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COLOMBIA

April 2023

REVIEW UNDER THE FLEXIBLE CREDIT LINE ARRAGEMENT—PRESS RELEASE; STAFF REPORT; 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:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on April 26, 2023. Based on information available at the time of these discussions, the staff report was completed on April 7, 2023.
- A **Statement by the Executive Director** for Colombia.

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

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PRESS RELEASE

PR 23/126

IMF Executive Board Concludes Review of Colombia's Performance Under the Flexible Credit Line Arrangement

FOR IMMEDIATE RELEASE

Washington, DC – April 27, 2023. The Executive Board of the International Monetary Fund (IMF) concluded on April 26, 2023, 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 current two-year FCL arrangement for Colombia was approved by the IMF's Executive Board on April 29, 2022 (see Press Release No. 22/135) in an amount equivalent to SDR 7.1557 billion (about US$9.8 billion). The Colombian authorities stated their intention to continue treating the FCL arrangement as precautionary.

Colombia's FCL arrangement was first approved on May 11, 2009 (see Press Release No. 09/161) and successor arrangements were approved on May 7, 2010 (see Press Release No. 10/186), May 6, 2011 (see Press Release No. 11/165), June 24, 2013 (see Press Release No. 13/229), June 17, 2015 (see Press Release 15/281), June 15, 2016 (see Press Release No. 16/279), May 25, 2018 (see Press Release No. 18/196), and May 1, 2020 (see Press Release No. 20/201), which was later augmented on September 25, 2020 (see Press Release No. 20/300) due to the pandemic. Colombia made a drawing of SDR3.75 billion or about US$5.4 billion in December 2020 (see Press Release No. 20/363).

Following the Executive Board's discussion on Colombia, Ms. Antoinette Sayeh, Deputy Managing Director and Acting Chair, made the following statement:

"Colombia has very strong economic fundamentals and policy frameworks anchored by a credible inflation targeting-regime, a solid medium-term fiscal framework, a flexible exchange rate, and effective financial sector supervision and regulation. The authorities remain firmly committed to sustain their track record of implementing very strong policies and maintain such policies in the future.

"External risks remain elevated and tilted to the downside. Global financial conditions could become more disorderly with negative effects on commodity prices and growth. An escalation of Russia's war in Ukraine could disrupt trade and financial flows. Contagion from the international banking sector turmoil could adversely impact economic and financial stability, although continued strong oversight will likely temper these effects. Domestically, special care will be needed to prudently design and communicate on structural reforms. The Flexible Credit Line (FCL) has helped strengthen Colombia's resilience to external shocks and signaled the quality of Colombia's macroeconomic policies and institutional frameworks.

"Following a robust recovery from the pandemic, the Colombian economy is undergoing the necessary transition towards a more sustainable growth path. Macroeconomic policies are being appropriately tightened and should remain tight to durably reduce inflation, strengthen public finances, and address external imbalances. While the objectives of the structural reform agenda to enhance equality, promote economic diversification, and strengthen governance are commendable, a careful and prudent implementation will be essential to preserve fiscal and financial stability, and ensure that economic incentives are well aligned.

“The arrangement under the Flexible Credit Line has and will continue to reinforce market confidence and provide added insurance against external risks. The authorities intend to continue to treat this arrangement as precautionary and to gradually reduce access towards an eventual exit, conditional on a reduction of external tail risks. Continued reserve accumulation, as conditions allow, would further strengthen resilience.”

INTERNATIONAL MONETARY FUND

COLOMBIA

REVIEW UNDER THE FLEXIBLE CREDIT LINE ARRANGEMENT

April 7, 2023

EXECUTIVE SUMMARY

Context. Benefiting from an effective policy response to the pandemic and highly favorable terms of trade, Colombia's economy grew at one of the fastest rates among emerging economies in 2022. This demand-led recovery partly contributed to internal and external imbalances for which policy tightening is underway. The financial sector remains liquid and well capitalized, and the robust consumer credit growth observed last year is slowing**.** Overall, the authorities remain committed to maintaining their very strong policy frameworks and their track record of implementing very strong policies, while they seek to strengthen equity and diversify their economy from oil and coal dependence. The recent banking sector stress in advanced economies has not affected Colombia thus far.

Risks. External risks remain elevated and skewed to the downside. Global financial conditions could become more disorderly with negative knock-on effects on commodity prices, capital outflows and growth. An escalation of Russia's war in Ukraine and the resulting economic sanctions could disrupt trade and affect supply chain components and remittances. Domestically, renewed social tensions cannot be discarded, while uncertainties over the government's reform agenda could raise borrowing costs, as well as undermine growth, investment, and external sustainability.

Flexible Credit Line (FCL). The FCL has served as an important buffer, supporting Colombia's pursuit of very strong macroeconomic policies and institutional policy frameworks. Colombia's current arrangement under the FCL was approved on April 29, 2022 for SDR7.1557 billion (about US$9.8 billion, or 350 percent of quota), which the authorities intend to treat as precautionary. In December 2020, Colombia made a drawing of SDR3.75 (about US$5.4 billion) under its FCL arrangement that had been approved in May 2020 for SDR7.8496 billion and had been augmented in September 2020 to SDR12.267 billion. The authorities used the drawing to help meet higher financing needs in the context of the pandemic whilst maintaining strong external buffers.

Qualification. Staff assesses that Colombia continues to meet the qualification criteria for access to FCL resources specified under the Executive Board decision on FCL arrangements (Decision No. 14283-(09/29), adopted on March 24, 2009, as amended). Staff recommends that the Board complete this review, which would allow Colombia to make purchases until the expiration of the existing FCL arrangement on April 28, 2024.

Approved By
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The report was prepared by a team comprised of Ceyda Oner (head), Marco Arena, Juan Yépez Albornoz, Vu Chau (all WHD), Sergio Rodríguez (SPR), and Zoltan Jakab (MCM). Daria Kolpakova (WHD) provided valuable inputs to the report. Kristine Laluces and Mariana Bravo (all WHD) provided administrative assistance.

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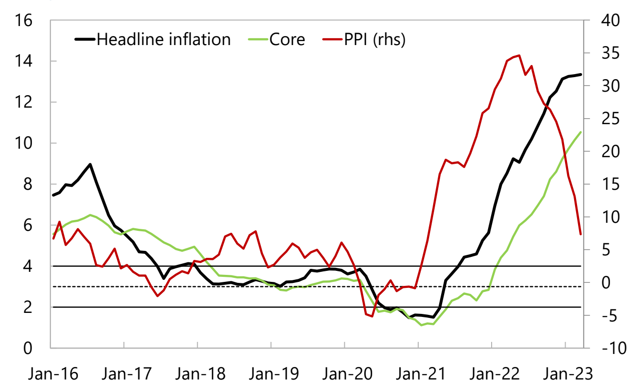
RECENT DEVELOPMENTS

1. **After expanding strongly, the Colombian economy has started to show initial signs of slowing down.** Following the pandemic, real GDP grew by 11 percent in 2021 and 7.5 percent in 2022 supported by favorable terms of trade and lag effects of accommodative policies. The macroeconomic tightening that began in late 2021 started to moderate domestic demand growth in Q4:2022, with high frequency indicators pointing to continued moderation in activity and demand in early 2023 (Figure 1). Labor markets remain strong, with employment levels above pre-pandemic levels, yet with high levels of informality, especially among women and the young. The unemployment rate remained broadly unchanged from December to January (11.3 percent); somewhat elevated relative to pre-pandemic levels.

2. **Inflation remains elevated.** Annual inflation continued rising through March 2023, with headline reaching 13.3 percent and core exceeding 10 percent. Inflation pressures have been broad-based and driven by domestic and external supply shocks as well as robust domestic demand (2023 Article IV Staff report). Producer price inflation, on the other hand, has been declining since June 2022 as global commodity prices started moderating. In fact, food inflation is now starting to decline in line with global trends, although it remains higher than in regional peers, in part reflecting the impact of climate-related supply shocks. Meanwhile, two-years ahead inflation expectations have been above 4 percent—the upper limit of the band around the 3 percent inflation target—since April 2022, albeit declining slightly in recent months.[1]

Headline, Core, and Producer Price Inflation
(In percent)



Sources: Haver Analytics; IMF staff elaboration.

3. **In response to inflationary pressures, the central bank has hiked policy rate sharply.** The central bank raised the policy rate from 1.75 percent in September 2021 to 13 percent in March 2023 (Figure 3). Based on one-year ahead inflation expectations, the ex-ante real policy rate is now firmly in a tight stance (over 5 percent, or about 275 basis points above the neutral rate). In recent statements, the central bank has reaffirmed its commitment to reaching the inflation target in the medium-term and stressed that subsequent policy rate decisions will remain data dependent.[2]

4. **Following a period of strong policy easing, fiscal consolidation is underway.** The central government deficit was lowered from 8.1 percent of GDP in 2021 to an estimated 5.5 percent in

[1] Inflation expectations are taken from the central bank's survey of market analysts (including banks, stock exchange companies and other institutions).

[2] See Banco la República's January 2023 Board of Directors' communique.

2022. The authorities are committed to further reducing the deficit to 3.8 percent of GDP in 2023, delivering—for the second year in a row—a larger adjustment than required by the fiscal rule and one of the largest adjustments in decades. The planned consolidation is underpinned by yields of the 2021 and 2022 progressive tax reforms and further reductions in untargeted energy subsidies, which will also give way to expand social support. Public sector debt reached 63.5 percent of GDP at end-2022 and is expected to narrow to around 58 percent by the end of this year.

5. External imbalances have risen further, although some narrowing is underway. The current account deficit widened from 5.6 in 2021 to 6.2 percent of GDP in 2022, despite favorable terms of trade (up 20 percent, y/y) and a further weakening of the real effective exchange rate (REER).[3] Consistent with the dynamic in domestic demand, annual import volumes grew 13.5 percent last year far offsetting the growth in export volumes (7.6 percent).[4] Increased profit transfers abroad also contributed to the rising current account deficit, which was financed by remarkably strong FDI, the latter almost doubling between 2021 and 2022. However, in line with slowing domestic demand, import growth volumes have moderated since Q3:2022; on annual basis import volumes contracted about 7 percent in Q4:2022, and about 1. 5 percent in January 2023

6. The financial system remains sound. After growing at the fastest pace in over a decade in 2022, consumer credit growth has been declining in recent months (from 23 percent y/y in August to 14.5 percent in February), with credit growth in other segments remaining moderate. This healthy moderation in consumer credit growth reflects the saturation of post-pandemic pent-up demand, tighter monetary policy, and supervisory oversight, including higher provisioning requirements for consumer loans. In parallel, credit quality in consumer loan segments has deteriorated slightly, with non-performing loans reaching 5.4 percent in November 2022 (up from 4.7 percent in June) amid higher interest rates and a slowing economy. The banking sector remains liquid and well capitalized; banks have high liquidity coverage and net stable funding ratios, with assets being marked to market. Recent developments in global financial markets have not had an impact on the Colombian banking system so far. Interest rate risks are mitigated by the high share of fixed-rate mortgages (80 percent) and relatively low share of commercial banks' holdings of local currency government debt (7.5 percent of total assets). That said, close monitoring will be required as financial sector shocks from the US and/or Europe could negatively impact Colombia's banking system (¶8).

OUTLOOK AND RISKS

7. Output growth is projected to slow in 2023 and gradually converge to its potential over the medium term. Continued macroeconomic policy tightening is expected to moderate domestic demand and close the positive output gap in 2023. Specifically, real GDP growth is expected to slow to 1.0 percent this year, which would still put Colombia's level of economic activity above that of peers. Over the medium term, growth is expected to converge towards Colombia's

[3] The average REER depreciated 4.8 percent in 2022, following a depreciation of 3.2 percent in 2021.

[4] While non-traditional exports volumes grew at a robust pace (about 13.5 percent), non-energy traditional exports grew slowly (about 3 percent), affected in part by weather shocks.

potential growth rate of 3¼ percent as macroeconomic policies normalize and financial conditions ease.

8. Meanwhile, internal and external imbalances are expected to gradually decline. Macroeconomic policies are expected to remain tight through 2024. The consolidated overall fiscal deficit is projected to fall sharply from 6.6 percent of GDP in 2022 to 3.8 percent of GDP in 2023 and to around 2 percent of GDP over the medium term. This adjustment would put public debt on a firmly declining path and limit gross financing needs to around 5.8 percent of GDP on average during 2023-25. Monetary policy is also expected to remain in a tight stance through 2024. This policy stance is projected to support a gradual reduction in annual inflation to about 8.5 percent y/y by end-2023 before reaching the 3 percent target by the first half of 2025. Despite weaker terms of trade, the current account deficit is projected to narrow to about 5 percent of GDP in 2023, driven by the recovery in export volumes (particularly non-fuel commodities and services exports) and continued moderation of import volume growth, supported by tight monetary and fiscal policies. Over the medium-term, the current account deficit is expected to narrow to 4 percent of GDP, driven by a continued moderation of import volume growth over the next two years, as domestic demand slows on the back of tighter monetary and fiscal policies, a relative decline and stabilization of primary income balance, and a gradual increase in exports (especially of non-traditional sectors), in line with some improvement in trading partner growth. FDI and portfolio flows are expected to remain the main sources of external financing. Over the medium-term, FDI projection reflects a gradual increase towards its historical average.

9. External risks remain elevated and tilted to the downside. Global financial conditions could become more disorderly with negative knock-on effects on commodity prices, capital outflows and growth. An escalation of Russia's war in Ukraine and the resulting economic sanctions could disrupt trade and affect supply chain components and remittances. Contagion from the international banking sector turmoil could adversely impact economic and financial stability in the country. Domestically, renewed social tensions cannot be discarded, while uncertainties over the government's reform agenda could raise borrowing costs, as well as undermine growth, investment and external sustainability.

POLICIES

10. Macroeconomic policies are being appropriately tightened and should remain tight to durably reduce inflation and external imbalances. Macroeconomic policies are projected to remain tight in 2023 to bring inflation towards the central bank's target and narrow the current account deficit. Beyond 2023, maintaining a tight policy stance will be required to durably reduce inflation and external imbalances.

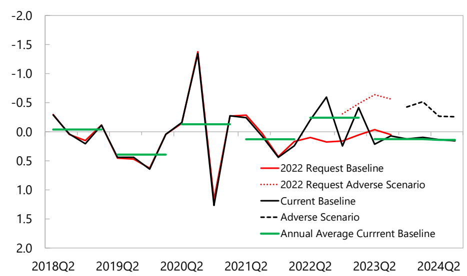
- **Monetary policy.** Maintaining a tight monetary policy stance will be required to achieve the inflation target over the medium, reduce uncertainty, keep expectations anchored, and maintain central bank credibility. Further hikes in the policy rate may be needed depending on the evolution of factors, including actual inflation, inflation expectations, and demand conditions,

Box 1. Updated External Economic Stress Index

The External Economic Stress Index (ESI) summarizes Colombia's external shocks and the exposure to these shocks. The main methodology is described in "Flexible Credit Line—Operational Guidance Note," IMF Policy Paper, July 2018. The index is based on four variables—standardized around their mean—that capture Colombia's external risks: level of the oil price, U.S. real GDP growth, emerging market volatility index (VXEEM), and the change in the 10-year U.S. Treasury yield. These variables and the respective weights remain unchanged from previous Colombia FCL reports. Lower values indicate higher stress.

The ESI for Colombia indicates that external stress rose in 2022. Stress at end-2022 was higher and more volatile than in 2021 as well as from the time of the FCL approval in April 2022. The main drivers for higher external stress were lower U.S. growth and higher U.S. interest rates, with higher oil prices helping to partly cushion the impact.

External Economic Stress Index
(Negative values indicate above average stress)



Source: IMF staff calculations.

Under the new baseline, external stress is projected to fall in 2023. The April 2023 WEO baseline shows lower stress during the second half of 2023 and the first half of 2024 compared to 2022, but still higher stress relative to 2019. The stress index is expected to stabilize during the next quarters as projected higher oil prices and projected unchanged U.S. interest rates are largely offset by lower projected U.S. growth.

An adverse scenario shows that external risks remain elevated. In this adverse scenario, U.S. GDP levels will be 1.2 percent lower than in the baseline in 2023 and 1.4 percent in 2024.[1] The growth shock is on average smaller than what was assumed at the time of the FCL approval (April 2022), which contributes to lower external economic stress compared with past adverse scenarios. However, it still shows that the country faces above average external risks.

[1] This assumption comes from the adverse scenario presented in the April 2023 *World Economic Outlook*, capturing lower global credit supply stemming from banking sector fragility amid tightening monetary policy, risk-off behavior, and a decline in confidence. The other assumptions in the adverse scenario are: oil prices 28 percent below baseline (about one standard deviation), the VXEEM two standard deviations above baseline, and yields 100 basis points above baseline. The oil price assumption is close to and somewhat milder than the historical shocks Colombia has faced. These assumptions are identical to those in the adverse scenarios of the FCL Requests since 2018, including the 2020 augmentation, for comparability of external stress across time.

with effective communication emphasizing that monetary policy will remain tight and data dependent. The central bank reaffirmed its commitment to reaching the inflation target in the medium-term and agreed to maintain a tight stance as conditions warrant.

- **Fiscal policy.** The envisaged fiscal adjustment for 2023 is appropriate, growth friendly, and balances well the need to reduce imbalances while increasing social support. Beyond 2023, further improvements in fiscal balances over the fiscal rule path should be considered, to strengthen the convergence of public debt to its medium-term anchor, create buffers against downside shocks, reduce financing needs, and bolster the credibility of the fiscal policy framework. The authorities are committed to continue adhering to the fiscal rule in line with Colombia's very strong fiscal policy framework.

- **Reserve accumulation**. Colombia's international reserves holdings remain adequate at about $57 billion (128 (113) percent of ARA metric excluding (including) the commodity buffer). Reserve coverage could be gradually strengthened over the medium term as market conditions allow. Meanwhile, the exchange rate should continue to be allowed to adjust flexibly to shocks as long as financial stability is not compromised. The authorities remain committed to the flexible exchange rate regime, which continues to play an important role in facilitating the needed adjustment to correct external imbalances.

- **Financial sector policies.** Continued strong oversight and proactive supervisory actions, including by raising provisioning and capital buffers as needed, remain necessary to maintain buffers and banks' preparedness against shocks, especially spillovers from an intensification of international banking sector stress. Expanding debt-service-to-income (DSTI) regulations to target household indebtedness, as per the FSAP recommendations, could complement supervisory oversight and help prevent systemic financial stability risks that cannot be addressed as directly with provisioning requirements. The recent enhancements in monitoring exposure to Central America is welcome and should continue in close collaboration with host country supervisors. Progress in implementing the 2022 FSAP recommendations and follow up actions should continue. The authorities emphasized that proactive supervision, along with adequate capital and liquidity buffers, are expected to allow the financial system to absorb potential shocks.

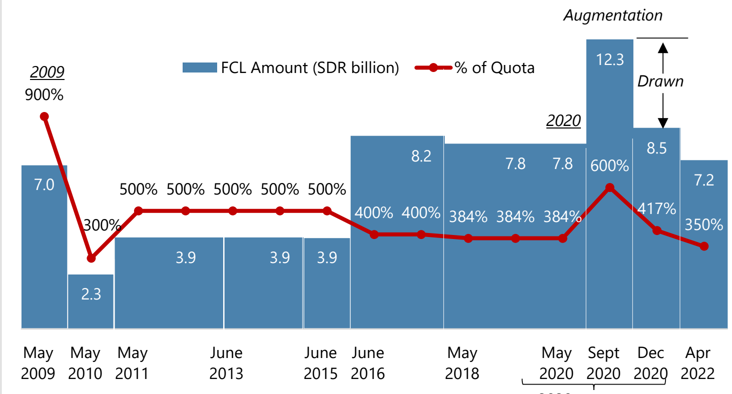
- **Structural policies.** To promote inclusive growth and enhance external competitiveness, structural reforms should address labor informality, raise financial inclusion, reduce entry barriers, and strengthen governance. The administration's equity agenda envisages improving the coverage and progressivity of the healthcare and pension systems as well as improving worker rights such as overtime pay. The reform agenda should be implemented carefully and prudently, in close consultation with relevant stakeholders, to preserve fiscal and financial stability, as well as ensure that economic incentives are well aligned. Meanwhile, reducing Colombia's reliance on oil and coal will require a well-designed and executed energy transition and export diversification plan to secure medium-term sustainability and resilience. The authorities are committed to ensure that the various reforms will be conducted in a manner consistent with Colombia's very strong policy frameworks, and to continue improving coordination in policy messages to support confidence.

FCL ACCESS AND EXIT STRATEGY

11. In view of prevailing external risks and adequate FCL coverage, the authorities are not requesting a change in access at this review. The authorities view access under the FCL of SDR7.1557 billion (350 percent of quota) as providing, along with international reserves, sufficient buffers against external risks and enhancing market confidence. The authorities intend to treat the FCL as precautionary. Under a tail risk scenario that prompts a full drawing under the FCL, Colombia's capacity to repay would remain adequate (Tables 9 and 10).

12. The authorities remain committed to gradually reduce access towards an eventual exit, risks permitting. The current access level is the lowest since 2011. Prior to the pandemic in 2020, Colombia had been steadily lowering access in successive FCL arrangements since 2015. Access declined from 500 percent of quota in 2015 to 400 percent in 2016, then to 384 percent in 2018, which was maintained until September 2020 when the arrangement was augmented to 600 percent of quota.[5] In December 2020, Colombia drew SDR3.75 billion (about US$5.4 billion) to help meet higher financing needs in the context of the pandemic, whilst maintaining strong external buffers. The authorities resumed reducing access with the current arrangement.

Historical Access to IMF Flexible Credit Line



Source: IMF staff calculations.

13. Reducing access going forward and eventually exiting from the FCL should depend on the evolution of key external risks. Exit considerations would take into account:

- **An updated assessment of relevant external risks and their evolution**. This would help identify the main conditions under which a successor FCL arrangement may be requested with lower access levels. The projected Economic Stress Index (ESI) shows that external risks may recede in the coming quarters (Box 1), which could support continued reductions in access in the future. That said, global risks remain elevated and tilted to the downside, including depending on the evolution of the banking stresses in advanced economies (¶9).
- **Policy efforts to strengthen domestic resilience to external shocks where needed**. Colombia's very strong policy frameworks—including its fiscal framework and flexible exchange rate regime—and adequate reserve position support resilience. Continued reserve accumulation over time, as conditions allow, would continue to increase resilience and effectively manage external risks, which will also facilitate a gradual exit from the FCL as risks recede durably.

ASSESSMENT OF FCL QUALIFICATION

14. Staff's assessment is that Colombia continues to meet the qualification criteria for an FCL arrangement. As described in the 2023 Article IV Staff Report, Colombia has very strong macroeconomic policies, economic fundamentals, and institutional policy frameworks. Colombia is implementing, and has a sustained track record of implementing, very strong policies. The authorities remain committed to maintaining such policies in the future, including to keep

[5] Prior to its augmentation in September 2020, the FCL arrangement initially approved on May 1, 2020, was for 384 percent of quota (SDR 7.8496 billion)—that is, *same* level of access as the 2018 FCL arrangement.

macroeconomic policies tight to reduce domestic and external imbalances, allowing the exchange rate to continue playing a shock absorbing role, and implementing structural reforms while safeguarding macroeconomic and financial stability.

- **Sustainable external position**. The external position in 2022 was assessed to be weaker than the level consistent with medium-term fundamentals and desired policy settings (2023 Article IV Staff Report, Annex II). However, over the medium term, the current account deficit is expected to narrow to around 4 percent of GDP on the back of tightening macroeconomic policies that is already underway and expected to continue in the coming year (¶10). This is consistent with Colombia's external debt stabilizing around 65 percent of GDP over the medium term, after temporarily increasing during 2023-24 (Table 11). Importantly, a number of mitigating factors support a resilient and sustainable external position (Figure 4 and 6). These include adequate level of net international reserves and reserve coverage, the relative stability of capital flows, the high share of FDI, the negative correlation between the income balance and the trade balance, a favorable level and composition of external debt with long maturities and sizable peso-denominated debt for sovereign bonds, a sustainable debt-stabilizing non-interest current account balance, high natural and financial hedges for corporate bonds, and a proven flexible exchange rate.[6]

- **Capital account position dominated by private flows**. On the stock side, international investment liabilities averaged about 127 percent of GDP during 2020-22, 76 percent of which is private. Of the private international liabilities, three quarters is FDI (Figure 4). Regarding flows, public flows (as defined in the FCL Guidance Note) accounted for about 30 percent of all direct, portfolio, and other asset and liability flows on average over the last three years. Also, the share of public flows is expected to decline to about 20 percent in 2023. FDI is expected to hover around its historical average of 4¼ percent of GDP, continuing to finance the bulk of the current account deficit. Meanwhile, private portfolio liability inflows are expected to average around half a percent of GDP per annum over the medium term.

- **Track record of steady sovereign access to international capital markets at favorable terms.** Colombia has had uninterrupted access to international capital markets at favorable terms since the early 2000s. In 2022, Colombia had access to international markets but at higher borrowing costs. Spreads increased in the second half of the year, reaching 520 bps in October, but have declined some since (by 65 bps as of mid-March) reflecting some improvements in global financing conditions and reduced uncertainties over the direction of policies (e.g., the release of the 2023 Financing Plan committing to overperform on the fiscal rule, published ahead of schedule), as well as improved coordination of policy messages across the government. Following the preemptive US$3.8 billion bond issuances in November 2022 and January 2023, external financing needs for 2023 as a whole are now fully met. During each of the last 6 years,

[6] Overall exposure to foreign-currency risks has been limited. Less than half of external public debt is denominated in foreign currency, while roughly 70 percent of all nonfinancial corporate external debt is hedged in various fashions, including through export receipts and FDI participation. Meanwhile, prudential regulations limit FX open positions in the banking sector, where debt in foreign currency represented only around 9 percent of total bank liabilities.

the public sector has had access to international markets for a cumulative amount of around 630 percent of quota, well above the FCL threshold of 50 percent of quota (Figure 4).

- **The reserve position remains relatively comfortable—notwithstanding potential balance of payments pressures that justify Fund assistance.** Gross international reserves (GIRs) are comfortably within standard reserve coverage indicators (Figure 4). GIR stood at around 135 percent of the ARA metric (excluding the commodity buffer) on average over 2019-22 (119 percent including the commodity buffer), exceeding the FCL threshold of 100 percent and has not been below 80 percent of the ARA metric in any of the last four years.

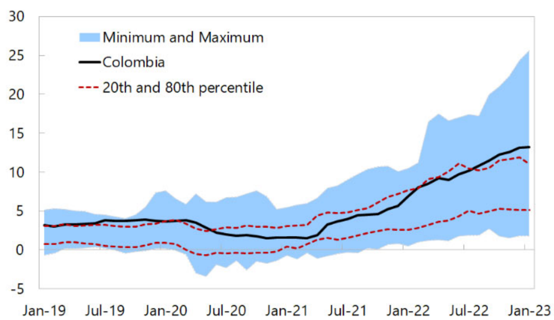
- **Sound public finances, including a sustainable public debt position.** Public sector debt is assessed to be sustainable with high probability under a wide range of plausible shock scenarios (Figures 7-14 and Annex V of the 2023 Article IV Staff Report for Colombia), with near-term gross financing needs averaging 5.8 percent of GDP during 2023-25. Under the baseline, nonfinancial public sector gross debt ratio is projected to gradually decline from around 63.6 percent of GDP in 2022 to around 58 percent in 2028. The non-oil structural primary deficit is projected to decline from 1.7 percent in 2022 to 1.0 percent of GDP in 2024 and to just below 1 percent of GDP over the medium term. Colombia's long average maturity of public debt (close to 10 years) mitigates short-term financing risks (2023 Article IV Staff Report for Colombia, Annex V). Overcompliance with the fiscal targets in 2023 is laudable and a sign of Colombia's very strong policy implementation. Adherence to the medium-term fiscal consolidation plan, guided by a primary structural deficit rule with a debt anchor, would ensure fiscal sustainability.

- **Low and stable inflation, in the context of a sound monetary and exchange rate policy**. Average annual inflation during 2000-2022 was 5.1 percent, although it reached 13.1 percent as of end-2022 reflecting a combination of external and domestic factors (¶2, Figure 1, 2023 Article IV Selected Issues Paper). The global nature of inflation is evident in the rapid rise across a number of advanced and emerging economies (text chart). The central bank has demonstrated its commitment to the inflation target by sharply raising the policy rate into a tight stance (¶3) and emphasizing the policy stance, the target, and the horizon to meet it in its recent communications, and the data-dependent approach for future policy decisions. Continued tight fiscal and monetary policies will support putting inflation on a firmly declining path towards the central bank's inflation target while also addressing external imbalances. Inflation is projected at about 8½ percent and 3½ percent for 2023 and 2024, respectively, driven by a moderation in the growth rate of international prices (food and agricultural raw materials) and normalization of supply chain constraints, and by the transition towards a more sustainable growth path. The central bank also has successfully responded to previous inflation episodes (e.g., between 2014 and 2017, chart below), reinforcing its credibility.

- **Sound financial system and absence of solvency problems that may threaten systemic stability.** The bank-dominated financial system withstood the pandemic well. It remains well-provisioned, well-capitalized and liquid. As of November 2022, the banking system's capital adequacy ratio stood at 18.0 percent, with Tier-1 capital at 14.1 percent. Both are well above regulatory limits. Banks' liquidity position was also comfortable, with an LCR of about

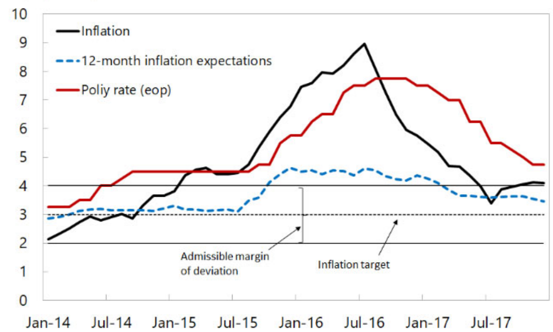
182 percent. The 2022 FSAP concluded that banks are largely resilient to solvency and liquidity shocks. Enhanced stress testing and data collection (see below) support the assessment. The recent developments in global financial markets have not had an impact on the Colombian financial system. That said, while the banking system has ample buffers, close monitoring and supervision of developments will continue to be required.

CPI Inflation:
(In percent, sample of 15 Advanced Economies and 19 Emerging Markets)



Sources: Haver Analytics, Bloomberg L.P., IMF staff elaboration.

Inflation During Oil Price Shock (2014-2016)
(In percent)



Source: Haver Analytics, IMF staff elaboration.

- **Effective financial sector supervision.** The 2022 FSAP concluded that Colombia has considerably strengthened its regulatory and supervisory frameworks. Recommendations continue to be implemented (¶10, Annex IV of the 2023 Article IV Staff Report); e.g., the role of the regulator in systemic risk monitoring and the risk management framework was strengthened, as was the role of the central bank in financial oversight. Data collection on household indebtedness and debt burden was expanded, which will help better monitor household leverage. The exposure of the Colombian banking system (in particular of the financial conglomerate industry) to Central America has grown rapidly in recent years. Central American exposure of financial conglomerates constituted about 34 percent of their consolidated assets in September 2022. In this context, the conglomerates law, approved in September 2017, is being implemented and the authorities are enhancing monitoring of the exposures to Central America. Capital and some liquidity standards are being brought in line with Basel III, including definitions of risk-weighted assets and regulatory capital. A capital requirement for operational risk was introduced in 2019:Q3. Capital conservation and systemic risk buffers are also being implemented, with a phased introduction over 2020-24 to mitigate any adverse impact on credit supply.

- **Data transparency and integrity.** Colombia's macroeconomic data continues to meet high standards. Colombia remains in observance of the Special Data Dissemination Standards (SDDS), and the authorities publish relevant data on a timely basis. A fiscal transparency evaluation took place in April 2017 and noted that in the last decade and a half, Colombia has made significant progress in terms of building strong fiscal institutions, based on good transparency practices, resulting in a relatively strong institutional framework. Colombia scores relatively high in a number of areas covered by the Fiscal Transparency Code and has begun to implement some of the recommendations, such as improved reporting of fiscal risks as demonstrated in the Medium-Term Fiscal Framework.

- **Track record**. Colombia continues to have a sustained track record of implementing very strong policies, including according to staff's assessment that all qualification criteria were met in each of the five most recent years.

15. Colombia continues to benefit from a very strong institutional policy framework. On the fiscal front, the 2021 Social Investment Law (SIL) introduced a comprehensive set of fiscal reforms, including the strengthening of the fiscal framework where the fiscal targets converge to a structural primary balance rule over the medium term with a debt anchor. The law also created a strengthened fiscal rule oversight committee (CARF) with its own staff and operational budget. Moreover, the authorities are committed to ensure that the current planned reforms (e.g., healthcare, pensions, energy transition) are formulated in compliance with the medium-term fiscal framework, a cornerstone of Colombia's very strong policy frameworks. On the monetary front, the central bank continues the implementation of the inflation targeting framework, a cornerstone of its hard-won credibility. Colombia's flexible exchange rate regime is one of the pillars of its very strong inflation targeting framework and has served the economy well. Regarding AML/CFT issues, as covered in the 2023 AIV, progress has been made in updating the correspondent banking legal framework. Efforts should continue on enhancing the AML/CFT risk-based supervision, implementing the recommendations from the 2018 Mutual Evaluation Report, and improving effective sanctioning practices.

SAFEGUARDS ASSESSMENT

16. Safeguards procedures were completed for the 2022 FCL with no significant issues identified. The procedures included review of the central bank's 2021 financial statements and KPMG Colombia's (external auditor) reports.

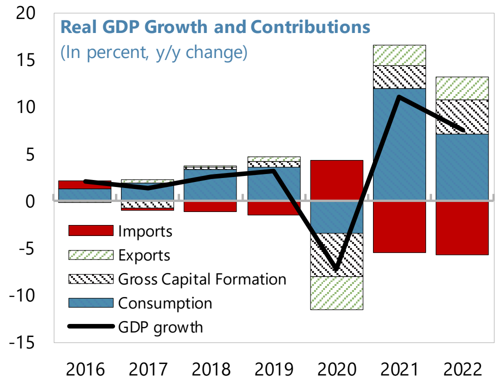
STAFF APPRAISAL

17. Colombia continues to benefit from the FCL. The FCL has helped to strengthen the country's resilience, provide an insurance against external risks, and signal the quality of its macroeconomic policies and institutional policy frameworks. The authorities remain committed to gradually reduce access under the FCL arrangement, external risks permitting.

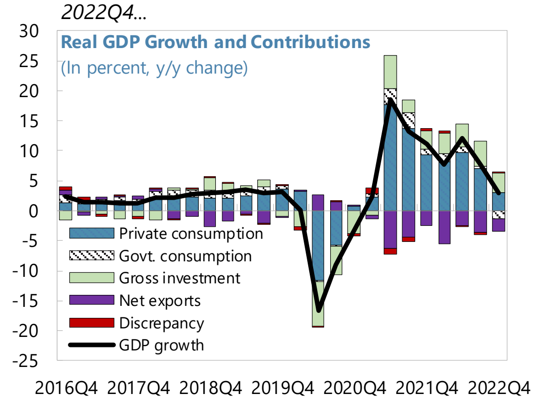
18. Colombia is assessed as meeting the qualification criteria for an FCL arrangement. As noted in the Executive Board assessment of the 2023 Article IV consultation, Colombia continues to have very strong policy frameworks, anchored by its credible inflation-targeting regime, flexible exchange rate, guiding fiscal framework, and effective financial system regulation and supervision. Colombia is implementing and has a sustained track record of implementing very strong policies, and remains committed to maintaining such policies in the future. Staff therefore recommends completion of the review under the FCL arrangement for Colombia.

Figure 1. Colombia: Recent Economic Developments

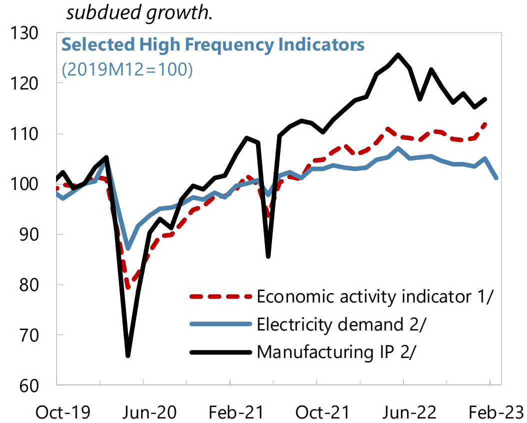
The consumption led expansion continued in 2022.



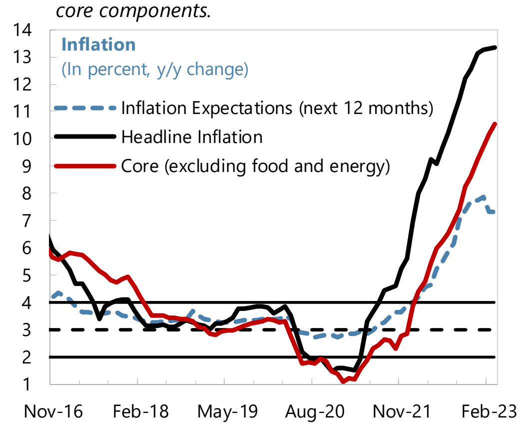
However, domestic demand started to slow in 2022Q4...



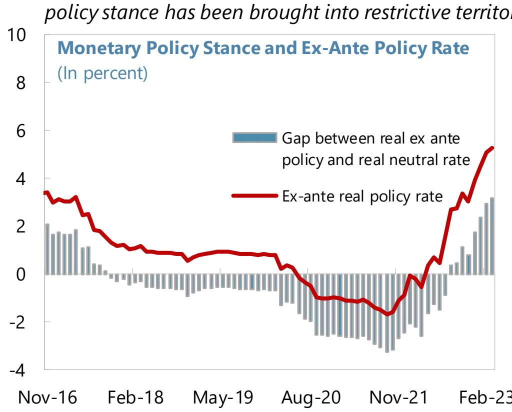
..with leading indicators pointing to more subdued growth.



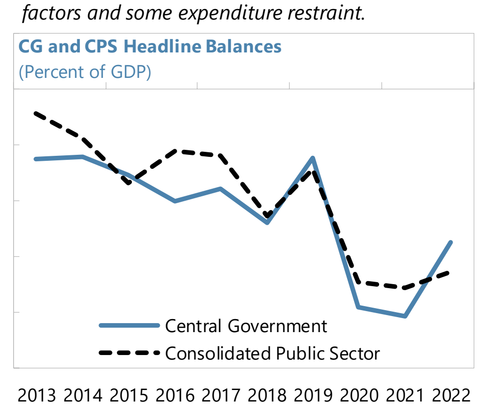
Inflation became generalized across core and non-core components.



In response to inflationary preasures, the monetary policy stance has been brought into restrictive territory.



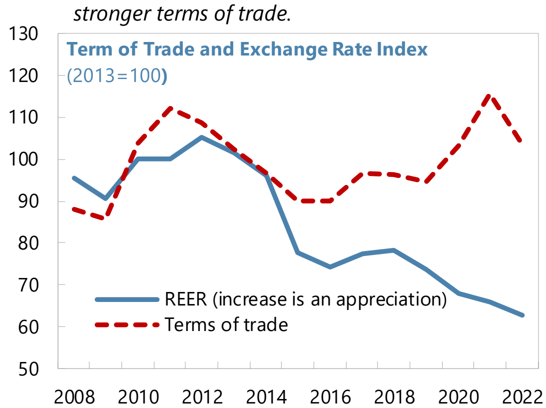
Fiscal deficits narrowed in 2022 due to cyclical factors and some expenditure restraint.



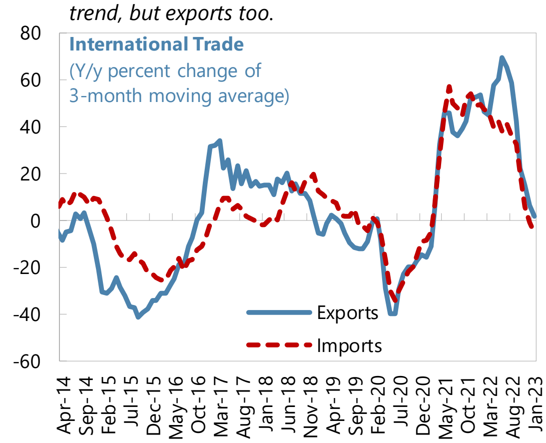
Sources: Departamento Administrativo Nacional de Estadísticas (DANE); Dirección de Impuestos y de Aduanas Nacionales (DIAN), La Fundación Para la Educación Superior y el Desarollo; Davidienda, Haver Analytics; and IMF staff estimates.
1/ Seasonally and working days adjusted.
2/ Seasonally adjusted.

Figure 2. Colombia: External Sector Developments

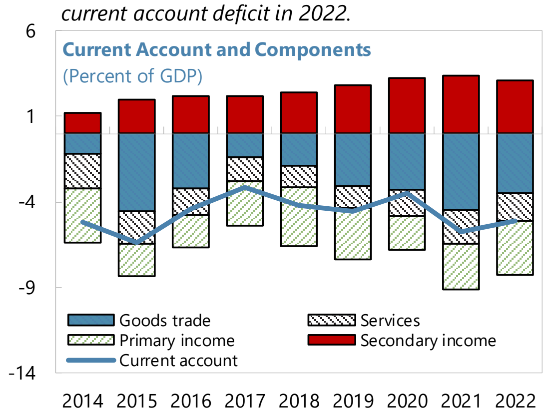
The peso weakened significanltly in 2022 despite stronger terms of trade.



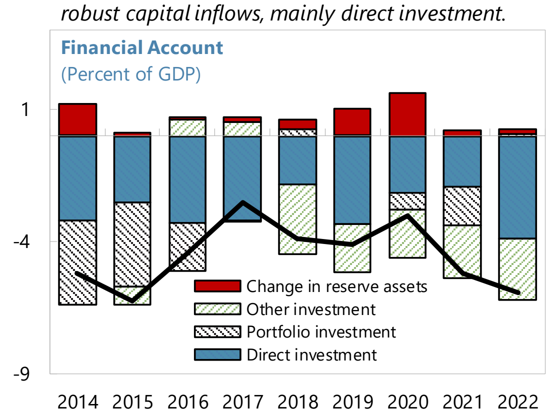
Import growth has started to show a declining trend, but exports too.



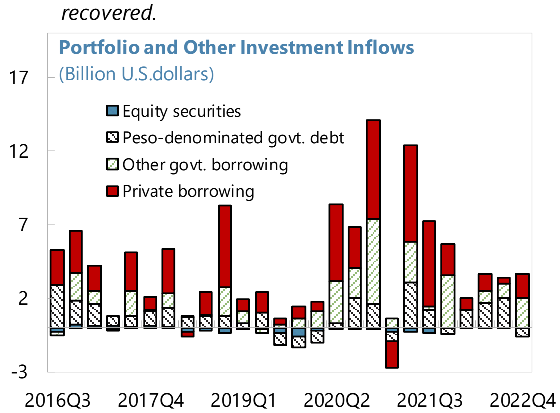
Overall, a weaker trade balance widened the current account deficit in 2022.



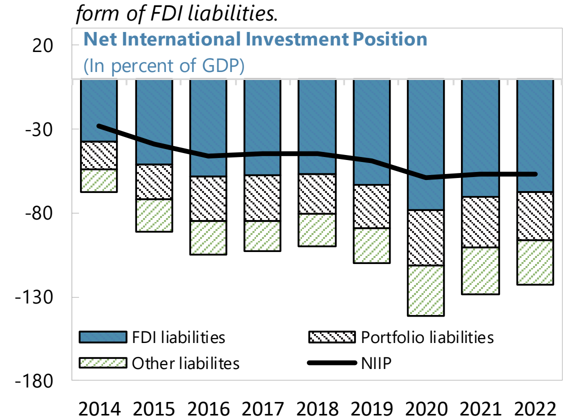
The current account has been financed by robust capital inflows, mainly direct investment.



Investor appetite for local currency bonds have recovered.

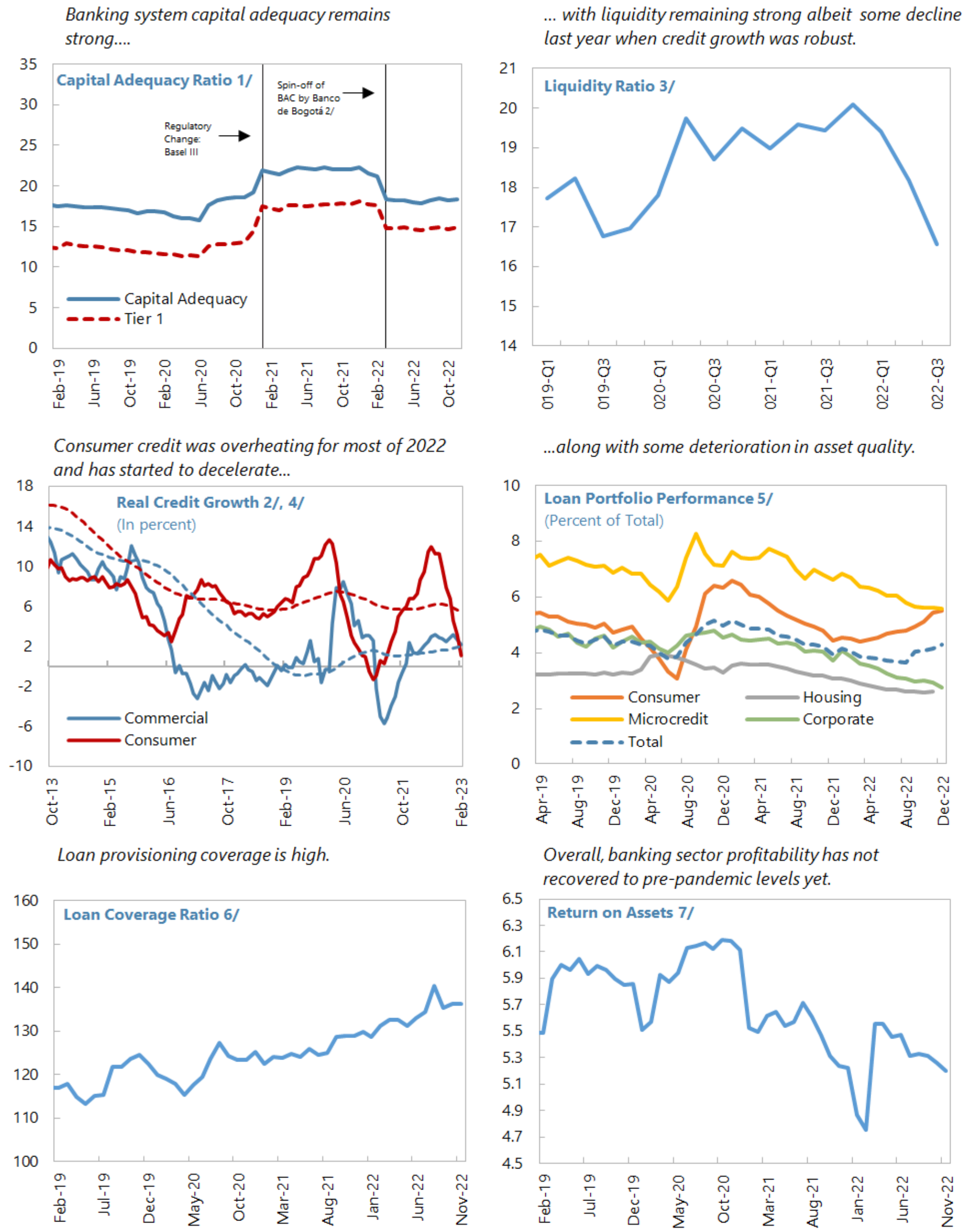


The NIIP has stabilized, and much of it is in the form of FDI liabilities.



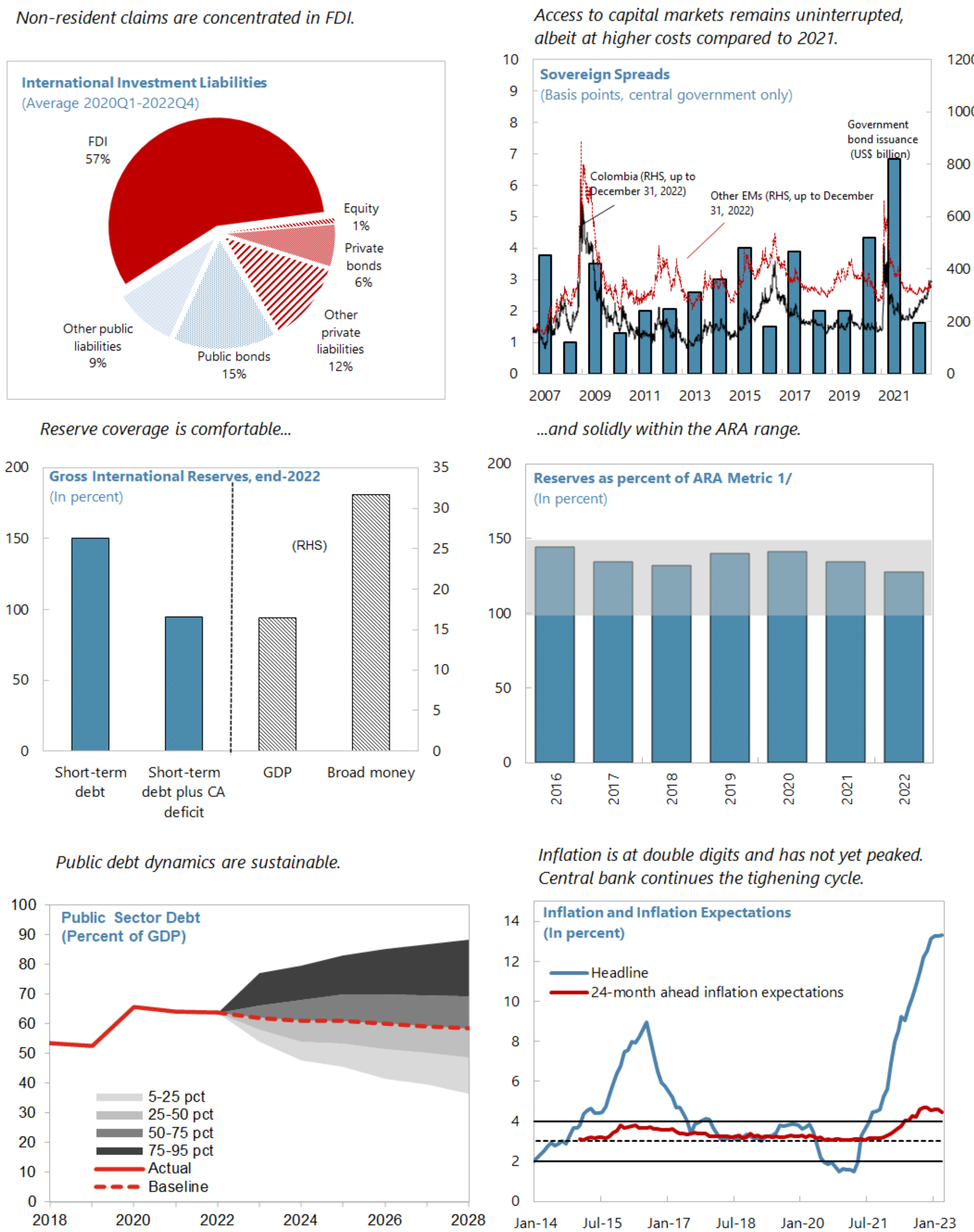
Sources: DANE; Banco de la República; Ministerio de Hacienda y Crédito Público; Haver Analytics; and IMF staff estimates.

Figure 3. Colombia: Recent Financial Developments



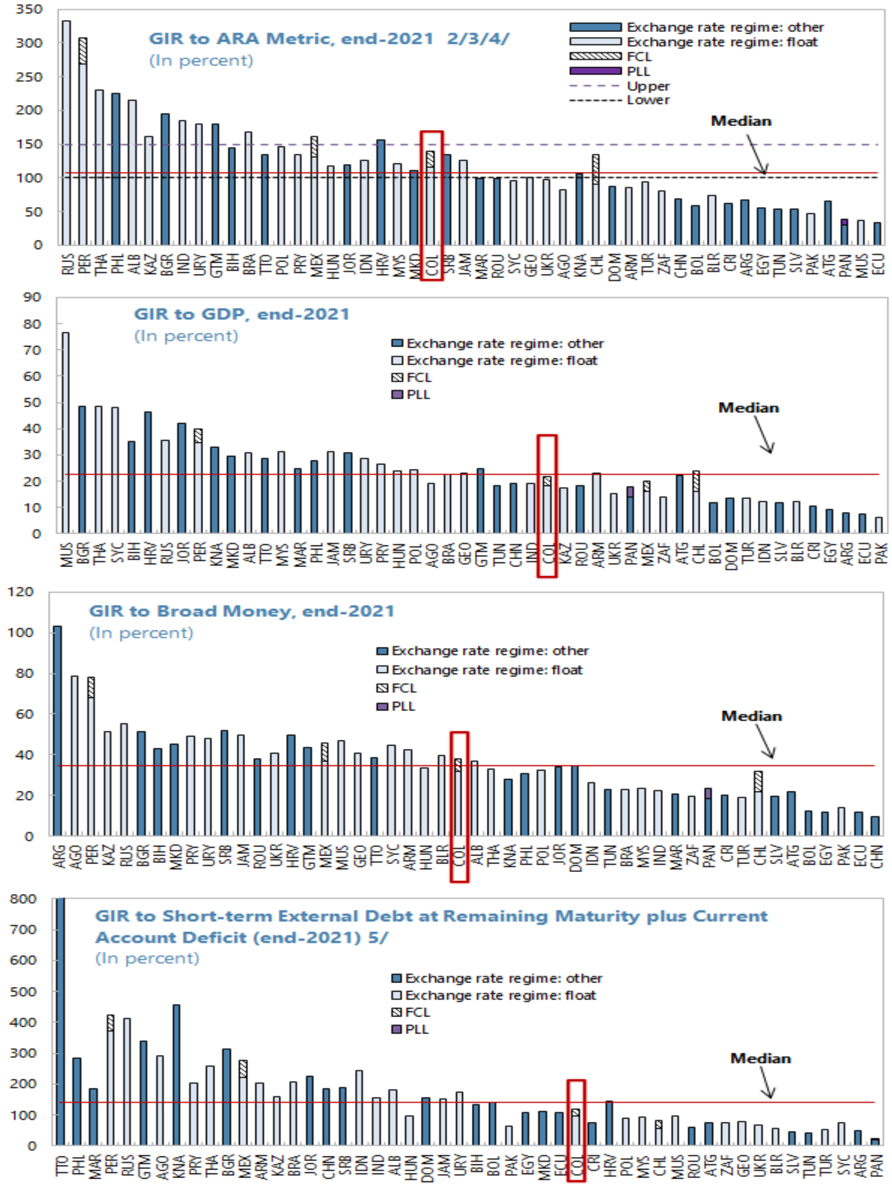
Sources: Banco de la República; DANE; Haver Analytics, IMF Financial Soundness Indicators Database, IMF staff estimates, and Superintendencia Financiera de Colombia.
1/ Capital Adequacy Ratio is defined as the ratio of capital to risk-weighted assets.
2/ The spin-off of 75 percent of BAC from Banco de Bogota reduced the capital requirement of credit institutions by 14.5 tn COP (as of November 2022).
3/ Liquidity Ratio defined as the ratio of liquid assets to total assets.
4/ Dashed lines indicate the 3-year moving average of the series of the same color.
5/ Loan Portfolio Performance defined as percent of overdue loans out of total gross loans.
6/ Loan Coverage ratio defined as the ratio of provisions to nonperforming loans.
7/ Return on Assets defined as the ratio of net returns before taxes to total assets.

Figure 4. Colombia: Flexible Credit Line Qualification Criteria



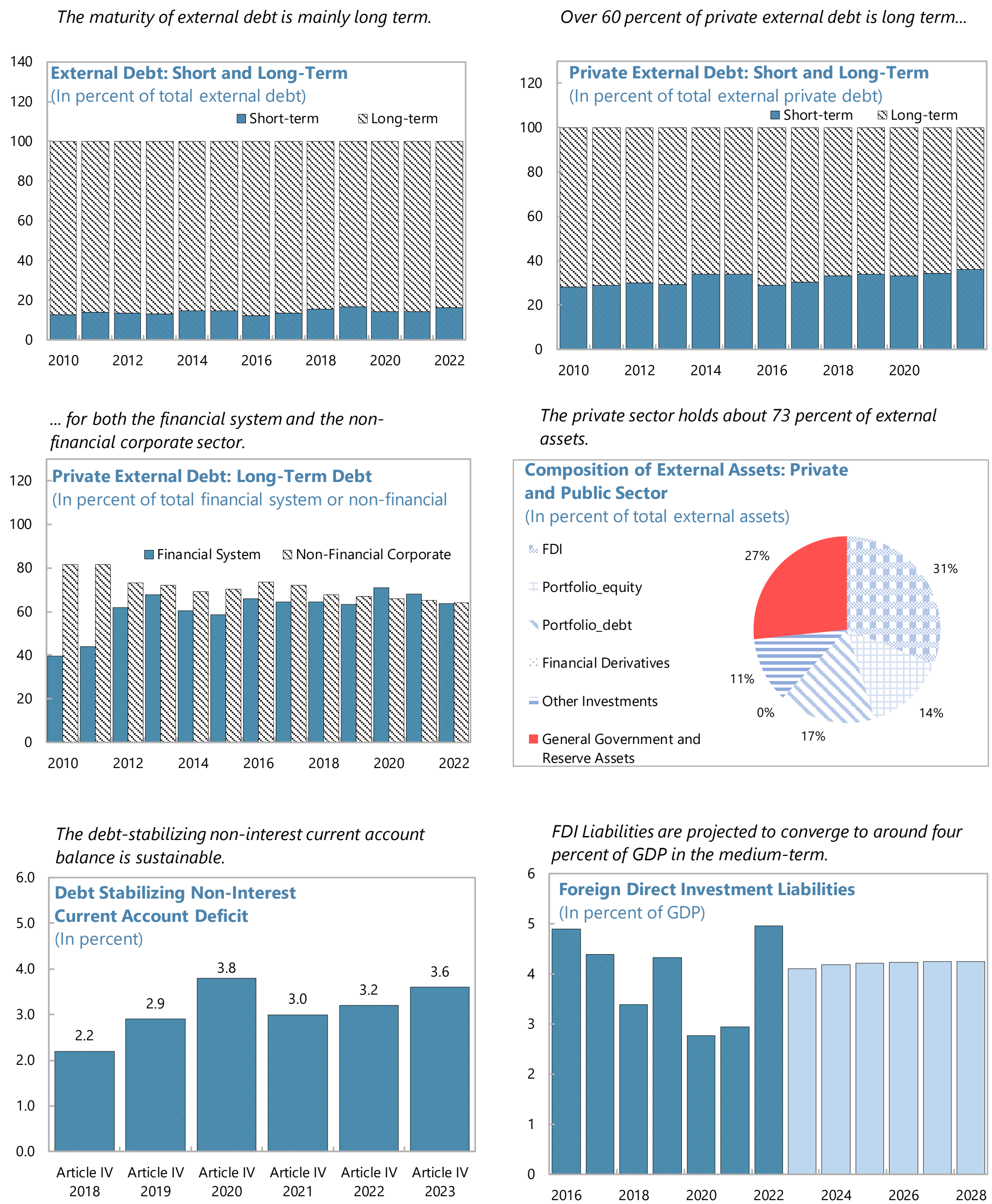
Sources: Banco de la República; Ministerio de Hacienda y Crédito Público; Datastream; Haver; and IMF staff estimates.
1/ Does not include commodity buffers. Uses metric for floating exchange rate.

Figure 5. Colombia: Reserve Coverage in an International Perspective 1/



Sources: World Economic Outlook; IFS; and IMF staff estimates.
1/ The sample of countries included in these charts includes all EMEs for which data is available. For Colombia, FCL amount refers to remaining precautionary access.
2/ The ARA metric provides a tool to help inform reserve adequacy assessments, but individual circumstances (for example, access to swap lines, market maturity, etc.) require additional judgment and, for this reason, mechanistic comparisons of the ARA metric do not provide a complete view.
3/ The ARA Metric is a weighted sum of potential drains on the BoP, depending on the country's exchange rate regime. For fixed exchange rates, ARA Metric = 10% × Exports + 10% × Broad Money + 30% × Short-term Debt + 20% × Other Liabilities. For floating exchange rates, ARA Metric = 5% × Exports + 5% × Broad Money + 30% × Short-term Debt + 15% × Other Liabilities. See "Guidance Note on the Assessment of Reserve Adequacy and Related Considerations", IMF, 2016. For Colombia, includes a commodity buffer. Without the buffer, reserves coverage excluding the FCL is 128 percent.
4/ The upper and lower lines denote the 100-150 percent range of ARA metric, which are considered broadly adequate for precautionary purposes.
5/ The current account balance is set to zero if it is in surplus.

Figure 6. Colombia: External Debt, External Assets, and Foreign Direct Investment Liabilities



Sources: Banco de la República; Haver Analytics; International Monetary Fund; IMF Staff estimates.

Figure 7. Colombia: Risk of Sovereign Stress

Horizon	Mechanical signal	Final assessment	Comments
Overall	…	Moderate	The overall risk of sovereign stress is moderate. Peso depreciation and tighter financial conditions are preventing a faster reduction in the still-elevated debt level. However, as the medium-term fiscal framework will help contain the debt path and lower financing costs, debt is projected decline over the extended 10-year period. In this regard, debt stabilization crticially depends on meeting the fiscal targets.
Near term 1/	…	…	
Medium term	Moderate	Moderate	Medium-term risks are assessed as moderate, mainly as a result of the strength of the fiscal framework in guiding fiscal policy and rebuilding buffers.
Fanchart	Moderate	…	
GFN	Moderate	…	
Stress test	...	…	
Long term	…	Moderate	While debt is projected to reach the medium-term debt anchor, the ambitious pension reform and/or a drastic shift away from oil and coal production could affect long-term fiscal sustainability.
Sustainability assessment 2/	…	Sustainable with high probability	The projected debt path is expected to stabilize and GFNs will remain at manageable levels, conditional on the sustained implementation of fiscal adjustment path set out by the fiscal rule and medium-term fiscal framework. Therefore debt is assessed as sustainable with high probability.
Debt stabilization in the baseline			Yes

DSA summary assessment

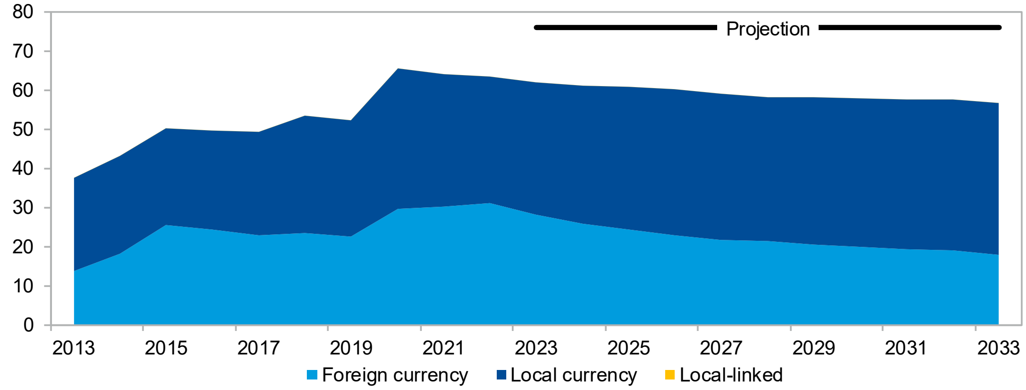
Commentary: Public sector debt is assessed to be sustainable under a wide range of plausible shock scenarios and with high probability, with moderate medium-term sovereign and financing risks. Realism scenarios suggest that the consolidation efforts going forward are somewhat ambitious. However, given tighter financing conditions at home and abroad, the tight fiscal stance and sustained implementation of fiscal plans are critical for debt stabilization. The ambitious pension reform could be an important risk to long-term fiscal sustainability.

Source: Fund staff.
Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.
1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.
2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.

Figure 8. Colombia: Public Debt Structure Indicators

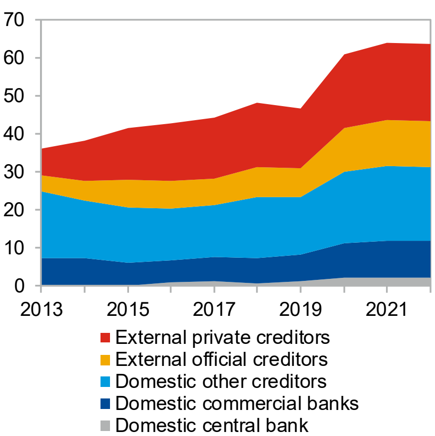
Debt by Currency (percent of GDP)

Debt by Currency (percent of GDP)



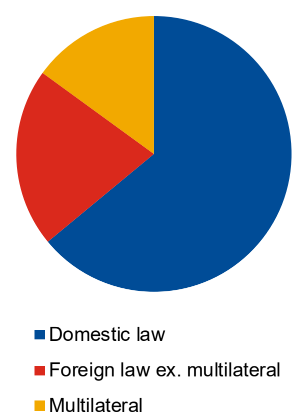
Note: The perimeter shown is nonfinancial public sector.

Public Debt by Holder (percent of GDP)



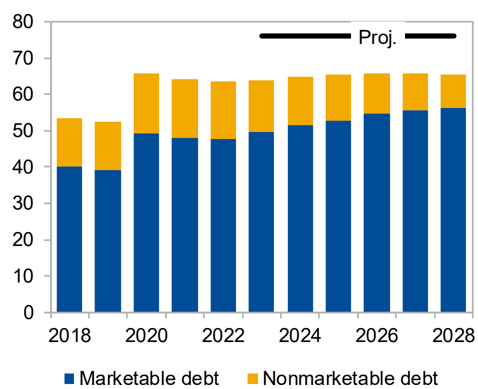
Note: The perimeter shown is nonfinancial public sector.

Public Debt by Governing Law, 2022 (percent)



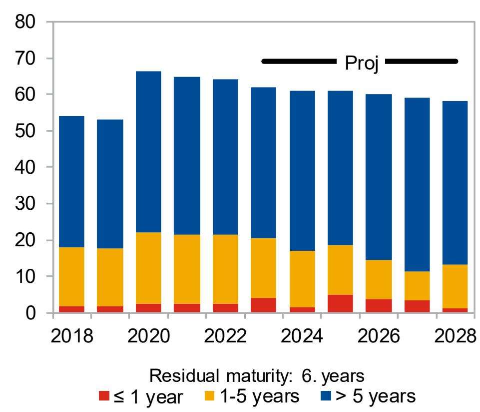
Note: The perimeter shown is nonfinancial public sector.

Debt by Instruments (percent of GDP)



Note: The perimeter shown is nonfinancial public sector.

Public Debt by Maturity (percent of GDP)



Note: The perimeter shown is nonfinancial public sector.

Commentary: The share of foreign currency debt increased during the pandemic, due in part to the partial drawdown of the FCL. Over the medium-term the share of foreign currency debt is expected to converge to historical values.

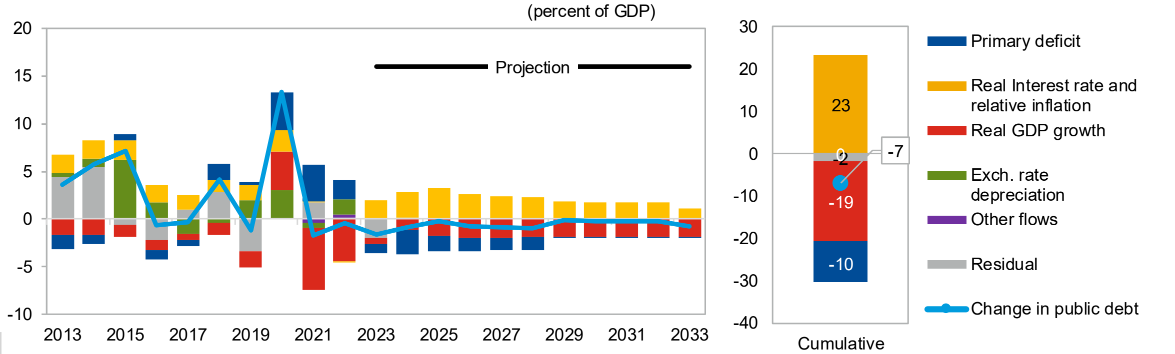
Figure 9. Colombia: Baseline Scenario

(Percent of GDP unless indicated otherwise)

	Actual	Medium-term projection						Extended projection				
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Public debt	63.6	62.0	61.1	60.9	60.1	59.2	58.3	58.2	58.0	57.8	57.5	56.7
Change in public debt	-0.4	-1.6	-0.9	-0.2	-0.8	-0.9	-0.9	-0.1	-0.2	-0.2	-0.3	-0.8
Contribution of identified flows	-0.6	0.3	-1.0	-0.2	-0.8	-0.9	-0.9	-0.1	-0.2	-0.2	-0.3	-0.8
Primary deficit	2.0	-1.0	-2.5	-1.7	-1.4	-1.3	-1.3	-0.1	-0.1	-0.1	-0.1	-0.1
Noninterest revenues	27.6	31.4	32.1	31.0	30.6	30.7	30.7	29.8	30.3	30.4	31.0	31.0
Noninterest expenditures	29.6	30.4	29.6	29.3	29.2	29.4	29.4	29.7	30.2	30.3	30.9	30.9
Automatic debt dynamics	-2.9	1.4	1.5	1.4	0.7	0.4	0.4	0.0	-0.1	-0.1	-0.2	-0.7
Real interest rate and relative inflation	-0.1	2.0	2.7	3.2	2.6	2.3	2.3	1.9	1.7	1.8	1.7	1.2
Real interest rate	-2.8	0.4	2.3	3.0	2.4	2.1	2.1	1.7	1.6	1.6	1.5	0.8
Relative inflation	2.8	1.6	0.4	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.4
Real growth rate	-4.5	-0.6	-1.2	-1.7	-2.0	-1.9	-1.9 .	-1.9	-1.9	-1.9	-1.9	-1.9
Real exchange rate	1.6	…	…	…	…	…	… .	…	…	…	…	…
Other identified flows	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contingent liabilities	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other transactions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contribution of residual	0.2	-2.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross financing needs	9.6	6.9	6.0	4.6	7.4	6.0	5.9	4.4	6.2	4.1	3.6	6.5
of which: debt service	7.3	7.9	8.5	6.2	8.8	7.3	7.2	4.5	6.3	4.2	3.7	6.6
Local currency	5.4	4.6	5.1	4.1	6.6	5.2	5.4	3.3	5.3	3.2	3.2	5.1
Foreign currency	1.9	3.3	3.5	2.2	2.2	2.1	1.8	1.2	1.0	1.0	0.6	1.5
Memo:												
Real GDP growth (percent)	7.5	1.0	1.9	2.9	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3
Inflation (GDP deflator; percent)	14.2	8.0	3.9	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	4.0
Nominal GDP growth (percent)	22.7	9.0	5.9	6.0	6.5	6.4	6.4	6.4	6.4	6.4	6.4	7.5
Effective interest rate (percent)	8.8	8.7	7.8	8.1	7.2	6.8	6.8	6.1	5.8	5.9	5.8	5.5

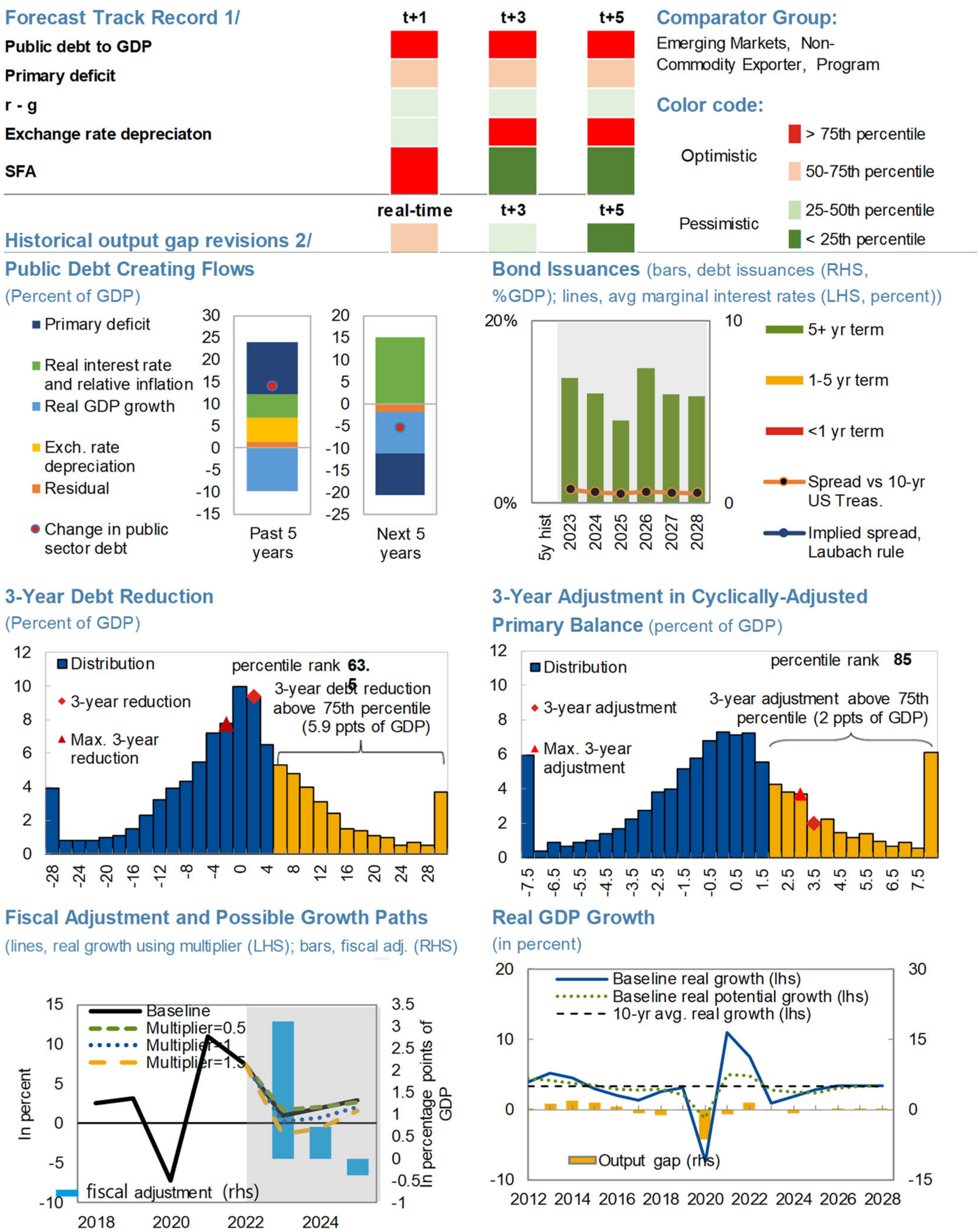
Contribution to Change in Public Debt

(percent of GDP)



Staff commentary: Public debt will stabilize, reflecting expectations of a narrowing of primary deficits (driven by sustained primary surpluses at the central government level) and stable economic conditions.

Figure 10. Colombia: Realism of Baseline Assumptions



Commentary: While the fiscal adjustment appears large, it is guided by a fiscal rule and medium-term fiscal framework that is sanctioned by law. Adherence to the fiscal consolidation path is critical for debt stabilization.

Source : IMF Staff.

1/ Projections made in the October and April WEO vintage. Program status not used in creating comparator group due to lack of data.

2/ Data cover annual observations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical axis.

Figure 11. Colombia: Medium-Term Risk Analysis

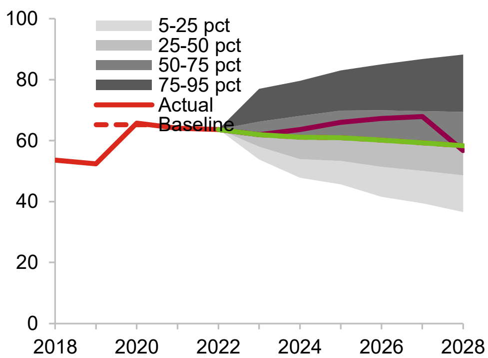
Debt Fanchart and GFN Financeability Indexes

(percent of GDP unless otherwise indicated)

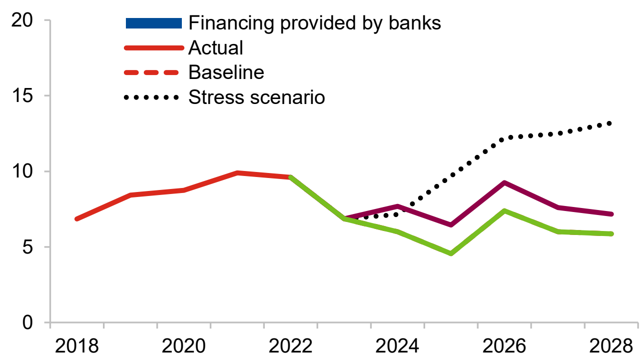
Module	Indicator	Value	Risk Index	Risk Signal	Adv. Econ., Non-Com. Exp, Program (0 25 50 75 100)
Debt Fanchart Module	Fanchart width	51.7	0.8	…	
	Probability of debt not stabilizing (pct)	24.5	0.2	…	
	Terminal debt level x institutions index	33.1	0.7	…	
	Debt fanchart index	**…**	**1.7**	**Moderate**	
GFN Finance-Ability Module	Average GFN in baseline	6.1	2.1	…	
	Bank claims on government (pct bank assets)	10.3	3.3	…	
	Chg. in claims on govt. in stress (pct bank assets)	10.9	3.6	…	
	GFN Financeability Index	**…**	**9.0**	**Moderate**	

Legend: Interquartile Range; Colombia

Final Fanchart (pct of GDP)



Gross Financing Needs (pct of GDP)

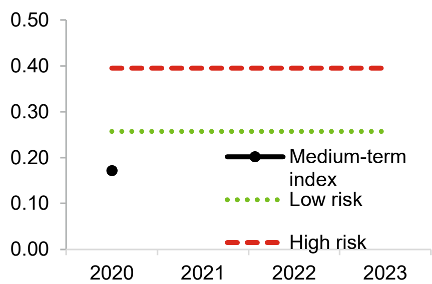


Triggered stress tests (stress tests not activated in gray)

Banking Crisis | Commodity Prices | Exchange Rate | Contingent liab. | Natural disaster

Medium-Term Index

(index number)



Medium-Term Risk Analysis

	Low Risk Threshold	High Risk Thresold	Weight in MTI	Normalized Level
Debt Fanchart Index	1.1	2.1	0.5	0.4
GFN Finaceability Index	7.6	17.9	0.5	0.2
Medium-Term Index (MTI)	0.3	0.4	…	0.3, Moderate

Prob. of missed crisis, 2023-2028 (if stress not predicted): 18.2 pct.

Prob. of false alarm, 2023-2028 (if stress predicted): 38.6 pct.

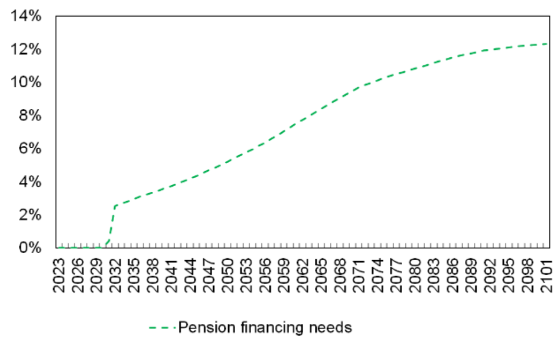
Commentary: The medium-term analysis suggests a moderate level of risks of sovereign stress over that time horizon. The main issue suggested by the analysis is the possibility of substantial increases in the public debt ratio under low probability downside scenarios. However, this risk is contained as Colombia has set a debt limit of 70 percent of GDP (at the central government level). The stress of gross financing needs under a stress scenario is moderate.

Figure 12. Colombia: Long-Term Risk Analysis

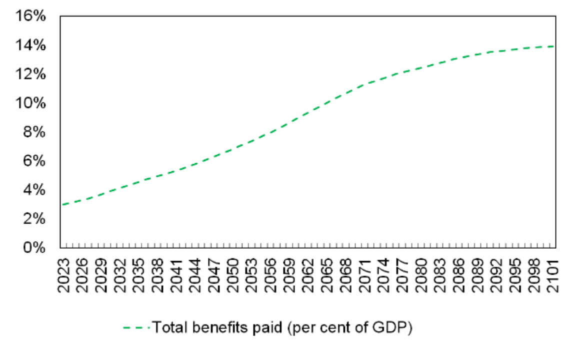
Demographics: Pension

Permanent adjustment needed in the pension system (pp of GDP per year)	To keep pension assets positive for:		
	30 years	50 years	Until 2100
	2.88%	5.03%	7.70%

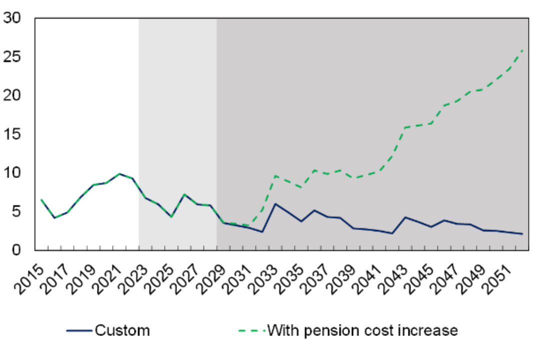
Pension Financing Needs



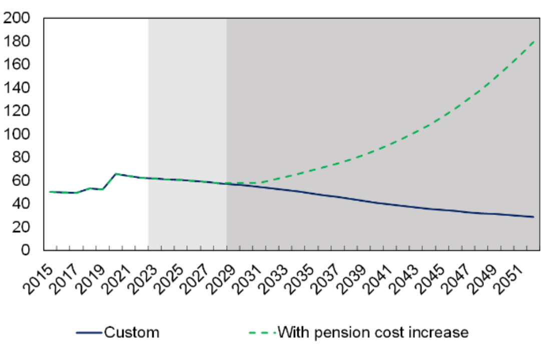
Total Benefits Paid



GFN-to-GDP Ratio

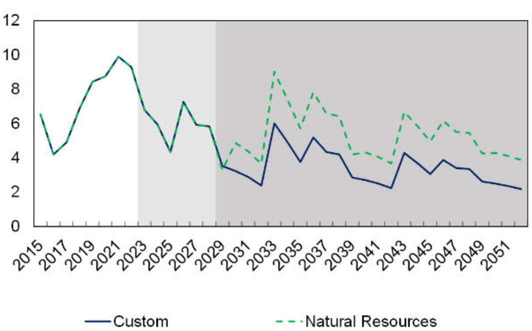


Total Public Debt-to-GDP Ratio



Natural Resources

GFN-to-GDP Ratio



Total Public Debt-to-GDP Ratio

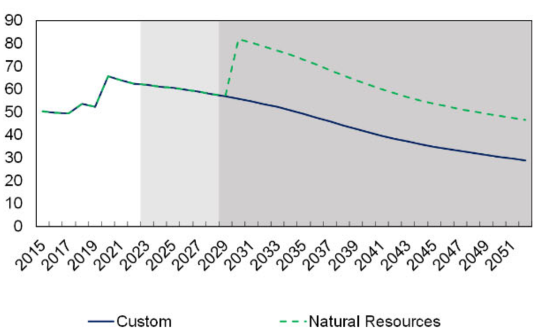


Table 1. Colombia: Selected Economic and Financial Indicators, 2019-28

I. Social and Demographic Indicators

Population (million), 2022. Projection	51.6	Unemployment rate, 2022 (SA, percent)	11.3
Urban population (percent of total), 2020	81.4	Physicians (per 1,000 people), 2018	3.8
GDP, 2022		Adult illliteracy rate (ages 15 and older), 2020	4.4
Per capita (US$)	6,665	Net secondary school enrollment rate, 2018	77.5
In billion of Col$	1,463,873	Gini coefficient, 2021	52.3
In billion of US$	344	Poverty rate, 2021	39.3
Life expectancy at birth (years), 2019	76.8		
Mortality rate, (under 5, per 1,000 live births), 2020	13.2		

II. Economic Indicators

	2019	2020	2021	2022[1/]	2023	2024	Projections 2025	2026	2027	2028
	(In percentage change, unless otherwise indicated)									
National income and prices										
Real GDP	3.2	-7.3	11.0	7.5	1.0	1.9	2.9	3.3	3.3	3.3
Potential GDP	2.1	-1.2	5.0	4.8	2.7	2.5	2.4	3.1	3.3	3.3
Output Gap	-0.2	-6.4	-1.0	1.6	-0.2	-0.8	-0.2	0.0	0.0	0.0
GDP deflator	4.0	1.5	7.7	14.2	8.0	3.9	3.0	3.0	3.0	3.0
Consumer prices (average)	3.5	2.5	3.5	10.2	10.9	5.4	3.0	3.0	3.0	3.0
Consumer prices, end of period (eop)	3.8	1.6	5.6	13.1	8.4	3.5	3.0	3.0	3.0	3.0
Nominal GDP (In Col$ trillion)	1,060	998	1,193	1,464	1,595	1,690	1,791	1,907	2,029	2,160
External sector										
Exports (f.o.b.)	-5.4	-20.5	32.3	39.8	-9.5	-1.0	0.4	1.6	1.7	3.1
Imports (f.o.b.)	2.3	-18.5	37.7	26.2	-8.1	-1.2	-0.4	1.1	2.8	3.2
Terms of trade (deterioration -)	-2.3	-1.6	5.3	19.7	-10.7	-4.5	-2.5	-2.0	-1.4	-1.5
Real exchange rate (depreciation -) 2/	-5.9	-7.7	-3.2	-4.8	...	...	...	...	...	
Money and credit										
Broad money	10.0	10.3	13.6	11.2	6.4	6.9	7.0	7.0	7.0	7.0
Credit to the private sector	11.6	-0.8	12.5	16.8	7.1	7.4	7.5	7.5	7.5	7.5
Policy rate, eop	4.3	1.8	3.0	12.0	...	...	...	...	...	...
	(In percent of GDP)									
Central government balance 3/	-2.5	-7.8	-8.1	-5.5	-3.8	-3.6	-3.4	-3.0	-2.9	-2.8
Central government structural balance 4/	-2.3	-6.1	-7.3	-4.6	-3.0	-3.8	-3.7	-3.2	-2.2	-1.2
Consolidated public sector (CPS) balance 5/	-2.9	-6.9	-7.1	-6.6	-3.8	-1.8	-2.2	-2.3	-2.2	-1.9
CPS non-oil structural primary balance	-2.0	-4.3	-4.9	-4.6	-2.1	-0.5	-1.2	-1.2	-1.0	-0.8
CPS fiscal impulse	0.8	2.3	0.6	-0.3	-2.5	-1.6	0.7	0.0	-0.2	-0.1
Public sector gross debt 6/	52.4	65.7	64.0	63.6	62.0	61.1	60.9	60.1	59.2	58.3
Gross domestic investment	21.4	19.1	19.0	21.8	20.8	21.0	21.4	22.0	22.3	22.4
Gross national savings	16.8	15.6	13.3	15.6	15.6	16.4	17.1	17.9	18.2	18.4
Current account (deficit -)	-4.6	-3.5	-5.6	-6.2	-5.1	-4.6	-4.3	-4.1	-4.1	-4.0
External Financing Needs 7/	15.3	18.1	17.6	17.6	18.3	18.7	17.6	17.8	17.7	17.1
External debt	50.1	66.6	62.2	63.0	68.1	68.3	67.9	66.8	65.9	65.4
	(In percent of exports of goods and services)									
External debt service	77.8	113.0	84.9	63.8	77.7	86.6	85.4	90.0	91.9	90.1
Interest payments	14.7	17.0	13.5	11.6	14.3	15.5	15.3	15.2	15.5	15.6
	(In billion of U.S. dollars; unless otherwise indicated)									
Exports (f.o.b.)	40.7	32.3	42.7	59.8	54.1	53.5	53.7	54.6	55.5	57.2
Of which: Petroleum products	16.0	8.8	13.5	18.9	16.3	15.4	14.7	14.5	14.1	14.1
Gross international reserves 8/	52.7	58.5	58.0	56.7	57.8	59.1	59.8	60.4	61.1	61.8

Sources: Colombian authorities; UNDP Human Development Report; World Development Indicators; and IMF staff estimates.
1/ Estimate for monetary sector variables (except for policy rate) and fiscal sector variables.
2/ Based on bilateral COL Peso/USD exchange rate.
3/ For 2021 excludes privatization receipts worth 1.1 percent of GDP that, under GFSM 1986 which is used by the authorities, produces a headline deficit of -7.0 percent of GDP.
4/ IMF staff estimate, excludes one-off recognition of arrears.
5/ Includes the quasi-fiscal balance of Banco de la República, sales of assets, phone licenses, and statistical discrepancy. For 2021 excludes privatization receipts, see 3/ above.
6/ Includes Ecopetrol, Fogafin, and Finagro.
7/ Current account deficit plus amortization due including holdings of locally issued public debt (TES).
8/ Excludes Colombia's contribution to FLAR; includes valuation changes of reserves denominated in currencies other than U.S. dollars.

Table 2a. Colombia: Summary Balance of Payments, 2019-28 1/
(In millions of US$, unless otherwise indicated)

					Projections					
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Current account balance	**-14,808**	**-9,346**	**-17,981**	**-21,446**	**-17,157**	**-16,011**	**-15,623**	**-15,894**	**-16,785**	**-17,091**
Goods balance	-9,863	-8,870	-13,984	-11,818	-11,690	-11,474	-11,041	-10,880	-11,793	-12,270
Exports, f.o.b.	40,656	32,309	42,736	59,764	54,060	53,512	53,707	54,582	55,521	57,223
Commodities	26,866	18,204	25,532	39,215	33,548	32,192	31,469	31,765	31,765	32,348
Fuel	15,962	8,755	13,514	18,938	16,251	15,378	14,674	14,525	14,061	14,148
Non-fuel	10,904	9,449	12,017	20,277	17,297	16,814	16,795	17,241	17,704	18,200
Non-traditional exports	10,571	9,733	12,310	14,493	14,317	14,853	15,474	15,809	16,433	17,198
Other	3,219	4,372	4,894	6,056	6,195	6,467	6,764	7,008	7,323	7,677
Imports, f.o.b.	50,518	41,179	56,719	71,582	65,750	64,986	64,747	65,463	67,314	69,493
Consumer goods	11,868	10,027	12,244	14,363	12,996	12,696	12,633	12,667	12,993	13,512
Intermediate goods	21,665	17,743	27,301	34,951	32,148	32,050	31,889	32,295	33,450	34,451
Capital goods	15,646	12,436	15,733	20,440	18,801	18,367	18,275	18,507	18,799	19,362
Other	1,338	972	1,441	1,827	1,805	1,873	1,951	1,993	2,072	2,168
Services balance	-4,283	-4,220	-6,049	-4,761	-4,104	-4,796	-5,142	-5,635	-5,848	-5,831
Exports of services	10,668	5,915	8,081	12,733	12,970	12,709	12,870	13,020	13,563	14,404
Imports of services	14,952	10,135	14,129	17,494	17,074	17,504	18,012	18,655	19,410	20,235
Primary income balance	-9,717	-5,044	-8,723	-17,209	-13,735	-11,823	-11,891	-12,220	-12,385	-12,644
Receipts	6,976	4,448	5,932	6,850	8,012	8,275	8,205	8,083	8,455	8,872
Expenditures	16,693	9,493	14,656	24,059	21,747	20,098	20,096	20,303	20,840	21,516
Secondary income balance	9,055	8,788	10,775	12,342	12,372	12,082	12,451	12,840	13,241	13,655
Financial account balance	**-13,298**	**-8,161**	**-16,513**	**-20,460**	**-17,157**	**-16,011**	**-15,623**	**-15,894**	**-16,785**	**-17,091**
Direct Investment	-10,836	-5,772	-6,209	-13,327	-10,536	-11,267	-12,057	-12,879	-13,713	-14,586
Assets	3,153	1,686	3,181	3,720	3,195	3,263	3,323	3,383	3,445	3,508
Liabilities	13,989	7,459	9,390	17,048	13,731	14,530	15,379	16,263	17,158	18,094
Oil sector	2,755	457	736	3,074	2,242	2,242	2,242	2,242	2,242	2,242
Non-oil sectors	11,234	7,731	8,654	13,974	11,489	12,288	13,137	14,020	14,915	15,852
Portfolio Investment	24	-1,768	-4,586	265	-3,783	-3,886	-5,684	-3,109	-3,384	-3,457
Assets	315	5,747	3,760	3,145	1,288	1,326	1,289	1,249	1,205	1,165
Liabilities	291	7,515	8,347	2,880	5,071	5,212	6,973	4,358	4,589	4,622
Equity	-1,232	-454	-1,189	-551	-36	-38	-39	-42	626	660
Debt instruments	1,523	7,969	9,536	3,431	5,107	5,249	7,012	4,399	3,962	3,962
General government	366	6,124	6,774	5,016	4,107	2,749	4,512	2,649	2,212	2,212
Banks	60	-328	827	-1,374	500	1,000	1,000	750	750	750
Corporates and households	1,097	2,172	1,934	-211	500	1,500	1,500	1,000	1,000	1,000
Derivatives	84	-513	365	823	0	0	0	0	0	0
Other Investments	-5,904	-4,435	-6,736	-8,792	-3,962	-2,089	1,348	-454	-353	169
Assets 1/	-3,476	3,485	2,771	4,301	-953	-1,093	1,493	877	2,050	4,832
Liabilities	2,428	7,921	9,507	13,093	3,010	996	145	1,331	2,404	4,663
Net use of IMF Credit (General Government)	0	5,370	0	0	0	-2,685	-2,563	0	0	0
Change in reserve assets	3,333	4,328	654	571	1,124	1,232	769	548	665	783
Net errors and omissions	**1,509**	**1,186**	**1,468**	**986**	**0**	**0**	**0**	**0**	**0**	**0**
Memorandum items:										
Export volume	3.1	-22.7	15.9	7.6	1.3	1.4	1.9	2.3	2.2	3.4
Import volume	7.3	-19.9	26.7	13.5	-9.0	-2.3	-0.9	0.3	1.6	1.7
Brent Crude Oil Price (US$/barrel)	64	43	71	99	84	79	75	72	70	68

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

1/ Includes liquidation of government assets held abroad of US$ 3 billion in 2020. Of the FCL purchase, US$ 3.9 billion was held abroad as government international liquidity as at end-2020 for use in 2021.

Table 2b. Colombia: Summary Balance of Payments, 2019-28 1/

(In Percent of GDP)

					Projections					
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Current account balance	**-4.6**	**-3.5**	**-5.6**	**-6.2**	**-5.1**	**-4.6**	**-4.3**	**-4.1**	**-4.1**	**-4.0**
Goods balance	-3.1	-3.3	-4.4	-3.4	-3.5	-3.3	-3.0	-2.8	-2.9	-2.9
Exports, f.o.b.	12.6	12.0	13.4	17.4	16.2	15.4	14.7	14.2	13.7	13.4
Commodities	8.3	6.7	8.0	11.4	10.0	9.3	8.6	8.3	7.8	7.6
Fuel	4.9	3.2	4.2	5.5	4.9	4.4	4.0	3.8	3.5	3.3
Non-fuel	3.4	3.5	3.8	5.9	5.2	4.8	4.6	4.5	4.4	4.3
Non-traditional exports	3.3	3.6	3.9	4.2	4.3	4.3	4.2	4.1	4.1	4.0
Other	1.0	1.6	1.5	1.8	1.9	1.9	1.9	1.8	1.8	1.8
Imports, f.o.b.	15.6	15.2	17.8	20.8	19.6	18.7	17.8	17.0	16.6	16.3
Consumer goods	3.7	3.7	3.8	4.2	3.9	3.7	3.5	3.3	3.2	3.2
Intermediate goods	6.7	6.6	8.6	10.2	9.6	9.2	8.7	8.4	8.3	8.1
Capital goods	4.8	4.6	4.9	5.9	5.6	5.3	5.0	4.8	4.6	4.5
Other	0.4	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Services balance	-1.3	-1.6	-1.9	-1.4	-1.2	-1.4	-1.4	-1.5	-1.4	-1.4
Exports of services	3.3	2.2	2.5	3.7	3.9	3.7	3.5	3.4	3.3	3.4
Imports of services	4.6	3.8	4.4	5.1	5.1	5.0	4.9	4.9	4.8	4.7
Primary income balance	-3.0	-1.9	-2.7	-5.0	-4.1	-3.4	-3.3	-3.2	-3.1	-3.0
Receipts	2.2	1.6	1.9	2.0	2.4	2.4	2.3	2.1	2.1	2.1
Expenditures	5.2	3.5	4.6	7.0	6.5	5.8	5.5	5.3	5.1	5.0
Secondary income balance	2.8	3.3	3.4	3.6	3.7	3.5	3.4	3.3	3.3	3.2
Financial account balance	**-4.1**	**-3.0**	**-5.2**	**-5.9**	**-5.1**	**-4.6**	**-4.3**	**-4.1**	**-4.1**	**-4.0**
Direct Investment	-3.4	-2.1	-1.9	-3.9	-3.1	-3.2	-3.3	-3.4	-3.4	-3.4
Assets	1.0	0.6	1.0	1.1	1.0	0.9	0.9	0.9	0.9	0.8
Liabilities	4.3	2.8	2.9	5.0	4.1	4.2	4.2	4.2	4.2	4.2
Oil sector	0.9	0.2	0.2	0.9	0.7	0.6	0.6	0.6	0.6	0.5
Non-oil sectors	3.5	2.9	2.7	4.1	3.4	3.5	3.6	3.6	3.7	3.7
Portfolio Investment	0.0	-0.7	-1.4	0.1	-1.1	-1.1	-1.6	-0.8	-0.8	-0.8
Assets	0.1	2.1	1.2	0.9	0.4	0.4	0.4	0.3	0.3	0.3
Liabilities	0.1	2.8	2.6	0.8	1.5	1.5	1.9	1.1	1.1	1.1
Equity	-0.4	-0.2	-0.4	-0.2	0.0	0.0	0.0	0.0	0.2	0.2
Debt instruments	0.5	2.9	3.0	1.0	1.5	1.5	1.9	1.1	1.0	0.9
General government	0.1	2.3	2.1	1.5	1.2	0.8	1.2	0.7	0.5	0.5
Banks	0.0	-0.1	0.3	-0.4	0.1	0.3	0.3	0.2	0.2	0.2
Corporates and households	0.3	0.8	0.6	-0.1	0.1	0.4	0.4	0.3	0.2	0.2
Derivatives	0.0	-0.2	0.1	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Other Investments	-1.8	-1.6	-2.1	-2.6	-1.2	-0.6	0.4	-0.1	-0.1	0.0
Assets 1/	-1.1	1.3	0.9	1.3	-0.3	-0.3	0.4	0.2	0.5	1.1
Liabilities	0.8	2.9	3.0	3.8	0.9	0.3	0.0	0.3	0.6	1.1
Net use of IMF Credit	0.0	2.0	0.0	0.0	0.0	-0.8	-0.7	0.0	0.0	0.0
Change in Reserve Assets	1.0	1.6	0.2	0.2	0.3	0.4	0.2	0.1	0.2	0.2
Net errors and omissions	**0.5**	**0.4**	**0.5**	**0.3**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

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

1/ Includes liquidation of government assets held abroad of US$ 3 billion in 2020. Of the FCL purchase, US$ 3.9 billion was held abroad as government international liquidity as at end-2020 for use in 2021.

Table 3. Colombia: Operations of the Central Government, 2019-28 1/

(In percent of GDP, unless otherwise indicated)

	2019	2020	2021	2022 2/	Projections 2023	2024	2025	2026	2027	2028
Total revenue	**16.2**	**15.3**	**15.0**	**16.3**	**20.5**	**20.0**	**19.4**	**19.2**	**19.1**	**19.1**
Current revenue 3/	**14.1**	**13.3**	**13.7**	**14.8**	**18.4**	**18.2**	**17.7**	**17.6**	**17.7**	**17.6**
Tax revenue	**14.0**	**13.1**	**13.6**	**14.5**	**18.1**	**17.9**	**17.4**	**17.4**	**17.4**	**17.4**
Net income tax and profits	6.4	6.2	6.1	6.0	8.1	8.1	7.7	7.9	8.0	7.8
Goods and services	5.8	5.4	5.8	6.7	7.3	7.0	6.9	6.8	6.7	6.9
Value-added tax	5.8	5.4	5.8	6.7	7.2	7.0	6.9	6.8	6.7	7.0
International trade	0.4	0.3	0.4	0.5	0.4	0.4	0.4	0.4	0.4	0.4
Financial transaction tax	0.8	0.7	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Stamp and other taxes	0.7	0.5	0.5	0.5	1.5	1.5	1.5	1.5	1.5	1.4
Nontax revenue	**2.2**	**2.2**	**1.4**	**1.8**	**2.5**	**2.1**	**2.0**	**1.9**	**1.7**	**1.7**
Property income	0.4	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Other	1.7	1.9	1.1	1.6	2.2	1.9	1.8	1.6	1.5	1.5
Total expenditure and net lending	**18.7**	**23.1**	**23.1**	**21.8**	**24.3**	**23.6**	**22.8**	**22.2**	**22.0**	**21.9**
Current expenditure	**15.7**	**19.5**	**19.5**	**18.5**	**21.2**	**19.7**	**19.6**	**19.0**	**18.7**	**18.7**
Wages and salaries	2.1	2.4	2.2	2.2	2.3	2.1	2.2	2.2	2.1	2.2
Goods and services	0.6	0.2	0.3	0.4	1.1	1.1	1.3	1.3	1.3	1.3
Interest	2.9	2.8	3.3	4.4	4.4	4.0	3.7	3.6	3.3	3.1
External	0.7	0.8	0.8	1.0	1.2	1.2	1.0	0.9	0.8	0.7
Domestic	2.2	2.0	2.5	3.4	3.2	2.8	2.7	2.7	2.5	2.4
Current transfers	10.1	14.1	13.7	11.5	13.4	12.5	12.4	12.0	12.0	12.1
Capital expenditure	**3.0**	**3.6**	**3.6**	**3.3**	**3.2**	**3.9**	**3.2**	**3.2**	**3.4**	**3.3**
Fixed capital formation	1.8	2.2	2.4	2.3	2.0	2.9	2.1	2.1	2.3	2.2
Capital transfers	1.2	1.3	1.2	1.0	1.2	1.1	1.1	1.0	1.0	1.0
Net lending	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall balance 4/	**-2.5**	**-7.8**	**-8.1**	**-5.5**	**-3.8**	**-3.6**	**-3.4**	**-3.0**	**-2.9**	**-2.8**
Memorandum items:										
Oil-related revenues 5/	1.3	1.1	0.3	1.5	2.8	1.3	1.1	1.0	1.0	0.9
Structural balance 6/	-2.3	-6.1	-7.3	-4.6	-3.0	-3.8	-3.7	-3.2	-2.2	-1.2
Structural primary non-oil balance	-0.3	-4.8	-4.6	-1.7	-0.7	-1.0	-1.0	-0.6	-0.8	-0.9
Fiscal Impulse	-0.2	4.5	-0.3	-2.9	-1.0	0.3	0.0	-0.4	0.2	0.1
Non-oil balance	-3.3	-9.0	-8.1	-5.8	-5.2	-5.1	-4.8	-4.2	-3.2	-2.2
Primary balance	0.4	-5.0	-4.8	-1.1	0.6	0.4	0.3	0.6	0.4	0.2
Net FCL financing (US$ million)	0.0	5,370	0	0	0	-2,637	-2,638	0	0	0
Nominal GDP (in Col$ trillion)	1,060	998	1,193	1,464	1,595	1,690	1,791	1,907	2,029	2,160

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

1/ Includes central administration only.

2/ Estimate for 2022.

3/ Includes tax revenues, telecom and port concessions and other revenues.

4/ For 2021 excludes privatization receipts worth 1.1 percent of GDP that, under GFSM 1986 which is used by the authorities, produces a headline deficit of -7.0 percent of GDP.

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

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

Table 4. Colombia: Operations of the Combined Public Sector, 2019-28 1/

(In percent of GDP, unless otherwise indicated)

					Projections					
	2019	2020	2021	2022/2	2023	2024	2025	2026	2027	2028
Total revenue	**29.4**	**26.6**	**27.2**	**27.6**	**31.4**	**32.1**	**31.0**	**30.6**	**30.7**	**30.7**
Tax revenue	21.7	20.8	21.3	22.2	25.8	25.5	25.0	25.0	25.0	25.0
Nontax revenue	7.7	5.8	5.9	5.3	5.6	6.5	6.0	5.6	5.7	5.7
Financial income	0.7	0.4	0.4	0.4	0.4	0.4	0.5	0.5	0.5	0.5
Operating surplus of public enterprises	2.4	2.1	2.1	2.3	2.3	2.3	2.3	2.3	2.3	2.3
Other 3/	4.6	3.3	3.3	2.5	2.8	3.8	3.2	2.8	2.9	2.9
Total expenditure and net lending 4/	**31.8**	**33.6**	**34.4**	**34.2**	**35.4**	**34.1**	**33.4**	**33.1**	**33.1**	**32.8**
Current expenditure	27.6	29.8	29.4	29.2	31.7	30.1	29.9	29.4	28.9	28.7
Wages and salaries	5.1	5.4	5.2	5.2	5.3	5.1	5.2	5.2	5.1	5.3
Goods and services	3.4	3.1	3.3	3.5	4.2	4.1	4.3	4.6	4.6	4.6
Interest	3.1	3.0	3.3	4.6	4.8	4.3	4.0	3.8	3.5	3.2
External	0.8	1.0	1.0	1.4	1.6	1.5	1.2	1.1	1.0	0.9
Domestic	2.4	2.0	2.3	3.2	3.1	2.9	2.7	2.6	2.5	2.3
Transfers to private sector	12.2	14.6	13.8	12.2	13.7	12.8	12.7	12.3	12.3	12.4
Other 5/	3.8	3.8	3.8	3.8	3.7	3.7	3.6	3.5	3.4	3.3
Capital expenditure	4.2	3.8	5.1	5.0	3.8	4.1	3.6	3.7	4.2	4.1
Statistical discrepancy	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Nonfinancial public sector balance	**-3.5**	**-7.0**	**-7.2**	**-6.7**	**-4.0**	**-2.1**	**-2.4**	**-2.5**	**-2.4**	**-2.1**
Fogafin balance	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Net cost of financial restructuring 6/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Combined public sector balance	**-2.9**	**-6.9**	**-7.1**	**-6.6**	**-3.8**	**-1.8**	**-2.2**	**-2.3**	**-2.2**	**-1.9**
Overall financing	**2.9**	**6.9**	**7.1**	**6.6**	**3.8**	**1.8**	**2.2**	**2.3**	**2.2**	**1.9**
Foreign, net	0.9	7.9	2.9	0.0	1.4	1.2	0.8	0.9	1.2	2.1
o/w IFIs	0.3	2.7	1.2	0.1	-0.2	-0.7	-1.0	-0.3	-0.5	-0.4
o/w FCL	0.0	2.0	0.0	0.0	0.0	-0.8	-0.7	0.0	0.0	0.0
Domestic, net	2.0	-1.0	4.2	6.5	2.4	0.6	1.4	1.5	1.0	-0.2
Memorandum items:										
Overall structural balance 7/	-1.9	-4.6	-6.3	-6.3	-3.2	-2.4	-2.8	-2.7	-2.6	-2.3
Primary balance 8/	0.2	-3.9	-3.8	-2.0	1.0	2.5	1.7	1.4	1.3	1.3
Oil-related revenues 9/	2.4	1.9	1.4	2.8	3.9	2.4	2.1	1.9	1.8	1.7
Public sector gross debt 10/	52.4	65.7	64.0	63.6	62.0	61.1	60.9	60.1	59.2	58.3
Nominal GDP (In Col$ trillion)	1,060	998	1,193	1,464	1,595	1,690	1,791	1,907	2,029	2,160

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

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

2/ Estimate for 2022.

3/ Includes royalties, dividends and social security contributions.

4/ Expenditure reported on commitments basis.

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

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

7/ 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.

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

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

10/ Includes Ecopetrol, Fogafin, and Finagro.

Table 5. Colombia: Monetary Indicators, 2019-28

	2019	2020	2021	2022 2/	2023	2024	2025	2026	2027	2028
					Projections					
	(In billions of Col$, unless otherwise indicated)									
Central Bank										
Net Foreign Assets	172,578	200,732	220,143	258,455	259,694	271,103	277,719	283,346	289,637	296,620
Gross official reserve assets	172,549	200,801	230,982	272,757	273,990	285,394	292,003	297,624	303,910	310,886
In billions of US$	53	59	58	57	58	59	60	60	61	62
Short-term foreign liabilities	0	0	0	0	0	0	0	0	0	0
Other net foreign assets	29	-69	-10,838	-14,302	-14,296	-14,290	-14,284	-14,278	-14,272	-14,266
Net domestic assets	-60,124	-68,059	-74,762	-103,724	-94,547	-94,464	-88,752	-81,063	-73,180	-64,988
Net credit to the public sector	3,034	6,625	20,056	28,885	26,329	26,306	24,716	22,574	20,379	18,098
Net credit to the financial system	8,435	6,934	7,940	3,454	3,149	3,146	2,956	2,700	2,437	2,164
Other	-71,593	-81,618	-102,757	-136,063	-124,025	-123,917	-116,424	-106,337	-95,996	-85,250
Monetary base	112,454	132,674	145,381	154,731	165,147	176,639	188,966	202,283	216,457	231,632
Currency in circulation	91,659	111,374	125,451	135,179	139,351	145,724	152,457	160,433	170,358	180,897
Deposit money banks reserves	20,649	20,928	19,533	19,207	44,853	48,229	51,092	54,265	57,772	61,492
Other deposits	145	372	397	345	345	345	345	345	345	345
Financial system										
Net foreign assets	145,976	199,729	227,252	243,265	243,139	253,571	259,139	263,561	268,579	274,206
In billions of US$	45	58	57	51	51	52	53	53	54	55
Net domestic assets	402,159	404,812	459,372	520,260	569,602	615,349	670,781	731,185	796,082	865,249
Net credit to public sector	57,917	83,018	88,250	96,298	114,908	131,220	145,988	161,581	175,087	184,114
Credit to private sector	546,520	542,246	609,786	712,253	762,736	819,231	880,447	946,323	1,017,673	1,094,403
Other net	-202,096	-220,250	-238,434	-288,291	-308,041	-335,103	-355,653	-376,719	-396,678	-413,268
Broad money	548,135	604,541	686,624	763,526	812,741	868,920	929,920	994,746	1,064,661	1,139,455
	(Annual percentage change)									
Credit to private sector	11.6	-0.8	12.5	16.8	7.1	7.4	7.5	7.5	7.5	7.5
Currency	13.6	21.5	12.6	7.8	3.1	4.6	4.6	5.2	6.2	6.2
Monetary base	14.7	18.0	9.6	6.4	6.7	7.0	7.0	7.0	7.0	7.0
Broad money 1/	10.0	10.3	13.6	11.2	6.4	6.9	7.0	7.0	7.0	7.0
	(In percent of GDP)									
Credit to private sector	51.6	54.3	51.1	48.7	47.8	48.5	49.2	49.6	50.1	50.7
Currency	8.6	11.2	10.5	9.2	8.7	8.6	8.5	8.4	8.4	8.4
Monetary base	10.6	13.3	12.2	10.6	10.4	10.5	10.6	10.6	10.7	10.7
Broad money	51.7	60.6	57.6	52.2	50.9	51.4	51.9	52.2	52.5	52.7
Memorandum items:										
CPI inflation, eop	3.8	1.6	5.6	13.1	8.4	3.5	3.0	3.0	3.0	3.0
Nominal GDP (In Col$ trillions)	1,060	998	1,193	1,464	1,595	1,690	1,791	1,907	2,029	2,160

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

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

2/ Estimate for financial system variables.

Table 6. Colombia: Medium-Term Outlook, 2019-28 1/

	2019	2020	2021	2022 1/	Projections 2023	2024	2025	2026	2027	2028
				(In percent of GDP, unless otherwise indicated)						
Real GDP (in percent change)	3.2	-7.3	11.0	7.5	1.0	1.9	2.9	3.3	3.3	3.3
Consumer prices (in percent change; eop)	3.8	1.6	5.6	13.1	8.4	3.5	3.0	3.0	3.0	3.0
Gross national savings	16.8	15.6	13.3	15.6	15.6	16.4	17.1	17.9	18.2	18.4
Private sector	15.8	18.9	15.6	17.4	15.9	14.4	16.0	16.6	16.4	16.4
Public sector	1.0	-3.3	-2.3	-1.8	-0.3	2.0	1.1	1.3	1.8	2.0
Gross domestic investment	21.4	19.1	19.0	21.8	20.8	21.0	21.4	22.0	22.3	22.4
				(In percent of GDP, unless otherwise indicated)						
Nonfinancial public sector 2/										
Revenue	29.4	26.6	27.2	27.6	31.4	32.1	31.0	30.6	30.7	30.7
Expenditure	31.8	33.6	34.4	34.2	35.4	34.1	33.4	33.1	33.1	32.8
Current expenditure	27.6	29.8	29.4	29.2	31.7	30.1	29.9	29.4	28.9	28.7
Capital expenditure	4.2	3.8	5.1	5.0	3.8	4.1	3.6	3.7	4.2	4.1
Primary balance 3/	0.4	-5.0	-4.8	-1.1	0.6	0.4	0.3	0.6	0.4	0.2
Overall balance 3/	-3.5	-7.0	-7.2	-6.7	-4.0	-2.1	-2.4	-2.5	-2.4	-2.1
Combined public sector balance	-2.9	-6.9	-7.1	-6.6	-3.8	-1.8	-2.2	-2.3	-2.2	-1.9
External financing	0.9	7.9	2.9	0.0	1.4	1.2	0.8	0.9	1.2	2.1
Domestic financing	2.0	-1.0	4.2	6.5	2.4	0.6	1.4	1.5	1.0	-0.2
External current account balance	-4.6	-3.5	-5.6	-6.2	-5.1	-4.6	-4.3	-4.1	-4.1	-4.0
Trade balance	-3.1	-3.3	-4.4	-3.4	-3.5	-3.3	-3.0	-2.8	-2.9	-2.9
Exports	12.6	12.0	13.4	17.4	16.2	15.4	14.7	14.2	13.7	13.4
Imports	15.6	15.2	17.8	20.8	19.6	18.7	17.8	17.0	16.6	16.3
Financial account balance	-4.1	-3.0	-5.2	-5.9	-5.1	-4.6	-4.3	-4.1	-4.1	-4.0
Direct Investment	-3.4	-2.1	-1.9	-3.9	-3.1	-3.2	-3.3	-3.4	-3.4	-3.4
Portfolio Investment	0.0	-0.7	-1.4	0.1	-1.1	-1.1	-1.6	-0.8	-0.8	-0.8
Other Investments and Derivatives	-1.8	-1.8	-2.0	-2.3	-1.2	-0.6	0.4	-0.1	-0.1	0.0
Change in Reserve Assets	1.0	1.6	0.2	0.2	0.3	0.4	0.2	0.1	0.2	0.2
Public sector gross debt 4/	52.4	65.7	64.0	63.6	62.0	61.1	60.9	60.1	59.2	58.3
Public sector gross debt, excluding Ecopetrol	49.4	61.5	58.8	59.1	58.1	57.9	58.4	57.9	57.1	56.3
Memorandum items:										
Nominal GDP (in Col$ trillion)	1,060	998	1,193	1,464	1,595	1,690	1,791	1,907	2,029	2,160

Sources: Colombian authorities and IMF staff estimates and projections.
1/ Estimate for fiscal sector variables.
2/ Excludes Ecopetrol.
3/ Includes statistical discrepancy.
4/ Includes Ecopetrol, Fogafin, and Finagro.

Table 7. Colombia: Financial Soundness Indicators, 2019-22 1/

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

	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Nov-22
Capital Adequacy 2/													
Regulatory capital to risk-weighted assets	16.9	16.3	15.7	18.5	19.2	21.4	22.1	22.0	22.2	18.3	18.0	18.4	18.4
Regulatory Tier 1 capital to risk-weighted assets	11.8	11.5	11.4	12.9	14.4	17.0	17.5	17.7	18.2	14.8	14.6	14.9	14.9
Capital (net worth) to assets	9.0	8.6	8.5	9.1	9.8	11.7	11.9	12.1	12.2	10.2	10.3	10.6	10.5
Asset Quality and Distribution													
Provisions to nonperforming loans	122.6	118.0	119.4	124.3	125.2	123.8	125.8	128.6	129.7	132.5	133.0	135.4	136.3
Gross loans to assets	71.2	70.1	68.0	66.5	65.4	66.3	67.1	68.1	69.4	66.6	69.0	70.5	71.2
Earnings and Profitability													
ROAA	5.9	5.9	6.1	6.1	6.1	5.6	5.6	5.5	5.2	5.6	5.5	5.3	5.2
ROAE	38.7	39.4	43.6	44.2	44.2	39.2	39.1	37.5	35.4	36.2	37.1	37.0	36.4
Interest margin to gross income	57.5	48.8	53.9	55.6	56.0	59.9	60.0	58.4	58.1	55.2	57.5	58.1	58.3
Noninterest expenses to gross income	49.6	57.6	53.9	52.6	52.6	48.9	48.6	47.6	48.3	44.8	45.6	45.9	47.4
Liquidity													
Liquid assets to total assets	17.0	17.8	19.8	18.7	19.5	19.0	19.6	19.4	20.1	19.4	18.2	16.6	16.8
Liquid assets to short-term liabilities	36.6	38.0	40.2	38.0	37.9	36.4	36.8	36.4	37.3	35.7	34.2	32.1	33.0
Deposit to loan ratio	89.4	93.2	96.4	96.3	98.4	97.5	97.3	94.8	98.2	96.4	96.0	93.8	94.4
Other													
Foreign-currency-denominated loans to total loans	5.2	7.0	6.2	5.7	4.6	4.9	4.9	5.1	5.1	4.1	4.5	5.1	5.2
Foreign-currency-denominated liabilities to total liabilities	11.8	14.8	13.3	13.5	11.4	10.9	11.1	10.8	11.5	10.5	10.5	10.4	12.0
Net open position in foreign exchange to capital 3/	0.9	0.7	1.2	1.2	1.1	0.8	0.8	0.6	0.7	0.8	0.9	0.9	2.5

Source: Superintendencia Financiera, Financial Soundness Indicators (FSI), International Monetary Fund.

1/ FSI indicators take into account the following deposit-taking institutions as per the IMF's FSI compilation guide: twenty-five commercial banks, ten financing companies, six financial corporations, five financial cooperatives, and two specialized financial institutions, namely Banco de Comercio Exterior de Colombia S.A. (BANCOLDEX) and Fondo Nacional del Ahorro (FNA).

The following nine specialized financial institutions are not included in the definition of deposit-taking institutions: FINDETER, FNG, FDN, ICETEX, ENTERRITORIO, FINAGRO, FOGAFIN, FOGACOOP, and Caja Promotora de Vivienda Militar y de Policía.

2/ The large changes in capital adequacy between 2020 and 2021 are mostly due to the adoption of Basel III capital definitions and risk weights.

In early 2022, the spin-off of 75 percent of BAC from Banco de Bogota reduced the capital requirement of credit institutions by 14.5 tn COP (as of November 2022).

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

Table 8. Colombia: Indicators of External Vulnerability, 2019-28 1/

(In billions of US$, unless otherwise indicated)

	2019	2020	2021	2022	Projections 2023	2024	2025	2026	2027	2028
Exports of GNFS	51.3	38.2	50.8	72.5	67.0	66.2	66.6	67.6	69.1	71.6
Imports of GNFS	65.5	51.3	70.8	89.1	82.8	82.5	82.8	84.1	86.7	89.7
Terms of trade (y/y percent change)	-2.3	-1.6	5.3	19.7	-10.7	-4.5	-2.5	-2.0	-1.4	-1.5
Current account balance	-14.8	-9.3	-18.0	-21.4	-17.2	-16.0	-15.6	-15.9	-16.8	-17.1
In percent of GDP	-4.6	-3.5	-5.6	-6.2	-5.1	-4.6	-4.3	-4.1	-4.1	-4.0
Financial account balance	-13.3	-8.2	-16.5	-20.5	-17.2	-16.0	-15.6	-15.9	-16.8	-17.1
Of which: Foreign direct investment (net)	-10.8	-5.8	-6.2	-13.3	-10.5	-11.3	-12.1	-12.9	-13.7	-14.6
Of which: Portfolio investment (net)	0.0	-1.8	-4.6	0.3	-3.8	-3.9	-5.7	-3.1	-3.4	-3.5
Total external debt (in percent of GDP) 2/	50.1	66.6	62.2	63.0	68.1	68.3	67.9	66.8	65.9	65.4
Of which: Public sector (in percent of GDP) 2/	30.1	42.7	40.6	39.9	42.6	41.2	40.3	39.1	38.2	37.7
In percent of gross international reserves	307.6	307.6	341.6	382.1	393.8	401.3	413.6	425.1	436.8	451.5
Short-term external debt (in percent of GDP) 3/	7.1	8.2	7.8	7.9	8.4	8.4	8.2	8.1	7.9	7.7
Of which: Public sector (in percent of GDP)	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.2	0.2
Of which: Private sector (in percent of GDP)	6.8	7.9	7.4	7.6	8.1	8.1	8.0	7.8	7.7	7.5
Amortization of MLT external debt (in percent of GNFS exports)	25.8	38.2	29.7	18.1	23.0	28.8	26.5	30.4	31.5	29.8
External interest payments (in percent of GNFS exports)	14.7	17.0	13.5	11.6	14.3	15.5	15.3	15.2	15.5	15.6
Gross international reserves 4/	52.7	58.5	58.0	56.7	57.8	59.1	59.8	60.4	61.1	61.8
In months of prospective GNFS imports	12.3	9.9	7.8	8.2	8.4	8.6	8.5	8.5	8.2	8.0
In percent of broad money 5/	31.5	33.2	33.6	35.7	33.7	32.9	31.4	29.9	28.6	27.3
In percent of short-term debt on residual maturity basis plus current account deficit	112.3	106.0	97.9	95.0	91.7	94.9	90.0	86.8	86.6	88.5
In percent of ARA (including commodity buffer)	121	124	119	113	112	111	110	107	105	102
In percent of ARA (excluding commodity buffer)	140	141	135	128	124	122	121	117	114	111
Real effective exchange rate (percentage change, + = appreciation)	-5.9	-7.7	-3.2	-4.8	…	…	…	…	…	…

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

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

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

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

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

5/ Estimated for 2022.

Table 9. Colombia: Capacity to Repay Indicators Under Tail Risk/Drawing Scenario, 2019-2028 1/

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Exposure and Repayments (In SDR millions)										
GRA credit to Colombia	--	3,750.0	3,750.0	3,750.0	10,905.7	9,030.7	7,155.7	4,472.3	894.5	--
(In percent of quota)	--	183.4	183.4	183.4	533.4	441.7	350.0	218.7	43.7	--
Charges due on GRA credit 2/	--	--	--	--	455.1	607.5	486.2	390.3	182.5	27.1
Debt service due on GRA credit 2/	--	--	--	--	455.1	2,482.5	2,361.2	3,073.7	3,760.4	921.5
Debt and Debt Service Ratios 3/										
In percent of GDP										
Total external debt	50.1	66.6	62.2	63.0	88.0	67.3	67.0	65.9	65.0	64.6
Public external debt	30.1	42.7	40.6	39.9	58.2	43.0	42.0	40.7	39.6	39.1
GRA credit to Colombia	--	1.9	1.7	1.5	5.7	3.5	2.6	1.6	0.3	--
Total external debt service 4/	12.4	16.0	13.5	13.4	18.1	16.6	15.7	17.3	17.0	15.1
Public external debt service 4/	3.0	2.7	3.2	1.8	4.1	3.4	2.4	4.0	3.5	2.0
Debt service due on GRA credit	--	--	--	--	0.2	1.0	0.9	1.1	1.3	0.3
In percent of Gross International Reserves										
Total external debt	222.5	220.7	239.8	285.7	369.2	374.7	383.5	391.8	400.3	411.0
Public external debt	133.4	141.5	156.4	181.0	244.4	239.2	240.2	241.8	243.9	248.7
GRA credit to Colombia	--	8.9	9.2	8.8	31.9	25.7	20.1	12.5	2.5	--
In percent of Exports of Goods and Services										
Total external debt service 4/	77.8	113.0	84.9	63.8	75.8	87.2	86.0	98.2	99.6	90.1
Public external debt service 4/	19.0	19.3	20.3	8.6	17.3	18.0	13.0	22.5	20.8	11.9
Debt service due on GRA credit	--	--	--	--	1.0	5.0	4.7	6.1	7.3	1.7
In percent of Total External Debt										
GRA credit to Colombia	--	2.9	2.7	2.3	6.5	5.1	3.9	2.4	0.5	--
In percent of Public External Debt										
GRA credit to Colombia	--	4.5	4.1	3.7	9.8	8.1	6.3	3.8	0.8	--
Memo Items:										
U. S. dollars per SDR (period average)	1.38	1.39	1.42	1.34	--	--	--	--	--	--
Oil Price (WEO APSP, US$ per barrel)	61.4	41.8	69.2	96.4	81.9	77.1	72.6	69.1	66.4	64.3

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

1/ Assumes full drawing on the current FCL (350 percent of quota) in 2023. The adverse scenario is taken from the 2022 FCL approval: a shock to oil exports (about 25 percent), reduced disbursements (20 and 30 percent for public and private sectors, respectively), and use of reserves.

2/ Based on interest rate of 4.575 percent (as of March 16, 2023).

3/ Staff projections for external debt, GDP, gross international reserves, and exports of goods and services reflect the adverse, and not the baseline, scenario under which the full FCL drawing is assumed.

4/ Excluding local-currency government securities TES (which have foreign participation).

Table 10. Colombia: External Financing Requirements and Sources Under Tail Risk/Drawing Scenario, 2023-24 1/

	2023 Baseline	2023 Drawing Scenario 1/	2024 Baseline
Gross external financing needs	**-59,679**	**-63,962**	**-63,061**
External current account balance	-17,157	-21,440	-16,011
Debt amortization	-42,522	-42,522	-47,051
Medium and long term debt	-15,449	-15,449	-19,068
Public sector 1/	-5,288	-5,288	-8,029
Private sector	-10,161	-10,161	-11,039
Short-term debt	-27,073	-27,073	-27,982
Public sector	-984	-984	-984
Private sector	-26,089	-26,089	-26,999
Gross external financing sources	**60,803**	**41,285**	**64,293**
Foreign direct investment (net)	10,536	8,047	11,267
Medium and LT debt disbursements	21,142	13,714	24,269
Public sector 2/	10,495	6,297	8,730
Private sector	10,647	7,417	15,539
Short-term debt disbursements	27,982	21,658	29,026
Public sector	984	787	984
Private sector	26,999	20,871	28,042
Other capital flows (net) 3/	1,142	-2,134	-270
Change in international reserves	1,124	-13,070	1,232
Use of IMF credit	**0**	**9,607**	**0**
Percent of quota	0	350	0
Memo: Gross international reserves	57,845	44,775	46,007

1/ Assumes full drawing on the current FCL (350 percent of quota) in 2023. The adverse scenario is taken from the 2022 FCL approval: a shock to oil exports (about 25 percent), reduced disbursements (20 and 30 percent for public and private sectors, respectively), and use of reserves.

2/ Including financial public sector; excluding non-financial public sector. Net of TES flows. Excludes IMF FCL.

3/ Includes all other net financial flows (i.e., pension funds, other portofolio flows, government assets held abroad), Colombia's contribution to FLAR, and errors and omissions.

Table 11. Colombia: External Debt Sustainability Framework, 2019–28

(In percent of GDP, unless otherwise indicated)

	Actual						Projections						
	2019	2020	2021	2022			2023	2024	2025	2026	2027	2028	Debt-stabilizing non-interest current account 6/
Baseline: External debt	50.1	66.6	62.2	63.0			**68.1**	**68.3**	**67.9**	**66.8**	**65.9**	**65.4**	**-3.5**
Change in external debt	3.4	16.5	-4.4	0.8			5.0	0.2	-0.3	-1.1	-0.9	-0.4	
Identified external debt-creating flows (4+8+9)	3.2	11.6	-5.5	-2.3			2.2	1.0	0.0	-0.5	-0.6	-0.8	
Current account deficit, excluding interest payments	2.3	1.1	3.5	3.8			2.3	1.7	1.5	1.5	1.5	1.4	
Deficit in balance of goods and services	4.4	4.8	6.3	4.8			4.7	4.7	4.4	4.3	4.4	4.2	
Exports	15.9	14.1	16.0	21.1			20.0	19.1	18.3	17.6	17.1	16.8	
Imports	20.3	19.0	22.2	25.9			24.7	23.7	22.7	21.9	21.4	21.0	
Net non-debt creating capital inflows (negative)	-2.2	-0.7	-0.9	-3.1			-2.3	-2.4	-2.4	-2.5	-2.7	-2.7	
Automatic debt dynamics 1/	3.2	11.2	-8.1	-3.1			2.2	1.7	0.9	0.5	0.5	0.5	
Contribution from nominal interest rate	2.3	2.4	2.1	2.5			2.9	3.0	2.8	2.7	2.6	2.6	
Contribution from real GDP growth	-1.5	4.3	-6.2	-4.3			-0.6	-1.3	-1.9	-2.2	-2.1	-2.1	
Contribution from price and exchange rate changes 2/	2.4	4.5	-4.0	-1.2			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	0.2	4.8	1.1	3.1			2.8	-0.8	-0.3	-0.6	-0.3	0.3	
External debt-to-exports ratio (in percent)	315.6	470.7	390.1	299.0			339.8	358.0	371.8	379.7	386.1	389.8	
Gross external financing need (in billions of US dollars) 4/	48.5	46.9	55.2	59.3			59.7	63.1	62.3	66.5	69.6	70.5	
in percent of GDP	15.0	17.4	17.3	17.2			17.8	18.2	17.1	17.3	17.2	16.5	
Scenario with key variables at their historical averages 5/					10-Year Historical Average	10-Year Standard Deviation	**68.1**	**72.3**	**77.4**	**82.4**	**88.0**	**94.7**	**1.9**
Key Macroeconomic Assumptions Underlying Baseline													
Real GDP growth (in percent)	3.2	-7.3	11.0	7.5	3.3	4.7	1.0	1.9	2.9	3.3	3.3	3.3	
GDP deflator in US dollars (change in percent)	-6.3	-9.8	6.2	0.5	-3.4	9.7	-3.6	1.8	1.9	2.0	2.0	2.0	
Nominal external interest rate (in percent)	4.8	4.0	3.8	4.3	4.1	0.3	4.4	4.5	4.3	4.2	4.2	4.2	
Growth of exports (US dollar terms, in percent)	-4.5	-25.5	32.9	42.7	2.7	22.9	-7.5	-1.2	0.5	1.5	2.2	3.7	
Growth of imports (US dollar terms, in percent)	1.9	-21.6	38.1	25.7	3.8	18.5	-7.0	-0.4	0.3	1.6	3.1	3.5	
Current account balance, excluding interest payments	-2.3	-1.1	-3.5	-3.8	-2.9	1.2	-2.3	-1.7	-1.5	-1.5	-1.5	-1.4	
Net non-debt creating capital inflows	2.2	0.7	0.9	3.1	2.0	0.9	2.3	2.4	2.4	2.5	2.7	2.7	

Source: IMF staff estimates.

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

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

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

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

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

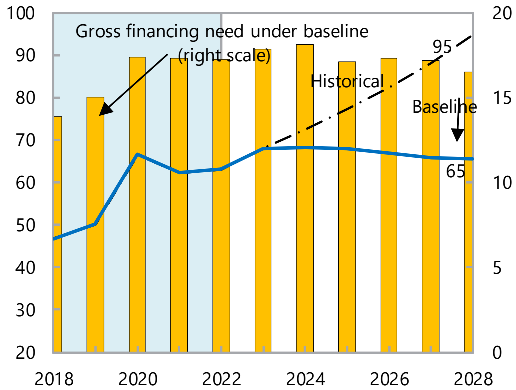
6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

Table 12. Colombia: External Debt Sustainability: Bound Tests 1/ 2/

(External debt in percent of GDP)

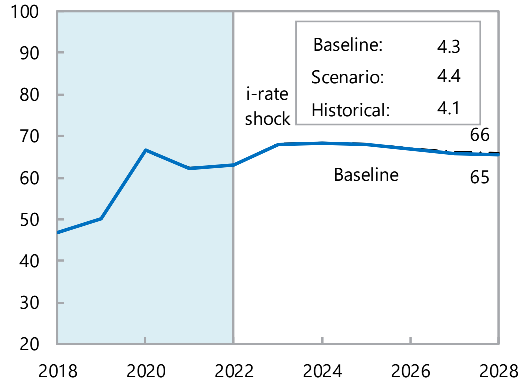
Baseline and Historical Scenario

(In percent of GDP)



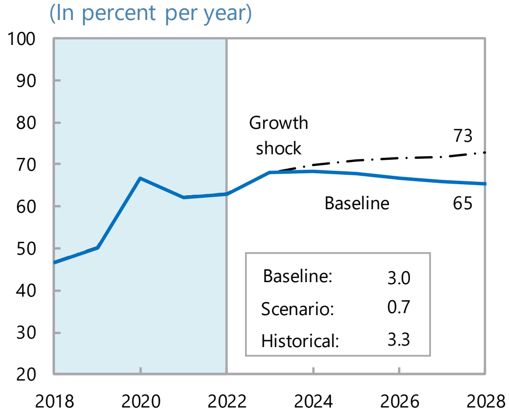
Interest Rate Shock

(In percent)



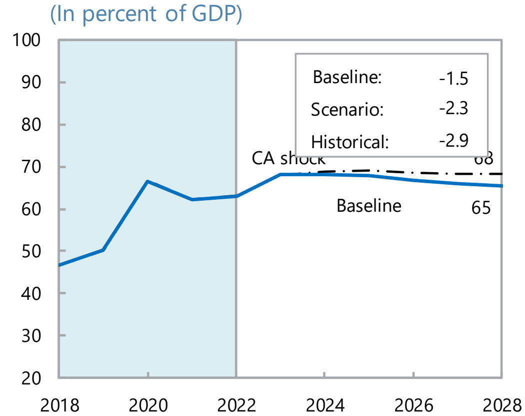
Growth Shock

(In percent per year)

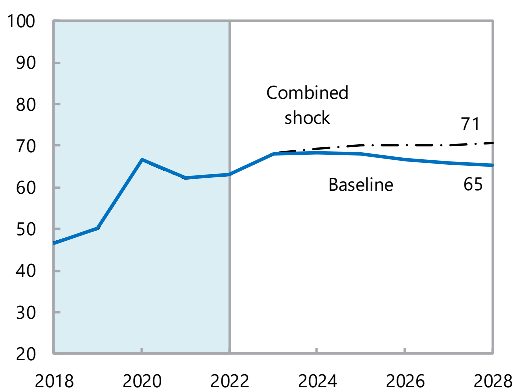


Non-Interest Current Account Shock

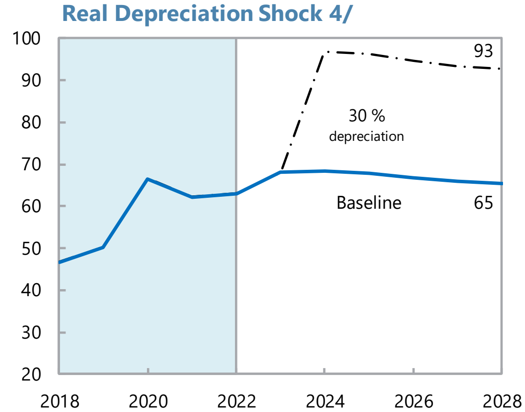
(In percent of GDP)



Combined Shock 3/



Real Depreciation Shock 4/



Sources: Country authorities and IMF staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
4/ One-time real depreciation of 30 percent occurs in 2022.

Statement by Juan Sebastian Betancur Mora, Alternate Executive Director for Colombia
April 26, 2023

On behalf of the Colombian authorities, I would like to express our gratitude to staff for their constructive engagement and the comprehensive midterm FCL review. I also wish to express the authorities' gratitude to the Executive Board and Management for their continued support of the country's FCL arrangement.

As noted by staff, Colombia continues to meet all the qualification criteria for the FCL. This review comes a few weeks after the Article IV consultation, in which the assessment of the economy was very positive. The Board and staff praised the very strong policies and institutional policy frameworks, as well as the objectives of the ongoing structural reform agenda to enhance equality and promote economic diversification. In particular, Directors and staff backed the strong inclusive fiscal adjustment that is underway, the decisive monetary tightening to guide inflation towards the target, the exchange rate flexibility, which has acted as a first line of defense to absorb external shocks, the sustainable external position, and the strength of the financial sector. The authorities remain committed to maintaining such policies and frameworks as are required to protect macroeconomic stability. They are also convinced that effective communication of their objectives is paramount, including with regards to the structural reforms.

The FCL has been crucial to complement external buffers, which have contributed to successfully cope with external shocks in the past. **In the current conjuncture of exceptional uncertainty, persistent shocks, and exposure to systemic global tail risks, access to this tool is especially valuable**. The Colombian authorities intend to treat the current FCL as precautionary and remain committed to an orderly exit strategy, subject to the evolution and assessment of relevant external risks. The current level of access is adequate for this mid-term review and lower than the arrangements approved in 2020 and 2018, which reflects the authorities' recognition of the temporary nature of the instrument.

Colombia's drawing under the FCL in 2020 helped the authorities support households and businesses in times of atypically high stress and uncertainty about the future. Adequate communication, together with close collaboration with the Fund, was instrumental in conveying the purpose of the facility and avoiding any negative stigma.

Economic Developments Since the Article IV Consultation

In the last few weeks, the latest data confirm that the necessary adjustments are on track while financial conditions are correcting despite the difficult global juncture. The monthly economic activity indicator grew 4.4% in the first two months of 2023. While significantly lower figures are projected for subsequent months, this initial dynamic in economic activity could imply that the official GDP growth forecast faces some upward risks. At the same time, imports continued to decline in nominal terms, both from an annual and a monthly perspective, contributing to the required current account deficit (CAD) adjustment. Consumers' credit has continued the deceleration trend, growing only 1% in real terms according to the latest preliminary figures. With headline inflation relatively stable at high levels, the policy rate was increased again in March, reaching 13%. Many leading economic indicators show that excess demand has ceded while food inflation and inflation expectations are decreasing rapidly. Another major indicator that inflation will start correcting soon is the Producer Price Index, which slowed down significantly from 13.2% y/y in February to 7.4% in March. Moreover, the local currency has strengthened by around 6% in the last month, one of the highest appreciations among emerging economies, in a context where the 10-year sovereign bond yields have declined by almost 4pp from the peak reached in October.

As mentioned, Colombia continues to meet all the qualification criteria for the FCL arrangement. I refer to some specific criteria to complement the already comprehensive analysis elaborated by staff:

- As noted, **the external position is sustainable**. The authorities expect the CAD to return to historical levels (around 4% of GDP) in 2023, mainly as a result of the implementation of tight policies. Lower imports and reduced profit outflows from foreign-based companies would be the main sources of adjustment.

- **Access to international financial markets remains ample**, with buoyant FDI (in many sectors, including oil and mining) covering around 80% of the CAD. Preliminary data suggest that FDI continues its dynamism in the first quarter of 2023. With a downward trend in sovereign bonds' yields (nowadays even below the monetary policy rate), domestic currency appreciation, and strong domestic fundamentals, portfolio investment is expected to keep flowing as well. Recent government bond issuances have had demand surpassing initial supply by around six times, with significant participation from foreign investors.

- **International reserves are adequate** according to different metrics and have remained stable in recent years. Currently at USD 57.3 billion, international reserves are expected to further increase in 2023.

- **Public debt is sustainable** and in a clear downward trend since 2021, three years earlier than the initial plan, due to the exceptional economic recovery and the two tax reforms approved in 2021 and 2022. In a conservative scenario, these reforms will yield a combined increase in permanent revenues of 2% of GDP per year. The government's current financial plan is consistent with an unprecedented fiscal deficit adjustment, which in turn implies overcompliance with the Fiscal Rule for a second year in a row. All the above in a context where social spending is increasing significantly and fuel subsidies are being removed gradually. In the medium term, the authorities will continue to guide decisions according to the Fiscal Rule, to which they are fully committed.

- Decisive monetary policy decisions are guiding **inflation to low and stable levels**. In response to both external and domestic inflationary pressures, the authorities have increased the policy rate by 11.25pp since September 2021; the stance of monetary policy is clearly contractionary. Banco de la República has publicly stated its objective of guiding inflation to the target by end-2024 and that policy decisions will keep following a data-dependent approach. The recent rapid reduction in food prices and PPI growth, along with decreasing inflation expectations and the substantial currency appreciation, strengthen the view that inflation will peak very soon and start a firm path towards target.

- **Exchange rate flexibility will continue to be a crucial component of the policy framework** to protect the Colombian economy against external shocks. Despite the strong depreciation of the local currency until November 2022, the authorities refrained from intervening in the foreign exchange market. The Central Bank considers that, in the case of Colombia, FX interventions should be limited to disruptions in exchange markets, such as those associated with temporary shortages in foreign currency liquidity. Since November of last year, the Colombian peso has appreciated, with some volatility, by more than 10%.

- **The financial system continues to be sound and stable, supported by strong supervisory and regulatory frameworks.** Financial sector indicators largely surpass the regulatory thresholds derived from Basel III principles**.** Even though improved stress tests confirm that the financial institutions are well capitalized, adequately provisioned, and liquid enough to absorb significant shocks, the authorities will remain very vigilant. The Financial Superintendency will continue to supervise rigorously the financial sector, with a special emphasis on the household segment. Consumer' credit has continued to ease recently, while Non-Performing Loans in this segment are growing slightly but remaining at moderate levels.

Final remarks

The Colombian authorities remain committed to the long track record of very strong policies and institutional policy frameworks, including the operative inflation targeting regime with a flexible exchange rate, an adequate level of international reserves, a sound fiscal policy anchored by the strengthened fiscal rule, and robust regulation and supervision of the financial system. Currently, the authorities' priorities are reducing inflation and the CAD. Continually maintaining strict monitoring of the financial sector is also a crucial part of the strategy. In parallel, the government is leading a structural reform agenda that has been formulated within the existing macroeconomic frameworks.

Global uncertainty has intensified due to several factors, including the indefinite duration of tighter monetary conditions, geopolitical tensions, and the possibility of a global hard landing given the recent developments in the international banking sector. Against this backdrop, the authorities welcome the positive signal that the current FCL arrangement sends to economic agents, as it reinforces confidence in the very strong policy framework of Colombia and complements the external buffers.

The global environment in recent years illustrates well the importance of the Fund's precautionary toolkit. In today's world, external risks are more frequent and persistent, with some having strong spillovers across the globe. By increasing the perception of external liquidity, precautionary facilities enhance confidence even if no effective draws take place. The idiosyncratic benefits of precautionary facilities in eligible countries are large and well documented. However, their role in containing systemic spillovers is also substantial and has not been sufficiently analyzed. We look forward to a constructive review of all precautionary instruments by mid-2023. Hopefully, the review will help to consolidate a more complete Financial Safety Net with attractive preventive instruments for countries exposed to external risks at different levels. The latter might eventually incentivize some current FCL users to transition to moderate-access tools to insure against more persistent but less intense risks.

Finally, the Colombian authorities reiterate their commitment to maintaining a productive dialogue with the Fund.