Colombia

Economic growth slowed in Colombia over the course of 2016 to roughly 2%, as estimated by the Economic Commission for Latin America and the Caribbean (ECLAC). Contributing factors included adjustment to the new cycle of low hydrocarbon prices and a contraction in the supply of energy and agricultural goods owing to the El Niño weather phenomenon and to a cargo transport strike in July. The combination of lower supply and nominal depreciation of the peso exerted upward pressure on prices, a trend that only eased in the last few months of the year. On the external front, exports were hit by feeble external demand and the depreciation of the currency could not prevent them declining.

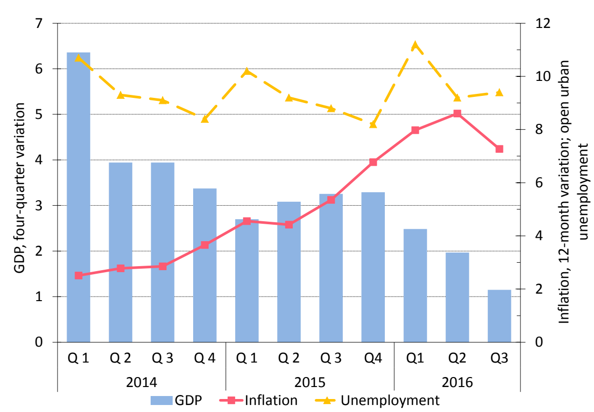
After four years of negotiations, the Colombian government and the Revolutionary Armed Forces of Colombia (FARC) reached an agreement to bring an end to more than 50 years of conflict. After this agreement was narrowly rejected in a referendum, a new accord incorporating changes proposed by opponents of the deal was reached on 12 November and then approved by Congress. The political uncertainty surrounding this process coincided with the unveiling of a tax reform plan, making it a difficult time for investment decision-making.

The public finances were hit in 2016 by lower oil revenues and the higher cost of debt servicing owing to the depreciation of the peso. The central government's total income amounted to 15.0% of GDP, 1.1 percentage points less than in 2015, mainly because of a smaller tax take from the oil industry and weaker Ecopetrol profits. Meanwhile, investment was sharply reduced within overall central government spending in order to offset the higher interest payments. The central government deficit was 3.9% of GDP, and thus complied with the fiscal rule, since the structural deficit was 2.1% of GDP once the effects of the economic cycle (estimated at 1.8% of GDP) are discounted. Thanks to this performance and a surplus equivalent to 1.3% of GDP for the decentralized sector, the non-financial public sector ended the year with a smaller deficit than in 2015 (-2.6% of GDP compared with -3.4%).

In light of the need to offset the loss of hydrocarbon revenues, the Ministry of Finance submitted to Congress a tax reform plan with the following main pillars: reducing the tax burden on legal persons by unifying the corporate tax rate at 32%, widening the personal income tax base by creating a single tax for small businesses, reintroducing the tax on dividends that had been scrapped in 1986 and raising value added tax (VAT) from 16% to 19%.

With a view to curbing inflationary pressure and lowering what had been persistent year-long expectations of price rises, the central bank raised its monetary policy rate steadily from September 2015 onward. This rate climbed by 200 basis points over the course of 2016, reaching 7.75% in August.

Colombia: GDP, Inflation and Unemployment, 2014-2016



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

The depreciation of the Colombian peso began in 2014, was greatest in 2015 and moderated in 2016. After bottoming out in February 2016 (when it averaged 3.357 pesos per dollar), the nominal exchange rate appreciated in the following months. Despite strengthening in the second half of the year, the peso lost more than 6% of its average value in real terms year-on-year in January-October, owing to expectations of a rate hike in the United States and, in general, to the uncertainty emanating from international markets and the Colombian economy.

Colombia: main economic indicators, 2014-2016

	2014	2015	2016 [a]
	Annual growth rate		
Gross domestic product	4.4	3.1	2.0
Per capita gross domestic product	3.4	2.2	1.1
Consumer prices	3.7	6.8	7.3 [b]
Real average wage [c]	0.4	0.9	-1.5
Money (M1)	14.8	10.4	5.5 [b]
Real effective exchange rate [d]	5.9	22.7	6.5 [b]
Terms of trade	-8.8	-24.5	-5.4
	Annual average percentage		
Urban unemployment rate [e]	10.0	9.8	10.3
Central government			
Overall balance / GDP	-2.4	-3.0	-3.9
Nominal deposit rate [g]	4.1	4.6	6.7 [f]
Nominal lending rate [h]	12.1	12.1	14.7 [f]
	Millions of dollars		
Exports of goods and services	63,799	45,258	39,449
Imports of goods and services	75,099	63,488	53,873
Current account balance	-19,459	-18,938	-13,705
Capital and financial balance [i]	23,896	19,354	13,939
Overall balance	4,437	415	234

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

a/ Estimates.
b/ Figures as of September.
c/ Manufacturing.
d/ A negative rate indicates an appreciation of the currency in real terms. Refers to the global real effective exchange rate.
e/ Includes hidden unemployment.
f/ Figures as of October.
g/ Fix term deposit rate.
h/ Total lending rate of the system.
i/ Includes errors and omissions.

The balance-of-payments current account posted a smaller deficit in the first half of 2016 than in the same period of 2015 (4.8% versus 6.3% of GDP), primarily because of a decline in net factor income outflows resulting from lower profit remittances by foreign investors in the mining and energy sector. More competitive prices for non-traditional goods failed to boost exports (which fell by a total of roughly 20% between January and September 2016 compared with the year-earlier period) because of weaker demand from trading partners and the limited ability of the production structure to diversify the export basket. Imports also fell by a cumulative 20% or so to September, reflecting the slackening of economic growth and import price increases because of the weaker peso. Meanwhile, although foreign direct investment (FDI) made a positive start to the year thanks to the government's sale of its stake in ISAGEN, flows were actually lower in 2016 than in past years if this exceptional item is excluded.

The country's economic performance was weaker in 2016 than the previous year as a result of the decline in external demand and slower growth in domestic demand. In the first half of the year, domestic demand growth was 2.3 percentage points lower than in the year-earlier period and gross fixed capital formation dipped by 2.4%, whereas it had increased by 9.2% and 5.1% in 2014 and 2015, respectively. Limited resources, higher import costs and uncertainty around the tax reform and peace agreement meant that growth in machinery and transport equipment investment turned negative in 2015. Private consumption growth declined by 1.1 percentage points to 3.1% as a result of higher prices for goods in the household basket and rising interest rates. Similarly, growth in government consumption dropped to 1.8% from 2.2% in the same period the previous year.

The pace of economic growth slackened in the first half of 2016, and the trend worsened in July as a result of the paralysis caused by the cargo transport strike and adverse weather conditions that hit agricultural production. Between January and September, the economy grew by 1.9%, while growth rates in mining and energy (-5.9%) and agriculture (-0.3%) fell. The strongest sectors were finance, which maintained growth of 4.3%, industry, which managed annual growth of 3.9%, and construction, with 4.0%.

Nominal depreciation, El Niño and the transport strike pushed up the prices of goods and services, particularly food. Inflation was 9.0% in the year to July 2016, the highest rate in 15 years, although it then eased quickly in the following months as monetary policy measures took effect and these temporary events fell out of the calculation. Year-on-year inflation was down to 6.5% in October, and the authorities expect it to fall below 6% by the end of 2016 and the downward trend to intensify in 2017, with the rate moving close to the central bank’s target range of between 2% and 4%.

The growth slowdown in various sectors weakened labour market indicators. The employment rate fell by a cumulative 0.4 percentage points between January and October 2016, while unemployment rose by 0.3 percentage points. This triggered stronger growth in own-account work, which climbed 2.2% in the 10 months to October, while wage employment rose 1.6%. Higher inflation lowered workers’ average real income by 1.2%.

The construction sector is forecast to recover in 2017 thanks to new road infrastructure projects, while the agricultural sector is also expected to post stronger growth. Growth projections for the country’s trading partners are more encouraging and imply stronger external demand, so that a growth rate of about 2.7% is anticipated.