Comments by the Governor of <em lang="">Banco de la República on the Revised Draft National General Budget for 2027

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In his declaration before Congress, Mr. Villar pointed out, among other issues, that macroeconomic stability will be ensured only if the fiscal adjustment process continues and additional efforts are made over several years.

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Following the review by the Ministry of Finance and Public Credit, the Draft National General Budget for 2027 amounts to $634.9 trillion, an increase of $59.3 trillion compared with the initial draft submitted in July. Compared with the current 2026 appropriation of $555.8 trillion, the revised draft represents a 14.2% increase. In terms of expenditure composition, $392.6 trillion is allocated to operating expenditure, $87.0 trillion to investment, and $155.4 trillion to debt service. Much of the increase in the draft budget is attributable to the revision of debt service, which is $37.4 trillion higher than in the initial draft.

Beyond the increase in the overall amount and the revision of certain expenditure items, the Government acknowledges that public finances in 2027 would show a larger imbalance than projected in the 2026 Medium-Term Fiscal Framework (2026 MFMP, its Spanish acronym). Mitigating this fiscal imbalance will depend on an expenditure rationalization plan announced by the Government, which is expected to be presented in the coming weeks.

The 2026 MFMP projects a total deficit of 4.5% of GDP for the National Central Government (GNC, its Spanish acronym) in 2027, with net debt at 58.9% of GDP. However, the updated Financial Plan, which reflects expenditure execution observed in 2026 and spending pressures not initially anticipated, shows a fiscal deficit of 9.4% of GDP and net debt of 66.2% of GDP. The updated Financial Plan explicitly states that these deficit and debt levels are not Government targets but rather a diagnosis of the risks facing public finances if prompt action is not taken.

In this context, the Government announced that it will submit to Congress in the coming weeks a Fiscal Adjustment Bill aimed primarily at rationalizing expenditure, with the objective of reducing the primary deficit in 2027 by 2.2% of GDP. If this adjustment were to materialize in full, the primary deficit would stand at 2.3% of GDP and the overall deficit at 7.2% of GDP. These levels would still be very high and incompatible with a return to compliance with the fiscal rule in force starting in 2028, as envisaged in the Fiscal Framework. It should also be borne in mind that, until the expenditure adjustment materializes, the deficit and debt figures should be regarded as a starting point subject to fiscal risk.

The same prudence should be applied to budget financing. While the initial draft contemplated capital resources of $187 trillion, the current draft incorporates $287 trillion, an increase of $100.2 trillion. Likewise, current revenues were estimated at $325.8 trillion in the initial draft, but following the Ministry of Finance's review, they have been reduced to $315.1 trillion. If the Fiscal Adjustment Bill announced by the Government is approved, borrowing needs should decline by approximately 2% of GDP ($42 trillion).

In our view, recognizing the true extent of the existing fiscal imbalance in public finances is a step in the right direction. This should be followed by the expenditure rationalization measures announced by the Government as an initial fiscal adjustment strategy. However, it should be emphasized that, even with the expenditure rationalization proposed for 2027 relative to the budget currently under consideration, public finances would remain on a considerably more imbalanced path than that envisaged in the 2026 Medium-Term Fiscal Framework and the path required to ensure public debt sustainability. Macroeconomic stability will be secured only if the fiscal adjustment process continues and additional efforts are made over several years.

Under these circumstances, it would be useful for the Government to prepare a new Medium-Term Fiscal Framework or an equivalent document that explicitly sets out the quantitative assumptions and targets underlying the adjustment process.

Fuente: https://d1b4gd4m8561gs.cloudfront.net/en/publications-research/comments-revised-draft-national-general-budget-2027