On our way to a New Economy

Ministry of Finance
November 2016

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Colombia: a resilient economy in the wake of considerable external shocks

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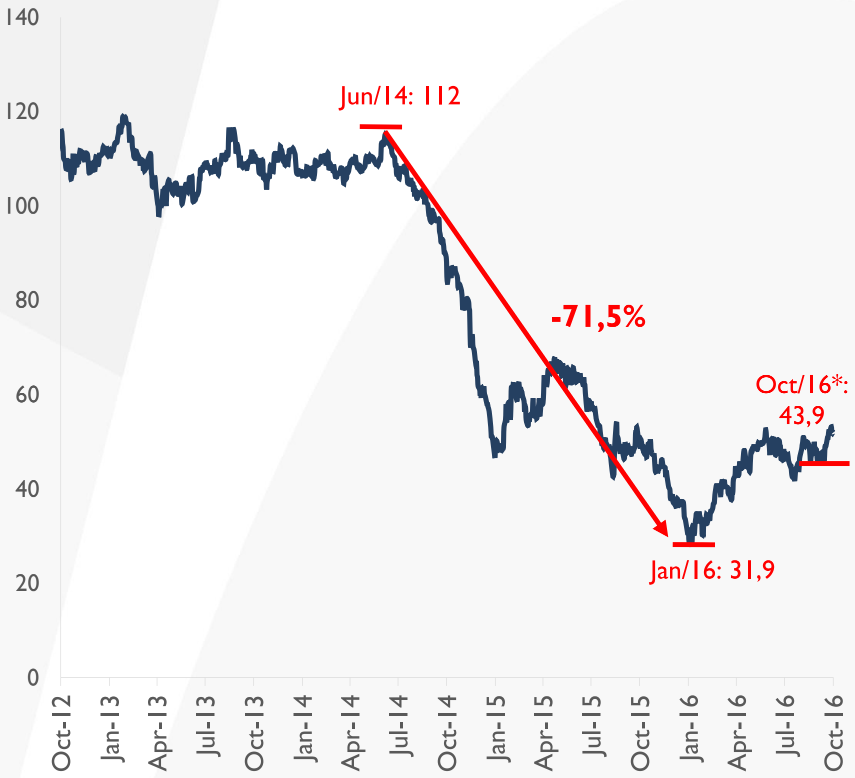
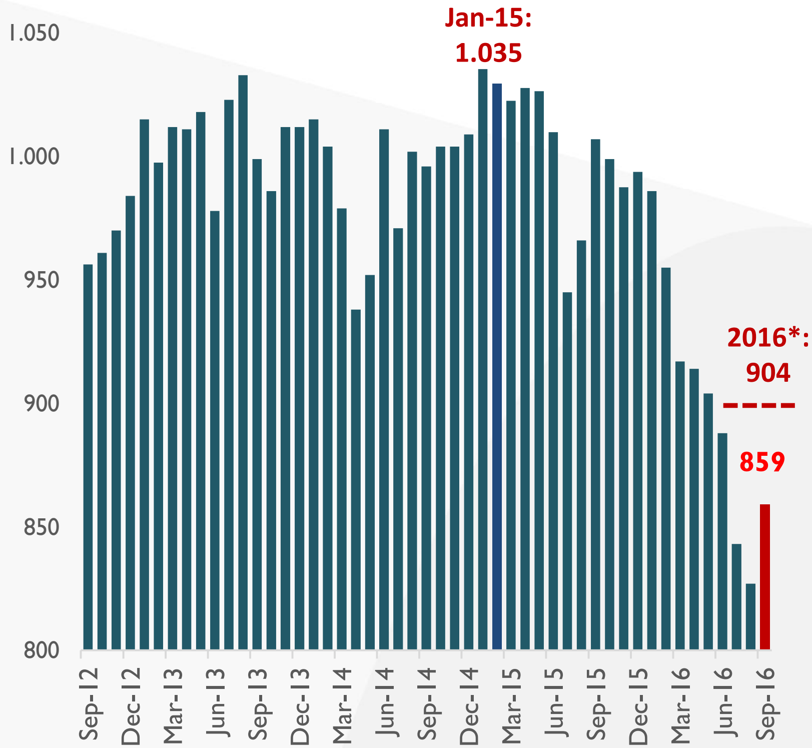
Unprecedented fall in prices has affected oil production

Brent
(USD/barrel)



Source: Bloomberg
* Year to date

Oil production
(kbpd)



Source: ANH

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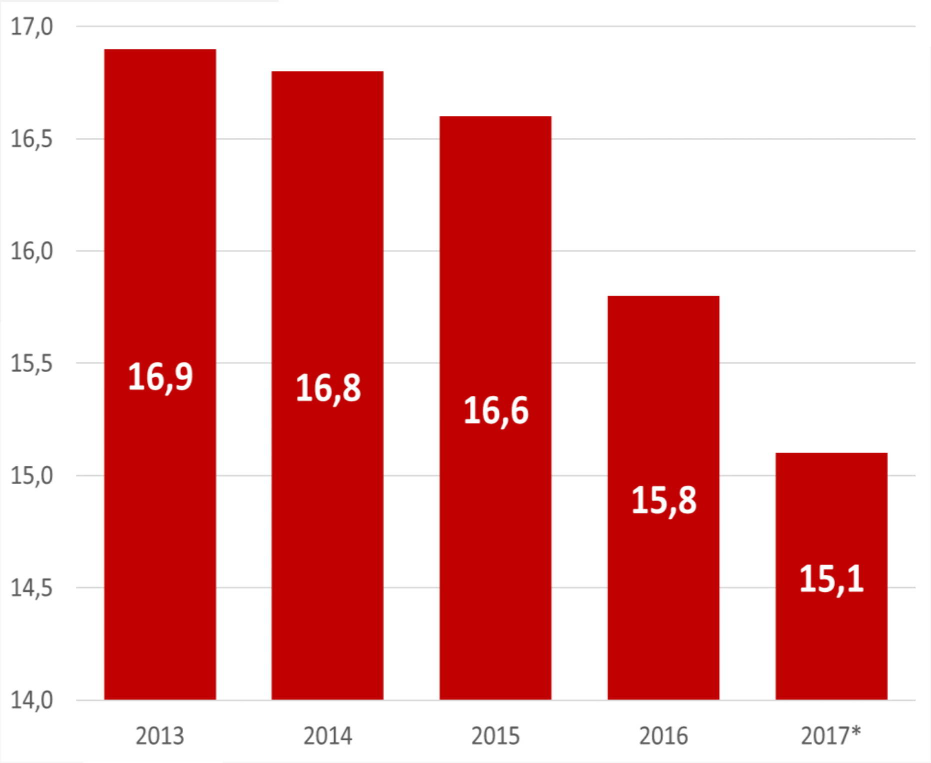
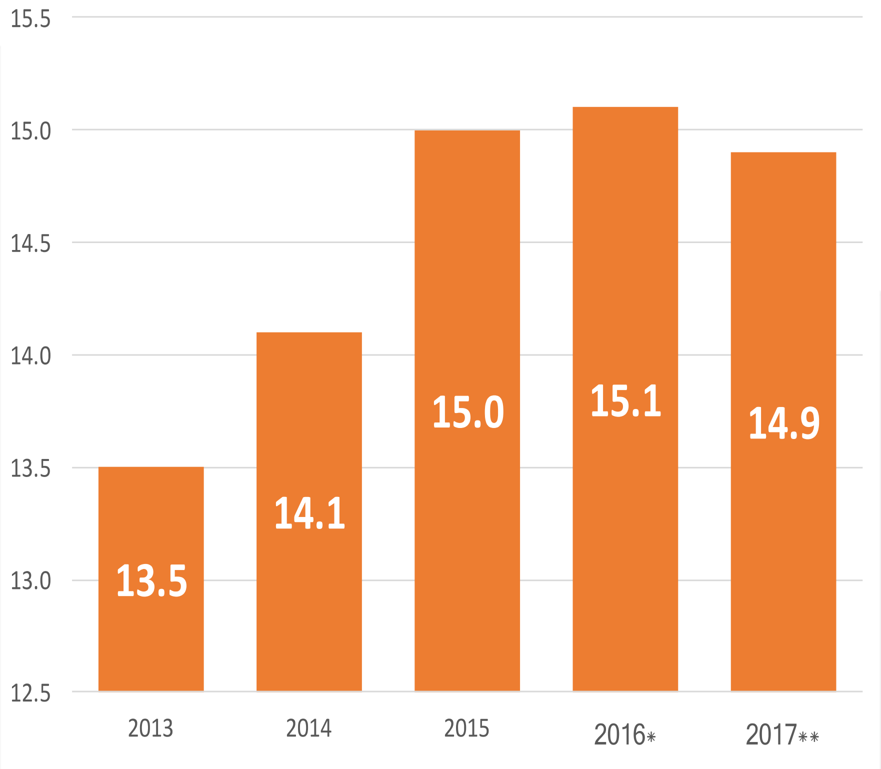
Fiscal policy response has been firm, both on the spending and non-oil revenue fronts

Central government expenditure (excludes interest payments, % of GDP)



CNG: Central national Government
* Projected
Source: Ministry of Finance

Central government non-oil revenue (% of GDP)



CNG: Central national Government
* Projected, ** Projected without Tax Bill
Source: Ministry of Finance

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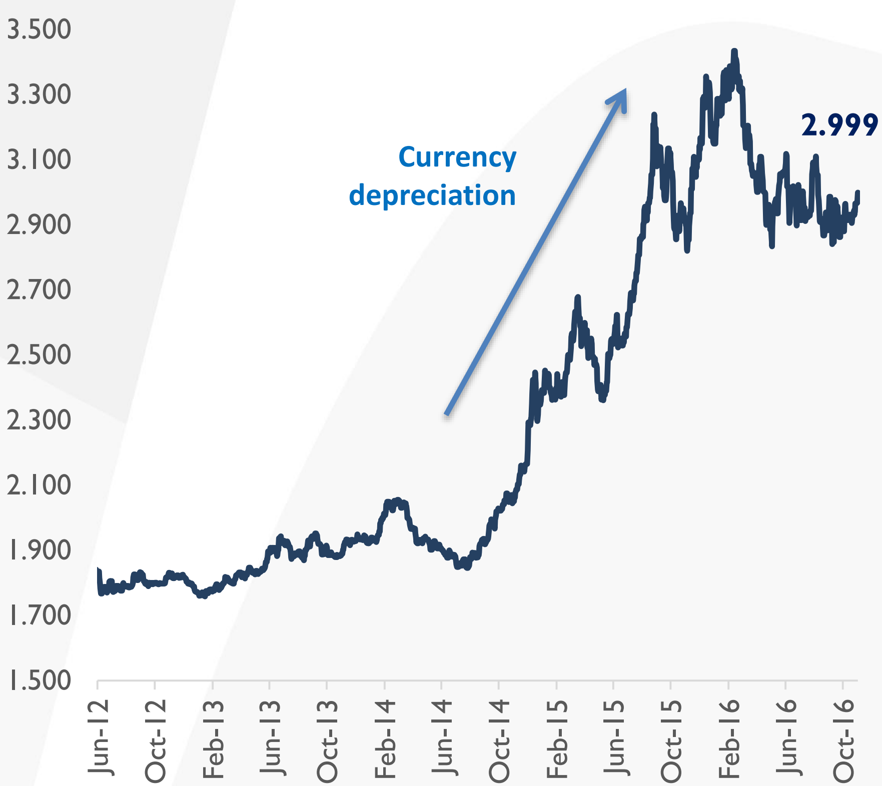
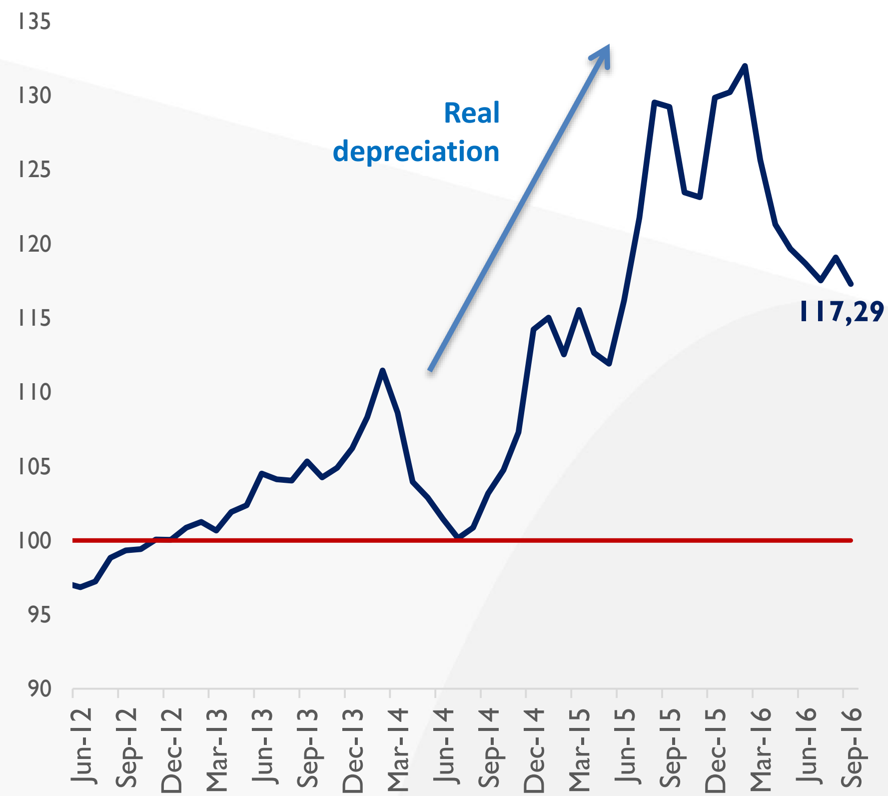
A flexible exchange rate is a pillar of our macroeconomic policy framework

Nominal Exchange Rate
(COP/USD)



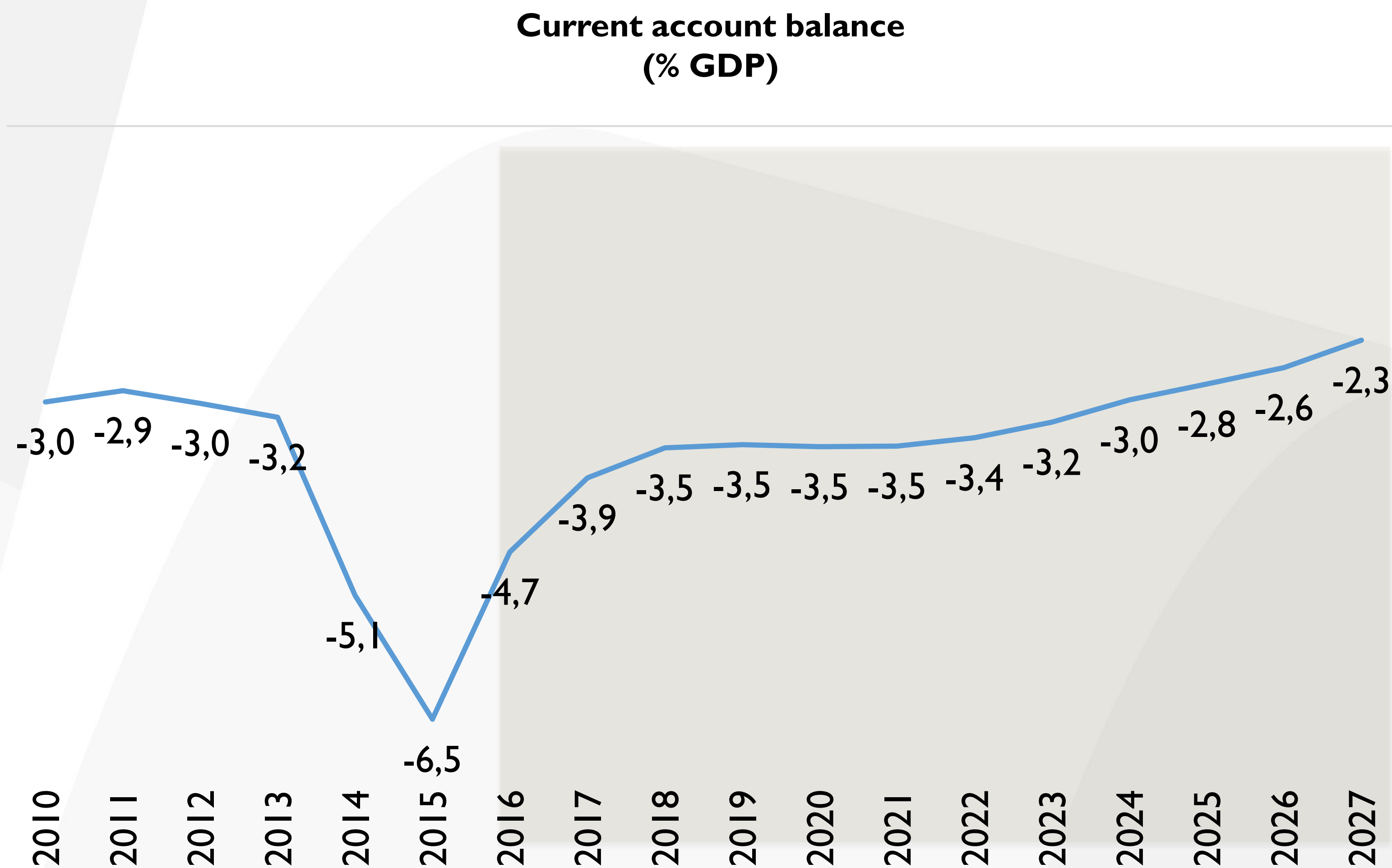
Source: Central Bank

Real Exchange Rate Index
(2010=100)



Source: Central Bank

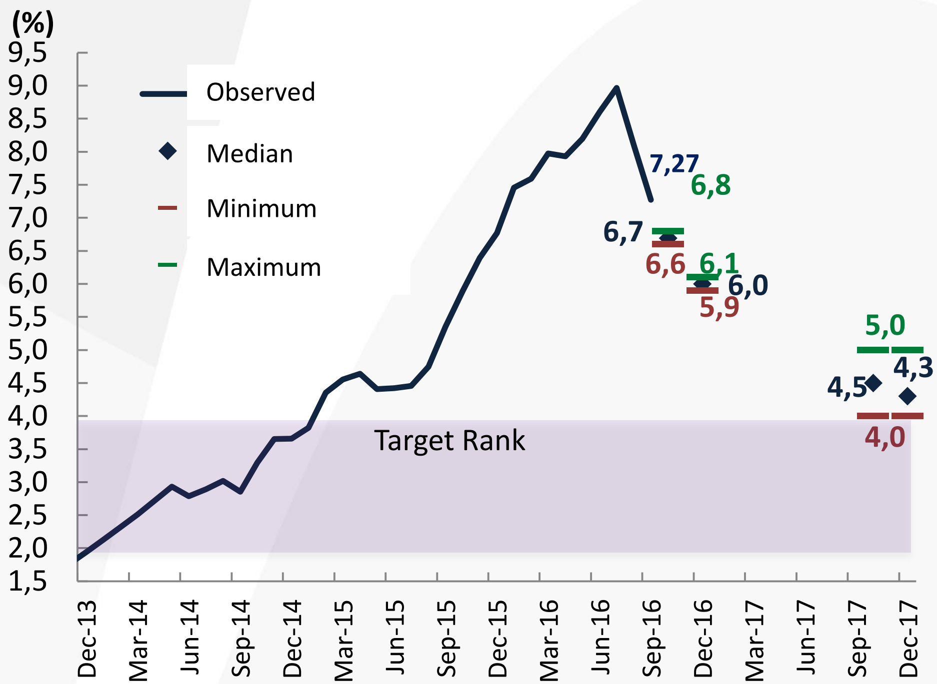
The external imbalances of the Colombian economy will be corrected faster than expected



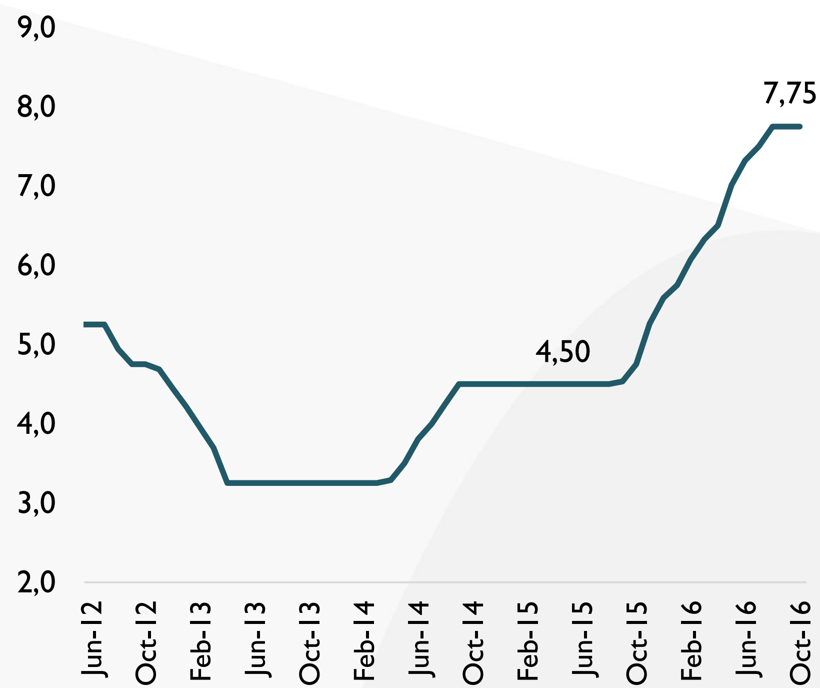
Source: Ministry of Finance

The pass-through effects on inflation from currency depreciation and the effects of El Niño on food prices are waning. Monetary policy has reacted in a timely manner to keep inflation expectations anchored

Annual Inflation Rate, %

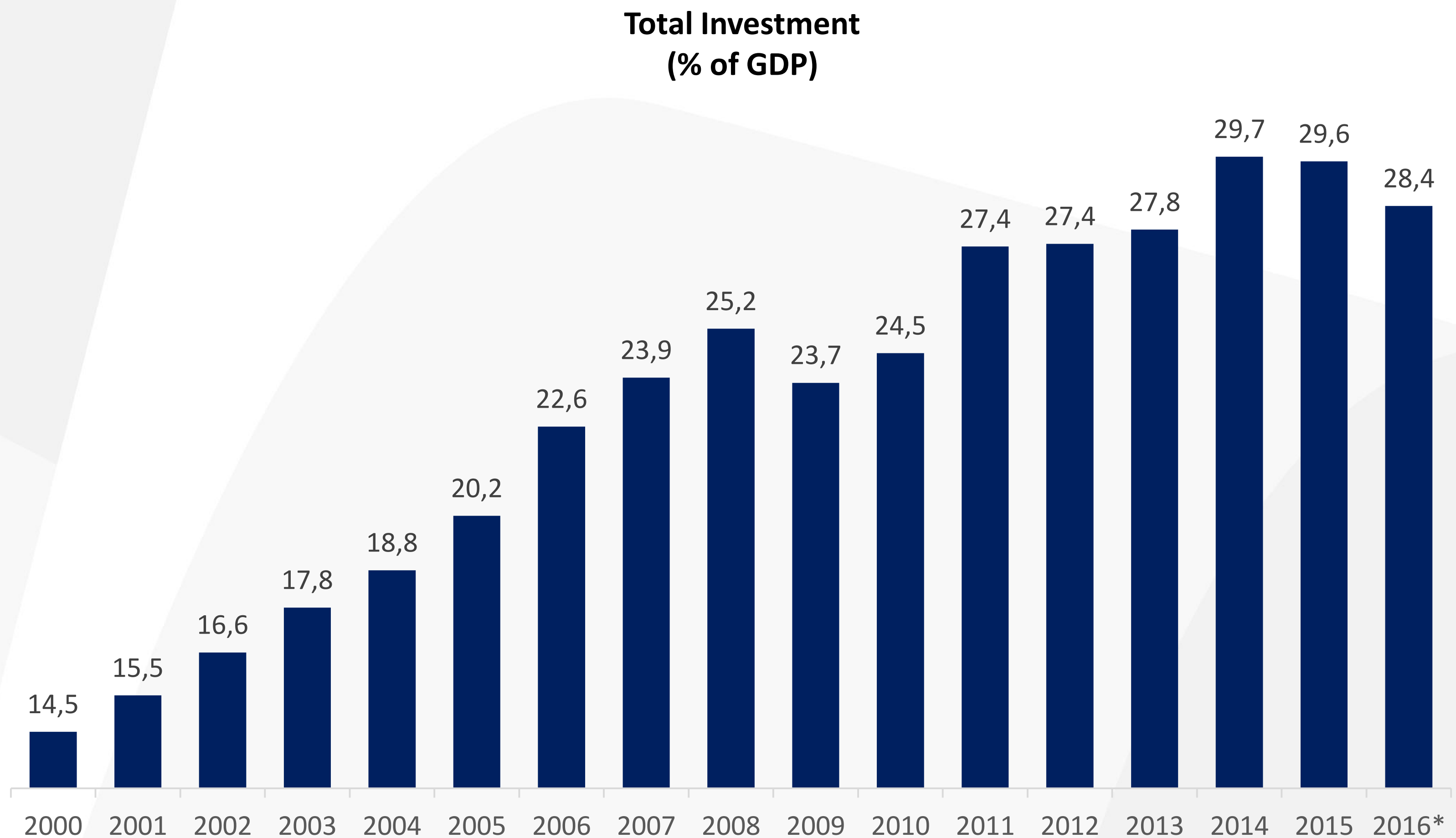


Central Bank Policy Rate, %



Source: DANE, Fedesarrollo and Central Bank

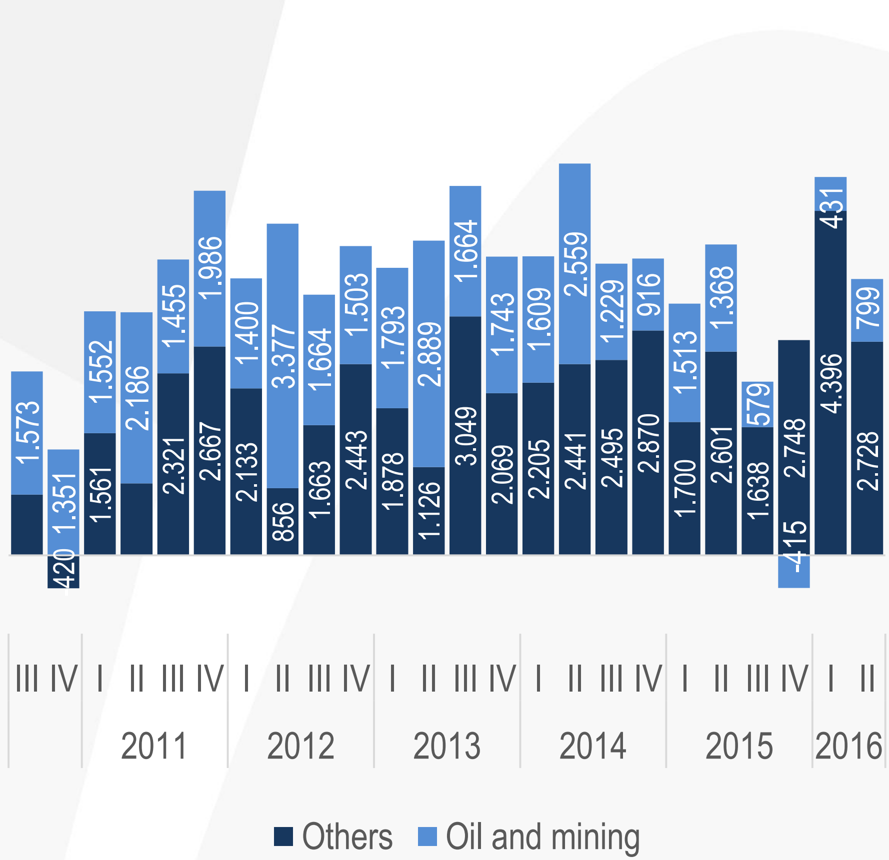
Investment-to-GDP ratios continue at record highs, helping the economy to cope with massive external shocks



* Projected
Source: DANE

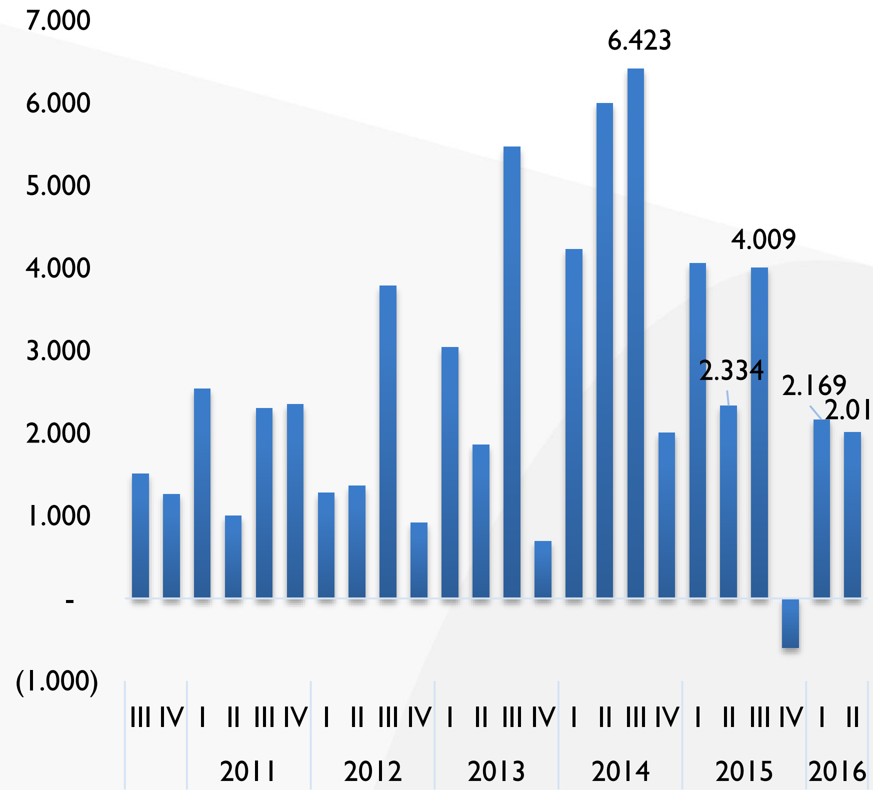
Foreign investment flows signal continued confidence in Colombia's macroeconomic strategy

Gross Foreign Direct Investment
(USD Million)



Source: Central Bank

Gross Portfolio Investment
(USD Million)



Source: Central Bank

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Economic policies in Colombia as seen by independent parties

OECD (October 2016) "The Colombian economy has showed remarkable resilience to a persistent and large terms-of-trade shock. **Growth has been stronger than most countries in the region** as a result of the **strong macroeconomic policy framework**, combining a flexible exchange rate, fiscal rules and an inflation targeting regime"

IMF (June 2016) "**Colombia has a track record of very strong policy frameworks**, including an inflation targeting regime, a flexible exchange rate, effective financial sector supervision and regulation, and a fiscal policy guided by a structural balance rule."

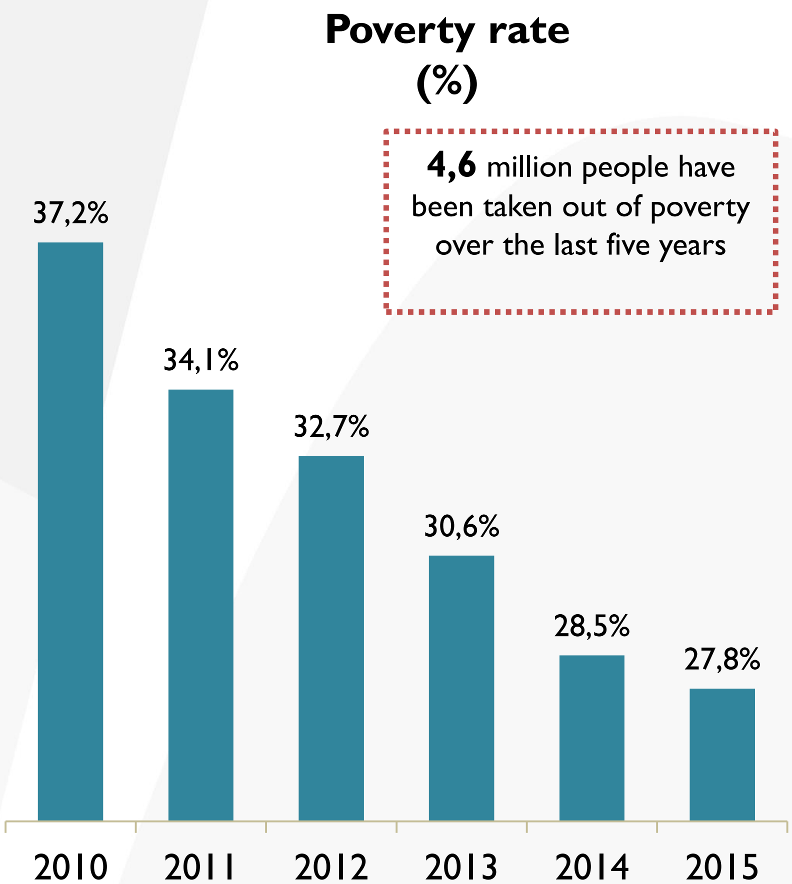
Moodys (June 2, 2016) "…Colombia's economic growth outperformed regional peers until 2015, underpinned by sound macroeconomic and prudent fiscal policies. **The economy has remained resilient in the midst of adjusting to a large terms of trade shock from the drop in oil prices**…"

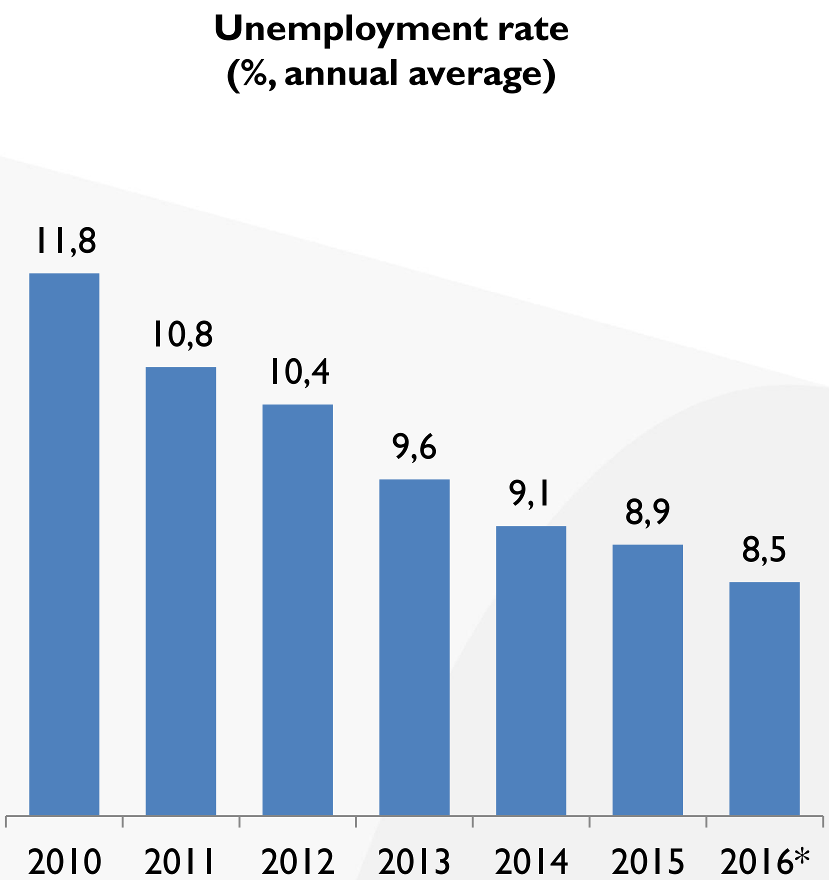
S&P (March 31, 2016) "…**The ratings on Colombia reflect its track record of sound fiscal and monetary policies** that, coupled with important improvement in domestic security conditions over the past decade, have supported increased investment, growth, and resilience of the economy to terms of trade and other external shocks…"

Fitch (July 2016) "…**Credible and consistent economic policies** underpin exchange-rate flexibility, entrenched macroeconomic and financial stability, and the absence of financial dollarization **support Colombia's capacity to adjust to external shocks**…"

Social Progress and Growth Resilience

Less poverty and more employment have strengthened a surging middle class





Source: DANE and DGPM-MHCP calculations.
*September 2016

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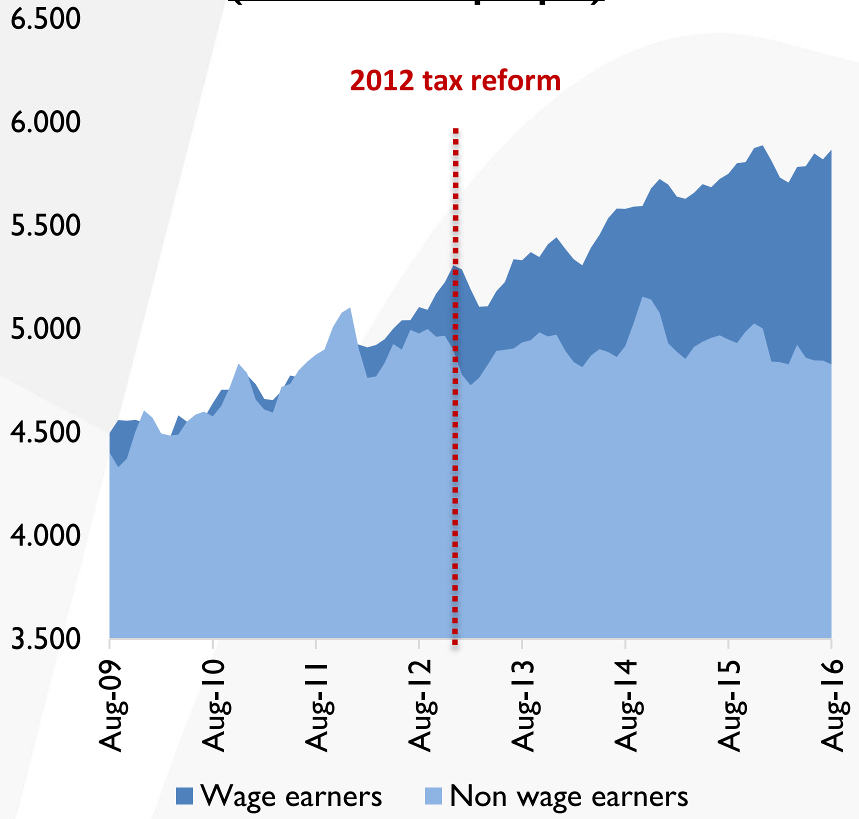
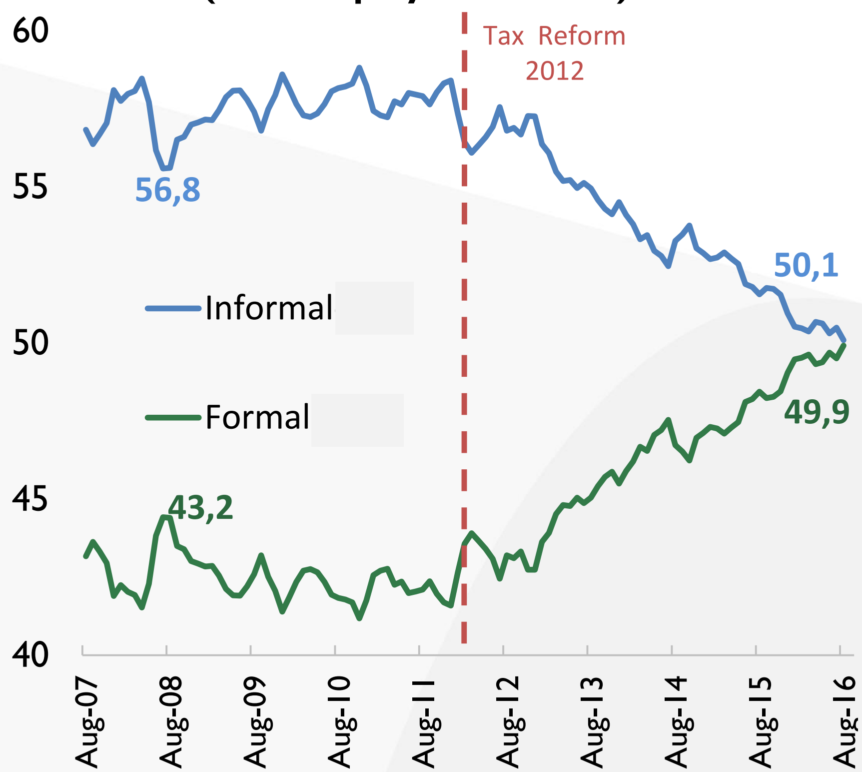
Thanks to the reduction in payroll taxes introduced in the 2012 tax reform, the ensuing formalization of the labor market remains a strong trend

Employed wage and non-wage earners (thousands of people)



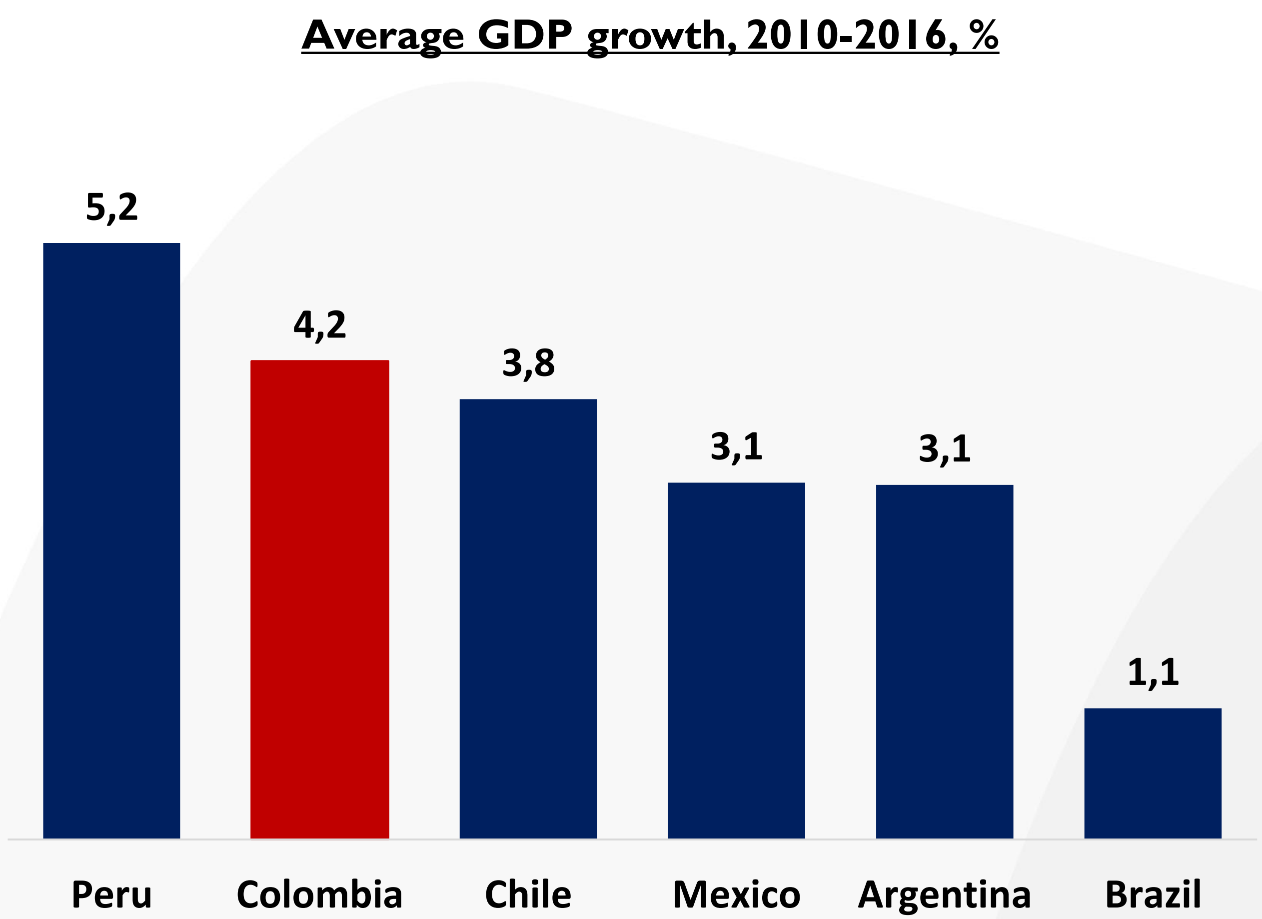
Formality and informality rates* (% of employed workers)



Source: DANE and DGPM-MHCP calculations.

*Formality under the criteria of affiliation to social security (13 main cities).

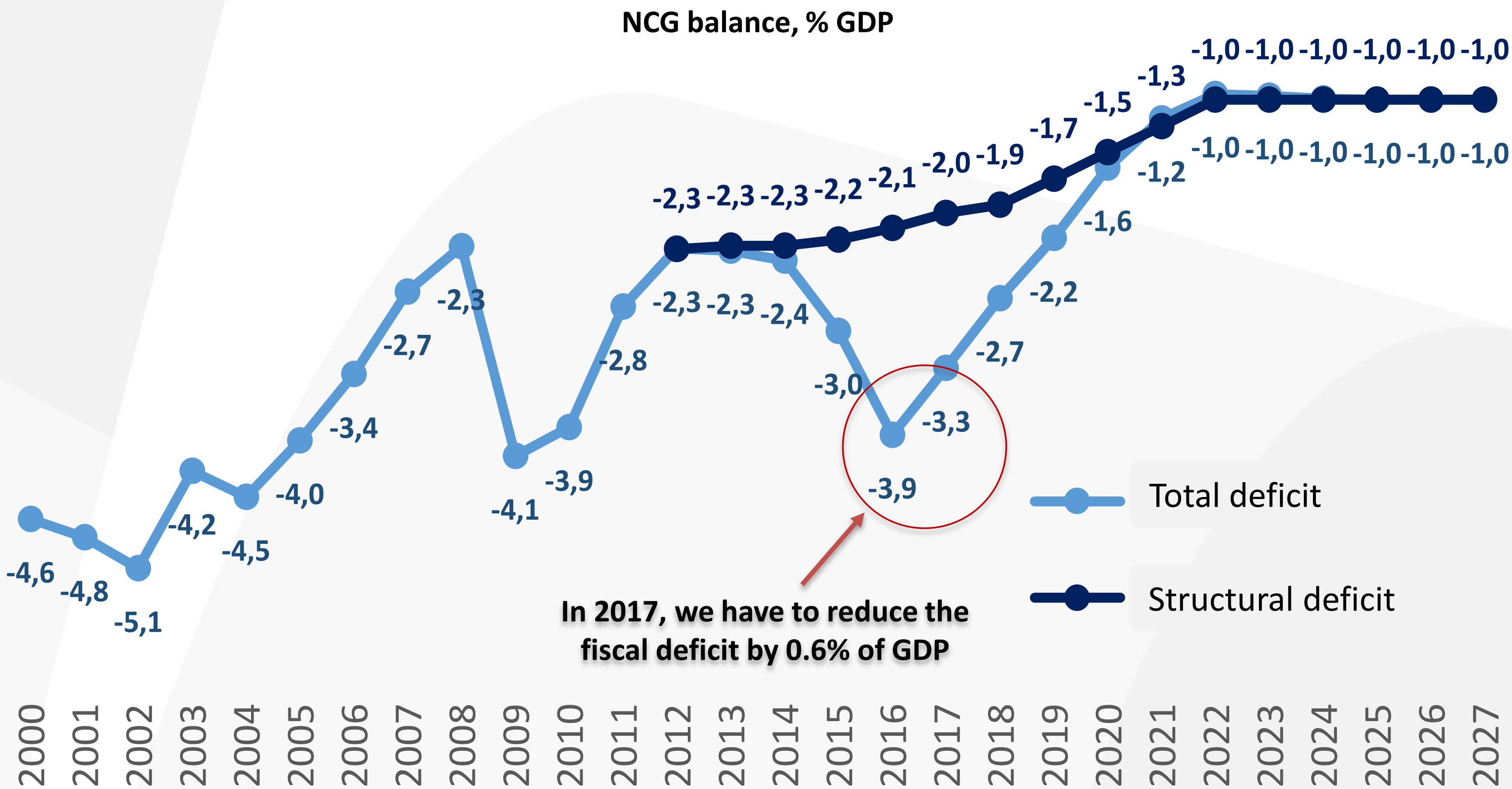
Colombia continues to outperform the average growth of its peers



Source: IMF, National Statistics Institutes.

Looking Ahead

Commitment to Fiscal Rule guidelines is a cornerstone of Colombia's macroeconomic adjustment strategy



Source: Fiscal Rule's Consultant Committee.
Calculations Ministry of Finance

The tax reform bill submitted to Congress is structural: it generates the required fiscal revenue and deals with the shortcomings of our tax code, identified by local and international experts

Competitiveness

- Reduces corporate taxation
- Single tax for small business
- Full VAT deduction of capital goods
- Eliminates wealth tax

Simplicity

Corporations:

- From 4 taxes to 1
- From 4 accounting to 2

Individuals:

- From 3 filing systems to 1

Equity

- Excludes staple goods from VAT
- Taxes dividends distributed to individuals
- Limits tax-exempt incomes for corporations and individuals

Fight against tax evasion

Tax reform has been praised by independent observers

Moody's: Colombia's Tax Reform Proposal Is Credit Positive (October 2016):

"The reform proposal is in line with Moody's expectations and builds on recommendations by an independent committee of experts, which made proposals to raise individual income taxes, reduce corporate tax burden, and increase the value-added tax (VAT) rate."

"The tax reform would boost government revenue to meet fiscal targets without additional spending cuts."

"Successful passage of the tax reform before the end of the year would address the shortfall in oil-related revenues amid persistent low oil prices and would preserve Colombia's credit strengths by decreasing the government deficit."

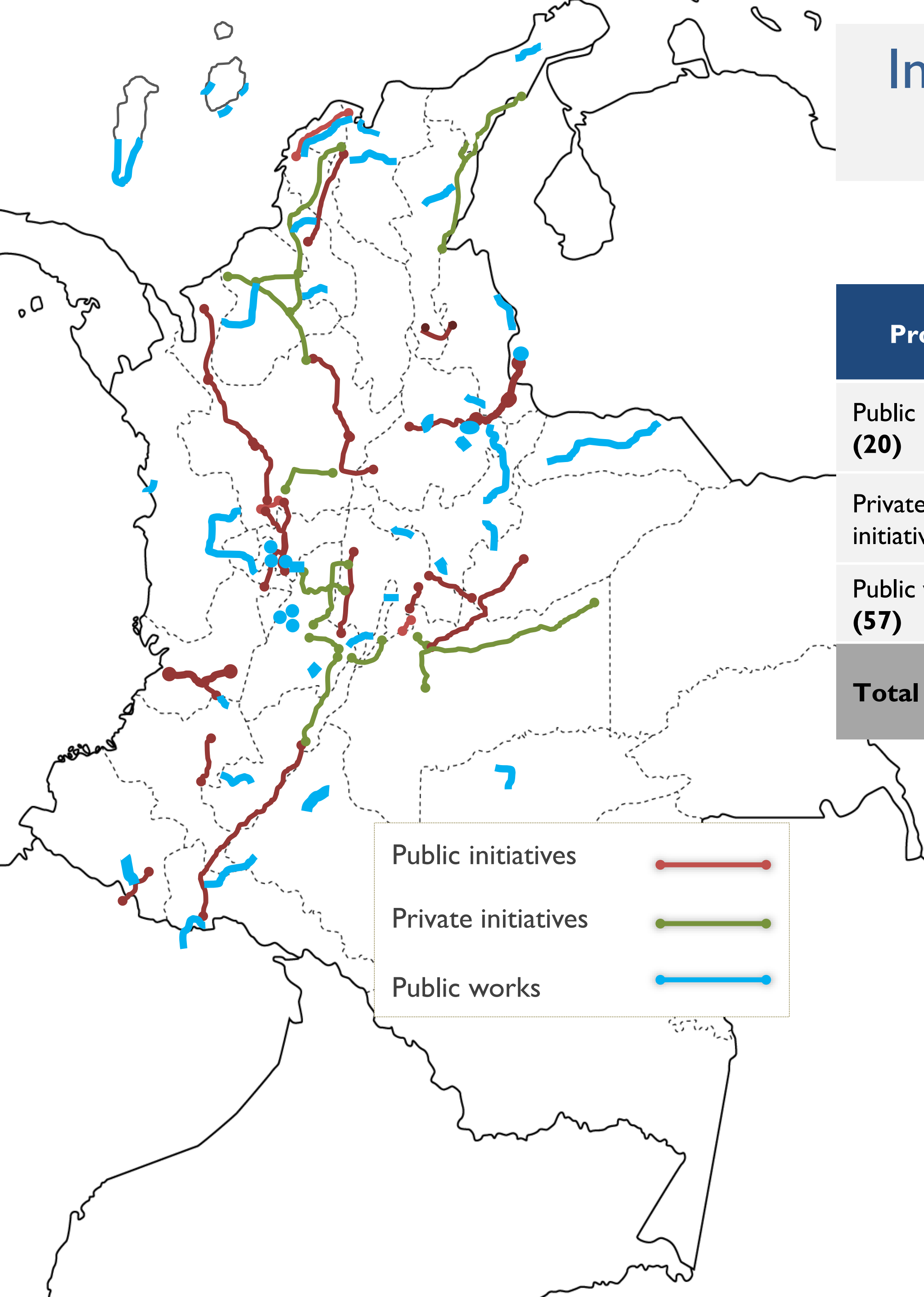
Fitch: Tax Reform Key to Tackle Colombia's Fiscal Pressures (October 2016):

"The proposed tax plan shows the Colombian government commitment to address the sovereign's loss of oil revenues, rebuild the tax base and support the economy's formalization and investment recovery."

"As Colombia lost oil revenues equivalent to 3.4% of GDP between 2013 and 2016, this tax revenue would be important to the country's fiscal consolidation."

"In spite of the reduced timeframe, Fitch expects the reform to be approved by the end of the year."

Infrastructure: key in unlocking potential growth



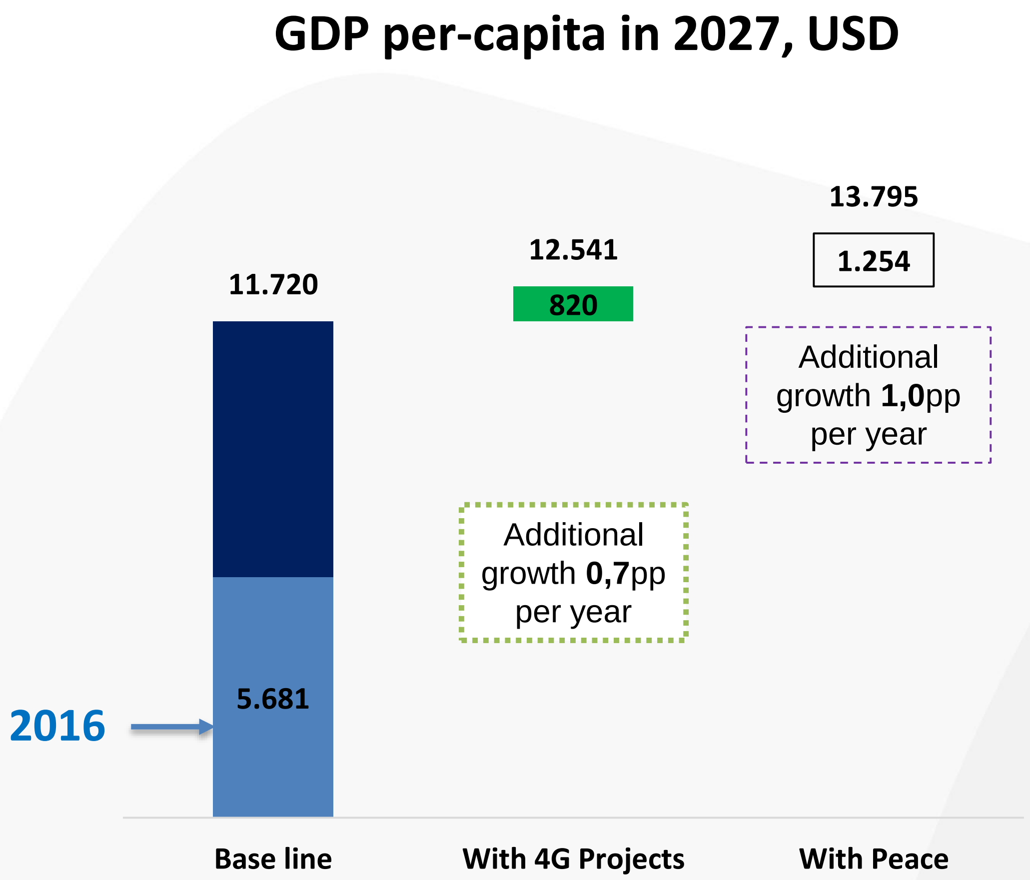
("4G" program - billion USD)*

Project	Capex	Equity	Debt	FFA	Kms
Public initiatives **(20)**	9,8	3,2	9,2	18,2	3,127
Private initiatives **(10)**	4,4	1,6	2,3	-	2,335
Public works **(57)**	1,6	-	-	1,6	725
Total (87)	**15,8**	**4,8**	**12,5**	**19,8**	**6,187**

FFA: Future Fiscal Appropriations
Source: Ministry of Finance

*Figures in USD billions, calculated with a nominal exchange rate of 1 USD= COP $2,745 (2015 average exchange rate)

A strong policy framework is key to generate investment and continue to improve the well-being of all Colombians



Source: Ministry of Finance

We expect to be full OECD members in 2017

Double Taxation Agreement (DTA) between the United Kingdom and Colombia

Dividends	Maximum tax rate applicable
UK Pension funds	0% over dividends paid, as long as the profits that originated them were taxed at the corporate level 15% over dividends paid, as long as the profits that originated them were not taxed at the corporate level
UK Corporations (residents) that directly hold at least 20% of the equity of the entity distributing the dividend	5% over dividends paid, as long as the profits that originated them were taxed at the corporate level 15% over dividends paid, as long as the profits that originated them were not taxed at the corporate level

Double Taxation Agreement (DTA) between the United Kingdom and Colombia

Dividends (Continues)	Maximum tax rate applicable
UK Corporations (residents) that indirectly hold at least 20% of the equity of the entity distributing the dividend	15%
UK Corporations (residents) that directly or indirectly hold less than 20% of the equity of the entity distributing the dividend	15%
UK Individuals (residents)	15%

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Double Taxation Agreement (DTA) between the United Kingdom and Colombia

Interests	Maximum tax rate applicable
General rule	10%
Pension funds	0%
Contracting State	0%
Loans related with foreign trade	0%
Loans taken by entities under Superintendence's surveillance	0%
All other long term loans	5% to loans whose term is less tan 3 years 0% to loans whose term is more tan 3 years

Double Taxation Agreement (DTA) between the United Kingdom and Colombia

Royalties	Maximum tax rate applicable
General rule	10%

Double Taxation Agreement (DTA) between the United Kingdom and Colombia

- Eliminates the prospect of double taxation
- Creates a more stable and predictable environment to businesses
- Includes main changes agreed under the OECD-led BEPS Project in connection with double tax conventions
- It contemplates exchanges of information for tax purposes and assistance in tax collection
- Strengthens already close links between the economies of the UK and Colombia

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