

## Colombia

In 2011, the Colombian economy continued to expand at the same healthy pace as the previous year, with growth estimated at more than 5%. This positive performance was driven by domestic demand as both household consumption and investment expanded. The favourable economic climate was reflected in the high confidence indices recorded in surveys. In the context of a more adverse global scenario, the economy is expected to grow at a slightly slower pace in 2012.

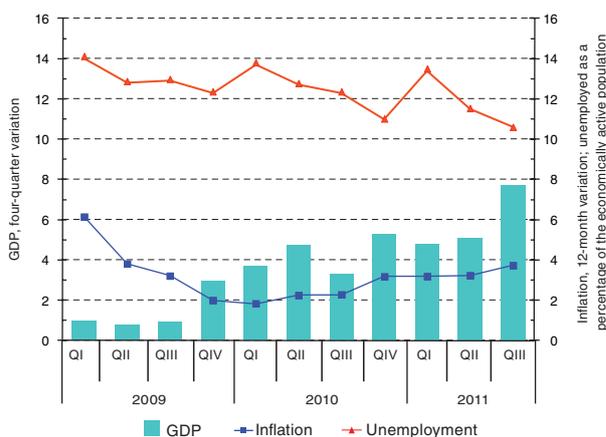
A set of fiscal policy, competitiveness, employment and business formalization reforms was approved with a view to consolidating these high growth rates. Congress granted the administration extraordinary powers to restructure the executive branch in order to make public administration more efficient. These measures will be complemented in 2012 by two further reforms, one relating to the tax system and the other concerning pensions.

On the fiscal front, the mining royalty system was reformed to ensure that resources are distributed more equally among regions, especially during the price boom. A new fiscal rule and a constitutional amendment requiring that public spending be fiscally sustainable were approved in order to ensure prudential management of public resources. The fiscal rule calls for gradually reducing the central government structural deficit, down to a permanent target of no more than 1% of GDP by 2022. It also authorizes countercyclical government spending in the event of a severe crisis. The central government is forecast to post a fiscal balance deficit of 3.6% of GDP in 2011. Total revenue is expected to expand by more than 0.5% of GDP on the strength of the economic boom and new tax regulations with stricter tax evasion and avoidance controls. Although spending execution has been low, spending is expected to expand by 0.5% of GDP in 2011, so the fiscal balance should remain unchanged in keeping with the fiscal rule approved. The non-financial public sector deficit is expected to widen slightly, from 3.1% of GDP to 3.5%, as the decentralized sector surplus narrows in the face of traditionally higher spending by regional and local governments during the final year of their terms, coupled with net winter emergency spending.

In 2011, domestic demand fuelled economic growth and was driven by better terms of trade and the recovering labour market, as well as burgeoning consumer and mortgage lending. In order to curb inflationary pressures, the central bank raised the policy rate several times during the year, most recently in November 2011; the result was an accumulated increase of 175 basis points, from 3.0% to 4.75%.

The policy rate increases were transmitted to the real consumer interest rate, which stood at a still-historical low of 15.2% in the third quarter of 2011. This in turn triggered a year-on-year expansion of 21.6% in the real

COLOMBIA: GDP, INFLATION AND UNEMPLOYMENT



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

consumer credit portfolio. Ordinary credit and mortgage lending recorded year-on-year growth of 20% and 13% respectively. Improving credit portfolio quality, especially for the mortgage portfolio (whose risk indicator dropped from 7.3% in September 2010 to 5.7% in September 2011), allayed monetary authorities' fears of excessive household borrowing.

On the foreign exchange front, the peso continued to appreciate throughout 2011, albeit at varying rates. Foreign direct investment flows into Colombia were significant, especially for the oil and mining sectors, with accumulated growth to October 2011 of 54.2% compared with the same period in 2010. Export and portfolio investment inflows were up sharply as well, by 28.7% and 10%, respectively. This all took place as international commodity prices soared, the country recovered its investment-grade ratings from three rating agencies and growth prospects remained in positive territory. To prevent currency appreciation, in September 2011 the central bank replaced the reserve purchase programme involving daily auctions of up to US\$ 20 million with options auctions in an effort to control volatility. This new instrument, which had not been employed since 2008, provides for interventions of up to US\$ 200 million in the event of deviation from the average exchange rate. To the same end, the government set up a US\$ 1.2 billion fund abroad and limited foreign currency transactions by pension funds to 2.5% of the value of each fund.

Economic activity grew by 5.0% in the first half of 2011. Mining was the best performing sector, closely followed by trade and the transport and communications sector. Despite extreme winter weather that hit rural areas the hardest, the agricultural sector picked up after the stubborn slump that began in 2008. By contrast, construction showed negative growth as a result of sharp cutbacks in public works. However, the sector is expected to recover towards the end of 2011 on the strength of sustained growth in construction permits and the expected upturn in public works as weather conditions stabilize.

Consumption—especially private consumption—continued to expand, with household consumption up by 6.2% during the first half of the year and demand for durable goods strong. Investment and imports posted the sharpest growth, particularly machinery and transport equipment.

The weather affected prices: food-price inflation (especially for perishables) trended up throughout the year. The second half of 2011 saw rising prices for regulated goods and services, especially utility rates, pushing annual inflation to October up to 4.0%. Because the central bank considers these rises to be temporary, it expects to reach its target of 2%-4% for 2011 and has kept the same target for 2012.

#### COLOMBIA: MAIN ECONOMIC INDICATORS

	2009	2010	2011 <sup>a</sup>
<b>Annual growth rates</b>			
Gross domestic product	1.5	4.3	5.5
Per capita gross domestic product	0.0	2.9	4.1
Consumer prices	2.0	3.2	4.0 <sup>b</sup>
Real average wage <sup>c</sup>	1.2	2.5	0.0 <sup>d</sup>
Money (M1)	5.4	10.2	17.3 <sup>e</sup>
Real effective exchange rate <sup>f</sup>	5.6	-13.1	0.5 <sup>g</sup>
Terms of trade	-14.0	13.1	6.0
<b>Annual average percentages</b>			
Urban unemployment rate <sup>h</sup>	13.0	12.4	11.4 <sup>i</sup>
Central national government overall balance / GDP	-4.1	-3.8	-4.0
Nominal deposit rate <sup>j</sup>	6.1	3.7	4.0 <sup>k</sup>
Nominal lending rate <sup>l</sup>	13.0	9.4	11.1 <sup>k</sup>
<b>Millions of dollars</b>			
Exports of goods and services	38 227	45 224	61 871
Imports of goods and services	38 503	46 608	62 319
Current account balance	-5 011	-8 855	-10 927
Capital and financial balance <sup>m</sup>	6 358	11 991	15 210
Overall balance	1 347	3 136	4 283

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

<sup>a</sup> Preliminary estimates.

<sup>b</sup> Twelve-month variation to November 2011.

<sup>c</sup> Manufacturing.

<sup>d</sup> Estimate based on data from January to September.

<sup>e</sup> Twelve-month variation to October 2011.

<sup>f</sup> A negative rate indicates an appreciation of the currency in real terms.

<sup>g</sup> January to October average, year-on-year variation.

<sup>h</sup> Includes hidden unemployment.

<sup>i</sup> Estimate based on data from January to October.

<sup>j</sup> 90-day fixed-term certificates of deposit.

<sup>k</sup> January-November average.

<sup>l</sup> Weighted average of the system lending rates.

<sup>m</sup> Includes errors and omissions.

The economy's strong performance was reflected in the labour market. Unemployment in Colombia fell throughout 2011, dropping to a single-digit national rate (9.7%) in September 2011. This had not happened since 2007 despite consistently high labour participation rates. The sectors contributing most to employment were community services, trade and industry. Act No. 1.429 of 2010, which is designed to encourage formalization, appears to have had its first positive effects in reducing unemployment and increasing the number of workers with health-related benefits through social security.

The external sector was boosted by the resumption of trade with the Bolivarian Republic of Venezuela and buoyant exports. But this was not enough to offset the sustained growth in imports, especially intermediate goods and capital. Worker remittances recorded year-on-year growth of 5% to September 2011. The combined effect of these results together with the increased outflow of foreign-company profits and dividends produced a current account deficit of 2.8% of GDP. Lastly, net foreign direct investment was up by 74% in the first semester of 2011, with flows going primarily to the oil and mining sectors.