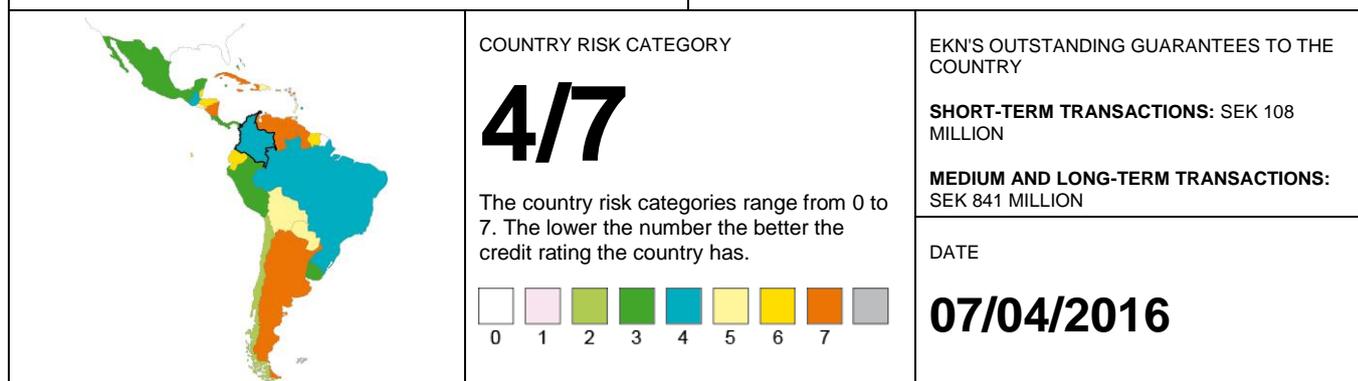


Colombia



An economy on the up and peace in sight

Economic growth in Colombia has continued to be favourable, although there has been a slight slowdown in the context of lower global growth. The country is also being impacted negatively by the falling oil prices. Political violence and the complex security situation are still leaving their mark on daily life in Colombia, but the situation has improved significantly over the past decade. The country's responsible economic policies have also improved its creditworthiness and increased interest from foreign investors. However, the social and economic costs of the country's long-term conflict with the guerrillas are high. Sustainable growth will require economic reforms that include the broad population, and the peace process is a key issue in that respect. A long-term resolution of the conflict would therefore be highly favourable for the country's economic growth. The economic policy course has been set and any political setbacks will hardly slow down the positive trend of the past years.

THE COUNTRY'S STRENGTHS AND WEAKNESSES

Strengths

- Stable economic growth
- Strong institutions and responsible economic policies
- Good relations with the IMF and lenders

Weaknesses

- Political violence and high crime rate
- Large income disparities
- High and increasing dependence on raw materials for export revenues

EKN'S POLICY

Certain restrictions

EKN has Colombia in country risk category 4 – an assessment made in collaboration with the other OECD countries.

For transactions with buyers in the private sector (banks, companies), EKN has no general restrictions, but each transaction is assessed on its own merits. This applies regardless of whether the transaction has a short credit period (less than one year) or a longer credit period. The same applies to transactions with central government debtors, such as the central bank or the ministry of finance. On the other hand, in the case of other public buyers (e.g. other ministries or municipalities), EKN's approach is more restrictive and EKN will normally require a letter of credit, or a bank or government guarantee for such transactions – in addition to that the transaction is being assessed on its own merits as usual. The same conditions apply to public enterprises.

WHAT MIGHT CAUSE A CHANGE IN EKN'S POLICY?

The policy may be made less restrictive in the event of

- A lasting peace agreement with the guerrillas.
- The stabilisation of oil prices at a higher level.

The policy may be made more restrictive in the event of

- Continuing political violence and the deterioration of the business climate
- A lack of tax reforms leading to a sharp increase in the budget deficit

EKN'S EXPOSURE AND EXPERIENCE

Problems with publicly owned buyers

EKN's exposure to Colombia is highly varied in terms of sectors, but transactions in the oil sector are dominant. Outstanding guarantees totalled nearly SEK 950 million. In 2015, EKN guaranteed 91 new transactions, totalling over SEK 200 million. EKN has had very mixed experiences. The negative experiences originate primarily from the Colombian public sector, while the experience with the private sector has generally been positive. EKN has also noted that the legal system in Colombia, as in many other Latin American countries, is characterised by slow proceedings.

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DISCLAIMER

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Background

Colombia's domestic policies have been characterised by violent conflicts for a long time. Today's complex security situation mainly stems from two factors that came onto the Colombian political scene in the 1960s and 1970s – the guerrillas and the drug trade. The 1980s also saw the formation of a counter movement against the guerrillas, the paramilitary groups. The cumulative violence has had negative consequences for human rights and led to a large number of people being forced to flee. However, the political situation has stabilised significantly over the past decade and the guerrillas have been pushed back militarily.

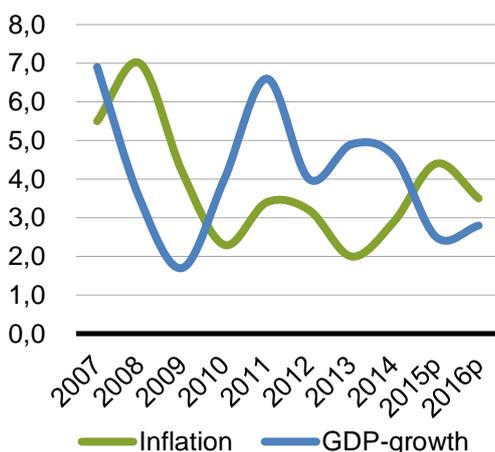
In terms of its civil society, Colombia is to be considered a developed democracy. Power has shifted hands between liberals and conservatives since the 1960s and was then spread to additional parties in the early 1990s. The country has a strong tradition of important institutions, such as the central bank, being managed professionally and standing for continuity whatever the political constellation.

Most recent trends

A peace treaty is now in reach after several years of negotiations. If and when a treaty is in place, the major challenge will be implementing the treaty and in particular integrating the various groups that have been involved in the conflict. Building a political consensus for necessary structural reforms is required, e.g. rural development, strengthening the institutional infrastructure in conflict areas and creating long-term balance in the public finances.

A peace treaty would pave the way for continuing favourable economic performance – growth has fluctuated at around 5 per cent and inflation has been moderate over the past ten years. Over 50 per cent of the economy's currency earnings stem from oil production.

CHANGES IN GDP AND INFLATION, %



Economic growth in Colombia is balanced.

Source: IMF

However, non-traditional export products such as flowers, bananas, minerals and light industrial products have progressed. The country has traditionally pursued orthodox economic policies, whatever the government's political persuasion. By adopting responsible economic policies, the country has gradually improved its credit worthiness and thus created the fiscal and monetary scope to counter economic fluctuations. However, the decline in the global economy and falling oil prices have slowed down the rate of growth and increased external and internal deficits. The currency has depreciated significantly and inflation has approached seven per cent. The weak growth in neighbours and trade partners

Venezuela and Ecuador has further exacerbated the situation. However, the government's readiness to make the necessary adjustments provides an extra margin of safety for the adverse times the country is facing and Colombia is coping with the decline better than most other Latin American countries. Colombia has also sought to counterbalance this decline with exports to its neighbours to the south. The country has also signed several free trade

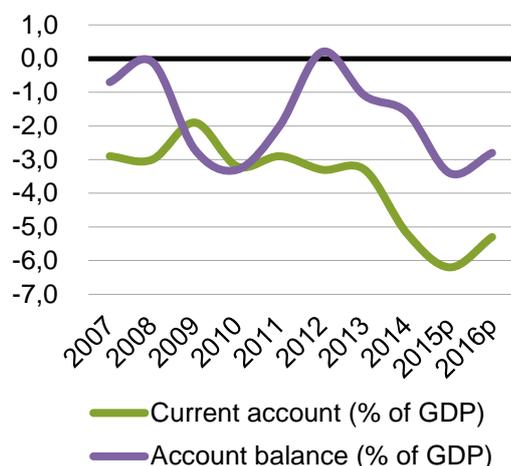
agreements (e.g. recently with the EU) to increase trade. The formation of the Pacific Alliance (including Colombia, Mexico, Chile and Peru) also aims to increase trade and economic integration between the countries.

Colombia's tradition of managing its payments has led to the country enjoying a long-term and relatively favourable relationship with the international financial system. The country's relationship with the IMF and lenders has traditionally been good, given the cautious economic policies the country has traditionally pursued. Debt has been reduced and the limited current account balance deficits have largely been covered by direct investments.

Long-term trends

The political consensus and moderation that have characterised economic policies for decades are expected to continue to be a fixture of Colombia. A successfully implemented peace treaty would also enable broader inclusion of the population in the relatively favourable economic

BUDGET AND CURRENT ACCOUNT BALANCE, % OF GDP



Higher internal and external deficits. Source: IMF

growth. However, the ballast of the long narcotics-related civil conflict will most likely continue to burden Colombian society. Yet this will not significantly affect the continuing positive economic trend in any way. Despite the falling oil prices, it is highly likely that Colombia will continue to enjoy favourable economic growth. The recovery in the US, a depreciated currency and infrastructure investments will prop up growth, but at the cost of continuing internal and external imbalances. Colombia's long-standing tradition of cautious economic policies, along with a buffer in the form of substantial international reserves, makes it however likely that the country's economic situation will remain under control.

BUSINESS ENVIRONMENT

Favourable business environment from a regional perspective

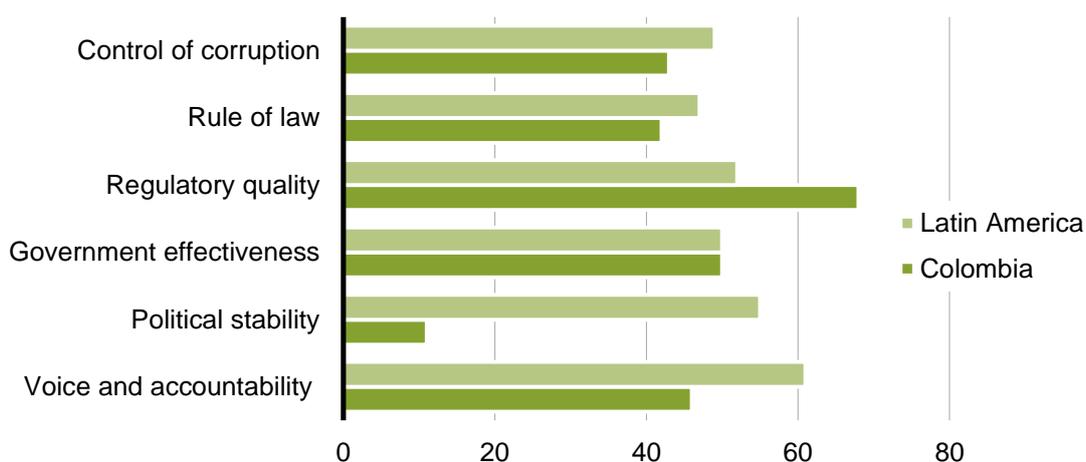
The availability of financial information on private buyers is generally good. Imports on open credit terms are frequent and EKN has good experience. The Colombian business sector has demonstrated a very strong ability to survive in a complicated political environment. Business ethics are also relatively high. On the other hand, there are large deficiencies in the local infrastructure, such as access to electricity, which are having a negative impact on the business environment.

As for the overall regulatory environment, on the one hand, it can be noted that the Colombian government administration is characterised by a high degree of professionalism. This includes the ministry of finance, the central bank and their affiliated agencies. On the other hand, local Colombian administration in the municipal authorities and companies is characterised by the complete opposite – corruption and political meddling at all levels. It is also difficult to realise security, as there is generally a requirement to go through an auction in order to realise a pledge.

The various indices compiled by the World Bank serve as barometers for the regulatory environment. Colombia is ranked the fourth best Latin American country in the Doing Business rankings, coming in 54th place (out of 189). In one of the underlying indices – which measures the ability to enforce rights under a contract – Colombia's ranking is however very poor (180th out of 189). In the World Bank's Governance Indicators, Colombia is at approximately the same level as countries such as Mexico, except for the political stability indicator, where Colombia is much worse.

BUSINESS ENVIRONMENT

Ranking from 0 (worst) to 100 (best)



The Colombian business environment is generally worse than the regional average. Source: World Bank 2015

The Colombian banking system is small relative to the economy, accounting for below 60 per cent of the country's GDP, which is in line with the Latin American average. About 80 per cent of the system is in domestic hands, and five banks hold two thirds of the entire loan volume. The system is mainly private, due to the sale of state-owned banks in conjunction with a major banking crisis in the late 1990s. Three local groups of owners currently dominate the banking system. Growth in the banking sector has been robust in recent years, and the proportion of bad loans is manageable at 2.9 per cent of total lending. The operating environment has posed a challenge for the banks, given the general political instability over the years. The situation has however improved in recent years. The country's economic expansion over the past decade has also been favourable for bank profits. The country's framework for banking regulation is relatively well-developed, although there is room for improvement, such as in terms of capital adequacy rules and how the tier 1 capital of the banks is defined. The government is also considered reliable in terms of its willingness to rescue any banks that get in trouble.