



**El emprendimiento
es de todos**

Minhacienda

Economic outlook, fiscal policy and public debt management

Ministry of Finance and Public Credit of Colombia

César Arias
General Director of Public Credit and National Treasury

October 2019



1. Economic Outlook

a) Growth

b) External Sector

2. Fiscal policy

3. Public Debt Management

a) Central Government Debt

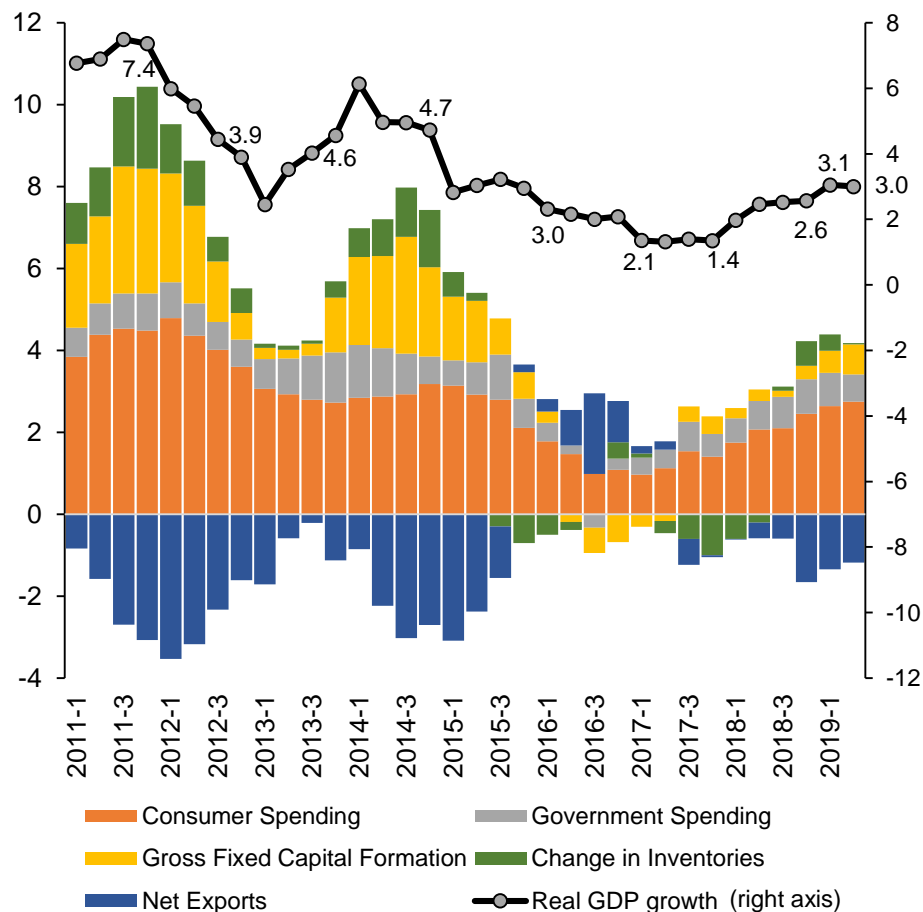
b) Domestic Debt Market

3. Annexes

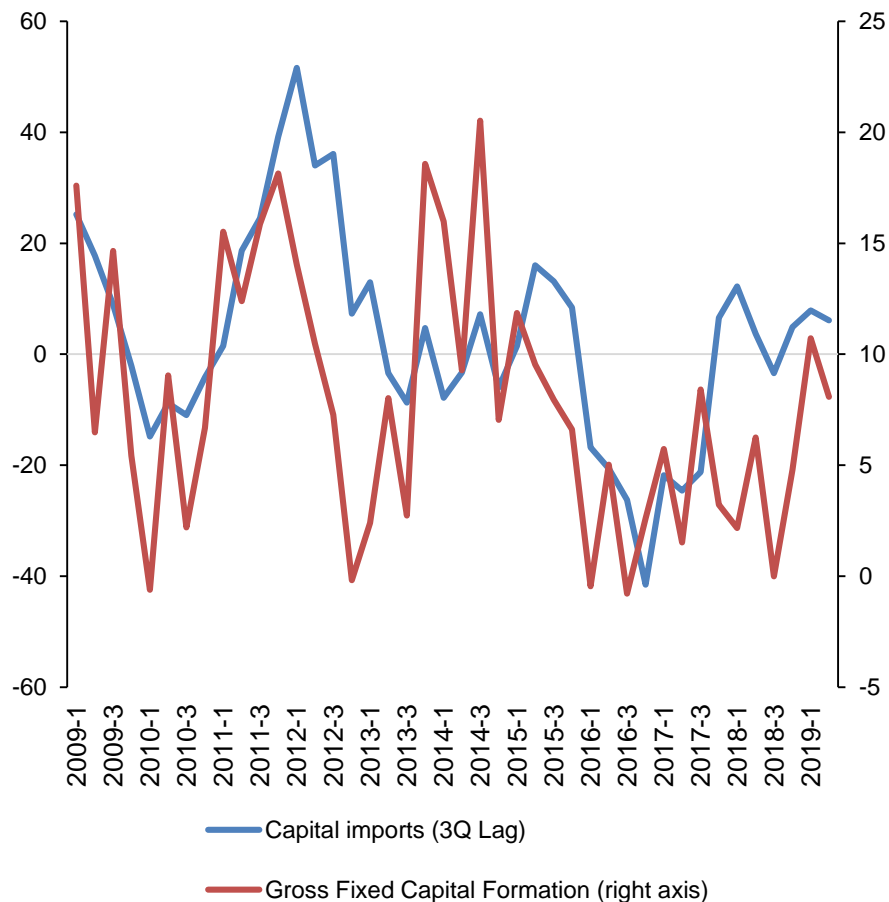


Investment is boosting the Colombian economy again, and capital imports will contribute to higher productivity

Decomposition of Quarterly Real GDP Growth (%)



Capital imports vs Gross Fixed Capital Formation (annual variation, %)

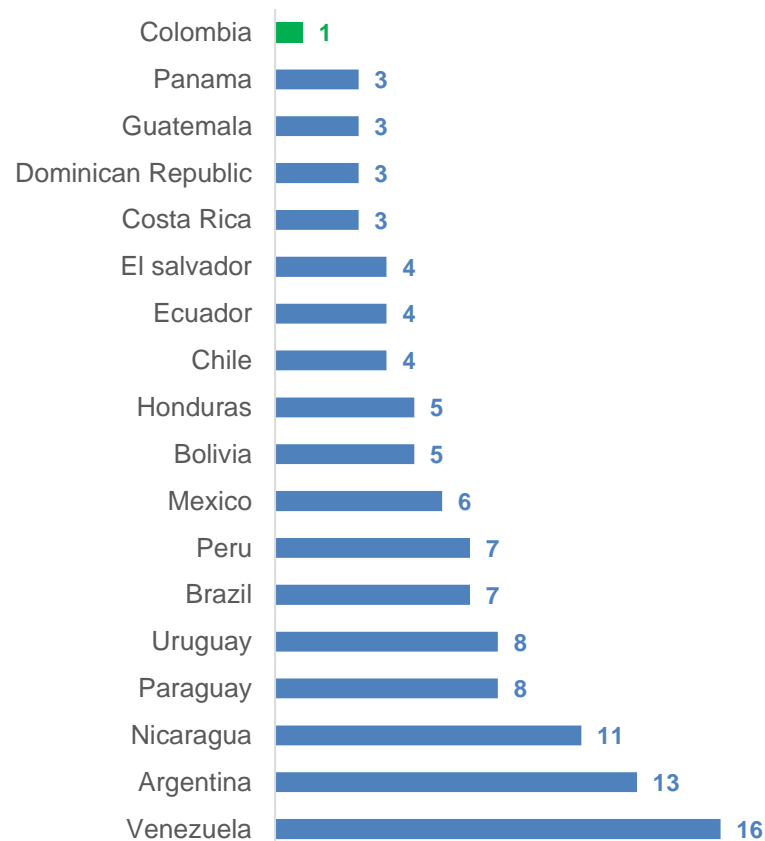




Real GDP by Sector

| | Share 2018 | 2017 | 2018 | 1H2019 |
|----------------------------------|--------------|------------|------------|------------|
| GDP | 100.0 | 1.4 | 2.6 | 3.0 |
| Agriculture | 6.2 | 5.5 | 2.1 | 1.7 |
| Mining | 5.1 | -5.7 | -0.2 | 3.2 |
| Manufacturing | 12.1 | -1.8 | 1.8 | 1.7 |
| Utilities | 3.0 | 2.9 | 2.7 | 2.9 |
| Construction | 7.0 | -2.0 | 0.8 | -2.4 |
| Retail & transportation | 17.1 | 1.9 | 3.3 | 4.4 |
| Information & communications | 2.9 | -0.2 | 3.0 | 4.0 |
| Finance & insurance | 4.6 | 5.4 | 3.3 | 5.0 |
| Real estate services | 8.9 | 3.1 | 2.0 | 3.1 |
| Professional & business services | 7.0 | 1.3 | 5.0 | 3.6 |
| Public administration | 14.7 | 3.5 | 4.2 | 3.5 |
| Arts, entertainment & recreation | 2.4 | 2.2 | 1.7 | 2.5 |
| Taxes | 9.1 | 1.1 | 2.3 | 3.4 |

Years with Negative Growth 1980 - 2018



*Forecast

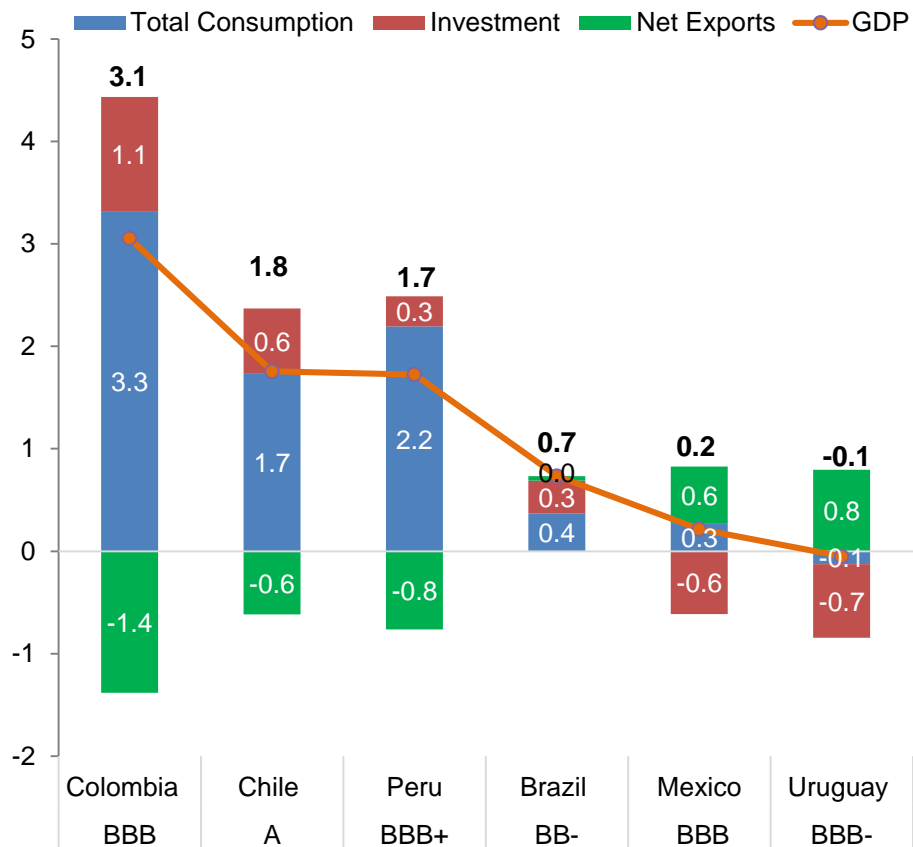
Source: DANE, Ministry of Finance's Calculations.

Source: IMF-WEO, Ministry of Finance's Calculations.

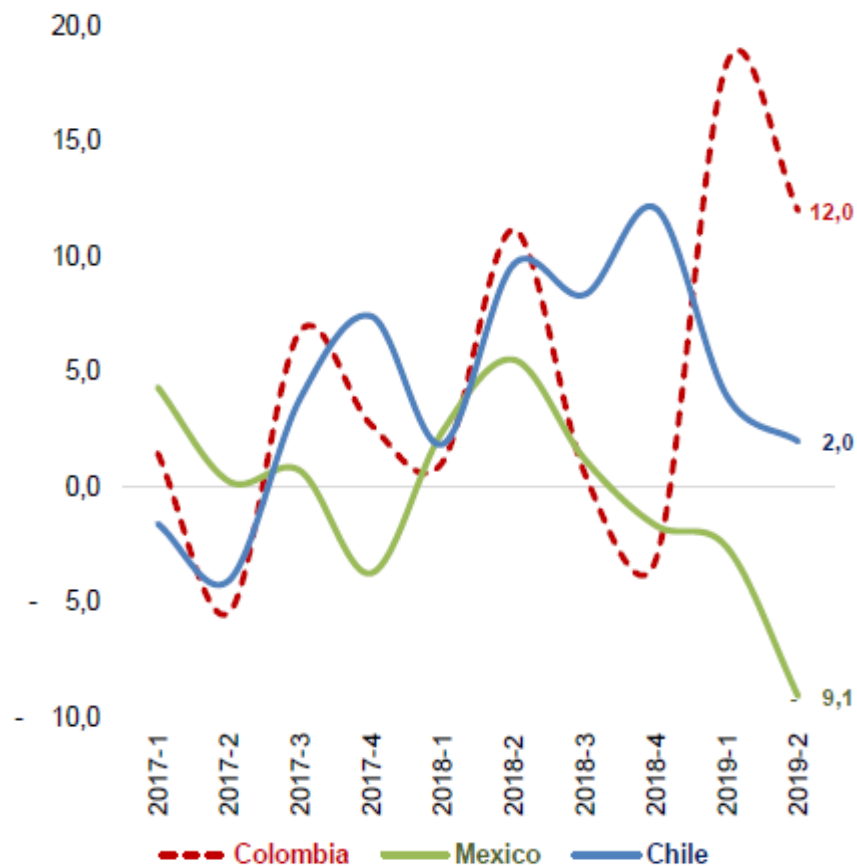


Colombia is leading the region's economic growth

LATAM: Demand Contributions to GDP 1H19 (%)



Investment in Capital Goods (Annual variation %)

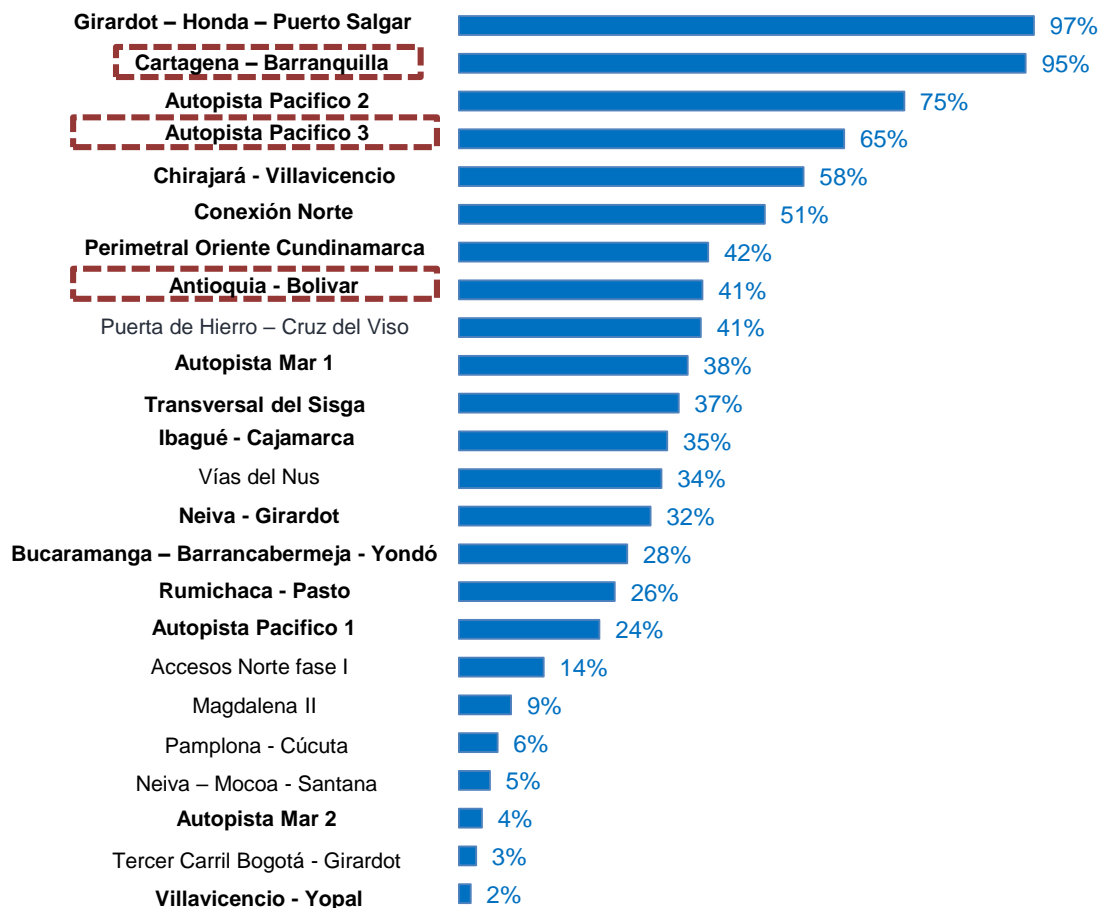




Colombia 4G infrastructure program

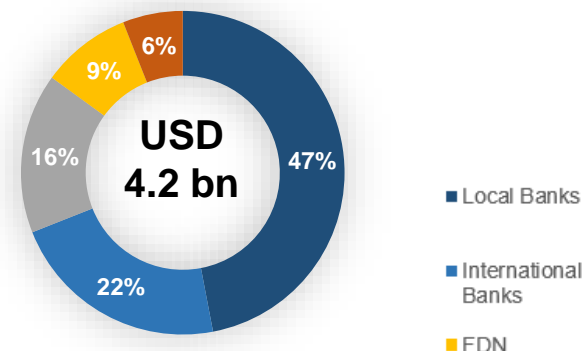
Investment =
US\$ 15 billion
/ 4,5% of GDP

Construction progress in 4G infrastructure projects

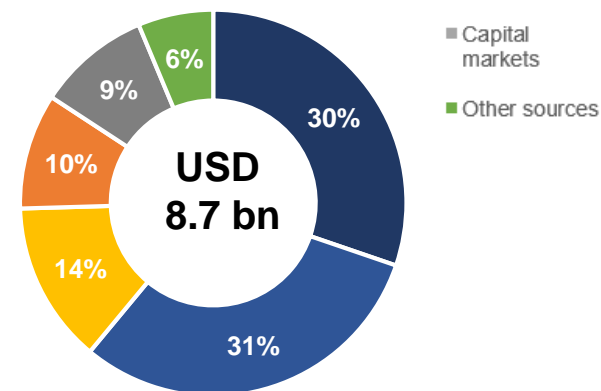


Diversified Financial Sources

2016
8 Financial closings



2019
17 cumulative financial closings





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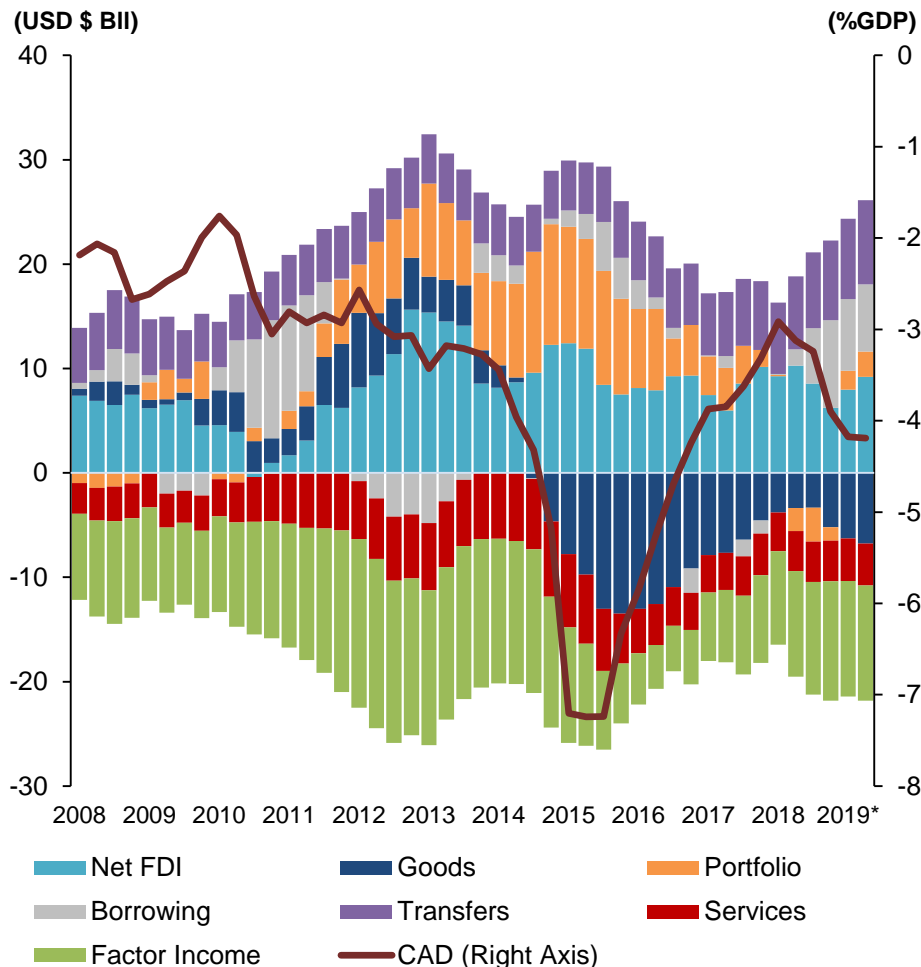
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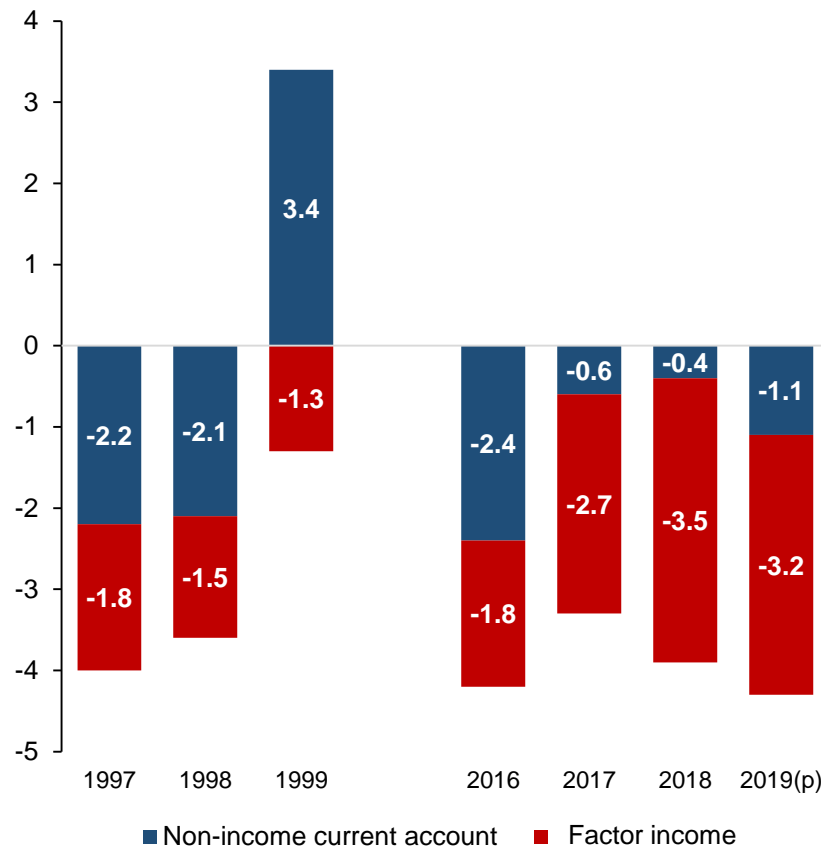


Factor income is the main driver of CAD and acts as an automatic stabilizer

Current Account Dynamics



Current Account Deficit (% GDP)



* 2019 Q2; CAD: Current Account Deficit

Source: Central Bank, Estimations: Ministry of Finance and Public Credit

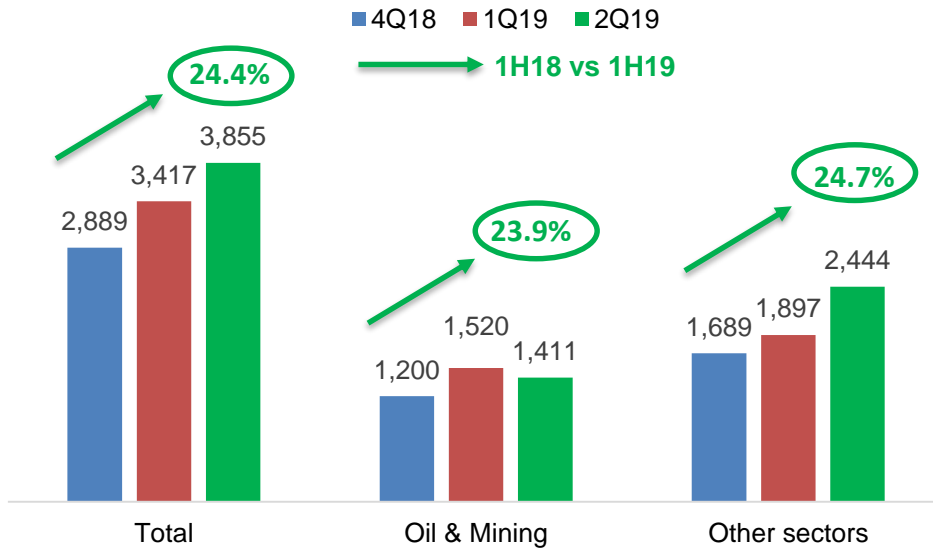
Source: Central Bank, DANE and DNP. Estimations: Ministry of Finance and Public Credit

Non-income current account: trade balance + transfers



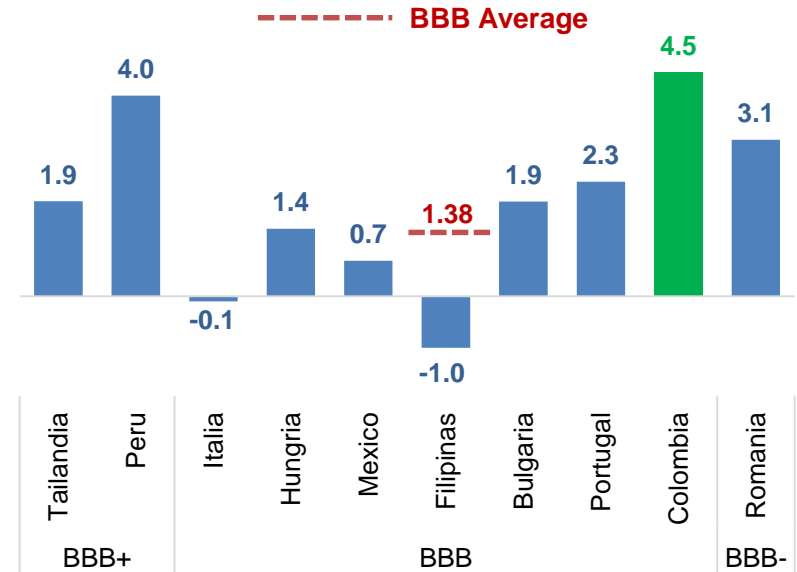
FDI flows have had a significant increase and cover most of the CAD

Gross FDI (USD \$ MM)



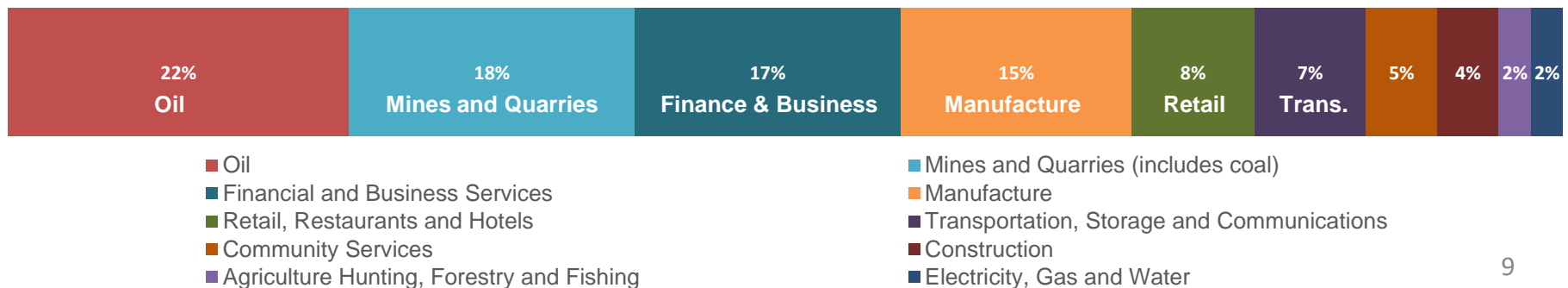
Source: Central Bank. Estimations: Ministry of Finance

FDI Net flows % GDP 1H19



Source: Central Banks. Fitch Ratings. Estimations: Ministry of Finance

FDI composition by sector -1H19

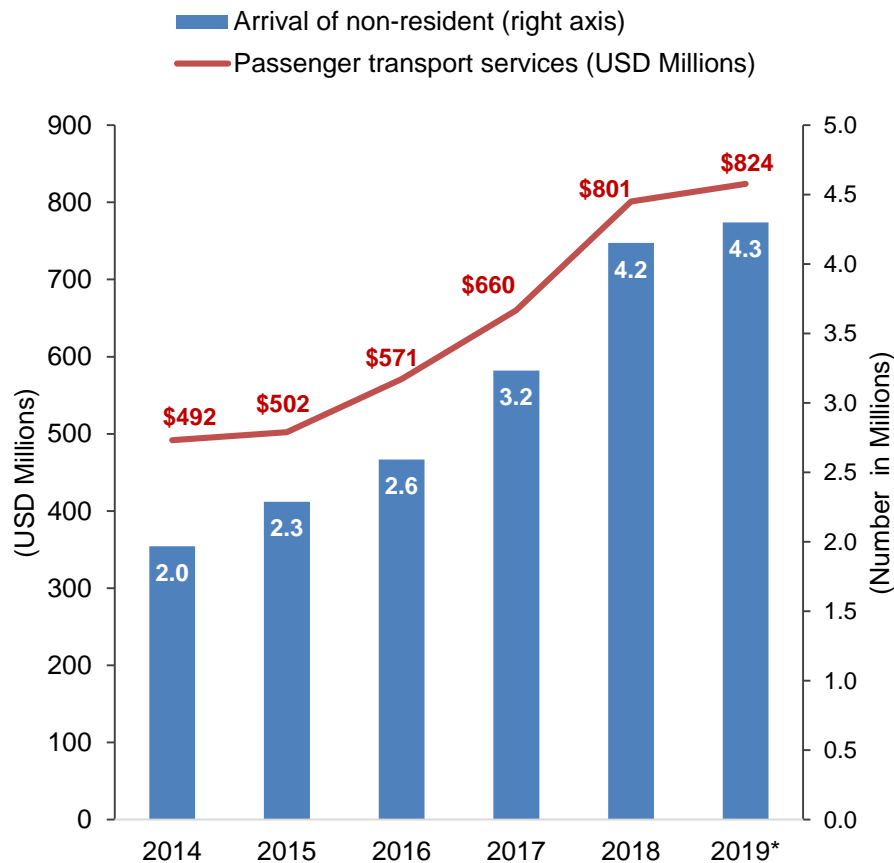


Source: Central Bank.



Tourism and remittances contribute positively to external accounts

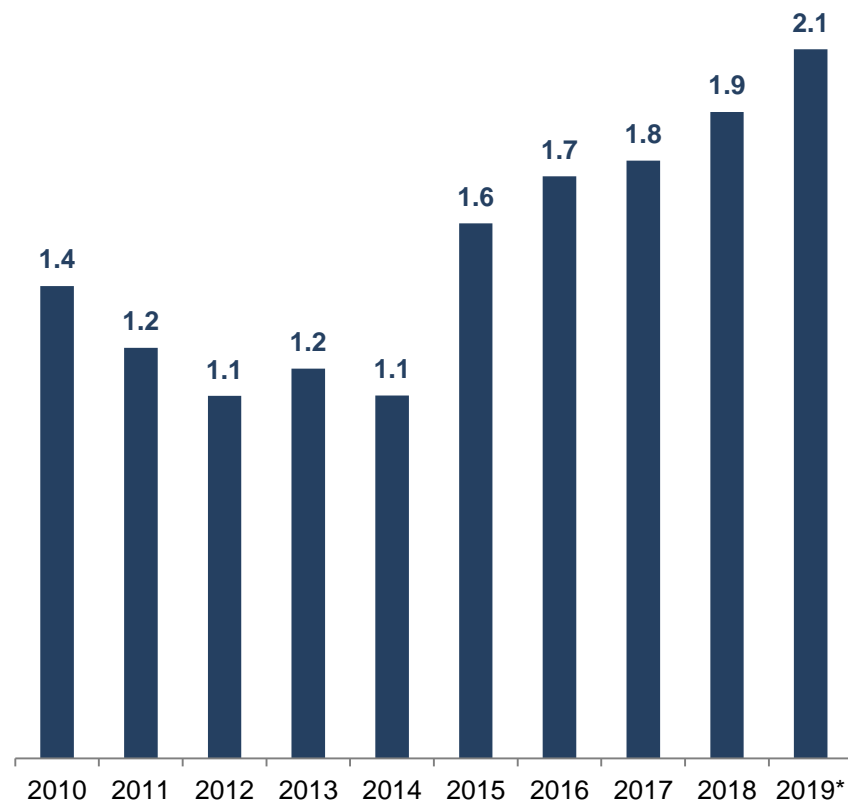
Tourism



Source: Migration Colombia, Payment Balance Central Bank

*Estimated figure.

Remittances (% GDP)



Source: Central Bank.

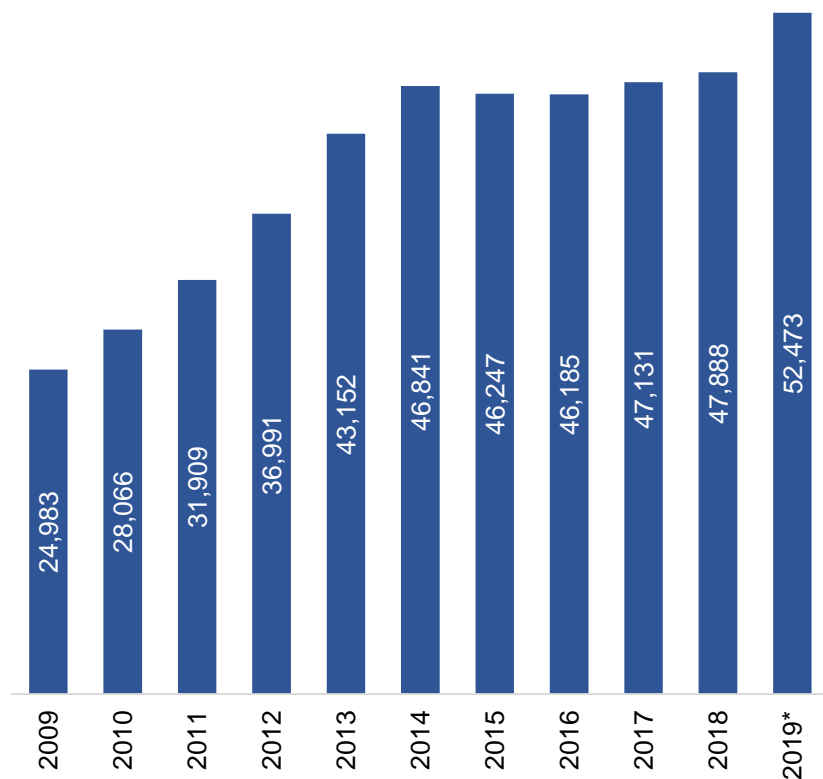
Calculations: Ministry of Finance of Colombia

*Data Q2 cumulative

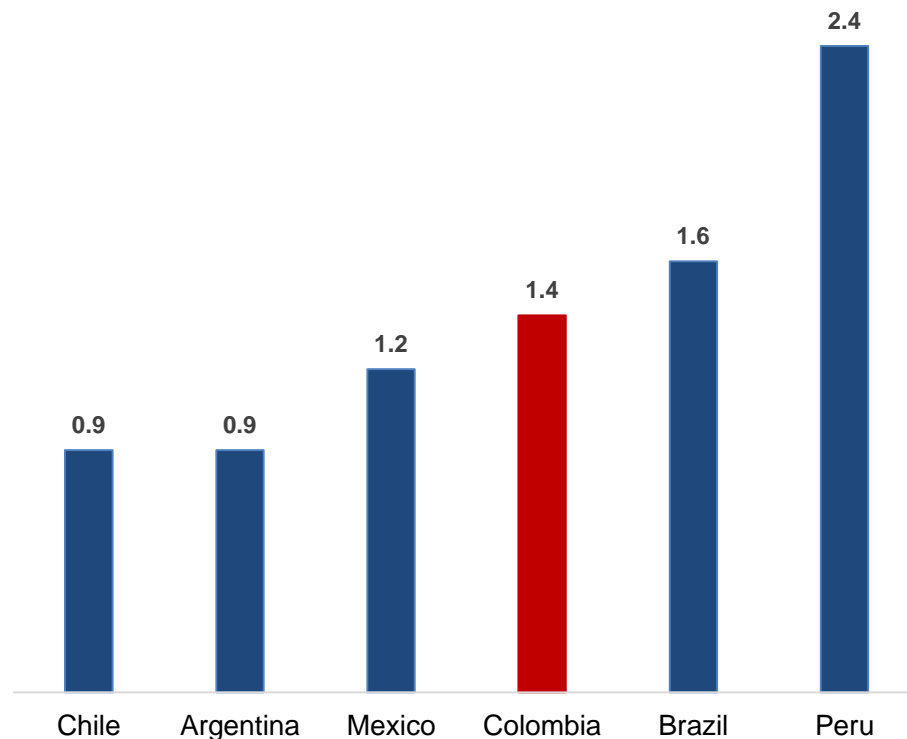


Colombia has an adequate level of international reserves that protect the economy against external shocks

International Reserves (USD Billion)



Reserves as a % of ARA 2019*



*ARA: IMF estimation that indicates the optimal level of international reserves that solve the cost-benefit problem between minimizing external vulnerability and the opportunity cost of accumulating reserves. This calculation results from a weighting between exports, short-term debt, other liabilities and money supply.

* Reserves until August 2019.

*Observed international reserves over recommended by IMF

Source: Banco de la República and Ministry of Finance calculations.

Source: World Economic Outlook (FMI).

Estimations: Ministry of Finance and Public Credit.



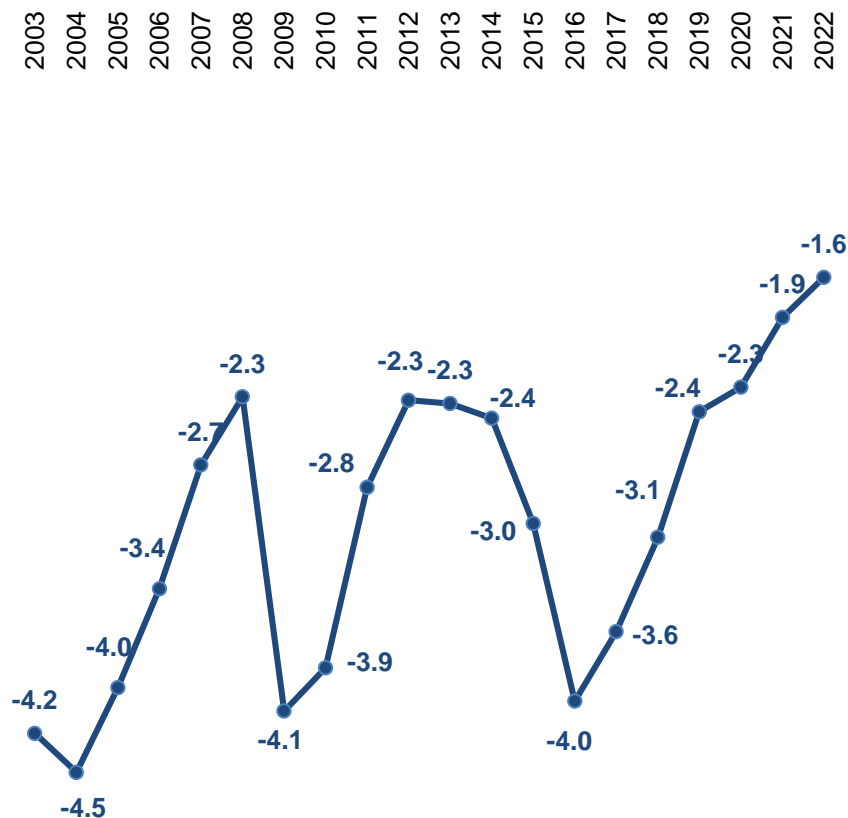


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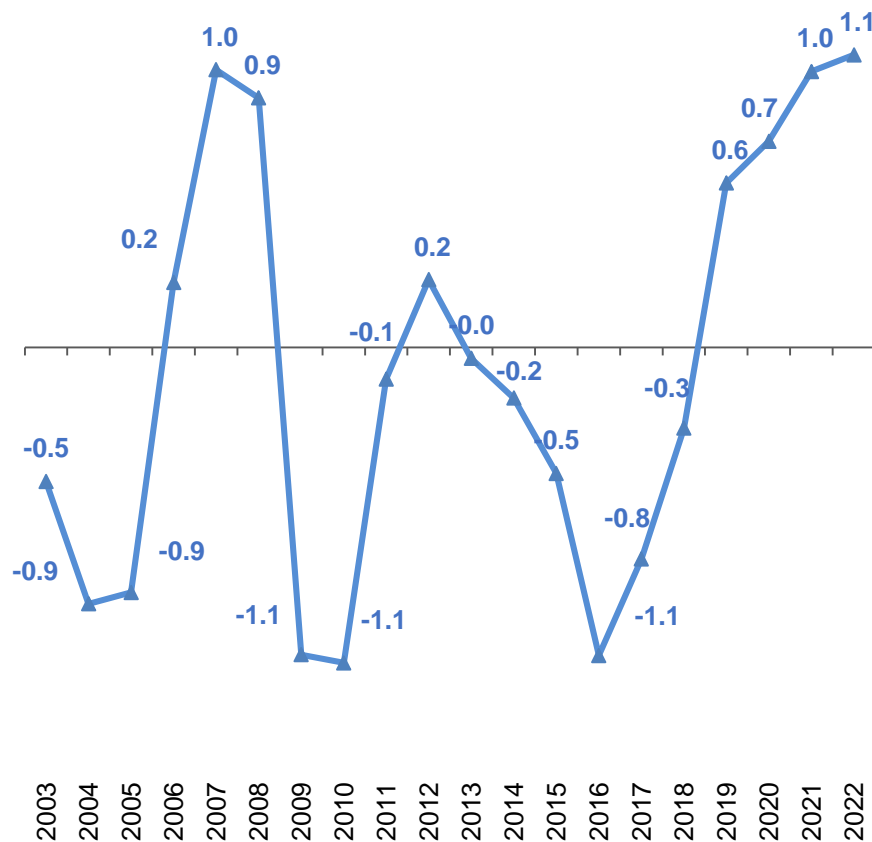


The central government will achieve a primary surplus, contributing to the stabilization of public debt

Central Government Fiscal Balance (% GDP)



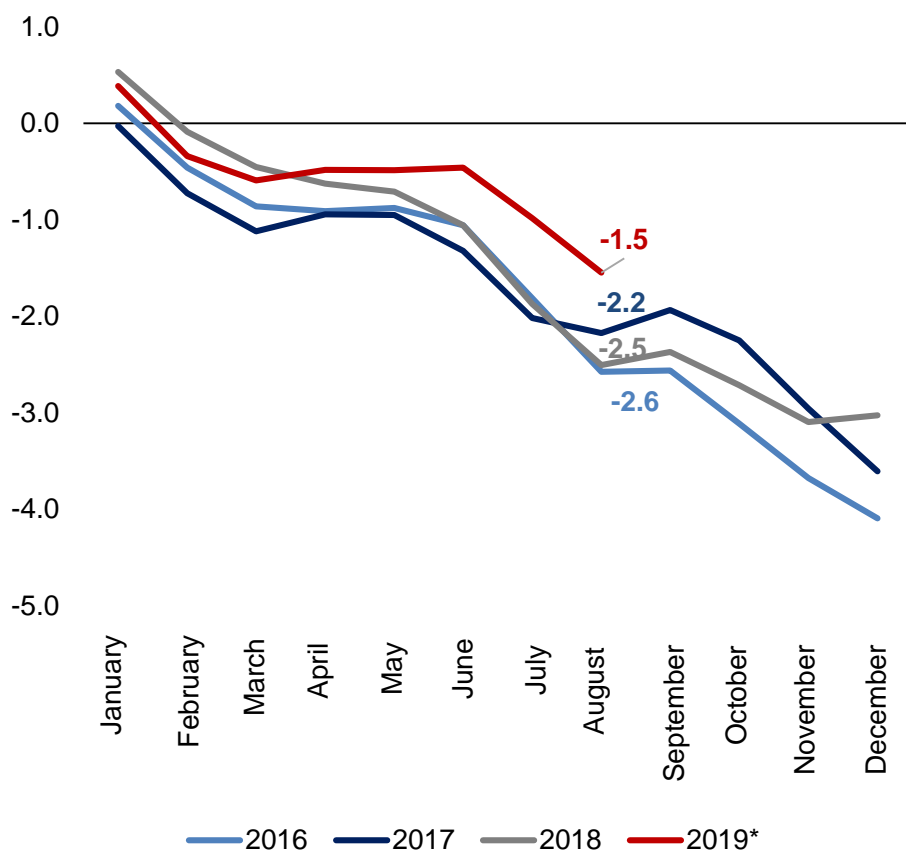
Central Government Primary Balance (% GDP)



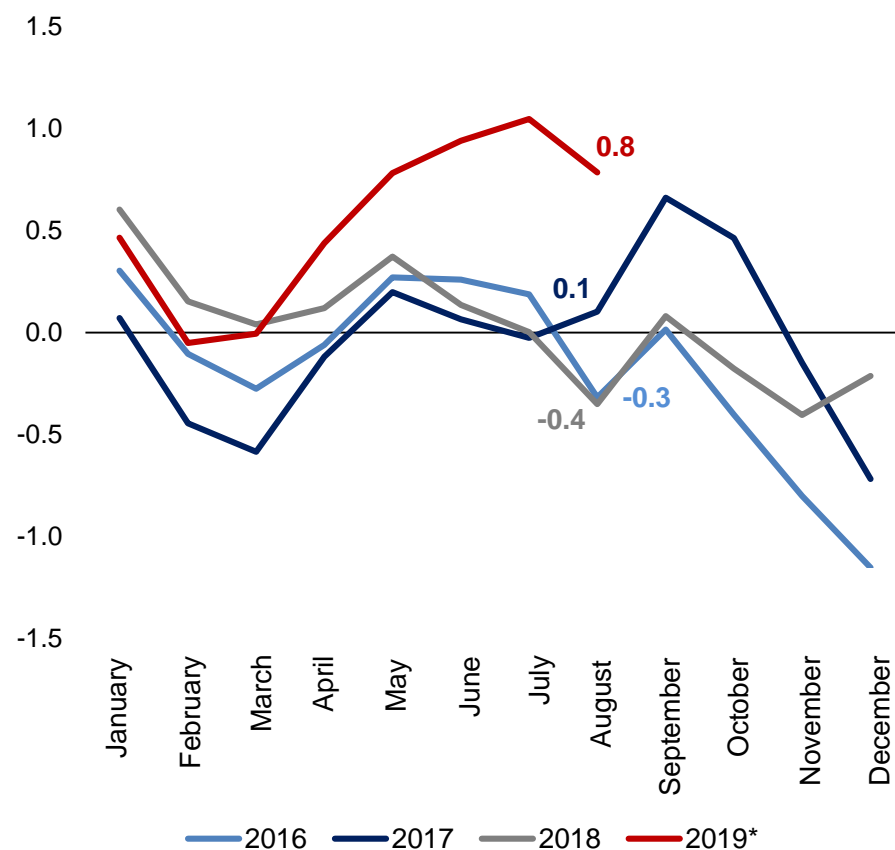


The Central Government has achieved a 1% reduction in the budget deficit and is on track to meet the 2.4% of GDP fiscal target

Central Government Fiscal Balance
(% of GDP)



Central Government Primary Fiscal Balance
(% of GDP)



Note: Transferred Central Bank dividends are counted as fiscal revenues for all years, to increase the series' comparability

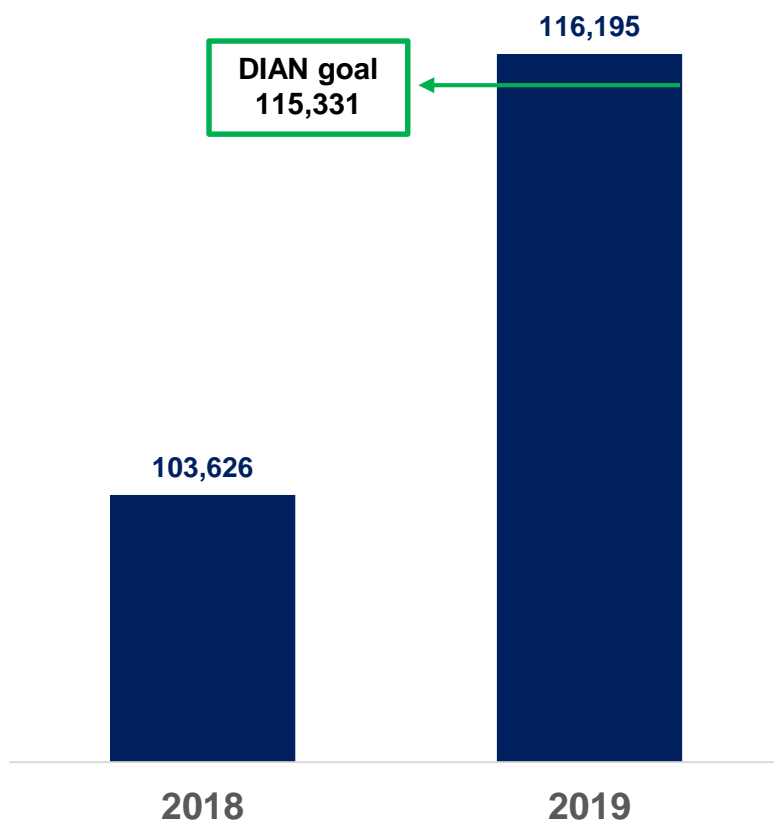
*Preliminary data

Source: Ministry of Finance



From January to September 2019, the net tax collection was COP 864 billion higher than the DIAN goal

January-September : tax revenue vs DIAN goal (COP Billions)



DIAN - tax collection 2018-2019, January to September

| CONCEPT | (% of GDP) | | Annual | Observed |
|-------------------------|-------------|-------------|-------------|-----------------|
| | sep-18 | sep-19 | Var. (%) | DIAN goal (pps) |
| Tax collection | 10.6 | 11.2 | 12.1 | 0.08 |
| Internal | 9.1 | 9.5 | 11.2 | 0.07 |
| Income Tax | 1.7 | 1.6 | 4.0 | 0.26 |
| Internal VAT | 2.8 | 2.8 | 7.2 | -0.09 |
| withholding tax | 3.8 | 4.0 | 13.1 | -0.03 |
| Financial movements tax | 0.5 | 0.6 | 15.5 | 0.04 |
| Consumption tax | 0.2 | 0.2 | 9.8 | 0.00 |
| Tax on wealth | 0.0 | 0.1 | 51.2 | -0.02 |
| National tax on fuel | 0.1 | 0.1 | 3.0 | 0.00 |
| Real estate sales tax | 0.0 | 0.0 | | -0.11 |
| Carbon tax | 0.0 | 0.0 | 51.4 | 0.01 |
| Normalization | 0.0 | 0.1 | | 0.01 |
| SIMPLE tax | 0.0 | 0.0 | | 0.00 |
| External | 1.5 | 1.7 | 17.6 | 0.01 |



The government has captured efficiencies with a focused fiscal strategy

Investment has increased 0.2 pp of GDP and current expenditure has decreased 0.3 pp of GDP

| Description | Jan - Aug (COP- bill) | | Jan - Aug (%GDP) | | Growth (%) |
|--------------------------|------------------------|----------------|------------------|-------------|-------------|
| | 2018 | 2019* | 2018 | 2019* | |
| Total revenue | 96.371 | 113.708 | 9,9 | 10,9 | 18,0 |
| Tax revenue | 89.893 | 100.232 | 9,2 | 9,6 | 11,5 |
| Non tax revenue | 569 | 798 | 0,1 | 0,1 | 40,4 |
| Special funds | 967 | 820 | 0,1 | 0,1 | -15,2 |
| Capital receipts | 4.943 | 11.858 | 0,5 | 1,1 | 139,9 |
| Total expenditure | 121.588 | 129.841 | 12,5 | 12,5 | 6,8 |
| Interests | 21.026 | 24.320 | 2,2 | 2,3 | 15,7 |
| Current expenditure** | 91.773 | 94.367 | 9,4 | 9,1 | 2,8 |
| Investment** | 8.854 | 11.317 | 0,9 | 1,1 | 27,8 |
| Net landing | -65 | -163 | 0,0 | 0,0 | - |
| Fiscal balance | -25.218 | -16.132 | -2,6 | -1,5 | - |
| Primary balance | -4.191 | 8.188 | -0,4 | 0,8 | - |

* Preliminary data

** Includes cash payments and floating debt





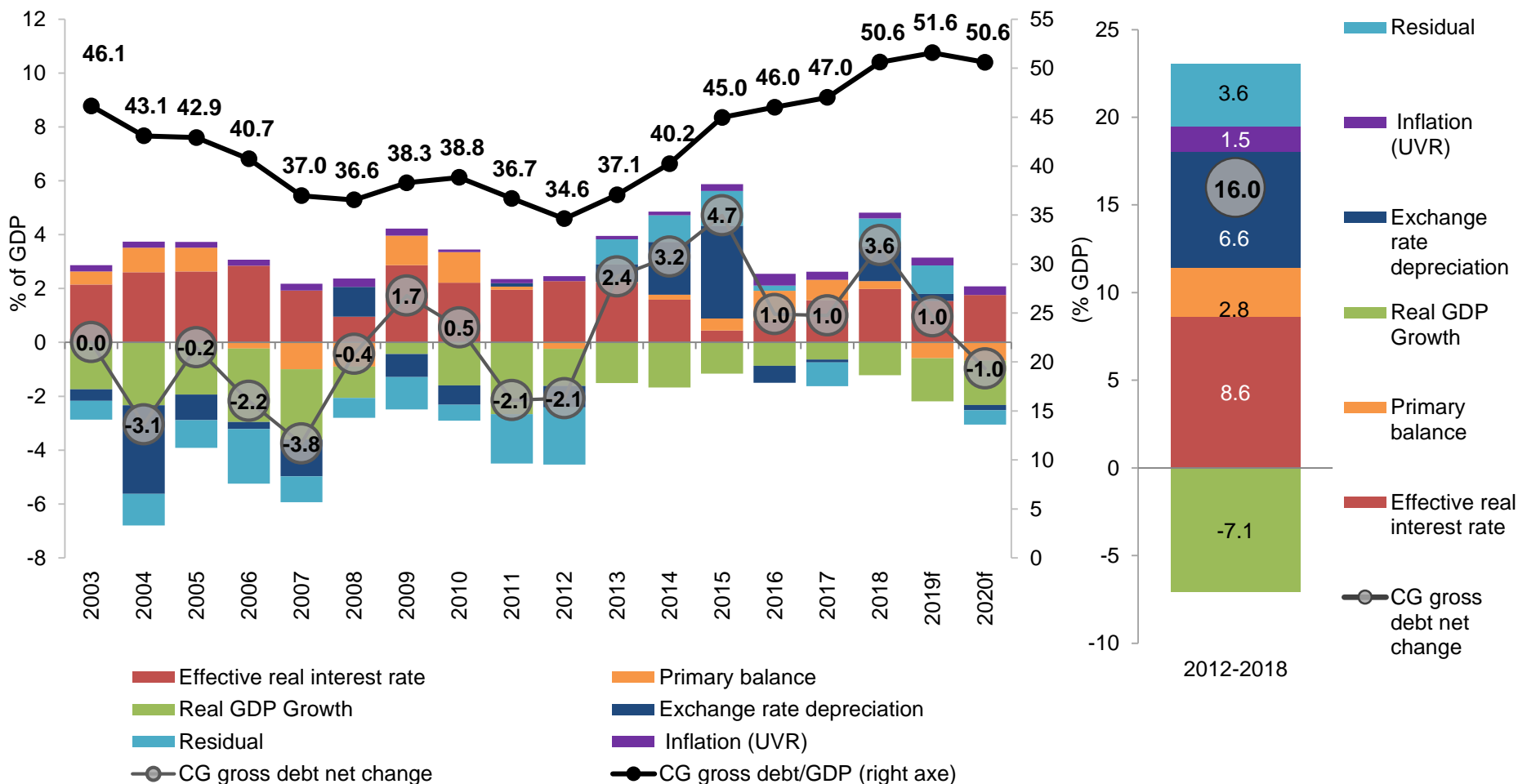
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Commitment to stabilize the public debt dynamics

Decomposition of Central Government Debt Dynamics

Cumulative Changes



2012-2018

CG gross
debt net
change

f. forecast

Source: Ministry of Finance.
CUN and Budgetary Accounts Payable are included.

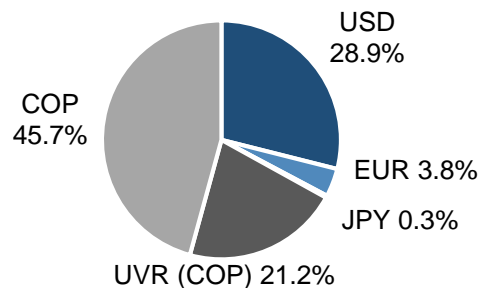
Favorable debt structure and active liability management



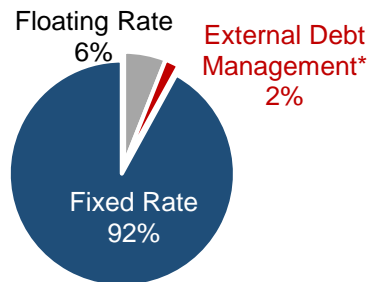
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Local and Foreign currency

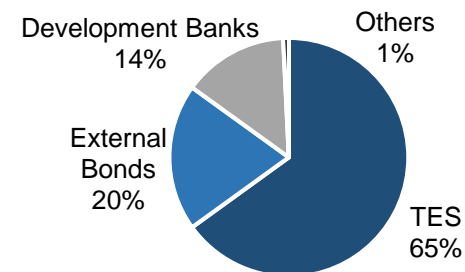


Fixed Rate vs Floating Rate

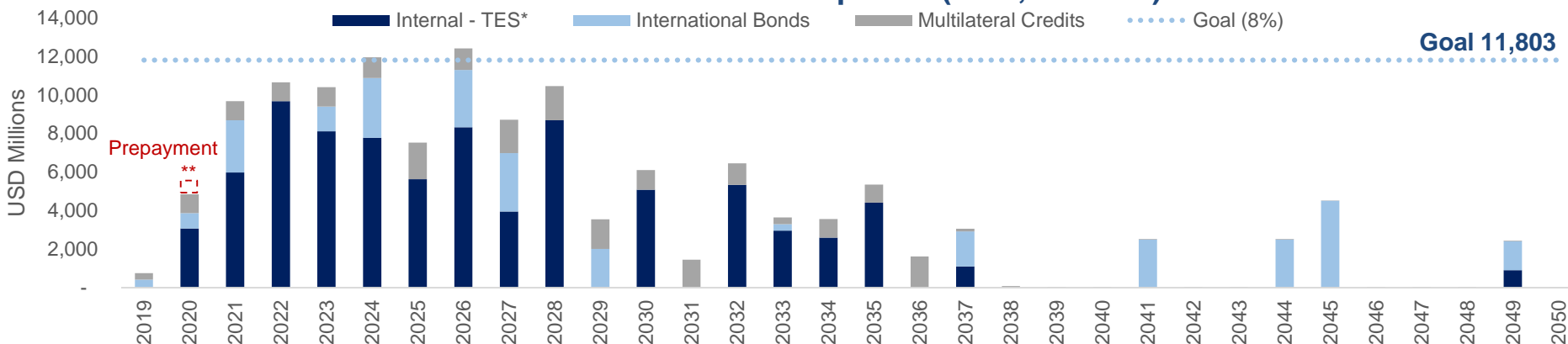


* Colombia sets interest on multilateral loans for US \$ 4,558 million and EUR 2,799 million

Composition by Source



Central Government Debt profile (USD, Millions)



* TES with maturity greater than one year at the time of issuance

** In 2019, the Republic of Colombia prepaid COP 4 trillion of TES due July 24, 2020.

Medium term debt strategy – prudential measures 2022

DEBT DISBURSEMENTS

2019- 2020

- 75% Local
- 25% External



CAP ON ANNUAL AMORTIZATIONS

- Caps amortizations below 8% of Total Debt in any given year



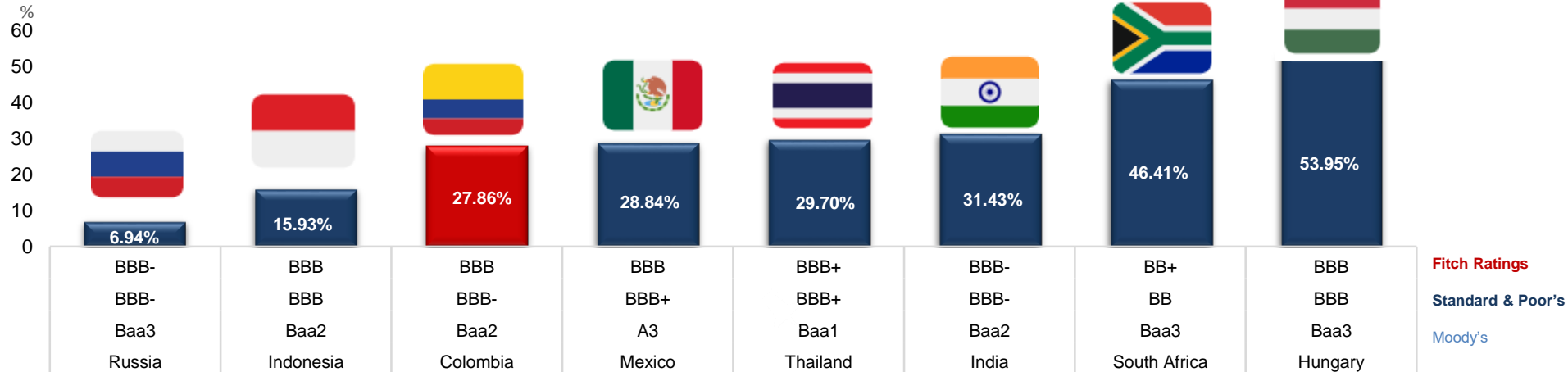
Domestic debt market in the global context and secondary market activity



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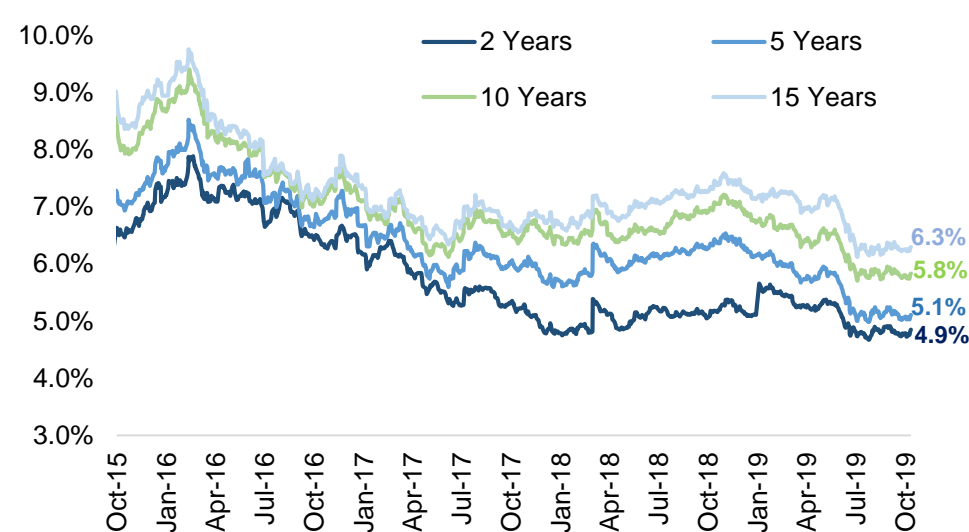
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Domestic Public Debt Securities / GDP

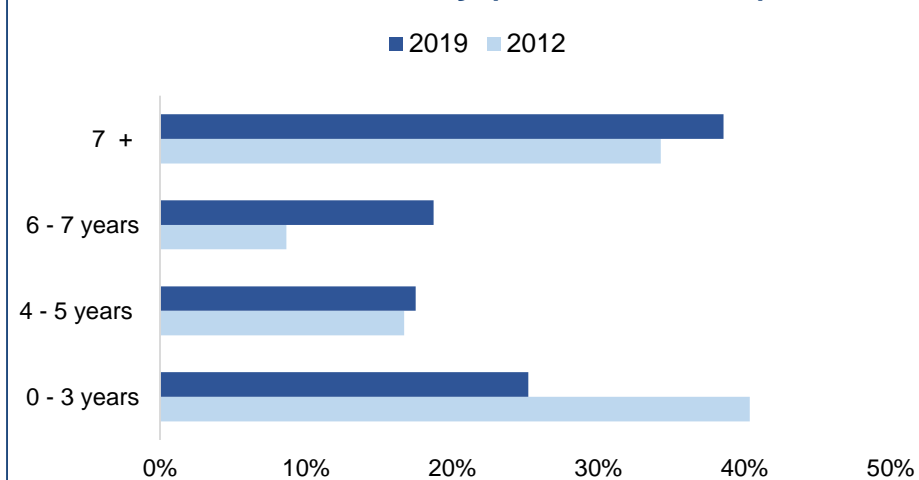


Source: BIS, WEO * GDP 2018 Bloomberg. Dec 31, 2018

TES Secondary Market Yield

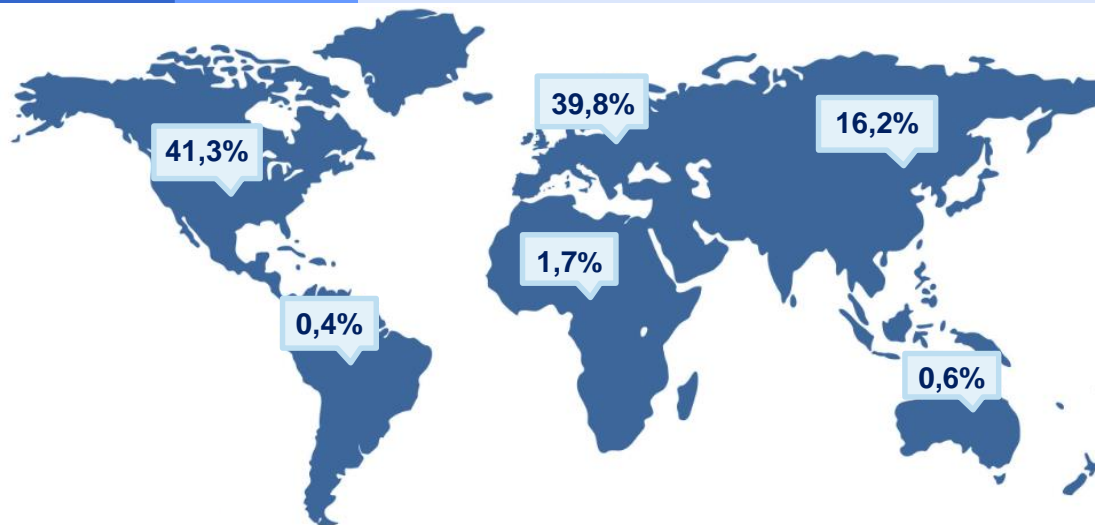


Years to Maturity (% of Total TES)





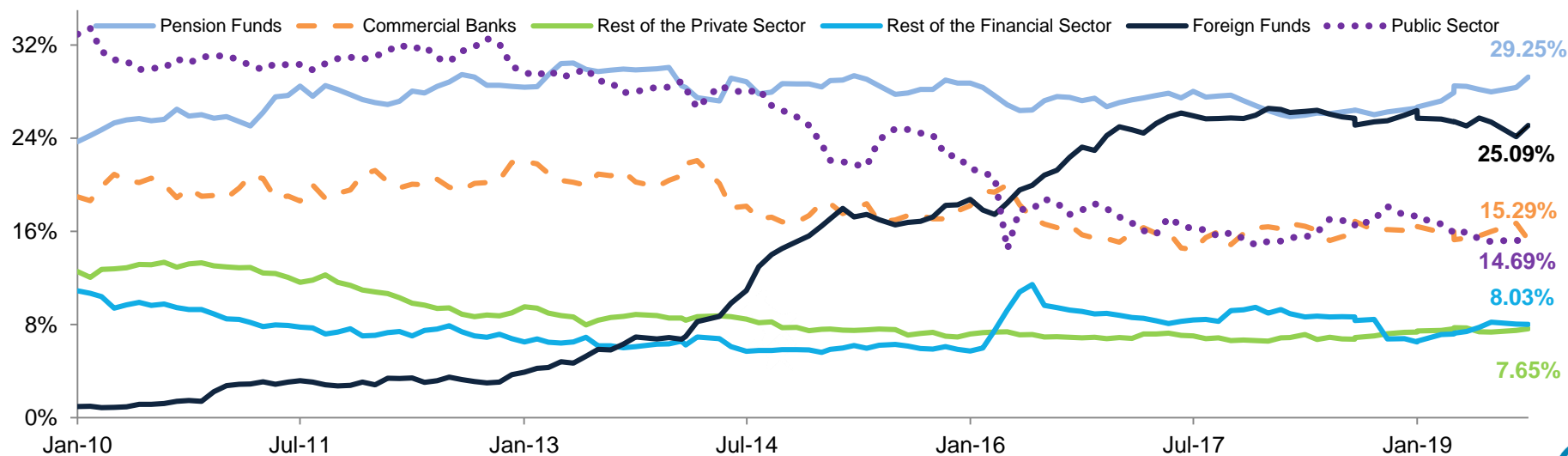
Colombia has a diversified investor base



2018

\$77.3
Trillion COP
(USD 24, 4
billion)
Stock Dec-18

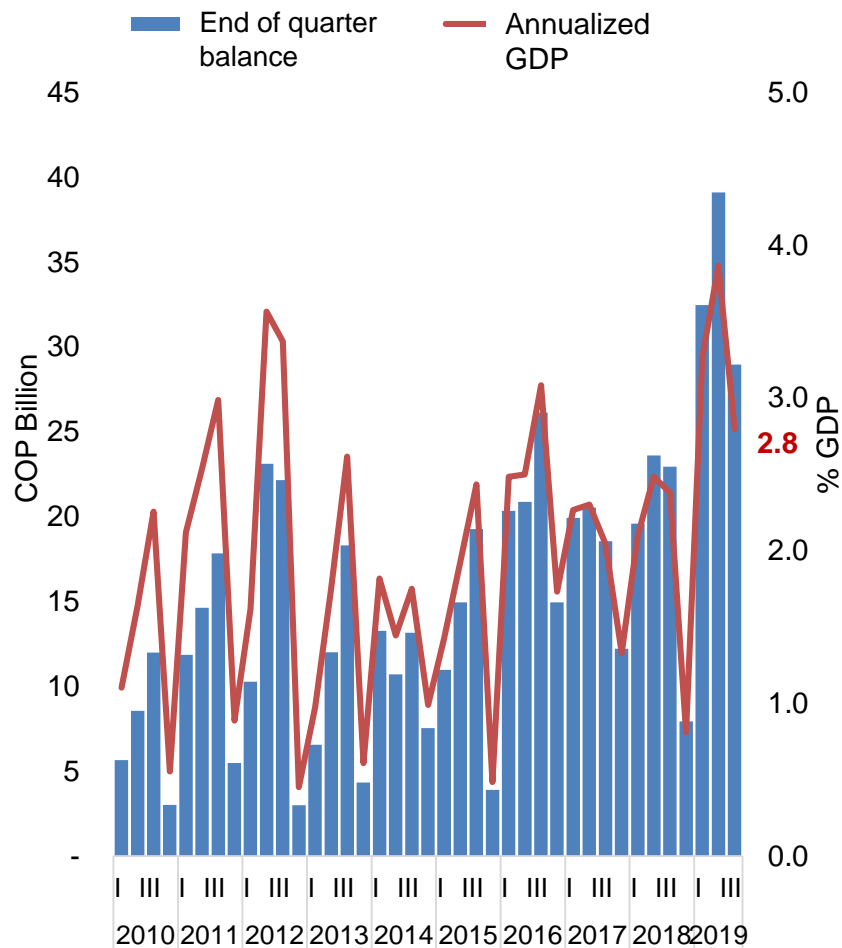
TES Holders by Type (% of Total TES)



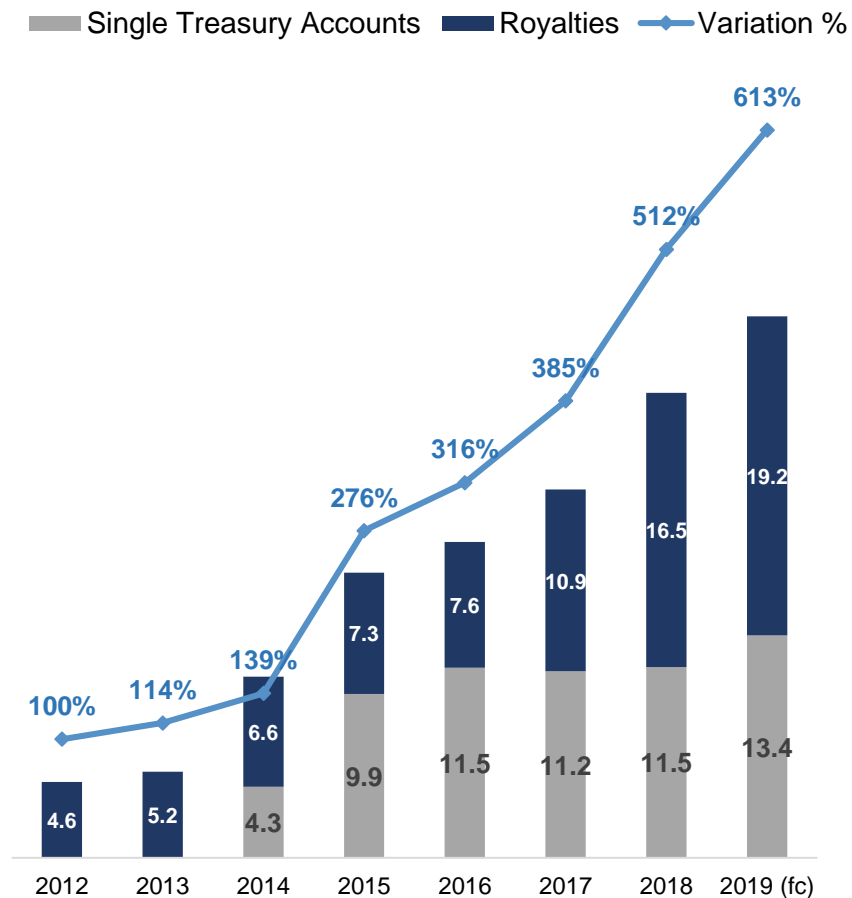


Efficient administration of public resources through the administration of liquidity surpluses

Historical Deposits at the Central Bank



Third-party resources managed by the treasury (Trillion COP)

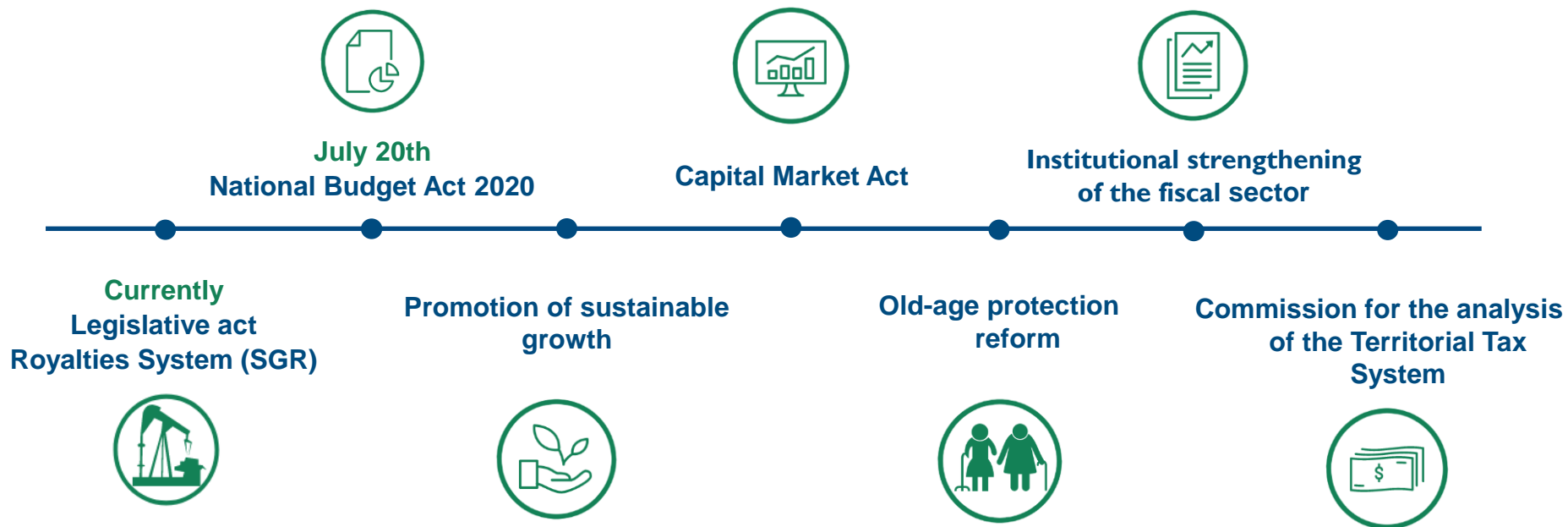


Source: Ministry of Finance of Colombia.

*It includes promissory notes and short term TES.



Government reform initiatives





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Financing Plan 2019

| US\$ | | COP\$ Billion | US\$ | | COP\$ Billion |
|-----------------------------|--------------------|---------------|--|--------------------|---------------|
| SOURCES | | 88,219 | USES | | 88,219 |
| Disbursements | | 46,801 | Deficit to Finance | | 24,935 |
| External (US\$ 3,669 mill.) | | 11,491 | o/w | | |
| Bonds | (US\$ 2,000 mill.) | 6,264 | Internal Interest | | 23,079 |
| Multilaterals and others | (US\$ 1,669 mill.) | 5,226 | External Interest | (US\$ 2,531 mill.) | 8,025 |
| Internal | | 35,310 | Expenditures in USD | (US\$ 417 mill.) | 1,322 |
| TES | | 35,290 | Amortizations | | 20,994 |
| Auctions | | 21,000 | External | (US\$ 2,484 mill.) | 7,878 |
| Public Entities | | 4,500 | Internal | | 13,116 |
| Payment of obligations | | 9,790 | Payment of obligations with debt service | | 11,000 |
| Others | | 20 | Rulings | | 7,000 |
| Central Bank Profit | | - | Social Security for Health | | 4,000 |
| Accrual Adjustments | | 2,547 | Payment of obligations with TES | | 9,790 |
| Floating Debt | | 439 | FEPC | | 5,300 |
| Treasury Operations | | 5,049 | Pension bonds | | 3,800 |
| Initial Availability | | 33,383 | ANI Rulings | | 250 |
| In Pesos | | 23,006 | FOMAG | | 440 |
| In Dollars | (US\$ 3,193 mill.) | 10,377 | Treasury Operations | | - |
| | | | Final Availability | | 21,500 |
| | | | In Pesos | | 16,996 |
| | | | In Dollars | (US\$ 1,430 mill.) | 4,504 |

SOURCES US\$

(US\$ 6,862 mill.)

USES US\$

(US\$ 6,862 mill.)



Financing Plan 2020

| US\$ | | | US\$ | | |
|-----------------------------|--------------------|---------------|---|--------------------|---------------|
| COP\$ Billion | | | COP\$ Billion | | |
| SOURCES | | | USES | | |
| 71,926 | | | 71,926 | | |
| Disbursements | | | Deficit to Finance | | |
| 40,612 | | | 25,108 | | |
| External | (US\$ 3,350 mill.) | 10,482 | o/w | | |
| Bonds | (US\$ 1,750 mill.) | 5,476 | Internal Interest | | 24,737 |
| Multilaterals and others | (US\$ 1,600 mill.) | 5,007 | External Interest | (US\$ 2,773 mill.) | 8,677 |
| Internal | | 30,130 | Expenditures in USD | (US\$ 481 mill.) | 1,519 |
| TES | | 30,110 | Amortizations | | 20,617 |
| Auctions | | 23,000 | External | (US\$ 1,800 mill.) | 5,633 |
| Public Entities | | 5,000 | Internal | | 14,984 |
| Payment of obligations | | 2,110 | Payment of obligations with debt service | | 5,800 |
| Others | | 20 | Rulings | | 1,100 |
| Accrual Adjustments | | 3,343 | Social Security - Health | | 4,700 |
| Floating Debt | | - | Payment of obligations with TES | | 2,110 |
| Treasury Operations | | 6,470 | ANI Rulings | | 250 |
| Initial Availability | | 21,500 | FOMAG | | 660 |
| In Pesos | | 16,996 | Social Security - Subsidized Health | | 1,200 |
| In Dollars | (US\$ 1,430 mill.) | 4,504 | Final Availability | | 18,291 |
| | | | In Pesos | | 16,022 |
| | | | In Dollars | (US\$ 725 mill.) | 2,269 |

SOURCES US\$

(US\$ 4,780 mill.)

USES US\$

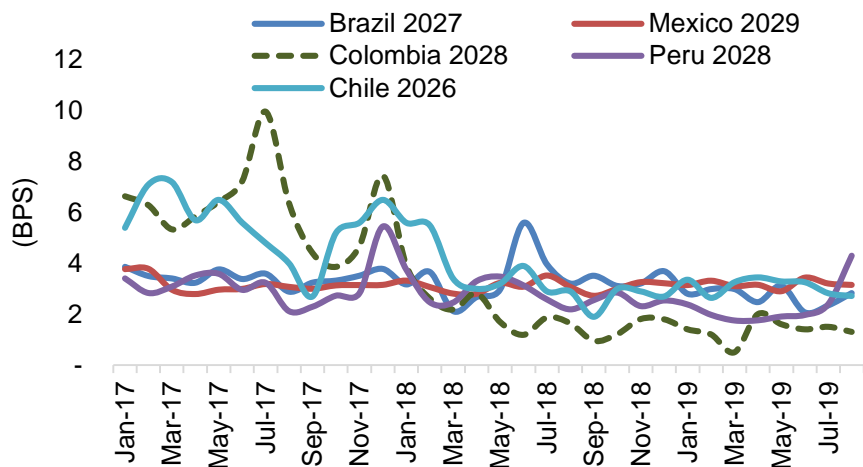
(US\$ 5,779 mill.)



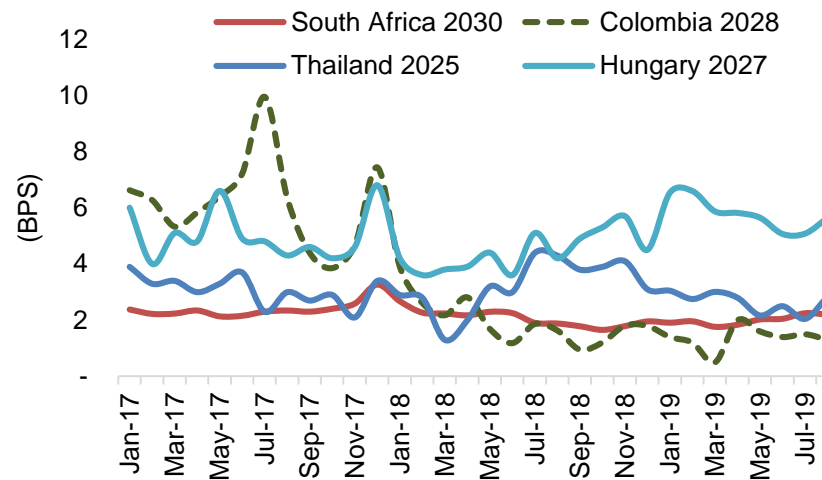


Colombia has built a liquid and efficient local curve

Bid/Ask Spread - Latam (Monthly Average)



Bid/Ask Spread - Peers (Monthly Average)



Turn Over Ratio (Liquidity Indicator)

