Colombia Watch

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Colombia will overcome the global crisis through a short and relatively moderate adjustment, both in comparison to other emerging economies as to its own historical performance

Inflation will continue to decrease up until the third quarter of 2009 and it is likely to fall under the target at the end of the year

The Central Bank (Banco de la República) will maintain its stance of an expansionary monetary policy during the next few quarters

Table of Contents

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The effects of the international crisis are felt in Colombia

The effects of the international crisis are felt more strongly by emerging economies, including Colombia, since the last quarter of 2008. The bankruptcy of Lehman Brothers marked the beginning of a new stage of the crisis in which the real effects are more evident and seriously affect the economic performance of most of the world's economies. Poor worldwide performance, high global risk and the high volatility of financial assets generate a notable drop in prices of basic products which, in turn, reduces the performance of emerging economies.

When the international scenario was at its worst, Colombia's economy had already been slowing from its maximum at the end of 2007. This slowdown was the result of a combination of domestic and foreign demand factors as well as impacts on supply and became more intense with the new dimensions of the crisis. Thus, in the last quarter of 2008 Colombia's economy fell at a yearly rate of 0.7% as a result of a rapid drop in investment, private consumption and foreign demand. In addition, last quarter results were a negative surprise as a result of a very strong downturn in public investment and public spending that, contrary to expectations, did not compensate the downturn of private domestic demand.

Performance during the current year continues to be very weak and the confidence indicators of entrepreneurs, consumers and traders, as well as the leading private consumption indicators point to an even greater slowdown in performance. As regards private investment, expectations have gotten worse as a result of the downturn in domestic and foreign demand of manufactured products, an expected reduction in orders and an undesired increase in inventory in the manufacturing sector. The great uncertainty as regards the closing of the quarter and for 2009 in general is based on the performance of both investment and public spending. In the absence of a fiscal package, the National Government understands the need for a stable flow of public spending both at the regional and municipal levels, and the efficient execution of public investment in order to automatically stabilize a downturn period such as the current one. However, its management capacity has been less than expected in the past and this may not be an exception.

Along these lines, the economy will continue to slow down during the first quarter of 2009, while the intensity of the slowdown will be strongly linked to the performance of public investment and spending. However, according to the progress that we expect for the economy worldwide, a very gradual recovery of the economy is expected to begin during the second quarter, which will be reflected in a downturn in the consolidated economy for 2009 of 0.5% yearly. This figure shows the impact of the international crisis on the economy of Colombia, but it also shows the cycle of domestic demand. In the future, the effects of the crisis will continue to be seen, whereby Colombia's economy will grow weakly in 2010 but will recover until it reaches its potential growth in 2012.

Executive Summary

In 2008, economic growth was less than initially expected due to the slowdown of the world crisis after the bankruptcy of *Lehman Brothers.* The world experiences a financial crash and an increase in risk aversion that ended up deepening the downturn stage affecting the economy of Columbia. The forecast of BBVA for Colombia shows that there would be a mild downturn in GDP in 2009, whereupon the performance of the economy would be one of the best in the region. Growth would resume in 2010, although at a slower rate than potential growth.

Inflation has fallen continuously since October 2008. This is explained mainly by the absence of temporal affects that increased inflation in recent years, and less so by the absence of inflation pushed by demand versus low economic activity. BBVA ERD expects inflation in 2009 to end up under the target range established by the Bank of the Republic. Next year, inflation will continue to drop due to excess capacity, which will increase as the economy grows at a lower rate than potential output.

Access to external financing has allowed continued expansion of fiscal policy, despite the drop in tax income. However, the limited margin of manouver of public accounts has been an obstacle for the implementation of fiscal packages versus the situation, as has been carried out by other countries in the region, resulting in a heavier burden on monetary policy.

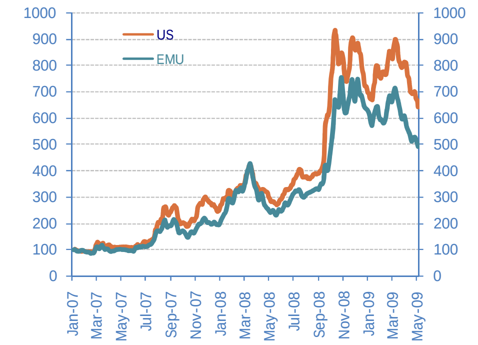
The floating exchange rate scheme and the drop in expectations of inflation have made it possible for the Bank of the Republic to implement an aggressive and expansive monetary policy. Rate transmission has been faster and stronger than in past episodes thanks to the soundness of the financial system, which has allowed for efficient operation of credit channeling. The BBVA ERD expects the BanRep to start slowing the cuts in its benchmark rate, keeping it low for at least a year. If it were necessary to relax this policy even more, the following step would be to reduce the required reserve coefficients.

Despite the world crisis, foreign savings will continue to finance excess expense of Colombia's economy. The BBVA ERD expects the deficit in current accounts in 2009 to expand to 4.0% of the GDP, as a result of lower account income, a drop in exports and remittances given the lack of foreign demand, the drop in international prices of commodities and global loss of employment. The unravelling of international financial conditions will affect direct foreign investment flow. However, problems are not expected for financing current account deficit, although on this occasion it will not be as ample as in recent years.

Despite the slowdown in portofolio growth and the mild downturn in quality indicators, the financial system continues to perform well. In the coming months, the interest rates can be expected to relieve the financial burden of households and companies and stimulate credit demand, which will activate the sector to some degree.

The progress shown in recent years in instituting the monetary policy, strengthening public finances and the financial system will allow Colombia to dodge the current global economic crisis by means of a relatively moderate and short adjustment, in comparison to both emerging economies and its own historic performance.

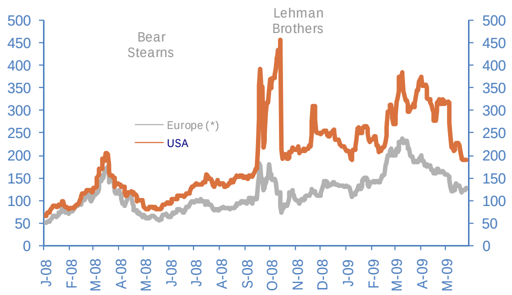
Indicator of Financial Tension



Source: Research Department

The first standardized principal component of the OIS spread series, implicit stock market volatility, bank, corporate and sovereign (in the case of Europe) CDSs

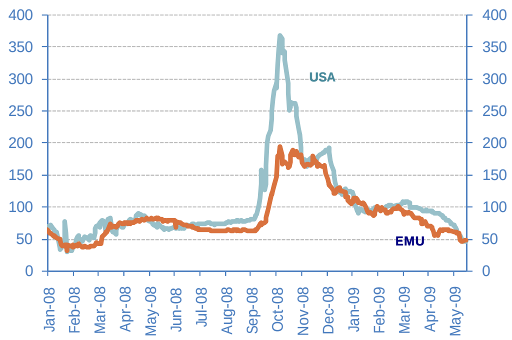
Banks: CDS senior debt 5 years (pb)



Source: Bloomberg

* Banks included: Barclays, RBS, Lloyds, HSBC, Alliance & Bingley, Standard Chartered, Allied Irish Bank, BNP, Deutsche Bank, ING, Unicredito, UBS, Credit Suisse, Credit Agricole, Societe Generale, Intesa, BBVA, Santander

Interbank markets: 3-month OIS spread (3M LIBOR - 3M OIS)



Source: Bloomberg

1. International outlook

Following a complex year start, with high financial tensions and strong declines in activity, the second quarter has seen the pressures starting to ease

Since the beginning of the year the global situation has continued to be characterized by high levels of tension in the financial markets, even though several indicators have shown considerable improvements over the last month. Hence in May, the north American CDS banks reached the lowest level since the collapse of Lehman Brothers, and the Europeans –which are still under the Americans- their lowest level since November 2008. In addition, significant corrections have also been registered in the interbank markets, with the 3-month OIS spread in the US and the EMU reaching its lowest point since the beginning of 2008.

In the first months of the year, the contraction of the global economy was a fundamental element in maintaining increased rates of risk aversion. The data for 1Q09 showed a strong drop in activity in the US (-1.6% quarterly rate), with a rate of decline very similar to that of 4Q08. In Europe, the indicators maintained an extraordinarily negative tone, with a quarterly GDP drop of 2.5% in 1Q09, higher than the 1.6% fall in 4Q08. However, the general tone of the economic activity indicators on the basis of the April and May data is less negative. This means that the rate of contraction on activity may be reducing, although negative growth will still be observed in the short term. The markets reacted very positively to this likely inflection, although because of uncertainty around the duration of the crisis, this movement may have vulnerable foundations.

New public measures to stabilize the situation

In this context, governments have bolstered measures to tackle the global financial crisis. The US remains the economy that has made most progress in the adoption of these policies, with a new programme of measures aimed at stabilizing the financial system. One key element of this program was the conducting of stress tests on the balance sheets of the major banking institutions, which revealed the system's capital needs. As a result, 10 of the 19 largest American financial institutions must raise $75 billion of additional capital within 6 months. These results were well received by the market, generating a large part of the recent reduction in financial pressure. A second pillar is the Public-Private Investment Program, which seeks to attract private investors to buy toxic assets from banks through funds where the capital will be supplied jointly by the private and public sectors, with a highly significant level of leveraging. Finally, the Obama administration has implemented a plan to improve access to housing, which allows greater facilities to refinance mortgages and subsidies for those financial institutions that change the terms of the mortgages of families facing default risk. Our assessment of the banking stabilization strategy is positive, even though the implementation of the approved plans presents great complexities, and their impact could be limited unless all the elements are combined correctly.

In its turn the Federal Reserve has also played a crucial role in the financial stabilization process and is tackling deflationary risk mainly through asset acquisition. Hence, the Federal Reserve has embarked on a program to purchase $1,250 billion in mortgage bonds, and up to $300 billion in public debt. Additionally, the Federal Reserve plans to participate actively in funding the Public-Private Investment Program through the Term Asset-Backed Securities Loan Facility (TALF) program, which could reach around $1,000 billion.

In Europe, the financial stabilization efforts have been mainly at national level, with very different initiatives in each country. Thus, Germany and Ireland are putting the final touches to a "bad bank" which will buy banks' toxic assets. The ECB continued with its process of lowering the interest rate, which was at 1% at the time this report was written. The European monetary authority has decided to continue with its weekly liquidity auctions through the fixed rate full-allotment system for as long as necessary, and in any case beyond 2009, and the term for ECB loans has been extended to 12 months. Apart from this, in May it was announced that €60 billion of bank bonds would be purchased, although details of this plan are not yet known.

The adoption of these measures is justified as in the short term the key risk is that the persistence of a very weak economic situation results in negative inflation rates being maintained for too long. In addition, although the balance sheets of the central banks continue experiencing strong expansion, especially the Federal Reserve, the central banks should not have any difficulties in draining liquidity rapidly when the time comes, the way the Bank of Japan did at the end of their non-conventional monetary policy program.

Despite stabilization and the measures taken, recovery continues to be uncertain

The effectiveness of the policies aimed at streamlining the financial systems on the one hand, and the fiscal policies designed to boost demand on the other hand, will be the focus of attention in coming months. Their success will depend to a great extent on the answers to three questions of when the recovery will begin, how fast the recovery will be, and which economies will prove most dynamic.

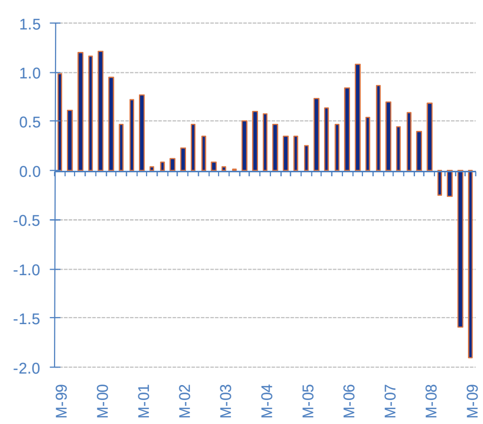
Despite these measures having a favorable impact on the economy, the details of possible recovery in 2010 are still uncertain. Recent datas seem to suggest that the recession has bottomed out, so it is foreseeable that in the next few quarters falls in GDP will be lower. However, our perception is that if the recession ends in 2010, growth rates will still be very moderate and below the potential growth rate. Besides, it is probable that it will occur later in Europe, given the slowness of the adoption of both financial stabilization and monetary policy measures. These uncertainties will oblige central banks to keep the official rates low for an extended period of time.

The emerging countries are feeling the global pinch, but they are receiving considerable support

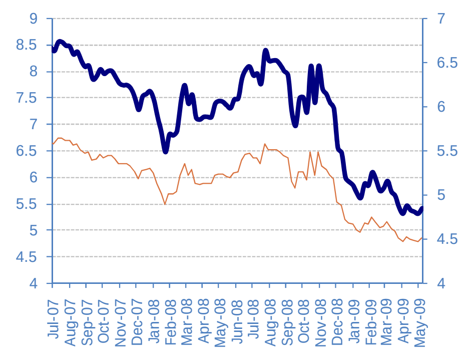
The financial indicators show a very favorable evolution in the last month, following a sharp deterioration of the financial indicators in the last quarter of last year and the first quarter of this year. Sovereign risk spreads have undergone strong adjustment, depreciatory pressures on currencies have reversed, and even the inflows in emerging countries have returned to positive territory, leading to significant rises in the stock exchange indexes.

There is no doubt that one of the factors that have contributed to this movement has been the reduction of global risk aversion. But at least two additional factors should also be mentioned. On the one hand, the G20 summit has supported emerging markets through an increase in the provision of resources made available for the IMF. This was complemented by the creation of a new IMF credit line that can be used by economies with solid fundamentals, but which might undergo temporary funding problems.

EMU: GDP growth (quarter-on-quarter)

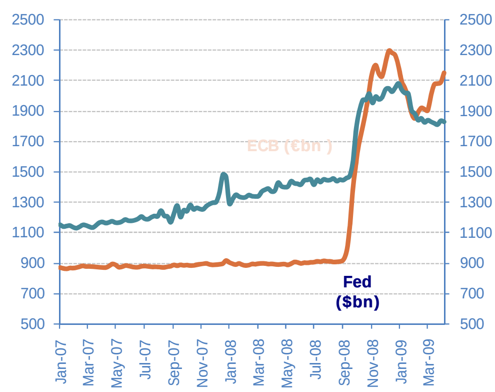


Interest rate of an average 30-year mortgage in the US

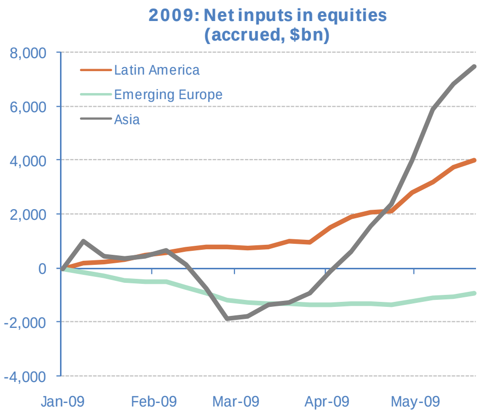


Source: Bloomberg

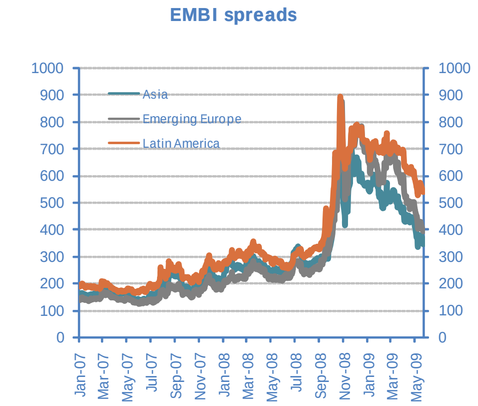
Central Banks: Total Assets



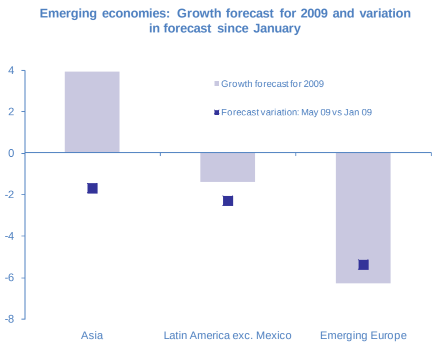
Source: Datastream



Sources: BBVA and EPFR



Source: Datastream and JP Morgan.



Source: EBRD and BBVA

It is an instrument designed to prevent, rather than end a possible crisis in emerging markets. The success of this new formula has already been confirmed, with the applications by some countries such as Mexico, Poland and Colombia, and the positive reaction from the markets. Finally, but equally important, we should mention the measures adopted in the domestic scene to soften the impact of the crisis. We find that, to a varying degree, a large number of emerging economies have adopted demand, fiscal and monetary policies whose impact on activity will be felt during the second half of the year, and in some economies already in 2Q09. China is clearly the most noteworthy example within the emerging world, after the approval of a substantial fiscal stimulus package (16% of GDP over two years) and the exceptional relaxation of monetary conditions which have encouraged a reactivation of credit to the private sector. Also noteworthy is Latin America, which for the first time in this crisis has leeway to draw up the countercyclical policies which it is using.

Nevertheless, the impact of the crisis on the activity in emerging countries has been significant. The GDP adjustment in 4Q08 was extremely sudden, basically as a result of the collapse of international trade, which led to a downward adjustment of forecasts in the first months of the year. In this respect, it is important to emphasize the high degree of heterogeneity within the emerging world. The well-known vulnerabilities of emerging Europe –bulky fiscal and external imbalances, strong credit growth accompanied by high currency discrepancies, and high dependence on external financing- will bring about very intense adjustments. Thus, it is estimated that the region's GDP will fall around 6%, with some economies falling up to twice this figure, which entails an element of risk for western European economies. Overall, it is anticipated that emerging markets, led by Asia and with very moderate falls in GDP in Latin America, will grow at higher rates than the developed economies in coming years.

Despite weak global demand, commodity prices rose above the historical averages in the first quarter of 2009. More recently, commodity prices once again rose considerably due to the significant production cuts and the perception in the financial markets that the worst of the crisis may be behind us. Recent supply cuts and the dollar's valuation prospects should limit the current upward trend in commodities, but the prices should keep supporting the countries that export commodities, including Latin American countries.

2. Macroeconomic environment

The economic slowdown in 2008 was more severe than initially expected

Last year, the country moved toward a new stage of lower growth, which intensified in the last quarter of 2008 due to the effect of the foreign crisis. The reduction in international prices of raw materials and the slower growth of the world economy resulted in lower growth in exports. In addition, the effects of restrictive monetary policy, the downturn in the job market conditions and the worsening of expectations in households resulted in moderate private consumption. Finally, the slower intensity in executing public spending reduced the investment in public works and resulted in moderation of government spending. Thus, the country grew 2.5% in 2008, when growth in 2007 was 7.5%.

The bankruptcy of Lehman Brothers marked the beginning of a series of external effects that resulted in negative y-o-y growth rate in the fourth quarter, for the first time since 1999. During this period, the economy faced an abrupt increase in risk premium, accompanied by heavy restrictions of international credit, which finally affected output activity.

In the first quarter of 2009, the adjustment process of the economy became more intense

The effects of the impacts mentioned above, especially that of the world crisis became more intense during the first quarter of the year. Among other items, exports presented a drop of 13%. Specifically, traditional products were affected by the fall in the international price of oil, which was not compensated despite the increase in exported volume. Non-traditional products, which generate higher added value, also fell due to a drop in demand of the main trading companies, partly explained by the commercial restrictions imposed by Ecuador and Venezuela.

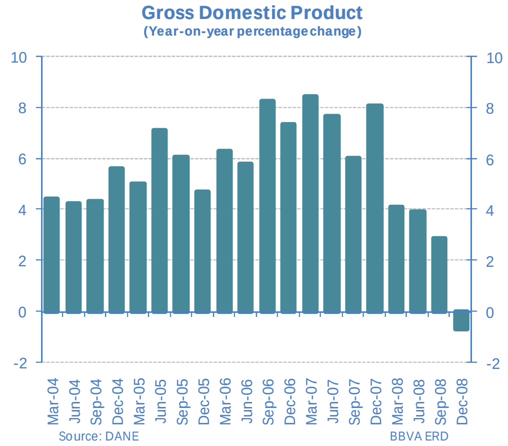
The effect on expectations is on the increase. Households perceive that their economic situation and that of the country has gotten worse, while the unemployment rate has increased, whereby they consider their employment situation to be less stable. Thus, the economy is going through an adjustment process in private consumption, where households have decided to delay expenses that are not a priority.

On the other hand, industrial output continues to fall due to an undesired increase in inventory, as a result of a serious drop in orders given the weakness of domestic and foreign demand. Given this outlook, companies have made a decision to cancel or delay various investment projects that were planned for this year.

The forecast of BBVA ERD for the first quarter of this year shows a stronger reduction in the GDP than observed at the end of 2008. This forecast includes higher efficiency in the execution of public spending, which should have promoted investment in civil works.

The economy will shrink mildly in 2009. Growth will resume in 2010, although at a slower rate than potential growth

The transmission of the foreign crisis to Colombia's economy will cause the GDP to shrink mildly over the year. The forecast of the BBVA ERD anticipates a drop in investment and exports and modest growth of end consumption.



Gross Domestic Product
(Composition per demand, Year-on-year percentage change)

	2007	2008	Q408
End consumer	6.9	2.3	1.3
Private consumption	7.6	2.5	1.7
Public consumption	4.5	1.3	-0.1
Gross investment	13.7	7.7	0.0
Domestic demand	8.5	3.5	1.0
Exports	11.4	8.1	6.3
Imports	13.9	10.1	10.3
GDP	**7.5**	**2.5**	**-0.7**

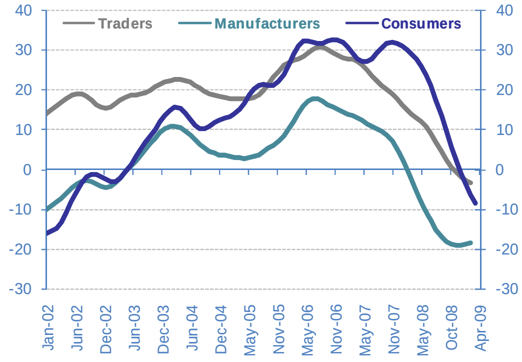
Source: DANE BBVA ERD

Gross Domestic Product
(Composition per supply, Year-on-year percentage change)

	2007	2008	Q408
Agriculture	3.9	2.7	-0.6
Mining	2.9	7.30	6.6
Energy	3.7	1.2	1.0
Manufacturing sector	9.5	-2.0	-8.0
Construction	11.5	2.8	-8.0
Trade	8.7	1.3	-0.1
Transportation	11.0	4.0	0.8
Financial	7.3	5.6	4.0
Social Services	4.7	2.09	0.5
Taxes	11.5	3.3	-1.7
GDP	**7.5**	**2.5**	**-0.7**

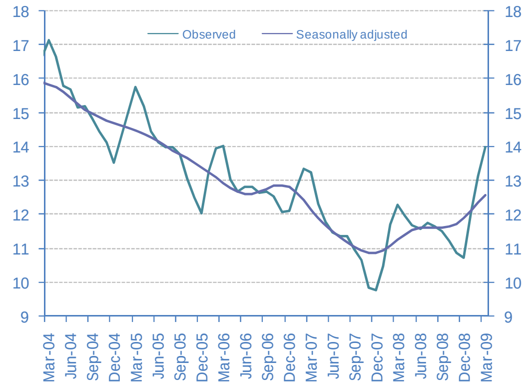
Source: DANE BBVA ERD

Confidence index for consumers, traders and manufacturers
(Seasonally adjusted series)



Source: Fedesarrollo BBVA ERD

Urban unemployment rate
(Mobile quarter, %)



Source: DANE BBVA ERD

Economic activity indicators
(Year-on-year percentage change)

	2007	2008	Q109
Building permits	18.7	-11.7	-26.8
Industrial output	10.7	-3.5	-7.5
Retail sales	10.3	0.5	-5.2
Exports*	23.0	25.5	-13.2
Imports	25.7	20.6	-10.2
DFI***	72.2	26.1	-12.5
Remittances**	15.5	7.8	-7.7
Urban unemployment****	10.7	11.0	14.0

*Data to February, 2009.

**Data to April, 2009.

*** The flow exchange rate data are used for 2009.

****Average for period

Source: DANE, DIAN, Banco de la República BBVA ERD

The projected path for growth shows that during the first semester of the year there was a shrink in output, whereas a recovery phase will begin in the second half of the year, in line with improvement in fundamentals.

The global scenario contemplates that the USA's economy will begin to come out of the recession after the third quarter of the year, while China and Asia will maintain their favorable growth rates as well as an improved level of exchange conditions. Hence, the conditions for the demand of Colombian exports are expected to be less unfavorable than those observed up until now.

It is expected that during the second half of 2009 the perception of households with regard to their economic situation will be less negative, to the extent that the effects of monetary policy are transmitted more forcefully and the external outloook improves. Thus, private consumption will grow once again, although moderately.

The execution of public works by the National Government and municipalities, and interest rate subsidy program for the purchase of new housing will contribute to slowing the reduction expected over the year for investment spending. This can be explained by the overall decline in demand (both domestic and foreign) that has led to an increase in the installed idle capacity of the economy and by the decline that has been observed in the expectations of entrepreneurs.

The GDP growth rate for 2010 is expected to be below that of potential output. This forecast expects the recovery of world economy to be slow and differentiated by regions. In addition, it takes into consideration certain idiosyncrasic factors that will impede the recovery of Colombia's economy from being faster. For example, it is highly probable that the exports to Venezuela and Ecuador will not return to the historically high levels that were seen during 2008. On the other hand, the Law of Guarantees will restrict public spending and contracts for new projects during the first part of the year. Finally, the levels of confidence of manufacturers, traders and consumers will continue to be low and will limit the growth of spending in private consumption and investment.

The risks faced by Colombia's economy in the coming months constitute a bias in the forecast of reduced growth

The main source of uncertainty regarding the growth forecast is how efficient public works execution will be. If the pace of implementation continues at its low level, as observed untio December of last year, the economy will take more time to recover.

On the other hand, the decline in job market conditions may be more intense than expected. In this case, there would be a loss of jobs in the formal employment sector that would end up lowering household incomes and affecting their confidence in a negative manner. This would delay the recovery of private demand and the decline in output would be more intense. In addition, this scenario of greater uncertainty would limit the transmission of BanRep interest rates and limit the countercyclical effect of its monetary policy.

Finally, the possibility should not be ruled out that certain trading companies may implement more severe protectionist measures than those contemplated in the forecast. If that were the case, Colombia's economy would take some time to replace these markets and the decline in activity during the process would be greater than anticipated. On an equal scale, the subsequent impact on employment would have second lap effects on available income of households, restrict private consumption even further and generate greater uncertainty as regards economic growth for next year.

Inflation in the first two months of the year fell in line with expectations

Throughout the year, the year-on-year inflation rate fell continuously to 194 pb in April. These inflation dynamics are explained by the reversal of the effects that caused it to accelerate over the last two years. The adjustment of food prices slowed down as a result of the end of the strong winter season, which allowed normalization of durable goods supply, and of the drop in international prices of oils and cereals. In addition, faced with lower international oil prices, the National Government decided to continue to freeze the price of fuel during the first four months of the year, resulting in a drop in inflation of regulated goods, but impeded even lower prices if these had been adjusted downwards as happened in other countries in the region.

The basic inflation indicators also fell, although less than total inflation. This drop is a result of less inflationary pressure of costs and demand as suggested by y-o-y moderation of inflation affecting non-tradable goods. On the other hand, the transmission of exchange rate devaluation has been quite moderate and is reflected by a moderate increase in inflation in tradable goods.

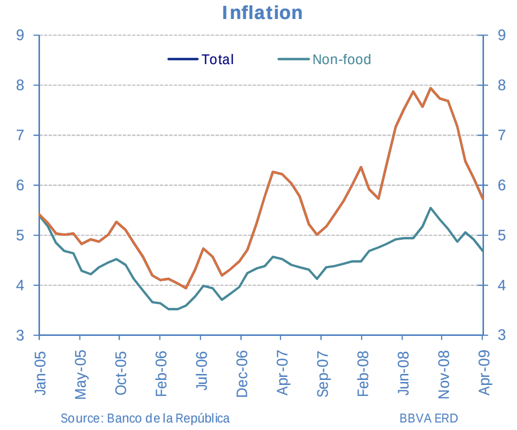
The favorable performance of inflation over the year has resulted in a recovery in credibility that the goal can be achieved, reflected by the fact that expectations have been recovered. This phenomenon is considered favorable given that the inflation goal in the last two years was not met and that the trend of this variable was growing.

Inflation will continue to fall until the third quarter of 2009 and will most probably end the year below the established target range

The coming months should show a significant drop in inflation due to the base effects of comparison. In fact m-o-m inflation rates for May, June and July 2008 were unusually high, mainly as a result of food price adjustments associated with seasonal impacts. On the other hand, the drop in fuel prices authorized by the National Government in May will allow partial transmission of lower international oil prices.

In addition to the effects mentioned in the paragraph above, there are other structural reasons that make BBVA ERD expect that inflation for the year will end below the target range established by the Bank of the Republic. First of all, economic growth was lower than potential growth for 2008 and a negative output gap was generated. We expect this to expand in 2009 and the following year.

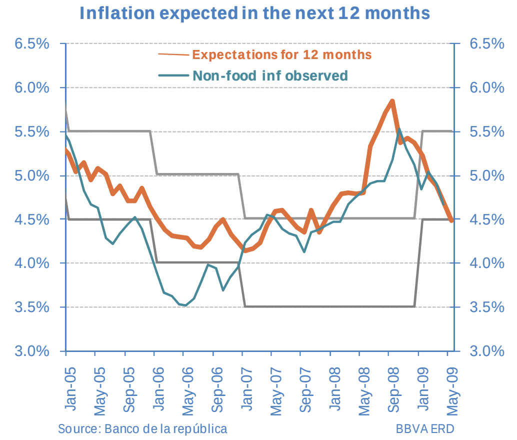
Thus, the economy will have an idle capacity that should reduce the pace of price adjustment for non-tradable goods, as appears to have begun in rents in the month of April. On the other hand, excess of installed world capacity may result in a drop in prices of tradable goods, which should be transmitted to the economy of Colombia and compensate the devaluation of the peso. Finally, as inflation expectations continue to remain at target levels, this persistence should drop and allow for a reduction in inflation through 2010, in which we expect it to end at around 3.8%.

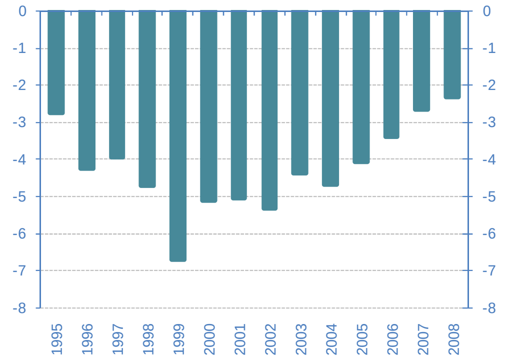


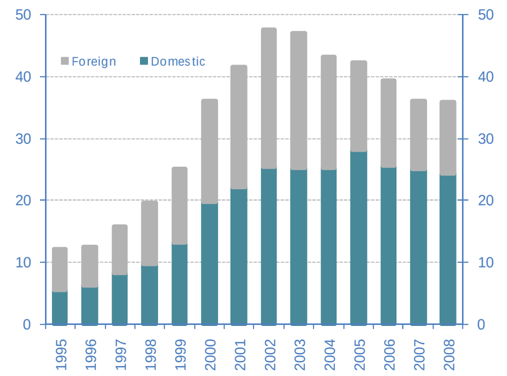
Inflation in Colombia

Group	%	Annual inflation			
		Dec-07	Oct-08	Dec-08	Apr-09
Total	100.0	5.7	7.9	7.7	5.7
Food	28.2	8.5	13.1	13.2	7.9
Vegetables, fruit, tubers and milk	5.1	10.4	23.7	21.9	12.2
Cereal, oils and others	6.0	9.1	17.6	19.0	10.5
Food outside the home and others	11.0	7.6	6.9	7.3	6.4
Beef meat and substitutes	6.1	11.1	6.3	6.4	3.9
Non-food	71.8	4.4	5.5	5.1	4.7
Non-tradable goods	30.5	5.2	5.6	5.2	4.9
Tradable goods	26.0	2.3	2.3	2.4	2.6
Controlled goods	15.3	6.4	10.8	9.5	7.6
Other Basic Inflation Indicators					
Without non-durable goods, fuel or public services	76.6	5.2	5.8	5.9	5.0
Core 20	72.4	5.5	7.6	7.3	6.3

Source: DANE, Banco de la República - Calculations BBVA







Balance of payments
(% of GDP)

	2007	2008	Q408
Current account	**-2.8**	**-2.8**	**-4.9**
Goods balance sheet	-0.3	0.4	-1.6
Exports	14.1	15.3	15.2
Imports	14.5	15.0	17.0
Special operations	0.1	0.1	0.2
Services	-1.3	-1.3	-1.5
Factor income	-3.8	-4.2	-4.3
Current transfers	2.5	2.3	2.5
Financial account	**5.0**	**3.9**	**4.5**
FDI	4.4	4.4	4.6
Gross international reserves	10.1	9.9	9.9

Source: BanRep BBVA ERD

The risk balance of inflation forecasts is biased downwards

The main risk factor affecting the inflation forecast is an eventual greater weakness in domestic demand that increases excess installed idle capacity. In an inflation scenario such as this, non-tradable goods would fall faster than expected, for at least 3 or 4 months. In addition, if inflationa at the end of this year is below the target of BanRep, this could cause an impact for expectations in 2010 that would contribute to even lower inflation.

Risks that could push inflation upwards are a further devaluation of the exchange rate and faster than expected convergence of the international price of oil to its point of equilibrium (around USD75). Nonetheless, we believe that these pressures would be more than compensated in the risk balance by the drop in the inflation of non-tradable goods.

Access to financing allows continued expansion of fiscal policy, despite the drop in tax income

The National Government announced an increase of its fiscal deficit goal for this year from 3.2% to 3.7% of the GDP[1] in order to "accommodate" the loss in tax revenue versus lower economic activity, instead of cutting public expense in the same proportion. This situation was made possible because access has been maintained to both external and internal financing, a significant achievement contrary to that observed in previous episodes (1982 or 1999). BBVA ERD estimates that the deficit will increase to 4.2% of the GDP this year, considering that the growth expected by the Government is higher than the forecast presented in the previous section.

Access to financing has allowed the Government to maintain the level of spending set out in its financial plan in February. Foreign sources have been used more intensely, by issuing global bonds based on an increase in confidence in the economy and by means of loans with multilateral institutions. Several domestic debt swap operations have also been carried out to reduce the burden of domestic amortization payments. This strategy has been used by the Government to avoid applying too much pressure on the domestic capital market, making room for financing from private investment.

On the other hand, in order to increase confidence in the markets and face an eventual worsening of global financial conditions, a new line of flexible credit from the IMF for USD 10.4 billion was confirmed in May. Contrary to traditional IMF aid programs, this line of credit has no conditioning restraints and is only open to countries that have presented good economic management and has been accessed only by Poland and Mexico so far.

Balance of payments

The world crisis did not impede foreign savings from continuing to finance excess expense of Colombia's economy

In 2008, the current account deficit held its ground versus that of a year ago (-2.8% of GDP), despite the decline in growth of domestic demand. The balance of the current account declined abruptly in the last quarter of the year, reflecting a drop in terms of exchange, which was compensated in 91% by the entry of capital, despite the intensification of the global financial crisis.

Despite the unravelling of international conditions, 2008 was the year with the highest level of direct foreign investment (DFI) in the history of the country and the main recipients were mining and hydrocarbon projects.

1 According to the new base of national accounts

These flows more than financed the current account deficit. On the other hand, foreign debt in the last quarter of the year grew by nearly USD 1 billion, especially in loand to the public sector, demonstrating that the country kept its foreign credit lines open.

Remittances, direct foreign investment and foreign trade decreased over the year

A decrease in capital flow and remittances has been seen during the first part of the year. There has also been a higher decrease in exports than in imports, causing a deficit in the goods trade balance. This trend is expected to continue throughout the year with the final current account deficit for the economy ending at around 4.0%. However, lower capital flow will be enough to cover the financing needs, so lower accumulation of international reserves is not expected. It is important to note that despite the worse conditions for access to global financial markets, foreign savings will soften the fall of income in Colombia's economy.

The risk in our forecast comes from the performance of exports to Venezuela and Ecuador. Should these markets close up even more, a stronger adjustment of imports would be required to prevent higher current account deficit, which would result in a significant devaluation of the peso. However, the recent increase in oil prices has significantly reduced the probability of this situation.

The effect of the global crisis on the economy of Colombia will be short and moderate

In the coming quarters, Colombia's economy will face a short and moderate adjustment process. Contrary to previous episodes, this time the economy has strengths and tools with which to buffer the effects of the global economic crisis. The flexibility of exchange has allowed the exchange rate to absorb part of the impact towards risk premium and capital flow, and has allowed the Bank of the Republic to cut interest rates and implement a countercyclical monetary policy. The soundness of the financial system has made it possible for rate transmission to be faster and stronger than in previous episodes. Management of public finances has kept access to internal and external financing open, which has resulted in better supply of liquidity and less uncertainty. Therefore, we expect Colombia's economy to respond better this time than other emerging economies, as well as with regard to its historical performance.

FOB exports
(Composition and destination, Year-on-year percentage change)

	2007	2008	Feb09
Traditional	20.3	40.8	-21.4
Oil	15.6	66.9	-42.5
Rest	25.7	13.1	5.6
Non-traditional	25.5	11.7	-8.5
United States*	-5.1	10.9	-13.6
Venezuela	93.1	14.3	-12.0
Ecuador	3.0	16.5	3.5
European Union	28.6	12.1	-27.7
Rest	12.5	8.0	-7.6
Total	**23.0**	**25.5**	**-15.3**

*Includes Puerto Rico

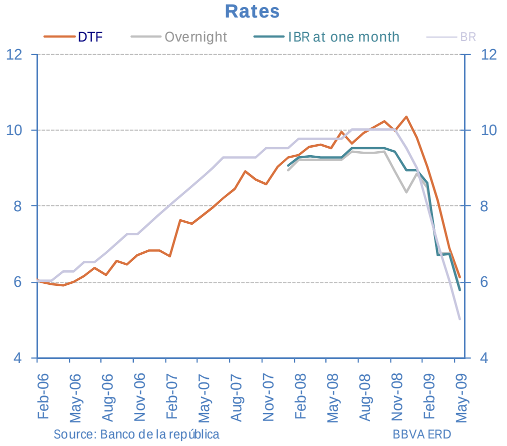
Source: DANE BBVA ERD

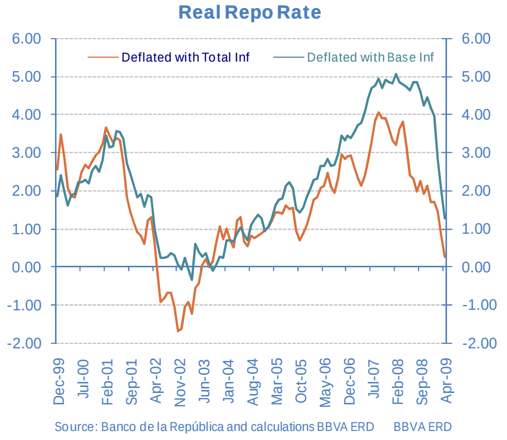
Balance of payments
(Projections for 2009)

	US$ millions	% of GDP
Current account	**-7,989**	**-4.0**
Exports	27,600	13.8
Imports	29,160	14.5
Factor income	-9,059	-4.5
Remittances	3,500	1.7
Financial account	**8,082**	**4.0**
FDI	6,000	3.0
Gross reserves	23,000	11.5

Source: Calculations BBVA ERD

Rates year/year	Q108	Q208	Q308	Q408	Q109py	Q209py	Q309py	Q409py	2008	2009py	2010py
End consumption	3.6	2.8	1.4	1.3	0.0	0.6	1.1	1.2	2.3	0.7	1.5
Private Consumption	4.2	2.8	1.5	1.7	-0.6	0.3	0.8	1.0	2.5	0.4	1.4
Public Consumption	1.4	2.9	1.2	-0.1	2.2	1.8	2.1	2.0	1.3	2.0	1.8
Gross investment	8.1	9.9	13.1	0.0	-4.8	-4.0	-3.0	-2.2	7.7	-3.5	1.53
Domestic demand	4.7	4.5	4.1	1.0	-1.2	-0.5	0.0	0.4	3.5	-0.3	1.5
Exports	14.5	9.0	3.4	6.3	-8.1	-6.0	-5.0	-3.8	8.1	-5.7	-2.0
Imports	12.9	9.4	8.1	10.3	-5.0	-3.5	-2.5	-1.7	10.1	-3.1	0.7
GDP	**4.1**	**3.9**	**2.9**	**-0.7**	**-1.3**	**-0.7**	**-0.1**	**0.2**	**2.5**	**-0.5**	**1.1**





Current level and market rate variation		
Effective annual rate	Current value (%)	Variation (pb.)
BR (fm)	5	-500
DTF	6.11	-422
IBR at one month	6.005	-343
Overnight	6.056	-278
TES 11/2010	5.956	-334
TES 07/2020	8.83	-180
Ordinary Credit	14.36	-272
Consumer credit	24.35	-147
Mortgage lending	15.89	-129

Source: Banco de la República, Asobancaria

3. Monetary and Exchange Policy

BanRep has implemented a monetary policy that is more expansive than anticipated

The rapid drop of inflation, the slower downturn in the economy than expected and the moderation of the devaluation of the peso led the Bank of the Republic to cut its benchmark rate by 500 pb from December 2009. Although at BBVA ERD we had anticipated a change in monetary policy, the speed of the cuts was faster than expected. The current REPO rate (5.0%) is the lowest in the history of the country and compatible with a real interest rate of 0.0%, reflecting the size of the change in monetary policy.

The transmission of the interest rate set by the Bank of the Republic to market rates was faster and more intense than expected. The literature shows that the transmission of rates in Colombia has been partial and generally delayed by about three months for passive rates and for as many as 12 months for active rates. On this occasion, the DTF fell along with the REPO rate and some active rates have performed likewise. The transmission of the consumption loan rate has been partial, although it is expected to continue in the coming months.

Tension in peso liquidity has not been present throughout the year, with the exception of specific cases that coincided with important deadlines of public debt securities in February and May. In general, the Bank of the Republic has been careful in managing the transient expansion quotas in these situations, maintaining adequate levels of liquidity in the economy that are compatible with the REPO rate.

BanRep begins a temporary halt in its rate reduction policy

At BBVA ERD, we consider that BanRep will cut its benchmark rate to somewhere between 4.5 and 5.0%. The rate cut in the meeting held in May will kick off a period of benchmark rate stability that is consistent with our analysis for inflation and a real Repo rate near 0.0%. As inflation continues to drop, additional cuts will ensue until the benchmark rate stabilizes at around 4.0%.

BanRep could cut the required reserves coefficient in the second half of the year. This decision increases the expansion of monetary policy measures by permanently increasing market liquidity. This will also accelerate the transmission of interest rates without the need to modify the REPO rate.

Several reasons justify the pause that BanRep is about to take. First of all, given the delay in the execution of monetary policy, the effects of the cuts made until now have not been seen yet in the economy. It is therefore convenient to wait before evaluating the effects of the current monetary policy situation, which is clearly expansive. On the other hand, excessively low interest rates during a long period of time can result in a series of macroeconomic imbalances that end up affecting financial stability and GDP growth. Finally, in an ideal situation a Central Bank should be able to maintain its benchmark rate stable and thus influence long-term rates by way of market expectations. An interest rate that is too low will surely induce a considerable rate increase in the future, making the market unnecessarily volatile.

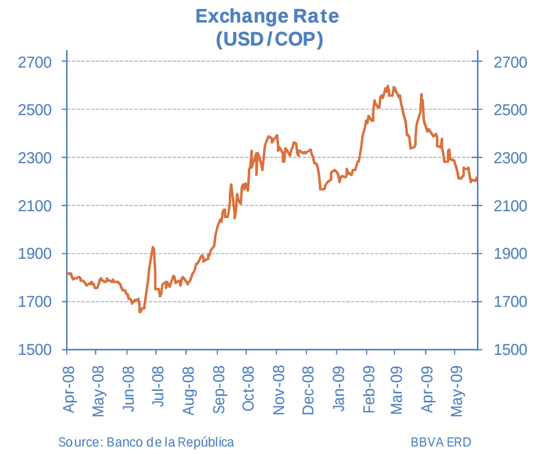
The exchange rate has absorbed the impact of the foreign crash

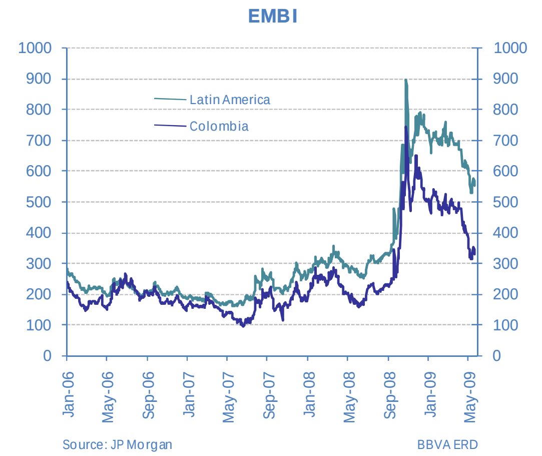
The exchange rate has been devaluated throughout the year and undergone fluctuations of considerable magnitude.

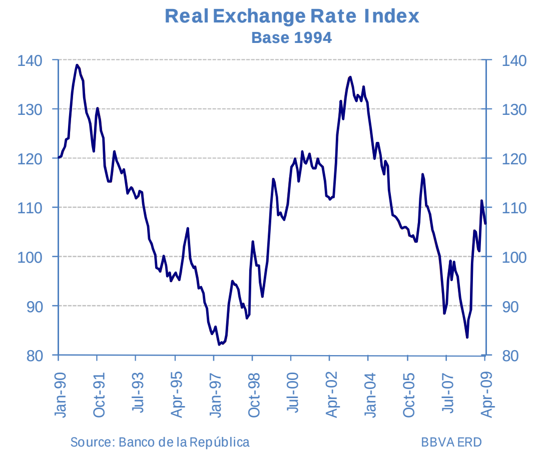
During the first months of the year, the devaluation of the peso has surpassed 37% for the year as a result of an overreaction in the market in the face of a decline in expectations as to the performance of the world's economy. However, since the month of April, foreign conditions have been less unfavorable and there was a significant decrease in risk premium reflected in a drop of the EMBI Colombia and the VIX volatility index. This corrected the exchange rate, the devaluation of which is now near 23%.

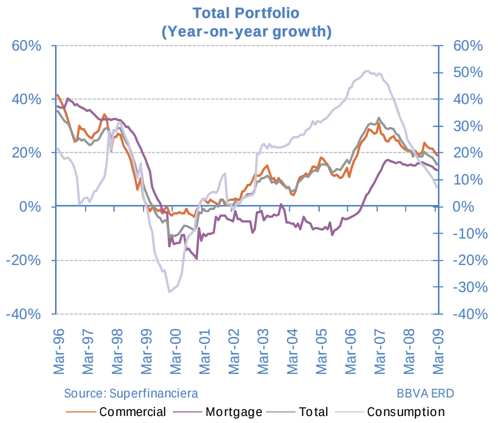
The devaluation of the nominal exchange rate has allowed for a correction of the real exchange rate. This change had been anticipated, given the drop in exchange conditions and the need to compensate the higher current account deficit. It has slowed the negative effect on economic activity and improved the financial situation of tradable good producers and families receiving remittances.

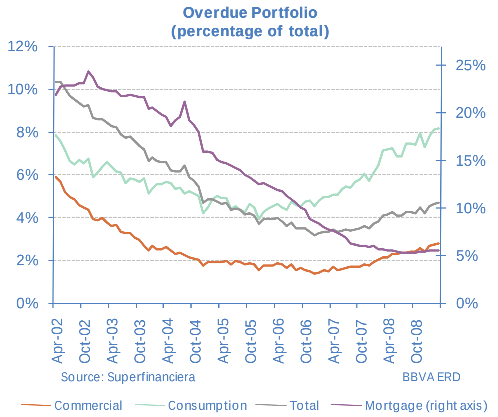
At the BBVA ERD, we expect a devaluation of the exchange rate that will be more intense during the second half of the year. This is consistent with our international scenario, which shows that the economic recovery will be slow and will vary from region to region, involving an upturn in risk premium.

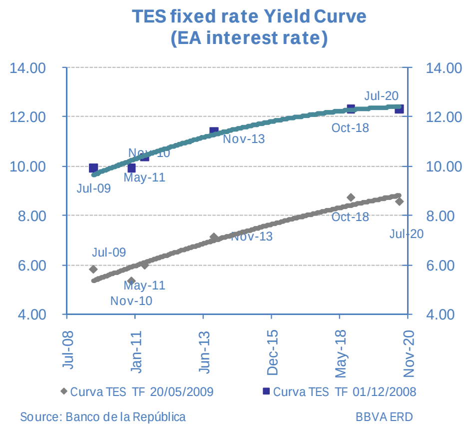












4. Financial sector

The financial system continues to be one of the main strengths of Colombia's economy and its soundness is one of the factors behind the belief that the country will overcome the current situation in the short-term. While the balance sheets of the financial institutions present an increase in possibilities, the stock exchange does not show a loss in wealth and the performance of the fixed income market is extraordinary.

Credit portfolios continue to slow down

Credit growth in Colombia continues to slow down. The strong shock that affected expectations and has led to a decrease in domestic demand affected the disposition of households and companies to request new loans. Consumer lack of confidence prevented households from increasing their leverage. In the midst of the uncertainty, companies delayed or became more cautious about making investment and financing decisions. In addition, credit institutions have been increasing their minimum standards for lending in all credit modalities. This decision was taken as a result of an increase in the overdue portfolio and the decline in the economic indicators of the overall economy.

Credit is expected to continue falling during the second half of the year, while households and companies lose leverage in the midst of economic uncertainty. Financial institutions are expected to maintain their requirements for new loans at current levels for the rest of the year.

Policies to stimulate credit

The government has made decisions to stimulate credit by implementing subsidies for interest rates in several types of loans. As regards consumer credit, the government decided to subsidize the purchase of automobiles and locally manufactured household appliances while simultaneously guaranteeing part of the loans dedicated to this purpose; however, the ERD expects the effects of this stimulus to be limited as a result of the low amount of funds allotted to this policy. The government also decided to subsidize the interest rate in 32 thousand loans between 3% and 5% while guaranteeing part of a limited number of loans for existing housing improvement. The ERD believes this policy to be correct and that it will not only increase the credit portfolio, but also help to reduce the inventory of new housing and help the construction sector.

Quality performance of the credit portfolio

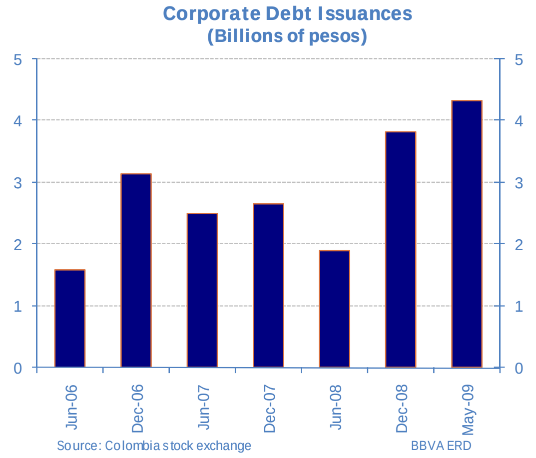
Despite the decline in credit quality in recent months, the overdue portfolio as a percentage of the total continues to be below the average for the last decade. The traditional quality indicator shows the highest numbers in the consumer portfolio and the expectations of the ERD are that the trend will persist during the remainder of the year as a result of the sensitivity to the economic cycle of this type of credit. The ERD also expects a moderate increase in the growth rate of all overdue portfolio types for the remainder of the year, even though this growth will continues to surpass the total of the portfolio.

On the other hand, total portfolio allocations by the financial institutions have decreased slightly. However, there is a noteworthy effort to increase consumer portfolio allocations despite the decline in the quality of this type of credit. These types of decisions limit the risk of the financial sector even more in the current situation.

Lower interest rates will relieve the financial burden on households

As mentioned above, during the first 5 months of 2009 the various interest rates of the economy have reduced the performance curve of paper issued by the National Government and shown a significant drop at various levels during recent months. Credit rates have dropped at a slower rate, although this has depended on the type of loan. The largest drops have been in commercial and housing loans, and less so in consumer loans. The ERD expects the transmission of rates to continue during the second semester of the year and the trend to change; we expect credit rates to drop even further while room for additional cuts in government paper seems to be limited. Therefore, companies and households will receive the impact of Central Bank rate cuts during the second semester of the year, which will reduce their financial burden.

Likewise, the favorable conditions of the local fixed income market are being taken advantage of by the companies that have access to the capital market in search of financing. The amount issued during the first 5 months of 2009 exceeds 1.5 times the amount for the same period of 2008 and is 75% of the amount for all of 2008. The market has over demanded the issues in general, reflected by the high level of liquidity in the economy and the confidence of investors in the primary companies in the country. Likewise, the Government has made a noteworthy effort to reduce the amount of domestic debt placed for 2009, from COP $22.4 billion in the initial plan to COP $16.4 billion through swap operations, giving companies the opportunity to obtain resources directly from the market.



Potential growth of Colombia's economy

Mario Nigrinis

The potential output of an economy can be defined as the level of output that the observed output or GDP fluctuates around. The difference between both is the output gap that determines the position of the economic cycle. There will be periods in which the economy will expand, associated with a positive output gap and a shrinking period associated with a negative output gap. Thus

In the short-term, GDP growth conditions are substantially different from potential output conditions. The former are associated with factors that affect expense by households, companies and government, all of which can be influenced by monetary or fiscal policy. As regards potential output, growth depends on the structural factors of the economy, such as accumulation of physical and human capital, growth of economically active population or productivity. Thus, economic policies implemented to promote potential output growth are designed for the medium or long-term.

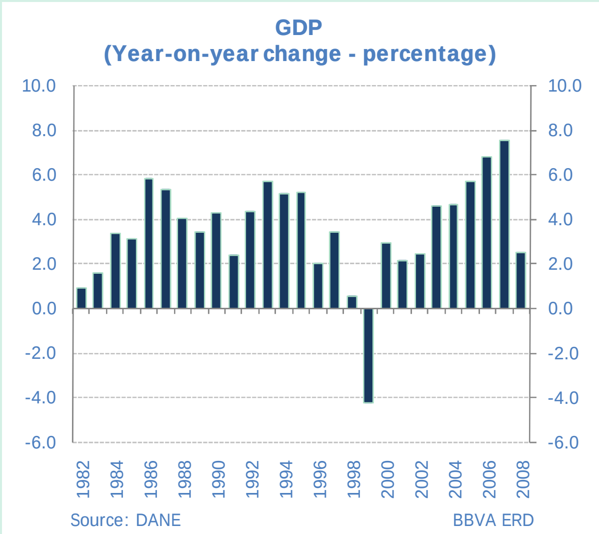
Although it is easy to understand the concept of potential output, measuring it is very complex, since it is a non-observed variable. There are several methods of estimating an approximate value of this variable. These can be generally divided into two groups, statistical and structural. The first case includes a variety of filters, such as Hodrick-Prescott or Band Pass, whose goal it is to isolate high frequency components as irregular or seasonal factors in order to obtain their trend component. The inconveniency of these techniques is that the results are very sensitive to the information at the end of the sample, so the results vary significantly as new data are entered in the estimation. In addition, since this estimation is made from historical data, it does not include information regarding structural changes (such as a natural disaster that destroys a significant part of the capital assets of a country), that may affect potential output growth in the future.

In the second case, models are used to estimate an output function used to carry out an accounting exercise where the contribution of each output factor to the process is quantified. The main disadvantage of this methodology is the uncertainty associated with the possibility that the estimation model is not an adequate representation of the economy under study. This chart shows the results of an exercise performed for Colombia from this point of view.

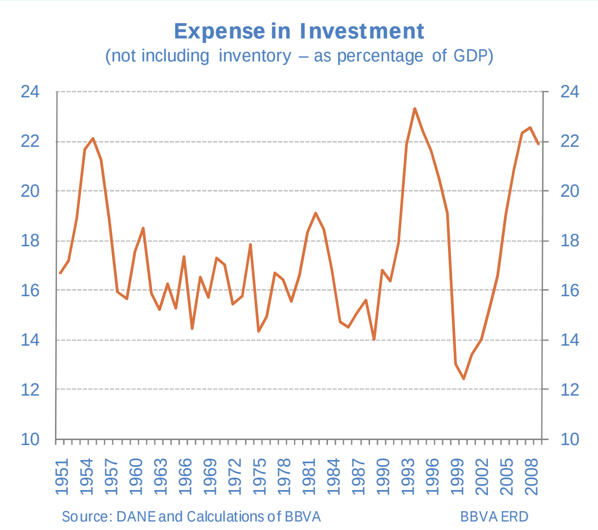
Available information

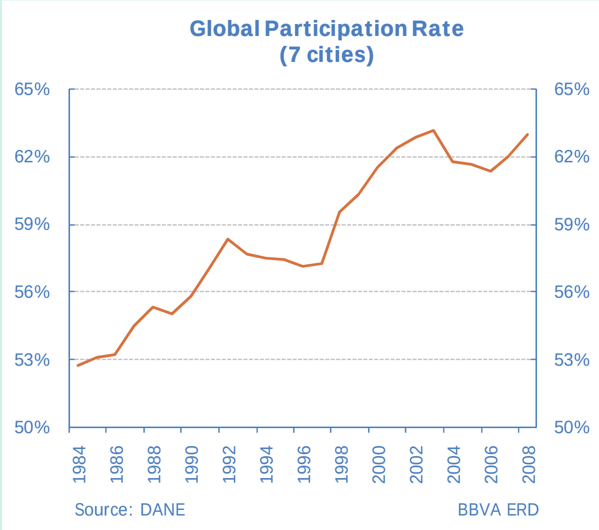
The model to be estimated is based on an output function where GDP dynamics depend on productivity, physical capital assets and the number of persons employed. Below is a brief description of the information available for these variables.

Two complete episodes of the economic cycle are identified from the 80's onwards (1982 to 1995 and 1996 to 2007), and the beginning of a new phase from 2008. It also shows that the expansion phase that began in 2004 was the most expansive in 30 years.



Investment expense in Colombia, as a percentage of GDP, has fluctuated around 17.4% in the last 60 years. The growth acceleration phase in the first half of the 90's and that of recent years was partly driven by a considerable increase in investment. However, in the first case most of the expense was focused in building construction, whereas in the second case this was accompanied by the purchase of machinery and equipment as well as transportation equipment.



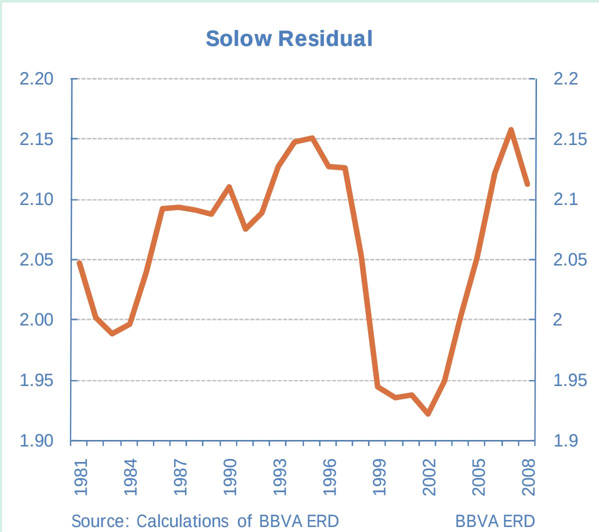


The dynamics of job supply can be analyzed by the performance of the global participation rate (GPR), or the relationship between the economically active population (EAP) and the working age population (WAP). The variation in the EAP depends on, among other factors, the economic conditions of the family unit, which also determines if the spouse or children participate in the job market in addition to the head of the household. In Colombia, the literature provides empirical evidence in favor of the "additional worker hypothesis", where in periods of low economic growth, given the higher probability that the head of the household may lose his job, the secondary members of the household search for work. In times of high growth, the opposite occurs. The variation in the WAP depends on population growth and demographic transition. In Colombia, the censuses show that the rate of population growth has falled and an aging process is setting in where the population under 19 represented 52.5% of the total population in 1950 and 40.0% in 2005. As a result of these processes, the GPR in the last three decades has followed a clear upward trend. This is associated with two phenomena. First, it reflects the greater participation of women in the job market, associated with a sociocultural change that is also reflected in the statistics of years of schooling. Secondly, it is a result of demographic transition.

Economic growth accounting

From the series described previously, a Cobb-Douglas output function is estimated to explain output growth based on the variations of capital assets, number of persons employed and total factor productivity (TFP). It is assumed that the payment of capital in relation to total income of the economy is 40.0%, as seen in various works on Colombia.

Once the equation has been estimated, the contribution to growth of each of the output factors is broken down. The unexplained part is the Solow Residual and it is associated with the TFP of the economy. It is important to note that the dynamics of this variable are affected by the residue of the model, whereby if its specification is erroneous, the conclusions are also invalid. This is the main weakness of the proposed methodology.



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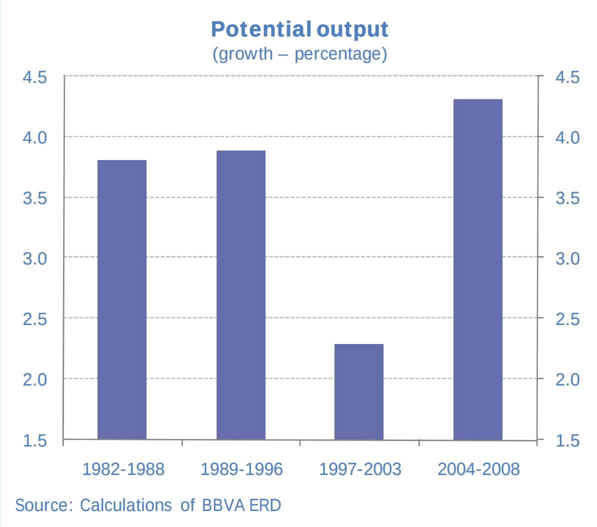
The results of the model show that Colombia's economy has undergone sustained growth in output until the mid 90's. The later decline, intensified by the crisis at the end of the century involved a significant drop in output, which was reversed during the most recent period of expansion. This fluctuation in the Solow Residual would indicate an important decrease in the potential output growth rate during the crisis years, which will be analyzed in more detail in the following section.

The growth accounting exercise shows that output expansion until 2003 was primarily caused by capital accumulation and greater job participation. However, the recent period of expansion shows balanced contribution from the various output factors, which could be an indication of the acceleration of potential growth.



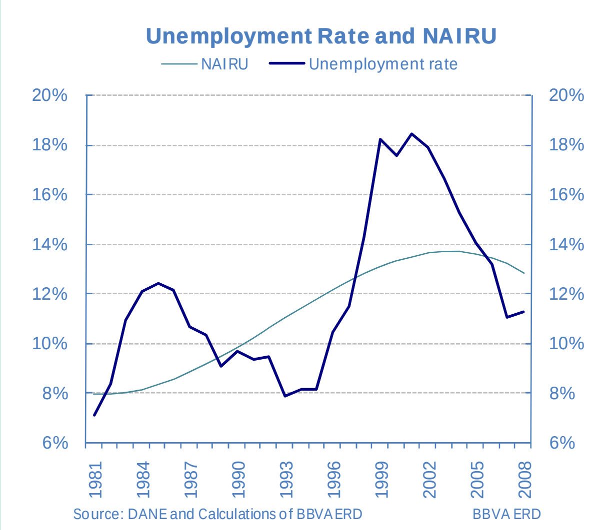
Colombia Growth Accounting

Period	Average growth	Contribution to growth		
		L	K	A
1982-1988	3.46%	1.38%	1.78%	0.30%
1989-1996	4.07%	1.73%	2.14%	0.20%
1997-2003	1.71%	1.68%	1.30%	-1.27%
2004-2008	5.45%	2.04%	1.71%	1.70%

Source: Calculations of BBVA ERD

Potential output estimation

To estimate potential output, the structural unemployment rate (NAIRU) is taken into account. This is a non-observed variable that is estimated from a Philips curve model. The number of persons employed consistent with the potential output is obtained from the working age population (WAP), multiplied by the GPR trend and corrected by the NAIRU, On the other hand, the level of the TFP consistent with the potential product is obtained by calculating the trend component of the Solow Residual using the Hodrick and Prescott filter. Thus, we find that the potential output expansion rate of the economy was around 3.8% until the mid 90's and dropped to 2.3% due to the recession at the end of the century. During the last expansion period, the economy grew to 4.3%, similar to the figure for average GDP growth since 1905.



Medium-term challenges and opportunities

At mid-term, the economy of Colombia faces the challenge of raising, or at least maintaining its potential output growth rate. This involves overcoming various obstacles that have impeded growth until now. One of the main bottlenecks is the poor infrastructure of the country, which negatively affects output expansion.

The current level of investment spending should at least be maintained to guarantee sustained growth of capital assets at 4.8% yearly. However, this spending should continue to be dedicated to productive investment to prevent the repetition of what occurred in the mid 90's.

On the other hand, demographic transition is a great opportunity to increase the potential output growth rate. Forecasts show that for 2025, the population in Colombia between 20 and 65 will be 60.0% of the total compared to the current 52.8%.

This future group of generations would also consist of greater human capital versus the current generation. This should result in greater productivity with an increase in work income in real terms.

Therefore, Colombia's economy is beginning a transition that will substantially improve its level of income in the next 20 years. Given this favorable outlook, it is becoming one of the most attractive economies in the region.

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Colombia Economic Indicators	2007	2008	2009(e)	2010(e)
Activity				
Nominal GDP (COP, billions)	431,839	476,713	497,468	523,693
Nominal GDP (USD billions)	208	243	201	198
Real GDP (% variation)	7.5	2.5	-0.5	1.1
End of period inflation				
CPI (%)	5.7	7.7	4.3	3.8
Interest and exchange rates				
Repo rate (End of period %)	9.5	9.5	5.0	5.0
DTF (End of period %)	9.0	10.1	5.4	5.4
Exchange rate (COP/USD end of period)	2,014.8	2,243.6	2,342.7	2,585.9
Exchange rate (End of period %)	-10.0	11.4	4.4	10.4
Exchange rate (COP/USD average)	2,078.35	1,965.1	2,312.0	2,451.1
Exchange rate (average %)	-11.9	-5.4	17.7	6.0
Public accounts				
National Central Government primary balance sheet (% GDP)	1.0	0.9	-0.7	0.2
National Central Government total balance sheet (% GDP)	-2.7	-2.3	-4.2	-3.5
Foreign sector				
Exports (USD billions)	29.4	37.1	27.6	27.1
Exports (% GDP)	14.1	15.3	13.8	13.7
Imports (USD billions)	30.1	36.3	29.2	28.4
Imports (% GDP)	14.5	15.0	14.5	14.3
Trade balance (USD billions)	-0.7	0.8	-1.6	-1.3
Trade Balance (% GDP)	-0.3	0.3	-0.8	-0.6
Current account balance (USD billions)	-5.8	-6.8	-8.0	-5.3
Current account balance (% GDP)	-2.8	-2.8	-4.0	-2.7
International reserves (USD billions)	20.6	23.5	23.0	23.0
Job market indicators				
Total national employment (millions of persons)	17.5	17.7	17.8	18.0
Urban unemployment rate (% of active population)	10.2	10.9	13.0	13.6

International Context

Raw Materials (End of period)	2007	2008	2009		2007	2008	2009
Brent (USD/barrel)	93.9	45.6	48.9	Soy (USD/t.)	423.2	343	336.0
Copper (USD/t)	6675.0	3070.0	3527.7	Maize (USD/t.)	161	144	147.0
Gold (USD/troyoz.)	833.9	882.1	875.0	Wheat (USD/t.)	312	216	200.0

	Real GDP (%)				Inflation (end of year %)*			
	2007	2008	2009	2010	2007	2008	2009	2010
USA	2.0	1.1	-2.0	1.1	2.9	3.8	-0.3	1.5
EMU	2.6	0.6	-3.3	-0.1	2.1	3.3	0.3	1.0
Japan	2.4	-0.7	-6.0	-0.4	0.7	0.0	-0.8	0.4
China	13.0	9.0	8.1	8.4	6.5	2.0	0.0	2.0
Latin America								
Argentina	8.7	7.0	-1.8	0.7	8.5	7.2	7.5	10.0
Brazil	3.8	5.1	-2.1	3.0	4.5	5.9	4.2	4.4
Chile	4.7	3.2	-1.2	2.1	7.8	7.1	0.2	1.8
Colombia	7.5	2.5	-0.5	1.1	5.7	7.7	4.3	3.8
Mexico	3.3	1.4	-6.3	1.7	3.8	6.5	3.8	3.9
Peru	8.9	9.8	2.4	3.6	3.9	6.7	2.1	2.0
Venezuela	8.4	4.8	-0.5	-2.9	22.5	31.9	42.3	49.2
LATAM 1	4.9	4.1	-2.9	1.9	6.0	8.1	6.6	7.5
LATAM Ex-Mexico	5.7	5.1	-1.4	1.8	7.1	8.7	7.5	8.7

* Inflation USA and EMU: Period average

	Public Sector Balance (% of GDP)				Current Account Balance (% of GDP)			
	2007	2008	2009	2010	2007	2008	2009	2010
USA	-1.2	-4.6	-12.7	-8.4	-5.3	-4.8	-3.0	-2.9
EMU	-0.6	-1.9	-5.4	-6.0	0.5	-0.1	-0.3	-0.4
Japan	-5.4	-4.9	-8.0	-9.0	4.8	3.2	3.0	3.0
China	0.7	-0.4	-2.9	-1.4	11.0	9.8	9.5	10.0
Latin America								
Argentina 2	3.2	1.4	0.1	0.8	2.7	2.3	1.9	2.0
Brazil	-2.3	-1.7	-2.3	-1.4	0.1	-1.8	-1.3	-1.4
Chile 2	9.9	4.9	-4.2	-3.8	4.4	-2.0	-3.1	-4.6
Colombia	-2.7	-2.3	-4.2	-3.5	-2.8	-2.8	-4.0	-2.7
Mexico	0.0	-0.1	-1.8	-1.8	-0.8	-1.4	-1.9	-2.1
Peru	3.1	2.1	-1.2	-1.1	1.1	-3.3	-3.3	-3.2
Venezuela 2	3.0	-0.2	-6.0	-6.6	8.7	13.1	0.7	2.4
LATAM 1	0.1	-0.4	-2.3	-1.8	0.7	-0.4	-1.3	-1.3
LATAM Ex-Mexico	0.4	-0.4	-2.6	-1.9	1.3	-0.1	-1.2	-1.1

1 Average of the 7 countries mentioned; 2 Central Government

	Exchange Rate (versus $, end of period)				Official Interest Rate (End of period %)			
	2007	2008	2009	2010	2007	2008	2009	2010
USA					4.25	0.25	0.00	0.00
EMU ($/€)	1.5	1.3	1.2	1.1	4.00	2.50	0.75	0.50
Japan (yen/$)	112	93	93	101	0.50	0.10	0.10	0.10
China (cny/$)	7.3	6.8	6.8	6.6	7.47	5.31	4.50	3.96
Latin America								
Argentina	3.1	3.4	4.1	4.5	13.50	19.08	17.00	15.03
Brazil	1.8	2.3	2.1	2.1	11.25	13.75	8.50	8.50
Chile	499	649	560	566	5.90	8.25	0.75	2.00
Colombia	2015	2244	2343	2586	9.50	9.50	5.00	5.00
Mexico	10.9	13.7	13.0	12.4	7.50	8.25	4.50	4.50
Peru	3.0	3.1	3.15	3.20	5.00	6.50	2.00	2.00
Venezuela	2.2	2.2	2.7	3.5	11.70	17.60	16.00	14.50

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