[Document](#)

[Other Document](#)

Keep in mind

In the journal Essays on Economic Policy (ESPE) - we disclose the results and policy proposals that arise from academic research carried out at the *Banco de la República*. When you read us, always keep in mind that the content of our articles, as well as the analyzes and conclusions derived from them, are the sole responsibility of their authors. The material disclosed in our ESPE magazine does not compromise or represent the opinion of *Banco de la República* or that of its Board of Directors.

AUTHOR OR EDITOR

Ana María Tribín-Uribe Achyuta Adhvaryu Cesar Anzola-Bravo Oscar Ávila-Montealegre Leonardo Bonilla-Mejía Juan Carlos Castro-Fernández Luz A. Flórez Ánderson Grajales-Olarte Alexander Guarín Franz Hamann Didier Hermida-Giraldo Gaurav Khanna Francisco Lasso-Valderrama Carlos Medina Ligia Alba Melo-Becerra Juan C. Mendez-Vizcaino Leonardo Fabio Morales Juan J. Ospina-Tejeiro Andrea Otero-Cortés José Pulido Jorge Enrique Ramos-Forero Mario A. Ramos-Veloza Jorge Tamayo Santiago Velásquez

In the journal *Ensayos sobre Política Económica - ESPE* - we disclose the results and policy proposals that arise from academic research carried out at the Banco de la República. When you read us, always keep in mind that the content of our articles, as well as the analyzes and conclusions derived from them, are the sole responsibility of their authors. The material disclosed in our ESPE magazine does not compromise or represent the opinion of Banco de la República or that of its Board of Directors.

Publication Date:
Friday, 09 October 2020

The migration from Venezuela is the largest exodus recorded in the Western Hemisphere in the last 50 years according to the UNHCR (2020) [1]. Compared to the rest of the countries in Latin America and the Caribbean, Colombia has experienced the largest migration shock from Venezuela. The significant increase in migrants suggests a population shock in a very short period. Therefore, it is necessary to understand the challenges for the Colombian economy and its short- and long-term effects. This comprehensive report studies the migration from Venezuela to Colombia and is divided into two main modules: the first characterizes the migration phenomenon, and the second discusses the implications of the shock.

The first module describes the nature of migration, identifying the characteristics of the migrant population and their behavior in terms of aggregate consumption and savings. This module studies two major topics.The first, **Characterization of Migration in Colombia**, provides a demographic characterization of the migrant population and studies their labor market behavior using information from the Colombian Household Survey (Gran Encuesta Integrada de Hogares - GEIH in Spanish) and Migracion Colombia records. In general, both sources agree that before 2015, less than 200,000 migrants were observed, and subsequently there was accelerated growth in the number of migrants, reaching 1.6-1.8 million in the third quarter of 2019. Data suggest that migrants are mostly in the highly productive age group (15-30 years), and the proportion of children under 9 years old is higher than that of the native population. Migrants have higher levels of education than non-migrants. Most migrants participate in the labor market and have, on average, lower incomes and higher rates of informality than non-migrants.The second topic is **Aggregate Consumption of Migrants**, which analyzes the difference in consumption and savings between migrants and natives using data from the GEIH and the National Household Budget Survey (ENPH in Spanish). The results suggest that migrants have lower consumption, allocate a larger share of their expenditure to food, and consider non-tradable goods and services as luxuries, and therefore invest a smaller share of their income in them. In addition, migrants are found to have a higher propensity to save.

The second module describes the impact of migration on the labor market and at the macroeconomic level. This module is divided into three sections. The first section examines the impact on the labor market through two types of analysis. The first, **Migration in the Labor Market**, examines the causal relationship between the increase in unemployment and the arrival of migrants from Venezuela, as the increase in migration flows from Venezuela coincided with an increase in unemployment rates in Colombia. It is found that immigration has no effect on total unemployment, but it does affect the unemployment rate in some population subgroups, mainly among the immigrants themselves. The results suggest that migration reduces the overall labor force participation rate and the total employment rate; therefore, in the full sample, the effect on the unemployment rate is zero. The second analysis, **Migration in the Formal Sector**, examines the specific effect of migration in the formal sector using information from the Integrated Contribution Settlement Form and the National Population and Housing Censuses. It is found that migration did not significantly affect formal employment or wages.The second section, **Fiscal Impact of Migration**, examines the fiscal impact of migration. Using official data on the migrant population in the health and education sectors and making plausible assumptions, projections are made of the fiscal expenditure that the migrant flow represents for the nation. Similarly, the revenue that migrants can generate in terms of taxes is calculated. It is found that the cost of serving the migrant population in education and health could be around 0.2% and 0.4% of GDP in the short term (2020-2022).

The third and final section, **The Effect on Macroeconomic Variables**, examines the impact of migration on macroeconomic variables. This topic is divided into three subsections.

The first, **Monetary policy and macroeconomic effects of a migration shock**, develops a general equilibrium model that allows us to simulate how a labor supply shock from migrants can affect the entire economy. Recent migrants from Venezuela were mainly employed in low-wage informal occupations characterized by relatively flexible markets. The migration shock generates a positive response of the main macroeconomic aggregates such as production, consumption and investment, and a deterioration of the same variables in per capita terms through a general equilibrium model. It is found that migration would lead to a decline in wages in the informal sector, widening the wage and consumption gap between formal and informal workers. This shock does not imply inflationary pressures; therefore, the monetary authority is urged to remain neutral in the face of the shock.

The second subsection, **Impact of migration on GDP and potential GDP**, quantifies the impact of migration on observed and potential GDP through a growth accounting exercise. It is found that in the short run, migration increases growth in observed and potential GDP. However, the steady-state (long-run) values remain unchanged.

The third and final subsection, **Impact of migration on the relationship between inflation and unemployment**, examines the impact of migration on the existing relationship between the inflation rate and unemployment, known as the Phillips curve. The results suggest that migration could flatten this curve, meaning that changes in unemployment would have even less impact on prices.

> [illegible]

[1] UNHCR (2020). Venezuela Situation. Retrieved from https://www.unhcr.org/Venezuela-emergency.html