

Jun 2016

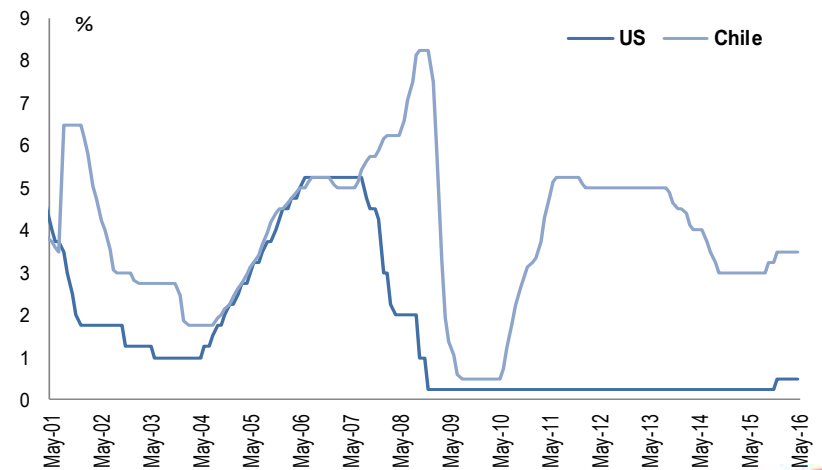
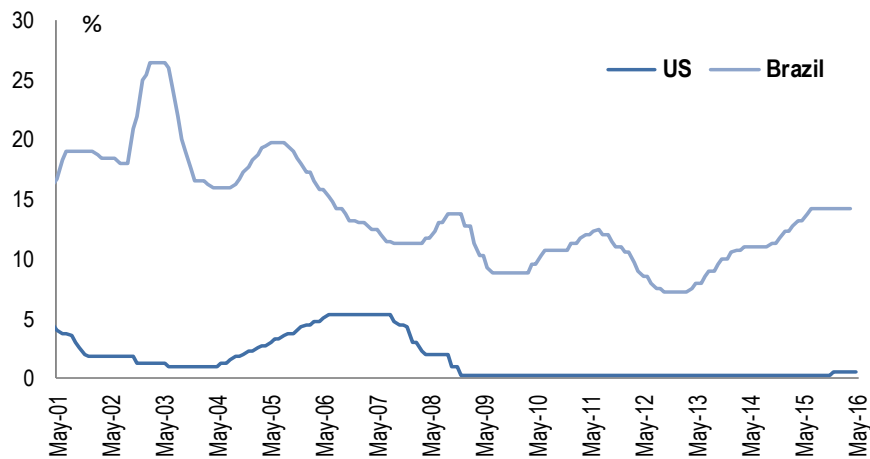
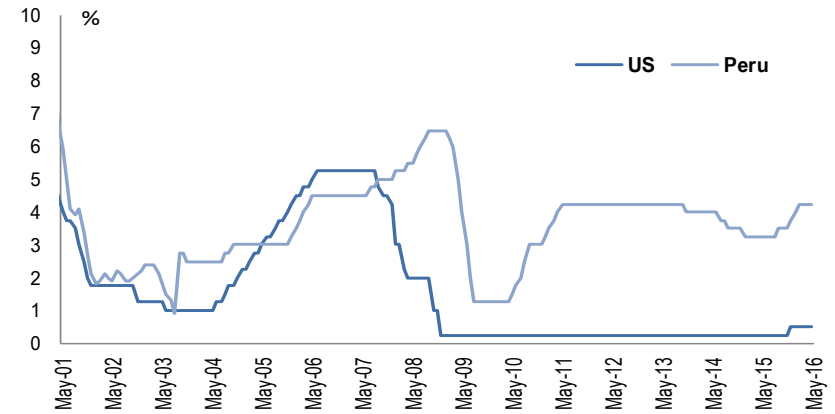
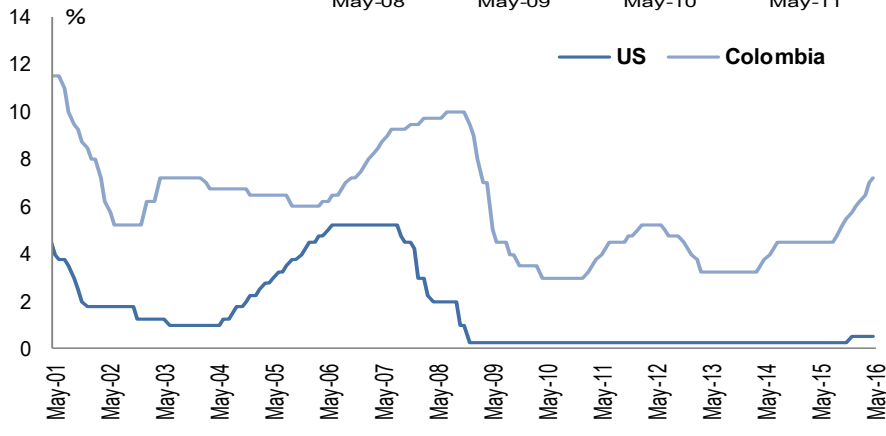
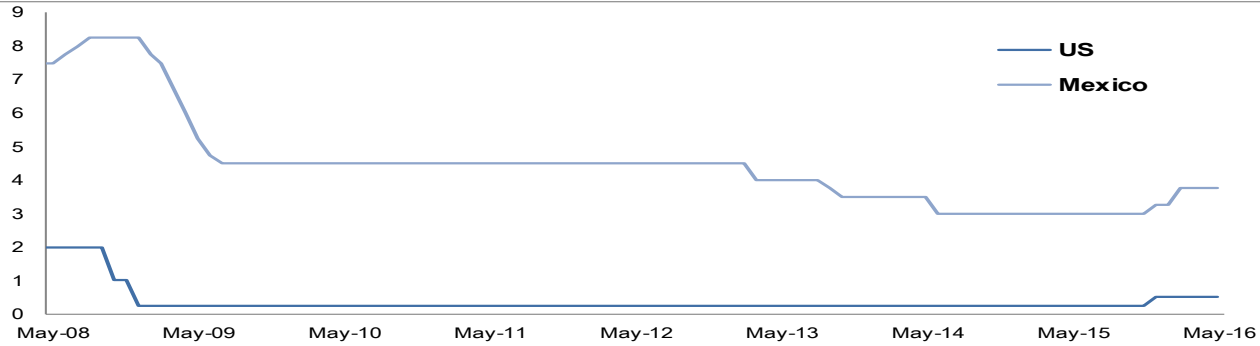
Macroeconomic Outlook: Converging to a New Normal

Munir Jalil
Senior Economist
Andean Region
munir.jalil@citi.com
+57 1 639 41 95

See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures

Citi Research is a division of Citigroup Global Markets Inc. (the "Firm"), which does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

Monetary Policy Fed vs. Some Latin American Countries

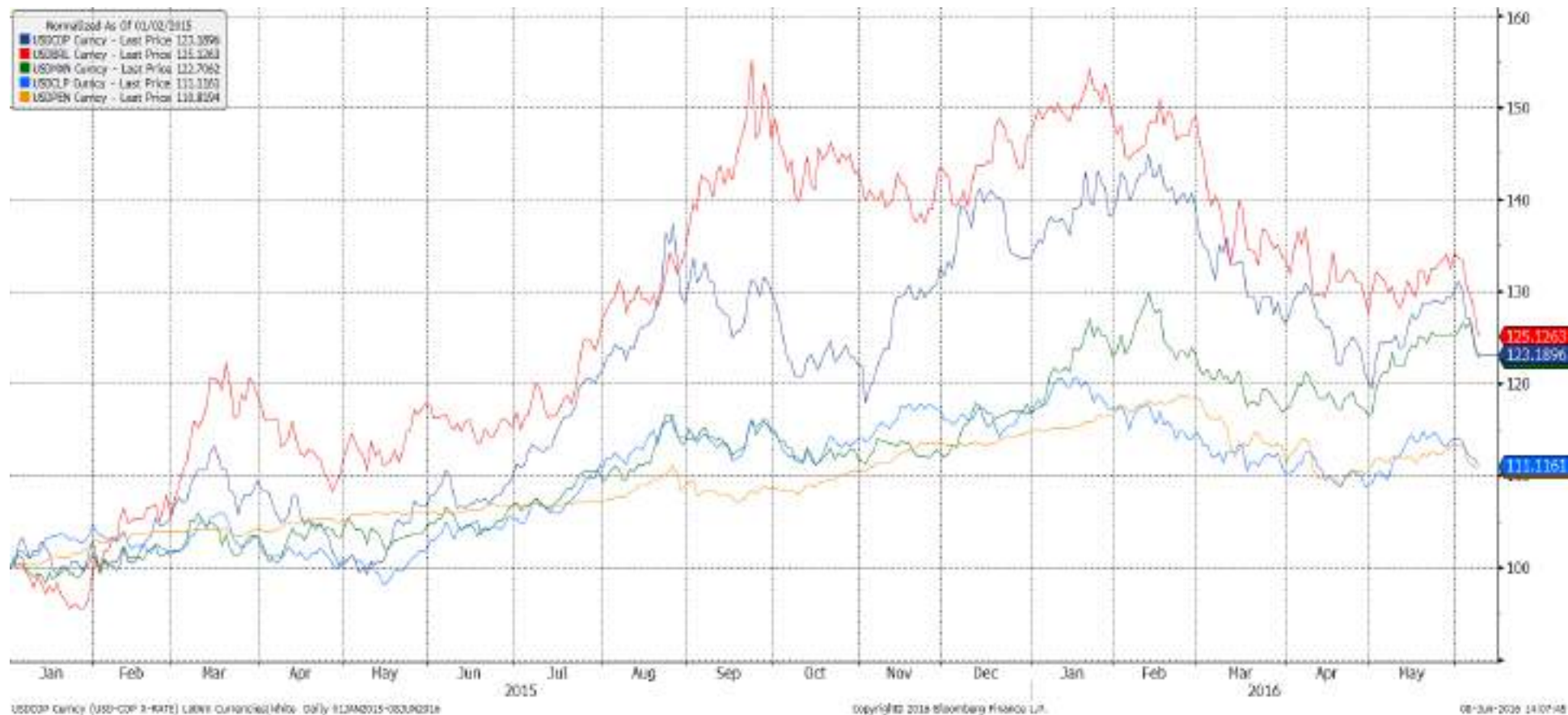


Commodities

		Point Prices														Annuals				
		0-3M	6-12M		Q1 2016	Q2 2016E	Q3 2016E	Q4 2016E	Q1 2017E	Q2 2017E	Q3 2017E	Q4 2017E	2014	2015	2016E	2017E	2018E			
Energy				5Y Cyclical																
NYMEX WTI	USD/bbl	51.0	52.0	70.0	34.0	46.0	51.0	50.0	53.0	53.0	59.0	61.0	93.0	48.0	45.0	57.0	61.0			
ICE Brent	USD/bbl	52.0	54.0	75.0	35.0	47.0	52.0	52.0	55.0	56.0	62.0	65.0	100.0	53.0	47.0	60.0	64.0			
Henry Hub Natural Gas	USD/MMBtu	2.20	2.70	3.00	2.00	2.00	2.20	2.50	2.90	3.30	3.40	3.10	4.40	2.60	2.10	3.20	3.00			
Base Metals				LT Price																
LME Aluminum	USD/MT	1,480	1,500	2,200	1,515	1,530	1,480	1,480	1,500	1,510	1,530	1,540	1,893	1,882	1,500	1,520	1,565			
LME Copper	USD/MT	4,750	5,000	6,200	4,667	4,700	4,750	5,000	5,200	5,400	5,600	5,800	6,829	5,495	4,780	5,500	6,400			
LME Lead	USD/MT	1,650	1,700	2,200	1,746	1,720	1,650	1,680	1,700	1,680	1,720	1,730	2,113	1,795	1,700	1,710	1,960			
LMENickel	USD/MT	8,500	8,700	21,000	8,549	8,650	8,500	8,600	8,700	9,200	9,300	9,350	16,950	11,886	8,575	9,140	10,500			
LMETin	USD/MT	16,800	17,000	20,000	15,428	17,000	16,800	16,900	17,000	17,200	17,250	17,500	21,902	16,047	16,530	17,240	17,500			
LMEZinc	USD/MT	1,880	1,950	2,100	1,682	1,870	1,880	1,900	1,950	1,970	2,000	2,030	2,165	1,942	1,835	1,990	2,100			
Precious Metals				LT Price																
COMEX Gold	USD/T.oz	1,300	1,250	1,050	1184.0	1280.0	1300.0	1250.0	1200.0	1150.0	1200.0	1250.0	1,266	1,161	1,255	1,200	1,200			
Silver	USD/T.oz	16.5	15.8	16.5	14.9	17.0	16.5	16.2	15.0	14.8	15.0	15.5	19.1	15.7	16.2	15.1	15.8			
Platinum	USD/T.oz	980	1,000	1,763	917.0	1020.0	980.0	990.0	1000.0	1010.0	1050.0	1090.0	1,387	1,056	975	1,040	1,120			
Palladium	USD/T.oz	570	580	780	525.0	580.0	570.0	580.0	580.0	600.0	650.0	680.0	803	692	565	630	690			
Bulk Commodities				5Y Cyclical																
Hard Coking Coal (Spot)	USD/MT	80	75	125	78	90	82	76	76	75	75	75	115	88	81	75	85			
Thermal Coal Asia (NBMC)	USD/MT	47	45	80	51	49	45	45	44	43	42	42	71	59	48	43	42			
Iron Ore Spot (TSI)	USD/MT	46	40	55	48	54	46	38	40	40	38	36	97	55	47	39	38			
Agriculture																				
CBOT Corn	USD/bu	380	410	N/A	363	385	380	355	365	375	410	415	415	377	370	390	475			
CBOT Soybeans	USD/bu	1,025	1,050	N/A	880	1000	1025	975	1010	1025	1050	1075	1,245	945	970	1,040	1,100			
CBOT Wheat	USD/bu	465	515	N/A	465	470	465	470	500	505	515	525	588	507	468	510	575			
ICE Sugar	USD/lb	16.5	19.0	N/A	14.4	15.7	16.5	17.0	19.0	18.3	N/A	N/A	16.3	13.1	16.0	19.0	N/A			
ICE Coffee	USD/lb	130	145	N/A	120	130	130	135	136	140	145	145	178	132	129	142	N/A			
ICE Cocoa	USD/MT	3,075	2,850	N/A	2922	3010	3075	2950	2700	2800	2850	2650	3,010	3,093	2,990	2,750	N/A			

FX Outlook

FX Dynamics in LatAm (Normalized Series, Jan 2015 = 100)



Source: Bloomberg

LAC7 Indicators

Argentina
Brazil
Chile
Colombia
Mexico
Peru
Venezuela

	2009	2010	2011	2012	2013	2014	2015F	2016F	2017F
Summary Data									
Nominal GDP, USD bn	3,757	4,634	5,399	5,437	5,530	5,270	4,342	4,092	4,249
GDP per capita, USD	8,057	9,825	11,321	11,278	11,352	10,709	8,733	8,150	8,371
Population, mn	466	472	477	482	487	492	497	502	508
Unemployment, % of labour force	8.0	732.0	6.6	6.9	6.8	6.5	7.0	8.0	8.0
Economic Activity									
Real GDP, yoy avg	-1.7	6.2	4.4	2.8	2.8	0.7	-0.4	-1.0	1.8
Real investment growth % yoy	-15.4	23.8	9.2	1.3	2.7	-2.2	-8.0	-5.7	2.4
Real consumption growth % yoy	1.1	5.7	5.2	4.3	3.3	1.6	0.2	-1.0	1.4
Private consumption growth % yoy	0.7	6.1	5.6	4.4	3.5	1.4	-0.3	-1.2	1.6
Real export growth, % yoy	-9.3	11.2	6.1	1.5	1.2	0.2	4.2	1.9	4.3
Real import growth, % yoy	-12.8	26.7	11.9	3.7	4.2	-0.6	-5.1	-4.1	1.7
Prices, Money & Credit									
CPI, % yoy eop	6.7	8.4	8.6	7.6	10.8	10.9	16.4	17.9	19.5
CPI, % yoy eop (Ex. Arg, Ven)	3.4	5.0	5.4	4.6	4.7	5.3	6.9	5.1	4.5
Nominal wages, % yoy	8.2	10.4	10.8	11.0	11.4	11.0	13.8	11.6	11.9
Credit extension to private sector, % yoy	9.8	17.8	18.4	18.7	16.6	13.3	14.9	12.5	13.7
1 month inter-bank rate, %, eop (Ex. Arg, Ven)	6.3	7.7	8.2	5.6	6.9	7.6	8.8	8.7	8.3
Long-term yield, %, eop (Ex. Arg, Ven)	10.1	9.9	8.9	6.8	9.4	9.2	11.5	10.1	9.6
Balance of Payments, USD bn									
Current account	-17.9	-78.9	-83.6	-107.0	-143.2	-164.5	-157.5	-99.7	-81.7
% of GDP	-0.5	-1.7	-1.5	-2.0	-2.6	-3.1	-3.6	-2.4	-1.9
Trade balance	82.3	81.9	111.3	83.9	45.1	23.9	-10.5	29.9	49.8
Exports	612.5	781.4	966.6	977.2	966.0	935.7	798.8	794.1	874.5
Imports	530.2	699.5	855.4	893.2	920.9	911.7	809.3	764.2	824.7
Income balance	-88.7	-133.3	-152.2	-137.4	-127.6	-130.5	-106.3	-108.7	-113.0
FDI, net	67.3	149.6	178.1	179.0	166.8	169.6	152.0	131.9	163.8
International reserves	497.0	585.2	693.9	753.0	737.8	759.9	733.7	728.3	737.1
Public Finances, % of GDP									
Consolidated government balance	-3.5	-2.8	-2.7	-2.9	-3.2	-4.8	-6.5	-7.3	-6.9
Public debt	44.7	42.3	42.1	42.6	42.3	47.8	51.8	57.3	59.8
of which Domestic	35.1	33.0	33.1	32.4	31.7	35.8	37.1	41.3	43.4
Foreign Assets & Liabilities, USD bn									
External debt	159.3	205.7	237.1	253.7	265.6	300.8	295.9	311.9	328.8
Public	85.2	100.0	106.2	123.9	133.8	150.0	151.1	151.3	164.3
External debt / GDP, %	5.0	4.1	3.4	3.5	3.7	5.0	7.0	7.9	7.6

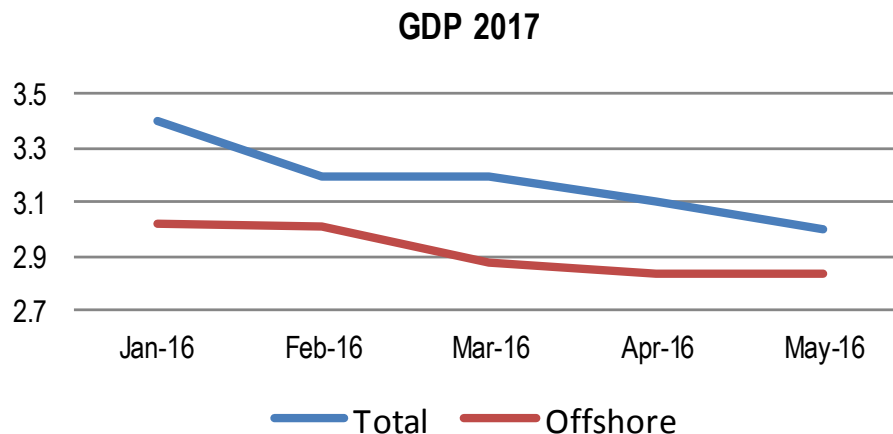
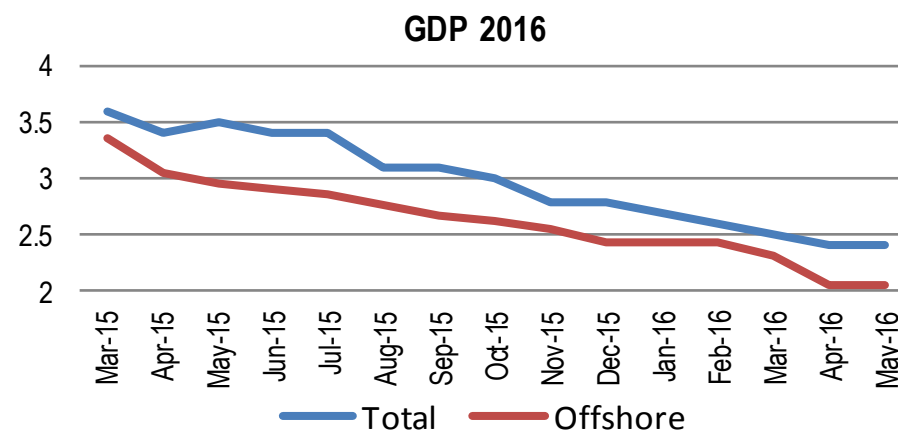
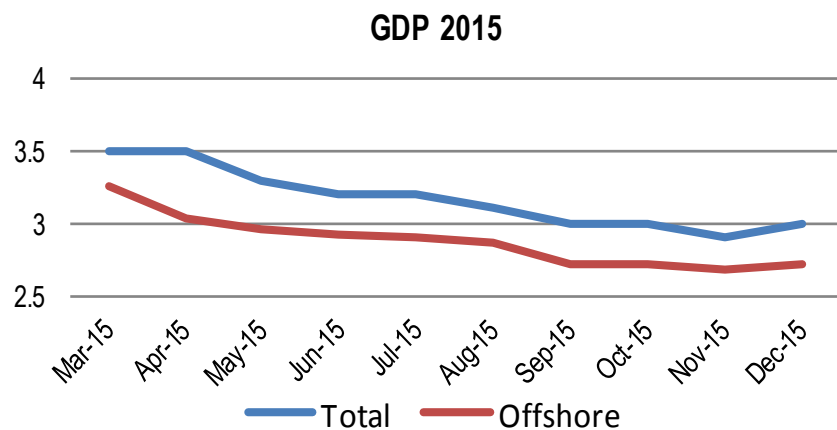
Andean Indicators

Colombia
Ecuador
Peru
Venezuela

	2009	2010	2011	2012	2013	2014	2015F	2016F	2017F
Summary Data									
Nominal GDP, USD bn	700	761	883	1,011	1,016	858	732	741	788
GDP per capita, USD	5,958	6,390	7,313	8,270	8,209	6,847	5,773	5,779	6,058
Population, mn	117.5	119.1	120.7	122.3	123.8	125.3	126.9	128.2	130.1
Unemployment, % of labour force	9.7	9.1	8.5	8.0	7.5	7.2	7.5	7.8	7.9
Economic Activity									
Real GDP, yoy avg	-0.5	3.0	5.9	5.1	3.8	2.1	0.9	-0.2	1.5
Real investment growth % yoy	-13.8	11.8	15.7	12.6	0.7	0.9	-2.7	-1.1	0.5
Real consumption growth % yoy	0.5	3.8	5.2	5.8	4.7	2.9	1.7	0.4	2.1
Private consumption growth % yoy	0.5	3.3	5.6	6.3	4.6	2.5	1.4	0.0	2.1
Real export growth, % yoy	-7.0	-3.6	7.9	4.3	-0.1	-1.2	-0.6	-1.0	1.6
Real import growth, % yoy	-14.8	9.5	15.9	14.3	0.3	0.8	-0.5	-1.6	2.0
Prices, Money & Credit									
CPI, % yoy eop	12.0	11.1	12.6	8.7	19.2	17.1	42.7	58.2	75.0
CPI, % yoy eop (Ex. Venezuela)	1.8	2.9	4.3	2.7	2.3	3.5	5.4	3.9	3.1
Nominal wages, % yoy	15.4	9.0	14.5	14.2	18.5	17.5	25.3	30.0	-
Credit extension to private sector, % yoy	11.4	20.4	21.7	27.7	32.3	23.7	27.6	28.7	29.3
1 month inter-bank rate, %, eop	5.9	5.9	7.2	7.5	6.9	6.5	7.1	8.1	7.6
Long-term yield, %, eop	-	-	-	-	-	-	-	-	-
Balance of Payments, USD bn									
Current account	3.6	-1.7	14.0	-5.5	-16.6	-24.7	-47.7	-32.7	-16.5
% of GDP	0.5	-0.2	1.6	-0.5	-1.6	-2.9	-6.5	-4.4	-2.1
Trade balance	27.9	35.0	61.5	49.3	39.0	21.1	-18.4	-9.6	4.5
Exports	133.1	160.4	220.4	230.9	217.7	197.8	128.0	120.5	144.3
Imports	76.6	86.2	112.1	132.6	126.4	123.3	105.0	87.8	96.0
Service balance	-13.5	-17.3	-19.8	-25.6	-26.8	-24.6	-20.2	-15.9	-16.4
Income balance	-20.7	-28.8	-38.0	-38.6	-38.0	-31.9	-19.2	-17.2	-20.3
FDI, net	6.3	8.1	19.7	28.9	23.5	20.4	15.4	15.7	16.2
International reserves	98.1	105.5	114.0	133.8	135.1	135.7	126.7	120.7	122.0
Total amortisations	20.9	24.9	26.1	31.1	6.2	24.6	36.6	21.5	20.2
Public Finances, % of GDP									
Consolidated government balance	-5.0	-4.9	-4.4	-5.0	-5.0	-4.3	-4.3	-4.8	-4.4
Consolidated government primary balance	-	-	-	-	-	-	-	-	-
Public debt	31.2	34.7	34.1	33.2	34.2	40.8	44.1	43.5	43.4
of which Domestic	13.7	15.7	15.7	16.4	16.9	18.0	16.2	14.8	14.6
Foreign Assets & Liabilities, USD bn									
External debt	184.6	215.6	245.9	267.0	293.7	321.5	340.8	353.3	367.3
Public	132.6	152.8	171.0	183.1	191.5	210.7	224.8	236.4	244.1
External debt / GDP	14.6	14.1	11.9	9.9	10.7	18.2	25.8	26.1	24.5

-
- Se esperaba que la economía Colombiana tuviera un peor desempeño producto de la caída de los precios del petróleo, pero no fue así.

Economic Performance: Evolution of analysts' expectations



Source: BCRP & Citi Research

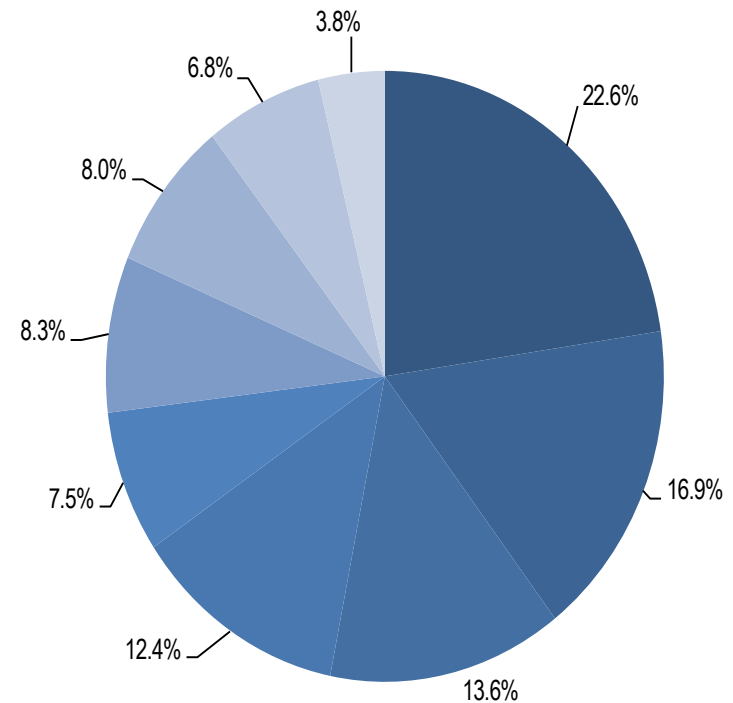
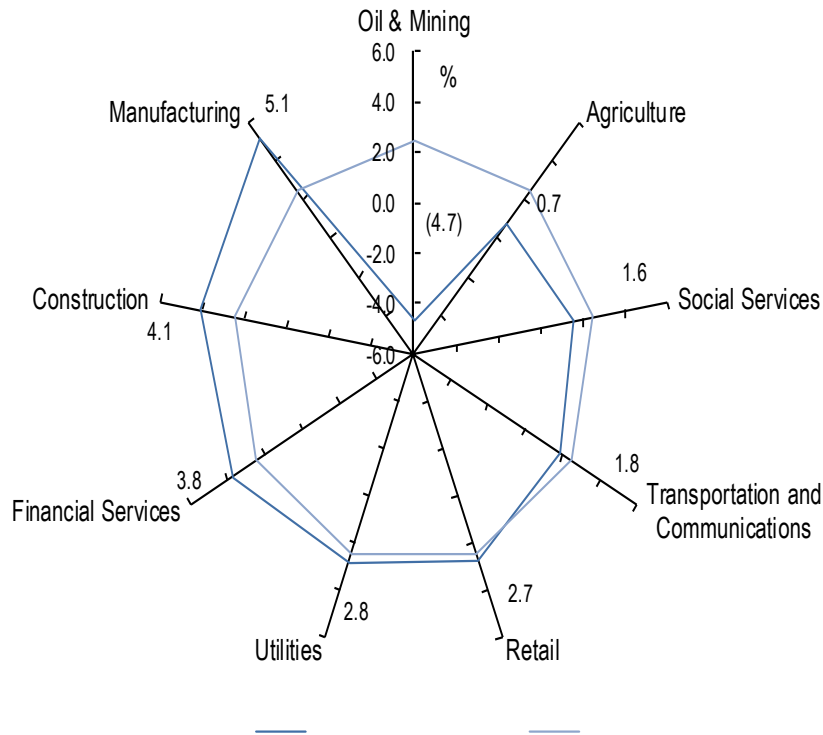
-
- El aterrizaje suave de la economía Colombiana se tradujo en un proceso de desaceleración entre 2015 y 2016.
 - El año entrante el crecimiento económico en Colombia debería estar en 3%, porcentaje mayor al 2.4% que esperamos en Citi para este año.

Citi GDP Forecast (Andean Region)

GDP (YoY)	2015	2016	2017
Colombia	3.08	2.36	3.03
Peru	3.26	3.82	4.01
Ecuador	0.29	-2.49	0.30
Venezuela	-5.75	-8.35	-3.99

Economic Performance – 1Q16 GDP Growth (Supply Side)

- Manufacturing (5.1% YoY), Construction (4.1% YoY), and Financial Services (3.8% YoY) were among the top performers, whereas Oil & Mining (-4.7% YoY) and Transportation and Agriculture (0.7% YoY) were the worst performers.

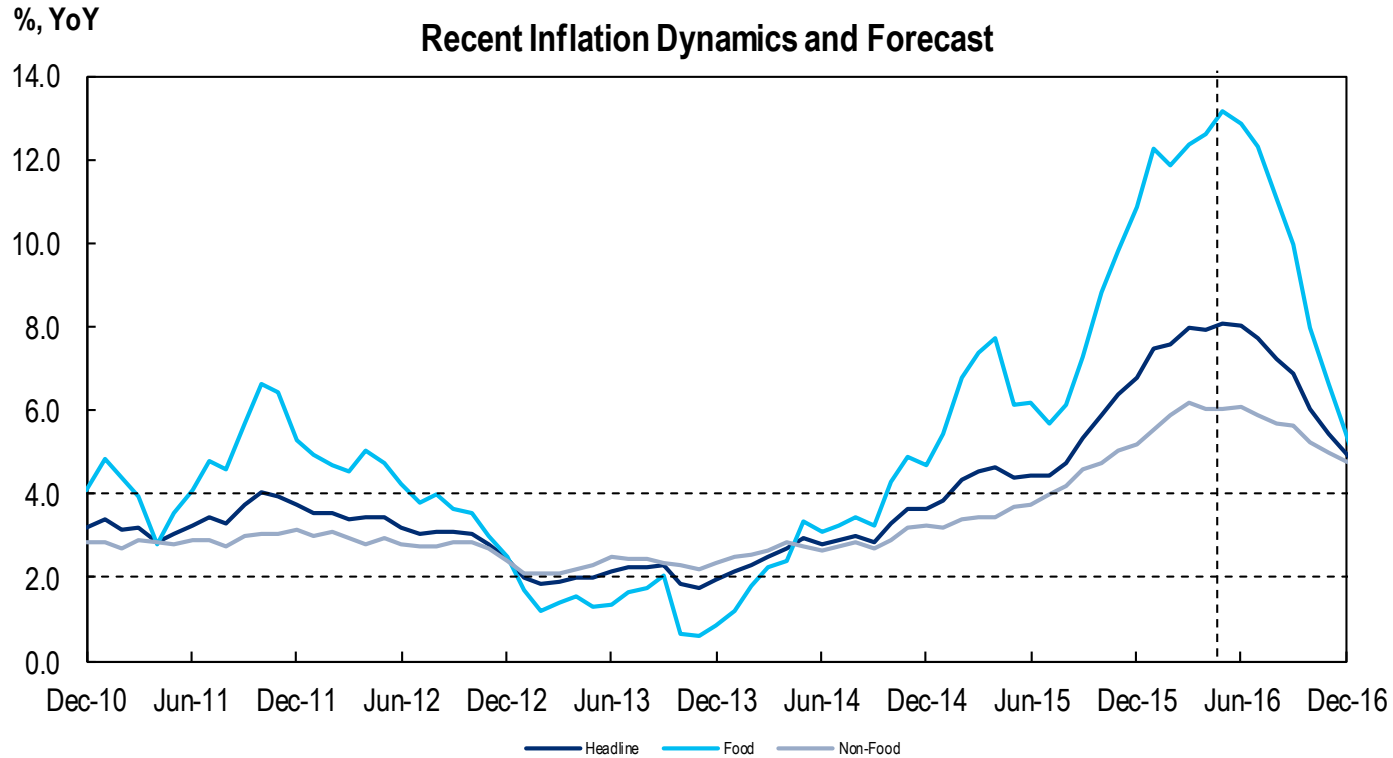


- Financial and Real State Services
- Manufacturing
- Transportation
- Social Service Activities
- Oil & Mining
- Agriculture
- Retail, Restaurants and Hotels
- Construction
- Utilities

-
- La combinación de dos choques transitorios: El fenómeno del niño y la depreciación del peso, ha redundado en mayor inflación.

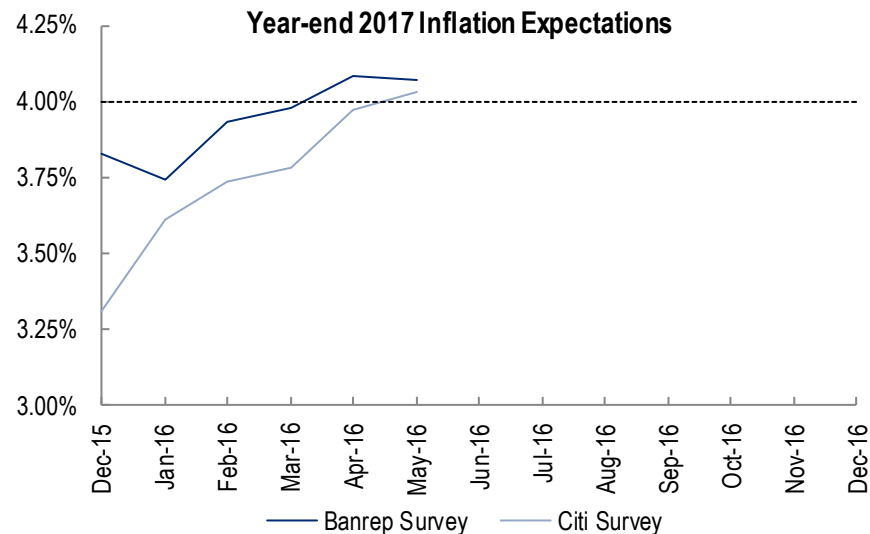
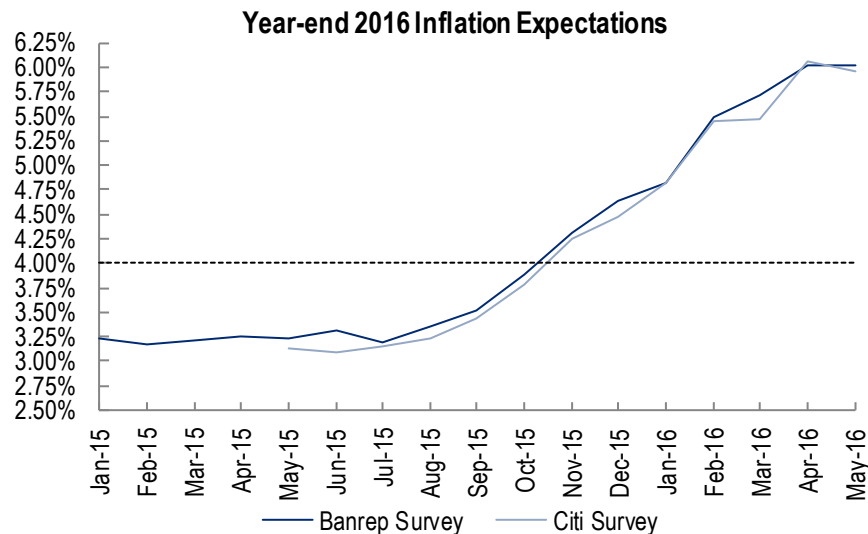
Economic Performance – Inflation

- **Total yearly headline inflation stood at 8.20% in May, above market expectation. We expect that inflation had peaked in June and to begin to trend down starting in July.**



-
- Aun cuando los choques son transitorios, su duración ha contaminado las expectativas de inflación.

Inflation Expectation Survey Results



Source: Banrep, Citi Research

	Monthly Inflation (May)		Inflation (YoY)			Repo Rate			GDP Growth Rate		Exchange Rate (USD/COP)			If you were a CB Board member, how would you	What is the probability of reaching this year's inflation target	If Banrep does not attain the 2.0-4.0% target, do you
	Headline	Nonfood	May	End 2016	End 2017	May	Jun	End 2016	2016	2017	End May 2016	End 2016	End 2017			
Average	0.45%	0.36%	8.13%	5.92%	3.99%	7.22%	7.31%	7.06%	2.44%	3.09%	3,051	3,117	3,112	7.23%	2.41%	
Median	0.45%	0.35%	8.13%	5.87%	3.94%	7.25%	7.25%	7.00%	2.48%	3.10%	3,065	3,050	3,010	7.25%	0.00%	Percent Above
Standard Devi	0.13%	0.14%	0.14%	0.58%	0.57%	0.14%	0.20%	0.38%	0.32%	0.33%	60	272	370	0.17%	3.81%	100.0%
Maximum	0.89%	0.68%	8.61%	7.00%	5.37%	7.50%	7.50%	7.50%	3.00%	3.70%	3,166	3,700	4,000	7.50%	12.00%	
Minimum	0.20%	0.15%	7.90%	5.00%	3.16%	7.00%	7.00%	6.25%	2.00%	2.40%	2,910	2,466	2,500	7.00%	0.00%	
Count	27	26	27	27	26	27	27	27	27	27	25	25	22	27	27	

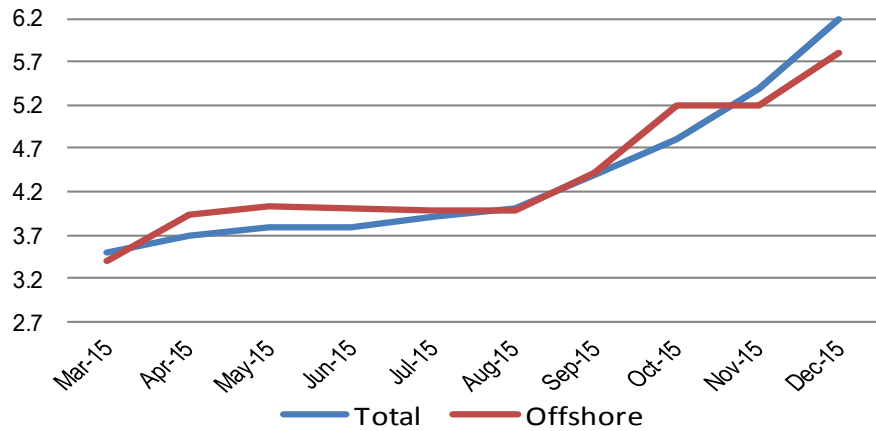
-
- En Citi esperamos una reducción de la inflación hacia finales del año. Somos optimistas en la convergencia de los precios de los alimentos.

Citi Inflation Forecast (Andean Region)

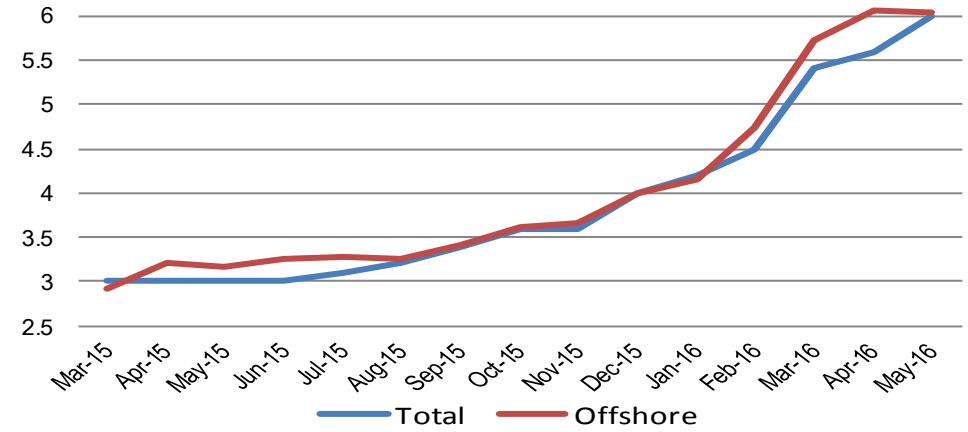
Inflation	2015	2016	2017
Colombia	6.77	5.01	3.70
Peru	4.40	3.00	2.50
Ecuador	3.39	2.40	2.70
Venezuela	180.90	257.00	350.00

Inflation forecasts

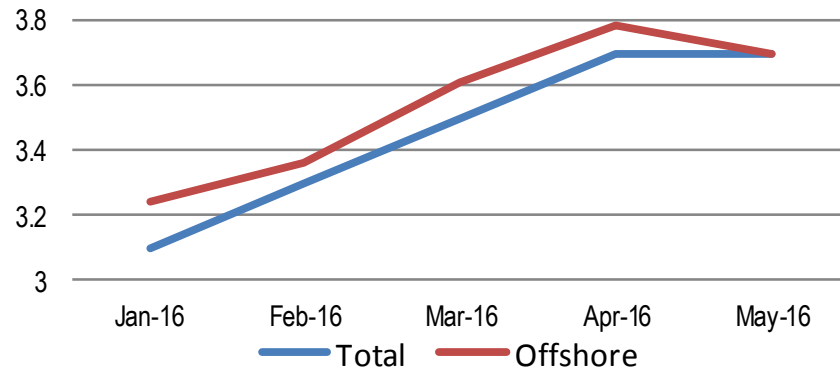
Inflation 2015



Inflation 2016



Inflation 2017



Source: BCRP & Citi Research

-
- Para los inversionistas extranjeros los mayores riesgos del país están en sus cuentas externas y en lo fiscal.
 - La financiación del déficit de cuenta corriente se ve como un riesgo dado el monto del mismo.
 - En Citi esperamos una convergencia del déficit de cuenta corriente este año a niveles de 5.7% y 4% el año entrante.

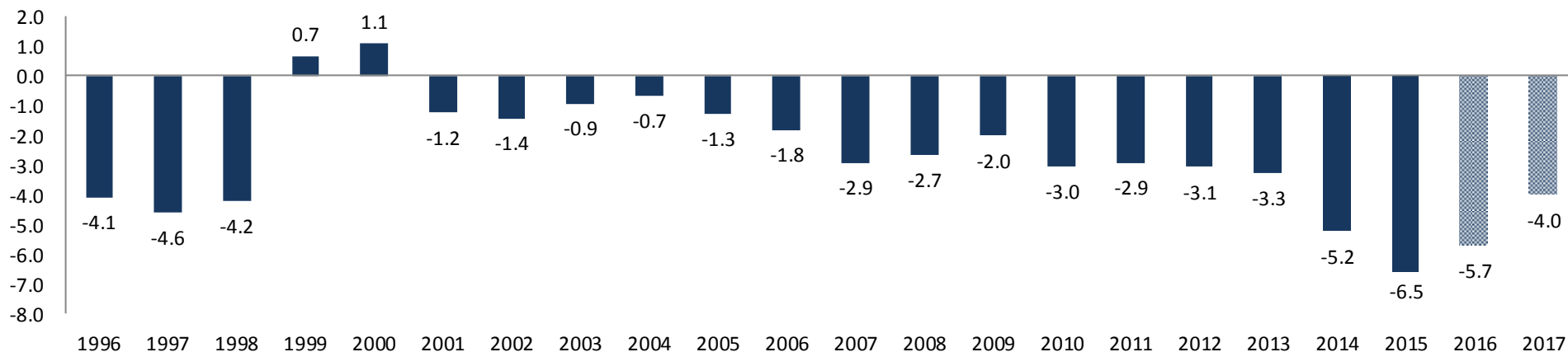
Citi Current Account Forecast (Andean Region)

Current Account (%GDP)	2015	2016	2017
Colombia	-6.58	-5.67	-4.03
Peru	-4.48	-4.07	-2.78
Ecuador	-2.18	-2.00	-1.21
Venezuela	-11.66	-4.37	2.00

Current account and Trade Balance Evolution

- Exports stood at USD2.4bn in April decreasing 24.8% YoY. Imports stood at USD3.59bn in March (a 22.6% YoY drop).

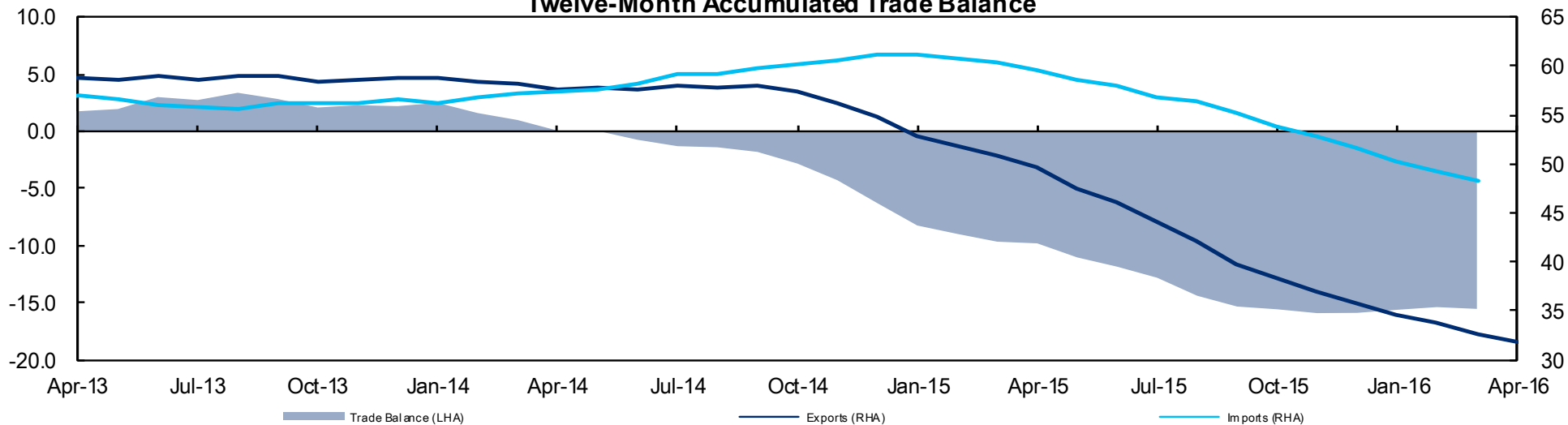
Current Account Balance (% of GDP)



Balance, USD Mn

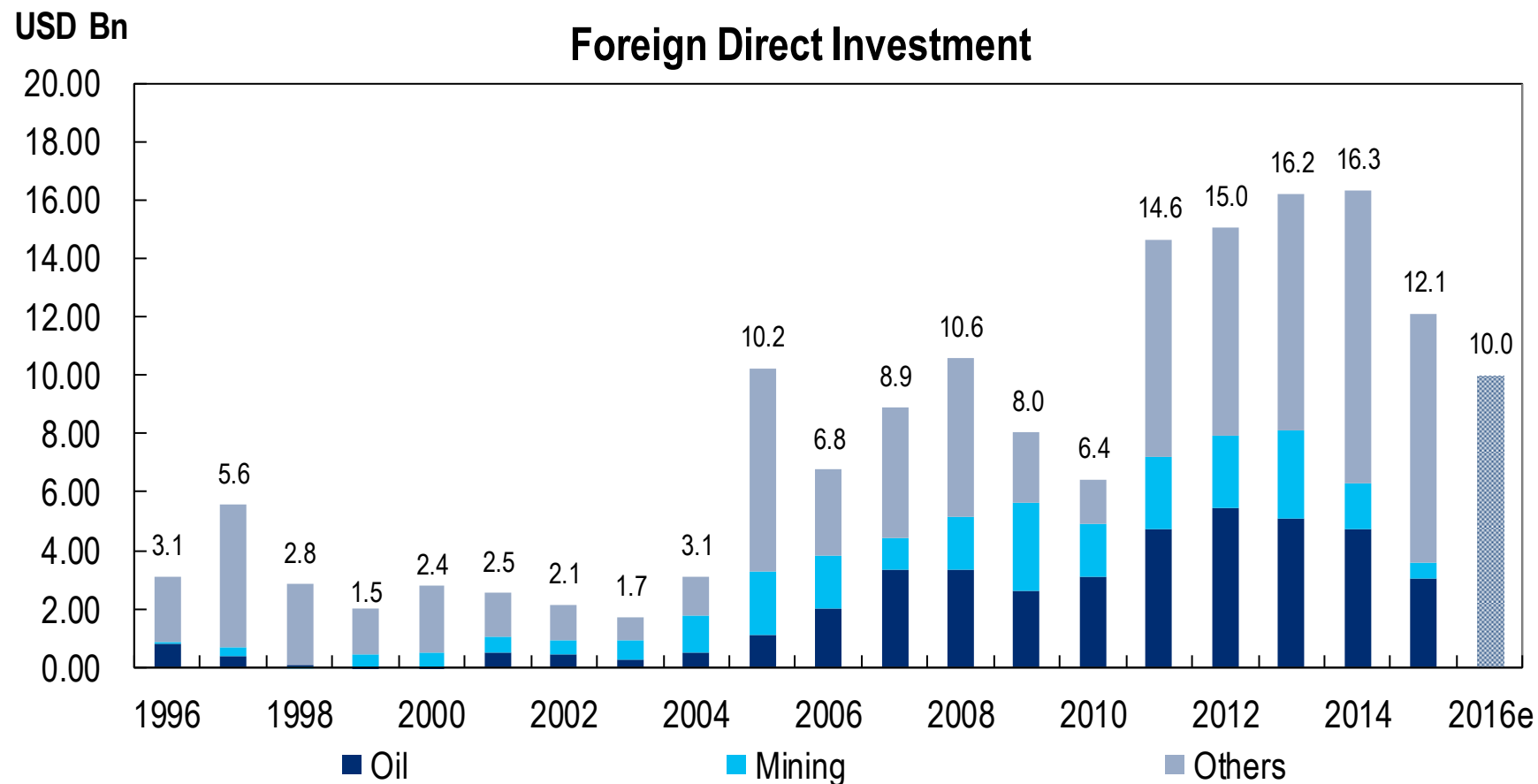
Twelve-Month Accumulated Trade Balance

X and M, USD Mn



-
- La IED continuará cayendo este año mientras que la inversión de portafolio muy probablemente será mejor a la esperada.

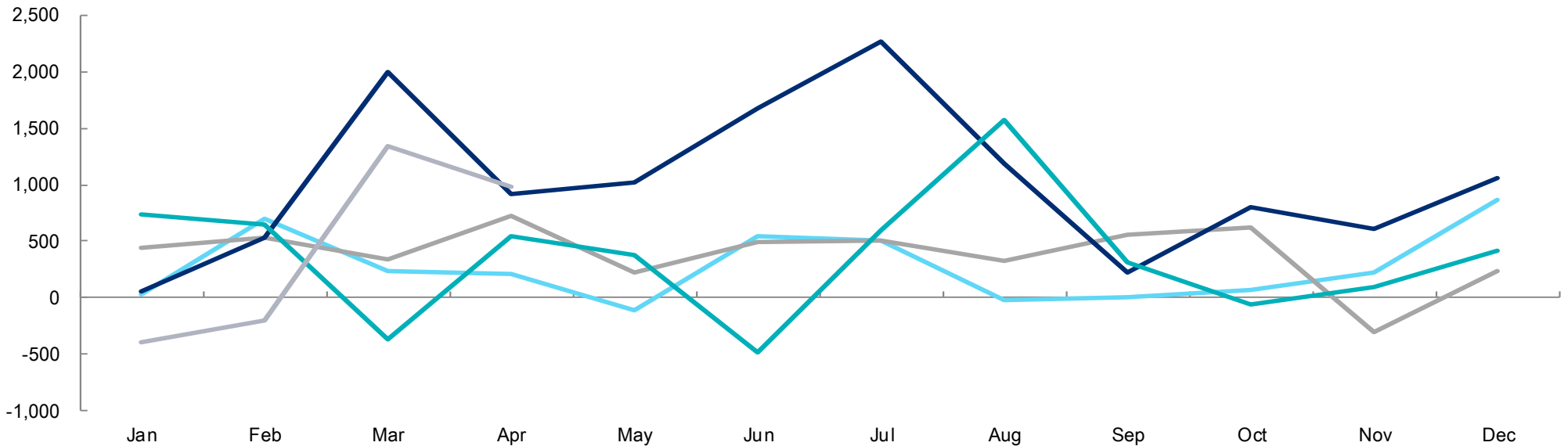
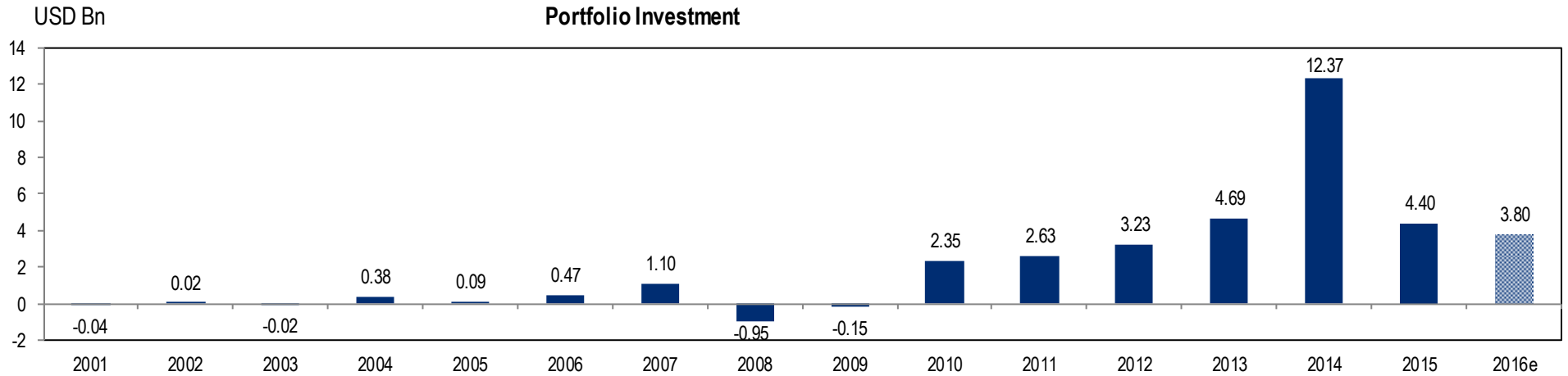
Oil & mining used to represent close to 50% of FDI



Source: BanRep & Citi Research

-
- ¿Qué ven los extranjeros hacia el país? Ven un mercado líquido, con buenos montos, que les permite entrar y salir con facilidad.
 - En estos días de retornos de 0.052% a 10 años, tasas de 8% o más se ven atractivas para los inversionistas extranjeros.

Recent Portfolio Investment Flow Behavior



Source: Citi Research & Banrep

— 2012 — 2013 — 2014 — 2015 — 2016

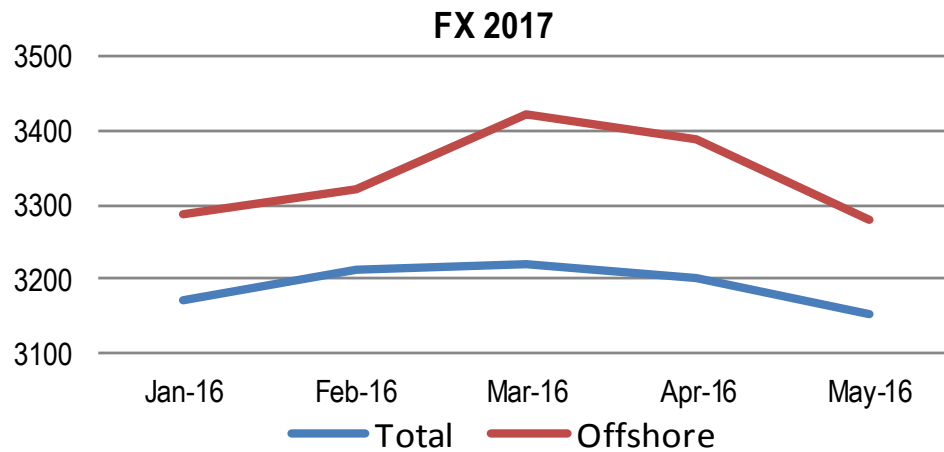
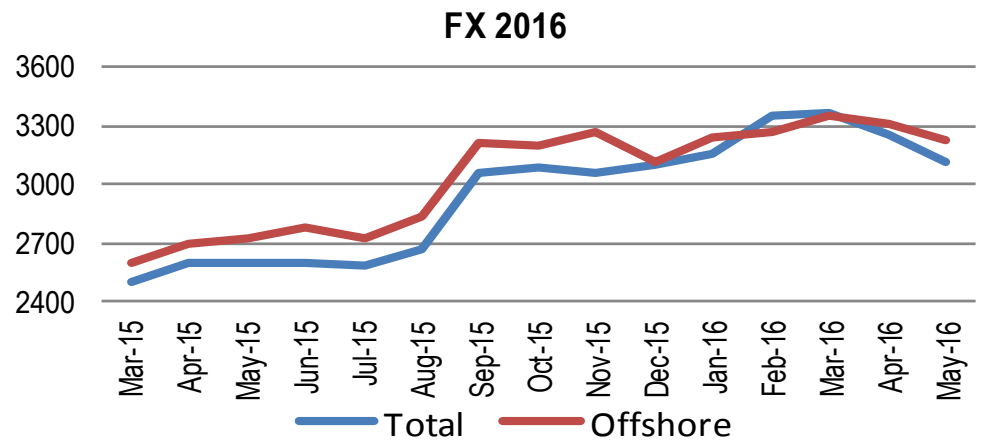
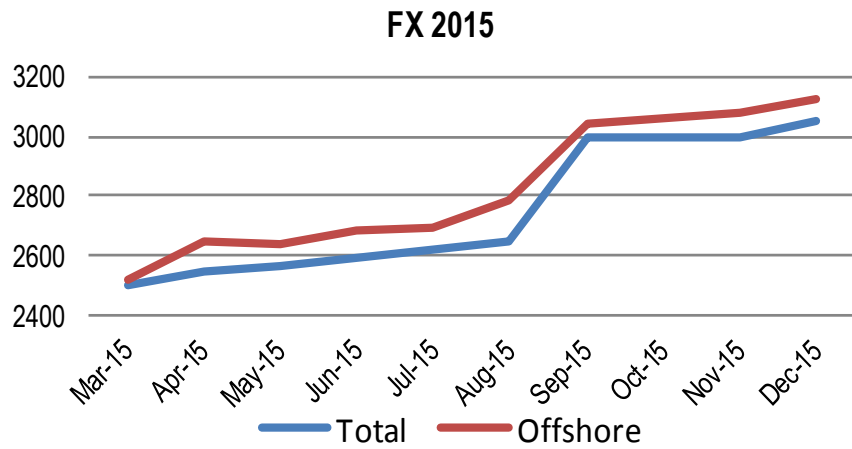
FX Outlook

USDCOP Evolution



Source: Bloomberg

Exchange rate forecasts



Source: BCRP & Citi Research

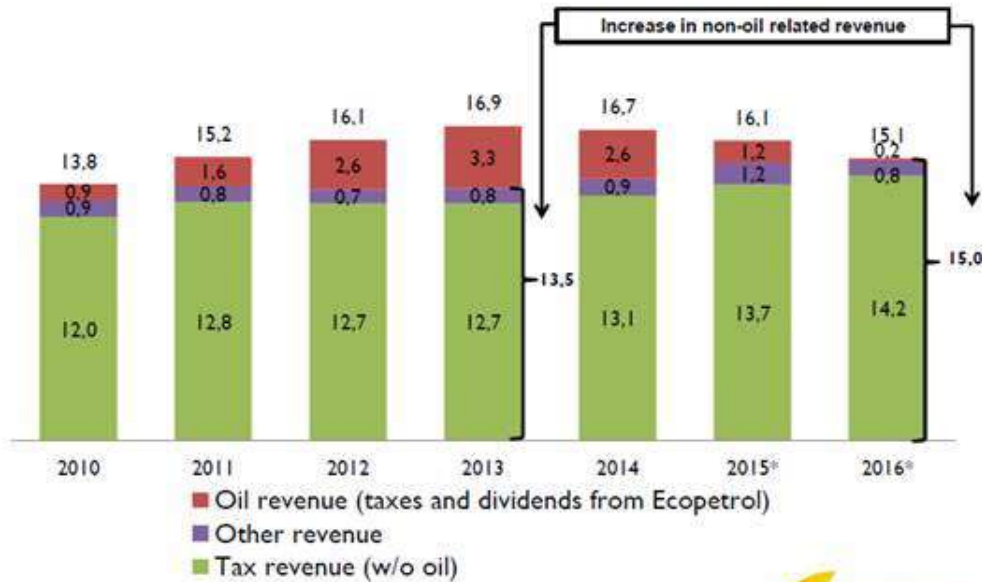
Citi FX Forecast (Andean Region)

FX	2015	2016	2017
Colombia	3174.50	2918.00	2900.00
Peru	3.41	3.50	3.50
Ecuador	1.00	1.00	1.00
Venezuela	71.27	650.00	1041.30

-
- En cuanto al manejo fiscal, no hay duda para los inversionistas de que se necesita una reforma tributaria.
 - La reforma tributaria debe buscar reemplazar los recursos perdidos con la caída de los precios del crudo.

Fiscal Figures and Oil

Central Government's total revenue (% of GDP)

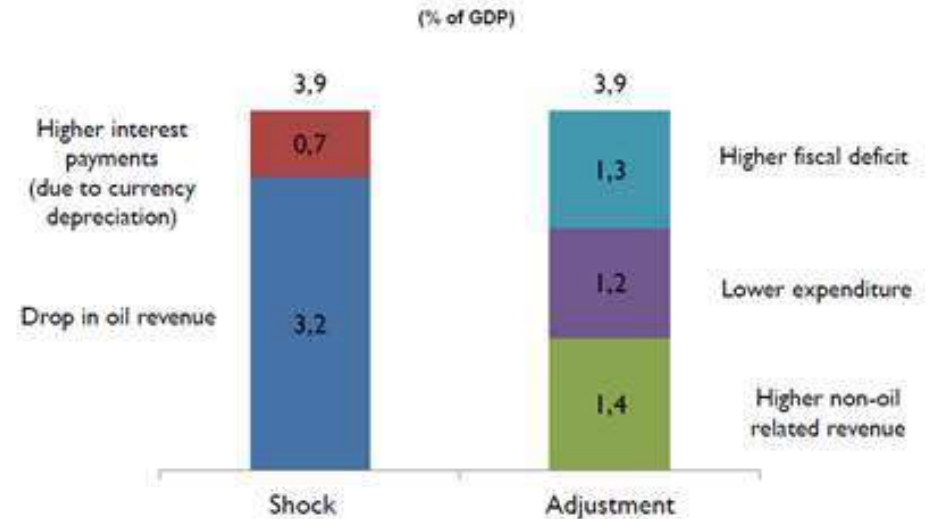


Source: Ministry of Finance. * Projected figures.



PlantillaEconomia.jpg

Fiscal shock and its adjustment (2013 vs. 2016)



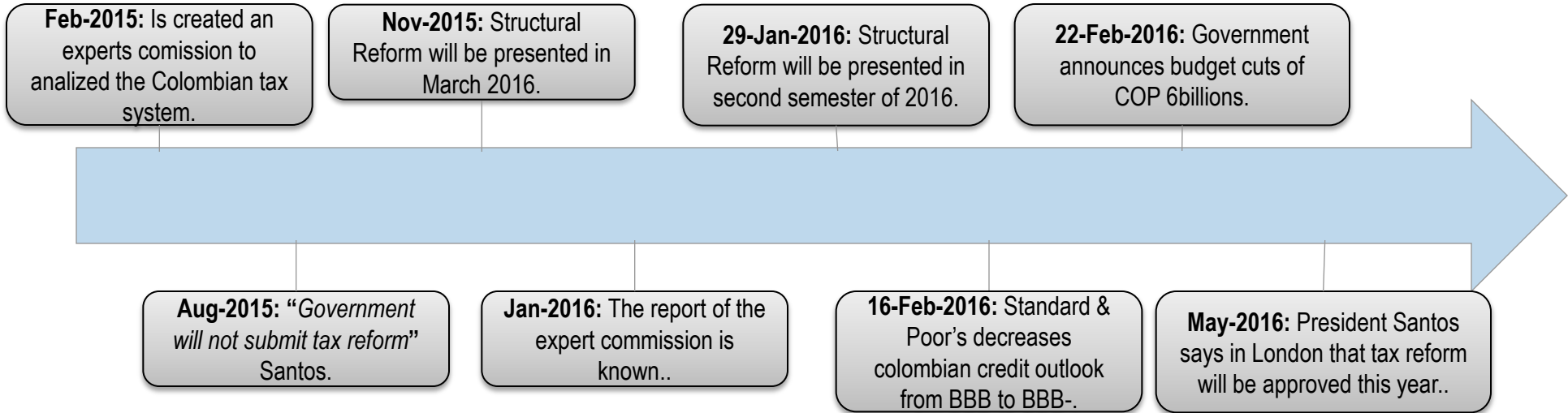
Source: Ministry of Finance.



Source: Ministry of Finance & Citi Research

La parte “estructural” de la reforma tributaria no es tan importante para los inversionistas extranjeros.

Tax Reform



VAT	2% or 3%
NFP TAX	

Structural	
Income Tax	
Corporate Tax	

Tax Reform	
Presentation tax reform	
Senate - Third Commission	
First debate	Commission
Second debate	Plenary
Transfer to camera	
First debate	Commission
Second debate	Plenary
Presidential approval	

-
- La paz es muy bien vista a los ojos de los inversionistas extranjeros. Hay una positiva recepción a la firma de un eventual acuerdo.

IRS Circular 230 Disclosure: Citigroup Inc. and its affiliates do not provide tax or legal advice. Any discussion of tax matters in these materials (i) is not intended or written to be used, and cannot be used or relied upon, by you for the purpose of avoiding any tax penalties and (ii) may have been written in connection with the "promotion or marketing" of any transaction contemplated hereby ("Transaction"). Accordingly, you should seek advice based on your particular circumstances from an independent tax advisor.

Any terms set forth herein are intended for discussion purposes only and are subject to the final terms as set forth in separate definitive written agreements. This presentation is not a commitment to lend, syndicate a financing, underwrite or purchase securities, or commit capital nor does it obligate us to enter into such a commitment, nor are we acting as a fiduciary to you. By accepting this presentation, subject to applicable law or regulation, you agree to keep confidential the existence of and proposed terms for any Transaction.

Prior to entering into any Transaction, you should determine, without reliance upon us or our affiliates, the economic risks and merits (and independently determine that you are able to assume these risks) as well as the legal, tax and accounting characterizations and consequences of any such Transaction. In this regard, by accepting this presentation, you acknowledge that (a) we are not in the business of providing (and you are not relying on us for) legal, tax or accounting advice, (b) there may be legal, tax or accounting risks associated with any Transaction, (c) you should receive (and rely on) separate and qualified legal, tax and accounting advice and (d) you should apprise senior management in your organization as to such legal, tax and accounting advice (and any risks associated with any Transaction) and our disclaimer as to these matters. By acceptance of these materials, you and we hereby agree that from the commencement of discussions with respect to any Transaction, and notwithstanding any other provision in this presentation, we hereby confirm that no participant in any Transaction shall be limited from disclosing the U.S. tax treatment or U.S. tax structure of such Transaction.

We are required to obtain, verify and record certain information that identifies each entity that enters into a formal business relationship with us. We will ask for your complete name, street address, and taxpayer ID number. We may also request corporate formation documents, or other forms of identification, to verify information provided.

Any prices or levels contained herein are preliminary and indicative only and do not represent bids or offers. These indications are provided solely for your information and consideration, are subject to change at any time without notice and are not intended as a solicitation with respect to the purchase or sale of any instrument. The information contained in this presentation may include results of analyses from a quantitative model which represent potential future events that may or may not be realized, and is not a complete analysis of every material fact representing any product. Any estimates included herein constitute our judgment as of the date hereof and are subject to change without any notice. We and/or our affiliates may make a market in these instruments for our customers and for our own account. Accordingly, we may have a position in any such instrument at any time.

Although this material may contain publicly available information about Citi corporate bond research, fixed income strategy or economic and market analysis, Citi policy (i) prohibits employees from offering, directly or indirectly, a favorable or negative research opinion or offering to change an opinion as consideration or inducement for the receipt of business or for compensation; and (ii) prohibits analysts from being compensated for specific recommendations or views contained in research reports. So as to reduce the potential for conflicts of interest, as well as to reduce any appearance of conflicts of interest, Citi has enacted policies and procedures designed to limit communications between its investment banking and research personnel to specifically prescribed circumstances.

© 2016 Citigroup Global Markets Inc. Member SIPC. All rights reserved. Citi and Citi and Arc Design are trademarks and service marks of Citigroup Inc. or its affiliates and are used and registered throughout the world.