

COLOMBIA

Table 1 **2023**

Population, million	52.1
GDP, current US\$ billion	363.5
GDP per capita, current US\$	6978.7
International poverty rate (\$2.15) ^a	6.0
Lower middle-income poverty rate (\$3.65) ^a	14.0
Upper middle-income poverty rate (\$6.85) ^a	34.8
Gini index ^a	54.8
School enrollment, primary (% gross) ^b	106.5
Life expectancy at birth, years ^b	72.8
Total GHG emissions (mtCO2e)	261.3

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2022), 2017 PPPs.
b/ Most recent WDI value (2021).

GDP growth decelerated to 0.6 percent in 2023 as the phase-out of stimulus measures added to policy uncertainty's weight on investment. Macroeconomic imbalances are narrowing, with declining inflation and fiscal and external deficits. Poverty reduction is expected to moderate, in line with economic activity. Key risks include persistent inflation and economic disruptions due to El Niño, outcomes of the policy reform agenda, and fiscal policy slippage amid tight fiscal space.

Key conditions and challenges

Colombia's solid macroeconomic institutional setting, grounded on a rules-based fiscal framework, a flexible exchange rate, and a modern inflation-targeting regime, has been the cornerstone of its macroeconomic stability. Yet, the pace of economic growth has been slowing. Productivity has not contributed significantly to GDP growth for decades, and despite joining numerous trade agreements, Colombia has not been able to diversify and expand its exports. Large infrastructure gaps, poor education outcomes, and institutional shortcomings further hamper the country's potential.

Colombia is a country of large social and territorial inequalities. To reduce poverty and promote prosperity across the country, it's crucial to increase productivity and reinvent regional convergence, improve the social security system, create more efficient and inclusive labor markets, and strengthen the intergovernmental fiscal transfer system to enhance the accessibility to and quality of public services across the country.

Colombia is also particularly vulnerable to the effects of climate change. On the one hand, climate shocks affect livelihoods and assets across the territory, undermining welfare improvements. On the other, Colombia is exposed to the reduction in fossil fuel demand as the world decarbonizes. Reaching the country's ambitious

climate targets could help reduce vulnerabilities and promote a more diversified economic structure in the long run. These multiple challenges would need to be addressed in a fiscally responsible way, which remains a key precondition for Colombia to advance its development goals.

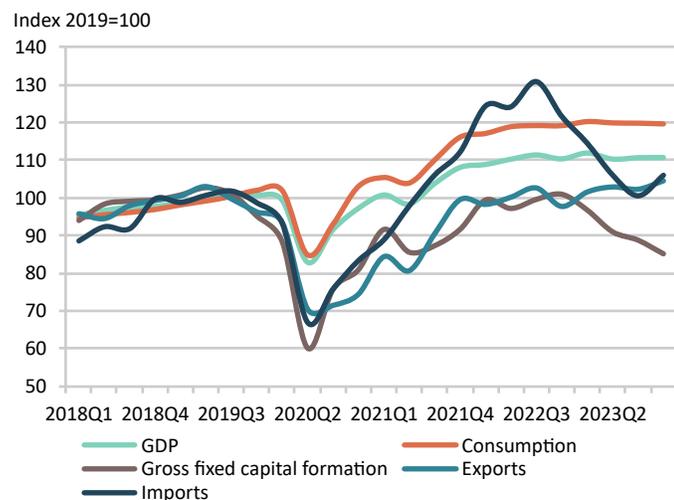
Recent developments

Colombia's overheated economy decelerated sharply in 2023. After growing a cumulative 18.9 percent in 2021-22, GDP expanded 0.6 percent (y-o-y) in 2023. The needed un-winding of stimulus policies and heightened policy uncertainty affected fixed investment, which fell 8.9 percent (y-o-y). Private consumption moderated but remained resilient. On the supply side, construction, commerce, and manufacturing had negative contributions to economic growth, which translated in job losses in these sectors. Unemployment remained constant at around 10 percent in 2023.

After a 2021-22 recovery, labor markets showed limited improvements in 2023, mainly in larger cities, but not reaching youth, women, and rural areas. Also, the emergency social program Ingreso Solidario was no longer active in 2023. The poverty rate is estimated to have remained stagnant in 2023 (\$6.85/day). Labor outcomes and poverty rates continue to show wide variations across the territory and socioeconomic groups.

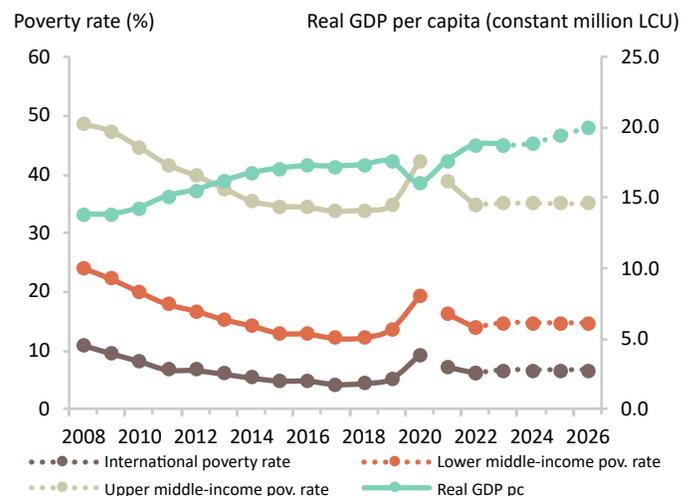
The deceleration of economic activity also helped narrow the current account deficit, from 6.2 to 2.7 percent of GDP between

FIGURE 1 Colombia / Indices of real GDP and its components



Sources: DANE and World Bank staff calculations.

FIGURE 2 Colombia / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: see Table 2.

2022 and 2023, as the good performance of exports contrasted with a collapse of imports, affected by weak consumption and the fall in investment. Primary payments also fell, and remittance inflows reached an all-time high, mitigating pressures on the external deficit. FDI inflows increased marked by oil and mining activities, while portfolio investment posted net outflows. Inflation declined from a peak of 13.3 percent (y-o-y) in March 2023 to 8.3 percent in January 2024, easing pressures on households' rising costs of living. The Central Bank kept the monetary policy rate constant through most of 2023 and reduced it cautiously by 25 bps in two consecutive Board meetings, to 12.75 percent in January 2024. Inflation expectations are falling but remain above the 2-4 percent inflation target range for 2024. The Colombian peso reversed losses from 2022, benefiting from high-interest rates, global financial liquidity, and a reduction in policy uncertainty.

The fiscal deficit of the general government fell sharply from 6.5 in 2022 to 2.5 percent of GDP in 2023, thanks to yields from the 2022 tax reform, a reduction in fuel subsidies, low budget execution levels, and extraordinary returns to pension funds. The peso appreciation and fiscal deficit reduction brought the debt-to-GDP ratio down to 60.1 percent. EMBIG spreads

also declined but remain high among its regional peers.

Outlook

The economy is projected to expand 1.3 percent in 2024 and slightly above the 3 percent potential growth rate in the following years until the negative output gap closes. Private consumption, solid export growth, and a steady rise in private investment are expected to support the pick-up, as inflation and interest rates recede, and policy uncertainty abates. The current account deficit is projected to expand marginally in 2024, as economic activity accelerates and imports rebound, and to stabilize at 3 percent of GDP by 2026, with solid exports—especially in services— and moderate growth in imports and primary payments.

The fiscal deficit of the general government is projected to increase to 3.5 percent of GDP due to the unwinding of cyclical factors that contributed to the large drop in 2023 and higher expenditure at the central level. The government committed to complying with the structural fiscal rule. In the face of uncertain revenues, adjustments to meet targets could come through low execution. The fiscal deficit is expected to narrow going forward, through the continued

reduction in fuel subsidies and lower capital expenditures.

Amid moderate economic growth in 2024, limited progress is expected in poverty reduction. Moreover, while inflation declined, higher prices are still impacting real incomes and food security, and climate shocks may affect households, particularly in regions like Caribe and Pacifico. Promoting more dynamic labor markets and adjusting the social protection system, for example, by expanding coverage and adaptiveness to shocks, would help build resilience.

Risks to the economic growth outlook include higher or more persistent inflation, exacerbated by the effects of El Niño on food and utility prices, or by continued currency volatility from tighter external financial conditions or domestic developments. Rising violence could undermine stability and growth. Uncertainty around the reform agenda could also increase fiscal pressures and lead to delays in private-sector investment. This is mitigated by the fact that the government has reiterated its commitment to the fiscal rule, complied with since its inception in 2011, including by the current administration. Finally, the impact of climate change on GDP growth, external and fiscal sustainability, and the most vulnerable is a continuous source of concern, as Colombia is very exposed to physical and transition risks.

TABLE 2 Colombia / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2021	2022	2023e	2024f	2025f	2026f
Real GDP growth, at constant market prices	10.8	7.3	0.6	1.3	3.2	3.1
Private consumption	14.7	10.7	1.1	0.6	2.7	2.5
Government consumption	9.8	0.8	0.9	0.6	0.8	0.8
Gross fixed capital investment	16.7	11.5	-8.9	1.0	5.5	5.2
Exports, goods and services	14.6	12.3	3.1	3.2	5.2	5.5
Imports, goods and services	26.7	23.6	-14.7	9.5	2.9	3.0
Real GDP growth, at constant factor prices	10.3	6.4	0.6	1.3	3.2	3.1
Agriculture	4.4	-0.8	1.8	3.1	3.5	3.4
Industry	8.1	6.9	-1.9	1.6	3.3	3.0
Services	11.9	7.0	1.5	1.0	3.2	3.1
Inflation (consumer price index)	3.5	10.2	11.7	6.4	3.8	2.8
Current account balance (% of GDP)	-5.6	-6.2	-2.7	-3.1	-3.0	-3.0
Fiscal balance (% of GDP)	-7.1	-6.5	-2.5	-3.5	-3.0	-3.0
Revenues (% of GDP)	26.6	27.6	31.8	30.1	29.5	28.9
Debt (% of GDP)	65.7	64.6	60.1	60.4	59.3	58.7
Primary balance (% of GDP)	-3.7	-2.1	1.4	0.9	1.1	0.9
International poverty rate (\$2.15 in 2017 PPP)^{a,b}	7.3	6.0	6.7	6.7	6.7	6.7
Lower middle-income poverty rate (\$3.65 in 2017 PPP)^{a,b}	16.4	14.0	14.8	14.7	14.7	14.7
Upper middle-income poverty rate (\$6.85 in 2017 PPP)^{a,b}	38.8	34.8	35.1	35.1	35.1	35.0
GHG emissions growth (mtCO₂e)	-0.5	-0.9	-0.9	-0.6	-0.1	-0.1
Energy related GHG emissions (% of total)	24.5	23.0	22.8	22.7	22.5	22.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.

Notes: e = estimate, f = forecast.

a/ Calculations based on SEDLAC harmonization, using 2022-GEIH. Actual data: 2022. Nowcast: 2023. Forecasts are from 2024 to 2026.

b/ Projections using microsimulation methodology.