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Colombia: Letter of Intent

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October 31, 2006

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The following item is a Letter of Intent of the government of Colombia, which describes the policies that Colombia intends to implement in the context of its request for financial support from the IMF. The document, which is the property of Colombia, is being made available on the IMF website by agreement with the member as a service to users of the [IMF](#) website.

Bogotá, Colombia
October 16, 2006

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

Dear Mr. de Rato:

In 2006, Colombia's economy is likely to prolong its good performance, as the continuity of strong policies has improved confidence and promoted vigorous growth in investment. Real GDP is expected to grow by 5.2 percent, while inflation is targeted to decline to 4.5 percent—the lowest level in decades. The external current account deficit is likely to remain low at 1.6 percent of GDP, owing to the strength of world commodity prices as well as robust growth in non-traditional exports. The economy handled with little difficulty the volatility in international financial markets earlier this year, providing a clear indication that it has become more resilient.

The Fund's support through the Stand-By Arrangement that expires in November 2006 has helped provide a transparent policy framework and fortify confidence. We are requesting the completion of the third and final review under this arrangement. The performance criteria at end-June 2006 and end-July 2006 and the continuous performance criteria have been observed and the program agenda has been completed (Tables 1 and 2). With regard to the structural benchmarks, in July 2006 we submitted a revenue-neutral tax reform designed to cut distortions and in September 2006 the draft constitutional amendment to reform intergovernmental transfers was presented. We plan to submit a draft law to strengthen the independence of the financial supervisor no later than November 2006. The 2007 budget presented to congress in July includes some provisions to trim earmarked revenues over time.

Over the medium term, we remain fully committed to strengthening policies further to sustain economic growth and to make the economy more resilient. We intend to keep fiscal policy on a sustainable path with a view to reducing public debt to 40 percent of GDP by 2010, limit annual inflation to the range of 2–4 percent in the medium term and to continue to deepen structural reforms. We look forward to maintaining a strong policy dialogue with the Fund in the context of annual Article IV consultations.

Sincerely yours,

/s/

Alberto Carrasquilla
Minister of Finance
and Public Credit

/s/

José Dario Uribe
General Manager
Banco de la República

Table 1. Colombia: Performance Criteria for 2006 1/

	2006				
	Outturn Dec. 31, 2005	Indicative Targets Mar. 31	Performance Criteria Jun. 30	Indicative Targets	
				Sept. 30	Dec. 31
I. Performance Criteria					
Cumulative flows from beginning of calendar year (In billions of Colombian pesos)					
Overall balance of the combined public sector					
Ceiling	-4,557	-1,657	-1,383	-1,995	-4,711
Outturn	-24	-2,199	659	...	...
Margin (+) or shortfall (-)	4,533	-542	2,042	...	...
Inflation rate 3/ (12-month inflation rate)					
Inflation - Consultation band					
Upper limit	6.0	5.8	5.1	5.1	...
Target	5.0	4.8	4.1	4.1	4.5
Lower limit	4.0	3.8	3.1	3.1	...
Outturn	4.9	4.1	3.9	...	...
(In millions of U.S. dollars)					
Net international reserves of the Banco de la Republica					
Floor	12,215	12,215	12,215	12,215	12,215
Outturn	14,721	15,011	14,120	...	...
Margin (+) or shortfall (-)	2,506	2,796	1,905	...	...
Change in the outstanding stock of short- term external debt of the public sector					
Ceiling	200	100	100	100	100
Outturn	-92	18	-69	...	...
Margin (+) or shortfall (-)	292	82	169	...	...
II. Indicative Targets					
Cumulative net disbursement from beginning of calendar year (In millions of U.S. dollars)					
Net disbursement of foreign currency debt to the public sector					
Ceiling	-750	-400	-100	100	200
Outturn	-2,835	-986	-716	...	...
Margin (+) or shortfall (-)	2,085	586	616	...	...

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

1/ Definitions of concepts and adjustments to the performance criteria are explained in the technical memoranda of understanding (TMU) attached to IMF Country Reports Nos. 05/154, 05/392, and 06/71.

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

Table 2. Colombia: Structural Conditionality Under the 2005–2006 Program SBA

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