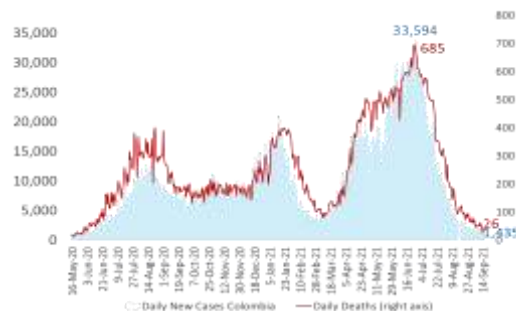


Figure 1. Quarterly GDP Growth (annual growth, %)



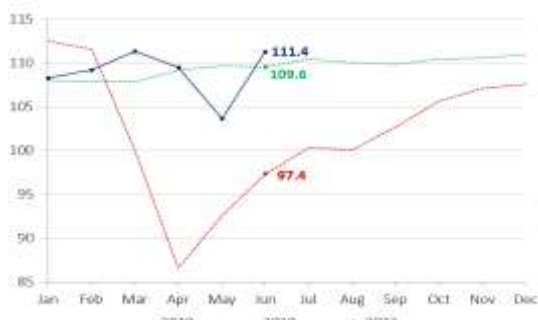
Source: DANE. Own Calculations.

Figure 2. COVID-19 Daily New Cases and daily Deaths Colombia as of 14th September



Source: Ministry of Health. Own Calculations

Figure 3. Economy Tracking Indicator ISE (Seasonally adjusted)



Source: DANE. Own Calculations.

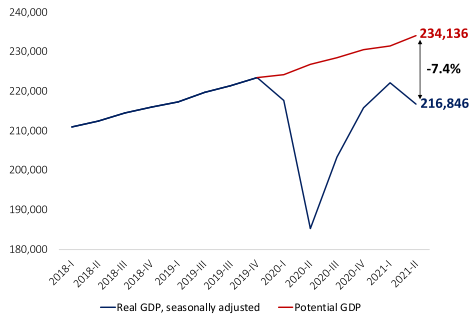
Economic Activity

The Colombian economy continues its path to recovery, as annual GDP growth for the second quarter reached 17.6% (Figure 1). Even though this result was influenced by low GDP levels registered in Q2 2020 –when the economy had its biggest drop in history-, the economy has already achieved 99% of pre-pandemic levels (Q2 2019). Manufacturing and commerce were the main drivers of this performance. On the demand side, government consumption experienced the highest growth among sectors.

Q2 was significantly affected by the third COVID-19 wave. As new cases increased in April, mobility restrictions were implemented -reducing the economy's dynamism experienced at the end of Q1. The reopening of the economy and agglomerations during the National Strike made the months of May and June experience the worst of the pandemic so far (Figure 2).

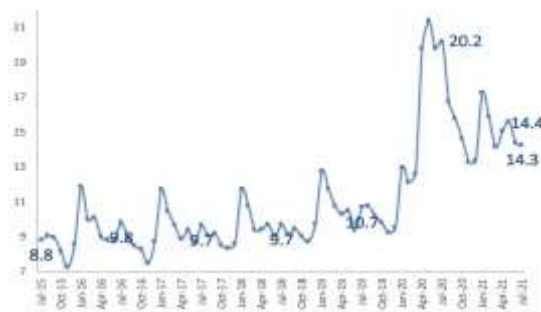
Monthly economic activity had a dynamic -albeit turbulent- performance in Q2. The Economy Tracking Indicator (Figure 3) shows that mobility restrictions in April and National Strikes in May caused these months to lose momentum. Blockades and violence generated losses of more than 15 trillion COP, according to the Finance Ministry. As these effects eased, June returned to normality and grew 7.4% compared to May. Still, all of this caused the seasonally adjusted GDP to fall by 2.4% compared to Q1, weakening the recovery and reopening

Figure 4. Real GDP vs Potential GDP (2015 constant prices billion COP)



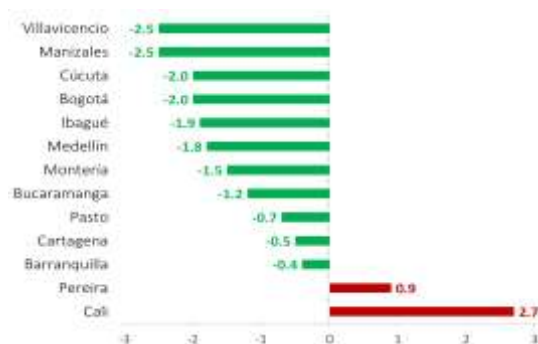
Source: DANE, Own calculations.

Figure 5. National unemployment rate (%)



Source: DANE. Own Calculations

Figure 6. Unemployment rate variation from Q1 and Q2 (pp, 13 major cities)



Source: DANE, own calculations.

the gap between observed and potential GDP (Figure 4).

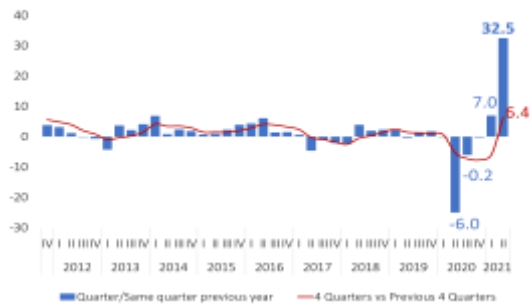
In line with economic activity, unemployment was hit during April and May by mobility restrictions and blockades (Figure 5). Particularly, Cali was the most affected among large urban centers (Figure 6), as it was the center of violence during the protests. June and July showed tepid signs of recovery, where 160,683 and 273,866 jobs were created, respectively. As a result, employment is recovering at a slower pace than GDP, which means that there is still a long way to go to return to pre-pandemic levels.

Supply GDP

In Q2, all sectors on the supply side had a positive contribution to the overall 17.6% growth of GDP. Commerce and Manufacturing presented the highest contributions among sectors, with 6.1pp and 3.5pp, respectively, whereas Arts achieved the highest annual growth with 83.3%. However, it is worth noting the influence of the statistical base effect from low GDP levels presented in Q2 2020, which may alter the analysis. For this reason, our article “GDP composition after 2 (almost successive) crises” presents a complete comparison with pre-pandemic levels.

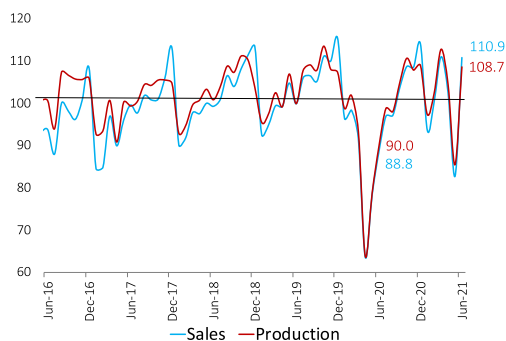
Manufacturing posted a 32.5% growth in production compared to Q2 2020 (Figure 7). On a monthly basis, due to mobility restrictions and protests, manufacturing production and sales fell in April and May (Figure 8). In June, both sales and production recovered and increased 27.1% and 34.0%

Figure 7. Manufacturing Sector: 11.7% of GDP
(Annual growth, %)



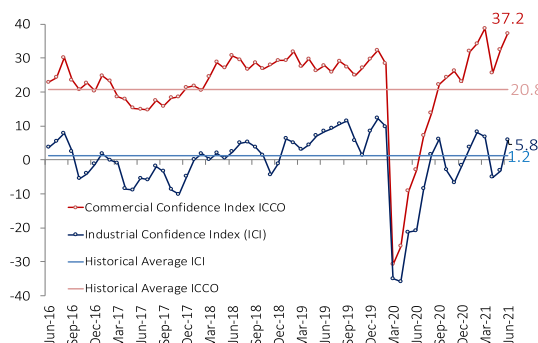
Source: DANE. Own Calculations.

Figure 8. Real production index of manufacturing
(June 2019= 100)



Source: DANE. Own Calculations.

Figure 9. Industrial and Commercial Confidence Index
(%)



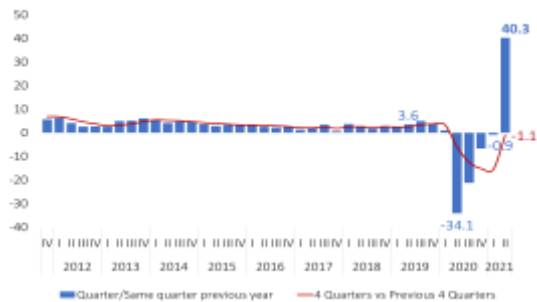
Source: Fedesarrollo. Own Calculations.

compared to May, respectively. Regarding Industrial Confidence, although more than 50% of companies -on average- reported to have been affected by the national protests in May and June, industrial confidence improved during these months (Figure 9). This behavior can be explained by the increase in the business expectations for the coming months.

Commerce GDP registered an annual variation of 40.2% (Figure 10). Although commerce had a solid first quarter, the National Strike in May gave the sector a pullback compared to pre-pandemic levels in Q2 (-7.5%). The effects the National Strike had on economic activity resemble those seen with lockdowns. Consequently, two key components of commerce that struggled with this situation were transportation-warehousing (-17.6% compared to Q2 2019) and accommodation and food services (-13.4% compared to Q2 2019). Also, retail sales began the quarter with a monthly contraction of -16.2% in April, followed by a decrease of -4.3% in May, and finally a 18.2% increase in June (Figure 11). In Q2, April's performance was up to the level of 2019, while May's was significantly lower. Nevertheless, June saw a 7.1% increase in retail sales compared to Q2 2019.

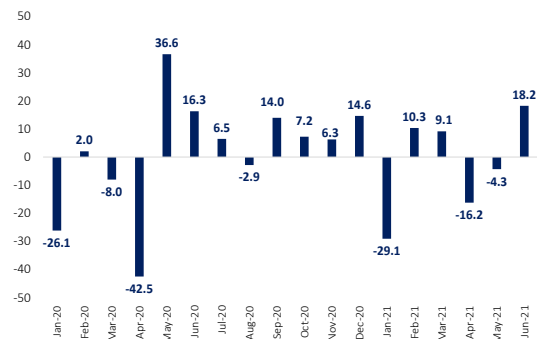
The commercial confidence Index (CCI) followed expectations concerning the National Strike prompted by the failed tax reform (See again Figure 9). In April, the index stood at 25.6%, following a drop of 13.1pp compared to March, primarily due to a decrease in the current economic situation and a reduction of the business expectations for the next 6 months. In contrast,

Figure 10. Commerce Sector: 15.6% of GDP
(Annual growth, %)



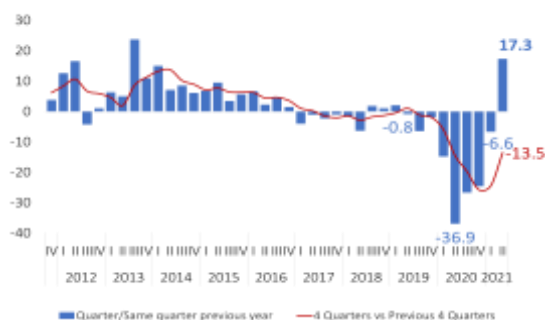
Source: DANE. Own Calculations.

Figure 11. Retail sales (monthly growth, %)



Source: DANE. Own Calculations.

Figure 12. Construction: 5.2% of GDP
(Annual growth, %)



Source: DANE. Own Calculations.

the index improved in May (32.5%), mainly caused by a fall in the level of stocks. Similarly, the CCI presented a monthly growth in June (37.2%) of 4.7pp, mainly due to the increase in the business current situation index and an increase in the business expectations for the next 6 months.

The Construction sector presented an annual growth of 17.3% compared to the same quarter of 2020 (Figure 12). Key subsectors such as Housing and Civil works experienced increases of 15.9% and 19.8%, respectively. Nevertheless, as we will detail in “GDP composition after 2 (almost successive) crises”, Construction growth corresponds to a statistical base effect, with its added value still 25.9% below pre-pandemic levels. In contrast, during Q2 the total construction area approved had an annual increase of 135.7% compared to Q2 2020. This level is 7.4% above pre-pandemic levels. By 2022, the government aims to deliver 200,000 housing subsidies, expecting this to encourage the construction sector recovery.

In Q2, the oil and mining sector increased 7.1% compared to the second quarter of last year, accounting for 4.5% of GDP (Figure 13). Nevertheless, this growth was not enough to recover from the 19.3% annual decrease observed in 2020. Additionally, although Brent oil prices have been steadily rising since May 2020 and in Q2 stood at pre-pandemic levels (Figure 14), oil GDP dropped 4.7% in Q2. On the other hand, coal GDP increased 39.4% annually as prices continued an ascending trend. Also, metalliferous minerals GDP grew 33.0% annually in Q2, which means that the increase compared to pre-pandemic levels (Q2 2019) equals 61.1%.

Figure 13. Oil and Mining: 4.5% of GDP

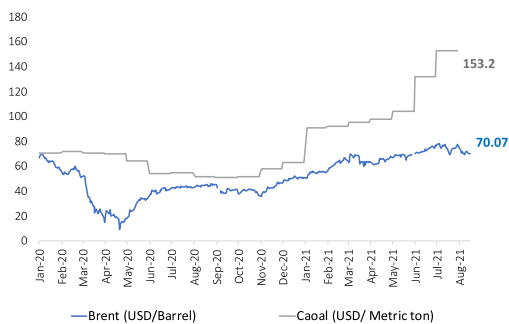
(Annual growth, %)



Source: DANE. Own Calculations.

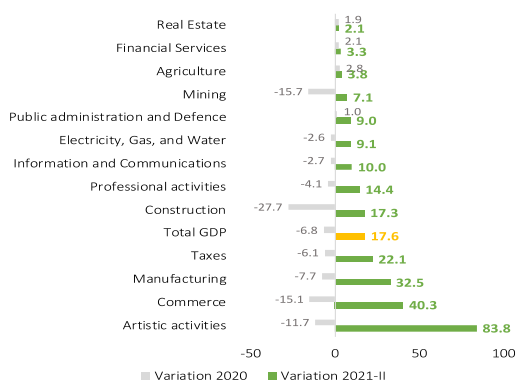
Figure 14. Brent and coal price vs. Market

Representative Rate



Source: FED, Own calculations.

Figure 15. GDP sectors (annual growth, %)



Source: DANE. Own Calculations.

Finally, activities such as Real Estate, Financial Services, and Agriculture presented the lowest growths among sectors (Figure 15). This result is neither surprising nor negative since these sectors were the least affected during the pandemic. All in all, supply GDP continued its recovery during Q2, but events such as the COVID-19 third wave and especially the National Strike prevented the rebound from being greater.

Demand GDP

On the demand side, government consumption, which represented 17.9% of the GDP in Q2, presented an annual growth of 9.9%. This result recorded the largest increase since the pandemic began (Figure 16). Government consumption was driven by the continuity of major policy programs created to mitigate the effects of the economic crisis, such as Solidarity Income and Formal Employment Support Program (PAEF, for its acronym in Spanish). Additionally, public health spending related to COVID-19 vaccines also contributed to this growth.

According to the Medium-Term Fiscal Framework (MTFF) presented by the government in mid-June, the central government fiscal deficit in 2021 will be 8.6% of GDP. This represents an increase of 0.8pp compared to the 7.8% level registered in 2020. In line with this result, the MTFF expects central government public debt to rise to 66.8% of GDP this year, up from 50.3% in 2019 and 64.7% in 2020.

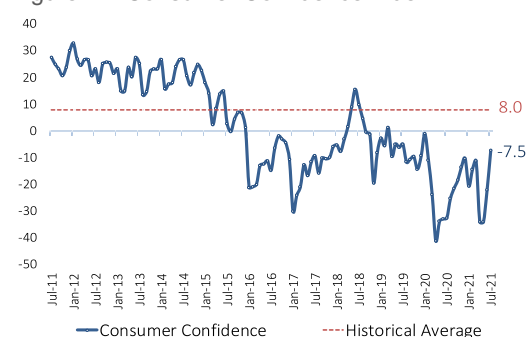
In Q2, consumer confidence, measured by Fedesarrollo's

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



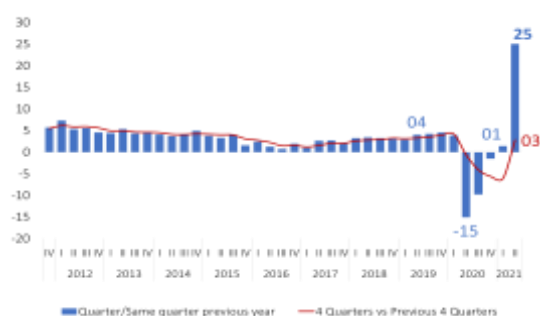
Source: DANE. Own Calculations.

Figure 17. Consumer Confidence Index



Source: Fedesarrollo. Own Calculations.

Figure 18. Household Consumption: 70.4% of GDP (annual growth, %)



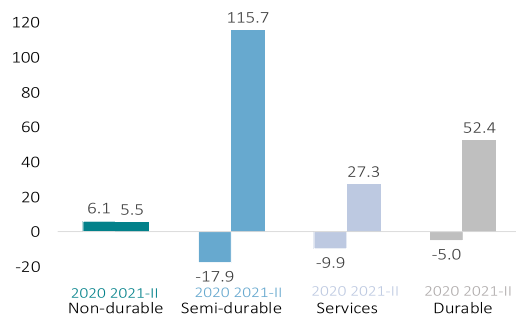
Source: DANE. Own Calculations.

Consumer Confidence Index, remained in negative territory and well below its historical average (Figure 17). In April and May, the index dropped to -34.2% and -34.3%, respectively. These are the lowest levels on record after April 2020 (-41.3%). The result for April of this year was mainly due to a 32.9pp decrease in the Consumer Expectations Index (CEI) and a 7.7pp drop in the Economic Conditions Index (ECI). On the other hand, May's result was mainly due to an 11.2pp fall in the ECI and a 7.3pp increase in the CEI. Notwithstanding, as the National Strike saw its highest form in May, by June, the Consumer Confidence Index rose to -22.3%, due to a 12.9pp increase in the Economic Conditions Index and an 11.4pp increase in the Consumer Expectations Index.

Despite the low levels of consumer confidence, household consumption experienced an annual variation of 25.0% (Figure 18), surpassing pre-pandemic levels (Q2 2019) by 6.2%. Unsurprisingly, the fastest-growing groups of consumed goods are those that were the most affected by the pandemic last year: clothing and footwear (158.0%), restaurants and hotels (89.6%), and transportation (86.1%). It is worth noting that of these three groups, only clothing and footwear have reached pre-pandemic levels.

Accordingly, spending on semi-durable goods, which grew 115.7% annually, contributed to the recovery of household demand (Figure 19). Also, the consumption patterns seen in the Q2 of 2021 have mostly returned to pre-pandemic conditions. These patterns were seen in the composition of demand: an increase in the share of no-durable goods (36.6%

Figure 19. Household consumption by type
(Annual growth, %)



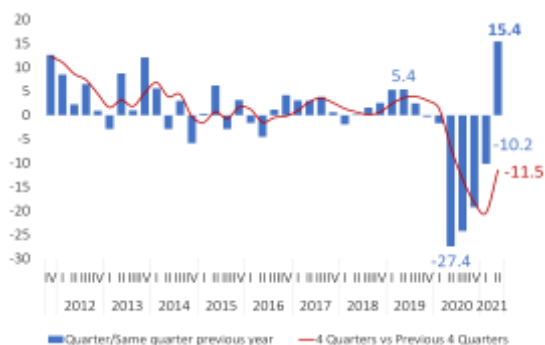
Source: DANE. Own Calculations.

Figure 20. Gross Fixed Capital Formation: 18.7% of GDP (annual growth, %)



Source: DANE. Own calculations.

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



Source: DANE. Own calculations.

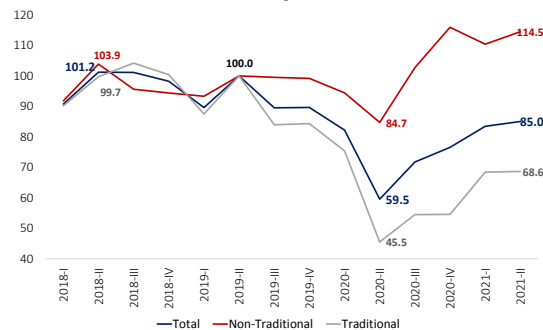
share in Q2 2020 and 31.5% in Q2 2021) and a decrease in the participation of durable (3.8% share in Q2 2020 and 4.6% in Q2 2021) and semi-durable goods (4.6% share in Q2 2020 and 8.1% in Q2 2021).

Gross fixed capital formation, which was hit the hardest by the pandemic, achieved a positive annual growth of 32.0% in Q2 for the first time since the pandemic began (Figure 20). Nevertheless, investment is still 19.7% below pre-pandemic levels. The main drivers of this performance were investments in housing and machinery, which contributed 21.3% and 5.2% to the growth of gross fixed capital formation, respectively.

In terms of foreign trade, exports GDP showed an annual increase of 15.4% (Figure 21). Although steadily increasing since the pronounced drop in Q2 2020, they are still 16.3% under pre-pandemic levels, mainly because of the underperformance of traditional exports (oil, coffee, and coal), which are lagging compared to the three months of Q2 2019 (Figure 22). These exports remained 27.6% below pre-pandemic levels in April, May (21.1%), and June (20.9%). On the other hand, non-traditional exports (manufactures, agricultural goods, and others) returned to pre-pandemic levels in Q3 2020 and have continued to rise in value since, reaching all-time records in Q2 2021. This diversification of exports is partly due to the Colombian national currency devaluation.

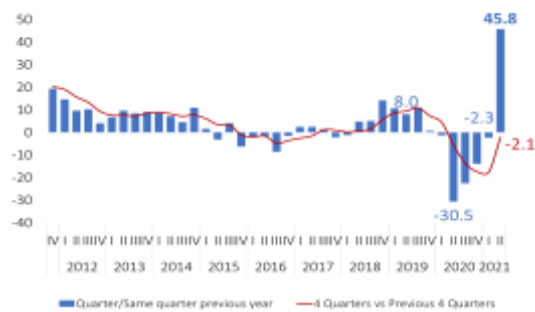
Finally, imports GDP grew 45.8% annually and have surpassed pre-pandemic levels by 1.4% (Figure 23). Accordingly, the trade balance deficit has widened significantly, increasing

Figure 22. Exports by type Index (Base 2019-II=100)



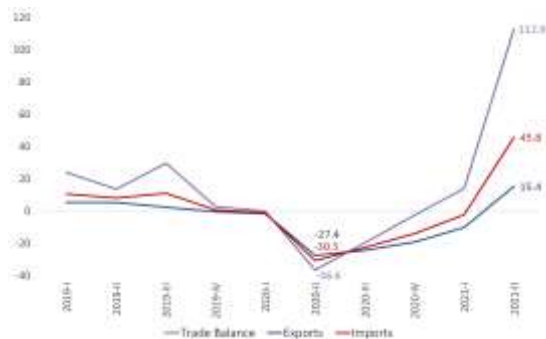
Source: DANE. Own calculations.

Figure 23. Total imports: 20.3% of GDP
(Annual growth, %)



Source: DANE. Own calculations.

Figure 24. Trade balance (annual growth, %)



Source: DANE. Own calculations.

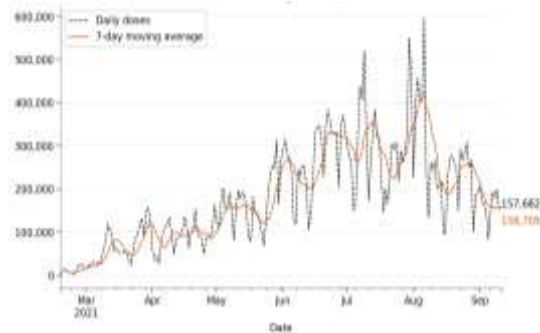
112.9% compared to the same quarter of 2020 (Figure 24). However, this sharp increase is less so when comparing with Q2 2019 (35.1%). This behavior is explained by the continuous growth of consumer, intermediate, and capital goods imports. Specifically, intermediate goods achieved the biggest annual growth (107.2%) and are the only category that is over pre-pandemic levels (18.0% increase compared to Q2 2019). The sub-categories of intermediate goods that have surpassed pre-pandemic levels are agricultural and industrial intermediate goods, which are up 36.0% and 30.2%, respectively.

Outlook

Despite the National Strike, the third COVID-19 wave, and losing investment grade, the economy managed to post good numbers and is now close to pre-pandemic levels. Commerce and industry set the pace of the recovery, while government consumption stood out on the demand side. For the second semester of the year, the new tax reform, the progress of the vaccination plan, and inflation will be key topics to keep in mind.

In response to social demands presented during the National Strike, the government's new tax reform -approved by Congress during the first half of September- includes a social package to keep key emergency programs in place. The Solidarity Income program will be extended until the end 2022, expanding its coverage to 200,000 households living in extreme poverty. Also, a subsidy equivalent to 40% of the minimum wage will be granted to companies affected during

Figure 25. Daily vaccine doses Colombia as of September 11th



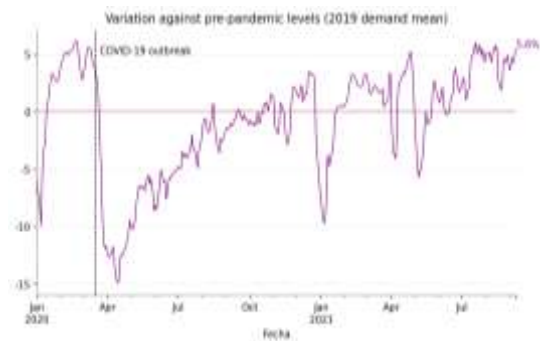
Source: Ministry of Health. Own Calculations

Figure 26. Annual inflation (%)



Source: DANE. Own calculations.

Figure 27. Electricity demand (MA 7 days, %)



Source: XM. Own calculations.

the pandemic, with a special focus on those that generate employment for women. Low-income family students admitted to tertiary education programs will have their tuition fees fully covered by the government.

The new tax reform should yield COP 15.2 trillion in levies that will fall mainly on the business community. Key elements include an increase in the corporate income tax rate from 30% to 35% as of 2022; an extension of the income tax surcharge to the financial sector of 3pp; and, finally backtracking on increasing the tax credit from the turnover tax paid to municipalities ('ICA', by its acronym in Spanish). As a result, more than 66% of the expected tax collection will come from the business sector. All in all, fiscal accounts may be relieved in the short term, but the next government will require a structural tax reform to meet medium and long-term fiscal needs.

The momentum of the economic recovery will be highly dependent on the progress of the vaccination plan. As of early September, almost 30% of the Colombian population was fully vaccinated and 18% was with a single dose. Although July presented the highest vaccination levels so far, the process has lost steam (Figure 25), mainly due to the lack of vaccines. New variants such as Delta and Mu represent a greater risk of contagion. Therefore, accelerating the vaccination process will be crucial to reduce the impacts of a possible fourth peak and thus avoid implementing restrictive measures once again.

Finally, inflation will be a concern in the second half of the year.

Colombia: Quaterly Investment Outlook

QII, 2021

In August -for the first time in four years and three months- annual inflation exceeded the Central Bank's target range (Figure 26). High food prices were the main drivers of this increase, and they are not expected to ease for the rest of the year. We expect inflation to stay out of the range for the remaining months, ending the year with levels close to 4.6%. Prices' behavior is closing the space to sustain the current levels of the intervention rate. We estimate that with a 75% probability the Central Bank will increase the interest rate by 25bp in September and will maintain it at a 2% level for the rest of the year.

All in all, the prospects for the third quarter seem less turbulent as the National Strike and the third wave are finally gone, and the reopening of all sectors is increasing its timing. Figure 27 shows that total energy demand –a good estimator of economic activity- has been recovering since protests began in April. We expect that the annual variation of Q3 GDP will stand around 7%-9%. For 2021, we estimate an overall growth of 7.0%-7.5%.

GDP composition after two (almost successive) crises

GDP numbers for Q2 were highly anticipated; given everybody's desperate need to determine whether we are already back to pre-crisis economic activity levels. This seems to be, understandably, an end in and of itself, as everyone yearns to go back to the normality of the pre-COVID-19 world. The data released by Dane shows that Colombia is almost there on aggregate terms, but there are important differences to be found once one dives a bit deeper.

As we will see in the remainder of this section, the different degrees of recovery across sectors are resulting in a shift in GDP composition. This is to be expected. What is not so evident is that these shifts date back to the previous crisis, prompted by the collapse in oil prices back in 2014.

Let us begin with the recent past. Figure 1 shows quarterly GDP levels, in constant 2015 COP billions, for the Q1 2019 – Q2 2020 period. In each panel, the red dots represent Q2 observations, and the red horizontal dotted lines indicate the Q2 2019 level for reference purposes. It is quite clear that agriculture is already above 2019 levels; the same can be said for financial services and public administration + social security + education. Manufacturing is almost back to pre-crisis levels.

On the other hand, oil + mining, construction, and commerce + transport registered Q2 2021 levels of activity substantially below their Q2 2019 counterparts.

The rest of the economy, shown in the “other sectors” panel, is already above 2019 levels. As for overall GDP, the last panel shows it is almost back to pre-COVID era levels. All in all, services and agriculture have been the good performers.

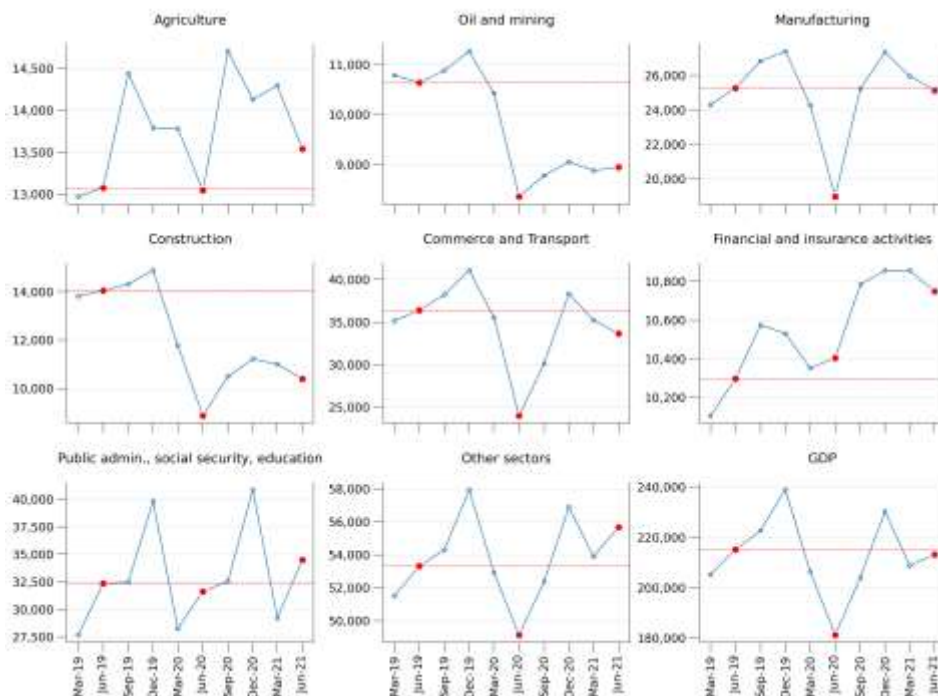
It turns out that the relative lack of momentum of the laggards, i.e. mining + oil and construction, and the drive of agriculture and services are not only a pandemic-induced trend. As Figure 2 shows, mining + oil and construction started to stagnate or consistently lose ground in overall GDP as a result of the oil price collapse of 2014; manufacturing and commerce + transport should be added to this group.

Agriculture and services, on the other hand, have consistently gained ground in explaining the dynamics of the overall economy.

So, on top of the dramatic GDP contraction registered last year, COVID seems to have reinforced trends that were already there starting in 2014.

These production trends have a worrisome counterpart on the demand side of GDP, as Figure 3 shows. Consumption (both private and public) has gained ground in overall GDP since 2014, negatively affecting national savings.

Figure 1. Quarterly GDP level 2019-2021 (2015 constant COP billions)



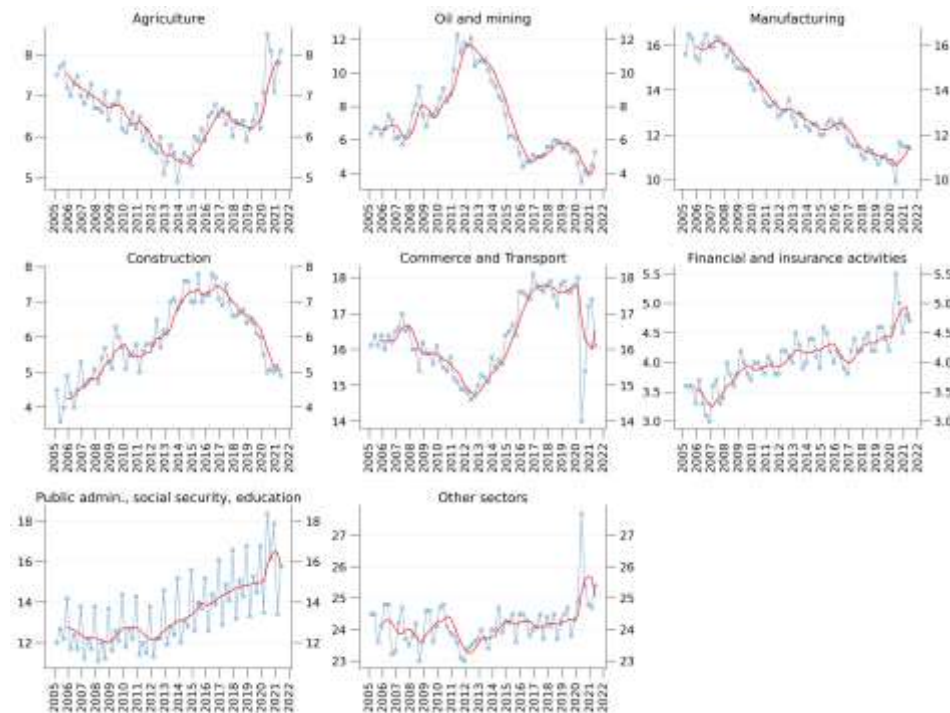
Red dotted line indicates Q2-2019 GDP levels

Source: Dane, EConcept.

Even though investment rates have also fallen, because of the relative lack of activity in oil + mining and construction, national savings have suffered more than investment, creating a larger external imbalance (current account deficit) for the Colombian economy which, in turn, implies a higher vulnerability to external financing flows (more on that in the next section). No wonder the real exchange rate has depreciated by a whopping 40% since mid-2014.

So, even though the pandemic has been the largest blow ever to be suffered by the Colombian economy, some of the ugly truths shown by the data since COVID landed are just the continuation of a process in which investment is increasingly exceeding national savings. All of this is in spite of a lower investment to-GDP ratio.

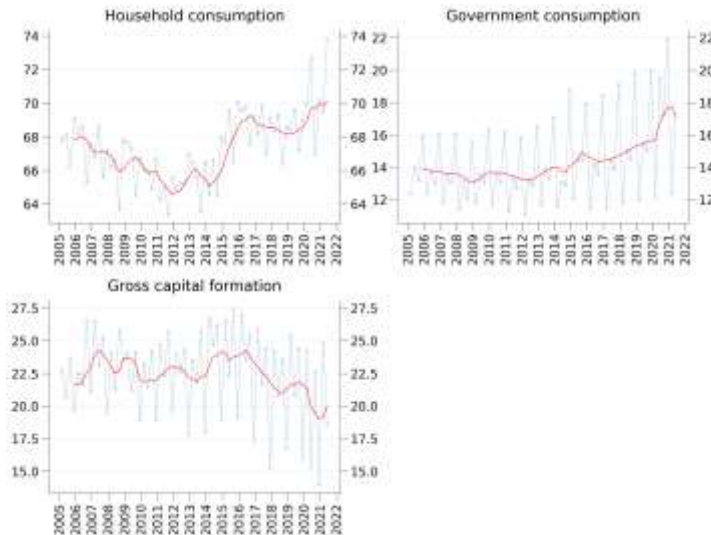
Figure 2. GDP by sectors 2005-2021 (% of total GDP)



Red line indicates rolling 4-quarter averages for Figures 2 and 3

Source: Dane, EConcept.

Figure 3. Domestic demand composition 2005-2021 (% of total GDP)



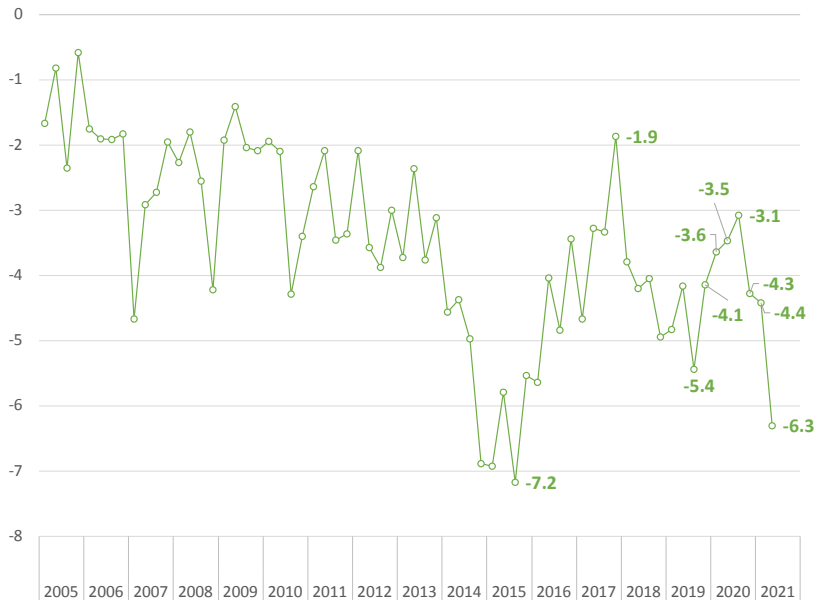
Source: Dane, EConcept.

External headaches

We were expecting, as the economy started to recover this year, deterioration in the current account in excess of government expectations, in line with many analysts. Q1 2021 validated our concerns, as the economy posted a worrisome 4.4% of GDP current account deficit, up 0.8 pp from the 3.6% registered back in Q1 2020. But then came Q2, and reality exceeded not only the government's expectations but everyone else's, as Figure 4 shows: the Q2 current account deficit exceeded everybody's expectations, jumping to a whopping 6.3% of GDP.

As we will see in the remainder of this section, this alarming situation is the result of several forces at play, which are hard to steer in the short-term and, thus, put Colombia in a vulnerable position.

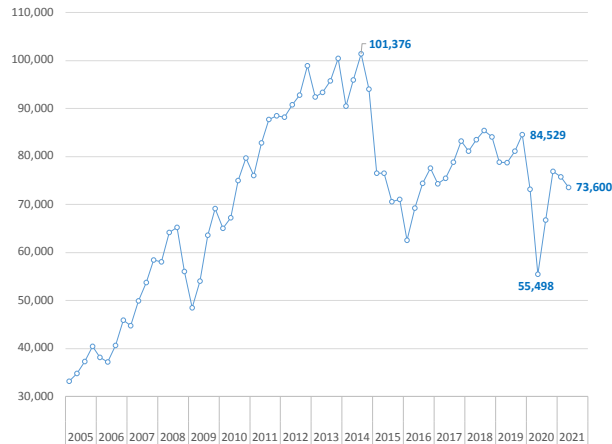
Figure 4. Current account balance (% of total GDP)



Source: Dane, Central Bank, EConcept.

Since all the analysis that follows on the external sector is presented in percentage-of-GDP terms, let us first look at the evolution of GDP in dollar terms (Figure 5). Both in Q1 and Q2 of this year GDP in dollar terms has gone down and currently stands at \$73.6 billion; the country's GDP has shrunk, in dollar terms, by more than 25% since early 2014. Needless to say, as Colombia gets poorer in dollar terms, any external dollar-denominated imbalance becomes even more problematic.

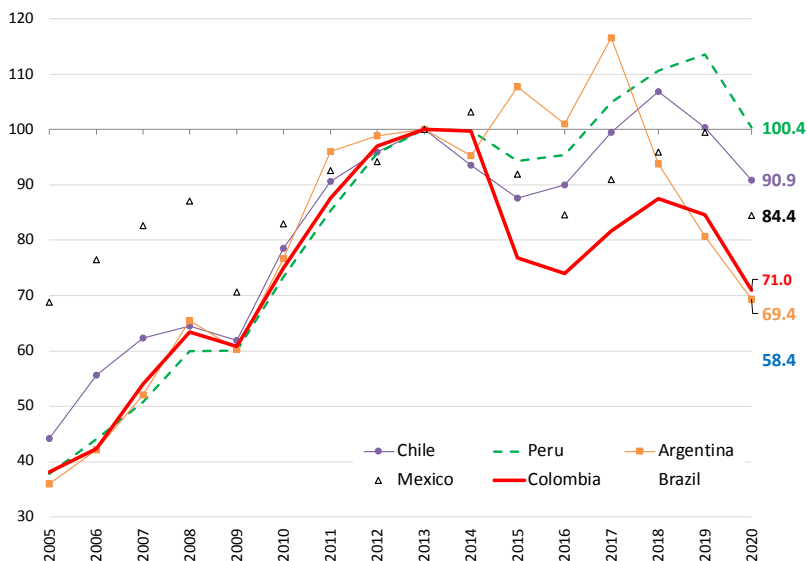
Figure 5. Colombian quarterly GDP (USD Millions)



Source: Dane, Central Bank, EConcept.

Figure 6 compares Colombian annual GDP in USD terms with that of other countries in the region. Since 2013, only Brazil and Argentina have fared worse than us among Latin America's large economies.

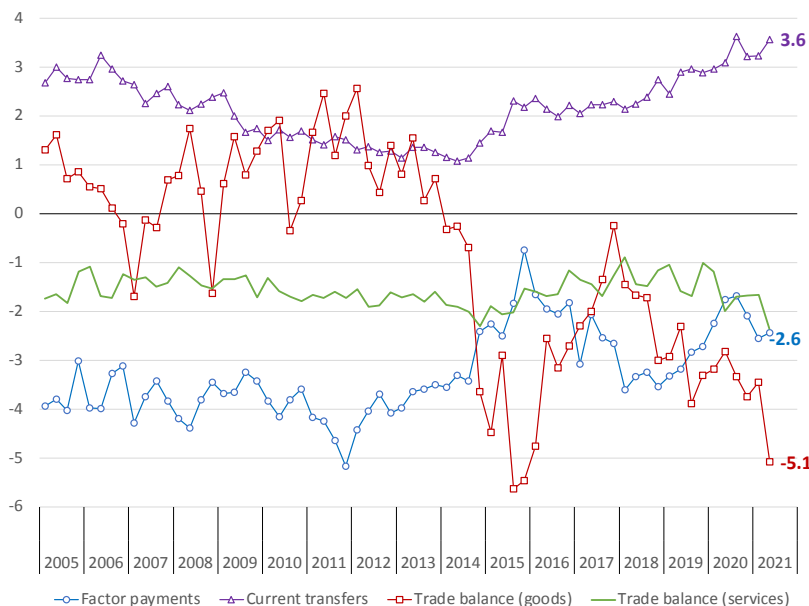
Figure 6. Annual GDP in USD – Selected LatAm economies GDP (index 2013 = 100)



Source: World Bank, EConcept.

Figure 7 shows the main components of the current account. Since 2014, the only component registering a surplus is current transfers, mainly explained by workers' remittances from abroad. This surplus is getting bigger and now stands at 3.6% of GDP. In the GDP section of this report, we mentioned that (i) consumption has been increasing (ii) investment has suffered, (iii) manufacturing has lost ground, and (iv) so has construction. To increasingly finance this situation with transfers from Colombians abroad should be a matter of concern, not to mention the (partially) non-registered revenues generated by the illegal economy, especially from drug trafficking and gold production by illegal groups.

Figure 7. Current account components (% of GDP)



Source: Dane, Central Bank, EConcept.

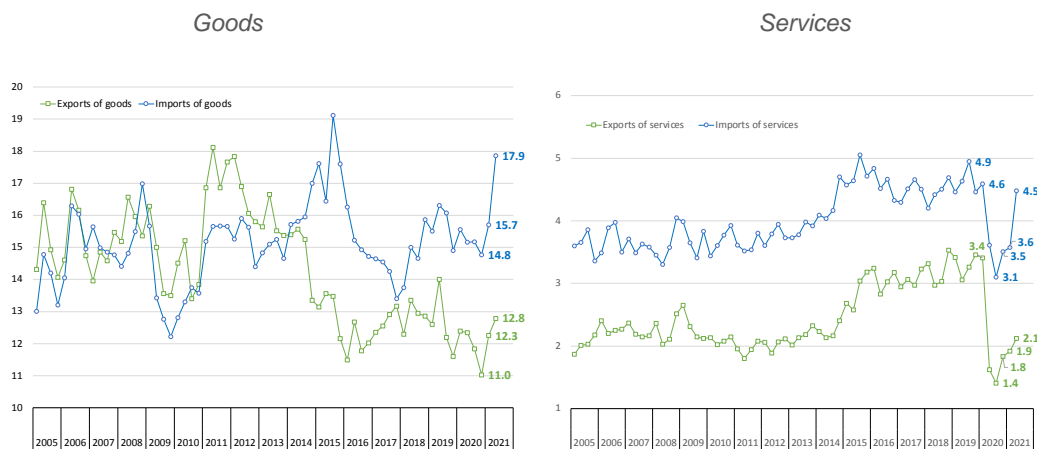
The remaining components of the current account, which together added up to a staggering 9.9% of GDP deficit, should be broken down into two groups. First, factor payments which, even though experienced an increasingly negative balance during the second half of last year, did not deteriorate

between Q1 and Q2 of this year. As a matter of fact, it registered a mild improvement this last quarter, closing with a deficit of 2.6% of GDP.

The problem lies, therefore, in the trade balance, both on the goods and services fronts. The former went from a deficit of 3.4 % of GDP in Q1 to a deficit of 5.1% in Q2; the latter moved from 1.7% to 2.6%.

Figure 8 breaks down these trade balances into their export and import components. The first panel shows that, even though exports of goods have recovered (from 11% of GDP in Q4 of last year to 12.8% in Q2 of this year), imports are gaining momentum much faster (from 14.8% of GDP in Q4-2020 to 17.9% of GDP this last quarter). The second panel shows a less worrisome but still undesirable evolution on the services front, again with a jump in imports not matched by exports.

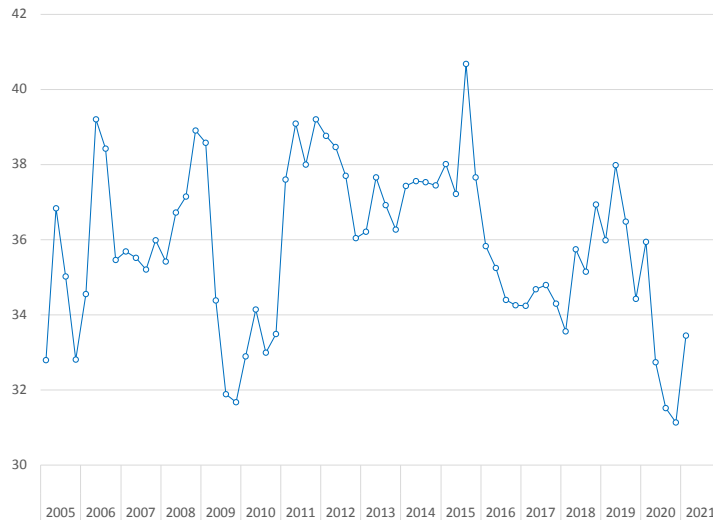
Figure 8. Trade balance components - goods and services (% of GDP)



Source: Dane, Central Bank, EConcept.

Bundling together goods and services, and adding up exports and imports to measure openness, Figure 9 shows that Colombia has become a more closed economy in the last few years.

Figure 9. Exports + imports of goods and services (% of GDP)



Source: Dane, EConcept.

Now let us turn to the financing side, i.e. the financial account of the balance of payments, where additional vulnerabilities are to be found. Between Q1 and Q2 of this year, incoming FDI fell by around \$0.4 billion, while portfolio inflows (including loans) went up by more than \$8 billion. According to the Central Bank, this considerable increase was mostly due to an increase in bond issuances abroad and to the increased participation of foreigners in the local TES market.

This considerable increase in liabilities was only partially compensated by a \$5.7 billion increase in external assets by both the private and public sector. According to the Central Bank, the private sector increased its deposits abroad, most likely to hedge against the weakening of the COP.

Figure 10. Financial account (USD Million)

	2020				2021	
	Q1	Q2	Q3	Q4	Q1	Q2
Financial Account (II+III+IV-I)	-1,887	-1,855	-1,785	-2,792	-2,779	-4,149
I. Liabilities (A+B)	3,933	6,658	3,535	8,944	421	8,048
A. FDI	3,313	1,291	767	2,271	2,483	2,092
B. Portfolio flows and loans	621	5,367	2,768	6,674	-2,062	5,955
i. Public sector	297	6,202	4,755	7,193	-83	5,528
ii. Private sector	324	-835	-1,987	-519	-1,979	427
II. Assets (A+B)	2,069	2,344	1,516	5,009	-2,227	3,453
A. FDI	1,238	-352	585	250	903	1,013
B. Other investments abroad	830	2,696	931	4,758	-3,130	2,530
i. Public sector	158	-948	-1,267	3,015	-3,307	156
ii. Private sector	672	3,644	2,198	1,743	177	2,374
III. Derivatives	149	-130	29	-561	-321	182
IV. Reserve assets	-171	2,590	205	1,705	190	174

Source: Central Bank.

In sum, Colombia is experiencing a widening of its external imbalances, in tandem with a weakening in the quality (composition) of the financing of said imbalances.

In light of these developments, the obvious policy response should be a mix of fiscal and monetary tightening, in spite of the effects these actions might have on economic activity; external imbalances can turn into financing crises. As fiscal tightening is going to materialize only through a protracted process, action on the monetary policy front cannot be postponed any further.

The recent spike in inflation and its effects on inflation expectations might be cited as a reason to start hiking rates as soon as September, but the external vulnerabilities are a far more pressing matter.

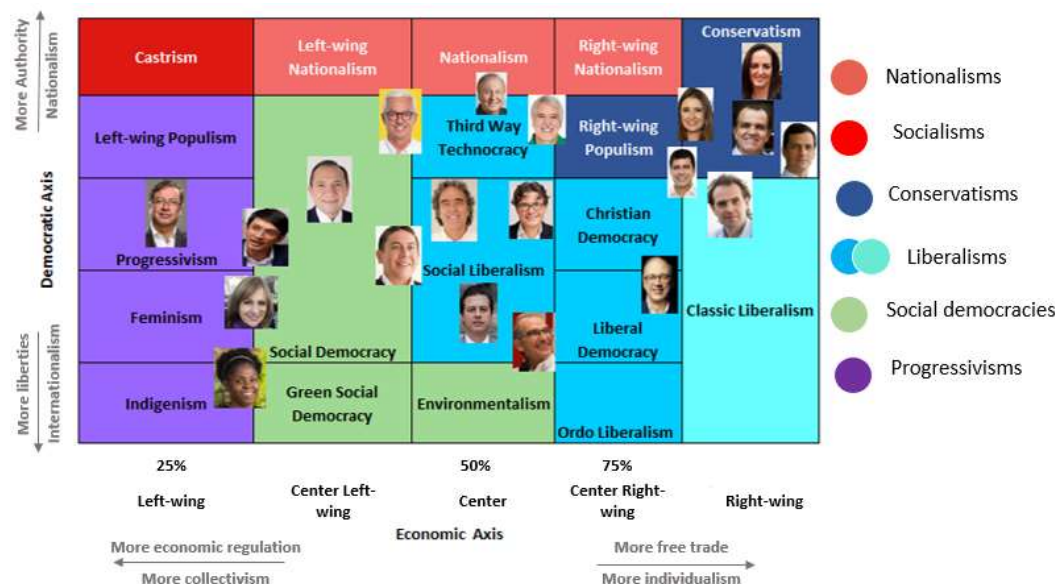
The Board of the Central Bank should keep political considerations at bay and take this difficult first step in the monetary policy normalization process. Justifying such a move amidst popular discontent with the current state of affairs is not going to be easy, but policy choices are sometimes tough to swallow.

Which political orientation will prevail?

Witnessing the results of recent elections in Latin America, everyone wonders what could happen in Colombia. We will reflect on this based on recent data and analysis. The first piece of information is shown in Figure 11, indicating a reasonable classification of relative positioning of potential candidates. These faces show people willing to be candidates, still waiting either to be chosen by their respective parties, or in the process of recollecting 580,620 valid signatures that would allow them to present their names independently of any political party.

The vertical axis is the alleged political/democratic orientation, and the horizontal axis is their apparent economic orientation. The number of people willing to participate is striking. All these political candidates have a long curriculum in the public sector, either as members of Congress, governors, mayors, ministers or public officials. In sum, there are at least 20 pre-candidates, of all types of political and economic orientations.

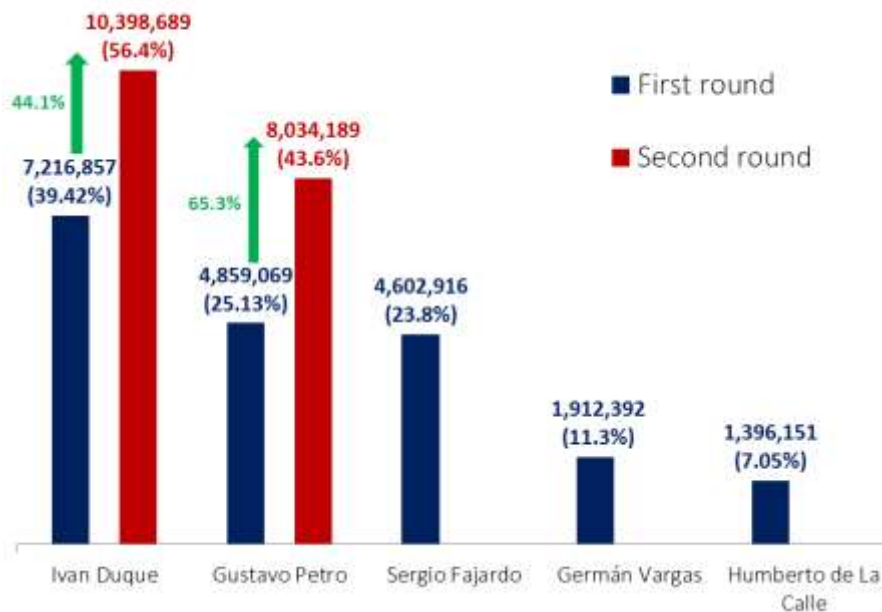
Figure 11. Ideological alignment of potential candidates



Source: Private consultancy and EConcept.

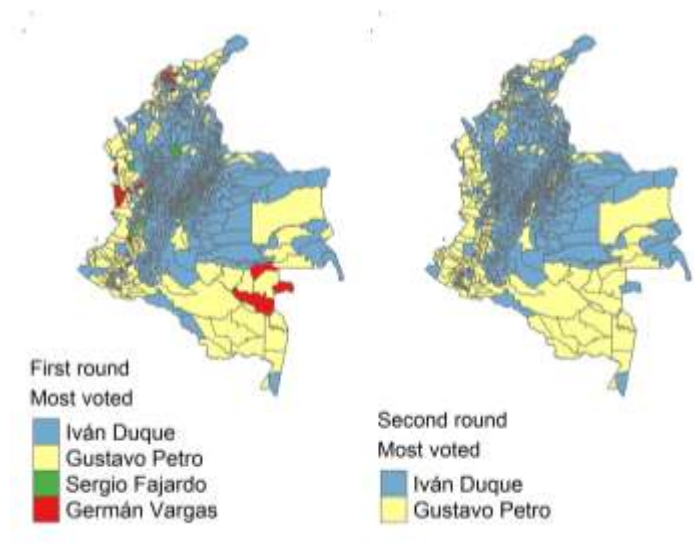
To assess who among them could be the next president, and which political orientation will prevail, let us look at the data. First, let us review the last presidential results, presented in Figures 12 and 13. They show that in the first round Duque, from the center right, surpassed Petro, from the left, by a margin of 14 pts; and in the second round by a margin of 12.8 pts. Both increased 17%-18% between the first and the second rounds. The electorate leaned to the right, in contrast to the 2014 election when Santos lost the first round by a margin of won by a margin of 4.5 pts, and won the second ne by a margin of 5 pts.

Figure 12. 2018 election results



Source: Registraduría. Own calculations.

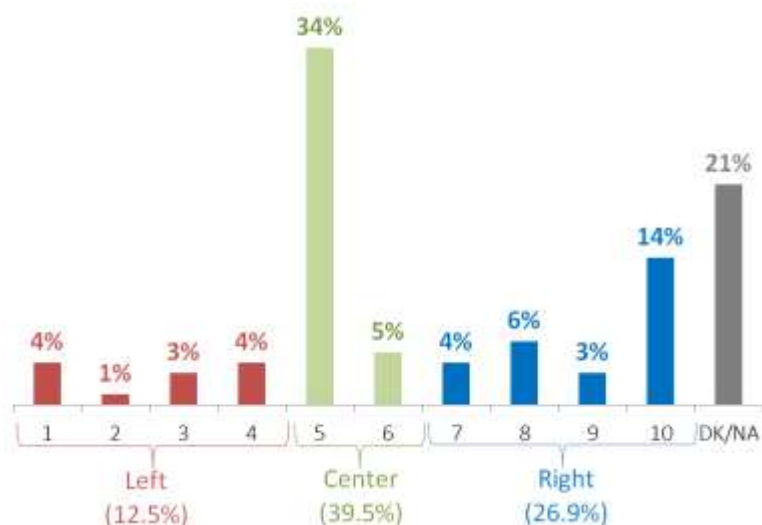
Figure 13. 2018 elections results



Source: Registraduría, Elecciones Colombia 2020. Own calculations.

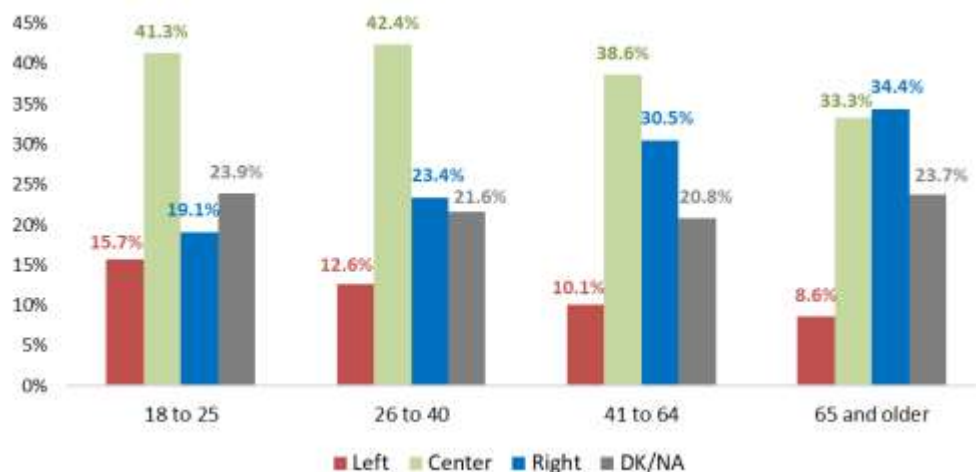
The most recent distribution of political orientation is presented in Figure 14. It indicates that 12.5% lean to the left, 26.9% to the right, and there is an ample center comprising nearly 40%. Looking at the political orientation by age, presented in Figure 15, the left declines as the population gets older. From 15.7% for those below 25 years, to half of that (8.5%) in those older than 65. Instead, the right-leaning increase steadily with age, from 19.1% for the youth to 34.4%. It would seem that Colombia's potential electorate is well seated in the center-right.

Figure 14. Ideological distribution of potential voters.



Source: Dane, ECP. Own calculations.

Figure 15. Ideological distribution of potential voters by age groups



Source: Private consultancy and EConcept.

The electoral process will, in our opinion, achieve a crucial definition in the March congressional elections. Political parties and candidates approved by signatures could participate in a sort of primaries, in which inter-party so called “consultas” will take place. Two scenarios seem most plausible. Currently in many countries the electorate is more fragmented, less disciplined, subject to myriad information, and hence prone to shift easily and to not align with traditional parties.

The two most likely scenarios are presented in Figures 16 and 17. The crucial difference is the number of consultas. if there are three consultas (scenario 1), it would be easier to forecast which could win in the first and second round of the presidential elections.

Figure 16. Scenario 1. 3 Primaries (Consultas)



Source: Private consultancy and EConcept.

Figure 17. Scenario 2. 4 Primaries (Consultas)



Source: Private consultancy and EConcept.

Indeed, Scenario 1 has the center-left divided and the right united, increasing the probability that a unified right could defeat the left in the first and second round of elections. Scenario 2 has the liberals splitting from the center left. They could embrace Alejandro Gaviria, a new pre-candidate who recently expressed his interest in participating. Would Gaviria help the Liberals to attract a more ample “pure-center” electorate, as well as attracting some of the young voters currently leaning towards Petro? If that were the case, it would debilitate simultaneously the other three boxes and preset an attractive alternative.

Nevertheless, Gaviria is the flavor of the month, and not yet the front runner. Nor is being president of Twitter, as Petro is, the same as winning the elections, just as being the president of the media was not enough for Vargas to win four years ago. There still a long time to go.

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	191	1,465,609.00	Operation
Perimetral de Oriente de Cundinamarca	152	1,647,776.11	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	1,300,234.03	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	2,574,127.19	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	Operation
Bucaramanga - Barrancabermeja - Yondó	152	2,691,392.44	Construction
Total	1,809	19,645,741.64	

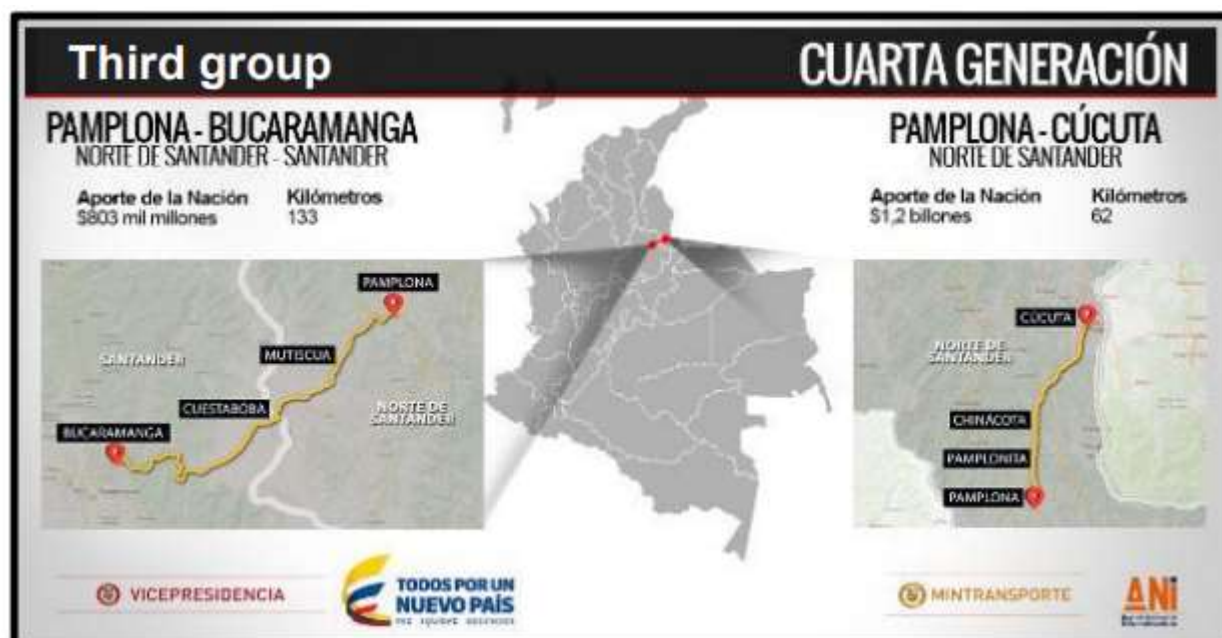
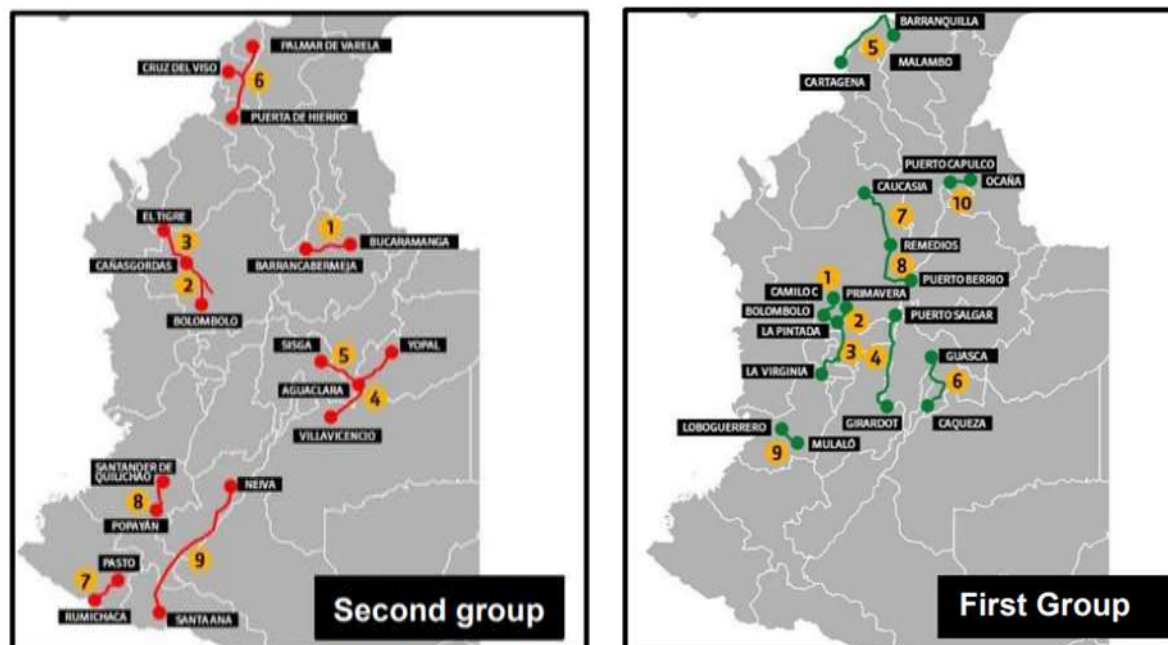
Source: National Planning Department, National Infrastructure Agency

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

Map of Fourth Generation (4G) Road Concessions Projects



Source: National Planning Department

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)	268	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	Type	Capacity (MW)	Operation Start Date
Termosolo 1	Thermoelectric	148	December 2023
Acacia 2	Wind	80	November 2022
Camelias	Wind	250	December 2023
Ipapure	Wind	201	September 2023
Carrizal	Wind	195	June 2023
Irraipa	Wind	99	June 2023
Chemesky	Wind	100	August 2023
Kuisa	wind	200	August 2023
Casa Eléctrica	Wind	180	August 2023
San Felipe	Solar	90	December 2022
Cartago	Solar	99	December 2022
Apotolorry	Wind	75	August 2023
Campano	Solar	99	December 2022
Termosolo 2	Thermoelectric	80	December 2022
Termo Rubiales	Thermoelectric	19	December 2021
Termo Jagüey	Thermoelectric	19	December 2021
Termoyopal G5	Thermoelectric	50	September 2020
Termoyopal G4	Thermoelectric	50	August 2020
Termoyopal G3	Thermoelectric	50	August 2020
El Tesorito	Thermoelectric	199	December 2022
Termocandelaria	Thermoelectric	252	November 2022

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

Source: UPME, Premilinar Plan de Expansión 2020-2034

Oil Exploration Projects for Colombia in 2021 (first quarter)

Exploration Projects	Status	Participants
Boranda Centro - 1	Under evaluation	Parex 50% (Operator) ECP 50%
Chimuelo-1	Under evaluation	ECP 100%
Flamencos-3	Under evaluation	ECP 100%

Source: Ecopetrol

Ecopetrol's Investment plan for 2020-2023

USD million	Investment 2021Q2	Investment 2021-2023 Projected	
Production	536	12,000	15,000
Exploration	48	9,000	11,000
Refining and Petrochemistry	70	1,200	1,400
Transport	0	780	960
Operation	-	-	-
Other	30	2,190	2,260
Total	684	12,000	15,000

Source: Ecopetrol

III. Others

- **Education:** Design, construction or rehabilitation, maintenance and operation of 8 schools in Soacha.

- **Capex:** USD 81.47 Million
- **Status:** On approvals.

- **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.

- **Sports:** structuring of a project that contemplates the design, modernization, adaptation, construction, provision, operation, maintenance and economic exploitation of the infrastructure that is required within the Center of High Performance Sports (CAR).
 - **Capex:** to define
 - **Status:** prefactibility

- **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), USD 57.2 Million (Duitama), USD 128.7 Million (Neiva).
 - **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:** Structured.

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

- **Health:** To conceive the Great Hospital Park of Engativá, which is a hospital infrastructure of international reference with the highest specialized technology for patient care, laboratories, as well as study and innovation that allow it to be researched.
 - **Capex:** To define
 - **Status:** Prefactibility

- **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 (Barrancabermeja) 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:** Structured
- 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 114.4 million.
 - **Status:** On approvals

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		3	33	36
Environment and tourism		1	3	4
Science, tech and innovation				
Commerce, Industry and tourism			2	2
Culture and sports		3	5	8
Public Buildings and Urban Renewal	2	8	49	59
Education		6	4	10
Justice		3	5	8
Mining and Energy		3	5	8
Health Care	1	4	2	7
Information and Communication Technologies		1	4	5
Transport	37	42	85	164
Housing		1	2	3
Total	40	79	203	322

Source: National Planning Department- RUAPP (July 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	881.2
	% change	3.0	2.1	1.4	2.7	3.3	-6.8	7.3
Nominal GDP								
In pesos	Trillions of current COP	804.7	863.8	920.5	987.8	1,061.1	1,002.6	1,124.5
	% change	5.5	7.3	6.6	7.3	7.4	-5.5	12.2
In dollars	Billions of current USD	293.5	282.7	311.9	334.1	323.4	269.2	303.3
	% change	-23.0	-3.7	10.3	7.1	-3.2	-16.7	12.6
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	4.6
Nominal exchange rate (average)	COP/USD	2,742	3,055	2,951	2,956	3,281	3,724	3,708
	% change	37.0	11.4	-3.4	0.2	11.0	13.5	-0.4
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	2.0	2.01
Current account balance	Billions of current USD	-18.6	-12.0	-10.3	-12.7	-13.6	-8.3	-14.0
	% of GDP	-6.3	-4.3	-3.3	-3.8	-4.2	-3.1	-4.6
Capital account balance	Billions of current USD	-18.2	-12.3	-9.6	-12.1	-12.9	-8.3	-14.0
	% of GDP	-6.2	-4.3	-3.1	-3.6	-4.0	-3.1	-4.6
Exports	Billions of current USD	36.0	31.8	38.0	41.9	39.8	31.0	40.5
	% change	-34.3	-11.8	19.7	10.2	-4.4	-21.4	30.6
Exports (goods and services)	Billions of current USD	47.0	42.8	49.3	54.9	52.7	38.9	44.3
	% change	-28.2	-9.0	15.3	11.3	-4.0	-26.1	13.8
Imports	Billions of current USD	51.6	42.8	44.0	48.9	50.3	41.2	48.9
	% change	-15.5	-17.0	2.6	11.3	2.7	-18.1	18.7
Imports (goods and services)	Billions of current USD	66.0	56.2	58.3	64.4	65.6	51.4	59.0
	% change	-15.1	-14.8	3.6	10.6	1.9	-21.7	14.8
Consolidated fiscal balance	% of GDP	-3.4	-2.2	-2.3	-2.2	-2.9	-7.9	N.A.
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