Decide with Confidence

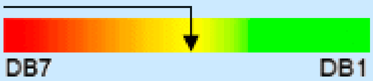
D&B Country RiskLine Report

COLOMBIA

Region : The Americas
Edition : February 2013

D&B Country Risk Indicator

DB4a



This "DB" Rating Indicates:

Moderate risk

Significant uncertainty over expected returns. Risk-averse customers are advised to protect against potential losses.

Trend

Stable

The country's overall risk profile has not changed appreciably, even though some minor changes to its political, commercial, economic and/or external risk environment may have occurred

The 'DB' risk indicator provides a comparative, cross-border assessment of the risk of doing business in a country and encapsulates the risk that country-wide factors pose to the predictability of export payments and investment returns over a two year time horizon. The 'DB' risk indicator is a composite index of four over-arching country risk categories:

Political risk - internal and external security situation, policy competency and consistency, and other such factors that determine whether a country fosters an enabling business environment;

Commercial risk - the sanctity of contract, judicial competence, regulatory transparency, degree of systemic corruption, and other such factors that determine whether the business environment facilitates the conduct of commercial transactions;

External risk - the current account balance, capital flows, FX reserves, size of external debt and all such factors that determine whether a country can generate enough FX to meet its trade and foreign investment liabilities;

Macroeconomic risk - the inflation rate, government balance, money supply growth and all such macroeconomic factors that determine whether a country is able to deliver sustainable economic growth to provide further expansion in business opportunities.

The DB risk indicator is divided into seven bands, ranging from DB1 through DB7. Each band is subdivided into quartiles (a-d), with an 'a' designation representing slightly less risk than a 'b' designation and so on. Only the DB7 indicator is not divided into quartiles.

Key Facts

Population:	46.3m
Surface area (sq km):	1,141,750
Capital:	Bogota
Timezone:	GMT -05:00
Official language:	Spanish
Head of state:	President Manual SANTOS
GDP (USD):	276.2bn
GDP per capita (USD):	5,971
Life expectancy (years):	73
Literacy (% of adult pop.):	92.5

Country 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 public 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. While demobilisation of right-wing paramilitaries and gains against left-wing groups have led to improvements in the security environment, insecurity remains a key risk.

Trade & Commercial Environment

Trade Terms

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.

Transfer Situation

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.

Trade & Commercial Environment

FX reserves (minus gold) stood at USD36.9bn at end-December 2012 (against USD36.5bn at end-November), sufficient to cover around 6.7 months of imports (above the recommended IMF 3.0-month minimum). Reserves will continue to rise rapidly as a result of strong investment inflows (particularly in the hydrocarbons and mining sectors) and FX purchases made by the central bank in order to dampen upward pressure on the peso. Meanwhile, systemic risk within Colombia's financial sector is low, given robust capital adequacy ratios, low levels of leverage and sufficient provisions for non-performing loans. However, the poor security environment and high levels of corruption will continue to act as major downside constraints on the commercial environment.

Export Credit Agencies

US Eximbank	Full cover available
Atradius	ST cover available
ECGD	Full cover available
Euler Hermes UK	Full ST cover available

Economic Indicators

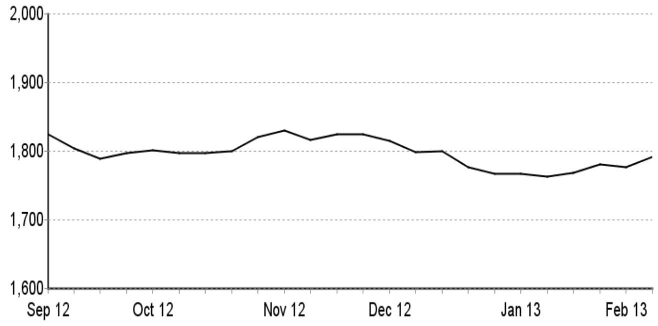
	2010	2011	2012	2013f	2014f
Real GDP growth, %	4.0	5.9	4.2	4.4	4.4
Inflation, annual ave, %	2.3	3.6	3.7	3.5	3.3
Govt balance, % GDP	-3.1	-1.8	-0.8	-1.2	-1.0
Unemployment, %	11.8	10.8	10.4	10.3	10.2
C/A balance, % GDP	-3.1	-3.0	-2.9	-2.8	-1.2

Currency Information

Exchange Rates (London, 11 Feb 13)	
EUR	2396.38
GBP	2836.24
JPY*	1931.26
USD	1790.95
*(x 100)	

Local Currency

(Colombian peso [COP]: USD)



Local Currency

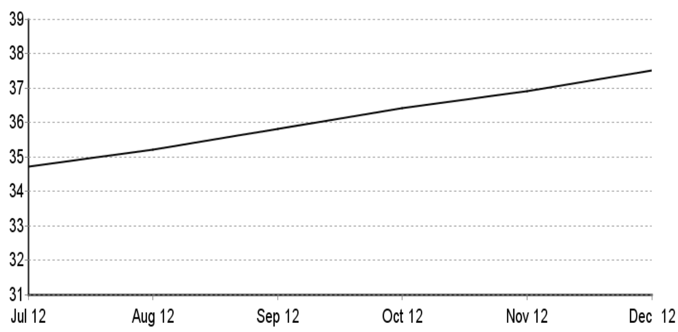
(Colombian peso [COP]: USD)

	Sep 12	Oct 12	Nov 12	Dec 12	Jan 13	Feb 13
Week 1	1824.000	1800.900	1829.920	1814.330	1766.430	1776.180
Week 2	1803.250	1796.380	1815.500	1797.810	1762.570	1790.950
Week 3	1788.330	1797.100	1823.850	1799.950	1767.670	
Week 4	1796.400	1799.900	1823.500	1776.500	1780.600	
Week 5		1820.500		1767.000		

Foreign Reserves (excluding Gold)

Foreign Reserves (excluding Gold)

(USDbn)



Data Table

Jul 12	Aug 12	Sep 12	Oct 12	Nov 12	Dec 12
34.7	35.2	35.8	36.4	36.9	37.5

Risk Factor

In January the central bank slashed its policy interest rate for the third straight month. The 25 basis point cut has brought the rate to 4.0%; the last time the rate was at this level was June 2011. Credit demand responded slowly to the two previous rate cuts as retail sales remained weak. The bank is expected to maintain its loosening bias as inflation holds within the annual target range of 2% to 4%. In January the CPI registered a 0.3% rise, leading to a 12-month inflation rate of 2.0%. The latest policy rate cut is in response to lacklustre economic performance. The economy surprised on the downside with real GDP growth in Q3 2012 decelerating sharply to 2.1% year on year (y/y) from 4.9% y/y in Q2. This was due mainly to a strong contraction in investment, mostly in public works and construction, while a fall in manufacturing activity and slower growth in the mining sector also contributed. The economy was also adversely affected by a decline in commodity prices and a strike at a key railway that transports coal (Colombia's second-largest export good).

The persistent strength of the peso continues to complicate the government's efforts to jump start the economy. The strong peso (which rose by approximately 9% between December 2011 and January 2013) has hurt exporters' profits, especially those of labour-intensive crops such as coffee, bananas and flowers, putting thousands of jobs in the agricultural sector at risk. In its January press briefing, the central bank also announced that it will be increasing its daily purchases of dollars from USD20m to at least USD30m to relieve pressure on the peso which traded on February 4th at COP1786.34 against the USD. Finance Minister Mauricio Cardenas has stated that a more acceptable rate for the peso would be around 8% lower than its current level. In addition to the bank's intervention in the FX market, the government has been carrying out discretionary purchases to drain US currency liquidity from the market. So far, however, the programme has failed to reverse the currency's appreciating trajectory. Moreover, the continued interest rate differentials with developed countries, ongoing large FDI inflows into the extractive sector, and a new tax law that lowers the rate paid by foreign investors on peso-denominated government debt, will continue to exert upward pressure on the peso.

Meanwhile, political developments will also keep the risk environment under pressure. Given former president Alvaro Uribe's high-profile role and impact on Colombian politics, the reopening of an investigation into his alleged links with paramilitary groups will heighten political tensions and increase polarisation. With the country heading towards general elections in the first half of 2014, divisions within the ruling coalition will also become more marked.

Glossary & Definitions

DEFINITIONS

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Usual Terms:

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Local Delays:

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F/X Bank Delays:

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C/A (current account) balance, % GDP:

Part of the balance of payments that records a nation's exports and imports of goods and services, and income and transfer payments.

DSR (debt service ratio), %:
Annual interest and principal payments on a country's external debts as a percentage of exports of goods and services.

Govt balance, % GDP:
The balance of government expenditure and receipts.

Real GDP growth, %:
GDP adjusted for inflation.

Inflation, %:
The increase in prices over a given period.

GLOSSARY

CiA	Cash in Advance
CLC	Confirmed Letter of Credit
CWP	Claims Waiting Period
FX	Foreign Exchange
LC	Letter of Credit
LT	Long term
MT	Medium term
OA	Open Account
SD	Sight Draft
ST	Short term

Customer Service & Support

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