INTERNATIONAL MONETARY FUND

IMF Country Report No. 25/280

COLOMBIA

September 2025

2025 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR COLOMBIA

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2025 Article IV consultation with Colombia, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its September 29, 2025 consideration of the staff report that concluded the Article IV consultation with Colombia.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on September 29, 2025, following discussions that ended on July 25, 2025, with the officials of Colombia on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on September 12, 2025.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for Colombia.

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

Selected Issues

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

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International Monetary Fund
Washington, D.C.

IMF Executive Board Concludes 2025 Article IV Consultation with Colombia

FOR IMMEDIATE RELEASE

- The Executive Board of the International Monetary Fund (IMF) concluded the 2025 Article IV consultation with Colombia on September 29, 2025.
- Colombia enters a pre-electoral year amid a mixed economic backdrop. Growth has strengthened somewhat, while inflation is gradually easing, aided by appropriately tight monetary policy. Reserves have remained adequate. A widening fiscal deficit and rising debt levels have led to elevated sovereign spreads, and private investment remains weak amid policy uncertainties.
- Growth is projected to reach around 2½ percent in 2025 and moderate somewhat over the coming years. Inflation is expected to ease gradually to about 4½ percent by end-2025 and reach the 3 percent target by early 2027.

Washington, DC – **September 29, 2025:** The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Colombia on September 29, 2025. The authorities have consented to the publication of the Staff Report prepared for this consultation.[2]

Colombia enters a pre-electoral year amid a mixed economic backdrop. Growth has strengthened somewhat, while inflation is gradually easing, aided by appropriately tight monetary policy. International reserves remain adequate and continue to be strengthened. However, a widening fiscal deficit and rising debt levels have led to elevated sovereign spreads, and private investment remains weak amid lingering concerns and uncertainties over the direction of policies. In June, the government invoked the escape clause to suspend the fiscal rule through 2027.

Real GDP growth is projected to reach around 2½ percent in 2025, but is expected to moderate over the coming years due to planned fiscal adjustment, before gradually converging to its potential. Returning to the fiscal rule by 2028 will require substantial consolidation efforts, although confidence gains and lower spreads could limit the fiscal drags on growth. Inflation is expected to ease gradually to about 4½ percent by end-2025 and the 3 percent target by early 2027, conditional on tight monetary policy and the resumption of fiscal restraint. The current account deficit is expected to widen to around 2½ percent of GDP

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

[2] Under the IMF's Articles of Agreement, publication of documents that pertain to member countries is voluntary and requires the member consent. The staff report will be shortly published on the www.imf.org/Colombia page.

in 2025. International reserves remain adequate and continue to be strengthened, reaching 131 percent of the ARA metric by end-June 2025.

The outlook is subject to significant downside risks. On the external front, tighter global financial conditions, rising trade barriers, stricter immigration policies, and heightened geopolitical tensions could dampen growth, disrupt exports, FDI, and supply chains, reduce remittances, and raise borrowing costs. Domestically, further delays in fiscal consolidation could raise concerns about unanchored fiscal policy, further undermine investor confidence, and potentially trigger a sudden stop in capital inflows. Rising political uncertainties and an intensification of violent crime and insecurity could weigh on economic activity and private sector development.

Executive Board Assessment[3]

Executive Directors welcomed the strengthening of the Colombian economy and were encouraged by the progress in reducing inflation and poverty. Directors also recognized Colombia's resilience and history of prudent macroeconomic policies and solid institutions. They noted, however, challenges posed by weakened fiscal positions, amid significant downside risks related to domestic policy uncertainty and external headwinds. Directors underscored the importance of implementing the authorities' fiscal consolidation plan and maintaining agile policymaking to safeguard macroeconomic stability.

Directors agreed that, amid repeated fiscal slippages and the temporary suspension of the fiscal rule—a key policy anchor—Colombia's fiscal policy and policy framework have deteriorated since the 2024 request of the Flexible Credit Line (FCL). In this context, Directors noted that the fiscal policy and policy framework have weakened considerably from a previously "very strong" assessment that is required for continued qualification for the FCL. Directors encouraged the authorities to step up their efforts to meet the near-term deficit targets and, looking ahead, supported the authorities' ambitious plan to return to the fiscal rule by 2028. As Colombia's gross public debt would remain sustainable over the medium term conditional on the assumed fiscal consolidation, Directors emphasized the importance of decisive and credible actions to implement the consolidation plan, which would help re-anchor expectations, lower borrowing costs, and improve the overall policy mix. In this regard, they recommended pursuing a balanced mix of growth-friendly expenditure and revenue measures, addressing budget rigidities, and adopting robust contingency planning.

Directors commended the central bank's tight monetary policy stance, which has supported reducing inflation. They stressed that maintaining a tight monetary policy stance remains important to address persistent inflation pressures and upside risks, including those from continued expansionary fiscal policy. Moving forward, the normalization of monetary policy should proceed cautiously and remain data-dependent. Directors welcomed the strengthened international reserves position. They agreed that Colombia's flexible exchange rate regime should continue to play its role as a shock absorber and that foreign exchange intervention should remain limited to episodes of disorderly market conditions. Directors also underscored the importance of safeguarding central bank independence.

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

Directors agreed that the financial sector remains broadly resilient, while emphasizing the need for continued close monitoring of risks amid still-elevated real interest rates, rising sovereign exposures, and close linkages between banks and nonbank financial institutions. They encouraged continued progress in implementing the 2022 FSAP recommendations and stressed that establishing a sound governance framework and prudent investment principles for the new public pension savings fund will be critical.

To strengthen long-term growth prospects, Directors recommended reforms to raise productivity, boost labor force participation, and diversify the economy. Noting the authorities' ambitious energy transition plan, they emphasized the importance of a well-designed and carefully phased transition to support long-run sustainability and resilience and safeguard macroeconomic stability. Directors also encouraged the authorities to further strengthen governance and transparency, including to enhance the investment climate.

Table 1. Colombia: Selected Economic and Financial Indicators, 2023-30

I. Social and Demographic Indicators

Population (million), 2024. Projection	51.6	Unemployment rate, Dec. 2024 (NSA, percent)	10.2
Urban population (percent of total), 2024	82.7	Physicians (per 1,000 people), 2021	2.5
GDP, 2024		Adult illliteracy rate (ages 15 and older), 2020	4.0
Per capita (US$)	8,120	Net secondary school enrollment rate, 2018	77.5
In billion of Col$	1,706,447	Gini coefficient (national), 2024	0.55
In billion of US$	418.6	Poverty rate (national), 2024	31.8
Life expectancy at birth (years), 2023	77.7		
Mortality rate, (under 5, per 1,000 live births), 2023	12.0		

II. Economic Indicators

			Projections 1/					
	2023	2024	2025	2026	2027	2028	2029	2030
	(In percentage change, unless otherwise indicated)							
National Income and Prices								
Real GDP	0.7	1.6	2.5	2.3	2.5	2.7	2.9	2.8
Potential GDP	2.4	2.5	2.5	2.5	2.6	2.6	2.6	2.6
Output Gap (percent)	0.5	-0.4	-0.3	-0.5	-0.5	-0.5	-0.2	0.0
GDP deflator	7.0	6.0	4.9	3.5	3.0	3.0	3.0	3.0
Consumer prices (average)	11.7	6.6	4.9	3.4	3.0	3.0	3.0	3.0
Consumer prices, end of period (eop)	9.3	5.2	4.4	3.1	3.0	3.0	3.0	3.0
External Sector								
Exports (f.o.b.)	-11.5	-2.9	-1.0	2.6	2.0	2.3	2.5	2.4
Imports (f.o.b.)	-17.0	1.3	4.7	6.1	4.7	5.0	5.4	5.3
Current account (in percent of GDP)	-2.3	-1.7	-2.3	-2.6	-2.8	-3.0	-3.3	-3.6
Terms of trade (deterioration -)	-6.2	-1.6	1.1	1.8	1.2	0.9	0.8	0.7
Real exchange rate (depreciation -) 2/	6.2	11.8	-0.7	0.9	0.0	0.0	0.0	0.0
Central Government								
Revenue	24.4	-5.0	5.9	9.8	8.6	8.2	7.2	7.3
Expenditure	15.0	9.0	8.2	4.5	1.4	0.0	5.1	6.1
Money and Credit								
Broad money	4.1	11.2	7.3	5.9	6.0	6.3	6.9	6.8
Credit to the private sector	1.5	2.2	7.0	5.9	6.6	6.8	7.9	7.8
	(In percent of GDP)							
Public Sector								
Central government (CG) balance	-4.2	-6.7	-7.1	-6.2	-4.8	-3.2	-2.8	-2.6
Central government structural balance 2/	-5.0	-6.8	-7.1	-6.0	-4.6	-3.0	-2.7	-2.6
Consolidated public sector (CPS) balance 3/	-2.6	-5.9	-6.5	-5.3	-3.7	-2.3	-2.0	-1.8
CPS non-oil structural primary balance	-1.1	-3.6	-3.2	-1.9	-0.5	0.6	0.7	0.6
CPS fiscal impulse (excluding Social Security) 4/	-2.2	1.5	0.0	-1.3	-1.5	-1.1	-0.1	0.2
Public sector gross debt 5/	55.5	61.2	58.6	61.4	62.3	61.6	60.6	59.5
External Financing Needs 6/	15.1	13.1	13.5	14.2	14.4	14.0	13.9	13.6
External debt	59.2	53.3	52.9	52.1	51.5	50.8	49.4	47.9
Of which: public sector 4/	35.7	31.5	31.3	30.7	30.0	29.4	28.1	27.1
Memorandum Items								
Gross domestic investment (in percent of GDP)	16.4	16.8	17.1	17.4	17.8	18.2	18.8	19.3
Gross national savings (in percent of GDP)	14.2	15.1	14.8	14.8	15.0	15.2	15.5	15.7
Gross international reserves (USD billion) 7/	59.1	62.7	63.7	64.6	65.4	66.1	66.9	67.6
Private consumption (in percent of GDP)	73.6	73.1	74.0	74.7	73.0	72.8	72.6	72.5
Public consumption (in percent of GDP)	14.7	14.9	14.9	15.1	15.1	15.2	15.2	15.2
Private fixed capital formation (in percent of GDP)	12.1	13.1	12.9	13.0	13.3	13.5	13.7	13.8
Public fixed capital formation (in percent of GDP)	4.4	3.5	3.3	3.9	4.0	4.1	4.1	4.4
Share of ST debt at remaining maturity + CA deficit	111	108	100	95.2	94.8	87.3	86.4	86.0
CG primary expenditures (in percent of GDP)	19.0	18.9	18.7	18.4	17.7	16.8	16.8	17.0
CPS primary expenditures (in percent of GDP)	30.7	30.1	29.5	28.8	28.0	27.4	27.4	27.6
Oil production (thousand barrels per day)	769.0	788.0	793.0	825.0	824.0	824.0	824.0	824.0

Sources: Colombian authorities; UNDP Human Development Report; World Development Indicators; and IMF staff estimates.
1/ Cut-off date: August 31, 2025.
2/ Multilateral real effective exchange rate. Annual variation.
3/ IMF staff estimates, excludes one-off recognition of arrears.
4/ Includes the quasi-fiscal balance of Banco de la República and statistical discrepancy.
5/ To control for valuation effects, it excludes changes in Social Security balances.
6/ Includes Ecopetrol, Fogafin, and Finagro.
7/ Includes foreign holdings of TES; does not include Banco de la República's outstanding external debt.
8/ Excludes Colombia's contribution to FLAR; includes valuation changes of reserves denominated in currencies other than U.S. dollars.

INTERNATIONAL MONETARY FUND

COLOMBIA

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION

September 12, 2025

KEY ISSUES

Context. Colombia enters a pre-electoral year amid a mixed economic backdrop. Economic growth has strengthened somewhat while inflation is gradually falling, aided by appropriately tight monetary policy. Widening fiscal deficit and rising debt levels have led to elevated sovereign spreads and private investment remains weak amid lingering concerns and uncertainties over the direction of policies.

Outlook and Risks. Real GDP growth is projected to reach around 2½ percent in 2025 but is expected to decline somewhat over the coming years due to planned fiscal adjustment, before gradually converging to its potential. Returning to the fiscal rule by 2028 will require substantial consolidation efforts, although confidence gains and lower spreads could limit the fiscal drags on growth. Inflation is expected to gradually fall to about 4½ percent by end-2025 and reach the 3 percent target by early 2027, conditional on tight monetary policy and the resumption of fiscal restraint. Risks to the outlook are tilted to the downside, reflecting domestic uncertainties and policy implementation challenges, including ahead of the elections, as well as external headwinds from global policy uncertainty, geopolitical tensions, and tighter global financial conditions. Contingency planning and agile policymaking remain critical.

Policy Recommendations

- *Fiscal Policy*. A decisive and credible fiscal adjustment is urgently needed to re-anchor expectations, lower borrowing costs, and improve the overall policy mix. The temporary suspension of the fiscal rule is regrettable, and consideration should be given to frontloading the adjustment if market sentiment sours further. Meeting the revised 2025 deficit target (7.1 percent of GDP) will still require immediate spending cuts and a reduction in budgetary backlogs. Importantly, the proposed fiscal plan over 2026-28 will require a structural adjustment of over 3 percentage points of GDP, which will need to be underpinned by fundamental reforms to address budget rigidities and shift spending responsibilities to subnational governments. A sustained commitment to fiscal restraint beyond 2026-28 is also warranted, given the debt dynamics.

- *Monetary and Exchange Rate Policies*. Against the backdrop of fiscal slippages and the upside risks to inflation, monetary policy should remain tight to bring inflation firmly to the 3 percent target by early 2027. The exchange rate should continue to play its role as a shock absorber, with intervention limited to certain circumstances consistent with the Integrated Policy Framework (IPF). Central bank independence, which has served the country well, should be preserved.

- *Financial Sector Policies*. While the financial system remains resilient, close monitoring remains essential amid elevated real interest rates, rising sovereign exposure and pockets of vulnerabilities. The close linkages between nonbank financial institutions (NBFIs) and the banking sector call for enhanced oversight and monitoring of contagion risks. Strong governance and investment rules for the new public pension fund will be key to safeguarding financial stability and avoiding market disruptions during the pension system transition.

- *Structural Policies*. Greater focus needs to be placed on policies to boost productivity, increase export diversification, and enhance labor force participation—especially among women—in the face of demographic pressures. A further strengthening of governance and anti-corruption frameworks will also be essential to improve the investment climate, including to catalyze Colombia's potential in tourism and other services. The authorities' planned social and structural reforms, including energy transition, need to be carefully implemented and fully integrated into the medium-term fiscal policy path.

Approved By
Luis Cubeddu (WHD) and Martin Čihák (SPR)

Discussions took place in Bogotá during February 3-17, 2025, led by Ceyda Oner, and July 21-25, 2025, led by Ding Ding. The team also comprised of Marco Arena, Sophia Chen, Roberto Perrelli (all WHD), Boele Bonthuis (FAD), Bihong Huang (MCM), and Ben Kett (SPR). José De Haro (COM) led press interactions. Mr. Munevar (OED) participated in the mission discussions. Staff met with the Central Bank Governor and Board, the Ministers of Finance, Environment and Sustainable Development, and Health, as well as senior officials from the Ministry of Labor, Ministry of Energy and Mines, Autonomous Fiscal Council (CARF), City of Bogotá, Financial Superintendency (SFC), Financial Guarantee Fund, National Development Department, National Infrastructure Agency, Public Pension Fund Administration (Colpensiones), and Statistics Office (DANE). The mission also met with think-tanks, civil society organizations, and private-sector representatives. Daria Kolpakova and Carlos Miguel Alvarez (WHD) provided valuable inputs to the report, and Kristine Laluces (WHD) provided excellent administrative coordination.

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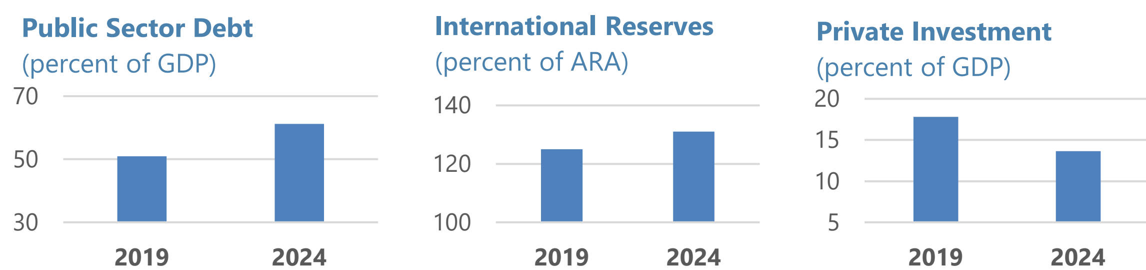
CONTEXT

1. Colombia enters a pre-electoral year facing a complex economic landscape. Economic growth has strengthened somewhat, inflation has continued to gradually fall, supported by appropriately tight monetary policy in the face of some fiscal easing, and reserve coverage has further improved. However, fiscal pressures are mounting, with the deficit widening and public debt up by almost 10 percentage points (ppt) of GDP since 2019. Elevated sovereign spreads, together with lingering uncertainties over the direction of policies, continue to hold back private investment. Meanwhile, external headwinds from stricter trade and immigration policies elsewhere are adding to Colombia's challenges.

Selected Economic and Financial Indicators

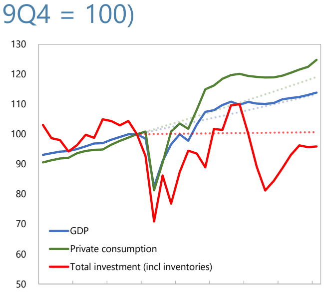


Source: IMF staff calculations.
Note: The reported reserve coverage ratio for 2019 is based on the ARA metric that includes a commodity buffer.

RECENT DEVELOPMENTS

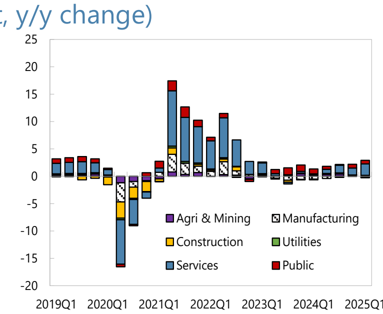
2. Real GDP growth has strengthened further, driven by private consumption. The economy expanded by 1.6 percent last year (compared to 0.6 percent in 2023) and further by 2.4 percent y/y in 2025H1, with output gap now virtually closed. Private consumption expanded by 1.2 percent in 2024, owing to a robust labor market, and is now 6 percentage points above the level implied by the pre-pandemic trend. Investment recovered somewhat from its trough in 2023 (Figure 1), but remains well below pre-pandemic levels (Table 1; see also 2024 Article IV Staff Report, Box 1). On the supply side, services remained the key engine of growth, while construction and manufacturing continued to lag.

GDP Levels Versus Pre-Pandemic Trends
Index (2019Q4 = 100)



Sources: DANE and IMF staff calculations.

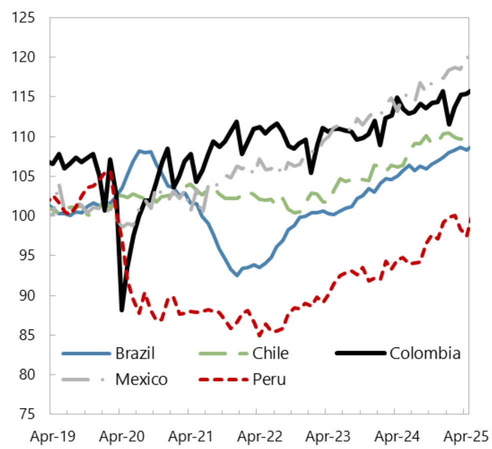
Gross Value Added Growth and Contributions
(Percent, y/y change)



Sources: DANE, Haver Analytics, and IMF staff calculations.

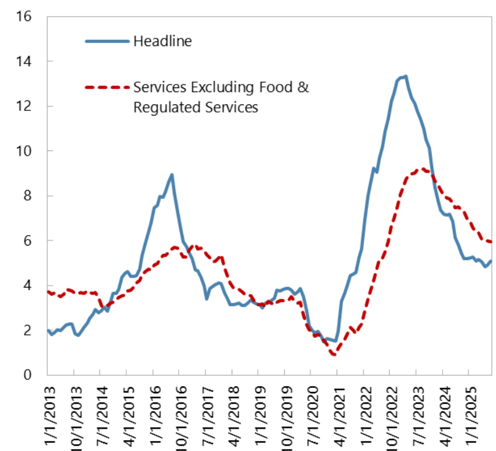
3. The labor market has remained robust, and there has been a notable decline in poverty since the COVID-19 pandemic (Figure 2). Underpinned by the strength of the services sector, the unemployment rate reached 8.6 percent in June 2025—well below the 2001-19 average, although female unemployment remains high at 10.8 percent. Meanwhile, real wages have risen by 6 percent since January 2024, outpacing most regional peers (except Mexico) and partly reflecting a sizeable increase in the minimum wage in 2024 and 2025 (12.1 and 9.5 percent, respectively). These dynamics, together with an expansion of social assistance, have supported further declines in poverty (Box 1).

Real Wages
Index (January 2019 = 100)



Notes: Manufacturing wages are shown for Chile, Colombia, and Mexico, while wages across all sectors are shown for Brazil and Peru.
Sources: Haver and IMF staff calculations.

CPI
(y/y percent)



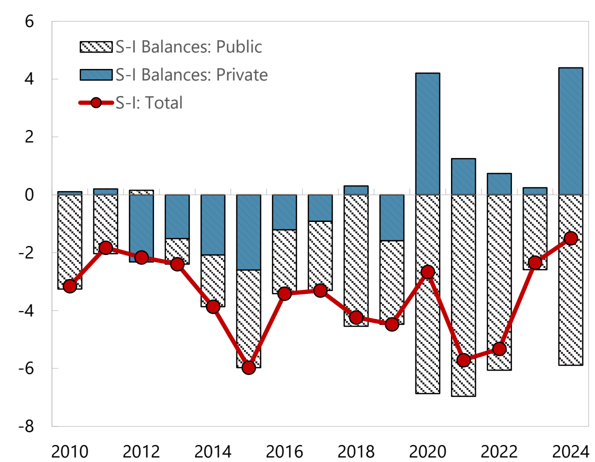
Sources: Haver and IMF staff calculations.

4. Inflation and inflation expectations continue to fall, although core inflation remains sticky (Figure 3). Headline inflation declined from 9.3 percent (y/y) in December 2023 to 4.8 percent in June 2025, followed by a slight uptick to 5.1 percent in August. Core inflation declined more gradually, from 8.8 percent (y/y) in December 2023 to 5.4 percent in August, reflecting persistent services inflation and widespread indexation (e.g., for school tuition). One- and two-year ahead inflation expectations have continued to decline toward the 3 percent target and are now within the central bank's tolerance band.

5. The central bank (Banrep) has continued to lower its policy rate, albeit at a more measured pace in recent months. Following cumulative cuts of 350 basis points in 2024, the policy rate has been reduced by only 25 basis points year to date, as inflationary pressures persist. Banrep's policy stance remains tight, with the real ex-ante policy rate still above (about 280 basis points) estimated neutral rate. The slower pace of monetary policy rate cuts relative to peers reflects higher-than-expected inflation outcomes, elevated sovereign risk premium, and fiscal policy uncertainties.

6. **The current account deficit (CAD) narrowed from 2.3 percent in 2023 to 1.7 percent in 2024, the lowest in nearly two decades**. The improvement was largely driven by lower dividend payments (reflecting reduced profitability of foreign companies, notably in the energy sector) but also higher remittances, following the recent rise in outward migration and strong labor market conditions in source countries (namely the United States). These more than offset a slightly larger trade deficit as a share of GDP, as lower exports—largely due to lower oil and coal prices—were only partially offset by lower imports, owing in part to a more depreciated peso (the REER fell by about 3.7 percent in 2024, e.o.p.) and still-weak private investment. In fact, a decomposition of the CAD shows that the 2024 improvement was driven by a sharp increase in the private sector's savings-investment (S-I) balance, which more than offset the decline in the public sector's S-I balance resulting from fiscal easing. The 2024 CAD was more than financed by foreign direct investment (FDI) inflows (although these are down since 2023), yet the overall financial account balance has fallen as residents increased their net asset position abroad and nonresidents reduced their holdings of local currency bonds (Figure 4). Colombia's external position for 2024 is assessed to be broadly in line with medium-term fundamentals and desired policy settings (Annex I), with uncertainty surrounding point estimates.[1] Since end-2024, the CAD has widened somewhat (to 2.2 percent of GDP through end-June 2025), with higher trade deficits offsetting temporary increases in inward remittances as stricter immigration policies elsewhere take hold.

Savings-Investment Balances
(Percent of GDP)



Sources: IMF WEO Database and IMF Staff calculations.

7. **International reserves remain adequate and continue to be strengthened**. Positive balance of payments developments during much of last year and early this year allowed Banrep to complete its US$1.5 billion reserve accumulation plan in 2024 in the context of continued exchange rate flexibility. Reserves reached US$61.9 billion by end-2024 (Table 2) and a comfortable US$64.6 billion by end-June 2025 (131 percent of the ARA metric), further strengthening the central bank's balance sheet.[2]

[1] Offsetting policy adjustments aimed at improving the investment climate while reducing large fiscal deficits would still be required.

[2] IMF staff completed the safeguards procedures for Colombia's 2024 Flexible Credit Line (FCL) arrangement. KPMG Colombia (the external auditor) issued an unmodified audit opinion on the Banrep's 2023 and 2024 financial statements—both published on the central bank's website on a timely basis. Staff did not identify any significant issues from reviewing the results of both audits.

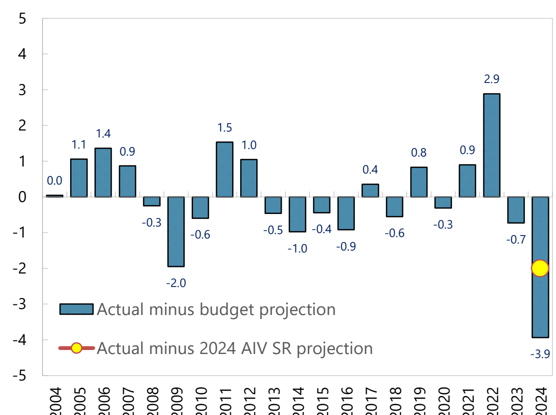
8. Fiscal policy turned expansionary in 2024, amid higher interest payments and erratic budget planning compounded by overly optimistic tax revenue projections.

- Tax revenues fell nearly 4 ppt of GDP short of budget projections, and 2.2 ppt of GDP below the 2023 outturn. The revenue surprises reflected, inter alia, overpayment of tax advances in 2023, a drop in coal prices (which reduced windfall taxes by 1.2 percent of GDP), and lower value-added tax (VAT) on imports (0.6 percent of GDP).

- Despite revenue shortfalls, Central Government (CG) primary expenditures remained broadly unchanged relative to 2023, but with a deterioration in its composition. Late-2024 spending cuts (of 1.7 percent of GDP) proved insufficient and were highly concentrated in already-low capital expenditures. Moreover, liquidity constraints contributed to an accumulation of large budgetary backlogs (3.0 percent of GDP), adding to expenditure pressure this year. Continued efforts to hike diesel prices contributed to reducing the Fuel Price Stabilization Fund (FEPC) deficit by 0.4 percent of GDP and helped limit increases in the Combined Public Sector (CPS) deficit.

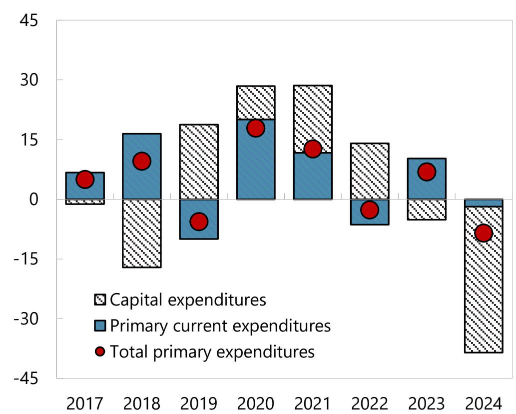
- Meanwhile, the CG's interest payments rose to 4.3 percent of GDP (0.4 ppt higher than in 2023) reflecting higher interest costs and rising gross public debt, which reached 61.2 percent of GDP by end-2024.[3] Accordingly, the CG overall deficit widened to 6.7 percent of GDP, up from 4.2 percent of GDP in 2023, and exceeded the 2024 Medium-Term Fiscal Framework (MTFF) target by 1.1 percentage points (Box 1 Table). The CPS deficit rose even more sharply (from 2.6 percent of GDP in 2023 to 5.8 percent of GDP), reflecting the worsening of CG's fiscal position (2.5 ppt of GDP) and, to a lesser extent, lower Social Security surpluses (0.7 ppt of GDP), despite improvements in the FEPC deficit (Figure 6).

Tax Revenue Forecast Errors, 2004-24
(Percent of GDP)



Sources: Ministry of Finance and IMF staff estimates.

Primary Expenditures, 2017-24
(Annual real growth rate, in percent)



Sources: Ministry of Finance and IMF staff estimates.

9. The fiscal position continued to weaken in 2025. Congress did not approve the 2025 budget law, citing unfunded spending plans. In the first half of 2025, revenue again underperformed

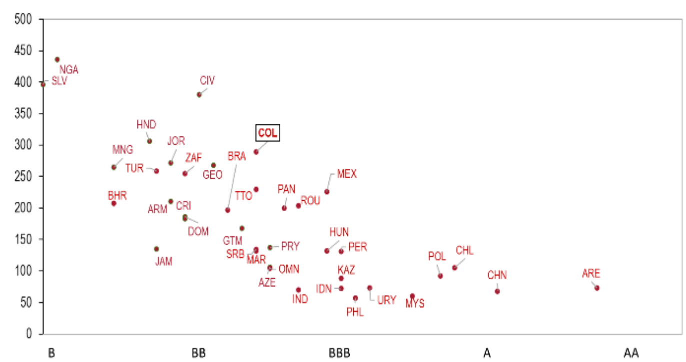
[3] Net CG debt reached 59.3 percent of GDP—4 ppt above the fiscal rule anchor of 55 percent of GDP.

relative to the same period of last year and to the government's baseline projections, despite the better-than-expected growth and labor market outturn. Notwithstanding a government decree to increase the withholding tax rates for certain sectors (which in practice advances next year's tax receipts), total revenues during the first semester fell short of the authorities' February Financing Plan (FP) projections by about 0.5 percent of GDP. Meanwhile, primary cash expenditures grew faster than expected, reflecting the accelerated repayment of 2024 budgetary backlogs, and wage increases for civil servants (0.4 percent of GDP). In addition, the pace of budget execution has been marked by a higher volume of spending commitments than in the same period of last year, reflecting pre-electoral resource mobilization by line ministries, and suggesting that by end-2025 budgetary backlogs could be as high as those in 2024.

10. Amid a widening fiscal deficit, the government invoked the escape clause in the June MTFF to suspend the fiscal rule through 2027, arguing that adhering to the fiscal rule target would require a fiscal adjustment incompatible with macroeconomic stability. The 2025 MTFF now projects CG primary and overall deficits of 2.4 and 7.1 percent of GDP, both roughly 2 percentage points higher compared to the February FP projections (Box 2). Net CG debt is projected to reach over 61 percent of GDP by end-2025, exceeding the debt anchor by 6 percentage points. Financing needs for 2025 are estimated to reach around 10.6 percent of GDP, to be covered mostly with domestic financing (8.4 percent of GDP), including sizeable short-term treasury operations. External financing is expected to come from external bond issuances (1.4 percent of GDP) and development partners (0.5 percent of GDP). The MTFF envisages a substantial consolidation in 2026-28 and a return to the fiscal rule deficit target by 2028, although it falls short of providing details on the underlying measures to achieve this objective. By end-2028, net CG debt is projected to reach 63 percent of GDP (7 percentage points above last year's MTTF projection). Given the substantial increase of the fiscal deficit and the suspension of the fiscal rule, staff assesses that the fiscal stance and policies have weakened considerably relative to the commitments and assessment made at the time of the 2024 FCL request.[4]

11. Colombia's sovereign spreads have risen further, widening the gap relative to regional peers and countries with similar credit ratings. Sovereign spreads have risen since mid-2024, in tandem with downgrades by rating agencies, although Colombia

Sovereign Spreads and Credit Ratings
(Basis points and rating grades)



Sources: Bloomberg and IMF Staff Calculations.
Note: Data up to August 2025. Ratings and spreads represent the average over the specific sample period of the chart (June-August 2025).

[4] See ¶12 and ¶13 of Colombia—Request for an Arrangement Under the Flexible Credit Line and Cancellation of the Current Arrangement (IMF Country Report No. 24/ 100, 04/10/2024). Colombia's latest FCL arrangement was approved on April 26, 2024, for a two-year period. Access to the FCL has been lost since April 2025 as the mid-term review has not been completed.

continues to access international capital markets. In April 2025, the authorities issued US$3.8 billion in global bonds with 5- and 10-year maturities at fixed rates of 7.50 and 8.75 percent, respectively. Despite the shorter maturities, spreads over U.S. treasuries rose by close to 100 basis points compared to a similar issuance in October 2024. This was followed by another euro-denominated global bonds issuance for €4.1 billion in September, also aimed at extending debt maturities. In domestic markets, yields on 5-to 10-year government peso-denominated bonds (TES) have risen by over 200 basis points since last October. Overall, Colombia's risk premium has diverged further relative to its peers since the sovereign rating downgrade of 2021, largely on account of rising fiscal risks and policy uncertainty (Box 3).

12. The financial sector remains generally resilient. Banks remain liquid and adequately capitalized, with the liquid assets to total assets ratio and the capital adequacy ratio (CAR) standing at 19.7 and 18.6 percent, respectively. The ratio of liquid assets to short-term liabilities is generally adequate, although somewhat lower compared to regional peers, and provisioning levels remain appropriate at 114 percent of nonperforming loans (NPLs), albeit with some heterogeneity across banks. NPLs have declined to about 4.4 percent through May 2025, and stand near pre-pandemic levels, consistent with some improvements in household balance sheets (debt service to income ratio fell from 37.1 percent in 2022 to 31.9 percent in 2024) amid a robust labor market and strong remittance inflow. Although overall bank profitability is still below the historical average, big banks have recently reported improved earnings. Meanwhile, nonbank financial institutions (NBFIs) including trust companies (SFD), stock brokerage firms (SCB), pension funds (AFPs) and life insurance companies have been growing rapidly in recent years and now represent 57 percent of financial sector assets and 114 percent of GDP (up from around 90 percent of GDP in 2018), investing heavily in TES, certificates of deposits, and collective investment funds.[5] Steps continue to be taken to strengthen the oversight and regulations of banks and NBFIs, including a new regulatory framework for risk concentration and large exposure, as well as extending the large exposure regulation to all financial institutions regulated by SFC.

OUTLOOK AND RISKS

13. The baseline outlook is projected to strengthen gradually amid the resumption of a more appropriate macroeconomic policy mix, conditional on sustained monetary restraint and a renewed commitment to fiscal consolidation.

- **Growth**. Real GDP growth is projected to reach 2½ percent in 2025, supported by the easing of fiscal policy and a recovery in private investment as monetary policy gradually normalizes. Growth is expected to slow to around 2¼ percent in 2026-27, before gradually converging to the potential, as drags from the expected fiscal consolidation are partially offset by positive

[5] As of March 2025, TES represented 30.6 percent of the AFPs' investment portfolio, making them the main holders of public debt. For SFD and SCB, TES represents 16.9 percent and 11.3 percent of their investment portfolio respectively. NBFIs hold 13.6 percent of the liabilities of banks, mainly through certificates of deposits which represents 27.3 and 40.7 percent of investment portfolio of SFD and SCB respectively.

effects from confidence gains and lower borrowing costs. Potential growth is estimated to be 2¾ percent—¼ ppt lower than earlier projections and well below the average growth rate of the past two decades (3.8 percent), reflecting declining labor force participation and productivity (Annex II).

- **Inflation**. Inflation is projected to gradually fall to around 4½ percent by end-2025 and reach the 3 percent target by early 2027, provided that tight monetary policy is maintained and the fiscal consolidation proceeds as planned.

- **External Balance**. The CAD is expected to rise to around 2½ percent of GDP in 2025, primarily driven by less favorable terms of trade and stronger domestic demand. The impact of the introduction of U.S. tariffs on Colombia is expected to be limited as the direct effect of lower U.S. demand for Colombian's tariffed exports is offset by trade diversion effects from other countries facing more substantial tariffs. Remittances are projected to grow in line with U.S. growth, although these are subject to important uncertainties given stricter U.S. migration policies. The CAD is expected to converge gradually to its medium-term level of 3½ to 4 percent of GDP by 2030, consistent with some recovery in private investment from the current low levels and declining extractive exports, while net FDI inflows continue to dominate the financial account.

14. The outlook is subject to significant downside risks, particularly if the much-needed fiscal consolidation is further delayed.

- **On the external front**, tighter global financial conditions, increased global trade barriers, and associated uncertainties could dampen growth, reduce exports, disrupt FDI and supply chains, and lead to higher borrowing costs for Colombia. Stricter immigration policies elsewhere could result in a sharp slowdown in remittances. Meanwhile, heightened geopolitical tensions could further undermine the investment climate and official financing flows (Annex III and IV).

- **On the domestic front**, further delays in fiscal consolidation could heighten concerns about unanchored fiscal policy, further undermine investor confidence, raise even further Colombia's elevated risk premium, complicate market financing, and potentially lead to a sudden stop in capital inflows. A further rise in political uncertainties and an intensification of violent crime and insecurity could weigh on economic activity and hinder private sector development.

15. Contingency planning and agile policymaking remain essential to preserving macroeconomic stability, especially as external uncertainty intensifies. Although Colombia successfully issued global bonds in April and September, investor sentiment remains fragile. Fiscal consolidation should proceed as planned to contain a further rise in public debt and sovereign spreads, while securing the rolling over of debt services. Should downside risks materialize and/or financial conditions tighten sharply, consideration should be given to frontloading the fiscal adjustment, while the pace of monetary policy normalization will need to be carefully calibrated to preserve the disinflation process and prevent a de-anchoring of expectations. Accelerating efforts to boost productivity, increase export diversification, and enhance labor force participation would help strengthen growth resilience. More generally, the flexible exchange rate should remain the key shock absorber.

Authorities' Views

16. The authorities broadly agreed with the staff's assessment of risks to the outlook. They anticipate that growth momentum will be maintained over the near term, supported by robust domestic demand and non-mining exports, while inflation is expected to continue converging toward the target. They agree that the outlook remains subject to significant uncertainty arising from mainly external factors, with key risks stemming from escalating geopolitical tensions, increased trade barriers, ongoing global trade disputes, and tighter global financial conditions. These external pressures could cloud the outlook by reducing exports, triggering volatility in commodity prices, decreasing remittance inflows, and raising borrowing costs.

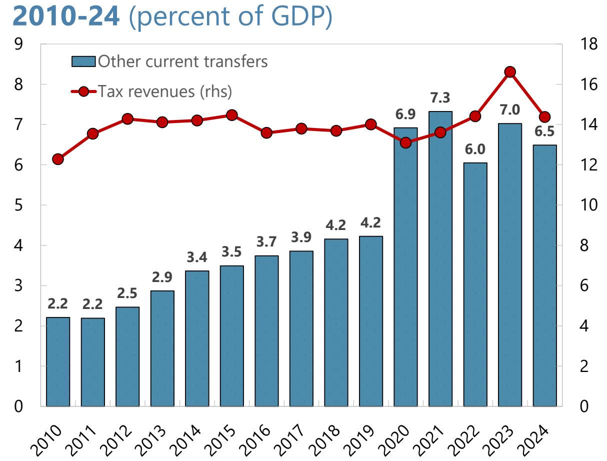
POLICY DISCUSSIONS

Following significant fiscal slippages, decisive and credible adjustment measures are urgently needed to deliver the consolidation path outlined in the 2025 MTFF, bring down public debt, narrow sovereign spreads, and limit refinancing risks. Meeting the 2025 deficit target will require immediate spending cuts, while high-quality measures are needed to deliver on the proposed adjustment for 2026-28. Continued caution in the monetary policy stance remains warranted to ensure inflation firmly returns to the 3 percent target by early 2027, while exchange rate flexibility should continue to buffer against rising external risks. Preserving central bank independence remains critical. A robust governance framework and prudent investment principles for the new public pension savings fund will be essential to safeguarding macro-financial stability. Going forward, greater focus should be placed on policies to boost productivity, increase export diversification, and enhance labor force participation—especially among women, while the authorities' proposed social reforms and energy transition must also be prudently managed to mitigate fiscal risks and avoid discouraging investment and formal employment.

A. Fiscal Policy

17. A decisive turnaround of the fiscal strategy is urgently needed to re-anchor fiscal expectations, ease liquidity pressures, contain borrowing costs, and improve the overall policy mix. Since 2019, current expenditure as a share of GDP has increased by more than 4 ppt, led by higher interest payments and current transfers (about 2 percent of GDP each). In fact, "other" transfers (i.e., excluding those to subnational governments and pensions) more than tripled

Other Current Transfers and Tax Revenues, 2010-24 (percent of GDP)



Sources: Ministry of Finance and IMF staff estimates.

since 2010-11, absorbing about 45 percent of tax revenues in 2023-24, compared with less than 20 percent in the early 2010s. This, combined with budget rigidities and liquidity constraints, has led to under-execution of public investment and abrupt end-of-year cuts, undermining both the effectiveness of fiscal policy and the credibility of the budget framework, in contrast to staff 's earlier recommendations (Annex V). A decisive reduction in fiscal deficits is also essential to lower sovereign spreads, limit refinancing risks, and lessen the burden on monetary policy.

18. Immediate spending cuts are needed to meet the 2025 deficit target and avoid further fiscal slippage. For 2025, the MTFF includes up to 0.5 percent of GDP in unidentified revenue measures, along with primary expenditures of 19.5 percent of GDP (3.8 ppt of GDP above pre-pandemic levels). Meeting the projected CG overall deficit of 7.1 percent of GDP (consistent with a primary deficit of 2.4 percent of GDP) would require discretionary spending cuts (which are economically feasible and under the purview of the executive branch) of a similar magnitude, preferably as early as possible to avoid late-year budget execution difficulties. This could be achieved by streamlining discretionary transfers (0.3 percent of GDP) and limiting the recently announced wage bill expansion (0.2 percent of GDP). If necessary, additional savings could be obtained by reducing planned capital expenditure outlays (up to 0.5 percent of GDP in discretionary spending). Efforts are also necessary to reduce the volume of budgetary backlogs this year, including through prompt cancellation of discretionary primary expenditures not yet committed, to safeguard the feasibility of fiscal consolidation. The planned replenishment of CG peso-denominated cash buffers (from 0.2 to 1.1 percent of GDP) this year is essential to reduce liquidity risks.

19. Over the next three years, delivering the MTFF consolidation path would require a concrete, comprehensive and appropriately balanced adjustment plan. Given Colombia's structural fiscal constraints, the adjustment package should strike a balance between economic feasibility and optimality. The implementation should be carefully calibrated recognizing the fiscal drags on growth[6], but also the benefits from lower sovereign spreads and reduced interest payments, particularly given Colombia's currently elevated spreads relative to peers and levels that would be consistent with its macroeconomic fundamentals (Box 3). Following these principles, consideration should be given to a fiscal package of about 3.2 percent of GDP over the next three years, with a balanced mix of growth-friendly expenditure and revenue measures, as well as clear intermediate fiscal targets. The precise composition and phasing will much depend on market conditions and political-economy considerations, although a greater frontloading of the adjustment may be necessary should market sentiment sour further. As illustrated in the Text Table, the following consolidation measures could be considered:

- **On the revenue front**, measures of roughly 1 percent of GDP could be considered, including through (i) the reduction of VAT exemptions and de minimums thresholds on imports (0.5 percent of GDP); (ii) higher rates on online gambling platforms (0.2 percent of GDP); (iii) oil

[6] Fiscal multipliers are estimated to be in the range of 0.2-0.3, which are below past estimates, on account of confidence enhancing effects and lower sovereign spreads.

& coal surcharges (0.1 percent of GDP); (iv) higher stamps and excise (0.1 percent of GDP); and (v) higher carbon taxes (0.1 percent of GDP). These measures would also help broaden Colombia's tax base (e.g., VAT and online gambling) and tackle negative externalities (e.g., fossil fuels, carbon emissions, tobacco, and others).

Potential Fiscal Measures and Yields, 2026-28
(Percent of GDP)

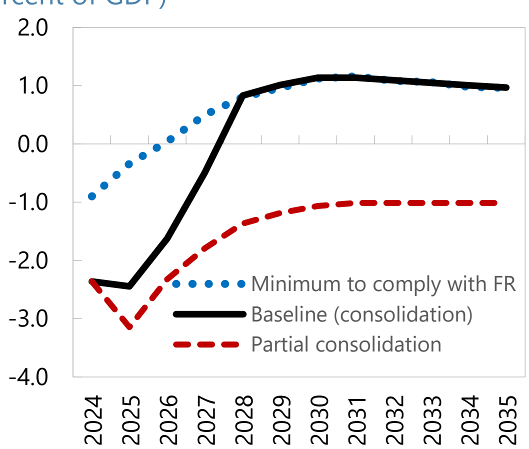
	2026	2027	2028	Legal basis
Revenues	**0.5**	**0.8**	**1.0**	
Reduction of VAT exemptions and de minimis thresholds on imports	0.1	0.3	0.5	Law
Taxes on online gambling platforms	0.1	0.2	0.2	Law
Oil & coal surcharges	0.1	0.1	0.1	Law
Higher stamps and excises	0.1	0.1	0.1	Law
Higher carbon taxes	0.1	0.1	0.1	Law
Expenditures	**0.7**	**1.4**	**2.2**	
Eliminating fuel subsidies	0.1	0.3	0.5	Decree
Bringing the wage bill back to historical norms	0.2	0.3	0.5	Decree
Rationalizing current transfers	0.2	0.4	0.6	Law
Reducing healthcare subsidies by lowering threshold for employer contributions	0.1	0.2	0.4	Law
Enhancing efficiency of procurement system	0.1	0.2	0.2	Decree
Total	**1.2**	**2.2**	**3.2**	

Source: IMF staff estimates

- **On the expenditure front**, priority could be given to bringing primary current spending closer to pre-pandemic levels by (i) eliminating fuel subsidies (0.5 percent of GDP, see ¶23); (ii) bringing the wage bill back to historical norms (0.5 percent of GDP); (iii) rationalizing current transfers and lessening budget rigidities (0.6 percent of GDP, see ¶22-23); (iv) reducing healthcare subsidies by lowering the thresholds for employers' contributions (0.4 percent of GDP); and (v) enhancing the efficiency of the procurement system (0.2 percent of GDP).

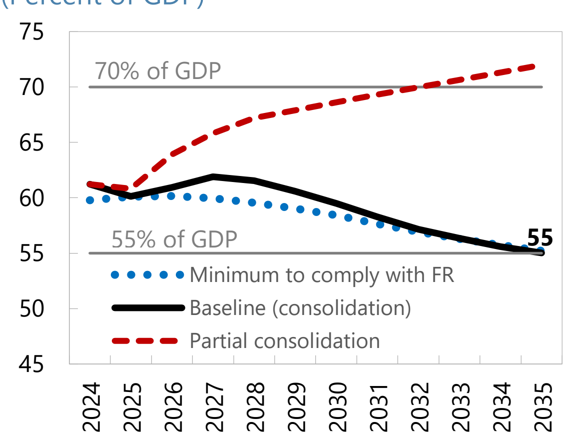
- A full-fledged **contingency plan** is also warranted to safeguard consolidation outcomes and address fiscal slippages on a timely basis. Budget laws should include buffers relative to fiscal balance targets, especially since tax reforms have historically delivered only about half of the projected revenue yields. Missed targets should be immediately compensated for Colombia to return to the fiscal rule by 2028 (the legal limit of the suspension period). Failure to consolidate during the next three years would raise fiscal and debt risks considerably. For example, if only the revenue measures illustrated above are implemented ("partial consolidation" scenario in Text Charts), the public debt to GDP ratio would breach the 70 percent legal ceiling by 2033. Similarly, if primary deficit remains at 2.4 percent of GDP over the medium term, the 70 percent ceiling could be breached by 2028.

CG Primary Balance Scenarios, 2024-35
(Percent of GDP)



Sources: Ministry of Finance and IMF staff estimates.

CPS Gross Public Debt Scenarios, 2024-35
(Percent of GDP)

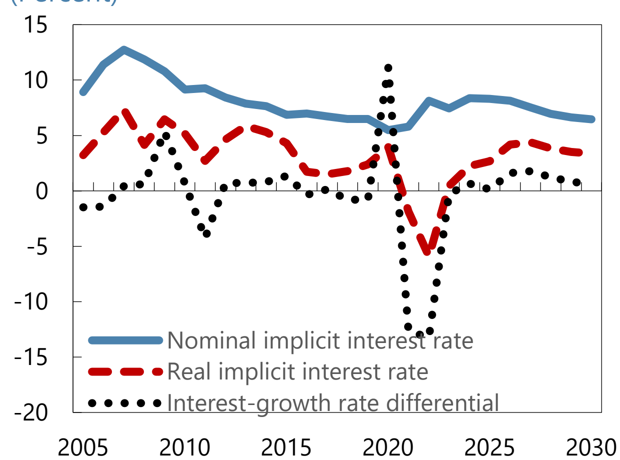


Sources: Ministry of Finance and IMF staff estimates.

20. The authorities' proposed 2026 budget carries serious implementation risks. The draft budget assumes modest improvements in the primary and overall fiscal deficits, relying mostly on a new tax reform proposal and interest savings from new debt management operations.[7] Relative to the June MTFF, the proposed 2026 budget envisages a larger primary deficit target (up by 0.6 ppt to 2.0 percent of GDP), with higher primary spending (up by 1.2 ppt to 20.6 percent of GDP) more than offsetting the higher yields from the proposed tax reform (up by 0.5 ppt to 1.5 percent of GDP). Meanwhile, the proposed overall deficit target is unchanged at 6.2 percent of GDP, as interest payments are estimated to fall by 0.6 ppt of GDP from ongoing liability management operations.[8] However, questions persist over the realism of the budget, and the government's ability to secure approval of another proposed tax reform ahead of the elections and deliver on the estimated interest savings. Given these implementation risks, a more ambitious adjustment in the 2026 primary balance may need to be considered.

21. A sustained commitment to maintain fiscal restraint beyond 2026-28 is also warranted. While Colombia CPS gross public debt is expected to remain sustainable over the medium term conditional on the assumed fiscal consolidation (Annex VI), given the absence of identified measures and implementation risks, considerable efforts are needed to bring down net CG debt decisively toward the 55 percent of GDP anchor. Full adherence to the fiscal rule from 2029 onwards requires CG headline primary surpluses at around 1.1 percent of GDP for consecutive years. Still, as acknowledged in the 2025 MTFF plan, the CG debt anchor would not be reached until the 2040s, as Colombia's interest rate-growth rate differential is far less favorable now than when the fiscal rule was originally designed.[9] Assuming Colombia returns to near zero primary balances by 2030 (which would be considerably higher than the average primary balance of -0.9 percent of GDP of the past

Fiscal R-Star
(Percent)



Sources: Ministry of Finance and IMF staff estimates.

[7] On September 1, the government submitted to Congress a draft Financing Bill aiming to raise COP26.3 trillion (1.4 ppt of GDP) to close the 2026 budget gap. Key measures include extending VAT to fuels, high-cost event tickets, and digital services; introducing or raising levies on oil, coal, gambling, alcohol, tobacco, and carbon emissions; and increasing levies on the financial sector and high-income individuals. The proposal also aims to strengthen tax administration, while pledging not to tax the basic food basket. Both the Financing Bill and the draft Budget Law are under consideration by Congress.

[8] On August 4, the authorities launched a debt buyback program aimed at replacing up to US$10 billion in USD-denominated global bonds maturing during 2030-61. The operation may be financed through planned Swiss franc-denominated borrowing and aims to reduce interest costs and diversify funding sources.

[9] Under the 2021 fiscal rule framework, deficit targets were pre-determined in the law for the transition period (2022-25). Afterwards, to comply with the fiscal rule law, the CG needed to deliver a structural primary balance of at least 0.2 percent of GDP plus one tenth of the difference between the debt stock in the previous year and the debt anchor

(continued)

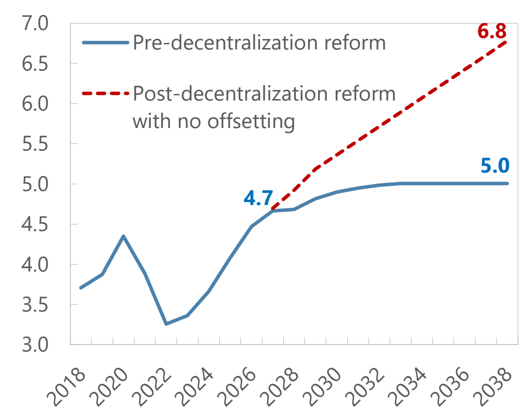
two decades), the implicit interest rate on Colombia's public debt would still have to decline at least 120 basis points relative to the baseline—to an average implicit real interest rate of 2½ percent ("Fiscal R-star"[10])—to prevent an upward debt trajectory after the consolidation period.[11] As such, a long-lasting conservative fiscal strategy based on credible and growth-friendly revenue and expenditure measures is essential to improve debt dynamics and safeguard fiscal sustainability beyond the consolidation period.

22. In this regard, greater priority needs to be given to reducing budget rigidities. In addition to addressing challenges from growing pension liabilities and the constitutional spending floors for health and education, legal reforms should be pursued to delink mandatory spending from non-structural revenue growth (subnational transfers are currently tied by law to the 4-year moving average growth of CG's net current revenues). Addressing these spending rigidities (which represent around 90 percent of all CG spending in 2025) are not only necessary to secure consolidation goals but also to allow Colombia to better adjust to frequent shocks.

23. Moreover, the fiscal costs of the authorities' proposed social and structural reforms must be consistent with the MTFF consolidation targets.

- **Decentralization**. The December 2024 reform of the *Sistema General de Participaciones* (SGP), which establishes a gradual increase in CG transfers to local governments up to 39.5 percent of its net current revenues (1.8 percent of GDP) over 12 years starting in 2027, depends on the approval of a Competencies Law aimed at shifting spending responsibilities to local governments. It will be critical that the reform, which is expected to be prepared during 2026, ensures fiscal neutrality, with improved coordination and monitoring across government levels to enhance efficiency, as unfunded transfers could generate negative macro-fiscal impact (Box 4). This should be

SGP Transfers to Local Governments
(Percent of GDP)



Source: Ministry of Finance and IMF staff estimates.

(55 percent of GDP). For example, if net CG debt ends 2027 at around 64 percent of GDP, as projected in the 2025 MTFF, the minimum structural primary balance required for the CG to meet the fiscal rule in 2028 would be 1.1 percent of GDP, which is lower than Colombia's projected interest rate-growth rate differential. All else equal, net CG debt would continue increasing after Colombia returns to the fiscal rule in 2028.

[10] Bolhuis, M., J. Koosakul, and N. Shenai, 2024, "Fiscal R-Star: Fiscal-Monetary Tensions and Implications for Policy," IMF Working Paper No. 2024/174. Washington, DC: International Monetary Fund.

[11] The implicit real interest rate is computed as the weighted average of the debt stocks denominated in pesos and foreign currency (mainly USD). The weights vary over time according to the authorities' debt management strategy. The assessment also assumes potential growth of 2¾ percent.

complemented by efforts to better target social transfers and improve procurement across all government levels.

- **Pension Reform**. The 2024-25 pension reform consolidates a predominantly private and fragmented pension system, characterized by considerable individual choice and limited lifelong coverage, into a comprehensive mostly public three-pillar pension system that aims to cover most of the elderly.[12] This expansion of coverage, coupled with more generous benefits in some pillars, is expected to result in increased pension spending, even if the new pension law explicitly allocates a portion of the additional revenue generated by the public pension system to finance the dormant old public pension system. Preliminary estimates suggest that CG spending could rise annually by up to 0.3 percent of GDP for the solidarity pillar, and by up to 0.8 percent of GDP for the semi-contributory pillar over the next decades. While these estimates are subject to significant uncertainties,[13] these costs should be fully incorporated in the medium-term budget and fiscal frameworks, in line with the planned fiscal consolidation targets, and offset through cuts in discretionary current transfers.

- **Healthcare Reform**. The proposed reform, which is still being considered by the Senate, aims to eliminate the financial intermediation role of private insurance companies (EPS), strengthen the government's role in managing resources and health care delivery, and ensure broader and more equitable access to healthcare.[14] Setting clear standards and determining qualifications for the use and availability of services will be critical for the success of the new healthcare system. Preliminary government estimates suggest that total health spending could increase by 1 percent of GDP within a decade, although greater clarity will be needed in defining how these higher outlays would be financed.

- **Energy Transition**. The authorities' ambitious goals of reducing reliance on fossil fuels (Section D) should be carried out in a manner that does not add to Colombia's fiscal and external imbalances. In this regard, consideration should be given to fully eliminating diesel subsidies (with savings of up to 0.5 percent of GDP per year) to support both fiscal consolidation and the investments for the green energy transition goals. Similarly, efforts should continue to clear past

[12] The system will consist of a solidarity pillar, a (semi-)contributory pillar and a voluntary savings pillar. Anyone earning up to 2.3 times the minimum wage will be entirely covered in the public system.

[13] For cost estimates, see Hacienda, Carta 4 Debate PL 433 de 2024 Cámara, Bogotá, June 4, 2024. Uncertainties arise as a result of the usual demographic, macroeconomic, and labor market factors influencing future pension spending, but also a result of the current and future distribution of individual contribution histories. Benefits will also vary depending on gender, contribution period (before and after the reform), as well as the relationship of actual wages and contributions to the segment below 2.3 times the minimum wage.

[14] The current system is a contributory health insurance model where a public institution collects contributions from formal workers and the government and pays mostly private insurers on a capitation basis, who in turn purchase services from healthcare providers. Since submission of the reform proposal to Congress (February 2023), several private insurers have been intervened by the government due to financial difficulties. Elements of the proposed reform are being implemented through decrees (e.g., expanding access to primary care) to attend urgent needs.

deficits of the fuel price stabilization fund (FEPC) and ensure the timely payment of electricity and gas subsidies to support investments and efficiency of the sector.

Authorities' Views

24. The authorities concurred on the need for sustained fiscal adjustment over the medium term and emphasized the importance of passing tax reforms. They attributed the 2024 fiscal outturn to one-off revenue shortfalls, noting that *Consejo Superior de Política Fiscal* (CONFIS) verified compliance with the fiscal rule after deducting 1.8 percentage points of GDP in one-off transactions from the structural primary balance target. They explained that the suspension of the fiscal rule during 2025-27, as provided for under the legal framework, was necessary to avoid "imposing extreme restrictions to the State's capacity to fulfill its functions as economic stabilizer and provider of goods and services." They further stressed that economic policy must remain aligned with their commitment to advance inclusive social policies, economic diversification, and energy transition. Regarding adjustment measures, the authorities saw limited room for spending cuts in the near term due to budget rigidities, and underscored the need for congressional approval of the proposed tax reform, which would deliver most of the adjustment necessary to meet the 2026 deficit target. They explained that the increase in the primary deficit target from 1.4 percent of GDP in the MTFF to 2.0 percent of GDP in the 2026 draft budget reflected anticipated interest savings from active debt management operations, but they stressed that the overall deficit target of 6.2 percent of GDP remained unchanged. The authorities agreed on the importance for contingency planning to address revenue shortfalls, and the need to ensure social reforms are consistent with the fiscal plans over the medium term. In the case of pensions, they clarified that the execution of the solidarity pillar will be subject to the availability of budget resources, while the healthcare reform addresses the bottlenecks and inefficiencies that would limit social and fiscal costs.

B. Monetary and Exchange Rate Policies

25. Tight macroeconomic policies remain essential to sustain progress in further reducing inflation. As headline inflation remains above the 3 percent target and services inflation pressures persist, Banrep's tight monetary policy stance remains appropriate. With the economy operating near potential, monetary easing should continue with caution to ensure inflation converges firmly to the target and inflation expectations remain anchored. This is especially necessary given the easing of fiscal policy this year and the risks of fiscal slippages going forward, which could de-anchor expectations, especially in the context of a "higher-for-longer" global rate environment (see Selected Issues Paper, Chapter 1). Close monitoring of wage developments remains essential, especially following implementation of the labor reform.

26. The pace of monetary easing should continue to be carefully calibrated. Maintaining a tight monetary policy stance is important to address persistent inflation pressures and upside risks, including those from expansionary fiscal policy and external conditions. Targeting a return of inflation to 3 percent by early-2027 would strike the appropriate balance between safeguarding the disinflationary process amid risks, preserving the credibility of the policy framework, and supporting economic activity. Banrep's policy guidance should continue focusing on the 3 percent target rather than on the +/-1 percent range to better anchor expectations. Meanwhile, maintaining the central bank's independence will be essential to ensure the credibility and effectiveness of the monetary policy framework.

27. The flexible exchange rate should continue to play its role as a shock absorber, with intervention limited to certain circumstances. Colombia's flexible exchange rate regime is a key pillar of its inflation targeting framework and has continued to serve the country well. Against elevated risks, the exchange rate should continue to adjust flexibly to shocks. In line with the Integrated Policy Framework (IPF) guidance, foreign exchange market intervention (FXI) should be used only if large shocks lead to destabilizing premia in FX markets, risk de-anchoring inflation expectations, or if there are FX mismatches that pose significant risks to financial stability. That said, emphasis should continue to be given to tackling the underlying source of sudden changes to the FX risk premium. Moreover, the authorities should continue to strengthen FX reserve buffers in line with the approach in recent years.

Authorities' Views

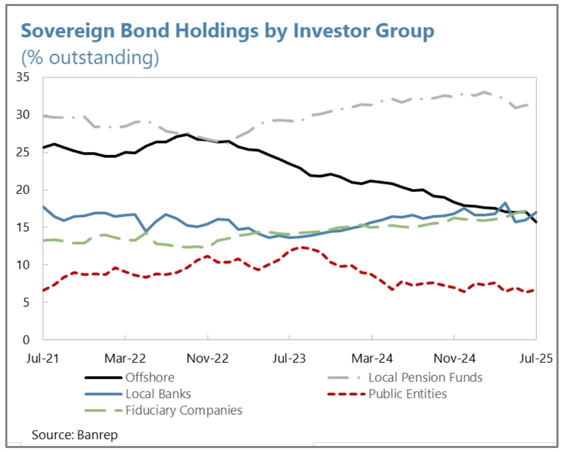
28. Banrep shared the staff's view on the importance of maintaining a cautious monetary policy stance, noting risks to achieving the inflation target. They recognized that, although headline and core inflation have eased over the past six months, the decline has been slower than last year and also than projected, while one-year-ahead inflation expectations remain above target and have risen relative to end-2024 levels. Central bank authorities are also mindful of inflation risks stemming from wages, some regulated prices, and global financial conditions. They noted that, while economic activity has gathered momentum more recently, external conditions are challenging due to global trade tensions, geopolitical uncertainties, and a slower than expected normalization of U.S. monetary policy. In this context, they underscored that the reduction of the policy rate should continue being approached with caution and guided by data. They also reaffirmed that the exchange rate should retain its role as a shock absorber, with foreign exchange intervention limited to addressing market failures. They noted that the current level of international reserves remains adequate to address shocks.

C. Financial Sector Policies

29. Continued close monitoring of financial sector soundness remains critical amid rising uncertainty and still-elevated real interest rates. Short-term liabilities have been growing faster than assets in the context of tight monetary conditions and, while liquidity remains adequate, close monitoring of liquidity risks should continue. While declines in NPLs for consumer credit are welcomed developments, enhanced monitoring of corporate credit (especially in construction, manufacturing, and trade sectors where profitability has fallen) and mortgage credit (which has accelerated at the margin, see Figure 7)[15] will be required, including through efforts to expand data

[15] "Pact for Credit", an agreement between the national government and Asobancaria, sets a nominal growth target for the housing portfolio of 40 percent over a period of 18 months from September 2024.

collection on household debt and repayment capacity. In addition, given Colombia's financial system is dominated by large, complex financial conglomerates with growing cross-border exposures, enhanced oversight of group-wide risks remains essential to monitor contagion channels across banks, NBFIs, and foreign operations. Meanwhile, the rapid growth of NBFIs, including its rising TES holdings and increased interconnections with banks (e.g., through common asset exposures), warrant continued close monitoring and strengthening of regulations. A recent IMF technical assistance also recommends reducing liquidity risks in open-ended investment funds (OEFs) by strengthening supervisory powers, reforming money market fund regulations, clarifying the use of liquidity management tools, and coordinating reforms through a cross-agency working group.



30. In this regard, progress in implementing the 2022 FSAP recommendations should continue. It will be critical to further strengthen the role of the regulator in systemic risk monitoring as well as the risk management framework under Basel III (Annex VII). In particular, the authorities will need to work closely with banks on transition plans for the reintroduction of the net stable funding ratio to avoid market disruptions (like the bunching of maturities observed in 2023) or potential dislocations arising from the implementation of the pension reform.[16] Steps should also continue to reduce the rigidity of the countercyclical provisioning scheme (CCyP) and consideration should be given to introducing a countercyclical capital buffer scheme, consistent with best practices. While notable progress has been made on strengthening AML/CFT framework—including stronger customer due diligence and beneficial ownership requirements, and enhanced transparency of legal entities—Colombia continues to face related challenges especially from cross-border illicit activities. To tackle these challenges, Colombia should sustain and deepen reforms, maintain momentum on AML/CFT risk-based supervision, and take actions to ensure effective international financial intelligence exchange.

31. A sound governance framework and prudent investment principles for the new public pension savings fund are critical for maintaining macroeconomic and financial stability (Annex VIII). Following the pension reform approval, approximately 75 percent of participants currently enrolled in the defined-contribution private pension funds are expected to switch to the public defined-benefits system. Contributions to the public scheme will be managed by a newly established public savings fund, the *Fondo de Ahorro del Pillar Contributivo* (FAPC) under Banrep management. To ensure effective operation, the governance framework for the FAPC should include:

[16] Starting in September 2025, financial institutions must classify demand deposits from wholesale clients, supervised financial institutions, and open-end mutual funds without permanent agreements as either operational or non-operational. Non-operational deposits from supervised entities and collective investment funds will carry a zero percent Available Stable Funding (ASF) factor. The SFC should closely supervise this transition, focusing on monitoring its impact, evaluating operational deposit modeling, and implementing mitigation strategies.

(i) a clear division of roles and responsibilities between Banrep and the fund's management; and (ii) an investment policy that is transparent, consistent with the fund's objectives/risk tolerance, and aligned with best international practices. Importantly, the design of FAPC's investment mandate and portfolio structure should seek to minimize short-term liquidity pressures on private pension funds and pre-emptively mitigate volatility in the local FX and TES markets and wholesale funding for banks, particularly in light of the anticipated large-scale asset reallocation.

Authorities' Views

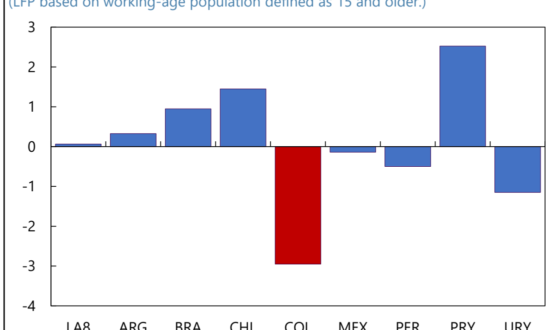
32. The authorities concurred on the need to closely monitor financial sector risks amid heightened uncertainty, particularly given the increasing exposure to public debt. They stressed that the financial sector remains resilient, supported by strong capital buffers and adequate liquidity. They noted a gradual recovery in credit growth, as credit demand recovers and underwriting standards ease. They highlighted that improvements in the banking sector's profitability were driven by higher investment income and lower provisioning expenses, reflecting continued enhancements in asset quality across segments. The authorities acknowledged external risks, yet emphasized that the recent stress testing indicated that the financial sector would maintain adequate capital buffers to absorb external shocks.

D. Structural Policies

33. Strengthening long-term growth prospects requires a broad-based strategy centered on raising productivity, boosting labor force participation, and diversifying the economy. Reforms to enhance market competition (e.g., by reducing barriers to entry and thus markups in the tradable and non-tradable sectors), lower intermediation costs and external financing premia (e.g., by reducing verification costs and borrower riskiness), and boost Colombia's nontraditional exports can support economic diversification and the development of higher value-added sectors, including tourism and other service industries. Horizontal structural reforms should be prioritized, while sector-specific policies should be time-bound, targeted to address market failures, and subject to robust cost-benefit analysis.

34. Priority should be given to policies aimed at boosting labor force participation (LFP), especially among women. Colombia's LFP has steadily and gradually declined for both men and women since 2012, in contrast to peer trends. Raising overall participation rates to pre-2012 levels or to levels consistent with a gender gap of 10 percent, could offset the projected negative demographic effects and boost economic growth by as much as 0.5 ppt per year (see Selected Issues Paper, Chapter 3). While the labor reform approved in June aims to strengthen worker protections, it may raise unit labor costs and increase informality.

Labor Force Participation: Change Between 2013 and 2019
(LFP based on working-age population defined as 15 and older.)



Sources: ILO; IMF staff elaboration.

Supporting policies—such as improving the availability and affordability of childcare, eliminating asymmetries in parental benefits, and promoting flexible work—could help boost female participation, offset demographic headwinds, and mitigate negative effects from the labor reform.

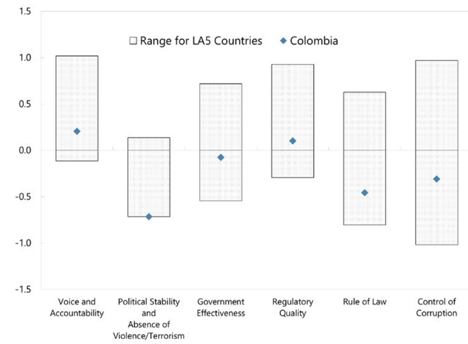
35. A well-designed and executed energy transition can support long-run economic sustainability and resilience, but it must be implemented in a manner that preserves macroeconomic and fiscal stability. While the authorities' goals to reduce fossil-fuel dependence rightly focus on macro-critical elements (see 2024 Article IV Staff Report, Annex VII), the pace and standards for lowering fossil fuel production needs to be carefully managed. Specifically, the projected steep decline in oil production and coal mining and associated impact on exports and fiscal revenues (taken together, royalties and income tax revenues would fall by 1.6-1.9 ppt of GDP per year by 2030—see Selected Issues Paper, Chapter 2) requires a carefully calibrated and comprehensive energy transition strategy that phases out energy subsidies, reviews carbon pricing, promotes export diversification and productivity, and encourages investment in alternative energy sources. In particular, over this transition, special efforts will be necessary to:

- **Boost Job Creation**. A well implemented energy transition could ultimately generate more jobs than it displaces. In 2023, the oil, gas, and coal sectors accounted for around 10 percent of fiscal revenues, 35 percent of exports and around 4 percent of GDP by value added, employing 105 thousand workers directly and more through related upstream and downstream industries. The extent of the overall economic impact of energy transition will depend on the interlinkages between fossil fuel sectors with the broader economy. Staff analysis suggests that a sharp reduction in fossil fuel production could result in job losses of about 100 thousand over the next ten years, while a renewable-driven electricity expansion could offset the impact if planned renewable projects are completed (see Selected Issues Paper, Chapter 2). Unlocking this potential, however, will require active labor market policies, including targeted reskilling, more effective education policies, and stronger unemployment insurance.

- **Mobilize Private Financing**. The World Bank estimates that meeting Colombia's energy transition goals would require over US$90 billion (22 percent of the 2024 GDP) in gross investment over the next 25 years. Given limited fiscal space, Colombia must cultivate a robust private finance ecosystem by enhancing the assessment and disclosure of energy transition-related financial risks and developing financial instruments tailored to the varying risk and return profiles of potential investors. Public private partnerships, supported by strong regulation and targeted incentives, could also help attract private and international investment for energy transition projects. These recommendations also apply to the development of other sectors in the economy.

36. Further strengthening governance and transparency is essential to improve the business climate. While Colombia scores relatively well in the areas of regulatory quality and voice and accountability (see *Worldwide Governance Indicators*), governance and corruption challenges remain (see 2024 Article IV Staff Report, including Box 2). In this regard, strengthening access to beneficial ownership data, ensuring regular disclosure of income and asset declarations, and accelerating enforcement of the whistleblower protection law is necessary to enhance trust in institutions and improve the investment climate. After years of steady progress in reducing homicides, Colombia is now facing an increase in violence, which could undermine investment and growth. Addressing these security challenges requires well-coordinated policies that combine strengthened security and justice institutions with measures to foster inclusive job creation and improve governance.[17]

Worldwide Governance Indicators 1/ 2/
(Index)



Source: D. Kaufmann, A. Kraay, and M. Mastruzzi (2010). "The Worldwide Governance Indicators: A Summary of Methodology, Data and Analytical Issues."
1/ Estimate for each category ranges from -2.5 (weak) to 2.5 (strong) governance performance. Index is based on 2023 data.
2/ Use of these indicators should be considered carefully, as they are derived from perceptions-based data.

Authorities' Views

37. The authorities agreed with the three-pronged strategy of economic diversification, productivity enhancement, and labor force participation boost while keeping the reforms within strong policy frameworks. They highlighted their economic policies have supported a sturdy growth of non-traditional economic sectors such as tourism and entertainment, alongside a marked reduction in poverty to its lowest level on record. They stressed the forthcoming labor reform aims to enhance workers' rights while promoting labor force participation. They reaffirmed their commitment to keep reforms within strong policy frameworks that have helped Colombia to achieve remarkable macroeconomic stability over the past decades. On energy transition, they welcome staff analysis and reiterated their National Development Plan envisages an urgent but prudent reduction of Colombia's dependence on fossil fuels. In this context, they remain committed to relying on existing contracts while further enhancing recovery for oil and coal production. They clarified that their tax reform plans include carbon taxes to reduce fossil fuel demand.

STAFF APPRAISAL

38. Colombia faces a complex macroeconomic landscape that requires strong and credible policy adjustments. Growth momentum has improved, and inflation is gradually declining, supported by prudent monetary policy in the context of a renewed easing of fiscal policy. Rising public debt and uncertainties over the direction of policies have dampened market sentiment, widened sovereign debt spreads (well above peer countries), and limited private investment. Notably, repeated fiscal slippages and the temporary suspension of the fiscal rule, a key macroeconomic policy anchor, undermined policy credibility. In fact, compared to the 2024 FCL request—when policies and policy frameworks were deemed very strong—fiscal policies have weakened considerably. As such, significant adjustments are needed to safeguard stability, restore credibility, and strengthen investor confidence, especially in the context of rising external risks.

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[17] "Violent Crime and Insecurity in Latin America and the Caribbean", IMF DP/2024/009.

39. Meeting the near-term deficit targets will be an essential first step to restoring credibility and anchoring expectations. Large deficits in 2024–25, combined with elevated borrowing costs, have reversed earlier debt gains, while structural rigidities and sizeable budgetary backlogs have further constrained fiscal space and added to refinancing risks. Meeting the revised 2025 deficit target will require immediate spending cuts (about ½ percent of GDP), while efforts should continue to develop a credible fiscal plan for next year. The authorities' proposed 2026 budget relies on an ambitious tax reform and interest savings from debt management operations, which may not materialize and will then require significant spending adjustments to meet the announced target.

40. Efforts will need to be sustained to deliver on the 2026–28 MTFF consolidation path, underpinned by concrete, well-balanced and structurally-sound measures. A structural adjustment of at least 3.2 percent of GDP over the next three years with concrete revenue and spending measures, clear intermediate targets, and robust contingency planning is needed to stabilize debt, rebuild fiscal policy space, and improve the policy mix. Even then, Colombia's debt dynamics remains sensitive to interest-growth differentials, underscoring the need for sustained fiscal restraint beyond 2028 to meet the debt anchor over the long term. Legal reforms to address budget rigidity and policies to contain the fiscal costs of social and structural reforms will be important to ensure the feasibility of the consolidation plan. Meanwhile, the composition and phasing of the adjustment will need to be carefully calibrated, also guided by market developments.

41. Banrep's tight monetary policy stance remains appropriate and should continue. While inflation has declined significantly from its peak, it remains above the 3 percent target amid persistent services inflation and inflationary pressures stemming from fiscal policy. In this context, the normalization of monetary policy should proceed cautiously and remain data dependent to avoid costly policy reversals. Maintaining central bank independence will be essential to safeguarding the credibility and effectiveness of the policy framework.

42. Colombia's foreign exchange reserves have remained adequate, and its flexible exchange rate should continue to serve as a key shock absorber. Banrep's reserve accumulation program in 2024 further strengthened the country's external position. The flexible exchange rate regime has served the country well and should continue to be the first line of defense against external shocks. FX intervention should remain limited to episodes of market dysfunction or disorderly conditions.

43. While the financial system remains broadly resilient, close monitoring is warranted. The banking sector is well-capitalized with declining NPLs and strong liquidity buffers. However, rising short-term liabilities and increased credit risks in specific sectors call for continued close supervisory oversight, especially given the growing systemic footprint of financial conglomerates and NBFIs. Progress in implementing FSAP recommendations should continue, including by enhancing the macroprudential toolkit through the reintroduction of the Net Stable Funding Ratio and possible adoption of counter-cyclical capital buffers. A sound governance and investment framework is needed for the new public pension savings fund to safeguard financial stability and mitigate transition risks.

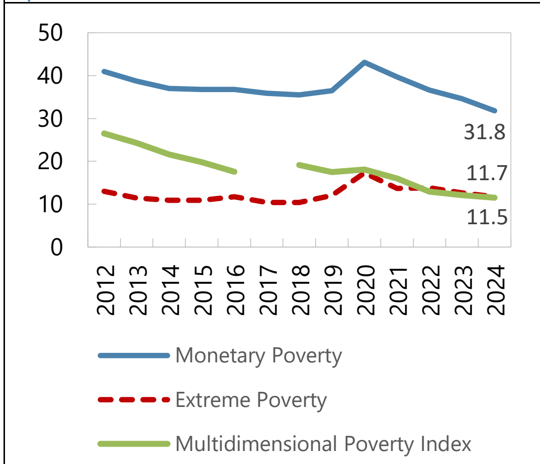
44. Structural reforms should prioritize boosting productivity, raising labor force participation, and enabling a smooth energy transition, alongside measures to further strengthen governance and transparency. Removing barriers to competition, reducing labor market rigidities, and supporting female labor force participation through childcare and flexible work arrangements will be essential to offset demographic headwinds while strengthening private investment. The authorities' proposed energy transition should be carefully phased to limit fiscal, external, and labor market disruptions, backed by targeted reskilling programs and private financing mobilization. Improving the business climate will require strengthening governance and transparency, including by expanding access to beneficial ownership information, ensuring regular publication of asset declarations, and enforcing whistleblower protections to enhance institutional trust and support reform implementation.

45. Staff recommends that the next Article IV consultation take place on the standard 12-month cycle.

Box 1. Recent Trends in Poverty Reduction

Colombia has made substantial progress in reducing poverty since the COVID-19 pandemic, with improvements visible across both monetary and multidimensional indicators. Monetary poverty fell to 31.8 percent in 2024, the lowest since the series began in 2012, and down from 43.1 percent in 2020, lifting over 2 million people out of poverty since 2022. Extreme poverty also declined, from 17.3 percent in 2020 to 11.7 percent in 2024, though it remains above pre-pandemic levels. During this period, nearly 900,000 people escaped extreme poverty. The multidimensional poverty index (MPI)—which captures deprivations in education, health, employment, and living conditions—also fell sharply, from 18.1 percent to 11.5 percent.

Trends in Poverty
(percent)



Sources: DANE and Gran Encuesta Integrada de Hogares.

The primary driver has been strong household income growth, fueled by rising employment and wages in a dynamic labor market, which also supported broader consumption and growth. Between 2022 and 2023, higher incomes reduced monetary poverty by 6.2 percentage points—despite cost-of-living adjustments to the poverty line—and contributed a further 2.1 percentage point decline in 2024. Social transfers have also played a crucial role, benefiting more than 4.5 million households in 2024 and preventing extreme poverty from being nearly 5 percent higher.

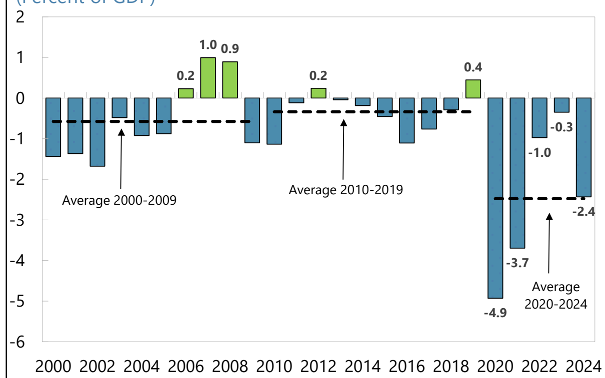
Nonetheless, important challenges remain. Poverty is disproportionately concentrated in indigenous communities, the unemployed, informal workers, and women, with the extreme poverty rate exceeding 30 percent among the unemployed and 14 percent among women (compared to 10 percent among men). The new income transfer program, Renta Ciudadana, introduced in 2024, has already reached 2.9 million households—over 70 percent headed by women—helping to address these gaps. Going forward, sustaining progress will require continued income growth, stronger labor market participation, especially among women, and targeted policies to reduce informality and support the most vulnerable.

Box 2. Fiscal Slippages in 2024-25

Over the past two decades, Colombia had a conservatively managed fiscal policy, with a CG primary deficit averaging less than 0.5 percent of GDP during 2000-19 (Box chart). During the pandemic, policy loosened sharply and the stimulus was withdrawn only gradually. As a result, the CG primary deficit reached 4.9 and 3.7 percent of GDP in 2020 and 2021, respectively, and public debt rose above 60 percent of GDP. A failed tax reform in 2021 triggered widespread protests and led to sovereign rating downgrades, costing Colombia its investment-grade status in July 2021.

In response, the government passed the Social Investment Law (SIL) in late 2021, introducing a revamped fiscal rule, a debt anchor, and a tax package to raise 1 percent of GDP in permanent revenues. A second tax reform was passed in 2022, aimed at raising an additional 1¼ percent of GDP in revenues, mainly from taxes on oil and coal. Combined with the cyclical recovery and favorable commodity prices, these reforms helped to reduce the CG primary deficit to 1.0 and 0.3 percent of GDP in 2022-23, respectively, and public debt to fall to around 54 percent by 2023. However, these improvements masked a structural increase in primary expenditures from a pre-pandemic average of 16.5 percent of GDP to over 19 percent of GDP, driven by higher mandatory transfers (e.g., pensions, healthcare, and local governments), and permanent expansion in social assistance programs.

Central Government Primary Balance, 2000-24
(Percent of GDP)



Sources: Ministry of Finance and IMF staff estimates.

Fiscal policy turned expansionary in 2024, as lower revenues were not matched by spending cuts, leading the CG primary deficit to rise to 2.4 percent of GDP. Treasury cash buffers were depleted by end-2024, budgetary backlogs increased sharply (to 3 percent of GDP), and public debt rose back to over 61 percent of GDP. In June 2025, CARF determined that the fiscal rule had been breached in 2024.

For 2025, Congress failed to approve the budget and the accompanying financing bill, prompting the first use of a presidential budget decree since the 1990s. The overall CG deficit target was repeatedly revised upward, from 4.7 percent in the budget decree to 5.1 percent in the Financing Plan (FP) published in February, and to 7.1 percent of GDP in the June MTFF (Box Table), as downward revisions to revenue projections are not being offset by spending adjustments.

Selected Central Government Fiscal Indicators, 2023-25
(Percent of GDP)

	2023	2024				2025		
		Budget (July '23)	FP (February '24)	MTFF (June '24)	Outturn	Budget (July '24)	FP (February '25)	MTFF (June '25)
Tax Revenues	16.6	18.6	17.3	15.4	14.4	17.8	16.8	15.5
Primary Expenditures	19.0	20.6	19.9	18.0	18.9	19.3	18.6	19.5
Primary Balance	-0.3	0.2	-0.9	-0.9	-2.4	-0.1	-0.2	-2.4
Overall Balance	-4.2	-4.4	-5.3	-5.6	-6.7	-4.7	-5.1	-7.1

Source: Ministry of Finance

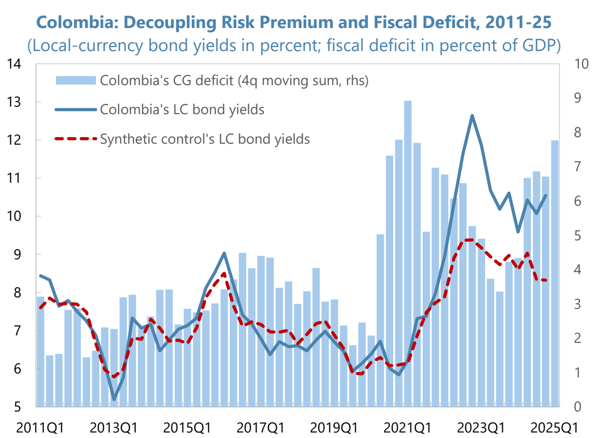
Box 3. Decoupling from Peers: A Synthetic Control Analysis of Sovereign Risk Premium

Since the pandemic, Colombia has faced a persistently higher sovereign risk premium than its peers. In 2024, Colombia's average CDS spreads were at levels consistent with countries with lower sovereign ratings (¶11 chart). As of end-June 2025, Colombia EMBI and CDS spreads exceeded regional peers (Brazil, Chile, Mexico, and Peru) by nearly 200 and 120 basis points, respectively.

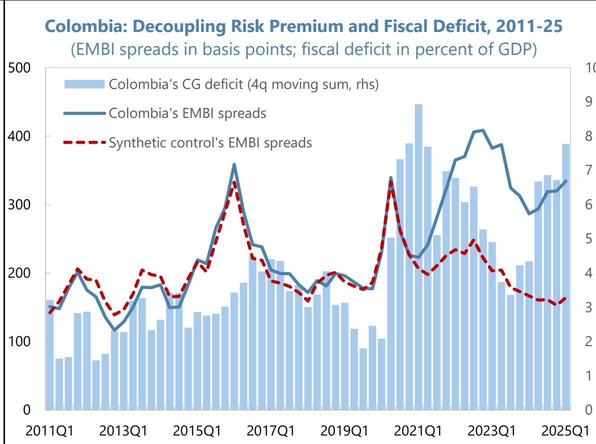
To assess Colombia's decoupling from peers, a synthetic control method is applied to its local currency 10-year sovereign bond yields and EMBI spreads.[1] This technique (Abadie et al, 2010; Abadie et al, 2015) estimates Colombia's counterfactual risk premium trajectory by comparing it to a weighted combination of five similar countries—Brazil, Chile, Mexico, Peru, and South Africa—that have comparable market access, commodities dependency, and development levels. For controls we include each country's real GDP growth, inflation, inflation expectation, policy rate, public debt, fiscal balance, exchange rate changes, economic policy uncertainty (measured by news-based indicators), and the lagged dependent variable. We use quarterly data from end-2010 to mid-2025.

Results show that Colombia's bond yields tracked the synthetic control until early 2022, after which they diverged—rising sharply following the global commodity price shock. Similarly, EMBI spreads aligned with the synthetic until late 2020, before increasing persistently after Colombia's sovereign rating downgrades, while the synthetic reverted to pre-pandemic norms. Improved fiscal policies and outcomes in 2023-24Q1 were accompanied by a marked reduction on the risk premium gaps between Colombia and the synthetic control, whereas the opposite has been observed since then.

Local Currency 10-year Bond Yields (percent)



EMBI Spreads (basis points)



1/ For details, see Perrelli, 2025, "In Search of Colombia's Alpha" (forthcoming).

Abadie, A., A. Diamond, and J. Hainmueller, 2010, "Synthetic Control Methods for Comparative Case Studies: Estimating the Effect of California's Tobacco Control Program," *Journal of the American Statistical Association*, Vol. 105, No. 490, pp. 493-505.

Abadie, A., A. Diamond, and J. Hainmueller, 2015, "Comparative Politics and the Synthetic Control Method," *American Journal of Political Science*, Vol. 59, No. 2, April 2015, pp. 495–510.

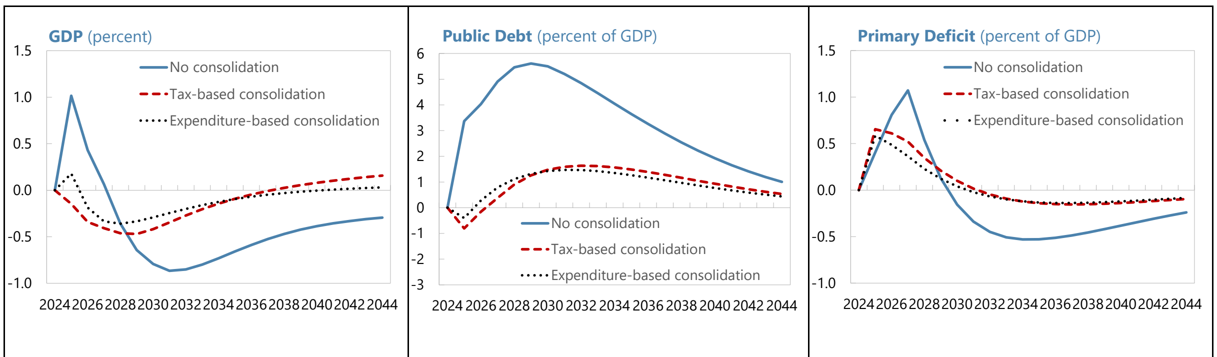
Box 4. Macro-Fiscal Impact of Unfunded Social Transfers Through the Lens of a DSGE Model

This Box analyzes the impact of unfunded social transfers using a small-open economy DSGE model tailored to the Colombian economy (including an estimated share of liquidity-constrained households).[1] The model includes households that have access to financial market and others that are liquidity-constrained. The production side features differentiated labor, multiple types of goods producers, and an exogenous oil sector.

The model features a fiscal framework where the government raises revenues from lump-sum and distortionary taxes on labor, capital, and consumption, and undertakes current spending and public investment. Fiscal policy is governed by a forward-looking fiscal rule targeting primary surpluses responsive to debt deviations from the anchor. On the monetary side, the central bank targets inflation through a forward-looking interest rate rule. Risk premium is a non-linear function of public indebtedness.

The model evaluates the impact of various policy scenarios following a decision of the government to increase social transfers by 1 ppt of GDP during 2025-27 (i.e., while the fiscal rule is suspended). When fiscal consolidation is postponed (blue line), initially nominal GDP and debt-to-GDP increase sharply but then start to decline as the fiscal rule is reactivated. However, in the no consolidation scenario, the rise in risk premium and the anticipation of future taxes to pay for unfunded social transfers ultimately lead to a decline in private consumption and GDP over the medium term. Moreover, as the debt stock will be further away from the anchor, compliance with the fiscal rule will require larger primary surpluses than in the other scenarios.

Overall, by the end of the projection period, outcomes are inferior to those from the scenarios where the government adopts a tax-based (red line) or an expenditure-based (black line) consolidation during the fiscal rule suspension period to attenuate the impact of increased social transfers (Box charts).

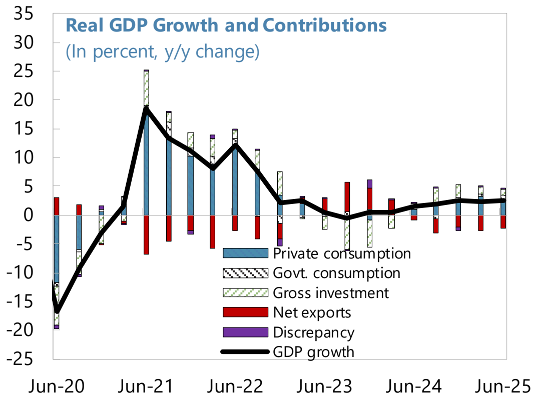


Source: IMF staff estimates

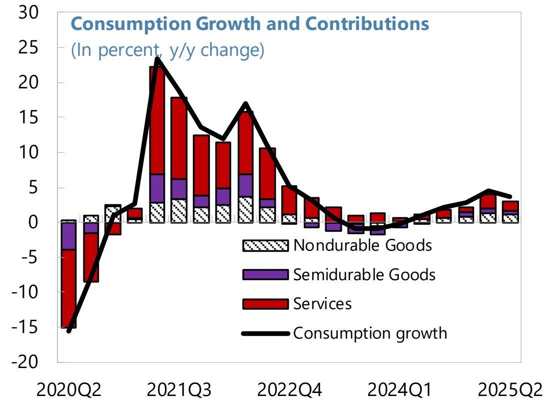
1/ For details, see Perrelli and Sabuga, 2025, "Macro-Fiscal Impact of Colombia's Unfunded Transfers Through the Lenses of a DSGE Model" (forthcoming).

Figure 1. Colombia: Real Sector Developments

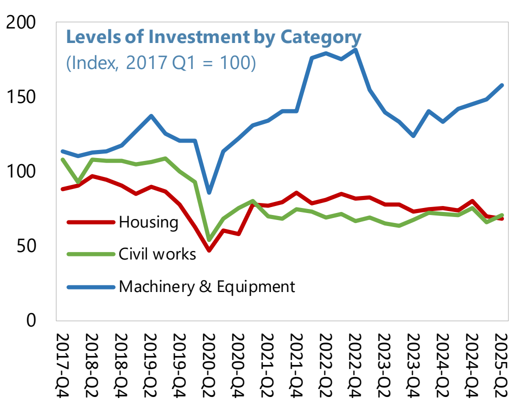
Private consumption continues to drove growth…



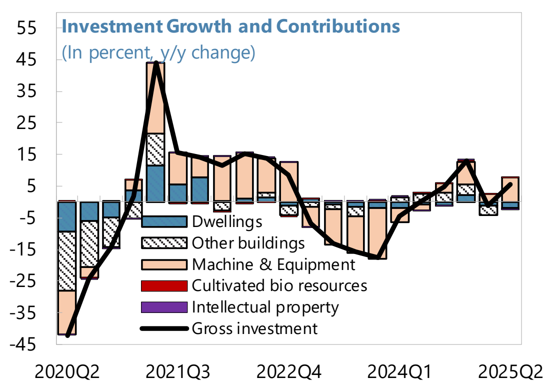
…primarily led by services.



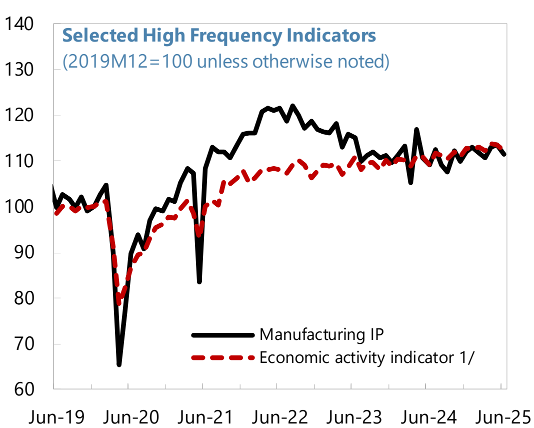
Investment is recovering…



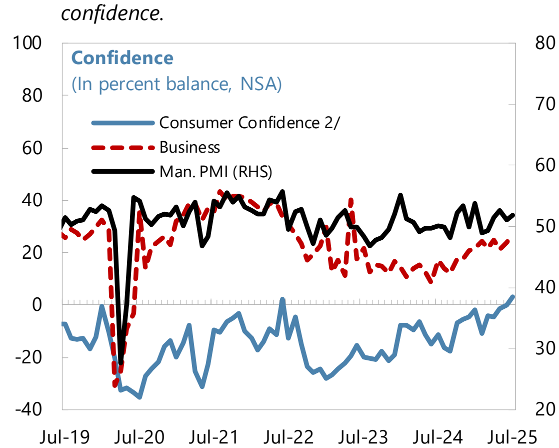
…driven mainly by machinery and equipment.



Economic activity is above pre-pandemic levels…



…with leading indicators showing improved confidence.

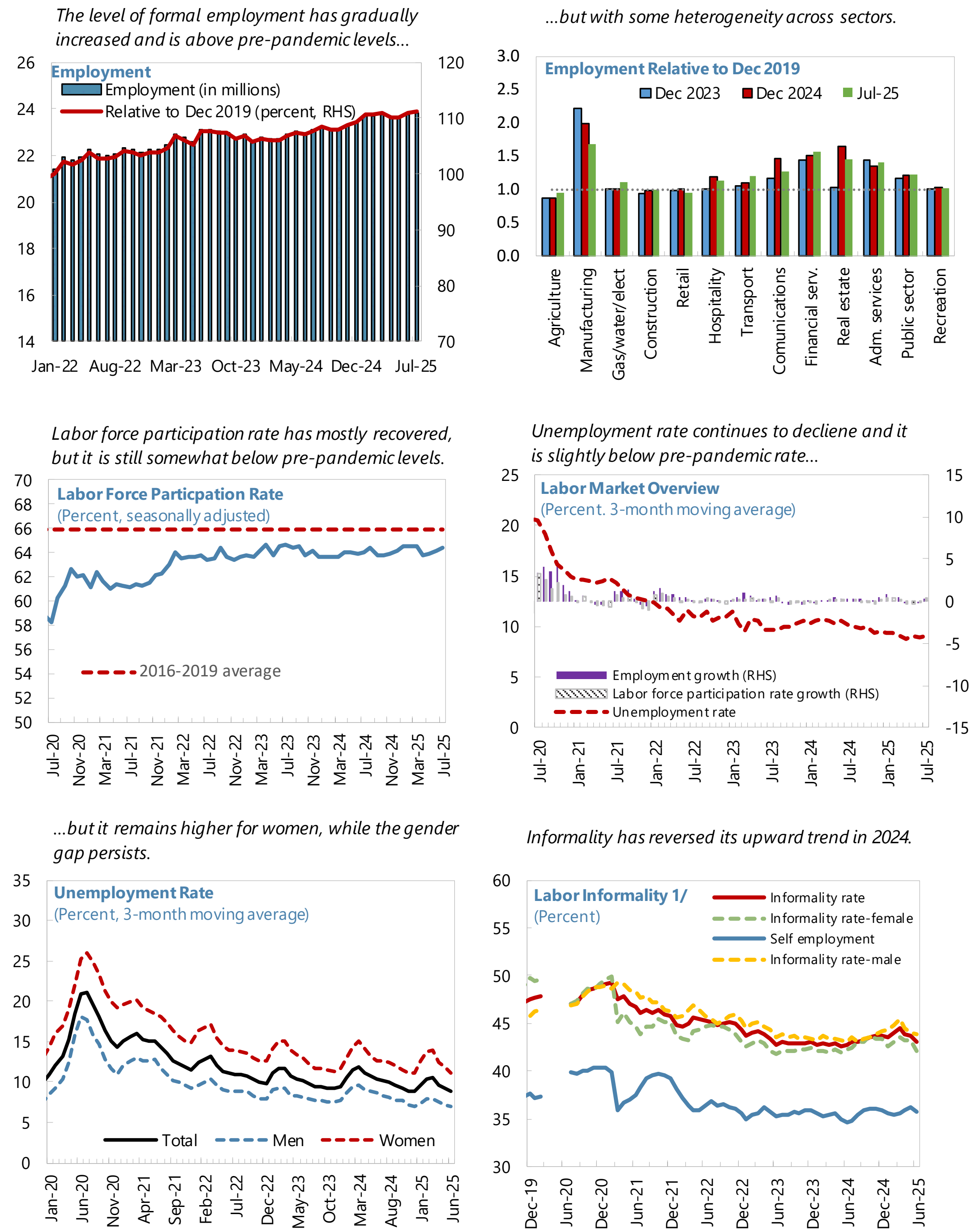


Sources: Departamento Administrativo Nacional de Estadísticas (DANE); Dirección de Impuestos y de Aduanas Nacionales (DIAN), La Fundación Para la Educación Superior y el Desarollo; Davidienda, Haver Analytics; and IMF staff estimates.

1/ Seasonally and working days adjusted.

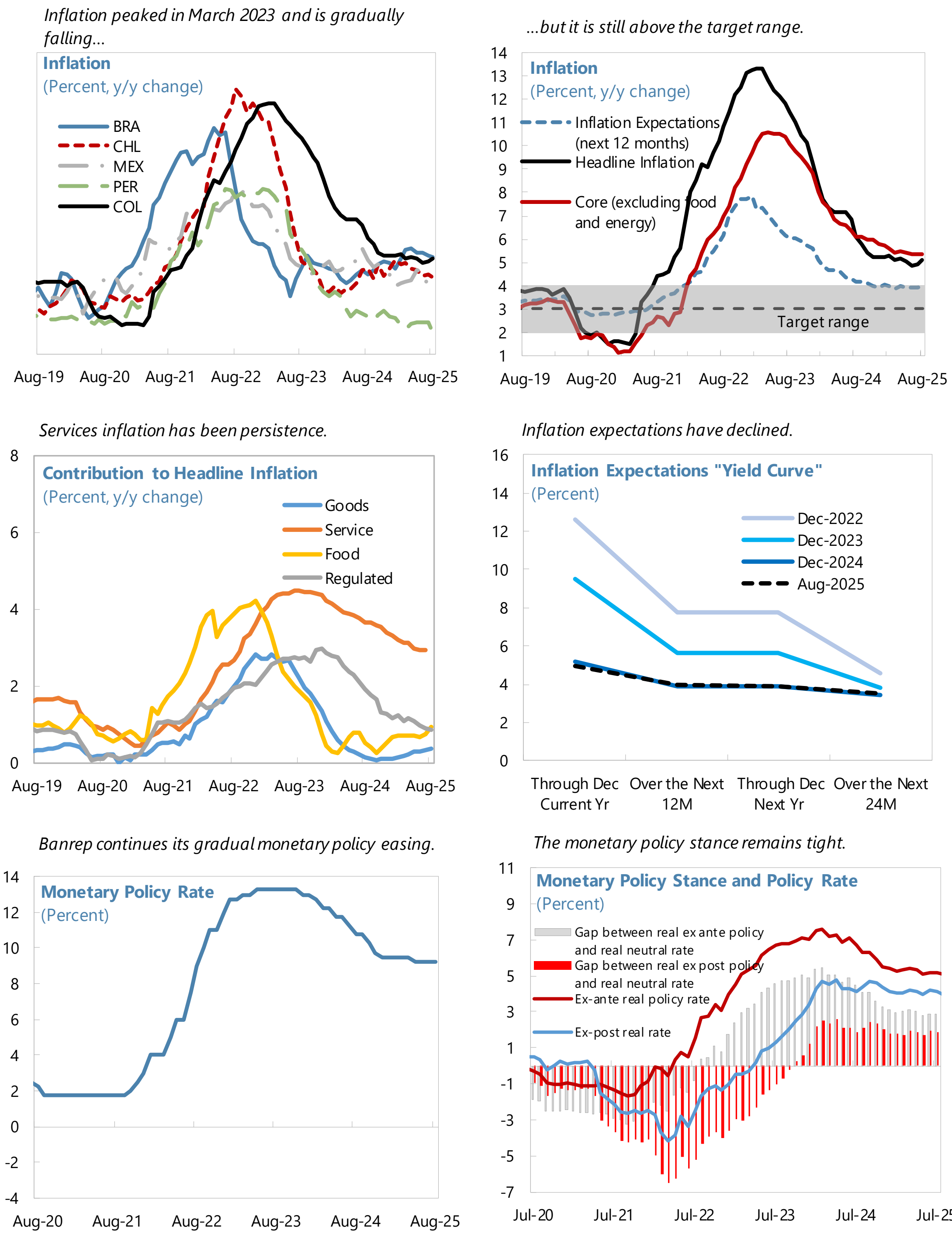
2/ Balances between favorable and unfavorable responses, in percent.

Figure 2. Colombia: Labor Market Developments



Sources: DANE; Banco de la República; Haver Analytics; and IMF staff estimates.
1/ The reporting of informality data was suspended during the pandemic. Data covers 23 cities and metropolitan areas.

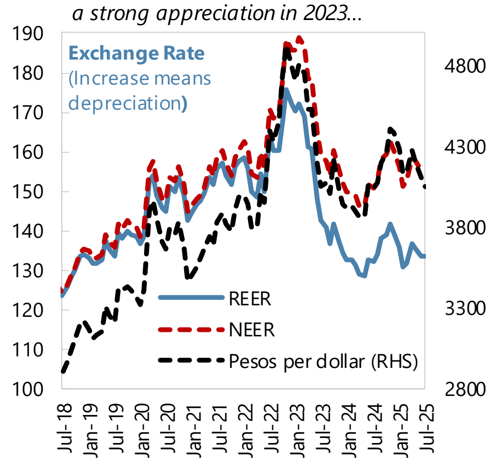
Figure 3. Colombia: Inflation and Monetary Policy



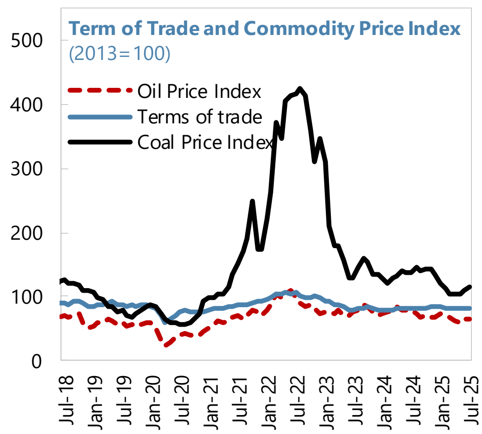
Sources: DANE; Banco de la República; Haver Analytics; and IMF staff estimates.

Figure 4. Colombia: Current Account Developments

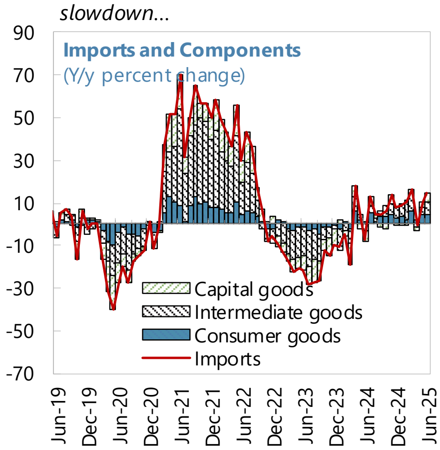
The peso has depreciated slightly after a strong appreciation in 2023…



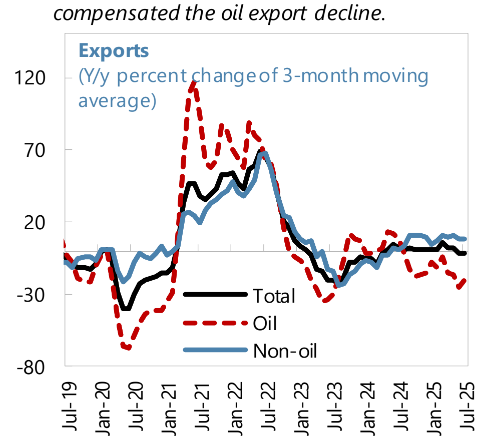
…while terms of trade have stabilized.



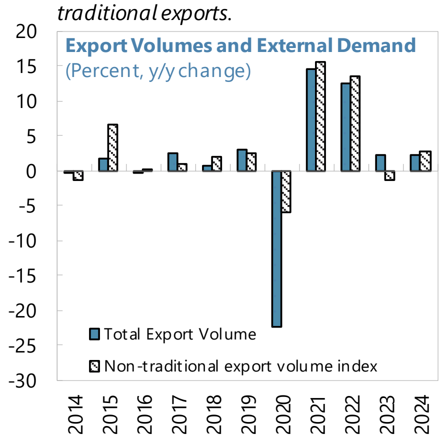
Imports have recover from the 2023 slowdown…



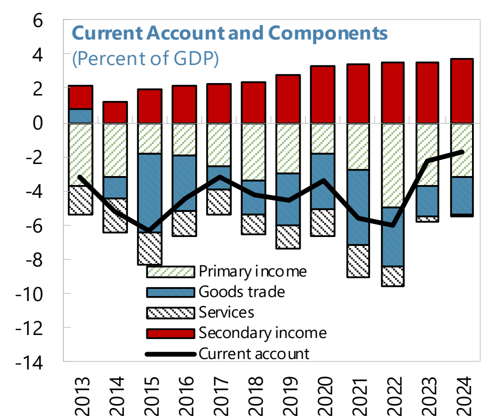
…while non-oil export growth has compensated the oil export decline.



The estimated export volume index has increased since 2023, driven by non-traditional exports.

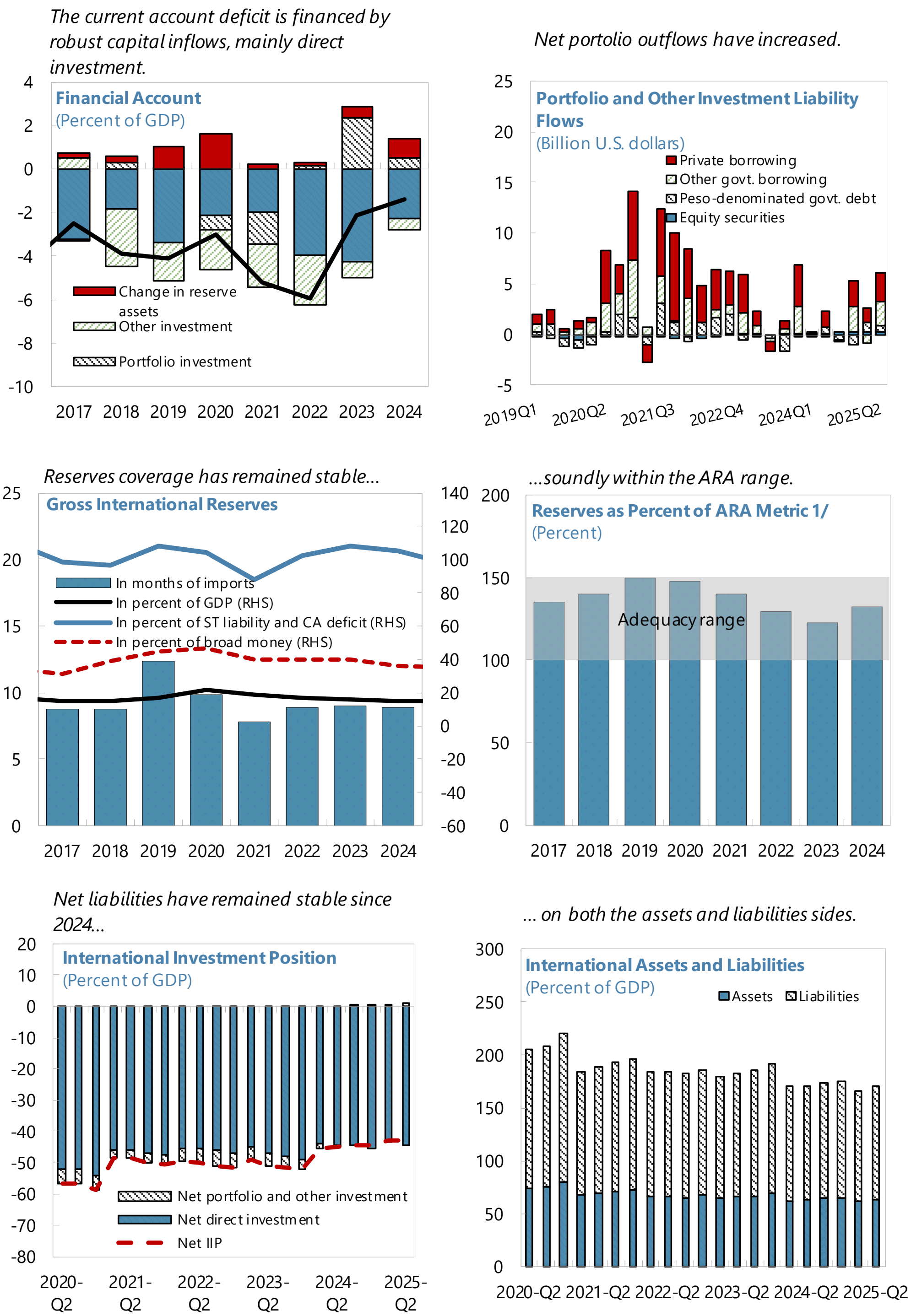


The current account continued to narrow following a significant correction in 2023.



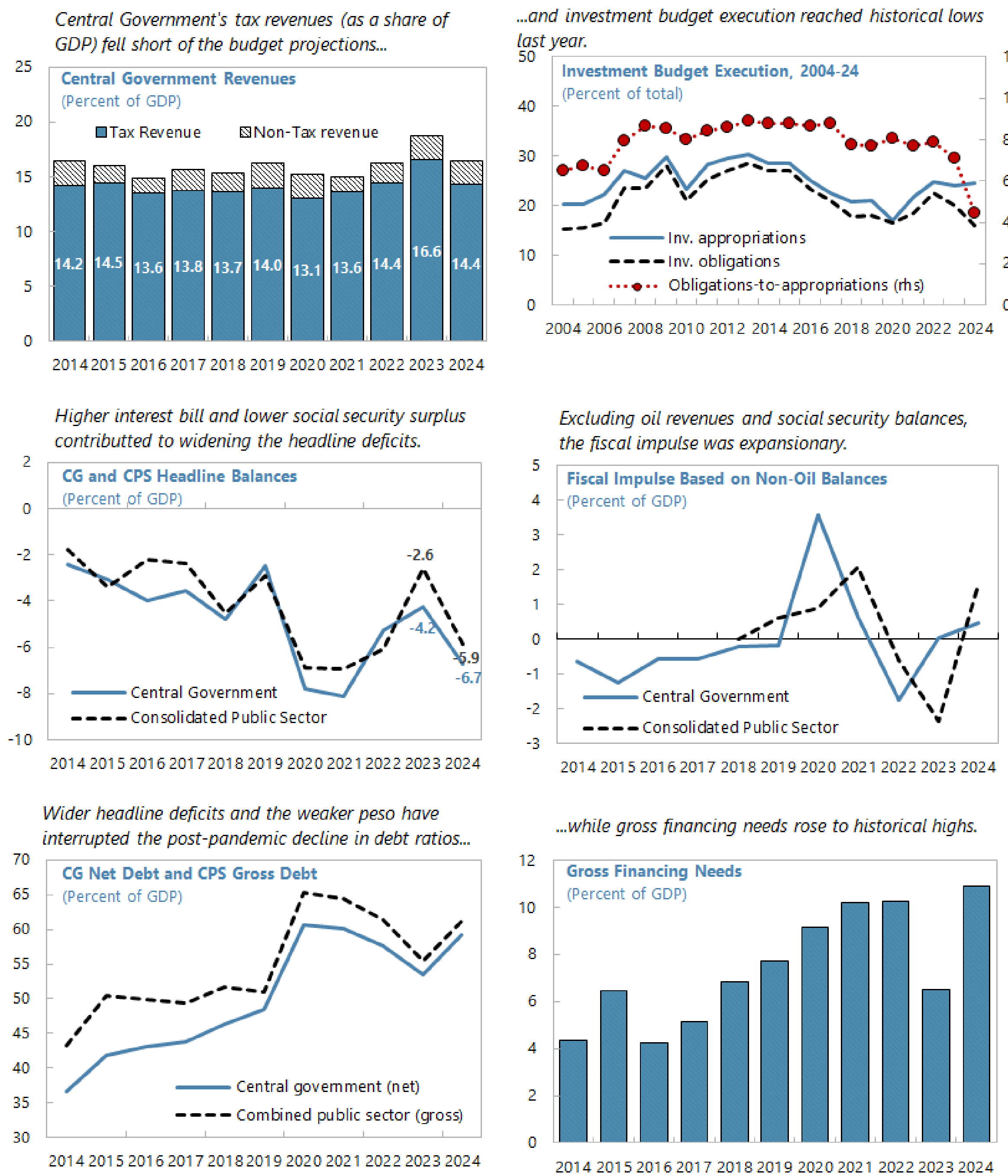
Sources: DANE; Banco de la República; Bloomberg; Haver Analytics; and IMF staff estimates.

Figure 5. Colombia: Financial Account Developments



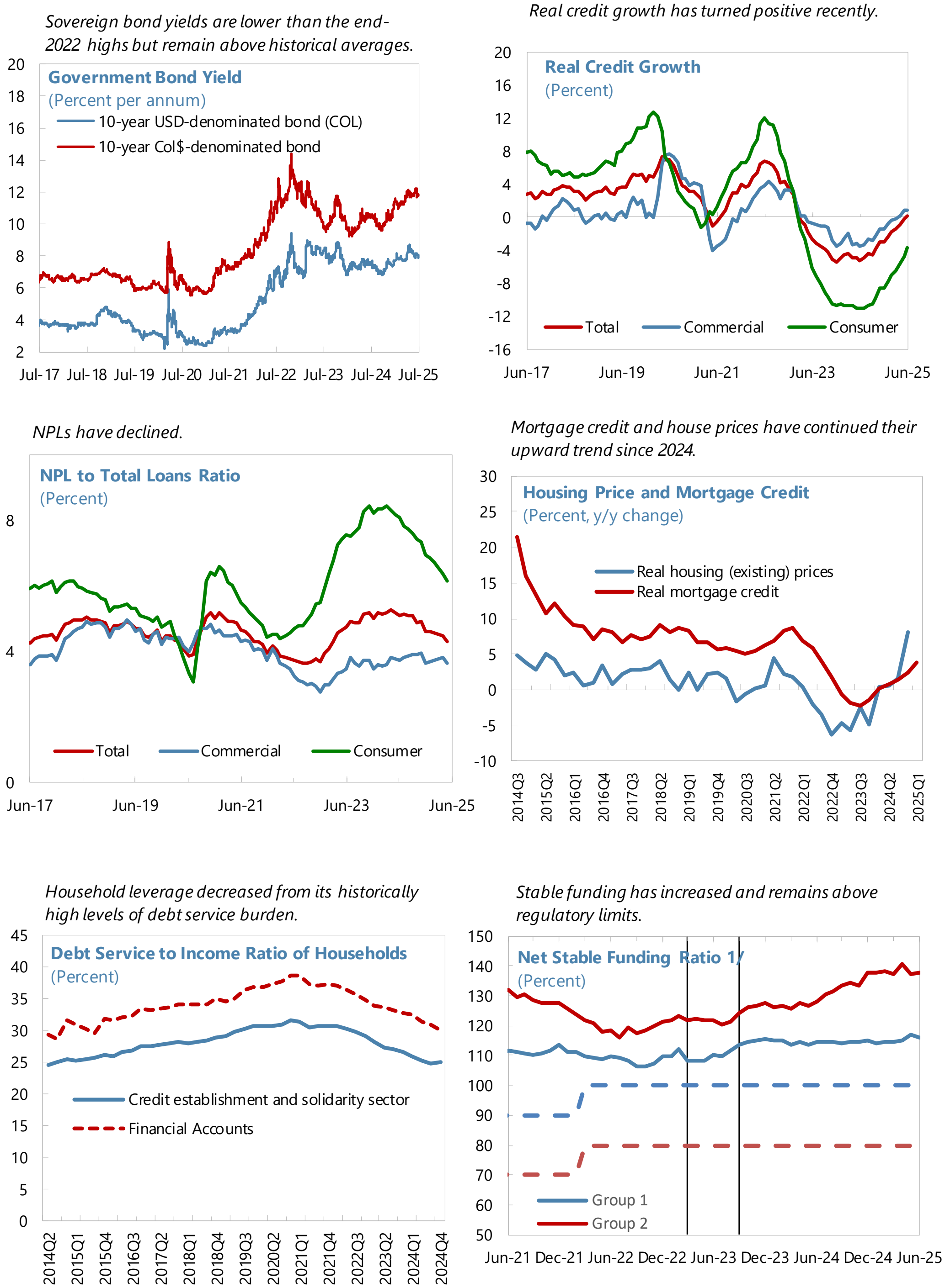
Sources: Banco de la República; DANE; Haver Analytics; Bloomberg; and IMF staff estimates.
1/ Does not include commodity buffers. Uses metric for floating exchange rates.

Figure 6. Colombia: Fiscal Developments



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

Figure 7. Colombia: Financial Sector Developments



Sources: Banco de la República; BanRep Financial Stability Report; Bloomberg; DANE, Haver Analytics, Superintendencia Financiera; Tullet Prebon Information; and IMF staff estimates.

1/ On 1 April, 2023 the NSFR regulation on deposits between financial intermediaries was implemented, on 6 Sep, 2023 the implementation was suspended for 2 years. Vertical lines correspond to these dates.

Table 1. Colombia: Selected Economic and Financial Indicators, 2023-30

I. Social and Demographic Indicators

Population (million), 2024. Projection	51.6	Unemployment rate, Dec. 2024 (NSA, percent)	10.2
Urban population (percent of total), 2024	82.7	Physicians (per 1,000 people), 2021	2.5
GDP, 2024		Adult illliteracy rate (ages 15 and older), 2020	4.0
Per capita (US$)	8,120	Net secondary school enrollment rate, 2018	77.5
In billion of Col$	1,706,447	Gini coefficient (national), 2024	0.55
In billion of US$	418.6	Poverty rate (national), 2024	31.8
Life expectancy at birth (years), 2023	77.7		
Mortality rate, (under 5, per 1,000 live births), 2023	12.0		

II. Economic Indicators

			Projections 1/					
	2023	2024	2025	2026	2027	2028	2029	2030
	(In percentage change, unless otherwise indicated)							
National Income and Prices								
Real GDP	0.7	1.6	2.5	2.3	2.5	2.7	2.9	2.8
Potential GDP	2.4	2.5	2.5	2.5	2.6	2.6	2.6	2.6
Output Gap (percent)	0.5	-0.4	-0.3	-0.5	-0.5	-0.5	-0.2	0.0
GDP deflator	7.0	6.0	4.9	3.5	3.0	3.0	3.0	3.0
Consumer prices (average)	11.7	6.6	4.9	3.4	3.0	3.0	3.0	3.0
Consumer prices, end of period (eop)	9.3	5.2	4.4	3.1	3.0	3.0	3.0	3.0
External Sector								
Exports (f.o.b.)	-11.5	-2.9	-1.0	2.6	2.0	2.3	2.5	2.4
Imports (f.o.b.)	-17.0	1.3	4.7	6.1	4.7	5.0	5.4	5.3
Current account (in percent of GDP)	-2.3	-1.7	-2.3	-2.6	-2.8	-3.0	-3.3	-3.6
Terms of trade (deterioration -)	-6.2	-1.6	1.1	1.8	1.2	0.9	0.8	0.7
Real exchange rate (depreciation -) 2/	6.2	11.8	-0.7	0.9	0.0	0.0	0.0	0.0
Central Government								
Revenue	24.4	-5.0	5.9	9.8	8.6	8.2	7.2	7.3
Expenditure	15.0	9.0	8.2	4.5	1.4	0.0	5.1	6.1
Money and Credit								
Broad money	4.1	11.2	7.3	5.9	6.0	6.3	6.9	6.8
Credit to the private sector	1.5	2.2	7.0	5.9	6.6	6.8	7.9	7.8
	(In percent of GDP)							
Public Sector								
Central government (CG) balance	-4.2	-6.7	-7.1	-6.2	-4.8	-3.2	-2.8	-2.6
Central government structural balance 3/	-5.0	-6.8	-7.1	-6.0	-4.6	-3.0	-2.7	-2.6
Consolidated public sector (CPS) balance 4/	-2.6	-5.9	-6.5	-5.3	-3.7	-2.3	-2.0	-1.8
CPS non-oil structural primary balance	-1.1	-3.6	-3.2	-1.9	-0.5	0.6	0.7	0.6
CPS fiscal impulse (excluding Social Security) 5/	-2.2	1.5	0.0	-1.3	-1.5	-1.1	-0.1	0.2
Public sector gross debt 6/	55.5	61.2	58.6	61.4	62.3	61.6	60.6	59.5
External Financing Needs 7/	15.1	13.1	13.5	14.2	14.4	14.0	13.9	13.6
External debt	59.2	53.3	52.9	52.1	51.5	50.8	49.4	47.9
Of which: public sector 4/	35.7	31.5	31.3	30.7	30.0	29.4	28.1	27.1
Memorandum Items								
Gross domestic investment (in percent of GDP)	16.4	16.8	17.1	17.4	17.8	18.2	18.8	19.3
Gross national savings (in percent of GDP)	14.2	15.1	14.8	14.8	15.0	15.2	15.5	15.7
Gross international reserves (USD billion) 8/	59.1	62.7	63.7	64.6	65.4	66.1	66.9	67.6
Private consumption (in percent of GDP)	73.6	73.1	74.0	74.7	73.0	72.8	72.6	72.5
Public consumption (in percent of GDP)	14.7	14.9	14.9	15.1	15.1	15.2	15.2	15.2
Private fixed capital formation (in percent of GDP)	12.1	13.1	12.9	13.0	13.3	13.5	13.7	13.8
Public fixed capital formation (in percent of GDP)	4.4	3.5	3.3	3.9	4.0	4.1	4.1	4.4
Share of ST debt at remaining maturity + CA deficit	111	108	100	95.2	94.8	87.3	86.4	86.0
CG primary expenditures (in percent of GDP)	19.0	18.9	18.7	18.4	17.7	16.8	16.8	17.0
CPS primary expenditures (in percent of GDP)	30.7	30.1	29.5	28.8	28.0	27.4	27.4	27.6
Oil production (thousand barrels per day)	769.0	788.0	793.0	825.0	824.0	824.0	824.0	824.0

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

1/ Cut-off date: August 31, 2025.

2/ Multilateral real effective exchange rate. Annual variation (average).

3/ IMF staff estimates, excludes one-off recognition of arrears.

4/ Includes the quasi-fiscal balance of Banco de la República and statistical discrepancy.

5/ To control for valuation effects, it excludes changes in Social Security balances.

6/ Includes Ecopetrol, Fogafin, and Finagro.

7/ Includes foreign holdings of TES; does not include Banco de la República's outstanding external debt.

8/ Excludes Colombia's contribution to FLAR; includes valuation changes of reserves denominated in currencies other than U.S. dollars.

Table 2. Colombia: Summary Balance of Payments, 2023-30
(In Percent of GDP)

			Projections					
	2023	2024	2025	2026	2027	2028	2029	2030
Current Account Balance	**-2.3**	**-1.7**	**-2.3**	**-2.6**	**-2.8**	**-3.0**	**-3.3**	**-3.6**
Goods balance	-1.9	-2.2	-2.8	-3.3	-3.6	-3.9	-4.2	-4.5
Exports, f.o.b.	14.4	12.2	11.5	11.2	11.0	10.7	10.5	10.3
Commodities	8.6	7.1	6.1	5.9	5.7	5.5	5.3	5.1
Fuel	4.3	3.6	3.0	2.8	2.7	2.6	2.5	2.4
Non-fuel	4.3	3.5	3.1	3.0	3.0	2.9	2.8	2.7
Non-traditional/other exports	5.8	5.5	5.4	5.3	5.3	5.3	5.2	5.2
Imports, f.o.b.	16.2	14.4	14.4	14.5	14.5	14.6	14.7	14.8
Consumer goods	3.7	3.5	3.5	3.5	3.5	3.5	3.5	3.5
Intermediate goods	7.6	6.7	6.6	6.7	6.7	6.7	6.7	6.8
Capital goods	4.5	3.8	3.9	3.9	3.9	4.0	4.0	4.1
Other	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Services balance	-0.3	-0.1	-0.1	-0.1	0.0	0.0	0.0	0.0
Exports of services	4.4	4.3	4.7	4.8	4.9	5.0	5.0	5.0
Imports of services	4.6	4.4	4.8	4.9	4.9	5.0	5.0	5.0
Primary income balance	-3.7	-3.2	-3.0	-2.9	-2.9	-2.9	-2.9	-2.8
Receipts	2.4	2.3	2.2	2.1	2.0	2.0	2.0	1.9
Expenditures	6.1	5.5	5.2	5.0	4.9	4.9	4.9	4.8
Secondary income balance	3.5	3.7	3.7	3.7	3.7	3.7	3.7	3.7
Financial Account Balance	**-2.1**	**-1.4**	**-2.3**	**-2.6**	**-2.8**	**-3.0**	**-3.3**	**-3.6**
Direct Investment	-4.2	-2.3	-2.4	-2.4	-2.5	-2.5	-2.5	-2.5
Assets	0.3	1.1	1.1	1.0	1.0	1.0	1.0	0.9
Liabilities	4.6	3.4	3.4	3.4	3.5	3.5	3.5	3.5
Oil sector	0.8	0.5	0.5	0.5	0.5	0.4	0.4	0.4
Non-oil sectors	3.7	2.8	2.9	3.0	3.0	3.0	3.0	3.1
Portfolio Investment	2.4	0.5	0.4	0.3	0.3	0.3	0.2	0.2
Assets	2.7	1.3	1.3	1.3	1.4	1.4	1.4	1.4
Liabilities	0.3	0.7	0.9	1.0	1.0	1.1	1.1	1.2
Equity	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Debt instruments	0.3	0.6	0.8	0.9	0.9	1.0	1.0	1.0
General government	0.1	0.6	0.6	0.7	0.7	0.8	0.8	0.8
Banks	-0.3	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Corporates and households	0.5	0.1	0.3	0.3	0.3	0.3	0.3	0.3
Derivatives	-0.7	0.0	-0.1	-0.1	-0.1	-0.2	-0.1	-0.1
Other Investments	0.0	-0.5	-0.5	-0.6	-0.7	-0.8	-1.1	-1.3
Assets	1.1	0.0	0.3	0.2	-0.5	-0.6	-1.6	-1.7
Liabilities	1.1	0.5	0.8	0.7	0.3	0.2	-0.5	-0.4
Net use of IMF Credit	0.0	-0.6	-0.6	0.0	0.0	0.0	0.0	0.0
Change in Reserve Assets	0.5	0.9	0.2	0.2	0.2	0.1	0.1	0.1
Net Errors and Omissions	**0.1**	**0.3**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Memorandum items:								
Export volume	2.2	2.2	0.3	1.6	2.0	2.0	1.7	1.7
Import volume	-12.4	2.8	5.5	5.7	4.5	4.5	4.5	4.4
Brent Crude Oil Price (US$/barrel)	82.3	79.9	69.5	66.3	66.2	66.8	67.5	68.0

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

Table 3. Colombia: Operations of the Central Government, 2023-30 1/

(In percent of GDP, unless otherwise indicated)

			Projections					
	2023	2024	2025	2026	2027	2028	2029	2030
Total Revenue	**18.7**	**16.5**	**16.2**	**16.8**	**17.3**	**17.7**	**18.0**	**18.2**
Current Revenue 2/	**16.7**	**14.5**	**14.8**	**15.5**	**15.9**	**16.3**	**16.5**	**16.7**
Tax Revenue	**16.6**	**14.4**	**14.7**	**15.4**	**15.8**	**16.2**	**16.4**	**16.6**
Net income tax and profits	8.8	6.8	7.1	7.3	7.5	7.5	7.6	7.7
Goods and services	6.0	6.0	6.0	6.3	6.6	6.9	7.1	7.2
Value-added tax	6.0	6.0	6.0	6.3	6.6	6.9	7.1	7.2
International trade	0.3	0.1	0.2	0.2	0.2	0.2	0.2	0.2
Financial transaction tax	0.9	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Stamp and other taxes	0.6	0.6	0.6	0.7	0.7	0.7	0.7	0.7
Nontax Revenue	**2.1**	**2.1**	**1.5**	**1.5**	**1.5**	**1.5**	**1.6**	**1.6**
Property income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	2.0	2.0	1.5	1.5	1.5	1.5	1.6	1.6
Total Expenditure and Net Lending	**22.9**	**23.2**	**23.3**	**23.0**	**22.1**	**20.9**	**20.8**	**20.8**
Current Expenditure	**19.3**	**20.0**	**20.4**	**19.4**	**18.5**	**17.5**	**17.4**	**17.2**
Wages and salaries	2.1	2.2	2.6	2.4	2.3	2.1	2.1	2.1
Goods and services	0.7	0.7	0.6	0.5	0.4	0.4	0.4	0.4
Interest	3.9	4.3	4.7	4.6	4.4	4.1	3.9	3.7
External	0.9	0.9	1.2	1.3	1.2	1.2	1.1	1.1
Domestic	3.0	3.5	3.5	3.4	3.2	2.9	2.8	2.7
Current transfers	12.7	12.8	12.5	11.9	11.4	10.9	10.9	11.0
Capital Expenditure	**3.6**	**3.2**	**3.0**	**3.6**	**3.6**	**3.5**	**3.4**	**3.6**
Fixed capital formation	2.6	2.0	1.9	2.6	2.7	2.5	2.5	2.7
Capital transfers	1.0	1.2	1.1	1.0	1.0	0.9	0.9	0.9
Net Lending	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall Balance 3/	**-4.2**	**-6.7**	**-7.1**	**-6.2**	**-4.8**	**-3.2**	**-2.8**	**-2.6**
Memorandum Items:								
Oil-related revenues 3/	2.5	1.1	0.8	0.7	0.7	0.7	0.7	0.8
Structural balance 4/	-5.0	-6.8	-7.1	-6.0	-4.6	-3.0	-2.7	-2.6
Primary balance	-0.3	-2.4	-2.4	-1.6	-0.4	0.9	1.1	1.1
Fiscal rule structural primary balance 5/	-1.4	-0.2	0.5	...	...	...	...	...
Structural primary non-oil balance	-2.9	-3.4	-3.1	-2.1	-1.0	0.3	0.4	0.4
Non-oil balance	-6.7	-7.8	-7.9	-6.9	-5.5	-3.9	-3.5	-3.4
Real growth of primary expenditures	6.9	0.0	1.5	1.0	-1.3	-2.6	2.8	4.1
Nominal GDP (in Col$ trillion)	1,585	1,706	1,835	1,943	2,051	2,170	2,299	2,433

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

1/ Includes central administration only. Projections assume timely adoption of measures not yet specified by the authorities and subject to material implementation risks.

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

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

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

5/ Based on 2021 amendments to 2011 law guiding the fiscal rule

Table 4. Colombia: Operations of the Combined Public Sector, 2023-30 1/

(In percent of GDP, unless otherwise indicated)

			Projections					
	2023	2024	2025	2026	2027	2028	2029	2030
Total Revenue	**32.2**	**28.4**	**27.5**	**27.9**	**28.5**	**29.0**	**29.3**	**29.5**
Tax revenue	25.1	23.0	23.4	24.1	24.5	24.9	25.1	25.3
Nontax revenue	7.1	5.4	4.1	3.9	4.0	4.1	4.2	4.2
Financial income	0.4	0.4	0.5	0.5	0.5	0.5	0.5	0.5
Operating surplus of public enterprises	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3
Other 2/	4.3	2.6	1.3	1.1	1.2	1.3	1.4	1.4
Total Expenditure and Net Lending 3/	**34.9**	**34.4**	**34.2**	**33.4**	**32.3**	**31.5**	**31.3**	**31.4**
Current expenditure	30.4	30.8	30.8	29.4	28.2	27.3	27.1	26.9
Wages and salaries	5.1	5.2	5.6	5.4	5.3	5.1	5.1	5.1
Goods and services	3.4	3.4	3.2	3.1	3.0	3.0	3.0	3.0
Interest	4.2	4.3	4.7	4.6	4.3	4.1	3.9	3.7
External	0.9	0.9	1.3	1.3	1.2	1.0	1.0	1.0
Domestic	3.4	3.5	3.5	3.3	3.2	3.1	2.9	2.8
Transfers to private sector	14.1	14.2	13.8	13.3	12.6	12.1	12.1	12.1
Other 4/	3.5	3.6	3.4	3.1	3.0	3.0	3.0	3.0
Capital expenditure	4.5	3.6	3.4	4.0	4.1	4.2	4.2	4.5
Statistical discrepancy	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Nonfinancial Public Sector Balance	**-2.7**	**-6.0**	**-6.6**	**-5.4**	**-3.8**	**-2.5**	**-2.1**	**-1.9**
Fogafin balance	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Net cost of financial restructuring 5/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Combined Public Sector Balance	**-2.6**	**-5.9**	**-6.5**	**-5.3**	**-3.7**	**-2.3**	**-2.0**	**-1.8**
Overall Financing	**2.6**	**5.9**	**6.5**	**5.3**	**3.7**	**2.3**	**2.0**	**1.8**
Foreign, net	1.6	2.3	2.5	1.6	1.2	1.4	0.9	1.1
o/w IFIs	0.4	-0.2	-0.2	0.0	0.0	0.0	0.0	0.0
o/w FCL	0.0	-0.6	-0.6	0.0	0.0	0.0	0.0	0.0
Domestic, net	1.0	3.6	4.0	3.8	2.4	1.0	1.0	0.7
Memorandum Items:								
Oil-related revenues 6/	3.1	1.7	1.2	1.1	1.1	1.1	1.1	1.1
Overall structural balance 7/	-3.4	-6.1	-6.5	-5.1	-3.4	-2.1	-1.9	-1.8
Primary balance 8/	1.6	-1.6	-1.8	-0.8	0.7	1.8	1.9	1.9
Structural primary non-oil balance	-1.1	-3.6	-3.2	-1.9	-0.5	0.6	0.7	0.6
Fiscal Impulse (excluding Social Security) 9/	-2.2	1.5	0.0	-1.3	-1.5	-1.1	-0.1	0.2
Public sector gross debt 10/	55.5	61.2	58.6	61.4	62.3	61.6	60.6	59.5
Nominal GDP (In Col$ trillion)	1,585	1,706	1,835	1,943	2,051	2,170	2,299	2,433

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. Projections assume timely adoption of measures not yet specified by the authorities and subject to material implementation risks.
2/ Includes royalties, dividends and social security contributions.
3/ Expenditure reported on commitments basis.
4/ Includes adjustments to compute spending on commitment basis and the change in unpaid bills of nonfinancial public enterprises.
5/ Interest payments on public banks restructuring bonds and mortgage debt relief related costs.
6/ Includes income tax payments and dividends from Ecopetrol that correspond to earnings from the previous year, and royalties to local governments.
7/ In percent of potential GDP. Adjusts non-commodity revenues for the output gap and commodity revenues for differentials between estimated equilibrium oil price 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/ To control for valuation effects, it excludes changes in Social Security balances.
10/ Includes Ecopetrol, Fogafin, and Finagro.

Table 5. Colombia: Monetary Indicators, 2023-30 1/

			Projections					
	2023	2024	2025	2026	2027	2028	2029	2030
			(In billions of Col$, unless otherwise indicated)					
Central Bank								
Net Foreign Assets	214,152	260,178	246,525	254,418	259,485	264,108	268,526	273,101
Gross official reserve assets	225,657	272,856	260,495	269,813	276,450	282,802	289,127	295,803
In billions of US$	59	62	63	64	65	65	66	67
Short-term foreign liabilities	0	0	0	0	0	0	0	0
Other net foreign assets	-11,505	-12,678	-13,971	-15,395	-16,965	-18,695	-20,601	-22,701
Net domestic assets	-59,723	-88,154	-63,421	-60,516	-54,773	-47,561	-39,104	-30,275
Net credit to the public sector	37,072	24,430	17,576	16,771	15,179	13,181	10,837	8,390
Net credit to the financial system	2,096	16,968	12,207	11,648	10,543	9,155	7,527	5,827
Other	-98,891	-129,552	-93,204	-88,934	-80,495	-69,897	-57,468	-44,492
Monetary base	154,428	172,024	183,104	193,902	204,712	216,546	229,422	242,827
Currency in circulation	134,263	155,739	157,781	159,315	164,094	173,147	182,982	194,646
Deposit money banks reserves	20,101	16,165	38,630	41,189	43,546	46,022	48,724	51,594
Other deposits	65	120	100	100	100	100	100	100
Financial System								
Net foreign assets	217,567	273,508	260,856	269,594	275,508	281,057	286,483	292,107
In billions of US$	57	62	63	64	64	65	65	66
Net domestic assets	524,680	528,497	502,988	539,296	582,298	630,411	687,874	748,566
Net credit to public sector	121,563	142,708	134,348	163,793	186,091	200,477	217,865	232,782
Credit to private sector	659,805	674,247	721,538	764,089	814,328	869,548	938,640	1,012,256
Other net	-256,688	-288,458	-352,898	-388,586	-418,121	-439,614	-468,631	-496,472
Broad money	640,038	712,029	763,844	808,890	857,806	911,468	974,357	1,040,674
			(Annual percentage change)					
Credit to private sector	1.5	2.2	7.0	5.9	6.6	6.8	7.9	7.8
Currency	-0.7	16.0	1.3	1.0	3.0	5.5	5.7	6.4
Monetary base	-0.1	11.4	6.4	5.9	5.6	5.8	5.9	5.8
Broad money	4.1	11.2	7.3	5.9	6.0	6.3	6.9	6.8
			(In percent of GDP)					
Credit to private sector	41.6	39.5	39.3	39.3	39.7	40.1	40.8	41.6
Currency	8.5	9.1	8.6	8.2	8.0	8.0	8.0	8.0
Monetary base	9.7	10.1	10.0	10.0	10.0	10.0	10.0	10.0
Broad money	40.4	41.7	41.6	41.6	41.8	42.0	42.4	42.8
Memorandum Items:								
CPI inflation, eop	9.3	5.2	4.4	3.1	3.0	3.0	3.0	3.0
Nominal GDP (In Col$ trillions)	1,584.6	1,706.4	1,834.7	1,942.9	2,051.2	2,169.8	2,298.8	2,433.1

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

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

Table 6. Colombia: Medium-Term Outlook, 2023-30

	2023	2024	2025	2026	2027	2028	2029	2030
			Projections					
			(In percent of GDP, unless otherwise indicated)					
National Income and Prices								
Real GDP (in percent change)	0.7	1.6	2.5	2.3	2.5	2.7	2.9	2.8
Consumer prices (in percent change; eop)	9.3	5.2	4.4	3.1	3.0	3.0	3.0	3.0
Gross national savings	14.2	15.1	14.8	14.8	15.0	15.2	15.5	15.7
Private sector	12.3	17.5	18.0	16.3	14.7	13.5	13.3	13.1
Public sector	1.8	-2.4	-3.2	-1.4	0.4	1.7	2.2	2.6
Gross domestic investment	16.4	16.8	17.1	17.4	17.8	18.2	18.8	19.3
			(In percent of GDP, unless otherwise indicated)					
External Sector								
External current account balance	-2.3	-1.7	-2.3	-2.6	-2.8	-3.0	-3.3	-3.6
Trade balance	-1.9	-2.2	-2.8	-3.3	-3.6	-3.9	-4.2	-4.5
Exports	14.4	12.2	11.5	11.2	11.0	10.7	10.5	10.3
Imports	16.2	14.4	14.4	14.5	14.5	14.6	14.7	14.8
Financial account balance	-2.1	-1.4	-2.3	-2.6	-2.8	-3.0	-3.3	-3.6
Direct Investment	-4.2	-2.3	-2.4	-2.4	-2.5	-2.5	-2.5	-2.5
Portfolio Investment	2.4	0.5	0.4	0.3	0.3	0.3	0.2	0.2
Other Investments and Derivatives	-0.7	-0.5	-0.6	-0.7	-0.8	-1.0	-1.2	
Change in Reserve Assets	0.5	0.9	0.2	0.2	0.2	0.1	0.1	0.1
Nonfinancial Public Sector 1/								
Revenue	32.2	28.4	27.5	27.9	28.5	29.0	29.3	29.5
Expenditure	34.9	34.4	34.2	33.4	32.3	31.5	31.3	31.4
Current expenditure	30.4	30.8	30.8	29.4	28.2	27.3	27.1	26.9
Capital expenditure	4.5	3.6	3.4	4.0	4.1	4.2	4.2	4.5
Primary balance 2/	-0.3	-2.4	-2.4	-1.6	-0.4	0.9	1.1	1.1
Overall balance 2/	-2.7	-6.0	-6.6	-5.4	-3.8	-2.5	-2.1	-1.9
Combined public sector balance	-2.6	-5.9	-6.5	-5.3	-3.7	-2.3	-2.0	-1.8
External financing	1.6	2.3	2.5	1.6	1.2	1.4	0.9	1.1
Domestic financing	1.0	3.6	4.0	3.8	2.4	1.0	1.0	0.7
Public sector gross debt 3/	55.5	61.2	58.6	61.4	62.3	61.6	60.6	59.5
Domestic debt	29.1	32.9	33.1	36.5	38.3	38.5	39.0	39.0
External debt	26.4	28.4	25.5	24.9	24.0	23.1	21.6	20.4
Memorandum Items:								
Nominal GDP (in Col$ trillion)	1584.6	1706.4	1834.7	1942.9	2051.2	2169.8	2298.8	2433.1

Sources: Colombian authorities and IMF staff estimates and projections.
1/ Excludes Ecopetrol.
2/ Includes statistical discrepancy.
3/ Includes Ecopetrol, Fogafin, and Finagro.

Table 7. Colombia: Financial Soundness Indicators, 2019-25

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

	2019	2020	2021	2022	2023	2024	2025Q1	2025Q2
Capital Adequacy 1/								
Regulatory capital to risk-weighted assets	16.9	19.2	22.2	18.9	18.5	18.9	18.4	17.3
Regulatory Tier 1 capital to risk-weighted assets	11.8	14.4	18.2	15.3	15.7	16.0	15.8	14.9
Capital (net worth) to assets	9.0	9.8	12.2	10.7	10.7	11.0	10.8	9.9
Asset Quality and Distribution								
Provisions to nonperforming loans	122.6	125.2	129.7	136.4	116.1	115.7	114.8	112.7
Gross loans to assets	71.2	65.4	69.4	71.4	67.0	68.2	68.5	69.4
Nonperforming loans to gross loans	3.1	3.7	3.0	2.5	3.5	3.5	3.4	3.3
Earnings and Profitability								
ROAA	2.2	0.9	2.3	2.2	1.2	1.1	1.8	2.6
ROAE	13.2	5.9	14.3	13.7	7.0	7.1	11.0	16.1
Interest margin to gross income	57.5	56.0	58.1	58.6	49.5	49.4	48.1	49.8
Noninterest expenses to gross income	49.6	52.6	48.3	48.7	51.4	53.1	56.1	56.2
Liquidity								
Liquid assets to total assets	17.0	19.5	20.1	17.0	18.2	19.1	19.1	20.7
Liquid assets to short-term liabilities	36.6	37.9	37.3	33.9	36.8	35.0	34.8	37.1
Deposit to loan ratio	89.4	98.4	98.2	95.0	100.6	103.8	105.4	107.0
Other								
Foreign-currency-denominated loans to total loans	5.2	4.6	5.1	5.0	3.7	4.5	4.2	3.9
Foreign-currency-denominated liabilities to total liabilities	11.8	11.4	11.5	10.8	8.4	8.8	8.1	6.9
Net open position in foreign exchange to capital 2/	0.9	1.1	0.7	1.1	0.4	0.1	0.4	1.0

Source: Superintendencia Financiera; IMF's Financial Soundness Indicators (FSI).

1/ 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 requirement of credit institutions by 14.5 tn COP (as of November 2022).

2/ 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, 2023-30 1/

(In billions of US$, unless otherwise indicated)

			Projections					
	2023	2024	2025	2026	2027	2028	2029	2030
Exports of GNFS	68.7	69.2	71.1	74.0	76.6	79.3	81.9	84.7
Imports of GNFS	76.4	78.7	84.2	89.5	93.9	98.6	103.8	109.3
Terms of trade (y/y percent change)	-6.2	-1.6	1.1	1.8	1.2	0.9	0.8	0.7
Current account balance	-8.3	-7.3	-10.0	-11.8	-13.5	-15.3	-17.6	-19.8
In percent of GDP	-2.3	-1.7	-2.3	-2.6	-2.8	-3.0	-3.3	-3.6
Financial account balance	-7.8	-5.9	-10.0	-11.8	-13.5	-15.3	-17.6	-19.8
Of which: Foreign direct investment (net)	-15.5	-9.5	-10.3	-11.1	-11.8	-12.5	-13.3	-14.1
Of which: Portfolio investment (net)	8.7	2.3	1.8	1.5	1.6	1.6	1.3	1.1
Total external debt (in percent of GDP) 2/	59.2	53.3	52.9	52.1	51.5	50.8	49.4	47.9
Of which: Public sector (in percent of GDP) 2/	35.7	31.5	31.3	30.7	30.0	29.4	28.1	27.1
In percent of gross international reserves	367.0	356.5	364.1	373.0	379.8	387.2	390.3	391.6
Short-term external debt (in percent of GDP) 3/	7.9	7.1	7.1	6.9	6.9	6.8	6.7	6.6
Of which: Public sector (in percent of GDP)	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.2
Of which: Private sector (in percent of GDP)	7.6	6.9	6.8	6.7	6.7	6.6	6.5	6.4
Amortization of MLT external debt (in percent of GNFS exports)	22.8	24.8	25.3	28.7	29.0	25.8	29.1	26.1
External interest payments (in percent of GNFS exports)	17.5	19.7	18.4	17.7	17.5	17.1	16.7	16.1
Gross international reserves 4/	59.1	62.7	63.7	64.6	65.4	66.1	66.9	67.6
In months of prospective GNFS imports	9.0	8.9	8.5	8.3	8.0	7.6	7.3	8.2
In percent of broad money	35.3	38.8	34.5	33.8	32.6	31.4	30.0	28.8
In percent of short-term debt on residual maturity basis plus current account deficit	110.7	108.4	99.6	95.2	94.8	87.3	86.4	86.0
In percent of ARA (including commodity buffer)	109	118	116	113	111	110	109	106
In percent of ARA (excluding commodity buffer)	123	133	129	125	122	120	118	117
Real effective exchange rate (percentage change, + = appreciation)	6.2	11.8	…	…	…	…	…	…

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.

Table 9. Colombia: External Debt Sustainability Framework, 2020-30

(In percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2020	2021	2022	2023	2024			2025	2026	2027	2028	2029	2030	**Debt-Stabilizing Non-Interest Current Account 6/**
Baseline: External Debt	66.6	61.6	60.3	59.2	53.3			**52.9**	**52.1**	**51.5**	**50.8**	**49.4**	**47.9**	**-2.1**
Change in external debt	16.4	-5.0	-1.3	-1.1	-5.8			-0.4	-0.8	-0.6	-0.7	-1.4	-1.5	
Identified external debt-creating flows (4+8+9)	11.6	-5.5	-2.8	-4.6	-7.4			-1.2	-0.8	-0.7	-0.6	-0.4	-0.1	
Current account deficit, excluding interest payments	0.1	2.7	2.7	-1.0	-1.5			-0.7	-0.3	0.0	0.3	0.7	1.1	
Deficit in balance of goods and services	4.8	6.3	4.6	2.1	2.3			3.0	3.4	3.6	3.8	4.1	4.5	
Exports	14.1	16.0	21.3	18.7	16.5			16.2	16.0	15.9	15.7	15.5	15.3	
Imports	19.0	22.3	25.9	20.9	18.8			19.2	19.4	19.5	19.5	19.6	19.8	
Net non-debt creating capital inflows (negative)	-0.6	-0.9	-3.1	-3.3	-2.1			-2.2	-2.2	-2.3	-2.3	-2.3	-2.4	
Automatic debt dynamics 1/	12.1	-7.2	-2.4	-0.2	-3.7			1.7	1.7	1.5	1.4	1.2	1.2	
Denominator: 1+g+r+gr	0.8	1.2	1.1	1.1	1.1			1.0	1.1	1.0	1.0	1.0	1.0	
Contribution from nominal interest rate	3.3	2.9	3.4	3.3	3.3			3.0	2.8	2.8	2.7	2.6	2.5	
Contribution from real GDP growth	4.3	-6.1	-4.2	-0.4	-0.8			-1.3	-1.1	-1.2	-1.3	-1.4	-1.3	
Contribution from price and exchange rate changes 2/	4.5	-4.1	-1.6	-3.1	-6.2			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	4.9	0.5	1.6	3.5	1.5			0.8	0.0	0.1	-0.1	-1.0	-1.4	
External debt-to-exports ratio (in percent)	470.7	385.1	283.5	315.7	322.9			326.4	325.5	323.9	323.0	318.5	312.6	
Gross External Financing Need (in billions of US dollars) 4/	46.8	55.2	64.8	53.8	53.3			57.8	63.9	67.8	69.0	75.8	77.4	
in percent of GDP	17.3	17.3	18.8	14.7	12.7			13.2	13.8	14.1	13.7	14.3	14.0	
Scenario with Key Variables at their Historical Averages 5/						10-Year Historical Average	10-Year Standard Deviation	**56.7**	**60.1**	**62.9**	**65.7**	**67.6**	**69.0**	**0.8**
Key Macroeconomic Assumptions Underlying Baseline														
Nominal GDP (US dollars)	270.3	318.5	345.6	366.3	418.8			438.1	462.3	482.2	504.3	528.5	552.7	
Real GDP growth (in percent)	-7.2	10.8	7.3	0.7	1.6	2.5	4.6	2.5	2.3	2.5	2.7	2.9	2.8	
Exchange rate appreciation (US dollar value of local currency, change i	-11.2	-1.4	-12.0	-1.6	6.2	-6.4	9.7	-2.7	-0.4	-1.2	-1.1	-1.1	-1.2	
GDP deflator (change in domestic currency)	1.5	7.8	14.9	7.0	6.0	5.9	3.7	4.9	3.5	3.0	3.0	3.0	3.0	
GDP deflator in US dollars (change in percent)	-9.8	6.3	1.1	5.2	12.5	-0.9	11.2	2.0	3.2	1.8	1.8	1.9	1.8	
Nominal external interest rate (in percent)	5.5	5.2	6.0	5.8	6.3	5.9	0.5	5.8	5.7	5.6	5.5	5.3	5.2	
Growth of exports (US dollar terms, in percent)	-25.5	33.2	44.4	-6.6	0.8	2.9	23.3	2.7	4.1	3.6	3.4	3.4	3.3	
Growth of imports (US dollar terms, in percent)	-21.6	38.2	26.3	-14.7	3.0	1.7	19.4	6.9	6.4	4.9	5.0	5.3	5.2	
Current account balance, excluding interest payments	-0.1	-2.7	-2.7	1.0	1.5	-1.2	1.8	0.7	0.3	0.0	-0.3	-0.7	-1.1	
Net non-debt creating capital inflows	0.6	0.9	3.1	3.3	2.1	2.0	0.9	2.2	2.2	2.3	2.3	2.3	2.4	

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.

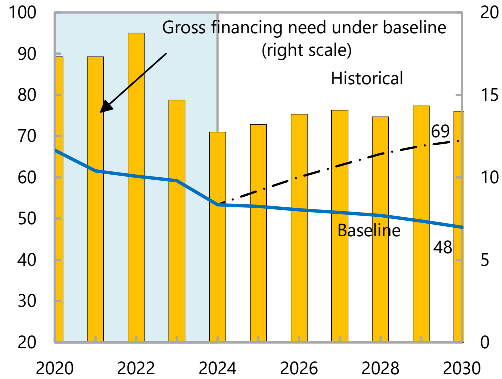
6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

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

(External debt in percent of GDP)

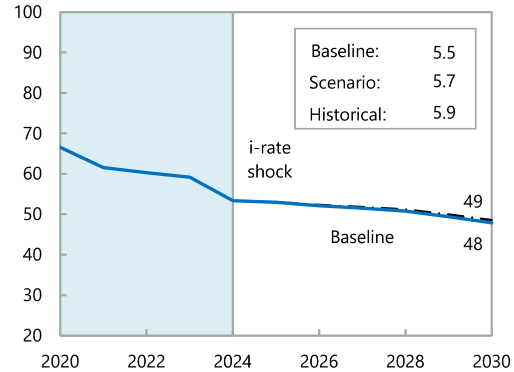
Baseline and Historical Scenario

(In percent of GDP)



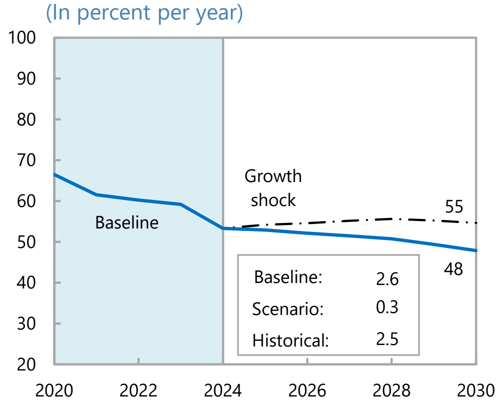
Interest Rate Shock

(In percent)



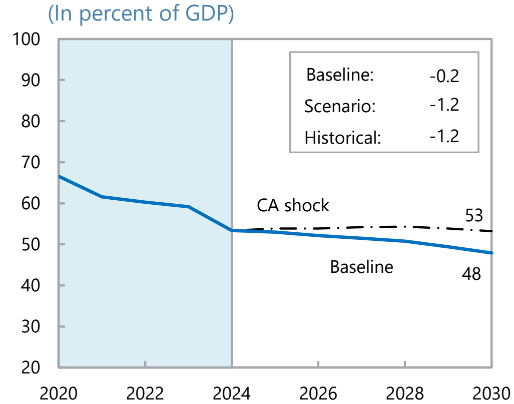
Growth Shock

(In percent per year)

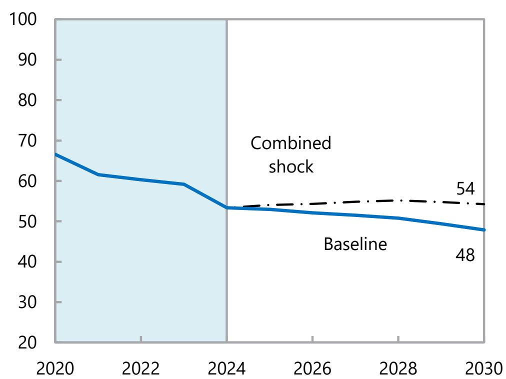


Non-Interest Current Account Shock

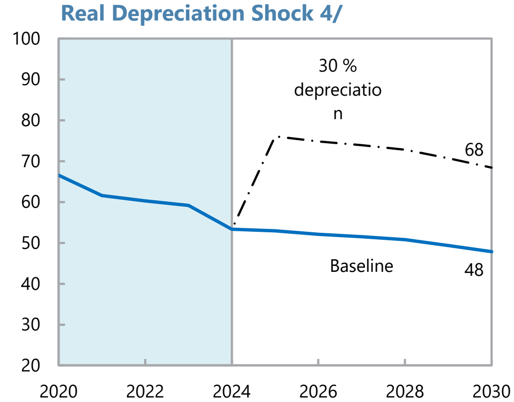
(In percent of GDP)



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 2025.

Annex I. External Sector Assessment, 2024

***Overall Assessment**. Staff assesses that the external position in 2024 was broadly in line with medium-term fundamentals and desirable policies. The strength of tourism receipts, remittance inflows, and a reduction in profit transfers abroad, combined with a reduction in imports, offset lower exports hence leading to a further narrowing of the current account deficit. The external position continues to benefit from a relatively stable and diversified capital flows with a high FDI component, a favorable composition of external debt with long maturities, sizable peso-denominated debt for sovereign bonds, and high natural and financial hedges for corporates. Meanwhile, the flexible exchange rate has continued to serve as a key mechanism of adjustment to external shocks.*

***Potential Policy Responses**. Significant consolidation efforts are needed over the medium term, including to reduce the burden on monetary policy in the ongoing disinflation process. This needs to be complemented by policies aimed at improving the investment climate and encouraging private investment, including through reforms that responsibly diversify the country's export base, reduce barriers to entry, boost productivity, and enhance governance and transparency.*

Foreign Assets and Liabilities: Position and Trajectory

Background. Colombia's NIIP at end-2024 is estimated at -44.6 percent of GDP, 7.5 percentage points less negative than at end-2023, while gross external financing needs stood at 12.7 percent of GDP, 2.0 percentage points lower than in 2023. The NIIP change was driven by a decrease in FDI, portfolio and other investment liabilities relative to GDP, largely reflecting the denominator effects of a significantly larger USD value of nominal GDP in 2024. During the last five years (2019-24), the marginal increase in liabilities (up 0.3 points of GDP, driven mainly by other investments) was more than offset by the increase in assets (up 4.6 points of GDP, mainly driven by portfolio investment). Excluding FDI, the NIIP stood at a positive 0.7 percent of GDP, above the 5-year average (-4.1 percent of GDP). Considering only reserve assets and debt liabilities, the net position was -38.4 percent.

Assessment. Colombia's NIIP and its composition are sustainable, although efforts will be required to reduce fiscal deficits and sovereign spreads. The estimated medium-term current account (CA) balance required to stabilize the NIIP at its end-2024 level is about -2.2 percent of GDP. While this is slightly higher than the baseline CA balance over the medium term, the projected very large share of FDI (and its countercyclical valuation properties) allows some degree of flexibility.

2024 (% GDP)	NIIP: -45	Gross Assets: 65	Reserve Assets: 14.9	Gross Liab.: 110	Debt Liab.: 53

Current Account

Background. The CA deficit fell from 2.3 percent of GDP in 2023 to 1.7 percent of GDP for 2024, as a deterioration in the trade balance was more than offset by improvements the services, primary income and secondary income balances. Both export and import values fell, in line with lower commodity prices and continued tight monetary policy and weak investment, with the drop in exports dominating despite slightly improved terms of trade (up 2.0 percent y/y). Goods exports volumes fell by 1.7 percent (y/y) mainly reflecting lower oil and coal, while import volumes remained generally subdued (up 2.8 percent y/y). Improvements in the CA were mainly driven by the continued strength of tourism receipts (up 14 percent y/y) and remittances (up 17 percent y/y), as well as a reduction in profit transfers abroad.

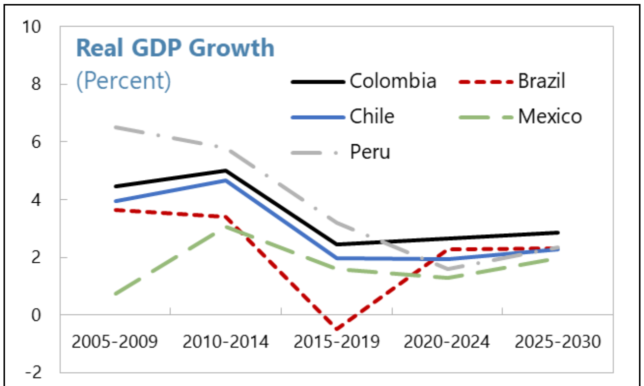
Assessment. Model estimates indicate a cyclically adjusted CA norm of -0.6 percent of GDP and a CA gap of -1.7 percent of GDP for 2024. Identified policy gaps are 0.4 percent of GDP, with the fiscal gaps contributing 0.2 percent of GDP. As in previous exercises (2019-23), adjustments to account for Colombia-specific factors remain necessary, and involve: (i) reducing the contribution of oil exports to the norm by 1.3 percent of GDP, given Colombia's investment needs necessary to boost competitiveness; [1] and (ii) reducing the norm by an additional 0.5 percent of GDP, given the need to absorb the large stock of migrants from Venezuela.[2] The combined adjustments above reduce the CAB gap to 0.1 percent of GDP, with a standard error of +/-0.6 percent of GDP.

2024 (% GDP)	Estimated CA: -1.7	Cycl., Adj. CA: -2.2	EBA Cycl. Adj. CA Norm: -0.6	EBA CA Gap: -1.7	Other Adj.: 1.8	Staff CA Gap: 0.1

Real Exchange Rate
Background. The Real Effective Exchange Rate (REER) depreciated 3.6 percent in 2024, following an appreciation of 28.0 percent in 2023 and an 8.5 percent depreciation in 2022. The REER was 29 percent weaker than the 2010-14 average owing to generally lower terms of trade. The average nominal effective exchange rate (NEER) depreciated 5.1 percent in 2024. **Assessment**. Overall, staff judges the REER gap consistent with the staff CAB gap at -0.6 percent, with a range of uncertainty (+/- 3.5 percentage points). Applying a semi-elasticity of -0.17 to the gap from the CAB approach suggests a somewhat symmetric REER overvaluation (4.1 percent) and undervaluation (2.9 percent). Under the External Sustainability approach the implied undervaluation is 1.8 percent, in line with the EBA REER model estimate showing an undervaluation of 1.7 percent (level method). The REER index method, in contrast, shows an undervaluation of 21.7 percent.
Capital and Financial Accounts: Flows and Policy Measures
Background. During the last several years the CA has been financed primarily by capital inflows in the form of FDI, complemented by portfolio inflows or foreign borrowing. For 2024 net FDI liabilities (inflows) reached 2.3 percent of GDP, diversified across sectors. Portfolio investment recorded net outflows of 0.6 percent of GDP, as residents increased their positions overseas (1.3 percent of GDP) and non-residents increased their exposure to the domestic government debt market (about 0.7 percent of GDP). Short-term debt, mainly private, represented 13.4 percent of external debt, slightly lower that its level in 2023. The government also issued sovereign bonds to partially pre-finance 2025 needs. **Assessment**. The relative stability of FDI flows, diversification of creditors, and uninterrupted market access have underpinned capital inflows, including during periods of stress. Colombia's attractiveness as an investment destination should continue to support external investment flows, particularly if uncertainties over the direction of policies dissipate, and efforts to improve the investment climate take hold.
FX Intervention and Reserves Level
Background. Gross international reserves reached $61.9 billion at end-2024, $2.8 billion more than in 2023—mainly split between returns on reserve assets and valuation adjustments, combined with central bank purchases of $1.5 billion. **Assessment**. The flexible exchange rate has served the economy well. It has been the primary mechanism of adjustment to external shocks. Depreciations have cushioned export receipts, albeit mostly through local-currency prices owing to the USD pricing of exports, and kept imports in check. Reserve coverage remains adequate. For 2024, reserve coverage reached 131 percent of the ARA metric, and 117 percent if the commodity buffer is included.[3] Further reserve accumulation, as conditions permit, would help insure against elevated external risks.
[1] The contribution of oil exports is adjusted downward to account for Colombia's investment needs relative to the EBA sample. As in the 2019, 2020, 2021, 2022, 2023, and 2024 Article IV reports, this is based on Colombia's infrastructure gap relative to rivals in export markets, higher public fixed capital formation, and relatively efficient practices in public investment management. [2] The adjustment is the same as in the 2020, 2021, 2022, 2023 and 2024 Article IV consultations, which is consistent with a constant stock of migrants. The adjustment is lower than in the 2019 Article IV and conservative relative to the adjustment implied by the EBA model's population coefficient. [3] To capture the uncertainty in commodity prices, we apply that to baseline oil export values one standard deviation in the oil price (1980-2023), which is similar to the price volatility embodied in oil option prices.

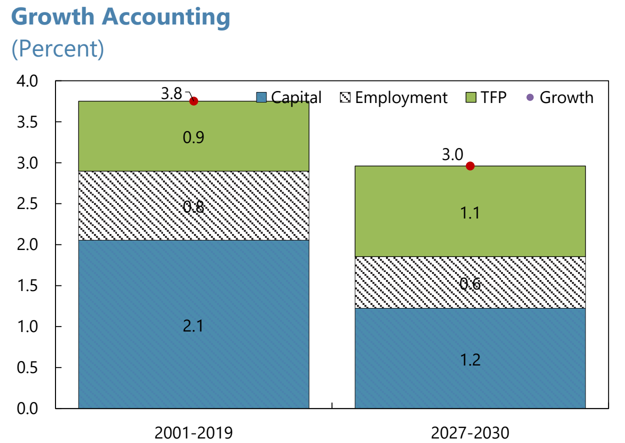
Annex II. Revisiting Medium-Term Growth Projections

1. Colombia's average real GDP growth has fallen to around 2½ percent over the past decade (2015-2024), amid subdued private investment more recently. The subdued performance is shared by other LA5 countries, who also experienced much stronger growth during the previous decade (2005-14), partly on account of the commodity price boom. As documented in the 2024 AIV consultation, investment and productivity in Colombia has been weaker than in most peer countries since the pandemic. This weakness led staff to gradually reduce the medium-term growth projection from 3½ to 3 percent over the last two AIV consultations. While investment is projected to gradually recover over the medium term (¶11), under current policies it is expected to remain somewhat below pre-pandemic levels by 2030.



Sources: Haver and IMF staff calculations.

2. In addition to subdued investment, population dynamics are adding headwinds for medium-term growth. According to recent population projections prepared by DANE that incorporate the effects of the pandemic, population growth is expected to decline from 1.1 percent in 2023 to 0.5 percent in 2030 (earlier projections showed relatively stable population growth).



Sources: DANE, Haver, and IMF staff calculations.

3. Against this backdrop, potential growth has been lowered. A growth accounting exercise based on staff's investment projections and DANE's population projections reveals that the average TFP would need to grow by 1.1 percent per year to support a medium-term growth of 3 percent (Text Chart). This is large compared to the estimated average TFP growth of 0.9 percent by staff and 0.7 percent by the World Bank over 2001–2019, which would be difficult to achieve under current policies without growth-boosting structural reforms.[1] As such, a lower medium-term growth of 2¾ percent, which is based on a TFP growth of about 1 percent, would be more consistent with historical data and expected trends under the baseline.

[1] Kilic Celik, Sinem; Kose, M. Ayhan; Ohnsorge, F.; Ruch, F. Ulrich. 2023. Potential Growth: A Global Database. Policy Research Working Papers; 10354. World Bank.

Annex III. Risk Assessment Matrix[1]

Source of Risks (Likelihood in color)	Impact	Policy Advice for Colombia
Global		
Trade, Immigration, and Investment Shocks. Higher trade barriers, stricter migration policies elsewhere or sanctions reduce external trade and remittances, disrupt FDI and supply chains, and trigger further U.S. dollar appreciation, tighter financial conditions, and higher inflation. **High.**	**High.** Colombia would be affected by a reduction of global trade and remittance inflows, disruptions in FDI and supply chains, and tighter financial conditions, which could dampen growth, reduce exports, increase borrowing costs, and exert downward pressure on the exchange rate.	Use existing policy space to support the economy and protect the most vulnerable, consistent with the inflation targeting (IT) regime and the medium-term fiscal policy path. The strength and mix of the monetary and fiscal response would depend on Colombia's cyclical position and on the impact of shocks. Allow the exchange rate to play its role as a shock absorber.
Sovereign Debt Distress. Higher interest rates, stronger U.S. dollar, and shrinking development aid amplified by sovereign-bank feedback result in capital outflows, rising risk premia, loss of market access, abrupt expenditure cuts, and lower growth in highly indebted countries. **High.**	**Medium.** Colombia is vulnerable to a sudden exit of foreign investors, which hold a relatively large share of its sovereign bonds. The risk is mitigated by policy buffers.	Use the flexible exchange rate as the first line of defense against external shocks. A decisive and credible fiscal adjustment is urgently needed to re-anchor expectations and lower borrowing costs.
Tighter Financial Conditions and Systemic Instability. Higher-for-longer interest rates and term premia amid looser financial regulation, rising investments in cryptocurrencies, and higher trade barriers trigger asset repricing, market dislocations, weak bank and NBFI distress, and further U.S. dollar appreciation, which widens global imbalances, worsens debt affordability, and increases capital outflow from EMDEs. **Medium.**	**High.** Colombia would be affected by higher-for-longer interest rates and term premium, asset repricing, and market dislocations. Capital outflows and systemic financial instability would reduce the domestic credit supply. High borrowing costs would discourage investment and hamper growth.	Use the flexible exchange rate as the first line of defense against external shocks. Targeted liquidity interventions, including unconventional measures like asset purchases, can address disorderly market conditions, as can the use of international reserves, if needed. Tighten monetary policy, within the inflation-targeting framework, if inflation is affected by additional price pressures.
Commodity Price Volatility. Supply and demand volatility (due to conflicts, trade restrictions, OPEC+	**Medium.** Colombia would be affected by volatile export and import prices. Oil and food	Use flexible exchange rate as the first line of defense against external shocks. Tighten monetary policy if second round

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and the overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. The conjunctural shocks and scenarios highlight risks that may materialize over a shorter horizon (between 12 to 18 months) given the current baseline. Structural risks are those that are likely to remain salient over a longer horizon.

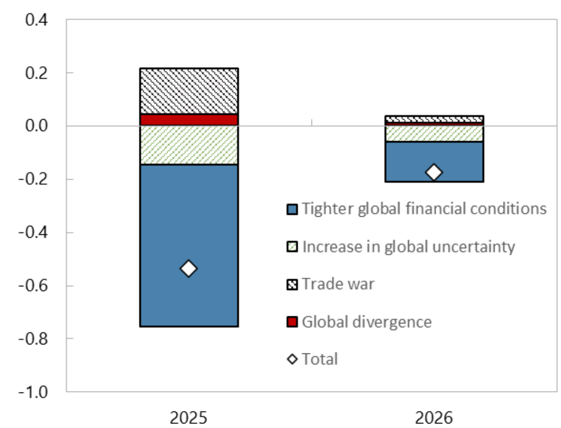
Source of Risks (Likelihood in color)	Impact	Policy Advice for Colombia
decisions, AE energy policies, or green transition) increases price shocks feed through to headline and core inflation. commodity price volatility, external and fiscal pressures, social discontent, and economic instability. **Medium.**	price shocks feed through to headline and core inflation.	effects materialize and/or inflation expectations are not well anchored, mindful of different effects from the demand and supply sides as oil exporters. Reduce reliance on oil-related tax revenues. Speed up structural reforms to enhance external competitiveness and economic diversification.
Colombia Specific Risks		
A Disorderly Transition towards Cleaner Energy. **Medium**	**High.** A sudden stop in the exploration and exploitation of fossil fuels will have significant effects on the external and fiscal accounts.	Reprioritize structural reforms to enhance external competitiveness and export diversification. Adopt a more ambitious fiscal adjustment to enhance fiscal credibility and prevent further increases in debt and borrowing costs.
Social Unrest. Persistently high inflation, including in energy and food, slowing economic growth, unmet social demands, or the protracted constitutional reform amplify risks of social unrest. Political polarization and instability weaken policymaking and confidence. **Medium**	**High.** Political uncertainty and social conflict could affect private investment and provoke capital outflows. A decline in political support for key institutions and policy frameworks could have significant medium-term implications.	Advance reforms to tackle social demands, anchored on broad political support. Continue with policies to achieve the inflation target and promote fiscal sustainability, while providing targeted support to the most vulnerable within the fiscal rule and medium-term fiscal frameworks.
Further Deterioration of Fiscal Outlook. Meeting the new 2025 deficit target required urgent implementation of adjustment measures that may not materialize. **High**	**High.** Further deterioration of the fiscal outlook will complicate the consolidation and further raise borrowing costs.	Enact necessary adjustment to meet the 2025 target. Identify and start implementing measures to deliver the medium-term consolidation path envisaged in the MTFF as early as possible.
Monetary Policy Miscalibration. A miscalibration in the timing and pace of policy rate cuts would jeopardize central bank's credibility and increase the risk of policy reversals. **Medium**	**Medium.** Increasing the policy rate after a faster-than-expected drop in the rate could be costly in terms of output and credibility.	Keep a tight monetary policy stance until headline and core inflation rates and inflation expectations are in firm downward trajectories.
Tenser Relations between US and Colombia. Direct U.S. tariffs on imports from Colombia (e.g., due to concerns over migration or illicit drugs), could hurt Colombia's external balances and risk premia. **Medium**	**Medium.** Trade actions could have negative effects on Colombia's external position, borrowing costs, and investment prospects.	Implement structural reforms to ensure the economy can adjust flexibly to potential changes in export demand. Measures could include reforms to strengthen the business climate (e.g., infrastructure, rule of law, human capital formation), competition, and labor market reforms to reduce informality and allow for smoother sectoral reallocation.

Annex IV. Impact of Global Risks on Near-Term Outlook

1. This Annex presents an assessment of global risks to Colombia's near-term outlook using the IMF's Global Integrated Monetary and Fiscal (GIMF) model. The scenario incorporates four layers of global risks discussed in the April 2025 World Economic Outlook (WEO) risk scenario: global growth divergence, trade war, tighter global financial conditions, and increased global uncertainty.[1] The impacts of the last two risks are based on Latin American averages, while those of the first two are country specific, and are estimated using the country's import structure and tariff exposure, based on cross-country regressions from the GIMF simulations. The scenario does not explicitly model commodity prices and remittances, which could be important risks for Colombia (Annex IV).

2. Under this scenario, annual real GDP growth in Colombia could decline in the near term. The projected declines—by 0.5 percentage points in 2025 and 0.2 percentage points 2026—are primarily due to higher global uncertainties and tighter global financial conditions. Increased uncertainty reduces investment and consumption, while tighter financial conditions weigh on growth through both domestic monetary tightening and international spillovers. These adverse effects are partially offset by modest positive impacts from global divergence and trade war, reflecting trade diversion effects. The overall impact on inflation and REER is limited.

Impact on GDP Growth
(Percentage point, deviation from the baseline)



Source: IMF staff calculations.

[1] See Box 1.1. in Chapter 1 of the April 2025 World Economic Outlook for details on the scenario.

Annex V. Recommendations of the 2024 Article IV Consultation and Authorities' Actions

Fund Recommendation	Policy Action
Monetary Policy	
Policy rate cuts should continue with caution with a backloaded pace aiming to bring inflation durably to the target by mid-2025. Further strengthening communication can help more strongly anchor inflation expectations. The exchange rate should continue to flexibly respond to shocks, unless disorderly market conditions arise, in line with the IPF. A further gradual strengthening of international reserves would be appropriate as conditions allow.	Following cumulative cuts of 350 basis points in 2024, the policy rate was reduced by only 25 basis points in 2025H1, as inflationary pressures persist in the context of fiscal easing. In its November 2024 communiqué and through various monetary policy decisions in 2025, Banrep reiterated its commitment to the 3 percent inflation target. Banrep completed its US$1.5 billion reserve accumulation plan over 2024.
Fiscal Policy	
The planned increases in the overall deficit and debt pose fiscal risks. Given revenue uncertainties, proactively scaling back expenditure plans would reduce the risk of needing to identify spending cuts later in the year to meet the fiscal rule. Reorienting expenditures towards investment within this lower spending envelope could support energy transition and enhance growth potential.	The 2024 primary deficit was 2.6 ppt of GDP larger than originally anticipated or budgeted, as expenditure cuts in late 2024 were insufficient to offset large revenue shortfalls, These slippages reduced the credibility of the fiscal and budget framework, while late spending adjustments sacrificed growth-boosting public investment. Meanwhile, poor liquidity management and sizable budgetary backlogs contributed to policy uncertainty.
Financial Sector	
While the financial sector has been resilient, continuing to monitor rising NPLs and maturity risks will be important. Progress should continue in implementing FSAP recommendations. Thorough analysis of potential implications of the pension reform on financial stability should help inform reform discussions.	The authorities have adopted several FSAP recommendations, including strengthening the risk management framework. They have taken measures to reduce the rigidity of countercyclical provisioning scheme (CCyP) and are considering the merits of a countercyclical capital buffer scheme. The supervisory agency has expanded the data collection on household indebtedness and debt burden.
Social and Structural Reforms	
Reforms should fit within Colombia's very strong policy frameworks, addressing problems in the current system while ensuring alignment of economic incentives and encouraging investment. Clear communication on policy direction and broad political support is essential for the reforms to be durable. Further advancing structural reforms to enhance productivity and diversify the economy remains essential.	The pension reform was approved in mid-2024 but the Constitutional Court sent it back to Congress for further discussions, and the fiscal costs still need to be fully reflected in the MTFF projections. The labor reform was approved in Congress in mid-2025, and it is expected to take effect later this year. The healthcare reform continues to be discussed in Congress. Implementation of energy transition policies (e.g., plans to sharply reduce fossil fuel exploration and production) has raised uncertainties on the direction of domestic policies.
Governance	
Reform efforts should be complemented with a further strengthening of governance and transparency and reduction of corruption risks, including through (i) the development of a comprehensive risk-based anti-corruption strategy; (ii) the continuous publication of comprehensive and easily accessible income and asset declarations of politically-exposed persons; and (iii) the public access to effective beneficial ownership information.	The Financial Information and Analysis Unit (UIAF) will conduct a new National Risk Assessment during 2025–2026, per recommendations of the Financial Action Task Force (FATF). Access to the Single Registry of Beneficial Owners (SRBO) has been granted to entities authorized by law. About 95 percent of the obliged entities registered in the SRBO but DIAN has partial information on shareholders of sociedades anônimas., which hinders governance efforts. To date, no risk assessment on the misuse of different types of legal entities for AML/CFT purposes has been conducted with the support of the SRBO.

Annex VI. Public Debt Sustainability Analysis[1]

Figure 1. Colombia: Risk of Sovereign Stress

Horizon	Mechanical signal	Final assessment	Comments
Overall	...	**Moderate**	The overall risk of sovereign stress is moderate. Gross public debt reached 61.2 percent of GDP by end-2024, reflecting higher deficit and weaker peso. Debt is projected to remain sustainable over the medium term conditional on the assumed fiscal consolidation. Given the absence of identified measures and sizable implementation risks, considerable efforts are needed to bring down net CG debt decisively toward the anchor. Large budget cuts are warranted to meet the 2025 fiscal target. Measures adding to 3.2 ppts of GDP over three years are required by the consolidation plan. Risks associated with GFN are also moderate, while risks associated with commodity prices, exchange rate, and interest-growth rate differentials may pose challenges over the medium term. Debt stabilization critically depends on the successful fiscal consolidation and retun to the fiscal rule by 2028.
Near term 1/	...	...	...
Medium term	**Low**	**Moderate**	The medium-term analysis suggests a moderate level of risks of sovereign stress, supported by moderate financing needs. Debt stabilization critically depends on a successful fiscal consolidation and return to the fiscal rule by 2028. Risks associated with commodity prices, exchange rate, and interest-growth rate differentials may pose challenges over the medium term. Hence, staff assesses medium-term risks as moderate.
Fanchart	**Moderate**	...	
GFN	**Moderate**	...	
Stress test	Comm. Prices FX rate Nat. Disast.	...	
Long term	...	**Moderate**	While CPS gross public debt is expected to remain sustainable over the medium term conditional on the assumed fiscal consolidation, the fiscal decentralization and pension reforms will require meaningful changes to the spending composition and reducing budget rigidities. Demographic headwinds and lower oil and coal production could affect long-term growth and fiscal sustainability. Complementary reforms to secure the needed spending adjustments will be vital to safeguard debt reduction.
Sustainability assessment 2/	...	**Sustainable**	The projected debt path is expected to remain stable over the medium term and GFNs to remain at manageable levels, conditional on the sustained implementation of the assumed fiscal consolidation and return to the fiscal rule by 2028.
Debt stabilization in the baseline			Yes

DSA Summary Assessment

Commentary: Colombia's gross public sector debt is assessed to be sustainable under a wide range of plausible shock scenarios, with moderate risks. The planned consolidation and return to the fiscal rule are critical for debt stabilization. Large budget cuts in 2025, fiscal measures (3.2 ppts of GDP) during 2026-28, and changes in the spending composition over the medium term will be required to lower spreads and promote a gradual convergence of public debt to the anchor.

Source: IMF 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.

[1] Cut-off date: August 31, 2025.

Figure 2. Colombia: Debt Coverage and Disclosures

1. Debt coverage in the DSA: 1/

CG	GG	NFPS	CPS	Other
		chosen coverage		

1a. If central government, are non-central government entities insignificant? n.a.

2. Subsectors included in the chosen coverage in (1) above:

Coverage	#	Subsectors captured in the baseline	Inclusion	Comments
CPS / NFPS / GG: expected / CG	1	Budgetary central government	Yes	
CPS / NFPS / GG: expected / CG	2	Extra budgetary funds (EBFs)	No	Not applicable
CPS / NFPS / GG: expected / CG	3	Social security funds (SSFs)	Yes	
CPS / NFPS / GG: expected	4	State governments	Yes	
CPS / NFPS / GG: expected	5	Local governments	Yes	
CPS / NFPS	6	Public nonfinancial corporations	Yes	
CPS	7	Central bank	No	
CPS	8	Other public financial corporations	Yes	

3. Instrument coverage:

Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/
chosen coverage	chosen coverage	chosen coverage	Missing from recommended coverage	Missing from recommended coverage

4. Accounting principles:

Basis of recording		Valuation of debt stock		
Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/
	chosen	chosen		

5. Debt consolidation across sectors:

Consolidated	Non-consolidated
chosen	

Color code: chosen coverage; Missing from recommended coverage; Not applicable

Reporting on Intra-Government Debt Holdings

Issuer \ Holder		Budget. central govt	Extra-budget. funds	Social security funds	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total
1	Budget. central govt									0
2	Extra-budget. funds									0
3	Social security funds									0
4	State govt.									0
5	Local govt.									0
6	Nonfin pub. corp.									0
7	Central bank									0
8	Oth. pub. fin. corp									0
	Total	0	0	0	0	0	0	0	0	0

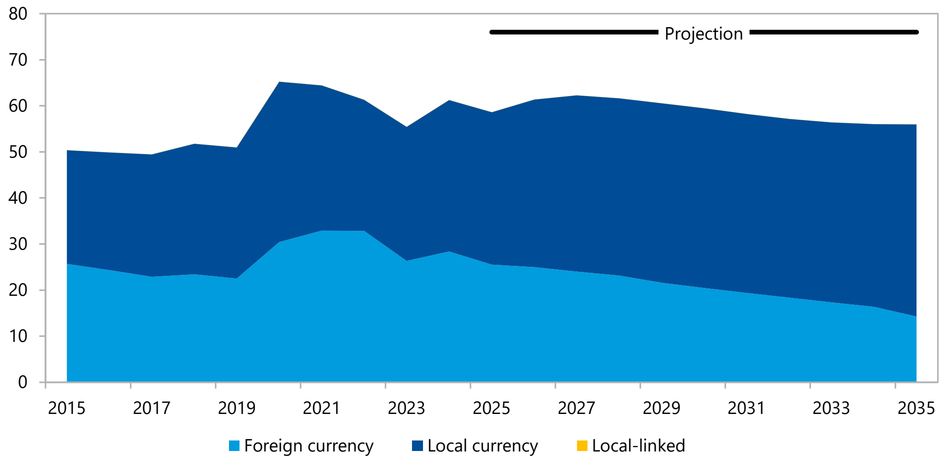
1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.
2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.
3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.
4/ Includes accrual recording, commitment basis, due for payment, etc.
5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).
6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.
7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.

Commentary: The public debt figures reported for Colombia cover the non-financial public sector and the financial public sector (Finagro and Fogafin). The non-financial public sector covers the central government, regional and local governments, decentralized entities, and Ecopetrol. Public debt also includes the recognition of public debt arrears stemming from past court rulings, social security, energy subsidies and liabilities from pension bonds and FOMAG (see IMF Country Report 20/104). Domestic debt is defined on a currency basis.

Source: IMF staff.

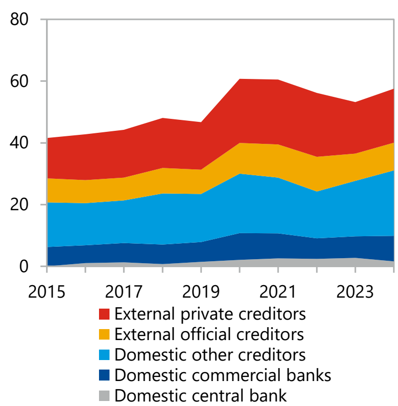
Figure 3. Colombia: Public Debt Structure Indicators

Debt by Currency (Percent of GDP)



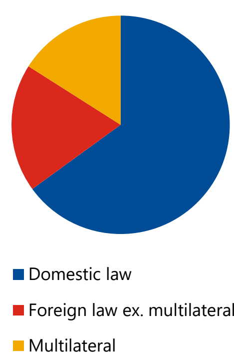
Note: The perimeter shown is nonfinancial public sector.

Public Debt by Holder (Percent of GDP)

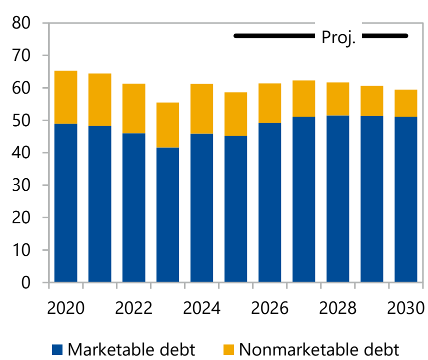


Note: The perimeter shown is nonfinancial public sector.

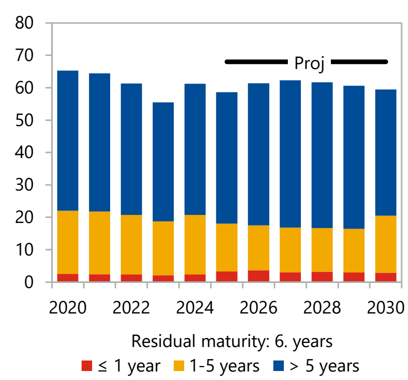
Public Debt by Governing Law, 2024 (percent)



Note: The perimeter shown is nonfinancial public sector.



Note: The perimeter shown is nonfinancial public sector.



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 averages.

Source: IMF staff.

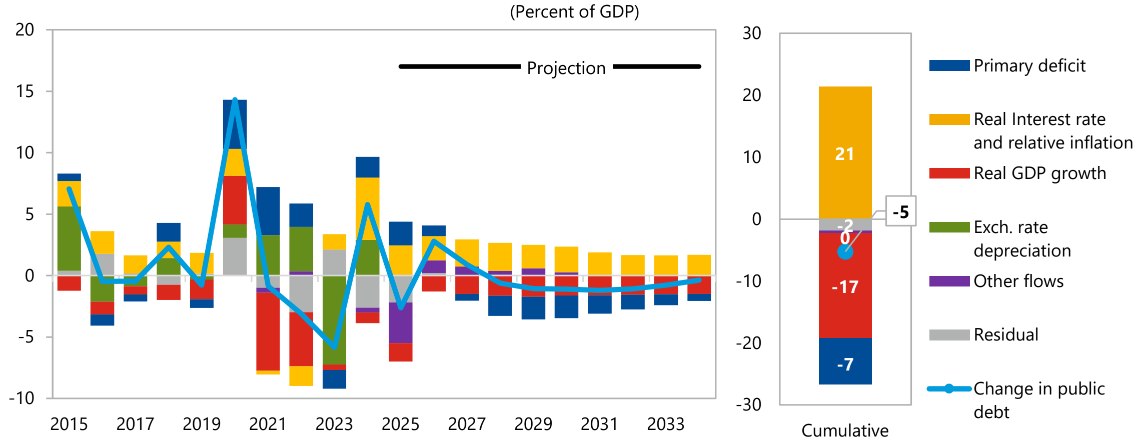
Figure 4. Colombia: Baseline Scenario

(percent of GDP unless indicated otherwise)

	Actual	Medium-term projection						Extended projection				
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Public debt	61.2	58.6	61.4	62.3	61.6	60.6	59.5	58.3	57.2	56.4	55.7	55.2
Change in public debt	5.8	-2.6	2.8	0.9	-0.6	-1.1	-1.1	-1.2	-1.1	-0.8	-0.4	0.0
Contribution of identified flows	8.4	-0.4	2.6	0.9	-0.7	-1.1	-1.1	-1.2	-1.1	-0.8	-0.4	0.0
Primary deficit	1.7	1.9	0.9	-0.6	-1.7	-1.8	-1.8	-1.5	-1.2	-0.9	-0.6	-0.2
Noninterest revenues	28.4	27.5	27.9	28.5	29.0	29.3	29.5	29.5	29.5	29.5	29.5	29.5
Noninterest expenditures	30.1	29.5	28.8	28.0	27.4	27.4	27.6	28.0	28.3	28.6	28.9	29.2
Automatic debt dynamics	7.1	0.9	0.7	0.7	0.6	0.2	0.5	0.3	0.1	0.1	0.2	0.2
Real interest rate and relative inflation	5.1	2.4	2.0	2.2	2.3	1.9	2.1	1.9	1.7	1.6	1.7	1.7
Real interest rate	4.2	1.9	1.7	1.9	2.1	1.7	1.9	1.7	1.5	1.4	1.5	1.5
Relative inflation	0.9	0.6	0.3	0.3	0.2	0.3	0.2	0.2	0.2	0.2	0.2	0.2
Real growth rate	-0.9	-1.5	-1.3	-1.5	-1.6	-1.7	-1.6	-1.6	-1.6	-1.5	-1.5	-1.5
Real exchange rate	2.9	…	…	…	…	…	…	…	…	…	…	…
Other identified flows	-0.4	-3.3	1.0	0.7	0.3	0.6	0.2	0.0	0.0	0.0	0.0	0.0
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(minus) Interest Revenues	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other transactions	-0.4	-3.3	1.0	0.7	0.3	0.6	0.2	0.0	0.0	0.0	0.0	0.0
Contribution of residual	-2.6	-2.2	0.2	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross financing needs	12.7	8.6	7.6	6.6	5.1	4.5	4.5	4.6	4.7	4.9	5.2	8.8
of which: debt service	11.0	6.6	6.7	7.1	6.7	6.4	6.3	6.1	5.9	5.8	5.8	9.0
Local currency	5.7	4.3	4.2	4.9	5.0	4.2	4.4	4.3	4.1	4.1	4.1	6.1
Foreign currency	1.5	2.3	2.5	2.2	1.8	2.2	1.9	1.8	1.7	1.7	1.7	2.9
Memo:												
Real GDP growth (percent)	1.6	2.5	2.3	2.5	2.7	2.9	2.8	2.7	2.7	2.7	2.7	2.7
Inflation (GDP deflator; percent)	6.0	4.9	3.5	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Nominal GDP growth (percent)	7.7	7.5	5.9	5.6	5.8	5.9	5.8	5.8	5.8	5.8	5.8	5.8
Effective interest rate (percent)	6.7	8.2	6.5	6.3	6.5	5.9	6.3	6.0	5.6	5.7	5.8	5.9

Contribution to Change in Public Debt

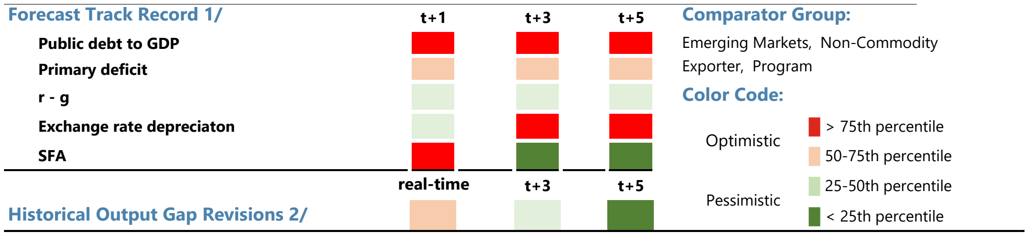
(Percent of GDP)



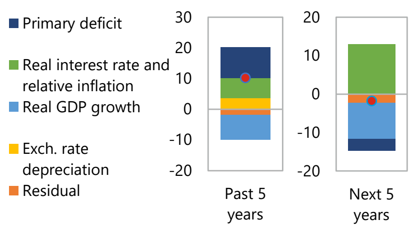
Commentary: Gross public debt will increase during the suspension of the fiscal rule and then start to decline towards the anchor in the outer years, reflecting expectations of narrowing of primary deficits over the medium term driven by the assumed fiscal consolidation at the central government level (baseline scenario) and stable economic conditions.

Source: IMF staff.

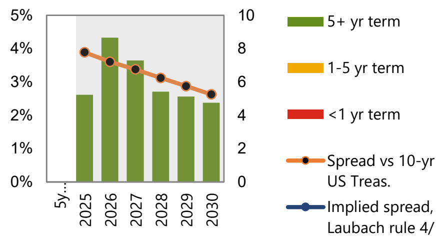
Figure 5. Colombia: Realism of Baseline Assumptions



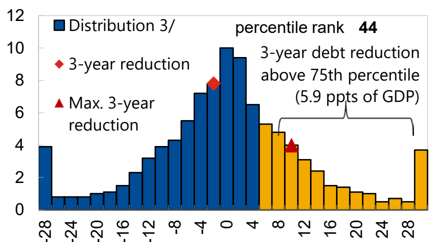
Public Debt Creating Flows (Percent of GDP)



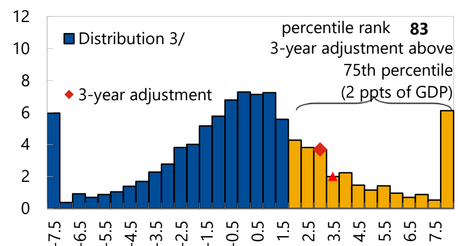
Bond Issuances (Bars, debt issuances (RHS, percent of GDP); lines, avg marginal interest rates (LHS, percent))



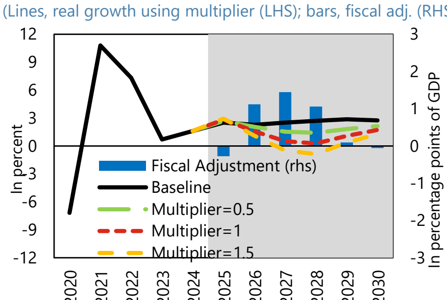
3-Year Debt Reduction
(Percent of GDP)



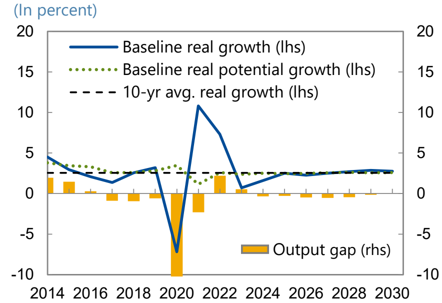
3-Year Adjustment in Cyclically-Adjusted Primary Balance (Percent of GDP)



Fiscal Adjustment and Possible Growth Paths
(Lines, real growth using multiplier (LHS); bars, fiscal adj. (RHS))



Real GDP Growth
(In percent)



Commentary: The fiscal balance path is in line with the authorities' 2025 Medium-Term Fiscal Framework (MTFF). The 3-year cumulative change in the consolidated public sector (CPS) cyclically-adjusted primary balance is close to the 80th percentile rank of the SRDSF sample, suggesting this is a feasible but ambitious adjustment. Strictly adhering to the interim fiscal targets of the consolidation plan is critical to return to the fiscal rule by 2028, as assumed in the MTFF, and for debt stabilization. To ensure the CPS debt declines over the medium term, the fiscal costs of social and structural reforms must fit within a realistic budget envelope in line with the MTFF consolidation targets.

Source: IMF staff.

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

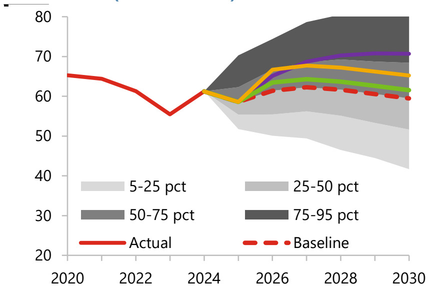
2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates

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

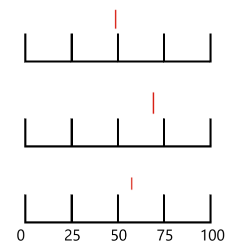
4/ The Laubach (2009) rule is a linear rule assuming bond spreads increase by about 4 bps in response to a 1 ppt increase in the projected debt-to-GDP ratio.

Figure 6. Colombia: Medium-Term Risk Analysis

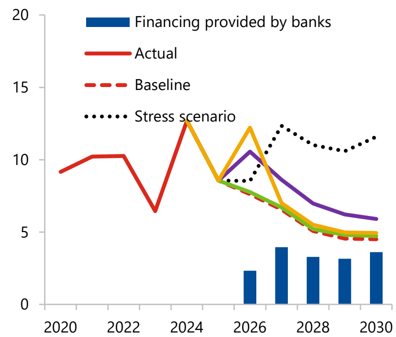
Final Fanchart (Percent of GDP)



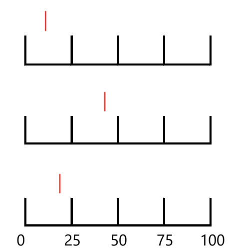
Debt fanchart module	Value	Contrib 1/	Percentile in peer group 2/
Fanchart width *(percent of GDP)*	40.1	0.6	
Probability of debt non-stabilizaiton *(percent)*	9.5	0.1	
Terminal debt-to-GDP x institutions index	35.2	0.8	
Debt fanchart index (DFI)		1.4	
Risk signal: 3/		**Moderate**	



Gross Financing Needs (Percent of GDP)



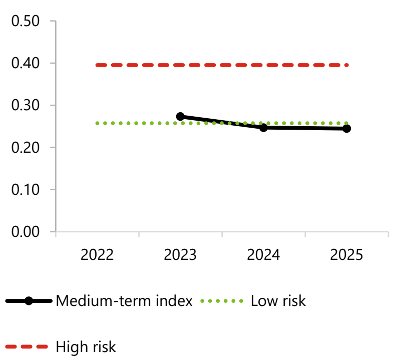
Gross financing needs (GFN) module	Value	Contrib 1/	Percentile in peer group 2/
Average baseline GFN *(percent of GDP)*	6.1	2.1	
Initial Banks' claims on the gen. govt *(pct bank assets)*	12.4	4.0	
Chg. In banks' claims in stress *(pct banks' assets)*	8.5	2.8	
GFN financeability index (GFI)		9.0	
Risk signal: 4/		**Moderate**	



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

	Value	Value (normal)	Weight	Contribution
Debt fanchart index	1.4	0.3	0.5	0.2
GFN finaceability index	9.0	0.2	0.5	0.1
Medium-term index		**0.2**		
Risk signal: 5/		**Low**		
Final assessment:		**Moderate**		

Prob. of missed crisis, 2025-2030, if stress not predicted: 9.1 pct.
Prob. of false alarms, 2025-2030, if stress predicted: 43.2 pct.

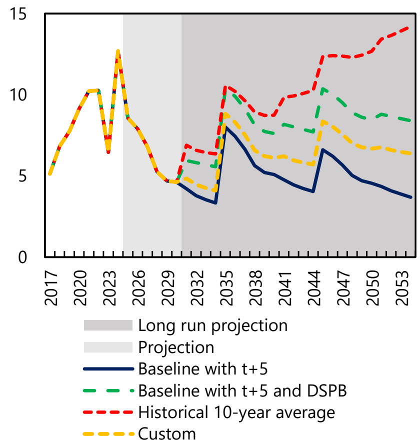
Commentary: The medium-term analysis suggests a low level of risks of sovereign stress over that time horizon, conditional on the assumed fiscal consolidation plan and moderate financing needs. Debt stabilization critically depends on meeting the fiscal targets proposed in the 2025 MTFF. Risks associated with commodity prices, exchange rate, and interest-growth rate differentials may pose challenges to Colombia over the medium term. Hence, staff assesses medium-term risks as moderate.

Source: IMF staff.
1/ See Annex IV of IMF, 2022, Staff Guidance Note on the Sovereign Risk and Debt Sustainability Framework for details on index calculation.
2/ The comparison group is emerging markets, non-commodity exporter, program.
3/ The signal is low risk if the DFI is below 1.13; high risk if the DFI is above 2.08; and otherwise, it is moderate risk.
4/ The signal is low risk if the GFI is below 7.6; high risk if the DFI is above 17.9; and otherwise, it is moderate risk.
5/ The signal is low risk if the GFI is below 0.26; high risk if the DFI is above 0.40; and otherwise, it is moderate risk.

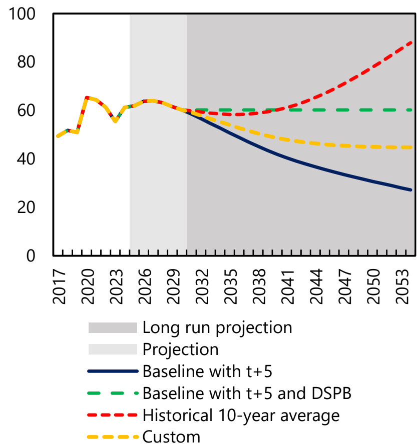
Figure 7. Colombia: Long-Term Risk Assessment: Large Amortization and Health

Projection	Variable	Risk Indication
Medium-term extrapolation	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Medium-term extrapolation with debt stabilizing primary balance	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Historical average assumptions	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Overall Risk Indication		

GFN-to-GDP Ratio

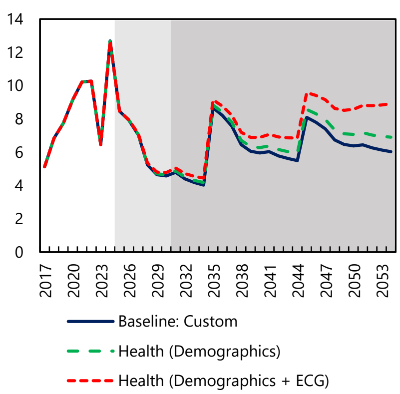


Total Public Debt-to-GDP Ratio

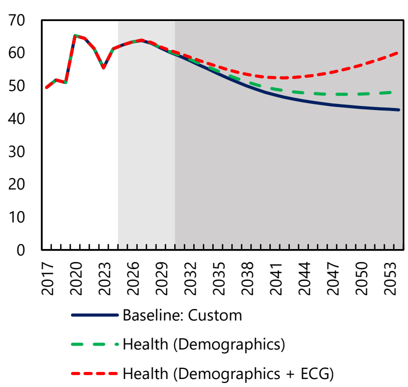


Colombia: Demographics: Health

GFN-to-GDP Ratio



Total Public Debt-to-GDP Ratio



Commentary: The LT analysis suggests low and manageable GFN risks. High amortization risks reflect the pandemic legacy along with Colombia's updated macro-fiscal outlook and risk profile. Staff overall assessment of LT risks is moderate conditional on the assumed fical consolidation and return to the fiscal rule in 2028, which sets a firm debt limit. The pension and fiscal decentralization reforms will require meaningful changes to the spending composition and reducing budget rigidities. Lower oil and coal production and demographic headwinds could affect long-term growth and fiscal outcomes. Complementary reforms will be vital to safeguard long-term fiscal sustainability.

Source: IMF staff.

Annex VII. Implementation of the 2022 FSAP Key Recommendations

Recommendation	Time[1]
Banking Supervision	
Introduce necessary legal amendments to strengthen the independence of the SFC: (i) specify that the Superintendent is appointed for a minimum term and removed from office only for reasons specified in the law; and (ii) provide explicit legal protection to the SFC. Update: The general rules governing the appointment and removal of the Superintendent are outlined in the National Constitution and Decree 1817 of 2015. However, certain aspects such as minimum periods, among others, still require regulation by higher legislation.	MT
Develop more specific guidance/regulations on concentration, transfer and country risks, related party transactions, internal capital assessment and the IRRBB. Update: - Concentration risk. Decree 1533 of 2022 establishes rules for managing concentration risk. In accordance with this decree, the SFC issued External Circular 003 of 2024, which directs entities (on an individual and consolidated basis) to implement both regulatory limits (25 percent of Tier1) and internal caps of exposure based on geographic criteria, industry, economic sector, and currency of exposure, among others. Additionally, this circular does not recognize intra-group credit letters as permitted collateral, but only the financial collaterals specified in the circular are deemed admissible. These regulations will come into effect in August 2025. - Transfer and country risk. External Circular 018 of 2021 sets the requirements for the management of transfer and country risk, including the risk arising from foreign currency transfers, sovereign risk (SR) and transfer risk (RT), among others. These instructions have been in force since June 2023. - Internal capital assessment. The SFC has released the draft regulation on ICAAP and ILAAP for the second public review. This regulation updates the stress testing framework in line with international best practices and requires supervised entities to develop and implement capital and liquidity self-assessment programs. The SFC expects to issue the final version in the first half of 2025. - IRRBB. The External Circular 025 of 2022 provides instructions related to the "Interest Rate Risk Management of the Banking Book" and the "Interest Rate Risk Model of the Banking Book." The SFC has established a transition period to allow supervised entities to adjust their balance sheets and capital structures with the key application dates: (i) full management requirements for this risk effective on December 1, 2024; (ii) individual-level reporting for IRRBB effective on December 31, 2024; and (iii) consolidated-level reporting for IRRBB due by December 31, 2025.	MT
Establish a consolidated body of requirements on related-party transactions. Update: In accordance with the Basel Committee on Banking Supervision (BCP) Principle 20, Decree 1358 of 2024 establishes a consolidated regulation body applicable to related party transactions. This decree defines what is considered a "related party" of banks, includes provisions for identifying and managing conflicts of interest that may arise in transactions and operations with related parties, and sets a general limit of 25 percent of Tier1 capital to control the bank's exposure to related parties. The provisions of the decree will be effective from May 2026, and the SFC will issue instructions for the application of the Decree, including reporting standards within 12 months.	ST

Recommendation	Time[1]
Readjust or determine some parameters used in the computation of the local LCR and NSFR ratios to further align with Basel III requirements and require the local NSFR ratio to be also calculated at a consolidated level. Same as 2024 SR.	MT
Maintain a direct and intrusive supervision of banks by the SFC, including an adequate level of on-site inspections, and avoid over-reliance on external and internal auditors when performing supervisory tasks. Same as 2024 SR.	ST
Macroprudential Oversight	
Strengthen the role of the central bank in systemic risk monitoring and of the Banco de la República (BR) and the Superintendency of Financial Institutions in macroprudential decision-making. Same as 2024 SR.	ST
Expand LTV and DSTI tools to cover leasing products and the DSTI tool to include nonmortgage debt. Same as 2024 SR.	ST
Close data gaps in the areas of cross-border exposures and household indebtedness. Update: - Cross-border exposures. Following IFRS 9 standards, SFC publishes a quarterly report on portfolio information by stage/portfolio and economic sectors of entities with subsidiaries abroad. This report allows for the calculation of key portfolio metrics such as growth, deterioration, and risk coverage, providing a comprehensive view of the risks associated with cross border exposure. - Household indebtedness. The SFC has been developing MURIC (*Módulo Único de Reporte de Información de la Cartera de Crédito*), a new data report on loans. Unlike the existing quarterly reports for individual debtors, MURIC will be submitted monthly, providing supervisors with more granular data on household indebtedness, economic sectors, sociodemographic characteristics, credit conditions, forbearance measures, and payment behavior. Additionally, MURIC will cover corporate loans, making it a valuable tool for assessing corporate leverage. SFC has been advancing a technical and technological adaptation, as well as providing support to supervised entities for the implementation of this report. An external circular was published for public comments in December 2024 and will be issued by the end of 2025.	I
Risk Analysis	
Strengthen the ability to monitor cross-border exposures and conduct a fully consolidated stress-testing by filling data gaps on the exposures and risk metrics of ultimate subsidiaries. Same as 2024 SR.	ST
Extend data collection to monitor liquidity risks by currency. Collect more granular data on assets and liabilities generating cashflows, including those related to cross-border exposures. Same as 2024 SR.	ST
Develop network analysis tools and improve data coverage to bolster EWS for domestic and cross-border contagion. Same as 2024 SR.	ST

Recommendation	Time[1]
Climate Risks and Opportunities	
Adopt a risk-based approach in supervision for climate-related risks and continuously improve information disclosures (both by nonfinancial corporates and by financial institutions) and data availability. Update: - SFC recently updated the methodology for assessing inherent risk by including sensibility to climate risk for the aggregated rating per institution. This new method is expected to be operational by April 2025, allowing the SFC to recognize the impact of new emerging risks. - During the second half of 2024, a transversal supervision exercise was conducted with a sample of entities from different industries. The purpose of this initiative was to evaluate the design processes, information disclosure practices, and compliance with the value proposition of ESG products, as well as the adequacy of public and customer-facing disclosures. - In March 2024, the SFC issued External Circular 005, which provides instructions for the integration of ESG factors in the disclosure mechanisms of the Collective Investment Funds (CIFs), covering the regulations, investment prospectus, and accountability reports. - According to the External Circular 031 of 2021, the transition period for largest issuers (Group A, corresponding to companies listed in the Colombian Stock Exchange) to disclose social and environmental information, including climate-related issues, ended in 2024. Under the off-site supervisory scheme for issuers, the SFC began monitoring the disclosed information to assess its sufficiency and quality, making follow-up requests to the entities when necessary. - The SFC implemented the latest edition of Biennial Survey on Climate-Related ESG Risks and Opportunities to assess the maturity and progress of supervised entities in integrating ESG and climate-related considerations into their core strategies and risk management frameworks. The survey is structured around four key pillars: (i) governance and strategic approach to ESG and climate issues; (ii) integration of ESG factors in risk management; (iii) development of green and sustainable financial products; and (iv) measurement and disclosure of ESG and climate-related information. With refined methodological design tailored to different financial industries, this survey provides a comprehensive view of the sector's alignment with national and international sustainability commitments, supporting the SFC's supervisory strategies and public policy on sustainable finance. - In the supervision program for 2024, a pilot test with entities from various industries was conducted to evaluate the ESG criteria integration into the strategies, management, and disclosure, identify best practices, and assess greenwashing risks. The program also included a monitoring exercise on compliance with External Circular 031 regarding ESG disclosure by issuers, and another exercise for financial products and services labeled as sustainable to monitor potential greenwashing.	MT
Resolution, Crisis Management and Safety Nets	
Strengthen the operational independence of the Resolution Unit (GR). Update: The structure of the SFC is currently being reviewed to determine, among others, whether the current location of the Resolution Unit, its operation, and mandate are properly established or need to be modified.	ST

Recommendation	Time[1]
Make the financial institutions responsible for recovery planning, requiring use of a wide range of risk scenarios and identification of mitigating measures. Make the GR responsible for resolution planning. Update: Current regulations include specific provisions for resolution plans involving both the resolution unit of the SFC and FOGAFÍN, but do not require recovery plans. To address this, the draft regulation on ICAAP and ILAAP introduces guidance on recovery activities, requiring supervised entities to design an internal recovery program to deal with stress situations. using diverse risk scenarios and the identification of mitigation measures. The Resolution Plans (RP), based on the North American model, were introduced in 2018. In June 2024, the SFC, following analysis by the CIR, approved the first version of the RP for the four systemic entities, with two more entities beginning development. All six are expected to update their plans by 2026. These plans are valuable to authorities as they provide deep insight into each entity's structure and operations, are enriched by supervisory input, and support effective and agile resolution implementation. The RP model enables authorities to assess how entities could dismantle business lines, modify contracts, and liquidate assets to sustain operations during resolution. It also helps identify structural barriers and mitigation actions. Financial institutions have responded positively, as RPs encourage proactive planning for potential market exit. This early phase of drafting and reviewing the initial plans has yielded important insights for authorities by comparing entity strategies for crisis response. The process is medium-term, focused on internalizing exit strategies and practical implementation. The CIR is working on standardizing key elements like criticality, separability, and resolution triggers, though resolution financing—especially internal funding—remains a challenge.	ST
The mandates and tasks of the resolution unit and the deposit insurer (Fogafin) should be streamlined. These entities manage different parts of the resolution process that should be brought together. Same as 2024 SR.	MT
Strengthen resolution tools by: (i) giving Fogafin the flexibility to conduct purchase and assumption powers with only insured deposits (as opposed to current obligation to package all deposits, both insured and uninsured); (ii) restrict the ability of Fogafin to be the shareholder of restructured or bridge banks; and (iii) consider establishing bail-in powers as a resolution tool. Same as 2024 SR.	MT
Fogafin's financing should be limited to resolution funding (i.e., financing that is used to support the use of resolution powers and achieve the resolution objectives). Update: The institutional framework for financial stability, successfully implemented in Colombia to fit its financial system's particular characteristics, defines each authority's specific role and provides tools to "secure financial stability and public confidence." Ensuring this confidence involves not only having resources to address crisis situations without impacting taxpayers' resources but also mitigating the materialization of such crises. In this context, entities within the financial safety net have instruments to address this purpose, and Fogafín, in particular, has instruments that, only under the fulfilment of clear mandates and processes,	ST

Recommendation	Time[1]
can support the implementation of mechanisms to preserve the stability of the financial system and protect depositors' confidence.	
Establish guaranteed backup liquidity facility for Fogafin. Update: As part of its strategic plan, Fogafín is engaged in a technical assistance program with the World Bank, which will, amongst other objectives: 1. allow differentiated liquidity profiles to be set up as a function of the characteristics of a crisis and the probability of its occurrence. 2. include an analysis of the set of money-market instruments, derivatives and inter-institutional agreements with the Finance Ministry and the Central Bank. Following the FSAP recommendation, on November 29, 2024, the Central Bank modified the regulatory framework for the use of open market operations (OMAs for their acronym in Spanish), allowing Fogafín to function as Agent for OMAs in temporarily monetary expansion operations. With this regulatory change, Fogafín now has access to all type of OMAs. This new facility will serve as a contingent liquidity line in the event that Fogafín lacks sufficient resources to meet its mandate.	ST
Anti- Money Laundering/ Combating the Financing of Terrorism	
Ensure a swift implementation of the 2018 MER's recommendations to strengthen the overall effectiveness of the AML/CFT regime. Update: Colombia decided not to request further re-assessments regarding the Fourth Round of Mutual Evaluations of the FATF but to prepare, in the same context, for the Fifth Round of Mutual Evaluations scheduled in 2028. Consequently, the first interinstitutional working group meeting was held in April 2024, coordinated by the Financial Information and Analysis Unit (UIAF, in Spanish). Key points to consider for this new round of evaluations were highlighted (effectiveness approach), and aspects for improvement in each of the national economic sectors were identified to project adequate compliance. From this meeting, an initial work plan was defined, where the SFC has significant leadership and coordination responsibilities due to its progress in risk-based supervision methodologies applied. In 2025, the SFC began to define a short- and medium-term work line with the UIAF to establish the strategy for the 2028 evaluation which involves other financial sector supervisors such as Superintendency of Solidarity Economy, National Tax and Customs Directorate, and the Ministry of Information Technologies and Communications. In August 2024, the XLIX Plenary of GAFILAT Representatives and its five working groups, was held in Bogotá, Colombia. In addition to acknowledging the latest advances in the GAFILAT agenda, the SFC, through the Department for MLTF Risk, presented before the Risk Analysis Group the results of a research exercise regarding the risks faced by the Colombian financial sector in relation to clients from the DNFBP sectors, specifically notaries. During 2023 and 2024, Colombia was assessed by the second round of peer reviews on compliance with the OECD standard on the exchange of information on request (EOIR). Satisfactory results were obtained regarding regulatory requirements, supervisory processes, and the financial system's compliance with the requirements related to the identification of ultimate beneficiaries of legal entities and entities without legal status, as well as the effective use of this information in the prevention of MLTF.	MT

Recommendation	Time[1]
In November 2024, Colombia held the XLI regular session of the Interinstitutional Coordination Commission for the Control of Money Laundering in the country. A proposal for the design, discussion, and adoption of a government strategy against Money Laundering Professionals was presented in which the SFC is part of the national authorities that will contribute to meeting the objectives.	
Continue efforts to enhance sanctioning practices so that effective, proportionate, and dissuasive sanctions are applied for AML/CFT breaches. Update: In 2024, the SFC, through the Department for MLTF Risk, imposed five (5) institutional and financial penalties (COP1,295,000,000) specifically on banks, financial cooperatives, trust companies, and special official entities, and issued six (6) administrative orders and four (4) adjustment plans due to the non-compliance with regulatory requirements related to the design and implementation of the Anti-Money Laundering and Terrorist Financing Risk Management System (SARLAFT, in Spanish). In the same regard, so far in 2025, one administrative order has been issued to a trust company. Consequently, in 2023 and 2024, the preparation of Compliance Officers and Responsible Officials' reports continued, with the aim of providing feedback to the supervised entities and deterring them regarding proper compliance with their obligations.	MT
Address ML/TF risks associated with crypto assets and ensure virtual asset service providers are properly licensed, monitored and supervised for AML/CFT compliance. Update: The SFC has worked on multiple initiatives regarding the regulation and supervision of Virtual Asset Service Providers (VASPs), including a drafted bill on virtual assets developed in conjunction with the Ministry of Finance (MFPC) between 2023 and 2024. Furthermore, the SFC has collaborated with the Central Bank of Colombia (BR) to make new approaches to the topic. In 2024, the Department for MLTF Risk participated in the working groups held at the SFC and coordinated by the Financial and Technological Innovation Group (Innova, in Spanish), discussing VASPs' challenges in accessing financial products with supervised entities, as well as formal complaints, supervisory positions, and existing market products related to virtual assets. Throughout the year, concerns from exchanges and supervised entities were addressed, highlighting issues such as "de-risking," lack of understanding of the business, and account blocking due to insufficient information. The SFC developed a pilot project in the sandbox (*la Arenera SFC*), testing supervised entities' risk management and consumer protection measures for linking VASPs to the financial system via deposit product. - Concluded in June 2024, the pilot involved seven VASP– supervised entities alliances and 4098 individuals through cash-in or cash-out operations. The average ticket for deposit operations amounted to US$134, while the average ticket for withdrawals amounted to USD83 (calculated with the average exchange rate of June 2024: USD1 = COP4,043). The pilot recorded 40 suspicious operations and 820 unusual operations, provided 1,340 advisory services , and addressed 546 complaints. -During the pilot, the supervised entities effectively manage the risks inherent to the provision of financial services to the VASPs. Regarding ML/FT risk, the SFC has monitored pilot projects of cash-in/cash-out of fiat money alliances with the purpose of purchase and sale of virtual assets, and the participants have been complying with the ML/FT risk management measures that were required for the development of the pilot.	ST

Recommendation	Time[1]
-In the supervision processes developed by the SFC, the reviewing of the rules and instructions regarding clients was incorporated. On the other hand, the aforementioned supervision processes also included topics relating to the rules and instructions of users in acquisition schemes and bin sponsors, in response to the warnings in force in local regulations, which required, a particular risk analysis and specific measures for its control. The above means that the VASP were linked to the supervised entities, either as direct clients or as users thereof, through acquisition schemes and bin sponsors (rechargeable cards), as mentioned above. - Following the pilot, the SFC organized meetings between the VASPs and the supervised entities interested, along with their associated guilds. As a result, the guilds are coordinating meetings between the financial institutions and the VASP´s compliance officers to continue explaining the extent and details of the VASPs' AML/FT risk management systems and efforts. Separately, a supervision process of the MLTF risk was conducted at a financing company, monitoring the risk to which the entity is exposed when linking and operating with clients dedicated to virtual asset arbitrage without conducting a previous and adequate due diligence, or effectively identifying and monitoring MLTF risks. This process culminated in the imposition of a precautionary measure of special surveillance on the entity, which remained in place for seven (7) consecutive months (Resolution 1571 of August 12th, 2024). Circular Letters 29 of 2014, 78 of 2016, and 52 of 2017 issued by the SFC, are still in effect, informing the financial consumers about the potential risks associated with operations involving "Electronic Currencies - Cryptocurrencies or Virtual Currencies."	

[1] Immediate" is within one year; "NT-near-term" is 1–3 years; "MT-medium-term" is 3–5 years.

Annex VIII. Financial Sector Implications of the Pension Reform

The pension reform will shift approximately 75 percent of participants from the defined contribution private pension funds (AFPs) to the public defined benefits system. A new public savings fund (FAPC), managed by the central bank, will be created to manage contributions to the public scheme while AFPs will continue to manage pre-reform contributions and new contributions for earnings above 2.3 minimum wages.

1. **AFPs, with total assets around 30 percent of GDP as of 2023, play a critical role in the Colombian financial system**. Allocating nearly 30 percent of their total assets to the government debt, AFPs are systemically important for the government bond market. They also provide wholesale long-term funding for the banks and have significant foreign currency exposures, with about 50 percent of total assets being offshore and in foreign currency.

Private Pension Fund Balance Sheet (in percent of GDP)

Asset		Liability	
Deposits	0.6	**Insurance claims**	31.1
Bonds and CDs	11.2	**Loans**	0.0
GenGov	9.4	**Equity and other liabilities**	0.4
Banks	1.0		
NFC	0.7		
Foreign	0.1		
Shares	16.8		
NFC	1.3		
Banks	0.9		
Foreign	14.7		
Other assets	2.8		
Total assets	31.5	Total liabilities	31.5

Source: BanRep and staff calculation

2. **The balance sheets of AFPs will gradually decline following the implementation of the pension reform**. The annual contributions to AFPs will fall from around 2 percent of GDP to 0.7~0.9 percent of GDP, with a concomitant increase of FAPC's balance sheet. As such, smooth asset reallocation is critical to maintain macro-financial stability. Two channels are particularly important.

- *Liquidity Channel*. While AFPs would receive fewer pension contributions, their outflows, including pension obligations and portfolio shifts to the public scheme under the transitional regime, are expected to be around 1.7 percent of GDP annually. In the event of a liquidity crunch, AFPs may need to repatriate foreign assets or liquidate government bonds, which could affect capital flows, the exchange rate, and/or the bond market.

- *Portfolio Reallocation Channel.* As a defined benefit pension plan, FAPC may prioritize stability over short-term returns, which could lead to a more conservative asset allocation with a concentration on fixed income assets such as domestic government bonds. The change of the investment mandate and portfolio structure of FAPC from those of AFPs could generate effects on the exchange rate through portfolio flows, the local government bond and equity markets, and available wholesale funding for banks.

Annex IX. Data Issues

Table 1. Colombia: Data Adequacy Assessment for Surveillance

Data Adequacy Assessment Rating 1/

A							
Questionnaire Results 2/							
Assessment	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Inter-sectoral Consistency	Median Rating
	A	A	A	A	A	A	A
Detailed Questionnaire Results							
Data Quality Characteristics							
Coverage	A	A	A	A	A		
Granularity 3/	A		B	A	A		
			A		A		
Consistency			A	A		A	
Frequency and Timeliness	A	A	B	A	A		

Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.

1/ The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics.

2/ The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see IMF *Review of the Framework for Data Adequacy Assessment for Surveillance* , January 2024, Appendix I).

3/ The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators.

A	The data provided to the Fund are adequate for surveillance.
B	The data provided to the Fund have some shortcomings but are broadly adequate for surveillance.
C	The data provided to the Fund have some shortcomings that somewhat hamper surveillance.
D	The data provided to the Fund have serious shortcomings that significantly hamper surveillance.

Rationale for staff assessment. Data is generally timely, comprehensive, and accurate for surveillance. National accounts data are adequate for surveillance. But historical quarterly national data are subject to review each quarterly and sometimes undergo non-trivial revisions. The dissemination of central government operations and central government debt data under the IMF Data Standard Initiatives have had recurring delays. Coverage and timeliness of reporting on local government fiscal operations could be improved. External data are adequate for surveillance. Recording of transactions in securities between residents and nonresidents in secondary markets could be improved. No data have been reported to the Coordinated Direct Investment Survey (CDIS) yet.

Changes since the last Article IV consultation. No change since the last Article IV consultation.

Corrective actions and capacity development priorities. Building on recent Fund TAs on Government Financial Statistics, further efforts are needed to align the classification of revenue and expenses with the GFSM 2014 framework, to improve consolidation, and to adopt a common list of public sector entities. The compilation of national accounts could be improved through methodological enhancements to reduce the need for revisions.

Use of data and/or estimates in Article IV consultations in lieu of official statistics available to staff. Staff do not use data and/or estimates different from official statistics.

Other data gaps. Colombia has been receiving Fund TA on Environment and Climate Change Statistics, specifically in the compilation of Energy Asset Accounts and the validation and release of Energy and Air Emission Accounts. Addressing these data gaps following the TA will help strengthen the country's climate policies by providing more accurate and comprehensive data on energy assets and emission, and enabling better monitoring and evaluation of climate-related targets. The coverage of local government fiscal accounts could be improved to facilitate the evaluation of post-pandemic developments and to assess the impact of policy changes in the coming years.

Table 2. Colombia: Data Standards Initiatives

Colombia subscribes to the Special Data Dissemination Standard (SDDS) since May 1996 and publishes the data on its National Summary Data Page. The latest SDDS Annual Observance Report is available on the Dissemination Standards Bulletin Board (https://dsbb.imf.org/).

Table 3. Colombia: Common Indicators Required for Surveillance

As of September 5, 2025

	Data Provision to the Fund				Publication under the Data Standards Initiatives through the National Summary Data Page			
	Date of Latest Observation	Date Received	Frequency of Data[6]	Frequency of Reporting[6]	Expected Frequency[6,7]	Colombia[8]	Expected Timeliness[6,7]	Colombia[8]
Exchange Rates	Sep 2025	Sep 2025	D	D	D	D		D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	July 2025	Aug 2025	M	M	M	M	1W	7D
Reserve/Base Money	July 2025	Aug 2025	M	M	M	M	2W	2W
Broad Money	July 2025	Aug 2025	M	M	M	M	1M	6W
Central Bank Balance Sheet	July 2025	Aug 2025	M	M	M	M	2W	2W
Consolidated Balance Sheet of the Banking System	May 2025	Aug 2025	M	M	M	M	1M	6W
Interest Rates[2]	Aug 2025	Sep 2025	D	D	D	D		1D
Consumer Price Index	Aug 2025	Sep 2025	M	M	M	M	1M	NLT 5D
Revenue, Expenditure, Balance and Composition of Financing[3]–General Government[4]	Dec 2024	Aug 2025	A	A	A	Q	2Q	2Q
Revenue, Expenditure, Balance and Composition of Financing[3]–Central Government	Jun 2025	Aug 2025	M	M	M	M	1M	1M
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Jun 2025	Aug 2025	M	M	Q	Q	1Q	1Q
External Current Account Balance	Q2 2025	Sep 2025	Q	Q	Q	Q	1Q	3M
Exports and Imports of Goods and Services	Q2 2025	Aug 2025	M	M	M	M	8W	8W
GDP/GNP	Q2 2025	Aug 2025	Q	Q	Q	Q	1Q	45D
Gross External Debt	July 2025	Aug 2025	M	M	Q	Q	1Q	3M
International Investment Position	Jun 2025	Aug 2025	Q	Q	Q	Q	1Q	3M

[1] Includes reserve assets pledged or otherwise encumbered, as well as net derivative positions.

[2] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

[3] Foreign, domestic bank, and domestic nonbank financing.

[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

[5] Including currency and maturity composition.

[6] Frequency and timeliness: ("D") daily; ("W") weekly or with a lag of no more than one week after the reference date; ("M") monthly or with lag of no more than one month after the reference date; ("Q") quarterly or with lag of no more than one quarter after the reference date; ("A") annual.; ("SA") semiannual; ("I") irregular; ("NA") not available or not applicable; and ("NLT") not later than.

[7] Encouraged frequency of data and timeliness of reporting under the e-GDDS and required frequency of data and timeliness of reporting under the SDDS and SDDS Plus. Any flexibility options or transition plans used under the SDDS or SDDS Plus are not reflected. For those countries that do not participate in the IMF Data Standards Initiatives, the required frequency and timeliness under the SDDS are shown for New Zealand, and the encouraged frequency and timeliness under the e-GDDS are shown for Eritrea, Nauru, South Sudan, and Turkmenistan.

[8] Based on the information from the Summary of Observance for SDDS and SDDS Plus participants, and the Summary of Dissemination Practices for e-GDDS participants, available from the IMF Dissemination Standards Bulletin Board (https://dsbb.imf.org/). For those countries that do not participate in the Data Standards Initiatives, as well as those that do have a National Data Summary Page, the entries are shown as "..."

INTERNATIONAL MONETARY FUND

COLOMBIA

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

September 12, 2025

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

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FUND RELATIONS

(As of August 31, 2025)

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

General Resources Account:

	SDR Million	%Quota
Quota	2,044.50	100.00
IMF's Holdings of Currency (Holding Rate)	2,487.19	121.65
Reserve Tranche Position	494.81	24.20

SDR Department:

	SDR Million	%Allocation
Net cumulative allocation	2,697.88	100.00
Holdings	2,530.00	93.78

Outstanding Purchases and Loans:

	SDR Million	%Quota
Flexible Credit Line	937.50	45.85

Latest Financial Commitments:

Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
FCL	Apr 26, 2024	Apr 25, 2026	6,133.50	0.00
FCL	Apr 29, 2022	Apr 25, 2024	7,155.70	0.00
FCL	May 01, 2020	Apr 28, 2022	12,267.00	3,750.00

Overdue Obligations and Projected Payments to Fund[1/]

(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2025	2026	2027	2028	2029
Principal	937.50				
Charges/Interest	6.81	6.26	4.87	4.88	4.87
Total	944.31	6.26	4.87	4.88	4.87

[1/] When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

Implementation of HIPC Initiative: Not Applicable

Implementation of Multilateral Debt Relief Initiative (MDRI): Not Applicable

Implementation of Catastrophe Containment and Relief (CCR): Not Applicable

Exchange Rate Arrangements: Colombia's currency is the Colombian peso. Colombia's de jure exchange rate arrangement is free floating, and the de facto exchange rate arrangement is classified as floating. All foreign exchange transactions are conducted at the market-determined exchange rate. Colombia has accepted the obligations under Article VIII, Sections 2, 3, and 4, of the IMF's Articles of Agreement and maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions and multiple currency practices.

Article IV Consultation: The last Article IV Consultation was concluded on March 27, 2024 (IMF Country Report No. 24/82).

FSAP Participation and ROSCs: The FSAP took place in 2000 and was updated in 2008, 2013, and 2022. A data ROSC took place in 2006 and a fiscal ROSC in 2003.

Technical Assistance:

Department	Time of Delivery	Purpose
FAD	Aug. 2016	Discussion of the 2017 structural tax reform
STA	Dec. 2016	National Accounts
FAD	Feb. 2017	Revenue Administration
FAD	Mar. 2017	Fiscal Transparency Assessment
STA	Jun. 2017	National Accounts
FAD	Aug. 2017	Tax and Customs Administration
FAD	Sep. 2017	Treasury Management
STA	Sep. 2017	National Accounts
STA	Nov. 2017	Government Finance Statistics
STA	Dec. 2017	National Accounts
STA	Apr. 2018	Sectoral Accounts
STA	Apr. 2018	Residential Property Prices Indices
STA	May. 2018	National Accounts
STA	Sep. 2018	Residential Property Price Index
FAD	Oct. 2018	Tax Administration
STA	Oct. 2018	Consumer Price Index
STA	Dec. 2018	Sectoral Accounts
FAD	Mar. 2019	Compliance and Core Procedures
FAD	Mar. 2019	Fiscal Rule and Fiscal Risks
STA	Mar. 2019	Sectoral Accounts
FAD	Apr. 2019	Energy Subsidy Reform
FAD	Aug. 2019	Establishing a debt anchor and updating the fiscal rule
FAD	Oct 2019	Strengthening the fiscal risk management office and managing fiscal risks from SOEs

Department	Time of Delivery	Purpose
STA	Apr 2020	Sectoral accounts
FAD	Jul 2020	TADAT Assessment
FAD	Oct 2020	BRP Treasury Reporting
STA	Apr. 2021	Fiscal and Public Debt Data Compilation
STA	Apr. 2021	Improve Capacity for Residential Property Price Index
ICD	Sep. 2021, Nov. 2021, Jan. 2022, Mar. 2022, Jul. 2022, Oct. 2022	Strengthening Macro-Fiscal Analysis and Forecasting Capacity.
STA	Aug. 2021	Compilation of Financial Soundness Indicators (FSIs)
FAD	Aug. 2021	Revenue Administration
FAD	Nov. 2021	Strengthening Fiscal Risks Analysis and Reporting
MCM	Sep. 2022	Assessment of Financial Stability Report
FAD	Mar. 2023	Public Financial Management-Inception Mission
MCM	Mar. 2023	Contagion Risk Analysis
STA	Jul. 2023	Data Management and Operations Mission.
STA	Jul. 2023	Macro-relevant Climate Change Statistics
FAD	Jul. 2023	Funding Program Assessment-Colombia: Revenue Administration.
STA	Oct. 2023	Monetary and Financial Statistics
STA	Nov. 2023	Government Financial Statistics
FAD	Nov. 2023	Bases to improve customs compliance by adopting comprehensive risk management.
MCM	Nov. 2023	Systemic Risk Analysis- IFRS 9 Developing an Expected Loss Model.
ICD	Jun. 2023, Sep.-Dec. 2023, Jan. -Mar. 2024, Jun. 2025	Macroeconomic Frameworks-Ministry of Finance-CARF
ICD	Oct. 2023	Macroeconomic Frameworks-Ministry of Finance.
MCM	Apr.-May 2024	Foreign Exchange Market Development and Regulatory Framework Review
STA	May 2024	Mineral Asset Accounts and Carbon Footprints
FAD	Jan.-Feb. 2025	Public Investment Management Assessment (PIMA) and Climate-PIMA
MCM	Mar. 2025	Open-Ended Fund Liquidity

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

World Bank Group:

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

Inter-American Development Bank:

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

Statement by Daniel Munevar Sastre, Alternate Executive Director for Colombia
September 29, 2025

On behalf of the Colombian authorities, I thank staff for their constructive engagement and candid assessment during the Article IV Consultation.

Colombia's strong policy framework is effectively working to guide macroeconomic adjustments. It has helped to achieve sustainable levels of economic activity, improve labor market conditions, reduce inflation, and support financial resilience. However, the adjustment process is ongoing. Fiscal policy has faced significant challenges, reflecting revenue shortfalls and a rigid budgeting framework. Meanwhile, inflation has decreased by more than 8 percentage points from its peak of 13.3% in March 2023, although it remains above the 3 percent target.

The authorities remain committed to ensuring fiscal sustainability, bringing inflation to target, maintaining strong external buffers, and preserving financial stability. They reaffirm their commitment to strong economic fundamentals and institutional policy frameworks. Fiscal institutional arrangements include a Medium-Term Fiscal Framework, a fiscal rule, and an independent fiscal council. Monetary policy is anchored by an independent central bank with an inflation-targeting regime and a flexible exchange rate. External buffers remain strong while the financial system remains robust and regulated in line with Basel III standards. These pillars will continue to guide policy in an uncertain context with the aim of preserving macroeconomic and social stability.

Recent Developments and Outlook

Economic activity is recovering, supported by robust domestic demand. After growing only 0.7% in 2023, GDP expanded by 1.6% in 2024 and 2.5% in the second quarter of 2025. Domestic demand accounts for most of the recovery, while private investment remains below its pre-pandemic trend. Growth is projected at 2.7% in 2025 and 2.9% in 2026, driven by strong private consumption and despite a minor impact from US tariffs. The labor market remains robust, with unemployment at 8.8%, low by historical standards, and employment growing above 3% year-over-year.

Inflation is declining towards the central bank's target. The disinflation process continues, and inflation is expected to reach the 3% target by mid-2027. Headline inflation stood at 5.1% in August, slightly lower than 5.2% at end-2024. Core inflation, excluding food and regulated items, has maintained a downward trend. It decreased from 5.1% at end-2024 to 4.8% in August. Market-based inflation expectations continue to decline, while survey-based expectations have risen somewhat, up to 3.9% for the one-year-ahead outlook.

External balances have improved significantly, though pressures persist. The Current Account (CA) deficit declined from 6.2% of GDP in 2022 to 1.8% in 2024. Imports rose by 8.2% year-on-year in the second quarter of 2025, reflecting strong domestic demand. Exports fell by 3.2%, due to lower coal and oil exports. For 2025, the CA deficit is expected to widen moderately, driven by higher domestic demand, weaker commodity prices, and global trade uncertainty. Still, the CA deficit would be around 2.5% of GDP, less than half the level registered three years ago, and it continues to be financed primarily by foreign direct investment.

Fiscal Policy

Fiscal challenges are substantial, reflecting structural pressures and rigidities. The Central Government's fiscal deficit increased from 4.3% of GDP in 2023 to 6.7% in 2024, while public debt neared 60% of GDP. The increase is attributed to lower-than-expected revenues, expenditure rigidities, and pressure from budgetary backlogs. The revenue shortfall is primarily explained by a sharp decline in corporate income tax, particularly from the oil and mining sectors, as well as one-off factors including legal rulings affecting tax collection. On the expenditure side, around 90% of spending is inflexible, driven by constitutional and legal mandates on pensions, health, regional transfers, and interest payments. This highlights that Colombia's fiscal challenges are the result of structural constraints rather than discretionary policies.

Activation of the escape clause of the fiscal rule is warranted as a temporary, legally grounded, and transparent measure. The government assesses that under current legal and economic constraints, its options are highly limited to meet its obligations without the temporary suspension of the fiscal rule. The magnitude of adjustment required to meet previous fiscal targets, equivalent to 2.1% of GDP in the short term, is not feasible without additional measures. Use of the escape clause, alongside a structural and gradual strategy for fiscal consolidation, is a coherent and sustainable policy choice meant to protect macroeconomic stability, safeguard the provision of public goods and services, and ensure social cohesion. In this regard, the clause is a time-bound tool, and its use is accompanied by strict monitoring, annual reporting, and a credible and gradual path back to compliance with the fiscal rule by 2028. According to the 2025 Medium-Term Fiscal Framework (MTFF), the primary deficit is expected to stabilize at 2.4% of GDP in 2025 and shift to a 1% surplus over the medium term. Public debt is expected to peak in 2027 before falling to around 60% GDP in the medium term.

Social inclusion remains a priority in the design of fiscal policy, alongside structural reforms to strengthen equity and sustainability. Conditional cash transfer programs now reach 4.5 million households, complemented by investments in higher education and digital connectivity to reduce regional gaps in human capital. Social programs have contributed to a reduction in poverty to historical lows, as noted by the staff report. The authorities are also advancing structural reforms in pensions, health care, and the General Participation System (SGP) to improve coverage and efficiency. These reforms are designed to address long-standing challenges and will be implemented gradually to ensure consistency with consolidation targets. The strategy focuses on sustainability and progressive improvements. The Constitutional Court's review of the pension reform law may require adjustments to projected impacts, while the projected increase in health spending discussed by staff reflects existing system pressures rather than reform-driven costs. The authorities view these policies as critical to address regional development gaps and sustain social cohesion and inclusive growth.

The authorities remain committed to an agenda of fiscal and structural reforms. A Financing Bill was submitted to Congress to improve tax revenues, consistent with the adjustment outlined in the MTFF. The reform explicitly outlines measures to broaden the tax base and protect key public investment and social spending, while building a consensus for a fiscal pact to address structural tax and spending challenges. This effort reflects the government's commitment to strong public finances through concrete and credible actions, while safeguarding macroeconomic and social stability.

Monetary Policy, Exchange Rate, and External Buffers

The monetary policy framework, anchored in an inflation-targeting regime with a flexible exchange rate, is driving inflation convergence toward the 3% target. The framework is fully fledged and well established. The effects of monetary policy have been reflected in lower inflation expectations and a reduction of the output gap. Alongside Colombian Peso (COP) appreciation and a reversal of supply shocks, this enabled a substantial decline in inflation since the first quarter of 2023. However, the pace of disinflation has recently slowed, limiting the scope for further short-term policy easing.

Monetary policy is data-driven and remains cautious. The policy rate was reduced by 350 basis points between December 2023 and December 2024. Since then, there has been only one cut of 25 basis points. The policy rate stands at 9.25% and remains highly restrictive. The central bank intends to maintain a data-driven and cautious approach given the gap between inflation, inflation expectations, and the 3% target amid uncertain domestic and external conditions. The objective is to secure a sustained decrease in inflation and its convergence toward the target.

Exchange rate movements have mirrored global conditions in recent years. After a significant depreciation in 2021 and 2022, the COP appreciated by 21% in 2023 (end-of-period), supported by high domestic interest rates and fiscal adjustment. Since 2024, it has depreciated in the second half of the year amid a strong U.S. dollar and lower oil prices. In recent months, it has appreciated in the context of a weaker US dollar.

International reserves are adequate and provide for a strong external buffer. Reserve metrics have strengthened in recent years. Reserve accumulation by the central bank from December 2023 to October 2024 added USD 1.5 billion with minimal impact on the exchange rate. Strong returns on the reserve portfolio in 2024-2025 contributed an additional USD 4.5 billion. International reserves reached USD 65.5 billion, which is at the higher half of the range recommended by the IMF's ARA metrics (around 1.3). Monetary authorities remain committed to maintaining solid external buffers to face external shocks and ensure continued market access.

Financial Sector

The financial sector has shown strong performance and resilience. Liquidity and solvency indicators are solid. Profitability has recovered after a period of weakness, driven by higher investment, moderate loan portfolio growth, and improving delinquency indicators. Housing, microcredit, and commercial loan portfolios have posted positive real growth in recent months. Consumer credit continues to recover, with already positive nominal growth. Stress tests by the central bank confirm robust capital buffers and the sector's capacity to absorb shocks.

The importance of non-banking financial institutions in the financial system has increased in recent years. Pension funds, trust funds, and insurers now account for a larger share of the assets of the financial system. IMF technical assistance has provided valuable recommendations to strengthen the regulation of open-ended funds. Authorities are committed to taking those recommendations as the basis for decisions to come in the near future.

Prudent regulation and Basel III implementation underpin financial stability. The financial system is robust owing to prudent regulation, forward-looking supervision, and enhanced risk management by credit institutions. In accordance with Basel III standards, measures have been introduced to mitigate liquidity risk, including the implementation of the Net Stable Funding Ratio. To facilitate the transition and support liquidity, the Financial Superintendency extended last August the full implementation deadline by 14 months.

Climate Strategy

Colombia is advancing a credible and responsible climate strategy. The authorities thank staff for the Selected Issues paper and its thorough assessment of the implications of energy transition. The analysis highlights the macro critical impact of energy transition in the medium and long term. They are committed to reducing reliance on oil and coal, expanding renewable energy, and protecting vulnerable groups. A gradual and well-sequenced transition, embedded in a sustained reform agenda, is needed to mitigate the impact of this transition. The authorities remain committed to integrating the consequences of climate change into the design of medium-term fiscal policies and ensuring careful implementation of policies.

Final Remarks

The authorities reaffirm their commitment to strong economic fundamentals and institutional policy frameworks. They take note that the staff report does not include the "very strong" language consistent with continued qualification for the Flexible Credit Line (FCL). While the implications of this assessment are clear to authorities, it is important to ensure these are adequately communicated to the public by the Fund. Nonetheless, the authorities will continue to implement policies aimed at preserving macroeconomic stability, safeguarding financial resilience, and ensuring social cohesion. They remain committed to the pillars that have long anchored policy credibility in the country.

Finally, the authorities value their longstanding and constructive relationship with the Fund. They intend to maintain close engagement through surveillance, technical assistance, and an open policy dialogue. Authorities welcome Directors' feedback. Continued collaboration will support effective policymaking and support Colombia's effort to achieve sustained and inclusive growth.