

Basic facts (2021)

Population: 51 million

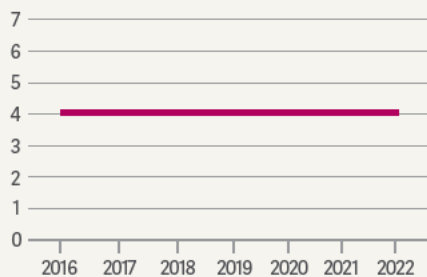
GDP, nominal: USD 314 billion

GDP/capita: USD 6 156



The country risk categories are arranged on a scale from 0 to 7. The lower the figure, the better the country's creditworthiness

Country classification history



Source: EKN

Strengths

- + Stable economic development
- + Well-established democracy with stable institutions
- + Good relations with the IMF and lenders

Weaknesses

- Political violence and high levels of criminality
- Large income inequalities
- Highly dependent on commodities for export

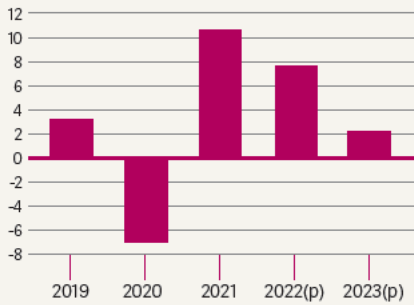
Stable institutions enables growth

Colombia's economy grew at an average annual rate of 3.7% between 2010 and 2019, and GDP per capita is expected to reach approximately USD 7,000/capita in 2023. The country has been an established democracy for several decades. Political institutions at the federal level have pursued responsible economic policies and maintained a pro-trade macroeconomic framework for many years despite several economic shocks, such as the plunge in commodity prices in 2014-2015 and most recently the global coronavirus pandemic. Colombia has signed several free trade agreements, including with the USA (2006) and later the EU (2013). The Colombian political spectrum has broadened in recent years, and now includes a wide range of political parties, including former members of the militant FARC guerrillas. However, the political orientation remains anchored in a small number of major parties, which guarantees that the stable economic policy orientation will continue. The coordinated fiscal and monetary policy action during the pandemic has so far been consistent with the country's history of pragmatism and consensus between the dominant political parties on key economic and fiscal issues.

The Colombian economy consists of a number of industries, including agriculture, mining, services and manufacturing. The service sector corresponds to almost 60 per cent of the economy, while the manufacturing industry accounts for only approx. 10 per cent. Exports, which constitute 15 per cent of GDP, are concentrated in coal, crude oil, metals and agricultural products such as coffee and cut flowers. Colombia is the 12th largest producer of coal and 20th largest producer of oil in the world. Exports of coal and oil together accounted for 46 per cent of the country's export earnings in 2021. The concentration of these raw materials in exports makes Colombia exceptionally vulnerable to price changes in the international commodity markets. Another risk linked to the limited export base is the country's relatively large external debt. These risks are counterbalanced in part by the country's floating exchange rate regime and strong buffers in the form of international reserves supported by a standing credit facility with the IMF which reduces the liquidity risk and risks linked to negative temporary current account shocks.

Over the past ten-year period, according to i.a. the World Bank's Ease of Doing Business Index rankings, Colombia's business environment has developed in a positive direction. During the same period, the country also ended the over fifty-year-long internal conflict with the FARC guerrillas and in 2020 became a member of the OECD. Overall, these developments are expected to contribute to increased economic activity and continued improvements in the institutional environment, even though large-scale illicit drug production in the country (Colombia is the world's largest producer of cocaine) continues to lead to a significant degree of organised crime. The Colombian banking system is healthy but limited in scope given the size of the economy, which is partly explained by the fact that the informal sector continues to be an essential part of the economy. This results, for example, in a low savings rate and low investment. Between 2010 and 2019, the investment ratio amounted to just under 22 per cent on average, which is in line with the rest of the region.

Real GDP growth (constant prices, % per annum)



Source: IMFWEQ, Macrobond

Business environment



Ranking from 0 (worst) to 100 (best)

Source: The World Bank, Macrobond

Difficult balancing act for new government

Growth in 2022 is expected to be 5.8 per cent, which is largely a consequence of the GDP increase in the previous year of 10.6 per cent. The rapid recovery from the pandemic-related decline in GDP in 2020 makes Colombia one of the most dynamic economies in the region, with growth averaging 6 per cent in 2021. The performance can largely be explained by the buoyant domestic consumption combined with large public finance stimuluses and rising prices of the country's main export commodities such as oil and coal. In the coming years, GDP is expected to grow in line with the potential – or historical – growth rate of around 3.5 per cent per year, albeit with risks that rising interest rates to manage inflation in the country could lead to lower consumption and investment in the short term.

In August 2022, former guerrilla fighter and mayor of Bogotá, Gustavo Petro, became Colombia's first-ever left-wing politician to be sworn in as President. Petro's presidential campaign focused on, amongst other issues, halting all new oil and gas exploration projects in the country, combined with a massive spending package equivalent to roughly 10% of GDP. Colombia's twin deficits, in the form of both fiscal and current account deficits, are expected to narrow in the coming years, while the latter continues to be covered by stable foreign direct investment. In a scenario where the Colombian government would actually implements a freeze on new oil and gas projects, oil production would rapidly decline. The country would go from exporting oil-related products equivalent of 4.2 per cent of GDP to becoming a net importer around the year 2028.

Moreover, such a scenario would entail a significantly worse outlook for the country's external balance, while also leading to a weaker fiscal position, oil-related revenues have accounted for about ten per cent of the federal government's revenues over the past decade. The Petro Administration has recently been talking about a more gradual transition away from fossil fuel extraction, while the legislative situation also suggests that Petro will eventually have to propose a less radical reform of the current system for energy extraction. However, the risk of an abrupt halt to extraction cannot be ruled out, given the Government's extensive involvement with the issue and the potential for conflict between the Government and various leftist support organisations.

Business environment

The availability of financial information for private buyers is generally good. Import on open account is common and EKN's experiences are good. The Colombian business sector has proven to have a strong capacity to adapt in a complex political environment. Business ethics are also of a relatively high level. As regards the overall regulatory environment, it can be noted on the one hand that public administration in Colombia is characterised by a high degree of reliability. This applies for example to the ministry of finance, the central bank and their associated government agencies. On the other hand, local Colombian administrative management within the municipal authorities and companies is characterised by the opposite – a risk of corruption and political interference. It is also cumbersome to undertake collateral realisations – for example, there is a requirement to realise collateral by sale at auction, which can make such enforcement measures both time-consuming and costly. One gauge of the

Swedish export to Colombia

	MSEK
2021	1 222
2020	1 138
2019	1 322
2018	1 020
2017	951

Source: SCB

EKN:s exposure

	MSEK
Guarantees	3 071
Offers	804

regulatory environment is the various indices compiled by the World Bank. In the most recent Ease of Doing Business Index ranking, Colombia is ranked as the third-highest Latin American country in 67th place (out of 188 countries). However, in one of the underlying indices – the index that measures the scope to enforce contractual rights – the ranking is very unfavourable (177th place). In terms of the World Bank's Governance Indicators, Colombia is at about the same level as Mexico, for example, following positive developments over the past 15 years.

The Colombian banking sector has increased in size relative to the economy and is now on a par with the average for Latin America. Around 80 per cent of the sector is domestically owned and is dominated by five banks which collectively account for two thirds of the entire loan volume. The sector is mainly privately owned, which is due to the sale of state banks in conjunction with the major banking crisis in the late 1990s. In recent years credit growth has been moderate at around eleven per cent per year, and the proportion of non-performing loans is a manageable three per cent of total lending as per the second quarter 2022. The economic recovery is expected to maintain the trend of declining non-performing loans, despite the continued phasing out of pandemic-induced relaxation of loan classification rules. The banking regulatory framework is relatively well-developed, even if there is room for improvement, for example in capital adequacy rules and in the definition of Tier 1 capital. The central government is also considered to be reliable in terms of its willingness and capacity to provide support for banks in difficulty. This was most recently manifested during the pandemic, when the central bank, among other measures, maintained liquidity levels in the financial system and supported continued lending to the SME sector.

EKN:s policy

EKN has placed Colombia in country risk category 4 (out of 0 to 7) since 2006. Usual risk assessment applies to transactions with the treasury, other public sector buyers, banks and companies. This means that there are no predetermined limitations in the issuance of guarantees and that the transactions are assessed on their own merits without any specific requirements or preconditions.

EKN:s commitment and experience

Colombia is one of EKN's largest markets in Latin America. The guarantees are mainly concentrated to urban bus projects in some of the country's major cities and the transport sector at large. In addition to this, there is also an exposure to a major utility plant. The remaining exposure comes from the mining sector and the pulp & paper industry. Over the past five years EKN has issued guarantees in an average of 35 transactions per year. Overall, payment experiences are good, but arrears in payment related to transactions linked to municipal sector buyers have arisen.