INTERNATIONAL MONETARY FUND
EXTERNAL RELATIONS DEPARTMENT

Press Release No. 09/161
FOR IMMEDIATE RELEASE
May 11, 2009

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Approves US$10.5 Billion Arrangement for Colombia Under the Flexible Credit Line

The Executive Board of the International Monetary Fund (IMF) today approved a one-year SDR 6.966 billion (about US$10.5 billion) arrangement for Colombia under the Flexible Credit Line (FCL). The Colombian authorities have stated they intend to treat the arrangement as precautionary and not draw on the line.

The FCL is available to countries, such as Colombia, that have demonstrated a very strong track record of sound macroeconomic policies and institutional frameworks. The arrangement for Colombia is the second commitment in Latin America and the third overall (following arrangements for Mexico and Poland) under the IMF's FCL, which was created in the context of a major overhaul of the Fund's lending framework on March 24, 2009 (see Press Release No. 09/85 and Public Information Notice No. 09/40).

The FCL is designed to help countries' crisis prevention efforts by providing the flexibility to draw on the credit line at any time. Disbursements are not phased nor conditioned on compliance with policy targets as in traditional IMF-supported programs. This flexible access is justified on the basis that the strict qualification criteria for the FCL provides assurances that sound economic policies will remain in place to confront the challenges ahead.

Following the Executive Board discussion, Mr. John Lipsky, First Deputy Managing Director and Acting Chair, made the following statement:

"During the last decade, Colombia has maintained a very strong macroeconomic performance, underpinned by solid institutional policy frameworks. GDP growth has been robust. The inflation targeting regime brought inflation down to single digits. Anchored on its medium term fiscal framework, Colombia's debt ratios have declined substantially. The flexible exchange rate regime and prudent debt management have helped to reduce balance sheet vulnerabilities. Strong supervision and regulation have kept the financial system sound.

“Notwithstanding its very strong fundamentals, Colombia’s near term outlook has been adversely affected by the global environment. While the flexible exchange rate absorbed the first round effects of the global crisis, weak external demand has led to a contraction of exports and a considerable slowdown in economic activity. Nonetheless, the financial system has not experienced major strains since the onset of the global crisis, and the Government of Colombia has maintained access to international capital markets at favorable terms.

“The authorities’ policy response to the global crisis has been prudent and appropriate. With inflation abating, monetary policy has been eased. The authorities are also allowing automatic fiscal stabilizers to operate fully, while preserving medium-term fiscal sustainability. The exchange rate has been an effective shock absorber with limited rules-based intervention to smooth volatility, and reserve losses have been small. The authorities have taken timely steps to protect the financial system by increasing the deposit insurance coverage. They have also averted a possible liquidity crunch by securing external financing to the state-owned foreign trade bank which is providing loans to banks and corporations facing reduced access to external trade credit.

“The one-year arrangement under the IMF’s Flexible Credit Line, which the authorities intend to treat as precautionary, will play an important role in bolstering confidence in the authorities’ policy framework and strategy at a time of heightened global uncertainty. Colombia’s strong fundamentals and institutional frameworks, its proven track record of sound macroeconomic policies, and the additional insurance provided by the FCL arrangement, give confidence that the authorities are well prepared to manage potential risks and pressures in the event that the global environment deteriorates further,” Mr. Lipsky said.