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March 17, 2021

**Statement by Mr. Buissé, Mr. Rozan, and Ms. Albert on Colombia  
(Preliminary)  
Executive Board Meeting  
March 19, 2021**

We thank staff for their informative report and selected issues, as well as Mr. Tarazona for his clear Buff statement. We broadly agree with the thrust of staff's appraisal and we offer the following comments:

**We welcome the swift measures adopted by the authorities, which helped the country to limit the significant impact of the pandemic, in the context of a strong policy framework built over the years.** In this regard, the FCL contributed to support the economic and financial resilience and the drawdown served the authorities well, as the FCL has been typically created for such exceptional times. Uncertainty remains elevated on the evolution of the pandemic and many downside risks prevails. Against this background, monitoring and mitigating domestic and external risks will continue to be important. In particular, we note that the external financing needs will remain high over the medium term and that over 80 percent of the amortization is related to the private sector. The reserves are comfortable at 145 percent of the ARA metric, but we agree that reserve accumulation should continue to help deal with external risks. We also welcome the progress in the peace agreement, an important factor of economic and social stability. We found the various estimation approaches to evaluate potential GDP interesting, but we note the large range of estimates, and we are wondering if the gradual return to pre-pandemic growth rate between 3 and 3.5 percent could not be too optimistic.

**We strongly welcome the fact that financial inclusion improved, and that poverty and inequality fell due to specific measures adopted, despite the pandemic.** In particular, the new unconditional transfer program which helped to target informal workers not covered through other programs, as well as a better targeting of existing social schemes through a new version of the social registry SISBEN are very useful. Indeed, despite some progress, Colombia remains one of the countries with the highest income inequality and labor market informality in Latin America. The authorities' attention on this topic is therefore much welcome. In addition, we highly commend the authorities for their very active efforts to

integrate Venezuelan migrants, in particular with the 10 years protection status, which should cover two million migrants, and we are looking forward the signature of the law in March.

**We support the suspension of the fiscal rule and encourage the authorities to continue to support the recovery until it is firmly entrenched.** We share staff's recommendations to use the fiscal space available to continue to protect the most vulnerable and to pace the adjustment in a gradual manner. In this regard, we support the restoration of the fiscal anchor but resetting the adjustment horizon over the next five years, to avoid too fast a tightening. We also share staff's view on the idea of enhancing the MTFF's robustness and oversight, which should help to reinforce investor's confidence.

**We fully support the need for an ambitious fiscal reform to improve revenue mobilization and spending efficiency.** The incorporation of a central government tax of 1.2 percent of GDP would be a first good step, but we strongly support staff's view that a gradual and durable increase of 2-3 percent of GDP would be appropriate, as the tax to GDP ratio remains low. We thank staff for the several measures suggested and we support the idea to raise additional revenues with a carbon tax, to support climate mitigation goals (which could have been more detailed in the report), as well as the increase in VAT with compensation mechanisms to offset the impact on the poorest. *However, could staff detail (i) to which extent some progressive tax measures could be integrated, in particular regarding PIT and property taxes?; (ii) what are the measures which are the most likely to be implemented by the authorities?.* We strongly encourage the authorities to use the technical assistance of the IMF on this area. Finally, a reform of the pension system would also be important, as it weighs on the public finances. *Does the government consider working on such a reform in the short term?*

**We encourage the authorities to continue their accommodative monetary policies and to monitor potential financial risks.** Monetary policy is effective with well-anchored medium-term inflation expectations, and the use of the flexibility of the exchange rate during the crisis has been a very helpful. Asset purchases seems to have been an effective tool to stabilize the markets and provide more monetary stimulus, in a context characterized by a policy rate close to the zero lower bound and strong fundamentals. This is good news, and we are looking forward to further IMF work on this topic. We also encourage the recognition of credit losses and agree that having a clear picture regarding FSIs and credit scores will help authorities in their monitoring of financial stability risks, including stemming from NPLs.

**On the structural front, boosting productivity and inclusive growth is a top priority.** The effective implementation of the National Development Plan to boost infrastructures, incentivize formal employment and lower barriers to improve domestic competition are key factors to increase productivity. Lowering structural levels of informality and unemployment in the medium term by addressing regulatory barriers is critical. *Could staff describe the progress made in terms of economic diversification, as exports remains concentrated in the non-renewable commodities? As highlighted in the selected issues it could also help to decrease the current account deficit.* Finally, the effectiveness of the anti-corruption network, the transparency in procurement, the strengthening of the contract enforcement are also important areas of work which will help to improve the business environment, recognizing the progress already made by the authorities. We encourage the authorities to pursue their efforts, as well as the strengthening of the AML/CFT framework, and we are looking for the implementation of the Beneficial Owner Register.