Euler Hermes Economic Research

Country Report

# Colombia

## Fall in oil prices weighs on growth

### General Information

| | |
|---|---|
| **GDP** | USD377.74bn (World ranking 31, World Bank 2014) |
| **Population** | 48.93mn (World ranking 28, World Bank 2014) |
| **Form of state** | Republic |
| **Head of government** | Juan Manuel SANTOS |
| **Next elections** | 2018, presidential |

### Strengths

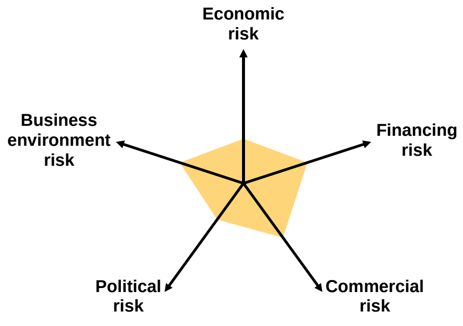
- Natural resource base (agricultural, energy and minerals)
- Strong medium-term growth
- Pro-business, sound macro-policy framework
- Fiscal sustainability principle included in the Constitution
- Support from international financial institutions very likely if needed
- Reactive, prudent and independent monetary authorities

### Weaknesses

- Sensitive to commodity price fluctuations and U.S. business cycle
- Difficult security situation with long running domestic insurgency and drug trafficking
- Skewed income distribution
- Rule of law and control of corruption remain areas of concern
- High informality in the job market
- Old-age poverty

### Country Rating

BB2




Source: Euler Hermes

### Trade Structure

By destination/origin (% of total)

| Exports | | Rank | | Imports |
|---|---|---|---|---|
| United States | 26% | 1 | 29% | United States |
| China | 10% | 2 | 18% | China |
| Panama | 7% | 3 | 8% | Mexico |
| Spain | 6% | 4 | 4% | Germany |
| India | 5% | 5 | 4% | Brazil |

By product (% of total)

| Exports | | Rank | | Imports |
|---|---|---|---|---|
| Crude Oil | 49% | 1 | 12% | Refined Petroleum |
| Coals | 8% | 2 | 5% | Cars And Cycles |
| Refined Petroleum | 8% | 3 | 5% | Telecom. Equipment |
| Other Agricultural Prod | 6% | 4 | 4% | Basic Organic Chemicals |
| Non-Monetary Gold | 3% | 5 | 4% | Plastic Articles |

Source: ITC, Chelem

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## Economic Overview

### Growth dragged by oil shock, fiscal and monetary tightening

Real GDP grew by +4.6% in 2014, among the highest in Latin America. However, output has been hard hit by the severe oil price shock, since petroleum products account for over 55% of total exports and 10% of fiscal revenues. Euler Hermes expects growth to slow to +2.8% in 2015 and to remain below +3% in 2016-2017, far below the 2010-2014 average of +4.8%, amid a protracted period of low commodities prices.

The oil price shock led to a significant deterioration of the fiscal and external accounts. The fiscal deficit doubled to -3.4% of GDP in 2015, constraining for spending cuts (notably on public investment) in order to meet the fiscal rule.

Economic recession in neighbouring countries (Ecuador, Venezuela) and lower than expected growth in the U.S. are also dragging export revenues. The current account deficit should widen to -6.5% of GDP in 2015, a record in at least 10 years, and is not expected to narrow significantly until 2017. The local currency will thus continue to be plagued by downward pressures and high volatility. The CBP has already depreciation by more than -50% vs the USD from its last peak in June 2014, generating financial distress in import-intensive sectors such as electronics, durable consumer goods and computer and IT services. It has also caused a surge in inflation that is expected to remain above the Central Bank target of +3% beyond 2016. Against this, the Central Bank has begun a monetary policy tightening cycle that is expected to continue in coming months.

Despite tightened local and external financing conditions, a balance of payments crisis is unlikely since Colombia has built enough financial buffers to avoid liquidity and financing shortages. The level of FX reserves is comfortable (around 7 months of imports) and Colombia benefits from a Flexible Credit Line from the IMF.

### Strong macroeconomic fundamentals

Colombia has strengthened its macroeconomic fundamentals since the early 2000s thanks to sound macroeconomic policy reforms. The adoption of (i) a credible inflation targeting regime, (ii) a freely floating exchange rate, (iii) a structural fiscal rule and (iv) a solid financial regulation – underpinned growth and reduced macroeconomic volatility.

The business environment has steadily improved in recent years. According to the 2015 World Bank's *Doing Business 2015* survey, Colombia ranks 34th out of 189 countries, being the best ranked among Latin American economies. It performs particularly well in getting credit, protecting investors and resolving insolvency, but important shortcomings remain with regard to paying taxes, enforcing contracts and getting electricity. Security has improved considerably but the rule of law and control of corruption remain areas of concern.

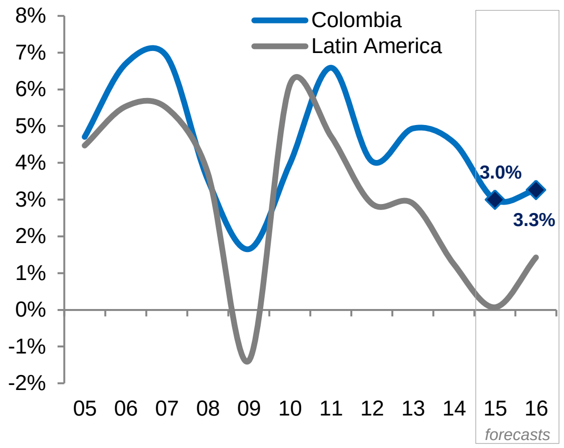
**Key economic forecasts**

| | 2014 | 2015f | 2016f | 2017f |
|---|---|---|---|---|
| GDP growth (% change) | 4.6 | 2.8 | 2.7 | 2.9 |
| Inflation (%, yearly average) | 2.9 | 4.9 | 4.8 | 3.7 |
| Fiscal balance* (% of GDP) | -1.8 | -3.4 | -3.0 | -2.6 |
| Public debt* (% of GDP) | 44.3 | 51.2 | 49.2 | 47.9 |
| Current account (% of GDP) | -5.2 | -6.5 | -5.5 | -4.9 |
| External debt (% of GDP) | 20.9 | 23.9 | 27.2 | 28.0 |

**Includes Local Government; Non-financial Public Corporations; Social Security Funds; State Governments*

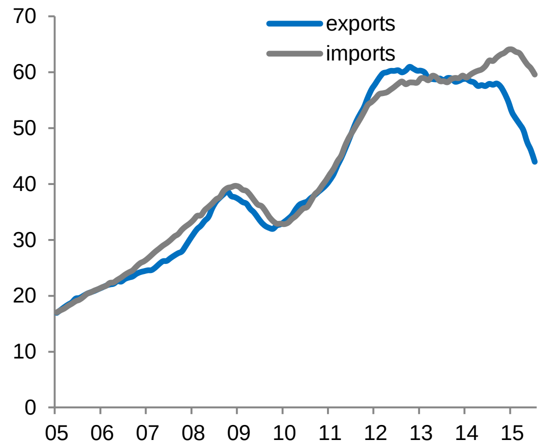
Sources: National sources, IMF-WEO, IHS, Euler Hermes

**Real GDP growth (%)**




Sources: National sources, IMF-WEO, IHS, Euler Hermes

**Exports and imports of goods (USD bn, over 12 months)**

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