

Fitch Reviews Ratings of Bogota, Capital District of Colombia and Municipality of Medellin

Fitch Ratings-Monterrey-28 July 2016: Fitch Ratings has reviewed the ratings for Bogota, Capital District of Colombia and Municipality of Medellin and taken the following actions:

- Long-Term Foreign Currency (LTFC) Issuer Default Rating (IDR) affirmed at 'BBB';
- Long-Term Local Currency (LTLC) IDR downgraded to 'BBB' from 'BBB+'.

The Rating Outlook was revised to Negative from Stable.

In addition, for Bogota Fitch affirms:

- USD300 million equivalent, 9.75% Colombian Peso-denominated notes due 2028, at 'BBB'.

KEY RATING DRIVERS

The review is the result of the same action taken by Fitch on the sovereign on July 22, 2016. In line with the updated guidance contained in Fitch's revised Sovereign Rating Criteria dated July 18, 2016. As part of a broader portfolio review, Fitch concluded that the credit profile of Colombia no longer supports a notching up of the LTLC IDR above the LTFC IDR. This reflects our view that neither of the two key factors cited in the criteria that support upward notching of the LTLC IDR are present for Colombia. Those two key factors are: (i) strong public finance fundamentals relative to external finance fundamentals, and (ii) previous preferential treatment of LC creditors relative to FC creditors.

The Negative Outlook for Bogota and Medellin reflects the recent revision of Colombia's Rating Outlook to Negative. The Negative Outlook reflects the country's increasing vulnerability to changes in investor sentiment and external financing conditions as the current account deficit reached 6.4% of GDP in 2015. Colombia's Negative Outlook also reflects Fitch's expectation that external indebtedness will remain high over the forecast period, as foreign direct investment (FDI) could finance only half the current account deficit, and the negative impact that the central government deficit and Colombian Peso's (COP) sharp depreciation could have on credit metrics.

The credit strengths of Bogota and Medellin remain.

Bogota had had a solid operating performance and manageable debt levels, including a significant increase in debt to cover its Development Plan. The district's strong socio-economic profile and weight in the national economy in terms of GDP contribution are considered as positive factors. Political risk associated with the public sector and quality of the administration are also considered. In Fitch's view, the main risk or limitation for Bogota is the increasing social and infrastructure needs, particularly those related to transportation.

Medellin has a relevant role in the Colombian economy, with its high and dynamic collection of municipal taxes and significant cash flow, which supports a good financial administration; another strength is the important financial support from Empresas Publicas de Medellin. The main risks or limitations for Medellin are a manageable but still higher debt burden, growth of its operating income exceeding expenditures, political risk associated with the public sector and quality of the administration, and low coverage of pension liabilities according to Colombian Law.

RATING SENSITIVITIES

The Rating Outlook is Negative. Consequently, Fitch's sensitivity analysis does not currently anticipate developments with high likelihood of a positive rating change. Stabilization of the Outlook of the sovereign rating could result in a positive change in the ratings of Bogota and Medellin.

A downgrade of the sovereign rating could result in a downgrade of the ratings of Bogota and Medellin. The main factors that, individually or collectively, could lead to a negative rating action include: an increase in debt higher than expected, or a substantial deterioration in operating margins and cash levels.

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Applicable Criteria

International Local and Regional Governments Rating Criteria - Outside the United States (pub. 18 Apr 2016)
(https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=878660)

Additional Disclosures

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