Fitch Revises Outlook On Colombia's 'BB' IDR to Positive; Teleconference Tomorrow

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Fitch Ratings-New York-05 June 2006: Fitch Ratings has today revised the Rating Outlook on Colombia's 'BB' long-term foreign currency Issuer Default Rating (IDR) to Positive from Stable. The Outlook on the 'BBB-' local currency IDR remains Stable. Colombia's ratings are affirmed by Fitch as follows. --Foreign currency Issuer Default Rating (IDR) 'BB'; --Local currency Issuer Default Rating (IDR) 'BBB-'; --Country Ceiling 'BB'; --Short-term 'B'. Fitch will host a conference call tomorrow morning at 10 a.m. ET to discuss Colombia's Outlook revision to Positive (dial-in details to follow). The Outlook revision is based on improvements in key public and external solvency indicators over the past two years and the expectation that recent trends will improve going forward, albeit more slowly. 'Authorities have taken advantage of a favorable external environment to reduce the vulnerability of public debt to exchange rate risk, repaying external debt and raising the proportion owed in local currency to 69% while maintaining a relatively long five-year average maturity primarily at fixed rates,' said Morgan C. Harting, Fitch Senior Director and lead sovereign analyst for Colombia. 'In view of the weakness in the Colombian peso over the past month, these adjustments appear to have been particularly well-timed.' Net external debt declined from 133% of CXR in 2003 to 72% of CXR in 2005. Yet external debt is still a good deal higher than the 27% of CXR 'BB' peer median. Vulnerability of the economy as a whole to external shocks has also fallen as Colombian firms have gained international competitiveness and as a longer track record of low and stable inflation may now allow the potential for some counter-cyclical monetary policy. External financing needs have come down but are still higher than peers relative to broad exports, and these requirements come disproportionately from the public sector. But authorities have accumulated significant assets that would serve as a buffer in the event that international markets cooled to the Andean country for some time. 'Because most public and external debt ratios are still generally above peers, Fitch's assessment that Colombia's creditworthiness is trending toward 'BB+' therefore rests on a superior qualitative assessment of debt tolerance and credibility,' said Harting. The first Uribe administration moved to contain deteriorating public debt dynamics with a pension reform and a temporary asset tax. Harting also said that 'Because his coalition gained a majority in the March congressional elections and he won by a wide margin on May 25, President Uribe now has a strong mandate and a second term should well for economic growth and fiscal management. Fitch expects economic policy to focus on consolidating recent improvements.' A free trade agreement with the US, tax reform and an extension of caps on transfers to local and regional governments are all expected to be submitted to Congress for its session beginning in July and prospects for passage appear favourable. These policies should help keep public and external debt ratios on declining trends going forward, though none of them are particularly path-breaking. An upgrade of the long-term foreign currency IDR to 'BB+' would be supported by passage in Congress of the preliminary economic agenda. Because broad support for the FTA in the US Congress is not yet apparent, its fate in Washington will also be considered. Should the Colombian administration choose to take advantage of its strong electoral mandate to include another round of pension reform among its economic priorities, this would be particularly beneficial for the credit because shortfalls in the retirement program are a key source of fiscal weakness. For now, however, credit weakness originates from public finances despite improvements in external indicators so the Outlook on the long-term local currency IDR remains Stable. Positive momentum in the credit could stall or reverse if the government fails to gain passage of its economic agenda or if confidence deteriorates significantly. A sharp reversal in global risk appetite could also have adverse effects on Colombia's creditworthiness because of its higher than average external financing requirements. Contact: Morgan C. Harting, CFA +1-212-908-0820 or Roger M. Scher +1-212-908-0240, New York. Media Relations: Christopher Kimble, New York, Tel: +1 212-908-0226. Fitch's rating definitions and the terms of use of such ratings are available on the agency's public site, 'www.fitchratings.com'. Published ratings, criteria and methodologies are available from this site, at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance and other relevant policies and procedures are also available from the 'Code of Conduct' section of this site.