

## Executive summary

- *Main findings*
- *Key recommendations*

## Main findings

### ***Promoting more inclusive growth***

Colombia's economy has done remarkably well over the last decade. Strong growth was driven by an oil and mining boom, foreign direct investment in the commodity sector and broad-based investment. Bilateral free trade agreements and unilateral measures have continued to reduce barriers to trade and investment. A solid monetary, fiscal and financial framework reduced macroeconomic volatility, which characterised the previous decades. The improved security situation has also contributed to growth. All this has allowed fast catch-up growth in GDP per capita relative to OECD economies. However, productivity and investment outside oil and mining remains subdued, due to a high tax burden on corporations and labour, inadequate infrastructure, and limits to access to finance. Inequality and informality, and old-age poverty remain among the highest in Latin America, despite recent progress in overall poverty reduction. The minimum wage is high relative to earnings, pushing low skilled workers, youth, and those in less developed regions into the informal sector. Although declining to historical lows, structural unemployment remains high by international comparison, reducing the population's well-being.

### ***Raising revenues and making the tax mix more efficient and fair***

The fiscal framework and the fiscal position are both strong. The challenge ahead is to meet rising spending demands in the context of public debt containment and the expiration of some revenue sources. The tax system does not promote efficiency and fairness as much as it could, and tax evasion is pervasive. Formal sector companies face a high and complex tax burden, and only few individuals pay income or wealth taxes.

### ***Expanding coverage and increasing equity of old-age income support programmes***

Old-age poverty in Colombia is high, reflecting the very low coverage of the Colombian pension system and the high labour market informality. Only formal sector employees earning more than the relatively high minimum wage are covered, and eligibility is restrained by long contribution periods. Many pension benefits are linked to the minimum wage, which makes the system costly. To extend coverage, especially to the poor informal workers and those without full eligibility in the formal sector pension system, a separate scheme (*Beneficios Económicos Periódicos*) was created with government-subsidised contributions. Modest old-age income support to the poorest (*Colombia Mayor*) has also been extended in recent years.

## Key recommendations

### **Main priorities**

- Enhance inclusive growth with greater financial, education and skills development as well as better infrastructure.
- Undertake a comprehensive reform of the tax system to increase fairness, growth and revenues.
- Thoroughly reform the pension system to reduce old-age poverty and inequality.
- Further reform labour markets to reduce informality and create more quality jobs.

### **Promoting more inclusive growth**

- Maintain the strong macroeconomic framework.
- Create incentives to improve co-ordination of infrastructure projects across subnational governments within the National Development Plan.
- Adapt legislation to improve the business environment, foster competition, and make the judiciary process more efficient to enhance the rule of law.
- Keep minimum wage growth close to inflation to increase the gap with average wage. In the medium term, differentiate the minimum wage by age.

### **Raising revenues and making the tax mix more efficient and fair**

- Reduce tax evasion by strengthening the tax administration and by increasing penalties.
- Reduce the tax burden on investment by gradually lowering the corporate income tax rate, phasing out the net wealth tax on firms and eliminating VAT on investment.
- Make the personal income tax more progressive by taxing dividends and eliminating regressive exemptions.

### **Expanding coverage and increasing equity of old-age income support programmes**

- Expand eligibility of the *Beneficios Económicos Periódicos* programme.
- Increase coverage and benefit levels of the public minimum income-support programme (*Colombia Mayor*).



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