

Basic facts (2022)

Population: 52 million

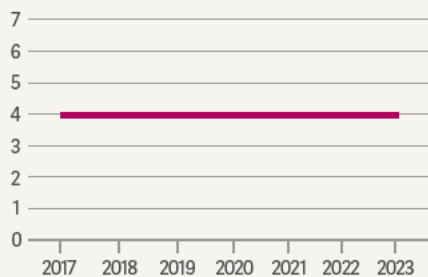
GDP, nominal: USD 344 billion

GDP/capita: USD 6 664



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 growth
- + Well-established democracy with stable institutions
- + Good relations with the IMF and other lenders

Weaknesses

- Political violence and high levels of criminality
- Significant inequalities in personal income
- Highly dependent on raw materials for export revenues

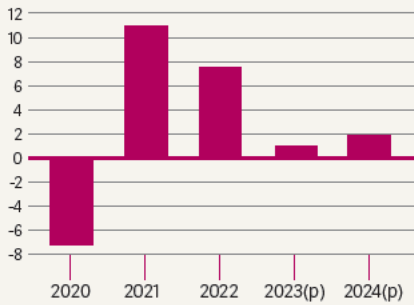
Stable institutions provide growth opportunities

Colombia's economy grew by an average of 3.3 per cent per year between 2013 and 2022, well above the average for Latin America as a whole, which was 1.9 per cent per year in the same period. The country has been a constitutional republic with democratic institutions 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. Among the many free trade agreements Colombia has established are those with the Andean Community, the Southern Common Market (MERCOSUR), the United States, Canada, the EU, and bilaterally with Chile, Mexico, El Salvador, Guatemala, Honduras, Nicaragua, Costa Rica and South Korea. The Colombian political spectrum includes a wide range of political parties, and even though political polarisation has increased in recent years, Colombian politics is characterised by pragmatism and consensus between the dominant parties on key economic and financial 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, and the manufacturing industry only accounts for some 10 per cent. Exports constitute approx. 16 per cent of GDP and are concentrated in coal, crude oil, metals and agricultural products such as coffee and cut flowers. Coal and oil exports taken together represented 55% of the country's exports of goods in 2022 and a significant share of export earnings. This makes Colombia very vulnerable to price changes in global raw materials markets. Another risk linked to the limited export base is the country's relatively large external debt. These risks are partly offset by the country's floating exchange rate regime and favourable buffers in the form of foreign exchange reserves. Moreover, Colombia has a standing credit facility with the IMF, which reduces liquidity risk and risks related to adverse current account shocks.

In 2016, the then Colombian Government signed a peace agreement with the militant FARC guerrillas. This ended the more than 50-year-long conflict between FARC and the state authorities. Four years later, in 2020, Colombia also became a member of the Organisation for Economic Co-operation and Development (OECD). Peaceful developments are expected to contribute to increased economic activity and continued improvements in the institutional environment, despite the fact that 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 a significant part of the economy.

Real GDP growth (constant prices, % per annum)



Source: IMFWEQ, Macrobond

Business environment



Ranking from 0 (worst) to 100 (best)

Source: The World Bank, Macrobond

Swedish export to Colombia

	MSEK
2022	1 819
2021	1 222
2020	1 138
2019	1 322
2018	1 020

Source: SCB

EKN:s exposure

	MSEK
Guarantees	2 998
Offers	553

Mixed success for the Government's reform agenda

Thanks to effective measures during the coronavirus pandemic and a favourable trade and export situation, Colombia was one of the fastest growing economies in 2022 with a growth rate of 7.5%. In the coming years, the growth rate is expected to slow down and stabilise at roughly 3%, which is consistent with the historical average. However, there is some risk that rising policy rates will dampen consumption and investment in the short term, which could have a negative impact on growth rates.

In August 2022, Gustavo Petro took the presidential oath, becoming the first left-wing politician to take office as head of state and government. The Government wants to reduce the country's high levels of economic inequality and corruption, as well as implement labour market reforms and strengthen human rights. Another key priority of the current administration is to diversify the economy from dependence on oil and coal to renewable sources of energy.

Reducing revenue dependency from oil and coal while at the same time increasing public spending will be a fiscal challenge for the Government. Today, the oil industry accounts for close to a one-fifth of the central government's revenues. At the same time, the tax base is very limited, partly due to the high degree of informal economy. A tax reform adopted by a wide margin in the Congress in November 2022, including increasing taxes on the fossil fuel industry and financial institutions, is however expected to mitigate increasing debt pressures.

Going forward, the current administration will face difficulties in implementing its policies. Petro's coalition in Congress collapsed in April this year and several political scandals in spring 2023 have reduced confidence in the country's President. The likelihood is high that even watered-down versions of several of his social reforms will not be approved, which would hurt his already falling popularity. At the same time, there is room for progress in other areas, such as peace negotiations with the guerrilla group Ejército de Liberación Nacional (ELN). This progress, coupled with relatively good growth, suggests that Mr Petro will remain in power, albeit with less room to manoeuvre.

Business environment

The availability of financial information for non-governmental purchasers 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 survival capacity in a complex political environment. 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 governmental 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. The process of realising collateral is also complicated. For example, there are requirements to realise a security guarantee by auction, which can make such measures both time-consuming and very costly. In terms of the World Bank's Worldwide Governance Indicators, a set of indicators that show i.a. the level of corruption,

regulatory environment, political stability and rule of law, Colombia's overall performance has been relatively stable over the past 10 years. The indicators measuring political stability and security have strengthened, while those measuring the rule of law have weakened.

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-owned banks in conjunction with a major banking crisis in the late 1990s. The financial sector in Colombia is resilient and its banks remain well-capitalised and liquid. After credit growth increased rapidly in 2022, from a historically moderate level, the growth rate of consumer credit has now slowed down a bit. The share of bad loans has declined and stood at a manageable 2.5% of total loans in 2022.

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 the banks' core 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. Normal 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 major markets in Latin America. The guarantees are mainly concentrated on city 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 power project. The remaining exposure comes from the mining sector and the paper and pulp industry. Over the past five years EKN has issued guarantees in an average of 39 transactions per year. Overall, payment experiences are good, but arrears in payment related to transactions linked to municipal sector buyers have arisen.