

Lowest growth since 2008

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

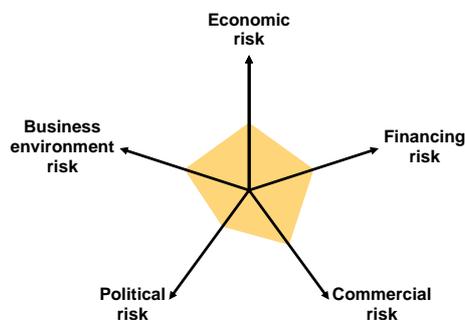
- Natural resource base: agricultural, energy and minerals
- Strong medium-term growth
- Pro-business environment
- Fiscal sustainability principle included in the Constitution
- Support from international financial institutions
- Independent monetary authorities

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	
Coals	11%	2	6%	Cars and cycles	
Agricultural products	10%	3	6%	Telecom. equipment	
Non-monetary gold	5%	4	4%	Plastic articles	
Plastic articles	3%	5	4%	Pharmaceuticals	

Sources: Chelem (2015)

Economic Overview

Colombia still recovering from the oil shock

In 2016, real GDP registered its lowest growth in 8 years (+2%) as a result of the severe oil price shock experienced since 2014 and weakening demand from regional partners.

The economy is expected to decelerate further in 2017 despite higher oil prices and an ambitious infrastructure program (4G). While crude oil accounts for 40% of total exports, oil revenues will remain capped as production continues to fall (120bb/day in May, from a peak of 130bb/day in early-2016).

Moreover, the rise in VAT from 16% to 19% will weigh on private consumption and tourism-related activities. All in all, we expect economic growth to be below 2% in 2017. A modest rise to +2.9% in 2018, will still place it well below the 2010-2015 average of +4.5%.

Moderating inflation allowed for a supportive monetary policy. To sustain the recovery the central bank cut the key rate by 325bps since September 2016 (125bps cut since the beginning of the year) to 6.25% in May 2017, its lowest level in 13 months. After a peak of +9% y/y in June 2016, consumer prices have moderated to +4.7% y/y in April, still above the 3% \pm 1pp inflation target range. Monetary authorities expect inflation will converge to the central target by 2018.

Public and external positions are overall sound

The trade balance has been steadily improving for a year, mostly due to a decrease in imports, while exports have just started recovering. Hence, the current account deficit, which reached in Q3 2015 -6.7% of GDP, narrowed to -4.4% in Q4 2016. It is expected to improve further over the next two years thanks to the recovery in exports.

Moreover, the external deficit is more than entirely covered by net FDI inflows. External debt is reasonable (44.6% in 2016) and import cover is comfortably above 7 months, although it dropped from 10 months in 2016 with the recent rise in imports.

Although the fiscal deficit widened with the fall in oil revenues, the structural deficit declined to -2.8% of GDP according to the IMF, remaining consistent with the fiscal rule. The recent VAT rate hike attests to the country's resilient fiscal policy tightening. Fiscal balance should improve in 2017 (-2.8%).

Strong business environment

Colombia has strengthened its macroeconomic fundamentals since the early 2000s thanks to sound macroeconomic policy reforms. This was due to 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. According to the World Bank's Ease of Doing Business survey, Colombia ranks 2nd in Latin America (53 of 190 worldwide), after Mexico (47th). The peace accord with the FARC, although contested by the opposition, also sets the stage for positive developments.

DISCLAIMER

These assessments are, as always, subject to the disclaimer provided below.

This material is published by Euler Hermes SA, a Company of Allianz, for information purposes only and should not be regarded as providing any specific advice. Recipients should make their own independent evaluation of this information and no action should be taken, solely relying on it. This material should not be reproduced or disclosed without our consent. It is not intended for distribution in any jurisdiction in which this would be prohibited. Whilst this information is believed to be reliable, it has not been independently verified by Euler Hermes and Euler Hermes makes no representation or warranty (express or implied) of any kind, as regards the accuracy or completeness of this information, nor does it accept any responsibility or liability for any loss or damage arising in any way from any use made of or reliance placed on, this information. Unless otherwise stated, any views, forecasts, or estimates are solely those of the Euler Hermes Economics Department, as of this date and are subject to change without notice. Euler Hermes SA is authorised and regulated by the Financial Markets Authority of France.

© Copyright 2017 Euler Hermes. All rights reserved.

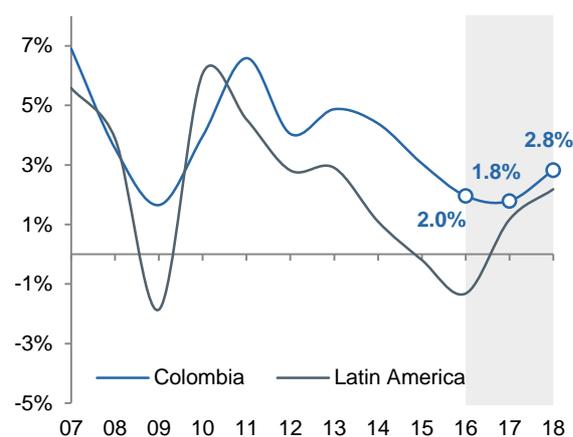
Key economic forecasts

	2015	2016	2017	2018
GDP growth (% change)	3.1	2.0	1.8	2.8
Inflation (% , yearly average)	5.0	7.5	4.6	3.8
Fiscal balance (% of GDP)	-3.5	-3.4	-3.1	-2.8
Public debt (% of GDP)	50.7	47.6	48.0	48.1
Current account (% of GDP)	-6.4	-4.4	-4.2	-3.5
External debt (% of GDP)	39.6	44.6	40.7	35.6

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

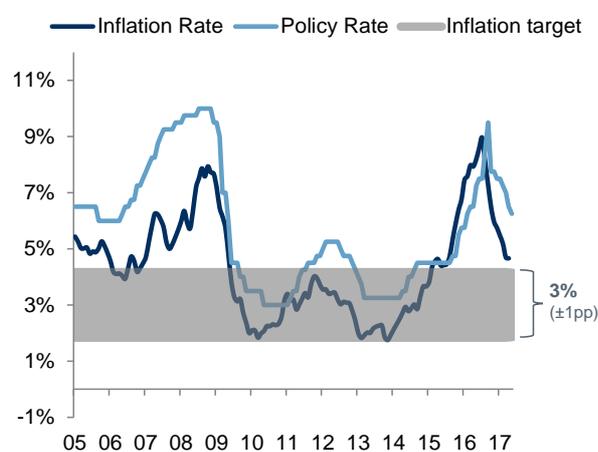
Sources: National sources, IMF, IHS, Euler Hermes

Real GDP growth (%)



Sources: National sources, IMF, IHS, Euler Hermes

Inflation and policy rates (%)



Sources: National sources, Euler Hermes