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## Does Uribe Deserve a New Term?

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Juan Carlos Echeverry & Verónica Navas

### EXECUTIVE SUMMARY

We evaluate the positives and negatives of Uribe's seven years as a president, to analyze whether this government deserves another four years. There are plenty of both. But we think the benefits of democratic alternation outweigh those of continuity.

As the international economic situation seems to untangle, Colombian economic results deliver both good and bad news. Therefore, we analyze possible contingencies and their effect on economic performance in 2009.

Exports fell 15.3% in January-February 2009 compared to the same period last year. Given that Colombia's main trading partners are the United States, Venezuela and Ecuador, the fall in exports is mainly due to falling external demand and lower oil prices. In the worst case scenario, exports to Venezuela could fall by 10% in 2009, to Ecuador by 25%, and to the US 25%, given an average oil price of \$44 per barrel. This would ultimately mean that exports would fall by \$10.8 billion this year. Risks to the oil price are on the upside, and therefore we don't expect more unpleasant surprises in this front.

While employment increased between March 2008 and 2009, the national unemployment rate also rose, from 11.2% to 12%. This led us to wonder what is behind rising unemployment. Labor market statistics show that permanent jobs are being replaced with temporary ones, particularly in the commerce sector. By itself this is not necessarily bad, given the present circumstances; and especially because household heads are losing their jobs and other, younger and less qualified members are entering the labor force.

It shows that social conditions are deteriorating, as fewer contributions to the health and pension systems are being made. This may also have significant fiscal effects. The worst part of the story is that, given that unemployment responds with a lag to economic activity; it may be a long time before the labor market is out of the woods.

The manufacturing sector results for March 2009 were received with optimism, as industrial production soared at a monthly rate of 5.4%. However, while this is definitely good news, it might be a simple base effect, as it had plunged by 9.2% in February. Industrial and commerce employment keep falling, signaling that both production and sales might continue to do so, too.

*Latin*SOURCE

708 Third Avenue,  
18th Floor  
New York, NY 10017  
Phone: 212-317-8015

info@latinsource.com  
www.latinsource.com

## DOES URIBE DESERVE TO BE REELECTED?

Should president Uribe be reelected -- again? From an economist's point of view, and undertaking a "strictly positive" analysis (if that were possible), the answer would hinge upon a balanced assessment of his record. This is what we attempt here. Of course, one could add all kinds of speculation about the positive or negative effects on long-term institutional design, quality and stability. And that could be equally countered with similarly opinionated points of view arguing that institutions could improve instead of deteriorate. For instance, four years ago we did not like, along with many other people, the approval of Uribe's reelection, benefiting the government itself. However, nowadays we think it's better for Colombia to have the choice of reelecting its presidents, instead of the previous status quo of allowing only one term.

Therefore, institutional design seems to be a complicated issue, a reason we now embark upon a qualitative analysis of the Uribe's government economic policymaking track record, to shed light upon whether he deserves four more years. At the end of this analysis every one of our readers will have to make up her or his own mind, since there are both positives and negatives.

Let's start with the macroeconomic balance, summarized in Table 1. On the positive side, this government approved two pension reform plans that tamed the rise in payments of the unfunded outlays of the pay-as-you-go public system. The total net present value of the liabilities were reduced approximately by one fourth -- a heroic achievement, considering that Congress and the Constitutional Court conspired against these initiatives.

It also managed to approve a tax reform (most of whose benefits were lost in recent years); and maintained the dirty floating of the exchange rate, a regime that has proven useful for the group of "well-behaved" Latin-American countries.

Finally, and against Uribe's own instincts (revealed in the 2001 presidential campaign, when he criticized the regional transfers' reform for taming the protracted participations of provinces and municipalities in central government tributary revenues), this government approved a continuation of that reform until 2016. This is actually the biggest public expenditure stabilizer of the last decade, and established a new status quo between the center and the regions within Colombian fiscal institutions. These we consider the most substantial main four achievements in the macroeconomic arena.

On the negative side, this government failed to pass three consecutive tax reforms, and even lost permanently substantial tax revenues in the last one, due to disagreements between the president and the minister of finance. Similarly, it attempted to produce a new statute for the annual national budget code (*Estatuto Orgánico del Presupuesto*); this was a key reform, because one of Colombia's most complicated fiscal features is its rigidity. Flexibilizing the national budget was a priority then, but nevertheless neglected within the economic team. This lack of

unity did it in, and the idea didn't even make it past the first debate on the congressional budget committee.

**Table 1.**  
**Uribe Government Record in Macroeconomic Policymaking**

POSTIVE	NEGATIVE
1. Legal (2002) and constitutional (2003) pension reforms 2. 2002 tax reform 3. Regional transfers' constitutional reform maintaining previous scheme until 2016 4. Flexible exchange rate regime	1. Three failed tax reforms; the last one of which led to a 0,4% of GDP revenue loss 2. One failed public budget reform 3. Lack of workable shock treatment for confronting 2009 recession

Finally, the government has failed miserably in producing a workable package of easy-made expenditures that enter rapidly into the veins of the economy, to help this anemic patient rise and walk (let's not even talk about run) again. Instead, they have produced creative budgetary arithmetic and flashy headlines, and have allowed key economists to leave.

On the microeconomic front, the positive news came first from labor reform (see Table 2); subsequently, from the transformation of Ecopetrol, making it an accountable corporation where ordinary people would be allowed to own shares; and separating from it the regulatory functions that created perverse incentives, and transferring them to ANH. A similar transformation was imposed upon Telecom.

In these two companies, all-powerful labor unions have for decades impeded radical, or any form, of transformation. Hence, these are remarkable achievements. Something similar can be said of the banks nationalized during the 1997-1999 crisis, sold at auctions where the government achieved substantial revenues. These were unintended consequences that rendered the whole banking nationalization a positive sum operation. Nobody predicted this outcome at the end of the nineties, and it reveals a good management of the process. That merits a positive score for the government and its capable technical team.

A more controversial initiative was the generous package of subsidies to corporations, via the tax deductions for profit reinvestment, and the creation of so called Special Economic Zones. Economists by and large have criticized these concessions as unnecessary, fiscally unsound and unsustainable, inequitable and immovable; since they have being paired, for many firms, with decade long ahead of grants for tributary stability.

Table 2.  
Uribe Government Record in Microeconomic Policymaking

POSITIVE	NEGATIVE
<p>1. Labor reform 2002</p> <p>2. Ecopetrol partial (10%) privatization; focus on exploratory functions for Ecopetrol, and creation of National Hydrocarbons' Agency (ANH) in charge of regulation</p> <p>3. National Telecom partial (50%) privatization</p> <p>4. Privatization of banks: Granahorrar, Bancafé, Megabanco</p> <p>5. Good banking regulation and supervision</p> <p>6. Tax deduction for corporations: 40% of corporations' profits reinvested</p> <p>7. Special Economic Zones (SEZ) with 15% income tax (vs. 33% for the rest of households and firms)</p>	<p>1. Delay in Free Trade Agreement negotiations which led to failure of approval by US Congress</p> <p>2. Dismantling of Oil Revenues Stabilization Fund (FAEP), only existing tool to manage eventual mining sector booms</p> <p>3. Failure to present health reform to congress for confronting expensive constitutional court ruling that equalized benefits of subsidized and contributive medicare regimes</p> <p>4. Freezing of gasoline prices corresponding to USD 60 per barrel, to create a price stabilization fund, in the midst of recession</p> <p>5. Lack of new agricultural strategy, missing phase of rising food prices from China's demand</p> <p>6. Obscure approval process of SEZ, leading to probable crony capitalism</p> <p>7. Lack of labor market formalization reform</p>

Hence, should the central government need fresh resources in eventual tax reforms, it will hit a legal wall in these humongous concessions to some big corporations. Chileans have spent a long time undoing these agreements; they add more inflexibility to an already-rigid fiscal structure.

We have argued in their favor as an experiment worth undertaking, in the sense that, with an elasticity of investment sufficiently high, they may end up producing more revenues than the funds supposedly lost. Hence, from our point of view, the net impact is an empirical rather than a theoretical issue; it is true that conceptually these measures introduce disparities into the tax code. However, in an extremely competitive world market for foreign direct investment, these

mechanisms are worth a try. That is why we include these provisions in the positive columns, a judgment most of our orthodox (and some heterodox) friends would deem completely misplaced. On the negative side, this government has racked up a long list of mistakes: delaying the FTA with the United States; debasing the Oil Revenues Stabilization Fund (FAEP for its initials in Spanish); health reform (e.g., the lack of); freezing of gasoline prices; the lack of agricultural reform; and finally the new approval process of the SEZ, which has opened a dark door for traffic of influences and crony capitalism.

It is difficult to minimize the depth of these issues. For instance, at the same time that the government did so many good things in the oil front, it abolished the fiscal responsibility scheme formalized in the oil stabilization fund, created at the beginning of the 1990s following the Norwegian model. In case the country found substantial oil reserves, that fund imposed a sound savings path, which would have made its management socially, economically and inter-temporally responsible. Colombia needed more depth on this front, but this government favored immediate, shallower needs, liquidating the FAEP when other tax revenues were booming. Colombia isn't Norway, but even Hugo Chavez has (sort of) maintained an oil-revenue stabilization fund.

The lack of vision in delaying the FTA with the US, and failing to pursue micro reforms in health and agriculture, are problems that will be inherited on the next government. Colombia, a country with abundance of water and land, let the international food prices' boom pass without taking advantage of it, in contrast to Peru, Brazil, Chile and Mexico, where agricultural "miracles" have occurred in the last decades; in the face of strong Chinese demand for food, the lack of agricultural reform seems to be a lost opportunity.

Finally, failure to propose health care reform will certainly be the worst fiscal bequest to the next government. The Uribe administration has let six years pass, witnessing how the health care system bled out of resources and suffered from poor microeconomic design, twisted incentives and improper or nonexistent regulation in basically all its fronts (assurance, health provision, cost of medicines, practitioner's remuneration, etc.).

Finally, let us review the quality of institutions in fields directly or indirectly related with the economy (see Table 3). On the positive side, every praise is earned on the security front, upon which we have reported and analyzed extensively, as have newspapers around the globe. In that area, Uribe deserves, and receives, widespread recognition. Hardly anyone could have done a better job. Similarly, good marks are given for the systematic appointment of good, seasoned economists to the board of directors of the Central Bank. Uribe is known not to be fond of economists, and even less so of orthodox ones. Hence, this shows some restraint on his part, having privileged the long run objective of price stability and technical management of short run

countercyclical policy, instead of mingling with darker goals in monetary and exchange rate policies.

A final mention should be given to his respect for free press, even though he had to deal with fierce criticism from all types of commentators. As an ambassador put it: "Uribe has the public opinion, but not the published opinion". Indeed, the president is not favored by the majority of intellectuals, from the right, center or left. He is an easy target for editorials, and his outbursts feed the literary sharks of newspapers. However, for a tough-minded and tough-tongued president, he was admirably patient with criticism.

**Table 3.**  
**Uribe Government Record in institutional Quality on Issues Related to the Economy**

POSITIVE	NEGATIVE
<p>1. Substantial increase in rural security, defeat of FARC in critical areas, forcing them to retreat to their winter camps, in some cases outside Colombia; substantial drop in kidnappings</p> <p>2. Appointment of technically trained economists to the Central Bank Board of Directors</p> <p>3. Maintenance of free press</p>	<p>1. Quality deterioration of technical standards of public policies due to "dethroning" of National Planning Department and CONPES as ruling agencies for economic policy design</p> <p>2. Attacks to the Supreme Court, and permanent infighting between the judiciary and the executive branches</p> <p>3. Absorption of Congress by the executive</p> <p>4. Appointment of eight out of nine Justices of the Constitutional Court, which might have tamed its independence</p>

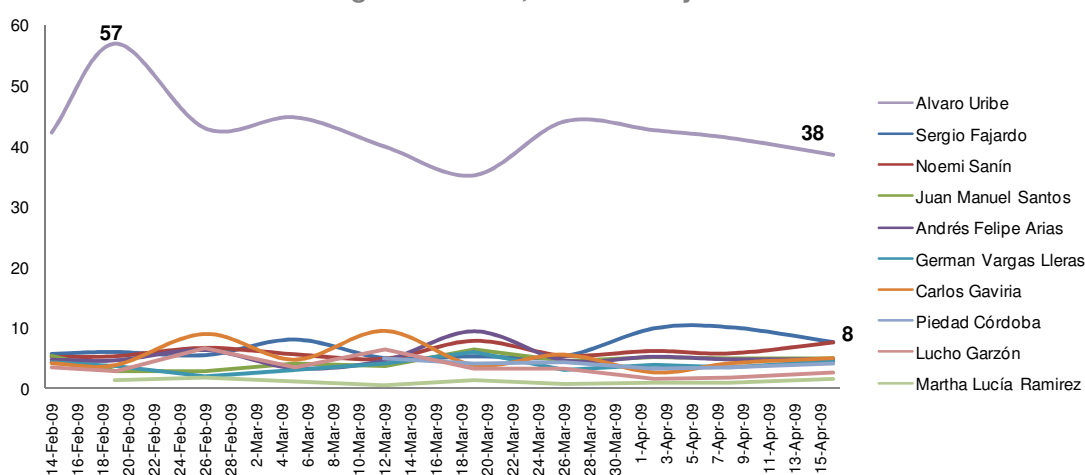
On the negative side, the four points in Table 3 mark a substantial shift in institutional quality in Colombia. Mainly, the criticism points to a deterioration of the quality of economic policy making, and the checks and balances among the branches of public power. Congress and the high courts will hardly ever be the same. The real proof of this is the approval by Congress and the Constitutional Court for Uribe to run for a third term. It is difficult to minimize how deeply these institutions have become subalterns of the president; and to foresee the consequences for institutional development of Colombia.

In sum, based on this list of positives and negatives, would you or wouldn't you approve a second Uribe reelection? This of course is a personal question, whose response depends on the weights

each of you give to the issues presented in Tables 1 to 3. Our weights lead us to prefer for 2010 democratic alternation rather than continuity for the incumbent.

Do the Colombian people concur? Figures 1 to 3 show the recent poll trends. The president is still preferred over everyone else. Nevertheless, that preference has declined from 57% four months ago to 38% one month ago. Will this trend be maintained until the referendum day, in November or December? Will it suffice for getting the referendum approved? These are the questions that keep all politicians, *uribistas* or no, awake at night, tossing and sweating in their beds.

**Figure 1.**  
If President Uribe were running for resident, who would you vote for?

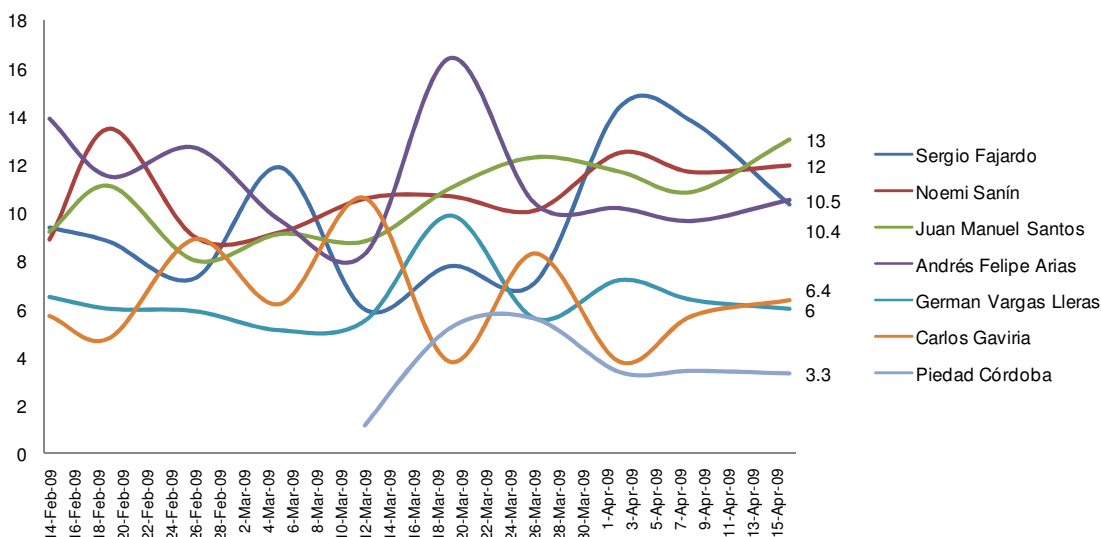


Source: several polls reported in the media: El Tiempo, El Espectador, Gallup.

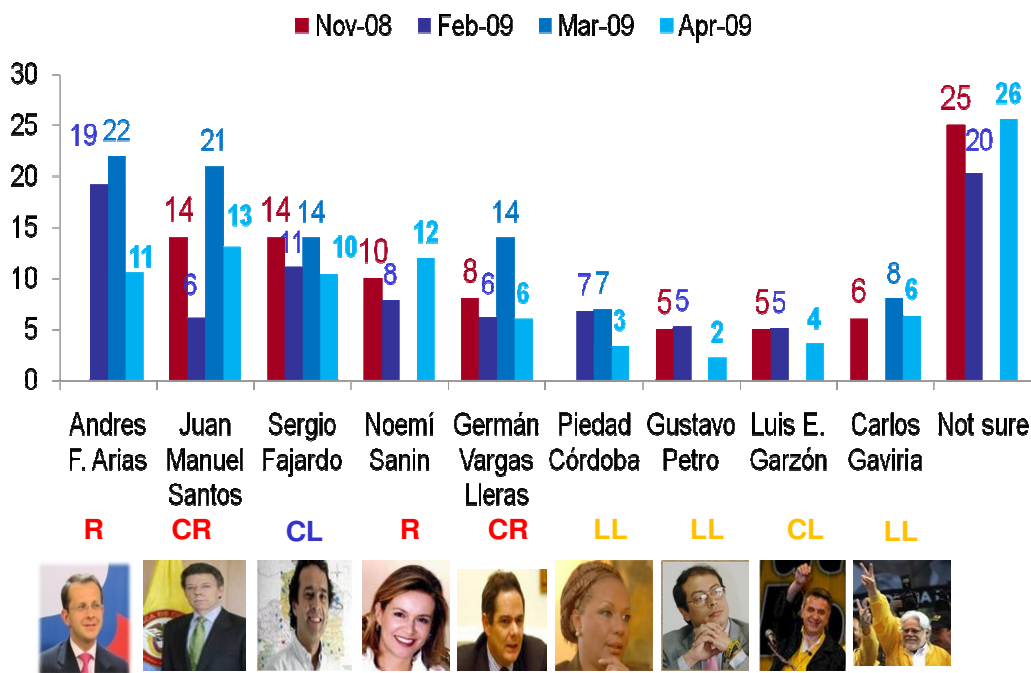
If Uribe does not run, the spaghetti bowl of favorability has yet to show definite trends. Figures 2 and 3 show no trends; only when the presence of the president is decided, would these figures show more definite trends.

A final outcome of the Gallup poll has caused considerable turmoil domestically. To the question of an eventual second round, without Uribe, several options were analyzed, as appears in Figure 4. The interesting result is that the most favored people were Sergio Fajardo and former Minister of Defense Juan Manuel Santos; they defeated everyone else in one-on-one competitions. Among these two, surprisingly, Fajardo appears to be outperforming Santos, but by a close margin that some media characterized as a technical draw, since the margin of error is 4%, and the difference was 3%. We need to take into consideration that the blank vote came up high in all contests, and that the campaigns are still at the beginning, Santos having resigned just last week.

**Figure 2.**  
If President Uribe were NOT running for president, who would you vote for?



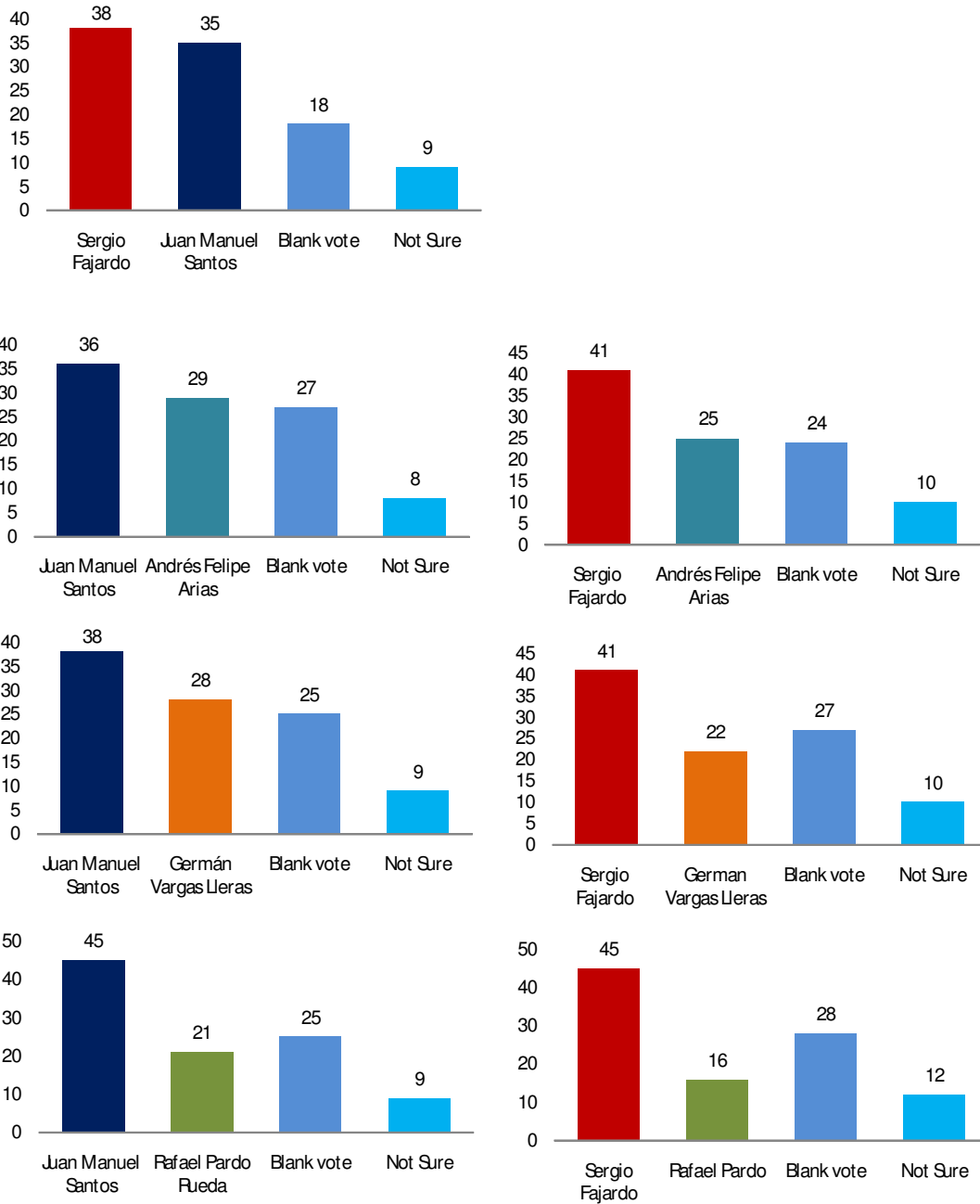
**Figure 3.**  
If President Uribe were NOT running for president, who would you vote for?



Source: Revista Semana, El Espectador y El Tiempo

Note: the following letters represent our characterization of the candidates' political choices: R: right wing politics; CR: Center right; CL: center left; LL: very left. The colors agree with US chromatic associations of politics.

**Figure 4.**  
**If the second round for the presidential election were tomorrow, and the TWO presidential candidates were (in each case) the following, who would you vote for?**



Source: Gallup poll

## EXPORT CONTINGENCIES

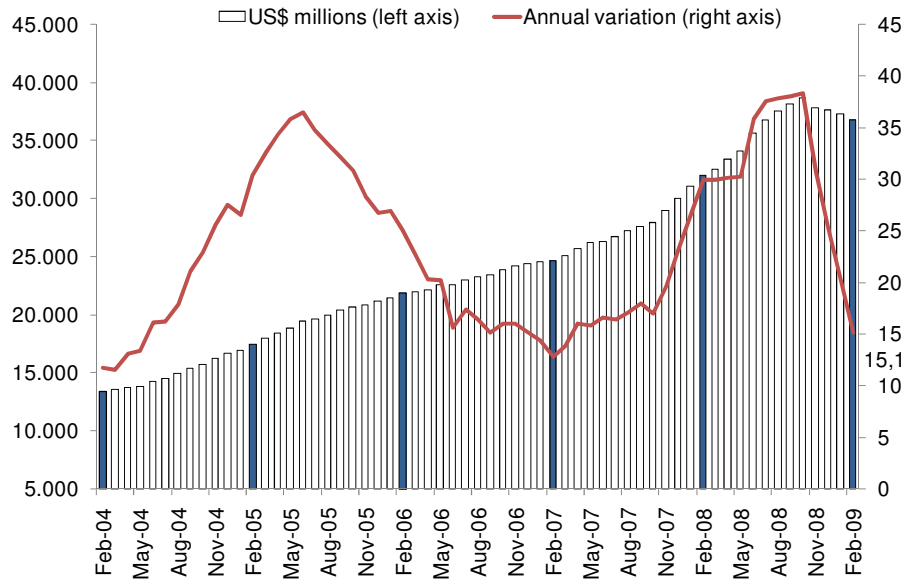
It is not surprising that, in the midst of a global recession, exports in Colombia are falling. Total exports fell by 15.3% in January and February, compared to the same period in 2008, and have been on a downtrend since July 2008 (Figure 5). The main fall in February was in so-called “traditional” exports, particularly oil, which contracted by 42.5%. This is essentially due to reduced oil prices (in January-February 2009 the average oil price was \$40.5, down from \$94.2 a year earlier) as the exported volume actually grew 28%. The opposite occurred with coal, where despite an 8% decrease in the exported volume, the exported value in dollars grew by 43% (the average coal price between January and February in 2008 was \$71.7 vs. \$60.2 in the same period in 2009).

So called “Non-traditional” exports are also contracting. In this case, the most poignant cause is reduced global demand, rather than falling prices. Between January and February the export of these products fell by 8.5% in dollar terms. The greatest share of non traditional exports is sold to Venezuela (34%), which fell by 12% in the first two months of the year, accounting for half of the total fall in this item up to February. The textile sector, which exported nearly \$300 million between January and February 2008, has been hurt the most, as exports have been more than halved. However, exported foods have soared by 40%, partially compensating. Nevertheless, this reveals the extent of Colombia’s vulnerability to what goes on in Venezuela: namely, oil price fluctuations that determine the country’s purchasing power, foreign currency availability, plus whatever trade restrictions Mr. Chavez pulls out of his sleeve.

The second most important destination for non-traditional exports is the United States, followed by the European Union and Ecuador; these countries absorbed 18.8%, 8.2% and 6.9% of non traditional exports in 2008, respectively. Exports of flowers to the United States have more than halved in the first bimester; machinery exports fell 39.7% and textiles by 14.2%. On the bright side, gold exports to the U.S soared by 249%, and reached more than \$100 million in February (Figure 7).

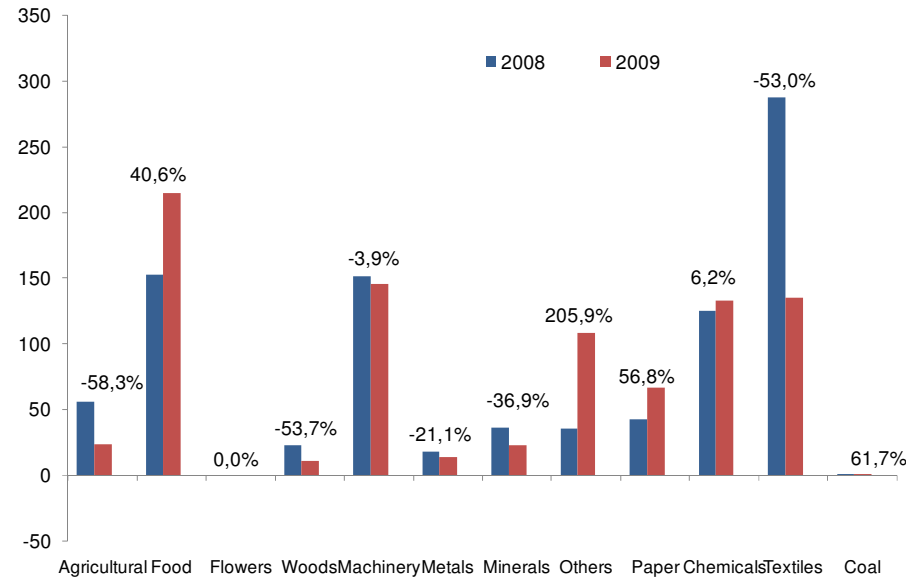
Exports to Ecuador and Venezuela reached US \$7.7 billion in 2008, representing 18% of total exports and 42% of non-traditional ones. Thereby the importance of these two trade partners for Colombia is far from negligible. Hence, even though Colombia has been classified by the financial markets as one of the “well behaved” economies in Latin America, as it can be seen by its spreads, it is intimately related with two not so well behaved economies such as Venezuela and Ecuador, and therefore subject to their volatility. The question is how much these two countries could actually hurt the Colombian economy, if worse came to worst. The answer is not that much more.

**Figure 5.**  
Total Exports - annual growth



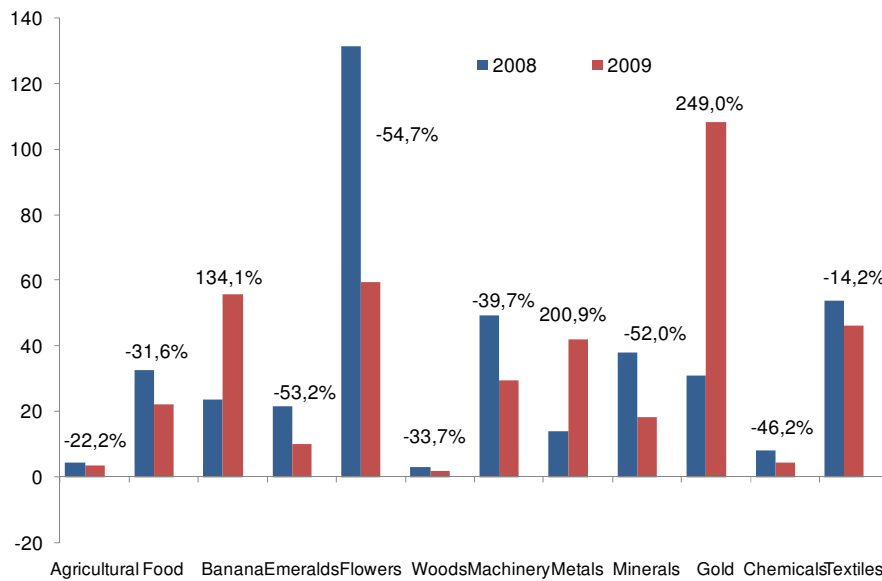
Source: DANE

**Figure 6.**  
Non-traditional Exports to Venezuela—millions of US\$, annual variation on top of the bars



Source: National Planning Department

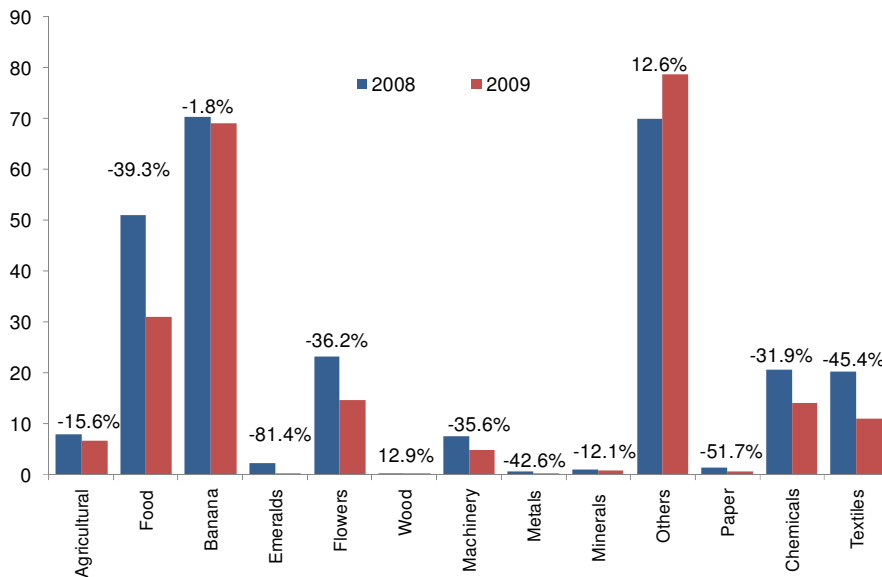
**Figure 7.**  
**Non-traditional Exports to U.S. – millions of US\$, annual variation on top of the bars**



Source: National Planning Department

Regarding exports to Europe, the greatest fall has taken place in food exports, which decreased by 39.3% in February (Figure 8).

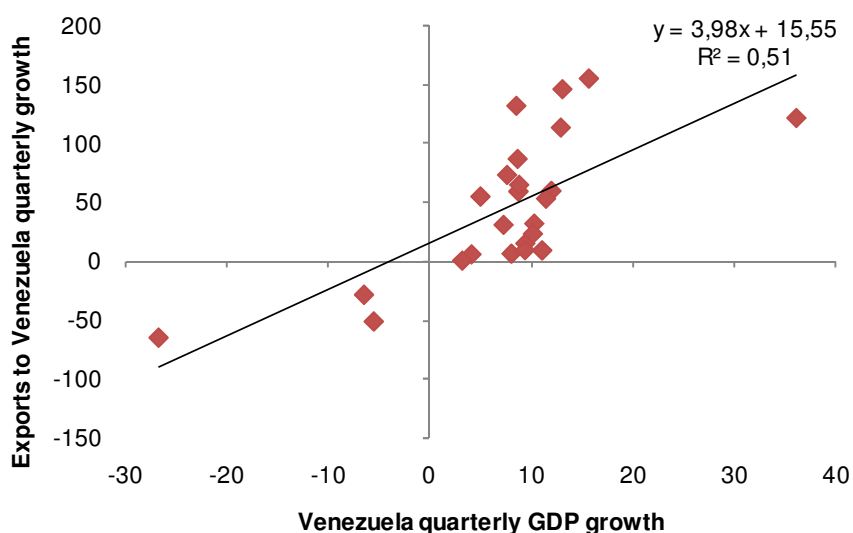
**Figure 8.**  
**Non traditional exports to Euro Zone - million US\$, annual variation on top of the bars**



Source: National Planning Department

The elasticity of Colombian exports to Venezuela to Venezuelan GDP growth is 3.9% (Figure 9). Therefore, we estimate that if the Venezuelan economy were to contract by 2.2%, as the IMF forecasts, Colombia's exports to Venezuela would fall by 8.7%. In a more negative scenario for Venezuela, where the economy contracts by 2.6%, exports would fall by 10.3%. Hence in the worst case scenario, exports to Venezuela could fall from USD 6.2 billion in 2008 to USD 5.6 billion in 2009.

**Figure 9.**  
Relation between Exports to Venezuela and Venezuela's Quarterly GDP Growth Rate

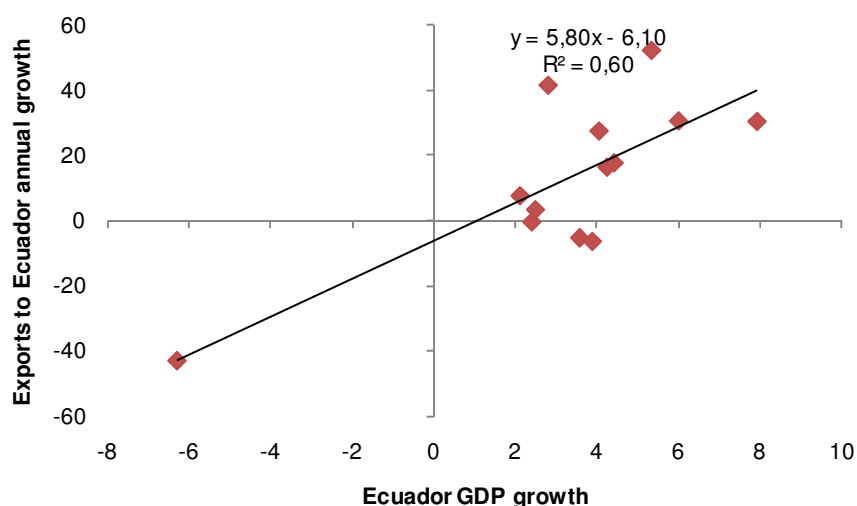


Source: Latin Source, DANE and author's calculations

Additionally, we find that the elasticity of exports to Ecuador to Ecuador's GDP growth is 5.8% (Figure 10), therefore exports to Ecuador could fall more drastically. If Ecuador's economy were to contract by 2% as is forecast by the IMF, exports to Ecuador could fall by 11%. However, other analysts are more negative, and forecast the Ecuadorian economy to contract by more than 4%; this could take Colombian exports to Ecuador down by almost 25%. Therefore in the most negative scenario, the sum of exports to Venezuela and Ecuador could fall by 12.2% to USD 6.7 billion. This is more or less a \$1 billion fall in exports from 2008 (Table 4).

However, the problem is that a deep economic contraction in Venezuela and Ecuador is most likely to be caused by a protracted fall in oil prices. This implies that the effect upon Colombia would be twofold. Not only would exports to Venezuela and Ecuador fall as their respective demands are hurt by falling oil-related revenue, but traditional exports (to the United States, for instance) fall as a result of lower oil prices.

Figure 10.  
Relation between Exports to Ecuador and Ecuador's annual GDP Growth Rate



Source: Latin Source, DANE and author's calculations

Table 4.  
Export Scenarios

	2008	2009: Baseline scenario	2009: Negative Scenario
Ecuador: GDP growth	5.3%	-2.0%	-4.3%
Venezuela: GDP growth	4.8%	-2.2%	-2.6%
USA: GDP growth	1.1%	-2.8%	-3.5%
Exports to Ecuador (mill. US\$)	1,500	1,326	1,126
Exports to Venezuela (mill US\$)	6,239	5,694	5,594
Exports to USA (mill US\$)	14,543	11,057	10,995
Oil exports to USA (mill US\$)	6,434	3,128	3,110
Other exports to USA (mill US\$)	8,109	7,929	7,884
Total Exports (mill US\$)	42,588	32,193	31,832
Total Exports (annual variation)	24.5%	-24.4%	-25.3%

Source: Latin Source, Bureau of Economic Analysis, IMF, Commercial banks, DANE and authors' calculations

This is more or less what has been observed so far. Traditional exports to the U.S have fallen by approximately 32%. Over 60% of these exports are oil, and most of the fall is attributed to lower oil prices. We are currently forecasting a fall in total exports to the U.S of 24% for 2009, assuming an average oil price of 44 and annual growth of -2.8% for the U.S economy.

In sum, while external imbalances are deteriorating substantially due to falling exports, it is likely that they have already taken the biggest blow. We expect total exports to fall around USD 10.5 billion 2009. Nearly half of this fall is concentrated in the U.S, Ecuador and Venezuela, most of which can be related in some way to falling oil prices. A USD 3.5 billion reduction in exports is

attributed to lower exports to the U. S, essentially due to lower oil prices. A scenario of even lower oil prices currently seems unlikely. While there is no clarity regarding the world economy having bottomed out, oil prices probably did. The signs of recovery in Chinese demand point to an increase in oil prices, therefore risks for oil prices are actually to the upside. Hence we shouldn't expect surprises on the export front.

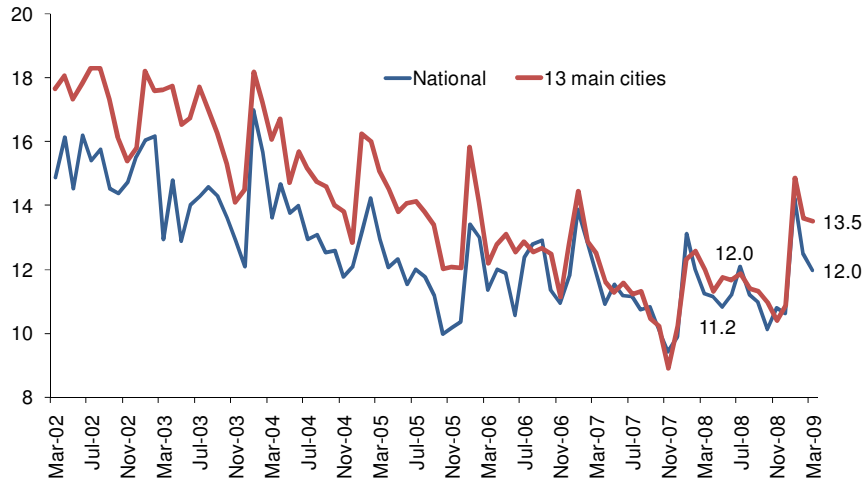
## **FACTORS BEHIND RISING UNEMPLOYMENT**

Despite the how unemployment lags falling economic activity, it is still the most sensitive variable to the crisis. Hence, rising unemployment should cautiously be followed by policy makers so as to dampen the social consequences of the recession and allow for a prompt recovery.

The labor market has already begun to show significant signs of decline. National unemployment reached 12% in March, 0.8 pps above last year's rate. Similarly, and more troubling, unemployment rose to 13.5% in the 13 main cities, up from 12% (Figure 11). According to DANE, this implies that national unemployment increased from 11% to 11.5% over the last year and that 229,000 jobs were lost. However, paradoxically, according to the DANE's figure of the employed population (defined as the number of people currently working for at least one hour a week), in the same period 429,000 jobs were created (Figure 12). Naturally, these results make one wonder where these new jobs are.

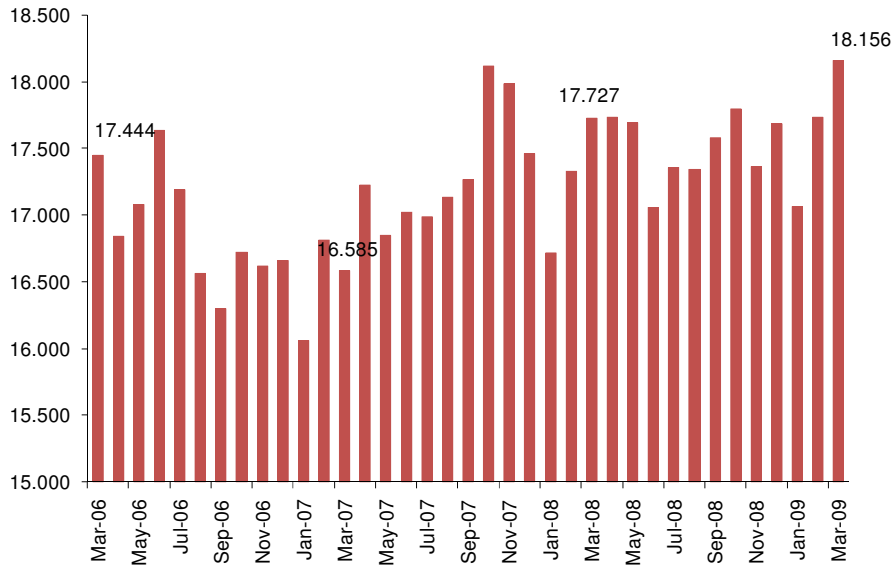
Part of the explanation on why the unemployment rate rises as more jobs are created resides in the increase of the economically active population (EAP). The rise in the labor force pushed the participation rate (defined as the ratio between the labor force, i.e. those who are either working or looking for a job and the people over 10 years old) up, from 62.6% to 64.2% between March 2008 and March 2009 (Figure 13). This is typical of a recessive environment and is known as the "additional worker" phenomenon: when the main provider of the household loses his job or his salary declines, other members start looking for a job to offset the effect on their total income level, increasing the EAP.

**Figure 11.**  
Unemployment - national and 13 main cities



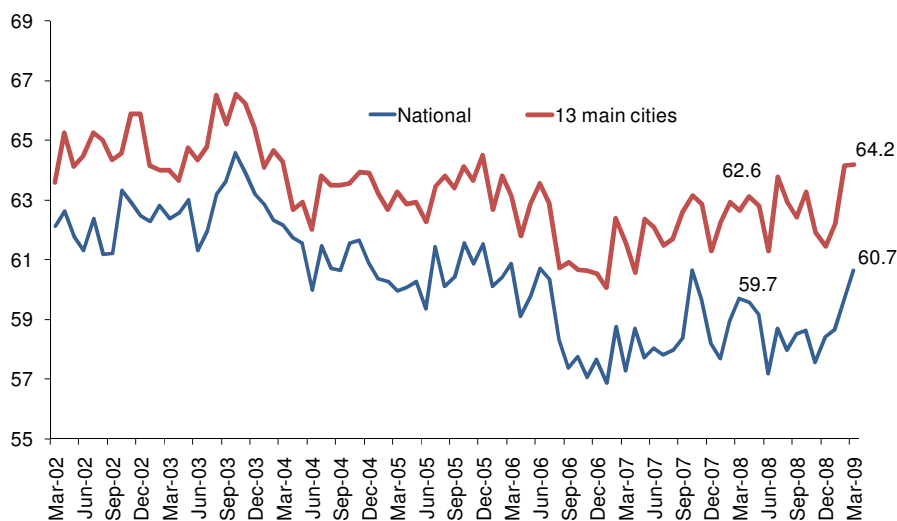
Source: DANE

**Figure 12.**  
Number of People Employed (thousands)



Source: DANE

**Figure 13.**  
**Employment - national and 13 main cities**



Source: DANE

Considering that the unemployment rate is measured as the ratio of unemployed to the EAP, an increase in unemployment simply implies that the number of people without jobs grew more than the EAP, i.e., that the job creation rate was less than the rise in the labor force. Consequently, the EAP increased 3.3% over the last year while the number of unemployed did so by 10.2%.

Another worrisome trend is observed in unemployment for household heads, as these are the main income providers in families and thereby the loss of their jobs has multiplicative social consequences. Figure 14 shows that unemployment for household heads has been increasing since the beginning of 2008. The 12 month moving average of the unemployment rate for the main provider of each household increased 0.5 percentage points during the past year, reaching 5.7% in March 2009.

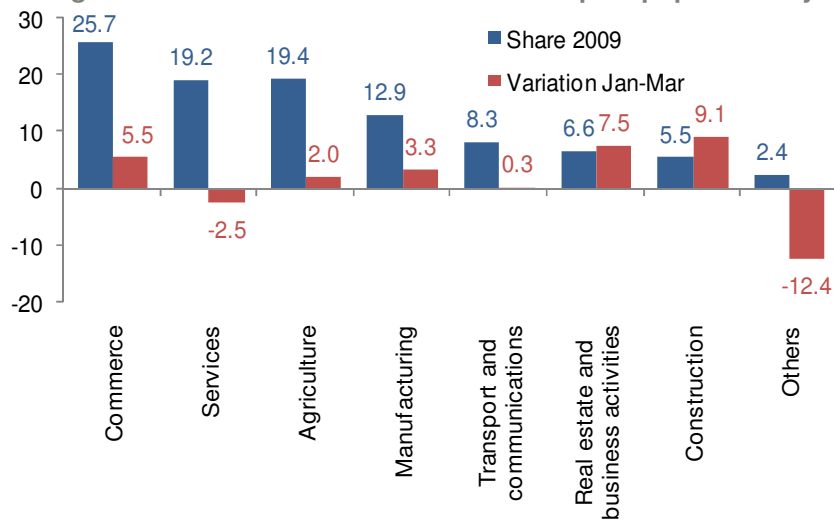
The economic slowdown does not affect each sector equally. According to DANE's *Gran Encuesta Integrada de Hogares*, despite rising unemployment, between January and March, real estate and business activities contributed 0.6 percentage points to the occupied population, as they increased by 7.5%. Commerce and construction contributed 0.5 pps each, by growing 5.5% and 9.1%, respectively on the first quarter of the year (Figure 15).

**Figure 14.**  
12 month moving average unemployment rate for household heads



Source: DANE

**Figure 15.**  
Percentage distribution and variation of the occupied population by economic sector

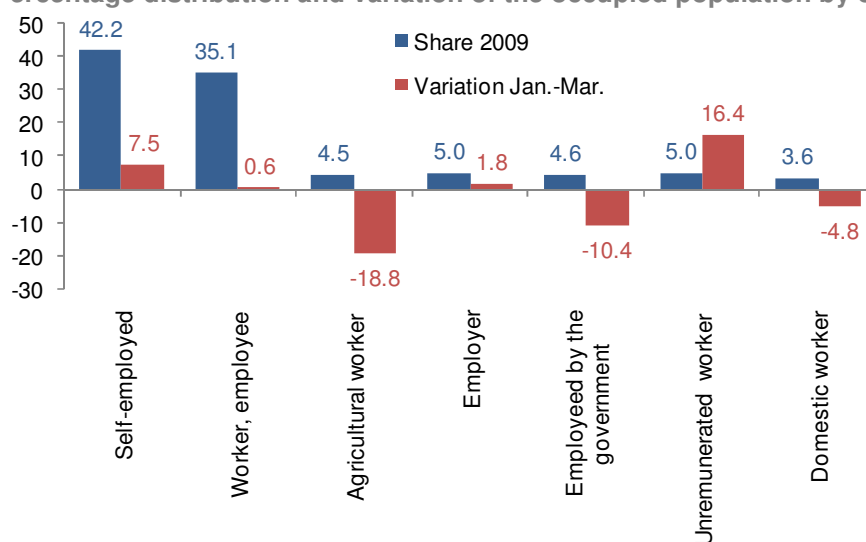


Source: DANE

By occupational position, self-employed and unremunerated workers were the main contributors to the increase in the occupied population, growing by 7.5% and 16.4%, respectively (Figure 16). Although this in itself is not a bad, under the present circumstances it can be a sign of worsening conditions in the labor market. It means that people who have lost their jobs are now self-

employed, and thereby subject to more volatile income. According to Fedesarrollo's social survey, currently it is increasingly difficult to find a job which pays a fixed salary plus labor benefits. Thus, the labor re-composition, should continue to be reflected in lower household consumption. Additionally social security contributions from this newly self-employed population are expected to fall, worsening the fiscal and social outlook. According to Fedesarrollo, informality hits the lower income households more. In the future, this situation will increase the income gap between the wealthiest and the poorest.

**Figure 16.**  
Percentage distribution and variation of the occupied population by occupational position



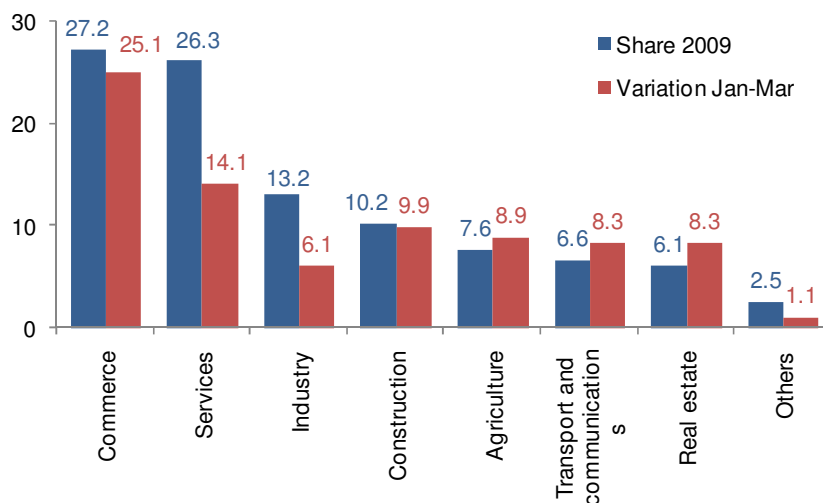
Source: DANE

Alternatively, according to DANE's *Gran Encuesta Integrada de Hogares*, the sectors where more jobs were lost were commerce, restaurants and hotels and services. In the former, the unemployed population grew 25.1% in Q1 2009 and in the latter it did so by 14.1% (Figure 17).

Notice that commerce was one of the sectors which contributed the most to both the increase in the occupied and the unemployed. In order to analyze the situation in the sector, the monthly retail sales survey was used. Although the sample in this survey does not exactly match the one for the *Gran Encuesta Integrada de Hogares*, where DANE publishes unemployment results, it has more disaggregated data from the commerce sector. According to this survey, commercial employment fell 2.3% y/y in March 2009. While the direct temporal staff increased 3.9% and contributed 0.8 pps to the increase in commercial employment, temps hired through agencies fell 7.1% and permanent workers 3.1% (Figure 18). This implies that temporal jobs are being created while permanent ones are destroyed. Once again, this translates into lower wages, higher

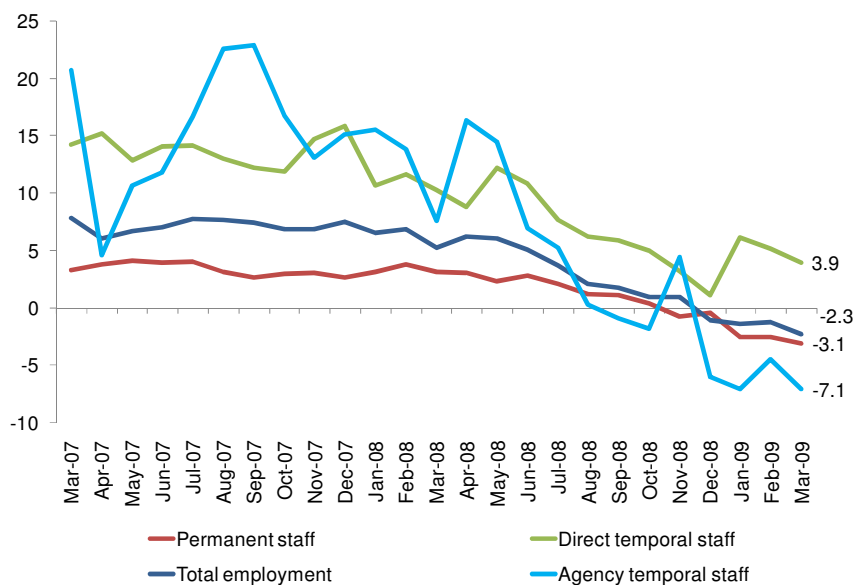
uncertainty and fewer contributions to social security. Finally, it corroborates the hypothesis of worsening labor conditions despite the increase in the number of occupied people.

**Figure 17.**  
Percentage distribution and variation of the unemployed population by economic sector



Source: DANE

**Figure 18.**  
Commercial employment annual growth

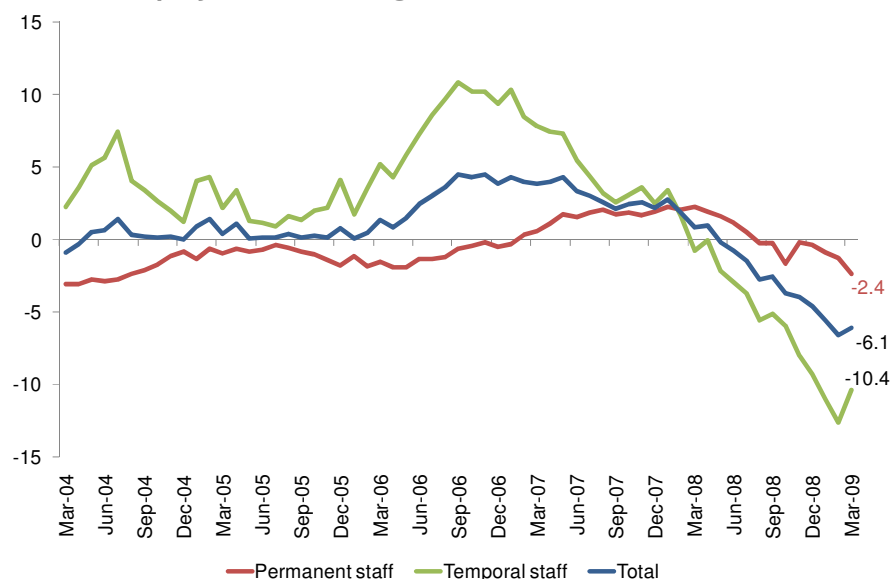


Source: DANE

The outlook for the industrial sector is gloomier. According to the monthly business survey, the sector's total employment fell 6.1% y/y in March. In this case, temporal jobs began to fall before

permanent ones. In fact, they began to slowdown as early as January 2007 as they reached their 10.3% growth peak. In March 2008 they started to contract and in March 2009 they plunged by 10.4%. The more recent 2.4% contraction in permanent staff is a worrying signal for industrial production as it implies that jobs directly associated to production are being cut, therefore reducing the firm's productive capacity (Figure 19).

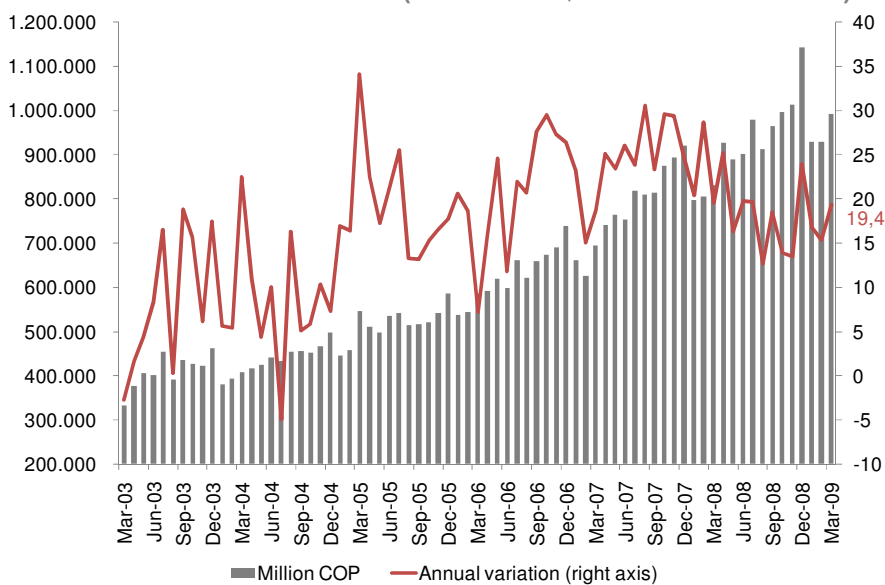
**Figure 19.**  
Industrial Employment - annual growth



Source: DANE

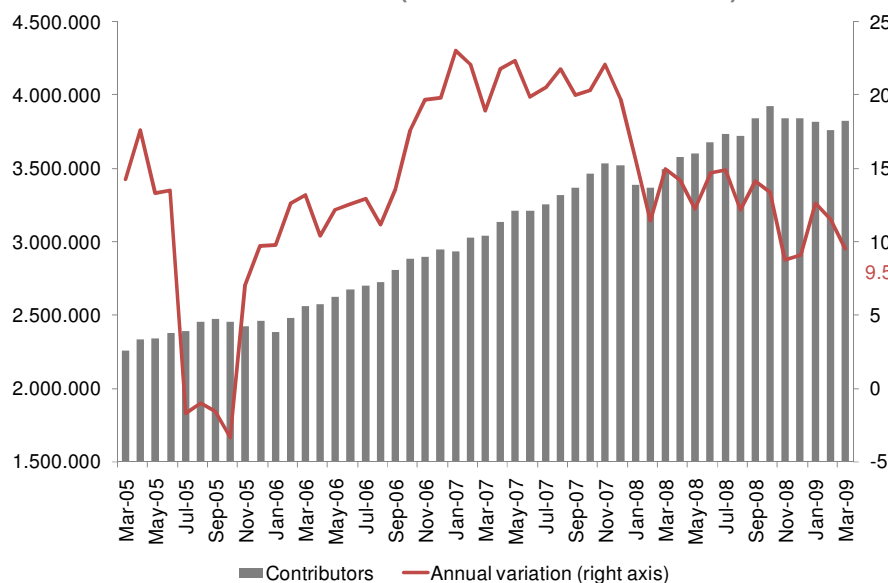
As permanent jobs are lost, contributions to social benefits fall. In fact, while in December 2008 workers contributed COP\$1.1 trillion to pension funds, in March the contributions fell to COP\$0.9 trillion. As Figure 20 shows, contributions to pension funds have been slowing down since November 2007. Nonetheless, they are still growing at an annual rate of 19.4%. Additionally, while the number of affiliates grew steadily between 2003 and 2007 at an average annual rate of 10.2%, they are currently growing at 8.9%. What is more significant is the slowdown in contributors to pension funds. While they increased 22% y/y in March 2007, they currently are growing 9.5%. In March 2009, there were 13,766 less than in December 2008 (Figure 21).

**Figure 20.**  
Contributions to Pension Funds (million COP\$ and annual variation)



Source: Financial Superintendence and author's calculations

**Figure 21.**  
Contributors to Pension Funds (total and annual variation)

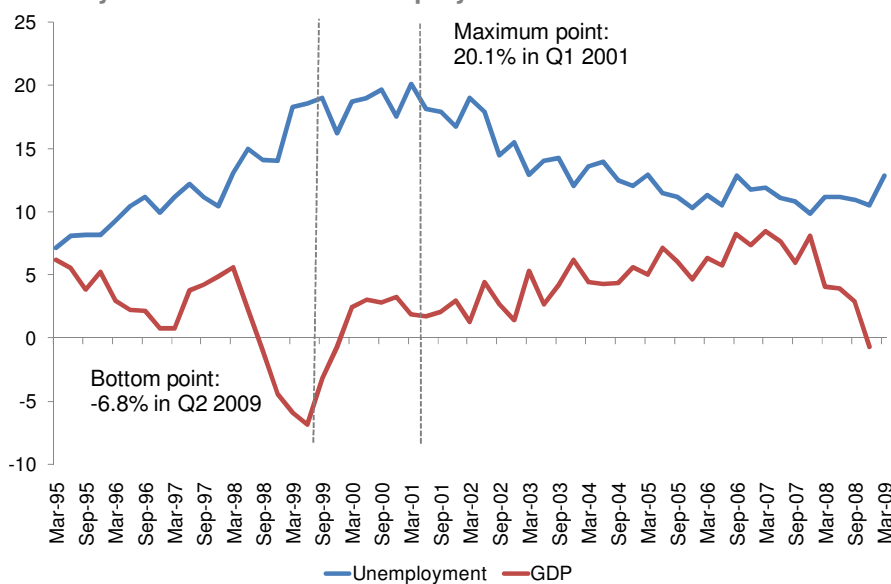


Source: Financial Superintendence and author's calculations

Summing up, recent labor market results are more worrying than what they might seem at first sight. As household heads lose their jobs, other members of the family, probably younger and less qualified, enter the labor force, exerting pressure upon the labor market and increasing the unemployment rate. The fact that self-employed, particularly in commerce, increased the most is

a preoccupying signal that Colombians are cashing lower paychecks and making less of a contribution to social security, which in turn implies that social conditions are worsening. Additionally, although the labor market has already begun to deteriorate, we expect more bad news in this front. Figure 22 shows that unemployment responds with a lag to economic activity. In fact, during the 1999 crisis, GDP bottomed in Q2 1999 as it fell 6.8% and it started to recover from then on. On the other hand, unemployment kept rising for six more quarters and reached 20.1% in Q1 2001. This leads us to think that although economic activity might bottom in Q2, the labor market may continue to be weak throughout 2010.

**Figure 22.**  
**Quarterly GDP Growth and Unemployment Rate**



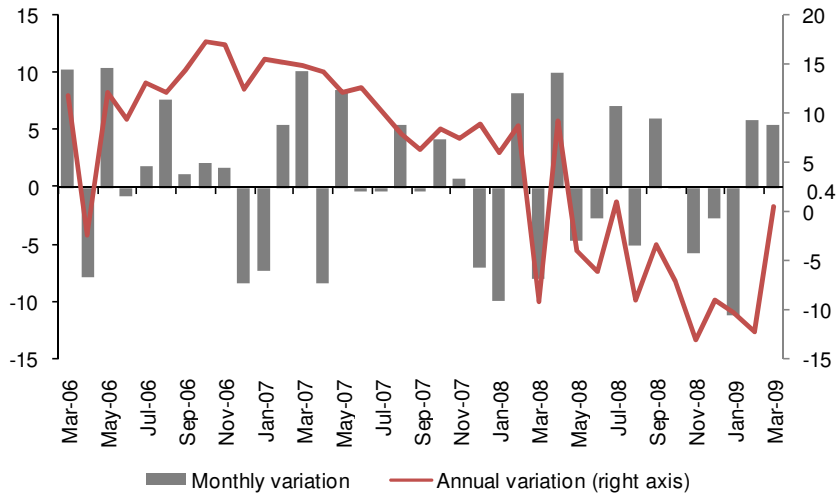
Source: DANE

## SIGNS OF RECOVERY?

Economic activity indicators have started to deliver mixed signals that the most optimistic analysts are now interpreting as early signs of recovery, or at least of a more modest slowdown. Real industrial production soared by a 5.4% monthly rate in March, leaving the annual growth rate at 0.4% (Figure 23). While this result is hardly a reason to be cheerful, it must be acknowledged that it is the first positive annual variation in industrial production since April last year. However there is also a base effect to be considered; real industrial production plunged by 9.2%, on a monthly basis, in March 2008 (the second largest monthly fall since the slowdown began in 2007). Industrial sales exhibit a similar performance growing by 4.1% in annual terms in March (Figure 24). Employment figures for the industrial sector, on the other hand, remain gloomy (Figure 25).

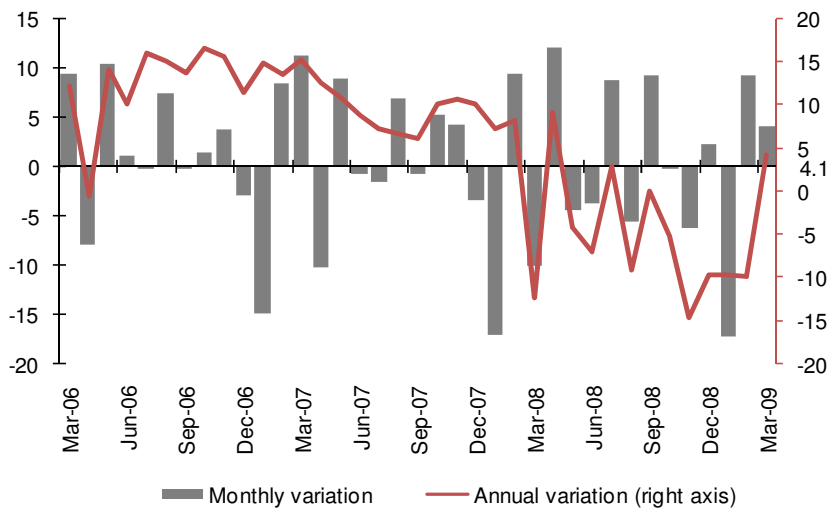
Total employment fell by 6.1%, and while temporary employment, falling by 10.4%, contracted at a slightly slower pace than in February, permanent employment has started to speed up its descent. This change in employment composition reflects both deterioration in employment quality and a reduction in industrial production capacity.

**Figure 23.**  
Real Industrial Production - monthly and annual variation



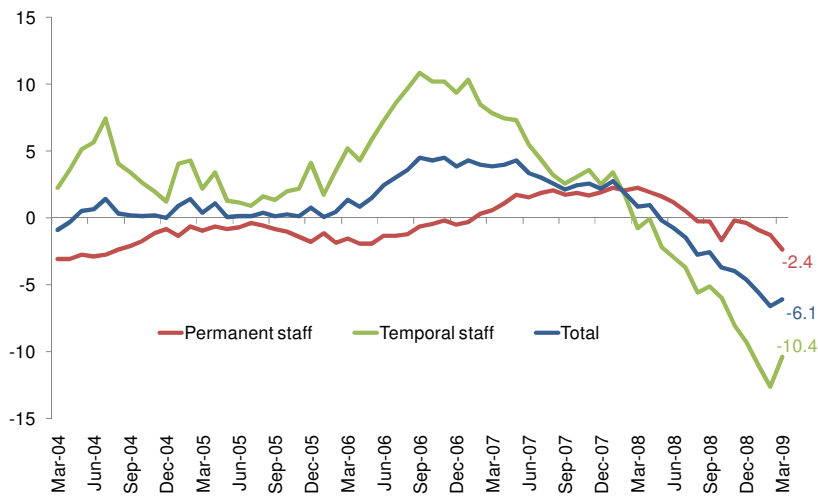
Source: DANE

**Figure 24.**  
Real Industrial sales - monthly and annual variation



Source: DANE

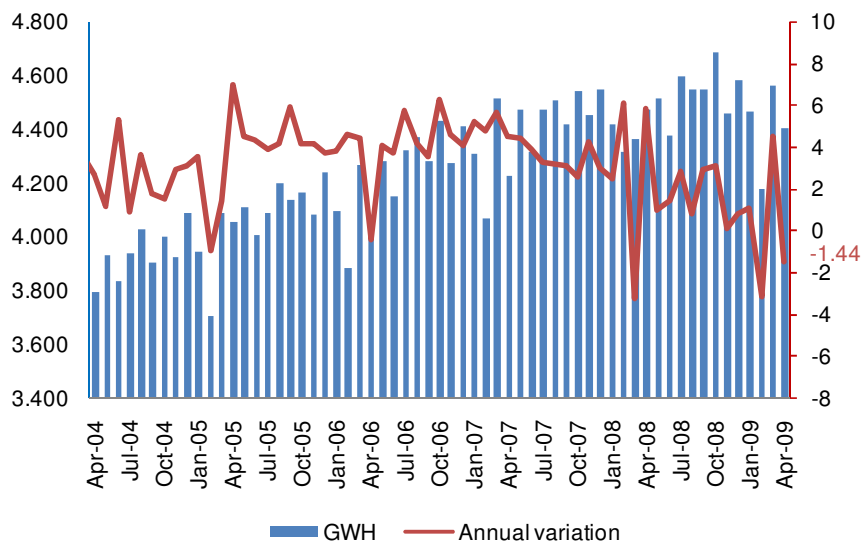
**Figure 25.**  
Industrial Employment - annual variation



Source: DANE

Energy demand soared by 4.5% in annual terms in March. However this result is also misleading (Figure 26). As Easter week took place in March last year, rather than April, there were fewer working days in March 2008 relative to 2009. Thereby, once demand is adjusted per number of working days it actually fell by 5.1% in March. In April it fell by 1.4%. Hence, energy demand is still not indicative of a recovery in the industrial sector.

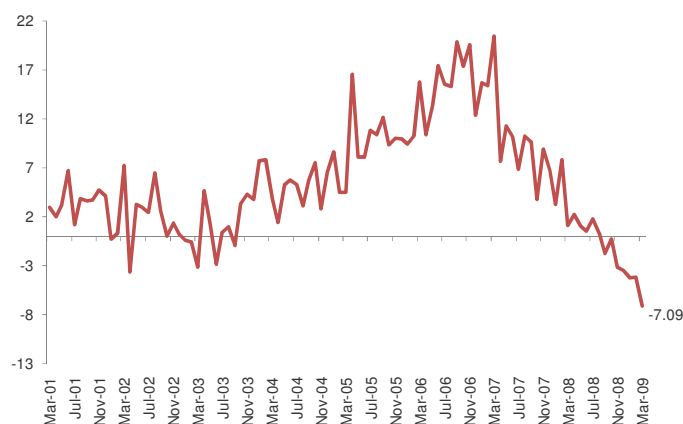
**Figure 26.**  
Energy Demand - GWH and annual variation



Source: ISA-XM

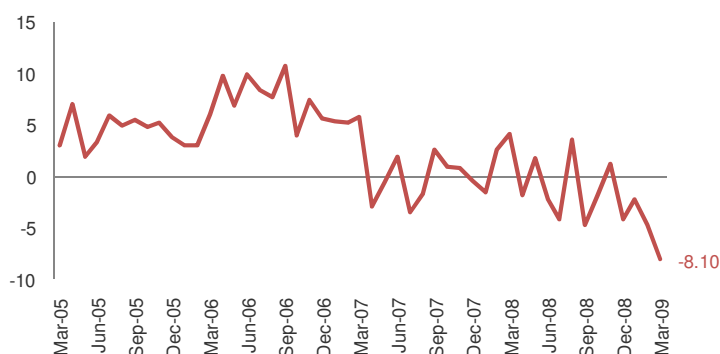
Commerce gauges are still clearly negative. Annual retail sales fell by 7% in March, accentuating the downtrend that began in March 2007 (Figure 27). The plunge in retail sales is extensive to most sectors of economic activity. The largest contraction, in annual terms, is observed for vehicles and liquors and cigarettes (Figures 29 and 30). However, it is particularly worrisome that the reduction in retail food sales actually accelerated in March (Figure 28). Hence, it is safe to conclude that it is too soon to talk of a “second derivative” type of recovery in Colombia. Employment in the retail sector exhibits a similar performance to that in the manufacturing industry, where permanent employment is falling and is seemingly being substituted by temporary personnel. The latter is cheaper in terms of quasi fiscal contributions by the firm, and probably entails lower wages. Therefore households may be faced with lower and more uncertain salaries, which will most certainly weight upon their consumption in the short run.

**Figure 27.**  
Total retail sales- annual variation



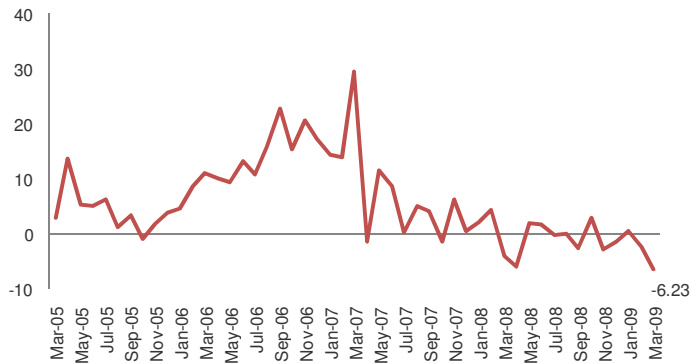
Source: DANE

**Figure 28.**  
Food Retail Sales - annual variation



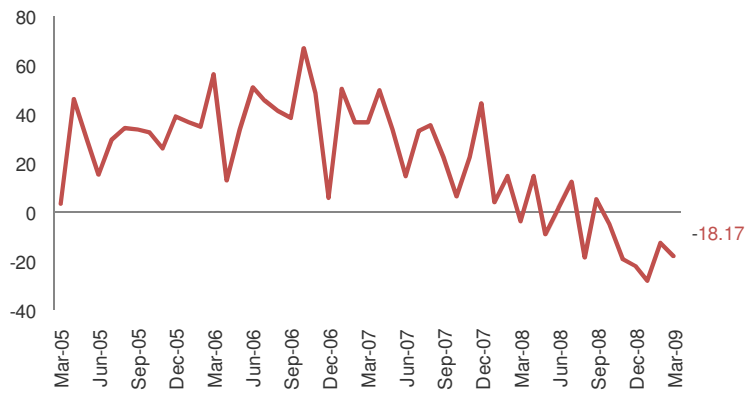
Source: DANE

**Figure 29.**  
Textile Retail Sales - annual variation



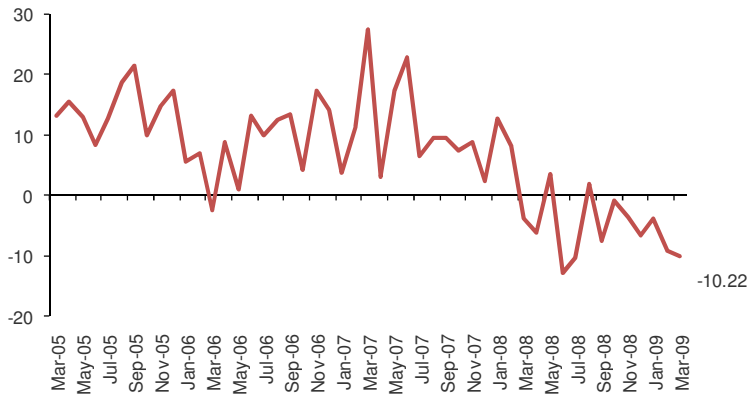
Source: DANE

**Figure 30.**  
Vehicle Retail Sales - annual variation



Source: DANE

**Figure 31.**  
Liquor and Cigarette Retail Sales - annual variation



Source: DANE

## FORECAST TABLE

		2007	2008f	2009f	2010f
Population	Millions	43.9	44.5	45.0	45.5
Real GDP	Trillions of 2000 COP	273.8	280.6	276.4	281.9
	% change	7.7	2.5	-1.5	2.0
Nominal GDP					
In pesos	Trillions of current cop	428.3	472.4	486.1	514.7
	% change	11.9	10.3	2.9	5.9
In dollars	Billions of current \$	212.6	239.7	206.8	235.0
	% change	24.3	12.8	-13.7	13.6
GDP deflator	% change	1.6	1.7	1.8	1.8
Consumer prices (end of period)	% change	5.7	7.5	4.4	3.9
Nominal exchange rate (end of period)	Cop/\$	2,015	2,244	2,350	2,190
	% change	-10.0	11.4	4.7	-6.8
Real exchange rate (average)	1994 average = 100	115.5	135.2	143.1	133.5
	% change	-5.5	17.1	5.9	-6.7
Repo rate (end of period)	% (end of period)	9.5	9.0	5.0	6.5
Nominal interest rate (DTF)	% (end of period)	9.2	9.8	4.9	5.9
Current account balance	Billions of current \$	-5.8	-7.7	-7.6 to -8.8	-8.5
	% of GDP	-2.8	-3.2	-3.7 to -4.3	-3.6
Capital account balance	Billions of current \$	10.6	9.4	7.3	8.9
	% of GDP	5.0	3.9	3.6	3.8
Exports	Billions of current \$	41.7	50.1	38.8	40.3
	% change	19.8	20.1	-22.6	3.9
Exports (goods and services)	Billions of current \$	34.2	42.6	32.2	33.5
	% change	35.9	24.5	-24.4	4.0
Imports	Billions of current \$	47.6	56.9	46.6	48.6
	% change	24.9	19.6	-18.1	4.3
Imports (goods and services)	Billions of current \$	37.4	44.7	37.6	39.0
	% change	50.5	19.5	-15.9	3.7
Consolidated fiscal balance	% of GDP	-0.7	-1.0	-2.5	-3.5
Central Government Fiscal Balance	% of GDP	-2.6	-2.6	-4.0	-5.0

\* Include goods, services and non factorial services

Source: NPD, DANE and author's calculations

## CALENDAR OF EVENTS

June	
Mon.1-Sun.7	CPI- May 2009 PPI- May 2009 Imports- March 2009
Mon.8-Sun.14	Construction Costs Index - May 2009
Mon.15-Sun.21	Monthly manufacturing index- April 2009 Retail sales index- April 2009 Friday 19th- Central Bank's Meeting Construction Price index- Q1
Mon. 22- Sun.28	GDP- IT 2009 Exports- April 2009 Construction permits
Mon.29- Tues.30	Annual Manufacturing Survey- 2007 (Final data) Annual Commerce Survey - 2007 (final data) Education Data
July	
Mon.29-Sun.5	CPI- June 2008 PPI- June 2008
Mon.6-Sun.12	Exports- April 2009 Housing prices- June 2009
Mon.13-Sun.19	Imports- May 2009 Monthly manufacturing index- May 2009 Retail Sales- May 2009
Mon. 20-Sun. 26	Exports-May 2009 Construction licenses- May 2009
Mon. 27- Sun. 2	Unemployment- June 2009
August	
Mon. 3- Sun 9	PPI - July 2009 CPI - July 2009 Exports- June 2009
Mon.10-Sun.16	Imports - June 2009
Mon.17-Sun.23	Monthly manufacturing index - June 2009 Retail sales - June 2009 Construction licenses- June 2009
September	
Mon.31-Sun.6	Exports- July 2009 PPI- August 2009 CPI- August 2009
Mon.7-Sun.13	Imports-July 2009 Housing prices
Mon.14-Sun.20	Monthly Manufacturing Industry Index- July 2009 Retail sales- July 2009
Mon.21-Sun.27	Construction licenses- July 2009 GDP- IIT 2009

**LatinSource**

708 Third Avenue  
18th Floor  
New York, NY 10017

info@latinsource.com  
www.latinsource.com

1 (212) 317-8015 Phone  
1 (212) 317-8318 Fax

**EConcept**

Carrera 11ª No. 93-93 Off. 402  
Bogota, Colombia

Juan Carlos Echeverry  
[jcecheverry@econceptaei.com](mailto:jcecheverry@econceptaei.com)  
[jechever@uniandes.edu.co](mailto:jechever@uniandes.edu.co)

57 (1) 339-4949 ext. 3778  
57 (1) 616-7039  
57 (310) 819-4254 Cell  
57 (1) 332-4492 Fax

Verónica Navas  
veronicanavaso@gmail.com  
veronicanavaso@econceptaei.com

57 (1) 616-7045 Phone  
57 (310) 321-3259 Cell

Maria Paula Gómez  
mariapaulagomez@econceptaei.com

57 (1) 616-7045, Ext. 110 Phone

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