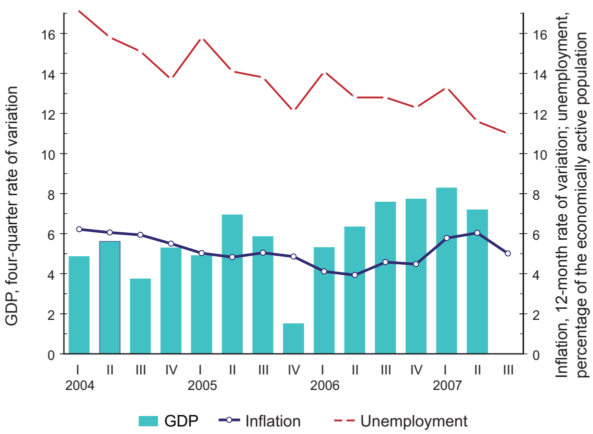
Colombia

Boosted by strong domestic demand, economic activity in Colombia grew by almost 7% in 2007. Private investment and consumption were determining factors in this performance. Since 2006, the economic authorities have been taking a series of measures to avoid overheating of the economy and contain inflationary pressures. Such pressures were inevitable, however, because of food price rises due to the effects of the El Niño southern oscillation phenomenon in the early part of the year and because the response to measures designed to control demand was slow; as a result, the inflation target set by the Banco de la República was not met.

The increase in central bank intervention rates was designed to curb consumer spending and credit and, hence, aggregate demand. However, still of concern are potential risks such as the possible slowdown in the Venezuelan and United States economies, the widening of the current-account deficit and the steady appreciation of the peso. ECLAC is predicting GDP growth of close to 5.5% in 2008, accompanied by restrictive monetary and fiscal policies.

In fiscal terms, the objective of improving the public finance balance was maintained in 2007. Tax collections were up thanks to the favourable economic cycle, and the government, with support from the independent commission on public spending, cut back on expenditure. This commission, made up of experts from the private sector and academia, made recommendations in order to restrict public spending. The consolidated public-sector deficit declined from 0.8% to 0.7% of GDP, while the primary surplus stood at 3.6% of GDP, down from 3.8% in 2007. The national central government deficit continued its downward trend, diminishing from 4.2% in 2006 to 3.3% in 2007. The primary surplus stood at 1% of GDP. An austerity budget, in terms of expenditure, was approved for 2008 and a deficit of 1.4% of GDP is projected for the consolidated public sector, along with maintenance of the national central government deficit. This deficit stems mainly from a deterioration in the social-security sector, attributable to pension liabilities and to the transfer of funds from

COLOMBIA: GDP, INFLATION AND UNEMPLOYMENT



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

the Petroleum Saving and Stabilization Fund (FAEP) to the national central government.

The main monetary policy instrument of the central bank in Colombia was the intervention interest rate. From April 2006, this rate was adjusted 12 times to stand at 9.25% in August, when variables such as credit and inflation gave the first signs of declining in response to the control measures taken. However, towards the end of the year, the central bank decided to raise the rate once again, this time to 9.50%, on the assumption that, since aggregate demand was so robust, this further adjustment would be necessary in order to meet the inflation targets projected for the coming years.

The exchange-rate policy favoured the continued strong appreciation of the peso, which, by the end of 2007, had appreciated by almost 10%. The contributing factors continued to be the same: favourable terms of trade, vibrant growth in external demand, strong GDP growth, high inflows of remittances (approximately US$ 4.2 billion) and of foreign direct investment (FDI) (over US$ 7.6 billion), among others. In addition to the adjustment in public spending, the economic authorities carried out discretionary interventions up to April for an amount in excess of US$ 4.5 billion as well as market options, without being able to avoid the trend towards appreciation of the currency. The international reserve balance for the end of the year will be close to US$ 21 billion, compared with US$ 15.4 billion in 2006.

Since 2006, economic growth reflected the buoyancy of domestic demand, a trend which continued in 2007. Private consumption and investment continue to act as engines of growth, since the climate of security existing in the country boosted confidence among agents. According to surveys, entrepreneurs perceive economic and political conditions as favourable to investment and consumer confidence is at an unprecedentedly high level. The most robust categories of gross capital formation were transport equipment, public works, and machinery and equipment.

In the first half-year, the sectors that recorded the highest rate of growth were manufacturing, trade, transport and construction, with rates above 10%. Nevertheless, construction declined owing to the reduction in the value added of public works. The least dynamic sectors were agriculture, mining, and energy and gas, with growth rates of 2.4%, 2.1% and 2.8%, respectively.

At the end of 2007, inflation is expected to stand at around 5.5%, one percentage point higher than the target set by the Banco de la República. Buoyant domestic demand, together with poor crop production at the beginning of the year as a result of the El Niño phenomenon, pushed up prices, counteracting the effects of the measures taken since the previous year to avoid such pressures. In the first half-year, the rise concerned mainly foodstuffs, although public-utility, transport and petrol prices also went up. Thanks to the monetary policy applied and to the recent adjustments in the intervention interest rate, the central bank hopes that inflation will settle down next year at between 3.5% and 4.5%, with a specific target of 4.0%, which was the target set for 2007; once again the rate is being redirected towards its long-term target. For 2009, inflation is predicted to stand at between 3.0% and 3.5%, which places it within the long-term range (2.0% to 4.0%).

Unemployment has been declining. The average for the year is estimated to be 11.6%, well below the rate recorded in 2006 (13.0%). While changes in methodology make it difficult to make comparisons, a significant increase was recorded in the level of employment, especially in urban areas. With inflation higher than projected, real wages dipped slightly.

In the external sector, imports expanded by more than 25%. This increase is attributable mainly to the

COLOMBIA: MAIN ECONOMIC INDICATORS

	2005	2006	2007 [a]
	Annual growth rates		
Gross domestic product	4,7	6,8	7,0
Per capita gross domestic product	3,3	5,4	5,8
Consumer prices	4,9	4,5	5,4 [b]
Average real wage [c]	1,4	3,4	-0,6 [d]
Money (M1)	18,4	20,4	15,9 [e]
Real effective exchange rate [f]	-11,4	1,5	-12,0 [g]
Terms of trade	8,5	3,8	5,3
	Annual average percentages		
Urban unemployment rate [h]	14,0	13,0	11,6 [i]
National central government overall balance / GDP	-4,8	-4,1	-3,3
Nominal deposit rate	7,0	6,2	7,9 [j]
Nominal lending rate	14,6	12,9	15,1 [j]
	Millions of dollars		
Exports of goods and services	24 393	28 554	32 503
Imports of goods and services	24 900	30 352	37 443
Current account	-1 881	-3 057	-6 703
Capital and financial account	3 610	3 080	11 305
Overall balance	1 729	23	4 602

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 2007.
[c] Manufacturing-sector workers.
[d] Estimate based on data from January to August.
[e] Twelve-month variation to September 2007.
[f] A negative rate indicates an appreciation of the currency in real terms.
[g] Year-on-year average variation, January to October 2007.
[h] Includes hidden unemployment.
[i] Estimate based on data from January to October.
[j] Average from January to October, annualized.

imports of intermediate and capital goods required for expanding the country's production capacity. Exports grew by almost 15%, while exports of non-traditional products were up by about 20%, despite the appreciation of the peso. Exports to the United States were down in 2007, while non-traditional exports to the Venezuelan market were up.

The balance-of-payments current account showed a deficit equivalent to 4% of GDP and may well be a source of vulnerability should international markets prove volatile. It will be noted, however, that this indicator was based on purchases of military equipment on the external market for an amount equivalent to almost 1% of GDP, and this is unlikely to be repeated in the next few years.

In June 2007, the Colombian Congress approved the free trade agreement between Colombia and the United States. Despite Colombia's various efforts to obtain approval for the agreement in the United States Congress, there is still uncertainty and it is not expected to enter into force until 2009; thus Colombia is hoping to obtain a further extension of the preferential treatment granted by the United States under the Andean Trade Promotion and Drug Eradication Act (ATPDEA).