Colombia

Colombia's economy is estimated to have grown by 3.0% in 2008. As well as the impact of the international financial crisis, a number of domestic factors had a hand in the economic slowdown. Despite a series of measures taken by the central bank to ease demand-side inflationary pressures, the inflation rate will end the year well over target at 7.5%. As often occurs during the first year in office of newly elected mayors and governors, there was a delay in programmed public investment, which was in addition to strikes in a number of sectors. Although exports remained flat in volume terms, they rose sharply in value during the year, thanks to high average prices for petroleum and other commodities. This is expected to bring about a small reduction in the balance-of-payments current account deficit, which should stand at 2.6% of GDP.

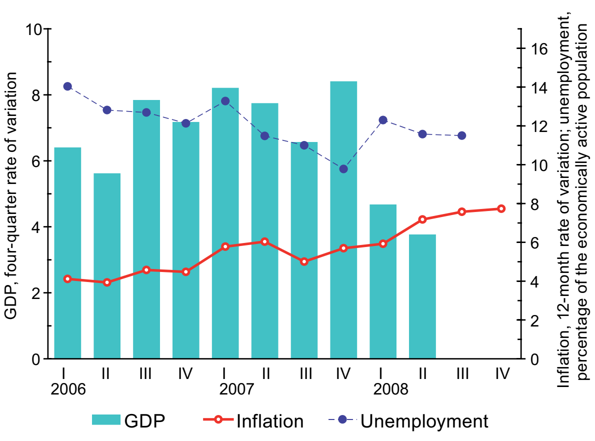
The economic growth rate is projected to slacken in 2009 to around 2%, mainly because of the effects of the international crisis on the country's exports, remittances, foreign direct investment and external borrowing.

The economic slowdown is expected to reduce fiscal revenues. According to calculations by the Ministry of Finance and Public Credit, a drop of one percentage point in growth reduces the tax take by the equivalent of 0.2% of GDP. In addition, the country's finances will be hurt by both the higher price of the dollar, which pushes up the local-currency cost of dollar-denominated debt, and the steeper cost of external borrowing resulting from the financial crisis. Some uncertainty therefore surrounds the possibility of meeting the deficit targets of 1.4% of GDP in the consolidated public sector and 3.3% of GDP in central government.

In the first semester of 2008 the board of the central bank decreed a series of 25-basis-point rises in the intervention rate in order to ease inflationary pressure, and this slowed growth in household lending and consumption. The intervention rate has remained unchanged at 10% since July. Towards the year's end, the central bank lowered the legal reserve requirement for current and savings accounts and fixed-term deposit certificates, in order to inject liquidity into the economy and loosen up the credit market.

The exchange-rate policy stance has been dictated by extreme volatility in the exchange rate, which started the year at 1,980 pesos to the dollar and ended it at an average of around 2,200 pesos to the dollar. The peso underwent a nominal devaluation of 27% in July-October alone, largely as a result of international market turbulence. In response to the shift in exchange-rate trends and the impact of the financial crisis, the authorities eliminated the deposit on foreign borrowing in October. In addition, a tax amnesty was approved for the repatriation of capital held abroad and shown to be free of links to illicit activities.

COLOMBIA: GDP, INFLATION AND UNEMPLOYMENT



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

The economic growth the country has enjoyed in the last few years weakened in 2008, with the slowdown beginning in the first quarter and intensifying in the fourth. The economy expanded by 4.1% in the first semester, compared with 8.2% in the year-earlier period, with mining, transport and, to a lesser extent, agriculture, the main drivers in this period. Conversely, electricity, gas and water and manufacturing grew by less than 2.0% and construction, by 0.3%. Consumption, particularly private investment, which had been an engine of growth in previous years, continues to expand, albeit at much lower rates. Business and household confidence indicators trended downward over the course of the year, turning frankly negative in the second semester.

Inflation has been a concern for the authorities since 2006. Despite policy measures to contain inflationary pressures, the external price surge was passed through to domestic inflation, which is projected to reach 7.5%, well above the ceiling of the central bank's target range for 2008 of between 3.5% and 4.5%. The central bank hopes that slack global demand and falling commodity prices will ease inflationary pressures and thus expectations of inflation, which would enable it to loosen its policy stance in the medium term. The decline in demand and drop in commodity prices will help to contain inflation in 2009.

Urban unemployment rates, which had been trending downward since 2006, began to change direction mid-year, with a slight rise expected for the year overall. This shift is mainly a reflection of higher labour force participation since, at least until the third quarter, the employment rate continued to show positive year-on-year variation. Data on formal employment in manufacturing and commerce show signs of deterioration in formal job creation, however, with negative year-on–year rates for commerce in the third quarter. The higher inflation has also eroded wage-earners' purchasing power and manufacturing wages are expected to show a real loss of almost 2% for the year on average.

On the external front, the value of exports rose strongly, with an increase of 60.8% in traditional exports, mainly petroleum and petroleum products, and of almost 22% in non-traditional products. Imports were up by 19.1% in January-September, led by purchases of machinery and equipment, fuels and mineral oils.The trade outlook for 2008 is not so bright and will depend, first, on the depth of the recession in the United States and the magnitude of the slowdown in the Bolivarian Republic of Venezuela, Colombia's two main trading partners. Another negative factor is the effect on export values of the drop in commodity prices that began in August. The current account deficit is expected to end the year at almost 2.6% of GDP. With respect to trade negotiations, the outcome of the elections in the United States does not appear to herald improved possibilities for approval of the free trade agreement with that country. Conversely, talks with the European Union are expected to prosper, since the requirement to negotiate as a bloc with the Andean countries has been dropped.

COLOMBIA: MAIN ECONOMIC INDICATORS

	2006	2007	2008 [a]
	Annual growth rates		
Gross domestic product	6.8	7.7	3.0
Per capita gross domestic product	5.3	6.3	1.7
Consumer prices	4.5	5.7	7.7 [b]
Average real wage [c]	3.7	-0.5	-1.8 [d]
Money (M1)	18.2	11.9	5.6 [e]
Real effective exchange rate [f]	-1.3	-10.7	-5.5 [g]
Terms of trade	3.8	8.0	13.1
	Annual average percentages		
Urban unemployment rate [h]	12.9	11.4	11.5 [i]
National central government overall balance / GDP	-3.8	-3.0	-2.7
Nominal deposit rate	6.2	8.0	9.7 [j]
Nominal lending rate	12.9	15.4	17.1 [k]
	Millions of dollars		
Exports of goods and services	28 558	34 213	41 832
Imports of goods and services	30 355	37 416	42 912
Current account	-2 982	-5 859	-6 442
Capital and financial account	3 005	10 572	9 053
Overall balance	23	4 714	2 611

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary estimates.
b Twelve-month variation to November 2008.
[c] Manufacturing-sector workers.
[d] Estimate based on data from January to August.
[e] Twelve-month variation to September 2008.
[f] A negative rate indicates an appreciation of the currency in real terms.
[g] Year-on-year average variation, January to October.
[h] Includes hidden unemployment.
[i] Estimate based on data from January to September.
[j] Average from January to November, annualized.
[k] Average from January to October, annualized.