

Industry and market trends colombia

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Following an economic surge in the 2000s, Colombia's Gross Domestic Product (GDP) continues to rise, achieving a figure of \$363 billion USD in 2023, with a projected upward trajectory for the...

Colombia's currency, after being the most depreciated in the region in 2022, was the most appreciated in 2023. Its volatility reduced significantly so far in 2024 after having been the most volatile in the last two years.

Colombia's economy has potential for sustained moderate growth in the long term, given its wealth of natural resources, relatively developed regulatory system, and stronger institutions compared to other Latin American countries. However, internal conflict since 1964 has fueled a large informal economy, hindering productivity growth. Nevertheless, the 2016 peace accord with FARC guerrillas has improved security conditions and attracted new foreign investment. Despite challenges, we would assume an annual GDP growth rate of 3.1% could be realized in the coming decade, basing on the IMF analysis. However, deteriorating demographic profile and limited efforts to catch up technologically with advanced economies is likely to dampen GDP growth in the long run.

Colombia faces challenges such as large poverty, limited access to financing, high competition from cheaper Asian goods, and high crime rates. Colombia's GDP per head in 2021 was the lowest among the region's six largest economies, and it is still a long way ahead to developed-income country status. Colombia's economy relies heavily on a small number of commodities for export income, making it vulnerable to fluctuations in global demand and prices. Despite these challenges, future governments are expected to maintain orthodox policies and improve infrastructure to allow businesses to compete internationally.

The current president, Gustavo Petro, is anticipated to maintain a pragmatic approach to governance, enabling his administration to make progress on some of its agenda. Although the left-wing Pacto Histórico coalition is expected to fall apart prior to the October 2023 local elections, it is unlikely to put political stability at risk overall. However, economic policy under Mr. Petro is projected to be more state-led and interventionist than the previous government. In 2023, the economy will experience a slowdown, growing at just a third of that in 2022, and growth will continue to be modest after it due to political uncertainty and stricter regulation undermining business confidence, as well as a global economic downturn restricting exports in the near future.

Despite Colombia's fiscal deficit expected to narrow only slightly in 2023-24, a tax reform bill approved in November 2022 will generate extra revenue for social spending. Gustavo Petro's pledge to reduce the economy's dependence on hydrocarbons will hinder private investment in the sector, although prospects for investment in renewables may improve under his administration. Currency volatility will persist amid investor concerns regarding economic policy direction and US monetary tightening, but foreign reserves will help offset external vulnerabilities caused by a relatively large current-account deficit.

Colombia's long-term potential for growth depends on its ability to address structural factors such as corruption, drug-trafficking, and vested interests' lobbying power, as well as its inadequate infrastructure. Demographic changes will decrease growth, making productivity improvements more important. While political instability and policy uncertainty pose potential risks, the Colombian government's efforts to enhance trade integration, reduce poverty, and improve institutions should improve competitiveness and support long-term economic growth.

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