Colombia

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First Citizens
Research & Analytics

Real GDP growth (%) 2015	3.1%
Real GDP growth (%) 2016	2.6%
Exchange Rate (USD/COP) March 2016	3,300.00
FX Direction	Depreciate

S&P Foreign Currency LT Debt	BBB (NEGATIVE)
Fitch Foreign Currency LT Debt	BBB (STABLE)
Moody's Foreign Currency Debt	Baa2 (STABLE)

Trade	
Partners:	US 36.6%, China 5.5%, Spain 4.8%
Major Exports (%):	Petroleum, coal, emeralds, coffee, nickel
Foreign Reserves	US$ 46.7 billion
Reserve Direction	Appears stable
Import Cover	7.6 months
Direction	stable

INFLATION	
Target Rate	3%
Current Month (March)	7.98%
Direction	Rising
Forecast 2016	5.80%

POLICY INTEREST RATE	
Target Rate	
Current Rate	5.75%
Direction	Rising
Last Year 2014	4.50%

FISCAL	
Revenue/GDP (2016,%)	27.6
Revenue Trend	Declining
Debt/GDP (2016, %)	45.6
Debt Direction	Declining

POLITICAL	
Last Election	2014
Next Election	2018
Term	4 years
Other	

ECONOMIC OUTLOOK
STABLE

Colombian real GDP growth is expected to remain relatively subdued in the years ahead; as a low oil price environment weighs on fixed investment. According to S&P real GDP growth is forecasted to ease to 2.6% from 3.1% in 2015 and possibly pick up to 3.3% in 2017 to ease to 2.6%. Investment attractiveness will deteriorate, as the attractiveness of Colombia's hydrocarbons sector remains weak in an environment of structurally low oil prices. Real private consumption growth will also ease as the unemployment rate rises and as persistent exchange rate weakness and high inflation erode consumers' purchasing power.

INFLATION
MONETARY POLICY
NEGATIVE

Colombia has tightened monetary policy and is expected to do this largely in 2016. Currency weakness and elevated food prices will ensure that inflation remains above target, forcing banks to continue hiking rates. The Colombian peso will remain under pressure as lower average oil prices leads to the country's term of trade and revenue generation remains suppressed. In addition, dry weather related to El Nino will keep food price inflation elevated, meaning headline price growth will remain above the central bank's 3.0% ± 1.0% tolerance band in 2016.

TRADE BALANCE/ BOP
NEGATIVE

Colombia's current account deficit will narrow gradually over the next several years, as imports decline further and the primary income account shortfall moderates. Nevertheless, with little to drive a strong rebound in exports, the current account shortfall will remain structurally wider than in previous years. The sharp fall in oil prices since mid-2014 has precipitated a significant widening of the current account shortfall, from 3.2% of GDP in 2013 to a forecasted 6.7% in 2015. A moderation in the primary income account shortfall, as foreign firms' profit repatriation remains lower than in previous years, will provide another tailwind to the current account. Direct and portfolio investment inflows into Colombia are likely to cool in the coming years. As low oil price environment will see the country's hydrocarbons sector become less attractive to investors, while a slower growth outlook, high inflation and a deteriorating fiscal outlook weigh on financial market investments.

FISCAL ACCOUNTS
STABLE

Colombia's fiscal deficit will widen in 2016 as low oil prices and sluggish crude production weigh on revenues. More challenging fiscal dynamics will also dampen long-term growth, as government efforts to pare spending in light of weaker revenues reduce investment into transport and agriculture. The Colombian government's efforts to adjust to an environment of lower oil prices will reduce capital spending in the coming years, tempering the country's long-term growth prospects. A pullback in spending will temper some of the effect of weaker revenues, but will not be sufficient to fully offset it. The government has taken a number of steps to mitigate the impact of a contraction in revenue inflows. It has significantly pared back spending in its 2016 budget projection, with total expenditures set to grow by a modest 2.3% according to the government. Similarly, it has expanded spending on anti-tax evasion efforts, in an attempt to bolster tax evasion and boost revenues. Coupled with structurally stronger non-oil tax revenue in the wake of the 2014 tax reform (including an extension of the financial transactions tax and an increase in the income tax), this will offer some tailwinds to Colombia's fiscal dynamics.

POLITICAL
IMPROVING

INSURGENCY ACTIVITY
Colombia's political stability is bolstered by a high degree of policy continuity, reinforced by the re-election of President Juan Manuel Santos in May 2014. The security environment remains stable and it is expected that a peace deal will be reached between the FARC and the Government however, the potential for a breakdown or stalling in negotiations remains significant. High level crime in urban areas and insurgent groups' continued attacks on infrastructure in rural areas pose a significant threat to operational risk.

KEY ISSUES

Colombia's internal security environment has been improving significantly over the past 10 years.
An underdeveloped road network increases the risk of congestion and delays to supply chain. The internal armed conflict has been ongoing since the 1960's, involving left-wing guerrillas as well as right-wing paramilitaries, which are closely associated with a lucrative illegal drug industry.
Corruption is perceived to be quite high , which will deter inbound investment.

BUSINESS ENVIRONMENT

Colombia's relatively large population, low bureaucratic hurdles to setting up a business and developed financial markets increase the attractiveness of the country as an investment destination. However, an inflexible, poorly educated and costly labor market, high levels of crime in urban areas, and terrorism threats to extractive industries in rural parts of the country pose significant operational risks. In Colombia, NPL is expected to "increase somewhat" from recent lows due to indirect effect of oil prices drop in.

OUTLOOK

Risks include the failure to diversify oil exports to Asian and European markets and reigniting of FARC activity. Sustained low oil prices in the future may also seriously affect the country's economic and financial health. However, improved policy implementation, low external debt and foreign exchange reserves will help see the country through these issues. First Citizens Research & Analytics holds a stable view on Colombia.