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**Joint Statement by Mr. Mouminah, Mr. Mozhin, Mr. Alhomaly, Ms. Alaqla, and Mr. Shestakov on Colombia
(Preliminary)
Executive Board Meeting
March 19, 2021**

We thank staff for the comprehensive report and Mr. Romero Tarazona for his helpful Buff statement. The sweeping effects of the COVID-19 pandemic have left Colombia with the largest recession on its record, but the authorities' well calibrated and flexible policy has moderated the impact of the pandemic. The policy response should therefore continue to counter the pandemic while strengthening fiscal sustainability in the medium term. We are in broad agreement with staff's analysis and policy recommendations and would like to emphasize the following points.

1. **A comprehensive fiscal reform in the medium term should be given a priority, with focus on revenue mobilization and improving credibility.** The authorities have mounted strong, but targeted fiscal support, with emergency measures that are expected to continue throughout 2021. We agree with staff's recommendation to phase out emergency spending as the pandemic subsides to preserve some fiscal space and avoid sharp medium-term adjustment. According to staff, returning to fiscal rule in 2022, as currently planned by the authorities, might result in disruptive fiscal tightening; and thus, longer adjustment horizon is appropriate. Even in the latter case, an ambitious fiscal reform is crucial to mobilize revenue, streamline tax administration, and improve spending efficiency. We also concur with staff's recommendations to create an independent fiscal council and improve the existing escape clause, with a view to bolster fiscal credibility.

2. **Accommodative monetary policy should be preserved considering the economic developments.** We commend the central bank's timely response to the pandemic, which has

contributed to stabilization of the financial sector. However, external financing needs remain high despite the past reserve accumulation. In this context, we concur with staff that the authorities should continue to accumulate international reserves to safeguard against liquidity and financial stability risks. Considering that Colombia has drawn on the FCL to address the pandemic-related needs, we encourage the authorities to continue treating this instrument as a precautionary tool. We also encourage staff to work with the authorities to ensure a gradual phasing out of the FCL once the economic recovery is secured. *We would be very interested in staff's comment on whether there is a planned path for Colombia to exit the FCL.*

3. **While we note that the banking sector had adequate capitalization and liquidity prior to the crisis, maintaining close supervision is warranted.** In this context, we are comforted by the authorities' efforts to enhance the regulatory and supervisory framework, including the fact that the implementation of the Basel III standards and the Conglomerates Law remained on track. We are looking forward to the completion of the FSAP, which will allow the authorities to further strengthen the quality of the regulatory and supervisory framework. While the financial regulator (SFC) is not planning to extend its targeted support for loan restructuring (the PAD) after 2022, there is a risk of increasing NPL due to vulnerabilities accumulated under the PAD and previous broad-based payments moratoria. Therefore, continuous monitoring of these measures is essential to prevent financial disruptions. We are also encouraged by the central bank's readiness to ensure adequate liquidity provision to financial markets, but careful evaluation of loan classification and provisioning standards is needed.

4. **Finally, we commend the authorities for their commitment to the structural reform agenda, which would support prompt and job-friendly recovery.** We take note of the progress made on the legal status of Venezuelan migrants, which are expected to raise Colombia's economic potential. However, according to staff, weak contract enforcement creates high transaction costs, especially for SMEs. Improved business climate would help in fully realizing the gains from the expanded labor force. We also support the acceleration of large structural projects on the national and regional levels. *Given the quality of Colombian public investment management, as assessed in PIMA, how does staff estimate the contribution of the Compromiso por Colombia strategy to a potential economic growth over the medium term?*

With these remarks, we wish the authorities every success in their policy endeavors.