

COLOMBIA

Table 1 **2023**

Population, million	52.1
GDP, current US\$ billion	363.6
GDP per capita, current US\$	6980.3
International poverty rate (\$2.15) ^a	6.0
Lower middle-income poverty rate (\$3.65) ^a	14.0
Upper middle-income poverty rate (\$6.85) ^a	34.8
Gini index ^a	54.8
School enrollment, primary (% gross) ^b	104.8
Life expectancy at birth, years ^b	73.7
Total GHG emissions (mtCO2e)	272.7

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2022), 2017 PPPs.
b/ Most recent WDI value (2022).

After an expected cool-off in 2023, growth accelerated but is expected to remain weak at 1.5 percent in 2024. Fiscal consolidation to comply with the Fiscal Rule and Colombia's long-standing low productivity dynamics limit the prospects of a more vigorous growth process going forward. Declining inflation and interest rates are mitigating factors. Poverty reduction is expected to moderate, in line with economic activity.

Key conditions and challenges

Colombia's macroeconomic stability has long been anchored by a robust institutional framework, featuring a rules-based fiscal system, a flexible exchange rate, and a modern inflation-targeting regime. However, economic growth has been decelerating, with productivity offering minimal support to GDP growth over the years. Despite engaging in multiple trade agreements, the country has struggled to diversify and expand its export base. Persistent infrastructure deficiencies, subpar educational outcomes, and institutional challenges further limit Colombia's economic potential.

Colombia also faces significant social and geographic inequalities, including in human capital. To tackle poverty and stimulate prosperity across all regions, it is crucial to enhance productivity, make the most of trade potential, reform the social security system, foster more efficient and inclusive labor markets, and reform the intergovernmental fiscal transfer system to ensure widespread access to quality public services.

Colombia faces increasing climate challenges. Climate-related events disrupt livelihoods and damage assets throughout the country. Additionally, Colombia's fossil fuel sector, a large source of fiscal revenue, exports, and foreign direct investment (FDI), is vulnerable to global decarbonization. Colombia could foster a more

diversified and climate-resilient economy over time, aligning it with the country's ambitious climate goals.

Tackling these issues while maintaining fiscal responsibility is crucial for Colombia to meet its development potential.

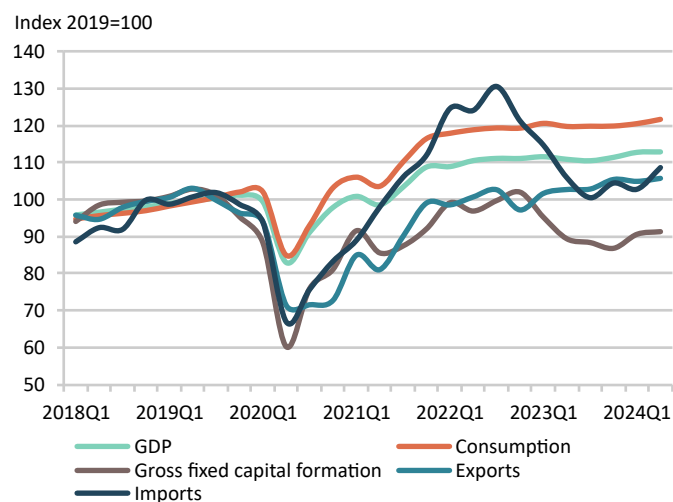
Recent developments

Economic growth ticked up in the first half of 2024 (1.4 percent, y-o-y), driven by resilient private consumption and exports, and by improvements in still low investment levels. The health, education, public administration, agriculture, and entertainment sectors are driving growth and a mild increase in employment. Still, with a weak performance in commerce and manufacturing, employment and unemployment rates worsened slightly. The labor force participation rate declined marginally, more for women than for men.

The official poverty and extreme poverty rates declined in 2023, driven by a rise in real incomes (10 percent among the lowest quintile), mostly from higher labor market earnings. Social transfers declined among the poorest, partly as the emergency social program Ingreso Solidario closed.

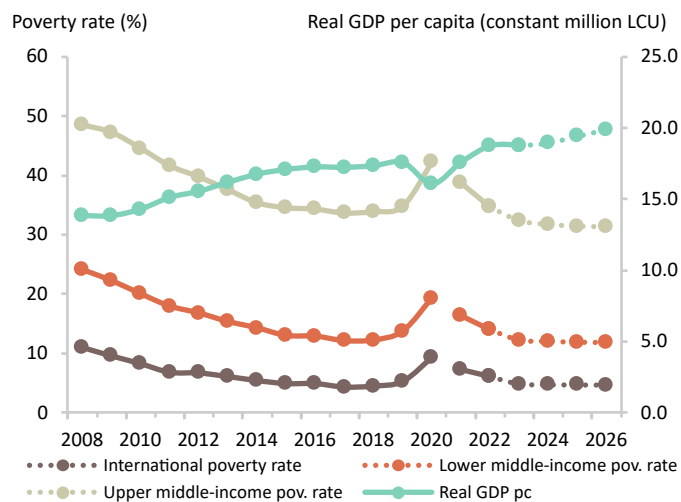
The current account deficit (CAD) narrowed to 2.5 percent in 2023 helped by the deceleration of economic activity, and remained low (1.9 percent 12-month average) in 2024H1. Export volumes (especially of non-oil goods and tourism) remained strong, imports continued to recover, primary payments fell,

FIGURE 1 Colombia / GDP and components



Sources: National Administrative Department of Statistics (DANE), and World Bank staff calculations.

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



Source: World Bank. Notes: see Table 2.

and remittance inflows hit new highs. FDI inflows declined but remain above pre-pandemic levels, and portfolio investment outflows moderated.

Tight monetary policy underpinned the fall in inflation from a peak of 13.3 percent (y-o-y) in March 2023 to 6.8 percent in July 2024. While still above the 2-4 percent target range for 2024, the Central Bank started an easing cycle in December as inflation expectations remain anchored, with cuts that gradually reduced the monetary policy rate 250 bps to 10.75 percent. The Colombian Peso strengthened 3.2 percent in 2024H1 and volatility subdued, benefiting from high interest rates, global financial liquidity, and a reduction in policy uncertainty.

After a good performance in 2023 led largely by cyclical factors and yields of the 2022 tax reform, fiscal accounts underperformed in the first half of the year driven by lower-than-anticipated tax collection. Low revenue from oil and mining corporate income taxes, partially due to the courts' partial reversal of the tax reform, explained an 8.7 percent (y-o-y) fall. To comply with the fiscal rule, the government announced spending cuts across current and capital expenditures worth 1.9 percent of GDP for

the second half of 2024. Central government debt reached 58.2 percent of GDP in June. EMBIG spreads fell in 2024H1 with respect to 2023 but remain high among regional peers.

Outlook

GDP growth is expected at 1.5 percent in 2024 and 3.0 percent in 2025, as the economy recovers and converges to its potential growth rate by 2026. Private consumption, solid export growth alongside moderate increases in imports, and a steady rise in private investment are expected to support the pick-up, as inflation and interest rates recede. The CAD is anticipated to remain constant in 2024 and widen slightly going forward as the economy accelerates and imports increase.

Revenue underperformance and the fading impact of cyclical factors are expected to drive an increase in the fiscal deficit to 4.7 percent of GDP in 2024, which still requires a large fiscal consolidation effort in the second half of the year. Given Colombia's track record, the government is expected to continue to comply with the fiscal rule going forward, which will call for

continuous fiscal discipline. The costs of the approved pension reform add to the fiscal challenges in the medium term.

Amid moderate economic growth in 2024, modest progress is expected in poverty reduction. Agricultural sector growth could benefit rural areas. Projections estimate 31.7 percent of people living below the poverty line (\$6.85/day 2017 PPP). While inflation declined, higher prices buffer improvements in real incomes and food security, and climate shocks may affect households, particularly in regions like Caribe and Pacífico. Investing in access to quality education for the poor is paramount for poverty and inequality reduction prospects.

Risks to the outlook are tilted to the downside. Fiscal slippages or protracted uncertainty about the approval process of next year's public budget could prove costly, while persistent inflation and policy uncertainty could weigh on private investment. Spikes in armed violence could intensify regional disparities. On the external side, negative terms of trade shocks or tighter external financial conditions could limit growth prospects. Excessive rain from an expected La Niña event could occasionally disturb road connectivity and disproportionately affect the poor and vulnerable.

TABLE 2 Colombia / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2021	2022	2023	2024e	2025f	2026f
Real GDP growth, at constant market prices	10.8	7.3	0.6	1.5	3.0	2.9
Private consumption	14.7	10.7	0.8	0.6	2.7	2.6
Government consumption	9.8	0.8	1.6	0.2	0.5	0.5
Gross fixed capital investment	16.7	11.5	-9.6	0.6	5.5	4.8
Exports, goods and services	14.6	12.3	3.4	3.3	4.6	4.9
Imports, goods and services	26.7	23.6	-15.0	8.9	3.1	3.0
Real GDP growth, at constant factor prices	10.3	6.4	0.6	1.5	3.0	2.9
Agriculture	4.4	-0.8	1.4	3.9	3.3	3.2
Industry	8.1	6.9	-2.0	0.9	3.1	2.8
Services	11.9	7.0	1.5	1.5	2.9	2.9
Inflation (consumer price index)	3.5	10.2	11.7	6.9	3.9	3.1
Current account balance (% of GDP)	-5.6	-6.1	-2.5	-2.5	-2.6	-2.6
Fiscal balance (% of GDP)	-7.1	-6.5	-2.9	-4.7	-4.3	-3.6
Revenues (% of GDP)	26.6	27.6	32.4	28.8	28.8	28.8
Debt (% of GDP)	65.7	64.6	61.3	60.7	59.8	59.2
Primary balance (% of GDP)	-3.7	-2.1	1.2	0.0	0.4	0.6
International poverty rate (\$2.15 in 2017 PPP)^{a,b}	7.3	6.0	4.8	4.7	4.7	4.7
Lower middle-income poverty rate (\$3.65 in 2017 PPP)^{a,b}	16.4	14.0	12.2	12.0	11.8	11.8
Upper middle-income poverty rate (\$6.85 in 2017 PPP)^{a,b}	38.8	34.8	32.4	31.7	31.4	31.3
GHG emissions growth (mtCO₂e)	3.6	-1.1	-2.5	-0.9	0.4	1.0
Energy related GHG emissions (% of total)	28.2	26.9	25.8	26.0	26.4	26.8

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.

Notes: e = estimate, f = forecast.

a/ Calculations based on SEDLAC harmonization, using 2023-GEIH. Actual data: 2022 and 2023 (Preliminary). Nowcast: 2024. Forecasts are from 2025 to 2026.

b/ Projections using microsimulation methodology.