

# Economic impacts of and policy responses to the coronavirus pandemic: early evidence from Colombia

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## Key messages

- Colombia had reported 1,579 cases, 46 deaths and 88 recovered cases of COVID-19 by 6 April 2020.
- The main measure taken by the national government has been a quarantine of 35 days, restricting the movement of citizens. This policy has been accompanied by initiatives to mitigate the economic impact of the crisis on business and the most vulnerable citizens.
- One of the biggest challenges relates to economically suspended workers in informal markets – for example street vendors, black market sellers and family businesses – who represent about half of the country's workforce. Venezuelan migrants in vulnerable economic circumstances have become a major social issue for local authorities.
- The fall in the price of oil (which makes up 33.3% of Colombia's exports) is affecting the country's financial planning, which assumes a price of \$60 per barrel. The cut flowers sector is forecasting a decrease in exports by half by the end of the semester. Conversely, coffee prices have reached their highest level historically.

## Introduction

[Colombia had reported 1,579 cases, 46 deaths and 88 recovered cases of COVID-19 by 6 April 2020](#). The main public health measure at national level is the mandatory quarantine, in place from 25 March to 13 April, which limits the movements of all citizens with some exceptions. Health workers and employees working in production and distribution of food and essential goods can circulate. Public transport is working at a lower frequency. However, schools, universities, gyms, non-basic product stores, some restaurants and bars are closed.

International flights, including those repatriating Colombians, have been prohibited for 30 days since 23 March. Maritime and land borders are closed – but land borders are porous – in particular that with Venezuela, given its length.

Before the first case of coronavirus on 6 March, Colombia faced an accelerated devaluation of the peso relative to the dollar and a long fall in the price of oil – the main export commodity – affecting the real economy. Coronavirus deepened these economic difficulties; one of the first short-term impacts has been ongoing crashes in the Colombian stock market.

## Economic and social impacts

In February, the IMF revised the forecast rate of **GDP growth** from 3.5% to 3.4%. More recently, a decrease from 3.1% to 0% was forecast ([Corficolombiana](#)). [The](#)

[latest indicator](#) for **exports** – in February – points to a reduction of 5.2% in the total value. This has been driven mainly by the fall in **oil prices** to around \$20 (Brent), with direct impacts on the 33.3% of Colombian exports that correspond to crude and refined petroleum. The **cut flowers** sector (3.6% of exports) is also affected. The [leaders of the sector](#) have declared that half of exports programmed by the end of the first semester have been cancelled. Conversely, **coffee prices** have reached one of its highest levels in history, at COP 1.3 million (\$322.3) per 125 kg. Coffee is one of the most important commodities in Colombia, responsible for 7% of export value.

**Unemployment** in Colombia was 13% in January 2020, compared to 12.9% in January 2019. The most significant impact of COVID-19 on employment indicators has been on people employed in the informal sector, as the restrictions on mobility affect them directly. The National Institute of Statistics (DANE) estimates that informality represents 47.7% of the labour market.

The last monthly report on **inflation** (February 2020) indicates that it is higher than last year (0.67% to 0.57% month-on-month) but not atypical, considering historical performance.

## Finance

On 9 March, the **stock market** in the Latin America region crashed; Colombia was the third most affected country, experiencing a decrease of 10% in COLCAP

(Colombia's most important stock index). Ecopetrol, the Colombian oil company, saw the most affected stocks, which lost 20% of their price.

However, the most important economic news at the current time relates to the constant devaluation of the Colombian peso relative to the US dollar. From the first week of 2020 to the current week, the **Colombian peso's value has decreased by approximately 30% relative to the dollar**.

On the other hand, **remittances** seem not to have been affected. The latest data from the Central Bank show that, in February 2020, remittances were 5% higher than in February 2019.

### Social impact

The most vulnerable Colombians in terms of economic impact are **informal workers** – that is, those who do not have a formal contract, with most of them earning an income day by day. Local and national government has been trying to mitigate the impact of the crisis on these families through unconditional cash transfers and donations.

**Venezuelan migrants** represent another affected population, as some of this group have not yet integrated into the country economically or socially. Some have asked the Colombian government to let them cross the border back home as their economic opportunities in informal markets have vanished.

### Fiscal impacts

The **national budget** for 2020 assumed an oil price of \$60 per barrel, which means that the Colombian government is counting COP 400 billion (\$99 million) less for the national budget. According to an **IMF report**, COVID-19 will have a fiscal impact of between 0.3% and 0.5% of GDP.

### Monetary and financial policy

The Central Bank Board reduced **interest rates** by 50 basis points last week, to **3.75%**. The Board also boosted **liquidity**. According to the same IMF report, this includes '(i) an extension of access of their liquidity overnight and term facilities to managed funds, stock brokerage companies, trusts, and investment companies, (ii) an expansion of their liquidity operations (REPOS) allotment from COP 20 to 23.5 trillion, (iii) COP 10 trillion programme to purchase securities issued by credit institutions, and (iv) COP 2 trillion in TES purchases'.

In the past week, S&P and Fitch have made negative decisions on the **credit rate** of the country. The former has changed the outlook from 'stable' to 'negative' and the latter has decreased the credit score by one notch.

### Fiscal and social policy

The government has created a National Emergency Mitigation Fund (of approximately 5% of GDP) accompanied by a series of decrees to implement this.

- Measures will include renegotiation of credits for businesses and people at no cost; grace periods for loans; and frozen interest rates.
- A new type of credit has been announced for small farmers at (annual effective) interest rates under the inflation rate, and for middle and large farmers at around 4%. There will be term expansion and new credit conditions for some affected farmers.
- Local governments like Bogotá have announced cash transfers for the poorest. Bogotá will have around 350,000–500,000 beneficiaries, at \$150 per family. Also, the Bogotá government has centralised in-kind donations for these families.
- The national government will provide unconditional cash transfers to families enrolled in the country's existing conditional cash transfer programmes: Familias en Acción, Protección Social al Adulto Mayor, Colombia Mayor and Jóvenes en Acción.
- The national government will accelerate refunds of VAT for poor families, some of which are not covered by the above social programmes.

### Donor support

#### New lines of credit

- The Development Bank of Latin America has launched a credit line of up to \$2.5 billion to mitigate the effects for all country members.
- The World Bank has announced a credit line for middle-income countries through the International Bank for Reconstruction and Development.

#### Private donations

- The businessman Luis Carlos Sarmiento Angulo has donated COP 80 billion (\$20 million) to fight the virus.
- The National Association of Businessmen of Colombia (ANDI) has donated COP 10,000 million<sup>1</sup> as a cash transfer for peddlers, recyclers and street artists, among others, in Bogotá.

Information in this note is correct as of 7 April 2020. The authors is an ODI Fellow; this note is written in a personal capacity. Comments welcome: [c.franco-restrepo.fs@odi.org.uk](mailto:c.franco-restrepo.fs@odi.org.uk)

<sup>1</sup> Note that in Colombia 1 billion = 1 million million, thus this number is not expressed as COP 10 billion.