



Economic Observatory

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Fiscal deficit target for 2009 moves up

- According to Ministry of Finance estimates, taking into account lower economic growth, the adjustment in imports and currency appreciation, there will be a reduction in tax receipts of COP 1.4 trillion (0.3% of GDP) in 2009.
- As a result of this, the official National Central Government (NCG) deficit target increased from 3.7% of GDP to 4.0%.
- ISAGEN privatization resources (near COP 3 trillion), which in the best case scenario will finalize in December, would be a source of financing for 2010.
- The government will finance 2009 with a higher domestic debt issuance for 2 trillion COP (forced placements) and lower final availability in pesos for COP 2.5 trillion.

Appraisal

The BBVA ERD had anticipated the failure to reach the deficit target for 2009 set in the Medium Term Fiscal Framework (MTFF) since the growth estimates used were optimistic in the face of events. The announced new deficit seems to indicate that GDP variation expected by the government will be nearer 0%, over the 0.5% increase in previous fiscal plans.

The 2008 MTFF estimated government bonds for 2009 at COP 24.5 trillion, a value scarcely above the issuance the government currently has as a target for this year (COP 24 trillion), confirming that the announcements over recent months on the possibility of reducing local currency issuances this year were unfounded. In this sense, the steep climb in the TES bond yield curve since June stands out, showing that the market always expected higher issuances for domestic debt. However, there is space for the higher scheduled issuance as the market has high liquidity and, in addition, as the government will pay COP 3.5 trillion in coupons this year which will have a net positive effect on system resources and would rule out, for now, major increases in interest rates.

In turn, the weakness in public finances will continue in the coming years due to the economy slowing and lower dividends from public companies. The BBVA ERD expects a NCG deficit of 4.5% of GDP for 2010, differing from the government's estimate of 4.3%. Further, we expect it to come in at 4.0% of GDP in 2011. In this way, the government's challenge in the coming years will be to establish a finance strategy that does not put economic advances at risk with regard to investment and which allows counter-cyclical fiscal policy to be exercised.

Financial plan changes 2009: expenditure, revenue and deficit (% of GDP)*

	February	June	September
Revenue	16.1	16.1	15.8
Expenditure	19.3	19.8	19.8
Deficit	3.2	3.7	4.0

* Nominal benchmark GDP is different in each scenario.

Source: Ministry of Finance

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Financial plan changes 2009: sources and uses (Trillions of pesos)

	February	June	September
Internal placement	19.7	22.0	24.0
External placement	6.7	11.1	11.1
Privatizations	4.5	4.1	1.5
Disp. Initial	3.9	4.0	4.0
Disp. Final	1.6	7.4	4.8

Source: Ministry of Finance

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