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Colombia’s challenges in the context of global energy transition and climate change

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Main challenge of Colombia in the context of energy transition

Balance the vulnerabilities faced by the economy, in the context of climate change and the global energy transition

Move towards a sustainable energy transition in Colombia, complying with international climate commitments

Climate vulnerability

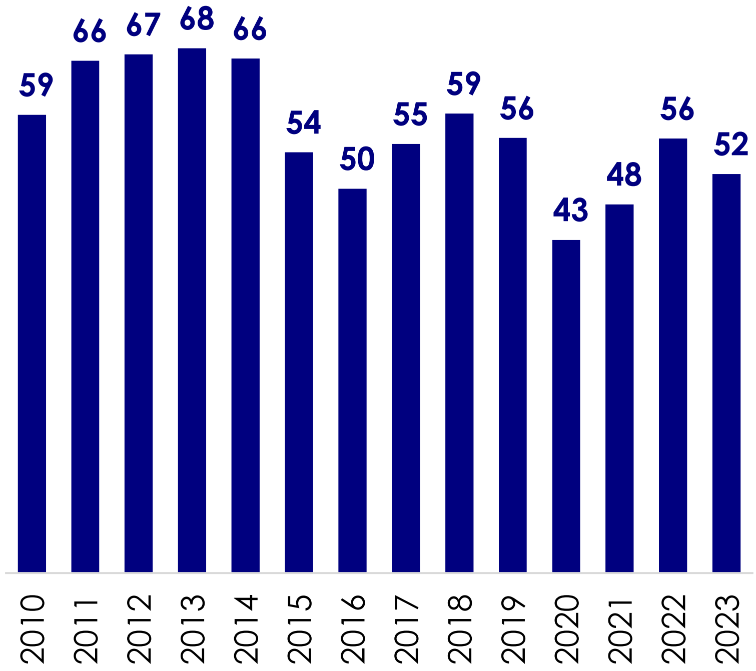
Colombia faces risks associated with climate change, given the **high occurrence of climate events and the country's limited adaptation and mitigation capacities** to face such shocks.

According to the Climate Risk Index, **Colombia is among the 28 countries with the highest climate risk** worldwide and has poor performance in terms of climate adaptation.

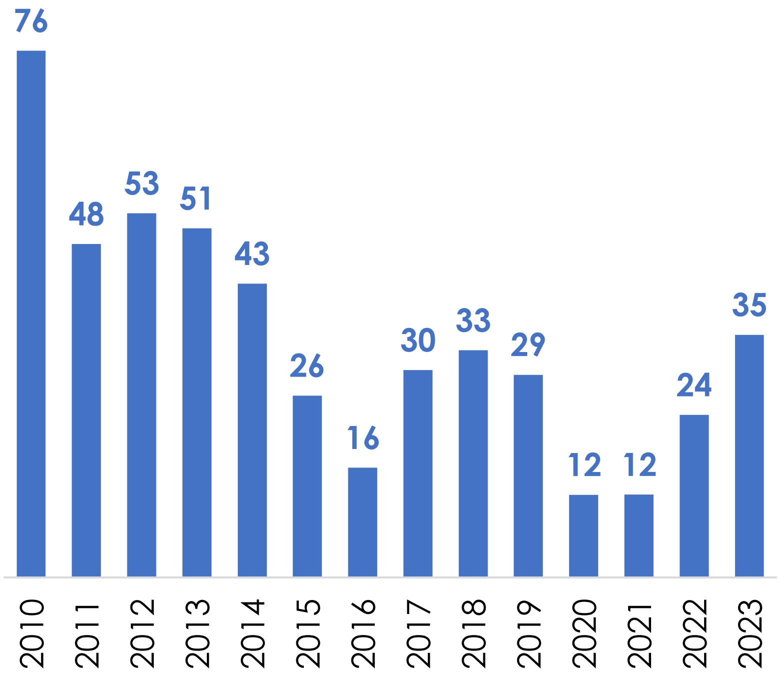
Colombia is the second country in Latin America with the **highest score in the dangers and exposure category** of the INFORM risk index.

Fiscal and external vulnerabilities

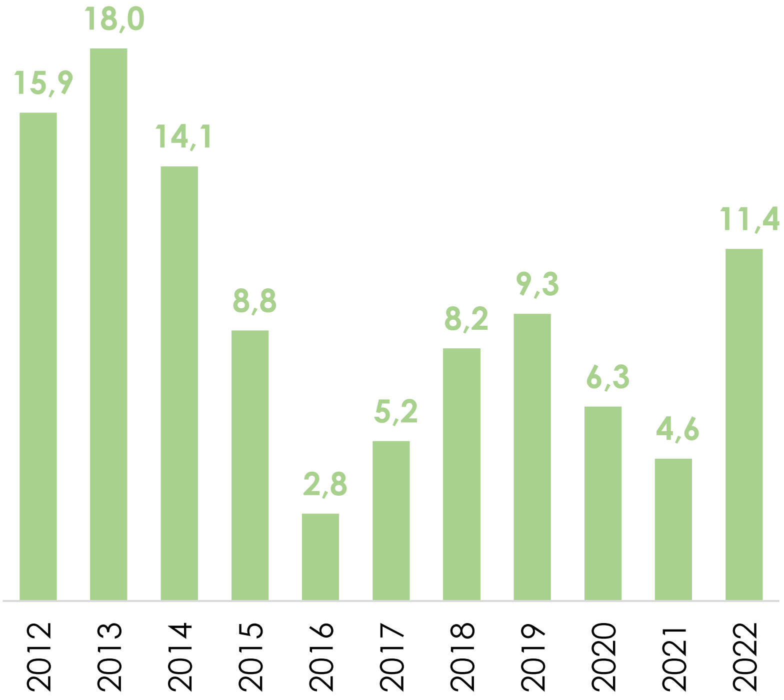
Exports of extractive industries[1]
(% of total exports)



FDI flows to oil and mining sectors
(% of total FDI)



General government revenue from extractive industries[2] (% of total revenue)



Given the dependence of the Colombian economy on extractive industries, **global efforts aimed at recomposing the energy matrix could have negative effects on the country's macroeconomic and fiscal outlook and perspectives.**

1. Oil, coal and ferronickel.
2. Taxes, dividends, royalties and transfer from domestic companies.

Source: Colombia´s Central Bank and Ministry of Finance.

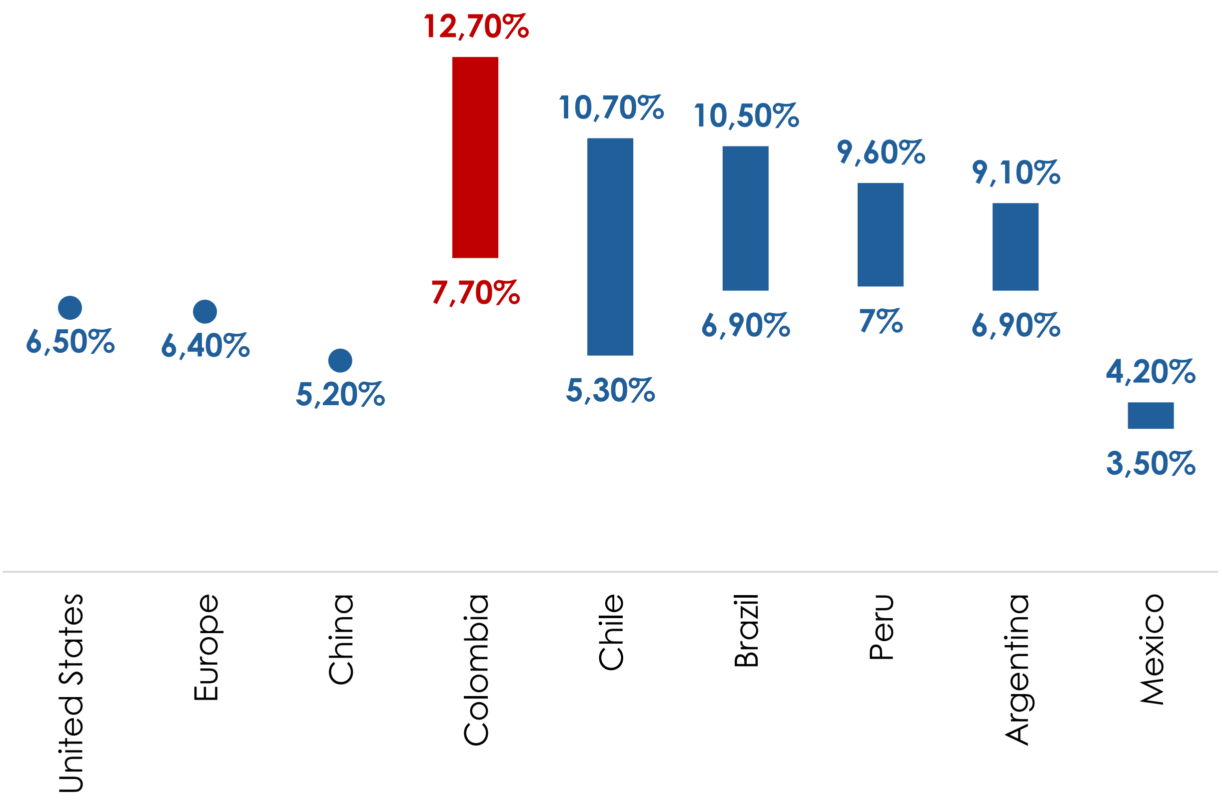
Hacienda

Investment needs for the energy transition

- It is estimated that, to meet climate commitments, Colombia would need to invest between 7.7% and 12.7% of its annual GDP until 2050, the greatest needs in the region

- These investments include green infrastructure, energy transition and adaptation programs.

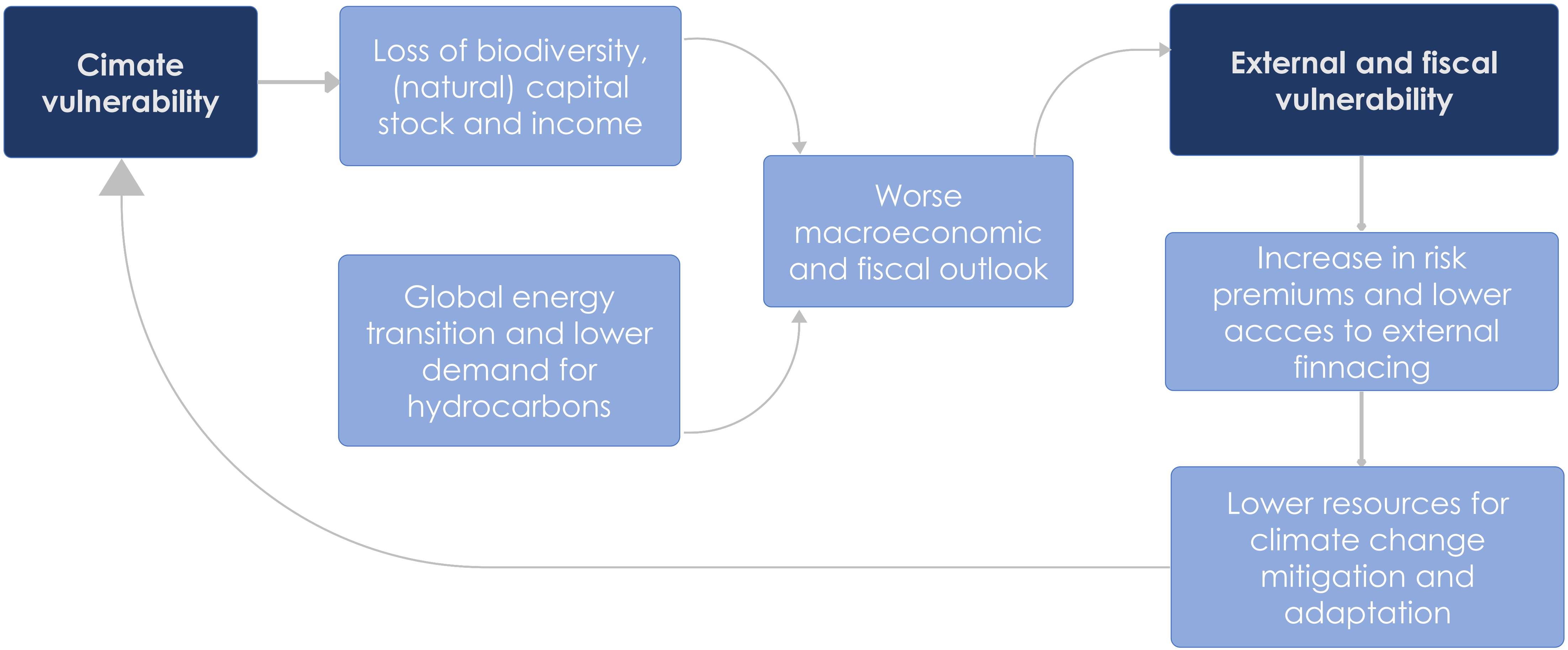
Spending required to meet climate commitments
(% of GDP)



Source: Cárdenas & Orozco-Sanchez (2022). Climate Mitigation In Latin American And The Caribbean: A Primer On Transition Costs, Risk And Finance

Fiscal, external and climate vulnerabilities can enhance each other

The strong dependence of the economy on extractive industries and the high exposure to climate change result on a **triple vulnerability for Colombia**



Hacienda

Given these challenges, the national government has taken some action plans

The national government has moved forward consistently and decisively with its energy transition agenda.

The energy transition will be carried out gradually, so that:

- The country's energy self-sufficiency is guaranteed
- The economic impacts associated with this process are minimized
- The macroeconomic stability and fiscal sustainability of the Colombian economy are not put at risk.

The energy transition implies moving from an extractive productive and export basket to one based on sustainable and inclusive growth.

Fiscal measures to promote energy transition

Elimination of the fossil fuel subsidy for gasoline consumption that was delivered indirectly through the Fuel Price Stabilization Fund (FEPC).

The Government continues to promote the fair energy transition through the Financial Bill

- Tariff adjustments and regulatory improvements in the Carbon Tax
- Tax incentives designed to facilitate the transition to non-conventional and clean renewable energy, such as:

  - Energy Transition Bonus
  - Change the exclusion of VAT to an exemption for elements intended for the investment, production and use of Non-Conventional Energy Sources

Hacienda

Green Fiscal Rule

Green cycle

The Structural Primary Net Balance of the fiscal rule will **temporarily exclude green investments made during its term.** These investments will have a fiscal space enabled of:

- 0.3% of GDP between 2025 and 2030 annually
- 0.15% of GDP between 2031 and 2035 annually

The Green Component of the Fiscal Rule would be **self-sustainable and maintains the foundations of fiscal sustainability.**

This process incorporates **external verification conducted by an independent entity** (Moody's), which carries out an audit process to ensure the relevance of the investment portfolio.

The proposal is **self-financing over time** because of the fiscal multiplier of this type of projects which guarantees a debt level around the anchor of the Fiscal Rule.