



Fitch Affirms Bogota, Capital District of Colombia's International Rtg; Outlook Stable

17 Jun 2009 11:34 AM (EDT)

Fitch Ratings-Monterrey-17 June 2009: Fitch Ratings has affirmed the 'BB+' long-term foreign currency (LTFC) debt rating, including the US\$300 million equivalent, 9.75% Colombian Peso-denominated notes due 2028, and the 'BBB-' long-term local currency (LTL) debt rating of Bogota, Capital District of Colombia. The Rating Outlook remains Stable.

Bogota's international ratings are limited by Colombia's sovereign risk and are based on the following credit strengths:

- Strong fiscal management;
- Consistent budgetary surplus position;
- Affordable debt, given the district's positive financial performance, high liquidity levels and favorable terms and conditions in its financial obligations;
- Highly valuable assets that generate a consistent stream of capital revenues for the District, strengthening the entity's financial flexibility;
- Economic strength within the national context, being the largest regional economy.

However, they also show the following risks or limitations:

- Relatively high debt level;
- High unemployment rates, although with a declining trend;
- Contingent liabilities regarding pension and retirement payments of employees that have been funded partially;
- Increasing social and infrastructure needs of a growing population, although these are being addressed through substantial and growing capital expenditures.

Bogota's current revenues amounted to US\$2,992 million in 2008, registering favorable growth rates above 10% over the last three years; however, the current economic crisis is reducing this trend and revenues will probably remain flat or decline slightly for fiscal 2009. Bogota's independent fiscal position is also a credit strength that has improved over time; the share of national transfers over current revenues was 31% in 2008 (38% in 2002). The Fitch-adjusted operating surplus before interest expense reached US\$1,191 million in 2008 or 39.8% as percentage of current revenues; this ratio is remarkably high compared to international standards, denoting the district's strong fiscal flexibility and payment capacity of financial commitments.

Regarding debt, the current levels remain high but affordable. As of May 2009, the district's direct debt amounted to US\$965 million (approximately \$2.1 billion Colombian Pesos), of which US\$431 million is internal debt and US\$533 million is external debt. Most external debt is hedged to currency risk, leaving only 10% of total debt without protection from exchange rate volatility. Furthermore, 54% of Bogota's debt has a fixed interest rate, a percentage that has been increasing year over year (18% in 2002). Other debt-portfolio management policies followed by Bogota include not having principal payments concentration above 15% of outstanding balance in any single year; to date this target is met and the main payouts (between 13% and 15%) are located in years 2010 and 2015. In 2008, interest payments over operating surplus showed a ratio of 6%, which is much lower than the 40% maximum established in the terms of Colombian Law 358. The total debt-to-current revenues ratio reached 35%, which is also below the 80% limit established by the same law. Finally, management is not considering a substantial increase in debt for the next two years.

Indirect debt of the district corresponding to decentralized bodies is relatively low and closed 2008 with a balance of US\$273 million; most debt corresponds to the water utility company Empresa de Acueducto y Alcantarillado de Bogota. As for pension and retirement payments of government personnel, the latest actuarial study estimates an accumulated contingent liability of approximately US\$2,736 million, of which the district has already created a reserve account of 28%. This percentage of coverage is expected to increase over time.

On the economic side, Bogota continues to be the largest regional economy in the country, contributing approximately

25% of Colombia's Gross Domestic Product. The district's economy, following the same trend as the nation, showed strong economic growth rates above 6% between 2004 and 2007, dynamism that slowed down to about 2.5% in 2008. With approximately 7.2 million inhabitants, Bogota's population represents 16% of Colombia's total. Unemployment has improved considerably, decreasing from 18% in 2002 to 10% in 2008. Finally, regarding public services, education and health care coverage, Bogota stands out among Colombian cities with the highest indicators.

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