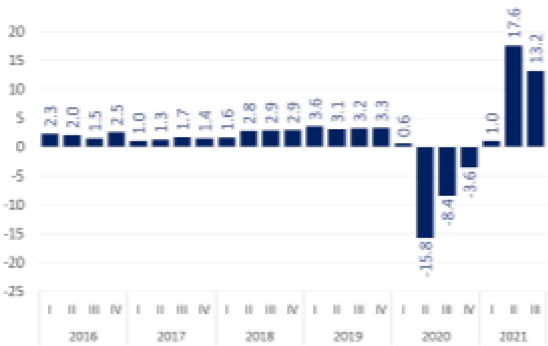
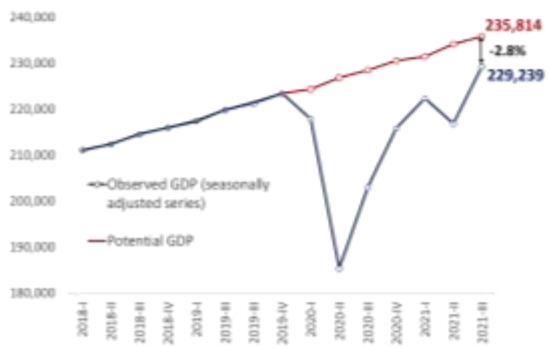
Figure 1. Quarterly GDP Growth (annual growth, %)



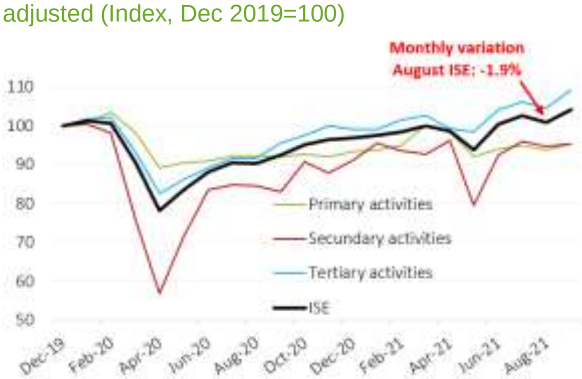
Source: DANE. Own Calculations.

Figure 2. Potential GDP vs. observed GDP (2015 constant prices billion COP)



Source: DANE, Own calculations.

Figure 3. Economy Tracking Indicator ISE, seasonally adjusted (Index, Dec 2019=100)



Source: DANE. Own Calculations.

Figure 4. Mobility to workplaces (% change from

Economic Activity

In 2021 Q3, GDP annual growth stood at 13.2% (Figure 1). Economic growth was driven by commerce, manufacturing, and public administration, accounting for 9.5 percentage points of total GDP variation. In contrast, agriculture and construction showed rather weak growth of 0.8% and 1.3%, respectively. On the demand side, final consumption led the economic recovery in this period, while investment performed poorly.

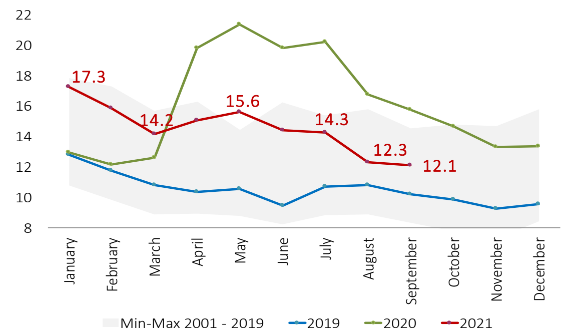
While in Q2 the seasonally adjusted GDP was affected by the national strikes and the third wave of COVID-19, in Q3 the economy returned its recovery path. The end of blockades and mobility restrictions allowed economic activity to regain steam. As a result, GDP is already above 2019 levels, but there is still a 2.8% gap between potential GDP and that observed at Q3 (see Figure 2).

For Q3 the monthly economic tracking indicator (ISE) showed annual increases between 12% and 13.5%. In August, the momentum moderated since the indicator had a monthly decrease of 1.9% in the seasonally adjusted series. In September the economy resumed its path towards recovery (see Figure 3). By the end of Q3, primary and secondary activities have not fully recovered. In contrast, services were already above pre-pandemic levels (see “Fiscal deficit could be lower than expected” for more detail).

baseline, 7-day moving average) and new daily COVID cases (7-day moving average)

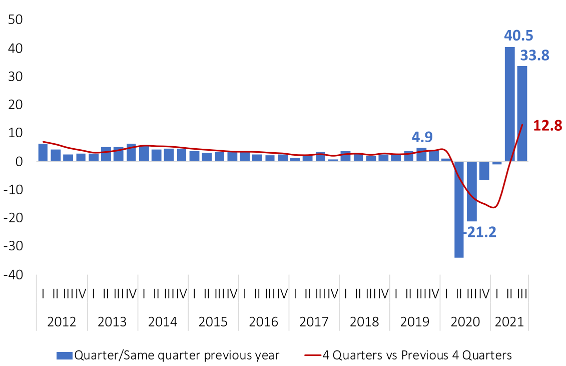
Source: Google Mobility Report. Own Calculations.

Figure 5. National unemployment rate (%)



Source: DANE. Own Calculations

Figure 6. Commerce Sector: 17.5% of GDP (annual growth, %)



Source: DANE. Own Calculations.

As COVID cases have fallen sharply since the beginning of Q3, mobility restrictions have been removed almost entirely. The latter is reflected in the increase of people mobilizing to work (Figure 4), which is associate with improvements of the labor market.

In Q3 the national unemployment rate decreased 2.1 percentage points, closing at 12.1% in Sep. (Figure 5). Nonetheless, job recovery continues to lag behind economic activity despite the creation of 921 thousand new jobs in Q3. 500 thousand people are still unemployed compared to September 2019.

Supply GDP

In Q3, all sectors of economic activity performed well compared to the same quarter of 2020. However, the momentum was heterogenous across them. Once again, commerce and manufacturing were the driving force, with contributions to overall GDP variation of 5.7pp and 2.4pp, respectively. Public administration (with a contribution of 1.4pp), arts (0.9pp), and professional activities (0.9pp) also gained steam. On the other hand, sectors like construction and oil and mining are showing a tepid recovery.

As in Q2, this quarter's growth might be influenced by a statistical base effect from low GDP levels registered in

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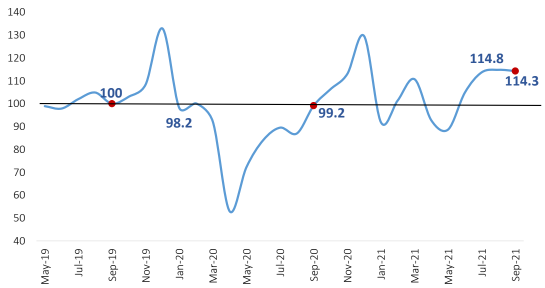
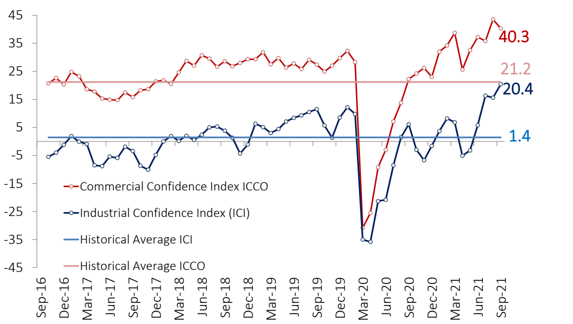
Figure 7. Retail sales index (September 2019=100)



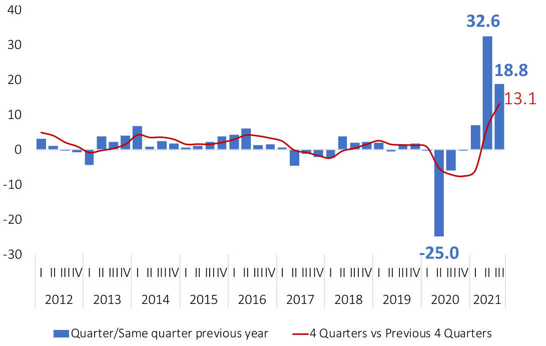
Source: DANE. Own Calculations.

Figure 8. Industrial and Commercial Confidence Index (%)



Source: Fedesarrollo. Own Calculations.

Figure 9. Manufacturing Sector: 13% of GDP (annual growth, %)



Source: DANE. Own Calculations.

Q3 2020. Consequently, in the Fiscal section we provide a detailed comparison with pre-pandemic levels. Commerce grew 33.8% in Q3 (Figure 6). On a monthly basis, retail sales index also performed above pre-pandemic levels during the quarter (Figure 7).

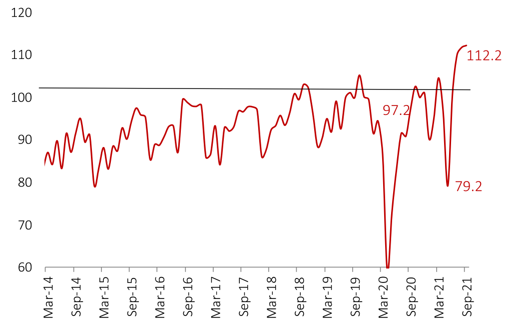
Consequently, the Commercial Confidence Index (CCI), measured by Fedesarrollo, performed well (Figure 8). Particularly, August (43.5) and September (40.3) registered the highest levels of confidence since 1980. September's result was 18.2 points above the same month of 2020.

Manufacturing grew 18.8% (Figure 9) and is already 5.4% above pre-pandemic levels. After the effects of the national strikes, the real manufacturing production index recovered in September (Figure 10), rising 12.2% annually. Nevertheless, this was not reflected in higher employment, since in September manufacturing jobs decreased 1.8%.

Just as the CCI, during Q3 the Industrial Confidence Index (ICI) achieved record levels (Figure 8). This performance is explained by the increase of 21.9 points in the current volume of orders, the growth of 15.8 points in the expected production in the next three months, and a 5.1 percentage points reduction in the level of stocks.

The construction sector did not keep pace with the rest

Figure 10. Real production index of manufacturing (September 2019= 100)

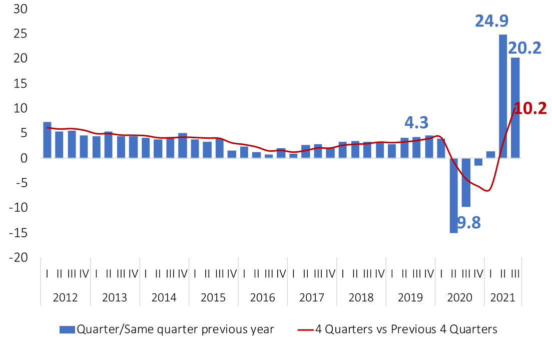


Source: DANE. Own Calculations.

Figure 11. annual growth by sector (%)

Source: DANE. Own Calculations.

Figure 12. Household Consumption: 71.8% of GDP (annual growth, %)



Source: DANE. Own Calculations.

of the economy. With a tepid annual growth of 0.8% (Figure 11), the sector fell 26.1% below pre-pandemic levels. Civil works, a key component, dropped by 12.8% compared to Q3 2020. In contrast, due to government policies aimed at building social interest housing, in Q3 the total construction area approved had an annual growth of 4.3%.

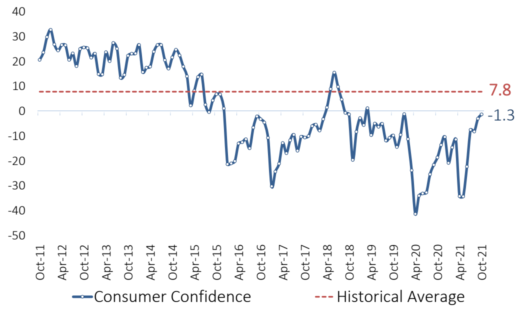
Oil and mining is struggling to recover, registering 4.1% growth compared to Q3 2020 and a drop of 16% compared to Q3 2019. Oil grew just 0.2%, and coal 18.5%. Oil and coal are still 15% and 38% below pre-pandemic levels, respectively.

Finally, public administration, real estate, financial services, and agriculture have grown throughout the pandemic. Still, public administration had the third greatest contribution (1.4 pp) to overall GDP growth only surpassed by commerce and manufacturing.

The demand side

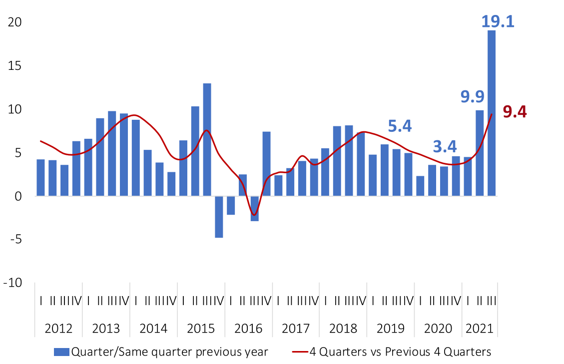
Household consumption, which represented 71.8% of GDP in Q3, led economic recovery. With an annual growth of 20.2% (Figure 12), private consumption exceeded pre-pandemic levels (Q3 2019) by 8.5%. Goods' components that were most affected by 2020 quarantines presented strong recoveries. For instance, final consumption in restaurants and hotels grew 81%

Figure 13. Consumer Confidence Index



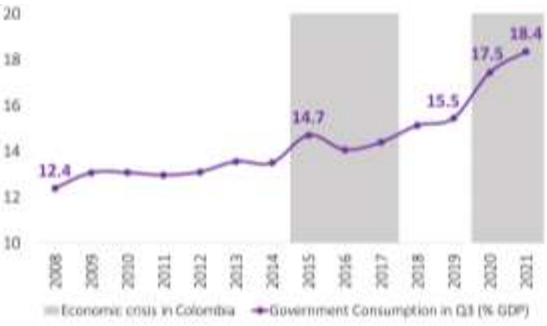
Source: Fedesarrollo. Own Calculations.

Figure 14. Government Consumption: 18.4% of GDP (annual growth, %)



Source: DANE. Own Calculations.

Figure 15. Government Consumption in Q3 by year (% GDP)



Source: DANE. Own Calculations.

annually in Q3, clothing and footwear increased 66%, and transportation expanded 56%. Restaurants and hotels already surpassed pre-pandemic levels. Conversely, transportation has not reached pre-pandemic levels (-12.5%).

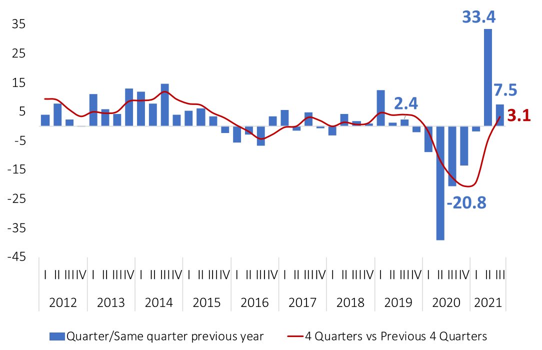
Fedesarrollo's Consumer Confidence Index stood at -1.3 points, below its historical average of 7.8 points. However, confidence has recovered to the levels not seen since January 2020 (Figure 13). The pandemic shock seems to be fade for households.

In Q3, government consumption increased 19.1% annually (Figure 14). Since this sector did not decrease during the pandemic, there is a substantial expansionary fiscal policy; government participation in total GDP rose in the last two economic crises (gray area in Figure 15).

Nevertheless, the central government fiscal deficit of 8.6% of GDP, forecasted by the Medium-Term Fiscal Framework (MTFF) in mid-June, may not materialize. We expect the deficit to be closer to 8% of GDP as tax revenues are accelerating and the spending would be below the budget. Consequently, public debt by the end of 2021 will likely to be below 67% of GDP.

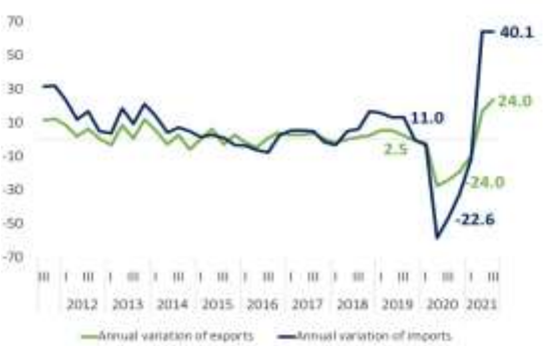
Gross fixed capital formation expanded 7.5% in Q3 (Figure 16). Main drivers of annual growth were investment in machinery, intellectual property, and

Figure 16. Gross Fixed Capital Formation: 18.4% of GDP (annual growth, %)



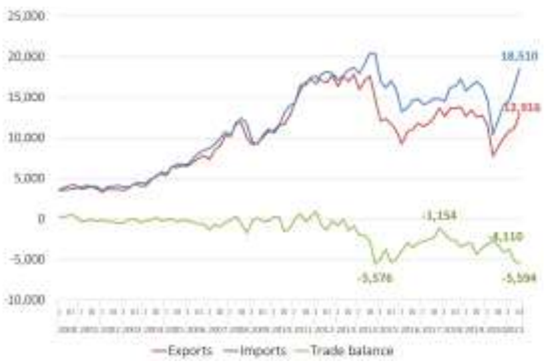
Source: DANE. Own calculations.

Figure 17. Total imports and exports GDP (annual growth, %)



Source: DANE. Own calculations.

Figure 18. Trade balance (millions of current USD)



Source: DANE, Own calculations.

housing construction, achieving annual variations of 17.8%, 15.5%, and 14.3%, respectively. Though, investment in housing construction and other buildings and structures have not recovered pre-pandemic levels (-17.7% and -37.2%). As a consequence, gross fixed capital formation is still far away of full recovery, and at Q3 it stood 11.2% below the same quarter of 2019.

On the external front, imports sped up 40.1% (Figure 17). This is explained by the surge of intermediate goods and raw materials, which experienced a 70% annual increase; and by capital goods that rose 35%. Even though growth rates have been high during the last two quarters, this is in part due to the decreases seen in Q2 and Q3 of 2020.

On the other hand, exports increased 24% in Q3 (Figure 17), mainly driven by a 76% annual growth in coal, 38% increase in oil, and 30% raise in coffee. Oil exports, however, have not recovered pre-pandemic values. So, despite high prices of oil, coal, and coffee, the value of exports is still 5.8% below pre-pandemic levels.

As a result of imports recovering faster than exports, the trade balance deficit of goods and services reached USD 5,594 million in Q3, which represented 7.0% of quarterly GDP (see Figure 18). Accordingly, Q3 trade deficit is the biggest trade deficit seen in Colombia since 2000.

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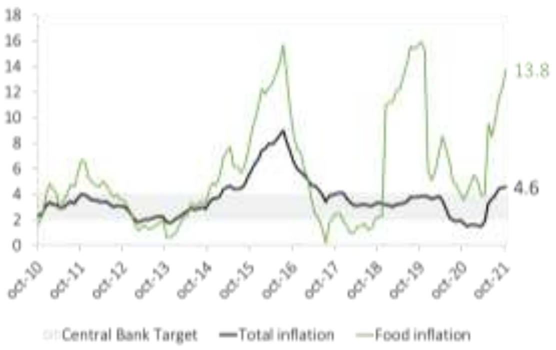
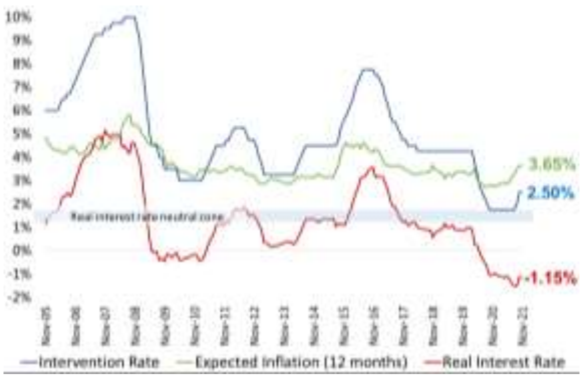
Figure 19. Total and food annual inflation (%)



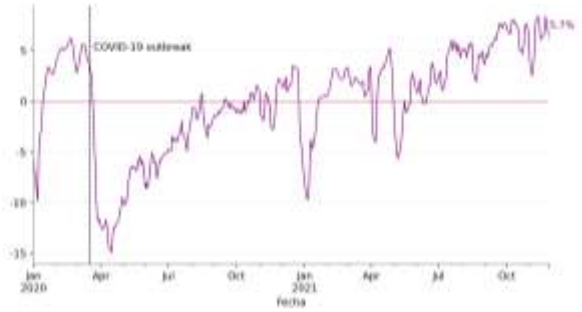
Source: DANE. Own calculations.

Figure 20. Nominal and real intervention rate



Source: DANE, Own calculations.

Figure 21. Electricity demand, (MA 7 days, % variation against pre-pandemic levels, i.e. mean 2019)



Source: XM. Own calculations.

Outlook

All in all, in Q3 demand and supply dynamics indicate that the recovery has been uneven across sectors. Major economic drivers, such as household consumption and government expenditure on the demand side, and retail and manufacturing sectors on the supply side presented double-digit annual growth and exceeded pre-pandemic levels.

In October, inflation reached 4.6%. While everyone has been expecting food prices to recede now that national strikes are over, the arrival of rainy season together with the upturn in raw materials international prices, pushed food prices further (see Figure 19). Moreover, Christmas season, which is associated with higher consumption, could add inflationary pressures by the end of the year. Our inflation forecast has increased to 4.8%.

In this context, in tandem with economic growth forecasts exceeding 9%, the Central Bank has begun to normalize monetary policy. In September, the rate was increased for the first time by 25 basis points and in October by 50 basis points. We expect an additional 50bp increase by the end of the year, thus closing with an intervention rate of 3.0%, still expansionary (see Figure 20).

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The Q4 outlook seems favorable. Electricity demand, a good predictor of economic performance, keeps growing (Figure 21). Therefore, we estimate that the annual variation for the fourth quarter will be above 9%, which will mean a total GDP growth around 10% in 2021.

Fiscal deficit could be lower than expected

Official economic activity data for Q3 is in. Even though growth was not as strong in Q3 (13.2%) as in Q2 (17.6%), the economy continues to rebound soundly from the depths registered last year.

Figure 1 shows the Economic Tracking Indicator (ISE), computed by Dane, which mimics GDP data but is computed monthly instead of quarterly; indices are shown, which means levels of economic activity are presented for 2019-2021. The evolution of the ISE for “All Activities” (first panel) during this year (red line) shows how overall economic activity was affected during the national strike early this year but has since regained momentum and, since June, is exceeding the levels registered in pre-crisis 2019 (blue line).

However, just as in Q2, performance in Q3 was not even across sectors. The ISE for “primary activities” (second panel in Figure 1), which bundles together agriculture and oil & mining, has fared quite differently. In March of this year, it went above 2019 levels, but fell below again since April and remains so as of September. The ISE for “secondary activities” (bottom left panel in Figure 1), which encompasses manufacturing and construction, has yet to surpass 2019 levels, although it will probably do so in Q4.

The lower right panel shows the ISE for “tertiary activities” (commerce, transport, public administration, financial services, among others), is the driving force in the economy right now. After the national strikes, tertiary activities have gained considerable momentum and, as of September, were as a group well above the pre-crisis (2019) levels.

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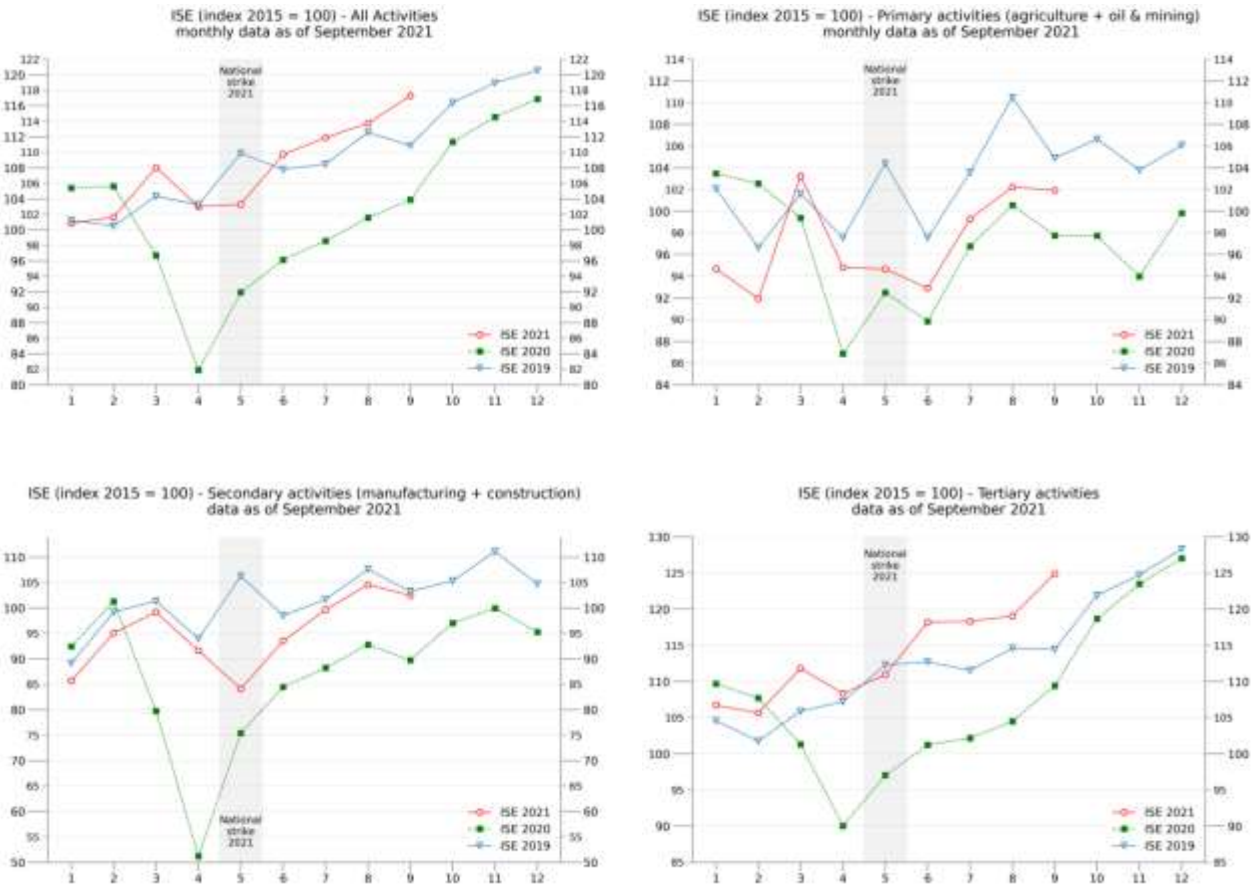
Figure 1. Economic Tracking Indicator (ISE) – indices 2015 = 100



Source: Dane, EConcept

Even though the ISE provides monthly data, useful to identify within-quarter trends, it does not show sectors with the kind of disaggregation one would like to see (why bundle agriculture with mining?), which is why Figure 2 presents GDP levels (in constant 2015 prices); GDP offers more granularity, although at the expense of moving to quarterly data. The red dots in each panel show economic activity levels of Q3 in 2019, 2020 and 2021, while the red dotted line extends the respective Q3 2019 level for comparison purposes.

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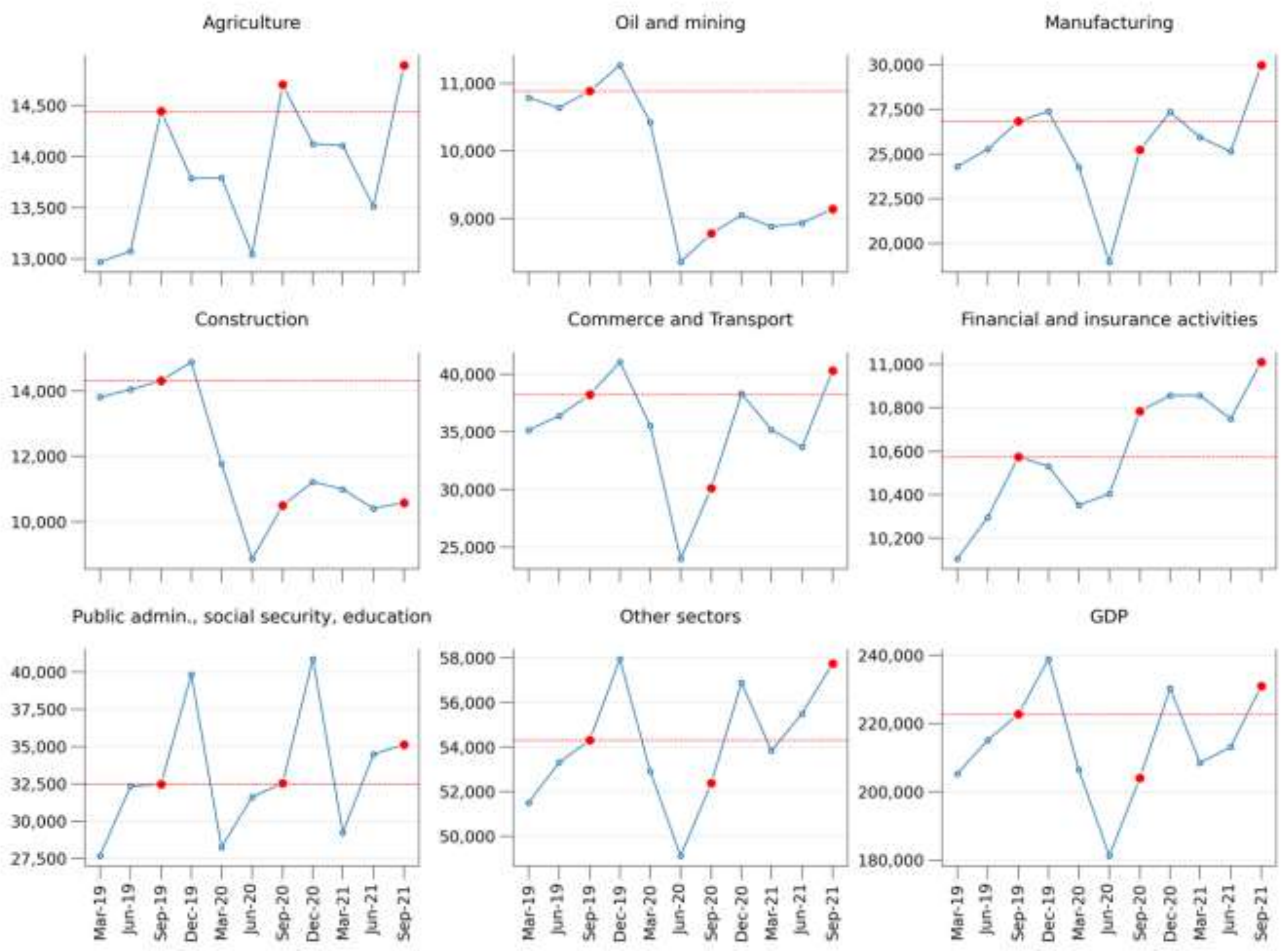
Starting with "primary activities," just to follow the ISE taxonomy, Figure 2 shows that agriculture is clearly no laggard. It has been one of the few sectors that was able to grow last year and continues to do so in 2021. Oil and mining, on the other hand, are having a hard time; activity fell hard last year and recovery this year has been tepid, which means these sectors remain well below their 2019 levels.

Moving on to "secondary activities," manufacturing fell hard last year, but the rebound (temporarily affected by the national strikes) has been equally drastic. Finally, in Q3 2021, it surpassed 2019 levels.

Figure 2. GDP (constant 2015 COP billions)



Source: Dane, EConcept

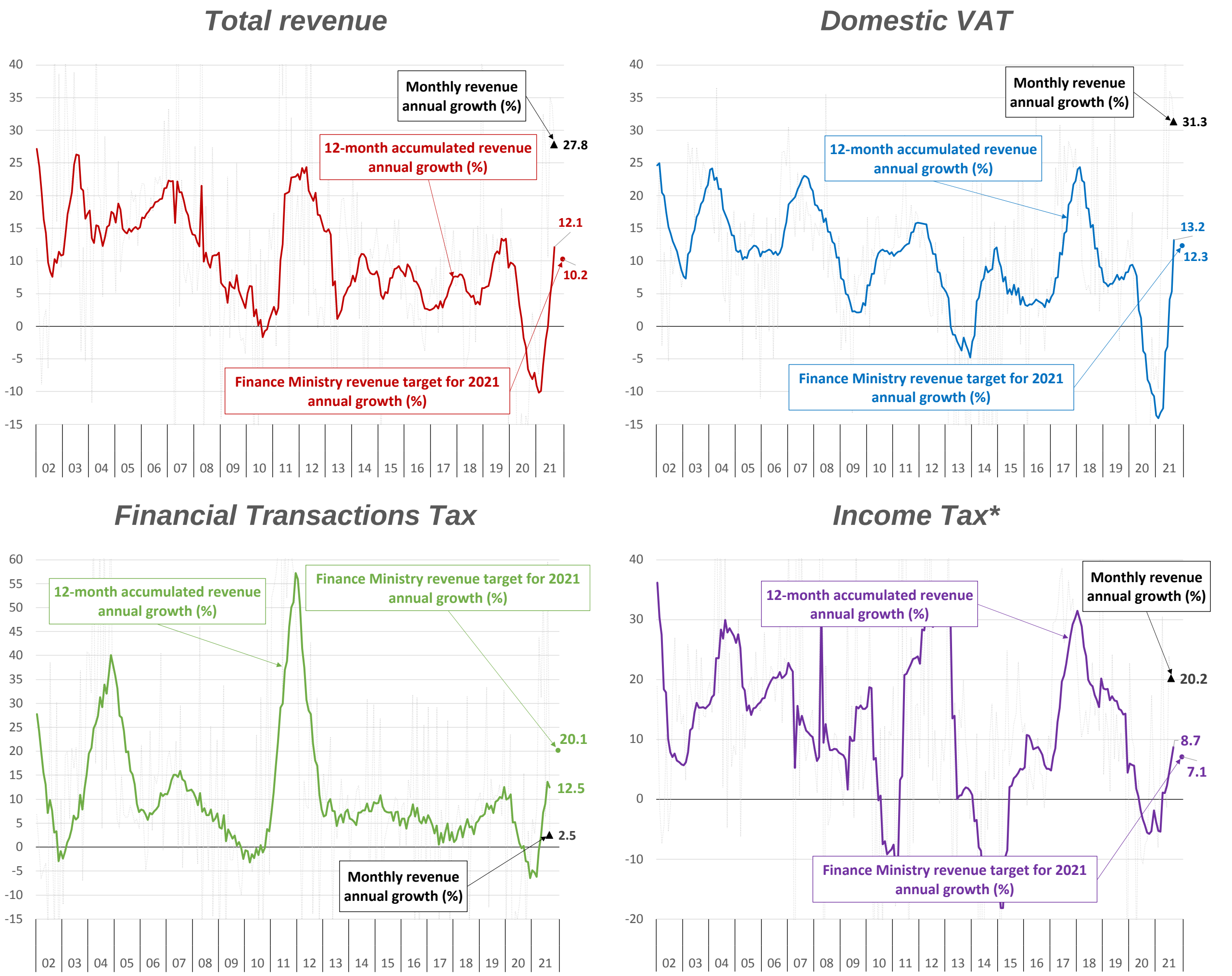
The fact that “secondary activities” show poor performance when looking at the ISE has to do with construction, as Figure 2 shows using GDP data. Just as in oil & mining, construction fell hard in 2020, and recovery this year leaves much to be desired. Even though not shown here, both subsectors in construction (i.e. housing and public works) are still below their 2019 levels.

Finally, “tertiary activities”, in Figure 2, show commerce and transport finally surpassing 2019 levels; the same has happened with public administration, and what we have called “other sectors.” Finally, financial services started a strong rebound process in the second part of 2020 and is now head and shoulders above 2019 levels.

Strong recovery in economic activity is having a positive impact on tax revenues, as Figure 3 shows, using gross tax collection reported by DIAN as of September. To assess whether revenues are exceeding the targets set by the Ministry of Finance, we compare the 2021 revenue growth target included in the 2021 Medium-Term Fiscal Framework for 2021 with the evolution of the 12-month revenue annual growth (the annual growth in monthly revenues is too volatile to be informative).

The first panel in Figure 3, with total revenues collected by DIAN, shows that 12-month revenue as of September (12.1%) is already higher than the 2021 target set by MinFin (10.2%). Revenue in excess of expectations is in part explained by domestic VAT (13.2% growth as of September, compared with 12.3% expected for the year) and income taxes (8.7% v. 7.1%). Interestingly enough, revenues coming from the financial transactions tax, supposedly a timely tracker of formal economic activity from a fiscal perspective, has yet to surpass the expected revenue growth for the year (12.5% vs 20.1%).

Figure 3. Gross tax revenues administered by DIAN (annual growth, %)



*Includes withholdings and payments when taxes are filed

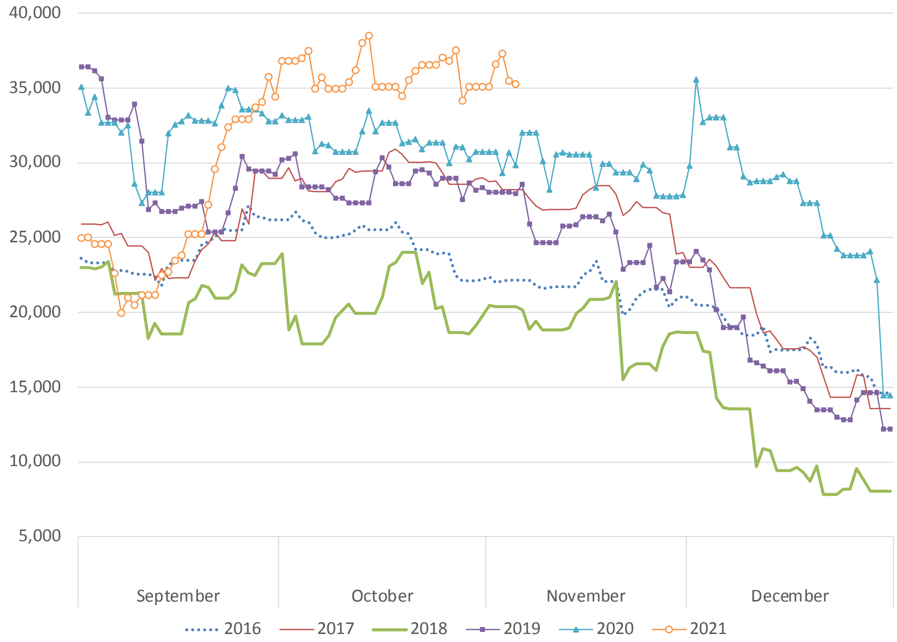
Source: Dane, EConcept

Should total gross tax revenues close the year still growing at the September rate (12.1%), excess gross revenues should be equivalent to 0.24% of GDP for all of 2021. Given that what matters for fiscal results is not gross but net revenue, excess net revenues should amount, according to our calculations, to 0.22% of GDP.

On the spending side, there is always uncertainty about the capacity of the government to execute budgets, especially during crisis times such as this. Crisis budgets tend to be bulkier, while the capacity of the government to spend tends to remain fairly constant over time; a good example is what happened last year, where the deficit ended up being much smaller than initially announced.

While we don't have good data on the total spending record this year, indirect evidence of lower-than-expected budget execution could lie in the size of the Treasury deposits at the Central Bank. As Figure 4 shows, even though they are bound to fall as the end of the year approaches, these deposits are unusually large for the first week of November. Higher deposits mean low payments, which in turn would signal low budget execution.

Figure 4. Treasury deposits at the Central Bank – September-December (COP Billions) – daily data as of November 5th 2021



Source: Central Bank, EConcept

In sum, with 0.22% of GDP of higher revenues, expenditures eventually lower than the official forecast, and with a larger GDP by the end of the year, which would make the denominator bigger than expected, this year's central government deficit could be closer to 8% of GDP than to the 8.6% target.

Is it a good idea to show a lower deficit this year, or would it be better to produce the announced 8.6% of GDP anyway, by bringing spending from next year to this one, thereby helping to produce a lower deficit in 2022? This has been done in the past using pension payments as a wildcard: given that budget appropriations for pension payments exceed expected spending every year, the remaining cushion has been used at times to increase spending in a given year, so as to be able to spend less in the following year, and show a more drastic fiscal adjustment.

It is not possible to forecast the government's strategy this time around, but this year's deficit will be President Iván Duque's doing, while next year's result will belong to the next president, even if he/she takes office in August 2022. Under this scenario, the incentive for Duque would be to produce a lower-than-expected deficit this year.

More pork

On March 13th, 2022, Colombians cast their votes for Representatives to the Senate and the House of Representatives. Colombian congressional elections follow quite different dynamics from presidential ones. In the former, regional and vested interests carry a heavy weight, since professional politicians count every vote in each of the 1120 municipalities and 32 states (departamentos). Political machinery is carefully oiled and calibrated, to make results as predictable as possible. Independent or swing voters matter less, and seem important only in big cities. Small municipalities and voters in rural areas instead lean towards clientelist relationships where, in the poorest regions, people exchange votes for petty payments, or simply lunch on Election Day.

Competition is fierce and, as a result, in recent elections the cost of a senatorial campaign could be between $2 million and $5 million -- an exorbitant figure for Colombia. Hence, a substantial funding effort is displayed. Regional logistics consist of a tight network of city *ediles* (a level inferior to city councilperson), councilpeople, *diputados* (state senators) and members of Congress.

In 2022 these elections will act as a presidential “ground zero”, since it is likely that other, multiparty elections will take place, to filter the myriad presidential candidates currently preparing to run. On top of that, there is a crucial issue at stake in the March political contest: congressional composition. Even if Petro were to lose the presidency, he could be quite damaging for Colombian democracy if his party and other anti-establishment candidates were to substantially increase their number of seats in Congress.

Table 1 presents several scenarios for congressional elections. First, let us show the current status quo. Column 1 shows the composition of the 2018-2022 Senate (the House of Representatives’ political composition basically replicates this). We divide the 108 seats between two kinds of parties, one dubbed “institutional,” i.e. those that regularly vote in agreement with the government, even if they chose to maintain “independence”; and another dubbed “anti-establishment”, because its members mostly vote against the government, and pursue an agenda oriented to undermine governability and to promote disbelief in Colombian institutions, as well as to promote street strikes and farmer unrest.

Duque’s governability hinges on six parties and 82 votes, comprising 76% of the Senate. This has traditionally been the case in Colombia, where normally several of these parties enjoy Cabinet representation in a power-sharing mechanism enacted in 1905 for ending almost one hundred years of solitude and civil war. Such a status quo solidifies the relationship between the executive and legislative branches. Horse-trading and pork-barrel politics play an important role.

Five opposition parties, currently holding 26 seats (24% of the Senate), produce as much damage as they can to the image of institutional parties’ sickening marriage with the executive branch. Members of

Congress have frequently been involved in corruption scandals that substantially tarnish the people's opinion of this institution.

Table 1. Scenarios for the Senate composition in the March 13/2022 congressional elections

	1		2		3		4 = 2-1	5 = 3-1	6		7 = 6-1
PARTY	**CURRENT**		**MARCH / 22**				**CHANGE**		**MORE PORK**		**CHANGE**
	2018-22		**PESIMIST**		**OPTIMIST**		**PESIMIST**	**OPTIMIST**			
CENTRO DEMOCRATICO - URIBISMO	19		12		13		-7	-6	15		-4
CAMBIO RADICAL (VARGAS-CHAR)	16		11		12		-5	-4	13		-3
CONSEVADOR	13		12		14		-1	1	15		2
LIBERAL (GAVIRIA)	14		7		8		-7	-6	10		-4
DE LA U	14		9		10		-5	-4	11		-3
MIRA + COL JUSTA Y LIBRE	6		6		6		0	0	6		0
NUEVO LIBERALISMO (GALAN)			4		5		4	5	4		4
VERDES (GREEN)	9		15		13		6	4	10		1
DEL COMÚN (FARC)	5		5		5		0	0	5		0
COL HUMANA + MAIS + 2 PL (PETRO) *	5		20		15		15	10	12		7
POLO	5		5		5		0	0	5		0
ABORIGINALS	2		2		2		0	0	2		0
TOTAL	108		108		108		0	0	108		0
INSTITUTIONAL	82	76%	61	56%	68	63%			74	69%	
ANTI - ESTABLISHMENT	26	24%	47	44%	40	37%			34	31%	

Source: Colombian Congress and EConcept calculations.

Devastation of congressional reputation, social discontent, recent economic recessions (2015 and 2020), and the shocking effects of the COVID-19 pandemic are the reasons many people think that an anti-establishment vote will shake Colombian politics in 2022. The first scenario of such a potential seismic shift is presented in Column 2, which shows the most pessimistic result for the current establishment and the most positive outcome for the left-leaning contenders. In this case we contemplate Petro's party, Colombia Humana, increasing the number of seats from five to 20 (see Column 4), and the Green party gaining six additional seats.

The biggest losers would be the uribismo, affected by four years of opaque government; as well as for Liberals and Partido de la U, two parties suffering from defections to the Petro camp. Conservatives could lose one senator; finally, a new party, recently authorized, Nuevo Liberalismo, could gain as many as four seats.

The number of total seats in anti-establishment parties would rise from 26 to 47, and their representation would increase from 24% to 44%. If that scenario obtains, it would be quite difficult for a

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government to control Congress. It would also be complicated for Petro to pursue his reformist agenda. A kind of stalemate would prevail, no matter who is elected president.

A more optimistic scenario for the institutional camp is presented in Columns 3 and 5. In this case, institutional parties retain 63% of Congress, instead of 56%. The crucial issue is a less spectacular performance of petrista and Green congressional candidates. However, 37% of Congress in anti-establishment hands seems threatening enough for the Duque administration and its congressional allies.

That is the reason a third scenario is added in Columns 6 and 7 of Table 1. This scenario reflects the likely effect of a new provision included in the 2022 budget law. Indeed, the Duque administration and the institutional majority abolished part of the so-called Ley de Garantías (Warrants Act), which was enacted in year 2005 to control national and regional budget execution for political proselytism. The political cycle is well documented by history and by extensive technical literature. In Colombia, the use of public funds to support friendly congressional and presidential candidates has a bicentenary history.

The Warrants Act was an improvement, since it handcuffed the worst spirits of politicians, and provided a more level playing field in the political arena. It had been respected by the Uribe and Santos administrations. Its modification undermines the quality of Colombian institutions and polity. The Duque administration undertook a shameful move, criticized by many serious commentators. Apparently, the Constitutional Court could undo this reform, since the budget law is of “ordinary” character, and therefore it cannot modify the Warrants Act, which is of a higher character (“statutory”). Only a gigantic fear in Congress of either of the two scenarios presented so far could explain this bold and ill-conceived reform.

Nevertheless, taking into consideration that as of today the Warrants Act stands modified, we guesstimated the likely effect of more pork on the March 2022 congressional elections. Column 6 displays our beliefs in this regard. The impact is a probable shift in six seats in favor of institutional parties. We think that the uribistas, Cambio Radical, Liberals, Conservatives and Partido de la U could profit from this. Petro would increase Senate representation in has camp from five to 12, instead of to 15 or 20. More pork could indeed have quite an effect.

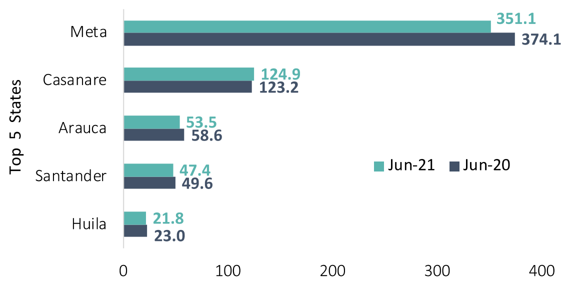
How governable would Colombia be if the anti-establishment congressional representation were to increase from 24% to 31%? Apparently, the institutional answer would be "good enough." Nevertheless, the three scenarios presented above reveal the humongous risks in Colombian politics, starting on March 13, 2022.

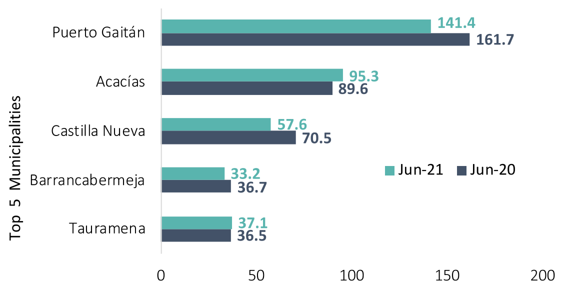
An anti-climactic oil performance

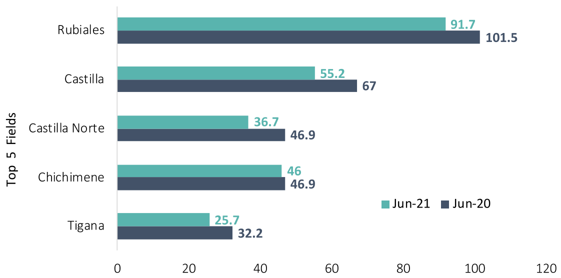
Right when international oil prices hit the $80's per barrel level, Colombian production has exhibited an anti-climactic decline. The average production of the Ecopetrol Group was 668,000 barrels of oil equivalent per day (kboed) in H1 2021, 5.3% less than H1 2020. The decline is mainly explained by strikes and street blockades in April and June 2021, and by a temporary reduction in Castilla oil field related to water management restrictions.

Indeed, mature heavy-oil fields produce more than 95% of water vis-a-vis oil, and hence disposing water either by reinjecting it back in the oil field or by cleaning it up and adding it to river flows become the binding constraint. Figure 5 shows in the lowest panel that by June 2021 Castilla's oil field production declined almost 12 kboed, Rubiales and Castilla-Norte almost 10 kboed each, and Tigana 6.5 kboed (in Figure 6 the darkest blue municipalities correspond to Puerto Gaitán, and Castilla, where production declined the most, as well as Acacías, all of them in the State of Meta). Four oil fields falling almost 30 kboed in sync is unheard of. It has been an unwelcome alignment of planets for Colombia.

Figure 5. Where was production most affected by strikes (kboed)







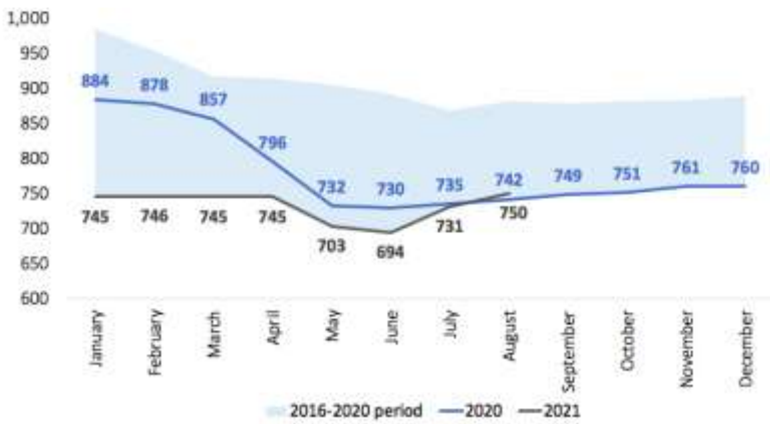
Source: ANH and Campetrol.

Figure 6. Colombian regions of oil production

Source: ANH and Campetrol.

Figure 7 shows that current Colombian oil production is way below the lowest range of the last five years; it was especially affected by the April-June 2021 strikes and mobility restrictions; yet, by August it returned to within the normal range, though very close to the 2020 bottom. One thing seems true: the best is behind us. Ecopetrol and Rubiales-Frontera production, as well as other medium and small size companies seem to have peaked at some point in the middle of last decade, and could hardly aspire to get near to one million kboed. Since prices are at an unprecedented high level in comparison to the last five years, the export value is in the middle of the range witnessed since 2016 (see Figure 8).

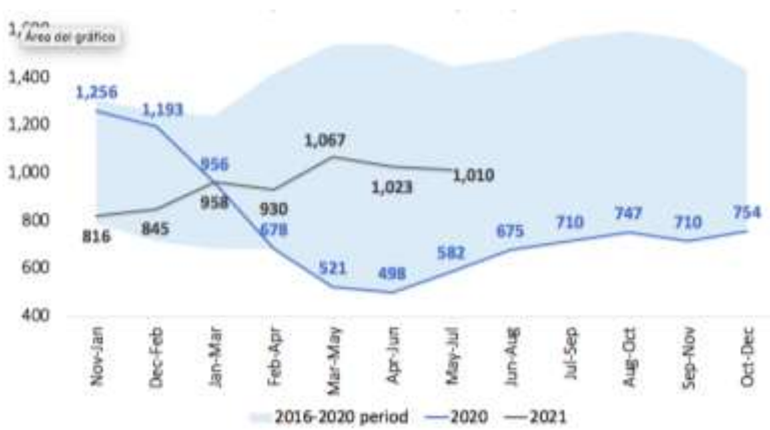
Figure 7. Colombian oil production, 2016-2021



Source: Mining and Energy Ministry, ANH and Campetrol.

Figure 8. Colombian Oil and refined products exports, 2016-2021

USD Million – Mobile quarter

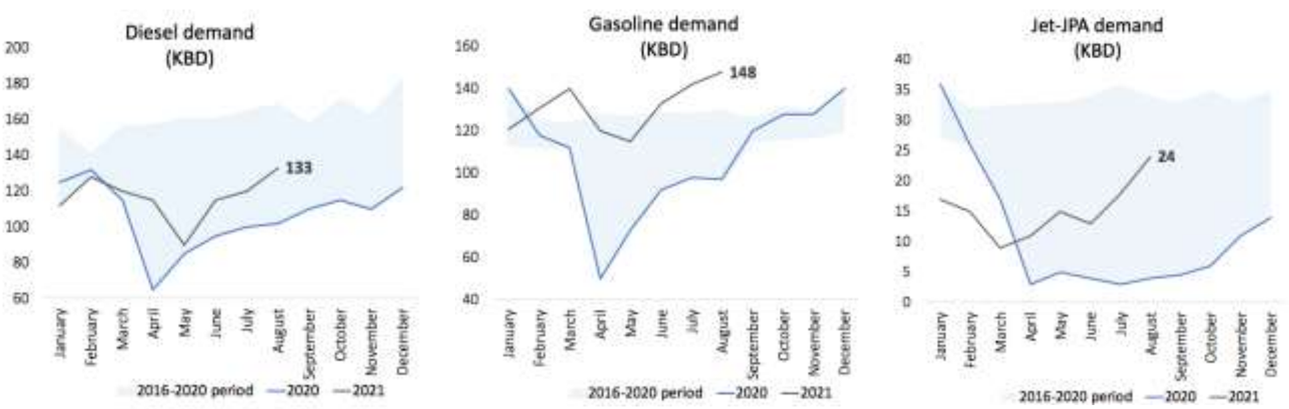


Source: Mining and Energy Ministry, ANH and Campetrol.

During Q2 2021 there were negative impacts on the operation, due to the public strikes, where social protests generated blockades of main roads and isolated events impacted oil infrastructure. Ecopetrol estimates in COP 279 billion the decline in net income and at COP 403 billion the reduction in EBITDA. Figure 9 shows that Diesel and gasoline supply recovered by the end of August, whereas Jet fuel was above the bottom reached in 2020, but still in the middle of the 2016-2020 range.

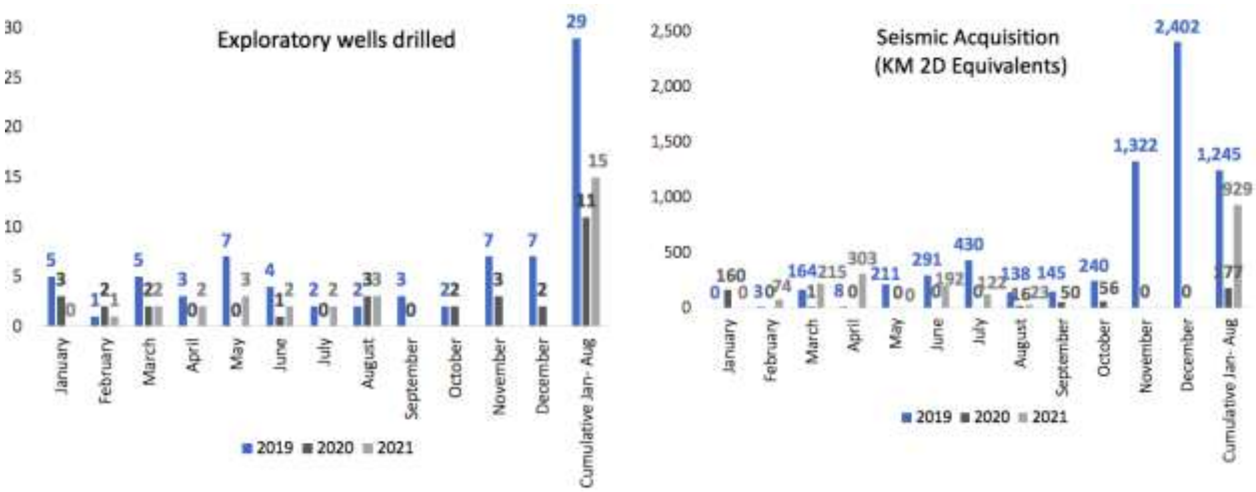
What about drilling activities, that may signal the path forward? Figure 10 indicates that in 2021 exploratory wells drilled have been below 2020's level: 15 vs. 18 wells, a worrisome trend. Instead, in seismic acquisition, there has been 929 km, above the meager 283 km of 2020, by still way below the 5,354 km of 2020. There is substantial political uncertainty in the oil industry, since the candidate leading in the presidential election polls said that it would stop O&G exploration and exports (more on this in this report). Under those threats, it is understandable that O&G companies find themselves wondering whether it is worthwhile acquiring seismic information and drilling exploratory wells, investments that would require one or two decades to render profitability.

Figure 9. Refined products decline during 2020 Covid recession and 2021 national strikes, 2021



Source: Mining and Energy Ministry, ANH and Campetrol.

Figure 10. Exploratory wells and seismic acquisition in Colombia, 2019-2021



Source: Mining and Energy Ministry, ANH and Campetrol.

This leads us to the workover activity, centered around enhancing and developing currently producing oil and gas wells. Fortunately, the number of rigs dedicated to workover activities have increased more than 60% between August 2020 and 2021 (see Figure 11). The number of rigs dedicated to drilling rose to more than 27 after March 2021, from less than 23 in the previous semester. In sum, activity has resumed somehow, but in a tepid fashion, signaling the high level of uncertainty the O&G industry is currently confronting in Colombia. For such a crucial economic sector, in terms of foreign investment, labor demand, production and fiscal revenues, it is absolutely unacceptable this state of events.

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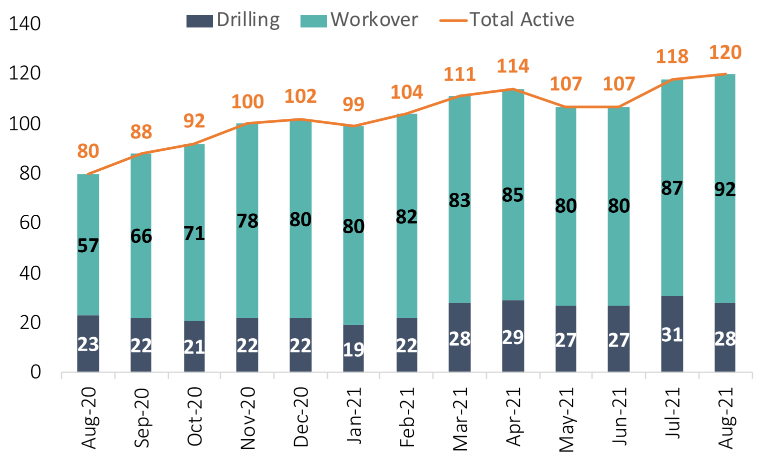
Figure 11. Number of rigs in workovers



Source: Campetrol.

The path to hell is paved with good intentions (and bad proposals)

Leading presidential candidate Gustavo Petro so far proposes three salient things: 1) he would stop exploratory drilling for oil in Colombia, as well as oil exports, to supposedly prolong the duration of current crude reserves; 2) he would tax 4,000 Colombians who have unproductive assets, and get COP 40 trillion per year, as a way of solving the tax collection problem; and 3) he would return to public provision of healthcare.

Let us review the likely consequences of these measures. First, what would happen if there were a sudden stop of oil exploration and exports. Oil is key for 18 states (departamentos, see Figure 6) and 1,120 municipalities through royalties. Oil-producing countries around the world are seeking an energy transition and producing increasingly cleaner fuels. None of is considering stopping exports from one day to the next.

If in August 2022 Colombia stopped exporting, after an eventual Petro victory, import capacity would fall by ca. 15 billion dollars. Foreign investment in oil would disappear and private oil companies would likely abandon Colombia. The trade deficit would at least double and the exchange rate would jump.

Colombians would all be poorer. There would be less income for eating, importing food for cattle, pigs and chickens; the price of eggs, meat and agricultural products would rise, since there would be less money with which to import fertilizers. There would be less cheap clothes and technology from China, cheap medicines from India, cars and motorcycles to transport ordinary people. In short, the daily life of 50 million Colombians would be miserable; especially that of the poorest.

The income of truckers, who transport inputs, food and finished products, would be affected. Commerce, communications, the value of real estate, technical and university education, the demand for health and the government's ability to help those most in need and provide security would decline.

By stopping exports and production, current oil reserves would not last for 11 years, instead of the current seven years, as Petro says. As oil wells stop producing, they do not fully recover once they are reopened in the future. With the lack of activity and recovery of pressures, subsoil pressures drop. The oil and gas decline would be abrupt and part of it would be lost permanently, and the gas bill would rise for all families and industry.

The value of Ecopetrol would suffer, and with it the shares of three hundred thousand families that own the company, as well as the pensions of all Colombians, who depend on the government having the money to pay them. Senator Petro prefers to subject Colombia to unspeakable unhappiness to put half-cooked ideas to the test.

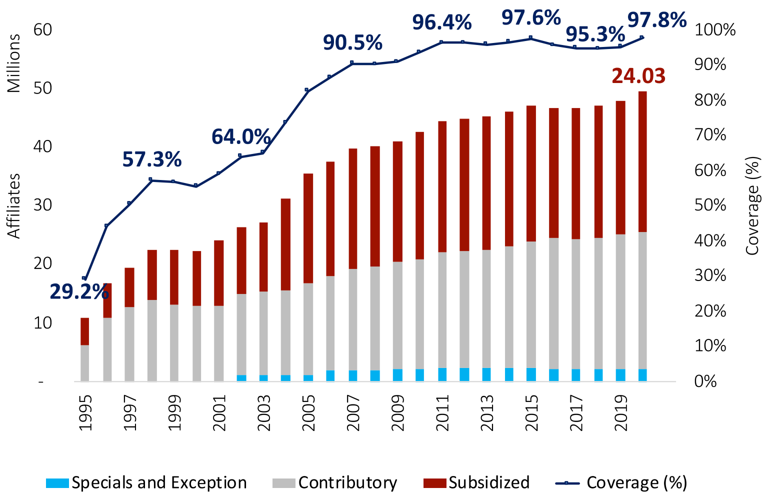
From our point of view, Petro proposes to the country a kind of economic suicide in August 2022. In the first months of his eventual government, tax collection would collapse, due to the large segments of productive sectors that would no longer be profitable and pay taxes. The cost in pesos of the public debt would increase by about one point of GDP, due to peso devaluation, with which the investment capacity of the government would disappear. His own government would have not money to pursue a reasonable administration. A few months after starting it would have such economic chaos that the April 2021 strikes would seem like child's play.

Colombia will cease to be an oil economy slowly and gradually, over two or three decades. This will give time the country time to adapt, and to change the productive matrix. Rome was not built in a day. Agricultural, industrial and service successes take up to five years to take off and up to a decade to reach cruising speed; that counting with seriousness and knowledge, and the resources of the state, which must come from oil, as well as with suitable entrepreneurs fully invested in the country. The same businesspeople who would be driven away by these proposals.

The second proposal is the tax reform. Finding 4,000 supposedly “unproductive” assets and taxing them to get COP 40 trillion per year from now on seems optimistic. First, if they are unproductive, one can hardly tax their revenues on a permanent basis. The solution would mean really to force the owners to pay with the assets themselves, which looks like an expropriation. There are two problems with that. First, it would only be valid for one year, since nothing can be expropriated every year (not even in socialism). Second, once those assets are transferred to DIAN (Colombian IRS), their value would decline substantially, since DIAN is good for things different than rendering productive unproductive assets. In sum, the so-called tax proposal is really an expropriation in disguise, that would not produce the needed tax collection even for the first year of its application.

The third proposal, getting the healthcare system back to public hands, ignores the fact that back in the 1980s and 1990s, when that was the case, less than one third of Colombians were covered by a healthcare plan. Figure 12 shows that the current mixed private/public system covers 96% of Colombians. More than half belong to the subsidized system, where people don’t pay for service, and co-payments are the lowest among OECD countries.

Figure 12. Coverage of subsidized and contributive Healthcare systems, 1995-2020



Source: Ministry of Health, EConcept.

Colombia's healthcare system was ranked fourth in medical assistance worldwide in 2020 by an international organization called International Living, while in 2017, the WHO ranked Colombian health system in the 22nd place (see Table 2), above countries such as Canada (30) and USA (37)**.** Hence, returning to a mostly public system, inefficient, and even more prone to corruption and capture, does not seem the right move. Senator Petro seems to be wrong, yet he represents a wide discontent with the current system, publicized by progressives who salivate over getting the healthcare system back under public bureaucrats' management.

Table 2. Colombian healthcare system ranking

	Ranking	Colombia's position
2017	International Living's- Global Retirement Index	3
2017	WHO- Health care system	22
2017	CEO World Magazine	35
2020	International Living's- Global Retirement Index	4 (tie)

Source: International Living, WHO, CEO World Magazine, 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	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	**Operation**
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	**Standardization**
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**	

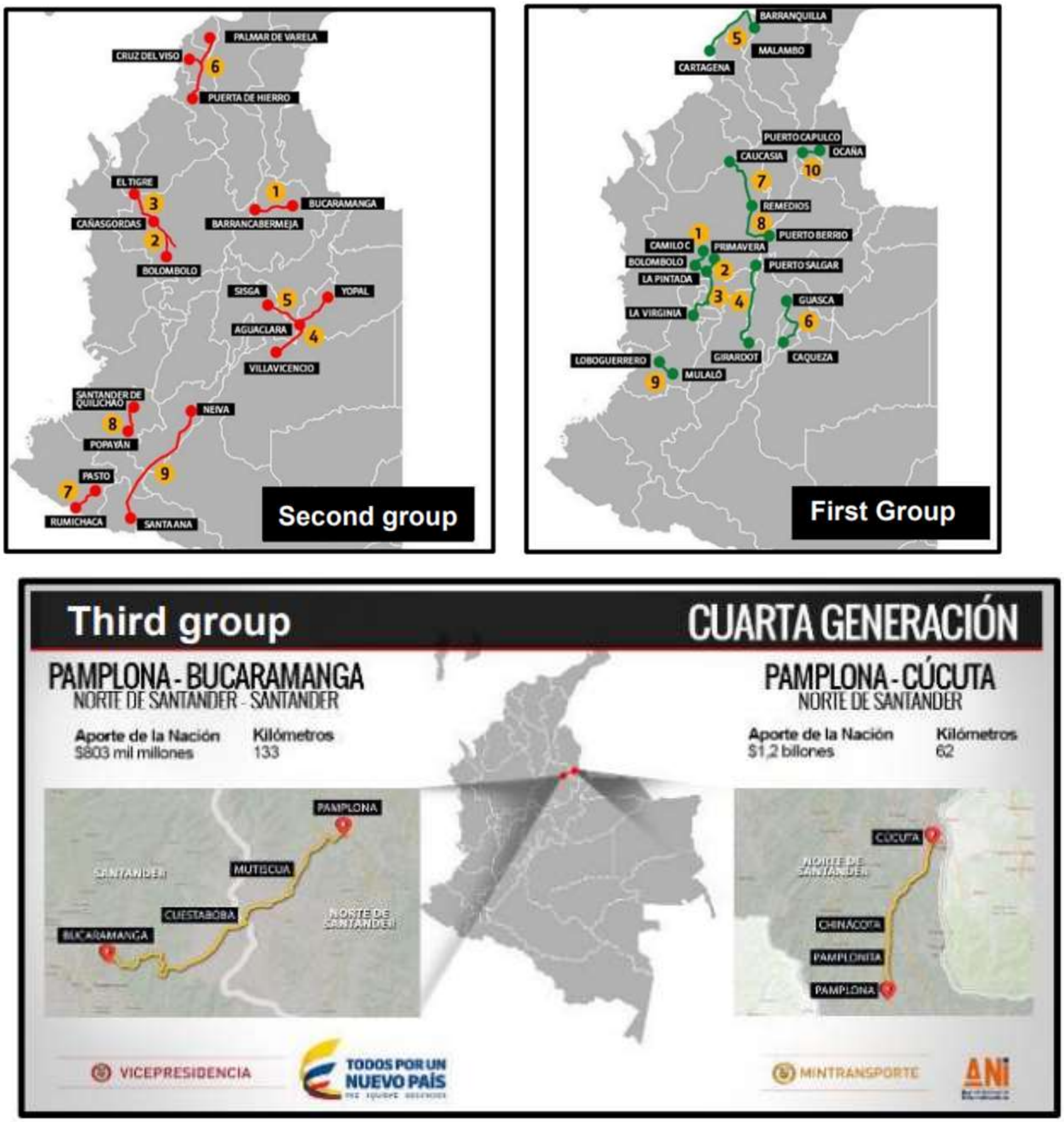
Source: National Planning Department, National Infrastructure Agency

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

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

Project	Length (km)	Contract Value (COP million)	Status
IP Cambao – Manizales (2013)	256	1,147,653.4	**Construction**
IP Tercer Carril Bogotá Girardot (2016)	145	4,197,839.6	**Construction**
IP Accesos norte a la ciudad de Bogotá D.C. (2014)	62	1,225,686.3	**Construction**
IP Chirajará – Fundadores / Bogotá Villavicencio* (2013)	86	5,090,472.5	**Construction**
IP Malla Vial del Meta (2013)	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:** USD 49.25 Million.
- **Status:** Inactive.

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
Apotolorru	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
Autogeneración Turgas	Minor	3.5	Q1 2020
Autogeneración Ferticol	Minor	17	Q1 2020
PCH Libertad	Minor	1.2	Q1 2020
Espinal	Solar	9.9	Q1 2020
San Andrés de Querquia	Minor	19.9	Q1 2020

Source: UPME, Premilinar Plan de Expansión 2020-2034

Oil Exploration Projects for Colombia in 2021 (third quater)

Exploration Projects	Status	Participants
Basari-1	Under evaluation	Hocol (100%)
Silverback 2	Dry	Chevron 35%, Shell 30%, Progress 15%, Murphy 10%, EAL 10%

Source: Ecopetrol

Ecopetrol's Investment plan for 2020-2023

USD million	Investment 2021Q3	Investment 2021-2023 Projected	
Production	930	12,000	15,000
Exploration	66	9,000	11,000
Refining and Petrochemistry	127	1,200	1,400
Transport	0	780	960
Operation	-	-	-
Other	51	2,190	2,260

Total	1,174	12,000	15,000

Source: Ecopetrol

III. Others

- **Education:** Design, construction, financing, maintenance and operation of accommodation for the National University students in Manizales.
  - ***Capex:*** Manizales: To define
  - ***Status:*** Manizales: Prefactibility

- **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:** Feasibility

- **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 2,522.9 Million (Bogotá), USD 57.2 Million (Duitama), USD 128.7 Million (Neiva).
  - ***Status:*** Structured (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:*** 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 136.2

- **Status:** Feasibility

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

- **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:*** Inactive

  Construction, operation, and maintenance of student housing in Medellín.
  - ***Capex***: USD 79.6 million.
  - ***Status:*** Finished 1 phase

  Design and construction of the new Congress building.
  - ***Capex*****:** USD 136.8 million.
  - ***Status:*** Inactive

  Design, construction, operation and maintenance of National Attorney General office in Cali.
  - ***Capex:*** USD 114.4 million***.***
  - ***Status:*** In tender

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	3	30	36
Environment and tourism		3	2	5
Science, tech and innovation				
Commerce, Industry and tourism			3	3
Culture and sports	1	3	6	10
Public Buildings and Urban Renewal	2	7	30	39
Education		6	5	11
Justice		2	5	7
Mining and Energy	1	3	6	10
Health Care	1	5	1	7
Information and Communication Technologies		1	4	5
Transport	38	36	68	142
Housing		1	2	3
Total	**46**	**74**	**166**	**286**

Source: National Planning Department- RUAPP (September 2021)

Forecast table

		2015	2016	2017	2018	2019	2020	2021f
Population	Millions	47.9	47.9	48.0	48.0	49.4	50.3	51.1
Real GDP	Trillions of 2015 COP	804.7	821.5	832.6	854.0	882.0	821.6	903.8
	% change	3.0	2.1	1.4	2.7	3.3	-6.8	10.0
Nominal GDP								
In pesos	Trillions of current COP	804.7	863.8	920.5	987.8	1,061.1	1,002.6	1,155.5
	% change	5.5	7.3	6.6	7.3	7.4	-5.5	15.2
In dollars	Billions of current USD	293.5	282.7	311.9	334.1	323.4	271.0	308.4
	% change	-23.0	-3.7	10.3	7.1	-3.2	-16.7	13.8
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	4.8
Nominal exchange rate (average)	COP/USD	2,742	3,055	2,951	2,956	3,281	3,693	3,747
	% change	37.0	11.4	-3.4	0.2	11.0	13.5	1.5
Real exchange rate (average)	2010 average = 100	120.1	122.4	122.9	121.3	125.2	134.0	139.7
	% change	22.4	3.2	-5.1	-2.4	6.6	9.2	4.3
Repo rate (end of period)	% (end of period)	5.75	7.50	4.75	4.25	4.25	1.75	3.00
Nominal interest rate (DTF)	% (end of period)	5.2	6.9	5.4	4.5	4.2	2.0	3.00
Current account balance	Billions of current USD	-18.6	-12.0	-10.3	-12.7	-13.6	-8.8	-17.6
	% of GDP	-6.3	-4.3	-3.3	-3.8	-4.2	-3.3	-5.7
Capital account balance	Billions of current USD	-18.2	-12.3	-9.6	-12.1	-12.9	-8.3	-17.6
	% of GDP	-6.2	-4.3	-3.1	-3.6	-4.0	-3.1	-5.7
Exports	Billions of current USD	36.0	31.8	38.0	41.9	39.8	31.0	33.9
	% change	-34.3	-11.8	19.7	10.2	-4.4	-21.4	9.2
Exports (goods and services)	Billions of current USD	46.2	46.1	47.3	47.6	49.1	40.1	44.7
	% change	-28.2	-0.2	2.6	0.6	3.2	-18.3	11.5
Imports	Billions of current USD	51.6	42.8	44.0	48.9	50.3	41.2	47.3
	% change	-15.5	-17.0	2.6	11.3	2.7	-18.1	14.8
Imports (goods and services)	Billions of current USD	66.8	64.4	65.1	68.9	73.9	61.1	78.1
	% change	-15.1	-3.6	1.1	5.8	7.3	-17.3	27.8
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	-8.1

f*:all values are forecasts

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