CareEdge Global assigns Long Term Foreign Currency Rating of BB+ (Unsolicited) to Republic of Colombia

Credit Profile

The credit profile of Colombia is constrained primarily by its weak fiscal profile and monetary management. The economy is heavily dependent on oil revenues, which poses risk due to fluctuating global prices. Further, a large informal sector limits the tax revenue base affecting flexibility for public investment. Additionally, inflation still remains high and current political instability may hinder the economy's path towards potential.

However, credit profile benefits from relatively strong economic fundamentals, a comfortable external profile demonstrated through a narrowing current account deficit, and policies aimed at diversifying the economy.

Strengths

- High forex reserves to cover imports
- Narrowing current account deficits
- Rich in natural resources

Weaknesses

- High reliance of government on external funding
- Near and medium-term uncertainties caused by curtailing oil exploration
- Weak law and order due to presence of drug cartels and armed groups

Key Monitorable

- Successful implementation of key reforms
- Steps to transition toward renewables and away from the hydrocarbon sector
- Recovery in economic growth

Key Rating Drivers

Economic Structure & Resilience

Colombia benefits from its sizeable economy (USD 364 billion nominal GDP in 2023) with relatively high per capita income (USD 15770 in 2023). Economic growth in 2023 remained sluggish at 0.6% due to contraction in domestic demand along with decline in fixed investment. The growth is expected to recover, averaging around 2.5% between 2024-2028. Recent policy decisions by the current administration have introduced uncertainty, particularly in hydrocarbon sector, with risks emanating from government's goal of phasing out oil exploration, without the defined path for transition towards renewable energy.

Fiscal Strength

The government relies heavily on revenue from the oil sector (13% of its total income in 2023), which introduces vulnerability to fluctuations in global oil prices. Further, moderately high interest payments (14.4% of revenue in 2023) strain the budget, and widespread informal sector limits tax revenue potential. Proposed labor market reforms, while aiming to reduce burden on the labor force, may also potentially jeopardize existing formal jobs. Similarly pension reforms, which limit the role of private sector insurance companies, can increase the burden on government finances, leading to long term fiscal challenges. Additionally, the high external debt of the government at 33% of GDP in 2023 remains elevated.

On the positive side, recent tax reforms have reduced central government deficit to 4.3% in 2023, from 5.3% of GDP in 2022. Moreover, general government debt in the near term is expected to remain stable at 55% of GDP.

External Position & Linkages

Colombia has comfortable foreign exchange reserves, covering approximately 9 months of imports in 2023, providing a buffer against external shocks. Further, the current account deficit narrowed to 2.7% in 2023 from 6.2% in 2022 with support from strong service sector exports and tourism receipts. International Monetary Fund recently approved a two-year flexible credit line of USD 8.1 billion, in April 2024, signifying confidence in Colombia's ability to manage any potential crisis.

The aforesaid strengths are however balanced by a negative net international investment position at -52.6% of GDP in 2023, driven by high FDI inflows.

Monetary & Financial Stability

The official exchange rate regime is classified as free-floating, but the central bank intervenes periodically, suggesting a managed float in practice (as per IMF). In recent years, Colombia has faced challenges in meeting the inflation target, with CPI inflation reaching 11.7% in 2023, a sharp rise from the five-year average of 4.6% between 2018 to 2022. However, inflation is expected to decline to levels of around 3% by 2026. Stock market capitalization is also low at 21.8% of GDP in 2023 signifying a low level of investor confidence.

Institutions & Quality of Governance

Colombia faces a poor control over corruption and weak law and order, reflected by prevalent resistance by armed groups and drug trafficking. Moreover, current administration's lack of majority in the chambers of congress, since the elections of 2022, can reduce the pace of reforms going ahead. However, the country benefits from an efficient regulatory system and moderately high levels of indicators on voice and accountability, and effectiveness of government policies.

Colombia – Select Indicators									
	Unit	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024 F**	**2025 F**
Economic Indicators									
Nominal GDP	USD Billion	334	323	270	319	345	364	386	400
GDP Per Capita (Constant-PPP)	USD	14,879	15,000	13,652	14,926	15,840	15,770	15,788	16,018
Real GDP Growth	%	2.6	3.2	-7.2	10.8	7.3	0.6	1.1	2.5
GFCF/GDP	%	21.2	21.3	18.3	19.0	18.9	17.3	-	-
Gross Domestic Savings/GDP	%	16.5	15.6	12.1	11.3	12.1	7.8	-	-
Exports (G&S)/GDP	%	15.9	15.9	13.5	16.2	20.2	17.8	-	-
Working-Age (15-64) Population (% Share in Total)	%	69.2	69.5	69.6	69.7	69.7	69.5	69.3	69.1
Old-Age (65+) Population (% Share in Total)	%	7.9	8.2	8.5	8.7	9.0	9.4	9.8	10.3
Fiscal Indicators – General Government									
Fiscal Balance/GDP	%	-4.7	-3.5	-7.0	-7.1	-6.2	-2.7	-3.3	-3.1
Revenue/GDP	%	30.0	29.4	26.6	27.2	27.8	32.3	30.6	29.8
Expenditure/GDP	%	34.7	32.9	33.5	34.3	33.9	35.0	33.9	32.9
GG Gross Debt/GDP	%	53.6	52.4	65.7	64.0	60.1	52.5	54.4	55.6
GG External Debt (by Creditor)/GG Gross Debt	%	33.6	33.2	34.7	37.8	40.4	33.1	-	-
Interest/Revenue	%	11.0	10.9	11.9	12.8	15.3	14.4	-	-
External Indicators									
Current Account Balance/GDP	%	-4.2	-4.6	-3.4	-5.6	-6.2	-2.7	-3.0	-3.3
FDI, Net Inflows/GDP	%	3.4	4.3	2.8	3.0	5.0	4.7	-	-
Outstanding FII Liabilities/GDP	%	24.0	25.4	32.9	27.8	23.5	25.6	-	-
NIIP/GDP	%	-44.4	-48.9	-59.0	-50.4	-51.6	-52.6	-	-
Foreign Exchange Reserves	USD Billion	47.9	52.7	58.5	58.0	56.7	59.0	-	-
Import Cover	Months	7.0	7.7	11.5	8.1	6.0	9.3	-	-
External Debt/GDP	%	39.5	42.7	57.2	53.8	53.5	54.0	-	-
Monetary and Financial Indicators									
CPI Inflation	%	3.2	3.5	2.5	3.5	10.2	11.7	6.3	3.5
Exchange Rate (Average)	LC per USD	2,956.4	3,281	3,693.3	3,724.6	4,255.4	4,325	-	-
Non-Performing Loans/Total Gross Loans	%	3.4	3.1	3.7	3.0	2.5	3.5	-	-
Private debt, loans and debt securities/GDP	%	62.0	60.6	70.0	64.2	61.0	-	-	-

Sources: International Monetary Fund, World Bank, Bank for International Settlements, National Sources, CareEdge Global

Note: F - Forecast; PPP – Purchasing Power Parity; GFCF – Gross Fixed Capital Formation; Exports (G&S) – Exports of Goods and Services; GG – General Government; FDI – Foreign Direct Investment; FII – Foreign Institutional Investment; NIIP – Net International Investment Position; Data refers to fiscal/calendar year and actual/estimate as reported by the source; Where general government data is unavailable, central government data is used; Latest available data for 2023

Rating History

Instrument	Type	Rating	Date
Issuer Rating	Long Term Foreign Currency (Unsolicited)	BB+	October 3, 2024

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Criteria Applied

CareEdge Sovereign Rating Methodology

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