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Colombia—First Impressions of Colombia's 2023 Budget

- Tax reform expected to raise COP 25 tn in Petro's proposal, but budget already reflects risk that these additional funds will be lower in final version.

The very first milestone of Petro's Administration has been the discussion of a tax reform that is intended to raise COP 25 tn by 2023. As is often the case in Colombia, the discussion in congress has resulted in multiple changes to the initial proposal. Therefore, we expect, that the initial COP 25 tn revenue goal will not be approved, which will in turn restrict spending under the 2023 budget.

In fact, in recent discussions on next year's budget, the COP 391.4 tn budget that had initially been proposed by the administration of former President Duque has already been modified by Minister Ocampo, as expected. However, Ocampo's increase to the budget is not as large as the expected additional revenue from the tax reform. Initially, the treasury had said that the budget would increase by COP 10 tn, but once tax reform discussion had settled a bit the final increment has been established at COP 14.19 tn, an amount that was approved on Tuesday, Sept 13th. Minister Ocampo explained that the new budget amount incorporates funding via credit from multilateral organizations of around COP 3 tn that will be assigned to the investment component of the budget. After these adjustments, the budget for 2023 totals COP 405.5 tn.

Minister Ocampo explained that current expenditure projections rose from COP 250.6 tn to COP 254.6 tn, while current revenues were revised from COP 256.9 tn to COP 264.4 tn. Meanwhile, capital resources will go from COP 113.4 tn to COP 119.9 tn, an increment of COP 6.48 tn mainly due to higher Ecopetrol dividends. Revenues from special funds are now estimated at COP 17.9 tn and other income at COP 3.39 tn. On the investment side, they intend to allocate COP 77.9 tn from COP 62.7 tn and for debt service the amount of COP 77.9 tn was held unchanged.

On the expenditure side the additional resources will be allocated as follows: agriculture (COP 2 tn), education (COP 1.25 tn), energy subsidies (COP 1.5 tn), health (COP 1.3 tn), drinking water (COP 1 tn), hunger support programs (COP 1 tn), social inclusion (COP 1 tn) and culture (COP 200 bn).

That said, the current expenditure item should increase due to the effects of inflation that as of August reached 10.84% y/y. Thus, the indexation effects for next year will be stronger which will affect the remaining items in the budget. In fact, the government expects inflation to close the year at 10.5% y/y, while it revised GDP growth upwards to 7.7%—though with a stronger deceleration to 1.8% in 2023.

Finally, regarding the effects on the fiscal accounts we do not have much new information. For now, what has been said is that there will be no modifications in debt requirements and that, in line with the fiscal rule, the deficit would increase from the projected 3.6% of GDP in the outgoing government's MFMP to 4% of GDP, given that economic growth will be lower next year. Ocampo stressed, however, that Colombian fiscal accounts will show a tiny primary fiscal surplus next year, again in accordance with the fiscal rule.

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