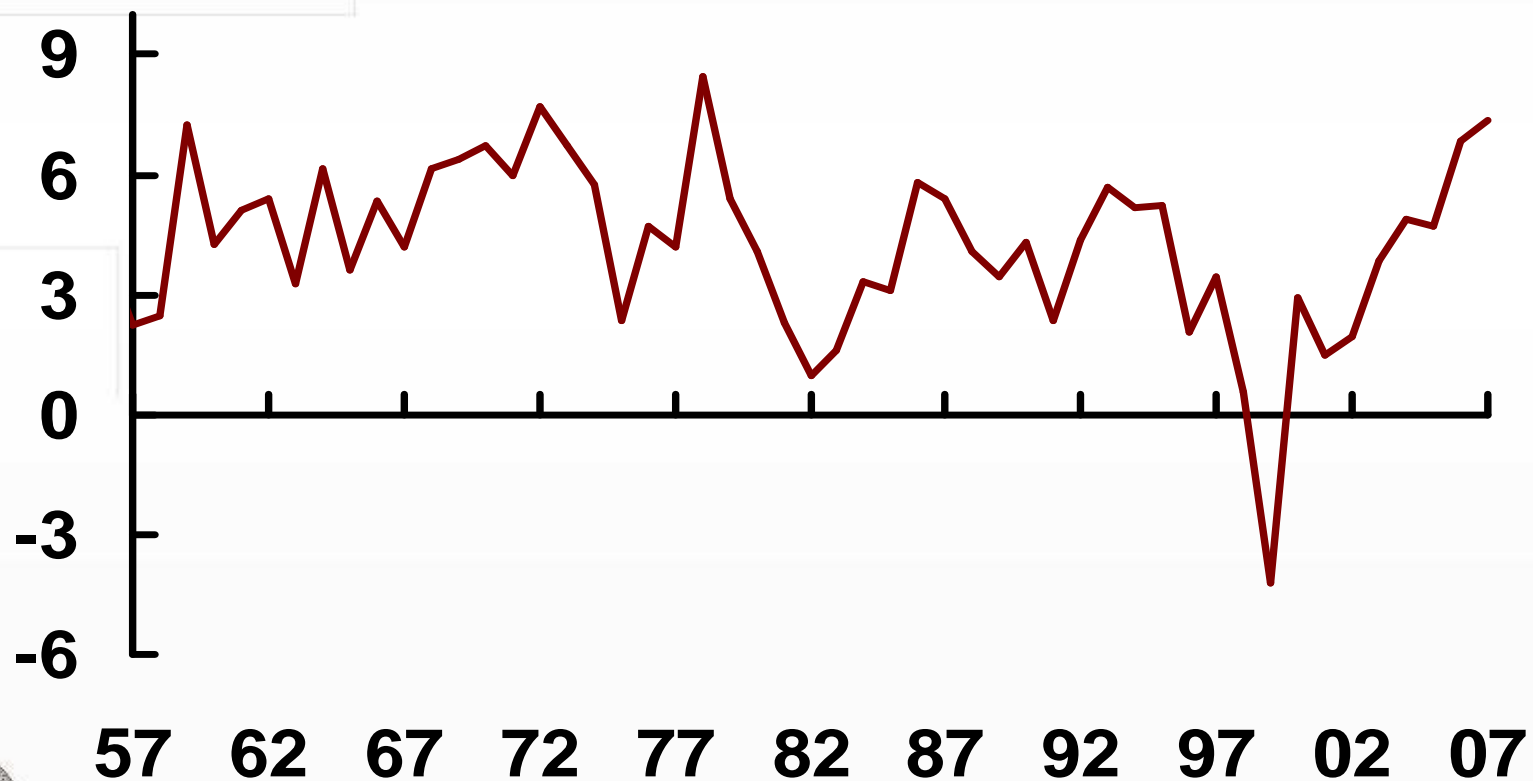


GDP growth forecast in 2007 is slightly above 7%, similar to 2006 figure (6.8%), the highest in the last 30 years. Projected income per capita 2008 US \$3,800



Risks for growth sustainability

- 1. Inflation as a result of a demand excess over potential GDP.**
- 2. Excessive and lasting appreciation of the peso.**
- 3. External shocks, contagion and financial panic.**
- 4. Financial instability.**



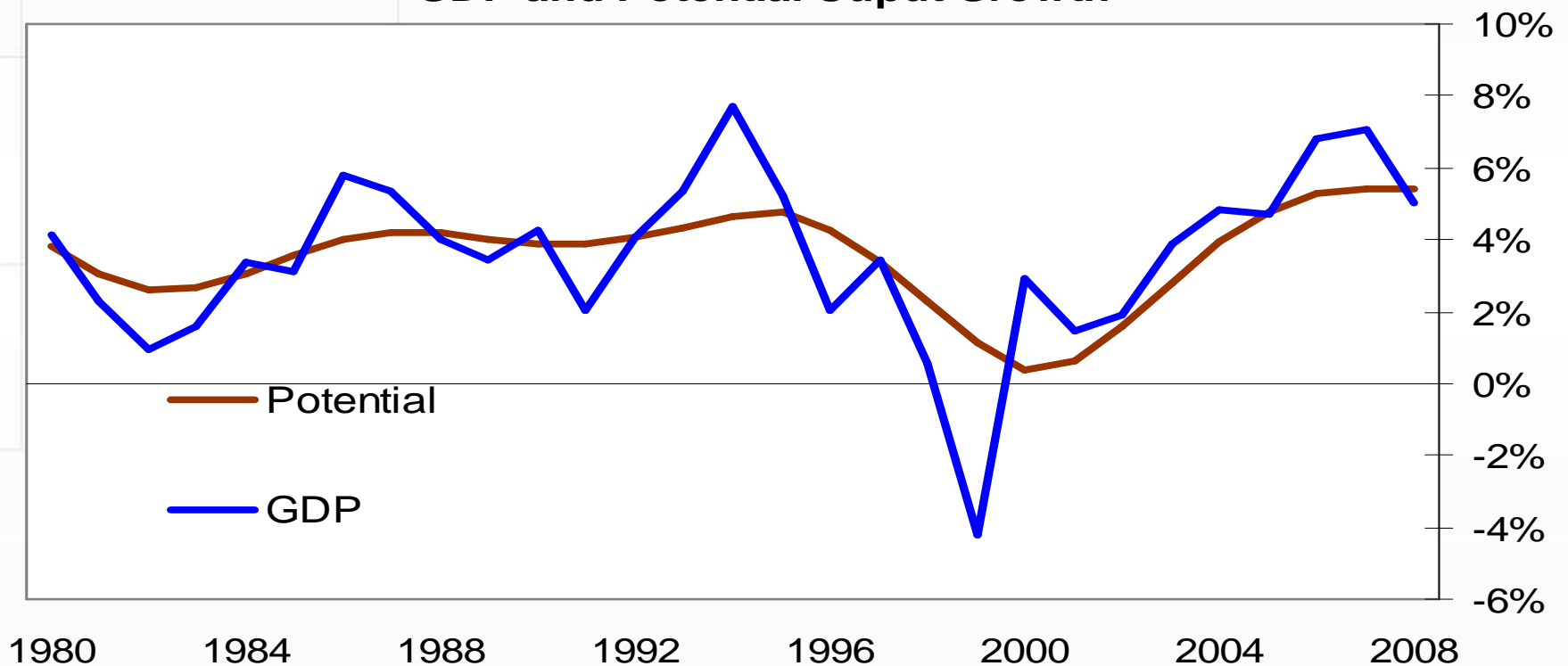
Inflation targeting in Colombia

- **Quantitative inflation targets:**
 - **2007: 3.5%-4.5% (mid point of 4% for legal aspects).**
 - **2008: 3.5%-4.5% (mid point of 4% for legal aspects).**
 - **Long run: 2%-4%**
- **Instruments:**
 - **Interest rates of REPO operations (currently in 9.75%).**
 - **Occasional: FX intervention, reserve requirements, capital controls.**

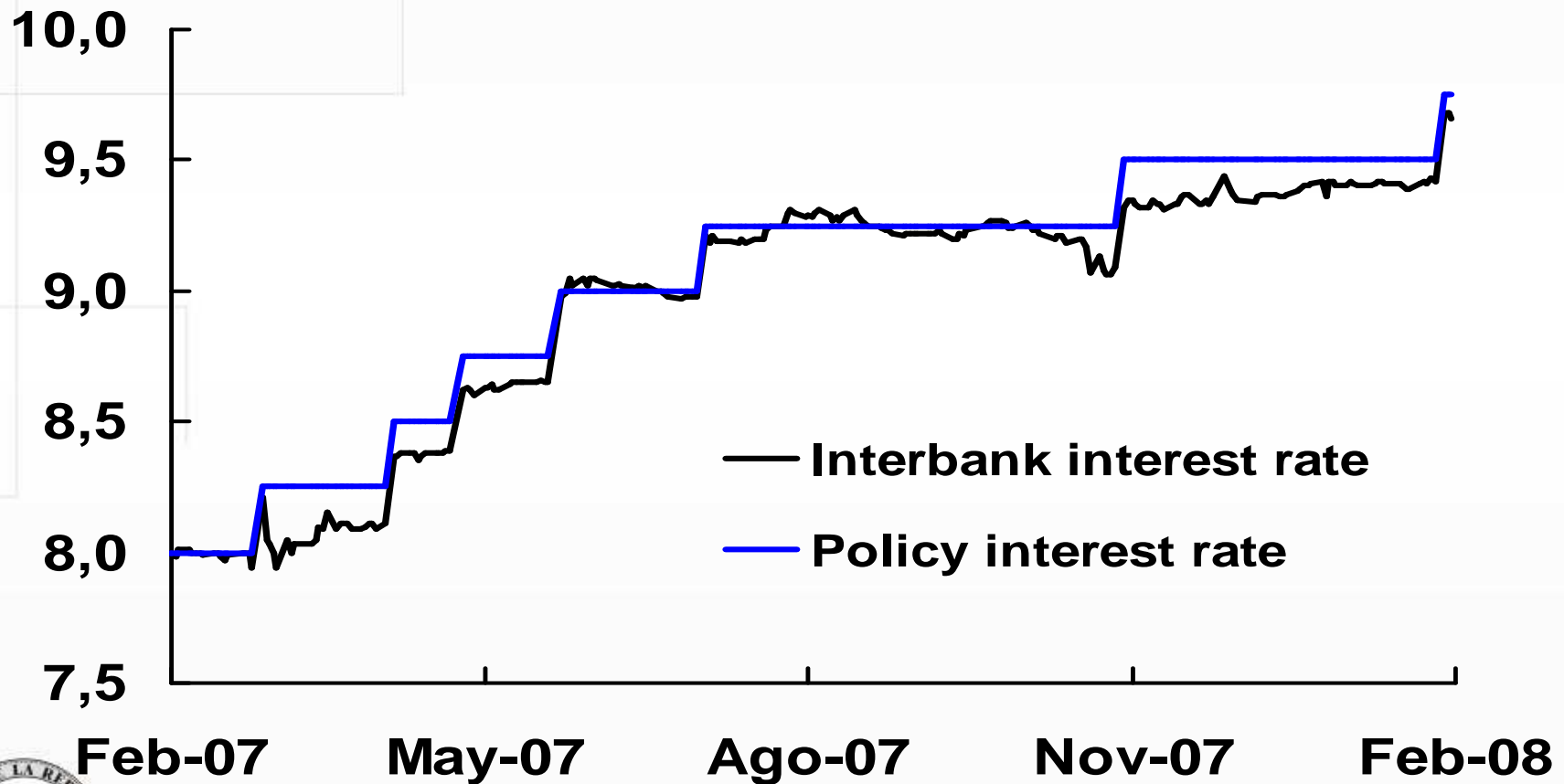


Real GDP has been growing at a greater pace than the potential output, as a result of a higher domestic demand

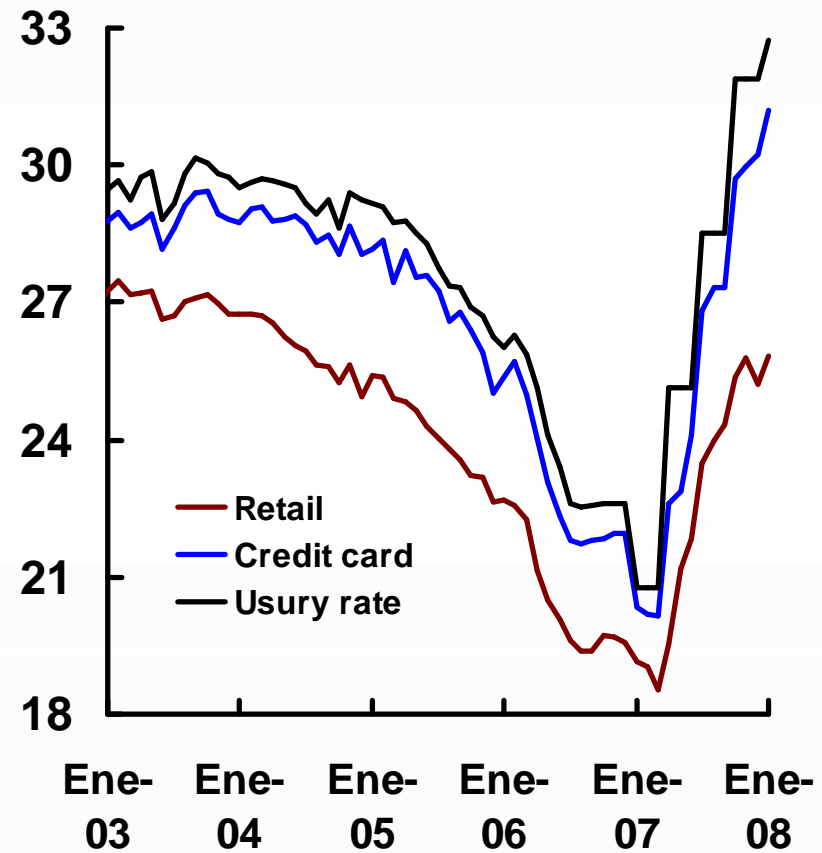
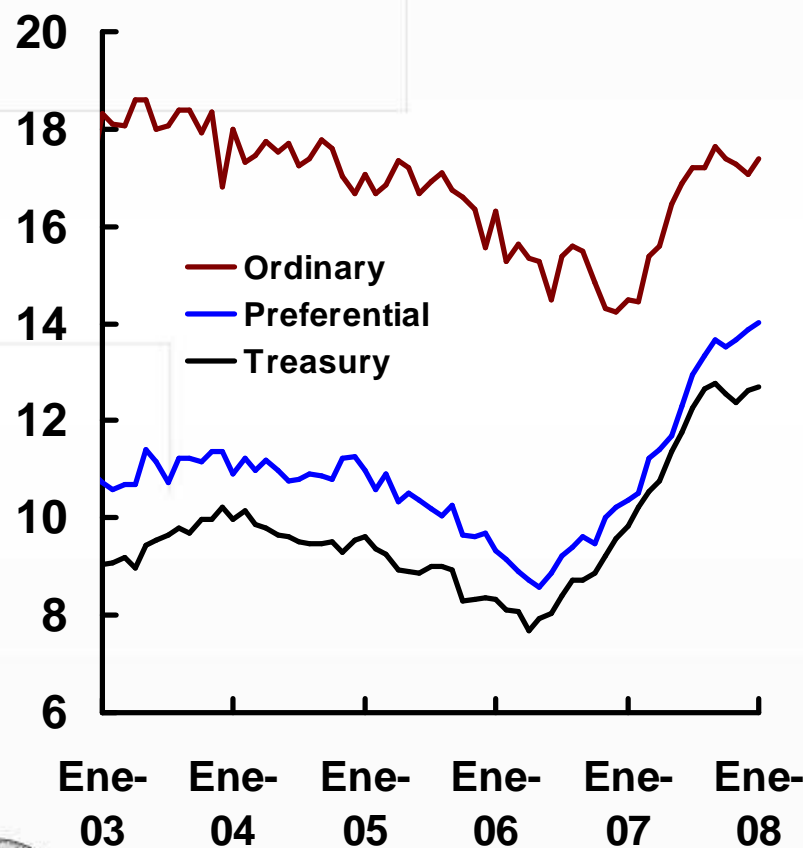
GDP and Potential Output Growth



For this reason, the Board of Directors decided to raise interest rates between April 2006 and February 2008 from 6% to 9.75% in 15 movements of 25 bp each

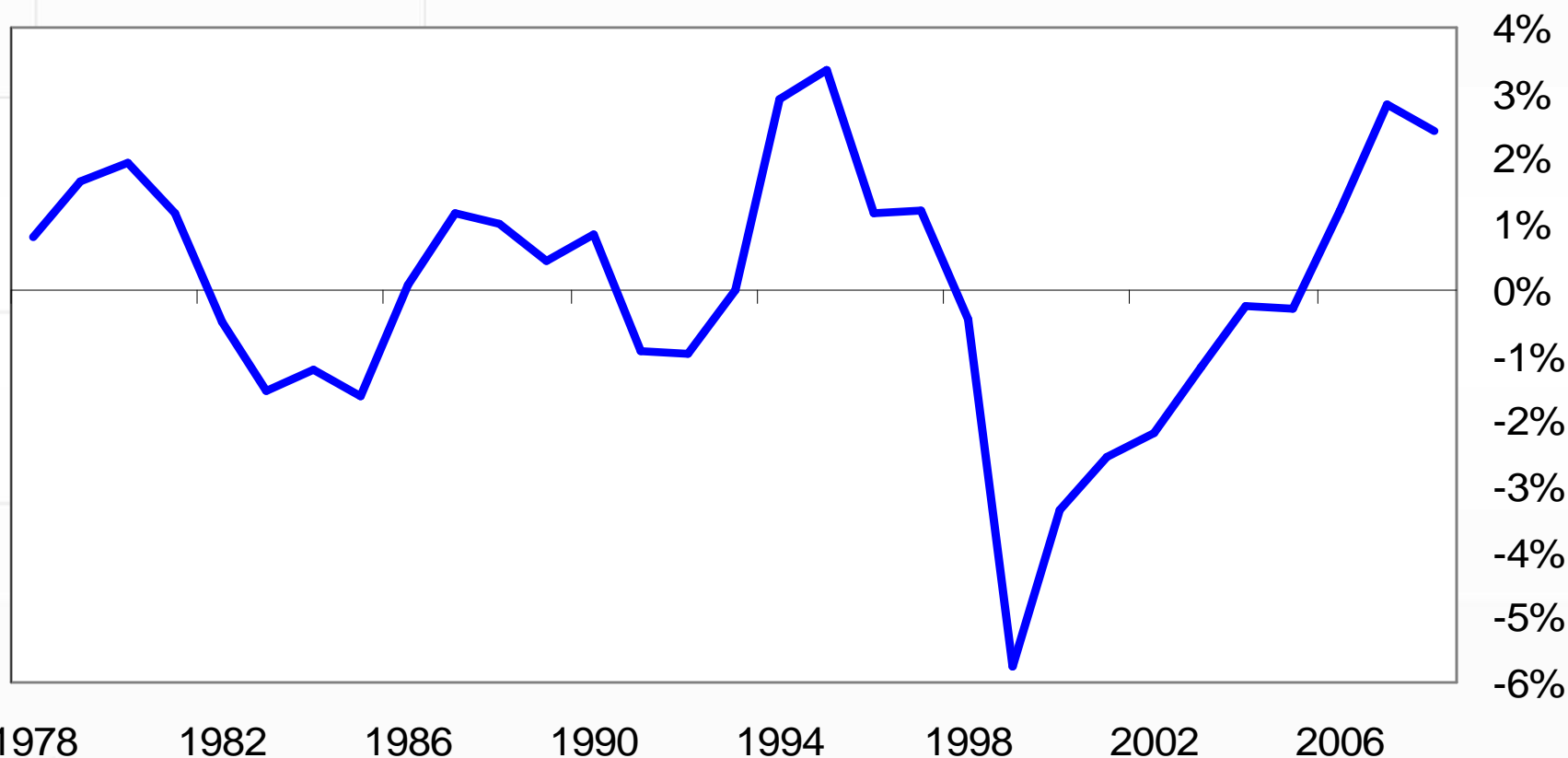


As a result, lending interest rates have increased and will raise further because of monetary policy lags (between 18 and 24 months)



According to the models, the output gap would start to close as a consequence of the interest rate rise

Ouput Gap



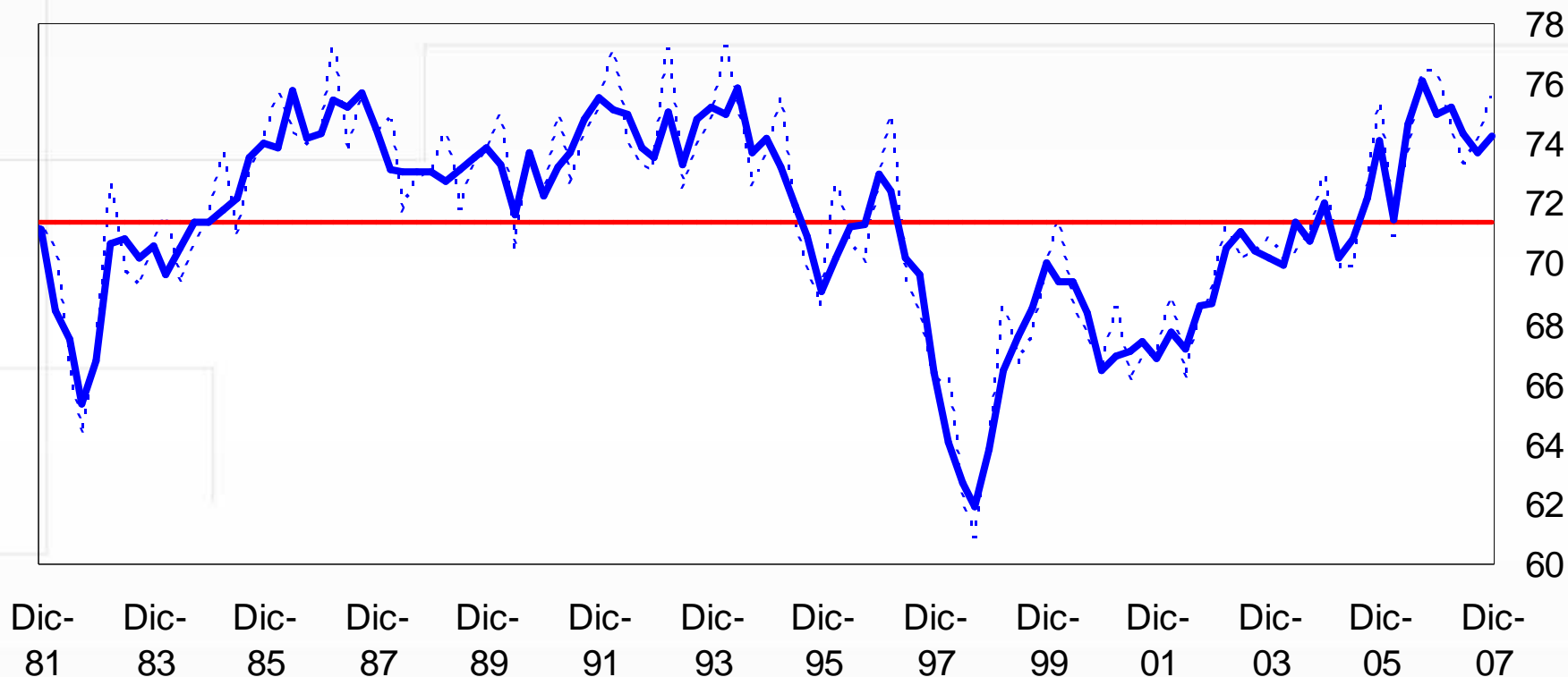
In fact, in 2008 the Colombian economy would slow down to 5% (assuming US growth of 0.8% and military equipment purchases of US\$1,6 billion)

	2008
GDP	5.2
Households consumption	5.8
Public expenditure	4.0
Total investment	17.4
Private investment	19.3
Public investment	10.0
Stock change	10.0
Exports	3.7
Imports	15.9

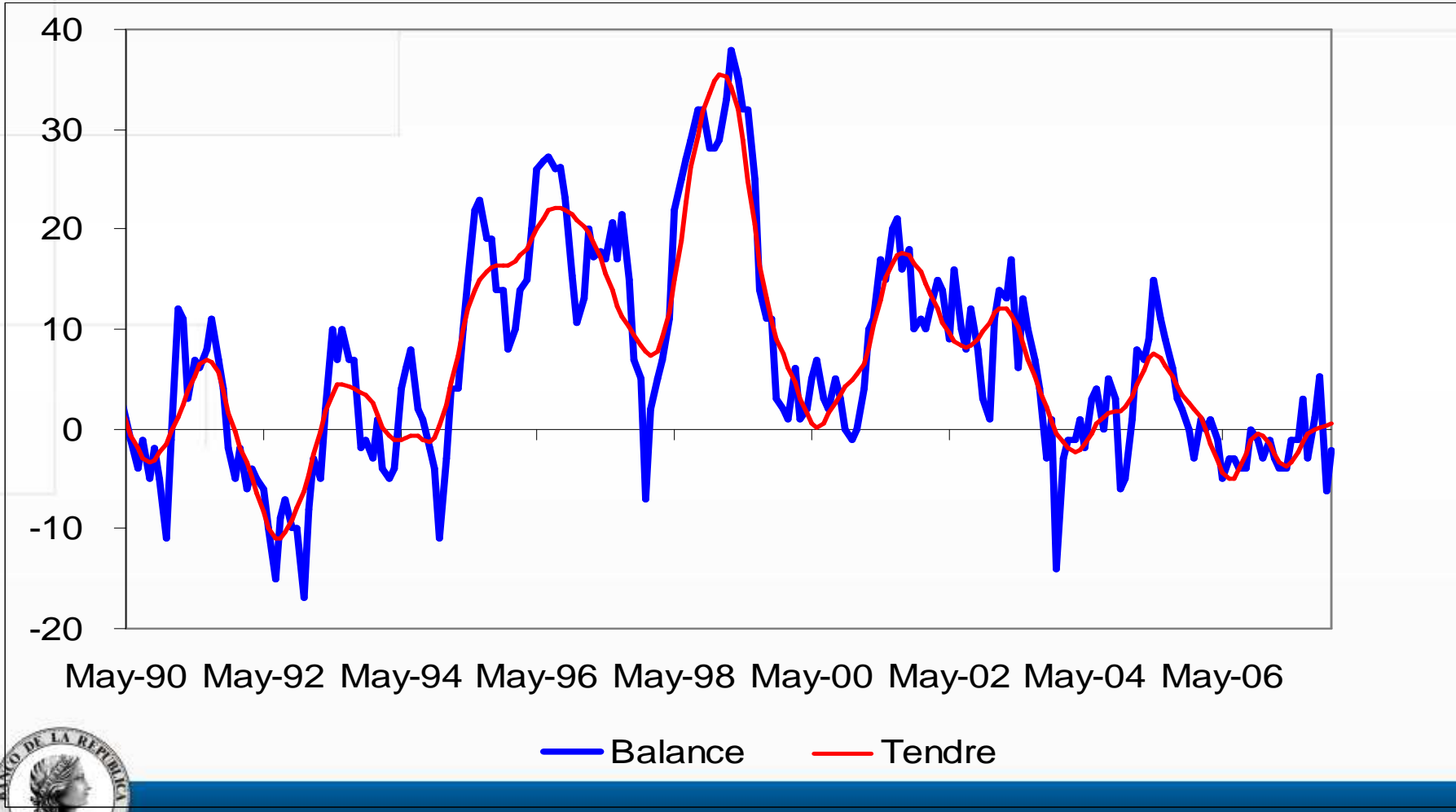


Which in turn is consistent with the reduction of productive capacity use

Capacity Utilization

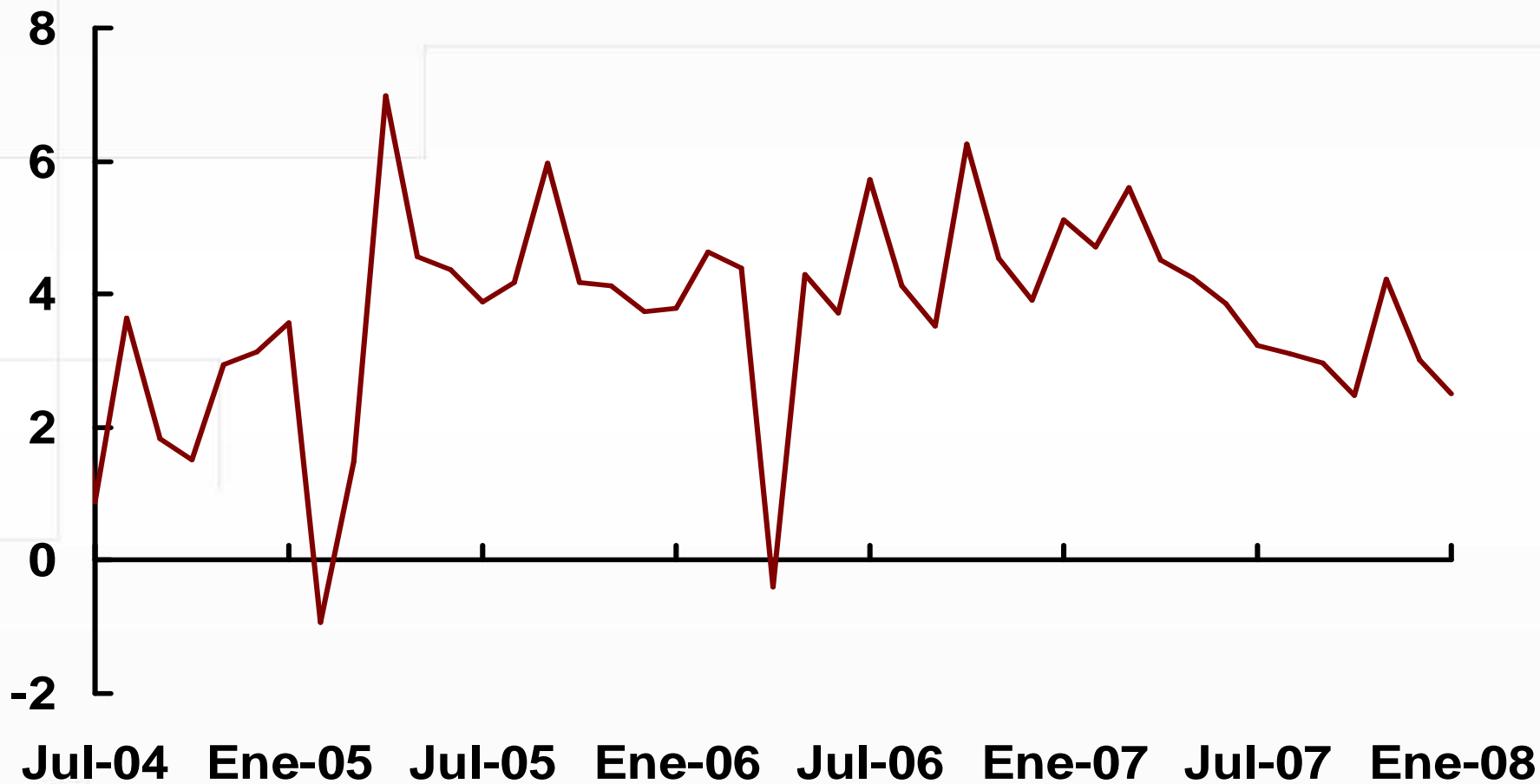


... with the decrease in the industry confidence index, which confirms its deceleration since its maximum in August 2006

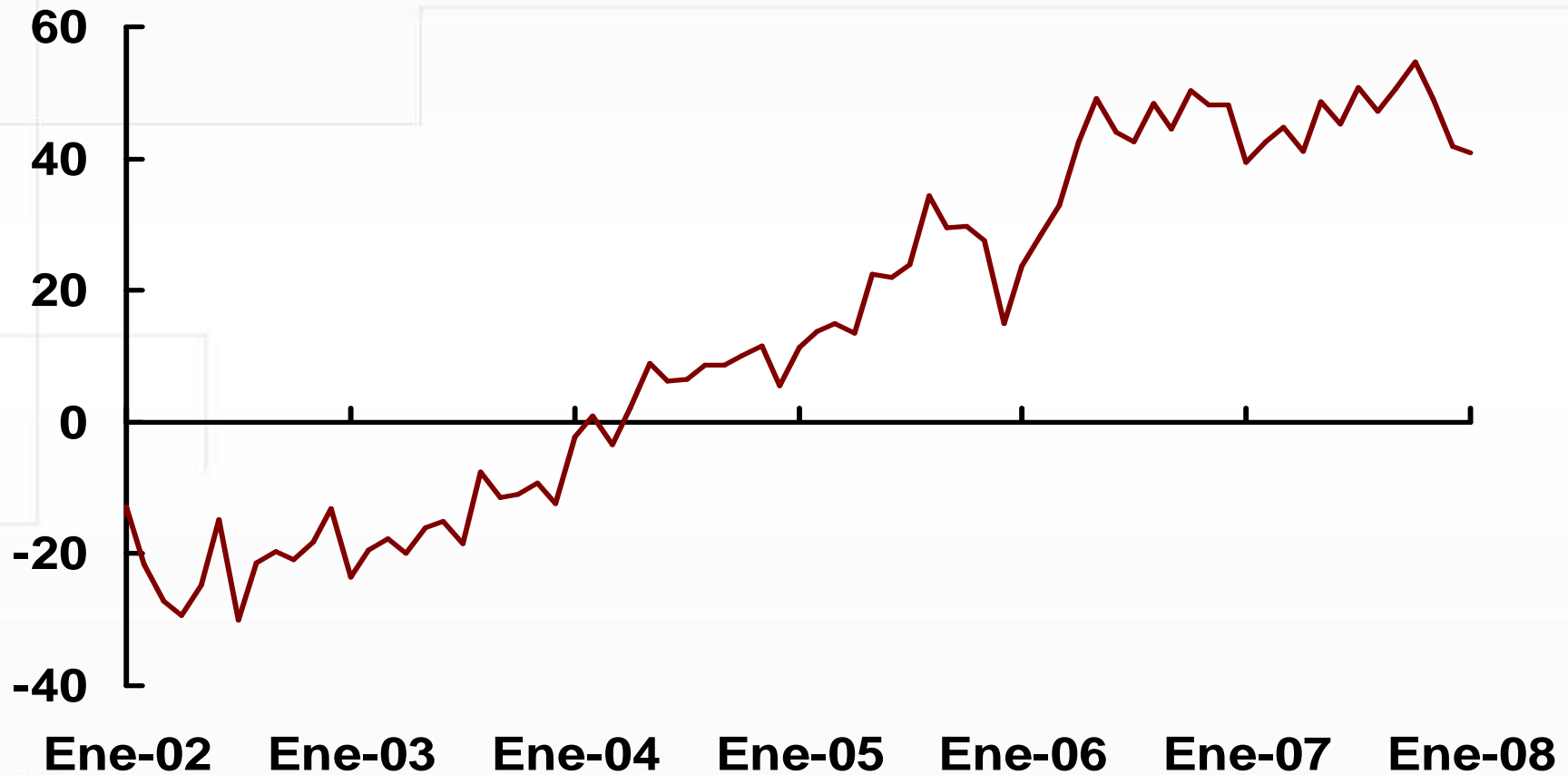


— Balance — Tendre

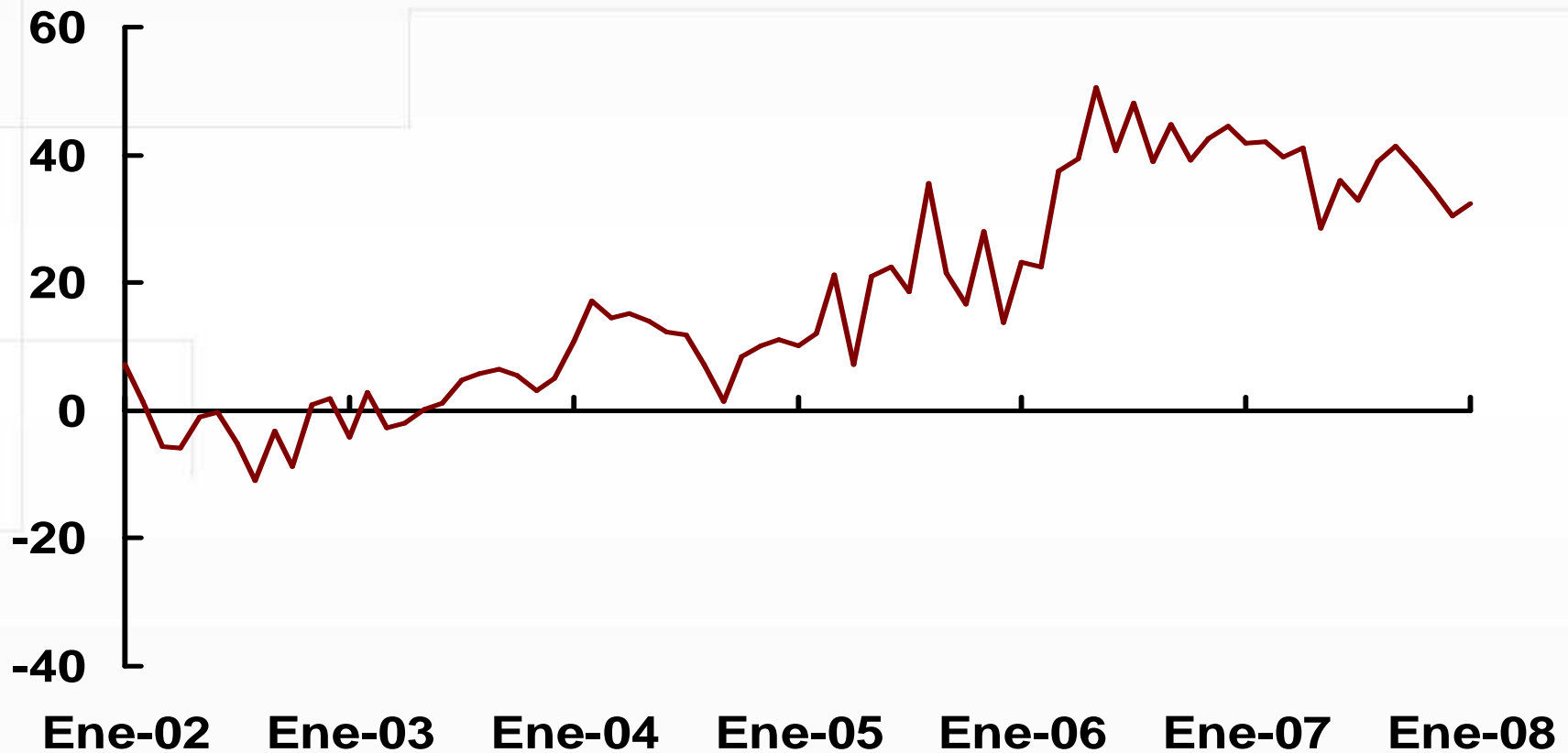
... with the demand for energy slowdown, which is an indicator that historically has coincided with GDP trend



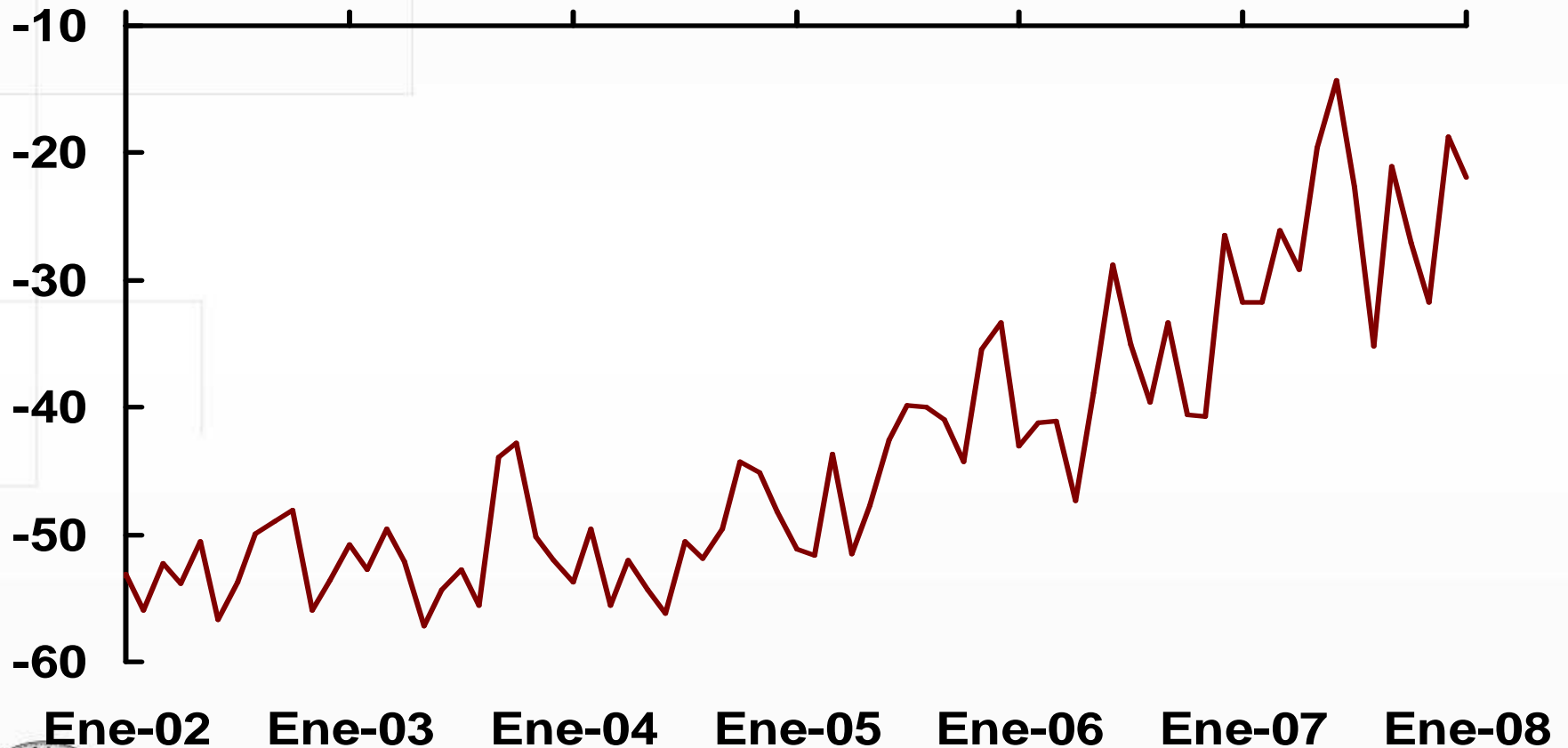
Besides, during the last two months the durable goods consumption indicator has begun to decrease



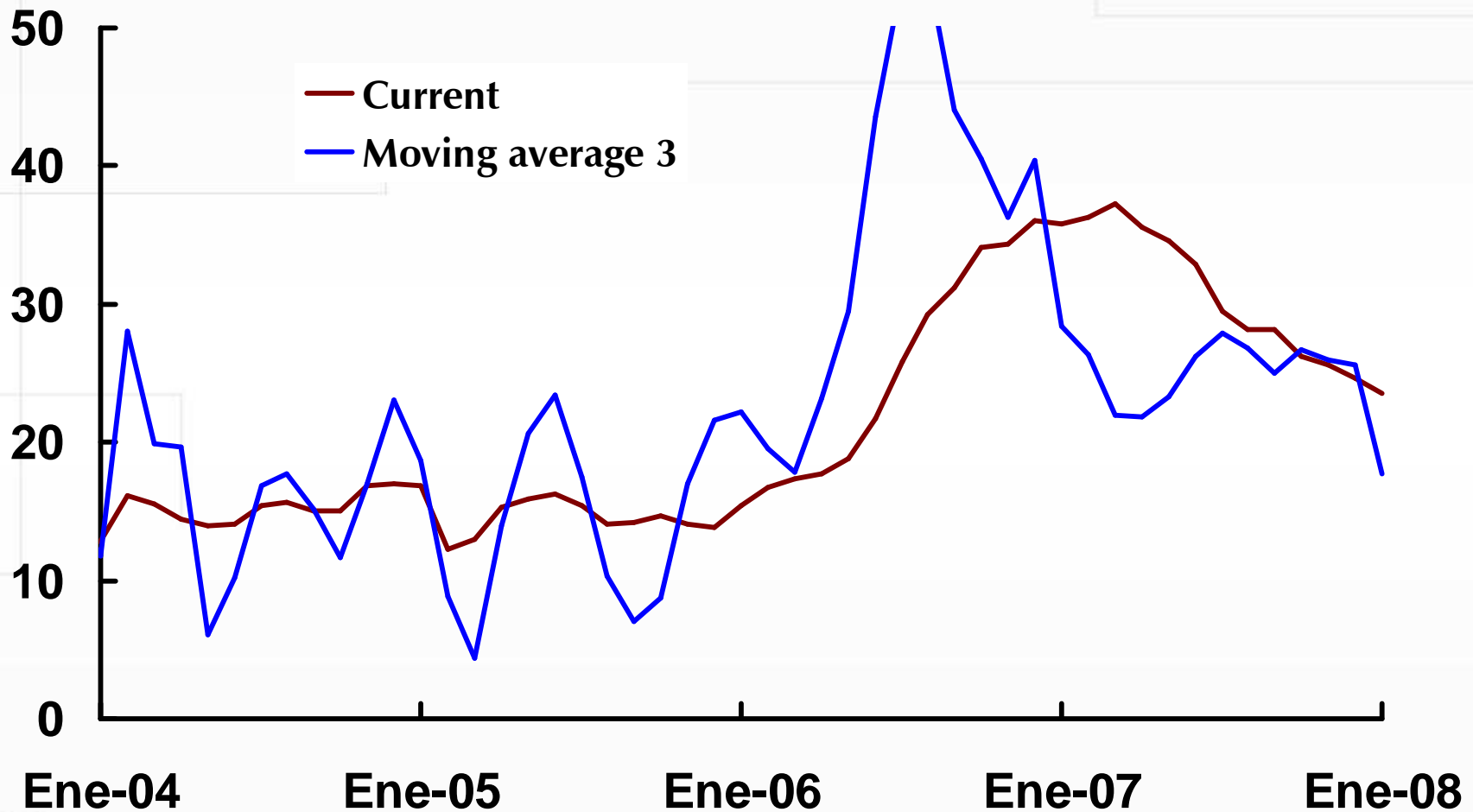
The same has been occurring with real state acquisition, that is decelerating for the third month in a row



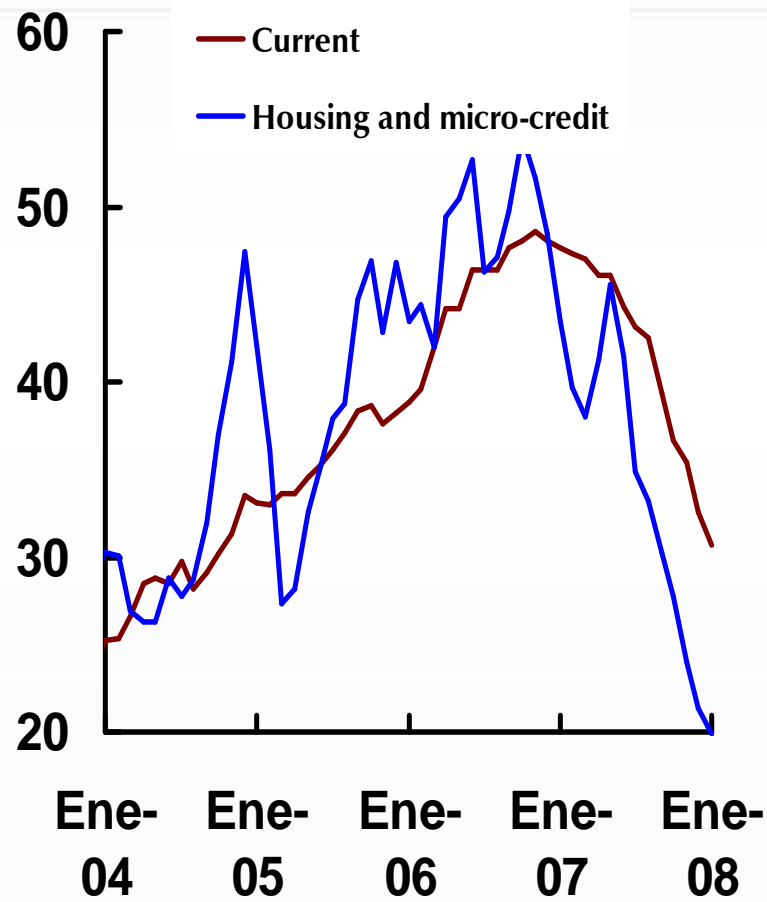
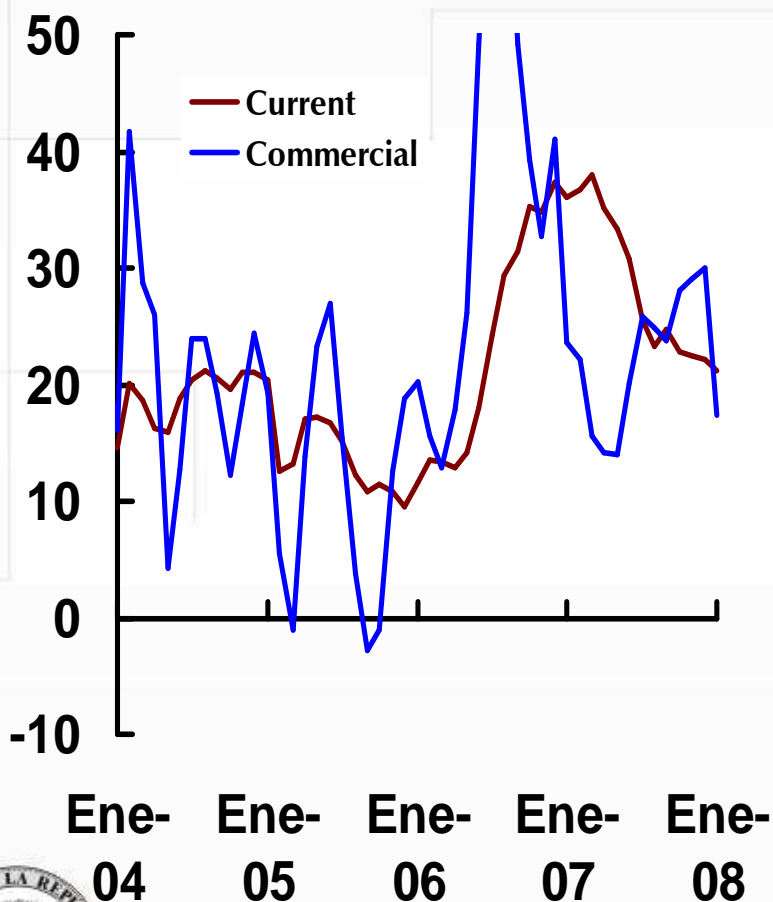
Since May 2007, the households demand for credit started a descendent trend



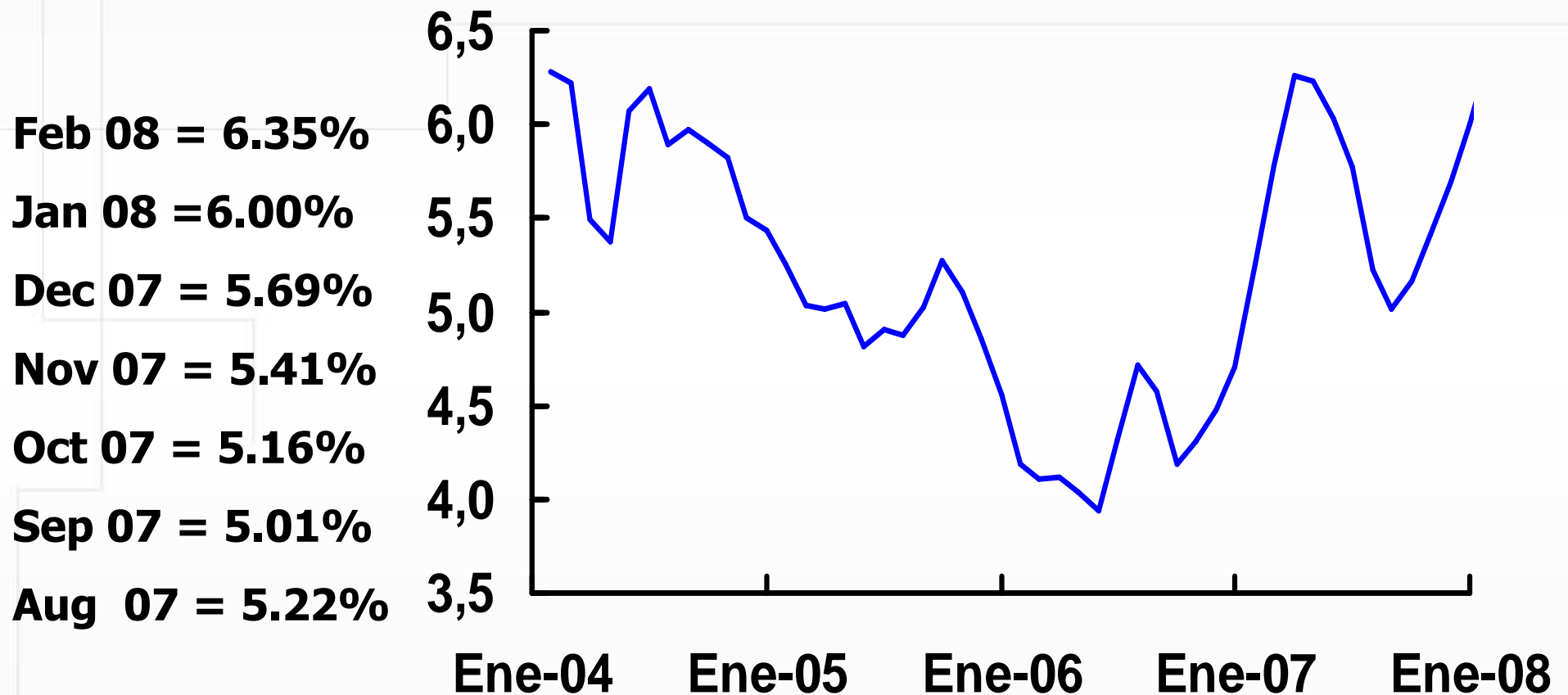
And loan portfolio continues descending at an accelerate pace



In particular, consumption and commercial loan portfolios have been decelerating for the last 8 months

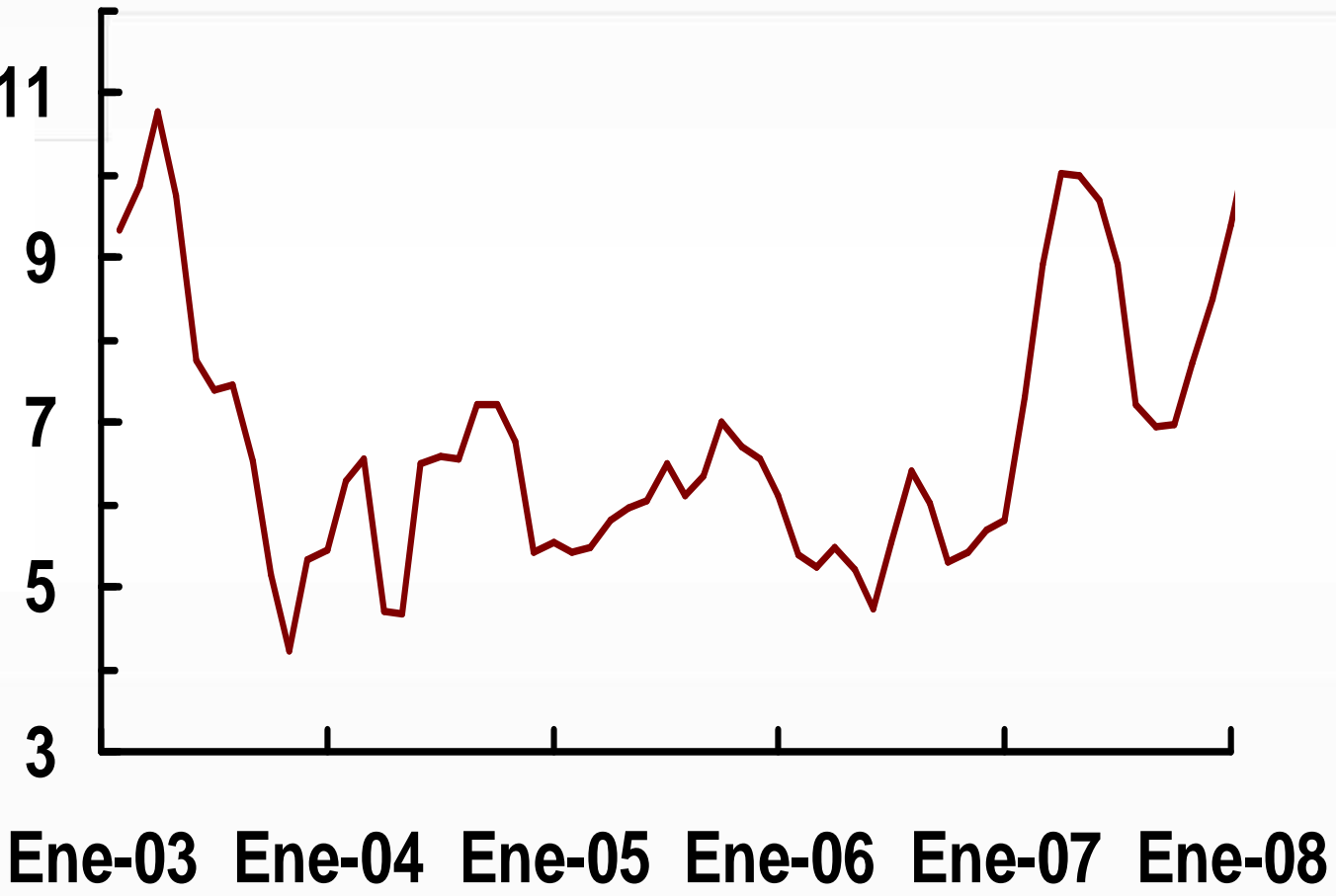


However, headline inflation increased still further in February. Although core inflation still within target range

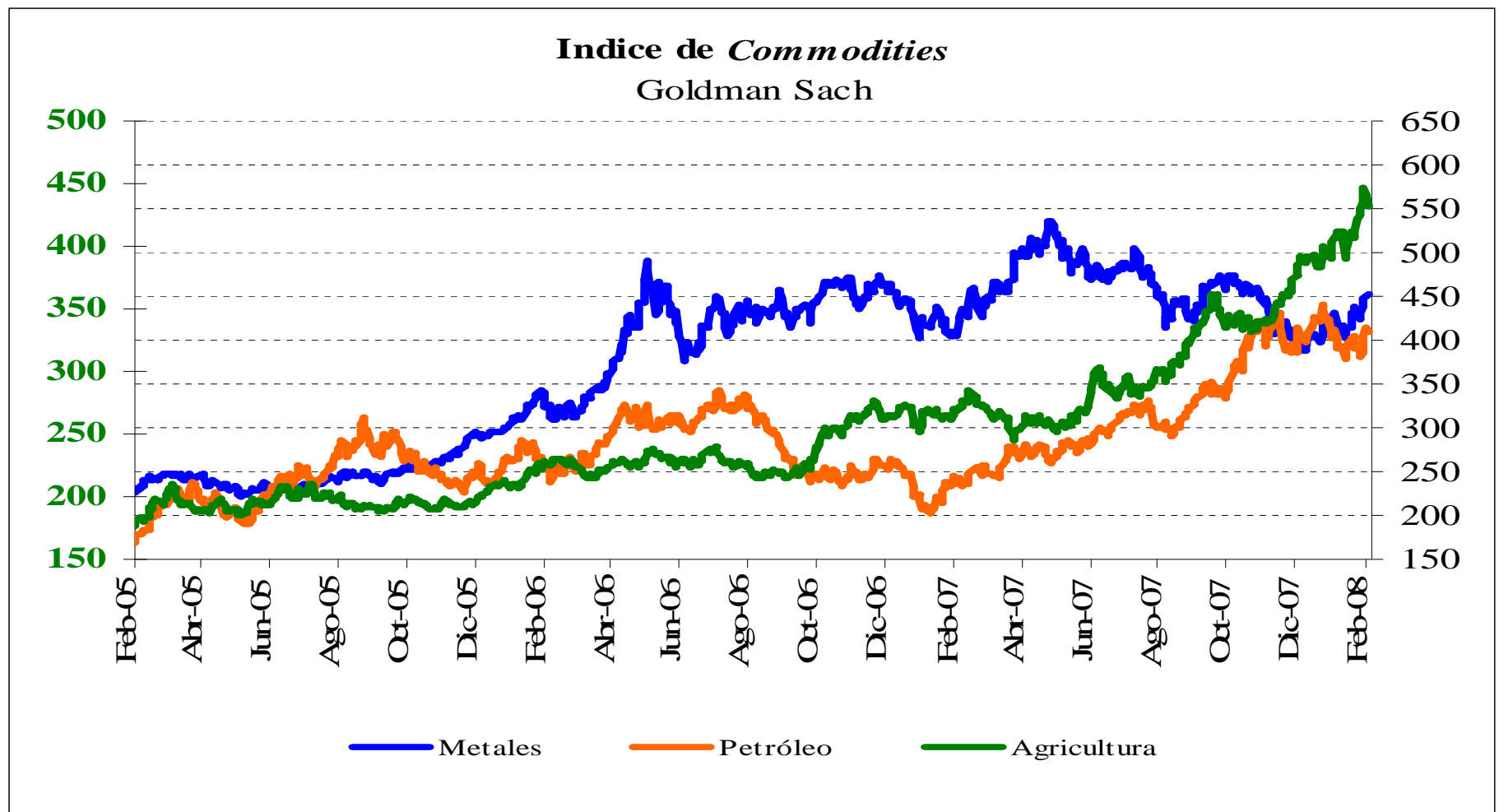


... mainly explained by food prices, in particular sources of animal protein: income-elasticity of demand in EM above one

Feb 08 = 10.16%
Jan 08 = 9.39%
Dec 07 = 8.51%
Nov 07 = 7.72%
Oct 07 = 6.98%



Oil prices sustain food prices, in particular raw materials for animal protein and biofuels (20% of US corn and 60% of EU oilseeds for biofuels)



Commodities prices are still high

Precios Internacionales de algunos productos básicos

	1999	2002	2003	2004	2005	2006	2007	2008 enero
Café (Ex-Dock) (dólares / libra)	1,34	0,66	0,70	1,13	1,13	1,30	1,42	1,43
Petróleo WTI (dólares / barril)	25,60	31,20	32,52	43,45	61,04	61,05	96,00	92,98
Carbón (dólares / tonelada)	22,38	27,50	37,00	62,00	57,50	43,00	55,50	59,38
Níquel (dólares / tonelada)	6002,5	6783,3	9630,3	13821,0	14777,8	24125,6	37135,8	37135,8
Oro (dólares / onza troy)	288,00	348,05	415,45	438,45	517,00	636,70	833,92	890,85

1/ Promedio calculado con información diaria a 31 de enero de 2008.

Fuente: Bloomberg, World Economic Outlook.



Exports to US are decreasing. What will happen with Venezuela? Exports to Venezuela increased 93% in 2007, up to US \$5.210 (17.4% of total and half of value added exports)

	Crecimiento real	Exportaciones de Colombia a Venezuela	
		Mill. de USD	Crecimiento %
2002	-8,9	1.123	-35,4
2003	-7,7	696	-38,0
2004	17,9	1.623	133,2
2005	9,3	2.098	29,2
2006	10,3	2.702	28,8
2007 (proy)	8,2	4.536	67,9

proy: Proyección.

Fuente: WEO, Datastream, DANE, cálculos del Banco de la República.



Current account deficit would increase from 3.8% of GDP in 2007 to 5.6% in 2008

(Millions of dollars)	Escenario Enero 2008			Escenario Octubre 2007	
	2006 (pre)	2007 (proy)	2008 (proy)	2007 (proy)	2008 (proy)
CURRENT ACCOUNT	-3.057	-6.509	-11.575	-6.703	-9.474
% of GDP	-2,2	-3,8	-5,6	-3,9	-5,0
A. 1. Goods	322	-2.115	-6.454	-2.654	-5.145
a. General Trade	-47	-2.256	-6.467	-2.788	-5.276
i. Exports	23.930	28.104	33.197	27.537	30.502
Traditional	11.810	13.460	16.830	13.177	14.411
Non-traditional	12.120	14.644	16.366	14.360	16.091
ii FOB Imports	23.976	30.360	39.664	30.324	35.778
b. Special operations of international trade	368	142	13	134	131
2. Non-factor services	-2.120	-2.227	-2.890	-2.287	-2.710
B. Factor income	-6.003	-7.289	-8.041	-7.047	-7.364
C. Transfers	4.743	5.121	5.811	5.285	5.744
CAPITAL AND FINANCIAL ACCOUNT	2.789	10.992	12.066	11.064	9.955
A. Private Sector + Net FDI	3.223	9.336	8.068	8.338	7.605
B. Public Sector	-433	1.656	3.998	2.726	2.350
VARIATION IN GROSS INTERNATIONAL RESERVES	23	4.711	491	4.602	481



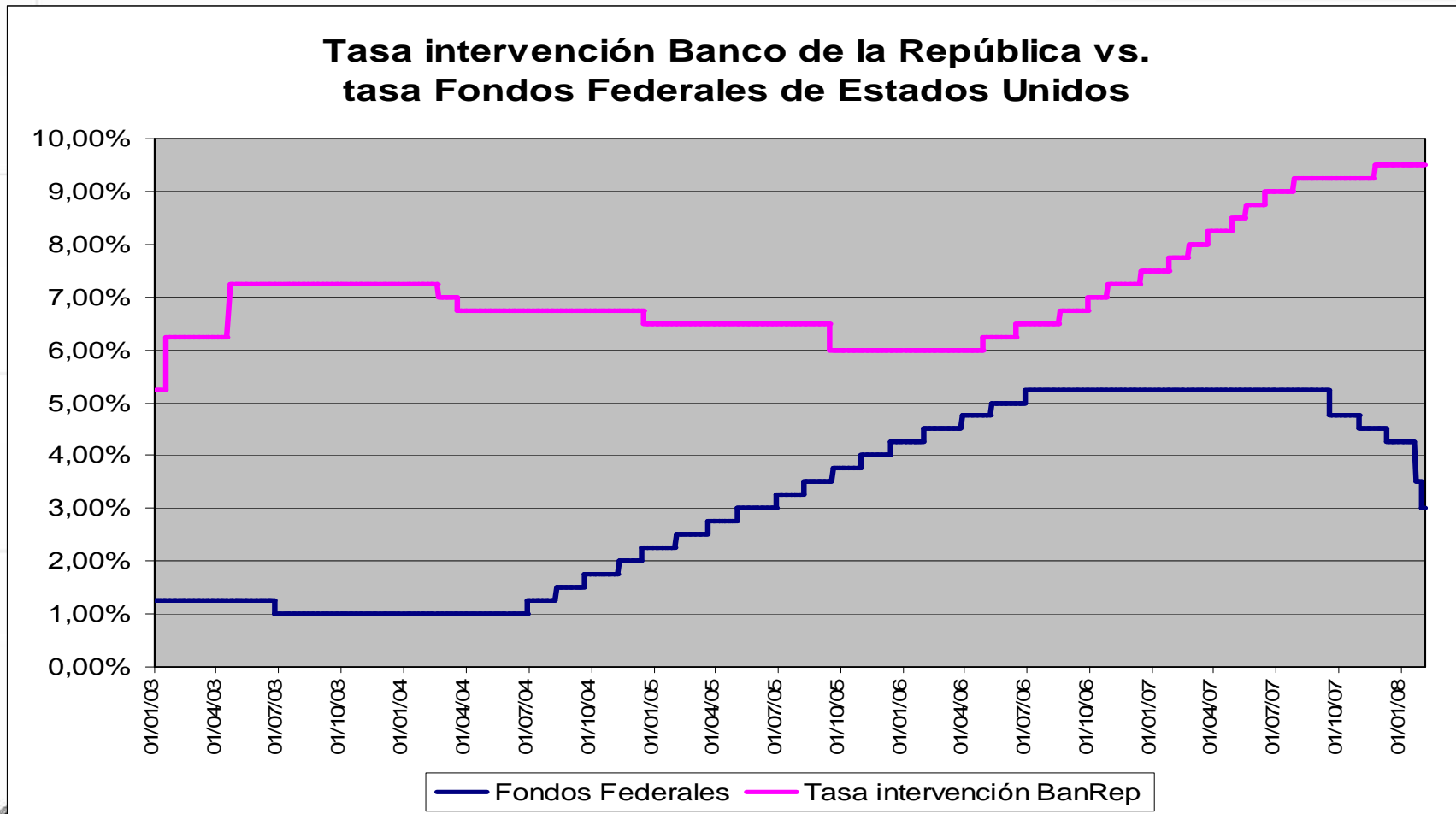
FDI: 2007=US \$8,600 m and 2008= US \$ 8,300 m

Since 2006, the BR has raised its interest rates in 63%, one of the highest increases in the world, whereas US has cut its interest rates in 43% and will cut them further

Country	(1) Nominal interest rate today	(2) Nominal interest rate one year ago	(1) / (2)	Inflation today	Real interest rate today
US	3,00	5,25	0,57	4,30	- 1,25
EU	4,00	3,50	1,14	3,20	0,78
Canada	4,00	4,25	0,94	2,20	1,76
Brazil	11,25	13,00	0,87	4,56	6,40
Mexico	7,50	7,00	1,07	3,70	3,66
Colombia	9,75	7,75	1,26	6,35	3,20
Chile	6,25	5,00	1,25	7,50	- 1,16
Perú	5,25	5,00	1,05	4,82	0,41



Since September 18, when the FED started to cut rates, interest rates differential increased from 4 to 6.75 nominal percentage points, that is 4.8 real points

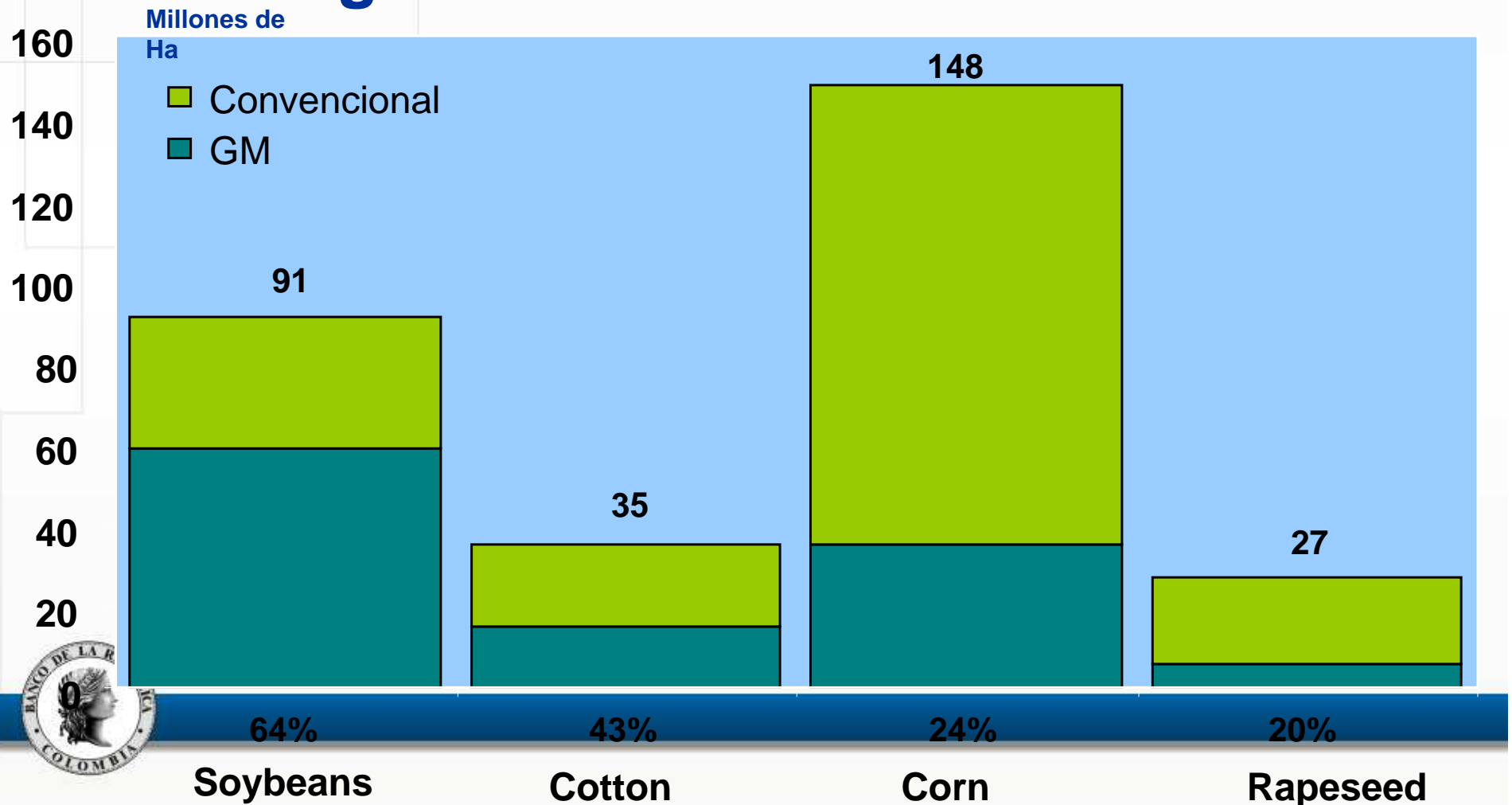


Balance of risks

- The source of food prices increase is not domestic but global demand (China, India, biofuels).
- “Coldness” of world economic activity, which in turn will moderate food consumption.
- Exogenous shocks (carry trade operations) vs. interest rates increases: currency appreciation.



Remember Club of Rome in 1970 or the response of technology: nuclear energy, hydrogen, hybrid motors and second green revolution with biotech seeds



The response of biotech 114 m of has (8% of world arable land). The leaders:

País	Has. mills	Crops
UE	57,7	Soybeans, corn, cotton. Biofuels: 10,4
Argentina	19,1	Soybeans, corn, cotton
Brasil	15,0	Soybeans, cotton, corn. Biodiesel: 0,75
Canada	7,0	Rapeseed, corn, soybeans. Biodiesel: 0,05
India	6,2	Cotton
China	3,8	Cotton, tomato, ¿rice?, oilseeds
Paraguay	2,6	Soybeans
SouthAfrica	1,8	Corn, soybenas, cotton
Colombia*	0,3	* 14. Cotton, corn

