Republic of Colombia's rating reaffirmed at 'CareEdge BB+/Negative'

Issuer rating (Long-Term Foreign Currency)	**CareEdge BB+/Negative (Unsolicited)**

Rating action

CareEdge Global Ratings has reaffirmed the **Republic of Colombia's** Long-Term Foreign Currency Rating at **'CareEdge BB+/Negative'** (Unsolicited).

Rationale

The rating reaffirmation reflects our view that Colombia's credit profile continues to face fiscal and security-related challenges. However, it is supported by stable macroeconomic fundamentals, adequate external buffers, sustained market access, and the central bank's demonstrated policy credibility.

Fiscal consolidation efforts continue to be impeded by limited progress on structural fiscal reforms, a rigid expenditure profile that constrains the scope for meaningful spending reductions, rising spending pressures (likely to intensify post 23% increase in the minimum wage in 2026), and persistent constraints on revenue mobilisation. The large informal sector narrows the effective tax base, limiting the government's ability to strengthen revenue generation and improve fiscal outcomes. Further, elevated debt-servicing costs still weigh on fiscal flexibility, while the inversion of the domestic yield curve will likely increase the refinancing costs of shorter-dated debt and issuance of new debt.

Notably, the mid-2026 change in government will shift attention to the incoming government's efforts to establish its fiscal framework. The incoming administration has articulated an explicit fiscal consolidation stance, centred on expenditure rationalisation, complemented by tax reforms aimed at enhancing revenue mobilisation rather than increasing tax rates on the formal sector. However, the credibility of this stance and the authorities' ability to effectively implement fiscal consolidation measures remain to be assessed. As such, the pace and effectiveness of fiscal adjustment will bear watching.

Further, persistent security-related challenges continue to weigh on the sovereign's credit profile, given their implications for economic activity, investment, and fiscal outcomes.

Nevertheless, Colombia continues to benefit from policy frameworks that have historically supported macroeconomic stability, including a credible inflation-targeting regime and exchange rate flexibility. These strengths partially mitigate vulnerabilities arising from fiscal pressures and a challenging financing environment.

Outlook: Negative
The Negative outlook reflects potential deterioration in Colombia's fiscal position if the incoming administration is unable to implement effective fiscal consolidation measures. Structural fiscal challenges, including persistent expenditure pressures and constraints on revenue mobilisation, could hinder fiscal consolidation, increasing pressure on the sovereign's credit profile.

Downside scenario
The rating could be lowered if a credible fiscal consolidation strategy is not implemented, resulting in sustained deterioration in public finances. It could also be lowered if security conditions deteriorate materially or if medium-term economic growth prospects weaken significantly.

Upside scenario
The outlook could be revised to stable if sustained fiscal consolidation leads to a durable improvement in public finances. It could also be revised upwards if security conditions improve materially or if medium-term economic growth prospects strengthen significantly.

Key rating drivers

Economic structure & resilience

Colombia has a sizeable and diversified economy, with a nominal GDP of USD 457 billion in 2025 and GDP per capita of USD 19,257 (constant PPP) in 2025. Real GDP growth accelerated to 2.6% in 2025 from 1.5% in 2024, led by a recovery in domestic demand. However, growth is projected to slow down to 2.3% in 2026, as renewed inflationary pressures and tighter monetary conditions are expected to weigh on investment and private consumption. Over the next five years, growth is expected to average 2.6%.

Labour market conditions have improved, with the unemployment rate declining to 8% in 2025, one of its lowest levels in recent years. However, structural labour market informality remains elevated at 56%, limiting productivity gains. This continues to strain long-term growth potential, while also narrowing the formal tax base.

Fiscal strength

Government finances remain under structural strain. General government (GG) primary and overall fiscal deficits widened to 3.5% and 5.7% of GDP, respectively, in 2025, significantly exceeding earlier expectations. Although the central government's fiscal deficit (6.4% of GDP in 2025) was lower than projected when the Negative outlook was assigned (7.1% of GDP), the improvement largely reflected temporary factors, notably peso appreciation and debt management operations that generated substantial interest savings (nearly 2% of GDP), rather than durable fiscal consolidation.

Going ahead, the IMF projects higher-than-initially-expected GG fiscal deficits of 5.2% of GDP in 2026 (vs 3.3% earlier) and 4.3% in 2027 (vs 3.0% earlier). GG gross debt (GGG) is expected to increase substantially in absolute terms, while GGG debt-to-GDP ratio is projected to average around 61% over the next five years.

Fiscal pressures persist due to limited progress on revenue-enhancing reforms and a highly rigid expenditure profile, with mandatory spending accounting for nearly 90% of total expenditure. The 23% increase in the minimum wage in 2026 is expected to raise pension-related spending, while planned increase in transfers to subnational governments could heighten the pressure on central government finances.

Funding pressure is also intense. Greater reliance on short-term domestic borrowing during the 2024-25 monetary easing cycle has increased refinancing costs, following subsequent policy rate hikes. Colombia's relatively high share of external government debt (27.3% of GG debt) adds to fiscal concerns. While elevated oil prices provide near-term support, declining oil production limits the fiscal benefit, with any gains from renewed oil exploration are likely to materialise only over the medium term.

The incoming administration inherits a materially weaker fiscal position. Restoring fiscal sustainability will require a credible consolidation strategy, renewed compliance with the fiscal rule following the end of its suspension in 2027, effective engagement with the Autonomous Fiscal Rule Committee (CARF), and the implementation of meaningful fiscal reforms.

External position & linkages

Colombia's current account deficit (CAD) widened to 2.4% of GDP in 2025 from 1.7% in 2024, reflecting subdued exports (up 1.3% y-o-y) and higher imports (up 10.0% y-o-y). Going forward, CAD is projected to widen gradually to around 3.0% of GDP by 2030, although elevated oil prices are expected to provide some support.

Net FDI inflows moderated to 2.5% of GDP in 2025 from 3.3% in 2024, albeit continued to finance a significant share of CAD. Although externally held debt remained relatively high at 53.8% of GDP, Colombia has comfortable foreign exchange reserves of nearly USD 67 billion (around 11 months of import cover) and sustained access to external financing.

Monetary & financial stability

Colombia’s central bank (BanRep) has a demonstrated track record of effective inflation management. In response to renewed inflationary pressures, partly linked to high oil prices, BanRep raised its policy rate by a cumulative 275 basis points (bps) during the first half of 2026, reaching 12% at its June 2026 meeting from 9.25% in December 2025. According to the IMF’s projections, inflation is expected to remain above 5% until 2027, before gradually converging towards the 3% target by 2029.

Credit to the private sector is moderate (54.9% of GDP in 2024). NPLs have declined over the past two years, from nearly 5% in end-2024 to 3.8% in May 2026.

Institutions & quality of governance

Colombia’s institutional framework is characterised by strong formal structures, including an independent central bank. However, governance challenges persist, particularly in relation to limited effectiveness in controlling corruption and constraints within the law enforcement system.

In the presidential election held in May-June 2026, Colombia elected a right-leaning candidate Abelardo de la Espriella as its next president, marking a return to right-leaning governance following the four-year tenure of the country's first left-leaning president. Nonetheless, a fragmented Congress is expected to continue constraining the scope and pace of legislative reforms, limiting the government's ability to advance policy measures that require broad political consensus.

Security conditions remain a structural constraint on Colombia's institutional and economic environment, with the continued activity of armed and criminal groups having affected investments, particularly in vulnerable regions. Additionally, Colombia's relations with the US, a critical ally, particularly on internal security, deteriorated during the previous administration's tenure. The incoming administration's stated intention to adopt a firmer approach towards these groups and place greater emphasis on internal security, together with the trajectory of relations with the US, will be the key areas to monitor.

Select indicators									
	Unit	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026 F**	**2027F**
Economic indicators									
Nominal GDP	USD billion	270	319	346	367	421	457	540	554
GDP per capita (constant-PPP)	USD	16,222	17,725	18,815	18,780	18,887	19,257	19,579	19,959
Real GDP growth	%	-7.2	10.8	7.3	0.8	1.5	2.6	2.3	2.5
GFCF/GDP	%	18.4	19.0	19.1	16.4	16.2	16.0	-	-
Gross domestic savings/GDP	%	12.1	11.3	12.3	11.9	12.3	11.3	-	-
Exports (G&S)/GDP	%	14.1	16.0	21.3	18.7	16.4	15.6	-	-
Working age (15-64) population (% share in total)	%	69.9	70.0	70.0	70.0	69.9	69.8	69.6	69.4
Old age (65+) population (% share in total)	%	8.5	8.7	9.0	9.4	9.8	10.2	10.6	11.1
Fiscal indicators – general government									
Fiscal balance/GDP	%	-7.1	-7.3	-6.4	-2.9	-6.0	-5.7	-5.2	-4.3
Revenue/GDP	%	26.6	27.2	27.7	32.2	28.3	27.4	27.9	28.3
Expenditure/GDP	%	33.7	34.5	34.1	35.1	34.4	33.2	33.0	32.6
GG gross debt/GDP	%	65.3	64.4	61.3	55.4	61.0	59.9	60.9	61.3
GG external debt (by creditor)/GG gross debt	%	36.3	39.5	41.9	33.7	33.8	27.3	-	-
Interest/Revenue	%	11.1	12.8	16.5	13.2	16.5	-	-	-
External indicators									
Current account balance/GDP	%	-3.4	-5.6	-6.0	-2.3	-1.7	-2.4	-2.5	-2.6
FDI, net inflows/GDP	%	2.8	3.0	5.0	4.6	3.3	2.5	-	-
Outstanding FII liabilities/GDP	%	32.9	27.8	23.5	25.3	21.4	25.6	-	-
NIIP/GDP	%	-59.0	-50.4	-51.6	-52.1	-44.4	-43.8	-	-
Foreign exchange reserves	USD billion	59.0	58.6	57.3	59.6	62.5	66.4	-	-
Import cover	Months	11.5	8.1	6.0	7.2	7.3	11.2	-	-
External debt/GDP	%	65.4	60.9	59.2	59.7	52.7	53.8	-	-
Monetary and financial indicators									
CPI inflation	%	2.5	3.5	10.2	11.7	6.6	5.1	5.9	5.2
Exchange Rate (average)	LC per USD	3,693	3,744	4,256	4,326	4,074	4,053	-	-
Non-performing loans/total gross loans	%	5.0	3.9	3.7	5.0	4.7	3.8	-	-
Private debt, loans and debt securities/GDP	%	69.9	64.2	60.7	57.5	54.9	-	-	-

Sources: International Monetary Fund, World Bank, Bank for International Settlements, National Sources, Haver Analytics, 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 2025

Solicitation status
The rating is unsolicited.

Rating history

Instrument	Type	Rating	Date
Issuer Rating	Long-Term Foreign Currency	CareEdge BB+/Negative	July 30, 2026
Issuer Rating	Long-Term Foreign Currency	CareEdge BB+/Negative	September 25, 2025
Issuer Rating	Long-Term Foreign Currency	CareEdge BB+	October 3, 2024

Criteria applied
CareEdge Sovereign Rating Methodology

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