

Colombia | Fiscal Spending Cuts in 2026 and Approval of the 2027 Budget: Further Progress Toward Correcting the Fiscal Imbalance

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Summary

- **The government has taken important steps in implementing its fiscal roadmap**, with the approval of the 2027 Budget and the freezing and reduction of budget allocations for 2026.
- **Attention now turns to the prompt submission of the Economic Rescue Bill**, whose scope will be critical to achieving the fiscal consolidation envisaged in the coming years. In this context, the main challenge will be to translate the announced commitments into concrete, politically feasible, and fiscally sufficient measures to address the imbalances in public finances.
- **Although these steps are moving in the right direction, the challenges remain substantial given the magnitude of the fiscal imbalance estimated for 2026 and 2027.**
- **The success of the strategy depends on combined efforts by the government, Congress, and civil society**, alongside stronger economic growth and increased confidence in the fiscal adjustment process. This is a long-term undertaking that will require sustained commitment from all parties.

Fiscal Adjustment Milestones: Progress and Challenges

President Abelardo de la Espriella took office amid significant fiscal fragility, characterized by historically high overall and primary fiscal deficits, which have increased the government's financing needs, driven up public debt, and raised the debt-servicing burden, with interest payments reaching 27.5% of tax revenues as of July 2026. Against this challenging fiscal backdrop, the government outlined a fiscal adjustment strategy, which is progressing through the following milestones:

First Milestone: A New Budget for 2027

The government submitted a new budget proposal for 2027 just a few days after taking office. This new proposal was characterized by greater transparency and the inclusion of necessary

expenditures that had not been accounted for in the previous administration's proposal. Although the proposed amount was higher than that submitted by the previous government, it was approved by broad majorities in Congress, in both the first and second readings.

However, due to a procedural issue during the second reading, the approved budget could not be formally enacted. Consequently, in accordance with Colombia's budgetary legislation, the government was required to enact, by decree, the budget approved in the first reading, without the adjustments agreed upon during the second reading. The government maintained strong support in congressional votes throughout the legislative process and has expressed its intention to honor the agreements reached during the second reading when implementing the budget.

Thus, the General National Budget for 2027 was set at COP 635.0 trillion, equivalent to 29.9% of GDP, representing a nominal increase of 14.2% compared with the 2026 budget. The 2027 budget is consistent with a fiscal deficit of 9.4% of GDP. It is important to clarify that the government expects this deficit to narrow following the full implementation of its fiscal strategy, an expectation that we at BBVA Research also share.

Second Milestone: 2026 Budget Cuts

The government issued a decree yesterday introducing budget cuts for 2026 amounting to COP 13.8 trillion (0.7% of GDP), below the COP 21.9 trillion announced in its fiscal strategy. It is worth noting, however, that the government has until the end of the year to implement additional budget adjustments. Moreover, spending needs arising from both the earthquake and the El Niño phenomenon could affect the fiscal adjustment target outlined in the strategy.

In this context, the government has already submitted a supplementary budget bill for COP 2.7 trillion (0.1% of GDP) to cover urgent expenditures, including earthquake relief efforts.

At BBVA Research, we estimate that total budget cuts could reach approximately COP 15 trillion (0.7% of GDP), consistent with a fiscal deficit of 7.4% of GDP this year, above the government's announced target of 7.2%.

As part of the government's fiscal strategy, the next steps include submitting legislation aimed at reducing expenditure and/or increasing revenues, discussing a leaner and more efficient government within the framework of the National Development Plan, and ensuring efficient public financial management. Although these stages have yet to be implemented, discussions are already underway and proposals are beginning to emerge.

Economic Rescue Bill: The government expects to submit an “Economic Rescue Bill” (a proposal to reduce fiscal spending and/or increase revenues) in the first week of November, aimed at implementing a structural fiscal adjustment of approximately 2% of GDP in 2027.

The government is targeting a fiscal adjustment of approximately 2% of GDP in 2027, to be achieved through the implementation of the so-called Economic Rescue Bill. Government officials have indicated that the bill could be submitted during the first week of November, although an earlier submission has not been ruled out. The government has kept its contents strictly confidential, apart from broad indications suggesting that the adjustment would rely primarily on spending cuts rather than tax changes.

The government estimates that the bill would reduce the 2027 fiscal deficit from 9.4% of GDP, consistent with the approved budget, to approximately 7.4% of GDP, with the adjustment focused mainly on expenditure reductions. At BBVA Research, we expect this fiscal consolidation effort to be supported by the negotiations already underway with the IMF. While it is still too early to determine the magnitude of the adjustment that will ultimately be achieved through the bill, we expect the fiscal deficit to stand at around 8% of GDP in 2027.

National Development Plan: This key legislative framework in Colombia is designed to support the implementation of each new administration's main policy objectives. In this particular case, as indicated by the government, it will also be used to promote a leaner and more efficient public sector.

The National Development Plan must be submitted for congressional discussion between January 10 and February 7 of the year following the national government's election. To prepare the plan, the government has established a series of working groups covering several key areas, particularly initiatives aimed at boosting economic growth, investment, and other related measures.

On the fiscal front, the government has announced its intention to include provisions within this legislative framework that would enable a more efficient and streamlined public sector by eliminating overlapping responsibilities, improving the targeting and efficiency of subsidy programs, and introducing other measures aimed at advancing fiscal consolidation.

The plan must be approved within three months, setting May 7, 2027, as the final deadline. This would provide the necessary policy tools and mechanisms to continue reducing the primary fiscal deficit.

Conclusion

The government is making progress in implementing its fiscal strategy, despite some setbacks and challenges, achieving significant milestones that send positive signals to investors and the country as a whole. Although the 2026 budget cuts are smaller than initially expected, they represent an important first step and are also consistent with the increased spending needs arising from the earthquake and the El Niño phenomenon. We do not rule out additional fiscal adjustment efforts during the remainder of the year, alongside further progress in managing the government's 2027 financing needs through debt exchange operations.

The government's main challenge will emerge in the coming days, as discussions surrounding the Economic Rescue Bill get underway. Attention will focus on the debates and measures included in the bill, putting to the test the congressional majorities that have supported the government thus far. The roles of the Ministry of Finance and the Ministry of the Interior will be crucial at this stage, as will the ability of not only the government but also analysts and the media to clearly communicate and explain the proposed measures.

The strategy of keeping the contents of the Economic Rescue Bill confidential was likely intended to avoid premature confrontation and facilitate a smoother budget approval process. However, the time has now come to disclose the details, which will inevitably lead to growing resistance to the proposed measures.

At BBVA Research, we believe that the fiscal strategy can succeed only if all its components work in coordination. These include the central government's commitment to fiscal adjustment and austerity, Congress's willingness to support structural spending cuts, civil society's recognition of the need for individual sacrifices, efforts to boost economic growth, the containment of inflation and interest rates, and, ultimately, a vote of confidence from financial markets (both domestic and international investors) that would help ease borrowing costs.

As these elements gradually come together and reinforce one another, they should help steer fiscal dynamics in the desired direction. The adjustment will not be immediate, but if built on solid foundations, we are confident that the fiscal consolidation objectives can ultimately be achieved.