



Economic Outlook 2008-09

ECONOMIC RESEARCH

Financial Vicepresidency

Friday, August 22, 2008



“The global economy is in a tough spot, caught between sharply slowing demand in many advanced economies and rising inflation everywhere, notably in emerging and developing economies. Global growth is expected to decelerate significantly in the second half of 2008, before recovering gradually in 2009. At the same time, rising energy and commodity prices have boosted inflationary pressure, particularly in emerging and developing economies”.

International Monetary Fund

Washington, D.C. 20431 USA

World Economic Outlook UPDATE, July 2008.



Agenda

INTERNATIONAL ECONOMY:

Situation, Perspectives and Outlook.

- Global Economic Growth
- Global Inflation
- Commodities
- Interest Rates
- Exchange Rates
- Local Economy



The slowdown in global growth, which started last summer, is expected to continue through the second half of 2008, with only a gradual recovery during 2009.

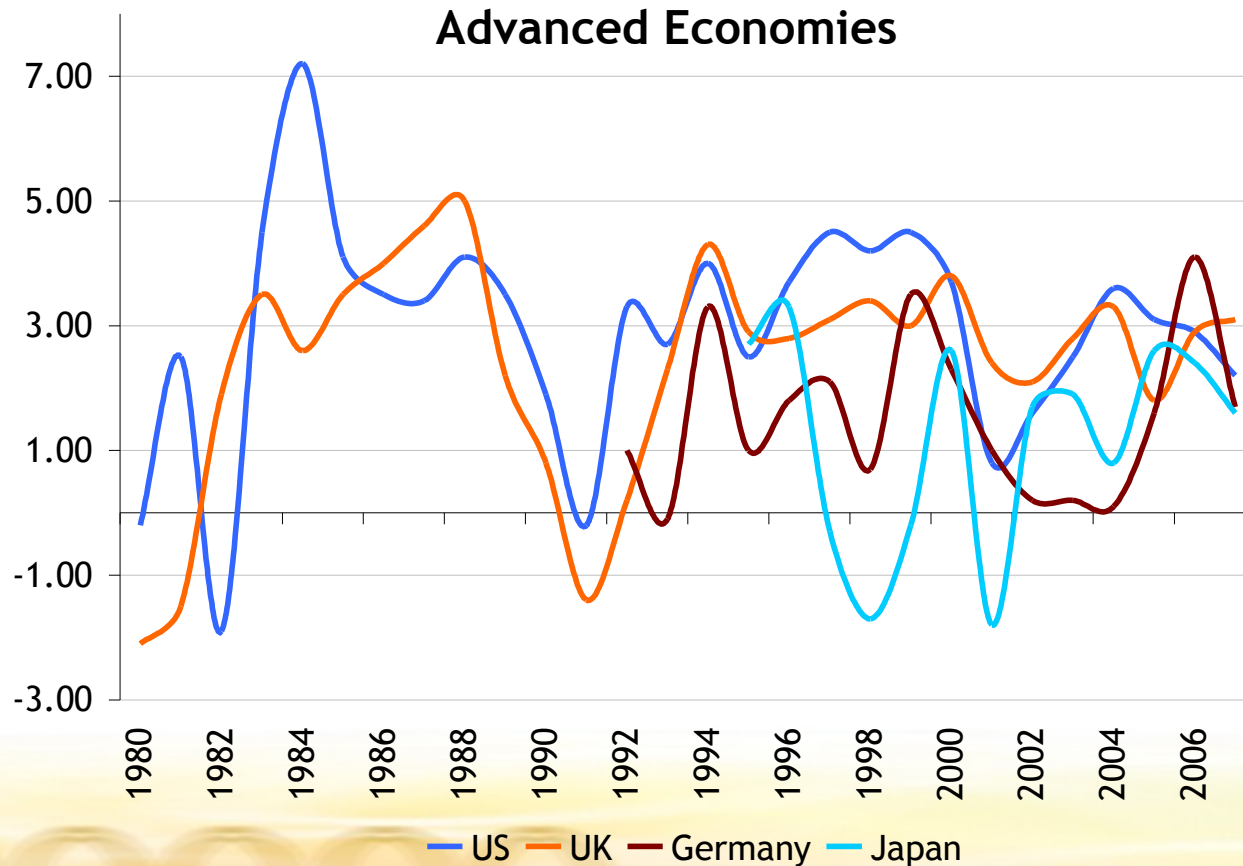
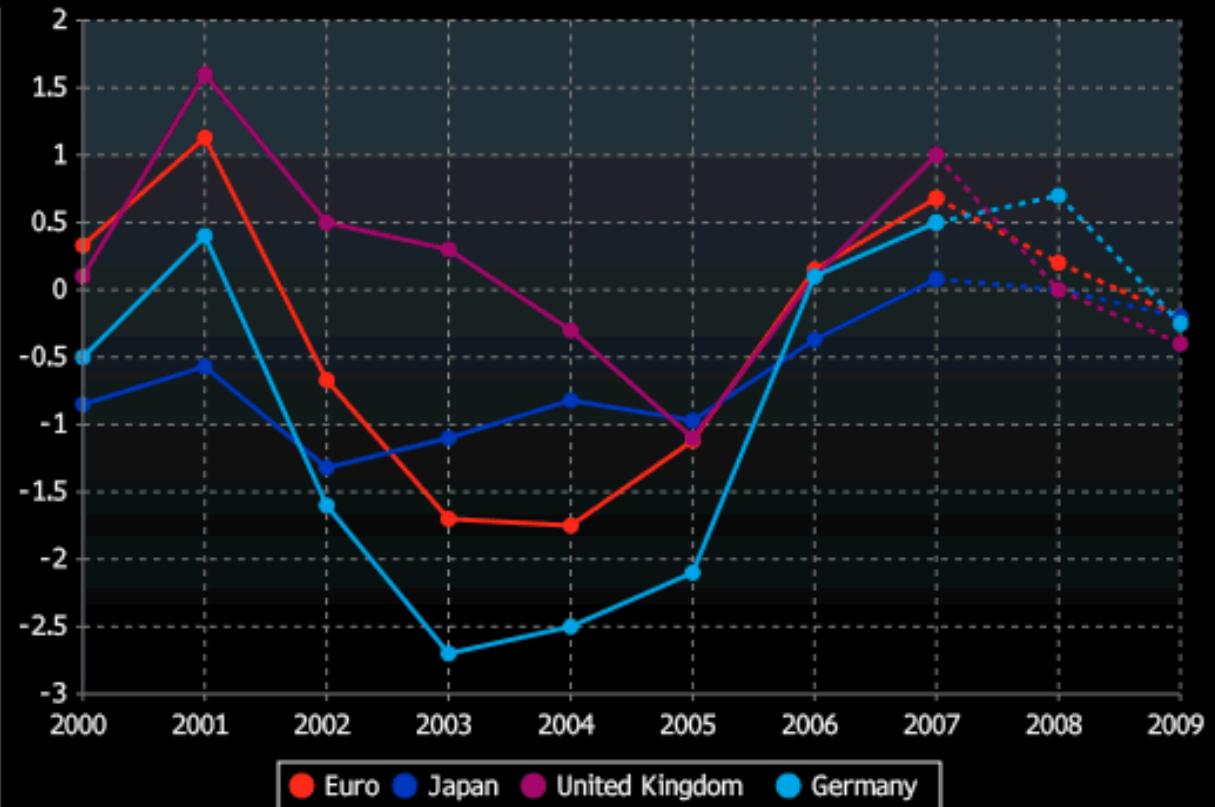




Table	97) Export	Economic Forecasts
Contributor	Contributor Composite	Period
Indicator	Real GDP	Yearly

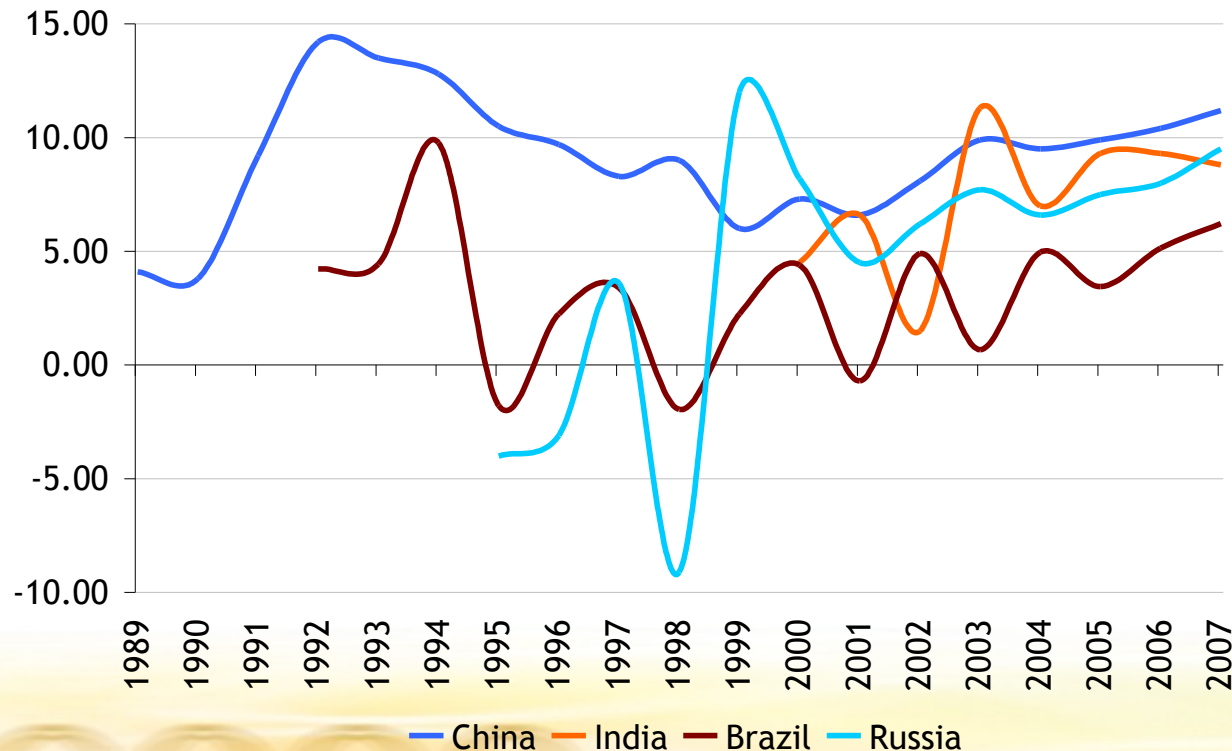


- Growth for the **United States** in 2008 would moderate to 1.3 percent on an annual-average basis, as consumption would be dampened by rising oil and food prices and tight credit conditions.
- Growth projections for the **Euro Area** and **Japan** also show a slowdown in activity in the second half of 2008.



Expansions in emerging and developing economies are also expected to lose steam.

Emerging Markets (BRIC)





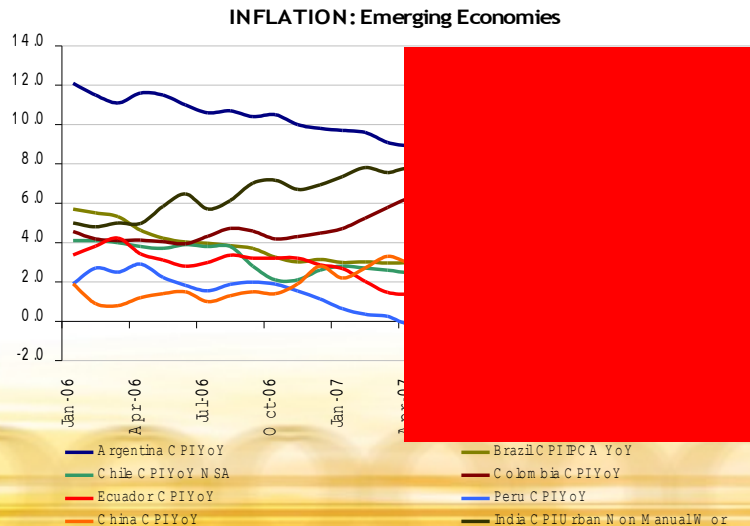
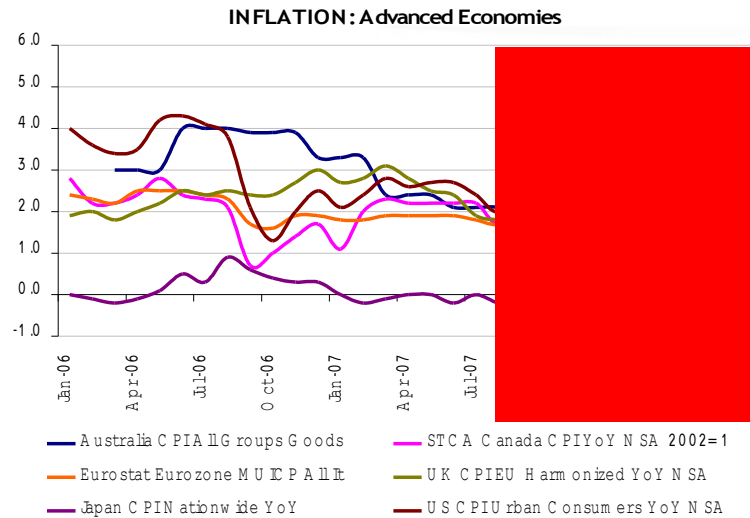
Accordingly, global growth is projected to moderate from 5 percent in 2007 to 4.1 percent in 2008 and 3.9 percent in 2009.

- Growth in these economies is projected to ease to around 7 percent in 2008-09, from 8 percent in 2007.
- In **China**, growth is now projected to moderate from near 12 percent in 2007 to around 10 percent in 2008-09.
- **Financial risks** remain elevated, as rising losses in the context of a global slowdown could add to strains on capital and exacerbate the squeeze on credit availability.
- On the positive side, **demand in advanced and emerging economies might be more resilient** than projected to recent commodity price and financial shocks, as was the case during the first quarter of 2008.



“Inflation is a rising concern and will constrain the policy response to slower growth. Food and Fuel Price Increases Have Pushed Some

Countries to A Tipping Point” (FMI)



- Inflation is mounting in both advanced and emerging economies, despite the global slowdown.
- The driving force behind higher inflation is higher food and fuel prices.
- In advanced economies, headline inflation rose to 3.5 percent in May 2008 (12-month change), and, while core inflation remained at 1.8 percent; central banks have expressed growing concerns.
- Emerging and developing economies, headline and core inflation have risen to 8.6 percent and 4.2 percent, respectively, the highest rates since around the beginning of the current decade.
- In these economies, food and fuel make up a larger share of consumption baskets and sustained strong growth has tightened capacity constraints.

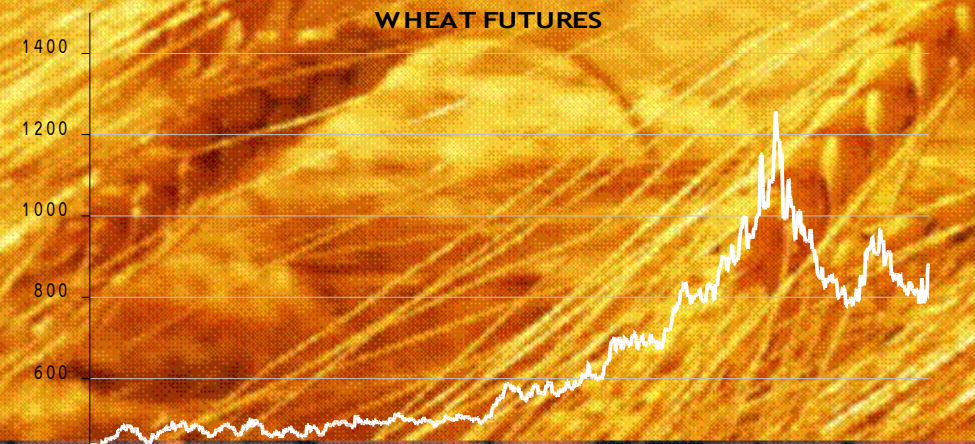


Inflation Is Increasingly a Problem

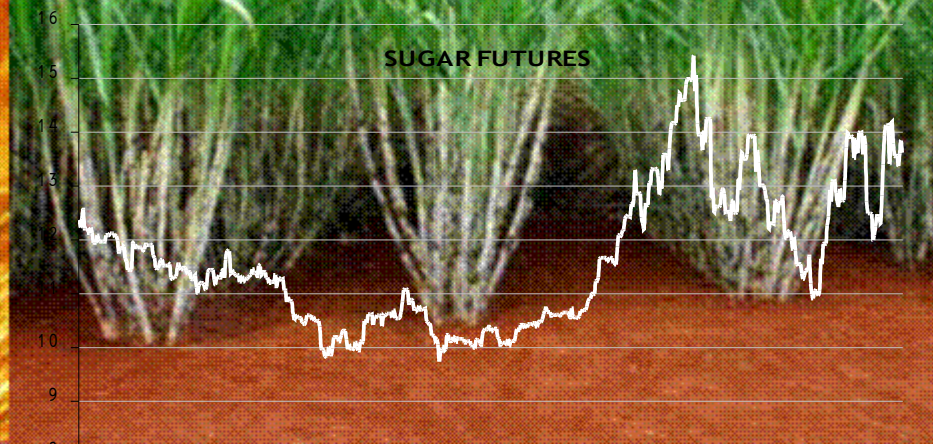
- In **advanced economies**, inflationary pressures are likely to be countered by slowing demand.
 - And, with commodity prices projected to stabilize, the expected increase in inflation for 2008 is forecast to be reversed in 2009.
- In **emerging and developing countries**, inflationary pressures are mounting faster, fueled by soaring commodity prices, above-trend growth, and accommodative macroeconomic policies.
 - Hence, inflation forecasts for these economies have been raised.

Commodity price increases are having a major impact on the global economy.

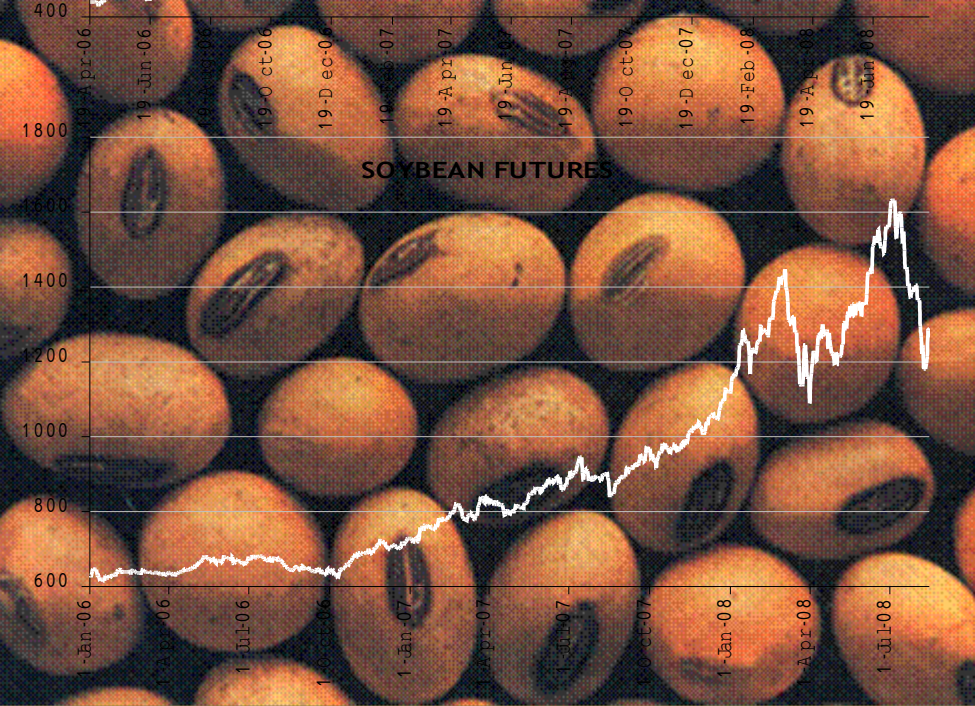
WHEAT FUTURES



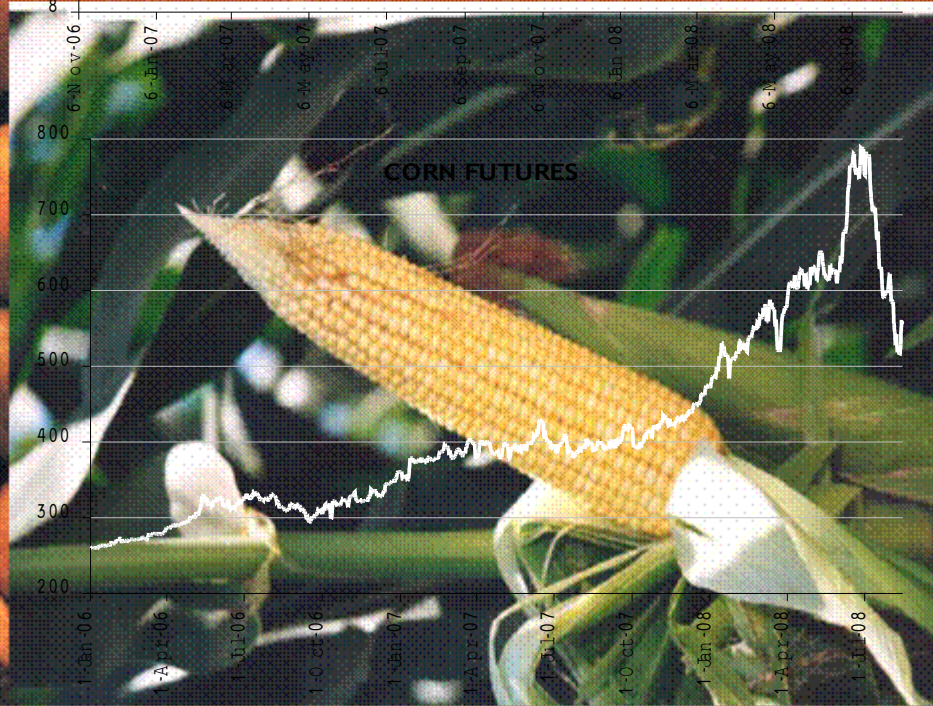
SUGAR FUTURES



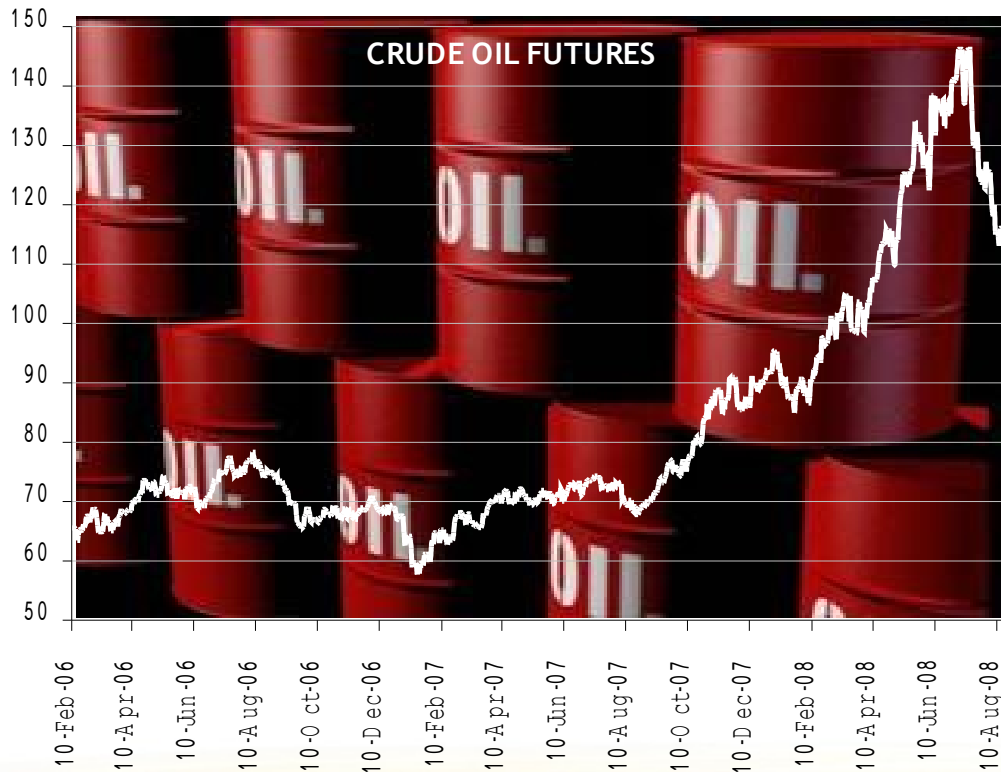
SOYBEAN FUTURES



CORN FUTURES



But in recent weeks Oil and other Commodity prices have Fallen on Speculation U.S. Consumption Decline Will Spread

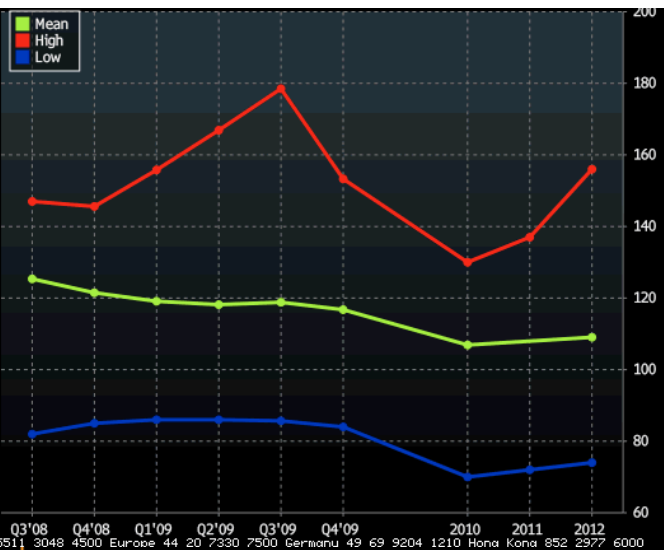


- Crude oil fell on speculation that fuel-consumption declines in the U.S. will spread to other countries as their economies slow.
- *“The market is much more focused on demand destruction than on supply concerns”.*
- Crude oil for September delivery fell 52 cents, or 0.5 percent, to \$115.48 a barrel at 9:14 a.m. on the New York Mercantile Exchange. **Prices are up 60 percent from a year ago.**
- *“People are trying to parse what's happening in **Georgia**”.*
- *“There are major pipelines running through the region, but it doesn't appear that they have been damaged during the conflict yet.”*



Oil Forecasts: Oil and food prices are likely to remain high and volatile, with the baseline forecast showing only moderate declines. Low inventories and capacity margins are expected to persist for some time.

- Oil production is expected to remain broadly stagnant, as much of the small amount of new capacity coming on stream is likely to be offset by further production declines in existing fields.



	2009	2010	2011	2012
Median	120.00	115.00	106.50	104.00
Mean	115.34	106.88		109.04
Bloomberg Wgt Avg	115.95	106.51	106.09	105.89
High	148.00	130.00	137.00	156.00
Low	83.00	70.00	72.00	74.00
Current Fwd	116.36	114.55	113.15	112.08

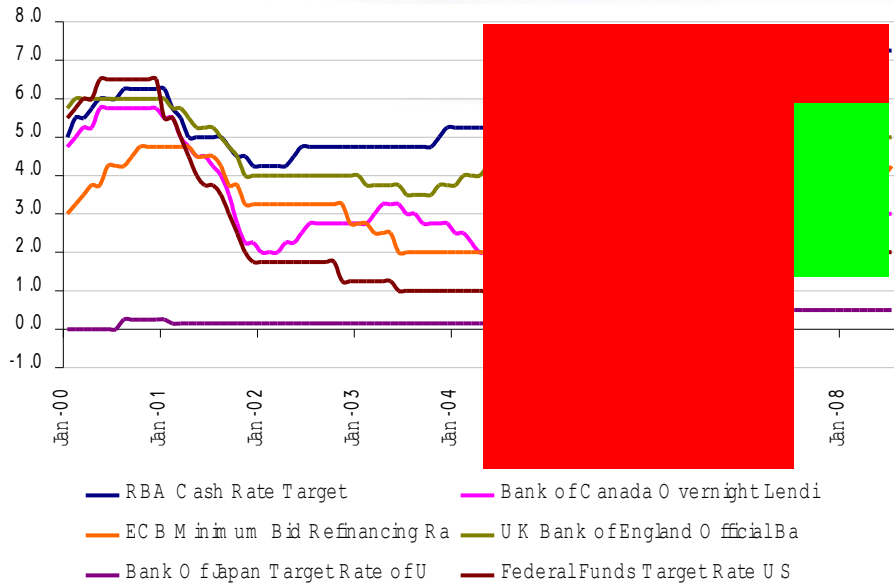
NYMEX WTI

	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09
Median	128.20	125.00	124.00	120.50	122.00	120.65
Mean	125.35	121.48	119.10	118.15	118.81	116.75
Bloomberg Wgt Avg	127.37	124.08	121.96	120.12	118.22	116.31
High	147.00	145.60	155.80	166.90	178.50	153.30
Low	82.00	85.00	86.00	86.00	85.68	84.00
Current Fwd	129.45	116.81	116.93	116.73	116.18	115.61

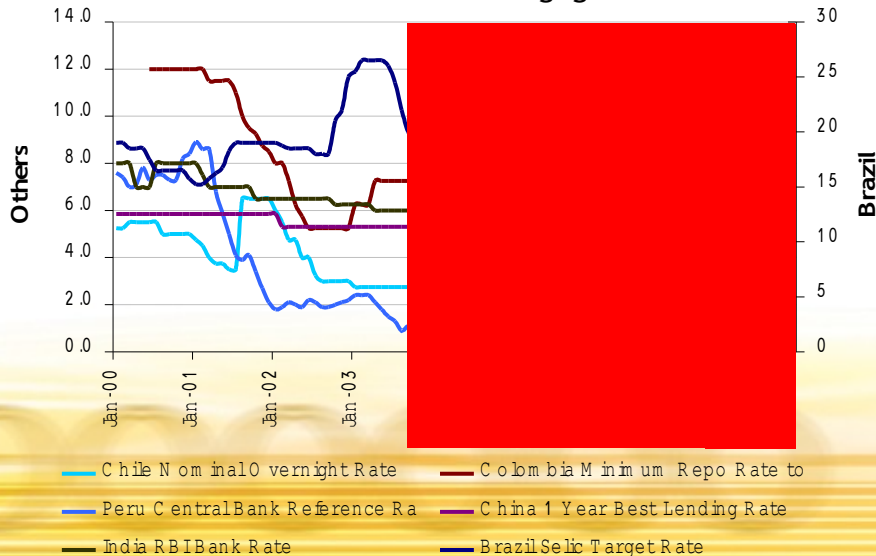
Current Price
115.76



CENTRAL BANK RATES: Advanced Economies



CENTRAL BANK RATES: Emerging Economies

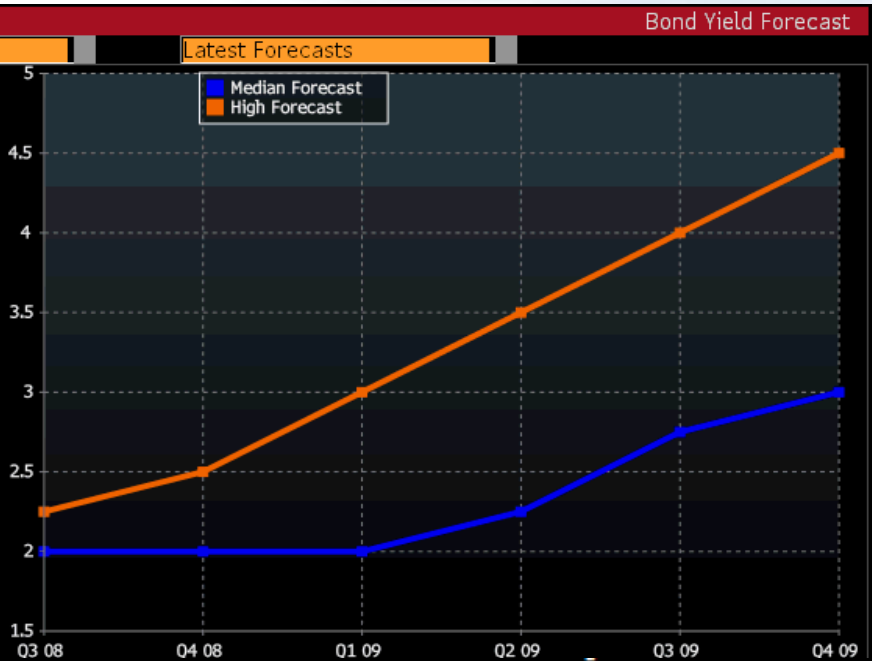


Policymakers face a difficult environment. They need to head off rising inflationary pressure, while also being mindful of downside risks to growth.

- Many central banks have tightened monetary policy stances but interest rates in **emerging and developing economies** generally remain negative in real terms.
- The risk of second-round effects from the surge in commodities prices and continued stress in financial markets complicates the response to the slowdown, particularly in **advanced economies**.
- In these economies inflation expectations and labor costs are projected to remain well anchored and growth momentum is weak.
- However, inflationary pressures need to be monitored closely.
- In many **emerging economies**, monetary policy needs to be tightened combined with greater fiscal restraint, and, in some cases, with more flexible exchange rate management.



Fed Keeps Rate at 2% as Economic Growth Stagnates



- Aug. 5 (Bloomberg) -- The Federal Reserve kept its benchmark interest rate at 2 percent and signaled that weak employment and financial instability will delay any increase in borrowing costs.
- *“Tight credit conditions, the ongoing housing contraction, and elevated energy prices are likely to weigh on economic growth”.*
- *“This says the Fed is on the hold for the rest of the Year”.*
- *“The next move may be up, but it won't occur for a while”.*

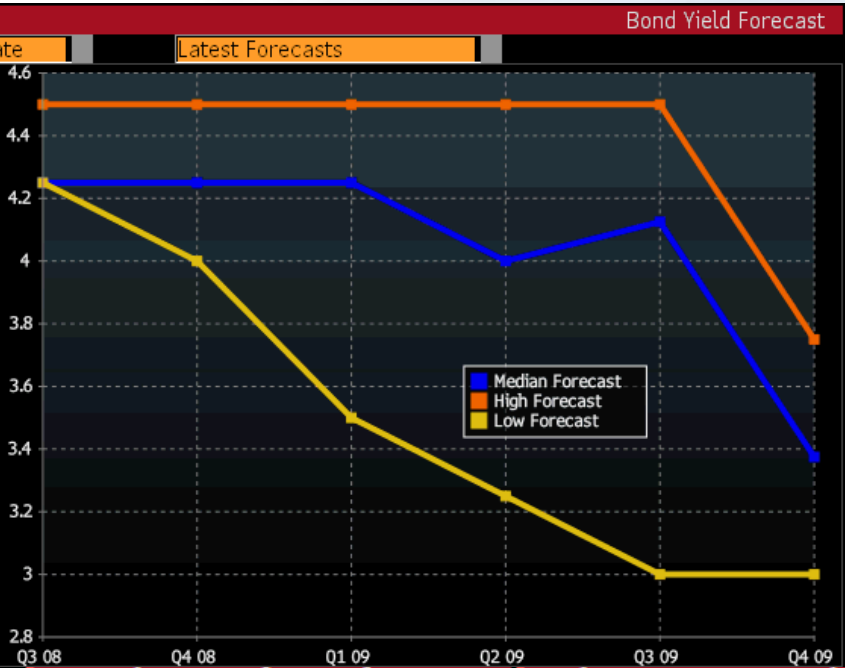
95) Graph Analysts

96) Forecast Histogram

Bond Yield Forecast

Fed Funds Target Rate		Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09
	Bloomberg Wgt Avg	2.00	2.00	2.25	2.25	2.75	3.00
	Median Forecast	2.00	2.00	2.00	2.25	2.75	3.00
Market Yield	Average Forecast	2.00	2.04	2.14	2.37	2.70	3.08
2.00	High Forecast	2.25	2.50	3.00	3.50	4.00	4.50
	Low Forecast	2.00	1.50	1.25	1.00	1.00	1.50
Recent Updates	Responses	53	53	51	50	46	44
No Update Since	Aug. Survey Median	2.00	2.00	2.00	2.25	2.75	3.00
Last Official Survey	Jul. Survey Median	2.00	2.00	2.00	2.50	2.75	3.00
	Change in Medians	0.00	0.00	0.00	-0.25	0.00	0.00

ECB: Trichet Sees 'Particularly Weak' Economic Growth



- Aug. 7 (Bloomberg) -- European Central Bank President Jean-Claude Trichet said economic growth will be “particularly weak” through the third quarter, suggesting policy makers are wary of raising interest rates again to curb inflation.
- While the ECB's decision to raise borrowing costs last month was justified by the inflation threat, risks to growth “are materializing”.
- “Overall, downside risks prevail”.

95) Graph Analysts		96) Forecast Histogram		Bond Yield Forecast			
ECB Main Refinancing		Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09
	Bloomberg Wgt Avg	4.25	4.25	4.25	4.00	4.00	3.50
	Median Forecast	4.25	4.25	4.25	4.00	4.13	3.38
Market Yield	Average Forecast	4.28	4.30	4.19	4.08	4.02	3.38
4.25	High Forecast	4.50	4.50	4.50	4.50	4.50	3.75
	Low Forecast	4.25	4.00	3.50	3.25	3.00	3.00
Recent Updates	Responses	27	27	27	25	22	2
D. Desjardins	Aug. Survey Median	4.25	4.25	4.25	4.13	4.25	3.00
	Jul. Survey Median	4.25	4.25	4.25	4.25	4.25	4.25
	Change in Medians	0.00	0.00	0.00	-0.13	0.00	-1.25



Currencies: “Dollar Optimists Return as Slowdown Spreads to Europe, Japan”

Foreign Exchange Forecasts										Page 1/3	
Contributor:	Composite (CMP)	View:	Forecasts								As of 8/14/08
		---Short-Term Forecasts---				---Year-End Forecasts---					
	Current	Q3 08	Q4 08	Q1 09	Q2 09	2009	2010	2011	2012		
Euro	1) EURUSD	1.48	1.55	1.50	1.46	1.45	1.40	1.36	1.36	1.33	
	Current Fwd	Graph	1.48	1.47	1.46	1.46	1.45	1.45	1.46	1.46	
Japanese Yen	2) USDJPY	110	106	108	109	110	110	109	103	100	
	Current Fwd	Graph	110	109	108	108	106	103	100	96	
British Pound	3) EURJPY	163	165	162	160	157	154	149	140	138	
	Current Fwd	Graph	162	160	159	157	154	150	145	141	
British Pound	4) GBPUSD	1.87	1.94	1.90	1.88	1.85	1.81	1.82	1.81	1.81	
	Current Fwd	Graph	1.86	1.85	1.84	1.83	1.82	1.80	1.79	1.78	
British Pound	5) EURGBP	.79	.80	.80	.78	.78	.77	.75	.72	.72	
	Current Fwd	Graph	.79	.79	.80	.80	.80	.81	.81	.82	

- Aug. 13 (Bloomberg) -- The dollar will appreciate against the euro, yen, pound and Swiss franc in the next six months as economies in Europe and Asia falter, a survey of Bloomberg users showed.
- *“It's not that people are more optimistic about the U.S. economy, the rest of the world is catching up with the U.S.”*

COFX ↑1864.00 +13.70

Index G

At 12:59 Vol 1,239,632 Op 1843.00 Hi 1873.00 Lo 1839.00

COFX Index

Edit

Options

Bookmarks

G 182 - DOLAR Canal de LP

COFX Index : Colombia Currency Market COP T

Daily 8/14/2006 - 8/14/2008

Last	1864.00
High on 06/29/06	2658.00
Average	2101.28
Low on 06/18/06	1633.00

EXCHANGE RATE:
 The appreciation
 tendency reversed
 since july



Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000
 Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000

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Foreign Exchange Forecasts

USDCOP Colombian Peso

USDCOP Forecasts as of 8/14/08

----Short-Term Forecasts----

----Year-End Forecasts----

	Graph	Q3 08	Q4 08	Q1 09	Q2 09	2009	2010	2011	2012
 USDCOP Colombian Peso Spot: 1864	Median	1816	1875	1914	1950	2025	2200	1920	2090
	Mean	1826	1873	1919	1953	2009	2068	1920	2090
	Low	1700	1750	1775	1825	1800	1775	1750	2090
	High	2048	2033	2100	2150	2250	2228	2090	2090
	Forward	1878	1912	1944	1977	2050	2193	2334	2479

10 Contributors	As of ↓	Q3 08	Q4 08	Q1 09	Q2 09	2009	2010	2011	2012
1) RBS	08/11/08	1760	1790	1840	1950	2050	2200	2090	2090
2) Credit Suisse	08/08/08	2048	2033	2030	--	--	--	--	--
3) Lehman Brothers	08/08/08	1850	1925	1975	2017	2100	--	--	--
4) Merrill Lynch	08/08/08	1900	2000	2100	2150	2250	--	--	--
5) Scotia Capital	08/06/08	1832	1850	1886	1924	2000	--	--	--
6) Deutsche Bank	08/01/08	1800	1900	1941	1983	2065	2228	--	--
7) BNP Paribas	07/29/08	1796	1812	1828	1852	1908	--	--	--
8) JP Morgan	07/24/08	1700	1750	1775	1825	1900	--	--	--
9) Brown Brothers	07/18/08	1700	1750	1800	1825	1800	1775	1750	--
10) Bank of America	07/16/08	1870	1925	2020	2050	--	--	--	--



LOCAL ECONOMY

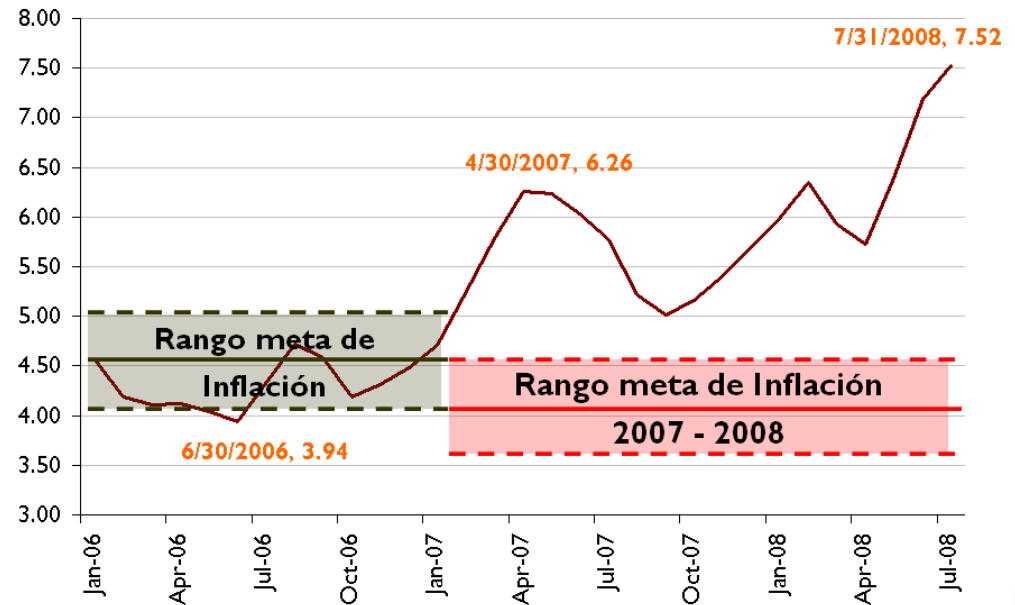
Situation, Perspectives and Outlook.

- Inflation
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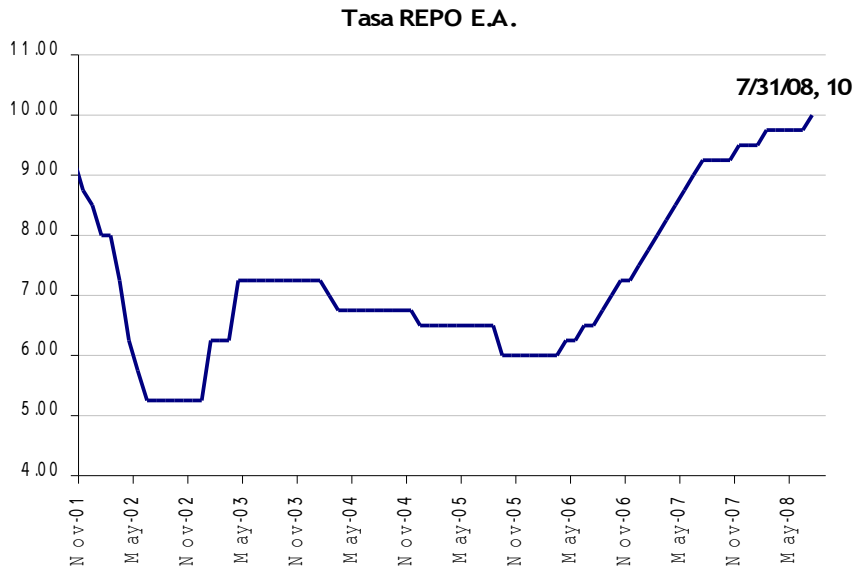
Despite currency-strengthening, annual inflation reached 7.5% in July, owing to local food-supply shocks and the pass-through from higher global food and fuel prices, as well as excess demand after two years of above-potential (albeit now decelerating) GDP growth.

Assuming food and fuel prices do not rise further and the economy decelerates as envisaged, we expect annual inflation to peak during the third quarter and easing towards year-end, ending 2008 at 7.6% and 5.7% in 2009.

Variación Anual IPC 12 Meses



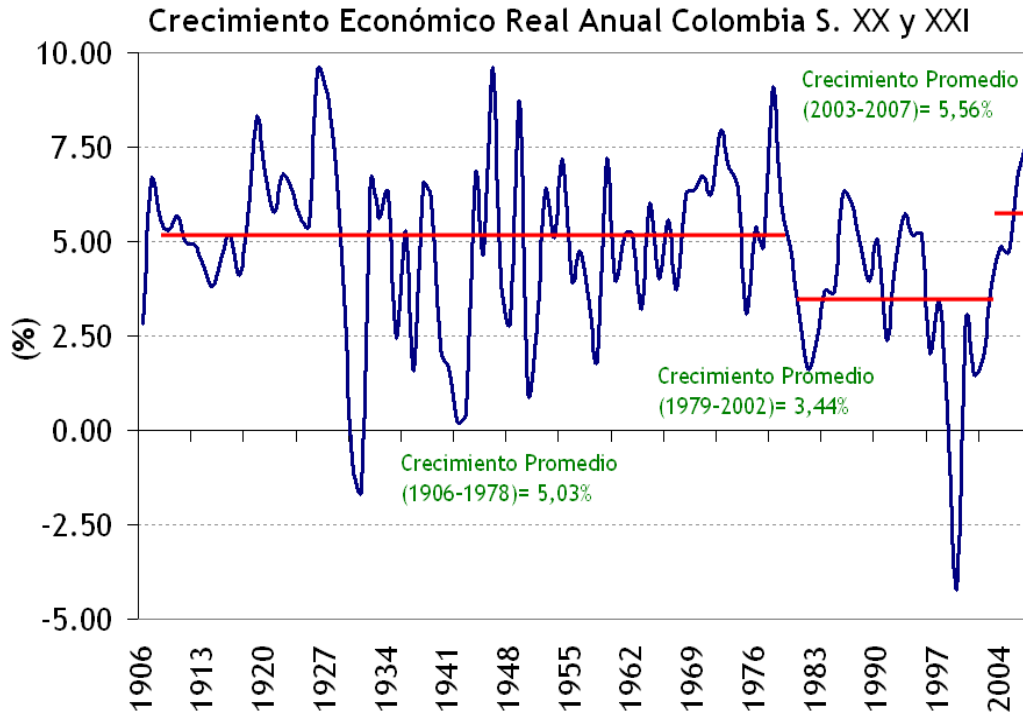
The central bank ignored President Alvaro Uribe's public objection that monetary tightening was prompting an economic slowdown.



- On June 25 Banco de la Republica raised the overnight interest rate to 10 percent from 9.75 percent, the highest in almost eight years.
- Policy makers are seeking to contain annual inflation (7.5%), the highest since July 2001.
- The bank has lifted rates 16 times since April 2006.



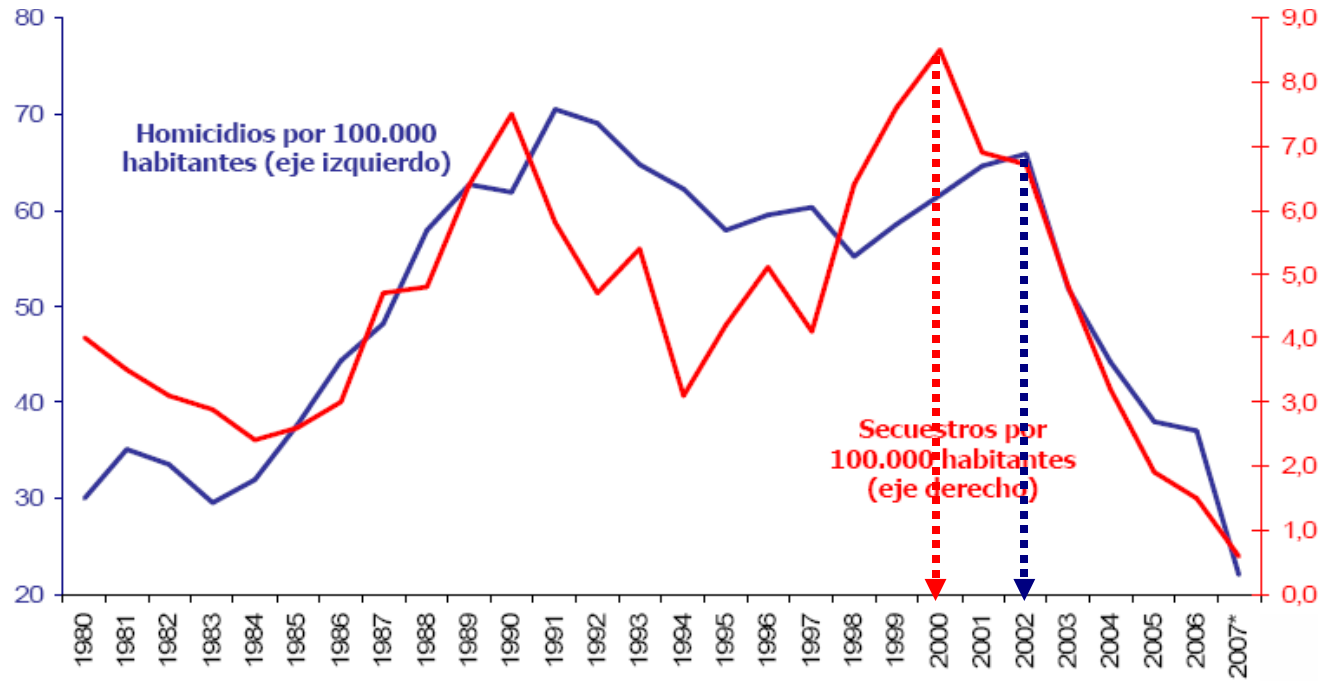
The GDP growth exhibits a structural change in long term tendency, recovering levels above 5.0%.



- Uribe's efforts to make Colombia safer from the violence, caused by drug-funded guerillas and paramilitaries has boosted consumer confidence and encouraged borrowing for homes and durable goods, such as cars and washing machines, fueling the fastest economic growth last year in five decades 8.2%.
- Still, the interest rate increases have now helped slow economic growth.



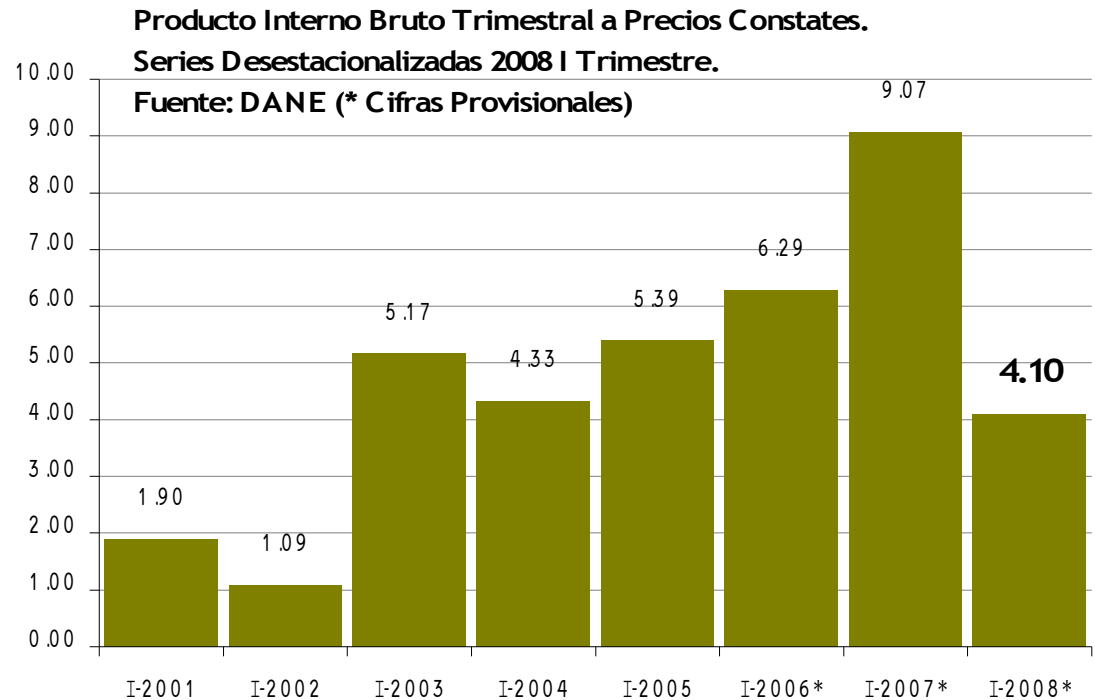
Improvement In Security Levels, as shown by the drop in homicides and kidnaps, explain the progress in Economic and sociopolitical Conditions for Investment.



Source: Fondelibertad; Policia Nacional

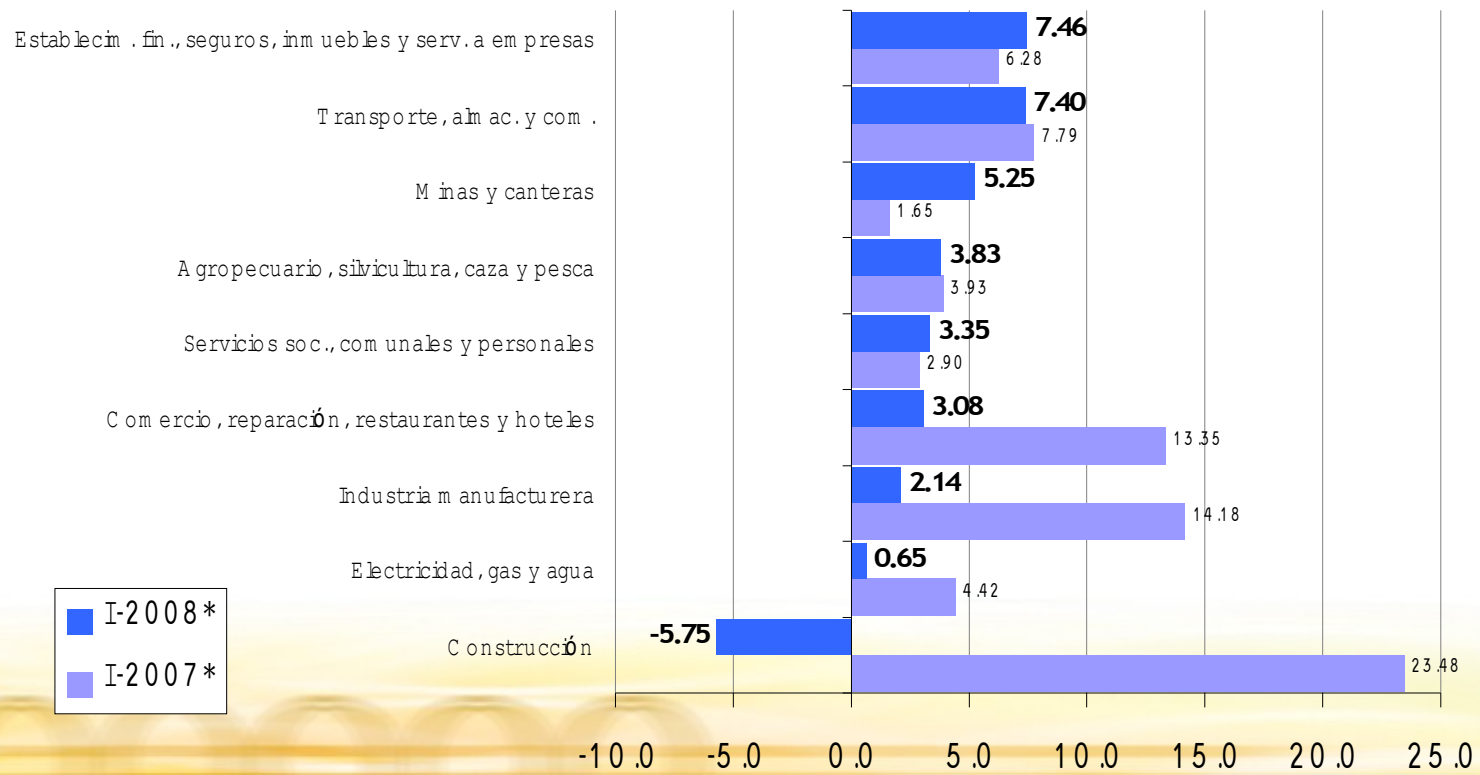
The economy is cooling down

- GDP growth slowed sharply to 4.1% year on year in the first quarter, as private consumption and investment decelerated in the face of higher interest rates, although exports performed well, despite a slowing US economy.
- GDP growth is forecast to decelerate from above potential rates in 2006-07 to 4.0% in 2008 and 3.8% in 2009 (below potential).



Construction sector has had the greatest slowdown

Producto Interno Bruto Trimestral a Precios Constantes por Ramas de Actividad Económica. Series Desestacionalizadas 2008 I Trimestre. Fuente: DANE (* Cifras Provisionales)





Even though deceleration, the economy remains strong enough.

External sector remains dynamic, measured by exports and FDI.

**** The uncertainty remains on the duration and magnitude of the USA recession.**



Thanks!

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