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The Challenges of the Colombian Economy for 2018

The objectives of the economic policy for 2018 in Colombia, in relation to economic growth, unemployment, inflation and the external sector, present some favorable factors, but also uncertainty and limitations of all kinds.

Regarding economic growth, the goal of 2.5 percent set for 2017 will not be achieved, since the behavior of the past three quarters indicates that it will barely reach 1.8 percent.

The national government has projected a growth target for 2018 of 3 percent, while the International Monetary Fund (IMF) estimates it at 2.8 percent and the Banco de la República calculates it at 2.7 percent. These figures, better than those for 2017, are justified for several reasons, among which can be highlighted that it is expected that the effect of the new VAT rates (which rose from 16 to 19 percent) will not be so strong for 2018. It is also predicted that inflation, which during the period January - October 2017 lay at 3.5 percent, will continue to fall next year; as well as the interest rate, which fell from 7.5 percent in December 2016 to 4.75 in November 2017. Both the Minister for Finance and the head of the Banco de la República expect that it will continue to decline until it reaches 4 percent by the middle of next year. It is hoped that the abovementioned factors will induce the private sector to increase spending in 2018.

As far as the public sector is concerned, expectations for 2018 are difficult to predict because of the effect of the guarantees act and the expected fiscal tightening by the government. The general budget of the nation only grew by 1 percent and is valued at COP$235.6 trillion. Public investment decreased by 2.8 percent in relation to the previous year, and only COP$40 trillion were allocated.

Unemployment reached 9.2 percent in September, largely due to low growth, (it having been at 8.5 percent the year before). Predictions are likely to be uncertain. It is obvious that the problem of unemployment can unsettle any country, given that as it reaches high levels, it ceases to be a strictly economic concern, to also become a social one. So far this year (October 2017), it has been the branches of agriculture, livestock, hunting, forestry and fishing which have driven the generation of employment. Likewise, real estate, rental and leasing activities, and community, social and personal services are the branches that have contributed the most to employment in Colombia.

In fact, labor intensive sectors, such as the construction sector, both for construction and civil works, have been stagnant, but a rebound is expected for next year. In the case of construction, as well as for the industrial sector, the Plan to Promote Property (PIPE, by its acronym in Spanish) and Colombia Rebounds programs are expected to enter in full force. On the other hand, in the case of civil works, it is expected that the approval of the infrastructure act, consisting of the implementation of a mandatory "model sheet", and the authorization of the Banco de la República to foreign financial entities to grant loans to concessions in pesos, will stimulate this activity.

Regarding inflation, the results for this year and the expectations for the next one are favorable; inflation for 2017 will be within the long-term target range (2-4 percent), and the forecasts for 2018 are so optimistic that the head of the Banco de la República predicts that this indicator will be approximately 3 percent. Undoubtedly, the determining factor in the reduction of inflation has been the favorable behavior of foodstuffs, in addition to the reduction of the interest rate. Notwithstanding the end of the armed conflict and the peace agreements signed with the Revolutionary Armed Forces of Colombia (FARC, by its acronym in Spanish), now converted into the political party, the Revolutionary Alternative Common Force (FARC, by its acronym in Spanish), which have generated a climate of tranquility in the countryside, the determining factor in agricultural production has been the climatic conditions. This component is random and it is not easy to make conclusive predictions.

It is known that the determinants of exports are the exchange rate and the behavior of the world economy. Regarding the first factor, it can be understood that next year the process of the devaluation of the Colombian peso will positively affect exports, and regarding the evolution of the global economy, it is expected to be more dynamic, especially that of our main business partners, the United States and the Latin American countries, which will undoubtedly stimulate exports to these countries.

Finally, the current account deficit is approaching approximately 4 percent of the GDP, as a result of the improvement in recent months of the prices of both oil and coal, which have contributed to increases in the value of exports. Brent Crude has rebounded since August of this year until being quoted on November 6 at US$64.27 a barrel, and coal has risen since April, and its price, for the same date, was US$ 85 per ton.

In general terms, it can be affirmed that the economic projections for next year are favorable. However, we must not forget that 2018 will be a presidential election year and that in one way or another this will influence the confidence of economic agents and their decisions as consumers or investors. Although the Minister for Finance considers that the change of government should not produce considerable changes, the truth is that the current situation is sui generis, insofar as it is the first time that the FARC participate in an electoral process as a legal political movement, despite the polarization of the political environment in which movements and political groups of the left, center and right are in confrontation to gain followers. Given this situation, it is possible that many businessmen, both national and foreign, will postpone their investment projects until the electoral landscape is clear and the economic model of the next Government is known.

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