BBVA | RESEARCH

Colombia Economic Outlook

Fourth quarter 2014
Colombia unit

- World growth continues to rise, although at a slow pace and amid financial tensions. Growth perspectives in the eurozone falter, but continue as anticipated in the US
- The economy will expand by 4.9% in 2014 and in 2015 will enjoy more balanced growth; the negative effects of the tax reform and the lower terms of trade will be partly offset by the recovery of industry and a more robust private consumption
- Inflation will close 2014 at 3.5% as we have been forecasting. A weaker Niño phenomenon, and a reduced likelihood of it happening, will bring inflation down to 3.3% by the end of 2015
- The government is debating a tax reform which solves its funding needs for the moment; however, in the medium term, the reform is likely to be insufficient to provide for future commitments
- Monetary policy normalisation: in the middle of financial tensions, without inflationary pressures and with GDP close to its potential, the central bank will leave the rate at 4.5% and keep it there until at least the second half of 2015

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Closing date: 14 November 2014

1 Summary

Global growth continues to strengthen, although slowly and amid financial tensions. The tension of recent months is a symptom of the fragility of world recovery and partly a result of the downward adjustments in growth for the eurozone. US growth continues as expected and the outlook for China is unchanged, although with a bias to the downside.

Global volatility has ushered in moderate depreciations in the local market. Capital flight to safer assets and the lower oil prices depreciated sovereign bonds and affected the Colombian stock exchange's performance.

The economy will grow by 4.9% in 2014. Lower residential investment and the negative balance of exports slowed economic growth in 2Q14. For the second half, we expect improved performance from non-residential investment, greater dynamism in exports thanks to industrial recovery, and continued execution of royalty resources.

In 2015 the economy will expand by 4.8%. Although the tax reform will affect the investment rate, growth will be sustained thanks to higher consumption, aided by lower growth in interest rates and improvement coming from the external sector thanks to increased industrial exports. **All in all, growth will be more balanced across all sectors in 2015. We have put a bias to the downside on growth in the light of the persistent fall in the economy's terms of trade, confidence deterioration, and a possible delay in the expected start of infrastructure works.**

We are increasing our estimate of the Colombian peso's (COP) depreciation in response to the falling oil price. A surprising increase in supply, plus lower demand, herald low prices in the short term; nevertheless, the cost structure of the oil industry will prevent additional falls in price and will support a return to levels around USD100/barrel in the medium term.

The current account deficit is expanding because of a bigger trade deficit. For 2014 we are expecting a current account deficit of 3.8% of GDP and a trade deficit of 0.5% of GDP. **Nevertheless, this deficit will be completely covered by FDI.** In the medium term, the current account will correct to around 3.0-3.5%.

The government is debating a tax reform in Congress which prolongs for another four years the 0.4% tariff on the financial transaction tax; the reform also modifies the wealth tax and increases corporate tax rates. **However, the reform appears insufficient to cover future requirements implicit in the peace process and other commitments that the government may take on.**

We are keeping to our inflation forecast of 3.5% by the end of 2014, and adjusting it slightly to the downside for 2015. In 2014 we have seen a slowdown in the growth of the foodstuffs component, which was offset by higher city transport costs decreed by the local government in Bogotá. On the other hand, a lower intensity Niño effect in 2015 has led us to correct our forecast for price rises in 2015 from 3.4% to 3.3%.

The central bank will not increase the monetary policy rate for the rest of 2014. Greater international uncertainty, low demand pressures as seen in the (core) inflation figures and in the economy's moderate growth in 2H14 are sustaining this pause. In 2015, the lower price of basic products and the impact which the tax reform will have on confidence and investment will extend the monetary pause until at least the second quarter of 2015.

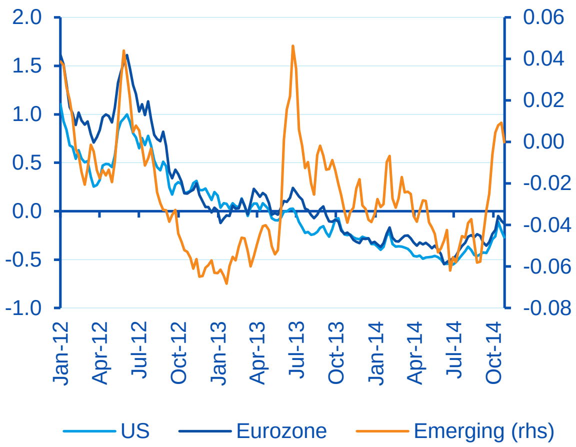
2 Slow global recovery with greater financial volatility

World growth is still rising, closing 2014 at 3.2% in 2014 and 2015 at 3.7%. But financial tensions and geopolitical risks are on the increase as well

Global economic growth continued in the third quarter. However, quarterly growth is very moderate in the more developed economies, and of these, more so in Japan and the eurozone than in the US.

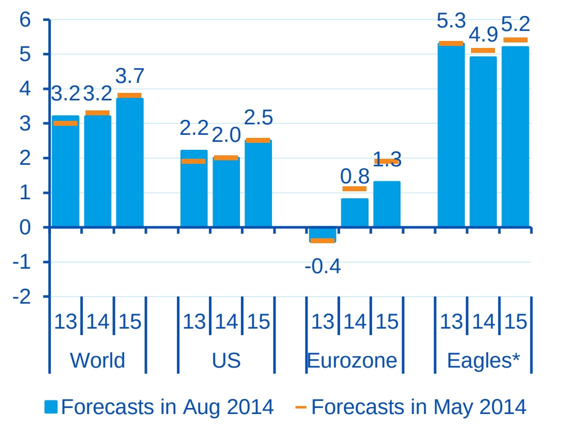
The confidence indicators for September remain consistent with the expansion of manufacturing activity, although it has been some months since they stopped improving in the key economic areas. An additional sign of the fragility of the present cyclical recovery is the uptick of the tension indicators in the financial markets since mid-September. In the case of the emerging economies (EMs), these have reached levels not seen since May 2013 (Figure 2.1). Then the market discounted a rapid withdrawal of Fed stimuli that actually never happened and is still pending. At the same time, geopolitical risks have been multiplying and negative surprises are building up on the consensus in the activity indicators, particularly in the eurozone and South America.

Figure 2.1
BBVA Research Financial Tensions Index



Source: BBVA Research

Figure 2.2
GDP growth forecasts (%)



* EAGLES is the group of emerging economies which will contribute most to world GDP in the next 10 years. The group is made up of China, India, Indonesia, Brazil, Russia, Turkey and Mexico.
Source: BBVA Research

Altogether, the most likely scenario is that global growth improved from the second to the third quarter, rising from 0.6% QoQ to an estimated 0.8%. However, there is downside risk to these figures given that the industrial activity indicators and world trade in September could still moderate, and the effects of the financial volatility on confidence could be more persistent than we expect. Also, there are the geopolitical risks associated with the situation in Syria and Iraq and the fragile agreement between Ukraine and Russia. It is worth noting that sanctions are already having an impact on activity in important sectors such as Russian energy.

In this context, monetary policy will remain focused on supporting activity, while fiscal policy will be less restrictive in tone in 2014-15 in both the US and the eurozone than in the recent past. Even in China, together with the budget consolidation at the local and regional government level it is felt that additional measures to support growth could be implemented.

Finally, we must point to the fall in oil prices as a favourable factor for global growth expectations – although not for exporter countries - to the extent that this is a result of a positive supply shock.

Growth in the US remains in line with expectations, and is likely to reach 2.5% in 2015

After the unexpected and transitory drop in activity in 1Q14, the activity, spending and employment indicators have recovered, implying that the pace of GDP growth could be around 2.5% in the second half of the year, and thus average 2% for 2014 as a whole (Figure 2.2). The role of the Fed, which emphasises caution and patience before acting on the signs of improvement in the economy, continues to support our scenario of a cyclical recovery in the US, underpinned by the solid creation of employment and the increase in household wealth.

Our outlook for China is unchanged, but with a downward bias due to the external environment and the supervision of shadow banking

In the third quarter, GDP growth continued to decelerate, to 7.3%, reflecting the moderation in domestic activity, particularly in the construction and real estate sectors, but partially offset by an unexpected and intense upturn in exports. We maintain our outlook for GDP growth at 7.2% in 2014. Altogether, the risks to growth in China continue to be to the downside from 2015 onwards (7.0%), precisely because of the brake on external demand that the situation in Europe might imply and the adjustment underway in the real estate sector in a context of high leverage and the introduction of measures to control its less regulated banking system.

China is facing the task of managing the present deceleration of economic growth while reducing its financial risks and rebalancing growth in favour of domestic demand. In this scenario, the authorities will intervene so that the deceleration does not intensify, and growth does not fall below the targets set. Thus we would not be surprised to see additional monetary policy easing (with cuts in the reserve ratio or liquidity injections), expansive central government fiscal policy (albeit with consolidation at the local government level) and on-going execution of structural reforms.

In the eurozone, the recovery will be even slower than we were expecting

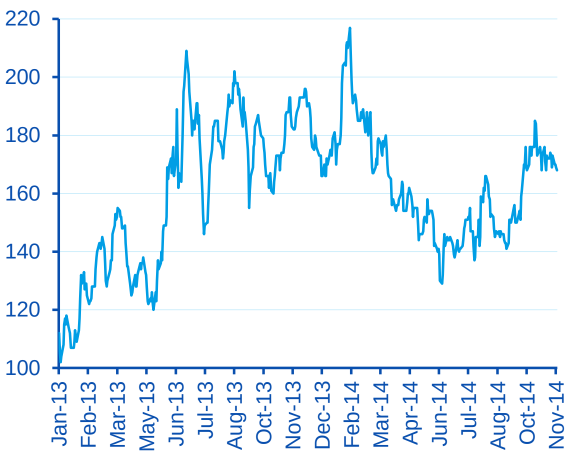
The stagnation of GDP growth in the second quarter, with weaker performances in general in the larger economies, has led us to revise our outlook for growth in the region downwards for 2014 and 2015 (Figure 2.2). The Ukraine/Russia crisis is having an impact on trade and the confidence indicators of the economies in the centre of Europe, including Germany. The ECB has continued to take action, with measures designed to bring inflation expectations more closely into line with the objective of price stability, which have been de-anchoring since 2012. In our most likely scenario, euro depreciation has to make a contribution, given the different expectations of Fed and ECB actions, with a withdrawal of stimuli by the former and balance-sheet expansion by the latter.

3 Local markets have reacted to global volatility with depreciations

Greater volatility in international markets since September has caused local ones to perform poorly, principally as regards the risk premium, the stock exchange and sovereign debt. Colombia's sovereign debt, measured on the EMBI, has fluctuated around 150 basis points (bp), with some exceptions during the days just after the monetary policy statements in Jackson Hole, when it was a little higher. However, since 19 September, as a result of the doubts about the economic recovery in Europe and China, risk has been increasing continually, until reaching values of 168bp as we closed this report (Figure 3.1).

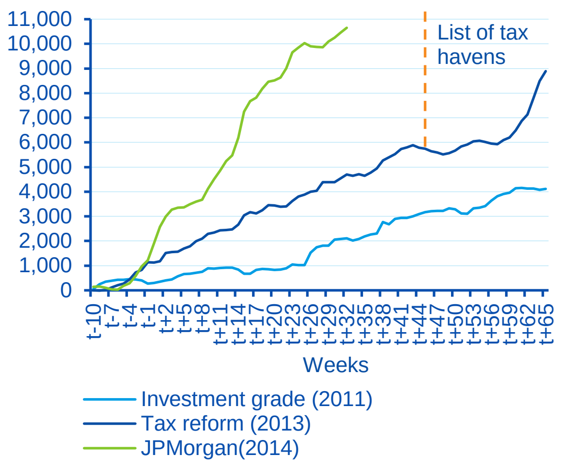
One factor which intensified this perception of risk was the pause, beginning in August, in the strong capital inflows the economy had been enjoying up to that point. Between February and August, the weekly capital inflows by non-residents in the country reached USD335million (mn). After that, it slowed to USD125mn, with the occasional uptick, up to the end of October. There were two causes for this slowdown. First, JP Morgan issued a mixed message about Colombia's weighting in its sovereign debt index of emerging countries, which appeared to reduce the country's importance. Second, investor rebalanced their portfolio towards less risky and more liquid securities (flight-to quality), driven by greater global risk aversion (Figure 3.2).

Figure 3.1
Risk aversion in Colombia (EMBI)



Source: BBVA Research and JP Morgan

Figure 3.2
Portfolio capital revenue (USD mn)

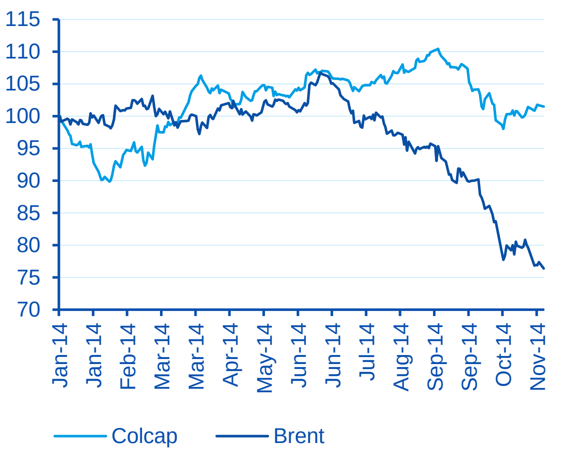


Source: BBVA Research and the central bank

The Colombia stock exchange has responded to this greater risk aversion with a 6.5% depreciation since 19 September of its Colcap index, although it has recently edged up timidly (Figure 3.3). Part of its fall was a result of the pressure which lower oil prices were putting on the stocks of listed oil firms. Meanwhile, long-term sovereign debt yields widened, at some moments by a great deal, and then partly reversed. For example, the yields on 10-year bonds widened from 6.42% at the beginning of September to 6.86% by the end of the same month and now, after correcting part of this increase, are quoting at 6.56% (Figure 3.4).

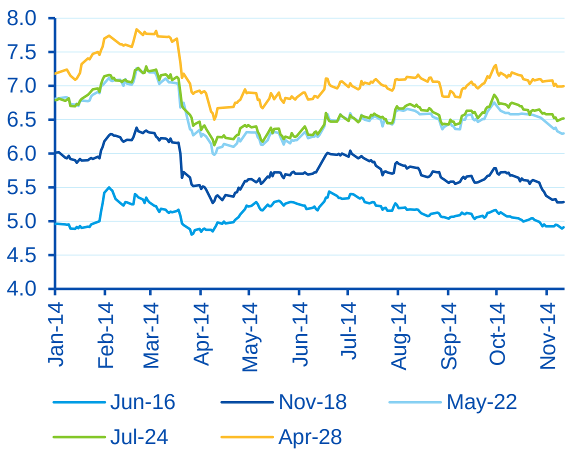
To conclude, local markets felt the impact of global aversion, but these reactions were contained. Furthermore, the capital inflows throughout the year proved to be not purely short-term by maintaining their positions in TES bonds. This will be an important strength in the Colombian economy vis-à-vis the lower global liquidity which the Fed's decisions will bring.

Figure 3.3
Colombian stock exchange (Colcap) and Brent oil price (USD/barrel) (2 Jan 2014=100)



Source: BBVA Research and Bloomberg

Figure 3.4
Domestic public debt yields at different maturities (%)



Source: BBVA Research and Bloomberg

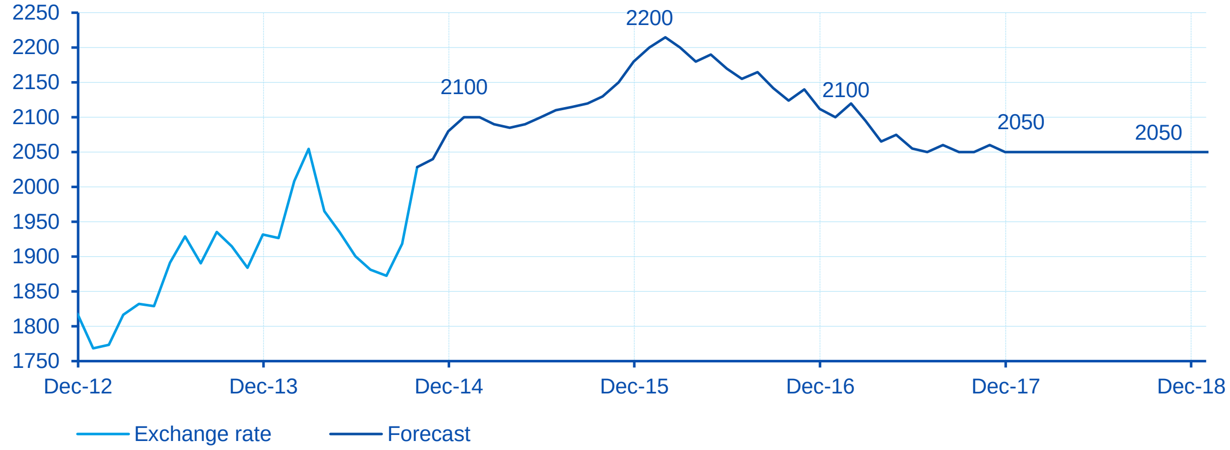
New path for the exchange rate

The exchange rate has depreciated by about 10% since the beginning of August (after Jackson Hole Symposium). Since then, the global risk aversion, the reduction in commodity prices and the greater certainty about the beginning of monetary normalisation in the United States in 2015 have reinforced the exchange rate depreciation.

Specifically, since oil is Colombia's key export product, a fall in its price has a significant impact on the availability of FX in the local market and, as such, on the depreciation in the exchange rate. In addition, the correlation between the exchange rates and the price of oil has increased a great deal, reaching levels of around -0.7% by the end of September, although it has moderated recently to levels of less than -0.5%. Even so, they had not been so highly correlated since July 2013 and October 2011. While this correlation remains high, the fall in prices will be largely absorbed by the depreciation in the exchange rate, improving the government budget balance.

BBVA Research has decided to change its estimated path for the exchange rate; we now forecast a steeper depreciation of the COP in 2014 and 2015. It is not a phenomenon peculiar to our currency, since practically all currencies in the world have been affected. On its new track, the average depreciation of the peso in 2014 will be 5.8% and in 2015 it will be 7.4%, higher rates than the depreciation we had previously been anticipating, of 3.9% and 2.1% respectively. Furthermore, we have increased the value for the end of 2014 to USDCOP2,100 and by the end of 2015 to USDCOP2,200.

Figure 3.5
Expected path for the USDCOP exchange rate



Source: BBVA Research and the central bank

4 Economic growth close to its potential

Decelerating growth in the second quarter of 2014 was healthy

In 2Q14 the Colombian economy grew by 4.3% YoY, showing a slowdown over its performance in the previous three quarters, as forecast. The main sources of this deceleration were residential investment and exports. Moderation in residential investment was anticipated and is good for the economy, insofar as it prevents the glut of housing that might result if its swift expansion cycle were to continue. The fall in exports was a consequence of the supply shocks on the mining sector and the low number of industrial shipments, as well as the exchange rate appreciation over the quarter.

By contrast, consumption performed outstandingly well, both public (although it slowed) and private; non-residential private investment and civil works had also a good performance (Figure 4.1). Household consumption is led by the cycle of expansion in durable goods which is looking solid, having started at the end of 2013. Nevertheless, this time the cycle will be less pronounced and more sustainable than in 2011, because of the contractive measures taken by the central bank (see our section on monetary policy). On that occasion, consumer credit grew nearly three times as fast as nominal GDP expansion and the consumption of durable goods increased at annual rates close to a real 30%. Now households will raise their financial leveraging more slowly.

Good performance in the labour market anticipates a positive outlook for household consumption. The urban unemployment rate is around 10%. After having fallen steadily in the last few months, unemployment has not generated inflationary pressures, which is a symptom that the NAIRU unemployment rate has fallen in recent years (See our Economic Watch, in Spanish only, or its summary in Box 1 of this report). More striking still is the fact that the new jobs are on the whole in the formal economy, and as such are more closely correlated with greater purchasing power and labour stability.

The momentum of non-residential private investment, for its part, is the result of the recovery expected in industry and mining. And the higher execution rate in civil projects closely tracks the greater withdrawal of funds for royalties held back in previous years and a certain boost in the political and economic cycle prior to the presidential election.

When it comes to royalties, of the COP17.6trn in the 2013-14 budget, projects to the tune of COP13.2trn have been approved. Of this sum, institutions report disbursements of COP6.6trn, thus leaving a balance in their accounts of COP6.5trn. In other words, there is still a lot of room for manoeuvre to ensure sustained growth in civil works for the rest of the year, as the institutions execute this balance.

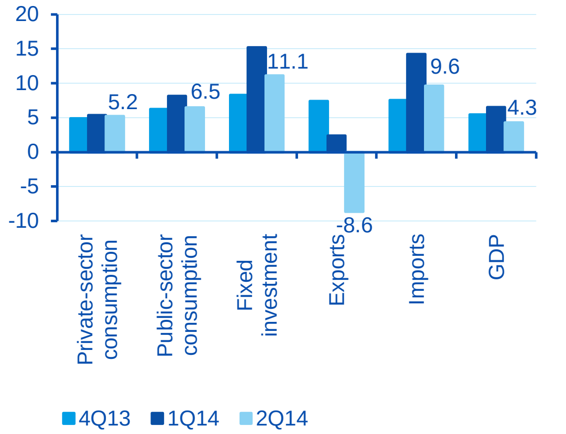
Industrial recovery in sight

In the first half of 2014, construction was the sector leading growth. Other good performers were the services sectors (transport, financial services and social and care activities) and, to a lesser extent, agriculture. However, the mining and industrial sectors presented lags compared to other areas of activity. Mining will depend on the solution to the supply shocks and remains sensitive to the changing oil price. Industry, meanwhile, is starting to show signs of recovery.

In fact, for the first time since 2010-11, all the leading indicators which help to forecast industrial activity have aligned on the side of optimism. Industrial exports are growing (by 10% on average in July and August), new industrial orders have increased, back up to their 2011 levels, industry confidence is positive and growing, the use of installed capacity is above the historical average, inventories are at rock bottom, and capital goods and commodities imports for industry are showing upside behaviour (Figure 4.2).

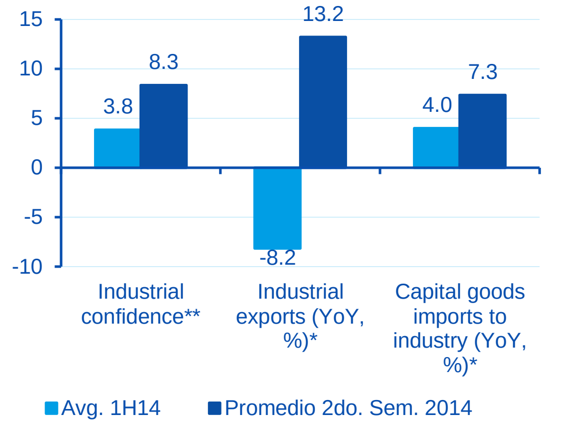
For the industrial recovery to continue, foreign sales need to increase. In the year to July, total industry sales grew by an annualised YoY 2.6%, but domestic sales, which make up 86% of the total market (data to 2012), grew 4.4% YoY, a sign of the poor momentum in shipments abroad. There are two necessary conditions for this performance to improve: a stronger external demand abroad and an exchange rate that is closer to its equilibrium. The recovery is already underway in the United States, the country's main trading partner (since it buys 22% of the aggregate of different fuel shipments), although it has been less buoyant in Europe and Latin America. The exchange rate with the dollar, meanwhile, is above COP2,000, reflecting values closer to the equilibrium we estimated, of between USDCOP1,953 and USDCOP2,068. This "new normal" exchange rate will support the recovery of tradable sectors other than mining, which have been performing least well since 2008 with average annual growth of only 0.7%, compared to a GDP expansion of 4.2%.

Figure 4.1
Recent behaviour of GDP and its components by demand (% var. YoY)



Source: BBVA Research and DANE

Figure 4.2
Leading indicators for industry (% var. YoY)



Source: BBVA Research and DANE
* Figure to August
** Figures to September

Growth in the second half will come in at an average of 4.5% YoY

In the second half the economy began a corrective phase in its public consumption and (to a lesser degree) in private consumption. Public spending tends to grow less in post-election periods, and household spending had less of a monetary stimulus than in the first half of the year. Similarly, because of lower oil prices, mining may continue to register low levels of growth in coming quarters.

This will be offset by sustained recovery in non-residential investment, continued good execution in the royalties earmarked for transport infrastructure and greater momentum in exports (industrial, on the whole). All these factors will lead the economy to grow at over 4% in the second half of 2014 and in the first quarter of 2015, although below 5%. In total, for 2014 as a whole, we hold to our growth forecast of 4.9%, but with certain changes within the forecast (Figure 4.3). We have cut the annual outlook for exports due to the lower real figures in the second quarter. By contrast, we have raised our outlook for investment, especially in the area of civil building and non-residential projects.

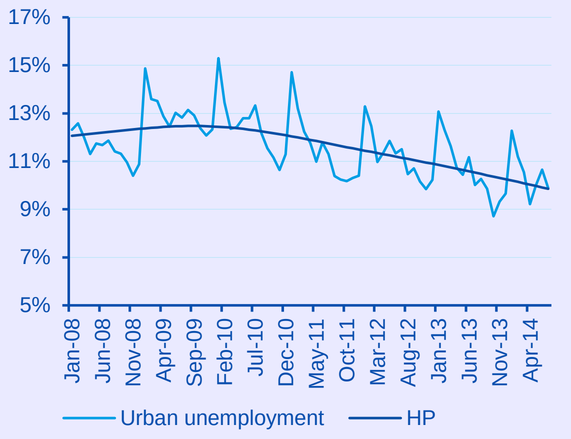
Box 1. The NAIRU falls in Colombia and edges towards single-digit rates

The fall in the rate of unemployment and the low inflationary pressure in the last few years in Colombia have led us to reconsider whether the existing NAIRU estimates ("non-accelerating inflation rate of unemployment", a neutral unemployment rate which causes inflation neither to decelerate, nor to accelerate) to date may be too high for the current moment. Following on from this, it seemed a good idea to estimate the NAIRU for the 2008-14 period.

For this reason, the model developed by Mankiw and Ball in 2002 was used, with which an average NAIRU was estimated for the period and a dynamic NAIRU to see how this rate has changed over time. Using this estimate, the average NAIRU rate was 12.2% between 2008 and 2014; furthermore, evidence was found that this rate has fallen in recent years to its current level of 10%. These estimates contrasted with another method used, whereby the trend in long-term unemployment was established by using the unemployment rate directly; with this methodology the long-term rate came in at around 10.2% in the last 12 months (Figure B.1.1). By comparing two time periods during which inflation was stable, one between January and September 2008 and the other between October 2013 and March 2014, the natural and NAIRU rates were found to be 12.2% and 10.2% respectively.

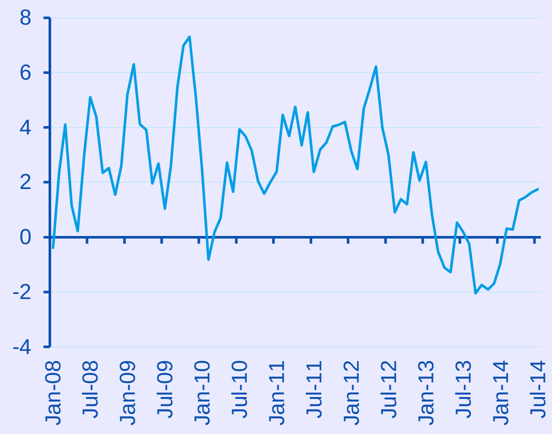
These results show that the NAIRU has indeed decreased and that this is to a large extent due to the moderation in the growth of labour supply, and principally in the labour supply of young people (Figure B.1.2). This may be related to a change in young people's reservation wage because of the increase of jobs in the formal economy and the social programmes which have raised household incomes, among other factors. By reducing non-wage costs, the tax law may have had an impact here, inasmuch as it has strengthened waged employment against unwaged employment and, with it, productivity and income. (Click here to download our Economic Watch, in Spanish only, about the NAIRU).

Figure B.1.1
Monthly urban unemployment rate and long-term trend (%)



Source: BBVA Research and DANE

Figure B.1.2
Economically active population from 14 to 28 years old (% growth, YoY)



Source: BBVA Research and DANE

Growth will be more balanced in 2015

In our forecast for 2015, we are pricing in a reduction in expected prices for oil and the effects of the tax reform currently going through Congress (see Box 2). In the case of the first, there will be effects on exports and investment in the mining sector (or in that part of it which is funded by energy resources). In the case of the second, a preliminary analysis – on closing this edition the details of the version passed by Congress were not known – enables us to state that the reform will have negative effects on private investment because of the higher tax rates for the country's biggest firms, and that these also imply restrictions on the monthly cash flow of these corporates.

Nevertheless, better performance in private consumption and non-mining exports, and the expected adjustment in imports, allow us to hold to our forecast for 4.8% growth for the year as a whole, as we estimated in our previous edition of this report, but with a bias to the downside if a permanent reduction in oil prices materialises. Private consumption will behave better than anticipated in months past because of the lower increase in the central bank's interest rate in 2015, compared to our previous expectations (see the section on monetary policy).

The sustained recovery of non-mining exports will be vital, and will certainly be boosted by the depreciation in the exchange rate. Furthermore, and even more importantly, they will be underpinned by greater demand from the US. This will help to offset the price effect on mining goods and will have positive effects on industry and agriculture. Thus, the Colombian economy will grow in a more balanced way between tradable and non-tradable sectors, thanks to the greater momentum on the part of the first and the likely deceleration in residential building.

We believe that there are three factors which will help imports to adjust in 2015. First, the paralysis in oil refining has driven an unprecedented volume of fuel purchases abroad: they rose from making up 10.4% of total imports between January and August 2013 to 12.3% during the same period this year; in addition they have grown by 26% YoY in the year to date, compared to 6.8% in total imports. As such, the opening up of domestic refining will limit the negative contribution of net external demand. Second, lower growth in investment, between 65% and 85% of which tends to be imported, will also limit its expansion. And finally, the higher exchange rate, through the price effect, will cause national products to substitute imports.

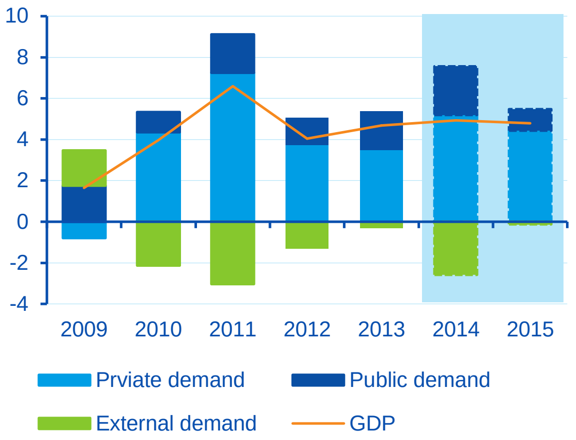
Lastly, momentum in the second half of 2015 will depend to a large degree on the outcomes in the area of infrastructure investment, the result of the road contracts tendered in the first round of the Fourth Generation projects which have already been awarded by the government, some of them at the beginning of this year. Similarly, starting in 2015, exports will grow again at a higher rate than total GDP, reflecting the gains in competitiveness due to the balanced exchange rate and greater external demand, particularly from the United States.

Medium-term growth will be around 5%

The economy will grow at an average rate of 5% from 2016. This means growth will be very close to the economy's potential, which we estimate will be a figure of just over 5% by then. As such, GDP expansion at those levels will not widen the positive output gap in the medium term, while creating few inflationary pressures and closing the current account deficit (Figure 4.4).

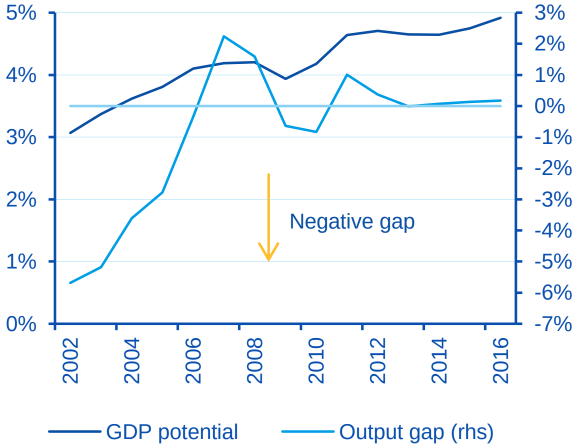
The challenge for the economy in the medium term will be to replace mining as one of its growth sources, since this sector is now very close to its maximum production levels. The candidates for the position of leading sector, in order of importance, are infrastructure, industry, agriculture and trade. The first of these is essential for the development of the following two, since it will serve to stimulate the competitiveness that these activities could gain in the years after the new trunk roads start operating. The final sector will owe its momentum to the improved incomes of the Colombian population.

Figure 4.3
GDP forecasts and contributions by demand type (% var., YoY)



Source: BBVA Research and DANE

Figure 4.4
Potential GDP and output gap (%)



Source: BBVA Research

Box 2. Analysis of the Tax Reform

In the middle of September, Congress passed the 2015 National General Budget — the PGN — worth COP216trn. This was an unbalanced budget, with spending exceeding revenue by COP12.5trn. Under the terms of the constitution, an unbalanced budget must be followed by a bill which specifies the resources necessary to cover the budget that has been approved. So it was that on 3 October the government passed the financing law through Congress, with the aim of finding revenue streams to replace the lower revenues from the wealth tax and from the "4x1000" tax on financial movements, offset lower oil revenues and obtain additional income to cover its higher spending. Table B.2.1 lists the key measures in the reform, showing their likely effects in terms of efficiency, fairness and simplicity, and their impact on certain macro variables such as saving, investment, consumption and economic growth. The table also contains the Government's estimates of the additional revenue that will be obtained from each measure.

Some of the reform's main points are: the extension for another four years of the 0.4% tariff on financial transactions, the GMF, and the complete abolition of the tax in 2022; a reformulated tax on wealth, and a 1pp increase in the corporate tax rate, in the form of the Fairness tax – CREE - permanently from 2016 onwards, coupled with a three-point surcharge for four years for companies posting profits of over COP1bn.

In order to evaluate the reform properly, we should do so in terms of its fairness, efficiency and simplicity. Under these terms of reference, it can be said that an indirect consumption tax tends to be regressive, as the flip side of its neutrality and ease of implementation (Steiner & Soto, 1999, Steiner & Cañas, 2013). In general terms, taxes on spending distort less than taxes on income but are more regressive than the latter (Steiner & Cañas, 2013). Taxes on assets and income, such as those proposed in this reform, ought to sway long-term decisions more than taxes on spending. Taxes on spending, such as VAT or the 4x1000, are less progressive if one bears in mind that people with lower incomes pay proportionately more than people with higher incomes.

The key points of the reform are these:

1. *Extension of the financial transaction (GMF) tax for another four years with a 4x1000 rate. The phase-out of this tax will begin in 2019, dropping to 3x1000; to 2x1000 in 2020 and finally to 1x1000 in 2021.*

This measure postpones the elimination of the GMF until 2022, contrasting with the scenario up to now under which the duty would have been completely phased out by 2018. In other words, not only is the tax renewed for an additional four years longer than the current scenario (its disappearance being postponed from 2018 to 2022) but its gradual phase-out will not even start until 2019. Retaining the GMF at its current level (4x1000) in 2015 had been ruled out by most analysts, so the proposal to keep it there until 2018, thus making it virtually "permanent", surprised almost everyone.

The GMF is a tax on transactions; as such it is an indirect tax which does not vary according to a person's income; in this regard it imposes unfairness on the tax system. The 4x1000 tax has had distorting effects in fomenting the use of cash. According to Clavijo (2005), "between 1993 and 1998, the cash/payment systems ratio was 34% on average, whereas since the transaction tax has been in force (1999-2004), this ratio has gone up to an average of 46% (in 2014, with a GMF tax on the 4x1000, this ratio stood at 46%).

Table B.2.1
Key points of the Tax Reform

Measure	Assessment	Macro effects	Revenue in 2015 (COP)
1. GMF tax to remain at 4x1000 rate for four years (2015-18) and phase-out complete by 2022.	**Efficiency**: distorts decisions, encouraging the use of cash. **Fairness**: reduces fairness, since it is levied whatever the person's income **Roll-out**: simple, and already in existence	Affects consumption, rewards informality and punishes the banked	3.4trn
2. Wealth tax for four year with bands by taxable income (taxable income = liquid assets, less deductions)	**Efficiency**: - Taxes capital that has already been taxed in its accumulation. - Alters saving and investment decisions. Affects the assignation of resources by encouraging investment in assets that can be excluded from the calculation of taxable income, such as shares. **Fairness**: - Inequitable because of the deductibles (horizontal equity). This lack of fairness increases as the tax rises because now not only is it paid based on the taxable income but the rate is also set based on the taxable income. - It falls above all on companies and penalises those with greater operating capital requirements such as the energy and mining sectors, among others (given that it taxes wealth and not income). - By taxing wealth and not income, the companies most penalised are those with the lowest RoEs (return on equity). - Imposes the same tax on retail and wholesale shareholders. **Roll-out**: easy, given that the asset tax already existed.	Increases the cost of saving and punishes investment (not only inciting non-investment but even divestment). Penalises growth.	6.2trn
3. Increase in the CREE (1 point from 2016 onwards) and three-point surcharge on those with profits of over COP1bn and upfront payment of 100% of the surcharge in two instalments.	**Efficiency:** Raising the tax penalises growth. The CREE is a tax on legal persons and, as such, raising it increases the existing tax imbalance in Colombia between companies and individuals. Furthermore, the upfront payment of the surcharge affects companies' cash flows and generates restrictions on the use of capital and, therefore, on investment. **Fairness:** - Income taxes are more equitable than taxes on spending. However, existing income tax in Colombia is inequitable because of the large amount of tax breaks that exist. Income tax via the CREE is less inequitable and as such, an increase does not have so much impact on fairness. **Simplicity:** easy: it already existed	Affects growth.	2.5trn
4. Suppressing the return of two IVA percentage points for payments by credit card and mobile banking	By eliminating an IVA payment exemption the measure promotes the fairness, simplicity and efficiency of the tax. In terms of tax collection, the net effect is not known: on the one hand revenues rise because the exemption has been suppressed, but on the other, it makes it more difficult to get people into the banking system.		0.4trn
5. Measures against tax evasion	Likely to encourage greater fiscal efficiency, greater fairness and increase the tax base and amount collected.		
Total	- The reform increases the existing tax imbalances for companies and penalises investment. - The current tax structure has many exemptions, deductions and tax breaks which generate inequity, hollow out the tax base and result in a complicated system which collects less revenue. The question of which tax breaks should be eliminated needs to be analysed using technical criteria (in principle all incomes should be taxed using the same tax bracket tables).		12.5trn

Source: Ministry of Finance and BBVA Research

Despite its faults, the 4x1000 is very appealing because it is easy to collect and administer, while attracting little political opposition, judging by the speed with which its phase-out was postponed in 2014.

At the moment, 0.8% of GDP is collected through the 4x1000 tax, equivalent to 4.2% of all tax revenues. A very rough calculation of the revenues collected by the GMF would be that every 1x1000 of the 4x1000 generates annual income equivalent to 0.2% of GDP. Given the current phase-out calendar, the measure will generate additional resources for the Treasury of around 0.4% of GDP in 2015 (COP3.4trn), of 0.6% of GDP in 2016 and 2017 (revenues from the 3x1000 stage of the tax) and of 0.8% of GDP in 2018 (COP8.8trn). After 2018 and until 2021, the measure will continue to generate additional resources; under the scenario existing until how, the tax would no longer exist.

2. *Reformulation of the wealth tax, with rates very similar to the existing ones in terms of the breadth of their respective tax bases, but charged as marginal rates, and on different bases.*

The tax on wealth, as its name implies, taxes wealth, which has already been taxed as it was being accrued and falls in the main on companies, taxing investment and capital accumulation (Salazar, 2013). This has the effects one would expect on productivity and economic growth. According to the Competitiveness Council (2012), taxing assets rewards a stunted economy, with companies deciding to grow only up to a certain point, in order not to cross the threshold above which they have to pay the tax.

On the other hand, ***the wealth tax, as it is proposed, may be more regressive than the former tax on assets in the item of asset exclusions***, since not only the payment of the tax but also setting the rate are affected by these exclusions. Given this, two people with the same liquid assets may be subject to different rates of taxation.

Table B.3.2 shows the bands for the tax on assets and the tax on wealth. We can see that the rates are very similar in terms of their respective tax base bands. However, the tax bases are different: the base for setting the reformulated wealth tax rate is the liquid assets, whereas the base for the wealth tax is the taxable income (liquid assets, minus asset exclusions). Thus, someone with liquid assets of COP2.1bn and who can deduct COP20mn will pay a rate of 0.35% on the taxable base with the asset tax and 0.2% on the taxable base with the reformulated wealth tax.

Table B.3.2.
Wealth tax and reformulated wealth tax, rates

Wealth tax rates

Liquid assets (COP bn)	Asset rate, % (includes surcharge)
>=1 and <=2	0.25
>2 and <3	0.35
>= 3 and <=5	0.75
>5	1,5

Reformulated wealth tax rate[1]

Tax base (COP bn)	Rate after reform, % (applied in bands)	Effective rate[2] %
>0 and <2	0.20	0.20
>=2 and <3	0.35	0.25
>=3 and <5	0.75	0.45
>=5	1,5	

1. Applied by tax base bands. The first COP2bn are taxed at 0.2%, the next COP1bn at 0.35%, and so on.
2. % of the upper limit of the tax base band.
Source: BBVA Research.

Among the line items excluded, we find the asset value of the residence, the net asset value of stocks, shares or participations in domestic companies, whether owned directly or through trusts or collective investment funds. Although the asset tax also encouraged the ownership of this type of assets by allowing them as deductibles when calculating the taxable base, the current tax extends this tax advantage, by also allowing this as a deductible when determining the rate (the rate of wealth tax is set according to the tax base, and not according to the liquid assets, as in the case of the asset tax).

By taxing wealth, as opposed to income, ***the tax penalises those activities which require the largest asset bases*** (more capital) to operate, and not necessarily those which generate the highest revenues. Thus, the firms most affected by the wealth tax are those whose ROEs are relatively low and whose assets are high (and which do not have assets which can be excluded for the purposes of calculating the taxable base). Another source of inequity in the tax is that ***by taxing companies, all the shareholders in the firm are being taxed at the same rate*** (the band in which the company falls, depending on its assets), whatever the size of their shareholding stake (Fedesarrollo, 2014).

When the reformulated wealth tax is compared with the former tax in terms of the burden on taxpayers, the former looks less of a burden than the latter, for two reasons. First, with the wealth tax, the rate may be lower if one has asset values which can be used to reduce the amount of the taxable base. Second, since the rates on the wealth tax are applied by tax base bands, the first bands have lower rates than the final band. The effective rate for the same amount of taxable base is less than it is in the case of the former tax (see table B.3.2.). But this reduction disappears in the case of companies with very substantial assets, which end up paying an effective rate very close to 1.5%.

The estimated takings, if the asset tax existing between 2011 and 2014 were to be kept, with a wider tax base (using the assets existing as of January 2015 instead of in January 2011) would be of the order of magnitude of COP6trn for 2015. However, in the case of the wealth tax it could be lower as a result of the lower rates. According to the government's estimates, this measure will bring in additional revenues of COP6.2trn in 2015.

3. *Three-point increase in income tax on companies by means of a surcharge on the Fairness tax (CREE) for companies with profits of over COP1bn, and a permanent 1pp increase in the CREE starting in 2016.*

We should remember that the income tax for fairness, known as the CREE, came into being with the 2012 taxation reform, when it split income tax into two: traditional income tax at 25% (formerly it had been 33%) and the income tax for fairness, the CREE, at a rate of 8%. A provisional (2013-15) 1% surcharge was also added to the CREE.

Note that the CREE has a wider tax base than income tax because it has fewer tax breaks than the other. Thus, when evaluating the effect of the 2012 reform in terms of rates paid, Ayala (2014) claims that: "in the case of companies which do not have special tax breaks on their income – whether directly or through legal stability contracts – the sum of income tax and the CREE together should be increased by 1pp, at least until 2015, over the rate in force until 2012. Companies enjoying special tax breaks, such as the exemptions for publishers, hoteliers, farming or deductibles for the purchase of fixed assets, retain these privileges when determining income tax, but not for the CREE". Subsequently, for firms in this category, the effective rate as a whole of the CREE and of the income tax had to increase by more than 1pp with the 2012 reform. Likewise, the view of Steiner & Medellín (2014) on this income tax is that "the high volume of tax breaks permitted, among them exempted incomes, tax deductions and discounts, not only perforate the tax base, but may cause distortions in the allocations of resources and horizontal inequities, where companies in different sectors end up facing different effective rates of taxation." Furthermore, according to the National Council for Competitiveness (2012), the technical bases for establishing some of these exemptions are unclear, bearing in mind that they frequently target the more buoyant sectors and, as such, are not focused on correcting distortions.

An income tax reform should be designed to reduce the tax breaks in this very tax, tending towards greater fairness and a higher tax take, the latter via a wider tax base. The creation of the CREE in the 2012 reform was a way of achieving this in part since, as we mentioned above, this tax admits fewer tax breaks than income tax. The current proposal, while not eliminating the income tax breaks, at least increases a tax which is more equitable and has a larger tax base than the income tax base.

Nevertheless, increasing the CREE, which is designed for legal persons, accentuates even further the imbalance in terms of the tax burden between companies and individuals. According to the National Council for Competitiveness (2012) “whereas in the United States 80% of income tax is paid by individuals, and 20% by companies, in Colombia it is exactly the opposite”. In addition, given that the CREE surcharge is concentrated on companies with profits of COP1bn or more, it falls on just a few firms (around 6,025, according to the Ministry of Finance).

Another important aspect of the measure is the upfront payment of 100% of the CREE surcharge, in two instalments, which affects companies’ cash flow and causes restrictions in the use of capital and therefore in investment.

In terms of tax collection, given that the CREE has a wider tax base than income tax, the measure has more effect than if a surcharge had been introduced on traditional income tax. According to government estimates, this measure will bring in additional resources worth COP2.5trn in 2015. Note that the CREE surcharge is an improvement over the CREE inasmuch as it has no specific designation and therefore introduces no further inflexibility into the taxation system.

4. *Suppressing the rebate of two IVA percentage points for payments made by credit card and mobile banking*

The rebates this measure eliminates were designed to encourage people into the banking system. According to the government, the measure has already achieved its goal, and suppressing it will free up additional resources for the Treasury. In addition, suppressing it puts an end to the operating cost involved in returning the VAT for the DIAN and the institutions which administer credit cards. According to Steiner & Medellín (2014), the “C” rating efficiency of VAT gives Colombia a score of 0.53. An entirely efficient tax collection would be represented on the index by 1. The difference is accounted for by exemptions (11pp) and by evasion (36pp). Thus, it would appear that VAT evasion ought to be pursued more vigorously. Banking penetration may be a good way of reducing evasion. The new measure reduces direct exemptions, but is effects on banking penetration are not clear. In terms of collection, the measure will bring in COP$400bn.

Conclusions

Although the prolongation of the 4x1000 and of the wealth tax into 2015 were anticipated, it was not so easy to predict that these same revenue flows would extend as far as 2018, in the case of the wealth tax, and to 2021 in the case of the 4x1000. Indeed, while BBVA’s fiscal projections implicitly contained non-oil tax revenue that are stable in GDP terms, in line with the fiscal rule, from 2015 onwards, the revenue sources from 2016 were not so clear. A reform of a more structural nature was expected for the medium term, one which would partly correct the issues in the current tax system, i.e. the plethora of exemptions and deductions which make income tax as it stands unfair, with a narrow base and complex. Among the sources of unfairness are: not taxing certain high incomes, including pensions and dividends; and excluding shares from the taxable asset base. In the case of pensions, these are not taxed when they are set up, since social security payments are tax-exempt, nor are they when they are already running. So, they ought to start being taxed using the income tax table.

The proposed reform accentuates the imbalance of the tax burden on companies, as compared to individuals, while the wealth tax penalises investment. The wealth tax is an important source of revenue for the Treasury. This revenue could be achieved by reducing the exemptions and deductibles from income tax, by increasing VAT, a less distorting tax, the negative effects of which - in terms of fairness - could be corrected by means of progressive public spending.

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5 The negative balance of trade is the determining factor in the expansion of the current account deficit

Supply shocks in mining create a trade deficit

Since 2008 the Colombian economy has been enjoying significant surpluses in its balance of trade, which reached their peak in 2011 at USD6.148bn (1.8% of GDP). This offset to a large degree the characteristic deficit in the balance of services and, particularly, of the factored income. However, since mid-2012, the balance of trade has begun to reverse, as a result of increased imports and especially due to the lower terms of trade, which have fallen by 20.8% since then.

The process was accentuated in the first half of 2014, when as well as low international prices for commodities, some significant supply shocks appeared in oil and coal production, with a major increase in fuel imports because of the closure of the country's most important domestic refinery. Thus, for the first time since 2007, there was a negative balance of trade in the first six months of the year, accumulating a current account deficit of 4.4% of GDP, the highest since the first half of 1998. But this time, unlike the crisis at the end of the nineties, the deficit was completely covered by foreign direct investment.

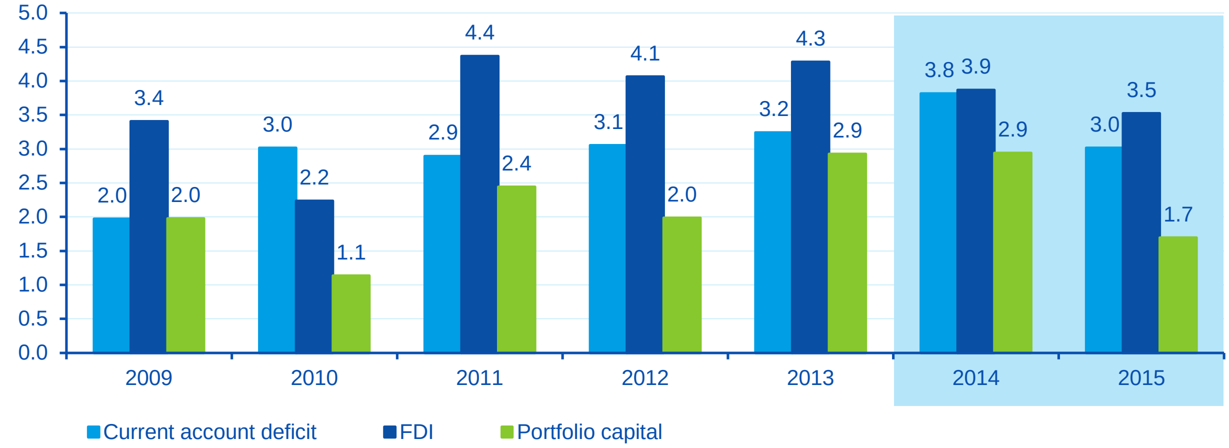
For 2014 as a whole, we expect a current account deficit of 3.8% of GDP and a trade deficit of 0.5% of GDP. As with the first half, we believe that the deficit will be completely covered by foreign direct investment, which will come in at 3.9% of GDP (Figure 5.1). In addition, the economy will succeed in adding USD3.7bn to its international reserves throughout the year, bringing their total balance up to 12.2% of GDP. Part of this increase in reserves is due to the central bank's response to the larger portfolio capital inflows. Portfolio flows in fact reached USD10bn in the first nine months of the year, because of the impact which the rebalancing of the JP Morgan emerging public debt markets index had on international investors.

We anticipate a correction in the current account deficit in the medium term

In the medium term, the current account will correct to levels around 3.0-3.5%. A greater reduction in the deficit is not possible, because Colombia is going to raise its investment in infrastructure and requires foreign financing for this purpose. Nevertheless, the deficit will be completely financed by FDI every year.

This is consistent with our forecasts for the structural current account deficit, which will remain above 3% until 2020. From that moment onwards, it will start to correct faster because of the increased productivity as a result of the improvement in infrastructure. If we break down the structural current account deficit into its component parts, we see that the increased investment and demographic growth are the items driving it up (towards a greater deficit), whereas the public sector will contribute to its decrease (towards a lower deficit), thanks to the adjustments of the fiscal rule. Therefore, in the short term, the current account deficit of around 4% (for 2014) will reflect the non-permanent impact of the supply shocks, coming in conjunction with the still on-going recovery of exports.

Figure 5.1
Current account deficit and funding (% of GDP)



Source: BBVA Research and central bank

6 Inflation will close 2014 at 3.5% and a weak Niño effect will leave it at 3.3% by the end of 2015

In the absence of major changes, we are holding steady to our inflation forecast of 3.5% by the end of 2014

Food inflation and the cost of energy and gas are the categories which have driven inflation the most in 2014. In the food group, perishable food has an accumulated variation of 14.2% in the year to date; although growing at rates of around 6.4% and 5.1% in the first and second quarters of 2014, it has moderated in recent months. On the other hand, utilities grew on aggregate by 6.4% to October as a result of the increases in electricity and gas tariffs, which were posting inflation rates of 8.7% and 6.7% respectively in the year to October. Altogether, the perishable food and utilities group account for a third (114bp) of the 3.29% accumulation in inflation this year to October. With the change caused by prices, inflation expectations for the end of 2014 have increased, and the market, according to the latest expectations survey, anticipates that inflation will stand at 3.4% by the end of 2014, a slightly lower figure than the BBVA forecast of 3.5%.

Core inflation in the last few months has been fairly stable, after its growth spurt in the first part of the year. The average for these indicators moved from annual variations of 2.43% at the end of 2013 to variations of 2.78% in mid-2014. In the last few months, growth has eased, down to an average variation of 2.67% in October. This indicator’s lower growth is consistent with the more sluggish economic growth rate that we anticipate for 2H14 and is also a factor which calms the monetary board, backing up their decision to start a pause in the increases which it initiated back in April.

Tradable inflation decelerated in 3Q14 (average variation of 1.56%) compared to the 1.76% growth rate it posted in 1H14. An appreciated rate of exchange of USDCOP1,909 in 3Q14 as against the USDCOP1,961 average in the first half, accounts for the moderation in growth in tradables. However, the rebound in the exchange rate in the last few months as a result of the lower capital inflows suggests that tradables inflation will accelerate in 4Q14; nevertheless, their growth does not represent a higher risk to inflation, given that their current rate of increase is low (1.66% YoY in September) and part of their effect will be moderated with the lower oil prices we are highly likely to see for the rest of the year.

We have adjusted downwards the behaviour of perishable food prices for 4Q14 in view of the deceleration in growth registered by this group of goods in recent months. Lower food inflation will be offset by the 8.3% increase in taxi tariffs which the Bogotá district government mandated at the end of September, and as marked out in the registry in October. This tariff change is important, not only because the increase goes way beyond the normal 3% price adjustment to the tariff that we have seen in recent years, but also because the CPI of taxis makes up 1.25% of total CPI, and also, the weighting of Bogotá in total expenditure is 42.4%. Thus, the downward correction in food, taken with higher urban transport costs, offset one another, leaving our inflation forecast for the end of this year unchanged at 3.5%.

A lower-than-expected intensity in the Niño effect leads us to lower our inflation forecast to 3.3% for 2015

The NOAA (National Oceanic and Atmospheric Administration) agency corrected downwards, from 85% to 58%, the likelihood of El Niño occurring. It also downgraded its forecast of its intensity from moderate-strong to weak. Our estimates of the effects of El Niño on the economy (See Economic Watch in Spanish or a summary of it in Box 3) indicate that a low intensity Niño will increase inflation in 2Q15 and 3Q15 by 26bp, and 4Q15 inflation by 37bp.

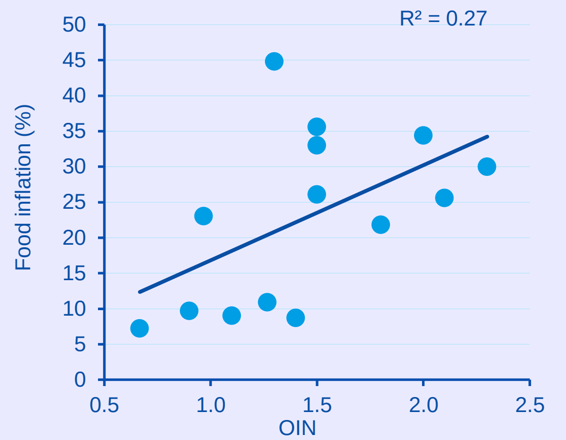
These results, adjusted for the likelihood of the event taking place, leave inflation at 3.3% by the close of 2015. Our estimates have a bias to the downside: on the one hand, if the oil price remains at current levels, production costs and price of imported goods could put negative pressure on inflation; furthermore, if the risks we describe in the next section materialise, there will be lower growth and, naturally, lower inflation.

Box 3. The impact of the Niño phenomenon on inflation

El Niño is a weather phenomenon manifesting with dry seasons which are hotter than usual in the Andean and Caribbean regions of Colombia. It is difficult to determine its intensity and duration with enough advance warning. Even more so, it is hard to anticipate with any precision when it will appear, since it can alter over time, even when experts have forecast that it is highly likely to take place. In Colombia, the phenomenon makes food more expensive, particularly fresh foods (Figure 1), reduces reservoir levels, increases energy tariffs and has marginal effects on the economy's GDP. The effect of the phenomenon on food inflation has been easing, thanks to the expanded food supply resulting from improved infrastructure and a higher degree of trade integration. In addition, progress in storage (refrigeration) and warehousing, together with the smaller share of this component in total CPI have meant that its impact on inflation has been mitigated.

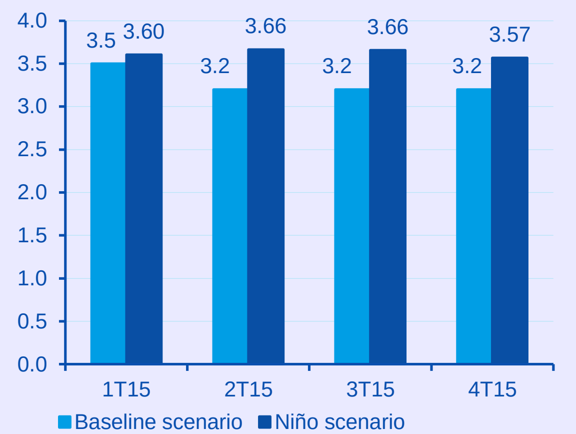
Nevertheless, it is on the price of food that the impact is most felt: a weak Niño, such as the one expected by weather experts for 2015, would put annual food inflation at an average of 63bp over total inflation for five quarters. Total inflation would also accelerate, although less strongly, and in the second and third quarters of 2015 would come in at 46bp above our baseline scenario of 3.2% for both quarters. In this case, the effects on total inflation are less persistent and in the simulated scenario the effects would not last beyond four quarters, leaving inflation by the end of 2015 at 3.57%, 27bp above our baseline scenario (Figure 2). If we weight these changes by the probability of the phenomenon occurring, which at the close of this edition was 58%, inflation at the end of 2015 would be 3.3%. (Click here to download our Watch – in Spanish only - on the economic effects of El Niño).

Figure B.3.1
Relationship between food inflation and the ENSO index (each indicator's peak for each episode), 1950-2010



Source: BBVA Research and DANE
ENSO: El Niño Southern Oscillation

Figure B.3.2
Annual inflation comparison, baseline scenario and El Niño scenario (%)



Source: BBVA Research

7 We expect the monetary pause to be extended into the second quarter of 2015 at least

The central bank began raising its intervention rate by 125bp in April, reaching 4.5% in August, with the aim of normalising the economy's monetary conditions. The Steering Committee considered that the output gap might have closed by the middle of the year, which made it reasonable to raise the interest rates with the aim of reducing the monetary policy's expansionary conditions and thus limiting possible inflationary pressures.

We had anticipated that there would be a pause from August onwards, given that we were expecting a slowdown in economic growth starting in 2Q14, and that it would continue at a similar rate for the rest of the year. And indeed, the second quarter showed a slowdown in growth (4.3% YoY) in line with the expected average growth for the second half of the year (4.5%). Furthermore, expectations of a high-intensity El Niño event have faded, reducing the impact on prices and the anticipation of the inflation that would accompany it. Likewise, the basic component of inflation, which works as a thermometer of demand, has been quite stable in recent months after its spurt in the first half of the year. This, together with heightened global uncertainty about the eurozone's performance, the increase in market volatility and the reduction in the price of commodities, all lead us to think that the monetary authority will keep its intervention rate frozen for the rest of 2014.

For 2015 we expect an initial rise of 25bp in the central bank's interest rate in May and June, after two quarters of robust QoQ growth in GDP and an increase in inflation towards the upper threshold of the inflation target (3.8%) due to the possible impact on the price of food and energy of a weak Niño phenomenon. In order to keep inflation expectations anchored to the long-term target (3%), and with a slightly positive output gap, we expect the central bank to take the monetary policy rate to a neutral level of 5.0%.

However, recent lower crude oil prices could have an impact on the confidence of investors and local consumers, which would have a negative impact on growth expectations for 2015. This would avoid the need for an increase in the intervention rate next year to its neutral level.

8 Risks determine a bias to the downside in our economic growth forecast

International oil prices are currently at their lowest levels since the period following the Lehman Brothers crash in 2008. And they could stay low for a long time if, among other things, OPEC does not manage to agree on a joint policy for production cuts in the next few months. If it does not, the price will only return to USD100 levels in two years' time, when there are cost restrictions on the new unconventional production projects (Seer LatAm Outlook). In this scenario there would be a negative effect on domestic economic activity, although it would be offset by new sources of growth from industry and agriculture.

However, there are uncertainties about the capacity of non-mining tradable sectors to take the lead in exports. First, because the industrial base is still in a process of fragile recovery, with significant competitiveness problems (See our Working Paper on competitiveness) and major innovation and productivity gaps which have not been addressed. Second, because agriculture is still highly dependent on the coffee and palm oil, two products whose profitability may also be affected if these commodities and energy staples start to behave similarly.

Even so, our sensitivity analyses anticipate that if the momentum of agriculture and manufacturing is not outstanding, enough to make up for the oil effect, the country's economic growth will be affected but still not under 4.0% in 2015, and that it will quickly return to its current rates in subsequent years. This is the case because, despite the strong increase in oil production recently, this sector represents no more than 5% of GDP and the reductions in oil prices only generate effects once. Under this scenario, the central bank will not raise rates until 2016, leaving them at 4.5% until the end of 2015 in order to boost domestic demand.

We should bear in mind that this will happen against a backdrop of less global liquidity, because of the ending of asset purchases by the Fed (although it is sticking to a policy of reinvesting the coupons and the principal) and the likely first increase in the monetary policy rate by the United States in mid-2015. The latter will bring with it greater volatility in international markets, an increase in the cost for Colombian sovereign debt and lower prices of other commodities that are dependent on liquidity.

An additional consequence, should these risks materialise, is an increase in the current account deficit to around 4% of GDP, in both 2014 and in 2015, making it likely that foreign direct investment will not fully finance the deficit next year. In this context, the central bank may have to resort to divesting international reserves during 2015, for which it is prepared, thanks to the purchases it has made in the last few years, as we have noted earlier.

The likelihood that this risk scenario will come to pass is not insignificant, so constant vigilance is required as conditions change over time, giving us further data on how the global and the Colombian economies are going to cope.

An additional risk, but with more of a medium-term effect, particularly from 2016 onwards, is that the execution of infrastructure may be significantly lower than expected. Most of the first wave of concessions have been signed off, and there is a very high probability that they will start to be executed around the middle of 2015 (our baseline scenario). Nevertheless, the second wave will be facing the tender process in 2015. If public resources are insufficient (the sale of ISAGEN, for example) and if the bidders are not adequately financed, these projects may not start in 2016 as we expect. This would imply a delay in infrastructure improvements and an obstacle to enlarging the economy's potential growth. The likelihood of this scenario materialising is currently low, but it will change over time as the government provides new information about the money it has available and as the identities of the companies bidding for the projects become known.

9 Tables with macroeconomic forecasts

Table 9.1
Annual macroeconomic forecasts

	2012	2013	2014	2015
GDP (% YoY)	4.0	4.7	4.9	4.8
Private Consumption (% YoY)	4.4	4.2	5.2	5.0
Public Consumption (% YoY)	5.7	5.8	4.9	3.8
Fixed Investment (% YoY)	4,6	6.1	12.2	5.3
Inflation (% YoY, eop)	2.4	1.9	3.5	3.3
Inflation (% average YoY)	3.4	3.2	2.9	3.3
Exchange Rate (vs. USD, eop)	1.768	1.927	2.100	2.200
Devaluation (vs. USD, eop)	-9,0%	9,0%	9,0%	4,8%
Exchange Rate (vs. USD, avg.)	1.798	1.869	1.977	2.123
Devaluation (vs. USD, avg.)	-2.7%	3.9%	5.8%	7.4%
Central Bank Interest Rate (%, eop)	4,25	3.25	4,50	5.0
FTD Interest Rate (% eop)	5.22	4,06	4,56	5.3
Unemployment Rate (%, eop)	10.2	9.7	9,2	8,8
Fiscal Balance (% GDP)	-2.3	-2.4	-2.3	-2.2
Current Account (% GDP)	-3.2	-3.4	-3.8	-3.0

Source: DANE, central bank, Ministry of Finance and BBVA Research Colombia.

Table 9.2
Quarterly macroeconomic forecasts

	GDP (YoY)	Inflation (% YoY, eop)	Exchange rate (vs. USD eop)	Interest rate (%, eop)
Q112	6.0	3.4	1.766	5.25
Q212	5.1	3.2	1.793	5.25
Q312	2.5	3.1	1.803	4.75
Q412	2.7	2.4	1.794	4.25
Q113	3.0	1.9	1.810	3.25
Q213	4.5	2.2	1.909	3.25
Q313	5.8	2.3	1.919	3.25
Q413	5.4	1.9	1.934	3.25
Q114	6.5	2.5	2.022	3.25
Q214	4.3	2.8	1.888	4.00
Q314	4.3	2.9	1.915	4.50
Q414	4.7	3.5	2.100	4.50
Q115	4.1	3.6	2.085	4.50
Q215	5.3	3.4	2.110	5.00
Q315	5.2	3.4	2.130	5.00

Q415	4.6	3.3	2.000	5.00

Source: DANE, central bank and BBVA Research.

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