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30 June 2020

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RATINGS

Colombia

	Foreign Currency	Local Currency
Gov. Bond Rating	Baa2/STA	Baa2/STA
Country Ceiling	A3	A2
Bank Deposit Ceiling	Baa2	A2

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Government of Colombia – Baa2 stable

Annual credit analysis

OVERVIEW AND OUTLOOK

The credit profile of Colombia balances a large and relatively resilient economy ($324 billion in 2019), a history of predictable macroeconomic policies and a solid track record of servicing debt against relatively high commodity dependence, a comparatively narrow revenue base and a rigid expenditure structure. Debt will rise this year driven by the impact of the coronavirus outbreak on economic growth, currency depreciation and the government's fiscal policy response. The coronavirus shock will lead to higher debt metrics than most Baa-rated peers, and government debt affordability will be weaker than that of its peers. Colombia's favorable debt structure is another credit strength, which mitigates the risks stemming from a higher government debt burden.

Colombia's credit weaknesses include a rigid expenditure structure and a narrow revenue base, which limit the authorities' ability to respond to future shocks. Given Colombia's relative commodity dependence and its exposure to terms-of-trade shocks, these challenges are a major constraint on Colombia's credit profile. However, we consider downside and upside risks to be broadly balanced now that medium-term growth prospects and commitment to fiscal consolidation will prevent an erosion of the country's fiscal strength.

Upward pressure on the credit profile could develop if the government reduces fiscal deficits sustainably, addressing the challenges from its low tax intake and rigid expenditure structure. Economic growth at its potential level of 3.5% or higher and lower-than-expected budgetary imbalances, which would lead to declining government debt ratios, would also put upward pressure on the rating. Rising government revenue would also help to improve debt affordability, for which Colombia lags most of its rating peers. Bolstering the fiscal policy framework, including aspects such as the fiscal rule, budgeting and resource allocation among different levels of government, would also be credit positive.

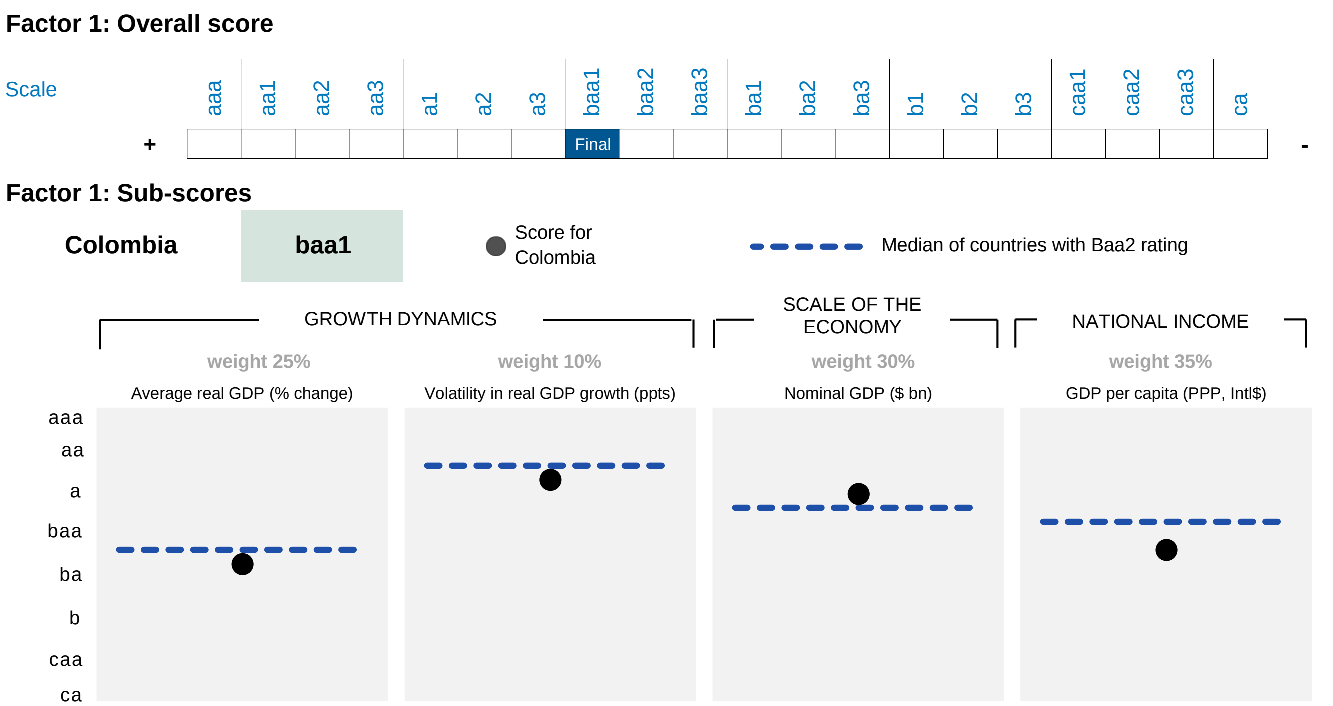
Downward pressure on the credit profile would likely result from continued primary deficits, which could lead to a persistent increase in government debt metrics. Another severe shock to economic growth may also put downward pressure on the rating given that metrics have already deteriorated. Additional negative pressure would emerge if the current account deficit was to widen and the country became more reliant on external debt inflows to finance the gap, and if this led to a weakening of the country's external buffers.

This credit analysis elaborates on Colombia's credit profile in terms of economic strength, institutions and governance strength, fiscal strength and susceptibility to event risk, which are the four main analytic factors in our Sovereign Ratings Methodology.

CREDIT PROFILE

Our determination of a sovereign's government bond rating is based on the consideration of four rating factors: Economic strength, institutions and governance strength, fiscal strength and susceptibility to event risk. When a direct and imminent threat becomes a constraint, that can only lower the scorecard-indicated outcome. For more information please see our Sovereign Ratings Methodology.

Economic strength score: baa1



Economic strength evaluates the economic structure, primarily reflected in economic growth, the scale of the economy and wealth, as well as in structural factors that point to a country's long-term economic robustness and shock-absorption capacity. Adjustments to the economic strength factor score most often reflect our judgement regarding the economy's flexibility, diversity, productivity and labour supply challenges.
Note: the initial factor score is shown in light blue in the scale above. In case the initial and final factor scores are the same, only the final score will appear in the table above.

Our "baa1" assessment of Colombia's economic strength reflects the relatively large size of the economy, moderate growth and wealth levels. Relative to other sovereigns with "baa1" economic strength, Colombia's economy ($324 billion in 2019) is larger and its output levels are less volatile than those of peers but its average growth for 2015-24F (2.1%) is below the median, while it lags the median in terms of wealth. Other sovereigns with a "baa1" economic strength score include Chile (A1 stable), Mexico (Baa1 negative) and Estonia (A1 stable).

Exhibit 1

Peer comparison table factor 1: Economic strength

	Colombia Baa2/STA	baa1 Median	Chile A1/STA	Turkey B1/NEG	Thailand Baa1/STA	Mexico Baa1/NEG	Estonia A1/STA	Malta A2/STA
Final score	baa1		baa1	baa1	baa1	baa1	baa1	baa1
Initial score	baa1		baa1	a2	a3	a3	baa2	baa1
Nominal GDP ($ billion)	323.6	105.4	282.3	761.9	543.5	1,258.2	31.4	14.9
GDP per capita (PPP, Intl$)	15,541.2	28,268.1	26,317.1	28,268.1	20,364.6	20,867.7	35,852.9	47,405.0
Average real GDP (% change)	2.1	2.3	1.8	2.8	2.6	1.1	2.3	4.3
Volatility in real GDP growth (ppts)	1.6	2.0	2.0	3.1	2.3	1.5	1.9	2.9

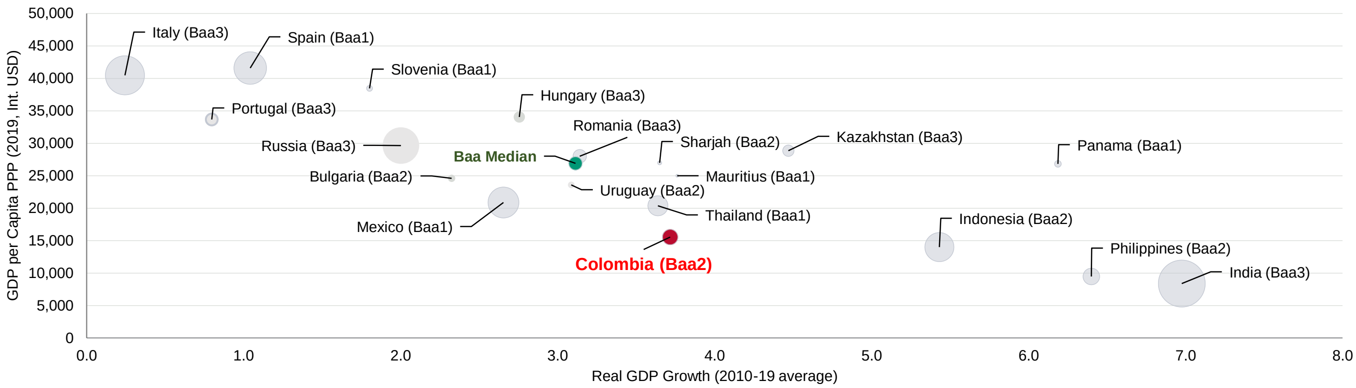
Source: National authorities, IMF, Moody's Investors Service

Wealth levels lag most Baa peers, but growth was faster over past decade

Relative to Baa-rated peers, Colombia's wealth levels are below the category median ($26,985) on a purchasing power parity (PPP) basis). Colombia's GDP per capita was $6,423 in 2019, although it was $15,541 in PPP terms. At this level it is in line with that of Indonesia (Baa2 stable) and higher than the Philippines (Baa2 stable). Between 2010 and 2019 Colombia recorded growth of 3.7% on average, compared to the Baa-median of 3.1%.

Exhibit 2

Colombia's growth lags Baa2 peers, but income levels and size of the economy are comparable
(Size of bubble = 2019 nominal GDP in US$ billion)



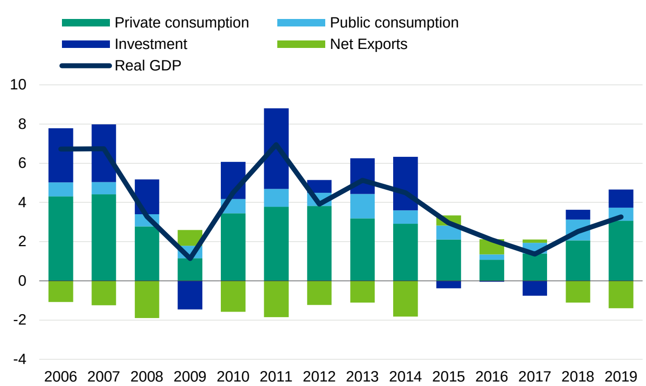
Source: Moody's Investors Service

Terms-of-trade shock led to slowdown in economic growth

Following the global financial crisis in 2008-09, Colombia's economy rebounded strongly, with real growth averaging 5.0% in 2010-14, supported by private consumption and investment (see Exhibit 3). Growth subsequently slowed in 2015-19, averaging 2.4%, weighed down by a severe terms-of-trade shock associated with the sharp oil price drop in 2015-16, and exacerbated by a decline in consumer and business confidence. Political polarization, the peace agreement between the government and the Revolutionary Armed Forces of Colombia (FARC) and delays in the execution of the "Fourth Generation of Road Concessions" (4G) projects weighed on sentiment. Private consumption weakened through 2017 and investment contracted. Before 2015, Colombia's growth rates were above the Baa median, but in 2016-18 it lagged peers (see Exhibit 4). In 2019, stronger domestic demand (higher private consumption and investment) lifted growth to 3.3%.

Exhibit 3

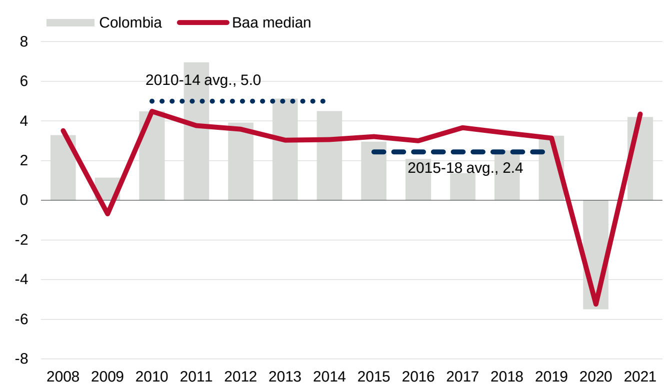
A decline in investment and consumption weighed on Colombia's growth 2015-2017
(Contribution to real GDP growth, percentage points)



Sources: DANE via Haver, Moody's Investors Service

Exhibit 4

Colombia's growth now in line with Baa median after underperforming in 2016-18
(%)



Sources: DANE via Haver, Moody's Investors Service

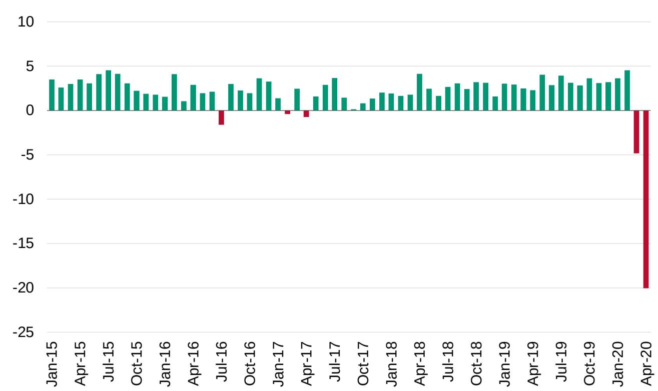
We expect the economy to contract by about 5.5% in 2020 (the first annual GDP contraction since 1999) as a result of the coronavirus outbreak, and expand by 4.2% in 2021. Colombia's economic performance in 2020-21 will be in line with the Baa median. In its Medium Term Fiscal Framework (MTFF), the government estimated a contraction of 5.5% in 2020 and a recovery of 6.6% in 2021. Meanwhile, the International Monetary Fund (IMF) estimated in updated its economic expectations in June with Colombia contracting 7.8% in 2020 and expanding 4.0% in 2021.

Coronavirus crisis will weigh on growth significantly in 2020

In the early months of 2020, Colombia's economic performance pointed to a continued strengthening of the economy. According to the monthly economic activity indicator (ISE), output expanded by 4.1% on average in January and February. In March, following the emergence of the first coronavirus cases in the country, the authorities began to implement quarantine measures. The national quarantine started on 24 March, although it was implemented earlier in Bogota (the country's capital and a major economic hub). The paralysis of economic activity led to a 4.8% decline of the ISE in March and a 20.1% contraction in April (see Exhibit 5). The government estimates that during the initial phase of the quarantine (March 25-April 13), only 69% of economic capacity was operating. After a gradual unlocking of the economy, about 91% of capacity was operational by June 2020. We expect that the brunt of the economic impact of the coronavirus will be recorded during the second quarter of 2020 (see Exhibit 6).

Exhibit 5

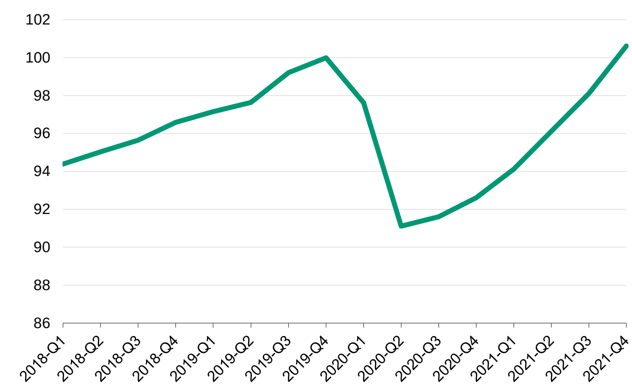
Economic activity fell in March but collapsed in April because of quarantine measures
(% change year-on-year)



Source: DANE via Haver

Exhibit 6

GDP will not reach 2019 levels until late 2021
(Index, Q4 2019 GDP level = 100)



Sources: DANE via Haver, Moody's Investors Service

We forecast a gradual recovery to start in the third quarter of the year and an acceleration in 2021 supported primarily by domestic demand. However, there are still important downside risks to the economic recovery. The government has implement an emergency response plan based on a fiscal package, the provision of guarantees and injecting liquidity to the domestic financial markets through the central bank (see Exhibit 7). The plan's overall goal seeks to allow the economy to weather the short-term shock and also support the economic recovery through the rest of 2020 and into 2021. Moreover, the crisis will likely weigh significantly on formal employment – consensus forecast is for the unemployment rate to increase to about 16% by year-end 2020 from 10.6% in 2019 – and on private consumption should job creation be slower than expected in 2021. Despite the government's support measures, there is also the possibility that small and medium enterprises, which employ a large share of the labor force, may be forced to cease operations. Additionally, a reemergence of the social tensions seen in late 2019 could also weigh on business confidence and investment prospects.

Exhibit 7

Coronavirus emergency response package

Pillar	% of GDP	Policy measure
Fiscal package	3.1	Sanitary emergency
		Vulnerable populations
		Employment protection
Liquidity provision	3.0	Repo facilities
		Bond purchases
		Reserve requirements
Guarantees	4.8	Working capital and payroll
		Independent workers
		Microfinance

Source: Ministry of Finance

Medium-term growth prospects will continue to depend on investment and productivity gains

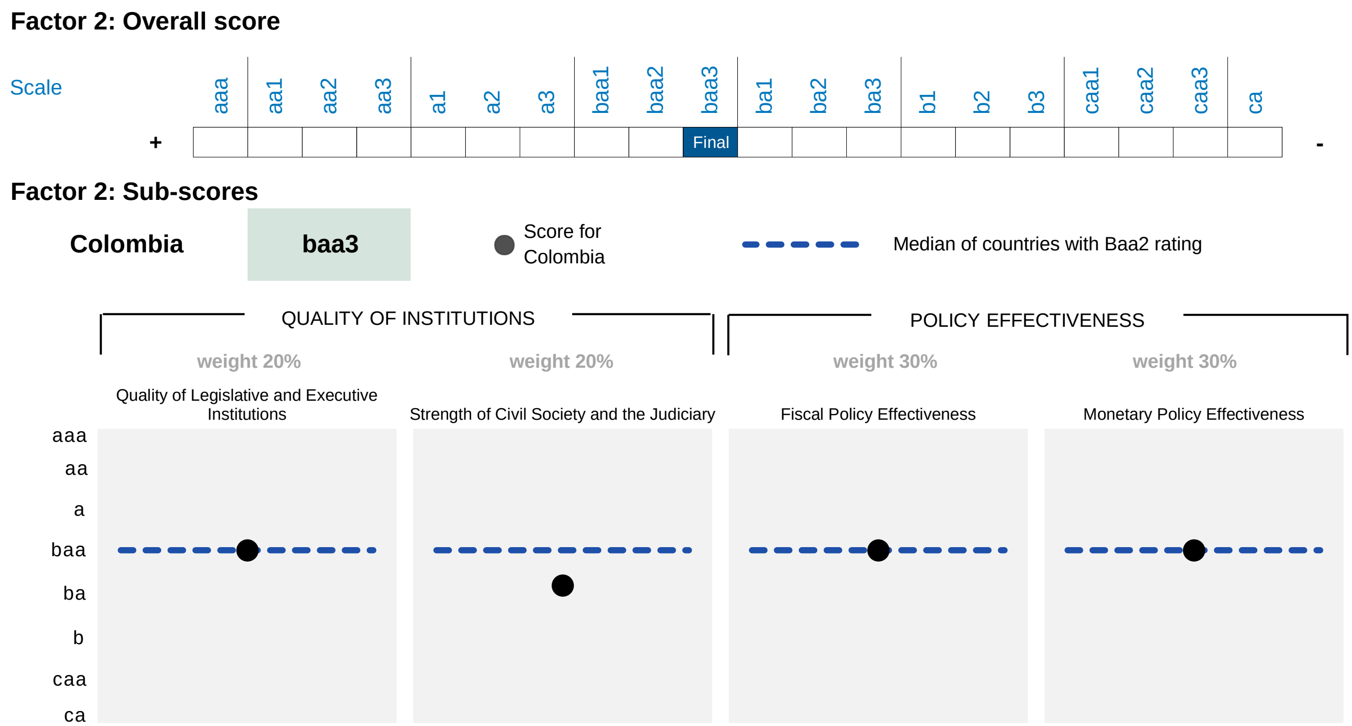
Colombia's growth potential is constrained by infrastructure bottlenecks, particularly transportation. Colombia ranks 81st among 141 countries for infrastructure and 92nd for transport infrastructure (100th for road infrastructure compared to 41st for sea infrastructure), according to the World Economic Forum 2019 Global Competitiveness Index. The country's 4G road infrastructure program aims to address this constraint.[1] In 2017, however, the Odebrecht scandal raised concerns among local banks regarding settlement regulations in cases where contracts are terminated because of corruption, which caused delays in the financing of 4G infrastructure projects that year. The government passed laws that sought to clarify this issue and financing gained momentum in late 2018. In April 2020, the national infrastructure agency (ANI) started the bidding process for the first of the fifth generation (5G) road projects. Improving transport infrastructure bottlenecks as well as non-tariff trade barriers would be key to improving the economy's export potential.

The administration of President Ivan Duque has also emphasized the need to boost productivity. Measures to achieve this were included in the National Development Plan (NDP), which was passed by the legislative branch in May 2019. The NDP aims to reduce the number of workers and companies operating in the informal economy, reduce red tape, tighten regulations and tackle corruption.

We also expect the peace agreement reached between the government and representatives from FARC, which was approved by Congress in December 2016, to contribute to growth prospects by improving security in the conflict zones and supporting business sentiment, setting the stage for increased infrastructure and agriculture investment.[2]

Although still in its very early stages, the development of the nonconventional oil sector, including shale oil and gas, has the potential to boost activity. However, given environmental concerns, progress has been slow. The government published the decree that will regulate these pilot projects, although the initial test drilling may now be delayed until after 2020 due to the pandemic emergency. If successful, the development of the nonconventional oil sector has the potential to more than double Colombia's reserves, leading to higher investment and exports for the country.

Institutions and governance strength score: baa3



Institutions and governance strength evaluates whether the country's institutional features are conducive to supporting a country's ability and willingness to repay its debt. A related aspect is the government's capacity to conduct sound economic policies that foster economic growth and prosperity. Institutions and governance strength is most often adjusted for the track record of default, which can only lower the final score.
Note: the initial factor score is shown in light blue in the scale above. In case the initial and final factor scores are the same, only the final score will appear in the table above.

Our assessment of "baa3" institutions and governance strength balances the country's relatively low scores in the Worldwide Governance Indicators (WGI) against a track record of prudent macroeconomic policies (as was most recently demonstrated during the terms-of-trade shock period in 2015-16). Colombia shares its "baa3" institutions and governance strength score with Indonesia, Panama (Baa1 stable) and, Brazil (Ba2 stable).

Exhibit 8

Peer comparison table factor 2: Institutions and governance strength

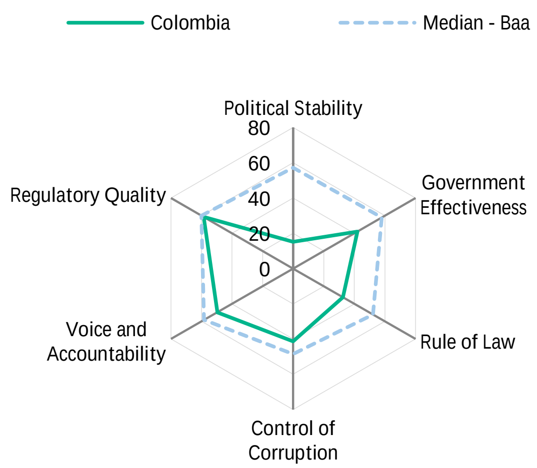
	Colombia	baa3 Median	Indonesia	Panama	Morocco	Serbia	Armenia	Brazil
	Baa2/STA		Baa2/STA	Baa1/STA	Ba1/STA	Ba3/POS	Ba3/STA	Ba2/STA
Final score	baa3		baa3	baa3	baa3	baa3	baa3	baa3
Initial score	baa3		baa3	baa3	baa3	baa3	baa3	baa3
Quality of legislative & executive institutions	baa	baa	baa	baa	baa	baa	ba	baa
Strength of civil society & judiciary	ba	ba	ba	ba	ba	ba	b	baa
Fiscal policy effectiveness	baa	baa	ba	baa	baa	baa	baa	ba
Monetary & macro policy effectiveness	baa	baa	a	baa	baa	ba	a	baa
Fiscal balance/GDP (3-year average)	-5.6	-5.0	-4.7	-4.3	-5.0	-3.0	-2.5	-8.7
Average inflation (% change)	3.9	2.2	3.2	0.5	1.8	1.9	2.2	4.5
Volatility of inflation (ppts)	1.6	1.8	1.7	2.3	0.6	3.4	3.0	2.0

Sources: National authorities, IMF, Moody's Investors Service

Colombia's institutional framework points to moderate quality of institutions

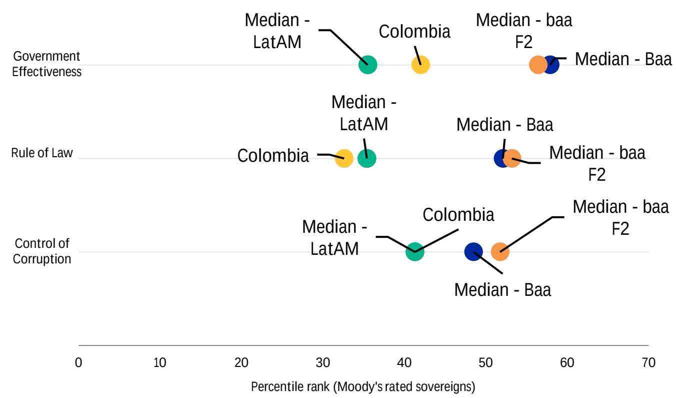
Colombia's government effectiveness, rule of law and control of corruption are ranked (according to the 2018 WGI) in the 42nd, 33rd and 41st percentiles, respectively, among all rated sovereigns. At these relatively low levels, Colombia ranks below the Baa median (see Exhibit 9). However, compared with sovereigns in Latin America and the Caribbean, Colombia ranks more closely to the median (see Exhibit 10), as a weak institutional framework tends to be a common credit challenge for sovereigns in this region.

Exhibit 9
Colombia's institutional framework is weaker than the Baa median...
(Percentile rank among our rated sovereigns)



Sources: World Bank, Moody's Investors Service

Exhibit 10
...but is more aligned with the median for Latin America
(Percentile rank among our rated sovereigns)



Sources: World Bank, Moody's Investors Service

We score Colombia's quality of executive and legislative institutions at “baa.” While the country lags in terms of government effectiveness, the executive and legislative branches' capacity to respond to shocks is strong as demonstrated by the policy response during the 2015-16 terms-of-trade shock and more recently during the coronavirus crisis. However, some key reforms proposed by the executive have been watered down during the legislative process, reducing their effectiveness, and in other cases these policies have been struck down by the judiciary.

The strength of the civil society and the judiciary also scores at “ba,” reflecting relatively weak control of corruption and rule of law compared to Baa-rated peers. According to the World Bank's Ease of Doing Business 2020 report, Colombia ranks 177 out of 190 countries on enforcing contracts.

Effective monetary policy supports credibility

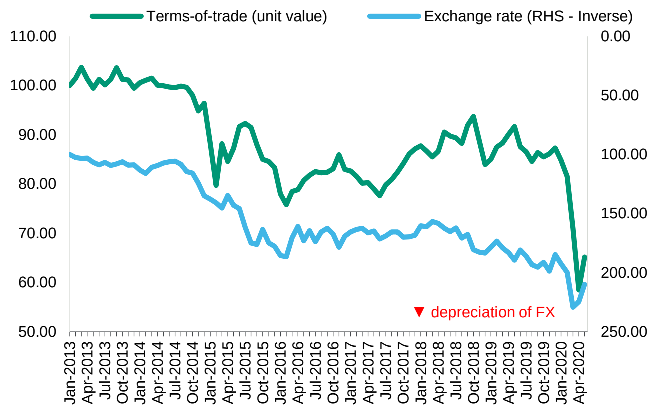
Monetary and macroeconomic policy effectiveness is scored as “baa.” Colombia's central bank (Banco de la Republica, Banrep) operates an inflation targeting framework, with a target range of 3% +/- 1 percentage point. The main policy tool used by Banrep is the monetary policy rate, although it can also indirectly affect the system's liquidity by modifying the level of reserve requirements for financial institutions, which is an instrument to ensure the depositors of the resource availability. The currency, the Colombia peso (COP), is mostly allowed to float freely; Banrep can use certain mechanisms to reduce exchange rate volatility or to accumulate foreign exchange reserves.

While a floating exchange rate can buffer against external shocks, it can also affect domestic prices. As a consequence of the terms-of-trade shock, the COP depreciated significantly between 2014 and 2016 (see Exhibit 11). Given an important pass-through of the exchange rate into tradeable goods in particular, in addition to a supply-side shock impacting food prices,[3] Colombia's inflation rate rose to relatively high levels during this period. Banrep pursued a tighter stance by raising its policy rate to rein in inflation. Inflation receded between mid-2016 and mid-2017, converging once again with the target range, allowing for a normalization of the policy rate (see Exhibit 12). Importantly, despite significant volatility, market participants' inflation expectations remained close to Banrep's target range, giving credibility to the central bank's policy.

We expect inflation to moderate to 3% in 2020, with further downward bias, down from 3.8% in 2019, as a result of the decrease in economic activity caused by the coronavirus pandemic. This has allowed Banrep to lowered its monetary policy rate in recent months to help stimulate economic activity during the economic recovery period.

Exhibit 11

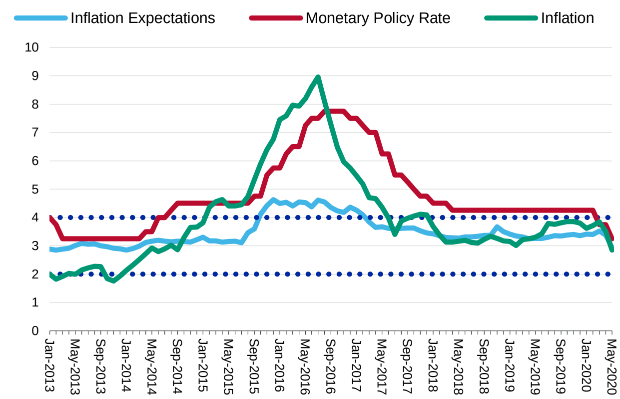
The exchange rate absorbed the terms-of-trade shock in 2015-16 and has done the same in 2020
(Index, January 2013 = 100)



Sources: Banrep via Haver, Moody's Investors Service

Exhibit 12

Inflation has remained in line with expectations as a result of effective monetary policy
(%)



Sources: Banrep and DANE via Haver, Moody's Investors Service

Fiscal rule provides guidelines for fiscal policy

Fiscal policy credibility and effectiveness is assessed as "baa." Fiscal policy in Colombia is implemented under the guidelines of the country's fiscal rule, which was put in place in 2012. The rule incorporates a long-term path for the structural deficit, which was projected to reach 1.0% of GDP in 2022 to ensure fiscal sustainability.[4] On a yearly basis, the fiscal rule consultative committee (FRCC) sets annual targets for the fiscal deficit that are compliant with the structural deficit path. Adjustments to these targets are typically triggered by changes in the cyclical components of the fiscal balance i.e., output gap and oil prices.[5]

The annual exercise of updating the cyclical components, which in turn contribute to modifications of the forward-looking deficit ceilings, has negatively weighed on market perception about fiscal policy credibility. This was exacerbated during the 2015-16 terms-of-trade shock when the authorities had to update their forecasts for economic growth and oil price assumptions multiple times within one year as macroeconomic conditions deteriorated more than expected. Given the focus on the structural balance, this is to be expected. When faced with severe macroeconomic shocks the rule allowed policymakers to react in a countercyclical way. However, in doing so, the government used the fiscal space allowed by the rule and this led to a deterioration in debt metrics. We note that since the fiscal rule sets limits for the deficit, policymakers have the discretion to conduct fiscal policy within these guidelines, which means they could target deficits lower than those allowed by the rule.

During the last four years, annual deficit targets have been increased to reflect – according to the FRCC – a worsening of the cyclical components.[6] Each time the fiscal deficit targets were revised, the government made full use of the room provided by these revisions – an exception was 2019 when the deficit ceiling was 2.7% of GDP and the deficit came at 2.5% – meaning that actual deficits were in line with the (higher) revised target. In addition, the government relied on one-off measures to meet the targets in some instances.

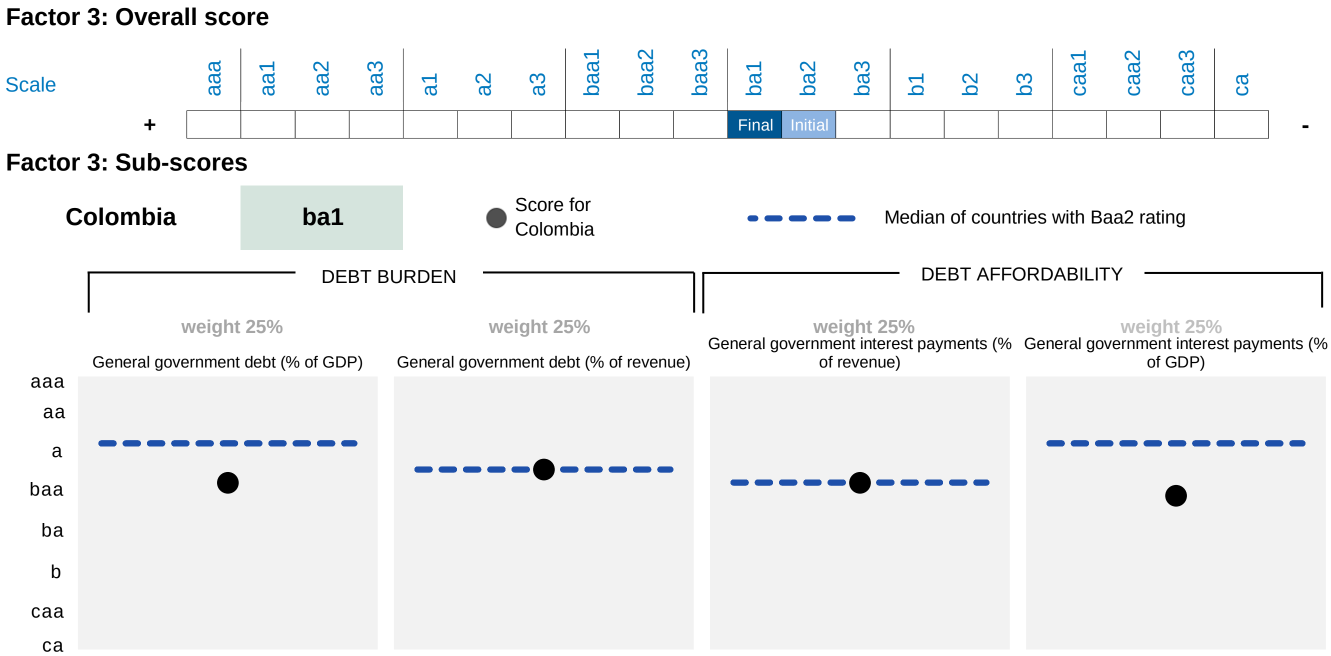
The coronavirus crisis has tested the fiscal rule framework. After two revisions to the 2020 deficit ceiling to 4.9% of GDP from 2.2% originally, and subsequently to 6.1%, the government invoked (for the first time since the rule was put in place) the rule's escape clause. An escape clause embedded in the rule (Article 11) can be invoked if "extraordinary events" compromise macroeconomic stability. Use of the escape clause leads to a suspension of the fiscal rule and the creation of temporary provisions that are in effect during the suspension period. The FRCC approved the suspension of the fiscal rule for 2020 and 2021 because of the magnitude of the coronavirus crisis. The suspension will give the government more room to incorporate both the higher spending as part of the crisis response package and also the large loss in tax revenue caused by the economic recession. We note that a very large number of sovereigns have suspended their fiscal rules or invoked the escape clauses in them because of the coronavirus crisis. Regional examples include Peru, which also suspended the fiscal rule in 2020 and 2021, while Baa2-rated peer Indonesia suspended its 3% of GDP deficit ceiling for 2020-22.

Beyond the fiscal rule, another important guide of fiscal policy is the government's annual update to its medium-term fiscal plan (MTFF), which is published in June of every year. The MTFF provides information regarding the macroeconomic forecasts assumed by the authorities, and announcements regarding fiscal policy plans, including legislative initiatives.

In the 2019 MTFF, the administration of President Duque stated that attaining primary surpluses would be the main fiscal goal for the coming years, to support the stabilization of debt metrics. This goal was broadly met last year.[7] The 2020 MTFF includes explicit deficit targets for 2020 and 2021 that incorporate the response to the coronavirus crisis. The MTFF also includes deficit targets starting in 2022 that according to the government would lead to the reduction of the debt burden relative to GDP over the medium term, in line with the fiscal rule's overall goal. The FRCC's role will also be expanded to include the monitoring of the progress made in terms of fiscal consolidation. In the 2020 MTFF, the authorities also mentioned that Colombia will need to undertake a structural fiscal reform to decrease the fiscal deficit by 2% of GDP through a combination of revenue and expenditure measures.Given the deterioration in the government's debt metrics because of the coronavirus crisis, these reforms will be key to support the sovereign's credit profile.

Colombia's fiscal rule, based on a structural deficit target, provides useful guidelines for countercyclical policy response during “normal” downturns. Moreover, given its track record since 2012, the rule's framework has not been the best to help arrest the deterioration of debt metrics, especially in the context of a sovereign that has lost fiscal space over the last decade. Further strengthening of the fiscal policy framework would be credit positive, including bolstering the role of the FRCC as an independent fiscal council, or considering explicit limits to the expansion of current spending under normal macroeconomic conditions. Moreover, compliance with the targets during 2020-21 and after would support fiscal policy credibility.

Fiscal strength score: ba1



Fiscal strength captures the overall health of government finances, incorporating the assessment of relative debt burdens and debt affordability as well as the structure of government debt. Some governments have a greater ability to carry a higher debt burden at affordable rates than others. Fiscal strength is adjusted for the debt trend, the share of foreign currency debt in government debt, other public sector debt and for cases in which public sector financial assets or sovereign wealth funds are present. Depending on the adjustment factor, the overall score of fiscal strength can be lowered or increased.

Note: the initial factor score is shown in light blue in the scale above. In case the initial and final factor scores are the same, only the final score will appear in the table above.

Our "ba1" fiscal strength assessment for Colombia reflects a government debt burden that is broadly in line with that of peers with the same score. However, Colombia lags peers with "ba1" fiscal strength in terms of debt affordability metrics. Its government debt-to-GDP and interest-to-revenue ratios have deteriorated in recent years as a consequence of both the terms-of-trade shock, which initially impacted government oil revenue, and the countercyclical policy response pursued by the government. The impact of lower oil prices and diminished economic activity caused by the coronavirus pandemic will imply a deterioration to fiscal metrics. Colombia shares its "ba1" score with Indonesia and the Philippines.

Exhibit 13

Peer comparison table factor 3: Fiscal strength

	Colombia	ba1 Median	Philippines	Indonesia	Guatemala	Nigeria	Turkey	Serbia
	Baa2/STA		Baa2/STA	Baa2/STA	Ba1/STA	B2/NEG	B1/NEG	Ba3/POS
Final score	ba1		ba1	ba1	ba1	ba1	ba1	ba1
Initial score	ba3		baa3	ba2	ba2	baa3	ba1	ba1
Gen. gov. debt (% of GDP)	52.1	40.2	37.3	30.5	26.6	23.5	32.8	52.9
Gen. gov. debt (% of revenue)	190.9	190.9	185.5	223.4	236.0	306.2	109.8	125.7
Gen. gov. interest payments (% of GDP)	3.0	1.8	1.8	1.9	1.6	1.8	2.9	2.0
Gen. gov. int. payments (% of revenue)	10.8	9.6	8.9	14.2	14.6	23.3	9.6	4.8

Sources: National authorities, IMF, Moody's Investors Service.

Colombia's fiscal strength assessment requires analysis at both the central and general government levels

We look at both the central and general government levels to assess Colombia's fiscal strength. Colombia's fiscal rule applies to the central government, which accounts for about two-thirds of the general government's revenue and expenditures (the general government includes local governments, social security entities and other extra-budgetary entities engaged in noncommercial activities). In terms of debt, Colombia's central government accounts for about 95% of total general government debt. Although we use the general government level for sovereign peer comparison purposes, central government fiscal dynamics have an important bearing on the metrics we use to assess Colombia's relative fiscal strength compared to Baa-rated peers.

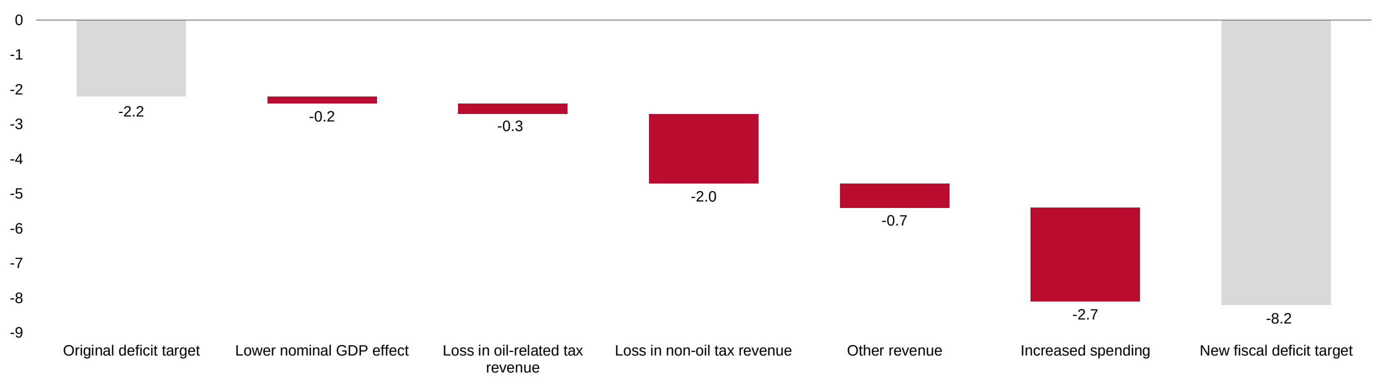
Coronavirus crisis will lead to record fiscal deficit in 2020; drop in oil prices to affect fiscal accounts in 2021

The central government's fiscal deficit widened during the terms-of-trade shock, reaching 4% of GDP in 2016. As the economy recovered in subsequent years, the deficit narrowed. The government announced that the central government fiscal deficit was likely 2.5% of GDP last year, just above the official 2.4% target but within the fiscal rule's limits (2.7% deficit ceiling). The primary balance – fiscal deficit excluding interest payments – was 0.4% of GDP, the first primary surplus since 2012. Tax collections last year increased by 0.1 percentage points of GDP to 14%, supported by the economic recovery as well as improved tax management by the national collection agency (DIAN). Although the government did not use the sale of assets as a source of financing last year, as initially proposed in the MTFF presented in June 2019, it benefited from an extraordinary dividend paid by Ecopetrol SA (Baa3 stable), the state-owned oil company. As a majority shareholder (88.5% of the total), the government received COP3.2 trillion of the COP3.7 trillion ($1.1 billion, or 0.35% of GDP) payment.

The original deficit target for 2020 was 2.2% of GDP. However, the coronavirus outbreak and the economic disruption caused by the quarantine measures will weigh significantly on the fiscal accounts in 2020. In the 2020 MTFF, and following the suspension of the fiscal rule for 2020-21, the government announced a revised deficit target of 8.2% of GDP. This includes 2.7% of GDP in additional expenditures to respond to the shock and a 3.0% of GDP loss in revenue (see Exhibit 14). We consider that this new target is consistent with the magnitude of the coronavirus crisis' overall effect on the economy and fiscal accounts. Our baseline had incorporated a fiscal deficit in the 7.5%-8.0% of GDP range for the central government.

Exhibit 14

Fiscal deficit to widen to 8.2% of GDP due to large loss of revenue and higher spending
(% of GDP)



Source: Ministry of Finance

The authorities expect the deficit will come down to 5.1% of GDP in 2021. The additional spending to directly respond to the crisis in 2020 will not become recurrent and therefore would reduce total expenditures by 2.5% of GDP next year. Additionally, authorities expect that as the economy recovers, revenue will bounce back – although tax revenue would grow at the same rate as nominal GDP. Moreover, the government expects to obtain 1.1% of GDP in income from asset sales. Lower oil prices will also weigh on revenue in 2021, likely enabling Ecopetrol to provide a very small – if any – dividend to the government next year. As was the case in 2019 and 2020, the central bank will also provide a transfer of profits to the central government. Overall, we consider that fiscal consolidation in 2021 faces important risks, especially on the revenue front. Our economic growth projections are more conservative than those of the government, which could lead to an overestimation of tax income next year. There is also the fact that 2021 is a pre-electoral year, and heightened social demands could add limit expenditures cuts.

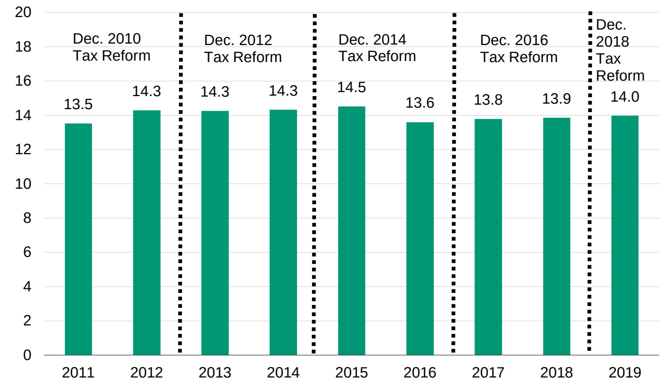
The 2020 MTFF foresees additional consolidation in 2022, with the deficit falling to 2.5% of GDP that year and converging to 1.0% over the medium term. This would support the government's previous goal of maintaining primary surpluses to support the stabilization of the debt trend. Importantly, authorities raised the need to pursue structural fiscal reforms to raise tax revenue permanently and also reduce inefficiencies on the expenditure structure. This would be key to support the fiscal targets set for 2022 and onward and address the structural rigidities that plague Colombia's fiscal accounts.

Structural rigidities challenge authorities' ability to reduce the deficit

On the fiscal front, Colombia faces a key structural challenge of a narrow revenue base despite multiple tax reforms over the past few decades. Seven tax reforms since 2010 under successive administrations have not been sufficient in materially increasing central government tax revenue, which has remained at around 14% of GDP since 2011. The last three reforms approved in 2012, 2014 and 2016 improved tax administration and reduced the share of workers and companies in the informal economy, but were not effective in boosting long-term revenue intake (see Exhibit 15). Low economic growth has limited the effectiveness of these tax reforms, given that more than 80% of taxes – value-added tax (VAT) and income tax (see Exhibit 16) – are linked directly to economic activity.

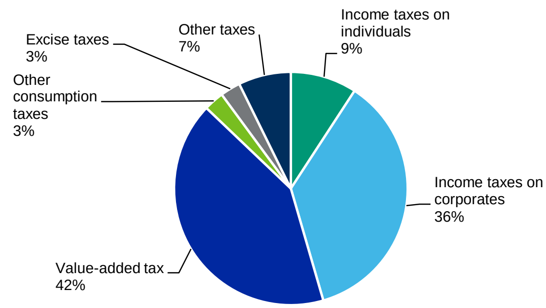
To improve competitiveness and incentivize investment in the country, the Duque administration used the 2018 tax reform to lower the tax burden of corporates in Colombia by gradually reducing the corporate income tax rate beginning in 2020. In 2018, these taxes represented over one-third of total tax collections and 5.3% of GDP. At this level, Colombia's corporate income tax collections are one of the highest in the Latin American region. The government sought to compensate for the lower collection from corporates by broadening the VAT tax base. However, that measure was eliminated by Congress such that the expectation became that the tax reform would lead to lower tax collections. The 2018 reform was struck down last year following legal challenges, but an almost identical reform, the so-called Economic Growth Law, was passed in December 2019.

Exhibit 15
Despite implementing frequent tax reforms, tax intake remains low
(Central government tax revenue, % of GDP)



Sources: Ministry of Finance, Moody's Investors Service

Exhibit 16
Tax structure concentrated in VAT and corporate taxes
(% of total 2018 central government tax revenue)



Sources: IADB-CIAT 2019 Database, Moody's Investors Service

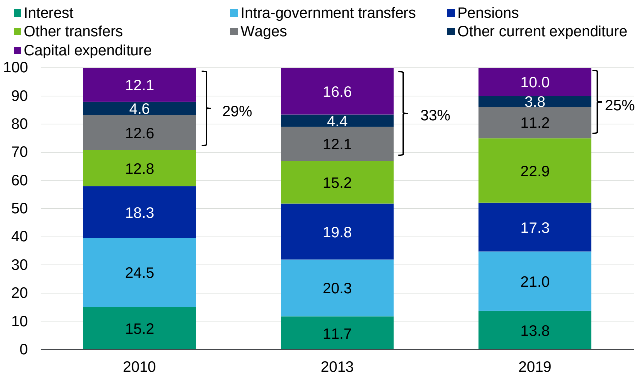
In June 2020, the government announced the formation of a committee of international experts that will advise the government on potential changes to the structure of tax exemptions. Moreover, President Duque has stated in no uncertain terms that a tax reform is unlikely this year. If and when adopted, a reform that proves effective in broadening the tax base would be credit positive as it would (1) support a fiscal consolidation process and (2) allow the government to increase its structural revenue such that it can have more fiscal space to meet higher social demands and boost central government investment.

On the expenditure side, Colombia faces a relatively rigid structure, which limits the scope for authorities to adjust spending. Capital expenditures, wages and purchases of goods and services (other current expenditure) – spending that tends to be easier to adjust – represented a relatively low 25% of total spending, down from 33% in 2013 (see Exhibit 17). On the other hand, transfers – including transfers to other government entities, pensions and other social transfers – made up 60% of total spending in 2019.

Capital expenditures were rising in line with higher oil prices between 2010 and 2014, but after the oil price shock in 2015-16, central government investment fell in nominal terms (see Exhibit 18). Meanwhile, other transfers, including subsidies, have risen more than threefold since 2010. This growth in other transfers is explained by changes included in the 2012 tax reform in which some payroll tax payments were eliminated. Previously, these taxes were used to finance health insurance, child protection (ICBF) and job training (SENA) programs – starting in 2013-14, the central government assumed this spending.

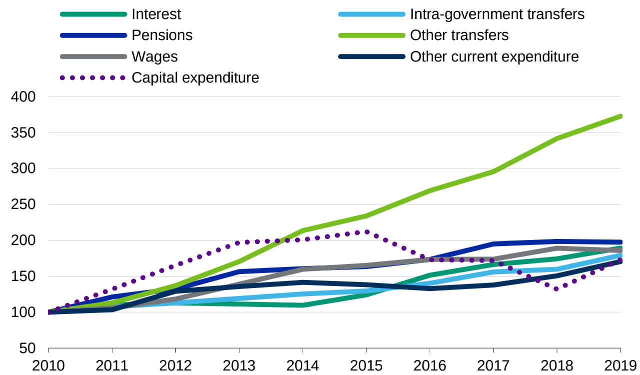
Because reducing social transfers can be difficult politically (in Colombia some of these payments are sanctioned by law), the government's ability to adjust is limited. The current administration will seek to target the recipients of these subsidies more precisely to create potential savings. A pension reform being considered could provide some additional fiscal space for the government.

Exhibit 17
Transfers make up the largest share of spending...
(% of total central government spending)



Sources: Ministry of Finance, Moody's Investors Service

Exhibit 18
...with some transfers more than tripling since 2010
(Index, 2010 = 100)

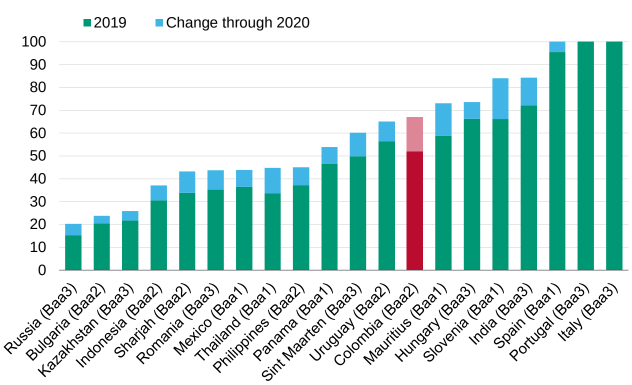


Sources: Ministry of Finance, Moody's Investors Service

While all sovereigns will experience a deterioration in debt metrics in 2020, Colombia's fiscal position will be weaker than most peers

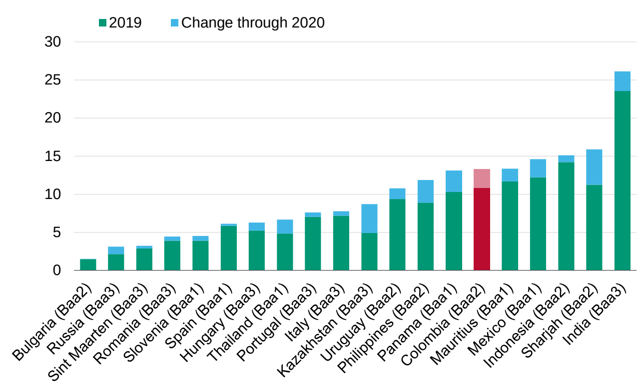
We forecast that Colombia's debt and interest burdens will worsen this year and next because of the coronavirus shock. At the general government level we expect the debt-to-GDP ratio to rise to 67% in 2020 from 52% in 2019 (see Exhibit 19). This increase will be larger than the average rise in the debt burden for Baa-rated sovereigns in 2020 (11 percentage points), and will place Colombia's debt burden higher than the Baa-median of 57%. In terms of the interest burden, we expect Colombia's interest-to-revenue ratio to increase to 13.3% in 2020 from 10.9% in 2019 (see Exhibit 20). The change in 2020 will be slightly larger than that of the average Baa sovereign (1.6 percentage points), and will place Colombia further away from the category median of 8.2%.

Exhibit 19
Change in debt burden following coronavirus shock
(% of GDP)



Source: Moody's Investors Service

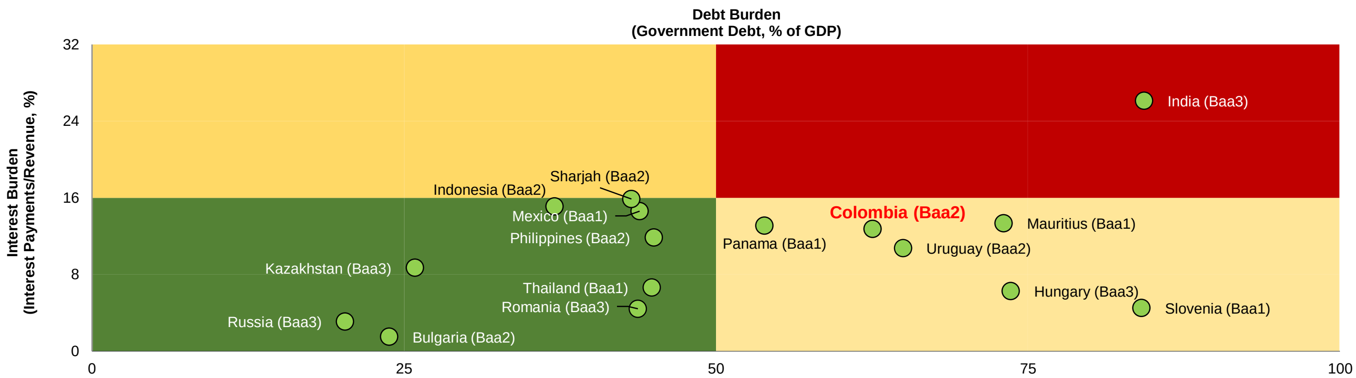
Exhibit 20
Change in interest burden following coronavirus shock
(% of revenue)



Source: Moody's Investors Service

Given these changes in the Baa-rated sovereigns' debt metrics, Colombia's relative position in terms of fiscal strength will be weaker than most peers (see Exhibit 21).

Exhibit 21
Baa peers debt metrics
(2020 ratios)

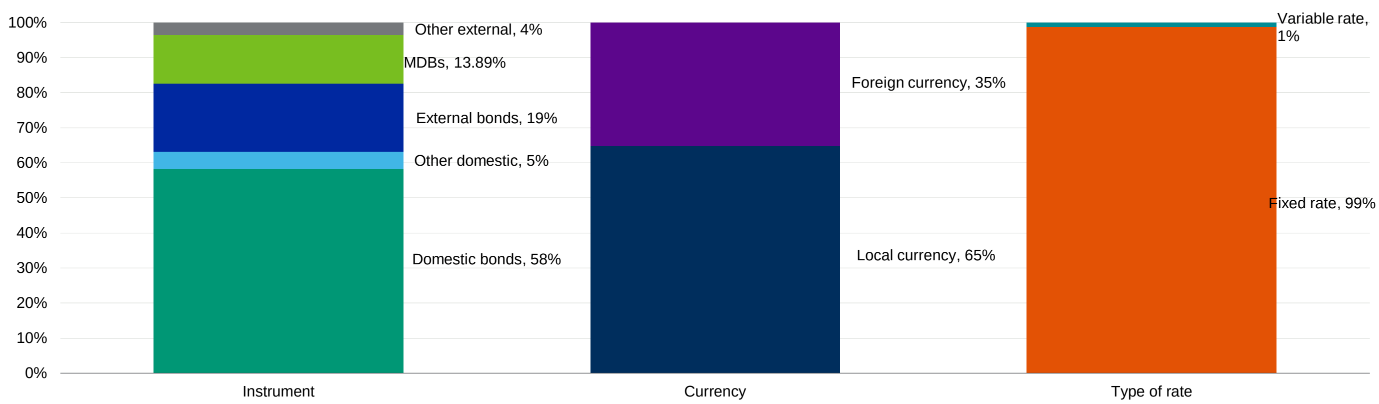


Source: Moody's Investors Service

Favorable debt structure mitigates credit risks derived from a higher debt burden

Colombia's debt profile has improved over the past decade. The share of foreign-currency-denominated debt stands at just under 40% of the total as of April 2020 (see Exhibit 22), having risen from 24% in 2012-13. This was, in part, caused by the sharp depreciation in the COP in 2014-16 and so far in 2020. However, multilateral development banks make up an important portion of external debt. In addition, domestic bonds (TES) account for 58% of the total. Colombia has recorded an increase in the share of nonresident holders of TES, which currently stand at 23% of all TES (the rest is owned almost evenly between domestic pension funds and financial institutions). While a rise in nonresident holders can expose the sovereign to shifts in global risk appetite, these dynamics have helped to improve Colombia's debt structure. Almost all debt has now been set at fixed rates, and the government has been able to issue at longer maturities, extending the maturity profile of its debt.

Exhibit 22
Colombia has a favorable debt profile
(% of total, May 2020)



Sources: Ministry of Finance, Moody's Investors Service

Susceptibility to event risk score: baa

We assess Colombia's susceptibility to event risk as "baa," driven by political risk. Other potential sources of risks, including government liquidity, banking sector and external vulnerability risks, are assessed with a score of "a."

Political risk: "baa"

Exhibit 23

Peer comparison table factor 4a: Political risk

	Colombia	baa Median	China	Mexico	Hong Kong	Israel	Spain	Peru
	Baa2/STA		A1/STA	Baa1/NEG	Aa3/STA	A1/STA	Baa1/STA	A3/STA
Final score	baa		baa	baa	baa	baa	baa	baa
Voice & accountability, score[1]	0.2	0.2	-1.4	0.0	0.5	0.7	1.1	0.2
Political stability, score[1]	-0.8	0.1	-0.3	-0.6	0.8	-0.9	0.3	-0.3

[1] Composite index with values from about -2.50 to 2.50: higher values correspond to better governance.
Sources: National authorities, IMF, Moody's Investors Service

Political risk in Colombia, which we assess as "baa" in line with regional peers Peru (A3 stable) and Mexico, has eased following advances in the peace agreement with the FARC despite occasional setbacks. We note, however, that there is still an ongoing conflict between the government and the ELN (National Liberation Army). Implementation of the peace process still carries some risks as it could increase political polarization in the country, weighing on consumer and business confidence. Additionally, there are fiscal costs associated with the process, although it is likely to boost growth in the longer term.

In the 2018 elections, Iván Duque, of Centro Democrático, won the presidency. His party has a majority in both chambers of Congress through a coalition with other right-wing parties, which captured a 55% share of seats in Congress. This reduced the risk of a radical policy shift and the government has been able to pass key measures for its policy agenda, including the tax reform in 2018 and the National Development Plan in May 2019. However, opposition within the governing coalition led to modifications to the official proposal for the 2018 tax reform, which watered down the reform. The tax reform was reapproved by Congress in December 2019.

In February 2020, the president reshuffled the cabinet to address the governance challenges provoked by social protests in late 2019 and early 2020. The ministries of health and social protection, labor and agriculture were given to members of parties outside of the governing coalition. The governing coalition grew after the cabinet reshuffle which incorporated Cambio Radical, a formerly independent party, in the ruling group. As a result, The government coalition now represents more than 60% in the senate and the house.

These changes proved timely as the administration has been able to comfortably pass all the economic reforms that have been tabled to congress (budgets 2019 and 2020, tax reforms 2018 and 2019, National Development Plan, and constitutional reform on regional royalties). Public support for the government has increased as a result of its effective crisis management. According to the latest bimonthly Gallup poll, approval ratings for the administration increased to 52% from 30% before the pandemic.

Given these developments, we expect the government to be able to push through its reform agenda, but with the risk that the effectiveness of these measures are weakened.

Government liquidity risk: “a”

Exhibit 24

Peer comparison table factor 4b: Government liquidity risk

	Colombia Baa2/STA	a Median	Belgium Aa3/STA	Hungary Baa3/STA	Uruguay Baa2/STA	Paraguay Ba1/STA	Romania Baa3/NEG	Mauritius Baa1/NEG
Final score	a		a	a	a	a	a	a
Initial score	a		a	a	a	a	a	a
Ease of access to funding	a	a	a	a	a	a	a	a
Gross borrowing requirements (% of GDP)	10.4	10.5	17.2	23.2	10.6	6.9	8.4	30.3

Sources: National authorities, IMF, Moody's Investors Service

Colombia's “a” government liquidity risk reflects relatively low gross borrowing requirements (annual funding needs defined as the sum of the fiscal deficit and amortizations) and a moderate share of external creditors. In our view, Colombia continues to have relatively favorable market access, which over the past few years has allowed the government to decrease its borrowing costs – the average coupon for domestic debt as of May 2020 is 7.2%, down from 10% in 2008, while for external debt has remained below 6% over the past decade (4% in May 2020). Proactive debt management limits amortizations to up to 8% of total debt annually – as of April 2020 the average life of external debt was 12.0 years and 6.3 years for domestic debt.

Despite a deterioration in market perception following the intensification of the coronavirus outbreak and the fall in oil prices in March 2020, sovereign spreads have narrowed through the end of June. Consequently, since late May borrowing conditions for Colombia's government have been broadly comparable to those seen before the shock (in January 2020). This has allowed the government to find a diverse pool of funding for its larger financing requirements in 2020, that in addition to the drawdown in government assets, include multilateral borrowing and both domestic and external bond issuances. Domestic issuances have been met with strong demand, and after an outflow of nonresident holdings in March and April, these investors have since returned. Externally, the government issued a $1 billion bond due in 2031 and a $1.5 billion bond due in 2051, with record low coupons for the sovereign (3.125% and 4.125%, respectively).

Banking sector risk: "a"

Exhibit 25

Peer comparison table factor 4c: Banking sector risk

	Colombia Baa2/STA	a Median	Japan A1/STA	Denmark Aaa/STA	Peru A3/STA	Hong Kong Aa3/STA	Malaysia A3/STA	Finland Aa1/STA
Final score	a		a	a	a	a	a	a
Initial score	a		a	a	a	a	a	a
BCA[1]	ba1	baa2	baa1	baa2	baa2	a2	baa1	a3
BSCE[2]	ba1-ba2	baa2	baa1	baa1	baa3	aaa-a3	baa1	aaa-a3
Total domestic bank assets (% of GDP)	63.6	144.9	205.9	385.8	60.6	853.6	187.4	271.7

[1] BCA is an average of Baseline Credit Assessments (BCAs) for rated domestic banks, weighted by bank assets.
[2] Where we have no or small rating coverage in a system, we estimate the risk of Banking Sector Credit Event (BSCE) based on available data for aggregate banking system.
Sources: National authorities, IMF, Moody's Investors Service

We assess Colombia's banking sector risk as "a," reflecting a baseline credit assessment for the system of ba1. The Colombian banking system is highly concentrated, with the five largest banking groups controlling around 81.7% of the banking system's assets as of December 2019. Grupo Aval (Ba2 negative) and Bancolombia (Baa2 stable, ba1) are the largest banking institutions with each accounting for 26% of total assets as of April 2020.

Weaker economic conditions in 2020 as a result of the coronavirus pandemic will hurt consumer and corporate loan quality at a time when banks were expanding into consumer and small and medium-sized enterprise (SME) lending, which now account for more than 30% of total loans. Delinquencies are likely to rise, particularly in loans to households and SMEs as economic growth deceleration leads to higher unemployment, reducing borrowers' repayment capacity. Despite these challenges the banking sector will maintain steady levels of funding and liquidity as loan growth slows.

The central bank has taken significant measures to maintain liquidity levels and support SME lending, in addition to already significant cuts (100 bps between March and May 2020) to the policy rate. The central bank expanded US dollar swaps and nondelivery forwards by $1.4 billion and has been granted authorization to buy private securities with maturities of three years or less with the scope of the intervention reaching $10 billion. In April, the central bank decreased reserve requirements to stimulate the supply of loans, resulting in an additional COP9 trillion ($2.4 billion) available for lending.

Government officials have historically intervened to maintain the stability of the banking system and protect depositors in times of stress. Even during the country's financial crisis in the late 1990s, no bank defaulted. Deposits are also protected by a government-administered deposit insurance system, Fondo de Garantías de Instituciones Financieras (Fogafin). Fogafin protects deposits for up to COP50 million per depositor, per financial institution.

Given the average quality of banks in the country and the moderate size of the system, we consider the probability of contingent liabilities stemming from the banking sector onto the sovereign's balance sheet to be low.

External vulnerability risk: "a"

Exhibit 26

Peer comparison table factor 4d: External vulnerability risk

	Colombia Baa2/STA	a Median	South Africa Ba1/NEG	Portugal Baa3/POS	Mexico Baa1/NEG	Slovakia A2/STA	Indonesia Baa2/STA	Latvia A3/STA
Final score	a		a	a	a	a	a	a
Initial score	a		a	a	a	a	a	a
Current account balance (% of GDP)	-4.2	-2.7	-3.0	-0.1	-0.3	-2.9	-2.7	-0.5
Net IIP (% of GDP)[1]	-52.4	-37.9	8.1	-100.8	-53.2	-65.5	-30.2	-44.1
External debt (% of current account receipts)	199.8	100.1	161.3	370.8	85.3	111.9	183.8	170.5
External vulnerability indicator (EVI)[2]	81.8	58.5	101.1	--	59.0	--	61.6	--

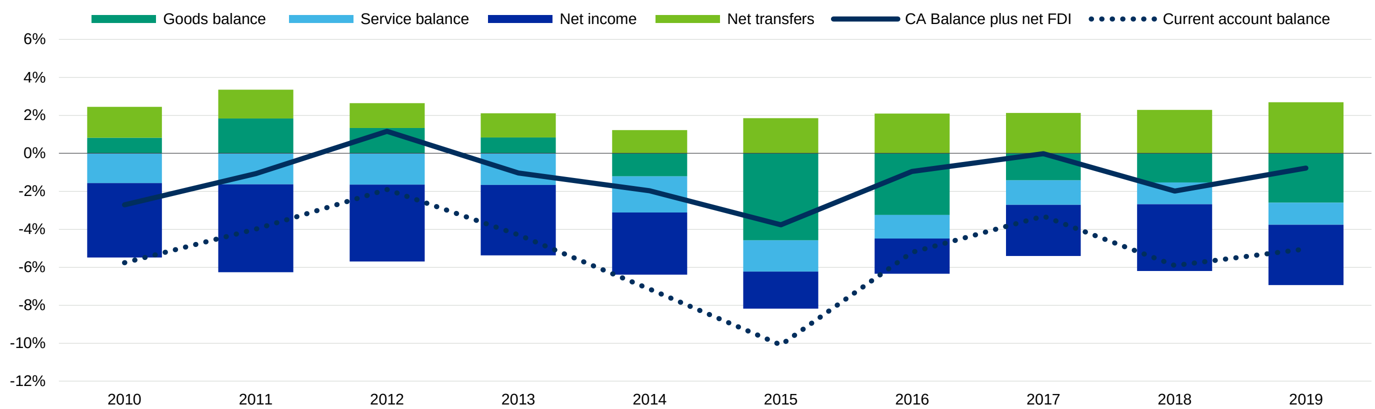
[1] Net international investment position (% of GDP).
[2] (Short-term external debt + currently maturing long-term debt + total nonresident deposits over one year)/official foreign exchange reserves.
Sources: National authorities, IMF, Moody's Investors Service

The current account deficit widened to 4.2% of GDP in 2019 from 3.9% in 2018 because of a slightly wider goods deficit (see Exhibit 27). Net FDI coverage of the current account deficit rose last year, as net foreign direct investment rose to 3.5% of GDP in 2019 from 1.9% in 2018. This improvement has been in line with a narrowing trend in the current account deficit observed since 2015, when the shortfall was 6.3% of GDP.

We expect the current account deficit to increase to 4.4-4.8% of GDP in 2020, reflecting a significant fall in exports as oil prices will be lower this year than last year, and imports demand contracts because of the coronavirus pandemic effect on domestic demand. The depreciation of the peso will also affect this metric by reducing the value of GDP in USD. However, we expect FDI to continue to provide significant coverage of the current account deficit and for Colombia to continue to experience sufficient portfolio flows.

Exhibit 27

Current account deficit mostly covered by net FDI
(% of GDP)



Sources: Banrep via Haver, Moody's Investors Service

In addition, external financing risks are contained by adequate foreign exchange buffers of $55.8 billion as of May 2020 (17% of 2019 GDP), as well as the availability of about $10.8 billion in contingent credit through the International Monetary Fund's Flexible Credit Line (FCL). Colombia has not drawn down on the FCL, which we view as providing an important buffer against external financial shocks, helping to boost market confidence during periods of heightened risk aversion. Colombia's External Vulnerability Indicator (EVI),[8] while increasing in recent years, has remained below the 100% mark, indicating that reserves are sufficient to cover upcoming external debt payments.

ESG considerations

How environmental, social and governance risks inform our credit analysis of Colombia

Moody's takes account of the impact of environmental (E), social (S) and governance (G) factors when assessing sovereign issuers' economic, institutions and governance and fiscal strength and their susceptibility to event risk. In the case of Colombia, the materiality of ESG to the credit profile is as follows:

Colombia is exposed to environmental risks because of climate-related events such as the La Niña weather pattern that can cause flooding and affect agricultural output.

Social risks stem from several factors. The influx of more than 1.4 million Venezuelan migrants into Colombia helped boost growth in 2019 (by 0.25ppts according the IMF) and could lead to higher productivity, but adds pressure to the government's fiscal balance because of higher social spending. Moreover, complications surrounding the peace agreement with the FARC and persistently high levels of rural-urban inequality could also be a potential source of social unrest. Despite managing the coronavirus effectively relative to most regional peers, the health-related spending in response to the coronavirus pandemic, which will total at least COP6 trillion in 2020, will add to fiscal pressures and contribute to a higher debt burden.

Governance considerations, including issues such as rule of law and control of corruption, inform our view of Colombia's moderate institutional framework. The government maintains a strong track record of effective fiscal and monetary policymaking.

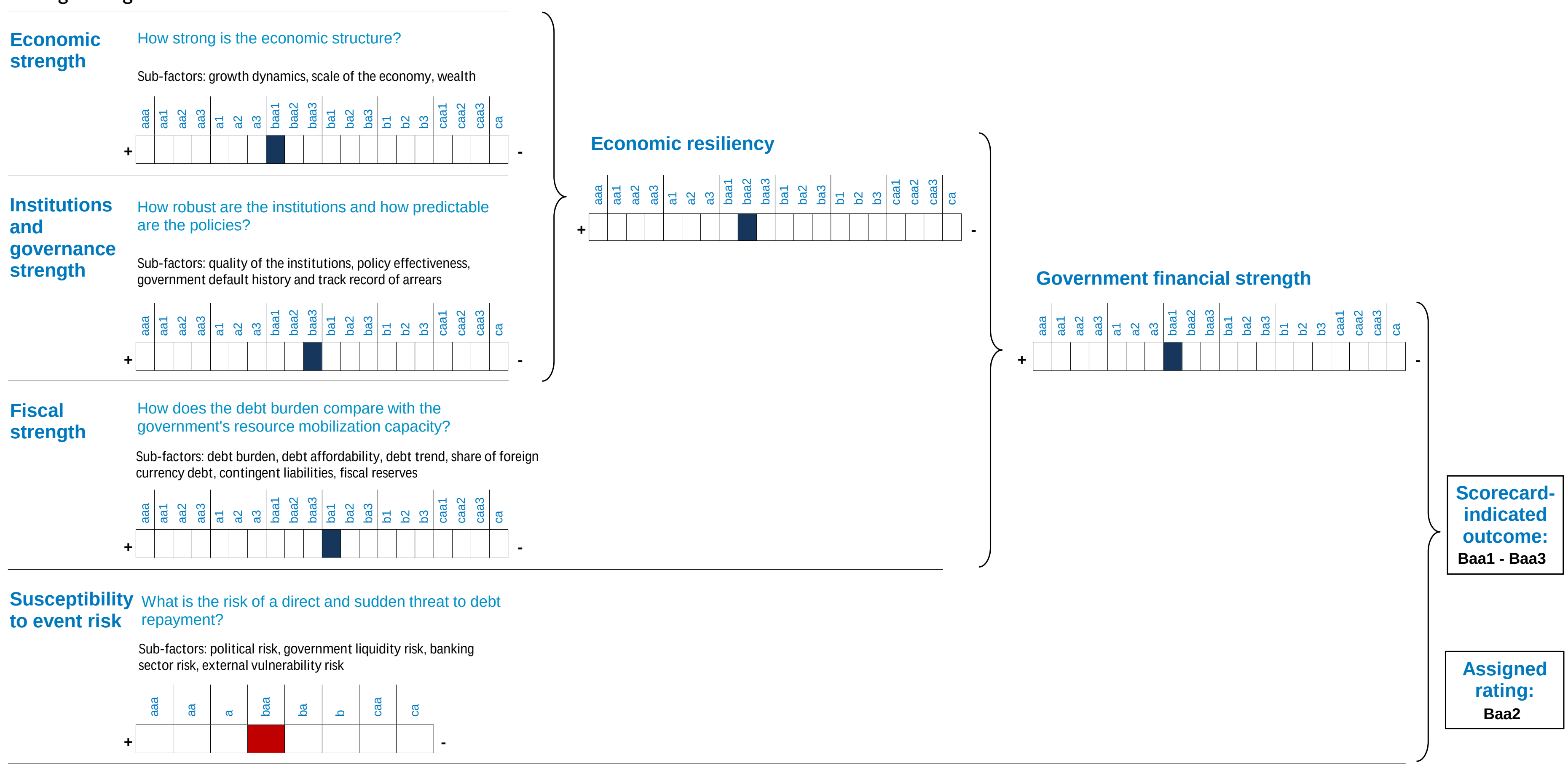
All of these considerations are further discussed in the "Credit profile" section above. Our approach to ESG is explained in our report on how ESG risks influence sovereign credit profiles and our cross-sector methodology General Principles for Assessing ESG Risks.

Scorecard-indicated outcome

Combining the scores for individual factors provides the scorecard-indicated outcome. While the information used to determine the grid mapping is mainly historical, our ratings incorporate expectations around future metrics and risk developments that may differ from the ones implied by the scorecard-indicated outcome. Thus, the rating process is deliberative and not mechanical, meaning that it depends on peer comparisons and should leave room for exceptional risk factors to be taken into account that may result in an assigned rating outside the scorecard-indicated outcome. For more information please see our Sovereign Ratings Methodology.

Exhibit 28

Sovereign rating metrics: Colombia



Source: Moody's Investors Service

Comparatives

This section compares credit relevant information regarding the government of Colombia with other sovereigns that we rate. It focuses on a comparison with sovereigns within the same rating range and shows the relevant credit metrics and factor scores. Colombia's economy is larger than most of its Baa-rated peers and exhibits similar levels of competitiveness. As is common with many countries in Latin America, Colombia's WGI indicators are relatively weaker when compared to select peers, but in line with regional medians. Colombia's debt burden is above that of most peers, but its general government interest burden is only slightly above the Baa2 median. Finally, although Colombia's EVI is higher than most peers, its exposure to external debt is offset by a healthy international reserve position.

Exhibit 29

Colombia's key peers

	Year	Colombia	Indonesia	Philippines	Mexico	Romania	Kazakhstan	Baa2 Median	Latin America and Caribbean Median
Rating/outlook		Baa2/STA	Baa2/STA	Baa2/STA	Baa1/NEG	Baa3/NEG	Baa3/POS	Baa2	Ba3
Scorecard-indicated outcome		Baa1 - Baa3	Baa1 - Baa3	Baa1 - Baa3	A3 - Baa2	Baa1 - Baa3	Baa1 - Baa3	Baa1 - Baa3	Ba2 - B1
Factor 1		**baa1**	**a2**	**a3**	**baa1**	**baa2**	**baa2**	**baa2**	**ba2**
Nominal GDP ($ bn)	2019	323.6	1119.2	376.8	1258.2	250.1	180.2	195.8	46.3
GDP per capita (PPP, Intl$)	2019	15,541	13,998	9,471	20,868	27,998	28,849	19,561	15,534
Avg. real GDP (% change)	2015 - 2024F	2.1	4.5	5.3	1.1	3.6	3.0	2.4	1.2
Volatility in real GDP growth (ppts)	2010 - 2019	1.6	0.6	1.0	1.5	2.9	2.1	1.5	1.9
Factor 2		**baa3**	**baa3**	**baa2**	**ba1**	**baa3**	**ba3**	**baa2**	**ba3**
Quality of legislative & executive institutions	Latest available	baa	baa	baa	ba	ba	b	baa	ba
Strength of civil society & judiciary	Latest available	ba	ba	ba	b	ba	caa	ba	ba
Fiscal policy effectiveness	Latest available	baa	ba	a	baa	baa	baa	baa	ba
Monetary & macro policy effectiveness	Latest available	baa	a	baa	baa	baa	ba	baa	ba
Gen. gov. fiscal balance (% of GDP)	2019 - 2021F	-4.6	-4.7	-3.8	-3.5	-6.0	-3.0	-4.7	-5.0
Average inflation (% change)	2015 - 2024F	3.9	3.2	2.6	3.5	2.2	7.1	2.9	2.8
Volatility of inflation (ppts)	2010 - 2019	1.6	1.7	1.4	1.0	2.6	2.7	1.7	1.7
Factor 3		**ba1**	**ba1**	**ba1**	**baa1**	**baa2**	**aa2**	**ba1**	**ba2**
Gen. gov. debt (% of GDP)	2019	52.1	30.5	37.3	36.4	35.2	21.8	35.6	54.1
Gen. gov. debt (% of revenue)	2019	190.9	223.4	185.5	204.8	111.1	108.1	193.2	228.7
Gen. gov. interest payments (% of revenue)	2019	10.8	14.2	8.9	12.2	3.9	4.9	10.1	10.6
Gen. gov. interest payments (% of GDP)	2019	3.0	1.9	1.8	2.2	1.2	1.0	1.9	2.4
Factor 4		**baa**	**a**	**baa**	**baa**	**baa**	**ba**	**baa**	**baa**
Political risk	Latest available	**baa**	**a**	**baa**	**baa**	**baa**	**ba**	**a**	**baa**
Government liquidity risk	Latest available	**a**	**a**	**aaa**	**a**	**a**	**a**	**a**	**a**
Gross borrowing requirements (% of GDP)	2020F	9.5	--	7.0	10.2	8.4	6.8	9.5	10.3
Banking sector risk	Latest available	**a**	**a**	**a**	**a**	**a**	**ba**	**a**	**baa**
BSCE[1]	Latest available	ba1-ba2	baa3	baa3	baa3	ba1-ba2	ba3-b3	baa3	ba1-ba2
Total domestic bank assets (% of GDP)	2019	63.6	55.0	81.8	--	50.4	38.9	67.7	74.0
External vulnerability risk	Latest available	**a**	**a**	**aa**	**a**	**baa**	**a**	**a**	**baa**
Current account balance (% of GDP)	2019	-4.3	-2.7	-0.1	-0.3	-4.6	-3.6	-0.1	-1.6
External vulnerability indicator (EVI)	2021F	81.8	61.6	27.8	59.0	170.3	229.9	76.0	65.5
External debt (% of current account receipts)	2019	200.4	183.8	61.4	85.3	104.7	222.7	183.8	125.6
Net international investment position (% of GDP)	2019	-52.4	-30.2	--	-53.2	-42.9	-34.2	-30.2	-38.4

[1] BSCE is our estimate of the risk of a Banking Sector Credit Event (BSCE), which we use for sovereigns where we have no or very limited rating coverage of a system. Otherwise, we use the Baseline Credit Assessment (BCA) for rated domestic banks, weighted by bank assets.

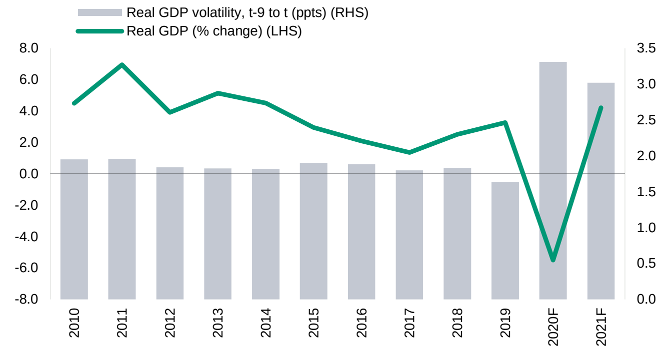
Sources: National authorities, IMF, Moody's Investors Service

DATA, CHARTS AND REFERENCES

Chart pack: Colombia

Exhibit 30

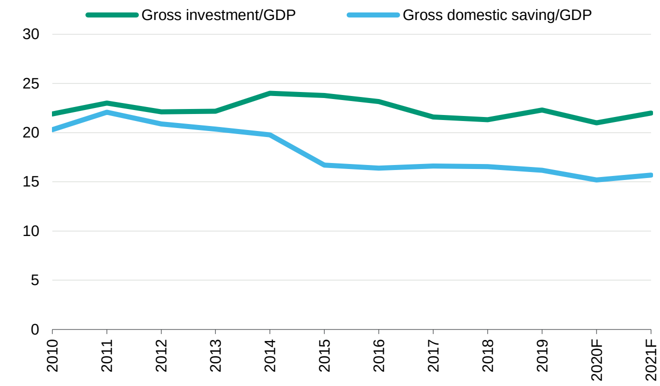
Economic growth



Source: Moody's Investors Service

Exhibit 31

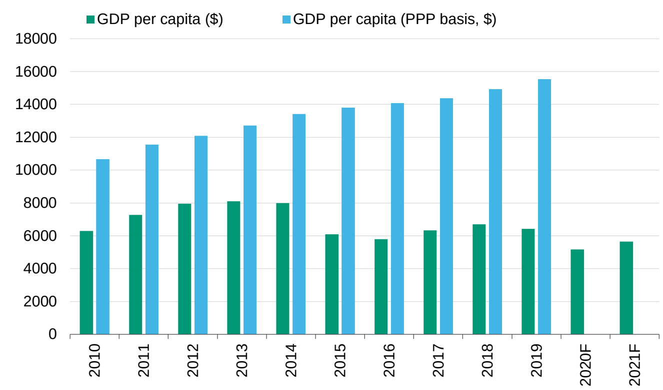
Investment and saving



Source: Moody's Investors Service

Exhibit 32

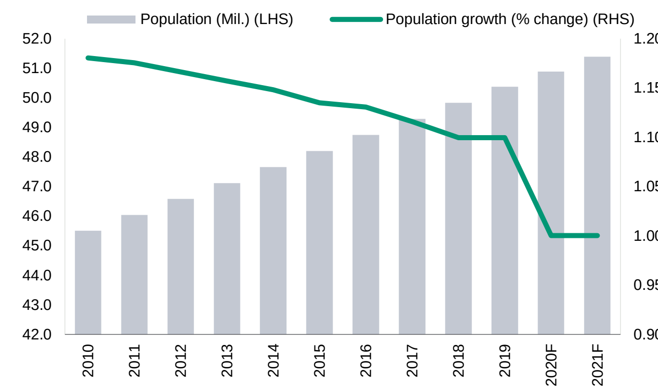
National income



Source: Moody's Investors Service

Exhibit 33

Population

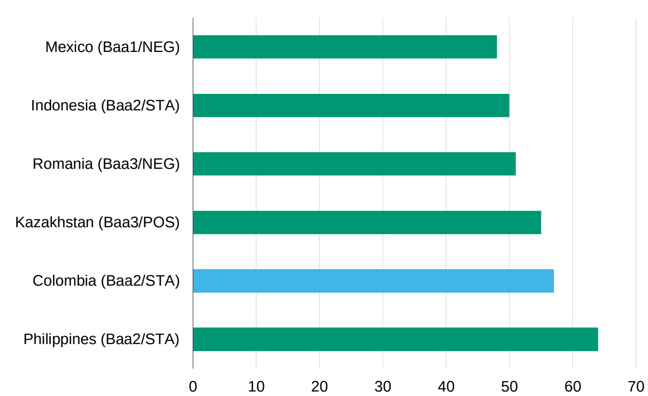


Source: Moody's Investors Service

Exhibit 34

Global Competitiveness Index

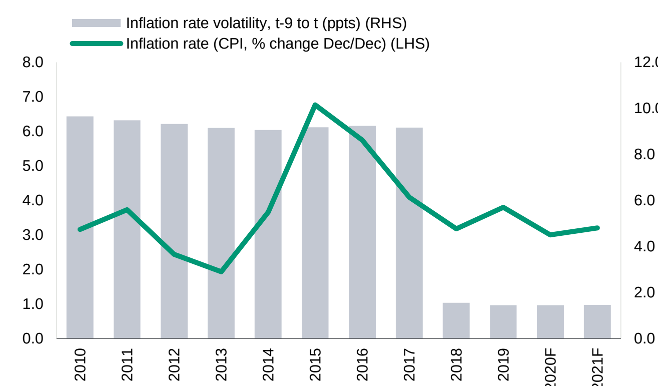
Rank 57 out of 141 countries



Source: World Economic Forum

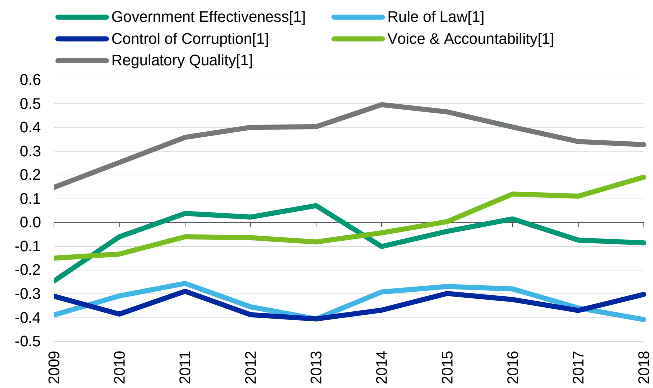
Exhibit 35

Inflation and inflation volatility



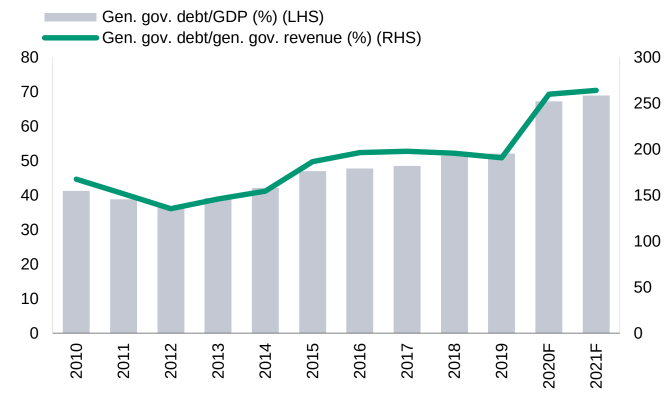
Source: Moody's Investors Service

Exhibit 36
Institutional framework and effectiveness



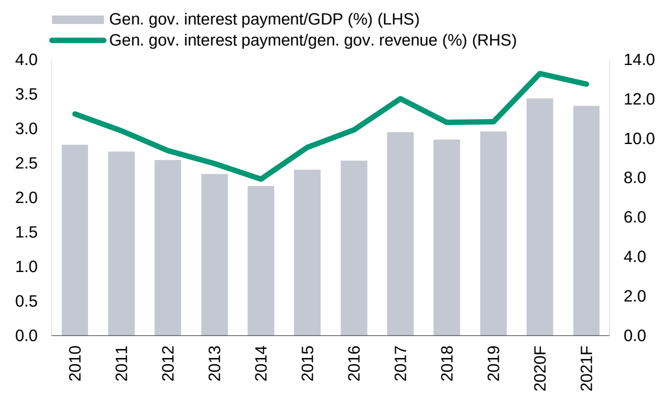
Notes: [1] Composite index with values from about -2.50 to 2.50: higher values suggest greater maturity and responsiveness of government institutions.
Source: Worldwide Governance Indicators

Exhibit 37
Debt burden



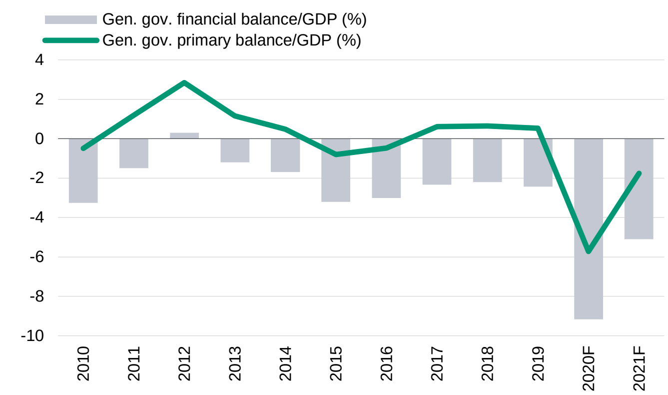
Source: Moody's Investors Service

Exhibit 38
Debt affordability



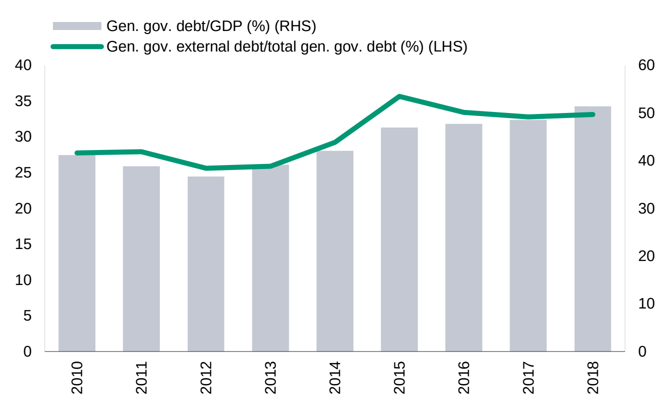
Source: Moody's Investors Service

Exhibit 39
Financial balance



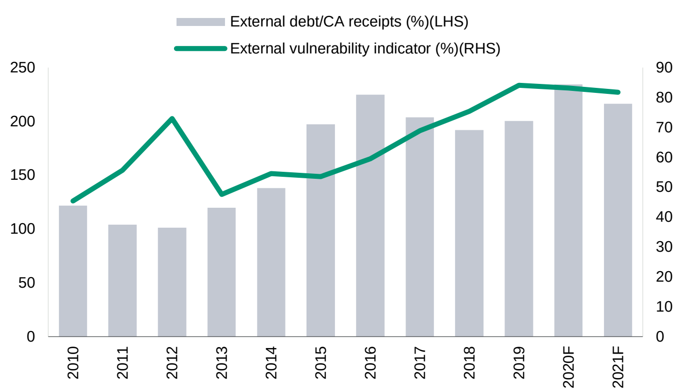
Source: Moody's Investors Service

Exhibit 40
Government liquidity risk



Source: Moody's Investors Service

Exhibit 41
External vulnerability risk



Source: Moody's Investors Service

Rating history

Exhibit 42
Colombia[1]

Long Term Ratings		Outlook	Review Action		Short Term Ratings		Action Date
Foreign Currency	Local Currency		Foreign Currency	Local Currency	Foreign Currency	Local Currency	
Baa2	Baa2	STA	-	-	P-2	P-2	May-19
Baa2	Baa2	NEG	-	-	P-2	P-2	Feb-18
Baa2	Baa2	STA	-	-	P-2	P-2	Jul-14
Baa3	Baa3	POS	-	-	-	-	Jul-13
Baa3	Baa3	STA	-	-	-	-	May-11
Ba1	Baa3	POS(m)	-	-	-	-	Sep-10
Ba1	Baa3	STA	-	-	-	-	Jun-08
Ba2	Baa3	POS(m)	-	-	-	-	Jun-07
Ba2	Baa3	STA	-	-	-	-	Jun-06
Ba2	Baa2	RUR	-	Possible Downgrade	-	-	Mar-06
Ba2	Baa2	NEG	-	-	-	-	Nov-03
Ba2	Baa2	-	-	-	-	-	Aug-99
Baa3	Baa2	-	Possible Downgrade	-	-	-	Jun-99
Baa3	Baa2	-	Confirmed	-	-	-	Dec-98
Baa3	Baa2	-	Possible Downgrade	-	-	-	Sep-98
Baa3	Baa2	-	-	-	-	-	Jun-98
Baa3	-	-	-	-	-	-	Sep-95
Ba1	-	-	Possible Upgrade	-	-	-	Jun-95
Ba1	-	-	-	-	-	-	Aug-93

Notes: [1] Table excludes rating affirmations and ceilings. Please visit the issuer page for Colombia for the full rating history.
Source: Moody's Investors Service

Annual statistics

Exhibit 43
Colombia

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020F	2021F
Economic structure and performance												
Nominal GDP (US$ bil.)	286.6	334.9	370.9	382.1	381.1	293.5	282.8	311.9	333.6	323.6	256.7	286.3
Population (Mil.)	45.5	46.0	46.6	47.1	47.7	48.2	48.7	49.3	49.8	50.4	50.9	51.4
GDP per capita (US$)	6,297	7,274	7,963	8,109	7,996	6,088	5,802	6,327	6,694	6,423	5,044	5,570
GDP per capita (PPP basis, US$)	10,665	11,554	12,094	12,721	13,415	13,798	14,073	14,372	14,936	15,541	--	--
Nominal GDP (% change, local currency)	8.5	13.8	7.7	7.1	6.8	5.5	7.3	6.6	7.1	7.7	-3.5	9.2
Real GDP (% change)	4.5	6.9	3.9	5.1	4.5	3.0	2.1	1.4	2.5	3.3	-5.5	4.2
Inflation (CPI, % change Dec/Dec)	3.2	3.7	2.4	1.9	3.7	6.8	5.7	4.1	3.2	3.8	2.5	3.2
Gross investment/GDP	21.9	23.0	22.1	22.2	24.0	23.8	23.2	21.6	21.3	22.3	21.0	22.0
Gross domestic saving/GDP	20.3	22.1	20.9	20.4	19.8	16.7	16.4	16.6	16.6	16.2	13.9	15.4
Nominal exports of G & S (% change, US$ basis)	22.7	37.9	8.1	-1.0	-8.3	-27.6	-9.4	13.5	12.2	-3.6	-12.0	7.0
Nominal imports of G & S (% change, US$ basis)	18.0	31.7	9.8	2.4	4.5	-16.1	-8.8	3.4	9.8	2.9	-11.0	6.0
Openness of the economy[1]	34.3	39.5	38.8	38.0	37.5	38.4	36.2	35.3	36.6	37.7	42.1	40.2
Government Effectiveness[2]	-0.1	0.0	0.0	0.1	-0.1	0.0	0.0	-0.1	-0.1	--	--	--
Government finance												
Gen. gov. revenue/GDP[3]	24.6	25.6	27.1	26.8	27.3	25.2	24.3	24.5	26.3	27.3	25.9	26.1
Gen. gov. expenditures/GDP	27.9	27.1	26.8	28.0	29.0	28.4	27.3	26.9	28.5	29.7	35.0	31.2
Gen. gov. financial balance/GDP[3]	-3.3	-1.5	0.3	-1.2	-1.7	-3.2	-3.0	-2.3	-2.2	-2.4	-9.2	-5.1
Gen. gov. primary balance/GDP	-0.5	1.2	2.8	1.1	0.5	-0.8	-0.5	0.6	0.6	0.5	-5.7	-1.8
Gen. gov. debt (US$ bil.)	112.7	123.8	138.0	145.5	134.2	120.0	137.3	150.3	154.8	168.0	177.2	196.4
Gen. gov. debt/GDP	41.2	38.9	36.7	39.2	42.1	47.0	47.7	48.5	51.4	52.1	67.2	69.0
Gen. gov. debt/gen. gov. revenue	167.4	151.5	135.3	145.9	154.2	186.4	196.2	197.8	195.6	190.9	259.9	264.0
Gen. gov. interest payments/gen. gov. revenue	11.2	10.4	9.4	8.7	7.9	9.6	10.4	12.0	10.8	10.8	13.3	12.8
Gen. gov. FC & FC-indexed debt/gen. gov. debt	26.5	26.6	24.3	24.6	28.0	34.3	32.5	31.9	32.4	30.6	38.0	35.0

Source: Moody's Investors Service

Exhibit 44
Colombia

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020F	2021F
External payments and debt												
Nominal exchange rate (local currency per US$, Dec)	1989.9	1942.7	1771.5	1922.6	2392.5	3149.5	3000.7	2971.6	3275.0	3294.1	3887.0	3925.8
Real eff. exchange rate (% change)	10.8	1.2	3.6	-5.2	-3.1	-15.1	-3.4	-1.1	0.7	-3.9	--	--
Current account balance (US$ bil.)	-8.7	-9.8	-11.4	-12.5	-19.8	-18.6	-12.0	-10.2	-13.1	-13.7	-11.8	-11.8
Current account balance/GDP	-3.0	-2.9	-3.1	-3.3	-5.2	-6.3	-4.3	-3.3	-3.9	-4.2	-4.6	-4.1
External debt (US$ bil.)	64.8	75.6	78.8	92.1	101.9	111.9	120.4	124.6	132.0	138.2	139.6	141.1
Public external debt/total external debt	61.1	56.2	58.5	56.7	58.6	59.1	59.0	57.7	55.3	53.4	55.5	54.7
Short-term external debt/total external debt	12.5	13.8	13.3	13.2	14.7	14.5	12.3	13.2	15.4	16.6	16.6	16.6
External debt/GDP	22.6	22.6	21.2	24.1	26.7	38.1	42.6	40.0	39.6	42.7	54.4	49.3
External debt/CA receipts[4]	121.8	103.9	101.2	119.7	138.0	197.3	224.9	203.6	191.9	199.8	230.7	213.6
Interest paid on external debt (US$ bil.)	3.1	3.3	3.4	3.7	4.8	5.2	4.7	5.3	6.4	5.7	5.9	6.1
Amortization paid on external debt (US$ bil.)	6.6	6.6	11.4	6.1	10.3	9.1	10.5	16.1	17.8	18.5	19.1	19.8
Net foreign direct investment/GDP	0.3	1.9	4.2	2.2	3.2	2.6	3.3	3.3	1.9	3.5	2.9	3.3
Net international investment position/GDP	-24.2	-23.5	-24.7	-26.8	-29.6	-40.8	-47.8	-47.4	-46.2	-52.4	--	--
Official forex reserves (US$ bil.)	26.3	29.9	34.9	41.2	44.9	44.8	45.0	45.4	46.1	50.5	52.5	51.7
Net foreign assets of domestic banks (US$ bil.)	-4.7	-6.4	-6.9	-7.9	-8.1	-4.5	-2.7	-4.1	-7.5	--	--	--
Monetary, external vulnerability and liquidity indicators												
M2 (% change Dec/Dec)	10.2	18.9	16.5	14.7	9.1	12.5	6.9	7.1	5.0	8.7	--	--
Monetary policy rate (% per annum, Dec 31)	3.0	4.8	4.3	3.3	4.5	5.8	7.5	4.8	4.3	4.3	--	--
Domestic credit (% change Dec/Dec)	15.3	17.5	14.8	9.6	12.4	16.9	9.0	12.9	4.6	10.4	--	--
Domestic credit/GDP	39.8	41.2	43.9	44.9	47.2	52.4	53.2	56.3	55.0	56.4	--	--
M2/official forex reserves (X)	3.7	4.0	4.4	3.9	3.2	2.7	3.0	3.2	3.0	3.0	--	--
Total external debt/official forex reserves	245.9	253.1	225.6	223.5	226.8	249.9	267.7	274.2	286.4	273.4	265.9	272.8
Debt service ratio[5]	18.1	13.5	18.9	12.8	20.5	25.3	28.3	35.0	35.2	34.9	41.3	39.2
External vulnerability indicator (EVI)[6]	45.4	55.6	72.9	47.6	54.6	53.5	59.5	68.9	75.4	84.1	83.1	81.8
Liquidity ratio[7]	59.4	67.7	75.3	66.1	55.8	60.0	48.2	47.0	59.4	68.2	--	--
Total liabilities due BIS banks/total assets held in BIS banks	109.0	126.7	128.4	149.8	138.5	169.0	154.7	162.4	151.5	175.9	--	--
"Dollarization" ratio[8]	--	--	--	--	--	--	--	--	--	--	--	--
"Dollarization" vulnerability indicator[9]	--	--	--	--	--	--	--	--	--	--	--	--

[1] Sum of Exports and Imports of Goods and Services/GDP
[2] Composite index with values from about -2.50 to 2.50: higher values suggest greater maturity and responsiveness of government institutions
[3] Includes transfers of central bank profits starting in 2019
[4] Current Account Receipts
[5] (Interest + Current-Year Repayment of Principal)/Current Account Receipts
[6] (Short-Term External Debt + Currently Maturing Long-Term External Debt + Total Nonresident Deposits Over One Year)/Official Foreign Exchange Reserves
[7] Liabilities to BIS Banks Falling Due Within One Year/Total Assets Held in BIS Banks
[8] Total Foreign Currency Deposits in the Domestic Banking System/Total Deposits in the Domestic Banking System
[9] Total Foreign Currency Deposits in the Domestic Banking System/(Official Foreign Exchange Reserves + Foreign Assets of Domestic Banks)

Source: Moody's Investors Service

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Endnotes

1 There are 20 public projects and 12 private sector initiatives – the first three waves of the 4G program were initiated by the government while the fourth wave consists of private sector initiatives. The authorities' estimates suggest that full execution of the projects included in the 4G program will increase growth by 1.6 percentage points between 2016 and 2022.

2 According to IMF estimates, the expected growth dividend is around 0.5% in additional growth, while the fiscal cost would range from 0.5%-1.0% of GDP over the coming years. However, the government expects to cover additional peace-related spending of around 0.3% of GDP, which is incorporated in the budget.

3 Climate events related to the Niña and Niño phenomena affected food prices.

4 The structural deficit path targeted structural deficits of 2.3% of GDP in 2014 and 1.9% in 2018, which, according to FRCC's assessment, were met.

5 The targets for the central government's structural balance are calculated by removing the effect of cyclical fluctuations in oil prices and the output gap on fiscal revenue. An independent committee of experts determines the direction of potential GDP and long-term oil prices used to calculate the level of the "structural" revenue for the coming year, and derives the implied structural balance. The long-term oil price used to calculate revenue is derived as a nine-year moving average (4, 1, 4) that includes the previous four years' actual oil price, the current year's price and four years of market futures prices. If the overall deficit exceeds the target figure, the government will be required to cut spending and/or find alternative revenue sources. However, if actual GDP growth is below potential or oil prices are lower than the estimated long-term level, the government will not be required to immediately compensate for the shortfall through fiscal measures. The rule guides medium-term fiscal consolidation, while allowing automatic stabilizers to work and avoiding pro-cyclicality in fiscal policy. The government is also allowed to adopt countercyclical measures should growth fall below potential by more than two percentage points and/or the output gap is negative.

6 In 2019, at the behest of the government, the FRCC incorporated a transient effect caused by the large influx of Venezuelan migrants into Colombia that led to higher deficit ceilings.

7 The ratio of debt-to-GDP of the central government increased in 2019 mainly because of a recognition of off-balance sheet liabilities as financial liabilities above the line.

8 Short-term External Debt + Currently Maturing Long-Term External Debt + Total Nonresident Deposits Over One Year/Official Foreign Exchange Reserves (%)

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