital will come into force by end-2020, with some banks pre-applying the new rules from midyear. Bringing risk weights in line with Basel will reduce the risk density of assets (i.e., average risk weights), from around 77% to 67%. The positive effect on CARs is partially offset by the simultaneous introduction of a capital charge for Operational Risk and the exclusion of Goodwill from capital. The net result of these changes will be a moderate increase in average CARs of around 1 p.p. when calculated on a consolidated basis.

The authorities are gradually introducing capital conservation and systemic risk buffers, that will be fully operational by end-2023. At that time, capital requirements will be as follows:

	CET-T1	T1	T1 + T2
Minimum	**4.5%**	**6%**	**9%**
Conservation buffer	**1.5**	**1.5**	**1.5**
Systemic risk buffer	**1%**	**1%**	**1%**
Total	**7%**	**8.5%**	**11.5%**

Net Stable Funding Ratio (NSFR), leverage ratio (LR), and large exposure limits (LEL) are in various stages of development and implementation. The NSFR is being applied in stages, beginning at 80% of target in March 2020 and reaching 100% by March 2022. A 3% LR comes into force on January 1, 2021. However, with a risk density of 67%, it is unlikely to be binding any time soon. LEL are still under development.

Conglomerates Law

Colombia's Financial conglomerates (FC) are systemically important and particularly active in Central America. FCs make up 77% of assets in the Colombian financial system with the 5 largest conglomerates owning 62% of the system's assets, FCs' exposures abroad rose from $11bn in 2009 to $93bn in 2019. This number includes assets of both financial and the non-financial entities. The largest exposures are in Panama, where Colombian FCs hold USD 32bn of assets, whereas asset holdings in other Central American countries are smaller, totaling USD 36bn. However, given the smaller sizes of the financial sectors of these countries, Colombian FCs account for a larger fraction of the total. For example, Colombian FCs account for 24% of assets in Panama and 50% in Costa Rica.

The CL provides the SFC with the necessary powers and resources to oversee these complex institutions. With FCs, double-gearing, opacity, international spillovers, and related party lending are potentially serious concerns. Therefore, the SFC focuses not only on conglomerates' constituent entities, but also on capitalization, liquidity, risk management and governance of the conglomerate as a whole. The CL of 2017 and subsequent decrees provide the SFC with the necessary powers and resources, including the power to reshape the legal structures of conglomerates, and enforce reporting, risk management, capital, and governance requirements on a consolidated basis. The SFC has not yet used its newly acquired powers to require mixed conglomerates of financial and non-financial companies to create separate financial holding companies to allow for a single point of entry. Also, while fit-and-proper requirements are in force for the financial companies, they do not necessarily apply at the holding company level. However, as issuers of financial instruments, holding companies do have to comply with governance requirements imposed by securities markets regulations.

Box 3. Financial Regulatory Developments in Colombia (concluded)

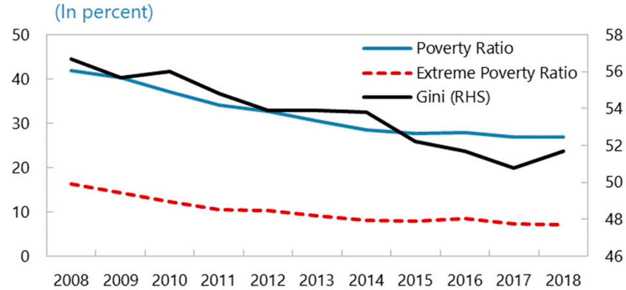
Capital markets reform

Based on recommendations from 2018 Capital Markets Mission, the authorities are preparing a policy document that will form the basis of legislative and regulatory action. The Mission comprised international and domestic financial sector experts and was tasked by the authorities to look at ways to develop the local capital market, make it deeper, more liquid, more efficient and diversified. In October 2019, it published 64 recommendations and proposed 210 actions. One proposal is to expand the regulatory agency URF—financed, at least in part, by a levy on the financial industry. Another is a broad-based switch from a rules-based toward a principles and activities-based regulatory environment.

C. Structural Reforms to Boost Inclusive Growth and Improve External Competitiveness

30. Elements of the NDP and the Peace Agreement aimed at reducing inequality and raising growth should be prioritized. Both poverty and inequality have decreased over the past decade, but levels remain high. Coverage of basic health and education services has improved, but remaining gaps in quality and access, particularly in rural regions, should be addressed in accordance with the Peace Agreement. Moreover, as discussed in previous staff reports, a pension reform that addresses inequality and sustainability concerns should be considered. This includes expanding the non-contributory *Colombia Mayor* program and pension coverage for workers earning less than the minimum wage, while removing regressive subsidies for higher-income pensions.

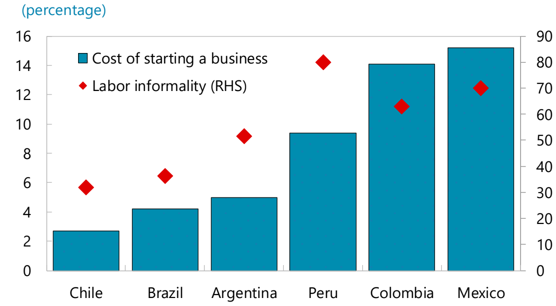
Colombia: Poverty Rate and Gini Index
(In percent)



Source: DANE.

31. Boosting productivity growth and external competitiveness remains key. Multiple factors drag TFP and external competitiveness—including lack of innovation, an inefficient legal system, and infrastructure gaps. Colombia's high internal transport costs, given its geography and underdeveloped infrastructure, are compounded by logistics bottlenecks, tariff dispersion, and non-tariff barriers that increase trade costs and limit export growth. In this context, the implementation of the 4G infrastructure agenda should move ahead as

Informality and costs of starting a business
(percentage)



Sources: World Bank Doing Business, IADB.
Note: Cost of starting a business shown as a percentage of income per capita. Informality shown as a percentage of economically active population and defined based on pension system contributory status.

scheduled, and streamlined NDP programs aimed at facilitating entrepreneurship, technology adoption, and reducing skill mismatches can continue. The authorities noted that they are currently evaluating, streamlining, and consolidating over 250 competitiveness programs spread over multiple agencies to boost their scalability and impact. They are also about to conduct a comprehensive revision of disperse tariff and non-tariff barriers.[12] These efforts are welcome and should be accompanied by concrete actions to address inefficiencies in the system.

32. Promoting formal employment remains a priority. Beyond recent adverse employment dynamics (Box 2), structural unemployment and informality remain high in Colombia relative to regional peers. Informality rates have declined after the 2012 reforms but around 44 percent of workers still work in mostly informal self-employment and around 33 percent of wage earners do not have access to social security. This is partly due to Colombia's comparatively high non-wage labor costs, minimum-to-median wage ratios, and formal business start-up costs that hamper the creation of formal employment. To reduce formalization costs, authorities have recently reduced business registration fees, simplified reporting requirements for small firms, and implemented one-stop shops for business and social security registration. Nonetheless, the take-up of the new simplified regime and coverage of one-stop shops are still limited. Authorities expect that increased adoption of the SIMPLE small-business regime and expanded coverage of their new one-stop shop business registry service (Ventanilla Unica) to significantly increase firm formalization. To integrate migrants into the formal sector, they have also expanded work and residence permit programs (Box 1).

33. Progress on governance, anti-corruption and AML/CFT has been made, but further efforts are needed. While Colombia has a largely comprehensive anti-corruption legal framework (Country Report 18/128), some indicators point to weak public perceptions, with corruption being high in the agenda of last year's social protests, and capabilities for detection and enforcement against corruption are not fully effective. The authorities have rolled out a system (RITA) that allows the public to report unlawful activities anonymously, but this lacks full whistleblowing protection. A recent law required public servants to publicly declare their income and assets with various ministries starting to report this information through the SIGEP portal[13] accessible by the public, and full implementation of this new system is still needed to help combat corruption effectively. The authorities should also continue bolstering enforcement efforts and improving the efficiency of the courts, including by reducing backlog of criminal court cases and collecting detailed statistics. With respect to the recommendations of the Detailed Assessment Report on AML/CFT, the authorities updated the national risk assessment in 2019 in line with international best practice, and helped by big data, network and AI analysis have improved the identification, assessment and understanding of money laundering and terrorist financing (ML/TF) risks. The authorities also report that they have improved coordination between supervisory entities (though not beyond these); and they are

[12] Non-tariff barriers include burdensome custom procedures that induce significant costs and lead to corruption vulnerabilities (country Report 19/106).

[13] Information System and Management of the Public Employment Service.

working on the creation of a final beneficiary register with access to all financial information according to international best practice after the passage of Law 2010 in 2019.

34. Colombia has removed the exchange restriction arising from the special regime for the hydrocarbon sector. With the approval of Article 95 of RE. 1/18, Colombia is no longer deemed to maintain an exchange restriction subject to Fund approval under Article VIII arising from the special regime for the hydrocarbon sector (see IMF Country Report No. 13/35 for details).

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35. A basis for resilience of the Colombian economy is its very strong policy frameworks and well-executed policies. Well-executed policies since the 2015-16 oil price shock laid the foundations for the subsequent economic recovery. In response to the Covid-19 outbreak and sharp fall in oil prices, flexibility in its very strong policy frameworks will help Colombia respond to a likely recession. Depending on the depth of the economic contraction, monetary policy should remain appropriately accommodative or ease further as long as inflation expectations remain well-anchored. Given heightened volatility and dislocation in financial markets, central bank actions to provide liquidity are welcome and targeted measures can continue as needed while being mindful of central bank balance sheet risks. Resources from the Mitigation of Emergency Fund and all available space under the fiscal rule, including deployment of temporary countercyclical spending, to accommodate additional short-term spending needs should be used in 2020 and, thereafter, structural fiscal consolidation should proceed in line with the rule. Available resources from local governments, which also have fiscal space, could provide added support, including for health care spending. Macroprudential policies should also be deployed to avoid a sharp decline in credit supply and the authorities should continue to provide ample liquidity to market participants.

36. The authorities' sustained efforts to integrate Venezuelan migrants are commendable. Venezuelan migration is expected to continue to be an engine of growth over the medium term, with potential gains depending on the speed of migrant integration into the formal economy. The expansion of the PEP and a newly-established formal employment program for migrants are exemplary measures that should continue. If migration flows were to accelerate, fiscal space under the rule could be used to meet higher demand for public services and to support vulnerable groups through a pandemic-related recession.

37. With higher external vulnerabilities, Colombia's reserve accumulation has strengthened the country's capacity to deal with adverse shocks. Colombia's external position is assessed as moderately weaker than the level consistent with medium-term fundamentals and desired policy settings (Annex I). Amid heightened global uncertainty, increased external financing needs raise Colombia's exposure to external risks in a downside scenario. Past reserve accumulation and current reserve adequacy help position the country well to manage external risks in the current setting. Once Covid-19 effects and risks recede and market conditions normalize, resuming reserve accumulation should be considered, market conditions permitting, to preserve the capacity to deal with future shocks. Structural policies to strengthen external competitiveness remain essential.

38. Fiscal consolidation in line with the fiscal rule over the medium term should be driven by higher structural tax revenues to protect key spending. Beyond 2020, fiscal consolidation in line with the fiscal rule should be aided by higher structural revenues through tax reforms, and improved tax administration and spending efficiency, while safeguarding social spending and infrastructure investment. Staff welcomes recent tax collection improvements and the authorities' focus on spending efficiency.

39. The authorities' recognition of previously unrecognized public expenditures enhances fiscal transparency and preventing new arrears would strengthen public finances. The authorities have put in place a well-defined strategy for clearing these arrears, including on the timing and sources of funding. Staff welcomes the authorities' plans to strengthen provisioning and spending mechanisms to address the accumulation of future arrears. Further improvements to the assessment of fiscal risks would also help prevent incurring new arrears (e.g. the creation of a fiscal risk monitoring committee and the introduction of regular reports on fiscal risks[14]) and should be pursued.

40. The regulatory and supervisory agenda remains on track, though the authorities should remain vigilant of potential risks arising from rapid consumer credit growth. Business credit was recovering in line with the economy while consumer credit was rapidly expanding before the pandemic-related downturn arrived. Continued vigilant and proactive supervision—including from the past rapid acceleration in consumer credit—will help ensure that problem assets remain sufficiently provisioned for and are well managed as the economy moves into recession and avoid a potential future build-up of NPLs. The gradual convergence of capital and liquidity requirements towards Basel III standards will further strengthen the regulatory framework.

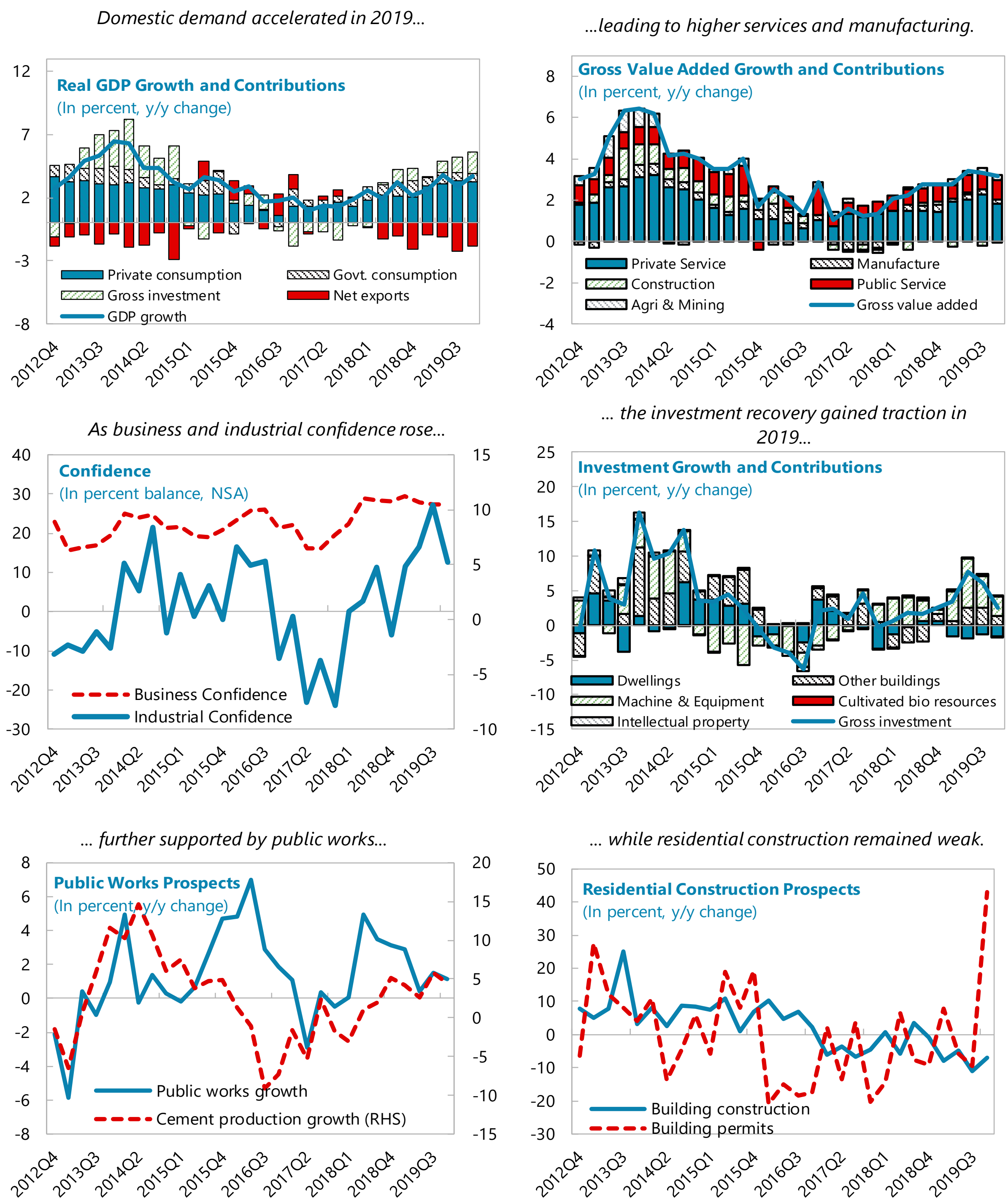
41. Over the medium term, structural reforms remain instrumental to raise growth, expand employment, and promote inclusion. In response to protests, the government is engaging in national consultations. Colombia's deeper inclusion challenges, however, require fundamental structural reforms. Programs aimed at tackling regional disparities—including the implementation of the Peace Agreement—and boosting inclusive growth should be prioritized. Beyond that, meaningful pension reform including an expansion of the social pillar Colombia Mayor and removing regressive subsidies for higher-income pensions warrant consideration. Civil works execution is proceeding well and 4G infrastructure investments should reduce transportation costs and help boost exports, especially if complemented with a reduction in non-tariff barriers. Given high structural unemployment, informality, and migration inflows, promoting formal employment remains a priority.

42. Staff welcomes the removal of the exchange restriction arising from the special regime for the hydrocarbon sector. Colombia has a floating exchange rate regime (*de jure*: free floating; *de facto*: floating) and, with the recent modification of Article 95 of RE. 1/18, no longer maintains an exchange restriction subject to Fund approval under Article VIII arising from the special regime for the hydrocarbon sector.

43. Staff recommends that the next Article IV takes place on the standard 12-month cycle.

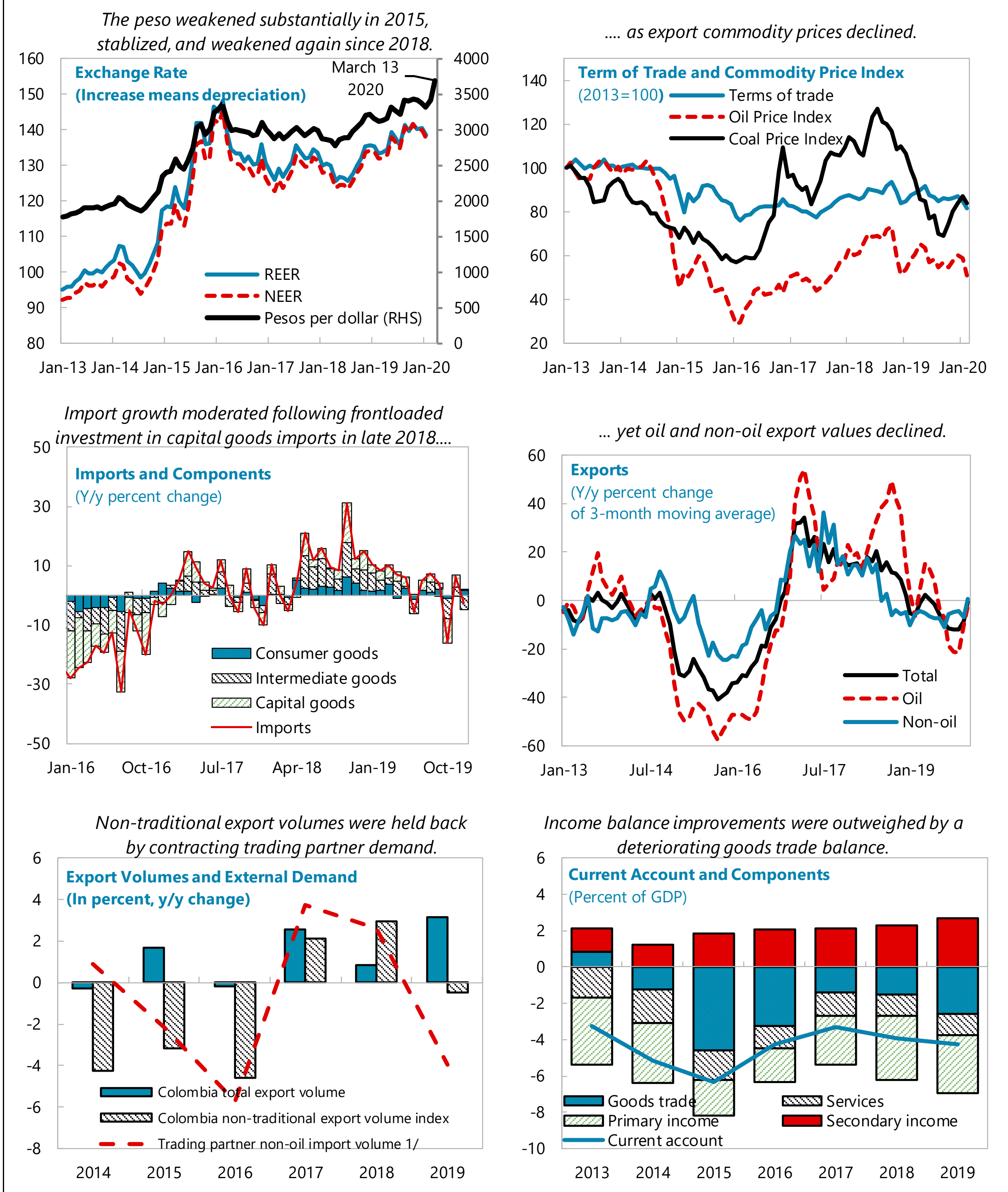
[14] See the 2018 FTE for Colombia.

Figure 1. Colombia: Recent Economic Developments



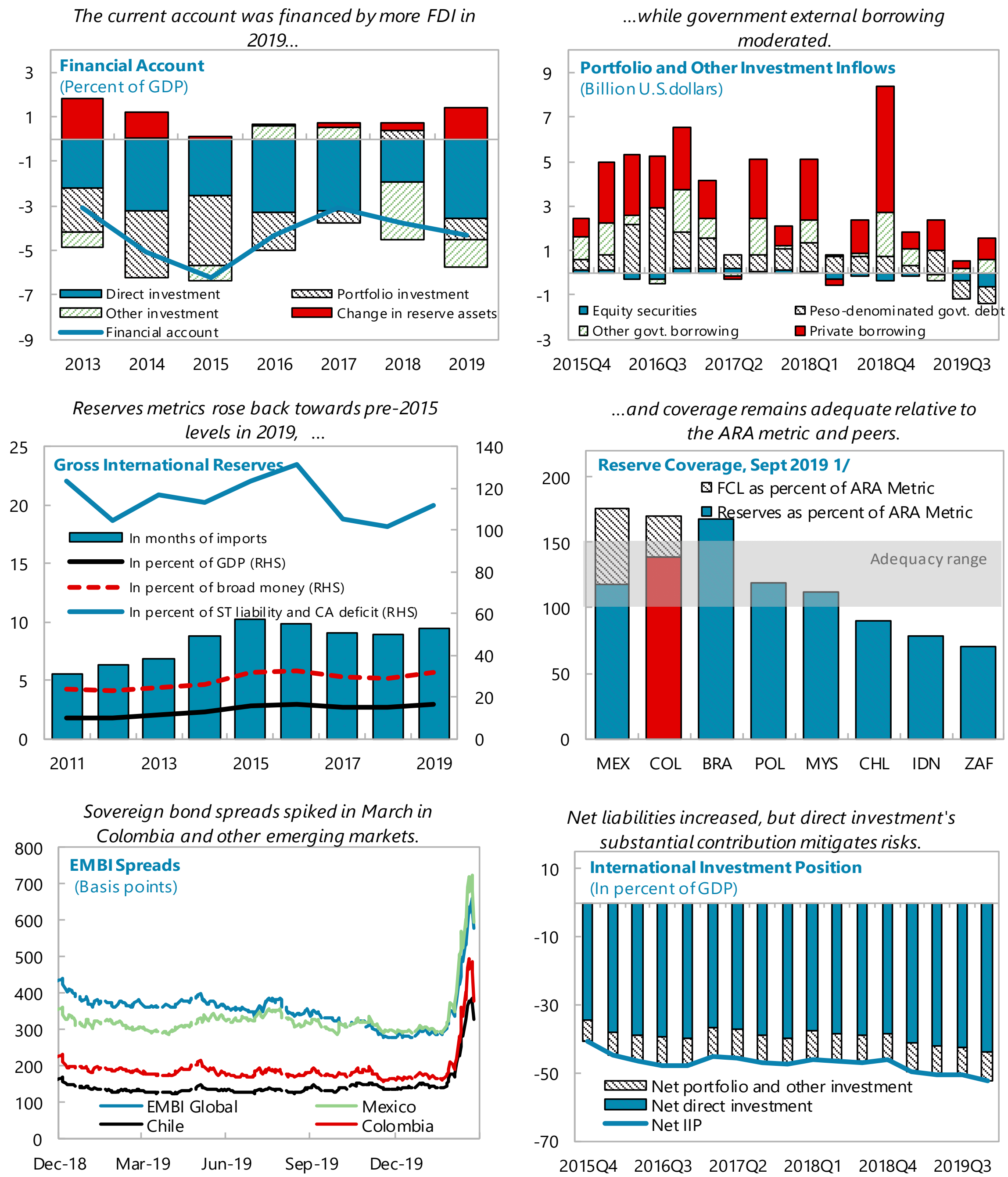
Sources: Departamento Administrativo Nacional de Estadísticas (DANE); La Fundación Para la Educación Superior y el Desarollo; Haver Analytics; and IMF staff estimates.

Figure 2. Colombia: Current Account Developments



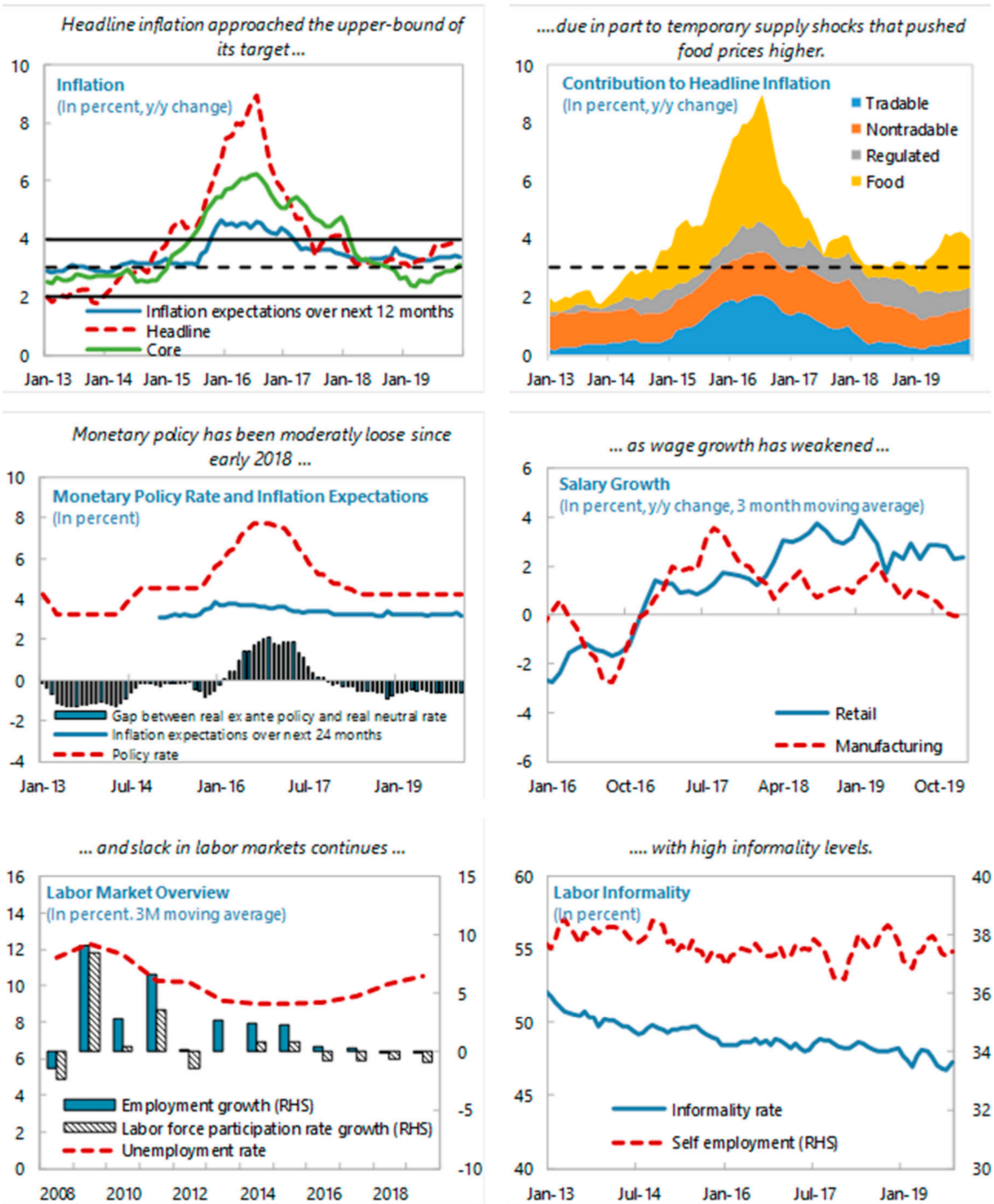
Sources: DANE; Banco de la República; Bloomberg; Haver Analytics; and IMF staff estimates.
1/ Weighted by destinations of Colombia's non-traditional exports.

Figure 3. Colombia: Financial Account Developments



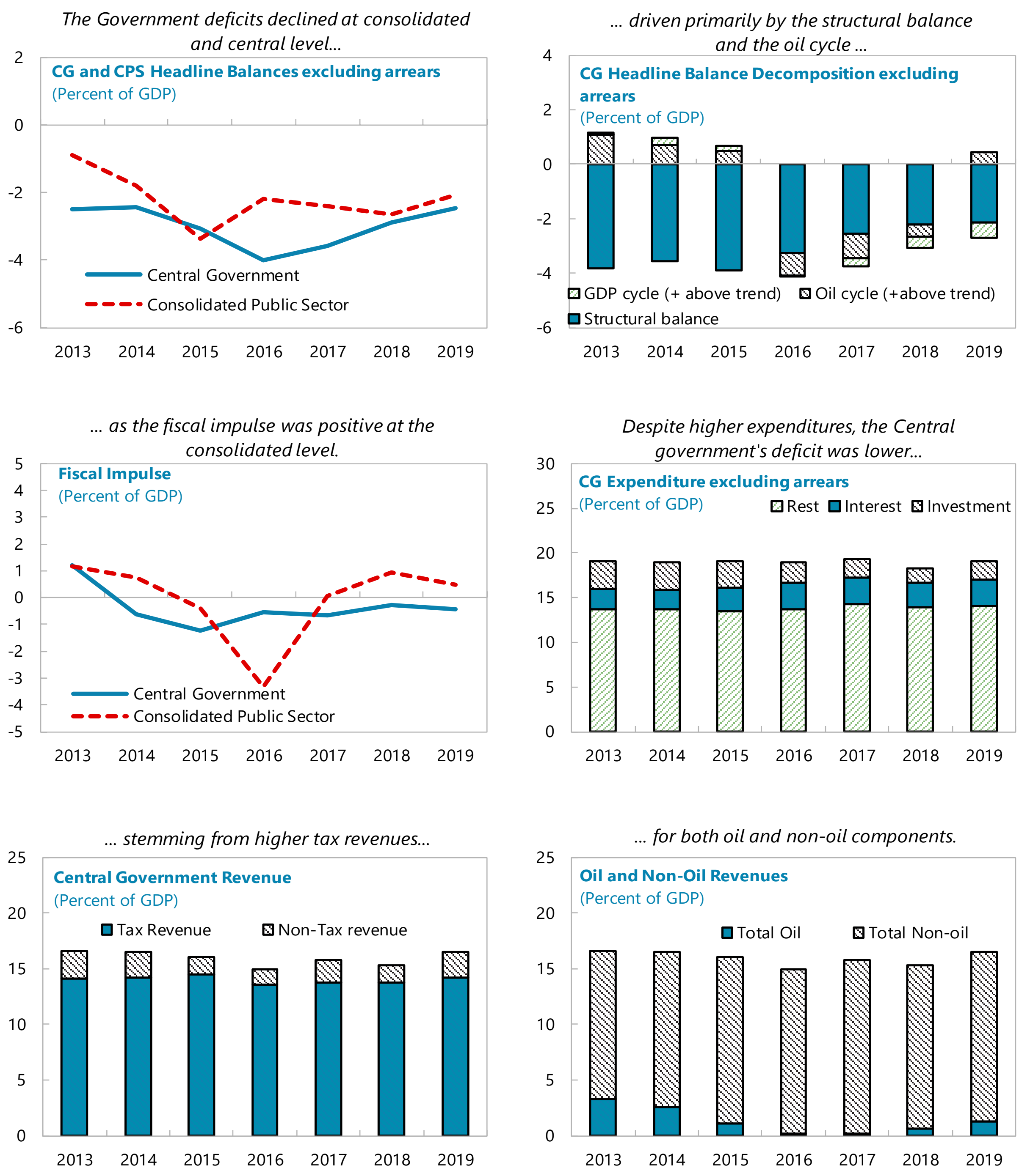
Sources: Banco de la República; DANE; Haver Analytics; Bloomberg; and IMF staff estimates.
1/ Does not include commodity buffers. Uses metric for floating exchange rates.

Figure 4. Colombia: Inflation, Monetary Policy and Labor Market



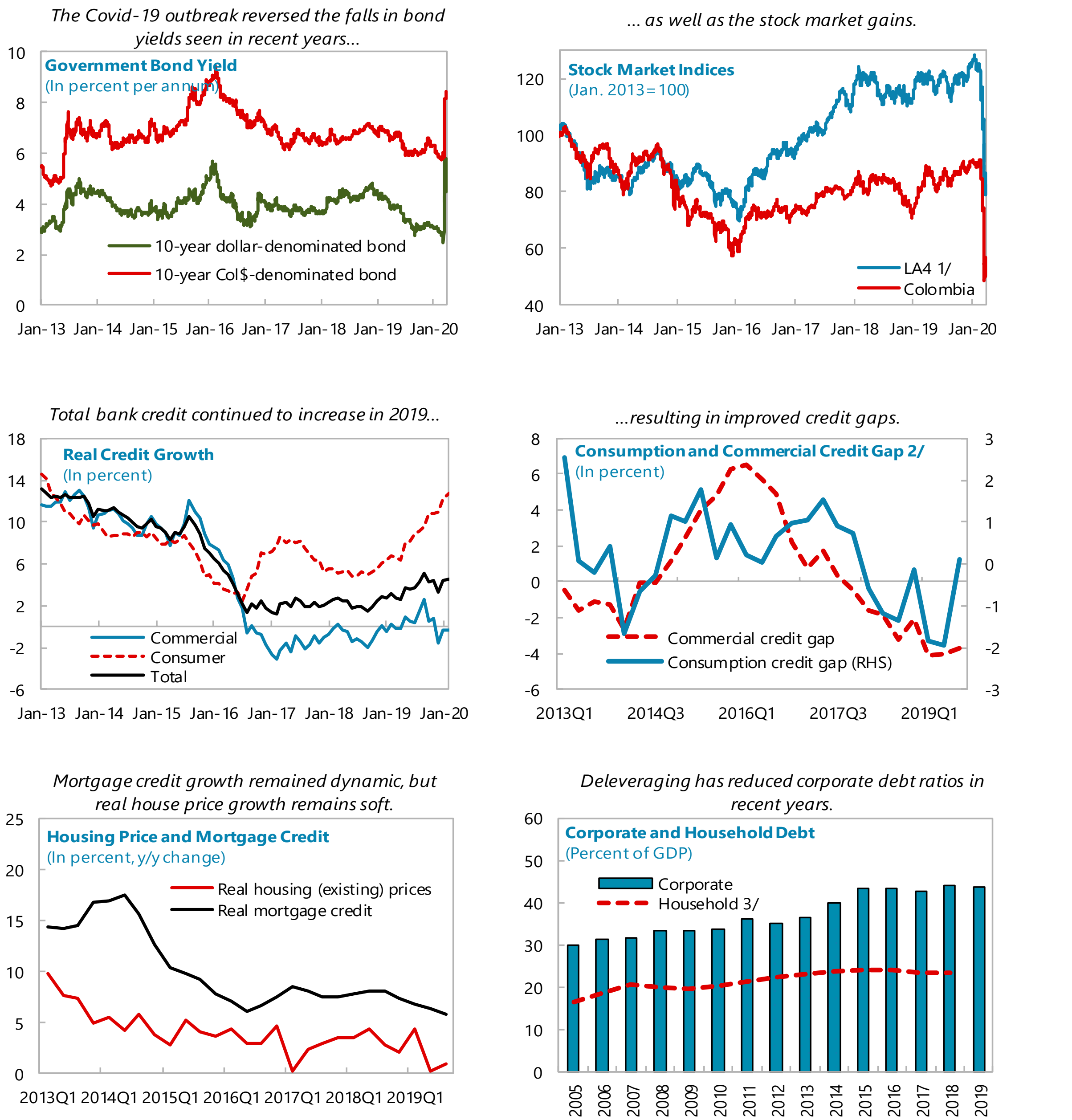
Sources: DANE; Banco de la República; Haver Analytics; and IMF staff estimates.

Figure 5. Colombia: Fiscal Developments



Sources: Ministerio de Hacienda y Crédito Público; DANE; and IMF staff estimates.

Figure 6. Colombia: Recent Macro-Financial Developments



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

1/ LA4 corresponds to the average of Brazil, Colombia, Peru and Mexico.

2/ Consumer and commercial credit gaps are computed as percentage-point deviations from an HP-filtered consumer-credit-to-private-consumption ratio and commercial-to-private-investment ratio, respectively.

3/ Data for 2019 refers to June 2019.

Table 1. Colombia: Selected Economic and Financial Indicators

I. Social and Demographic Indicators

Population (million), 2018	48.3	Unemployment rate, 2019 (percent)	10.5
GDP, 2018		Adult illliteracy rate (ages 15 and older), 2018	4.9
Per capita (US$)	6,911	Net secondary school enrollment rate, 2018	77.5
In billion of Col$	985,931	Gini coefficient, 2018	51.7
In billion of US$	333	Poverty rate, 2018	27.0
Life expectancy at birth (years), 2017	76.9		
Mortality rate, (under 5, per 1,000 live births), 2018	14.2		

II. Economic Indicators

						Projections					
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
					(In percentage change, unless otherwise indicated)						
National income and prices											
Real GDP	3.0	2.1	1.4	2.5	3.3	-2.4	3.7	3.8	3.9	3.8	3.8
Potential GDP	3.4	3.1	2.9	3.1	3.2	0.3	3.0	3.0	3.1	3.2	3.2
Output Gap	1.5	0.5	-1.1	-1.7	-1.5	-4.1	-3.5	-2.7	-2.0	-1.4	-0.9
GDP deflator	2.4	5.1	5.1	4.5	4.3	4.2	3.4	3.0	3.0	3.0	3.0
Consumer prices (average)	5.0	7.5	4.3	3.2	3.5	3.5	3.2	3.0	3.0	3.0	3.0
Consumer prices, end of period (eop)	6.8	5.8	4.1	3.2	3.8	3.2	3.0	3.0	3.0	3.0	3.0
External sector											
Exports (f.o.b.)	-32.2	-11.7	16.8	11.7	-4.6	-19.1	8.3	7.1	5.7	4.8	4.8
Imports (f.o.b.)	-15.4	-16.9	2.3	12.1	2.5	-12.2	6.2	4.9	4.9	4.7	4.3
Export volume	1.7	-0.2	2.6	0.8	3.1	-4.3	5.7	3.9	3.2	2.9	3.2
Import volume	-1.1	-3.5	1.0	5.8	9.2	-7.1	6.7	4.1	4.0	3.2	2.9
Terms of trade (deterioration -)	-17.5	3.6	9.3	5.8	0.1	-8.9	3.3	1.7	1.6	0.7	0.6
Real exchange rate (depreciation -) 1/	-20.6	-4.7	5.7	0.6	-9.1	NA	NA	NA	NA	NA	NA
Money and credit											
Broad money	11.6	9.5	6.4	5.7	10.0	4.4	10.1	9.7	9.4	9.0	8.9
Credit to the private sector	16.7	7.7	12.8	6.8	11.6	4.7	10.1	9.7	9.4	9.0	8.9
Policy rate, eop	5.8	7.5	4.8	4.3	4.3	NA	NA	NA	NA	NA	NA
					(In percent of GDP)						
Central government balance 2/	-3.1	-4.0	-3.6	-4.8	-2.5	-2.3	-1.8	-1.4	-1.2	-1.0	-1.0
Central government structural balance 3/	-3.9	-3.3	-2.6	-2.2	-2.2	-1.7	-0.6	-0.4	-0.6	-0.7	-0.8
Combined public sector (CPS) balance 4/	-3.4	-2.2	-2.4	-4.5	-2.1	-2.3	-1.1	-1.1	-1.3	-1.0	-1.0
CPS non-oil structural primary balance	-3.3	0.0	0.0	-1.0	-1.4	0.1	1.4	0.8	0.2	0.3	0.0
CPS fiscal impulse	-0.4	-3.3	0.0	0.9	0.5	-1.5	-1.4	0.7	0.5	-0.1	0.3
Public debt	50.4	49.8	49.4	53.8	52.9	57.8	55.3	53.1	51.5	49.5	47.7
Public debt, excluding Ecopetrol	45.7	45.4	46.1	51.2	50.7	55.7	53.3	51.1	49.5	47.5	45.7
Gross domestic investment	23.8	23.2	21.6	21.3	22.3	19.1	19.0	19.4	19.8	20.2	20.4
Gross national savings	17.4	18.9	18.3	17.4	18.0	14.5	14.9	15.5	16.0	16.3	16.6
Current account (deficit -)	-6.3	-4.3	-3.3	-3.9	-4.3	-4.7	-4.2	-3.9	-3.9	-3.9	-3.8
External debt 5/	42.1	49.4	47.2	46.6	49.8	59.2	57.6	56.5	55.1	53.7	52.5
Of which: public sector 5/	26.5	31.9	30.3	28.9	30.1	35.5	33.8	33.1	31.1	29.5	28.4
					(In percent of exports of goods and services)						
External debt service	63.2	68.1	73.6	69.5	74.0	98.3	95.8	86.1	91.0	86.0	80.7
Interest payments	9.9	11.3	10.9	10.6	14.4	19.4	16.8	16.4	16.4	16.0	15.8
					(In billion of U.S. dollars; unless otherwise indicated)						
Exports (f.o.b.)	38.6	34.1	39.8	44.4	42.4	34.3	37.1	39.7	42.0	44.0	46.1
Of which: Petroleum products	14.6	10.8	13.3	16.8	16.0	9.2	10.0	11.1	11.8	12.2	12.5
Gross international reserves 6/	46.3	46.2	47.1	47.9	52.7	52.9	53.7	55.1	56.7	58.4	60.1

Sources: Colombian authorities; UNDP Human Development Report; World Development Indicators; and IMF staff estimates.
1/ Based on bilateral COL Peso/USD exchange rate.
2/ Includes one-off recognition of previously unrecognized accounts payable worth 1.9 percent of GDP in 2018 and central bank profits.
3/ IMF staff estimate, excludes one-off recognition of arrears.
4/ Includes the quasi-fiscal balance of Banco de la República, sales of assets, phone licenses, and statistical discrepancy.
5/ Includes foreign holdings of locally issued public debt (TES); does not include Banco de la República's outstanding external debt.
6/ Excludes Colombia's contribution to FLAR; includes valuation changes of reserves denominated in currencies other than U.S. dollars.

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

						Projections					
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Current account balance	**-18,564**	**-12,036**	**-10,241**	**-13,047**	**-13,800**	**-13,269**	**-12,560**	**-12,523**	**-13,135**	**-13,882**	**-14,387**
Goods balance	-13,479	-9,176	-4,470	-5,144	-8,447	-10,351	-10,292	-9,946	-10,079	-10,545	-10,761
Exports, f.o.b.	38,572	34,063	39,777	44,440	42,374	34,269	37,103	39,750	42,028	44,025	46,138
Commodities	24,180	20,407	25,890	29,441	26,870	20,024	21,508	23,100	24,295	25,021	25,731
Fuel	14,566	10,796	13,308	16,843	15,969	9,189	9,966	11,084	11,815	12,189	12,500
Non-fuel	9,614	9,612	12,582	12,598	10,901	10,835	11,542	12,015	12,481	12,832	13,231
Non-traditional exports	10,418	9,520	10,062	10,716	10,571	9,509	9,988	10,694	11,416	12,275	13,229
Other	3,974	4,136	3,825	4,283	4,933	4,736	5,607	5,956	6,317	6,729	7,178
Imports, f.o.b.	52,051	43,239	44,247	49,584	50,821	44,620	47,395	49,695	52,107	54,570	56,899
Consumer goods	11,103	10,114	10,161	11,273	11,688	10,458	10,886	11,455	11,976	12,527	13,051
Intermediate goods	21,814	18,809	18,889	21,502	21,796	18,957	20,113	21,062	22,125	23,143	24,112
Capital goods	17,407	12,527	13,210	14,814	15,477	13,693	14,459	15,106	15,793	16,520	17,170
Other	1,726	1,789	1,987	1,995	1,860	1,511	1,937	2,073	2,213	2,380	2,565
Services balance	-4,788	-3,530	-3,977	-3,782	-3,720	-2,921	-2,960	-3,258	-3,323	-3,233	-3,070
Exports of services	7,426	7,771	8,461	9,654	9,988	8,085	9,618	10,068	10,654	11,335	12,063
Imports of services	12,214	11,301	12,438	13,436	13,708	11,006	12,578	13,325	13,977	14,568	15,133
Primary income balance	-5,727	-5,229	-8,405	-11,764	-10,309	-8,075	-8,028	-8,461	-9,299	-10,114	-11,029
Receipts	4,483	4,996	5,479	6,117	6,934	5,279	5,907	6,621	7,055	7,253	7,469
Expenditures	10,211	10,225	13,884	17,881	17,243	13,353	13,934	15,082	16,354	17,367	18,498
Secondary income balance	5,430	5,898	6,611	7,643	8,676	8,078	8,719	9,141	9,566	10,011	10,473
Financial account balance	**-18,244**	**-12,273**	**-9,558**	**-12,415**	**-13,102**	**-13,269**	**-12,560**	**-12,523**	**-13,135**	**-13,882**	**-14,387**
Direct Investment	-7,506	-9,330	-10,147	-6,409	-11,279	-9,604	-11,761	-12,437	-13,135	-13,741	-14,378
Assets	4,218	4,517	3,690	5,126	3,214	2,184	2,200	2,241	2,282	2,323	2,364
Liabilities	11,724	13,848	13,837	11,535	14,493	11,788	13,961	14,679	15,417	16,064	16,743
Oil sector	2,566	2,386	3,106	2,540	2,818	1,542	2,326	2,446	2,568	2,676	2,789
Non-oil sectors	9,157	11,462	10,730	8,995	11,676	10,247	11,635	12,233	12,848	13,387	13,953
Portfolio Investment	-9,166	-4,839	-1,617	1,297	506	-1,639	-2,386	-2,980	-2,421	-2,300	-3,161
Assets	-475	5,190	6,200	1,646	540	820	336	1,085	835	335	835
Liabilities	8,691	10,029	7,817	349	33	2,459	2,722	4,065	3,256	2,635	3,996
Equity	640	-363	472	-823	-1,232	-229	-462	-482	-684	-654	-532
Debt instruments	8,051	10,392	7,345	1,172	1,265	2,688	3,184	4,547	3,941	3,290	4,528
General government	5,651	8,792	6,011	4,529	366	3,188	3,184	4,547	3,941	3,040	4,278
Banks	400	1,100	300	-800	0	-250	0	0	0	250	250
Corporates and households	2,000	500	1,034	-2,557	899	-250	0	0	0	0	0
Derivatives	1,956	-621	365	21	84	0	0	0	0	0	0
Other Investments	-3,943	2,353	1,296	-8,511	-5,746	-2,225	765	1,515	775	482	1,426
Change in reserve assets	415	165	545	1,187	3,332	200	822	1,379	1,646	1,678	1,727
Net errors and omissions	**320**	**-237**	**683**	**632**	**698**	**0**	**0**	**0**	**0**	**0**	**0**
Memorandum items:											
Brent Crude Oil Price (US$/barrel)	52	44	54	71	64	37	39	43	45	47	49
Nominal exchange rate (Col$/US$, period average)	2,742	3,055	2,951	2,956	3,281	3,806	3,844	3,883	3,922	3,961	4,001

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

Table 2b. Colombia: Summary Balance of Payments

(In percent of GDP)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
						Projections					
Current account balance	**-6.3**	**-4.3**	**-3.3**	**-3.9**	**-4.3**	**-4.7**	**-4.2**	**-3.9**	**-3.9**	**-3.9**	**-3.8**
Goods balance	-4.6	-3.2	-1.4	-1.5	-2.6	-3.6	-3.4	-3.1	-3.0	-2.9	-2.8
Exports, f.o.b.	13.1	12.0	12.8	13.3	13.1	12.1	12.3	12.4	12.4	12.3	12.1
Commodities	8.2	7.2	8.3	8.8	8.3	7.1	7.1	7.2	7.2	7.0	6.8
Fuel	5.0	3.8	4.3	5.1	4.9	3.2	3.3	3.5	3.5	3.4	3.3
Non-fuel	3.3	3.4	4.0	3.8	3.4	3.8	3.8	3.8	3.7	3.6	3.5
Non-traditional exports	3.5	3.4	3.2	3.2	3.3	3.3	3.3	3.3	3.4	3.4	3.5
Other	1.4	1.5	1.2	1.3	1.5	1.7	1.9	1.9	1.9	1.9	1.9
Imports, f.o.b.	17.7	15.3	14.2	14.9	15.7	15.7	15.7	15.6	15.4	15.2	15.0
Consumer goods	3.8	3.6	3.3	3.4	3.6	3.7	3.6	3.6	3.5	3.5	3.4
Intermediate goods	7.4	6.7	6.1	6.4	6.7	6.7	6.7	6.6	6.5	6.5	6.3
Capital goods	5.9	4.4	4.2	4.4	4.8	4.8	4.8	4.7	4.7	4.6	4.5
Other	0.6	0.6	0.6	0.6	0.6	0.5	0.6	0.6	0.7	0.7	0.7
Services balance	-1.6	-1.2	-1.3	-1.1	-1.1	-1.0	-1.0	-1.0	-1.0	-0.9	-0.8
Exports of services	2.5	2.7	2.7	2.9	3.1	2.8	3.2	3.2	3.1	3.2	3.2
Imports of services	4.2	4.0	4.0	4.0	4.2	3.9	4.2	4.2	4.1	4.1	4.0
Primary income balance	-2.0	-1.8	-2.7	-3.5	-3.2	-2.8	-2.7	-2.6	-2.7	-2.8	-2.9
Receipts	1.5	1.8	1.8	1.8	2.1	1.9	2.0	2.1	2.1	2.0	2.0
Expenditures	3.5	3.6	4.5	5.4	5.3	4.7	4.6	4.7	4.8	4.8	4.9
Secondary income balance	1.9	2.1	2.1	2.3	2.7	2.8	2.9	2.9	2.8	2.8	2.8
Financial account balance	**-6.2**	**-4.3**	**-3.1**	**-3.7**	**-4.0**	**-4.7**	**-4.2**	**-3.9**	**-3.9**	**-3.9**	**-3.8**
Direct Investment	-2.6	-3.3	-3.3	-1.9	-3.5	-3.4	-3.9	-3.9	-3.9	-3.8	-3.8
Assets	1.4	1.6	1.2	1.5	1.0	0.8	0.7	0.7	0.7	0.6	0.6
Liabilities	4.0	4.9	4.4	3.5	4.5	4.2	4.6	4.6	4.6	4.5	4.4
Oil sector	0.9	0.8	1.0	0.8	0.9	0.5	0.8	0.8	0.8	0.7	0.7
Non-oil sectors	3.1	4.1	3.4	2.7	3.6	3.6	3.9	3.8	3.8	3.7	3.7
Portfolio Investment	-3.1	-1.7	-0.5	0.4	0.2	-0.6	-0.8	-0.9	-0.7	-0.6	-0.8
Assets	-0.2	1.8	2.0	0.5	0.2	0.3	0.1	0.3	0.2	0.1	0.2
Liabilities	3.0	3.5	2.5	0.1	0.0	0.9	0.9	1.3	1.0	0.7	1.1
Equity	0.2	-0.1	0.2	-0.2	-0.4	-0.1	-0.2	-0.2	-0.2	-0.2	-0.1
Debt instruments	2.7	3.7	2.4	0.4	0.4	0.9	1.1	1.4	1.2	0.9	1.2
General government	1.9	3.1	1.9	1.4	0.1	1.1	1.1	1.4	1.2	0.8	1.1
Banks	0.1	0.4	0.1	-0.2	0.0	-0.1	0.0	0.0	0.0	0.1	0.1
Corporates and households	0.7	0.2	0.3	-0.8	0.3	-0.1	0.0	0.0	0.0	0.0	0.0
Derivatives	0.7	-0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Investments	-1.3	0.8	0.4	-2.6	-1.8	-0.8	0.3	0.5	0.2	0.1	0.4
Change in Reserve Assets	0.1	0.1	0.2	0.4	1.0	0.1	0.3	0.4	0.5	0.5	0.5
Net errors and omissions	**0.1**	**-0.1**	**0.2**	**0.2**	**0.2**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

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

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

(In percent of GDP, unless otherwise indicated)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
						Projections					
Total revenue	**16.0**	**14.9**	**15.7**	**15.3**	**16.5**	**15.7**	**15.4**	**15.6**	**15.6**	**15.6**	**15.6**
Current revenue	**14.6**	**13.7**	**14.4**	**13.8**	**14.4**	**12.8**	**14.4**	**14.4**	**14.4**	**14.4**	**14.4**
Tax revenue	**14.5**	**13.6**	**13.8**	**13.7**	**14.2**	**12.5**	**14.2**	**14.2**	**14.2**	**14.3**	**14.3**
Net income tax and profits	4.8	4.7	5.7	6.5	6.7	5.4	6.1	6.1	6.1	6.1	6.1
Goods and services	5.2	4.8	5.5	5.7	6.1	5.4	6.0	6.1	6.1	6.2	6.2
Value-added tax	5.2	4.8	5.5	5.7	6.0	5.3	6.0	6.0	6.1	6.1	6.1
International trade	0.6	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Financial transaction tax	0.8	0.8	0.7	0.7	0.8	0.7	0.8	0.8	0.8	0.8	0.8
Stamp and other taxes	3.1	2.8	1.4	0.5	0.3	0.7	0.9	0.8	0.8	0.8	0.8
Nontax revenue	**1.6**	**1.3**	**1.9**	**1.6**	**2.3**	**3.2**	**1.2**	**1.3**	**1.3**	**1.3**	**1.3**
Property income	0.2	0.4	0.4	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Other	1.3	0.8	1.0	1.3	2.0	2.8	0.9	1.0	1.0	1.0	1.0
Total expenditure and net lending	**19.1**	**18.9**	**19.3**	**20.1**	**19.0**	**18.0**	**17.2**	**17.0**	**16.8**	**16.6**	**16.6**
Current expenditure	**15.0**	**15.5**	**16.0**	**17.5**	**16.0**	**16.6**	**15.7**	**15.4**	**15.2**	**15.1**	**14.9**
Wages and salaries	2.4	2.4	2.2	2.3	2.2	2.1	2.0	2.0	2.0	2.0	2.0
Goods and services	0.5	0.5	0.7	0.4	0.6	0.9	0.5	0.5	0.4	0.4	0.4
Interest	2.6	2.9	2.9	2.8	3.0	3.1	3.1	2.9	2.8	2.8	2.7
External	0.7	0.7	0.7	0.7	0.9	1.0	1.0	0.9	0.8	0.8	0.7
Domestic	1.9	2.2	2.2	2.1	2.1	2.2	2.1	2.1	2.0	2.0	1.9
Current transfers	9.5	9.7	10.2	12.1	10.3	10.5	10.0	9.9	9.9	9.9	9.8
Capital expenditure	**4.1**	**3.4**	**3.3**	**2.6**	**3.0**	**1.5**	**1.6**	**1.7**	**1.6**	**1.6**	**1.7**
Fixed capital formation	3.0	2.3	2.1	1.5	2.0	0.5	0.6	0.7	0.7	0.7	0.8
Capital transfers	1.1	1.2	1.2	1.1	1.1	1.0	0.9	0.9	0.9	0.9	0.9
Net lending	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall balance 2/	**-3.1**	**-4.0**	**-3.6**	**-4.8**	**-2.5**	**-2.3**	**-1.8**	**-1.4**	**-1.2**	**-1.0**	**-1.0**
Memorandum items:											
Oil-related revenues 3/	1.1	0.2	0.2	0.6	1.3	0.9	0.6	0.7	0.8	0.8	0.8
Structural balance 4/	-3.9	-3.3	-2.6	-2.2	-2.2	-1.7	-0.6	-0.4	-0.6	-0.7	-0.8
Structural primary non-oil balance	-1.9	-1.3	-0.7	-0.4	0.1	0.7	1.7	1.5	1.4	1.2	1.1
Fiscal Impulse	-1.2	-0.5	-0.7	-0.3	-0.4	-0.6	-1.0	0.2	0.2	0.1	0.2
Non-oil balance	-4.2	-4.2	-3.8	-3.5	-3.2	-3.2	-2.1	-1.9	-1.9	-1.8	-1.8
Primary balance	-0.5	-1.1	-0.7	-2.0	0.5	0.8	1.3	1.5	1.6	1.7	1.7
Nominal GDP (in Col$ trillion)	804.7	863.8	920.5	985.9	1,062.3	1,081.0	1,160.1	1,240.8	1,328.4	1,420.8	1,519.6

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

1/ Includes central administration only.

2/ Includes central bank profits. For 2018, it includes recognition of accounts payable worth 1.9 percent of GDP.

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

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

Table 4. Colombia: Operations of the Combined Public Sector 1/

(In percent of GDP, unless otherwise indicated)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
						Projections					
Total revenue 2/	**27.8**	**27.7**	**26.8**	**30.0**	**31.6**	**28.5**	**29.4**	**29.6**	**29.6**	**29.4**	**29.3**
Tax revenue	19.0	18.2	18.8	21.3	21.8	20.2	21.8	21.8	21.8	21.8	21.7
Nontax revenue	8.8	9.5	8.0	8.8	9.8	8.3	7.6	7.8	7.8	7.7	7.5
Financial income	1.0	1.3	1.1	0.8	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Operating surplus of public enterprises 3/	2.2	2.0	2.3	2.3	2.1	2.1	2.1	2.1	2.1	2.1	2.1
Other 4/	5.6	6.1	4.6	5.6	7.2	5.6	5.0	5.2	5.1	5.0	4.9
Total expenditure and net lending 5/	**31.2**	**30.1**	**29.4**	**34.6**	**33.8**	**30.9**	**30.7**	**30.9**	**30.9**	**30.5**	**30.3**
Current expenditure	24.3	24.4	24.9	31.5	29.3	29.2	27.8	27.3	26.9	26.6	26.4
Wages and salaries	5.5	5.5	5.6	5.3	5.2	5.2	5.1	5.1	5.1	5.1	5.1
Goods and services	3.2	3.4	3.8	2.3	2.3	2.6	2.3	2.2	2.2	2.1	2.1
Interest	2.8	3.3	3.1	3.0	3.3	3.6	3.4	3.2	3.1	3.0	2.9
External	0.8	0.9	0.7	0.7	1.3	1.4	1.3	1.2	1.1	1.0	0.9
Domestic	2.0	2.4	2.4	2.3	2.1	2.1	2.0	2.0	2.0	2.0	2.0
Transfers to private sector	8.0	7.7	8.0	13.5	13.0	12.7	12.0	11.8	11.6	11.4	11.4
Other 6/	4.8	4.6	4.3	7.4	5.4	5.1	5.1	5.0	5.0	4.9	4.9
Capital expenditure	6.9	5.7	4.6	3.1	4.5	1.7	2.9	3.5	4.0	4.0	4.0
Statistical discrepancy	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Nonfinancial public sector balance	**-3.5**	**-2.3**	**-2.5**	**-4.7**	**-2.2**	**-2.5**	**-1.3**	**-1.3**	**-1.3**	**-1.1**	**-1.1**
Fogafin balance	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Net cost of financial restructuring 7/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Combined public sector balance 8/	**-3.4**	**-2.2**	**-2.4**	**-4.5**	**-2.1**	**-2.3**	**-1.1**	**-1.1**	**-1.3**	**-1.0**	**-1.0**
Overall financing	**3.4**	**2.2**	**2.4**	**4.5**	**2.1**	**2.3**	**1.1**	**1.1**	**1.3**	**1.0**	**1.0**
Foreign, net	2.5	1.6	2.6	1.3	0.9	1.0	0.2	1.0	-0.3	0.0	0.4
Domestic, net	0.8	0.6	-0.2	3.2	1.2	1.3	0.9	0.1	1.6	1.0	0.6
Memorandum items:											
Overall structural balance 9/	-3.8	-1.5	-1.2	-2.0	-1.8	-0.9	0.9	0.4	-0.3	-0.6	-0.8
Primary balance 10/	-0.6	1.1	0.8	-1.5	1.2	1.3	2.2	2.1	1.8	2.0	1.9
Oil-related revenues 11/	2.2	1.0	1.1	1.9	3.3	2.2	1.9	2.0	2.1	2.0	2.0
Total public debt 12/	50.4	49.8	49.4	53.8	52.9	57.8	55.3	53.1	51.5	49.5	47.7
Nominal GDP (In Col$ trillion)	804.7	863.8	920.5	985.9	1,062.3	1,081.0	1,160.1	1,240.8	1,328.4	1,420.8	1,519.6

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

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

2/ From 2018, tax revenues include social contributions collected by public health providers.

3/ For 2016, excludes proceeds from the sale of ISAGEN and for 2019, it includes the recognition of accounts payable worth 1.8 percent of GDP.

4/ Includes royalties, dividends and social security contributions.

5/ Expenditure reported on commitments basis. From 2015 onwards, previously recorded capital expenditures have been reclassified as wages and salaries and goods and services.

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

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

8/ For 2019, includes the recognition of arrears worth 1.8 percent of GDP.

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

10/ Includes statistical discrepancy. Overall balance plus interest expenditures.

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

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

Table 5. Colombia: Monetary Indicators 1/

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
						Projections					
					(In billions of Col$, unless otherwise indicated)						
Central Bank											
Net Foreign Assets	145,823.2	138,859.3	140,586.1	155,542.5	172,577.7	200,908.9	206,084.8	213,489.4	222,073.1	230,930.6	240,141.0
Gross official reserve assets	145,726.0	138,631.7	140,724.9	155,646.7	172,548.8	200,938.5	206,089.8	213,499.7	222,085.8	230,940.5	240,151.7
In billions of US$	46.3	46.2	47.2	47.9	52.7	52.9	53.7	55.1	56.7	58.4	60.1
Short-term foreign liabilities	43.1	20.2	64.8	0.0	0.0	21.6	7.2	9.6	12.8	9.9	10.8
Other net foreign assets	140.3	247.9	-74.0	-104.2	28.9	-8.0	2.2	-0.6	0.2	0.0	0.0
Net domestic assets	-63,301.3	-54,259.4	-51,773.4	-57,461.5	-60,123.9	-86,478.8	-83,285.2	-82,145.3	-81,458.5	-80,535.9	-79,286.0
Net credit to the public sector	-9,268.0	-5,987.7	-2,490.6	-1,524.9	3,034.3	4,364.3	4,203.1	4,145.6	4,110.9	4,064.4	4,001.3
Net credit to the financial system	6,525.0	5,678.6	3,808.4	9,016.5	8,435.0	12,132.5	11,684.4	11,524.5	11,428.1	11,298.7	11,123.4
Other	-60,558.2	-53,950.3	-53,091.3	-64,953.1	-71,593.1	-102,975.5	-99,172.8	-97,815.4	-96,997.6	-95,899.0	-94,410.7
Monetary base	82,522.0	84,599.9	88,812.7	98,081.0	112,453.8	114,430.2	122,799.5	131,344.1	140,614.6	150,394.7	160,854.9
Currency in circulation	66,739.5	69,222.0	74,057.6	80,653.3	91,659.3	93,270.2	100,091.9	107,056.4	114,612.7	122,584.2	131,110.2
Deposit money banks reserves	15,711.5	15,283.3	14,671.5	17,322.5	20,649.2	38,608.8	40,314.3	43,192.3	46,218.9	49,457.7	52,897.6
Other deposits	70.9	94.7	83.6	105.2	145.3	145.3	145.3	145.3	145.3	145.3	145.3
Financial system											
Net foreign assets	131,762.9	130,824.5	128,443.1	131,230.3	145,975.5	173,839.2	177,035.2	182,418.6	188,809.2	195,353.1	202,089.0
In billions of US$	41.8	43.6	43.0	40.4	44.5	45.7	46.1	47.0	48.2	49.4	50.6
Net domestic assets	272,762.2	312,194.1	343,014.5	367,175.1	402,159.3	398,545.1	453,262.3	508,980.6	567,550.2	628,990.0	695,584.1
Net credit to public sector	32,255.2	34,554.5	42,089.3	43,902.9	57,916.7	72,092.0	76,521.4	79,128.3	87,403.1	93,994.5	98,926.3
Credit to private sector	377,443.9	406,445.7	458,444.5	489,621.5	546,519.9	572,384.3	630,297.5	691,399.2	756,359.4	824,343.1	897,673.1
Other net	-136,774.0	-128,640.6	-157,352.6	-166,212.3	-202,096.3	-244,785.2	-259,127.0	-281,417.7	-316,178.0	-363,698.8	-417,565.4
Broad money	404,525.1	443,018.6	471,457.6	498,405.4	548,134.8	572,384.3	630,297.5	691,399.2	756,359.4	824,343.1	897,673.1
					(Annual percentage change)						
Credit to private sector	16.7	7.7	12.8	6.8	11.6	4.7	10.1	9.7	9.4	9.0	8.9
Currency	18.3	3.7	7.0	8.9	13.6	1.8	7.3	7.0	7.1	7.0	7.0
Monetary base	18.4	2.5	5.0	10.4	14.7	1.8	7.3	7.0	7.1	7.0	7.0
Broad money 1/	11.6	9.5	6.4	5.7	10.0	4.4	10.1	9.7	9.4	9.0	8.9
					(In percent of GDP)						
Credit to private sector	46.9	47.1	49.8	49.7	51.4	52.9	54.3	55.7	56.9	58.0	59.1
Currency	8.3	8.0	8.0	8.2	8.6	8.6	8.6	8.6	8.6	8.6	8.6
Monetary base	10.3	9.8	9.6	9.9	10.6	10.6	10.6	10.6	10.6	10.6	10.6
Broad money	50.3	51.3	51.2	50.6	51.6	52.9	54.3	55.7	56.9	58.0	59.1
Memorandum items:											
CPI inflation, eop	6.8	5.8	4.1	3.2	3.8	3.2	3.0	3.0	3.0	3.0	3.0
Nominal GDP (In Col$ billions)	804,692	863,783	920,470	985,931	1,062,343	1,081,013	1,160,078	1,240,798	1,328,376	1,420,768	1,519,585

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

1/Broad money includes nonliquid liabilities to the domestic nonfinancial private sector.

Table 6. Colombia: Medium-Term Outlook

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
						Projections					
	(In percent of GDP, unless otherwise indicated)										
Real GDP (in percent change)	3.0	2.1	1.4	2.5	3.3	-2.4	3.7	3.8	3.9	3.8	3.8
Consumer prices (in percent change; eop)	6.8	5.8	4.1	3.2	3.8	3.2	3.0	3.0	3.0	3.0	3.0
Gross national savings	17.4	18.9	18.3	17.4	18.0	14.5	14.9	15.5	16.0	16.3	16.6
Private sector	14.1	15.7	16.3	19.1	15.9	15.2	13.4	13.3	13.5	13.6	13.9
Public sector	3.3	3.3	2.0	-1.7	2.1	-0.8	1.5	2.1	2.4	2.7	2.7
Gross domestic investment	23.8	23.2	21.6	21.3	22.3	19.1	19.0	19.4	19.8	20.2	20.4
	(In percent of GDP, unless otherwise indicated)										
Nonfinancial public sector 1/											
Revenue	27.8	27.7	26.8	30.0	31.6	28.5	29.4	29.6	29.6	29.4	29.3
Expenditure	31.2	30.1	29.4	34.6	33.8	30.8	30.6	30.8	30.8	30.5	30.3
Current expenditure	24.3	24.4	24.9	31.5	29.3	29.2	27.8	27.3	26.9	26.6	26.3
Capital expenditure	6.9	5.7	4.6	3.1	4.5	1.6	2.8	3.4	3.9	3.9	3.9
Primary balance 2/3/	-0.5	-1.1	-0.7	-2.0	0.5	0.8	1.3	1.5	1.6	1.7	1.7
Overall balance 2/3/	-3.5	-2.3	-2.5	-4.7	-2.2	-2.4	-1.2	-1.2	-1.3	-1.0	-1.0
Combined public sector balance 3/	-3.4	-2.2	-2.4	-4.5	-2.1	-2.2	-1.0	-1.0	-1.2	-0.9	-0.9
External financing	2.5	1.6	2.6	1.3	0.9	1.0	0.2	1.0	-0.3	0.0	0.4
Domestic financing	0.8	0.6	-0.2	3.2	1.2	1.2	0.8	0.0	1.5	0.9	0.5
External current account balance	-6.3	-4.3	-3.3	-3.9	-4.3	-4.7	-4.2	-3.9	-3.9	-3.9	-3.8
Trade balance	-4.6	-3.2	-1.4	-1.5	-2.6	-3.6	-3.4	-3.1	-3.0	-2.9	-2.8
Exports	13.1	12.0	12.8	13.3	13.1	12.1	12.3	12.4	12.4	12.3	12.1
Imports	17.7	15.3	14.2	14.9	15.7	15.7	15.7	15.6	15.4	15.2	15.0
Financial account balance	-6.2	-4.3	-3.1	-3.7	-4.0	-4.7	-4.2	-3.9	-3.9	-3.9	-3.8
Direct Investment	-2.6	-3.3	-3.3	-1.9	-3.5	-3.4	-3.9	-3.9	-3.9	-3.8	-3.8
Portfolio Investment	-3.1	-1.7	-0.5	0.4	0.2	-0.6	-0.8	-0.9	-0.7	-0.6	-0.8
Other Investments and Derivatives	-0.7	0.6	0.5	-2.5	-1.7	-0.8	0.3	0.5	0.2	0.1	0.4
Change in Reserve Assets	0.1	0.1	0.2	0.4	1.0	0.1	0.3	0.4	0.5	0.5	0.5
Gross public sector debt 4/	50.4	49.8	49.4	53.8	52.9	57.7	55.1	52.9	51.2	49.1	47.2
Gross public sector debt, excluding Ecopetrol	45.7	45.4	46.1	51.2	50.7	50.3	48.1	46.3	45.0	43.1	41.7
Total public net debt 5/	42.1	38.6	38.6	43.2	44.0	43.9	42.2	40.7	39.7	38.4	37.3
Memorandum items:											
Nominal GDP (in Col$ billion)	804,692	863,783	920,470	985,931	1,062,343	1,081,013	1,160,078	1,240,798	1,328,376	1,420,768	1,519,585
Crude oil, spot price	50.8	42.8	52.8	68.3	61.4	35.6	37.9	40.9	43.2	45.0	46.4

Sources: Colombian authorities and IMF staff estimates and projections.

1/ Excludes Ecopetrol.

2/ Includes statistical discrepancy.

3/ For 2016, excludes proceeds from the sale of ISAGEN and for 2018, it includes recognition of accounts payable worth 1.9 percent of GDP.

4/ Includes debt of the non-financial public sector, plus Ecopetrol, FOGAFIN and FINAGRO.

5/ Gross debt minus financial assets (public sector deposits in domestic and foreign financial institutions).

Table 7. Colombia: Financial Soundness Indicators 1/

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

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Capital Adequacy										
Regulatory capital to risk-weighted assets	17.3	16.9	18.1	17.0	17.0	16.9	17.5	18.6	18.5	17.6
Regulatory Tier 1 capital to risk-weighted assets	13.0	13.4	13.7	12.0	11.7	11.4	11.4	12.4	12.7	12.2
Capital (net worth) to assets 2/	14.2	14.3	14.7	14.8	14.9	14.1	16.2	16.1	16.6	17.0
Asset Quality and Distribution										
Nonperforming loans to gross loans (30-day)	NA	NA	NA	NA	NA	2.9	3.2	4.3	4.6	4.3
Nonperforming loans to commercial loans (90-day)	NA	NA	NA	NA	NA	1.6	1.8	3.0	3.8	3.4
Provisions to nonperforming loans	175.0	182.0	163.9	160.7	151.3	155.5	153.5	134.7	137.5	142.4
Gross loans to assets	67.9	70.4	69.6	68.2	69.3	70.2	69.3	70.1	70.5	69.2
Earnings and Profitability										
ROAA	3.4	3.3	3.1	2.8	2.9	2.7	3.0	2.2	2.6	2.9
ROAE	23.7	23.0	21.2	19.5	19.8	18.9	18.3	13.7	16.0	17.3
Interest margin to gross income	55.6	58.4	58.7	61.3	60.6	58.7	53.7	59.2	57.3	56.4
Noninterest expenses to gross income	47.0	49.3	47.2	47.0	44.6	43.4	41.2	43.9	41.9	40.4
Liquidity										
Liquid assets to total assets 3/	22.1	21.5	21.6	21.4	19.8	18.9	18.0	18.6	19.2	17.7
Liquid assets to short-term liabilities 3/	42.7	43.7	43.6	41.9	40.3	39.9	39.9	42.6	43.0	40.0
Deposit to loan ratio	93.5	91.4	94.7	96.3	91.6	93.2	92.6	92.7	92.0	91.2
Other										
Foreign-currency-denominated loans to total loans	6.9	7.7	7.5	7.3	8.4	8.3	6.9	6.1	5.9	5.0
Foreign-currency-denominated liabilities to total liabilities	9.8	11.5	10.5	11.9	13.5	13.9	11.8	11.0	11.6	11.4
Net open position in foreign exchange to capital 4/	0.6	1.0	0.6	0.5	0.7	1.3	5.5	6.4	7.1	0.7

Source: Superintendencia Financiera.

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

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

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

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

Table 8. Colombia: Indicators of External Vulnerability 1/

(In billions of US$, unless otherwise indicated)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
						Projections					
Exports of GNFS	46.0	41.8	48.2	54.1	52.4	42.4	46.7	49.8	52.7	55.4	58.2
Imports of GNFS	64.3	54.5	56.7	63.0	64.5	55.6	60.0	63.0	66.1	69.1	72.0
Terms of trade (y/y percent change)	-17.5	3.6	9.3	5.8	0.1	-8.9	3.3	1.7	1.6	0.7	0.6
Current account balance	-18.6	-12.0	-10.2	-13.0	-13.8	-13.3	-12.6	-12.5	-13.1	-13.9	-14.4
In percent of GDP	-6.3	-4.3	-3.3	-3.9	-4.3	-4.7	-4.2	-3.9	-3.9	-3.9	-3.8
Financial account balance	-18.2	-12.3	-9.6	-12.4	-13.1	-13.3	-12.6	-12.5	-13.1	-13.9	-14.4
Of which: Foreign direct investment (net)	-7.5	-9.3	-10.1	-6.4	-11.3	-9.6	-11.8	-12.4	-13.1	-13.7	-14.4
Of which: Portfolio investment (net)	-9.2	-4.8	-1.6	1.3	0.5	-1.6	-2.4	-3.0	-2.4	-2.3	-3.2
Total external debt (in percent of GDP) 2/	42.1	49.4	47.2	46.6	49.8	59.2	57.6	56.5	55.1	53.7	52.5
Of which : Public sector (in percent of GDP) 2/	26.5	31.9	30.3	28.9	30.1	35.5	33.8	33.1	31.1	29.5	28.4
In percent of gross international reserves	267.0	302.1	312.6	324.8	306.5	318.0	323.9	327.9	329.4	330.0	331.6
Short-term external debt (in percent of GDP) 3/	5.5	5.3	5.3	6.2	6.7	7.8	7.6	7.5	7.3	7.2	7.0
Of which : Public sector (in percent of GDP)	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.2	0.2	0.2	0.2
Of which : Private sector (in percent of GDP)	5.3	5.0	5.1	6.0	6.5	7.5	7.3	7.2	7.1	7.0	6.8
Amortization of MLT external debt (in percent of GNFS exports)	20.9	18.1	31.8	28.5	20.0	27.8	31.5	23.7	29.3	25.2	20.7
External interest payments (in percent of GNFS exports)	9.9	11.3	10.9	10.6	14.4	19.4	16.8	16.4	16.4	16.0	15.8
Gross international reserves 4/	46.3	46.2	47.1	47.9	52.7	52.9	53.7	55.1	56.7	58.4	60.1
In months of prospective GNFS imports	10.2	9.8	9.0	8.9	11.4	10.6	10.2	10.0	9.8	9.7	9.6
In percent of broad money	36.0	31.3	29.8	31.2	31.5	35.1	32.7	30.9	29.4	28.0	26.8
In percent of short-term debt on residual maturity basis plus current account deficit	129.2	114.2	105.0	106.4	112.7	106.9	113.6	105.0	107.8	112.0	113.2
In percent of ARA 5/	156	144	135	132	141	142	137	137	133	133	132
Nominal exchange rate (Col$/US$, period average)	2,742	3,055	2,951	2,956	3,281	NA	NA	NA	NA	NA	NA
Real effective exchange rate (percentage change, + = appreciation)	-20.6	-4.7	5.7	0.6	-9.1	NA	NA	NA	NA	NA	NA

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

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

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

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

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

5/ Excluding commodity buffer. Coverage including a buffer for oil price uncertainty was 119 percent of the metric at end-2018.

Table 9. Colombia: External Debt Sustainability Framework, 2014–24

(In percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2015	2016	2017	2018	2019			2020	2021	2022	2023	2024	2025	Debt-stabilizing non-interest current account 6/
Baseline: External debt	42.1	49.4	47.2	46.6	49.8			**59.2**	**57.6**	**56.5**	**55.1**	**53.7**	**52.5**	**-3.8**
Change in external debt	12.1	7.3	-2.1	-0.6	3.2			9.3	-1.6	-1.1	-1.3	-1.4	-1.2	
Identified external debt-creating flows (4+8+9)	12.4	4.1	-4.0	-0.8	2.5			3.3	-1.1	-1.3	-1.4	-1.3	-1.3	
Current account deficit, excluding interest payments	4.8	2.6	1.6	2.2	1.9			1.8	1.6	1.4	1.3	1.4	1.4	
Deficit in balance of goods and services	6.2	4.5	2.7	2.7	3.8			4.7	4.4	4.1	4.0	3.8	3.6	
Exports	15.7	14.8	15.5	16.2	16.2			14.9	15.5	15.6	15.6	15.4	15.3	
Imports	21.9	19.3	18.2	18.9	19.9			19.6	19.9	19.7	19.5	19.3	19.0	
Net non-debt creating capital inflows (negative)	-1.7	-1.4	-2.9	-1.6	-2.4			-2.7	-3.1	-3.2	-3.1	-3.1	-3.2	
Automatic debt dynamics 1/	9.3	2.8	-2.7	-1.4	3.0			4.2	0.5	0.5	0.4	0.5	0.5	
Contribution from nominal interest rate	1.6	1.7	1.7	1.7	2.3			2.9	2.6	2.6	2.5	2.5	2.4	
Contribution from real GDP growth	-1.2	-0.9	-0.6	-1.1	-1.6			1.4	-2.1	-2.1	-2.1	-2.0	-1.9	
Contribution from price and exchange rate changes 2/	8.9	2.1	-3.8	-2.0	2.2			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	-0.3	3.2	1.9	0.2	0.7			6.0	-0.5	0.2	0.0	-0.2	0.1	
External debt-to-exports ratio (in percent)	268.5	333.6	305.4	287.6	308.2			396.8	372.1	362.3	354.6	348.0	342.4	
Gross external financing need (in billions of US dollars) 4/	43.1	35.8	40.5	44.9	45.0			46.7	49.5	47.3	52.4	52.6	52.1	
in percent of GDP	14.7	12.7	13.0	13.5	13.9			16.4	16.4	14.8	15.5	14.7	13.7	
Scenario with key variables at their historical averages 5/						10-Year Historical Average	10-Year Standard Deviation	**59.2**	**60.5**	**62.3**	**63.8**	**65.2**	**66.8**	**-2.3**
Key Macroeconomic Assumptions Underlying Baseline														
Real GDP growth (in percent)	3.0	2.1	1.4	2.5	3.3	3.7	1.6	-2.4	3.7	3.8	3.9	3.8	3.8	
GDP deflator in US dollars (change in percent)	-25.2	-5.6	8.8	4.3	-6.0	0.4	11.9	-10.1	2.4	2.0	2.0	2.0	2.0	
Nominal external interest rate (in percent)	4.0	3.8	3.8	3.9	4.8	4.3	0.5	5.1	4.7	4.7	4.8	4.7	4.8	
Growth of exports (US dollar terms, in percent)	-28.2	-9.1	15.3	12.1	-3.2	4.6	18.3	-19.1	10.3	6.6	5.7	5.1	5.1	
Growth of imports (US dollar terms, in percent)	-15.3	-15.1	3.9	11.2	2.4	6.0	14.5	-13.8	7.8	5.1	4.9	4.6	4.2	
Current account balance, excluding interest payments	-4.8	-2.6	-1.6	-2.2	-1.9	-2.6	1.0	-1.8	-1.6	-1.4	-1.3	-1.4	-1.4	
Net non-debt creating capital inflows	1.7	1.4	2.9	1.6	2.4	2.3	1.2	2.7	3.1	3.2	3.1	3.1	3.2	

Source: IMF staff estimates.

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

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

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

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

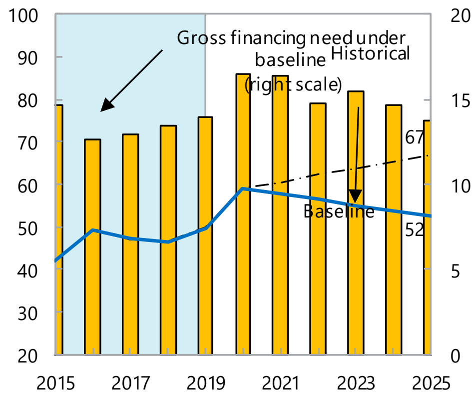
5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

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

Table 10. Colombia: External Debt Sustainability: Bound Tests 1/ 2/

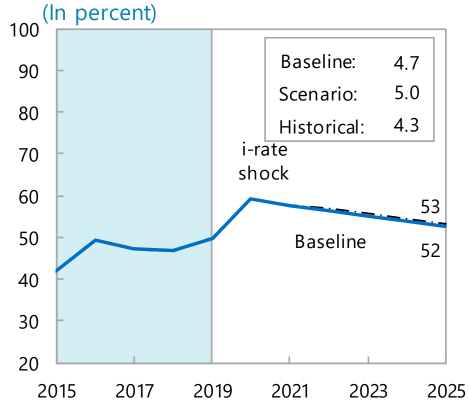
(External debt in percent of GDP)

Baseline and Historical Scenarios



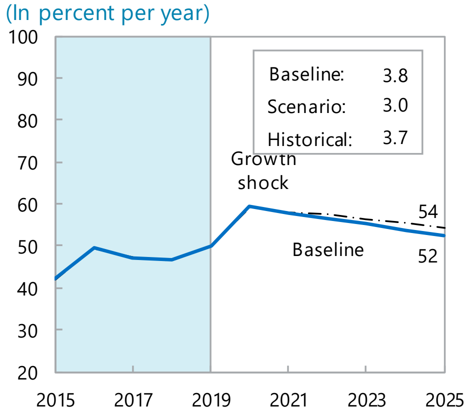
Interest Rate Shock

(In percent)



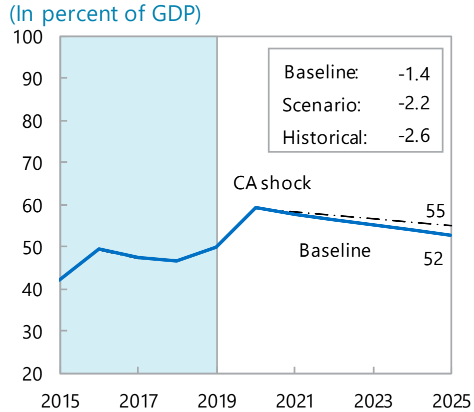
Growth Shock

(In percent per year)

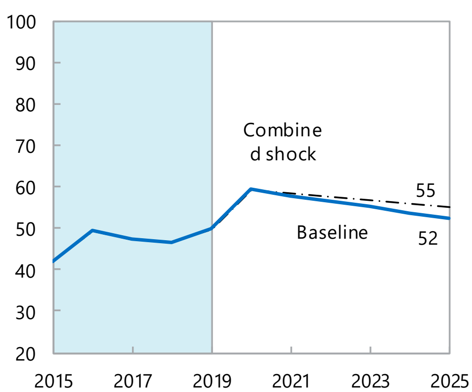


Non-Interest Current Account Shock

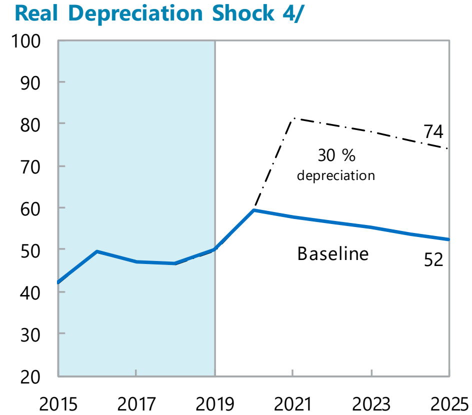
(In percent of GDP)



Combined Shock 3/



Real Depreciation Shock 4/



Sources: IMF staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
4/ One-time real depreciation of 30 percent occurs in 2021.

Annex I. External Sector Assessment

Overall Assessment: The external position is moderately weaker than implied by medium-term fundamentals and desirable policies. This assessment is driven by the estimated current account gap of -1.7 percent of GDP together with a wider range of uncertainty surrounding this estimate. Mitigating factors include the composition and stability of capital flows, adequate reserve coverage, and a flexible exchange rate that has continued as a long serving primary mechanism of adjustment to external shocks.

Potential Policy Responses: Fiscal consolidation according to the fiscal rule is likely to raise national saving over the medium term. Structural policies to improve competitiveness and boost noncommodity exports remain essential but will only improve the external position over the medium term. Key priorities include lowering nontariff trade barriers that raise input costs for exporters, enhancing customs procedures, reducing transportation costs, and improving infrastructure.

Foreign Asset and Liability Position and Trajectory

Background. Colombia's estimated NIIP was -52 percent of GDP in December 2019, a decline of 23 percent of GDP compared to end-2014 (but a decline of 11 percent since 2015). Cumulative net inflows of financial liabilities contributed 20 percent of 2019 GDP to this decline. This was partially offset by valuation gains of 3 percent of 2019 GDP arising from the depreciation of the peso versus reserve currencies, since a large portion of external liabilities is denominated in pesos. Direct investment (DI) contributes a substantial portion to the NIIP; excluding DI, the NIIP stood at only -8 percent of GDP, compared to -4 percent at end-2014. Considering only reserve assets and debit liabilities, the net position is -34 percent.

Assessment. Gross external financing rose to about 14 percent of GDP in 2019. The external stability (ES) approach suggests a need for eventual external adjustment, as the projected medium-term current account balance is 1.4 percent of GDP lower than that required to stabilize the NIIP at its end-2018 level. The large share of FDI, whose risk-sharing properties can mitigate the risks of a falling NIIP, may permit a smaller or slower adjustment.

end-2019 (% GDP)	NIIP: -52	Gross Assets: 57	Reserve Assets: 16	Gross Liab.: 109	Debt Liab.: 50

Current Account

Background. The estimated current account balance (CAB) of -4.3 percent of GDP in 2019 was a larger deficit than the 3.9 percent in 2018 but a slightly smaller deficit than the -4.6 percent of GDP 2014-18 average. Imports increased as domestic demand recovered (propelled by migrant inflows from Venezuela) and owing to one-off factors such as favorable tax treatment in the financing law. Exports were sluggish owing to unfavorable coal markets, softer oil prices, and negative trading partner import growth, while tourism has grown briskly. Inward remittances have also been buoyant. An increase in public saving (excluding arrears) from fiscal consolidation was offset by lower private saving. The medium-term CAB is projected at –3.8 percent of GDP, with expected declines in oil exports-GDP, modestly higher non-traditional exports as regional growth recovers, and buoyant tourism exports as that sector continues its recent deepening and global growth rises.

Assessment. Model estimates coupled with preliminary data for the 2019 current account balance indicate a cyclically-adjusted CAB norm of -0.3 percent of GDP and a cyclically-adjusted CAB gap of -4.5 percent of GDP for 2019. Identified policy gaps including from reserve accumulation were assessed to be improving the CAB by 0.7 percent of GDP. Incorporating adjustments for Colombia's circumstances, staff assesses the CAB to be moderately weaker than justified by medium-term fundamentals and desirable policies as the point estimate for the CAB gap is -1.7 percent of GDP. The following adjustments follow the principles of the 2019 Article IV: 1) the contribution of oil exports to the norm is reduced by 1.6 percent of GDP given Colombia's investment needs and the channeling of government oil revenue to infrastructure investment projects with a high social return and that are also expected to boost competitiveness in the medium term;[1] 2) the large jump in migration from Venezuela justifies a downward adjustment of 0.5 percent to the norm;[2] and 3) the cyclically-adjusted CAB is adjusted up by 0.7 percent of GDP to account for highly depressed demand in Venezuela and other markets for Colombia's non-traditional exports.[3] The range of the gap is -0.4 to -3 percent of GDP given the EBA model's wide standard error for Colombia. Recent developments also introduce added uncertainty to the recorded current account and hence the estimated gap. First, rising and unrecorded illicit exports are likely underestimating exports to an increasing degree, although associated imports may also be underestimated. Second, an increasing value of goods crossing the border into Venezuela is possibly being recorded as consumption.

2019 (% GDP)	Actual CA: –4.3	Cycl. Adj. CA: –4.8	EBA CA Norm: –0.3	EBA CA Gap: –4.5	Staff Adj.: –2.8	Staff CA Gap: –1.7

Real Exchange Rate

Background. The period average real effective exchange rate (REER) index depreciated by 9 percent in 2019 and was 27 percent weaker than in 2014 owing to lower oil prices.

Assessment. EBA REER approaches estimate an undervaluation of 16 percent (index method) and 17 percent (level method) percent in 2019. Applying a semi-elasticity of -0.13 to the gap from the CAB approach suggests a REER overvaluation of between 3 and 23 percent, while application to the external sustainability approach implied a gap of 11 percent. Overall, staff judges the REER gap consistent with the CAB gap at 13 percent, though with a wide range of uncertainty (+/- 10 percent) given: the poor fit of the EBA CAB model for Colombia, with large unexplained residuals that have been persistently biased and which are amplified by the arithmetic of a low semi-elasticity; the substantial differences in results across the REER and CA approaches; the delayed recovery in non-oil exports despite the flexible exchange rate that has been permitted to adjust in response to external shocks, including in 2019, which suggests that

	additional CAB adjustment could be in the pipeline if activity picks up in key non-commodity export markets; and the structural distortions that are holding back exports are alleviated (see IMF Country Reports 18/128 and 18/129 for further discussion).
Capital and Financial Accounts: Flows and Policy Measures	**Background.** Current account deficits have in the last decade been financed primarily by capital inflows (FDI and portfolio debt securities). Net DI inflows in 2019 were 3.5 percent of GDP, rising to be back in line with the historical average, and FDI is diversified across the petroleum, mining, financial, and other sectors. Sovereign issuance on the international market in January 2020 was heavily oversubscribed, and at more favorable terms than in 2019. Non-residents' holdings of domestically issued debt securities (e.g., by sovereign wealth funds and pension funds) have stabilized and become more diverse, while the proportion of shorter maturities (less than 3 years) increased from 8 to 17 percent. Private short-term debt has been increasing, but is typically in the form of trade credits, denominated in domestic currency, and/or intermediated by banks (reducing currency and liquidity mismatches). **Assessment.** The stability of FDI flows, very strong macroeconomic policies, and a track record of uninterrupted market access have underpinned capital inflows, including during periods of stress such as the global financial crisis and the recent emerging markets selloff. Colombia's attractiveness as an investment destination should allow temporarily withheld investments to resume once the acute phase of the pandemic has passed.
FX Intervention and Reserves Level	**Background.** Colombia's gross reserves increased by almost US$5 billion in 2019, including through purchases under a program to accumulate reserves, which was terminated in October following concerns that it was placing a ceiling on the peso's perceived value, and a one-off purchase from the Treasury stemming from the proceeds of a recently issued Eurobond. This was the first FX intervention since 2014. **Assessment.** The flexible exchange rate has long served as the primary mechanism of adjustment to external shocks. It has boosted export receipts, albeit mostly through local-currency prices. Reserve coverage has declined since 2015 since higher liabilities have contributed to a higher ARA metric, but increased since 2018. For 2019, coverage is estimated at 125 percent of the ARA metric including a commodity buffer (given the uncertainty of future oil exports as embodied in options contracts), and 141 percent excluding the commodity buffer. Access to resources available under Colombia's 2018 FCL provides an additional liquidity buffer equivalent to about 25 percent of the ARA metric.

The total adjustment of 2.8 percent is slightly lower than the adjustment in the 2019 Article IV. The details of the adjustments made to the CAB assessment are as follows:

[1] The contribution of oil exports is adjusted downward to account for Colombia's investment needs relative to the EBA sample. As in the 2019 Article IV, this is based on Colombia's infrastructure gap relative to rivals in export markets; higher public fixed capital formation; and relatively efficient practices in public investment management. The contribution is lower than in the 2019 Article IV because oil prices were lower than in 2018, which reduced the modelled contribution to the norm.

[2] The adjustment is a general equilibrium estimate of the effects of migration (see annex and text). The adjustment is lower than in the 2019 Article IV, which is consistent with slightly slower migration than estimated for that assessment and is conservative relative to the adjustment implied by the EBA model's population coefficient.

[3] The main component of the standard cyclical adjustment is based on the GDP-weighted output gap of the EBA sample, while the relevant concept for Colombia's current account is demand from non-traditional export destinations, which is a driver of export volumes of these products. There has been an exceptional decline in demand from Venezuela to less than 0.1 percent of GDP (compared to exports of 1.5 percent of GDP historically), and this is not reflected in the standard cyclical adjustment since Venezuela is not included in the model, so adjustment is warranted to capture a part of the reduction in Colombia's non-traditional goods exports to Venezuela. Consistent with further deterioration in trading partner demand in 2019 (Figure 2) owing to unexpected growth disappointments in Venezuela and elsewhere in the region that the EBA model does not fully capture, we have increased this adjustment slightly since the 2019 Article IV. The adjustment is still only a fraction of lost exports to Venezuela alone, in part because some regional exports may have been diverted to other markets.

Annex II. Public Sector Debt Sustainability Analysis (DSA)

The public debt figures reported for Colombia cover the non-financial public sector. Debt rose significantly in the aftermath of the large terms of trade shock in 2014 but has been broadly stable since 2015. Under the baseline scenario, the non-financial public sector gross debt ratio is projected to gradually decline from around 58 percent of GDP in 2020 to around 48 percent in 2025. Risks largely reflect the rapid increase in non-resident holdings of local currency debt but reflects a more diversified investor base. Colombia's public debt is expected to remain sustainable in the medium term.

Baseline Scenario

1. At the end of 2019, the non-financial public sector (NFPS) gross debt is estimated to have fallen slightly to 52.9 percent of GDP from an upwardly revised 53.8 in 2018 due to the authorities' recognition of previously unrecognized government expenditures (see Annex III). In terms of composition, around 95 percent of NFPS debt corresponds to central government debt.[1] Of the central government debt, around 60 percent is denominated in local currency with the remainder primarily denominated in U.S. dollars.

2. The NFPS gross debt ratio is expected to increase in 2020 in response to the projected recession and significant exchange rate depreciation but decline gradually thereafter, driven primarily by expected primary surpluses at the general government level, and to a lesser extent by favorable growth dynamics (Figure 3). If real GDP growth, real interest rates, and other debt-creating flows remain at the level of the last projection year (2025), the debt-stabilizing primary balance is estimated at -0.1 percent of GDP. During the projection period, the expected primary surpluses should place the NFPS gross debt on a declining path.

Realism of Baseline Scenario

3. The baseline assumptions seem plausible as staff's forecasts are not systematically biased (based on historical projection errors). Furthermore, fan charts show limited uncertainty around the baseline (the symmetric fan chart has a width of about 20 percent of GDP). However, there is considerable uncertainty around staff's projections that assume the central government's deficit will be consistent with the 2020 headline deficit target (announced in 2019) and which would imply that growth in public sector nominal wages and salaries would be close to zero and that capital spending would be substantially cut in order to meet the target in a recession. The Fiscal Rule Consultative Committee is expected to meet in April to review the fiscal rule. Further forward, the assumed adjustment in the primary balance reflects a gradual reduction in structural expenditures, in the absence of higher tax revenues, which is realistic when compared to similar adjustments made by other countries (Figure 2). A historical scenario yields a slightly upward sloping path for debt, reflecting small primary deficits over the last decade which were largely the result of the large terms of trade shock.

[1] Ecopetrol's debt at around 2.5 percent of GDP is included as part of the NFPS.

Risks

4. The share of NFPS debt held by non-residents is above its risks benchmark reflecting a rapid increase of foreign investors' participation in Colombia's local currency public debt market since 2013. This largely reflects the reduction of the capital gains tax as part of the tax reform in 2013 and the inclusion of Colombian bonds in JP Morgan's EM-GBI in 2014. Refinancing risks are mitigated by a more diversified foreign investor base, cash on hand, pre-financing secured in January, and further financing from multilateral institutions. Additionally, the authorities made further progress in their strategy to increase the proportion of loans carrying fixed interest rates, to extend maturities (including through swaps), increase liquidity in the local market (as demonstrated, for example, by a decrease in bid-ask spreads to levels below those of regional peers) and minimize roll-over risk.[2] Developments in 2019 driven by turbulence in some Emerging Markets, resulted in volatile portfolio flows in Colombia and a slight decline in the value of domestic bonds held by foreign investors (1.3 percent in 2019) highlight the risk that non-residents sell and exit for a sustained period.

[2] See Estrategia de gestión de la deuda de mediano plazo 2018−22.

Figure 1. Colombia: Public Sector DSA Risk Assessment

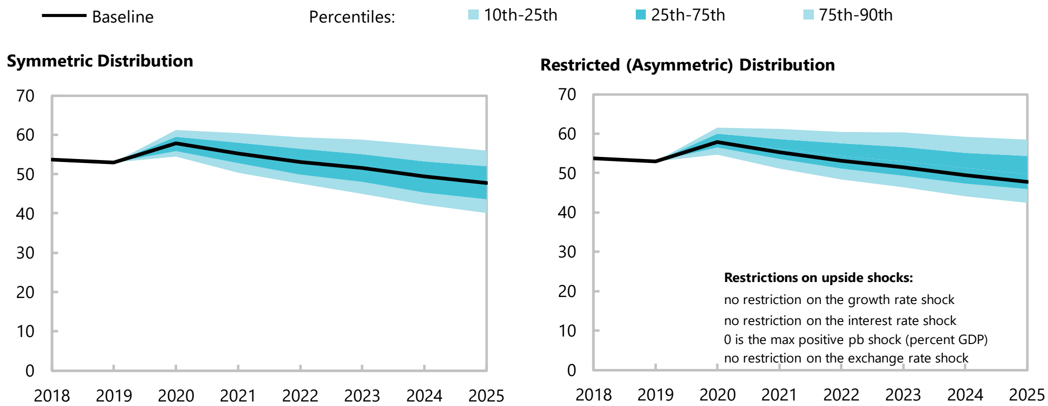
(Nonfinancial Public Sector Debt)

Heat Map

Debt level 1/	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability shock
Gross financing needs 2/	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Debt profile 3/	Market Perception	External Financing Requirements	Change in the Share of Short-Term Debt	Public Debt Held by Non-Residents	Foreign Currency Debt

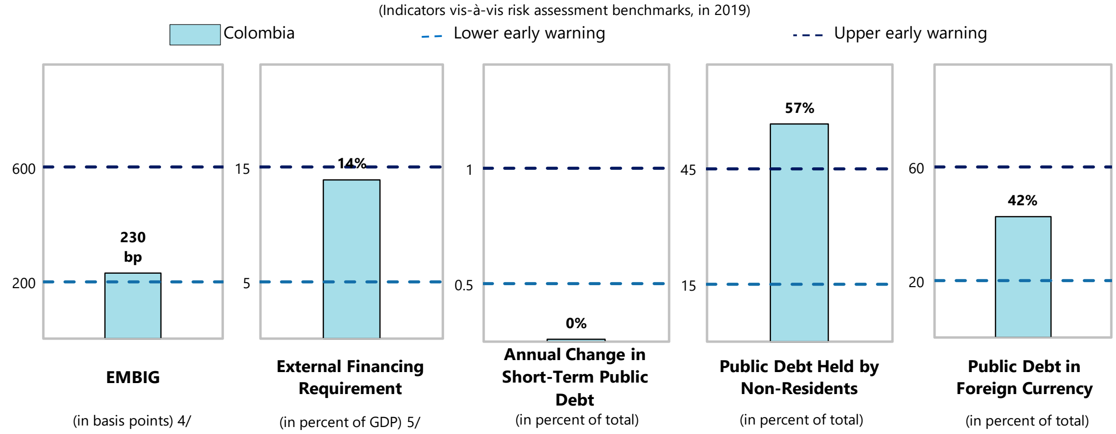
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2019)



Source: IMF staff.

1/ The cell is highlighted in green if debt burden benchmark of 70% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

2/ The cell is highlighted in green if gross financing needs benchmark of 15% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

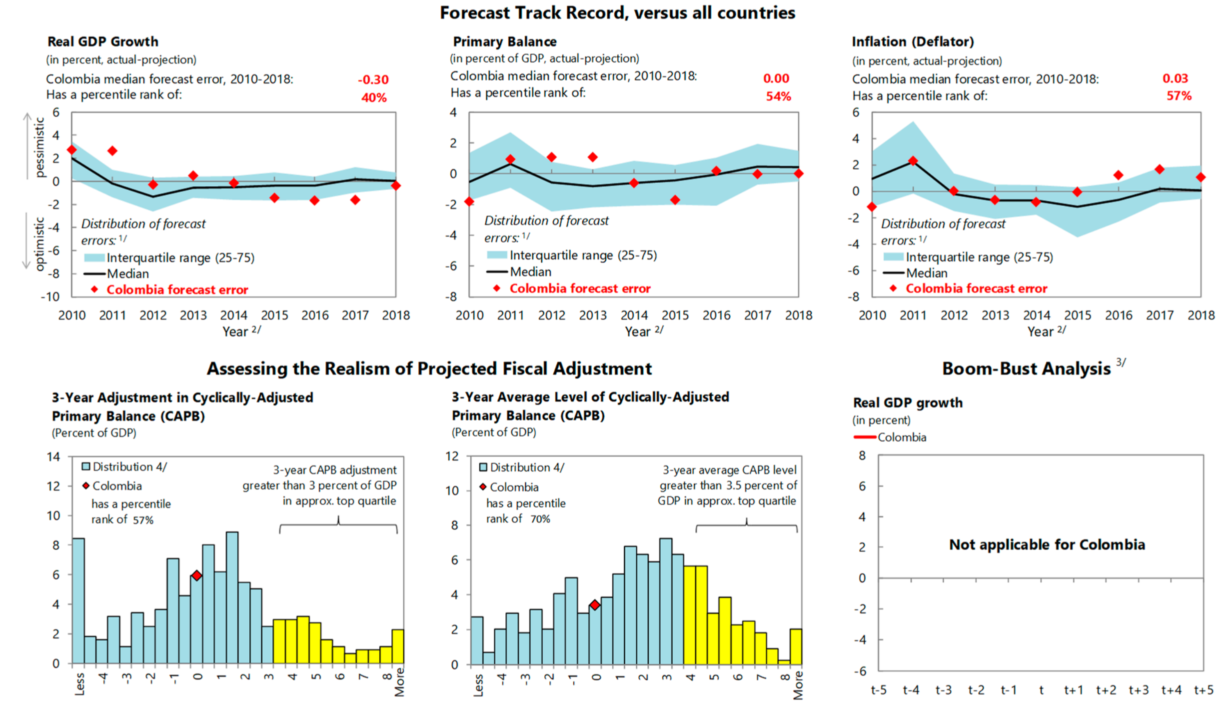
3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, cell is white.
Lower and upper risk-assessment benchmarks are:

200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

4/ EMBIG, an average over the last 3 months, 31-Dec-19 through 30-Mar-20.

5/ External financing requirement is defined as the sum of current account deficit, amortization of medium and long-term total external debt, and short-term total external debt at the end of previous period.

Figure 2. Colombia: Public Sector DSA – Realism of Baseline Assumptions



Source : IMF Staff.

1/ Plotted distribution includes all countries, percentile rank refers to all countries.

2/ Projections made in the spring WEO vintage of the preceding year.

3/ Not applicable for Colombia, as it meets neither the positive output gap criterion nor the private credit growth criterion.

4/ Data cover annual obervations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

Figure 3. Colombia: Public Sector Debt Sustainability Analysis (DSA) – Baseline Scenario

(In percent of GDP, unless otherwise indicated)

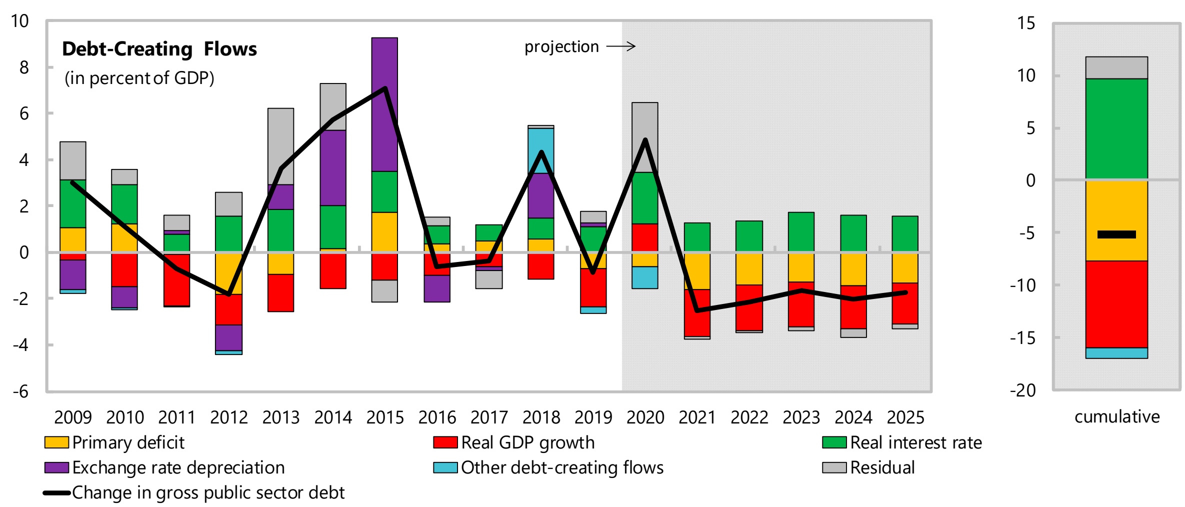
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2009-2017 [2/]	2018	2019	2020	2021	2022	2023	2024	2025
Nominal gross public debt	41.4	53.8	52.9	57.8	55.3	53.1	51.5	49.5	47.7
Public gross financing needs	5.4	6.9	7.0	3.9	5.0	4.6	5.5	4.8	4.5
Real GDP growth (in percent)	3.6	2.5	3.3	-2.4	3.7	3.8	3.9	3.8	3.8
Inflation (GDP deflator, in percent)	3.9	4.5	4.3	4.2	3.4	3.0	3.0	3.0	3.0
Nominal GDP growth (in percent)	7.6	7.1	7.8	1.8	7.3	7.0	7.1	7.0	7.0
Effective interest rate (in percent) [4/]	8.2	6.5	6.6	8.4	5.9	5.7	6.6	6.5	6.5

As of March 30, 2020		
Sovereign Spreads		
EMBIG (bp) 3/		372
5Y CDS (bp)		238
Ratings	Foreign	Local
Moody's	Baa2	Baa2
S&Ps	BBB	BBB
Fitch	BBB+	BBB+

Contribution to Changes in Public Debt

	Actual			Projections							
	2009-2017	2018	2019	2020	2021	2022	2023	2024	2025	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	1.9	4.3	-0.9	4.9	-2.5	-2.1	-1.6	-2.0	-1.7	-5.2	
Identified debt-creating flows	1.0	4.2	-1.3	1.9	-2.4	-2.0	-1.5	-1.7	-1.5	-7.3	
Primary deficit	0.2	0.6	-0.7	-0.6	-1.6	-1.4	-1.3	-1.5	-1.3	-7.7	-0.2
Primary (noninterest) revenue and grants	27.1	29.2	31.2	28.0	28.9	29.1	29.1	29.0	28.8	172.8	
Primary (noninterest) expenditure	27.3	29.8	30.5	27.4	27.3	27.7	27.8	27.5	27.5	165.1	
Automatic debt dynamics [5/]	0.8	1.7	-0.4	3.5	-0.8	-0.6	-0.2	-0.2	-0.2	1.4	
Interest rate/growth differential [6/]	0.2	-0.3	-0.6	3.5	-0.8	-0.6	-0.2	-0.2	-0.2	1.4	
Of which: real interest rate	1.5	0.9	1.1	2.2	1.3	1.3	1.7	1.6	1.6	9.7	
Of which: real GDP growth	-1.3	-1.2	-1.7	1.2	-2.0	-2.0	-2.0	-1.8	-1.8	-8.3	
Exchange rate depreciation [7/]	0.6	2.0	0.2	…	…	…	…	…	…	…	
Other identified debt-creating flows	0.0	1.9	-0.3	-1.0	0.0	0.0	0.0	0.0	0.0	-1.0	
Privatization (incl. concessions) (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Contingent liabilities	0.0	1.9	-0.3	-1.0	0.0	0.0	0.0	0.0	0.0	-1.0	
Residual, including asset changes [8/]	0.9	0.2	0.5	3.0	-0.1	-0.1	-0.1	-0.4	-0.2	2.1	



Source: IMF staff.

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

2/ Based on available data.

3/ EMBIG.

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

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

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

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

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

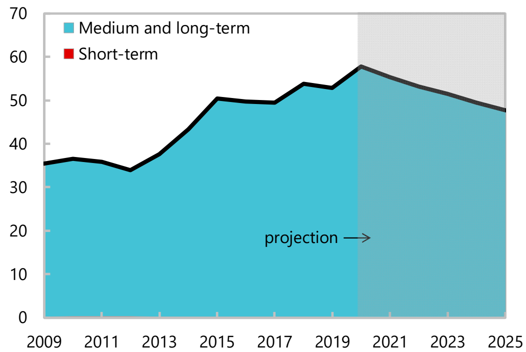
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Figure 4. Colombia: Public DSA – Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

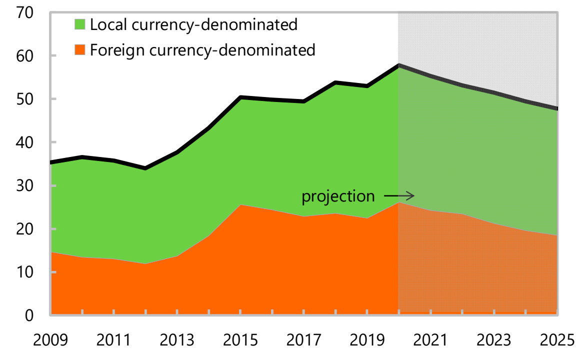
By Maturity

(in percent of GDP)



By Currency

(in percent of GDP)

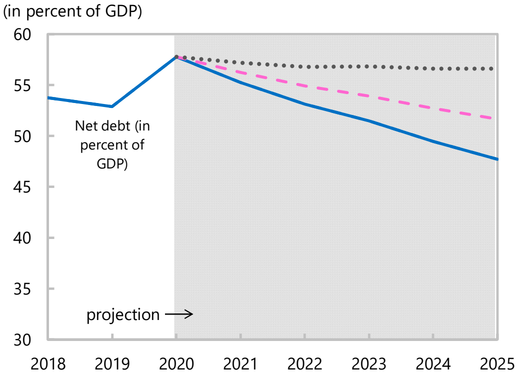


Alternative Scenarios

Baseline   Historical   Constant Primary Balance

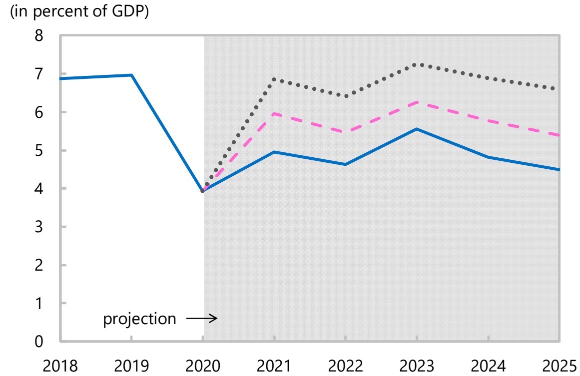
Gross Nominal Public Debt

(in percent of GDP)



Public Gross Financing Needs

(in percent of GDP)



Underlying Assumptions

(in percent)

Baseline Scenario	2020	2021	2022	2023	2024	2025
Real GDP growth	-2.4	3.7	3.8	3.9	3.8	3.8
Inflation	4.2	3.4	3.0	3.0	3.0	3.0
Primary Balance	0.6	1.6	1.4	1.3	1.5	1.3
Effective interest rate	8.4	5.9	5.7	6.6	6.5	6.5
Constant Primary Balance Scenario						
Real GDP growth	-2.4	3.7	3.8	3.9	3.8	3.8
Inflation	4.2	3.4	3.0	3.0	3.0	3.0
Primary Balance	0.6	0.6	0.6	0.6	0.6	0.6
Effective interest rate	8.4	5.9	5.7	6.5	6.5	6.5

Historical Scenario	2020	2021	2022	2023	2024	2025
Real GDP growth	-2.4	3.7	3.7	3.7	3.7	3.7
Inflation	4.2	3.4	3.0	3.0	3.0	3.0
Primary Balance	0.6	-0.3	-0.3	-0.3	-0.3	-0.3
Effective interest rate	8.4	5.9	5.8	6.6	6.5	6.6

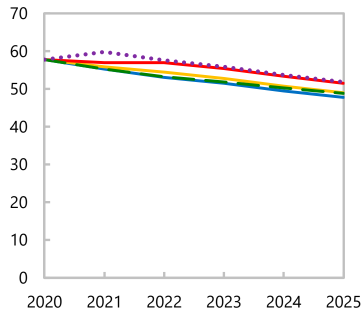
Source: IMF staff.

Figure 5. Colombia: Public DSA – Stress Tests

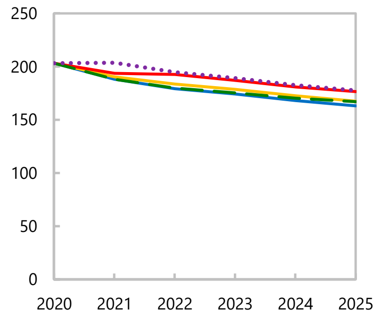
Macro-Fiscal Stress Tests

Baseline
Real GDP Growth Shock
Primary Balance Shock
Real Exchange Rate Shock
Real Interest Rate Shock

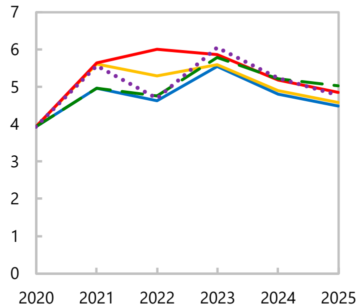
Gross Nominal Public Debt
(in percent of GDP)



Gross Nominal Public Debt
(in percent of Revenue)



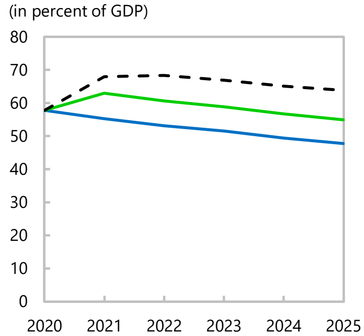
Public Gross Financing Needs
(in percent of GDP)



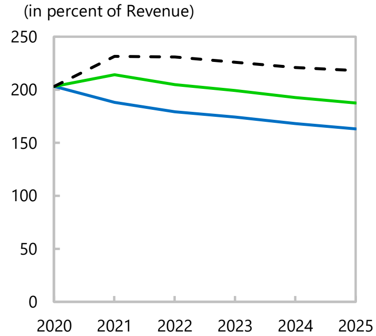
Additional Stress Tests

Baseline
30 percent depreciation
Combined Macro-Fiscal Shock

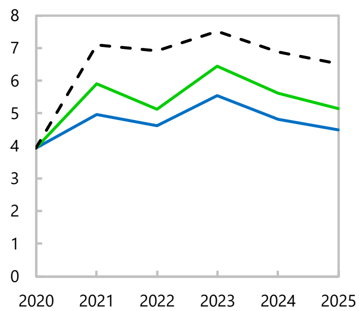
Gross Nominal Public Debt
(in percent of GDP)



Gross Nominal Public Debt
(in percent of Revenue)



Public Gross Financing Needs
(in percent of GDP)



Underlying Assumptions
(in percent)

Primary Balance Shock	2020	2021	2022	2023	2024	2025
Real GDP growth	-2.4	3.7	3.8	3.9	3.8	3.8
Inflation	4.2	3.4	3.0	3.0	3.0	3.0
Primary balance	0.6	1.0	0.8	1.3	1.5	1.3
Effective interest rate	8.4	5.9	5.8	6.6	6.5	6.5
Real Interest Rate Shock						
Real GDP growth	-2.4	3.7	3.8	3.9	3.8	3.8
Inflation	4.2	3.4	3.0	3.0	3.0	3.0
Primary balance	0.6	1.6	1.4	1.3	1.5	1.3
Effective interest rate	8.4	5.9	6.0	7.1	7.3	7.5
Combined Shock						
Real GDP growth	-2.4	2.1	2.2	3.9	3.8	3.8
Inflation	4.2	3.0	2.6	3.0	3.0	3.0
Primary balance	0.6	1.0	0.3	1.3	1.5	1.3
Effective interest rate	8.4	6.7	5.8	6.8	7.0	7.3

Real GDP Growth Shock	2020	2021	2022	2023	2024	2025
Real GDP growth	-2.4	2.1	2.2	3.9	3.8	3.8
Inflation	4.2	3.0	2.6	3.0	3.0	3.0
Primary balance	0.6	1.1	0.3	1.3	1.5	1.3
Effective interest rate	8.4	5.9	5.8	6.6	6.5	6.5
Real Exchange Rate Shock						
Real GDP growth	-2.4	3.7	3.8	3.9	3.8	3.8
Inflation	4.2	14.0	3.0	3.0	3.0	3.0
Primary balance	0.6	1.6	1.4	1.3	1.5	1.3
Effective interest rate	8.4	6.7	5.5	6.2	6.2	6.2

Source: IMF staff.

Annex III. Changes in Fiscal Statistics—Accounting for Central Bank Profits and Recognition of Other Accounts Payable

A. Central Bank Dividends

1. To ensure consistency with GFSM 1986 and GFSM 2014, the authorities have made changes to the reporting of transfers of central bank profits to the central government. Prior to the publication of the 2019 Medium Term Fiscal Framework (MTFF), the authorities reported central bank (CB) profits/losses as part of their financing operations for the central government (CG). Both GFSM 1986 and GFSM 2014 recommend[1] that CB current profits (losses) be reported as revenues (expenditure) when there are profit distributions (or losses to cover). These transfers should be accounted for *when they are distributed* and should therefore affect the headline budget deficit. This is because the CB is transferring (receiving) money to (from) the CG's accounts, according with its profits (losses) from the previous year and these represent fiscal resources.

2. The CB has on average distributed profits to the CG and these are typically around 0.1 percent of GDP. The CB typically obtains revenues from monetary policy operations, returns from international reserves and commissions for various financial services, whereas expenditures typically correspond to personnel and interest costs. There were losses in 2013-2015 due to lower revenues and higher interest costs. For 2019, the authorities are projecting the central bank profits of around 0.6 percent of GDP, to be distributed in 2020 (see Table below).

Profit Distribution from Central Bank to Central Government

(Billion of Col Pesos unless specified)

								Proj.
	2013	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
Revenue (Dividends received)	0	0	0	407	761	2015	1869	6985
Expenditure (Losses)	1198	124	404	0.0	0.0	0.0	0.0	0.0
Fiscal Balance	-1198	-124	-404	407	761	2015	1869	6985
Percent of GDP	-0.2	0.0	-0.1	0.0	0.1	0.2	0.2	0.6

Source: National Authorities and Staff Estimates

B. Recognition of Other Accounts Payable

3. The 2018-2022 NDP authorizes the CG to issue debt to liquidate past accounts payable and cover social security shortfalls. The NDP authorizes the CG to recognize and deal with accounts payable resulting from: past court rulings, arbitration and conciliations; shortfalls in social

[1] The distributed profits do not include holding gains such reevaluation effect of exchange rate in assets and liabilities. The profits should come from CB's operational activities during previous year.

security and energy subsidies; liabilities arising from pension bonds and FOMAG liabilities. The NDP also permits the CG to take on the arrears stemming from the provision of health services by local authorities. The CG is permitted to issue local currency debt (TES) to pay for these contingent liabilities.

4. It is important to recognize the accounts payable, have a strategy for clearing them and prevent future accumulation. The recognition of previously unrecognized accounts payable improves fiscal transparency and credibility as it avoids perceptions that the authorities are disguising the true size of the government deficit. The payment of the accounts payable should have positive macroeconomic implications as the private sector receives payments and the government reduces its interest expenditure. The recognition of accounts payable should be accompanied by a strategy for clearing them. This strategy should be *comprehensive* (applying to all outstanding payments), *transparent* (made publicly available with a clear timetable that explains the criteria for prioritizing payments if debts cannot be paid at once), *credible* (including measures to avoid accumulation of new arrears) and *realistic* (the government's annual budget and medium-term fiscal projections should make provisions for the clearance strategy). Going forward, improvements to public financial management; accounting and reporting; and budget realism will help to prevent the accumulation of future accounts payable.

5. The authorities have put in place a strategy for clearing previously unrecognized accounts payable. The stock of accounts payable stemming from court rulings, health and education is worth around 1.9 percent of 2018 GDP. The largest components are health expenditures stemming from underreported local government expenditure (1.0 percent of GDP) and court rulings (0.8). The authorities started to liquidate this stock in 2019 and plan to finalize it by 2021, using both newly issued government bonds (TES) and cash. According to the authorities, many of the accounts payable – especially those associated with court rulings – are subject to interest rates of around 29 percent that would result in interest expenditure costs of around 1.4 percent of GDP between 2020-22. Financing the payments of these accounts payable with TES would save the authorities around 1.1 percent of GDP over the same period.

Recognition of Accounts Payable

(Billion of Col Pesos unless specified)

	2018
Stock of Accounts Payable	
o/w health	9637
o/w court rulings	8061
o/w FOMAG	1100
Total	18798
Percent of GDP	**1.9**

Source: National Authorities and Staff Estimates

6. The authorities have put in place several plans to strengthen provisioning and spending mechanisms to address the accumulation of future arrears. In the case of legal claims preventive measures include additional resources to manage legal claims specially for the largest cases and improved provisioning and use of the contingency fund (FCEE) ahead of final sentencing –

which will be incorporated in the 2021 annual budget[2]. In the case of health expenditure measures include improved auditing and control of health expenditures –including taking administrative control from subnational governments where the majority of these arrears arose— and setting pre-established expenditure limits for health care providers.[3] The authorities are transitioning to the adoption of GSFM 2014 at the subnational and state-owned enterprise level.

7. The authorities are not able to fully determine when the accounts payable were incurred. Under a cash-based accounting system the expenditure and related government obligations regarding lawsuits, social security and education are only recorded as expenditure when paid. As the authorities follow a (modified) cash-based accounting system, they have not recorded these as expenditures in the past. While these arrears have been accumulated over many years, the authorities are not able to determine exactly when these were originally incurred nor the amount of associated interest expenditure. Under an accrual accounting system, these obligations should be recorded as expenditure when incurred and previously reported expenditures and headline deficits should be modified accordingly when recognized. Staff base their reporting on an accrual system but since it is not possible to determine when the expenditure was incurred, staff have recorded these accounts payable as expenditure in 2018 corresponding to the information about the stock of arrears at that point in time

8. Cash drawdown will be the primary source for the payment of accounts payable. The authorities paid around 0.3 percent of GDP worth of arrears in 2019, by issuing debt (worth 0.1 percent of GDP) and the remaining payments using cash resources (0.3 percent of GDP). The rest will be paid in 2020 and 2021. Most of the remaining payments are scheduled for 2020, using cash (70 percent of all remaining arrears, or 1.1 percent of GDP). Around 0.2 percent of GDP of remaining arrears will be paid in 2021. Overall, the additional increase in government bonds associated with these arrears will be around 0.3 percent of GDP.

Financing of Accounts Payable

(Billion of Col Pesos unless specified)

	2018	2019	2020	2021
Domestic debt (TES)	**0**	**714**	**1860**	**0**
o/w health		0	1200	0
o/w court rulings		274	0	0
o/w FOMAG		440	660	0
Cash drawdown	**0**	**2931**	**10506**	**2787**
o/w health		2931	5506	0
o/w court rulings		0	5000	2787
Stock of Accounts Payable	**18798**	**15153**	**2787**	**0**
Percent of GDP	1.9	1.4	0.2	0.0
Total Accounts Payable Paid	**0**	**3645**	**12366**	**2787**
Percent of GDP	0.0	0.3	1.1	0.2
o/w additional issued TES		**714**	**1860**	**0**
Percent of GDP		0.1	0.2	0.0

Source: National Authorities and Staff Estimates

9. Due to the recognition of accounts payable, the CG headline deficit exceeded the authorities' headline deficit target for 2018. The Fiscal Rule Consultative Committee (FRCC)

[2] Colombia has budget contingency measures, including the FCEE to deal with unexpected fiscal costs, including those associated with legal claims against the government, see 2018 FTE for Colombia.

[3] In this case, private sector health providers will have to cover excess expenditures above the pre-set budget. The government will periodically evaluate the expenditure ceilings and analyze all health-related audits.

proposed a headline deficit target of 3.1 percent of GDP for 2018, which was originally met. Even if the stock of accounts payable was not paid in full, under staff's assumptions, the recognition of the stock of arrears at the end of 2018 increases the headline deficit for 2018 by 1.9 percentage points of GDP. Hence, with the recognition of arrears, the 2018 headline deficit is now estimated to have been 4.8 percent of GDP, once central bank dividends are included (see above). The associated increase in gross public debt associated with the recognition of accounts payable is 1.9 percent of GDP in 2018 (equal to the stock of accounts payable), 1.5 percent of GDP in 2019 (accounts payable plus issued TES) and 0.4 percent in 2020.

10. The one-off recognition of past years arrears should not affect the structural deficit rule. Under Law 1473 of 2011 (Fiscal Responsibility Law), all expenditure is deemed structural in Colombia with the exception of cyclical expenditure which can arise "when it is projected that in a particular year the rate of economic growth will be two percentage points or more below the real long-term economic growth rate, provided that a negative output gap is also projected". As such, the fiscal rule law does not adjust for one-offs and/or temporary measures. This is however not best practice, as many countries that use structural deficit rules adjust expenditure for one-offs or temporary measures (e.g. the Stability and Growth Pact in Europe, or the Swiss debt-Brake rule).

INTERNATIONAL MONETARY FUND

COLOMBIA

April 2, 2020

STAFF REPORT FOR THE 2020 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared by: The Western Hemisphere Department
(In collaboration with other Departments)

CONTENTS

FUND RELATIONS

(As of March 27, 2020)

Membership status: Joined: December 27, 1945; Article VIII.

General Resources Account:

	SDR million	Percent Quota
Quota	2,044.50	100.00
Fund holding of currency (Exchange rate)	1,636.89	80.06
Reserve position	407.61	19.94

SDR Department:

	SDR million	Percent Quota
Net cumulative allocation	738.32	100.00
Holdings	637.83	86.39

Outstanding Purchases and Loans: None.

Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	In million of SDR Amount Approved	Amount Drawn
FCL	May 25, 2018	May 24, 2020	7,848.00	0.00
FCL	Jun 13, 2016	May 24, 2018	8,180.00	0.00
FCL	Jun 17, 2015	Jun 12, 2016	3,870.00	0.00
FCL	Jun 24, 2013	Jun 16, 2015	3,870.00	0.00

Projected Payments to the Fund (in SDR million):

	forthcoming				
	2020	2021	2022	2023	2024
Principal					
Charges/interest	0.76	0.75	0.76	0.76	0.76
Total	**0.76**	**0.75**	**0.76**	**0.76**	**0.76**

Implementation of HIPC Initiative: Not applicable.

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

Exchange Rate Arrangement: Colombia has a floating exchange rate regime (de jure: free floating; de facto: floating). The previous exchange restriction subject to Fund approval under Article VIII arising from the special regime for the hydrocarbon sector (see IMF Country Report No. 13/35 for details) has been removed after the implementation of Article 95 of RE. 1/18 on 3/25/2020.

Article IV Consultation: The last Article IV Consultation was concluded on April 29, 2019 (IMF Country Report No. 19/106).

FSAP participation and ROSCs: The FSAP took place in 2000 and was updated in 2008 and 2013. A data ROSC took place in 2006 and a fiscal ROSC in 2003.

Technical Assistance:

Department	Time of Delivery	Purpose
MCM	Jan. 2015	Enhancing the Macroprudential Stress Testing Framework of Banco de la República.
FAD	Feb. 2015	Tax Policy
STA	Dec. 2015	National Accounts: Quarterly Sectoral Accounts
FAD	Aug. 2016	Discussion of the 2017 structural tax reform
STA	Dec. 2016	National Accounts
FAD	Feb. 2017	Revenue Administration
FAD	Mar. 2017	Fiscal Transparency Assessment
STA	Jun. 2017	National Accounts
FAD	Aug. 2017	Tax and Customs Administration
FAD	Sep. 2017	Treasury Management
STA	Sep. 2017	National Accounts
STA	Nov. 2017	Government Finance Statistics
STA	Dec. 2017	National Accounts
STA	Apr. 2018	Sectoral Accounts
STA	Apr. 2018	Residential Property Prices Indices
STA	May. 2018	National Accounts
STA	Sep. 2018	Residential Property Price Index
FAD	Oct. 2018	Tax Administration
STA	Dec. 2018	Sectoral Accounts
FAD	Mar. 2019	Compliance and Core Procedures
FAD	Mar. 2019	Fiscal Rule and Fiscal Risks
STA	Mar. 2019	Sectoral Accounts
FAD	Apr. 2019	Energy Subsidy Reform
FAD	Aug. 2019	Establishing a debt anchor and updating the fiscal rule

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

World Bank Group:

- Country page: https://www.worldbank.org/en/country/colombia
- Overview of Word Bank Group lending to Colombia: http://financesapp.worldbank.org/en/countries/Colombia/
- IBRD-IDA project operations: http://projects.worldbank.org/search?lang=en&searchTerm=&countrycode_exact=CO

Inter-American Development Bank:

- Country page: https://www.iadb.org/en/countries/colombia/overview
- IADB's lending portfolio: https://www.iadb.org/en/countries/colombia/projects-glance

STATISTICAL ISSUES

(As of February 14, 2020)

General. Macroeconomic statistics are adequate for surveillance. Colombia subscribes to the Special Data Dissemination Standard (SDDS) since 1996 and metadata are posted on the Fund's Dissemination Standards Bulletin Board (DSBB).

National Accounts: The National Department of Statistics (DANE) is responsible for the compilation of the national accounts, although the Banco de la República (BdR) compiles the financial accounts. Annual and quarterly estimates of GDP by the production and the expenditure approaches use 2015 as the reference year for the annually chained volume measures. The national accounts statistics cover the accounts and aggregates included in SNA2008. The corresponding SNA2008 accounts and tables which the inter-ministerial working group on national accounts (GITCN) identified as minimum requirements and recommended for implementation of SNA2008 are compiled on a regular basis, as listed below: annual value added and GDP at current and constant prices for the previous year, and with a chain volume series in 2015 cop by activity; annual expenditure on GDP at current and constant prices for the previous year, and with a chain volume series in 2015 cop; components of annual value added at current prices by activity; sequence of accounts of the economy as a whole (up to net lending) with annual frequency; annual accounts of the rest of the world (up to net lending); quarterly value added and GDP at current and chain volume series in 2015 cop by activity; quarterly expenditure on GDP at current and chain volume series in 2015 cop; and annual supply-use tables. STA continues to assist DANE and BdR on improving sectoral accounts and developing quarterly accounts by institutional sectors.

Price Statistics: DANE is also responsible for price statistics, and currently compiles and disseminates the consumer price index (CPI) and the producer price index (PPI). The basket and weights of the CPI were updated in 2019, with the support of STA technical assistance, based on 2016/17 household expenditures. STA is assisting DANE and BdR to improve residential property price statistics.

Government Finance Statistics: The Ministry of Finance and Public Credit (MFPC) is responsible for the compilation of public revenue, expenditure, and financing data. The Colombian authorities have reaffirmed their commitment to adopt the GFSM 2014 framework, enhance inter-institutional coordination, and increase the resources allocated to compiling government finance statistics. The latest reported data has been published in the Government Finance Statistics Yearbook (GFSY). Next steps include: aligning classification of revenue and expense with GFSM 2014 framework, improving consolidation, adopting a common list of public sector entities, and disseminating high-frequency data on a national and international level. The General Accounting Office (GAO) developed a single accounting framework for the public sector based on International Public Sector Accounting Standards and maintains a financial management information system containing accounting information of all public sector units. The MFPC's Macroeconomic Policy Unit and the

GAO developed a bridge table that converts national accounting classification to the GFSM 2001 framework to compile GFS on accrual and cash bases.

Monetary and Financial Statistics: The Banco de la República (BdR) reports the Standardized Report Forms (SRFs) 1SR for the central bank, 2SR for the other depository corporations (ODCs), and 5SR for monetary aggregates for publication in the IMF's International Financial Statistics (IFS) on a monthly basis with a lag of two months for the 1SR and 4 months for the 2SR. The Superintendencia Financiera de Colombia (SFC) compiles data for other financial corporations (OFC) using SRF 4SR. However, the last reported OFC data are for December 2014. This delay in reporting is due to an ongoing review of the SFC and efforts to map the former to the International Financial Reporting Standards (IFRS). The classification of financial instruments and economic sectors follows the MFSM.

The Banco de la República (BdR) reports data on several series indicators of the Financial Access Survey (FAS) including the two indicators (commercial bank branches per 100,000 adults and ATMs per 100,000 adults) adopted by the UN to monitor Target 8.10 of the Sustainable Development Goals (SDGs).

Financial Sector Surveillance: Colombia has reported Financial Soundness Indicators (FSI) beginning from 2005 up to 2019. Colombia reports all core and ten encouraged Financial Soundness Indicators (FSI) for deposit takers on a regular monthly basis. The FSIs indicators along with metadata are available on the IMF's website (http://data.imf.org/).

External Sector Statistics: The BdR is in charge of compiling and disseminating quarterly balance of payments and international investment position (IIP) statistics, which are produced on a sixth edition of the Balance of Payments and International Investment Position Manual (BPM6) basis. Improved surveys, particularly in the services sector, have enhanced the coverage of balance of payments statistics. Recording of transactions in securities between residents and nonresidents in secondary markets could be improved. The BdR also monthly compiles and disseminates the Data Template on International Reserves and Foreign Currency Liquidity, reports semi-annual data to the Coordinated Portfolio Investment Survey (CPIS), and submits quarterly external debt statistics to the Quarterly External Debt Statistics (QEDS) database. However, Colombia has not reported data to the Coordinated Direct Investment Survey (CDIS) yet.

Colombia: Table of Common Indicators Required for Surveillance
(As of February 14, 2020)

	Date of Latest Observation	Date Received	Frequency of Data[1]	Frequency of Reporting[1]	Frequency of Publication[1]
Exchange Rates	Feb. 14, 2020	Feb. 14, 2020	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[2]	Jan. 2020	Feb. 2020	M	M	M
Reserve/Base Money	Jan. 2020	Feb. 2020	W	W	W
Broad Money	Jan. 2020	Feb. 2020	W	W	W
Central Bank Balance Sheet	Jan. 2020	Feb. 2020	W	W	W
Consolidated Balance Sheet of the Banking System	Oct. 2019	Jan. 2020	M	M	M
Interest Rates[3]	Feb. 14 2020	Feb. 14, 2020	D	D	D
Consumer Price Index	Jan. 2020	Feb. 2020	M	M	M
Revenue, Expenditure, Balance and Financing Composition[4] – General Government (GG)[5]	Q2 2019	Jan. 2020	Q	Q	Q
Revenue, Expenditure, Balance and Financing Composition[4] – Central Government	Nov. 2019	Jan. 2020	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt[6]	Dec. 2019	Jan 2020	M	M	M
External Current Account Balance	Q3 2019	Dec. 2019	Q	Q	Q
Exports and Imports of Goods and Services	Q4 2019	Feb. 2020	Q	Q	Q
GDP/GNP	Q4 2019	Feb. 2020	Q	Q	Q
Gross External Debt	Nov. 2019	Feb. 2020	M	M	M
International Investment Position[7]	Q3 2019	Dec. 2019	Q	Q	Q

[1] Daily (D); Weekly (W); Monthly (M); Bi-monthly (B); Quarterly (Q); Annually (A); Irregular (I); Not Available (NA).
[2] Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.
[3] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[4] Foreign, domestic bank, and domestic nonbank financing.
[5] The GG consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[6] Including currency and maturity composition.
[7] Includes external gross financial asset and liability positions vis-à-vis nonresidents.

Statement by Mr. Villar on Colombia
April 9, 2020

On behalf of the Colombian authorities, I would like to thank the staff for a thoughtful and well written report on Colombia and the open discussion during the Art. IV consultation. Staff's valuable feedback will provide a crucial input for the authorities' policy endeavors.

Recent developments

Before the COVID-19 outbreak, Colombia was exhibiting solid growth and was among the best performing economies in the region. The growth rate in 2019 was 3.3 percent and it was expected to remain around that level in 2020 supported mainly by a strong domestic demand. Inflation was overcoming temporary supply shocks and was expected to converge to the 3 percent target. On the external side, although the current account deficit had widened, it was being financed comfortably by foreign direct investment. In this context, monetary policy was moderately expansionary and inflation expectations were anchored. On the fiscal side, the central government deficit was lower (2.5 percent) than the limit established by the Fiscal Rule (2.7 percent). This accomplishment is remarkable considering the reduction in corporate taxation approved in the 2018 Financing Law and the humanitarian expenses that the government is assuming to help 2.2 million migrants that have arrived from Venezuela.

The COVID-19 pandemic and the need to undertake a severe quarantine to contain the spread of the virus has substantially altered the situation, prompting a sharp deceleration of economic activity and straining cash flows and incomes of businesses and households. The magnitude of the adverse consequences of the pandemic are still highly uncertain. Added to this situation, the recent large drop in oil prices deteriorates Colombia's terms of trade, with the resulting fallout in national income and the value of the Colombian peso. The Central Bank's response to these shocks has been focused on providing ample liquidity to the economy to help preserve credit supply and to ensure financial stability and the correct functioning of payment systems. The Central Bank has also reduced the monetary policy interest rate to strengthen economic activity. The government has declared a state of emergency and has announced measures to support the economy while the outbreak subsides.

Nonetheless, the repercussions of this episode on growth, inflation, the external balance, and fiscal accounts remain highly uncertain. In this scenario, my authorities expect that the strong macroeconomic policy framework and the soundness of policies implemented in response to the shocks will allow economic agents to maintain their confidence in the Colombian economy and its macroeconomic strength.

Monetary policy, exchange rate, and external buffers

The monetary policy in Colombia follows a fully-fledged inflation targeting regime which has allowed the country to successfully overcome previous shocks. The drop in international oil prices in 2014, for example, was managed in an orderly manner and had only limited consequences on growth and inflation expectations. The monetary policy interest rate remained unchanged between April 2018 and March 2020 in a moderately expansionary stance. After a 50 bp reduction in March, in response to the pandemic and oil shocks, the monetary policy rate now stands at 3.75 percent.

In the face of high volatility in recent weeks, the Central Bank has been active in providing liquidity to allow for a correct functioning of local financial markets. The Central Bank has significantly increased the provision of liquidity through repo operations, has expanded the group of counterparties for them, and has injected permanent liquidity to the economy through purchases of both private and public bonds. Regarding foreign currency operations, the Central Bank has been selling USD Non-Delivery Forward contracts and auctioning FX swaps to give market agents a hedging instrument and provide liquidity in dollars. The authorities assure that they will continue applying these measures, as needed, while keeping exchange rate flexibility as the first line of defense against external shocks.

Colombia maintains a strong level of external buffers. International reserves are within the adequacy range suggested by the ARA metric and have remained within that range during the last years. Furthermore, to supplement the external buffers, the Central Bank undertook a reserve accumulation program between 2018 and 2019 resulting in purchases of USD 2.8 billion, which added by US$2.3bn through accumulated returns over this period allowed to increase international reserves by more than US$5 billion. Additionally, the Flexible Credit Line with the Fund complements the external buffers and sends a positive signal to economic agents.

In the current environment and in line with one of the pillars of the inflation targeting regime, the authorities are allowing the exchange rate to adjust to shocks. The Colombian peso has depreciated close to 22 percent during 2020 in response to the oil prices drop and the international uncertainty surrounding the pandemic. Low currency mismatches allow for limited balance sheet effects for the government, banks and real sector, while the credibility of the Central Bank mitigates the effects of the depreciation on inflation expectations.

Authorities at the Central Bank are grateful to staff for recognizing the efforts undertaken to improve the monetary policy communication. A prompter disclosure of minutes and the publication of a new Monetary Policy Report are among the measures taken to improve its communication strategy.

Fiscal policy

Fiscal policy in Colombia is anchored by a fiscal rule and a medium-term fiscal framework. As mentioned before, in 2019 the central government's deficit was even lower than that allowed under the fiscal rule. Last year a decision by the Constitutional Court overturned the 2018 Financing Law, but the authorities reacted promptly, and a new Growth Law was approved. The recent pandemic, however, has added a significant degree of uncertainty to the fiscal outlook and the efforts to contain the outbreak will put additional pressure on public accounts. As a response to the pandemic, the government has announced the creation of a National Emergency Mitigation Fund, further support for the healthcare sector, new credit lines and transfers for vulnerable groups. Even if this episode causes an increase in public debt, the fiscal rule guarantees that it will decline again over the medium term.

Migration flows from Venezuela have put additional strains on fiscal accounts during recent years. The Colombian people and its authorities remain committed to aiding migrants and facilitating their integration into the formal sector. According to staff's estimates, this situation has added expenditures of around 0.5 percent of GDP. Despite the fiscal cost, authorities agree with staff's view that migrants will be a source of growth in the years to come.

Financial sector

The financial sector in Colombia remains profitable, liquid and well capitalized. Implementation of the Basel III standards is underway. Authorities work closely together to maintain the stability of the financial system. They are grateful to the Fund for the upcoming FSAP, which will allow the country to continue strengthening its regulatory framework. Up until the COVID-19 outbreak, the loan portfolio was exhibiting strong growth, particularly for consumer loans amid a strong competition among banks and in line with the dynamics of internal demand.

Stress tests carried by the central bank highlight the robustness of the sector, while careful supervision by the Financial Superintendence will continue. As mentioned, the Central Bank will ensure the supply of liquidity to the sector as needed, both in local and foreign currency.

Final remarks

During the last two decades, Colombia has made impressive progress in reducing poverty and inequality, while taking very important steps in order to become a more advanced economy. The dramatic shocks that the country and the whole world are facing today represent a huge challenge for my authorities. The solid set of macroeconomic policies and institutions that Colombia has built will help the country to overcome the difficulties and promptly resume its gradual, but successful, process of development. My authorities are fully committed to maintaining and continue improving the very strong policy framework that has served Colombia well.