Colombia

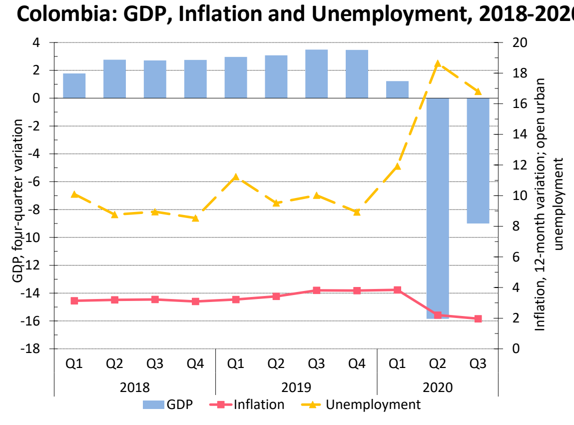
The dire impacts of the coronavirus disease (COVID-19) on growth and employment began to recede in the second half of 2020 as physical distancing measures were gradually relaxed. The economy declined at a year-on-year rate of 9.0% in the third quarter of 2020, attenuated by the quicker pace of economic activity since September. Branches of the economy with fewer operational restrictions, such as agriculture, real estate and financial activities, performed best, while commerce, construction and mining declined most. Domestic demand began recovering as of April thanks to an uptick in household consumption and a steady boost from public consumption, while investment contracted sharply before trending up in the second half of the year. Annual inflation to November 2020 stood at 1.49% and is expected to reach 1.9% at the end of 2020, below the central bank's target of 3%. The ample liquidity provided by the central bank (Banco de la República) and fiscal measures to support vulnerable households and businesses softened the impact of the drop in economic activity. Labour market outcomes for October confirm a trend toward recovery, with an unemployment rate of 15.7%. The consolidation of that trend in the fourth quarter means that GDP is projected to decline by 7.0% in 2020 and to recover, with 5% growth, in 2021.

Fiscal policy in 2020 was geared to mitigating the consequences of the pandemic by expanding public spending. The central government deficit is set to increase from 2.5% of GDP in 2019 to 8.9% of GDP in 2020, owing to a marked drop in tax revenue. The projected decline in economic activity in 2020 is likely to reduce receipts from value added tax on durable and semi-durable goods as well as from consumption taxes on restaurants and bars and vehicle sales: the sectors with the steepest drops in sales. Government expenditure has increased across the board, especially to cover the extraordinary expenses, equivalent to 2.5% of GDP, associated with the economic emergency decreed in order to combat the pandemic. The cyclical adjustment mechanisms permitted under fiscal regulations proved to be insufficient, so the government suspended the fiscal rules in 2020 and 2021, with the unanimous approval of the consultative committee.

The finances of public sector entities in the decentralized sector have also deteriorated. They are expected to show a deficit equivalent to 1.2% of GDP in 2020, after achieving balanced budgets in 2019, owing to the increase in the deficit of regional and local governments, which saw their tax revenue plummet with the drop in economic activity, and to the decline in the income of national and local state-owned enterprises.

The total deficit of the non-financial public sector is projected to increase by 7 percentage points in 2020, as a result of the lower revenue caused by the recession and increased public sector outlays to contain the effects of the measures to address the health emergency and bolster expenditure on health.

Colombia: GDP, Inflation and Unemployment, 2018-2020



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

The government debt as a percentage of GDP is projected to increase by 15 points between 2019 and 2020 to 66% and all three risk-rating agencies maintained Colombia's investment grade status. Standard and Poor's and Fitch Ratings confirmed their BBB- rating of Colombia's debt. Moody's kept its Baa2 rating, one rank above investment grade, and changed its outlook from stable to negative.

The monetary authorities put an immediate response framework in place to deal with the pandemic. The monetary policy rate was reduced seven times, from 4.25% in March to 1.75% in September. All available tools were used to provide the liquidity needed to enable the payments system to function smoothly and to support the supply of credit by financial institutions. The central bank also intervened directly, with a view to stabilizing public and private debt financial markets, and bought treasury certificates (TES) and term deposit certificates. The reserve requirement for banks was also lowered in order to provide the financial sector with greater liquidity on a permanent basis and dollar swaps were offered to increase foreign currency liquidity.

Colombia: main economic indicators, 2018-2020

	2018	2019	2020 [a]
	Annual growth rate		
Gross domestic product	2.5	3.3	-7.0
Per capita gross domestic product	1.0	1.9	-8.0
Consumer prices	3.1	3.8	2.0 [b]
Real average wage [c]	1.1	0.8	-6.5 [b]
Money (M1)	6.7	11.1	24.4 [b]
Real effective exchange rate [d]	-1.7	5.3	-2.4 [b]
Terms of trade	9.3	-1.4	-17.7
	Annual average percentage		
Open unemployment rate [e]	9.1	9.9	15.8 [b]
Central government			
Overall balance / GDP	-3.1	-2.5	...
Nominal deposit rate [f]	4.7	4.5	3.8 [b]
Nominal lending rate [g]	12.1	11.8	10.1 [b]
	Millions of dollars		
Exports of goods and services	54 092	52 345	19 381 [h]
Imports of goods and services	63 089	64 698	24 750 [h]
Current account balance	-13 118	-13 748	-4 240 [h]
Capital and financial balance [i]	14 305	17 081	6 659 [h]
Overall balance	1 187	3 333	2 419 [h]

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
a/ Estimates.
b/ Figures as of September.
c/ Manufacturing.
d/ A negative rate indicates an appreciation of the currency in real terms. Refers to the global real effective exchange rate.
e/ Open unemployment rate includes an adjustment for workforce figures due to exclusion of hidden unemployment.
f/ 90-day fixed-term certificates of deposit, weighted average.
g/ Weighted average of consumer, prime, ordinary and treasury lending rates for the working days of the month.
h/ Total lending rate of the system.
i/ Includes errors and omissions.

This expansionary monetary policy, together with the countercyclical fiscal policy, translated into lower interest rates, which encouraged the growth of loan portfolios. By November 2020, the average annual rate of growth of the total portfolio was 4.7%. The commercial and mortgage loan portfolios increased most, by 6.6% and 5.4%, respectively, while the annual increases in consumer loan (3.6%) and microcredit (1.6%) portfolios were below the average.

Risk indicators for the total loan portfolios diminished, owing to the longer terms granted debtors to meet their obligations between April and July 2020. As a consequence, loan portfolio risk indicators showed reductions through July. Subsequently, as lockdowns were extended in the second half of the year, additional measures were taken to enable borrowers to restructure the terms of their loans. Lending institutions have increased provisions against credit loss risks caused by the economic downturn and thus have adequate liquidity and solvency ratios.

The nominal exchange rate continued to depreciate in 2020 as oil prices dropped as a result of a disproportionately high increase in supply combined with the global fall in demand induced by the decline in economic activity all over the world. In October, year-on-year depreciation of the Colombian peso reached 14% in nominal (and 10% in real) terms, in spite of central bank measures to ensure foreign exchange coverage and liquidity in dollars and thereby stabilize both those markets.

Colombia's trade deficit for January to August 2020 fell year-on-year by 10.0% for the first time since 2014, as a result of a major drop in import values (-21.3%), which exceeded the decline in export values (-24.3%). The downturn in global economic activity and its impact on income, and associated changes in households' consumption patterns, explain the fall in external purchases of manufactured goods (-15.9 percentage points) and fuels (-4.8 percentage points). For their part, exports of oil and coal posted a notable decline in US dollar value terms, owing to declines in both volumes exported and prices, while sales to other countries of agricultural and livestock products posted a 2.8% year-on-year increase in October. The higher price of coffee in international markets and the notable increase in the volume harvested in the second half of 2020 augur well for a more robust positioning of this item in Colombian exports at the end of the year.

Remittances held up during the pandemic. Between January and September 2020, they were worth approximately US$4.964 billion dollars, 0.5% less than in the same period in 2019. Foreign direct investment, on the other hand, fell by 36.1% year-on-year between January and June 2020, mainly owing to the 44.3% contraction in the oil and mining sector. Despite its overall decline, the share of FDI increased in community services, and electricity, gas, and water. The net value of FDI in 2020 is estimated as 2.6% of GDP in 2020, compared to 3.5% of GDP in 2019.

The third quarter year-on-year drop in GDP was 9.0%, which, when compared to the 15.8% year-on-year drop posted in the second quarter, suggests the start of a recovery. The branch accounting for more than 40% of that (third-quarter) year-on-year change was commerce, which declined by 20.1%, as a result of a combination of activities hard hit by the pandemic. They include sharp declines in accommodation and food services (-45.8%) and different types of transportation and storage (-27.6%), the drop in wholesale and retail trade and in vehicle and motorbike repairs (-3.7%), while mail and messaging services expanded (13.8%). Construction also declined sharply (-26.2%), in both buildings (27.2%) and civil works (-24.7%). Weak global demand explains the drop in sales of coal (-44.1%) and oil (-15.1%), triggering the 19.1% decline in the mining sector. Manufacturing industry also contracted (by 7.2%), much less than in the second quarter. The agricultural and livestock sector, in contrast, exhibited a certain amount of resilience and grew by 1.5% on a year-on-year basis in the third quarter. On the other hand, household consumption, weakened by declining income, fell by 8.9%: less than in the previous quarter. Government consumption grew by 2%, while investment dropped 18.3%, despite efforts to boost public investment. External demand remains weak, as exports decreased (-24%) more than imports (-21%).

The sharp drop in demand as a result of the pandemic, along with some policies to address it, helped reduce inflation to less than the target set by the authorities. Essential goods were exempted from lockdown restrictions and those imported benefited from lower tariffs, easing pressure on the prices of those goods in 2020. In November, the consumer price index (CPI) was up by 1.49% compared to the same month in 2019.

The structural weakness of the Colombian labour market was exacerbated by the pandemic in 2020. The national unemployment rate increased by 5.4 percentage points in the three-month period between August and October and stood at 15.7% with an even higher rate for Colombia's 13 principal cities of 18.2%, 7.5 percentage points more than in the same period in 2019. In that quarter, the unemployment rate for women was 20.8%, 8.7 percentage points more than the rate for men. The pandemic exacerbated the structural problems of an informal labour market currently being analysed by Misión de Empleo, a body commissioned by the government to propose feasible strategies and policy instruments to improve labour market performance.