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• Falling External Imbalances
• Credible Inflation Targeting Regime & Flexible FX
• 2018 Presidential Election
• Colombia Relative to the ‘BBB’ Median
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Ratings and Outlooks

Rating Trends in Emerging Markets
Regional Averages

<table>
<thead>
<tr>
<th>Sovereign</th>
<th>LTFC</th>
<th>Outlook</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chile</td>
<td>A+</td>
<td>Negative</td>
</tr>
<tr>
<td>Mexico</td>
<td>BBB+</td>
<td>Negative</td>
</tr>
<tr>
<td>Peru</td>
<td>BBB+</td>
<td>Stable</td>
</tr>
<tr>
<td><strong>Colombia</strong></td>
<td>BBB</td>
<td>Stable</td>
</tr>
<tr>
<td>Panama</td>
<td>BBB</td>
<td>Stable</td>
</tr>
<tr>
<td>Aruba</td>
<td>BBB-</td>
<td>Stable</td>
</tr>
<tr>
<td>Uruguay</td>
<td>BBB-</td>
<td>Stable</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>BB</td>
<td>Stable</td>
</tr>
<tr>
<td>Brazil</td>
<td>BB</td>
<td><strong>Negative</strong></td>
</tr>
<tr>
<td>Guatemala</td>
<td>BB</td>
<td>Stable</td>
</tr>
<tr>
<td>Paraguay</td>
<td>BB</td>
<td>Stable</td>
</tr>
<tr>
<td>Bolivia</td>
<td>BB-</td>
<td>Stable</td>
</tr>
<tr>
<td>Dom. Republic</td>
<td>BB-</td>
<td>Stable</td>
</tr>
<tr>
<td>Nicaragua</td>
<td>B+</td>
<td>Stable</td>
</tr>
<tr>
<td>Argentina</td>
<td>B</td>
<td>Stable</td>
</tr>
<tr>
<td>Ecuador</td>
<td>B</td>
<td><strong>Negative</strong></td>
</tr>
<tr>
<td>Jamaica</td>
<td>B</td>
<td>Stable</td>
</tr>
<tr>
<td>Suriname</td>
<td>B-</td>
<td><strong>Negative</strong></td>
</tr>
<tr>
<td>El Salvador</td>
<td>CCC</td>
<td>-</td>
</tr>
<tr>
<td>Venezuela</td>
<td>CCC</td>
<td>-</td>
</tr>
</tbody>
</table>

Source: Fitch
Rating Trends: Downward Pressures Emerging

Latin America Rating Actions

- **Upgrades (trailing 12m)**
- **Downgrades (trailing 12m)**
- **Positive Outlooks**
- **Negative Outlooks**

**Recent Positive Actions**
- Changed Colombia’s Outlook to Stable from Negative
- Upgraded Dominican Republic to ‘BB-’ from ‘B+’

**Recent Negative Actions**
- Downgraded El Salvador’s FC to ‘CCC’ and LC to ‘RD’ (Revised to ‘CCC’ when default cured).
- Downgraded Costa Rica to ‘BB’ from ‘BB+’
- Downgraded Suriname two notches to ‘B-’ from ‘B+’
- Changed Mexico’s Outlook to Negative from Stable
- Changed Chile’s Outlook to Negative from Stable

Source: Fitch Ratings
Rating Action (Mar 10, 2017): Rating Outlook Changed to Stable from Negative

- Fiscal consolidation path due to passage of tax reform measures in December 2016
- Sharp reduction in the current account deficit
- Inflation converging towards the central bank's target

Rating Affirmation

The 'BBB' rating balances Colombia's flexible and credible policy framework, improved external buffers and a record of macroeconomic and financial stability against high commodity dependence, limited fiscal flexibility and structural constraints in terms of low GDP per capita and weak governance indicators.

Key Indicators

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2017f</th>
<th>2018f</th>
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</thead>
<tbody>
<tr>
<td>Real GDP Growth (%)</td>
<td>2.0</td>
<td>2.3</td>
<td>3.2</td>
</tr>
<tr>
<td>Inflation (%)</td>
<td>7.5</td>
<td>4.6</td>
<td>3.8</td>
</tr>
<tr>
<td>General Government balance (% of GDP)</td>
<td>-2.8</td>
<td>-2.4</td>
<td>-2.5</td>
</tr>
<tr>
<td>General Government debt (% of GDP)</td>
<td>49.0</td>
<td>48.9</td>
<td>48.6</td>
</tr>
<tr>
<td>Current account balance (% GDP)</td>
<td>-4.4</td>
<td>-3.7</td>
<td>-3.1</td>
</tr>
<tr>
<td>International Reserves, incl. gold (USDbn)</td>
<td>46.5</td>
<td>46.1</td>
<td>46.3</td>
</tr>
<tr>
<td>Net external debt (% of CXR)</td>
<td>45.1</td>
<td>46.5</td>
<td>45.9</td>
</tr>
</tbody>
</table>

Source: Fitch
Tax Reform: December 2016

Oil Shock in Revenue

- CG non-oil revenue
- CG oil revenue
- GG Median BBB revenue
- GG revenue

Reform

- VAT to 19% from 16%
- Financial transaction becomes a permanent tax
- Simplification of income taxes

Effects

- The total impact of the tax reform measures is estimated at 1.9% of GDP by 2022
- Estimated higher revenue of 0.7% of GDP in 2017
- Deficit is expected to fall to 2.9% of GDP in 2018

Source: Min hacienda, Fitch
Falling External Imbalances

Gradual CAD Adjustment

- Goods and Services
- Primary Income
- Secondary Income
- Current Account

(USDbn)

External Financing Needs & FDI

- CAB + net FDI (LHS)
- Ext. fin. needs (RHS)

(%GDP) (%IR)

Source: Banrep, Fitch

Source: Minhacienda, Banrep, Fitch
Credible Inflation Targeting Regime & Flexible FX

**Response to High Inflation**

- 12-month exp.
- Inflation
- Policy Rate

**TOT Shock**

- TOT
- COP/USD

Source: Banrep, Fitch

Source: Banrep, Bloomberg
2018 Presidential Election

Electoral Poll
Potential Candidates for 2018

<table>
<thead>
<tr>
<th>Candidate</th>
<th>(%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>German Vargas Lleras</td>
<td>22</td>
</tr>
<tr>
<td>Gustavo Petro</td>
<td>16</td>
</tr>
<tr>
<td>Sergio Fajardo</td>
<td>11</td>
</tr>
<tr>
<td>Clara Lopez</td>
<td>8</td>
</tr>
</tbody>
</table>

Source: Invamer, May 2017
Note: Only showing the four candidates with the highest preference

Peace
- The peace initiatives of the Santos government with FARC and ELN are going to be a central issue in the 2018 election
- The run off election will likely be between a supporter and an opponent of the peace accords with FARC
- Former president Uribe’s candidate (yet to be chosen) is going to play an important role in the election

Economic Outlook
- Fiscal consolidation, especially with costs associated with peace, will be key for next government.
- Re-igniting economic growth will be key issue.
Colombia Relative to ‘BBB’ Median

**Status**

**Strength**
- Credible monetary policy
- Absence of financial dollarization
- Strong international reserves

**Weakness**
- High debt burden
- Narrow revenue base
- Rigid expenditure profile

**Trend**
- Stable
- Declining inflation
- Progress in infrastructure give higher potential for growth

**Macro**

**Public Finance**

**External**

**Structural**

**Weakness**
- Large current account deficit
- High presence of non-residents in local market
- Low GDP per capita
- Low human development index
- Low governance indicators

**Weakness**
- Tax reform puts debt dynamics on a more sustainable path
- Declining CAD
- Resilient FDI inflows
- IMF flexible credit line
- Peace process brings investment to underdeveloped areas
- Falling rates of political violence

- Low debt burden
- Narrow revenue base
- Rigid expenditure profile
Colombia Rating Sensitivities

**Negative**
- Failure to reduce the fiscal deficit and stabilize the government’s debt burden
- Re-emergence of large external imbalances
- Persistent period of low economic growth that undermines fiscal performance

**Positive**
- A sharp reduction in the country's external vulnerabilities
- Fiscal consolidation that results in a significant reduction of the public debt burden
- Higher growth prospects that improves debt dynamics and reduces Colombia's income gap with higher-rated sovereigns
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