Scotiabank

GLOBAL ECONOMICS

**LATAM DAILY**

June 6, 2024


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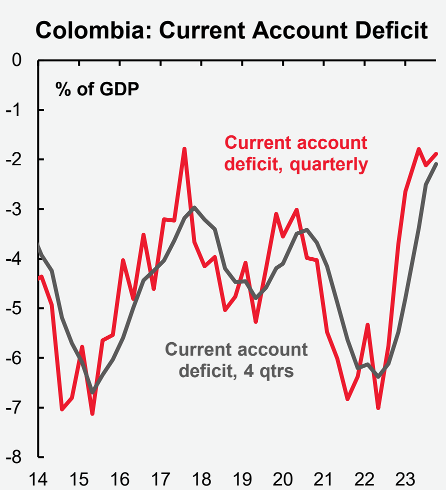
**Chart 1**




Sources: Scotiabank Economics, BanRep.

# Latam Daily: Colombia Current Account Recap

- **Colombia: Current account deficit remains at its widest levels since 2018, still reflecting a weak economic picture**

Last Friday, the central bank (BanRep) released the Q1-2024 Balance of Payments (BoP). The current account deficit stood at USD 1.92 bn, equivalent to 1.9% of GDP. As a percentage of GDP, the current account deficit is one of the lowest since 2018 (chart 1), reflecting a weak economic activity picture. During the first quarter, the trade deficit narrowed (chart 2), and exports and imports of goods continued to contract. However, the decline in imports has been more significant, which suggests weak domestic demand hasn't found a turning point yet. The net income account outflows remain oscillating around USD 3.3 bn, which is slightly higher than pre-pandemic averages. However, it demonstrates that earnings for companies with FDI in Colombia are timid compared to the levels observed in 2022. Current transfers retreat slightly, but remittances remain high as a percentage of GDP (2.7% of GDP). The FDI was the main source of funding (chart 3), with main destinations in the oil & mining and financial sectors. Capital account net inflows remain similar to those observed in the previous quarter.

All in all, the first quarter current account deficit is still showing a very weak economic activity picture; it is worth noting that by the end of 2023, current account results were concerning for the central bank and were one of the main reasons to kick off the easing cycle. This time, we think the current account results are concerning, but maybe not enough to trigger an acceleration in the easing cycle. Having said that, we expect the central bank to cut the interest rate by 50bps at their June 28th meeting. It is worth noting that BanRep's economic staff projects a widening in the current account deficit from 2.7% of GDP in 2023 to 3.1% in 2024, expecting a recovery on imports that didn't occur in Q1-2024.

On the FX side, previous results support the thesis for a still strong peso. We still believe USDCOP is operating below the level suggested by long term macro fundamentals, however the weak domestic demand could motivate the COP to continue in relative strong levels for a while. For now, we maintain our expectation for a depreciation in the second half of the year taking the exchange rate to around 4000–4100 pesos.

**Current account:**

- In Q1-2024, the current account deficit stood at USD 1.92 bn (1.9% of GDP, chart 2 again), falling by 9.8% q/q and -36% y/y. Income account outflows net off with transfer inflows, while in the case of the trade balance, the main contributor to the deficit was the goods side of the equation since the services side of the current account registered a surplus for the first time in history. Still, the low current account balance is compatible with the weakness of the domestic demand. It demonstrates that a potentially widened fiscal deficit does not necessarily translate into a higher demand for external goods.

**Trade balance:**

- In Q1-2024, the trade deficit in goods was USD 2.06 bn. Exports contracted by 12.7% y/y, mainly due to lower coal, ferronickel, and gold sales, which were partially offset by higher exports of oil and bananas. International commodity prices played a mixed role in exports, however oil sales in particular benefited, offsetting the negative effect of lower exported volumes. On the other hand, imports contracted by 10%, which is the most concerning part of the current account. The main contraction on imports is related to lower purchases of inputs and capital goods, which is showing a weak activity especially for manufacturing sectors.

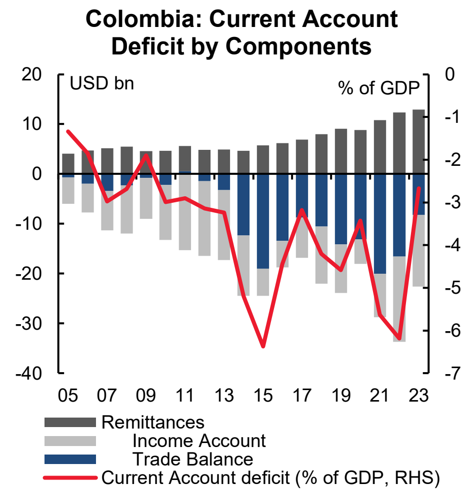
- **In the case of services, the BoP recorded a surplus in the trade balance for first time in history.** Exported services increased mainly due to higher tourism services, that complemented a still positive balance for modern services (+20% y/y) related with IT services.
- **Income account:** Net outflows stood at US 3.32 bn, which remained broadly stable compared to the previous quarter. This indicates lower earnings from companies with FDI in Colombia that are offset by the highest debt interest payments. The industries with lower earnings are mining, oil, financial services, and transport-related sectors.
- **Transfers:** Transfers continued contributing to a lower current account deficit. Transfers stood at USD 3.33 bn in Q1-2024. Remittances posted a 9.9% y/y expansion to USD 2.71 billion in the quarter, which represents 2.7% of GDP and accounts for 12.3% of total current inflows.

**Financial Account:**

- The financial account registered net inflows of USD 1.40 bn (1.4% of GDP), which were complemented by the USD 951 million international reserve accumulation from the central bank.
- **Foreign Direct Investment:** In Q1-2024, FDI inflows stood at USD 3.62 bn (3.6% of GDP), decreasing by 11.9% y/y. The main sectors that received FDI were: oil and mining (35%), financial services (20%), commerce and hotels (11%). Approximately 59% of FDI was due to fresh capital investments, while 60.5% was due to earnings reinvestments.
- **Capital Investment:** In Q1-2024, Colombia registered capital inflows of USD 593 million (0.6% of GDP), a very weak inflow. Debt issuances in international markets (USD 471 million) accounted for most of this behaviour, while net purchases of offshore investors in the local market stood at USD 12 million during the quarter.
- All in all, the financing side of the economy is showing that investment inflows are just enough to cover the current account deficit.

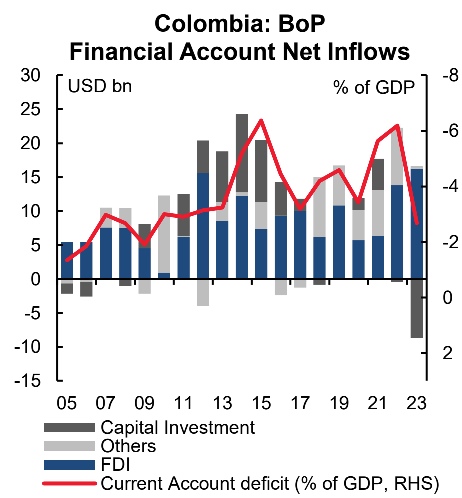
**—Sergio Olarte & Jackeline Pirajánn**

**Chart 2**



Sources: Scotiabank Economics, Banrep.

**Chart 3**



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