COLOMBIA

Colombia’s economic freedom score is 69.2, making its economy the 45th freest in the 2020 Index. Its overall score has increased by 1.9 points, largely because of a significant improvement in government integrity. Colombia is ranked 4th among 32 countries in the Americas region, and its overall score is well above the regional and world averages.

Colombia’s improved score this year increases the possibility that its economy could eventually reenter the ranks of the mostly free, the category that it last occupied in 2016. Solid GDP growth underscores the economy’s positive direction.

In an effort to propel the economy forward, the government is pursuing fiscal, constitutional, judicial, and other reforms that would improve judicial effectiveness and government integrity and reduce the tax burden. Growing political polarization and the increasingly negative impact of Venezuelan migration, however, are making that task more difficult.

BACKGROUND: Colombia is South America’s oldest democracy and third-largest economy. A five-decade guerrilla insurgency led principally by the narco-funded Revolutionary Armed Forces of Colombia (FARC) has caused hundreds of thousands of casualties. Center-right President Iván Duque, elected to a four-year term in 2018, has faced governance challenges because of his party’s lack of a majority in Congress, low approval ratings, and a worsening security situation caused by his predecessor’s flawed peace deal with the FARC. Colombia’s economy is heavily dependent on exports of petroleum, coffee, and cut flowers. Colombia is a founding member of the Pacific Alliance and has free-trade agreements with the U.S. and many other nations. It also is the world’s top producer and exporter of cocaine.
Secured interests in real property are generally protected, but violence and instability threaten them in some areas. The judicial system is generally regarded as competent, fair, and reliable, although corruption, bribery, influence peddling, and abuse of privileged information remain ongoing problems. Violence and corruption engendered by drug trafficking continue to erode institutions. A series of high-profile corruption cases in 2018 included accusations against Supreme Court justices.

The top individual income tax rate is 39 percent, and the top corporate tax rate is 33 percent. Other taxes include value-added and financial transactions taxes. The overall tax burden equals 18.8 percent of total domestic income. Government spending has amounted to 27.7 percent of the country’s output (GDP) over the past three years, and budget deficits have averaged 2.4 percent of GDP. Public debt is equivalent to 50.5 percent of GDP.

Private businesses benefit from easy access to credit but also must contend with costly and inefficient government bureaucracy. Labor regulations are not burdensome, but nonwage costs are high. Almost half of the labor force worked in the informal economy in 2018. The government increased subsidies to coffee growers in 2019 amid low international prices.

The total value of exports and imports of goods and services equals 36.8 percent of GDP. The average applied tariff rate is 4.4 percent, and 155 nontariff measures are in force. In general, government policies do not interfere significantly with foreign investment. The financial sector remains resilient. Reforms continue to promote the development of capital markets by enhancing flexibility and competition.