

## Colombia

### 1. General trends

The Colombian economy grew by 2.5% in 2008, a lower rate than the sustained growth of recent years. Indicators of economic activity began to show signs of weakness as early as the first quarter of 2008 and this trend intensified throughout the year as a result of the international financial crisis, as well as some internal factors. The growth rate for the first quarter of 2009 (0.6%) points to an economic contraction in relation to the same quarter in 2008. On that basis, the ECLAC forecast is that the rate for the year will stand at 0.6%.

The most vulnerable areas of the economy are the external and fiscal sectors: the former because of the expected fall in income from exports, remittances and FDI, and the latter owing to the lack of fiscal manoeuvring space to deal with some of the effects of the crisis through a major boost to public spending. As for monetary policy, the authorities have sought to stimulate demand by applying measures to reduce the cost of credit and guarantee access to a financial system which, in comparison with the crisis of 1999, is showing satisfactory levels of liquidity and solvency. Nonetheless, there are still uncertainties as to the factors which will be the engines of growth in the coming years.

The inflation rate stood at 7.7% at the end of 2008, exceeding for the second consecutive year the target set by the central bank. Food and controlled goods—fuels, transport and public services—were once again responsible for most of the increase. Inflation slowed in the first half of 2009, owing to falls in world petroleum prices and because reduced international demand for goods and services pushed prices down. This has allowed monetary policy to become one of the main instruments for boosting demand, with a series of cuts in the monetary policy rate, which had fallen to 4.5% at the end of June 2009. This reversed the consecutive rate increases begun in 2007 to

control inflationary pressures. In addition to this monetary policy measure, the government used fiscal policy in order to execute, despite the crisis, the infrastructure investment plan which had been adopted and to improve the coverage of direct subsidy programmes for the poorest sectors of the population.

The sectors which had spearheaded economic growth in recent years—manufacturing, retail commerce and construction—quickly cooled off in the first months of 2009, resulting in a worrisome decline in employment. In terms of aggregate demand, private consumption and investment—the main engines of economic growth in previous years—are now growing at a much lower rate. Initially this was a consequence of central-bank measures to keep a lid on inflation but more recently it has resulted from decreased confidence among households and businesses in response to the financial crisis. The fiscal and external deficits, which previously had not elicited much concern because they were fully and securely financed, have become a source of vulnerability for the economy of Colombia, especially because of tight global credit and the expected reduction in tax receipts and exports. An additional source of uncertainty is the outcome of the referendum to allow President Álvaro Uribe Vélez to run for re-election for the second time.

## 2. Economic policy

### (a) Fiscal policy

The consolidated public sector deficit ended 2008 at 0.1% of GDP, better than the initial goal of 0.8%, thanks to the improved balance of the non-financial public sector. This was the result of the reduction of the central government's deficit to 2.3% of GDP—below the target of 2.6%—owing mainly to lower planned transfers to the regions. Regional and local governments posted a surplus because programme execution was delayed, as normally occurs in the first year that municipal councils are in office. The revenue of the central government and regional and local governments were strengthened thanks to high average prices for petroleum in 2007.

The ceiling for the central government's deficit was tentatively set at 3.2% of GDP for 2009. However, at the end of March, when the growth figures for the fourth quarter of 2008 were released, the government announced that it was raising the target to 3.7% of GDP owing to the expected reduction in tax revenue. The additional funds will come from multilateral banks and available cash on hand. In addition, out of the budget approved for 2009, three trillion pesos in spending for activities with a lower redistributive effect was put on hold until 2010.

In the light of the economic slowdown, the central government will use public spending as its main countercyclical policy, carrying out its entire investment plan as foreseen before the crisis. The investment plan focuses mainly on infrastructure—concessions, major highways, departmental roads, tertiary roads, housing, drinking water and basic sanitation—and on social issues, through an attempt to expand the coverage of the Families in Action programme intended to benefit the low-income segment of the population.

Anticipating a possible reduction in fiscal revenue, the central government took out a US\$ 10.5 billion contingency loan with the International Monetary Fund, in the framework of the latter's Flexible Credit Line intended to support different countries' efforts to mitigate the effects of the financial crisis. These funds will be used only if the economic situation so requires.

### (b) Monetary policy

Monetary policy was flexibly adapted in 2008 to the new conditions brought about by the economic downturn. The government attempted to keep a lid on inflationary pressure during the first few months of the year by

maintaining, and even slightly raising, the monetary policy rate, which by July 2008 stood at 10.0%.

Monetary policy has lagged somewhat behind market rates. The annual average nominal deposit rate rose from 8.0% in 2007 to 9.7% in 2008, and the average nominal lending rate from 15.5% in 2007 to 17.2% in late 2008. Total consumer, commercial and mortgage lending, in addition to deteriorating in quality, grew at real rates of 4.1%, 12.9% and 6.1%, respectively—in each case, below the 2007 rate. The monetary aggregates M2 and M3 expanded less than in 2007 and the means of payment contracted.

Against a backdrop of considerable uncertainty regarding the intensity and duration of the financial crisis, various instruments were used in the second half of 2008 to give monetary policy more manoeuvring room. Legal reserve requirements were lowered and a series of cuts in monetary policy rates began. This policy was consolidated in the first few months of 2009 through successive 100-basis-point cuts, bringing the monetary policy rate down to 4.5% in late June. This type of measures—despite the delay in their effect on market interest rates—might explain the slowing deceleration of the main categories of lending. The growth rate of consumer credit, which accounts for 60% of all lending, was 6.5% in April 2009; that of commercial credit, which represents 25% of all lending, stood at 18.4%; and that of mortgage lending—10% of the total—was 14%. As part of its efforts to address the crisis, the government has promoted credit lines to encourage purchases of durable goods (vehicles and appliances) and introduced a subsidy on some home loans. These policies help explain credit trends.

### (c) Exchange-rate policy

Exchange rates were highly volatile in 2008, in line with the evolution of the financial crisis and other external factors. The Colombian peso appreciated in the first half of 2008, owing to capital inflows and FDI, while in the second half of the year, the growing financial crisis brought this trend to a halt and the currency depreciated. The annual average nominal appreciation of the peso was -13.5% from January to June 2008, leading the economic authorities to impose certain restrictions on the entry of capital. The exchange rate posted a 3.1% annual average nominal depreciation in the second half of 2008, largely owing to the incipient crisis and the outflow of capital, mainly for purchases of United States Treasury bonds. This turnaround in the behaviour of the currency led the central bank to eliminate the deposit

requirement on foreign debt and led the authorities to approve a tax amnesty on the repatriation of capital held abroad and free of links to illicit activities.

The year-on-year depreciation of the peso of as May 2009 was 27.4%, because of declining FDI, among other reasons.

#### (d) Trade policy

The government moved forward with its policy of pursuing trade negotiations. A free trade agreement is currently being negotiated with the European Union, while approval by the United States Congress of the

free trade agreement between the two countries remains pending. A free trade agreement was signed with Chile, and immediately went into force.

Colombian exports continue to be concentrated in terms of both destination and products.<sup>1</sup> This heightens the country's vulnerability during periods of crisis such as the current one. Sales to the Bolivarian Republic of Venezuela and the United States—which are Colombia's two largest trading partners and account for more than 50% of its foreign trade—are expected to drop sharply. The government has consolidated its strategy of market diversification by promoting trade agreements and studying the possibility of joining Asia-Pacific Economic Cooperation (APEC).

### 3. The main variables

#### (a) Economic activity

The GDP growth rate was 2.5% in 2008, below the average rate of 5.9% from 2003 to 2007. Most notably, a 1.0% contraction in last quarter of 2008 had a decisive impact on the final result for the year. However, the decline in economic activity did not affect every sector to the same degree. Whereas mining, transportation and finance were able to maintain growth rates above 3.0%, construction and agriculture had less favourable rates, 1.7% and 2.7%, respectively. Nevertheless, it was industry that felt the brunt of the economic downturn, as value added in the sector fell by 1.8%. Especially hard hit were vehicles and clothing. By contrast, growth in construction was due to a strong performance in building start-ups despite a decline in public works, while one of the reasons for the lower growth in agriculture was decreased coffee production.

On the demand side, private consumption and investment were sharply down, after spearheading economic growth in Colombia for several years. Private consumption rose at a rate of 2.3% in 2008, while investment increased by 8.8%. The factors believed to be responsible for the lower growth in private consumption (2%) include falling confidence among households, and erosion of their purchasing power owing to higher prices for food and fuels and the higher cost of credit. The lower growth rate of investment is due to delays in executing public works projects, as is normally the case in the first year in office of new municipal councils. Total domestic demand rose by 4.1% in 2008, substantially below the 8.9% figure posted in 2007.

#### (b) Prices, wages and employment

The central bank's inflation target (between 3.5% and 4.5%) was not met in 2008, for the second consecutive year. Continuing inflationary pressure—both external and internal—pushed the rate up to 7.7% at the end of the year. Much of this increase was due to higher food prices, whose 13.1% annual increase was the highest in the current decade. Another area in which prices jumped considerably was controlled goods—fuels, transport and public services—with a 9.4% year-on-year increase for 2008. An external factor—higher international prices for petroleum and food—was the main reason the inflation target was not met. Towards the end of 2008, these price increases began to ease up but domestic prices failed to decline proportionately, owing to domestic factors such as the weather, strikes and the peso depreciation.

Twelve-month inflation fell sharply until June 2009, when the year-on-year rate stood at 3.8%. This has made it possible for the central bank to implement a countercyclical monetary policy based on lower interest rates. The inflation target was set at 4.5% to 5.5% for 2009. Current conditions are more propitious for this target to be met, even though the minimum wage hike will be 7.7%, above the upper limit of the inflation target. The factors that might ensure that the target is met include weak demand, lower inflationary expectations and a low degree of price pass-through from the depreciation of the peso.

<sup>1</sup> Petroleum and coal accounted for 36.1% of exports in 2008.

Table 1  
COLOMBIA: MAIN ECONOMIC INDICATORS

	2000	2001	2002	2003	2004	2005	2006	2007	2008 <sup>a</sup>
<b>Annual growth rates<sup>b</sup></b>									
<b>Gross domestic product</b>	2.9	2.2	2.5	4.6	4.7	5.7	6.9	7.5	2.5
<b>Per capita gross domestic product</b>	1.3	0.6	0.9	3.0	3.1	4.2	5.5	6.2	1.3
<b>Gross domestic product, by sector</b>									
Agriculture, hunting, forestry and fishing	3.8	0.5	5.3	3.2	1.8	2.4	3.9	3.9	2.7
Mining and quarrying	-10.3	-7.2	-2.4	0.9	-0.9	1.7	3.2	2.9	7.3
Manufacturing	11.7	1.6	1.0	7.3	5.3	5.4	6.8	9.5	-1.8
Electricity, gas and water	0.9	5.0	1.0	3.3	2.9	3.0	3.1	3.7	1.2
Construction	-3.9	1.6	3.2	14.7	13.4	12.8	13.5	11.5	1.7
Wholesale and retail commerce, restaurants and hotels	7.5	3.4	2.9	5.8	6.0	7.3	8.7	8.7	1.7
Transport, storage and communications	1.5	4.7	2.5	5.2	5.0	8.7	9.2	11.0	4.0
Financial institutions, insurance, real estate and business services	-1.0	5.1	6.1	5.7	3.9	5.5	6.7	7.3	5.6
Community, social and personal services	0.6	1.8	-0.6	0.2	3.6	4.6	4.7	4.7	2.1
<b>Gross domestic product, by type of expenditure</b>									
Final consumption expenditure	1.4	2.9	3.3	3.5	3.9	5.1	6.2	6.9	2.1
Government consumption	-0.3	3.7	3.9	3.4	4.6	6.4	4.2	4.9	1.3
Private consumption	2.0	2.7	3.2	3.5	3.7	4.7	6.8	7.5	2.3
Gross capital formation	12.3	7.9	2.2	1.4	27.5	19.9	19.1	13.7	8.8
Exports (goods and services)	6.1	0.4	-2.6	2.2	10.0	7.2	8.0	11.4	7.0
Imports (goods and services)	6.0	8.5	1.7	5.8	13.0	17.0	16.2	13.9	9.8
<b>Percentages of GDP</b>									
<b>Investment and saving<sup>c</sup></b>									
Gross domestic investment	15.7	16.7	17.2	18.9	20.1	21.6	24.3	24.3	24.3
National saving	16.5	15.5	15.8	17.8	19.3	20.3	22.5	21.5	21.5
External saving	-0.9	1.1	1.4	1.1	0.8	1.3	1.8	2.8	2.8
<b>Millions of dollars</b>									
<b>Balance of payments</b>									
Current account balance	807	-1 067	-1 290	-973	-906	-1 882	-2 983	-5 837	-6 761
Goods balance	2 670	600	306	556	1 346	1 595	322	-596	990
Exports, f.o.b.	13 760	12 869	12 384	13 813	17 224	21 729	25 181	30 577	38 546
Imports, f.o.b.	11 090	12 269	12 077	13 258	15 878	20 134	24 859	31 173	37 556
Services trade balance	-1 259	-1 412	-1 435	-1 439	-1 680	-2 102	-2 119	-2 607	-3 129
Income balance	-2 277	-2 609	-2 866	-3 398	-4 297	-5 456	-5 929	-7 865	-10 138
Net current transfers	1 673	2 354	2 706	3 309	3 724	4 082	4 743	5 231	5 515
Capital and financial balance <sup>d</sup>	63	2 286	1 428	789	3 447	3 610	3 005	10 550	9 399
Net foreign direct investment	2 111	2 526	1 277	783	2 873	5 590	5 558	8 136	8 406
Other capital movements	-2 048	-240	151	6	574	-1 980	-2 553	2 414	993
Overall balance	870	1 218	138	-184	2 541	1 729	23	4 714	2 638
Variation in reserve assets <sup>e</sup>	-870	-1 218	-138	184	-2 541	-1 729	-23	-4 714	-2 638
<b>Other external-sector indicators</b>									
Real effective exchange rate (index: 2000=100) <sup>f</sup>	100.0	104.2	105.7	119.6	107.1	96.7	97.8	85.7	83.0
Terms of trade for goods (index: 2000=100)	100.0	94.2	92.5	95.2	102.3	111.0	115.2	124.4	138.1
Net resource transfer (millions of dollars)	-2 214	-323	-1 439	-2 609	-850	-1 846	-2 924	2 686	-739
Total gross external debt (millions of dollars)	36 130	39 163	37 382	38 065	39 497	38 507	40 103	44 553	46 392
<b>Average annual rates</b>									
<b>Employment</b>									
Labour force participation rate <sup>g</sup>	63.5	64.4	64.8	65.0	63.6	63.3	62.0	61.8	62.6
Open unemployment rate <sup>h i</sup>	17.3	18.2	17.6	16.7	15.4	13.9	13.0	11.4	11.5
Visible underemployment rate <sup>h</sup>	14.2	16.3	16.8	15.3	15.2	13.8	11.9	10.0	9.1
<b>Prices</b>									
<b>Annual percentages</b>									
Variation in consumer prices (December-December)	8.8	7.6	7.0	6.5	5.5	4.9	4.5	5.7	7.7
Variation in producer prices (December-December)	14.9	9.0	3.8	10.2	5.2	3.0	5.3	1.3	9.0
Variation in nominal exchange rate (annual average)	18.9	10.1	8.9	14.9	-8.7	-11.7	1.6	-12.0	-5.2
Variation in average real wage	3.9	-0.3	3.1	-0.6	1.7	1.5	3.7	-0.5	-1.8
Nominal deposit rate <sup>j</sup>	12.1	12.4	8.9	7.8	7.8	7.0	6.2	8.0	9.7
Nominal lending rate <sup>k</sup>	18.8	20.7	16.3	15.2	15.1	14.6	12.9	15.4	17.2

Table 1 (concluded)

	2000	2001	2002	2003	2004	2005	2006	2007	2008 <sup>a</sup>
	<b>Percentages of GDP</b>								
<b>Non-financial public sector</b>									
Total income	30.0	31.0	30.3	30.6	31.9	29.9	30.0	30.0	27.4
Current income	29.6	31.0	30.3	30.6	31.9	29.9	30.0	30.0	27.4
Tax income	14.2	15.4	15.2	15.3	15.9	16.7	17.4	17.5	17.7
Total expenditure <sup>l</sup>	33.5	34.6	33.3	32.9	32.7	30.2	30.8	31.0	27.3
Current expenditure	26.1	27.0	26.2	26.0	26.2	25.3	25.3	24.6	22.3
Interest	3.9	4.2	3.9	4.1	3.8	3.4	3.9	3.8	3.2
Capital expenditure	7.3	7.5	7.1	6.9	6.6	4.9	5.5	6.4	5.1
Primary balance	0.3	0.6	0.9	1.9	3.0	3.1	3.0	2.8	3.3
Overall balance <sup>l</sup>	-3.5	-3.6	-3.1	-2.2	-0.8	-0.3	-0.8	-1.0	0.1
<b>Non-financial public sector debt</b>	39.5	42.9	49.5	46.7	42.4	38.9	36.0	32.3	31.9
Domestic	18.1	19.1	22.9	21.7	22.4	23.0	20.9	19.3	18.4
External	21.0	23.9	26.6	25.0	20.2	15.9	15.0	12.9	13.2
<b>Money and credit<sup>m</sup></b>									
Domestic credit	32.2	31.4	31.0	30.5	30.2	30.7	31.2	32.0	33.9
To the public sector	8.4	9.0	10.4	10.7	10.6	10.5	8.1	6.0	6.4
To the private sector	23.8	22.3	20.6	19.8	19.6	20.2	23.1	26.0	27.6
Currency outside banks and local-currency deposits (M2)	28.9	29.1	28.6	28.3	29.5	31.0	31.9	33.4	35.4

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

<sup>a</sup> Preliminary figures.

<sup>b</sup> Based on figures in local currency at constant 2000 prices.

<sup>c</sup> Based on figures in local currency expressed in dollars at current prices.

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

<sup>e</sup> A minus sign (-) denotes an increase in reserves.

<sup>f</sup> Annual average, weighted by the value of goods exports and imports.

<sup>g</sup> Economically active population as a percentage of the working-age population, thirteen cities.

<sup>h</sup> Percentage of the economically active population, thirteen cities.

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

<sup>j</sup> 90-day fixed-term certificates of deposit for banks and corporations.

<sup>k</sup> Actual total system-wide rate.

<sup>l</sup> Includes net lending.

<sup>m</sup> The monetary figures are end-of-year stocks.

The economic slowdown in 2008 was reflected in labour-market indicators. Nationwide unemployment stood at 10.5% in the fourth quarter of 2008, up from 9.8% in the same period in 2007. Job creation gradually declined in 2008, and a large proportion of the positions created were non-wage jobs. The persistent decrease in wage employment is a source of concern.

The cyclical downturn is expected to take a more severe toll on the labour market in 2009. Surveys for the first months of 2009 point to lower employment in manufacturing and retail commerce, in line with declining production and sales. In addition, the labour participation rate rose as a result of the economic situation (that is, greater labour supply), causing an increase in unemployment. The most recent available data (May) show an unemployment rate of 11.7% at the national level and 12.4% in the country's 13 largest cities. This is substantially higher than in May 2008, which confirms the difficult situation in the country's labour market as well as worsening conditions within it, reflected in the higher rate of non-wage (own-account) employment and the shrinkage of wage employment.

### (c) The external sector

The current account deficit in 2008 was 2.8%, a lower percentage than in 2007. The main reason for this decrease was

the trade surplus generated by higher income from exports, especially non-traditional exports, thanks to higher commodity prices during much of the year. Exports rose by 25.5%, as traditional exports jumped 40.8%, especially because of higher sales of petroleum and derivatives (66.9%), and non-traditional exports increased by 11.6%. The 20.6% increase in imports was due largely to higher sales of intermediate and capital goods. The central bank's gross international reserves rose by US\$ 2.638 billion in 2008.

Because the effects of lower global demand stemming from the financial crisis began to be felt only in late 2008, they are not reflected in the figures given above. Nevertheless, both exports and imports are expected to decline sharply in 2009, owing to the contraction of demand among the country's leading trading partners as well as the possible deterioration of the terms of trade, mainly because of lower prices for petroleum, coal and coffee.

According to preliminary data for the first quarter of 2009, imports fell by 10.2% and exports by 13.2% compared with the same period in 2008. The largest reduction was in traditional exports, primarily sales of petroleum and derivatives. The decline in non-traditional exports was less severe. The hardest-hit sectors were floriculture and clothing. In imports, the most significant decline was in motor vehicles and parts and in organic chemicals. In addition, remittances and FDI are expected to decline sharply.

Table 2  
COLOMBIA: MAIN QUARTERLY INDICATORS

	2007				2008 <sup>a</sup>				2009 <sup>a</sup>	
	I	II	III	IV	I	II	III	IV	I	II
Gross domestic product (variation from same quarter of preceding year) <sup>b</sup>	8.4	7.5	6.0	8.3	4.5	4.0	3.5	-1.4	-0.7	...
Goods exports, f.o.b. (millions of dollars)	6 116	7 272	7 714	8 889	8 657	10 405	10 210	8 353	7 513	...
Goods imports, c.i.f. (millions of dollars)	7 390	7 903	8 445	9 159	8 882	10 050	10 648	10 089	7 973	...
Gross international reserves (millions of dollars)	18 666	19 651	20 206	20 607	21 789	22 485	23 725	23 672	23 475	23 356
Real effective exchange rate (index: 2000=100) <sup>c</sup>	90.1	82.4	84.4	86.0	81.7	76.5	81.8	92.1	94.8	91.7 <sup>d</sup>
Unemployment rate	13.3	11.5	11.0	9.8	12.3	11.6	11.5	10.8	13.7	...
Consumer prices (12-month percentage variation)	5.8	6.0	5.0	5.7	5.9	7.2	7.6	7.7	6.1	3.8
Average nominal exchange rate (pesos per dollar)	2 220	2 023	2 043	2 020	1 907	1 767	1 904	2 294	2 419	2 228
Average real wage (variation from same quarter of preceding year)	1.2	-0.5	-0.8	-1.1	-0.6	-1.0	-2.6	-3.3	-1.5	...
Nominal interest rates (annualized percentages)										
Deposit rate <sup>e</sup>	7.0	7.7	8.6	8.7	9.3	9.7	9.8	10.1	8.9	6.3
Lending rate <sup>f</sup>	13.4	14.9	16.5	16.7	16.7	17.3	17.3	17.5	16.6	13.3
Interbank interest rate <sup>g</sup>	7.8	8.5	9.2	9.3	9.5	9.7	9.9	9.8	8.6	6.0
Sovereign bond spread (basis points) <sup>h</sup>	159	119	166	195	258	221	318	498	487	312
Stock price index (national index to end of period, 31 December 2000=100)	1 334	1 328	1 302	1 335	1 120	1 146	1 154	944	1 001	1 233
Domestic credit (variation from same quarter of preceding year)	18.6	13.3	16.5	15.4	13.2	14.9	15.9	17.1	19.2	14.5 <sup>i</sup>
Non-performing loans as a percentage of total credit	2.8	3.0	3.2	3.3	3.9	3.9	4.1	4.0	4.5	4.7 <sup>d</sup>

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

<sup>a</sup> Preliminary figures.

<sup>b</sup> Based on figures in local currency at constant 2000 prices.

<sup>c</sup> Quarterly average, weighted by the value of goods exports and imports.

<sup>d</sup> Data to May.

<sup>e</sup> 90-day fixed-term certificates of deposit for banks and corporations.

<sup>f</sup> Actual total system-wide rate.

<sup>g</sup> Repo rate.

<sup>h</sup> Measured by JP Morgan's EMBI+ index.

<sup>i</sup> Data to April.