

Colombia

Talking Points on the Economy

Fourth Quarter 2005



**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:

- 45 million inhabitants
- Third largest population in Latin America

Export platform: privileged access to more than 1 billion of consumers:

- Free Trade Agreements:
 - ▣ FTA in process with the United States
 - ▣ Andean Community, CAN (Colombia, Bolivia, Ecuador, Peru and Venezuela)
 - ▣ Group of Three, G-3 (Colombia, Mexico and Venezuela)
 - ▣ 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 continues to register good results in terms of economic growth. The latest available data shows that during the second quarter of 2005, the economy presented the highest annual growth of the past seven years, rising 5.3%. Investment, which increased more than 20%, was the internal demand component which mostly drove this growth; and exports continued its rising trend. As a result of this good general economic performance, the Central Bank reviewed its GDP growth forecast, placing it between 4.5% and 4.7%, a growth much more optimistic than the 4% set at the beginning of the year.

In addition, 2005 has become the year of foreign investment in Colombia. During this year the country has received the most important investments in the country since 1997, something that clearly demonstrates Colombia's growing competitiveness.

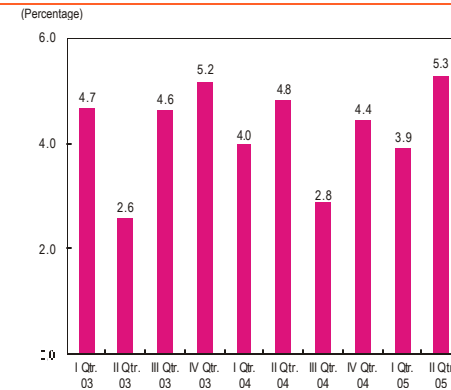
According to the results of the latest World Competitiveness Yearbook 2005, of the International Institute for Management Development, Colombia is also witnessing great political stability based on a national consensus regarding the general policy direction of the government.

GDP Growth

During the second quarter, the Colombian economy grew 5.3% with respect to the same quarter in 2004 and presented the highest quarterly annual growth since 1998. Investment pushed the growth on the demand side with an increment of 24.7% and thus completed eight consecutive quarters with two digit expansion rates and a continuing rising trend. Highlighted were investments in machinery and equipment with a 49.5% growth, and in transportation equipment with a 29.7% increase. The good dynamics of household consumption during the second

quarter also contributed to the economy's growth with a 5.3% increase. This figure was favored by the ample internal liquidity conditions reflected in real interest rates below its historical average levels, the better employment conditions and the permanent increase in the consumer's confidence indicators, among other positive factors.

Graph 1
Quarterly GDP Annual Growth
(2003 - 2005)



Source: National Statistics Department (DANE).

In the third quarter private demand (household consumption and investment without civil works) grew 9.9%, while public demand (public administration spending and civil works) registers a 7.7% growth. By sectors, growth was driven by the retail sector with a 10.2% increase, the financial sector with a 9.8% increase, and the construction sector with 7.8%.

Trade Balance

During the first eight months of the year, Colombian exports increased from US\$10.5 billion (b) to US\$13.7 b, showing a 30.9% annual growth. Non

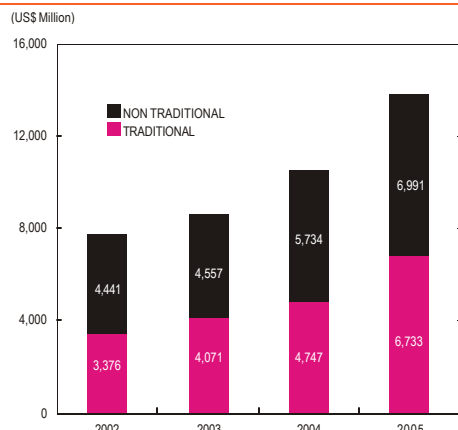
traditional exports totaled US\$6.9 b with a 21.9% growth, while traditional exports totaled US\$6.7 b with a 41.8% growth.

The increase in total exports (US\$ 3.2 b) was driven by a US\$853 million (m) increase in oil, US\$607 m in coal, US\$216 m in vehicles, and US\$160 m in flowers.

The United States, where 40% of the total exports were sold, maintained its position as Colombia's main trade partner. Other important destinations were the Andean countries with 19% share and the European Union with 14%

It is expected that non-traditional exports will surpass US\$10.5 b by the end of 2005. In 2006, total exports are expected to surpass US\$25.0 b being non-traditional exports responsible for 50% of the total, reaching US\$12.5 b.

Graph 2
Colombian Exports
(January - August from 2002 to 2005)



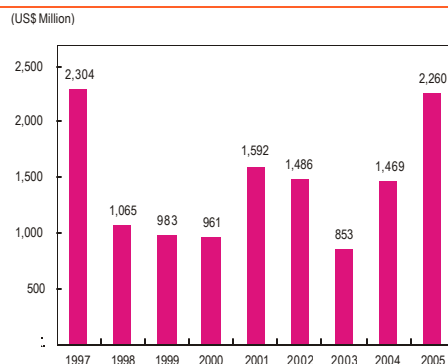
Source: DANE.

Imports as of September 2005, added up to US\$15.6 b. The major purchases corresponded to raw materials and intermediate products with 46% share and capital goods and construction materials with 36%.

Foreign Investment

During the first half of 2005, Foreign Direct Investment (FDI) grew 54%, compared to the first half of 2004, increasing from US\$1.5 b to US\$2.3 b. This is the second highest figure during the period following the US\$2.3 b registered in 1997. It is expected that by the end of 2005, FDI will reach US\$ 4.0 b.

Graph 3
FDI Flows
(I Half from 1997 to 2005)



Source: Banco de la República (Central Bank of Colombia).

The most important FDI flows were received in mining and quarrying (including coal) with US\$994 m. This figure represented a 61% increase with respect to the same period of 2004 and a share of 44% of total investment during the period. The oil sector ranked second with US\$506 m. This figure represented a 110% growth and contributed with 22% of total investment during the first half of 2005.

Investment in the manufacturing sector showed a 226% increase moving from US\$131 m to US\$427 m. Another sector that presented a dynamic behavior was construction with US\$57 m and a 3% share.

Recently, numerous internationally renowned companies have shown their vote of confidence in Colombia:

- *The North American Phillip Morris purchases the most important tobacco company in the country.* At the beginning of 2005, Phillip Morris purchased Coltabaco, the most important tobacco company in the country with an investment that reached US\$ 300 m. This operation is part of the north American company's plan to purchase strong companies around the world in order to expand its market and strengthen its worldwide position.

- *The country's most important beer company in hands of South African SAB Miller.* Sab Miller purchased Bavaria for US\$ 8.0 b. This purchase ratifies Sab Miller's growth strategy; which seeks to increase position in developing markets, where there is still great potential to increase per capita beer consumption.

- *Spanish Bank BBVA strengthens its presence in Colombia by purchasing Granaborrar Bank.* The Bilbao Vizcaya Argentaria Bank (BBVA) Colombia won the auction process of the Colombian government owned bank Granaborrar by an amount of US\$ 424 m, in one of the biggest bank privatizing operations in Colombia's history.

- *Chilean giant Falabella begins operations in Colombia.* The Chilean group Falabella, one of the biggest retail chains in Latin America begins its entrance in Colombia where it will open several department stores in association with the Corona Group. In an official brief, the Company informed that it will invest US\$ 100 m over the next five years.

- *North American multinational Masterfoods builds plant in Colombia.* Masterfoods Colombia, a subsidiary of

the Mars Incorporated group, which handles candy brands such as M&M's, Snickers, MilkyWay and Twix, will build a pet food plant at the Industrial Park Malambo in Barranquilla. This project will generate 200 new jobs. The new plant will supply countries of the Andean region such as Venezuela, Ecuador, Peru, and Bolivia, and in the future it might supply Central America and some parts of the United States.

■ *Important North American investments in the tube market.* Maverick Tube Corporation, one of the main North American producers of steel tubes for industrial use, mainly for oil and natural gas; purchased Tubos del Caribe S.A. and Colmena S.A., both Colombian companies in an operation worth US\$ 156 m.

■ *French company, Michelin increases investment in Colombia.* The French company, Michelin invested US\$ 30 m in Colombia in the Chusacá (Cundinamarca) and Cali plants in order to adequate them for the production of special tires for trucks, unique production in its kind in Latin America.

■ *Copa Airlines, a Panamanian company, obtains participation in the Colombian market.* Copa-Airlines, strategic partner of Continental Airlines, completed a strategic alliance with Colombian airline, Aerorepublica, by purchasing 51% of the Colombian company for almost US\$ 20 m.

■ *Brazilian group, Synergy buys 100% of Avianca.* Brazil's Synergy Group bought 100% of Colombian airline, Avianca. The deal was closed with investments of close to US\$ 70 m. The purchase of the company is part of the improvement and positioning plan of the group in Latin America within the next five years.

■ *Spain's Telefónica purchases Bellsouth operations.* At the end of 2005, the Spanish company Telefonica purchased Bellsouth's operations in Colombia and created the affiliate Telefonica

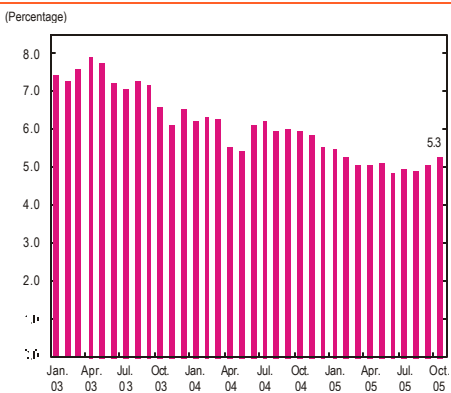
Móviles in a transaction that reached US\$1.1 b. This operation is part of the Telefonica Group's plans to establish itself as one of the leading companies in the telecommunications sector in Latin America.

Monetary and Exchange Policy

Since 1999, inflation in Colombia has experienced a decreasing trend, despite the devaluation shock that the economy faced in 2002 and 2003 due to the political crisis in Brazil and the economic crisis in Venezuela.

During the last twelve months up to November, Colombia's inflation was at 5.1%. This is the lowest rate since 1955. Comparing the same period in 2004, when inflation was at 5.82%, during the current study period it has decreased 0.72 percentage points. The behavior of inflation has been consistent with the goal set by the Central Bank for 2005, which varies between 4.5% and 5.5%.

Graph 4
Annual Inflation
(2003-2005)



Source: DANE.

Regarding the exchange rate, the Colombian peso's revaluation continued but at a slower pace since after reaching a nominal exchange rate of COP\$2.629,65 per dollar in October 2004, in January 2005, only three months thereafter, the exchange rate was COP\$2.315,45 per dollar, COP\$312.2 lesser. By the end of October 2005, 10 months later, the exchange rate leveled off at COP\$2.283,78 per dollar which means that in almost a year the exchange rate was only reduced in COP\$31,67. The lower appreciation trend has been influenced by the strengthening of the discretionary intervention by the Central Bank in the exchange market during this year. Since the end of 2004 the Central Bank has also reduced its intervention interest rates by 75 basis points, based on the good performance of inflation with respect to the target.

Fiscal Policy

The fiscal result for the first half of 2005 reveals the continuity of the spending reduction policies adopted by the government and its consistency with the 1.6% of GDP deficit goal agreed with the International Monetary Fund (IMF).

During the study period, the Consolidated Public Sector (CPS) registered a surplus of 0.8% of GDP. With respect to the same period of the previous year, this result represents an improvement of 0.8 percentage points of GDP in the fiscal balance.

The National Central Government registered a deficit equal to 2.3% of GDP, 0.2% of GDP lower than the result of the first half of 2004 when the deficit was 2.5% of GDP.

Table 1

COLOMBIA: Key Data

PROEXPORT - COINVERTIR

ITEM	Units	Latest data period	Data	Data one year before
Total Foreign Investment				
Direct	US\$ million	Jan. 05 - Mar. 05	822.00	620.00
Portfolio	US\$ million	Jan. 05 - Mar. 05	427.00	159.00
Demand and Unemployment				
GDP	% annual variation	Jan. 05 - Mar. 05	3.61	3.96
Production Rate (MMS)(*)	% annual variation of date	May 05	2.30	3.65
Retail Sales	% annual variation of date	May 05	8.24	5.97
Investment	% annual variation	Jan. 05 - Mar. 05	15.91	5.38
National Unemployment Rate	(%)	Jun. 05	11.40	14.10
13 Main Cities Unemployment Rate	(%)	Jun. 05	14.00	15.80
Prices and Interest Rates				
Consumer Price Index	% annual variation	Jul. 05	0.05	-0.03
Producer Price Index	% annual variation	Jul. 05	-0.10	-0.40
Savings Interest Rate (90 days)	Monthly average (%)	Jul. 05	7.10	7.83
Lending Interest Rate	Monthly average (%)	Jul. 05	12.86	12.78
Exchange Rate				
Nominal Exchange Rate	Peso/dollar US\$ average	Jul. 05	2,323.38	2,653.32
Nominal Devaluation	% annual variation	Jul. 05	-11.60	-9.30
Real Exchange Rate (ITCR)	1994 = 100	Jul. 05	115.63	128.44
Real Devaluation	% annual variation	Jul. 05	-9.97	-5.03
Peso/Yen Monetary Units	Peso/Yen	Jul. 05	20.70	23.85
Peso/Euro Monetary Units	Peso/Euro	Jul. 05	2,817.50	3,189.50
Trade				
Exports (FOB)	US\$ million	Jan. 05 - Jun. 05	10,194.00	7,340.00
Traditional Exports	US\$ million	Jan. 05 - Jun. 05	5,032.00	3,390.00
Non-traditional Exports	US\$ million	Jan. 05 - Jun. 05	5,161.00	4,040.00
Imports (CIF)	US\$ million	Jan. 05 - Jun. 05	9,966.00	7,682.00
Other				
M1	% annual variation	Jun. 05	17.02	19.85
M3	% annual variation	Jun. 05	18.45	11.37
Net International Reserves	US\$ million	Jul. 05	13,862.98	11,763.55
Colombia General Stock				
Exchange Index	July 2001=1000	Jul. 05	6,240.39	2,953.49
Fiscal Deficit (Central Government)	% of GDP	Jan. 05 - Mar. 05	2.20	1.70
Fiscal Deficit (Non-Financial Public Sector)	% of GDP	Jan. 05 - Mar. 05	0.30	0.10

Monthly manufacturing survey.

Source: Banco de la Republica, National Statistics Department (DANE).

Table 2

Main Latin American Economist Indicators

	Colombia		Argentina	Brazil	Chile	Ecuador	Mexico	Peru	Venezuela
	2005(*)	2004							
Real GDP Growth (%)	4.3	4.00	9.0	4.9	6.1	6.6	4.4	4.8	17.9
Population (millions)*	46.0	45.3	38.7	179.1	15.4	13.0	105.0	27.5	26.0
GDP (US\$ billions)	124.4	97.5	153.1	603.8	94.1	30.3	676.5	68.6	109.0
GDP per cápita (US\$)	2,704.3	2,152.3	3,956.1	3,371.3	6,110.4	2,330.8	6,442.9	2,494.5	4,192.3
GDP per cápita Growth (%)	2.7	2.3	7.8	3.6	4.9	5.4	3.1	3.3	15.8
Consumer Prices Variation (%)	5.1	5.5	6.1	6.6	1.1	2.8	4.7	3.7	21.7
Fiscal Balance (% del GDP)	-1.6	-0.6	2.6	-1.5	2.2	2.3	-0.3	-1.1	-2.8
Total External Debt / GDP (%)	26.8	36.3	118.9	37.4	47.5	59.4	20.9	46.8	35.9
Exchange Rate (LC / US\$ eop)	2,324.8	2,628.4	2.9	2.9	609.4	-	11.3	3.4	1,891.3
Nominal Interest Rate (savings)	7.2	7.8	2.6	15.4	1.9	3.8	7.2	3.0	12.6
Current Account (% of GDP)	-0.9	-1.0	2.2	1.9	1.5	-0.5	-1.1	0.0	12.7
Foreign Direct Investment (US\$ millions)	4,000.0	3,052.0	4,100.0	18,200.0	7,602.0	1,160.0	16,601.0	1,816.0	1,500.0
Foreign Direct Investment (% of GDP)	3.2	3.1	2.7	3.0	8.1	3.8	2.5	2.6	1.4

* Forecast.

Source: Economist Intelligence Unit, Eclac, Banco de la Republica, DNP.

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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