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**Statement by Mr. Azal, Mr. Just, and Mr. Meizer on Colombia  
(Preliminary)  
Executive Board Meeting  
March 19, 2021**

We thank staff for the comprehensive set of reports and Mr. Romero Tarazona for the helpful Buff statement. After the severe economic contraction in 2020 due the COVID-19 pandemic, the Colombian authorities will need to implement targeted policy measures to pave the way to recovery, also considering that the risks remain tilted to the downside. To tackle public health challenges and support the most vulnerable sectors, the authorities should redouble their efforts to pursue structural reforms and make good use of the room for maneuver provided by the Flexible Credit Line (FCL). We broadly share staff's appraisal and provide the following comments for emphasis.

**The COVID-19 pandemic has taken a high social and economic toll and the recovery might potentially be gradual and uneven.** Given that Colombia has been hit harder by the pandemic than the international average there is a great need for an ambitious, rapid, and large-scale vaccination campaign. The informative SIP covers well the impact of the pandemic on the unemployment rate which has increased sharply, mostly affecting informal sector workers, women and young. Tackling unemployment should be a top priority on the authorities' agenda and while we welcome the authorities' efforts to help informal workers with targeted transfer programs and to integrate migrants into the formal sector, it would also be beneficial to pay greater attention to job creation and policies to increase formality.

**While we commend the authorities' for their focus on strengthening the health system and supporting the most vulnerable households and firms, further policy actions are needed to strengthen the nascent recovery, with particular attention to a growth-friendly tax reform.** We stress the importance of further improving PFM, also considering that the discretionary emergency spending measures were lower than expected last year. In this context, we also emphasize that the unspent resources from the emergency mitigation fund should be used as early as possible. The envisaged fiscal adjustment should be carried out in a gradually and growth friendly way. The authorities should place greater emphasis on revenue mobilization also considering that Colombia's tax-to-GDP ratio falls behind the

regional average. A tax reform would be a good basis to address much needed fiscal adjustment in the medium term considering that without additional policy measures, the sharp fiscal tightening projected for 2022 seems unrealistic and would derail the recovery. We take positive note that Colombia's public debt is expected to remain sustainable.

**The partial disbursement under the FCL arrangement warrants close attention, also considering that Colombia has become the first country to use this credit line since it was created in 2009.** While we take positive note that the BanRep has further increased its reserve coverage, *we would appreciate if staff could further elaborate on the expected use of the remaining US\$ 3.9 billion FCL purchase that is currently kept separate from central bank reserves. Given that Colombia has access to about US\$ 12.2 billion under the existing FCL arrangement even after the drawdown in December 2020, we wonder whether the authorities still intend to treat this amount as precautionary and how the authorities plan to exit from the FCL.*

**We commend the BanRep for the comprehensive set of actions that helped stabilize the key markets in 2020. Maintaining the accommodative monetary policy stance is warranted. While we take positive note that the financial system has remained resilient, we also call for vigilance due to the downside risks.** We support the authorities' commitment to reinforce their regulatory activities after the broad-based easing in the regulatory framework in 2020. *We would appreciate further details on how smooth the transition from the general payment moratorium to the more targeted Program to Support Debtors (PAD) was and what kind of tailored solutions are planned after the expiration of the PAD.* We continue to underscore the importance of maintaining the flows of credit to support economic activity. We welcome that both financial inclusion and the digitalization of the payment system have improved considerably even in these challenging times. The updated national AML/CFT framework could be a significant milestone in the coming months if it indeed addresses the gaps identified in the MER's recommendations.

**The authorities need to step up their efforts to advance structural reforms once the pandemic abates.** In this regard, we look forward to the authorities' new reform agenda to promote inclusive growth, speed up productivity growth and boost competitiveness. We reiterate that the authorities should take further steps to lower barriers to labor formalization and reduce high structural unemployment. We take positive note of the authorities' efforts to significantly increase public investment, as noted in the Buff statement. However, Colombia will also need a sound PFM framework to be able to reap the benefits of new investments and prepare its economy for future opportunities. The authorities should take further steps towards economic diversification also considering Colombia's exposure to commodity prices.