

The contents of this document are preliminary and subject to change.

GRAY/21/1108

April 26, 2021

**Statement by Mr. Buissé, Mr. Rozan, and Ms. Albert on Colombia
(Preliminary)
Executive Board Meeting
April 28, 2021**

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

We concur that all the qualification criteria for access to FCL resources continue to be met and we support the completion of this review. The FCL contributed to supporting the country's economic and financial resilience, providing a flexible insurance against tails risk, and it also sent an important confidence signal to the markets by reassuring them about the authorities' commitment to sound management of economic policies. The FCL has been typically created for exceptional external shocks (such as the one Colombia went through this year), and the recent drawdown served the authorities well. We note in particular the positive market reaction. We therefore commend staff and the authorities for their appropriately coordinated and effective communication strategy, and the benefits of this operation could be an important lesson for potential future withdrawals.

We note that the authorities intend to continue to treat this arrangement as precautionary and remain committed to a gradual exit, risks permitting. The External Economic Stress Index is still higher than the 2019 level, and a lower-risk external environment as well as an entrenched economic recovery appear necessary to gradually reduce the access level. Downside risks, including the uncertain vaccination path, the volatility of the oil prices or a potential tightening of financial conditions could materialize. Overall, it's important that the FCL exit remains state contingent.

The risks associated to the elevated external financing needs should continue to be monitored closely. In particular, we note that external financing needs will remain high by historical standards. However, the risks associated are mitigated by the strong policy framework and prudent management of the policy mix by the authorities. In particular, we welcome the use of the flexible exchange rate. The reserves at 145 percent of the ARA metric excluding commodity buffer represent also a comfortable buffer. While it's necessary to maintain adequate reserves coverage, and that some further reserves accumulation would

be helpful in the context of rising external liabilities, we share Ms. Riach and Mr. Chrimes' caution against excessive accumulation of reserves.

On the fiscal front, we support the suspension of the fiscal rule and encourage the authorities to continue to support the recovery until it is firmly entrenched, while preserving a sound fiscal framework. The restoration of the fiscal anchor with a resetting the adjustment horizon over the next five years, to avoid too fast a tightening, is warranted. We fully support the need for an ambitious fiscal reform to enhance revenue mobilization and spending efficiency, as the tax to GDP ratio remains low, and encourage the authorities to consider the interesting suggestions of the last Article IV report, including more emphasis on carbon taxation. We thus welcome the recent Sustainable Solidarity Bill presented to Congress on April 15th. More generally we encourage the authorities to continue to support the structural reforms to support a sustainable, green and inclusive recovery.