D&B Country Insight Snapshot: Colombia

November 2014

Overview

Overall Country Risk Rating : DB3b

A

Slight risk : Enough uncertainty over expected returns to warrant close monitoring of country risk. Customers should actively manage their risk exposures.

Rating Outlook: Stable ➜

Core Outlook

+ Good long-term commercial opportunities continue to exist, especially in the natural resources sector.

+ Successive governments have adopted a policy of economic liberalisation; this process could go further in sectors such as advertising, distribution services and insurance.

- Companies requiring highly trained staff could be undermined by a shortage of local workers trained to university level.

- Failed peace talks with FARC will mean continued economic underperformance.

Key Development

The Government changed course on tax reform amid business community protests but firms should expect additional reforms in the coming fiscal year in order to fund the budget gap.

Credit Environment Outlook A

Key Development has had a negative impact on the outlook.

Supply Environment Outlook R

Key Development has had a neutral impact on the outlook.

Market Environment Outlook R

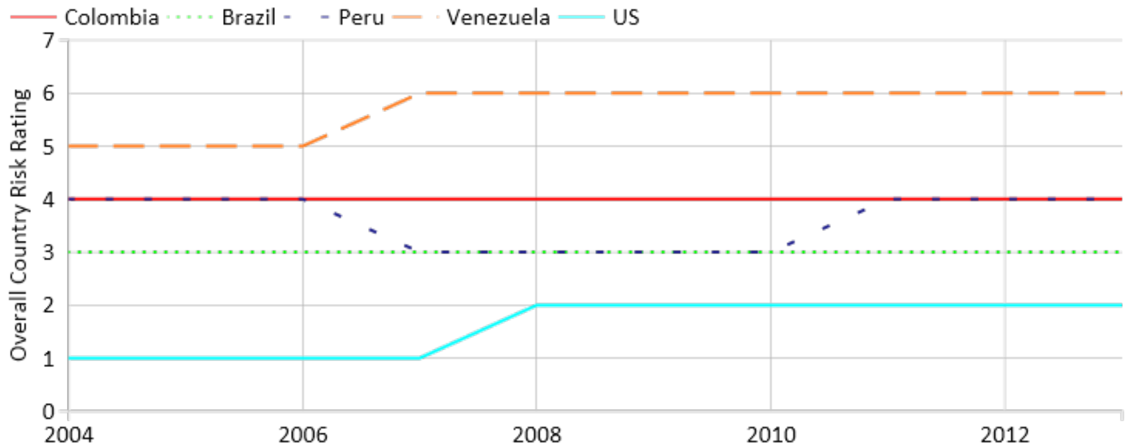
Key Development has had a neutral impact on the outlook.

Political Environment Outlook A

Key Development has had a negative impact on the outlook.

Key Indicators

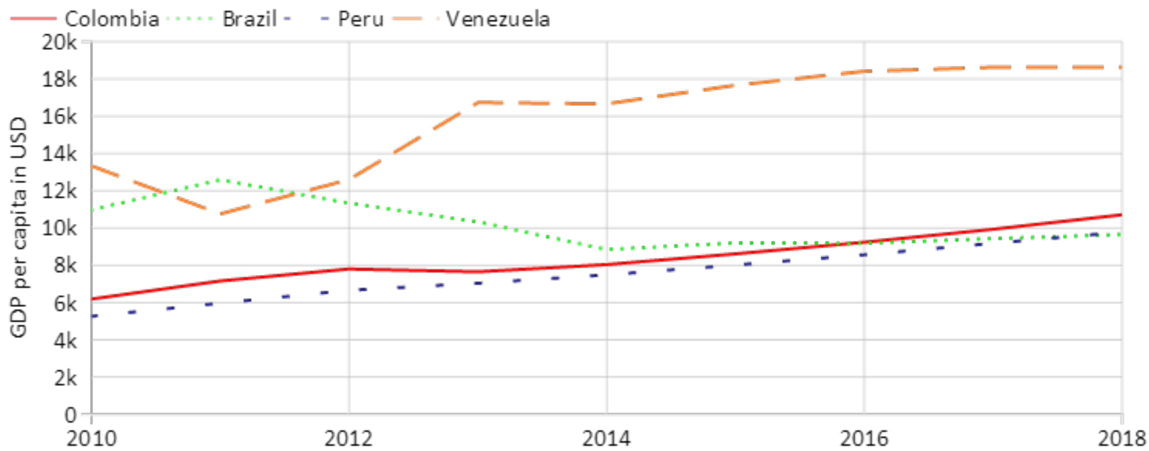
Rating History and Comparison



Source : D&B

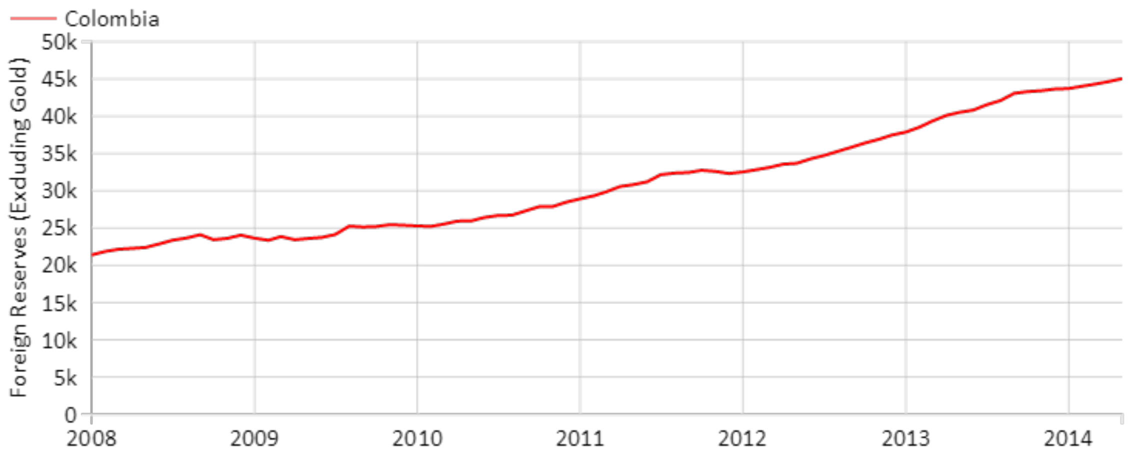
Note: 1 = Low Risk, 7 = High Risk

Regional Comparisons



Source : D&B

Chart of the Month



Source : IMF / National Statistical Offices / Haver Analytics

Economic Indicators

Indicator	2011	2012	2013	2014f	2015f	2016f	2017f	2018f
C/A balance % GDP	-3.0	-3.2	-3.3	-3.2	-3.1	-3.0	-2.9	-2.6
Govt balance, % GDP	-2.0	0.1	-1.0	-0.7	-0.7	-0.8	-0.8	-0.7
Inflation, annual avge %	3.4	3.3	1.9	2.7	2.9	2.9	3.0	3.1
Real GDP Growth, %	6.6	4.0	4.3	4.8	4.5	4.4	4.4	4.4
Unemployment, %	10.8	10.4	11.1	10.7	9.8	9.6	9.5	9.5

Source : Haver Analytics/D&B

Trade and Commercial Environment

The peso weakened further against the US dollar in the last month, sliding to COP2056.25 on October 10th from COP1976.19 one month earlier. As the central bank continued to build its FX reserves, in September President Juan Manuel Santos indicated that his government's comfort range for a weaker peso was between 2,000 and 2,100. The weaker peso would improve export competitiveness for the manufactured goods sector in particular. In H1 a deceleration in both export growth and inward FDI (partially linked to rebel attacks on the energy infrastructure) added downward pressure on the peso. We expect the currency to remain weak against the dollar during the outlook period. In addition, transfer risks will remain negligible in the near term as international reserves rose by 9.4% year on year at end-October to USD47.711bn.

Trade Terms and Transfer Situation

Minimum Terms: LC

The minimum form of documentation or trading method that D&B advises its customers to consider when pursuing export trade with the stated country.

Recommended Terms: LC

D&B's recommended means of payment. The use of recommended terms, which are generally more stringent than minimum terms, is appropriate when a customer's payment performance cannot be easily assessed or when an exporter may wish to limit the risk associated with a transaction made on minimum terms.

Usual Terms: 30-90 days

Normal period of credit associated with transactions with companies in the stated country.

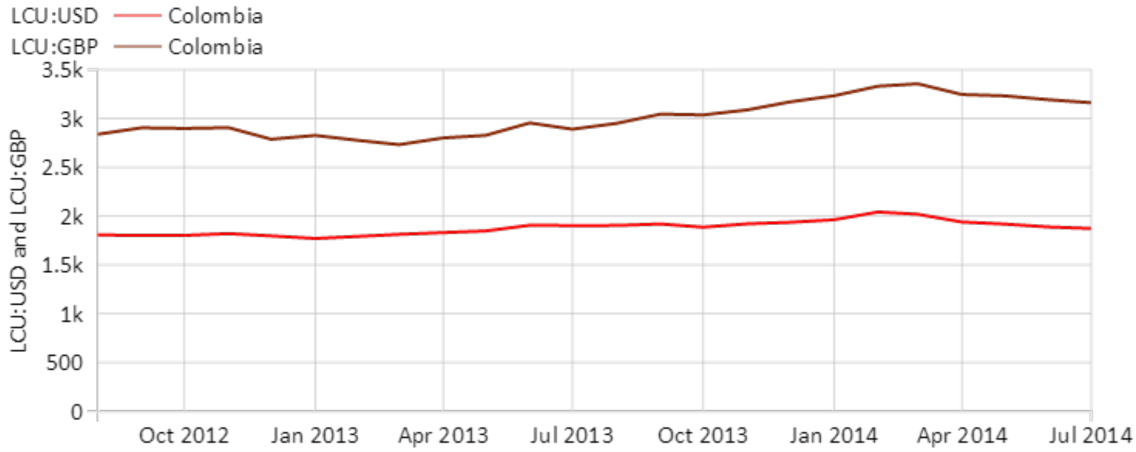
Local Delays: 0-1 month

The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

FX/Bank Delays: 0-1 month

The average time between the placement of payment by the importer in the local banking system and the receipt of funds by the exporter. Such delays may be dependent on FX controls, FX availability and the efficiency of the local banking system.

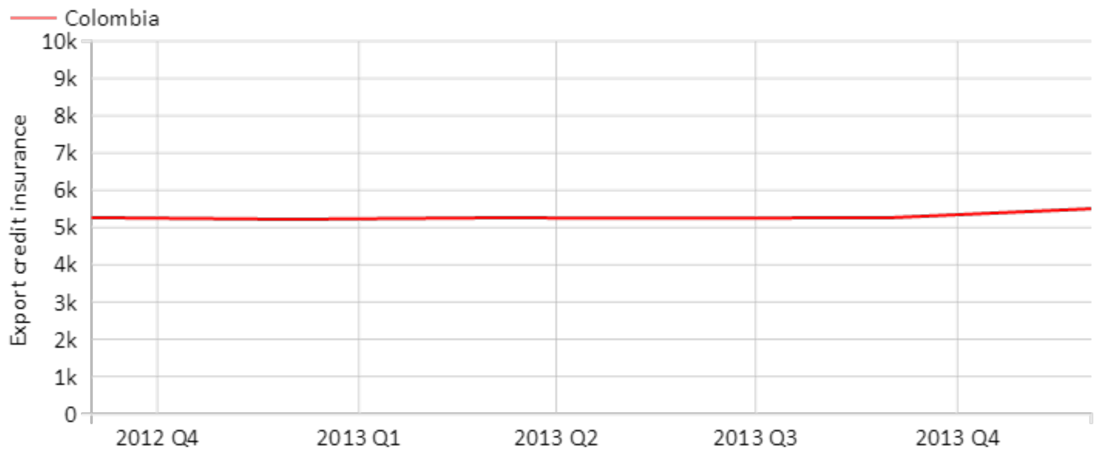
Exchange Rate



Source : IMF International Financial Statistics, National Statistical Offices

LCU = Local Currency Unit

Credit Conditions



Source : Haver

Insured export credit exposures, USDm

Risks and Opportunities

Business Environment Quality

Government changes course on tax reform

The government altered course on its latest tax reform bill in a change to its original proposals. It previously proposed an increase in the wealth tax which critics argued would discourage private sector investment. In early-October the government submitted a tax bill to Congress designed to increase revenues by USD6.2bn during the 2015 fiscal year. While the annual wealth tax cap on net assets of USD500m and over remaina at 1.5% (instead of the proposed 2.25%) for four more years, corporation tax will rise by 3% to 37% in 2015 once the bill is approved. In addition, financial transactions will continue to attract a 0.2% tax until the end of 2018. The expected moderation in oil prices will add further pressure to the country’s fiscal accounts, only partially offset by a proposed USD500m spending cut next year. The government is restricted to a maximum deficit of 2.3%, declining to 1.8% by 2018. The bill is likely to receive congressional approval, given the government’s majority position, consequently in addition to planning for higher tax liabilities in the coming fiscal year, firms should expect additional tax reforms to fund the budget gap. Companies should also note provisions in the new bill for the removal of incentives for the payment of VAT, as well as penalties for failure to declare foreign earnings and assets.

Short-Term Economic Outlook

Growth quickens in the third quarter

Growth quickened in the third quarter as the economic activity indicator (IMACO) registered a 48% y/y increase in July, followed by a 40%y/y rise in August. This follows Q2 growth slowing to 4.3% y/y, down from 6.5% y/y in Q1. Moreover, inflation remained stable in the third quarter at 2.9% y/y and anchored within the central bank’s target range of 2-4%. As a result, the central bank held its policy rate at 4.5% for the second consecutive month in September. We therefore expect borrowing costs to remain stable (and possibly fall) in Q4; the bank’s governor has signalled that this is close to a neutral rate. We are projecting solid real GDP growth of 4.8% this year as the manufacturing sector strengthened in Q2; construction sector activity will also pick up in H2 as H1 expansion (of 20% y/y in Q1 and 12% in Q2) exceeded the sector’s performance in the corresponding period in 2013. Conversely, the energy sector will face declining oil prices and lower output as a result of rebel attacks and transportation problems in the outlook period.

Insecurity/Civil Disorder Risk

FARC leader secretly visits Cuba

FARC leader Rodrigo Londono ‘Timochenko’ Echeverry secretly travelled to Cuba where peace talks between the government and FARC continue. The government estimates that a successful conclusion of the negotiations which began in 2012 could lead to a 2% gain in economic output. The two sides are currently focused on victims’ compensation and will next concentrate on the reintegration of rebels into society and formal government. The Colombian Petroleum Association estimated the cost of attacks on oil pipelines in the first six months at USD460m. The negotiations seek to end a 50-year old war.

Country Profile and Statistics

Overview

Bordered by the Pacific Ocean and Caribbean Sea, Colombia's main population and economic centres are located in the Andes mountains that run through the western and northern parts of the country, descending into the sparsely settled, sweeping plains toward the Atlantic coast and rain forests in the Amazon basin.

Colombia's natural resources include hydrocarbons, precious metals and rich agricultural land. The free-market economy is diversified and enjoys the benefits of close trade and investment ties to the US.

Colombia's political environment is dominated by security issues stemming from the country's long-running internal civil conflict, which is often linked with narcotics production and trafficking. Under the auspices of the US-sponsored Plan Colombia, the government has increased its military apparatus. Peace talks with the rebel group FARC has been progressing since 2012. If successful, the end of the 50-year conflict would result in significant economic gains arising from an improved security environment. Until then, insecurity remains a key business risk.

Key Facts

Key Fact	Detail
Head of state	President Manual SANTOS
Capital	Bogota
Timezone	GMT -05-00
Official language	Spanish
Population (millions)	48.7
GDP (USD billions)	391.2
GDP per capita (USD)	8,036
Life expectancy (years)	74
Literacy (% of adult pop.)	92.5
Surface area (sq km)	1,141,750

Source : UN / Haver Analytics / D&B

Historical Data

Metric	2009	2010	2011	2012	2013
Real GDP growth (%)	1.65	3.97	6.59	4.05	4.3
Nominal GDP in USDbn	233.82	287.02	335.42	370.33	367.81
Nominal GDP in local currency (bn)	504,647	544,924	619,894	665,441	702,706
GDP per Capita in USD	5,107	6,184	7,156	7,799	7,649
Population (year-end, m)	45.79	46.41	46.87	47.48	48.08
Exchange rate (yr avge, USD-LCU)	2,158.26	1,898.57	1,848.14	1,796.9	1,910.5
Current Account in USDbn	-5.1	-8.82	-9.9	-11.93	-12
Current Account (% of GDP)	-2.18	-3.07	-2.95	-3.22	-3.26
FX reserves (year-end, USDbn)	24.75	27.77	31.39	37.47	42.25
Import Cover (months)	7.71	7.14	6.1	6.92	7.22
Inflation (annual avge, %)	4.2	2.3	3.4	3.3	1.9
Govt Balance (% GDP)	-2.8	-3.3	-2	0.1	-1

Source : D&B

Forecasts

Metric	2014	2015	2016	2017	2018
Real GDP growth (%)	4.8	4.5	4.4	4.4	4.4
Nominal GDP in USDbn	391.2	419.2	449.7	483.7	521.3
Nominal GDP in local currency (bn)	751,192.39	804,527.05	862,453	926,274.52	995,745.11
GDP per Capita in USD	8,036	8,611	9,236	9,935	10,708
Population (year-end, m)	48.7	48.7	48.7	48.7	48.7
Exchange rate (yr avge, USD-LCU)	1,920	1,919	1,918	1,915	1,910
Current Account in USDbn	-12.5	-13.1	-13.4	-13.9	-13.6
Current Account (% of GDP)	-3.2	-3.12	-2.99	-2.87	-2.61
FX reserves (year-end, USDbn)	44.5	45.9	49.8	54	58.5
Import Cover (months)	7.04	6.69	6.71	6.71	6.7
Inflation (annual avge, %)	2.7	2.9	2.9	3	3.1
Govt Balance (% GDP)	-0.7	-0.7	-0.8	-0.8	-0.7

Source : D&B

Comparative Market Indicators

Indicator	Colombia	Brazil	Peru	Venezuela	US
Income per Capita (USD)	8,036	8,843	7,485	16,666	53,975
Country Population (m)	48.7	203.2	30.7	30.9	322.6
Internet users (% of population)	51.7	51.6	39.2	54.9	84.2
Real GDP Growth (% p.a., 2014 - 2023)	4.5 - 5.5	2.5 - 4.5	5.5 - 6	1.5 - 2.5	1.5 - 3

Source : D&B

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