

Colombia

GDP Observatory

March 30, 2010

Growth recovery in 2010 will be driven by private domestic demand

- In 2009 the Colombian economy saw slightly positive growth (0.4% yoy) thanks to 2.5% growth yoy in 4Q09.

Over the year, strong increases in civil works (33.9% yoy) compensated the fall in private demand, while net external balance provided a positive contribution to GDP after a higher reduction in imports than in exports. GDP saw quarter-over-quarter growth across all quarters, speeding up in the second half of the year. This meant the fall in GDP seen at the end of 2008 was made up in only four periods.

- GDP growth was driven by public demand, but private demand, consumption and investment showed a change in trend.

When compared to September's results, all components to private domestic demand halted their decline from previous quarters and even saw increases in 4Q09. Private consumption and investment increased respectively by 1.2% and 0.1% qoq, showing the higher dynamic in semi-durable consumer goods spending and purchases of machinery and equipment. In both instances, two consecutive quarters with positive period changes were recorded. In turn, exports continued to note the partial closure of the Venezuelan market and saw additional declines in 4Q09 despite the higher sales dynamic to other destinations and price recoveries in raw materials.

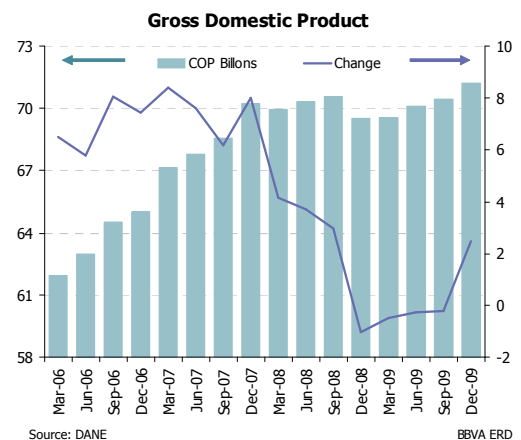
- With regard to supply, mining and construction of civil works continued to be the more dynamic elements of the economy.

In 2009, mining, construction and financial services contributed most to positive GDP performance, increasing in the last quarter. The performance of the first two sectors is remarkable since they only represent 11% of GDP but contributed 1.2 percentage points to the yoy change, managing to compensate the fall in sectors with a greater weight in national output such as manufacturing and commerce (jointly counting for over 26% of GDP). Nonetheless, the latter showed a trend change in 4Q09. Specifically, commerce expanded 3.4% qoq and manufacturing 0.6% qoq over the period.

- The domestic confidence shock due to the external crisis and its impact on consumption seem to have ended in 4Q09. We therefore forecast greater dynamism in private spending in 2010.

The economy started a new inventory accumulation period in the second half of 2009, consolidated in the fourth quarter. This coincided with the Fedesarrollo business opinion survey results for recent months where managers stated they are increasing stock due to better perspectives on order volumes this year. In turn, the Fedesarrollo consumer confidence survey at the end of 2009 shows speedy recovery in the willingness to purchase durable goods, cars and housing.

Mauricio Hernández Monsalve
mauricio.hernandez@bbva.com.co



GDP by supply

Year-on-Year Change (%)

| Sector | 1S09 | 2S09 | 2009 |
|-----------------|-------------|------------|------------|
| Agriculture | 0.0 | 2.1 | 1.0 |
| Mining | 10.6 | 11.9 | 11.3 |
| Energy | 0.2 | 2.3 | 1.2 |
| Industrial | -8.9 | -3.5 | -6.3 |
| Construction | 7.4 | 8.3 | 12.8 |
| Commerce | -3.7 | -2.1 | -2.9 |
| Transport | -0.6 | -1.8 | -1.2 |
| Services | 4.5 | 1.7 | 3.1 |
| Social services | 1.1 | 1.6 | 1.3 |
| Taxes | -4.8 | -3.9 | -4.4 |
| GDP | -0.4 | 1.1 | 0.4 |

GDP by demand

Year-on-Year Change (%)

| | 1S09 | 2S09 | 2009 |
|-------------------|-------------|------------|------------|
| Total consumption | -0.1 | 1.6 | 0.7 |
| Private | -0.4 | 0.6 | 0.1 |
| Public | 0.7 | 5.0 | 2.9 |
| Investment | -6.6 | -3.8 | -5.2 |
| Domestic demand | -1.7 | 0.2 | -0.7 |
| Exports | -1.7 | -14.4 | -8.2 |
| Imports | -6.3 | -11.7 | -9.1 |
| GDP | -0.4 | 1.1 | 0.4 |

- *Recovery in some key economic sectors could lead to higher investment spending.*

This year the recovery in manufacturing, opening up new export markets and the higher dynamism to domestic demand will determine an increase in the use of installed business capacity. In this way, space would be created to boost quicker growth in purchases of machinery and equipment. In turn, the BBVA ERD forecasts residential investment halting its decline and beginning to show positive qoq rates from March on, with major acceleration in the second half of the year. This is when the total construction work stock surpasses present levels.

- *Cuts to public investment budget and a less ambitious infrastructure plan this year point to lower growth in civil works over 2009.*

The 2010 financial plan from the national government set out a cut in investment of \$2 billion so fiscal deficit targets can be achieved. In turn, this year's investment plan is less optimistic on private sector participation in infrastructure projects. In total, planned resources for this area will fall 7.4% yoy. In this way, the higher regional and local government activities in urban transport works and the contribution of mining output will only manage to maintain a level of spending on civil works programs similar to 2009.

- *The greater dynamism in domestic demand and slow recovery of the overseas market will lead to a negative net external demand contribution in 2010.*

The world economic recovery and diversification in overseas sales will not compensate the decline in Venezuelan demand. This means an additional adjustment to real export growth in 2010 is expected. In turn, recent indicators point to a higher-than-expected recovery in retail sales and imports of durable goods. Further, higher investment spending will put pressure on equipment imports to supply local manufacturing. In this way, the better performance in imports compared to exports will lead to a negative contribution from net external demand.

- *Results from most leading indicators provided a positive surprise for the market and point to a better economic performance in 2010.*

The indicators used by BBVA ERD to monitor monthly economic output, including the Economic Activity General Index (EAGI), and a sector balance for manufacturing and retail trade show a better performance from the second half of 2009, with acceleration from last September on. Both the EAGI and the sectorial balance are currently positive and point to a faster-than-expected recovery rate for the Colombian economy. The BBVA ERD believes mining, manufacturing, trade and, from the second half of the year, residential construction will become the driving forces for output in 2010. This is due to higher domestic demand in face of better expectations and low interest rates, as well as the continued major flows from direct foreign investment.

