

Growth to accelerate after the fall in oil prices

General Information



GDP	USD292.08bn (World ranking 37, World Bank 2015)
Population	48.23mn (World ranking 28, World Bank 2015)
Form of state	Presidential Republic
Head of government	Juan Manuel Santos
Next elections	2018, presidential



Strengths

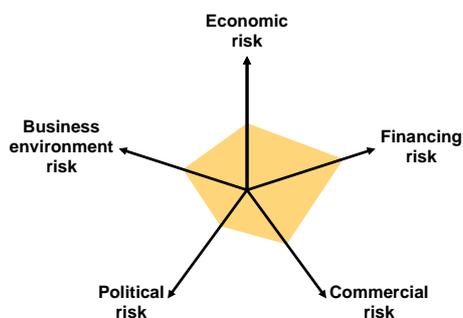
- Natural resource base: agricultural, energy and minerals
- Strong medium-term growth
- Pro-business environment
- Fiscal sustainability principle included in the Constitution
- Support from international financial institutions
- Independent monetary authorities

Weaknesses

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

Country Rating

BB2



Source: Euler Hermes

Trade Structure

By destination/origin (% of total)

Exports		Rank		Imports	
United States	31%	1	29%	United States	
China	8%	2	19%	China	
Venezuela	4%	3	8%	Mexico	
Spain	4%	4	4%	Brazil	
Ecuador	4%	5	4%	Germany	

By product (% of total)

Exports		Rank		Imports	
Crude oil	40%	1	11%	Refined petroleum prod.	
Coals	11%	2	6%	Cars and cycles	
Other agricultural prod.	10%	3	6%	Telecom. equipment	
Non-monetary gold	5%	4	4%	Plastic articles	
Plastic articles	3%	5	4%	Pharmaceuticals	

Sources: Chelem, Euler Hermes

Economic Overview

The oil shock was a drag on growth

Real GDP increased by +3.1% in 2015, among the highest rates in Latin America. Yet, output growth moderated as a result of the severe oil price shock, since crude oil accounts for 40% of total exports. Euler Hermes expects a slowdown of growth to +1.8% in 2016 and to remain below +3% in 2017, far below the 2010-2014 +4.8% average. The recession that hit regional trade partners (Ecuador and Venezuela are clear examples) affected Colombia's export revenues. These are expected to start growing in 2017. While the current account deficit should decline to -4.9% of GDP (2016) it will remain large.

Adding to the economic woes was the CBP sharp depreciation, as it tumbled by more than -40% against the USD since July 2014, generating distress in import-intensive sectors. This has also caused a surge in inflation and one can expect the index to remain above the +3% target beyond 2017. The Central Bank reacted and tightened monetary policy between September 2015 and July 2016. Despite more restrictive local and external financing conditions, a balance of payments crisis is unlikely. Colombia has built enough financial buffers to avoid liquidity and financing shortages. The level of foreign exchange reserves is comfortable and can cover around 11 months of imports (compared to 7 months two years ago. Colombia benefits from a Flexible Credit Line from the IMF.

Tax reform

The oil price shock led to a significant deterioration of the fiscal and external accounts. The fiscal deficit doubled to -3.5% of GDP in 2015, prompting cuts in public investment. Colombia currently taxes below the region's average. The new tax framework is aimed at increasing collection by COP7bn in 2017 (0.8% of GDP) and COP26bn in 2022 (3.3% of GDP). VAT will rise from 16% to 19% along with an expansion in the taxable base in January 2017. Corporate taxes will be reduced at a gradual pace and reach 32% by 2019.

Strong macroeconomic fundamentals and pro-business environment

Colombia has strengthened its macroeconomic fundamentals since the early noughties thanks to sound macroeconomic policy reforms. The adoption of a credible inflation targeting regime, freely floating exchange rate, structural fiscal rule, and solid financial regulation, has underpinned growth and reduced macroeconomic volatility.

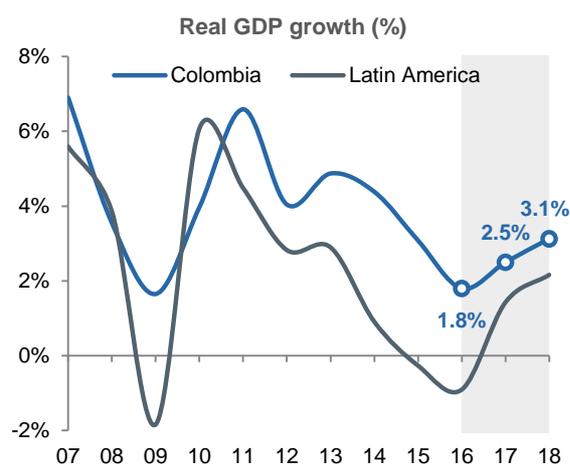
According to the World Bank's Ease of Doing Business 2016 survey, Colombia ranks 53 out of 190 countries, the second best among Latin American economies. The country performs particularly well in getting credit, protecting investors and resolving insolvencies and dealing with construction permits. Important shortcomings remain with regard to enforcing contracts, paying taxes and trading across borders. Security has improved considerably but the rule of law and control of corruption remain areas of concern.

Key economic forecasts

	2015	2016	2017	2018
GDP growth (% change)	3.1	1.8	2.5	3.1
Inflation (% , yearly average)	5.0	7.6	4.4	3.2
Fiscal balance* (% of GDP)	-3.5	-3.4	-2.7	-2.2
Public debt* (% of GDP)	50.6	48.4	48.1	47.3
Current account (% of GDP)	-6.4	-4.9	-4.1	-3.6
External debt (% of GDP)	24.2	28.2	28.1	28.3

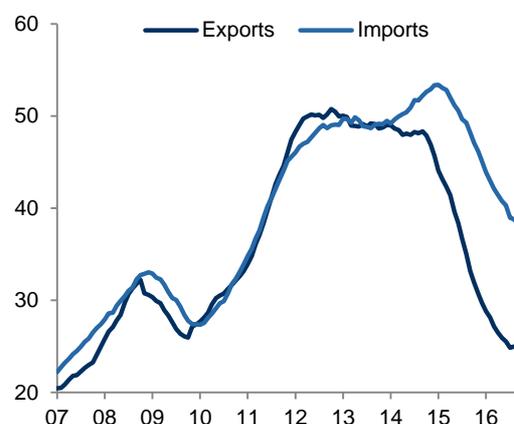
*Includes Local Government; Non-financial Public Corporations; Social Security Funds; State Governments

Sources: National sources, IMF, IHS, Euler Hermes



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Exports and imports of goods (USD bn, 12m ma)



Sources: IHS, Euler Hermes

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