Colombia

The Colombian economy grew by an estimated 4.0% in 2010, fuelled by domestic demand and a buoyant mining sector (coal and oil). The national currency continued to appreciate, leading the economic authorities to adopt policies designed to check appreciation and mitigate its impact. Inflation remains under control; expectations are that the target of 2-4% will be met. The new administration's economic proposals and the year-end indicators point to 4.0% growth in 2011.

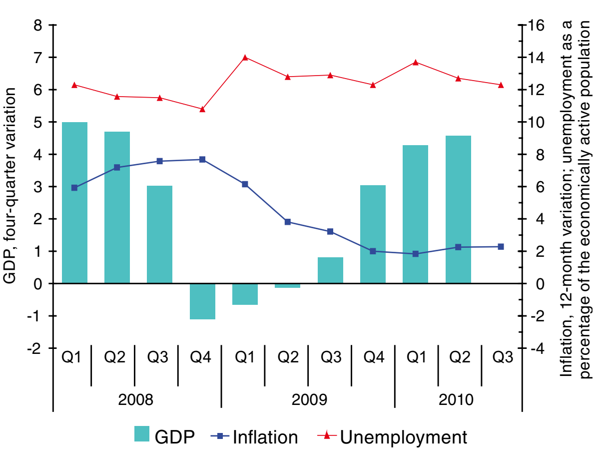
Tax revenue as of September 2010 indicates that the collection target of 12.4% of GDP will be surpassed, thanks above all to burgeoning value added tax collections (up 12% over the same period in 2009) as the economy revived. Other factors were external taxes (15.1% increase compared with the same period in 2009), which exceeded the target despite the global crisis and the suspension of trade with the Bolivarian Republic of Venezuela, and a higher-than-expected income tax take thanks to larger payments by the Colombian Petroleum Company (ECOPETROL).

The public debt is projected to be 35.1% of GDP at year-end (similar to 2009) because the primary deficits are still negative. As of June 2010 the central government debt balance was 34.5% of GDP, 24 points of which correspond to domestic debt. This share remains virtually unchanged. The Ministry of Finance estimates that the consolidated public sector debt stands at 3.6% of GDP and that the central government debt is 4.4% of GDP, which is 0.3 percentage points more than at year-end 2009.

With no major fluctuations in the inflation rate or prospects for higher inflation, the central bank held its monetary policy rate at 3.5% until May and then lowered it to the present 3.0%. Consumer rates fell after the reference rate cut, while lending rates for the construction and purchase of housing rose. Nominal loan interest rates have fallen more than the monetary policy rate since December 2008, except for mortgage loans. In real terms, all of the rates are at historical lows; an expansionary monetary policy has helped keep them stable. The commercial portfolio, which had been trending down on an annual basis, reversed the trend in July to post real annual growth of 8% as of September. Bank consumer and mortgage loan portfolios rose the most, by 10.6% and 19.8%, respectively, owing to a policy in place since 2009 to subsidize new housing purchase interest rates. The portfolio-at-risk ratio had declined as of September, especially for the consumer portfolio (from 11.9% in 2009 to 8.8%). Mortgage portfolio risk went from 9.7% to 7.3%, and commercial portfolio risk went from 8.6% to 7.9%.

Colombia has seen substantial currency appreciation throughout the year. This trend, which began in 2009 and is hurting the export sector, is mainly due to external factors: monetary expansion in developed countries is weakening their currencies and sending capital flows streaming towards developing economies. To counteract the economic impact of appreciation, the administration eliminated the tax deduction for interest paid on external

COLOMBIA: GDP, INFLATION AND UNEMPLOYMENT



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

debt for certain activities, postponed planned monetizations amounting to US$ 1.500 billion and lowered tariffs on nearly 4,000 items (raw materials and capital goods), with the nominal tax going from 12.2% to 8.3%. In addition, the Bank of the Republic has been intervening in the foreign exchange market since mid-September. It has been buying US$ 20 million daily and plans to do so until March 2011. As of October the accumulated intervention amounted to US$ 2.240 billion. These interventions reversed the appreciation trend, which was a cumulative 8.6% during the year to October and 8.4% for the past 12 months. The monetary aggregates grew throughout the year; M1 expanded at an annual rate of 13.4% (as of October) compared with 9.7% for the same period in 2009. M2 and M3 growth slackened during the period, going from a rate of nearly 15% to some 7%.

Colombia's economy performed well during the first half of the year, expanding by 4.3% in contrast to the 0.3% contraction during the same period in 2009.[1] Colombia's economy is estimated to have grown 4.0% in 2010. Mining and oil were the best performing sectors, expanding by 14.3% during the first half of the year owing mainly to high oil and coal prices. Next were industry (6.5%) and commerce (4.9%), spurred by a rally in durable goods (vehicles and appliances) that applied to the demand side as well. By contrast, the construction sector posted modest growth of just 2.5% (10.3% in the first half of 2009), with a temporary drop-off in building that was offset by a spike in public infrastructure works (19.5%). The only sector that showed negative growth was agriculture (which shrank by 0.1%), due to a 5.9% drop in coffee production and the suspension of bilateral trade by the Bolivarian Republic of Venezuela.

On the demand side, the half-yearly variation in investment was 18.3%. Household consumption, after growing 0.6% during the first half of 2009, was up 3.6% in 2010. The consumer confidence index and business expectations held at above 2009 levels but were starting to fall again during the closing months of 2010.

Accelerating growth of the Colombian economy has not generated inflationary pressures thanks, among other factors, to currency appreciation and the marketing of surpluses that used to be exported. Inflation for the past 12 months to October was 2.3%, with annual variation ranging from 2.7% for core inflation to 1.7% for food. Inflation expectations thus remain in the 2-4% target range. For 2011, the Bank of the Republic once again set target inflation in the same range.

1 This year, the National Administrative Department of Statistics (DANE) began to issue national accounts results with 2005 as the base year. There are, therefore, changes to the series issued to date.

COLOMBIA: MAIN ECONOMIC INDICATORS

	2008	2009	2010 [a]
	Annual percentage growth rates		
Gross domestic product	2.7	0.8	4.0
Per capita gross domestic product	1.2	-0.6	2.6
Consumer prices	7.7	2.0	2.6 [b]
Average real wage [c]	-2.0	1.1	2.4 [d]
Money (M1)	8.2	7.5	17.0 [e]
Real effective exchange rate [f]	-4.1	5.7	-14.9 [g]
Terms of trade	11.0	-14.0	12.7
	Annual average percentages		
Urban unemployment rate [h]	11.5	13.0	12.4 [i]
National central government overall balance / GDP	-2.3	-4.1	-4.4
Nominal deposit rate [j]	9.7	6.1	3.7 [k]
Nominal lending rate [l]	17.2	13.0	9.5 [k]
	Millions of dollars		
Exports of goods and services	42 671	38 222	44 771
Imports of goods and services	44 759	38 390	45 515
Current account	-6 909	-4 991	-7 317
Capital and financial account [m]	9 531	6 338	9 817
Overall balance	2 623	1 347	2 500

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 2010.
[c] Manufacturing sector.
[d] Estimate based on data from January to September.
[e] Twelve-month variation to September 2010.
[f] A negative rate indicates an appreciation of the currency in real terms.
[g] Year-on-year variation, January to October average.
[h] Includes hidden unemployment.
[i] Estimate based on data from January to October.
[j] 90-day fixed-term certificates of deposit, annualized.
[k] Average from January to October.
[l] Weighted average of all lending rates, annualized.
[m] Includes errors and omissions.

Strong pressure on the labour market will continue, with participation rates rising to 62.6% at the national level and 65.5% for urban areas —the highest in the past six years. Despite job creation, the national unemployment rate held at 11.9% (annual average for the period from October 2009 to September 2010) and was unchanged from the previous period (12.0%). The urban unemployment rate behaved in a similar fashion, going from 13.0% to 12.7% during the same period. Average real manufacturing wages increased slightly compared with 2009.

Colombia's trade balance for the first nine months of 2010 showed a surplus of US$ 1.32 billion f.o.b., owing above all to the mining sector (along with oil and coal). The largest deficits were with Mexico (US$ 2.090 billion) and China (US$ 1.770 billion). Colombia has benefited from high oil and coal prices and rising production volumes, with tonnage growing by 29.3% and 7.8%, respectively, between January and September 2010 compared with the same period in 2009. The trade border with the Bolivarian Republic of Venezuela remained virtually closed until October, driving Colombia's exports to the latter down by an annual 69.2% between January and September 2010 compared with the same period in 2009. Nevertheless, Colombia's total exports expanded by 21.2% during the same period. Traditional exports (minerals, coffee and hydrocarbons) were up 45.5%; non-traditional exports fell by 5.7%. The destination countries whose share increased the most were the United States (from 37.8% to 42.2%, for oil) and Ecuador (from 3.7% to 4.5%, for fuel and vehicles).

Imports rose by 21.8% between January and September 2010. There were, substantial jumps in imports of consumer goods (31.5%), principally vehicles, as well as raw materials and intermediate products (31.9% and 12.7%, respectively, of the total variation in imports). Imports from China, which accounts for 12.9% of all imports, were up by 43.3%.

The balance of payments still shows a current account deficit, but the healthy volume of foreign direct investment has yielded a financial account surplus. During the first half of the year, nearly 57% of the foreign direct investment flowing into the country was for the oil and mining sector (including coal).