CareEdge Global assigns 'Negative' Outlook to the Rating of Republic of Colombia

Reaffirms Long-Term Foreign Currency Rating of 'CareEdge BB+' (Unsolicited)

Issuer rating	CareEdge BB+/Negative (Unsolicited)

Rating Action
CareEdge Global has assigned a 'Negative' outlook to the rating of Republic of Colombia, while reaffirming the Long-Term Foreign Currency rating of **'CareEdge BB+(Unsolicited)'**.

Rationale
The Negative outlook on Colombia reflects increasing fiscal challenges and rising political and security risks which could weigh on macroeconomic stability over the medium term.

The central government fiscal deficit for 2025 has been revised upward to -7.1% of GDP, from the earlier estimate of -5.1%, with similar revisions across the 2024 to 2027 period. The widening deficits are driven by persistent revenue shortfalls, which are expected to result in higher central government debt levels than previously anticipated.

In response, the government has opted to suspend the fiscal rule for three years starting in 2025, citing that 86.4% of public spending is inflexible. While this provides short-term budgetary flexibility, it has added to concerns around the credibility of Colombia's fiscal framework. With limited scope for reform ahead of the 2026 elections, uncertainty surrounding the fiscal consolidation trajectory has intensified.

The credit profile of Colombia is primarily constrained by its weak fiscal position and persistent security-related challenges. The economy remains heavily reliant on oil revenues, making it vulnerable to fluctuations in global commodity prices. Additionally, the large informal sector limits the tax base, reducing fiscal flexibility and constraining public investment. Inflation is on a downward trajectory, although it remains elevated relative to the central bank's target.

Nonetheless, the reaffirmation of the rating reflects Colombia's relatively strong economic fundamentals and a comfortable external profile, demonstrated by resilient foreign direct investment inflows and adequate foreign exchange reserves.

Downside Scenario
The rating could be lowered if a timely and effective fiscal consolidation plan is not implemented, leading to further deterioration in central government finances, weaker-than-expected economic growth, and a decline in security conditions.

Upside Scenario

The outlook could be revised to stable if the government implements a credible fiscal consolidation plan and effectively addresses security concern, restoring investor confidence and supporting stronger economic growth.

Key Rating Drivers

Economic Structure & Resilience

Colombia's economy is sizable, with a nominal GDP of USD 419 billion in 2024 and a per capita income of USD 18,909. Economic growth is anticipated to rise to 2.4% in 2025 from 1.7% in 2024, fuelled by increased household consumption. The growth rate is expected to improve further, averaging about 2.7% per year between 2026 and 2027.

The labour market has shown a slight improvement, with the unemployment rate expected to decline to 10% of the total labour force participation by 2025, down from a peak of 16.6% recorded in 2020. However, high informality in the labour market remains a significant challenge, with 56% of workers engaged in informal employment lacking access to employment protection or social security benefits.

Fiscal Strength

Central government finances face mounting challenges. Revenue as a share of GDP dropped from 18.7% in 2023 to 16.5% in 2024, mainly due to a sharp decline in tax collection. Although a slight rebound to 17.0% of GDP is expected in 2025, it still falls short of earlier forecasts. On the spending side, expenditures increased to 23.2% of GDP in 2024 from 22.9% in 2023 and are projected to rise further to 24.2% in 2025. This increase is driven by growing interest payments, estimated at 4.7% of GDP in 2025, and rigid primary expenses related to pensions, healthcare, and security. As a result, the fiscal deficit for 2025 is now forecasted to reach 7.1% of GDP, well above the initial target of 5.1%.

To address the widening deficit, the government has activated the fiscal rule's escape clause, allowing suspension for up to three years from 2025. This move is justified by the fact that 86.4% of public spending is inflexible, tied to pension commitments, health insurance, and essential operations in sectors like public safety. Consequently, central government debt is now expected to grow faster than previously estimated. If not managed, debt could reach nearly 70% of GDP by the end of the decade, posing a challenge to long-term debt sustainability especially without credible fiscal consolidation measures.

External Position & Linkages

Colombia holds a comfortable level of foreign exchange reserves, enough to cover about 7.3 months of imports, offering protection against external shocks. Nonetheless, the current account deficit is forecasted to widen to -2.3% of GDP in 2025, up from -1.8% in 2024. This increase is largely driven by stronger domestic demand, which leads to higher imports, alongside declining exports amid ongoing global trade tensions. The current account deficit is expected to average around -3% of GDP from 2026 to 2030.

Foreign direct investment inflows remained resilient at 3.4% of GDP in 2024, down from 4.6% in 2023, yet robust. Meanwhile, externally held debt declined to 48.2% of GDP in 2024, down from 53.6% in 2023, reflecting an improvement in external debt dynamics.

Monetary & Financial Stability

Colombia's central bank has a proven history of successfully managing inflation. It has significantly lowered inflation from a peak of 11.7% in 2023 to 6.6% in 2024. Expectations are that inflation will decrease further to 4.7% in 2025, though it will still be above the central bank's 3% target. The current monetary policy interest rate is 9.25%.

Stock market capitalisation remains relatively low, at 17.4% of GDP in 2024, indicating limited investor confidence and a shallow domestic capital market.

Institutions & Quality of Governance

Colombia continues to face persistent governance challenges, including weak control over corruption and a fragile law enforcement system. The current administration's lack of a congressional majority, following the 2022 elections, has further constrained the pace of legislative reforms. Despite these hurdles, the country benefits from a relatively efficient regulatory framework and moderately strong indicators in areas such as voice and accountability, as well as policy effectiveness.

However, deteriorating security conditions, particularly in regions affected by criminal activity and armed conflict, have heightened domestic uncertainty, dampened economic growth prospects, and added pressure to government finances. Recent surges in violence, including mass displacements in the Catatumbo region, bombings in the southwest, and an attempted assassination of a presidential candidate, have intensified political tensions ahead of the May 2026 elections. As Colombia enters a pivotal electoral phase, the space for advancing meaningful reforms appears increasingly constrained.

Colombia– Select Indicators									
	Unit	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025 F**	**2026 F**
Economic Indicators									
Nominal GDP	USD Billion	323	270	319	346	366	419	428	446
GDP Per Capita (Constant-PPP)	USD	17836	16222	17725	18815	18756	18909	19215	19585
Real GDP Growth	%	3.2	-7.2	10.8	7.3	0.7	1.7	2.4	2.6
GFCF/GDP	%	21.3	18.4	19.0	19.0	17.4	16.5	-	-
Gross Domestic Savings/GDP	%	15.6	12.1	11.3	12.1	11.7	12.2	-	-
Exports (G&S)/GDP	%	15.9	13.5	16.2	20.2	17.8	15.9	-	-
Working-Age (15-64) Population (% Share in Total)	%	69.5	69.6	69.7	69.7	69.5	69.3	-	-
Old-Age (65+) Population (% Share in Total)	%	8.2	8.5	8.7	9.0	9.4	9.8	-	-
Fiscal Indicators – General Government									
Fiscal Balance/GDP	%	-3.5	-6.9	-7.0	-6.2	-3.2	-4.7	-4.5	-3.2
Revenue/GDP	%	29.4	26.6	27.2	27.7	32.2	28.2	28.1	27.9
Expenditure/GDP	%	32.9	33.5	34.3	33.9	35.4	32.9	32.5	31.1
GG Gross Debt/GDP	%	51.0	65.3	64.4	61.3	55.5	61.3	59.7	59.9
GG External Debt (by Creditor)/GG Gross Debt	%	33.2	34.7	37.7	40.3	33.1	32.7	-	-
Interest/Revenue	%	10.6	12.3	13.1	15.1	13.8	-	-	-
External Indicators									
Current Account Balance/GDP	%	-4.6	-3.4	-5.6	-6.0	-2.3	-1.8	-2.3	-2.4
FDI, Net Inflows/GDP	%	4.3	2.8	3.0	5.0	4.6	3.4	-	-
Outstanding FII Liabilities/GDP	%	25.4	32.9	27.8	23.5	25.4	21.4	-	-
NIIP/GDP	%	-48.9	-59.0	-50.4	-51.6	-52.1	-44.7	-	-
Foreign Exchange Reserves	USD Billion	52.7	58.5	58.0	56.7	59.0	61.9	-	-
Import Cover	Months	7.7	11.5	8.1	6.0	7.2	7.3	-	-
External Debt/GDP	%	42.7	57.2	53.8	53.2	53.6	48.2	-	-
Monetary and Financial Indicators									
CPI Inflation	%	3.5	2.5	3.5	10.2	11.7	6.6	4.7	3.1
Exchange Rate (Average)	LC per USD	3,281	3,693	3,724	4,255	4,325	4,074	-	-
Non-Performing Loans/Total Gross Loans	%	3.1	3.7	3.0	2.5	3.5	-	-	-
Private debt, loans and debt securities/GDP	%	60.6	70.0	64.2	61.0	58.0	54.8	-	-

Sources: International Monetary Fund, World Bank, Bank for International Settlements, National Sources, CareEdge Global

Note: F - Forecast; PPP – Purchasing Power Parity; GFCF – Gross Fixed Capital Formation; Exports (G&S) – Exports of Goods and Services; GG – General Government; FDI – Foreign Direct Investment; FII – Foreign Institutional Investment; NIIP – Net International Investment Position; Data refers to fiscal/calendar year and actual/estimate as reported by the source; Where general government data is unavailable, central government data is used; Latest available data for 2024

Solicitation Status

The rating is unsolicited

Rating History

Instrument	Type	Rating	Date
Issuer Rating	Long-Term Foreign Currency (Unsolicited)	CareEdge BB+/Negative	September 25, 2025
Issuer Rating	Long-Term Foreign Currency (Unsolicited)	CareEdge BB+	October 03, 2024

Criteria Applied

CareEdge Global Sovereign Rating Methodology

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