

COLOMBIA

Table 1 **2021**

Population, million	51.0
GDP, current US\$ billion	314.3
GDP per capita, current US\$	6155.9
International poverty rate (\$2.15) ^a	10.8
Lower middle-income poverty rate (\$3.65) ^a	21.1
Upper middle-income poverty rate (\$6.85) ^a	44.2
Gini index ^a	54.2
School enrollment, primary (% gross) ^b	112.7
Life expectancy at birth, years ^b	77.5
Total GHG emissions (mtCO2e)	284.6

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2020), 2017 PPPs.
b/ Most recent WDI value (2020).

GDP grew 10.6 percent in the first half of 2022 and is projected to grow 7.1 percent in 2022, helping improve fiscal balances. Signs of overheating emerged, growth is expected to slow down and inflation to remain high in 2023. Key risks stem from higher-than-expected inflation, adverse changes in international financial market conditions, and high-for-long current account deficit. A decline in the poverty rate is projected to be slowed by a rising cost of living.

Key conditions and challenges

The economy has been growing vibrantly since 2021, and the macroeconomic policy framework remains strong, with an up-graded fiscal rule, a credible inflation targeting regime, and a flexible exchange rate. This provides a good foundation to resolve structural vulnerabilities.

First, the rate of potential growth is insufficient to secure a convergence in income per capita in high-income countries. Low capabilities of firms, institutional shortcomings, and inefficient markets for land, capital, and labor weigh on productivity. Low trade openness and reliance on commodity exports leave the economy vulnerable to external shocks.

Second, Colombia remains one of the most unequal countries in the world. While the 2021 economic rebound and the continuation of emergency transfers have helped reduce poverty, high inflation is undermining progress, and the recovery is not reaching all groups. Abating poverty durably and increasing resilience among the non-poor will require expanding the coverage of the social security system, reducing rigidities in automatic inclusion to social programs, making labor markets more efficient and inclusive, and improving the level and quality of education, health, and infrastructure.

Third, a still high (although declining) debt-to-GDP ratio reduces the space to safely increase spending. Reducing the

debt-to-GDP ratio is a medium-term priority, even if this means reducing the deficit faster than the fiscal rule stipulates.

Finally, Colombia needs to prepare itself to confront climate change. This will require stepping up productivity and adoption of technology, reducing reliance on oil and coal, reverting deforestation, and greening the energy, infrastructure, and transport sectors.

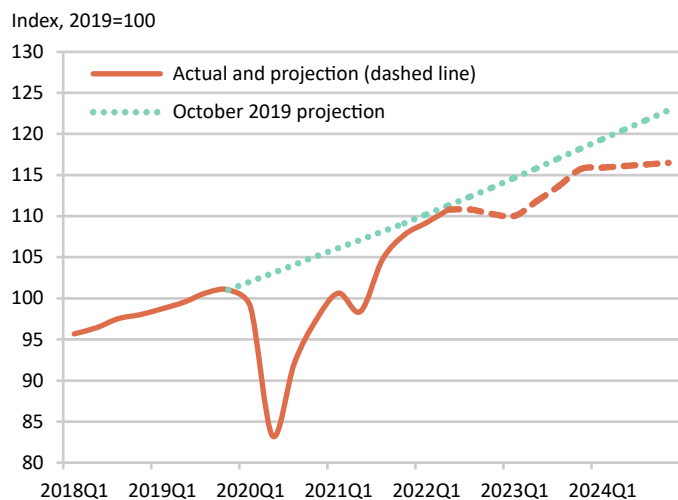
The tax reform sent to Congress in August tackles some of these issues: it raises revenue, increases the progressivity of the personal income tax, eliminates inefficient corporate tax benefits, increases carbon taxes, and introduces new health taxes. However, tax rates remain high for firms, expensive and regressive VAT exclusions and exemptions deprive the state of resources, and taxation and prices of carbon emissions remain low.

Recent developments

Supported by consumption, GDP grew 10.6 percent in H1 of 2022 (y-o-y), pushing GDP above the estimated potential. Commerce and manufacturing have been the most vibrant sectors, while mining and oil remained subdued, despite the increase in commodity prices.

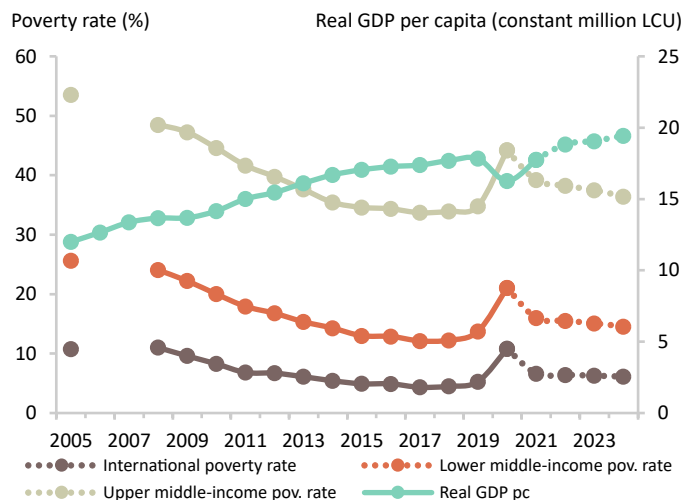
The labor market continued to recover. Unemployment declined and participation rates increased in Q2-2022 (y-to-y), but female unemployment remains 1.5 times higher than that of men. Buoyed by the economic recovery, real labor incomes have increased by about 15 percent for

FIGURE 1 Colombia / Real GDP, Actual and projection vs. October 2019 projection



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.

formal and informal jobs in Q2-2022 (y-to-y). The increase benefitted the lower-skilled (9 percent), but higher-skilled workers have seen a stronger recovery (18 percent).

Strong domestic demand, the depreciation of the Colombian peso, indexation of wages and regulated prices, and price pressures from abroad pushed inflation to 10.2 percent, y-o-y, in August 2022. With end-year inflation expectations hovering around 6 percent, the Central Bank increased the monetary policy rate to 9 percent. To contain the pass-through of international prices, the government exempted selected agricultural products from import tariffs.

The current account deficit declined to 3 percent of annual GDP in June 2022, more slowly than anticipated. The volume of oil and coal exports has been lower and imports and distribution of dividends stronger than expected, partly offsetting record inflows of remittances and positive terms of trade shock. FDI and net portfolio inflows financed the current account deficit.

The central government's deficit declined to an estimated 2 percent of annual GDP in June, supported by buoyant taxes and oil revenues. The nominal increase in GDP and a reduction of the deficit helped decrease the debt-to-GDP ratio, offsetting the upward pressure from the currency depreciation.

With some 1.4 million people exiting poverty in 2021, the national poverty rate dropped to 39.3 percent, still above pre-pandemic levels. The middle class also rebounded, and income inequality declined. Nonetheless, 2.1 million of those who had fallen into poverty in 2020 are estimated to have remained poor in 2021. Moreover, the decline in poverty was uneven and did not reach afro-Colombians and indigenous people. Venezuelan migrants and victims of conflict saw an improvement but from a dire pre-pandemic poverty situation.

Outlook

The economy is projected to decelerate in the second half of 2022, setting annual growth at 7.1 percent, as the bout of repressed consumption comes to an end, monetary policy continues tightening, and external demand remains subdued. The economy is projected to grow 2.1 percent in 2023, supported by a recovery of private investment in the second half of the year.

With a slowdown in import growth, the current account deficit is projected to decrease in 2022 and over the medium term, but to remain high. FDI flows and borrowing are projected to provide financing.

The central government's fiscal deficit is projected to decline slightly faster than

the limits set by the fiscal rule, as the effects of the fiscal reforms approved in September 2021 and presented in August 2022 kick in. The decline of the deficit at the subnational level would help reduce the general government deficit. The debt-to-GDP ratio is projected to keep declining over the medium term.

Poverty is expected to decline in 2022, as economic recovery improves incomes. However, inflation (particularly food inflation) is estimated to offset close to 5 percentage points of growth-led poverty reduction, mostly affecting those in rural areas and the extremely poor. Moreover, while food security had improved from mid- to end-2021, high food inflation has heightened concerns over food insecurity.

The profile of medium-term risk is tilted to the downside. Risks include: high domestic inflation inertia (with high-for-long interest rates) and/or higher international food and fuel inflation (disproportionately affecting the poor); tightening of financing conditions abroad (with increased capital mobility and depreciating pressure on the exchange rate); and high-for-long current account deficits, especially if commodity prices decline. The materialization of these risks could slow down growth, push the public debt-to-GDP ratio upward, and force an aggressive contraction of government spending, diminishing prospects for reducing poverty and inequality.

TABLE 2 Colombia / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	3.2	-7.0	10.7	7.1	2.1	2.8
Private Consumption	4.1	-5.0	14.8	8.8	1.9	2.8
Government Consumption	5.3	-0.6	10.3	3.9	2.4	1.5
Gross Fixed Capital Investment	2.2	-23.3	11.2	12.5	4.5	4.1
Exports, Goods and Services	3.1	-22.7	14.8	15.7	5.9	4.6
Imports, Goods and Services	7.3	-20.5	28.7	18.3	4.4	3.7
Real GDP growth, at constant factor prices	3.1	-7.1	10.4	7.1	2.1	2.8
Agriculture	2.7	2.0	3.1	0.1	6.2	5.6
Industry	0.2	-14.2	9.7	8.2	2.0	2.2
Services	4.4	-4.9	11.5	7.4	1.8	2.7
Inflation (Consumer Price Index)	3.5	2.5	3.5	9.9	8.3	4.9
Current Account Balance (% of GDP)	-4.6	-3.5	-5.6	-5.4	-5.0	-4.7
Fiscal Balance (% of GDP)	-2.6	-7.2	-7.1	-6.5	-4.3	-3.0
Debt (% of GDP)	52.3	67.2	66.6	65.2	63.6	62.4
Primary Balance (% of GDP)	0.4	-4.3	-3.7	-2.7	-0.6	0.5
International poverty rate (\$2.15 in 2017 PPP)^{a,b}	5.3	10.8	6.6	6.4	6.3	6.1
Lower middle-income poverty rate (\$3.65 in 2017 PPP)^{a,b}	13.7	21.1	16.0	15.5	15.1	14.5
Upper middle-income poverty rate (\$6.85 in 2017 PPP)^{a,b}	34.8	44.2	39.2	38.2	37.5	36.4
GHG emissions growth (mtCO₂e)	1.9	2.5	2.6	1.2	-1.3	-2.1
Energy related GHG emissions (% of total)	28.5	28.2	28.9	29.1	29.2	29.2

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

Notes: e = estimate, f = forecast. Poverty lines are expressed in 2017 PPP, resulting in changes from earlier editions that used 2011 PPP. See pip.worldbank.org.

a/ Calculations based on SEDLAC harmonization, using 2020-GEIH. Actual data: 2020. Nowcast: 2021. Forecasts are from 2022 to 2024.

b/ Projections using microsimulation methodology.