

COLOMBIA

1. General trends

Real GDP climbed 3.1% in 2015, driven by strong momentum in the finance, commerce and construction sectors, which offset the sluggish growth in industry, mining and transport. Weaker consumer spending and particularly investment in 2015 reflected the adjustment of domestic demand to external shocks. GDP grew by 2.5% in the first quarter of 2016, which was slightly less than the year-earlier period, and is expected to rise by 2.7% for the year overall, owing in large part to the momentum in the industrial sector and construction.

The collapse in the price of oil and oil products in 2015 severely weakened the terms of trade, reducing the country's income and destabilizing its external and fiscal balances. The depreciation of the peso, the main automatic adjustment mechanism, heightened upward pressure on prices from supply shocks and pulled down domestic demand.

Oil-related income represented about 20% of fiscal revenue and its decline resulted in a sharp adjustment fairly evenly split between reduced spending, an increase in non-oil income and a larger deficit.

The consumer price index had risen 6.8% at the end of 2015, compared with 3.7% (within the authorities' targeted range) a year earlier. Prices were pushed up by the depreciation of the peso and food supply shocks owing to weather events, which increased inflationary pressure and fuelled higher inflation expectations. Prices continued to climb in 2016, up about 8% year-on-year in June, which is double the upper limit of the target range. The central bank has adopted a policy is aimed at achieving convergence between inflation expectations and targets, and hopes that in the second half of the year supply shocks will subside and monetary policy will curb excess demand, bringing inflation back to the long-term target level in 2017.

The current account deficit widened by 1.3 percentage points to 6.5% of GDP owing to weaker terms of trade, which in turn reflected the collapse in fossil fuel and other raw material prices. The strong depreciation of the peso in real terms was the result of the flexible exchange-rate system and floating currency, which acts as a mechanism for adjusting external imbalances. The current account is set to post a deficit representing more than 5% of GDP at the end of 2016.

2. Economic policy

(a) Fiscal policy

One of the consequences of the steady fall in hydrocarbon prices was lower fiscal revenue. This, along with the start of a cycle of weaker growth, was reflected in the widening of the consolidated public sector deficit from 1.8% of GDP in 2014 to 3.4% in 2015, owing mainly to the larger central government deficit and shortfalls in the decentralized sector linked to the rapid spending that often occurs during local authorities' end of term in office.

The central government deficit stood at 3.0% at the end of 2015, compared with 2.4% a year earlier. Fiscal rules are designed to ease the impact of cyclical deviation in income and allow, as in this case, a larger deficit, but at the same time require an adjustment of parameters to gradually bring structural indicators back towards their targets. The heavy, persistent loss of oil revenue hit the central government's tax and capital income, and fiscal policy was focused on diversifying revenue sources and reducing spending in 2015 to absorb the impact.

Total central government income contracted by 0.6 percentage points of GDP between 2014 and 2015, owing mainly to lower income from Ecopetrol dividends. This contraction was partly offset by a slight increase in tax revenue (to 14.5% of GDP in 2015) while other income remained stable (0.3% of GDP in 2014 and 2015). Approved spending was cut, with the exception of programmes for children and the rural population. Total spending rose to 19.2% of GDP in 2015, slightly higher than the year-earlier period. However, the greater cost of external and domestic debt owing to the heavy currency depreciation and higher inflation was reflected in increased interest spending, which edged up from 2.2% of GDP in 2014 to 2.6% in 2015. This increase was offset by lower current spending, while investment recovered slightly.

The decentralized sector's balance deteriorated, from a surplus of 0.7% of GDP in 2014 to a deficit of 0.4% in 2015, owing mainly to a faster pace of spending to complete projects during subnational governments' fourth and last year in office. In contrast, a surplus is expected in 2016, owing to the fact that spending was delayed by the preparation and approval of development plans for the new 2016 cycle, which took place in the first half of the year.

The decentralized sector is set to post a surplus representing 1.3% of GDP in 2016, and to help offset the expected increase in the central government's deficit to 3.9% of GDP. The consolidated public sector is projected to post a deficit of 2.3% of GDP in 2016, lower than in 2015.

At the beginning of the year, the government sold its 57.6% stake in power company ISAGEN to fund various transport infrastructure projects in the light of lower fiscal income. The government has reiterated its plan to present a structural tax reform bill to congress in the second half of 2016, with the aim of creating a more progressive tax structure to improve revenue from 2017 onwards.

(b) Monetary policy

Under the inflation target framework in place since 1999, monetary authorities' efforts are focused on keeping inflation low and stable, within the targeted range of 2% to 4%. The annual inflation rate of 6.8% in 2015, owing to peso depreciation and food supply shocks resulting from adverse weather events, together with the continuation of this trend into 2016 (8.6% year-on-year in June), make up the most severe inflationary episode since this policy was adopted.

In response to inflationary pressure and expectations of a new peak in the inflation rate, the central bank's board of directors agreed to increase the monetary policy rate—which had been unchanged for 13 months—from 4.5% to 7.5% in mid-June 2016, with increases of 125 basis points in 2015 and 175 basis points in the first six months of 2016.

Although the loan portfolio reflected growth of 14.2% year-on-year in April 2016 (versus 14.3% year-on-year on average in December 2015), this momentum in the average figure was not evenly distributed between commercial and mortgage loans, which grew slightly, and consumer loans and microcredit, which declined.

If supply shocks subside and the large current account deficit narrows further in the second half of the year, prices are expected to decline slowly in 2017.

(c) Exchange-rate policy

Under Colombia's flexible exchange-rate system, foreign-exchange supply and demand determine the exchange rate. The deterioration in the terms of trade, owing mainly to lower hydrocarbon prices, reduced income from exports and widened the current account deficit. At the same time, the country's risk premium rose and foreign direct investment (FDI) inflows declined along with portfolio inflows. The exchange rate increased from 2,342 pesos per dollar in December 2014 to 3,244 pesos per dollar a year later, reflecting a 38.5% depreciation of the peso over 2015. During this period, the peso exchange-rate index against the currencies of Colombia's main trading partners—adjusted for external and domestic inflation—fell 22.6% in real terms. It was not until mid-April 2016 that the exchange rate came down to 3,000 pesos per dollar, the level that the government considers competitive for the industrial export sectors.

This adjustment corrected the steep rise of the peso in the past few years, which had fuelled demand but cut into exporters' income.

(d) Other policies

One of the main obstacles to growth in Colombia is the lack of adequate road infrastructure. In order to address this issue the government prepared a set of ambitious fourth generation, or 4G, highway projects for which concessions were awarded to private sector consortiums. This programme, to be implemented between 2016 and 2022, is a key government drive to increase economic productivity, and is expected to add an average of 0.5 percentage points per year to GDP during construction. In order to fund these investments, the government sold its stake in ISAGEN, Colombia's second-largest public enterprise, to the Canadian company Brookfield Asset Management for 6.49 billion pesos. The sale was concluded in 2016.

In the first few months of 2016 the government adopted measures such as price adjustments to reduce energy consumption, in order to manage the risk of energy rationing and hydroelectric plant outages as reservoir levels had fallen owing to the El Niño phenomenon.

3. The main variables

(a) The external sector

The steady decline in the price of oil and other primary goods was reflected in the size of the current account deficit in 2015, which widened to 6.5% of GDP. Although this was US\$ 668 million less than in 2014 owing to the effect of peso depreciation on the dollar denomination of output, in GDP terms it was 1.3 percentage points higher than in 2014.

Exported goods were down 34.9% by value in 2015. Apart from coffee, which increased by 2.2%, exports declined: oil and oil products were down by 50.8%, followed by coal (down by 33%), agricultural exports such as flowers and bananas (down by 4.8%), and industrial exports (down by 11%). This sharp contraction stemmed from the decline in the prices of oil and other commodities, weak international

demand and restrictions in trade with the Bolivarian Republic of Venezuela and Ecuador, which weighed on industrial exports in particular.

The main destinations of Colombian exports continue to be the United States (27.6%), the European Union (16.8%), Panama (6.7%) and China (6.3%). In 2015, the value of sales to these markets contracted by more than 30% for the European Union, Panama and the United States, and by more than 60% for China, owing to the latter's economic slowdown and shifting growth patterns.

Imports slumped across the different categories, with an overall decrease of 15.3%, less than that seen in exports. This was reflected in intermediate goods (down 11.2%), industrial capital goods (down 14.4%) and fuels and lubricants (down 31.9%).

The goods trade deficit in 2015 was partly offset by an improvement in the services account, factor income and transfers. First, the smaller deficit in the services account stemmed from weak momentum in foreign trade and tourism. Second, in 2015 there were fewer remittances of profits on FDI in hydrocarbon-related businesses, which more than halved the deficit on the factor income balance. Lastly, current transfers were up by US\$ 713 million on 2014 and exceeded US\$ 5 billion.

The financial account saw net capital inflows in 2015, which funded the current account deficit and generated US\$ 415 million in international reserves, a much smaller accumulation than in previous years. FDI, the country's main source of financing, generated inflows of US\$ 12.108 billion in 2015, which was 37% less than the previous year, owing to the decline in investment in mining and transport projects. Nonetheless, FDI in the commerce, restaurants and hotels rose.

The placement of debt securities in international markets, portfolio investment and foreign loans contributed 21%, 18% and 12%, respectively, to funding the country's deficit. Portfolio investment flows returned to conventional levels in 2015. They had been unusually high in 2014, when JP Morgan increased the weighting of Colombian securities in bond indexes.

(b) Economic activity

Colombia's GDP rose by 3.1% in 2015 (1.3 percentage points less than in 2014), reflecting the impact of the adverse global economic climate. Finance, commerce and construction grew the most, while the sectors hit hardest by the new economic conditions were mining and manufacturing.

All the components of Colombia's aggregate demand deteriorated in 2015. On the domestic front, both consumption and investment slackened, especially government components. Household consumption grew by 3.9% in 2015 (4.2% in 2014), but gross fixed capital formation suffered more from the adjustment, edging up just 2.6% in 2015 versus an 11.6% jump in 2014. The upward trend in investment as a percentage of GDP in the past decade, from 20.2% in 2005 to 29.7% in 2014, held steady in 2015 (29.6%). While machinery and equipment contracted, the expansion of public works to complete various infrastructure projects offset the slower pace of building construction. Domestic demand expanded 3.6% versus 6.0% in 2014. Net external demand improved slightly in 2015 compared with 2014: total exports fell by 0.7% (compared with a decline of 1.3% the previous year), while import growth slowed from 7.8% in 2014 to 3.9% in 2015.

GDP growth in the first quarter of 2016 stood at 2.5%, reflecting a continuation in the slowdown, with the strongest momentum coming from industry (5.3%), construction (5.2%) and financial services (3.8%). Industry has been recovering since the second half of 2015 and strengthened in the first few

months of 2016 with the new refinery in Cartagena coming on stream. Construction reflects the positive impact of policies that have strengthened house-building and public works.

(c) Prices, wages and employment

Variation in the consumer price index (CPI) was driven by supply shocks related to adverse weather conditions (moderate El Niño phenomenon) and the strong depreciation of the peso, and ended 2015 at 6.8%. By June 2016, the year-on-year figure was 8.6%. The prolonged drought hurt supply and increased food prices, which showed a 14.3% year-on-year jump that month. Low reservoir levels owing to rain shortages reduced hydropower generation capacity and helped push energy prices up. The exchange rate continued to affect inflation in tradable and non-tradable goods, with tradable goods prices three percentage points higher than those of non-tradable goods.

Against this backdrop, and following an improvement in weather conditions, exchange-rate volatility subsided and monetary policy turned towards slowing the pace of consumption. Core inflation was slightly up in June, but should ease in the second half of the year. The economic authorities believe that inflation will fall not below 4.0% until 2017.

Despite slowing growth in 2015, average labour market indicators remained positive. The unemployment rate fell from 9.1% to 8.9%, the employment rate rose by 0.6 percentage points and the overall participation rate rose 0.5 percentage points to 64.7% in 2015. Among young people, formal employment rose and unemployment declined. In the 12 months to May 2016, there were slight increases in the unemployment rate (from 9.0% to 9.1%) and the participation rate, while the employment rate remained stable and the trend towards increasing employment formalization continued.

Table 1
COLOMBIA: MAIN ECONOMIC INDICATORS

	2007	2008	2009	2010	2011	2012	2013	2014	2015 a/
	Annual growth rates b/								
Gross domestic product	6.9	3.5	1.7	4.0	6.6	4.0	4.9	4.4	3.1
Per capita gross domestic product	5.6	2.3	0.5	2.8	5.5	3.0	3.8	3.4	2.2
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	3.9	-0.4	-0.7	0.2	2.1	2.5	6.5	3.1	3.3
Mining and quarrying	1.5	9.4	10.9	10.6	14.5	5.3	5.0	-1.1	0.6
Manufacturing	7.2	0.6	-4.1	1.8	4.7	0.1	0.9	0.7	1.2
Electricity, gas and water	4.1	0.5	1.9	3.9	3.0	2.3	3.0	3.4	2.9
Construction	8.3	8.8	5.3	-0.1	8.2	5.9	11.5	10.5	3.9
Wholesale and retail commerce, restaurants and hotels	8.3	3.1	-0.3	5.2	6.7	3.9	4.5	5.1	-38.6
Transport, storage and communications	10.9	4.6	-1.3	6.2	6.6	3.9	3.3	4.7	...
Financial institutions, insurance, real estate and business services	6.8	4.5	3.1	3.6	6.7	5.1	4.6	5.7	4.3
Community, social and personal services	5.0	2.6	4.4	3.6	3.1	4.6	5.9	5.2	2.9
Gross domestic product, by type of expenditure									
Final consumption expenditure	7.0	3.5	1.6	5.1	5.5	4.8	4.6	4.3	4.0
Government consumption	6.0	3.3	5.9	5.6	3.6	6.3	9.2	6.2	7.2
Private consumption	7.2	3.5	0.6	5.0	6.0	4.4	3.4	4.1	3.5
Gross capital formation	13.0	9.2	-4.1	7.4	18.9	4.3	6.3	11.6	2.6
Exports (goods and services)	6.9	4.5	-2.8	1.3	11.8	6.0	5.2	-1.3	-0.7
Imports (goods and services)	14.0	10.5	-9.1	10.8	21.5	9.1	6.0	7.8	3.9
Investment and saving c/	Percentajes of GDP								
Gross capital formation	23.0	23.5	22.4	22.1	23.9	23.9	24.3	26.3	28.4
National saving	20.1	20.7	20.3	19.1	21.0	20.8	21.1	21.1	21.9
External saving	2.9	2.8	2.2	3.0	2.9	3.0	3.2	5.2	6.5
Balance of payments	Millions of dollars								
Current account balance	-6,040	-6,865	-5,097	-8,663	-9,710	-11,132	-12,326	-19,593	-18,925
Goods balance	-584	971	2,529	2,356	6,137	4,956	3,180	-4,630	-14,026
Exports, f.o.b.	30,577	38,534	34,002	40,762	58,262	61,604	60,281	56,923	38,125
Imports, f.o.b.	31,161	37,563	31,473	38,406	52,126	56,648	57,101	61,553	52,151
Services trade balance	-2,647	-3,134	-2,883	-4,237	-5,182	-5,816	-5,943	-6,682	-3,981
Income balance	-7,962	-10,157	-9,302	-11,229	-15,499	-14,851	-14,157	-12,638	-5,989
Net current transfers	5,153	5,455	4,558	4,448	4,834	4,579	4,594	4,358	5,071
Capital and financial balance d/	10,738	9,488	6,445	11,805	13,452	16,538	19,272	24,030	19,340
Net foreign direct investment	8,136	8,110	3,789	947	6,228	15,646	8,557	12,426	7,890
Other capital movements	2,602	1,377	2,655	10,858	7,224	892	10,715	11,604	11,450
Overall balance	4,698	2,623	1,347	3,142	3,742	5,406	6,946	4,437	415
Variation in reserve assets e/	-4,698	-2,623	-1,347	-3,142	-3,742	-5,406	-6,946	-4,437	-415
Other external-sector indicators									
Real effective exchange rate (index: 2005=100) f/	91.4	87.8	91.8	79.3	79.5	76.5	80.1	84.8	107.3
Terms of trade for goods (index: 2010=100)	86.2	91.3	86.1	100.0	114.7	108.3	100.6	91.7	69.2
Net resource transfer (millions of dollars)	2,776	-669	-2,857	576	-2,047	1,687	5,115	11,391	13,352
Total gross external debt (millions of dollars)	44,553	46,369	53,719	64,738	75,568	78,763	91,976	101,282	111,197
Employment	Average annual rates								
Labour force participation rate g/	51.8	58.5	61.3	62.7	63.7	64.5	64.2	64.2	64.7
Unemployment rate h/	12.2	12.1	13.2	12.7	11.8	11.4	10.7	10.0	9.8
Open unemployment rate i/	11.2	11.4	12.4	12.0	11.1	10.8	10.0	9.4	9.2
Visible underemployment rate j/	10.0	9.1	9.5	12.0	11.1	11.7	11.9	10.6	10.7

Table 1 (concluded)

	2007	2008	2009	2010	2011	2012	2013	2014	2015 a/
Prices	Annual percentages								
Variation in consumer prices (December-December)	5.7	7.7	2.0	3.2	3.7	2.4	1.9	3.7	6.8
Variation in producer prices (December-December)	4.8	8.4	2.2	5.8	8.7	-4.9	-0.1	6.0	5.5
Variation in nominal exchange rate (annual average)	-12.0	-5.2	9.6	-12.0	-2.7	-2.8	4.0	7.1	37.1
Variation in average real wage	-0.2	-1.6	1.3	2.8	0.3	1.1	2.7	0.4	1.2
Nominal deposit rate k/	8.0	9.7	6.1	3.7	4.2	5.4	4.2	4.1	4.6
Nominal lending rate l/	17.9	19.6	15.6	12.4	12.8	13.7	12.2	12.1	12.1
Central national government	Percentajes of GDP								
Total revenue	15.0	15.6	15.3	13.8	15.2	16.1	16.9	16.6	16.1
Tax revenue	13.4	13.4	12.9	12.3	13.5	14.3	14.2	14.3	14.5
Total expenditure	17.7	17.9	19.4	17.6	18.0	18.4	19.2	19.0	19.1
Current expenditure	15.7	15.7	17.1	15.5	15.6	15.6	16.0	16.1	16.1
Interest	3.5	2.9	2.9	2.6	2.5	2.4	2.2	2.2	2.6
Capital expenditure	1.9	2.2	2.2	2.1	2.4	2.8	3.1	2.9	3.1
Primary balance	0.8	0.6	-1.2	-1.2	-0.3	0.1	-0.1	-0.2	-0.5
Overall balance	-2.7	-2.3	-4.1	-3.9	-2.8	-2.3	-2.3	-2.4	-3.0
Central national government debt	36.6	36.2	38.0	38.6	36.5	32.8	37.1	40.0	42.0
Domestic	30.7	29.4	31.5	27.8	24.5	23.7	25.6	26.6	25.9
External	13.1	13.3	13.6	10.8	10.3	9.0	9.6	13.4	16.2
Money and credit	Percentages of GDP, end-of-year stocks								
Domestic credit	32.1	33.7	35.1	40.0	41.4	44.0	45.5	48.4	45.7
To the public sector	6.0	6.3	9.2	9.1	7.9	7.8	7.2	6.6	6.2
To the private sector	26.1	27.4	26.0	30.9	33.4	36.3	38.3	41.8	39.5
Others									
Monetary base	7.5	7.7	7.8	8.2	8.3	8.5	8.6	9.3	10.3
M2	33.4	35.2	35.2	35.9	37.6	40.9	43.8	44.8	47.7

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 values calculated in national currency and expressed in current dollars.

d/ Includes errors and omissions.

e/ A minus sign (-) indicates an increase in reserve assets.

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

g/ Nationwide total.

h/ Includes hidden unemployment. Thirteen metropolitan areas.

i/ Includes an adjustment to the figures for the economically active population for exclusion of hidden unemployment. Thirteen metropolitan areas.

j/ Thirteen metropolitan areas.

k/ 90-day fixed-term certificates of deposit, weighted average.

l/ Weighted average of consumer, prime, ordinary and treasury lending rates for the working days of the month.

Table 2
COLOMBIA: MAIN QUARTERLY INDICATORS

	2014				2015				2016	
	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2 a/
Gross domestic product (variation from same quarter of preceding year) b/	6.4	3.9	3.9	3.3	2.7	3.1	3.1	3.4	2.5	...
Gross international reserves (millions of dollars)	44,016	45,065	46,642	47,363	47,018	47,058	46,765	46,780	46,941	47,418 c/
Real effective exchange rate (index: 2005=100) d/	85.6	81.8	81.3	90.6	98.3	98.8	115.2	117.0	119.4	110.0 c/
Open unemployment rate e/	10.7	9.3	9.1	8.4	10.2	9.2	8.8	8.2	11.2	...
Employment rate	56.5	58.3	58.6	60.2	57.5	59.1	58.6	60.6	57.2	...
Consumer prices (12-month percentage variation)	2.5	2.8	2.9	3.7	4.6	4.4	5.4	6.8	8.0	8.2 c/
Wholesale prices (12-month percentage variation)	2.6	2.0	2.6	6.0	2.3	3.8	6.0	5.5	5.7	7.0
Average nominal exchange rate (pesos per dollar)	2,007	1,913	1,912	2,178	2,471	2,498	2,952	3,061	3,255	2,992
Average real wage (variation from same quarter of preceding year)	1.9	0.3	0.3	-0.7	1.8	2.3	1.3	-0.4	0.0	...
Nominal interest rates (average annualized percentages)										
Deposit rate f/	4.0	3.8	4.1	4.3	4.4	4.4	4.5	5.0	6.1	6.7 c/
Lending rate g/	12.1	12.2	12.1	11.8	12.3	11.8	11.9	12.5	13.7	14.8 c/
Interbank rate	3.2	3.5	4.2	4.5	4.5	4.5	4.5	5.2	6.1	6.8 c/
Monetary policy rates	3.3	3.6	4.3	4.5	4.5	4.5	4.6	5.2	6.0	6.9
Sovereign bond spread, Embi + (basis points to end of period) h/	165	144	169	196	219	229	318	321	299	261
Risk premia on five-year credit default swap (basis points to end of period)	108	81	100	141	159	169	249	243	216	206
International bond issues (millions of dollars)	2,000	3,250	2,950	1,000	3,000	1,900	1,500	-	1,760	1,801
Stock price index (national index to end of period, 31 December 2005 = 100)	145	148	143	122	105	108	98	90	104	103
Domestic credit (variation from same quarter of preceding year)	14.7	13.5	12.8	13.1	24.7	25.8	26.7	24.1	8.2	...
Non-performing loans as a percentage of total credit	3.0	3.1	3.1	3.1	3.0	3.1	3.0	3.0	3.0	3.2 c/

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/ Figures as of May.

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

e/ Thirteen metropolitan areas.

f/ 90-day fixed-term certificates of deposit, weighted average.

g/ Weighted average of consumer, prime, ordinary and treasury lending rates for the working days of the month.

h/ Measured by J.P.Morgan..