COLOMBIA

Economic growth is projected to rise through 2017 and 2018. The historic peace agreement, higher oil prices and the start of infrastructure projects will boost investment. Private consumption will grow moderately. Stronger growth is projected to stabilise the unemployment rate. As the effects of El Niño wear off, inflation is projected to return to the central bank target range of 2-4% at the end of 2017. Although poverty has declined, inequality remains high.

Monetary policy is projected to become gradually more supportive as inflation continues to recede. Fiscal policy will remain broadly appropriate, as the structural tax reform of December 2016 will help achieve a more balanced fiscal consolidation. Policies to make growth inclusive, via education and poverty reduction, should be prioritised.

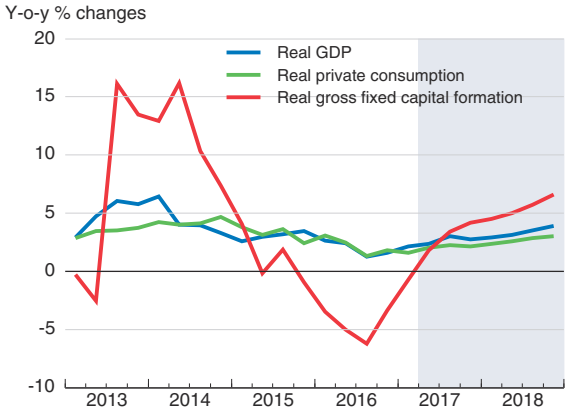
Greater openness would reduce the concentration of economic activity – particularly exports – in a few sectors. Policies are required to improve R&D support and its efficiency, strengthen competition in the rail, electricity and roads sectors, simplify procedures for company registration, and deepen integration in the region. Strengthening policies to reduce inequality and informality are needed to spread the benefits of openness to the whole population.

The economy is adjusting well to the fall in global commodity prices

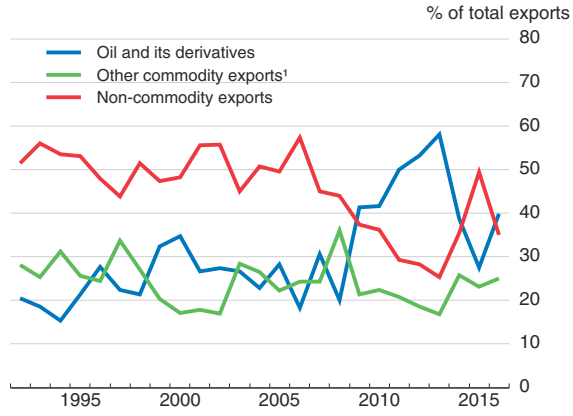
Although growth eased as commodity prices fell, the sound macroeconomic framework meant that economic growth remained above the regional average. Household consumption remained resilient, but investment plummeted, reflecting a contraction in mining and transport equipment. The current account deficit narrowed to 4.5% of GDP in 2016, driven by a larger decline in imports than exports. High income inequality and informality remain major social and economic challenges despite recent progress.

Colombia

Activity is set to rebound on the back of investment



Exports are highly concentrated in few sectors



1. Other commodity exports include coffee, coal, iron and nickel.

Source: OECD Economic Outlook 101 database; and National Institute of Statistics (DANE).

StatLink http://dx.doi.org/10.1787/888933502940

Colombia: **Demand, output and prices**

	2013	2014	2015	2016	2017	2018
	Current prices COP trillion	Percentage changes, volume (2005 prices)				
GDP at market prices	710.5	4.4	3.1	2.0	2.2	3.0
Private consumption	432.2	4.3	3.2	2.2	1.9	2.6
Government consumption	123.8	4.8	4.9	1.8	1.1	1.7
Gross fixed capital formation	172.3	9.8	1.8	-3.6	2.5	5.1
Final domestic demand	728.3	5.7	3.2	0.7	1.9	3.0
Stockbuilding[1]	0.4	0.4	-0.2	-0.3	-0.1	0.0
Total domestic demand	728.6	6.1	3.0	0.4	1.8	3.0
Exports of goods and services	124.8	-1.5	1.2	-0.9	0.9	4.1
Imports of goods and services	143.0	7.9	1.4	-6.2	2.1	3.7
Net exports[1]	- 18.1	-1.9	-0.1	1.3	-0.3	-0.1
Memorandum items						
GDP deflator	_	2.1	2.5	5.9	5.0	2.9
Consumer price index	_	2.9	5.0	7.5	4.7	3.7
Private consumption deflator	_	3.3	4.9	5.5	3.6	3.1
Unemployment rate	_	9.1	8.9	9.2	9.1	9.0
Current account balance[2]	_	-5.2	-6.4	-4.5	-3.5	-3.5

1. Contributions to changes in real GDP, actual amount in the first column.
2. As a percentage of GDP.
Source: OECD Economic Outlook 101 database.

StatLink http://dx.doi.org/10.1787/888933506322

Macroeconomic policies are broadly appropriate

Monetary policy is gradually becoming supportive as the central bank started cutting interest rates at the end of 2016. The convergence of inflation and inflation expectations to the central bank's target range during 2017, coupled with weak domestic demand, open up the possibility of further easing.

Fiscal policy is broadly appropriate following the adoption of a comprehensive tax reform at the end of 2016. The reform reduces the corporate tax burden, increases the VAT and simplifies the tax system. By expanding revenue collection beyond oil, the reform helps to meet medium-term fiscal targets and reduces vulnerability to external shocks. Growth would be supported by the swift implementation of the administration's economic plan, Colombia Repunta, which envisages an increase in spending to improve infrastructure and relocation of displaced people, together with fiscal incentives to boost private sector investment.

The historic peace agreement, ending more than half a century of internal conflict, should yield major social and economic dividends. A successful transition to peace needs to be accompanied by structural reforms focused on inclusion and diversification. Policies to reduce inequalities and informality, such as lowering social security contributions and reducing red tape, should be priority. These reforms should be accompanied by policies to enhance investment in innovation, improve the quality of infrastructure and education, increase competition, narrow gender gaps in labour force participation and enhance deeper integration with countries in the region.

GDP growth is projected to rebound but with significant uncertainties

Growth is projected to strengthen to 2.2% in 2017 and 3.0% in 2018, in the context of stronger external demand and supportive monetary policy. An ambitious public infrastructure programme and higher oil prices, together with increased confidence following the peace deal, will make investment the main driver of growth. Household consumption will accelerate slowly in 2017 due to lower interest rates and inflation.

The main risks include global uncertainty, especially related to US monetary and trade policies, as well as recessions in some main trading partners, particularly Venezuela and Ecuador. Domestic risks include delays in the public-private investment projects and the short-term effects of the recently approved tax reform. On the upside, a stronger-than-expected recovery in business and consumer confidence given the peace deal would boost investment and consumption. Also, higher oil prices would increase investment and government revenues.