

Colombia

1. General trends

Amid uncertainty about the solidity of the signs of improvement in Colombia, the country's economy grew by 0.8% in 2009, making it a leading performer in a region whose overall economy contracted. The economy's weak performance at the end of 2008 continued into early 2009. However, positive signs of improvement in the third quarter of 2009 were confirmed in the early months of 2010 when manufacturing and trade picked up and consumers and industry began to regain confidence. Given this situation, ECLAC projects growth of close to 3.5% for 2010.

The sectors that contracted most during the year as a result of the international financial crisis were manufacturing, commerce and agriculture. Loss of confidence among consumers and investors led to a sharp drop in private-sector consumption and investment. The value of exports declined significantly. In order to counter the effects of the crisis, the government decided to implement a macroeconomic stimulus policy that increased spending, particularly on infrastructure and social benefits, thereby moderating the decline in demand and GDP at the cost of a larger deficit and increased public debt. This strategy was supplemented by an expansionary monetary policy involving a series of cuts in the intervention rate in a context of low inflation (the inflation rate was just 2% at year's end). In 2009 and early 2010, economic recovery was hampered by the trade restrictions imposed on Colombian products by the Bolivarian Republic of Venezuela, which led to a 33.5% drop in sales to that country for the year.

Some signs of recovery in Colombian economic activity began to show up in the third quarter of 2009.

The sectors most affected by the crisis rallied and there was a significant upturn in private consumption. There were also improvements in confidence indices and lower inflation and interest rates. As a result of the strong performance of public works (33.9%), attributable to government action, there was a respectable increase in investment (3.2%).

At the sectoral level, construction and mining recorded strong growth of 14.6% and 9.6%, respectively, by the end of the year. Confidence picked up in early 2010, leading to an upturn in private consumption and a stronger performance for industry and commerce. Flows of foreign direct investment (FDI) are projected to increase and commodity prices to rally, which would have a positive effect on the terms of trade. Among other urgent tasks, the new government that will take office on 7 August 2010 will have to consolidate the economic recovery at a time of fiscal hardship exacerbated by rising demand for resources, particularly in the health sector, while normalizing trade relations with the Bolivarian Republic of Venezuela.

2. Economic policy

(a) Fiscal policy

In order to counter the effects of the international financial crisis on the Colombian economy, the government decided to implement a countercyclical policy that maintained the planned level of spending with a view to preventing a greater drop in demand and GDP, an approach that has led to larger national central government and consolidated public-sector deficits. Spending was focused primarily on infrastructure and social programmes and production incentives, and was made possible by the continuing availability of financing.

At year-end 2009, the national central government recorded a deficit equivalent to 4.1% of GDP, compared with 2.3% in 2008. This deterioration can basically be attributed to stronger expenditure growth, with a rise of 13.6%, while revenues increased by only 2.8%. Tax receipts rose by 1.3% and their share of GDP dropped by 0.5% compared to the previous year. The consolidated public sector ran a deficit of 2.8%, as against 0.1% in 2008. This result was due not only to an increase in the deficit of the national central government, but also to a 0.8% reduction in the surplus of decentralized authorities, regional and local governments in particular. Central-government debt rose to 35.0% of GDP from 33.5% in 2008, owing primarily to higher domestic borrowing.

The Colombian authorities have undertaken to ensure the sustainability of the public finances through medium-term fiscal planning. The increase in the fiscal deficit in 2009 resulting from the countercyclical policy implemented has accordingly necessitated measures on both the revenue and expenditure sides to redress the larger fiscal imbalance. Limits were imposed on certain tax exemptions in late 2009 to increase tax revenue (Act No. 1,370 of 2009). Furthermore, the government had to cut 5.8 billion pesos (more than 1 percentage point of GDP) from planned general budget expenditure because of the lower revenue expected for 2010; however, this measure will not affect the main public investment programmes and projects. The consolidated public-sector deficit is still projected to reach 3.7% of GDP and that of the national central government 4.5% of GDP.

The government will have to address various challenges in relation to the public finances in the short term. Spending

pressures in the health sector will have to be relieved by allocating more resources to it, in accordance with the provisions of a bill currently before Congress. In addition, the outgoing government made a commitment to allocate public resources equivalent to just over 5% of GDP to priority projects (roads, energy and telecommunications) up to 2027, which will give future governments less budgetary flexibility.

(b) Monetary policy

In keeping with the countercyclical strategy, an expansionary monetary policy was adopted in 2009. In order to boost aggregate demand, and private consumption in particular, the intervention rate of the Bank of the Republic was reduced gradually from 10% to 3% starting in December 2008 (700 basis points in a little over a year).

As a result of the reduction in the intervention rate, market rates also dropped relatively quickly with a few exceptions, such as the rate applied to microcredit. The average annual nominal deposit rate fell from 10.1% in December 2008 to 4.1% in December 2009, while the average nominal lending rate decreased from 17.7% to 9.9% during the same period. Consumer, commercial and mortgage lending picked up slightly towards the end of 2009; taking the year as a whole, however, there was still a significant slowdown in real terms. Commercial and consumer lending dropped by 1.6% and 0.4%, respectively, while mortgage lending expanded by 9.2%. This expansion was due not only to an increase in the number of loans, but also to the government's countercyclical policy, which included an interest-rate subsidy on certain home loans for medium- and low-income strata.

Monetary aggregates recorded positive nominal growth, although at lower rates than the previous year. M1 grew by 7.5% and M2 and M3 by 5.4% and 7.1%, respectively, owing to the growth of cash and the dynamism of bond investments and current and saving accounts.

The monetary aggregates have continued to expand at a steady pace in the early months of 2010, while total gross lending has carried on improving slowly, led by home loans. Interest rates are still trending downward, but at a slower pace than in 2009.

(c) Exchange-rate policy

Exchange-rate policy was influenced by volatile exchange rates throughout 2009. Nevertheless, the Colombian peso, like other Latin American currencies, appreciated for most of the year as a result of the weakening dollar and rising commodity prices. In nominal terms there was an average annual depreciation of 9.39%, owing primarily to the behaviour of the exchange rate during the first two months of the year. Between December 2008 and the end of December 2009, by contrast, the currency experienced a nominal annual appreciation equivalent to 9.11%. The undertaking by the government and the Colombian Petroleum Company (ECOPETROL) not to monetize foreign currency in the closing months of 2009 helped to curb the appreciation, which reversed again towards the end of the year.

The Colombian peso experienced an average annual real-term depreciation of 5.7% in 2009 before appreciating again in early 2010 in both nominal and real terms.

(d) Trade policy

In 2009, the Bolivarian Republic of Venezuela announced that it was breaking off trading relations with Colombia. Trade flows also diminished as a result of the international financial crisis, which has put industry in a difficult situation. The government and private sector are seeking substitutes for the Venezuelan market; however, their efforts are unlikely to show results in the short term. Nevertheless, some products, especially from the agricultural and mining sectors, have achieved a greater presence in non-traditional markets.

Colombia concluded its negotiations over a free trade agreement with the European Union and has entered into discussions with Panama and the Republic of Korea with a view to signing new agreements. In late 2009, in view of the delay in approving its agreement with Colombia, the United States once again extended preferential tariff treatment to the country under the Andean Trade Promotion and Drug Eradication Act (ATPDEA).

3. The main variables

(a) Economic activity

The Colombian economy grew by 0.8% in 2009. Given the signs of recovery in the second part of the year, and especially the last quarter, growth of some 3.5% is projected for 2010. The sectors that contracted most were industry (-5.9%), commerce (-2.3%) and agriculture (-0.4%). Meanwhile, there was positive growth in construction (14.6%), mining (9.6%) and financial institutions (3.1%). The stronger performance of construction and mining was mainly due to government-funded infrastructure projects (public works) and higher oil production, respectively.

The private component of demand (both investment and consumption) was the worst affected by the international financial crisis and was not fully offset by the growth of the public component. Consumption grew by only 1.3% (private consumption by 1.1% and public consumption by 2.6%) and investment by just 3.2%. The investment components that were hit hardest were machinery and equipment, construction and building, and transport equipment. Public works grew significantly as a result of the government's countercyclical policy. Loss of confidence among the business community and the contraction of

domestic and external demand are the factors that best explain the weakening of investment. Exports and imports fell by 3.9% and 9.0%, respectively.

As of early 2010, both consumer and business confidence indices have improved significantly. Combined with lower interest rates and inflation, this has led to a resurgence of private consumption, which is expected to be the engine of growth this year. The trade restrictions imposed by the Bolivarian Republic of Venezuela and the slowdown in that country's economy are hampering improvements in trade flows. Given the reduced fiscal space, public consumption and investment will grow only moderately in 2010.

(b) Prices, wages and employment

Following two consecutive years in which the inflation target was not met, the inflation rate for 2009 was the lowest in 50 years at 2.0%, which is the lower limit of the range set by the Bank of the Republic as its long-term target. This left households with more disposable income and contributed to the recovery of private consumption and the reactivation of economic

Table 1
COLOMBIA: MAIN ECONOMIC INDICATORS

	2001	2002	2003	2004	2005	2006	2007	2008	2009 ^a
Annual growth rates^b									
Gross domestic product	1.8	2.5	4.6	5.3	5.0	7.1	6.3	2.7	0.8
Per capita gross domestic product	0.1	0.9	2.3	3.7	3.4	5.5	4.7	1.2	-0.6
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	0.7	0.7	3.7	3.9	2.8	2.4	3.5	-0.6	-0.4
Mining and quarrying	-8.6	-3.4	0.9	-0.9	4.0	2.9	2.0	7.0	9.6
Manufacturing	2.8	1.0	3.5	7.5	3.8	7.4	6.7	-4.2	-5.9
Electricity, gas and water	4.7	0.5	7.3	3.7	5.0	4.5	4.8	0.1	1.4
Construction	5.7	13.4	10.1	10.2	6.7	12.9	10.2	3.0	14.6
Wholesale and retail commerce, restaurants and hotels	3.2	1.9	4.2	6.7	3.7	9.0	7.3	2.5	-2.3
Transport, storage and communications	2.5	2.9	4.1	7.8	7.1	9.1	11.5	5.3	0.0
Financial institutions, insurance, real estate and business services	1.8	1.6	2.9	4.4	5.0	4.8	4.6	8.5	3.1
Community, social and personal services	2.9	2.6	1.4	3.7	4.4	5.1	3.1	2.5	1.3
Gross domestic product, by type of expenditure									
Final consumption expenditure	2.1	1.9	2.8	4.4	4.5	7.4	6.5	2.3	1.3
Government consumption	1.8	-1.3	1.3	5.8	7.2	4.9	4.3	2.5	2.6
Private consumption	2.2	2.7	3.2	4.1	3.9	7.9	7.0	2.0	1.1
Gross capital formation	8.9	10.0	11.7	10.4	13.4	16.8	14.0	4.8	3.2
Exports (goods and services)	3.4	-2.7	6.3	9.6	4.6	7.7	7.2	8.8	-3.9
Imports (goods and services)	10.2	0.3	8.8	10.3	10.6	20.3	15.1	8.8	-9.0
Percentages of GDP									
Investment and saving^c									
Gross capital formation	16.7	17.2	18.9	20.1	21.6	24.3	24.3	25.0	24.2
National saving	15.5	15.8	17.8	19.3	20.3	22.5	21.5	22.3	22.0
External saving	1.1	1.4	1.1	0.8	1.3	1.8	2.8	2.8	2.2
Millions of dollars									
Balance of payments									
Current account balance	-1 067	-1 289	-973	-906	-1 882	-2 983	-5 819	-6 713	-5 146
Goods balance	600	306	556	1 346	1 595	322	-596	976	2 560
Exports, f.o.b.	12 869	12 384	13 813	17 224	21 729	25 181	30 577	38 531	34 026
Imports, f.o.b.	12 269	12 077	13 258	15 878	20 134	24 859	31 173	37 556	31 466
Services trade balance	-1 412	-1 435	-1 439	-1 680	-2 102	-2 119	-2 607	-3 140	-2 680
Income balance	-2 609	-2 867	-3 398	-4 297	-5 456	-5 929	-7 847	-10 063	-9 644
Net current transfers	2 354	2 706	3 309	3 724	4 082	4 743	5 231	5 514	4 619
Capital and financial balance ^d	2 286	1 427	789	3 447	3 610	3 005	10 532	9 351	6 493
Net foreign direct investment	2 526	1 277	783	2 873	5 590	5 558	8 136	8 346	4 177
Other capital movements	-240	151	6	574	-1 980	-2 553	2 396	1 004	2 316
Overall balance	1 218	138	-184	2 541	1 729	23	4 714	2 638	1 347
Variation in reserve assets ^e	-1 218	-138	184	-2 541	-1 729	-23	-4 714	-2 638	-1 347
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) ^f	104.1	105.8	119.5	107.0	94.7	96.1	85.7	82.2	86.8
Terms of trade for goods (index: 2000=100)	94.2	92.5	95.2	102.3	111.0	115.2	124.4	138.1	118.8
Net resource transfer (millions of dollars)	-323	-1 439	-2 609	-850	-1 846	-2 924	2 686	-712	-3 151
Total gross external debt (millions of dollars)	39 163	37 382	38 065	39 497	38 507	40 103	44 553	46 374	53 797
Average annual rates									
Employment									
Labour force participation rate ^g	64.4	64.8	65.0	63.6	63.3	62.0	61.8	62.6	64.6
Open unemployment rate ^h	18.2	18.1	17.1	15.8	14.3	13.1	11.4	11.5	13.0
Visible underemployment rate ⁱ	16.3	16.8	15.3	15.2	13.8	11.9	10.0	9.1	9.5
Annual percentages									
Prices									
Variation in consumer prices (December-December)	7.6	7.0	6.5	5.5	4.9	4.5	5.7	7.7	2.0
Variation in producer prices (December-December)	9.0	3.8	10.2	5.2	3.0	5.3	1.3	9.0	-2.2
Variation in nominal exchange rate (annual average)	10.0	9.0	14.7	-8.7	-11.6	1.6	-12.0	-5.2	9.6
Variation in average real wage	-0.3	3.0	-0.7	1.7	1.5	3.8	-0.3	-2.0	1.1
Nominal deposit rate ^j	12.4	8.9	7.8	7.8	7.0	6.2	8.0	9.7	6.3
Nominal lending rate ^k	20.7	16.3	15.2	15.1	14.6	12.9	15.4	17.2	13.0

Table 1 (concluded)

	2001	2002	2003	2004	2005	2006	2007	2008	2009 ^a
	Percentages of GDP								
Non-financial public sector									
Total revenue	29.1	28.6	29.6	31.0	29.5	29.9	30.0	...	...
Current revenue	29.1	28.6	29.6	31.0	29.5	29.9	30.0	...	...
Tax revenue	14.5	14.3	14.8	15.5	16.5	17.3	17.5	...	...
Total expenditure ^l	32.5	31.5	31.8	31.8	29.8	30.7	31.1	...	...
Current expenditure	25.4	24.8	25.1	25.5	25.0	25.2	24.7	...	...
Interest	4.0	3.7	4.0	3.7	3.3	3.9	3.8	...	...
Capital expenditure	7.0	6.7	6.7	6.4	4.8	5.5	6.4	...	...
Primary balance	0.6	0.8	1.8	2.9	3.1	3.0	2.8	...	...
Overall balance ^l	-3.4	-2.9	-2.2	-0.8	-0.3	-0.8	-1.0	0.0	-2.5
Consolidated non-financial public-sector debt									
Domestic	51.6	58.4	56.5	51.6	50.1	47.3	43.8	42.9	45.1
External	29.7	33.7	32.5	32.3	34.4	32.3	30.7	29.5	31.5
	21.9	24.7	24.0	19.3	15.6	15.1	13.1	13.4	13.6
Money and credit^m									
Domestic credit	29.5	29.3	29.5	29.3	30.2	31.1	32.1	33.9	35.1
To the public sector	8.5	9.9	10.3	10.3	10.3	8.1	6.0	6.3	9.2
To the private sector	21.0	19.4	19.1	19.0	19.9	23.1	26.1	27.6	26.0
Currency outside banks and local-currency deposits (M2)	27.4	27.1	27.4	28.7	30.6	31.8	33.4	35.4	35.2

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a Preliminary figures.

^b Based in the new quarterly national accounts figures published by the country, base year 2005.

^c Based on figures in local currency expressed in dollars at current prices.

^d Includes errors and omissions.

^e A minus sign (-) denotes an increase in reserves.

^f Annual average, weighted by the value of goods exports and imports.

^g Economically active population as a percentage of the working-age population, thirteen cities.

^h Percentage of the economically active population, thirteen cities.

ⁱ Percentage of the working population, thirteen cities.

^j 90-day fixed-term certificates of deposit for banks and corporations.

^k Total lending rate of the system (weighted average of all lending rates).

^l Includes net lending.

^m The monetary figures are end-of-year stocks.

activity. Food was the component that contributed most to lower inflation, with prices falling by 0.3% over the year. At the end of 2009, the inflation rates for tradable, non-tradable and regulated goods were 1.4%, 4.4% and 2.5%, respectively.

The Bank of the Republic has set an inflation target of between 2% and 4% for 2010. Year-on-year inflation was 2.47% at the end of June, slightly higher than in the same month of 2009. Although demand is not expected to place upward pressure on prices, inflation could rise principally because of dearer food prices (attributable to the weather events that have afflicted the country) and higher than expected commodity prices.

There was a marked deterioration in the labour market in 2009, which was a source of concern for the economic authorities and became a priority issue for debate in Colombia. The incoming government will have to carry out reforms to boost employment. The main proposals include reducing both payroll taxes (non-wage costs) and incentives for capital investment, developing temporary or emergency employment programmes, creating unemployment benefits and strengthening labour intermediation systems (National Training Service). Measures to boost certain key sectors that are vital for job

creation, such as infrastructure, housing and agriculture, are also being considered.

The labour participation rate increased to 61.3% in 2009, almost 3 percentage points higher than in 2008. This can be explained by the fact that family members other than heads of household are seeking to join the labour market to compensate for loss of family income. The employment rate rose from 51.9% to 53.9%. While wage employment was stagnant, own-account employment increased, owing to deteriorating employment quality and growth in informal jobs. The national unemployment rate was 12.0% in 2009, compared with 11.3% in 2008, while urban unemployment rose from 11.5% in 2008 to 13.0% in 2009.

While there are clear signs of a recovery in economic activity, these have not yet translated into improvements in the labour market. The figures for the first quarter of 2010 show an increase in unemployment (13.0% nationally and 13.7% in urban areas). Non-wage employment has continued to account for most of the growth in the employment rate. These trends could affect household confidence and private consumption. An upturn in aggregate demand alone will not reduce the unemployment figures to their previous levels; for this, the country will need more extensive labour-market reforms.

Table 2
COLOMBIA: MAIN QUARTERLY INDICATORS

	2008				2009 ^a				2010 ^a	
	I	II	III	IV	I	II	III	IV	I	II
Gross domestic product (variation from same quarter of preceding year) ^b	5.4	3.3	3.4	-1.1	-0.9	0.1	0.7	3.4	4.4	...
Goods exports, f.o.b. (millions of dollars)	8 657	10 405	10 210	8 353	7 577	7 908	8 368	9 000	9 135	7 002 ^c
Goods imports, c.i.f. (millions of dollars)	8 882	10 050	10 648	10 089	7 973	7 601	8 469	8 855	9 135	6 675 ^c
Gross international reserves (gross) (millions of dollars)	21 789	22 485	23 725	23 672	23 475	23 356	24 756	24 992	25 140	26 026
Real effective exchange rate (index: 2000=100) ^d	80.9	75.6	80.9	91.3	94.0	88.6	82.2	82.4	76.1	76.3 ^c
Unemployment rate	12.3	11.6	11.5	10.8	14.0	12.8	12.9	12.3	13.7	...
Consumer prices (12-month percentage variation)	5.9	7.2	7.6	7.7	6.1	3.8	3.2	2.0	1.8	2.1
Average nominal exchange rate (pesos per dollar)	1 907	1 767	1 906	2 293	2 419	2 228	2 013	1 966	1 945	1 957
Average real wage (variation from same quarter of preceding year)	-0.6	-1.1	-2.7	-3.6	-2.2	0.0	2.7	3.7	3.4	...
Nominal interest rates (annualized percentages)										
Deposit rate ^e	9.3	9.7	9.8	10.1	8.9	6.3	5.0	4.3	4.0	3.8 ^c
Lending rate ^f	16.7	17.3	17.3	17.5	16.6	13.4	11.7	10.4	9.9	9.6 ^c
Interbank interest rate ^g	9.5	9.7	9.9	9.8	8.6	6.0	4.3	3.7	3.3	3.3 ^c
Sovereign bond spread (basis points) ^h	258	221	318	498	487	301	223	196	172	230
Stock price index (national index to end of period, 31 December 2000=100)	1 120	1 146	1 154	944	1 001	1 233	1 405	1 448	1 513	1 561
Domestic credit (variation from same quarter of preceding year)	13.2	14.9	15.9	17.1	19.2	16.4	10.0	9.6	...	...
Non-performing loans as a percentage of total credit	3.9	3.9	4.1	4.0	4.5	4.6	4.5	4.1	4.4	4.4 ⁱ

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a Preliminary figures.

^b Based on figures in local currency at constant 2005 prices.

^c Data to May.

^d Quarterly average, weighted by the value of goods exports and imports.

^e 90-day fixed-term certificates of deposit for banks and corporations.

^f Total lending rate of the system (weighted average of all lending rates).

^g Overnight.

^h Measured by JP Morgan's EMBI+ index to end of period.

ⁱ Data to April.

(c) The external sector

The current account deficit decreased from 2.8% of GDP in 2008 to 2.2% in 2009, owing mainly to the fall in international prices, downturns in the economies of the country's main trading partners and more sluggish trade flows generally. Exports fell 11.7% by value, with external sales of traditional goods decreasing by 10.3% and those of non-traditional goods by 15.4%. The decline in non-traditional exports is attributable largely to lower sales of ready-made clothing, metals and manufactures, leather, and live animals and animal products. Sales to the Bolivarian Republic of Venezuela and the United States, the country's main trading partners, fell by 33.5% and 8.5%,

respectively. The volume of traditional exports actually rose as a result of increased production and sales of oil, coal and ferronickel, which offset the decline in coffee production and exports. There was a significant contraction in imports (17.1%), which particularly affected electrical and sound and image recording equipment and appliances, vehicles and vehicle parts, and iron and steel.

The trade outlook for 2010 remains unclear since the Bolivarian Republic of Venezuela, a major destination for Colombian goods, closed its market. Between January and May 2010, the value of exports was up 26.6% on the same period a year earlier. Exports of traditional goods expanded by some 58.1%, while those of non-traditional goods fell by 4.6%. Where destinations are concerned,

sales to the United States rose by 61.5% in the first five months of the year, while those to the Bolivarian Republic of Venezuela fell by 71.4%.

Unsurprisingly, foreign direct investment (FDI) inflows declined by 32%, from US\$ 10.6 billion in 2008 to US\$ 7.201 billion in 2009. Despite this, FDI in the mining and quarrying sector increased significantly (by 72%) as a result of investments in coal mining. The outlook for 2010 is more positive and FDI inflows are projected to return

to the levels of previous years, especially in the mining and hydrocarbons sector. Remittances fell by 14.4% from US\$ 4.842 billion in 2008 to US\$ 4.145 billion in 2009. In 2010, rising employment in other economies such as the United States is expected to lead to a recovery in remittances too. Nevertheless, high unemployment in Spain and the poor performance of the Venezuelan economy, an important source of Colombian remittances, are a cause for concern in this area.