



Economics Group

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Colombian Economy Remained Weak in Q2 2016

The Colombian economy grew 2.0 percent during the second quarter, year over year, while it posted a growth rate of 0.2 percent during the second quarter compared to the first quarter.

The Slowdown is Mostly Petroleum and Natural Gas Driven

The Colombian economy continues to adjust to lower oil prices two years after these prices started to tumble. According to the Colombian statistical institute, DANE, the country's mining sector declined 7.1 percent in the second quarter of the year versus a year earlier, driven by an 11 percent drop in the production of petroleum and natural gas.

Other sectors that posted a negative year-over-year rate were the public utilities sector, with a decline of 0.8 percent and the agricultural sector, whose production dropped 0.1 percent. The rest of the sectors posted positive growth rates during the quarter. Some sectors were actually very strong, including the manufacturing sector, which posted a strong growth rate of 6.0 percent. Financial services and real estate sector had a growth rate of 4.6 percent. While the social, communal and personal services sector (up 2.3 percent), commerce (up 1.4 percent), construction (up 1.0 percent), and transportation and communications sector (up 0.1 percent) all saw gains. The strong performance of the manufacturing sector was related to a significant increase in petroleum refining in the country as well as an increase in the production of beverages, which were up 28.8 percent and 14.2 percent, respectively, on a year-over-year basis.

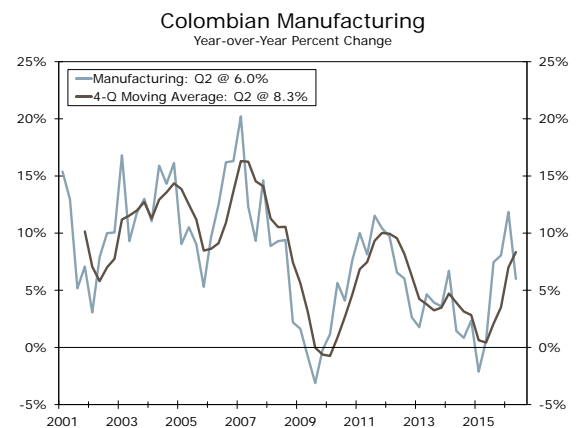
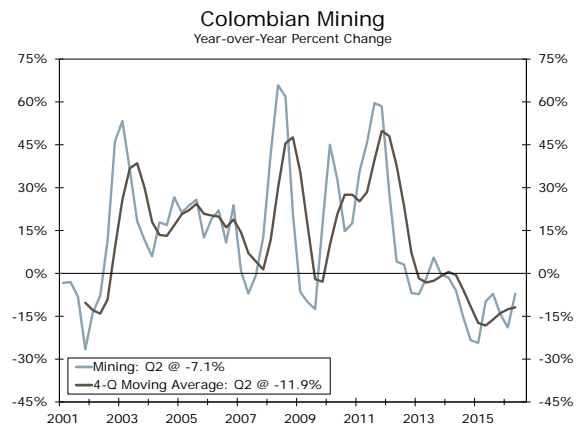
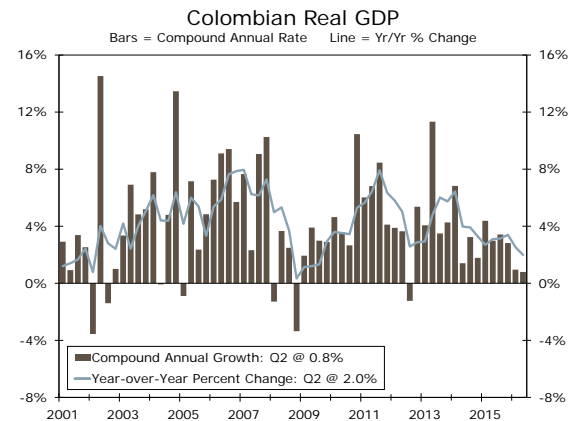
Still, the sectorial information paints a relatively weak picture for domestic activity as many of the domestic sectors, or non-tradable sectors, saw a very weak performance during the first half of the year. This was the case for commerce, which grew 1.4 percent and points to a relatively weak personal consumption expenditures performance during the quarter.

Growth in GDP and the Recent Peace Agreement

Colombian GDP growth was 2.3 percent during the first half of the year compared to the same period a year earlier. During this time, the strongest sector was the manufacturing sector, up 5.4 percent, followed by the financial sector, up 4.2 percent. Meanwhile, the weakest sectors were mining, down 5.9 percent, and the agricultural sector, up only 0.1 percent.

Although economic growth is not expected to improve considerably during the next several quarters, the prospects for the country have recently improved after the final agreement between the Colombian government and the guerrillas from the Revolutionary Armed Forces of Colombia (FARC). This agreement will have to be ratified by a referendum, but analysts say that the prospect is for the plebiscite to support or ratify the final agreement by the government.

This will tend to brighten the future for investment in the country going forward. However, it will be very interesting to see if the country can attract foreign investment in the petroleum and natural gas sector at current oil price levels.



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