

Colombia

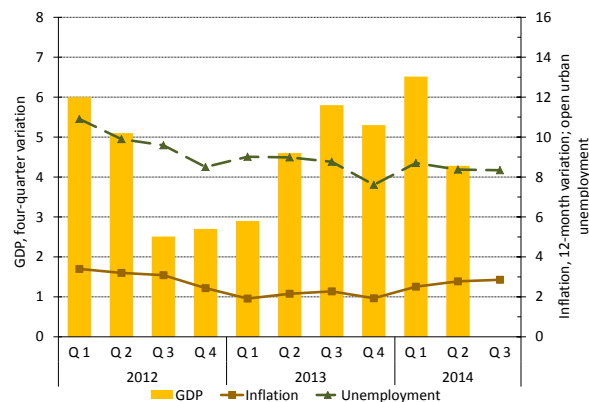
The Colombian economy continues on a favourable growth trend. It is estimated that the gross domestic product (GDP) will outperform 2013 and expand by 4.8% in 2014. The buoyant economy was evident in soaring domestic demand (especially through investment), which cushioned the impact of the adverse international scenario. The re-election of the incumbent president ensured the continuity of investment programmes, especially for housing and roads. And the peace negotiations taking place in Havana have boosted investor confidence, as has Colombia's commitment to carry out the reforms needed for accession to the Organization for Economic Co-operation and Development (OECD). This sound economic performance is not without threats, owing to external and internal factors alike. First, the recovery of international demand is still shaky, and the falling prices of oil and other export products have impacted Colombia's terms of trade while the external deficit has expanded. There has been no progress in terms of productivity; industry performance has been lacklustre. ECLAC projects economic growth of 4.3% for 2015.

Fiscal performance for 2014 was in line with the fiscal rule. The consolidated public sector deficit is likely to be equal to 1.6% of GDP —up 0.5 percentage points over 2013. The reason is a central government deficit that, at 2.4% of GDP, is similar to the figure posted for 2013, combined with a decentralized sector surplus that fell to 0.9% of GDP over the same period. Central government tax revenue for 2014 totaled 14.8% of GDP, which is 0.5 percentage points higher than in 2013. Income tax (7.2% of GDP) accounted for some 50% of that revenue, thanks to the equality income tax (CREE) approved under the 2012 tax reform. Government spending grew by 8.8% in 2014 to stand at 19.5% of GDP. Investment spending was down, without affecting the amount equivalent to 1.6% of GDP allocated to infrastructure and housing programmes. The decentralized sector posted a smaller surplus as local authorities whose term of office ends in 2015 sped up the pace of expenditure execution.

The tax reform proposed by the administration in October should yield the additional resources needed to step up investment in 2015. The reform bill calls for a new wealth tax, an equality income tax surcharge and the possibility of coming into compliance with tax obligations by paying a fee equal to 10% of assets not reported on previous tax returns; this is significantly lower than the applicable fine. The bill also proposes making it a crime to omit assets from tax returns when large amounts of capital are involved.

Signs of inflationary pressures that began to appear in the first few months of the year led the authorities to change their monetary policy stance in April, when they began to scale back monetary stimulus. The positive economic growth underpinned by domestic demand, falling unemployment, rising household incomes and growth in bank lending fuelled a larger than expected rise in prices, leading the monetary authority to progressively raise the bank intervention rate by 1.25 percentage points between April and September. The contractionary policy has been transmitted to lending and borrowing rates; bank loan portfolio growth thus slowed somewhat to post an annual increase of 13% by September (3.1 percentage points lower than in September 2013).

Colombia: GDP, Inflation and unemployment, 2012-2014



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

JP Morgan's announcement that it would gradually increase the weighting of Colombia's debt in two of its bond indexes boosted the flow of dollars into the country and set off further gains in the value of the peso starting in March. During the first half of 2014, the Colombian peso appreciated in nominal terms against the dollar (2.2%) but depreciated by 7.8% compared with the first half of 2013. In 2014 the central bank maintained and reinforced its policy of building up reserves, which stood at US\$ 47 billion in November. In the second half of the year, this measure, combined with declining foreign exchange inflows (due to falling oil prices and the expected hike in the United States Federal Reserve's intervention rate as growth takes hold there) steepened the peso's devaluation.

Colombia's falling exports and rising balance-of-payments current account deficit are a warning sign that reflects weak international demand and declining international prices for oil and other export products. By late in the first half of 2014, the balance of goods had turned negative; this had not happened since 2007. Along with the decline in mining and energy product prices, their export volume has dropped as well owing to production and transport problems. Moreover, the temporary closure of the Cartagena refinery made it necessary to step up imports of fuels and derivatives, which has increased the negative balance between exports and imports. The 15.3% cumulative growth of agricultural exports (especially coffee, bananas and flowers) from January to August 2014 did not offset the slump in mining and energy export value. The service balance deficit widened by 5.6% owing above all to growth in spending on travel; the transfer surplus (mainly remittances) narrowed by 11.8%. The net factor income balance decreased by 6.2% during the first half of 2014 as remittances of profits and dividends on foreign investment in Colombia declined. By November foreign direct investment flows stood at US\$ 13.376 billion —6.2% below the figure for the same month of 2013 but still enough to cover the increase in the current account deficit.

High GDP growth in the first quarter of 2014 (6.5%) moderated in the second quarter (4.3%). During the first six months of the year, the Colombian economy grew by 5.4% over the same period in 2013. The fastest-growing sectors were construction (14.2%), financial, insurance, real estate and business services (6.1%) and social, community and personal services (6.1%). During the same period, industrial activity grew by only 0.9%, held back by the appreciation of the peso and the decline in traditional exports. Mining, too, posted weak growth (1.7%) owing to oil exploitation and production issues and low crude oil prices. On the demand side, economic growth was driven by the expansion of private investment (17.1%) and final consumption expenditure (8.9%).

In October, the year-on-year variation in prices reached 3.3%, which is within the inflation target range of 2% to 4%. But an uptick in prices expected in late 2014 would push inflation above the long-term goal set by the monetary authority (3%). This increase in inflation stems from high food prices owing to weather events and depreciation of the local currency.

Colombia: main economic indicators, 2012-2014

	2012	2013	2014 ^a
	Annual growth rate		
Gross domestic product	4.0	4.7	4.8
Per capita gross domestic product	2.6	3.3	3.4
Consumer prices	2.4	1.9	3.3 ^b
Real average wage ^c	1.1	2.7	0.7 ^d
Money (M1)	6.7	14.3	15.9 ^d
Real effective exchange rate ^e	-5.2	4.0	3.5 ^b
Terms of trade	0.1	-5.1	-2.2
	Annual average percentage		
Urban unemployment rate ^f	11.2	10.6	9.9
Central government			
Overall balance / GDP	-2.3	-2.4	-2.4
Nominal deposit rate	5.4	4.2	4.0 ^g
Nominal lending rate ^h	12.6	11.0	10.9 ^b
	Millions of dollars		
Exports of goods and services	66,711	65,754	65,442
Imports of goods and services	67,470	68,392	73,516
Current account balance	-11,834	-12,722	-18,379
Capital and financial balance ⁱ	17,257	19,679	22,284
Overall balance	5,423	6,957	3,904

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

a/ Estimates.

b/ Figures as of October.

c/ Manufacturing.

d/ Figures as of September.

e/ A negative rate indicates an appreciation of the currency in real terms.

f/ Includes hidden unemployment.

g/ Weighted average of some lending rates.

h/ Figures as of September.

i/ Includes errors and omissions.

The labour market continued to improve in 2014. The average national participation rate between January and September was 63.8% (unchanged from the previous year); the national unemployment rate fell from 10.1% to 9.4% thanks to the rising level of employment. Economic growth and the job formalization strategy, especially in the fastest-growing sectors, pushed wage employment up by 4.2% between January and October. Lastly, the incidence of monetary poverty dropped 2.9 percentage points during the rolling year between July 2013 and June 2014 as household incomes rose thanks to labour improvements and subsidies targeting the poorest households.