

Macroeconomic environment and perspectives in Colombia

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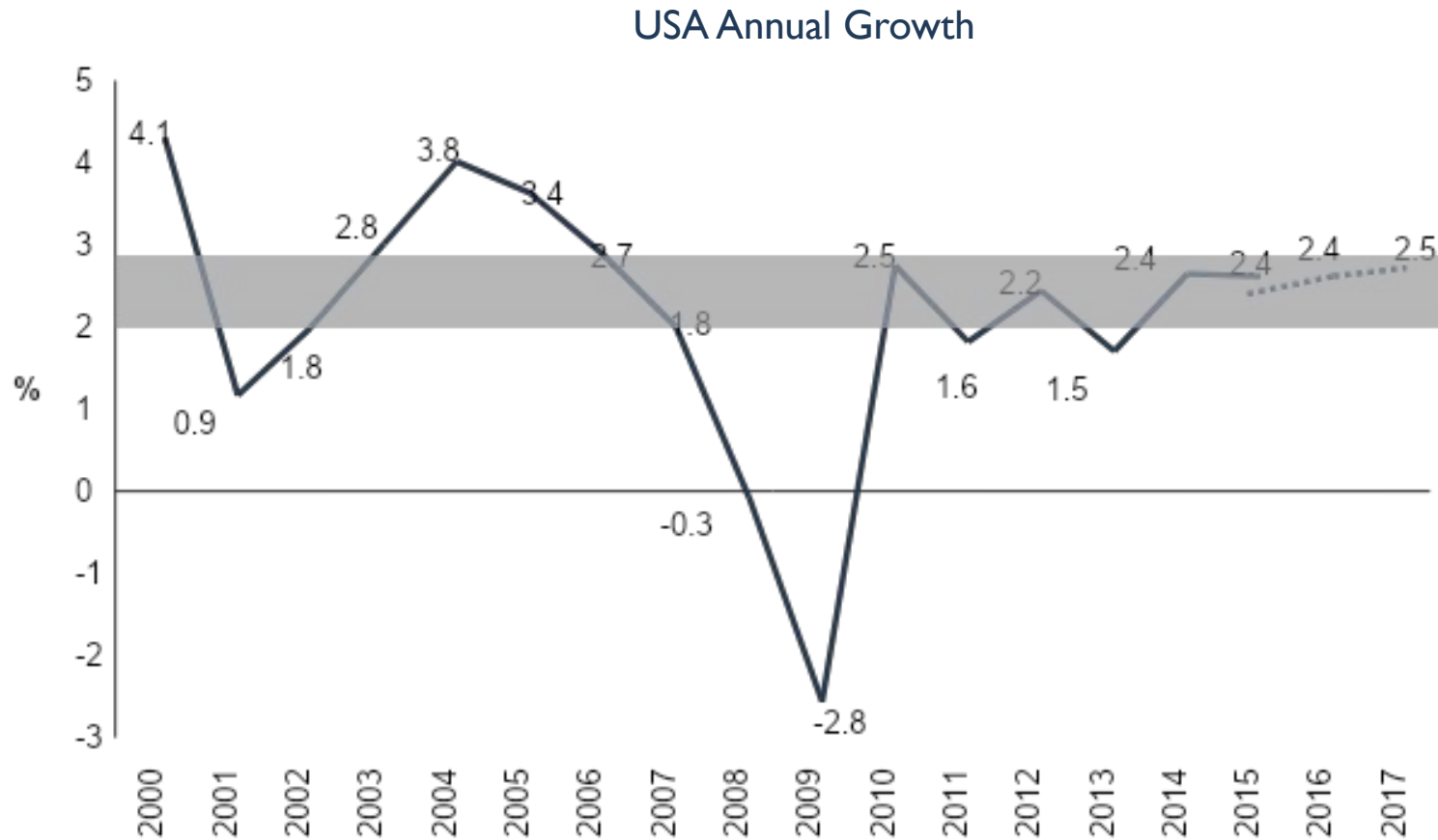
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International Context



The United States has consolidated its economic recovery...

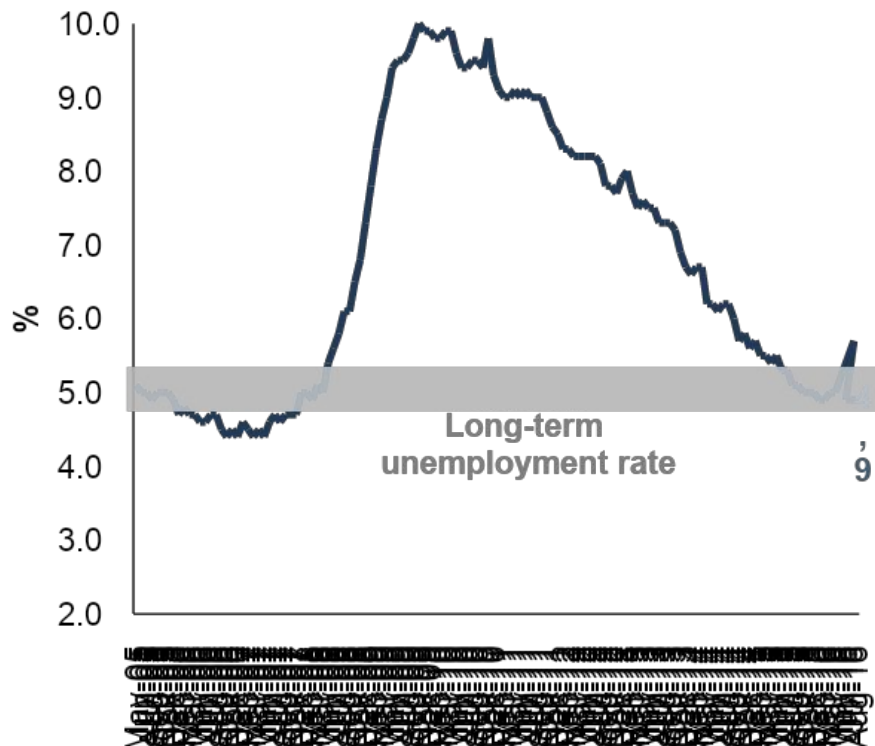


Source: Bureau of Economic Analysis y WEO abril de 2016.

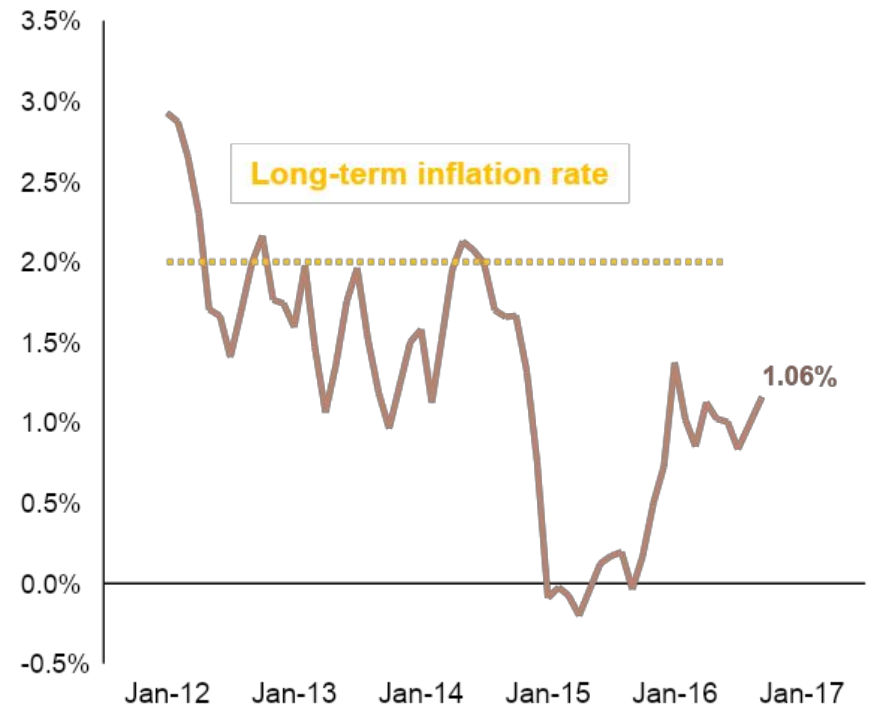


... with a continued decline in the unemployment rate. However, despite a small uptick, inflation remains low.

Unemployment Rate in USA



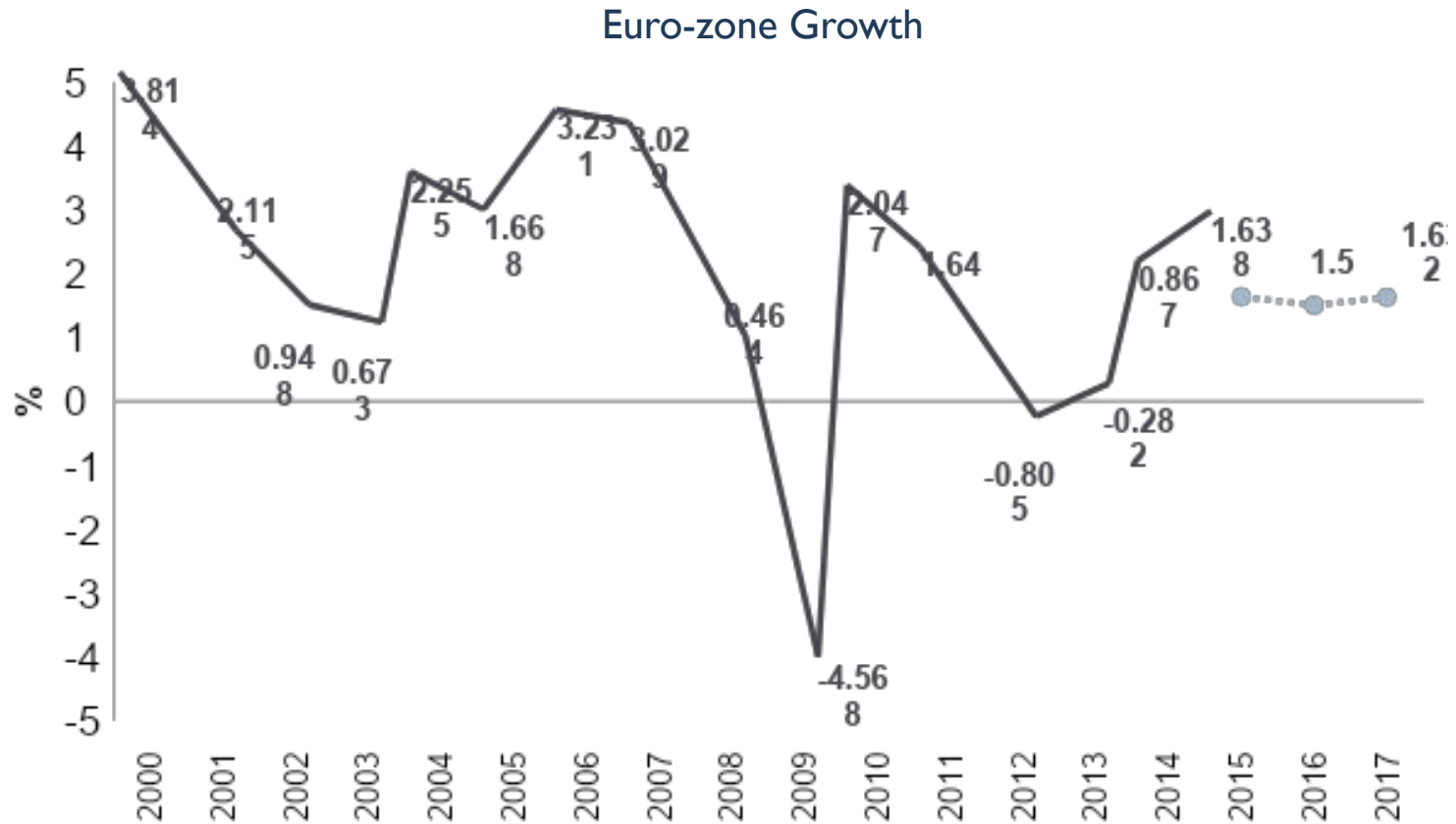
Total Annual Inflation Rate in USA



Source: Bureau of Labor Statistics.



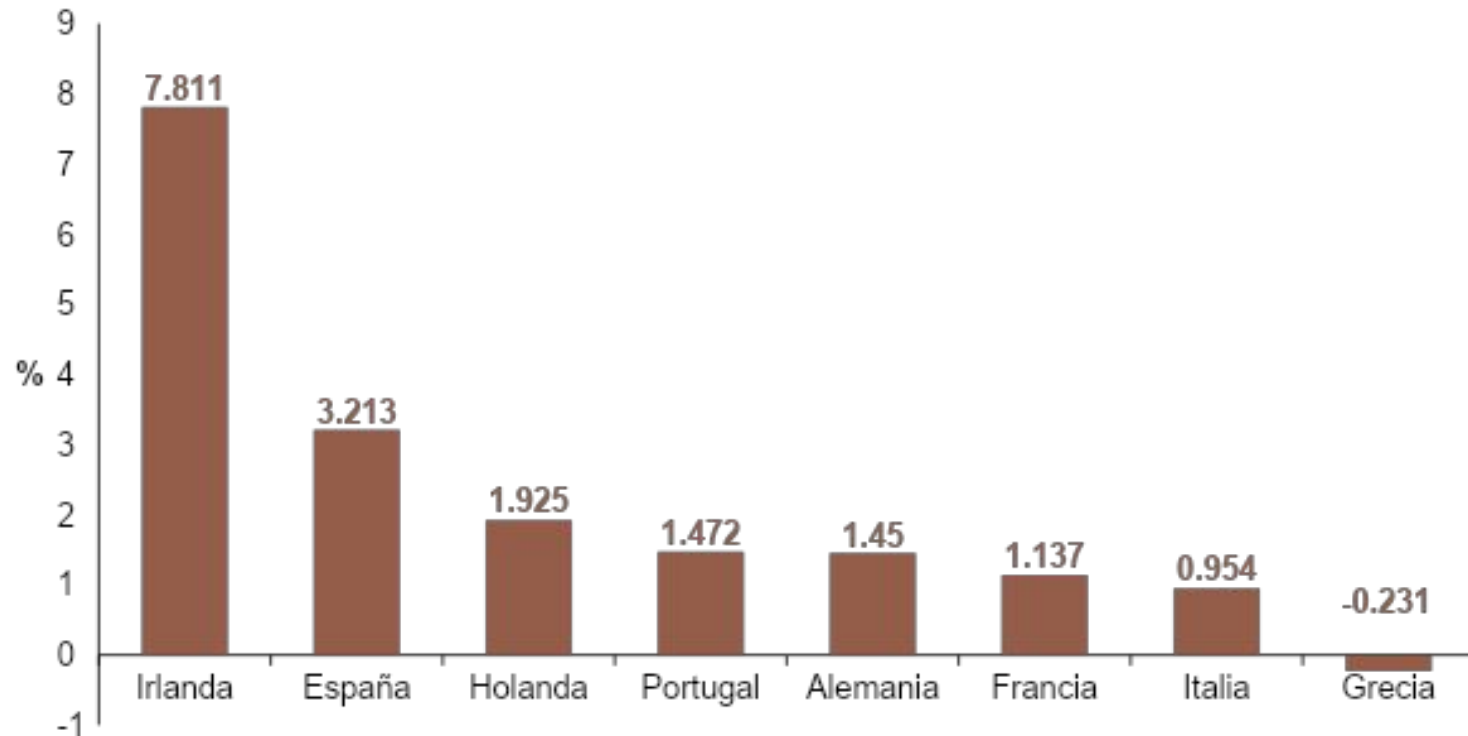
The Euro Zone continues its recovery but with a weak dynamism



Source: IMF – WEO april 2016.

However, a very disimilar performance persists

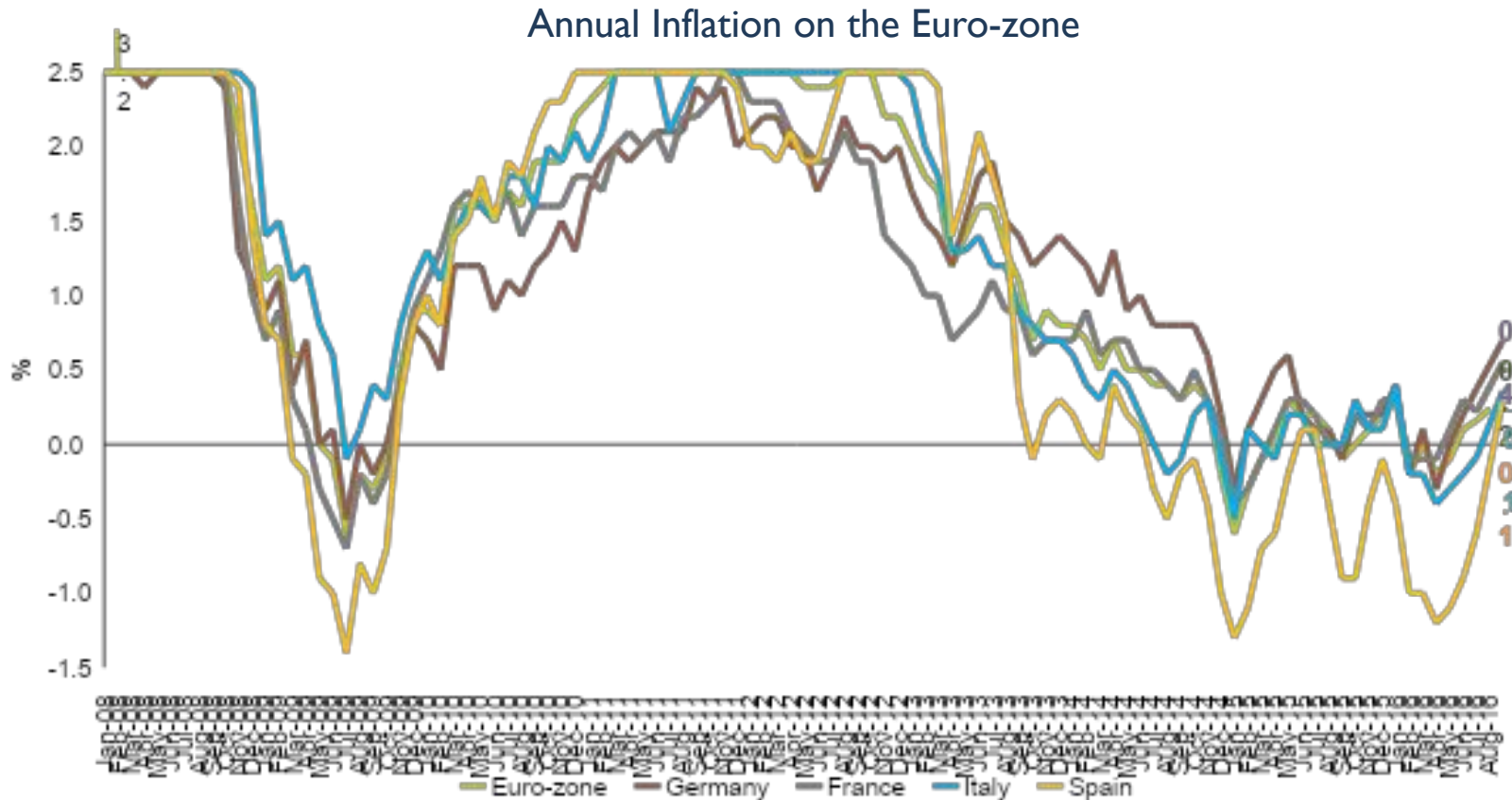
Growth of main countries in the Euro-zone



Source: IMF – WEO april 2016.

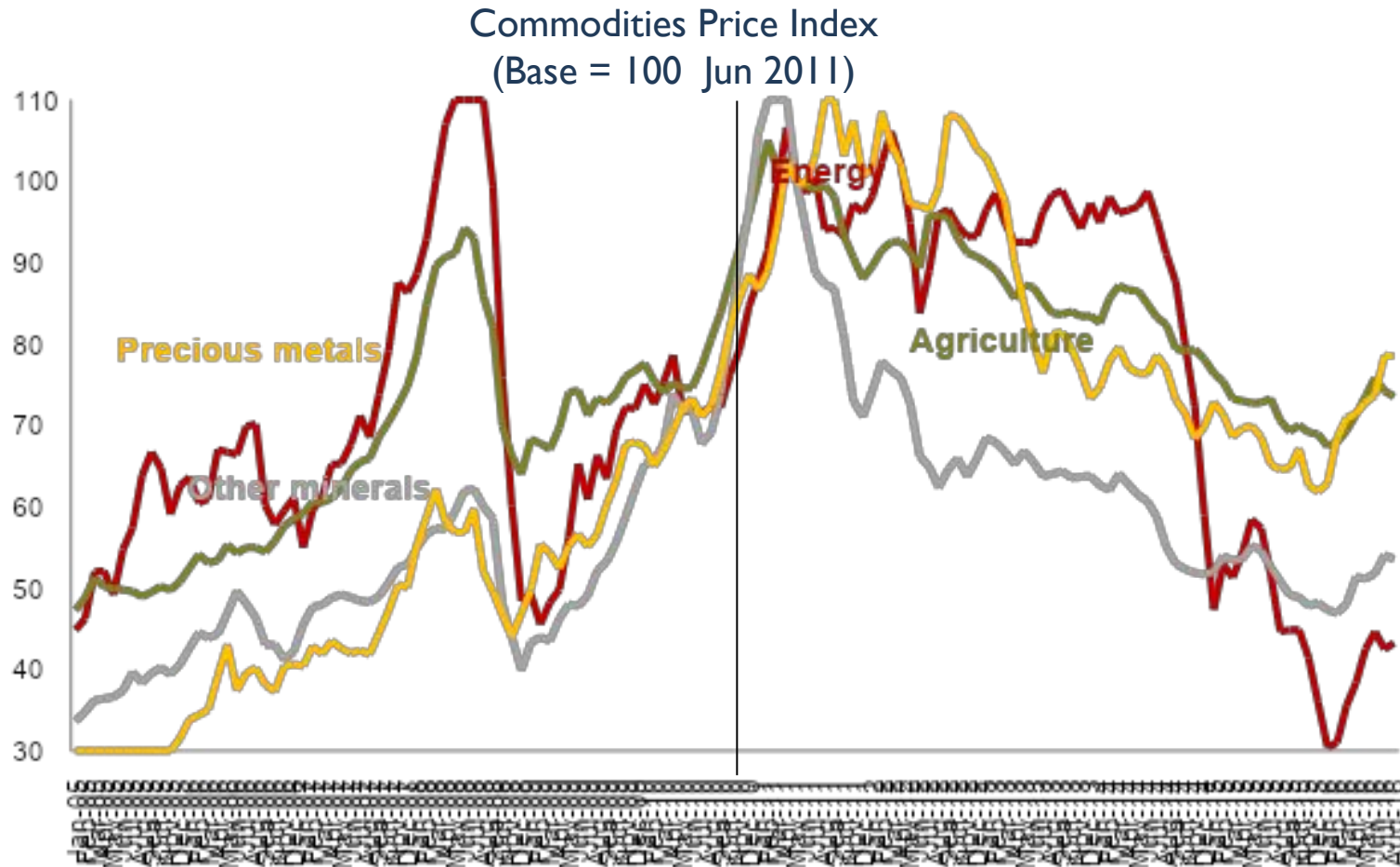


The measures taken by the ECB have reduced, but not eliminated, the risk of deflation



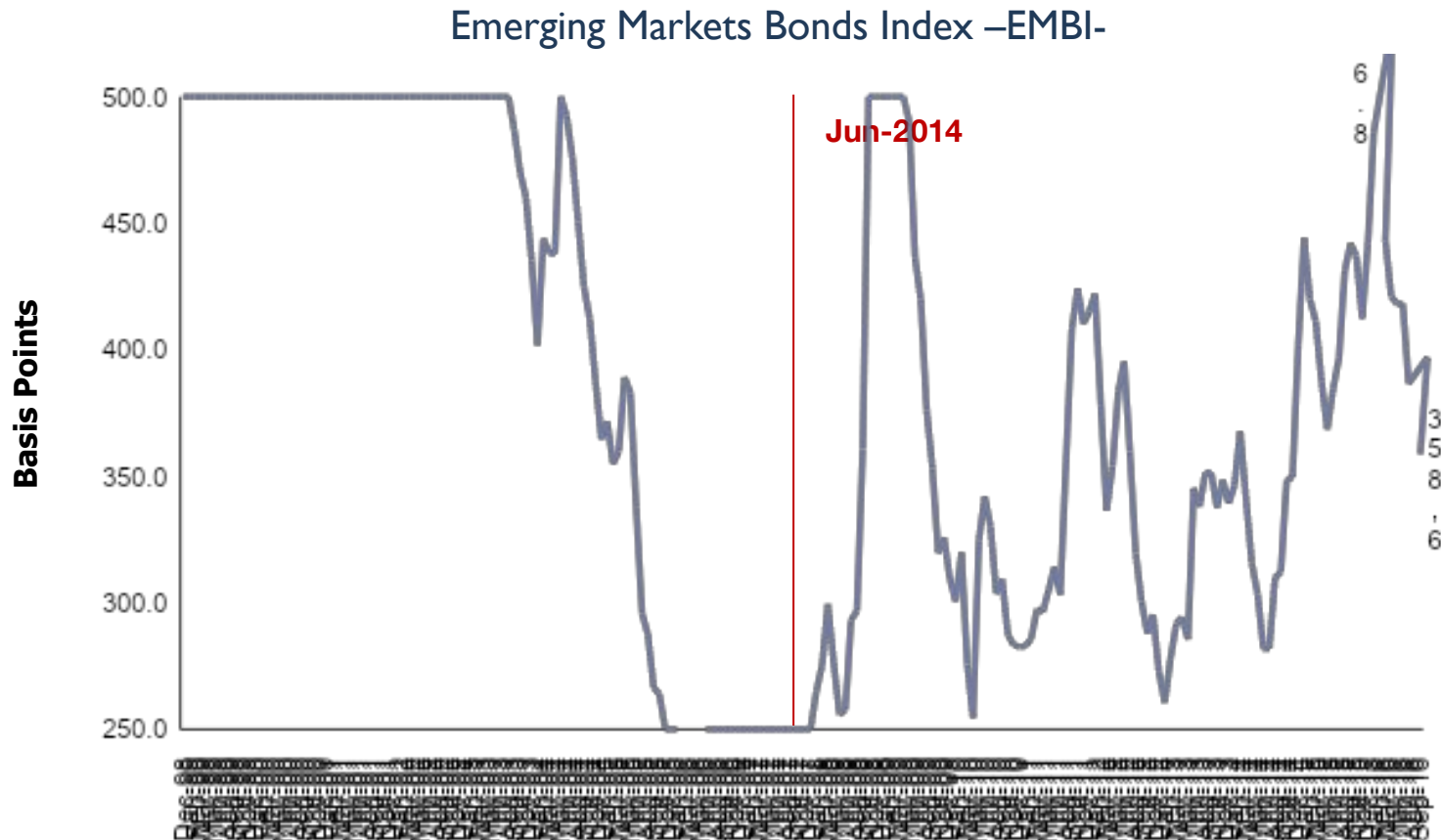
Source: European Central Bank. Official data.

As for the emerging world, the fall in commodity prices has been widespread but there has been a slight rebound



Source: World Bank Commodity Price Data (Pink Sheet).

... with an increase in risk perception, despite an important declining from the peak of 506 to 358. In part thanks to the recovery in developed economies

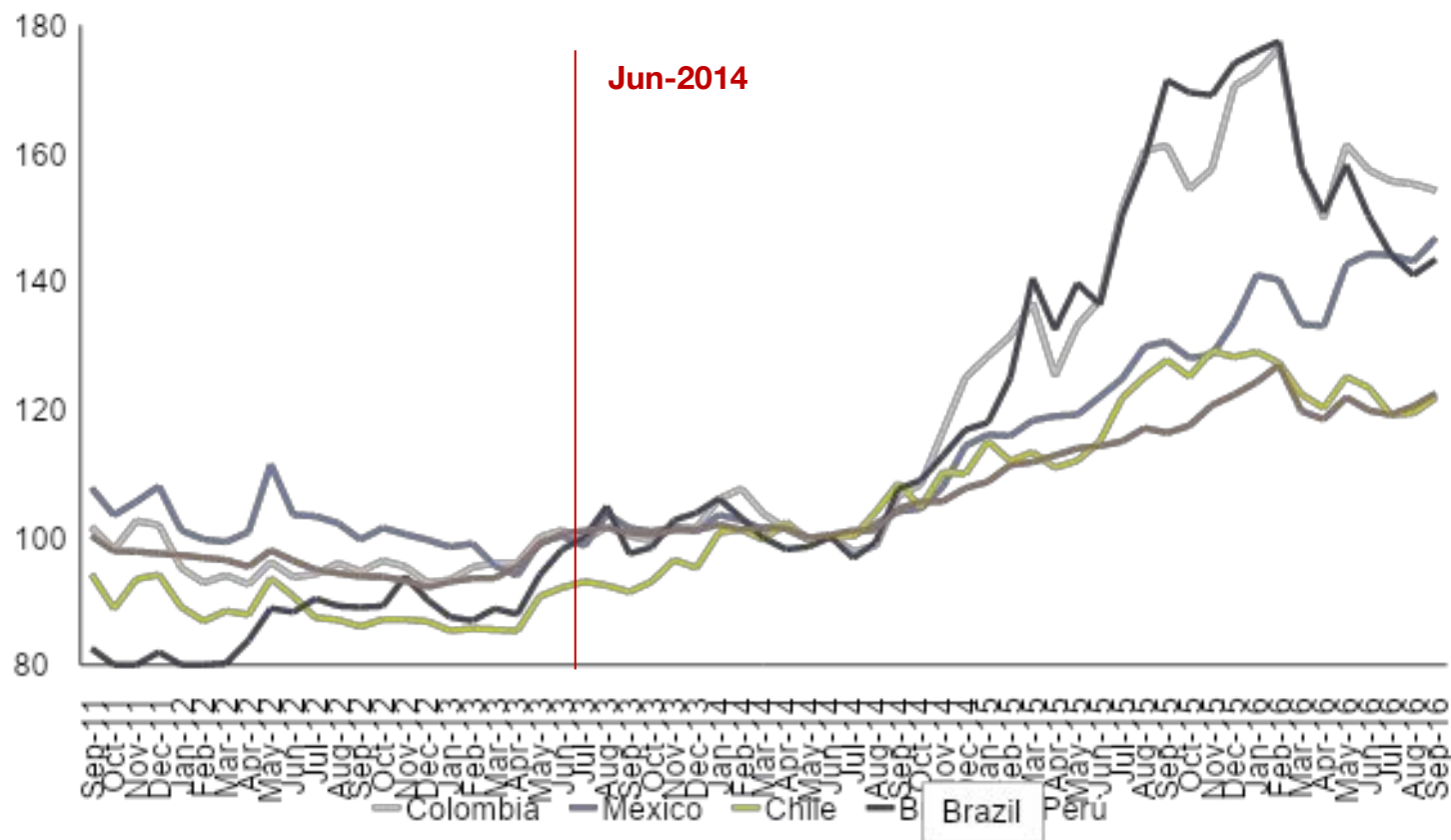


Source: Bloomberg



That in turn led to a depreciation of major currencies, with the Colombian peso and Brazilian real the most volatile

Exchange Rate Index (Base 100 = June 2014)



Source: Bloomberg.

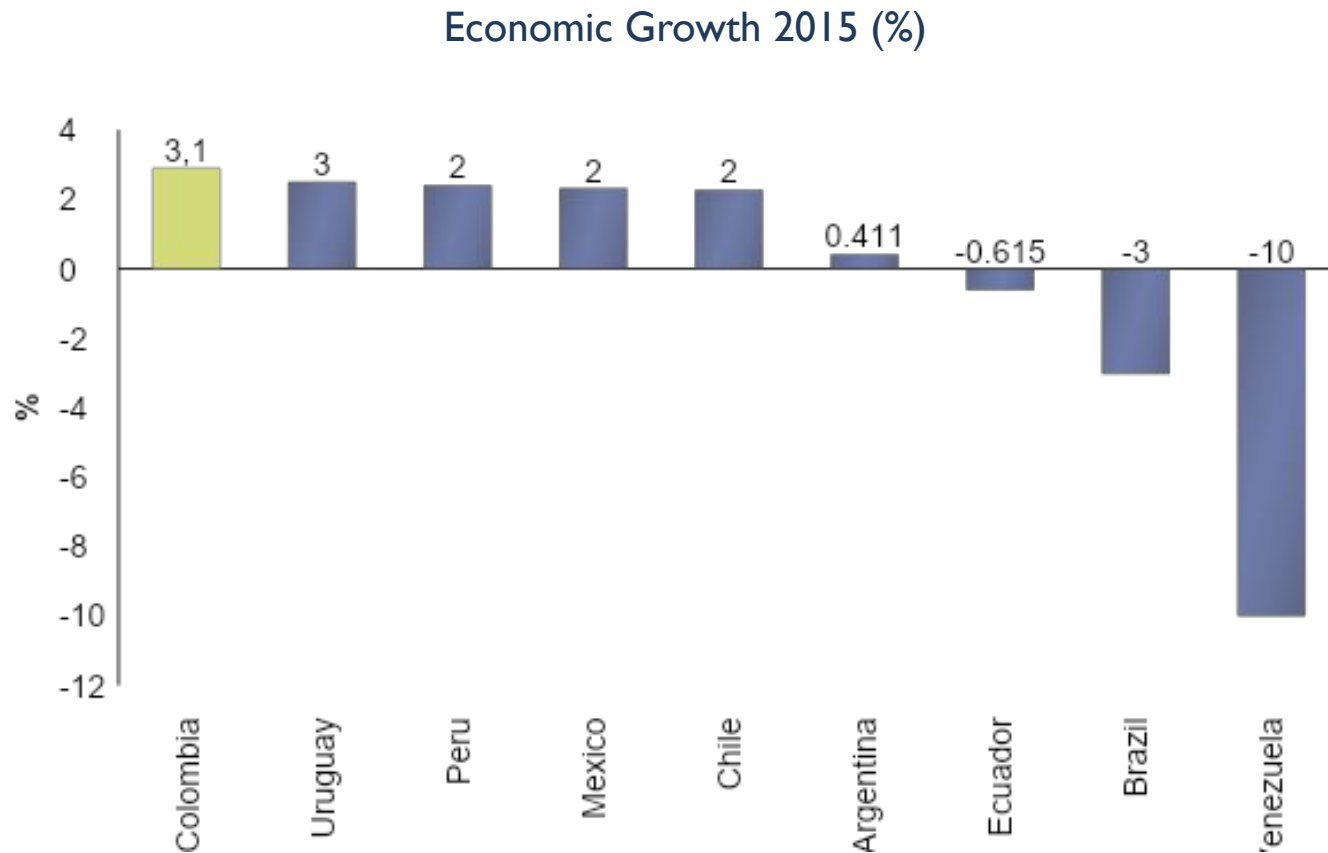
With a notable slowdown led by China, although the most unstable area is Latin America ...



Source: IMF – WEO april 2016.



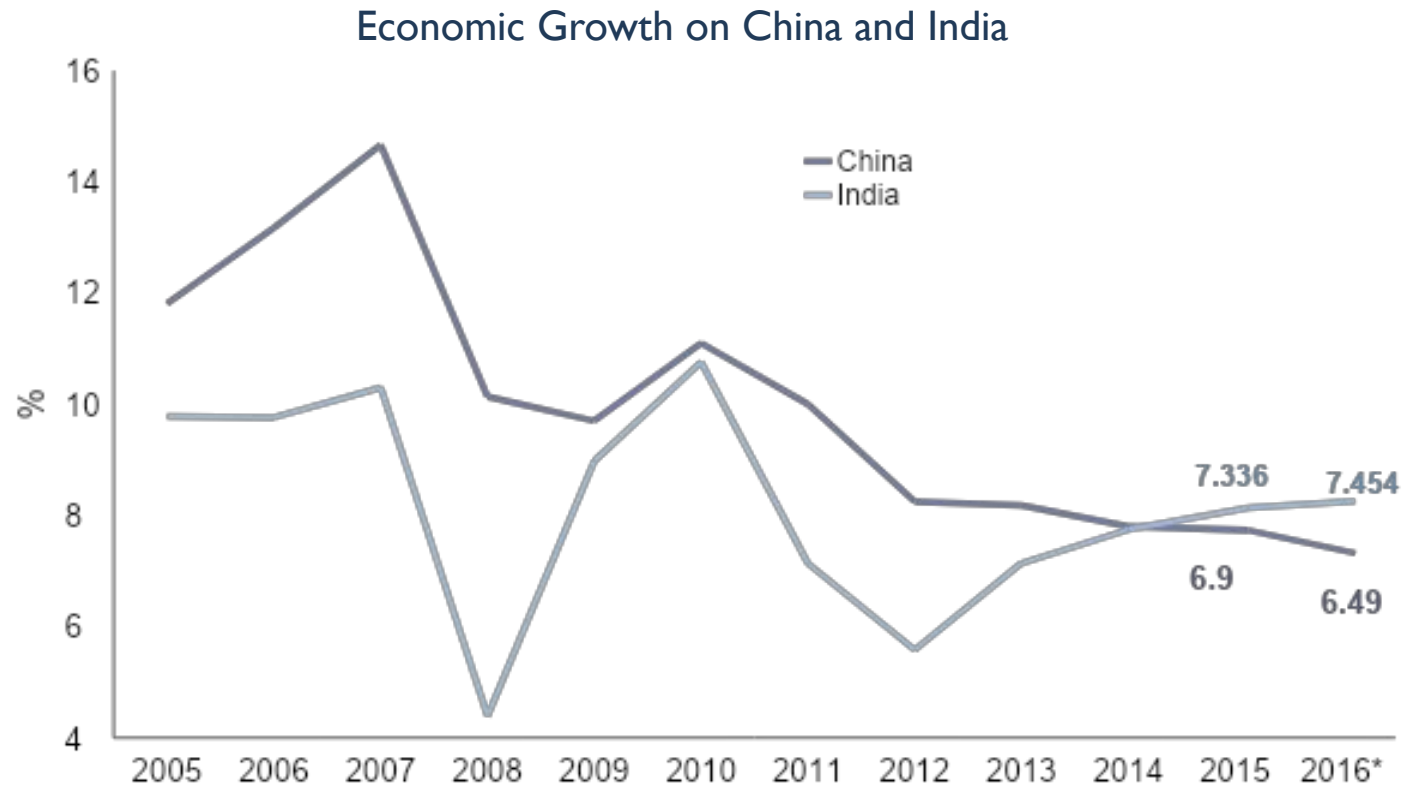
... Where the most affected countries were Venezuela, Brazil and Ecuador ...



Source: FMI.



A major change in growth leadership with India's service economy in first place instead of China, will keep down the price of raw materials



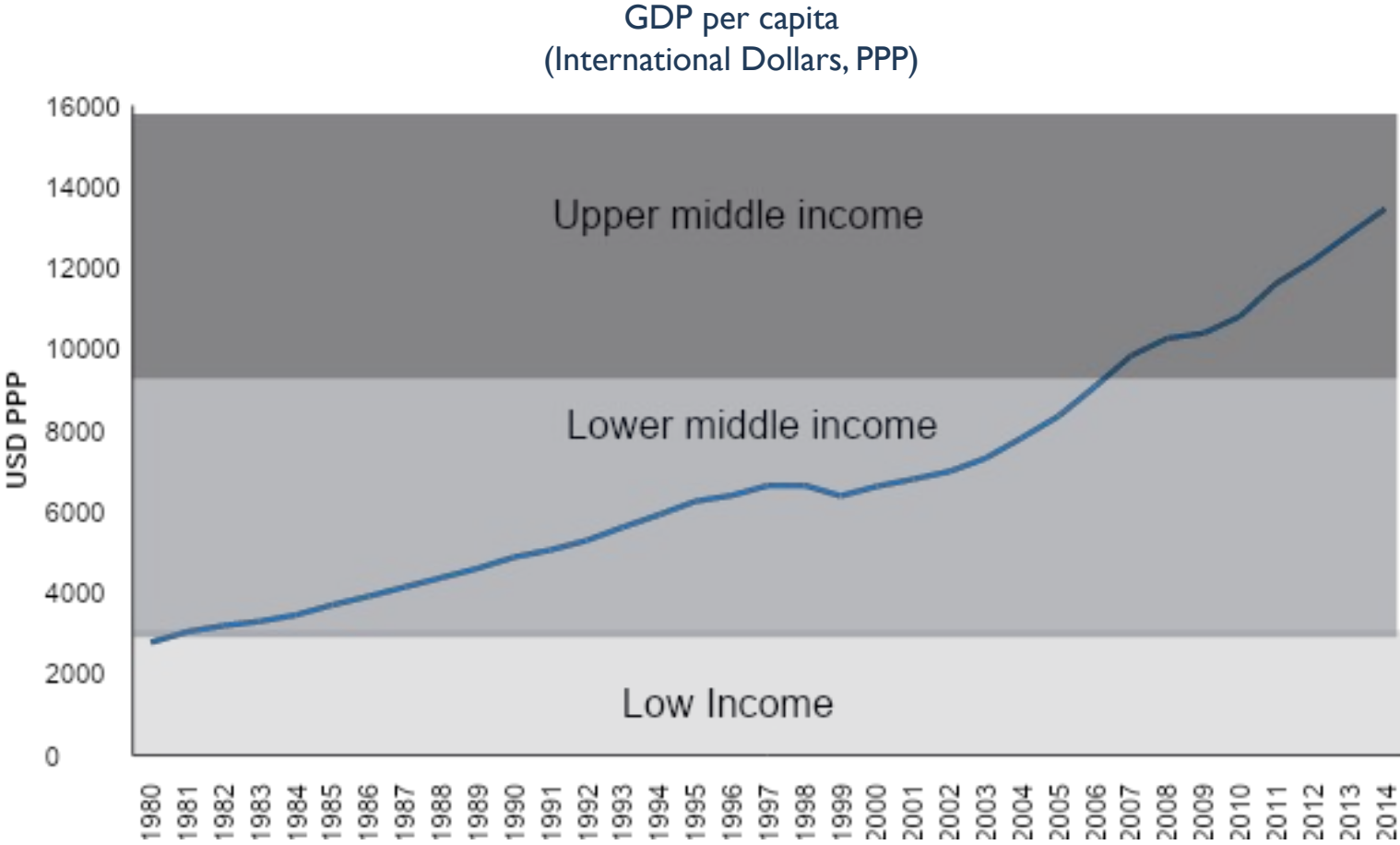
Source: World Bank and WEO



Where are we coming from? – A long term view



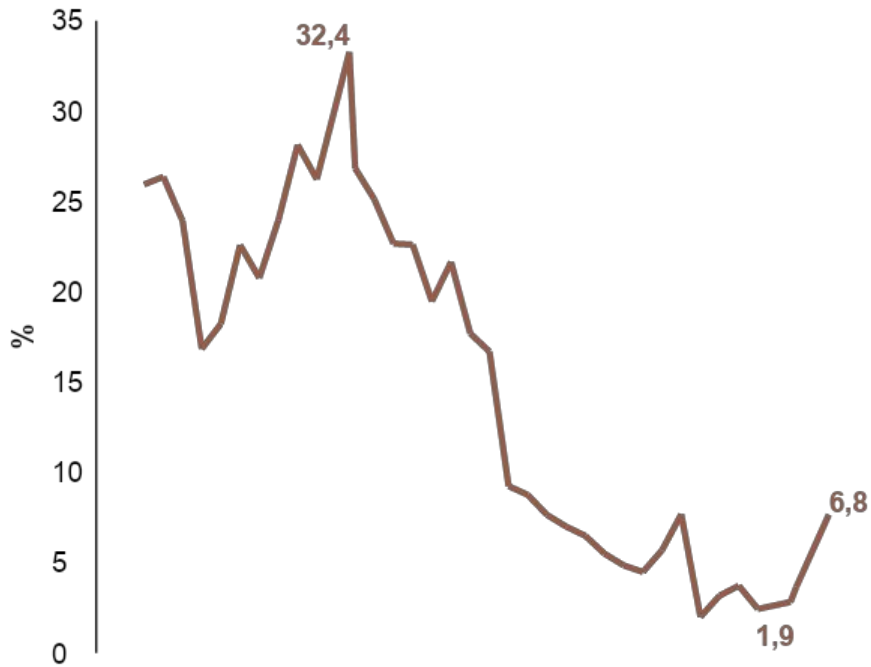
Colombia has transformed from a low to an upper middle income economy



Source: IMF and World Bank

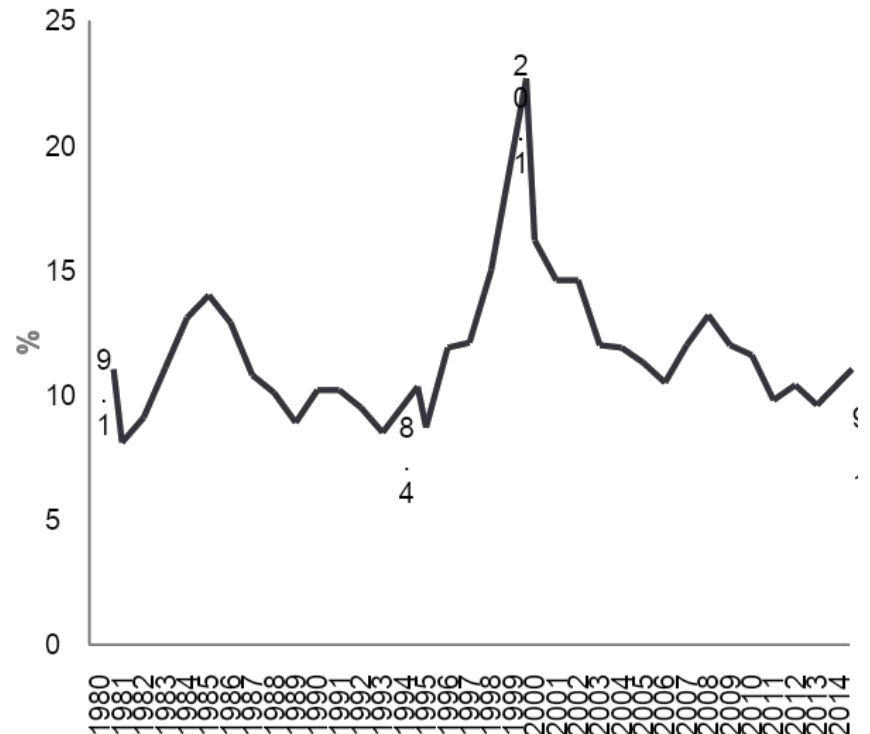
Inflation and unemployment rates have fallen from the two-digit levels from two decades ago

Annual Inflation



Source: Colombian Central Bank. Banco de la República.

Annual Unemployment Rate

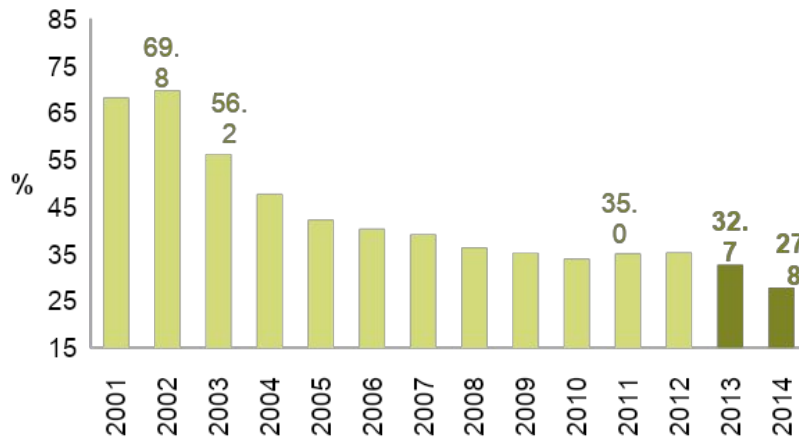


Source: Colombian National Institute of Statistics. DANE.

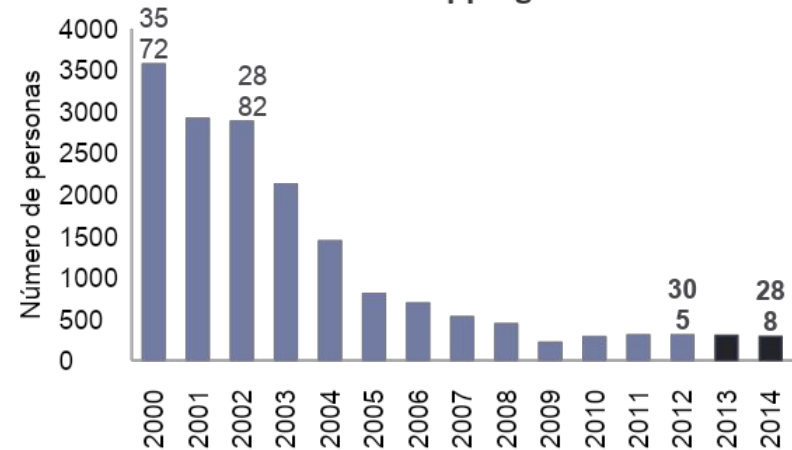


Security indicators have also drastically improved...

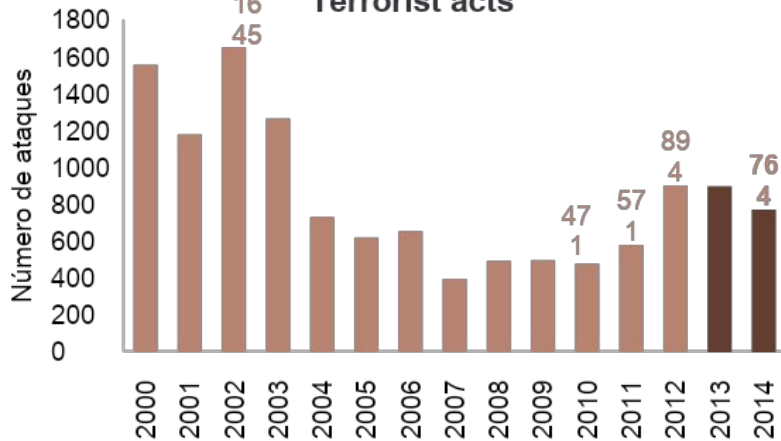
Murders per 100.000 people



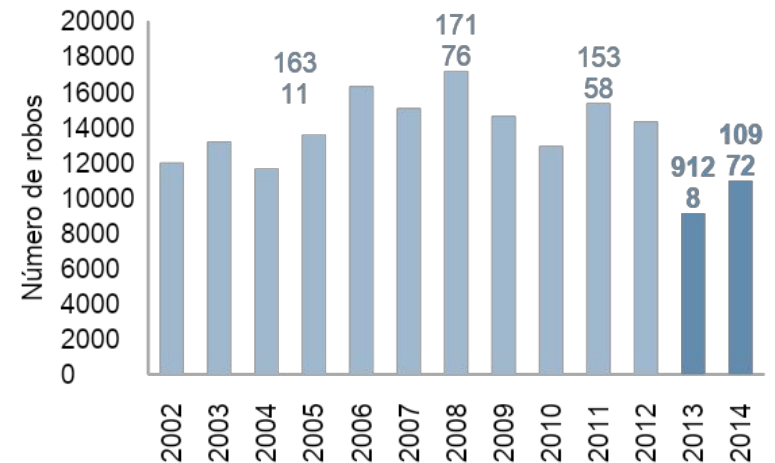
Kidnappings



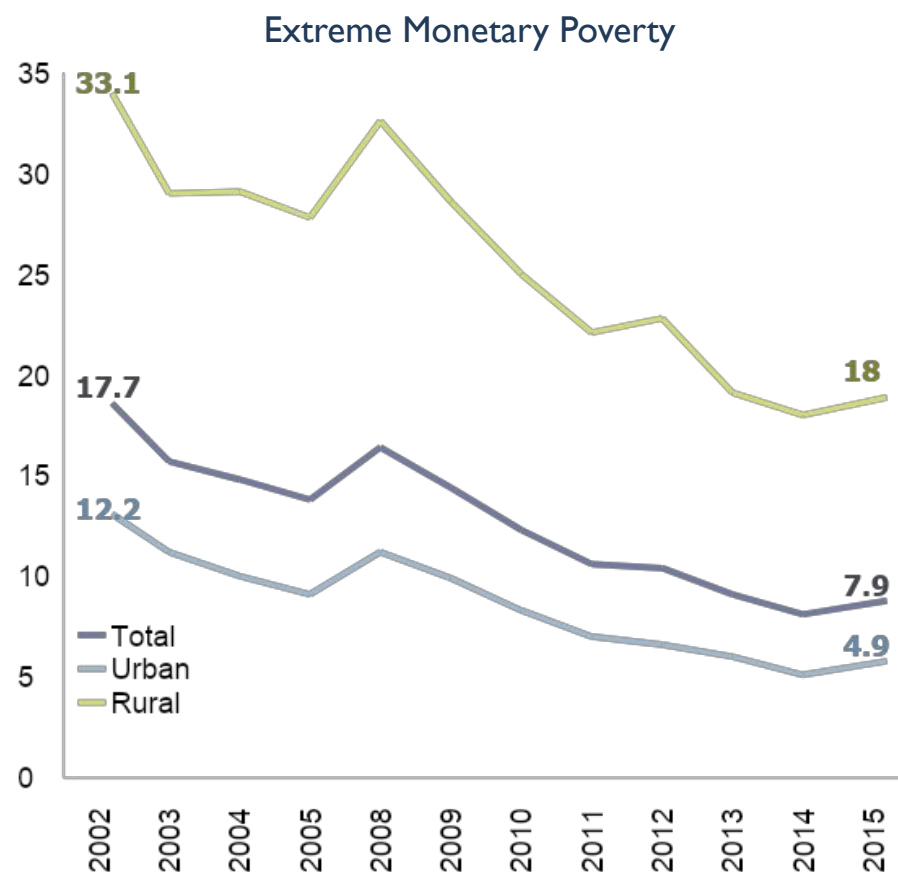
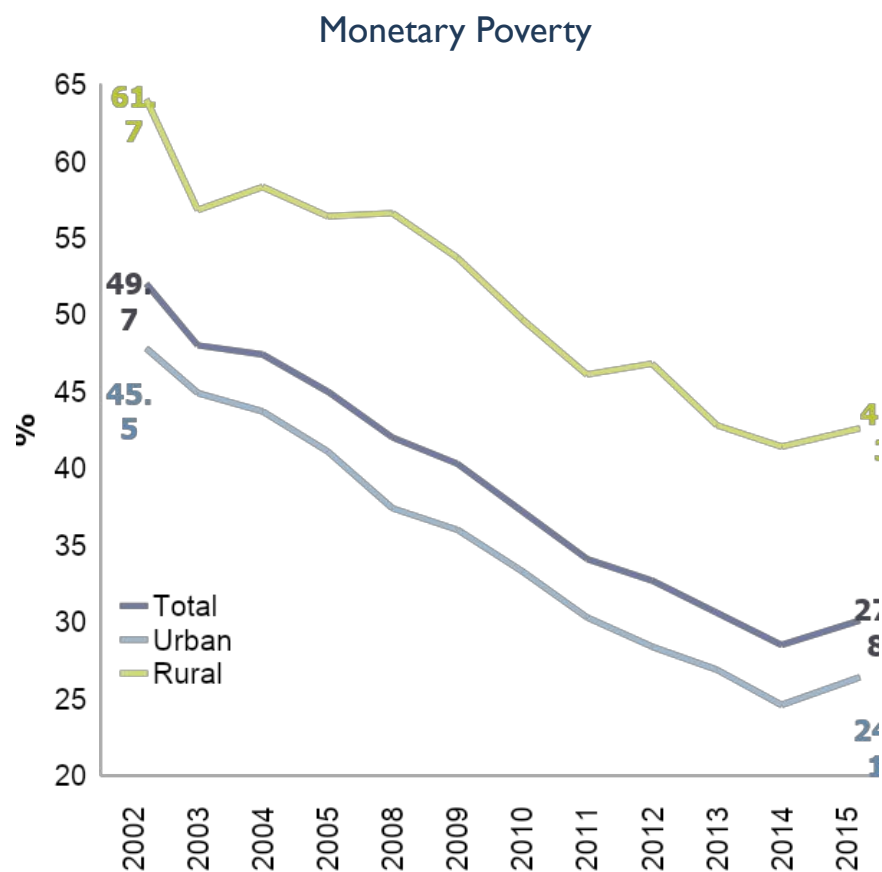
Terrorist acts



Commercial robberies

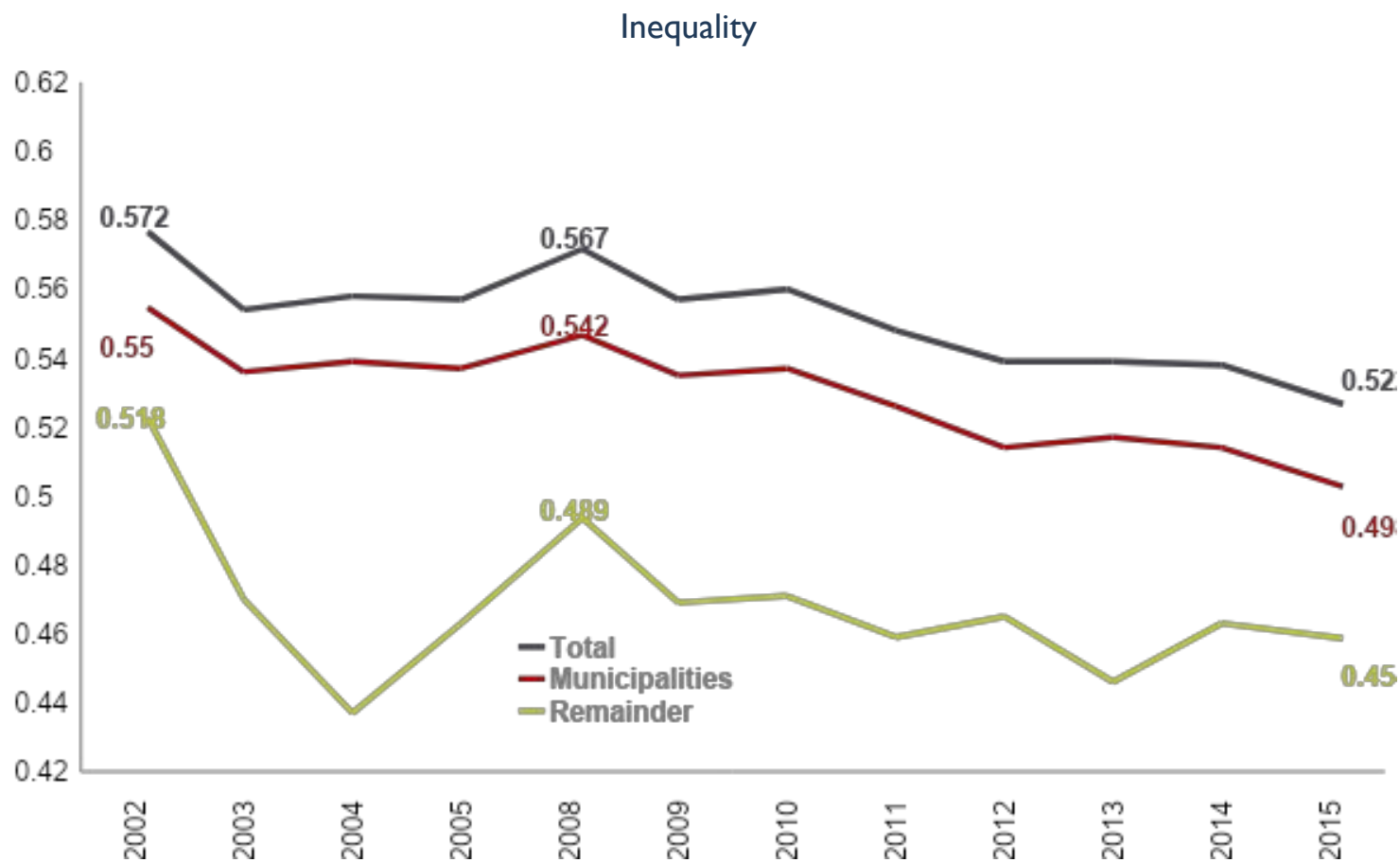


...As the levels of poverty and extreme poverty



Source: Colombian National Institute of Statistics. DANE.

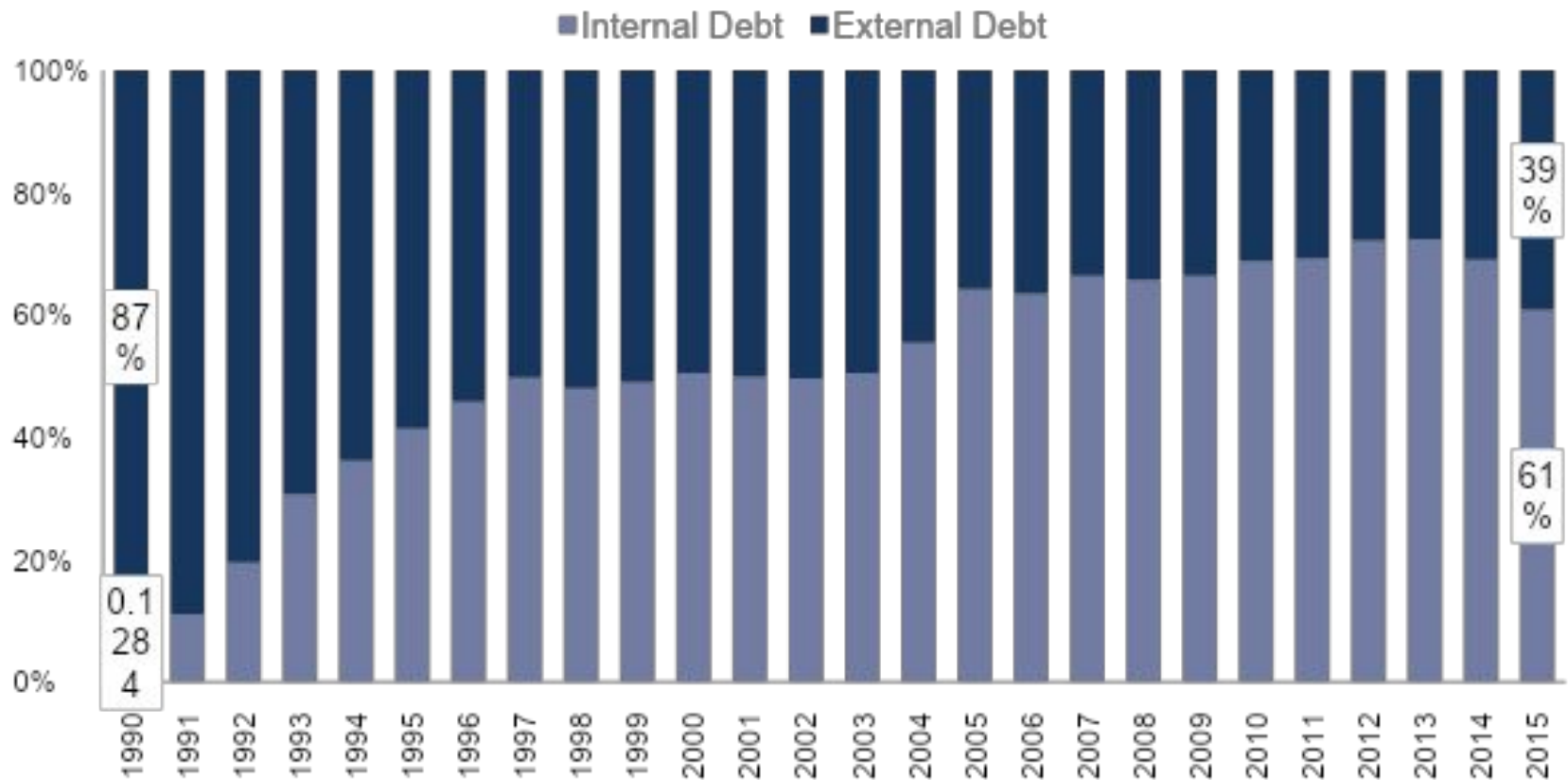
Inequality, meanwhile, has remained relatively constant



Source: Colombian National Institute of Statistics. DANE.

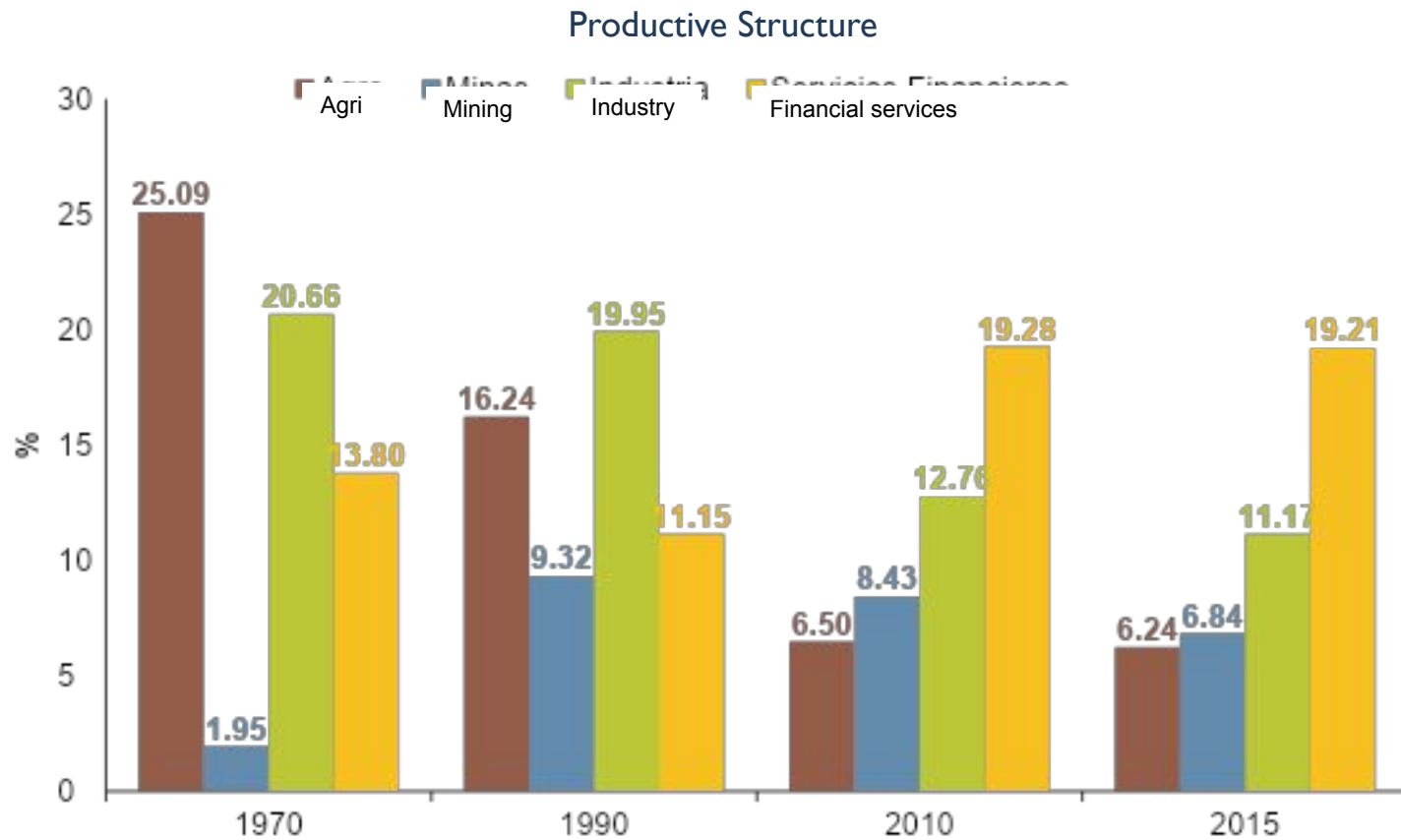
Currently, debt is mainly in local currency, which reduces the external exposure of the country

National Central Government Debt Composition



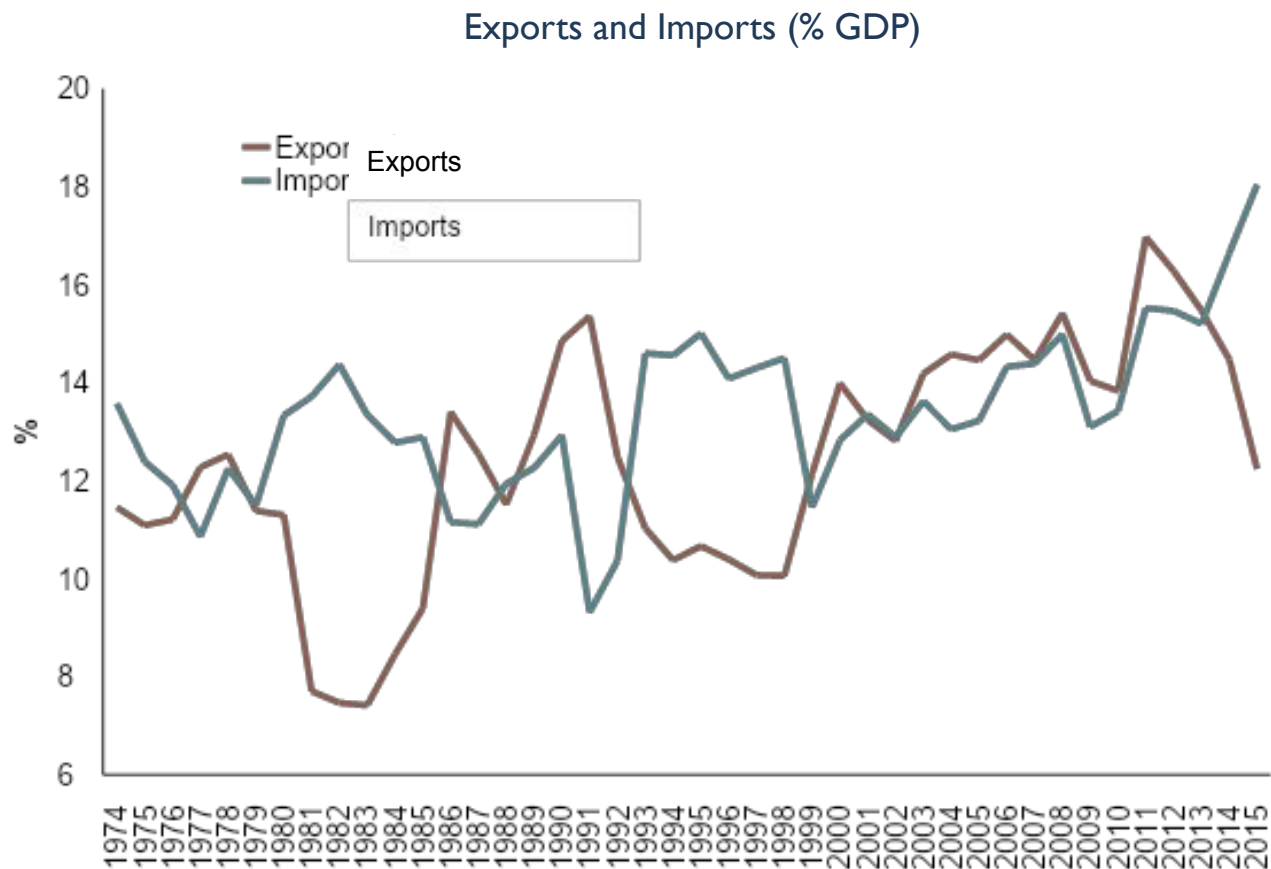
Source: Colombian Treasury Ministry. MHCP

The Colombian economy has gone from being purely rural, specializing in coffee, to a service oriented one, albeit strongly influenced by the energy sector



Source: Colombian National Institute of Statistics. DANE.

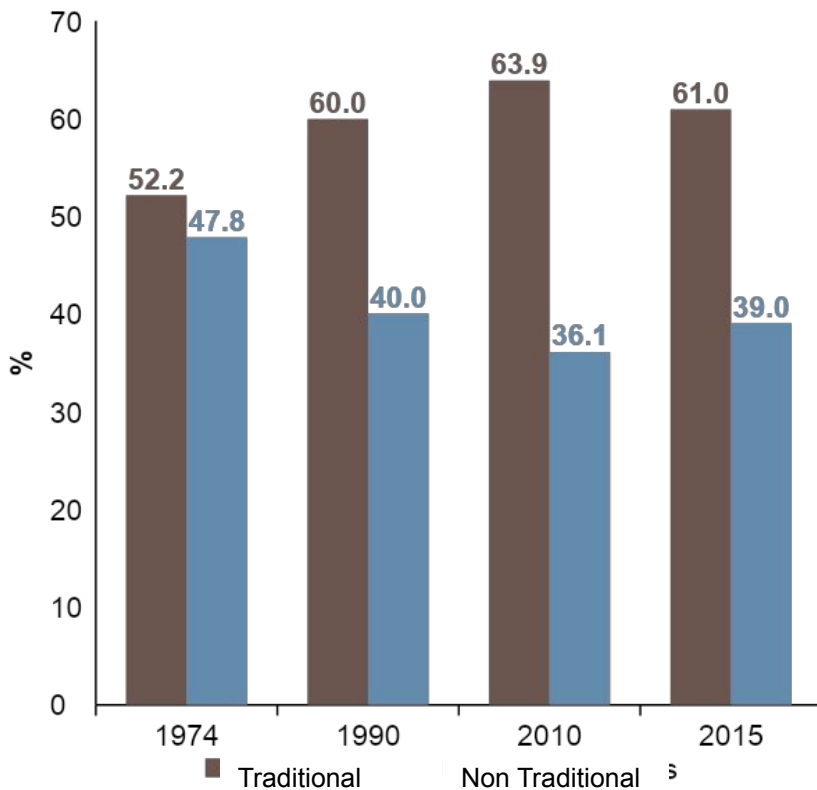
While the amount of exports have grown substantially, it has remained relatively stable as share of GDP



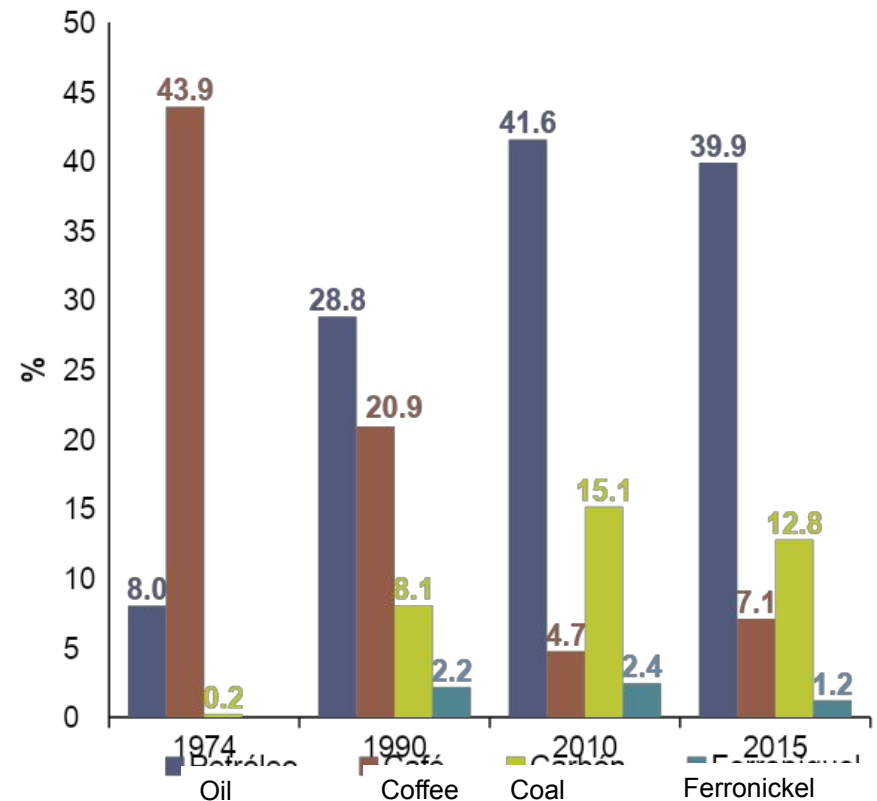
Source: Colombian National Planning Department. -DNP

Exports are still concentrated in traditional products. The top product was coffee in the 70s and is oil today.

Export's Composition

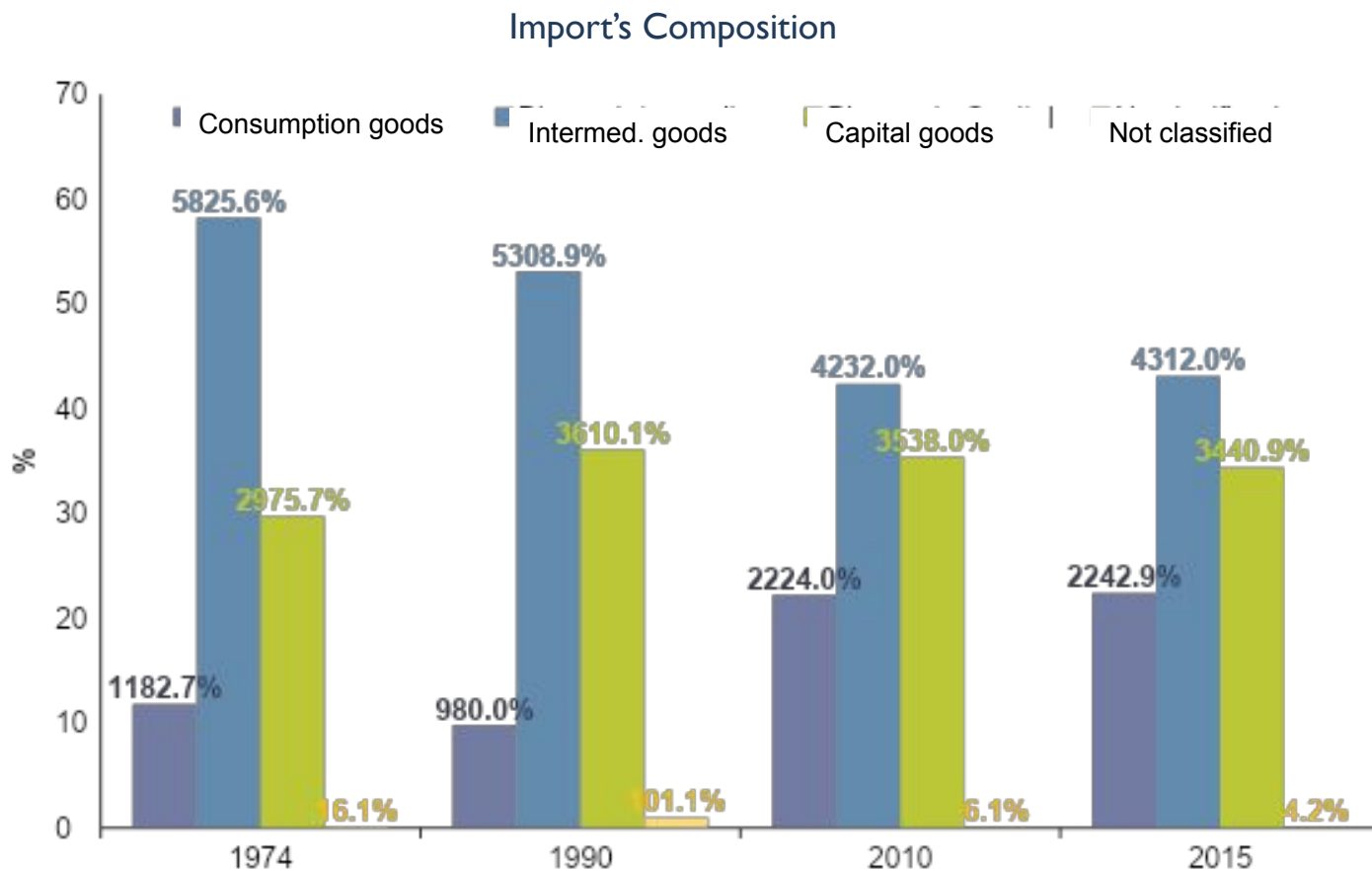


Traditional exports as share of total exports



Source: Colombian National Planning Department. -DNP

Most imports are still intermediate goods, although consumer goods have gained ground



Source: Colombian National Planning Department. -DNP

Macroeconomic, fiscal context, and perspectives



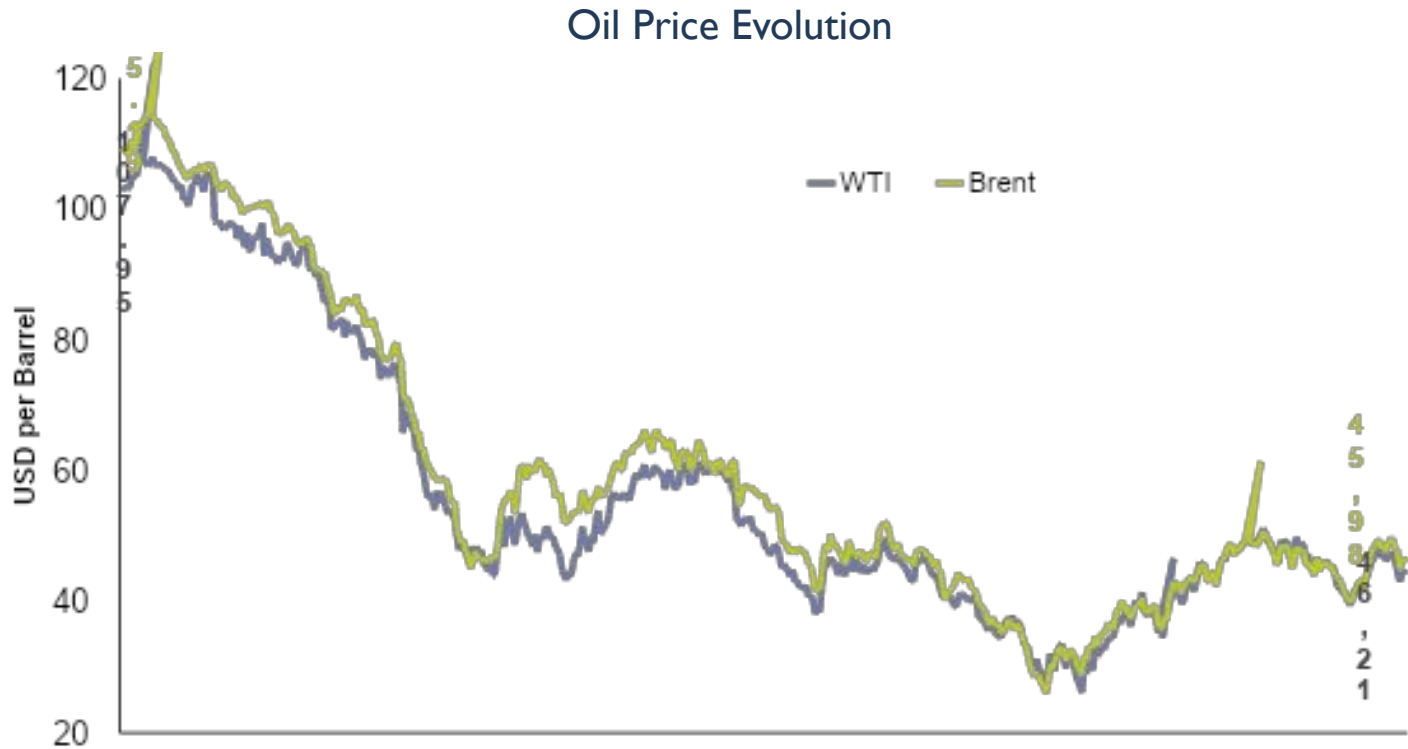
- **Macroeconomic and fiscal context**
- **Perspectives**



- **Macroeconomic and fiscal context**
- Perspectives



The oil price experienced a reduction close to 70% since mid-2014, but currently there is mild recovery thanks to a contraction in the supply of unconventional oil

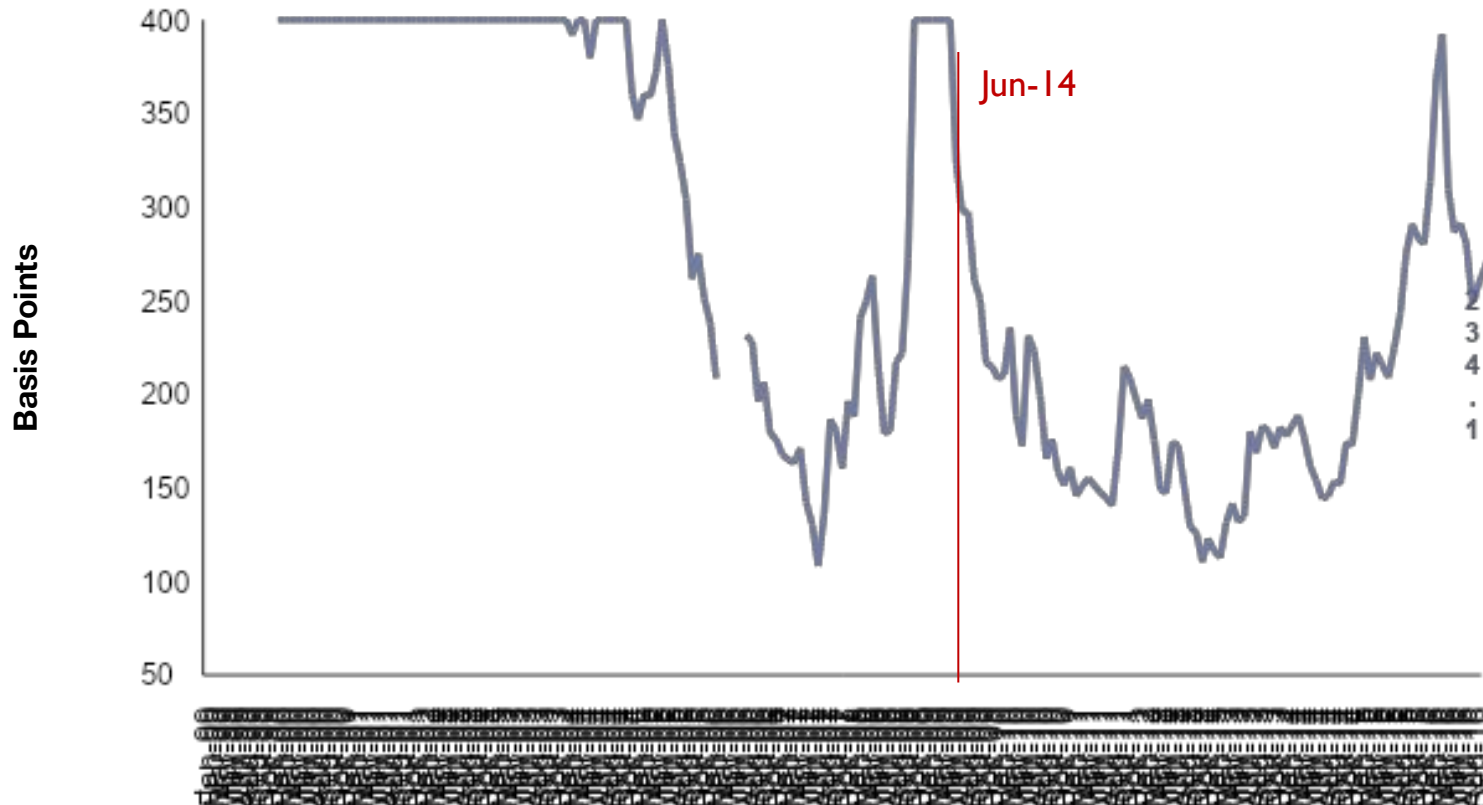


Source: U.S. Energy Information Administration (EIA).



This has had an impact on the risk perception of Colombia ...

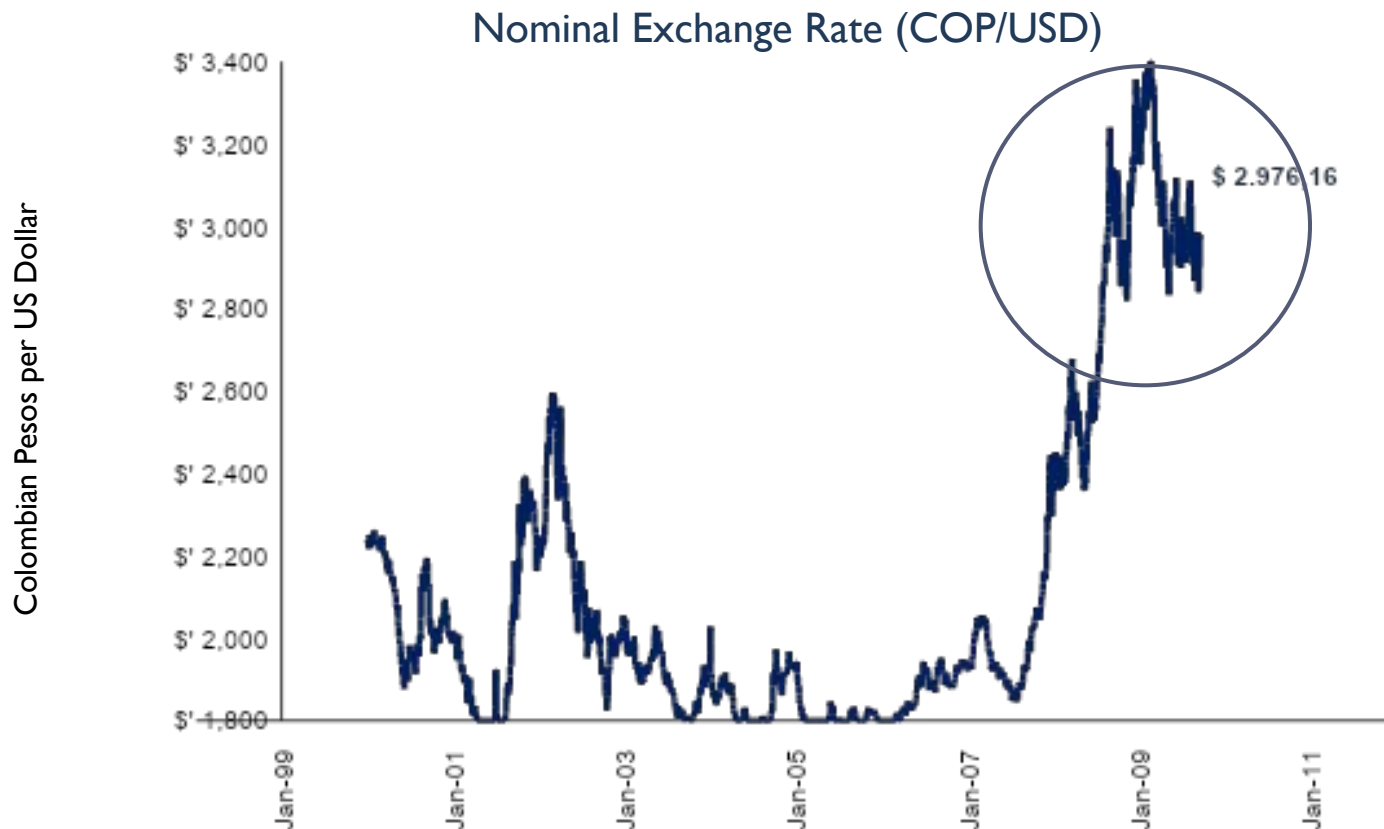
Emerging Markets Bonds Index –EMBI- Colombia



Source: Bloomberg.

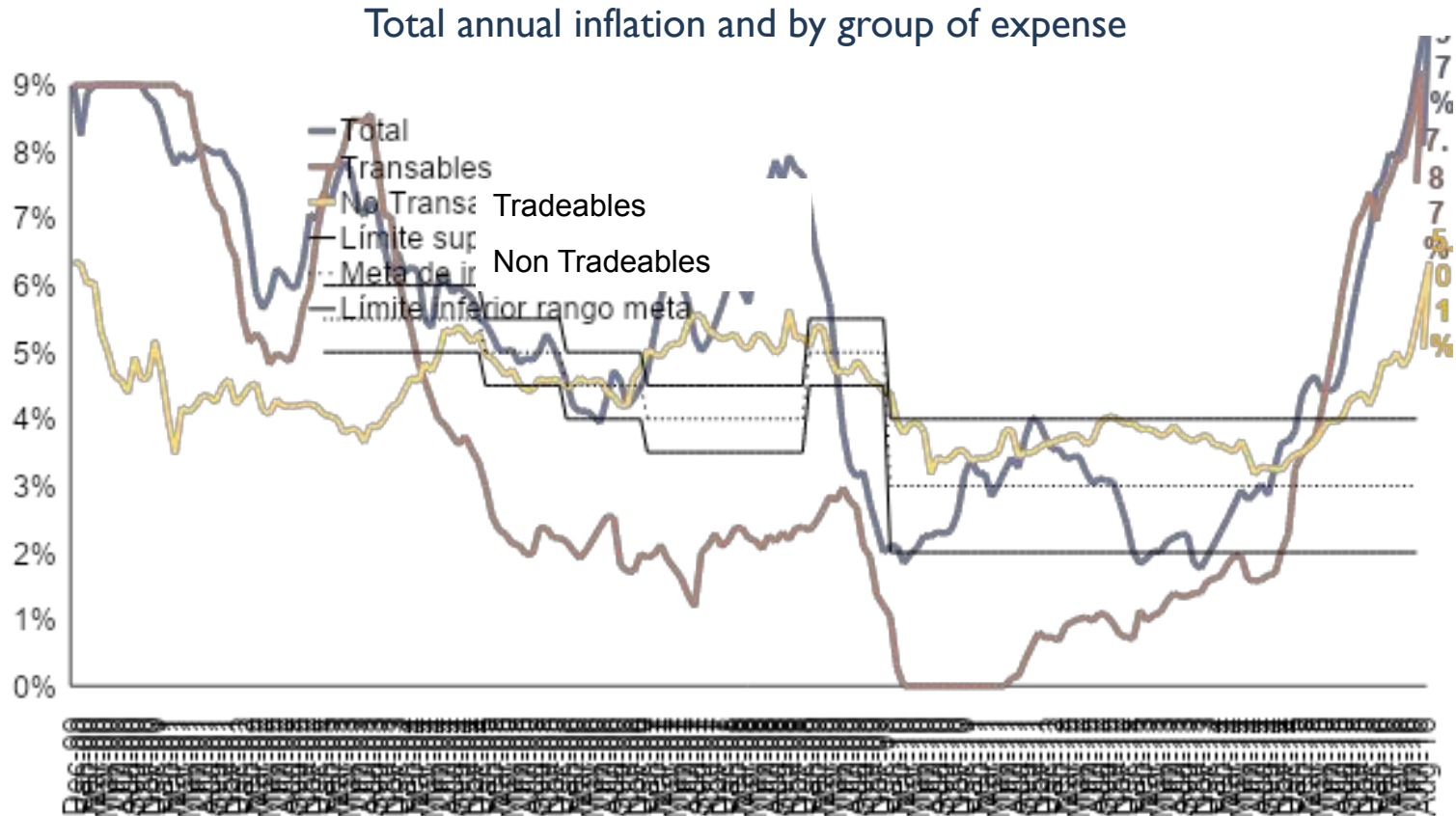


And on the sharp depreciation of the peso, reaching historical values and strongly rising currency volatility, but gaining value this year



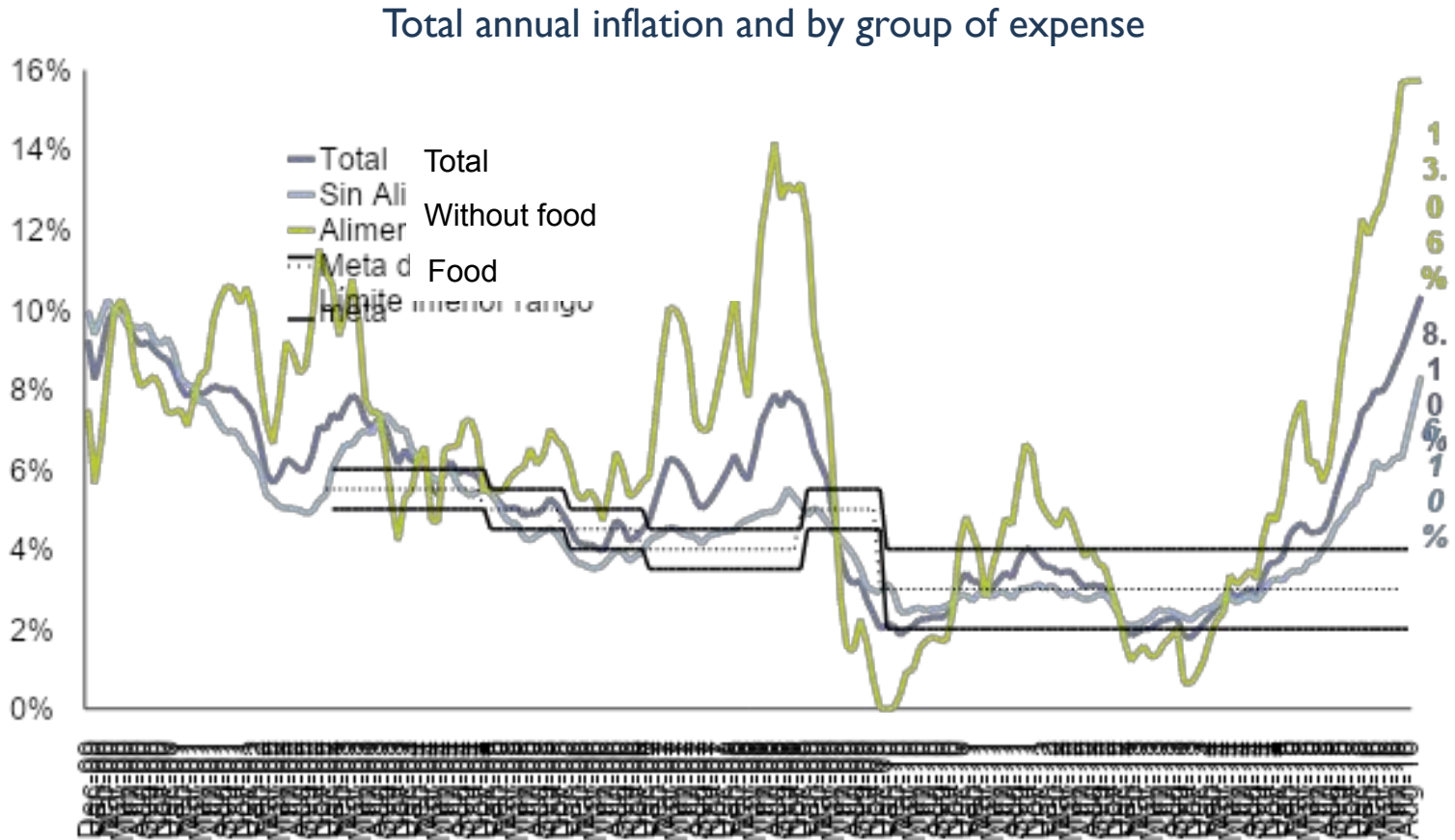
Source: Colombian Central Bank. Banco de la República.

Which has fueled an acceleration of inflation thru tradable goods in the economy



Source: Colombian National Institute of Statistics. DANE.

... El Niño caused an increase on food inflation and pushed general inflation to levels above the target range (2-4%)



Source: Colombian National Institute of Statistics. DANE.



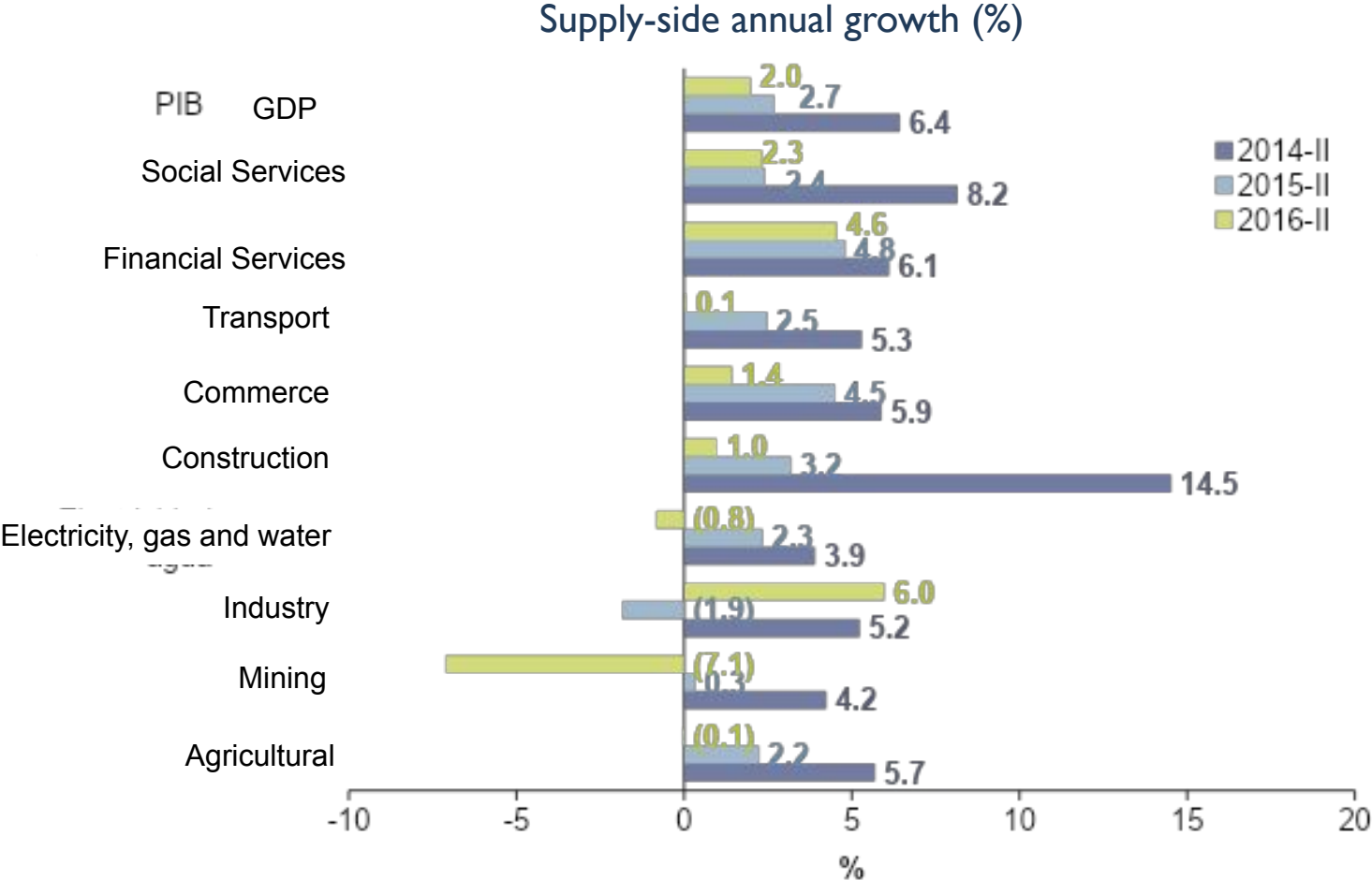
Motivating contractionary monetary policy response in order to anchor expectations



Source: Colombian National Institute of Statistics. DANE.



The oil and monetary shock had an impact on all sectors of the economy

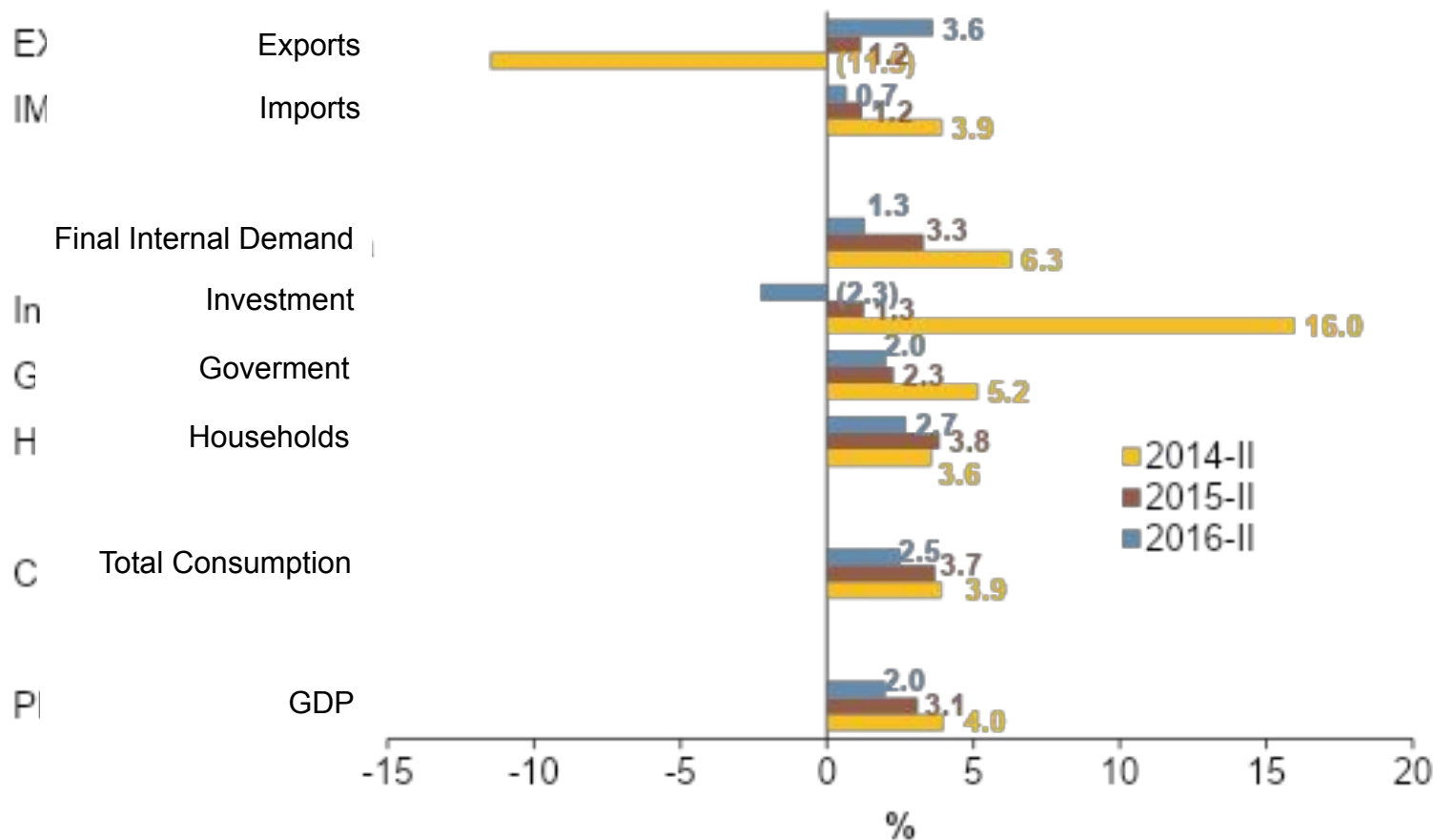


Source: Colombian National Institute of Statistics. DANE.



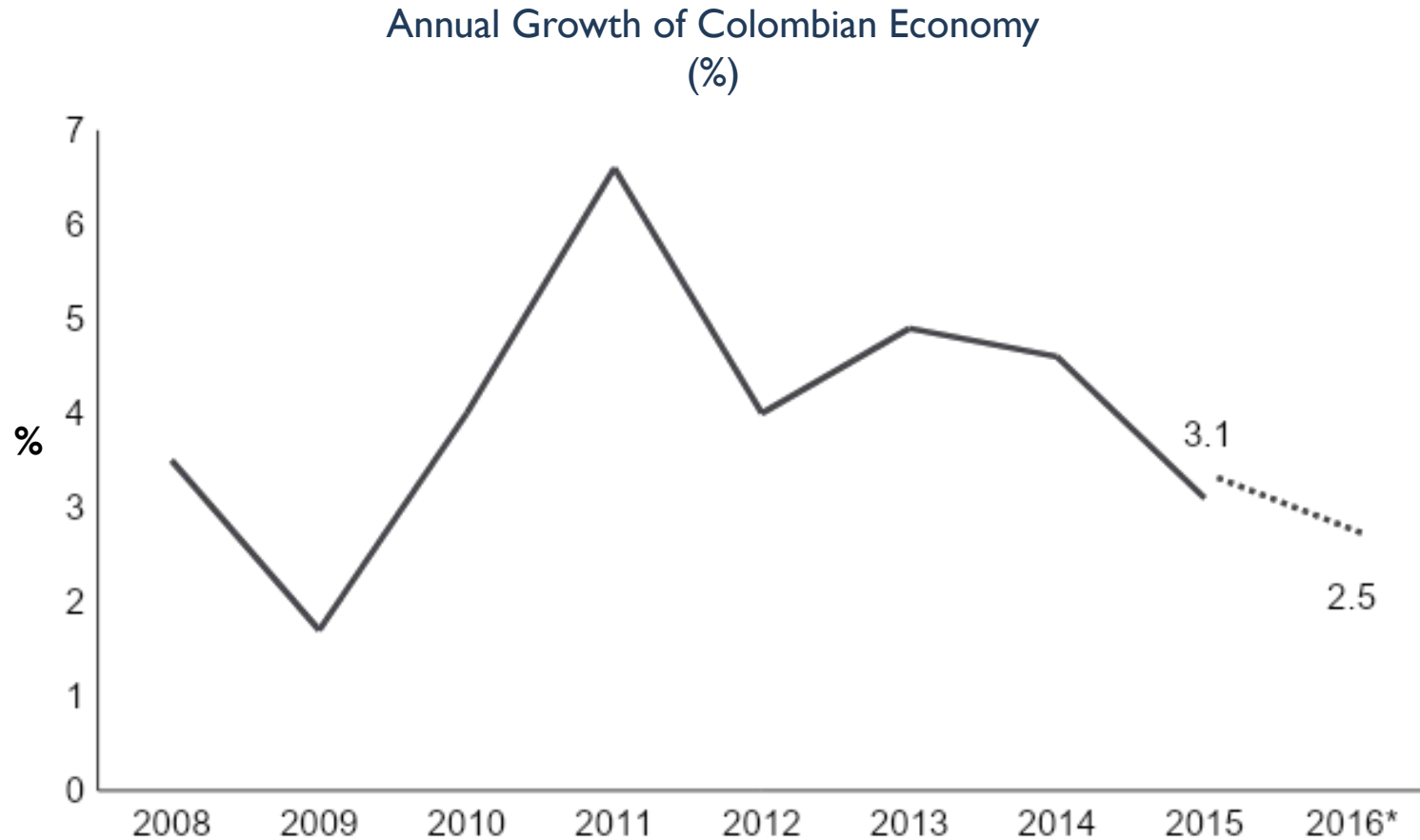
On the demand side, investment has slowed down to negative levels of growth for the second quarter of 2016, while domestic demand continues to decrease

Demand-side annual growth (%)



Source: Colombian National Institute of Statistics. DANE.

Consequently, since the middle of last year, Colombia began experimenting clear signs of slowdown

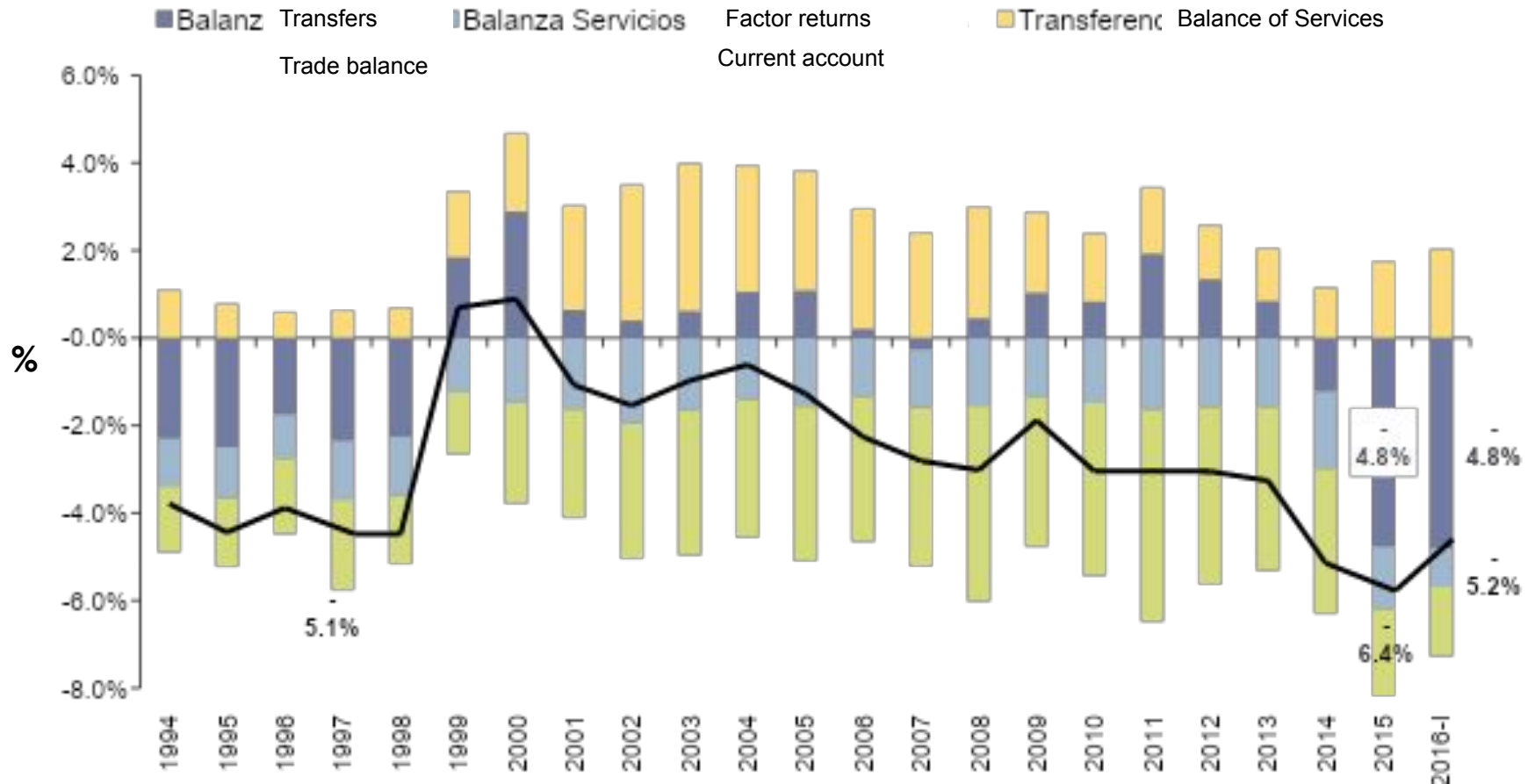


Source: Colombian National Institute of Statistics. DANE.



In addition, the external imbalance persists with a current account deficit of -6.4% in 2015 reducing to 5.2% this year.

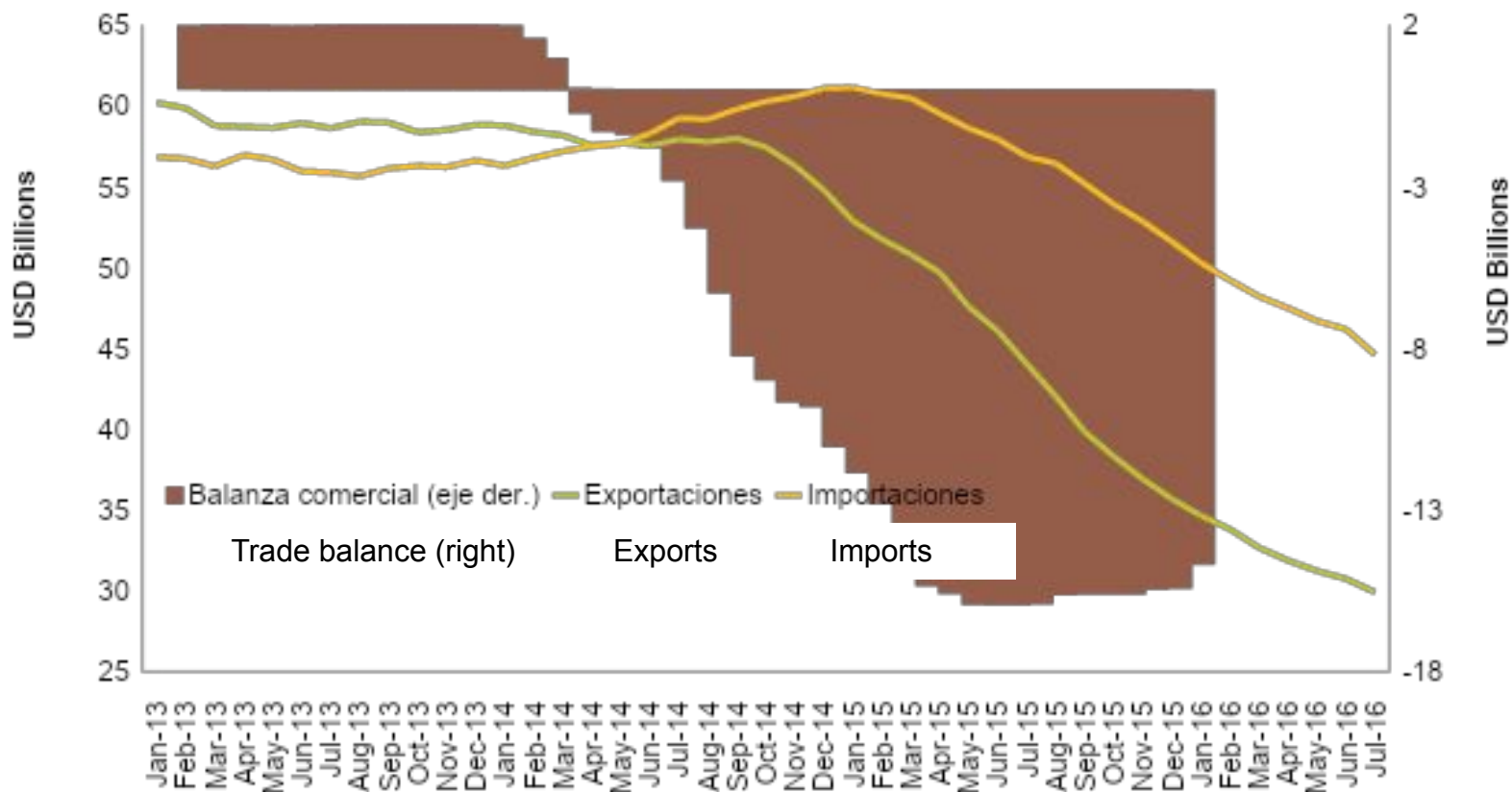
Current Account (% PIB)



Source: Colombian Central Bank. Banco de la República.

In part due to the marked deterioration in the trade balance

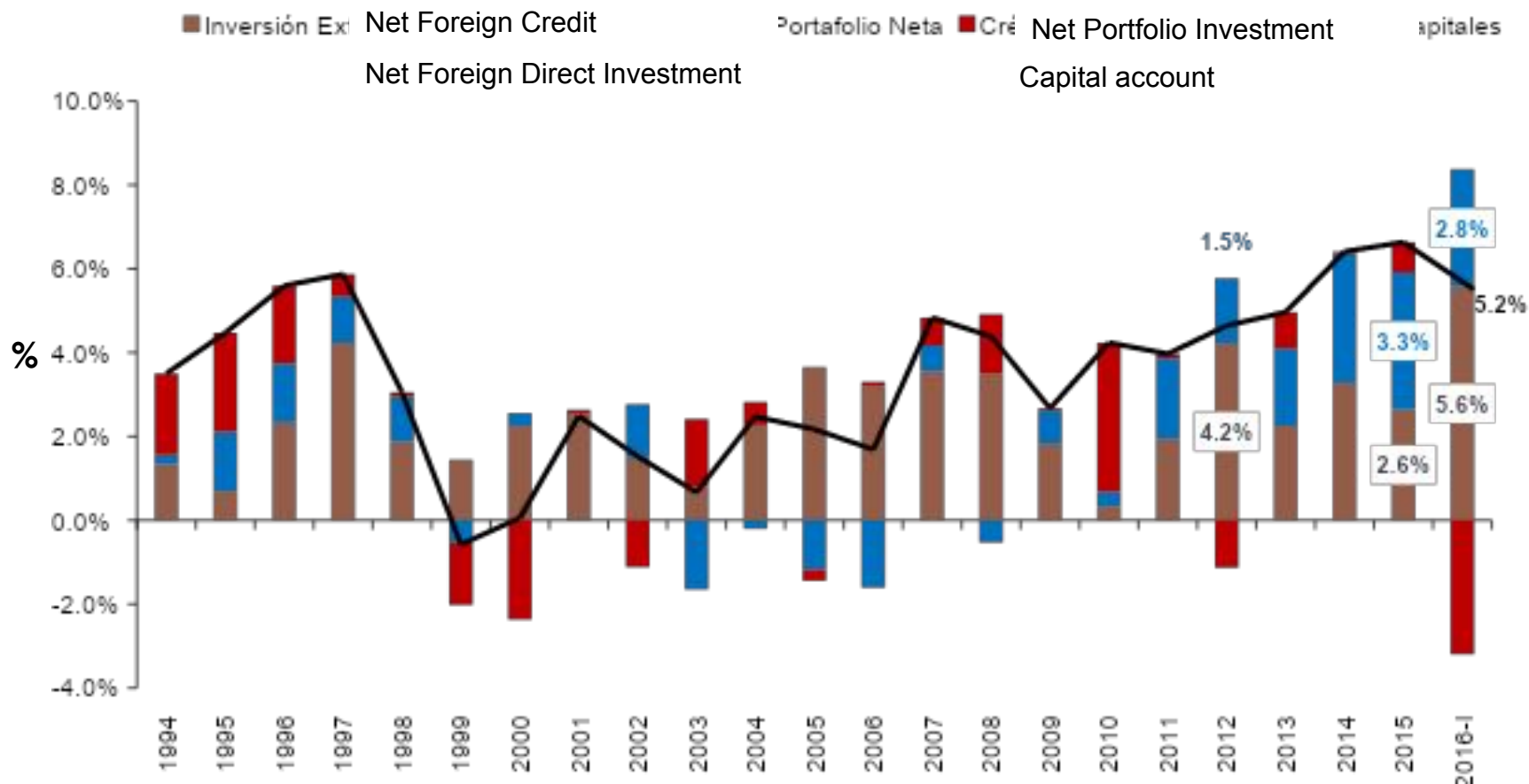
Trade Balance, monthly exports and imports (12 months cumulative)



Source: Colombian National Institute of Statistics. DANE.

But unlike 1999, the CA has been financed properly, preventing further internal adjustment. However, It's cause of concern that part of the funding comes from short-term capital flows

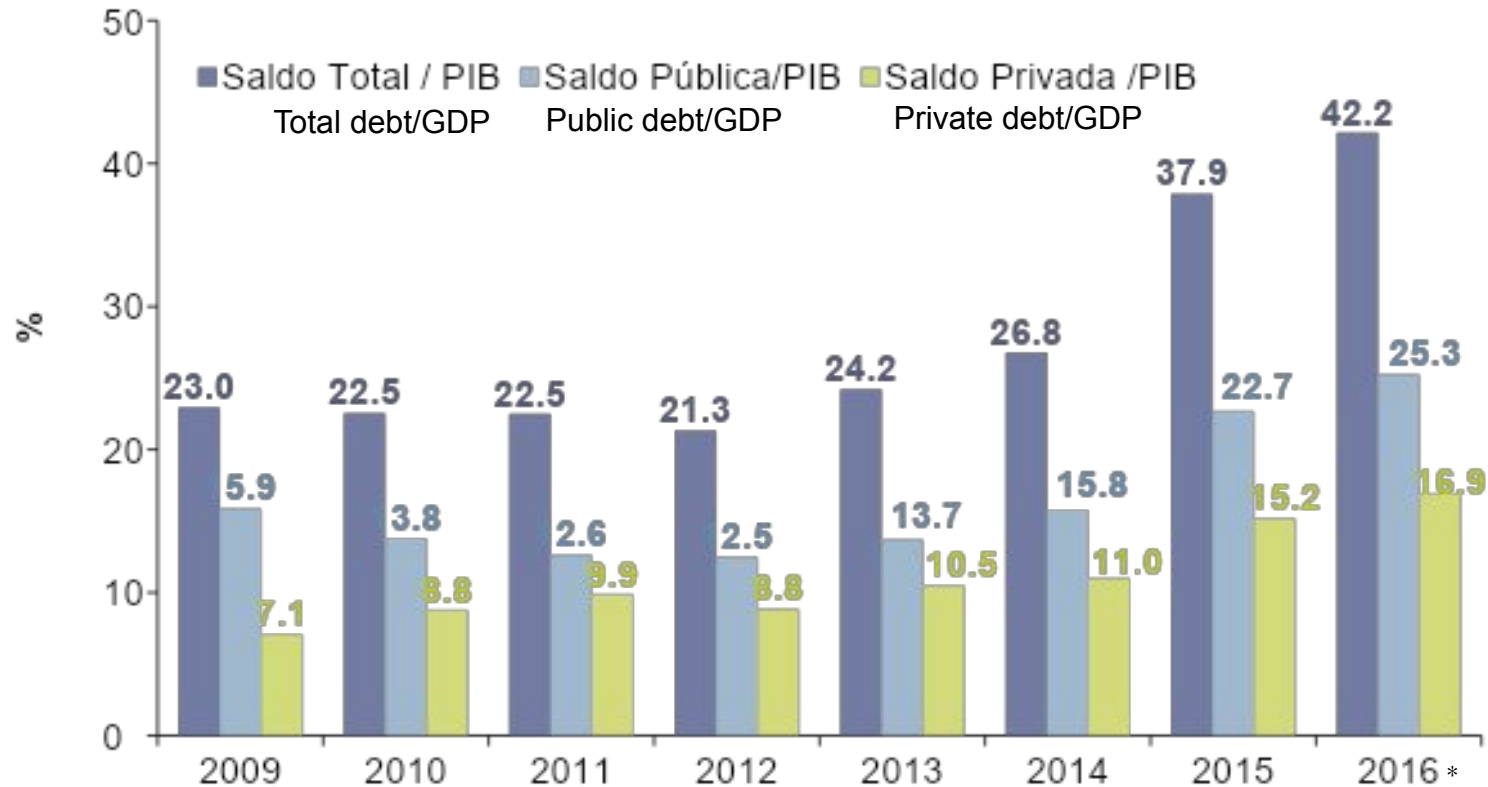
Capital Account (% PIB)



Source: Colombian Central Bank. Banco de la República.

The country's external debt has risen sharply to over 40% of GDP due to the depreciation of the peso

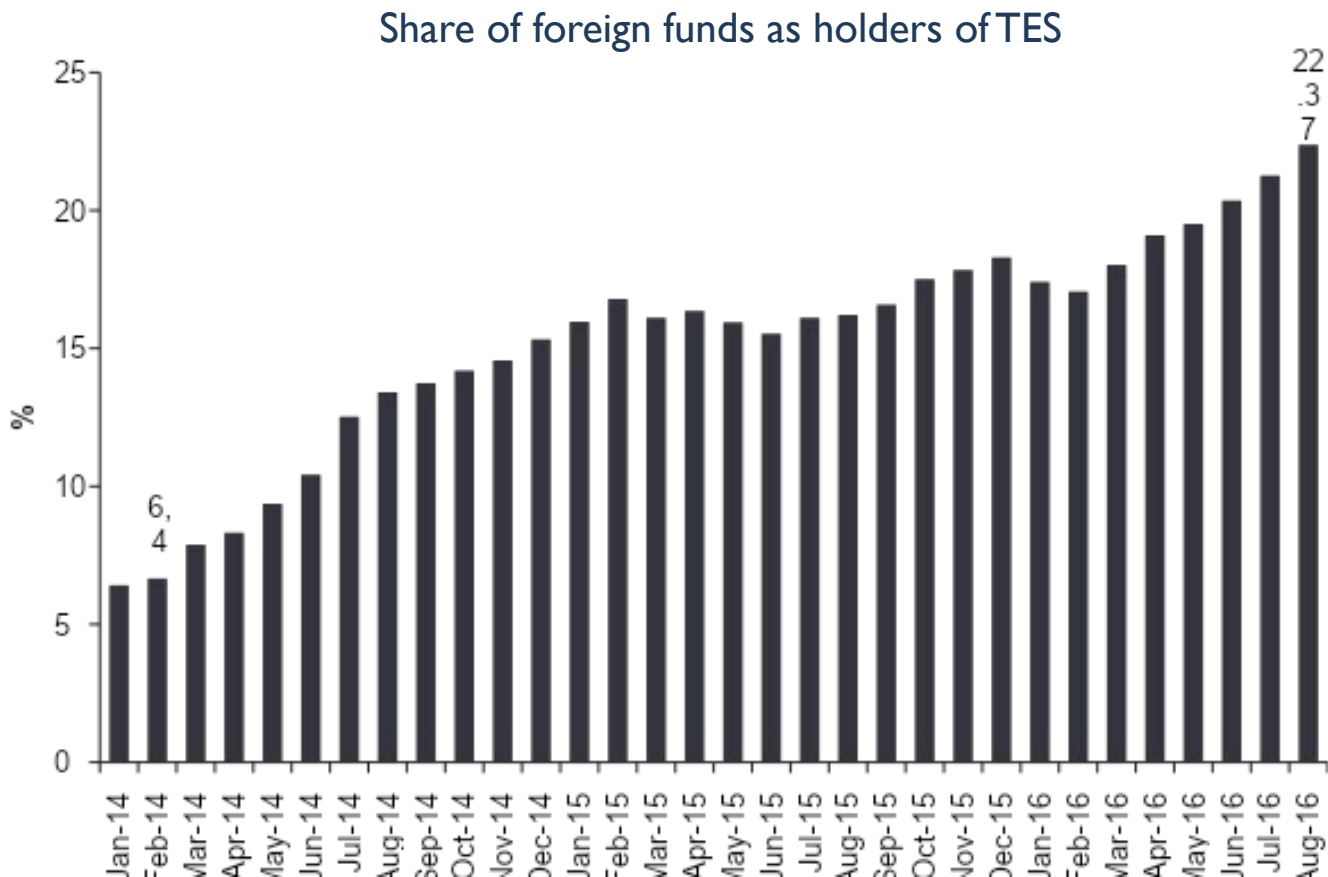
Debt as a share of the GDP (%)



* Projected to 2016 using debt data until March.

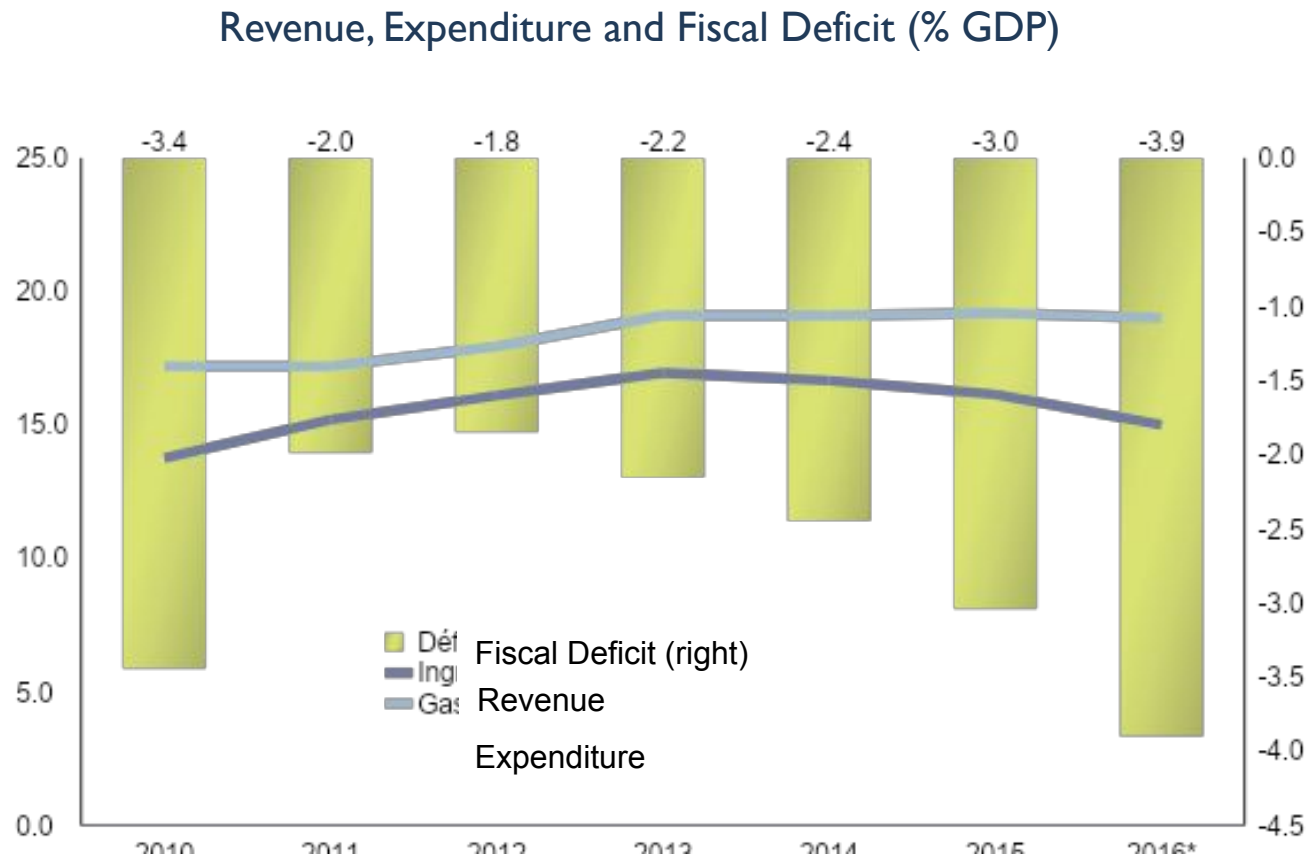
Source: Colombian Central Bank. Banco de la República.

While capital inflows of portfolio increase fiscal vulnerability due to the high percentage of bond holdings in foreign hands



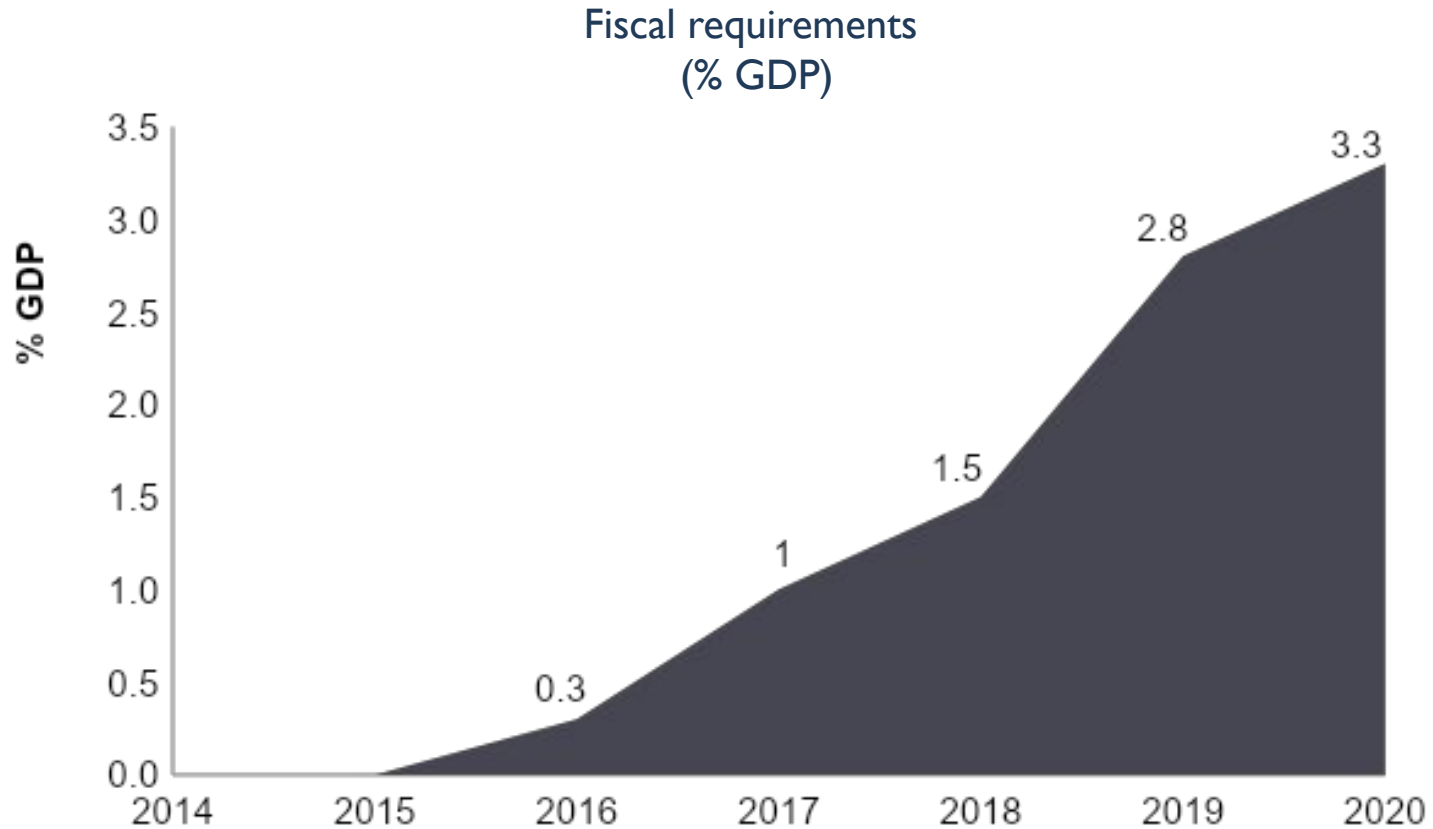
Source: Colombian Treasury Ministry. MHCP

On the fiscal front, revenues have fallen substantially pushing the government deficit to an estimated 3.9% in 2016, setting up a scenario of twin deficits



Source: Colombian Treasury Ministry. MHCP

While experts have said that the fiscal needs for 2020 are of about 3.3% of GDP



Source :Tax Experts Report and OCDE.



According to the government, the structural imbalance for 2016 will be approximately 2.1%, and the oil imbalance of the order of 1.8%

		2015*	2016*
Total revenue		16,1	15,0
	Tax	14,5	14,2
	Oil	0,7	0
	Non Tax	0,1	0,1
	Special Funds	0,2	0,2
	Capital Resources	1,3	0,5
	Ecopetrol	0,5	0,1
Total Expenditure		19,2	19,0
	Interests	2,6	3,2
	Operating costs	13,5	13,8
	Investment	3,1	1,9
Total Balance		-3	-3,9
Ciclical Balance		-0,8	-1,8
Structural Balance		-2,2	-2,1

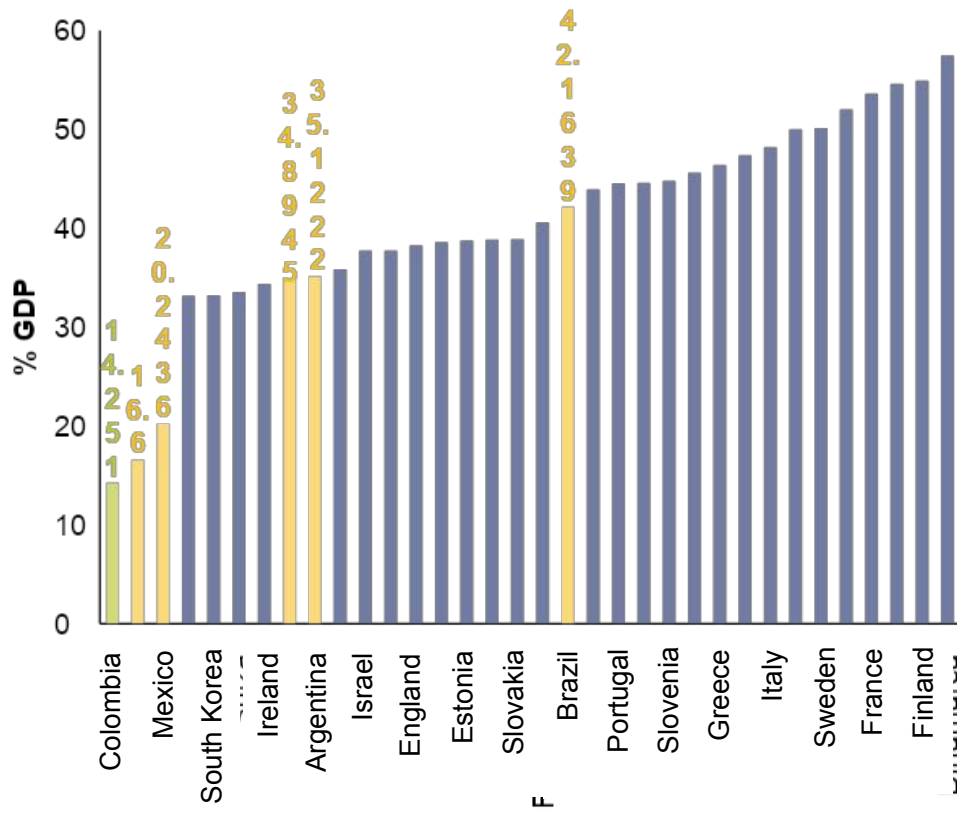
- But the government seems to be overestimating the growth of the economy.
- And the non-oil tax revenues.
- Moreover, it is not doing all the necessary budget cuts.
- **So the structural imbalance could be of around 2.5% of the GDP.**

Source: Colombian Treasury Ministry. MHCP



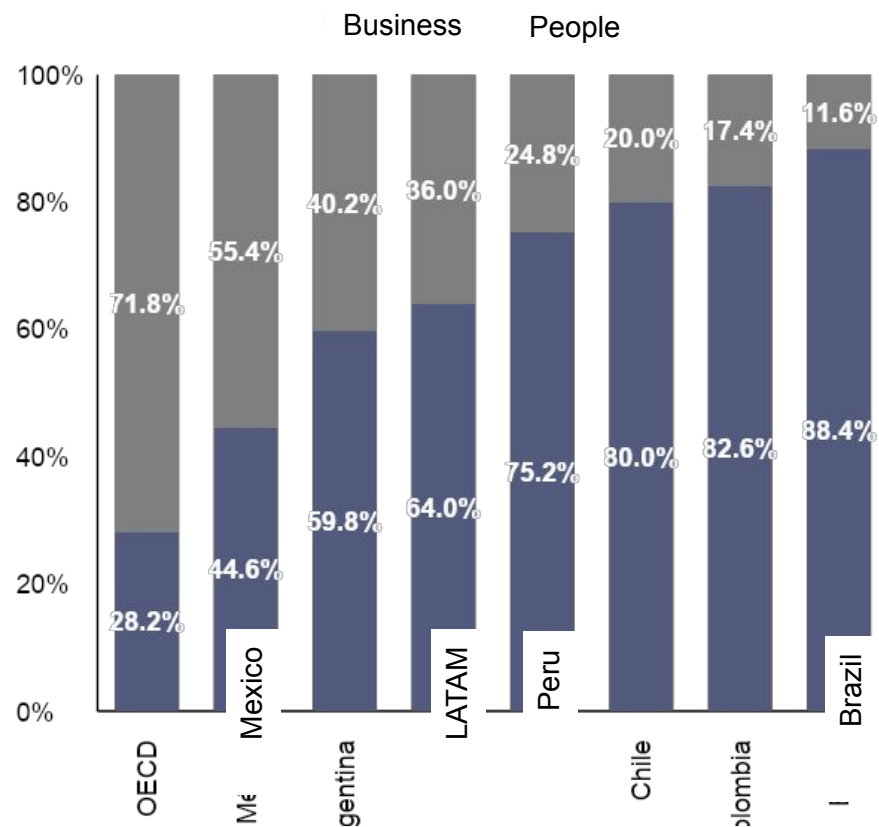
Tax revenue in the country is low when compared with other countries in the region and the OECD. There is a high tax burden on businesses.

Fiscal Revenue (% GDP)



Source: OECD (2014) and ECLAC (2013)

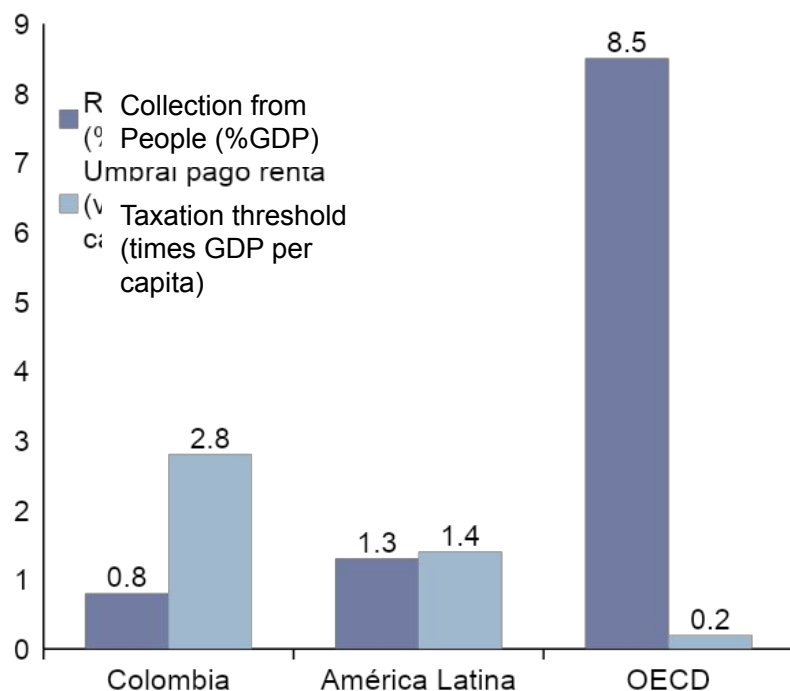
Fiscal Revenue in Colombia, LATAM and OECD (%GDP, 2013)



Source: OECD.

Taxation of natural persons is low because the threshold from which is taxed is very high, while the tax rate looks high

Collection and taxation threshold



Source: Tax Commission

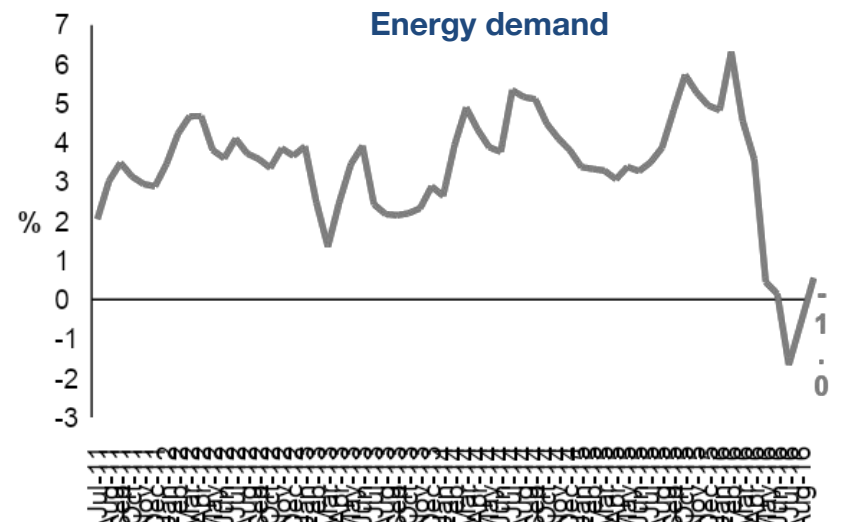
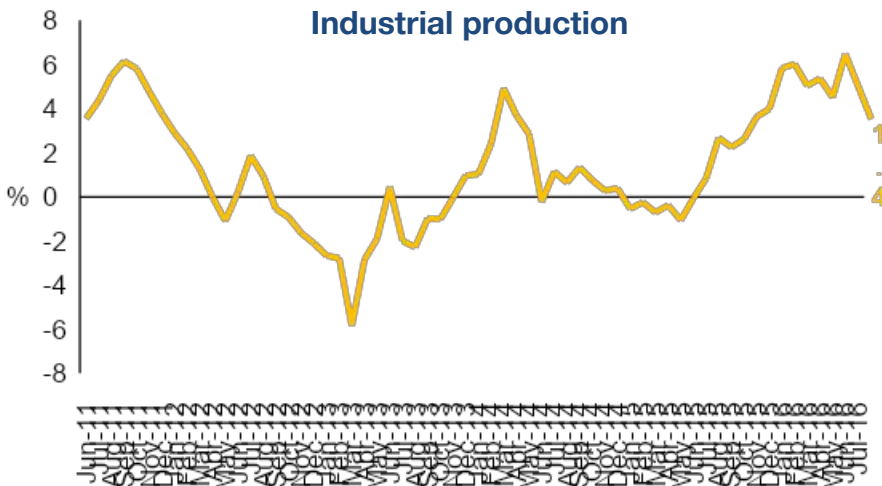
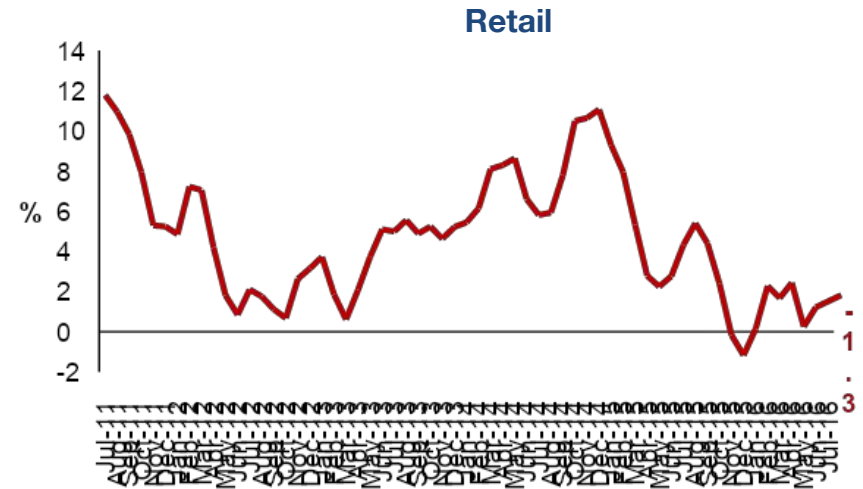
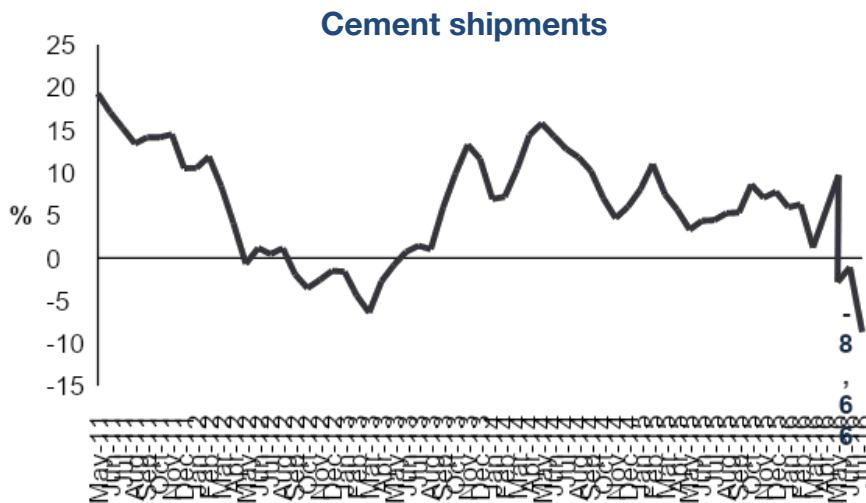
Country	Effective tax rate
Denmark	26,0%
England	33,7%
South Korea	32,4%
Chile	27,9%
Sweden	49,4%
United States	43,8%
Peru	36,0%
Germany	48,8%
Spain	58,2%
Mexico	52,1%
China	64,5%
Japan	51,3%
Colombia	75,4%
Bolivia	83,7%

Source: World Bank (2014).

- Macroeconomic and fiscal situation
- **Perspectives**



The slowdown is deepening, with the exception of the industrial sector

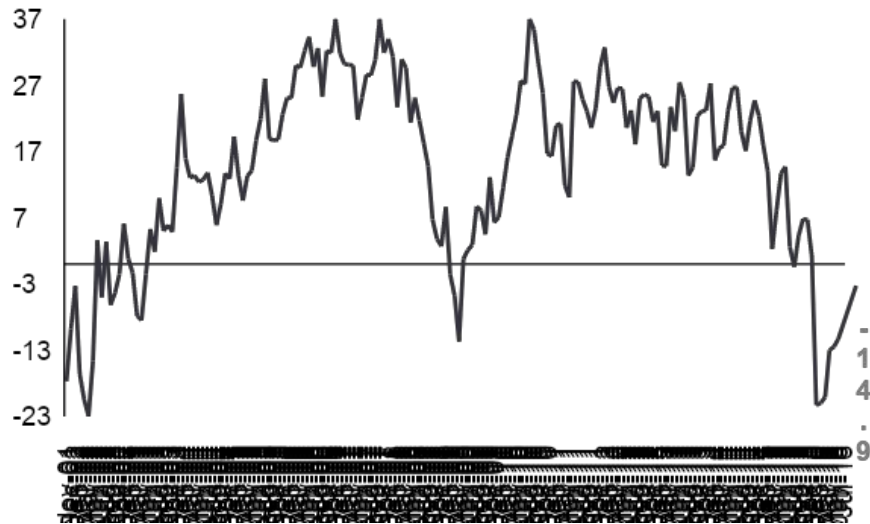


Source: Colombian National Institute of Statistics. DANE.

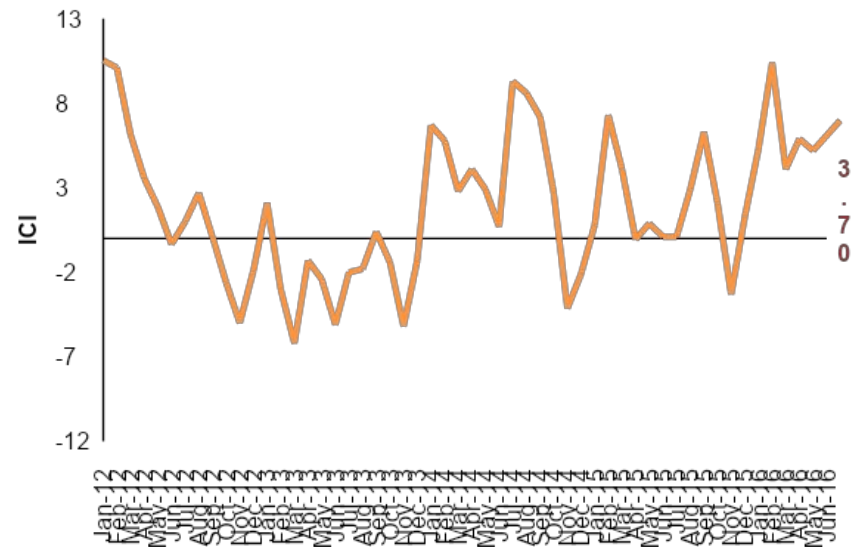


The economy faces high levels of industrial confidence paired with historical low levels of consumer confidence

Consumer Confidence Index



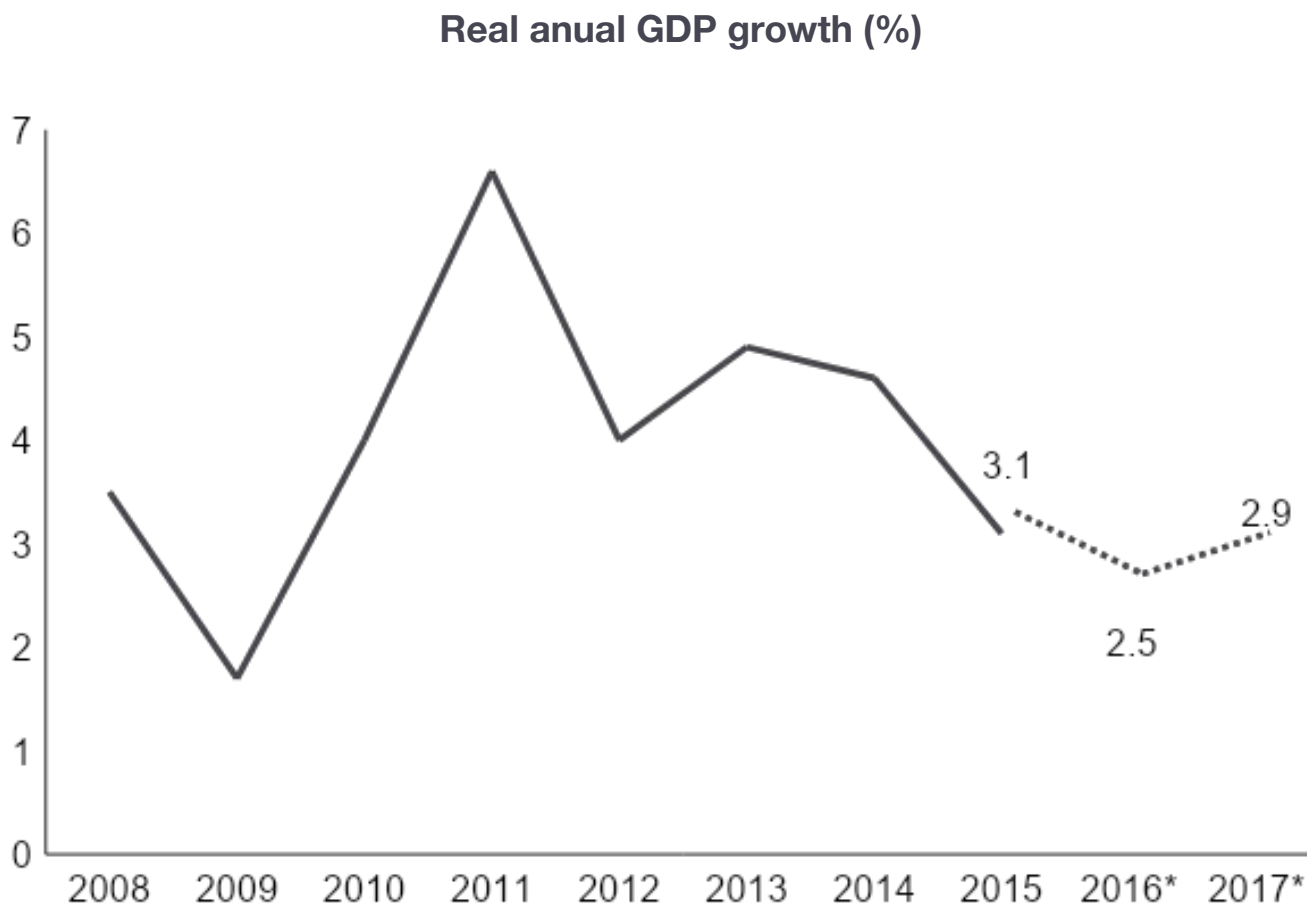
Industrial Confidence Index



Source: Fedesarrollo.



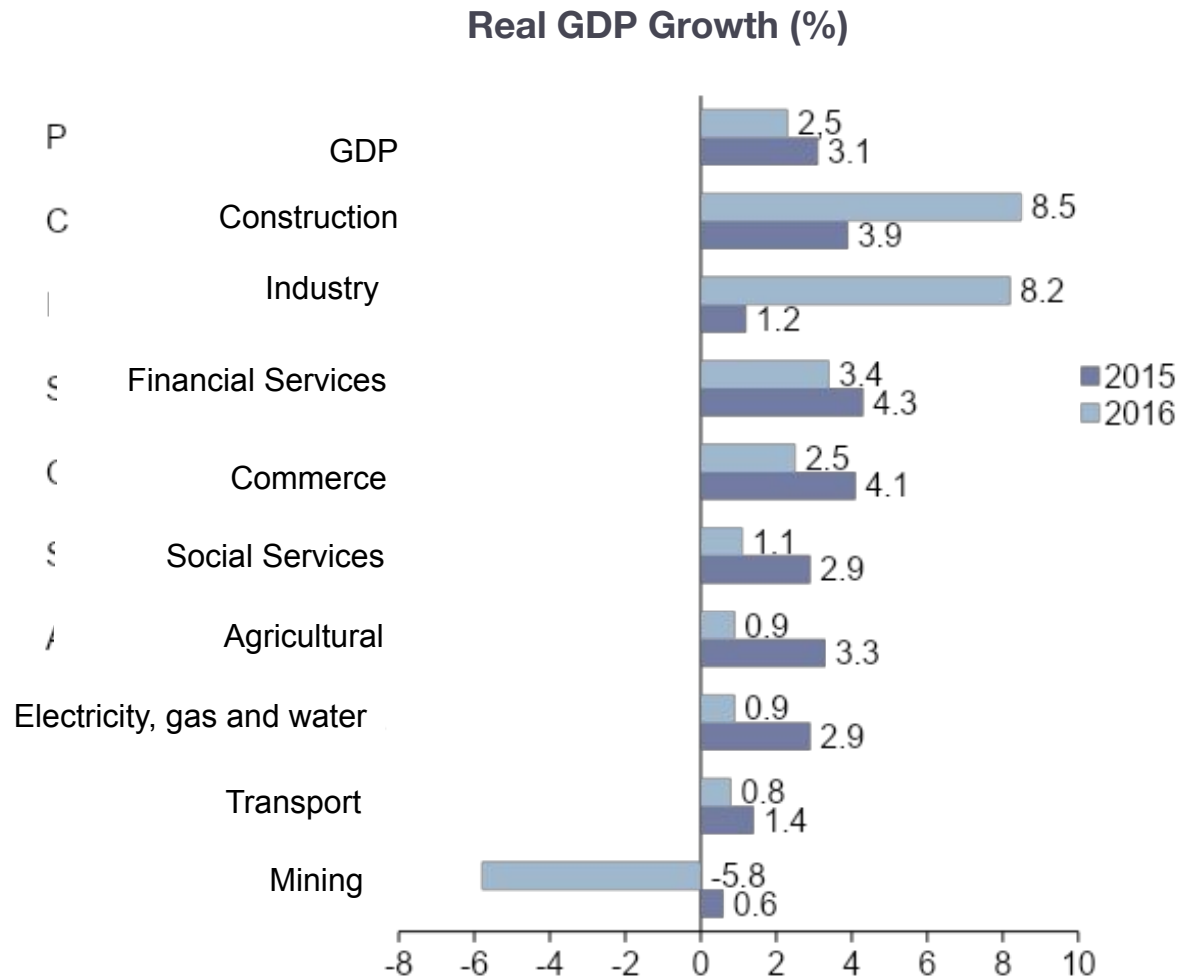
During 2016 the country will experience the worst economic growth since the financial crisis. By 2017 a slight rebound is expected.



Source: Colombian National Institute of Statistics. DANE.



The slowdown will be experienced in almost all sectors.



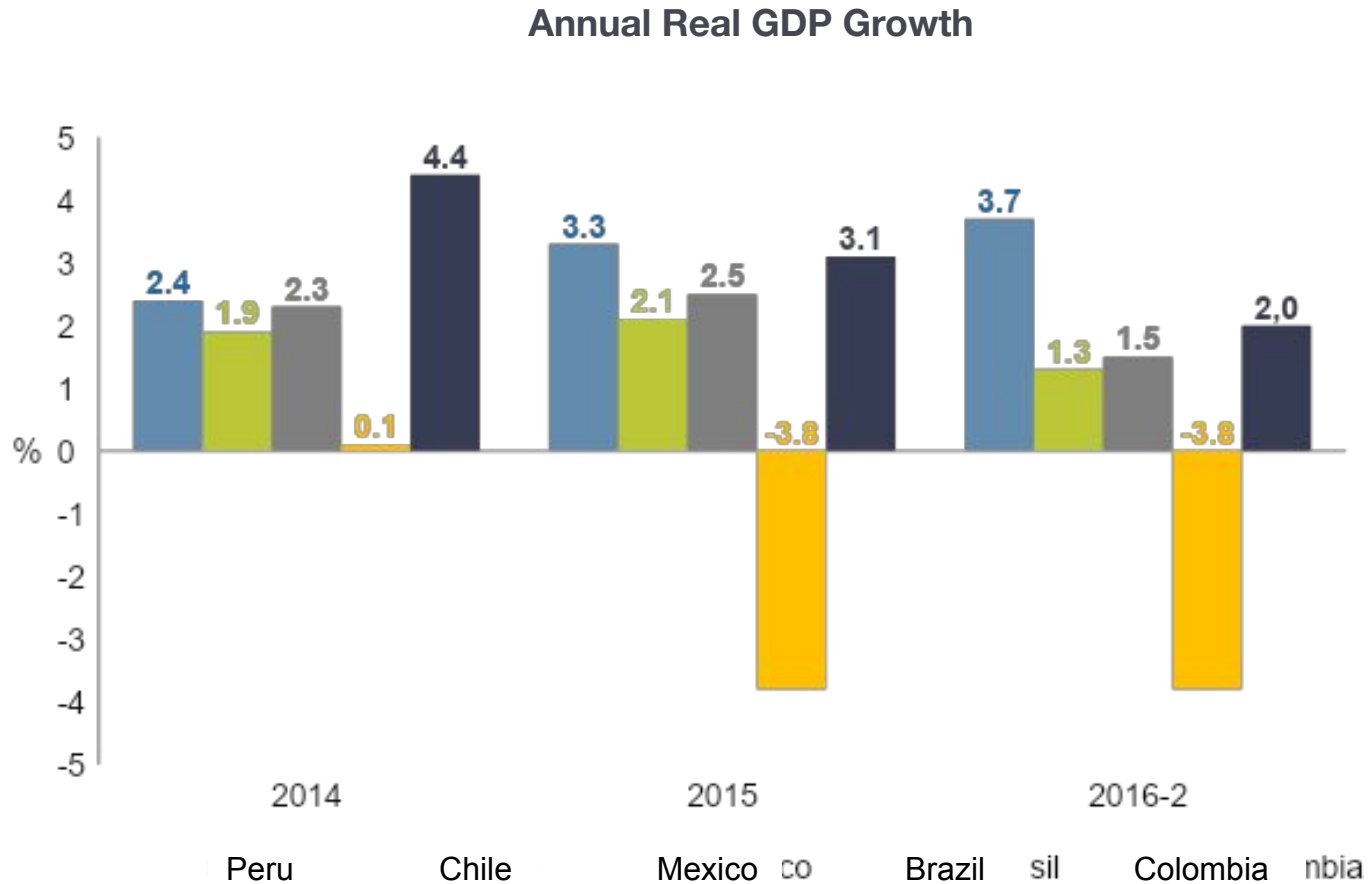
Source: Colombian National Institute of Statistics. DANE and Asobancaria



Colombia in the regional context



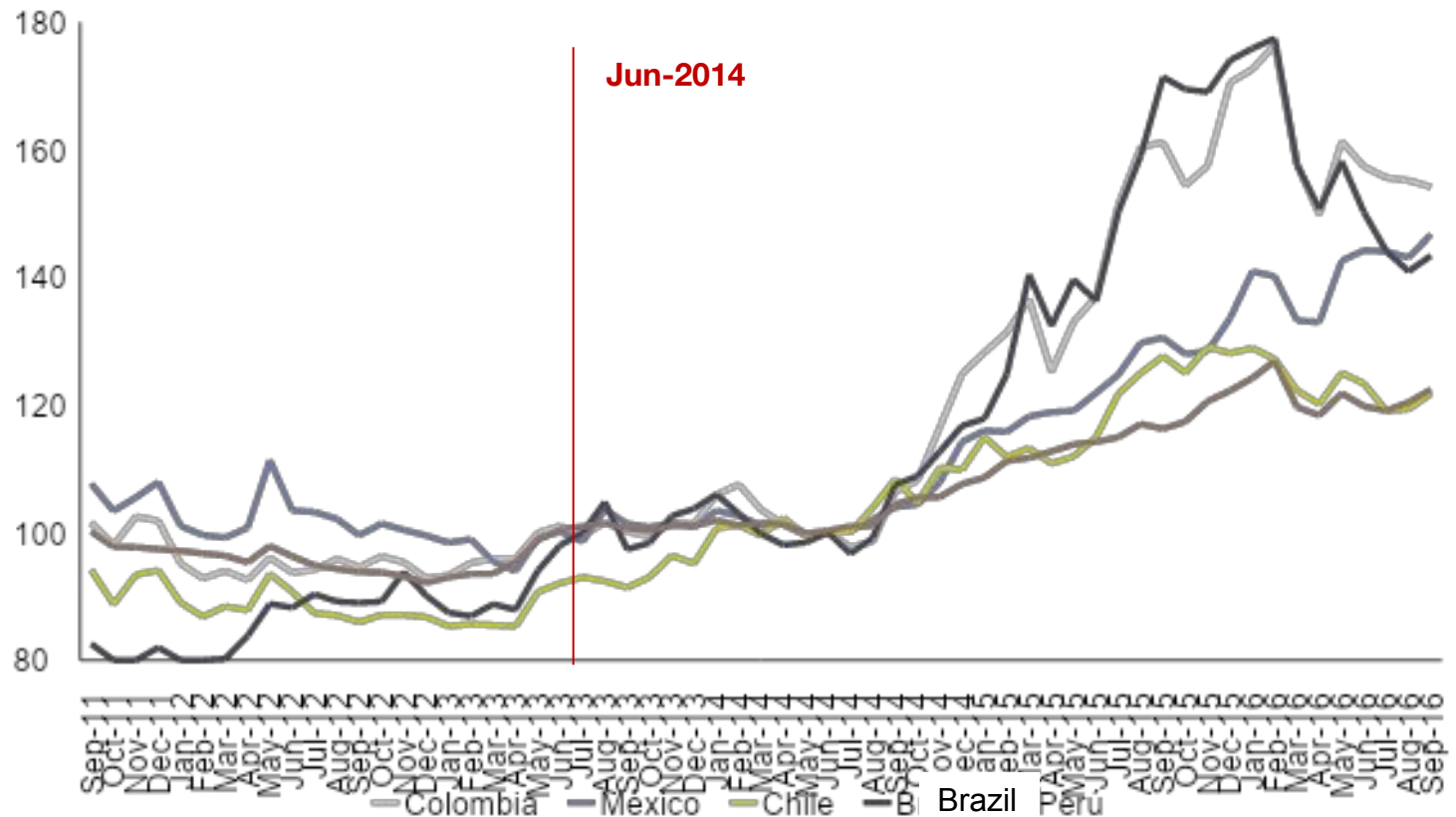
Despite the economic slowdown, Colombia continues to lead in terms of growth in the region alongside Peru



Source: IMF

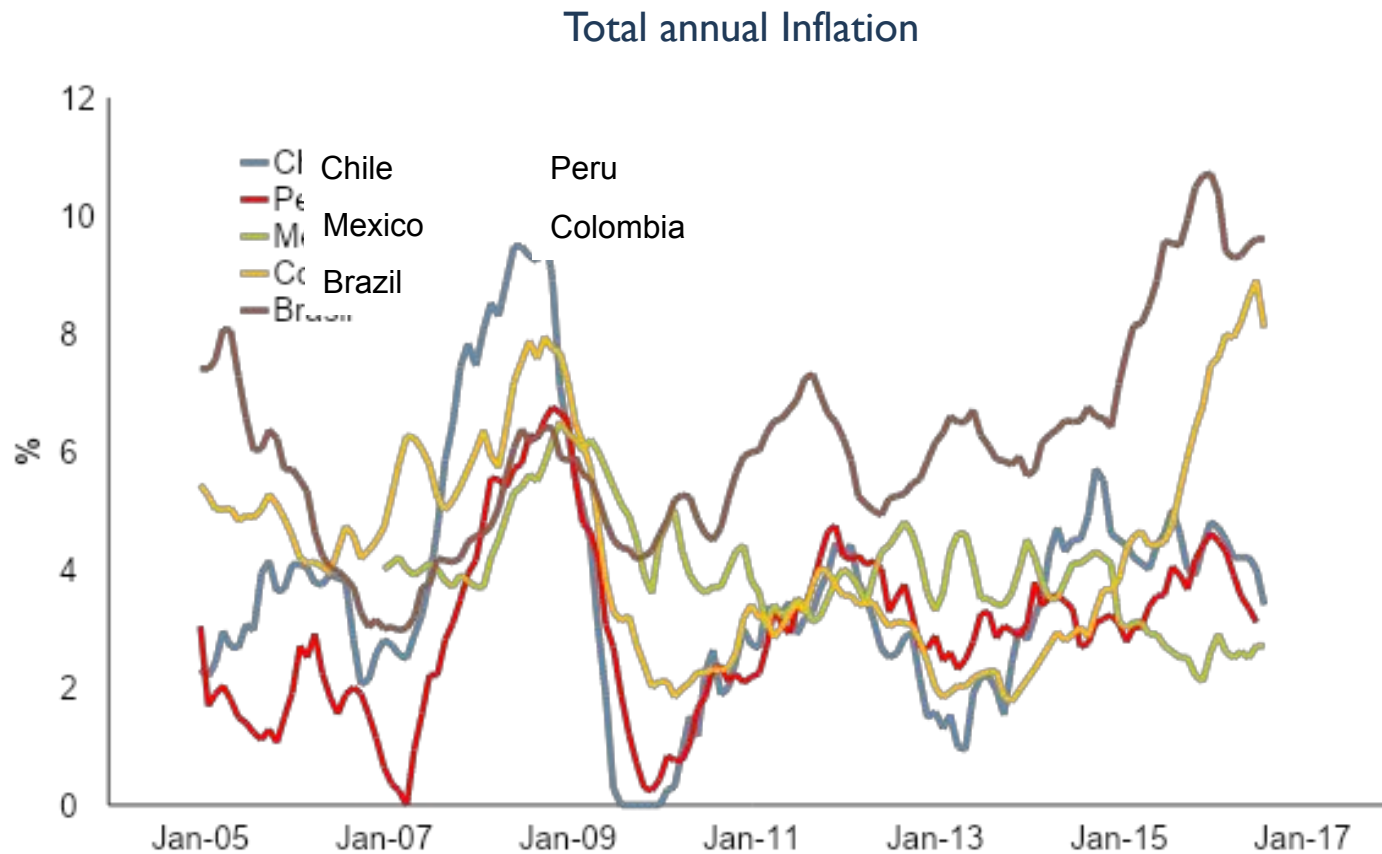
The Colombian peso is among the most depreciated currencies in the region alongside Mexico

Exchange Rate Index (Base 100 = June 2014)



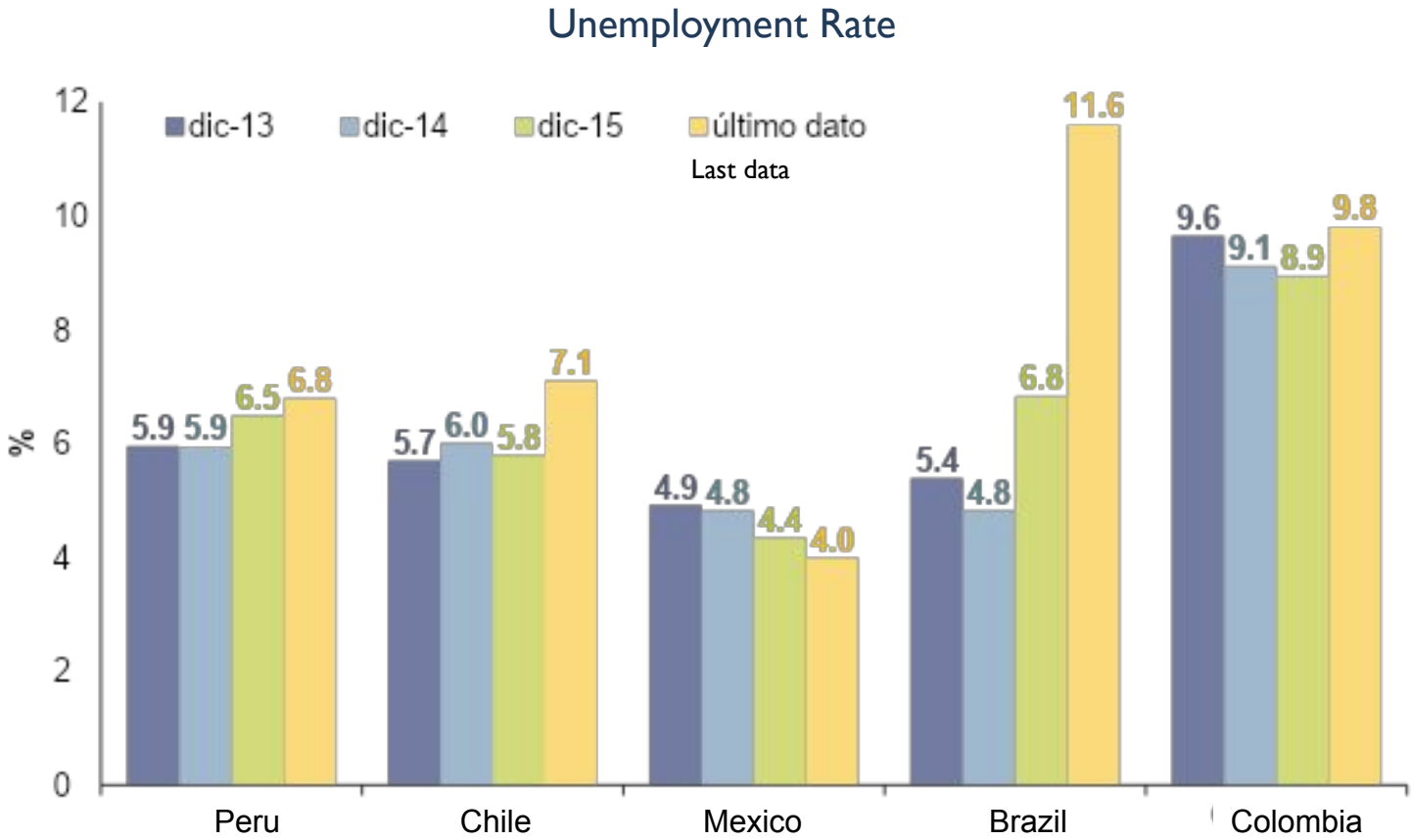
Source: Bloomberg.

While inflation has risen more than in other countries in the region except Brazil



Source: National Estadistic Institutes of each country

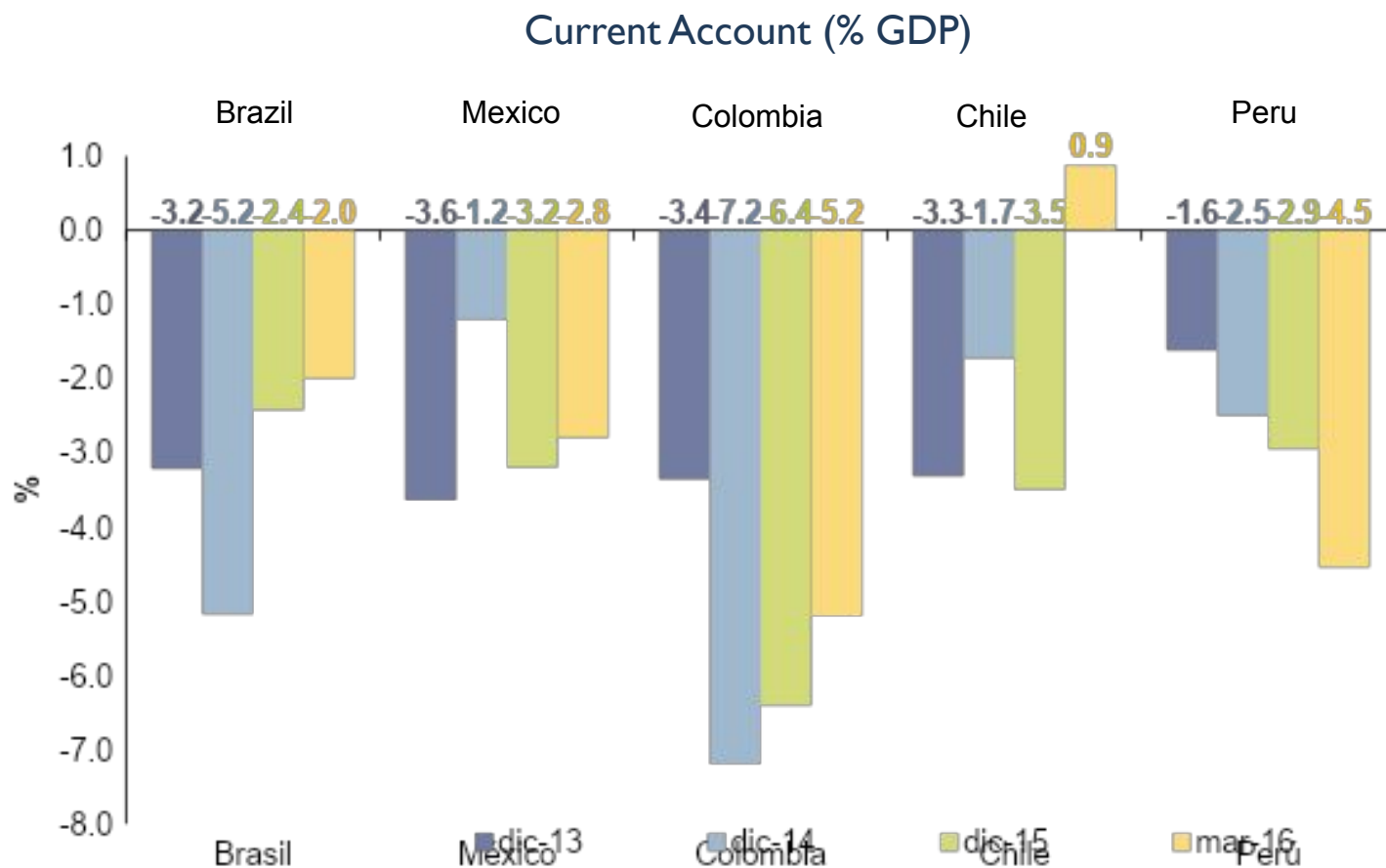
However, the unemployment rate has not changed significantly and remains in the single digits.



Source: National Estadistic Institutes of each country

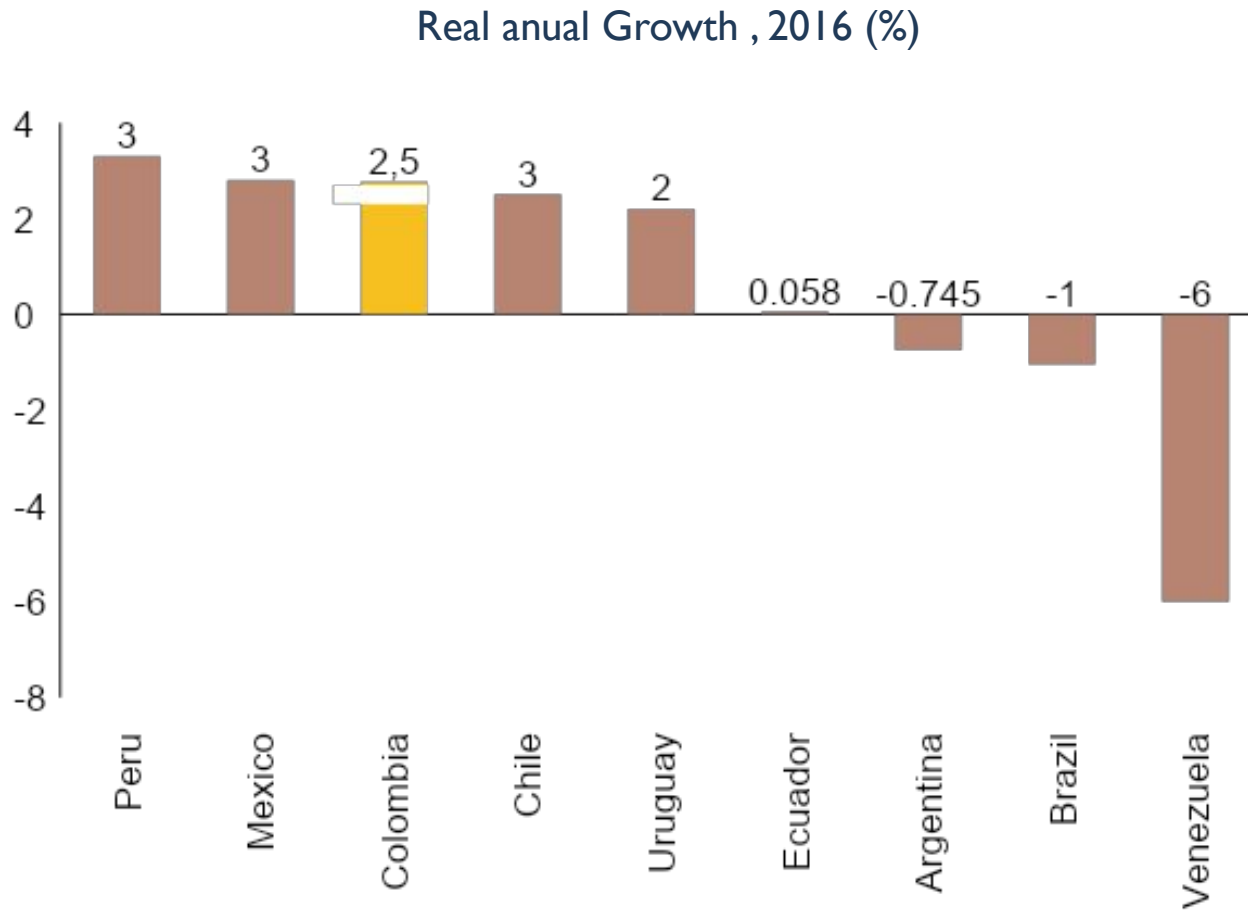


Regarding the external imbalance, the dynamic has been heterogeneous in the region, where Colombia suffered the strongest oil shock



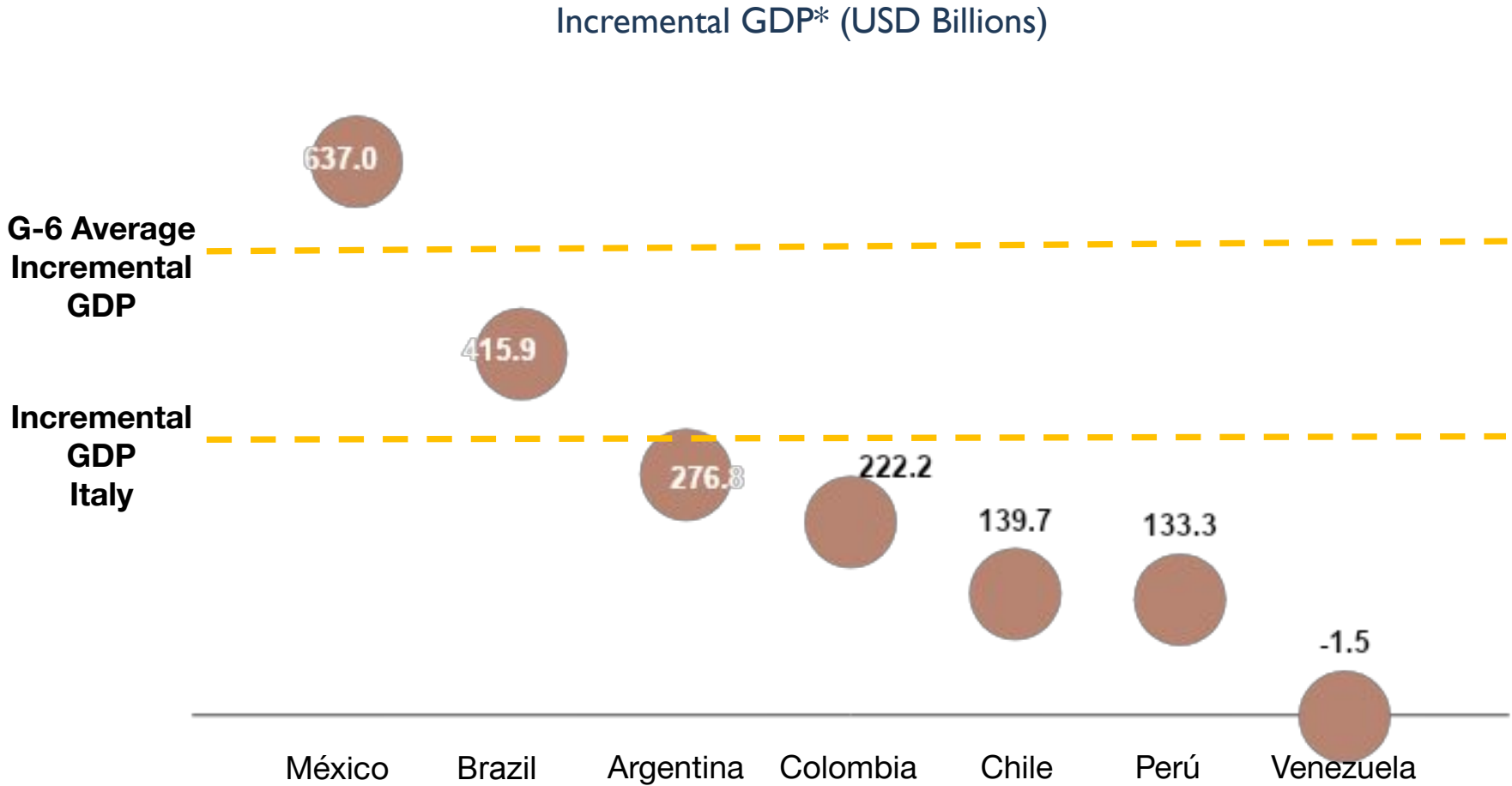
Source: Central Bank of each country.

It is expected that by 2016 the Colombian economy will continue to lead in terms of growth with Mexico and Peru, while Argentina, Brazil and Venezuela will remain in crisis



Source: IMF – WEO april 2016.

In the long term it is expected that Mexico will be the country with the largest contribution to growth in the region followed by Brazil despite its current crisis, while Colombia will be the fourth



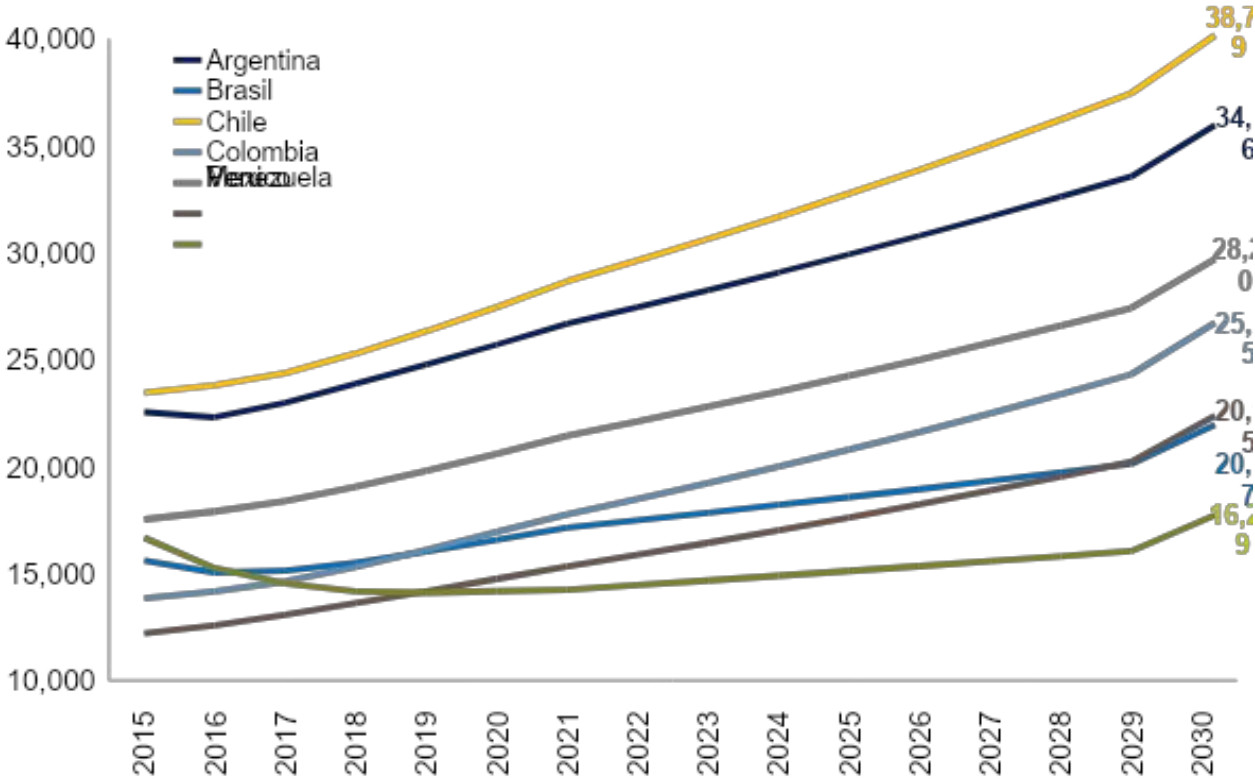
*Is the difference between the nominal GDP in 2030 and the nominal GDP in 2015 expressed in USD. The size of the circle represents the size of each economy.

Source: IMF.



In fact, Venezuela will be the only country that will not increase its per capita income while Brazil could stagnate. Chile and Colombia will continue to lead

GDP per capita PPP Projections. USD



Source: IMF

Conclusions

- In the present global economic environment Latin America growth was sharply reduced and its average rate of inflation increased.
- In the case of Colombia and the Pacific Alliance countries the impact has been less severe due to their flexible exchange rate regimes and responsible fiscal policies.
- Nevertheless, in the next few years the greatest challenge will be to find new sources of growth that will have to involve the diversification of their exports.
- In order to achieve this they need to attract high quality FDI and better competitiveness policies





THANK YOU

