Department of Economic and Social Affairs

World Economic Situation and Prospects

Weekly Highlight

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Colombia: capital inflows remain robust amid global financial turbulence

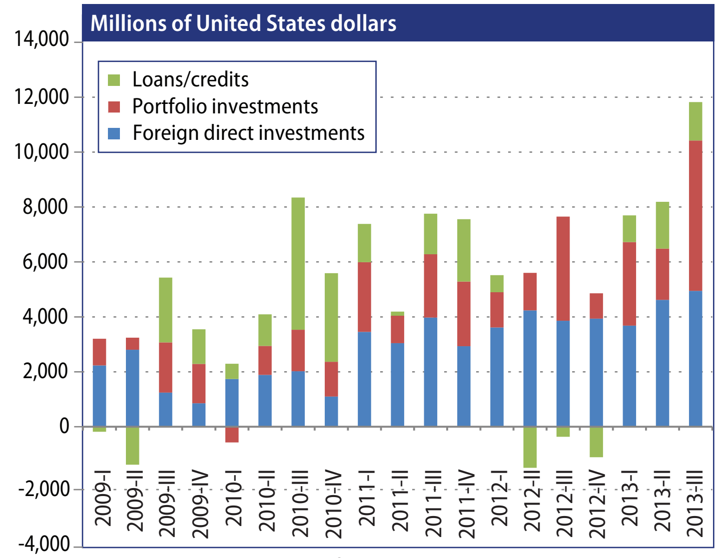
Since mid-2013, many emerging economies have experienced significant financial turmoil related to the spillover effects from the proposed and now actual tapering of quantitative easing (QE) in the United States of America. The reversal in capital inflows has caused large depreciations of domestic currencies in some countries, especially those with high current-account deficits and domestic vulnerabilities. Nevertheless, certain other economies are facing the global financial turbulence in a more stable condition, owing to sound macroeconomic policies, lower financial weaknesses and robust capital inflows. In the context of Latin America, Colombia has managed to position itself as one of the most attractive investment locations, in particular because of stable economic growth, prudent macroeconomic policies—including a structural fiscal reform with medium-term fiscal goals—low inflation and improving business environment.

In 2013, gross capital inflows to Colombia continued at a robust pace (figure 1). In the first three quarters of 2013, capital inflows reached $28 billion, much higher than the $17 billion in the same period of 2012. Moreover, official provisional figures show that foreign direct investments (FDI) reached a new historical record of more than $16 billion for the whole year, about 4.9 per cent of gross domestic product. FDI investments have been concentrated in the oil and mining sectors, about 35 and 18 per cent of the total, respectively. Meanwhile, portfolio investments have also shown a robust performance, despite its higher volatility. Until the third quarter of 2013, these investments accumulated $11 billion, more than 50 per cent higher than the figure for the previous year. In particular, portfolio investments soared in the third quarter to 5.4 billion. In addition, private estimates point out that portfolio investments remained strong by the end of 2013 and early 2014. Credits and loans also increased noticeably in 2013. Until the third quarter, credits and loans reached more than $4 billion, reversing the negative trend observed previously.

These developments on capital inflows in Colombia illustrate the differentiated behaviour of investors across emerging economies, particularly in adjusting to the QE tapering. As a result of this, Colombia has also continued accumulating international reserves. In January, international reserves reached more than $43 billion, 15 per cent higher than the figure for the same month in 2013, providing an important policy instrument against potential enlarged financial turmoil.

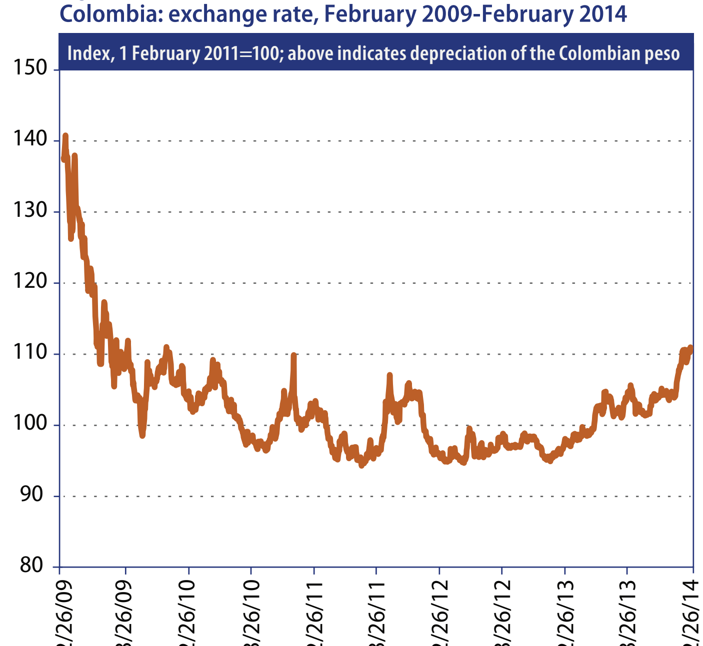
In the outlook, significant capital inflows are expected to continue supporting Colombia's external position, which provides a positive context to the country in confronting the tapering of QE in the near term. In addition, the depreciation of the domestic currency in early 2014 seems to be healthy for the economy (figure 2), particularly because of the low inflation figures (consumer prices increased 1.9 per cent in 2013, below the central bank's inflation target range) and its positive effects on exporting activities.

Figure 1
Colombia: foreign direct and portfolio investments inflows, first quarter 2009 – third quarter 2013



Source: UN/DESA, based on official data.

Figure 2
Colombia: exchange rate, February 2009-February 2014



Source: JPMorgan Chase, indexed by UN/DESA.