Colombia

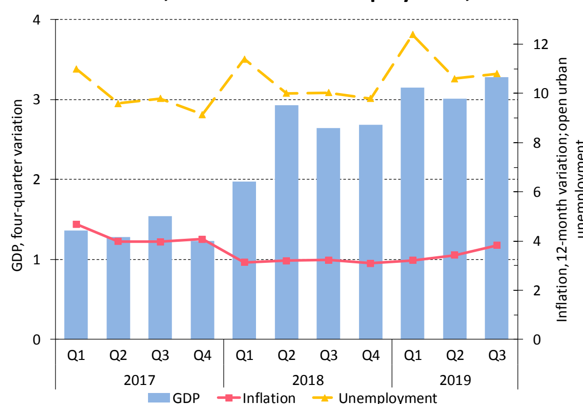
Economic activity in Colombia gathered pace in 2019 to post the highest year-on-year growth rates since 2015. GDP grew by 3.1% between January and September and, with this momentum expected to consolidate, the year is set to end with a 3.2% expansion. Financial activities, commerce and public administration are the main growth drivers, while manufacturing and agriculture have been broadly flat. Consumption by households and investment in machinery and equipment bolstered the economic expansion. Annual inflation was 3.9% as of October, which is within the target range of 2.0%–4.0% set by the authorities; and monetary policy allowed for an ample supply of credit. The central government's fiscal deficit hit a three-year low, as a result of the central bank's profits being newly recorded as income, together with a larger revenue intake as a result of the Financing Act. The persistently large external deficit and the gradual deterioration of the labour market are the key challenges for 2020, when growth is forecast to be 3.5%, underpinned by the execution of infrastructure projects.

The authorities continued to pursue fiscal consolidation in 2019. According to the medium-term fiscal framework, the non-financial public sector deficit is set to come in at 2.2% of GDP, as a result of a 0.7 percentage point narrowing of the central government deficit to end the year at 2.4%, and an expected surplus of 0.2% in the decentralized sector, similar to the 2018 figure.

At the end of the first half of 2019 the fiscal accounts showed the central government deficit narrowing to 0.5% of GDP, from 1.1% in the year-earlier period, with income growth outpacing expenditure. Total fiscal revenue represented 8.7% of GDP in the first six months of the year, compared to 7.8% in the first half of 2018. The increase is explained by the strengthening of tax revenues, which grew by 0.3 percentage points of GDP on the back of accelerating demand and the effects of the Financing Act passed in late 2018. This was further boosted by increased income from capital (up 0.6 points of GDP), sufficient to comfortably finance the 0.2 percentage-point increase in investment expenditure. In addition to the growth of tax revenues, capital resources increased as a result of the new method of recording central bank profits, which traditionally were treated as a source of funding but since this year have been recorded as income, pursuant to the rules of the International Monetary Fund's Government Finance Statistics Manual of 1986. In the first six months of 2019, the decentralized sector reported a smaller surplus as local governments with terms of office ending this year hastened to use up their budgets. The 0.7 GDP-point improvement in the balance of the non-financial public sector was not reflected in a reduction in the public debt, because the government borrowed to meet the liabilities generated by court rulings against the nation, which were equivalent to 2.3% of GDP.

In the last few months of 2019, the authorities concentrated their efforts on once again processing the Financing Act of 2018, which failed to pass constitutional oversight owing to procedural defects. This ruling left in force the provisions approved during 2019, but the legislation needs to be passed before the end of the

Colombia: GDP, Inflation and Unemployment, 2017-2019



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

year so that it can enter into force in January 2020. It is essential to approve this bill, currently known as the growth bill, because although it did not affect financing of the 2019 budget, changes in the tax structure are the main instrument used by the government to promote economic growth. These changes include lowering the corporate income tax rate, exempting capital goods from value added tax (VAT), and providing tax benefits to the "orange economy" and agribusiness projects.

The central bank has held its monetary policy interest rate at 4.25% for the last 19 months, as inflation has converged to its target range, despite the upward pressure on food prices generated by adverse weather conditions and the steeper depreciation of the Colombian peso. The 8.0% average annual growth of the loan portfolio as of November 2019 has been sustained by consumer credit (up 14.6%) and mortgage loans (10.0%), which made up for weaker growth in commercial lending (5.5%) and microcredit (4.0%). Monetary policy has enabled the supply of a wide range of credit to households, without hindering the convergence of inflation to the target range.

Colombia: main economic indicators, 2017-2019

	2017	2018	2019 [a]
	Annual growth rate		
Gross domestic product	1,4	2,6	3,2
Per capita gross domestic product	0,5	1,8	2,4
Consumer prices	4,1	3,1	3,9 [b]
Real average wage [c]	3,3	1,1	1,1 [d]
Money (M1)	1,1	6,7	10,7 [d]
Real effective exchange rate [e]	-4,6	-1,7	5,8 [d]
Terms of trade [f]	17,0	9,2	-5,7
	Annual average percentage		
Urban unemployment rate [g]	9,4	9,7	10,6
Central government			
Overall balance / GDP	-3,7	-3,1	-2,4
Nominal deposit rate [h]	6,0	4,7	4,5 [d]
Nominal lending rate [i]	13,7	12,1	12,0 [d]
	Millions of dollars		
Exports of goods and services	48 238	54 012	52 188
Imports of goods and services	56 685	62 921	65 171
Current account balance	-10 241	-13 037	-15 438
Capital and financial balance [j]	10 786	14 224	19 911
Overall balance	545	1 187	4 473

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
a/ Estimates.
b/ Figures as of October.
c/ Manufacturing.
d/ Figures as of September.
e/ A negative rate indicates an appreciation of the currency in real terms. Refers to the global real effective exchange rate.
f/ Economic Development Division, calculations for Preliminary Overview 2019.
g/ Includes hidden unemployment.
h/ 90-day fixed-term certificates of deposit, weighted average.
i/ Weighted average of consumer, prime, ordinary and treasury lending rates for the working days of the month.
j/ Includes errors and omissions.

The domestic currency continued to depreciate in 2019, with the peso losing more than 7.0% in nominal value in the first 10 months of the year and close to 6.0% year-on-year in real terms. As in other countries, heightened international volatility and trade tensions between the United States and China are among the international factors causing the dollar to strengthen. On the domestic front, in May 2019 the central bank suspended the dollar purchases begun in September 2018, so the steeper depreciation of the peso was probably more reflective of the current account deficit, which for 2019 is forecast to be around 4.4% of GDP.

In the first half of 2019 the current account gap was caused by a sharp increase in imports, driven by domestic demand and by the exemption of capital goods imports from VAT, approved under the Financing Act of 2018 with a view to encouraging investment. On the export side, lower dollar values reflected falling hydrocarbon prices and a reduction in coal production and exports. Increased remittances from Colombians living abroad, equivalent to 2.1% of GDP in the first half of the year and originating mainly from the United States and Spain, prevented the trade deficit from widening still further. An upturn in inward foreign direct investment, in response to attraction incentives, and, to a lesser extent an increase in portfolio investment, were sufficient both to finance the current account deficit and to accumulate an additional US$ 2.877 billion reserves during the first half of 2019.

Year-on-year growth of 3.3% as of September testifies to a robust recovery process, following the adverse impact of the collapse of hydrocarbon prices in 2015. Economic activity between January and September 2019 was driven by the financial and insurance sectors (up 6.1%), commerce (4.9%) and public administration (3.8%). These sectors reflect the buoyancy of domestic demand thanks to household consumption and the stimulus provided by the execution of infrastructure works. The

agriculture sector (2.0%) and manufacturing (1.6%) grew at below average rates, owing to slacker external demand and extensive competition from imported goods in the domestic market. Construction contracted by 1.9% since the momentum of civil works did not fully compensate for the 8.1% drop in building activity —the latter owing to large inventories, adjustments to the new government's social housing programmes and the subnational electoral cycle whereby local leaders tend to avoid starting new projects at the end of their mandate.

Prices since 2017 have varied within the target range set by the authorities and this trend is expected to persist through end-2019. The consumer price index in October was up by 39%, very close to the variation forecast for the end of the year. The temporary rise in the prices of food and a number of services in the first part of the year, and the steeper depreciation recorded in recent months, were reflected in the price index.

The steady deterioration in employment gives cause for concern. The national unemployment rate edged up from 9.3% in 2017 to 9.5% in 2018 before climbing to 10.6% in the July–September 2019 rolling quarter. This rising trend was sharper in the 13 main cities, which saw increases of 10.3% in 2017, 10.5% in 2018 and 11.3% in 2019. There were substantial job losses, apparently reflecting discouragement on the part of low-productivity workers and precarious employment arrangements resulting from the heavy pressure exerted by Venezuelan migration, which could come to represent 5% of the economically active population in about four years. Real increases, both in the minimum wage and in average wages in several branches of activity, helped to boost consumption as one of the drivers of economic activity in 2019.