

The Uncertain Colombian Economic Growth

One of the most important economic policy objectives in any country is economic growth. Its importance is that if production increases, incomes will be higher tomorrow and future generations will reach higher levels of material welfare. Similarly, if the economy grows - keeping the tax structure constant-, the Government will obtain higher tax revenues and, therefore, will have more resources to finance higher social spending and, thus, fight poverty and satisfy a series of basic needs. Likewise, if the economy grows, productive resources are better exploited and consequently the level of employment increases.

For some currents of economic thought (Keynesians, neoclassic, neoliberal, among others), economic growth is conceived as economic development, and they say that as the economy grows, the whole population benefits, which is arguably more even in economies such as Colombia where inequality tends to persist.

If economic development refers to the well-being of the population, in which not only economic but also social, cultural, political and, ultimately, environmental aspects, then to consider growth as development is to reduce multidimensional concept to the merely economic one. Authors such as Amartya Sen consider development to be “a process of expansion of the real freedoms enjoyed by individuals”. For the Indian economist, human freedoms are the determinants, and the growth of gross national product or personal income is a very important means of extending the freedoms enjoyed by a population, but it does not synthesize the development.

In the Colombian case, the growth of the economy in the last six years has declined: in 2011 it grew by 6.6 percent and in 2016 it fell to 2 percent. But the most noticeable decline begins from 2015, when the economy grew by 3.1 percent, which coincides with the sharp fall in oil prices: while in June 2014, the barrel was quoted at 115 dollars the Brent variety (reference for Colombia), in March 2015 the price collapsed to 55 dollars, even, on January 28, 2016, crude fell to 44.4 dollars a barrel. In fact, from 2012, also the price of other commodities is reduced, possible explanation for the decline in the growth rate of Latin American countries, which fell last year to less than 1.4 percent.

For the first quarter of this year, the Colombian economy grew 1.1 percent, a slower pace than the government forecast, which it expected to do at 1.3 percent, a worrying figure when compared to the same period in 2016, when gross domestic product (GDP) grew 2.7 percent. This

led to projections of the evolution of economic activity for 2017 were adjusted downwards: the World Bank (WB) estimated it at 2.5 percent and decreased it to 2 percent; the IMF from 2.5 percent fixed it at 2.3 percent and the Bank of the Republic reduced it from 2 percent to 1.8 percent; while the national government also lowered it from 2.5 percent to 2.3 percent.

The decline in GDP for the first three months of this year is attributed to several factors, such as: a) the price of oil, although it has risen a little, is still low compared to that existing at the beginning of 2015 (May 31 of the current year stood at 50.3 dollars a barrel); B) the tax reform approved in December 2016 raised the value-added tax (VAT) from 16 to 19 percent; this increase affected the price of a considerable number of goods and services, pushing consumers to compress their demand, in the face of the loss of their purchasing power; C) the increase of the interest rate by the Bank of the Republic, in order to control inflation: the cost of money went from 4.5 percent on August 18, 2015 to 7.75 percent in June Of 2016. Similarly, the issuer kept interest rates high until December of last year, which adversely affected both the industrial sector and trade, and, lastly, the strong summer that the country suffered -especially in the First half of 2016- reduced the agricultural supply not only of food, but also of raw materials essential for the industry.

The national government, to balance the low GDP dynamism, took a series of shock measures since 2015, in order to reactivate production. The first was the Plan of Boost of Productivity and Employment, in its two versions, aimed at boosting public investment in infrastructure and roads, stimulating the agricultural sector, and a better use of royalties. Likewise, programs to reactivate the industrial, mining-energy, tourism and trade sectors. In addition to the PIPE I and II plans, once the low GDP growth in the first quarter of this year was known, on June 2, the national government, taking into account the decline of the construction sector in the quarter (1, 4 percent), announced, besides the continued stimulus to social housing, the subsidy consisting of 2.5 points in the interest rate for the purchase of new housing by the middle class, whether home or apartment, for a price between 99 and 321 million pesos.

As can be seen, despite the programs implemented by the Government to revive the economy, the decline in GDP is due to external and internal causes: among the former can be mentioned the drop in oil prices and the situation that our main trading partners, in particular Venezuela and Ecuador, especially the first, which, because of the economic, social and political crisis, reduced its purchases from 6,200 in 2008 to 600 million dollars in 2016. Moreover, the behavior of the world economy is not the best to expect that exports will grow. As for the causes of internal origin, it emphasizes the Bank of the Republic handle of the monetary policy in order to reach the inflation target. This policy has been contractionary, because it considered that inflation was of demand, when actually supply factors were those that pushed prices, thus sacrificing economic growth and job creation. On the other hand, the increase of the VAT also diminished the purchasing power of the population and reduced the levels of consumption.

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