

Colombia

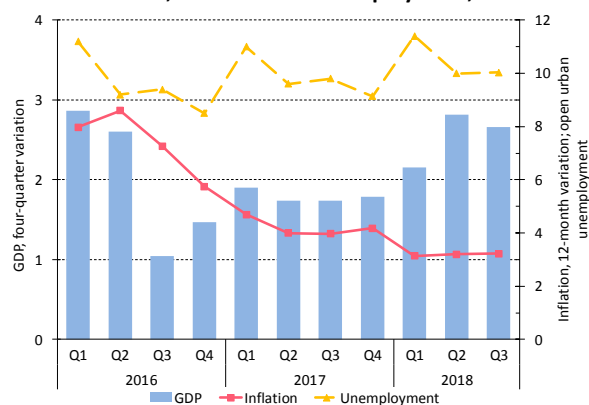
In 2018, economic activity showed signs of recovery, with annual growth rates not seen since 2015. Between January and September, the economy expanded by an annual average of 2.5%, exceeding the 2.0% and 1.8% growth for 2016 and 2017, respectively. This growth was driven by household and public consumption. Exports also rose, albeit at a slower pace. The top-performing sectors were public administration, defence, education and health, followed by trade and transport and manufacturing. The external deficit remained stable and inflation was very close to the midpoint of the monetary authority's target range (between 2% and 4%). The economy is projected to grow by 2.7% in 2018 and by 3.3% in 2019.

The new economic authorities—in office since August—continued to follow the same fiscal rule adopted in 2011, which establishes a deficit of 3.1% of GDP for 2018, equivalent to a structural deficit of 1.9%. Total government revenues fell from 15.6% of GDP in 2017 to 15.1% in 2018, owing in large part to the statistical effect of one-off revenues, amounting to 0.4% of GDP, paid by multinational telecommunications companies in 2017 following a ruling in Colombia's favour. Government spending fell by an amount equivalent to 0.8% of GDP and is expected to reach 18.1% of GDP at the close of 2018, on the back of cuts in operating and investment expenses of 0.5% and 0.3% of GDP, respectively. The reduction in the central government deficit from 3.7% of GDP in 2017 to 3.1% of GDP in 2018 means that the deficit of the non-financial public sector will be smaller than it was in 2017 (2.4% of GDP compared with 2.7%), despite the fact that the decentralized sector's surplus will be smaller as a result of the uptick in investment expenditure by local governments as they came to the end of the third year of their four-year mandates.

The central bank lowered its monetary policy rate by 25 basis points on two occasions. The first was in January, when the rate was lowered from 4.75% to 4.5%. The second was in April, when it was dropped to 4.25% and has since been left unchanged. The slightly expansionary monetary policy adopted in 2018 was consistent with the convergence between inflation and the target range; this led to a reduction in interest rates on loans and an increase in households' purchasing power, factors that underpinned the economic recovery in 2018. In a general context of lower leverage, the average annual expansion of the loan portfolio as of November 2018 has been sustained by consumer credit (8.5%) and mortgage loans (11.5%), which offset the weaker growth in commercial loans (2.8%) and microcredit (3.6%).

The nominal exchange rate remained relatively stable in 2018, hovering around 2,900 pesos to the dollar. From August onwards, the exchange rate rose above 3,000 pesos, depreciating by a nominal 6.3% by the end of October compared to same month in 2017. This trend has been the result of greater international volatility and the Federal Reserve's two interest rate hikes, as well as the external imbalance of Colombia's accounts, which run a current account deficit of more than 3% of GDP. The peso appreciated against the currencies of the country's main trading partners, with real appreciation

Colombia: GDP, Inflation and Unemployment, 2016-2018



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

reaching 3.0% by the end of October 2018. In October, the central bank announced the purchase of US\$ 400 million to shore up its international reserves and safeguard the country from the turbulence of international financial markets.

Better terms of trade and stronger external demand drove up the trade balance by almost one percentage point of GDP in the first half of 2018, which, combined with an increase in current transfers from workers' remittances, more than offset the widening net factor income deficit. Consequently, the current account deficit narrowed from 4.0% of GDP in 2017 to 3.6% by the end of the first half of 2018. That deficit is expected to be in the order of 3.4% of GDP by the end of 2018.

The trade balance improved thanks to the increase in the dollar value of exports of goods and services (14.7%), in particular from traditional exports (20%), driven by oil and coal, as well as from external sales of non-traditional products (6.3%), primarily manufactured goods. Imports of goods and services increased by 7%, driven by higher domestic demand. The terms of trade have remained favourable for national income, with levels that were, on average, 9% higher in the first half of 2018 than in the same period of 2017.

The widening of the factor income deficit can be explained by the higher profits of foreign companies operating in Colombia. In 2018, the main source of financing for the external deficit will continue to be foreign direct investment, together with external borrowing by the government and other public entities. Portfolio investments, which brought in positive financing flows in previous years, are expected to result in a net capital outflow in 2018, owing to amortizations of previous investments and lower demand for Colombian domestic debt securities.

Economic growth picked up pace in 2018, as demonstrated by the recovery in business and industry confidence. Average annual GDP growth between January and September 2018 (2.5%) was higher than in the same period of the previous year (1.8%) and the sectors that made the largest contribution to economic growth were: public administration; defence; education and health; trade and transport; professional, scientific and technical activities; and real estate. After declining in 2017, manufacturing expanded by a moderate 1.5%.

Construction contracted between January and September (2.5%) as a result of delays arising from legal problems affecting major infrastructure projects and of low housing demand. Both residential building and civil construction work picked up in the third quarter of 2018 (6.5%) and that growth is expected to accelerate considering the new government's commitment to settling legal claims and finalizing the financial closure of several projects.

The urban unemployment rate worsened slightly in 2018. The average unemployment rate in departmental capitals up to October stood at 10.7%, compared with 10.5% for the same period last year.

Colombia: main economic indicators, 2016-2018

	2016	2017	2018 ^a
	Annual growth rate		
Gross domestic product	2.0	1.8	2.7
Per capita gross domestic product	1.1	0.9	1.9
Consumer prices	5.7	4.1	3.3 ^b
Real average wage ^c	-2.1	3.3	1.1
Money (M1)	3.9	1.1	6.4 ^d
Real effective exchange rate ^d	4.2	-2.0	-4.1 ^d
Terms of trade	-1.1	16.9	11.2
	Annual average percentage		
Urban unemployment rate ^e	10.3	10.5	10.7 ^d
Central government			
Overall balance / GDP	-4.1	-3.7	-3.1
Nominal deposit rate ^g	6.8	6.0	4.8 ^b
Nominal lending rate ^h	14.7	13.7	12.3 ^d
	Millions of dollars		
Exports of goods and services	41 862	47 979	53 959
Imports of goods and services	54 541	56 771	61 851
Current account balance	-12 024	-10 591	-11 675
Capital and financial balance ⁱ	12 189	11 136	11 543
Overall balance	165	545	-132

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 September.

e/ A negative rate indicates an appreciation of the currency in real terms. Refers to the global real effective exchange rate.

f/ Includes hidden unemployment.

g/ 90-day fixed-term certificates of deposit, weighted average.

h/ Total lending rate of the system.

i/ Includes errors and omissions.

Manufacturing and construction contributed the most to the increase in the working population, particularly from the third quarter onwards, when the recovery in these sectors began to strengthen. Migrants from the Bolivarian Republic of Venezuela, numbering more than 1 million, pose the greatest challenge for the labour market.

Inflation continued to fall, down from an annual rate of 4.1% in December 2017 to 3.3% in October 2018, very close to the target of 3.0%; however, upward pressures persist on the prices of regulated goods and services. Inflation expectations for 2019 run from 3.4% to 3.6%.

Growth is projected to strengthen in 2019, reaching 3.3% on the back of investment, as the consolidation of the recovery in construction is felt in other sectors —particularly the industrial sector— with which it has strong links.

Adherence to the fiscal rule means that the central government deficit (2.4% of GDP) must continue to follow its downward trend in 2019. To achieve this, tax revenues must be increased, which is the main purpose of the financing bill before Congress. The decentralized sector's balance sheet is expected to deteriorate (0.1% of GDP) in 2019, mainly as a result of local government expenditure, which tends to be higher as they complete projects in the final year of their term in office. The consolidated deficit non-financial public sector is expected to be 2.5% of GDP, a slight improvement compared to 2018. Gross public debt, which peaked at 45.6% of GDP in 2017, is projected to fall to 43.6% of GDP in 2019.