Colombia

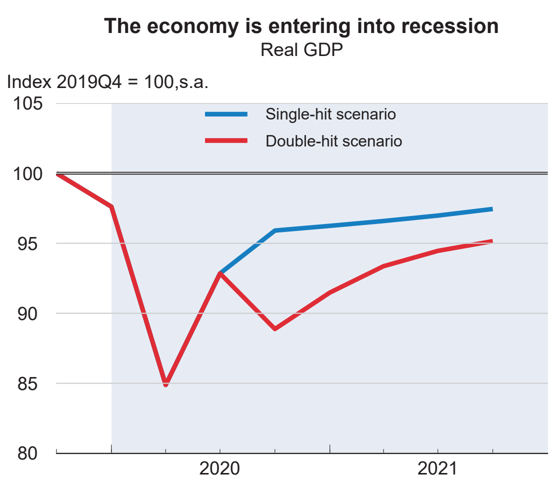
The economy is entering a deep recession, the worst in a century, driven by domestic confinement measures necessary to limit the spread of COVID-19, the global economic contraction, lower oil prices, and tightening financial conditions. Should a second outbreak occur in late 2020 GDP will decrease by 7.9% in 2020 and a slow gradual recovery will be delayed to 2021. If the pandemic is tamed after the current outbreak, GDP is expected to fall by 6.1% in 2020. The recovery will be moderate, led by improvements in consumer confidence and a gradual recovery of investment helped by a lower corporate tax burden introduced in a 2019 tax reform. A weak external environment will keep trade depressed and raise vulnerability to already low commodity prices.

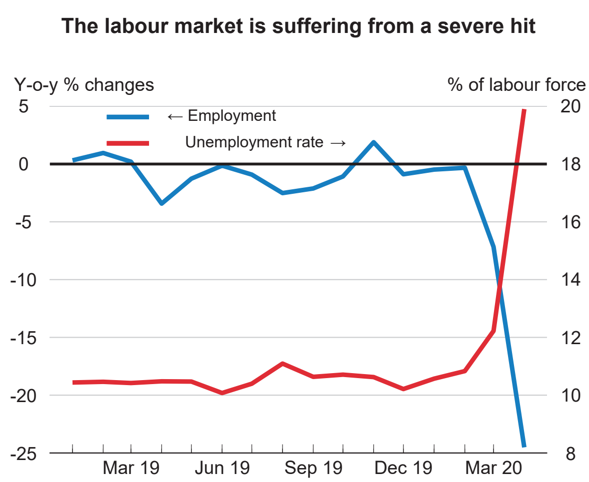
Fiscal policy should continue to support public health services, and make the healthcare system ready for future outbreaks of COVID-19. Although fiscal space is limited, further targeted public resources could be needed to support economic activity in sectors suffering the most from the containment measures. Fostering formal employment through lower payroll taxes will be key to putting the economy on a higher productivity and inclusive growth path. Monetary policy should remain accommodative and ease further if needed.

Containment measures were put in place early in the outbreak

The virus was first diagnosed in Colombia in early March. The daily new contagion cases, the death toll and the use of intensive care beds continue to be low, compared to some countries in the region and most advanced countries. This is at least partly driven by the early actions on containment, and a relatively young population.

Colombia





Source: OECD Economic Outlook 107 database; and GEIH of DANE.

StatLink https://doi.org/10.1787/888934139195

Colombia: Demand, output and prices (double-hit scenario)

Colombia: double-hit scenario	2016	2017	2018	2019	2020	2021
	Current prices COP trillion	Percentage changes, volume (2015 prices)				
GDP at market prices	863.8	1.4	2.5	3.3	-7.9	2.8
Private consumption	596.5	2.1	3.0	4.5	-6.8	2.7
Government consumption	125.6	3.6	7.0	4.3	3.8	2.9
Gross fixed capital formation	191.2	1.9	1.5	4.3	-17.9	-2.1
Final domestic demand	913.3	2.2	3.3	4.4	-7.5	1.9
Stockbuilding[1]	9.0	-1.2	0.1	-0.1	-0.1	0.1
Total domestic demand	922.2	1.1	3.4	4.3	-8.5	2.0
Exports of goods and services	127.1	2.6	0.9	2.6	-18.6	-1.2
Imports of goods and services	185.6	1.0	5.8	8.1	-19.5	-4.1
Net exports[1]	- 58.5	0.2	-1.0	-1.3	1.3	0.6
Memorandum items						
GDP deflator	_	5.1	4.5	4.3	2.3	2.8
Consumer price index	_	4.3	3.2	3.5	2.9	2.5
Core inflation index[2]	_	4.9	2.9	3.0	2.7	1.9
Unemployment rate (% of labour force)	_	9.4	9.7	10.5	19.8	19.9
Current account balance (% of GDP)	_	-3.3	-3.9	-4.3	-3.7	-3.4

1. Contributions to changes in real GDP, actual amount in the first column.
2. Consumer price index excluding primary food, utilities and fuels.
Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934137523

A state of economic and social emergency was declared on 17 March. Resources for the health sector have been increased to facilitate the acquisition of medical equipment, enlarge testing capacities and provide liquidity to the hospital network. The lockdown of the country was announced on 24 March. Border and educational institution closures are in place since mid-March. The authorities have lifted some lockdown measures since the end of April. Public works, manufacturing, construction and retail businesses have started operating under strict health protocols, and some regions, where the virus is less active, have started lifting most restrictions.

Economic activity and financing conditions are deteriorating

Downside risks to the outlook have started to mount due to the adverse effects of the global COVID-19 outbreak, lower oil prices and domestic lockdown measures. Real GDP declined by 2.4% during the first quarter of 2020, driven by a sharp deterioration in external demand and the impact of one-week of domestic lockdown measures during March. Energy demand declined by more than 15% during the lockdown. Consumer and business confidence plummeted during March and April to the lowest levels ever recorded. Employment sank in April to historical lows, amid a surge in unemployment and inactivity. Financial markets are under stress. Equity markets have fallen sharply, the government risk premium has risen and the peso has weakened strongly in the first half of the year amid large capital outflows and increased uncertainty. Together with substantially lower oil prices, considerable pressure has been put on the external and fiscal accounts.

Colombia: Demand, output and prices (single-hit scenario)

Colombia: single-hit scenario	2016 Current prices COP trillion	2017	2018	2019	2020	2021
		Percentage changes, volume (2015 prices)				
GDP at market prices	863.8	1.4	2.5	3.3	-6.1	4.3
Private consumption	596.5	2.1	3.0	4.5	-4.8	4.8
Government consumption	125.6	3.6	7.0	4.3	3.6	1.7
Gross fixed capital formation	191.2	1.9	1.5	4.3	-15.1	1.7
Final domestic demand	913.3	2.2	3.3	4.4	-5.7	3.7
Stockbuilding[1]	9.0	-1.2	0.1	-0.1	-0.1	0.1
Total domestic demand	922.2	1.1	3.4	4.3	-6.7	3.8
Exports of goods and services	127.1	2.6	0.9	2.6	-15.8	2.2
Imports of goods and services	185.6	1.0	5.8	8.1	-16.8	0.5
Net exports[1]	- 58.5	0.2	-1.0	-1.3	1.2	0.2
Memorandum items						
GDP deflator	_	5.1	4.5	4.3	2.3	3.0
Consumer price index	_	4.3	3.2	3.5	3.0	2.8
Core inflation index[2]	_	4.9	2.9	3.0	2.8	2.6
Unemployment rate (% of labour force)	_	9.4	9.7	10.5	18.0	16.0
Current account balance (% of GDP)	_	-3.3	-3.9	-4.3	-3.8	-3.7

1. Contributions to changes in real GDP, actual amount in the first column.
2. Consumer price index excluding primary food, utilities and fuels.
Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934137542

Policy has responded quickly and boldly to the unprecedented shock

The authorities have rolled out a wide set of relief measures aimed at cushioning the economic fallout from the pandemic. Measures have aimed at preventing the most vulnerable groups falling into poverty, through expanded social programmes and new cash transfers, including to informal workers, and subsidies to wages to prevent massive layoffs from formal employment. To support firms, especially SMEs, the government announced the provision of credit guarantees, deferrals of capital payments of existing loans, and cancelled pension contributions. The central bank cut the policy rate to low historical levels, began asset purchases, and ensured the adequate provision of liquidity in both the domestic financial market and foreign exchange rate markets to support credit supply. These measures help to preserve jobs, firms and capital, and will help the economy to rebound gradually.

The economy is entering a deep recession

The COVID-19 pandemic and the sharp oil price decline have severely disrupted the recovery in the near term, and will cause an unprecedentedly deep recession in 2020. In the case of a second outbreak, more containment measures should be expected in the second half of 2020. If the current outbreak is tamed, a gradual recovery is expected, but some sectors, such as entertainment and tourism, will be paralysed for a long time. Investment will suffer a large drop during 2020, but grow gradually helped by lower corporate taxes and fiscal exemptions introduced by the tax reform at the end of 2019. Further increases in unemployment and informality could require more resources to support the creation of formal jobs. With an already limited fiscal space, the projected larger fiscal deficits and public debt could lead to difficult financial conditions. Other risks are the appearance of liquidity and solvency issues among firms, which would lead to a deterioration of the credit portfolio and thus affect credit supply and financial vulnerabilities.

Heightened global risk aversion could result in further capital outflows, pressuring the currency and further widening the risk premium. An adequate level of international reserves and the newly renewed flexible credit line with the IMF could cushion heightened external vulnerabilities together with the flexible exchange rate.

Policy should continue to support the recovery

Fiscal policy should continue to provide resources to the health system to develop test, track and trace programmes. Support measures for families and firms should be reviewed and adapted with the gradual return of economic activity, efficiently refocusing transfers to jobless vulnerable workers in the most affected sectors and fostering formal employment, through lower non-wage costs. Fiscal space can be found by making efficient reallocations of public spending, including the elimination of numerous exemptions in the tax system. Monetary policy should remain accommodative and supportive as needed. The credible monetary policy framework is helping to absorb the external shock.