Towards a more prosperous and inclusive Colombia

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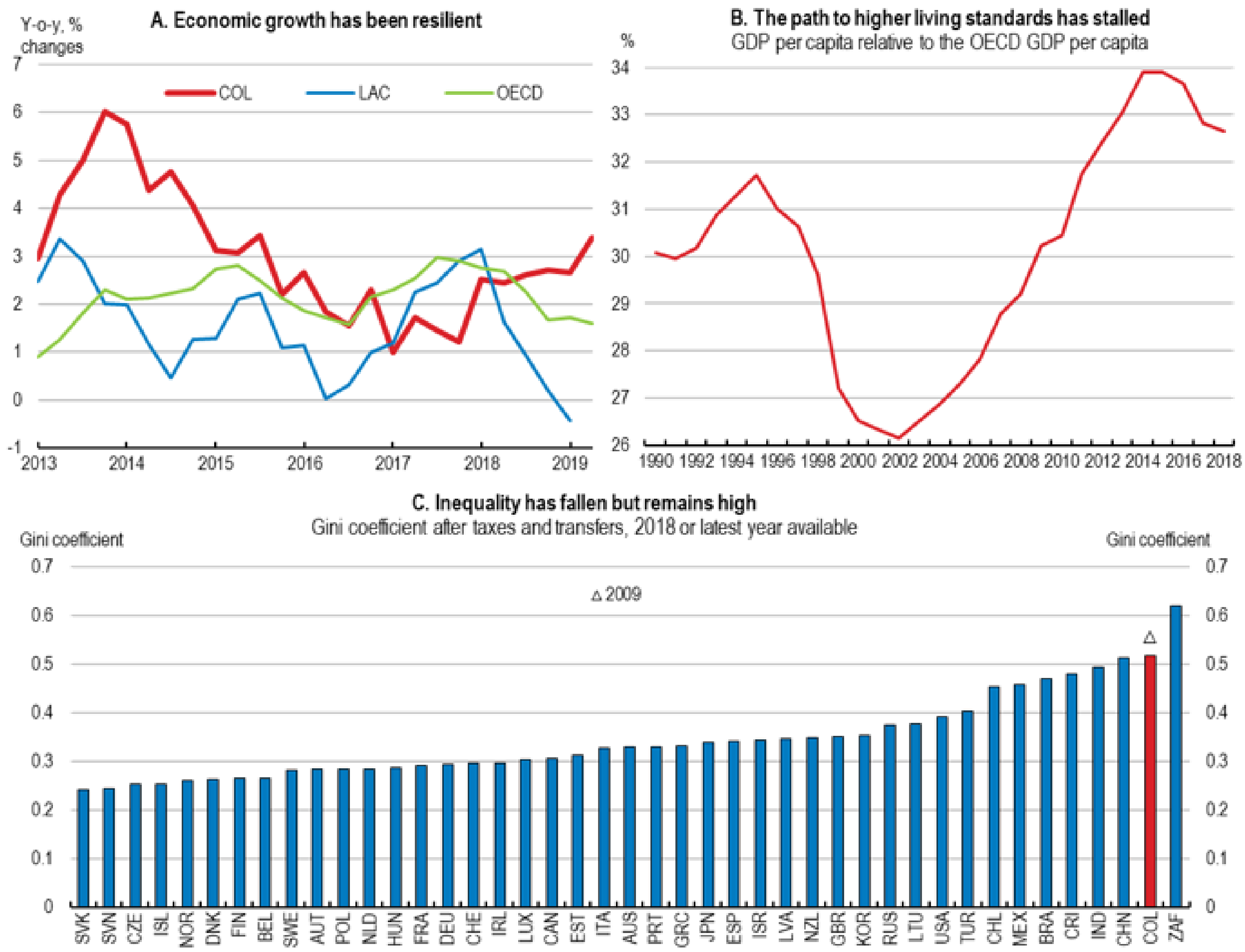
Colombia has made good economic and social progress over the last decades. Sound macroeconomic policies, favourable demographics and external conditions underpinned resilient economic growth (Figure). Living standards have greatly improved and poverty has declined. Yet, challenges ahead to maintain performance and boost convergence are substantial. The traditional growth drivers, largely capital-intensive extractive industries and favourable terms of trade, have shown their limits. Potential growth has declined due to lacklustre productivity. The country display one of the largest gaps between rich and poor in Latin America and the OECD and regional disparities are also large.

Figure. Growth has been resilient but fundamental challenges remain



Note: LAC refers to the unweighted average of Argentina, Brazil, Chile, Costa Rica and Mexico.
Source: OECD (2019), OECD Economics Survey: Colombia

Colombia's foundations to respond to these challenges are very solid. The strong macroeconomic framework has sustained growth and smooth adjustments to shocks over the years. Colombia has a well-deserved reputation to meet fiscal targets. Maintaining this reputation is key. At the same time spending needs, such as those related to infrastructure gaps or social programmes, are large. Fiscal policy will have to find the right balance. This includes a gradual reduction of the structural budget deficit to 1% of GDP by 2022, in line with the fiscal rule and measures to improve the tax mix and spending efficiency. Broadening tax bases and reviewing spending, with a view to eliminate programmes not helping to increase equity or productivity should be considered.

Only by boosting productivity will Colombia get to a path of stronger and more inclusive growth and lower dependence on natural resources. Fostering competition and realising the untapped potential to make exports an engine of growth and jobs hold the key. Despite efforts to promote trade integration via trade agreements, the country remains relatively closed, with exports remaining low and little diversified and large parts of the economy shielded from international competition. Streamlining regulations, decreasing tariffs, reducing the scope of non-tariff barriers, continuing to improve infrastructure and enhancing logistic services would promote the productivity of firms, helping them to tap new markets. Optimising innovation support programmes and fostering access to finance would boost competitiveness. Going digital, by promoting further adoption and use of ICT technologies, would also improve competitiveness and the connectivity of regions.

Making productivity and trade engines of growth would enhance well-being and living standards. To make sure that all Colombians more broadly share the benefits, reforms to foster high-quality jobs are needed. Reducing the still high levels of informality should be priority as it is win-win for productivity, equity and public finances. Reforms to reduce non-wage labour costs, bringing the minimum wage to a more employment-friendly level, improving the quality and relevance of education and training, enhancing enforcement and bringing more women into formal jobs with better child care facilities should be part of the strategy.

Social policies could do better to decrease inequality. Cash transfers to the poor are low and a large share of subsidies, such as those related to pensions and housing, goes to the relatively rich. Higher equity could be achieved by reallocating more spending, such as higher cash transfers, towards vulnerable populations, with a focus on rural areas and ethnic minorities. Finally, reforming the pension system is urgent to reduce old-age poverty, ensure sustainability and increase equity.

References:

OECD (2019), *OECD Economic Surveys: Colombia 2019*, OECD Publishing, Paris. https://doi.org/10.1787/e4c64889-en