COLOMBIA

Table 1	2020
Population, million	50.4
GDP, current US$ billion	271.5
GDP per capita, current US$	5389.1
International poverty rate ($1.9)[a]	4.9
Lower middle-income poverty rate ($3.2)[a]	12.7
Upper middle-income poverty rate ($5.5)[a]	29.4
Gini index[a]	51.3
School enrollment, primary (% gross)[b]	114.5
Life expectancy at birth, years[b]	77.1

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2019), 2011 PPPs.
(b) Most recent WDI value (2018).

GDP contracted 6.8 percent in 2020 and poverty (US$5.5/day poverty line) is estimated to have increased over 5.5 percentage points. The decisive government response to the COVID-19 crisis supported lives and livelihoods but reduced fiscal space. If COVID-19 vaccination proceeds as planned, GDP is projected to grow 5.0 percent in 2021 and the incidence of poverty is expected to stabilize. Supporting economic activity and vulnerable household while normalizing the fiscal accounts will require a strong and credible medium-term fiscal plan.

Key conditions and challenges

Colombia confronted the COVID-19 crisis with a strong macroeconomic framework anchored on inflation targeting, a flexible exchange rate, and a rule-based fiscal framework. This framework supported growth, the absorption of a large flow of migrants from Venezuela, and the build-up of buffers with which to respond to the COVID-19 shock. Yet, Colombia also faced unresolved structural vulnerabilities. Many factors (including infrastructure bottlenecks, low labor productivity, a complex tariff regime and the existence of non-tariff barriers) weigh on total factor productivity and slow down growth. The predominance of oil and mining in exports have been exposing the economy to price shocks. Also, while poverty declined significantly between 2008 and 2018, inequality remains high and labor informality is among the highest in Latin America. These vulnerabilities amplified the effect of the COVID-19 crisis.

The crisis took a toll on the strength of fiscal policies. First, the response to COVID-19 reduced the space to respond to future shocks. Second, activating the suspension clause of the fiscal rule, while warranted to provide the needed flexibility to respond to the crisis, has opened uncertainty about the fiscal policy anchor over the medium-term. With subdued inflation and exceptionally low interest rates, the space for further conventional monetary easing has reduced. Finally, the long-term effect of the crisis on both the level and the growth of potential GDP are still uncertain. With low total factor productivity slowing the recovery, and informality and job insecurity weighing on household income, the prospects for returning both to pre-pandemic GDP trend in level, and to the pre-pandemic potential growth are uncertain.

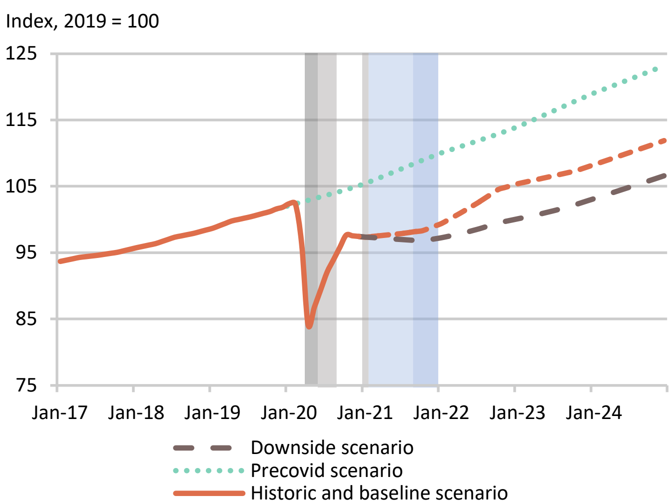
Recent developments

GDP contracted 6.8 percent in 2020. Activity has been on steady recovery since 2020Q2, as mobility restrictions were relaxed and decisive policy actions supported people and the economy. Reflecting weak demand, inflation averaged 2.5 percent in 2020, below the 3 percent inflation target. A second wave of COVID-19 towards the end of 2020 led to a tightening of mobility restrictions, causing a slight contraction of 2021Q1 activity, relative to 2020Q4.

Weak domestic demand brought imports down, but exports equally suffered from weak external demand, especially for oil. Low distribution of dividends abroad, and strong inward remittances reduced the current account deficit to 3.4 percent of GDP, which was financed by FDI inflows and external government borrowing.

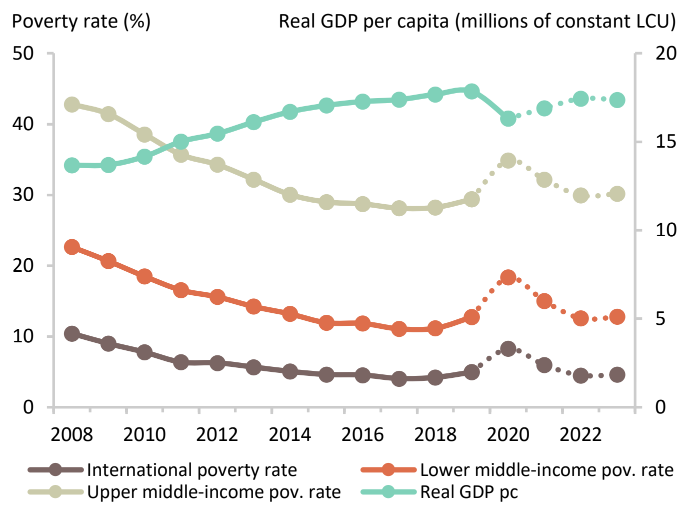
Weak revenues, higher health spending and social transfers, and the contraction in nominal GDP (which in itself pushed up the spending-to-GDP ratio), raised the fiscal deficit of the central government to 7.8

FIGURE 1 Colombia / Real GDP levels under different scenarios



Sources: DANE, Google mobility index, Ministry of Health, World Bank staff calculations.
Note: Stringency of mobility restriction in gray (darkest = more stringent). Vaccination plan in blue (light blue = up to 50% of the population; dark blue = >50%).

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



Source: World Bank. Notes: see table 2.

percent of GDP. The general government's debt climbed up to 67 percent of GDP.

The COVID-19 crisis has exacerbated existing labor market weaknesses. Around 2.5 million jobs were lost in 2020, the unemployment rate reached 15.9 percent (with large increases in urban areas and among women, the youth, the self-employed, and workers in small firms), and the fraction of people working less than 20 hours a week increased to 22 percent of total employment. As household income plummeted, other dimensions of wellbeing (especially food security, access to health services and to quality education) worsened (including for the middle class), with potential long-term impacts on human capital and productivity.

Although government emergency transfers mitigated a quarter of the estimated negative impact of the crisis on poverty, around 3 million people are expected to have become poor, including among urban population, the better qualified, and employers, resulting in overall downward economic mobility. The incidence of poverty is projected to have increased by over 5.5 percentage points (US$5.5/day poverty line) in 2020, wiping out the gains since 2011. Inequalities are expected to increase as gender gaps and inequalities between high-skilled and low-skilled workers widen.

Outlook

Under the baseline scenario, the economy is projected to grow 5.0 percent in 2021, and reach 2019 level in mid-2022, driven by the recovery of domestic demand and supported by the recovery of commerce and manufacturing. This assumes that the government's vaccination plan proceeds as planned, and that the government puts together a credible and strong fiscal package that increase revenues on a permanent basis and that allows for a gradual normalization of the fiscal deficit over the medium-term. Under the baseline scenario, the current account deficit is expected to deteriorate in 2021 and normalize in 2022.

The fiscal stance is expected to be expansionary in 2021. As revenues are expected to recover gradually over the medium term, extra revenues from privatization would alleviate financing needs in 2021. For 2022, the unwinding of COVID-19 related health spending, zero real growth in operating spending, a slight real contraction in transfers, and a structural increase in taxes would reduce the deficit to about 5.0 percent of GDP.

Under this scenario, poverty is expected to decline in 2021 but remain above the pre-pandemic level in the coming years.

There are significant downside risks. Slower progress on vaccination, a weak medium-term fiscal plan, or a tightening of financing conditions abroad could lead to slower activity, loss of confidence, and an aggressive contraction of government spending down the road, with severe implications for growth and poverty reduction. Under a downside scenario, GDP growth could bottom to 4.2 percent in 2021. Although the fiscal deficit would still decline, the increase in interest payment would force a reduction of investment spending and cash transfers in 2023. Under this scenario, the economy would reach 2019 GDP levels only in 2023, and poverty would deteriorate further, with long-term impacts from asset depletion and lower human capital accumulation.

TABLE 2 **Colombia** / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	2.6	3.3	-6.8	5.0	4.3	4.2
Private Consumption	3.2	3.9	-5.8	5.5	4.6	4.6
Government Consumption	7.4	5.3	3.7	-0.5	1.5	0.8
Gross Fixed Capital Investment	1.0	3.1	-21.1	14.0	8.5	5.8
Exports, Goods and Services	0.6	3.1	-17.4	3.5	2.8	2.5
Imports, Goods and Services	5.8	7.3	-18.0	9.4	5.7	3.4
Real GDP growth, at constant factor prices	2.5	3.2	-6.9	4.8	4.1	3.9
Agriculture	1.6	2.3	2.8	4.1	4.2	4.0
Industry	0.3	0.6	-13.6	8.3	3.3	3.4
Services	3.7	4.4	-5.0	3.5	4.5	4.1
Inflation (Consumer Price Index)	3.2	3.5	2.5	2.8	3.0	3.0
Current Account Balance (% of GDP)	-4.1	-4.4	-3.3	-4.6	-4.3	-4.2
Fiscal Balance (% of GDP)	-2.2	-2.6	-7.0	-8.3	-4.9	-3.7
Debt (% of GDP)	51.3	52.2	66.7	70.4	68.9	67.4
Primary Balance (% of GDP)	0.6	0.4	-4.1	-4.7	-1.4	-0.4
International poverty rate ($1.9 in 2011 PPP)[a,b]	4.2	4.9	8.2	6.0	4.5	4.6
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	11.1	12.7	18.3	15.0	12.6	12.8
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	28.2	29.4	34.9	32.2	29.9	30.2

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

(a) Calculations based on SEDLAC harmonization, using 2008-GEIH and 2019-GEIH.Actual data: 2019. Nowcast: 2020. Forecast are from 2021to 2023.

(b) Projection using average elasticity (2008-2019) with pass-through = 0.7 based on GDP per capita in constant LCU.