

## COLOMBIA

### 1. General trends

Colombia's GDP expanded by 10.7% in 2021, and economic activity continued to grow at a vigorous pace over the first half of 2022, owing to government measures to promote an economic recovery, an ample supply of credit, favourable terms of trade and increased remittances, boosting growth in domestic demand. Growth in trade, manufacturing and public administration accounted for almost 70% of value added in 2021. In the second quarter of 2022, the economy grew by 12.6% compared to the prior-year quarter. Measures to curb inflation are expected to dampen growth in the economy in the second half of 2022, with projected annual expansion of 6.5%. In 2023, as a result of weaker global growth, the economy is expected to expand by less than 3.0%.

In 2021, the annual rate of inflation was the highest in five years, hitting 5.62% at year end, above the central bank's inflation target, mainly owing to sharp rises in food prices. The 12-month rise in prices to July 2022 was 10.21%, as a result of international factors, compounded by the Russian Federation's invasion of Ukraine, and domestic factors linked to supply and demand.

Fiscal policy focused on counteracting the effects of the pandemic and charting a new course to stronger public finances. The central government's large fiscal deficit narrowed by 0.7 percentage points in 2021, closing at 7.1% of GDP as a result of the Social Investment Law, passed in September, which increased revenues and established a commitment to a strict fiscal rule to simultaneously reduce the deficit and public debt.

In September 2021, the central bank began a process of monetary policy normalization through successive hikes in the benchmark rate. At the end of 2021, the monetary policy interest rate stood at 3.0%. The bank has accelerated the tightening of monetary policy, resulting in a benchmark rate of 9.0% on 30 July 2022.

The strong recovery widened the trade deficit to 5.7% of GDP in 2021, mainly owing to a deficit on the goods side. The trade deficit was mainly financed through foreign direct investment (FDI) flows and remittances. In the first half of 2022, the rapid growth in imports outpaced the rise in exports, leading to a widening of the trade deficit. This trend is expected to slow towards the end of 2022.

For the first time in Colombia, the newly elected government for the 2022–2026 term is a coalition of left-wing parties and movements. The government programme, which should become a development plan within six months, proposed structural reforms to cement the peace process and gradually replace extractive activities with sustainable services, agriculture and industry, to close gaps and accelerate the productive transformation.

### 2. Economic policy

#### (a) Fiscal policy

Colombia's fiscal deficit is structural, and the country has employed various instruments to gradually reduce it. The pandemic magnified the imbalance between central government revenues and

expenditure, resulting in a deficit for 2020 of 7.8% of GDP. The economic recovery and various reforms, especially the Social Investment Law of 2021, have put the country on a vital path to correcting imbalances in public finances. A number of factors are still driving the imbalance in central government finances, including fuel subsidies, which are set to be adjusted based on the transitional and structural measures for 2022 set out in the Medium-Term Fiscal Framework.

In 2021, a gradual fiscal adjustment equivalent to 0.7 percentage points of GDP was implemented, reducing the central government fiscal deficit from 7.8% of GDP in 2020 to 7.1% in 2021, through higher tax revenues. Total revenues rose by 1.0 percentage point of GDP owing to the economic recovery and beneficial management by the National Directorate of Taxes and Customs (DIAN), more than offsetting the 0.3 percentage point increase in total spending.

The surpluses of regional and local governments and in social security slightly offset the central government deficit in 2021. Regional and local governments recorded an overall surplus of 0.3% of GDP, mainly because of a healthy surplus from the General Royalties System (SGR) and a social security sector surplus of 0.4% of GDP. In addition, improvement in the fiscal balances of state-owned enterprises and the central government led to a narrowing of the total deficit of the non-financial public sector, which was 7.2% for the year.

The Government of Colombia updated its Medium-Term Fiscal Framework in June 2022. The framework projected a fiscal deficit of 5.6% of GDP for 2022 and provides forecasts for its trajectory over the next ten years. Between 2021 and 2022, the fiscal deficit is expected to narrow by 1.5% of GDP and the primary balance deficit by 2.1% of GDP, owing to higher-than-estimated revenues from higher fuel prices and the fuel subsidy only being included in the first quarter of 2022. Public debt-to-GDP is forecast to fall from 60.8% in 2021 to 56.5% in 2022, close to the medium-term target of 55% under the new fiscal rule. By 2023, a fiscal deficit of 3.6% of GDP and a primary balance surplus of 0.1% of GDP are expected, as a result of higher oil revenues and lower public investment (2.2% of GDP). The new administration has submitted a tax reform bill to Congress that would generate the resources needed to implement the government's programme and maintain the reductions in the primary deficit and the central government debt proposed under the fiscal rule, marking the beginning of a process to recover the investment grade rating that was lost last year.

## **(b) Monetary policy**

In the last quarter of 2021, the country's central bank changed its low-interest stance, as reflected in a benchmark rate of 1.75%, to support the recovery of the economy. The upward trend in inflation from the second quarter of 2021 onward marked the start of a gradual withdrawal of monetary stimulus measures. The benchmark rate was raised twice in the last quarter of 2021 and stood at 3.0% at year-end.

The monetary normalization process has picked up pace in 2022, in order to ensure a gradual return to the inflation target. The monetary policy rate was raised by 100 basis points three times in January, April and May, and twice by 150 basis points in June and July, reaching 9.0% at the end of July.

The rise in the benchmark rate passed through to interest rates on deposits, mainly for those with terms of more than one year. Rates for commercial and consumer loans, which account for more than 80% of the credit portfolio, climbed more than the benchmark rate, while mortgage and microcredit rates increased less. By December 2021, the total portfolio in local currency had grown 10.3% year-on-year, driven by the mortgage (14%) and consumer (13%) lending portfolios, with slower growth in microcredit (9%) and commercial lending (8%).

At the end of July 2022, lending was still growing. The total portfolio in local currency had grown by 15.9%, mainly due to an expansion of consumer credit (21.2%), in keeping with the rise in household consumption, and there were rises of close to 15% in other forms of credit. Portfolio quality indicators of risk and non-performing loans have improved, although historically high levels of household debt are a cause for concern.

### **(c) Exchange-rate policy**

In 2021, the Colombian peso depreciated 8.8% in real terms. In the first half of 2021, while restrictions on movement remained in place and vaccination progressed, the dollar strengthened against the peso, especially as a result of the uncertainty created by announcement of a tax reform that was subsequently withdrawn, in a context of energetic social protests that contributed to the country losing its investment grade rating. The higher perceived risk during the first part of the year led to growing demand for dollars in the second half.

To stabilize the foreign-exchange market through intervention mechanisms—namely dollar forward sales and dollar swaps—the central bank increased hedging and liquidity in dollars, without affecting international reserves. These measures and higher oil prices, as well as increased FDI and remittance inflows during 2021, helped to partially contain the trend of depreciation of the peso.

In the first few months of 2022, the Colombian peso appreciated, mainly due to higher oil prices, as well as a significant inflow of foreign currency from the public tenders of Colombian companies Nutresa and Grupo Sura. However, the dollar strengthened as a result of the Russian Federation's invasion of Ukraine and domestic uncertainty stemming from the elections and the new government's policies. By the end of July, the peso had depreciated by 3.18% in real terms in the preceding 12 months.

### **(d) Other policies**

In late April 2022, the country agreed a new Flexible Credit Line with the International Monetary Fund (IMF) for around US\$ 9.8 billion, to replace the credit line approved in 2020, to provide liquidity during periods of high external risk and to strengthen the confidence of economic agents in the country's economy. The resources are therefore solely precautionary in nature.

## **3. The main variables**

### **(a) The external sector**

In 2021, the current account deficit was 5.7% of GDP, compared to 3.4% in the prior year, as a result of a widening of the trade deficit in goods. The larger deficit for goods was a result of increased imports of inputs and capital goods for industry, consumer goods, and fuels and lubricants, driven by a recovery in domestic demand. Exports also grew in dollar value, but less than imports, mainly owing to higher sales of oil and petroleum products, and also sales of industrial products, coal and coffee, as well as a rise in prices of non-traditional exports, offsetting a decline in the volume sold during the year. The three main destination markets for goods exports were the China, Panama and the United States, which accounted for approximately 41% of the total dollar value of exports.

The factor income deficit also contributed to the widening of the external deficit, but less so, owing to larger outflows of resources related to FDI. Oil companies, financial companies, and business service, transportation and communications companies reported the highest earnings.

The increase in net income from current transfers partially offset the current account deficit, owing to growth in remittances from Colombians living abroad (equivalent to 2.7% of annual GDP), especially from those residing in Spain and the United States, which rose by more than 18% annually.

In the financial account, there was an increase in net capital inflows equivalent to 5.3% of annual GDP with respect to 2020, as a result of inflows from FDI, foreign loans and placement of debt securities.

FDI increased by around 25% in 2021, mainly driven by reinvested earnings, which accounted for 40% of total FDI inflows. In other words, FDI, which amounted to US\$ 9.31 billion, was the largest source of external financing.

In the first quarter of 2022, the current account deficit widened, reaching 6.4% of GDP, as a result of the deficits in the trade in goods and in factor income. The current account deficit is expected to narrow by 0.6 percentage points to 5.1% of GDP by the end of 2022, owing to improved terms of trade, against a backdrop of high prices for hydrocarbons and other commodities. In addition, an easing of domestic demand in the second half of 2022 and the planned fiscal adjustment in the Medium-Term Fiscal Framework are expected to contribute to a narrowing of the external deficit by the end of the year.

#### **(b) Economic activity**

GDP grew by 10.7% in 2021. This robust recovery was the result of the programmes and policies implemented by the government to mitigate the effects of the pandemic and boost household consumption, progress with vaccination and promotion of investment in the country, in addition to a statistical rebound effect.

All sectors of economic activity grew on an annual basis in 2021 with respect to the prior year. The largest contribution to GDP growth came from the commerce, hotels and restaurants sector (3.8 percentage points), owing to the full reopening of all economic sectors and the good performance of tourism, as movement restrictions were lifted. The manufacturing industry contributed 2.0 percentage points to GDP growth, as a result of buoyant exports and a favourable trend in production from the second quarter of the year onward. Lastly, public administration contributed 1.4 percentage points, as face-to-face education and health services that had been suspended during the pandemic resumed and efforts were made in relation to the vaccination plan. These three branches of activity accounted for nearly 70% of value added in 2021.

Growth in final consumption, which approached 14% in 2021, was largely behind the pattern of economic activity in the country. Household consumption grew by 14.8%, driven mainly by measures to stimulate economic recovery, such as the three-day no value added tax (VAT) campaign to encourage household spending, and by a gradual recovery in jobs, which strengthened consumption capacity; relaxed credit conditions and a rise in remittances also contributed. Gross capital formation grew by 12.2%, fuelled by both housing (22.6%) and investment in machinery and equipment (19.1%). Exports expanded strongly, by 28.7% over the year, on the back of rises in commodity prices and higher external demand from key trading partners, while the increase in domestic demand translated into 14.8% growth in imports.

The year-on-year GDP growth recorded in the first and second quarters of 2022 (8.5% and 12.6%, respectively) confirms a robust recovery. In the first half of 2022, the three branches of activity that recorded the most noteworthy year-on-year rises and contributed the most to growth were commerce, transportation and accommodation (19.2% growth), manufacturing (15.6%), and public administration and social services (7.7%), accounting for almost 7 percentage points of the annual rate of 10.7%. The full lifting of restrictions

on movement not only supported trends in commerce but also enabled greater use of air and land transport and a resumption of cultural and sporting events.

In the first half of 2022, final consumption also grew by 11.8%, driven by household consumption (12.2%). In the case of the growth in gross fixed capital formation (11.0%), machinery and equipment was a determining factor (32.3%).

### **(c) Prices, wages and employment**

In 2021, inflation was 5.62%, the highest rate in five years and above the central bank's inflation target of 3% per year (with a tolerance of  $\pm 1\%$ ). Food contributed around 50% of the rise in the consumer price index (CPI) for the full year of 2021. The inflationary pressure was initially a result of a limited supply of commodities, compounded in the second quarter by bottlenecks caused by social protests, which coincided with the third wave of coronavirus disease (COVID-19) infections in the country. Buoyant domestic consumption, rises in fuel and agricultural input prices, higher logistics and international freight costs, and the appreciation of the dollar also propelled the sustained rise in prices.

By July 2022, 12-month inflation stood at 10.21%, the highest rate since 2000, owing to added pressure on commodity prices from the Russian Federation's invasion of Ukraine, with the aggravating factor of the Colombian peso's depreciation. On the domestic front, a lower supply of some perishable products because of weather-related factors, the reversal of VAT discounts on some products, and higher indexed prices and wages magnified the upward trend in prices. The central bank forecasts that inflation will remain above 9.0% for the remainder of 2022, and will gradually slow during 2023.

In employment, Colombia had failed to return to pre-pandemic levels by the end of 2021, as the labour market recovery was slower than growth in economic activity. At the end of 2021, the unemployment rate was 13.7%, representing a recovery of approximately 1.2 million of the 2.4 million formal jobs destroyed in 2020 by the economic impact of the COVID-19 pandemic. The Social Investment Law, which was passed in September 2021, expanded the Formal Employment Support Programme (PAEF) and created new programmes, such as the Programme of Support for Companies Affected by the National Strike (AEAP) and the Programme of Support for Job Creation, focusing on women and young people.

The recovery in household income, as a result of the buoyant labour market and favourable trend in institutional transfer programmes, led to a decline in the poverty rate from 42.5% in 2020 to 39.3% in 2021. Likewise, the rate of extreme poverty fell from 15.1% in 2020 to 12.2% in 2021, despite rising food inflation.

In the April–June 2022 rolling quarter, labour market indicators in the different geographic domains improved compared to the prior-year period. At the national level, the unemployment rate fell from 15.1% to 11.0%, the employment rate rose from 52.0% to 56.7%, and the overall participation rate increased from 61.2% to 63.7%. The country's 13 major cities were the main contributors to these trends, although other cities and rural areas also recorded improvements in employment, which by the end of the first half of 2022 is estimated to have returned to pre-pandemic levels.

For 2022, the government approved a 10.07% increase in the legal minimum wage with respect to the previous year, above the rate of inflation for 2021.

Table 1  
**COLOMBIA: MAIN ECONOMIC INDICATORS**

	2013	2014	2015	2016	2017	2018	2019	2020	2021 a/
	<b>Annual growth rates b/</b>								
Gross domestic product	5.1	4.5	3.0	2.1	1.4	2.6	3.2	-7.0	10.7
Per capita gross domestic product	4.2	3.4	1.8	0.7	-0.2	1.0	1.8	-8.0	9.9
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	7.5	2.9	4.3	2.7	5.6	1.6	2.7	2.0	2.9
Mining and quarrying	5.3	-1.3	-1.1	-2.9	-5.8	-1.7	1.9	-15.6	0.2
Manufacturing	1.5	2.9	2.0	3.2	-1.8	1.5	1.2	-9.8	16.4
Electricity, gas and water	3.7	3.4	-0.7	0.0	2.9	2.5	2.5	-2.6	5.1
Construction	11.3	8.9	6.3	3.6	-2.0	-1.3	-3.9	-26.8	5.7
Wholesale and retail commerce, restaurants and hotels	5.2	5.0	3.2	3.7	1.8	2.8	3.9	-10.8	22.4
Transport, storage and communications	5.9	5.1	2.7	-0.1	1.2	2.9	2.5	-14.6	14.8
Financial institutions, insurance, real estate and business services	5.3	6.1	3.0	1.3	3.0	3.9	4.0	-0.7	5.1
Community, social and personal services	5.6	5.4	5.2	3.9	3.3	4.4	6.2	-1.5	10.3
Gross domestic product, by type of expenditure									
Final consumption expenditure	5.4	4.3	3.4	1.6	2.3	4.0	4.3	-4.2	13.9
Government consumption	8.9	4.7	4.9	1.8	3.6	7.4	5.3	-0.6	10.3
Private consumption	4.6	4.2	3.1	1.6	2.1	3.2	4.1	-5.0	14.8
Gross capital formation	7.8	12.0	-1.2	-0.2	-3.2	1.5	3.0	-20.5	12.2
Exports (goods and services)	4.7	-0.3	1.7	-0.2	2.6	0.6	3.1	-22.7	14.8
Imports (goods and services)	8.5	7.8	-1.1	-3.5	1.0	5.8	7.3	-20.5	28.7
Investment and saving c/	<b>Percentages of GDP</b>								
Gross capital formation	22.2	24.0	23.8	23.2	21.6	21.2	21.4	19.2	19.8
National saving	18.9	18.8	17.4	18.7	18.4	17.0	16.8	15.8	14.1
External saving	3.2	5.2	6.4	4.5	3.2	4.2	4.6	3.4	5.7
Balance of payments	<b>Millions of dollars</b>								
Current account balance	-12 365	-19 819	-18 702	-12 587	-9 924	-14 041	-14 808	-9 258	-17 892
Goods balance	3 179	-4 641	-13 479	-9 176	-4 285	-6 394	-9 863	-8 870	-13 984
Exports, f.o.b.	60 282	56 899	38 572	34 063	39 786	42 993	40 656	32 309	42 736
Imports, f.o.b.	57 103	61 539	52 051	43 239	44 070	49 387	50 518	41 179	56 719
Services trade balance	-6 430	-7 692	-5 526	-4 275	-4 477	-4 162	-4 283	-4 219	-6 325
Income balance	-14 002	-12 108	-5 450	-5 312	-8 046	-11 442	-9 717	-4 957	-8 358
Net current transfers	4 887	4 622	5 752	6 177	6 883	7 957	9 055	8 788	10 775
Capital and financial balance d/	19 311	24 255	19 118	12 752	10 469	15 228	18 141	13 587	18 546
Net foreign direct investment	8 558	12 270	7 403	9 341	10 011	6 172	10 836	5 773	6 148
Other capital movements	10 753	11 985	11 715	3 411	458	9 055	7 305	7 814	12 397
Overall balance	6 946	4 437	415	165	545	1 187	3 333	4 328	654
Variation in reserve assets e/	-6 946	-4 437	-415	-165	-545	-1 187	-3 333	-4 328	-654
Other external-sector indicators									
Terms of trade for goods (index: 2010=100)	115.4	105.0	79.1	78.1	91.4	100.0	98.6	83.3	99.4
Net resource transfer (millions of dollars)	5 310	12 147	13 668	7 439	2 423	3 786	8 424	8 629	10 187
Total gross external debt (millions of dollars)	92 073	101 404	110 502	120 153	124 636	132 016	138 683	154 507	171 476
Employment g/	<b>Average annual rates</b>								
Labour force participation rate	63.7	63.8	64.3	64.1	64.0	63.6	62.9	58.6	60.6
Unemployment rate h/	9.0	8.5	8.3	8.6	8.8	9.1	9.9	15.1	13.4
Visible underemployment rate	11.8	10.1	10.3	9.9	9.5	8.9	9.6	9.8	8.8

Table 1 (concluded)

	2013	2014	2015	2016	2017	2018	2019	2020	2021 a/
<b>Prices</b>	<b>Annual percentages</b>								
Variation in consumer prices (December-December)	1.9	3.7	6.8	5.7	4.1	3.2	3.8	1.6	5.6
Variation in producer prices (December-December)	-0.1	6.0	5.5	2.2	3.3	2.3	6.1	-0.9	...
Variation in nominal exchange rate (annual average)	4.0	7.1	37.1	11.1	-3.3	0.3	11.0	12.6	...
Variation in average real wage	2.7	0.4	1.2	1.0	3.1	1.1	0.8	-4.9	6.2
Nominal deposit rate i/	4.2	4.1	4.6	6.8	6.0	4.7	4.5	3.4	2.1
Nominal lending rate j/	12.2	12.1	12.1	14.7	13.7	12.1	11.8	9.9	9.3
<b>Central national government</b>	<b>Percentages of GDP</b>								
Total revenue	16.8	16.5	16.1	14.9	15.7	15.1	16.2	15.3	16.3
Tax revenue	14.1	14.2	14.5	13.6	13.8	13.7	14.0	13.1	13.8
Total expenditure	19.1	18.9	19.1	18.9	19.3	18.2	18.7	23.1	23.4
Current expenditure	16.0	15.9	16.1	16.6	17.2	16.7	16.8	20.8	21.4
Interest	2.2	2.0	2.2	2.5	2.6	2.5	2.5	2.7	3.4
Capital expenditure	3.1	3.0	3.0	2.3	2.1	1.5	1.8	2.2	2.0
Primary balance	-0.1	-0.4	-0.8	-1.6	-1.1	-0.6	0.1	-5.1	-3.7
Overall balance	-2.3	-2.4	-3.0	-4.0	-3.7	-3.1	-2.5	-7.8	-7.1
<b>Central national government debt</b>	37.1	40.2	45.0	46.0	44.9	48.6	48.4	61.4	61.5
Domestic	27.4	28.5	28.9	30.5	29.4	31.8	32.0	38.6	36.7
External	9.6	11.8	16.1	15.5	15.5	16.8	16.4	22.8	24.8
<b>Money and credit</b>	<b>Percentages of GDP, end-of-year stocks</b>								
Domestic credit	48.0	51.0	54.4	55.0	58.4	57.7	60.7	66.8	62.9
To the public sector	8.5	8.6	7.5	8.0	8.6	8.2	9.2	12.5	11.1
To the private sector	39.5	42.4	46.9	47.1	49.8	49.6	51.6	54.3	51.8
Others									
Monetary base	8.5	9.2	10.3	9.8	9.6	9.9	10.4	13.3	12.3
M2	43.6	44.5	47.5	47.3	47.5	46.5	47.1	57.1	54.1

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

a/ Preliminary figures.

b/ Based on figures in local currency at constant 2015 prices.

c/ Based on values calculated in national currency and expressed in current dollars.

d/ Includes errors and omissions.

e/ A minus sign (-) indicates an increase in reserve assets.

f/ Annual average, weighted by the value of goods exports and imports.

g/ Nationwide total.

h/ Open unemployment rate includes an adjustment for workforce figures due to exclusion of hidden unemployment.

i/ 90-day fixed-term certificates of deposit, weighted average..

j/ Weighted average of consumer, prime, ordinary and treasury lending rates for the working days of the month.