Colombia

Prepared by: Kris Sookdeo
kris.sookdeo@firstcitizenstt.com
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First Citizens Research & Analytics

Real GDP growth (%) 2015	3.2%	
Real GDP growth (%) 2016	3.50%	
Exchange Rate (USD/COP)	3,292.00	Jan-16
FX Direction	Depreciate	

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

Trade	
Partners:	US 36.6%, China 5.5%, Spain
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	2% to 4%
Current Month (Dec)	6.77%
Direction	Rising
Forecast 2015	4.50%

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

FISCAL		
Budget Deficit (%) 2015	3.7%	IMF
Deficit Trend	Elevated	
Debt/GDP	37.20	
Debt Direction	Declining	

POLITICAL	
Last Election	2014
Next Election	2018
Term	4 years
Other	Congress is in sync with presidential elections, G

ECONOMIC OUTLOOK
POSITIVE
Sep-15

Despite the fall in oil prices, the economy expanded 3.0% in the second quarter of 2015, up from 2.8% (revised) in the first quarter, fueled by mining (+4.2%) and construction (+8.7%). The 2015 growth target is 2.8% followed by 3.0% in 2016 (Aug 2015).

The completion of works at the Reficar refinery should see a boost to the economy starting in Q4 2015 and help to reduce fuel imports.

The economic growth target for 2015 has been cut to 3.2% from 4.8% on account of lower oil prices. Crude oil account for more than 60% of exports. In the last 10 years, the size of the petroleum sector has increased from 6% to 12% of GDP. The low oil price environment will be a disincentive to investment into the hydrocarbon sector, negatively affecting production.

INFLATION
MONETARY POLICY
STABLE

The Colombian Central Bank raised its policy rate to 4.75% in September 2015 after holding the rate constant for over 12 months as the prospects for solid growth improved. Since then, the rate has been hiked to 5.75% in December 2015. Inflation in 2015 is projected to be 4.5% following 3.66% in 2014 and measured 6.77% in December 2015. Inflation has been attributed to currency depreciation and rising food costs. The central bank is allowing some weakening of the peso to counter the slump in exports (again, as oil prices fall).
Colombia's unemployment rate has been declining and was 7.3% in December 2015 (from 10.68% in Feb 2014). The improvement has been attributed to job growth in the housing, transport and manufacturing sectors.

TRADE BALANCE/ BOP
NEGATIVE

With oil accounting for 60% of exports, the current account deficit for full year 2014 is projected at 5% of GDP, up from 3.4% in 2013, on account of lower oil prices and demand. Colombia's current account deficit is forecast at 5.8% of GDP in 2015, the highest in recent history.

Oil remains Colombia's primary export and with declining demand by the US for oil, this is expected to place some pressure on the current account even when/if oil prices recover. Coal is another key export for Colombia and together with oil accounts for 50% of FDI inflows.

Sustained accumulation of international reserves has strengthened Colombia's external buffers and the sovereign is a net external creditor. Foreign reserves were reported at USD46.91 billion in April 2015, down from USD47.38 billion in Dec 2014.

FISCAL ACCOUNTS
STABLE

With 20% of government revenue coming from oil taxes, Colombia's budget deficit is expected at 3.6% of GDP in 2015 (initially projected at 3%) from 2.3% of GDP in 2014. In response to falling oil prices, the government has postponed USD2.4bn in planned spending, (3.0% of the initial 2015 spending budget). Cuts include government operating expenses (including a public sector payroll freeze) and investment projects, likely including key transport infrastructure projects. The government will also be seeking up to USD5.5 bn from multilateral lenders.

The implementation of laws that cap the structural deficit of the central government at 2.3% of GDP will help limit excessive spending. In addition the government has created a stabilization fund to accumulate excess income in buoyant times. Note: the cap can be waived.
Additionally, stable income, in the form of income tax and VAT, has grown during the past decade.

According to S&P, foreign holdings of local currency debt increased significantly to about 7% of the total as of year-end 2013 (from just 2% at year-end 2012) and this is likely to increase as JPMorgan increased Colombia's weighting in two of its indices.
Total government indebtedness was approximately 35% of GDP in 2013.

POLITICAL
IMPROVING

INSURGENCY ACTIVITY
The threat posed by the FARC and the ELN are much diminished. The former is estimated to have just 9,000 fighters left and many of its top leaders have been killed in recent years. However, they still pose a threat to Colombia's investment climate and are "an ideological challenge to the center-right government". The success of the President at the recent election is expected to support further peace talks with these factions. However, as FARC weakens, splinter groups have formed and some of these factions oppose the peace negotiations.

KEY ISSUES

>Crude Oil accounts for 20% of government revenue and 60% of total exports. Both production volumes and prices have fallen.
>The ceasefire with the FARC broke down in April/May 2015 and the FARC have resumed bombing oil and utility installations, although peace talks continue in Cuba.
>Colombia has a fiscal rule in place and minister confirmed that they will meet it following suggestion to the contrary. Benefits of the rule outweigh costs. (11 June).

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.