Colombia

The Colombian economy grew at a rate of 4.0% in 2013, on the back of rising domestic demand. Following a contraction in manufacturing growth and a slowdown in the mining sector, as a result of labour-related and environmental problems in the early months of the year, in April the government introduced a package of countercyclical foreign-exchange, tax and sector-specific policy measures to jump-start the economy, and began to step up flagship housing and highway projects.

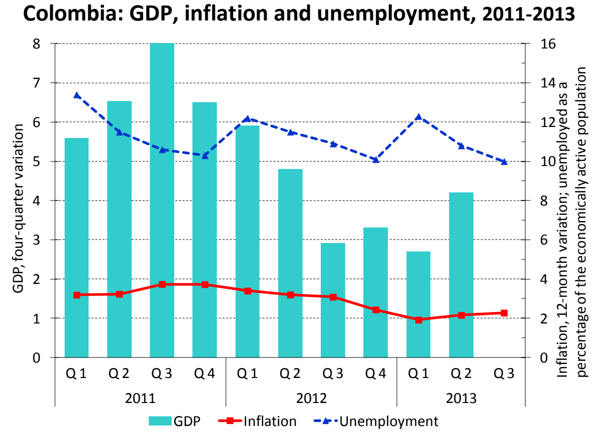
The year 2014, which will be a parliamentary and presidential election year, will see an ambitious public investment programme, with projects financed by the new royalty system and a new institutional framework for road concessions. This additional investment is expected to benefit potential GDP by an estimated 1 percentage point. The peace negotiations under way in Havana have also strengthened investor confidence, which has been further bolstered by the country's decision to begin the process of joining the Organisation for Economic Co-operation and Development (OECD). Growth is therefore expected to pick up in 2014, with a rate of 4.5% or greater forecast.

Although the fiscal position has remained within the expected range, in late 2013 the consolidated public-sector balance had a deficit equivalent to 1.0% of GDP, down from a surplus of 0.4% of GDP at year-end 2012. This result is explained by the widening of the central government deficit from 2.3% of GDP in 2012 to 2.4% of GDP in 2013 and the fall of the decentralized sector surplus from 2.8% to 1.4% of GDP over the same period.

At central government level, the tax reform passed in December 2012 made structural changes to the tax regime by introducing new taxes, namely the national tax on consumption, the national tax on petrol and diesel, and the equality income tax (CREE). Tax receipts therefore increased by more than one percentage point of GDP, since these new taxes were able to offset both income shortfalls owing to the simplification of VAT rates and falling external revenues. Central government expenditure increased, in particular because of transfers from the new CREE to fund public bodies for vocational training (the National Training Service (SENA)) and child, youth and family care (Colombian Institute of Family Welfare (ICBF)), which had previously been financed from parafiscal taxes. The increase in central government operating costs and investment also included miscellaneous outgoings under the Productivity and Employment Stimulus Plan (PIPE). The decentralized sector surplus, meanwhile, shrank, chiefly as a result of normalizing the implementation cycle of projects run by local authorities in their second year in office and of the streamlining of processes for green-lighting and implementing projects financed from the general royalty system.

Lower inflationary pressures and slowing growth in the loan portfolio allowed the government to continue with its economic-stimulus monetary policy, started in July 2012, gradually reducing the intervention interest rate until it stood at 3.25% in March 2013, where it has remained. These cuts have been passed on to the various lending rates, leading to brisk growth in the total loan portfolio (an average

Colombia: GDP, inflation and unemployment, 2011-2013



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

rate of expansion of 14.0% in November), which outstripped nominal GDP growth but still represented a slowdown in respect of the previous two years.

In an attempt to arrest trends towards appreciation of the peso, the government and the central bank began to replenish international reserves by raising foreign-exchange purchase targets. The government also reduced external borrowing requirements and purchased foreign currency to make external debt payments. Exchange-rate measures taken under the PIPE plan bolstered efforts to avoid currency appreciation by maintaining holdings of dollar-denominated resource royalties in local-authority pension funds and amending the rules governing pension-fund investment portfolios to promote investment in foreign assets. This led to real bilateral currency depreciation of almost 5% between October 2012 and March 2013, with the average exchange rate hovering around 1,900 pesos to the dollar between June and October 2013.

Slackening global demand, coupled with a deterioration in the terms of trade and the falling value of coffee, coal and ferronickel exports, led to a slowdown in Colombia's exports. In the year until September 2013, negative growth was seen in both exports (-2.6%) and total imports (-0.4%), the latter as a result of falling purchases of manufactured goods. Little change is therefore expected in the current account deficit, which was equivalent to 3.2% of GDP in the first half of the year. More buoyant external demand is forecast for 2014, with the United States and eurozone economies expected to bounce back.

Colombia: main economic indicators, 2011-2013

	2011	2012	2013 [a]
	Annual growth rate		
Gross domestic product	6.6	4.2	4.0
Per capita gross domestic product	5.2	2.8	2.6
Consumer prices	3.7	2.4	1.8 [b]
Real average wage [c]	0.3	1.1	2.6
Money (M1)	16.2	6.7	13.1 [d]
Real effective exchange rate [e]	0.0	-4.7	3.3 [b]
Terms of trade	11.8	0.1	-4.2
	Annual average percentage		
Urban unemployment rate [f]	11.5	11.2	10.6
Central government			
Overall balance / GDP	-2.8	-2.3	-2.2
Monetary policy rate	4.0	5.0	3.5 [b]
Nominal lending rate [g]	11.2	12.6	11.1 [h]
	Millions of dollars		
Exports of goods and services	63 102	66 785	66 154
Imports of goods and services	61 735	67 470	68 148
Current account balance	-9 839	-12 173	-12 453
Capital and financial balance [i]	13 583	17 596	18 278
Overall balance	3 744	5 423	5 824

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 August.
[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 second quarter of 2013 saw GDP growth of 4.2% on the same period the previous year and 2.2 percentage points on the first quarter, mainly due to the expansion of the agricultural and construction sectors. Notable developments here included the recovery of coffee production and brisk growth in residential building. In the second quarter of 2013, as part of a flagship government project, ground was broken on the construction of 43,244 housing units, growth of 34% on the same period of 2012. Social housing developments made up 52.7% of these units. Growth in the first half of the year was driven by buoyant domestic demand, both in terms of household consumption and gross fixed capital formation. The investment rate has been rising steadily in 2013 to reach almost 28% of GDP, thus boosting the country's medium-term growth potential.

The central bank's inflation target range for 2013 was between 2% and 4%, with a specific target of 3%, the same as for 2012. Annual inflation to October stood at 1.84%, below the target range, mainly as a result of lower variations in food prices caused by the excess in supply of agricultural products after the nationwide strike and other peasant farmer demonstrations in late August and early September. Year-end inflation for 2013 is forecast to be in the lower half of the target range, although a slight increase in prices is expected in November and December. The government has kept the same inflation target range for 2014.

The economic performance has gone hand-in-hand with a reduction in unemployment and growth in wage work. The unemployment rate was 9.9% between January and October, down from the same period the previous year (10.6%). This positive performance was partly attributable to the First-Time Employment Act and the tax reform passed in late 2012, which aimed to drive down the costs associated with formal employment, chiefly parafiscal contributions. The recently established Public Employment Service also aims to build on this progress by helping to match labour-market supply to demand.