

Colombia Business Forecast Report Q4 2013

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Abstracts

Core Views

We believe that Colombia's economy will expand at robust growth rates in the coming years, characterised by improved macroeconomic conditions and an increasingly friendly business environment. Private consumption, while moderating, will drive the majority of growth, although gross fixed capital formation (GFCF) will play an increasingly important role over the coming quarters.

The infrastructure, mining and hydrocarbons sectors are particularly well positioned for growth.

Major Forecast Changes

We have revised down our average exchange rate forecast from COP1,865/US\$ to COP1,873/US\$ in 2013 and from COP1,875/ US\$ to COP1,880/US\$ in 2014. The main factor underpinning our revision is the depreciatory impact of building expectations for a normalisation in monetary policy in the US, and ongoing intervention by the Colombian central bank.

We revised our fiscal deficit forecast from 1.9% to 2.4% of GDP in 2013 and from 2.0% to 2.6% of GDP in 2014. The main factors underpinning our expectations for a wider budget shortfall are our June downgrade of real GDP growth and recently approved additional government stimulus.

Key Risks To Outlook

Upside Risks: Elevated foreign investment inflows into the country following Colombia's upgrade to 'investment grade' by all three major ratings agencies could drive growth

even faster than expected. In addition, a successful agreement during the ongoing peace negotiations between the government and the country's main left-wing insurgent group, the Fuerzas Armadas Revolucionarias de Colombia (Farc), would likely result in even greater foreign investment as risk perception improves.

Downside Risks: Ongoing labour strikes pose significant downside risks to our export and real GDP growth outlook. Indeed, workers demanding higher wages and greater government support have disrupted key exports such as coal, and if disputes are not addressed in the near term, they could have a significant negative impact on the economy.

Contents

EXECUTIVE SUMMARY

CORE VIEWS

MAJOR FORECAST CHANGES

KEY RISK TO OUTLOOK

CHAPTER 1: POLITICAL OUTLOOK

SWOT Analysis

BMI Political Risk Ratings

Domestic Politics

Less Convinced About Santos' Re-Election. We are becoming less convinced that Colombian President Juan Manuel Santos will succeed in getting re-elected in May 2014. Lack of tangible progress in the peace negotiations with the left-wing insurgent group, Fuerzas Armadas Revolucionarias de Colombia (Farc), elevated social tensions amid labour protests across the country, and an opposition political movement by former President Álvaro Uribe, pose significant challenges to Santos' electoral bid.

TABLE: PRESIDENTIAL PRE-CANDIDATES FOR CENTRO DEMOCRÁTICO

Long-Term Political Outlook

Many Structural Challenges Ahead. While Colombia's long-term political outlook is set to remain relatively stable compared with its neighbours, we identify several massive political challenges for the government over the next decade and highlight three scenarios for change.

TABLE: POLITICAL OVERVIEW

CHAPTER 2: ECONOMIC OUTLOOK

SWOT Analysis

BMI Economic Risk Ratings

Economic Activity

Weak Exports Pose Downside Risks To Growth. We forecast Colombian real GDP to expand by 4.1% in 2013 and 4.3% in 2014, up from 4.0% in 2012. However, ongoing labour disruptions to exports pose downside risks to our medium term growth outlook. That said, we maintain a favourable long-term growth outlook, as investment into the infrastructure and oil and gas sectors, combined with a strengthening consumer, will

drive robust real GDP growth in the coming years.

TABLE: GDP BY EXPENDITURE, REAL GROWTH %

Fiscal Policy

Additional Stimulus To Widen Deficit In 2014. We are revising our Colombia government fiscal deficit forecast from 1.9% to 2.4% of GDP in 2013 and from 2.0% to 2.6% of GDP in 2014. The main factors underpinning our expectations for a wider budget shortfall are our June downgrade of real GDP growth and recently approved additional government stimulus.

TABLE: FISCAL POLICY

Balance Of Payments

Labour Strikes Pose Downside Risks To Export Outlook. We currently forecast Colombia's current account deficit to come in at 3.5% of GDP in 2013 and 2.8% in 2014, compared to a 3.1% shortfall in 2012.

TABLE: CURRENT ACCOUNT

Monetary Policy

Fragile Recovery And Low Inflation Underpin Rate Cut View. We currently forecast Colombia's Banco Central de la República (BanRep) to cut its benchmark policy rate by 25 basis points to 3.00% by end-2013.

Currency Forecast

COP: Tapering And BanRep Intervention To Drive Weakness

TABLE: CURRENCY FORECAST

TABLE: EXCHANGE RATE

Regional Sovereign Risk Ratings

Re-Pricing Of Regional Credit Risk Has Further To Run. A fundamental re-pricing of sovereign risk is underway in Latin America and the Caribbean, and we believe that further credit deterioration is likely. Nevertheless, selectivity will be key, as economies with more robust and sustainable growth models are likely to benefit from stronger investment flows and superior 'Ability To Pay' dynamics in the coming years.

TABLE: LATIN AMERICA SOVEREIGN RISK RATINGS – EVOLUTION OF ABILITY TO PAY

TABLE: LATIN AMERICA SOVEREIGN RISK RATINGS – EVOLUTION OF WILLINGNESS TO PAY

CHAPTER 3: 10-YEAR FORECAST

The Colombian Economy To 2022

Sustainable And Sturdy Growth

TABLE: LONG-TERM MACROECONOMIC FORECASTS

CHAPTER 4: BUSINESS ENVIRONMENT

SWOT Analysis

BMI Business Environment Risk Ratings

Business Environment Outlook

TABLE: BMI BUSINESS AND OPERATION RISK RATINGS

Institutions

TABLE: BMI LEGAL FRAMEWORK RATING

TABLE: LABOUR FORCE QUALITY

Infrastructure

TABLE: LATIN AMERICA – ANNUAL FDI INFLOWS

Market Orientation

TABLE: TRADE AND INVESTMENT RATINGS

Operational Risk

CHAPTER 5: KEY SECTORS

Pharmaceuticals

TABLE: PATENTED DRUG MARKET INDICATORS, HISTORICAL DATA AND FORECASTS

TABLE: PRESCRIPTION DRUG MARKET INDICATORS, HISTORICAL DATA AND FORECASTS

TABLE: GENERICS DRUG MARKET INDICATORS, HISTORICAL DATA AND FORECASTS

Telecommunications

TABLE: OVER-THE-COUNTER (OTC) MEDICINE MARKET INDICATORS, HISTORICAL DATA AND FORECASTS

TABLE: INTERNET – HISTORICAL DATA AND FORECASTS

TABLE: FIXED LINE – HISTORICAL DATA AND FORECASTS

TABLE: MOBILE – HISTORICAL DATA AND FORECASTS, 2010-2017

TABLE: ARPU FORECAST, 2010-2017 (COP)

Other Key Sectors

TABLE: INFRASTRUCTURE SECTOR KEY INDICATORS

TABLE: FOOD AND DRINK SECTOR KEY INDICATORS

TABLE: COLOMBIA AUTOS SECTOR KEY INDICATORS

TABLE: FREIGHT KEY INDICATORS

TABLE: OIL AND GAS SECTOR KEY INDICATORS

TABLE: DEFENCE AND SECURITY SECTOR KEY INDICATORS

CHAPTER 6: BMI GLOBAL ASSUMPTIONS

Global Outlook

Lowering EM Growth Forecasts

TABLE: GLOBAL ASSUMPTIONS

TABLE: DEVELOPED STATES, REAL GDP GROWTH, %

TABLE: BMI VERSUS BLOOMBERG CONSENSUS REAL GDP GROWTH FORECASTS, %

TABLE: EMERGING MARKETS, REAL GDP GROWTH, %

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