Politics

Colombia Needs Fuel Hike After Wasted Bonanza, Public Credit Chief Says

- Public credit director Acosta speaks in interview in Bogota
- Sees fuel subsidies as 'cursed legacy' from last government

Motorcyclists wait in line at a gas station in Cucuta, Colombia. *Photographer: Ivan Valencia/Bloomberg*

By Oscar Medina and Andrea Jaramillo
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Colombia needs to increase fuel prices and phase out budget-busting subsidies, which are a "cursed legacy" from the previous government, according to a senior finance ministry official.

At current prices, the government estimates that it will spend the equivalent of about 3% of gross domestic product this year to keep gasoline and diesel prices down, which is about what it spends on defense.

President Gustavo Petro, who took office this month, is willing to use some of his ample political capital to fix the problem by allowing prices to rise, according to Public Credit Director Jose Roberto Acosta. Public finances would have enjoyed a big boost from the rise in the oil price this year, were it not for these subsidies, Acosta added.

"Today we're living fiscally without oil revenue," Acosta said Thursday, in an interview at the finance ministry in Bogota. "The money from the oil bonanza has gone to filling car tanks instead of filling the bellies of children and the elderly."

Allowing the price to rise might be politically risky for

Petro. It would probably be unpopular and would certainly stoke inflation, which is already at its highest rate in 23 years. Panama, Ecuador and Peru recently saw protests over inflation, with fuel price rises as one of demonstrators' main grievances.

Rather than allow fuel prices to rise in line with crude this year, the government of President Ivan Duque capped the increases, to keep the rate of inflation down. That caused the government to run up large debts with state oil company Ecopetrol SA, which must sell its fuel at an artificially low price. Duque left office on Aug. 7.

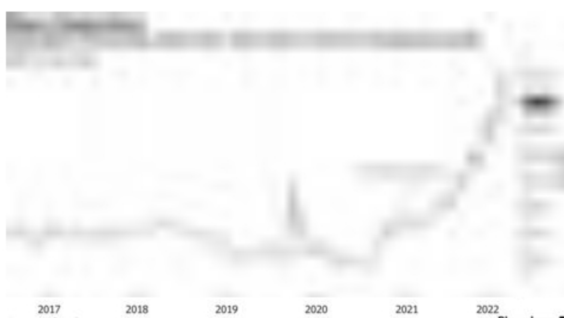
Bitter Pill

Allowing prices to rise would be a bitter pill for Colombian drivers to swallow. Gasoline currently costs about 9,000 pesos ($2.05) per gallon in Bogota, whereas without subsidies its price would rise to about 17,000 pesos.

The government's debts with Ecopetrol aren't included in the headline fiscal deficit figures, making them appear artificially low. Would the deficit figures include the fuel subsidies, this year's deficit expected at 5.6% of GDP would rise to more than 8%.

Colombia has about 91 trillion pesos of local peso debt, or 22% of the total, coming due in the next three years. Despite this, Acosta says that debt swaps "aren't among the preferences of the current administration" for addressing the issue.

Swaps to extend maturities only kick the problem further down the road and translate into higher costs for the nation, he said, adding that the government will look to use cash at hand instead.



Volatility in external markets has kept most emerging market countries -including Colombia- from issuing debt overseas this year. The last time the Andean nation tapped international markets was in October, a few months after it lost its investment grade rating.

The medium-term fiscal framework left by the previous government shows plans of raising $4.4 billion overseas this year.

Acosta, an economist and lawyer who previously served as public credit director for the city of Bogota, says that as public credit director for the city of Bogota, says that if tapping international bond markets remains too costly, Colombia will seek other sources of financing including from multilateral lenders.

Petro is popular among poorer Colombians after pledging to tax the wealthy to pay for increased welfare spending. On his first day in office, he sent a tax bill to congress that looks to raise revenue by about 1.7 percentage points of GDP.

Overseas investors have continued to pile in to the nation's peso bond market since Petro's election win, some of them attracted by yields above 12% for ten-year securities.

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Acosta says it's a sign that the market took Petro's victory well. The Petro administration "is absolutely market-friendly," he said.

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