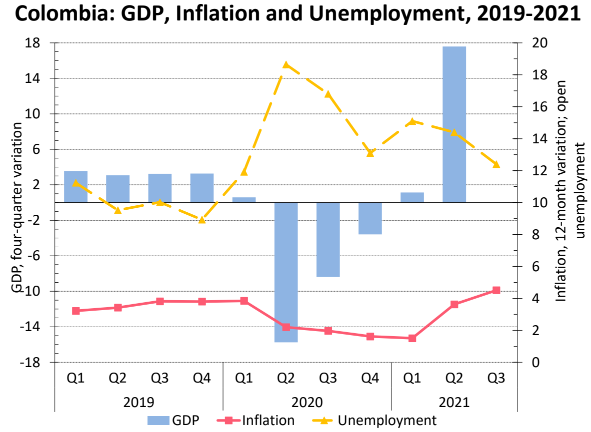
Colombia

The recovery of economic activity in the second half of 2021, driven by sustained household consumption and a rebound in investment, was more dynamic than expected. At the close of the third quarter, GDP recorded an annual growth rate of over 13%, fuelled by the gradual lifting of travel restrictions and the normalization of economic activity in the second half of the year made possible by sustained progress with coronavirus disease (COVID-19) vaccination programmes. Commerce, industry, health care and social services led this growth; labour market indicators also improved, although they still fall short of pre-pandemic levels. Exports grew more slowly than imports, which deepened the external deficit. On the fiscal front, the public accounts deficit reached an unprecedented level and public debt increased despite the higher revenues approved by the Social Investment Act. Inflation rebounded and moved away from the target and, in the fourth quarter, the authorities began to increase the monetary policy rate. It is projected that 2021 will close with annual GDP growth of 9.5%; this contrasts with the forecast for 2022, which foresees that the growth rate will slow down to an estimated 3.7%.

Currently, the main economic policy challenge for Colombia is a more rapid balancing of public accounts, after Standard and Poor’s and Fitch Ratings downgraded the country’s investment grade in 2021. After the failure of the initial tax reform initiative, which triggered unprecedented social unrest, the new economic team reached a consensus to approve the Social Investment Act in the second half of the year, which secured the resources needed to extend government support to the most underprivileged families and to enable business owners to protect formal jobs. This reform also approved the new fiscal regulations, which will be reactivated in 2022 after a two-year suspension. Among other improvements, the new fiscal regulations establish a legal ceiling (71%) and an anchor (55%) for net debt, which guide the setting of fiscal targets and serve as a reference for assessing the sustainability of debt levels. The Social Investment Act also created the Autonomous Fiscal Regulations Committee (CARF), composed of a group of technicians who work independently of the government to monitor compliance with the regulations and ensure fiscal sustainability. Moody’s maintained its rating at Baa2, one notch above investment grade, and changed its outlook from negative to stable, based on the government’s track record of sound macroeconomic management and the fiscal measures approved in the Social Investment Act.

With economic activity more dynamic than expected, the central government fiscal deficit reached 7.6% of GDP, one point below the level forecast for mid-2021 in the Medium-Term Fiscal Framework (MFMP). Tax receipts that were higher than predicted reduced the forecast net public debt by nearly 3 points, with which it is expected to close 2021 at a level equal to 62.1% of GDP. The budget approved for 2022 maintains substantial growth in investment spending for the second consecutive year, in order to maintain social programmes for vulnerable populations and ensure the continuity of the reactivation policy. In

Colombia: GDP, Inflation and Unemployment, 2019-2021



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

contrast, operating expenses will increase by less than inflation as part of an austerity strategy, in keeping with the MFMP.

A rising inflation rate of 5.6% at the end of 2021 was the highest in the last five years. The monetary authority decided to begin the gradual withdrawal of monetary stimulus in September through successive increases in the policy rate of 25 basis points that month, 50 points in October and an additional 50 points in December. These increases brought the monetary policy rate up to 3.0%. Credit grew gradually, although still more slowly than economic activity. In November 2021, the average annual growth of the total loans portfolio was 8.3%. The highest growth rates were recorded in the mortgage (12.8%), consumer (11.4%) and microcredit (8.6%) segments. Although there was an increase in the commercial portfolio (4.8%), it was below the sector average.

Colombia: main economic indicators, 2019-2021

	2019	2020	2021 [a]
	Annual growth rate		
Gross domestic product	3.3	-6.8	9.5
Per capita gross domestic product	1.9	-7.8	8.7
Consumer prices	3.8	1.6	4.5 [b]
Real average wage [c]	0.8	-4.9	7.2 [b]
Money (M1)	11.1	24.8	19.6 [d]
Real effective exchange rate [e]	5.3	9.5	3.0 [b]
Terms of trade	-1.4	-15.4	16.1
	Annual average percentage		
Open unemployment rate [f]	9.9	15.1	14.0 [b]
Central government			
Overall balance / GDP	-2.5	-7.8	...
Nominal deposit rate [g]	4.5	3.4	1.9 [b]
Nominal lending rate [h]	11.8	9.9	9.1 [b]
	Millions of dollars		
Exports of goods and services	51 324	38 056	47 340
Imports of goods and services	65 660	51 427	63 903
Current account balance	-14 991	-9 927	-13 292
Capital and financial balance [i]	18 324	14 255	...
Overall balance	3 333	4 328	...

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/ Figures as of August.
e/ A negative rate indicates an appreciation of the currency in real terms. Refers to the global real effective exchange rate.
f/ Open unemployment rate includes an adjustment for workforce figures due to exclusion of hidden unemployment.
g/ 90-day fixed-term certificates of deposit, weighted average.
h/ Weighted average of consumer, prime, ordinary and treasury lending rates for the working days of the month.
i/ Includes errors and omissions.

In 2021, the peso continued to depreciate against the dollar, accruing to drops of 11.1% in nominal terms and 4.5% in real terms at the end of November. In December, the price of the dollar exceeded 4,000 pesos. In addition to international factors, including higher inflation and expectations of an interest rate hike by the United States Federal Reserve, the peso's pronounced devaluation is tied in with the country's rising external and fiscal deficits. The depreciation is expected to continue during the first months of 2022 due to the political uncertainty surrounding the presidential election.

The country's current account deficit widened: in the year to September 2021 it was equal to 5.5% of GDP, an increase of more than 2 points of GDP over the level recorded at the end of the previous year. This higher external deficit was the result of negative balances in trade in goods and services, as well as in factor income, but was partially offset by a surplus in transfers.

As regards the trade balance, comparing January and September 2021 with the corresponding period the previous year, the dollar value of imports rose by 35%, on the back of increases in external purchases of intermediate (45.4%), capital (31.0%) and consumer goods (21.5%). Exports also increased during this period, albeit at a slower rate (25%); this was on account of rising overseas sales of oil and petroleum products (27.1%), manufactured goods (29.9%), particularly machinery and electrical appliances, and agricultural produce (18.8%), notably vegetables and fruits in addition to coffee and cocoa. The widening of the current account imbalance arose from the greater dynamism of imports following the rebound in consumption and investment, although this was partially offset by lower export growth. The factor income balance also worsened as a result of outflows as companies with foreign capital recovered and generated more profits, in some cases on account of higher oil prices. The balance of transfers was the only current account item with a surplus; this was because of the increase in worker remittances, which totalled US$ 6.3 billion between January and September 2021, up 25.9% over the corresponding period the previous year. Remittances from the United States accounted for 54% of the total.

The balance of payments financial account shows that foreign direct investment (FDI) remained the main source of funding for the external deficit in 2021, reaching a total of US$ 7.16 billion between January and September. Over the same period, portfolio investment and external loans contributed net amounts of US$ 5.811 billion and US$ 6.886 billion, respectively, to finance the current account deficit.

GDP growth of 13.2% in the third quarter of 2021 confirmed the vigorous recovery despite the impact of the social protests, which intensified in April and May, and the third wave of COVID-19, which started in March and did not begin to decline until the end of June. The progress with vaccination drives, the government programmes for dealing with the pandemic and the economic reactivation strategy —strengthened following the approval of the Social Investment Act— contributed to the economic rebound, which exceeded analysts' expectations and allowed the economy to reach pre-pandemic levels of activity in July. Accumulated growth up to September was 10.3%, and although all sectors, with the exception of mining and quarrying, recorded positive results, three stand out in particular: (i) wholesale and retail trade (vehicle repair, transport and storage, hospitality services) (21.8%), which contributed 3.8 percentage points to the annual variation, (ii) manufacturing industry (18.4%), which contributed 2.2 percentage points, and (iii) public administration (social security, education, health care and social services) (7.0%), with a contribution of 1.2 percentage points. The different components of spending also posted large positive variations in the first nine months of the year: final consumption (14.3%), led by the dynamism of household and public consumption; gross capital formation (10.3%), particularly its housing and machinery and equipment components; and exports (8.8%) and imports (26%).

Supply chain disruptions and rising raw material prices and shipping costs, in conjunction with various domestic factors, led to sustained price increases during 2021. The protests that took place in April and May, especially the blockades installed at some supply points, the increase in agricultural raw material prices due to restricted domestic supplies, the prolonged rainy season and the elimination of some of the price subsidies introduced during the pandemic explain the upturn in inflation, which hit 5.6% at the end of the year.

The rise in inflation expectations during 2021, the increased levels of indexation and the potential effects of an increase in the legal minimum wage of more than 10% in 2022 support an inflation forecast of 3.7% for that year, above the 3.0% target.

The dynamism of domestic demand, together with the measures adopted to reactivate the economy and to provide support for companies, allowed for a partial recovery in employment. The national unemployment rate in October 2021 was 11.8%, the lowest since the onset of the pandemic. In absolute terms, 854,000 jobs were recovered in the 12 months to October 2021. The sectors that contributed most to this result were professional, scientific, technical and administrative services, manufacturing industry, and accommodation and services, with totals of 212,000, 137,000 and 113,000 reinstated jobs, respectively. The 13 largest cities contributed with a gradual increase in formal employment, while own-account employment is rising in mid-range municipalities and rural areas. To return to pre-pandemic levels, 685,000 jobs are still needed. The unemployment rate among women (15.9%) remains higher than among men (8.7%); this can be attributed to the greater number of women who withdrew from the labour market to devote themselves to care work, the volume of which increased on account of the pandemic.