Colombia

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Last Updated:July 2016

First Citizens
Research & Analytics

COUNTRY	
Real GDP growth (%) 2015	3.40%
Real GDP growth (%) 2016	2.3%
Exchange Rate (USD/COP) Projected 2017	3,300.00
FX Direction	Depreciate

CREDIT RATING		
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%, Chin
Major Exports (%):	Petroleum, coal, e
Foreign Reserves (IMF)	US$ 46.4 billion
Reserve Direction	Appears stable
Import Cover	9.9 months
Direction	Declining marginally

INFLATION	
Target Rate	2%-4%
Q2 2016	8.1%
Direction	Q3 2016 projected to fall
Forecast 2016	7.0%

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 decelerate in 2016 ; 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. Investment attractiveness will deteriorate, as the attractiveness of Colombia’s hydrocarbons sector remains weak in an environment of structurally low oil prices. The deceleration in fixed investment growth will persist as relatively small discoveries, a still-tenuous security environment and low oil prices dissuade oil companies from investing in Colombia's oil and gas sector. 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 and rising interest rates make it more expensive to borrow.

INFLATION
MONETARY POLICY
NEGATIVE

Currently Colombia's inflation is above the target range of 2%-4%. The ongoing spell of inflation is mainly due to temporary shocks that are expected to unwind later this year. The stabilization of the exchange rate with oil price can lead to the price of goods stabilizing. The El Nino weather phenomenon effect on food prices will subside with the beginning of the wet season in the second half of the year. The authorities remain committed to their inflation targeting framework and flexible exchange rate, and have increased the policy rate by 275 bps since August 2015 to contain inflationary pressures. The ongoing tightening cycle will gradually bring inflation and near-term inflation expectations back to the target range and help align credit growth with weaker domestic demand.

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. In the last year, the outlook for Brazil, Ecuador, and Venezuela has deteriorated significantly. These countries account for 27% of Colombia's nontraditional exports, and the dramatic growth slowdown is already hindering Colombia’s export recovery in the baseline scenario. Furthermore, increased sovereign spreads in these neighboring countries suggest an increased risk of sliding into an adverse downside scenario where Colombia’s nontraditional exports decline significantly. A shock to commodity prices would also increase the likelihood that such an adverse scenario would materialize and could lead investors to reassess their exposure to the region. There is also a risk that some of Colombia’s neighbors take protectionist measures to improve their trade balances.

FISCAL ACCOUNTS
STABLE

The authorities are committed to fiscal sustainability by adhering to their structural balance rule. A strong fiscal framework and moderate levels of public debt helped Colombia adjust policies to absorb the permanent oil price shock. The authorities have committed to approving a structural tax reform. At 45.6% of GDP public debt is some 4 percentage points higher than a year ago—partly due to the valuation effects of the peso depreciation and, to a lesser extent, the cyclical widening of the central government deficit. Public debt is projected to decline gradually over time and remain sustainable

COLOMBIA & IMF

On 13 June 2016, the Executive Board of the International Monetary Fund (IMF) approved a successor two-year arrangement for Colombia under the Flexible Credit Line (FCL) in an amount equivalent to SDR 8.18 billion (about USD11.5 billion) and canceled the previous arrangement (SDR 3.87 billion, about USD5.4 billion). The Colombian authorities stated their intention to treat the new arrangement as precautionary and do not intend to draw on it. The FCL is available to countries with very strong fundamentals, policies, and track records of policy implementation and is particularly useful for crisis prevention purposes. FCL arrangements are approved for countries meeting pre-set qualification criteria (see Press Release No. 09/85). The FCL is a renewable credit line, which could be approved for either one or two years. Two-year arrangements involve a review of eligibility after the first year. If the country draws on the credit line, the repayment period is between three and a quarter and five years.

POLITICAL
IMPROVING

INSURGENCY ACTIVITY
The June 22 2016 announcement by the Colombian government and Fuerzas Armadas Revolucionarias de Colombia (FARC) that they have agreed to terms for a bilateral ceasefire, ending the country's decades-long armed conflict. This is a significant step forward for peace negotiations as the ceasefire (alongside the disarmament and demobilization of the FARC) was the final point outstanding in the talks. Indeed, the two sides had come to preliminary agreements on the other four main negotiating points - agrarian reform, political participation for ex-combatants, the elimination of illicit drug cultivation and reparations for war victims - by the end of last year.

KEY ISSUES

- Persistent weakness in benchmark crude prices will continue to undermine real export growth and fixed investment, structurally slowing growth over the next several years.
- A slowdown in real private consumption growth is anticipated as consumers are hit hard by high inflation, rising interest rates and a significant sell-off in the exchange rate.
- Hydrocarbon sector weakness will also weigh on Colombia's balance of payments position. Faltering oil prices and production will temper investment into Colombia and cool export growth.
- The government and Fuerzas Armadas Revolucionarias de Colombia reached a peace accord,
- A failure to continue improving its business environment could prolong Colombia's growth slowdown, as investors look to more favorable destinations for investment in light of the country's high wage and non-wage costs and insufficient infrastructure.

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.