

Colombia

Country Report

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Country Snapshot

Government

Head of State	Juan Manuel SANTOS
Ruling party	Social Party of National Unity
Main opposition parties	Conservative party; Liberal party; Democratic Center
Elections	Senate and Chamber of Representatives - last held on March 2014 (next to be held in March 2018)

Demographics and social indicators

Population	46.7 million (CIA, est. 2015)
Main language	Spanish
Life expect. At birth	75.48 years (CIA, est.2015)
Literacy %(adults>15)	94.7% (CIA, est.2015)
Urban population	76.4% (CIA, est.2015)

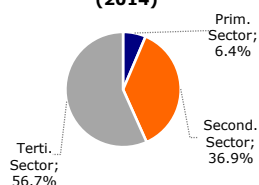
Economic structure

GDP in USD	USD 293.2 bn (2015)
GDP per capita	USD 6,083.5 (2015)

Distribution of GDP (2014)

GDP structure (% of the nominal VAB)

Prim. Sector	6.4%
Second. Sector	36.9%
Terti. Sector	56.7%



	1980-89	1990-99	2000-09	2010-15
Real GDP growth*	3.4%	2.9%	4.0%	4.5%

* Average growth rates from the WEO (IMF)

Trade Structure - Main partners by destination/origin

Exports		Imports	
	% of total		imports
USA	28.2%	USA	28.8%
Panama	6.7%	China	18.6%
China	6.3%	Mexico	7.1%
Spain	4.4%	Germany	4.2%
Netherlands	4.2%	Brazil	3.9%

Source: ITC

Trade structure - Top product groups

Exports		Imports	
	% total		% total
Mineral fuels	52.8%	Machines	12.8%
Coffee, tea, spices	7.2%	Electrical Equipment	10.3%
Plastics	4.0%	Mineral fuels	9.5%
Gemstones	3.7%	Vehicles	7.8%
Plants	3.7%	Airplanes	4.8%

Source: ITC



Country Rating

	Rating	Last change	Outlook
S&P	BBB	abr-13	Stable
Moody's	Baa2	jul-14	Stable
Fitch	BBB	Dec-13	Stable

Business Development Indicators

Last update

Global Competitiveness Index	2016
Ranking 61 (out of 140 countries)	↑
Ease of Doing Business	2016
Ranking 54 (out of 189 countries)	↓
Human Development Index	2015
Ranking 97 (out of 188 countries)	↑
Corruption Perceptions Index (Transparency.org)	2015
Ranking 83 (out of 168)	↑

General assessment

Strengths	Weaknesses
<ul style="list-style-type: none"> Strong economic policy framework Peace negotiations under way Comfortable level of international reserves Rich in natural resources (incl. Oil) Improvements in reducing the extreme poverty rates 	<ul style="list-style-type: none"> Large infrastructure gap Volatility in commodity prices Still High income inequalities Low human capital levels Exposure to capital flows Not fully dependent on oil, but the plunge in oil prices has hit export and fiscal revenues

Outlook and Risks

Vigorous growth has allowed to achieve remarkable social advancements; however, economic activity should decelerate in 2016, in line with the weak performance of private investment; in the medium term, the 4G infrastructure program should help support a gradual recovery of pace.

Main risks: vulnerability to market sentiment, with a possible impact on capital flows; economic deceleration in China; uncertainty about the future actions of the Fed; diminished interest for risk by the part of investors; fall of commodity prices; volatility in international financial markets; fragile economic environment in main partners.

Key Macroeconomic Indicators

	Source	2012	2013	2014	2015	2016P	2017P
GDP (real % change)	WEO	4.0%	4.9%	4.4%	3.1%	2.5%	3.0%
Nominal GDP (bn pesos)	WEO	664,473	710,257	756,152	804,009	850,001	905,429
Nominal GDP (USD bn)	WEO	369.6	380.0	377.9	293.2	253.2	278.6
Unemployment rate	WEO	10.4	9.7	9.1	8.9	9.8	9.4
Per capita GDP (USD)	WEO	7,934	8,065	7,928	6,084	5,195	5,651
CPI (% change, anual avg.)	WEO;Art.IV	3.2%	2.0%	2.9%	5.0%	7.5%	3.5%
Trade balance (USD bn)	Art. IV	4.7	3.2	-4.6	-14.0	-12.7	-9.8
Exports of Goods (USD bn)	Art. IV	61.4	60.3	56.9	38.1	32.3	35.9
Imports of Goods (USD bn)	Art. IV	56.7	57.1	61.6	52.2	45.0	45.7
Balance on Services, Income and Transf. (USD bn)	Art. IV	-16.6	-15.5	-15.0	-4.9	-2.5	-2.3
Current account balance (% GDP)	WEO	-3.1%	-3.3%	-5.2%	-6.5%	-6.0%	-4.3%
Fiscal balance (% of GDP)	WEO	0.1%	-0.9%	-1.8%	-2.8%	-3.1%	-2.7%
Public Debt (% of GDP)	WEO	34.1%	37.8%	44.3%	49.4%	49.3%	48.0%
External Debt (% GDP)	Art. IV	20.9	25.7	30.1	41.8	51.3	49.1
Pesos/USD (period average)	Art.IV;Bloomberg	1,797.7	1,879.1	2,018.1	2,774.8	3,356.5	-
International Reserves (USD bn)	Art. IV	37.0	43.2	46.8	46.3	46.4	46.3
in months of imports of G&S	Art. IV	6.2	6.9	8.9	10.0	9.9	9.5

Sources: IMF (World Economic Outlook April 2016 e Article IV May 2016), Bloomberg.
<http://stat.wto.org/CountryProfile/WSDBCountryPFView.aspx?Language=E&Country=CO>

Economic growth slowed but remains solid

The steady growth rates seen in the last few years have allowed for meaningful improvements in the reduction of poverty and other social indicators, while putting Colombia among the main economies of Latin America. The economic environment was most likely favoured by the higher prices of commodities up until the last years, albeit also being supported by adequate macroeconomic policies, and international liquidity. In 2015, despite the challenging economic and financial international conditions, the Colombian economy kept growing, although at a smaller pace than in the previous year. The expansion of economic activity was caused by the spurt in private consumption, supported by a strong growth of credit concession; at the same time, investment decelerated. In the near future, Colombian economic performance will be limited by the adjustment to the lower commodity prices and more restrictive international financial conditions. Yet, in the medium term, economic activity is expected to progressively increase, based on a broader diversification of exports and the beginning of the 4G infrastructure program. The latter has the purpose to improve regional and international connectedness, bolstering trade and reducing transport duration. In 2016, expectations are of a mild recovery in the manufacturing industry, which should even out and possibly compensate the impact of low oil prices and restrictive fiscal and monetary policy.

Inflation on a rising trend

Inflation had been held in the interval established as a goal by the Central Bank (2-4%) in the last few years. Nevertheless, the fall of oil prices since mid-2014, and its consequences on the depreciation of the domestic currency, have led to an increase in the general price level, surpassing the higher boundary of the mentioned interval in 2015. This effect was made worse by the impact in food prices of the *El Niño*. Despite these facts, the IMF deems it likely that these effects should smoothen out in the next months, helped also by a tighter monetary policy. Taking into account these inflationary pressures, the Central Bank has raised the reference interest rate by 125 basis points (b.p.) through 2015, ending the year at 5.75%. This year, until June, six increases have been decreed, for a total of 175 b.p., towards a rate of 7.5%.

External sector faces challenges

Commodity exports account for more than 60% of the total Colombian goods exports (mainly oil, but also natural gas, coal, gold, nickel and coffee). Thus, the sharp and prolonged fall of commodity prices impacted heavily on the Colombian current account in the last two years. The current account deficit increased to 6.5% of the GDP in 2015, with the trade balance in goods deteriorating to a deficit of USD 14 billion. Exports dropped 33% in 2015, in line with the fall of commodity prices and the weak economic growth of the main trade partners. In the same period, imports were down 15%, reflecting the impact of the Colombian peso's depreciation in the demand for imported goods. Inward capital flows remained steady, namely foreign direct investment non related with the oil industry nor portfolio investments. International reserves remained broadly unchanged last year at USD 46.3 billion. In 2016, the current account deficit should decrease, with the depreciation of the Peso boosting non-traditional exports, although these will face limitations due to the weak economic performance of the neighbour countries.

Budget deficit deteriorates on oil prices fall

Colombia has a record of prudent public finances, which has translated in low levels of budget deficit and public debt. Despite this, fiscal revenues are relatively tied to the volatility of oil prices (oil revenues were 18% of the total Central State revenues in 2014, dropping to 8% in 2015, according to the IMF). The falling price of oil in the international markets dragged down the budget deficit in 2015, due to lower fiscal revenues. For this year, the Government has revised down the expected oil fiscal revenue to be collected, in comparison to an earlier prediction. In light of the new forecasts, the Executive is predicting a 3.9% budget deficit in 2016, being reduced to 3.3% in 2017, and promising fiscal consolidation in the medium term. One of the objectives of the Colombian Government is a more effective and progressive revenue collection; notwithstanding, the large share of the shadow economy means that the tax base may be narrow enough to limit the success of this strategy.

