

Colombia



COUNTRY RISK CATEGORY

4/7

The country risk categories range from 0 to 7. The lower the number the better the credit rating the country has.



EKN'S OUTSTANDING GUARANTEES TO THE COUNTRY

SHORT-TERM TRANSACTIONS: SEK <75> MILLION

MEDIUM AND LONG-TERM TRANSACTIONS: SEK <890 MILLION

DATE

2/12/2015

Positive development of the economy – less violence

Economic growth in Columbia has continued to be favourable, although there has been a slight slowdown in light of the 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 credit rating 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 population at large, and the peace process is a key issue in that respect. A solution to the conflict would therefore be very favourable for the country's long-term economic growth, although failure would not be very likely to put a stop to the positive trend of recent 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 commodities for export revenues

Certain restrictions

EKN has Colombia in country risk category 4 – an assessment made in collaboration with the other OECD countries. On the basis of the experiences EKN has had, there are certain restrictions on transactions with public buyers, which is not the case with the private sector. For transactions with buyers in the private sector (banks, companies), EKN has no specific, 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. However, in the case of other public buyers (e.g. other ministries or public companies), EKN's approach is more restrictive and EKN normally wants a letter of credit, or a bank or government guarantee for such transactions – in addition to the transaction being assessed on its own merits as usual.

What might cause a change in the country 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

Problems with publicly owned buyers

EKN has had very mixed experiences. The negative experiences originate primarily from the Colombian public sector, while experiences from the private sector have 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.



EKN's country analyst for Columbia:
CN
Telephone: +46 8-7880006
Email: claes.nordstrom@ekn.se

DISCLAIMER

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Improved security situation, but problems remain

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 70s – 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. Cocaine sales are still the largest source of financing for the guerrillas (FARC and ELN). It is estimated that approximately half of the coca produced is controlled by these groups. The numerous criminal groups account for the other half. These criminal groups are partially made up of the now disbanded paramilitary groups, which to a certain extent have switched over to pure criminal activities. However, there is a tendency toward a gradual reduction in coca production in Columbia, while it is on the rise in Bolivia and Peru.

In terms of its civil society, Columbia is to be considered a developed democracy. Power has shifted hands between liberals and conservatives since the 1960s and was then spread to multiple 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.

The political situation has stabilised significantly over the past decade. The activities of the guerrillas, which included attacks on energy infrastructure, have subsided, but still pose a substantial threat to oil production. Former President Uribe's hard line policy pushed the guerrillas back, and the room for manoeuvre of the Colombian drug mafia was restricted, with a drop in the general level of violence. It is still at a relatively high level – the number of murders per 100,000 people is 31 (compared to Mexico's 21 and Sweden's 1).

In general, the security situation has improved significantly. The number of navigable roads in the country has greatly increased, and improved urban planning and public transport have promoted the quality of urban life in several Colombian cities. There is also a very limited proportion of the population living in the areas affected by the conflict. The peace process initiated with the guerrillas will continue since President Santos was re-elected in 2014. The peace talks are moving forward slowly, but it is likely that a peace agreement will be ultimately in the bag. A final agreement is however no guarantee of lasting peace. How the agreement is actually implemented will be decisive.

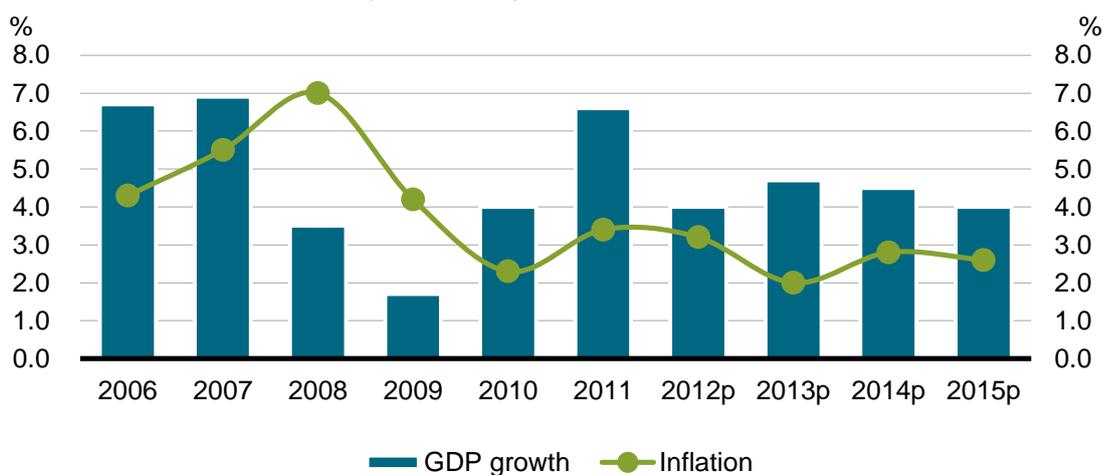
Consequently, it is highly likely that the complicated security situation will linger on in the future, albeit from a much lower level of violence than was the case in the 1990s. However, the armed conflict is no longer a strategic threat to the Colombian state.

Continuing growth despite falling oil prices

Economic growth in Colombia has been favourable over the past 10 years – growth has oscillated around 5% and inflation is moderate. Over 50% of the economy's currency earnings stem from oil production. 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 rating and thus created the fiscal and monetary scope to counter economic fluctuations. In spite of the global economic decline, the repercussions in Colombia have been limited. The Colombian economy continues to plough forward, driven mainly by a booming construction sector and extensive public infrastructure investments. However, a slowdown in growth is expected, given the decline in oil prices. The negative trend in the oil industry is being partially offset by the recovery of the American economy (approximately 35% of Columbia's exports go to the US).

GDP – GROWTH AND INFLATION (SOURCE: IMF)



The Colombian economy has been kept firmly on course with responsible economic policies.

One concern is the country's fragile political relationship with its important trade partner Venezuela. Trade has been interrupted at times due to disputes between the two countries. On the other hand, Colombia has 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.

In spite of the falling oil prices, it is highly likely that Columbia 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 increased internal and external imbalances. Columbia's long-standing tradition of cautious economic policies, along with a buffer in the form of substantial international reserves, makes it however highly likely that the country's economic situation will remain under control.

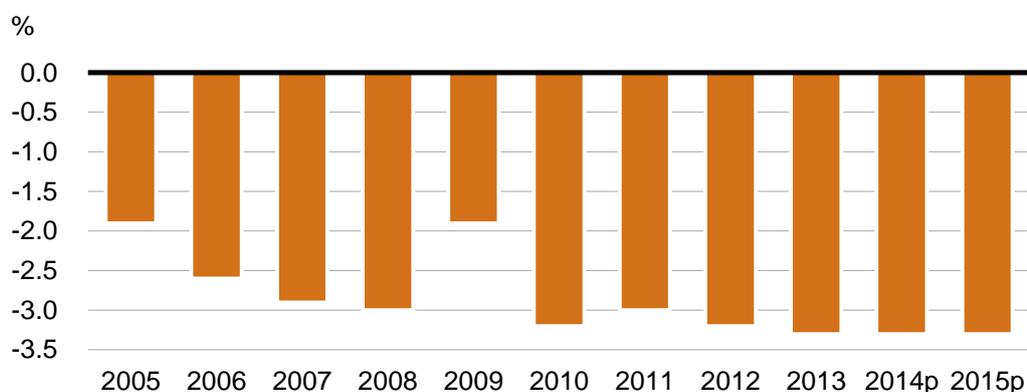
BALANCE OF PAYMENTS AND DEBT ISSUES

The country is managing its international payments

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. However, the country lost its investment grade in 2000, although regained it from all of the rating agencies over the past years. 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.

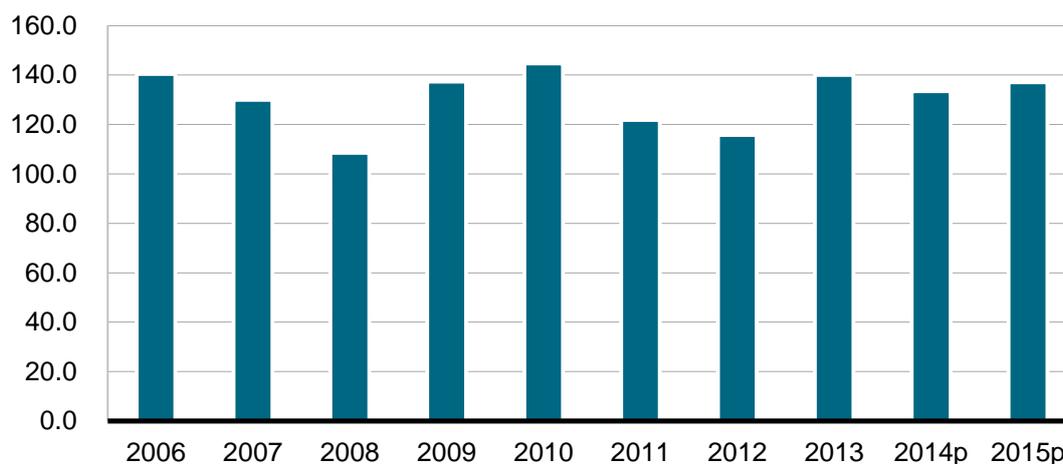
CURRENT ACCOUNT BALANCE (% OF GDP) (SOURCE: IMF)



Colombia's major current account deficit of recent years is largely related to investments in the oil and mining industry.

In addition, Colombia was one of three countries granted an FCL (Flexible Credit Line) by the IMF. The aim of the FCL is to create an additional financial safety net in case of international economic turmoil. It is only granted to countries with strong economic foundations and a long term, good track record. However, Colombia has not had to utilise these credit facilities, and it is highly likely that the FCL will serve as more of an insurance policy, given the country's stable economic growth.

EXTERNAL DEBT (% OF EXPORTS) (SOURCE: IMF)



Colombia's external debt has stabilised at a moderate level.

CURRENCY POLICY

Depreciated Colombian peso

Colombia has adopted a floating exchange rate policy and has an independent central bank which is responsible for monetary and currency policies. The country has a history of using capital controls, but most of them have been phased out. There are still restrictions on the oil and gas sector, where the access of foreign companies to foreign currency is restricted. These restrictions have been accepted by the IMF. The central bank intervenes to some extent on the currency market in connection with pronounced currency fluctuations. This has been the case in recent years when significant capital inflows led to appreciation of the exchange rate. The recent falling oil prices have however led to significant depreciation of the Colombian peso and the country has regained much of the international competitiveness it had lost. The Colombian peso is convertible for current account transactions, i.e. ongoing trade in goods and services. However, the currency is not fully convertible. The currency may not be transferred outside the country and a system of documentation and licence requirements for converting currency is in place. EKN does not have any experience of guaranteeing transactions in local currency.

FINANCIAL SECTOR

Banking sector on the up

The Colombian banking system is small relative to the economy, accounting for below 60% of the country's GDP, which is in line with the Latin American average. About 80% 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 1.5% of total lending. The operating environment has posed a challenge for the banks, given the general political instability over the years. The situation has 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 banks that get in trouble.

BUSINESS ENVIRONMENT

Favourable business environment from a regional perspective.

The availability of financial information on private buyers is generally good. Imports on open credit are frequent and EKN has good experiences. 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 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.

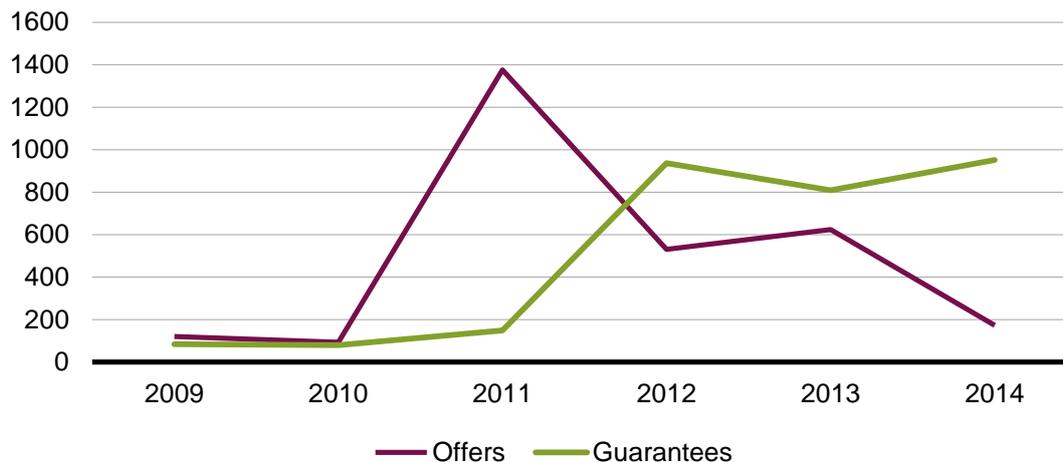
The various indices compiled by the World Bank serve as barometers for the regulatory environment. Columbia is ranked the best Latin American country in the Doing Business rankings, coming in 33rd place (out of 189). In one of the underlying indices – the one that measures the ability to enforce rights under a contract – Columbia's ranking is however very poor (168nd out of 189). In the World Bank's Governance Indicators, Columbia is at approximately the same level as countries such as Mexico, except for the political stability indicator, where Columbia is an inferior score.

EKN'S EXPOSURE

Concentrated exposure

EKN's outstanding guarantees for transactions in Colombia were nearly SEK 970 million. Offers totalled nearly SEK 170 million. The dominant industries are power and transport.

OFFERS & GUARANTEES, SEK MILLION



The provision of guarantees to Columbia has increased in recent years.

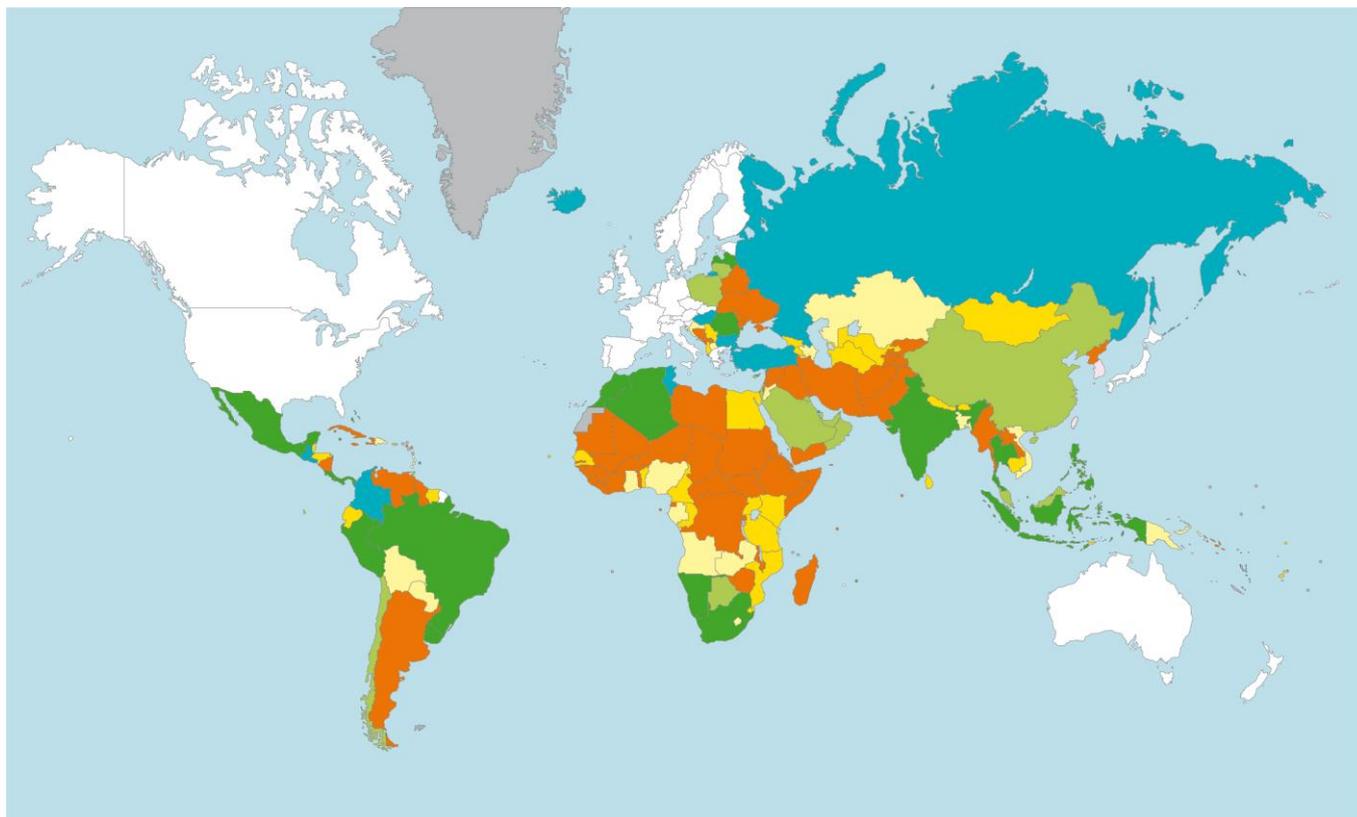
PAYMENT EXPERIENCE

Problems with publicly owned buyers

EKN has had very mixed experiences. The negative experiences originate primarily from the Colombian public sector, while experiences from the private sector have generally been positive. If a public company gets in trouble, the business can be temporarily taken over by a Colombian supervisory authority ("superintendencia"), which normally runs the company for six months in order to determine whether it should be continued or not. If it is decided to put the company into bankruptcy, the Colombian state does not assume any responsibility for the company's obligations, unless there is a formal government guarantee. This is something that EKN has direct experience of. In three cases, two municipal companies and a state-owned company, the government has clearly demonstrated that it assumes no responsibility for payments. For EKN, this resulted in indemnifications. When asked directly, the Colombian government stated subsequently in no uncertain terms that it will assume no responsibility for payments, unless there is a formal government guarantee of payment. For this reason, the purchasing company must be assessed entirely on its own merits, despite its close connection to the government.

It can also be noted that the legal system in Colombia, as in many other Latin American countries, is characterised by extremely slow proceedings. This is something EKN has experienced. Another complicating aspect of the legal system is that it can be difficult to realise security as there is a requirement to go through an auction in order to realise a pledge.

<p>COUNTRY DATA</p> <p>Area: 1,141,748 km² (2.5 times Sweden)</p> <p>Population: 46.2 million (Sweden 9.7 million)</p> <p>GDP: USD 369.2 billion (Sweden USD 552 billion)</p> <p>GDP/capita: USD 11,100 (Sweden USD 40,900)</p>	<p>CREDIT RATINGS</p> <p>Moody's: Baa2/A3</p> <p>S&P: BBB+/A-</p> <p>Fitch: BBB/BBB+</p>
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 The lower the number the better the credit rating the country has.



EKN – CREATING CONFIDENCE IN YOUR EXPORTS

EKN is a government agency that supports Swedish exports and the internationalisation of Swedish industry. This we do by offering exporting companies and banks guarantees for payment and financing, together with advice on business structure and risk management.

Our services provide an extra level of confidence, increased competitiveness and more opportunities for successful export transactions.

The Swedish Export Credits Guarantee Board
 Kungsgatan 36, PO Box 3064, SE-10361 Stockholm, Sweden | Tel +46 (0)8-7880000 | www.ekn.se | email info@ekn.se