

The Economic Perspective of Colombia in 2023

The world economy is going through a complex moment, which may lead to an economic recession accompanied by high and long-lasting inflation, with repercussions for economic activity in general terms. To contain inflation in all countries, including Colombia, central banks have used a contractionary monetary policy. In the case of the United States, the Federal Reserve has been increasing interest rates, which has allowed the strengthening of the dollar against the euro and other currencies of developed countries, and some currencies of developing countries such as Colombia. This situation has allowed financial investors to prefer to demand more dollars because it provides them with higher profitability.

Hence, Colombia's economic situation must be framed within the international context. The country is not an island in the world scenario, but it is part of it, and what is registered in the external environment affects it, without ignoring that in the country some elements also explain what happens in the domestic economic activity.

Both the external and internal situation, this year and particularly in the first semester, will affect economic growth, inflation, employment, and the country's external sector.

The latest World Bank report reduced the projection of world economic growth for this year from 4 to 1.7%, basing said adjustment on the general slowdown in growth since the estimates were revised downwards in 95% of developed economies and approximately 70% of developing economies.

For Colombia, the World Bank estimated GDP growth for 2023 at 1.3%. This revision of the forecasts is explained, in part, both for the world economy and for the Colombian economy, by the rising in interest rates worldwide.

In the Colombian case, the Banco de la República raised the interest rate from 1.75% (September 2021) to 12% (December 2022), a growth that is reflected in the increase in the cost of ordinary credits in Colombia, whose rate went from 18.7 % in July 2022 to 31.8% in January 2023. Undoubtedly, this has an impact on private

spending, which has been falling, so that both households and companies have gradually lowered the consumption of goods and services, due to the increases in the cost of money.

Another element that affects aggregate demand is high inflation, which stood at 13.21% in 2022, an indicator that undoubtedly also influences the caution of the population to increase spending, even more so when the rise in the level of prices in January further affects its purchasing power.

Regarding economic growth, while the Ministry of Finance estimates a growth of 1.3%, the Banco de la República forecasts 0.5%. José Antonio Ocampo, Minister of Finance, on a personal basis, is optimistic and estimates growth between 2 and 2.5%. Said optimism is argued as follows: first, non-oil exports will increase, particularly the trade with Venezuela. Secondly, due to the growth in real wages, given that inflation in 2023 will drop to 7%, increasing its purchasing power. Thirdly, due to the improvements in weather conditions in the second quarter, as well as the subsidies for fertilizers, which will contribute to enlarge the agricultural supply this year. Fourth, the expansion in public spending with the resources generated by the tax reform will stimulate domestic demand.

In the Colombian case, as in the rest of the world, this year's inflation is worrisome. In 2022 the consumer price index (CPI) registered a variation of 13.12% and, to the extent that the CPI is a reference variable in the increase of many controlled goods and services such as rents, the value of private education tuition, both university, and basic and secondary, and public services, among others, it is foreseeable that inflation will continue to increase until the first four months of this year.

For the Banco de la República—which by constitutional mandate must ensure the purchasing power of money—, inflation is basically due to demand, that is, due to excess consumption and, for this reason—as noted above—inflation has been rising interest rate until reaching 12.75% in January of this year. For some analysts (Caballero, Clavijo and Cano, among others), inflation is determined by demand, and for others (Ocampo, Stiglitz, among others), by supply. For the former, it is necessary for the issuer to continue tightening the monetary policy, which is equivalent to increasing the interest rate up to 14% so that within 18 months it can meet the target inflation target, set between 3 and 4 %. According to Minister Ocampo: “a large part of the inflation problem is the low supply”, arguing that the increase in international prices is a global phenomenon.

For his part, Joseph Stiglitz, Nobel Prize winner in Economics in 2001, argues that the “Russian war of aggression in Ukraine”, whose end is not in sight soon, has

made energy and food prices more expensive. Stiglitz argues that “current inflation is largely due to supply-side constraints that, in some cases, are already on the way to being resolved. In this context, raising interest rates may be counterproductive. It won’t generate more food, oil and gas, but it will make it harder to mobilize investment that would help ease those restrictions.”

Employment in Colombia, given the high economic growth registered in 2022, close to 8%, has been improving. It is possible that by 2023 it will be diminished, among other reasons, by low global and national growth and by the annual readjustment of costs and prices.

According to the Colombian statistics bureau (DANE, by its acronym in Spanish), the national unemployment rate fell in November to 9.5% per year, which, compared to last year for the same month, fell 2 points, being the lowest in the recent four years. According to Piedad Urdinola, director of this statistical bureau, an important characteristic is that the gender gap has been closing, although it is still high: the unemployment rate for unemployed men up to November was 7.6%, while that of women was 12.1%.

According to DANE statistics, exports of goods as of November 2022 were 52,575 million dollars and imports, 66,013 million dollars, resulting in a deficit of 13,438 million dollars in the trade balance. On the other hand, the current account balance presents an alarming deficit with the rest of the world of 6.4% of gross domestic product. If the world economy and the Colombian economy enter a slowdown phase, the trade deficit with the rest of the world could intensify this year.

Undoubtedly, the economic outlook in 2023, particularly for the first semester, is not rosy at all, as revealed by the variables analyzed in this writing. Although the uncertain international situation —such as the conflict between Russia and Ukraine— cannot be modified by government economic policy, it is possible that there will be a better articulation and harmonization of decision-making between the Banco de la República and the national Government, taking into account, of course, the different but converging objectives of each one.

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