Euler Hermes Economic Research

Country Report

Colombia

Strong fundamentals will help to cope with the oil price shock

General Information

GDP	USD378.42 bn (World ranking 31, World Bank 2013)
Population	48 mn (World ranking 28, World Bank 2013)
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

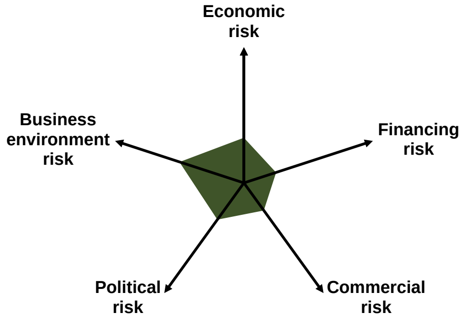
Reactive, prudent and independent monetary authorities

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 (but manageable) 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 the economy to slow down to +3.3% in 2015, due to a subdued outlook for investment and some fiscal tightening following the collapse in oil price, but will remain above regional average.

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 foreign exchange reserves is comfortable (around 7 months of imports) and Colombia benefits from a Flexible Credit Line from the IMF. Moreover, as inflationary pressures will remain under control, there is space for monetary stimulus if needed. The current account deficit is expected to widen, owing to lower oil revenues, strong import demand from buoyant economic activity and to the elevated repatriation of profits by foreign-owned companies. However, the current account gap will continue to be almost entirely covered by FDI inflows, while the external debt remains low and fiscal accounts manageable.

Fiscal deficit and 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 programs, 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 2000's 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 over past years, and is now the best ranked among Latin American economies. Colombia particularly performs well in getting credit, protecting investors and resolving insolvency, but important shortcomings remain when paying taxes, enforcing contracts and getting electricity. Security has considerably improved over the past years but rule of law and control of corruption remain areas of concern. There is also room for deepening financial markets by increasing efficiency and competition in the banking system.

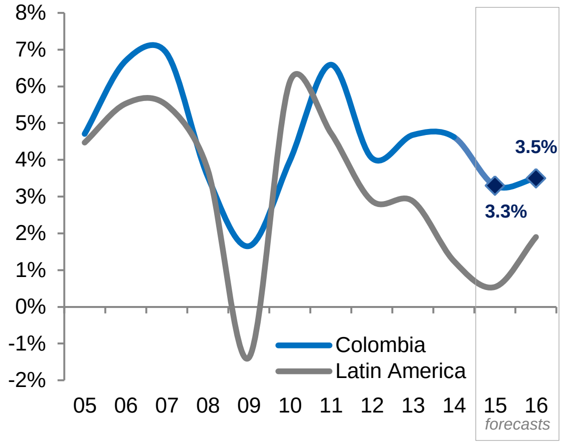
Key economic forecasts

	2013	2014	2015	2016
GDP growth (% change)	4.7	4.6	3.3	3.5
Inflation (%, yearly average)	2.0	2.8	3.9	3.1
Fiscal balance* (% of GDP)	-0.9	-1.4	-3.0	-2.5
Public debt* (% of GDP)	35.8	38.0	40.9	40.4
Current account (% of GDP)	-3.4	-4.6	-5.5	-4.5
External debt (% of GDP)	24.3	20.9	21.2	22.0

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

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

Real GDP growth (%)



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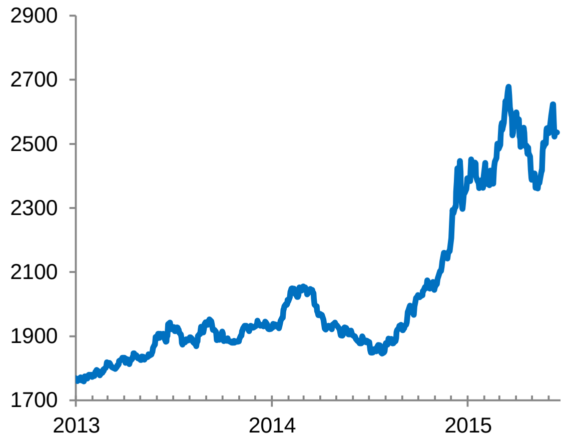
COP/USD



Sources: IHS, Euler Hermes

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