

**Colombia's sector outlook
Electricity, Natural Gas, Oil and Transportation**

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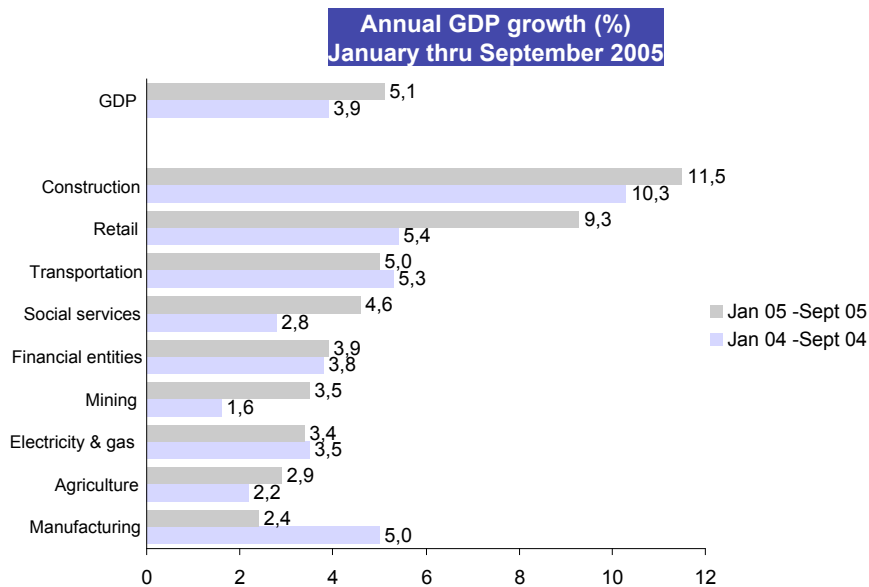
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I. Colombia 's recent economic situation

As of third quarter 2005 Colombia registered a GDP growth of 5.7% vs. third quarter 2004 and a 5.1% annual growth in the first nine months (January –September). Thus overall, in 2005 the country maintained the positive trend of economic growth observed in 2004, as well as the level of confidence of both national as well as international investors. The consensus forecast for 2005 estimates an annual GDP growth rate between 4.5% and 5.0%.

Graph 1



Source: Dane

By sectors, construction activity remains as one of the major contributors to the country's economic growth with an increase of 16.1% in the third quarter of last year vs. same period year ago (an 11.5% annual growth in the first nine months). This sector is closely followed by retail sales which, as of third quarter 2005, increased an annual 9.3% between January and September. Also worth highlighting are the results of the transportation and telecom sectors which grew slightly above the overall economy at a 5.9% annual rate in the third quarter and 5.0% in the first nine months of 2005¹

As for exports, third quarter figures reflect a slight slow down. However, the annual growth rate in the first nine months of last year was 8.4%. Worth mentioning are the high price levels of most commodities during last year. At an average level of

^{1/} Initial GDP figures reported by the National Statistics Department – DANE include both transportation and telecommunications in an aggregate account.

US\$48/barrel, the price of Colombian oil significantly favored the country's oil revenues, despite the lower volume of oil exports.

Other positive aspects of the country's recent economic behavior are the diminishing unemployment rate, the inflation rate under 5.0% in 2005, slightly below the Central Banks inflation target, the low interest rate level (the deposit rate at year end is 6.0%) and the improvement in the short term fiscal accounts, all of which have contributed to a stronger macroeconomic environment.

Finally, although revaluation of the peso continued in 2005 (4.4% end of year and 12% yearly average); the levels were below those registered in 2004. The average exchange rate in 2005 was \$2,321/US\$ vs. an average \$2,628/US\$ in 2004.

As for 2006 perspectives, the Colombian economy should continue showing signs of growth similar to those observed in 2005 especially behind positive results in private consumption and investment, although both are expected to increase at a lower rate this year in comparison with 2005. The government's initial GDP estimate for 2006 is 4.5%.

In the political front, the upcoming presidential elections, especially given the possibility of re-election, will certainly be one of the decisive aspects worth monitoring during this year given its obvious impact on the upcoming legislative agenda. The electoral results obtained on March 12 , 2006 in terms of members in Congress confirm the strength of the current political party. Through these elections 102 senators and 166 congress persons were elected for a four year term which begins in July 2006.

Although the congressional elections are primarily related to regional issues, these results also permitted having a preliminary assessment in terms of the probabilities of a subsequent President Uribe administration. In this case, the congressional elections resulted in President Uribe 's supporting forces majority in Congress. With a 70% presence both in the Senate and the House of Representatives, the Uribe administration improves its ability to govern. The implications of these elections in the economic scenario are the pending reforms, for example the transfers to local governments and the tax reforms. Another important aspect is the ratification by Congress of the recently finalized FTA agreement.

II. The energy sector

The energy and mining sector in Colombia has registered an average annual growth of 12.0% in the last decade. On the other hand, according to the most recent public data revealed by the DANE, electricity and gas production reached an annual growth of 4.2% in the first nine months of 2005. These results are positive for the sector and are a sign of the country's sustained economic recovery. In 2004 electricity and gas increased an annual 4.1% during the same period.