



Government Webcast: Colombia

Event's notes

Resilience & Resumption

Impacts and responses to the effects of covid-19
Government chapter

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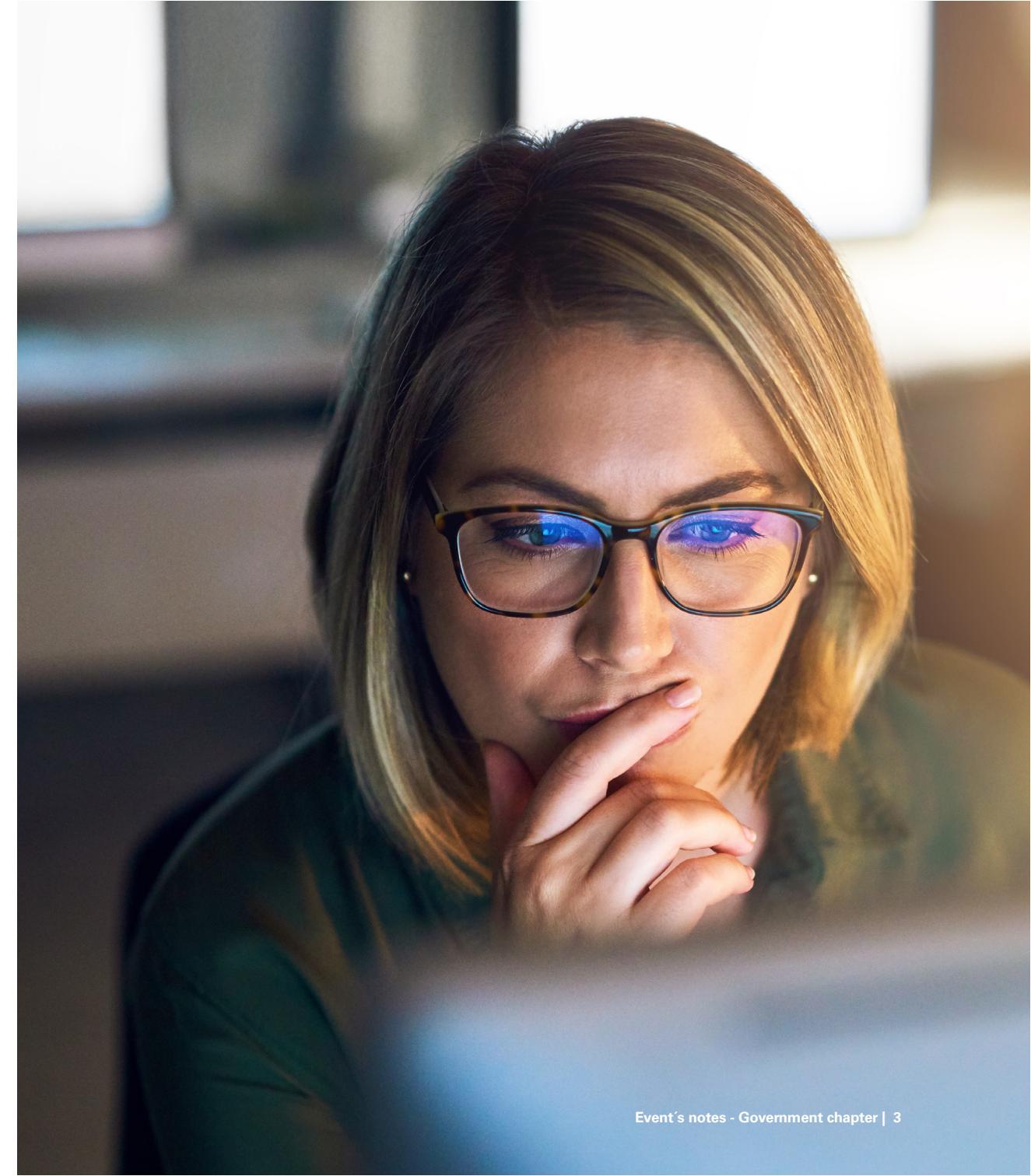
Current situation in Colombia and economic impacts of COVID-19: Of the 6.7 million cases of contagion worldwide, 35,000 occurred in Colombia. Moreover, of the 393,000 global deaths from this disease, around 1,100 occurred in the country. Overall, Colombia is taking measures to mitigate the impact of the health crisis, but the economic impact has been very severe. The country's GDP is expected to drop 3% by the end of 2020. Industry (-0.6%), mining & quarrying (-3%) and construction (-9%) have recorded significant falls in the first quarter of 2020, causing GDP to present less than projected growth compared to the same period of 2019 (+1.1%). Likewise, the retail, oil, automotive, airports, hotels and tourism industries were among the activities most affected by the pandemic. Moreover, the unemployment rate reached 20% in April 2020, the COLCAP stock index fell 25%, recording high volatility, the S&P country risk rating fell from Stable to Negative, and authorities have requested international credits in the amount of US\$ 14 billion to face this crisis. Finally, and as a positive highlight, the economy is estimated to recover, reaching a GDP of 3.6% by 2021.

Tax measures: According to **JR**, among the main tax measures that the Colombian government is implementing, we highlight the following: 1) VAT exemption for imported products related to the fight against COVID-19 (basically medical equipment and supplies); 2) automatic reimbursement or offsetting of corporate taxes and VAT; 3) the extension of the deadlines to file taxes, so that companies adapt to the new reality, and 4) specific tax measures for the industries impacted by COVID-19, as well as for companies in insolvency. Moreover, given that Colombia has recently joined the OECD as a member, the tax measures taken by the authorities to face the crisis are being "audited" by the countries belonging to this organization, especially the attempts to pass laws on taxation of large fortunes (a measure that could be considered "populist"). In parallel, the State is reviewing tax collection strategies to maximize tax benefits, external investors are looking at what the Colombian government is doing and what the incentives and opportunities are for investment (for M&A, for example).

Labor measures: According to **JJ**, the main measures adopted in Colombia regarding employment are as follows: 1) home office and teleworking regimes (which have been made possible to a large extent thanks to the digital transformation process), 2) flexible working hours and early vacations, 3) the possibility of early retirements, 4) the modification of work days, 5) new salary agreements with unions, and 6) agreed modifications or suspensions of some benefits. Furthermore, although the Colombian Ministry of Labor prohibits the suspension of contracts, this measure only covers cases requiring its permission.

Some Decrees and Resolutions from the authorities to fight the effects of COVID-19: D488 (workers will be able to withdraw their layoffs consigned in private funds), D538 (expedited response to the Health Risk Administrators will be facilitated in everything regarding the prevention programs, attention to their diagnoses and coverage of fatalities as a result of COVID-19); D558 (implements measures to decrease the contribution to the general pension system and protect pensioners under the type of programmed withdrawal of private funds); R686 (the PILA structure is modified to apply the payment of pension contributions of 3%, as mentioned in Decree Law No. 558, dated April 2020); and R677 and R639 (which created the Formal Employment Support Program, or PAEF, aimed at protecting formal employment in Colombia during the pandemic, through monthly contributions).

Legal measures: According to **CB**, 75% of SMEs in Colombia fear closing their businesses or going bankrupt due to the liquidity crisis they are currently experiencing. Thus, the government has taken some legal measures that allow them to cope with the crisis until the recovery phase: 1) the legal dissolution of companies has been suspended for 2 years; 2) the renewal of business registrations or licenses has been postponed (they cannot expire during the crisis, in principle until July 3, 2020); 3) shareholders' meetings have been postponed until September; 4) insolvency proceedings have been reorganized for 2 years; 5) private rental or lease agreements (households and SMEs) cannot be suspended or terminated during the period of sanitary emergency; and 6) payments to the government (taxes and other contracts) will not be readjusted during the crisis period. Furthermore, **private capital may take some measures to generate liquidity**, such as the repurchase of shares or the full distribution of dividends instead of forming statutory or occasional reserves.





Financial Measures: the expert **DR** commented on some of the financial measures that the Colombian Government has taken to try to keep economic activity in a latent state during the crisis, so that the recovery is faster in all industries. Basically, the government is adopting fiscal (facilities or deferral of social contributions, deferral of taxes, etc.) and monetary (lower interest rates, greater availability of bank liquidity for loans, etc.) stimulus measures. As in the remaining countries, the industries are currently showing different behaviors, and their recovery process will be different. Although some are currently growing, such as electronic commerce, digital technologies, and food and beverage delivery, the country estimates that others will return to normal in a “V” shaped growth process (such as agriculture, retail and banking, which are estimated to recover quickly). Finally, tourism, transport, real estate, mining and industry, which today see their activities paralyzed by containment measures, will take a little longer to recover.

Furthermore, some of these industries, such as tourism or air transport, will have to transform themselves to resume a growth path. In this same sense, the Central Bank of Colombia is seeking to increase the liquidity of banks, including a cut in the benchmark interest rate (the lowest in the last 25 years), the provision of new emergency credit facilities for SMEs to finance salaries with minimum requirements and special facilities for most of the affected industries. In terms of the fiscal stimulus package, Colombia has requested a loan from the IMF in the amount of US\$ 11 billion. Obviously, the fiscal deficit has increased and the public debt is estimated to have already exceeded 50% of GDP. Moreover, debt is expected to grow 10% by the end of 2020 and further 5% in the recovery phase. There are also measures to combat informal work, which reaches 40%, while the unemployment rate could reach 19% by the end of this year.