MOODY'S
INVESTORS SERVICE

Rating Action: Moody's changes outlook on Colombia's rating to stable from negative, affirms Baa2 ratings

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New York, October 06, 2021 -- Moody's Investors Service ("Moody's") has today affirmed the government of Colombia's long-term local and foreign-currency issuer and senior unsecured debt ratings at Baa2 and foreign-currency senior unsecured shelf ratings at (P)Baa2. The short-term local and foreign-currency issuer ratings were also affirmed at Prime-2 (P-2). Moody's has also changed the outlook to stable from negative.

The affirmation of Colombia's Baa2 ratings is supported by the government's track record of prudent macroeconomic management and capacity to build consensus and promote policies that foster economic growth and support fiscal metrics. Moody's considers this driver to be a Governance consideration under its ESG framework. Despite the challenges presented by the pandemic and rising social tensions, the government approved fiscal measures that Moody's projects will support debt stabilization over the coming years, keeping Colombia's credit metrics in line with those of Baa2-rated peers. A strong economic recovery through 2021 and Moody's expectation that growth will remain robust in the coming years denote Colombia's strong resilience to shocks.

The stable outlook reflects Moody's expectation that the fiscal measures approved by the government and the post-pandemic economic recovery will support debt stabilization. The stable outlook also assumes that the next administration will maintain prudent macroeconomic policies, including implementation of the fiscal consolidation program outlined by the reform, in a way that effectively leads to the stabilization of credit metrics and likely reduces fiscal and external imbalances.

Colombia's local and foreign-currency country ceilings remain unchanged at A1. The four-notch gap between the local currency ceiling and the sovereign rating reflects low government presence in the economy, robust predictability of institutions and moderate political and external vulnerability risks. The alignment between the foreign-currency ceiling and the local currency ceiling incorporates Colombia's strong policy effectiveness, moderate levels of external indebtedness and an open capital account.

RATINGS RATIONALE

RATIONALE FOR AFFIRMATION AT Baa2

EFFECTIVE MACROECONOMIC POLICY RESPONSE TO CHALLENGES POSED BY THE PANDEMIC WILL CONTRIBUTE TO DEBT STABILIZATION

Colombia has a well-established track record of formulating macroeconomic policies that allow the country to emerge from significant shocks, a key institutional feature that supports its sovereign credit profile. Amid difficult economic and social conditions, in 2021 the authorities adopted measures that Moody's expects will support the stabilization of government debt metrics over the coming years. Although the fiscal reform passed by the Duque administration did not fully address some pre-existing challenges (such as the narrow tax revenue base), the government built a broad consensus among different political parties and private sector representatives and approved a reform that Moody's considers will set the conditions for a credible medium-term fiscal consolidation process. Moody's expects that increased revenue raised by this reform will lead to deficit reduction and will contribute to stabilize government debt ratios by 2022-23. The authorities strengthened the fiscal policy framework, making changes to the fiscal rule, which Moody's expects will anchor debt sustainability and guide fiscal policy under future governments.

DESPITE INCREASED GOVERNMENT DEBT RATIOS, COLOMBIA'S CREDIT METRICS REMAIN IN LINE WITH Baa2-RATED PEERS

The pandemic and subsequent policy response (both to mitigate the health crisis and to support the economic recovery) resulted in a deterioration in Colombia's debt ratios. The government's debt burden will reach 68% of GDP in 2021, up from 52% in 2019. However, the increase in Colombia's debt ratio is in line with that of other Baa-rated sovereigns (average increase of 15 percentage points). The interest burden will increase moderately to 11.3% of government revenues in 2021 from 10.8% in 2019, a smaller increase compared to most other

Baa-rated peers (with an average increase of 1.2 percentage points and several Baa2-rated peers seeing increases that exceeded 2 percentage points). At these levels, Colombia's debt and interest metrics will be in line with the median for Baa2-rated peers. Given Moody's expectation that debt metrics will stabilize over the coming years, the ratings agency anticipates Colombia's fiscal strength will remain in line with that of other similarly rated peers.

STRONGER-THAN-EXPECTED ECONOMIC RECOVERY DENOTES COLOMBIA'S STRONG RESILIENCE TO SHOCKS; MEDIUM-TERM GROWTH TO REMAIN SUPPORTIVE OF DEBT STABILIZATION

Despite the challenges posed by large scale social protests and renewed waves of the pandemic during the first half of 2021, Colombia's economic performance will exceed Moody's expectations. The rating agency expects the gap with 2019 GDP will be closed in 2021, unlike its previous baseline expectation that the Colombian economy would only reach that level of output again in 2022, with output expanding by over 8% this year compared to our early-2021 forecast of 5%. This would make Colombia one of seven -- out of 19 in total -- Baa-rated sovereigns to accomplish this in 2021. Moody's considers that Colombia's strong economic recovery demonstrates the economy's resilience to shocks, notwithstanding the presence of structural bottlenecks related to infrastructure and the labor market. Relative to Baa-rated peers, Moody's expects economic growth to remain strong -- expanding between 3.5%-4% over the coming years -- and support the stabilization of debt metrics.

RATIONALE FOR THE STABLE OUTLOOK

The stable outlook reflects Moody's expectation that fiscal and economic dynamics over the coming years will support debt stabilization. A key assumption behind the stable outlook is the continuation of prudent macroeconomic policies by the next government, including implementation of a fiscal consolidation program that is consistent with the policy framework outlined by the new fiscal rule, which Moody's expects will contribute to the stabilization and potential reduction of fiscal and external imbalances. This baseline also considers that there is scope for the next administration, which will take office in August 2022, to pursue a fiscal reform to further ensure the stability of Colombia's credit metrics and introduce measures that can potentially reduce the debt burden.

ENVIRONMENTAL, SOCIAL, GOVERNANCE CONSIDERATIONS

Colombia's ESG Credit Impact Score is moderately negative (CIS-3) reflecting its moderate exposure to environmental and social risks, mitigated by a strong track record of effective of macroeconomic policymaking that supports its governance.

Colombia's exposure to environmental risks is moderately negative (E-3 issuer profile score) given the country's exposure to physical climate risk in the form of flooding and extreme precipitation that can affect the agricultural sector. Additionally, given the high share of hydrocarbon exports, Colombia is exposed to carbon transition risks over the longer term.

Exposure to social risks is moderately negative (S-3 issuer profile score), reflecting several factors. Despite progress in poverty reduction achieved over the past two decades, persistently high levels of rural-urban income inequality could be a potential source of social unrest. Colombia faces moderate challenges in the provision and quality of education, housing, health and safety and access to basic services. Additional risks related the implementation of the peace agreement with the FARC and the large influx of Venezuelan migrants into Colombia adds pressure to the government's fiscal balance because of higher social spending, although in both instances there could be positive medium-term effects on the economy by supporting increased investment and productivity.

The influence of governance on Colombia's credit profile is neutral-to-low (G-2 issuer profile). Moody's assessment of Colombia's moderate institutional framework includes issues related to rule of law and control of corruption. The government maintains a strong track record of effective fiscal and monetary policymaking.

GDP per capita (PPP basis, US$): 14,324 (2020 Actual) (also known as Per Capita Income)

Real GDP growth (% change): -6.8% (2020 Actual) (also known as GDP Growth)

Inflation Rate (CPI, % change Dec/Dec): 1.6% (2020 Actual)

Gen. Gov. Financial Balance/GDP: -7.2% (2020 Actual) (also known as Fiscal Balance)

Current Account Balance/GDP: -3.7% (2020 Actual) (also known as External Balance)

External debt/GDP: 56.9% (2020 Actual)

Economic resiliency: baa1

Default history: No default events (on bonds or loans) have been recorded since 1983.

On 04 October 2021, a rating committee was called to discuss the rating of the Colombia, Government of. The main points raised during the discussion were: The issuer's economic fundamentals, including its economic strength, have not materially changed. The issuer's institutions and governance strength have increased. The issuer's fiscal or financial strength, including its debt profile, has not materially changed.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Given the deterioration experienced by Colombia's fiscal strength because of the pandemic, a rating upgrade is unlikely. Positive momentum on the rating would emerge if the next administration were to implement policies that bolster medium-term growth prospects, address structural fiscal challenges, including expenditure rigidities and a narrow revenue base, and result in a downward debt trajectory.

Colombia's rating could be downgraded if Moody's were to conclude that fiscal consolidation efforts are unlikely to lead to the stabilization of government debt ratios, given that this would lower Colombia's fiscal strength relative to that of its peers and weaken the sovereign credit profile. Additional negative pressure would emerge if the country were to become more reliant on external debt inflows to finance its current account deficit, or if increasing external imbalances led to a weakening of the country's external liquidity buffers.

The principal methodology used in these ratings was Sovereign Ratings Methodology published in November 2019 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1158631 . Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

The weighting of all rating factors is described in the methodology used in this credit rating action, if applicable.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

These ratings are solicited. Please refer to Moody's Policy for Designating and Assigning Unsolicited Credit

Ratings available on its website www.moodys.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at http://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1288435 .

At least one ESG consideration was material to the credit rating action(s) announced and described above.

The Global Scale Credit Rating on this Credit Rating Announcement was issued by one of Moody's affiliates outside the EU and is endorsed by Moody's Deutschland GmbH, An der Welle 5, Frankfurt am Main 60322, Germany, in accordance with Art.4 paragraph 3 of the Regulation (EC) No 1060/2009 on Credit Rating Agencies. Further information on the EU endorsement status and on the Moody's office that issued the credit rating is available on www.moodys.com.

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