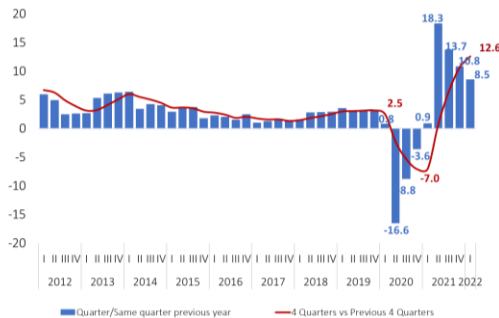
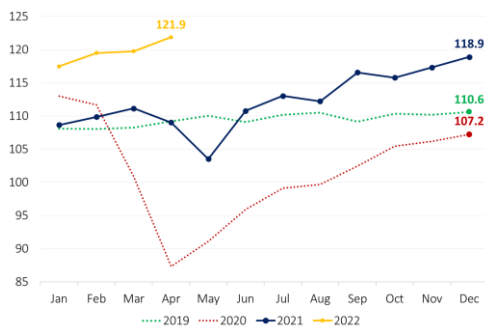


Figure 1. Quarterly GDP Growth (annual growth, %)



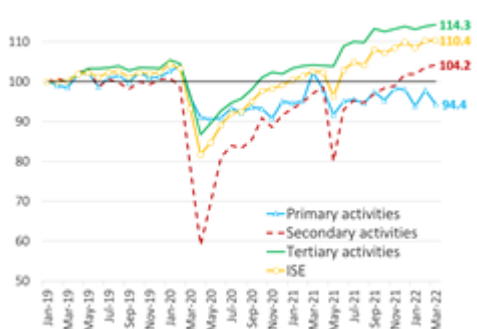
Source: DANE. Own Calculations.

Figure 2. Economy Tracking Indicator ISE (Seasonally adjusted)



Source: DANE. Own Calculations.

Figure 3. ISE by activities (base Jan 2019 = 100, Seasonally adjusted)



Source: DANE. Own Calculations.

Economic Activity

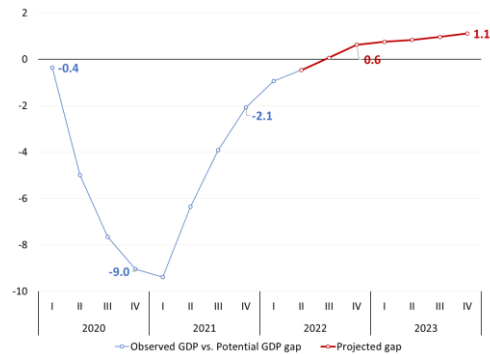
Q1-2022 exhibited a solid economic recovery, with GDP growing 8.5% (see Figure 1). In the supply side, commerce and manufacturing set the pace, growing 15.3% and 11.1%, respectively. Nevertheless, construction and oil & mining still had to return to pre-pandemic levels. On the demand side, household consumption -which accounted for 75.1% of GDP- increased 12% versus to the Q1-2021.

In 2022, the Economy Tracking Indicator -ISE, for its acronym in Spanish- reflected the good momentum of economic activity (see Figure 2). Nevertheless, performance has been heterogenous among activities (see Figure 3). Tertiary activities -ie. commerce and financial services- exceeded pre-pandemic levels. On the other hand, secondary activities -manufacturing and construction- struggled, mainly due to the slow pace in the construction sector. Finally, primary activities -agri-business and oil and mining- had not yet recovered from the pandemic shock as the extraction of oil and coal have not gained enough momentum.

2022-Q1 growth led the economy to close the gap between real and potential GDP (see Figure 4). Since 2021, this “output” gap has been steadily narrowing and we expect it to be fully closed by the end of 2022.

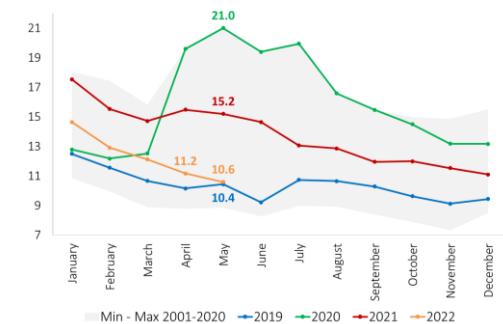
Finally, the 2022-Q1 unemployment rate closed at 11.2%, improving by 4.3pp versus 2021-Q1 record level. During 2022 Colombia recovered all jobs lost during the pandemic. Up to May, the unemployment rate stood at 10.6%, close to the May 2019 level (see Figure 5).

Figure 4. GDP Gap: observed vs Potential GDP gap (%)



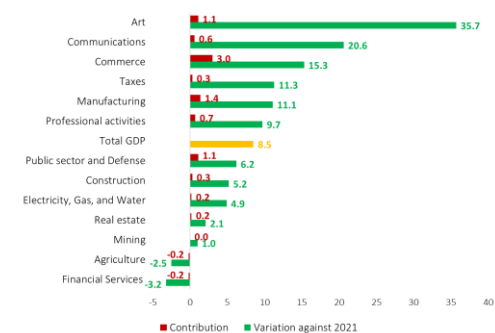
Source: DANE, Own calculations.

Figure 5. National Unemployment Rate



Source: DANE. Own Calculations

Figure 6. Annual growth (%) vs. Contribution (pp)



Source: DANE. Own Calculations

GDP, the supply side

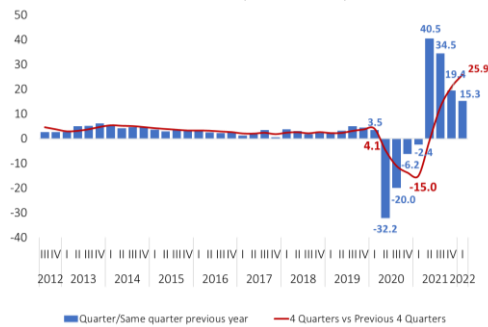
On the supply side, 2022-Q1 performance was heterogeneous across sectors: commerce and manufacturing contributed the most to overall growth, 3 percentage points and 1.4pp, respectively. In contrast, agriculture and financial services were the only activities with a negative contribution, each with -0.2pp (see Figure 6).

Commerce registered an annual growth of 15.3% (see Figure 7). Accommodation and food services had the largest increase (31%), followed by transportation and warehousing (19.8%). In line with commerce performance, retail sail index also stood above pre-pandemic levels as it began the quarter at 109.6pts and closed March in 121.3pts (see Figure 8).

Manufacturing annual growth was of 15.3% (see Figure 9). This led the sector to stand 15.6% above pre-pandemic levels. None of manufacturing subsectors decreased in 2022-Q1, with wood processing activities (27.6%) and textile manufacturing (25.6%) showing the largest expansions. Similarly, industrial production exceeded 2019 levels (see Figure 10). Industrial production index closed at 9.6% higher than 2019 performance.

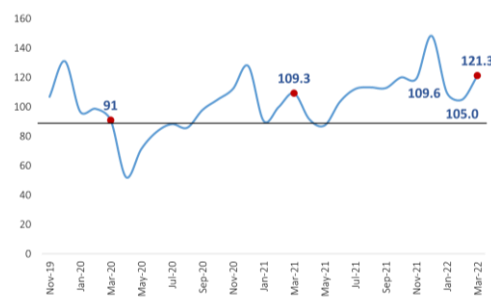
During 2022 Q1 the commercial and industrial confidence index stood above their historical averages (see Figure 11). However, commercial confidence lost 4pts during the quarter. The latter is explained by a growth of 10 points in inventories from January to March. On the other hand, during the quarter, industrial confidence grew 1.9pts due to an 4pts increase in the current order volume.

Figure 7. Commerce: 18.4% of GDP (annual growth, %)



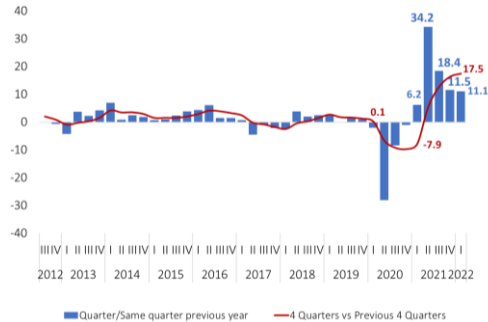
Source: DANE. Own Calculations.

Figure 8. Retail sales index (Base 2019=100)



Source: DANE. Own Calculations.

Figure 9. Manufacturing: 11.8% of GDP (annual growth, %)



Source: DANE. Own Calculations.

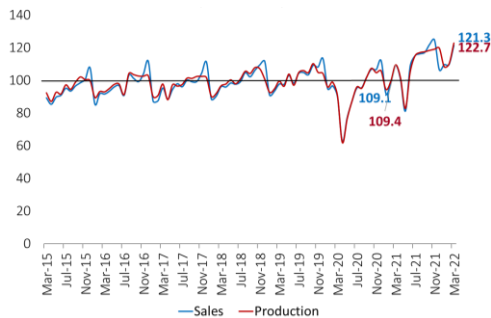
Arts and entertainment was hardly hit by the pandemic and grew by 35.7%. According to DANE, the pandemic brought more people to online games and bets. In 2022-Q1 gambling activities grew by 57% and represented 42% of the sector's GDP.

Only construction and mining are still below pre-pandemic levels. In the case of construction, even though it grew 5.2 % annually, when compared with 2019, it decreased by 16.5% (see Figure 12). This result is driven by the fact that, compared to 2021, the construction of highways and railways contracted 4.9%.

Agriculture and financial services decreased 2.5% and 3.2%, respectively, in contrast to 2021-Q1. In the case of agriculture its performance is explained by the decline in farming (-0.7%) and agricultural production (-3.0%; see Figure 13). Additionally, coffee crops drop by 19% because of "La Niña" phenomenon. On the other hand, the financial sector result was driven by the one-time payment made by insurance companies to Hidroituango last year.

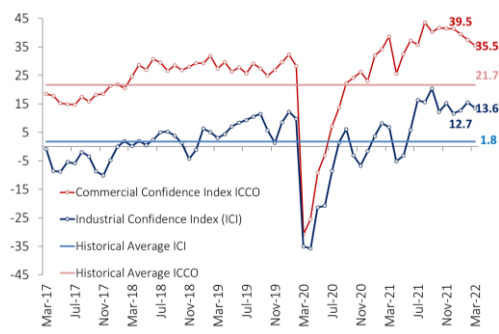
All in all, the first semester of the year showed two sectors that decreased in comparison to last year level: Agriculture and Finance Services. In the same way, two sectors lag against 2019: Construction and Mining. However, the economic performance highlights came from commerce, manufacturing, and arts. The latter made it possible for quarterly GDP to exceed analysts' expectations.

Figure 10. Industrial Production and Sales Index (2019 = 100)



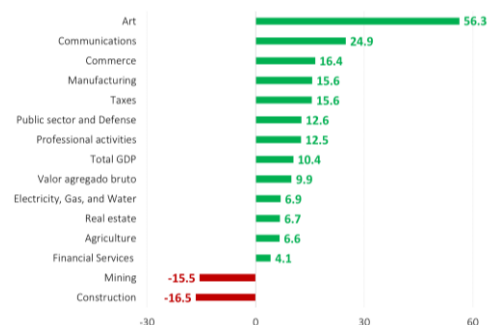
Source: DANE. Own Calculations.

Figure 11. Commercial and Industrial Confidence Index



Source: DANE. Own Calculations.

Figure 12. Variation against same quarter of 2019 (%)



Source: DANE. Own Calculations

GDP, the demand side

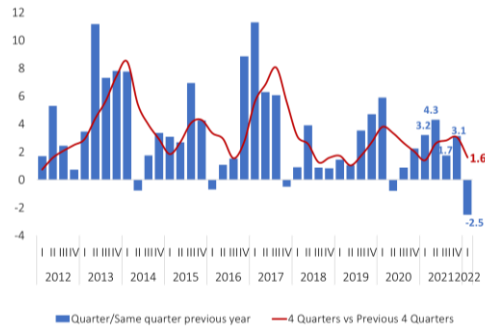
In 2022-Q1 household consumption grew by 12.2% annually (see Figure 14). This result is explained by the 34.3% growth in consumption of semi-durable goods. According to DANE, this impulse of semi-durable goods is given by the incentives of VAT-free days and a sequence of discounts that took place during first quarter of 2022. Non-durable goods growth (4.3%) was lower than semi-durable due to persistent food inflation. In addition, there was a 12.2% expansion on durable goods explained by the increase in demand for vehicles.

Consumer Confidence decreased 10.8pts during Q1 and stood at -17.8 (see Figure 15). Q1 closed with consumer index almost 25 points below its historical average.

Government consumption, which accounted for 13.2% of GDP in Q1, grew 8.6% (see Figure 16). Additionally, gross fixed capital formation increased by 11% in Q1 in contrast to the same quarter of last year. This result is explained by the annual variation of 32.3% in machinery and the 15.5% expansion of intellectual property products. In contrast, housing had a negative growth of -2%.

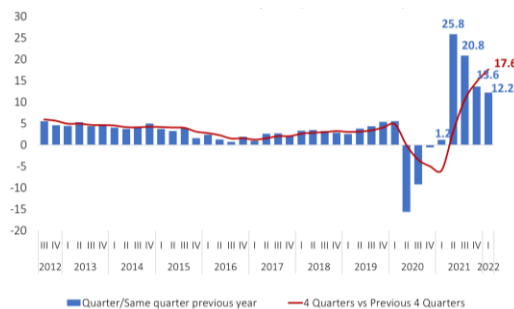
In Q1 exports represented 13.8% of GDP and showed an annual increase of 16.8% (see Figure 17). On the other hand, imports represented 26.7% of GDP and had an annual increase of 38.9% (see Figure 18). The latter led the trade deficit to close Q1 at USD 1,520 million, representing an increase of 22.5% compared to Q1 2021.

Figure 13. Agriculture: 6.1% of GDP (annual growth, %)



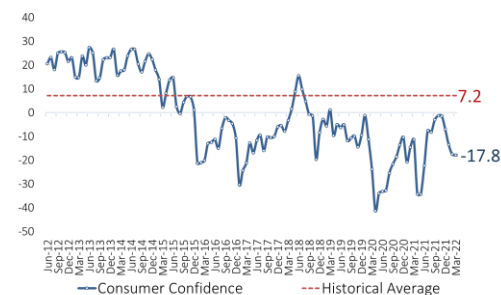
Source: DANE. Own Calculations.

Figure 14. Household Consumption: 75.8% of GDP (annual growth, %)



Source: DANE. Own Calculations.

Figure 15. Consumer Confidence Index



Source: Fedesarrollo. Own Calculations.

Outlook

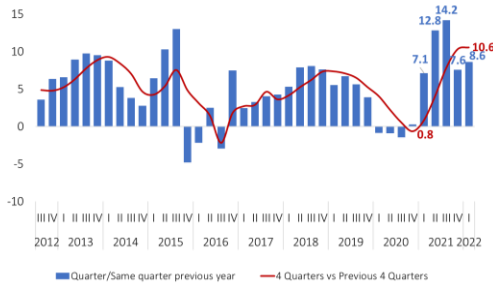
The first quarter of 2022 maintained the momentum experienced during 2021. For the remaining of 2022, Gustavo Petro's tax reform, economic and political uncertainty, inflation, and monetary policy will be the core concerns.

After a close fight with Rodolfo Hernández, Gustavo Petro will be Colombia's next president. Between the first round and the run-off, the cartography of electoral results remained the same. The big change between the two voting rounds was voter participation and the fact that Hernández was not able to get all "Fico" sympathizers to vote for him. Additional voters went, for the most part, to Petro.

When analyzing the cartography of electoral results, it becomes evident that the poorest parts of Colombia gave Petro the presidency. Changing the fate of voters in these regions, who are putting their faith in Petro, could require a lot of spending (see *The cartography of poverty, electoral results, and spending pressures*).

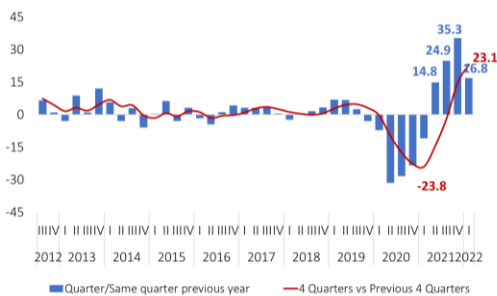
Finance Minister-to-be José Antonio Ocampo, while he was at Sergio Fajardo's campaign, estimated that Petro's spending package could represent a staggering annual fiscal cost of 11% of GDP. Hence, Petro's tax reform—which aims to collect 5% of GDP—will be the key event in 2022. Ocampo stressed very clearly the point that the revenue will come from sources different from VAT or income taxes to the "middle class". Instead, corporations and well-to-do individuals, i.e., the existing tax base, are the ones supposed to pay for all of it; including, of course, the land taxes, although they don't accrue to the National Government. No matter how hard we

Figure 16. Government Consumption: 13.2% of GDP (annual growth, %)



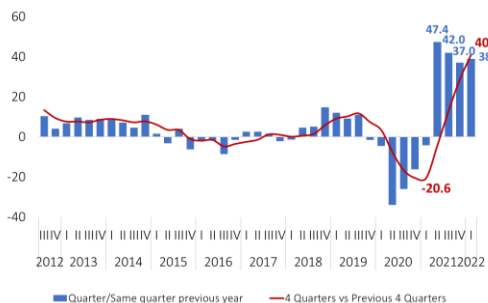
Source: DANE. Own Calculations

Figure 17. Total exports: 13.8% of GDP (annual growth, %)



Source: DANE. Own calculations.

Figure 18. Total imports: 26.7% of GDP (annual growth, %)



Source: DANE. Own calculations.

try, we cannot come up with a mix yielding 5% of GDP in revenues, from this existing tax base, on a sustainable basis.

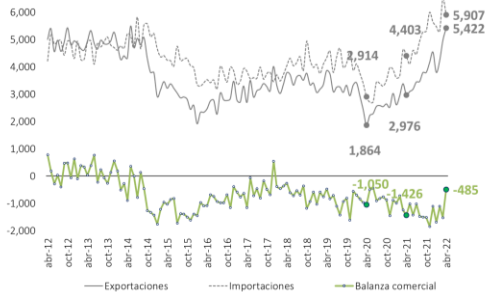
To complicate the analysis, according to the last government's Medium-Term Fiscal Framework (MTFF), in coming years national income will rely considerably on oil revenues -to which the new administration is somewhat allergic. Petro has repeatedly claimed that he will ban new contracts for oil exploration and reduce oil exports to guarantee national supply. (see more at our article *Between candor and carelessness*)

Uncertainty will remain until the scope of Petro's tax reform and his true plans for the oil sector are known. For now, the markets are taking him very seriously. Figure 20 shows an index for Latam 6 exchange rates. Even though all countries have been affected by global risk, Colombia -along with Argentina and Chile- has been hit the hardest by its political juncture. Regarding the oil sector, Ecopetrol's share price shrunk by 11% after Petro's victory (see Figure 21).

Other Colombia's challenges include annual inflation which in June came at 9.7%, the highest in more than 20 years (see Figure 22). Central Bank's Board increased the intervention rate in 150 basic points (the highest rise in history) to have a stronger control over prices. Things might be taking a turn for the better (see: *Did inflation peak in June? What are the implications for monetary policy?*). We estimate that inflation will peak in June and close 2022 close to 9%, with the intervention rate standing between 8.5% - 9.0%.

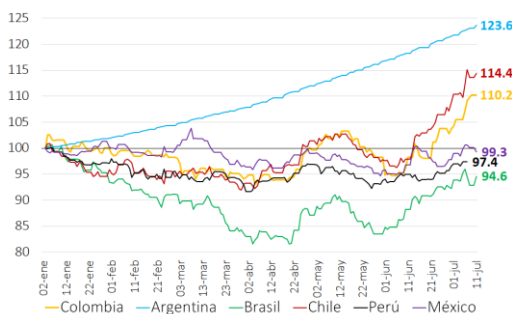
Finally, electricity demand, a good estimator of economic activity, has been performing above pre-pandemic levels (see Figure 23).

Figure 19. Trade balance (USD millions)



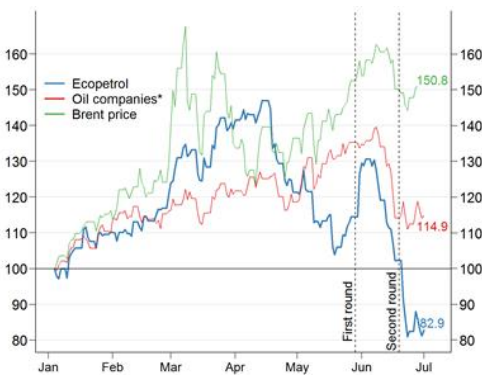
Source: DANE. Own calculations.

Figure 20. Latam 6 exchange rate index (base January 03 = 100)



Source: Central Bank of each country. Own calculations.

Figure 21. Oil industry share price index (%)

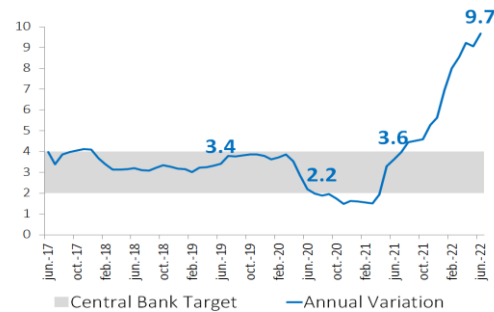


Source: Each company financial report, Fred. Own calculations.

As a result, we expect GDP to grow above 10% in Q2 and close 2022 with an increase of 6.25%.

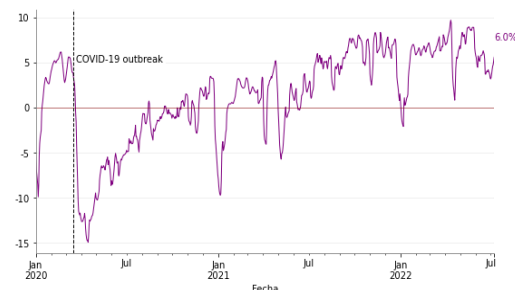
All in all, even though the economy is likely to continue growing at a good pace during 2022, uncertainty will be the protagonist in the coming months. Keeping an eye on Petro's tax reform and his vision of the energetic sector will be crucial. We are not optimistic.

Figure 22. Total annual inflation (%)



Source: DANE. Own calculations

Figure 23. Electricity demand (7-day moving average), data as of July 09 2022 (Variation against pre-pandemic levels, 2019 demand mean)



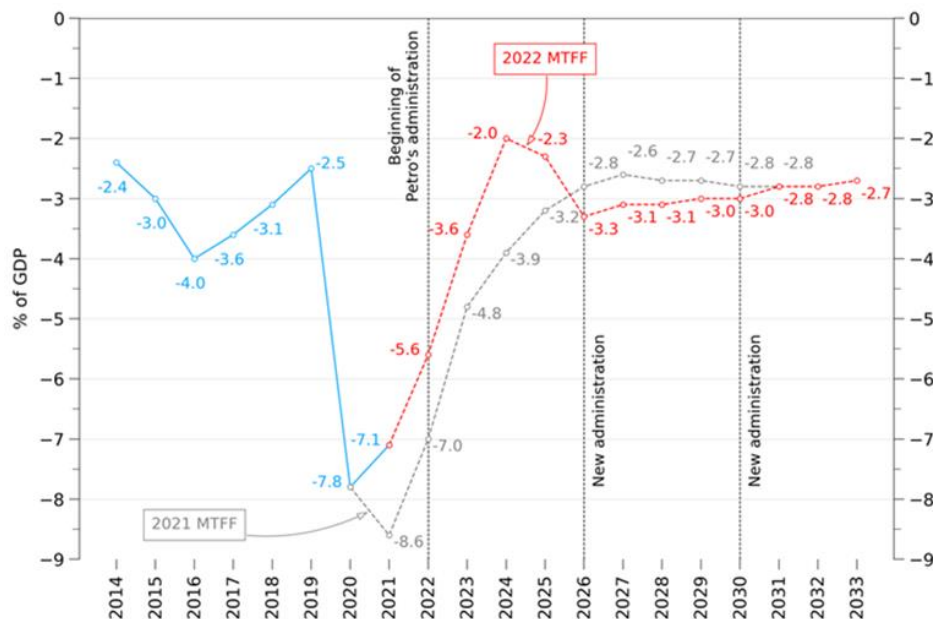
Source: XM. Own calculations

Between candor and carelessness

The Duque administration submitted to Congress its last Medium-Term Fiscal Framework (MTFF). A few days later, Gustavo Petro was elected president for the 2022-2026 term. How does the fiscal blueprint the incumbent is leaving play into the entrant's fiscal strategy?

Let us begin by saying that the story of the 2022 MTFF is quite different from that of its 2021 counterpart; both were made and submitted to Congress, mind you, under current Finance Minister José Manuel Restrepo and, even though Restrepo's tax reform was approved a couple of months after the 2021 MTFF was presented, the latter already included the reform's expected revenue. As Figure 1 shows, the National Central Government (NCG) deficit looks much, much better under the 2022 MTFF. Not only did the 2021 NCG deficit result come below expectations (8.6% of GDP v. 7.2%), but the outlook going forward has also improved substantially.

Figure 1. National Central Government balance (% of GDP) – 2022 MTFF v. 2021 MTFF

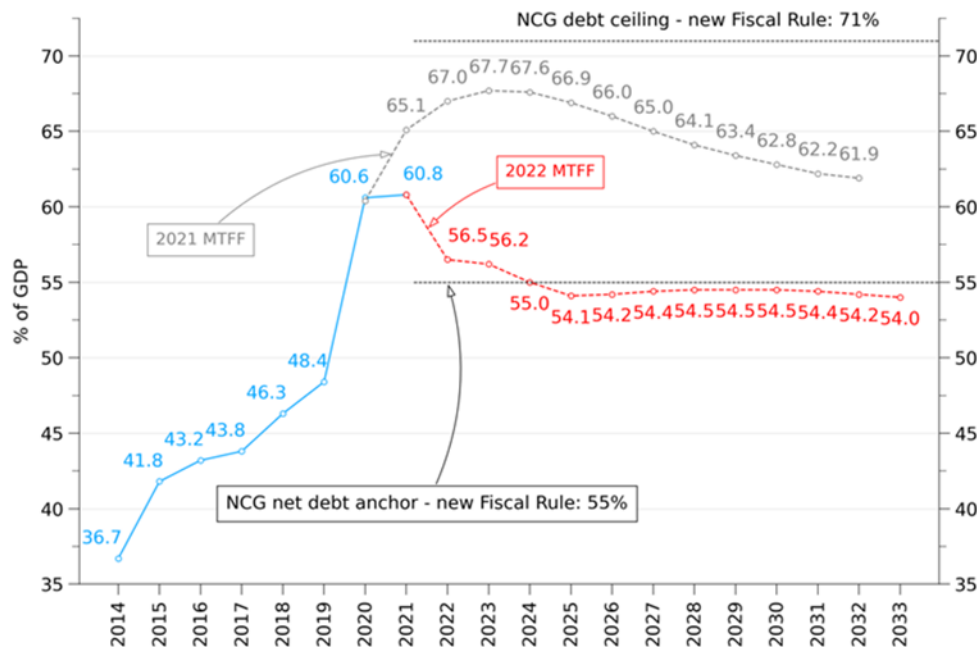


Source: Finance Ministry, EConcept.

Indeed, the deficit expected for this year is no longer 7% (2021 MTFF) but 5.6% (2022 MTFF), and the 2023 deficit falls from 4.8% to 3.6%. Then, in 2024 and 2025, comes the rosier part of the picture: deficits of 2% and 2.3%, not seen at the NCG level since 1994. There are also differences after 2026, after Petro's term, but convergence to deficits of around 2.8% takes place anyway -- not surprising, since the new fiscal rule contains a net debt anchor that, once reached, requires deficits around these levels.

If the deficit picture looks rosier, wait until you see the debt outlook, shown in Figure 2. Net debt does not continue to grow until 2023, reaching alarming levels of close to 68% of GDP, but instead should fall below 60% this year, and converge to the fiscal rule's 55% before Petro's term is up.

Figure 2. National Central Government net debt (% of GDP) – 2022 MTFF v. 2021 MTFF



Source: Finance Ministry, EConcept.

These are substantial changes indeed, and one cannot help but wonder, since the grim outlook of the 2021 MTFF was key in taking investment grade away from Colombia's sovereign debt, whether such an alarming outlook was worth it. Either way, a key question resulting from Figures 1 and 2 is

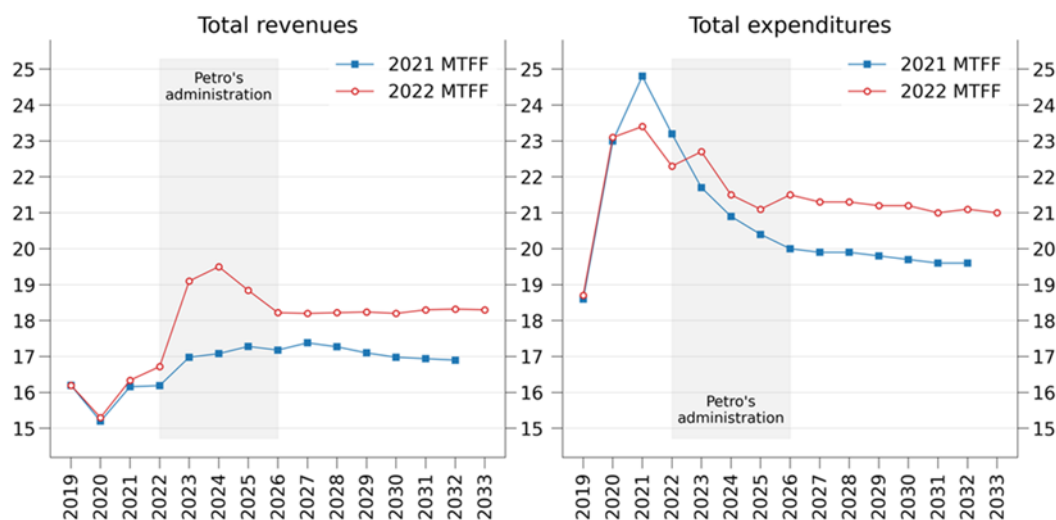
in order: what happened between the MTFFs of 2021 and 2022 that results in such a bright future going forward? Part of the answer lies in Figure 3.

The left panel shows how total NCG revenues have changed in the 2021 and 2022 MTFFs. There is, to begin with, a substantial difference during the 2022-2026 period (Petro's term) but going farther into the future, the difference is noticeable too. More on this difference below.

The right panel in Figure 3 compares NCG spending. Again, there is an important difference and, again, the 2022 MTFF levels are higher than in its predecessor's. The difference starts to grow next year and reaches its maximum in the last year of Petro's term.

Looking at both panels, the message is clear: there is so much additional revenue that more spending can be accommodated, and, at the same time, the deficit can be reduced much faster (and the debt too). The message could not be more different than last year's. Again, obvious questions arise: what is behind the improvement in revenues, and why does spending increase? Answering them is what comes next.

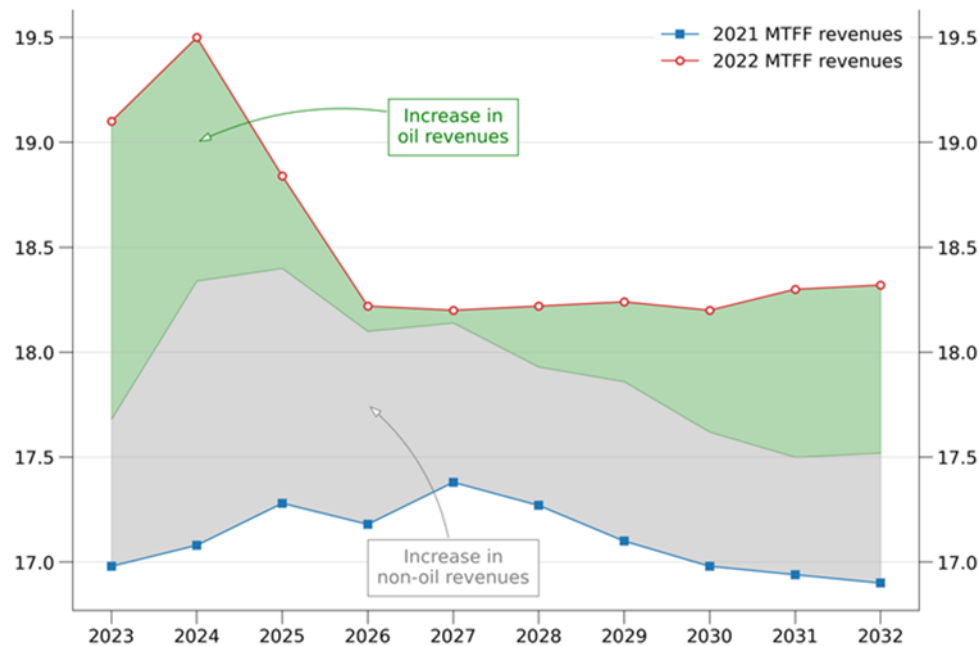
Figure 3. National Central Government revenues and expenditures (% of GDP)
2022 MTFF v. 2021 MTFF



Source: Finance Ministry, EConcept.

On the revenue side, it is relevant to breakdown the increase in revenues into non-oil and oil sources (Figure 4). The former result from the impact of higher recent GDP growth on the tax base, and from assumed improvements on tax administration efforts by Dian.

Figure 4. National Central Government revenues (% of GDP) – 2022 MTFF v. 2021 MTFF



Source: Finance Ministry, EConcept.

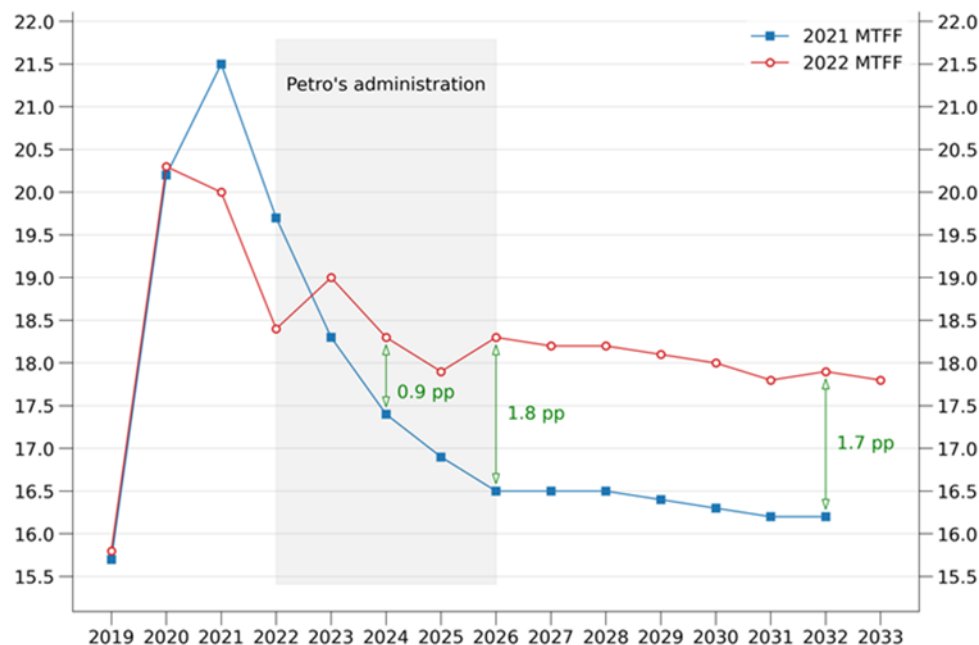
The latter, on the other hand, result from (i) a higher international oil price path and, according to our discussions with MinFin officials, (ii) a more optimistic production scenario in the medium- and long-term, resulting from assuming, as opposed that what had been assumed in previous MTFF iterations, that investments in oil exploration continue and production does not suffer as much (the 2022 MTFF assumes it goes from 755 kbpd this year to 855 kbpd in 2024, then falls to 710 kbpd in 2026 but, as a result of the investments mentioned above, stays at that level until the end of the forecast horizon).

Figure 4 promises substantial additional non-oil revenues in the new MTFF (as much as 1.3% of GDP in 2024). On the oil front, excess revenues reach around 1.3% of GDP in 2023 and 2024.

Considering this outlook, a central tenet of the 2021 MTFF is no longer present in this year's edition: the need for a new tax reform during the, now, Petro administration of at least 0.6% of GDP. Awash with money according to the 2022 MTFF, the NCG does not need to do anything on the revenue front other than make Dian deliver on its tax administration improvement promises.

Let us now move to the spending part, leaving aside interest payments and focusing on primary spending instead (Figure 5). The increases between the 2021 and the 2022 MTFFs are gradual, reaching 0.9 pp of GDP and reaching, at the end of the Petro administration, a full 1.8 pp of GDP. This is due in large part to the automatic (and constitutional) increase in transfers of the NCG to sub-national administrations due to higher NCG revenues, which means more money going to primary and secondary education, health, and water and sanitation.

Figure 5. National Central Government primary spending (% of GDP) – 2022 MTFF v. 2021 MTFF



Source: Finance Ministry, EConcept.

Even though primary spending increases by non-negligible amounts, a key piece of the puzzle is lacking: the 2022 MTFF assumes that COP 8.8 trillion (0.8% of GDP) worth of pandemic related subsidies, due to expire this year, go to zero from 2023 onward. This is yet another brick going to the rosy mural built by the MTFF. Not only is social spending as a share of total spending forbidden by the Constitution to go down over time, but it would be politically indigestible to go ahead and announce such a cut. Count on a large chunk of this spending to continue in the years to come.

So, in sum, the new MTFF expects more primary spending, which should be even larger due to the subsidies just mentioned, but banks on unpredictable oil revenues to provide a big chunk of the additional revenue of the next 10 years. Has Colombia not learned the hard way (namely, through what happened in 2014-2016) the perils of a strategy of higher permanent spending financed by unstable revenues? To add insult to injury, no further improvements to tax code are recommended.

To continue with the analysis, and complicate it further, now superimpose the fiscal strategy of Petro to all of what was said above. This strategy consists, in principle (later on we clarify this caveat), of an ambitious tax reform coupled with an even more ambitious spending package. Strangely enough, the now designated Finance Minister of the Petro administration, José Antonio Ocampo, did some studious calculations, when he was part of the Sergio Fajardo presidential campaign, of the cost of Petro's spending package. Table 1 show the results of Ocampo's estimates, which together amount to a staggering 11% of GDP.

Table 1. Annual fiscal cost of Petro's spending proposal, according to José Antonio Ocampo's calculations while in Sergio Fajardo's campaign

COP trillions	% GDP	Proposal
18	1.5	COP 500.000/month for elderly adults
34	2.9	COP 500.000/month for mothers heads of households
5	0.4	10.000 at-home doctors
8	0.7	Minimum vital water requirement
6.5	0.6	Reduction of labor contributions
58	4.9	Government as employer of last resort
129.5	11.0	Total

Source: Sergio Fajardo's campaign, Dane, EConcept.

In a recent interview with the newspaper El Tiempo, Alfonso Prada, director of Petro's campaign and very likely the next Interior Minister, added to the spending package. He said that the government should be an active buyer of unproductive land to distribute to peasants across the country. Even though this is part of the peace agreement with FARC, Prada was clear in saying that the land will not come from wastelands or from lands already owned by the government. The cost of this is uncertain.

How to pay for (i) Table 1, for (ii) the continuation of subsidies due to expire this year, and for (iii) these land purchases? During the presidential campaign, Petro talked repeatedly about a gargantuan reform yielding 5% of GDP. Right after Election Day, Ricardo Bonilla, a member of Petro's economic team, painted the broad picture: 1% from higher income taxes to individuals, an additional 1% from a wealth tax for individuals with a net worth in excess of COP 1 billion, 2% from elimination corporate tax rate loopholes and, finally, 1% from land taxation (which, incidentally, does not accrue to the NCG).

A few days later, appalled by the size of the tax package, former Finance Minister Juan Camilo Restrepo wrote an op-ed piece saying that, fortunately, Bonilla had realized that 5% of GDP was preposterous and that the Petro administration had decided to back down to a much more reasonable reform.

Who knows where Restrepo got this information from, given that Finance Minister-to-be Ocampo, gave an interview in El Tiempo last weekend and said that a 5% of GDP was, indeed, the new administration's target; when asked about an alternative that has been circulating, of a reform of more than 7% of GDP, Ocampo dismissed it as non-viable. He stressed very clearly the point that the revenue will come from sources different from VAT or income taxes to the "middle class." Instead, corporations and well-to-do individuals, i.e. the existing tax base, are the ones supposed to pay for all of it, including, of course, the land taxes. No matter how hard we try, we cannot come up with a mix yielding 5% of GDP in revenues, from this existing tax base, on a sustainable basis.

Will all the spending mentioned above be implemented, irrespective of the size of the tax reform that can pass in Congress? Fortunately, Ocampo was clear in saying that spending promises will have to be submitted to a fiscal reality test, namely their consistency with the fiscal rule. We very much want to interpret that if, for example, the tax reform approved yields 1.5% of GDP, the fiscal rule will dictate how much additional spending can be accommodated. There is an alternative way to interpret this, however: given the size of the approved tax reform, the fiscal rule will be modified to accommodate the spending strategy.

Ocampo's appointment was well received. We are slightly less optimistic. His ability to juggle revenues, spending and the fiscal rule will be put to an extreme test. The MTFE relies too much on oil revenues, to which the incoming administration is somewhat allergic, and gives the idea that any new effort on the revenue front can be fully spent. As a result of this, Ocampo will definitely face more spending pressures than any of his predecessors; pressures coming from the long list made above, to which we have to add, by the way, fuel subsidies (and, eventually, a plan to use the budget to buy coal produced by small scale miners in the interior regions of Boyacá, Cundinamarca and

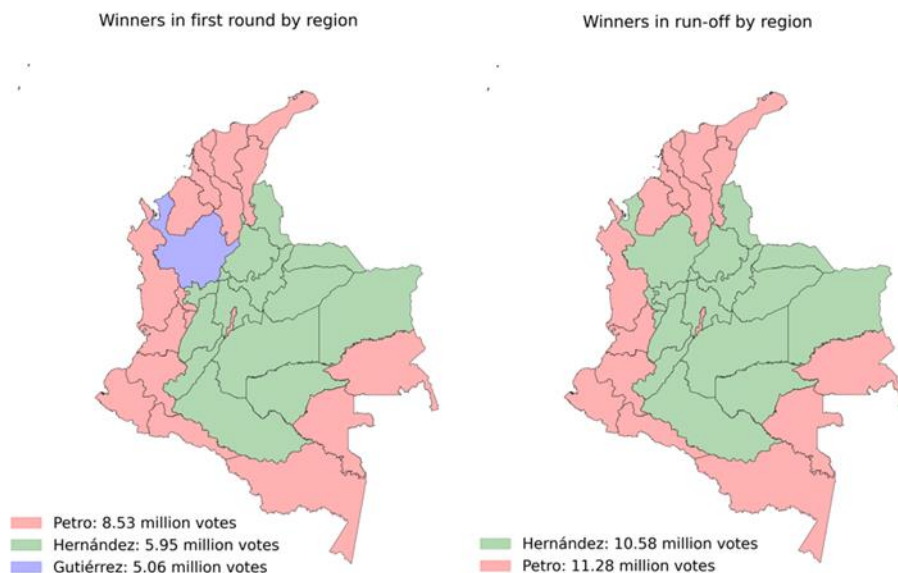
Santander). When the tax reform falls short, way short, of the intended 5% of GDP target, he might end up being in over his head.

On leave from Columbia University for an undisclosed period, Ocampo will probably not be Finance Minister for the duration. Who will, then, face, the spending onslaught?

The cartography of poverty, electoral results, and spending pressures

Between the first round and the run-off, the cartography of electoral results did not change. The regions controlled by Petro continued to vote for him in the run-off, while Rodolfo Hernández maintained control over those that voted for him and took over Antioquia, where Federico “Fico” Gutiérrez had won in the first round (Figure 6).

Figure 6. Winners by region in the first round and in the run-off



Source: Registraduría Nacional, EConcept.

The big change between the two voting rounds was participation and also the fact that Hernández was not able to get all “Fico” sympathizers to vote for him; additional voters went, for the most part, to Petro. In some of the areas where Petro came out the winner, especially in the Pacific coast, Petro managed to crush Hernández, as Figure 7 shows in the left panel.

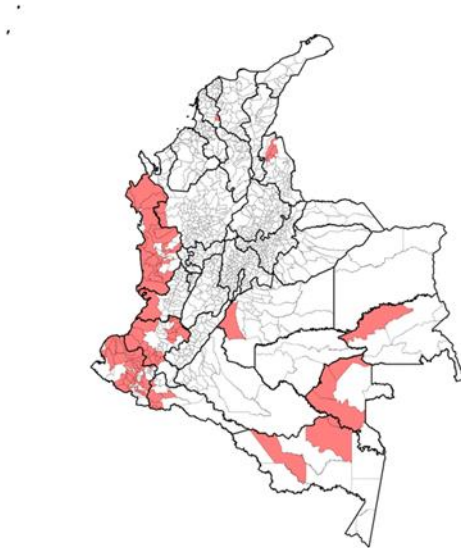
The right panel in Figure 7 shows multi-dimensional poverty computed by Dane for 2021, where darker reds indicate a higher incidence of poverty (the darkest red indicates an incidence 75% of more). If one compares the three previous maps with this one, it becomes painfully evident that the poorest parts of Colombia gave Petro the presidency. One could superimpose a map of violence and of illicit activities to all of this; the coincidences would remain in place.

The voice of voters in faraway regions spoke loud and clear, and they expect the Petro administration to deliver on many fronts: roads, health, education, water and sanitation, peace, credit; in short, opportunities. This means, of course, public spending. Funded by the municipalities, funded by the departamentos. To some extent, probably, but the bulk of the bill will accrue to the national government.

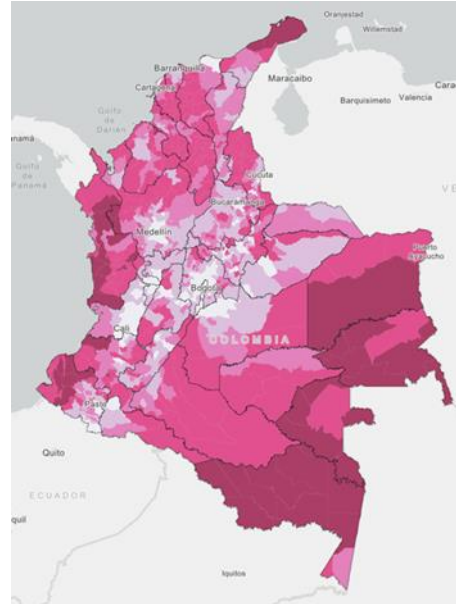
Delivering public goods to these faraway regions is, needless to say, easier said than done, not only because of poor infrastructure and population not being concentrated, but also because of the control of illegal groups. Drugs, weapons and mining produce way too much money for these groups to allow them to cede control easily; they live off the absence of government presence.

Figure 7. Municipalities where Petro got more than 80% of the votes in the run-off and incidence of multi-dimensional poverty

a. Petro more than 80%



b. Incidence of multi-dimensional poverty (%)



Source: Registraduría Nacional, Misión de Observación Electoral, EConcept.

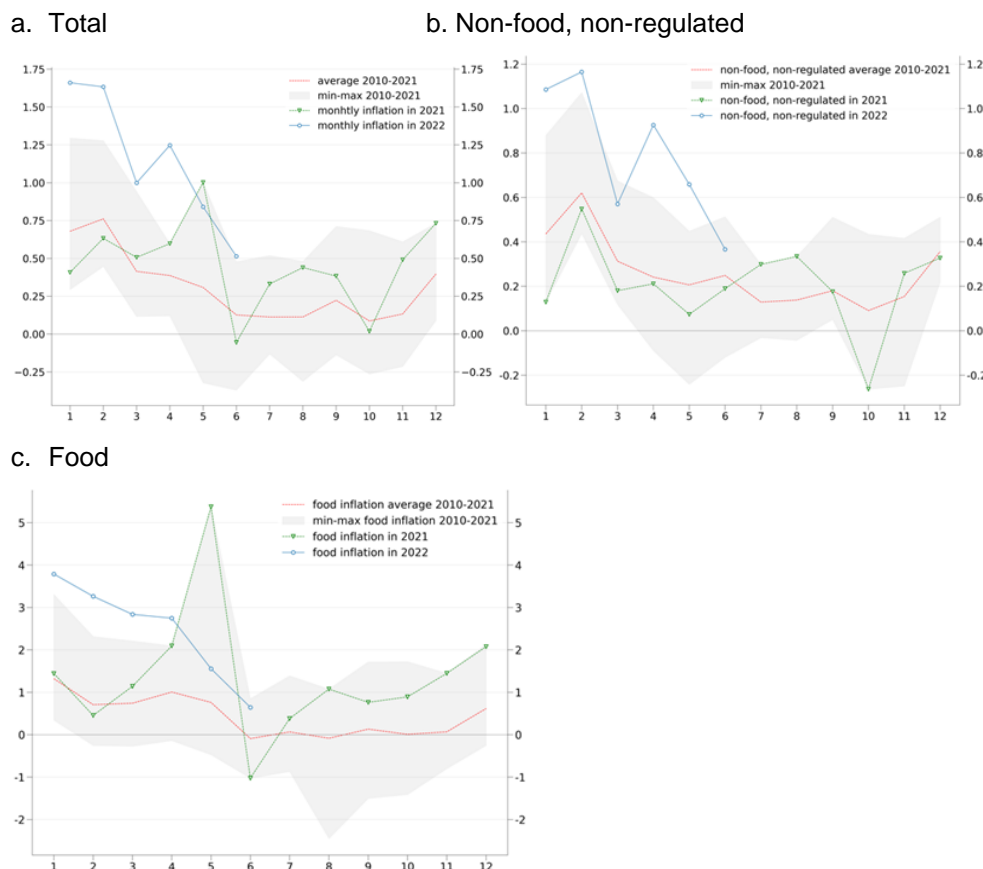
Changing the fate of voters in these regions, who are putting all their faith on Petro finally turning things around, requires a lot -- and we mean a lot -- of spending. How much? Probably way more than Ocampo's estimates in Table 1 above. Winning the clash between an inefficient government apparatus trying to spend a lot more during the next four years, and dark forces bent on not ceding territorial control while, at the same time, trying to get their hands on as much of this additional spending as possible, will be the daily bread of the Petro administration.

How many pesos need to be spent in order to get COP 1 across to improve the lives of expectant voters? Can the Treasury afford the ratio? Can taxpayers support the effort? What happens if four more years go by, and the situation of these faraway areas remains unchanged?

Did inflation peak in June? What are the implications for monetary policy?

Even though annual inflation in June came at 9.7%, the highest for that month since 1998, and a tougher monetary policy stance was decided in June's CB Board meeting, things might be taking a turn for the better. Figure 8 shows the evolution of total (top left panel), non-food, non-regulated (top right panel), and food (bottom left panel) monthly inflations. The blue line shows what has happened so far this year: very high registers for the first months of the year, but a declining trend, i.e. a decelerating increase on the margin, with June registers below or about to be lower than the highest monthly registers since 2010.

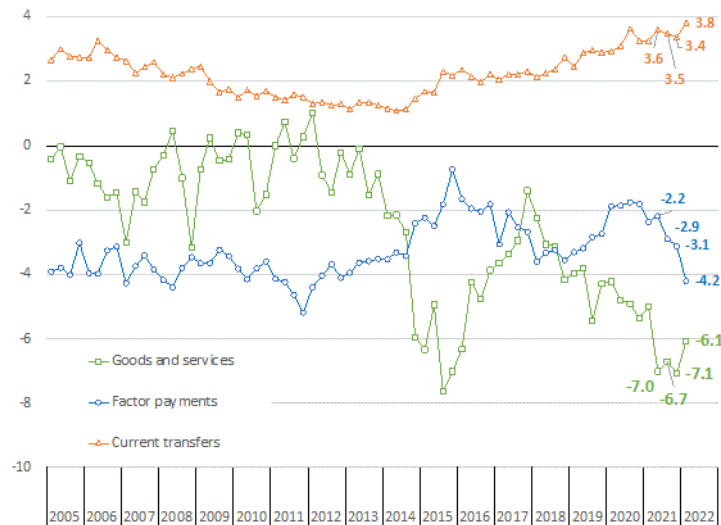
Figure 8. Total and non-food, non-regulated monthly inflation (%)



Source: Dane, EConcept.

A second salient feature is the very low (negative) monthly food inflation in June of last year (after the peak generated by the nationwide strikes in May), which in turn affected the total monthly inflation recently released by Dane: with June 2022 numbers coming at more “normal” levels, 12-month inflation accelerated again, which was to be expected and is not at odds with the deceleration in monthly inflation and annual inflation that should take place during the second semester of the year. However, this is not the only concern of monetary policy. For one, there's the current account deficit, which came in Q1 at 6.3% of GDP. In spite of higher oil and coal prices, and an improvement in the trade balance, factor payments sent abroad are gaining momentum, due to remitted profits.

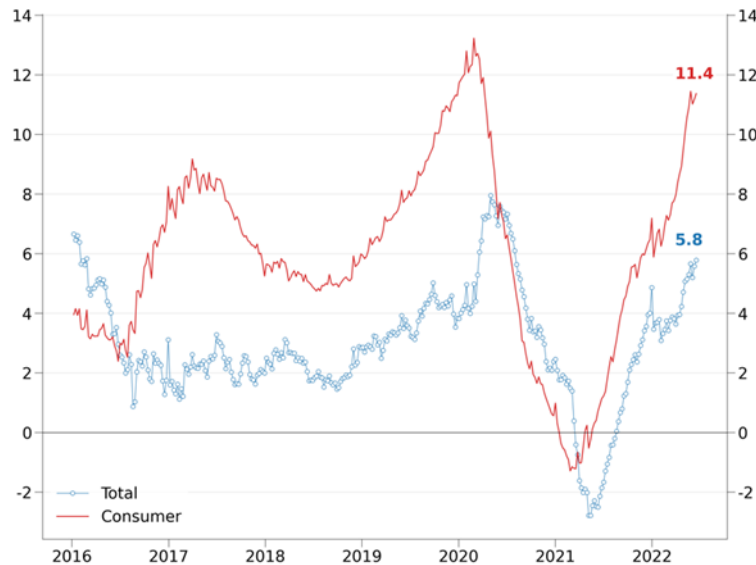
Figure 9. Current account components (% of GDP)



Source: Dane, EConcept.

Moreover, economic activity is more robust than expected and the output gap is therefore closing faster. An indirect indicator of the current momentum is credit, which was cited in the June CB minutes supporting the 150 bp hike decision. Using weekly Central Bank data on outstanding loans with data as of June 17 (Figure 10), one can see that the real growth rate for total (gross) lending is currently at 5.8%, while consumer lending is growing at 11.4%.

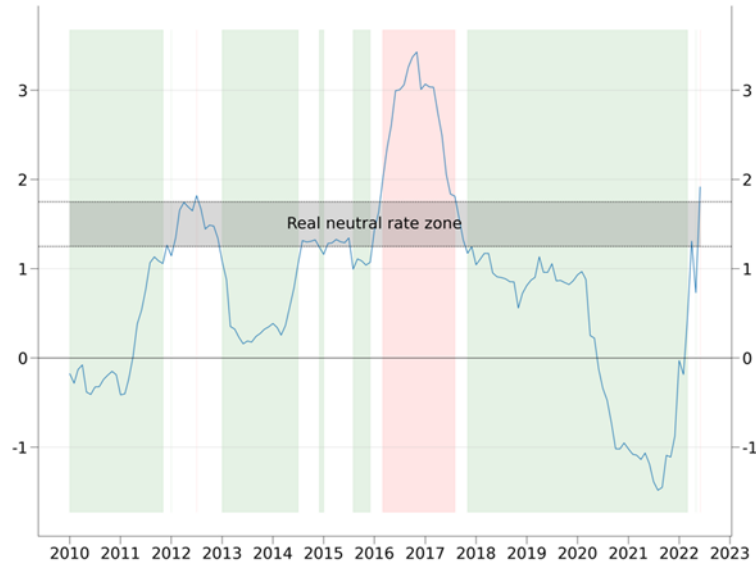
Figure 10. Outstanding loans real annual growth rate (%)



Source: Central Bank, EConcept.

Using expected inflation 12 months ahead coming from the surveys carried out by the Central Bank, the 150 bp hike unanimously voted in June took the CB real intervention rate to 1.9% (Figure 11), making monetary policy slightly contractionary for the first time in quite a while (our estimation of the real neutral rate is between 1.25% and 1.75%). Figure 11 highlights in green (red) periods of expansionary (contractionary) monetary policy. It should be easily seen that most of the last 10 years have seen a supportive monetary policy, except for part of the 2016-2017 period, where inflation and current account deficits forced the CB to put on the brakes. It seems we are again entering such a period.

Figure 11. Real intervention rate, using inflation expectations 12 months ahead (%)



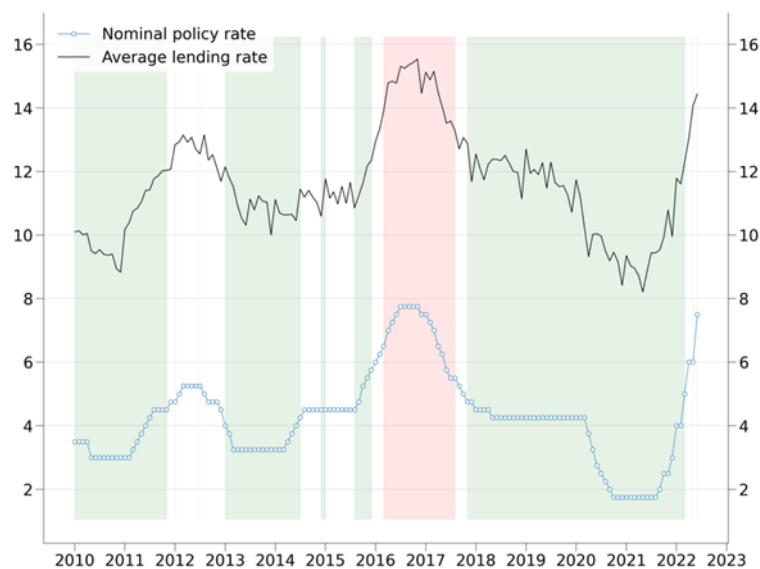
Source: Central Bank, EConcept.

How far up will the hiking go to? With inflation starting to go down, maybe not too much. We expect the nominal policy rate to reach 8.5%, which should result from an additional 100 pb in July. If need be, an additional 50 pb hike could be voted in September (no decision on rates in August) to take the intervention rate to 9%.

Finally, the transmission mechanism seems to be working in good order. Figure 12 shows the nominal CB intervention rate, together with the average lending rate reported by the CB (the average excluded short-term lending)¹. Lending rates, should, therefore continue to go up and curtail aggregate demand in the economy.

¹ The green (red) area indicates, again, periods of expansionary (contractionary) monetary policy.

Figure 12. Nominal intervention rate and average nominal lending rate (%)



Source: Central Bank, EConcept.

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	190.56	1,465,609.00	Operation
Perimetral de Oriente de Cundinamarca	152.24	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	50.1	2,087,106.18	Construction
Autopista Conexión Pacífico 2	96.5	1,300,234.03	Operation
Autopista Conexión Pacífico 3	146	1,869,330.68	Construction
Mulaló - Loboguerrero	32	1,587,924.10	Pre-Construction
Total	1102.4	14,708,045.97	

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	Normalization
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)	137.03	966,849.10	Construction
Villavicencio-Yopal (2013)	266	2,939,320.80	Construction
P/ta de Hierro - Palmar (2013)	202.56	1,240,828.00	Operation
Bucaramanga - Barrancabermeja - Yondó	151.6	2,691,392.44	Construction
Autopistas del Caribe (2015)	253	4,314,364.07	Pre-Construction
Total	2,061.19	23,960,105.69	

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	196.80	3,486,083.0	

Source: National Planning Department, National Infrastructure Agency

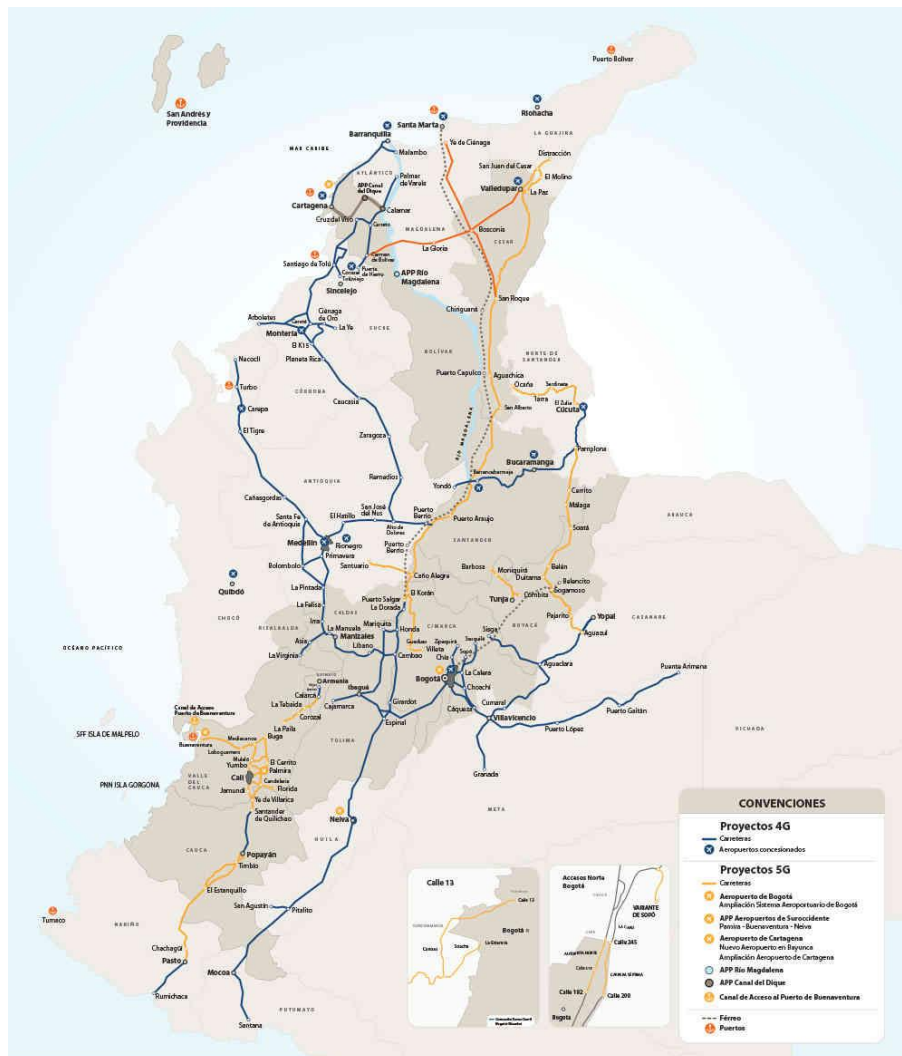
Fifth Generation (5G) Road Concessions Projects

Road	Length (km)	Contract Value (COP trillion)	Status
APP Nueva Malla Vial del Valle del Cauca	310	1.22	Allocated
IP ALO Sur	23.5	0.7	Allocated
Troncal del Magdalena C1	259.6	2.07	Structured, in bidding process
Troncal del Magdalena C2	268.4	1.70	Structured, in bidding process
Accesos Norte Fase II	17.96	1.32	Allocated
APP Buga – Buenaventura	128	2.21	In contracting
IP Santuario - Caño Alegre	135.5	2.59	Feasibility studies
Total	1,142.96	11.81	

Source: National Planning Department, National Infrastructure Agency.

Order: 1) Allocated, 2) In contracting, 3) Structured, in bidding process, 4) Feasibility studies

Updated Map of 4G and 5G Road Concessions Projects



Source: ANI.

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	1,147,653.42	Construction
IP Tercer Carril Bogotá Girardot (2016)	144.81	4,197,839.61	Construction
IP Accesos norte a la ciudad de Bogotá D.C. (2014)	62	1,225,686.25	Construction
IP Chirajará – Fundadores / Bogotá Villavicencio* (2013)	86	5,090,472.46	Construction
IP Malla Vial del Meta (2013)	267.5	1,580,927.03	Pre-Construction
IP GICA	180	1,810,392.0	Construction
IP Vías del NUS* (2013)	157	2,490,135.96	Construction
IP Neiva – Girardot* (2014)	198.35	2,017,901.64	Construction
IP Antioquia – Bolívar* (2015)	504.44	2,752,552.19	Construction
Total	1,846.86	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.
- **Aeropuerto de Cartagena** project seeks a visible medium-term solution to user satisfaction.
 - **Capex:** COP 0.47 Trillion.
 - **Status:** Feasibility under evaluation
- **APP Aeropuertos de Suroccidente** administration, adaptation, modernization, construction, expansion, operation, economic exploitation, maintenance and reversion of the airport infrastructure of the Alfonso Bonilla Aragón airport in Palmira, Valle del Cauca and Benito Salas airport in Neiva, Huila.
 - **Capex:** COP 0.90 Trillion.
 - **Status:** Feasibility under evaluation
- **IP Nuevo Aeropuerto de Cartagena (Bayunca)** construction of a new airport for Caratagena.
 - **Capex:** COP 3.08 Trillion.
 - **Status:** Feasibility under evaluation
- **IP Aeropuerto de San Andrés** design, construction, modernization, operation and maintenance of the airport infrastructure on both the air and land sides of the Gustavo Rojas Pinilla Airport in San Andres.
 - **Capex:** COP 0.29 Trillion.
 - **Status:** Structured, in bidding process

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:** USD 49.25 Million.
 - **Status:** Structured.
- **Intermodal Tram Stations in Medellín:** technical, legal, and financial structuration of project that contemplates the construction, operation, and maintenance of infrastructure for the Intermodal Stations in Medellín of the green corridor project “Calle 80 Tram”, of Medellin Metro company.
 - **Capex:** USD 145.8 Million.
 - **Status:** Structured.

- **Dorada – Chiriguaná** track rehabilitation activities, upgrade to Cooper E40 type track, change of rails to 90 lb/Yd. Construction of long welded bars, train traffic control system, bridge intervention, upgrade and overhaul of rolling equipment.
 - **Capex:** COP 1.5 Trillion.
 - **Status:** Feasibility studies
- **Río Magdalena** Intervening the Magdalena River to reduce transportation costs.
 - **Capex:** COP 0.45 Trillion.
 - **Status:** Publication of the draft solicitation documents
- **Canal del Dique** maintain control of sediment transit between the channel and the bays of Cartagena and Barbacoas
 - **Capex:** COP 2.34 Trillion.
 - **Status:** Publication of the draft solicitation documents

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
Acacia 2	Wind	80	November 2022
Alpha	Wind	212	November 2023
Apotolorrú	Wind	75	August 2023
Beta	Wind	280	November 2023
Camelias	Wind	250	December 2023
Campano	Solar	99	December 2022
Carrizal	Wind	195	June 2023
Cartago	Solar	99	December 2022
Casa Eléctrica	Wind	180	August 2023
Chemesky	Wind	100	August 2023
El Paso Solar	solar	68	January 2021
El Tesorito	Thermoelectric	199	December 2022
Ipapure	Wind	201	September 2023
Irraipa	Wind	99	June 2023
Ituango	Hydroelectric	1,200	June 2022
Kuisa	wind	200	August 2023
La Loma	Solar	150	November 2022
San Felipe	Solar	90	December 2022
Termo Jagüey	Thermoelectric	19	December 2021
Termo Rubiales	Thermoelectric	19	December 2021
Termocandelaria	Thermoelectric	252	November 2022
Termocaribe 3	Thermoelectric	42	November 2022
Termosolo 1	Thermoelectric	148	December 2023
Termosolo 2	Thermoelectric	80	December 2022
Termoyopal G3	Thermoelectric	50	August 2020

Termoyopal G4	Thermoelectric	50	August 2020
Termoyopal G5	Thermoelectric	50	September 2020
Windpeshi	Wind	200	December 2022
ENR Col 1	Solar	120	January 2024
Tayrona	Solar	76	January 2024

Source: UPME, Plan de Expansión 2020-2034

Oil Exploration Projects for Colombia in 2022 (Q1)

Exploration Projects	Status	Participants
EST-SN-15	Plugged and abandoned	Hocol 100% (Operator)
Bololó-1	Dry	Hocol 100% (Operator)
El Niño-2	Successful	Perenco 30% (Operator), ECP 50%, CNOOC 20%
Pilonera-1	Plugged and abandoned	Hocol 50 % Lewis Energy 50% (Operator)
Boranda Sur-3	Under evaluation	Parex 50% (Operator) ECP 50%
Cayena-2*	Under evaluation	Parex 80% (Operator) ECP 20% Partner risk-only basis
Caño Caranal DT-1*	Dry	Sierracol 50% (Operator) ECP 50 % Partner risk-only basis

Source: Ecopetrol

Ecopetrol's Investment plan for 2022-2024 (USD billion)

USD million	Investment 2022	Investment 2022-2024 Projected	
Production	2.7 - 3.2	-	-
Upstream	-	11	12
Midstream		0.8	0.9
Downstream	0.1 - 1.2	1.2	1.4
Exploration	0.3 - 0.4	-	-
Corporate	-	-	-
Total	4.8 – 5.8	17	20

Source: Ecopetrol.

III. Others

- **Education:**

Design, construction or rehabilitation, maintenance, and operation of 8 schools in Soacha.

- **Capex:** USD 36.3 Million.
- **Status:** Inactive

Design, construction, financing, operation, and maintenance of accommodation for university students, and provision of complementary services such as cleaning, surveillance, restaurant, among others, for the Universidad Nacional de Colombia in Manizales.

- **Capex:** USD 21.5 Million.
- **Status:** Structured

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

- **Capex:** USD 19.6 Million.
- **Status:** Structured

Design, construction or rehabilitation, maintenance, and operation of schools in Ibagué

- **Capex:** USD 45.8 Million.
- **Status:** Inactive

- **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 18.2 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:** USD 41 Million.
 - **Status:** Structured
- **Water and sewage:** Design, construction, operation, and maintenance of Wastewater Treatment System (STAR), located within the jurisdiction of the Municipality of Neiva, Huila.
 - **Capex:** USD 61.3 Million
 - **Status:** Phase II

Design, construction, operation and maintenance of Wastewater Treatment System (STAR) located in the jurisdiction of the Municipality of Duitama, Boyacá.

- **Capex:** USD 20 Million
- **Status:** Phase II

Carry out the decontamination of the Bogotá River through the provision of Phase II design and construction, operation, and maintenance of Phases I and II of the Wastewater Treatment Plant – PTAR Canoas.

- **Capex:** USD 1,327.9 Million
- **Status:** Structured

- **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 10.6 Million.
 - **Status:** Structured.
- **National Parks:** Operation and development of Ecotourism services in Tayrona Natural National Parks, and Salamanca Park.
 - **Capex:** USD 46.1 Million.
 - **Status:** Inactive.
- **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:** USD 126.6 Million – 9 years (USD 14.1 Million per year)
 - **Status:** Structured

Design, financing, construction, equipment, endowment, operation, maintenance and reversal of a new high complexity hospital in Fusagasugá.

- **Capex:** to define
- **Status:** Structuration in course

- **Penitentiary Infrastructure:** Structuring technical, legal and financial under the PPP mechanism which includes the construction of prisons in Barrancabermeja and Uramita.
 - **Capex:** USD 121.9 Million (Barrancabermeja) and 182.8 Million (Uramita).
 - **Status:** Inactive

- **Urban Renewal and Public Buildings:** Structuring technical, legal and financial services for the construction of the Judicial Citadel of Bogotá.
 - **Capex:** USD 51.6 Million.
 - **Status:** Adjudicated
 Design and construction of the new Congress building.
 - **Capex:** USD 57 Million.
 - **Status:** Inactive.
 Design, construction, operation and maintenance of National Attorney General office in Cali.
 - **Capex:** USD 51.6 Million.
 - **Status:** Adjudicated

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	28	31
Environment and tourism		2	2	4
Science, tech and innovation				
Commerce, Industry and tourism			4	4
Culture and sports		3	6	9
Public Buildings and Urban Renewal	3	6	31	40
Education		7	3	10
Justice		2	1	3
Mining and Energy		3	5	8
Health Care	1	5	1	7
Information and Communication Technologies		1	3	4
Transport	39	34	64	137
Housing			2	2
Total	43	70	154	267

Source: National Planning Department- RUAPP (April 2022)

Forecast table

		2016	2017	2018	2019	2020	2021pr	2022f
Population	Millions	46.8	47.4	48.3	49.4	50.4	51.0	51.6
Real GDP	Trillions of 2015 COP	821.5	832.7	854.0	881.2	819.1	906.6	963.2
	% change	2.1	1.4	2.6	3.3	-6.8	10.7	6.3
Nominal GDP								
In pesos	Trillions of current COP	863.8	920.5	987.8	1,061.1	1,002.6	1,172.0	1,357.3
	% change	7.3	6.6	7.3	7.4	-5.5	16.9	15.8
In dollars	Billions of current USD	282.7	311.9	334.1	323.4	271.5	313.0	330.4
	% change	-3.7	10.3	7.1	-3.2	-16.1	15.3	5.6
GDP deflator	% change	5.1	5.1	4.6	4.1	1.6	5.6	9.0
Consumer prices (end of period)	% change	5.7	4.1	3.2	3.8	1.6	5.6	9.0
Nominal exchange rate (average)	COP/USD	3,055	2,951	2,956	3,281	3,693	3,744	4,108
	% change	11.3	-3.4	0.2	11.0	12.6	1.4	9.7
Real exchange rate (average)	2010 average = 100	122.4	122.8	121.2	125.1	133.9	140.2	138.8
	% change	1.8	0.4	-1.3	3.2	7.0	4.7	-1.0
Repo rate (end of period)	% (end of period)	7.50	4.75	4.25	4.25	1.75	3.00	8.50
Nominal interest rate (DTF)	% (end of period)	6.9	5.3	4.3	4.2	2.0	2.9	8.5
Current account balance	Billions of current USD	-12.0	-10.2	-13.0	-13.9	-9.1	-17.8	-14.9
	% of GDP	-4.3	-3.3	-3.9	-4.3	-3.3	-5.7	-4.5
Capital account balance	Billions of current USD	-12.3	-9.6	-13.0	-13.3	-8.2	-16.6	-14.9
	% of GDP	-4.4	-3.1	-3.9	-4.1	-3.0	-5.3	-4.5
Exports	Billions of current USD	31.8	38.0	41.9	39.5	31.1	41.4	43.6
	% change	-11.8	19.7	10.2	-5.8	-21.4	33.3	5.3
Exports (goods and services)	Billions of current USD	42.8	49.3	53.7	51.3	38.1	50.4	55.9
	% change	-9.0	15.3	8.9	-4.5	-25.7	32.1	10.9
Imports	Billions of current USD	44.9	46.1	51.2	52.7	43.5	61.1	64.5
	% change	-17.0	2.6	11.2	2.9	-17.5	40.5	5.5
Imports (goods and services)	Billions of current USD	56.2	58.1	64.3	65.5	51.3	70.9	78.4
	% change	-14.8	3.3	10.7	1.9	-21.6	38.2	10.6
Consolidated fiscal balance	% of GDP	-2.2	-2.4	-2.7	-2.9	-7.9	N.A.	N.A
Central Government Fiscal Balance	% of GDP	-4.0	-3.6	-3.1	-2.5	-7.8	-7.1	-5.6

f*:all values are forecasts