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Fiscal effects of the minimum wage in Colombia

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Publication Date: Wednesday, 2 of November 2022 Abstract
Using a computable general equilibrium model calibrated for 2019, shocks of various characteristics to the minimum wage are simulated to establish the effects on the nation's fiscal accounts. This document is a pioneer in that analysis. The evidence suggests adverse effects of increases in the minimum wage above past inflation and the change in productivity. An increase of these characteristics by 1% takes the General Government deficit in 2022 from 5.6% of GDP to 5.7%. If the simulated increase is 3.25%, as occurred for 2022, it takes the deficit from 5.6% to 5.8% of GDP and increases the total deficit of the Central National Government (CNG) and the debt by 0.13 percentage points (pp) and 0 .29pp, respectively. The semi-elasticity of the fiscal deficit of the CNG to the minimum wage is 0.04 while the elasticity of GDP to the minimum wage is –0.17. When the simulation scenario goes up to 2030, the deterioration of public finances is greater. Depending on the magnitude and persistence of the increases in the minimum wage, in that year, the GDP growth rate can fall to 39 basic points (bp). Similarly, important deteriorations are observed in the total deficit and the debt of the CNG and in the trajectories of expenditure in both pensions and health. In 2030 the deficit goes from: 2.79% to 3.52% of GDP and the public debt increases by more than 400 bp, while health and pension expenses increase by more than 20 bp each. In all cases there is job destruction and an increase in labor informality.