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

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The Draft General National Budget (PGN for its Spanish acronym) for 2027 totals $575.7 trillion, a 3.6% increase over the 2026 budget of $555.8 trillion1. Of the total, $367.7 trillion is allocated to operating expenses, $90 trillion to investment, and $118 trillion2 to debt service. Thus, the nominal increase in the PGN compared to 2026 is mainly due to higher debt service, which rises from $100.5 trillion to $118.0 trillion, while operating expenses and investment remain virtually stable in nominal terms.

To finance the expenditure appropriations, the draft budget includes an estimated revenue of $545.4 trillion3. Consequently, there is a shortfall of approximately $30.2 trillion (1.4% of GDP) relative to total appropriations, the financing of which depends on the materialization of contingent revenues or the adoption of equivalent fiscal measures. Included in current revenues, tax revenues administered by the national government are estimated at $308.9 trillion, representing a nominal decrease of 3.9% compared to the projected revenues for 2026. This reduction is primarily due to the extraordinary tax measures adopted in 2026 during the state of economic and social emergency declared in response to the particularly strong rainy season.

The draft budget was prepared using an economic growth rate of 2.2% in 2027 and an inflation rate of 4.4%, consistent with the government's macroeconomic assumptions used in formulating the 2027 National Budget Plan (PGN) and the 2026 Medium-Term Fiscal Framework (MFMP for its Spanish acronym)4. Operating and investment expenditures are projected to increase by 0.5% relative to 2026, which represents a real contraction given the projected inflation. In contrast, public debt service is expected to increase by 17.5% in nominal terms compared with 2026, driven by higher domestic debt costs, with interest payments rising by 54.8%.

The draft budget is consistent with the fiscal targets set out in the 2026 Medium-Term Fiscal Framework (MFMP for its Spanish acronym), provided that the additional revenues envisaged in that framework materialize or equivalent measures are adopted to meet the projected targets. Specifically, the framework forecasts that the Central National Government (GNC for its Spanish acronym) deficit will decline from 5.3% of GDP in 2026 to 4.5% of GDP in 2027, reflecting an adjustment in the primary deficit, projected at 2.1% of GDP in the first year and 0.5% of GDP in the second. Based on these estimates, the GNC's net debt balance remains stable, standing at 58.9% of GDP in both years. Notably, the MFMP 2026 retains the fiscal rule's escape clause through the end of 2027.

However, according to estimates from the Autonomous Fiscal Rule Committee (CARF, for its Spanish acronym), the GNC's spending in 2027 could exceed the levels included in the 2026 MFMP. The CARF estimates that, in the absence of adjustment measures, operating and investment spending could exceed the government's target by 2.2% of GDP. It also warns that, to meet the official primary deficit target of 0.5% of

GDP in 2027, revenue-raising or spending-reduction measures totaling 3.7% of GDP would be required.

As has been highlighted on several occasions, many of the budget items in the draft budget stem from constitutional and legal mandates that limit flexibility in the budgeting process. In addition to debt service, the General Participations System (SGP, for its Spanish acronym), pension obligations, commitments for future fiscal years, and appropriations derived from earmarked revenues are clear examples of budgetary rigidity. In practice, this means that, in the face of funding shortfalls, adjustments tend to fall on the most flexible items, particularly investment, which could limit the government's ability to sustain adequate levels of public investment and support medium-term economic growth.

In addition to expenditure pressures and their inflexibility, another challenge stems from the reform of the SGP. It is worth recalling that Legislative Act 03 of 2024 established a gradual increase in the SGP's share of total current revenue, reaching 39.5% over a 12-year transition period. This adjustment to the amount of territorial transfers depends on the enactment of an organic Competencies Law that redefines the functions of the national government and the territorial entities. In the absence of a clear reassignment of powers and an equivalent reduction in expenditure items at the national level, the increase in the SGP could result in permanent additional pressure on the PGN and, consequently, pose a new risk to the sustainability of the government's debt.

The structural imbalance in the national government's finances stems from the gap between spending and revenue growth. Reducing this imbalance is important. Although Congress has enacted several reforms to the Tax Code, tax revenues averaged only 14.7% of GDP between 2021 and 2025, and oil-sector revenues are volatile because they depend on production volumes, international crude oil prices, and the exchange rate. Meanwhile, total expenditures, excluding debt amortization, increased significantly starting in 2020 and now stand at levels close to 23% of GDP. To credibly reduce the gap between revenue and expenditures and to return to the fiscal rule's quantitative targets, it is necessary to implement adjustment measures on both fronts. These measures should lead to fiscal consolidation that promotes public debt sustainability, strengthens confidence in public finances, and ensures the country's macroeconomic and social stability.

Hernando Vargas
Acting Governor

1 ? Appropriation in effect as of June 30, 2026. Of the total projected revenue for 2027, $514.9 trillion comes from federal funds and $30.5 trillion from own revenues of national public institutions.

2 ? The operating component includes transfers totaling $277.2 trillion, of which $96.1 trillion are allocated to the General Participations System (SGP, for its Spanish acronym), $89.5 trillion to pensions, and $49.9 trillion to healthcare. Personnel expenses are projected at $67.7 trillion, and expenditures for goods and services at $17.9 trillion. $25.1 billion is appropriated to service external debt obligations, and $93.0 trillion for domestic debt.

3 ? These revenues are supported by funds obtained by the national government through taxes and credit operations.

4 ? These assumptions are consistent with the projections of *Banco de la República's* technical staff.