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March 17, 2021

**Statement by Mr. Bhalla and Mr. Singh on Colombia
(Preliminary)
Executive Board Meeting
March 19, 2021**

1. We thank the staff for their analytical reports and Mr. Tarazona for his helpful Buff statement. We appreciate authorities' response to the crisis by deploying resources to the health sector, expanding transfers to households, and implementing programs to protect small firms and formal employment. We are also encouraged to note that the communication regarding increased access under the FCL in September 2020 was actively managed, including the market concerns.
2. The financial plan of Colombia projects higher levels of fiscal deficit in 2021 compared to 2020. Looking at the fiscal policy stimulus across emerging market economies, there has been a significant divergence in sequencing fiscal responses during the peak of the pandemic (2020) and the recovery phase (2021). For instance, the size of the fiscal deficit in Peru is expected to decline significantly in 2021 over 2020. **As the higher stimulus in 2021 is geared towards protecting the economies against scarring, it would be interesting to analyze whether the multiplier effects of such fiscal stimulus may be stronger. Though, we acknowledge that it may be too early to gauge it.**
3. The assessment shows that a strong rebound in employment took place in the second half of 2020 led by informal employment growth, which aided adjustment in the economic sectors most affected by the pandemic. Formal employment dynamics and risks from further lockdowns suggest that the recovery might face resistance going forward. Granular analysis of the divergent recovery in formal versus informal sectors and its implications for the overall economic recovery and jobs could be important from a policy perspective. Further, **a declining contribution of labour to potential output growth, as shown in the selected issue paper, underscore the need for labour reforms to sustain productivity growth going forward.**

4. On the financial sector policies, the staff suggests that the authorities should continue to ensure recognition of expected credit losses and encourage banks to dip into their system-wide capital buffers if needed to safeguard stability risks. We would like to mention that during this crisis banks in many jurisdictions have been reluctant to lower their buffers due to several factors, including higher expected impairment of assets and the need for the accelerated buffer in the future. **We would like to know whether the banks in Colombia were also hesitant to lower their buffers. If so, what could be the key concerns underlying such behavior?**
5. We wish the authorities the very best and success in their future endeavors.