[Colombia: Statement after concluding the Article IV Consultation for 2021](#)

A Concluding Statement describes the preliminary findings of IMF staff at the end of an official staff visit (or 'mission'), in most cases to a member country. Missions are undertaken as part of regular (usually annual) consultations under [Article IV](#) of the IMF's Articles of Agreement, in the context of a request to use IMF resources (borrow from the IMF), as part of discussions of staff monitored programs, or as part of other staff monitoring of economic developments.

The authorities have consented to the publication of this statement. The views expressed in this statement are those of the IMF staff and do not necessarily represent the views of the IMF's Executive Board. Based on the preliminary findings of this mission, staff will prepare a report that, subject to management approval, will be presented to the IMF Executive Board for discussion and decision.

Navigating the Pandemic and High Uncertainty, while Securing the Recovery

Washington, DC – February 12, 2021: *Faced by a pandemic that led to the largest recession on record—with vulnerable groups particularly affected—Colombia used the flexibility afforded by its policy framework to deliver a coordinated and timely response. The economy is recovering gradually, with sporadic momentum, but growth prospects remain at risk while COVID-19 and high uncertainty lingers. In the near term, policies should focus on defeating the pandemic and cementing the recovery with the monetary and fiscal policy space available. At the same time, reforms should be passed to secure sound public finances over the medium term. Tackling long-standing structural challenges to raise inclusive growth and external competitiveness remain crucial. The mission welcomes recently announced measures to integrate nearly two million Venezuelan migrants.*

A gradual—albeit uneven—recovery is underway. National and local restrictions to mitigate the virus outbreak and manage the healthcare emergency led to a historic economic decline in 2020. A quarter of total employment was affected. With easing restrictions, the economy has rebounded, labor force participation has improved, and high unemployment has fallen sharply led by informal sector job growth. Mining and sectors most affected by lockdowns still lag, however, and renewed local restrictions following a second wave of the pandemic have recently slowed momentum. Inflation remains subdued, falling below the 3 percent target. While the outlook remains highly uncertain, staff expects a gradual economic recovery with 4½ percent growth for 2021. Activity is not expected to return to pre-pandemic levels until late 2022.

Timely policy responses cushioned the pandemic's impact and continue to support economic recovery. Monetary and financial policy easing—lower interest rates, liquidity provision to financial markets, macroprudential actions to support credit—and a battery of fiscal measures mitigated the fallout from the pandemic and laid the foundation for a return to growth. Healthcare capacity was critically strengthened. Payroll subsidies helped preserve formal jobs and expanded social transfer programs supported incomes for poor and vulnerable households, while boosting financial inclusion. Public guarantees on loans for small businesses and independents supported credit. The central and subnational governments' fiscal rules were appropriately relaxed for two years to make fiscal space available and a National Emergency Mitigation Fund (FOME) was established to facilitate the emergency response.

Challenges in defeating the pandemic contribute to an unusually uncertain outlook In a race between the virus and the vaccine, risks around vaccine supply, distribution, and effectiveness present a threat of new waves of infections, and additional lockdowns may be required that would hurt economic activity. With Colombia's recently higher external financing needs, vulnerability to a sharp rise in global risk premia and other external shocks remains in a context of global uncertainty. Other downside risks include uncertainty about the timing, size, and composition of a necessary fiscal reform.

The financial system has remained resilient thus far, and policy measures have helped to weather the storm. Banks entered the pandemic with adequate capital and liquidity buffers to withstand the shock. To avoid credit contraction, the authorities have sought to maintain a delicate balance between upholding regulatory standards and granting relief to borrowers from the extraordinary fallout from the pandemic. Countercyclical provisions were released, and temporary loan forbearance measures were enacted—including the Programa de Acompañamiento a Deudores (PAD). Basel III implementation continues as planned.

Targeted fiscal support with a transition to steady fiscal consolidation

Fiscal measures must continue to support lives and livelihoods in key areas this year. To that effect, use of undisbursed FOME resources to fund vaccinations and healthcare will be critical, and plans to vaccinate 34 million people starting this month are welcome. With respect to social protection, successful transfer programs targeted to poorer households could be extended. Certain emergency measures—such as payroll subsidies and credit guarantee programs— and other fiscal support should be phased out as the pandemic subsides and the economy recovers to help ensure medium-term sustainability. With the recovery underway, the mission considers a smaller fiscal deficit relative to GDP than last year's should be within reach unless activity falters.

Thereafter, gradual fiscal consolidation led by fiscal reforms should ensure a return to the fiscal anchor over the next five years. A return to the fiscal rule in 2022 would result in a sharp fiscal tightening that could derail the recovery. Instead, a more gradual fiscal consolidation plan that ensures the sustainability and credibility of public finances should be approved this year to restore the structural deficit goal and reset the adjustment horizon under the Medium-term Fiscal Framework (MTFF). The plan should have the following main elements:

- *Durable revenue mobilization.* To reduce public indebtedness while safeguarding public investment and key social spending, central government tax revenues should be gradually but durably raised by at least 2 percent of GDP. In terms of composition, growth-friendly revenue measures focusing on tax efficiency, progressivity, sustainability, and fairness should be considered—including base broadening for personal income taxes and reducing VAT exemptions (with compensation mechanisms to protect the poorest households); and elimination of preferential special regimes for businesses. Further efforts on improved tax administration would reduce tax evasion and complement these measures.
- *A credible commitment to reinstate and strengthen the fiscal anchor.*As a cornerstone to Colombia's policy frameworks, the MTFF's robustness and oversight should be reinforced—including the fiscal rule's escape clause to better specify the duration of any temporary suspension and the correction mechanism. Alongside this, the creation of an independent fiscal council to oversee the implementation and transition back to the fiscal rule should be considered. Longer term reforms include complementing the structural deficit rule with considerations to contain central government public debt through a debt ceiling or other stabilizing mechanisms.

Monetary and financial polices acting to preserve price and financial stability

Monetary policy accommodation should continue to support economic recovery. Given central bank credibility and available policy space, further monetary policy easing should be considered if subdued inflation remains well below target or downside risks to growth materialize. Colombia's flexible exchange rate should continue to be an effective first line of defense against external shocks. To maintain coverage, international reserve accumulation over time should continue to help insure against external liquidity risks, and Colombia retains precautionary access to the IMF's Flexible Credit Line as added insurance.

Authorities should continue to carefully monitor financial stability risks and ensure sufficient loan loss provisioning. Credit risk and loan quality is a concern going forward given the gradual and uncertain recovery. As temporary relief measures are gradually unwound, authorities will continue to encourage banks to dip into their system-wide capital buffers as needed to absorb unavoidable credit losses, while avoiding procyclical tightening of credit conditions, which is welcome. At the same time, measures implemented on capital distributions (including dividend payouts) and retained earnings aimed to strengthen bank capital remain important. While the PAD program is in place, the Financial Superintendence (SFC) should continue to intensely monitor that potential credit losses are sufficiently provisioned in accordance with existing prudential rules. The SFC is also considering to end the program in June, which the mission would welcome. Consistent with disclosure rules, credit exposures subject to pandemic-related relief measures should continue to be transparently reported, ensuring that financial soundness indicators accurately reflect the underlying situation of banks.

Structural reforms remain crucial for raising inclusive growth and external competitiveness

Structural reforms and integrating migrants can support the recovery and would set the foundation for sustainable, inclusive growth. Lowering barriers to firm and labor formalization would further reduce unemployment during the recovery phase and enhance productivity. The recent announcement to grant Temporary Protection Status (TPS) to nearly 2 million Venezuela migrants is commendable and should raise Colombia's economic potential. Moreover, the implementation of the infrastructure agenda should proceed, along with efforts to reduce logistics bottlenecks and trade barriers. To support regional, social, and economic inclusion, the effective implementation of the National Development Plan and Peace Accords should continue.

A joint IMF-World Bank team will soon commence a scheduled Financial Sector Assessment Program (FSAP) for Colombia. The previous FSAP took place in 2012.

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The mission would like to thank the Colombian authorities for their cooperation and open discussions throughout our virtual visit.

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Press release
Article IV - Agreement of the International Monetary Fund
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Friday, February 12, 2021 - 12:00
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