FitchRatings

Fitch on Colombia

Outlook for Colombia in a Turbulent Global Backdrop

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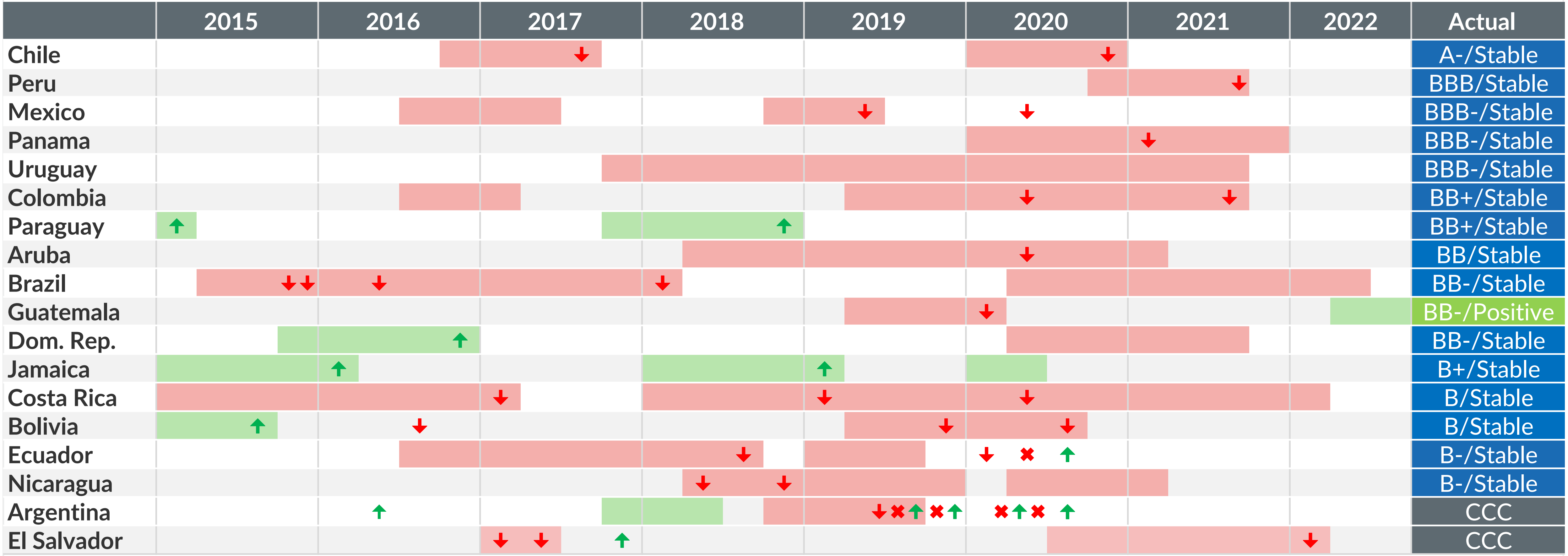
Latam Ratings Stabilize After Wave of Downgrades, But Challenges and a Few "Weak Links" Remain



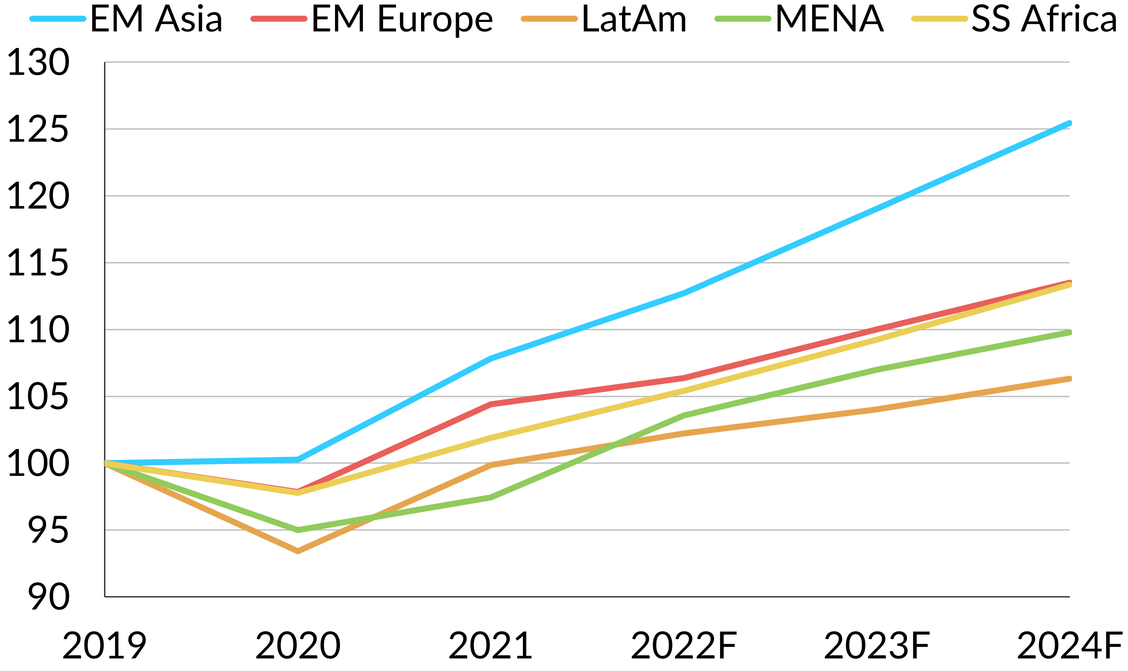
↓=downgrade, ↑=upgrade, ■= Negative Outlook, ■= Positive Outlook, X= default/DDE

Source: Fitch Ratings.

Better-than-Expected Growth Recoveries in LatAm, But Largest Economies Hold Back Overall Regional Growth

Better-than-Expected Recoveries

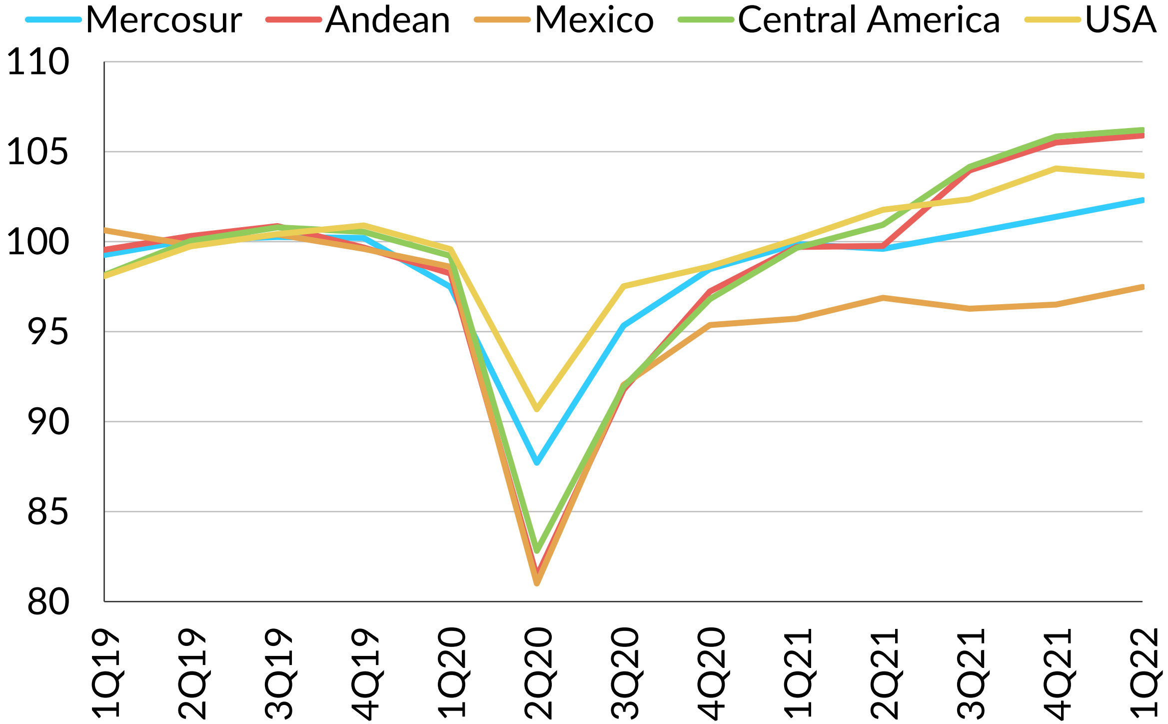
Real GDP, 2019 = 100



Source: Fitch Ratings

Mixed Recoveries Within Latam

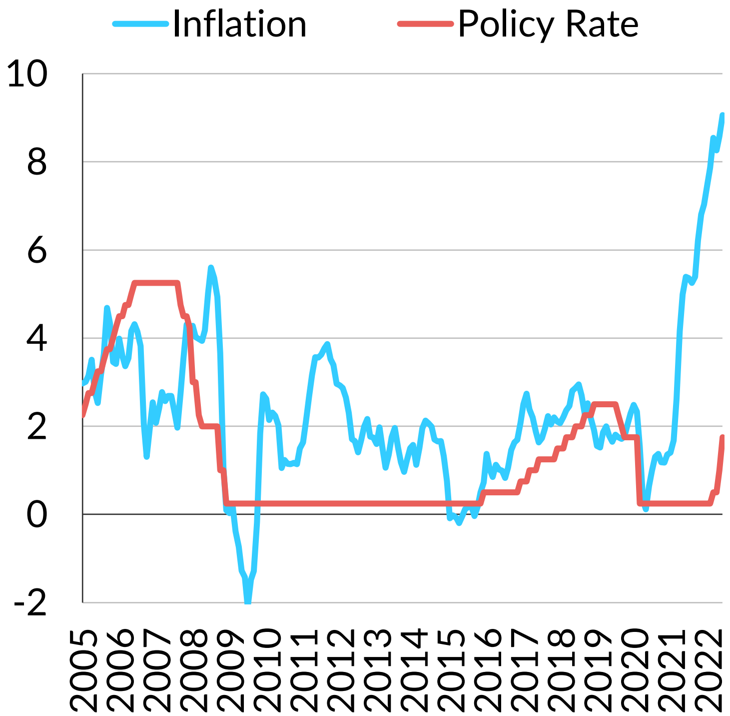
Real GDP Index, 2019 = 100, seasonally adjusted



Source: Fitch Ratings

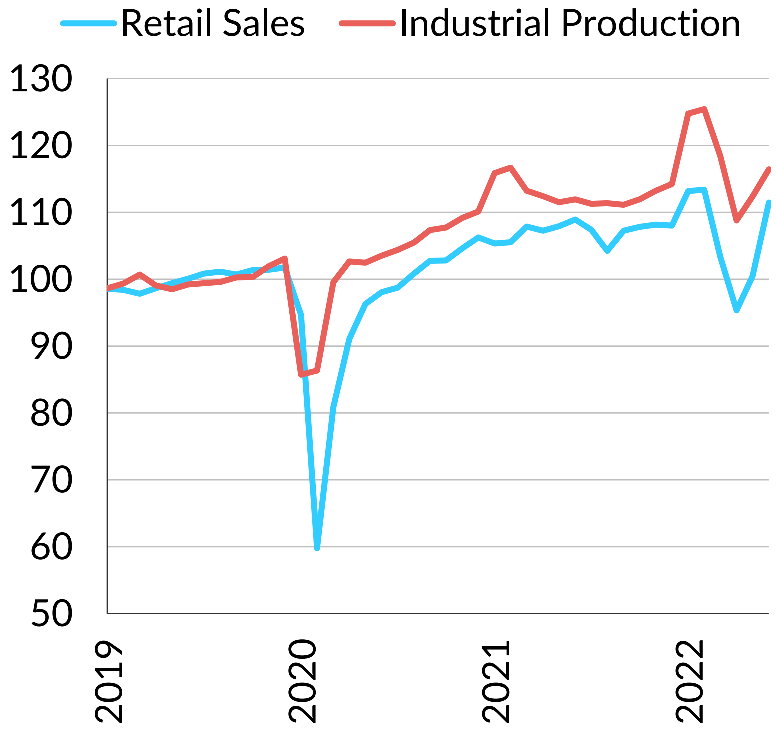
But a Multifaceted Global Shock is Underway: War, Inflation, Fed Tightening, China Slowdown

USA: Inflation and Fed Funds Rate
(% YoY and % per annum)



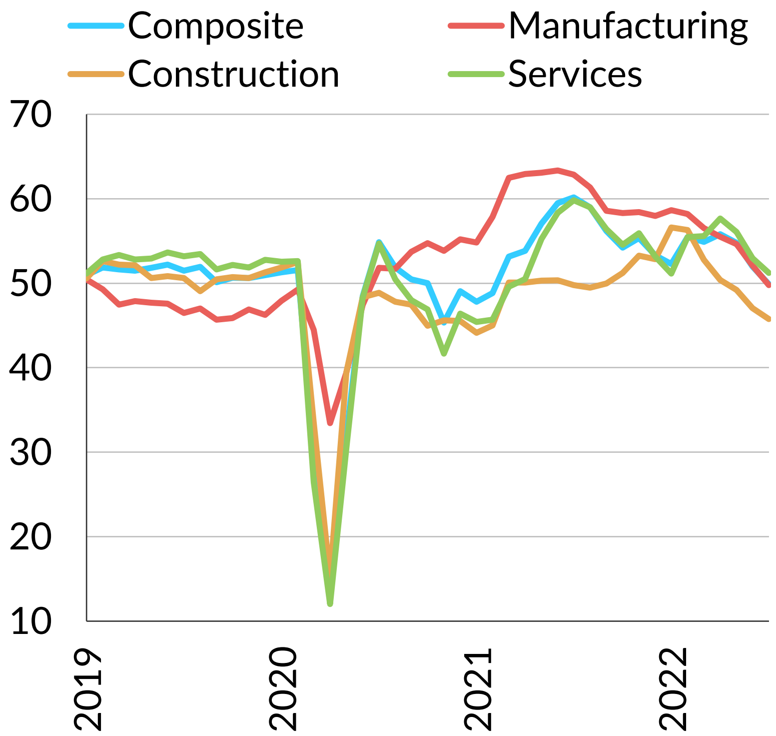
Source: Haver.

China: Retail Sales and Industrial Output
(Index, 2019=100)



Source: Haver.

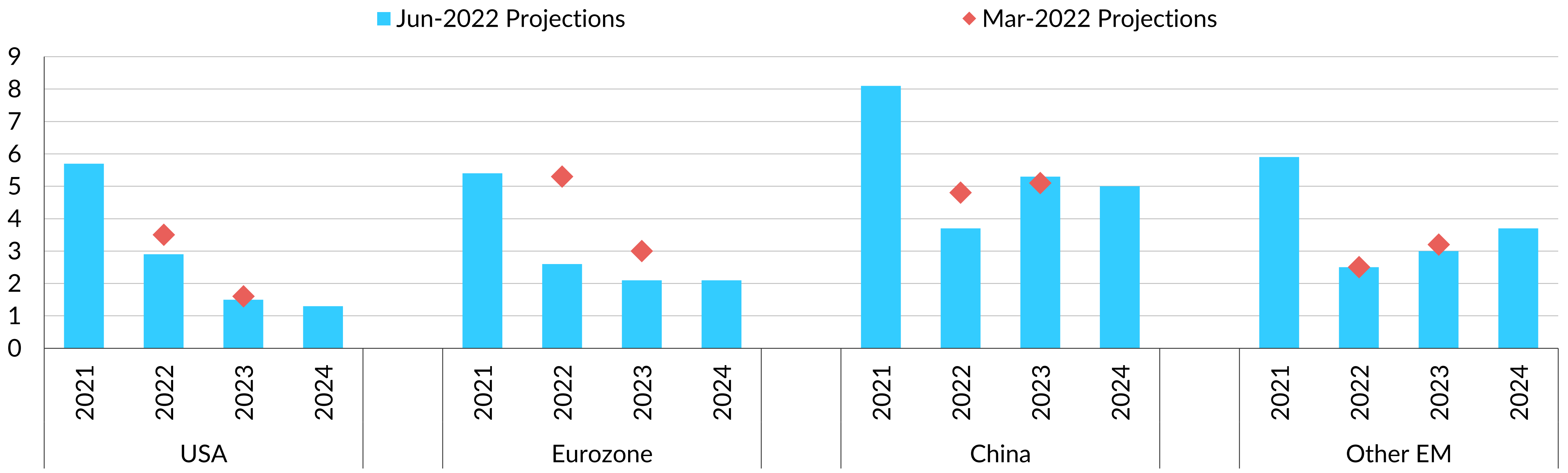
Euro Area: Purchasing Manager Indices
(Index, 50=neutral)



Source: Haver, S&P Global.

Further Downward Growth Revisions Likely For World's Largest Economies, Picture More Mixed Among Emerging Markets

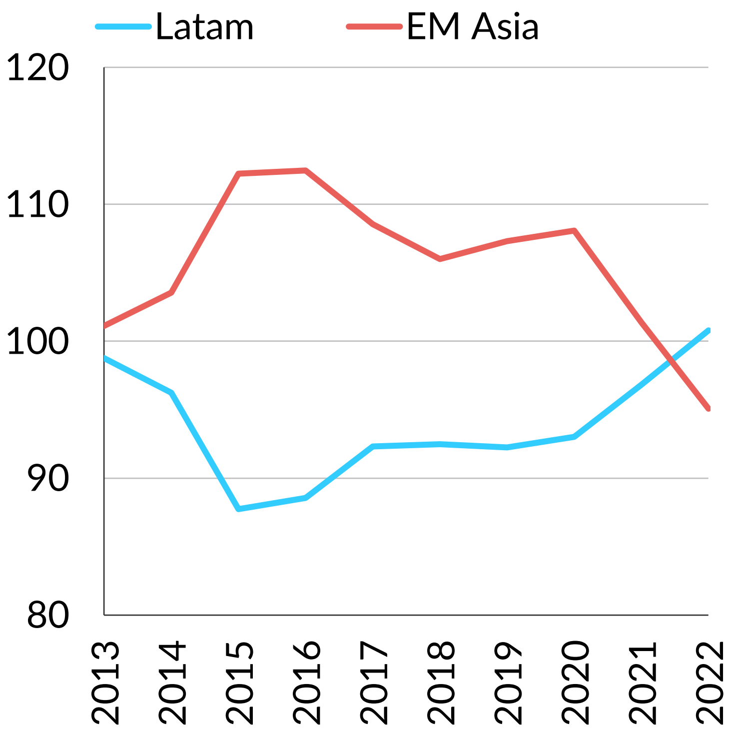
Real GDP Growth Projections
(% YoY)



Source: Fitch Economics, June-2022 and March-2022 Global Economic Outlook (GEO)

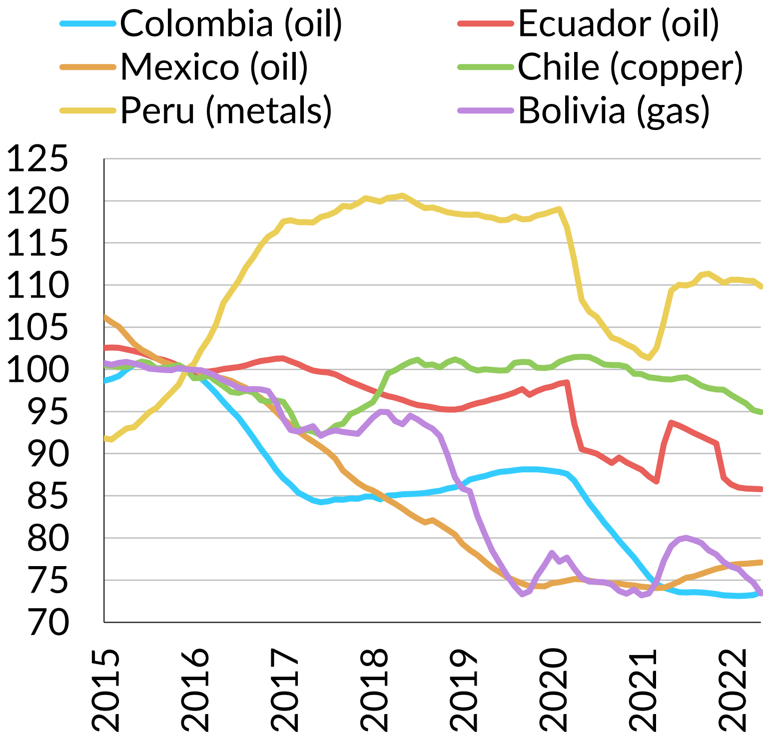
LatAm Is Not Immune: Higher Commodity Prices a Boon for Some, But Also a Headwind for Everyone

Terms of Trade
(Index, 2012=100)



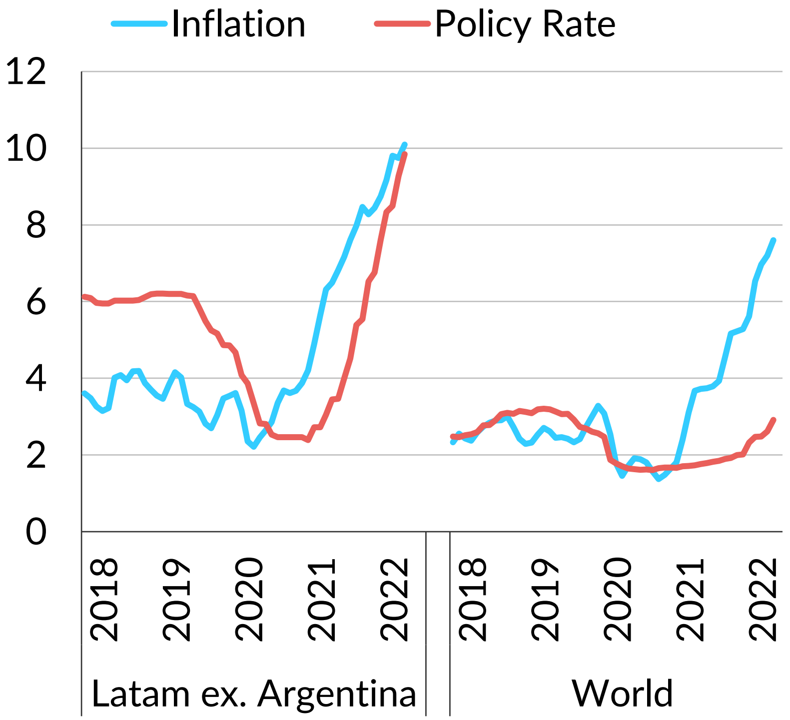
Source: IMF WEO (April 2022)

Commodity Production
(Index, 2015=100, 12mn rolling)



Source: Fitch Ratings based on national sources.

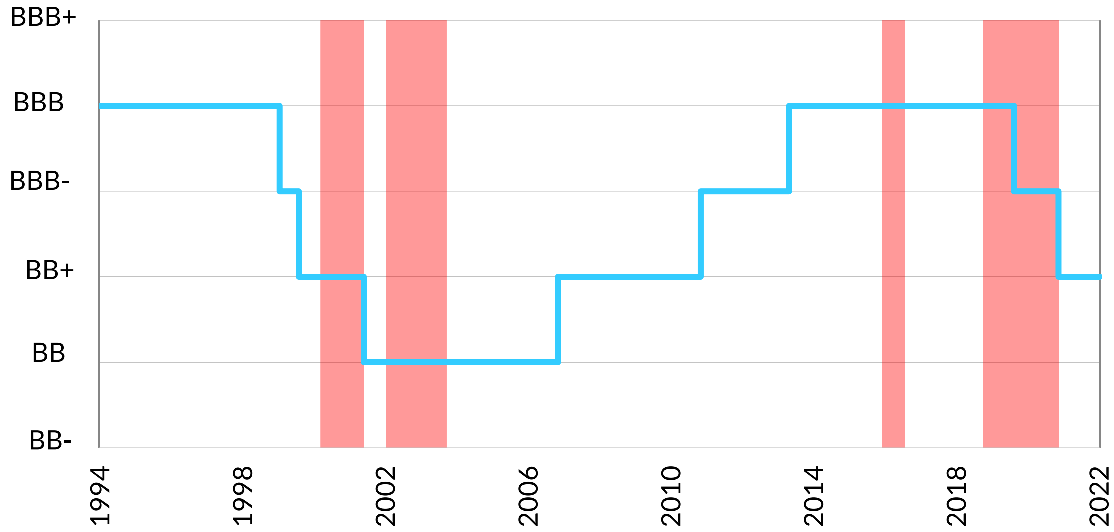
Inflation and Monetary Tightening
(% YoY and % per annum, weighted averages)



Source: Fitch Ratings.

Colombia's Rating History

Rating History



Source: Fitch Ratings

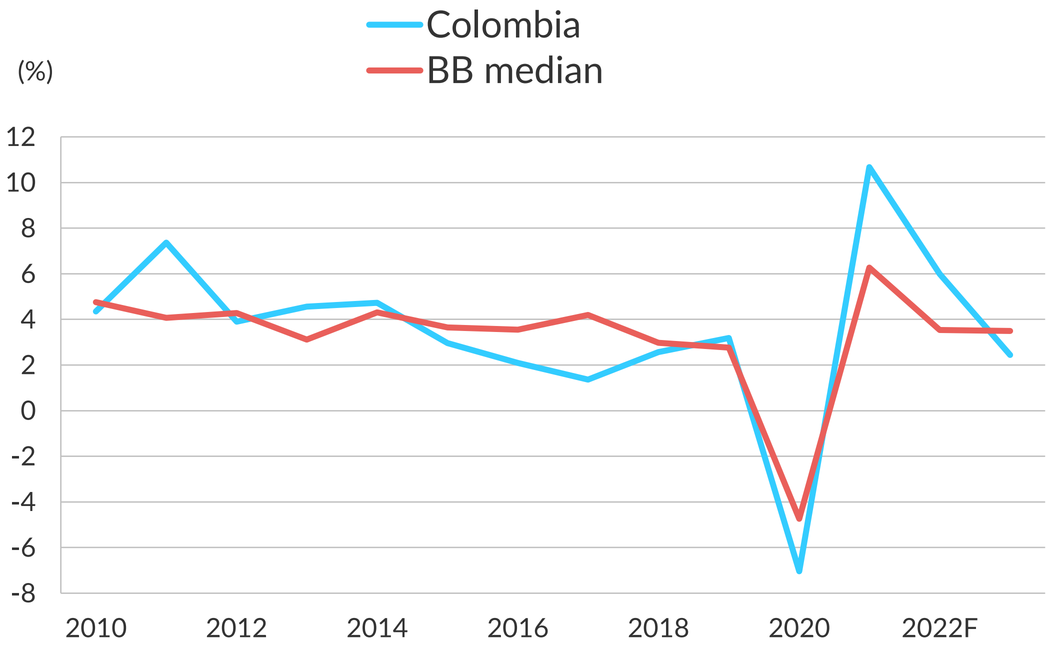
Key Indicators

	2021	2022F	2023F
Real GDP growth (%)	10.7	6.0	2.4
Inflation (%)	3.5	8.0	5.0
Central government balance (% of GDP)	-7.8	-6.2	-4.4
General government debt (% of GDP)[a]	58.5	60.2	60.4
Current account balance (% of GDP)	-5.7	-5.6	-4.8
International reserves, incl. gold (USDbn)	58.0	58.0	58.0
Net external debt (% of CXR)	102.8	101.0	104.1

[a] General government includes central government, provincial, regional and local governments, social security funds and extra-budgetary funds.
Source: Fitch Ratings

Growth Outlook: Rebound after Sharp Contraction Risks to Medium-Term Outlook

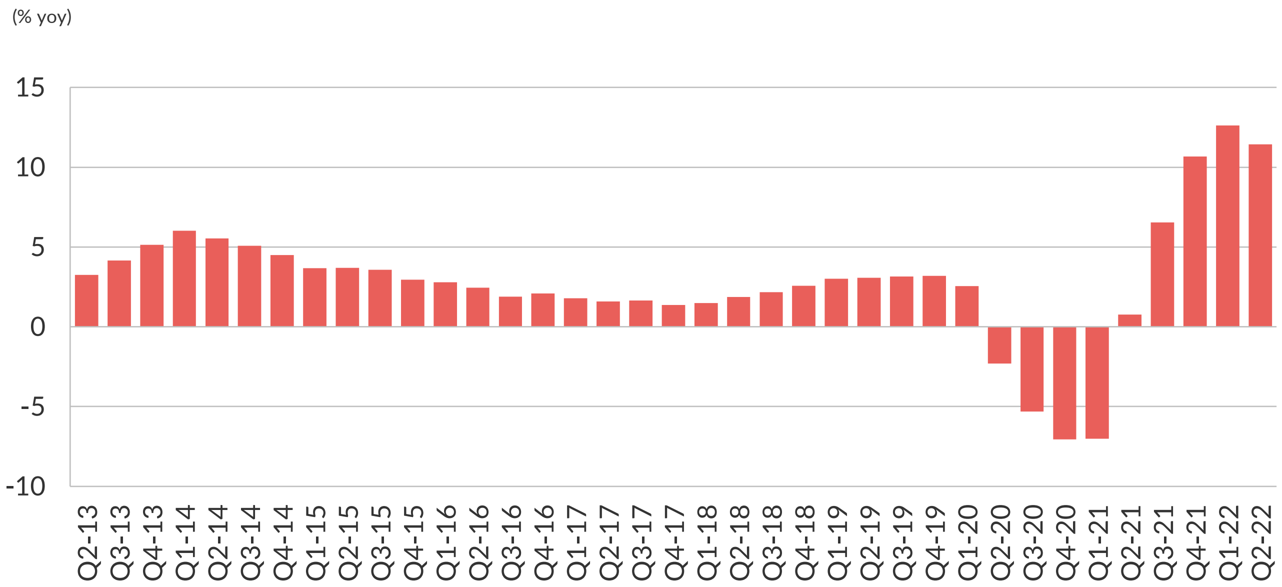
Real GDP Growth



Source: Fitch Ratings

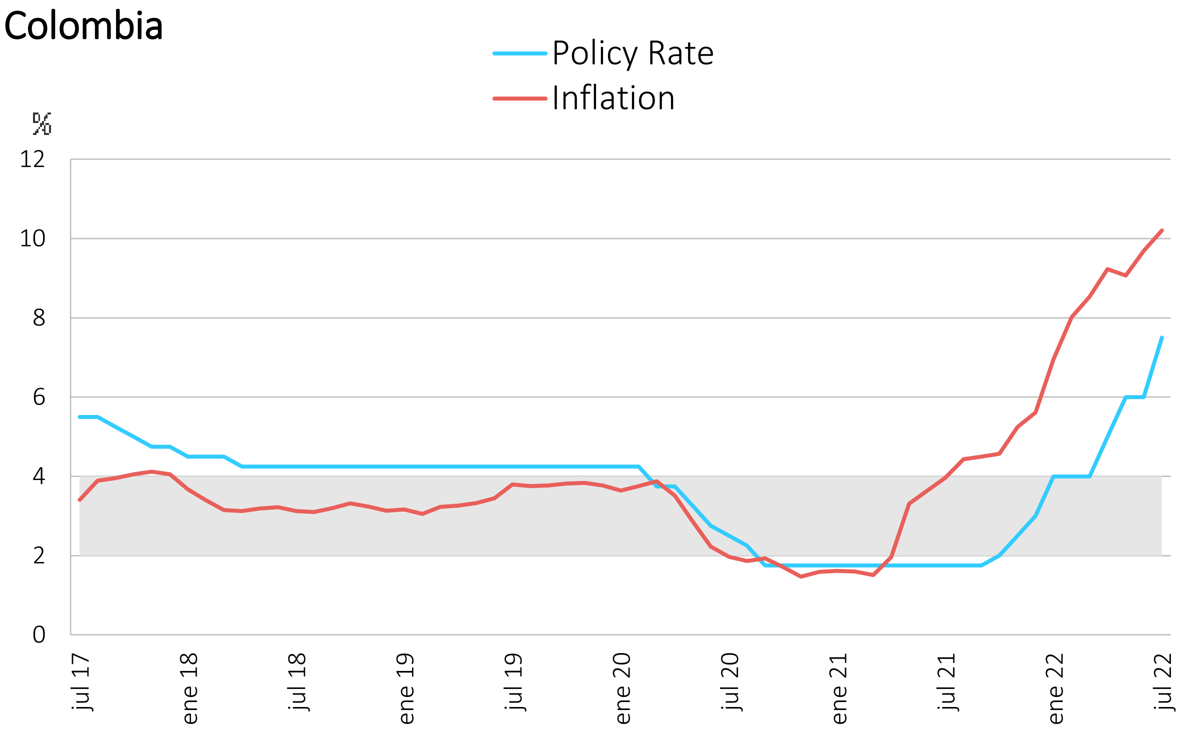
Quarterly GDP Growth

4Q rolling sum

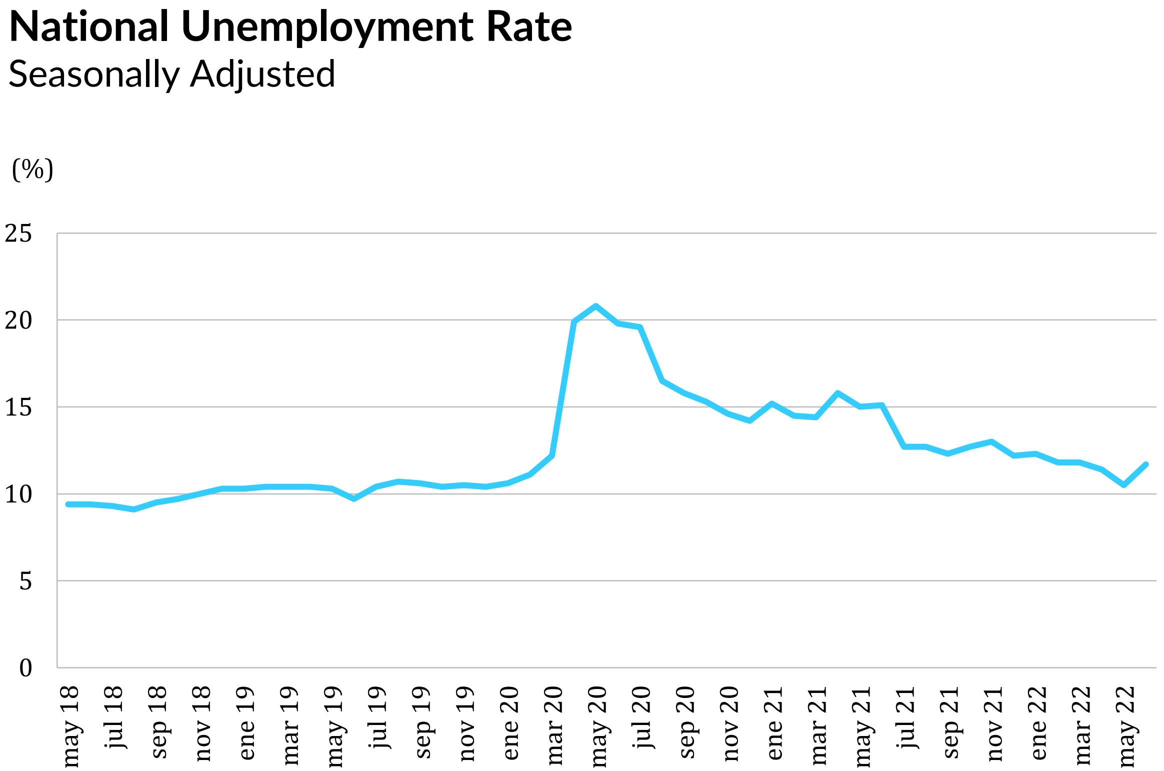


Source: DANE

Inflation Picks Up, Unemployment Remains High
Monetary Policy to Remain Supportive While Unemployment Will Continue to Dent Growth Prospects



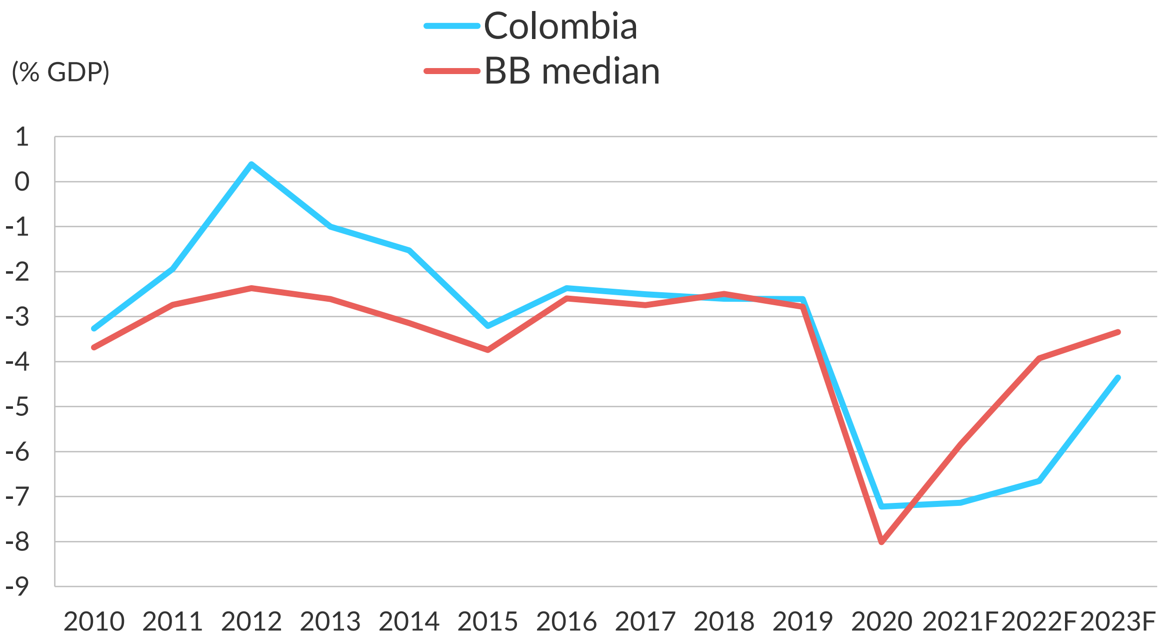
Source: DANE, Banco de la Republica



Source: DANE

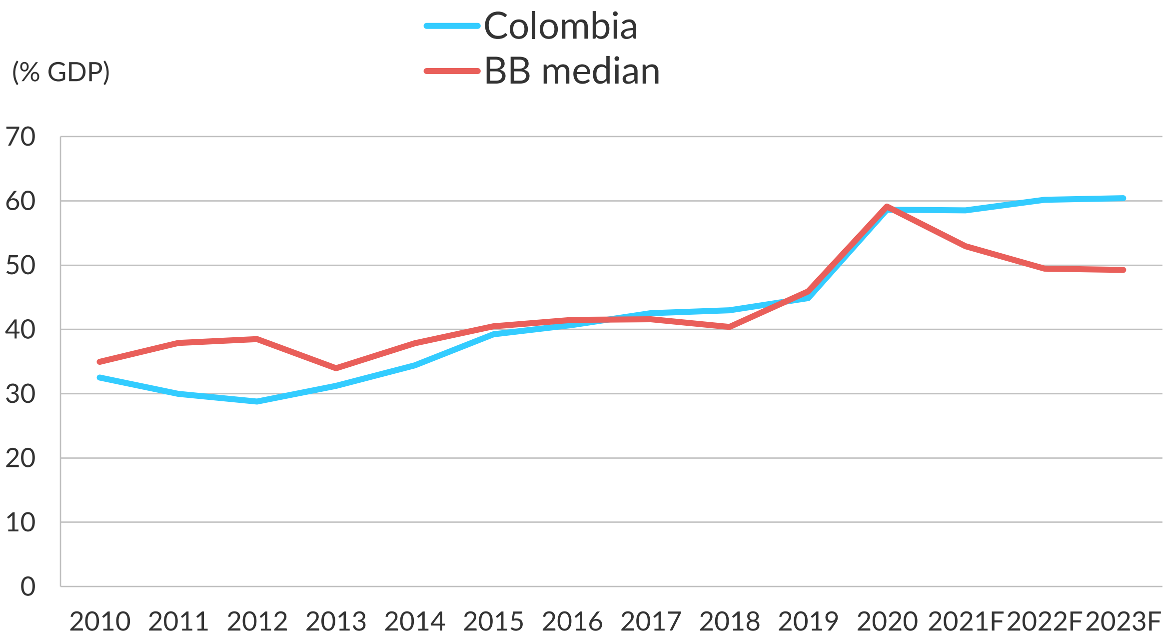
Fiscal Policy Credibility is Being Tested

GG Balance



Source: Fitch Ratings

GG Debt



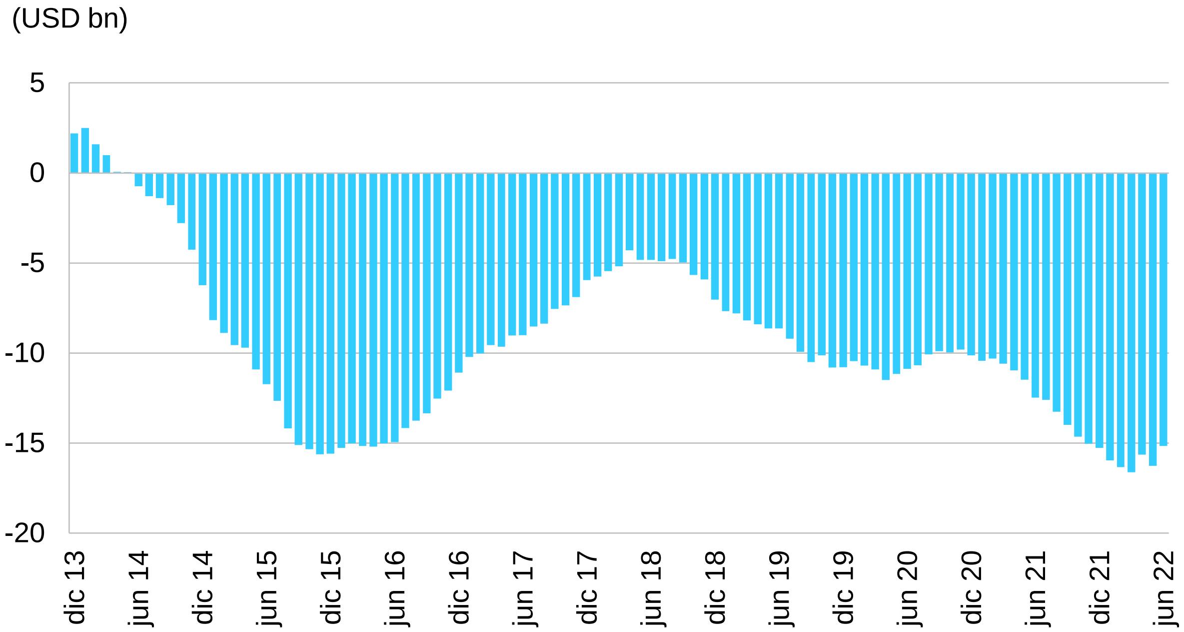
Source: Fitch Ratings

Challenges and Opportunities for Incoming Petro Administration

- **Economic Growth** - Slower Growth and Investment Climate. Especially Oil Sector
- **Inflation** – High inflation with pressures on wages, indexation. Higher interest rates. Stabilization fund.
- **Fiscal and Debt Trajectory** – the ability to achieve fiscal adjustment and bring down debt. Outlook for tax reform and social expenditures.
- **External Imbalances** – large current account deficit. Ability to attract FDI. Portfolio flows with external tightening conditions.
- **Politics** – ability to achieve Congressional approval for reforms. Peace accords and security.
- **External Relations** – Especially with Venezuela and the United States.

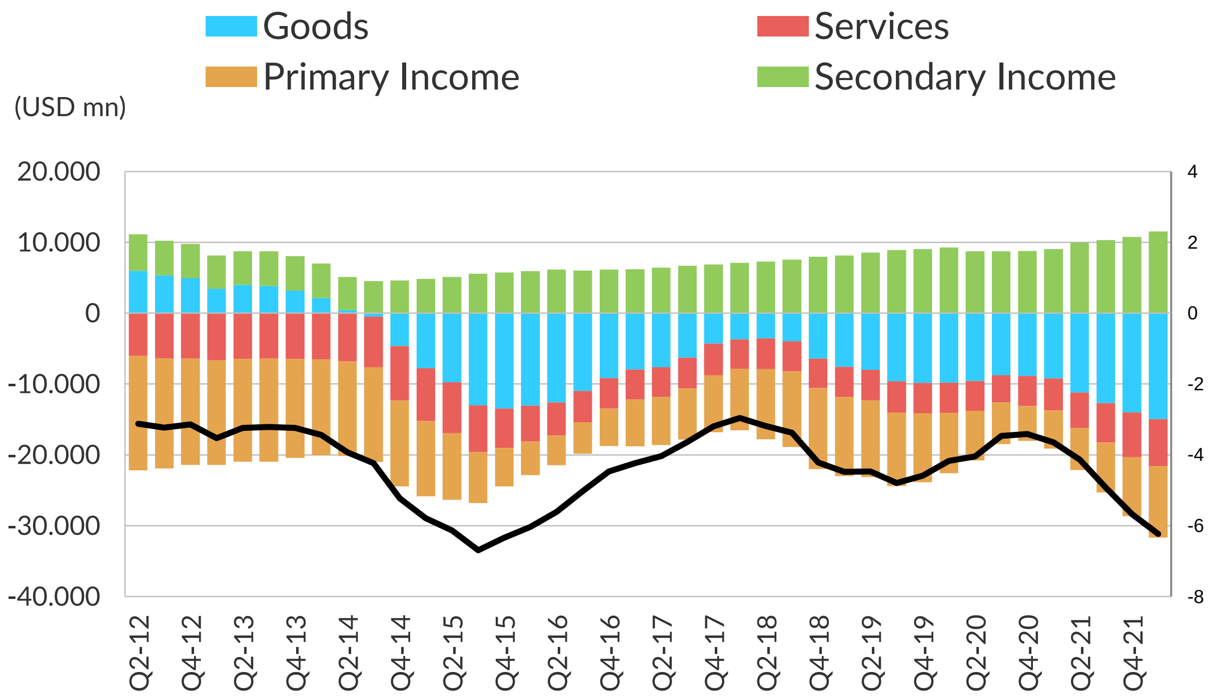
Current Account Deficit Remains High

Trade Balance
12m rolling sum



Source: Fitch Ratings, DANE

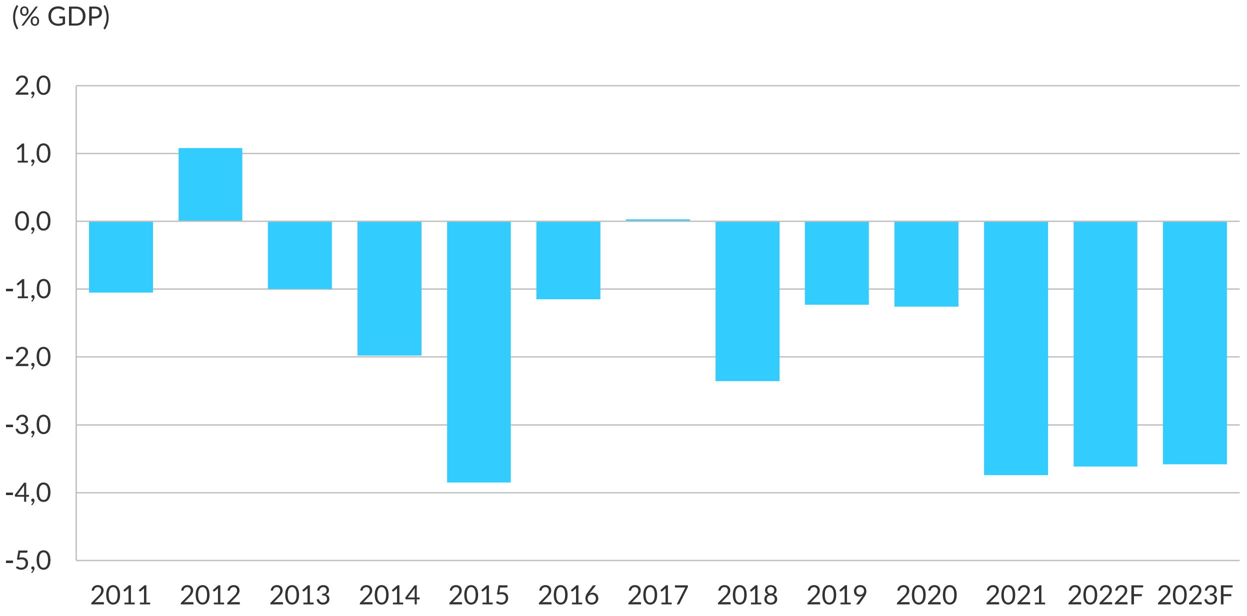
Current Account



Source: Banco de la Republica

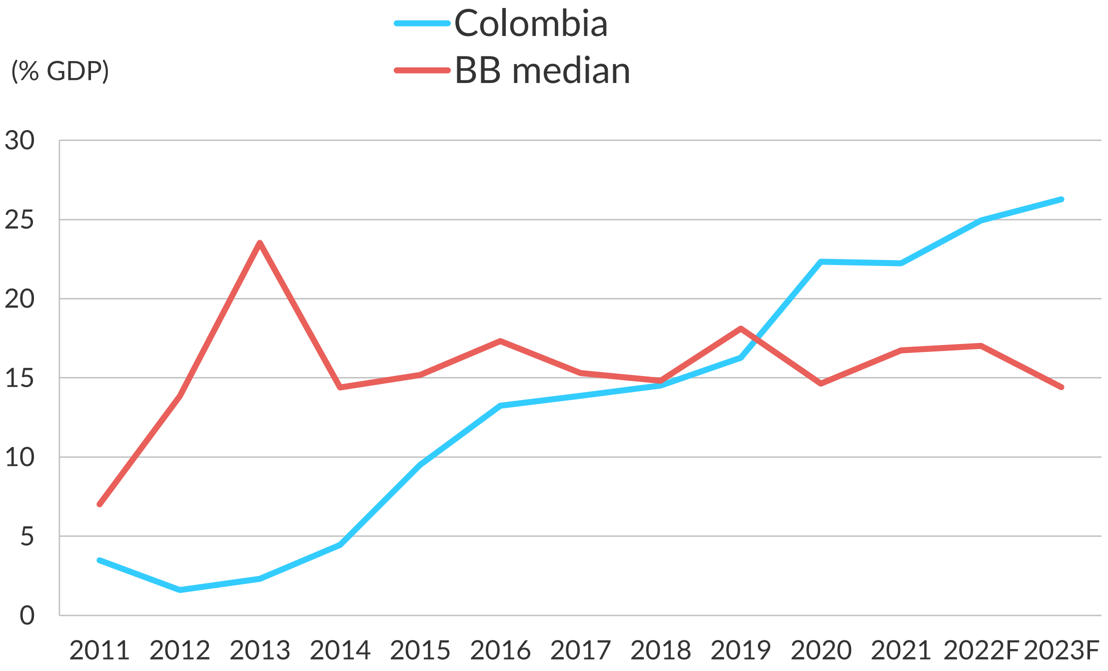
Net External Debt Rising Amidst High Current Account Deficits

Current Account Balance Plus Net FDI



Source: Fitch Ratings

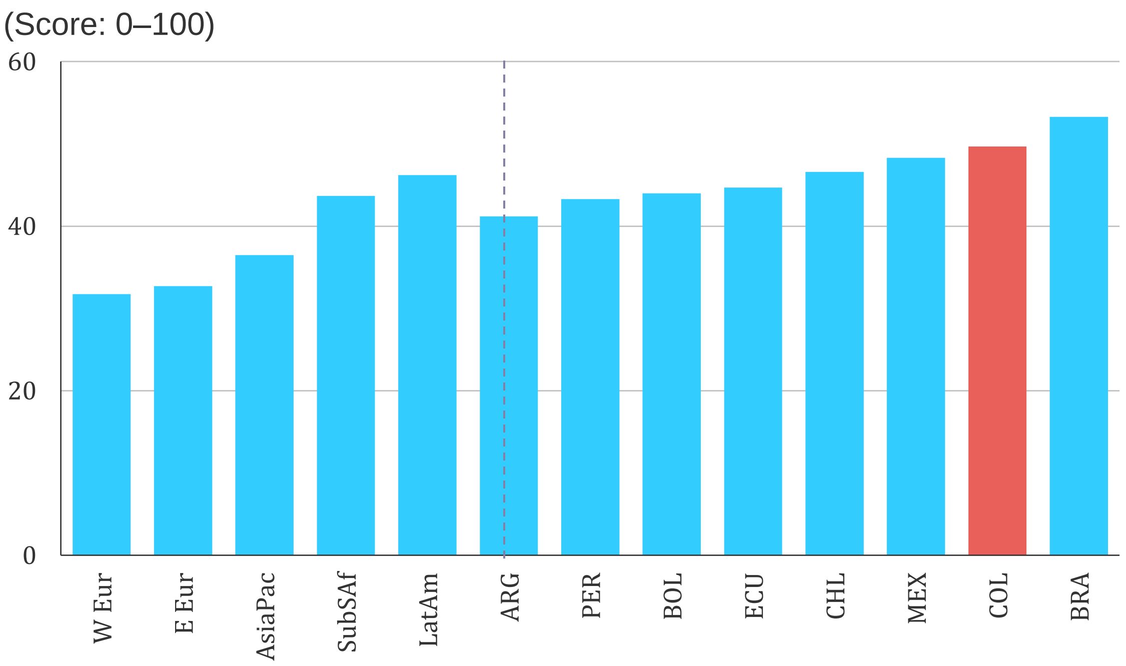
NXD



Source: Fitch Ratings

Inequality and Political Challenges Remain - Co and median

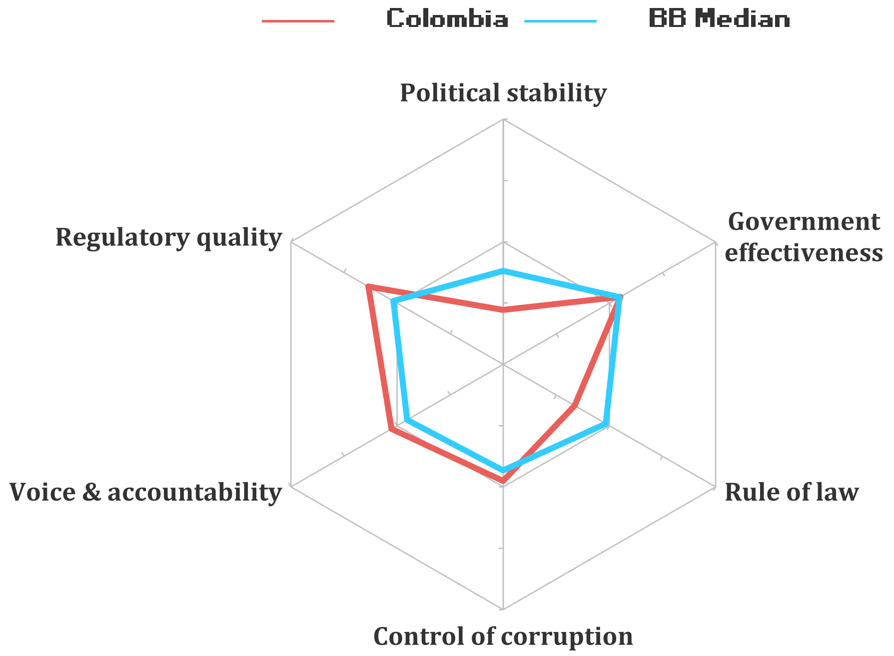
Gini Coefficient[a]



[a] Latest available within past five years
Source: Fitch Ratings, World Bank

Governance Indicators

Percentile rank



Colombia (BB+/Stable)

SRM Output	Factor	Notch adjustment	FC IDR
BB+	Macroeconomic	0	BB+
	Public finances	0	
	External finances	0	
	Structural features	0	
	Total	**0**	

Qualitative Overlay

Negative Sensitivities

- **Public Finances:** A failure to achieve fiscal consolidation that leads to a significant deterioration in Colombia's general government debt to GDP ratio relative to the 'BB' peer median;
- **Macro:** Diminished medium-term growth prospects well below Colombia's historical potential of 3.3%, with adverse ramifications such as high unemployment and poverty levels;
- **External Finances:** A large increase in net external debt to GDP, raising external vulnerabilities.

Positive Sensitivities

- **Public Finances:** Achieving of fiscal consolidation consistent with a steadily declining GGGD to GDP ratio and enhanced fiscal policy credibility;
- **Macro:** Higher sustained medium-term economic growth above Colombia's historical averages of about 3.3%;
- **Structural:** Improvement in governance indicators indicative of improved social cohesion and momentum around reforms that could improve Colombia's structural fiscal position and medium term growth prospects.

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