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Colombia Set to Benefit From Peso’s Cr s Finance Minister

ByDan Keeler

Colombia’s finance minister Mauricio Cárdenas: “What has helped us? The exchange rate.”

Dan Keeler/The Wall Street Journal

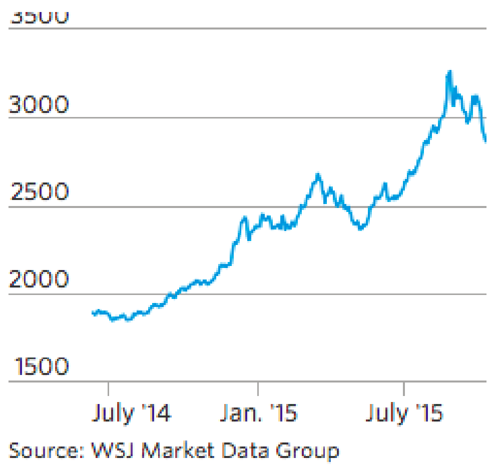
Colombia’s crumbling peso would appear to be bad news for the country of 47 million people. Not so, says finance minister Mauricio Cárdenas.

“Lower oil prices have had a major impact on our current account. Half our exports were basically oil,” he said. The slump is also hurting the central government’s fiscal revenues, around a fifth of which came from oil.

“What has helped us?” asked Mr. Cárdenas. “The exchange rate.”

The decline in the peso “is sending a signal to producers to produce more for the export market and for consumers to buy more Colombian goods and less imports,” Mr. Cárdenas told the Wall Street Journal in an interview. As well as creating an environment that will help boost exports, Mr. Cárdenas said, the depreciated currency also makes Colombia more competitive as an investment destination for foreign companies.

Last week, the country's president, Juan Manuel Santos, went even further when he said the effects of the oil-price collapse presented his country with "a tremendous opportunity to strengthen the economy." In a webcast on September 30, Mr. Santos said: "We can turn this storm…to our advantage. We had an overvalued currency but now we don't."



Colombia's peso has fallen precipitously against the U.S. dollar.

Analysts are skeptical that the currency's recent fall can provide as much support as the politicians suggest. Julie Beckenstein, senior Americas analyst at economic research firm Business Monitor International, says the challenges Colombia is facing are "quite enormous" and the potential benefits from a lower exchange rate will take some time to feed through to the economy: "The foreign exchange collapse will offer tailwinds but there are going to be structural obstacles, such as the inadequacy of infrastructure in Colombia, that will hinder a rebalancing of the economy," she said.

The government is attempting to address the infrastructure deficit with the help of private investment, Mr. Cárdenas said. "The private sector in Colombia is getting ready to begin the construction of about $25 billion worth of transport projects, which is [occurring] at the right time, when we actually need it in terms of economic activity."

Ms. Beckenstein argues, though, that the timing is far from ideal: "The infrastructure is so weak, and it's so expensive to move goods in and out of and around the country. The government had been taking steps to address this, but the benefits won't be felt for quite a while."

The government's hope that the weaker currency will prompt Colombians to spend more on locally produced goods may also be misplaced. Mario Gutierrez, a Latin America analyst at Washington, D.C.-based corporate advisory firm Frontier Strategy Group, says consumers are increasingly cautious. "The purchasing power of the peso has decreased so much that people—from taxi drivers to people who work in huge companies—are afraid of spending," he said. "That is having a huge impact on the growth prospects of the economy."

There is also considerable concern that salaries will not grow as quickly as inflation, which the International Monetary Fund forecasts will reach 4.4% this year, up sharply from 2014's 2.9%.

Colombia's President, Juan Manuel Santos: "We can turn this storm…to our advantage."

Reuters

Analysts and the government agree on one thing: Colombia has been far too dependent on oil exports. The government has for several years been trying to diversify the economy, offering investors incentives to set up shop in sectors such as business process outsourcing, agriculture, tourism and manufacturing.

The success of that drive will have a significant bearing on Colombia's economic prospects over the near term, said Mr. Gutierrez, who has been in Bogota this week meeting with multinational clients active in Colombia. "Colombia is still a very attractive country for multinationals. If the government is successful in proposing an interesting package of incentives to attract investment, Colombia will see overall growth probably at around 3.5% to 3.7%,"

The IMF expects economic growth this year to skid to 2.5% after a 4.6% rate last year. In dollar terms, the multilateral expects GDP to shrink this year to $274 billion, down significantly from its peak of $380 billion in 2013.

Foreign companies operating in Colombia are nervous. Of the nine firms Mr. Gutierrez had visited, all but one were expecting sales in Colombia to decline.

Colombia's President Santos is well aware of the impact the oil-price slump has had on in foreign investment into the sector, but says other sectors are improving: "We are not going to have the FDI that we had last year, mostly [because] oil has gone down, but FDI in the rest of the sectors has gone up," he said.

Financial investors still appear confident in Colombia. After the U.S. Federal Reserve kept interest rates on hold last month Colombia launched a dollar-denominated debt sale. "We were able to place $1.5 billion of 10-year bonds on good terms because the markets were calm," Mr. Cárdenas said.

The calm may be extending to the currency markets, too. According to Mr. Cárdenas, the country's central bank believes the peso may have reached fair value. "[If] oil prices stabilize around $48 to $50 per barrel in the case of Brent, I think the currency will stabilize as well," he said.

Even the prospect of a rise in U.S. Interest rates, which is widely expected to inflict more pain on emerging-market currencies, fails to faze Mr. Cárdenas. "We export a lot to the U.S. If its economy is recovering, that's good for Colombia."

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