

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

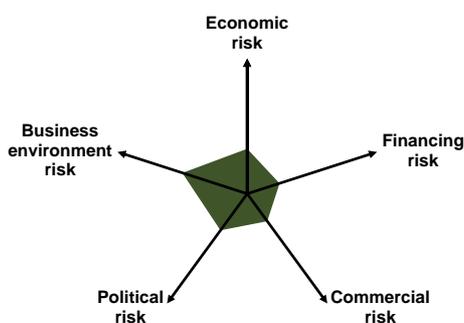
- Natural resource base (agricultural, energy and minerals)
- Strong medium-term growth
- Pro-business, sound macro-policy framework
- Fiscal sustainability principle included in the Constitution
- Support from international financial institutions very likely if needed
- Reactive, prudent and independent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

BB1



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

Economic Overview

Negative oil shock

Real GDP grew by +4.6% in 2014, among the highest in Latin America. Output has however shown signs of weakness since Q4 2014 due to the severe oil price shock. Petroleum products account for over 55% of total exports and 10% of fiscal revenues. Euler Hermes expects growth to slow to +3.0% in 2015 and +3.3% in 2016, far below the 2010-2014 average of +4.8% due to a subdued outlook for investment and some fiscal tightening following the collapse in oil prices.

Oil prices, FX volatility and the upcoming Fed's hike will be key to monitor, but Colombia has built enough buffers to cope with these shocks and is well positioned 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. While the oil price shock led to a sharp depreciation of the peso (-40% y/y against the USD), the current account deficit is expected to widen, owing to lower oil revenues, still dynamic import demand and the elevated repatriation of profits by foreign-owned companies. This gap will however continue to be almost entirely covered by FDI inflows, while external debt remains low and fiscal accounts manageable.

Fiscal deficits and public debt are low and at sustainable levels thanks to the fiscal rule, which also protects key expenditure programs from cyclical oil and output fluctuation. Among these, the Fourth Generation Private-Public Partnerships (PPPs) infrastructure program for road concessions aims to improve competitiveness and boost growth.

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.

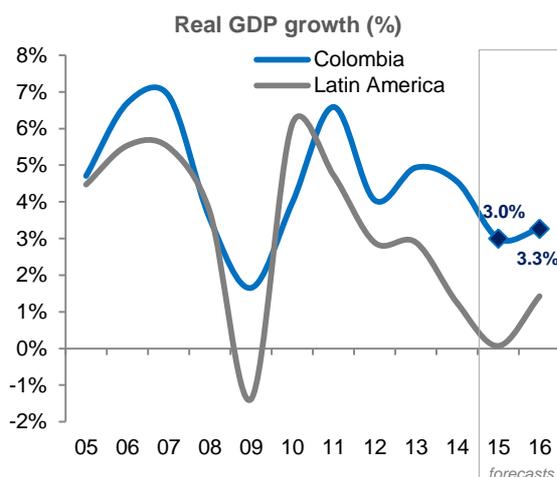
Colombia has steadily improved its position in the World Bank's Ease of Doing Business Survey in recent years, and is now the best ranked among Latin American economies. It performs particularly well in getting credit, protecting investors and resolving insolvency, but important shortcomings remain on paying taxes, enforcing contracts and getting electricity. Security has improved considerably but rule of law and control of corruption remain areas of concern. There is also room for deepening in financial markets by increasing the efficiency and competition in the banking system.

Key economic forecasts

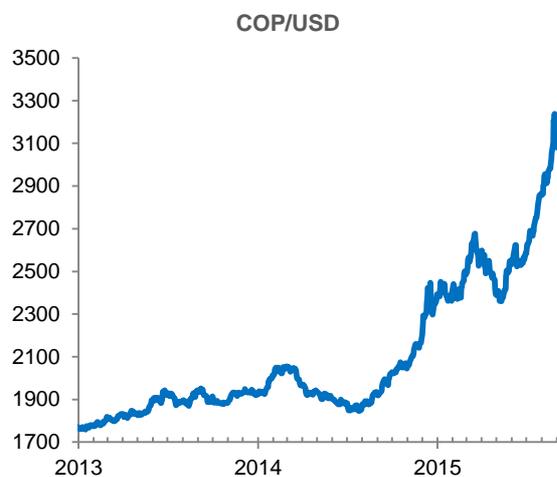
	2013	2014	2015	2016
GDP growth (% change)	4.9	4.6	3.0	3.3
Inflation (% , yearly average)	2.0	2.9	4.5	4.0
Fiscal balance* (% of GDP)	-0.9	-1.4	-3.2	-2.6
Public debt* (% of GDP)	35.8	38.0	40.9	40.4
Current account (% of GDP)	-3.3	-5.2	-6.2	-5.1
External debt (% of GDP)	24.2	20.9	23.5	25.0

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

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



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