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March 17, 2021

**Statement by Ms. Levonian and Mr. Weil on Colombia
(Preliminary)
Executive Board Meeting
March 19, 2021**

Thanks to staff for their reports and to Mr. Romero Tarazona for his insightful Buff statement in which he underscored that strong macroeconomic policy framework and the soundness of policies implemented in response to the shocks will allow economic agents to maintain their confidence in the Colombian economy and its overall strength.

We support the staff appraisal that very strong policy frameworks and well-executed and coordinated policies have allowed Colombia to respond effectively to the pandemic. A nascent recovery is underway on the heels of a severe shock, but there remains considerable uncertainty around the outlook. The near-term focus should be on a broad-based vaccination campaign to eradicate the pandemic as well as fiscal and monetary support for demand. Emergency measures should transition into more targeted support as the pandemic subsides. We support the recent purchase under the FCL as a complement to Colombia's existing buffers. Staff observe that the FCL purchase coincided with lower spreads and a stronger peso, but this was difficult to glean from the staff report. *Could staff elaborate on the market response to the first ever FCL purchase?*

The extension of emergency spending is justified but should be phased-out as the recovery takes hold in order to manage fiscal risks and preserve debt sustainability. On one hand, as one of the hardest hit countries by the pandemic and with uncertainty around the path of the virus and pace of vaccination still elevated, it is wise to maintain emergency spending into 2021. On the other hand, it will be important for the authorities to maintain fiscal credibility and under the baseline Colombia will be one of the only countries in the world to record a greater budget deficit in 2021 than in 2020. In the near-term, we encourage the authorities to limit non-priority spending and gradually phase-out crisis spending as the recovery takes hold. In the medium-term, the structural deficit target under the fiscal rule should be restored while resetting the adjustment horizon. This is an opportune time to consider improvements to the fiscal rule as proposed by staff, including the addition of a debt

anchor and enhancements to the escape clause. We welcome the authorities' proposed fiscal reforms, which include a number of base-broadening measures, and note that greater revenue raising efforts could be required should temporary crisis spending become entrenched in the framework.

Colombia's commitment to a flexible exchange rate and a credible inflation targeting framework supported their decisive response to the pandemic. We agree with staff that the BRC could consider further monetary easing if downside risks materialize or inflation remains below target, in particular as fiscal policy gradually tightens.

The crisis has highlighted rigidities in the formal sector and high levels of informality. While informal employment has rebounded sharply since the peak of the crisis, the recovery of formal employment has lagged, and women in particular have been slower to rejoin the labour force. To cement the recovery and tackle high levels of informality the authorities are encouraged to reduce rigidities in the formal sector, including high non-wage labor costs. We also encourage the authorities to improve access to affordable childcare to support a recovery in female labour force participation rates. *Can staff indicate what policies are being pursued to support female labour force participation?* Staff found that the informal sector acted as shock absorber of sorts, which in our view underscores the importance of the Ingreso Solidario transfer program to support informal workers not covered by other elements of the social safety net. We would encourage staff and the authorities to explore whether a more targeted version of this program should become a permanent fixture of Colombia's automatic stabilizers.

We welcome the progress made to enhance procurement transparency and the anti-corruption framework. The authorities should sustain this momentum, including through the operationalization of the recently introduced asset declaration framework.

Colombia should be commended for its efforts to integrate Venezuelan migrants. Through the Temporary Protection Status program Colombia has found a durable solution for the integration of millions of Venezuelan refugees. This extraordinary humanitarian act has set an example for the world.