COLOMBIA

Growth is projected to pick up as infrastructure projects, lower corporate taxes and higher oil prices will boost investment. Improving confidence and financing conditions will support consumption. As growth gains traction, unemployment will edge down. Social indicators are improving but informality and inequality remain high.

The accommodative monetary policy stance is appropriate. Fiscal policy will need to remain moderately prudent to ensure that the budget deficit declines gradually in line with the fiscal rule. Boosting productivity requires more competition, streamlining regulations and increased openness to trade. Further efforts to reduce labour market informality, by reducing non-wage labour costs, and gender gaps, by expanding the provision of childcare, would make growth more inclusive.

Growth has strengthened

Economic growth is gradually firming up, as investment has been supported by low interest rates, and consumption has picked up as declining inflation boosts household real incomes. The improvement in terms of trade has increased export earnings and contributed to a reduction in the current account deficit, which is financed largely by foreign investment. The unemployment rate has recently edged up, as the labour market has not been flexible enough to accommodate increased labour force participation.

The spending and revenue mix could be more balanced and efficient, and structural reforms would boost medium-term growth

Timely action by the central bank has lowered inflation back to the 3% target. Going forward, monetary policy is projected to remain accommodative, gradually normalising as the output gap closes. Fiscal policy will remain prudent, reducing the central government deficit to 1% of GDP by 2022, in line with the fiscal rule. This strikes an appropriate balance between spending needs, the need to support the gradual recovery and the need to ensure

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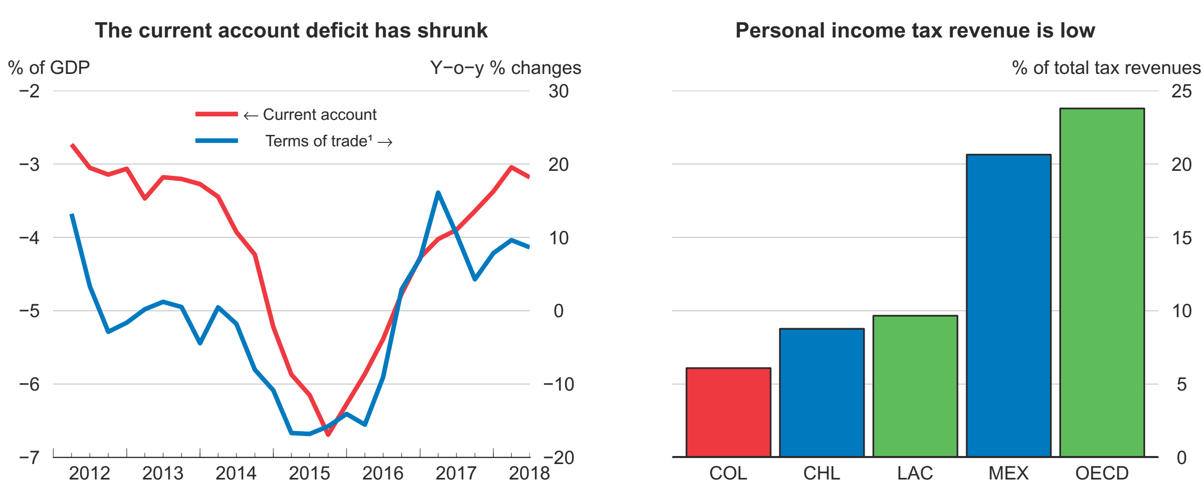

1. Terms of trade is defined as the ratio of export prices to import prices for goods and services.

Source: OECD Economic Outlook 104 database; and OECD Revenue Statistics database.

StatLink http://dx.doi.org/10.1787/888933876499

Colombia: **Demand, output and prices**

	2015	2016	2017	2018	2019	2020
	Current prices COP trillion	Percentage changes, volume (2015 prices)				
GDP at market prices	804.7	2.0	1.8	2.8	3.3	3.4
Private consumption	551.0	1.4	1.8	2.6	3.2	3.2
Government consumption	119.2	1.8	4.0	4.9	2.7	2.5
Gross fixed capital formation	188.1	-2.7	3.3	-0.7	4.5	4.7
Final domestic demand	858.3	0.5	2.4	2.3	3.3	3.4
Stockbuilding[1]	3.2	0.7	-0.6	0.2	0.0	0.0
Total domestic demand	861.5	1.2	1.8	2.4	3.3	3.3
Exports of goods and services	125.9	-1.4	-0.7	3.3	5.4	4.5
Imports of goods and services	182.8	-4.0	0.3	5.1	3.8	3.5
Net exports[1]	- 56.8	0.7	-0.2	-0.5	0.1	0.0
Memorandum items						
GDP deflator	_	5.3	5.5	3.9	3.4	3.6
Consumer price index	_	7.5	4.3	3.2	3.2	3.3
Core inflation index[2]	_	6.5	4.9	2.9	3.1	3.3
Unemployment rate (% of labour force)	_	9.2	9.4	9.5	9.3	9.2
Current account balance (% of GDP)	_	-4.3	-3.4	-3.2	-3.1	-3.0

1. Contributions to changes in real GDP, actual amount in the first column.
2. Consumer price index excluding primary food, utilities and fuels.
Source: OECD Economic Outlook 104 database.

StatLink http://dx.doi.org/10.1787/888933877563

debt sustainability. Oil-related fiscal revenues will increase in 2018, but further measures to improve spending efficiency and raise revenues are needed to meet the fiscal rule. There is also a need to make the tax mix more efficient and fair, as formal sector companies face a high and complex tax burden, while only few individuals pay income taxes.

Stronger and more inclusive growth requires boosting productivity through structural reforms, which would also support more balanced regional development. Improving road, ports and customs logistics and reducing regulatory burdens would make firms more competitive and create better paying jobs. Increasing openness to trade would boost competition and productivity. Educational outcomes have improved over time but there is still significant room to better align skills to labour market needs.

Informality has fallen in recent years, but nearly half of all workers in the main cities still work in the informal sector. This calls for stronger efforts to reduce informality by further reducing non-wage labour costs, reviewing the minimum wage to promote job creation and simplifying procedures for the registration of companies and workers' affiliation to social security. The pension system has low coverage and is very unequal, as it mostly benefits high-income formal workers. A thorough reform of the pension system is needed to foster inclusive growth. Increasing the coverage and benefits of the public minimum income-support programme would particularly help to reduce old-age poverty. Expanding early childhood education would improve school outcomes and allow more women to take up paid work.

Growth will gather pace

Growth is set to rise, supported by higher domestic demand. Investment will be a key driver of growth, aided by higher oil prices and infrastructure projects. Improving confidence and low inflation will support consumption. Upside risks include stronger oil or coal prices, which would boost investment further. Thanks to the end of the armed conflict, the tourism sector holds potential for upside surprises. Downside risks include additional delays in planned large infrastructure projects, increasing global protectionism, policy uncertainty in the region, and a spill over of financial volatility in emerging market economies. Increasing migratory flows from Venezuela may imply higher spending, but, if well managed, can also boost medium-term growth.