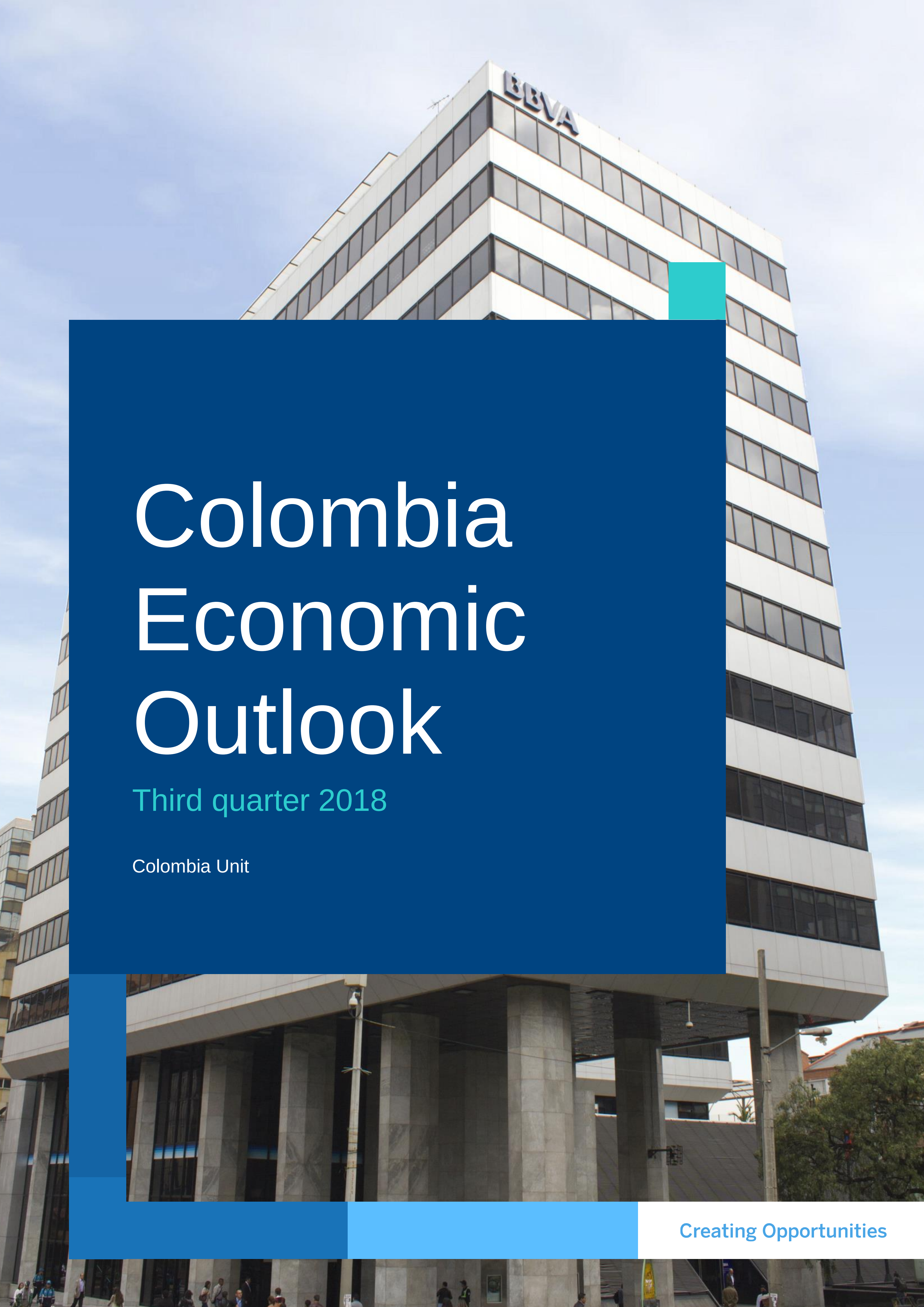


Colombia Economic Outlook

Third quarter 2018

Colombia Unit

Creating Opportunities

Contents

Closing date: **13 July 2018**

1. Editorial

The global economy is being led by the fiscal impulse in the US, which contrasts with certain signs of moderation observed in China and other emerging economies and, more intensely, in the euro zone. In addition, several potentially negative factors are persisting that, for the time being, have not been directly reflected in activity: the US withdrawal from the nuclear agreement with Iran, trade tensions and inflation pressures due to the higher price of oil. This last factor led the members of the Fed to consider that interest rate hikes would be necessary this year and next year. All in all, the forecast for world growth for the next two years remains unchanged, at 3.8%, supported by solid growth by the US.

Financial markets in Colombia resisted the greater global volatility, supported by higher oil prices. The rates of the TES bonds, although they did increase, did so less than in other episodes of global volatility and restrictive monetary policy in the United States. In addition, the exchange rate, although it has had greater volatility in the recent past, has remained within a narrow price range. Finally, the risk premiums at this moment are located very close to the lowest points of this year.

The better performance of the local financial markets was also supported by the healthy adjustment made by the domestic economy after the shock of the terms of trade. Spending declined faster than income and led to higher savings rates in the country. Additionally, the companies had gains in cost efficiency that improved the financial structure of their operations. As a result, the external deficit was reduced to more sustainable levels, fully financed through foreign direct investment, and the financial burden of households began to fall from the end of 2017. Going forward, with this previous adjustment, households and companies have room to increase their spending, acquire credits and boost domestic demand.

In the period of adjustment, the role of the Central Bank (Banco de la República) was essential, raising its rates when required as a result of the external shock, the exchange pressures and the increase in inflation. With this, it also influenced the reduction of domestic demand and the deleveraging of businesses and households. Now, as a result of the adjustment of the economy, the Central Bank will be able to keep the interest rate in expansive terrain until 2021. Throughout these three years, monetary policy will help to boost economic recovery, encouraging the decision-making by economic agents involving spending. However, household spending will not only increase as a result of low interest rates, but also because of the lower inflation rate, which will remain within the target range in the coming years, and the gradual increase in real disposable income. Revenue will grow at a faster rate due to the acceleration of GDP, from 1.8% in 2017 to 2.6% in 2018 and 3.3% in 2019, according to our estimates.

Private consumption will be one of the pillars of economic recovery. Growth will increase from 1.8% in 2017, to 2.8% in 2017 and 3.6% in 2018. There will be significant spending on services and a rise in purchases of durable goods. Public consumption will also stand out, growing above GDP in 2018 for the second consecutive year. Not so in 2019, when public consumption will grow below the GDP due to the fiscal adjustments required of the national government. The public sector will leave the leading role in the economy to the private sector, because next year will be the key moment for the recovery of investment. This year the latter will grow below the GDP (at 0.3% annual) due to the negative contribution of the construction sector, and within this category, that of buildings. Then, in 2019, with construction in positive territory, thanks to the fourth generation of infrastructure works and the reactivation of housing, investment will grow by 5.6% per year.

In the medium term, Colombia's potential growth will depend on improvements in competitiveness and productivity. It is imperative that infrastructure programmes be completed, that the formal economy and use of banks become more widespread and that exports be diversified through the strengthening of the agro-industrial sector. We estimate that Colombia's potential growth will be 3.5% on average over the next 10 years.

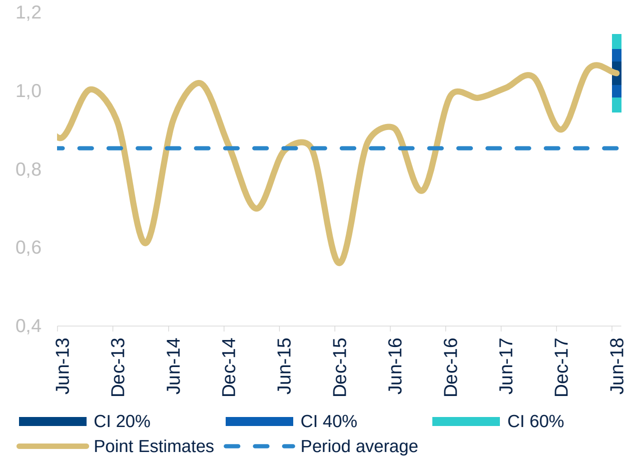
2. Global economy: robust growth but with certain signs of moderation and intensification of risks

The international economy remains subject to the tensions of disparate forces, between the good economic performance in recent quarters, now prolonged by the fiscal stimulus of the US economy and the stability of the Chinese economy, and several potentially negative factors that have been generated gradually in the first half of this year, but which so far have not been directly reflected in activity.

World growth is expected to have slowed slightly in the second quarter of the year (Figure 2.1). Although the pace of expansion remains solid, it is occurring in a less synchronised manner, with accelerating growth in the US that contrasts with certain signs of moderation in China and some emerging economies and in a more intense way in the Eurozone.

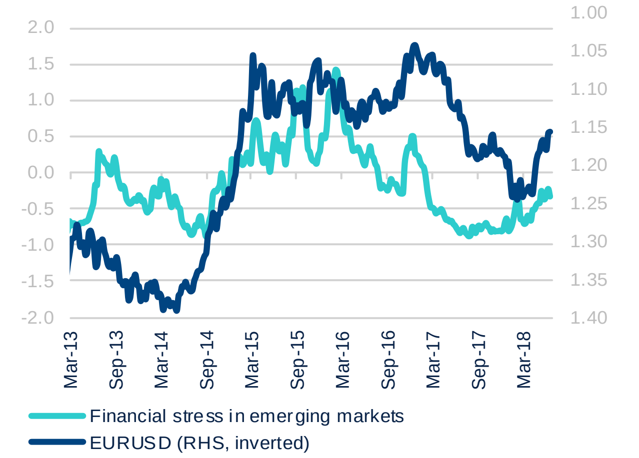
The increased growth of the US economy, driven by fiscal measures and the recovery of global trade at the beginning of the year, continues to sustain the strength of the global recovery. However, some of the supports to growth have been fading in the last few years, while uncertainty has increased.

Figure 2.1 World GDP growth. (QoQ, %)



Source: BBVA Research

Figure 2.2 Euro-dollar exchange rate and BBVA index of financial tensions in emerging markets



Source: BBVA Research based on Bloomberg

The first factor is the withdrawal of the United States from the nuclear agreement with Iran, which caused a supply shock in the oil market that has increased the price of oil by around 20% so far this year. This will place additional upward pressure on inflation and has already encouraged the central banks to take another step towards the normalisation of monetary policy. This is particularly the case with the Fed, which so far this year has accumulated a rise of 50 basis points in its reference rates to reach 2% and plans to raise them to 2.50% by the end of the year and to 3.25% by the end of 2019. The interest rate differential and favourable growth in the US compared to the rest of the world has resulted in a widespread appreciation of the dollar.

An additional uncertainty factor during the last few months is associated with the increase in trade tensions. It is still too early to know which measures will finally prevail of those already approved by the US administration, those that were previously announced and the possible countermeasures from their trading partners, nor is it easy to discern their impact on trade and activity. In principle, the direct effect through the trading channel of the measures announced up to now would be limited. However, additional measures by the US are under discussion at this time. and possible retaliation on the part of the affected countries, with an effect on growth that would already be significant, to which we should add potential indirect effects on the confidence of financial markets and economic agents depending on the magnitude of the commercial conflict.

As a consequence of these uncertainties, there has already been a readjustment in the perception of global risk, especially in the emerging countries. Financial tensions in emerging countries have increased generally (Figure 2.2), due to the depreciation of currencies and the widening of risk premiums, although countries with higher external financing needs have been differentiated negatively.

The global forecasts for the next two years remain unchanged, at 3.8%, supported by solid US growth. Nevertheless, the lower degree of synchronisation observed recently is reflected in a downward revision in the growth expected for 2018-19 for both the Eurozone and South America (mainly Argentina and Brazil), while we maintain the forecasts for the coming years in US and China, after recording a good economic performance in the first part of the year and with the fundamentals still being solid for domestic demand.

The global scenario continues to be subject to mostly negative risks, which in recent months have increased. On the one hand, the risk of a trade war has intensified in the wake of the latest measures adopted by the United States and the response from China, mainly, and to a lesser extent, from the rest of the countries affected. Added to this are new protectionist threats that would involve the interests of important sectors in other regions, such as the automobile sector in Europe, Mexico, Canada and Japan. While the direct impact of the measures, as discussed above, would be limited, the risk of a trade war could act as a drag on confidence, increase risk aversion in the markets and curb global flows of direct investment, with the consequent impact on the potential of global growth.

In addition, in a more volatile financial environment, systemic risk would increase in emerging economies. The combination of a greater protectionist risk added to those posed by a more accelerated normalisation of monetary policy in the United States and a possible slowdown in the global economy could trigger the perception of risk in emerging financial markets, raising the likelihood of a sudden-stop or even reversion of capital flows. In this context, the risk of an abrupt adjustment in the Chinese economy remains, since some measures to respond to a possible trade war could limit and delay the process of deleveraging and restructuring of the Chinese economy.

3. Colombia: after the adjustment of the economy, came the recovery

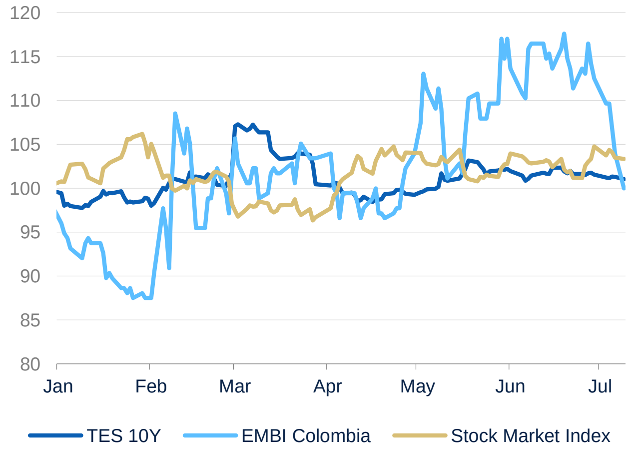
Oil behaviour will help offset external pressures

During the last three months, the dollar strengthened significantly as a result of the tightening of monetary policy prospects in the United States and the increases in risk premiums in emerging countries. In Colombia, the EMBI country increased 10 basis points from its lowest level in April to the level recently observed (Figure 3.1). At the same time, the price of oil rose, not only because of the increased world demand, after the recovery of economic growth, but also because of the bottlenecks in supply caused by some geo-political incidents. As a result, the Colombian peso was one of the emerging currencies that was least devalued in the recent past, thanks to the positive correlation it still maintains with the price of oil (Figure 3.2). While the Chilean peso have devalued by 9.5%, between their April lows and now, the Colombian peso just has devalued by 6.5% at the same period. Moreover, during the year, the COP has devalued only by 3.4%.

Other domestic assets also had some devaluations. The domestic public debt curve moved upwards almost in parallel (towards higher interest rates) between April and July. In total, the 10-year rate today is about 23 basis points higher than the minimum rate that had been presented in April (Figure 3.1). Also, short-term rates increased, despite the fact that the Banco de la República lowered its rate in April and that the inflation rate remained relatively stable since then.

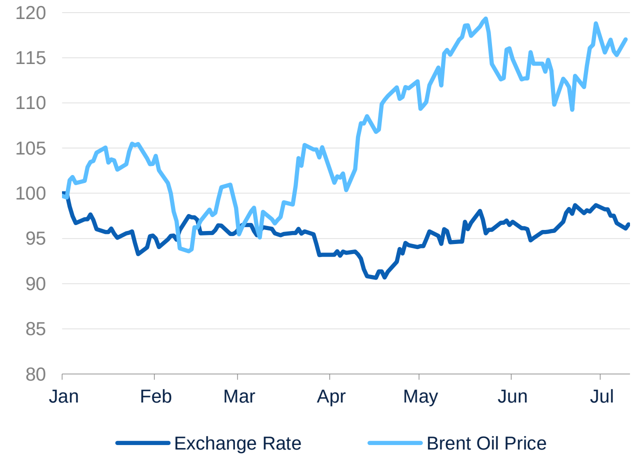
From now on, the price of oil, although being corrected, will remain at higher levels than in previous years, allowing the deterioration in the recovery of local assets to be moderate despite the new external conditions, which will determine less global liquidity (and lower capital income for the country) and higher external interest rates.

Figure 3.1 Indices of domestic assets
(Index Dec17 = 100)



Source: BBVA Research based on Bloomberg data

Figure 3.2 Dollar and price of oil
(Index Dec17 = 100)



Source: BBVA Research based on Bloomberg data

Final consumption, public and private, will boost further growth in 2018. In 2019 it will be the turn of investment

During the first quarter of 2018 the Colombian economy grew 2.8% in annual terms (series adjusted for seasonality and working days). The boost to activity came from public spending, which grew 7.2%, and from the adjustment of net external demand due to the continued fall in real imports. However, the start-up of private consumption, especially of services, was also significant as was the timid growth of investment other than construction, with the latter still below the increase in total GDP. However, heavy falls in the investment of civil works and buildings are a cause for concern.

Going forward, private demand will gradually accelerate. Firstly, private consumption will favour the lower financial burden of households, which began to fall from the end of 2017. This behaviour will be sustained by the persistence of low interest and inflation rates in the coming years and the progressive increase in disposable income throughout the economic recovery. In fact, income has not yet been a positive factor in alleviating the financial burden of households, other than the fall in the financial costs of their indebtedness. The deleveraging of households will also leave space for them to make new credit decisions, particularly from 2019, and thus promote a new upward cycle in spending on durable goods, such as vehicles and household appliances, which are characterised by being mostly financed through credit, supported by the expected stability of the exchange rate and interest rates.

The labour market, another key factor in the determination of consumption, was quite resilient in the slowdown of the economy, and its strengthening will contribute to the boosting of private consumption. Given the better growth prospects of the economy as of 2018, we believe that what remains of the deterioration of the unemployment rate is very marginal. In fact, so far this year, the unemployment rate has increased only 0.2 pp with respect to the same period of 2017, less than the increase of 0.6 pp observed between 2016 and 2017. All this considered, private consumption will grow from 1.8% in 2017 to 2.8% in 2018 and 3.6% in 2019 (Figure 3.3).

On the other hand, construction will stop contributing negatively to growth from the second half of this year, with a more marked acceleration in the civil works component, and a path of gradual and moderate recovery in buildings. The rest of the investment, associated with machinery and business transportation equipment, will also have an upswing. It will partially be helped by the low statistical base that has emerged up to the first quarter of the current year. However, the investment rate will not rise again until 2019 (Figure 3.4).

In addition to the low statistical base, several factors will support the recovery of non-construction investment. The confidence of entrepreneurs, both in industry and commerce, has improved in recent months, showing a steep improvement curve that has rarely been seen in the history of publication of these indicators. Likewise, the increase in energy demand reflects a dynamism that goes beyond residential demand. In fact, the latter showed an annual growth of 0.8% in May, while the consumption of the large producer sector grew 4.6%, explained especially by the mining, agriculture and transport sectors. We must keep in mind, however, that the upward behaviour of consumption in durable goods and of private investment will lead to a greater expansion of imports, reflected in a negative contribution to GDP growth of net external demand in many of the upcoming quarters.

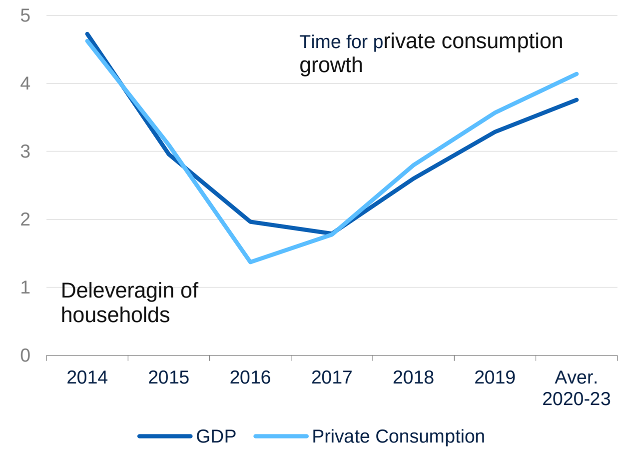
Like consumers, many companies (mainly mining and oil companies) have improved their financial balances and reduced their debt burden, while they made progress in cost efficiency during the period of economic slowdown. As a result, the profits that come from the economic recovery for these companies may be excellent in terms of earnings, although their investment decisions will also be limited because they have learned to maintain their productive activity with smaller expansions of installed capacity. That is, it is possible that the investment cycles we had in the first decade of this century, when investment grew double-digit, at rates that were three or four times those of GDP, and that led to a rapid increase in the investment rate in the economy, will not be repeated at the same speed in the new cycle of economic acceleration in the coming years. We expect a growth in investment of 0.3% in 2018 and 5.6% in 2019 compared with 0.6% in 2017.

This does not mean that there will not be any additional gains in the investment rate and, with it, in the potential GDP. In fact, we expect that potential GDP growth will continue to accelerate, from a current rate of less than 3%, to a figure that will be between 3.3% and 3.5% in the medium term. Although this improvement will be conditioned by the occurrence of some of the improvements in competitiveness and productivity required by the country.

Regarding public demand, although we expect it to continue to grow at an accelerated pace, we do not believe that it will do so at the same rate as in the first quarter of 2018 (7.2%). The positive effects on the dynamics of public spending imposed by the acceleration of spending by the mayoralties and governorates in the second half of their mandates and the hiring of workers for the population census and the anti-corruption consultation will be offset by the high fiscal constraints of the Central National Government, as detailed in the last part of this publication.

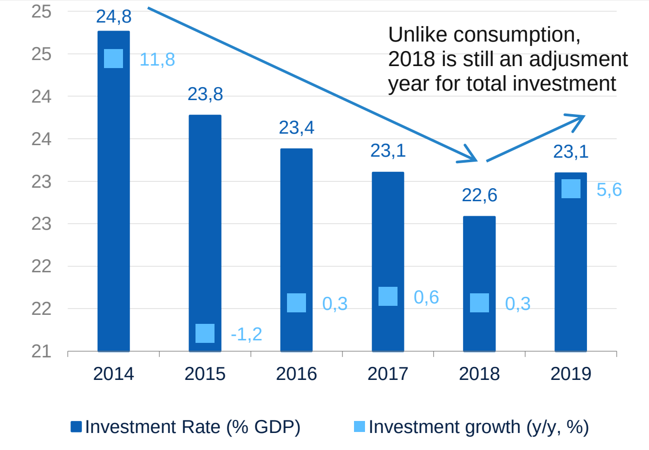
In conclusion, our prospects for GDP growth for 2018 and 2019 are respectively 2.6% and 3.3% in annual terms (Figure 3.3). These figures are higher than those we estimated three months ago (2.0% and 3.0%, respectively). We increased the projection for the two years by improvements in private consumption, an increase in the expected contribution of public spending and a greater investment in 2019. However, the improvement in the growth forecast was limited by a behaviour lower than expected in civil works and exports. In the medium term, growth will tend to be located at 4.0%, above the potential level of the economy, and will determine a definitive closing of the current negative gap towards the years 2022-2023.

Figure 3.3 Private consumption and GDP
(Annual change, %)



Source: BBVA Research forecasts and data observed by DANE

Figure 3.4 Gross investment
(Percentage of GDP and annual change, %)



Source: BBVA Research forecasts and data observed by DANE

The service sectors are warming up

At the sectoral level, services other than construction are the sectors that are warming up their engines. Trade and restaurant and entertainment services, thanks to the recovery of private consumption, will tend to accelerate forward and will continue to reaffirm the good growth figures recorded at the beginning of this year (Table 3.1). Transportation services will also show favourable behaviour, supported by the growth of exports and increased domestic consumption. Tourism services will continue to grow by leaps and bounds: the flow of foreigners will continue to increase and the exchange rate will continue to motivate domestic tourism overseas. Finally, telecommunications services, an activity that is very pro-cyclical, will leave behind the negative figures recorded during the activity deceleration process and we believe that the operating income of the different players in this sector will grow going forward.

In the industrial sector, we have two stories. On the one hand, sectors that depend on the building sector, such as the manufacture of non-metallic minerals and wood products, will continue to report negative figures in much of what remains of this year and part of the next. But, on the other hand, the food industry, some durable goods (such as vehicles) and some chemical products (beauty products) will have very positive figures that are based on higher private consumption and greater external demand. These factors put together result in industrial production that will accelerate in 2018 and 2019, but that will expand below the level of growth of the economy as a whole (Table 3.1).

Table 3.1 Sectoral forecasts

	2017	2018p	2019p
Agriculture	5.7	2.5	3.0
Mining	-4.2	-2.1	1.7
Industry	-2.0	1.9	2.5
Public Services	0.8	1.4	3.0
Construction	-2.0	-0.3	6.4
Buildings	*-5.3*	*-3.4*	*6.0*
Civil works	*7.5*	*2.5*	*6.0*
Trade, transportation and catering and hotels	1.2	3.2	3.7
Telecommunications	-0.1	4.3	4.4
Financial activities	6.9	6.6	6.7
Real estate activities	2.8	2.7	2.8
Professional activities	3.5	3.7	4.1
Government	3.8	4.2	2.5
Entertainment	4.0	3.2	3.6
GDP	**1.8**	**2.6**	**3.3**

Source: BBVA Research forecasts and data observed by DANE

The external deficit remains controlled: important news in the face of lower global liquidity

During the first quarter of 2018, the deficit in the current account stood at 3.5% of GDP, being reduced by 1.2 percentage points with respect to the deficit observed in the same period of 2017. In levels, the deficit was the lowest for a first quarter since 2012, when oil prices were above US$110 per barrel. This reflects the process of external adjustment, healthy and necessary, that Colombia is undergoing.

Going forward, higher oil prices will help maintain a low external deficit, despite the expected higher growth in the consumption of durable goods and investment in machinery and equipment, both with a significant imported component. However, not only fuel exports will be growing. Non-traditional exports will also be growing thanks to the better performance of Colombia's main trading partners. In effect, during the year to May, non-traditional exports grew 8.6%. Finally, resources from remittances will be significant, although with some risks not yet materialised in the observed and expected figures, due to restrictions on immigrants in the United States.

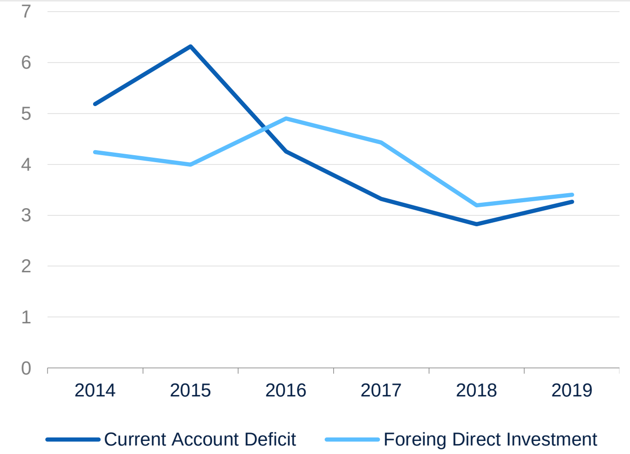
On the contrary, as in the past, the factor income account will have the most deficit due to the shipments of dividend by foreign companies with a presence in Colombia. In second place will be the trade deficit, which will favour an upswing in all types of exports, but will not be able to return to positive figures, which happened for the last time in 2013.

Our outlook for the balance in the current account is a relatively stable deficit in the coming years: 2.8% of GDP in 2018 and 3.3% of GDP in 2019 compared to 3.3% in 2017 (Figure 3.5). The greater deficit next year is explained by the stronger recovery of imports, associated with the greater acceleration of domestic demand, and the lower price of oil. The financing of the external deficit will be completely covered by foreign direct investment, which this year could be located at US$11.14 billion (3.2% of GDP) and in 2019 at US$12.81 billion (3.6% of GDP). That is, although portfolio capital arrivals are expected (between US$3 billion and US$5 billion per year), the economy will not depend on these flows to finance the current account deficit. This advantage is reflected in the low interest rates maintained by public bonds issued in Colombia (in Colombian pesos) or abroad (in different currencies), despite the greater global turbulence.

It is noteworthy that if the deficit in the current account had not adjusted to its pre-2014 levels, as in fact it did after the fall in oil prices, the economy would have greater external vulnerabilities. Especially in an environment of higher expected external interest rates and lower expected flows of portfolio capital, given the less expansionary measures in the central banks of developed countries.

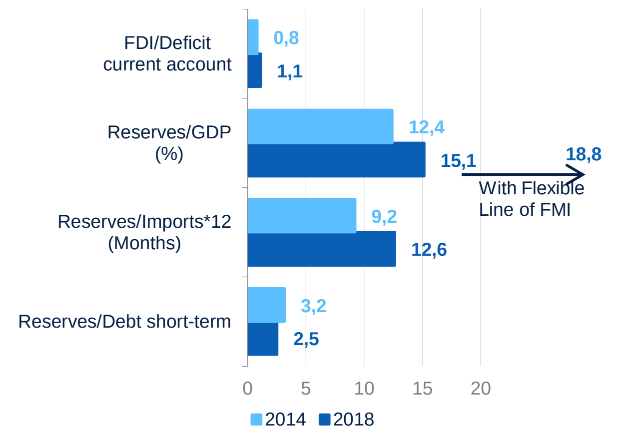
In this regard, the external indicators of Colombia stand out, all related to international reserves. These reserves are now greater as a percentage of GDP, finance a greater number of months of imports and are sufficiently greater than short-term external debt (Figure 3.6)

Figure 3.5 Current account deficit and direct foreign investment (Percentage of GDP)



Source: BBVA Research forecasts and data observed by Banco de la República

Figure 3.6 External indicators (Indices)

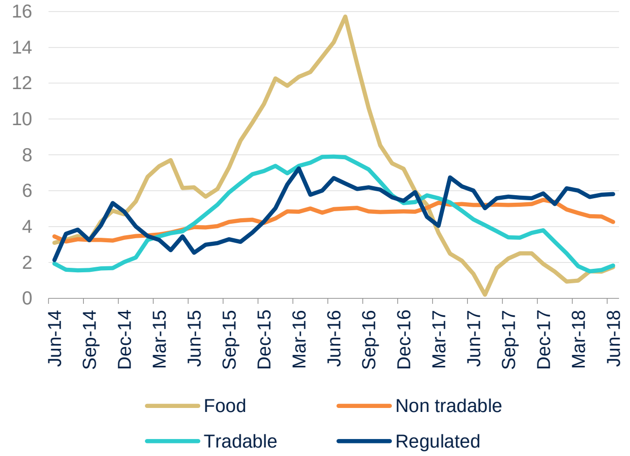


Source: BBVA Research with data from the Banco de la República

Inflation will remain low within the vicinity of the target

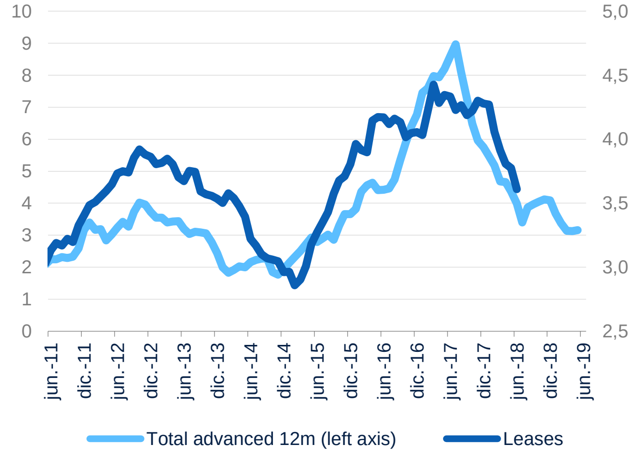
The news on inflation has been very positive. Prices are growing at rates very close to 3.0% (in June inflation was 3.2%). The low inflation of food has contributed to the cooling of prices, but it is not the only factor that explains this result. Inflation of tradeables (1.8% YoY in June), thanks to the stability of the exchange rate, has slowed, reaching low levels not been seen since 2014 (Graph 3.7). In addition, inflation in the non-tradeable group has been added, where we see a dynamic of deceleration in lease inflation and in some services such as education and health (Figure 3.7 and 3.8).

Figure 3.7 Inflation by expense groups
(annual change, %)



Source: BBVA Research with data observed by DANE

Figure 3.8. Headline and lease inflation
(annual change, %)

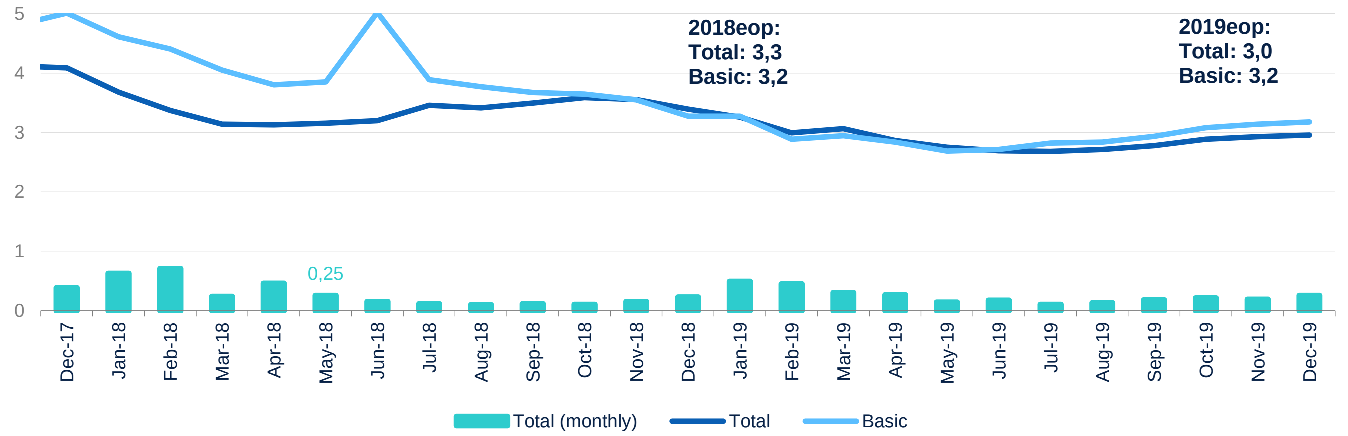


Source: BBVA Research forecasts and data observed by DANE

Inflation would have dropped more so far this year if it had not been for the upward dynamic that some prices of the regulated basket have been bringing (Figure 3.7). The rise in oil prices has pushed up the price of fuel, and these increases have not been offset by an appreciation of the exchange rate, as had happened in the past. We have also had energy rates above expectations and the delays in Hidrohituango will result in slightly more expensive energy prices in the future. The prices of the contracts that the trading companies are due to renew in the coming months will be pushed upwards.

The above, added to the increase in our growth forecast in 2018 and 2019, leads us to increase our inflation forecast slightly. For 2018 we expect inflation to be at 3.3% (previously 3.1%) and 2019 at 3.0% (previously 2.8%). We believe that food will push up inflation, especially in the third quarter, and that, since the end of the year, inflation will resume a downward path. The downward dynamic shown by lease inflation, coupled with the fact that inflation in 2018 will be lower than in 2017, which will determine a lower indexed inflation in 2019 (increase in prices of goods and services linked to past inflation), will help the headline and core inflation to cool a bit more (Figure 3.9)

Figure 3.9 Inflation expectations in 2019



Source: BBVA Research forecasts and data observed by DANE

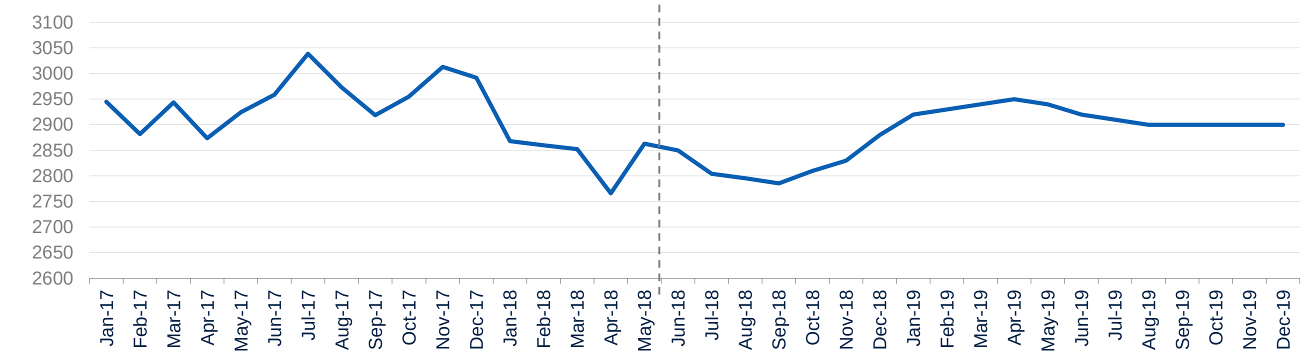
Stable rates in 2018 and 50 basis points of increase between the end of 2019 and the beginning of 2020

The upward adjustments that we have made to our GDP and inflation forecasts and the beginning of a cycle of acceleration in activity set a scenario of stability in the intervention rate of the Banco de la República at 4.25% for the remainder of the year. Then, the greater growth of the Colombian economy in the medium term and the higher external interest rates that we perceive in 2019 and 2020 will push up the neutral real interest rate of the Colombian economy (the interest rate that, discounting inflation, neither pushes nor affects the growth of the economy). In this way, we see that BanRep could raise its intervention rate by 50 basis points between the end of 2019 and the beginning of 2020.

Global uncertainty triggers volatility in the exchange rate

With the electoral panorama clearer and given that oil prices will remain above US$70 in 2018 and 2019 (Averages. 2018: US$72.1; 2019: US$70.3), we anticipate that the exchange rate will fall a little in the short term, down to levels that could even be below 2,800 pesos. However, given that external interest rates will continue to rise and global liquidity levels will fall in the medium term, we expect devaluation pressures on the Colombian peso in the medium term. The exchange rate is expected to end this year at levels close to 2,880 pesos and reach a high of 2,950 at the beginning of 2019, and then move back towards its long-term levels of around 2,900. We do not rule out, however, a high volatility in the exchange rate due to the possible outcomes of the trade war and the pressure on the emerging countries being exercised by the normalisation of monetary policy in developed countries. Our forecast, in this scenario, has a significant uncertainty component (Figure 3.10).

Figure 3.10 Path of the exchange rate up to 2019

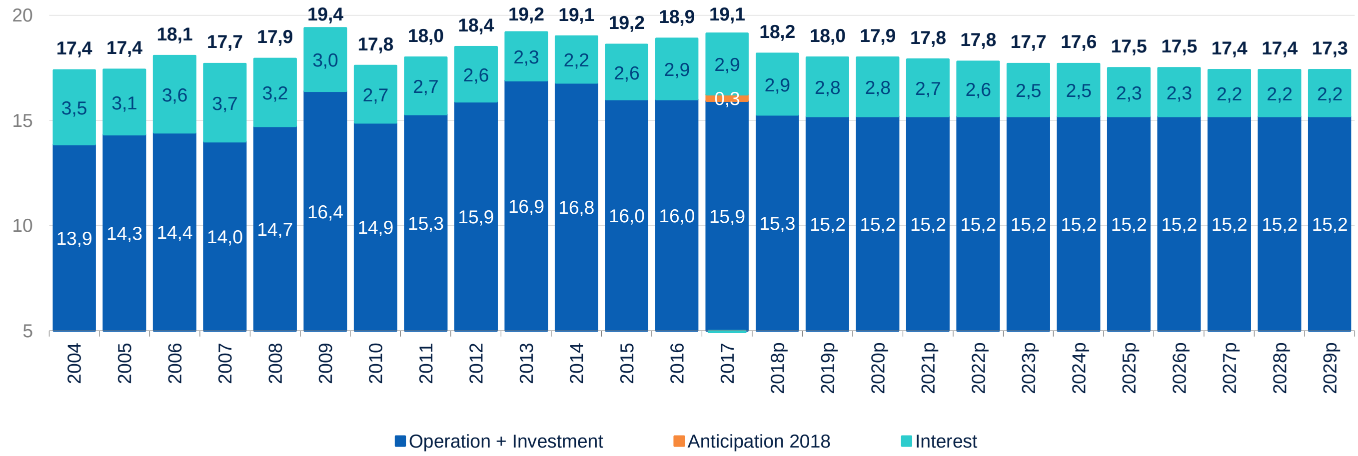


Source: BBVA Research forecasts and data observed by Banco de la República

The fiscal situation has been tightened at 10 years and requires a significant reduction in spending and/or increases in revenue to comply with the fiscal rule

Last June, the Medium Term Fiscal Framework (MFMP), the 10-year roadmap for national public finances, was published, and it explains how the Central National Government's accounts will be adjusted to achieve the reduction of deficit from the 3.6% in 2017, to 3.1% in 2018, to 2.4% in 2019 and to 1% from 2027, as required by the fiscal rule. The reduction in it must be achieved according to the MFMP with a combination of lower spending and higher revenues. Expenditures should fall from 19.1% of GDP in 2017 to 17.8% in 2022, with a very significant flying target in 2018 and 2019 (18.2 and 18.0% of GDP) (Figure 3.11). Total revenues must represent 15.6% of GDP, having been close to 15.5% in 2017, then being reduced in 2018 to 15.1% due to the total dismantling of the wealth tax and part of the income tax surcharge, and should increase to 16.4% in 2022. Interest-free spending is adjusted from 16.2% in 2017 to 15.3% in 2018 and to 15.2% in 2019, maintaining this strong adjustment throughout the projection path.

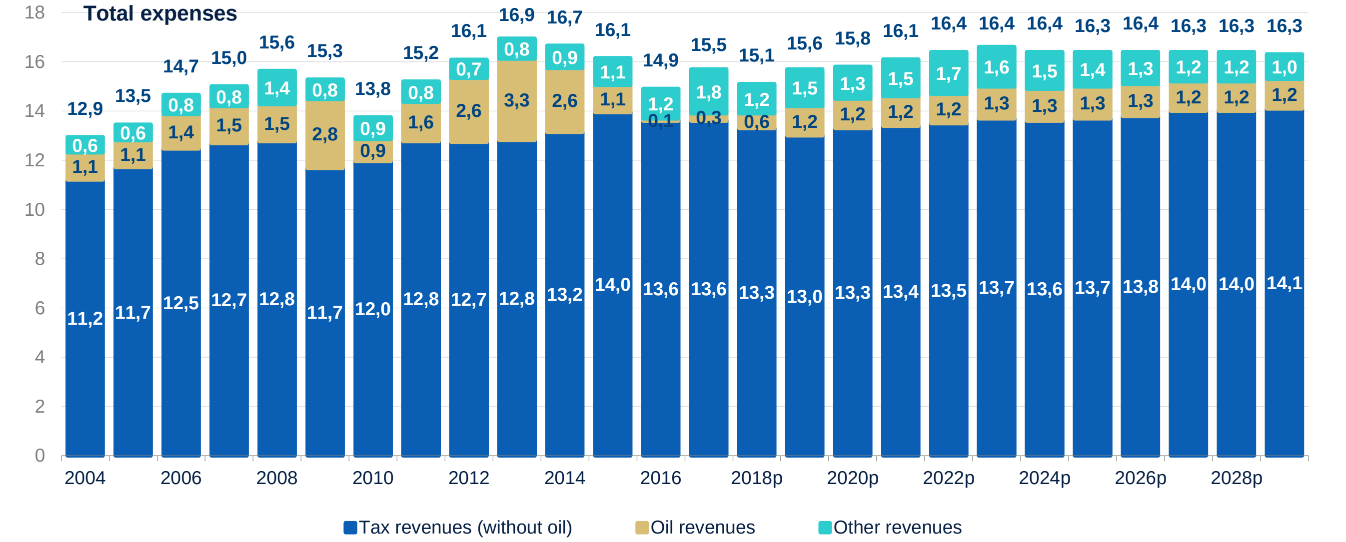
Figure 3.11 CNG expenses (% of GDP)



Source: BBVA Research with data from the Ministry of Finance

In this scenario, the increase in income depends somewhat more on higher oil revenues and “other income”. In the previous scenario, improvements in management and anti-evasion prevailed (Figure 3.12). The efforts to achieve additional “other income” are significant. It is expected that they will account for around half a point of GDP more between 2019 and 2029 than they did between 2004-2017, when they stood at 0.9% of GDP on average. On the other hand, the Government projects conservative (low) oil prices, but requires significant efficiency gains in Ecopetrol, which are materialised in high profits expected from this company. The share of oil revenues would rise from 1.9% in 2017 to 4.0% in 2018 and to 7.7% in 2019. On average, oil revenues will reach 1.2-1.3% of GDP between 2019 and 2029, with an oil production that reaches as much as 936 barrels in 2020.

Figure 3.12 Central National Government revenues (% of GDP)



Source: BBVA Research with data from the Ministry of Finance

Risks to growth

Although Colombia has significantly improved its external balance, it continues to have a deficit in the current account that is more than financed through foreign direct investment resources (FDI will on average be 108% of the current account deficit up to 2022, according to our estimates). Therefore, a widespread distortion of capital flows to emerging countries which reaches direct investment could limit the growth of domestic demand as the only way to adjust external accounts. This scenario could occur in a context of a disorderly exit from monetary policies in developed countries or if the risk premiums of emerging countries increase sharply in the face of a sudden and very sharp drop in the prices of raw materials. Although the impact of a scenario of this magnitude is strong, its probability is still low because central banks have been orderly in announcing their monetary policy and oil prices are again at high levels.

There are also certain domestic risks to the Colombian economy. In the first place, if the delays in the most important infrastructure works in the country persist, and acquire the character of a permanent lag, not only would GDP growth in the next two years be affected, but also competitiveness, productivity and growth potential in the medium and long term. The delays in the works could be explained by a deepening of the current bottlenecks. These are: corruption scandals, inadequate planning and design of plans and work restrictions by the affected communities.

There are other risks that, although they may have a smaller impact on the GDP growth figure in the short and long term, should also be on the radar of the analysis. Firstly, it cannot be ruled out that the growth of final consumption (private and government), the lower hydroelectric supply (due to delays in Hidroituango) and the higher price of fuel could lead to greater inflation pressures than were expected and that the Banco de la República could decide to hike its interest rates sooner and much faster than expected. Secondly, if the Central National Government fails to make a fiscal adjustment as required by the fiscal rule, this would increase the borrowing costs of the government and, with it, of the private sector, slowing down the process of economic recovery. Last but not least, we must be aware of the effects on confidence and spending decisions of the reform agenda planned by the new government. Among them, we will have to pay attention to the proposals for fiscal reform and modifications to the social security system, key issues in the forming of expectations for economic agents.

Tables with forecasts

Table 4.1 Macroeconomic Forecasts

	2014	2015	2016	2017	2018	2019
GDP (% YoY)	4.7	3.0	2.0	1.8	2.6	3.3
Private Consumption (% YoY)	4.6	3.1	1.4	1.8	2.8	3.6
Public Consumption (% YoY)	4.7	4.9	1.8	4.0	4.4	2.4
Investment (% YoY)	11.8	-1.2	0.3	0.6	0.3	5.6
Inflation (% YoY, eop)	3.7	6.8	5.7	4.1	3.3	3.0
Inflation (% YoY, average)	2.9	5.0	7.5	4.3	3.3	2.8
Exchange rate (eop)	2,392	3,149	3,001	2.984	2,880	2,900
Devaluation (%, eop)	24.2	31.6	-4.7	-0.6	-3.5	0.7
Exchange rate (average)	2,001	2,742	3,055	2,951	2,834	2.918
Devaluation (%, eop)	7.1	37.0	11.4	-3.4	-4.0	3.0
BanRep Rate (%, eop)	4.50	5.75	7.50	4.75	4.25	4.50
DTF rate (%, eop)	4.3	5.2	6.9	5.3	4.6	4.8
CNG Fiscal Balance (% GDP)	-2.4	-3.0	-4.0	-3.6	-3.1	-2.4
Current Account (% GDP)	-5.2	-6.5	-4.4	-3.6	-2.8	-3.3
Urban unemployment rate (%, eop)	9.3	9.8	9.8	9.8	10.0	9.5

Source: Banco de la República, DANE and BBVA Research

Table 4.2 Quarterly Macroeconomic Forecasts

	GDP (% YoY)	Inflation (% YoY, eop)	Exchange rate (vs. USD, eop)	BanRep Rate (%, eop)
1Q15	3.0	4.6	2,576	4.50
2Q15	3.3	4.4	2,585	4.50
3Q15	3.8	5.4	3,122	4.75
4Q15	1.8	6.8	3,149	5.75
1Q16	3.7	8.0	3,022	6.50
2Q16	2.6	8.6	2,916	7.50
3Q16	0.2	7.3	2,880	7.75
4Q16	1.4	5.7	3,001	7.50
1Q17	0.8	4.7	2,880	7.00
2Q17	1.9	4.0	3,038	6.25
3Q17	3.0	4.0	2,937	5.25
4Q17	1.4	4.1	2,984	4.75
1Q18	2.8	3.1	2,780	4.50
2Q18	2.0	3.2	2,931	4.25
3Q18	2.7	3.4	2,785	4.25
4Q18	2.9	3.3	2,880	4.25
1Q19	3.2	3.0	2,940	4.25
2Q19	3.4	2.7	2,920	4.25
3Q19	3.0	2.8	2,900	4.25
4Q19	3.5	3.0	2,900	4.50

Source: Banco de la República, DANE and BBVA Research

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This report has been produced by the Colombia Unit

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