S&P Global
Ratings

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Research Update:

Colombia 'BB+/B' Foreign Currency Ratings Affirmed; Outlook Remains Negative On Mounting Fiscal Challenges

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Overview

- High fiscal deficits, despite a recovery in tax revenues in 2025, are contributing to a rising government debt trajectory for Colombia.
- We expect economic growth will average 2.7% over the next two years, close to the country's trend growth rate, mostly driven by consumption.
- We affirmed our 'BB+' long-term foreign currency and 'BBB-' long-term local currency ratings on Colombia.
- The outlook remains negative, indicating the risk of a downgrade over the next 12 months if larger-than-expected fiscal deficits or weaker-than-expected economic growth translates into a rising general government debt burden.

Rating Action

On Jan. 23, 2025, S&P Global Ratings affirmed its 'BB+' long-term foreign currency and 'BBB-' long-term local currency sovereign credit ratings on Colombia. The outlook on the long-term ratings remains negative. We also affirmed our 'B' short-term foreign currency and 'A-3' short-term local currency ratings on Colombia.

Outlook

Our negative outlook reflects Colombia's mounting fiscal challenges, with larger-than-expected fiscal deficits creating worsening public finances and a rising debt burden. Persistently weak domestic investor sentiment and higher global uncertainty constrain the country's growth prospects, straining Colombia's fiscal accounts.

Downside scenario

We could downgrade Colombia over the next 12 months if the government is unable to lower its fiscal deficit, resulting in in net general government debt growing above 60% of GDP. Consistently low levels of investment could also lead to lower growth over the forecast, indirectly pressuring Colombia's fiscal deficit and debt burden.

Upside scenario

We could revise our outlook to stable if the government achieves meaningful fiscal consolidation, helping to stabilize and lower its net general government debt burden. Better fiscal performance would help lower the government's substantial interest burden, adding fiscal flexibility. Fiscal consolidation, combined with moderate current account deficits, could gradually strengthen Colombia's external indicators, supporting greater economic resilience.

Rationale

Our ratings on Colombia are based on its stable democracy and political institutions, which have sustained predictable economic policies for many years, despite economic shocks and transitory domestic uncertainty. They also incorporate monetary policy flexibility based on inflation targeting and a flexible exchange rate, which remain key economic buffers against external shocks.

Our ratings are constrained by the sovereign's high external debt and volatile terms of trade, as well as its limited fiscal flexibility and weakening debt profile.

Institutional and economic profile: Policy uncertainty poses risks for long-term economic growth

- Colombia has a stable democracy, division of power, and adequate checks and balances.
- However, growing policy uncertainty has resulted in weak investor confidence.
- Softer financial conditions and resilient consumption are supporting stronger economic growth.

Colombia's stable democracy, separation of powers, independent judiciary, and other checks and balances are likely to sustain long-term pragmatic and predictable economic policies. Its active judiciary has often limited the actions of the executive branch of government.

President Gustavo Petro's ambitious reform agenda has been met with opposition from much of the country's traditional political leadership, many of whom are part of his broad multiparty coalition in Congress. (Political parties in Congress have the incentive to declare themselves formally as government supporters at the beginning of each presidential term to be eligible to hold government posts.) Congress has rejected important pieces of legislation over the last 12 months, including health and tax reforms, and the 2025 fiscal year budget.

That said, relevant reforms has been approved and we expect the government to continue seeking legislation approval. Recently, Congress passed important reforms to the pension system and to the General System of Participations (SGP Spanish acronym). The pension reform is the most significant achievement, transitioning from the old system that, among other things, provided regressive subsidies, and broadening pension coverage. The reform also clarifies the actuarial deficit of the pension system, but it does not touch the parametric variables of the retirement system. The reform, which includes a semi-contributory and non-contributory pillar, will add to long-term fiscal pressures.

The SGP reform significantly increases the share of central government fiscal revenue to be transferred to lower tiers of government (from 27.6% to 39.5%). To become effective, Congress needs to approve a bill by mid-2026 to transfer spending responsibilities ("spending competence bill") from the central government to the lower tiers of government. The reform may moderately boost the general government's fiscal deficit in the future, but the impact depends on how the spending competence bill is implemented.

The government is likely to pursue its labor and health care flagship reforms, which have met much opposition in Congress. The opportunity to approve these reforms will diminish as national elections approach (the first round is on May 31, 2026, and the second round a month later).

Poor security in many parts of the country is adding to domestic uncertainty as well as limiting economic growth prospects and adding to fiscal pressures. Since signing the peace agreement with the largest guerrilla group, FARC (Spanish acronym), in 2016, the government has failed to regain full control of the zones where the group operated. Existing criminal groups engage in drug and human trafficking and illegal mining, among other things, contributing to a public perception of greater insecurity.

This situation has been exacerbated by the poor economic and social conditions in neighboring Venezuela, which has become a safe haven for criminal groups operating in both countries. Armed confrontations between criminal groups close to the Colombia-Venezuela border recently displaced around 20,000 refugees and compelled the Colombian government to end the cease fire and peace talks with criminal groups. The government also declared a "state of internal commotion" and "state of economic emergency" to expedite budget resources to address the security and humanitarian challenges.

Investor confidence is likely to remain weak over the next few years. Investment is likely to recover very slowly, with real fixed investment not surpassing its 2022 peak level until 2027. Economic growth would mostly be driven by resilient private consumption, supported by lower domestic and global interest rates that encourage credit growth, declining inflation, and a strong labor market strengthening disposable family income.

Following the 0.6% GDP growth in 2023, we estimate that Colombia's growth was 1.7% in 2024. Resilient consumption and a muted investment recovery should boost growth towards 2.9% by 2027. Real per capita GDP growth is expected to average 1.7% over 2024-2027, moderately below the average of countries at a similar stage of development. We expect GDP per capita at US$7,700 in 2025.

Economic risks are skewed to the downside. Global conditions have become more uncertain, and growing protectionism is likely to add inflationary pressures, potentially stalling further cuts on global and domestic interest rates. In addition, Colombia has lost significant fiscal freedom over the last 10 years.

Flexibility and performance profile: We expect high fiscal deficits and interest burden

- Large fiscal deficits will drive the net general government debt burden to just below 60% of GDP over the next three years and sustain a high interest burden.

- Growing service sector exports and remittance income should moderate the current account deficit. Narrow net external debt is high but is on a declining trajectory.
- We expect the central bank to conduct monetary policy that brings inflation to its target by year-end 2025.

An expansionary budget, growing interest burden, an adverse legal ruling on the prohibition to deduct oil royalties, and overly optimistic revenue assumptions led to a significant fiscal deterioration in 2024. We estimate Colombia's general government deficit at -5.4% of GDP in 2024, compared with -2.3% in 2023. (Our definition for general government includes the central government, social security systems, a deposit guarantee fund, the central bank, and local and regional governments.)

A combination of higher economic growth that supports a moderate recovery in tax revenues and expenditure cuts aiming to comply with the fiscal rule should allow for minor fiscal consolidation in 2025-2026.

However, general government primary spending and interest burden will remain above pre-pandemic levels, and we expect a general government deficit averaging -4.4% of GDP over 2025-2027. We highlight that the shortfall in revenue collections in 2024 led the central government to make sizable budget cuts, including through budget under-execution, to comply with the fiscal target mandated by Colombia's fiscal rule. While the episode shows the government's commitment to meeting fiscal rule targets, it also shows significant gaps between forecast and actual revenues, which may reappear in 2025.

Colombia's annual increase in net general government debt is likely to average 5% of GDP over 2024-2027, considering the impact of inflation and currency depreciation, but moderately decline over the forecast. Net general government debt is expected to stabilize just below 60% of GDP over the same period. While we expect domestic and global interest rates to decline, the average cost of debt would likely stabilize at higher than pre-pandemic levels, and the government's interest spending is likely to remain above 15% of general government revenues over the forecast period.

We assess the sovereign's contingent liabilities as limited. Our assessment of Colombia's financial system, with total assets estimated at 68% as of 2024, is based on a Banking Industry Country Risk Assessment (BICRA) of '6'. (Our BICRA groups are on a scale from 1-10, with '1' denoting the lowest risk and '10' the highest risk.) The banking sector adopted Basel III capitalization rules in 2024, adding to the system's resilience. We also expect lower interest rates to incentivize greater demand for credit in 2025-2026.

The current account deficit (CAD) is likely to stabilize just below 3% of GDP over 2025-2028. The expected CAD is lower than pre-pandemic levels, mostly reflecting higher remittances and strong service sector exports (mostly tourism and corporate services). Despite numerous free trade agreements and logistical improvements, Colombian goods exports are still concentrated in the hydrocarbon sector, historically resulting in high terms of trade volatility.

We expect the CAD to be largely funded by foreign direct investment, helping narrow net external debt toward 110% of current account receipts (CAR) by 2028. We expect gross external financing needs of just below 100% of CAR over 2025-2028.

Colombia's central bank has a strong record of targeting inflation and letting the currency float freely. We expect this record to continue and a renewed board of directors to maintain cautious policy to anchor inflation expectations. Inflation has been on a clear downward trajectory since April 2023, and it averaged 6.6% in 2024. We expect inflation to be within the central bank's target of 3% plus/minus 1% by year-end 2025.

Key Statistics

Table 1

Colombia--Selected indicators

	2019	2020	2021	2022	2023	2024	2025f	2026f	2027f	2028f
Economic indicators (%)										
Nominal GDP (bil. LC)	1,060,068	998,471	1,192,634	1,469,791	1,572,458	1,705,232	1,816,430	1,931,099	2,048,141	2,172,276
Nominal GDP (bil. $)	323.03	270.35	318.52	345.33	363.49	415.67	410.49	433.95	460.26	487.33
GDP per capita ($000s)	6.5	5.4	6.2	6.7	7.0	7.9	7.7	8.1	8.6	9.0
Real GDP growth	3.2	(7.2)	10.8	7.3	0.6	1.7	2.5	2.8	2.9	2.9
Real GDP per capita growth	0.8	(9.0)	9.3	6.1	(0.4)	0.8	1.7	2.1	2.3	2.3
Real investment growth	2.2	(23.6)	16.7	11.5	(9.5)	1.9	2.9	3.0	3.0	3.0
Investment/GDP	21.4	19.1	18.9	19.7	13.6	17.5	17.6	17.6	17.6	17.7
Savings/GDP	16.8	15.7	13.3	13.6	11.1	15.6	14.7	14.7	14.7	14.9
Exports/GDP	15.9	13.5	16.2	20.2	17.8	17.1	16.5	16.1	15.7	15.3
Real exports growth	3.1	(22.5)	14.6	12.3	3.4	2.5	3.0	3.4	3.4	3.4
Unemployment rate	10.9	16.5	13.8	11.2	10.2	10.4	10.3	10.0	9.9	9.9
External indicators (%)										
Current account balance/GDP	(4.6)	(3.4)	(5.6)	(6.1)	(2.4)	(1.9)	(2.9)	(2.9)	(2.9)	(2.7)
Current account balance/CARs	(21.7)	(17.7)	(26.1)	(22.6)	(10.0)	(8.2)	(12.4)	(12.7)	(12.8)	(12.4)
CARs/GDP	21.1	19.4	21.6	27.2	25.2	23.7	23.4	23.0	22.5	21.9
Trade balance/GDP	(3.1)	(3.3)	(4.4)	(3.5)	(1.9)	(1.7)	(2.2)	(2.2)	(2.2)	(2.1)
Net FDI/GDP	3.4	2.1	2.0	4.0	4.4	3.0	3.2	3.5	3.5	3.5
Net portfolio equity inflow/GDP	(0.5)	(1.3)	(1.1)	(0.5)	(1.4)	(0.7)	(0.7)	(0.7)	(0.7)	(0.7)
Gross external financing needs/CARs plus usable reserves	100.6	96.8	97.9	106.4	100.0	99.6	97.7	95.0	93.4	90.8
Narrow net external debt/CARs	125.4	179.5	148.6	116.2	130.5	120.0	124.0	119.3	114.9	110.4
Narrow net external debt/CAPs	103.1	152.6	117.9	94.8	118.6	110.9	110.3	105.9	101.9	98.2

Table 1

Colombia--Selected indicators (cont.)

	2019	2020	2021	2022	2023	2024	2025f	2026f	2027f	2028f
Net external liabilities/CARs	231.2	304.1	233.6	189.8	209.2	202.0	219.5	224.1	229.1	234.5
Net external liabilities/CAPs	190.0	258.4	185.3	154.9	190.2	186.7	195.3	198.9	203.1	208.6
Short-term external debt by remaining maturity/CARs	49.4	76.3	55.1	49.6	52.0	51.0	48.5	43.6	40.6	36.9
Usable reserves/CAPs (months)	6.9	10.2	8.1	6.0	6.8	6.6	6.9	6.9	6.8	6.9
Usable reserves (mil. $)	52,652	58,500	58,019	56,704	59,041	62,283	64,335	66,505	68,806	71,243
Fiscal indicators (general government; %)										
Balance/GDP	(2.2)	(8.2)	(7.8)	(6.6)	(2.3)	(5.4)	(4.8)	(4.6)	(3.9)	(3.5)
Change in net debt/GDP	5.2	11.0	9.6	9.2	(0.3)	7.4	4.5	4.4	3.7	3.3
Primary balance/GDP	0.7	(5.4)	(4.5)	(2.3)	1.6	(1.1)	(0.7)	(0.5)	0.3	0.7
Revenue/GDP	26.5	23.7	24.4	24.1	29.1	26.0	26.8	27.1	27.3	27.3
Expenditures/GDP	28.7	32.0	32.2	30.7	31.4	31.4	31.6	31.7	31.2	30.8
Interest/revenues	11.0	12.0	13.6	17.9	13.4	16.7	15.2	15.3	15.5	15.5
Debt/GDP	51.9	66.8	64.7	62.6	58.8	62.0	63.0	63.9	64.2	64.1
Debt/revenues	195.9	281.3	265.1	260.1	201.8	237.9	234.8	236.4	235.7	235.2
Net debt/GDP	45.6	59.4	59.3	57.3	53.3	56.6	57.7	58.6	58.9	58.8
Liquid assets/GDP	6.3	7.4	5.4	5.3	5.5	5.4	5.4	5.3	5.3	5.3
Monetary indicators (%)										
CPI growth	3.5	2.5	3.5	10.2	11.8	6.6	3.9	3.4	3.1	3.1
GDP deflator growth	4.0	1.5	7.8	14.9	6.3	6.6	3.9	3.4	3.1	3.1
Exchange rate, year-end (LC/$)	3277.14	3432.50	3981.16	4810.20	3822.05	4401.98	4415.00	4435.00	4450.00	4465.05
Banks' claims on resident non-gov't sector growth	7.8	6.5	9.6	13.8	2.2	1.0	10.0	7.0	7.0	7.0
Banks' claims on resident non-gov't sector/GDP	46.9	53.0	48.7	44.9	42.9	40.0	41.3	41.5	41.9	42.3
Foreign currency share of claims by banks on residents	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign currency share of residents' bank deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Table 1

Colombia--Selected indicators (cont.)

	2019	2020	2021	2022	2023	2024	2025f	2026f	2027f	2028f
Real effective exchange rate growth	(5.9)	(7.7)	(3.2)	(4.7)	6.3	1.0	1.0	1.0	1.0	1.0

Adjustments: N/A
Definitions: Savings is defined as investment plus the current account surplus (deficit). Investment is defined as expenditure on capital goods, including plant, equipment, and housing, plus the change in inventories. Banks are other depository corporations other than the central bank, whose liabilities are included in the national definition of broad money. Gross external financing needs are defined as current account payments plus short-term external debt at the end of the prior year plus nonresident deposits at the end of the prior year plus long-term external debt maturing within the year. Narrow net external debt is defined as the stock of foreign and local currency public- and private- sector borrowings from nonresidents minus official reserves minus public-sector liquid claims on nonresidents minus financial-sector loans to, deposits with, or investments in nonresident entities. A negative number indicates net external lending.
N/A--Not applicable. LC--Local currency. CARs--Current account receipts. FDI--Foreign direct investment. CAPs--Current account payments. The data and ratios above result from S&P Global Ratings' own calculations, drawing on national as well as international sources, reflecting S&P Global Ratings' independent view on the timeliness, coverage, accuracy, credibility, and usability of available information.

Ratings Score Snapshot

Table 2

Colombia--Ratings score snapshot

Key rating factors	Score	Explanation
Institutional assessment	3	Stable democracy, checks and balances, and continuity in economic policies. We continue to expect pragmatism in policies.
Economic assessment	4	Based on GDP per capita ($) trend as per Selected Indicators in table 1.
External assessment	5	Based on narrow net external debt and gross external financing needs as per Selected Indicators in table 1.
		The country is exposed to significant volatility in terms of trade due to its dependence on hydrocarbons.
Fiscal assessment: flexibility and performance	4	Based on the change in net general government debt (% of GDP) as per Selected Indicators in table 1.
Fiscal assessment: debt burden	5	Based on net general government debt (% of GDP) and general government interest expenditures (% of general government revenue) as per Selected Indicators in table 1.
Monetary assessment	3	Colombia has a floating exchange-rate regime, but its currency is not actively traded. The central bank has a track record of independence and uses market-based monetary instruments. It has the ability to act as a lender of last resort for the financial system.
		The central bank has a track record of independence and uses market-based monetary instruments. It has the ability to act as a lender of last resort for the financial system.
Indicative rating	bb+	As per table 1 of "Sovereign Rating Methodology."
Notches of supplemental adjustments and flexibility	0	
Final rating		
Foreign currency	BB+	
Notches of uplift	1	Reflecting an independent monetary policy with a track record of floating currency. The sovereign has relatively adequate capital markets, as demonstrated by local currency fixed income and money market accounting for about 30% of GDP.

Table 2

Colombia--Ratings score snapshot (cont.)

Key rating factors	Score	Explanation
Local currency	BBB-	

S&P Global Ratings' analysis of sovereign creditworthiness rests on its assessment and scoring of five key rating factors: (i) institutional assessment; (ii) economic assessment; (iii) external assessment; (iv) the average of fiscal flexibility and performance, and debt burden; and (v) monetary assessment. Each of the factors is assessed on a continuum spanning from 1 (strongest) to 6 (weakest). S&P Global Ratings' "Sovereign Rating Methodology," published on Dec. 18, 2017, details how we derive and combine the scores and then derive the sovereign foreign currency rating. In accordance with S&P Global Ratings' sovereign ratings methodology, a change in score does not in all cases lead to a change in the rating, nor is a change in the rating necessarily predicated on changes in one or more of the scores. In determining the final rating, the committee can make use of the flexibility afforded by §15 and §§126-128 of the rating methodology.

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Governments | Sovereigns: Sovereign Rating Methodology, Dec. 18, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- General Criteria: Methodology: Criteria For Determining Transfer And Convertibility Assessments, May 18, 2009

Related Research

- Sovereign Ratings History, Jan. 13, 2025
- Colombia Outlook Revised To Negative On Subdued Economic Growth Prospects; 'BB+/B' Foreign Currency Ratings Affirmed, Jan. 18, 2024
- 2023 Annual Global Sovereign Default And Rating Transition Study, March 27, 2024
- Sovereign Debt 2024: The Americas See A Continued Rise In Sovereign Borrowing, Feb. 27, 2024
- Sovereign Risk Indicators, Dec. 9, 2024
- Credit Conditions Emerging Markets Q1 2025: The Tariff Trials, Dec. 3, 2024

In accordance with our relevant policies and procedures, the Rating Committee was composed of analysts that are qualified to vote in the committee, with sufficient experience to convey the appropriate level of knowledge and understanding of the methodology applicable (see 'Related Criteria And Research'). At the onset of the committee, the chair confirmed that the information provided to the Rating Committee by the primary analyst had been distributed in a timely manner and was sufficient for Committee members to make an informed decision.

After the primary analyst gave opening remarks and explained the recommendation, the Committee discussed key rating factors and critical issues in accordance with the relevant criteria. Qualitative and quantitative risk factors were considered and discussed, looking at track-record and forecasts.

The committee's assessment of the key rating factors is reflected in the Ratings Score Snapshot above.

The chair ensured every voting member was given the opportunity to articulate his/her opinion. The chair or designee reviewed the draft report to ensure consistency with the Committee decision. The views and the decision of the rating committee are summarized in the above rationale and outlook. The weighting of all rating factors is described in the methodology used in this rating action (see 'Related Criteria And Research').

Ratings List

Ratings Affirmed	
Colombia	
Sovereign Credit Rating	
Foreign Currency	BB+/Negative/B
Local Currency	BBB-/Negative/A-3
Transfer & Convertibility Assessment	
Local Currency	BBB
Colombia	
Senior Unsecured	BB+
Senior Unsecured	BBB-