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Public Debt and Political Economy in Colombia

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Abstract

This document presents fiscal simulations to visualize possible trajectories of the Colombian Consolidated Public Debt/GDP ratio over 2019-2024. The main conclusion is that the driving-force to stabilize such ratio must come from efforts to increase tax-collections from 14% to 16% of GDP over 2022-2024. We consider three scenarios: Case A (support additional social expenditure of +2% of GDP, but without additional tax-collections); Case B (curtail that social expenditure, given the absence of the additional tax-collection); and Case C (maintain that social expenditure but supported by the required tax-reform and the one-off proceeds from privatizations yielding about 1% of GDP). Even under Case B, Colombia's consolidated public debt ratio would continue to increase from 65% in 2020 towards 73% by 2024. Under Case A debt would escalate towards 75% of GDP by 2024; under C debt could be contained at 73% of GDP and positive signals of stabilization would arise as additional social and investment expenditure propel higher growth rates. Years 2022-2024 look appropriate to pursue modifications of a Fiscal Rule that over 2014-2019 was characterized by: (i) allowing an escalation of debt ratios that duplicated to 52% of GDP (even before pandemic); (ii) recurrent changes in gaps related to oil-price and GDP-growth; (iii) use of "escaping-clauses"; and (iv) absence of primary balance anchors. Finally, we focus on tax-administration issues that could support additional revenues and the "political-economy" themes that should be kept in mind while the new Administration (2022-2026) tackles the required structural reforms related to fiscal, labor, and pension items.

Keywords: *Taxes (H2), Public Goods (H44), Public Debt (H63), Latin America (O54)*

1. Introduction

1.1. Socioeconomic Situation in Post-Pandemic

In mid-April of 2021, the rating agency S&P announced the extension of a "negative outlook" on Colombia's sovereign debt. The market interpreted then that such action implied a "wait-and-see" attitude until de Duque Administration made progress in pursuing a tax reform that should target a net gain in collection of a minimum 1.5% of GDP, increasing the ratio of Tax Revenue/GDP from 14% (in pre-pandemic) towards 15.5% at the level of the central government.

However, the serious social protests that erupted in Colombia during April-May of 2021 derailed such governmental efforts, given the damaged caused by the Covid-pandemic since early 2020, such as: (i) a 30% collapsed in house-holds income; (ii) an increase in the average rate of open unemployment from 11% towards 16% during 2019-2021; and

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(iii) strong anti-establishment movement in preparation for Congressional and Presidential elections' during the first term of 2022, as approval of Duque´s Administration continue to fall from 54% down to 33%.

Rating agencies have had the complex task of assessing prospects of recovery of Colombia as it entails balancing the effects of: (i) additional expenditure pressures stemming from the pandemic (at least 1% of GDP which should be devoted to support basic-income to avoid further escalation of monetary-poverty jumping from 35% in 2019 towards 45-50% over 2021-2022); (ii) potential divesting of public entities in the amount of 1% of GDP (such as Ecopetrol and ISA, after a "castling" in 2021); (iii) "wind-fall" gains of a surprising escalation in oil prices (from an average of US$60 Brent/barrel towards US$75 over 2021-2022, although exported volumes have fallen about 12% with respect to pre-pandemic) and coal prices (from US$60 ton to US$80) and volume increases of 10% in this case).

Nevertheless, in May 19, 2021, S&P opted for degrading Colombia´s sovereign debt from "flat investment grade" towards "speculative grade", ending the "negative perspective" that had initiated back in early 2017, after a 4-year of above investment-grade (2012-2017), see Figure 1.

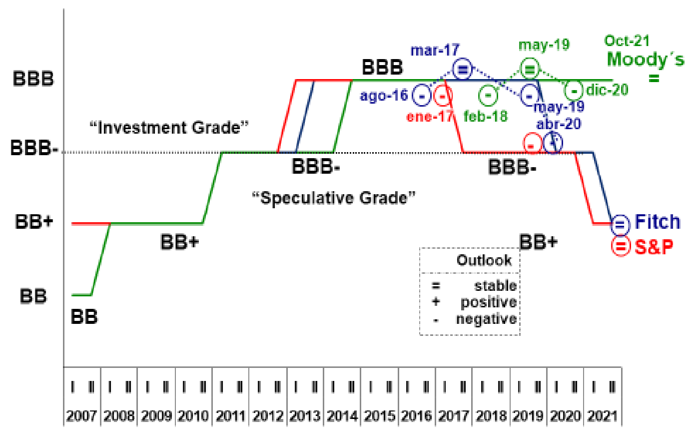

Figure 1: Ratings of Colombia's Sovereing Debt

Source: Based on S&P, Fitch and Moody's

The verdict of S&P had structural roots; in the external front, Colombia had been unable to diversify exports and the end of the super-cycle of commodities (2015-2019) aggravated twin external-fiscal deficits above 4% of GDP. In tandem, the consolidation of the peace process had proven difficult to consolidate and the escalation of narcotrafficking now threats security in a significant manner (Clavijo *et al.*, 2017).

In early July 2021, Fitch also decided to "pull the trigger" of degradation toward "speculative grade". Having now 2 out 3 main rating agencies in this level implies the risk of divesting Colombian TES in about 15% of the off-shore tenants (nearly US$4 bn of those not following recommended indexes). Although off-shore tenants still remain at 25% of the total (–2 pps), the TES yield curve has been steepening nearly 200 pbs due to the increase in country-risk (see Figures 2 and 3), as expected (Clavijo, 2020a and 2021).

In a surprising move, Moody's (2021) decided in early October of 2021 to maintain Colombia's rating one notch above investment grade and to move to a "stable view", given more weight to resilience with respect to peers than to absolute deterioration in metrics regarding total external debt (now at the historical peak of 62% of GPD) and consolidated public debt (also at the peak of 66% of GDP by end-2021).

This document will examine, first, recent macroeconomic performance of Colombia during 2015-2019 and then will assess prospects over 2020-2024, with particular emphasis on fiscal stabilization. In Chapter II we provide a panoramic view regarding growth, unemployment, inflation, and interest rates. Chapter III is devoted to public finance simulations regarding the required fiscal balance stemming from additional social expenditure (mentioned above) and tax revenue efforts. Chapter IV focuses on tax administration issues in light of the modernization process initiated through Law 1810 of 2016 and Chapter V tackles political economy issues related to pending structural reforms (including tax revenue, labor flexibility, and pension adjustments). Finally, we provide conclusion.

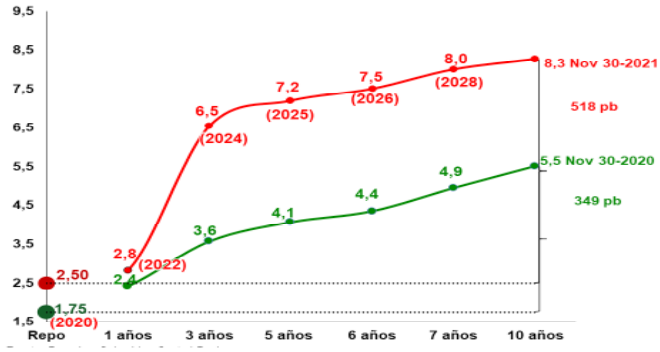

Figure 2: Yield-Curve of Colombian Treasuries

Source:Fuante: Based on Colombian Bank

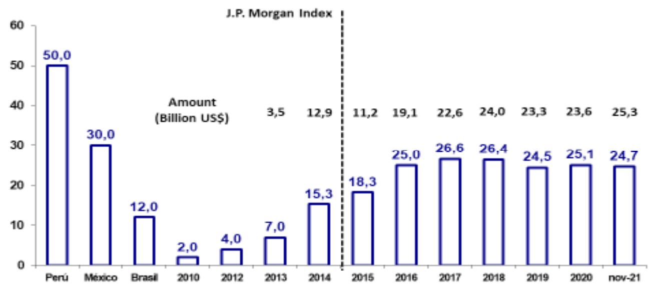

Figure 3: Off-Shore Holdings of Colombian Treasuries (Rate of Participation %)

Source: Based on MHCP and IMF

2. Macroeconomic Perspectives (2018-2024)

Latin America had been under-performing in pre-pandemic-Covid with respect to emerging Asia. While the former had expanded their real-income per-capita at the average pace of only 2% annually over 1997-2019, "tigers" and "new tigers" made it at 3% and China at 6.7% annually. This implies that Latin America had to wait about 35 years to double their real-income per-capita, while emerging Asia achieved so in 25 years and China in only 12 years. The current trend of anti-establishment movements in Latin America, the social stress, and poverty reverting toward levels of 45% will make it hard avoiding a third lost-decade for this region (after the occurrence in 1980s and the 2020s).

In the case of Colombia, real income per-capita at been expanding at the same 2% annually of the Latin American average, in the two decades prior to pandemic, but during 2015-2019 it had diminished to just 1% annually and labor productivity had been stagnated at only 22% with respect to the level of the United States.

Real-growth rebounded in Colombia to 10.6% during 2021, more than compensating the contraction of -7% observed in 2020 and it is expected to level off at 4% in 2022, as unemployment continues to be reduced to an average of 11%, still one the highest in Latin America (see Figure 4).

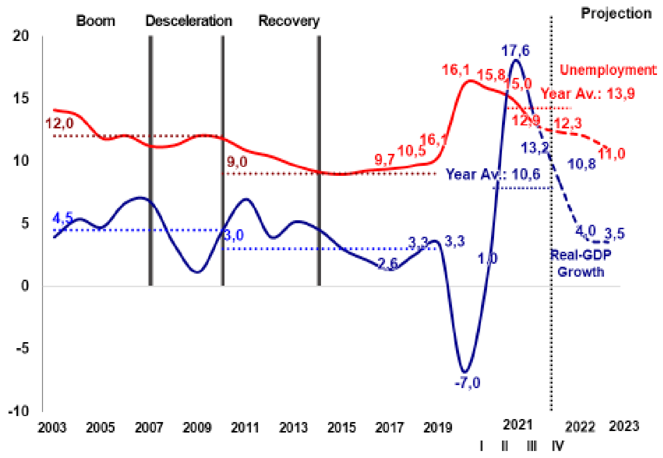

Figure 4: Colombia: Growth and Unemployment (%)

Source: Based on Dane

Inflation, as occurred worldwide, increased during 2021 due to a cost-push and the demand recovery, reaching 5.6% at headline and 3.5% at "core value". The Central Bank of Colombia began increasing their repo rate in October 2021, after 5 years of having reduced it from 7.5% to 1.75%. By end-2021 such repo reached 3% and it is expected to climb to 6% by end-2022 in order to contain inflation below 4%.

The external account of Colombia continues to deteriorate towards a deficit of 5.5% of GDP in 2021, in spite of oil and coal prices recovering in a significant manner (as previously explained). The ratio of Export Value/GPD still represents only 13% and the numerator of US$38 bn is still short of the US$60 bn reached at the peak of energy exports 2014.

In synthesis, macroeconomic trends have been dominated by twin external-fiscal deficits over 2020-2022 (see Figure 5) and correcting them will require strong policy actions during the incoming Administration of 2022-2026. We now turn to analyze the fiscal challenges facing Colombia.

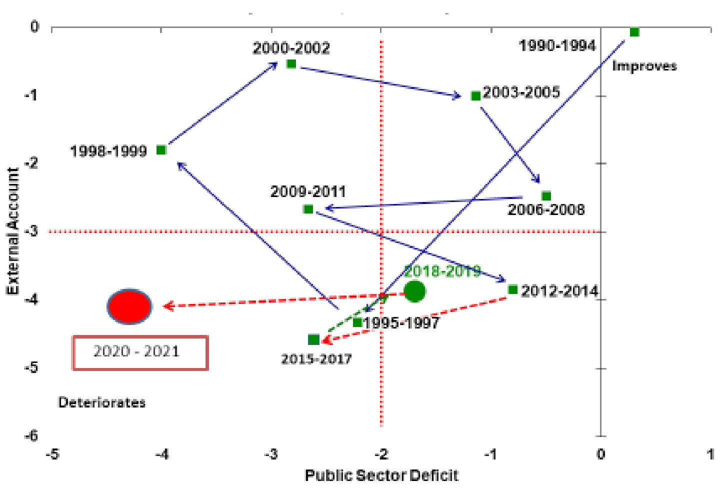

Figure 5: Twin Deficits External-Fiscal (% of GDP, 1990-2021)

Source: Based on Central Bank of Colombia

3. Public Debt Trends: Expenditure YES but Taxes NO?

The Ministry of Finance of Colombia published their fiscal prospects in June 2021, known as "Marco Fiscal de Mediano Plazo" (MHCP, 2021), and their preliminary closing of 2021 and adjustments to the planning of 2022 early this year (MHCP, 2022). The market reacted with a mixture of signals: some applauded their realistic approach regarding expenditure pressures as a result of the pandemic, while others thought that fiscal adjustment looked insufficient to contain consolidated public debt ratio below 70% after reaching 62% by end-2019.

As mentioned before, public bond rates (TES) continued to increase from 5.5% to 8%, while the exchange rate (peso-dollar) climbed showing a 16% of annual depreciation. As the fiscal package approved later in September 2021 only represents a net gain in the fiscal position of 0.5% of GDP over 2022-2023, it is crucial to analyze the medium term fiscal dynamics.

The more ambitious package of April-2021, targeting a net gain of 1.5% of GDP, had to be withdrawn from Congress in June due to high social unrest and the Minister of finance had to be replaced in a manner rarely seen in Colombia. The second fiscal package was presented in July 2021, but was significantly less ambitious avoiding any changes in: household income-tax, VAT coverage or rate increases, taxing pensions, and ending the wealth-tax on rich households (Clavijo, 2020; Fedesarrollo, 2021; and World Bank, 2021).

So the only significant tax compensation came from reverting the corporate tax from the programed decline under Law 2010 of 2019 (from 33% towards 30%) and the elimination of crossed accreditations against territorial taxes. By increasing the corporate tax from 32% towards 35% over 2022-2023 (with an overcharge of 3% on the financial sector) and curtailing tax compensations, it is estimated that tax collections could increase by 1% of GDP and another 0.5% of GDP by increasing tax administration procedures.

We have estimated (see Table 1) that the fiscal package of September 2021 will increase the fiscal position in only 0.5% of GDP, on average over 2022-2023. It should be noted that additional social expenditure (including solidarity) could reach 0.4% of GPD in 2022 and 0.7% in 2023. Even counting on operational cuts (–0.2% of GDP annual), the additional expenditures would amount to 0.2% of GDP in 2022 and 0.5% in 2023. Clearly, this fiscal correction looks insufficient to contain the fiscal deficit below 5% of GDP and to reach at least equilibrium in the primary balance, now close to a –3% of GDP. So, it is useful to make fiscal simulations in order to clarify the "underlying" fiscal deficit and the required primary surplus to stabilize the public debt ratio of Colombia.

Table 1: Fiscal Package Approved in September 2021 (% of GDP)

	2022	2023
I. Income (A+B)	1,01	0,96
A. Taxes	0,48	0,47
Corporate Income (+2 pps)	0,26	0,26
Surcharge on Financial Entities (+3)	0,11	0,11
ICA (held at 50%)	0,10	0,10
B. Tax Administration	0,53	0,49
Modernization	0,25	0,23
Capitals Amnesty	0,28	0,26
II. Expenditure (C+D)	0,24	0,52
C. Social	0,42	0,68
Solidarity	0,20	0,57
PAEF	0,10	0,00
Youth Employment	0,00	0,00
Payroll Support	0,00	0,00
University Tuition	0,07	0,06
Transmass	0,05	0,04
D. Operational Savings	-0,18	-0,16
III. Net Fiscal-Gain (I - II)	0,77	0,44

Source: Our Computation Base on Min-Finance

3.1. Some Budgetary Simulations (2020-2024)

We will run fiscal results in light of three relevant scenarios: Case A (maintain social expenditure at levels similar to those reach under pandemic-Covid do 2020, close to +2% of PIB, but without the required support of a structural tax reform); Case B (curtail the additional social expenditure related to pandemic due to the absence of the structural tax reform); and Case C (maintain such additional social expenditure but with the support of additional and permanent tax revenues and with resources coming from a one-off divesting of public enterprises related to Ecopetrol-ISA).

These simulations portray that in even under the do-nothing B scenario (curtailing social expenditure), the Central Government of Colombia would face serious difficulties in containing its debt ratios below 73% by 2024. The main fiscal challenges come from: (i) acute downward inflexibility in about 85% of the Budget items, where territorial transfers (defined at Constitutional level) currently represent 35% of central government's tax-income, while the PAYGO-public pension system deficit has been escalating from 2% towards 5% of GDP in the last two decades and will continue to increase (Clavijo, 2020b); and (ii) the lack of sufficient tax collection, currently at 14% of GDP or about 2% of GDP below the average figure observed in Latin America at the level of central government.

Several studies have found that fiscal sustainability has better chance of succeeding if supported by expenditure cuts than leaning on additional tax collections (Alesina *et al*., 2021). But in the particular case of Colombia the better changes of fiscal stabilization lay on the additional taxation component. In order to stabilize Debt/GDP ratio below 70% in the near future, it is required to generate a sustainable primary surplus of about 1% of GDP. If social expenditure is to be increased, say in about 1% of GDP, higher primary balance will be required or else such debt ratio will surpass such threshold. Table 2 portrays additional tax requirements in Colombia, up to 4% of GDP, stemming from the need to reduce payroll taxes on behalf of the firms and to promote higher labor formality (currently as low as 40%).

Table 2: Required Fiscal Effort Colombia 2021-2022 (Additional Tax Collection, % of GDP)

I. Estabilizing Deuda/PIB < 70%	1,8
VAT	1,0
Corporates	0,5
Households	0,3
II. Social Expenditure Support	1,0
Familias Acc. (goal: 1% PIB)	0,7
Adulto Mayor (goal: 0.5% PIB)	0,3
III. Payroll substitutions (from...)	1,3
Firm contributions	1,3
Total Tax Effort (I+II+III)	**4,1**

Source: Clavijo (2020) "Fiscal Periscope"

3.2. Fiscal Results Under Scenario A: +3% of GDP in Social Expenditure, but Without Additional Tax Revenue Support

Table 3 illustrates the structure of Colombia´s central government Budget and its funding. Tax pressure had diminished from 14% of GDP in 2019 to 13% in 2020 as a result of corporate tax reductions (Law 2010 of 2019) and the impact generated by pandemic-Covid contracting real-GDP in 7%. Even after economic recovery towards potential growth of 3.5% per-annum, tax revenue is expected to settle close to 14% of GDP. Non-tax revenues (mainly capital profits from Ecopetrol, ISA and Central Bank) also fell in 1% of GDP in 2020, but those could stabilized close to the historical average of 2.3% of GDP through 2024.

Table 3: Scenario A: No Additional Taxes, But Yes Additional Social Expenditure

		Projections of Consolidated Public Debt of Colombia				
			(% of GPD)			
	2019	**2020**	**2021e**	**2022pr**	**2023pr**	**2024pr**
Income	16,2	15,2	16,3	16,3	16,3	16,3
Taxes	14,0	13,0	13,8	14,0	14,0	14,0
Other	2,2	2,2	2,5	2,3	2,3	2,3
Ecopetrol-ISA	1,0	1,2	1,2	1,2	1,2	1,2
Central Bank	0,6	0,7	0,0	0,5	0,5	0,5
Other	0,6	0,3	1,3	0,6	0,6	0,6
Expenditure	21,1	23,1	23,4	22,6	22,7	22,9
Transfers (SGP+Pens.+Health)	10,7	9,9	10,6	10,2	10,2	10,2
Operational	2,9	2,9	2,9	2,9	2,9	2,9
Investment (FKF)+Cap. Transf.	2,6	2,9	3,0	2,9	2,9	2,9
Interest	2,9	3,0	3,4	3,6	3,7	3,9
Social (+Pandemic)	2,0	4,4	3,5	3,0	3,0	3,0
Deficit	-4,9	-7,9	-7,1	-6,3	-6,4	-6,6
Memo:						
Gross Debt	62,0	64,7	66,2	69,9	72,6	75,3
External	24,8	25,9	26,5	28,0	29,1	30,1
Internal	37,2	38,8	39,7	42,0	43,6	45,2
Interes implicito	4,7%	4,7%	5,1%	5,1%	5,1%	5,1%
Externa (+devaluacion)	1,9%					
Interna (residual)	2,8%					
Balance Primario	-2,0	-4,9	-3,7	-2,7	-2,7	-2,7

Total expenditure increased by 2% of GDP in 2020 as a result of pandemic needs, reaching 23.4% of GDP in 2021. Even if social expenditure components were to be reduced during 2022-2024, total expenditure would reach 22% of GDP. Part of the increase stems from interest payments escalating from 3% to 3.9% of GDP over 2020-2024.

We are here assuming that deterioration in the country-risk premia (after losing investment grade, as previously discussed) and the effects of the peso-dollar depreciation (at an average of 5% per-year) are partially compensated by ample global liquidity containing interest increases (Blanchard, 2021). However, effects of a slow-tapering beginning in late 2021 would be felt through 2022-2026. As a result, effective real interest rate on public debt is here maintained at 4.7% per-annum in pesos (weighing foreign debt at 40% of the total, mainly in dollars) during 2022-2024. This implies that increases in interest payments is due mainly to escalation of the debt ratio. Hence, central government fiscal deficit under scenario A climbed from 4.9% of GDP in 2019 (including the effects of ADRES-arrears in that year) towards 7.9% in 2020 and 7.1% in 2021.

In summary, under this scenario of allowing for increases in social expenditure not properly supported by additional taxation, the consolidated public debt /GDP ratio would continue to escalate from the 65% observed in 2020 towards 75% by 2024, making impossible for Colombia to recover its investment grade and complicating the fiscal funding in a significant manner.

3.3. Scenario B: Curtailing Social Expenditure in Absence of Additional Tax Revenue

Under this scenario (see Table 4), total expenditure could be contained at 21.5% of GDP, in 2024. This would imply: (i) curtail social expenditure by 2% of GDP over 2022-2024; (ii) contain territorial transfers (the "SGP") at 10.7%; and (iii) maintain low levels of 2.4% of GDP in public investment (including here resources from capital transfers) with respect to a historical average of 3% of GDP.

And yet, all these efforts would only reduce the fiscal deficit from 7.9% in 2020 to 5.2% of GDP by 2024. In a more optimistic view, the IMF foresees a fiscal deficit of the general government reaching 4.3% of GDP in 2023 and 2.8% in 2024 (IMF, 2021), but the consolidated public debt ratio of Colombia would still reach 70% of GDP by then.

Table 4: Scenario B: No Additional Taxes, No Additional Social Expenditure

		Projections of Consolidated Public Debt of Colombia				
		(% of GPD)				
	2019	**2020**	**2021e**	**2022pr**	**2023pr**	**2024pr**
Income	16,2	15,2	16,3	16,3	16,3	16,3
Taxes	14,0	13,0	13,8	14,0	14,0	14,0
Other	2,2	2,2	2,5	2,3	2,3	2,3
Ecopetrol-ISA	1,0	1,2	1,2	1,2	1,2	1,2
Central Bank	0,6	0,7	0,0	0,5	0,5	0,5
Other	0,6	0,3	1,3	0,6	0,6	0,6
Expenditure	21,1	23,1	23,4	21,3	21,4	21,5
Transfers (SGP+Pens.+Health)	10,7	9,9	10,6	10,2	10,2	10,2
Operational	2,9	2,9	2,9	2,9	2,9	2,9
Investment (FKF)+Cap. Transf.	2,6	2,9	3,0	2,8	2,8	2,8
Interest	2,9	3,0	3,4	3,4	3,5	3,6
Social (+Pandemic)	2,0	4,4	3,5	2,0	2,0	2,0
Deficit	-4,9	-7,9	-7,1	-5,0	-5,1	-5,2
Memo:						
Gross Debt	62,0	64,7	66,2	69,9	71,5	73,1
External	24,8	25,9	27,8	28,0	28,6	29,3
Internal	37,2	38,8	41,7	42,0	42,9	43,9
Interest (implicit)	4,7%	4,7%	4,9%	4,9%	4,9%	4,9%
External (+devaluacion)	1,9%					
Internal (residual)	2,8%					
Primary Balance	-2,0	-4,9	-3,7	-1,6	-1,6	-1,6

According to this scenario B, the primary balance would be slowly improving from –4.9% of GDP in 2020 towards—1.6% in 2024, but insufficiently to contain debt ratios deterioration. In fact, public indebtedness would reach 73% of GPD by 2024 and it is not difficult to imagine the social unrest that these cuts in social expenditure would produce as monetary-poverty would be climbing towards 45%-50% of total population (+17 or +22 pps with respect to 2019). In our view, Colombia would be much better off in pursuing additional tax-revenues in order to avoid this difficult social scenario stemming from drastic social expenditure cuts.

3.4. Scenario C: Maintain Social Expenditure Through Efforts in Increasing Tax-Revenue and Capital Transfers from Divesting in Key Public Enterprises

In this last Scenario C (yes additional tax revenue to support yes additional social expenditure) we simulate the effects of raising tax-collection from 14% to 16.5% of GDP during 2019-2024, while maintaining the additional social expenditure at 3% of GDP. Table 5 shows that these gains in tax-collection would require modernization of Dian yielding significant results (issue that we will tackle in next chapter).

Under this scenario, the fiscal deficit would be reduced rather late and less than in case B, reaching a minimum of 4.8% by 2024. This is explained by total additional expenditure of 1% of GDP with respect to pre-pandemic, although leveling-off at 23.6% of GDP by 2024. Primary balance would improve to –1.2% of GDP, but debt ratio still would climb up to 73% of GDP by 2024.

Nevertheless, under scenario C it is likely that rating agencies and multilaterals would conclude that Colombia would be in a much better position when considering several aspects: (i) social expenditure would contain poverty and unemployment pressures; (ii) additional public investment would provide support for higher potential growth; and (iii) FTA could be more useful to Colombia and improve external accounts. All those items would help in consolidating the peace dividends (see Clavijo *et al*., 2017).

Note that even under this scenario C, relatively optimistic, the debt ratio would continue to increase from 66% towards 73% over 2021-2024. The good news is not only the better quality of social results but also avoiding acute increases in debt ratios close to 75% under scenario A. Debt stabilization in any case would occur closer to 73% of GDP

Table 5: Scenario C: Yes Additional Taxes, Yes Additional Social Expenditure

		Projections of Consolidated Public Debt of Colombia				
			(% of GPD)			
	2019	**2020**	**2021e**	**2022pr**	**2023pr**	**2024pr**
Income	16,2	15,2	16,3	16,8	17,8	18,8
Taxes	14,0	13,0	13,8	14,5	15,5	16,5
Other	2,2	2,2	2,5	2,3	2,3	2,3
Ecopetrol-ISA	1,0	1,2	1,2	1,2	1,2	1,2
Central Bank	0,6	0,7	0,0	0,5	0,5	0,5
Other	0,6	0,3	1,3	0,6	0,6	0,6
Expenditure	21,1	23,1	23,4	22,7	23,1	23,6
Transfers (SGP+Pens.+Health)	10,7	9,9	10,6	10,4	10,7	11,1
Operational	2,9	2,9	2,9	2,9	2,9	2,9
Investment (FKF)+Cap. Transf.	2,6	2,9	3,0	3,0	3,0	3,0
Interest	2,9	3,0	3,4	3,4	3,5	3,6
Social (+Pandemic)	2,0	4,4	3,5	3,0	3,0	3,0
Deficit	-4,9	-7,9	-7,1	-5,9	-5,3	-4,8
Memo:						
Gross Debt	62,0	64,7	66,2	69,4	71,4	73,2
External	24,8	25,9	27,8	27,8	28,6	29,3
Internal	37,2	38,8	41,7	41,7	42,8	43,9
Interest (implicit)	4,7%	4,7%	4,9%	4,9%	4,9%	4,9%
External (+devaluacion)	1,9%					
Internal (residual)	2,8%					
Primary Balance	-2,0	-4,9	-3,7	-2,5	-1,8	-1,2

than to the 65% envisioned by IMF (2021) under Article IV. Primary balance would reach –1.2% of GDP in 2024, decreasing from -4.9% of GDP in 2021, but this will require using about 1% of GDP from privatizations of 10% of Ecopetrol or selling the majority of public equity in ISA.

In summary, under scenario A (No additional taxation, but maintaining additional social expenditure), the debt ratio would escalate toward 75% of GDP by 2024. In absence of signals of debt containment, Colombia could even experience problems of fiscal funding for such high deficits. Under scenario C (tax revenue supporting additional social expenditure), debt could be contained at 73% of GDP and providing signals of social and fiscal stabilization, in tandem with better growth and productivity prospects. Finally, under scenario B (cuts in social expenditure due to absence of additional tax-collections) debt ratios would climb to 73% of GDP and give risks of fiscal deanchoring and social unrest (see Figures 6 and 7).

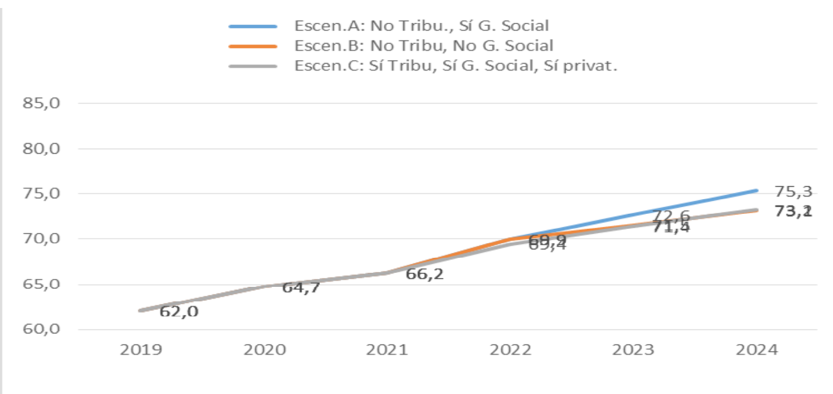

Figure 6: Colombia's Consolidated Public Debt/GDP Ratio

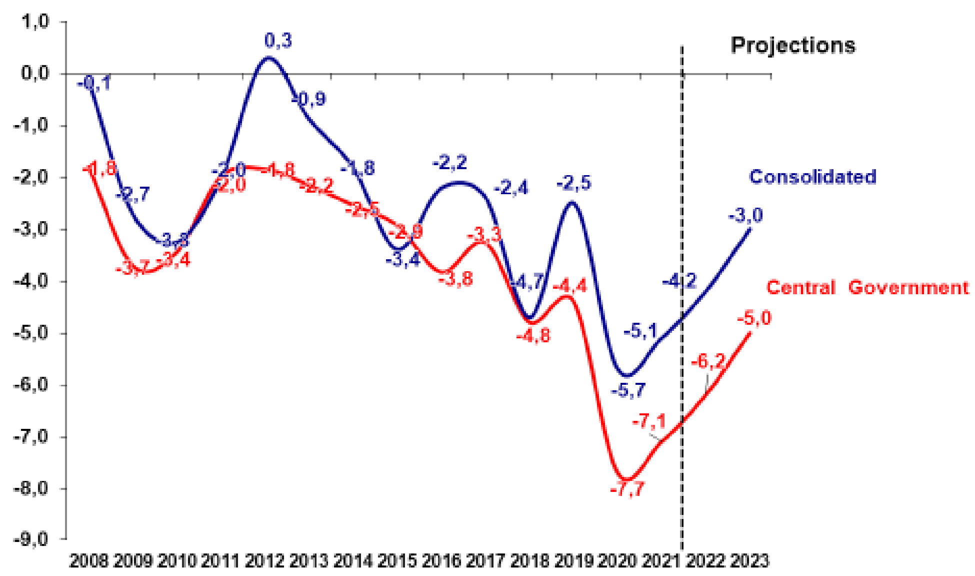

Figure 7: Colombia's Fiscal Balance (% of GDP)

Source: Based on Ministry of Finance

3.5. Adjusting the Colombian Fiscal Rule

Government and Multilaterals have been of the opinion that the fiscal rule used by Colombia during 2014-2019 was useful in anchoring fiscal stabilization. We have had a different view due to: (i) never fulfilling the forecasts of reducing the public debt ratios; (ii) significant alterations in criteria related to computations related to gaps in oil and growth that govern the magnitude of the counter-cyclical impulse; (iii) several uses of "scape-clauses" mentioning shocks from immigrant flows or "expenditure arrears" (used before the occurrence of pandemic); and (iv) the absence of real anchor related to primary balances required to stabilize debt ratios.

"Unpleasant simple arithmetic" shows that such fiscal rule never delivered fiscal stabilization: the ratio of Central Government Debt/GDP continuously escalated from 35% towards 52% during 2012-2019 (+16 pps of GDP, at the rate of 2 pps per-year, even before the pandemic).

There is a need to correct several accounting weaknesses regarding the "old-rule" (suspended early in 2020) such as: (i) not capturing the effect of debt-swaps extending "average-maturity"; (ii) allowing for payment of arrears either through below the line accounting or being inputted to previous years deficits in as much as 2% of GDP; and (iii) not envisioning the effect of "vigencias futuras" (future budgetary obligations related civil-works) to the equivalent of 12% of GDP in NPV (with similar effects of the well-known pension-skeletons obligations). What is needed to have a comprehensive fiscal perspective is to apply a "360-degree fiscal periscopic view" of past, present, and future obligations (Clavijo, 2020b; and Blanco *et al.*, 2020). Once there has occurred significant deviations from objectives of debt stabilization, historical evidence shows that fiscal rules usually require important adjustments in order to regain relevance (Davoodi *et al*., 2022).

Under the new Law 2155 of 2021, the Fiscal Rule would target the stabilization of the central government debt and the Decree 1717 of 2021 focus the instruments on the primary balance, while the Decree 1737 of 2021 provides more institutional autonomy to the Comité Autónomo Regla Fiscal (CARF). Yet, we consider more appropriate to focus on the stabilization of the consolidated public debt (NFPS), given the key role played by public enterprises like Ecopetrol-ISA, as previously discussed.

4. How to Improve Tax-Administration in Colombia?

Fedesarrollo (2021) released an important document regarding a strategy for improving tax-administration in Colombia. The juncture is ideal in light of the modernization being carried out by Dian over 2018-2022 as ordered by Law 1819 of 2016.

The proposals that we here summarize take into account several studies regarding these issues of tax-administration challenges (OECD, 2019 and 2021; Clavijo, 2020; Fedesarrollo, 2021; and Comisión de Expertos en Beneficios Tributarios, 2021). Given the fact that "big tax-contributors" represent about 40% of total collections, similar to the Chilean share, gains in efficacy should prove easier than, for instance, in United States where such participation is only 18% (see Table 6).

Table 6: Tax Administration Comparisons

	EE.UU.	Chile	México	Brasil	**Colombia**
1. Central Gov. Tax-Collection / GDP (%)	15	15	15	18	13
2. Big Tax-Contributors (% of the total)	18	38	na.	60	40
3. Income-Tax Payers (% of Adult Population)	45	55	45	12	2
4. Income-Tax Households Audited (% of Fillings)	5	1.5	0.1	0.1	0.5
5. Claims on Cases Audited (% of Tax-Collected)	2	6	12	26	5
6. Obtained Payments on Audited (% of Tax-Collected) *	na.	na.	1	na.	8
7. Claims Pending (% of Tax-Collected)	na.	140	8	150	6
8. Claims over 1-yr (% of NPClaims)	80	95	60	na.	na.
* Includes adutions of previous years					

Source: Based on IMF, OECD and Sarin et al.(2020)

Our main proposals for improving tax-administration can be summarized as follows:

1. Design and apply a medium term tax improvement strategy. Even multilaterals have included in fiscal reports that Colombia could have achieved annual tax-gains due to efficiency as large as 1.5% of GDP during 2015-2020, but best performance has been 0.3% of GDP (including here the effect of recurrent tax-amnesties). Taking into account better cross information stemming from agreements under FATCA (USA), OCDE (including most of Europe), and Panama, international tax-evasion seems likely to be reduce in coming years.

2. Design solid anti-evasion targets in order to really motivate efficiency gains through bonus of recognitions to Dian-Staff. Recent investments in hardware and software for about US$250 mn, through credits from IADB, should be of great support in achieving such targets. Currently, Dian only audits less than 1% of fillings. Potential tax-gains hover round 2% of GDP in the medium term, but instrumenting this will require to increase audits to 5% of fillings.

3. Improvement of tax-records is badly needed in Colombia. Tax contributors records' held by Dian is as low as 2% population, compared to the 55% observed in Chile (see Table 6). Furthermore, probability of increasing tax-collection through use of such information is as low as 8% vs. the 50% chance observed in developed economies. It is common in Colombia to claim faked-bankruptcies in order to stop Dian claims or to pay +10% with respect to previous year as a way to avoid audits (allowed by current laws). Automatic tax withdrawals should be extended and properly reported. Legal tax accounting of cash payments should be totally avoided.

4. Property valuations and their records should be improved, especially at regional and rural-areas, to have significant tax gains. Significant property-tax gains have been made in large cities through the "auto-valuation" mechanism institute in a pioneer way in Bogota two decades back. In fact, total property taxes in Colombia reach 1.6% of GDP, close to the 1.9% observed in the average of OECD countries, and double the 0.8% observed in Latam.

5. The issue of incarceration for tax avoidance needs to be made more stringent. Currently, it is possible to evade up to US$1.5 mn (about COP$5.000 mn) and yet avoid incarcerations either if discovered by paying. However, the institutional settings of the Dian currently represent a high risk of political manipulation to battle political opponents, as occurred in Mexico under the PRI.

6. More than social-suasion, Colombia should recur to cross local and international information to battle tax evasion and elusion. The legal powers currently held under anti-money-laundry have a big potential for combating tax evasion. Scrutiny, however, should not only reside with paper-filings, but with tracking buying/selling of goods and services. Simulations show that increases in tax collection could be higher from ample and proper anti-evasion policies than from wealth taxes (Sarin *et al.*, 2020).

5. Political Economy of Structural Reforms

5.1. Fiscal Strategy to Contain Higher Public Indebtedness

Reinhart and Rogoff (2008) had analyzed historical events of public debt escalation and concluded that most officials exclaimed that "on this occasion it would be different" and that crisis would be avoided. However, most of the time financial crises occurred with bad results for growth, employment and poverty indicators.

After the prolonged global financial crises of 2008-2012, it was announced that public and private debt indicators would be escalating in a significant manner. Central Banks moved towards amplification of their balance sheets' (see Figure 8) and have maintained nominal and real interest at historical low records, supporting governments and private sector debts escalation.

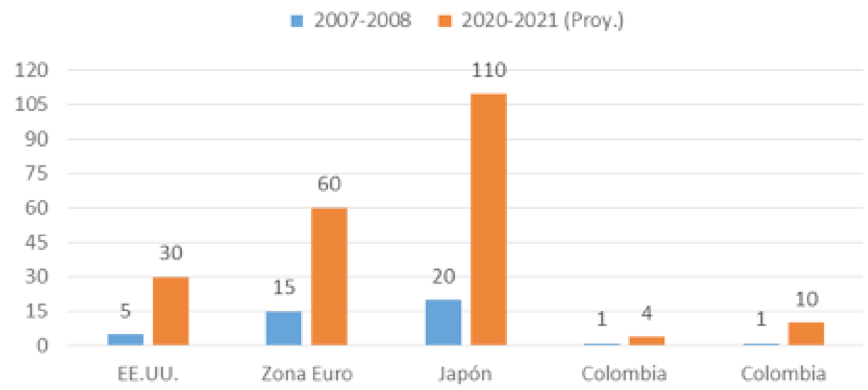

Figure 8: Central Bank's Balance Sheet (% of GDP)

Source: Based on Central Banks's Reports

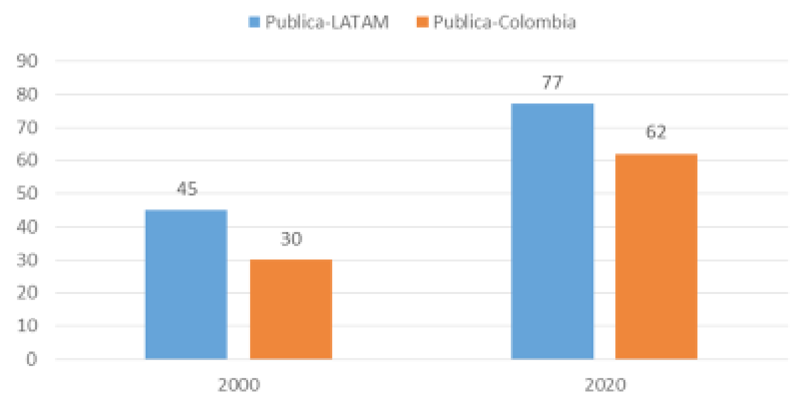

Figure 9: Public Debt (% del PIB)

Source: Based on IMF

Public debt interest rates (r) have been below real growth rates (g) for a prolonged period, so their differential (r – g) has provided support for a "primary surplus" that avoids further debt escalations. However, during 2021-2023, it looks very likely that such interest rate support would be diminishing due increases in inflation in as much as 6% readings during late 2021. This interest increases over 2022-2024 would exert debt service pressure, especially over United States' (currently at 110% in debt/GDP ratio) and Europe's (at 100%), see OECD (2021). In the case of Latin-America, public debt has increased from 45% to 77% during 2000-2020 and in Colombia from 30% to 62% of GDP (see Figure 9).

Furthermore, as announced after the Lehman-crisis, private debt has also escalated and total external debt has jump from 35% to 52% of GDP in Latam and from 20% to 64% of GDP in Colombia (see Figure 10). This is the result of having serious twin deficits fiscal-external, particularly since the end of the super-cycle of commodities in 2015.

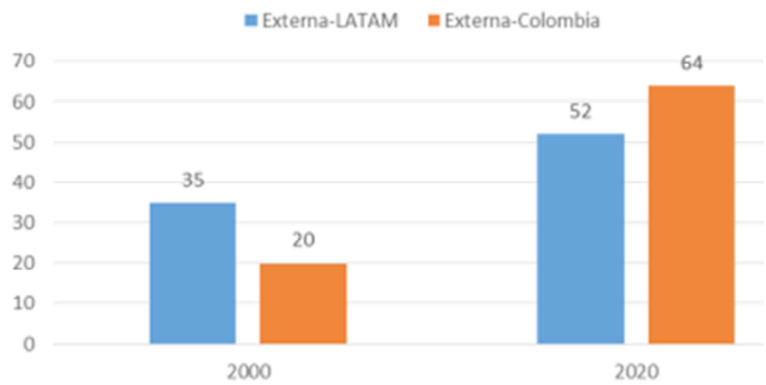

Figure 10: Total Externa Debt (Public and Private; % GDP)

Source: Based on IMF

However, Blanchard (2021) and Sarin *et al.* (2020), among others, have been of the opinion that the current negative or null differential (r – g) still can be used to impulse public debt to assure economic rebound over 2022. The ambitious fiscal package of Biden goes in that direction, totaling all-fiscal impulses close to 15% of GDP during 2020-2024.

But Rajan (2021) and Kose *et al.* (2021), including Reinhart and Rogoff, think that the current situation claims for orthodox fixes, although some emerging markets are considering heterodox fixes. In Table 7 we summarize the main orthodox options, based on Kose *et al.* (2021). The first option of accelerating growth is Perogrullo´s type, aiming at counterbalancing increases in "r" through those of "g". But the problems related to "secular stagnation" are of structural nature and hard to come by.

Table 7: Containing the Ratio (Public Debt/GDP): Orthodox Policies

	Global	Colombia
1. GDP-acceleracion (g > r)	USA (1940-1960)	1968-1980 at 5%
	50% Emerging (1980-2010)	1985-1997 y 2004-2014 al 4.5%
2. Fiscal Consolidation	Developed 2020-2021	2004-2008 and 2011-2014 at +1% GDP
(Primario Surplus)		
3. Privatizations	Greece (infraestructure)	Energy Firms 1990s; Isagen
(Liquidy and Productivity)	Chile (Public-Ss)	¿Castling of Ecopetrol-ISA?
4. Wealth-Taxes	Piketty or "one-off"	Recurrence 1993-2021: War-Bonds
	France-Norway 0.9% GDP	Impo-patrimonio/Riqueza 0.2% to 0.6% GDP

Source: Own Elaboration Based on Kose et al.(2021)

Latam failed in accelerating growth and lost the decades of 1980s and 2000s; very likely 2020s would be the third lost decade, judging by challenges left by pandemic of 2020-2021. In the case of Colombia, GDP-growth accelerated to averages of 4.5% per-year only during the combination of import substitution and export promotion (1968-1974) and under favorable terms of trade resulting from energy-prices booms (1985-1997 and 2004-2014), see Figure 11.

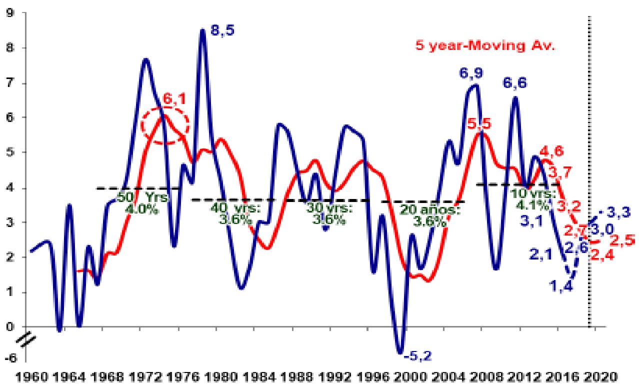

Figure 11: Long-Term Growth in Colombia (%, 1960-2020)

Source: Own Computations Based on Dane

A second orthodox policy aims at consolidating reductions of the debt's differential by all-sources. In the case of Colombia, slight progress was made during 2004-2008 and 2011-2014 (see Figure 12). But, as discussed above, during 2020-2022 the primary balance would average –3% of GDP, about 4 pps of GDP from the required +1% of GDP to stabilize the debt ratio below 70%.

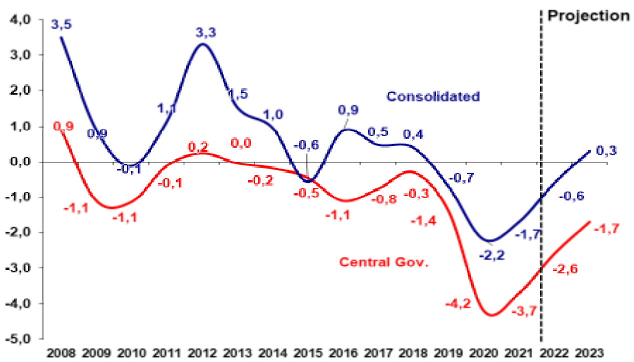

Figure 12: Primary Balance of Colombian Central Gov. (% of GDP)

Source: Based on Ministry of Finance

Although in the short-term the focus has been on expenditure for social support, it is crucial to retake public investment as to accelerate growth. By doing this, the phase of "r" increases could be faced with tax-elasticity supported by higher income-growth (see Eichengreen *et al*., 2021).

A third traditional policy has to do with increasing fiscal resources (although temporarily) through privatizations proceeds. In the case of Colombia, there exists the possibility of divesting 10% of Ecopetrol or selling the majority of ISA (for about 1% of GDP), after a castling of these assets which did not add much to such strategy of divesting.

A fourth option is to recur to wealth-taxes, which yield about 3% of GDP in Luxemburg and 1% in France, but of scant use worldwide given their negative secondary effects. In Colombia, wealth-taxes have been charged, under different ropes, during the last three decades, yielding up to 0.6% of GDP (when government err by applying it also on corporate assets during 2002-2006). Over 2018-2020, the wealth-tax was limited to rich-households, collecting 0.2% of GDP.

Although this wealth tax on households has the potential of collecting 0.3% of GDP in Colombia, the political economy behind it has proven complicated and the Duque Administration dismounted from it in September 2021. The paradox consists of the wealth-tax being very progressive, what social protests have been claiming for, and yet governments have renounced to it.

The heterodox packages include extensive use of central banks' balance sheets, but with inflation on the upper trend this option has been discarded in most places (other than in the trenches of the New Monetary Theory). Table 8 summarizes other heterodox options (largely proven without success in Latin America over the 1970-1980s).

Table 8: Containing the Ratio (Public Debt/GDP): Heterodox Policies

	Global	Colombia
1. Inflation Surprises	USA (1940-1950): -30% GDP	1898-1903: Last hyperinflation
(Above +10% per-year)	Argentina (1980-2020)	2000-2022: Average Inflation 6% annual
2. Financial Repression	Europe (1940-1960): -5% GDP	1950-1980: High Cuasi Fiscal Costs
(Negative Real Interest Rates)	LATAM (1960-1980)	1990-2020: Flotation and K-Mobility
3. Debt Restructuring	PIIGS (2008-2015)	1929-1933: Last default
(Postergacion y Hair-Cut)	Argentina (1980-2020)	1982-1984: Restructuration

Source: Own Elaboration Based on Kose et al.(2021)

The first one was diminishing the real value of public debt through rapid inflation. This persistent strategy has proven very bad for Argentina, as was also the case for Brazil decades back. Last episode of inflation surpassing 50% a year occurred in Colombia by end of XIX-Century and average inflation has been as low as 6% per year over the last two decades. Constitutional support for the Independence of the Central Bank of Colombia has proven very useful, yielding not only low inflation but also exchange-rate flotation and free capital movements.

The other heterodox strategy used extensively in Latam (including Colombia) was "financial repression" by way of maintaining real interest rates in the negative territory. Such strategy caused high cuasi-fiscal deficits that negatively affected FDI and impaired capital movements.

And, lastly, there is an absurd option (suicidal): repudiate public debt and apply haircuts as high as 50% (as done by Argentina repeatedly). The last debt repudiation of Colombia occurred during the Great Depression of the 1930s and there was also a forced rescheduling episode during early 1980s as a result of the Mexican crises. The period of 2022-2026 certainly represents a historical challenge for Colombia as both public and private debt ratios are at their picks and the political economy to deliver structural fixes is demanding, as we now turn to discuss.

5.2. Political Economy and Structural Reforms (2022-2026)

The well-known principles of the "Washington Consensus" (1989-2001) came as a result of years of discussion and practices among multilaterals, academics and policy makers. Such Decalogue still is a set of useful guidelines in promoting competitive markets as the best manner to organize the provision of goods and services under democracy.

We can summarize those guidelines as follows: (i) at the fiscal level, tax increases should support the focalization of subsidies for those in need in areas such as health and education, as well as in the general provision of infrastructure, where privatizations could help in assuring debt sustainability; (ii) at the level of external markets, it was recommended to maintain a competitive exchange rate (most likely through a floating system), and promoting free-trade by reducing tariffs and dismounting barriers to trade, all of which should help in attracting FDI in an environment of respect for property-rights and technology promotion; and (iii) at the level of financial markets, the recommendation pointed towards maintaining positive real interest rates (avoiding the problems of "financial repression") and adequate prudential regulations and supervision (see Williamson, 1989).

Implementing such principles proved difficult, especially in Latin America, as they require careful State coordination. Nevertheless, it is hard to imagine that growth acceleration, social well-being, and debt sustainability could be reached under democracy without fulfiling those basic principles.

Colombia, along with Chile and Peru, were good examples of "progressive policies" pointing in the direction of the "Washington consensus" during 2000-2018 (before pandemic). The "socioeconomic North" was clear and somehow respected by most governments, showing significant improvements in poverty reduction, opening to trade and to financial markets, and even at the level of income-equality (although at a slower pace than required, see Clavijo, 2020).

Post-pandemic socioeconomic progress in Latin America will required to transit through difficult political settings, where the lesson extracted by Blinder (2018) about complex relations between technocrats and Congress are useful to have in mind:

1. Economist advising political parties should make extra-efforts to come with "one-voice" in order to avoid political confusion and to derail fixing opportunities. History shows that, by proposing "optimal policies" for the medium-term, technocrats tend to ignore the "frontier" of political possibilities" of the short-term.
2. Once main objectives have been agreed upon, economist should "fine-tune" the horizon of their proposal and make sure that it is compatible with the short-term impact that most Congress people tend to have in mind.
3. In Colombia, the political strategy regarding structural adjustments could be characterized as "directional persistence", meaning step-by-step progress. During 1968-2021, there are several examples showing that that has been the case in VAT-extensions, tax-income coverage, social subsidies focalization, and GINI reductions. Lack of adequate nation-wide explanations about "the next-step" have led to setbacks, as recently occurred with the well-thought-of fiscal package of the Duque Administration in April-2021, causing its withdrawal and the dismissal of the Minister of Finance.
4. Anti-establishment feelings and the negative effects of pandemic-Covid will be demanding the best explanatory-logic and the more inclusive political strategy of the new Administration of 2022-2026 in order to continue with this Colombian "persistent objectives" under a well-rooted democratic society, but phasing low operational capabilities due to parties-atomization.

Other source of lessons for building an adequate "political economy" strategy comes from Blanchard and Tirole (2021):

1. In order to well-prepared announcement of policies to be presented to Congress, it is useful to: (A) Make sure that all relevant voices have been carefully heard; (B) All alternative solutions have been assessed; and (C) There is a clear picture of winners and losers resulting from the implementation of such Laws.
2. In spite of economist disliking "earmarked taxes", it is useful to consider them when an eventual "second-best" alternative might make the difference between approval of the Laws or not. The idea is to be able to partially compensate potential losers and avoid totally derailing the reforms.
3. Several reforms dealing with labor, pensions, and trade have transversal effects which are usually neglected; hence, careful simulations about the size and persistence of their effects need to be tackled.
4. As important as approving the laws are their timely regulatory frameworks and implementations; as with Covid, diagnosis, vaccination-tests, and deployment of mass-shots are required for success at a large scale.

In Latin America there are also useful lessons regarding approval of reforms in Congress. As once said by Cardoso in 2003, former President of Brazil: "policy proposal do not simply reflect technocratic illuminations, but harmonization of sincere political interest converging with those of the governments" (Stein *et al*., 2005). In the case of Colombia, there is a prolonged history of structural reforms advancing slow, but yet advancing (Steiner *et al*., 2009; and Clavijo, 2020a).

5.3. Matrix of Political Economy Strategy Leading to Reforms of: Pensions, VAT, Household's Income-Tax, and Labor Formalization

Table 9 illustrates the matrix of political economy strategy leading to reforms of the PAYGO in Colombia, based on the legal, actuarial, and financial studies of Anif (2017) and Fedesarrollo (2021). There we synthesized the general objectives, the social balances (winners/loser's) and their time-horizons.

Table 9: Matrix of Fiscal Strategy and Its Political Economy: Case of Pension Reform

I. Objectives	
Social	Subsidies Focus: Monetary Poverty -3% (via Prog of "Col. Mayor")
Fiscal	Costs Reductions: Deficit from 4% to 1% GPD in 15 yrs; NPV from 113% to 97% GDP (-16ps)
II. Social Balance	
Winners	Low Strata: Coverage from 15% to 40% during 2022-2050
Loosers	High Strata: Increases coverage from25% to 60%; but Rrate from 70% to 50% (market-based)
III. Horizon	
Short-Term	Null effect over 10 yrs.: Acquired rights and "expectations"
Medium-Term	Increasing impact over 15-20 yrs.

Source: Based on Anif (2017) and Fedesarollo (2021)

It is difficult to understand why the youth have supported protests over 2018-2021 opposing pensions reforms which seek to reduce excessive pension benefits for “baby-boomers”. If those reforms had been approved decades back, the need for increasing general taxes would be much lower and prospects for labor formality higher, avoiding the so-called “fiscal child-abuse”. The political economy of pension’s reforms in Colombia has been so stressful that recent governments have tend to focus on reversing progress made under Law 797 of 2003.

The main objective of the pension reform is to reduce the regressive subsidies in order to focus them on low strata through the well-designed “Colombia Mayor Program”, but it lacks proper funding. It has been estimated that poverty could be reduced in at least 3 pps and the fiscal deficit caused by PAYGO reduced from 4% of GDP to 1% of GDP per year during the following 10-15 years. Hence, the NPV of the public pension system debt could be cut by 16 pps of GDP and the coverage significantly improve from 15% to 40% of the working force. The losers would be the high strata as their Replacement-Rate would be diminished from the current 70% to 50% (market determined).

Table 10 presents such matrix for the case of extending the VAT which pursues two main objectives: increase the VAT coverage of the basic-basket from 65% to 90% and increasing their rates from 0-5% towards 19%; and also increase the coverage of VAT in all-items transacted in Colombia, which currently covers only 45% of them.

Table 10: Matrix of Fiscal Strategy and Its Political Economy: Case of IVA Extension

I. Objectives	
Social	Subsidy focus: Reducing porverty -1%; Sine-qua-non: App for exemptions (Uruguay)
Fiscal	Tax expansion: Basic CPI +0.3% GDP (65% to 90% coverage); Gral. +1% GDP (45% to 90%)
II. Social Balance	
Winners	Low Strata: Increase subsidy expenditure +0.7% GDP (Prog. Flias. Accion)
Loosers	High Strata: Increase in CPI-costs (GINI -2pps); one-off inflation effect
III. Horizon	
Short-Term	Accelerate inflation in 2 pps, if coverage +25 pps
Medium-Term	Inflation fades

Source: Based on Clavijo (2020), Fedesarollo (2021), and Cordoba (2021)

However, a sine-qua-non condition is to have in place mechanism to avoid charging low strata those increases in basic-basket items or be able to compensate them, as currently occurs in Uruguay (Córdoba, 2021; World Bank, 2021).

Tax-collection could be increased by +0.3% of GDP at the basic-basket and up to 1% of GDP at the general level. Some of these resources could be devoted to increasing support to poor families through the program “Familias en Accion”.

High strata would experience a significant increase in their basic-basket expenditures from 3% towards 12% and GINI could be improved in 2 point (Fedesarrollo, 2021). Part of the difficulties in approving this reform had to do with inflationary impacts, but it is clear that it is a “one-off” effect which Central Bank has been able to accommodate in the past.

Table 11 explains the matrix in the case of increasing upper-middle class income tax. The main objective is to generate higher tax-progressivity (from 5% to 10% in the effective tax-rate) and to increase tax-collection up to 0.2% of GDP, taking into account that Colombia is one of the countries in the region where tax-charges occur only at four-times median income (World Bank, 2021). In terms of time, these tax increases could be phase-in over three years.

Table 11: Matrix of Fiscal Strategy and Its Political Economy: Case of Higher Household Income Tax

I. Objectives	
Social	Progressivity: Low untouched; Medium-High: +5% Effective Rate (up-to 10%); High +2% (reaching 30%)
Fiscal	Taxation: +0.2% GDP (reaching 1.5% GDP)
II. Social Balance	
Winners	Low Strata: Increase social expenditure
Loosers	Medim-High Strata: Due to combination of wealth-tax and income-tax +4% Effective rate
III. Horizon	
Short-Term	+ 2pps per-year
Medium-Term	3 yrs in total

Source: Based on Clavijo (2020), Fedesarollo (2021)

Finally, Table 12 shows a strategy to increase tax and labor formalization. Rates of tax-evasion hover around 25%-30% and modernization of Dian (as previously discussed) should help in this task. Regarding labor formalization it is required to further reduce non-wage costs from 52% to 30% at the most, but this would require and additional tax effort to absorb some of this costs through the Budget. The good news is that there is room to dismount some charges (as the cross-subsidy earmarked towards FGPM/FSolidaridad and the Co-familiares). These policies go in line with deepening the progress made through Law 1607 of 2012 which reduced 13.5 pps of non-wage costs. However, such effort implied additional public expenditure of 1.3% of GDP, but on this occasion it could be reduced to half of that (as explained above). We have estimated that labor formality (paying PILA at least twice a year) could continue to improve from the previous 33% up the current 44% and, eventually, to 60% over a 5-year period as a result of these policies aiming at labor formality increases.

Table 12: Matrix of Fiscal Strategy and Its Political Economy: Case of Higher Labor Formalization

I. Objectives	
Social	Higher inclusion: Substitute "non-wage costs" (-2% pps in Fogapep)
Fiscal	Tax effort required +1.3% GDP; deepen DIAN modernization
II. Social Balance	
Winners	Low Strata: Alliviated in "pure-taxes"
Loosers	Independent evadors
III. Horizon	
Short-Term	Target formalizacion +10pps (up to 60%)
Medium-Term	Target formalization +20pps (up to 70% = median LATAM)

Source: Based on Clavijo (2020), Fedesarollo (2021), and Cordoba (2021)

6. Conclusion

This document has presented fiscal simulations to visualize possible trajectories of the Colombian Public Debt/GDP ratio over 2019-2024. The main conclusion is that the driving-force to stabilize such ratio must come from efforts to increase tax-collections from 14% to 16% of GDP over 2022-2024.

We considered three scenarios: Case A (support additional social expenditure of +2% of GDP, but without additional tax-collections); Case B (curtail that social expenditure, given the absence of the additional tax-collection); and Case C (maintain that social expenditure but supported by the required tax-reform and the one-off proceeds from privatizations yielding about 1% of GDP. Even under Case B, Colombia's debt ratio would continue to increase from 65% in 2020 towards 73% by 2024. Under Case A debt would escalate towards 75% of GDP by 2024; under C debt could be contained at 73% of GDP and positive signals of stabilization would arise as additional social and investment expenditure propel higher growth rates.

We also concluded that years 2022-2024 look appropriate to pursue modifications of a Fiscal Rule that over 2014-2019 was characterized by: (i) allowing an escalation of debt ratios that duplicated to 52% of GDP (even before pandemic); (ii) recurrent changes in gaps related to oil-price and GDP-growth; (iii) use of “escaping-clauses”; and (iv) absence of primary balance anchors.

Finally, we focused on tax-administration issues that could support additional revenues and the “political-economy” themes that should be kept in mind while the new Administration (2022-2026) tackles the required structural reforms related to fiscal, labor, and pension items.

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