



MINISTERIO DE HACIENDA Y
CRÉDITO PÚBLICO

Macroeconomic overview and economic policy challenges



Viceminister of Finance and Public Credit
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November 2022

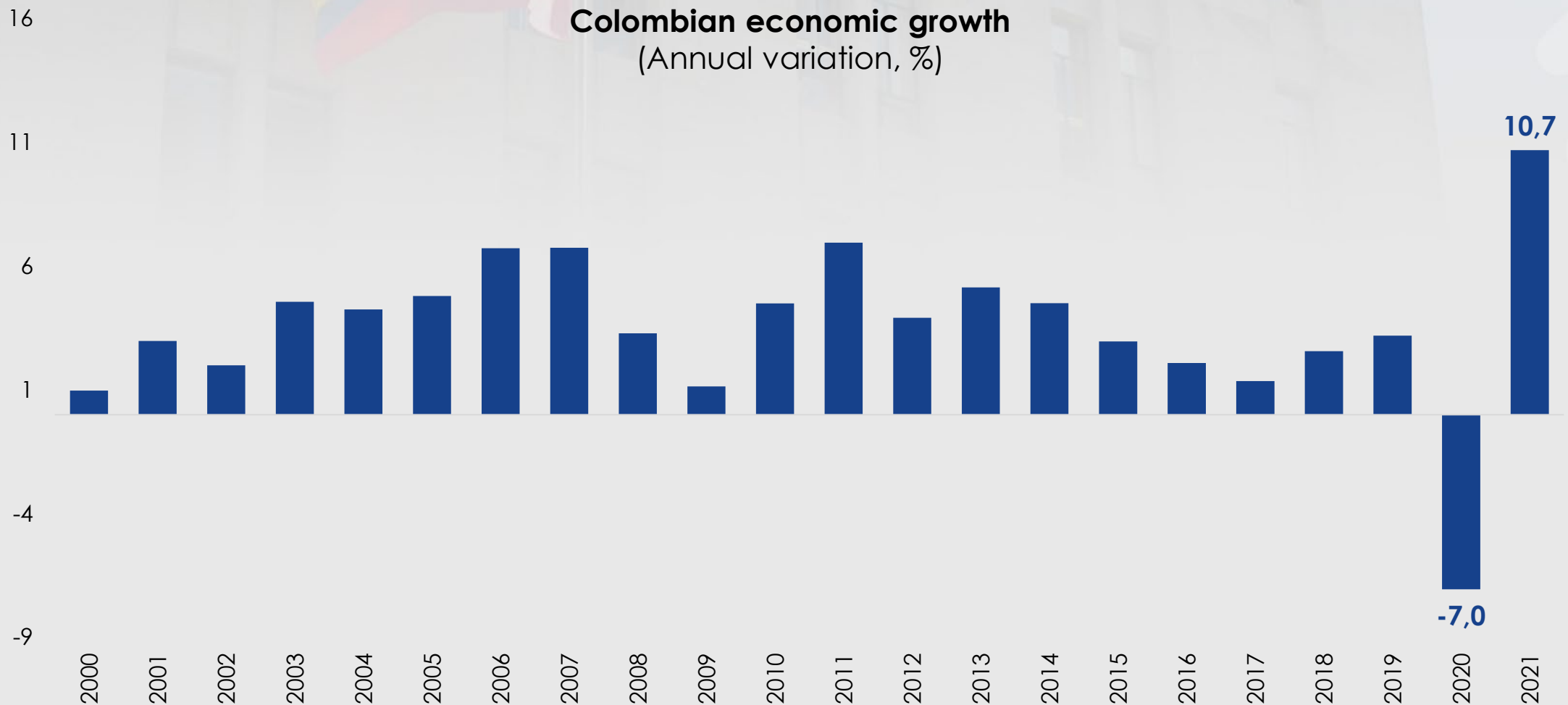
The background features a light-colored, multi-story building with many windows. A Colombian flag is flying on a pole in the upper left. In the upper right, there is a stylized graphic of a hand with fingers pointing downwards, rendered in light blue and white. The title 'Macroeconomic Outlook' is centered in a bold, dark blue font.

Macroeconomic Outlook

Macroeconomic outlook

- ❖ The Colombian economy has shown a **strong rebound and a positive performance** after the COVID-19 shock.
 - ❖ **Manufacturing industry, retail trade, transportation and hotels, machinery & equipment investment and exports, especially of non-traditional goods and services**, have been the main growth engines since 2021.
 - ❖ The favorable performance in economic activity has leveraged an **almost complete recovery in the labor market**.
 - ❖ **The Colombian economy would grow by 7,7% in 2022**, consistent with a full recovery compared to the scenario in the absence of the pandemic.
- ❖ **Short-term risks** include surging inflation, which has resulted in a tighter monetary policy response, and a wide external deficit, within an international context of harsher financial conditions.
 - ❖ **The Central Bank, committed with reducing inflation, has shown a strong response** and the **Government has taken further measures** to face these inflationary pressures.
 - ❖ The materialization of these downside risks would impact economic activity in 2023, with an expected growth of 1,8%. However, **GDP levels relative to 2019 would be outstanding among peers and worldwide**.
- ❖ **In the medium-term**, the Colombian economy would converge towards a **macroeconomic equilibrium, driven by the reindustrialization policy and the energy transition process**.
 - ❖ GDP growth would be around its trend level from 2024 onwards, and the current account deficit would gradually adjust.

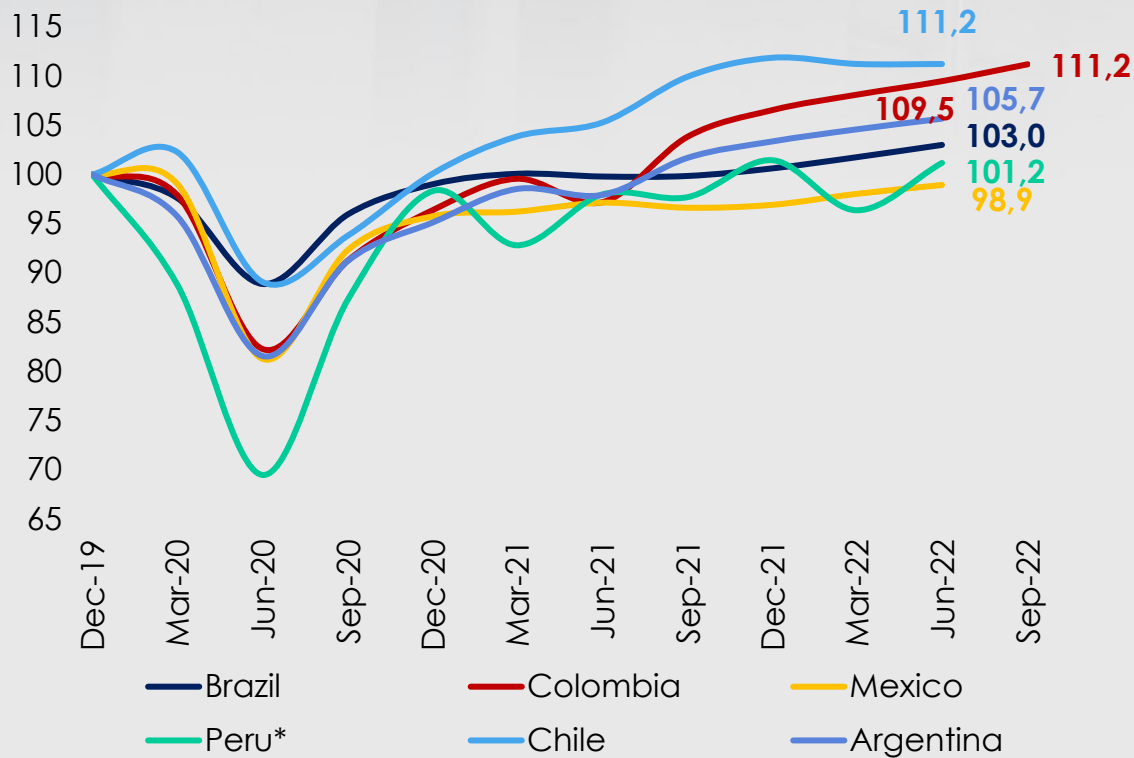
After the strong economic contraction resulting from the pandemic, the economic recovery in Colombia has been remarkable, due to strong fundamentals, countercyclical policies and a terms of trade boom



The economic recovery in 2021 and 2022 in Colombia has been remarkable, driven by investment, exports and private consumption

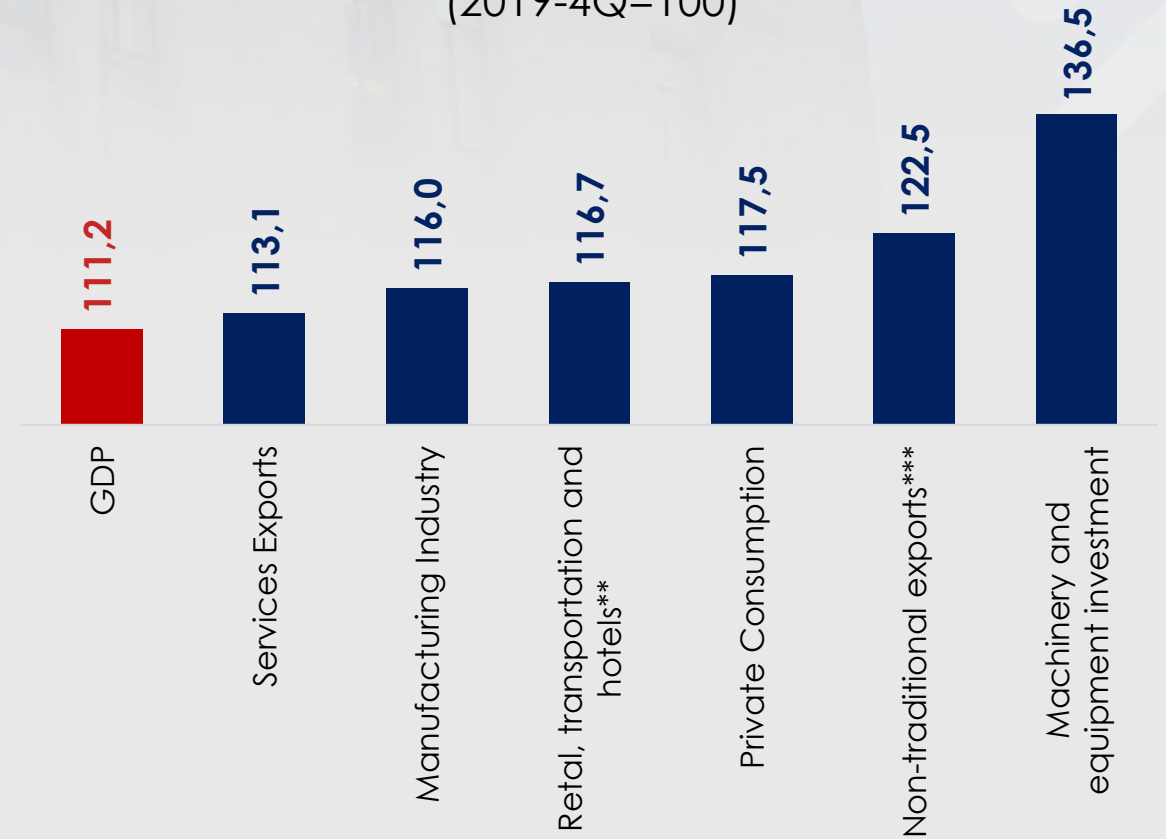
Real GDP level

(Dec 2019 = 100, Seasonally adjusted)



Real level 2022-3Q vs. pre-pandemic

(2019-4Q=100)



Source: DANE, IMF WEO-July 2022 & OECD.

* The series of Peru is only available as non-seasonally adjusted data.

**Includes wholesale and retail trade; transportation, storage, accommodation and food service activities.

***Calculation based on the external trade monthly database.

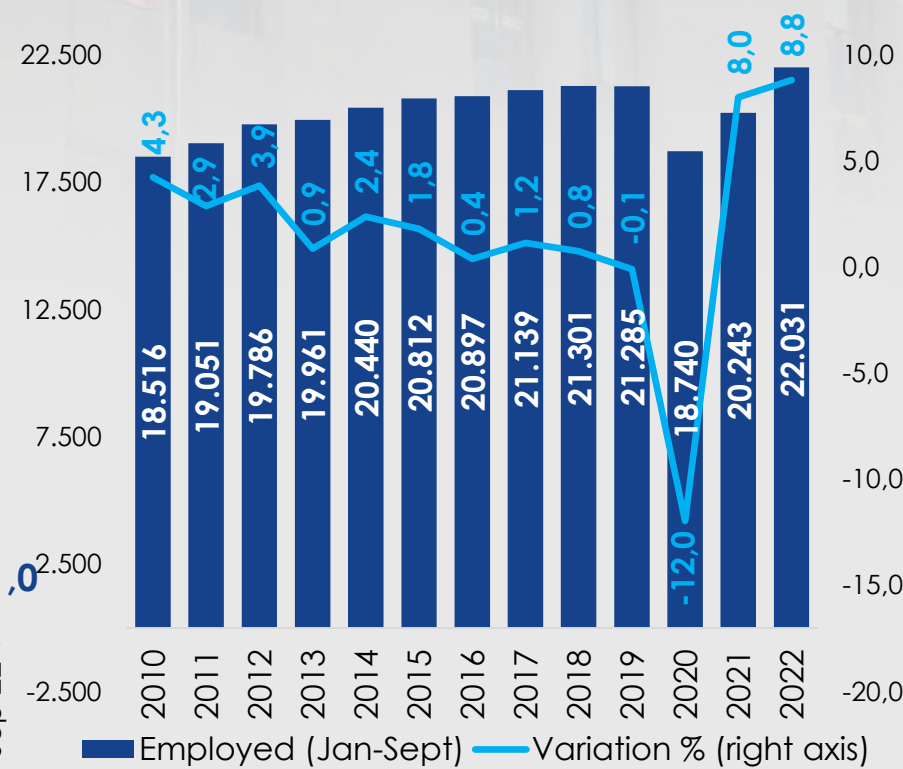
Source: DANE. Ministry of Finance calculations.

The recovery of the labor market has been strong, with the unemployment rate below pre-pandemic levels, and the growth of the employed population exceeding the historical average, but still with structurally high levels.

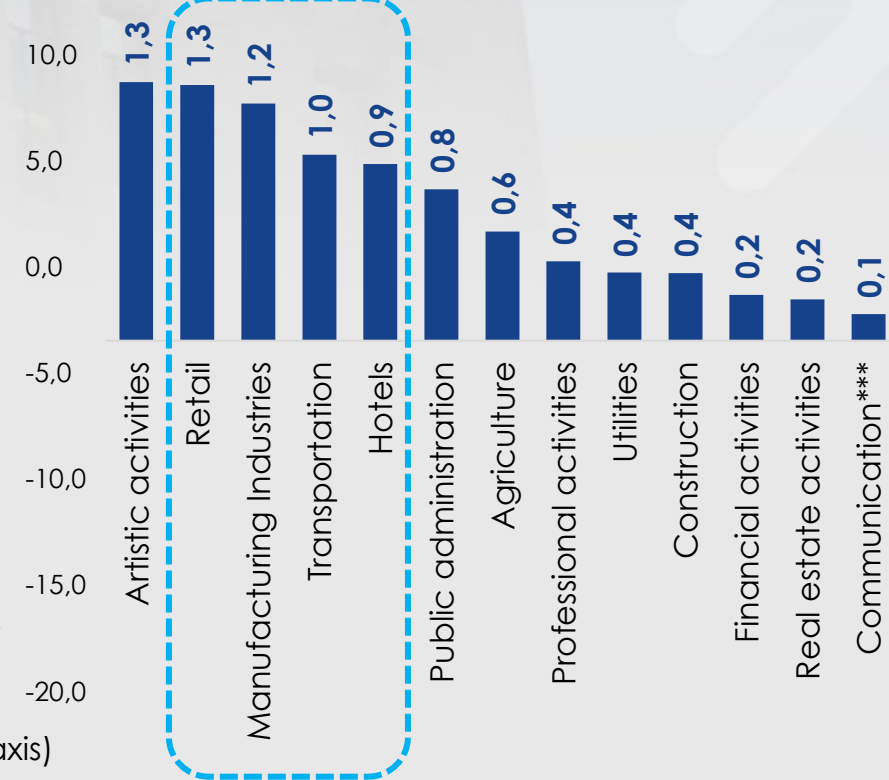
Monthly unemployment rate
(seasonally adjusted, national total)



Number and growth of the employed population* (seasonally adjusted, thousands)



Contribution to total employment growth by economic sector** (pp)



The manufacturing industry and retail, transportation and hotels sectors are not only the main engines of economic growth, but also concentrate the creation of jobs so far in 2022, contributing with more than half of the observed job creation (4.5 pp to the growth of 8.8%)

Source: DANE (GEIH 2018 – Census 2018).

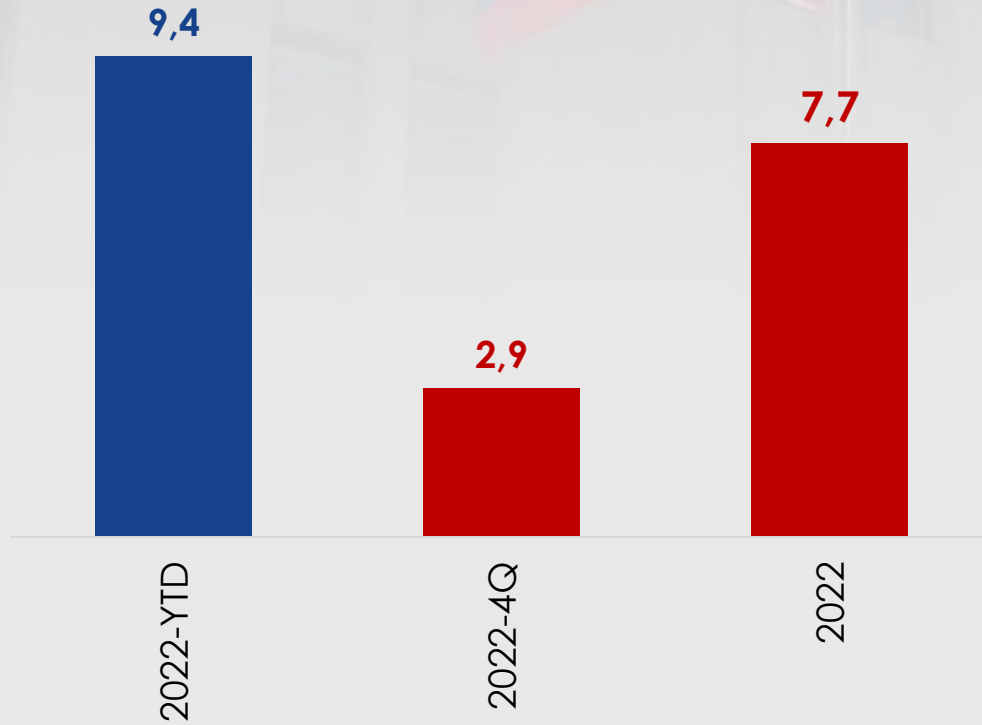
*The data corresponds to the average number of the employed population between January and September of each year.

**The data corresponds to the contribution of each economic sector to job creation observed between January and September 2022.

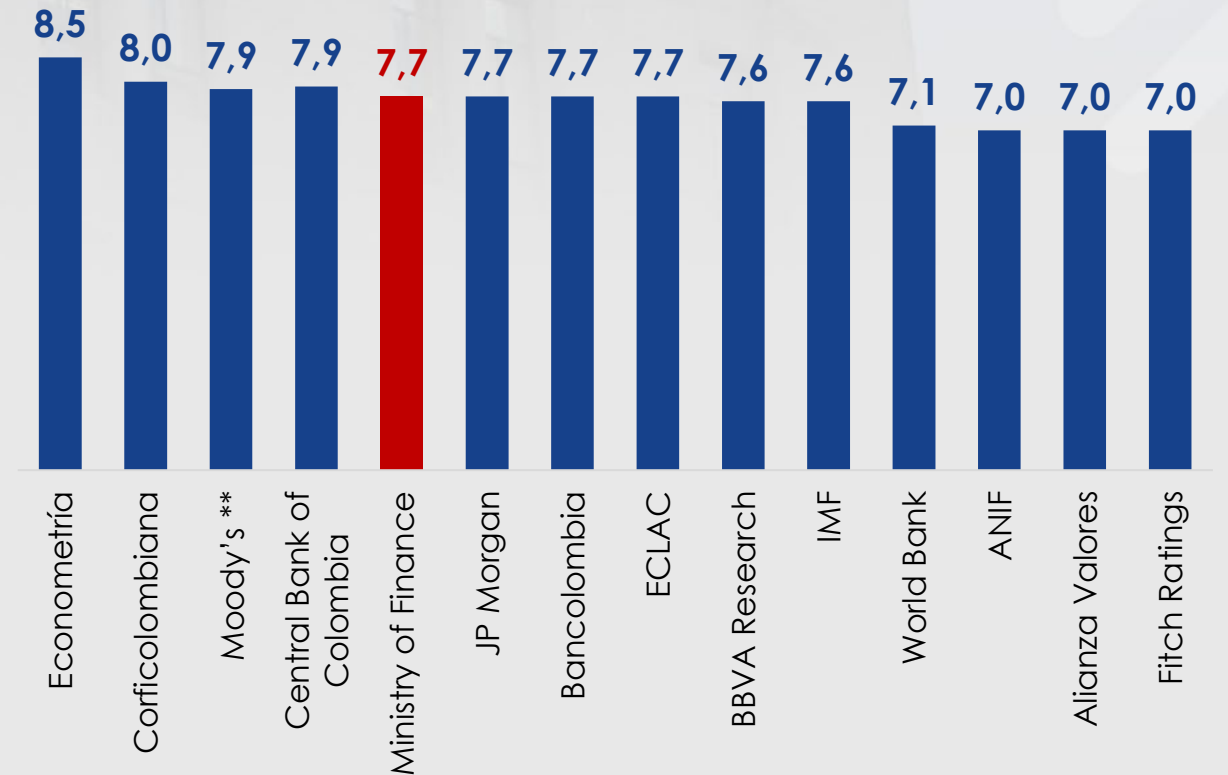
***Communication and information sector.

In line with the leading economic indicators' behavior, economic activity is expected to grow by 7,7% in 2022

Observed and projected economic growth in 2022 (%)



Economic growth forecasts 2022* (%)



 Ministry of Finance forecast

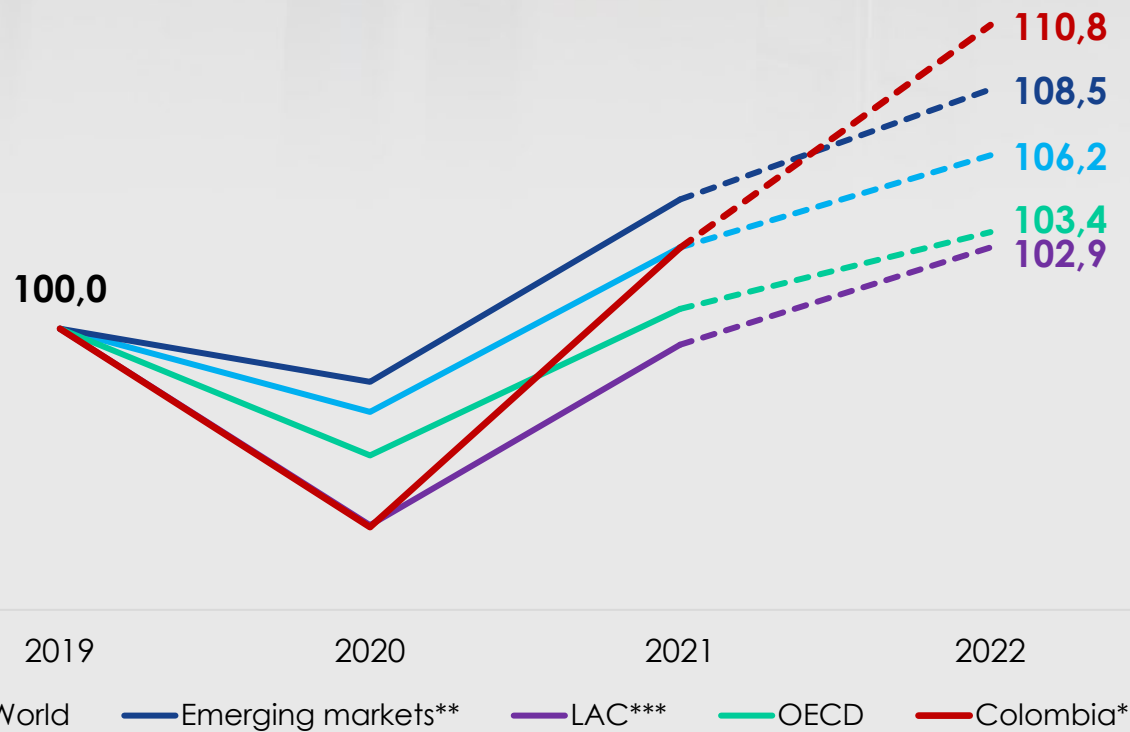
Source: Analyst's webpages. Ministry of Finance calculations.

*Includes analysts/agencies whose growth forecast was updated after the 2nd quarter GDP growth release.

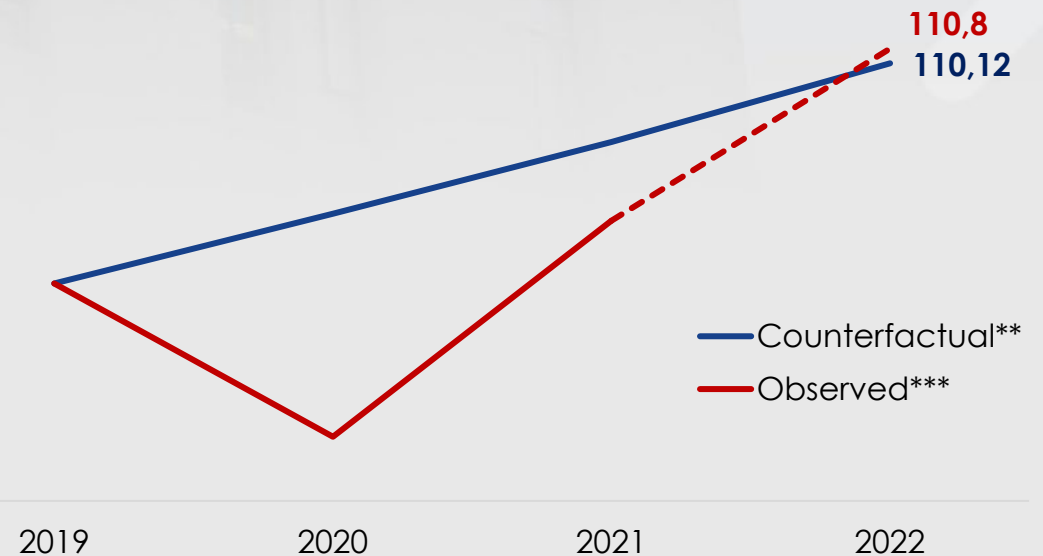
**Corresponds to the average between the high and low range projected by the analyst.

Economic activity would exceed both the GDP levels of relevant country groups, and the estimated economic activity level in the absence of the pandemic shock

Real GDP levels
(2019 = 100, Seasonally adjusted)



Colombian Real GDP level
(2019=100)

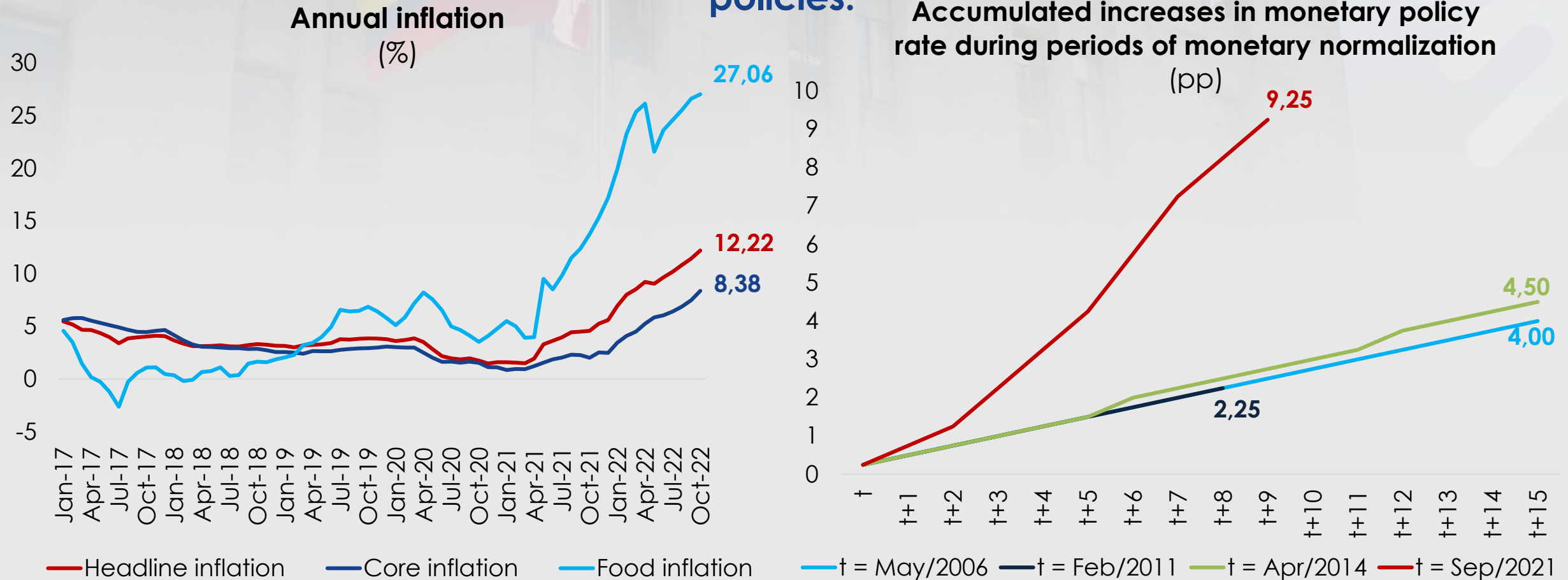


The latest estimations suggest that GDP level in 2022 would be higher than what analysts expected back in December 2019, before de Covid-19 pandemic shock.

Source: DANE & Latin Consensus Forecast December 2019. Ministry of Finance estimations.
*Counterfactual scenario built based in the Latin Consensus Forecast estimations in December 2019. **For 2022 the Ministry of Finance estimation was used.

Source: IMF WEO – October 2022. Ministry of Finance calculations.
* The Colombia forecast corresponds to the most updated estimation of the Ministry of Finance.
** Emerging market and developing economies.
*** Latin America and the Caribbean.

A major short-term risk is rising inflation, especially in food prices, to which Colombia's Central Bank has responded with monetary policy tightening, which has been stronger than in other periods of high inflation, which can have effects on production and employment. Inflation is being fought with other fiscal policies.



This could be mitigated through **additional subsidies for households in poverty**, as well as an **aggressive food self-sufficiency policy**, with organic processes that reduce the need for chemical fertilizers.

In coordination with monetary policy, the government is currently working on the implementation of some measures to face high inflationary pressures

Exchange rate: the **high depreciation of the local currency** has affected the price levels of some goods and services. The government will continue **strengthening unified messages to the public regarding policies that may affect the flow of foreign currency** to the Colombian economy, contributing to mitigate additional upward pressures on the exchange rate.

Food prices: some measures have been implemented by the government to **reduce high food prices**, such as the temporary reduction of tariffs, subsidies of agricultural inputs, improvements in logistics chains and financial instruments to support the agricultural sector.

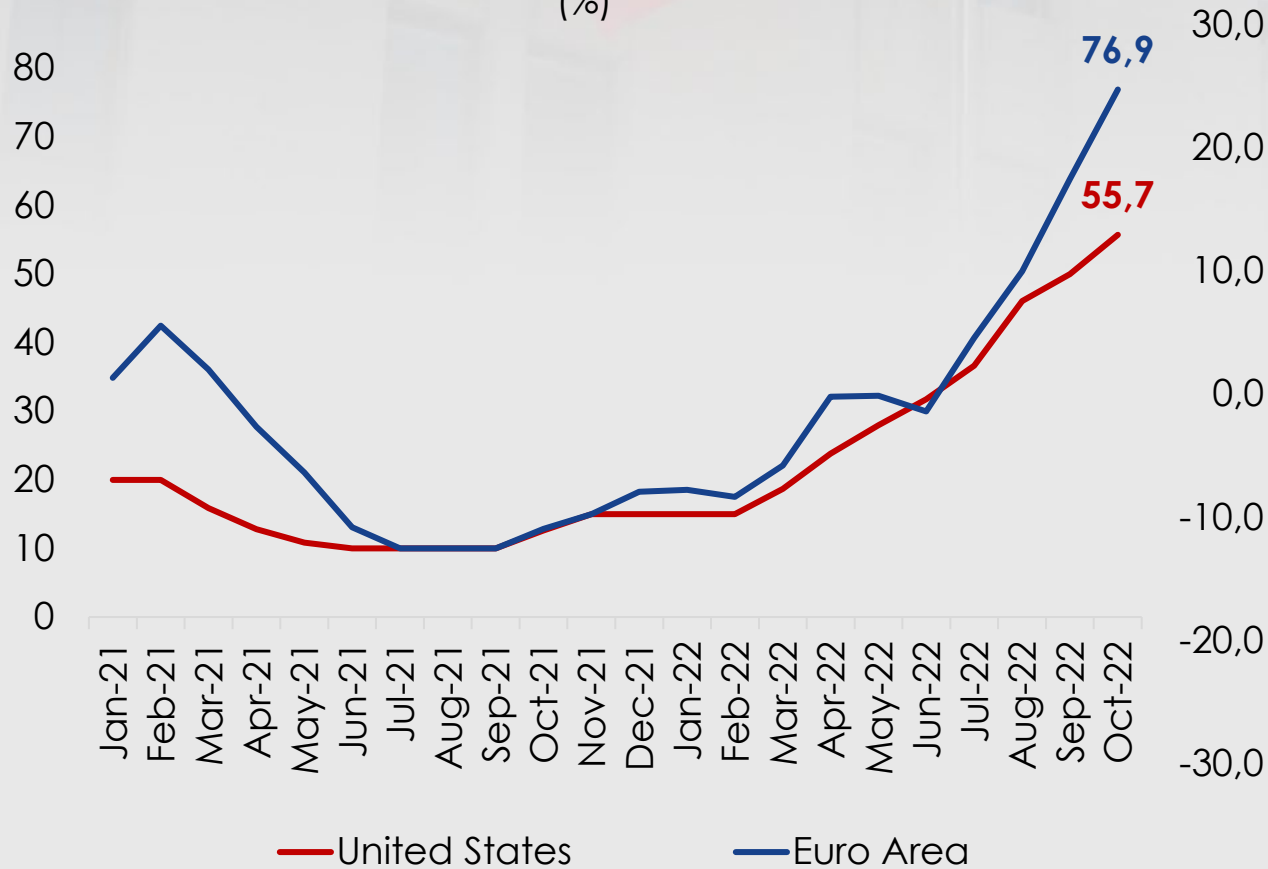
Indexation: higher inflation and **increases in the minimum wage** could result in a process of indexing prices these variables. Thus, the government has made progress in **identifying some activities, goods and services that could be deindexed from the minimum wage**, mainly on the transportation, agricultural, education and housing sectors.

Energy: electricity service rates have registered a sustained increase, which has resulted in additional pressures on prices in the economy. In order to reduce these pressures, **the government of Colombia will implement the adjustment of energy prices** from November 2022 onwards.

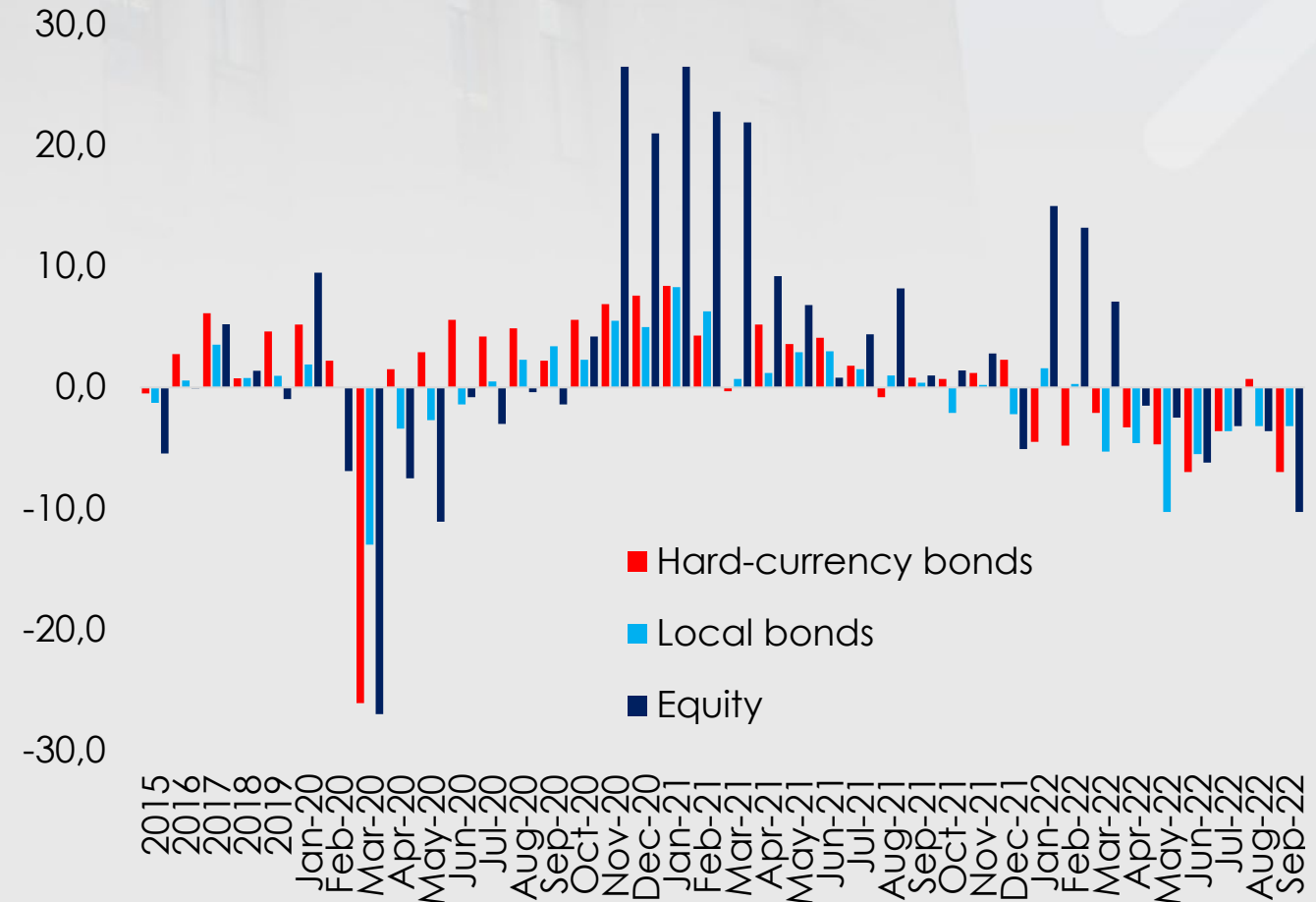
Fuel Price Stabilization Fund (FEPC): to balance the fiscal burden resulting from the FEPC and the inflationary pressures that the increase in fuel prices could generate, the government has **implemented gradual increases in the prices of gasoline and diesel**, which will avoid drastic increases in inflation.

The transition towards a more restrictive monetary policy has increased the risk of recession, resulting in higher risk aversion and tighter financial conditions, which have impacted capital flows to emerging economies

Recession Probability*
(%)



Capital flows to emerging economies, JPMorgan
(USD billions)

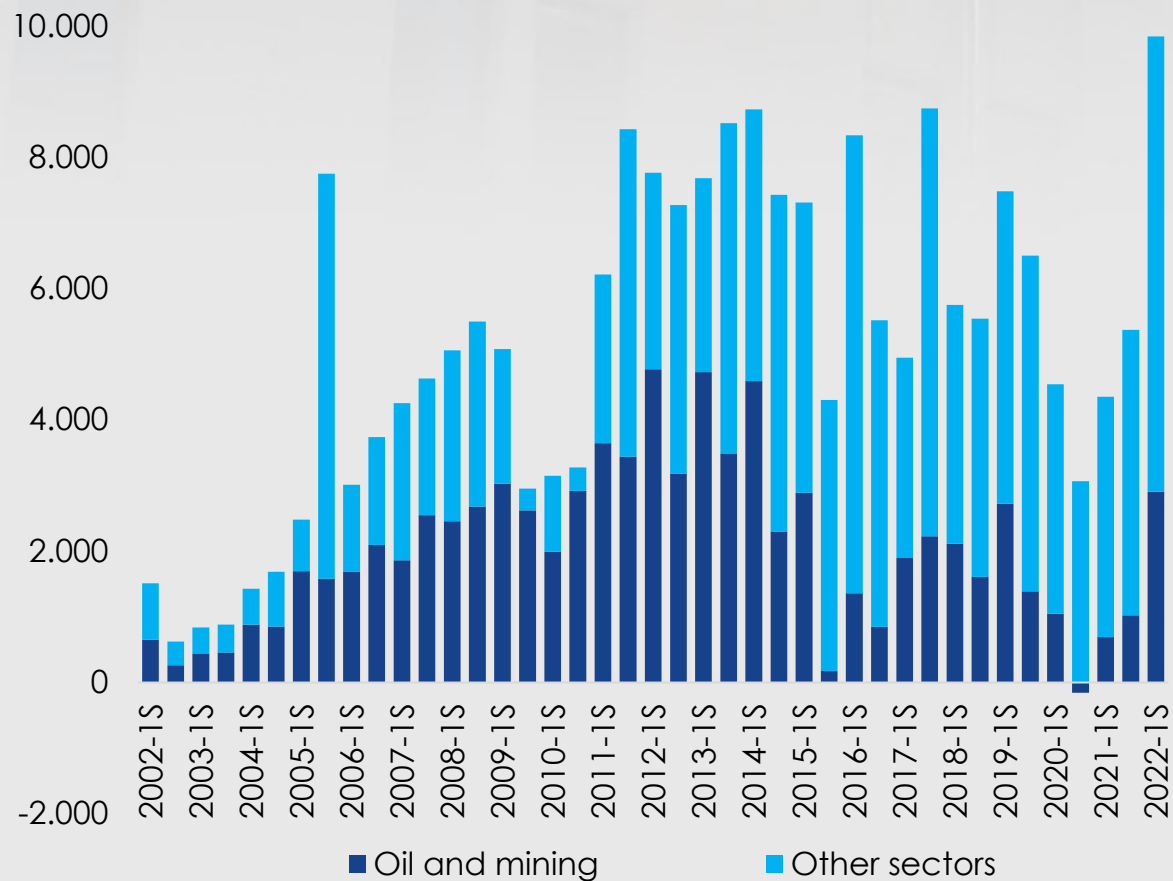


Source: Bloomberg & JP Morgan.
*Probability of recession in the next 12 months.

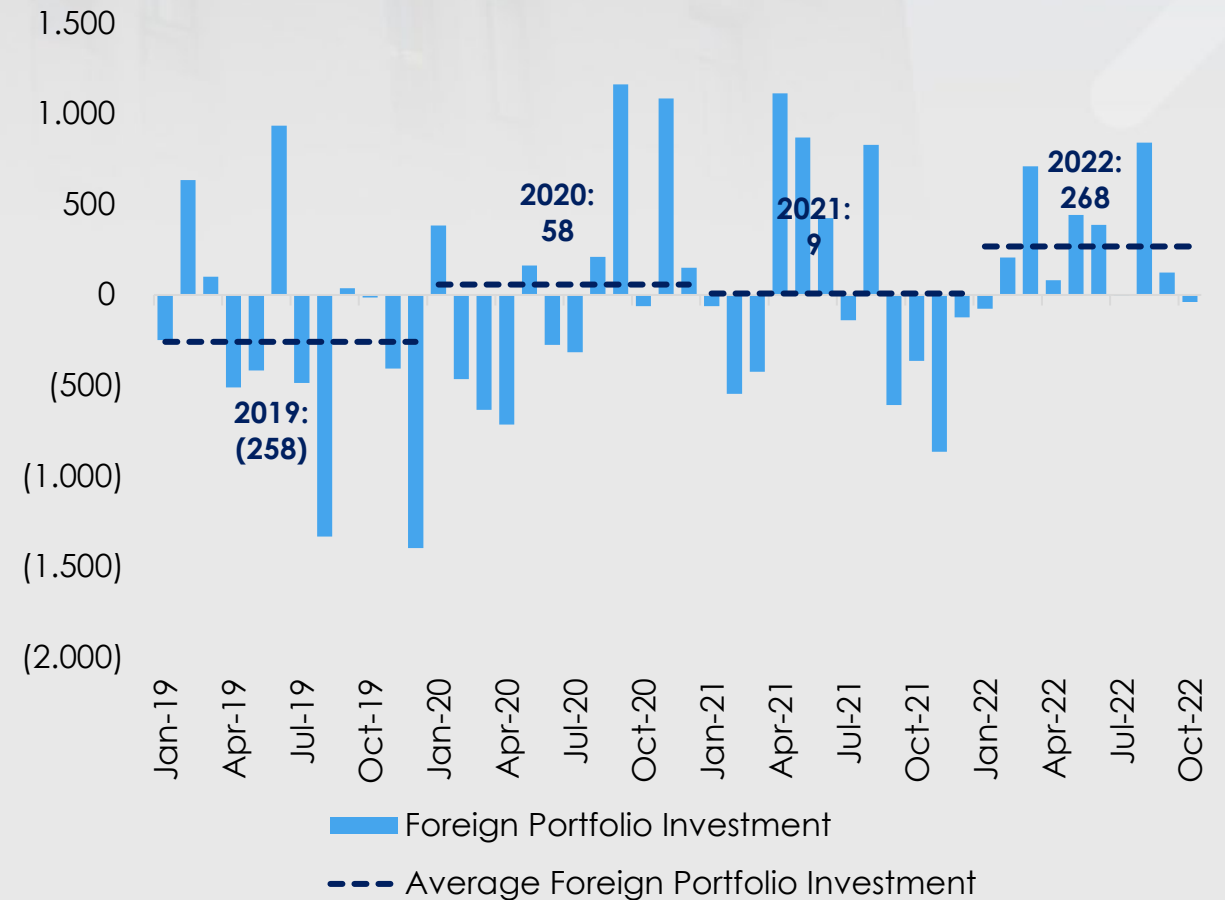
Despite the emerging markets' trend, capital inflows to Colombia have remained dynamic

- The good dynamism of FDI flows to other sectors has been explained, mainly, by the financial services sector, and, to a lesser extent, by the transport and industry sectors.

Flows of foreign direct investment (\$US millions)



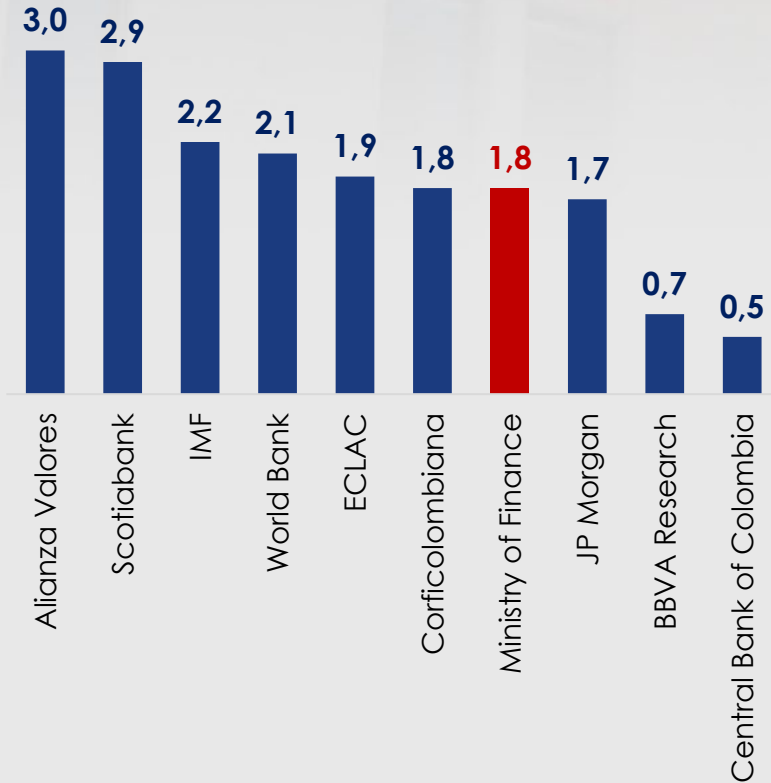
Foreign portfolio investment (Millions of dollars)



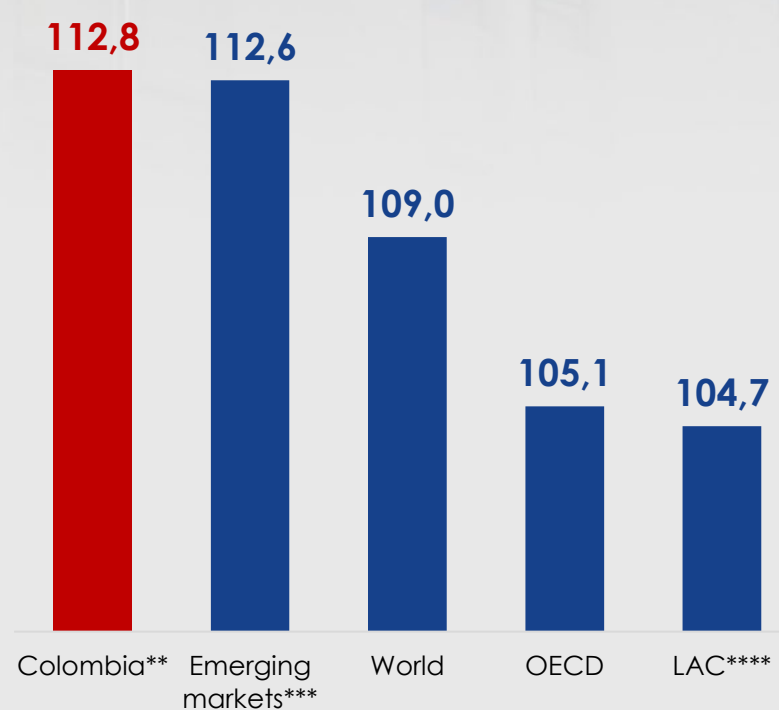
Source: Colombian Central Bank.

Due to the materialization of downside risks, the economy is expected to grow by 1,8% in 2023. However, GDP levels relative to 2019 would continue to be outstanding among peers and worldwide

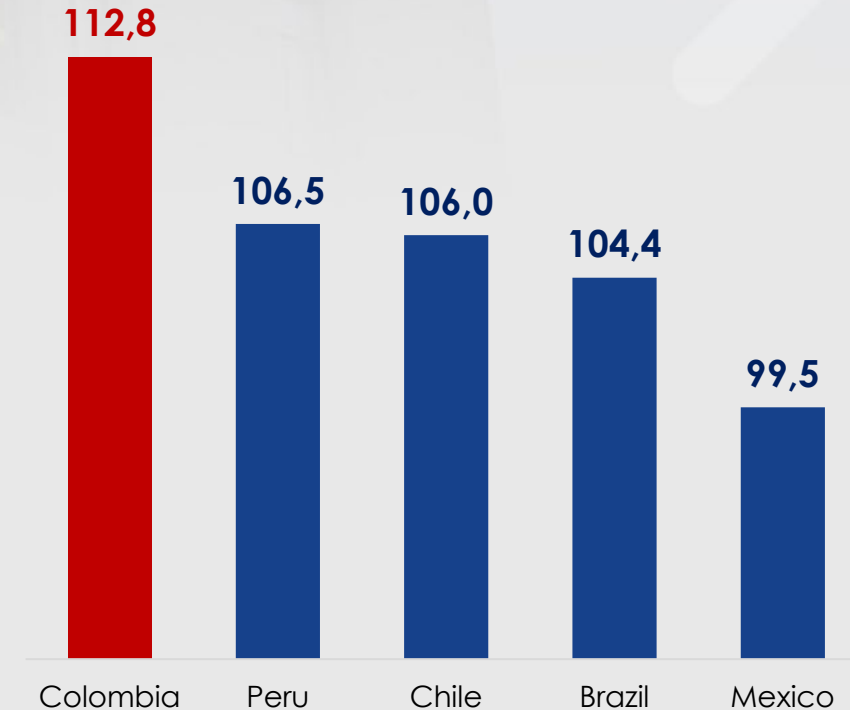
2023 economic growth forecasts for Colombia* (%)



Real GDP levels 2023 by country group (2019 = 100, Seasonally adjusted)



Real GDP levels 2023 in LATAM (2019=100, Seasonally adjusted)



Source: Analyst's webpages & FMI WEO – October 2022. Ministry of Finance calculations.

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