

Research Update:

# City of Bogota Downgraded To 'BB+' From 'BBB-' On Similar Action On Sovereign; Outlook Stable

May 24, 2021

## Overview

- On May 19, 2021, we lowered our long-term foreign currency rating on Colombia to 'BB+' from 'BBB-'.
- The rating action on the sovereign follows our expectation of a consistently weakened fiscal profile amid external vulnerabilities.
- As a result, we're lowering our long-term issuer credit ratings on Bogota to 'BB+' from 'BBB-'.
- The stable outlook mirrors that on the sovereign. We expect that as renewed growth in 2021-2023 materializes, the city would be able to stabilize its operating cash flow capacity while implementing an ambitious infrastructure program.

## Rating Action

On May 24, 2021, S&P Global Ratings lowered its long-term global scale foreign and local currency issuer credit ratings on the city of Bogota to 'BB+' from 'BBB-'. The outlook is now stable. At the same time, we lowered to 'BB+' from 'BBB-' our issue rating on Bogota's senior unsecured debt of US\$ 300 million, issued in 2007 and due in 2028.

## Outlook

The stable outlook reflects that on the sovereign. We expect renewed economic growth over coming years to help stabilize Colombia's fiscal position. We also expect Colombia to find an institutional solution to recent social unrest, which would boost institutional and political stability over the medium to long term. The stable outlook on Bogota also incorporates our expectations that in the next 12 to 18 months, the city will be able to recover its operating surplus position following a significant deterioration in 2020, as it gradually continues its ambitious infrastructure program.

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## Downside scenario

We could downgrade the city in the next 12 to 18 months if weak fiscal performance translates into structural deterioration or a faster-than-expected erosion of the city's liquidity. An additional downgrade of the sovereign would most likely result on a similar action on Bogota.

## Upside scenario

Because the sovereign ratings now cap those on the city, we would only upgrade the city if we take a similar action on the sovereign. This scenario would be only possible if Bogota maintains moderate liquidity and debt levels, as well as satisfactory financial management.

## Rationale

The sovereign ratings constrain the ratings on the city, given our opinion that under significant sovereign stress, the city would not be able to maintain stronger creditworthiness. This result follows the sovereign's strategic significance in the city's spending and investment plans, and their overall alignment on terms of fiscal and economic performance. As a result, we cap the ratings on Bogota at the level of the 'BB+' long-term foreign currency rating on Colombia.

Our base case continues to assume that the city will continue its ambitious infrastructure program, which in the next two to three years would translate into a still adequate but structurally weaker liquidity position and debt levels than it has currently. Amid still relatively weak economic and social conditions, we expect additional spending to improve the city's safety net and finance repairs to damaged infrastructure. That said, we don't forecast any structural deterioration in budgetary performance in the next several years.

Bogota's stand-alone credit profile remains 'bbb-', mainly reflecting its adequate financial management and our expectations of weaker but still adequate debt and liquidity levels in the medium term. The SACP also incorporates our expectation of a recovery in the city's operating surpluses, but large deficits after capital expenditures (capex). Countercyclical spending by city management to smooth the effect of the pandemic and recession resulted in a substantial increase of operating spending. Coupled with weak own source revenues collection, the city moved to an operating deficit position of 5% of operating revenues and a deficit after capex of 10% of total revenues in 2020. Our base case assumes that with renewed economic growth and a gradual (if not complete) withdrawal of pandemic-related spending, Bogota would return to an operating surplus of about 5% of operating revenues. Based on the city's infrastructure program--including its shared responsibility with the federal government to finance an elevated metro system--we expect capex at 20% of total spending over 2021-2023, resulting in deficits just below 10% of total revenues.

Part of the deficits will be met by the city's substantial cash holdings (30% of operating revenues as of year-end 2020) and debt resources. As the government executes its capex plans, we would expect both liquidity to worsen, given structurally lower cash holdings, and debt levels to rise toward 50% of operating revenues by 2023.

Other key rating characteristics are the city's GDP profile, which, while weak compared to global peers, will be key to drive economic growth in the country in following years, for example through executing major infrastructure works. We consider the institutional framework for Colombian local and regional governments (LRGs) to be predictable but still unbalanced, with accounting standards that compare poorly with respect to international peers.

**Environmental, social, and governance (ESG) credit factors for this credit rating change:**

- Health and safety.

**Key Statistics**

Table 1

**Bogota Distrito Capital Selected Indicators**

(Mil. COP)	--Year-ended Dec. 31--					
	2018	2019	2020	2021bc	2022bc	2023bc
Operating revenues	12,201,618	13,779,408	13,282,181	13,983,902	14,745,976	15,532,312
Operating expenditures	10,800,148	12,743,479	14,005,626	13,462,118	14,042,337	14,548,831
Operating balance	1,401,470	1,035,929	(723,445)	521,784	703,640	983,481
Operating balance (% of operating revenues)	11.5	7.5	(5.4)	3.7	4.8	6.3
Capital revenues	3,167,499	1,521,014	1,978,587	1,859,238	1,897,161	1,923,311
Capital expenditures	5,328,832	4,880,835	2,630,307	3,756,078	4,259,392	4,387,173
Balance after capital accounts	(759,863)	(2,323,892)	(1,375,165)	(1,375,055)	(1,658,592)	(1,480,381)
Balance after capital accounts (% of total revenues)	(4.9)	(15.2)	(9.0)	(8.7)	(10.0)	(8.5)
Debt repaid	90,338	107,469	97,690	110,801	258,610	356,881
Gross borrowings	30,000	1,449,999	885,778	2,113,000	1,600,000	1,500,000
Balance after borrowings	(820,201)	(981,363)	(587,077)	627,144	(317,201)	(337,262)
Direct debt (outstanding at year-end)	1,192,081	2,541,457	3,363,988	5,382,654	6,724,044	7,876,502
Direct debt (% of operating revenues)	9.8	18.4	25.3	38.5	45.6	50.7
Tax-supported debt (outstanding at year-end)	1,192,081	2,541,457	3,363,988	5,382,654	6,724,044	7,876,502
Tax-supported debt (% of consolidated operating revenues)	9.8	18.4	25.3	38.5	45.6	50.7
Interest (% of operating revenues)	0.7	0.6	1.2	2.5	3.3	3.8
Local GDP per capita (US\$)	11,591	11,036	9,121	N/A	N/A	N/A
National GDP per capita (US\$)	6,925	6,548	5,390	5,986	6,294	6,580

The data and ratios above result in part from S&P Global Ratings' own calculations, drawing on national as well as international sources, reflecting S&P Global Ratings' independent view on the timeliness, coverage, accuracy, credibility, and usability of available information. The main sources are the financial statements and budgets, as provided by the issuer. bc--Base case reflects S&P Global Ratings' expectations of the most likely scenario. N/A--Not applicable. N.A.--Not available. N.M.--Not meaningful.

## Ratings Score Snapshot

Table 2

Bogota Distrito Capital	
Key rating factors	Scores
Institutional framework	4
Economy	4
Financial management	3
Budgetary performance	4
Liquidity	3
Debt burden	2
Stand-alone credit profile	bbb-
Issuer credit rating	BB+

S&P Global Ratings bases its ratings on non-U.S. local and regional governments (LRGs) on the six main rating factors in this table. In the "Methodology For Rating Local And Regional Governments Outside Of The U.S.," published on July 15, 2019, we explain the steps we follow to derive the global scale foreign currency rating on each LRG. The institutional framework is assessed on a six-point scale: 1 is the strongest and 6 the weakest score. Our assessments of economy, financial management, budgetary performance, liquidity, and debt burden are on a five-point scale, with 1 being the strongest score and 5 the weakest.

## Key Sovereign Statistics

- Colombia Long-Term Foreign Currency Rating Lowered To 'BB+' On Persistent Fiscal Weakness; Outlook Stable, May 19, 2021

## Related Criteria

- Criteria | Governments | International Public Finance: Methodology For Rating Local And Regional Governments Outside Of The U.S., July 15, 2019
- Criteria | Governments | International Public Finance: Methodology: Rating Non-U.S. Local And Regional Governments Higher Than The Sovereign, Dec. 15, 2014
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 20, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

## Related Research

- Colombia Long-Term Foreign Currency Rating Lowered To 'BB+' On Persistent Fiscal Weakness; Outlook Stable, May 19, 2021
- Bogota Distrito Capital, Jan. 6, 2021

In accordance with our relevant policies and procedures, the Rating Committee was composed of analysts that are qualified to vote in the committee, with sufficient experience to convey the

appropriate level of knowledge and understanding of the methodology applicable (see 'Related Criteria And Research'). At the onset of the committee, the chair confirmed that the information provided to the Rating Committee by the primary analyst had been distributed in a timely manner and was sufficient for Committee members to make an informed decision.

After the primary analyst gave opening remarks and explained the recommendation, the Committee discussed key rating factors and critical issues in accordance with the relevant criteria. Qualitative and quantitative risk factors were considered and discussed, looking at track-record and forecasts.

The committee's assessment of the key rating factors is reflected in the Ratings Score Snapshot above.

The chair ensured every voting member was given the opportunity to articulate his/her opinion. The chair or designee reviewed the draft report to ensure consistency with the Committee decision. The views and the decision of the rating committee are summarized in the above rationale and outlook. The weighting of all rating factors is described in the methodology used in this rating action (see 'Related Criteria And Research').

## Ratings List

### Downgraded; CreditWatch/Outlook Action

	To	From
<b>Bogota Distrito Capital</b>		
Issuer Credit Rating	BB+/Stable/--	BBB-/Negative/--

### Downgraded

	To	From
<b>Bogota Distrito Capital</b>		
Senior Unsecured	BB+	BBB-

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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