



FISCAL AFFAIRS

The Benefits of Healthy Public Finances in a Highly Uncertain World

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The presentation was prepared by Misa Takebe and Maëlle Hélène Pierre-Denis.

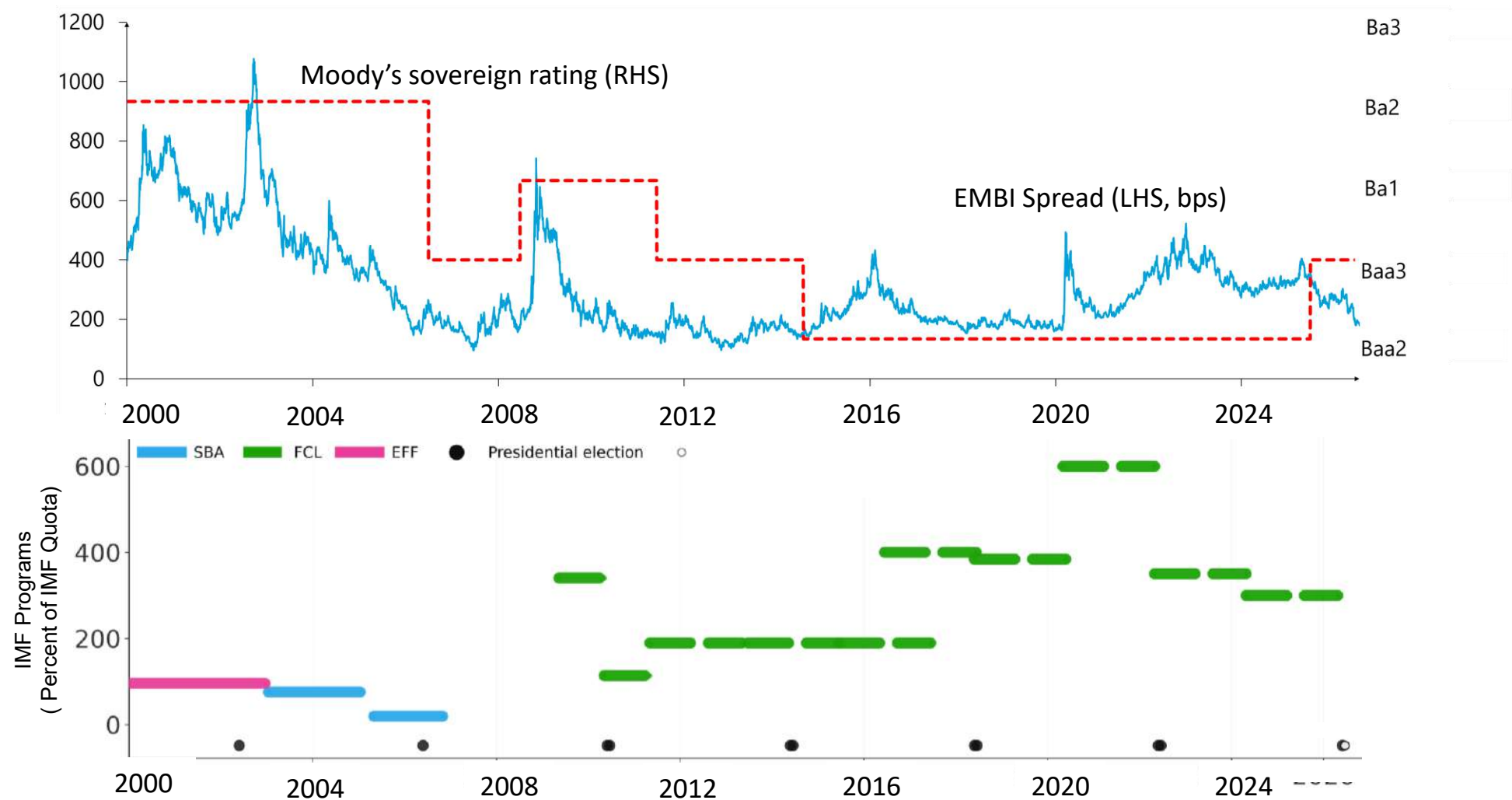
This Presentation

- 01 Colombia fiscal performance and challenges
- 02 Colombia in regional perspective
- 03 Debt, interest rates and economic activity
- 04 Fiscal consolidation design
- 05 Global fiscal risks

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Colombia and the IMF

Sovereign Debt Spread, Credit Rating and IMF Programs

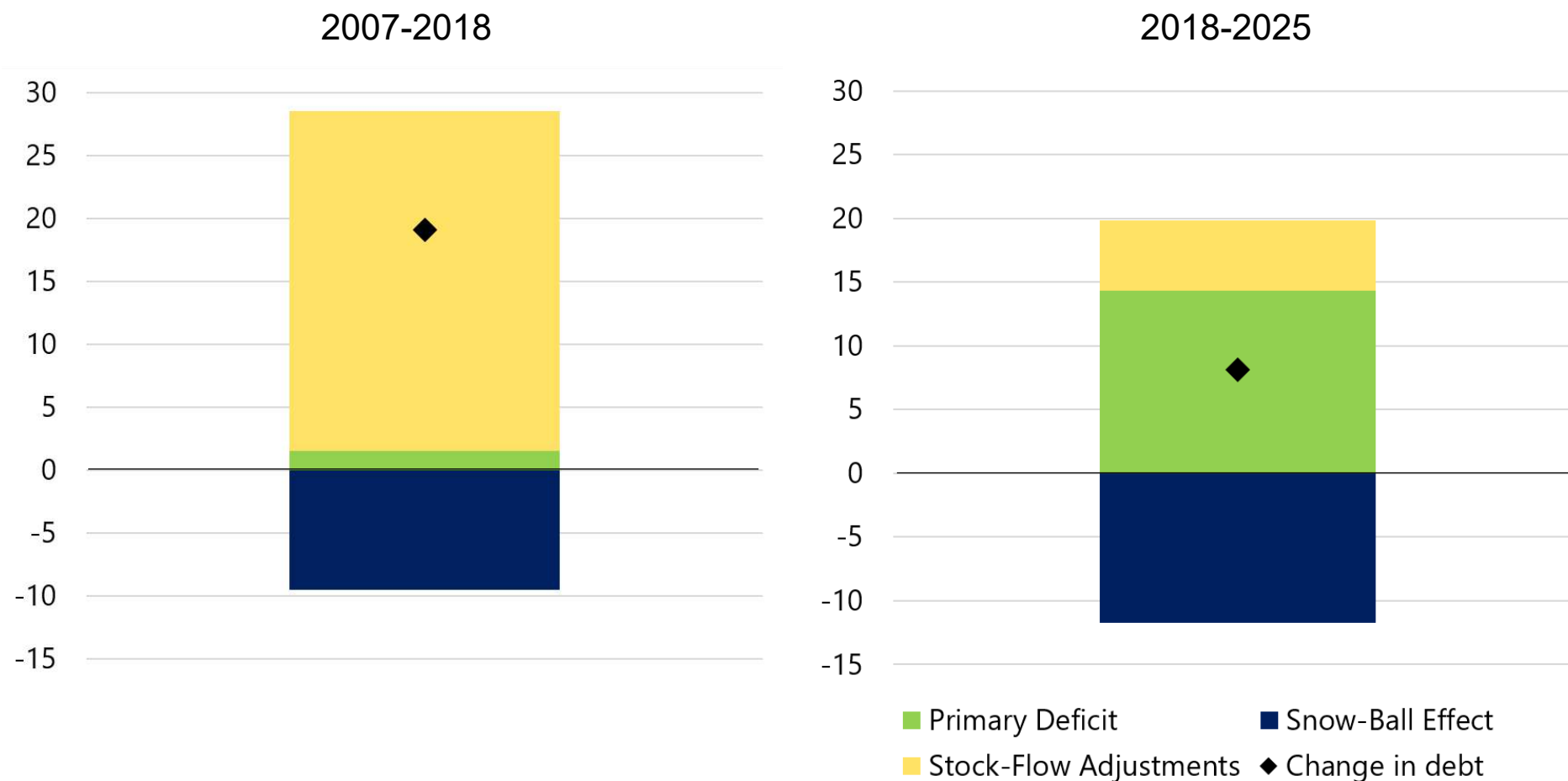


Source: IMF Financial Data as of June 30, 2026, Bloomberg Finance LP, Fitch Ratings Pro, Moody's Investor Service, National electoral calendar, and IMF staff calculations.

Note: IMF programs are the approved amount as percent of quota. Program types are EFF (Extended Fund Facility), FCL (Flexible Credit Line) and SBA (Stand-By Arrangement). Historically, Colombia has had 28 programs with the IMF (1 EFF, 10 FCL and 17 SBA) since 1958. Black circles indicate presidential elections. Last observation is as of July 17, 2026.

Colombia: Public Debt Decomposition

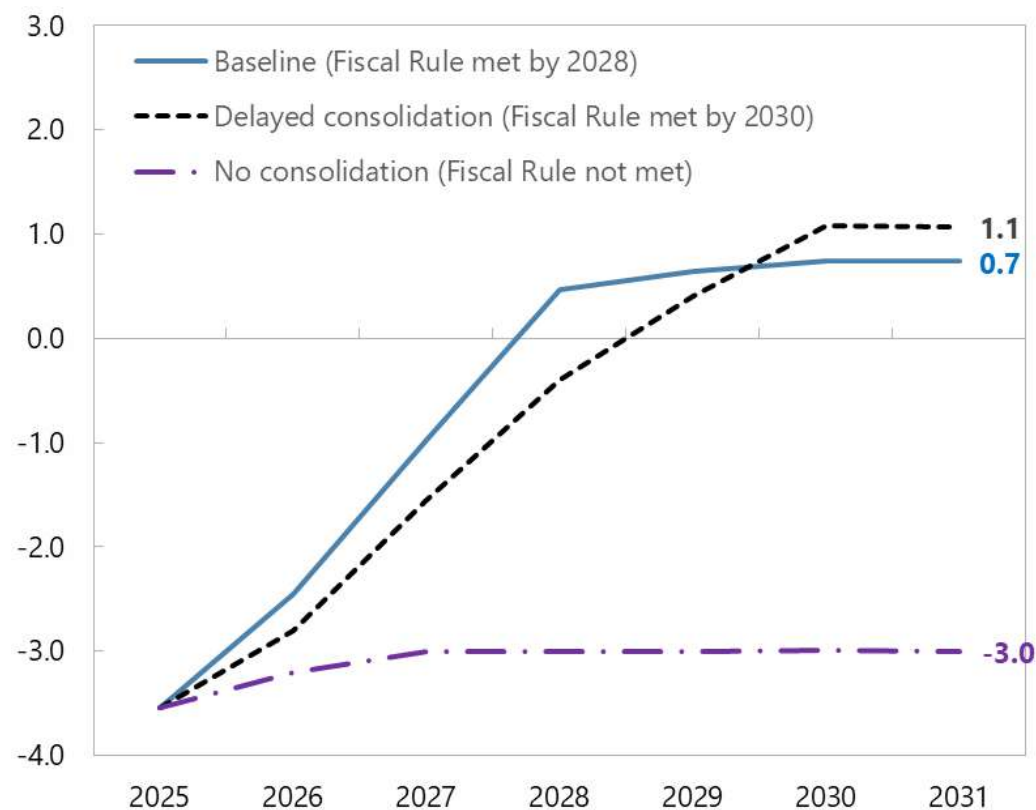
Decomposition of Cumulative Change in Gross Public Debt (Percentage points of GDP)



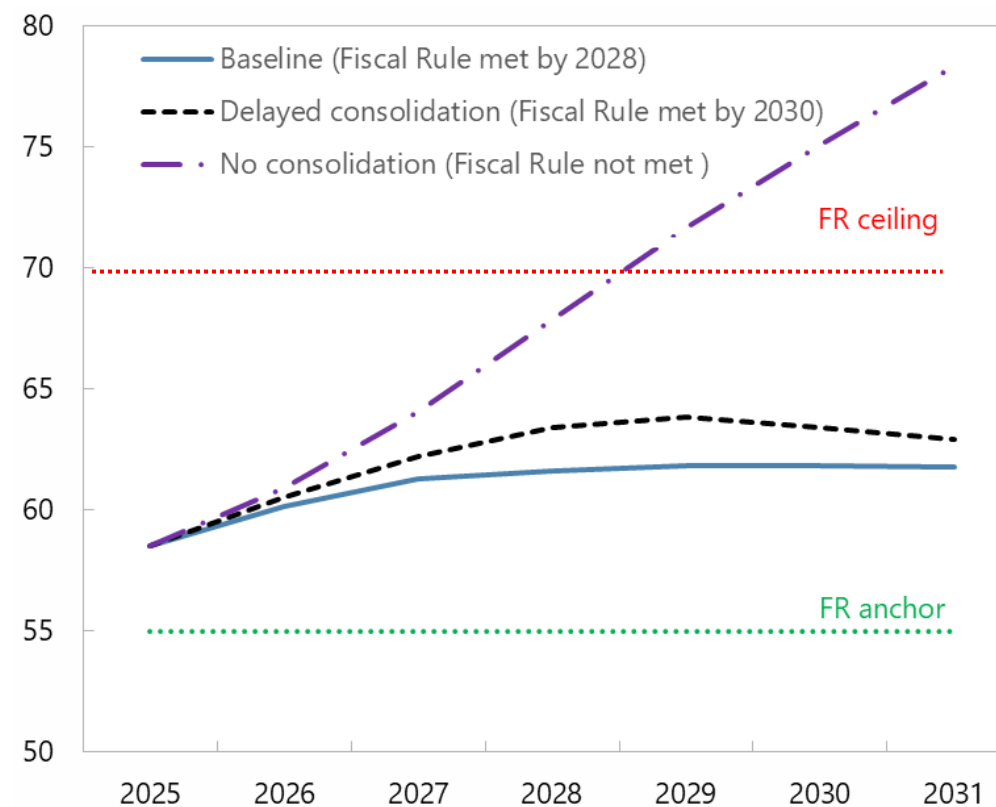
Source: IMF World Economic Outlook Spring 2026, and IMF staff calculations.
Note: Stock-Flow Adjustments include FX valuation changes.

Colombia: Primary Balance and Government Net Debt

Central Government Primary Balance, 2025-31
(Percent of GDP)



Central Government Net Debt, 2025-31
(Percent of GDP)



Source: IMF staff calculation.

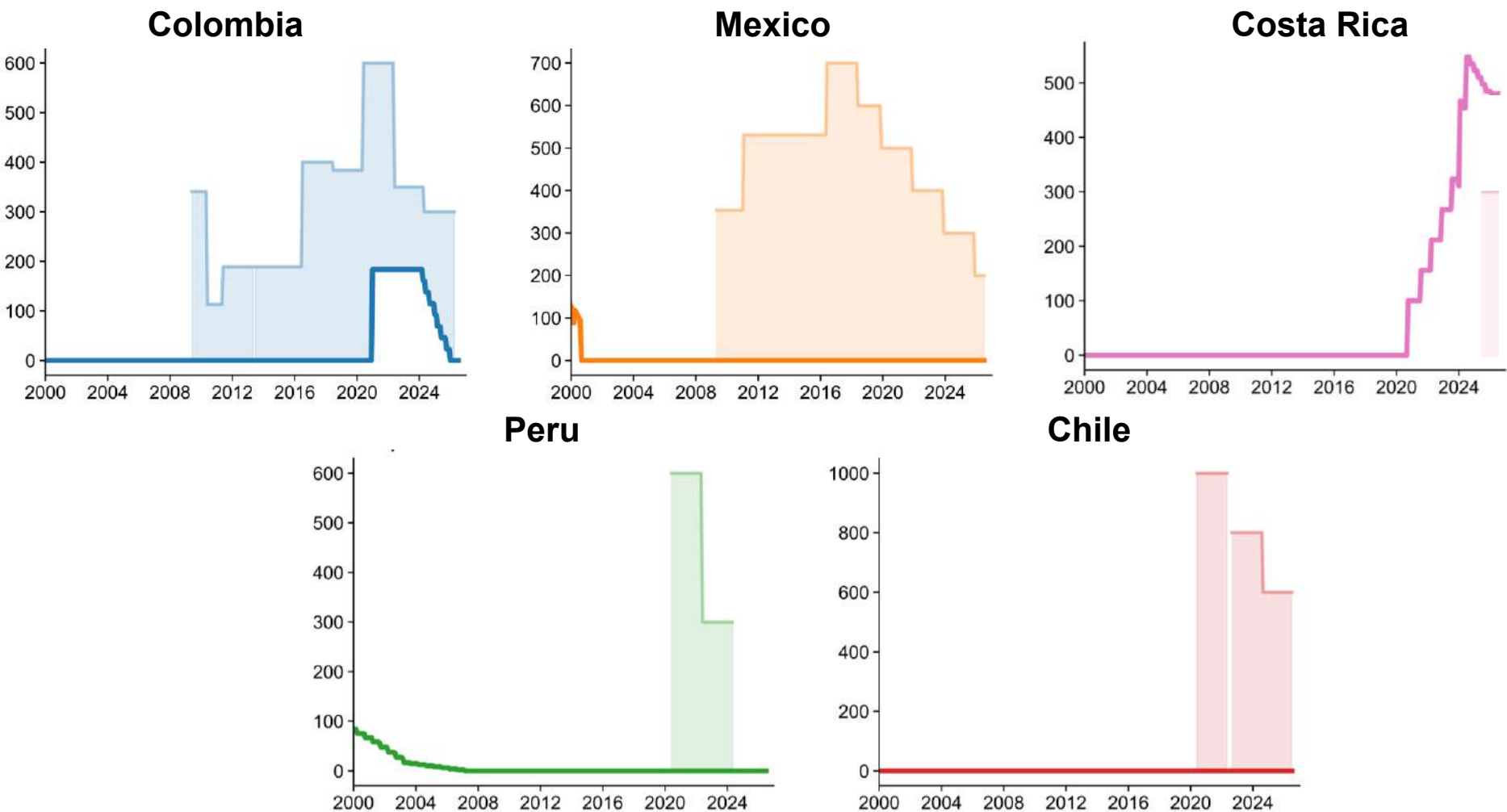
Note: No-consolidation scenario assumes that primary deficit remain at around 3 percent of GDP.

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Latin America: Flexible Credit Lines

IMF Credit Outstanding and FCL Access (Percent of Quota)

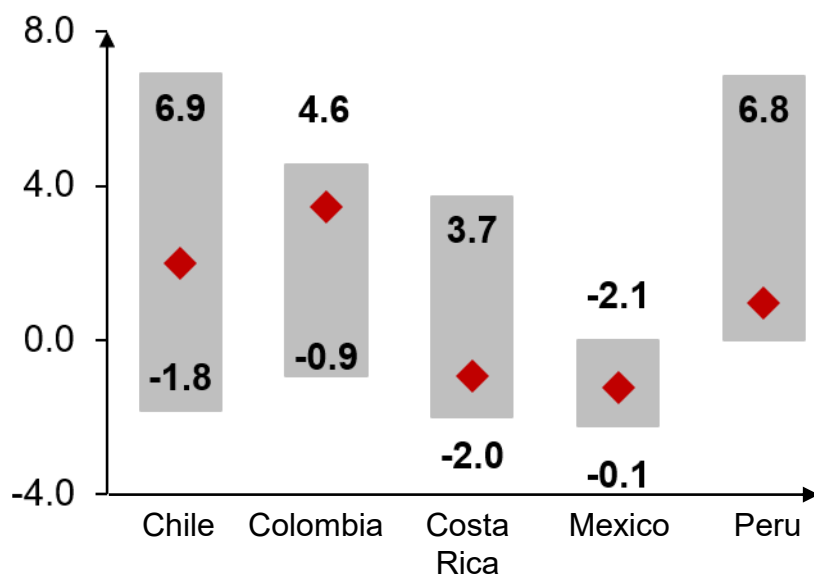


Source: IMF Financial Data as of June 30, 2026, and IMF staff calculations.

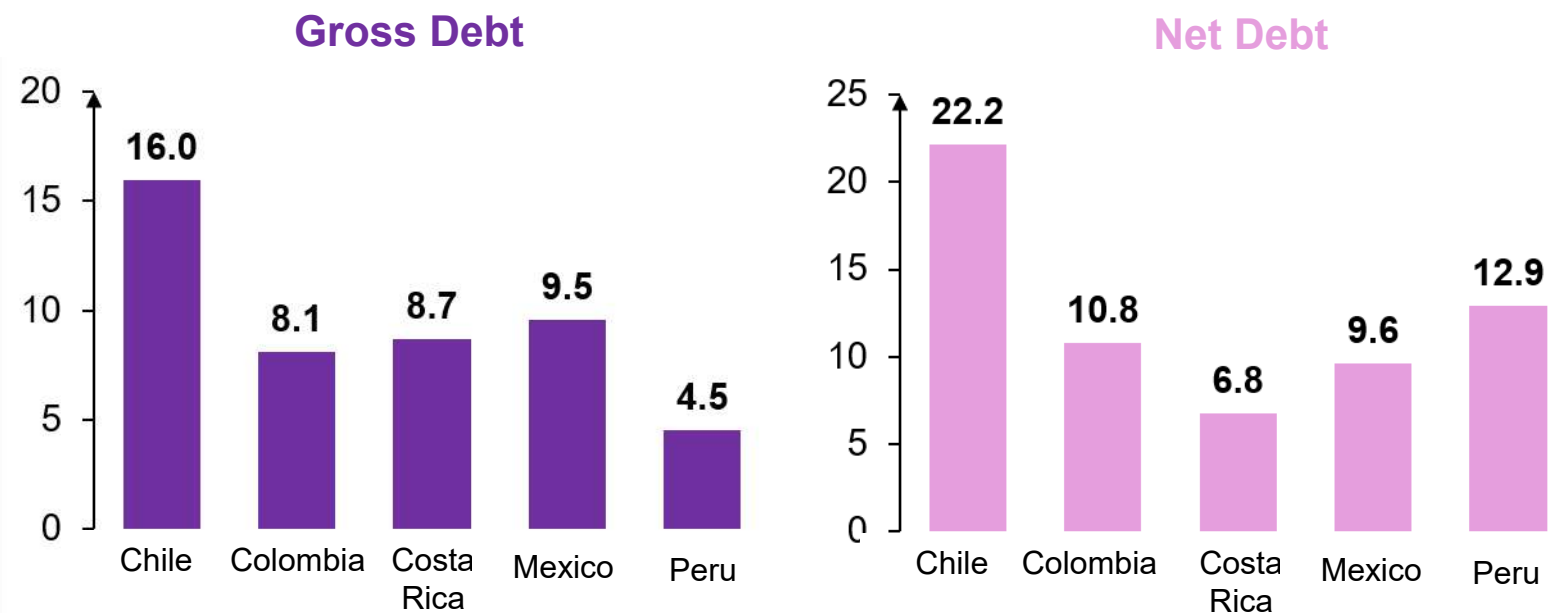
Note: Solid lines show IMF credit outstanding as a percent of quota. Lighter lines denote approved access under Flexible Credit Line (FCL) arrangements. Shaded areas represent undrawn access, measured as approved FCL access minus FCL outstanding credit.

Latin America: Deficit and Debt Developments

Primary Deficit in 2018-2025
(Percent of GDP)



Change in Debt between 2018 and 2025
(Percentage points of GDP)

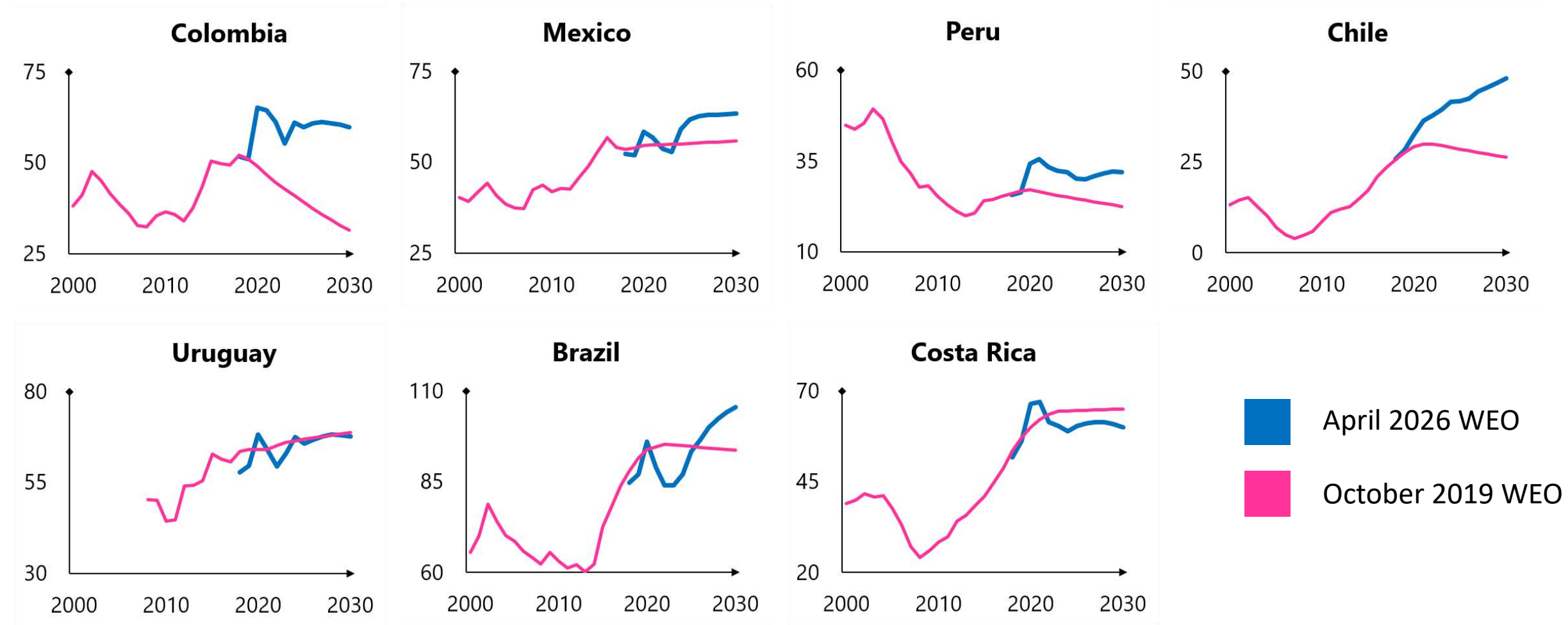


Source: IMF World Economic Outlook Spring 2026 Live database, and IMF staff calculations.

Note: In the LHS chart, top (bottom) label marks the maximum (minimum) primary deficit-to-GDP between 2018 and 2025, and the red markers mark the primary deficit-to-GDP in 2025.

Latin America: Public Debt Perspective in Pre- and Post-Covid-19

General Government Gross Debt (Percent of GDP)

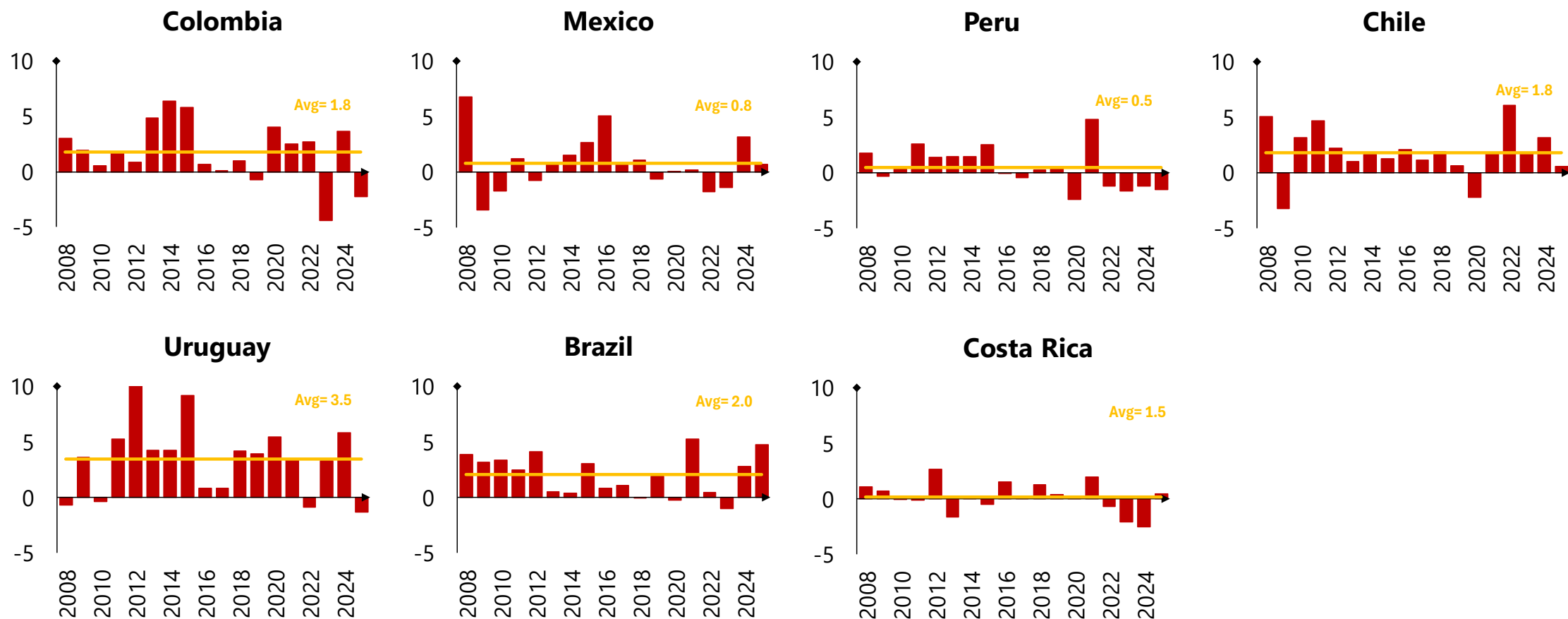


Source: IMF World Economic Outlook Spring 2026 database, and IMF staff calculations.

Note: General government gross debt-to-GDP projection in the period of 2025-2031 has been extended for the October 2019 WEO vintage by applying the previous year's growth in debt-to-GDP.

Latin America: Stock-Flow Adjustment in Public Debt

Stock-Flow Adjustments (Percent of GDP)



Source: IMF World Economic Outlook Spring 2026, and IMF staff calculations.

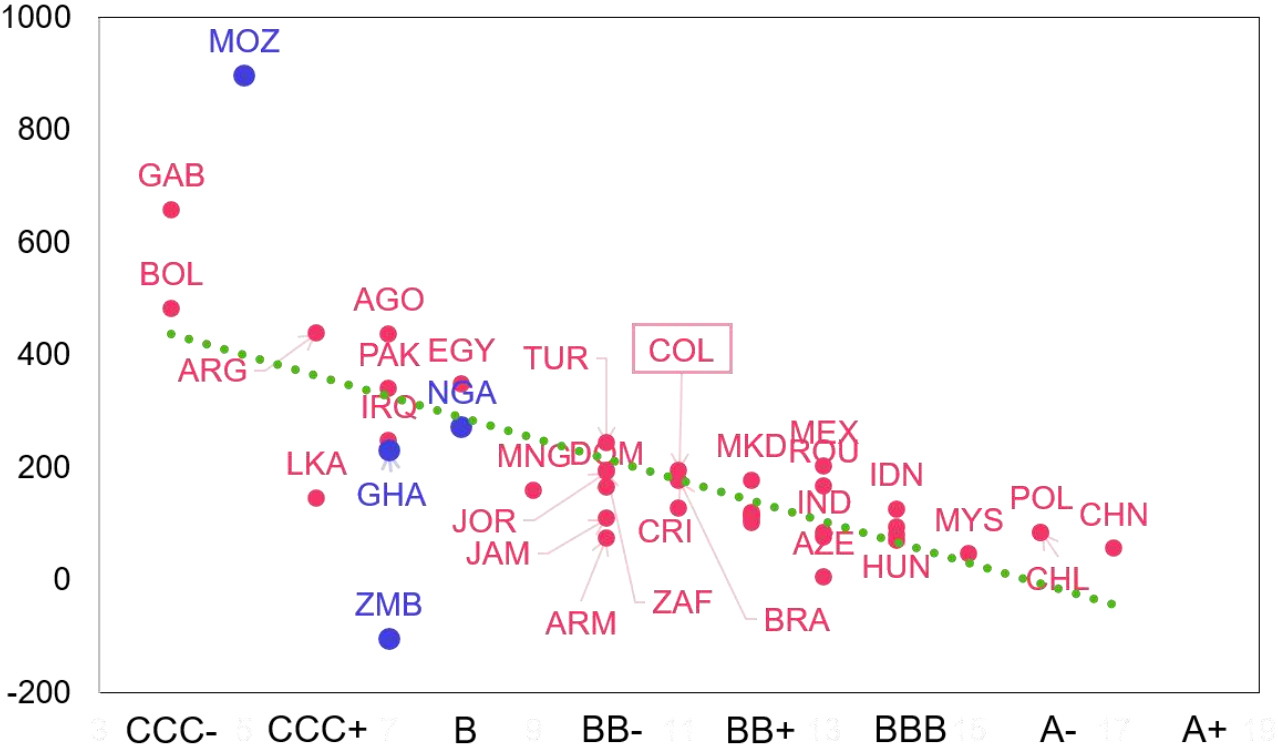
Note: Yellow lines indicate the average for the period. Stock-Flow-Adjustments are the residual component of debt accumulation not explained by the primary deficit and the snowball effect (including FX valuation changes). $SFA_t = \Delta d_t - (PD_t + SB_t)$ where Δd_t is the change in gross public debt, PD_t is the primary deficit and SB_t is the snowball effect in percent of GDP.

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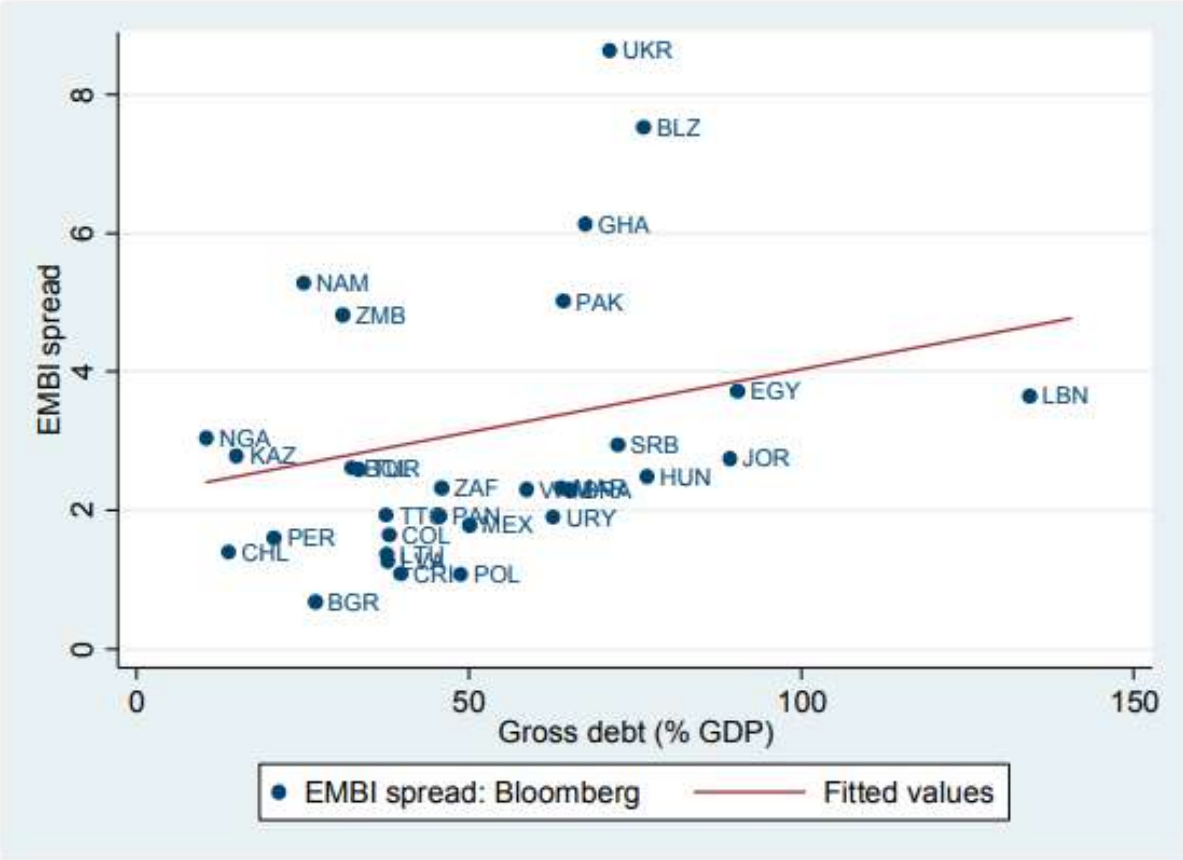
Fiscal Performance and Economic Activity: Interest Rate and Debt

EMBI Spread and Credit Rating



Source: Bloomberg Finance LP, Fitch Ratings Pro, and IMF staff calculations.
Note: Data up to July 2026. Ratings and spreads represent the average over the period of June-July 2026. Blue circles indicate low-income countries, while red circles indicate emerging market economies.

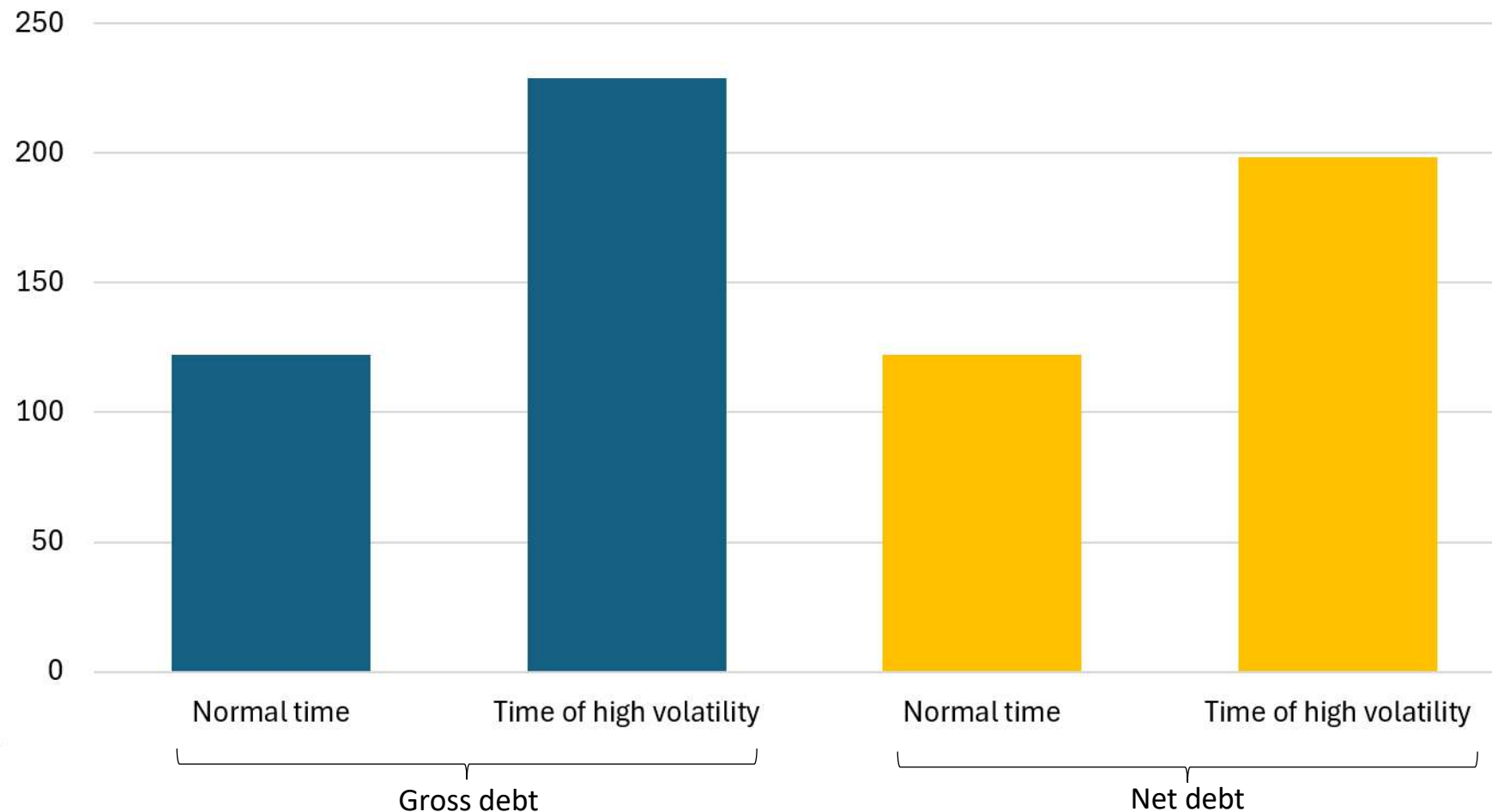
EMBI Spread and Gross Debt



Source: “Does gross or net debt matter more for emerging market spread?” by Metodij Hadzi-Vaskov and Luca Antonio Ricci, Journal of Money, Credit and Banking, November 2021.

Fiscal Performance and Economic Activity: Interest Rate and Debt

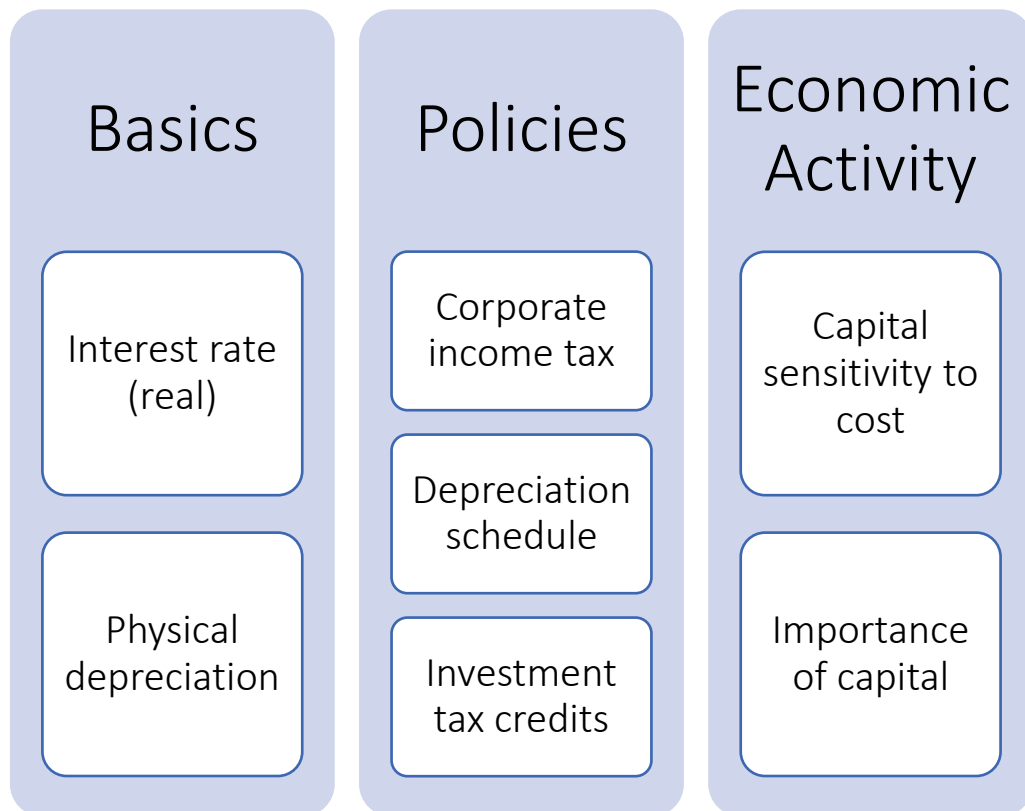
Impact of a 10 pp Increase in Gross and Net Debt on EMBI Spreads (Basis Points)



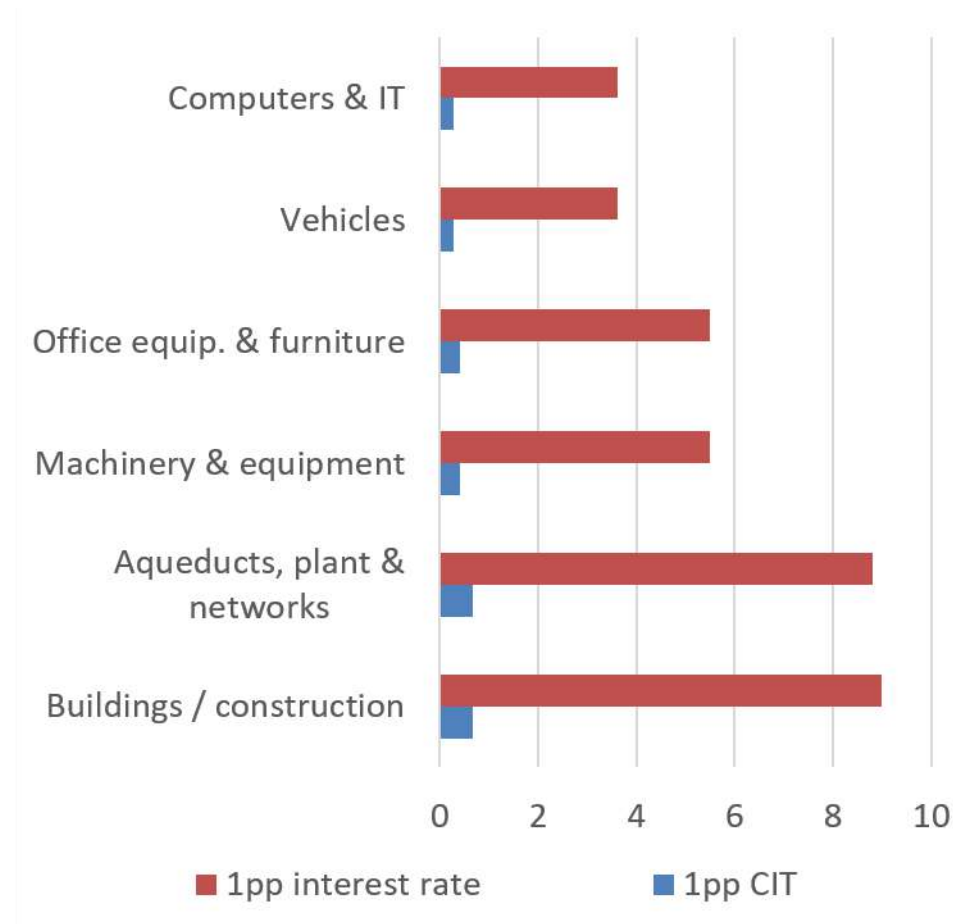
Source: "Does gross or net debt matter more for emerging market spread?" by Metodij Hadzi-Vaskov and Luca Antonio Ricci, *Journal of Money, Credit and Banking*, November 2021

Note: The regression includes control variables such as financial assets, VIX, US interest rate, GDP growth, and inflation. Time of high volatility is defined as $EMBI > EMBI + 2\sigma$.

Interest Rate, the Cost of Capital and Economic Activity



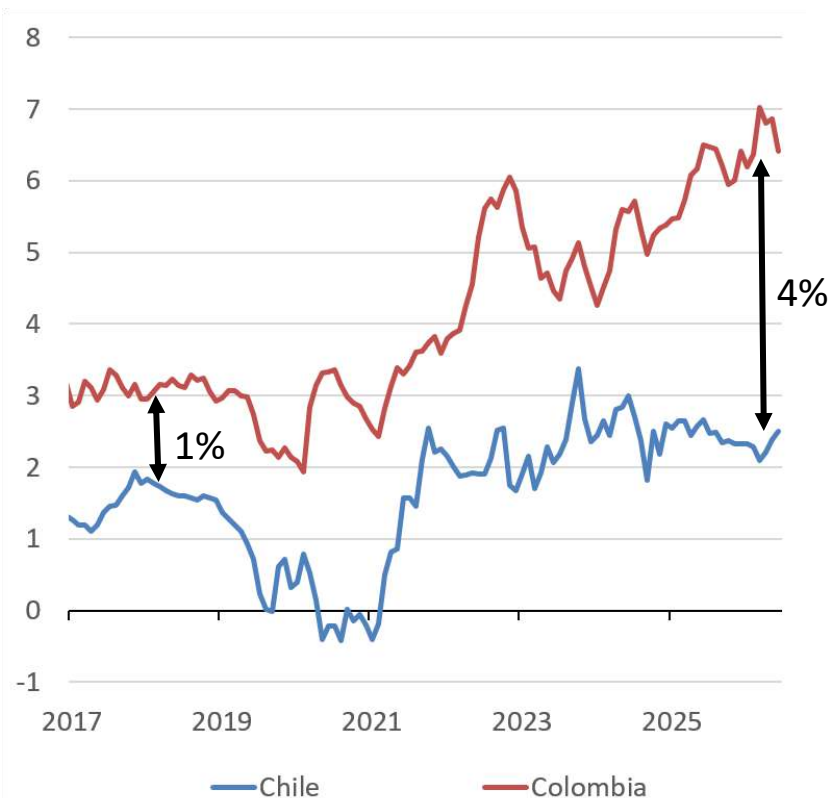
Effect of Higher Interest Rates and CIT on the Cost of Capital (Percent)



Source: IMF staff calculation.

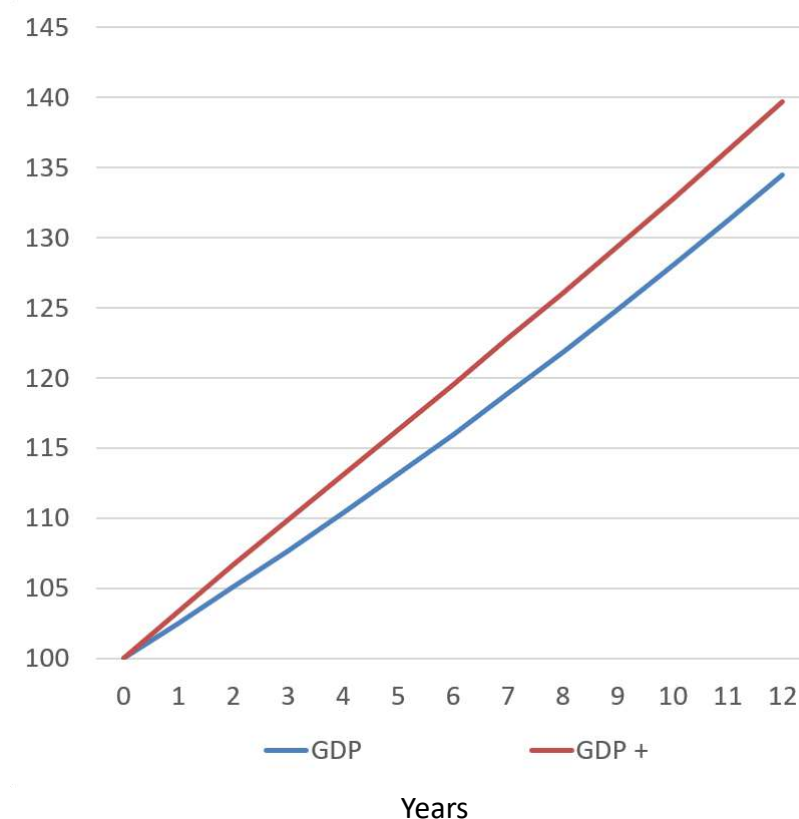
Base Discount Rate and Economic Activity: An Illustration

**Real 10-year Government Bond Yield
(Percent)**

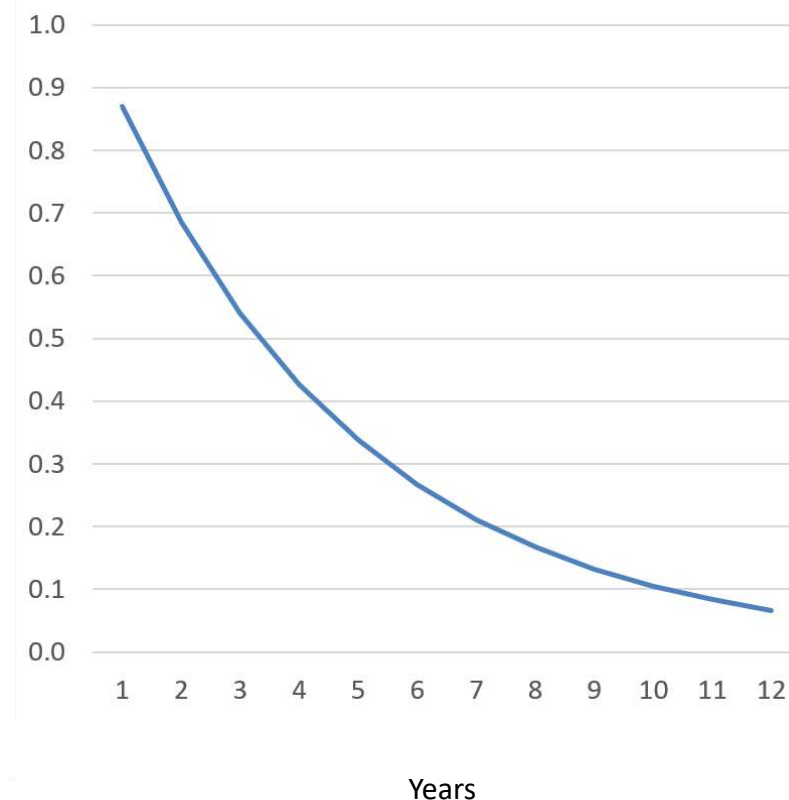


Growth Impact of a 3pp Lower Interest Rate

(Level)



(Percentage points per annum)



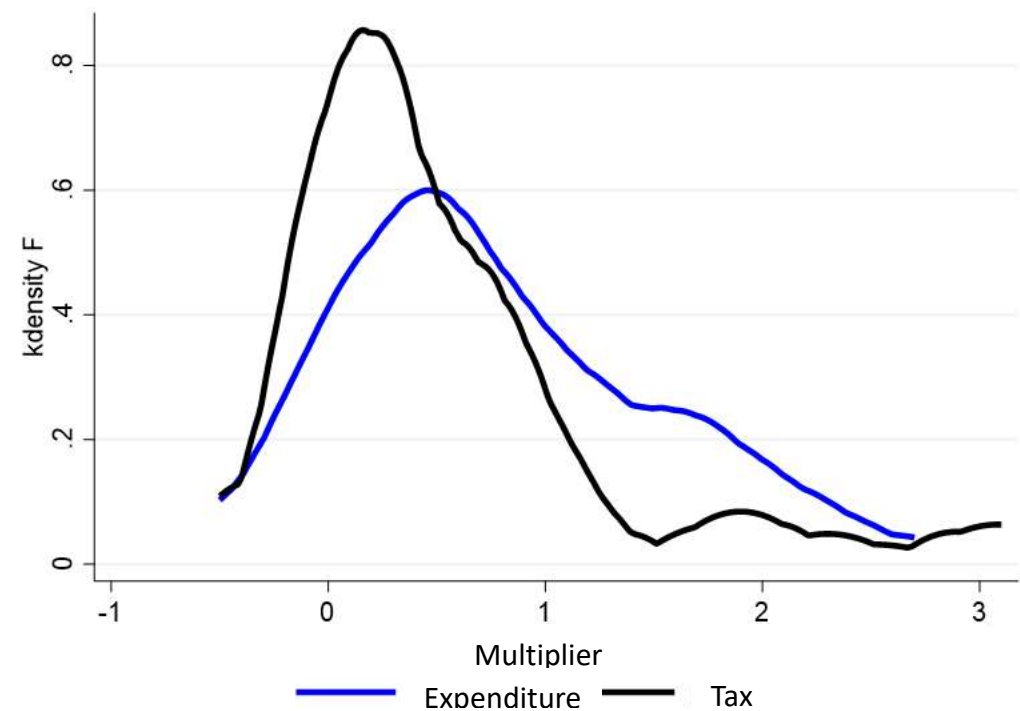
Source: IMF staff calculation. Assumes leverage = 50 percent, $K/Y = 0.5$ and elasticity w.r.t. cost of capital = 0.5.

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Fiscal Consolidation and Activity: Fiscal Tools and Fiscal Multipliers

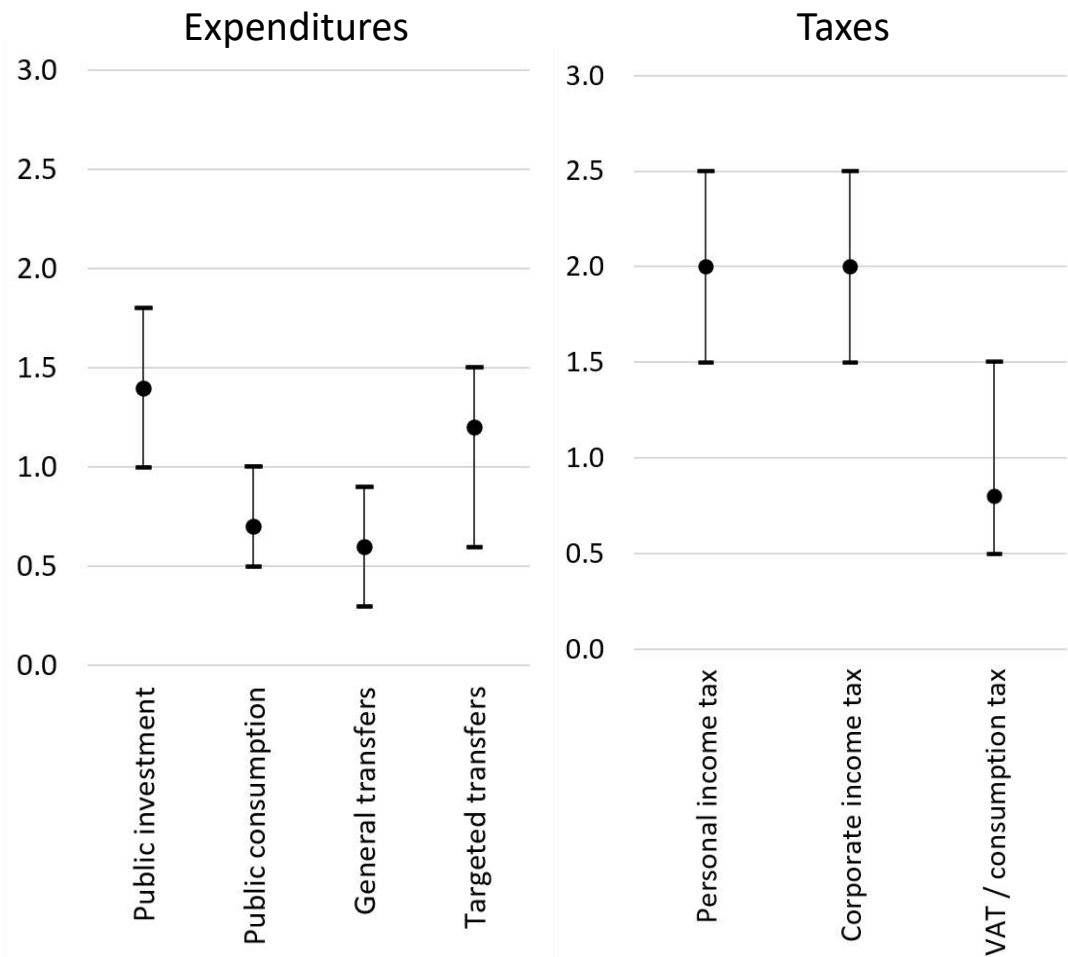
Distribution of Fiscal Multipliers by Expenditure and Revenue



Source: “The Fiscal Multipliers Narrative of Sub-Saharan Africa” by Hany Adbel-Latif, Khali Bechchani, Antonio David, Thibault Lemaire, January 2026.

Note: The figure depicts the cumulative two-year multiplier. The meta-analysis is based on more than 80 estimates from studies in the literature initially compiled by Carriere-Swallow et al (2021) and David et al (2023) and supplemented by David et al (2026).

Fiscal Multiplier by Instrument



Source: Various papers.

Note: The figures show a range of the estimated multiplier of the increase in expenditure components (LHS) and the decrease in tax components (RHS) described in various literatures. The dots show the average.

Fiscal Consolidation and Activity: Key Determinants of the Size of Fiscal Multipliers

Factors that lower the fiscal multipliers

Trade openness

Higher propensity to import means lower multipliers, since more demand leaks abroad.

Flexible labor market

Flexible wages reduce output's response to demand shocks.

Automatic stabilizers

Larger stabilizers lower multipliers, as taxes and transfers automatically offset the fiscal shock.

Flexible exchange rate

Flexible regimes shrink multipliers, as currency moves offset discretionary fiscal policy.

Public debt

High debt lowers multipliers as fiscal consolidation is likely to have positive credibility and confidence effects on private demand and the interest rate risk premium.

Weaker expenditure & revenue administration

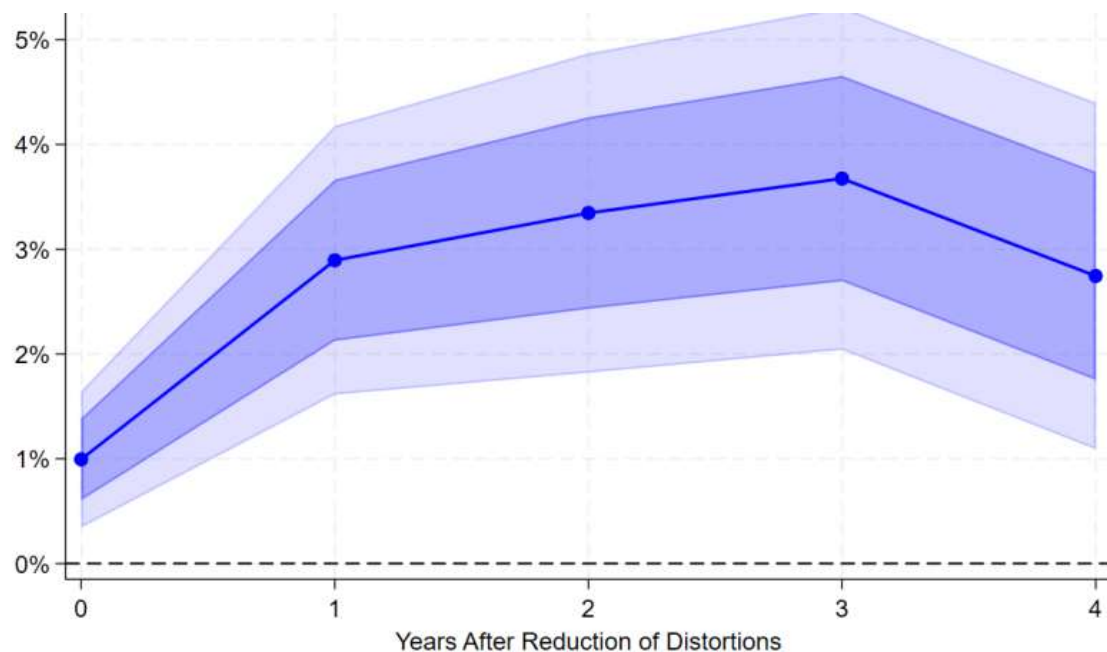
Weak tax collection and spending inefficiencies limit fiscal policy's impact on output.

Ambiguous – Financial market development

Higher financial market development reduces the liquidity constraint on households (lowering the multiplier) but increases governments' access to financial markets and lowers interest rates (increasing the multiplier).

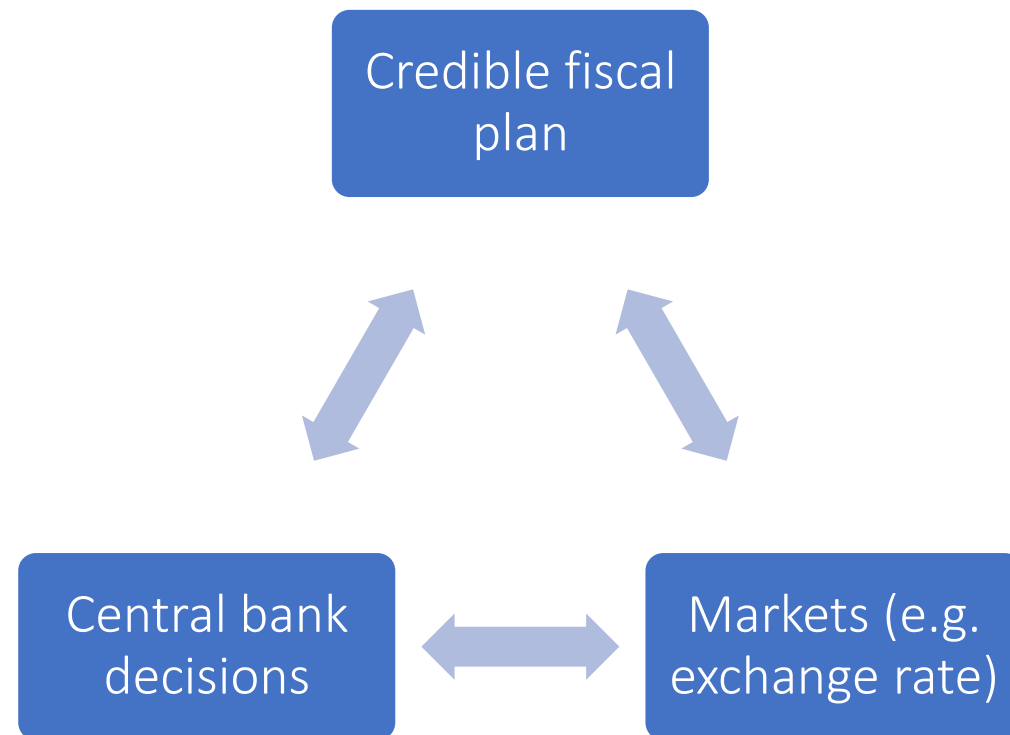
Fiscal Consolidation and Activity: Opportunities from Taxing Better and Credibility

Response of GDP Per Capita to a Reduction in the Tax Distortion Index



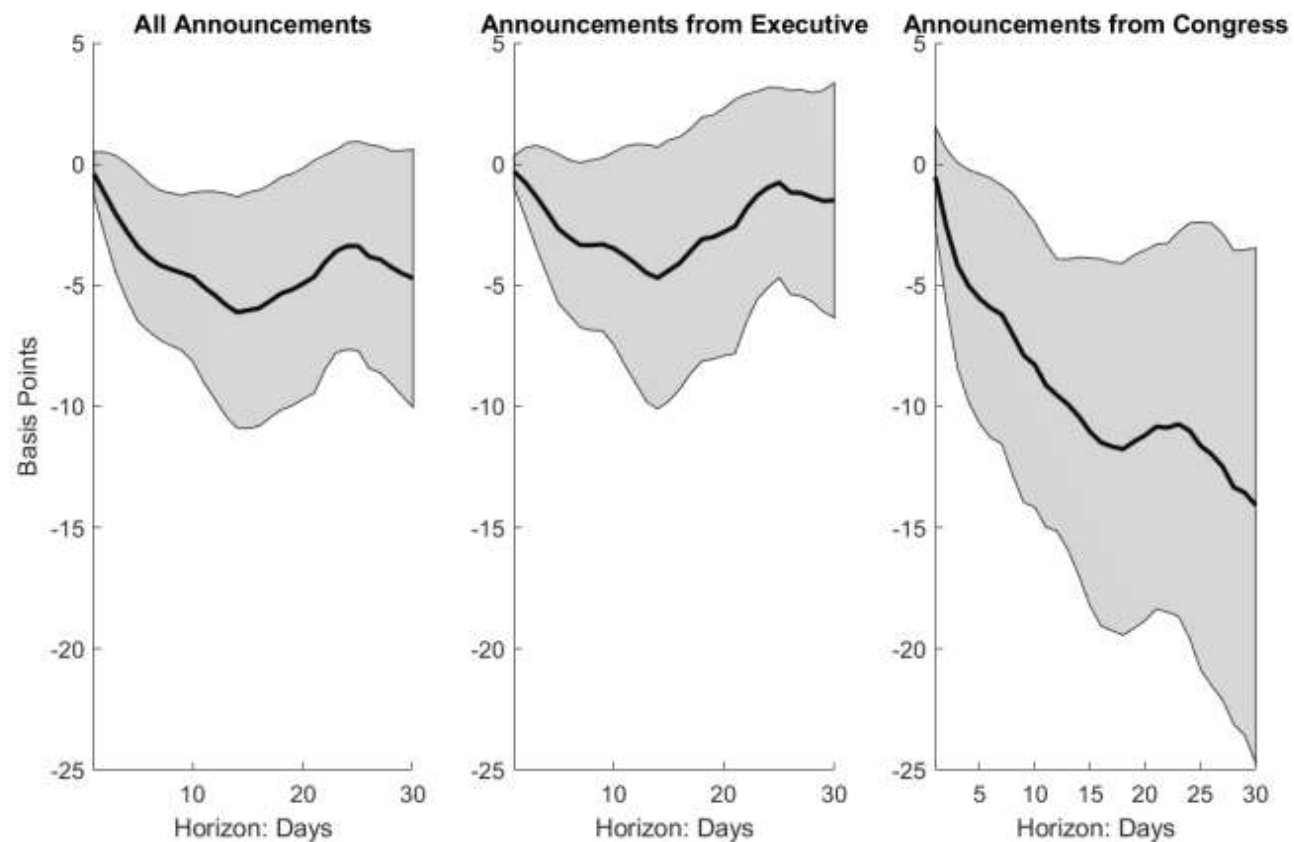
Source: IMF staff calculation.

Note: In the left panel, results are obtained from estimating: $Lny_{c,t+h} - Lny_{c,t-1} = \beta^h \text{DistortionIndex}_{c,t} + \gamma X_{c,t} + \mu_t + \lambda_c + \varepsilon_{c,t+h}$, using panel data for 55 countries, during 2002–2018. $Lny_{c,t}$ is log GDP of country c in year t . The $\text{DistortionIndex}_{c,t}$ is a composite measure of: (i) the marginal effective tax rate (METR) on investment, (ii) the standard deviation of METRs across assets within a country-year, (iii) VAT C-efficiency, (iv) one minus the share of tax revenue from property and sales taxes, and (v) the employment tax wedge. X_{st} includes lags of the dependent variable and controls for physical capital, human capital, general government debt, changes in the real exchange rate, the current account, and statutory tax rates on labor income (top PIT rate), firms (top CIT rate), and consumption (standard VAT rate). The figure shows the effects of a one standard deviation reduction in the index. Standard errors are clustered at the country level and shaded areas represent 68 and 90 percent confidence bands.



Fiscal Consolidation: The Importance of Political Support

Effects of Fiscal Consolidation Announcements on EMBI Spreads (Basis points)



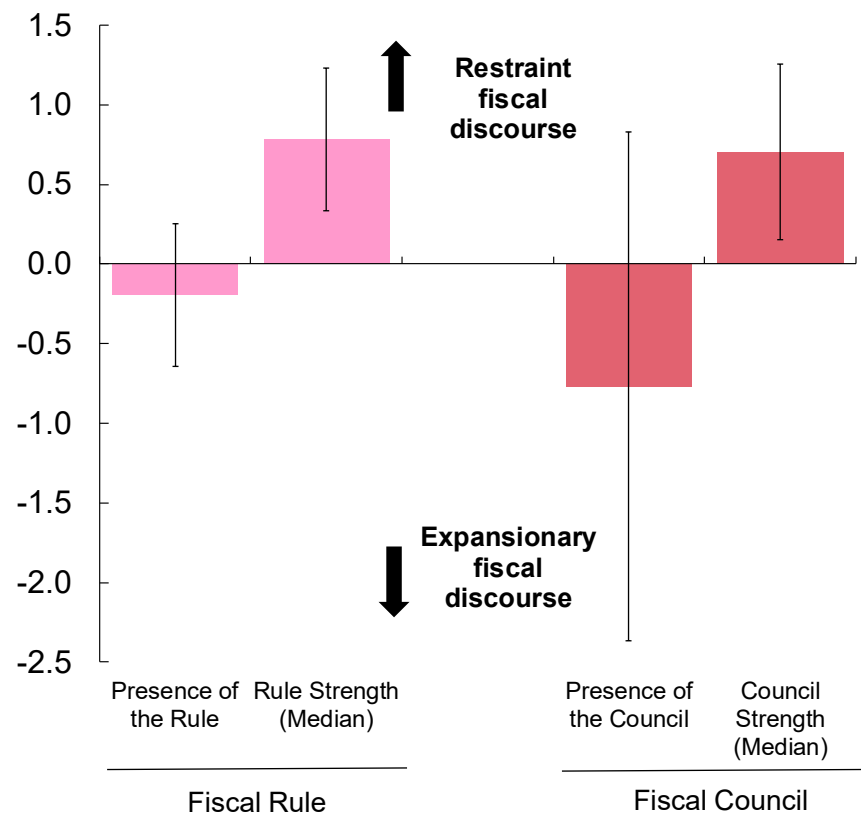
Source: “The Rewards of Fiscal Consolidation: Sovereign Spreads and Confidence Effects” by Antonio David, Jaime Guajardo and Juan Yezpe, IMF Working Paper WP19/141.

Note: This figure displays the cumulative change in EMBI spreads after a fiscal consolidation announcement. The spreads come down significantly only after the announcement of the approval of measures by congress. The shaded regions indicate 90 percent confidence intervals based on Driscoll-Kraay standard errors that are robust with respect to heteroskedasticity as well as serial and cross-sectional correlation.

Fiscal Consolidation: The Importance of Good Fiscal Institutions

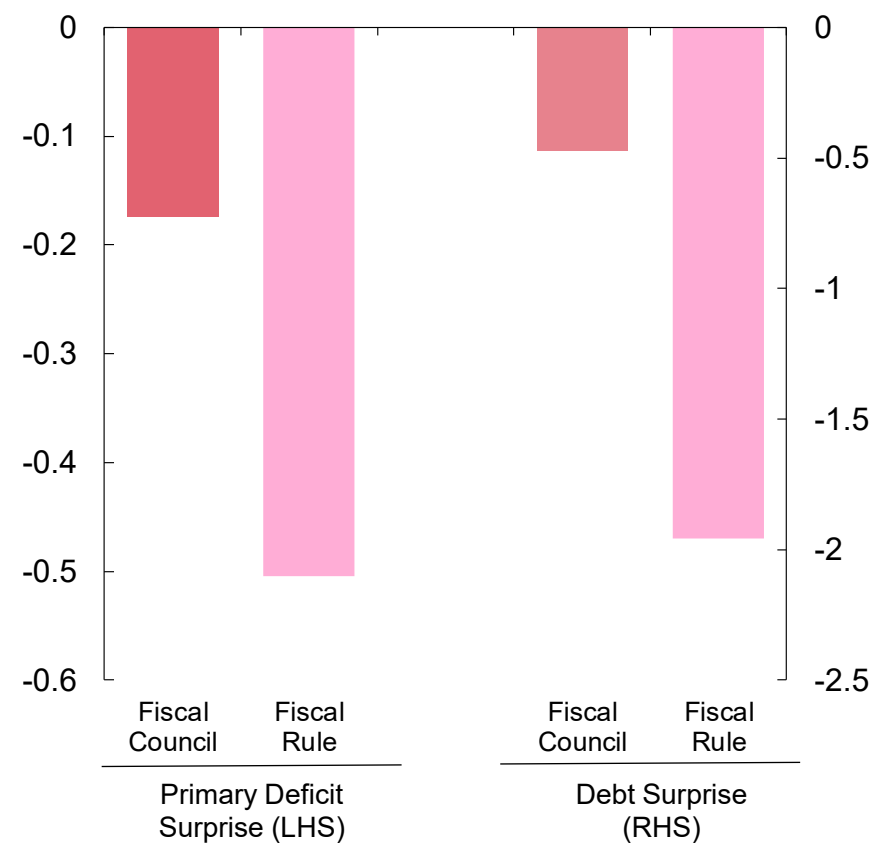
Fiscal Rules, Fiscal Councils, and Political Discourse

(Relative to changes in countries without fiscal rules or councils, 1990-2022)



Fiscal Rules, Fiscal Councils, and Debt and Deficit Surprises

(Effects on primary deficits and debt surprises conditional on improvements in strength of fiscal rules and fiscal councils)



Sources: Cao, Dabla-Norris, and Di Gregorio (2024), Alonso et al. (2025) and IMF staff estimates.

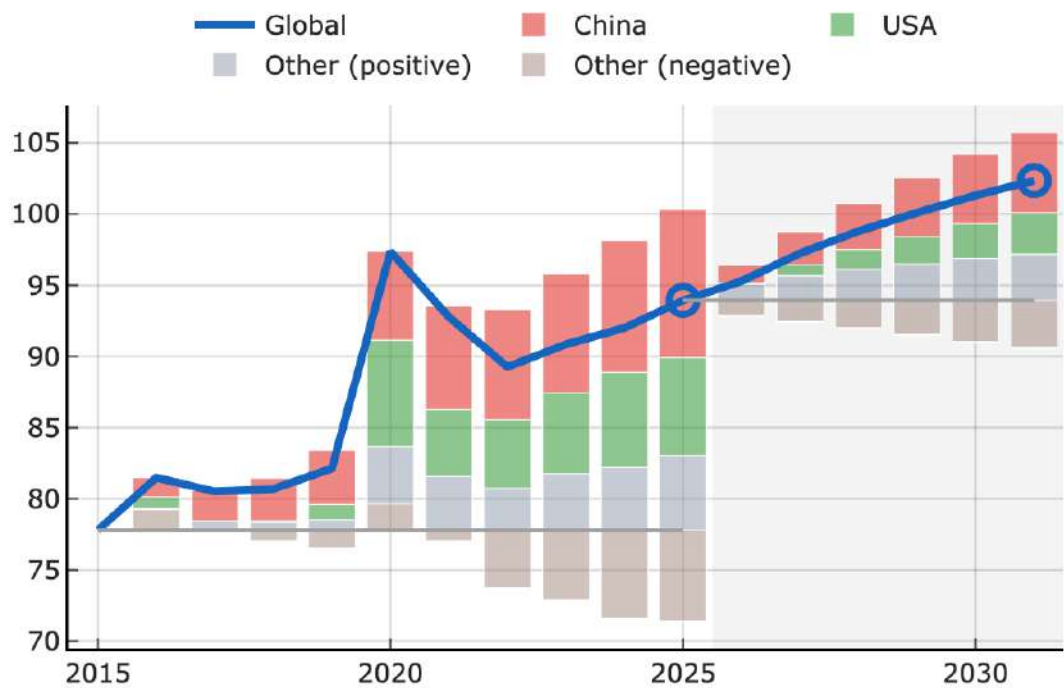
Note: (LHS) The figure shows estimated changes in average restraint fiscal discourse between 1990-2009 and 2010-2022 in countries with fiscal rules (or fiscal councils) relative to those without. Estimates are obtained using two cross-country OLS regressions, where the dependent variable is the change in average restraint discourse from the Manifesto database. Explanatory variables include the binary variable indicating the presence of fiscal rule (council) and the strength index of fiscal rules (councils). Restraint discourse captures the share of party's manifesto's content calling for an outright reduction of budget deficit or the limitation of public spending. The whiskers indicate the 90- and 95-percent confidence intervals of the estimated coefficients for fiscal rules and fiscal councils, respectively. (RHS) The figure shows the differential impact on primary deficit and debt surprises when the strength of fiscal rules or fiscal councils move from the 25th to the 75th percentiles. Estimates are obtained using the weighted-average least squares method for 30 advanced economies and 110 EMDEs over 2000-2023 (De Luca et al. 2018), with a panel regression model estimated separately for each strength index. The dependent variables are primary deficit and debt surprises (both in percent of GDP) measured as the difference between the actual outturns relative to one-year ahead projection.

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Global Public Debt

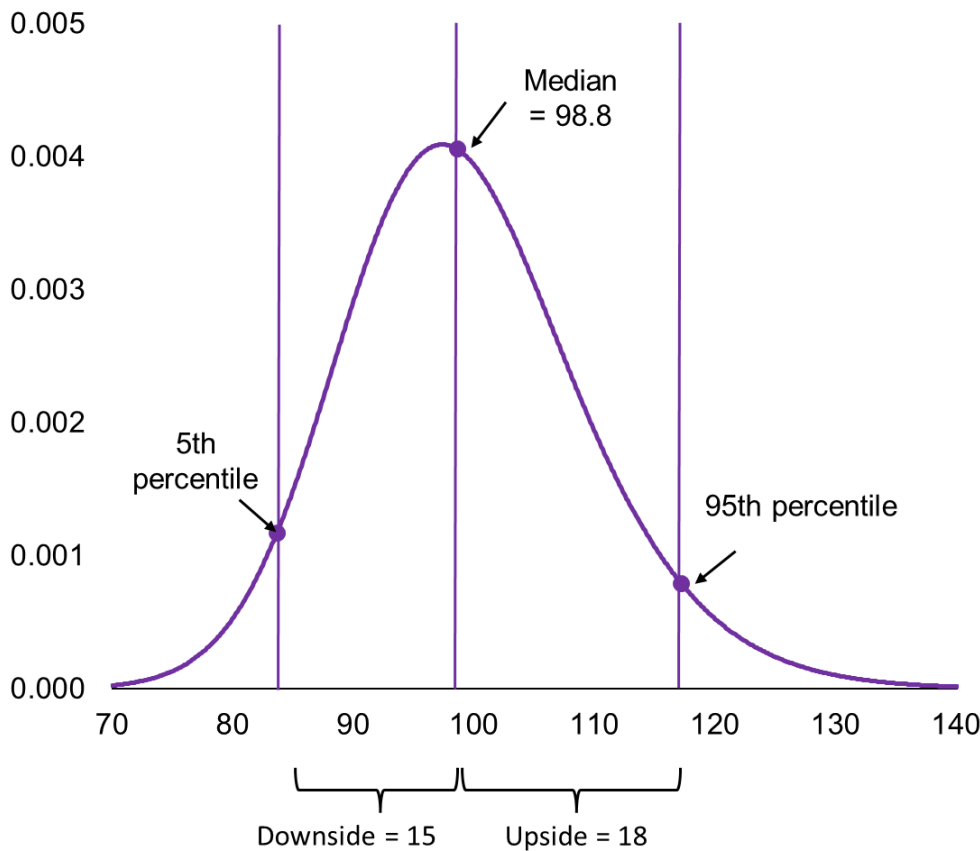
Global Government Debt Evolution (Percent of Global GDP)



Sources: WEO (April 2026); and IMF staff calculations.

Note: Each bar shows the contribution to the global debt-to-GDP ratio, expressed as the change from its 2015 or 2025 level. “Other Positive (Negative)” includes countries which contribute to an increase (decrease) in the global Debt-to-GDP ratio between 2015 and 2025 and between 2025 and 2030. Therefore, countries in “Others” remain unchanged between 2015 and 2025 and between 2025 and 2030. The shaded values indicate projection horizons. The circle markers indicate last historical observations and end-horizon forecasts.

Global Public Debt-at-risk for 2028 (Percent of GDP)

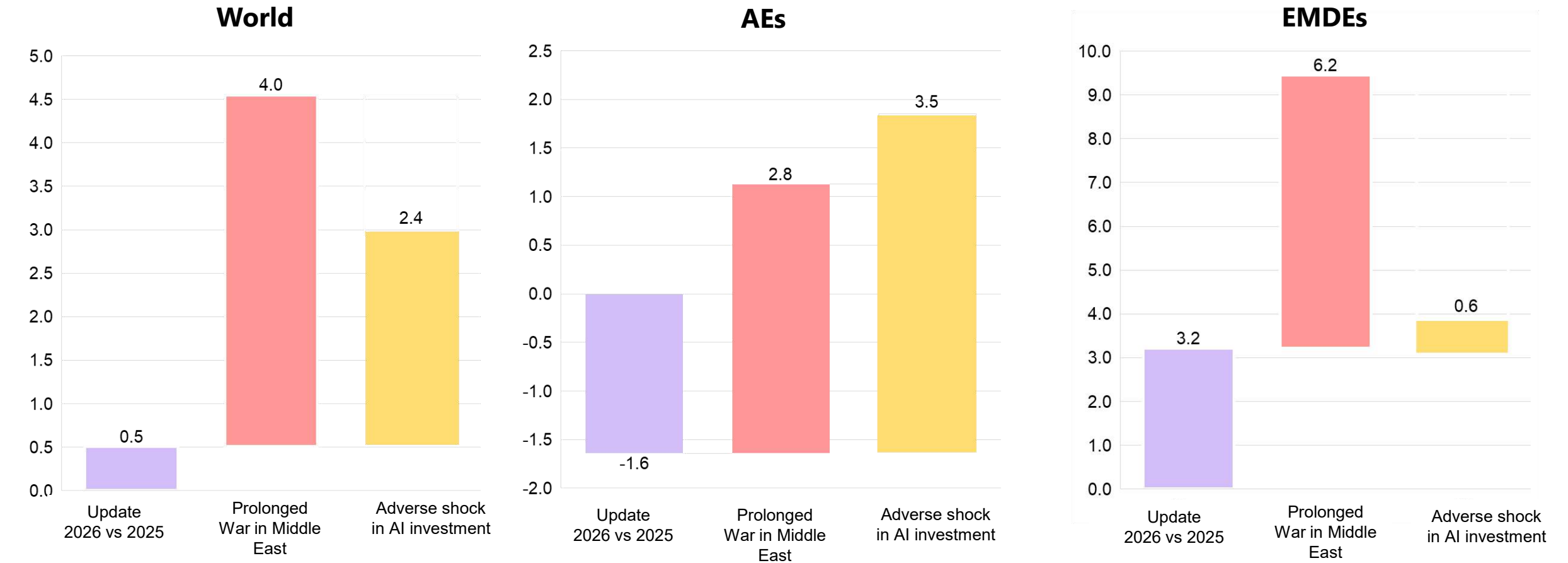


Source: IMF staff calculation.

Note: The figure shows the predicted probability density function of debt-to-GDP for 2028 conditional on various economic, financial, and political factors, based on information up to December 2025 and April 2026 WEO (see IMF (2025) and Furceri et al. (2025)).

Geopolitical Disruptions and AI-Driven Market Correction Could Worsen Debt

Evolution of the Debt-at-Risk under Shock Scenarios in 2028
(Three year ahead, percentage points of GDP)

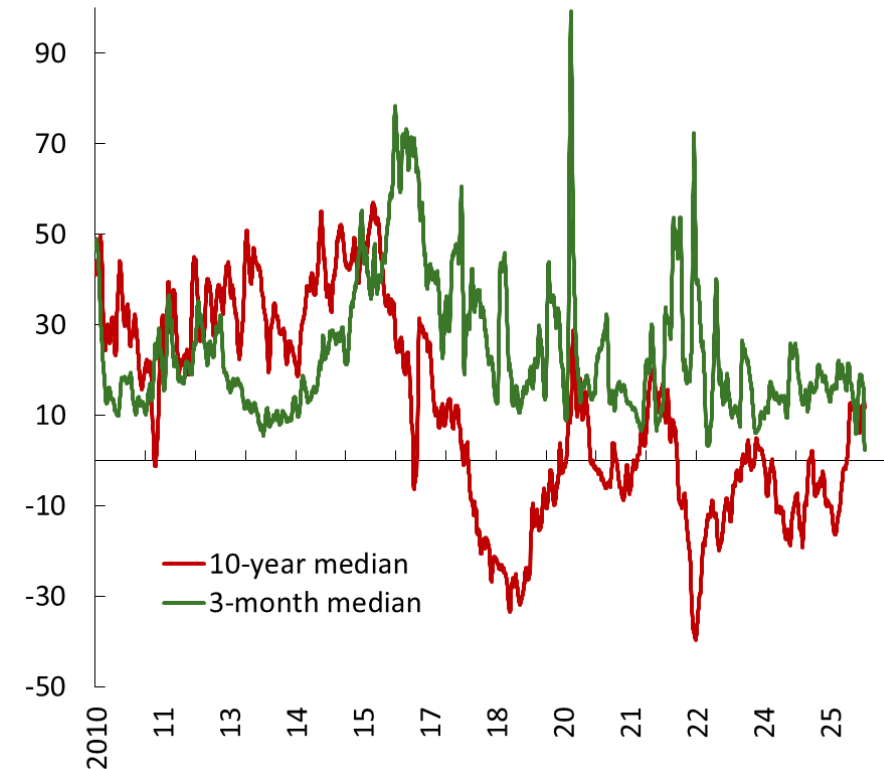


Source: IMF staff calculation.

Note: The figure shows the change of the 95th percentile level of predicted debt-to-GDP in deb-at-risk exercise under different scenarios. The blue bar show the revision of the 95th level in a three-year horizon between April 2025 WEO and April 2026 WEO in the baseline scenario. The red and yellow bars show the change of the 95th percentile level under the shock scenarios from the baseline. The prolonged war scenario assume 2.5 percentage point annualized decline in global GDP and 2.45 percentage point annualized increase in global inflation by 2027. The AI scenario assumes an increase in the Index of Financial Stress (Ahir and others 2023) by one standard deviation in all economies. For more details, see the April 2026 WEO.

Changes in Sovereign Debt Markets Introduce New Fragility

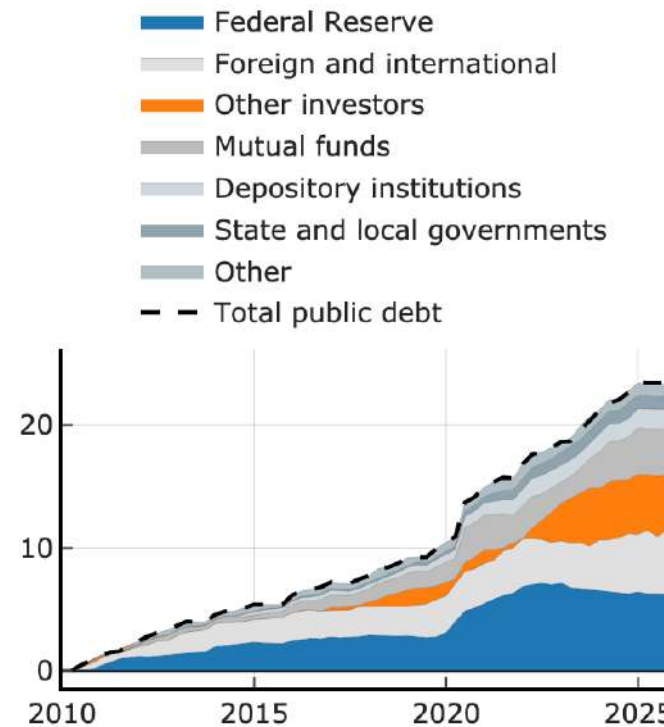
Convenience Yield of US Treasuries against G10 Sovereign Bonds (Basis points)



Sources: Bloomberg Finance L.P.; Federal Reserve Bank of St. Louis, Federal Reserve Economic Data; LSEG DataStream; and IMF staff calculations.

Note: The chart defines the international convenience yield as the difference in the deviation from covered interest parity between Group of 10 (G10) sovereign bonds and US Treasuries. The daily spread is calculated as $(y_{For} - p) - y_{UST}$, in which y_{For} is the yield for foreign government bonds, y_{UST} is the yield for US Treasuries, and p is the market-implied forward premium (the cost of hedging foreign currency back to US dollars via swaps). The data is up to April 16 2026.

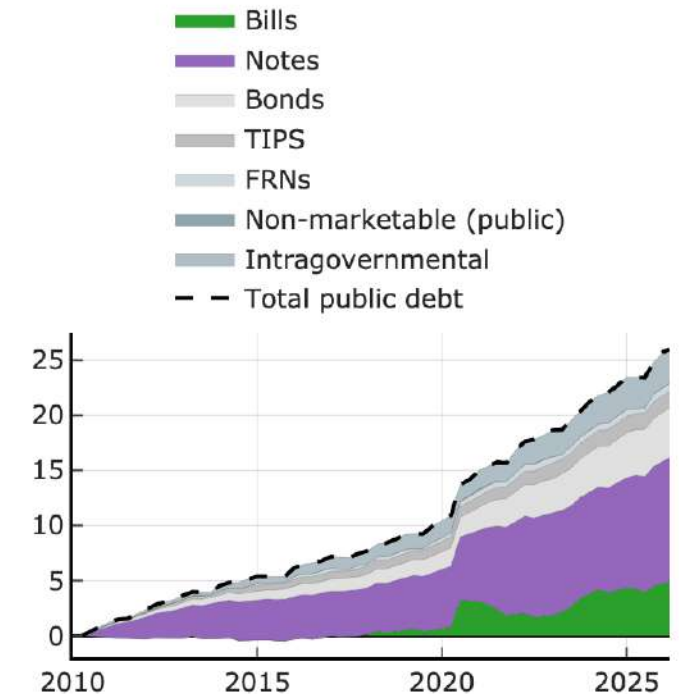
Cumulative Change in Holders of US Public Debt (Trillions of US dollars)



Sources: US Department of the Treasury, Monthly Statement of the Public Debt, and Treasury Bulletin, Table OFS-2.

Note: Public debt in the first quarter of 2025 totaled \$36.21 trillion. In LHS, "Other investors" includes individuals, government-sponsored enterprises, brokers and dealers, and corporate and noncorporate businesses; "Other" comprises savings bonds, insurance companies, and pension funds. In RHS, "Bills" have maturities of 1 year or less; "Notes" have maturities of 2–10 years; "Bonds" have maturities greater than 10 years; "Nonmarketable" refers to savings bonds and other nontraded public debt; and "Intragovernmental" covers debt held by federal trust funds and other government accounts. FRNs = floating-rate notes; TIPS = Treasury Inflation-Protected Securities.

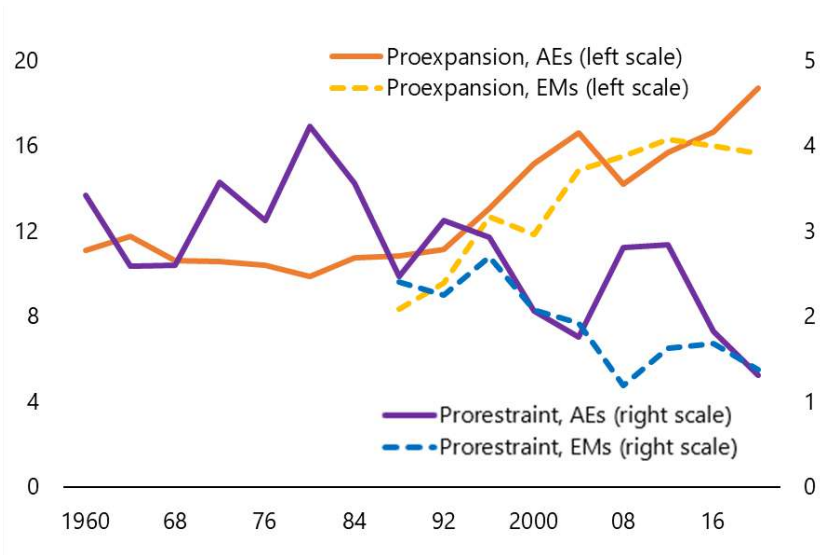
Cumulative Change in US Public Debt by Instrument (Trillions of US dollars)



Thank you

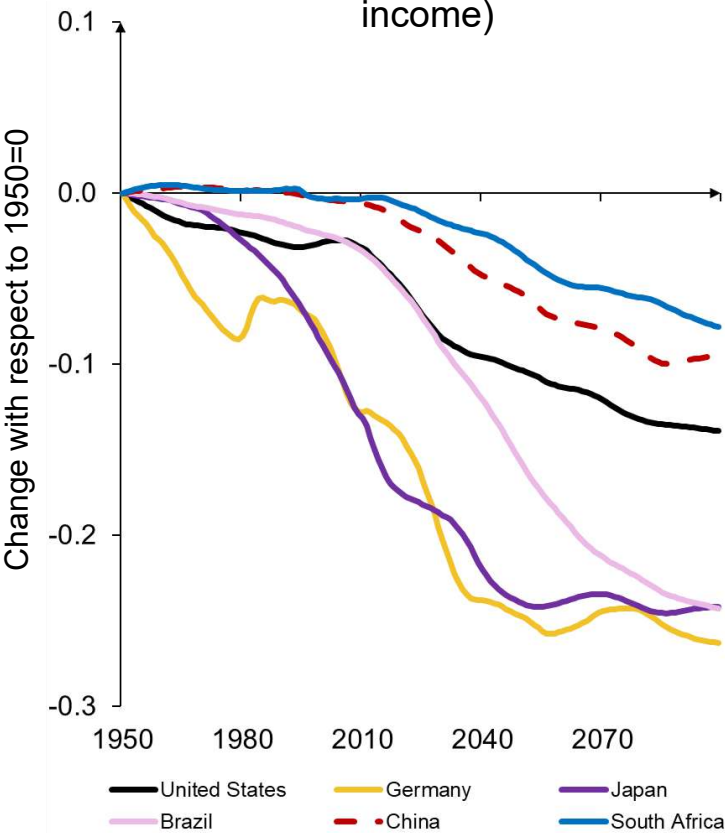
Expansionary Fiscal Discourse and Greying Population

Rise of Expansionary Fiscal Discourse
(Percent)



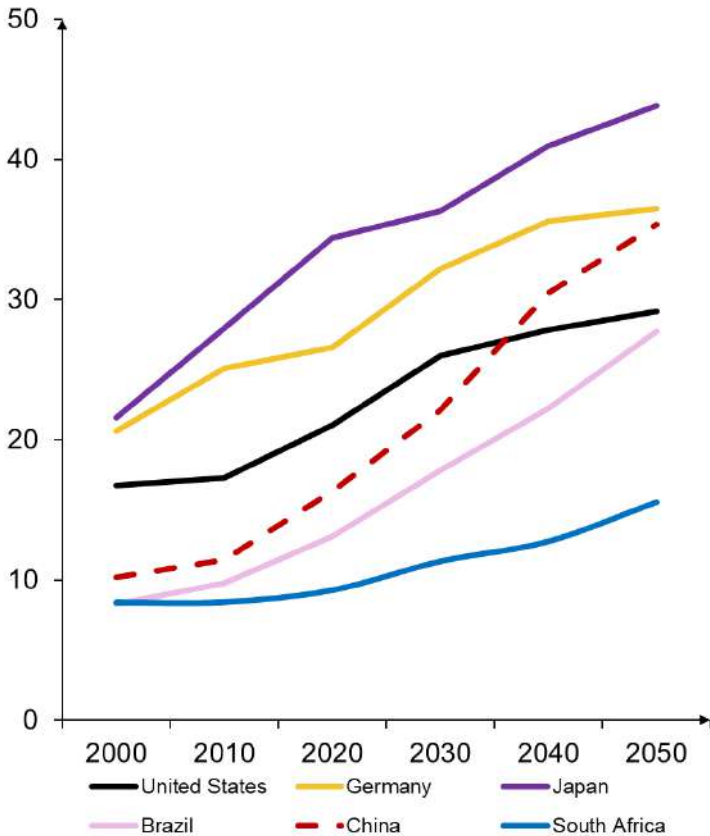
Sources: Cao, Dabla-Norris, and Di Gregorio (2024); Manifesto Project Database; and IMF staff calculations.
Note: The analysis relies on Manifesto Project data, which capture both spending intentions and value judgments. For each year in the figure, the year associated with the data refers to the first of four years the data cover. Platform data are first averaged at the country-election level, then by country-year, and finally by four-year period. The vertical axes shows the mean outcomes across all country-years in each four-year period.

Population Age-weighted Net Fiscal Contribution by Households
(share of median workers' disposable income)



Sources: UN Population Prospects, OECD Income Distribution Database, IMF staff calculations.
Note: The chart shows net fiscal contribution by households (= taxes paid - transfers received by households) as a share of median workers' disposable income, weighted by the population shares of workers and retirees.

Share of Grey Voters
(Share of population aged 65+ to population aged 18+, in percent)



Sources: UN Population Prospects and IMF staff calculation.
Note: Population excluding net immigration.