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Colombia: Macroeconomic and Fiscal Outlook

Ministry of Finance and Public Credit

April 8th 2022



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Growth, economic reactivation and employment recovery



The Colombian economy grew by 10,6% in 2021 driven by the strong dynamism of the manufacturing and commerce sectors

GDP by sector growth (%)

	Share 2020	2021	Cont. 2021
GDP	100,0	10,6	10,6
Agriculture	6,8	2,4	0,2
Mining	4,5	0,4	0,0
Manufacturing industry	11,4	16,4	1,9
Electricity, gas and water supply	3,2	5,1	0,2
Construction	5,0	5,7	0,3
Commerce, transportation and hotels	15,9	21,2	3,4
Communication and information	3,0	11,2	0,3
Financial activities	5,2	3,4	0,2
Real estate activities	9,9	2,6	0,3
Professional activities	7,1	9,7	0,7
Public administration	16,2	6,9	1,1
Art, entertainment and recreation	2,6	33,0	0,8
Indirect taxes	9,3	13,5	1,3

- In 2021, the manufacturing and commerce sectors were the most dynamic, contributing with half of total economic growth.
- This result is explained by higher mobility, the progress in the vaccination process, the improvement in the confidence of economic agents, the increase in non-traditional exports, and the policy measures adopted by the National Government to boost the economy, such as the VAT Holidays and tax benefits for restaurants and pubs.

The Ministry of Finance expects the Colombian economy will grow 5% in 2022, leveraged in the economic behavior of the manufacturing and commerce sectors

GDP growth in 2022(%)

	Share 2021	2022	Cont. 2022
GDP	100,0	5,0	
Agriculture	6,3	0,5	0,0
Mining	4,1	3,4	0,1
Manufacturing industry	12,0	5,7	0,7
Electricity, gas and water supply	3,0	2,3	0,1
Construction	4,8	5,8	0,3
Commerce, transportation and hotels	17,4	9,7	1,7
Communication and information	3,0	3,2	0,1
Financial activities	4,8	3,8	0,2
Real estate activities	9,2	2,2	0,2
Professional activities	7,0	4,4	0,3
Public administration	15,6	4,3	0,7
Art, entertainment and recreation	3,1	4,2	0,1
Indirect taxes	9,6	4,8	0,5

Source: Ministry of Finance calculations.

Analyst's economic growth forecast for 2022 (%)

Last update: April 2022

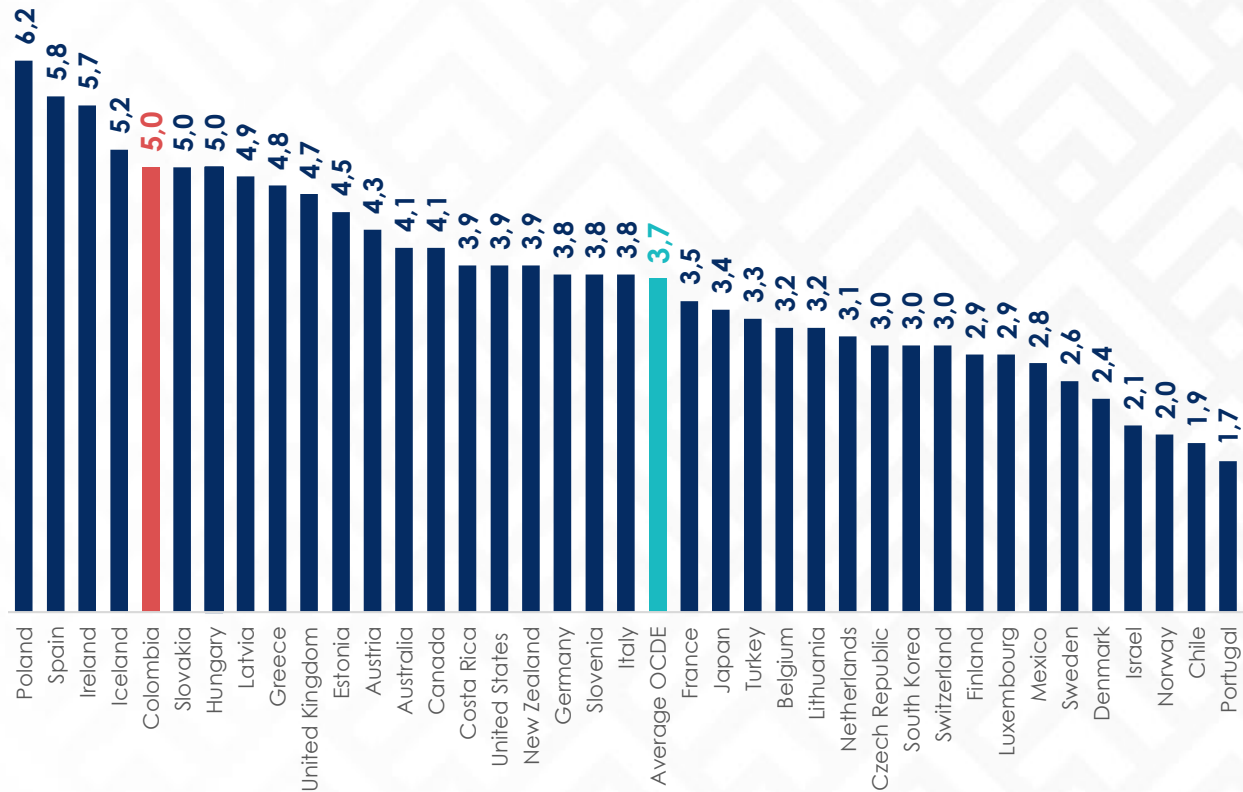
	2022		2022
Capital Economics	6,5	Credit Agricole	4,5
JPMorgan	6,5	HSBC	4,5
XP Investments	6,5	Itaú Unibanco	4,5
Pantheon Macroeconomics	6,4	Moody's Analytics	4,4
Goldman Sachs	6,0	Banco Mundial	4,4
FMI	5,8	DekaBank	4,2
Corficolombiana	5,6	EIU	4,2
OCDE	5,5	FrontierView	4,1
Banco de Bogotá	5,5	ANIF	3,9
Kiel Institute	5,3	Banco Davivienda	3,8
Fitch Ratings	5,2	CABI	3,8
Credicorp Capital	5,1	Fitch Solutions	3,8
Bancolombia	5	CEPAL	3,7
Credit Suisse	5	Oxford Economics	3,3
Banco de la República	4,7	Pezco Economics	3
Torino Capital	4,7	Min	3
Fedesarrollo	4,6	Max	6,5
CAF	4,5	Average	4,8
Citigroup Global Mkts	4,5	Median	4,6

Source: Latin Consensus Forecast March 2022 and analyst's web sites.

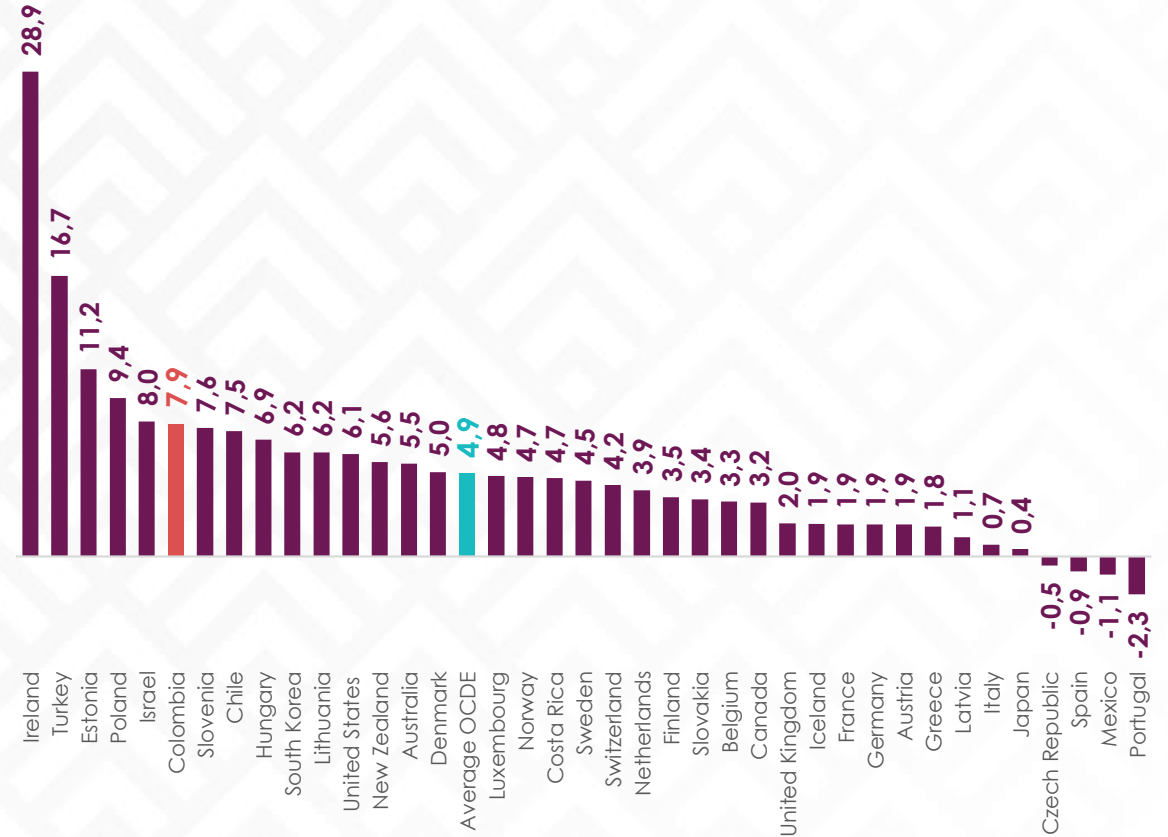
Note: The chart includes only the analysts who have changed their forecast in the last three months.

Within the sample of 38 OECD countries, in 2022, **Colombia would grow above the average**, showing one the most dynamic recoveries relative to 2019 compared to these economies

Economic growth 2022 vs 2021



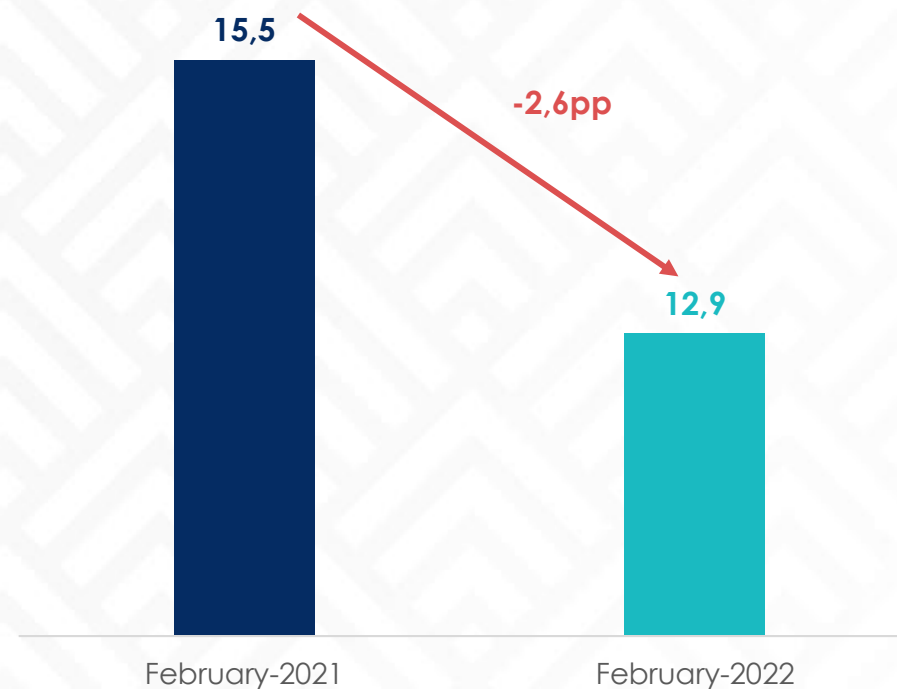
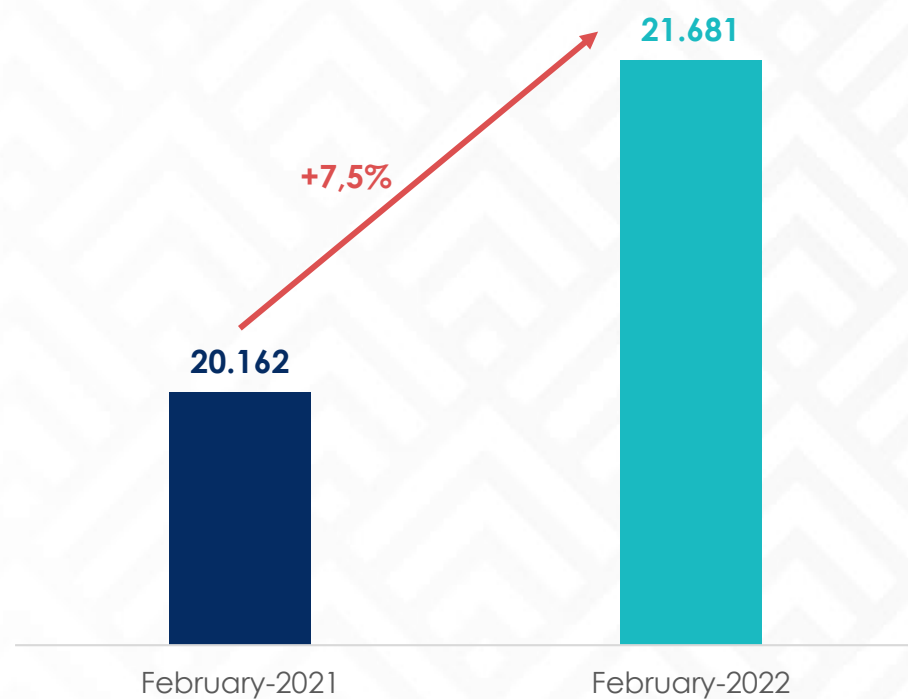
Economic growth 2022 vs 2019



Between February 2021 and February 2022, the Colombian labor market showed improvements. There was a rise in the number of employees and a decline in the unemployment rate

Employed population
(National level, thousands)

Unemployment rate
(National level, %)



Note: Due to the new methodology of the GEIH published by the Statistics Department in March 2022, the information is only available from January 2021 and is not seasonally adjusted.

Source: DANE.



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Fiscal Policy Outlook

Tax revenue in 2021 was higher by 11.1 trillion COP compared to the MTFF projection

- **60% of the growth in revenue is explained by external taxes.** The solid dynamics of imports and the peso depreciation, which increases the value of the goods declared in COP, favored this great performance.
- Revenues obtained by **efficiency gains** from DIAN reached an overall value of 18.8 trillion COP in 2021, **increasing by 5.8 trillion COP compared with 2020.**

Tax Revenue 2021 (Billion COP)

CONCEPT	2020	MTFF (1)	Actual (2)	(2-1)	Var. vs 2020 (%)
Total gross tax revenues	146.215	164.636	173.899	9.263	18,9
Internal	122.448	137.514	140.042	2.528	14,4
Income tax	69.797	76.763	78.083	1.320	11,9
Internal VAT	39.499	44.820	46.569	1.748	17,9
Financial Transactions	8.109	9.881	9.857	-24	21,6
Stamp	41	93	84	-8	103,6
Consumption	962	1.020	1.036	16	7,6
Gasoline	1.469	2.016	1.531	-485	4,2
Carbon	1.323	1.756	1.800	44	36,1
Wealth	295	488	334	-154	13,4
Tax Amnesty	628	300	146	-154	-76,8
Real-Estate Sales	5	0	4	4	-16,0
SIMPLE	321	376	599	223	86,9
External	23.767	27.122	33.857	6.735	42,5
Tax paid in TIDIS and cash refunds	15.698	14.000	12.095	-1.905	-23,0
Total net tax revenues	130.517	150.636	161.804	11.169	24,0

2021 Central Government Fiscal Balance

A preliminary fiscal deficit of 7.1% of GDP is expected for 2021, 1.6pp less than the MTFF estimation (8.6% of GDP). Higher expected GDP levels contribute to the increase of tax revenues and the reduction in the fiscal deficit as a percentage of GDP.

Concept	COP billions			% of GDP		
	MTFF (1)	Actual (2)	(2-1)	MTFF (1)	Actual (2)	(2-1)
Total revenues	179.231	192.058	12.828	16,2	16,3	0,1
Tax revenues	151.065	162.228	11.163	13,6	13,8	0,2
Other*	28.165	29.830	1.665	2,5	2,5	0,0
Total expenditures	274.980	275.208	228	24,8	23,4	-1,4
Interests	36.771	39.678	2.907	3,3	3,4	0,1
Primary**	238.209	235.530	-2.679	21,5	20,0	-1,5
Primary balance	-58.978	-43.471	15.507	-5,3	-3,7	1,6
Total balance	-95.749	-83.149	12.600	-8,6	-7,1	1,6

*Refers to non-tax revenues, special funds and capital receipts.

**Includes net lending

Source: MHCP

Sources and uses 2021

(COP trillion)

			MTFF (1)	Act(2)	(2) –(1)				MTFF (1)	Act(2)	(2) –(1)
Sources	US\$ MTFF	US\$ Act	134.068	132.386	- 1.681	Uses	US\$ MTFF	US\$ Act	134.068	132.386	- 1.681
Disbursements			91.634	91.961	328	Deficit			95.749	83.149	- 12.601
External	(US 10.110 m)	(US 10.198 m)	36.302	37.920	1.618	o/w:					
Internal			55.332	54.041	- 1.290	Internal Interest			27.058	30.309	3.251
						External Interest	(US 2.577 m)	(US 2.542 m)	9.712	9.369	- 344
Treasury Operations			6.285	4.847	- 1.438	Amortizations			18.928	23.839	4.911
Accrual adjustments			3.488	2.917	- 571	External	(US 2.981m)	(US 2.966 m)	10.937	10.797	- 140
						Internal			7.991	13.042	5.051
						Payment of obligations (Rulings, Health, Others)			8.590	3.589	- 5.001
Initial availability			32.661	32.661	-	Final availability			10.800	21.809	11.009

Source: : DGCPTN – Ministry of Finance of Colombia

Sources and uses 2021

(% GDP)

			MTFF	Act						MTFF	Act
Sources	US\$ MTFF	US\$ Act	12,1	11,3	Uses	US\$ MTFF	US\$ Act	12,1	11,3		
Disbursements			8,3	7,8	Deficit			8,6	7,1		
External	(US 10.110 m)	(US 10.198 m)	3,1	3,2	o/w:						
Internal			4,7	4,6	Internal Interest			2,4	2,6		
					External Interest	(US 2.577 m)	(US 2.542 m)	0,9	0,8		
Treasury Operations			0,6	0,4	Amortizations			1,7	2,0		
Accrual adjustments			0,3	0,2	External	(US 2.981 m)	(US 2.966 m)	1,0	0,9		
					Internal			0,7	1,1		
					Payment of obligations (Rulings, Health, Others)			0,8	0,3		
Initial availability			2,9	2,8	Final availability			1,0	1,9		

Source: : DGCPTN – Ministry of Finance of Colombia

Tax revenue dynamics observed in 2021 would be carried-over to 2022

1. The higher tax revenue base in 2021 largely explains the increase in projected tax revenues for 2022.
2. Income tax revenues in 2022 will be driven by higher nominal GDP growth in 2021.
3. Expected nominal GDP growth for 2022 is revised from 7.9% to 9.2%, increasing expected tax revenues.

Tax Revenue 2022 (Billion COP)

CONCEPT	MTFF (1)	Actual (2)	(2-1)	Var 2021-2020 (%)
Total gross tax revenues	182.878	196.749	13.871	13,1
Internal	149.493	160.060	10.567	14,3
Income tax	82.827	89.157	6.330	14,2
Internal VAT	50.207	53.469	3.261	14,8
Financial Transactions	10.996	11.161	165	13,2
Stamp	98	86	-12	2,3
Consumption	2.481	2.903	423	89,7
Gasoline	1.930	2.224	294	23,6
Carbon	536	382	-155	14,2
SIMPLE	419	678	260	13,1
External	29.963	37.373	7.410	10,4
Investment Social Law	3.422	-684	-4.105	
Tax paid in TIDIS and cash refunds	13.100	13.749	649	13,7
Total net tax revenues	169.778	183.000	13.222	13,1

Tax Revenue 2022 (% of GDP)

CONCEPT (% GDP)	MTFF (1)	Actual (2)	(2-1)
Total gross tax revenues	15,3	15,3	0,0
Internal	12,5	12,5	0,0
Income tax	6,9	6,9	0,0
Internal VAT	4,2	4,2	0,0
Financial Transactions	0,9	0,9	-0,1
Stamp	0,0	0,0	0,0
Consumption	0,2	0,2	0,0
Gasoline	0,2	0,2	0,0
Carbon	0,0	0,0	0,0
SIMPLE	0,0	0,1	0,0
External	2,5	2,9	0,4
Investment Social Law	0,3	-0,1	-0,3
Tax paid in TIDIS and cash refunds	1,1	1,1	0,0
Total net tax revenues	14,2	14,2	0,1

2022 Central Government Fiscal Balance

A fiscal deficit of 6.2% of GDP is forecasted for 2022. This is 0.8pp less than the MTFF estimation (7.0% of GDP). Lower expected primary expenditures contributes to reduce the fiscal deficit as a percentage of GDP.

Concept	COP billions			% of GDP		
	MTFF (1)	Actual (2)	(2-1)	MTFF (1)	Actual (2)	(2-1)
Total revenues	193.964	201.706	7.743	16,2	15,7	-0,5
Tax revenues	170.246	183.469	13.223	14,2	14,3	0,1
Other*	23.717	18.237	-5.480	2,0	1,4	-0,6
Total expenditures	277.537	281.682	4.145	23,2	21,9	-1,3
Interests	41.331	45.955	4.624	3,5	3,6	0,1
Primary	236.206	235.727	-479	19,7	18,3	-1,4
Primary balance	-42.243	-34.021	8.222	-3,5	-2,6	0,9
Total balance	-83.574	-79.976	3.598	-7,0	-6,2	0,8

*Refers to non-tax revenues, special funds and capital receipts.

Source: MHCP

- ✓ This scenario does not include asset sales, favoring a recomposition of revenues from temporary sources of income, to permanent ones.
- ✓ Nevertheless, the Government is still committed to carrying out asset sales in 2022

Sources and uses 2022

(COP trillion)

			MTFF (1)	Act(2)	(2) –(1)				MTFF (1)	Act(2)	(2) –(1)
Sources	US\$ MTFF	US\$ Act	127.757	111.149	-16.608	Uses	US\$ MTFF	US\$ Act	127.757	111.149	- 16.608
Disbursements			102.195	75.988	- 26.207	Deficit			83.574	79.976	- 3.598
External	(US 10.110 m)	(US 6.215 m)	39.312	23.758	- 15.554	o/w:					
Internal			62.883	52.229	- 10.654	Internal Interest			29.645	33.978	4.333
						External Interest	(US 2.996 m)	(US 2.852 m)	11.685	11.977	292
Treasury Operations			11.337	6.080	- 5.256						
						Amortizations			27.773	14.015	- 13.759
Accrual adjustments			3.426	7.272	3.846	External	(US 1.009 m)	(US 1.000 m)	3.936	4.200	264
						Internal			23.837	9.815	- 14.023
						Payment of obligations (Rulings, Health, Others)			6.382	5.550	- 832
Initial availability			10.800	21.809	11.009	Final availability			10.028	11.609	1.581

Source: : DGCPTN – Ministry of Finance of Colombia

Sources and uses 2022

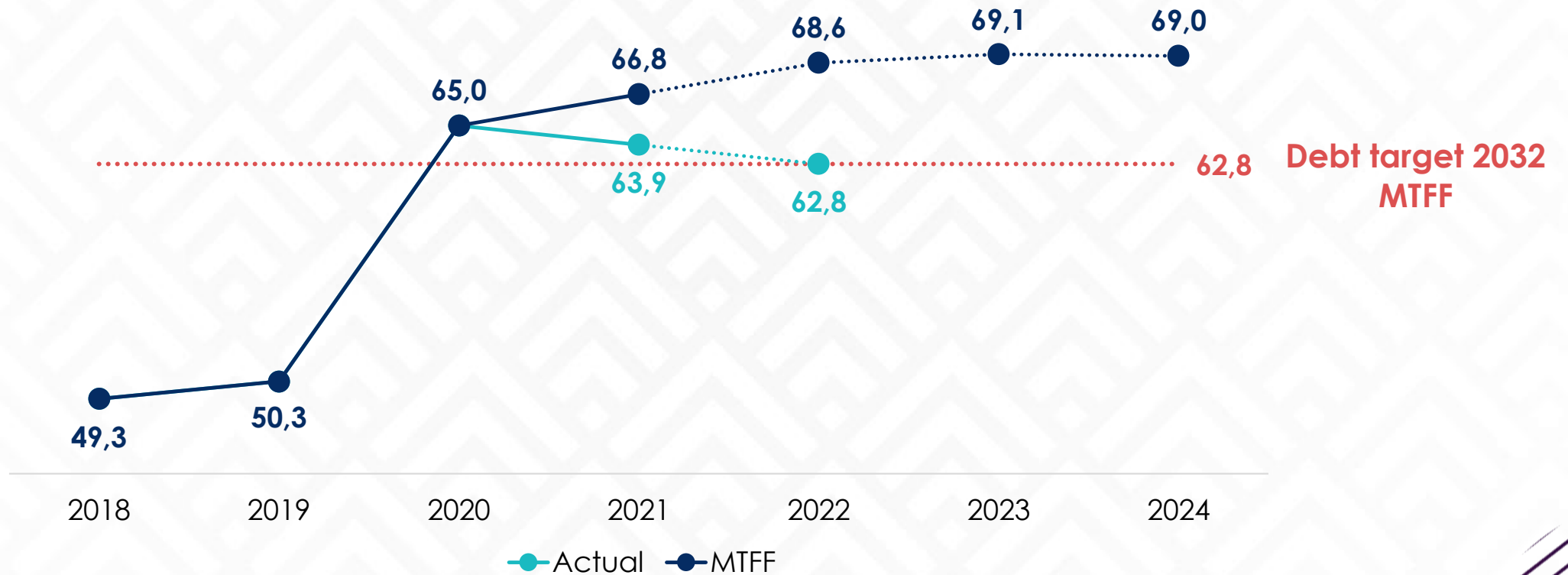
(% GDP)

			MTFF	Act				MTFF	Act
Sources	US\$ MTFF	US\$ Act	10,7	8,7	Uses	US\$ MTFF	US\$ Act	10,7	8,7
Disbursements			8,5	5,9	Deficit			7,0	6,2
External	(US 10.110 m)	(US 6.215 m)	3,3	1,8	o/w:				
Internal			5,3	4,1	Internal Interest			2,5	2,6
					External Interest	(US 2.996 m)	(US 2.852 m)	1,0	0,9
Treasury Operations			0,9	0,5					
					Amortizations			2,3	1,1
Accrual adjustments			0,3	0,6	External	(US 1.009 m)	(US 1.000 m)	0,3	0,3
					Internal			2,0	0,8
					Payment of obligations (Rulings, Health, Others)			0,5	0,4
Initial availability			0,9	1,7	Final availability			0,8	0,9

Source: : DGCPTN – Ministry of Finance of Colombia

Central Government Debt

Central Government Gross Debt
Preliminary projection - (% GDP)





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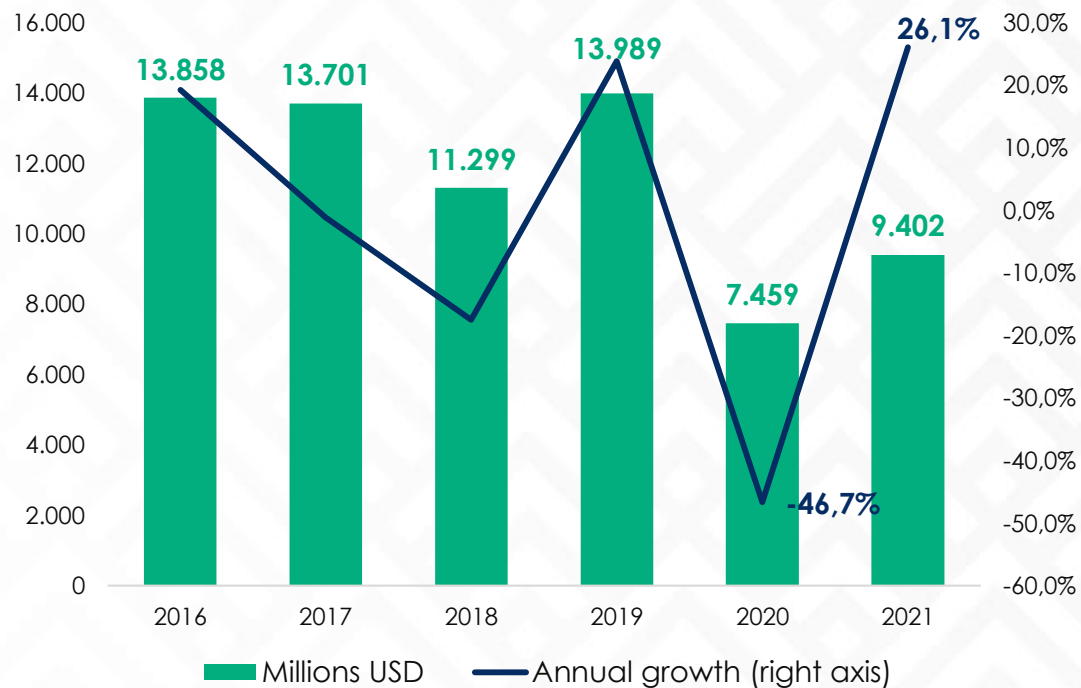
External sector



External capital flows in 2021 have been dynamic, **allowing to finance the external imbalance and supporting the economic recovery**

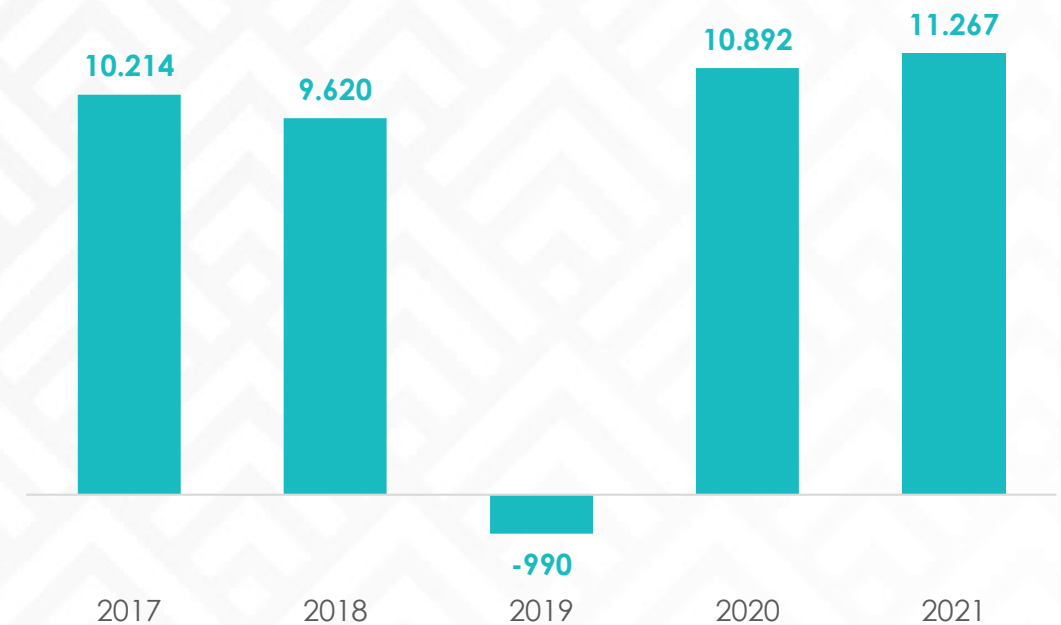
In 2022, foreign capital flows are expected to continue to show a significant dynamism. **Gross FDI is expected to return to the average levels observed before the pandemic, and foreign purchases of TES are expected to remain significant.**

Gross Foreign Direct Investment



Source: Central Bank. Calculations: Ministry of Finance

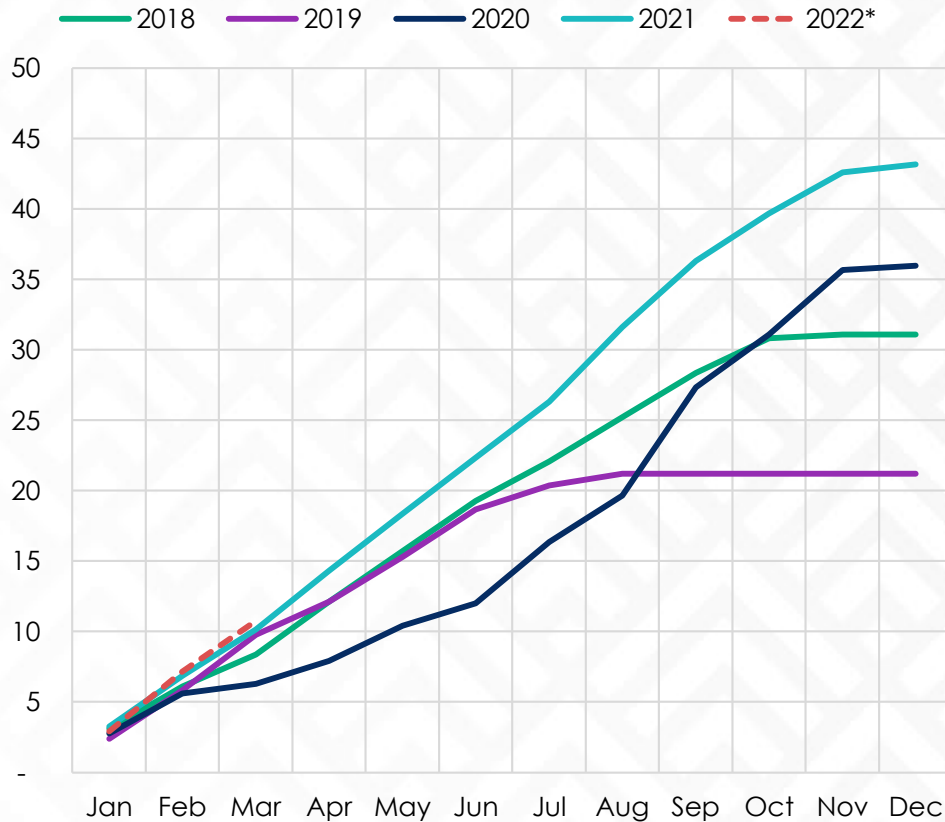
TES purchases by foreigners (billion COP)



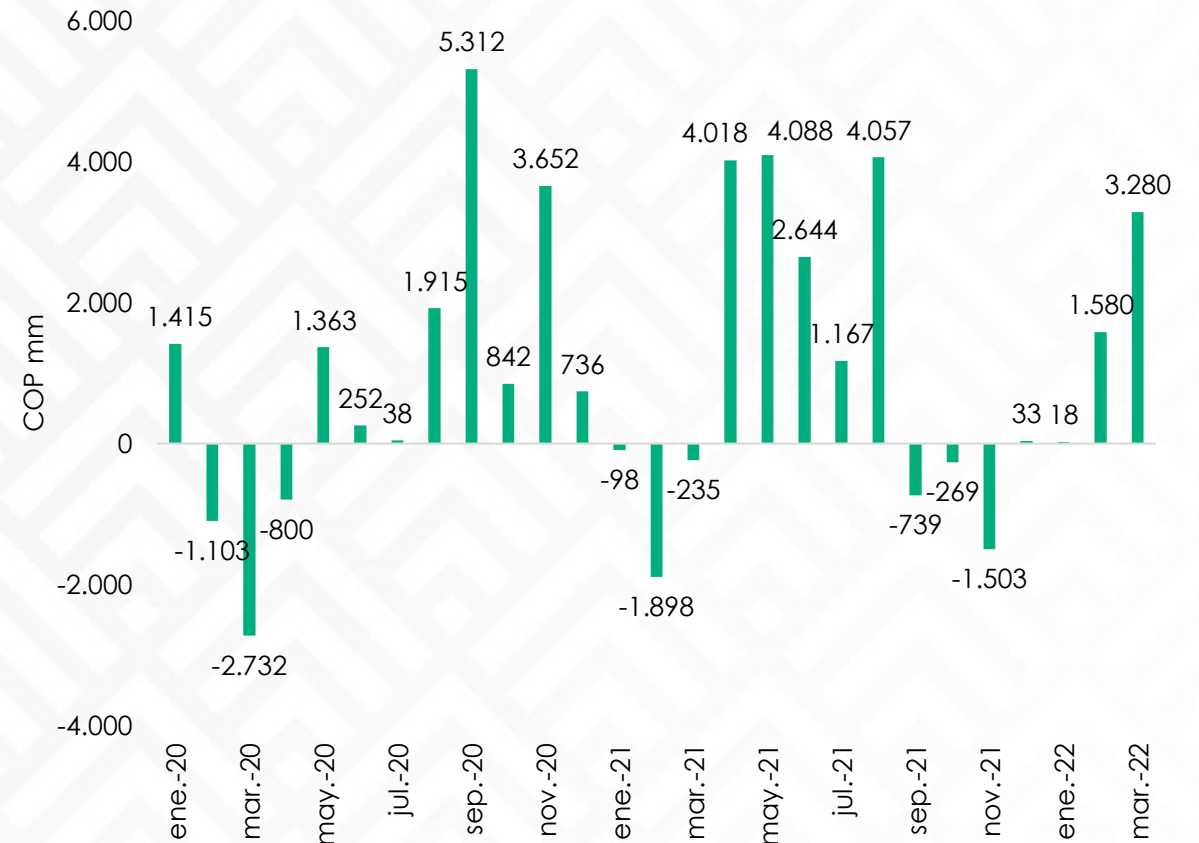
Source: Ministry of Finance

COLTES market in 2022

Monthly evolution of auctions in the local market
(figures in COP trillion)



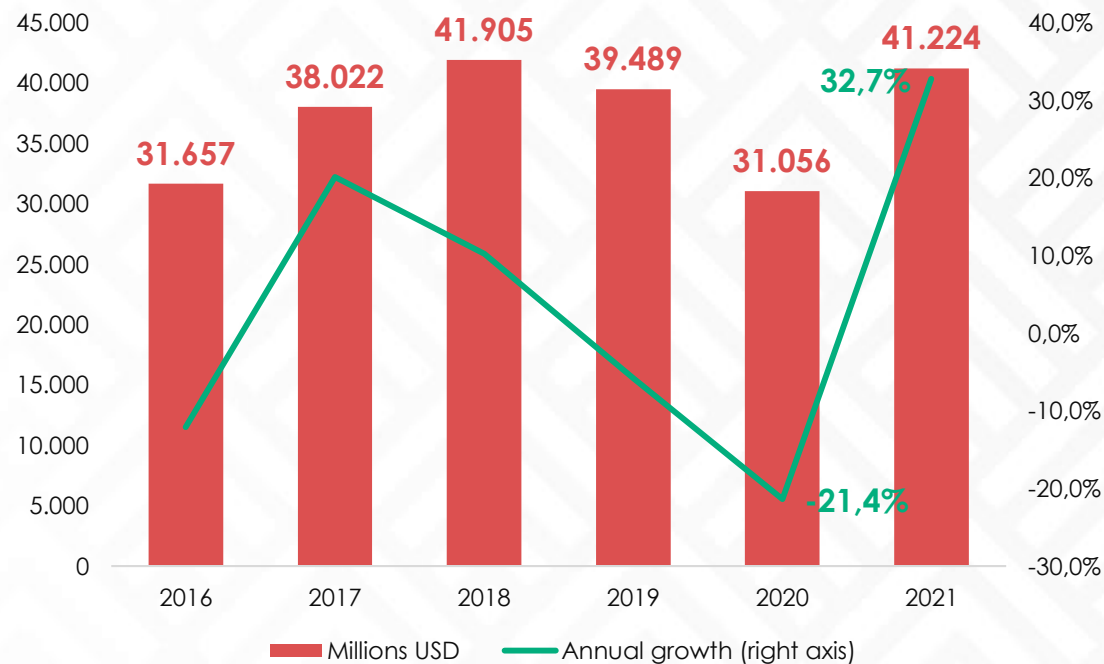
Monthly Net Inflows form Foreign Funds in TES
(COP mm)



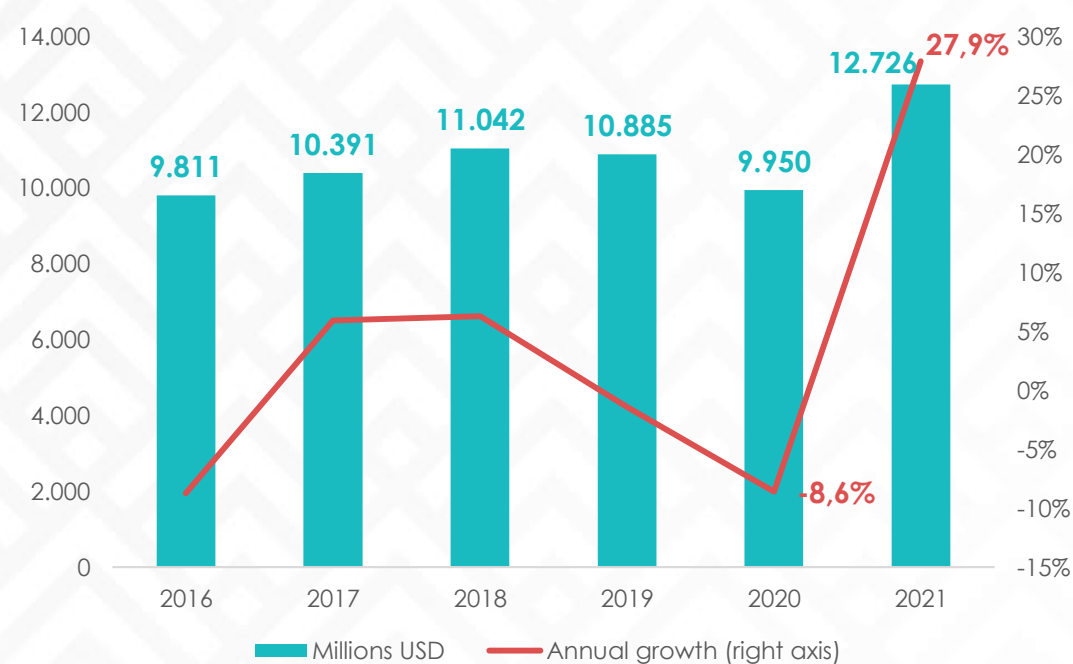
The behavior in non-traditional exports has reflected a more diversified export basket for Colombia, **reaching its highest level in the last 7 years**

By 2022, **total exports are expected to exceed pre-pandemic levels**, and non-traditional exports are expected to continue to gain share in the export basket.

Total exports of goods



Non-traditional exports

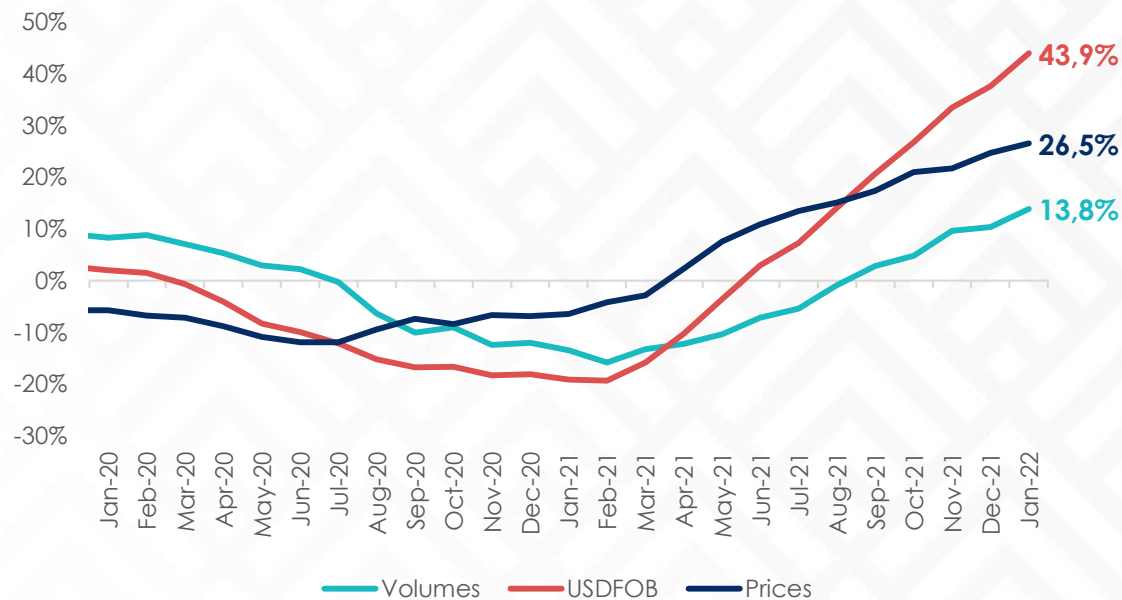


In 2021, imports of goods showed a strong increase, mainly explained by the rebound in international prices. **Capital goods imports have been the most dynamic, which should help boost investment**

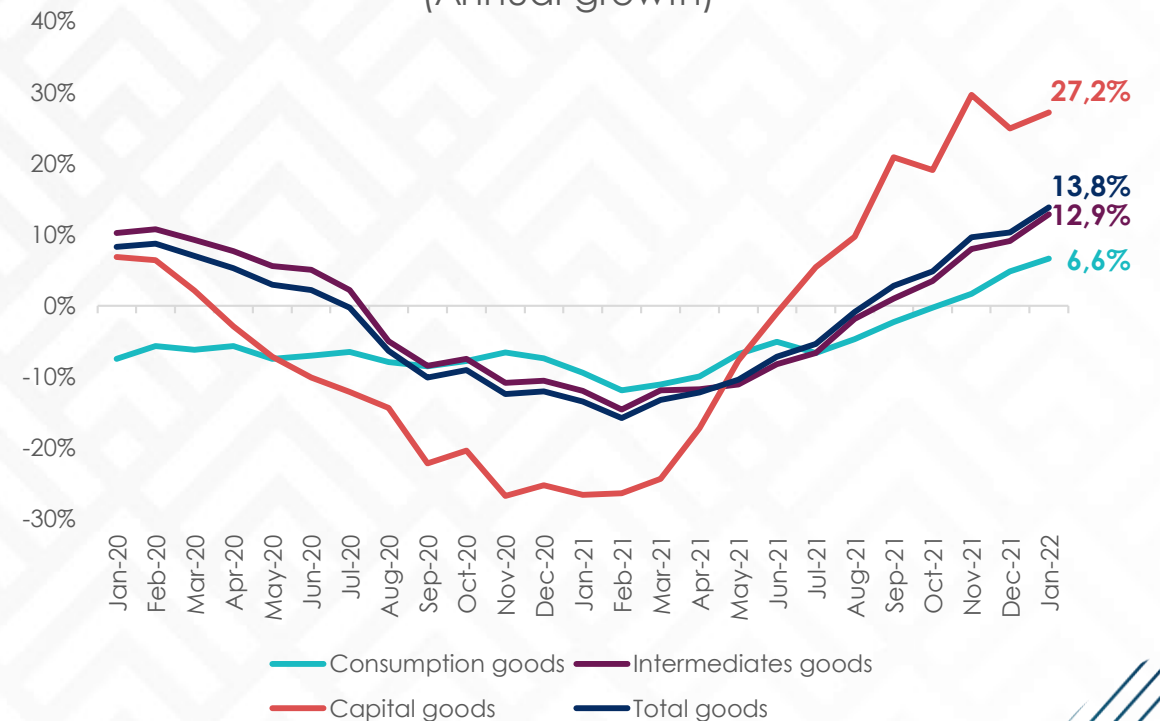
We expect international prices to remain high in 2022, but we do not expect them to generate the same pressures on import growth.

The growth in the **volume of imports** has been driven mainly by **capital goods**.

Annualized imports
(Annual growth)



Annualized imports volumes by type of goods
(Annual growth)





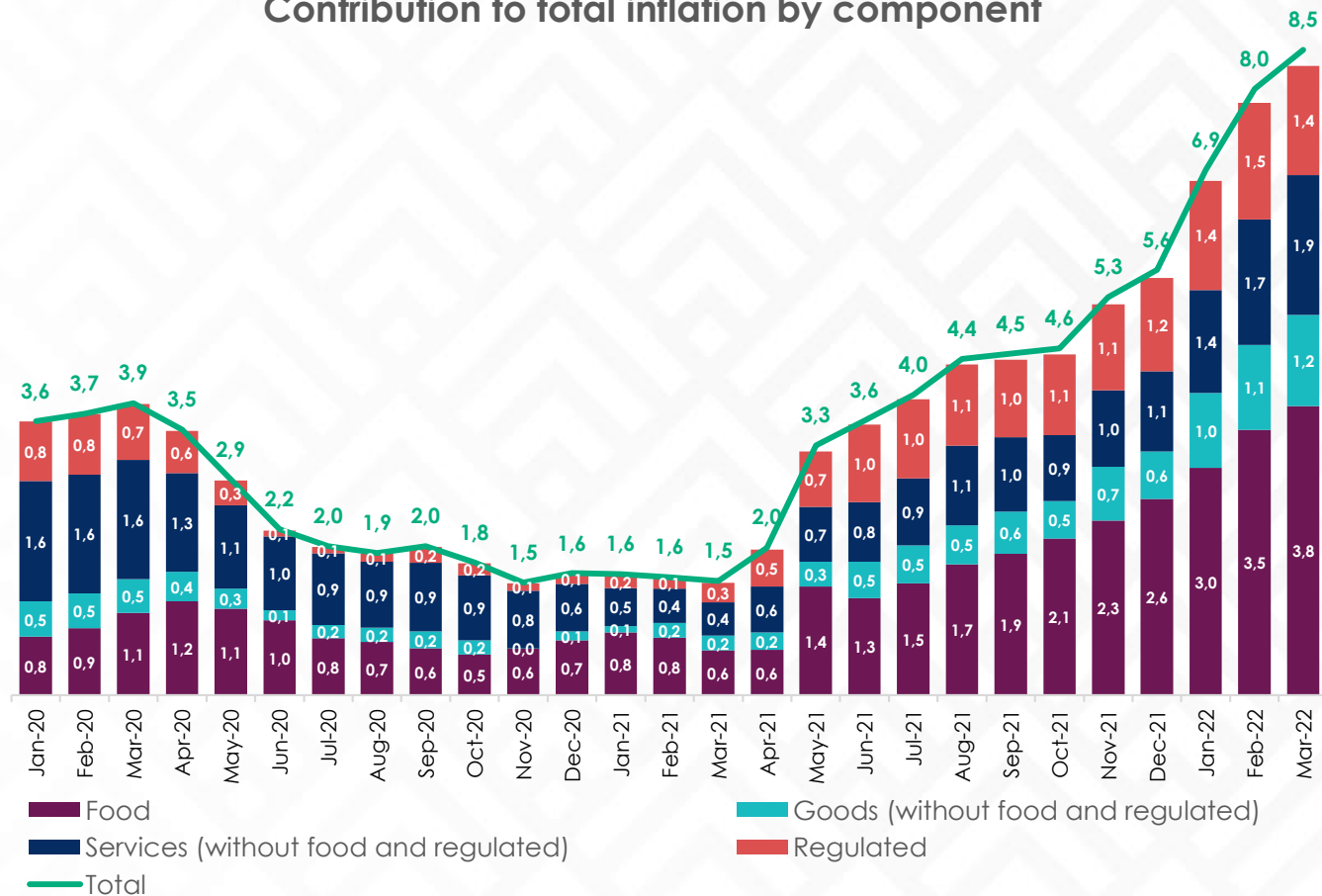
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Some
challenges
remain ahead

Inflation increased to 5.6% by the end of 2021 and upward pressures have remained in 2022, mostly explained by higher food prices

Contribution to total inflation by component



The rebound in inflation in 2021 was explained by:

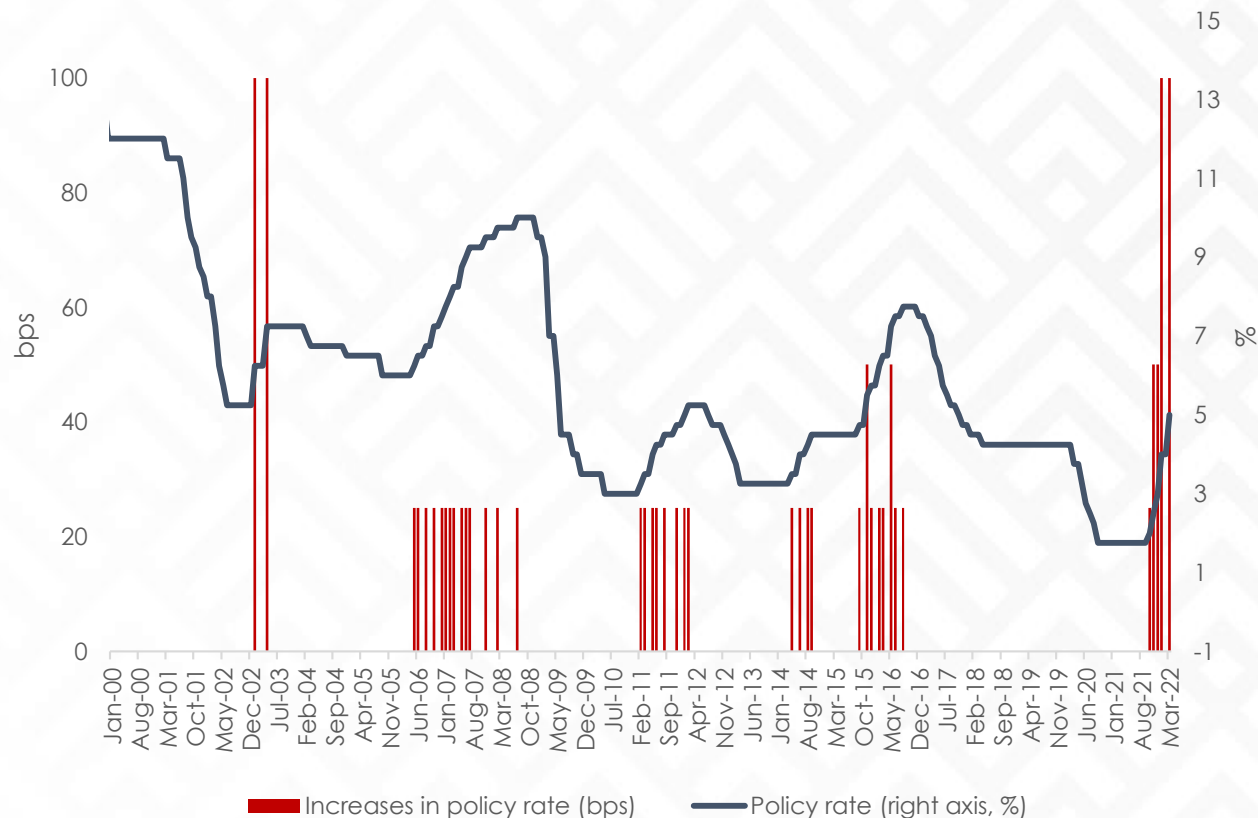
- External pressures due to **disruptions in global supply chains**.
- **The national strike and some local supply issues** that pressured food prices upwards.
- An increase in **food inflation outside home**, derived from the increase in food prices.
- The reactivation of **domestic demand**.

In order to contain some of the inflationary pressures and keep expectations anchored, **the central bank has begun a process of monetary normalization through interest rate increases**.

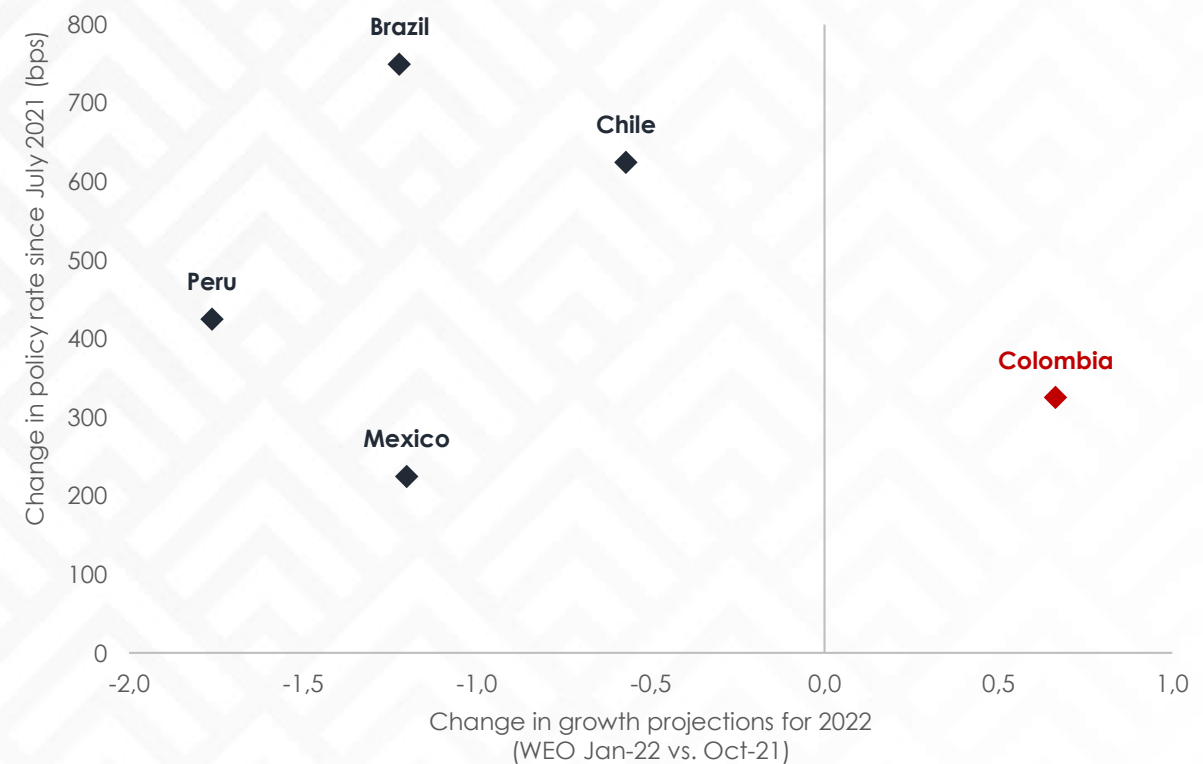
- Since the September 2021 meeting, the central bank has raised interest rates by 325 bps.
- At the January and the March 2022 meeting, interest rates increased 100 bps (the highest increase since 2003).

Colombia's central bank has **increased its intervention interest rate** to offset high levels of inflation. However, these **increases have been lower** than those of other countries in the region, which has led to **better growth prospects** for the country.

Policy rate and its increases

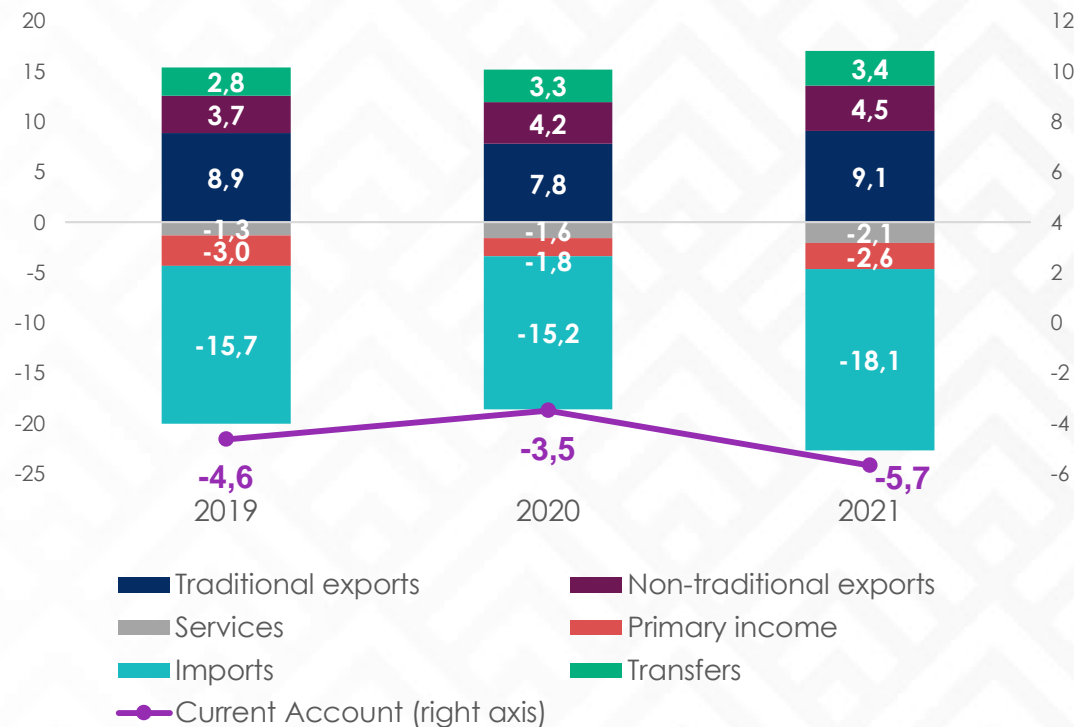


Change in policy rate and growth projections for 2022



After the increase in the external deficit in 2021, it is expected to show a correction in the next years

Current account (%GDP)



The correction of the current account deficit in 2022 would be explained by:

- High oil prices that could increase traditional exports and reduce the external deficit to GDP below 5.0%.
 - If these prices remain at current levels, the deficit could be less than 4.0% of GDP.
- Non-traditional exports are expected to remain dynamic.
- A significant recovery in tourism exports is expected in 2022.
- Less internal pressures due to fiscal adjustment.

Source: Central bank. Calculations: Ministry of Finance.



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Medium- term scenario





Key messages from the 2022 Financial Plan Update

- 1.** The sustained impact of economic reactivation policies and the dynamism of key sectors such as manufacturing, commerce and tourism would lead Colombia to grow 5% in 2022. **The latter would consolidate the country as a leading one in terms of reactivation.**
- 2.** The fiscal deficit target for 2022 is lower than the one projected in the MTFF, and lower than the required to comply with the Fiscal Rule.
- 3.** The MTFF projected public debt stabilization in 2024. **In the current scenario, gross debt started its downward path since 2021.**
- 4.** **In 2022 gross debt would reach the same level than projected in the MTFF for 2032.**
- 5.** Central government's debt issuance will decrease by 2.0pp of GDP in 2022, when compared to the MTFF forecast.

Mid-term key messages: fiscal outlook



As April 6, **Colombia has reached coverage of 81% of the population vaccinated against Covid-19, of those 69% with complete vaccination schemes, and 21% with booster shots.** In that sense, Government consistently achieving more than 90% of it established bimonthly targets. It is expected to allocate 0.1% of GDP in 2022 for this purpose.



One of the pillars of the future increase in tax collection included in the medium-term fiscal strategy is related to efficiency gains from the tax administration. These future targets on increases in revenue are consistent with past observed results. For instance, in 2022 it is estimated that the increase in revenues from higher tax administration efficiency will be 0.5% of GDP, the same increase observed in 2021.



The changes implemented to the Fiscal Rule strengthen the current institutional framework. The new established targets, which are consistent with public debt converging to its prudential level, and the creation of the Autonomous Fiscal Rule Committee (CARF, by its acronym in Spanish) strengthen the fiscal policy framework





Mid-term key messages: employment

In response to the pandemic, the government implemented employment programs to protect job destruction and encourage job creation, especially for women and the youth.

The **Program to Support the Formal Employment** (PAEF, for its acronym in Spanish) aimed at avoiding job destruction by providing a subsidy to employers for labor costs. **The program benefited 4,1 million employees between May 2020 and March 2021, and 452.000 from May to December 2021.**

The incentive for the creation of new jobs aimed at encouraging more employment, by subsidizing the salary of new hired employees. **Between August 2021 and January 2022, it benefited over 301.000 employees*.**

The incentive for the creation of new jobs for firms affected by the national strike is a version of PAEF targeted at firms affected by this event. **Around 441.000 employees benefited from it.**

Overall, these employment programs have benefited close to 5 million Colombian employees.

*Includes more than 78 thousand beneficiaries of the "Sacúdete" strategy.

Mid-term key messages: infrastructure programs

The fifth-generation program, that includes highways, airports, river and freight rail projects, would be key to the development of the Colombian infrastructure and the increase of competitiveness.

- USD 13.4 bn capex investment is expected
- 543.921 jobs (both direct and indirect) would be created
- Improvements in 2.426 kilometers*
- Most of the 5G first wave projects are in adjudication process
- Strong focus on social and environmental sustainability

In around four to six years, Colombia will be a country with a multimodal and sustainable infrastructure.

*Includes roads, rivers and railways via the First Round. Does not include airports



Thank you

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