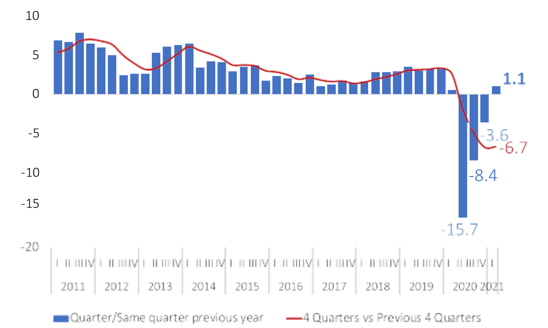
POSSE HERRERA RUIZ



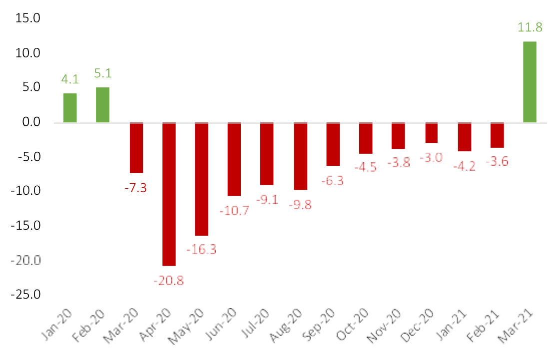
## Economic Activity

Figure 1. Quarterly GDP Growth (annual growth, %)




Source: DANE. Own Calculations.

Figure 2. Economy Tracking Indicator ISE




Source: DANE. Own Calculations.

Figure 3. National unemployment rate (%)

In the first quarter of 2021, the Colombian economy emerged from recession as GDP annual growth reached 1.1% (Figure 1). The result was driven by growth in manufacturing, entertainment, and financial sectors, whereas mining and construction are still stagnant. On the demand side, private consumption and investment improved significantly in this period, but the external demand is still below pre-pandemic levels.

Positive GDP growth contrasted vis-a-vis pessimistic expectations by the Central Bank, Bancolombia, and Corficolombiana. In January and February, the monthly economic tracking indicator (ISE), showed annual contractions, that were compensated by 11.8 % growth in March (Figure 2). The latter is partially explained by the strict mobility restrictions imposed a year ago.

During Q1, COVID cases fell sharply after the second peak in December. Vaccination process started in this quarter and by the end of March more than 2 million vaccine doses were administered.

Unfortunately, not all indicators performed well. Unemployment increased well above the normal seasonal effect jumping to 17.3% in January (Figure 3). Although the rate fell to 14.2% at the end of the quarter, this represents more than 3.4 million

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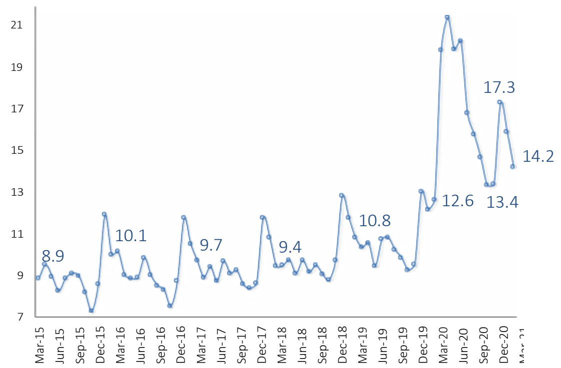
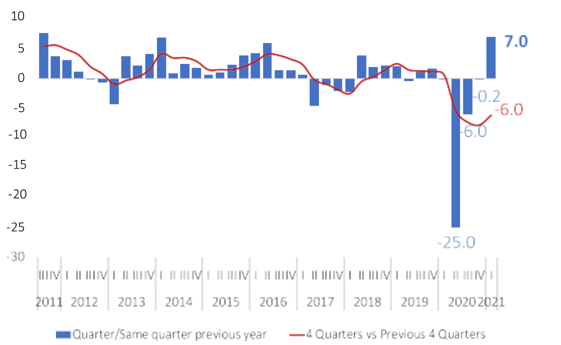


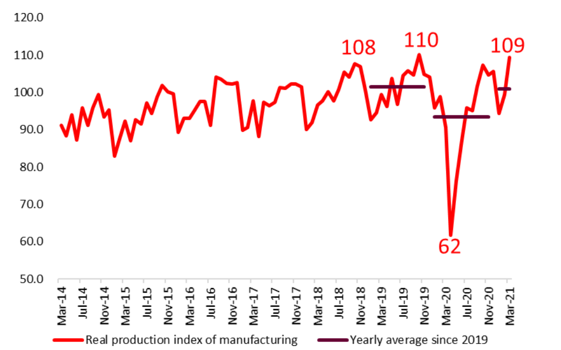

Source: DANE. Own Calculations

Figure 4. Manufacturing Sector: 11.7% of GDP (Annual growth, %)




Source: DANE. Own Calculations.

Figure 5. Real production index of manufacturing (2018 annual average= 100)




Source: DANE. Own Calculations.

Figure 6. Industrial Production and Sales

people unemployed. Taking a closer look at the labor market, the average quarterly youth unemployment stood at 23.9%.

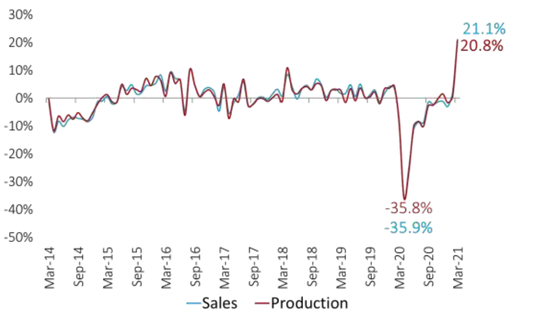
**Supply GDP**

The worst part of the crisis seems to be over for most economic sectors. Manufacturing increased 7% quarterly compared to the 1Q-20 (Figure 4). The subsectors that contributed the most were oil refining (3.0%), textile products (1.6%), and nonmetallic mineral products (1.3%). Conversely, the industry performance jumped in March (Figure 5). As a result, the production had a steep annual increase of 20.8% in March (Figure 6).

The good manufacturing sector outlook translated to the Industrial Confidence Index (ICI). As Figure 7 shows, the index was above the historical average during the whole quarter. This behavior was caused by the growingly volume of orders, good production expectations for the next three months, and a minor reduction in the level of stock during Q1.

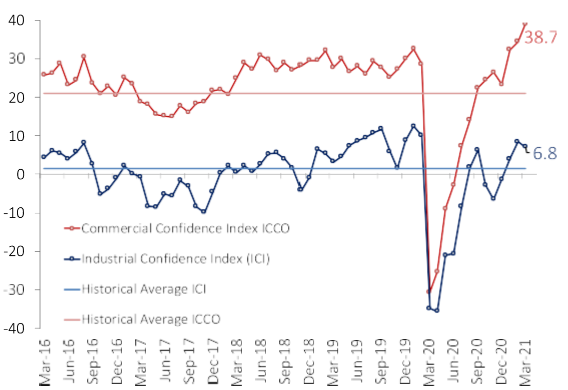
Commerce GDP had an annual variation rate of -0.8% (Figure 8). Two key components of commerce that are still struggling with the Covid-19 are transportation-warehousing (-11.1%), and accommodation and food services (-7.7%). In line with the manufacturing sector behavior, retail sales began the quarter with an annual contraction of 6.3% in January and a minor increase of 1.3% in February yet in March the growth rate stood at 20.1% (Figure 9). There are two main explanations for

(Annual growth, %)




Source: DANE. Own Calculations

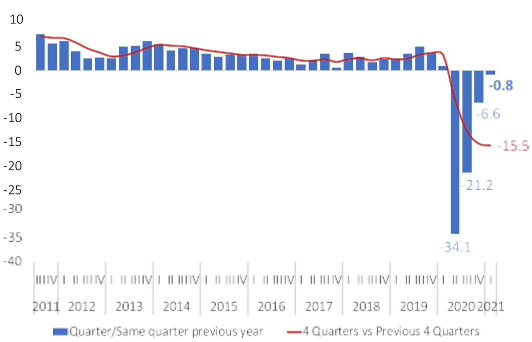
Figure 7. Industrial and Commercial Confidence Index




Source: Fedesarrollo. Own Calculations.

Figure 8. Commerce Sector: 15.6% of GDP

(Annual growth, %)




Source: DANE. Own Calculations.

March growth. First, the variation is calculated with respect to March 2020, in which there were 10 days of strict lockdown. Second, the improvement of consumer confidence and the ease of mobility restrictions during the first quarter, generated an upward dynamic in the retail sector. Consequently, the real sales index recorded the third best performance since comparable data is available in January 2019.

Commercial confidence Index mirrors retail performance. In March, the index stood at 38.7, the highest point since the start of the index in 1980. (Figure 7).

The construction sector, which was hit the hardest by the pandemic, experienced a yearly contraction of 6% (Figure 10). The best-performing subsector was construction of residential and non-residential buildings (-2.2%), while construction of roads and railroads decreased the most (-12.8%). The late reactivation of the construction sector has been mainly driven by a kick in demand due to subsidies granted by the National Government, such as ‘Mi Casa Ya’, which have undoubtedly facilitated the purchase of new housing. According to CAMACOL, two out of every three homes sold in 2021 use this program. During Q1 construction of 38,140 housing units began, according to the Colombian Construction Chamber (CAMACOL), of which Social Interest Housing (SIH) represented 65.2%. This level of housing construction represents the highest record in the last two years according to CAMACOL.

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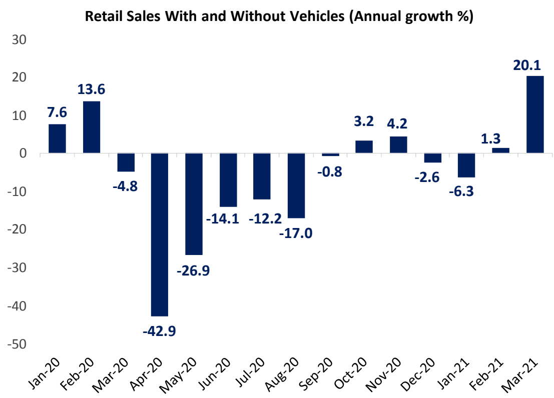
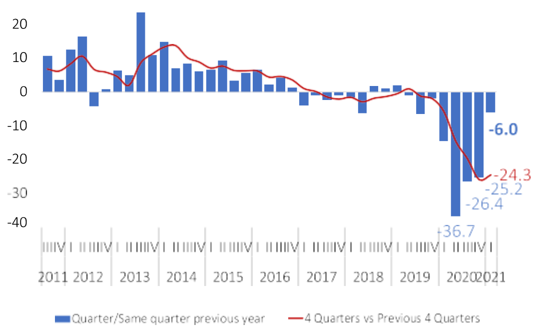



Source: DANE. Own Calculations.

Figure 10. Construction: 5.2% of GDP (Annual growth, %)




Source: DANE. Own Calculations.

Figure 11. Oil and Mining: 4.5% of GDP (Annual growth, %)

Sustained growth was also influenced by subsidies from the National Government that led to high demand. According to CAMACOL, 54,874 new housing units were sold in the country during the first quarter of 2021, a record for the last decade, of which 37,004 are Social Interest Housing (VIS). According to the Ministry of Housing, this soaring trend continued in April.

The oil and mining sector, which accounts for 4.5% of GDP, decreased 15% compared to the first quarter of last year (Figure 11). The main factor explaining the lack of recovery was international demand for oil and coal. The oil GDP dropped 14.8% in Q1 while coal fell 30.5%.

Financial services GDP accomplished 4.9% annual growth (Figure 12). Three factors accompany this performance. First, the Central Bank kept the intervention rate at 1.75% in 2021, which implies a negative real interest rate. Second, non-performing loans (NPL) are still at reasonable levels. Finally, credit institutions have adequate solvency margins, far over the required minimum. However, portfolio growth continues to lose momentum.

The entertainment sector also experienced a sharp annual increase of 7.6%. Finally, agriculture and public administration continued their growth ramp by 3.3% and 3.5%, respectively. Public administration growth did not slowdown because the National Government continued stimulating aggregated

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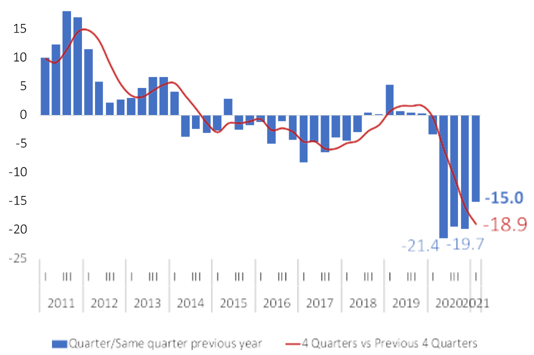
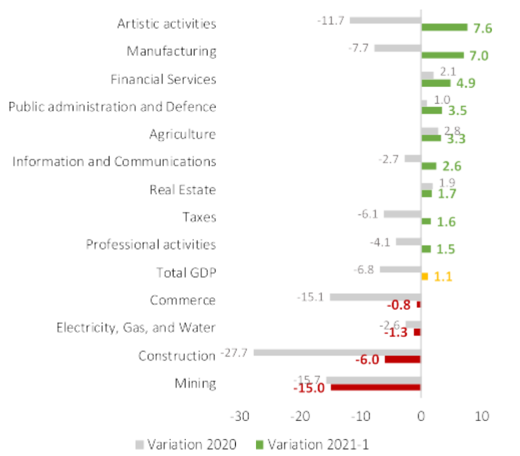
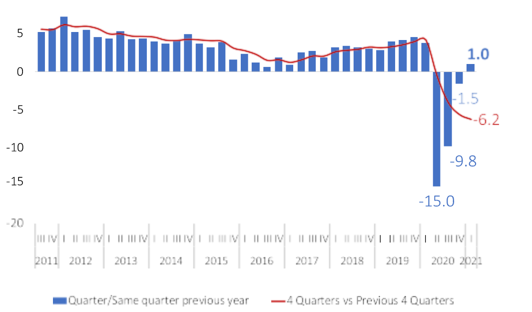



Source: DANE. Own Calculations.




Source: DANE. Own Calculations.

Figure 13. Household Consumption: 70.4% of GDP (annual growth, %)




Source: DANE. Own Calculations.

Figure 14. Household consumption by type

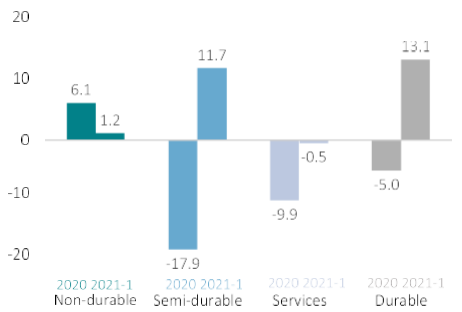
demand (Figure 12).

**Demand GDP**

On the demand side, household consumption, for the first time since the pandemic began, achieved a positive annual growth of 1% (Figure 13). This can be explained by the strong performance of both durable and semi-durable goods, which increased 13.1% and 11.7% compared to the same quarter of last year. Also, spending on services contributed to the upturn of private demand. Although the latter had an annual decrease of -0.5%, it presented an improvement of 5pp in the variation rate compared to the previous quarter (Figure 14). With the reduction of COVID-19 cases and low levels of mobility restriction during February and March, economic activity and the recovery of the labor market allowed households to diversify their consumption.

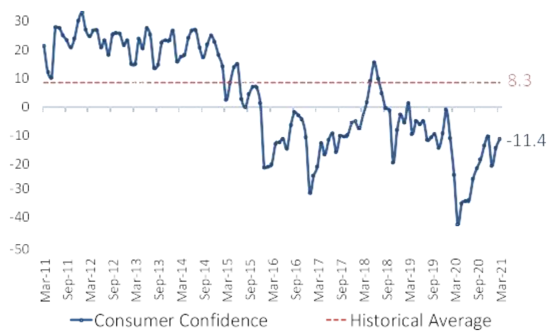
Fedesarrollo's Consumer Confidence Index partially reflected the dynamic of household consumption during Q1. Although confidence fell in January, it managed to reestablish its positive trend after mobility restrictions were eased and unemployment rate fell 3.9 percentage points. Thus, at the end of Q1 Consumer Confidence Index stood at -11.4, registering an increase of 9.4 points compared to the confidence in January (Figure 15). On the other hand, despite the consumption of durable goods achieved the strongest growth among categories in Q1, Fedesarrollo's survey did not suggest a

(Annual growth, %)



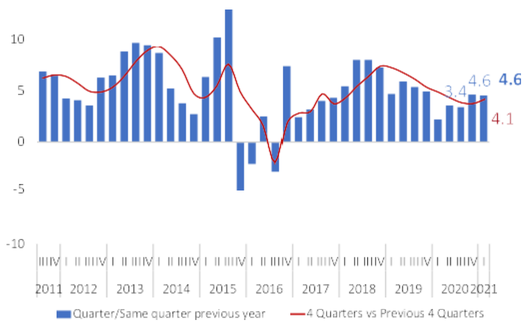

Source: DANE. Own Calculations.

Figure 15. Consumer Confidence Index




Source: Fedesarrollo. Own Calculations.

Figure 16. Government Consumption: 17.9% of GDP (annual growth, %)



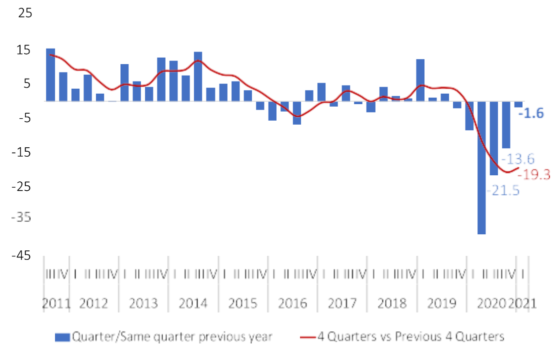

Source: DANE. Own Calculations.

willingness to buy this type of goods during this quarter, making the drivers of this growth unclear.

Government consumption presented an annual growth of 4.6% (Figure 16). The government maintained economic aid such as Formal Employment Support Program (PAEF, for its acronym in Spanish) and Solidarity Income to mitigate the effects of the crisis and promote economic recovery. Even though these programs were due to end in Q1, Mr. Duque's administration plans to extend them and, in the case of Solidarity Income, make it a permanent program. In addition, during the next quarters the government will allocate resources to promote education, employment and housing programs for young people. As a result, government consumption does not appear to decrease in the coming periods.

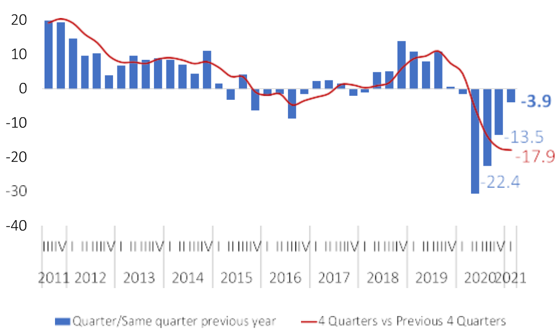
Gross fixed capital formation, which accounts for 22% of GDP, remained at negative terrain as it contracted 1.6% in Q1 (Figure 17). Nevertheless, this variation rate was 12pp higher than the previous quarter, showing clear signs of recovery in this component. The main drivers of this behavior were investment in housing and machinery, which achieved annual growths of 6.2% and 5.1%, respectively. In the case of housing construction, its variation represented an improvement of 16.8pp compared to the variation of Q4 2020. As mentioned in the previous section, Q1 was characterized by the start of multiple housing projects, which encouraged the dynamism of this sector.

Figure 17. Gross Fixed Capital Formation: 18.7% of GDP (annual growth, %)



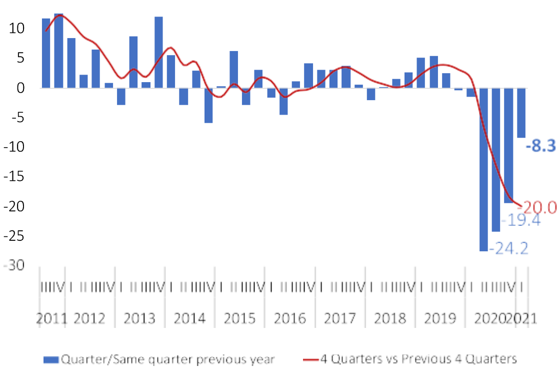

Source: DANE. Own calculations.

Figure 20. Total imports: 20.3% of GDP (Annual growth, %)




Source: DANE. Own calculations.

Figure 21. Total exports: 13.3% of GDP (Annual growth, %)




In terms of international trade, although imports and exports GDP presented decreases of 3.9% and 8.3% each (Figures 20 and 21), there are reasons to be optimistic. In March, import values grew by 37.5% compared to March of 2020 (Figure 22), reaching levels even higher than those of the pre-pandemic. Intermediate goods represented 47.7% of the total value of imports; followed by capital goods with 29.9%; and consumer goods with 22.3%.

Similarly, exports reached nearly pre-pandemic levels at the end of Q1. In March, exports achieved an annual growth of 36.4% compared to 2020 (Figure 23), and just a meager decrease of 0.5% compared to March of 2019. This performance was mainly driven by the 43.9% annual growth in fuels and by the 45.4% increase in agribusiness. As Brent prices reach a high plateau (Figure 24), a favorable outlook for exports is expected in Q2.

**Outlook**

After the worst economic contraction seen in Colombia, Q1 2021 marks the start point of the recovery. Nonetheless, the sectoral rebound has been dissimilar, where construction and mining are still a long way from reaching 2019 levels. Household consumption, on the other hand, returned to pre-pandemic levels and has followed a similar pattern to overall GDP. However, long-term welfare will ultimately depend on the

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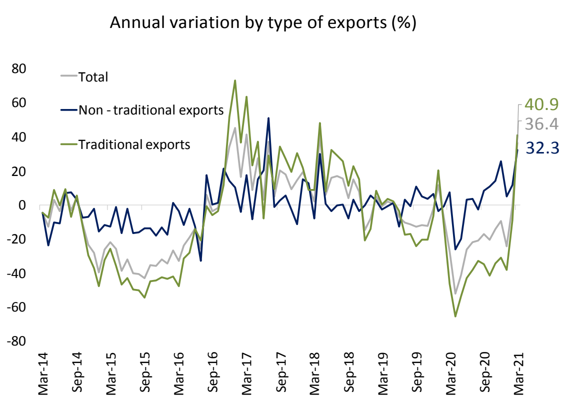
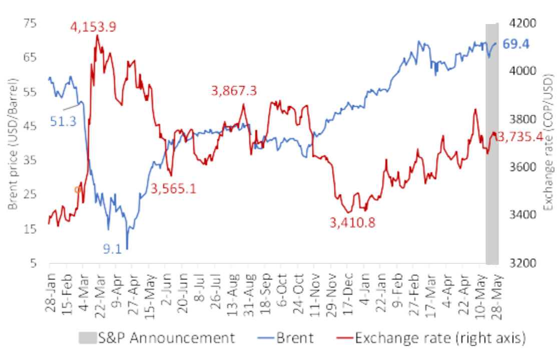
Source: DANE. Own calculations.

Figure 22. Total imports
(Million USD and annual growth, %)

Source: DANE. Own calculations.




Source: DANE. Own calculations.



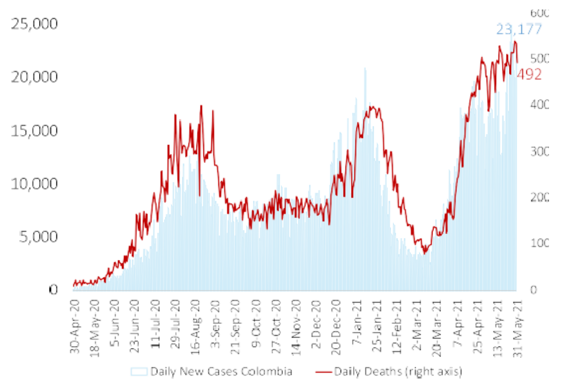

performance of the labor market.

The outlook for the second quarter, in contrast, is gloomy. COVID-19, national protests, fiscal crisis, and mobility restrictions increased uncertainty. The negative effects are reflected in consumer and businesses confidence. For instance, between March and April consumer confidence plummeted 23 points, returning to the May-2020 level. Similarly, in April industrial and commercial confidence fell back more than 10 points.

COVID-19 cases have surged since Easter holidays and deaths have reached an all-time high with more than 500 fatalities per day (Figure 25). ICU occupancy is close to 100% and there are oxygen supply shortages in some places. Furthermore, vaccination's rollout began slowly, although the pace improved in May when more than 5 million doses were applied (Figure 26). Nonetheless, the country is a long way from achieving herd immunity, since to date less than 8% of the population is fully vaccinated.

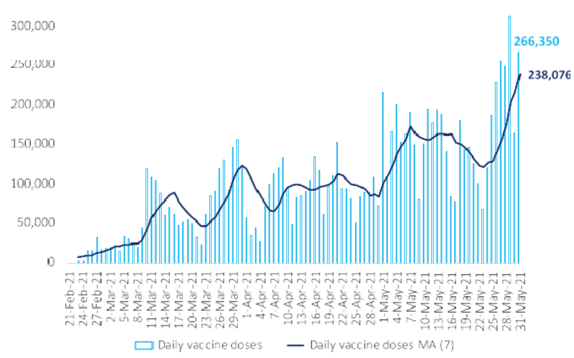
Second, the economic crisis has taken a backseat; the new priority are the social and political crises. On April 28th, a national strike convoked two months ago devolved into national protests magnified by rejection to an ambitious tax reform proposal. The central aspects of this reform, such as the personal income tax and VAT base increases, were vigorously rejected by ordinary people and the media. Even after the

Figure 25. COVID-19 Daily New Cases and daily Deaths Colombia as of 31st May




Source: Ministry of Health. Own Calculations

Figure 26. Daily vaccine doses Colombia as of 31st May




Source: Ministry of Health. Own Calculations

Figure 27. Which do you consider to be the most important? (Young people 18-32 years old)

reform was withdrawn, strikes continued and were largely approved: 74% according to Datexco survey.

Young people, worried about their future, have been the main participants of protests across the country. When surveyed, economic reasons seem to be at the center of the discussion: poverty (which increased by 6.8 percentage points in 2020), tax reform, high unemployment and growing inequality (Figure 27). Unfortunately, protests have also been accompanied by some highly violent events that include vandalism, attacks to police, and armed confrontations. Policemen have been accused of riots. human rights violations. Also, many road blockades have interrupted the distribution of food, medicines and industry inputs throughout the country, affecting prices and economic activity in general.

The finance ministry estimated a daily loss of $480 billion COP, which means that as of May 19th, protests would have caused around 1% of GDP losses to the national economy. Agribusiness and transportation associations reported reductions in production. For instance, pork meat production fell 50%, and the distribution of up to 8.2 million liters of milk was affected daily. Furthermore, retail sales fell up to reduction 70%, in some cities, during strikes. All in all, it is undeniable that these national protests mean a serious setback for the recovery.

Finally, while protesters demanded the tax reform withdrawal,

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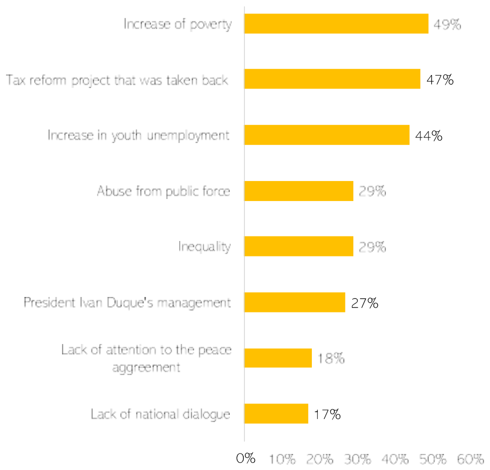
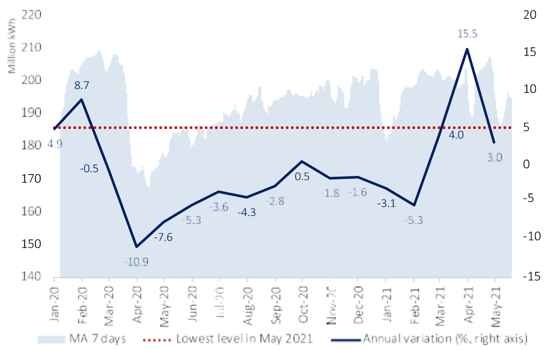


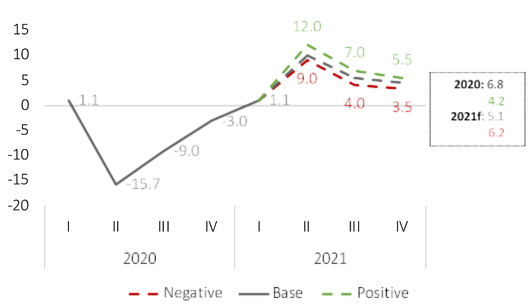

Source: El Rosario University, Own Calculations.

Figure 28. Electricity demand, (MA 7 days and annual growth of monthly demand, %)




Source: XM. Own calculations.

Figure 29. Quarterly GDP forecast (annual growth, %)




Source: DANE. Own calculations.

Standard & Poor's, the international credit risk rating agency, downgraded Colombia's long-term foreign currency sovereign credit. According to the agency, "fiscal adjustment will prove to be more protracted and gradual than previously expected, diminishing the likelihood of reversing the recent deterioration in public finances." The short-term impact can be seen in a devaluation of the national currency (Figure 28).

In sum, the third peak of COVID-19 coupled with national protests, and the downgrading on sovereign credit rating have been a series of bad news for the country. As shown in Figure 31, electricity demand fell back to levels not seen since June 2020. All in all, we estimate Q2 annual growth between 9% and 12% (Figure 29), which might seem encouraging, however, before the national strike and mobility restrictions, forecast was close to 15%. Finally, we expect 2021 real GDP growth to reach between 4.2% and 6.2%.

## Sleepless in Cali

Riots and street blockades could cost their financial backers, according to a back-of-the-envelope calculation, nearly $8 million per month. Consider a COP 30,000 daily salary, a little less than the daily minimum wage, since it is low-skilled work; approximately 40 people are needed for a road blockade, and about 200 for a city blockade. Based on about 300 roadblocks and 100 in cities, the cost per day would be COP 960 million, and COP 28,800 million per month – or nearly $8 million.

The destabilizing capacity bought by that investment via vandalism, roadblocks in major cities and paralysis of the crucial seaport of Buenaventura has been quite effective. They have proven the Colombian economy and polity quite vulnerable to obstructions in some key logistical corridors.

Most of protesters seek deep changes in many features of Colombian social and economic life. However, we can conjecture that the most aggressive and dangerous actors behind criminal vandalism seek to exploit the state's weakness in order to trade glyphosate spreading in coca plantations in exchange for ending the blockades.

That would mean, in practice, that the prosperous portion of Colombia, living in the geographical nucleus encircled by Medellín, Cali, Bogotá, Bucaramanga, Barranquilla and within the traditional coffee and oil growing provinces, could hand over to the drug trafficking gangs effective control of some of the backward and poor ring of Colombia composed of the Pacific coast, the southern border with Ecuador, and part of the border with Venezuela.

The rule of law in those areas would, in practice, cease to be mainly the responsibility of the national police and Army, and instead be transferred to the illegal armed actors, as in fact already happens in many distant areas of the countryside in those areas. There will be a formal presence of the judiciary, the executive, police, military and so on; however, the effective power would rely mostly in illegal actors.

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In particular, if the aerial spreading of glyphosate is handed over at the negotiating table, in practice that will be handing over to the dark actors of drug trafficking territorial control domain in the south of the country, in extensive areas of Cauca, Nariño, Putumayo and Caquetá, as well as in the corridor from El Chocó along the Pacific shore to Catatumbo and Arauca, at the border with Venezuela. Cali is the de facto capital of the Pacific provinces, and therefore has been the most affected city. People in the third largest city in Colombia are not sleeping well since it has become the battleground between the two Colombias.

If this conjecture had some merit, Colombia is at a critical moment, similar to the one experienced in 1903 with the loss of Panama. At that time, the country was physically, economically, politically and morally weakened after the so-called thousand-day war (fictionalized in García Márquez's One Hundred Years of Solitude). In such circumstances, the country's leadership did not have the clarity to keep Panama, negotiate a viable agreement for the construction of the canal and guarantee Colombia's physical integrity.

An obtuse, myopic and arrogant president dealt with an equally incompetent and overconfident Congress believing that they dominated a situation they did not properly understand. The consequences at that time were disastrous. This time around it could be similar, *mutatis mutandis*: the country emerges weak from a devastating pandemic: sick, poor, hungry, unemployed, indebted and hopeless.

The main political actors, the president and his government, the political parties represented in Congress, former presidents and regional leaders, seem locked in internal, petty disputes, similar to those of 1903. In this sense, the most worrying crisis is, of course, one of leadership.

At times as critical as now, disunity, personalism, pettiness, revenge, the attitude of pulling nails and collecting old debts, influence the decisions and attitudes of the most prominent leaders of national politics. If that is the case, we might regret the events of 2021.

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The presidential candidates of 2022 do not know which country they are going to govern, nor what kind of governance they will be able to exercise. The 200-year-old key linkages of Colombia's polity have become loose. A country paralyzed by a few thousand students, and hundreds of hooded vandals, some of whom could be probably financed by dark and powerful forces, may in practice become ungovernable.

The police have been unable to control the riots, or respect human rights, leading to lawlessness in the streets, on the highways and at the ports; under these circumstances, the state, economy and nation simply cannot function.

President Iván Duque took too long to initiate political contacts aimed at securing a grasp on the political situation, and imposing law and order. However, his moves have been mostly endogamic, shuffling ministers who are already serving. The vice president is now the foreign relations minister; the finance minister was formerly in commerce; a deputy minister is now in charge of peace, and so on. Many people have urged the president to add experience and gravitas to his cabinet. Adding to the sense of confusion, the president seems insensitive to those requests.

Both the business community and the political establishment are in disbelief. It seems that the government, having exhausted the use of force due to international and media pressure, is playing a war of attrition. Some positive developments have come from the increase in oil and coffee prices, the acceleration in the vaccination campaign, the exhaustion of protesters and the anger from ordinary citizens confronting escalating food prices and unemployment.

Some people have even proposed a referendum, and new constitution, and even Duque's resignation. We consider all of these alternatives far-fetched. There are still more than 400 days to go of this administration, and Colombians have started the countdown. It will be a long year to the first round of the presidential elections.

## Justified social unrest (and more) in the way of economic recovery

Since the 1999 economic crisis, poverty reduction has been one of the main features of social progress in Colombia. However, it should come as no surprise that most of that reduction took place on the back of the commodity super-cycle that brought with it growth and fiscal resources to distribute. As the super-cycle came to an end, social progress started to lose steam, as Figure 1 shows.

Indeed, in 2014 poverty reduction ended once oil prices started to fall. Then, during the 2015-2018 Colombia barely managed to keep those in poverty at bay, but in 2019 more than 650 thousand Colombians joined the ranks of the poor and social unrest took to the streets.

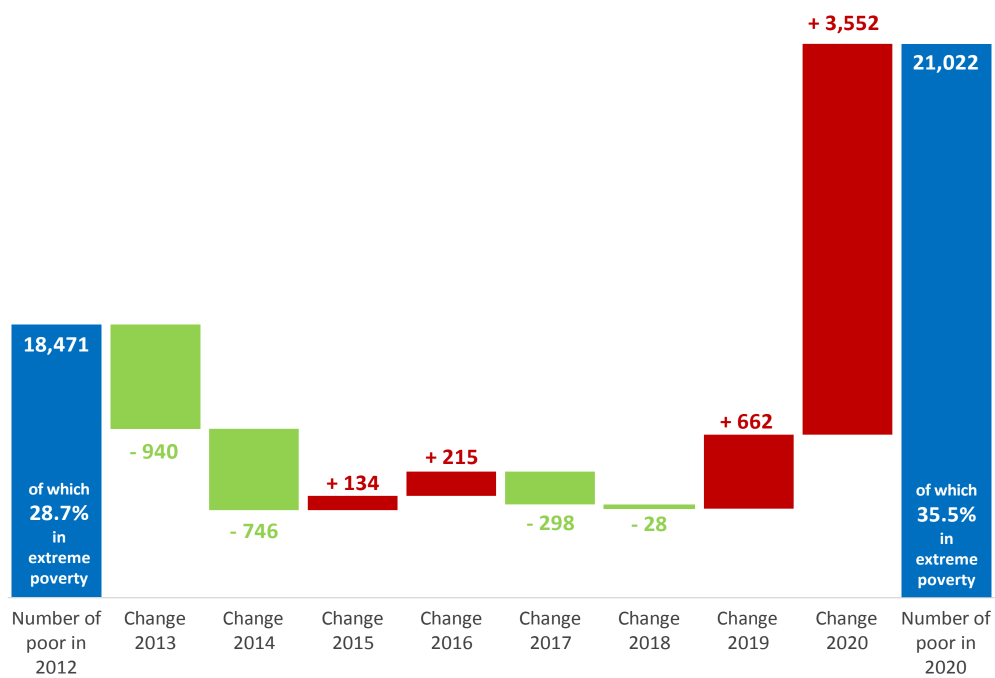
Then came COVID-19, and the slope became much, much steeper. More than 3.5 million people, equivalent to 6.8% of the population, joined the ranks of the poor; even though the methodology to measure poverty has changed over time, this percentage point increase is by far the worst in recorded history.

To make matters worse, the share of extremely poor has risen as well. As Figure 1 shows, back in 2012, 28.7% of all those in poverty were in extreme poverty. That percentage continued to fall despite the reduction in oil prices and reached 23.6% in 2018. However, in 2019 it rose to 26.8%, and in 2020 jumped to 35.5%. So, not only has poverty risen in Colombia because of the crisis, but the severity of poverty is also on the rise. According to Dane, the percentage of households able to eat three square meals a day went from slightly more than 90% before the pandemic to less than 70% in April of this year (in some cities this percentage has gone below 40%).

No wonder, then, that once lockdowns ended, and the failed tax reform set emotions ablaze, people took to the streets again this year and in big numbers. The young, severely affected by the crisis (poverty rates among households headed by people under 25 jumped to 50% in 2020) have been front-row participants and organizers of public protests that have taken place across the country for more than a month now. However, they are not the only ones. With social media as a cornerstone for organizers, massive attendance has been the norm.

Unfortunately, violence, even of the deadly kind, coordinated across the country by organizers whose identities are yet unclear, has become a daily ingredient in this mercurial mix, and has tainted the justified claims of peaceful protesters. The goal of violent groups, though, is clear: to disrupt the economy, scare people back into their homes and weaken the government.

**Figure 1. Evolution of people in poverty 2012-2020 (thousands)**

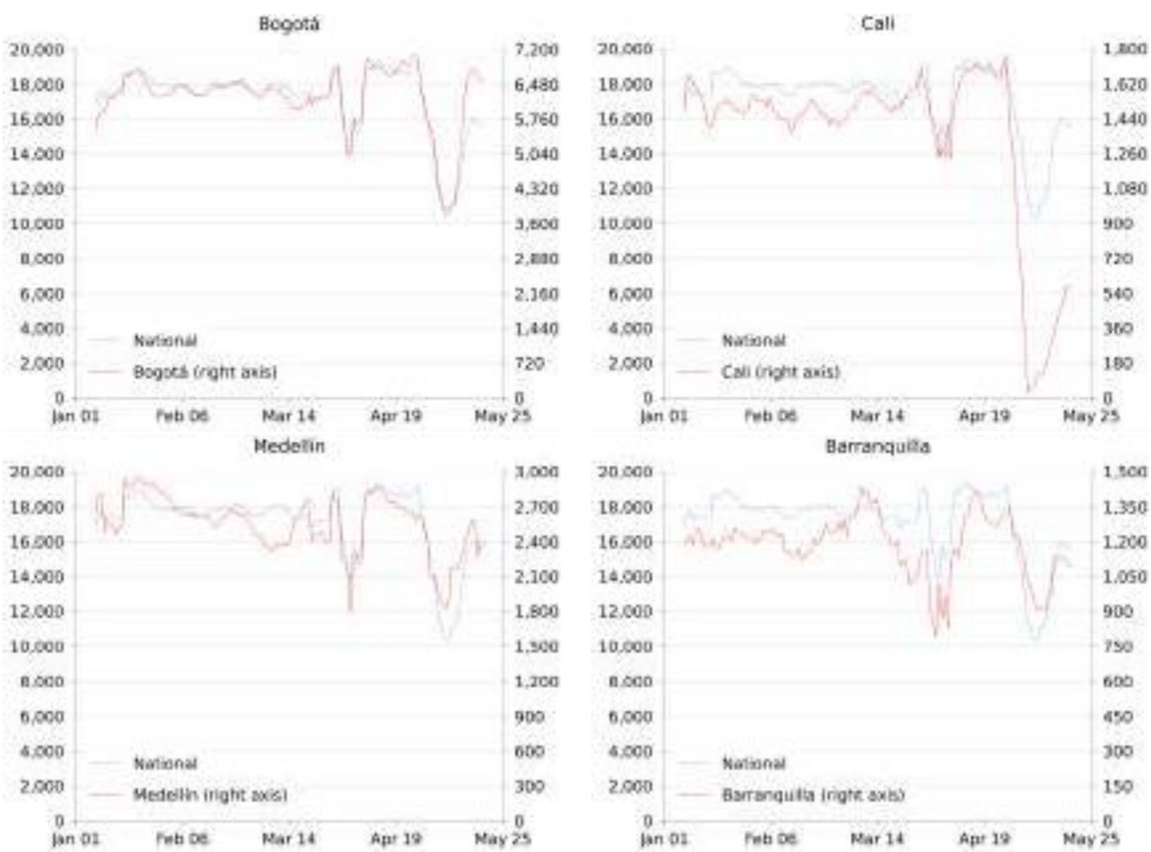



Source: Dane, EConcept

The numbers speak for themselves: almost 30 civilians dead, two dead policemen, more than a thousand instances of clashes between protesters and the anti-riot police, and more than a thousand injured, to which road blocks affecting key supply routes have to be added. According to the government, economic losses could amount to 1% of GDP.

The level of disruption to daily economic life can be inferred from many indicators, ranging from lower fuel sales to lower mobility and to severe problems with food distribution, the latter shown in Figure 2. During the worst days of turmoil, the supply of food to city markets dropped by almost 50% at the national level. Even though it has recovered, as of May 19th national totals remained more than 10% below the pre-riot levels. However, the national aggregate masks stark differences: in Bogotá food supply almost fell by half but has since recovered almost in full; in Cali, the city most affected by all that is going on, food provision went almost to zero and, as of May 19th, remained more than 60% below normal levels.

**Figure 2. Food supply (tons per day supplied to central markets, 7-day moving average)**

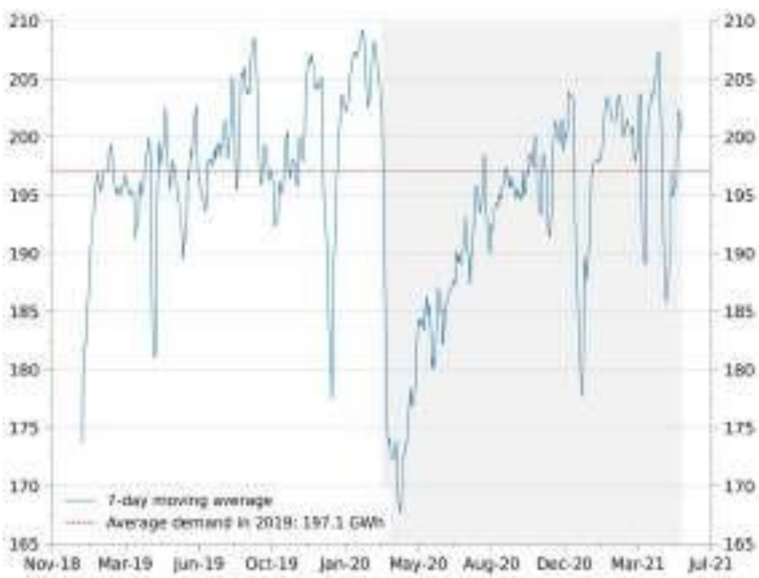


Last data point: May 19th 2021

Source: Dane, EConcept

Electricity demand, the most up-to-date indirect indicator on economic activity, shows a considerable drop during the worst of the national strikes (Figure 3). Indeed, during between the first and second weeks of May, electricity demand reverted to June 2020 levels, a clear indication that the disruptive nature of the strikes turned out to be equivalent to a lockdown of the kind we saw last year around July.

**Figure 3. Electricity demand (GWh per day, 7-day moving average)**




Last data point: May 29th 2021

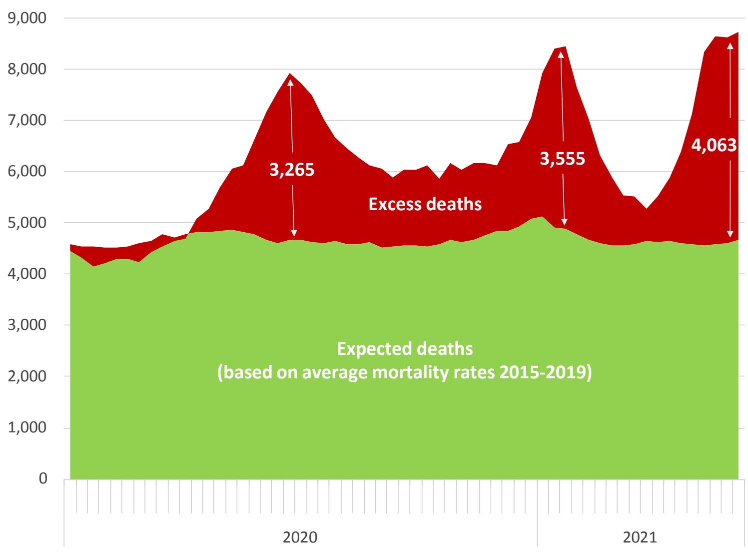
Source: XM, EConcept

To top it all off, people taking to the streets has resulted in a new and deadly COVID peak, putting the health system under a stress not seen last year and taking the death toll above 500 people a day for the first time (see Figure 4). And all of this comes amid slow progress in vaccination. Fortunately, it seems subnational governments have realized that new lockdowns would just compound the problem, and are doing everything they can to increase ICU capacity without resorting to forcing people to stay at home. In fact, despite we are reaching peaks in Covid cases and deaths, the mayor of Bogotá has announced a full reopening of the city starting June 8th. Also, vaccinations at the end of May seemed to be finally gaining momentum, in all likelihood the result of the government turning to increased shots being administered -- a result no one would be unhappy about.

Paradoxically, social unrest, for the most part motivated by lack of opportunities, jobs and increased poverty, is hampering economic recovery from moving at full speed. Domestic and international merchandise movement has suffered, and the sentiment of manufacturers, retailers and households is bound to suffer even more than it did in April as a result of the uncertainty created by the tax reform that went under. Investment decisions will surely suffer.

In light of this new reality, taking into account the positive GDP surprise in Q1 but all of the negatives that have materialized in Q2, our new base case growth scenario for this year now stands at 5.1%

**Figure 4. Expected and excess deaths: the three peaks (weekly data)**




Last data point: May 9th 2021

Note: excess deaths do not fully coincide with officially reported Covid-19 deaths

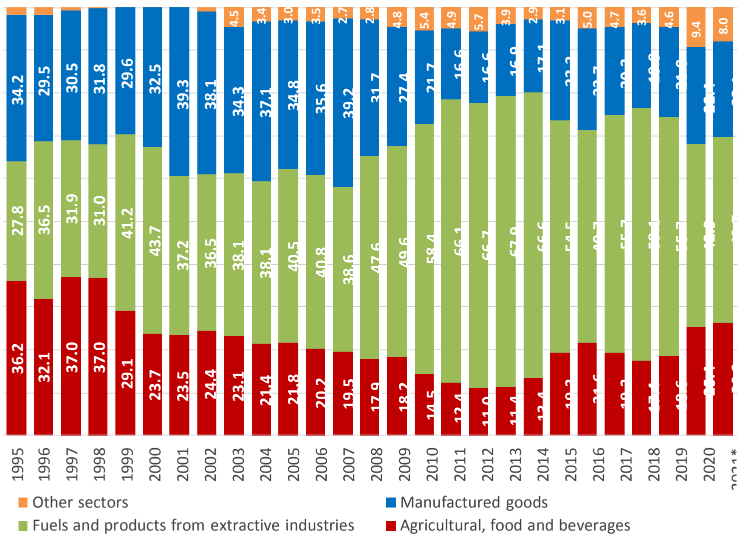
Source: Dane, INS, Econcept

## Negative diversification

One of the vulnerabilities of the Colombian economy, recently highlighted in S&P's decision to downgrade the country's sovereign debt, comes from its external sector. One of the many facets of this weakness are exports, which have been characterized as too concentrated on oil and coal and, therefore, subject to drastic price variations beyond domestic policymakers' control. A constant call for a more diversified export base is a key component of any analysis one can find on the Colombian economy.

Be that as it may, this often-cited concentration has changed substantially during the last 5-6 years, as Figure 5 shows. During the 2011-2013 period, exports of fuels and products from extractive industries, mostly oil and coal, represented more than 66% of the value of the goods Colombia sells abroad. Fast-forward to 2020 and this number fell by almost 23 pp to 43.7%. Last year reflects, of course, the effects of the pandemic, but the fact of the matter is that one would have to go back to the first years of this century to fin the composition of exports seen in 2020 and what's elapsed of 2021.

**Figure 5. Exports of goods by SITC Rev. 3 categories (composition, %)**




* Last data point as of April 2021

Source: Dane, EConcept

Looking at Figure 5, this diversification should be considered be a positive trend, as revenues accruing from exports have become less dependent on oil and coal, even under current oil prices, which could be considered as relatively high, especially during the last 5-6 years. However, there is much more behind this: even though the recent diversification of exports is undeniable, not every diversification process should be considered a healthy one for an economy, as Figure 6 shows.

Agricultural exports are on the rise, currently exceeding $800 million/month (the highest on record), but fossil fuels' and manufactured exports are a far cry from what they were on their respective heydays: the former has gone from $3,500 million/month to below $1,500 million/month this year, while the latter currently stands at $700 million/month, down from USD 1,200 million/month back in 2007, when Venezuela was at its most relevant as a trading partner. The last category, labeled by Dane as "other sectors," is mainly driven by gold exports and is clearly on the rise, but returning to levels observed in 2010.

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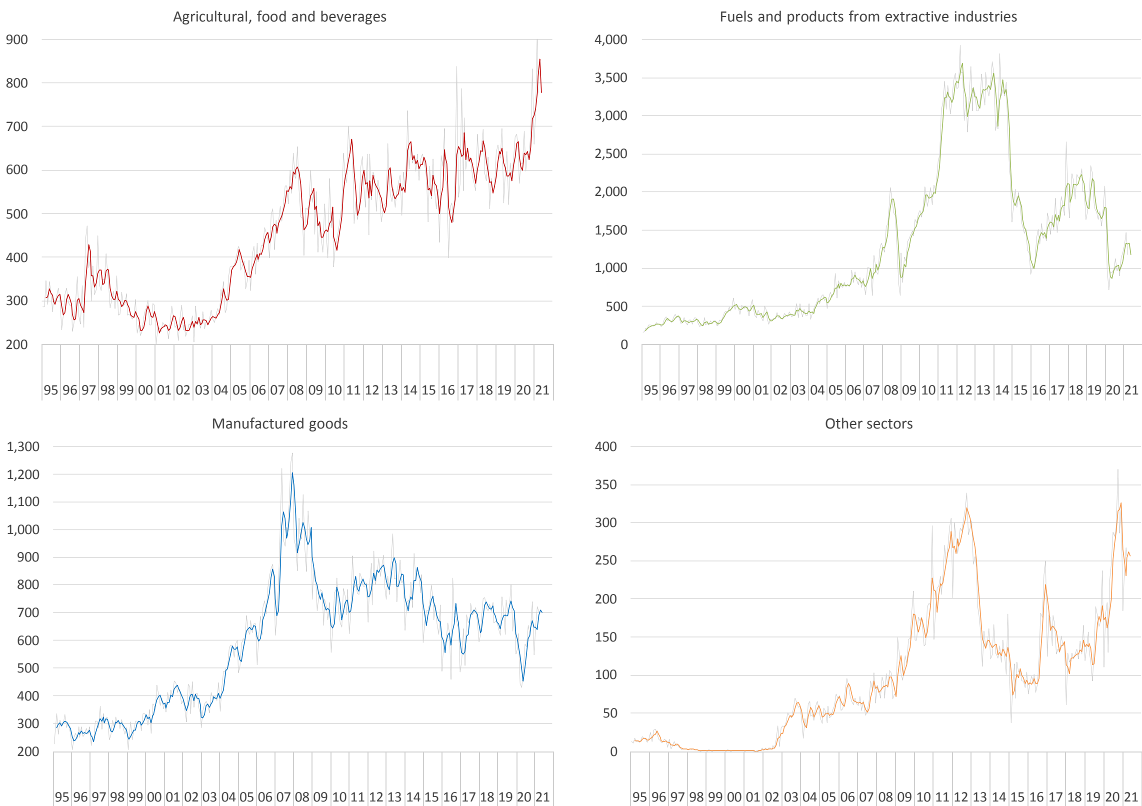
The combined effect of the trends outlined in Figure 6 is a considerable reduction in the country's capacity to export goods (see Figure 7), because of lower sales of fossil fuels and manufactured goods abroad. So, even though the country's export base of goods is more diversified, there has been a "negative diversification," not resulting from the laggards catching up with the front-runners, but because the leaders have lost the steam of yore.

**Figure 6. Exports of goods by SITC categories (USD millions, 3-month moving average)**




Last data point: April 2021

Source: Dane, EConcept

**Figure 7. Exports of goods (USD millions, 3-month moving average)**

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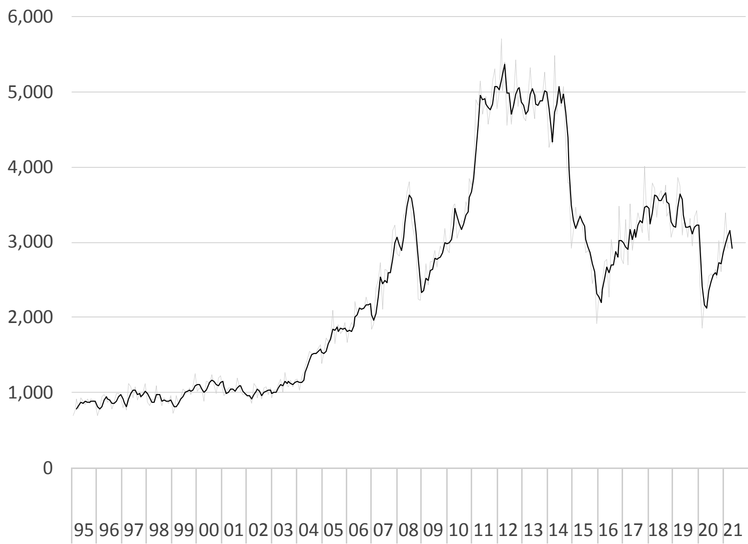


Last data point: April 2021

Source: Dane, EConcept

This process has taken place in the context of a sharp depreciation of the COP, both in nominal and real terms, which has not resulted at all in the textbook effect of fostering non-oil exports to the extent one would expect, even if one factors in the effect of the pandemic. Looking at the broader picture, imports are starting to recover, and the current account deficit is bound to deteriorate between 2020 and 2021, also because of a pickup in factor payments flowing abroad because of higher interest payments. Our expectation is for the country's external deficit to go above 4% of GDP this year, with the Q1 2021 deficit recently reported by the Central Bank, at 4.8% of GDP, as a clear indicator (Figure 8).

This is despite the recent increase in remittances from abroad, which already exceeds 2% of GDP, and might be considered as a reasonable way of diversifying current account revenues. This kind of diversification might be desirable from a revenue stability standpoint, but is not a productivity-enhancing way of bringing in more revenues from abroad.

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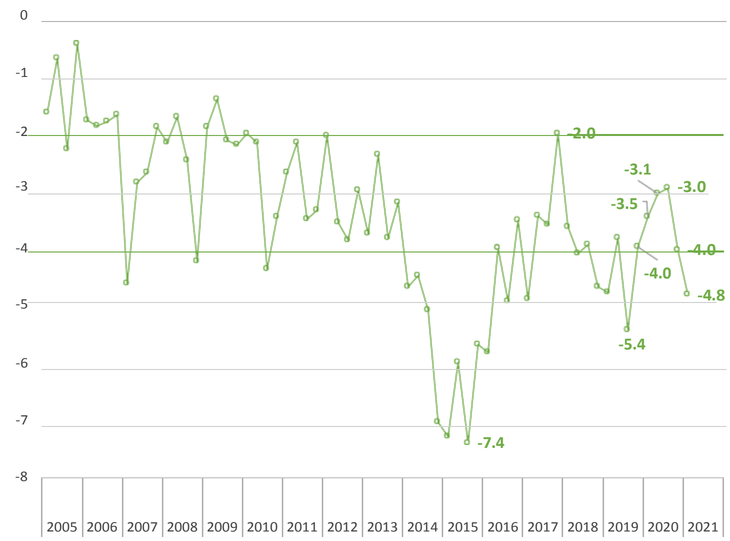
**Figure 8. Current account balance (% of GDP)**




Last data point: Q1-2021

Source: Central Bank, Dane, EConcept

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## Investment Opportunities in Colombia

## Transportation Sector

### 1. Roads

**Fourth Generation (4G) Road Concessions Projects – First Wave Projects**

| Road | Length (km) | Contract Value (COP million) | Status |
|---|---|---|---|
| Honda - Girardot - Puerto Salgar | 190 | 1,465,609.00 | **Construction** |
| Perimetral de Oriente de Cundinamarca | 152 | 1,647,776.10 | **Construction** |
| Cartagena - Barranquilla | 146 | 1,709,364.53 | **Construction** |
| Autopista al Río Magdalena 2 | 144 | 1,740,427.56 | **Construction** |
| Autopista Conexión Norte | 145 | 1,300,273.78 | **Construction** |
| Autopista Conexión Pacífico 1 | 50 | 2,087,106.18 | **Construction** |
| Autopista Conexión Pacífico 2 | 97 | 1,300,234.00 | **Construction** |
| Autopista Conexión Pacífico 3 | 146 | 1,869,330.68 | **Construction** |
| Mulaló - Loboguerrero | 32 | 1,587,924.10 | **Pre-Construction** |
| Total | **1,102** | **14,708,046.00** | |

Source: National Planning Department, National Infrastructure Agency

**Fourth Generation (4G) Road Concessions Projects – Second Wave Projects**

| Road | Length (km) | Contract Value (COP million) | Status |
|---|---|---|---|
| Autopista al Mar 1 (2012) | 181 | 2,244,728.60 | Construction |
| Autopista al Mar 2 (2012) | 254 | 2,574,127.20 | Construction |
| Santana-Mocoa-Neiva (2013) | 456 | 2,969,581.00 | Construction |
| Rumichaca-Pasto (2013) | 83 | 2,316,127.77 | Construction |
| Popayán-S/der de Quilichao (2013) | 77 | 1,702,786.72 | Pre-Construction |
| Transversal del Sisga (2013) | 137 | 966,849.10 | Construction |
| Villavicencio-Yopal (2013) | 266 | 2,939,320.80 | Construction |
| P/ta de Hierro - Palmar (2013) | 203 | 1,240,828.00 | Construction |
| Bucaramanga - Barrancabermeja - Yondó | 152 | 2,691,392.44 | Construction |
| **Total** | **1,809** | **19,645,741.64** | |

Source: National Planning Department, National Infrastructure Agency

**Fourth Generation (4G) Road Concessions Projects – Third Wave Projects**

| Road | Length (km) | Contract Value (COP million) | Status |
|---|---|---|---|
| Pamplona - Cúcuta (2015) | 62.6 | 2,072,320.0 | Construction |
| Bucaramanga – Pamplona (2013) | 134.2 | 1,413,763.0 | Construction |
| **Total** | **195.6** | **3,486,083.0** | |

Source: National Planning Department, National Infrastructure Agency

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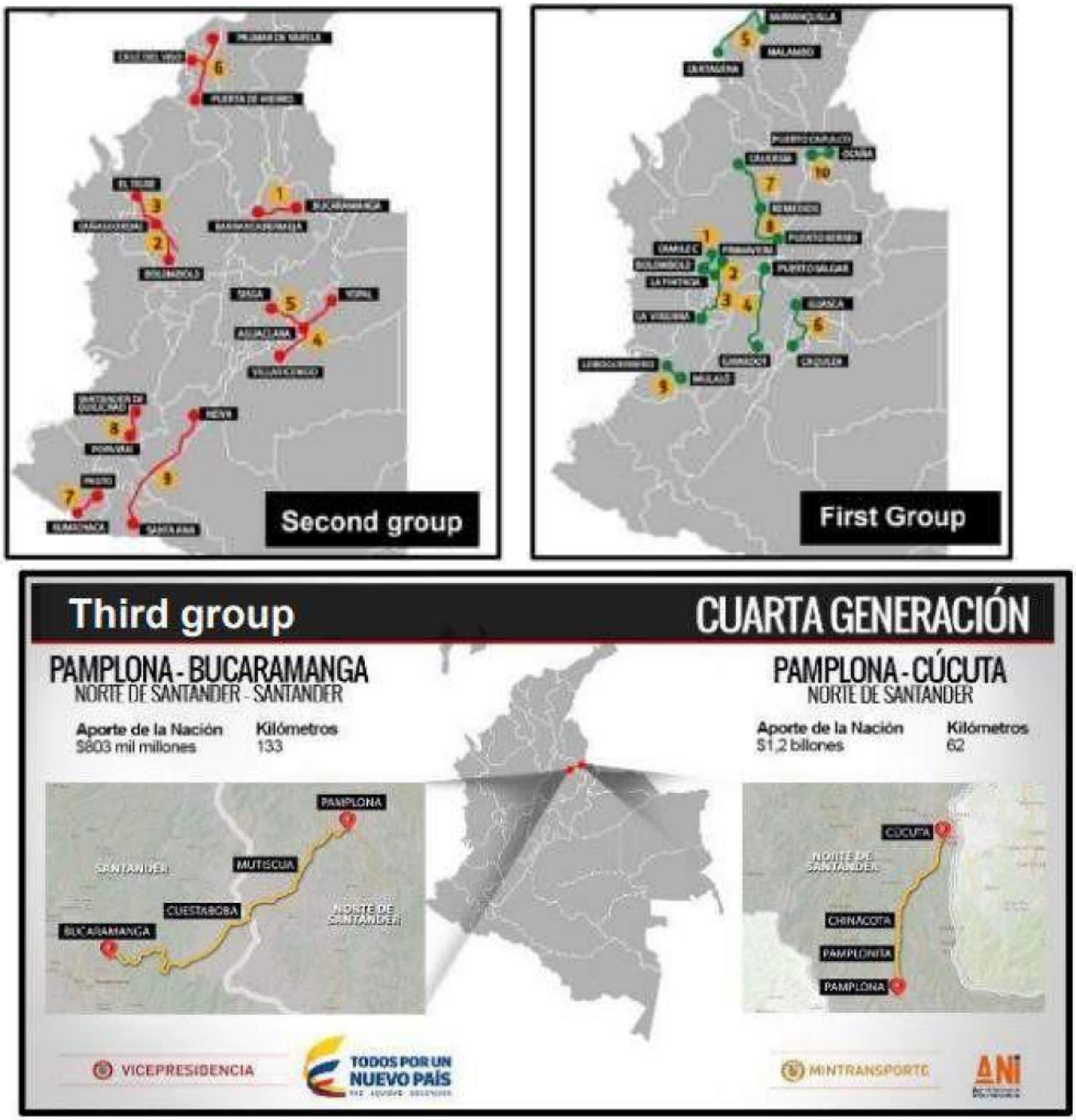
**Map of Fourth Generation (4G) Road Concessions Projects**




Source: National Planning Department

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**Other Road Projects: Other infrastructure road projects, different to 4G involving the building, rehabilitation and maintenance of roads. Primarily private initiative.**

| Project | Length (km) | Contract Value (COP million) | Status |
|---|---|---|---|
| IP Cambao – Manizales (2013) | 256 | 1,147,653.4 | **Construction** |
| IP Tercer Carril Bogotá Girardot (2016) | 145 | 4,197,839.6 | **Construction** |
| IP Accesos norte a la ciudad de Bogotá D.C. (2014) | 62 | 1,225,686.3 | **Construction** |
| IP Chirajará – Fundadores / Bogotá Villavicencio* (2013) | 86 | 5,090,472.5 | **Construction** |
| IP Malla Vial del Meta (2013) | 267 | 1,580,927.0 | **Pre-Construction** |
| IP GICA | 35 | 1,810,392.0 | **Construction** |
| IP Vías del NUS* (2013) | 157 | 2,490,136.0 | **Construction** |
| IP Neiva – Girardot* (2014) | 198 | 2,017,901.6 | **Construction** |
| IP Antioquia – Bolívar* (2015) | 495 | 2,752,552.2 | **Construction** |
| **Total** | **1,701** | **22,313,560.6** | |

Source: National Planning Department, National Infrastructure Agency

## 1. Airports

- **Tourist Airports** modernization, adequacy, administration, operation, and maintenance of Javier Noreña Valencia (La Macarena), Germán Olano (Puerto Carreño) and César Gaviria Trujillo (Inírida) airports.
  - **Capex:** USD 109.6 Million.
  - **Status:** Structured.

## 2. Massive urban transit systems and Strategic Transport

- **San Andrés island public transport:** Construction, rehabilitation, operation, and maintenance of the infrastructure associate to the stations, bus stops and supply of rolling stocks (electric fleet) and of the technological systems required. CAPEX: 49.25 million USD. Status: Pending approval to advance to the legal structuring. Benefited population: 70.000 people and 1.000.000 tourist/year.

## II. Energy and Mining Sectors

### Ministry of Mines and Energy – National Development Plan:

**Projects considered in building phase**

| Project | Capacity (MW) | Operation Start Date |
|---|---|---|
| Termosolo 1 | 148 | Diciembre 2023 |
| Acacia 2 | 80 | November 2022 |
| Camelias | 250 | December 2023 |
| Ipapure | 201 | September 2023 |
| Carrizal | 195 | June 2023 |
| Irraipa | 99 | June 2023 |
| Chemesky | 100 | August 2023 |
| Kuisa | 200 | August 2023 |
| Casa Eléctrica | 180 | August 2023 |
| San Felipe | 90 | December 2022 |
| Cartago | 99 | December 2022 |
| Apotolorru | 75 | August 2023 |
| Campano | 99 | December 2022 |
| Termosolo 2 | 80 | December 2022 |
| Termo Rubiales | 19 | December 2021 |
| Termo Jagüey | 19 | December 2021 |
| Termoyopal G5 | 50 | August 2020 |
| Termoyopal G4 | 50 | August 2020 |
| Termoyopal G3 | 50 | August 2020 |
| Termocandelaria | 252 | November 2022 |

| | | |
|---|---|---|
| Termocaribe 3 | 42 | November 2022 |
| La Loma | 150 | November 2022 |
| Windpeshi | 200 | December 2022 |
| Beta | 280 | November 2023 |
| Alpha | 212 | November 2023 |
| Ituango | 1,200 | June 2022 |
| El Paso Solar | 68 | January 2021 |

Source: UPME, Premilinar Plan de Expansión 2020-2034

**Oil Exploration Projects for Colombia in 2021 (first quater)**

| Exploration Projects | Status | Participants |
|---|---|---|
| Boranda Sur -1 | Dry | Parex 50% (Operator) ECP 50% |
| Moyote-1 | Dry | Petronas 50% (Operator) ECP México 50% |
| EST-SN-8 | Plugged and abandoned | Hocol 100% |
| Boranda Sur - 2 | Under evaluation | Parex (operator) 50% ECP 50% |
| Liria YW 12 | Under evaluation | ECP 100% |

Source: Ecopetrol

**Ecopetrol's Investment plan for 2020-2023**

| USD million | Investment 2021Q1 | Investment 2021-2023 Projected | |
|---|---|---|---|
| Production | 467 | 12,000 | 15,000 |
| Exploration | 51 | 9,000 | 11,000 |
| Refining and Petrochemistry | 72 | 1,200 | 1,400 |
| Transport | 46 | 780 | 960 |
| Operation | - | - | - |
| Other | 14 | 2,190 | 2,260 |
| Total | 650 | 12,000 | 15,000 |

Source: Ecopetrol

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## III. Others

- **Education:** Design, construction or rehabilitation, maintenance and operation of 8 schools in Soacha.
    - ***Capex:*** USD 81.47 Million
    - ***Status:*** On approbation.

- **Museums:** Design, restoration, maintenance, operation, conservation and administration of collections of 8 museums in Cartagena, Villa del Rosario, Ocaña, Santa Fe de Antioquia, Villa de Leyva, Popayan and Honda.
    - ***Capex:*** USD 41.64 million.
    - ***Status:*** Structured.

- **Water and sewage:** Design, construction, operation and maintenance of the Santa Marta aqueduct. Construction of a Wastewater Treatment Plant for the Bogotá River, Duitama and Neiva.
    - ***Capex:*** USD 1,702.3 Million (Santa Marta), USD 2,522.9 Million (Bogotá). Capex for Neiva and Duitama to be defined.
    - ***Status:*** Structured (Santa Marta, Bogotá). Phase 2 (Duitama and Neiva).

- **Electric Energy:** Rehabilitation, operation and maintenance of the infrastructure of an electric energy generation system, in Military Air Units – MAU of Colombian Force – CAF.
    - ***Capex:*** USD 134.3 Million.
    - ***Status:*** On approbation.

- **National Parks:** Operation and development of Ecotourism services in Tayrona Natural National Parks, and Salamanca Park.
    - ***Capex***: USD 71.4 million.
    - ***Status:*** Structured.

- **Penitentiary Infrastructure**: Structuring technical, legal and financial under the PPP mechanism which includes the construction of prisons in Barrancabermeja and Uramita.
    - ***Capex***: USD 273.6 million (Barrancabermenja) and 304.0 million (Uramita).
    - ***Status:*** Phase 2.

- **Urban Renewal and Public Buildings:** Structuring technical, legal and financial services for the construction of the Judicial Citadel of Bogotá.
    - ***Capex***: USD 312.84 million.

- ***Status:*** Structured.

Construction, operation, and maintenance of student housing in Medellín.

- ***Capex***: USD 79.6 million.
- ***Status:*** Phase 1 finalized.

Design and construction of the new Congress building.

- ***Capex***: USD 136.8 million.
- ***Status:*** Structured.

Design, construction, operation and maintenance of National Attorney General office in Cali.

- ***Capex:*** USD 114 million.
- ***Status:*** On approbation

## IV. Public – Private Partnerships Projects without public funds

The purpose of these projects is to facilitate private sector participation in infrastructure projects, to the extent that private entities are now entitled to propose projects of this nature to either National or Regional Governments, as well as to invest in economic sectors in which private involvement has traditionally been scarce. This is the case of education, health, justice, defense and public building construction, among others.

**Number of Public-Private Partnerships by Sector**

| Sector | Hired | Feasibility Studies | Pre-Feasibility Studies | Total |
|---|---|---|---|---|
| **Agriculture** | | 4 | 4 | 8 |
| **Water and Sewage** | | 2 | 33 | 35 |
| **Environment and Sustainable Development** | | 2 | | 2 |
| **Science, tech and innovation** | | | | |
| **Commerce, Industry and tourism** | | | | |
| **Culture and sports** | | | 2 | 2 |
| **Public Buildings and Urban Renewal** | 2 | 2 | 5 | 8 |
| **Education** | | 9 | 50 | 59 |
| **Justice** | | 6 | 4 | 10 |
| **Mining and Energy** | | 3 | 5 | 8 |
| **Health Care** | 1 | 3 | 6 | 10 |
| **Information and Communication** | | 4 | 2 | 6 |

**Technologies**

| | | | | |
|---|---|---|---|---|
| **Transport** | 36 | 1 | 4 | 39 |
| **Housing** | | 42 | 96 | 138 |
| **Total** | **39** | **78** | **211** | **325** |

Source: National Planning Department- RUAPP (January 2021)

## Forecast table

| | | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021f |
|---|---|---|---|---|---|---|---|---|
| Population | Millions | 47.9 | 47.9 | 48.0 | 48.2 | 49.4 | 50.3 | 51.1 |
| Real GDP | Trillions of 2015 COP | 804.7 | 821.5 | 832.6 | 854.0 | 882.0 | 821.6 | 863.5 |
| | % change | 3.0 | 2.1 | 1.4 | 2.7 | 3.3 | -6.8 | 5.1 |
| Nominal GDP | | | | | | | | |
| In pesos | Trillions of current COP | 804.7 | 863.8 | 920.5 | 987.8 | 1,061.1 | 1,002.6 | 1,084.1 |
| | % change | 5.5 | 7.3 | 6.6 | 7.3 | 7.4 | -5.5 | 8.1 |
| In dollars | Billions of current USD | 293.5 | 282.7 | 311.9 | 334.1 | 323.4 | 269.2 | 297.3 |
| | % change | -23.0 | -3.7 | 10.3 | 7.1 | -3.2 | -16.7 | 10.4 |
| GDP deflator | | 1.0 | 1.1 | 1.1 | 1.2 | 1.2 | 1.2 | 1.3 |
| Consumer prices (end of period) | % change | 6.8 | 5.7 | 4.1 | 3.2 | 3.8 | 1.6 | 2.8 - 2.9 |
| Nominal exchange rate (average) | COP/USD | 2,742 | 3,055 | 2,951 | 2,956 | 3,281 | 3,724 | 3,646 |
| | % change | 37.0 | 11.4 | -3.4 | 0.2 | 11.0 | 13.5 | -2.1 |
| Real exchange rate (average) | 2010 average = 100 | 126.9 | 131.0 | 124.4 | 121.4 | 129.4 | 141.3 | 137.6 |
| | % change | 22.4 | 3.2 | -5.1 | -2.4 | 6.6 | 9.2 | -2.7 |
| Repo rate (end of period) | % (end of period) | 5.8 | 7.5 | 5.0 | 4.3 | 4.25 | 1.75 | 2.00 |
| Nominal interest rate (DTF) | % (end of period) | 5.2 | 6.9 | 5.4 | 4.5 | 4.2 | 1.9 | 2.0 |
| Current account balance | Billions of current USD | -18.6 | -12.0 | -10.3 | -12.7 | -13.6 | -8.3 | -11.9 |
| | % of GDP | -6.3 | -4.3 | -3.3 | -3.8 | -4.2 | -3.1 | -4.2 |
| Capital account balance | Billions of current USD | -18.2 | -12.3 | -9.6 | -12.1 | -12.9 | -8.3 | -11.9 |
| | % of GDP | -6.2 | -4.3 | -3.1 | -3.6 | -4.0 | -3.1 | -4.2 |
| Exports | Billions of current USD | 36.0 | 31.8 | 38.0 | 41.9 | 39.4 | 31.0 | 32.0 |
| | % change | -34.4 | -11.7 | 19.7 | 10.2 | -5.9 | -21.4 | 3.3 |
| Exports (goods and services) | Billions of current USD | 29.4 | 24.9 | 30.2 | 32.9 | 30.6 | 31.4 | 31.4 |
| | % change | -38.6 | -15.1 | 21.1 | 9.0 | -7.0 | -4.7 | 0.1 |
| Imports | Billions of current USD | 51.6 | 42.8 | 44.0 | 48.9 | 50.3 | 41.2 | 42.8 |
| | % change | -15.5 | -17.0 | 2.6 | 11.3 | 2.7 | -18.1 | 3.9 |
| Imports (goods and services) | Billions of current USD | 43.9 | 36.4 | 36.8 | 32.3 | 36.2 | 30.5 | 32.7 |
| | % change | -11.2 | -17.0 | 1.0 | -12.0 | 12.0 | -5.7 | 7.4 |
| Consolidated fiscal balance | % of GDP | -3.4 | -2.2 | -2.3 | -2.2 | -2.9 | -7.9 | -9.0 |
| Central Government Fiscal Balance | % of GDP | -3.0 | -4.0 | -3.6 | -3.1 | -2.5 | -7.8 | -8.6 |

f*:all values are forecasts

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