Colombia’s Economy at a Turning Point

Diálogo a fondo

June 1, 2018

After recovering from the large oil price shock of 2015-2016 that put a break on high growth, pushed up inflation, and widened the current account deficit, Colombia is at a turning point toward a favorable outlook.

The continued implementation of Colombia’s peace agreement, together with the government’s structural reform agenda, including the successful tax reform (see video below), have contributed to a broadly stable economic environment, the IMF said in its annual assessment of the Colombian economy.

According to the report, growth is picking up this year to 2.7 percent thanks to the authorities’ commitment to implementing key reforms, such as improving the business climate and increasing investment in infrastructure. Economic activity in Colombia was also supported by a more favorable global environment and rebounding commodity prices, helping to boost exports.
Inflationary pressures have abated in Colombia underpinned by the dissipation of previous shocks and by timely monetary policy decisions which have also supported the recovery. Ongoing improvements to the central bank decision making process will support the anchoring of inflation expectations.

But for Colombia to secure more durable growth with widespread benefits, the country will need to continue to diversify their economy away from oil and boost productivity growth.

Policies that can help include:

- promoting infrastructure investment by implementing planned reforms to road transportation. For example, logistics costs account for 15 percent of corporate sales, mostly due to inefficient transportation;
- removing regulatory hurdles to promote private sector activity;
- continuing to lower labor market informality and improve education by strengthening the coverage and quality of education to prepare job seekers with the skills needed for today’s global market; and
- lowering barriers to trade—for example, tariffs should be realigned to lower the dispersion across products. A review of nontariff barriers to trade could also help reduce the cost of producing tradable goods.

As previously mentioned, Colombia’s successful tax reform program, which was in response to the oil price shock, and the implementation of the peace plan have helped to stabilize the economy. The videos below provide a glimpse into what that time was like for Colombia’s policymakers and citizens.

**Video 1**: Colombia: A Peace Plan, an Oil Shock, a Crisis, and a Response

**Video 2**: A Tax Reform Succeeds in Colombia