Editorial

The difficult fiscal situation of Colombia

A comprehensive analysis of a nation's fiscal policy must encompass its two constituent elements: state revenues, which are predominantly influenced by the prevailing tax structure, and public expenditure, which constitutes the General Budget of the Nation. The two elements are formulated and designed by the Ministry of Finance; their approval corresponds to the Congress, since they are laws of the Republic.

The prevailing tax structure is delineated by Law 2277 of 2022. In 2024, the tax revenue collected was inadequate due to several factors, including, but not limited to, the following: low economic growth in 2023, which was barely 0.6%; high advances on income taxes for 2024 that were paid in 2023; insufficient resources to be collected, derived from the resolution of disputes between taxpayers and the DIAN (National Directorate of Taxes and Customs); and the decision of the Constitutional Court on the deductibility of royalties from mining companies. Consequently, due to the aforementioned reasons, on November 27 of the same year, the national government made a reduction to the expenditure budget for that year by 28.4 trillion pesos.

The spending cuts in 2024 were implemented with two objectives in mind: first, to ensure the fulfillment of existing commitments, and second, to align with the provisions of the Fiscal Rule. The government has expressed its commitment to adhere to the terms of this agreement. Furthermore, the statements made by the Minister of Finance, Diego Guevara, and the Director of Public Credit, José Roberto Acosta, indicate that the country is committed to servicing its debt, that is, to fulfilling its credit obligations. Failure to do so would have adverse consequences for the country, as the costs associated with acquiring new loans would be exorbitant.

In order to address the financing of the 2025 General Budget of the Nation, the national government presented a bill to the Congress on September 10, 2024. This bill, entitled the Financing Law, proposes a new tax reform that is expected to generate the necessary revenue to cover the shortfall of 12 trillion in the 2025 budget, bringing the total to 523 trillion. The proposal entails the implementation of a 19% value-added tax (VAT) on both online games of chance and hybrid vehicles. It also involves enhancements in the operations of the DIAN to reduce tax evasion and avoidance, modifications to the carbon tax, adjustments to the personal income tax, alterations to the wealth tax, and a reduction in the corporate income tax rate. It is estimated that the most substantial resources, amounting to approximately 5.4 trillion, would be obtained by anticipating the implementation of the Fiscal Rule from 2026 to 2025.

According to former Finance Minister Ricardo Bonilla, the Financing Law will not impose taxes on the income of individuals in the low, middle, and upper-middle income brackets. At the time, the senior official issued a warning that “natural persons who earn less than 1.5 million a year will not pay anything more. Those whose earnings surpass 120 million pesos per month will incur increased tax obligations.” The official further emphasized that the reform was intended for individuals with exceptionally high net worth, specifically those whose monthly earnings exceed 120 million pesos.

From its inception, the tax reform proposal faced significant opposition from various opposition benches in both the House of the Representatives and the Senate. In the economic commissions, concerns were raised about the timing of the proposal, given the country’s slow economic reactivation and the alleged misallocation of resources by the National Government. In response, Senator Angélica Lozano, president of the Fourth Commission of Budgetary Affairs of the Senate, said, “First, we must adhere to austerity measures, as our financial resources are not sufficient to procure vehicles for ambassadors or engage in frivolous expenditures. Second, we must utilize the funds that have been prudently accumulated.” She further elaborated, “There is a substantial amount of money that has been set aside in trusts, autonomous assets, and the entity’s accounts, yet these funds remain untapped.” She emphasized that it is ethically problematic to leave these funds idle during an economic downturn.

On December 11, the initiative was rejected by the joint commissions of the Senate and the House of Representatives without a thorough debate by the congressmen. According to some of them, the timing was inopportune to approve a reform like the one proposed because the most benefited would be the national government, which, it is presumed, is only interested in having more resources to increase public spending and thus maintain its electoral potential with a view to the 2026 elections.

On the other hand, on July 29, 2024, the Minister of Finance submitted the draft General Budget Law for the Nation for 2025, the total amount of which amounts to 523 trillion and is distributed as follows: 327 trillion (62.5%) for operations; 112.6 trillion (21.5%) for the payment of public debt; and 82.4 trillion (15.7%) for investment. Like the tax reform proposal, this initiative also caused an intense debate not only in Congress, but also in public opinion.

Members of the opposition Congress have submitted inquiries regarding the budgetary initiative. These members contend that the shortfall does not amount to 12 trillion, as the national government asserts, but rather, they posit a more substantial figure. For Senator Angélica Lozano, the budget is underfunded by 56 trillion. This contention underscores her insistence on meticulous financial accountability. Members of the opposition Congress have submitted inquiries regarding the budgetary initiative. These members contend that the shortfall does not amount to 12 trillion, as the national government asserts, but rather, they posit a more substantial figure. For Senator Angélica Lozano, the budget is underfunded by 56 trillion. This contention underscores her insistence on meticulous financial accountability.

Likewise, research centers such as Fedesarrollo or financial associations such as ANIF (National Association of Financial Institutions), among others, also argued that the budget was underfunded. According to Luis Fernando Mejía, director of Fedesarrollo: "The prudent thing to do from the fiscal point of view and from the point of view of recovering productive activity would be to reduce the budget by 26.6 trillion (1.5% of GDP)," while, for José Ignacio López, president of the association, given the impossibility of increasing the tax burden further, he points out: "the only viable solution is to control spending and that means prioritizing what generates the greatest positive impact."

In the absence of a consensus between Congress and the Government on the approval of the General Budget of the Nation, President Petro issued it by decree on December 29 of last year, asserting the following: "I have signed the budget that is underfunded by 12 trillion, as it was presented to the Congress of the Republic and as ordered by the National Constitution. The liquidation decree will specify which operational items will be postponed to 2025, while the necessary financing is obtained, which was not possible due to the unethical actions of the owners of illegal games of chance within the economic commissions of Congress."

It is worth noting that in 2025 the Government has a budget for income and capital resources of only 511 trillion, so in the coming days it will have to make a cut of 12 trillion, an amount that was expected to be obtained with the Financing Law, which was not approved by the Congress.

It is evident that the national government will be compelled to curtail expenditures or augment public debt. However, the latter option is deemed unfeasible due to the constraints imposed by the Fiscal Rule, which stipulates that the debt-to-GDP ratio must not exceed 55%. Of the three categories of expenditure, the government's capacity to influence operating and investment items is constrained. Consequently, a decision to curtail operating expenditures would entail a reduction, particularly in travel expenditures, contracting, and advertising. Among these, the diminution of expenditures related to service provision contracts is poised to exert the most substantial socioeconomic impact. In light of these considerations, the Ministry of Finance has directed all public entities to prioritize the negotiation and execution of essential contracts, exclusively for the purpose of fulfilling the fundamental functions of each entity.

Conversely, should the government elect to curtail investment, a course of action that has been observed in recent years, the economic recovery will be adversely impacted, consequently exerting a deleterious effect on economic growth and job creation. The government's decision to reduce expenditures is a challenging one, and its implementation is only feasible within those sectors where the repercussions are less onerous from social and economic standpoints.

Luis Eudoro Vallejo Zamudio

Director of Apuntes del Cenes Journal

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