2014 ANNUAL MEETINGS
International Monetary Fund
World Bank Group
Washington, D.C.

Governor's Statement No. 14

October 10, 2014

Statement by the Hon. **MAURICIO CARDENAS SANTA MARIA,**
Alternate Governor of the Fund
and Governor of the Bank for **COLOMBIA**

Statement by the Hon. Mauricio Cardenas Santa Maria
Alternate Governor of the Fund
and Governor of the Bank for Colombia

At last year's IMF and World Bank annual meetings, most participants agreed that Latin America is at an economic turning point.

Over the last decade, the tailwinds of high commodity prices and loose monetary policy in the US helped the region grow at a rate of around 4%.

However, it was clear that those favorable external conditions were coming to an end, and that our countries needed to find internal sources of growth, not only to maintain high growth rates, but also to gain resiliency against potential headwinds such as a slowdown of the Chinese economy and the tightening of US monetary policy.

As other emerging markets, Colombia is exposed to external risks as recently identified in the IMF's flagship reports.

During this year's meetings, it is important to evaluate how successful have we been in finding those new sources of growth.

At a regional level, success has been limited, as growth projections for this year and the next have been continuously revised downwards throughout 2014.

The IMF projects a regional growth rate for Latin America and the Caribbean of 1.3% for 2014, below the Global growth rate of 3.3%.

The Colombian economy has been able to buck the regional trend, both maintaining growth and enhancing resilience.

The resilience of the economy, based on exchange rate flexibility, strong fundamentals and policy buffers certainly would help cope with these risks, but the role of the Fund in providing safety nets is also critical.

Indeed, the Flexible Credit Line has served as important complementary protection for the Colombian economy during challenging times for the global economy.

In terms of growth, the latest forecasts for 2014 expect the economy to grow at around 5%, with the IMF forecasting 4.8%. Public investment in infrastructure and well-targeted mortgage loan subsidies for low-income housing helped the construction sector compensate for slower growth in oil and mining.

Additionally, a reduction in payroll taxes in 2012 has allowed formal jobs to grow 10% annually, reducing unemployment to historically low levels.

These factors have been fundamental in keeping internal demand strong.

Added to a record-breaking overall investment rate of 30%, we expect Colombia to keep growing sustainably near the current rate.

On top of the growth rates, a solid economic policy framework anchored in a clear fiscal rule has increased confidence in the economy.

The fiscal rule, adopted in 2011, will see the structural deficit decrease form 2.3% in 2014 to 1% in 2022, assuring a continuous reduction of government debt as a percentage of GDP.

Moreover, inflation has been kept low, in line with the Central Bank's target. 2013 inflation was 1.9% whereas in Latin America as a whole the average inflation rate it was 7.1%.

This responsible economic management has reassured credit agencies. We have been successful in the sovereign debt markets, as our 10 and 30 year international bonds trade at historically low levels.

Perhaps most impressive of all, in contrast with most developing countries across the world, foreign investment in Colombia´s domestic bond market is breaking new records despite the ongoing tightening of the US Monetary policy. For its part, foreign direct investment remains dynamic and continues to be the main external capital inflow financing Colombia's investment.

Moving forward, we are striving to generate further sources of growth for our economy.

In terms of infrastructure, Colombia is embarking on a $33 billion road building program. Relative to GDP it is one of the most ambitious infrastructure programs in the world.

In addition to unprecedented investments in river and rail transport, our infrastructure program should add, when completed, an extra 1% of potential GDP growth, generating hundreds of thousands of jobs along the way.

Another aspect worth mentioning is that Colombia is undergoing peace negotiations with the FARC guerrilla group, which, if successful, would have important economic consequences.

The economic benefits of reaching a peace agreement would be most strongly felt in three areas: agriculture, energy and tourism.

It is also worth mentioning that Colombia is in the middle of the accession process to the Organization for Economic Cooperation and Development (OECD).

This is a comprehensive effort to improve Colombia's policy-making by implementing best practices across various policy areas in order to become a more efficient and effective government.

By giving special attention to strategic issues such as income inequality, the rule of law and the environment, we are confident that joining the OECD will help us implement the tried and tested policies necessary to lock in robust and environmentally sustainable growth over the long term.

Favorable commodity prices contributed to Colombia's growth over the past decade. This year, our country is growing at more than twice the regional average thanks to domestic sources of growth and sound economic policies. Our job is to shift into a higher gear for the coming decade.

The lesson we have learned and to which we are committed is that even though no economy can isolate itself from the global scenario, strong buffers and solid fundamentals can maintain the economy on the right track.