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April 26, 2021

**Statement by Mr. Pösö and Mr. Slettvag on Colombia
(Preliminary)
Executive Board Meeting
April 28, 2021**

We thank staff for the report and Mr. Romero Tarazona for his clear and informative Buff statement. We fully support the authorities' strong policy response to the crisis which has provided crucial support to the economy. Colombia's successive FCL arrangements have served as an important backstop of international liquidity, with the FCL drawing in December 2020 providing a necessary complement to private sources of financing, helping Colombia to preserve external buffers. We welcome that a gradual recovery is now underway but take note of the still elevated financing needs that make Colombia vulnerable to external shocks, including a prolonged pandemic outbreak and tighter financial conditions. **We agree with staff's assessment that Colombia continues to meet the qualification criteria for access to FCL resources and support the completion of the review.**

We commend the coordinated communication strategy in relation to the FCL augmentation and purchase in 2020. Drawing on the FCL resources in a situation of improved financial conditions and continued market access could have undermined market confidence. Instead, by focusing on the benefits of the FCL in addressing both actual and potential balance of payment needs and reaffirming Colombia's strong policy frameworks, staff and the authorities succeeded in conducting a positive market response and reaping the full benefits of the FCL. Given the first ever purchase under the FCL arrangement, we would have appreciated more details and analysis on the effects of the purchase in the report, including potential crowding out of private financing.

We agree that Colombia continues to meet the FCL qualification criteria. Colombia continues to demonstrate a strong institutional policy framework, anchored by a credible

inflation-targeting regime, strong regulation of the financial system and a successful track record of prudent policy management. The banking sector has proven to be resilient during the crisis and appears to have adequate liquidity and capital buffers to handle expected credit losses as policy support unwinds. Colombia's external financing needs are, however, elevated, and we note that close to half of external financing came from public flows in 2020. We emphasize that this should be an exception as it is important for FCL quality countries to be able to primarily rely on private flows.

We see downside risks to the debt trajectory. Fiscal policy has come under severe strain during the pandemic, with public debt as a share of GDP jumping to over 60 percent and expected to increase further. We note that staff's assessment that Colombia's public debt is expected to remain sustainable stems from a baseline scenario in the 2021 AIV with no further lockdowns, and where the authorities return to primary surpluses from 2024. In this regard we welcome the proposal of the "Sustainable Solidarity Plan" to Congress, informatively laid out in the Buff statement, that aims to increase revenues largely through higher income taxes and a broadening of the VAT. Raising taxes in the aftermath of a severe recession is, however, not trivial, and we would have appreciated a more thorough discussion of the fiscal outlook and risks in the report. *Staff's comments on how the proposed fiscal reforms align with the assumptions in the AIV are welcome.*

We would have welcomed a more detailed strategy to exit from the FCL. We note that the authorities intend to treat the remaining FCL arrangement as precautionary and reduce the FCL access level when temporary exceptional risks recede. Although we agree that uncertainty around the pandemic remain high, the global outlook and external financing conditions have improved markedly since last year and Colombia has continued to accumulate international reserves. We would therefore have welcomed a more detailed strategy towards reduced access and an eventual exit from the FCL already at this point. A transparent framework, guiding the exit from the FCL and backed by sound policies and reforms to strengthen domestic resilience, could help reinforce market confidence and private flows. In this respect, we note that the Fund also has other instruments at its disposal, including the SLL, which could be used as part of an exit strategy.