

Colombia

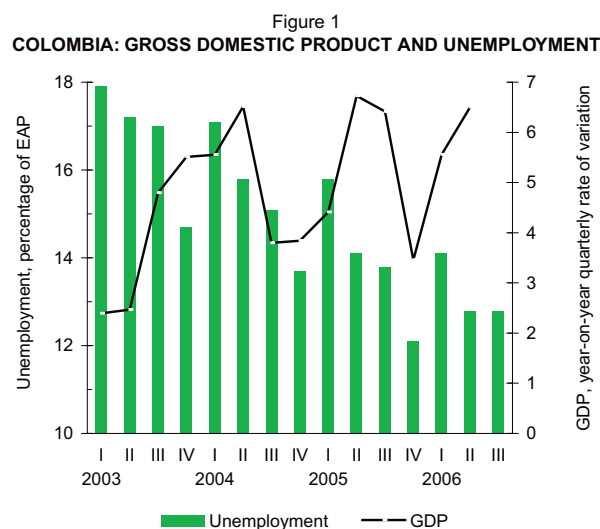
Thanks to the continuing rapid increase in domestic demand, the Colombian economy expanded by close to 6% in 2006, thereby completing three consecutive years of growth at rates of over 4%. The sustained rise in consumption and investment has been the determining factor for the growth rate. On the external front, another contributing factor was the good performance of the world economy. The positive economic situation of Colombia is confirmed by the high levels of confidence shown by surveys of expectations for the last few months of the year.

Growth of around 5% is forecast for 2007. The National Development Plan 2006-2010, presented in mid-November projects, average annual growth rates of over 5% for 2007-2010, despite the sharp reduction in oil production and the resulting fall in petroleum exports. Public spending will be sufficient to absorb the additional pressure deriving from the strategy to combat poverty and inequality announced by the government, which calls for priority public spending programmes in several of its agencies.

In fiscal affairs, thanks to the increase of close to one percentage point of GDP in tax receipts and an improved balance in the decentralized sector, the deficit target, initially set at 2% of GDP, was adjusted downward (1.5%). Nevertheless, there is still some risk that the deficit will grow, as although the government is implementing an active fiscal policy, efforts to correct fiscal imbalances are making limited progress. The results will depend on the achievements of the proposed tax reform and strict compliance with the medium-term fiscal policy framework.

In 2006 M1 continued to grow, reaching a cumulative annual variation of 23.9% in September. M3 continued to expand rapidly, although at a lower rate than in previous years. There was a change in the country's monetary policy this year, in the form of higher intervention rates. This is intended to control temporary inflationary pressures which could otherwise make it difficult to achieve the goal of stable long-term prices. As the sources of economic growth were stable, the monetary authority was able to raise the intervention rate by 25 basis points on five occasions, until it reached 7.25% at the end of October.

The credit portfolio continued the rapid growth of the previous two years. The figures show that credit (especially consumer credit, microcredit and the mortgage portfolio) was expanding at real rates of over 25%. The



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

portfolio's quality indicators are satisfactory, although a slight decline has become apparent and the monetary authorities have begun to take action.

In relation to the exchange rate, the peso is still tending to appreciate, despite the intervention policy of the Banco de la República. This has been influenced by the prospect of the sale of State enterprises and a rise in foreign investment in the business sector.

One of the main engines of economic growth has been investment, which has been strengthened by credit expansion and low interest rates, relative to past years, as well as by public infrastructure projects. In 2006 private investment rose by close to 30% and public investment by over 18%. The favourable trends in these components of demand have boosted the investment rate to 25% of GDP. The other demand component that explains the country's good economic performance is consumption

of durable goods, which has contributed to growth in private consumption at rates of over 5%.

In 2006 the fastest-growing sectors have been construction, the industrial sector and commerce. Construction posted the highest sectoral growth rate (28.2%) in the second quarter of 2006, thanks to housing construction and other building projects. This rapid growth continued in the second semester, encouraged by the favourable investment climate. At the same time, industrial growth has picked up owing to the rapid expansion of sectors related to construction and transport equipment. In contrast, the slowest-growing areas in 2006 were agriculture and mining. In agriculture there was a fall in short-cycle crop production and, in the mining sector, slower growth of natural gas and nickel production.

The inflation rate for 2006 is expected to stand at around 4.5%, which would be consistent with the target of between 4% and 5%. Despite temporary inflationary pressures in August and September, there were several factors that helped to keep inflation within this range, including low projected adjustments to utility prices, which will probably compensate for rising fuel prices, the continuing average rate of 4% for core inflation and for increases in the price of the food basket, and the greater credibility of monetary policy.

Unemployment is continuing to trend downward, although, in a development that seems to be inconsistent with the various sectors' performance, the rate did rise slightly in August and September. The downward trend in the country's 13 major cities continued (12.8% in the third quarter of 2006, compared to 13.8% in the year-earlier period), while the upward spike in the national indicator reflects growth in unemployment in other municipalities and in rural areas. There is no consensus yet as to whether this is attributable to changes in the labour market or to recent methodological changes in the survey used to measure employment which extended its coverage and altered the data collection process.

Imports of industrial products, which grew at over 20%, were boosted by higher purchases of vehicles and vehicle parts, boilers and machines, fuel and mineral oils, and other products. Other subsectors, such as consumer goods, also benefited from the expansion of household

Table 1
COLOMBIA: MAIN ECONOMIC INDICATORS

	2004	2005	2006 ^a
Annual growth rates			
Gross domestic product	4.9	5.2	6.0
Consumer prices	5.5	4.9	4.3 ^b
Average real wage ^c	1.5	1.0	3.5 ^d
Money (M1)	14.7	17.8	21.4 ^e
Real effective exchange rate ^f	-9.0	-11.4	1.7 ^e
Terms of trade	14.0	8.5	5.7
Annual average percentages			
Urban unemployment rate ^g	15.4	14.0	13.0 ^h
National central government overall balance/GDP	-5.5	-4.8	-5.3
Nominal deposit rate	7.7	6.9	6.0 ⁱ
Nominal lending rate	13.1	12.6	11.4 ⁱ
Millions of dollars			
Exports of goods and services	19 479	24 393	27 183
Imports of goods and services	19 812	24 901	29 676
Current account	-938	-1 981	-2 359
Capital and financial account	3 479	3 710	2 597
Overall balance	2 541	1 729	239

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 2006.

^c Manufacturing-sector workers.

^d Estimate based on data from January to August.

^e Year-on-year average variation, January to October.

^f A negative rate indicates an appreciation of the currency in real terms.

^g Includes hidden unemployment.

^h Estimate based on data from January to October.

ⁱ Average from January to October, annualized.

consumption. Export growth was significantly higher than in 2005, thanks mainly to the higher prices of oil and petroleum products, although it was outpaced by imports. The balance-of-payments current account is expected to show a deficit for 2006 of about 1.8% of GDP.

Trade expectations are closely connected to the approval of the free trade agreement between Colombia and the United States by their respective congresses. The agreement is expected to enter into force in mid-2007. If that is the case, higher growth in imports is likely to follow in the wake of greater access to the United States market. In the first part of the year, exports were boosted by the recent extension of the tariff preferences provided for under the Andean Trade Promotion and Drug Eradication Act, which apply to 53% of the country's total exports to the United States.