Executive Summary

President Gustavo Petro's talks about "an economic storm" tries to obscure the true problem Colombia will face the rest of his administration: an upcoming fiscal storm, caused by factors different from those he keeps bringing up. Blaming the Fiscal Rule, the Constitutional Court rulings, or the IMF loan repayment is just smoke and mirrors. Central government revenues are overestimated, and the time of reckoning is drawing ever closer: this is the true gathering storm. To avoid drastically cutting public investment, the government seems increasingly likely to propose changes to the Fiscal Rule bill. It will be up to Congress to remain on the responsible side of the aisle, and to reject these dangerous advances. The Fiscal Rule could also be suspended. If Congress refuses government entreaties to amend the law, the next and obvious question is: should Colombia include a new tax reform in the Petro government to-do list?

Just like every week, Petro has just announced his idea of the week: to remove the Fiscal Rule. He says it prevents the government from spending more when needed to save the economy. But what's stopping him from spending more isn't that rule. It is well documented that what is really blocking the implementation of the housing, infrastructure and royalties' budgets is not the fiscal rule. The problem lies on the incompetence of the government to bring ideas to reality. That is why doubts over the "Mi Casa Ya" housing program, 4G and 5G roads and oil royalties' execution are growing stronger every day. As of October, only a small fraction of the investment budget for housing and infrastructure had been executed. Regarding royalties, there are more than 15 billion awaiting to be spent. But even stranger is the fact that Petro hasn't stopped announcing expenses: from freezing tolls, insurance payments, heath fees and fuel prices. He also said that public universities will be free. Petro goes on spending billions each week. Free to spend even more, he'd give away the tomatoes in the market squares, the salt and sausage in the stores and water and electricity for everyone. That is why fiscal rules were invented: to defend the public budget from excessively generous and irresponsible leaders, who give away other people's money left and right.

The president's main problem is lack of governability. Puzzlingly, in his first four months in office, that was his strength. He assembled an intimidating coalition, approved a (subpar) tax reform, and formed a cabinet with an important group of pragmatic and experienced ministers. It is difficult to understand why he then destroyed his coalition and sacked half of his cabinet, hid in the progressive cave and opted for fundamentalism instead of negotiating (except with ELN guerrilla and other thugs). So, the political and labor reforms sank in Congress, and congressional representatives managed to drag their feet for a year without approving health and pension reforms. They will be discussed again starting in March and could appear in the Guinness Book of World Records as the slowest to advance since the Hammurabi Code. We'll see if they are approved this year and if so, at what price.

The government's healthcare reform proposal has survived its first crucial test in Congress: it was finally approved by the plenary of the House on December 5th. Now it will be reviewed by the Senate, where harder discussions will take place since March. Though this is positive for the government, a

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formal step is still sorely absent: a Finance Ministry statement calling the plan viable under the Fiscal Rule spending restrictions. The missing FinMin pronouncement is in stark contrast to the document it sent to Congress about the pension reform bill, where estimates and fiscal blessings were both handed down. According to the FinMin's November evaluation, expenditures will exceed revenues during the first years of 2024-2033. During 2024-2027, the difference is, on average, 0.2% of GDP. There must be a lot of infighting within the government, with the president and the Health Ministry on one side, and FinMin on the other. Let us hope the sounder approach of the latter prevails.

The Q3 2023 current account deficit came in at $1.6 billion, down from $2.3 billion in Q2, and $3 billion in Q1. External imbalances are closing way faster than everyone expected at the beginning of 2023. Though this could probably be taken as good news, it is also to some extent another sign of the drastic economic deceleration underscoring the difficult times we're going through. As we have said in recent months, it is about time monetary policy starts to unwind the much-required hikes that started in September 2021.

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