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**Statement by Mr. Bevilaqua, Mr. Saraiva, and Mr. Barroso on Colombia  
(Preliminary)  
Executive Board Meeting  
March 25, 2022**

We thank staff for the detailed reports and Mr. Romero Tarazona for the helpful statement.

**Although external conditions and inflation pose risks to the outlook, Colombia is undergoing a fast recovery, which has helped fiscal consolidation.** The successful vaccination program and policy support have led to a strong rebound in private consumption and formal employment. Fiscal credibility has been secured with reformed institutions and revenue mobilization efforts, on top of the recent overperformance supported by high growth. Although still accommodative, monetary policy is normalizing in response to high demand and second round effects from supply shocks. The ongoing conflict in Ukraine and lockdowns in Asia pose further risk to supply chains and global financial conditions. That said, Colombia has clear policy options to minimize downside risks and improve growth prospects.

**We commend the authorities' commitment to place public debt on a sustained declining trajectory.** As highlighted by staff, the strong recovery helps fiscal consolidation and opens an opportunity to smooth the adjustment path. The recent approval of the Social Investment Law (SIL) goes in the right direction by establishing a structural balance rule with a new debt anchor and securing more revenue through higher corporate taxes. We agree that the ongoing fiscal consolidation contributes to both domestic and external adjustment and take positive note of recent and prospective trends for the public debt, which have been more favorable than what was expected in the medium-term fiscal framework. We also agree that further revenue mobilization, complemented by spending efficiency, might be considered in order to secure social objectives with fiscal responsibility. Finally, given the heightened risks in the international scenario, we take positive note that the authorities have used the SDR allocation to boost liquidity buffers.

**Monetary policy should continue to be tightened to anchor inflation expectations.** We agree that inflationary pressures will most likely persist into 2022, with indexation and minimum wage increases adding to the risks of second round effects from recurring supply shocks. We praise the authorities for commencing the normalization process and take note that, despite the strong credibility of the Central Bank, medium-term inflation expectations have started to move slightly away from target, suggesting the need for persistent policy action. That said, we agree with the Colombian monetary authorities that under the prevailing uncertainty, calibration of the policy stance remains data dependent. In face of high external risks, the exchange rate should continue to work as a shock absorber and first line of defense. At the same time, while further accumulation of international reserves is warranted, the authorities should be ready to intervene to avert disorderly market conditions. We also highlight that, as expected, the FCL has been playing a positive role to counter those risks.

**We welcome the FSAP conclusion that Colombia has strengthened surveillance and regulation of its financial system, while taking note of opportunities for further improvements.** With better bank profitability, even as regulatory support measures are unwound, credit demand and supply are both increasing, with overall positive feedback into economic activity. At the same time, high and increasing debt levels could lead to an increase in non-performing loans in the medium run. This will require close monitoring and further work by the authorities to develop macroprudential surveillance and policy instruments. Ideally, this enhanced framework should include actions to monitor and taper the high level of external liabilities in the corporate sector. We take positive note that banks have ample capital and liquidity buffers to withstand the uncertain period ahead. However, as highlighted by staff, significant exposures in Central America require close monitoring and strengthening of the cross-border cooperation and resolution mechanisms. Although further advancement is still warranted, we take positive note of the progress in improving the AML/CFT regime, including efforts to enhance beneficial ownership information.

**Sustaining the structural reform agenda is key to improve Colombia's social outcomes and medium-term growth prospects.** Authorities have a successful migration policy that tends to contribute to potential growth, and it is commendable that migrants have been offered protective status. Following the footsteps of the SIL reform and the increasing social demand, further improvements in the social safety net should be high in the authorities' priorities. Infrastructure investment is also key to unlock productivity gains and has been correctly prioritized in the authorities' development plan. An enduring peace process will also improve the investment climate.

With these comments we wish the Colombian authorities and people continuous success in their endeavors.