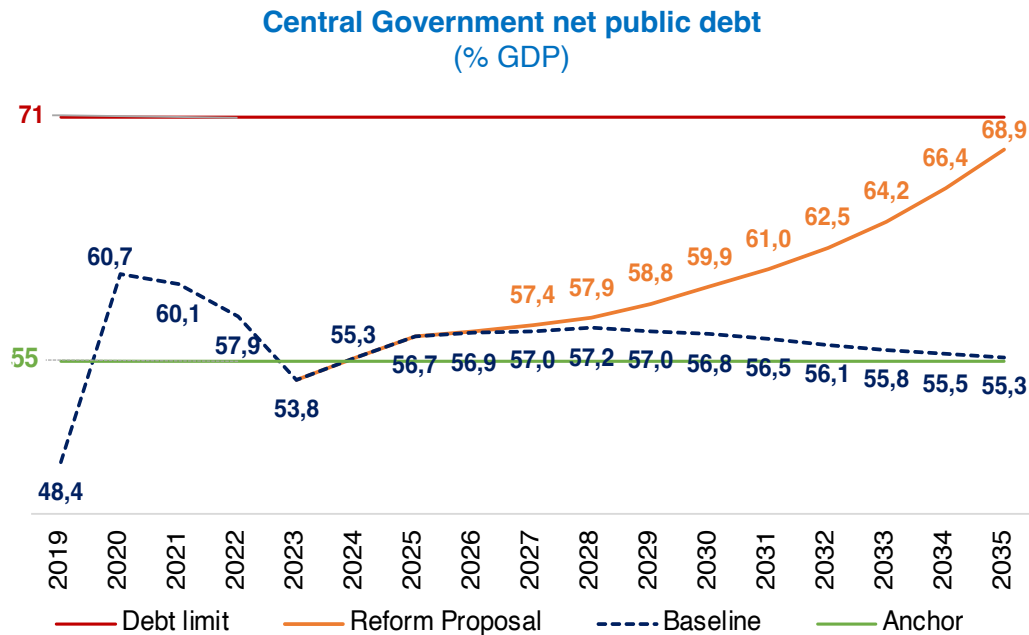


Some key messages on the constitutional reform proposal on SGP transfers

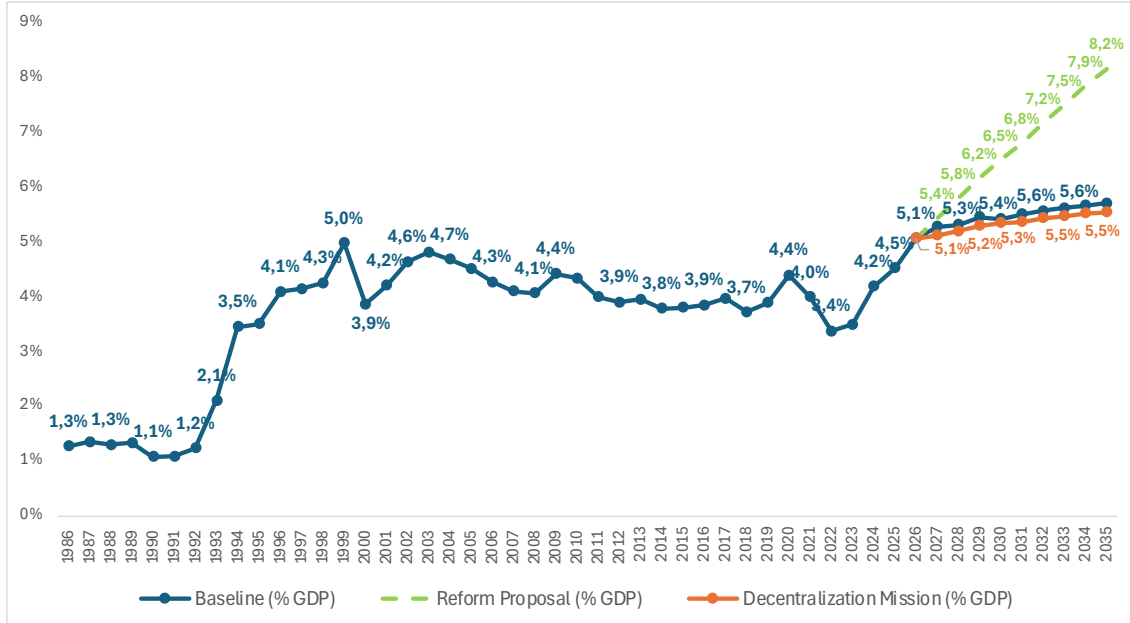
- 1) In the absence of additional measures, the SGP proposal would increase public debt to non-return levels (beyond the 71% of GDP limit) and a path inconsistent with the fiscal rule.



Source: Ministry of Finance and Public Credit, and CARF projections.

- 2) The SGP proposal would compromise the government's ability to honor its obligations, including those that cannot be transferred to the regions.
- 3) Without this proposal the current fiscal situation is already challenging. Complying with the fiscal rule in 2024 and 2025 requires meeting the tax revenue targets, and in case those targets are not met, implementing measures to reduce public spending. In addition, 83% of public spending is inflexible.
- 4) Without the SGP proposal, SGP transfers will increase from 4.2% of GDP in 2024 to 5.7% of GDP in 2035, reaching a historic high. The required fiscal effort represents more than the average revenue from a tax reform in Colombia.
- 5) With this proposal, SGP transfers would grow to 8.2% of GDP, an unsustainable increase. Compensating for this increase would require additional revenue, equivalent to 3 average tax reforms.

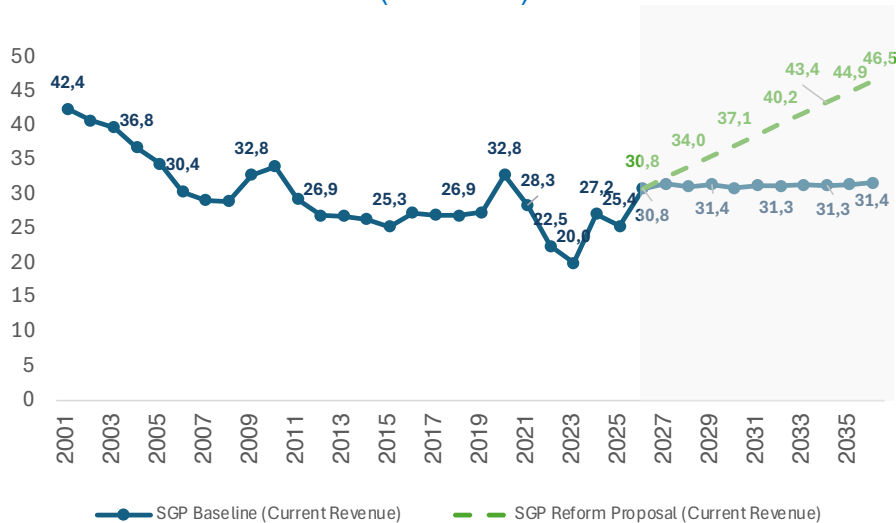
SGP transfers (% GDP)



Note: Between 1986 and 2001, the chart reflects the transfers made under the “Situated Fiscal and Participaciones Municipales”. From 2002 onwards, the figures correspond to the SGP. From 2027 onwards, the blue line corresponds to the baseline, without constitutional reform of SGP transfers.
Source: Ministry of Finance and Public Credit, and CARF projections.

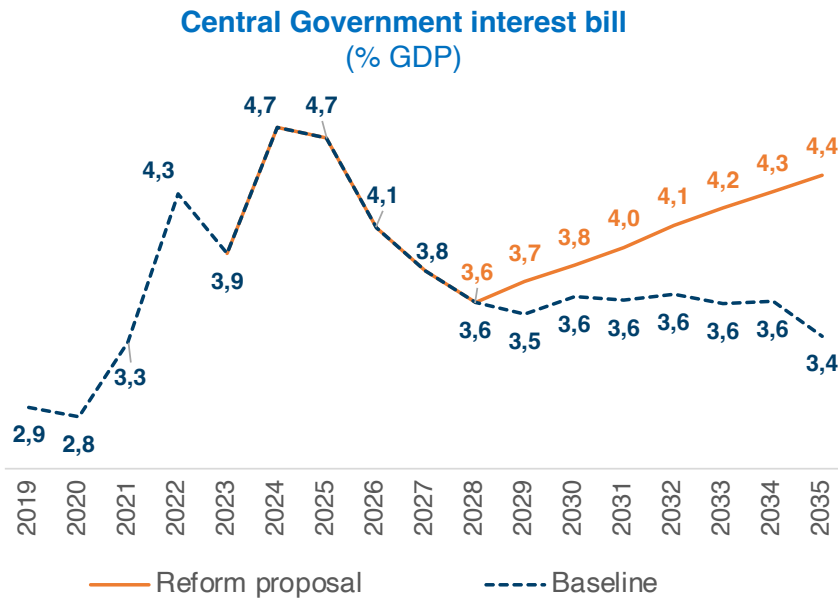
- 6) SGP transfers are expected to increase up to 30,8% of the Central Government Current Revenues (CGCR) in 2027, 10,8pp more than in 2023.

SGP transfers (% CGCR)



Source: Ministry of Finance and Public Credit and CARF projections.

- 7) With the SGP proposal, the increase in the interest bill would be equivalent to an average tax reform between 2027 and 2035, narrowing the fiscal space for public investment and social spending.



Source: Ministry of Finance and Public Credit and CARF projections.

- 8) Lowering the size of the SGP transfers increase by 10pp of CGCR, lengthening the transition from 10 to 20 years or transferring national responsibilities to the regions equivalent to 1% of GDP would reduce the required fiscal effort compared to the proposal approved in the 5th debate in Congress (46,5% of CGCR and 10 years).
- 9) However, both the fiscal deficit and public debt would be higher than in the scenario without reform, which is the one that is consistent with the fiscal rule in the medium-term.
- 10) The reform discussion started backwards. The first topic to review should be the responsibilities that the Central Government can transfer to the regions, which is the institutional capacity of the regions to execute these resources, and which are the SGP sectorial needs.
- 11) Postponing these discussions impedes a holistic assessment of the fiscal risks and of the proposal to reorganize the state. It also feeds investors' and rating agencies' uncertainty, concerns, and ultimately, the risk premium.
- 12) Last night, Congress approved (in the sixth out of 8 debates) some modifications to the SGP proposal. SGP transfer decreased from 46,5% of CGCR to 39,5%. With this

change, the fiscal effort between 2026 and 2035 would lower from 3.1pp to 1.7pp of GDP.

- 13) Congress also included in the approved text that the path of SGP transfers must be consistent with the Medium Term Fiscal Framework.
- 14) Although these adjustments are positive, in the margin, CARF considers that this proposal is inconvenient for the reasons already mentioned and, additionally, because: i) the transfers would not be allowed to decline from one year to another, ii) a mechanism to stabilize the SGP transfers to the regions is still missing.
- 15) Overall, CARF expresses that any modification to the SGP transfers that increases public spending rigidity and derives in new public spending pressures for the Central Government would increase the risk of not complying with the fiscal rule.
- 16) Moreover, such modifications might create a fiscal path in which the debt limit is breached in the medium-term. The current fiscal situation and the public spending rigidity at the Central Government level are already challenging in the absence of the SGP reform proposal.