

# Box 1 The Dynamics of Government Consumption in 2019

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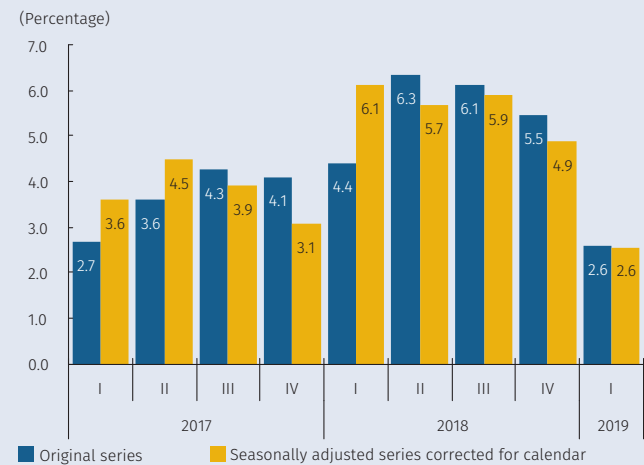
According to the figures published by DANE, government consumption rose 2.6% annually during the first quarter of 2019, both in the original series and in the seasonally adjusted series corrected for calendar effects. This is the lowest annual growth in this expense during a quarter in the last two years and is less than the amount registered in all of 2018 (5.6%) (Chart B1.1). In this box, the authors will argue why government consumption is expected to perform better during the remainder of 2019, particularly during the second half of the year.

Government consumption accounts for about 15% of gross domestic product (GDP) and its momentum in recent years explained nearly 24% of all economic growth (Chart B1.2). Due to its high share of GDP and its relevance in macroeconomic analysis, it is important to understand how this type of expenditure is measured and the variables that could determine how it is expected to perform in the short term. In terms of the national accounts, government consumption mainly reflects wage remuneration, intermediate consumption and fixed capital consumption on the part of the national government at the central level (CNG in Spanish) and the departmental and municipal governments.

The low growth in government consumption was consistent with the momentum in general budget performance at the national level during 2019. By the end of the first quarter, that performance (22%) was 13 percentage points (pp) below the average for the last five years (35%). At the end of June, it was still at historically low levels (38% versus 54% on average between 2014 and 2018) (Chart B1.3). In turn, this coincided with a significant increase in the national government's deposits with *Banco de la República* during the year, which reached a maximum of COP 39.5 trillion by the end of June (Chart B1.4).

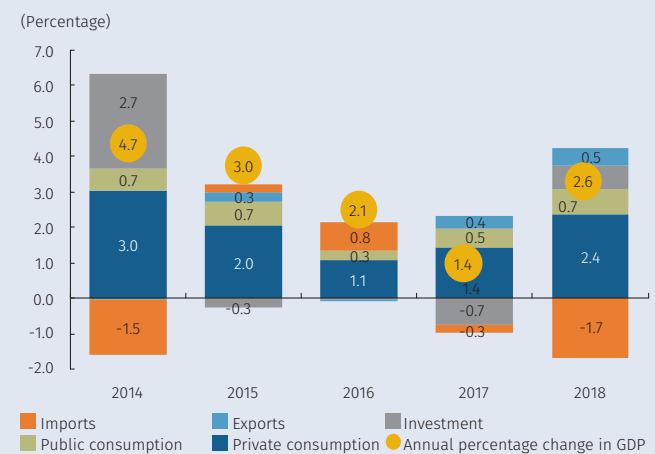
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Graph B1.1  
Annual Growth in Government Consumption



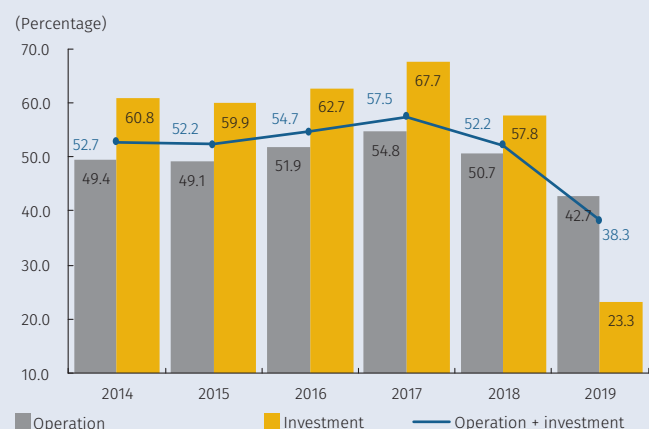
Source: DANE.

Graph B1.2  
Contributions to GDP Growth



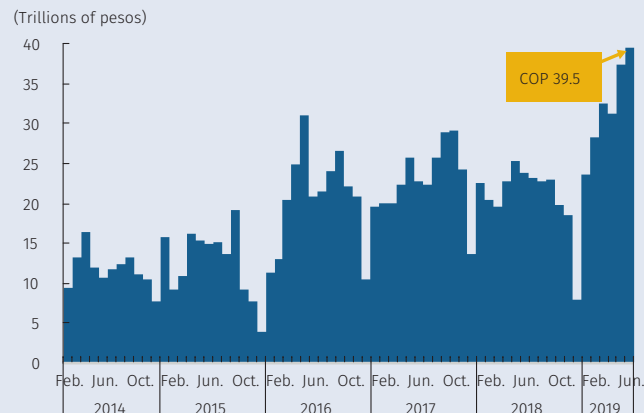
Source: DANE.

Graph B1.3  
National Budget Performance during 2019 up to June  
(Obligations as a percentage of the initial appropriation)



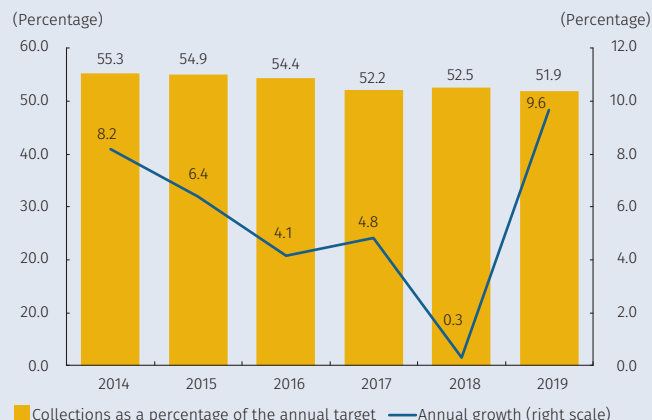
Source: Ministry of Finance

**Graph B1.4**  
National Treasury Deposits with *Banco de la República*.



Source: Ministry of Finance

**Graph B1.5**  
Accumulated Tax Collections by June



Source: DIAN.

The figures on budget performance up to June suggest the growth in government consumption during the second quarter of the year would have remained relatively low with respect to previous years. However, tax collections, which are the main component of CNG revenue (86%), have performed well. At the end of June, accumulated collections were up by 9.6% compared to the same period the year before, and compliance with the goal for all of 2019 was 52%: COP 157 trillion (Chart B1.5), as opposed to COP 15.3 trillion in collections for 2018. If the good dynamism in CNG revenue continues, budget performance could accelerate during the second half of the year, subject to meeting the fiscal deficit target of 2.4% of GDP for 2019. This would contribute to better government consumption in the last six months of the year. Moreover, this is the final year for the country’s territorial administrations. Historically, they have been characterized by higher budget performance during this period than in the first three years of their mandate. Accordingly, the forecast for growth in government consumption is between 3.3% and 3.6% for 2019 as a whole.

There are two main reasons for expecting a slowdown in government consumption during 2020. To begin with, it will be the first year for regional and local administrations, a time when their budget performance is usually low. Secondly, the draft national budget for 2020 suggests a cut compared to the one approved for 2019.<sup>1</sup>

1 At the time this section was finalized for publication, the draft of the general national budget (GNB) for 2020 was still not known. It was presented to the Colombian Congress on July 29, with an increase compared to the 2019 national budget. However, the potential risks that the national government faces in terms of acquiring the revenue needed to finance the GNB could materialize in low levels of performance that would contribute to a slowdown in government consumption during 2020.