

Research Update:

# Bogota Outlook Revised To Negative Following Same Action On Colombia; 'BBB-' Ratings Affirmed

March 27, 2020

## Overview

- On March 26, 2020, we revised our outlook on Colombia to negative from stable due to increased risks to external liquidity, debt, and growth, stemming from the recent drop in oil prices and heightened by the global impact of COVID-19. We also affirmed our 'BBB-' foreign currency issuer credit rating on Colombia.
- We expect the weaker economic scenario to hurt Bogota's fiscal performance, potentially hindering its liquidity position.
- As a result, we're revising the outlook on Bogota to negative from stable. We're also affirming our 'BBB-' local and foreign currency issuer credit ratings on Bogota.

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## Rating Action

On March 27, 2020, S&P Global Ratings revised its outlook on Bogota Distrito Capital to negative from stable. We also affirmed its 'BBB-' foreign and local currency issuer credit ratings. At the same time, we affirmed our 'BBB-' debt rating on Bogota's senior unsecured debt of \$300 million, issued in 2007 and due in 2028.

## Outlook

The negative outlook on Bogota reflects our expectation of the more challenging economic and fiscal scenario over the next 12-24 months, following the negative impact of the recent external shocks in Colombia. While Bogota's economy doesn't depend on oil activities, the drop in oil prices and the impact from COVID-19 have caused severe market volatility, as well as a sizable drop in demand and investment in Colombia. Therefore, we expect the city's fiscal revenues to worsen, which combined with countercyclical spending programs should result in a worsening budgetary performance and liquidity position in 2020-2021. Thus, we believe the city could not withstand severe stress tests for us to rate it above the sovereign, and a downgrade of Colombia would result in a downgrade of Bogota.

We could revise our outlook to stable in the next 12-24 months if the district were to build a strong track record of policy implementation, providing evidence of the city's higher-than-expected resilience under the new economic and fiscal scenario. This would include maintaining strong liquidity and prudent debt policies. In case of a sovereign downgrade, Bogota would also need to be able to withstand a severe economic (materially greater than our current expectations of Colombia's economic downturn), inflation, and liquidity stress test in order to keep its creditworthiness above the sovereign's.

## Rationale

The outlook revision on Bogota follows our recent rating action on Colombia (see "Colombia Outlook Revised To Negative On Increased Risks To External Liquidity, Debt, And Growth; Ratings Affirmed," published on March 26, 2020). The rating action on Bogota reflects our view of a more challenging economic outlook due to the drop in oil prices heightened by COVID-19. This scenario is likely to result in a worsening budgetary performance and liquidity position.

The 'BBB-' ratings on Bogota reflect its adequate financial management, with broad continuity in prudent policies through changes in administration, but with delays in executing capital projects. The ratings already incorporate our expectation of wider budget deficits and growing debt as the city carries out its ambitious infrastructure program. The ratings also consider Bogota's economy, which accounts for about 25% of the national GDP, and 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 governments to be predictable but not fully transparent, with accounting standards that compare poorly with respect to international peers.

## Key Statistics

Table 1

### Bogota Distrito Capital Selected Indicators

(Mil. COP)	2017	2018	2019bc	2020bc	2021bc	2022bc
Operating revenues	11,560,323	12,201,618	13,779,408	14,106,007	15,289,429	15,963,458
Operating expenditures	10,763,375	10,800,148	12,793,496	13,825,846	14,245,129	14,816,829
Operating balance	796,947	1,401,470	985,912	280,161	1,044,300	1,146,630
Operating balance (% of operating revenues)	6.9	11.5	7.2	2.0	6.8	7.2
Capital revenues	1,818,213	3,167,499	1,521,014	1,618,522	1,722,235	2,022,054
Capital expenditures	3,486,226	5,328,832	4,830,818	3,531,329	3,990,401	4,708,673
Balance after capital accounts	(871,066)	(759,863)	(2,323,892)	(1,632,646)	(1,223,866)	(1,539,989)
Balance after capital accounts (% of total revenues)	(6.5)	(4.9)	(15.2)	(10.4)	(7.2)	(8.6)
Debt repaid	96,199	90,338	107,469	110,801	114,125	231,673
Gross borrowings	60,000	30,000	1,449,999	435,278	1,617,400	1,382,515
Balance after borrowings	(907,265)	(820,201)	(981,363)	(1,308,168)	279,409	(389,148)

Table 1

**Bogota Distrito Capital Selected Indicators (cont.)**

(Mil. COP)	2017	2018	2019bc	2020bc	2021bc	2022bc
Direct debt (outstanding at year-end)	1,215,044	1,192,081	2,541,457	2,874,884	4,378,159	5,529,001
Direct debt (% of operating revenues)	10.5	9.8	18.4	20.4	28.6	34.6
Tax-supported debt (outstanding at year-end)	1,215,044	1,192,081	2,541,457	2,874,884	4,378,159	5,529,001
Tax-supported debt (% of consolidated operating revenues)	10.5	9.8	18.4	20.4	28.6	34.6
Interest (% of operating revenues)	0.7	0.7	0.6	1.4	1.8	2.2
Local GDP per capita (single units)	29,279,178	30,628,794	32,357,814	33,441,251	36,175,637	37,776,904
National GDP per capita (single units)	19,127,671	20,121,266	21,615,172	22,293,834	23,610,143	24,809,058

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.

**Ratings Score Snapshot**

Table 2

**Ratings Score Snapshot**

Key rating factors	Scores
Institutional framework	4
Economy	4
Financial management	3
Budgetary performance	4
Liquidity	3
Debt burden	2
Issuer credit rating	BBB-

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 Outlook Revised To Negative On Increased Risks To External Liquidity, Debt, And Growth; Ratings Affirmed, March 26, 2020

## 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. 19, 2013
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

## Related Research

- Colombia Outlook Revised To Negative On Increased Risks To External Liquidity, Debt, And Growth; Ratings Affirmed, March 26, 2020
- Institutional Framework Assessments For International Local And Regional Governments, July 4, 2019

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

### Ratings Affirmed; Outlook Action

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

**Ratings Affirmed**

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**Bogota Distrito Capital**

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Senior Unsecured	BBB-
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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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