Colombia

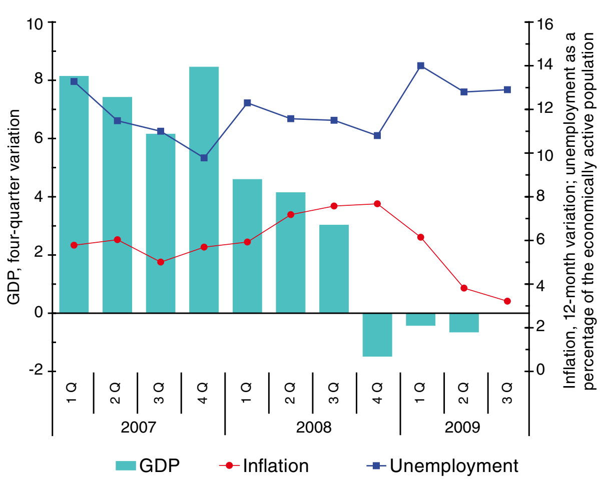
The Colombian economy is expected to grow by close to 0.3% in 2009. The repercussions of the international financial crisis on trade and the loss of confidence among economic agents were reflected in a contraction in economic activity in the first half-year. In the second half, the trade restrictions imposed by the Bolivarian Republic of Venezuela hampered the recovery, and exports fell heavily throughout the year. Inflation abated in 2009, permitting a relaxation of the monetary policy stance, and is not expected to exceed 3.0% by the end of the year. In 2010, the inflation rate should come in between 3.0% and 4.0%. The government's main strategy for countering the crisis has been to bring forward expenditure execution, and this has contributed to a degree of buoyancy in some sectors. The economy is expected to pick up in 2010, with growth of around 2.5%, attributable mainly to an upturn in private consumption.

In the fiscal sphere, the government applied a countercyclical policy aimed at reactivating the economy. This strategy rested upon four main pillars: prioritizing public infrastructure expenditure, guaranteeing external financing, facilitating the domestic financing of production and protecting employment. With tax revenue falling sharply (close to 1.1 percentage points of GDP short of the target), the central government deficit projection widened to 4.0% of GDP and will be financed for the most part by domestic borrowing. The target for the consolidated public-sector deficit was adjusted from 1.5% of GDP at the beginning of the year to 2.6% of GDP. It should be noted that some of the measures applied for dealing with the crisis could continue to increase pressure on public spending.

In terms of monetary policy, the lower inflationary pressure enabled the central bank to relax its stance and help to jumpstart the economy. Between November 2008 and November 2009, the central bank reduced its reference rate by 650 basis points, from 10% to 3.5%. Monetary policy transmission was rapidly reflected in other market rates, which fell sharply, except for the rate for consumer lending, which is perceived as higher-risk. Lending overall continued to slow, owing mainly to the performance of the consumer loan portfolio and, to a lesser extent, to that of the mortgage loan portfolio. In the first semester, the commercial portfolio took the lead and offset the falls in the other two. Towards the third quarter, however, the downtrend was resumed. Paradoxically, in the second half of the year, non-performing loans, other than housing loans, showed a tendency to diminish. Monetary aggregates contracted over the course of the year with M3 displaying the most stable behaviour.

Exchange-rate policy has been influenced by the high volatility of the exchange rate. In the first quarter, the peso tended to devaluate, but this trend was reversed in the second and third quarters. Between April and

COLOMBIA: GDP, INFLATION AND UNEMPLOYMENT



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

October, the average nominal rate was down by 19.9%, as a result of which the real effective exchange rate reflected a 10.2% currency appreciation between December 2008 and October 2009. Amid concern at this development and in an effort to generate greater demand for dollars to pay for imports and push up the exchange rate, the government opted not to monetize dollars received from external borrowing and lower to zero the tariff on raw materials produced abroad.

In the first half of 2009, GDP growth slowed by 0.5% compared with the same period of 2008. The manufacturing, commerce and transport sectors, which had led growth in previous years, were hit hardest by the crisis. The agricultural sector has also experienced a downturn. However, the rally in the prices of some primary goods, together with the impetus given to public infrastructure works, revitalized the mining and construction sectors, which grew by 10.6% and 7.7%, respectively. Financial institutions grew by 4.6% during the same period. On the demand side, consumption and investment, which for several years had been the engines of economic growth in Colombia, weakened by 0.3% and 5.5%, respectively. In both cases, the sharpest contraction occurred in the private component. However, this was offset by the major infrastructure projects launched in the country as part of the government's countercyclical strategy. The confidence index showed a recovery starting in May, but deteriorated once again in September and October.

Inflationary pressures, which had been a major concern for the economic authorities in the two preceding years, abated completely in 2009, so that the inflation rate is expected to dip below 3.0% by the end of the year, its lowest point in almost 50 years. Up to October, year-on-year inflation stood at 2.7% (2.0% from December 2008 to October 2009) following a reduction in international prices for food and fuels, a slight increase in demand, the appreciation in the peso and a downward trend in costs. The El Niño phenomenon threatens to spark fresh inflationary pressures in the first half of 2010. The Bank of the Republic is confident, however, that these pressures will be only temporary and has set the inflationary target for that year at between 2.0% and 4.0%.

In the labour market, unemployment has risen, although less than expected. This is due in part to the government's countercyclical policy for boosting infrastructure works. The national unemployment rate increased from 11.3% in 2008 to 11.8% in the 12 months from October 2008 to September 2009, while urban unemployment rose from 11.5% to 12.6%. The higher unemployment is due to the fact that labour supply is growing faster than the employment rate. The increase in supply is attributable to the additional worker effect characteristic of crises in Colombia, in which other family members seek to join the workforce to make up for the income losses. Amid recession, the increase in the employment rate occurs mainly in independent informal activities. The difficult labour situation has once again brought to the fore the structural characteristics of this market, including the high costs of parafiscal measures and the weakness of institutions.

Faltering world demand, exchange-rate appreciation and the trade restrictions imposed by the Bolivarian Republic of Venezuela have significantly depressed the external sector. Lower sales of oil and oil derivatives, ready-made clothing, metals and manufactures in the course of the year resulted in a fall in the value of total exports. In terms of destinations, the steepest decline was recorded in sales to the United States. The contraction in imports in the first nine months of the year was due mainly to lower purchases of vehicles and autoparts, appliances and electrical recording or video-recording equipment and cast iron and steel. Remittances fell significantly in 2009, while foreign direct investment contracted slightly. Flagging investment in the petroleum sector was offset by investment flows towards the mining sector. The current account deficit is expected to stand at approximately 3.0% of GDP, close to the 2008 level.

COLOMBIA: MAIN ECONOMIC INDICATORS

	2007	2008	2009 [a]
	Annual percentage growth rates		
Gross domestic product	7.5	2.4	0.3
Per capita gross domestic product	6.0	0.9	-1.1
Consumer prices	5.7	7.7	2.7 [b]
Average real wage [c]	-0.4	-1.9	0.8 [d]
Money (M1)	11.9	8.2	11.4 [e]
Real effective exchange rate [f]	-12.4	-3.1	8.5 [g]
Terms of trade	8.0	11.0	-14.5
	Annual average percentages		
Urban unemployment rate [h]	11.4	11.5	13.0 [i]
National central government overall balance/GDP	-2.7	-2.3	-3.7
Nominal deposit rate	8.0	9.7	6.3 [j]
Nominal lending rate	15.4	17.2	13.6 [k]
	Millions of dollars		
Exports of goods and services	34 213	42 669	35 187
Imports of goods and services	37 416	44 744	37 537
Current account balance	-5 819	-6 857	-6 247
Capital and financial account balance [l]	10 490	9 412	7 396
Overall balance	4 672	2 555	1 149

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

[a] Preliminary estimates.
[b] Twelve-month variation to October 2009.
[c] Manufacturing-sector workers.
[d] Estimate based on data from January to September.
[e] Twelve-month variation to September 2009.
[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 October.
[j] Average from January to November, annualized.
[k] Average from January to October, annualized.
[l] Includes errors and omissions.