

COLOMBIA

1. General trends

The Colombian economy posted a satisfactory growth rate of 4.7% in 2013, slightly higher than that of the previous year (4.0%). After a lacklustre first quarter, domestic demand reacted positively to stimulus policies that boosted consumption and investment.

Stringent control of inflation has been one of Colombia's most significant economic policy achievements of recent years. In 2013, annual variation in the consumer price index (CPI) stood at 1.9%, below the target range set by the authorities. Free of inflationary pressures, the monetary authority was able to maintain a liquidity policy and low interest rates. In 2014, however, rising energy prices and a tightening food supply between January and May pushed year-on-year inflation up to almost 3.0%.

With a consolidated public sector deficit of 0.9% and a central government deficit of 2.4%, fiscal performance for 2013 remained in line with the targets established under the fiscal rule. Investment expenditure increased, which boosted economic activity.

The current account deficit widened to 3.4% of GDP in 2013 as a result of the decline in the dollar value of exports, especially coal and gold. Capital account inflows —partly thanks to Standard & Poor's new index to measure the stock-market performance of the largest and most solvent enterprises domiciled in Colombia— were comfortably able to fund the deficit with foreign direct investment (FDI) income, as well as replenishing international reserves.

The Productivity and Employment Stimulus Plan (PIPE) helped to boost economic activity, especially in construction, housing, commerce and agriculture, and contributed to the satisfactory performance of the labour market, which underpinned a rise in household final consumption. Growth continued into 2014 as industry recovered, as reflected by year-on-year GDP growth of 6.4% in the first quarter. This trend is expected to strengthen over the whole of 2014, underpinned by the construction sector and the launch of the new fourth generation (4G) of concessions for road-building projects. Better export and investment performance is also projected, which would provide a platform for industrial output growth. Business confidence indices for both industrial and commercial sectors confirmed a positive trend in 2014.

2. Economic policy

(a) Fiscal policy

The consolidated public sector deficit was equivalent to 0.9% of GDP at year-end, as the central government deficit of 2.4% of GDP was partially offset by a 1.4% decentralized sector surplus. The targets envisaged under the fiscal rule, notably those on public investment, were comfortably met.

In 2013, central government current expenditure in pesos rose by 11.9%, largely as a result of investment expenditure that grew by more than 19% as spending on housing construction and public

works surged within the framework of the PIPE. Increased expenditure did not widen the deficit against the previous year because it was funded from higher revenues, mostly the financial surpluses obtained by Ecopetrol thanks to higher crude oil prices and export volumes. Tax revenues, although falling short of the target, grew by 5.9% and, together with 81.1% growth in capital resources (comprising the profits of Ecopetrol and other State-owned enterprises), allowed total income to rise by 11.8%, broadly similar to the increase in expenditure.

The decentralized sector, which consists of public health-care and pension providers, as well as local governments and the national royalty system, remained in surplus in 2013. This outcome reflected a combination of higher expenditure in the health-care sector resulting from the harmonization of the benefits provided under the contributory and subsidized regimes; a local government surplus thanks to a rise in current revenues; and a smaller surplus in the national royalty system, with this last factor attributable to the stepping up of spending execution once the operating rules became known for the funds that were created under the recent reform to finance projects of regional interest.

Tax revenue was up 19% in the first quarter of 2014, thanks to the healthy pace of economic growth and the effects of the reform of 2012, which introduced new taxes with simplified rates, whose collection compensated for lower VAT receipts.

(b) Monetary policy

In the first quarter of 2013, the monetary authority reduced the intervention interest rate in successive steps (from 4.25% to 3.25% during the period), in an attempt to increase liquidity and thus quicken the pace of business; the interest rate subsequently held steady between March and the end of the year as the rate cut was passed on to the market. This stance was facilitated both by good credit portfolio quality and the absence of inflationary pressures, meaning that inflation remained closer to the floor of the target band (between 2% and 4%) over the year.

The expansionary monetary policy stance achieved its purpose of pushing down market interest rates in 2013. Deposit rates dropped by 117 basis points, while lending rates, especially for commercial and mortgage loans, posted even greater decreases of 148 and 204 basis points, respectively. Consumer lending rates also fell, though only by 63 basis points. These interest-rate trends were reflected in the total loan portfolio, which despite slowing in 2013, nevertheless grew faster than nominal GDP, allowing the non-inflationary financing of greater economic activity. The quality of the overall portfolio did not deteriorate; the non-performing segment contracted by 16.5 percentage points in real terms in 2013, compared with the previous year.

In April 2014, the central bank announced a 25-basis-point rise in the intervention interest rate, to 3.5%, in view of the modest but steady increases in food and housing prices, partly caused by higher energy tariffs owing to low rainfall in the preceding months. In May and June, the uptrend in prices, increased inflation expectations, strong economic growth in the first quarter and the faster expansion of the mortgage and commercial loan portfolio all weighed in favour of two successive 25-basis-point hikes in the intervention interest rate, which stood at 4.0% in June 2014.

(c) Exchange-rate policy

Having strengthened persistently against the dollar in recent years, in 2013 the Colombian peso weakened and posted a nominal devaluation of 8.5%. Real devaluation, measured using the CPI, was almost 5% during the year. Towards the end of the first quarter of 2014, the peso began to strengthen

again on the back of the massive influx of dollars into the economy, an improvement in the risk premium and the hike in the intervention interest rate. The government has targeted a rate of around 1,950 Colombian pesos to the dollar, and has therefore arranged with the central bank to make daily purchases in order to prevent the exchange rate from falling. It has also undertaken not to use external financing and to seek external savings mechanisms using resources from energy and mining royalties. Nevertheless, the peso has continued to appreciate strongly and the dollar exchange rate remained below the government's target in the second quarter of 2014.

The central bank will seek to curb the appreciation of the local currency in 2014 by stepping up its dollar purchases and improving arrangements for the surrender of foreign exchange. Colombia has become an attractive destination, not just for FDI but also for portfolio investment, which was recently boosted by JP Morgan's decision to increase the weighting of Colombian treasury bonds (TES) in its sovereign debt indices.

(d) Other policies

The policies that delivered the best results in 2013, and which are also set to stimulate activity in 2014, are those designed to close housing gaps and generate institutional impetus to overcome the country's transport infrastructure problems. First, as part of its social housing policy, the government proposed the free handover of 100,000 housing units to the poorest population groups. Meanwhile, transport-sector agencies were overhauled and plans drawn up for the award of concessions to build an 8,000 kilometre highway network in the next six years, comprising a package of 30 projects with a total estimated value of US\$ 25.0 billion.

3. The main variables

(a) The external sector

At year-end 2013, Colombia's current account deficit was equivalent to 3.4% of GDP, higher than the previous year's figure (3.1%). Although still in positive territory, the goods surplus was down by 40.3% owing to the lower dollar value of goods exports and a slight increase in the dollar value of goods imports. The structural imbalance in non-factor services remained unchanged from the previous year, while the surge in the dollar value of services exports (9.4%), mainly in the travel category, offset the increase in services imports (4.3%). The factor income deficit narrowed by about US\$ 1.0 billion, since there was a 9% fall in profit and dividend remittances by foreign-owned companies in 2013. Conversely, remittances from Colombians abroad were up by 2.5%, resulting in a current transfers surplus. The value of goods and services exports fell by 2.2%, largely as a result of lower international prices for export products. As in previous years, fuel and mining products accounted for the bulk of exports in 2013, with oil taking its share of total exports to 55.2%, an increase of 3.1 percentage points. Regulatory gaps concerning the environmental problems caused by coal extraction and loading operations resulted in these activities posting a 1.6% decline in share of exports. One third of exports went to the United States (31.4%), followed in magnitude by the European Union (15.7%) and China (8.7%), which added 3.1 percentage points to its share of total Colombian exports. The downturn in the total value of exports is due mainly to a 15.5% reduction in exports to the United States and, to a lesser extent, an 11.7% fall in exports, particularly those of industrial products, to the Bolivarian Republic of Venezuela.

Imports gained just 0.5% in value terms. Machinery and equipment accounted for 31.9% of the total, a result which was associated with the sustained increase in the rate of investment. Most imports originated in the United States, China and the European Union.

The financial account showed a 13.1% increase in FDI, which was equivalent to 4.9% of GDP. This net FDI flow sufficed to fully fund the current account deficit. The largest proportion (about 50%) of FDI was channelled into oil, mining and quarrying; however, in 2013 investment in the manufacturing sector picked up, reaching 16% of total inward investment. Foreign investment flows boosted the surplus on the capital account to 5.5% of GDP. With abundant resources coming in from abroad, in the form of both investment and credit, Colombia's already hefty international reserves rose by almost US\$ 6.2 billion.

In the first quarter of 2014, imports grew by 4.2%, with over 70% comprising manufactured goods, 16% fuel and almost 10% agricultural and food products. Exports were down on the year-earlier period, but are expected to recover in the second half of 2014 thanks to the strengthening world economy and an increase in industrial investment.

(b) Economic activity

Colombia's GDP expanded by 4.7% in 2013 (a rate 0.7 percentage points higher than in the previous year, thanks to buoyant domestic demand). Rising employment and income helped spur final consumption growth of 4.5%, both in its public and private components. Gross capital formation also saw robust growth (5.1%), as the higher investment rates continued. Economic activity in 2013 was marked by strong growth (12%) in the construction sector, fuelled by social housing construction and increased spending on public works, and helped by favourable liquidity and credit conditions.

Agriculture, forestry, hunting and fisheries, a sector which had been depressed in recent years, also showed significant growth (5.5%), largely on the back of favourable weather conditions that contributed to a bumper coffee harvest, and increases in temporary and permanent crop production of 8.8% and 3.7% respectively.

Social, community and personal services also posted growth of more than 5%. However, the value added of industry declined for the second consecutive year, and showed signs of struggling for competitiveness in the domestic market and in exporting to new destinations. Industrial output slowed by 1.0% amid lower household consumption of durable goods, especially automobiles, as consumption shifted to imported goods. Slowing industrial output also reflected difficulties in competing with other countries against a backdrop of weak international demand, and problems with exports to the Bolivarian Republic of Venezuela, which has traditionally been the main buyer of Colombian manufactured goods. The industrial sectors that suffered the sharpest setbacks were publishing and printing, textile manufacturing and the manufacturing of mineral products.

Generally solid performance in the second half of 2013 continued into early 2014. The factors that are likely to support and drive growth in 2014, in order to realize the growth forecast of 5.0%, are once again the performance of the construction sector, growth in household final consumption (aided by falling unemployment), a recovery in the manufacturing sector (especially in agribusiness) and an upturn in exports.

(c) Prices, wages and employment

Inflation stood at 1.9% in 2013, slightly below the floor of the target range set by the central bank. Falling goods and services prices reflected the absence of domestic demand pressures and a sufficient food supply. Cuts in certain tax rates adopted as part of the tax reform, especially fuel duty, as well as the discount on waste-collection rates and the decision not to increase the cost of urban transport in Bogota, also helped keep inflation low.

However, prices have trended upwards in 2014 to date, with an annual variation of 2.9% at the end of May. Despite this acceleration, inflation remains within the central bank's target range of between 2% and 4%. This year's price rises have been driven by the increased cost of food, as the supply diminished owing to poor weather conditions. Similarly, and after falling the previous year, public services prices have increased in 2014. Forecasts indicate that inflation will converge on the centre of the target range (3%) by year-end.

In 2013, the labour market continued to improve: the unemployment rate was down from 10.6% to 10.1%, employment edged up by 0.1 percentage points and labour-force participation fell by 0.4 percentage points compared with 2012. Moreover, formal employment increased and youth unemployment fell from 17.8% to 16.6%, owing to both higher employment among young people and a drop in their labour-force participation rate. This could be attributed to better working conditions for heads of household, who entered better-paid formal employment, making it unnecessary for other household members to find work. Employment indicators remained positive in early 2014, and improved on the same months in 2013. The national unemployment rate was 9.9% on average during the first five months of 2014 (compared with 10.7% in the year-earlier period), and formal employment continued to grow. Economic growth projections and the strong performance by the construction and industrial sectors in the first part of the year underpin expectations of continuing improvements in the jobless and employment rates during 2014. Rising household income as a result of labour-market improvements and, to a lesser extent, institutional income support for the poorest households, pushed the monetary poverty rate down 2.1 percentage points in 2013.

Table 1
COLOMBIA: MAIN ECONOMIC INDICATORS

	2005	2006	2007	2008	2009	2010	2011	2012	2013 a/
	Annual growth rates b/								
Gross domestic product	4.7	6.7	6.9	3.5	1.7	4.0	6.6	4.0	4.7
Per capita gross domestic product	3.1	5.1	5.3	2.0	0.2	2.5	5.1	2.6	3.3
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	2.8	2.4	3.9	-0.4	-0.7	0.2	2.1	2.5	5.5
Mining and quarrying	4.1	2.4	1.5	9.4	10.9	10.6	14.5	5.6	4.9
Manufacturing	4.5	6.8	7.2	0.6	-4.1	1.8	4.7	-1.1	-1.0
Electricity, gas and water	4.1	4.8	4.1	0.5	1.9	3.9	3.0	2.1	4.9
Construction	6.9	12.1	8.3	8.8	5.3	-0.1	8.2	6.0	12.0
Wholesale and retail commerce, restaurants and hotels	5.0	7.9	8.3	3.1	-0.3	5.2	6.7	4.3	4.3
Transport, storage and communications	7.8	10.8	10.9	4.6	-1.3	6.2	6.6	4.9	3.1
Financial institutions, insurance, real estate and business services	5.0	6.4	6.8	4.5	3.1	3.6	6.7	5.0	5.0
Community, social and personal services	3.5	4.4	5.0	2.6	4.4	3.6	3.1	5.0	5.3
Gross domestic product, by type of expenditure									
Final consumption expenditure	4.3	6.3	7.0	3.5	1.6	5.1	5.5	4.7	4.5
Government consumption	5.2	5.5	6.1	3.2	6.0	5.6	3.5	5.7	7.8
Private consumption	4.1	6.4	7.2	3.5	0.6	5.0	6.0	4.4	3.8
Gross capital formation	12.8	19.2	13.0	9.2	-4.1	7.4	18.9	4.5	5.1
Exports (goods and services)	5.7	8.6	6.9	4.5	-2.8	1.3	11.8	6.1	5.4
Imports (goods and services)	11.9	20.0	14.0	10.5	-9.1	10.8	21.5	8.9	4.5
Investment and saving c/	Percentajes of GDP								
Gross capital formation	20.2	22.4	23.0	23.5	22.4	22.1	23.9	23.9	24.2
National saving	18.9	20.5	20.1	20.7	20.3	19.0	20.9	20.7	20.9
External saving	1.3	1.9	2.9	2.8	2.2	3.1	2.9	3.2	3.4
Balance of payments	Millions of dollars								
Current account balance	-1,886	-3,016	-6,040	-6,865	-5,097	-8,929	-9,854	-11,834	-12,722
Goods balance	1,595	323	-584	971	2,529	2,341	6,090	4,744	2,832
Exports, f.o.b.	21,730	25,181	30,577	38,534	34,002	40,816	58,322	61,447	59,992
Imports, f.o.b.	20,134	24,858	31,161	37,563	31,473	38,475	52,232	56,703	57,160
Services trade balance	-2,102	-2,118	-2,647	-3,134	-2,883	-3,693	-4,737	-5,503	-5,470
Income balance	-5,461	-5,935	-7,962	-10,157	-9,302	-12,024	-16,042	-15,654	-14,656
Net current transfers	4,082	4,714	5,153	5,455	4,558	4,448	4,834	4,579	4,572
Capital and financial balance d/	3,614	3,039	10,738	9,488	6,445	12,065	13,598	17,257	19,679
Net foreign direct investment	5,590	5,558	8,136	8,110	3,789	-147	5,101	16,135	9,120
Other capital movements	-1,976	-2,519	2,602	1,377	2,655	12,211	8,497	1,122	10,559
Overall balance	1,729	23	4,698	2,623	1,347	3,136	3,744	5,423	6,957
Variation in reserve assets e/	-1,729	-23	-4,698	-2,623	-1,347	-3,136	-3,744	-5,423	-6,957
Other external-sector indicators									
Real effective exchange rate (index: 2005=100) f/	100.0	101.9	91.6	88.0	92.0	79.4	79.5	75.9	79.0
Terms of trade for goods (index: 2005=100)	100.0	103.8	112.1	124.4	107.0	121.0	135.4	135.5	128.5
Net resource transfer (millions of dollars)	-1,846	-2,896	2,776	-669	-2,857	41	-2,443	1,602	5,023
Total gross external debt (millions of dollars)	38,507	40,103	44,553	46,369	53,719	64,723	75,903	78,763	91,879

Table 1 (concluded)

	2005	2006	2007	2008	2009	2010	2011	2012	2013 a/
Employment	Average annual rates								
Labour force participation rate g/	61.5	60.5	58.3	58.5	61.3	62.7	63.7	64.5	64.2
Unemployment rate h/	15.8	13.1	11.4	11.5	13.0	12.4	11.5	11.2	10.6
Open unemployment rate i/	14.4	12.2	10.7	11.0	12.4	11.8	10.9	10.6	10.1
Visible underemployment rate j/	15.2	13.8	8.0	9.0	10.8	11.5	11.6	11.2	11.3
Prices	Annual percentages								
Variation in consumer prices (December-December)	4.9	4.5	5.7	7.7	2.0	3.2	3.7	2.4	1.9
Variation in producer prices (December-December)	3.0	5.3	1.3	9.0	-2.2	4.4	5.5	-3.0	-0.5
Variation in nominal exchange rate (annual average)	-11.6	1.6	-12.0	-5.2	9.6	-12.0	-2.7	-2.8	4.0
Variation in average real wage	1.3	4.0	-0.2	-1.5	1.3	2.8	0.3	1.0	2.7
Nominal deposit rate k/	7.0	6.2	8.0	9.7	6.1	3.7	4.2	5.4	4.2
Nominal lending rate l/	14.6	12.9	15.4	17.2	13.0	9.4	11.2	12.6	11.0
Central national government	Percentajes of GDP								
Total revenue	13.5	14.7	15.0	15.6	15.3	13.8	15.2	16.1	16.9
Tax revenue	12.4	13.4	13.4	13.4	12.9	12.3	13.5	14.3	14.3
Total expenditure	17.5	18.1	17.7	17.9	19.4	17.6	18.0	18.6	19.4
Current expenditure	16.1	16.6	15.7	15.7	17.1	15.5	15.6	15.7	16.0
Interest	2.9	3.5	3.5	2.9	2.9	2.6	2.5	2.6	2.3
Capital expenditure	1.3	1.4	1.9	2.2	2.2	2.1	2.4	2.8	3.3
Primary balance	-1.1	0.1	0.8	0.6	-1.2	-1.2	-0.3	0.1	-0.1
Overall balance	-4.0	-3.4	-2.7	-2.3	-4.1	-3.9	-2.8	-2.5	-2.4
Central national government debt	39.1	38.1	33.3	34.1	34.6	33.7	33.4	32.1	34.6
Domestic	25.1	24.2	22.1	22.4	23.0	23.2	23.1	23.1	24.9
External	14.0	13.9	11.2	11.7	11.6	10.5	10.3	9.1	9.7
Money and credit	Percentages of GDP, end-of-year stocks								
Domestic credit	30.3	31.2	32.1	33.7	35.1	40.0	41.4	44.0	45.7
To the public sector	10.3	8.1	6.0	6.3	9.2	9.1	7.9	7.7	7.2
To the private sector	19.9	23.1	26.1	27.4	26.0	30.9	33.4	36.2	38.5
Others									
Monetary base	6.7	7.0	7.5	7.7	7.8	8.2	8.3	8.5	8.6
M2	30.6	31.8	33.4	35.2	35.2	35.9	37.6	40.8	44.0

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

	2012				2013				2014	
	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/	6.0	5.1	2.5	2.7	2.9	4.6	5.8	5.3	6.4	...
Gross international reserves (millions of dollars)	32,825	33,836	35,277	36,924	38,584	40,476	42,232	43,454	44,016	44,844 c/
Real effective exchange rate (index: 2005=100)	79.6	77.8	77.6	81.2	75.7	74.5	74.9	76.1	75.4	76.9 c/
Open unemployment rate f/	11.6	10.9	10.2	9.4	11.7	10.2	9.5	8.7	10.7	...
Employment rate f/	58.7	60.0	60.6	61.1	58.8	60.1	61.0	61.3	59.4	...
Consumer prices (12-month percentage variation)	3.5	3.4	3.1	2.8	1.9	2.1	2.3	1.8	2.3	2.9 c/
Wholesale prices (12-month percentage variation)	2.7	0.6	0.0	-2.1	-2.3	-1.6	-0.6	-1.2	1.4	3.2 c/
Average nominal exchange rate (pesos per dollar)	1,798	1,786	1,798	1,805	1,792	1,863	1,908	1,914	2,007	1,926
Average real wage (variation from same quarter of preceding year)	0.6	0.5	0.1	-0.7	0.2	0.5	1.1	2.5	2.5	...
Nominal interest rates (annualized percentages)										
Deposit rate g/	5.3	5.5	5.4	5.3	4.8	4.0	4.0	4.0	4.0	3.8
Lending rate h/	12.9	12.8	12.6	12.1	11.7	10.5	11.0	10.6	10.8	10.6 c/
Interbank rate	5.0	5.3	5.1	4.6	3.9	3.2	3.3	3.3	3.2	3.3
Monetary policy rates	5.0	5.3	5.0	4.7	4.0	3.3	3.3	3.3	3.3	3.5
Sovereign bond spread, Embi + (basis points to end of period) i/	141	158	132	112	148	195	187	166	165	143
Risk premium on five-year credit default swap (basis points to end of period)	110	143	103	96	98	141	134	119	108	81
International bond issues (millions of dollars)	2,850	900	3,709	-	3,600	600	3,600	600	1,712	2,000 c/
Stock price index (national index to end of period, 31 December 2005 = 100)	158	141	148	155	149	135	148	137	145	148
Domestic credit (variation from same quarter of preceding year)	16.9	15.2	12.5	14.0	12.0	15.4	16.5	12.4	14.7	12.7 d/
Non-performing loans as a percentage of total credit	2.8	2.9	3.0	2.9	3.1	3.1	3.0	3.0	3.0	...

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/ Figures as of May.

d/ Figures as of April.

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

f/ Thirteen metropolitan areas.

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

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

i/ Measured by J.P.Morgan..