Rating Action

Moody's Ratings downgrades Colombia's ratings to Baa3 from Baa2, changes outlook to stable

New York, June 26, 2025 -- Moody's Ratings (Moody's) has today downgraded the government of Colombia's long-term local and foreign-currency issuer and senior unsecured debt ratings to Baa3 from Baa2 and foreign-currency senior unsecured shelf ratings to (P)Baa3 from (P)Baa2. The short-term local and foreign-currency issuer ratings to Prime-3 (P-3) from P-2. The outlook was changed to stable from negative.

The ratings downgrade reflects the projected deterioration of the government's debt metrics, which we expect will persist over the coming years as fiscal deficits will remain high and above the limits set by the country's fiscal rule. The current government has opted to suspend the fiscal rule despite the absence of a shock, reflecting negatively on the effectiveness of the fiscal policy framework.

The stable outlook reflects our expectation that institutional arrangements will continue to play a stabilizing role over the medium term, with policy directives implementing fiscal consolidation and broadly stabilizing debt when pressures emerge. The outlook also reflects an economy that continues to show resilience despite the challenging fiscal dynamics. We expect GDP growth will return to trend levels, around 3%, in the coming years.

Colombia's local and foreign-currency country ceilings were lowered to A2 from A1. The four-notch gap between the local currency ceiling and the sovereign rating reflects low government presence in the economy, high predictability of policy 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, which denote minimal transfer and convertibility risks.

RATINGS RATIONALE

RATIONALE FOR THE RATINGS DOWNGRADE TO Baa3

DELAYED FISCAL CONSOLIDATION WILL CONTRIBUTE TO WEAKER DEBT METRICS AND LOWER FISCAL STRENGTH

Colombia's fiscal dynamics have worsened more than we expected in 2024 and 2025, leading to wider fiscal deficits that will increase the debt burden. The overestimation of revenue for the 2024 and 2025 budgets has raised fiscal pressures that have not been compensated by spending measures. This will contribute to a central government deficit of close to 7% of GDP in 2025, in line with the 2024 deficit.

The general government debt burden will reach 59.5% in 2025 (compared with the government's projection of 58.7%) from 53.4% in 2023. Moreover, as Colombia is currently facing high domestic and external borrowing costs, the increasing indebtedness will contribute to a weakening of debt affordability. Interest payments represented 16% of revenue in 2024, compared with a 'Baa' median of 9%, and will increase to 17% in 2025.

With elections set to take place in 2026, the government's proposal to adjust the fiscal deficit gradually over the coming three years will contribute to a further increase in the debt burden, which we project will peak at 64% of GDP by 2027, above the forecast 'Baa' median of 62%. This points to the increasing likelihood that Colombia's fiscal strength will continue to weaken relative to that of its rating peers.

FISCAL MANAGEMENT HAS NEGATIVELY REFLECTED ON FISCAL POLICY EFFECTIVENESS

We have observed a shift in fiscal policy related to compliance with the fiscal rule. It reflects negatively on Colombia's fiscal policy effectiveness and departs from the track record of prudent policymaking that subsequent administrations have built over the past several decades.

Between 2022 and 2024, policymakers reiterated their commitment with deficit targets and, when needed, implemented measures – including spending cuts – to rein in the fiscal deficit in line with fiscal rule targets. This occurred even as the government faced increased spending pressures stemming from a rising interest burden and payments to the fuel price stabilization fund (FEPC).

In 2024, amid a sharp revenue underperformance relative to the budget, the government implemented spending cuts that were ultimately insufficient to prevent a widening of the deficit. Authorities explained the deviation from the deficit target caused by the revenue underperformance as a one-off event (TUV). The Fiscal Rule Autonomous Committee (CARF) stated that absent the application of the TUV, the structural primary deficit would have been worse than the permitted level. If not for the TUV context, it would have been the first violation of the fiscal rule since its inception in 2011.

Revenue will underperform again in 2025. The adjustment required to comply with the fiscal rule this year would be of about 2% of GDP, which is not deemed achievable by the government mostly due to expenditure rigidities. As a result, the authorities have announced the suspension of the fiscal rule for three years. As opined by the CARF, this is in the absence of a macroeconomic shock that would have justified the triggering of an escape clause.

RATIONALE FOR THE STABLE OUTLOOK

Colombia's stable outlook is supported by the legislative and judicial institutional checks and balances that have limited radical policy shifts. Additionally, over the past decades, Colombia has built a track record of prudent macroeconomic policymaking that reduced imbalances following shocks, while the central bank's autonomy has been crucial in anchoring inflationary expectations and reduce inflation.

The stable outlook incorporates the view that, over the medium term, policymakers and legislators will support corrective measures to enable a consolidation process. A first step has been presented by the current government in the form of a fiscal pact that would seek to raise revenue and address high spending rigidity, as well as a more restrained 2026 budget. These measures are important to ensure the reduction of the fiscal deficit conducive to the stabilization of the debt burden at levels that would still be aligned with that of rating peers.

Furthermore, Colombia's economic resilience and ability to recover from shocks underpin the stable outlook. After the strong deceleration in economic activity in 2023, the economy has shown a gradual strengthening with growth rates converging towards our projected trend levels of about 3%. Should future administrations adopt policies that enhance the investment environment, growth prospects could improve, further supporting fiscal consolidation.

ENVIRONMENTAL, SOCIAL, GOVERNANCE CONSIDERATIONS

Colombia's CIS-3 reflects its moderate exposure to environmental and social risks, mitigated by institutional checks and balances and a track record of effective macroeconomic policymaking indicative of its governance strength.

Colombia's exposure to environmental risks is E-3 given the country's moderate 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.

Colombia's S-3 issuer profile score incorporates its exposure to several social risk 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 access to basic services, particularly in remote regions. Additional risks related to the implementation of the peace agreement and a weakening of safety conditions add pressure to economic activity and the government's fiscal balance because of higher social spending, although there could be positive medium-term effects on the economy by supporting increased investment and productivity through greater regional development.

The G-2 score reflects our assessment of Colombia's institutional framework, which operates as an effective set of checks and balances despite relative weaknesses related to the rule of law and control of corruption. The government has demonstrated strong monetary and macroeconomic policymaking that supports its credit profile, while fiscal policy has been responsive to rising challenges by pursuing gradual adjustments following shocks.

GDP per capita (PPP basis, US$): 21,494 (2024) (also known as Per Capita Income)

Real GDP growth (% change): 1.6% (2024) (also known as GDP Growth)

Inflation Rate (CPI, % change Dec/Dec): 5.2% (2024)

Gen. Gov. Financial Balance/GDP: -5.8% (2024) (also known as Fiscal Balance)

Current Account Balance/GDP: -1.7% (2024) (also known as External Balance)

External debt/GDP: 50% (2024)

Economic resiliency: baa1

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

On 23 June 2025, 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 institutions and governance strength, have decreased. The issuer's fiscal or financial strength, including its debt profile, has materially decreased.

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

WHAT COULD LEAD TO AN UPGRADE

Positive momentum on the rating would develop if government policies effectively addressed structural fiscal issues related to Colombia's rigid spending structure or if policy changes generated permanently higher revenue, supporting fiscal consolidation that led to a sustained reduction in the government's debt and interest burden. Additionally, an improvement in medium-term growth prospects supported by government policies that encourage investment or improve productivity would enhance Colombia's credit profile.

WHAT COULD LEAD TO A DOWNGRADE

The rating would face negative pressures if the government failed to restore the sovereign's track record of fiscal consolidation when pressures accumulate, leading to a continuation of higher deficits and debt levels. This would not only weigh on the sovereign's fiscal strength but would suggest a more permanent weakening of fiscal policy effectiveness, lowering our assessment of institutional strength. Additionally, if changes in the regulatory environment or political dynamics continue to undermine investor confidence, it could weaken medium-term economic growth prospects, adding downward pressure to the rating.

The principal methodology used in these ratings was Sovereigns published in November 2022 and available at https://ratings.moodys.com/rmc-documents/395819. Alternatively, please see the Rating Methodologies page on https://ratings.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.

The net effect of any adjustments applied to rating factor scores or scorecard outputs under the primary methodology(ies), if any, was not material to the ratings addressed in this announcement.

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 on https://ratings.moodys.com/rating-definitions.

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