Assessing the impact of COVID-19 on the public finances: Colombia

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Agenda

1. Government policy measures
2. Effect in the Financial Statements (FS)
   - Identification of potential impacts on FS
3. Impact on the economy
4. COVID – CGN guidance
Emergencies, Sanitary, Economic, Social and Ecological

Throughout the territory of the Republic of Colombia
1. Political Constitution- Article 215
3. Decree N° 417, dated March 17, 2020 and decree N° 637, dated June 05, 2020
4. Legislative Decrees (www.presidencia.gov.co)

Colombia has faced unprecedented fiscal decisions to respond to COVID-19 pandemic, such as increasing expenditures and requesting more financing while internal revenue has fallen. In this context, information provided in financial statements play a main role when allocating and reporting on public resources that are generally scarce.
Emergency Mitigation Fund (FOME)

- Emergency Mitigation Fund (FOME) is created by Decree 444, dated March 31, 2020
- **Objective:** Address the need of resources for healthcare, the negative effects on the productive activity and the need for the economy to continue providing conditions to maintain employment and growth within the framework of Decree N° 417 of 2020 (by which is declared a State of Economic, Social and Ecological Emergency throughout the country).
- Emergency Mitigation Fund has no legal status in the Ministry of Finance and Public Credit.
- In an independent portfolio, resources and returns are managed by the General Directorate of Public Credit and National Treasury of the Ministry of Finance and Public Credit to guarantee their availability.

Source: https://consultorsalud.com/se-declara-estado-de-emergencia-en-todo-el-pais-decreto-417-de-2020/
COVID-19 has significantly impacted the Global and Local Financial Markets and consequently, it has important and real accounting implications for many entities in Colombia.

Some of the main impacts include the following: (current list is not considered exhaustive)

1. Production disruptions
2. Cuts in the supply chain
3. Staff Indisposition
4. Sales or profit reduction
5. Closure of facilities and shops
6. Delays in planned expansion for the business
7. Inability to obtain financing
8. Restructuring plans
9. Increase in volatility in the values of Financial Instruments
10. Reduction in tourism flow, interruption of trips that are not necessary, as well as in sports and cultural activities, among others.
11. Dismissal of staff, reduction of salaries, reduction of lease payments
12. Changes in the business
13. Liquidation of Entities / Companies
14. Renegotiation of contracts
15. Suspension of payments
16. Grace period
Entities should carefully consider in each case circumstances and exposure to risks when analyzing how recent events generated by COVID-19 could affect their financial and accounting architecture. Specifically, considering that figures of their financial reports and the disclosures in the Financial Statements must contain the effects and impacts of COVID-19.

1. Going concern principle
2. Adjustments in provisions
3. Impairment of non-monetary assets
4. Provisions for expected losses
5. Presentation and final validation

1. Market value measurement (Level 3)
2. Provision of onerous contracts
3. Insurance recovery
4. Hedging relationships
5. Employee benefits

1. Contingencies by contractual agreement
2. Deferred tax recovery
3. Events after the reporting period of financial statements
4. Inventories Valuation
5. Disclosure of liquidity, market and credit risks
Commercial trust in Colombia increased up to 13.8% in August

According to Fedesarrollo survey, 12.5% of respondents consider they have less than two weeks of liquidity to attend all their commitments, meanwhile 26.2% affirmed they have between two and four weeks of liquidity.

Source: Business Opinion Survey (EOE) - Fedesarrollo

Source: https://www.dinero.com/economia/articulo/indice-de-confianza-comercial-en-colombia-durante-agosto-de-2020/301112
The Ministry of Finance and Public Credit confirmed that the fiscal deficit target for this year will be 8.2% of GDP. Before the pandemic, the government projected a deficit of 2.2% of GDP.

Subsequently, the Committee for Advisory of the Fiscal Rule decided to increase the fiscal deficit goal to 6.1%, but then it decided to suspend the entire Fiscal Rule for FY 2020 and 2021 in order to address the pandemic.
Effects of COVID-19 in Colombia and Economic Recovery

- Economic effect: Main objective
  - "State intervention has to achieve the objective of economic policy"

- Combination of monetary and fiscal policy
  - **Monetary policy**: In the **short term**, essential to provide liquidity and stabilize financial markets, but the room for maneuver **long-term** stimulus is very limited
  - **Fiscal policy**: In the **short term** to reduce the impact on the most exposed households and companies and preserve economic relations. In the **long term** to support aggregate demand for a faster recovery of the economy and employment.
COVID-19 CGN Guidance

- Provisions for onerous contracts
- Impairment of cash-generating assets
- Impairment of Non-Cash-Generating Assets
- Supension of depreciation
- Additional disclosures in notes to the financial statements
- Presentation of the set of financial statements
- Inventories valuation
- Going concern principle
- Events after the reporting period of financial statements
- Insurance recoveries
- Employee benefits
- Short-term impact on employee benefits
- Use, constitution and release of provisions
- Income from Transfers and Grants
- Impact analysis of Decree 678, dated May 20, 2020

2019

2020

- Uncertainties. Government indebtedness
- Limitation of the Public Treasury for future years
- Materiality
- Direct Public Expenditure. Subsidies. Loans.
- Strong Disclosures (Information on benefits....)
Public Accounting as common language of governments

- Transparency tools of public accounts for the citizenship
- “Clear Accounts for a Transparent State” is custody of probity and honesty
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