

Colombia

As the high prices for hydrocarbons and other goods have come to an end and international demand has weakened, economic growth in Colombia has cooled. A growth rate of 3.1% is estimated for 2015, driven by domestic activity, in particular construction, commerce and financial establishments, all of which are posting growth, albeit at lower rates. The deficits run by the consolidated public sector (-3.0% of GDP) and the balance-of-payments current account (-6.2% of GDP) have widened and inflation climbed to an annual 6.4% in November, also reflecting unfavourable external conditions.

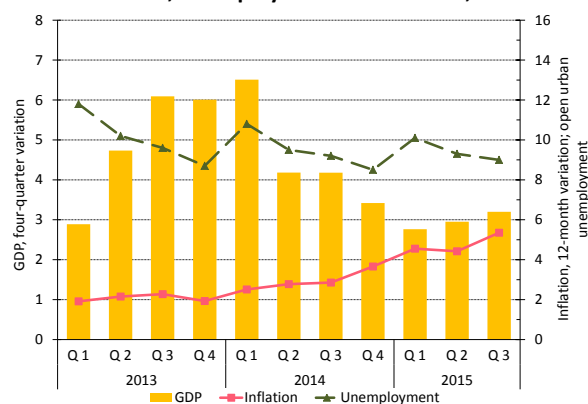
Fiscal policy was gradually tightened in response to slowing growth in 2015. In the context of the fiscal rule, the government postponed certain expenditures, redirected resources to sectors better able to promote growth, increased its borrowing limits and is analysing a tax reform that would make it easier to finance expenditure in light of the medium-term fiscal framework.

The consolidated public sector is expected to post a structural deficit of -2.4% of GDP in 2015, up 0.6 percentage points on the previous year, as a result of a larger central government deficit (-3.0%) and a smaller decentralized sector surplus (0.6%), the second of which is explained by the local government balance. This year represents the end of the current local government administration period (2011-2015), and is therefore a time when project implementation tends to pick up speed.

The increase in government tax revenues on the back of the tax reform carried out in late 2014 to cushion the drop in oil revenues and obtain the financing needed for the 2015 budget failed to offset the significant fall in income from oil dividends and taxes. Total central government revenues were down from 16.7% of GDP in 2014 to 16.4% in 2015. Spending, by contrast, was similar to 2014 levels, owing to an increase in interest payments from 2.2% of GDP in 2014 to 2.6% of GDP in 2015 and operational spending from 13.9% to 14.1% during the same period, while capital expenditure was down from 3.0% to 2.6% of GDP. In addition, as a countercyclical strategy introduced as part of the Productivity and Employment Stimulus Plan (PIPE 2.0), investment funds were redirected to sectors with a greater capacity to stimulate the economy. Priority was given to investment in school infrastructure, transport and housing.

Amid steadily rising prices and concerns that inflationary expectations might rise further above the target range, the central bank raised its monetary policy rate three times: by 25 basis points in September, by 50 basis points in October, and by 25 basis points in November. This took the rate to 5.5%. To September, interest rates remained low, and even declined in real terms. The gross loan portfolio grew by 17% on average during the year to September. These monetary policy rate increases are not expected to be passed on to market interest rates until the end of the year, when the expansion of the loan portfolio will likely also slow.

Colombia: GDP, unemployment and inflation, 2013-2015



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

The Colombian peso had begun to depreciate against the dollar in 2014, but this process intensified in 2015. To October 2015, it had depreciated by an annual 26.9% in real terms and by 22.4% on average since the beginning of the year. To prevent unjustified increases in the exchange rate, which

push up prices, the monetary authority decided in October to auction US\$ 500 million in call options whenever the exchange rate exceeds its 20-day moving average by seven percentage points.

Despite sharp real currency depreciation against the dollar, total exports were down by 35% in value terms and by 10.9% in volume terms from January to September 2015 compared with the same period of 2014. Traditional exports plunged by 43.3% in the year to date, owing to declines in the export value of oil and oil products (-50.1%) and coal (-30.3%). Exports from other sectors, such as agriculture and manufacturing, were also down owing to lacklustre international demand. Coffee exports, however, were up by 11.7%. Imports fell by 13.1% between January and September compared with same period of 2014. Imports of intermediate goods and raw materials declined more dramatically (-16.1%), but imports of consumer goods (-11.1%) and capital goods (-10.3%) also contracted.

During the first half of 2015, the balance-of-payments current account deficit widened by 1.7 percentage points in relation to 2014 and stood at -6.2% of GDP, owing to a deterioration in the goods trade balance. Higher revenues from tourism reduced the services trade deficit, while the drop in the profits of foreign companies operating in Colombia, together with an increase in income from Colombian investments abroad, reduced the factor income deficit (-27.7%). Although foreign direct investment flows and net portfolio investment flows were smaller than in 2014, the current account deficit has been financed primarily with financial account income, in addition to higher external borrowing by the public sector, while the accumulation of international reserves has stalled.

Colombia posted growth of 2.9% in the first half of the 2015. The main sectors driving the economy were construction (6.7%), commerce, repairs, restaurants and hotels (4.4%), and financial establishments, insurance, real estate and business services (3.9%). The only sector to experience negative growth was industry (-1.8%), which was attributable to a poor performance by the hydrocarbons industry. Domestic demand weakened owing to a slowdown in gross fixed capital formation (up 3.9%) and final government consumption (up 2%).

In the third quarter of the year, there were signs of improvement in some indicators of economic performance. The industrial production index for September rose by 2% versus the same month of 2014, retail sales expanded by an annual 2.8% during the same period, and the demand for energy swelled by 6.6%. Confidence indices for companies and consumers recovered somewhat during the second half of 2015.

To November 2015, the annualized variation in prices was 6.4%, a level that had not been seen since 2009 and which is above the target range for inflation (2%-4%). This was the result of a reduced food supply, since fewer areas were seeded in anticipation of the El Niño weather phenomenon, and the effects of currency depreciation on tradable and imported goods.

**Colombia: main economic indicators,
2013-2015**

	2013	2014	2015 ^a
	Annual growth rate		
Gross domestic product	4.9	4.6	3.1
Per capita gross domestic product	3.9	3.6	2.2
Consumer prices	1.9	3.7	5.9 ^b
Real average wage ^c	2.7	0.4	1.4
Money (M1)	14.3	14.8	10.1 ^b
Real effective exchange rate ^d	5.4	5.4	22.6 ^b
Terms of trade	-7.0	-8.6	-22.0
	Annual average percentage		
Urban unemployment rate ^e	10.6	9.9	9.6
Central government			
Overall balance /GDP	-2.3	-2.4	-3.0
Nominal deposit rate ^f	4.2	4.1	4.5 ^g
Nominal lending rate ^h	12.6	11.0	10.9 ^b
	Millions of dollars		
Exports of goods and services	67,140	63,846	44,250
Imports of goods and services	69,885	75,115	64,951
Current account balance	-12,367	-19,580	-22,690
Capital and financial balance ⁱ	19,314	24,017	22,192
Overall balance	6,946	4,437	-498

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 A negative rate indicates an appreciation of the currency in real terms. Refers to the extraregional real effective exchange rate.

e Includes hidden unemployment.

f Fix term deposit rate.

g Figures as of November.

h Total lending rate of the system.

i Includes errors and omissions.

Labour market results have remained satisfactory. In the moving average for the previous 12 months to October 2015, the national employment rate was 58.9%, 0.6 percentage points higher than the same period of the previous year, while the average national unemployment rate retreated by 0.2 percentage points over the same period to 9.0% (expressed as a cumulative figure for the 12 months to October). Employment among wage earners is still growing faster (3.6%) than among own-income workers (2.4%).

The impact of lower public revenues will be felt more keenly in 2016; nevertheless, a growth rate of 3.0% may be projected on the basis of other factors such as the recovery of industry, in particular the resumption of operations by the Cartagena refinery, and the launch of a number of infrastructure projects.