

1. Editorial

Despite the peaceful markets and the acceleration of world growth that is anticipated by several indicators such as industrial production and the increased optimism, 2017 has started amid great uncertainty. The big question revolves around the economic policy of the new US administration, still to be defined, that could have consequences on world activity and on the direction of capital flows. Despite this unease, our forecasts suggest that world growth will accelerate from 3% in 2016 to 3.2% in 2017 and 3.3% in 2018.

The Colombian economy, for its part, has managed to deal with the uncertainties weighing it down. On the external front, the current account deficit has closed rapidly. In 2017 and 2018 we expect that it will be at 3.8% and 3.4% of GDP, close to the levels we consider sustainable. On the fiscal front, the tax reform succeeded in replacing part of the taxes that were lost due to falling oil prices, thus avoiding strong adjustments in spending and a possible reduction in the credit rating. The peace process, which hung in the balance after the referendum, managed to move forward thanks to the incorporation of the adjustments proposed by those leading the 'No' vote and is currently in the process of implementation.

Part of this uncertainty affected consumption and investment, variables that continued to slow down in the second half of last year. Although there has been an upturn in consumer confidence and in that of industrialists, levels remain low. Consumer spending will accelerate slowly in 2017 thanks to the reduction in interest rates and the gradual improvement that we anticipate in consumer confidence. However, its progress will be limited, due to the VAT increase. In total, we believe that consumption will grow at the pace of the economy as a whole, which will grow at rates of 2.4% and 3.3% in 2017 and 2018.

The driving force behind growth over the next few years will be investment. Tax reform incentives, exchange rate revaluation, lower interest rates and high use of installed capacity all point to a rebound in private investment. In addition, works of investment will be accelerated thanks to the start of the 4G projects and greater local and regional government implementation. Total investment will go from growth of -1.7% in 2016 to 4.3% and 6.1% in 2017 and 2018.

The slight revaluation in the exchange rate that we expect for this year, together with the greater agricultural supply and its positive impact on the price of the food, will help inflation continue on its downward trend. We believe that inflation will end 2017 and 2018 at a rate of 4.1% and 3.6%, respectively. Thanks to this decline, the Banco de la República will take its intervention rate to 6% at the end of this year and to 4.75% in 2018, once it is sure that inflation expectations are closer to 3%.

There are risks that can affect these forecasts. The corruption cases that came to light in connection with 4G infrastructure works could delay the investment advances we expected for the next few years. Likewise, a sudden increase in external interest rates because of the US government's fiscal policies could affect the flow of capital, devaluing the peso and thus reducing the space for the Banco de la República to reduce its rates.