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COLOMBIA

June 2014

REVIEW UNDER THE FLEXIBLE CREDIT LINE ARRANGEMENT—STAFF REPORT; PRESS RELEASE; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR COLOMBIA

In the context of the Review under the Flexible Credit Line Arrangement, the following documents have been released and are included in this package:

- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on June 18, 2014. Based on information available at the time the staff report was completed on June 4, 2014
- A **Staff Statement** of June 18, 2014 updating information on recent developments.
- A **Press Release** including a statement by the Acting Chair of the Executive Board.
- A **Statement by the Executive Director** for Colombia.

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

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REVIEW UNDER THE FLEXIBLE CREDIT LINE ARRANGEMENT

June 4, 2014

KEY ISSUES

- **Background.** Colombia has maintained a robust economic performance in recent years due in large part to its very strong policy framework. Well-anchored inflationary expectations, a flexible exchange rate, a structural fiscal balance rule, and effective financial supervision and regulation have contributed to the resilience of the Colombian economy to global uncertainty. The Flexible Credit Line (FCL) arrangement has also allowed Colombia to restore orderly financial market conditions despite increased volatility in financial markets over the past year by providing a buffer against tail risks.

- **Outlook and Risks.** Growth is projected to remain robust in 2014 and beyond, although risks are tilted to the downside. Real GDP is projected to grow at around potential (about 4½ percent) in 2014 and over the medium term, with inflation remaining within the target range of 2–4 percent. However, Colombia remains vulnerable to external risks, including: a sharp decline in oil prices; a surge in global financial market volatility; negative growth shocks in key trading partners; and shocks in the region.

- **Policies.** Monetary and fiscal policies supported growth in 2013. The central bank held the policy interest rate constant at 3.25 percent between April 2013 and April 2014 and the reallocation of central government spending provided targeted stimulus. Since April 2014, the central bank increased the policy rate by 50 basis points in light of a pickup in growth and inflation. Going forward, the authorities are committed to adjust the policy rate as necessary as conditions warrant to keep inflation within the target range, to adhere to fiscal plans consistent with the medium-term fiscal framework, and to use the flexible exchange rate as a shock absorber.

- **FCL.** On June 24, 2013, the Executive Board approved a two-year arrangement for Colombia under the FCL in an amount equivalent to SDR 3.87 billion (500 percent of quota). The authorities continue to treat the arrangement as precautionary. Staff agrees with the authorities' assessment that the current level of access remains appropriate to cope with tail risks. The authorities remain committed to continue strengthening buffers and take further steps towards exit as soon as external conditions allow.

- **Qualification.** Staff assess that Colombia continues to meet the qualification criteria for access to Fund resources specified under the Executive Board decision on FCL arrangements (Decision No. 14283-(09/29), adopted on March 24, 2009, as amended). Staff therefore recommends completion of the review under this FCL arrangement.

Approved By
Robert Rennhack and Mary Goodman

This report was prepared by a staff team comprising Valerie Cerra, Naomi Griffin, Izabela Karpowicz, Pablo Morra (all WHD), Shuntaro Hara (SPR), and Mohamed Norat (MCM).

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CONTEXT

1. **Colombia's robust economic performance in recent years in large part reflects its skilled macroeconomic management accompanied by a very strong policy framework.** Real GDP grew by 4.3 percent in 2013, following the expansion of 4.0 percent in 2012, on the back of supportive monetary and fiscal policies. A very strong policy framework—anchored by an inflation-targeting regime, a flexible exchange rate, a structural fiscal balance rule, and effective financial supervision and regulation—has also allowed the authorities to respond adequately to shocks and pursue effective demand management. The authorities have continued to improve the policy framework in recent years, by including a fiscal sustainability principle in the constitution; introducing a structural fiscal balance rule; overhauling the oil and mining royalties system; and implementing a comprehensive tax reform that replaced payroll taxes with a corporate income tax.

2. **Nonetheless, the Colombian economy is exposed to significant external risks.** Although the balance of risks for global growth has improved—largely reflecting better prospects in advanced economies—important downside risks remain for emerging market economies. Financial volatility could increase in response to geopolitical tensions, sensitivity in market expectations on the U.S. exit from unconventional monetary policy, and changes in emerging market fundamentals accompanied by weaker-than-expected medium-term growth prospects. A surge in risk aversion could result in higher costs of capital and lower growth for emerging economies, including Colombia. Colombia's other external risks include: a sharp decline in commodity prices, especially oil; negative growth shocks in key trading partners; and adverse shocks in the region. These shocks could slow Colombia's growth, reduce export and fiscal revenues, curtail foreign direct investment, cut foreign credit lines, increase the burden of debt service, and put pressure on the exchange rate and local asset prices.

3. **Successive FCL arrangements have provided an important complement to Colombia's strong policy framework and policy buffers to help it manage global tail risks.** The Fund approved the first FCL arrangement for an amount of SDR 7.0 billion (900 percent of quota) on May 11, 2009, followed by a successor arrangement for SDR 2.3 billion (300 percent of quota) on May 7, 2010. In May 2011, a new two-year arrangement totaling SDR 3.9 billion (500 percent of quota) was approved. The current two-year arrangement, approved in June 2013, also provides access of SDR 3.87 billion (500 percent of quota). The authorities have reiterated that the successive FCL arrangements have enhanced the resilience of the Colombian economy in the face of adverse external shocks and have helped preserve favorable access to capital markets. The authorities consider the FCL arrangement as a complement to their international reserve buffers and continue to treat it as a precautionary instrument. During the period of increased volatility in financial markets following the tapering announcement by the U.S. Federal Reserve, the FCL arrangement has also helped Colombia restore orderly financial market conditions quickly and continue to strengthen their policy buffers.

4. **Colombia is in the midst of presidential elections.** Opposition candidate Mr. Óscar Iván Zuluaga and current President Mr. Juan Manuel Santos received 29.3 percent and 25.6 percent of

the votes, respectively, in the first round of presidential elections held on May 25. The run-off election is scheduled for June 15 and inauguration will take place in August. The political campaign has focused on differences in their approach to the peace process, whereas the two candidates have similar economic policy agendas and both have track records of promoting very strong economic policies. Mr. Zuluaga served as Finance Minister between 2007 and 2010 under former President Uribe. During his term, he signed the requests for Colombia's first and second FCL arrangements in May 2009 and May 2010, respectively, and began discussions on the adoption of a fiscal rule, which was later finalized by his successors. In his public campaign platform, Mr. Zuluaga has committed to maintaining very strong economic policies, including fiscal transparency and responsibility, and continued support for the country's economic policy framework.

RECENT ECONOMIC AND POLICY DEVELOPMENTS

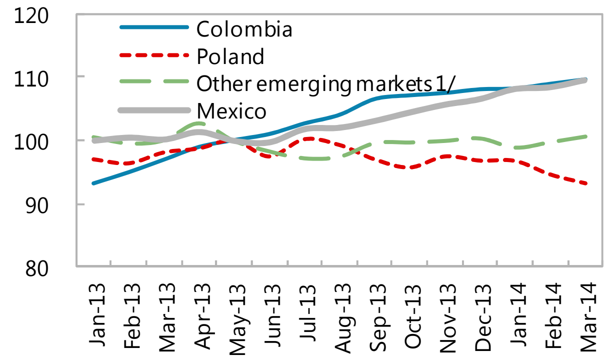
5. Real GDP growth rebounded strongly in the second half of 2013, while inflation remained within the target range. After slowing down between the second half of 2012 and the first half of 2013, growth accelerated to 5.2 percent y/y in the second half of 2013, driven by higher public investment and a solid expansion in private consumption. As of end 2013, the output gap was nearly closed. The expansion accompanied strong gains in employment, particularly in the formal sector of the economy, with unemployment declining to the lowest mark in the last decade. In April 2014, headline inflation rose to 2.7 percent y/y, up from 1.9 percent at end-2013 and average twelve-month inflation expectations stood at 3.1 percent—virtually at the midpoint of the target range of 2−4 percent.

6. Monetary and fiscal policies have been prudent, and have supported economic activity. Reflecting softer demand growth, the central bank had kept the policy rate constant at 3.25 percent between April 2013 and April 2014. Since then, the central bank increased the policy rate by 50 basis points in response to a pickup in growth starting during the second half of 2013, and the convergence of inflationary expectations towards the mid-point of the inflation target range. The central government fiscal deficit of 2.4 percent of GDP in 2013 was in line with the structural fiscal rule. At the same time, the reallocation of central government spending to provide targeted stimulus (e.g., through mortgage interest subsidies) and the use of royalties for investment spending by sub-national governments supported growth in 2013. The authorities have used the exchange rate as a shock absorber during the recent period of increased market volatility, while continuing to accumulate reserves despite the ensuing depreciation.

7. Financial market conditions became more volatile over the past year. Colombia did not escape the increase in market volatility after the tapering announcement (Box 1). During periods of heightened risk aversion, the peso depreciated, exchange rate volatility increased, financial asset prices fell, price volatility increased, traded volumes and market liquidity declined, and government debt spreads rose.

8. Strong fundamentals accompanied by the FCL arrangement had allowed Colombia to restore orderly financial market conditions relatively quickly compared to some other emerging market economies. Staff analysis (Box 1) shows that the intense pressures in the foreign exchange market were ameliorated by Colombia's strong fundamentals and FCL arrangement. In addition, non-resident capital inflows remained firm and the authorities were able to continue strengthening the international reserve position in contrast to many other emerging market economies. Colombia absorbed the shocks mostly through its flexible exchange rate without increasing interest rates or having to make other policy adjustment unlike some other emerging economies. Staff's analysis also shows that FCL arrangements have had a positive impact on the sovereign spread, including after May 22, 2013.

Total Reserves excluding Gold
(May=100)



1/ Other emerging markets comprises Brazil, Chile, India, Indonesia, Peru, South Africa and Turkey.

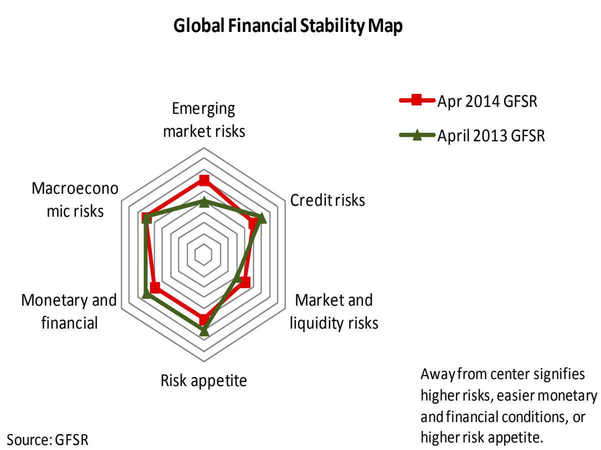
9. Despite the increased volatility, capital inflows remained firm and the current account deficit remained broadly stable. The financial account continued to post a sizable surplus in 2013 (5 percent of GDP), largely driven by inward foreign direct investment (4.4 percent of GDP). Portfolio inflows by nonresidents remained firm. Colombia maintained fluid access to the international capital markets, with Ecopetrol and the government issuing long-term bonds in the last quarter of 2013 and early 2014, respectively. The current account deficit amounted to 3.3 percent of GDP in 2013, up slightly from 3.2 percent in 2012. The trade surplus narrowed as a result of lower exports, but was almost fully offset by a smaller deficit in the income account.

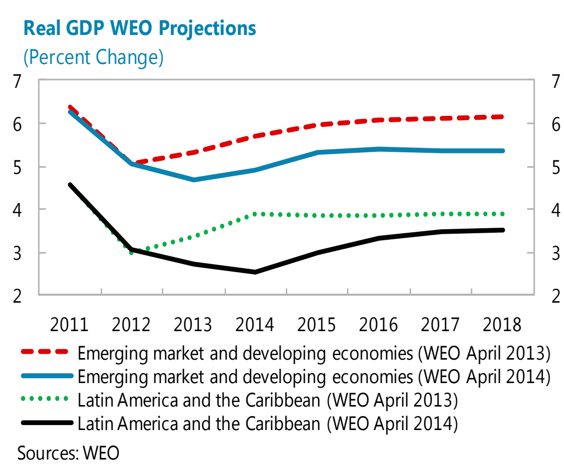
10. The financial system appears sound, with a profitable and well-capitalized banking system. Financial soundness indicators remained strong, with low and well-provisioned non-performing loans, strong profitability, and adequate liquidity. The system's risk-weighted capitalization ratio fell to 15 percent as of February 2014, from 18 percent at end-2012, due to the introduction of an improved capital adequacy standard that focused more on loss-absorbing types of capital. Growth in credit to private sector slowed to 13 percent y/y in March 2014, from 16 percent at end-2012, and was financed largely through an expansion in domestic deposits.

OUTLOOK AND RISKS

11. Growth is projected to stay robust this year and onwards, supported by sound policy management. Real GDP is projected to grow at around potential (about 4½ percent) in 2014 and over the medium-term, with inflation remaining within the 2–4 percent target range. Growth is projected to be driven by the private sector, supported by a steady increase in investment largely financed by higher domestic savings. The current account deficit is projected to remain at about 3 percent of GDP in the medium term, and be more than financed by capital inflows, especially foreign direct investment. Staff expects that monetary policy will continue to be conducted in a manner consistent with an inflation targeting framework, while the fiscal policy will adhere to fiscal plans consistent with the medium-term fiscal framework. In addition, with inflation expectations firmly anchored, the authorities have abundant space to use the flexible exchange rate as a shock absorber.

12. However, Colombia continues to be susceptible to external shocks. As described in the Staff Report for the 2014 Article IV Consultation,[1] the Colombian economy is significantly exposed to external risks as a result of its important linkages with the rest of the world. External risks facing Colombia come from various sources and could have a large negative impact on Colombia as some of these risks could materialize jointly and they can be mutually reinforcing (Box 2). Furthermore, the risks associated with emerging markets and geopolitical tensions have intensified over the past year. According to the global financial stability map presented in the Global Financial Stability Report, emerging market risks have increased since April 2013 and reached the highest level since October 2009, while other risks remain elevated. The April 2014 World Economic Outlook (WEO) points out that even though downside risks have diminished for advanced economies, financial volatility has increased for emerging market economies. Furthermore, the outlook for emerging markets, including for Colombia's key regional trading partners, further deteriorated since mid-2013, leading to a large downward revision in economic growth in the baseline scenario for many of these countries. Global financial market conditions continue to be susceptible to triggers such as geopolitical tensions, sensitivity in market expectations on the U.S. exit from unconventional monetary policy, and changes in emerging market fundamentals accompanied by weaker-than-expected medium-term growth prospects.





13. The FCL arrangements have successfully supported Colombia's macroeconomic policy framework by providing effective insurance against external downside risks. The authorities have reaffirmed the usefulness of the FCL arrangement as a temporary complement to reserves and

[1] IMF Country Report No. 14/141.

insurance against tail risks. They underscored the positive effects the FCL arrangement had in reassuring markets of Colombia's very strong policies and institutional frameworks amid an uncertain global environment. The authorities' assessment was echoed by market participants, who have expressed that their positive valuation of Colombia partly stems from the FCL arrangement with the Fund. The authorities also highlighted the importance of the FCL arrangement for Colombia in light of the increasing participation of foreigners in the local asset markets. In view of the still elevated tail risks, the authorities consider that the current access level in an amount equivalent to SDR 3.87 billion (500 percent of quota) would continue to serve Colombia well and is appropriate for the remainder of the arrangement. Staff agrees with the authorities' assessment. Although Colombia's reserve position has strengthened since the time of the FCL approval, it still is below pre-global financial crisis levels, and therefore unchanged access remains appropriate to cope with elevated tail risks, reinforcing market confidence in this critical period.

14. The authorities reiterated their intention to continue strengthening buffers against adverse external shocks and to take further steps towards exit as soon as external conditions allow. In line with authority's policy strategy presented at the Board meeting on the FCL renewal in 2013, the authorities implemented the policies that would help reduce vulnerabilities and build resilience to external shocks. The fiscal performance was in line with the fiscal rule, the flexible exchange rate system served as the main shock absorber, and inflation was kept within the target range with expectations well anchored. In addition, the authorities continued rebuilding international reserves, which, measured in reserve adequacy metric and most traditional ratios, increased over the course of the year. The authorities are nonetheless concerned with external downside risks in the period ahead, and believe the FCL arrangement plays a critical role in mitigating those risks and shielding Colombia from undue volatility and hardship. They remain committed to maintaining a strong policy framework that would allow them to eventually reduce level or exit from the FCL arrangement as their perception on external conditions improves and the uncertainty in this regard falls markedly.

REVIEW OF QUALIFICATION

15. Staff assesses that Colombia continues to meet the qualification criteria for an arrangement under the FCL.[2] Colombia continues to possess a very strong policy framework anchored by an inflation-targeting regime, a flexible exchange rate, a structural fiscal balance rule, and effective financial supervision and regulation. The authorities remain firmly committed to maintaining their strong policy framework and taking timely measures to contain any fallout from the materialization of downside risks. During the Board discussion of the 2014 Article IV Consultation (concluded on May 19, 2014), Executive Directors commended the continued strong

[2] The Executive Board last assessed Colombia's adherence to the FCL qualification criteria on June 24, 2013, during the approval of the current two-year FCL arrangement for 500 percent of quota (IMF Country Report No. 13/201).

performance of the Colombian economy, with faster economic growth, low inflation, robust job creation, particularly in the formal sector of the economy, and declining unemployment.[3]

16. Staff's assessment of Colombia's continued qualification is based, in particular, on the following criteria:

- **Sustainable external position.** Colombia's external debt remains low at 24 percent of GDP at end-2013. The updated external debt sustainability analysis (Figure 6) shows that Colombia's external debt ratios would decline further over the medium term and remain manageable even under large adverse shocks. Staff projects that the current account deficit of about 3 percent of GDP will be more than offset by capital inflows. Staff estimates that the current account deficit and the real exchange rate are broadly in line with fundamentals.

- **Capital account position dominated by private flows.** Capital account flows in Colombia are predominantly private, mostly in the form of FDI (net inflow of FDI was 2.4 percent of GDP in 2013). Portfolio inflows by nonresidents remained firm over the past year. The net international investment position (NIIP) was broadly unchanged at 27 percent of GDP in 2013, with a high share of FDI in total liabilities.

- **Track record of steady sovereign access to international capital markets at favorable terms.** Colombia continues to enjoy an uninterrupted access to international capital markets at favorable terms as a result of Colombia's structural fiscal balance rule combined with its generally robust institutional framework. In January 2014, Colombia placed 30-year sovereign bond for US$2 billion at an interest rate of 5.65 percent (190 basis points over U.S. Treasuries). Sovereign spreads (at around 145 basis points on average over the last six months) and CDS spreads (at around 118 basis points on average over the last six months) are at par with other highly rated Latin American sovereigns. The increase in Colombia's weight in JPMorgan's global bond indices also reflects Colombia's strong fundamentals amid high level of uncertainty for emerging economies. Similarly, Fitch Ratings upgraded Colombia's long-term foreign issuer default rating to 'BBB' late last year and Moody's raised its outlook for Colombia's Baa3 government rating to positive (from stable) last summer.

- **A reserve position that is relatively comfortable.** Colombia's gross international reserves stood at US$44.2 billion as of end-April, 2014. This level is adequate relative to standard reserve coverage indicators, even though some of the indicators (reserves measured relative to broad money, short-term external debt plus the current account deficit, and months of imports) are still below the ratios prevailing prior to the global financial crisis of 2008–09. The authorities reiterated their intention to continue strengthening their international reserve position with the aim of returning to the pre-crisis reserve ratios, which proved to be an important buffer in confronting that large external shock. Staff and the authorities concurred that the opportunity

[3] IMF Country Report No. 14/141.

cost of accumulating reserves increases as they reach higher levels and that a careful cost-benefit analysis is warranted.

- **Sound public finances, including a sustainable public debt position.** The authorities continue to demonstrate their strong commitment to fiscal sustainability. Fiscal policy has been prudent, with a medium-term strategy guided by a structural balance rule for the central government. Staff's updated debt sustainability analysis suggests that public debt (35 percent of GDP at end-2013) would remain manageable and on a downward trajectory under alternative adverse scenarios.

- **Low and stable inflation, in the context of a sound monetary and exchange rate policy framework.** Inflation is low (2.7 percent y/y in April 2013) and medium-term inflation expectations are firmly anchored within the official target range of 2−4 percent. The authorities remain committed to their inflation targeting framework with a flexible exchange rate regime.

- **Absence of bank solvency problems that pose an immediate threat of a systemic banking crisis.** Colombia's banking system continues to be liquid, profitable and well capitalized. New capital requirements that became effective in August 2013 have further enhanced the quality of banks' capital. Nonperforming loans are low and well provisioned. House prices rose significantly in recent years, fuelled by a robust expansion of income and credit growth and government subsidies. However, the risks to loan quality from price declines are mitigated by low households' loan-to-value ratios (about 55 percent), fixed borrowing rates, and a low exposure of banks to mortgage loans. High growth in credit to the private sector, including consumer loans, has been a concern in recent years, but credit growth has slowed and stabilized over the past year in response to stronger consumer loan provisioning since mid-2012.

- **Effective financial sector supervision.** Colombia's regulatory and supervisory frameworks for the financial system are broadly sound and supported by a well designed safety net. The 2012 FSAP Update found that the Financial Superintendency of Colombia exercises effective oversight of the banking system through its robust framework for assessing credit risk, asset classification and provisioning, and ensures that banks adopt prudent management of market, liquidity and operational risks. The authorities continue to enhance the framework, especially in areas such as the supervision of complex financial conglomerates and mixed conglomerates, the monitoring of cross-border risks, and the independence and legal protection of supervisors.

- **Data transparency and integrity.** Colombia's macroeconomic data continue to meet the high standards found during the 2006 data ROSC. Colombia remains in observance of the Special Data Dissemination Standards (SDDS), and the authorities provide all relevant data to the public on a timely basis.

SAFEGUARDS ASSESSMENT

17. Staff has completed the safeguards procedures for Colombia's FCL arrangement. The authorities provided the necessary authorization for staff to communicate directly with Banco de la República's external auditor, PricewaterhouseCoopers (PwC) Colombia. PwC issued an unqualified audit opinion on Banco de la República's 2012 financial statements in February 2013. Staff reviewed the 2012 audit results and discussed these with PwC. No significant safeguards issues emerged from the conduct of these procedures. The financial statements and audit opinion are published in full on the bank's website.

STAFF APPRAISAL

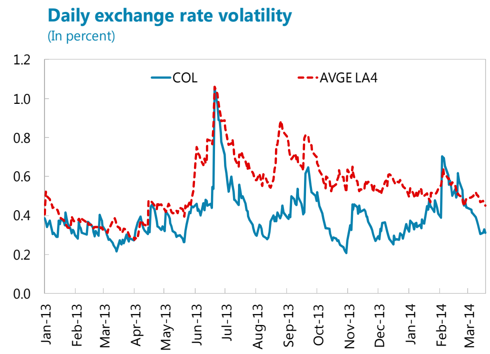
18. Colombia continues to benefit from the FCL arrangement. The successive FCL arrangements have helped reduce the perception of risks by providing Colombia with a buffer against large and adverse external shocks. The reduced perception of risks, along with skillful policy management, has allowed Colombia to restore orderly financial market conditions quickly, despite increased volatility in the financial markets over the past year following the U.S. Federal Reserve's tapering announcement. In this regard, staff agrees with the authorities' assessment that the FCL arrangement in an amount equivalent to SDR 3.87 billion (500 percent of quota) would continue to serve as a useful buffer against tail risks facing Colombian economy.

19. Staff assesses that Colombia continues to meet the qualification criteria for access to FCL resources. Colombia continues to have a very strong policy framework with an excellent track record of policy implementation. The authorities remain committed to sound policies and to responding appropriately to actual or potential balance of payments difficulties. In view of this, staff recommends completion of the review under the FCL arrangement for Colombia.

Box 1. Market Developments Since Mid-2013, Role of Fundamentals and the FCL[1]

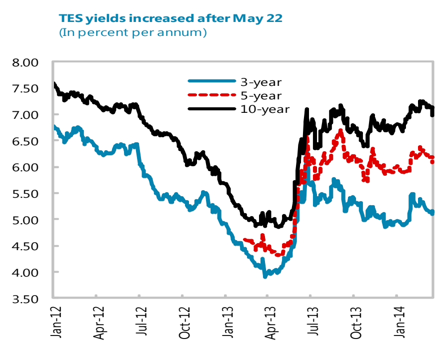
The announcement by Federal Reserve Chairman Bernanke on May 22, 2013 that tapering could commence triggered a sharp re-pricing of risk across emerging markets, including Colombia. Financial asset prices fell, price volatility increased, traded volumes and market liquidity declined, and government debt spreads rose, especially between end-May and August at the height of the market turbulence. Market pressures resurfaced during January/February 2014, as sentiment towards emerging markets again soured.

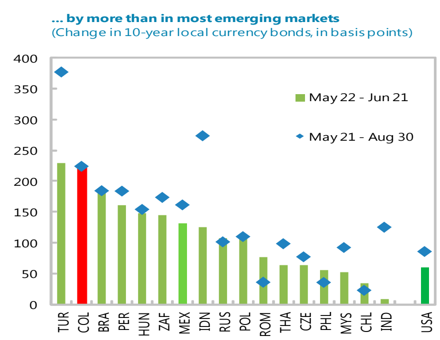
The peso depreciated and exchange rate volatility increased. The peso (COP) depreciated by about 7 percent vis-à-vis the U.S. dollar from May 22, 2013 through April 4, 2014. Daily exchange rate volatility increased sharply, returning to the pre-May 22 level only by the end of 2013. Trading volumes were broadly stable, while bid-ask spreads increased slightly during periods of stress. The central bank slowed the pace of its foreign exchange purchases. The recovery in the peso since March 2014 has been partly supported by the announcement by JPMorgan that it would more than double the weight of Colombia's local government bonds in two of its global bond indices (GBI-EM Global Diversified and GBI-EM Global).



Source: Central Bank.

Local government bond yields increased sharply. The domestic government bond (TES) market was the most affected asset class, with bond yields, particularly for longer-term debt remaining well above pre-May 22 levels. TES yields rose initially by over 200 basis points, posting the second largest increase among emerging markets after Turkey. Bid-ask spreads and volatility increased, and traded volumes declined, reflecting some market dislocation. In turn, the yield curve steepened significantly. Since March 2014, yields have fallen by about 100 basis points.





Source: Central Bank and Bloomberg.

External debt spreads widened. Yields on external (USD-denominated) bonds and spreads over U.S. Treasuries widened by 70 basis points in the initial weeks, recovering somewhat in subsequent months and stabilizing at about 35 basis points over the pre-May 22 level. Similarly, spreads on 5-year credit default swaps rose initially by over 80 basis points, later recovering and stabilizing at about 20 basis points above pre-May 22 levels.

Money market funds suffered important redemptions. The decline in TES prices triggered redemptions in money market funds, which must mark to market their holdings of TES, during June–August, raising concerns about liquidity risks for these entities. In response, the authorities have begun working on a more robust and comprehensive liquidity regulation for these entities.

[1] This box draws from the Staff Report for the 2014 Article IV Consultation (IMF Country Report No. 14/141).

Box 1. Market Developments Since Mid-2013, Role of Fundamentals and the FCL (concluded)

Stock prices fell initially but recovered in subsequent months. Stock prices posted two episodes of weaknesses since May 22, both coinciding with periods of global volatility in emerging markets: in June 2013 when they fell by up to 7 percent, and January 2014 when they fell by up to 10 percent. In both cases, prices recovered their losses in subsequent months. Stock prices today are roughly 5 percent above their May 22 level.

The FCL instrument seems to have mitigated the surge in sovereign yields for the three countries.[2] A panel regression of changes in EMBI bond spreads in 21 larger EMs on VIX and lagged spreads shows that the event of May 22 significantly increased yields. In the four weeks after the May 22 announcement, yields in EMs rose on average by an additional 14 basis points each week. Yet, it is estimated that increase was almost one third lower (over 4 basis points) for the three FCL countries, suggesting that markets required lower additional risk premia from FCL countries relative to their peers.

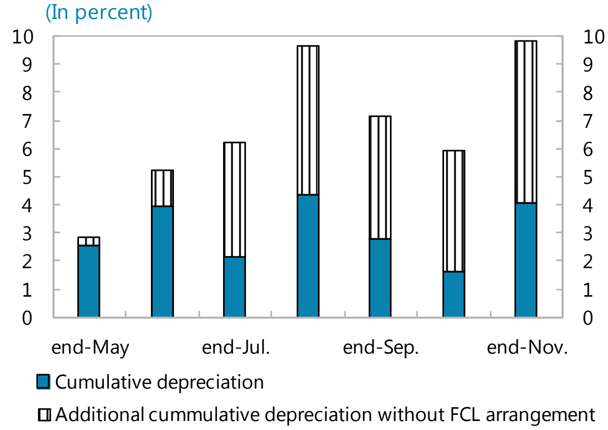
FCL countries faced lower risk premia increases after May 22 relative to peers 1/

	Change in EMBI spreads
VIX	0.568***
Lag 1	0.0619**
Dummy for May 22 - June 14	14.32***
FCL dummy for May 22 - June 14	-4.583***
Observations	1071
Adj. R-sq	*0.042*

1/ IMF 2014, "Review of the Flexible Credit Line, the Precautionary and Liquidity Line, and the Rapid Financing Instrument."

Consistent with the findings above, econometric evidence also shows that FCL arrangements, combined with strong fundamentals, reduced foreign exchange pressure after the tapering announcement, especially over a longer horizon. Even though emerging market countries experienced a sharp depreciation of their currencies following the tapering announcement on May 22, 2013, econometric evidence suggests that strong fundamentals and FCL arrangements allayed the depreciation pressures over time. Rolling cross-sectional regressions with 27 EMs using daily data were run to examine the effect of an FCL arrangement on exchange rates, after controlling for a variety of fundamentals such as inflation, real growth, current account balance, government debt, market turnover, and real effective exchange rate misalignment. The results show that the coefficient of FCL becomes more negative and statistically significant over time, indicating that FCL countries experienced less pressures on the exchange rate, especially at longer horizons (see figure). The regressions also demonstrate that stronger macroeconomics fundamentals also ameliorated foreign exchange pressure.

Cumulative Depreciation of the Colombian Peso since May 22, 2013
(In percent)



Source: Haver Analytics and Fund staff calculations.

[2] IMF 2014, "Review of the Flexible Credit Line, the Precautionary and Liquidity Line, and the Rapid Financing Instrument."

Box 2. External Risks Facing Colombia[1]

Colombia's economy is exposed to a variety of external risks. External shocks could spill over to the Colombian economy through trade and financial channels. The materialization of one of these shocks could also trigger others to take place. These shocks could have a sizable adverse impact on the balance of payments, the fiscal accounts and growth by reducing export and fiscal revenues, curtailing foreign direct investment, cutting foreign credit lines, increasing the burden of debt service, and putting pressure on the exchange rate and asset prices. The main risks comprise the following:

- **A decline in oil prices**. Oil exports account for more than one half of total exports and oil-related revenues amount to about 4½ percent of GDP and 16 percent of total government revenue. Thus, a decline in oil prices would adversely affect economic activity, and current account and fiscal balances. It would also cut foreign direct investment (FDI) significantly, as the bulk of FDI inflows are channeled to commodity-related projects.
- **A rise in U.S. interest rates.** A rise in U.S. interest rates could negatively impact Colombia if not accompanied by a corresponding increase in U.S. growth (e.g., in the event of an increase in the U.S. term premium) or if it led to higher global risk aversion and capital outflows in emerging markets. In turn, financial volatility in emerging markets could also trigger dislocations in the domestic capital market, put pressure on the exchange rate and local asset prices, curtail FDI, cut foreign credit lines, increase the burden of debt service, and weigh on growth.
- **Deterioration in global financial conditions**. An increase in global risk aversion could also be triggered by geopolitical events or a revision in market expectations about macroeconomic fundamentals in advanced economies, China, or the emerging markets. Such shocks could negatively affect the external accounts and economic activity by reducing external financing to Colombia, but could also operate through trade channels by weakening global economic growth and/or triggering a decline in oil prices. A shock to the balance sheets of international banks, accompanied by deleveraging by those banks to absorb the shock, would also have a sizable impact on the credit availability in Colombia, as international banks have large claims on Colombian borrowers mainly on the non-bank private sector.
- **Negative growth shocks in key trading partners.** Colombia has strong trade links with the U.S. and Europe, as well as China. Shocks to any of them would negatively affect Colombia's economic growth by reducing export and fiscal revenues. A significant slowdown in China would also affect Colombia's growth through a decline in oil prices as well as higher volatility in global financial markets.
- **Shocks in the region.** Colombian exports to Latin America account for about a quarter of total exports and the bulk of manufacturing exports. In addition, Colombian banks have become prominent players in the Central American banking system. Accordingly, shocks in the region could affect Colombia through trade and financial channels. The main risks include an increase in restrictions to trade with Ecuador; an intensification of economic stress in Venezuela; and a growth slowdown in Central America.
- **Financial contagion.** An additional possible shock would be market contagion in the event of an increase in investors' perception of regional risk, e.g., in response to adverse economic or political developments in one or more countries in the region. The impact of such a shock is difficult to gauge. In the past, Colombia has been subject to episodes of regional financial contagion. For example, during the second half of 2002, concerns about the economic and financial outlook in Brazil contributed to a sizable depreciation of the Colombia peso and a substantial increase in sovereign debt spreads.[2]

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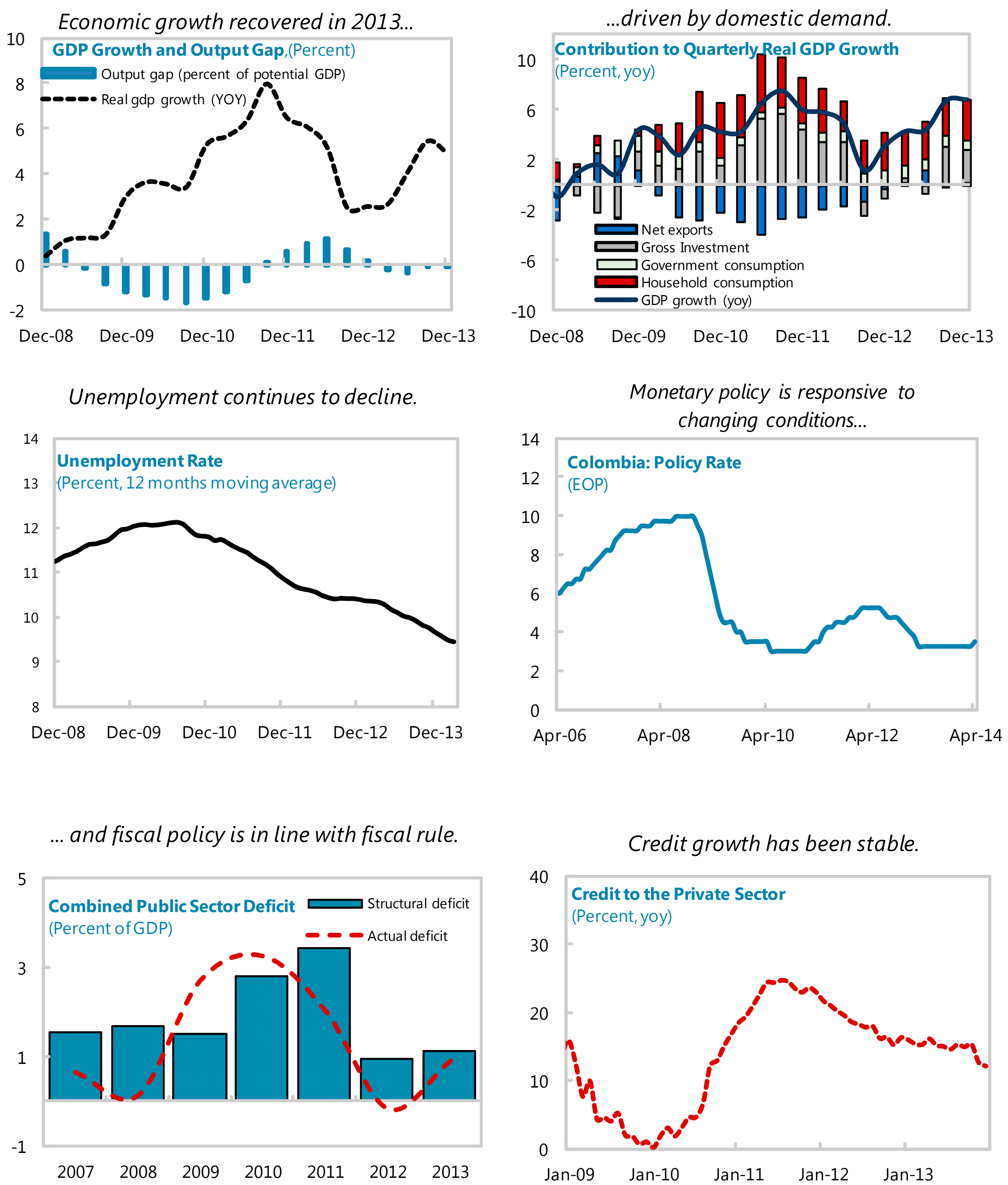
[1] For more information, see the Staff Report for the 2014 Article IV Consultation (IMF Country Report No. 14/141) and the Selected Issues Papers (IMF Country Report, forthcoming).

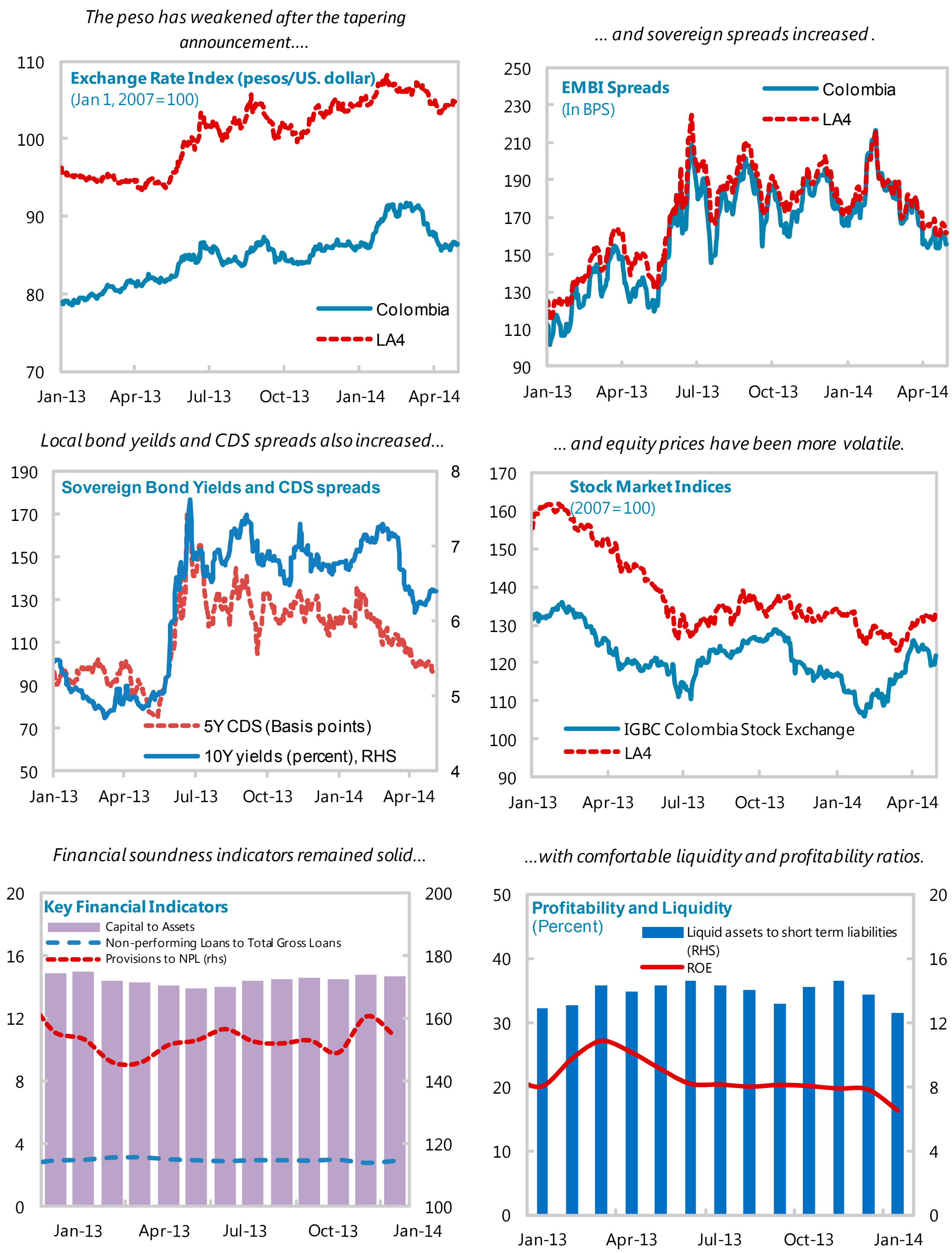
[2] For more information, see the Staff Report for the 2002 Article IV Consultation (IMF Country Report No. 03/19).

Figure 1. Colombia: Recent Economic Developments



Sources: Haver Analytics; and Fund staff estimates.

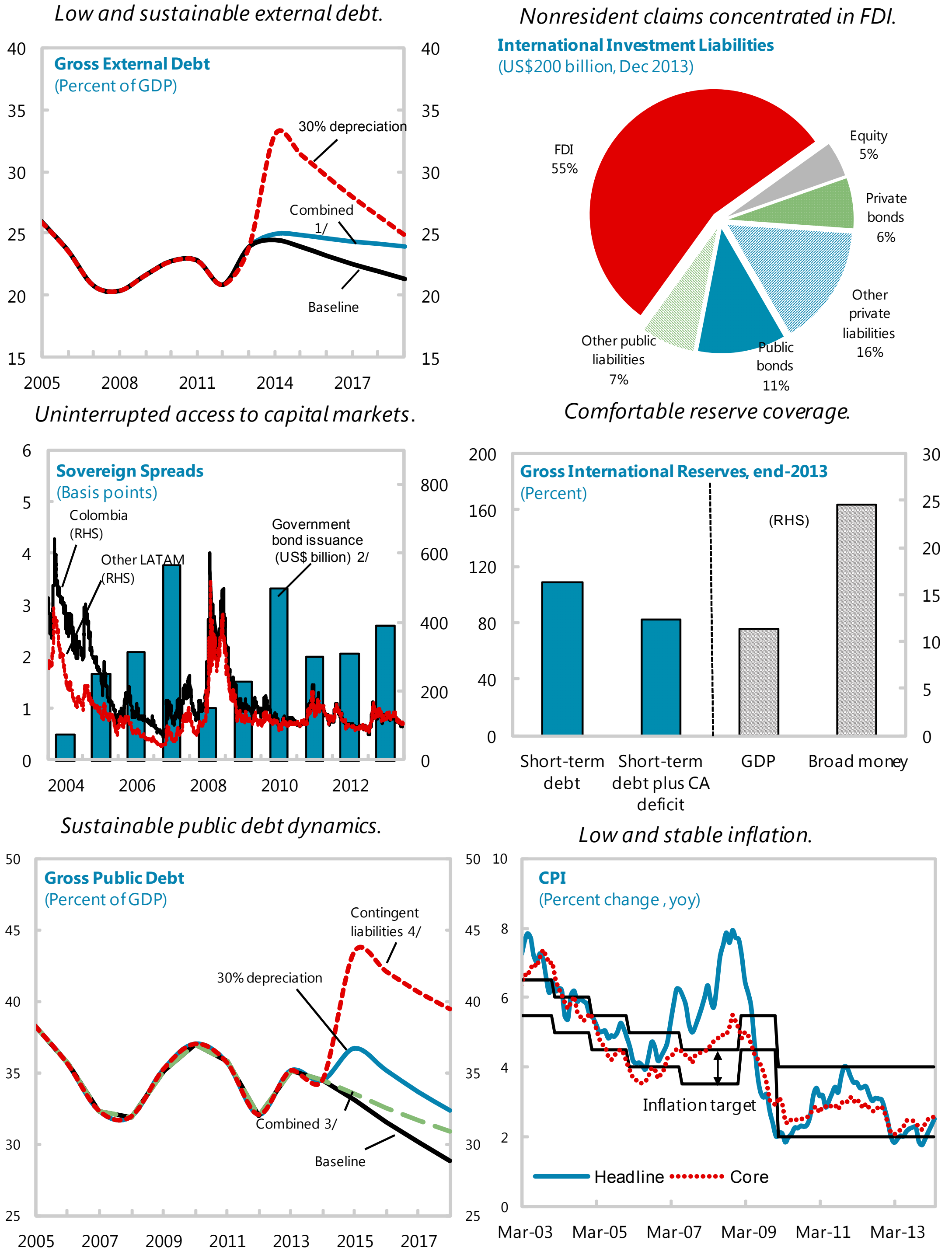
Figure 2. Colombia: Financial Market Developments 1/



Sources: IFS; Haver; Datastream; and Fund staff estimates.

1/ LA4 represents the simple average of Chile,Brazil, Mexico, and Peru.

Figure 3. Colombia: FCL Qualification Criteria



Sources: Banco de la República; Ministerio de Hacienda y Crédito Público; Datastream; Haver; and Fund staff estimations.

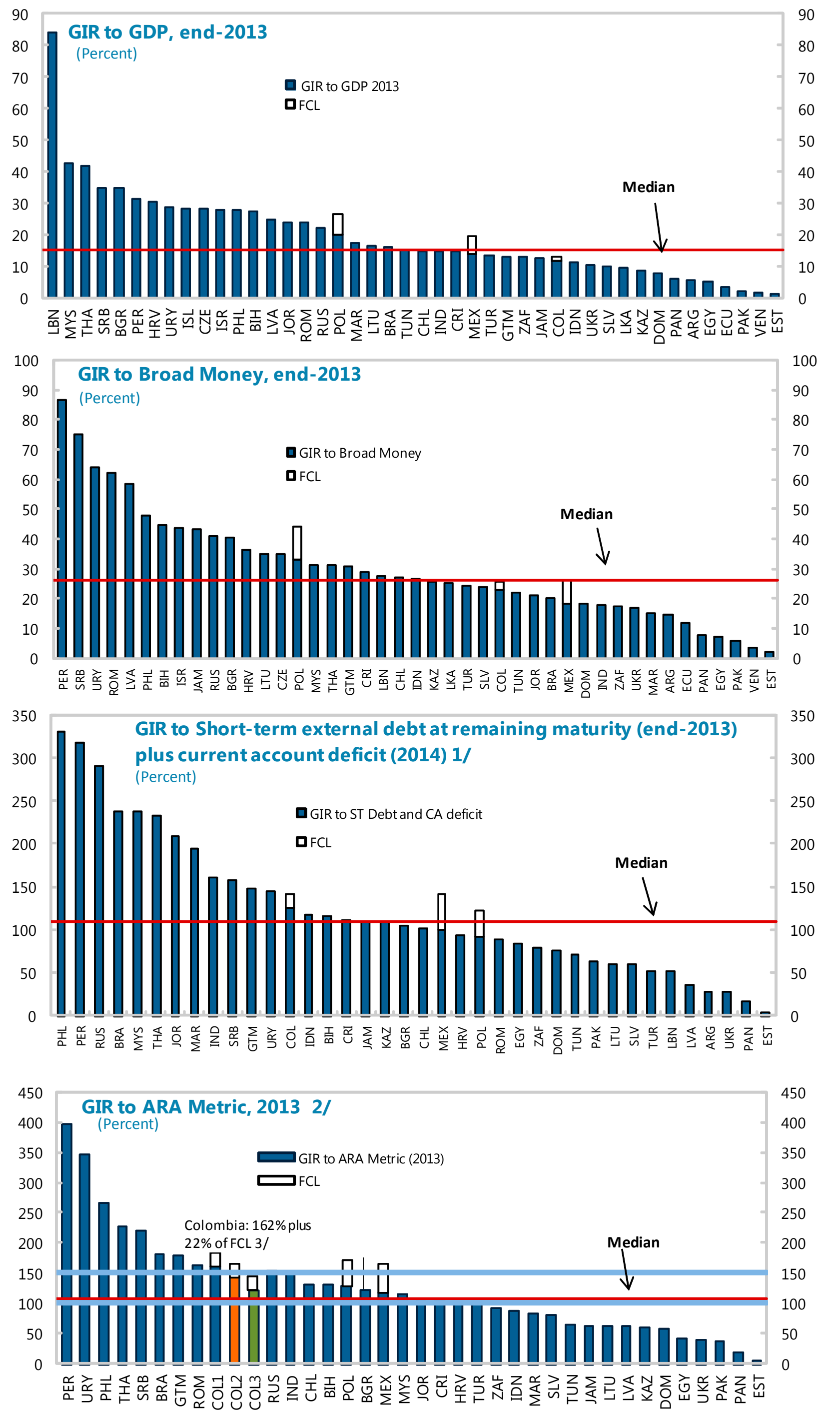
1/ Combined permanent ¼ standard deviation shocks applied to interest rate, growth, and non-interest current account balance.

2/ Includes data through end 2013.

3/ Combined permanent ¼ standard deviation shocks applied to real interest rate, growth, and primary balance.

4/ One-time 10 percent of GDP increase in debt-creating liabilities.

Figure 4. Colombia: Reserve Coverage in an International Perspective



Sources: World Economic Outlook ; IFS; and Fund staff estimates.
1/ The current account is set to zero if it is in surplus.
2/ The blue lines denote the 100-150 percent range of reserve coverage regarded as adequate for a typical country under this metric.
3/ Col1 is based on the IMF's RAM, Col2 is based on a metric using Colombia's average loss of exports during "oil crisis events," and Col3 is based on authorities' metric.

Table 1. Colombia: Selected Economic and Financial Indicators

I. Social and Demographic Indicators

Population (millions), 2013	47.2	Unemployment rate, December 2013 (percent)	9.7
Urban population (percent of total), 2012	75.6	Physicians (per 1,000 people), 2010	0.1
GDP, 2013		Adult illliteracy rate (ages 15 and older), 2011	6.6
per capita (US$)	8,168	Gross primary school enrollment rate, 2012	106.9
in billions of COP	719,749	Access to water (percent of population), 2011	92.9
in billions of US$	385	Gini coefficient, 2010	55.9
Life expectancy at birth (years), 2011	73.6	Poverty rate ($2 a day (PPP)), 2010 1/	15.8
Mortality rate, (under 5, per 1,000 live births), 2011	17.7	Extreme poverty rate ($1.25 a day, PPP), 2010 1/	8.2
Net Foreign direct investment, 2013 (US$ millions)	9,120	Public Debt (in percent GDP) , 2013	35.1
Net Foreign direct investment (in percent GDP)	2.4	o/w foreign-currency	12.7

II. Economic Indicators

					Proj					
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
	(In percentage change, unless otherwise indicated)									
National income and prices										
Real GDP	4.0	6.6	4.0	4.3	4.5	4.5	4.5	4.5	4.5	4.5
GDP deflator	3.9	7.0	2.7	3.9	1.8	2.4	2.7	2.9	2.8	3.1
Consumer prices (end of period)	3.2	3.7	2.4	1.9	2.7	3.0	3.0	3.0	3.0	3.0
External sector (on the basis of USD)										
Exports (f.o.b.)	20.0	42.9	5.4	-2.4	7.5	0.3	4.9	3.7	4.0	4.9
Imports (f.o.b.)	22.2	35.8	8.6	0.8	3.3	3.7	4.6	5.1	4.7	5.0
Export volume	1.5	13.8	4.2	3.5	7.9	4.0	7.3	5.0	4.6	5.3
Import volume	13.1	21.9	10.7	1.9	5.0	5.2	5.1	4.9	3.8	4.2
Terms of trade (deterioration -)	9.4	12.8	3.1	-4.7	1.3	-2.2	-1.8	-1.4	-1.4	-1.1
Real effective exchange rate (depreciation -)	5.1	-14.4	6.2	-3.8	-2.0	...	...	...	...	...
Money and credit										
Broad money	11.4	17.6	16.0	13.4	14.5	14.7	14.2	14.5	14.4	14.4
Credit to the private sector	16.8	23.0	16.3	12.1	12.3	12.0	12.4	12.5	12.5	12.8
	(In percent of GDP)									
Central government balance	-3.9	-2.8	-2.3	-2.3	-2.2	-2.2	-2.2	-2.0	-2.0	-1.9
Combined public sector balance 1/	-3.3	-2.0	0.2	-0.9	-0.8	-0.7	-0.6	-0.6	-0.6	-0.6
Public debt	37.0	35.7	32.0	35.1	34.6	33.5	32.2	30.9	29.8	28.7
Public debt, excluding Ecopetrol	35.8	34.8	31.2	33.5	33.1	32.1	30.9	29.7	28.6	27.7
Gross domestic investment	22.1	23.7	23.6	24.2	24.8	24.9	25.1	25.2	25.5	25.8
Gross national savings	19.0	20.8	20.4	20.9	21.5	21.6	22.1	22.2	22.5	22.9
Current account (deficit -)	-3.1	-2.9	-3.2	-3.3	-3.3	-3.3	-3.0	-3.0	-3.0	-2.9
External debt 2/	22.8	22.8	20.9	23.9	24.5	23.9	23.2	22.5	21.9	21.4
Of which: public sector	12.7	11.9	11.3	12.7	12.9	12.6	12.4	11.5	11.4	10.4
GIR in percent of short-term debt	198.4	154.1	229.2	164.3	167.0	190.9	178.6	198.8	180.1	200.4
	(In percent of exports of goods, services, and income)									
External debt service	30.3	28.1	36.7	30.6	44.3	44.7	39.3	41.3	37.0	39.2
Of which: public sector	10.8	8.7	10.3	7.5	9.5	9.6	7.5	9.5	6.2	8.8
Interest payments	7.2	5.7	5.6	6.0	7.4	6.9	6.5	6.1	5.5	4.9
Of which: public sector	5.2	3.8	3.8	3.9	4.2	4.0	3.7	3.5	3.1	2.8
	(In millions of U.S. dollars)									
Overall balance of payments	3,136	3,744	5,423	6,957	2,006	1,783	1,829	1,824	1,534	1,534
Exports (f.o.b.)	40,816	58,322	61,447	59,992	64,476	64,681	67,838	70,319	73,125	76,722
Of which: Petroleum products	16,499	28,421	31,497	32,009	34,601	32,649	33,470	33,451	33,518	34,066
Gross official reserves 3/	28,078	31,912	36,998	43,158	45,164	46,947	48,776	50,600	52,134	53,668

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

1/ Includes the quasi-fiscal balance of Banco de la República, sales of assets, phone licenses, and statistical discrepancy.
2/ Does not include Banco de la República's outstanding external debt.
3/ Excludes Colombia's contribution to Fondo Latinoamericano de Reservas (FLAR) and includes valuation changes of reserves denominated in currencies other than U.S. dollars.

Table 2. Colombia: Summary Balance of Payments

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
					Projections					
	(In million of USD, unless otherwise indicated)									
Current account balance	**-8,929**	**-9,854**	**-11,834**	**-12,722**	**-12,713**	**-13,588**	**-13,272**	**-13,944**	**-14,720**	**-15,267**
Trade balance	2,341	6,090	4,744	2,832	5,445	3,474	3,815	3,053	2,701	2,747
Exports, f.o.b.	40,816	58,322	61,447	59,992	64,476	64,681	67,838	70,319	73,125	76,722
Coffee	1,884	2,608	1,910	1,884	2,756	3,089	3,293	3,288	3,288	3,288
Petroleum products	16,499	28,421	31,497	32,009	34,601	32,649	33,470	33,451	33,518	34,066
Non-traditional	14,137	16,413	17,730	16,769	17,906	19,539	21,257	23,307	25,568	28,096
Other	8,297	10,880	10,310	9,331	9,212	9,404	9,818	10,272	10,750	11,272
Imports, f.o.b.	38,475	52,232	56,703	57,160	59,031	61,207	64,022	67,266	70,424	73,975
Services (net)	-3,693	-4,737	-5,503	-5,470	-5,768	-6,131	-6,469	-6,858	-7,410	-8,029
Income (net)	-12,024	-16,042	-15,654	-14,656	-17,115	-15,849	-15,787	-15,584	-15,750	-15,760
Interest (net)	-2,816	-3,041	-2,804	-3,192	-4,540	-3,813	-3,082	-2,497	-1,677	-1,219
Of which : Public sector	-2,146	-2,143	-2,007	-2,126	-2,742	-2,286	-1,915	-1,715	-1,357	-1,116
Other Income (net)	-9,208	-13,001	-12,850	-11,462	-12,575	-12,036	-12,705	-13,088	-14,074	-14,541
Current transfers (net)	4,448	4,834	4,579	4,572	4,725	4,917	5,169	5,446	5,740	5,776
Financial account balance	**11,763**	**12,976**	**17,396**	**19,175**	**14,719**	**15,371**	**15,101**	**15,769**	**16,255**	**16,800**
Public sector (net)	4,813	2,143	3,085	8,346	3,140	3,063	3,058	3,372	3,496	3,868
Nonfinancial public sector	4,702	2,216	3,697	8,772	2,914	3,073	3,078	3,420	3,591	3,987
Medium- and long-term (net)	1,332	2,997	3,093	6,142	1,678	1,898	1,962	2,360	2,584	3,030
Disbursements	3,357	5,077	6,630	7,918	4,971	5,530	4,362	6,551	4,584	7,562
Amortization	2,019	2,039	3,482	1,651	3,175	3,519	2,293	4,090	1,903	4,440
Other long-term flows	-7	-41	-56	-125	-119	-113	-107	-102	-97	-92
Short term 1/	3,370	-781	604	2,631	1,237	1,175	1,116	1,060	1,007	957
Financial public sector	112	-73	-612	-427	226	-10	-19	-48	-95	-119
Private sector (net)	6,950	10,833	14,310	10,829	11,579	12,308	12,043	12,397	12,759	12,932
Nonfinancial private sector (net)	4,551	8,949	14,463	8,009	11,459	12,185	11,990	12,349	12,716	12,893
Direct investment	-147	5,101	16,135	9,120	11,242	11,348	11,464	11,579	11,699	11,834
Direct investment abroad	6,893	8,304	-606	7,652	3,884	3,954	4,030	4,113	4,199	4,286
Direct investment in Colombia	6,746	13,405	15,529	16,772	15,126	15,302	15,494	15,692	15,897	16,119
Leasing finance	22	541	257	186	30	64	106	154	198	248
Long-term loans	3,298	2,511	-3,503	505	134	460	95	101	469	250
Short term 2/	1,377	796	1,574	-1,802	54	312	324	516	350	562
Financial private sector (net)	2,398	1,884	-152	2,820	120	123	53	48	43	39
Valuation changes/Contribution to FLAR 3/	-50	89	-336	-797	0	0	0	0	0	0
Net errors and omissions	302	623	-139	505	0	0	0	0	0	0
Changes in GIR 4/	**3,086**	**3,834**	**5,086**	**6,160**	**2,006**	**1,783**	**1,829**	**1,824**	**1,534**	**1,534**
Memorandum Items:										
Current account balance (in percent of GDP)	-3.1	-2.9	-3.2	-3.3	-3.3	-3.3	-3.0	-3.0	-3.0	-2.9
Oil Price (Colombian mix US$ per barrel)	73.1	99.3	104.2	100.3	100.4	94.3	89.6	86.7	84.9	83.5
Gross international reserves (in US$ billion)	28.1	31.9	37.0	43.2	45.2	46.9	48.8	50.6	52.1	53.7
In percent of short-term external debt 5/	354.9	311.2	358.0	361.5	360.6	357.8	354.4	350.6	346.0	341.3
In percent of ST external debt plus CA deficit	117.0	98.1	128.2	110.7	111.2	124.0	118.2	126.0	117.9	127.6
Nominal GDP (US$ billion)	287.0	336.3	369.8	385.1	388.5	410.1	435.2	463.0	492.9	526.3

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

1/ Deposit flows of public sector entities abroad.

2/ Includes net portfolio investment.

3/ FLAR is Fondo Latinoamericano de Reservas.

4/ IMF definition.

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

Table 3. External Financing Requirements and Sources

(In millions of U.S. dollars)

					Projections	
	2010	2011	2012	2013	2014	2015
Gross financing requirements	**22,432**	**27,842**	**37,629**	**35,027**	**40,984**	**42,411**
External current account deficit	8,929	9,854	11,834	12,722	12,713	13,588
Debt amortization	10,418	14,154	20,709	16,145	26,265	27,041
Medium and long term debt	6,474	6,241	10,455	5,812	14,327	14,518
Public sector 1/	2,186	2,069	3,501	1,694	3,221	3,553
Private sector	4,287	4,172	6,953	4,118	11,106	10,965
Non financial	3,185	2,198	5,995	2,548	6,699	6,576
Financial	1,102	1,974	958	1,570	4,407	4,389
Short-term debt 2/	3,944	7,913	10,254	10,333	11,937	12,523
Public sector	339	995	825	665	515	515
Private sector	3,605	6,917	9,429	9,669	11,422	12,008
Gross reserves accumulation 3/ 4/	3,086	3,834	5,086	6,160	2,006	1,783
Available financing	**22,432**	**27,842**	**37,629**	**35,027**	**40,984**	**42,411**
Foreign direct investment (net)	-147	5,101	16,135	9,120	11,242	11,348
o/w inward (net)	6,746	13,405	15,529	16,772	15,126	15,302
Medium and long-term debt disbursements	12,840	14,006	12,315	15,864	16,513	17,043
Public sector 1/	3,560	5,156	6,750	8,164	5,243	5,554
Private sector	9,280	8,850	5,565	7,701	11,270	11,489
Non financial	6,483	4,709	2,492	3,054	6,833	7,036
Financial	2,797	4,141	3,073	4,647	4,437	4,453
Public sector use of external assets	1,829	-1,047	352	-215	506	455
Short-term debt 5/	7,913	10,254	10,333	11,937	12,523	13,120
Public sector	995	825	665	515	515	515
Private sector	6,917	9,429	9,669	11,422	12,008	12,605
Other capital flows (net) 6/	-3	-473	-1,506	-1,680	200	445
Memorandum items:						
Gross international reserves 4/	28,078	31,912	36,998	43,158	45,164	46,947
Gross international reserves / (st debt at remaining maturity + ca deficit)	117.0	98.1	128.2	110.7	111.2	124.0
Gross international reserves (months of imports of G&S)	5.5	5.7	6.5	7.2	7.3	7.3

Sources: Banco de la República and Fund staff estimates.

1/ Including financial public sector.

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

3/ Estimate for 2009 includes the SDR allocation (US$972 million).

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

6/ Includes all other net financial flows, Colombia's contribution to FLAR, and errors and omissions.

Table 4. Colombia: Operations of the Central Government 1/

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
					Projections					
	(In percent of GDP, unless otherwise indicated)									
Total revenue	**13.8**	**15.2**	**16.1**	**16.6**	**17.1**	**16.5**	**16.5**	**16.4**	**16.4**	**16.3**
Tax revenue	**12.3**	**13.5**	**14.3**	**14.0**	**14.4**	**14.0**	**14.1**	**14.2**	**14.2**	**14.2**
Net income tax and profits 2/	4.8	5.4	6.6	6.2	6.2	6.3	6.3	6.3	6.4	6.4
Goods and services	5.5	5.9	5.7	4.8	5.1	5.4	5.6	5.8	5.8	5.9
Value-added tax	5.3	5.6	5.5	4.8	5.1	5.4	5.6	5.8	5.8	5.9
Gasoline tax	0.3	0.3	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
International trade	0.9	0.7	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Financial transaction tax	0.6	0.8	0.8	0.8	0.8	0.4	0.4	0.2	0.2	0.0
Stamp and other taxes	0.5	0.7	0.7	1.6	1.8	1.4	1.4	1.4	1.4	1.4
Nontax revenue	**1.5**	**1.7**	**1.8**	**2.6**	**2.6**	**2.5**	**2.3**	**2.3**	**2.2**	**2.1**
Property income	0.1	0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Other	1.4	1.5	1.6	2.6	2.6	2.4	2.3	2.2	2.1	2.0
Total expenditure and net lending	**17.6**	**18.0**	**18.4**	**18.9**	**19.2**	**18.7**	**18.7**	**18.4**	**18.4**	**18.2**
Current expenditure	**14.3**	**13.7**	**14.2**	**14.4**	**15.5**	**16.3**	**16.4**	**16.3**	**16.3**	**16.2**
Wages and salaries	2.1	2.0	2.1	2.1	2.2	2.2	2.2	2.1	2.1	2.1
Goods and services	1.0	1.0	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Interest	2.7	2.7	2.6	2.3	2.3	2.4	2.3	2.3	2.3	2.2
External	0.7	0.6	0.5	0.5	0.6	0.5	0.5	0.5	0.5	0.5
Domestic	1.9	1.9	1.9	1.7	1.7	1.9	1.8	1.8	1.8	1.7
Current transfers	8.4	8.0	8.7	9.1	10.2	10.8	11.0	11.0	11.0	11.0
Capital expenditure	**3.3**	**4.2**	**4.2**	**4.5**	**3.7**	**2.4**	**2.3**	**2.1**	**2.1**	**2.0**
Fixed capital formation	1.9	2.8	2.9	3.2	2.3	1.1	1.0	0.9	0.9	0.8
Capital transfers	1.4	1.4	1.3	1.3	1.4	1.3	1.3	1.2	1.2	1.2
Overall balance	**-3.9**	**-2.8**	**-2.3**	**-2.3**	**-2.2**	**-2.2**	**-2.2**	**-2.0**	**-2.0**	**-1.9**
Memorandum items:										
Oil-related revenues 3/	0.8	1.7	2.6	3.1	3.2	3.1	2.8	2.7	2.5	2.3
Structural balance 4/	-3.6	-3.5	-2.9	-2.5	-2.2	-2.2	-2.2	-2.0	-1.9	-1.8
Non-oil balance	-4.6	-4.5	-4.9	-5.4	-5.4	-5.3	-5.0	-4.7	-4.5	-4.2
Primary balance	-1.1	-0.1	0.2	0.0	0.1	0.2	0.2	0.3	0.4	0.3
Nominal GDP (in COP trillion)	544.9	621.6	664.5	719.7	765.3	818.8	879.1	944.9	1,015.4	1,094.9

Sources: Ministry of Finance; Banco de la República; and Fund staff estimates and projections.
1/ Includes central administration only.
2/ The increase in tax revenue in 2012 reflects the elimination of the fixed asset tax credit, which was part of the end-2010 tax reform.
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 5. Colombia: Operations of the Combined Public Sector 1/

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
					Projections					
	(In percent of GDP, unless otherwise indicated)									
Total revenue	**26.1**	**26.7**	**28.3**	**27.8**	**27.5**	**27.0**	**26.9**	**26.7**	**26.7**	**26.6**
Tax revenue	18.7	19.1	20.0	19.6	20.0	19.8	20.0	20.0	20.2	20.1
Nontax revenue	7.4	7.6	8.3	8.2	7.5	7.1	6.9	6.7	6.6	6.5
Financial income	1.2	0.9	1.2	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Operating surplus of public enterprises	0.1	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other 2/	6.1	6.5	7.0	7.7	7.0	6.6	6.4	6.2	6.1	6.0
Total expenditure and net lending 3/	**29.2**	**28.5**	**27.9**	**28.7**	**28.3**	**27.9**	**27.7**	**27.4**	**27.4**	**27.3**
Current expenditure	22.4	20.4	20.8	21.2	20.9	20.8	20.6	20.4	20.4	20.3
Wages and salaries	5.8	5.2	5.2	5.1	5.0	4.8	4.8	4.8	4.8	4.8
Goods and services	3.3	2.9	2.9	3.1	3.1	3.1	3.0	2.9	2.9	2.9
Interest	2.9	2.8	2.7	2.6	2.4	2.6	2.5	2.4	2.4	2.3
External	0.7	0.6	0.6	0.6	0.6	0.5	0.5	0.5	0.5	0.5
Domestic	2.2	2.2	2.1	2.0	1.8	2.0	1.9	1.9	1.9	1.8
Transfers to private sector	8.1	7.4	7.3	7.7	7.7	7.7	7.7	7.7	7.7	7.7
Other 4/	2.4	2.2	2.7	2.7	2.7	2.6	2.6	2.6	2.6	2.6
Capital expenditure	6.8	8.1	7.2	7.5	7.4	7.1	7.1	7.0	7.0	7.0
Statistical discrepancy	-0.2	-0.2	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Nonfinancial public sector balance	**-3.3**	**-2.0**	**0.1**	**-0.9**	**-0.9**	**-0.9**	**-0.7**	**-0.7**	**-0.7**	**-0.7**
Quasi-fiscal balance (BR cash profits)	0.0	0.0	-0.1	-0.1	0.0	0.0	0.1	0.1	0.1	0.1
Fogafin balance	0.1	0.0	0.2	0.1	0.1	0.1	0.1	0.0	0.0	0.0
Net cost of financial restructuring 5/	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Combined public sector balance	**-3.3**	**-2.0**	**0.2**	**-0.9**	**-0.8**	**-0.7**	**-0.6**	**-0.6**	**-0.6**	**-0.6**
Overall financing	**3.3**	**2.0**	**-0.2**	**0.9**	**0.8**	**0.7**	**0.6**	**0.6**	**0.6**	**0.6**
Foreign, net	1.7	0.9	0.7	2.1	0.8	0.8	0.8	0.8	0.8	1.1
Domestic, net	1.5	1.1	-1.0	-1.2	0.0	-0.1	-0.2	-0.2	-0.1	-0.4
Privatization (including concessions)	0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
Overall structural balance 6/	-2.8	-3.5	-0.9	-1.1	-0.9	-0.7	-0.6	-0.6	-0.6	-0.5
Non-oil balance	-5.5	-5.6	-4.8	-5.4	-5.6	-5.5	-4.9	-4.7	-4.5	-4.2
Primary balance 7/	-0.4	0.7	2.8	1.7	1.6	1.8	1.9	1.8	1.8	1.7
Oil-related revenues 8/	2.3	3.6	4.4	4.8	5.0	4.7	4.3	4.1	3.8	3.5
Total public debt 9/	37.0	35.7	32.0	35.1	34.6	33.5	32.2	30.9	29.8	28.7
Nominal GDP (In trillion COP)	544.9	621.6	664.5	719.7	765.3	818.8	879.1	944.9	1,015.4	1,094.9

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

1/ The combined public sector includes the central, regional and local governments, social security, and public sector enterprises. Excludes Ecopetrol.
2/ Includes royalties, dividends and social security contributions.
3/ Expenditure reported on commitments basis.
4/ Includes adjustments to compute spending on commitment basis and the change in unpaid bills of nonfinancial public enterprises.
5/ Interest payments on public banks restructuring bonds and mortgage debt relief related costs.
6/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.
7/ Includes statistical discrepancy.
8/ Includes income tax payments and dividends from Ecopetrol that correspond to earnings from the previous year, and royalties to local governments.
9/ Includes Ecopetrol and Banco de la República's outstanding external debt.

Table 6. Colombia: Monetary Indicators

	2006	2007	2008	2009	2010	2011	2012	2013	Proj 2014
	(In billions of COP, unless otherwise indicated)								
Central Bank									
Net Foreign Assets	35,265	42,881	54,661	50,526	53,265	61,750	65,356	83,092	87,683
Gross official reserve assets	34,878	42,532	53,720	51,650	54,583	63,566	65,824	88,928	87,746
in billions of US$	15.7	21.4	24.4	25.3	27.4	32.7	37.2	46.3	44.2
Short-term foreign liabilities	326	318	613	562	844	1,575	403	5,770	2,583
Other net foreign assets	1,257	1,161	2,106	1,955	1,865	2,117	2,096	2,298	2,519
Net domestic assets	-8,233	-10,465	-18,466	-10,980	-8,388	-10,408	-8,892	-17,993	-16,818
Net credit to the public sector	-284	-4,038	-1,792	622	-2,098	-4,624	-8,008	-14,526	-13,578
Net credit to the financial system	6,598	5,039	-143	-419	1,516	3,078	1,831	3,732	3,488
Other	-14,547	-11,466	-16,530	-11,182	-7,806	-8,863	-2,715	-7,199	-6,729
Monetary base	27,032	32,415	36,195	39,547	44,878	51,342	56,464	65,099	70,865
Currency in circulation	20,120	22,417	24,352	25,671	29,674	33,367	35,063	39,751	44,390
Deposit money banks reserves	6,896	9,975	11,832	13,865	15,157	17,946	21,374	25,254	20,398
Other deposits	16	23	12	10	47	29	27	94	94
Financial system									
Net foreign assets	34,751	37,890	49,670	48,267	44,392	47,389	53,145	67,826	71,451
in billions of US$	15.6	19.1	22.6	23.6	22.3	24.4	30.0	35.3	36.0
Net domestic assets	95,412	111,598	125,861	142,712	168,288	202,773	237,166	261,480	376,470
Net credit to public sector	20,401	11,926	16,150	32,352	33,782	32,455	34,824	33,151	35,151
Credit to private sector	104,125	130,833	149,217	150,614	175,863	216,234	251,410	281,747	316,498
Other net	-29,114	-31,160	-39,505	-40,254	-41,357	-45,916	-49,068	-53,417	-70,865
Broad money	130,163	149,489	175,531	190,979	212,680	250,162	290,310	329,307	377,056
	(Annual percentage change)								
Credit to private sector	35.7	25.6	14.1	0.9	16.8	23.0	16.3	12.1	12.3
Currency	22.9	11.4	8.6	5.4	15.6	12.4	5.1	13.4	11.7
Monetary base	18.5	19.9	11.7	9.3	13.5	14.4	10.0	15.3	8.9
Broad money	20.1	14.8	17.4	8.8	11.4	17.6	16.0	13.4	14.5
	(In percent of GDP)								
Credit to private sector	27.1	30.4	31.1	29.8	32.3	34.8	37.8	39.1	41.4
Currency	5.2	5.2	5.1	5.1	5.4	5.4	5.3	5.5	5.8
Monetary base	7.0	7.5	7.5	7.8	8.2	8.3	8.5	9.0	9.3
Broad money	33.9	34.7	36.6	37.8	39.0	40.2	43.7	45.8	49.3
Memorandum items:									
Central bank inflation target	4.5-5.5	3.5-4.5	3.5-4.5	4.5-5.5	2.0-4.0	2.0-4.0	2.0-4.0	2.0-4.0	2.0-4.0
CPI inflation, eop	4.5	5.7	7.7	2.0	3.2	3.7	2.4	1.9	2.7
Nominal GDP (In billion COP)	383,898	431,072	480,087	504,647	544,924	621,615	664,473	719,749	765,340

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

Table 7. Colombia: Financial Soundness Indicators

Total Banking System 1/

	2007	2008	2009	2010	2011	2012	2013
	(In percent, unless otherwise indicated; end-of-period values)						
Capital Adequacy							
Regulatory capital to risk-weighted assets	16.0	15.4	17.2	17.3	16.9	18.1	17.0
Regulatory Tier 1 capital to risk-weighted assets	12.5	12.0	13.4	13.0	13.4	13.7	12.0
Capital (net worth) to assets	12.9	12.6	14.2	14.2	14.3	14.7	14.8
Asset Quality and Distribution							
Nonperforming loans to gross loans	3.2	3.9	4.0	2.9	2.5	2.8	2.8
Provisions to nonperforming loans	133.8	124.3	140.1	175.0	182.0	163.9	160.7
Gross loans to assets	70.3	71.2	64.3	67.9	70.4	69.6	68.2
Earnings and Profitability							
ROAA	3.8	3.6	3.5	3.4	3.3	3.1	2.8
ROAE	29.6	28.1	26.2	23.7	23.0	21.2	19.5
Interest margin to gross income	51.2	54.0	54.0	55.6	58.4	58.7	61.3
Noninterest expenses to gross income	45.9	46.1	43.2	47.0	49.3	47.2	47.0
Liquidity							
Liquid assets to total assets	7.5	8.2	9.2	7.5	8.6	8.5	8.8
Liquid assets to short-term liabilities	11.6	12.8	14.2	12.1	13.9	13.4	13.8
Deposit to loan ratio	94.7	94.9	98.8	93.5	91.4	94.7	96.3
Other							
Foreign-currency-denominated loans to total loans	6.3	6.6	4.2	6.9	7.7	7.5	7.3
Foreign-currency-denominated liabilities to total liabilities	8.5	8.9	6.6	11.2	15.3	2.8	9.5
Net open position in foreign exchange to capital	1.9	-0.1	1.7	-2.0	-4.7	-0.5	-1.5

Source: Superintendencia Financiera

1/ All deposit taking institutions.

Table 8. Colombia: Indicators of External Vulnerability 1/

(In billions of U.S. dollars unless otherwise indicated)

	2008	2009	2010	2011	2012	2013
External indicators						
Exports of GNFS	42.6	38.1	45.2	63.1	66.7	65.8
Imports of GNFS	44.8	38.5	46.5	61.7	67.5	68.4
Terms of trade (12-month percent change)	9.9	-10.4	9.4	12.8	3.1	-4.7
Current account balance	-6.9	-5.1	-8.9	-9.9	-11.8	-12.7
In percent of GDP	-2.8	-2.2	-3.1	-2.9	-3.2	-3.3
Capital and financial account balance	9.5	6.3	11.8	13.0	17.4	19.2
Of which: Foreign direct investment (net)	8.1	3.8	-0.1	5.1	16.1	9.1
Of which: Portfolio investment (net)	-0.9	-2.9	0.1	0.8	2.0	0.7
Total external debt	46.3	52.5	63.5	74.7	77.9	90.7
In percent of gross international reserves	195.6	210.1	226.3	234.1	210.5	210.1
Short-term external debt 2/	5.6	3.9	7.9	10.3	10.3	11.9
Of which : Public sector	0.6	0.3	1.0	0.8	0.7	0.5
Of which : Private sector	5.1	3.6	6.9	9.4	9.7	11.4
Amortization of MLT external debt (in percent of GNFS exports)	12.3	15.2	14.3	9.9	15.7	8.8
External interest payments (in percent of GNFS exports)	7.7	8.0	7.2	5.7	5.6	6.0
Gross international reserves 3/ 4/	23.7	25.0	28.1	31.9	37.0	43.2
In months of prospective GNFS imports	6.3	7.8	7.2	6.2	6.6	7.6
In percent of broad money	26.5	28.2	25.1	23.6	22.9	24.5
In percent of short-term external debt 2/	421.5	633.6	354.9	311.2	358.0	361.5
In percent of short-term external debt on residual maturity basis plus current account deficit	143.3	129.2	117.0	98.1	128.2	110.7
Nominal exchange rate (COP/US$, period average)	1,968	2,158	1,899	1,848	1,797	1,868.8
Real effective exchange rate (percentage change, + = appreciation)	-2.7	4.7	5.1	-14.4	6.2	-3.8

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

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

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

3/ Estimate for 2009 includes the SDR allocation (US$972 million).

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.

Table 9. Colombia Public Sector Debt Sustainability Analysis (DSA) - Baseline Scenario

(in percent of GDP unless otherwise indicated)

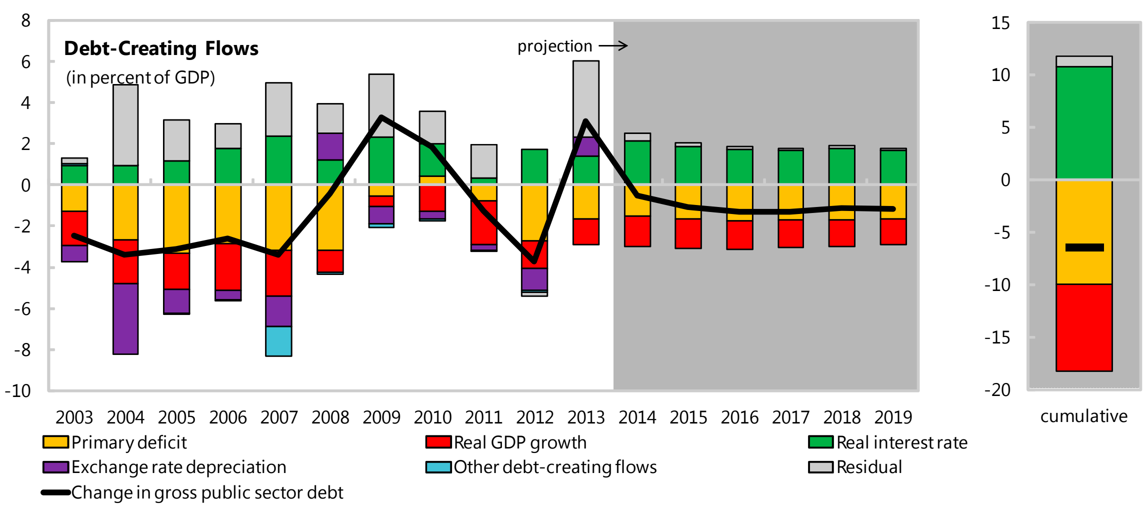
Debt, Economic and Market Indicators [1]

	Actual			Projections					
	2003-2011 [2]	2012	2013	2014	2015	2016	2017	2018	2019
Nominal gross public debt	36.9	32.0	35.1	34.6	33.5	32.2	30.9	29.8	28.7
Public gross financing needs	8.4	3.2	4.3	6.0	5.5	4.6	3.8	5.2	3.8
Real GDP growth (in percent)	4.8	4.0	4.3	4.5	4.5	4.5	4.5	4.5	4.5
Inflation (GDP deflator, in percent)	5.8	2.7	3.9	1.8	2.4	2.7	2.9	2.8	3.1
Nominal GDP growth (in percent)	10.9	6.9	8.3	6.3	7.0	7.4	7.5	7.5	7.8
Effective interest rate (in percent) [4]	10.3	8.0	8.8	8.2	8.3	8.3	8.5	9.2	9.3

As of March 31, 2014		
Sovereign Spreads		
EMBIG (bp) 3/		171
5Y CDS (bp)		107
Ratings	Foreign	Local
Moody's	Baa3	Baa3
S&Ps	BBB	BBB+
Fitch	BBB	BBB+

Contribution to Changes in Public Debt

	Actual			Projections							
	2003-2011	2012	2013	2014	2015	2016	2017	2018	2019	cumulative	debt-stabilizing primary balance [9]
Change in gross public sector debt	-1.3	-3.7	3.1	-0.5	-1.1	-1.3	-1.3	-1.1	-1.1	-6.5	
Identified debt-creating flows	-3.2	-3.5	-0.6	-0.9	-1.2	-1.4	-1.4	-1.2	-1.3	-7.5	
Primary deficit	-1.9	-2.7	-1.7	-1.5	-1.7	-1.7	-1.7	-1.7	-1.6	-10.0	0.4
Primary (noninterest) revenue and grar	26.3	28.3	27.8	27.5	27.0	26.9	26.7	26.7	26.6	161.5	
Primary (noninterest) expenditure	24.3	25.6	26.1	25.9	25.3	25.2	25.0	25.0	25.0	151.4	
Automatic debt dynamics [5]	-1.1	-0.7	1.1	0.6	0.4	0.3	0.3	0.5	0.4	2.6	
Interest rate/growth differential [6]	-0.3	0.4	0.1	0.6	0.4	0.3	0.3	0.5	0.4	2.6	
Of which: real interest rate	1.4	1.7	1.4	2.1	1.9	1.7	1.7	1.8	1.7	10.8	
Of which: real GDP growth	-1.7	-1.4	-1.3	-1.5	-1.4	-1.4	-1.3	-1.3	-1.3	-8.2	
Exchange rate depreciation [7]	-0.8	-1.0	0.9	…	…	…	…	…	…	…	
Other identified debt-creating flows	-0.2	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Privatization proceeds (negative)	-0.2	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes [8]	2.0	-0.2	3.7	0.4	0.1	0.1	0.1	0.1	0.1	1.0	



Source: IMF staff.

1/ Public sector is defined as general government.

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.

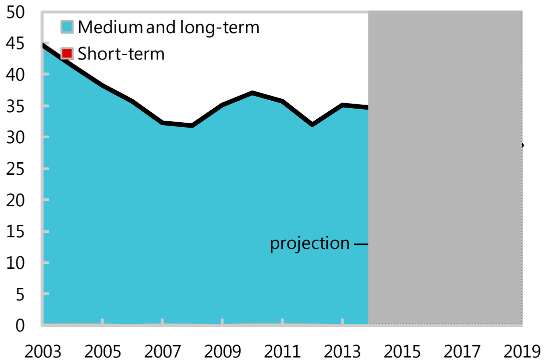
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Figure 5. Colombia Public DSA - Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

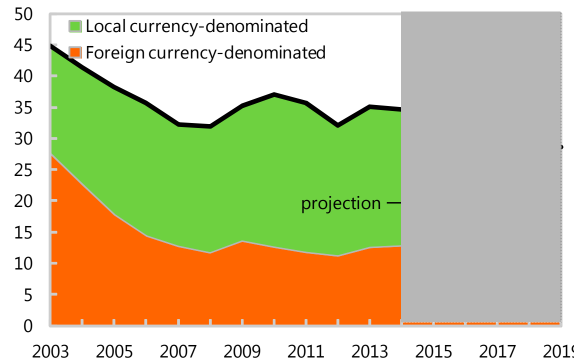
By Maturity

(in percent of GDP)



By Currency

(in percent of GDP)

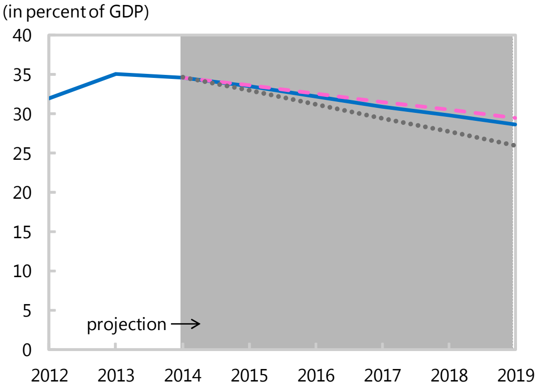


Alternative Scenarios

Baseline   Historical   Constant Primary Balance

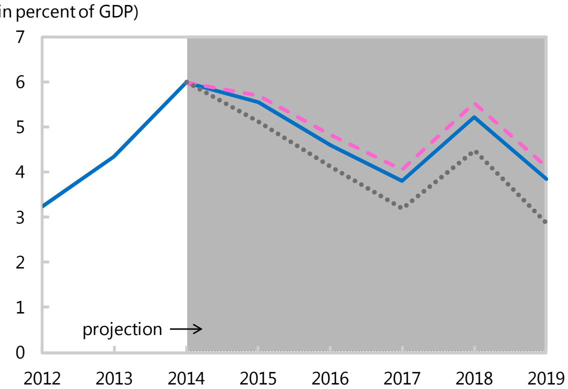
Gross Nominal Public Debt

(in percent of GDP)



Public Gross Financing Needs

(in percent of GDP)



Underlying Assumptions

(in percent)

Baseline Scenario	2014	2015	2016	2017	2018	2019
Real GDP growth	4.5	4.5	4.5	4.5	4.5	4.5
Inflation	1.8	2.4	2.7	2.9	2.8	3.1
Primary Balance	1.5	1.7	1.7	1.7	1.7	1.6
Effective interest rate	8.2	8.3	8.3	8.5	9.2	9.3
Constant Primary Balance Scenario						
Real GDP growth	4.5	4.5	4.5	4.5	4.5	4.5
Inflation	1.8	2.4	2.7	2.9	2.8	3.1
Primary Balance	1.5	1.5	1.5	1.5	1.5	1.5
Effective interest rate	8.2	8.3	8.3	8.5	9.2	9.2

Historical Scenario	2014	2015	2016	2017	2018	2019
Real GDP growth	4.5	4.8	4.8	4.8	4.8	4.8
Inflation	1.8	2.4	2.7	2.9	2.8	3.1
Primary Balance	1.5	2.1	2.1	2.1	2.1	2.1
Effective interest rate	8.2	8.3	8.2	8.2	8.8	8.7

Source: Fund staff estimates.

Table 10. Colombia: External Debt Sustainability Framework, 2010-2019

(In percent of GDP, unless otherwise indicated)

	Actual				Projections 1/						
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	**Debt-stabilizing non-interest current account 7/**
Baseline: External debt	22.8	22.8	20.9	23.9	24.5	23.9	23.2	22.5	21.9	21.4	**-2.8**
Change in external debt	1.1	0.1	-2.0	3.0	0.5	-0.5	-0.7	-0.7	-0.6	-0.6	
Identified external debt-creating flows (4+8+9)	-0.9	-1.9	-3.2	0.1	0.0	-0.6	-0.7	-0.8	-0.7	-0.6	
Current account deficit, excluding interest payments	2.1	2.0	2.3	2.4	2.1	2.3	2.0	2.0	2.1	2.0	
Deficit in balance of goods and services	0.5	-0.4	0.2	0.7	0.1	0.6	0.6	0.8	1.0	1.0	
Exports	15.7	18.8	18.0	17.1	18.3	17.5	17.2	16.8	16.4	16.0	
Imports	16.2	18.4	18.2	17.8	18.4	18.1	17.8	17.6	17.3	17.1	
Net non-debt creating capital inflows (negative)	0.1	-1.5	-4.4	-2.4	-3.1	-2.6	-2.4	-2.4	-2.3	-2.2	
Automatic debt dynamics 2/	-3.0	-2.3	-1.1	0.1	0.9	-0.2	-0.4	-0.4	-0.5	-0.5	
Contribution from nominal interest rate	1.0	1.0	0.9	0.9	1.2	1.1	1.0	1.0	0.9	0.9	
Contribution from real GDP growth	-0.7	-1.3	-0.8	-0.9	-1.1	-1.0	-1.0	-1.0	-1.0	-0.9	
Contribution from price and exchange rate changes 3/	-3.3	-2.1	-1.2	0.0	...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 4/	2.0	2.0	1.2	3.0	0.6	0.1	0.0	0.1	0.1	0.1	
External debt-to-exports ratio (in percent)	144.7	121.8	115.8	140.1	133.5	137.1	134.7	134.2	133.9	133.1	
Gross external financing need (in billions of U.S. dollars) 5/	19.3	24.0	32.5	28.9	39.0	40.6	37.9	41.3	40.2	44.2	
in percent of GDP	6.7	7.1	8.8	7.5	10.0	9.9	8.7	8.9	8.2	8.4	
Scenario with key variables at their historical averages 6/					**22.4**	**20.6**	**19.0**	**17.5**	**16.1**	**14.8**	**-3.6**
Key Macroeconomic Assumptions Underlying Baseline											
Real GDP growth (in percent)	4.0	6.6	4.0	4.3	4.5	4.5	4.5	4.5	4.5	4.5	
GDP deflator in US dollars (change in percent)	18.1	9.9	5.7	-0.1	-3.5	1.0	1.5	1.8	1.9	2.1	
Nominal external interest rate (in percent)	5.7	5.1	4.4	4.6	4.9	4.5	4.5	4.4	4.3	4.2	
Growth of exports (U.S. dollar terms, in percent)	18.5	39.6	5.7	-1.4	8.3	0.5	4.8	3.6	4.0	4.6	
Growth of imports (U.S. dollar terms, in percent)	20.9	32.6	9.3	1.4	4.6	3.8	4.6	5.0	4.9	5.0	
Current account balance, excluding interest payments	-2.1	-2.0	-2.3	-2.4	-2.1	-2.3	-2.0	-2.0	-2.1	-2.0	
Net non-debt creating capital inflows	-0.1	1.5	4.4	2.4	3.1	2.6	2.4	2.4	2.3	2.2	

Source: Fund staff estimates.

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

2/ Derived as [r - g - p(1+g) + ea(1+r)]/(1+g+p+gp) times previous period debt stock, with r = nominal effective interest rate on external debt; p = 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 debt in total external debt.

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

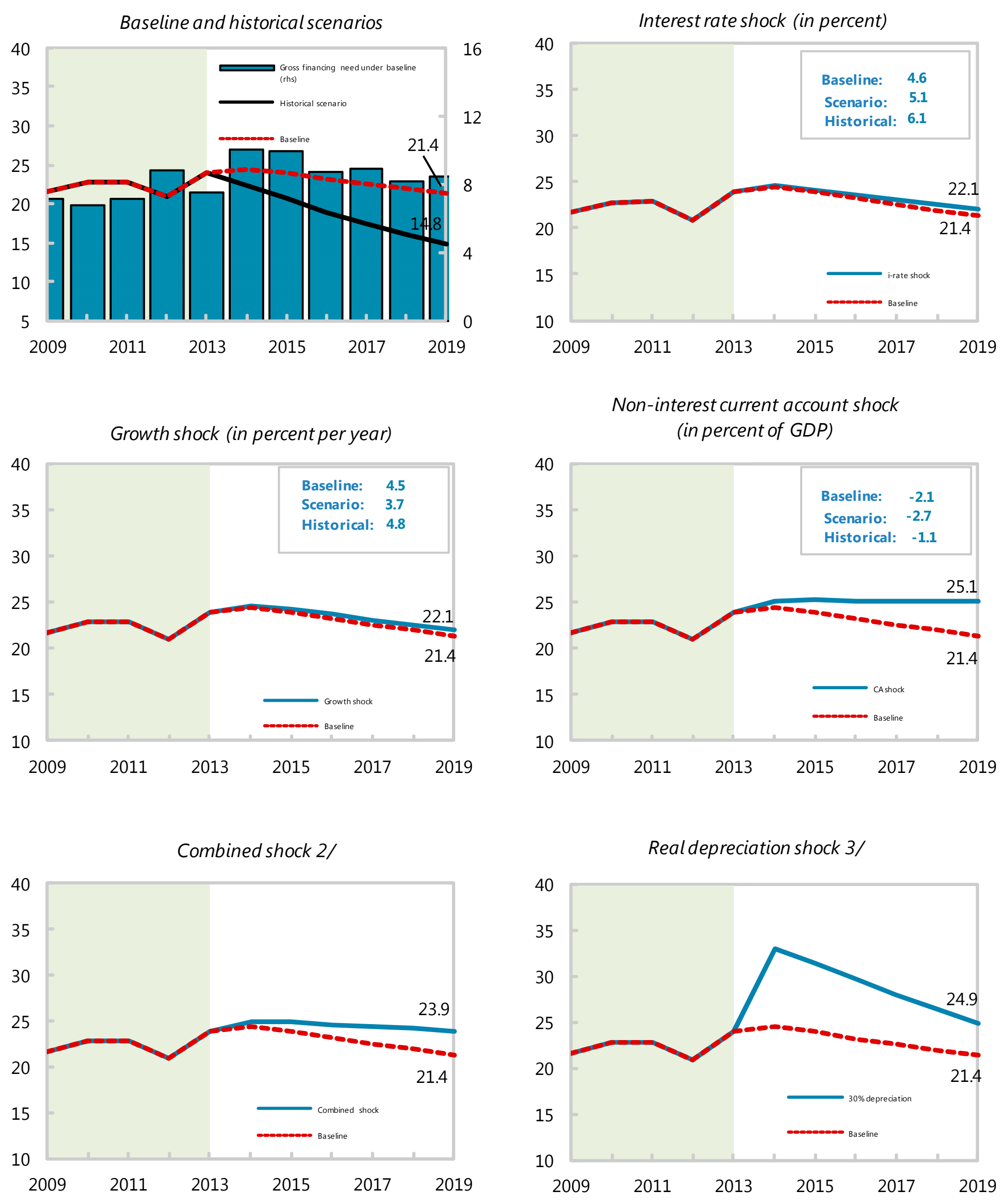
4/ For projection, line includes the impact of price and exchange rate changes.

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

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

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

Figure 6. Colombia: External Debt Sustainability: Bound Tests 1/
(External debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
3/ One-time real depreciation of 30 percent occurs in 2013, with real depreciation defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

Table 11. Colombia: Indicators of Fund Credit, 2013-19 1/

		Projections					
	2013	2014	2015	2016	2017	2018	2019
Stocks from prospective drawings 2/							
Fund credit (Millions of SDR)	0	3,870	3,870	3,870	2,903	968	0
In percent of quota	0	500	500	500	375	125	0
In percent of GDP	0	1.5	1.5	1.4	1.0	0.3	0
In percent of exports of goods and services	0	8.4	8.4	8.1	5.9	1.9	0
In percent of gross reserves	0	11.7	11.4	11.1	8.3	2.9	0
Flows from prospective drawings							
Amortization	0	0	0	0	968	1,935	968
Charges (Millions of SDR)	0	20.9	43.3	43.4	42.1	24.8	4.4
Debt Service due on GRA credit (Millions SDR)	0	55.2	74.3	74.4	1,044.7	1,965.6	971.9
In percent of quota	0	7.1	9.6	9.6	135.0	254.0	125.6
In percent of GDP	0	0.0	0.0	0.0	0.4	0.6	0.3
In percent of exports of goods and services	0	0.1	0.2	0.2	2.1	3.9	1.8
In percent of gross reserves	0	0.2	0.2	0.2	3.3	6.0	2.9
Memorandum Item:							
Total External Debt (percent of GDP)	23.9	24.5	23.9	23.2	22.5	21.9	21.4
Total Debt Service (percent of GDP)	5.2	8.1	7.8	6.8	6.9	6.1	6.3

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

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

Statement by the IMF Staff Representative on Colombia
Executive Board Meeting
June 18, 2014

1. This statement provides additional information that has become available since the staff report was issued. It does not alter the thrust of the staff appraisal.

2. **President Juan Manuel Santos was re-elected on Sunday to serve a new four-year term after a tight race against the opposition candidate Oscar Ivan Zuluaga**.

i. President Santos gained 51 percent of the votes, while Mr. Zuluaga obtained 45 percent. The inauguration will take place in August.

ii. The re-election of President Santos will allow the government to continue peace negotiations with Colombia's main guerrilla group (FARC).

iii. There were no market reactions from the election result, as both candidates share similar economic policy agendas that support fiscal prudence and building policy buffers.

3. **Headline inflation edged up slightly to 2.9 percent in May (y/y) from 2.7 percent (y/y) in April.** As discussed in the staff report, the central bank has been acting proactively and has raised the policy rate by 50 basis points since April 2014 to contain the inflation within the central bank's target range of 2-4 percent.

Press Release No.14/288
FOR IMMEDIATE RELEASE
June 18, 2014

International Monetary Fund
Washington, D.C. 20431 USA

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

The Executive Board of the International Monetary Fund (IMF) today completed its review of Colombia's qualification for the arrangement under the Flexible Credit Line (FCL) and reaffirmed Colombia's continued qualification to access FCL resources. The Colombian authorities have indicated that they intend to continue treating the arrangement as precautionary.

The current two-year SDR 3.87 billion (about US$5.96 billion) FCL arrangement was approved on June 24, 2013 (see Press Release No 13/229). Colombia's first FCL arrangement was approved on May 11, 2009 (see Press Release No. 09/161), and two successor arrangements were approved on May 7, 2010 (see Press Release No. 10/186) and May 6, 2011 (see Press Release No. 11/165).

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

"The Fund's Flexible Credit Line (FCL) arrangement with Colombia has helped reduce the perception of risks by providing Colombia with a buffer against adverse external shocks, and allowed Colombia to restore orderly financial market conditions despite increased volatility in financial markets over the past year. Today, the Executive Board reaffirmed that Colombia continues to meet the qualification criteria for access to FCL resources.

"Colombia has maintained a robust economic performance in recent years. This is underpinned by a very strong policy framework, anchored by an inflation-targeting regime, a flexible exchange rate, a sound fiscal rule, and effective financial supervision and regulation.

"At the same time, important downside risks remain for emerging market economies and they continue to present challenges even for strong and well-managed economies like Colombia. While Colombia has ample policy space to contain the fallout from normal external shocks, the additional buffer provided by the FCL arrangement would continue to play an important role in mitigating tail risks. The authorities remain committed to strengthening buffers, including international reserves, and plan to take further steps toward exit from the FCL arrangement when external conditions allow."

Statement by Maria Angelica Arbelaez, Alternate Executive Director for Colombia
June 18, 2014

On behalf of the authorities, I want to express our gratitude to the Board for the FCLs obtained by Colombia, and to staff and management for their continued support. Colombia belongs to a group of countries for which special swap lines are not available and regional liquidity arrangements do not provide adequate coverage. Consequently, the FCLs have been instrumental to cope with heightened external risks in recent years, and have suited well the country's need for liquidity risk coverage in a highly uncertain environment.

Indeed, the FCLs have been an important complement to the authorities' wide policy response to the global crisis, which has involved exchange rate flexibility, countercyclical fiscal and monetary policies, securing precautionary external funding, and ensuring a cushion of international liquidity for the country. In addition, the availability of the instrument has provided space to strengthen the policy framework and to build policy buffers, while sending a positive signal to international financial markets on the strength of the economy.

Also, the FCLs have enhanced the economy's resilience in the face of adverse external shocks, as reflected in the market assessment of Colombia's credit risk. A study by the central bank (Banco de la Republica)[1] found that access to the FCL reduced the sovereign risk premium (EMBI) for Colombia and México by 10 and 15 bps., respectively, after controlling for the movement of the EMBI for a group of similar countries. The FCLs had also a statistically significant positive impact on the Consumer Confidence Index in Colombia. Moreover, when these effects were included in a DSGE model for the Colombian economy, the FCL was found to have an important positive influence on growth. Consistently, an IMF exercise found that the FCL reduced the EMBI spreads for Colombia and México by 51 bps., after controlling for domestic macroeconomic variables and the VIX[2].

External outlook

The access level of the FCL approved by the Board in June 2013 was 500 percent of the quota (SDR 3.87 billion). The authorities perceive that the current international risk measures are higher than or equal to those prevailing when the line was requested, and there is no market evidence of a generally less risky international environment. This is consistent with the risk assessments in the April 2014 World Economic Outlook and the Global Financial Stability Report, particularly with regard to emerging markets (EMs).

1 "Impacto macroeconómico de la línea de crédito flexible con el Fondo Monetario Internacional". Mimeo. Departamento de Modelos Macroeconómicos, Banco de la República. March 2011.
2 "Review of the Flexible Credit Line, the Precautionary and Liquidity Line, and the Rapid Financing Instrument". IMF. January 2014. P. 43.

As other EMs, Colombia is subject to a variety of shocks. The fallout of the protracted global financial crisis is still being felt, this time in the form of an uncertain and potentially disruptive normalization of the monetary policy pursued in the U.S. After the "tapering" announcement by the U.S. Federal Reserve, some local asset markets recorded high volatility, as illustrated in the staff report. Although this volatility was reasonably absorbed by the economy, it served as an indication of the type of turbulence that may appear in the future. The next step that involves raising policy interest rates could be more disruptive, as some past episodes suggest. Although these changes would come as a result of a stronger U.S. economy and higher external demand for EMs, adverse shocks through world financial markets could overwhelm any positive effect stemming from real channels. Indeed, the April 2014 WEO pointed out that "unexpectedly rapid normalization of U.S. monetary policy or renewed bouts of high risk aversion on the part of investors could result in further financial turmoil. This would lead to difficult adjustments in some emerging market economies, with a risk of contagion and broad-based financial stress, and thus lower growth."

In addition, the uncertain situation of the financial system in China and, more generally, of growth perspectives entail serious risks for several commodity exporting EMs. The impact of an abrupt Chinese slowdown on the prices and quantities exported by these economies could be substantial. The same shocks may also curtail global growth and indirectly affect individual countries. For instance, Colombia could be affected not only directly, through decreases in the prices and quantities of commodity exports, but also indirectly, through a declining export demand from regional markets that depend significantly on exports to China (e.g. Ecuador, Peru, Chile etc.)[3].

In summary, the disruptions caused by unexpectedly turbulent adjustments in the U.S. and China may affect directly the Colombian economy through their impact on export revenues, capital flows and asset price changes. They could also trigger adverse reactions in other EMs and impact the economy via financial contagion.

It is worth noting that the increased participation of foreigners in the local asset markets (public bonds and equity) may exacerbate the response of these markets to a shock. Recently, the weight of Colombian local public bonds in the benchmark portfolios of some investors was substantially augmented. As a result, there have been additional portfolio investment inflows and a large drop in long-term interest rates. While this phenomenon is partly due to the resilience of the economy and the robustness of its macroeconomic policy framework, there could be also reasons related to the weakness and riskiness of other EMs. Should the state of the latter change, a (partial) reversal of capital inflows and a local asset appreciation may ensue. This potential volatility adds to the above-mentioned risks.

3 Colombian exports to China accounted for roughly 9 percent of total exports in 2013, and 24 percent of total exports were sold in 2013 to countries with significant trade links with China (excluding the US).

Lines of defense against external risks

A Strong Policy Framework. For the Colombian authorities it is clear that a first line of defense against the outcomes of these shocks is a strong macroeconomic policy framework that provides the country with resilience and with the ability to pursue countercyclical policy responses. This framework rests on three pillars, namely (i) sustainable fiscal policy; (ii) an inflation targeting regime with exchange rate flexibility and (iii) a strong financial system.

(i) A sustainable fiscal policy reduces the probability of an abrupt cut in external funding for the economy. It is also a pre-condition for a counter-cyclical fiscal policy response to an exogenous macroeconomic shock. Colombia has a Fiscal Rule and a Constitutional Royalties Regime that facilitate saving temporary public revenue windfalls. This ensures a sustainable path for the public debt in the context of a Medium Term Fiscal Framework.

(ii) A strong financial system involves not only solvent and liquid financial intermediaries, but also the absence of large currency or term mismatches in the real and financial
sectors. In these circumstances, an external shock will not significantly cut domestic credit supply, severely undermine the payment system or suddenly compromise fiscal sustainability (through large financial bankruptcies).

(iii) A flexible exchange rate regime allows the exchange rate to work as a shock absorber and permits monetary policy to respond counter-cyclically to shocks. A credible long- term inflation target, a subdued exchange rate pass-through, and low currency and FX term mismatches are both consequences and conditions for the successful operation of the monetary and FX policy strategy.

This policy framework served well Colombia during the global financial crisis, being one of the few countries that did not experience a recession in its aftermath. Since then, the framework and fundamentals have remained strong, as stated in detail in the Article IV consultation report of May 2014 (IMF Country Report No. 14/141).

The fiscal deficit and the public debt as a percentage of GDP have declined. In 2013, the fiscal target dictated by the fiscal rule for the central government of 2.4 percent of GDP was met (0.9 percent for the combined public sector). The consolidation will continue gradually in the next years in order to reach a structural deficit of the central government of 1.9 percent of GDP in 2018 and levels below 1 percent in 2022 onwards—which in turn will bring down public debt to 26 percent of GDP.

Inflation has remained within the 2-4 percent long-term target range and international reserves have been accumulated to maintain reserve indicators at adequate levels. It is worth noting, however, that although the pursued level of international reserves is considered adequate for precautionary purposes, it would be insufficient to cope with tail risks. The exchange rate has been the main shock absorber; after the announcement of the tapering by the U.S. Federal Reserve, the currency depreciated significantly with no negative consequences for the economy or inflation.

The external position continues to be strong. In 2013 the current account deficit stood at 3.4 percent of GDP, similar to that of 2012, comfortably financed with capital inflows (5.3 percent of GDP) of which FDI constitutes the largest fraction.

The financial sector remains sound, with healthy corporate and households balance sheets, strong credit quality and profitability. The solvency ratio of close to 15 percent is well above the regulatory minimum (9 percent) and, since August 2013, it complies with the capital quality required by Basel III. Colombian credit institutions hold ample liquidity and are required to satisfy a liquidity indicator in line with the Liquidity Coverage Ratio of Basel III. Currency and maturity mismatches of financial intermediaries are closely monitored and regulated.

Self-Insurance and the Global Financial Safety Network. Despite its strengths, the macroeconomic policy framework may not be sufficient to face a large external shock or a combination of external shocks without heavy costs on domestic economic activity and welfare. This is a situation shared by other economies with similar sizes and exposures, for which the Global Financial Safety Network does not offer an alternative to cope with large or multiple external shocks. On the one hand, Colombia's economy may not be considered as a "systemically important"; hence, the possibility of bilateral swap lines or other similar mechanisms is not available. Even if Colombia were eligible, these instruments have a short maturity and have been available only during systemic stress periods as stated by the IMF[4]. On the other hand, regional international liquidity facilities like the Latin-American Reserves Fund (LARF) cannot provide enough funds as potentially needed.

Thus, in the absence of mechanisms such as the FCL, countries like Colombia have only the option to self-insure by accumulating international reserves. The latter, however, is inefficient both from the point of view of the individual country and of the world as a whole. The country is forced to maintain a costly stock of reserves to mitigate the effects of low- probability adverse events, while the international system may be confronted with excessive reserve accumulation, with undesirable consequences on global imbalances and risk-taking.

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4 "The Fund's Mandate-Future Financing Role." IMF. March 2010.

In that sense, products like the FCL help "complete the markets", by providing more efficient protection instruments[5]. This is entirely compatible with the Fund's objective to contribute to a robust Global Financial Safety Net, in which well-behaved "innocent by-standers" could be protected from the fallout of large or multiple external shocks.

In this context, the Fund (and the Board) should focus on removing the obstacles that are preventing the demand for precautionary instruments, and have a more proactive and extensive outreach to communicate their effectiveness in contributing to the stability of countries that have requested them as well as their significant positive externalities to the international system. Imposing new costs or constraints to these instruments may have undesired effects; for example, the requirement for a concrete ex-ante exit strategy may discourage the demand from new users. This trade-off needs to be taken into consideration when addressing the concerns about continued use of precautionary instruments.

The Colombian authorities are fully aware that the FCL is a temporary facility and are increasingly monitoring external risks. The access requested since 2009 has changed along the fluctuations in the riskiness of the external environment, as well as the authorities' assessment of future risks. They remain committed to continue strengthening the policy framework and to treat the FCL as a precautionary facility.

5 This does not mean that the FCL is a substitute for international reserves accumulation, but rather a complement.