



Summary

Colombia's economy grew by 4.7% yoy in the first quarter of 2012. The moderation of growth is likely to continue, thanks to the monetary tightening implemented between February 2011 and February 2012. In early June 2012, the Minister of Finance argued for more sterilized foreign exchange interventions by the central bank, as the appreciation of the peso is hurting some sectors of the economy. In November 2011, the government made some progress in its battle against guerrilla movement Farc through the killing of top Farc leader Alfonso Cano, but an attack on former Interior Minister Fernando Londoño in Bogota in May 2012 highlighted that security problems are still large in Colombia. Many rural and urban areas continue to suffer from the violence related to organized crime and drug-trafficking, although a return the violence levels seen in the 1980s and 1990s seems very unlikely.

Things to watch:

- Prices of Colombia's main commodity export products.
- Security issues.

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Colombia					
National facts		Social and governance indicators		rank / total	
Type of government	Republic	Human Development Index (rank)	87 / 187		
Capital	Bogota	Ease of doing business (rank)	42 / 183		
Surface area (thousand sq km)	1,109	Economic freedom index (rank)	45 / 179		
Population (millions)	46.9	Corruption perceptions index (rank)	80 / 183		
Main religions	Catholic (90%)	Press freedom index (rank)	143 / 178		
	Other (10%)	Gini index (income distribution)	58.49		
Main ethnic groups	Mestizo (58%)	Population below \$1.25 per day (PPP)	8%		
	White (20%)				
	Mulatto (14%)				
Head of State (president)	Juan Manuel Santos Calderon	Foreign trade 2011			
Head of Government	Juan Manuel Santos Calderon	<i>Main export partners (%)</i>	<i>Main import partners (%)</i>		
Monetary unit	Colombian peso (COP)	US	38	US	29
		Netherlands	4	China	12
		China	4	Mexico	8
		Ecuador	4	Brazil	5
Economy		2011			
<i>Economic size</i>		<i>bn USD</i>	<i>% world total</i>		
Nominal GDP	333	0.48	<i>Main export products (%)</i>		
Nominal GDP at PPP	472	0.59	Petroleum & petroleum products	49	
Export value of goods and services	61	0.28	Coal	15	
IMF quatum (in mln SDR)	774	0.36	Nickel	15	
<i>Economic structure</i>		<i>2011</i>	<i>5-year av.</i>		
Real GDP growth	5.9	4.6	Coffee	5	
Agriculture (% of GDP)	7	8	<i>Main import products (%)</i>		
Industry (% of GDP)	38	34	Intermediate goods	39	
Services (% of GDP)	55	58	Capital goods	35	
<i>Standards of living</i>		<i>USD</i>	<i>% world av.</i>		
Nominal GDP per head	7008	65	Consumer goods	19	
Nominal GDP per head at PPP	9926	80	<i>Openness of the economy</i>		
Real GDP per head	4076	50	Export value of G&S (% of GDP)	18	
			Import value of G&S (% of GDP)	18	
			Inward FDI (% of GDP)	4.0	

Source: EIU, CIA World Factbook, UN, Heritage Foundation, Transparency International, Reporters Without Borders, World Bank.

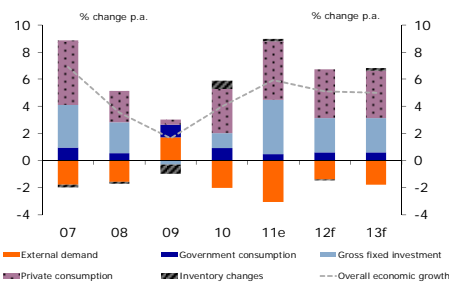
Introduction and update

Despite a decline in global economic sentiment, Colombia's economy has continued to boom. Domestic demand has remained strong, with both private consumption and investment being the main drivers of growth (see also figure 1). Investment has been particularly strong in the mining and energy sectors. Economic growth accelerated from 4% in 2010 to 5.9% in 2011, but growth is likely to moderate somewhat in 2012. Growth moderated to a still strong 4.7% yoy in the first quarter of 2012. The moderation of economic activity is partially the result of a monetary tightening cycle implemented between February 2011 and February 2012, with the central bank increasing its main policy rate from 3% to 5.25%. This has helped to control inflationary pressures, and with headline inflation at 3.4% year-on-year in May 2012, inflation has remained comfortably within the 3.0% ± 1.0% target band. Meanwhile, especially in the beginning of 2012, there were some concerns about credit growth, as bank credits were growing at almost 25% a year. However, according to the latest data, credit growth is now slowing.

In last year's full Country Risk Report we already discussed the attempts by the central bank to control the appreciation of the peso. In the meantime, the peso has remained strong, which has been damaging the competitiveness of Colombia's banana and flower exporters. In June 2012, Finance Minister Juan Carlos Echeverry encouraged the central bank to do more to limit the currency appreciation. The central bank has already been buying about USD 20m in foreign reserves a day since February 2012 through sterilized interventions. Although the central bank may

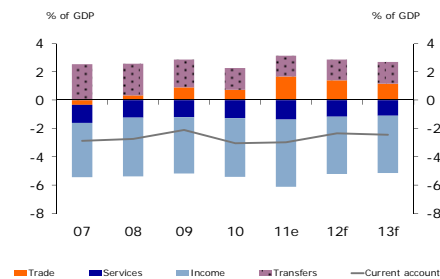
increase its currency interventions, we do not expect Colombia to introduce capital controls. Meanwhile, Colombia's current account deficit is likely to fall from 3% of GDP in 2011 to 2.4% of GDP in 2012, and will be more than covered by large inflows of FDI. A free trade agreement with the United States, which became effective in May 2012, may thereby provide a boost to Colombia non-energy and mining exports. The external position has remained comfortable. The net international investment position remains strongly negative, but the fact that more than half of Colombia's external liabilities are the result of foreign direct investment mitigates risks.

Figure 1: Growth performance



Source: EIU

Figure 2: Current account



Source: EIU

It is expected that the government will present a tax reform proposal to congress in late July 2012. Tax reform is welcome, as Colombia has a complicated and burdensome tax system, but negotiations surrounding possible reforms are likely to be lengthy. Once the tax reform has been finished the government wants to reform the pension system as well. In its attempts to reform, the government of President Juan Santos will be helped by the fact that it has the support of a large majority in congress. However, the popularity of Santos has taken a hit recently, with his approval rating falling from 64% in April 2012 to 48% in late June 2012. The fall in popularity seems partially linked to a scandal about justice reforms that resulted in the resignation of Justice Minister Juan Carlos Esguerra, but also to the ongoing concerns about the security situation.

Ongoing security concerns

Despite the killing of Alfonso Cano, a top leader of guerrilla movement Farc, by the government in November 2011 and the announcement by the Farc in April 2012 that it would stop kidnapping for ransom, Colombia continues to struggle with security problems. This was highlighted in May 2012, when an attack on former Interior Minister Fernando Londoño killed his bodyguard and driver and left both Londoño and 50 other people wounded. The Farc is suspected to have perpetrated the attack. At the same time, the Farc has also made some conciliatory gestures, such as the release of French journalist Romeo Langlois and the earlier mentioned promise to stop kidnapping for ransom. Still, it seems unlikely that the government will open peace talks with the movement, especially as the recent attacks have led to criticism of the security policies of President Santos.

Former President Alvaro Uribe, who is a member of the same party as Santos, has been one of the critics of Santos' security policy. Uribe has recently openly claimed that public security has deteriorated under the leadership of his successor. A look at a number of indicators reveals a mixed picture though. While the number of attacks on infrastructure and the number of kidnappings has increased recently, the homicide rate has continued to fall. Overall, a return to the level of conflict seen in the 1980s and 1990s seems very unlikely. Moreover, the nature of security problems has changed. Both many former right-wing paramilitaries as well as (former) FARC members have joined criminal groups that are active in the very profitable drug-trafficking and



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smuggling businesses. Due to the activities of these groups many areas continue to suffer from violence and corruption. Meanwhile, in some areas the presence of armed groups also poses risks to oil and energy companies that are active in the exploration activities.

Colombia							
Selection of economic indicators	2007	2008	2009	2010	2011e	2012f	2013f
<i>Key country risk indicators</i>							
GDP (% real change pa)	6.9	3.5	1.7	4.0	5.9	5.1	5.0
Consumer prices (average % change pa)	5.5	7.0	4.2	2.3	3.4	3.4	3.3
Current account balance (% of GDP)	-2.9	-2.7	-2.1	-3.1	-3.0	-2.4	-2.5
Total foreign exchange reserves (mln USD)	20767	23479	24748	27766	30486	35940	38190
<i>Economic growth</i>							
GDP (% real change pa)	6.9	3.5	1.7	4.0	5.9	5.1	5.0
Gross fixed investment (% real change pa)	14.4	9.9	-1.3	4.6	16.6	9.4	9.1
Private consumption (real % change pa)	7.3	3.5	0.6	5.0	6.6	5.4	5.2
Government consumption (% real change pa)	6.0	3.3	5.9	5.5	2.6	3.5	3.8
Exports of G&S (% real change pa)	6.9	4.5	-2.8	1.3	11.4	7.4	5.2
Imports of G&S (% real change pa)	14.0	10.5	-9.1	10.5	21.5	10.2	9.7
<i>Economic policy</i>							
Budget balance (% of GDP)	-0.4	0.5	-2.2	-2.7	-2.1	-1.7	-1.6
Public debt (% of GDP)	44	43	45	46	45	41	39
Money market interest rate (%)	8.7	9.7	5.6	3.1	4.0	5.3	5.8
M2 growth (% change pa)	18	17	6	10	19	20	10
Consumer prices (average % change pa)	5.5	7.0	4.2	2.3	3.4	3.4	3.3
Exchange rate LCU to USD (average)	2077.8	1965.1	2157.6	1899.0	1848.0	1781.7	1778.3
Recorded unemployment (%)	11.2	11.3	12.0	11.8	10.8	9.6	9.4
<i>Balance of payments (mln USD)</i>							
Current account balance	-5978	-6699	-4960	-8760	-9980	-8840	-10010
Trade balance	-707	775	2053	2038	5487	5190	4800
Export value of goods	29381	37096	32563	39546	56217	62380	67600
Import value of goods	30088	36320	30510	37508	50729	57190	62810
Services balance	-2647	-3073	-2821	-3623	-4621	-4450	-4480
Income balance	-7962	-10110	-9297	-11849	-15822	-15200	-16480
Transfer balance	5216	5511	4613	4474	4948	5620	6160
Net direct investment flows	8136	8366	4049	337	10234	12820	14680
Net portfolio investment flows	681	-1007	-4902	225	6384	2040	1810
Net debt flows	4616	3190	5611	10483	4195	3050	2360
Other capital flows (negative is flight)	-1940	-1132	1523	801	-7900	-3550	-6740
Change in international reserves	5515	2718	1321	3086	2933	5520	2110
<i>External position (mln USD)</i>							
Total foreign debt	43697	46428	52120	63064	67449	70380	72640
Short-term debt	5161	5633	4013	8209	8902	8670	7280
Total debt service due, incl. short-term debt	12398	12566	14459	13793	20351	22070	22810
Total foreign exchange reserves	20767	23479	24748	27766	30486	35940	38190
International investment position	-47890	-53290	-59496	-69255	n.a.	n.a.	n.a.
Total assets	56646	61899	70844	82037	n.a.	n.a.	n.a.
Total liabilities	104536	115189	130340	151292	n.a.	n.a.	n.a.
<i>Key ratios for balance of payments, external solvency and external liquidity</i>							
Trade balance (% of GDP)	-0.3	0.3	0.9	0.7	1.6	1.4	1.2
Current account balance (% of GDP)	-2.9	-2.7	-2.1	-3.1	-3.0	-2.4	-2.5
Inward FDI (% of GDP)	4.4	4.3	3.1	2.4	4.0	4.2	4.2
Foreign debt (% of GDP)	21	19	22	22	20	19	18
Foreign debt (% of XGSIT)	108	95	120	124	97	93	87
International investment position (% of GDP)	-23.1	-21.8	-25.4	-24.2	n.a.	n.a.	n.a.
Debt service ratio (% of XGSIT)	31	26	33	27	29	29	27
Interest service ratio incl. arrears (% of XGSIT)	7	6	7	6	5	4	4
FX-reserves import cover (months)	6.9	6.5	7.9	7.3	6.1	6.4	6.2
FX-reserves debt service cover (%)	168	187	171	201	150	163	167
Liquidity ratio	112	114	116	116	107	112	112

Source: EIU

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