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Latam Daily: Colombia's Medium-Term Fiscal Framework

- Colombia: Medium-Term Fiscal Framework, a guideline for the next government

COLOMBIA: MEDIUM-TERM FISCAL FRAMEWORK, A GUIDELINE FOR THE NEXT GOVERNMENT

On Tuesday, June 14 Minister José Manuel Restrepo presented the Medium-Term Fiscal Framework (MTFF), which provides the clearest insights into the government's thinking about the country's current fiscal outcomes and long-run economic prospects. The MTFF gives a general perspective on the key factors influencing the main fiscal goals and their sustainability over a ten-year perspective. Minister Restrepo highlighted that Colombia is achieving its long-term goals earlier than anticipated, with financing dynamics likely to normalize at faster pace than expected, as reflected in a lower projection of debt requirements in 2023.

Our take is that, despite the optimistic outlook, the new government will still have a challenge to achieve the path projected in the MTFF-2022. A critical challenge concerns the gasoline price stabilization fund, especially as regards the best timing to reduce the subsidy to avoid a larger deficit, increasing gasoline prices. In our perspective, fiscal reform is needed to achieve the optimistic projections presented in the MTFF in terms of fiscal income and to support fiscal expenditures, which in terms of percentage of GDP are not retreating to pre-COVID-19 levels.

All in all, we think the MTFF is credit positive. However, the international environment will be difficult amid FED tightening, which will dominate FI sentiment. In structural terms, it will be key to see if the new government provides continuity with respect to the current fiscal approach, especially in proposing structural fiscal reform and the confirmation of the fiscal rule as a medium-term anchor.

Key readings from the MTFF

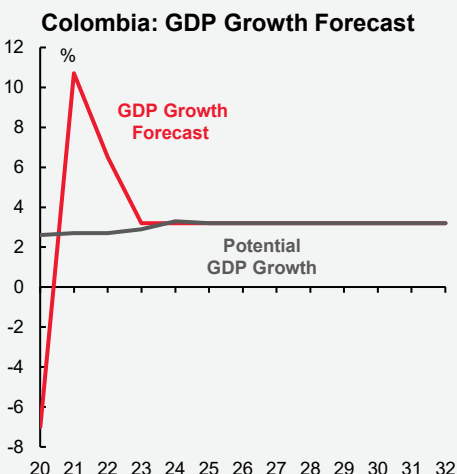
Macroeconomic assumptions (table 1):

Table 1: Colombia—Macroeconomic Assumptions 2022–2023

Variable	2021	2022F		2023F
		Financial Plan	MTFF	
Real GDP (%)	10.7	5.0	6.5	3.2
GDP deflator (%)	6.5	4.0	8.6	3.2
Nominal GDP (%)	17.9	9.2	15.7	6.5
Brent (USD per barrel)	71.00	70.00	100.00	94.20
Oil production (KBPD)	736	748	755	810
Exchange rate (USDCOP)	3747	3823	3924	4006
Imports, USD (%)	37.7	5.5	18.5	-3.0
Inflation, eop (%)	5.6	4.3	8.5	5.6

Sources: Scotiabank Economics, MTFF 2022.

Chart 1

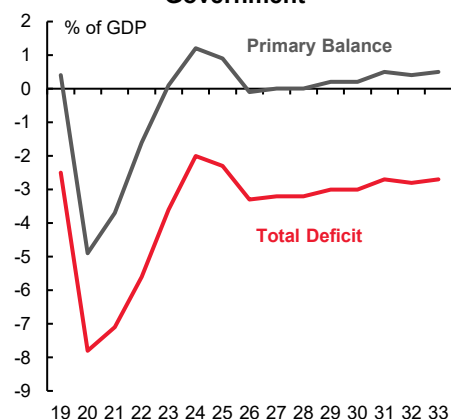


Sources: Scotiabank Economics, MTFF 2022.

- GDP was revised to the upside from 5.0% to 6.5% y/y in 2022, while in 2023 the MoF projects 3.2% (chart 1). According to government calculations, economic growth will reflect still strong private consumption and a better investment dynamic. That said, Minister Restrepo said that the economy is recovering faster than expected, and the employment gap is almost closed.
- In 2023, the MoF expects investment to make a higher contribution to GDP along with higher exports. Meanwhile, consumption is expected to moderate to its medium-term trend. All in, by the end of 2023, Colombia's GDP is expected to be 1.6% below

Chart 2

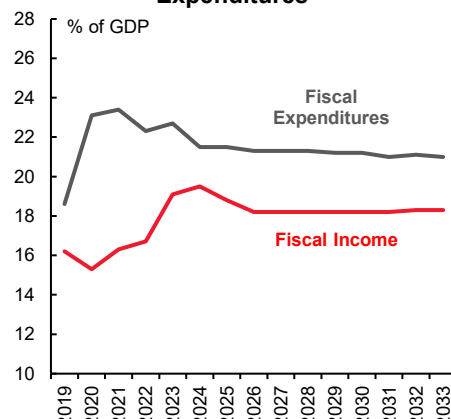
Colombia: Fiscal Deficit—Central Government



Sources: Scotiabank Economics, MTFF 2022.

Chart 3

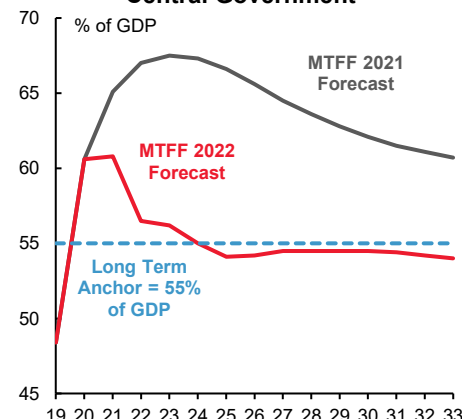
Colombia: Fiscal Income and Expenditures



Sources: Scotiabank Economics, MTFF 2022.

Chart 4

Colombia: Debt to GDP Ratio—Central Government



Sources: Scotiabank Economics, MTFF 2022.

the pre-pandemic trend. Minister Restrepo said that in 2023 investment in infrastructure due to the 5G projects will propel growth. Additionally, services exports, mainly tourism, will also contribute strongly.

- **As the main challenge, Minister Restrepo emphasized the current account deficit, which is projected at 5.7% of GDP in 2022 and 4.5% of GDP in 2023.** However, MoF estimates that the financing will be mainly through FDI (86%).

Fiscal deficit:

- **The fiscal deficit target improved from 6.2% of GDP to 5.6% of GDP (chart 2).** Minister Restrepo highlighted that tax collection has been stronger than expected and the target of net tax collection increased by COP 19 tn (about 1.8 % of GDP) to COP 202.4 tn in 2022. That said, fiscal deficit reduction will be 1.50 pts as compared to the previous year, the largest reduction in 30 years.
- **Starting in 2023, fiscal income is expected to increase significantly as the effects of the fiscal reform approved in 2021 (chart 3) kick in.** Fiscal expenditures are likewise expected to remain well above pre-pandemic levels at around 21% of GDP, but it is not clear if the new government will allow some temporary expending programs created during the pandemic to expire.
- **In terms of debt, 2022 is expected to close with the debt-to-GDP ratio at 56.5%, close to the long-term anchor of 55% of GDP (chart 4), which was not expected to be achieved until 2033.**

Gasoline Price Stabilization Fund

- **The government will pay COP 14.2 tn of the current fund's deficit.** It will, however, propose a new rule to adjust gasoline prices gradually, making them compatible with international prices, as well as the schedule of payment. **Implementation will depend on the new government. Having said that, there is a discussion around gradual increases of the gasoline prices as soon as in July to start to close the gap with international prices. If this happens, inflation could close 2022 above 9.5%.**

Financing plan 2022 (table 2):

- **A favourable outlook and higher tax collections in 2022 are contributing to a moderation in financing requirements.**
- **On the international side, financing will be reduced, especially on the expected issuance of global bonds, which now would hover around USD 1.6 bn, while multilateral financing will remain expected at USD 3.2 bn.**
- **Local sources are expected to finance COP 49.7 tn.** TES issuances would total COP 36 tn under the MTFF, with green bonds auctions expected at COP 1.5 tn.
- **Looking ahead, the government expects to close the year with a higher cash buffer than was projected in the Financing Plan (COP 15.7 tn versus the previous estimate of COP 11.61 tn).**

Table 2: Colombia—Uses and Sources 2022				
	Financing Plan 2022 (Feb. 2022)		MTFF 2022 (June 2022)	
Sources (COP tn)	111.1		111.4	
Disbursements	76.0		67.0	
Foreign sources	(USD 6.2 bn)	23.8	(USD 4.4 bn)	17.3
Local sources	52.2		49.7	
COLTES auctions	36.0		36.0	
Green bonds	1.5		1.5	
Treasury operations	6.1		5.5	
Other sources	7.3		17.1	
Initial availability	21.8		21.8	
	Financing Plan 2022 (Feb. 2022)		MTFF 2022 (June 2022)	
Uses (COP tn)	111.1		111.4	
Fiscal deficit	80.0		75.7	
Local interests	34.0		42.1	
External interests	(USD 2.9 bn)	12.0	(USD 2.9 bn)	11.1
Amortizations	14.0		13.4	
External	(USD 1.0 bn)	4.2	(USD 1.0 bn)	4.2
Local	9.8		9.2	
Payment of obligations with debt service	5.6		6.7	
Final availability	11.6		15.7	

Sources: Scotiabank Economics, Financing Plan 2022, MTFF 2022.

Financing plan 2023 (table 3):

- **Tax collections are expected to increase by 2ppts of GDP, representing 16.8% of GDP and returning to primary fiscal surplus, while the fiscal deficit will drop from 5.6% of GDP in 2022 to 3.6% of GDP in 2023.** Funding needs in 2023 will represent 6.7% of GDP, which is even lower than the 2015-19 average (8.3% of GDP).
- **In 2023, 66% of issuances will be in the domestic market,** consistent with the objective of reducing FX exposure and avoid volatile international markets next year. **We did not know how much domestic debt will be issued through auctions in the market maker program. However, we expect something similar to 2022 auctions or maybe a bit less than the COP 36 tn of this year.**

Table 3: Colombia—Uses and Sources 2023	
	MTFF 2022 (June 2022)
Sources (COP tn)	96.5
Disbursements	68.0
Foreign sources	(USD 6.0 bn) 24.0
Local sources	43.9
Treasury operations	3.3
Other sources	9.5
Initial availability	15.7
	MTFF 2022 (June 2022)
Uses (COP tn)	96.5
Fiscal deficit	51.8
Local interests	40.4
External interests	(USD 3.17 bn) 13.3
Amortizations	29.5
External	(USD 2.55 bn) 10.7
Local	18.8
Payment of obligations with debt service	0.3
Final availability	14.9

Sources: Scotiabank Economics, Financing Plan 2022, MTFF 2022.

—Sergio Olarte, Maria (Tatiana) Mejía & Jackeline Piraján

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