

# Colombia Outlook

2Q20

Macroeconomic performance perspectives:  
the challenge of taking care of the health and  
wellbeing of colombians

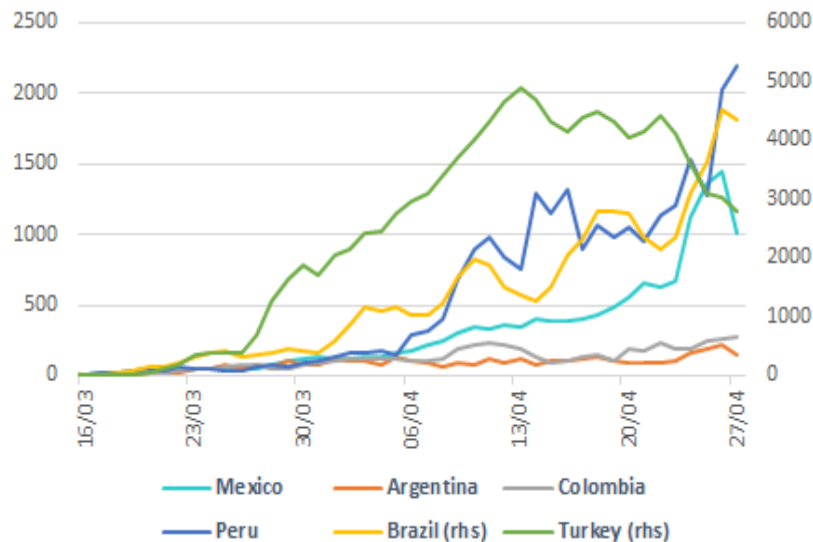
Closing date: April 23 (except for COVID-19 data)

# 01

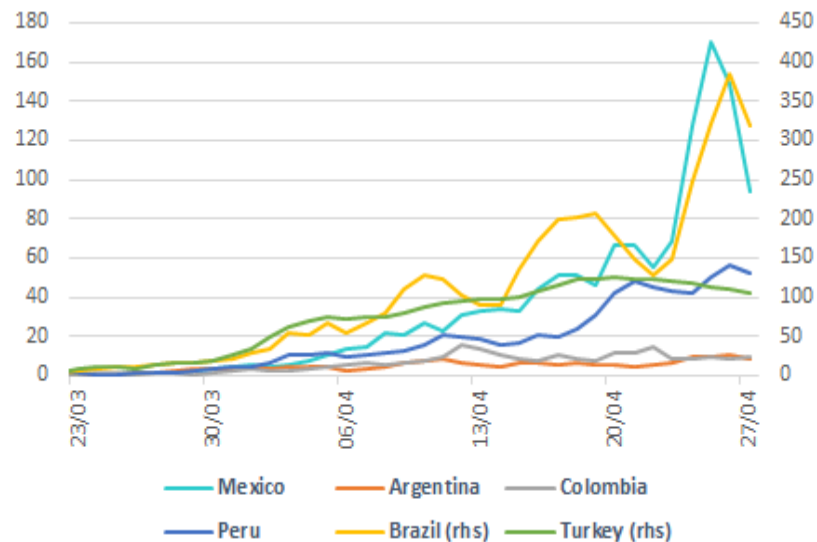
Strong impact of COVID-19 on  
global growth produces an  
unprecedented public policy  
reaction

# COVID-19 is a human tragedy. Colombia within Latin-American has managed to maintain numbers relatively low

## DAILY INFECTED PEOPLE IN SELECTED COUNTRIES (3-DAY MOVING AVERAGE)



## DAILY DEATHS IN SELECTED COUNTRIES (3-DAY MOVING AVERAGE)



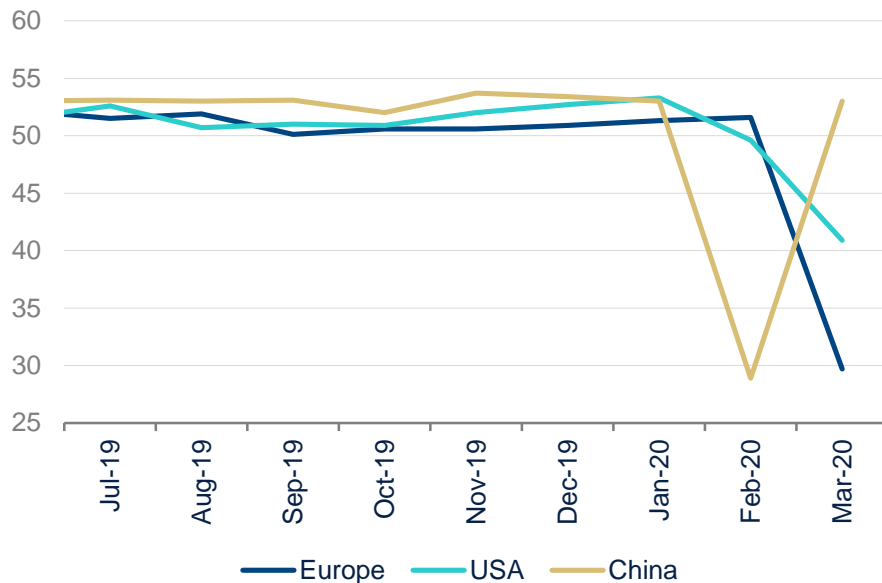
Note: 17th - 20th February WHO reported all confirmed cases, including both laboratory-confirmed and those clinically diagnosed

Source: BBVA Research, Johns Hopkins University (data updated up to 00:00 GMT April 27)

# Activity indicators already show the highly contractive effects of COVID-19 in the main geographies

## PMI INDICATORS

(MORE THAN 50: EXPANSION; LESS THAN 50: CONTRACTION)



- The supply shock due to confinement is the main impact channel in the very short term
- Other channels:
  - Demand (confidence, social consumer goods)
  - Financial (borrowing costs, financial wealth destruction)
  - Other supply shocks (global supply chains)
- Confidence and employment indicators show a very severe impact in 2Q20
- In China, there are already signs of a rapid recovery in activity

# High uncertainty: we anticipate a deep recession with a rapid but incomplete recovery

## Main assumptions of our economic scenario



### EXPANSION OF COVID-19

**China, Italy and Spain** as a benchmark for the evolution of new cases

**No new cycles of widespread contagion**



### CONFINEMENT MEASURES

**Around 6 to 8 weeks**

**Gradual reversal**

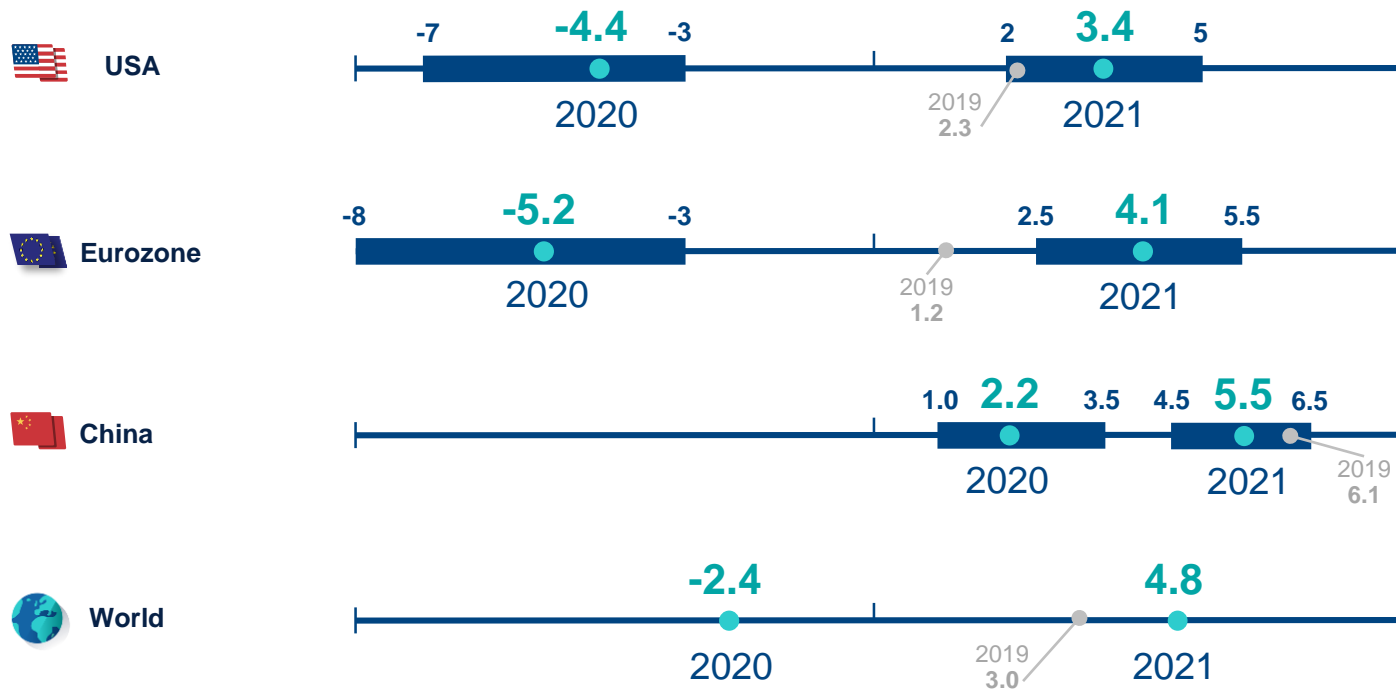


### ECONOMIC STIMULUS MEASURES

**They will be maintained or amplified**

**High effectiveness** (real and financial)

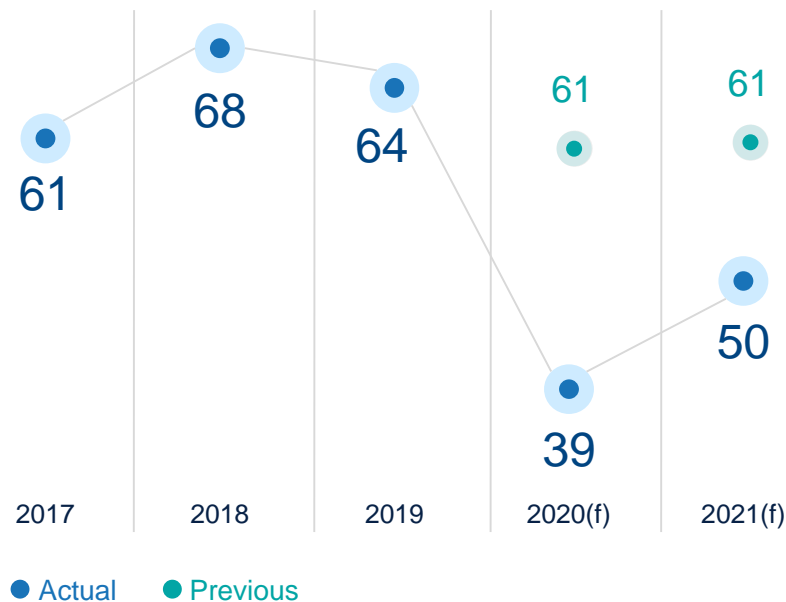
# Growth forecasts: a global recession in 2020, followed by a partial recovery in 2021



# The global recession is dragging oil prices down, despite the recent supply reduction agreement

## OIL: BRENT

(DOLLARS PER BARREL, ANNUAL AVERAGE)

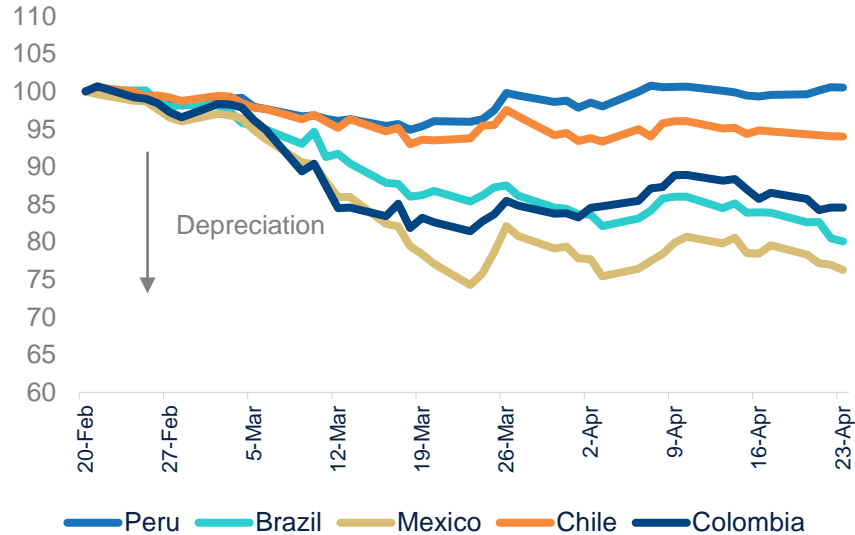


- OPEP+ has agreed to cut production, **ending the conflict** between Russia and Saudi Arabia
- Even so, **prices continue to be very low** due to the collapse of global demand
- However, **they are expected to recover** as world growth accelerates and supply adjusts
- This low price environment is **especially damaging** to countries that **export commodities**

# Regional financial assets depreciated swiftly with the outbreak of COVID-19, by have shown a shy recovery in recent weeks

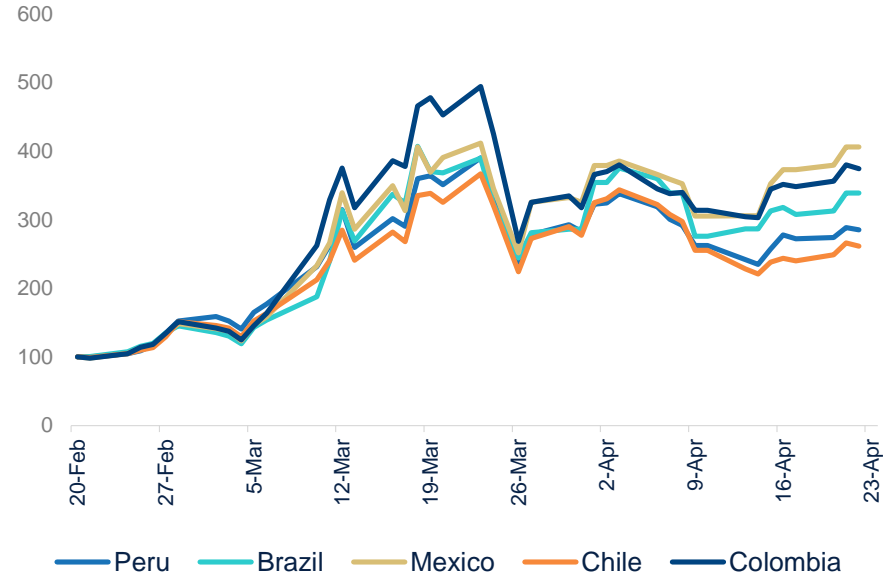
## LATAM EXCHANGE RATES, SELECTED COUNTRIES

(INDEX, 20 FEB 2020=100)



## LATAM CDS, SELECTED COUNTRIES

(INDEX, 20 FEB 2020=100)

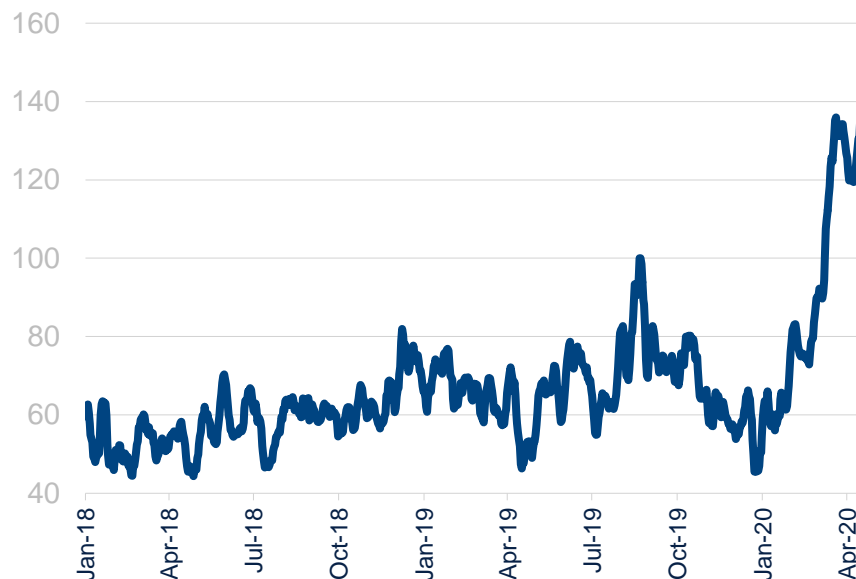




# Uncertainty is exceptionally high and the balance of risks is tilted to the downside

## ECONOMIC UNCERTAINTY INDEX (\*)

(AUGUST 21st 2019 = 100)



(\*) Weighted average sentiment of media news where the associated "economy" and "uncertainty" topics appear and weights it by the coverage of these news.

Source: BBVA Research based on GDELT data



### Epidemiological uncertainty:

- Pandemic control deadlines
- Speed of the "opening" process
- Possible new waves of infections
- Availability of a vaccine or treatment



### Economic uncertainty:

- Stimulus effectiveness
- Effect on public and private debt levels



### Financial uncertainty

- Rebound of financial tensions
- Systemic crisis risk



The pandemic raises many questions about the long term

## 02

The effects on the colombian economy depend both of the advancement of the sanitary crisis as of the policy response

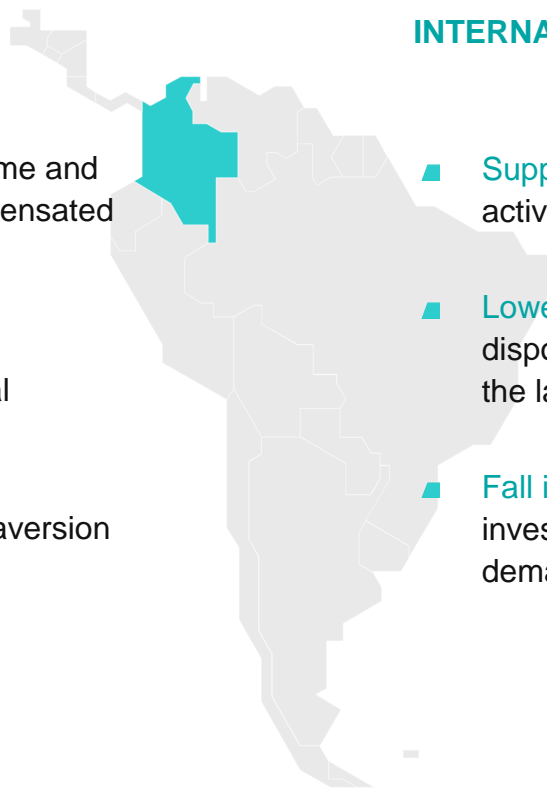
# COVID-19 effects will materialize on the Colombian economy through internal and external channels

## EXTERNAL CHANNELS

- **External demand.** Reduction in income and weak global growth will not be compensated by depreciation.
- **Lower oil price.** Impact on exports, Exchange rate, investment and fiscal balance.
- **Financial turmoil.** Grater global risk aversion affects the valuation of local assets.

## INTERNAL CHANNELS

- **Supply shock.** Transitory paralysis of activity to safeguard lives.
- **Lower local demand.** Reduction in national disposable income and a deterioration of the labor market.
- **Fall in investment.** Lower local and foreign investment due to uncertainty, lower demand and unutilized installed capacity.



# Growth prospects will depend on the length of confinement, policy effectiveness and external environment

## STRONG CONFINEMENT AROUND 1.5 MONTHS

Consumption shrinks to  
essential expenditure

---

Food, hygiene products, health and  
communication technology services

Lower supply of products

---

Closure of non essential sectors

Greater public expenditure:  
health and transferences

---

Help mitigate the fall in consumption  
(for low income households)

## WEAK CONFINEMENT AROUND 1.5 MONTHS

Consumption recovers  
gradually

---

Non essential expenditure as clothing  
and online commerce

Non essential sectors start to reopen  
gradually

---

Help reactivate the economy and labor  
income

Lower disposable  
income

---

Lower oil prices and deterioration of the  
labor market

## RECOVERY

A low “social expenditure” remains with  
low oil prices

---

Tourism activities, restaurants and  
massive events take time recovering

Global growth with smaller imported  
component

---

Exports take time recovering

Social indicators take  
time recovering


---

New subsidies and  
support programs

# The first response under the pandemic has been to protect the most vulnerable households



## Government

- Direct transferences to the most vulnerable (subscribed in prior social programs, solidarity income and VAT returns)
- Utilities financing for some months and free reconnection
- Tariffs reduction to some imported health products
- Protection to public employment
- Financing optimization and investment in health expenditure 



## Others

- Deferral of monthly payments for consumption credit and mortgages to the financial system for up to six months
- Protection to newly unemployed affiliated to “*cajas de compensación*”, worker supplementary wellbeing services institutions
- Compensation of partial loss in labor income with private “layoff funds”
- Free reconnection of mobile phone services

# 03

Sector effects will be heterogeneous both in the confinement and recovery periods

# The shock will have a heterogeneous impact amongst economic sectors due to confinement, social distancing and travel restrictions

## High impact



Tourism,  
Hotels and  
restaurants



Transport



Entertainment



## Intermediate impact



Non-food  
manufacturing  
and mining



Construction



Non-basic good  
retailers



## Low impact



Communications,  
real state and  
professional  
services



Government\* and  
utilities



Agriculture, food  
manufacturing and  
basic good retailers



Social distancing



Travel restrictions



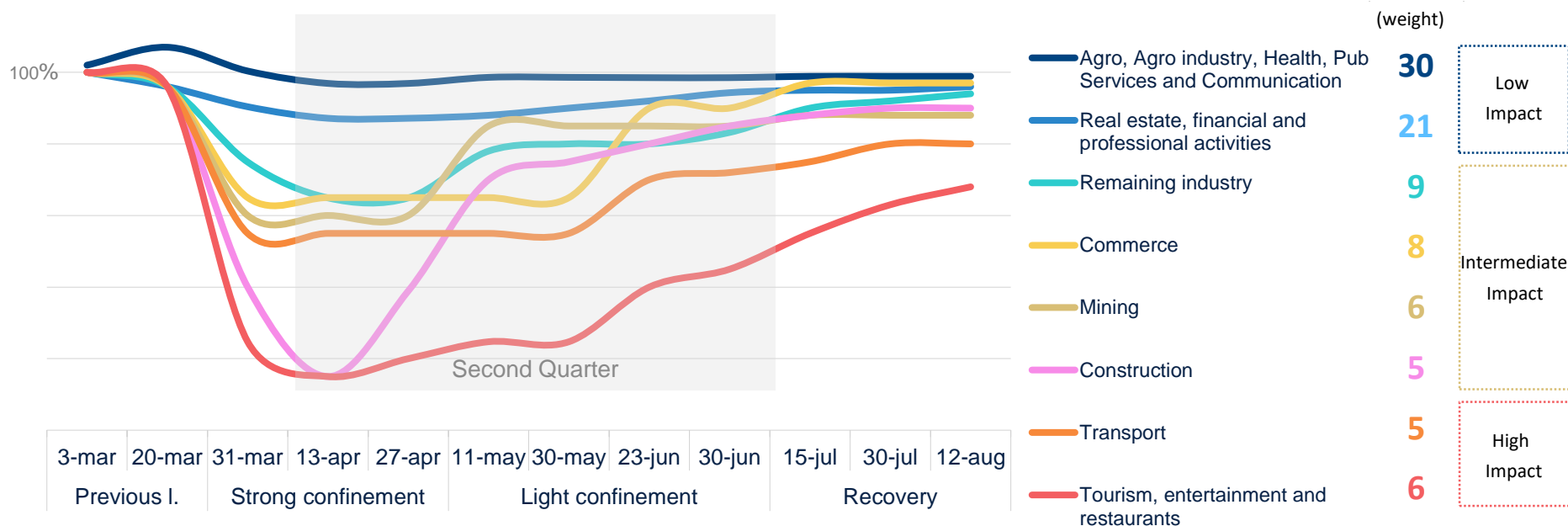
Confinement

\* Includes health, education and public administration

# This differences will map on the intensity and duration of the effect over the different sectors

## SECTOR ACTIVITY DURING THE CONFINEMENT AND RECOVERY PERIODS

(IMPACT OVER ITS PREVIOUS LEVEL = 100%, WEIGHT ON THE GDP IN %)



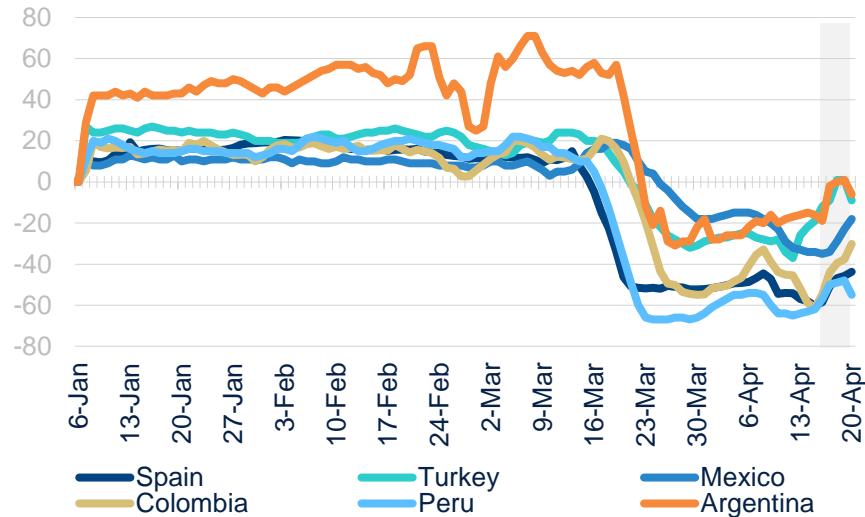


# 04

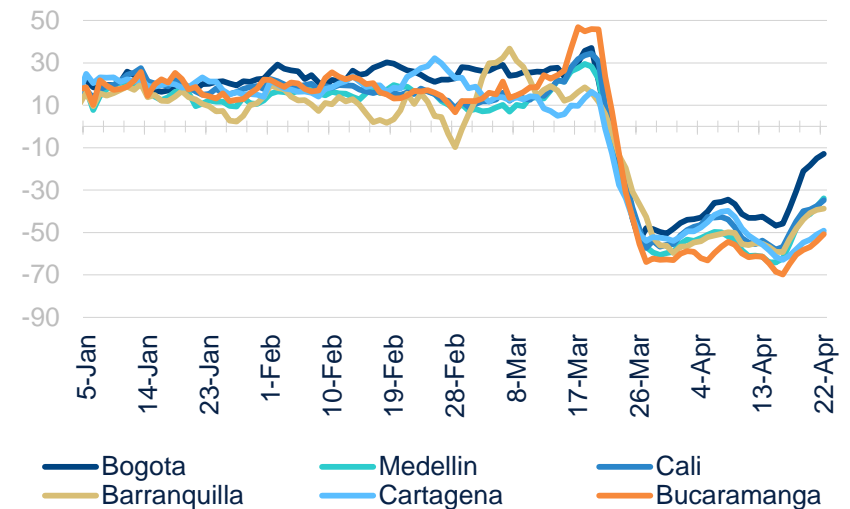
Private consumption and investment will respond with significant contraction in 2020, to then recover gradually

# High frequency indicators show the deterioration in private consumption in several economies

**BBVA CONSUMPTION INDICATOR BY COUNTRY\***  
(7-DAY AVERAGE YoY, %)



**BBVA CONSUMPTION INDICATOR BY CITY\***  
(7-DAY AVERAGE YoY, %)



\* Shadow: 2019 holly weak base effect

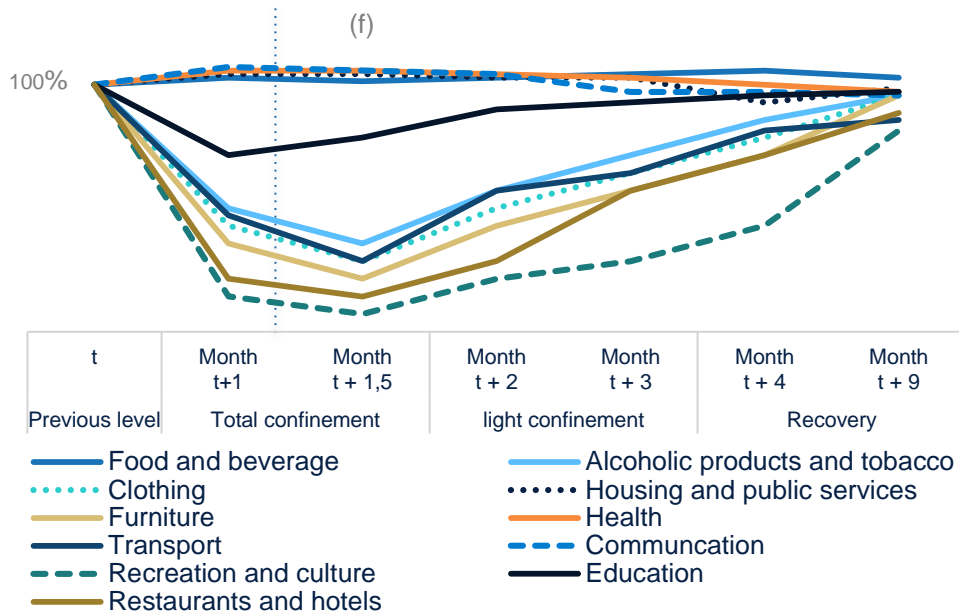
Source: BBVA Research with transactional information of purchases made with BBVA debit and credit cards

According to BBVA Research sector indicators, airlines, clothing and entertainment are the most affected sectors. While, health and food sectors had an important dynamic at the beginning of the confinement period, but start to moderate

# Not all consumption groups perform and recover in the same manner. Consumption will rebound, but will remain growing less

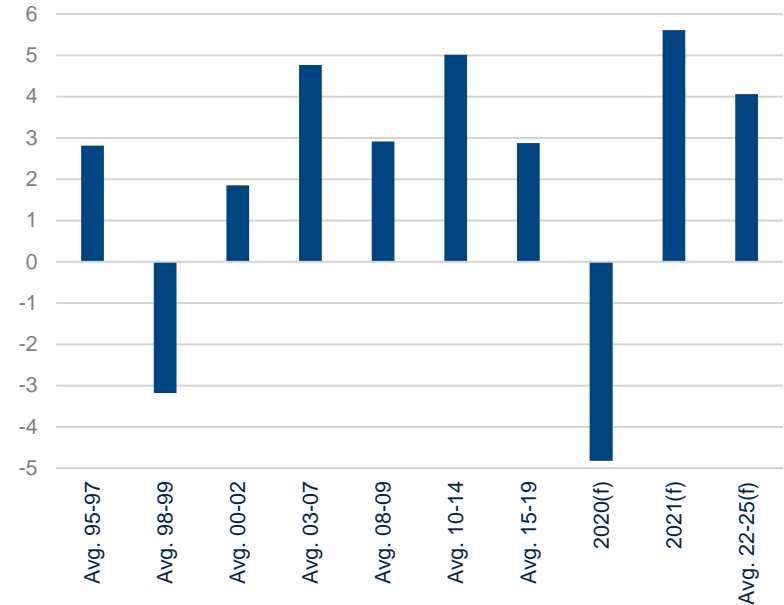
## CONSUMPTION GROUPS

(RESPECT TO THE LEVEL PRIOR TO CONFINEMENT =100%)



## PRIVATE CONSUMPTION

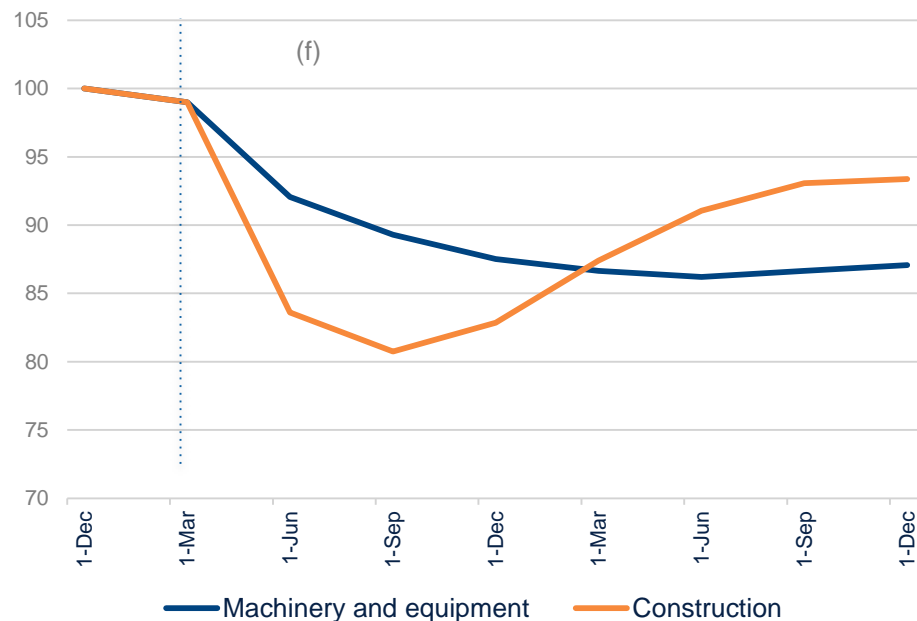
(ANNUAL VARIATION, %)



# Two dynamics in investment: in the short run a strong contraction. Later, construction should recover faster than machinery

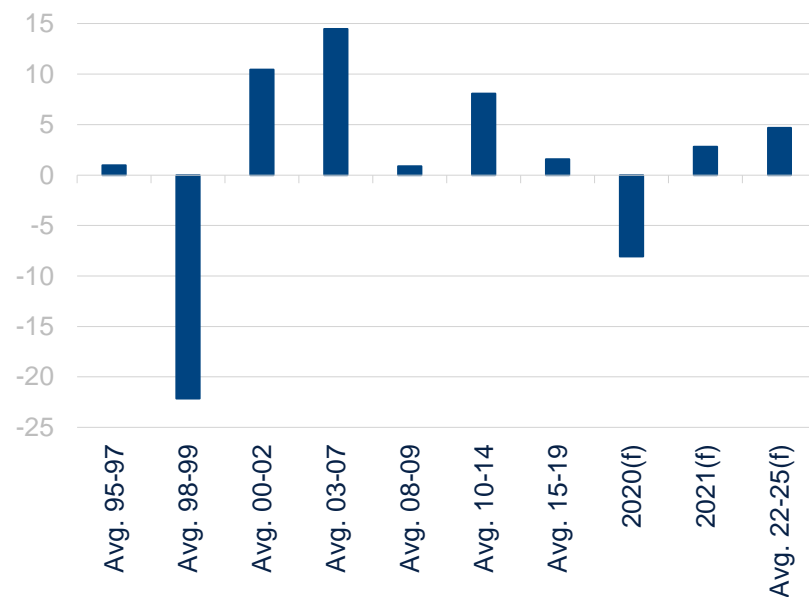
## INVESTMENT GROUPS

(SEASONALLY ADJUSTED SERIES, INDEX DEC19 =100, %)



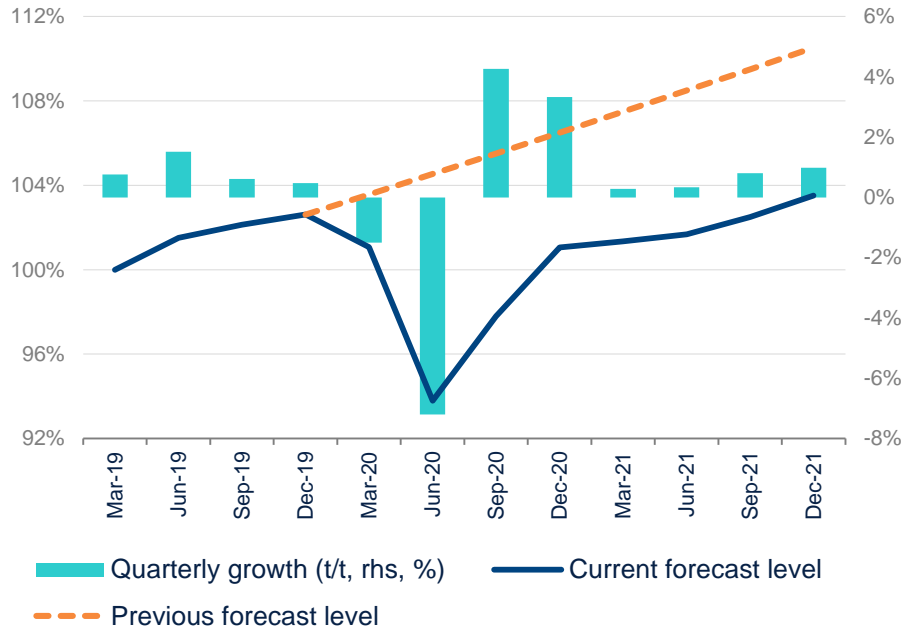
## FIXED TOTAL INVESTMENT

(ANNUAL VARIATION, %)

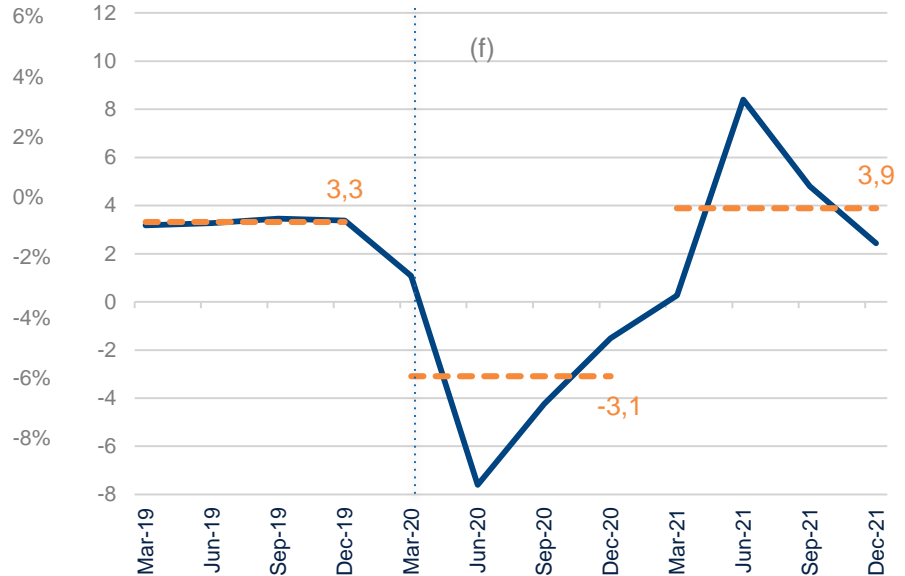


# Growth will deteriorate in the short run, later it will recover with a fast rebound but should stabilize at more moderate levels

**SEASONALLY ADJUSTED GDP**  
(QUARTER VARIATION AND INDEX MAR19=100)



**VARIATION OF ANNUAL GDP**  
(ANNUAL VARIATION, %)



# 05

The priority of the measures to confront this situation is to protect employment and the wellbeing of colombians

# COVID-19 high impact sectors account for 33% of total employment and 27% of labor income

## High impact



## Intermediate impact



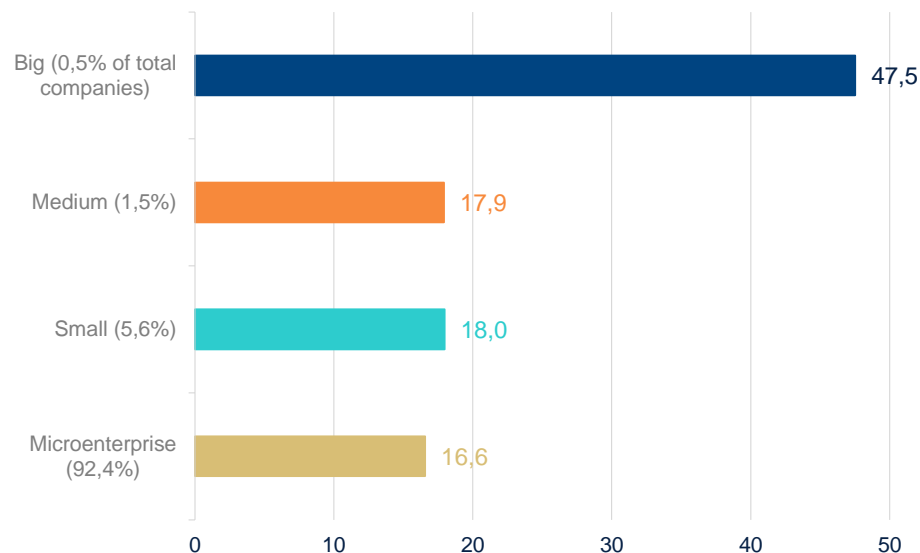
## Low impact



# Therefore, protecting employment and smoothing workers income loss is a priority, and thus it is key to protect entrepreneurial tissue

## FORMAL EMPLOYMENT DISTRIBUTION ACCORDING TO THE SIZE OF THE COMPANY\*

(% OF COMPANIES AND OF EMPLOYMENT, 2018)



Big industrial company year revenue > 61.8 bn pesos. Medium industrial company year revenue between 7.3bn pesos and 61.8bn pesos. Small industrial company year revenue < 7.3bn pesos.  
Source: BBVA Research with Confecamaras data



# Both, government and the private sector have responded with measures to protect employment and companies



## Government

- Credit guarantees from the National Fund of Guarantees for SMEs and independents for payroll and working capital purposes (80% to 90% guaranteed)
- Flexible credit lines with second floor public entities and Banco Agrario
- Deferral of regional taxes in most principal cities of the country



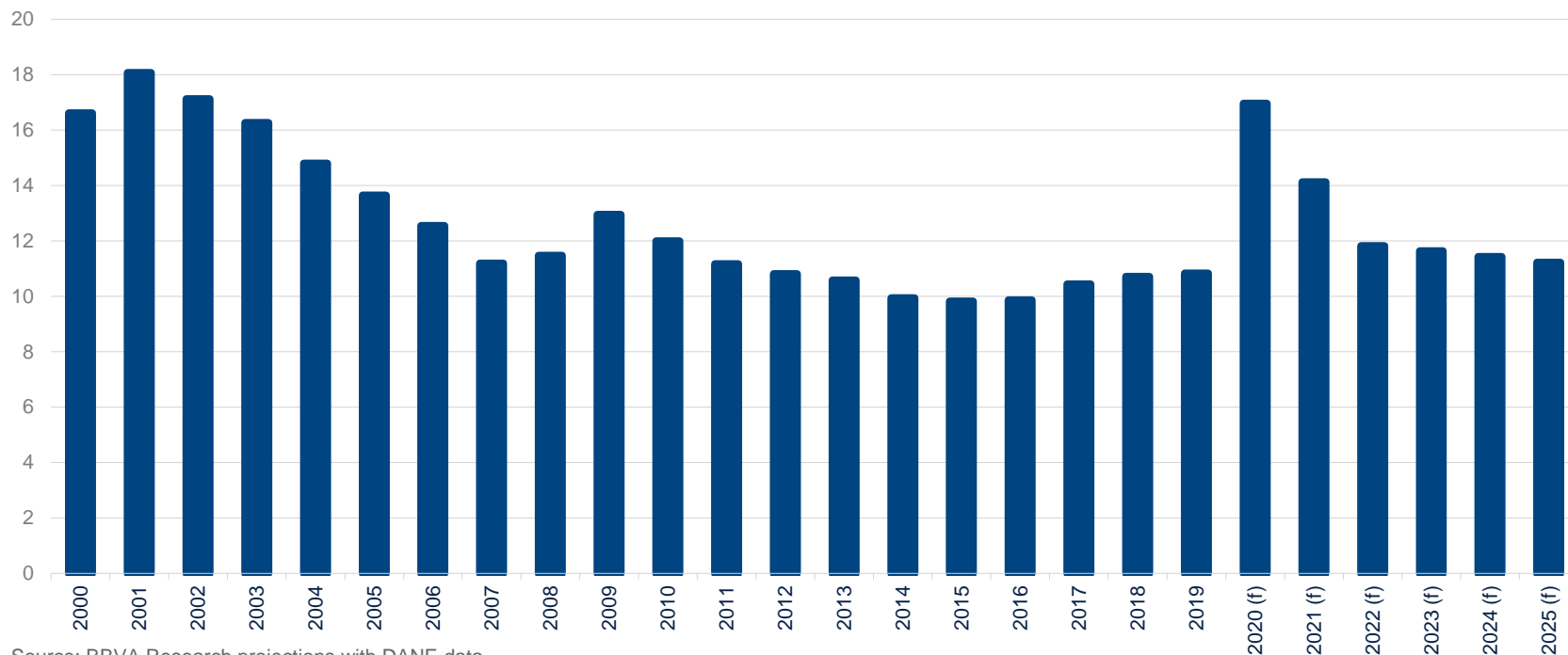
## Other

- Deferral of monthly payments of commercial credit due to the financial system
- Optional payment of only 3% of pension payments to workers for up to 3 months
- Possibility to use countercyclical provisions and not to include credit delinquencies due to deferrals of clients payments

# Despite the efforts, the unemployment rate will increase in 2020 and only gradually recover in 2021

## URBAN UNEMPLOYMENT RATE

(% OF THE ACTIVE ECONOMIC POPULATION)



Source: BBVA Research projections with DANE data

# 06

The Central Bank acted swiftly to guarantee liquidity for the economy, in addition reduced interest rates given a lower expected inflation

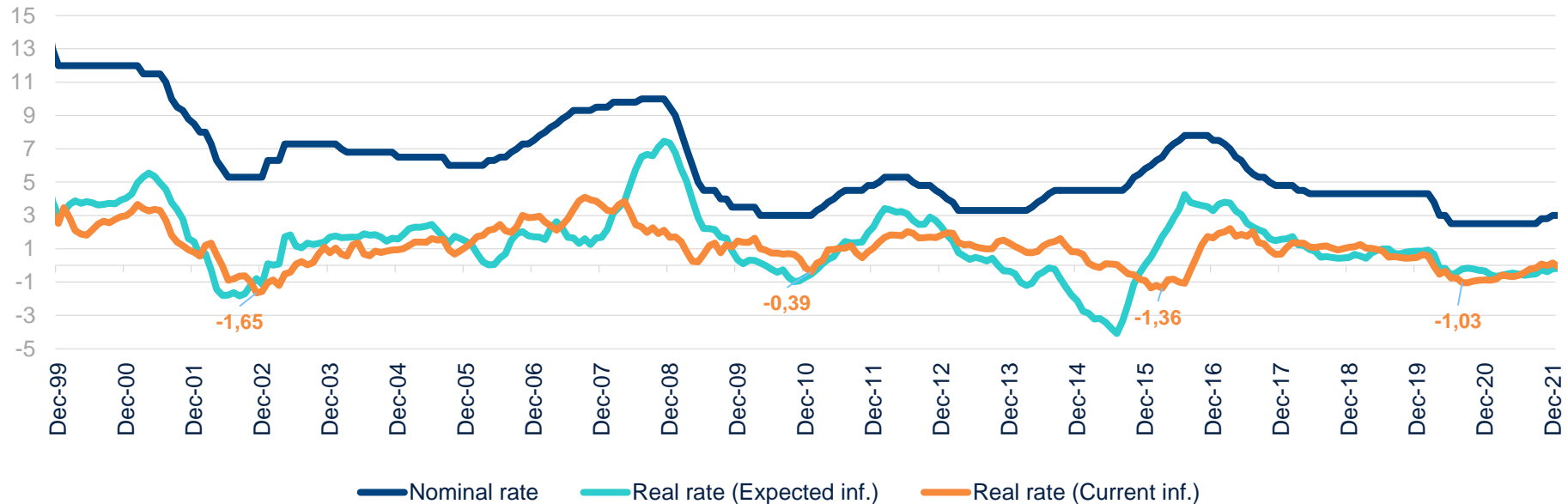
# Central Bank actions focused initially on supporting the proper functioning of the system of payments, and later in other measures

Interest rate reduction	Reserve requirement reduction	Transitory liquidity	Permanent liquidity	FX liquidity
<p>50pb rate reduction in March</p> <p>New expected reductions in coming months (125pb)</p> <p>Policy rate could reach its all time low with a real negative rate</p>	<p>Reserve requirement reduction of 11% to 8% for money market and savings and of 4.5% to 3.5% for CDs of up to 18 months</p> <p>This resources will be used to buy public debt to finance the government (TDS)</p> <p>TDS will may be used as collateral in repo operations with the Central Bank</p>	<p>Authorized other institutions in the financial sector to participate in repo operations</p> <p>Extended the maturity of repo operations and allowed private debt as collateral</p>	<p>The Central Bank will complete a COP14tn asset purchase</p> <p>Of which, COP10tn will be of private debt and COP4tn in public debt</p>	<p>The Central Bank auctioned USD2.8bn: USD2.0bn in 30 day NDFs and USD0.8bn in 60 day swaps</p> <p>The Central Bank was granted access to the FED dollar line (FIMA) and extended the flexible line with the IMF</p>

# We expect additional monetary policy rate reductions for 125bp in the second quarter of 2020, reaching a negative real rate

## NOMINAL AND REAL MONETRAY POLICY INTERSET RATE

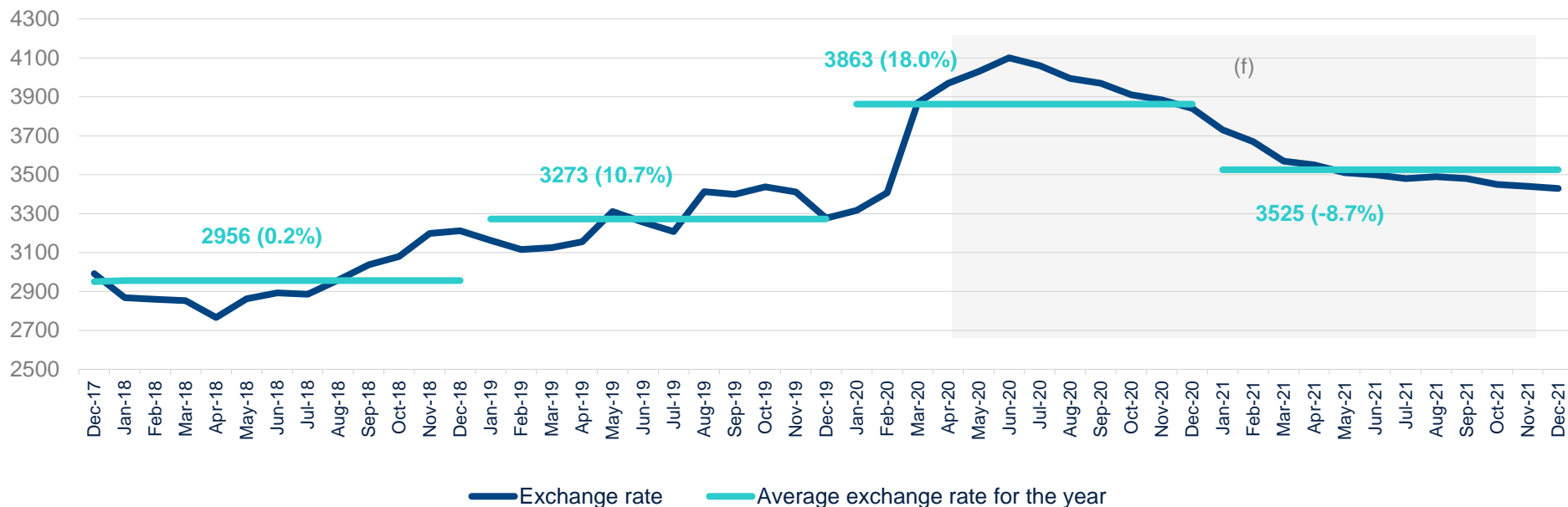
(E.A.; %)



# The global shock and the fall in oil prices pressure the exchange rate in Colombia with an average depreciation of 18% in 2020

## MONTHLY AND ANNUAL AVERAGE EXCHANGE RATE

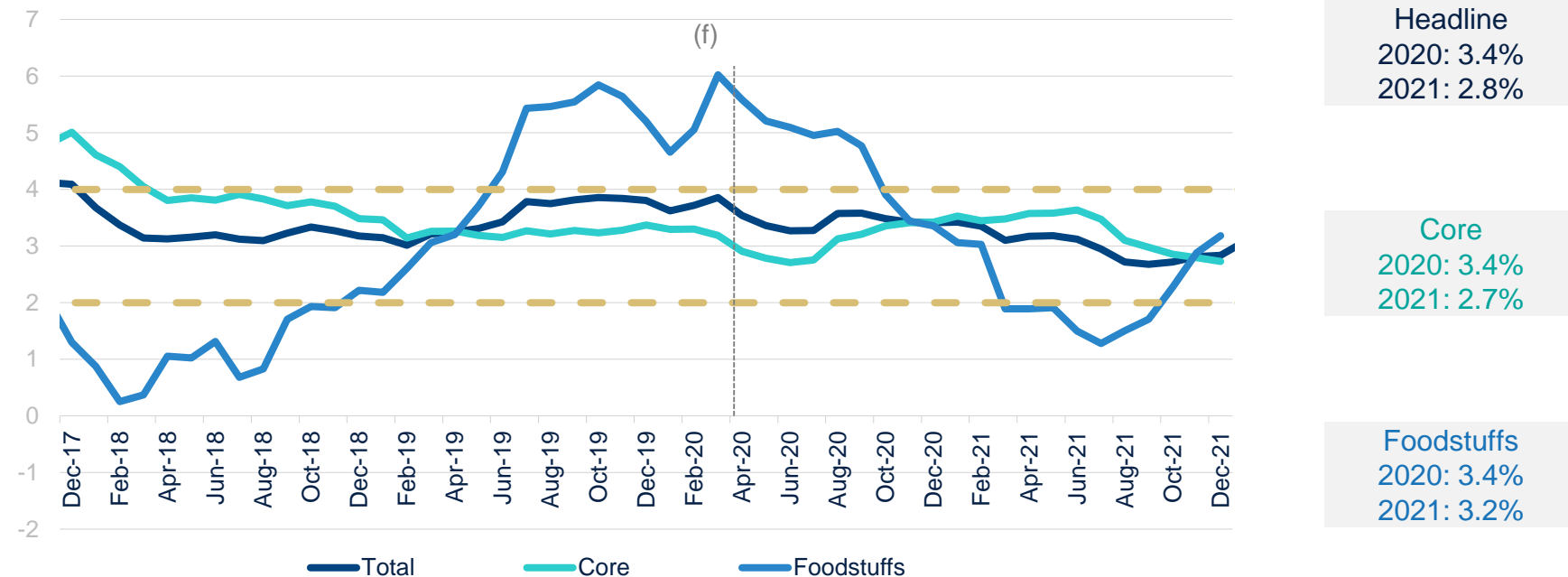
(PESOS PER DOLLAR AND ANNUAL AVERAGE DEPRECIATION IN PARENTHESIS)



# In 2020 inflation will remain within the target range and will close at 3.4%. Its descent will continue in 2021 closing at 2.8%

## INFLATION BY TYPE

(ANNUAL VARIATION, %)



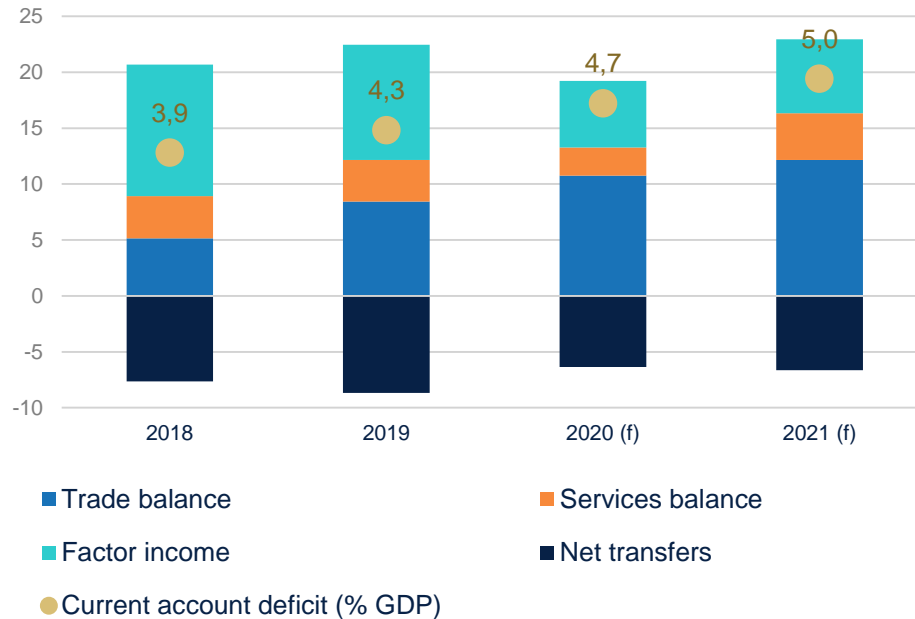
# 07

The need for external savings, the fiscal deficit and public debt will grow

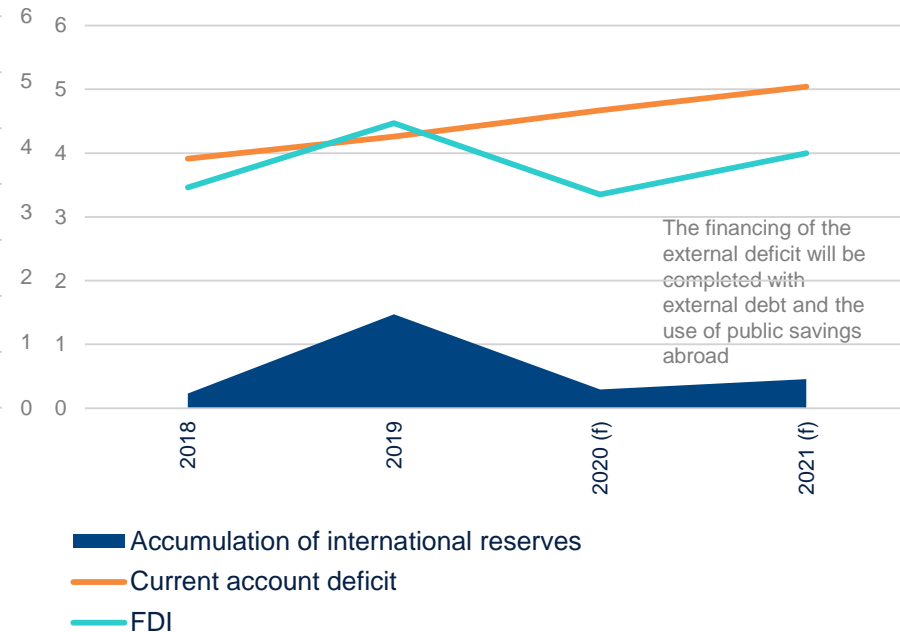


# External deficit will be pressured by the commercial balance and fewer remittances. Lower profit remission will partially cushion this effects

**CURRENT ACCOUNT DEFICIT DECOMPOSITION**  
(USD BILLION)



**CURRENT ACCOUNT DEFICIT, FDI AND RESERVES**  
(% OF GDP)



# The fiscal deficit of the Central National Government and its financing needs will increase driven by the countercyclical fiscal policy and lower expected revenue

## Countercyclical fiscal policy

Direct transferences to the most vulnerable, investment in the health sector. Capital increase of the National Fund of Guarantees with resources of second floor public banks and FONDES, among others

## Revenue reduction

Lower activity, lower oil prices and an increase in informality with lower capacity to avoid tax evasion all reduce central Government revenue

## Additional Financing

Increase in the fiscal deficit financed mainly with debt with the regions (funds from regional savings), with multilateral credit and other movements (such as reserve requirement reduction to finance public debt issuance and the movement of the programmed retiree fund from private pension funds to the public pension administrator, among others)

# The structural strength of the economy gained in the past 30 years allows to face the shock on a more firm standing



## Exchange rate flexibility

Capacity to absorb external shocks reducing their effects on the real economy: production and employment



## Independent monetary policy

Reaction capacity in terms of liquidity and rates. Ability to carry out countercyclical policies



## Fiscal rule and prudential regulation

Capacity to deliver countercyclical policies in economic deceleration cycles within the scheme of the fiscal rule.

Ability to use countercyclical provisions to confront lower liquidity conditions



## Credit Reputation

Market confidence in Colombian authorities, their capacity of response in the current situation and our long standing commitment of payment

# 08

“Exit” strategies, the new normal and some lessons from the current situation

# The coordination of the exit strategy is a priority, at least in three levels.



## Economic Activity

Careful selection of sectors and geographical zones to reactivate

Continue safeguarding employment and companies through public policy during the “exit” strategy



## Social Services

¿How to normalize education?

¿How to have preventive and curative healthcare of other diseases?

Careful selection of social groups with “normal” activity



## Relations with the World

¿How to open borders to the transit of people?

¿How to activate global value chains?

# The new normal: global relations, sector order and household decisions will be different



## Policies and world design

Higher debt and fiscal deficit will be “more accepted”

Credit rating scores reduce worldwide

A less open world



## Expenditure and economic sectors

Lower “social” consumption

Change in sector relevance, relative prices of goods and services

A more digital world



## The Household

Deterioration of social indicators

People with stable income, will prioritize savings?

Greater labor participation, pursue of formalization?

# Lessons looking forward



## New givens

Health sector strengthening

Labor formalization and safeguarding of employment

Know ourselves as a society  
¿detailed individual census ?



## Rules vs. Flexibility

Rules in good times allow for flexibility in bad times

Public support is crucial for life quality and recovery

Future generations will have to help bear the costs of this crisis



## Precaution

The value of entrepreneurial digitalization

The value of savings for companies, households and society as a whole

# Annex

## Forecast summary tables



# Principal macroeconomic variables

## TABLE A1. MACROECONOMIC FORECAST

	2016	2017	2018	2019	2020 (f)	2021 (f)
GDP (% y/y)	2.1	1.4	2.5	3.3	-3.1	3.9
Private Consumption (% y/y)	1.6	2.1	3.0	4.6	-4.8	5.6
Public Expenditure (% y/y)	1.8	3.6	7.0	4.3	5.0	2.2
Fixed Investment (% y/y)	-2.9	1.9	1.5	4.6	-8.1	2.8
Inflation (% y/y, eop)	5.8	4.1	3.2	3.8	3.4	2.8
Inflation (% y/y, average)	7.5	4.3	3.2	3.5	3.5	3.0
Exchange rate (eop)	3,001	2,984	3,250	3,388	3,840	3,430
Devaluation (% eop)	-4.7	-0.6	8.9	4.3	13.3	-10.7
Exchange rate (average)	3,055	2,951	2,957	3,273	3,863	3,525
Devaluation (% eop)	11.4	-3.4	0.2	10.7	18.0	-8.7
Policy interest rate (% eop)	7.50	4.75	4.25	4.25	2.50	3.00
DTF rate (% eop)	6.9	5.3	4.5	4.5	3.0	3.2
Fiscal Balance Central Nation Government (% GDP)	-4.0	-3.6	-3.1	-2.4	-5.8	-3.9
Current Account (% GDP)	-4.3	-3.3	-3.9	-4.3	-4.7	-5.0
Urban unemployment rate (% eop)	9.8	9.8	10.7	11.1	15.3	14.1

(f) Forecast.

Source: BBVA Research with DANE, Banco de la República and Ministerio de Hacienda data

# Principal macroeconomic variables

**TABLE A2. MACROECONOMIC FORECAST**

	<b>GDP</b> (% y/y)	<b>Inflation</b> (% y/y, eop)	<b>Exchange rate</b> (vs. USD, eop)	<b>Policy interest rate</b> (%, eop)
Q1 17	1.0	4.7	2,880	7.00
Q2 17	1.2	4.0	3,038	5.75
Q3 17	1.6	4.0	2,937	5.25
Q4 17	1.5	4.1	2,984	4.75
Q1 18	1.7	3.1	2,780	4.50
Q2 18	2.9	3.2	2,931	4.25
Q3 18	2.8	3.2	2,972	4.25
Q4 18	2.6	3.2	3,250	4.25
Q1 19	3.2	3.2	3,175	4.25
Q2 19	3.3	3.4	3,206	4.25
Q3 19	2.5	3.8	3,462	4.25
Q4 19	3.4	3.8	3,277	4.25
Q1 20	1.1	3.9	3,870	3.75
Q2 20	-7.6	3.3	4,100	2.50
Q3 20	-4.2	3.6	3,970	2.50
Q4 20	-1.5	3.4	3,840	2.50
Q1 21	0.3	3.1	3,570	2.50
Q2 21	8.4	3.1	3,500	2.50
Q3 21	4.8	2.7	3,480	2.50
Q4 21	2.4	2.8	3,430	3.00

(f) Forecast.

Source: BBVA Research with DANE and Banco de la República data

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2Q20

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care of the health and wellbeing of  
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