

Contributors

Sergio Olarte, Head Economist, Colombia
+57.1.745.6300 Ext. 9166 (Colombia)
sergio.olarte@scotiabankcolpatria.com

Jackeline Piraján, Economist
+57.1.745.6300 Ext. 9400 (Colombia)
jackeline.pirajan@scotiabankcolpatria.com

Colombia—Financing Plan for 2022

- Stronger-than-expected growth led to better fiscal outcomes in 2021, with the deficit and debt-to-GDP ratio lower.
- The improved fiscal performance implies that financing needs in 2022 will be lower than previously estimated.

STRONGER ECONOMY IMPROVES FISCAL RESULTS AND OUTLOOK

On Friday, February 4, the Ministry of Finance (MoF) released the 2022 Financing Plan and preliminary fiscal results for 2021. Stronger economic activity led to improved fiscal results in 2021 that, if sustained, would put finances ahead of key 2022 milestones. Debt stabilization and lower financing needs in 2022 are the main takeaways of the publication. In our view, the macro assumptions in the plan are realistic and reflect a commitment to fiscal sustainability.

MACRO ASSUMPTIONS

- The government expects GDP growth to close 2021 at 9.7%, well above the 6.0% estimate in the 2021 MTFE, which contributed to higher tax collections of COP 11 tn (~1% of GDP).
- Economic growth of 5.0% (table 1) is expected for 2022, which is slightly above the market consensus (4.50%). This projection is achievable if Colombia continues towards the “new normal,” with the MoF expecting a rebound in the services sector and manufacturing. On the demand side, the MoF projects higher investment, which would offset the expected deceleration in consumption, resulting in a higher external deficit.

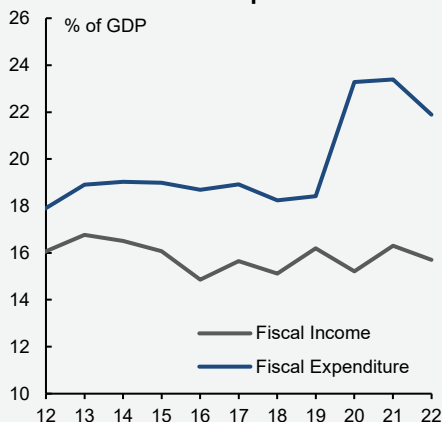
Table 1: Colombia—Key Macro Assumptions

Variable	2021	2022
GDP growth (y/y % change)	9.7	5.0
GDP deflator (%)	7	4
GDP nominal (y/y % change)	17.5	9.2
Brent (average)	71	70
Exchange rate (average)	3747	3823
Imports (y/y % change)	36.5	5.5
Inflation (eop, %)	5.6	4.3

Sources: Scotiabank Economics, Colombia MoF FP2022.

Chart 1

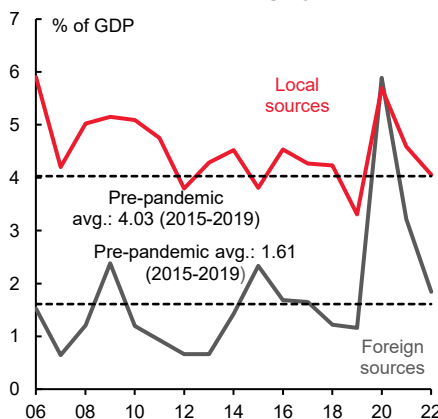
Colombia: Evolution of Fiscal Income and Expenditures



Sources: Scotiabank Economics, Colombia MoF.

Chart 2

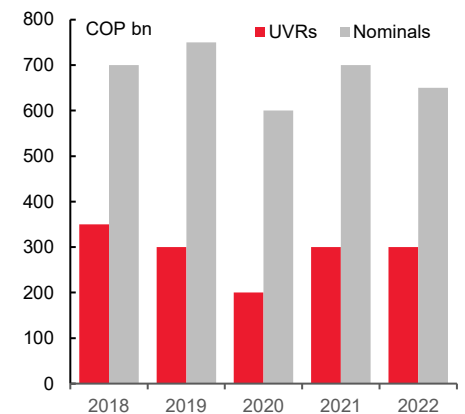
Colombia: Financing by Source



Sources: Scotiabank Economics, Colombia MoF, Historical uses and source's charts.

Chart 3

Colombia: Auction Amounts by COLTES Reference



Sources: Scotiabank Economics, Colombia MoF.

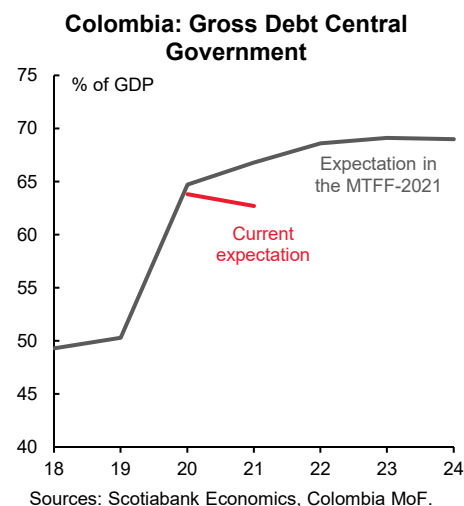
In terms of risks to the outlook, the MoF said that higher-than-expected inflation, long-lasting effects from the bottlenecks in mining and construction, and restrictions due to the pandemic would have negative effects on economic growth. On the positive side, higher oil production and a more robust labour market recovery would boost growth.

- Regarding other key variables, the MoF expects a conservative average in oil prices and a depreciation in the average USDCOP. Inflation is expected to close 2022 at 4.3%, the same projection as the central bank.

2021 FISCAL RESULTS

As a result of stronger-than-expected economic growth, tax collections in 2011 were better than expected by COP 11.1 tn (1% of GDP), especially import tariffs which contributed 60% of the overall increase (table 2). At the same time, there was an under execution of fiscal expenditures of COP 2.7 tn (0.2% of GDP) in 2021 (chart 1). Higher tax revenues and lower expenditures led to an estimated improvement of 1.5% of GDP in total and primary fiscal deficits, which would imply a total deficit for 2021 of 7.1% of GDP (well below the forecast of 8.6% of GDP made a year ago).

Chart 4



	Fiscal Framework Projections (June 2021)	Financing Plan 2022 (Feb. 2022)
Sources (COP tn)	127.8	111.1
Disbursements	102.2	76.0
Foreign sources (USD 10.5 bn)	39.3	23.8 (USD 6.2 bn)
Local sources	62.9	52.2
COLTES auctions		36.0
Green bonds		1.5
Other sources	14.8	7.3
Initial availability	10.8	21.8
	Fiscal Framework Projections (June 2021)	Financing Plan 2022 (Feb. 2022)
Uses (COP tn)	127.8	80.0
Fiscal deficit	83.6	80.0
Local interests	29.6	34.0
External interests (USD 2.9 bn)	11.7	12.0 (USD 2.9 bn)
Amortizations	27.8	14.0
External (USD 1.0 bn)	3.9	4.2 (USD 1.0 bn)
Local	23.8	9.8
Payment of obligations with debt service	6.4	5.6
Final availability	10.0	11.6

Sources: Scotiabank Economics, Colombia MoF FP2022.

Stronger fiscal performance resulted in a higher cash buffer at end-2021, which stood at COP 21.8 tn (2.1% of GDP), well above the estimate made at the beginning of the year of COP 10.8 tn (1% of GDP). Accordingly, the MoF starts 2022 with a strong cash position that will be reflected in lower financing needs.

2022 FINANCING PLAN

The MoF’s main assumption is that continued healthy economic growth in 2022 will be translated into solid tax revenue. In fact, for 2022, tax collections are estimated at 15.7% of GDP, close to the pre-pandemic average (15.6% of GDP). On the other side of the income statement, expenditures were estimated at 21.9% of GDP, still well above of pre-pandemic average of 18.6% of GDP, but lower than those observed in the worst of the pandemic (23.4% of GDP in 2020 and 2021). All in all, the expected fiscal deficit for 2022 was revised from 7.0% of GDP to 6.2% of GDP, which in our opinion is an even stronger positive effect than the 2021 fiscal deficit reduction.

The improvement in 2022 is not the result of expected one-off transactions, which is a positive change from previous fiscal projections.

February 8, 2022

Our take is that the above-the-line projections are positive. The government is making realistic assumptions regarding economic growth and tax collections, close to the pre-pandemic average. However, expenditures remain high as a percentage of the GDP and, depending on the recovery, we would expect an under execution on spending and a potential new surprise by the end of 2022.

Positive news on tax collections translated in higher cash buffers, but, more important, is also reflected in lower financing needs. This will contribute to moderate negative supply effects along the COLTES curve in 2022.

Total financing needs represent 8.6% of GDP (COP 111.15 tn), well below the 2021 level of 11.2% and close to the pre-pandemic level (8% of GDP). Issuances are lower-than-expected in the MTF-2021. Domestic sources of funds will be COP 10.7 tn lower, while foreign sources will be COP 15.6 tn lower, and short-term operations will be COP 5.3 tn lower.

The main source of financing is local debt issues (71%), while 19% is expected to come from external sources, a different composition from that observed in 2021 (61% in local sources).

External sources are expected to cover USD 6.22 bn of total financing needs (below the projection in the MTF-2021 of USD 10.5 bn), with the MoF expecting half coming from bonds and half through the multilateral institutions. This implies that in 2022 the MoF will reduce its sales of dollar liquidity.

Local sources account for COP 52.23 tn (4.1% of GDP), slightly above the pre-pandemic of 3.77% of GDP in 2019 (chart 2). Auctions are expected to raise COP 36 tn, with COP 1.5 tn of additional issuance in green bonds. COP 14 tn will be through direct issuance with public institutions, though part of that will be allocated to create the public debt fund, about which detailed information is to be provided in the near future.

The MoF will issue around COP 300 bn in UVRs and COP 650 bn in nominals in local markets on a biweekly basis. Nominals auction are set to moderate, while UVRs auctions will remain at 2021 levels (chart 3).

Our take is positive, as the MoF is mobilizing higher tax collection to reduce financing pressures. Additionally, FP-2022 conveys a strong message of fiscal responsibility, consistent with reduced supply pressures in the yield curve ahead of the Fed's hiking cycle.

DEBT DYNAMICS AND THE SOVEREIGN CREDIT RATING

The gross debt-to-GDP ratio for the Central Government is projected to decrease from 63.8% of GDP in 2021 to 62.7% of GDP in 2022, reaching the debt target for 2032 earlier than expected (chart 4). In terms of net debt, the level will decrease from 60.9% of GDP to 60.5% of GDP.

All in all, the Financial Plan came with strong positive news. Results for 2021 were better-than-expected and the macro base case scenario assumptions ahead of 2022 are realistic. The positive outcomes are reflected in lower financing pressures, which still entail high expenditure needs. Our overall take of the 2022 plan is positive and it is likely to be viewed as such by the credit rating agencies. However, it is too early to anticipate an upgrade in the sovereign credit rating by Fitch and S&P.

That said, the fiscal front probably won't be the main issue for Colombia in 2022. The bad news is that previous positive fiscal takes have been offset by uncertainty regarding the monetary policy locally and abroad, and by political uncertainty regarding presidential elections.

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