

COLOMBIA

Table 1	2021
Population, million	51.0
GDP, current US\$ billion	314.1
GDP per capita, current US\$	6153.1
International poverty rate (\$1.9) ^a	10.3
Lower middle-income poverty rate (\$3.2) ^a	19.9
Upper middle-income poverty rate (\$5.5) ^a	38.3
Gini index ^a	54.2
School enrollment, primary (% gross) ^b	114.0
Life expectancy at birth, years ^b	77.3
Total GHG Emissions (mtCO2e)	294.3

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2020), 2011 PPPs.
b/ Most recent WDI value (2019).

Economic recovery has been solid, with risks stemming from the labor market and higher-than expected inflation. GDP grew 10.6 percent in 2021 and is projected to grow 4.4 percent in 2022, the poverty rate is projected to decline relative to 2021. The recovery helped reduce the fiscal deficit. A sustained reduction of the debt-to-GDP ratio is an important policy priority along with increasing the effectiveness of the fiscal system at reducing poverty and inequality, and diversifying exports.

Key conditions and challenges

Colombia's economy bounced back robustly from the COVID-19 crisis and the macroeconomic framework remains strong.

Yet, the COVID-19 crisis reversed progress in resolving pre-existing vulnerabilities. Productivity remains low. Poverty declined significantly between 2008 and 2018, but inequality remained high. Inefficiencies within the fiscal system limit income redistribution, and high tax rates weigh down economic activity and the creation of good quality jobs. Rigidities in automatic inclusion to social programs limit the response of social assistance to aggregate income shocks.

The national poverty rate increased from 35.7 percent in 2019 to 42.5 percent in 2020, wiping out over a decade of progress in lifting people out of poverty and shrinking the middle class by 5 percentage points. While the 2021 recovery helped reduce poverty, abating poverty durably and increasing resilience among the non-poor will require expanding the coverage of the social security system, making labor markets more efficient and inclusive, and improving the quality of education, health, and infrastructure.

The opportune and timely fiscal response to the crisis increased the already high public debt-to-GDP ratio, making reigning in debt and fiscal deficit a medium-term priority. Spending pressures due to social demand are

rising, while the crisis has strained society's acceptance for higher taxation.

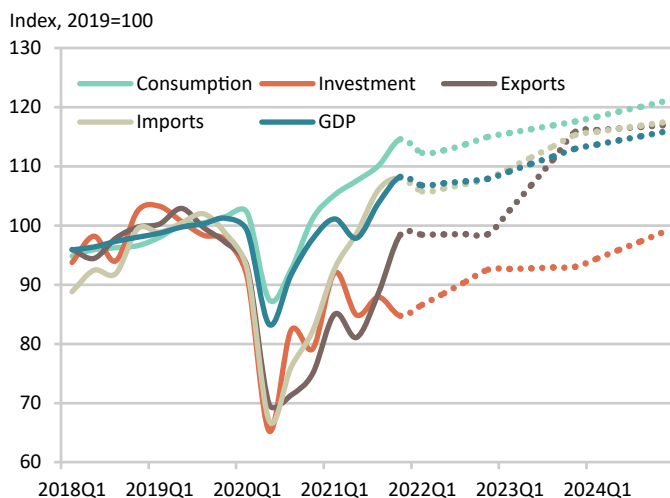
Recent developments

Supported by progress on vaccinations and the reopening of the economy, GDP grew 10.6 percent in 2021, but heterogeneously across sectors. While activity in manufacturing surpassed the pre-COVID-19 trend, activity in mining and construction remained below 2019 levels. Consumption has been the main driver of GDP growth; investment and exports contributed only marginally and remained below 2019 levels.

The recovery of the labor market has not kept pace with economic activity. Female employment remains subdued, and job quality declined. In 2021Q4, the not-economically active population increased relative to 2019, and employment rates decreased, mostly because female employment has not fully recovered. About 81 percent of employment created in 2021 was informal, and urban, female, and youth unemployment remain high. Labor incomes, a substantial share of total household income, remain 12.8 percent lower than pre-pandemic.

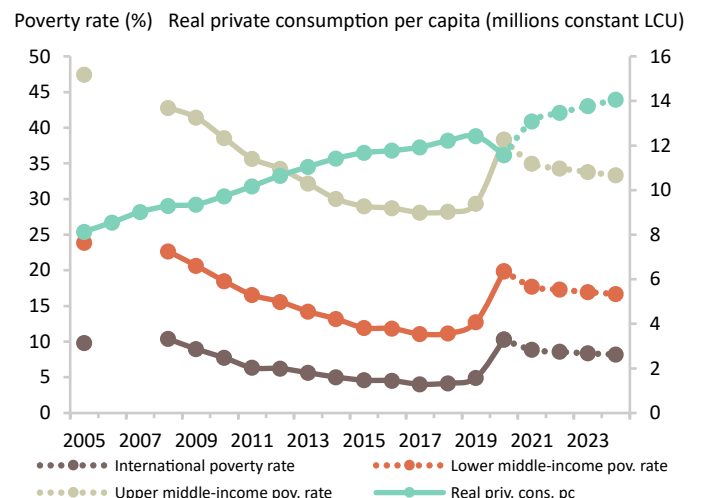
Strong domestic demand, adverse weather conditions for agriculture, the depreciation of the Colombian peso, and price pressures from abroad pushed inflation to 6.9 percent, y-o-y, in January 2022. Price increases have eroded households' purchasing power and undermined poverty reduction. As inflation expectations moved above the inflation targeting band, the Central Bank

FIGURE 1 Colombia / GDP components, historic and baseline scenario (dashed line)



Sources: DANE and World Bank staff calculations.

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



Source: World Bank. Notes: see Table 2.

started to increase the monetary policy rate in September, setting it at 4 percent in January 2022.

The current account deficit reached 5.7 percent of GDP in 2021, as exports (especially tourism) remained weak while imports and distribution of dividends resumed, offsetting strong inflows of remittances. FDI and net portfolio inflows financed the current account deficit.

The central government's deficit declined to 7.1 percent of GDP, as recovery buoyed tax revenues, offsetting the increase in spending. The nominal increase in GDP reduced the debt-to-GDP ratio.

The national poverty rate is estimated to have dropped to 38.6 percent in 2021, still above pre-pandemic levels. Some 1.9 million people, mostly working in urban services and commerce, are estimated to have exited poverty in 2021, thanks to the economic recovery and the continuation of emergency transfers. The middle class has also rebounded. Nonetheless, 1.63 million of those who had fallen into poverty in 2020 are estimated to have remained poor in 2021. Food insecurity persists, as a third of households are not able to consume three meals a day, compared to only 8 percent before the pandemic.

Outlook

The economy is projected to grow 4.4 percent in 2022, as the bout of repressed consumption comes to an end, monetary policy continues tightening, and external demand is resuming slowly. Investment is projected to recover to pre-COVID level by 2023, and the output gap is projected to close in early 2023.

The current account deficit is projected to decrease in 2022 (mostly supported by higher oil prices) and over the medium term, as exports of services resume, imports growth slows, and the flow of remittances normalize to pre-COVID levels.

The central government's fiscal deficit is projected to decline in compliance with the limits set by the fiscal rule, as the effects of the tax reforms approved in September 2021 kick in, and COVID-19 related health spending and emergency income support come to an end. The decline of the deficit at the departmental and municipal level is projected to help reduce the general government deficit. The debt-to-GDP ratio is projected to keep declining over the medium term.

With the continuation of emergency transfers, 1.2 million people are projected to exit poverty in 2022, (although they will remain vulnerable to income shocks). Nonetheless, around 17.8 million people will remain poor, compared to 17.5 million before the pandemic. Income inequality is also expected to fall slightly to 0.528 (Gini), yet Colombia remains one of the most unequal countries in the world. Labor market gender gaps are expected to remain wider than before the pandemic.

The profile of medium-term risk is tilted to the downside. Risks include: high domestic inflation inertia (with high-for-long interest rates); higher international food and fuel inflation (disproportionately affecting the poor); tightening of financing conditions abroad with increased capital mobility (because of the war in Ukraine); potential long-term effects of the pandemic on the labor market, households' assets and human capital; and disappointing yields from September's tax reform. The materialization of any of these risks could slow down growth, or force an aggressive contraction of government spending, clouding prospects for poverty and inequality reduction.

TABLE 2 Colombia / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	3.2	-7.0	10.6	4.4	3.5	3.3
Private Consumption	4.1	-5.0	14.6	4.1	3.3	3.1
Government Consumption	5.3	-0.6	12.1	2.0	0.6	0.6
Gross Fixed Capital Investment	2.2	-23.3	11.2	5.0	3.7	4.1
Exports, Goods and Services	3.1	-22.7	14.2	11.6	10.9	6.7
Imports, Goods and Services	7.3	-20.5	27.5	5.3	5.4	3.6
Real GDP growth, at constant factor prices	3.1	-7.1	10.3	4.3	3.5	3.3
Agriculture	2.7	2.0	2.4	2.9	4.9	3.5
Industry	0.2	-14.2	9.7	5.2	4.2	4.3
Services	4.4	-4.9	11.4	4.1	3.1	2.9
Inflation (Consumer Price Index)	3.5	2.5	3.5	6.6	3.9	3.1
Current Account Balance (% of GDP)	-4.6	-3.4	-5.7	-4.5	-4.7	-4.6
Fiscal Balance (% of GDP)	-2.6	-7.2	-7.3	-6.7	-4.3	-3.3
Debt (% of GDP)	52.3	67.2	66.3	65.4	65.3	64.2
Primary Balance (% of GDP)	0.4	-4.3	-3.9	-3.3	-0.9	0.1
International poverty rate (\$1.9 in 2011 PPP)^{a,b}	4.9	10.3	8.9	8.6	8.4	8.2
Lower middle-income poverty rate (\$3.2 in 2011 PPP)^{a,b}	12.7	19.9	17.7	17.3	17.0	16.7
Upper middle-income poverty rate (\$5.5 in 2011 PPP)^{a,b}	29.4	38.3	35.0	34.3	33.8	33.3
GHG emissions growth (mtCO₂e)	4.4	2.5	2.6	1.2	-1.3	-2.1
Energy related GHG emissions (% of total)	30.3	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.

a/ Calculations based on SEDLAC harmonization, using 2009-GEIH, 2019-GEIH, and 2020-GEIH. Actual data: 2020. Nowcast: 2021. Forecasts are from 2022 to 2024.

b/ Projection using average elasticity (2009-2019) with pass-through = 0.7 based on private consumption per capita in constant LCU.