BBVA | RESEARCH

Colombia Economic Outlook

1st QUARTER 2017 | COLOMBIA UNIT

01
The world's growth will accelerate in 2017 and 2018, albeit in the midst of great uncertainty

02
Colombia will grow 2.4% and 3.3% in 2017 and 2018 thanks to an acceleration in investment

03
Tax reform was indispensable in terms of collection and guarantees acceptable levels of expenditure

04
Inflation continues to decline, making room for interest rate cuts.

Contents

Closing date: 8 February 2017

1. Editorial

Despite the peaceful markets and the acceleration of world growth that is anticipated by several indicators such as industrial production and the increased optimism, 2017 has started amid great uncertainty. The big question revolves around the economic policy of the new US administration, still to be defined, that could have consequences on world activity and on the direction of capital flows. Despite this unease, our forecasts suggest that world growth will accelerate from 3% in 2016 to 3.2% in 2017 and 3.3% in 2018.

The Colombian economy, for its part, has managed to deal with the uncertainties weighing it down. On the external front, the current account deficit has closed rapidly. In 2017 and 2018 we expect that it will be at 3.8% and 3.4% of GDP, close to the levels we consider sustainable. On the fiscal front, the tax reform succeeded in replacing part of the taxes that were lost due to falling oil prices, thus avoiding strong adjustments in spending and a possible reduction in the credit rating. The peace process, which hung in the balance after the referendum, managed to move forward thanks to the incorporation of the adjustments proposed by those leading the ‘No’ vote and is currently in the process of implementation.

Part of this uncertainty affected consumption and investment, variables that continued to slow down in the second half of last year. Although there has been an upturn in consumer confidence and in that of industrialists, levels remain low. Consumer spending will accelerate slowly in 2017 thanks to the reduction in interest rates and the gradual improvement that we anticipate in consumer confidence. However, its progress will be limited, due to the VAT increase. In total, we believe that consumption will grow at the pace of the economy as a whole, which will grow at rates of 2.4% and 3.3% in 2017 and 2018.

The driving force behind growth over the next few years will be investment. Tax reform incentives, exchange rate revaluation, lower interest rates and high use of installed capacity all point to a rebound in private investment. In addition, works of investment will be accelerated thanks to the start of the 4G projects and greater local and regional government implementation. Total investment will go from growth of -1.7% in 2016 to 4.3% and 6.1% in 2017 and 2018.

The slight revaluation in the exchange rate that we expect for this year, together with the greater agricultural supply and its positive impact on the price of the food, will help inflation continue on its downward trend. We believe that inflation will end 2017 and 2018 at a rate of 4.1% and 3.6%, respectively. Thanks to this decline, the Banco de la República will take its intervention rate to 6% at the end of this year and to 4.75% in 2018, once it is sure that inflation expectations are closer to 3%.

There are risks that can affect these forecasts. The corruption cases that came to light in connection with 4G infrastructure works could delay the investment advances we expected for the next few years. Likewise, a sudden increase in external interest rates because of the US government's fiscal policies could affect the flow of capital, devaluing the peso and thus reducing the space for the Banco de la República to reduce its rates.

2. Global outlook: more growth, greater uncertainty and long-term risks

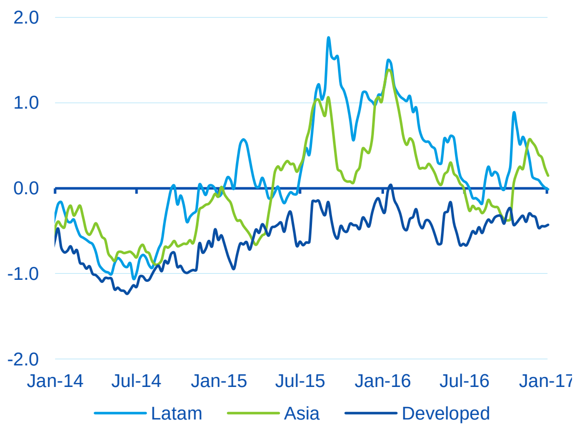
Global environment: more growth, higher uncertainty and long-term risks

The global environment improved in the last months of 2016 and is continuing to do so in early 2017. World growth accelerated in the last quarter of 2016, confidence indicators have improved clearly in all areas, and the industrial sector indicators are growing along with an incipient improvement in global trade.

Despite this acceleration, the outlook for 2017 and 2018 is fraught with uncertainties. The main one is associated with the economic policy of the new US administration, which is still largely undefined. Fiscal stimulus measures have been announced, as has deregulation in various sectors; this was welcomed by markets in the developed economies but not in those of emerging economies, which saw capital flight and currency depreciation, reflected in an increase in financial stresses at the end of 2016 (Figure 2.1). However, announcements of protectionist measures may seriously harm international trade in the medium and long term and affect confidence sooner than that, especially outside the US. Also, the lingering uncertainties about US economic policies seem to have been tempering the markets' optimism since the beginning of the year.

Figure 2.1

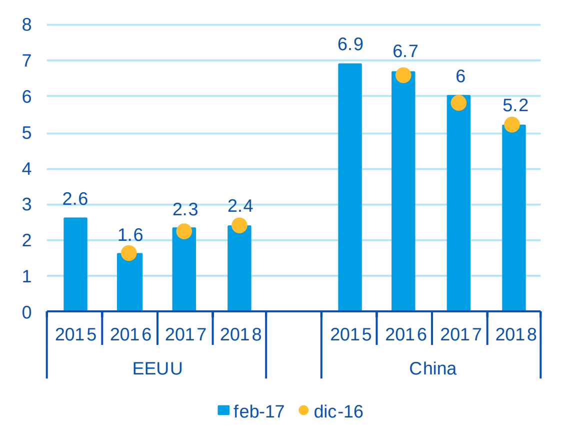
BBVA financial stress index



Source: Bloomberg and BBVA Research

Figure 2.2

GDP growth in the US and China (%)



Source: Bloomberg and BBVA Research

The magnitude of the inflationary pressures is another unknown at global level. Commodity prices, and particularly oil prices, have recovered more than expected in recent months, following the OPEC agreement and the improvement in activity. If to this we add the size of the balances accumulated by developed countries' central banks in recent years due to quantitative easing programmes and the prospects of fiscal stimulus, the result is that the risks of deflation of just a few quarters ago have been replaced by inflationary pressures in the developed economies, generating a number of questions about the reaction of their respective monetary policies.

In principle, the Federal Reserve is maintaining a cautious stance and continues to aim for a relatively slow normalisation of interest rates. Our forecast is for two rate hikes this year and two more in 2018. We expect the ECB for its part to begin the process of tapering QE in early 2018 and to decide on the first interest rate hike at the end of that year.

World growth will increase from 3% in 2016 to 3.2% in 2017 and 3.3% in 2018

Overall, our growth projections for 2017 for the major economies have not been substantially revised, although they are subject to greater uncertainty than usual. The base effect of higher growth in late 2016 and its inertia effect, together with the expected fiscal stimulus in the US, have led us to revise our forecasts for the US and Europe very slightly upwards, and for China a little more, while revising forecasts for Latin American countries downwards, mainly due to idiosyncratic factors. In particular, in the US we anticipate growth of 2.3% and 2.4% in 2017 and 2018 (Figure 2.2). In China, we are expecting growth of 6% in 2017, falling to 5.2% in 2018, given the vulnerabilities faced by the economy and an economic policy more oriented towards ensuring financial stability than maintaining growth. In this way, global economic growth should increase slightly, from 3% in 2016 to 3.2% in 2017 and 3.3% in 2018.

The risks are mainly on the downside and are dominated by the aforementioned uncertainty linked to protectionism in the US, a less welcoming attitude towards immigration and the danger that fiscal stimulus policies will have no effect on growth and will generate inflation, or that the deregulation announced in various sectors will not be managed properly. To this is added the possible reaction of other countries or regions to these protectionist moves. An unexpected rise in inflation could lead to the tightening of monetary policy by the main central banks, with global consequences. In the long term, the risk of imbalances building up in China, together with the lack of structural reforms in state-owned enterprises, may have an impact on the country's capital flows and currency and lead to an abrupt slowdown. In Europe, the political risk is high, in a year with a full electoral calendar. And in general, geopolitical risks remain high.

3. Economic acceleration to depend on investment

Oil and global political events move the markets

Emerging markets, and in particular the Colombian market, have been subject to two external sources of volatility affecting assets. On the one hand, the rise in prices of raw materials, not only oil, but also coal, meant better performances from the Colombian peso, the public debt market and shares related to the mining-energy sector (Figures 3.1 and 3.2). The upturn in oil prices occurred throughout last year thanks to the progressive closing of the gap between supply and demand. However, the most important boost since the end of November was provided by the production cut-off agreement of OPEC member countries (accompanied by Russia and other countries outside the organisation).

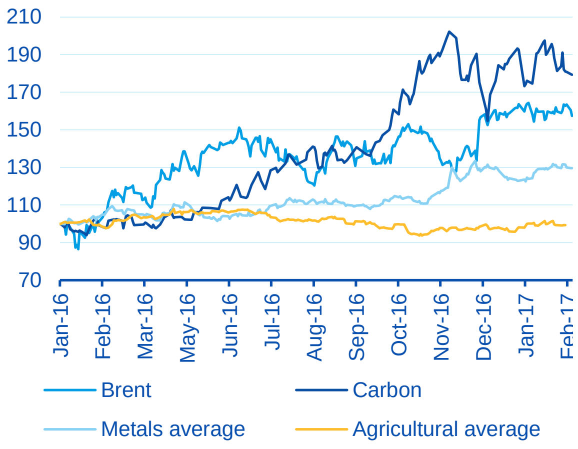
In January, production fell by about one million barrels a day from pre-agreement levels. For now, the cuts have been agreed upon until the middle of the year. However, the likelihood of their prolongation into December is not zero, at least within the OPEC member countries. Our projections for the average price of Brent oil are at USD 57 per barrel for 2017, 11 dollars above the average for 2016. In turn, the price of coal rose due to cuts in production in China.

On the other hand, political factors in the United Kingdom and especially in the United States led to devaluations in currency and, to a lesser extent, in other assets at the beginning of the events, but were quickly corrected. Colombia also stood apart in a positive sense from other countries within the emerging markets universe as a result of the high inflow of capital. After November, following the elections in the United States, while emerging countries registered capital outflows, Colombia recorded historically high portfolio capital revenues in the subsequent weeks. As a consequence, the positive effect of the increase in the price of raw materials on local assets was strengthened through increased external investments.

During this year, capital inflows will remain high, although below the flows registered in 2016. International investors will appreciate the fiscal improvements resulting from the tax reform approved in December, the progressive closure of the current account deficit and the gradual recovery of economic growth. In this way, Colombia is also an attractive market for capital migrating from the emerging countries most affected by the political panorama of the United States.

Figure 3.1

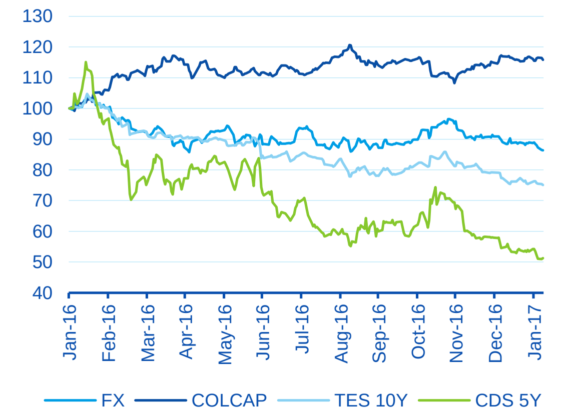
Prices of different raw materials in index: oil, coal, agricultural, metals (January 29, 2016 = 100)



Source: Bloomberg and BBVA Research

Figure 3.2

Index of assets: dollar (FX), stock market (COLCAP), TES 10 years and CDS 5 years (January 29, 2016 = 100)



Source: Bloomberg and BBVA Research

Growth: in the hands of investment

At the close of 2016, three trends were confirmed that will mark the behaviour of main growth variables in 2017. Firstly, household consumption eased off more generally, beyond the spending on durable goods that had been deteriorating since 2015. This was probably explained by the greater slowdown in employment generation in 2016, when an average of 41,000 urban jobs were created, compared to 195,000 in 2015. Secondly, private investment showed no clear signs of recovery, due both to an increase in economic uncertainty associated with global factors and to the tax reform, as well as the reduction in the growth rate of industrial production. Finally, non-mining exports continued to fall, despite the high levels of the exchange rate, which indicates the existence of a low level of external demand from our main trading partners.

The recovery of private consumption in 2017 will not occur before the second half of the year and, compared to 2016, will be marginal in the measurement of the full year in line with job creation that will continue its slowdown process. In spite of lower inflation, lower interest rates and exchange rate stability, the increase in consumption taxes approved in the tax reform will affect the dynamics of households during the first part of the year. However, in the long term, the greater formality rate that the economy has achieved since 2012 and which increased even during the recent slowdown in 2015 and 2016, will serve to leverage the faster recovery of private consumption from the latter year-end and especially in 2018.

Although GDP will remain the variable with the highest growth in 2017 and accelerate most prominently compared to 2016, private investment will start from low levels on its way to recovery, having slightly less momentum than expected three months ago. The manufacturing industry also has lower growth prospects now than previously estimated, slightly reducing the estimated demands for new productive investment and plant expansion from that sector, nevertheless these remain in positive territory. The gradual improvement in performance will continue in 2018, as industrial production and private investment will be driven by higher external demand and the stability of the price of oil around its structural level of $60 per barrel.

Exports will perform slightly better this year, helped by the more positive performance of Latin America and the developed world. However, it will not be until 2018, when they start to grow several points above GDP, that they turn themselves into a shot in the arm for activity.

Finally, the outlook for public spending and fiscal accounts is more optimistic than three months ago because of the approval of the tax reform which will prevent government spending from falling sharply this year. In addition, the commitment to the fourth generation of infrastructure works, the implementation of which commenced in late 2016, will be felt because of their greater contribution to growth from mid-2018 and during 2019, when several works will simultaneously experience progress.

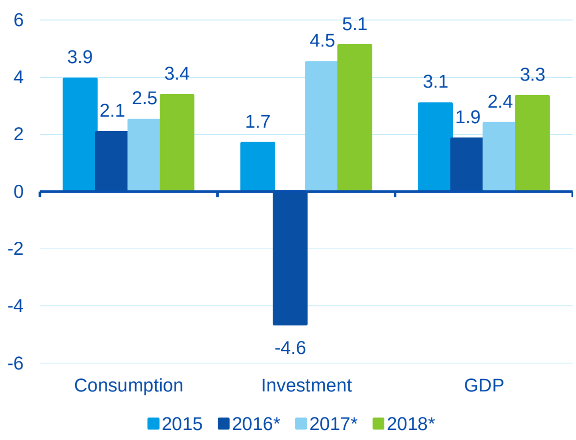
In this way, 2017 growth should accelerate with respect to the rate observed in 2016, when it should have reached 1.9%, up to 2.4%. This growth rate is the same as we expected three months ago, but this time public demand will have a greater positive contribution and the private component, although accelerating compared to 2016, will provide less than expected before. In 2018, there will be an additional acceleration in the rate of GDP expansion to 3.3%, supported by higher growth in exports and investment in infrastructure (Figure 3.3).

At the sectoral level, agriculture, financial and business services, and construction will be the most dynamic activities in 2017. Coffee production is expected to grow by about 8% by 2017 and agricultural supply in general will increase in response to high prices in 2016 and the more favourable weather expected this year. Regarding the second group, despite the forecasted slowdown in the GDP of financial intermediation in 2017, we believe that business activities will accelerate throughout this year stimulated by the tax reform, lower interest rates and increased external demand. Thanks to work commencing on the 4G infrastructure, the good momentum anticipated in low- and middle-income housing construction and the greater implementation of regional governments, the construction industry will be the sector with the third highest growth in 2017. Mining, meanwhile, will be the sector with the lowest growth since the production of oil and coal will be very similar to that observed in 2016 (Figure 3.4).

As investment is the most decisive variable in the results of economic growth, previous projections are conditional on the fulfilment of both public and private projects to be carried out over the next few years. Especially, the development of infrastructure, including the progress of the work on the fourth generation of infrastructure, which is crucial for the economic recovery in the short and medium term.

Figure 3.3

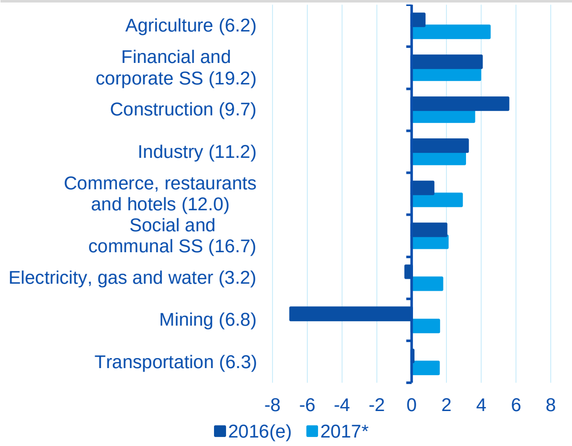
GDP growth, demand side (%, YOY)



(*): forecast.
Source: DANE and BBVA Research

Figure 3.4

GDP growth, supply side (%, YOY)



(*): forecast
Source: DANE and BBVA Research. Sectorial shares in the total GDP of 2015 in brackets

The gradual adjustment in the current account deficit is maintained

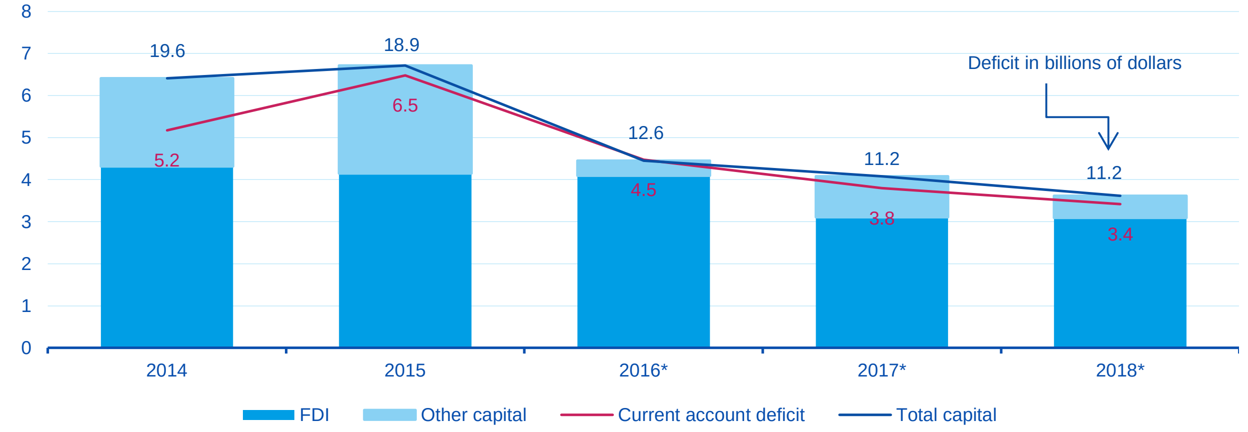
The balance of the current account will favour low import growth in 2017 and 2018 that means the economic growth of the country. After falling around 20% in 2016, dollar imports will only grow slightly more than 5% annually this year and next. On the contrary, thanks to the recovery of oil prices and external demand, especially in 2018, exports will grow by an average of 10% per annum in their dollar value in 2017 and 2018. Thus, the trade balance deficit will undergo a significant positive change, although it will remain negative.

However, the current account deficit, although reduced, will not adjust to its dollar value at the same rate as the trade balance deficit. This is due to the factor income balance, which will again tend slightly towards a deficit due to the increased sending of dividends abroad from mining-energy companies, meaning profits as a result of raw material price increases.

In total, the current account deficit will go from USD 13 billion in 2016 to below USD 11.5 billion in 2017 and 2018. As a percentage of GDP, in the same years, it will go from 4.5% of GDP to 3.8% and 3.4% of GDP, respectively (Figure 3.4). The financing of this deficit will be provided for by foreign direct investment (FDI) to an extent of 86%, which represents the most stable flows within the capital account. This year FDI will be lower than that reported in 2016 because no new state privatisation is planned that will replace the external resources generated by the sale of ISAGEN. We estimate it at $ 9 billion, compared to $ 12 billion in 2016. The main sectors receiving investment will be industry and commerce (tourism, hotels, etc. due to the exchange rate), in addition to the reactivation of mining and oil due to the arrival of capital.

Figure 3.5

Current account deficit (% of GDP)



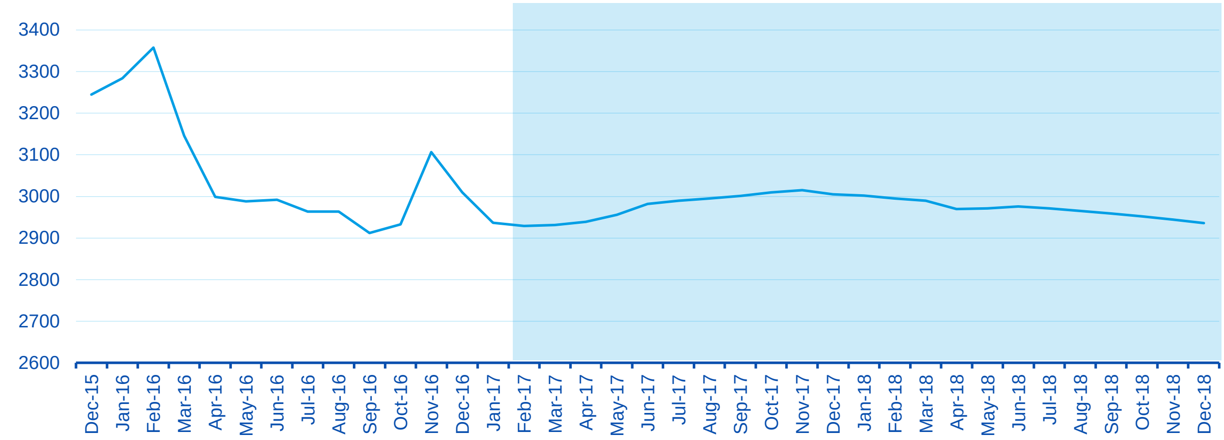
(*): forecast.
Source: Banco de la República, DANE and BBVA Research

The exchange rate will appreciate slightly in 2017

For 2017, we forecast a slight appreciation of 2.7% in the average exchange rate compared to 2016 (Figure 3.6). In spite of rising dollar pressures from higher external interest rates and lower domestic rates, the higher oil prices, the closing the current account deficit, and the appetite of foreign capital for the country will mean that the average exchange rate will be around 2,973 throughout the year, 81 pesos below the 2016 average. In 2018, the exchange rate will not change beyond the expected levels for 2017 as the acceleration of economic growth, high oil prices and the additional correction expected in the current account deficit are expected to counteract the higher external interest rates that are expected for that year. It is worth highlighting that the forecasts are subject to a high degree of uncertainty regarding the momentum that the external context may have, in particular, the decisions that the new US government takes on fiscal and commercial policy, which could generate sudden changes in the interest rates of this country, affecting the direction of capital flows in the world.

Figure 3.6

Exchange rate (COP/1USD)



Source: Banco de la República and BBVA Research

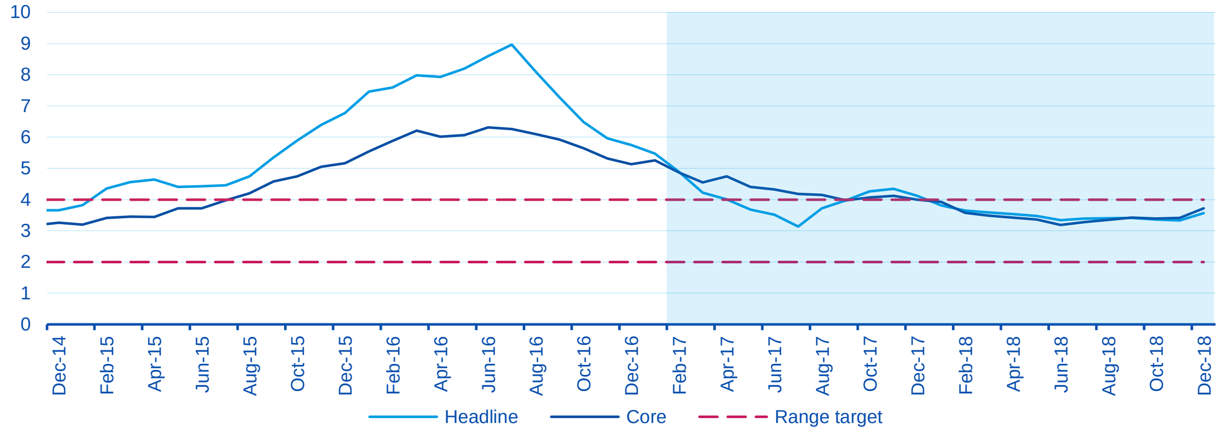
Exchange rate, better climate and weak demand will bring inflation to the target range in 2017

After having stayed out of the Banco de la República's target range for more than two years, inflation will return to this area in the second quarter of 2017. Although VAT will push up prices in January and February, inflation in annual terms will continue to decline. A strong base effect (in the first half of 2016 inflation rose from 6.8% to 8.6%), weak domestic demand, a rate of exchange that will help stabilise the price of imported products and a favourable climate which will increase agricultural supply and keep energy prices low are the factors that explain the decline in inflation forecast for the first half of the year. In this context, it is anticipated that food inflation, that of regulated and tradable products will continue to decline in the coming months.

In the second half of the year, inflation will rise again, leaving the target range temporarily due to the base effect created by negative inflation, in monthly variations, which occurred between August and October of last year. Inflation will end at rates close to 4.1% at the end of the year (Figure 3.7). In 2018, due to price inertia which has especially affected non-tradables (the increase in leases is indexed to the previous year's inflation), inflation will decrease slowly, although throughout that year it will remain in the target range. We believe that inflation will reach 3.6% by the end of 2018 and in 2019 it will be at 3.1%, already very close to the punctual goal of the Banco de la República.

Figure 3.7

Headline and core inflation (%, YoY)



Source: DANE and BBVA Research

Monetary policy will have more room for reductions

The convergence of inflation on the target range in the coming months, coupled with weak domestic demand, opens up space for BanRep to cut interest rates. In total, we believe that there will be a cut of 150 basis points in 2017, which will leave the intervention rate at 6% by the end of the year. We believe that BanRep will pause in its cuts, waiting for inflation expectations in the medium term to be closer to 3% (currently expectations at 24 months are closer to 4%). According to our forecasts, inflation will be close to 3% by the end of 2019, which would allow BanRep to reduce its rate slightly further to 4.75% during 2018. Note that despite the cuts we expect in the coming months, the real intervention rate (nominal rate discounting inflation) will be very close to the neutral levels that neither stimulate nor contract economic activity.

One risk that must be taken into account is the uncertainty that exists about exchange rate forecasts. Any sharp change in external capital flows could devalue the Peso, pushing the inflation of imported products upward and thus reducing the central bank's space to cut the intervention rate.

Fiscal accounts accommodating tax reform

The central government's fiscal balance in 2016 stood at -4% of GDP. The collection in 2016 was 13.7% of GDP, less than the 14.5% of GDP observed in 2015. Lower external and oil revenues mainly explain this reduction, although lower economic growth also played a part.

According to government figures, the recently approved tax reform will manage to generate 0.7 percentage points of GDP in additional tax resources in 2017. With this, tax revenues for the year will again stand at

14.5% of GDP, the 2015 level. By 2017, spending as a percentage of GDP will remain at levels slightly lower than those observed in 2016, with a downward bias taking into account capital resources that may be lower than estimated. From 2018, spending in terms of GDP will require a greater adjustment. This is due to the fact that the deficit target as a percentage of GDP is decreasing (the deficit will go from 3.3% to 2.7% between 2017 and 2018) and the additional revenue obtained by the reform between 2017 and 2018 will remain constant at around 0.7% of GDP over these two years.

Approved reform moves towards better tax system

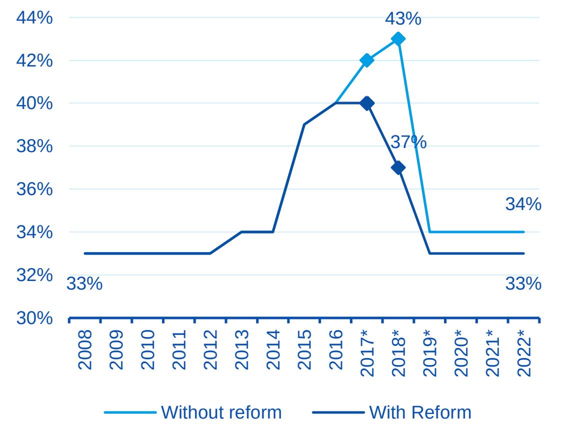
The tax reform contemplated in Law 1819 of 2016 represented a move towards a better tax system. One of the objectives of the reform was to permit the sustainability of public finances, replacing part of the resources that were lost from the oil sector. In that sense, the main achievement of the reform was to increase the collection and return permanent resources that were transient. Law 1819 increased the general VAT rate by three points from 2017 (from 16% to 19%). The measure represents additional resources amounting to 0.7 percentage points of GDP in 2017. The increase in VAT, together with the Financial Movements Tax, is gradually increasing from 0.7% of GDP in 2017 to 1.8% of GDP in 2022[1]. These two measures can be regarded as the best achievement to come from the reform. With regard to VAT, previous attempts to increase the tariff had failed, it having remained at 16% since 2001. In the case of the Financial Movements Tax, it should be noted that maintaining it permanently does not represent higher revenue compared to today (at the close of 2016), but rather guarantees revenue that would otherwise gradually cease to be received from 2019 onward and that would disappear completely in 2022.

Another objective of the reform was to balance the tax burden between companies and individuals, since it is estimated that 83% of direct taxes in Colombia are paid by companies (OECD, 2015; CET, 2016). The reform sought to reduce the burden on business and to expand its tax base by taking International Financial Reporting Standards (IFRS) as a point of reference. The reduction in the burden on companies is due to the gradual reduction in corporate income tax (Figures 3.7 and 3.8) and via the reduction in the cost of capital. With the reform, companies can deduct VAT paid on the purchase of capital goods from income tax. In addition, the reform ratified the elimination of wealth tax. However, in spite of these advances, the scope for the elimination of company exemptions was limited. The gradual reduction of the income tax for companies with profits greater than USD 270 million a year will pressure public finances, especially from 2019 when this tax will have been eliminated

1: The levy on financial movements before the reform was to be gradually dismantled from a rate of 0.4% in 2018 to 0% in 2022, with a 0.1% cut-off per year.

Figure 3.8

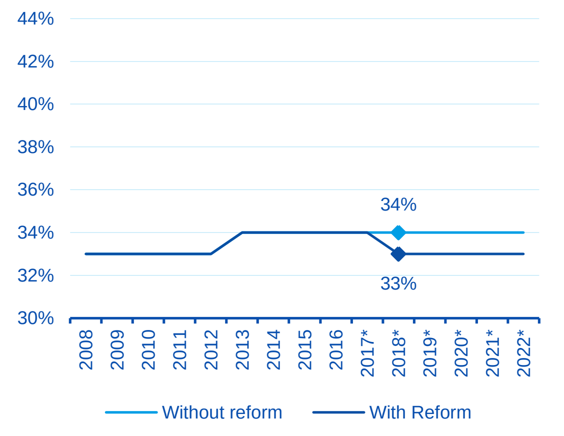
Income tax rate for companies with and without reform (companies with annual profits greater than 800 million)



(*): forecast.
Source: Ministerio de Hacienda

Figure 3.9

Income tax rate for companies with and without reform (companies with annual profits less than 800 million)



(*): forecast.
Source: Ministerio de Hacienda

Another important measure that promotes efficiency is the increase in the presumptive income tax rate from 3% to 3.5% of equity, encouraging players to seek a higher return on equity.

Another change that balanced charges was the increase in the tax base of income of natural persons, favouring the progressivity of the tax. The articles originally presented to Congress contemplated reducing the threshold below which people do not pay income tax (less than 10% of the population receiving income in Colombia pays income tax) and limiting the exemptions and deductions allowed in the income tax return. Congress only approved the introduction of the limit on deductions and exemptions, limiting the scope of the initial proposal. On the other hand, the reform taxes dividends, but to a limited extent, since it does not include those received by local companies. Nor does it tax the shares and stakes in companies with presumptive income. Also a major failure of the reform is that it does not tax high pensions. Pensions are widely recognised as an important source of regressivity in Colombia. In conclusion, the reform did not increase the tax base, as would have been desirable, because it left a significant amount of personal income untaxed, including high pension allowances, a significant portion of dividends and capital income. It also refrained from including more income by maintaining the threshold upon which income tax is declared at a high level. In this context, although there were advances with exemptions and deductions, the changes introduced achieved a limited advance regarding increases in the taxation of natural persons and in the rebalancing of charges between them and companies.

In terms of informality, the reform reduced, as mentioned before, the tax burden on companies, creating the so-called *monotributo* or single tax, maintaining the exemption from the payment of parafiscal charges by the employers of less than 10 workers on minimum wages and imposing limits on cash payments that are recognised for tax purposes, among others. These changes should increase the formality and potential growth of the economy over the medium term. The reform also represented important advances in terms of tax system simplicity with the unification of income tax and the CREE (wage drift wage creep), with the use of IFRS and with the elimination of alternative systems of income taxation on natural persons, among others. However, it might be short on the elimination of benefits whose existence complicates administration and facilitates evasion. On the other hand, changes introduced to control non-profit entities may represent a significant administrative burden.

In conclusion, tax reform was essential to achieve the sustainability of public finances, as recognised by the authorities, the rating agencies and economic analysts in general. In its latest review, the rating agency Standard and Poor's maintained Colombia's rating and outlook, highlighting the fact that the fiscal package approved by Congress in late 2016 showed a significant political commitment to strengthen the tax base in the coming years and reduce the public sector deficit. The ratings agency is aware, however, of the development of public debt.

The balance of risks is weighted to the downside

There are two areas of shocks that the Colombian economy could face in the coming years. Firstly, from external sources (see section 2), the downside risks come from US and European policies, the faster increase in inflation and interest rates in the developed world, and China's imbalances. These factors could restrict and increase the external financing of the Colombian economy, delaying the recovery of foreign trade for several years and restoring the recovery of raw material prices.

Secondly, of internal origin, the most important risk relates to the progress of large infrastructure projects. Recently, it became known that some infrastructure contracts signed with the Brazilian firm Odebrecht may have legal corruption problems, which would lead to the liquidation of some of their contracts. If this fact affects the supply of liquidity resources - whether of internal or external origin - to other investment projects or, if new tenders of cancelled contracts are delayed to other builders who are now responsible for the progress of these works, growth in 2017 and 2018 will inevitably decline. An additional risk, although less likely, is the stronger deterioration of consumer confidence, which would undermine the expected recovery in private consumption. To this should be added the likelihood of a further deterioration in China's economy affecting the price of raw materials and increased protectionism in the world.

4. Forecast

Table 4.1

Macroeconomic forecasts

	2013	2014	2015	2016	2017	2018
GDP (YoY. %)	4.7	4.6	3.1	1.9	2.4	3.3
Private consumption (YoY, %)	4.2	4.4	3.8	2.1	2.5	3.4
Public consumption (YoY, %)	5.8	6.2	2.8	1.4	1.3	3.0
Fixed investment (YoY, %)	6.1	10.8	2.8	-1.7	4.3	6.1
Inflation (% YoY. eop)	1.9	3.7	6.8	5.7	4.1	3.6
Inflation (% YoY. average)	2.0	3.7	5.0	7.5	4.1	3.5
Exchange rate (eop)	1,927	2,392	3,149	3,001	3,005	2,936
Devaluation (%. eop)	9.0	24.1	31.6	-4.7	0.1	-2.3
Exchange rate (average)	1,869	2,001	2,742	3,054	2,974	2,969
Devaluation (%. average)	3.9	7.1	37.0	11.4	-2.6	-0.2
BanRep interest rate (%. eop)	3.25	4.50	5.75	5.75	6.00	4.75
FTD interest rate (%. eop	4.1	4.3	5.2	7.0	5.7	5.1
Unemployment rate (%. eop)	9.7	9.3	9.8	9.8	10.2	10.3
Fiscal balance (% of GDP)	-2.3	-2.4	-3.0	-4.0	-3.3	-2.7
Current account deficit (% of GDP)	-3.2	-5.2	-6.5	-4.5	-3.8	-3.4

Forecast closing date: February 8th, 2017.
Source: DANE, Banco de la República, Ministerio de Hacienda and BBVA Research

Table 4.2

Macroeconomic Forecasts

	GDP (%, YoY)	Inflation (%, YoY, eop)	Exchange rate (COP/1USD, eop)	BanRep REPO rate (%, eop)
Q1 15	2.7	4.6	2,576	4.50
Q2 15	3.1	4.4	2,585	4.50
Q3 15	3.3	2.9	2,028	4.75
Q4 15	3.3	3.7	2,392	5.75
Q1 16	2.5	4.6	2,576	6.50
Q2 16	2.0	4.4	2,585	7.50
Q3 16	1.2	5.4	3,122	7.75
Q4 16	1.8	6.8	3,149	7.50
Q1 17	1.8	8.0	3,022	7.00
Q2 17	2.0	8.6	2,916	6.25
Q3 17	2.7	7.3	2,880	6.00
Q4 17	3.0	6.2	3,040	6.00
Q1 18	2.9	4.3	3,055	6.00
Q2 18	3.9	3.8	3,050	5.25
Q3 18	3.3	4.2	2,955	4.75
Q4 18	3.3	3.9	2,957	4.75

Forecast closing date: February 8th, 2017.
Source: DANE, Banco de la República, Ministerio de Hacienda and BBVA Research

DISCLAIMER

This document has been prepared by BBVA Research Department. it is provided for information purposes only and expresses data. opinions or estimations regarding the date of issue of the report. prepared by BBVA or obtained from or based on sources we consider to be reliable. and have not been independently verified by BBVA. Therefore. BBVA offers no warranty. either express or implicit. regarding its accuracy. integrity or correctness.

Estimations this document may contain have been undertaken according to generally accepted methodologies and should be considered as forecasts or projections. Results obtained in the past. either positive or negative. are no guarantee of future performance.

This document and its contents are subject to changes without prior notice depending on variables such as the economic context or market fluctuations. BBVA is not responsible for updating these contents or for giving notice of such changes.

BBVA accepts no liability for any loss. direct or indirect. that may result from the use of this document or its contents.

This document and its contents do not constitute an offer. invitation or solicitation to purchase. divest or enter into any interest in financial assets or instruments. Neither shall this document nor its contents form the basis of any contract. commitment or decision of any kind.

In regard to investment in financial assets related to economic variables this document may cover. readers should be aware that under no circumstances should they base their investment decisions in the information contained in this document. Those persons or entities offering investment products to these potential investors are legally required to provide the information needed for them to take an appropriate investment decision.

This report has been produced by the Colombian Unit

Chief Economist for Colombia
Juana Téllez
juana.tellez@bbva.com

Fabián García
fabianmauricio.garcia@bbva.com

Mauricio Hernández
mauricio.hernandez@bbva.com

María Llanes
maria.llanes@bbva.com

Natalia Roa
Angienatalia.roa@bbva.com
Estudiante en práctica profesional

BBVA Research

Group Chief Economist
Jorge Sicilia Serrano

Macroeconomic Analysis
Rafael Doménech
r.domenech@bbva.com

Global Macroeconomic Scenarios
Miguel Jiménez
mjimenezg@bbva.com

Global Financial Markets
Sonsoles Castillo
s.castillo@bbva.com

Global Modelling & Long Term Analysis
Julián Cubero
juan.cubero@bbva.com

Innovation & Processe
Oscar de las Peñas
oscar.delaspenas@bbva.com

Financial Systems & Regulation
Santiago Fernández de Lis
sfernandezdelis@bbva.com

Countries Coordination
Olga Cerqueira
olga.gouveia@bbva.com

Digital Regulation
Álvaro Martín
alvaro.martin@bbva.com

Regulation
María Abascal
maria.abascal@bbva.com

Financial Systems
Ana Rubio
arubiog@bbva.com

Financial Inclusion
David Tuesta
david.tuesta@bbva.com

Spain and Portugal
Miguel Cardoso
miguel.cardoso@bbva.com

United States
Nathaniel Karp
Nathaniel.Karp@bbva.com

Mexico
Carlos Serrano
carlos.serranoh@bbva.com

Turkey, China & Geopolitics
Álvaro Ortiz
alvaro.ortiz@bbva.com

Turquía
Álvaro Ortiz
alvaro.ortiz@bbva.com

Asia
Le Xia
le.xia@bbva.com

South America
Juan Manuel Ruiz
juan.ruiz@bbva.com

Argentina
Gloria Sorensen
gsorensen@bbva.com

Chile
Jorge Selaive
jselaive@bbva.com

Colombia
Juana Téllez
juana.tellez@bbva.com

Peru
Hugo Perea
hperea@bbva.com

Venezuela
Julio Pineda
juliocesar.pineda@bbva.com

CONTACT DETAILS: BBVA Research Colombia Carrera 9 No 72-21 piso 10. Bogotá, (Colombia). Tel.: 3471600 ext 11448 – bbvaresearch_colombia@bbva.com www.bbvaresearch.com