



Colombia

Talking Points on the Economy

Second semester 2006



PROEXPORT
COLOMBIA



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Why do Business in Colombia?



Strategic geographic location: easy access to the North American, European, Asian and Latin American markets.

Macroeconomic stability: economic growth above the Latin American average.

Human resources: availability of qualified, competitive and committed labor force.

Market size:

- 42.1 million inhabitants (national census 2005, DANE)
- Third largest population in Latin America

Export platform: privileged access to more than 1.2 billion of consumers:

- Free Trade Agreements:
 - US - Colombia FTA in approval process by both national congresses
 - Andean Community (CAN): Colombia, Bolivia, Ecuador and Peru
 - Group of Three (G-3): Colombia and Mexico
 - CAN - Mercosur
 - Colombia - Chile
 - Colombia - Caricom
- Tariff Preferences:
 - With the United States: Atpdea
 - With the European Union: Andean SGP

Special foreign trade regimes:

- 10 Duty Free Zones
- 5 Special Economic Export Zones
- Incentives for large exporters
- Special Import - Export Systems

Export supply: unparalleled portfolio of high-value added and quality products and services in the industry, services and mining sector.

Colombia's economic performance corroborates the country's strengthening as one of foreign investment's most stable and attractive location within the region. Official reports show that the GDP grew a 5.7% during the 2006 first semester; 54 basic points above the growth registered in the same period of the previous year. These numbers are backed up with an upturn in the consumers as well as the entrepreneurs confidence levels, in great measure due to the security improvements obtained along the last four years.

Foreign Direct Investment (FDI) and exports continued throwing positive results; foreign investment with an amount of US\$ 2,448 million during the first semester of year 2006 while up to June, goods worth a total of US\$ 11,537 million were exported representing a 13.2% increase compared to the same period of year 2005.

Following these series of events, last September the International Monetary Fund, IMF, called to an end a seven year cycle in which the Colombian economy, throughout three agreements, was under the organization's supervision. The process's conclusion is a positive one and according to the IMF, the Colombian economy has strengthened enough to be able to overcome possible adverse circumstances at an international level.

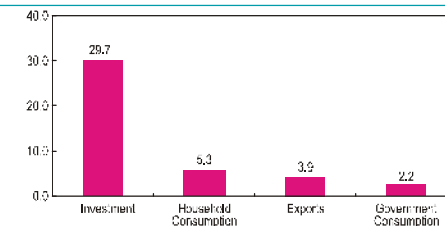
The country's current positive economic situation, supported by the fiscal and monetary stability has helped foreign investors and domestic industrial producers to improve Colombia's access to international markets shown by an increase in traditional and non-traditional exports.

The GDP Growth Exceeds Every Forecasts

Colombian economy growth exceeded every forecast and during 2006 first semester the GDP grew a 5.7% compared to 2005 first semester. Such positive result was boosted by the behavior of the following sectors: construction (17.3% growth), commerce, restaurants and hotels (8.9% growth), transportation, storage and communications (10.3%) and manufacturing industry (6.7% growth).

From the final demand side, the accrued behavior to June 2006, showed an increase of 8.5% due to an increase on the investment of 29.7% with positive variations compared to the same period of the previous year in machinery and equipment (24.7%), public works (25.2%), transportation equipment (22.5%), construction and buildings (12.6%). Likewise, final consumption had a 4.5% growth rate explained by a 2.2% increase in government consumption as well as a 5.3% rise in the households final consumption. In real terms exports grew by 3.9% (Graph 1).

Graph 1
GDP Growth: I semester 2006
Internal Demand Components



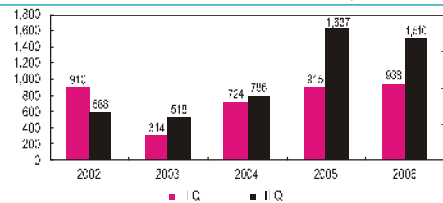
Source: National Statistics Department (DANE).

Economy's good behavior has also motivated a positive trend for FDI attraction, and with results continuing to be positive in the future, Colombia will consolidate itself as one of the most attractive countries to foreign companies thus generating, a virtuous circle of investment and growth.

Foreign Investment Shows Positive Results

According to information revealed by the Banco de la República, 2006 first semester's FDI stood at US\$ 2,448 million from which US\$ 1,510 million were received during the second quarter of this year, recording an increase of 60.9% compared to 2006 first quarter when a total of US\$ 938 million investment was received (Graph 2).

Graph 2
FDI Flows to Colombia: I and II Quarter, 2002-2006 (US\$ million)



Source: Banco de la República.

During 2006 first semester, FDI flows were mainly received by the oil sector with an amount of US\$ 831 million. This represents an increase of 27.9% compared to the same period of 2005 contributing with a 33.9% of total FDI. Sectors of mining and quarrying (including coal) were placed second with investments of US\$ 765 million or the equivalent to 31.3% for the first semester's total investment.

Other relevant sectors, with dynamic behavior, compared to 2005 first semester were transportation, storage and communications going from US\$ 21 million to US\$ 378 million, financial entities with an increase of 26.4% going from US\$ 66 million in year 2005 to US\$ 83 million. Finally, the construction sector after perceiving US\$ 73 million during the first semester of 2005, showed a considerably soar of 13.8% with US\$ 83 million.

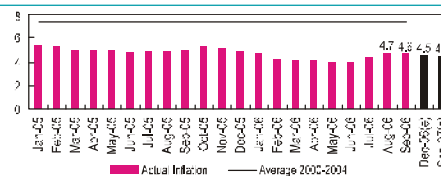
We consider 2007 to be a year with favorable FDI figures bearing in mind the following major investments:

- Colombia-Móvil acquisition by Millicom for US\$ 480 million.
- El Dorado Airport concession requiring investments of US\$ 650 million.
- Investments of an estimated of US\$ 656 million by swiss company Glencore in Cartagena's refinery.
- SAB Miller's announced investment for the modernization of the breweries located the Colombian Department of Valle del Cauca for US\$ 175 million.

Monetary and Exchange Rate Policies

The Central Bank, following its inflation policy objective, has substantially contributed to lower inflation levels, an indicator that has consistently gone down in the last years. While on the first period of the decade, the annual inflation was 20% on an average level, it is expected for 2006 to stay between 4% and 5% (Graph 3).

Graph 3
Annual Inflation: 2005-2007



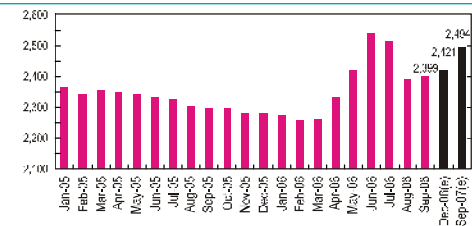
(e) market expectations.
Source: Banco de la República.

Inflation expectations, on the other hand, show a downward trend; the Central Bank's inflation expectation survey, published in August, points out that the market agents (Banks and Brokers) are confident in this year's goal achievement. Even more interesting, on a broader survey covering households, companies and unions among others, even since January 2006 they all were confident on the inflation target goal accomplishment.

The exchange rate, one of the determining factors for inflation, shows a fall down relative to the levels achieved between April and June following other economies of the region behavior. This factor affected prices during the third quarter of the year (thus, the slight inflation upturn), nevertheless, the exchange rate behaviour between August and September 2006 indicates stability and no big traumatism should appear on the closing inflation level for this year.

The average market rate for September was situated in COP\$ 2,399/US\$ (Graph 4).

Graph 4
Market Exchange Rate: 2005-2007 (COP\$ per US\$)



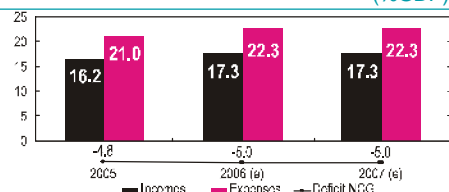
(e) estimated.
Source: Banco de la República.

Fiscal Policy

According to the Fiscal Policy Superior Council (Confis), between January and May, the Central National Government deficit was 2.3 of the GDP. Government's expenses reached 9.3% of the GDP (showing an increase of 17.5% compared to the previous year), while income grew 19.1% placed at 7% of the GDP (Graph 5).

According to the Fiscal Frame document¹, at a medium term, the government estimates that 2006 will close with a National Government deficit of about 1.5% of the GDP. Nevertheless, the positive behavior of the economy could positively impact the nation's revenues and lower deficit levels could be reached for the current year.

Graph 5
National Central Government Incomes and Expenses: 2005-2007 (%GDP)



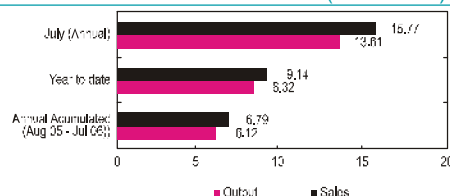
(e) estimated.
Source: Ministry of Finance.

Industrial Production Shows Outstanding Increase

According to the information given by the National Administrative Department of Statistics (DANE) Monthly Manufacturer Sample, industrial production, without coffee threshing, recorded an 8.32% increment during 2006 first semester and 13.61% for the last period July 05-July 06.

Sales between January and July 2006 increased by 9.14% while the annual variation was 15.77% (Graph 6).

Graph 6
Industry without Coffee Threshing: July 2006 (% variation)



Source: DANE.

Even though 43 of the 48 industrial types registered positive variations on their real production and 39 on their sales, some of the most outstanding sectors were:

- In terms of production: non-metallic mineral products (31.98%), refineries, sugar refineries and sugar mills (27.68%), milling products and starches (12.30%), basic precious metal and non ferrous metals (42.60%), other chemical products (5.34%) and plastic products (9.65%).

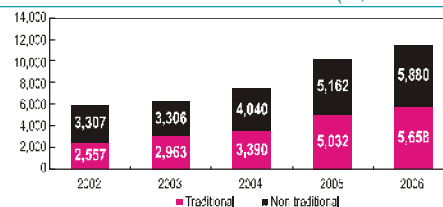
- In terms of sales: non-metallic mineral products (23.47%), milling products and starches (15.27%), refineries, sugar refineries and sugar mills (20.64%), plastic products (12.91%) and basic chemical substances, synthetic and artificial fibers (12.13%).

Another survey conducted by the National Association of Industrialists (ANDI), carried out in several companies from different sectors of the economy, reveals that 70% of those surveyed qualifies its company's situation as good in front of a historic average of 49%. The favorable industrial scene also becomes evident through the amount of orders placed classified as high or normal by the 91.3% of the industrial production. Such indicator highly surpasses the historical level of 70.9%. Inventories also reflect the good industrial behavior since these are considered normal or low by the 73.2% of the industrial production.

Trade Balance

DANE's Official figures corresponding to June, indicate a 13.2% exports rise from US\$ 10,194 million to US\$ 11,537 million and one of 13.9% in non traditional exports of US\$ 5,880 million compared to US\$ 5,162 million in 2005 (Graph 7).

Graph 7
Exports: January-June 2002-2006 (US\$ millions)



Source: DANE.

The main increments were in the Gold sector, going from US\$ 283.4 million to US\$ 420.4 million representing a 48.3% growth, metallurgy (42.2%) with exports ranged in US\$ 487.7 million to China, South Korea and The United States, household goods (29.7%) with important sales as hygienic goods, napkins and paper tissues to the Andean community countries that demand Colombian products thanks to their well recognized excellent quality and the meat market, pulled by an increase in beef cuts exports, which grew US\$ 24.5 million (376%) after going from US\$ 6.5 million in January-June 2005 to US\$ 31 million in 2006 same period.

By countries, the main destinations of Colombian exports were The United States (42%), Venezuela (10%), Ecuador (5%), Peru (3%) and Dominican Republic (3%).

Venezuela, The United States and Switzerland were the countries that up to June 2006, presented the biggest increment in non-traditional exports recording positive variations of US\$ 179.1 million (19%), US\$ 124.5 million (8.2%) and US\$ 144.4 million (184.6%) correspondingly.

It is projected for non-traditional exports to end up around US\$ 12,500 million, a similar figure is expected for traditional exports. With this, it is expected for total exports to overpass US\$ 25,000 million.

Imports in the year's accrue by July, increased by 22.1% going from US\$ 11,641.4 million CIF² to US\$ 14,213.3 million CIF. Such increase was mainly due to major purchases of vehicle and parts with a 48% growth, boilers, machinery and parts with a 21.5% appliances and electrical, recording or image material with a 21.6% fuels and mineral oils and its derivatives with an 74.9% increment, and optical, photography and film making devices with a 43.4%

¹ Document elaborated by the Treasury Office of Colombia presenting an structural analysis of the evolution, perspectives and goals of the public finances. Taken from www.minhacienda.gov.co.

² Incoterms code meaning Cost, Insurance, Freight. Seller owns goods until they are loaded on vessel; selling price includes all costs so far plus cost of ocean marine insurance.

Table 1

COLOMBIA: Key Data

PROEXPORT

ITEM	Units	Latest data period	Data	Data one year before
Total Foreign Investment				
Direct	US\$ million	Jan. 06 - Jun. 06	2,448	2,551
Portfolio	US\$ million	Jan. 06 - Jun. 06	-1,500	-303
Demand and Unemployment				
GDP	% annual variation	Jan. 06 - Jun. 06	5.73	5.18
Production Rate (EMM)(*)	% annual variation of date	Jul. 06	8.32	4.31
Retail Sales	% annual variation of date	Jul. 06	9.14	4.32
Investment	% annual variation	Jan. 06 - Jun. 06	15.94	5.92
National Unemployment Rate	(%)	Jul. 06	11.43	11.98
13 Main Cities Unemployment Rate	(%)	Aug. 06	12.7	13.8
Prices and Interest Rates				
Consumer Price Index	% annual variation	Jan. 06 - Sept. 06	4.15	4.42
Producer Price Index	% annual variation	Jul. 06	4.4	2.06
Savings Interest Rate (90 days)	Monthly average (%)	Jun. 06	6.12	7.18
Lending Interest Rate	Monthly average (%)	Jun. 06	12.09	14.5
Exchange Rate				
Nominal Exchange Rate	Peso/dollar US\$ average	Sept. 06	2,398.88	2,294.52
Nominal Devaluation	% annual variation	Oct. 06	4.00	-11.09
Real Exchange Rate (ITCR)	1994 = 100	Sept. 06	111.04	106.01
Real Devaluation	% annual variation	Jan. 06 - Jun. 06	-0.1	-11.3
Peso/Yen Monetary Units	Peso/Yen	Sept. 06	21.07	20.7
Peso/Euro Monetary Units	Peso/Euro	Sept. 06	3,142.56	2,819.99
Trade				
Exports (FOB)	US\$ million	Jan. 06 - Jun. 06	11,537.3	10,193.9
Traditional Exports	US\$ million	Jan. 06 - Jun. 06	5,657.8	5.03
Non-traditional Exports	US\$ million	Jan. 06 - Jun. 06	5,879.5	5,161.9
Imports (CIF)	US\$ million	Jan. 06 - Jul. 06	14,213.3	11,641.4
Other				
M1	% annual variation	Jan. 06	23.4	21.8
M3	% annual variation	Jan. 06	16.3	19.3
Net International Reserves	US\$ million	Jun. 06	14,461.2	13,725.10
Colombia General Stock				
Exchange Index	July 2001=1000	Oct. 06	9,531.6	6,554.8
Fiscal Deficit (Central Government) (**)	% of GDP	Dec. 05	5.00	4.8
Fiscal Deficit (Non-Financial Public Sector)(**)	% of GDP	Dec. 05	0.3	1.6

(*) monthly manufacturing survey.

(**) projected.

Source: Banco de la República, DANE.

Table 2

Main Latin American economic indicators

	Colombia		Argentina	Brasil	Chile	Ecuador	Mexico	Peru	Venezuela
	2006(*)	2005							
Real GDP Growth (%)	5.0	5.23	9.2	2.3	6.3	4.7	3.0	6.7	9.3
Population (millions)	41.6	41.2	39.3	184.2	15.7	13.2	106.2	27.9	26.5
GDP (US\$ billions)	128.7	122.6	184.4	854.6	115.3	36.5	768.7	78.4	138.1
GDP per cápita (US\$)	2,825	2,663	4,641	4,640	7,349	2,761	7,444	2,881	5,261
GDP per cápita Growth (%)	4.0	3.56	8.1	0.9	5.0	3.0	2.96	6.45	9.33
Consumer Prices Variation (%)	4.5	4.8	12.3	5.7	3.7	4.4	3.3	1.5	14.4
Fiscal Balance (% del GDP)	-1.5	0.0	1.6	-3.3	4.8	0.7	-0.1	-0.4	1.7
Total External Debt / GDP (%)	39.5	39.3	62.2	21.9	39.0	48.5	18.3	36.5	33.1
Exchange Rate (LC/US\$) average	2,415	2,319.3	3.03	2.34	5.14	25,000	10.63	3.43	2,150
Nominal Interest Rate (savings)	7.2	6.3	4.7	18.0	4.8	-	8.0	4.7	11.2
Current Account (% of GDP)	-1.2	-1.6	1.2	1.7	0.6	-1.0	-0.6	1.3	18.2
Foreign Direct Investment (US\$ millions)	4,917	10,374.7	4,700	15,200	7,200	1,800	17,800	2,500	3,000
Foreign Direct Investment (% of GDP)	3.8	8.3	2.5	1.9	6.3	5.0	2.3	3.2	2.1

(*) projected.

Source: Economist Intelligence Unit, Latin Focus Conoensus Forecast, Banco de la República, Proexport.

With the clear objective of motivating a greater flow of foreign investment in Colombia, the Colombian government appointed Proexport to be responsible for all the promotional activities in this field; an activity previously performed by Coinvertir.

Therefore, since January of 2005 Proexport took charge of all the support offered to potential investors in Colombia, as well as to established investors. In the same way, Proexport will identify investment obstacles with the purpose of improving them. These efforts aim to promote and facilitate investment opportunities within the country.

In order to achieve this goal, Proexport created the Investment Division. This Division will offer the following services:

- Promote Colombia as an ideal investment country
- Provide up-to-date information relevant to the investment process
- Provide all the necessary assistance to potential investors
- Provide investor aftercare
- Work in the improvement of the Country's investment climate.

Publications

- *Surprising Colombia: Guía de Inversión Extranjera*
- *Colombia: Panorama y Potencial de Inversión*
- *Directorio de Servicios de Consultoría Legal*
- *Marco Legal*

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