

Colombia



Outlook

	Average 10-14	2015	2016	2017	2018	2019	2020	Forecast	
								2021	2022
GDP growth (%)	5.0	3.0	2.1	1.4	2.6	3.3	-6.8	5.0	3.5
CPI Inflation (%)*	2.8	5.0	7.5	4.3	3.2	3.5	2.5	3.0	3.0
Fiscal balance (% of GDP)	-2.4	-3.1	-3.8	-3.3	-3.1	-2.2	-8.1	-8.2	-7.1
Public debt (% of GDP)	37.4	50.4	49.8	49.4	53.6	52.3	62.8	64.2	64.3
Reference rate (%)*	3.9	4.68	7.10	6.11	4.35	4.25	2.86	1.75	2.75
Exchange range (COP/USD)*	1,883.1	2,749.1	3,051.8	2,952.1	2,958.1	3,282.6	3,693.1	3,780.0	3,516.7
Current balance (% of GDP)	-3.6	-6.6	-4.5	-3.4	-4.1	-4.4	-3.3	-3.8	-3.9
External debt (% of GDP)	23.7	38.6	42.6	40.3	39.7	42.9	58.6	58.0	55.0

Note: * Annual average.

Source: BPI Research, based on data from national statistical agencies and IMF.

- Despite the strict lockdown measures, Colombia is the third country in Latin America with the highest number of COVID-19 cases.** However, and despite the fact that the economy contracted sharply in 2020, in 2021, most economic sectors appear to be on the way to recovering, which suggests that the worst of the impact caused by the pandemic could be in the process of being overcome. Recovery remains uncertain and will depend largely on two factors: i) the assessment of the pandemic and ii) social protests. In this context, S&P and Fitch downgraded the public debt rating in foreign currency to speculative grade, especially due to increasing spending pressures and the inability to make progress with the necessary tax reform. As a result, the country lost its investment grade rating, which meant a higher cost of financing for both the Government and the private sector. In this context, an improvement of the fiscal position is very complicated.
- Real shock of COVID-19 and health strategy.** Although Colombia adopted a strict lockdown strategy, it is currently the third country in Latin America with the highest number of COVID-19 cases. Vaccination started at a lower-than-expected rate and to date, just over 19 million doses have been administered. Due to the pandemic, in 2020, the economy contracted by 6.8% year-on-year, the biggest drop since the Great Depression of 1930. In early 2021, there was a surprising economic rebound in most sectors. Domestic demand continues to be the main support for economic recovery. Although this result has generated an upward trend in growth for the year, the recovery process will remain uncertain given the effects of the protests and the third wave of the pandemic.
- Economic policy response**
 - Monetary policy.** Inflation has remained stable during the first few months of the year, although it will take an upward trend in the coming months as a result of the gradual recovery in demand, the devaluation of the exchange rate and the increase in food prices both globally and due to the recent blockades of the country's main roads. The Central Bank maintains the reference rate at 1.75% and it is expected to remain stable throughout 2021. However, the country's difficult fiscal situation and global interest rate increases could force increases in the Colombian reference rate.

Outlook (continuation)

- > **Fiscal policy.** The Government faces the largest fiscal deficit in recent history due to increased spending to tackle the pandemic (nearly 8% of GDP in 2020). This situation requires a tax reform that increases income in order to continue with social support programmes. In April, the Government presented an ambitious reform that sought to increase revenues by 2.2% of GDP, but later had to withdraw it due to social unrest. Against this backdrop, the rating agencies S&P and Fitch lowered Colombia's rating from BBB- to BB+, below investment grade. However, they assigned a stable outlook, since they consider that the economic recovery and fiscal measures will allow debt stabilisation in the coming years. The Government will present a new tax reform proposal to Congress on 20 July, which seeks to increase revenues by about 1.2% of GDP.
- **Sovereign debt dynamics.** Public debt is at levels close to 60% of GDP. The loss of the investment grade rating means a higher cost of financing for the Government, as well as greater volatility for debt securities as they are more exposed to the market of investors with more tactical than structural positions. However, Colombian debt securities are now more attractive to mutual funds looking for higher risk in countries with a speculative investment grade rating, but with good macroeconomic fundamentals.
- **Evolution of the exchange rate.** During 2021, the Colombian peso continued to show high volatility and, like other currencies in emerging economies, it has depreciated against the dollar. For the second half of the year, pressures on the exchange rate are expected due to the effects of the loss of the investment grade rating and the fluctuating social situation.

Main risks

- **Political and macrofinancial risk.** Despite the announced reform, the fiscal framework suggests that Colombia would continue to show high levels of debt, which will require new fiscal efforts by the next Government, which if not implemented, would increase the risk of future rating downgrades. Governance challenges will remain due to the high disapproval of the Duque's Administration and increased polarisation ahead of the 2022 presidential and legislative elections. This, in turn, will prevent progress on a post-pandemic economic recovery agenda.

	Rating	Last modification	Outlook	Last modification
STANDARD & POOR'S	BB+	19/05/21	Stable	19/05/21
MOODY'S	Baa2	28/07/14	Negative	03/12/20
FitchRatings	BB+	01/07/21	Stable	14/11/18

■ Indicates that the country has "investment grade".

□ Indicates that the country does not have "investment grade".