KPMG

cutting through complexity

Colombia

High Growth Markets country profile

Colombia is the third most populous country in Latin America and the fourth largest economy in the region. The Colombian government has stepped up efforts to reassert control throughout the country, and now has a presence in every one of its administrative departments. Despite decades of internal conflict and drug related security challenges, Colombia has maintained relatively strong democratic institutions characterized by peaceful, transparent elections and the protection of civil liberties.

Country overview

Geography and climate

- **Location:** northern South America, borders the Caribbean Sea, between Panama and Venezuela, and the north Pacific Ocean, between Ecuador and Panama
- **Climate:** tropical along the coast and eastern plains; cooler in the highlands
- **Regions:** 32 departments and 1 capital district
- **Major cities (2011 figures):** Bogota (8.74 million), Medellin (3.50 million), Cali (2.35 million), Barranquilla (1.84 million), Bucaramanga (1.07 million)

Political system

- **Type of government:** republic; executive branch dominates government structure
- **Capital:** Bogota

Population, language and religion

- **Population:** 48.8 million
- **Urban population:** 75%
- **Demographics:** 0–14 years: 25.3%, 15–64 years: 66.2%, 65 years and over: 6.5%
- **Median annual household income:** 13,230 US dollars (US$)
- **Official language:** Spanish
- **Prominant religions:** Roman Catholic

Currency and central banking

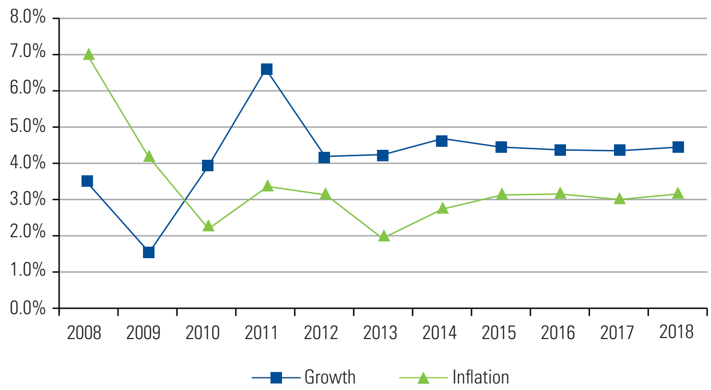
- **Local currency:** Colombian Peso (COP)
- **Exchange rate:** 1 COP = US$0.0005 (1 April 2014)
- **Interest rate (average annual rate):** 3.4% (2013); 5.0% (2012); 4.0% (2011); 3.1% (2010); 5.6% (2009)
- **Foreign exchange reserves:** US$43.74 billion
- **Total debt (2013):** external: US$85.83 billion; internal public debt: 39.6% of GDP (2013 estimate)

Business environment

Economic environment

- **GDP in 2013 was US$527.9 billion.** A strong expansion in public spending and investment should lift GDP growth to 4.7 percent in 2014, after which it is set to average 4.5 percent annually between 2015–2018, reflecting lower unemployment and efforts to increase productivity. The median household income is expected to increase to US$ 15,996 by 2017.
- **Foreign direct investment (FDI) (billions):** inbound: US$10.2 (2008); US$17.4 (2013); US$19.9 (2018 forecast); outbound: US$2.0 (2008); US$3.7 (2013); US$3.2 (2018 forecast)
- **Exports free on board (FOB) (billions):** US$59.8 (2012); US$58.0 (2013); US$70.9 (2018 forecast)
- **Imports FOB (billions):** US$54.6 (2012); US$54.8 (2013); US$66.2 (2018 forecast)
- **Sector breakdown:** service: 55.5%; industrial: 37.9%; agriculture: 6.6%
- **Trade balance (billions):** surplus of US$5.2 (2012); US$3.2 (2013); US$4.8 (2018 forecast)
- **Stock exchanges:** Bolsa de Valores de Colombia, Bolsa Nacional Agropecuaria

GDP growth and inflation (average consumer price index (CPI))



Source: Economist Intelligence Unit, 2014

Investment climate

Key considerations

- **Fiscal and monetary policy:** Anticipated changes to the government's economic policy priorities include the promotion of more stable and inclusive growth, formal job creation and important programs to address longstanding social ills. Policymaking focuses on boosting economic growth through reforms to fiscal policy and the business environment. The government is also targeting social and infrastructure spending, to reduce high levels of poverty and boost competitiveness and trade links. Macroeconomic stability should be consolidated further by improving the country's fiscal position (due mainly to the implementation of a structural fiscal reform approved in 2011) and through a sound monetary policy. These initiatives are designed to protect the economy from global volatility and provide some scope for countercyclical fiscal policy.
- **Competition policy:** The constitution prohibits monopolies, other than those established by law. Revenue from legal monopolies goes towards education and health services. All mergers must be reported to the Superintendency of Corporation. Colombian law prohibits agreements between manufacturers to limit production, supply or distribution of goods. The government allows market forces to determine price levels for most goods and services.
- **FDI policy:** Colombia has an open policy towards foreign investment, with overseas investors receiving the same legal treatment as local investors. General regulations governing foreign investment have opened up the Colombian economy to foreign capital, liberalized reinvestment rules and eliminated a ceiling on profit remittances. Foreign investment is allowed in all sectors of the economy, except in national security and the disposal of hazardous toxic waste, where prior authorization from the government is needed. During 2014–2015, open and flexible policies should prevail, providing opportunities for investment in hydrocarbons, mining, road construction, power, agribusiness and telecommunications. Bilateral investment treaties and free trade agreements (FTAs) are expected to be enforced, and, during 2016–2018, International agreements should bring further protection for foreign investors.
- **Foreign trade and exchange controls:** A common external tariff applies to imports from non-CAN (Andean Community of Nations) countries. Colombia regulates imports through the Ministry of Trade, Industry and Tourism. Certain products require sanitary registration with the National Institute for Surveillance of Foods and Medicines. The central bank manages the exchange rate policy. Foreign investment in most new ventures, expansions or acquisitions does not require prior approval. Companies may remit dividends and profits without any upper limit. Colombia imposes no restrictions on the repayment of loans that have been properly registered with the central bank. Payment of royalties and related fees can normally be made without difficulty on agreements registered with the Ministry of Trade, Industry and Tourism. Export proceeds must be deposited in the exporter's commercial bank within 3 months of payment. Free trade and capital flows are set to continue in 2014–2015, but there could also be measures to prevent dumping and speculative foreign investment. FTAs with some Asian economies are possible, but the focus will be on consolidating current agreements. In the period 2016–2018, protection will be reined in, as trade liberalization advances with several countries in the Americas, Asia and Europe.
- **Financing policy:** Between 2014–2015, the banking sector is set to remain concentrated, although the entry of new foreign players should increase competition. Banking services and capital markets should experience abundant liquidity, which is likely to deepen as a result of regional integration. During the years 2016–2018, debit transaction tax eliminations are possible, but distortions should persist and prevent a narrowing of interest rate spreads. Blue chip companies are likely to benefit from increased access to external capital markets.
- **Taxes:** The corporate tax rate is 25 percent, and a new 8 percent levy on profits helps to finance some of the government's social programs and the pension system. The uniform rate applies to all Colombian businesses, regardless of their corporate structure or ownership. Company dividends are subject to a 25 percent withholding tax, unless a company has paid tax on corporate income. Companies operating in Colombia's free-trade zones are subject to an income-tax rate of 15 percent. During 2014–2015, some reforms should increase fairness, but the overall tax system will remain complex and unpredictable. In the period 2016–2018, some exemptions, incentives and deductions are expected to be eliminated. Despite continued loopholes, unfairness and distortions, the government remains committed to further streamlining.

KPMG in Colombia

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KPMG in Colombia aims to respond to complex business challenges facing customers and to take a comprehensive approach that spans professional disciplines, industry sectors and national boundaries.

For more information, please visit the KPMG in Colombia website: kpmg.com/co/en

Sources: Economist Intelligence Unit, 2014; Central Intelligence Agency, 2014; Everest Group, 2014; Santiago Stock Exchange, 2014

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