

Dec 22, 2021

## R&I Affirms BBB, Stable: Republic of Colombia

Rating and Investment Information, Inc. (R&I) has announced the following:

**ISSUER:** Republic of Colombia  
**Foreign Currency Issuer Rating: BBB, Affirmed**  
**Rating Outlook: Stable**

### RATIONALE:

Colombia's economy will likely register high growth in 2021, mainly driven by private consumption. Growth at the level of the potential growth rate assumed by the government is fully achievable in the medium term, in R&I's view. Although turbulent crude oil prices, assistance for immigrants and COVID-19 countermeasures continued to impose a strain on Colombia's fiscal position, the government has addressed this with flexible funding. The government formulated a more realistic fiscal management plan with a gradual pace of deficit reduction. While current account deficits are expected to remain large for the near term, there is no concern about external liquidity. As regards the financial system, no major problem is observed. In light of these factors, R&I has affirmed the Foreign Currency Issuer Rating for Colombia at BBB.

Hit by the COVID-19 pandemic and the crude oil prices that tumbled at the beginning of the year, Colombia's real gross domestic product (GDP) shrank by 6.8% in 2020, marking the first full-year contraction since 1999. For 2021, a recovery in subdued private consumption and other factors are expected to drive high growth, though the first half of the year suffered from challenges such as the further spread of COVID-19 and violent protests that evolved from an opposition to the tax reform. R&I considers that the economy has a good chance of achieving the potential growth rate the government estimates to be slightly higher than 3% in the medium term, with a recovery in investment and labor force participation by Venezuelan immigrants envisaged going forward.

Current account deficits remain rather elevated. Imports that have increased in tandem with a recovery in the domestic economy are widening current account deficits. A shortfall in domestic savings is underlying this trend. That said, over 70% of total imports are intermediary and capital goods, many of which are backed by stable financing centered on foreign direct investment. Such imports will lead to investments and exports in the future. Foreign reserves are adequate as a buffer under normal circumstances. Given this, along with a Flexible Credit Line (FCL) arrangement with the International Monetary Fund (IMF), there is no concern about external liquidity.

In 2020 and 2021, the government's fiscal stance has been expansionary, reflecting higher expenditures for tackling the pandemic and supporting an economic recovery. To move ahead with subsequent fiscal consolidation, the government revised its fiscal rule. While easing the pace of deficit reduction compared to the previous plan, it linked deficit reduction to stable reduction in outstanding debt, thereby creating a more practical institutional framework. The initiative to strengthen the fiscal committee is another positive factor. After central government debt peaks out at nearly 70% of GDP in 2023, the government intends to reduce it steadily while bringing the primary balance into surplus.

Although its primary financing source is peso-denominated government bonds, the government has been diversifying the sources of funds, including increased financing from multinational institutions since 2020 to meet the financing needs boosted by responses to the pandemic. The IMF agreed to expand the FCL for Colombia in September 2020 and the country drew a portion of the funds in December. Long-term interest rates have risen slightly but still stay historically low, and global bonds have been issued with low interest rates. A scenario in which the government faces difficulty in financing is unlikely.

Five years have passed since the launch of the peace process agreed with the former anti-government guerrilla group FARC (Revolutionary Armed Forces of Colombia). The U.S. removal of FARC from its list of foreign terrorist organizations will increase the morale of the parties concerned. Meanwhile, the

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University of Notre Dame's Kroc Institute for International Peace Studies in the U.S., which is monitoring the peace process, published its periodic report that points out major issues, including an increase in violent clashes and incidents between illegitimately rearmed groups that left the agreement. As persistent actions are required, R&I will also keep an eye on the stance of the next government that will be formed following the 2022 election.

The primary rating methodology applied to this rating is provided at "R&I's Analytical Approach to Sovereigns". The methodology is available at the web site listed below, together with other rating methodologies that are taken into consideration when assigning the rating.

[https://www.r-i.co.jp/en/rating/about/rating\\_method.html](https://www.r-i.co.jp/en/rating/about/rating_method.html)

## R&I RATINGS:

<b>ISSUER:</b>	<b>Republic of Colombia</b>
	<b>Foreign Currency Issuer Rating</b>
<b>RATING:</b>	<b>BBB, Affirmed</b>
<b>RATING OUTLOOK:</b>	<b>Stable</b>

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