

Questions and Answers. Flexible Credit Line

September 25 2020

The Executive Board of the International Monetary Fund (IMF) approved today a request by the Colombian authorities to increase access under its current Flexible Credit Line (FCL) arrangement to 600 percent of Colombia's quota, equivalent to USD 17.2 billion¹. The two-year arrangement remains in effect until April 30, 2022.

- What is the FCL?

The FCL is a credit line with upfront and flexible financing to IMF member countries that have very strong monetary, fiscal, and financial policy frameworks and a favorable record of economic performance. This line has three distinguishing characteristics relative to other IMF arrangements: (i) it is **contingent**, meaning that its purpose is to increase external financing flexibility upon the realization of extreme external risks; ii) members can access to resources at any point in time; and iii) it is a **non-conditional** instrument, which implies that countries remain eligible to access the line based on their existing strong policy frameworks and prudent macroeconomic management, and that there is no policy conditionality after drawing on the line. Currently, Chile, Colombia, Mexico and Peru have FCL arrangements with the IMF.

- Why did Colombia request an augmentation of the FCL?

The COVID-19 pandemic hit the global economy in an unprecedented way. The pandemic is affecting all countries through numerous channels. In Colombia, those channels include lower oil prices and export revenues, weaker aggregate demand, falling tax collection and higher spending needs to support the health system, vulnerable households, workers and businesses. The duration and magnitude of the shocks have been larger than anticipated in May, when the current FCL was approved.

In this uncertain global environment, it is key for the country to bolster external liquidity and diversify external financing sources. The FCL augmentation from 384 percent of quota (SDR 7.84 billion or approximately USD 10.8 billion) to 600 percent (SDR 12.26 billion or approximately USD 17.2 billion) will

¹ The two-year FCL arrangement was renewed by the IMF's Executive Board on May 1, 2020 in an amount equivalent to 384 percent of Colombia's quota or USD10.8 billion.

help Colombia insure against external risks by bolstering its international liquidity position and providing additional resources to meet financing needs in a highly uncertain environment.

Importantly, access to the FCL represents a strong confidence signal by the IMF on Colombia's fundamentals. In particular, the FCL represents a very important signal about the stability, performance and resilience of the Colombian economy, as well as an endorsement of its policy efforts to mitigate the COVID-19 outbreak and associated economic impact.

- Is Colombia planning to draw on the FCL?

The Colombian authorities intend to draw a portion of the augmented FCL for budgetary support. The Colombian Government is planning to make a purchase of up to 187.5 percent of country's quota (around USD 5.3 billion) from the facility, as part of its financing plan for fiscal year 2020. The bulk of the FCL (at least SDR 8.5 billion or approximately USD 12 billion) will, as in the past, remain precautionary.

The FCL offers a complementary and cost-effective option to existing financing sources and will support a strong policy response to the pandemic and its effects on the economy. The use of some FCL resources increases financing flexibility, anchors market confidence and ensures that additional budget needs would be met, while mitigating a possible crowding out or higher financing costs for private and public companies in local markets due to the increase in borrowing needs from the Government.

- Why is Colombia doing this now?

The unprecedented external shocks have impacted the country's external and fiscal accounts. The active policy response amidst a slowdown in economic activity generates greater financing needs. Relying on the FCL will help safeguard Colombia's policy response to the emergency and its effects on the economy.

Specifically, resources from the FCL help diversify external financing available to the Government at favorable financial terms. This helps support the well-functioning of local financial markets and bolster confidence in the management of the emergency and post-pandemic recovery program. Meanwhile, the increase in access to the FCL will also allow Colombia to maintain a prudent level of external liquidity buffers to help insure against heightened external risks.

- If a disbursement is made for budgetary support, what is *Banco de la República's* role in the operation?

A partial disbursement of the FCL for budgetary support would be made directly to an account of the National Government. All costs associated with the disbursement and subsequent payment of obligations

shall be borne directly by the Government, represented by the Ministry of Finance and Public Credit. *Banco de la República* would act as a fiscal agent of the Government, channeling the payments associated with the operation.

- What is the effect of the augmentation and partial disbursement on the level of international reserves of Colombia?

Neither the increase in access nor the partial disbursement of the line for budget support has a direct effect on the stock of international reserves held by *Banco de la República*. **The augmentation of the level of access to the FCL enhances Colombia's external liquidity and complements the coverage provided by the currently adequate level of international reserves.**

- What does this disbursement imply for the level of indebtedness of Colombia and what is the estimated debt-to-GDP ratio after this operation?

A partial disbursement of around USD 5 billion would represent approximately COP 19.8 trillion or 1.95% of GDP, at the current exchange rate and under the latest economic assumptions. These resources would cover part of the 2020 Financing Plan that was published by the government in June. Thus, they will not imply higher debt than the one currently projected.

- Which budget allocations are going to be financed with the FCL resources?

The Colombian authorities intend to draw a portion of the augmented FCL for budgetary support in response to the pandemic and its effects on the economy in 2020. The resources will be disbursed to the single treasury account (*Cuenta Única Nacional*) of the Ministry of Finance and Public Credit and will be used to finance the 2020 General Budget, including FOME (*Fondo para la Mitigación de la Emergencia*), in accordance with the legal principle of cash unity². Therefore, the resources are not earmarked to specific programs or projects. They will finance the budget deficit included in the 2020 Financing Plan presented by the Ministry of Finance and Public Credit last June.

² According to Article 16 of the National Budget's Main Law (Decree 111, 1996), the cash unity principle explains how the Government's Ordinary and Capital sources must be centralized and used to finance with opportunity all the authorized budgetary allocations that comprise the National's Budget (*Presupuesto General de la Nación*).