Colombia

Domestic demand was weaker in 2017, and the growth rate for economic activity was consequently just 1.8%, down from 2.0% in 2016. There are some indications that the slowdown may have now bottomed out, however, and that the growth rate will have begun to pick up in the third quarter of 2017. On the fiscal front, the structural deficit target set under the fiscal rule for the central government was achieved, but the decentralized sector’s surplus narrowed. The deficit on current account shrank, and inflationary pressures eased. The economy is expected to make a gradual recovery in 2018, and GDP growth is projected at 2.6%.

Steps were taken in 2017 to bolster income and curb spending in order to move forward with the adjustment of public finances. The central government’s tax revenues were boosted by the tax reform measures adopted in late 2016; expenditure also rose, but less sharply. The tax take amounted to 14.2% of GDP (0.6 points above the 2016 level). This was mainly a result of the hike in the value added tax (VAT) rate from 16% to 19%, since VAT receipts jumped by a full percentage point of GDP in 2017, which made up for the slippage in receipts from income and wealth taxes. Central government expenditure held more or less steady, as it edged up from 18.9% of GDP in 2016 to just 19.0% in 2017, despite higher interest payments. The central government deficit amounted to -3.6% of GDP, which was equivalent to a structural deficit of 2.0% of GDP after discounting the impact of the current phase in the business cycle (estimated at 1.7% of GDP). The combination of the central government’s deficit and the surplus of 0.4% of GDP recorded by the decentralized sector yielded a non-financial public-sector deficit of -3.2% of GDP in 2017 – up from -2.4% of GDP in 2016. The shrinkage of the decentralized sector’s surplus was principally due to the faster pace of investment by local governments as they moved into the second year of their mandate.

The central bank gradually relaxed its contractionary stance as signs of a decline in inflation became apparent in 2017 and lowered its monetary policy rate by 300 base points, from 7.75% in November 2016 to 4.75% by the end of November 2017. This spurred economic activity, although its effect was lagged.

The pass-through of the reduction in lending rates has been slow, particularly in the case of the consumption portfolio, whose rates are set on the basis of two- and five-year time horizons. In step with the slowdown in consumption and in investment, credit demand weakened and, as of September, its portfolio quality indicator signaled a loss of 4.5%.

The value of the Colombian peso was influenced by changes in international expectations regarding the supply and price of petroleum and by the weakening of the dollar against other currencies. The nominal exchange rate hovered around 2,900 pesos in 2017, after having averaged 3,055 pesos to the dollar in 2016. Since mid-2014, the peso has been depreciating in real terms, but the rate of depreciation began to ease in mid-2016 and, between January and October 2017, the real multilateral exchange rate...
index registered a mean appreciation of 5.0%.

The adjustment of external accounts continued in 2017. The deficit on the current account of the balance of payments was smaller in the first half of the year (-4.1% of GDP, as compared to -4.6% of GDP in the first half of 2016) and then continued to correct itself, closing out the year at around -3.8% of GDP. In a departure from the trend seen the year before, the upturn in international mineral and oil prices helped to bring down the deficit on the goods account as the value of fuel exports strengthened; this was the category of goods that contributed the most to the 19.5% expansion of exports between January and September. The downturn in imports was reversed by a cumulative gain as of September of 4.4%, with most of the increase being accounted for by imports of inputs, capital goods and transport equipment. Higher oil prices also helped to drive up net income factor outflows as foreign investors in the sector repatriated their profits. This increase in the outflow of earnings was offset by the inflow of remittances, which jumped by 9.5% during the year up to September. The reduction in the deficit on current account alleviated the need for net capital inflows. Foreign direct investment (FDI), although weaker than the year before, and portfolio investment were the two categories of inflows that made the biggest contributions to the financial account in the first half of 2017.

The pace of economic activity was sluggish in 2017, thus prolonging the slowdown that began in 2015. High interest rates on household loans at the start of the year and hikes in indirect taxes dampened private consumption during the first half of 2017. The consumer confidence index was still in negative territory, but an improvement in that index heralded an upturn in household consumption during the second half of the year. After falling for more than four quarters in a row, gross fixed capital formation rose slightly thanks to an acceleration of investment in civil works, agricultural facilities and transport equipment. Investment in construction slumped, however. Government consumption climbed at a rate of 3.5%.

Growth was driven by the agricultural sector—with coffee production and other crops leading the way—and by sectors associated with social, personal and financial services. The slower pace of household consumption was reflected in the stagnation of growth in transport and commerce and a contraction of the industrial sector (a cumulative decline of -1.2% for January–September), with the latter being attributable to decreases in goods other than petroleum products. The construction sector was hurt by weaker building demand and by contractual problems that delayed the closing of the financial packages for the 4G road infrastructure programme. The mining sector continued to decline, although there were some faint signs of a recovery thanks to an upturn in prices.

The annual inflation rate eased from 5.5% in January to 4.1% in November, thus bordering on the ceiling of the 2%–4% target range. The most influential factor in this decline was the lagged effect of the contractionary monetary policy applied in 2016, whose impact was strengthened by the subsidence of the temporary supply shocks witnessed the year before and by sluggish demand in 2017. The effects of the

### Colombia: main economic indicators, 2015-2017

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<tr>
<th></th>
<th>2015</th>
<th>2016</th>
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<tr>
<td><strong>Annual growth rate</strong></td>
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<tr>
<td>Gross domestic product</td>
<td>3.1</td>
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<tr>
<td>Per capita gross domestic product</td>
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<td>1.1</td>
<td>1.0</td>
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<td>Consumer prices</td>
<td>6.8</td>
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<td>4.0 b</td>
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<tr>
<td>Real average wage c</td>
<td>0.9</td>
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<tr>
<td>Money (M1)</td>
<td>10.4</td>
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<td>0.2 b</td>
</tr>
<tr>
<td>Real effective exchange rate d</td>
<td>23.4</td>
<td>3.9</td>
<td>-5.0 b</td>
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<tr>
<td>Terms of trade</td>
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<tr>
<td><strong>Overall balance</strong></td>
<td></td>
<td></td>
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<tr>
<td>Urban unemployment rate e</td>
<td>9.8</td>
<td>10.3</td>
<td>10.6 f</td>
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<tr>
<td>Central government</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Overall balance / GDP</td>
<td>-3.0</td>
<td>-4.0</td>
<td>-3.6</td>
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<tr>
<td>Nominal deposit rate g</td>
<td>4.6</td>
<td>6.8</td>
<td>6.1 f</td>
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<tr>
<td>Nominal lending rate h</td>
<td>12.1</td>
<td>14.7</td>
<td>14.0 f</td>
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**Millions of dollars**

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<tr>
<th></th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
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<tbody>
<tr>
<td>Exports of goods and services</td>
<td>45 687</td>
<td>41 394</td>
<td>46 301</td>
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<tr>
<td>Imports of goods and services</td>
<td>64 244</td>
<td>54 410</td>
<td>58 163</td>
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<td>Current account balance</td>
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<td>-12 305</td>
<td>-12 144</td>
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<tr>
<td>Capital and financial balance i</td>
<td>19 192</td>
<td>12 470</td>
<td>12 986</td>
</tr>
<tr>
<td>Overall balance</td>
<td>415</td>
<td>165</td>
<td>842</td>
</tr>
</tbody>
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**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/ 90-day fixed-term certificates of deposit, weighted average.

h/ Total lending rate of the system.

i/ Includes errors and omissions.
tax reform passed in late 2016 generated upward pressure on prices and non-food inflation fell less than general inflation (4.8%).

Wages were adjusted upward by between 4% and 7% (the latter figure was the agreed hike in the minimum wage). The unemployment rate in urban areas reflected the slowdown in the economy. The moving quarterly average rate for the last 12 months to September climbed from 10.2% in 2016 to 10.4% in 2017, but the increase was steeper in the country’s 13 major metropolitan areas, where the rate jumped from 9.9% to 10.5%. Employment fell the most in commerce and in real estate, while it rose in the agricultural sector.

GDP is projected to expand by 2.6% in 2018 against a backdrop of lower interest rates, higher oil prices and an expected improvement in the performance of the economies of the United States and the euro area.