

BUFF/11/62

May 6, 2011

**The Acting Chair's Summing Up
Colombia—Arrangement Under the Flexible Credit Line
and Cancellation of the Current Arrangement
Executive Board Meeting 11/44
May 6, 2011**

Executive Directors commended the Colombian authorities for sound institutional frameworks and skillful macroeconomic management. Countercyclical policy support has paved the way for the recovery underway while the inflation targeting regime has anchored inflation expectations and exchange rate flexibility has cushioned the impact of external shocks and large capital inflows. Strong supervisory and prudential oversight has underpinned the soundness of the domestic financial system.

Directors took note of the favorable economic outlook for the near term. They welcomed the authorities' intention to unwind fiscal support and normalize monetary conditions as the recovery becomes self-sustaining and slack is taken up. Planned revenue-mobilization reforms, rules to set limits on the structural balance of the central government, and legislation on fiscal sustainability would further bolster the medium-term budgetary framework and economic prospects.

Notwithstanding improvements in internal and external conditions since the global financial crisis, Directors recognized that Colombia remains exposed to downside risks, including from severe commodity price fluctuations and other adverse external developments. Directors agreed that, under these circumstances, a successor FCL arrangement would provide appropriate insurance and bolster confidence in the country's ability to withstand shocks.

Directors agreed that Colombia meets the qualification criteria for an FCL arrangement. Most Directors considered that an access increase to 500 percent of quota is appropriate in light of the residual vulnerabilities and a number of Directors encouraged the authorities to articulate carefully their strategy for exiting FCL support. Directors welcomed the authorities' intention to treat the arrangement as precautionary.