COLOMBIA

Colombia’s economic freedom score is 68.9, making its economy the 42nd freest in the 2018 Index. Its overall score has decreased by 0.8 point, with lower scores for fiscal health, government integrity, and property rights outweighing a significant improvement in judicial effectiveness. Colombia is ranked 6th among 32 countries in the Americas region, and its overall score is above the regional and world averages.

Reflecting a firm will to maintain macroeconomic stability and openness to global trade and finance, the government reformed the tax code in 2016 to retain Colombia’s investment-grade credit rating by offsetting lost revenue from lower oil prices through corporate tax cuts to incentivize investment and also by increasing the value-added tax. The relatively sound economic policy framework has contributed to steady, albeit slowing, economic expansion. Deeper institutional reforms are needed to strengthen the rule of law and reduce corruption.

BACKGROUND: Colombia is Latin America’s oldest democracy. A five-decade guerrilla insurgency led principally by the narco-funded Revolutionary Armed Forces of Colombia (FARC) caused hundreds of thousands of casualties. President Juan Manuel Santos, reelected in 2014, concluded a controversial disarmament agreement with the FARC in November 2016, but the expensive peace process faces difficulties as public attention shifts to the May 2018 presidential election. Colombia’s economy is South America’s third largest behind Brazil and Argentina. It depends heavily on exports of petroleum, coffee, and cut flowers and has been affected by the drop in global commodity prices. A founding member of the Pacific Alliance, Colombia has free-trade agreements with the U.S. and many other nations.
Although property rights are recognized and generally enforced, they are threatened by violence. Much of the judicial system is overburdened and inefficient, and the subornation and intimidation of judges, prosecutors, and witnesses hinders judicial functioning. Drug-trafficking and the violence and corruption that it engenders continue to erode institutions. Corruption occurs at multiple levels of public administration.

Simplified procedures for establishing and running a business have improved the overall business environment, but activity is still hampered by the unstable security situation. Strikes by public-sector employees have been encouraged by the government’s inclination to settle under intense pressure. Inflation eased considerably in 2017 after peaking at over 8 percent in 2016, in part because of currency appreciation resulting from improved terms of trade.

Trade is moderately important to Colombia’s economy; the combined value of exports and imports equals 35 percent of GDP. The average applied tariff rate is 4.2 percent. Nontariff barriers impede trade. In general, government policies do not significantly deter foreign investment. The financial sector remains resilient. Reforms continue to promote the development of capital markets by enhancing flexibility and competition.