Colombia

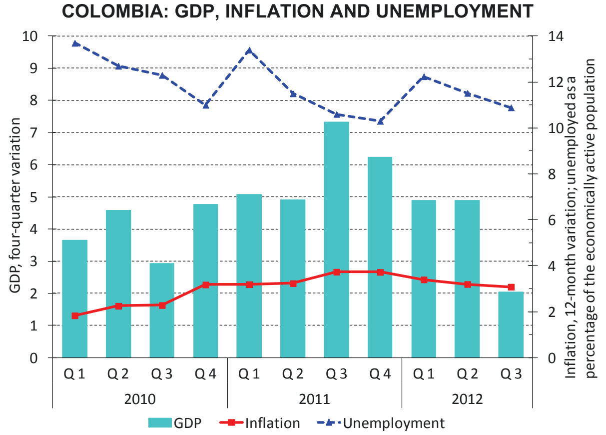
Colombia's economy continued to grow in 2012, outpacing the regional average despite adverse conditions stemming from the international crisis that have begun to weigh on some sectors. Growth is expected to stand in the area of 4.5%, fuelled by the mining industry and an ambitious housing and infrastructure investment programme. Export growth declined in both volume and value, and import growth also slowed. Structural fiscal reforms substantially improved public finances, making it possible to boost domestic demand by stepping up public spending without affecting the inflation path. Inflation remained within the central bank's target range. Growth in 2013 is expected to be about 4.5%, similar to 2012.

The economic authorities used monetary, exchange-rate and fiscal policy tools to ease the uncertainty caused by the international situation and domestic demand pressure, while the structural reform programme gained traction. Approved in 2012 under the programme were Law 1508 (to promote private sector participation in production and social infrastructure development projects) and Law 1530 (to regulate the operation of the general system of royalties in order to ensure savings and the optimum allocation of resources by setting up joint commissions made up of authorities at various levels of government and representatives from legislative bodies to allocate resources to regional investment projects). Also enacted was Law 1537, which defines the regulatory framework for implementing the social housing access programme. By encouraging public works and housing projects, these measures have boosted the construction sector.

The administration's commitment to public finance sustainability has been steadfast and yielded better-than-expected progress towards medium-term fiscal objectives. The national central government is expected to close the year with a fiscal deficit of 2.4% of GDP (0.4 percentage points lower than in 2011) thanks to an increase in revenue. Tax collections were up by nearly one percentage point of GDP, with income tax revenue rising as mining and energy sector activity picked up. Expenditure increased by 0.5 percentage points of GDP, owing mainly to the jump in infrastructure projects and the allocation of funding for losses originated during the rainy season. This central government performance plus the surplus posted by the decentralized public sector (especially the social security and regional and local government balance) are expected to bring the non-financial public sector deficit down from 2.0% of GDP in 2011 to 1.2% of GDP in 2012.

The central bank intervention rate hit 5.25% in February 2012 after nine 25-basis-point increases starting in February 2011 to phase out the expansionary monetary stimulus implemented in the face of the 2009 crisis and the resulting inflationary

COLOMBIA: GDP, INFLATION AND UNEMPLOYMENT



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

pressure. As household debt eased, portfolio quality improved and the global economic crisis dragged on, the rate was subsequently lowered in three 25-basis-point steps in July, August and November.

On the exchange-rate front, the peso continued to appreciate in 2012, albeit at a slower pace. Currency appreciation was associated with rising foreign direct investment (FDI) flows, which reached a record high of nearly US$ 8 billion. More than 60% of the FDI inflow went to mining and energy operations. The central bank addressed peso over-appreciation by purchasing dollars through daily auctions for a cumulative total of nearly US$ 3.4 billion until September. It also announced that it would purchase at least another US$ 3 billion between October 2012 and March 2013. Nevertheless, the economic authorities acknowledge the need for measures that are more structural in nature (such as a higher savings rate) in order to curb appreciation. For this reason, public sector savings have been boosted by fiscal reforms.GDP expanded by 4.9% during the first half of 2012 compared with the same period in 2011 as the mining and construction sectors posted growth in excess of 10%. Other buoyant sectors included the financial sector (5.9%), transport (4.8%) and commerce (4.4%). Agriculture posted a slowdown (growing by 1.1%); manufacturing shrank by 0.2% during the first half of the year. Domestic demand was the driver of growth throughout 2012, fuelled during the first half of the year by household consumption (up by 4.8%) and gross fixed capital formation (which jumped by more than 10%). Confidence indexes were down throughout most of 2012, but consumer and trade confidence indicators began to recover from September on. One of Colombia's notable economic achievements is the consistent rise of the investment rate over the past 10 years, approaching 30% of GDP.

The central bank's inflation target range for 2012 was 2% to 4%, the same as for 2011. At an annual 3.1% to October, inflation was at the mid-point of the range and below the 4.0% increase in prices for the previous year to October. Four factors kept the inflation trend within the central bank's target: (i) demand pressure was slight; (ii) inflation expectations declined, curbing the increase in basket of goods prices; (iii) international fuel prices fell; and (iv) climate conditions improved, which helped bring down the price of some agricultural products.

The labour market remained buoyant in 2012; the employment and participation rates both rose while unemployment dropped to a national average of 10.6% for January to October 2012 compared with 11.1% for the same period in 2011. Robust performance by the construction and other sectors in 2012, combined with improved labour policies agreed with local actors and tailored to individual regions, are reflected in falling unemployment and rising wage employment. In 2012, regulations were issued for implementing Law 1429 on the formalization of employment (which entered into force in 2011), covering the employment formalization agreements that territorial offices of the labour ministry can enter into in order to promote formal job creation. Congress approved in second debate an unemployment insurance bill based on individual worker accounts and a solidarity fund. Lastly, one of the main objectives of the draft tax reform is to promote employment and business formality.

The external sector bore the brunt of declining global demand and falling prices for the country's principal export products. As a result, export growth slowed from 8% in the first half of 2011 to 6% during the same period in 2012. Import growth decelerated as well, from 22% to 11%. In 2012, the United States-Colombia free trade agreement went into effect and Colombia moved ahead with its policy for negotiating new trade agreements. As in previous years, the current-account deficit was more than offset by the capital account, particularly by increased FDI flows.

COLOMBIA: MAIN ECONOMIC INDICATORS

	2010	2011	2012 [a]
	Annual growth rates		
Gross domestic product	4.0	5.9	4.5
Per capita gross domestic product	2.6	4.5	3.1
Consumer prices	3.2	3.7	3.1 [b]
Real average wage [c]	2.7	0.1	0.9
Money (M1)	14.7	16.2	7.1 [d]
Real effective exchange rate [e]	-13.1	0.8	-3.8 [d]
Terms of trade			
	Annual average percentages		
Open urban unemployment rate [f]	12.4	11.5	11.3
Central government overall balance / GDP	-3.9	-2.8	-2.4
Monetary police rate	3.2	4.0	5.1 [g]
Nominal lending rate [h]	9.4	11.2	12.7 [g]
	Millions of dollars		
Exports of goods and services	45 314	62 595	66 625
Imports of goods and services	46 697	61 734	66 569
Current account balance	-8 758	-10 032	-11 836
Capital and financial balance [i]	11 893	13 776	15 793
Overall balance	3 136	3 744	3 957

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Estimates.
[b] Twelve-month variation to October 2012.
[c] Manufacturing.
[d] Year-on-year average variation, January to October.
[e] A negative rate indicates an appreciation of the currency in real terms.
[f] Includes hidden unemployment.
[g] January-October average.
[h] Weighted average of the system lending rates.
[i] Includes errors and omissions.