COLOMBIA

Economic growth is projected to pick up in 2017 and 2018, driven by stronger external demand and a recovery in agriculture following the end of *El Niño*. The current account deficit remains high, but is projected to narrow gradually as the sharp peso depreciation contains imports and spurs non-traditional exports. Inequalities remain high despite a slight decline in unemployment.

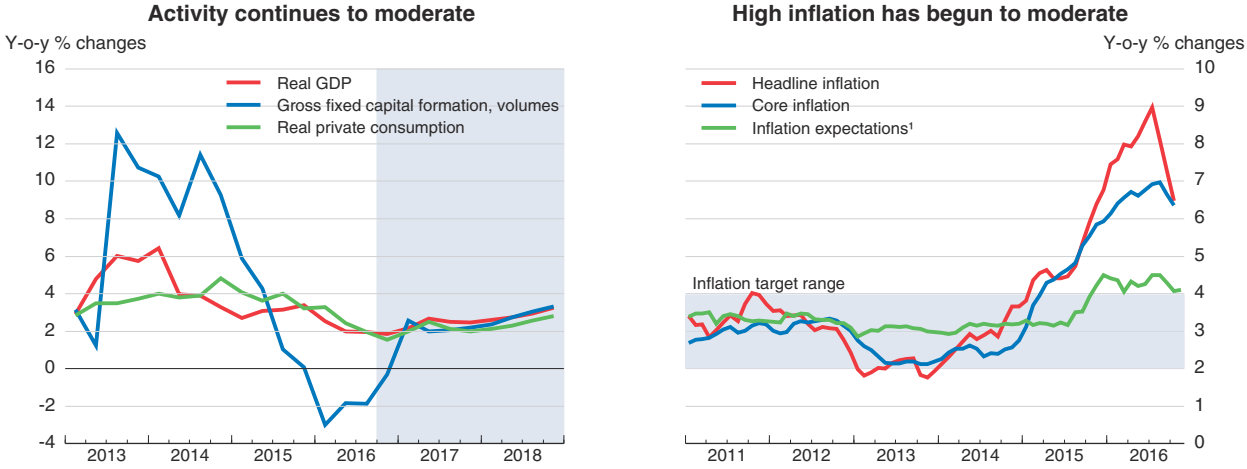
Inflation remains high but is declining as the effects of temporary shocks, such as the past depreciation and weather-related agricultural price hikes, have started to wane. The central bank raised interest rates earlier in the year and managed successfully to contain inflation expectations. Monetary policy can ease gradually as inflation continues to decline. Approving the financial conglomerates law can help reduce risks. Structural reforms in education, health and infrastructure, and reducing informality with reforms in non-wage labour costs, should make growth broader based and more inclusive.

Fiscal consolidation should continue, in line with the fiscal rule, to maintain credibility. The economic slowdown and the fall in oil prices have cut revenues, while peso depreciation has pushed up debt and interest spending. Revenues are projected to decrease further in the medium term as temporary taxes expire. The government has responded by introducing a comprehensive tax reform, and by reducing public spending and investment. The approval of the tax reform by the legislative assembly is crucial to raise revenues, boost growth and deal with social challenges.

Growth continues to moderate

Growth has continued to moderate as a result of weakening private consumption, slower public consumption, and a decrease in private investment reflecting a contraction in mining, transport equipment, and weak construction. High income inequality and informality remain major social and economic challenges despite recent progress in reducing poverty.

Colombia



1. Inflation expectations refers to inflation expectations 12-months forward.
Source: OECD Economic Outlook 100 database; and Central Bank of Colombia.

StatLink http://dx.doi.org/10.1787/888933437538

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	2.1	2.5	2.9
Private consumption	432.2	4.1	3.7	2.3	2.2	2.5
Government consumption	123.8	4.8	2.8	1.6	1.5	1.5
Gross fixed capital formation	172.3	9.8	2.8	-1.8	2.2	2.9
Final domestic demand	728.3	5.6	3.3	1.2	2.1	2.4
Stockbuilding[1]	0.4	0.5	0.0	-0.1	0.0	0.0
Total domestic demand	728.6	6.1	3.3	1.1	2.1	2.4
Exports of goods and services	124.8	-1.3	-0.7	3.5	3.0	6.0
Imports of goods and services	143.0	7.8	3.9	-3.0	0.2	2.8
Net exports[1]	- 18.1	-1.8	-0.9	1.2	0.4	0.2
Memorandum items						
GDP deflator	_	2.1	2.6	5.2	3.6	3.6
Consumer price index	_	2.9	5.0	7.5	3.8	3.3
Private consumption deflator	_	3.5	5.8	7.3	4.0	3.7
Unemployment rate	_	9.1	8.9	9.2	9.2	9.0
Current account balance[2]	_	-5.2	-6.4	-4.8	-4.2	-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 100 database.

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Macroeconomic policies are broadly appropriate

The central bank's interest-rate hikes have cooled credit and consumption growth and helped to anchor inflation expectations. This prudent approach is justified, but, as inflation falls further, monetary policy should start easing gradually. The financial system is sound, and approving the financial conglomerates law will improve the management of risks.

Lower oil revenues call for structural fiscal adjustments. However, consolidation should take place gradually to smooth the social impact and avoid derailing growth. Public investment should be protected, since infrastructure needs are large, and the quality of education needs to be improved. In the medium term, approving the tax reform currently in Congress is required to increase tax revenue, meet social and economic spending needs and reduce oil-related fiscal vulnerabilities.

Reigniting inclusive growth

Reigniting economic growth and making it more inclusive is essential to further social progress. In the medium term, key reforms should be aimed at further reducing informality, raising tax revenue, promoting financial inclusion and sustaining increased public investment. Strengthening the enforcement of the labour laws, reducing non-wage labour costs and easing procedures to register companies would lower informality further and extend coverage of social benefits. Expanding the use and access to active labour market programmes and early childhood education, alongside better elderly and disability

care, would also bring more women into the labour market and make growth more inclusive.

Growth is projected to pick up but external risks dominate

Growth is expected to strengthen to 2.5% in 2017 and 2.9% in 2018, driven by stronger external demand and a recovery in agricultural production following the end of *El Niño*. However, further fiscal adjustment will hold back domestic demand. Investment is projected to bounce back as fourth generation technology infrastructure projects move into the construction phase. The peace deal and recently improved prospects for oil prices will contribute to the recovery, as they are likely to increase confidence and investment. Inflation is expected to fall towards the target by 2018, as the effects of the past depreciation fade, agricultural production recovers and economic slack widens.

The challenging external environment could affect the recovery. The growth of export markets could fall short of expectations. Uncertainties related to US monetary policy normalisation or possible adverse developments in other emerging market economies, like China and Brazil, could increase global financial volatility, increasing the risk of a sudden-stop in capital inflows. Insufficient financing or other obstacles could delay public-private investment projects However, there are also upside risks from the end of the armed conflict, which could boost investment and growth more than projected.