



COLOMBIA

Latin American Trends

Colombia

November 2017

Economic Outlook

Stepped recovery of the economy. The official statistical agency (DANE) has published the official figures of economic growth for the third quarter of the year (2.0%) and reveal, clearly, that the economy has begun the recovery process planned for the end of the year. Growth was driven by agriculture (7.1%), followed by financial and social services (3.2% respectively) and supplies of electricity, gas and water (1.9%); while commerce, reparations, restaurants and hotels grew by 1.4%. However, the fall of the mining and quarrying branch, as well as construction (-2.1%), moved down the quarterly indicator. In addition, the recovery of the manufacturing industry, which showed a decrease of 0.6%, is still pending.

Positive figures shown in employment and inflation. Recent figures reveal that the unemployment rate in Colombia was at 8.6% last October. Although slightly higher (0.3%) compared to the same month of 2016, it still remains below the digits; remarkable fact in spite of the complaints registered by union organizations regarding the increase of precariousness levels, informality and irregular sources of employment that should be corrected. In terms of prices, figures can also be considered positive since the economy has managed to contain inflation close to the target set by the authorities. According to DANE, from January to October, the cumulative variation was 3.5% lower than that reported in 2016 (5.1%). It is clear that the situation will contribute to the necessary reduction of interest rates.

Forecast Scenario

Necessary adjustments for 2018. From the analysis of the macro foundations supported by the economy of Colombia, and in common agreement with various business, labor, academic and non-governmental groups, it appears that the year 2018 presents an opportunity to implement the structural adjustments required by the Andean country's economy to reach its potential GDP. However, it will depend on the presidential results that the path of orthodox policies are maintained without endangering the social, political and institutional advances achieved in recent years.

Reductions continue. Despite the recent change of the Republic Bank towards an expansive monetary policy, everything indicates that we will have to wait until next year to see the solid rebound of the Colombian economy since, after the slight impulse of the third quarter, the business climate does not present special improvement and when investment decisions are postponed, the last quarter is squalid, so we will close the year with a figure at around 1.6%. Furthermore, the political tensions of the first half of 2018 will not leave economic activity unnoticed, so the optimistic forecast of 2018 could be revised downwards to reach 2.6%.

Also in the news...

- International analysts see low probabilities that Gustavo Petro will win the presidential elections in 2018.
- According to FEDESARROLLO, the Consumer Confidence Index remained negative in October.
- Data from the Bank of the Republic indicate that net foreign investment in Colombia rose by 4.8% in October.

- Production and sales remain stagnant, according to the Industrial Opinion Survey.
- Investors fear a change of political and economic line in Colombia with the 2018 elections.
- Colombia will grow 3% between 2018 and 2019, according to the OECD.
- The massive consumption of households begins to react, according to Kantar Worldpanel's study "Consumer Insights".

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Main Economic Indicators

REAL ECONOMY	Latest Data		Previous	Annual Trend ⁽¹⁾
GDP	IIIT. 17	2.0	1.3	Positive
Consumer Price Index	Oct. 17	4.05	3.97	Positive
Coffee Price (USD / pound)	Oct. 17	1.44	1.51	Negative
Trade Balance (Mill USD)	Sep. 17	-274.5	-927.6	Positive
Int. Reserves (Thou.Mill USD)	Oct. 17	47.4	47.5	Negative
Govern. Balance (Thou.Mill. COP)	Sep. 17	2.541	-1.072	Positive
Unemployment Rate	Oct. 17	8.6	9.2	Positive
Manufacturing Prod.	Sep. 17	-0.86	-0.70	Negative
Manufacturing Sales	Sep. 17	-0.68	-0.79	Positive

Annual change rates for GDP, CPI, Manufacturing production, Manufacturing sales.

(1) According to the trend observed for the last 12 months.

(2) National Central Government

Financial Data	Latest Data		Growth in	
			3 months	1 year
Stock Exchange (COLCAP)	30 Nov. 17	1,445	-1.76%	12.3%
Exchange Rate Peso Col/US\$	30 Nov. 17	3,006	2.2%	-5.0%
Interest Rate DTF*	30 Nov. 17	5.31	5.55	7.00
Spread Soberano (EMBI)*	30 Nov. 17	177	201	254

(*) Value 3 months and 1 year ago respectively.

Economic Forecast

	2016	2017	2018
Gross Domestic Product (% Growth)	2.0	1.6	2.6
Inflation (% year end growth)	5.7	4.1	3.2
Current Account Balance (US\$bn)	-13.5	-12.7	-11.5
Government Balance (% GDP)	-3.9	-3.6	-2.9
Exchange Rate Peso/US\$ (year end)	3,000	3,020	3,050

Colombia: general information

Official name: Republic of Colombia

Area: 1,141,748 Km²

Population: 48.75Mill. (2016)

Government: Presidential democracy

President: Juan Manuel Santos – “Social de Unidad Nacional” Party

Next Elections: President and vice-president (2018)

Finance and Public Credit Minister: Mauricio Cárdenas

General Manager of The Republic's Central Bank: José Darío Uribe

Currency: Peso

Exchange Rate System: Flexible

Nominal GDP: 274 MMn USD (2016)

GDP per capita (PPP): USD 14,162 (2016)

Life Expectancy: 74.2 (2015)

Years of Schooling (average): 13.6 (2015)

Risk Evaluation: **MEDIUM**

Exchange Rate Instability: **MEDIUM**

As expected, the American currency, after recent declines, has been gaining ground and negotiated above 3,000 pesos per dollar. Everything indicates that the upward fluctuations will continue until the end of the year, driven by the news coming from the US. and an oil market that maintains its clear downward trend.

Sovereign Risk: **MEDIUM**

The rating agencies downgrade their forecasts and continue to issue alerts based on the excess economic dependence of the oil market, the increase in public spending and the necessary fiscal consolidation, as well as the political uncertainty resulting from the presidential elections of May 2018.

Public Sector Finance: **MEDIUM**

In spite of the good news in the Colombian hacienda, when registering increases in the tax collection above 10%, everything indicates that another fiscal adjustment will be necessary. It is clear that the impulse that has come hand in hand with the increase in VAT (16% to 19%) has been insufficient, so that failure to comply with the Fiscal Rule in the medium term will require a stronger adjustment than that foreseen by the reform. of 2016.

Socio-political Situation: **HIGH**

The pre-campaign begins for the presidential race and, although recent history has given victory to right and center-right parties, the volatility of the polls does not rule out surprises and increases the fear in some sectors in the face of a possible victory of the left.

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