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**Statement by Mr. Hosseini and Mr. Sassanpour on Colombia
(Preliminary)
Executive Board Meeting 21/28
March 19, 2021**

We thank staff for the clear and concise set of papers and Mr. Romero Tarazona for his helpful Buff statement.

Colombia's strong institutional and policy frameworks and the authorities' agile and proportional policy response helped to dampen the significant health and economic impacts of the pandemic. The extent of protection of the vulnerable population during the crisis through income transfer programs and employment protection measures is commendable. Supported by a rebound in external demand and favorable terms of trade developments, the economy is already on the mend, but the pace and duration of the recovery are dependent on the path of the pandemic. While the authorities' prudent policy track record and the country's large foreign reserves and FCL provide comfort, a reversal of external economic and financial market conditions pose significant risks to the outlook. We note positively that public health remains the highest priority until the pandemic is eradicated and that there is encouraging progress in vaccine procurement and rollout.

Colombia is to be commended for hosting a large number of Venezuelan migrants and integrating them into its society and workforce that will pay off in terms of higher growth potential in the long run. There are frequent references in the report to the contribution of Venezuelan migrants to different aspects of the Colombian economy: growth, employment, fiscal cost and the external balances. *Could staff elaborate and, to the extent possible, quantify the impact? Also, we would welcome staff comments on why deterioration of economic activity in Colombia and border closure with Venezuela led to migrant outflows (¶12) when the migrants were presumably protected by social programs in Colombia during the crisis?*

Fiscal policy was appropriately and proportionally supportive of employment and incomes during the crisis. We tend to agree with the authorities that a slightly larger deficit in 2021 would be warranted, especially considering the high uncertainty and the fact that the higher spending this year reflects the carryover of undisbursed FOME resources from last year to finance vaccination and other emergency needs. It is better to err on the side of caution given the high cost of underestimation of the pandemic. Fiscal consolidation could begin in earnest from 2022 and gather pace as the recovery is on a stronger footing. The staff's recommended revenue-expenditure menu for the medium term merits consideration as is the staff's suggestion to complement the fiscal rule with a debt-ceiling to maintain fiscal creditability and ensure debt sustainability.

We agree with staff that monetary accommodation should continue as long as domestic demand is weak; inflation is benign and inflation expectations are well anchored; and external financial market risks are mute. We agree with the central bank though that, going forward, monetary policy decisions should remain data-dependent. Colombia's flexible exchange rate acted as a first line of defense against an unprecedented external shock and the policy should continue, facilitating central bank accumulation of reserves—in line with its risk-based approach to reserve adequacy—as long as external financing needs remain elevated. *What is the nature and the level of Colombia's official external buffers other than central bank reserves (footnote 2, page 7)?*

Colombia has strong financial sector regulatory and supervisory frameworks and the monthly top-down stress tests conducted by the SFC since the onset of the crisis have allowed for early detection of risks. Nonperforming loans are, however, likely to rise on the expiry of the PAD grace periods and the PAD itself as the relief provided under the PAD has been significant so far. We agree with staff that the PAD should not be extended in order to have an accurate assessment of banks' balance sheet problems. We look forward to the findings and recommendations of the 2021 FSAP that should provide a comprehensive assessment of the strength and weaknesses of a financial system tested by the crisis.

Colombia faces a number of important structural challenges to boost medium term productivity and potential growth, notably to facilitate steady job recovery in the formal sector. Staff's analysis shows that employment dynamics is a key driver of potential output, and staff's employment at risk analysis underlines the importance of proactive policy support. We commend the authorities' recent decision to integrate Venezuelan migrants in the formal sector by legalizing their status. Other structural challenges include enhancing the economy's competitiveness; implementing infrastructure plans; and supporting regional, social and economic inclusion as set out under the peace accord.

That said, we wish the Colombian authorities and people all the success.