

Colombia: Financing Strategy and Economic Outlook

June 2023



Agenda

1. Macroeconomic and fiscal Outlook

2. Financing Strategy

3. National Development Plan 2022 - 2026

Macroeconomic outlook

In 2023 and 2024, the scenario would be characterized by a macroeconomic adjustment process, which would be reflected in a gradual reduction in local inflation, a correction of the external deficit, and a slowdown in real activity.



An economic growth of 1.8% in 2023 would keep **Colombia as one of the reactivation leaders after the pandemic**. Economic growth of 1.5% in **2024** would incorporate a more favorable quarterly dynamic relative to 2023.



After reaching a maximum in March 2023, **local inflation would gradually adjust**, converging to the target range in 2025.



The current account deficit would decrease in 2023 and 2024, **in line with the dynamism of exports and the correction of international prices**.

In the medium-term, the economy would show a more balanced behavior, in line with the improvement in the external scenario and the implementation of the productive transformation strategy:

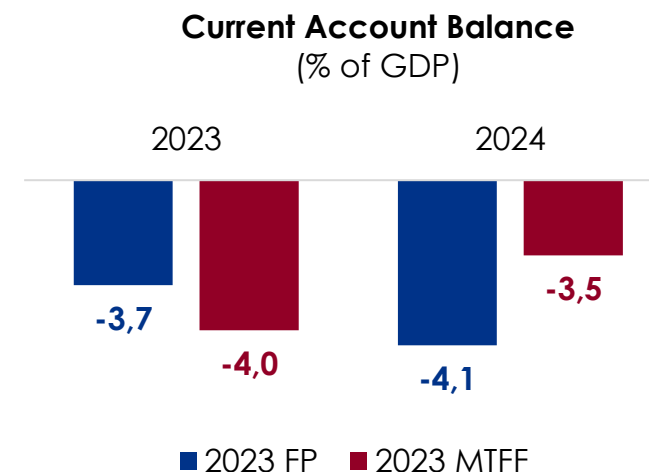
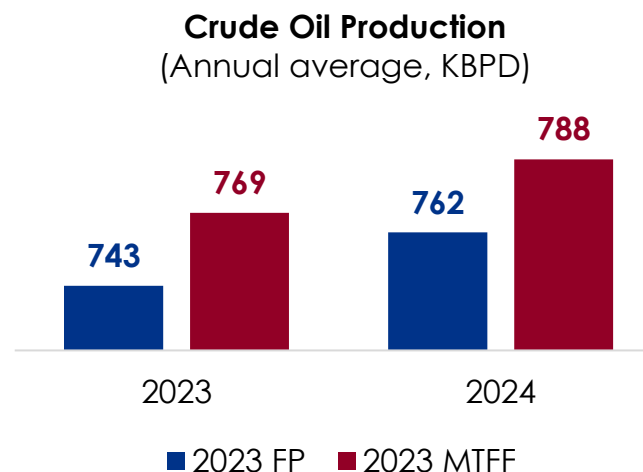
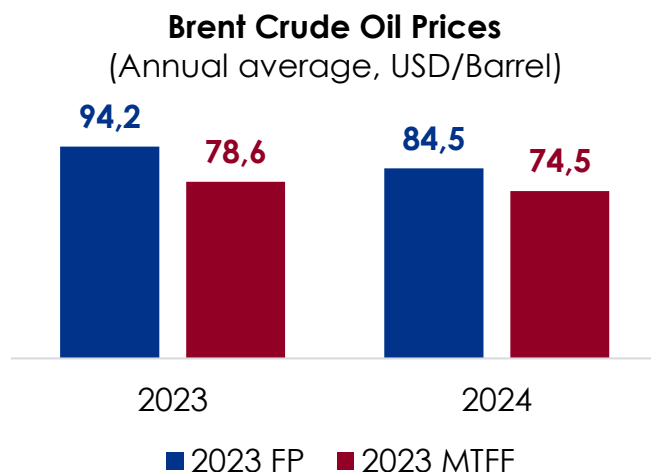
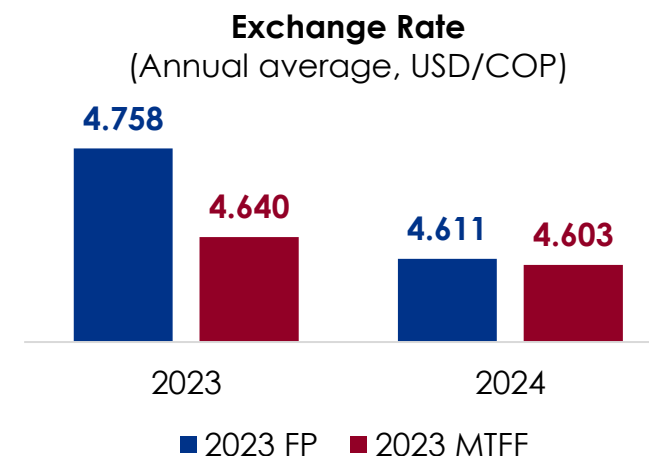
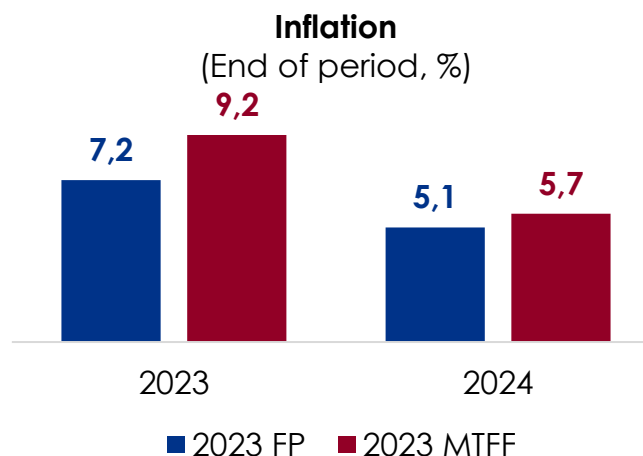
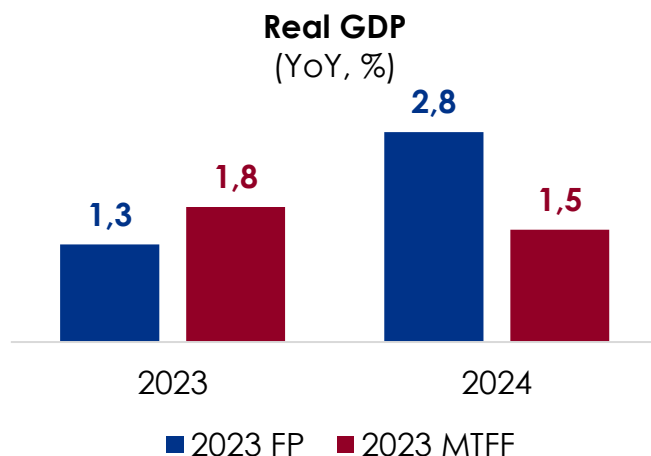


Economic growth would be steadily **above 3% from 2025 onwards**.



The **current account deficit would converge to 2.5% of GDP in the medium term**, favored by the dynamism of non-traditional exports, mainly financed with FDI flows.

Macroeconomic assumptions 2023 and 2024

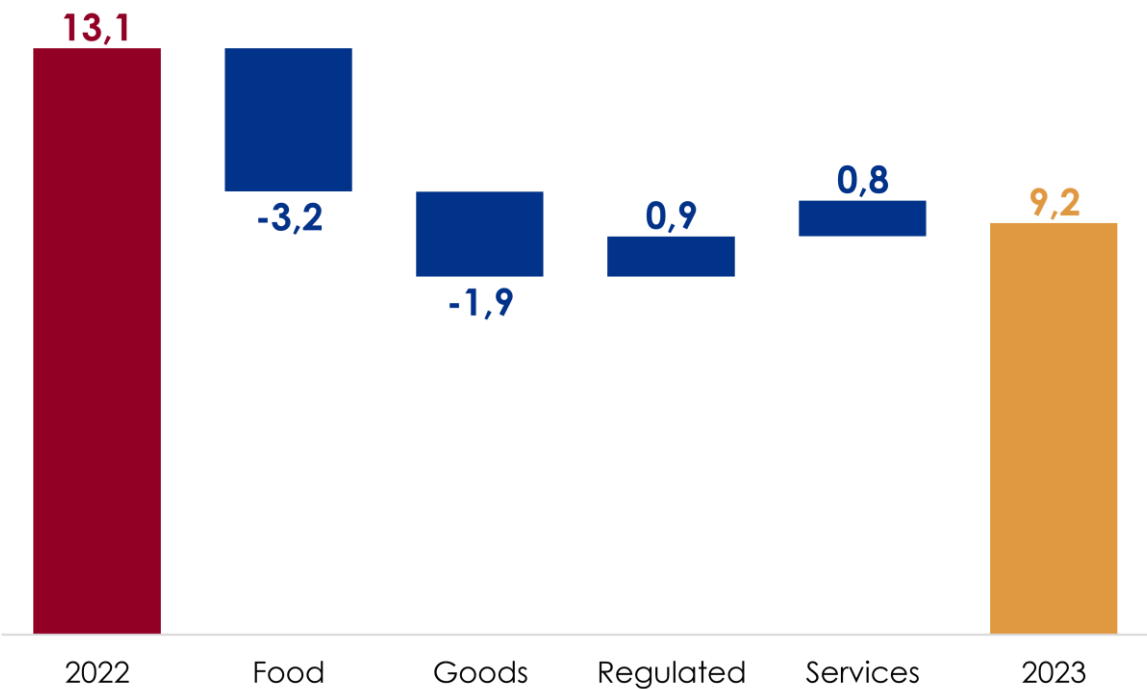


FP: Financial Plan
MTFF: Medium-Term Fiscal Framework

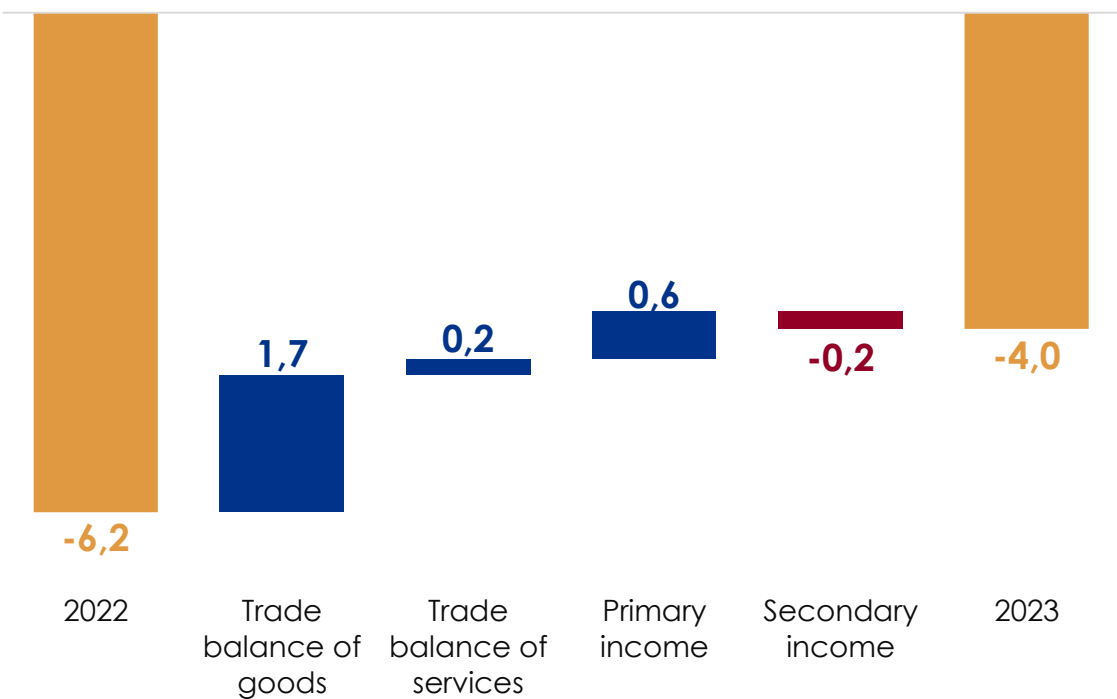
Source: Ministry of Finance and Public Credit projections.

2023 will be a year of correction of macroeconomic imbalances, reflected in the reduction of inflation and the current account deficit

Contribution to the reduction of inflation by component between 2022 and 2023 (pp)



Correction of the current account balance between 2022 and 2023(pp of GDP)

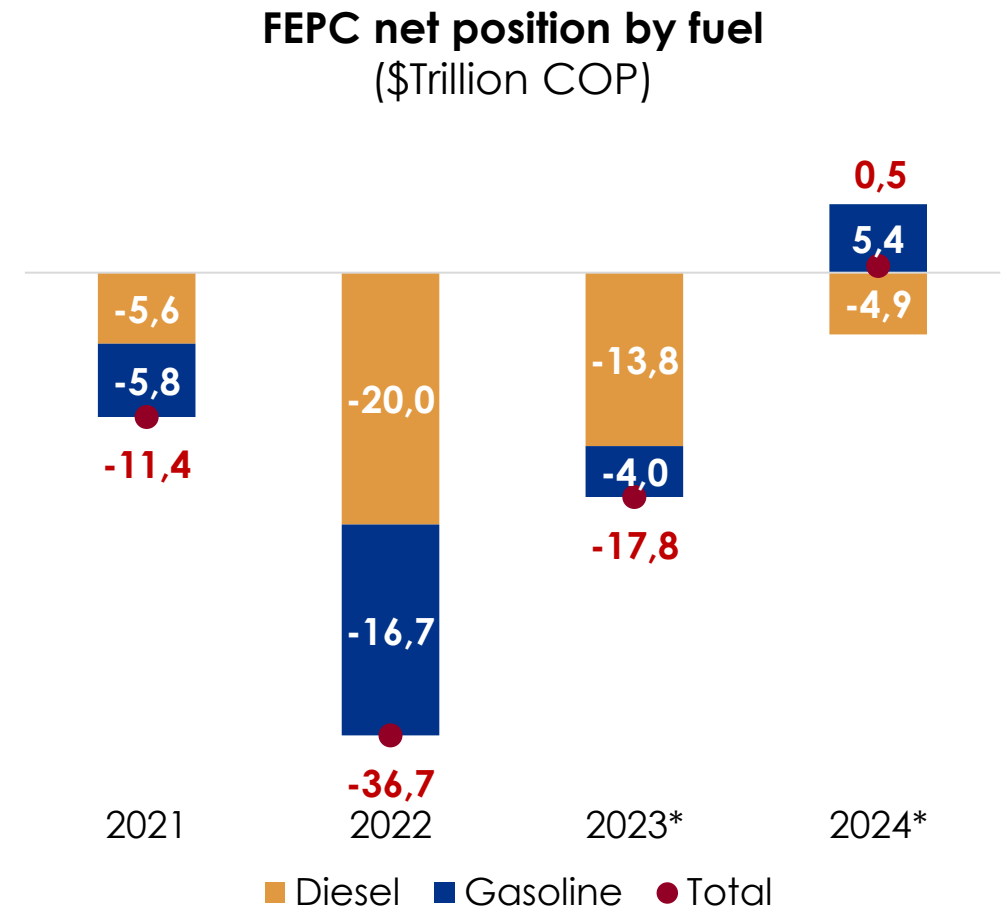


Inflation would be within the Central Bank’s target range as of 2025

Source: Colombia’s Central Bank. Ministry of Finance and Public Credit projections.

One of the main objectives of the fiscal strategy contained in the MTFF is to eliminate the implicit subsidy that the FEPC gives to gasoline and diesel consumption.

- » The National Government contemplates fuel price increases which allow that, **at the end of 2024, the FEPC will no longer grant implicit subsidies for fuel consumption.**
- » This will allow the National Government, aside from **improving expenditure efficiency and promoting the energy transition, to have more resources available to finance social programs.**
- » **It should be noted that the subsidy granted by the FEPC is regressive,** as it typically benefits the wealthiest households, given that they consume more of these goods.

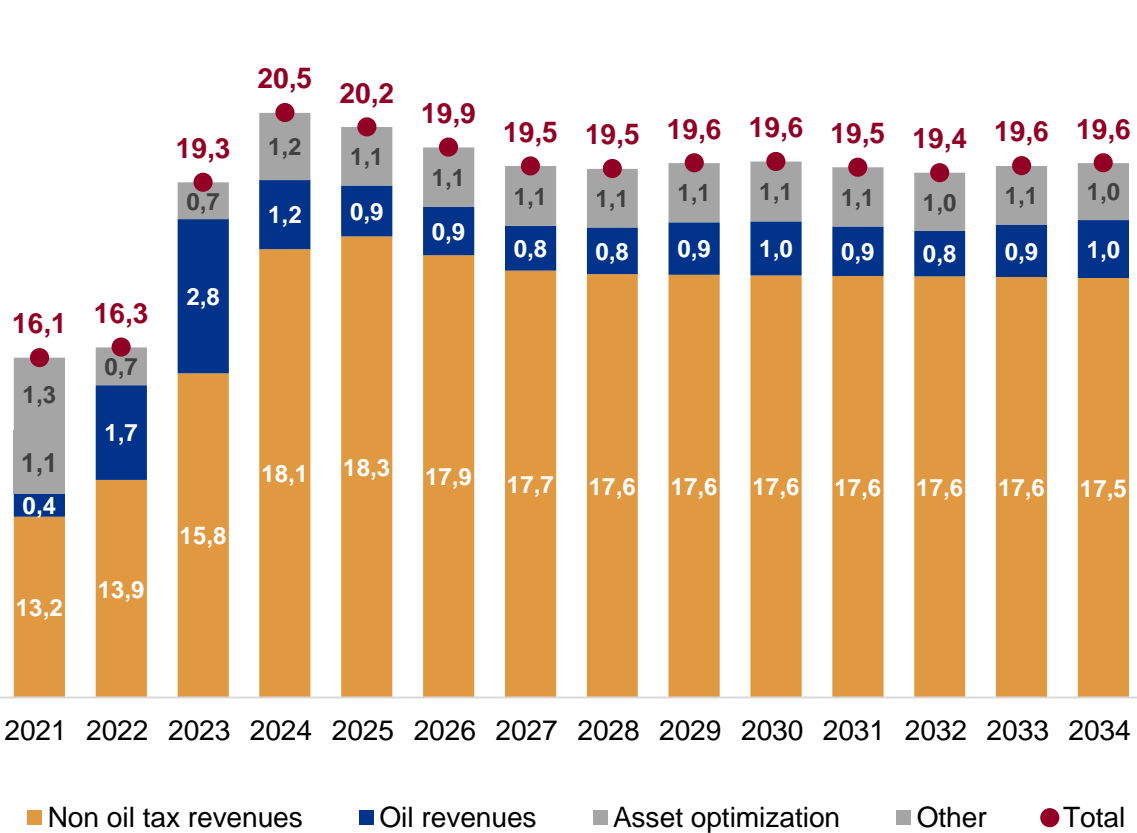


*Forecasted figures

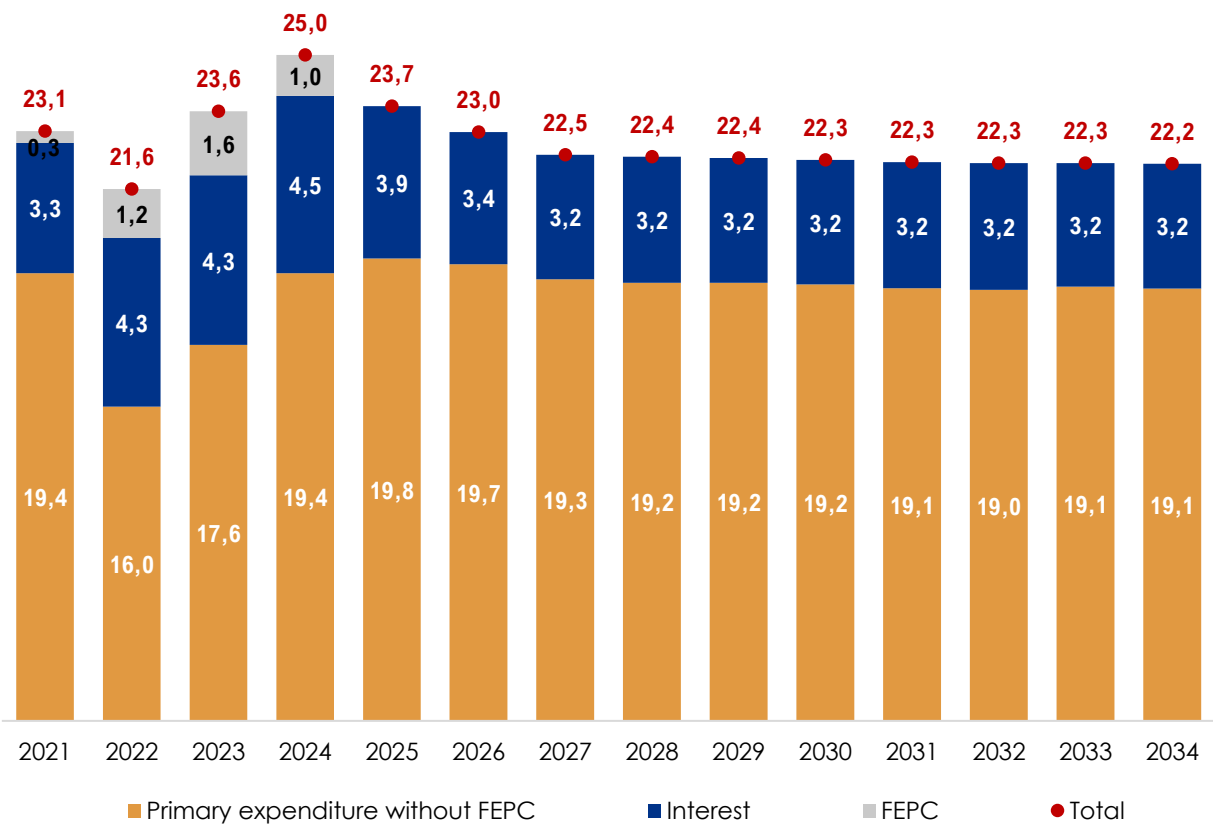
Source: Ministry of Finance with data from the Ministry of Energy and the FEPC Directive Committee.

GNC revenues would stabilize at 19.5% of GDP, which allows for maintaining an expenditure level of 22.3% of GDP, consistent with the social spending strategy with fiscal responsibility.

Central Government revenues
(% del GDP)



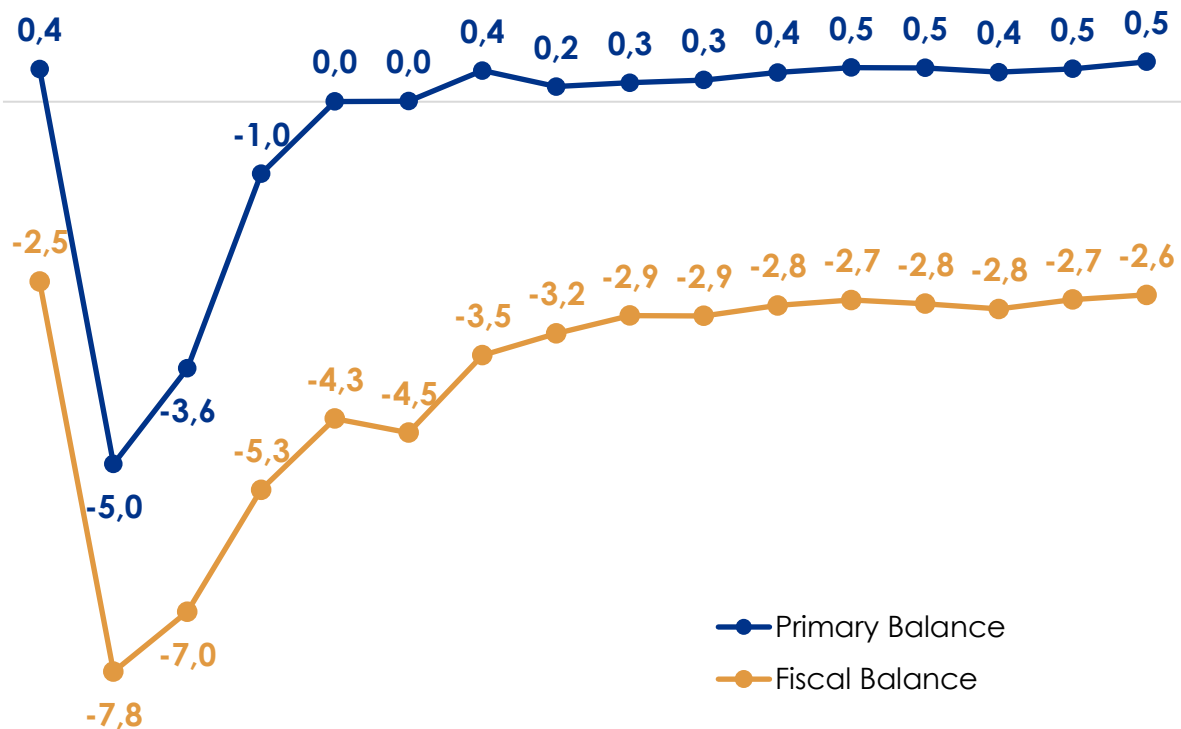
Central Government Total Expenditure
(% of GDP)



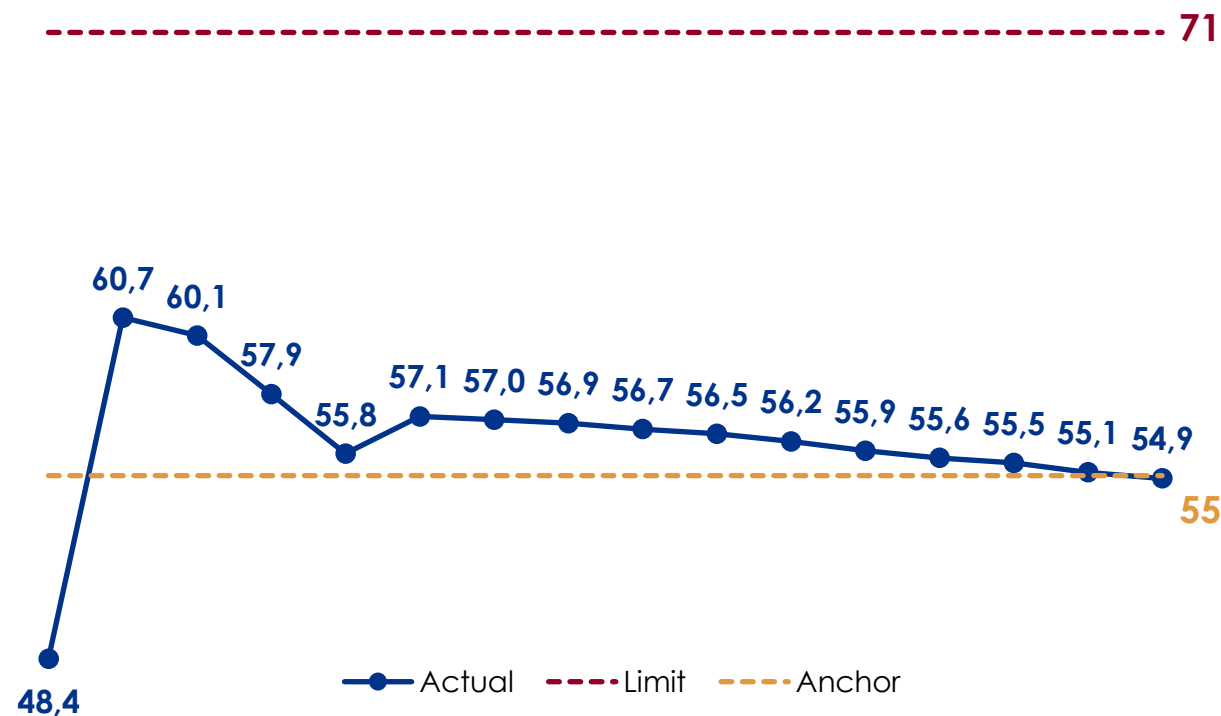
Source: Ministry of Finance - GDMP

Due to persistent primary surpluses, net debt will gradually converge to its anchor in the medium term

Primary and Fiscal balance Central Government
(% of GDP)



Central Government net debt
(% of GDP)



2019 2020 2021 2022 2023 2024 2025 2026 2027 2028 2029 2030 2031 2032 2033 2034

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1. Macroeconomic and fiscal Outlook

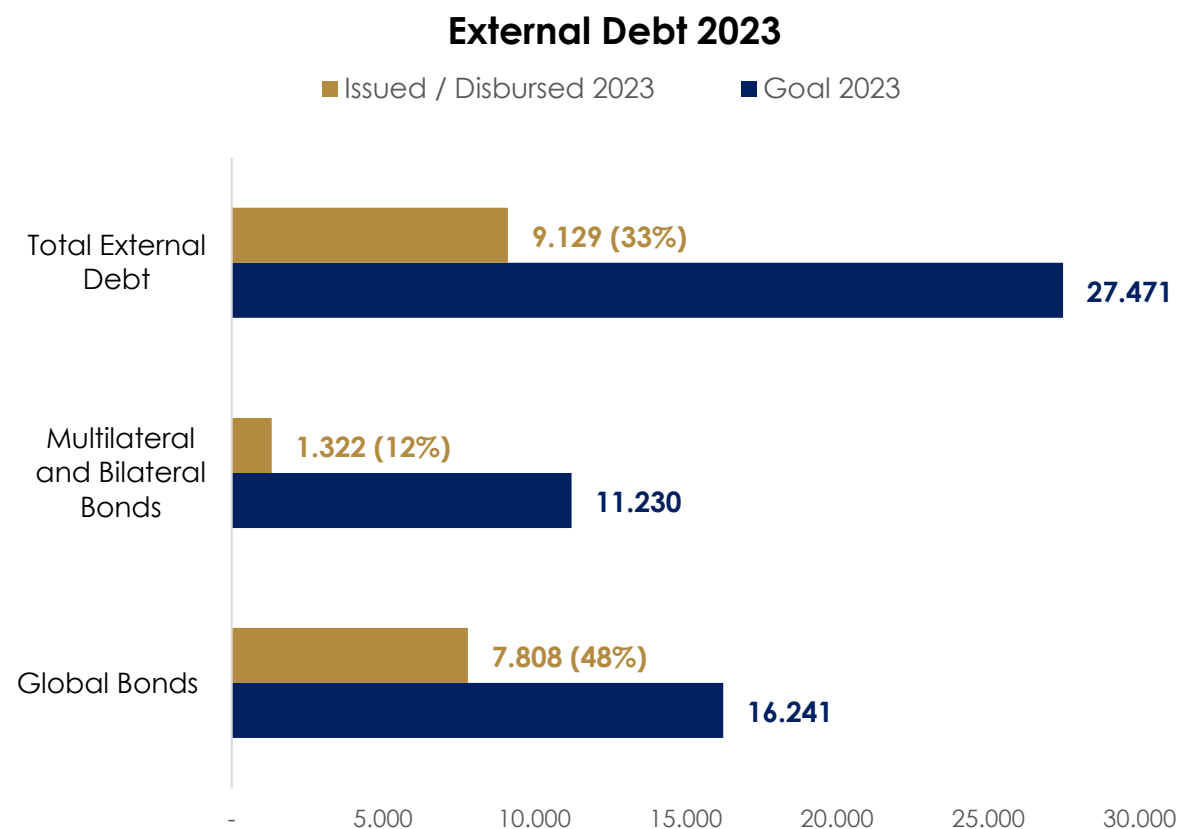
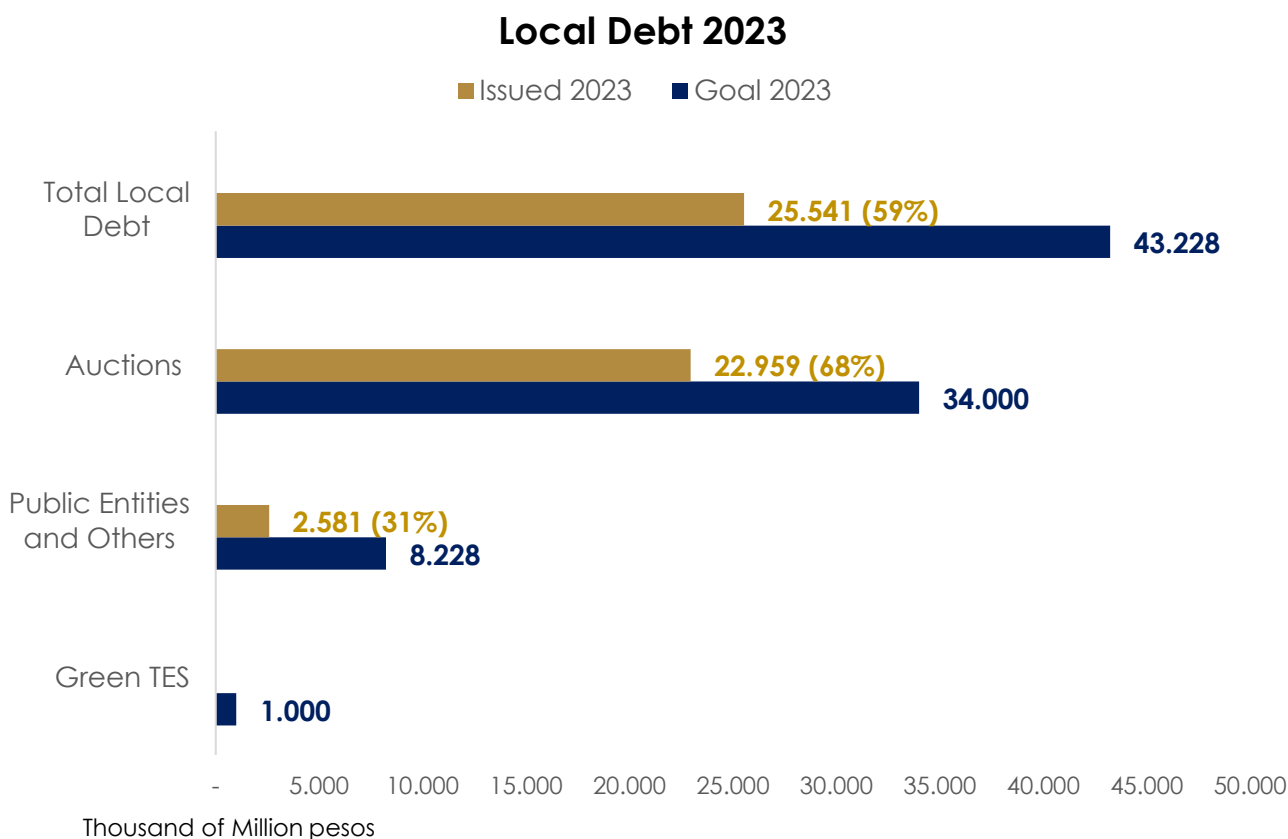
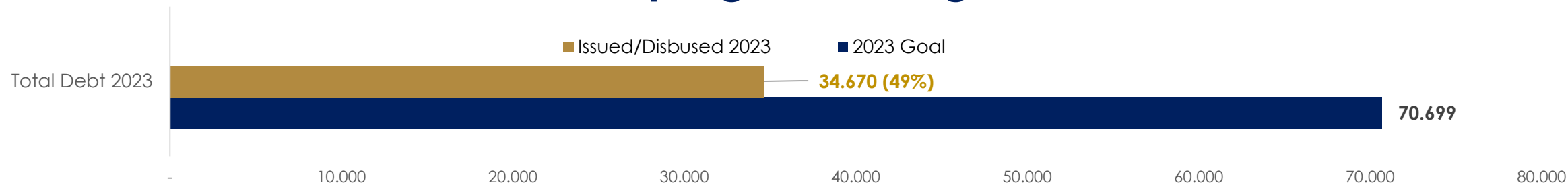
2. Financing Strategy

3. National Development Plan 2022 - 2026

The financing strategy for 2023 has two objectives i) finish the year with a higher cash availability, and ii) prefunding 2024

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|------------------------------------------------------------------------------------------------|------------------|------------------|---------|---------|--------|------------------------------------------------------------------------------------------------|------------------|------------------|---------|---------|---------|
| SOURCES | US\$ Sep | US\$ Act | 109.404 | 122.673 | 13.269 | USES | US\$ Sep | US\$ Act | 109.404 | 122.673 | 13.269 |
| | | | | | | | | | | | |
| Disbursments | | | 60.483 | 70.698 | 10.215 | Deficit | | | 59.619 | 69.543 | 9.924 |
| External | (US 5.100 mill.) | (US 5.920 mill.) | 24.266 | 27.471 | 3.205 | Of which: | | | | | |
| Internal | | | 36.218 | 43.228 | 7.010 | Internal Interest | | | 51.319 | 52.186 | 867 |
| | | | | | | External Interest | (US 3.342 mill.) | (US 3.665 mill.) | 17.064 | 17.422 | 358 |
| Treasury Operations | | | 4.071 | 6.004 | 1.933 | | | | | | |
| | | | | | - | Amortizations | | | 27.192 | 25.075 | - 2.117 |
| Accrual Adjustments | | | 23.654 | 24.687 | 1.033 | External | (US 2.234 mill.) | (US 2.393 mill.) | 11.406 | 11.373 | - 33 |
| | | | | | | Internal | | | 15.786 | 13.703 | - 2.084 |
| | | | | | | | | | | | - |
| | | | | | | Payment of Obligations (Rulings, Health and Others) | | | 250 | 750 | 500 |
| | | | | | | | | | | | |
| Initial Availability | | | 21.196 | 21.284 | 87 | Final Availability | | | 22.343 | 27.305 | 4.961 |
| | | | | | | | | | | | |

The local and international market has contributed to the success in the debt progress during 2023



In Green and Social Bonds Colombia follows the principles of the International Capital Markets Association (ICMA), which incorporate the best practices for the definition, structuring and issuance of thematic bonds.



- Budget for general purposes.
- General objective is to support the investment expenses.
- The association exercise is allowed one year back budget, current budget and one year looking forward.



Take into account social eligible expenses based on Target population and Social priorities of the country.



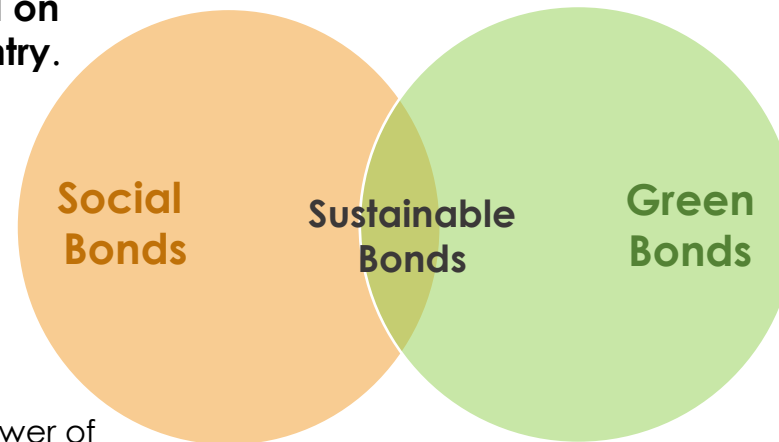
Political Constitution of Colombia of 1991



SDG Agenda – 2030

National Development Plan "Colombia World Power of Life"

International conventions aimed at the protection and promotion of fundamental rights and freedoms.



Take into account green eligible expenses based on:



Paris agreement – Adopted by law 1844 of 2017



National Development Plan "Colombia World Power of Life"



National taxonomy and climate change law.

Social and Green categories included in the framework are correlated with the SDG and the pillars of National Development Plan (NDP)

Social Sustainable Development Goals (SDG)



NDP pillars
1,2 & 3

i) Social Justice
ii) Human security
iii) Productive transformation

Social Categories



Socioeconomic advancement and reduction of inequalities.



Effective access and quality in services as education & health



Employment generation and promotion of productivity



Food and nutrition security



Decent and affordable housing



Peace Building



Poverty reduction

Green Sustainable Development Goals (SDG)



NDP pillars
1&4

i) Territorial planning around water and environmental justice and
ii) Climate action

Green Categories



Unconventional energy sources, energy efficiency



Sustainable constructions and adapted to climate change



Sustainable agricultural production, low emissions and adapted to climate change



Disaster risk management associated with climate change



Ecosystem service and biodiversity



Clean and sustainable transport

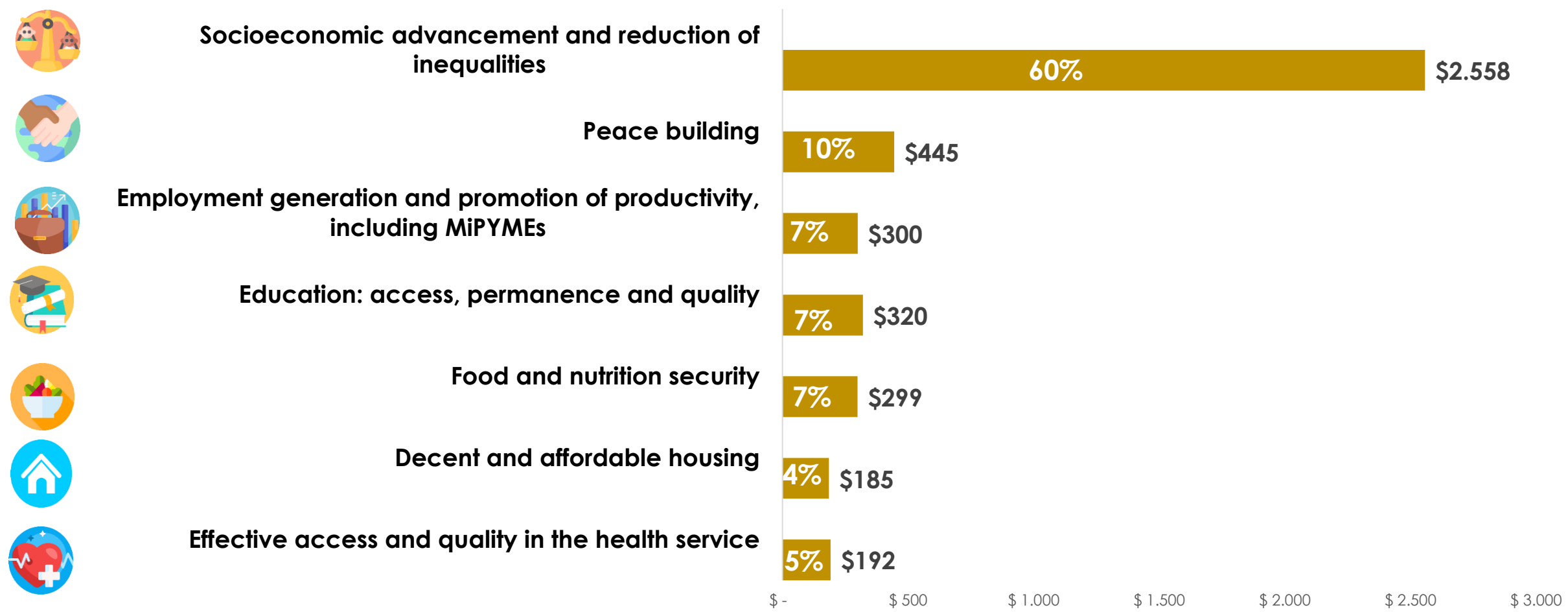


Management, sustainable use and sanitation of water.



Waste and circular economy

The portfolio of eligible expenses for a social bond under the 2022 budget amounts to USD 4,299million distributed in 47 projects.



Millions of dollars

The ID-ETF is going to democratize the public debt in Colombia



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The National Development Plan (NDP) 2022-2026 looks forward transformation through 6 pillars



6 Pillars in the National Development Plan

Transformations



Territorial planning around water and environmental justice



Human Security and Social Justice



Human right to food



Productive transformation, internationalization and climate action



Regional convergence

Differential actors for change

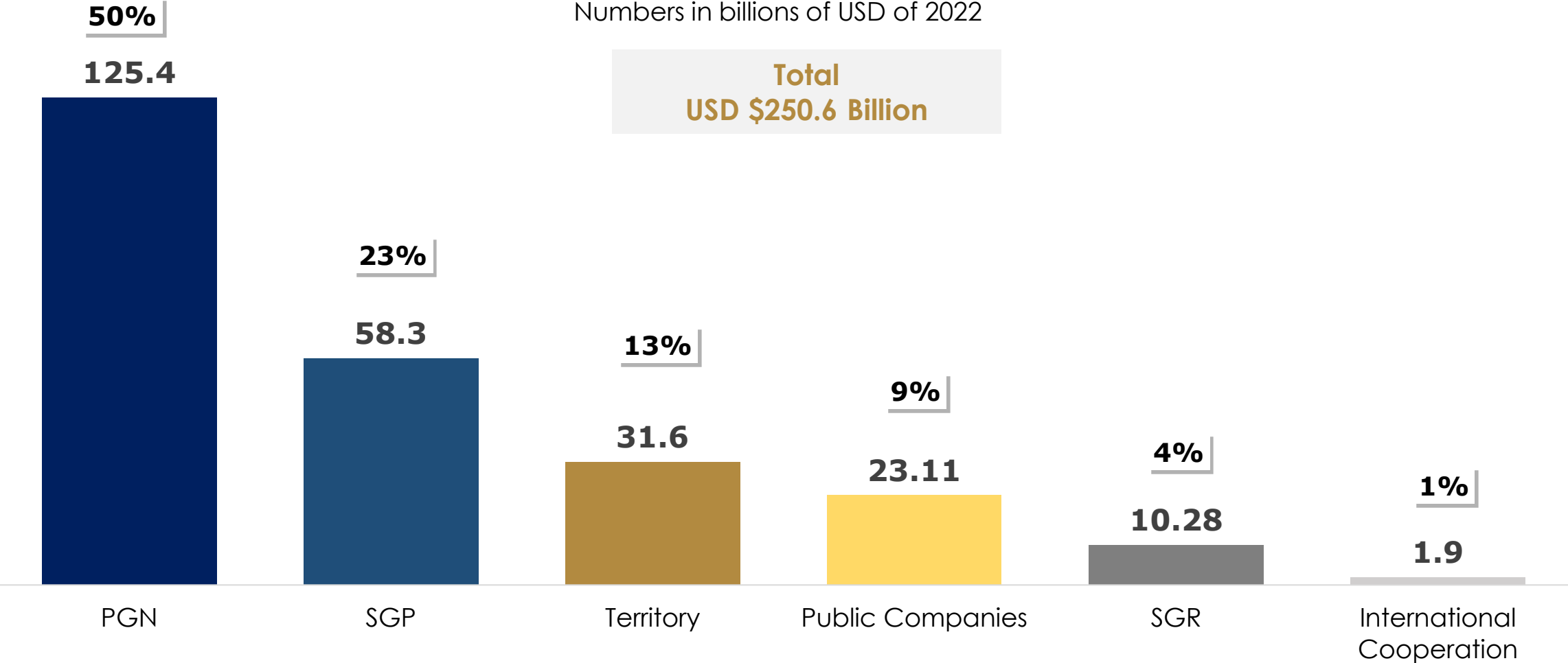


- The change must include women.
- Reduce social gaps and work towards social development.
- Effective and integral reparation to victims.
- Protection and opportunities for children and teenagers.
- Focus on peasantry, young, ethnicities and communities.
- Guarantees towards a world without barriers for people with disabilities.

Macroeconomic Stability

The funding sources of the National Development Plan are diversified between national and subnational governments, private sector and international organizations

Indicative estimation by source (2023-2026)
Numbers in billions of USD of 2022

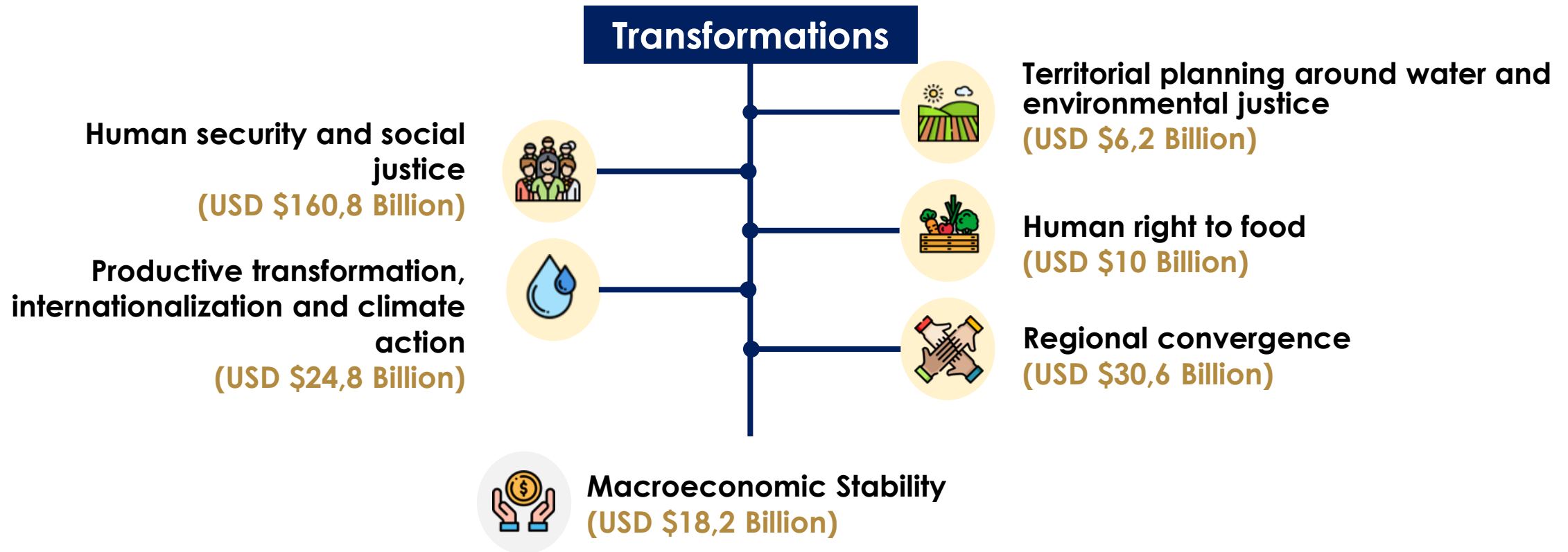


Source: DNP, 2023

* Taken as reference a Representative Market Rate of COP \$4.603 from MFMP 2023
** Spanish acronyms

The uses of funding resources are distributed between projects and programs correlated to the 6 pillars, which will contribute with the economic performance in the following years

Territorial planning to close the gaps
USD \$250.6 Billion* (2022-2026)



* This consolidation of numbers does not include the estimate of private resources.

** The distributions are preliminary. They may change based on what is defined in the addendum to PGN 2023.

*** Representative Market Rate of COP \$4.603 from MFMP 2023

The top 3 major programs could contribute to close the gaps, to reduce poverty, and to improve the reindustrialization policy in the country

1

Physical and digital connectivity for bridging the gaps for good living



Tertiary roads, river, rail and air transportation.



Connecting the country digitally
Internet Access (Fixed and mobile)

2

Wastewater treatment systems



Wastewater treatment plants.
Interregional and border benefits.



Sanitation and wastewater management.
Decontamination of water sources.

3

Reindustrialization for productive transformation through Science Technology and Innovation policy



Research & Development:



Energy transition



Agro-industrialization.



Sanitary autonomy.

Bioeconomy

Defense and peace.



Reindustrialization Policy.



Hacienda

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