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## Colombia's economic strategy in the new global context

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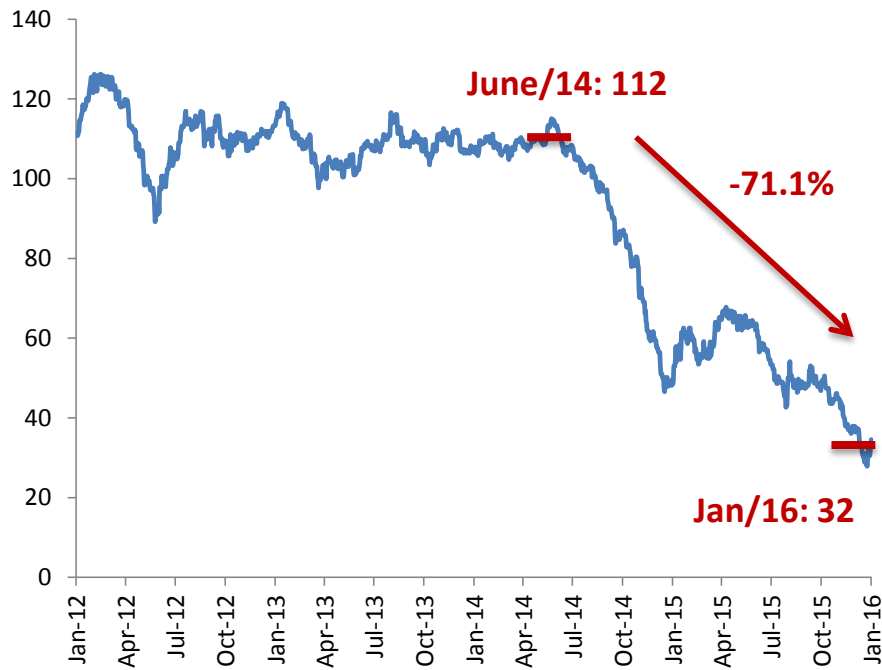
**Mauricio Cárdenas**  
**Minister of Finance and Public Credit**  
**Republic of Colombia**  
March 2016

# Outline

- Decline in Oil Prices: Impact
- Exchange Rate Adjustment
- Current Account
- Fiscal Response: Intelligent Austerity
- Inflation and Monetary Policy
- Additional Policy Actions
- GDP Forecast and Peace Process

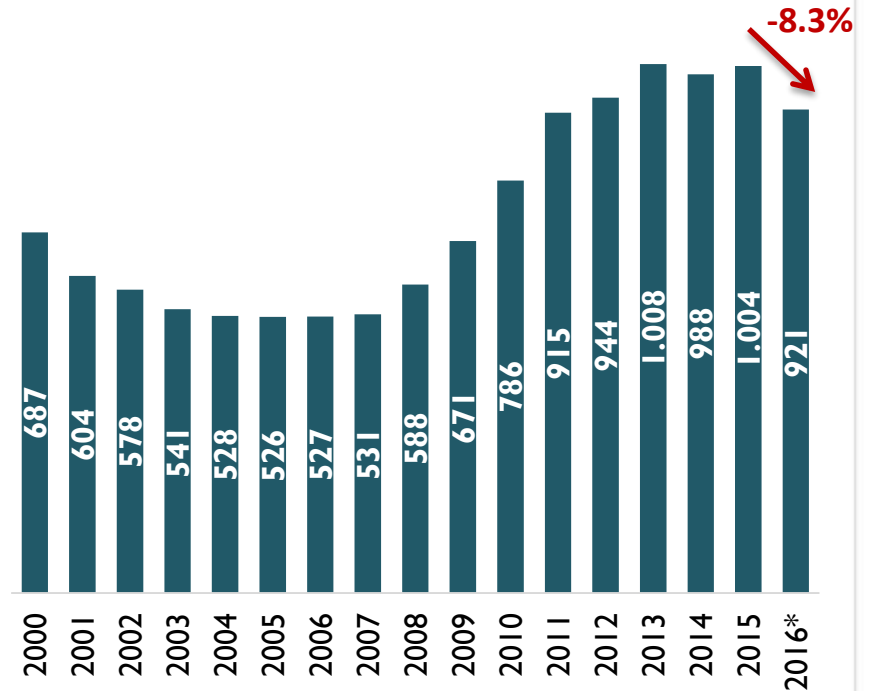
# Decline in Oil Prices: Impact

Fall in Oil prices: Brent  
(USD per barrel)



Source: Bloomberg

Oil production  
(kbpd)



\* Forecast

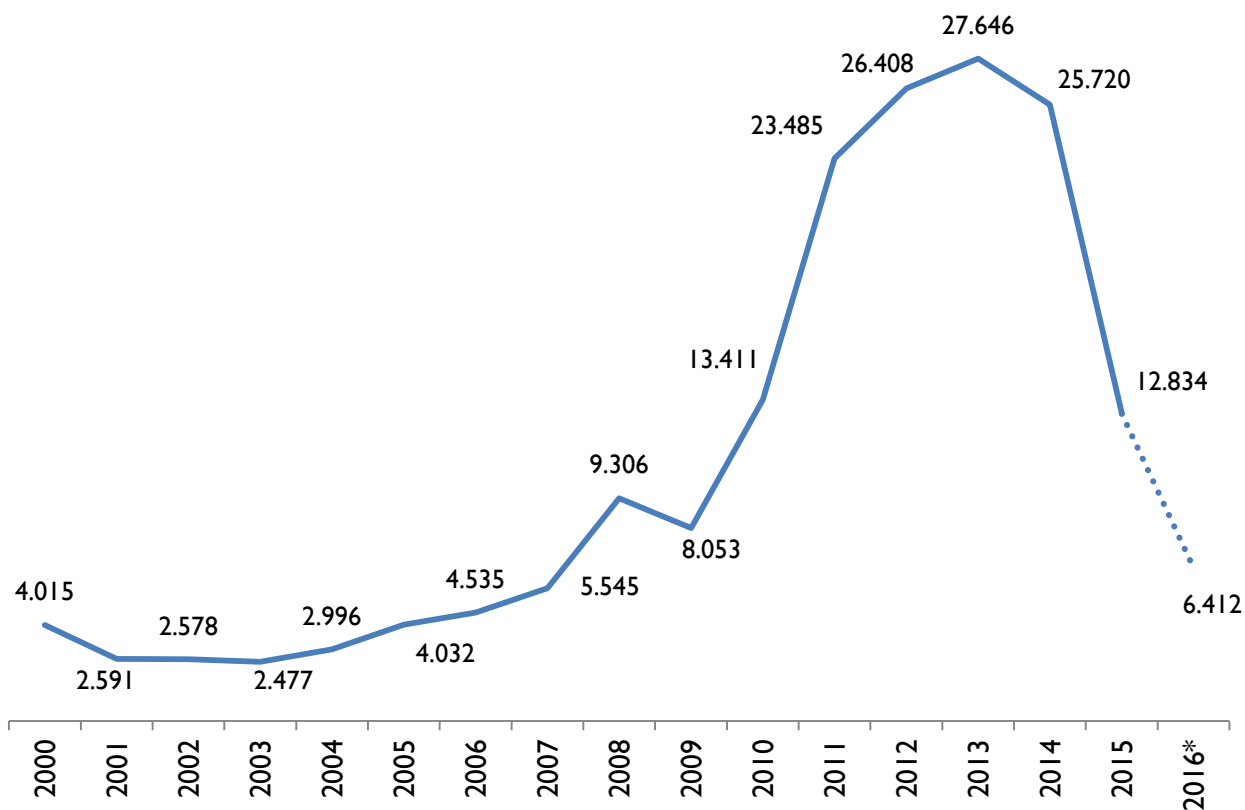
Source: Oil National Agency

## Oil Outlook for 2016: Government, Central Bank and Ecopetrol are Using an Average Brent Price of USD 35/barrel

SOURCE	2016Q1	2016Q2	2016Q3	2016Q4	2016
PIRA (Jan 15)	28	33	42	48	38
EIA (Jan 12)	36	40	42	42	40
IHS (Jan 14)	38	44	54	56	48
Curva Forwards (Feb 8)	33	34	36	38	35
Natixis (Jan 19)	30	34	38	40	36
BNP Paribas (Jan 15)	33	37	39	45	39
Société Générale (Jan 11)	35	40	45	50	43
Barclays (Jan 7)	30	36	40	43	37
Minimum					36
Maximum					48
Average	33	37	42	45	40

Source: Analysts

## Decline in Oil Prices: Effect on Crude Oil Exports (USD Million)



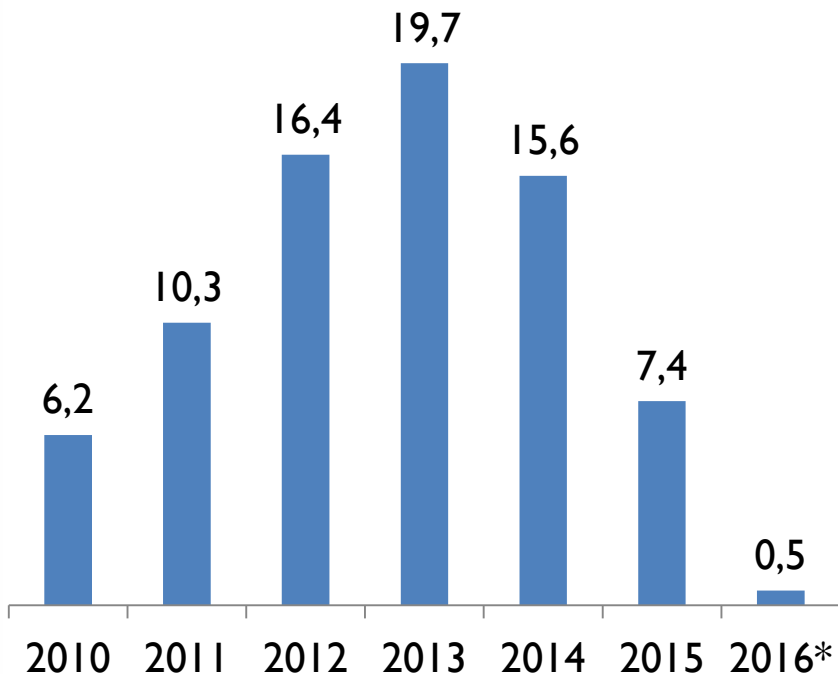
\* Forecast for December 2015 and 2016

Source: DANE

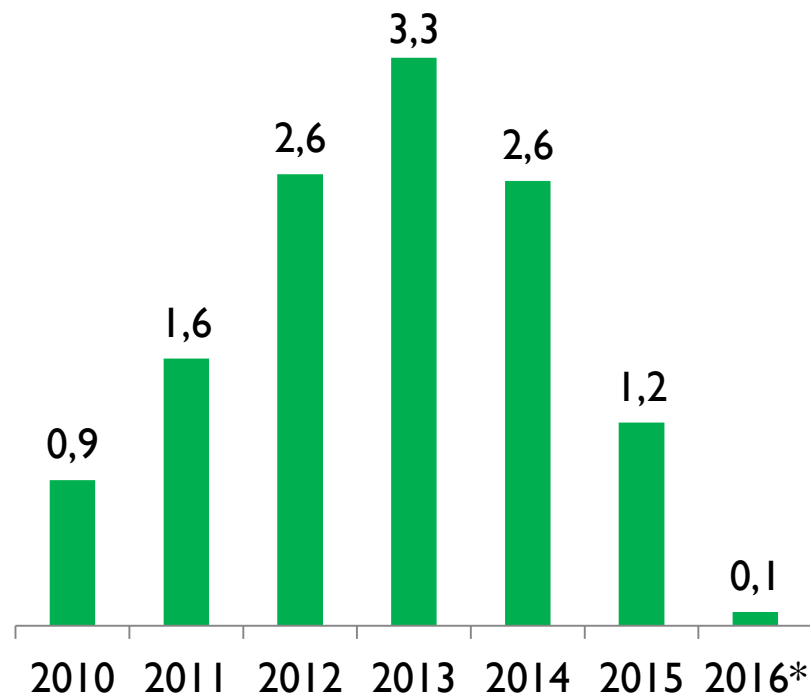
# Decline in Oil Prices: Effects on National Government Revenue

## Ecopetrol dividends and Oil-related taxes

Share of National Government revenue  
(Percentage points)



As percentage of GDP  
(%)

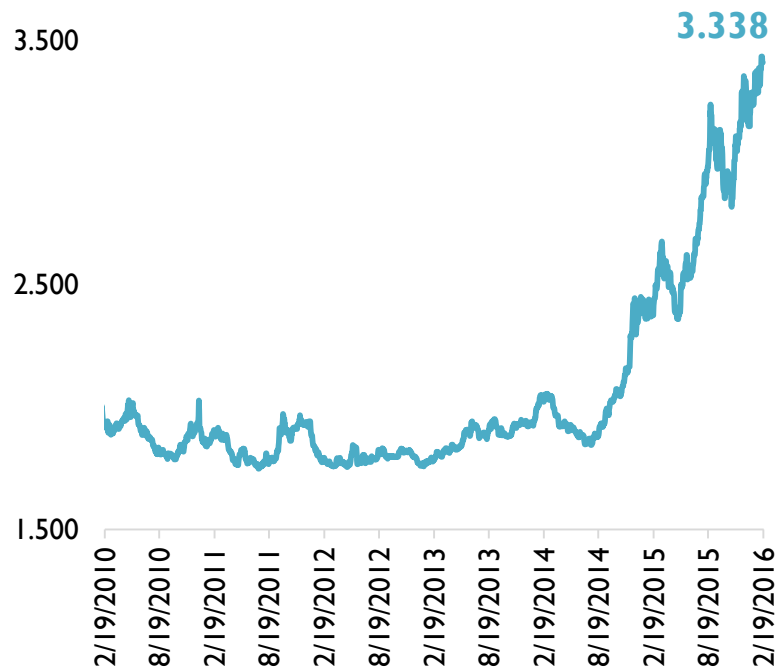


\* Forecast

Source: Ministry of Finance

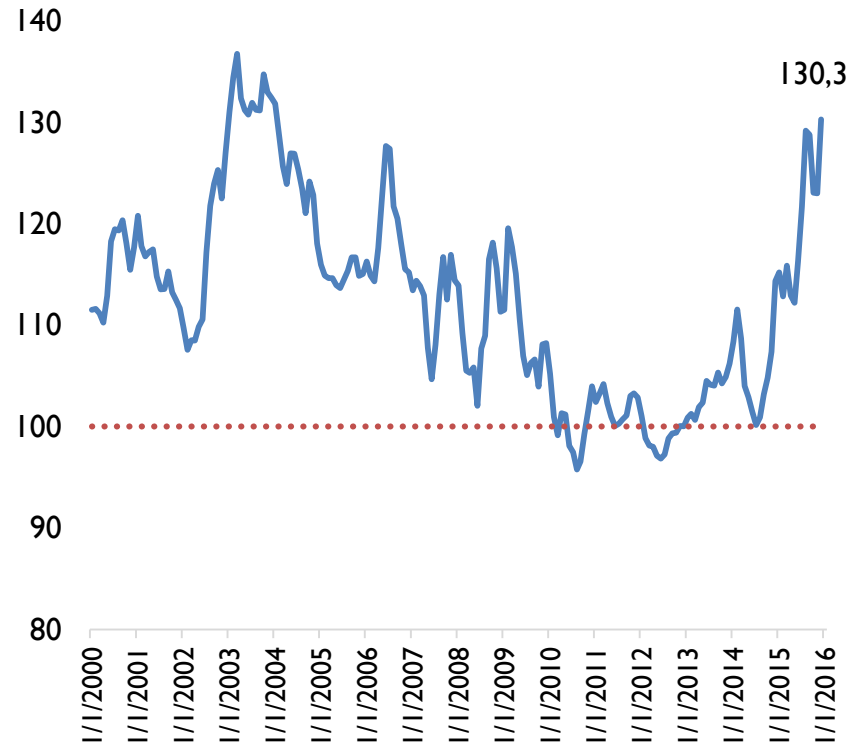
# Exchange Rate Adjustment

Nominal Exchange Rate  
(COP/USD)



Source: Bloomberg

Real Exchange Rate  
(2010=100)

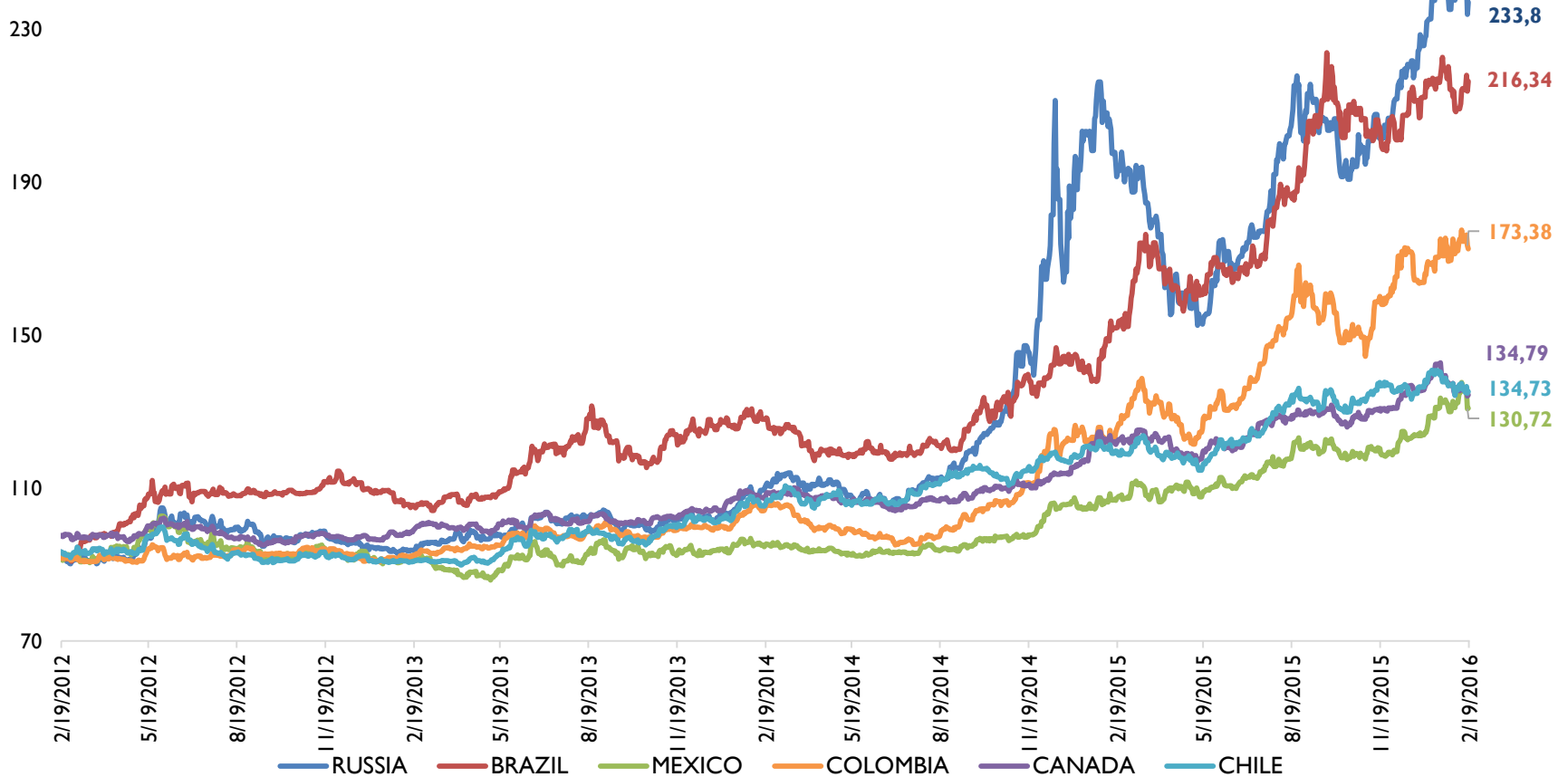


Source: Central Bank, Non-traditional trade.



# Exchange Rate Adjustment

## Emerging Market Nominal Exchange Rate (01/01/2012=100)

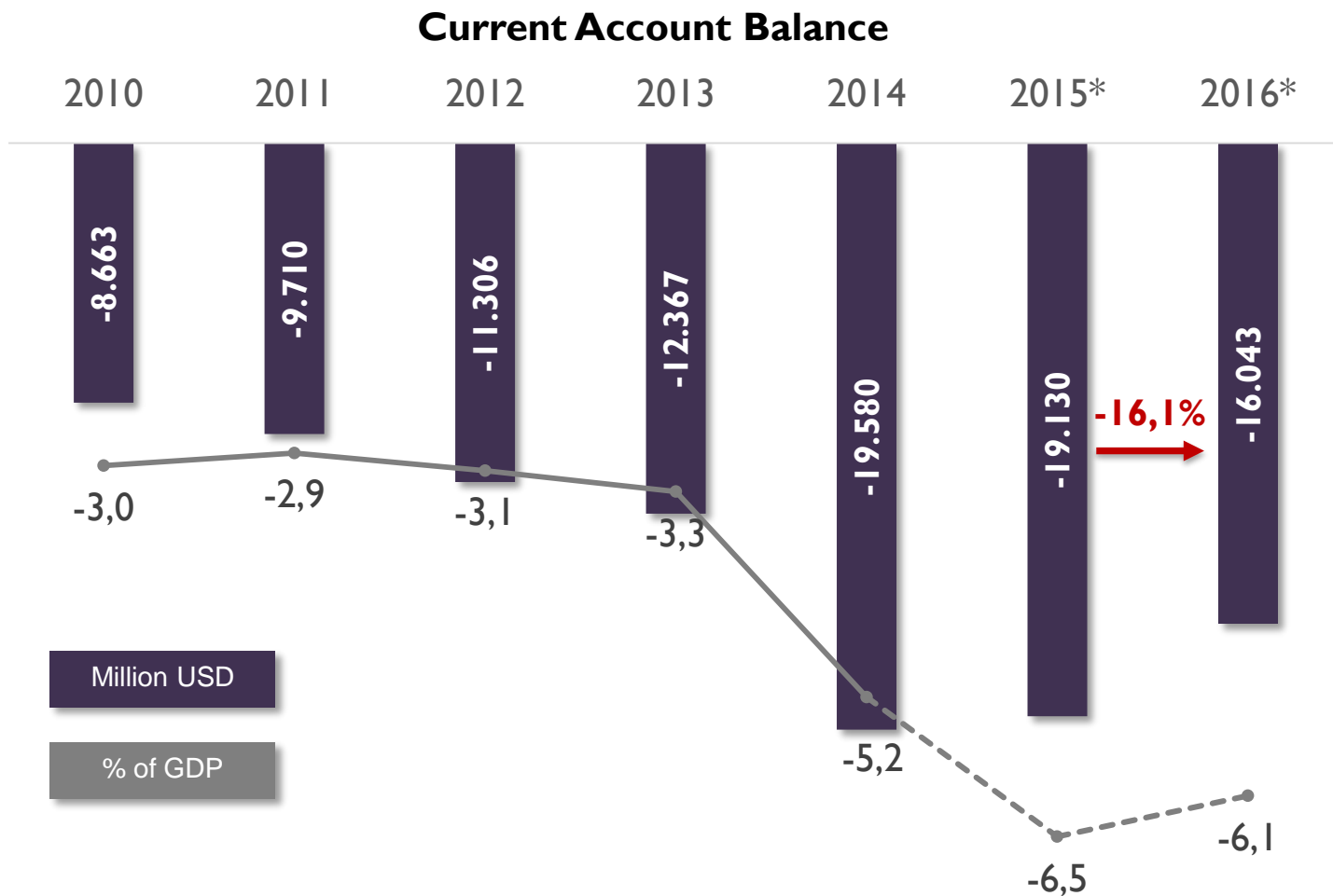


Source: Bloomberg





# Decline in Oil Prices: Effect on Current Account



\* Forecast.  
Source: Central Bank

## Current Account

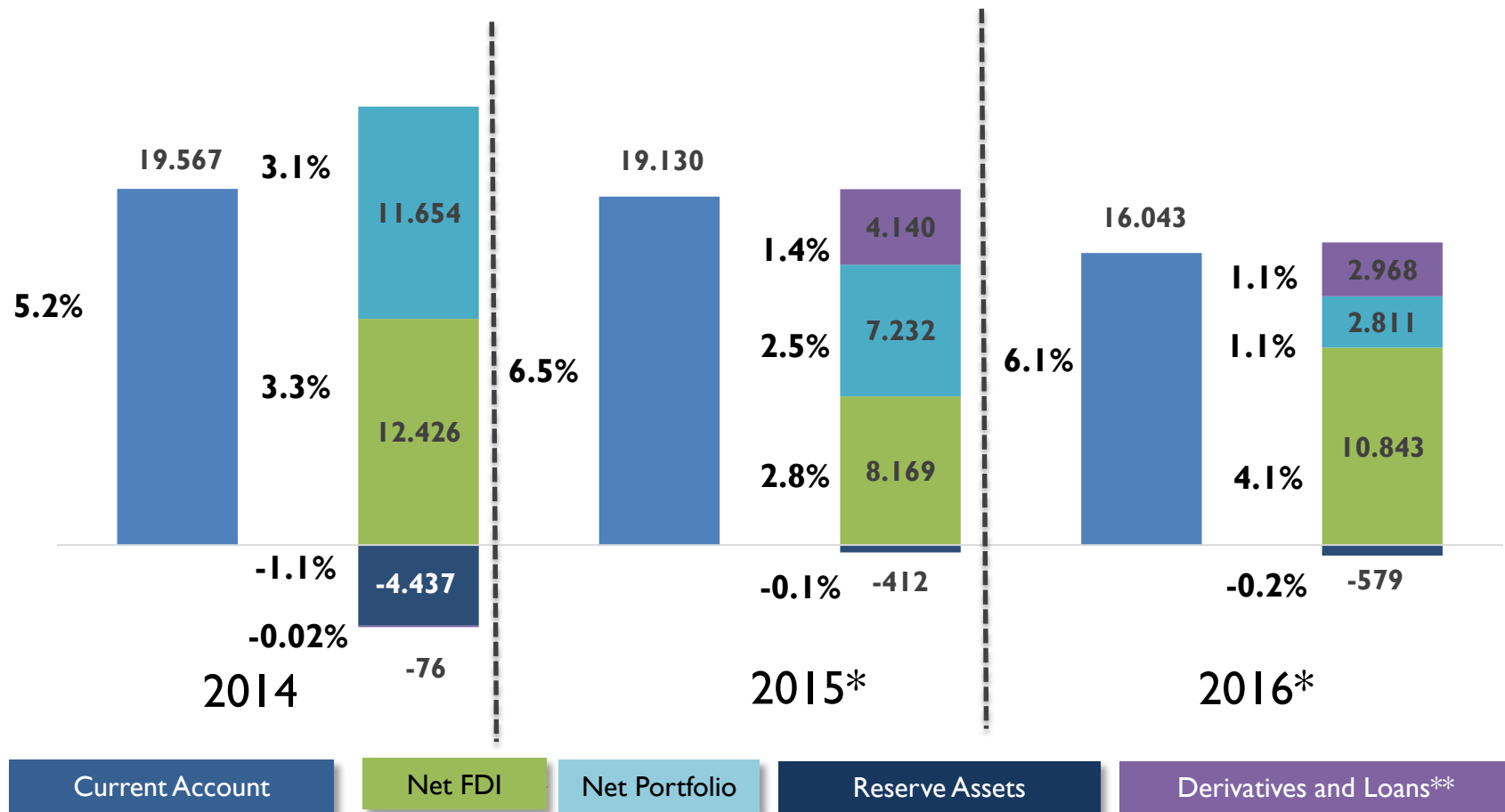
Between 2014 and 2015, the USD 18.987 fall in total exports was fully compensated by a reduction in imports and an improvement in the balance of services, factors and current transfers

	Million USD				
	2014	2015*	2016*	Annual variation	
				2015/2014*	2016/2015*
<b>Current Account</b>	<b>-19,567</b>	<b>-19,130</b>	<b>-16,043</b>	<b>438</b>	<b>3,087</b>
Goods	-4,598	-14,075	-13,372	-9,477	703
Exports	57,012	38,025	31,499	<b>-18,987</b>	-6,526
Crude Oil exports	25,720	12,861	6,412	-12,860	-6,449
Other traditional **	15,538	11,146	10,437	-4,392	-709
Non traditional	15,754	14,018	14,650	-1,736	631
Imports	61,610	52,099	44,870	<b>-9,510</b>	-7,229
Non-factor Services	-6,657	-3,784	-2,784	<b>2,873</b>	1,001
Factor Services	-12,671	-6,485	-5,193	<b>6,186</b>	1,292
Transfers	4,359	5,214	5,305	<b>856</b>	91
<b>Current account % of GDP</b>	<b>-5.2</b>	<b>-6.5</b>	<b>-6.1</b>	<b>-1.3</b>	<b>0.4</b>

\* Forecast for 4Q2015 and 2016

Source: Central Bank and Ministry of Finance

## Balance of Payments (USD Million) and % GDP



\* Forecast for 4Q2015 and 2016

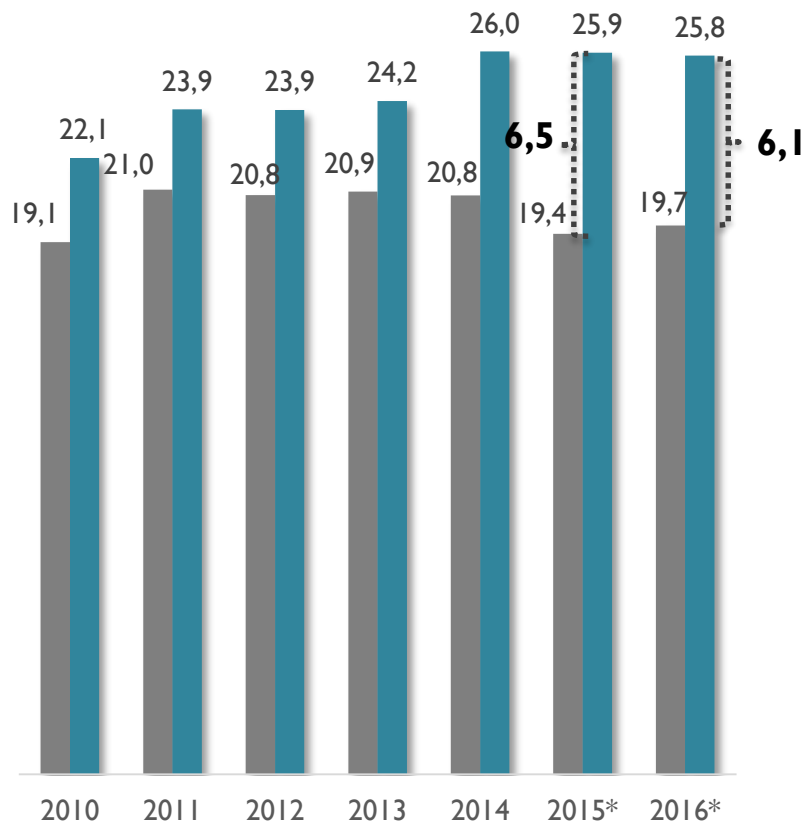
\*\* Includes errors and omissions reported by Central Bank

Source: Central Bank and Ministry of Finance

# An indirect way to interpret the current account is through the Saving-Investment Balance

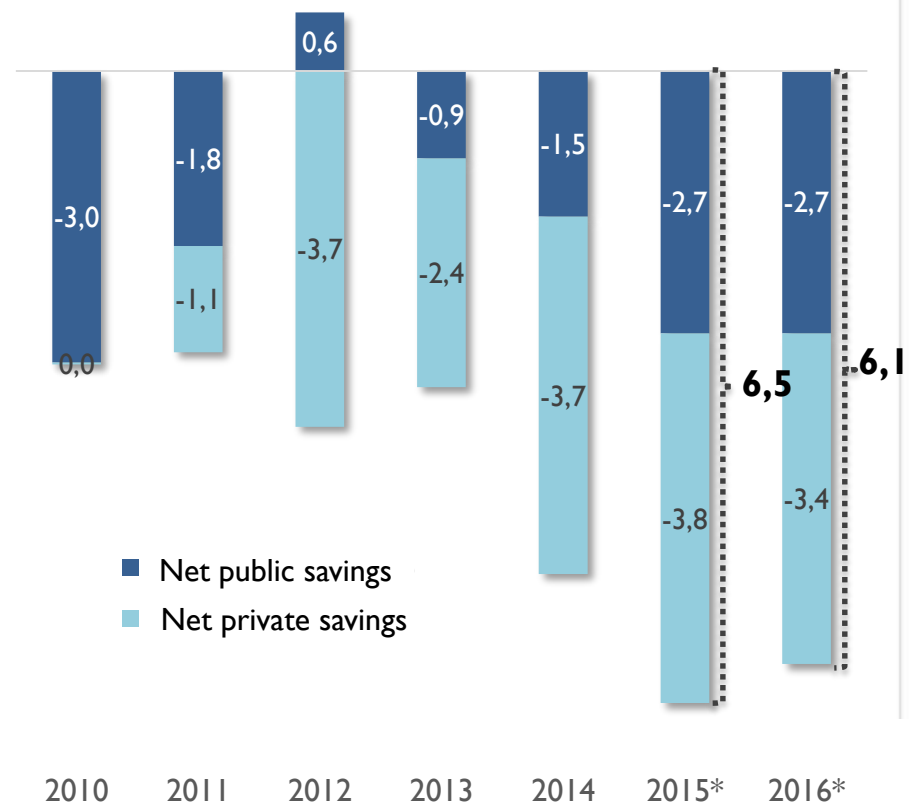
## Saving-Investment Balance<sup>+</sup>

■ National savings ■ Investment



## Net Savings Decomposition\*

■ Net public savings  
■ Net private savings



<sup>+</sup>Data are in Current COP

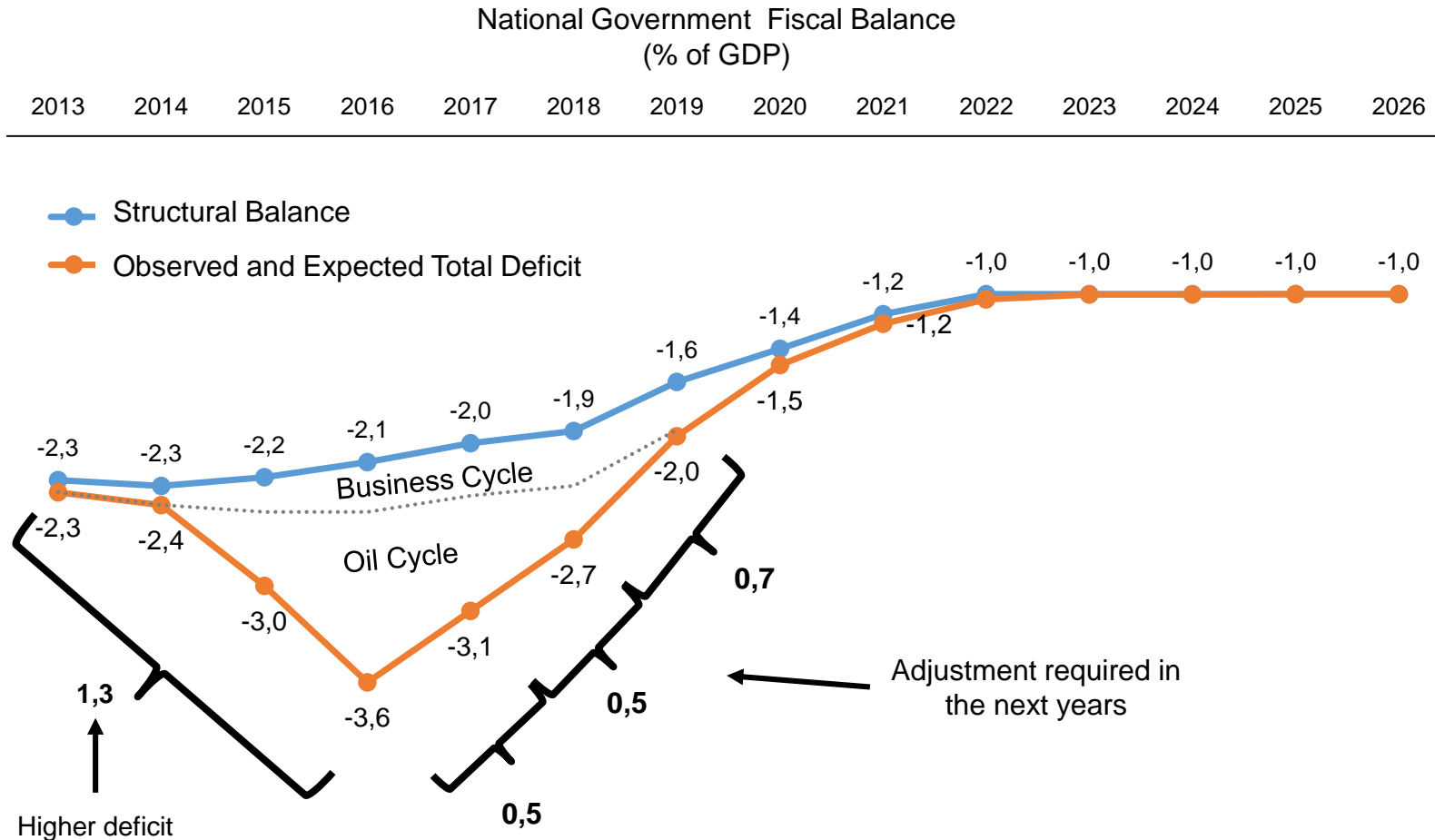
\*Forecast

Source: Ministry of Finance

## What helps us reduce the Current Account Deficit?

- Public expenditure cut to comply with the 3.6% deficit goal.
- Raise in interest rate
- Prudential wage increase
- Accumulated effects of past depreciation
- Structural tax reform

# Strict Compliance with Fiscal Rule



Source: Ministry of Finance.

# New Fiscal Outlook 2016

## Central National Government 2016 Projections

	Billion \$			% of GDP		
	2015*	Financial Plan 2016 (23-dec 2015)	2016 Today's Projection	2015*	Financial Plan 2016 (23-dec 2015)	2016 Today's Projection
Total Revenue	129.324	129.878	129.366	16,0	15,1	15,1
Tax Revenue	116.403	122.147	122.166	14,4	14,2	14,3
<b>DIAN</b>	<b>116.085</b>	<b>121.828</b>	<b>121.828</b>	<b>14,4</b>	<b>14,2</b>	<b>14,2</b>
<b>Others</b>	<b>318</b>	<b>319</b>	<b>337</b>	<b>0,0</b>	<b>0,0</b>	<b>0,0</b>
Non tax	681	618	722	0,1	0,1	0,1
Special Funds	1.557	2.019	1.951	0,2	0,2	0,2
Capital Revenue	10.683	5.094	4.528	1,3	0,6	0,5
<i>Of which, ECOPEL's dividends</i>	<i>4.148</i>	<i>1.262</i>	<i>691</i>	<i>0,5</i>	<i>0,1</i>	<i>0,1</i>
<b>Total Expenditure</b>	<b>153.593</b>	<b>160.785</b>	<b>160.213</b>	<b>19,0</b>	<b>18,7</b>	<b>18,7</b>
Interests	20.646	25.855	25.855	2,6	3,0	3,0
Current Expenditure + Investment	132.962	138.444	134.342	16,5	16,1	15,7
<b>Adjustment</b>	<b>0</b>	<b>-3.531</b>	<b>0</b>	<b>0,0</b>	<b>-0,4</b>	<b>0,0</b>
Total Balance	-24.269	-30.906	-30.847	-3,0	-3,6	-3,6
Cyclical Balance	-6.134	-12.491	-12.491	-0,8	-1,5	-1,5
Structural Balance	-18.135	-18.415	-18.356	-2,2	-2,1	-2,1

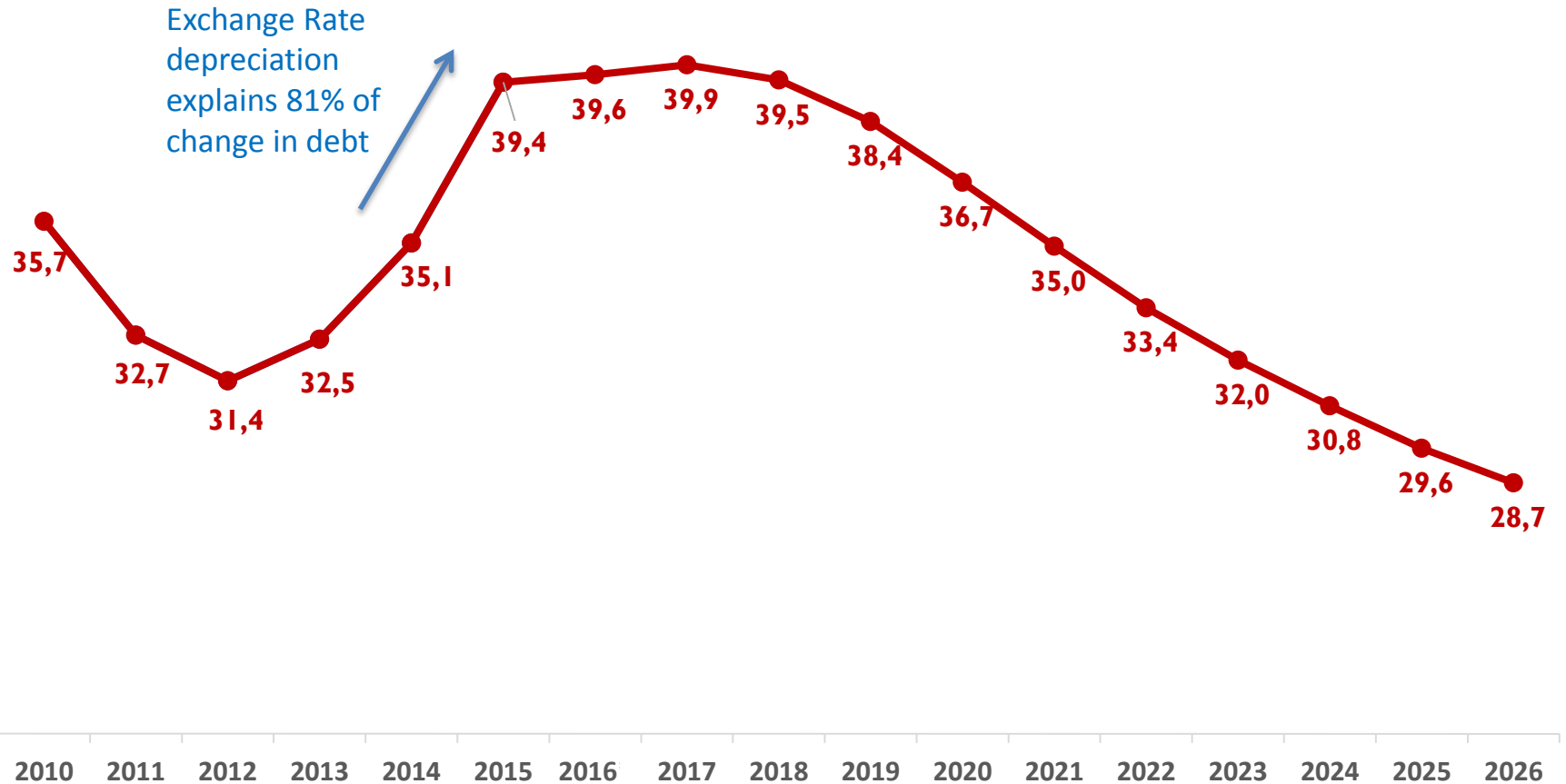
\* Preliminary data

Source: Ministry of Finance and Public Credit



# Expected Net Debt Path

(% of GDP)



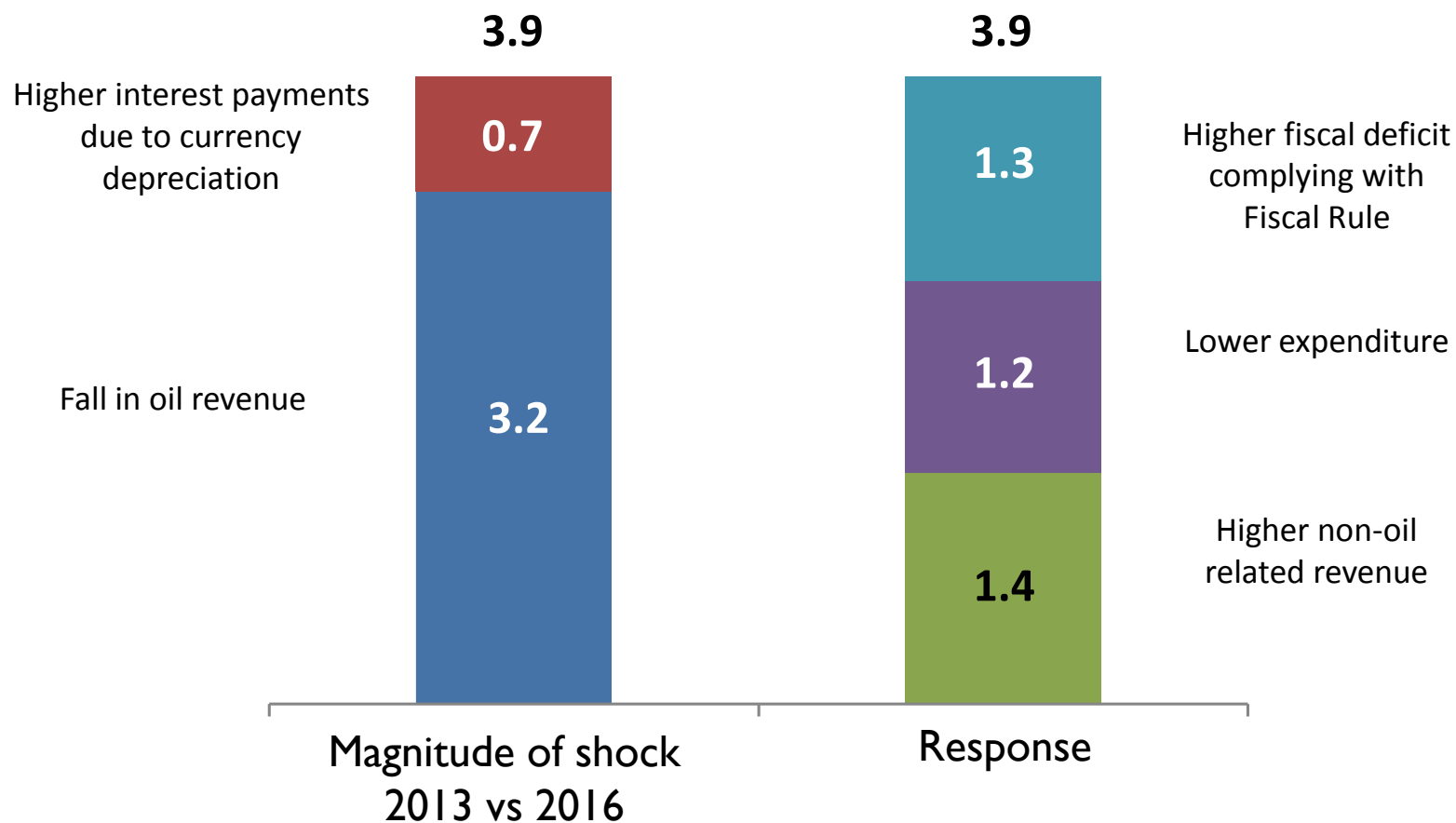
Source: Ministry of Finance.



## Active Fiscal Policy Implemented to Comply with Fiscal Targets

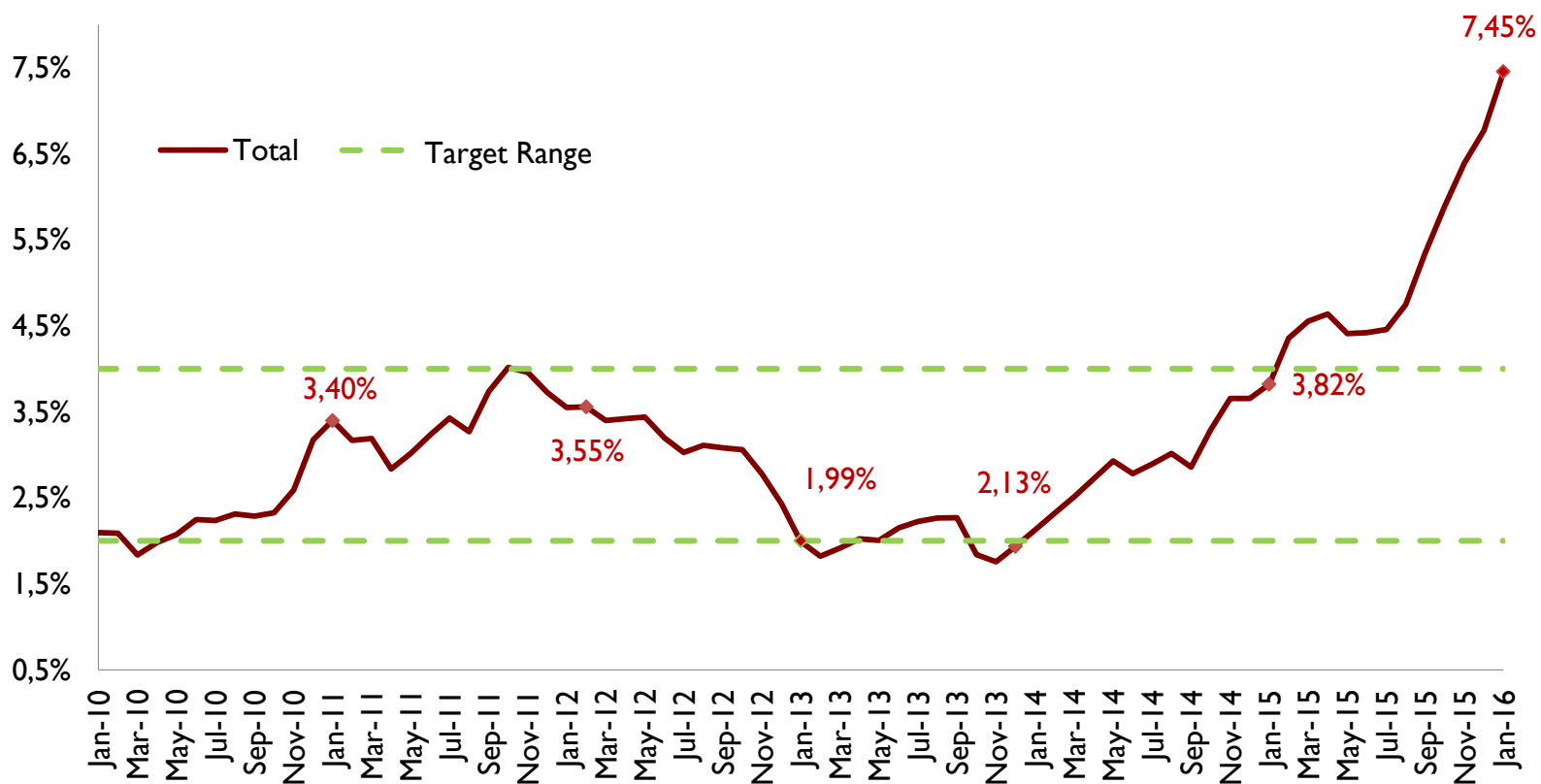
- Tax reform in 2014 and administrative measures replaced revenues that were to be phased out or end altogether in 2015, and raised non-oil related revenue by 0.6% of GDP.
- Budget cuts of COP 6.2 trillion (0.8% of GDP) in 2014, and COP 9 trillion (1.1% of GDP) in 2015.
- 2015 budget mandated a 10% reduction (relative to 2014) in general outlays.
- 2015 Presidential directive on expenditure control.
- 2016 approved budget is 0.6% of GDP lower than 2015 final budget.
- Budget cut of 0.7% of GDP in 2016.

# Fiscal Response: Intelligent Austerity (% of GDP)



Source: Ministry of Finance.

# Total CPI (Annual variation, %)



Note: Total CPI = CPI food (28,21%) + CPI tradable (26%) + CPI non-tradable (30,52%) + CPI regulated goods (15,26%)

Source: DANE. Estimates: DGPM- MHCP.

# Food CPI

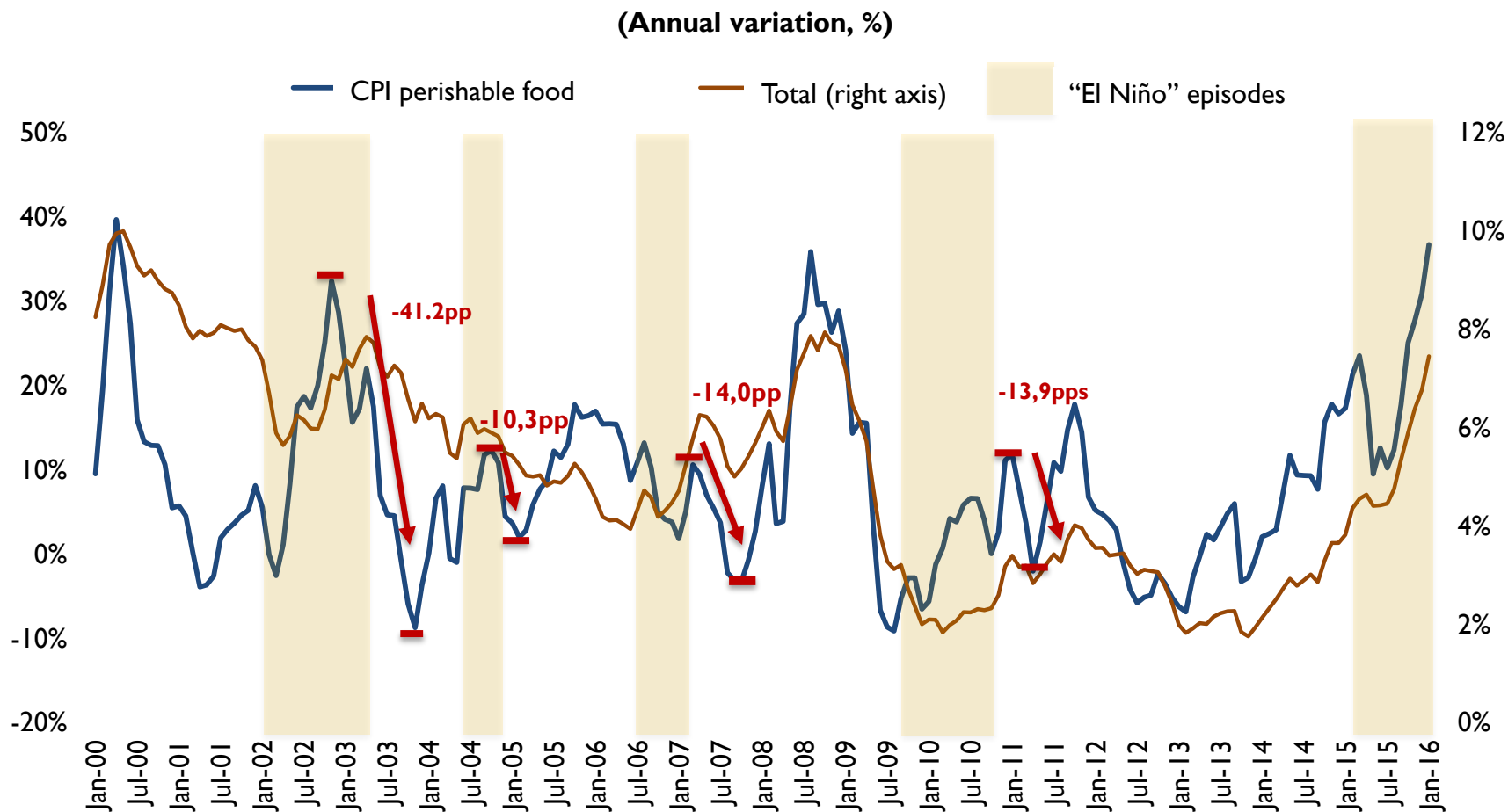
(28,2% of Total CPI)

Component	Annual Variation (%)		Contribution (pp)	
	Dic-15	Jan-16	Dic-15	Jan-16
Total Food CPI	10.85%	12.26%		
Lunch	6.02%	6.86%	1.51	1.71
Other fresh fruits	29.89%	34.88%	0.82	0.95
Rice	22.01%	15.03%	1.02	0.76
Beans	53.28%	45.79%	0.76	0.69
Potato	9.69%	30.27%	0.20	0.68
Other fresh vegetables	37.99%	43.92%	0.58	0.67
Meat	6.01%	7.14%	0.48	0.56
Oils	18.94%	20.50%	0.47	0.51
Other vegetables and dried vegetables	42.54%	55.61%	0.35	0.47

Source: DANE.  
Estimates: Ministry of Finance



# “El Niño” phenomenon effects on perishable food prices

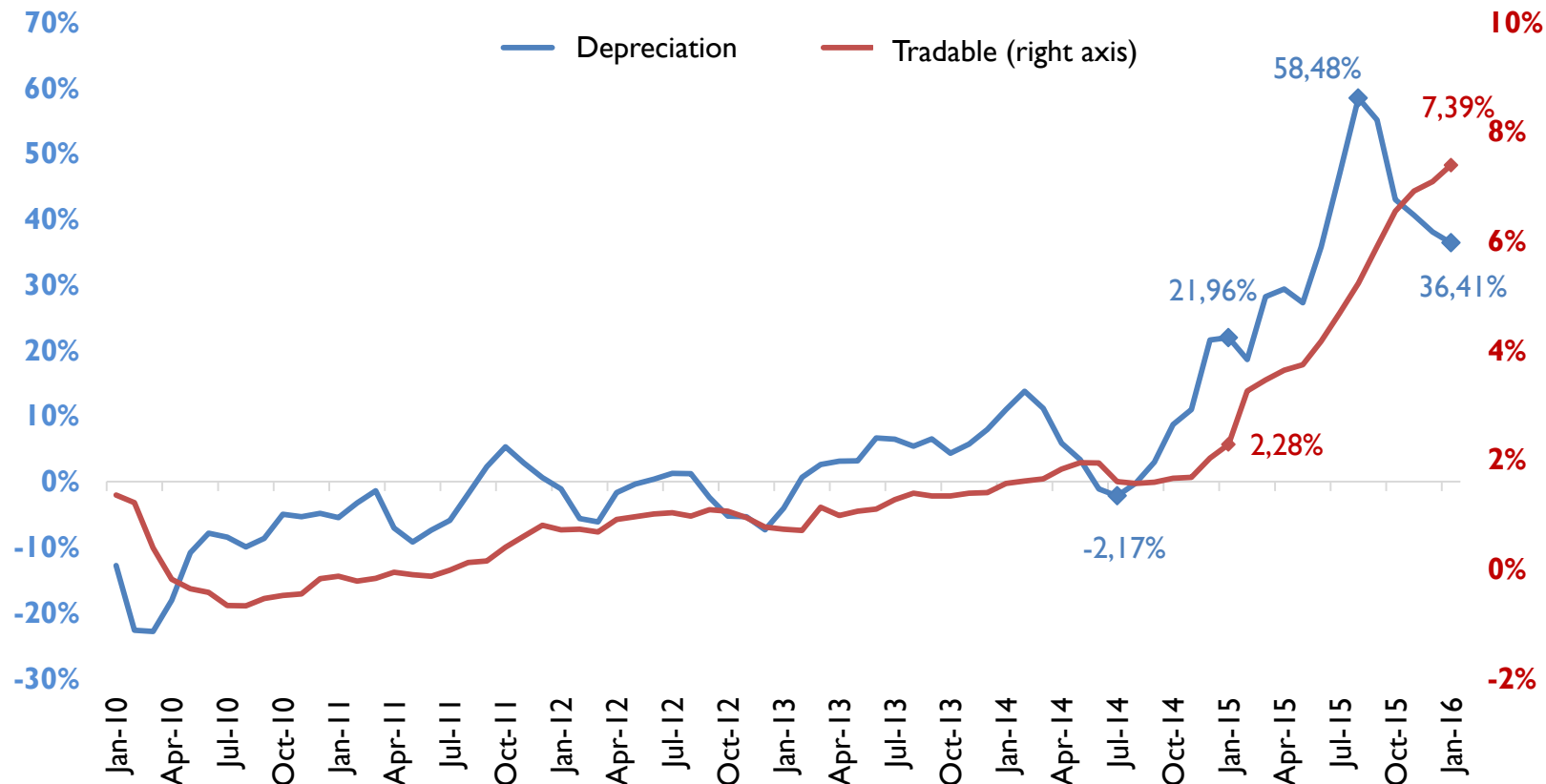


Source: DANE y NOAA .  
 Estimates: Ministry of Finance.

# CPI Tradables

(26,0% of total CPI)

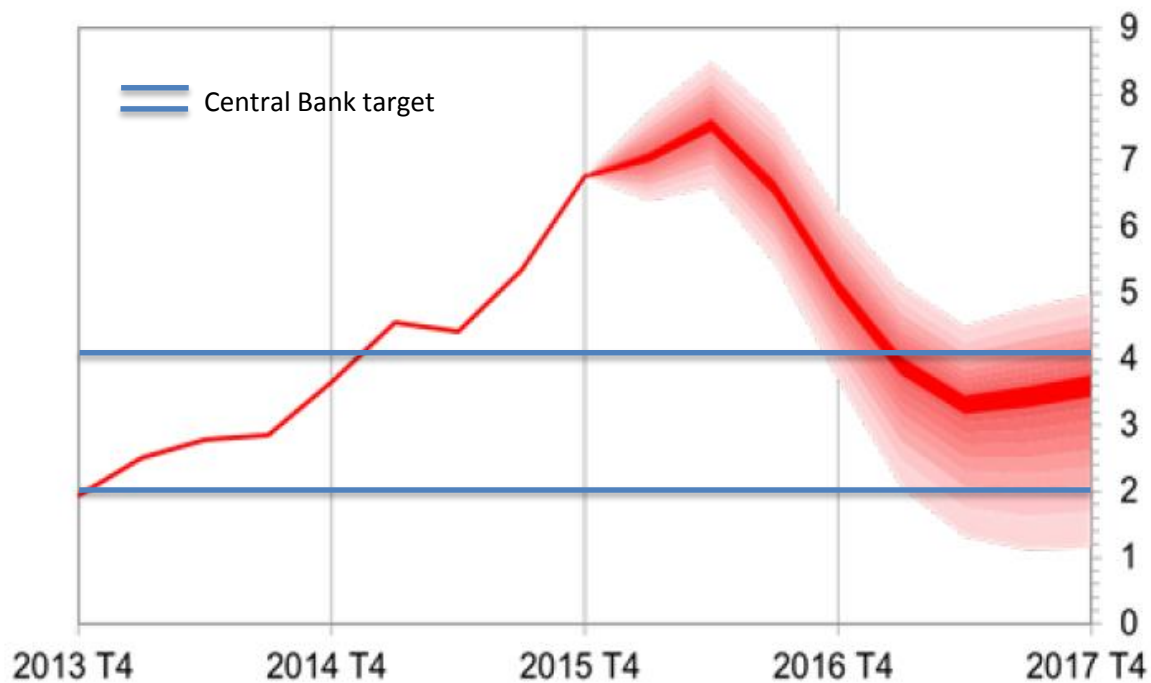
(Annual variation, %)



Source: DANE.  
Estimates: DGPM- MHCP.

# Inflation and Monetary Policy

"Fan Chart" Total Inflation



	Probability (%)	
	Dec-2016	Dec-2017
<2%	0	18
2-2.5%	0	11
2.5-3%	1	14
3-3.5%	3	16
3.5-4%	8	17
>4%	89	23
<b>&lt;4%</b>	<b>12</b>	<b>76</b>

Source: Central Bank

## Upcoming Expenditure Decisions

- Budget cut to comply with fiscal targets: DONE
- Presidential directive on expenditure control will:
  - Freeze number of government employees.
  - Set general outlays at 90% of 2014 level.



According to the latest data, GDP growth in 2015 was around 3,0%.  
For 2016 growth pace will be stable

Institution	2015*	2016
Credit Suisse	3,2	3,2
Ultraserfinco	3,2	3,2
Ministry of Finance	3,2	3,0
Bancolombia	3,1	2,6
Banco Bradesco	3,0	2,6
Banco de Bogotá	3,0	3,2
Polinomics	3,0	2,2
Santander	3,0	2,7
Banco de la República	3,0	2,6
CorpBanca Económico	3,0	2,9
Deutsche Bank	3,0	2,8
Goldman Sachs	3,0	2,8
Itaú BBA	3,0	2,5
Corficolombiana	3,0	2,8
Oxford Economics	3,0	2,8
Fedesarrollo	3,0	2,5
Credicorp Capital	3,0	2,3

Institution	2015*	2016
Capital Economics	3,0	2,5
BTG Pactual	3,0	2,3
BMI Research	2,9	2,9
Citigroup Global Mkts	2,9	2,4
HSBC	2,9	2,2
JPMorgan	2,9	2,2
ANIF	2,8	2,5
Standard Chartered	2,8	2,5
Kiel Institute	2,7	3,3
Telefónica Colombia	2,7	2,9
BBVA Research	2,7	2,4
Barclays Capital	2,7	2,1
UBS	2,6	2,8
EIU	2,6	2,6
Nomura	2,6	2,3
BofA Merrill Lynch	2,6	1,7
IMF	2,5	2,8
Frontier Strategy Group	2,3	2,7

GDP Forecast below 3,0% for 2015

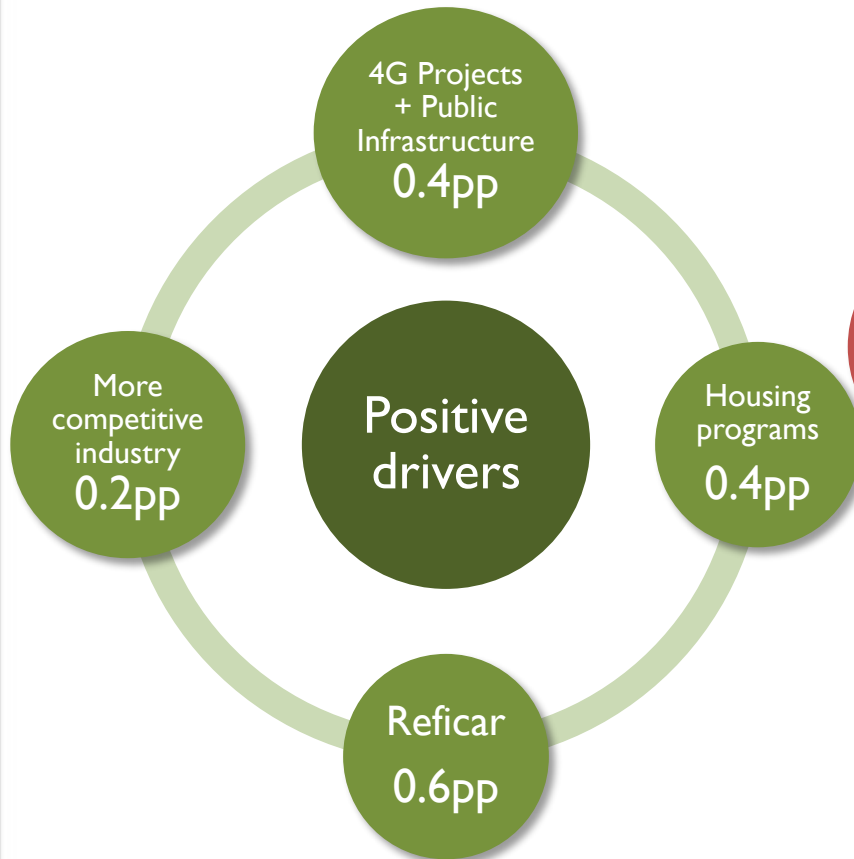
<b>Average with Ministry of Finance</b>	<b>2,88</b>	<b>2,62</b>
<b>Average without Ministry of Finance</b>	<b>2,87</b>	<b>2,61</b>

\* 2015 forecasts are from Latin Focus Consensus Forecast Dec-2015

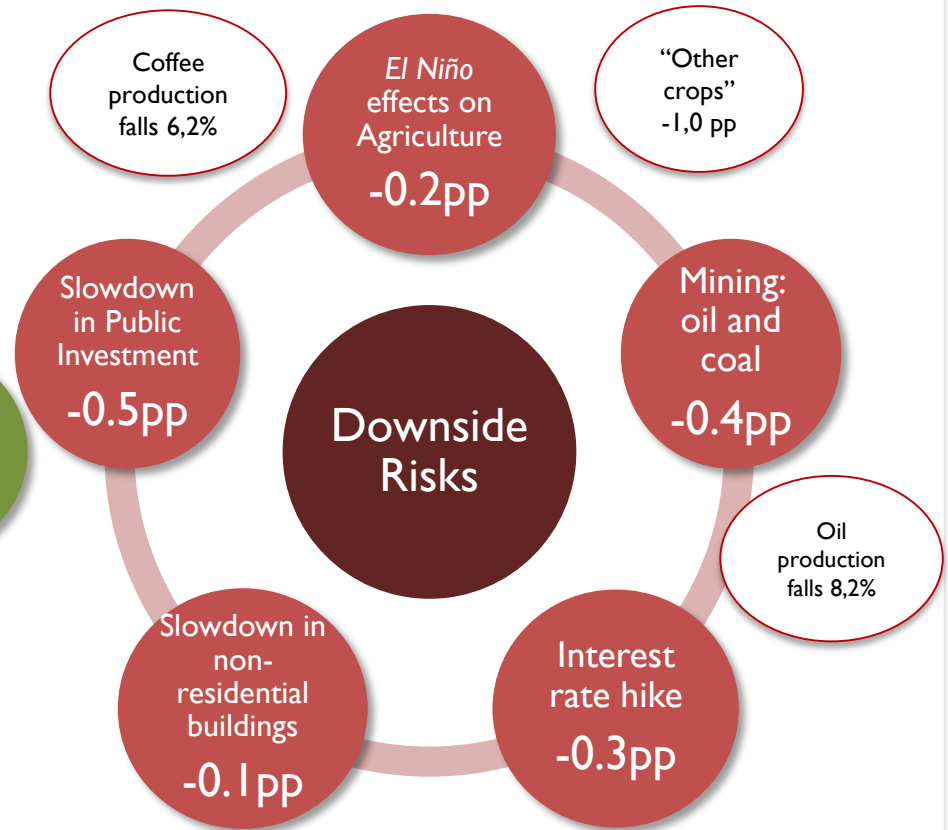
Source: Latin Focus Consensus Forecast (February 2016)

# Highlights – Key drivers for 2016 GDP growth

## Positive drivers



## Downside risks

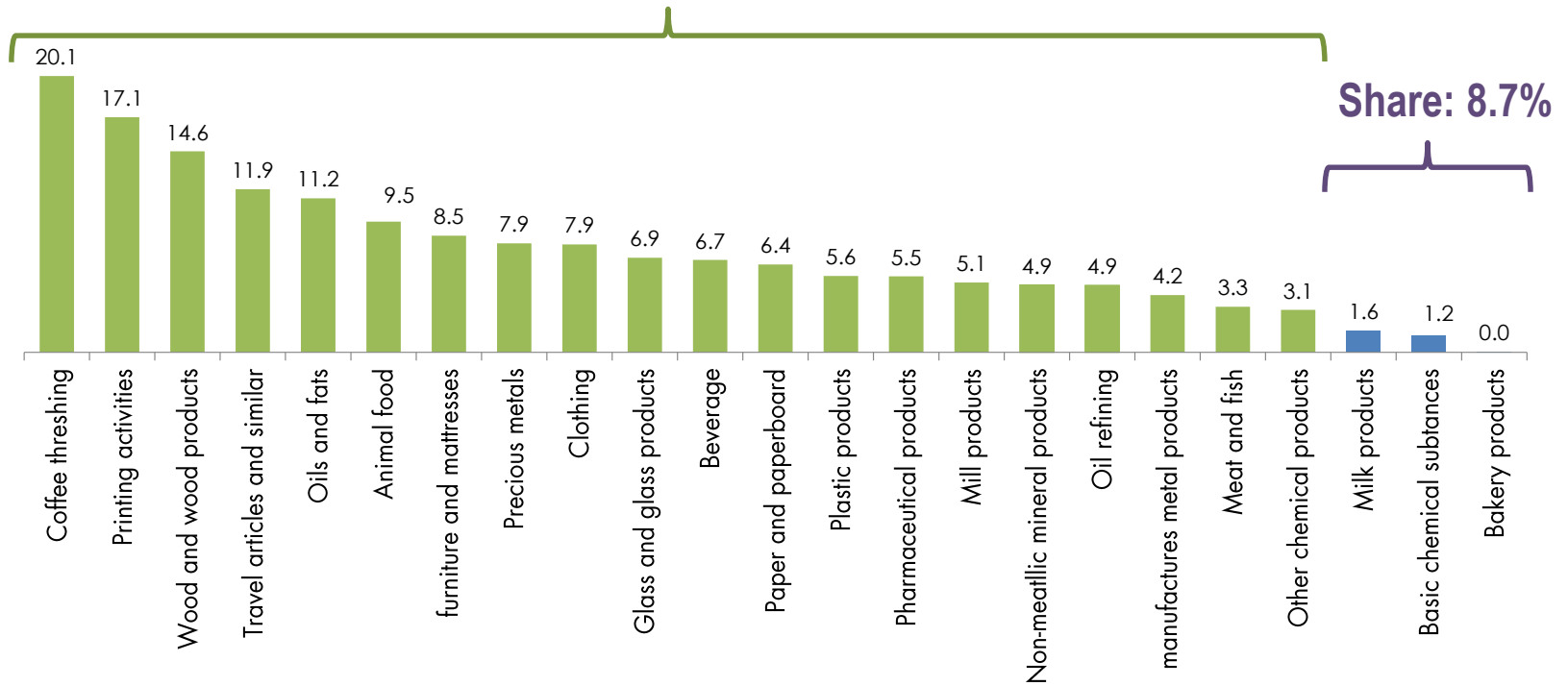


Source: Ministry of Finance.

The industry is recovering: 23 sectors are growing and 20 grew above 3.0% in the second half of 2015

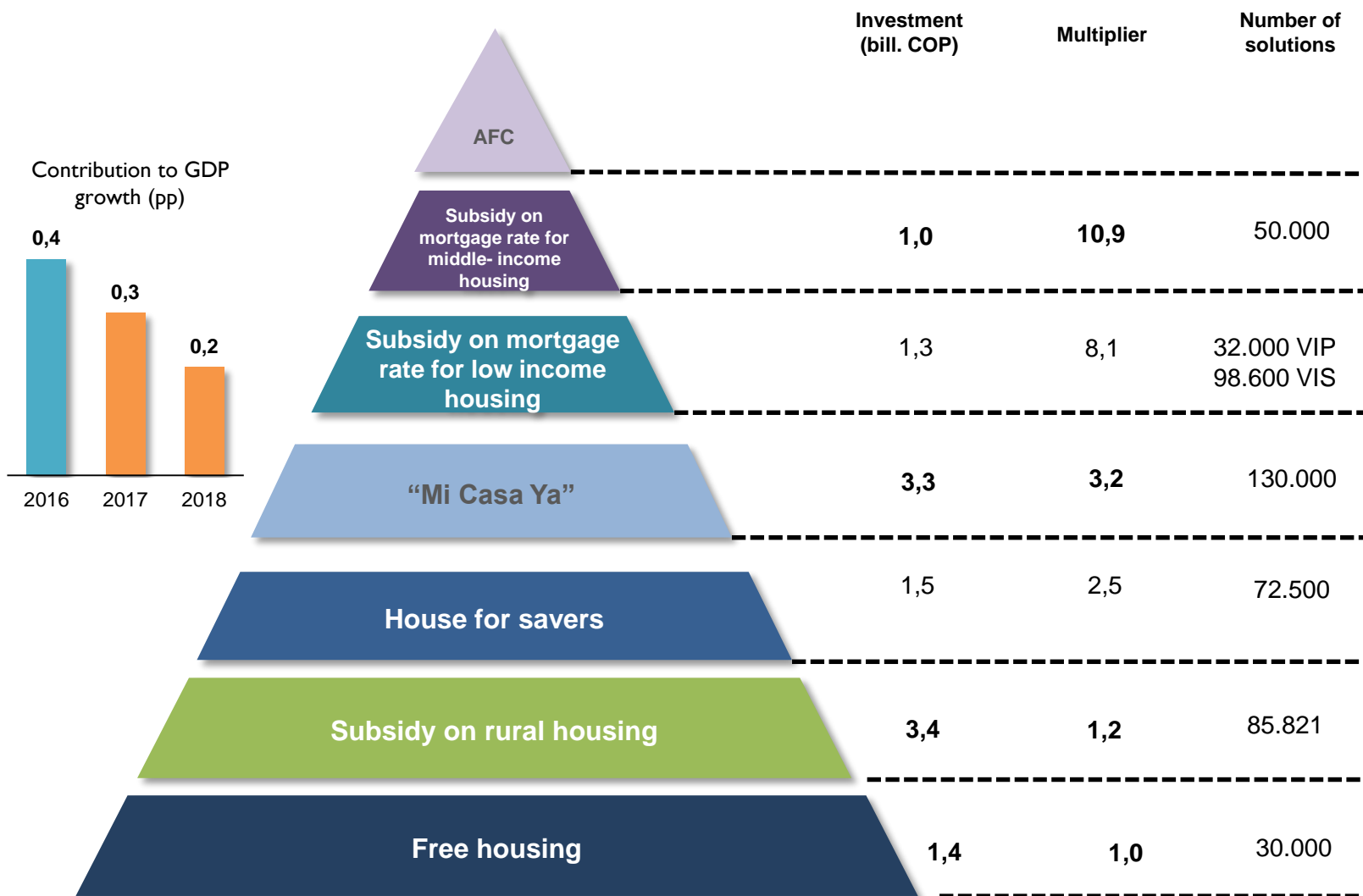
**Manufacturing subsectors**  
**(Annual variation, %)**

**Share: 67.2%**



Source: National Statistics Department.

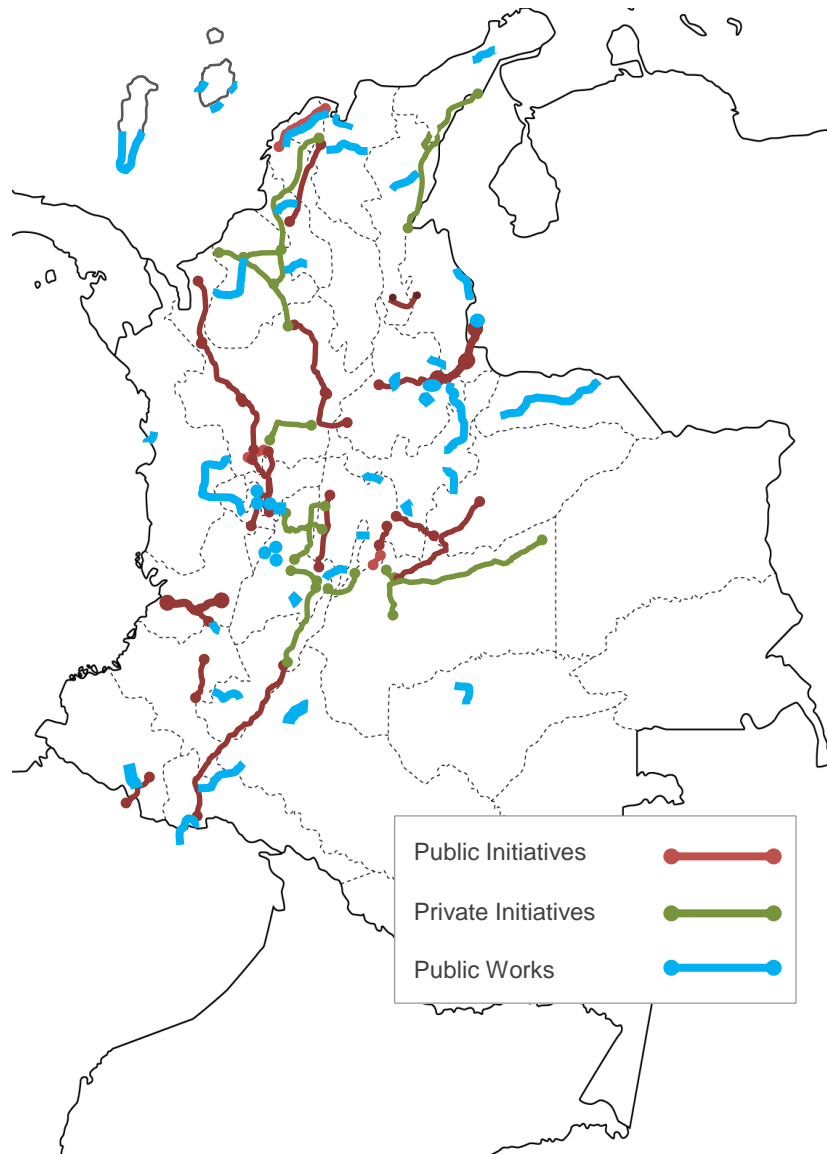
# Housing programs will contribute 0.4 pp to GDP growth on 2016



Source: Ministry of Finance.

# 4G Projects and Public Civil Works

(Figures in USD billion of 2015\*)



Project	Capex	Equity	Debt	FFA	Kms
Public Initiatives (20)	9.8	3.2	9.2	18.2	3,223
Private Initiatives (9)	3.9	1.7	3.2	-	2,180
Public Works (57)	1.6	-	-	1.6	725
<b>Total (86)</b>	<b>15.2</b>	<b>4.9</b>	<b>12.4</b>	<b>19.8</b>	<b>6,128</b>

FFA: Future Fiscal Appropriations.

**0.4 pp**  
contribution on  
growth for  
2016

**0.5 pp** in  
2017 & 2018.+

Source: National Infrastructure Agency, National Planning Department, FDN and Ministry of Finance.

\* COP/USD: 2,746.5

+ Assuming a multiplier effect of 1.5.

# GDP Forecast – Supply

## (Annual growth, %)

	Share	2014	2015*	2016*
<b>Total GDP</b>	<b>100,0</b>	<b>4,6</b>	<b>3,2</b>	<b>3,0</b>
Agriculture	6,1	2,3	3,2	1,1
Mining	7,3	-0,2	0,0	-5,6
Industry	11,1	0,2	1,0	8,0
Oil Refinery	1,3	-8,7	1,8	49,5
Others	9,8	1,6	0,9	2,5
Public Utilities	3,5	3,8	2,6	3,3
Construction	7,2	9,9	4,7	3,8
Residential	2,3	6,0	-2,9	9,0
Non residential	0,9	11,3	3,7	-13,4
Civil Works	4,0	12,0	7,9	4,5
Retail	12,0	4,6	4,5	2,6
Transportation	7,3	4,2	1,8	2,6
Financial Services	19,7	4,9	4,2	4,0
Social Services	15,4	5,5	3,1	2,6
Taxes	9,9	7,8	4,5	3,1

\* Forecast

Source: Ministry of Finance



## GDP Forecast – Demand

(Annual growth, %)

	Share	2014	2015*	2016*
<b>TOTAL GDP</b>	100	4,6	3,2	3,0
Total Consumption	82,2	4,7	3,2	2,4
Households	64,7	4,4	3,6	2,5
Government	17,4	6,2	2,3	2,0
Investment	29,5	11,7	3,0	2,5
Gross Fixed Capital Formation	29,2	10,9	2,6	2,4
Exports	16,2	-1,7	0,0	1,2
Imports	29,0	9,2	1,3	0,0
<b>Aggregate Domestic Demand</b>		<b>6,3</b>	<b>3,2</b>	<b>2,5</b>

\*Forecast

Source: Ministry of Finance.



## Summary:

- Compared to the Financial Plan for 2016 presented in December, oil prices have shown additional drops, which affect fiscal and external accounts for Colombia.
- Government has made responsible policy decisions: minimum wage, sale of Isagen and budget cuts.
- The most relevant impact of drop in oil price is over current account deficit. It is necessary to avoid an excessive deficit:
- To contribute to reduce the current account deficit:
  - We maintain a 3.6% of GDP-goal for the National Central Government's deficit in 2016, which will be attained through a strict control on public expenditure.
  - Central Bank's Board has been increasing its intervention interest rate
  - Exchange rate has floated freely
  - This year we will take to Congress a Structural Tax Reform.



12.0914 98.03 ↑ 3.00 12.00%  
79.0276 37.28 ↑ 7.03 77.40%  
26.2081 10.54 ↓ 0.67 91.62%  
68.1845 19.72 ↓ 2.87 97.14%



## Colombia's economic strategy in the new global context

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**Mauricio Cárdenas**  
**Minister of Finance and Public Credit**  
**Republic of Colombia**  
March 2016