



COLOMBIA

Latin American Trends

Colombia

September 2017

Economic Outlook

Fragility persists during the second quarter. Recent official figures show that during the second quarter of the year, the economy recorded a growth of 1.3% as a result of the fall in mining and quarrying activity (-6.0%), followed by industry manufacturing (-3.3%); (4.4%), and also the favorable evolution of financial establishments, insurance and real estate activities (3.9%) and social services (3.0%), both declining. In any case, the quarterly result maintained the unfavourable trend of the previous quarter and stands out as being the lowest experienced by the Colombian economy, once again overshadowing recovery expectations of 2017.

Good news on prices and employment. Recent official figures reveal that the increase in prices continues to decline and the CPI recorded a cumulative variation (January-August 2017) of 3.4%, or 1.87 points below the figure reported in the same period of 2016 (5.3%). Of the nine groups, seven have presented less variation: Food, Housing, Clothing, Health, Fun, Transportation and Other Expenses. Meanwhile, labor market figures also continue to be favorable, and unemployment rate has been kept in a consecutive digit (9.3%) in the May-July mobile quarter, while labor informality continues its tendency to decline despite the slowdown experienced by the economy and the sensitivity it can show by the massive arrival of Venezuelans.

Forecast Scenario

Foreign trade and necessary adjustments. Although purchases abroad (US \$ 25,393m) have registered a notable increase in 2017 (6.9%), according to DANE figures, in the January-July period, Colombia sold external products for US \$ 20,524M, equivalent to a growth of 22.7%. Everything indicates that the country must advance in the recovery of non-traditional exports. In addition, the fact that exporters maintain their US \$ 40,000M target for 2018 will depend, in part, on efforts to simplify both the exchange rate regime and the simplifying foreign trade decree.

The revision continues in the forecasts for 2017. While the government insists and maintains its forecast close to 2%, everything indicates that the figure of economic growth at the end of the year will be below the official figure, being our forecast 1.8% . Under the hypothesis of a takeoff, the third and fourth quarter will have to provide the necessary dynamism to make the projection feasible. Indicators of retail sales, manufacturing production and consumption of electric power suggest this. However, the dynamism of the construction sector and investment expectations will continue to influence positively.

Also in the news...

- Economic commissions of the Colombian Congress approve the nation's budget for US \$ 80.643M for 2018.
- Report from the Financial Superintendence reveals that the financial system moved 3,528 billion pesos in the first half of 2017.
- Colombia continues to buy more abroad than it sells, leaving a negative balance between January and June of US \$ -4.869M.
- The challenges of Colombia in the middle of entering the OECD.

- According to the Chamber of Commerce of Medellín, trade and tourism will boost the economy by the end of 2017.
- The World Summit of Commerce Chambers concludes that Colombia's GDP can grow by 2% with peace.
- According to figures provided by the Republic Bank in the first half of 2017, US \$ 5.199 billion in FDI were invested in Colombia, an amount that was lower by 36.89 in the same period of 2016.

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Main Economic Indicators

REAL ECONOMY	Latest Data		Previous	Annual Trend ⁽¹⁾
GDP	IIT. 17	1,3	1,1	Negative
Consumer Price Index	Aug. 17	3.87	3.40	Positive
Coffee Price (USD / pound)	Aug. 17	1.55	1.52	Positive
Trade Balance (Mill USD)	Jul. 17	-520	-834	Positive
Int. Reserves (Thou.Mill USD)	Aug. 17	47.5	47.5	Positive
Govern. Balance (Thou.Mill. COP)	Jun. 17	-2,705	4,357	Positive
Unemployment Rate	Jul. 17	9.7	8.7	Positive
Manufacturing Prod.	Jul. 17	6.2	-1.9	Positive
Manufacturing Sales	Jul. 17	5.2	0.4	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)	21 Sep. 17	1,483	3.3%	10.6%
Exchange Rate Peso Col/US\$	22 Sep. 17	2,914	-3.8%	0.1%
Interest Rate DTF*	22 Sep. 17	5.52	5.97	7.04
Spread Soberano (EMBI)*	21 Sep. 17	193	210	226

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

Economic Forecast

	2016	2017	2018
Gross Domestic Product (% Growth)	2.0	1.8	2.8
Inflation (% year end growth)	5.7	4.2	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**

In recent days, the currency market has shown a downward trend and the US currency has traded close to 2,910 pesos per dollar. However, news coming from the US Federal Reserve could generate unexpected upward fluctuations, so we expect the US currency to exceed 3,100 pesos per dollar by the end of the year.

Sovereign Risk: **MEDIUM**

Although the indicators that measure risk remain stable, rating agencies have issued their alerts when raising the concern of non-compliance with the Tax Rule since the Andean country does not manage to reduce its spending and the current global environment dilutes the effects of the Tax Reform.

Public Sector Finance: **MEDIUM**

It is clear that the weakened Colombian economy continues to try to be stimulated through the expansion of public spending, therefore, financing needs could exceed its initial forecasts. In the short term problems are smaller thanks to the availability of resources whose source is external.

Socio-political Situation: **HIGH**

Almost a year from signing the agreement, the Andean country continues implementing measures towards peace. However, challenges are not easy, especially in those aspects that involve political participation of ex-guerrillas. Meanwhile, President Santos does not do well in the polls and few members of his ministerial train approve.

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