

Colombia Outlook

3Q20

Colombia: on the recovery path with
big challenges

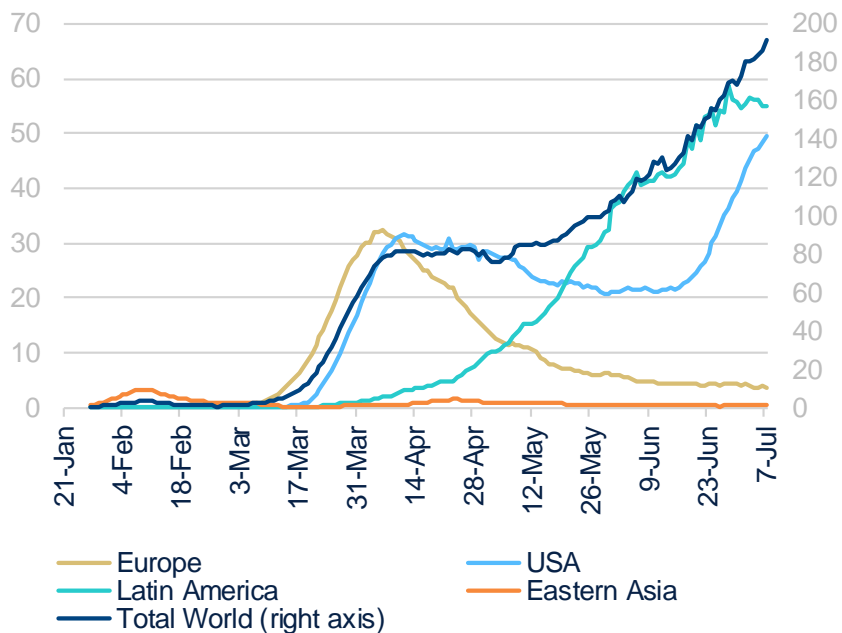
July 2020

01

Global outlook: Incomplete “V” shaped recovery and heterogeneous

The pandemic continues to advance, particularly in America and South Asia, despite the decline of infections in Europe and East Asia

DAILY CASES OF COVID-19 (THOUSANDS OF PEOPLE, 7-DAY MOVING AVERAGE)

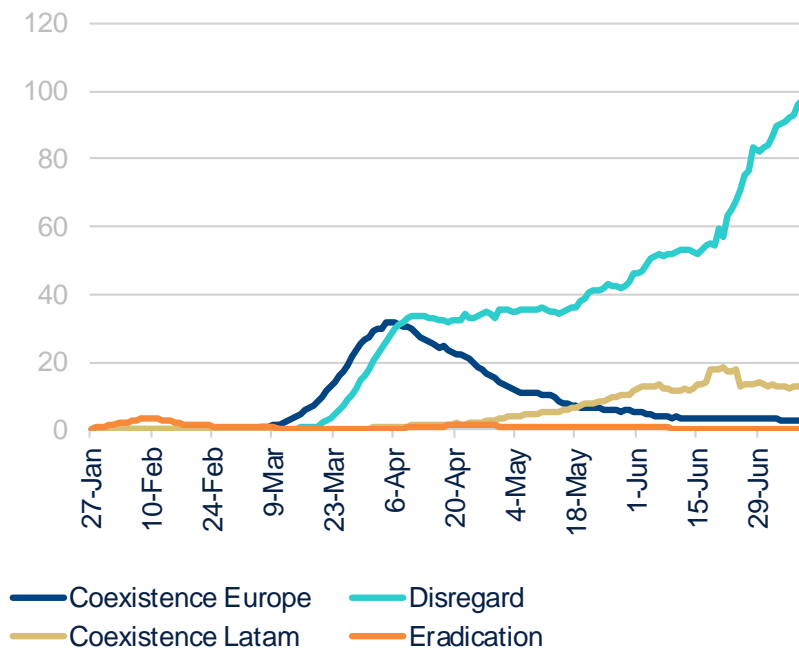


- The Chinese pattern (shock and short confinement ending the pandemic), which was thought to be the model for other regions, is not being repeated in other countries
- Europe has cut the number of cases very significantly, but as they have not been yet fully eliminated, the complete normalization of the economy seems more difficult.
- Other regions (USA, Latam and India, among others) are still lagging behind in terms of controlling the virus.

Three different approaches to face the epidemic

DAILY CASES OF COVID-19

(THOUSANDS OF PEOPLE, 7-DAY MOVING AVERAGE)



Source: BBVA Research using data from John Hopkins University

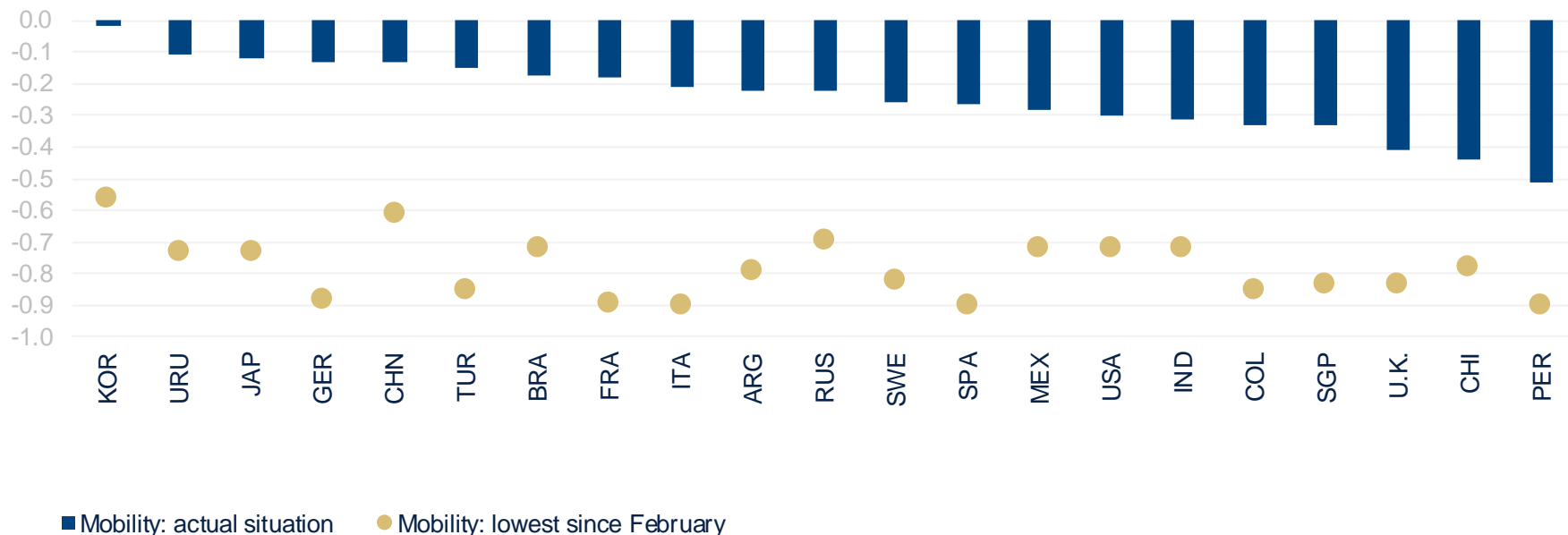
Three policy approaches:

- **Eradication:** countries (mostly in East Asia) that have acted early and decisively to tackle the virus.
- **Coexistence:** contagions are kept at levels which are manageable by the health system; used successfully in Europe and with less success so far in most Latin American countries.
- **Relative passivity** of central governments resigned to the situation: position adopted by countries such as Brazil, Mexico, the USA and Sweden

Despite different policies and epidemiological phases, most economies have been lifting lockdown measures

WORKPLACE MOBILITY INDICATOR (*)

(INDEX: -1 TO 0; HIGHER VALUES INDICATE HIGHER MOBILITY)



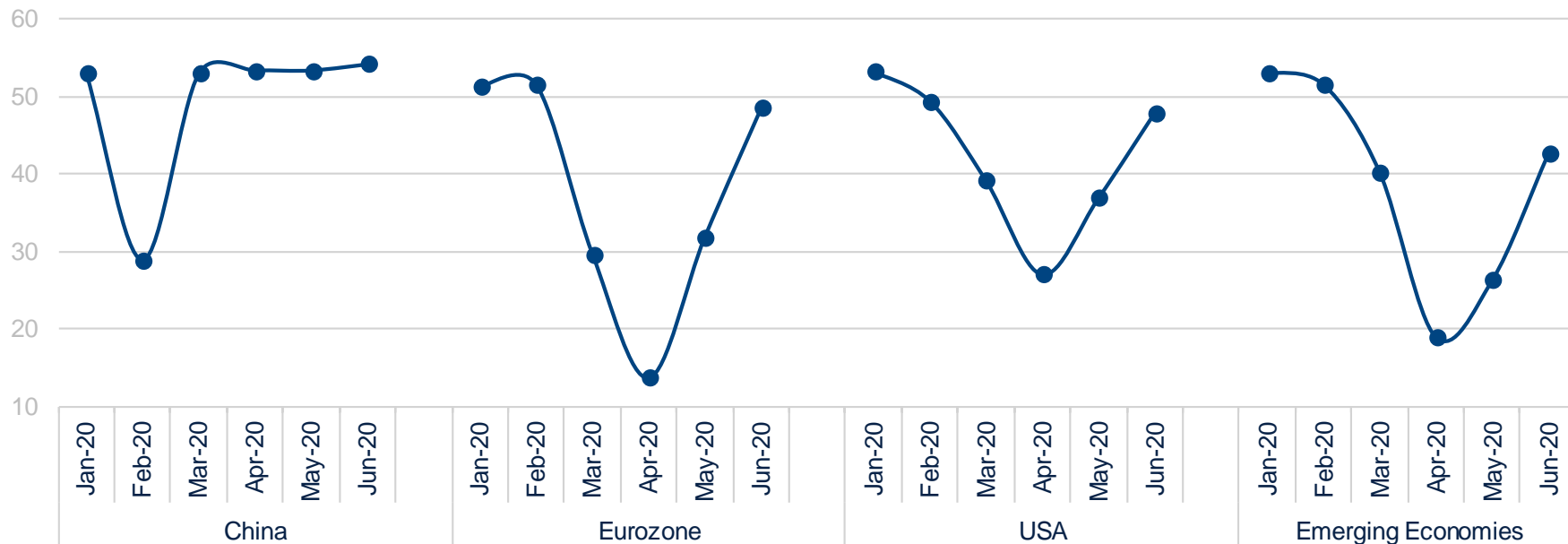
(*) The indicator shows the change in mobility taking the period from January 3 to February 6 as reference. Actual mobility: average from June 23 to June 29. Lowest mobility: minimum 7-day average since February.

Source: BBVA Research based on Google Mobility Reports

Expectations-based activity indicators suggest a rapid recovery in activity in developed economies

PMI INDICATORS (*)

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

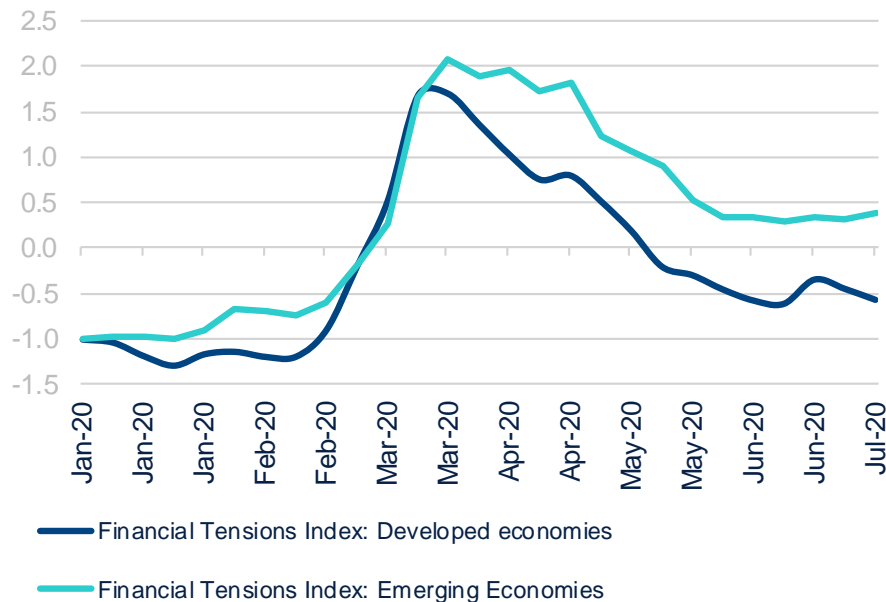


(*) For emerging economies, data shows the average of Brazil, Russia, Singapore and India.
Source: BBVA Research from Haver data.

Despite the uneven evolution of the pandemic, financial markets remain stable thanks to the stimulus measures and the partial recovery in activity

FINANCIAL TENSIONS

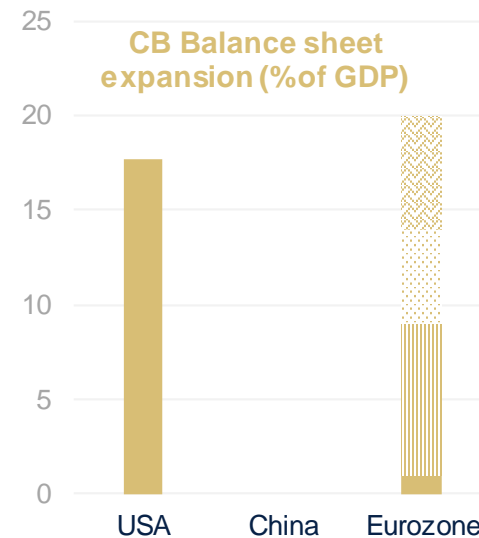
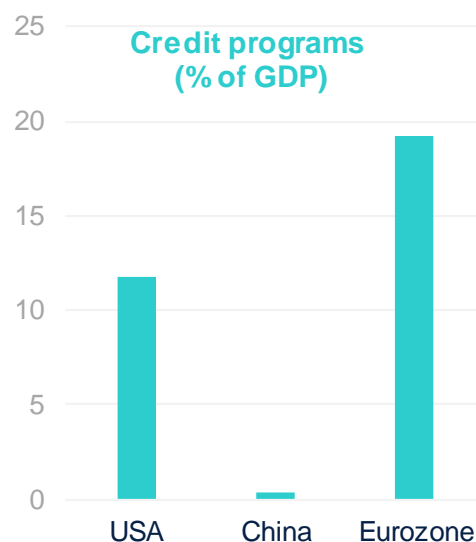
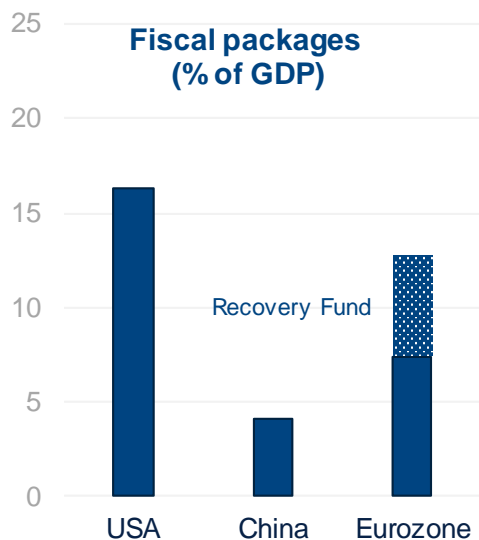
(FINANCIAL TENSIONS INDEX: AVERAGE FROM 2006 = 0)



- At the end of 1Q20, strong economic stimulus measures from the main advanced economies allowed a reversal of financial tensions.
- In 2Q20 the stabilization of financial markets has consolidated:
 - first steps of the deconfinement process
 - Activity rebound
 - reinforcement of fiscal and monetary measures

After the massive stimulus measures in response to the pandemic, the additional support in Europe stands out (Recovery Fund, PEPP y TLTRO)

ECONOMIC STIMULUS IN THE USA, CHINA AND EUROZONE (*)



(*) Fiscal packages: increases in government expenditure, cut in revenues and resources contributed towards guarantee funds and loans. In the case of the Eurozone, it represents supranational programs, including the EU recovery fund proposal and excluding the ESM, plus the average of the packages announced in Germany, France, Italy and Spain. Credit programs: in the case of the USA it includes the total amount of the Fed's credit facilities. In the case of the Eurozone it represents the average of the credit guarantee funds of Germany, France, Italy and Spain. Interest rates: in the case of China, the one-year LPR rates are used as a reference. Balance of CBs: forecast of increase in total assets during 2020.

Source: BBVA Research based on local statistics.

We continue expecting an “incomplete V” recovery, which however will be slower and heterogeneous across regions; uncertainty remains high

FORECAST ASSUMPTIONS

COVID-19



We assume a widely available treatment within a year, with new waves, but no strict confinement before that

Economic Policy



Additional stimulus measures are likely, at least in developed economies; the margin is low in emerging economies

Financial Markets



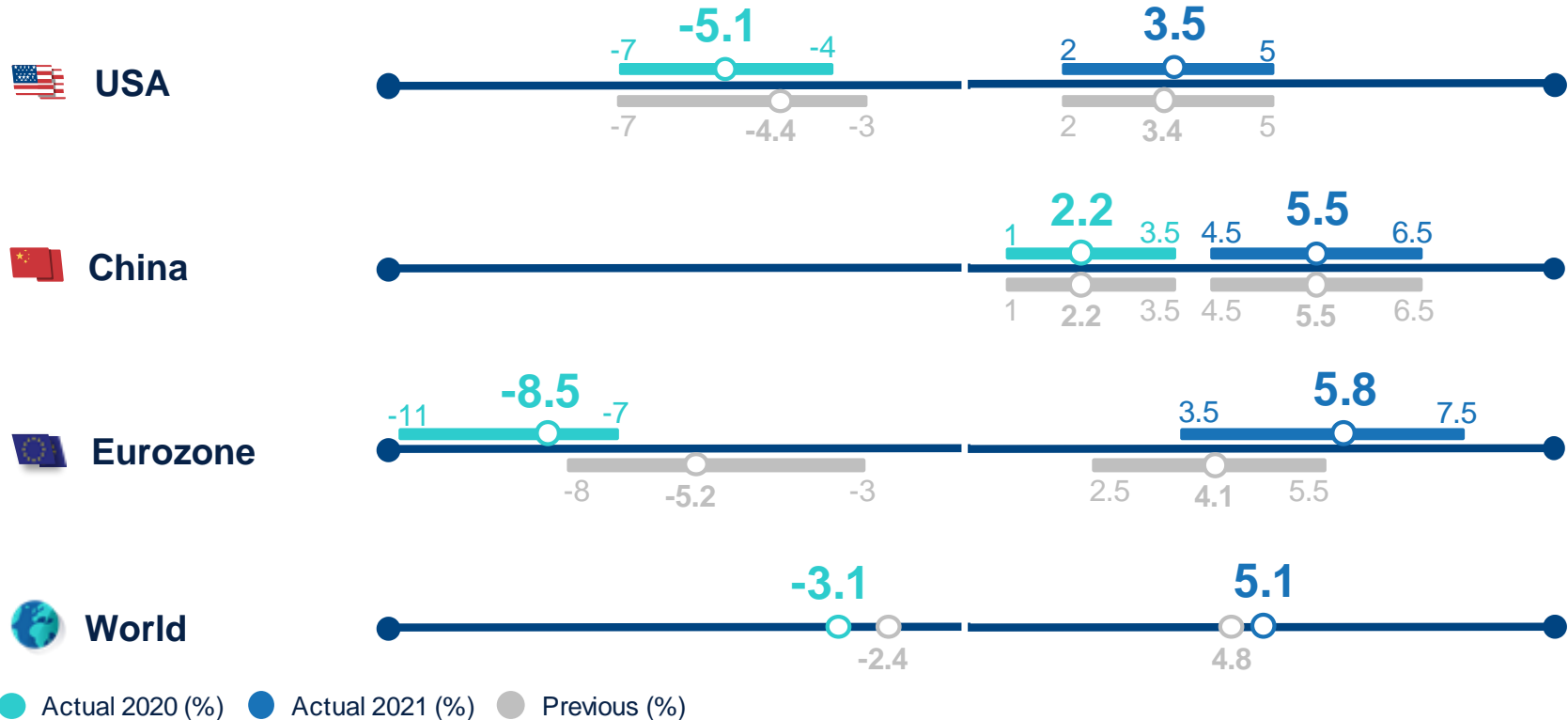
No significant spikes in financial tensions, but volatility will remain high

Economic Activity



Heterogeneous and partial recovery until treatment is available. The recovery will be slower in emerging economies

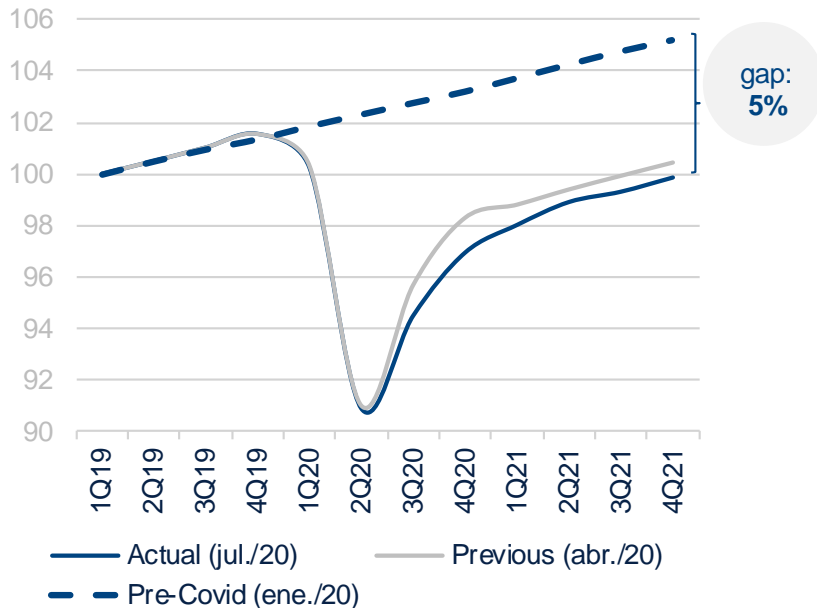
Growth forecasts are revised downwards for 2020 and upwards for 2021, with a larger accumulated loss of product in the biennium



USA: data suggests activity bottomed out in April, but the recent coronavirus outbreak threatens consolidation of recovery

GDP: LEVEL

(NIVEL: QUARTERLY INDEX, SEASONALLY ADJUSTED)

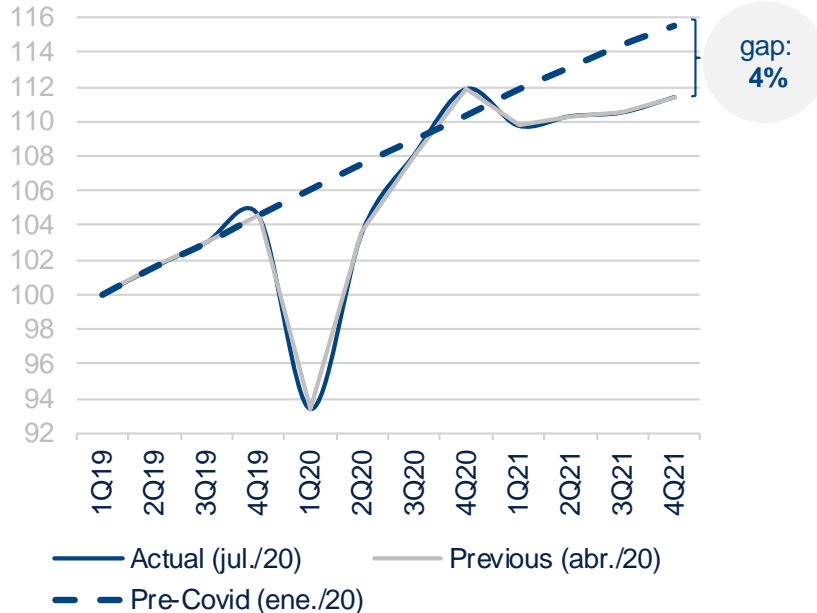


- The late deconfinement, weak employment and lower confidence yields a downward revision of growth forecasts from 2020, from -4.4% to -5.1%.
- Rates will remain at zero until at least 2023; the Fed balance will continue to expand.
- New economic and financial stimulus are likely.
- The unemployment rate, which reached 14.7% in April and 11.1% in June, will converge to 8.6% in 2020 and 7.4% in 2021.
- Uncertainty remains and risks are tilted to the downside given the possibility of new confinement measures and likely tensions with China.

China: growth picks up in line with expectations, led by supply and despite relatively weak demand

GDP: LEVEL

(LEVEL: QUARTERLY INDEX, SEASONALLY-ADJUSTED)

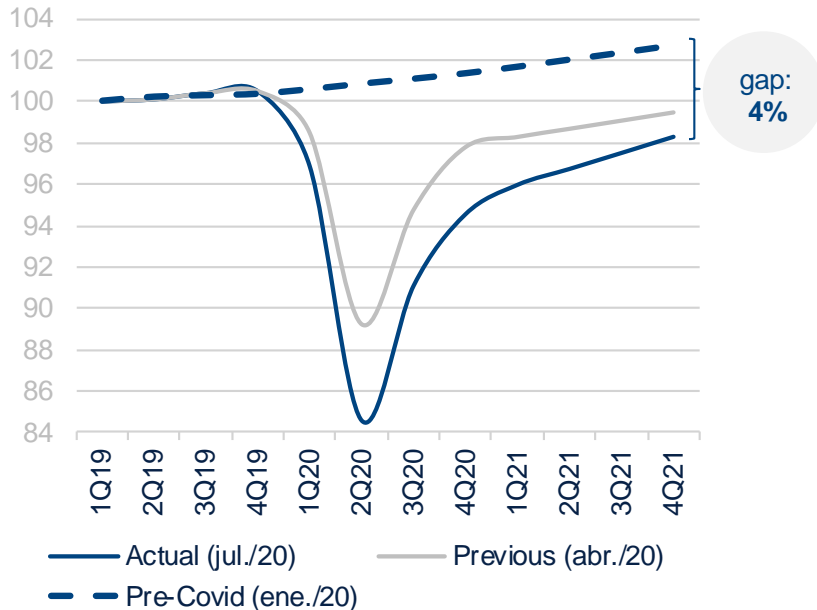


- The economy is recovering rapidly, but not homogeneously.
- Countercyclical stimuli will continue to be selective and led by fiscal policy.
- Monetary policy will be cautious, but flexible.
- Geopolitical risk continue to increase, while uncertainty regarding the relationship with the US remains.
- The bias forecast is to the downside due to the delay of the business cycle.

Eurozone: downward revision of forecasts, largely due to a more severe confinement than expected in 2Q20

GDP: LEVEL

(LEVEL: QUARTERLY INDEX, SEASONALLY-ADJUSTED)



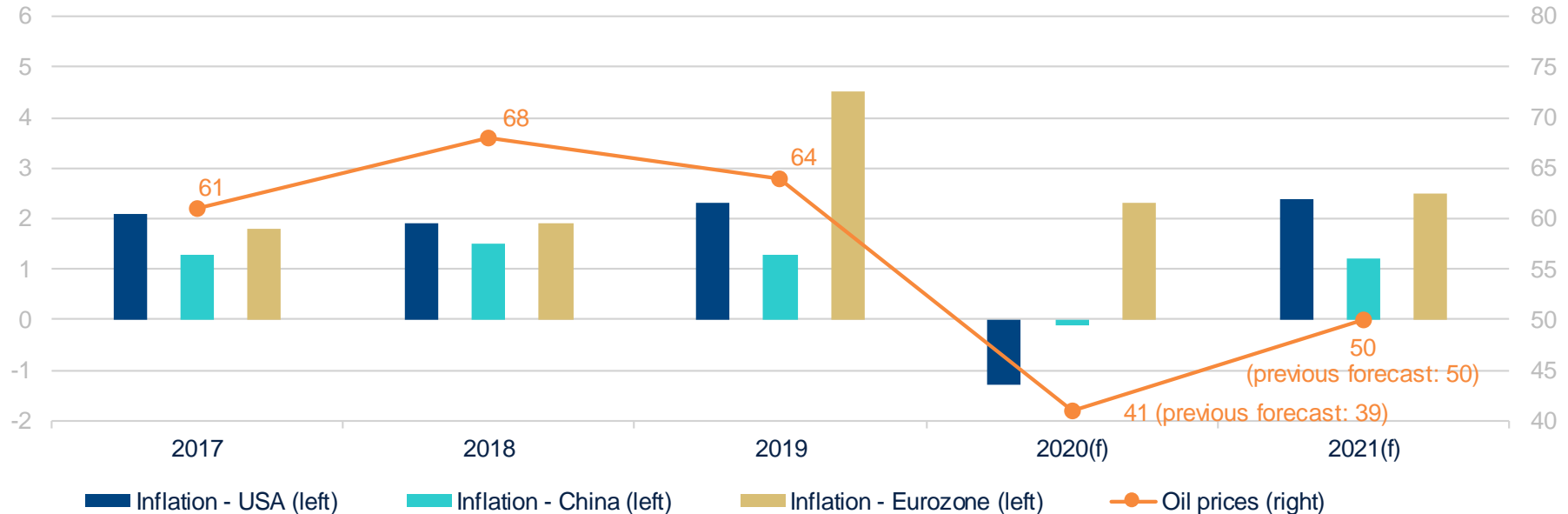
Source: BBVA Research

- GDP surprised downwards in 1Q20.
- In 2Q20 the drop in GDP will be greater than expected, although data suggest a recovery from May.
- Downward revision of GDP for 2020 (from -5.2% to -8.5%) and upwards for 2021 (from 4.1% to 5.8%), with greater accumulated loss of product in the biennium.
- The ECB has expanded its asset purchase program (PEPP) and has supported liquidity.
- The recovery fund (5,4% of GDP, still under debate) has been a positive surprise and will be key to the recovery from 2021; its approval would represent an upward risk to the growth forecast for 2021.

Weak global demand will keep oil prices at low levels, helping to offset the potential effect of supply pressures on inflation

OIL (BRENT) AND INFLATION

(OIL: DOLLARS PER BARREL, ANNUAL AVERAGE; INFLATION: YOY %, FDP)



Uncertainty will remain high; many factors, in particular the availability of a vaccine, can generate alternative scenarios



Epidemiological uncertainty

- Pandemic control
- “Opening” process
- New waves of infections
- Vaccine or treatment



Financial uncertainty

- Financial tensions
- Flows into emerging markets
- Public and private debt



Economic uncertainty

- Stimulus effectiveness
- Significant disruptions in sectors and value chains
- Potential GDP
- Evolution of inflation



Geopolitical uncertainty

- Protectionism
- Multiple focuses of regional tensions
- Social unrest
- *Brexit*

The pandemic has reinforced some pre-crisis structural trends and poses new long-term challenges

PREVIOUS TRENDS AND CHALLENGES



NEW TRENDS AND CHALLENGES

Climate Change

Populism and institutions

Debt sustainability (public & private)

Management of global catastrophes

Digitalization and teleworking

Deglobalization and global governance

Role of the public sector in the economy

Behavior, social rule and preferences

Productivity and investment

Inflation and monetary policy

Competition and industrial policy

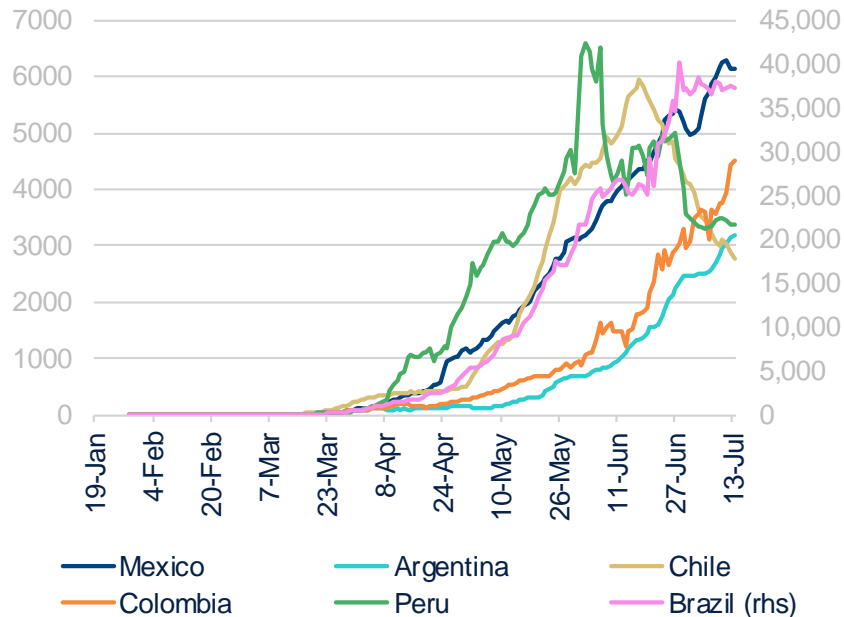
Privacy and business models

02

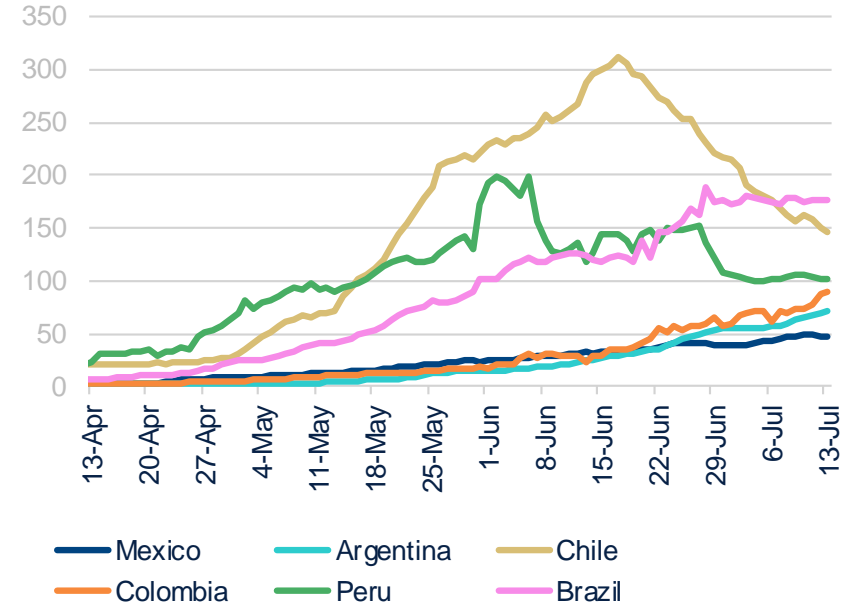
Pandemic indicators: the challenge is still huge

Contagion in LATAM: BR and MX grow fast; COL and ARG try to halt increasing levels; PER and CHL experience downward trends

NEW PEOPLE INFECTED: LATAM (7-DAY MOVING AVERAGE)



NEW PEOPLE INFECTED PER MILLION: LATAM (7 DAY MOVING AVERAGE)

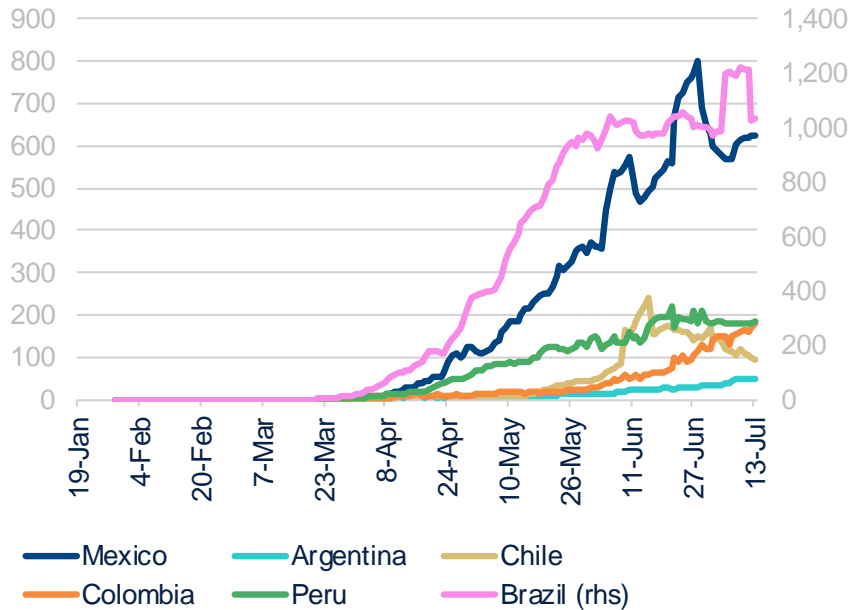


Note: 17th - 20th February WHO reported all confirmed cases, including both laboratory-confirmed and those clinically diagnosed

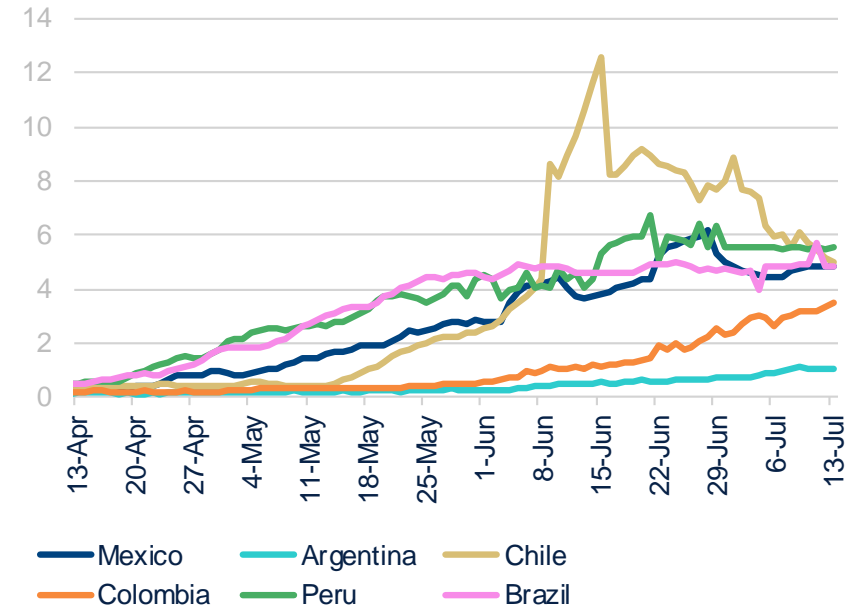
Source: BBVA Research, Johns Hopkins University (Updated to 00:00 GMT)

Mexico and Brazil have the highest death toll, meanwhile Colombia has low levels but on an increasing trend

NEW DEATHS: LATAM (7-DAY MOVING AVERAGE)



NEW DEATHS PER MILLION: LATAM (7-DAY MOVING AVERAGE)

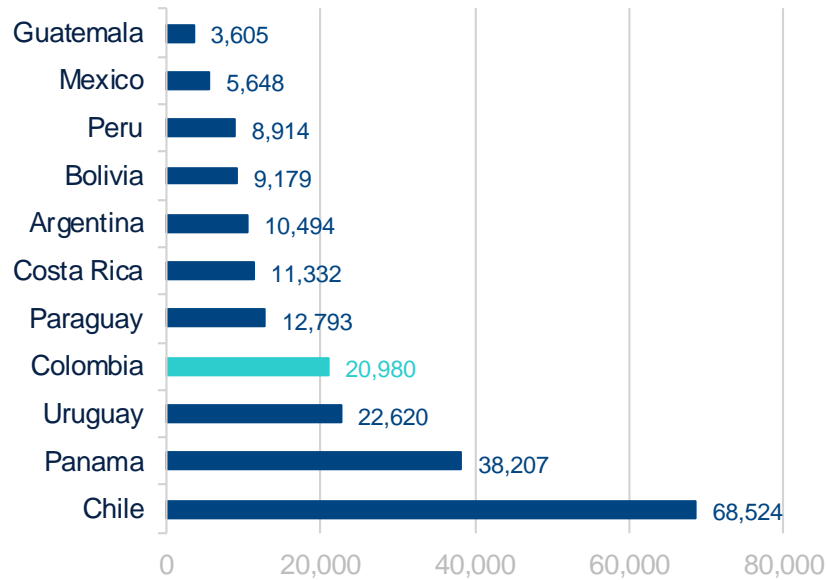


Note: 17th - 20th February WHO reported all confirmed cases, including both laboratory-confirmed and those clinically diagnosed

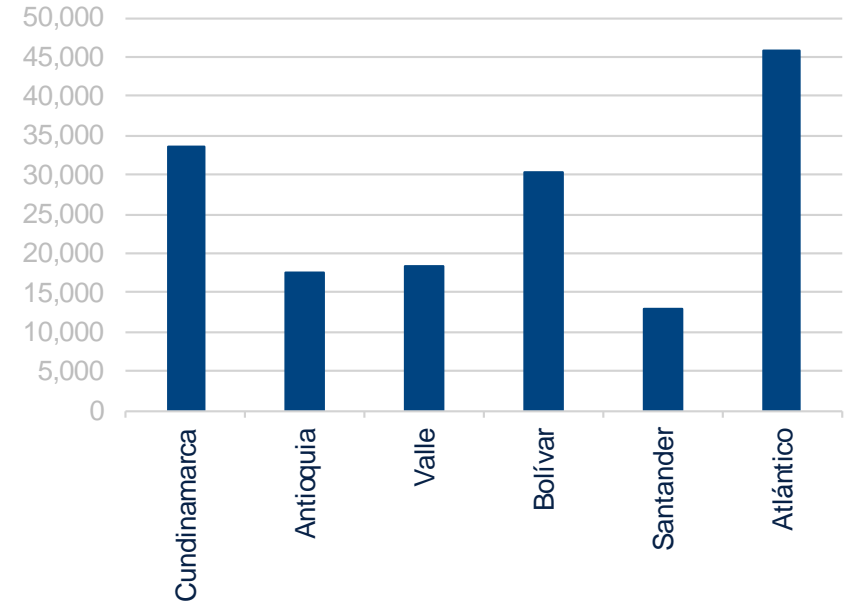
Source: BBVA Research, Johns Hopkins University (Updated to 00:00 GMT)

Colombia has performed a significant number of PCR tests relative to other countries in the region. Within Colombia we observe heterogeneity

N° OF PCR TESTS PERFORMED BY COUNTRY (PER MILLION PEOPLE, DATA UP TO JULY 13)



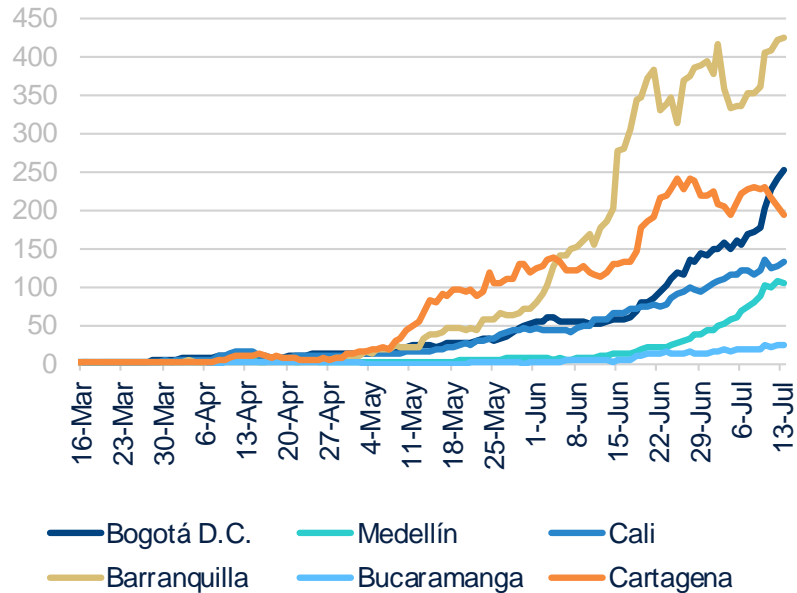
TESTS PERFORMED BY REGION OF COLOMBIA (PER MILLION PEOPLE. DATA UP TO JULY 13)



Barranquilla experimented an early peak in cases. Bogotá and Medellín are in an accelerating trend

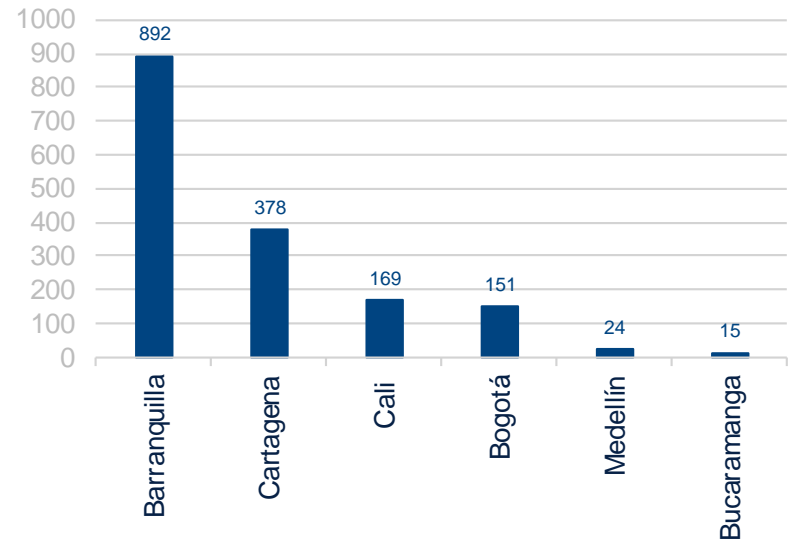
NEW CASES FOR THE MAIN CITIES

(PER MILLION PEOPLE, 7-DAY AVERAGE. DATA UP TO JULY 13)



ACCUMULATED DEATHS FOR THE MAIN CITIES

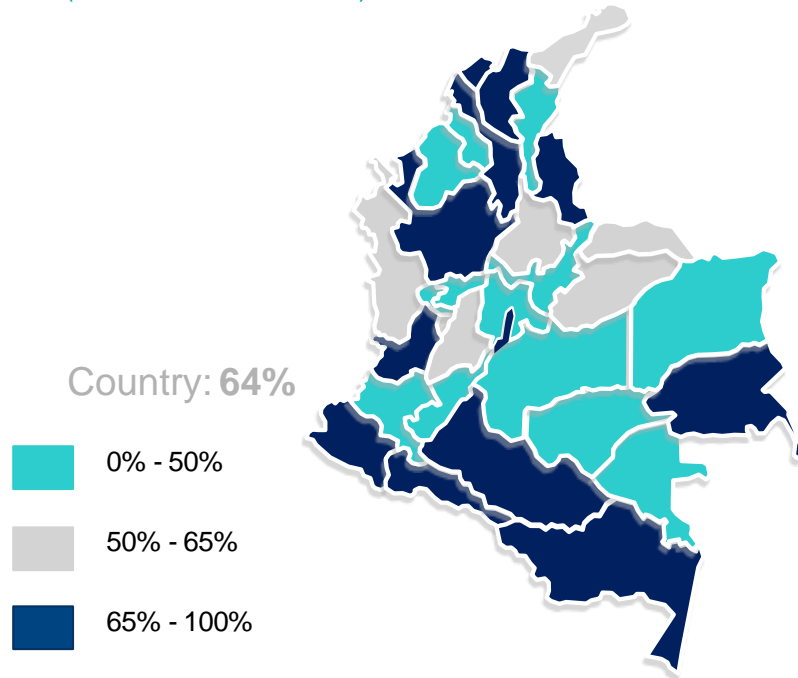
(PER MILLION PEOPLE. DATA FOR JULY 13)



Main cities have increased their health system capacity, but are still vulnerable to the advancement of the pandemic

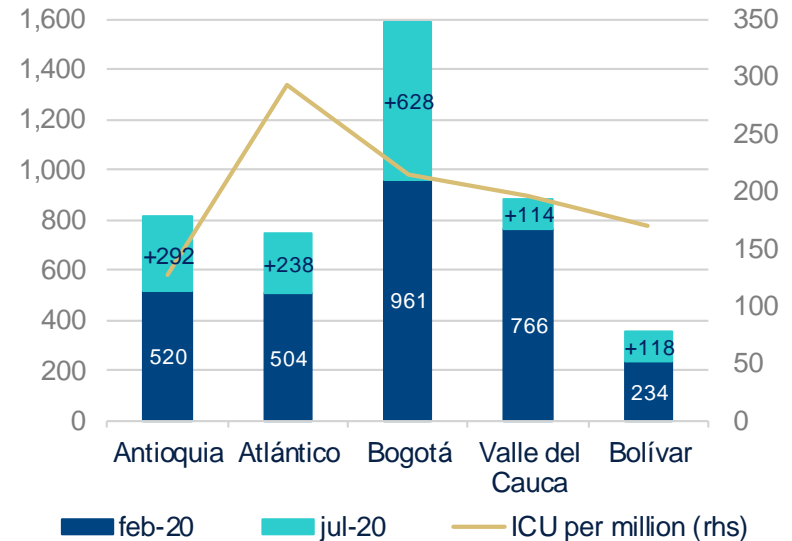
INTENSIVE CARE UNITS USE FOR EACH REGION

(%, DATA FOR JULY 13)

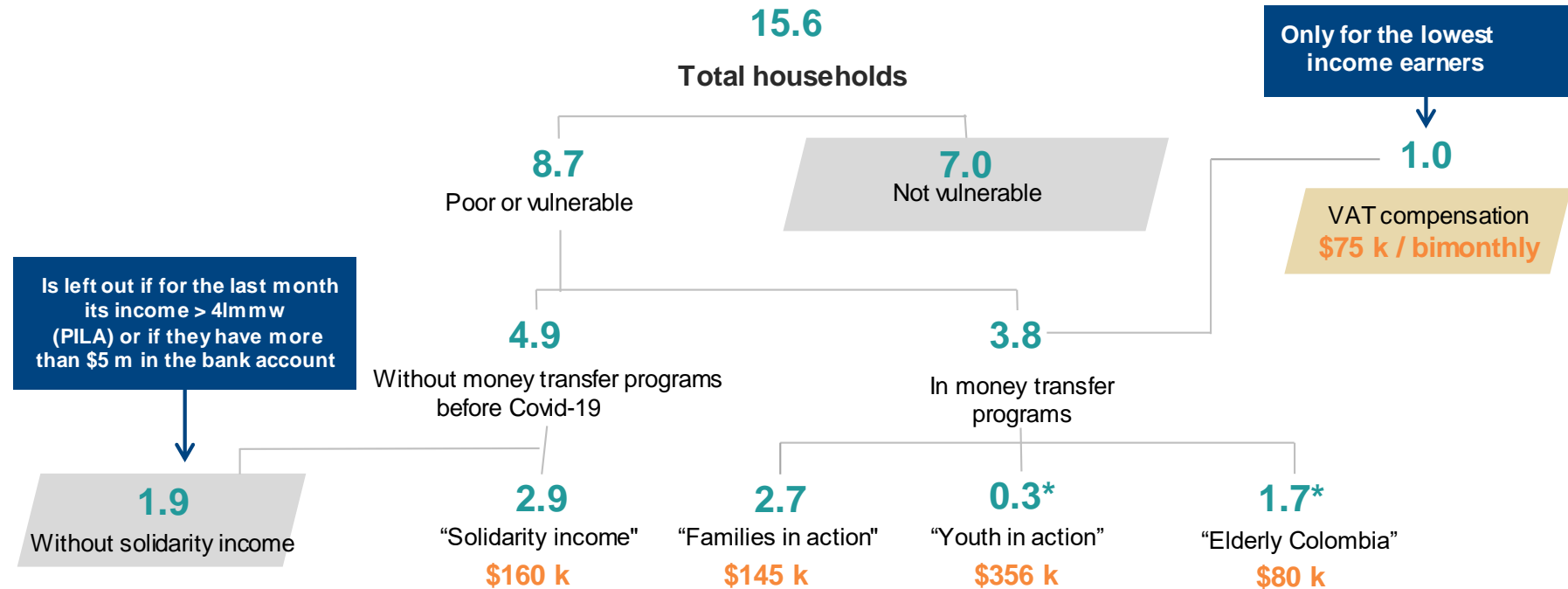


NUMBER OF INTENSIVE CARE UNITS

(N. OF ICUs AND ICUs PER MILLION PEOPLE. DTA FOR JULY 13)



The Government continues to improve its response program of direct aid to the most vulnerable with more money transfers and more households covered



*Corresponds to benefited people, not households

● Thousand Households

● Monthly money transfer

■ Out of money transfer programs

At the same time, supporting formal employment and unemployed

Policy	Duration	Fiscal Cost
PAEF: payroll subsidy	May-August	8 billion (\$351k per employee)
Formal: license and contract suspension	April-June	0.3 billion (\$160k per employee)
Aid for unemployed <i>Cajas de Compensación</i>	3 months	0.3 billion (\$160k per person)
Unemployed subsidy through <i>Cajas de Compensación</i>	3 months	0.2 billion (2MM for 3 months)*
PAP Payroll subsidy	June	0.9 billion (\$220k per employee)

*Other resources come from the FOSFEC
Source: BBVA Research with data from decrees

Additionally, the financial sector implemented credit deferral periods for companies and households

- **Total:** 43% of total credit got deferrals. This represents \$223 billions in loans.
- **Households:** in housing credit 66% of credit got deferrals (48bn) and for consumption 52% of credit got deferrals (81bn).
- **Companies:** 32% of corporate credit got deferrals. This means \$87 billion.
- Looking forward, the financial sector will continue to accompany the private sector through the Debtor Accompaniment program (Circular 22 Financial Supervisor).

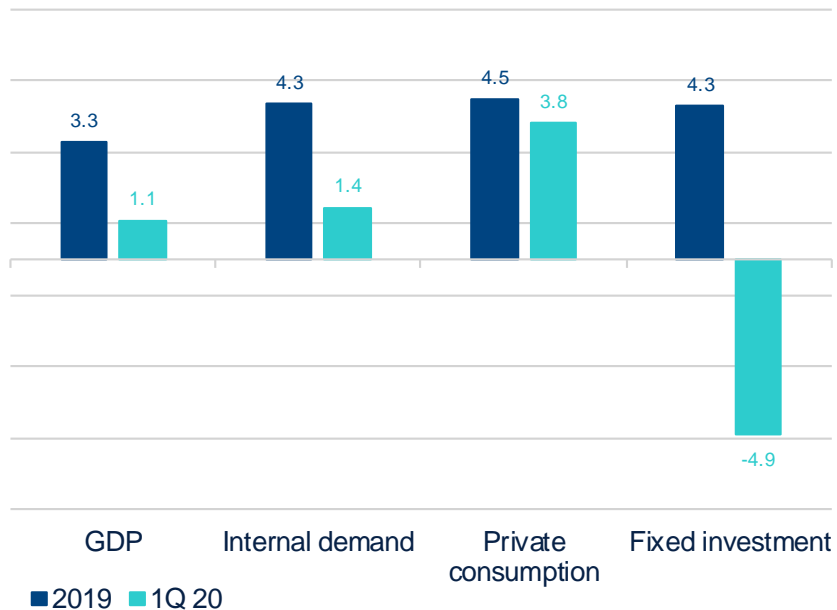
03

Colombian economic activity:
Covid-19 implies a significant
impact, but we are already on
the recovery path

In the first quarter, the economy decelerated by the effects of Covid-19 and the measures taken to contain it. The impact was stronger on investment

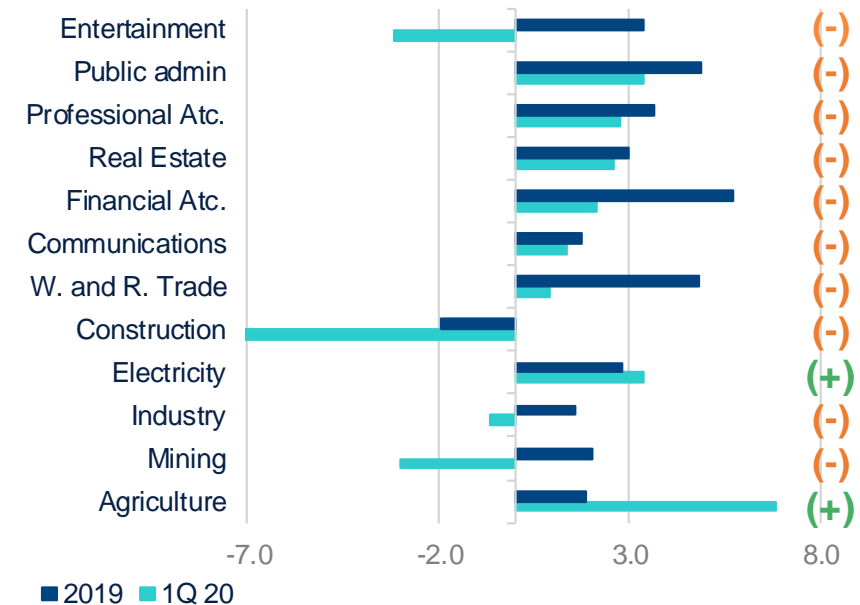
GDP BY DEMAND COMPONENTS

(ANNUAL VARIATION, %)



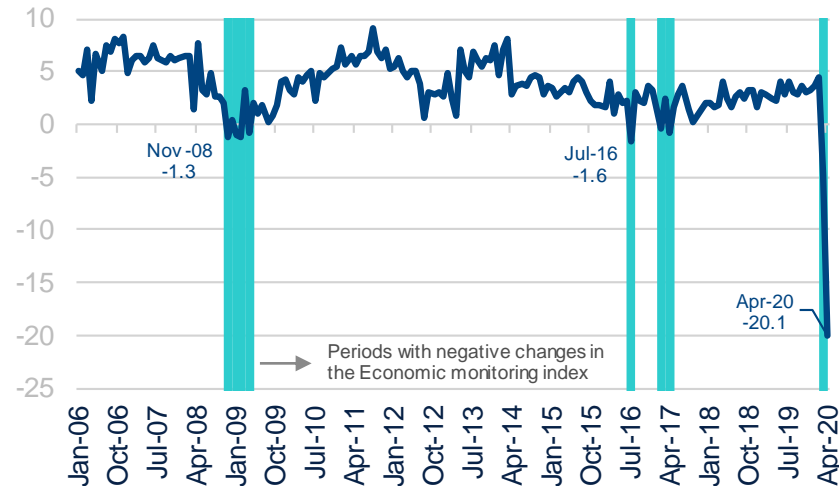
GDP BY THE SUPPLY SIDE

(ANNUAL VARIATION, %. (+) ACCELERATION, (-) DESCELERATION)






Economic activity must have bottomed out in April. Non essential industry, construction and private services were the most affected sectors

ECONOMIC ACTIVITY INDICATOR (ANNUAL VARIATION, %)



ECONOMIC ACTIVITY INDICATOR BY SECTOR (ANNUAL VARIATION, %)

	Accumulated	Jan - Feb 20	Mar - 20	Apr - 20
 Primary sector		4.7	-1.3	-13.8
 Secondary sector		-0.3	-9.7	-50.1
 Tertiary sector		5.1	-4.3	-13.3

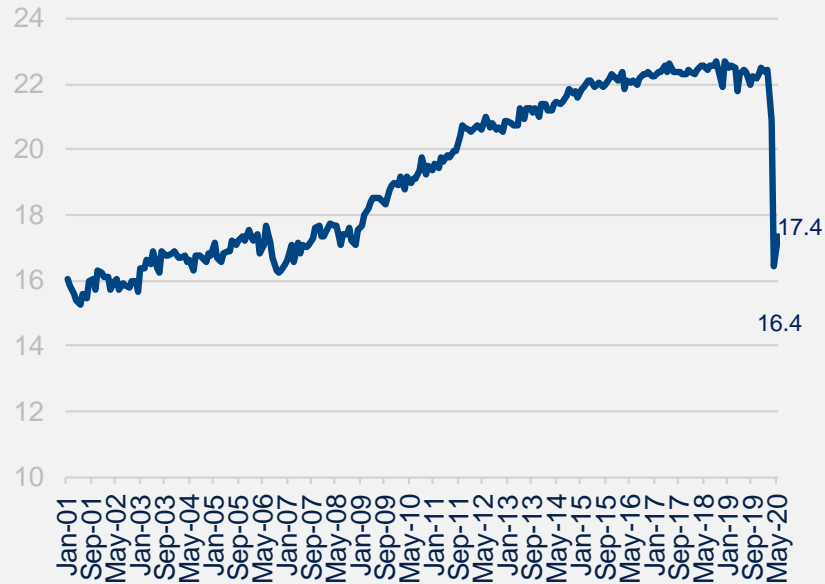
Source: BBVA Research with DANE data

The primary sector maintained a robust demand (food). The secondary sector suffered with the closing of non essential industries and construction. The tertiary sector had a heterogeneous performance: contraction in private services but increase in public expenditure

In April, employment fell reaching 2003 levels, in line with the drop in consumer confidence. In May and June, the fear of losing the job reduced

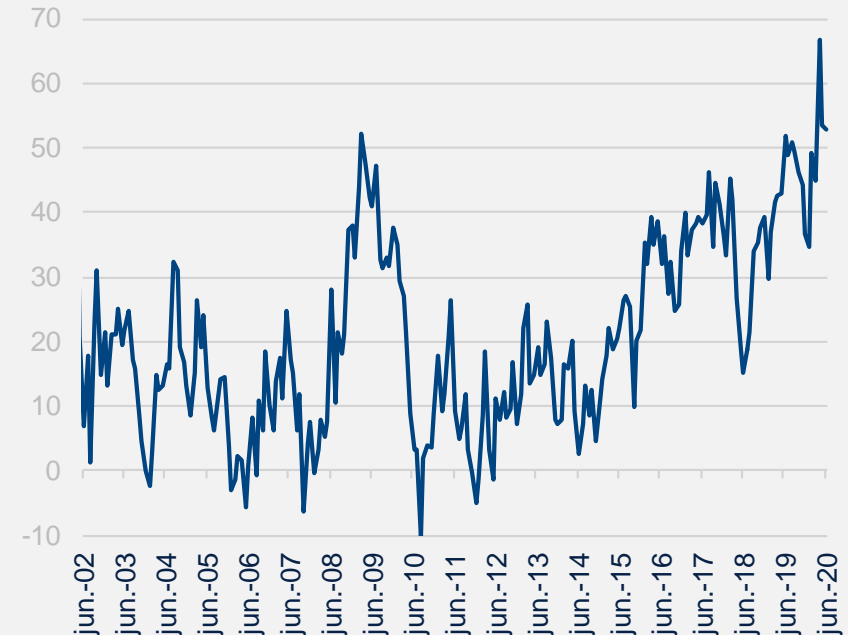
NATIONAL EMPLOYMENT

(MONTHLY, SEASONALLY ADJUSTED, MILLION PEOPLE)



FEAR OF LOOSSING THE JOB*

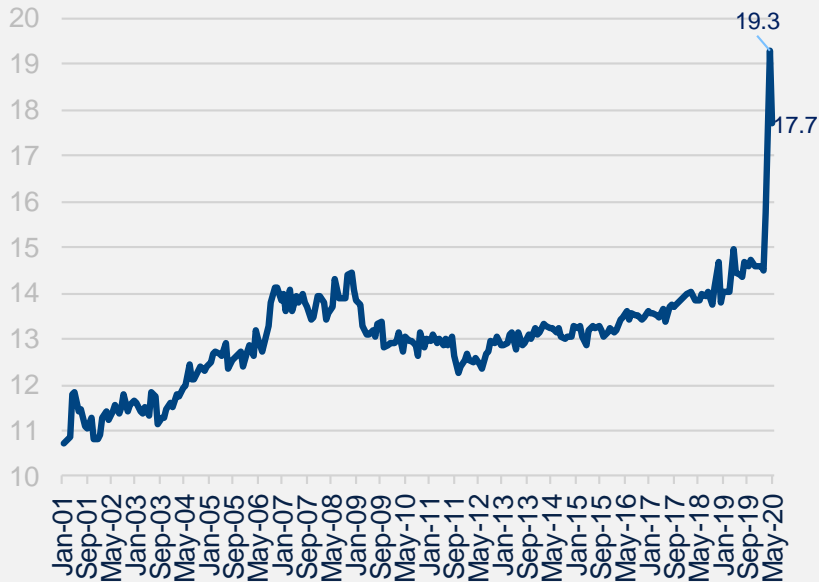
(BALANCE OF RESPONSES)



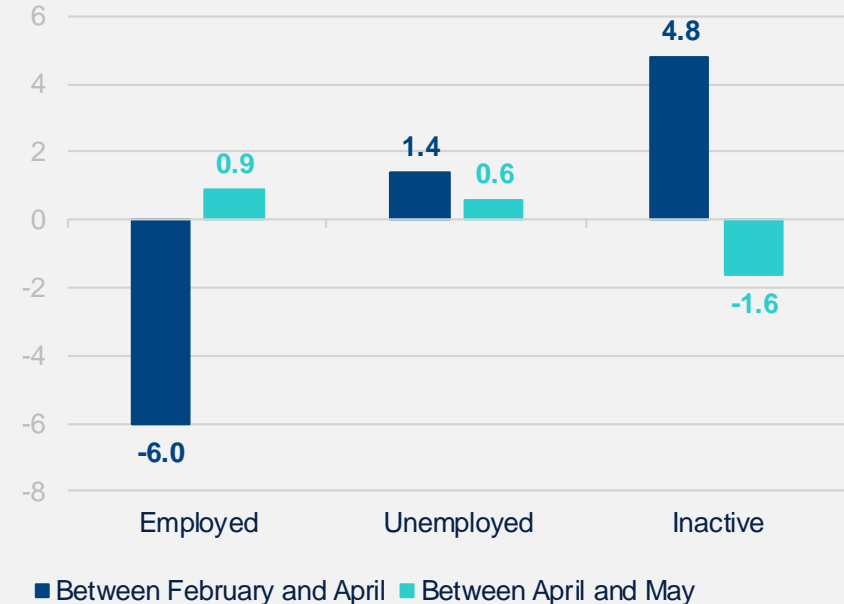
* From the consumer confidence survey of Fedesarrollo
Source: BBVA Research with DANE and Fedesarrollo data

Many people who lost their jobs remained out of the labor force (inactive) due to the mandatory confinement. In May, 33% of them returned to the labor force

INACTIVE NATIONAL LABOR FORCE
(MONTHLY, SEASONALLY ADJUSTED, MILLION PEOPLE)



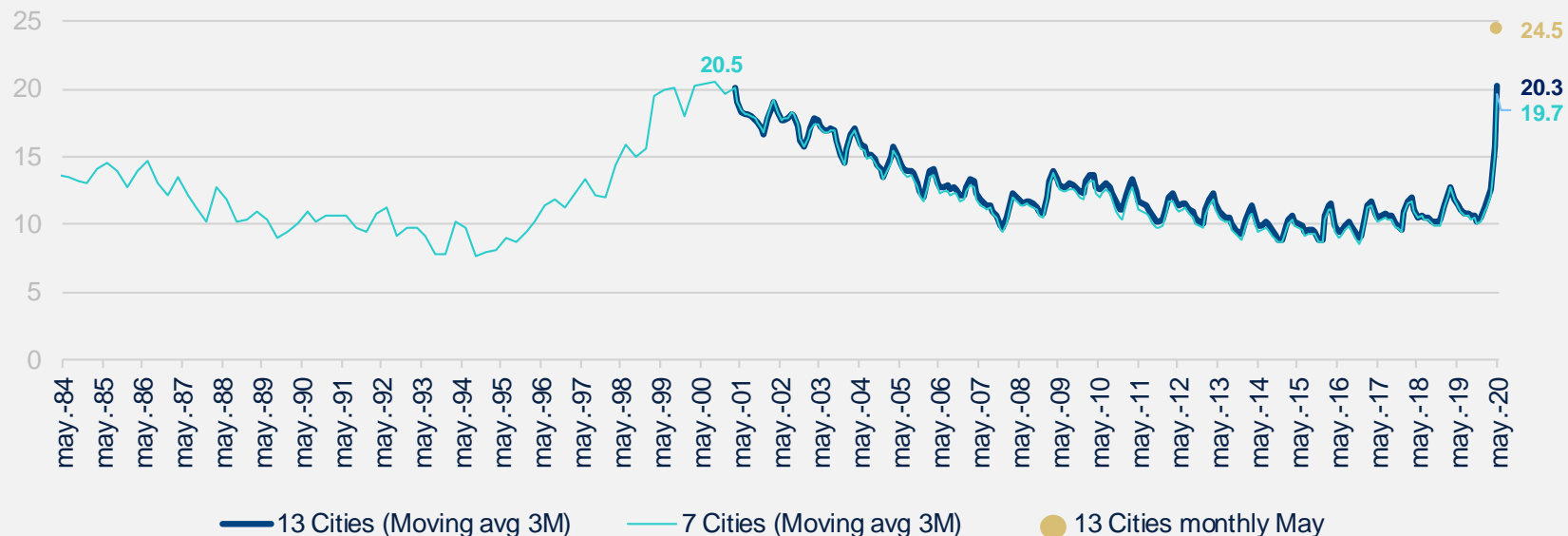
NATIONAL LABOR MARKET VARIABLES
(CHANGE IN THE PERIOD, MILLION OF PEOPLE)



Unemployment rate reached high levels, similar to those observed at the end of the 90s

URBAN UNEMPLOYMENT

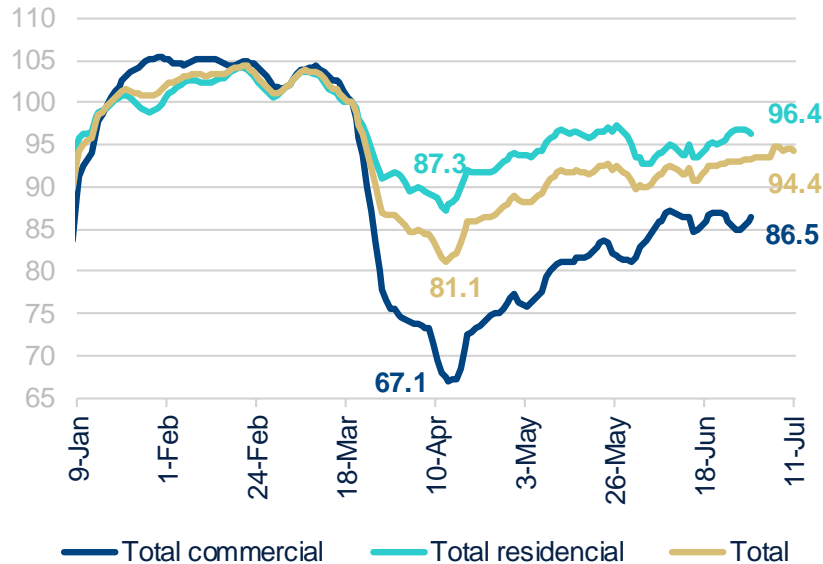
(7 AND 13 CITIES, QUARTERLY MOVING AVERAGE AND MONTHLY FOR MAY, % OF THE LABOR FORCE)



From mid April, the economy has gradually recovered in hand with the relaxation of the confinement

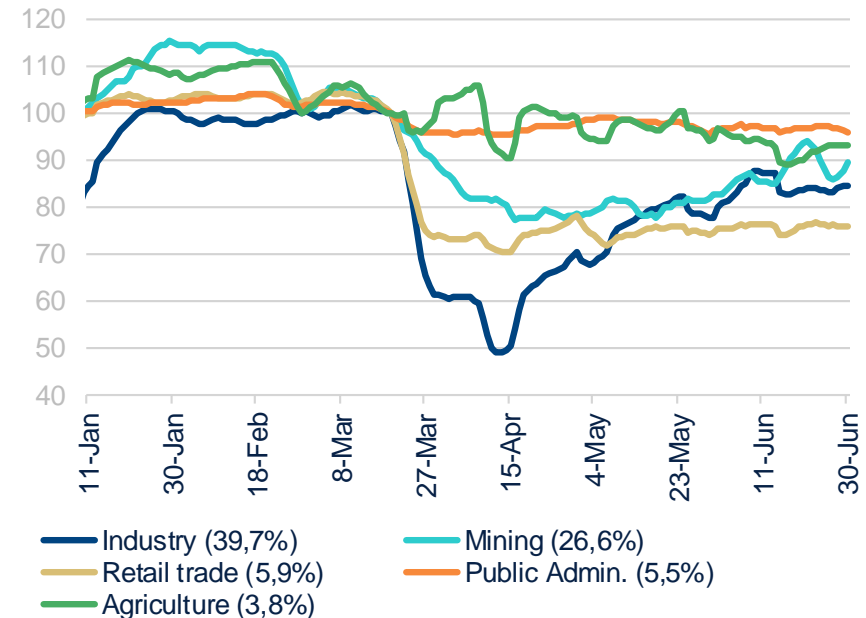
ENERGY DEMAND BY SEGMENT

(MAR 19 = 100 INDEX)



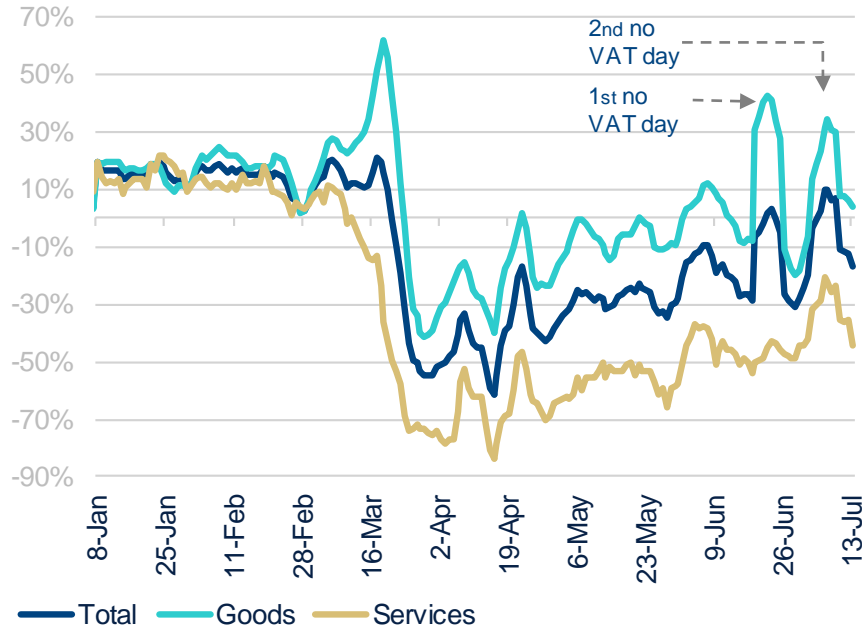
COMMERCIAL ENERGY DEMAND BY SECTORS

(MAR 19 = 100, % IN THE LEYEND CORRESPONDS TO THE PARTICIPATION IN THE COMMERCIAL DEMAND)

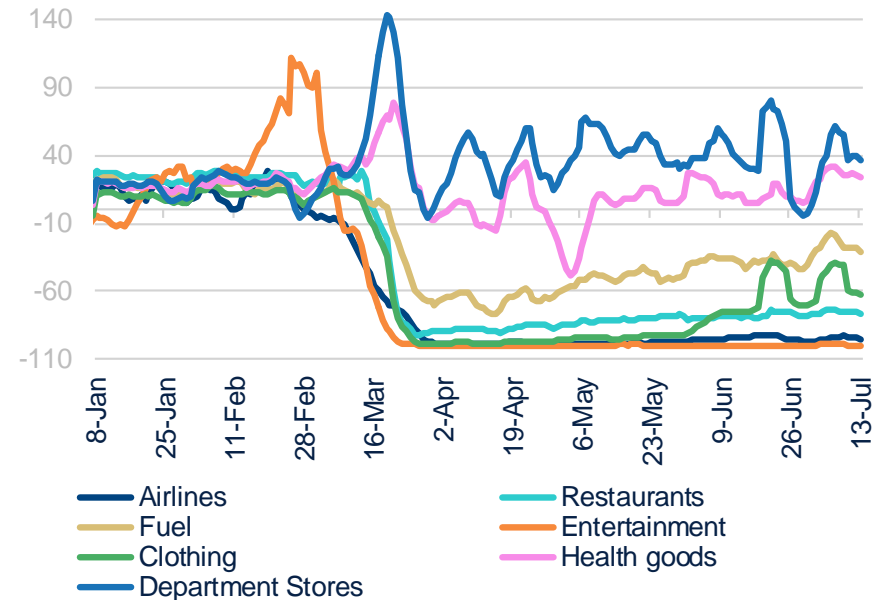


The recovery has not been uniform in all types of expenditure, with a stronger recovery in goods expenditure than in service expenditure

BBVA CONSUMPTION TRACKER INDEX TOTAL, GOODS AND SERVICES
(7-DAY MOVING AVERAGE ANNUAL VARIATION)

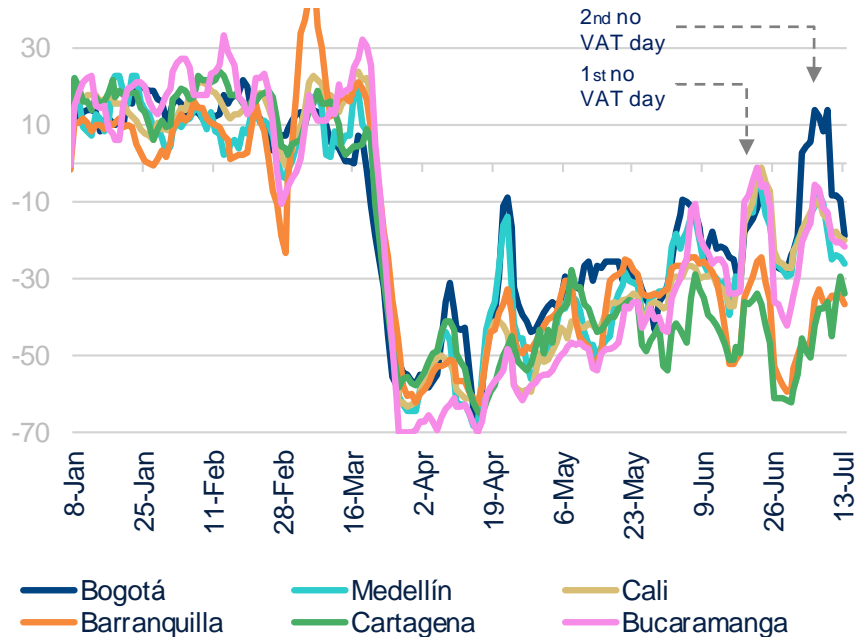


BBVA CONSUMPTION TRACKER INDEX BY PRODUCT
(7-DAY MOVING AVERAGE ANNUAL VARIATION)

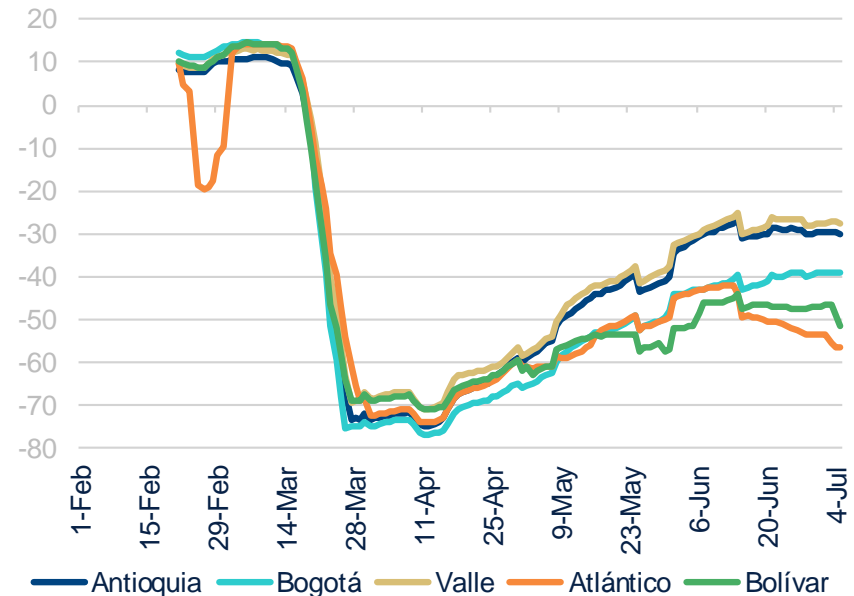


The same has been experienced in cities, with heterogeneous performance, lower recovery in cities with lower mobility

BBVA CONSUMPTION TRACKER INDEX BY CITY
(7-DAY MOVING AVERAGE ANNUAL VARIATION)



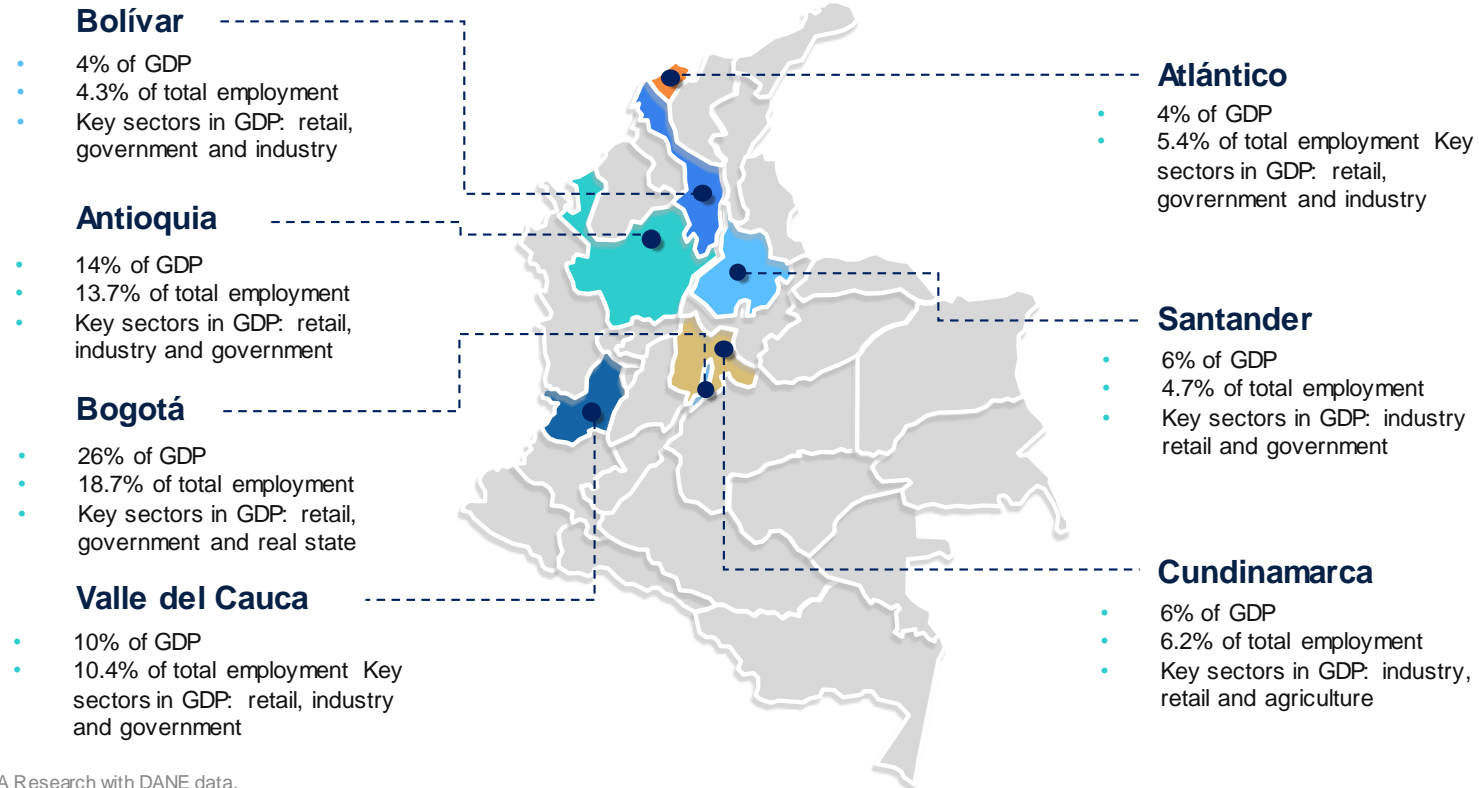
GOOGLE MOBILITY TO THE WORKPLACE INDICATOR
(7-DAY MOVING AVERAGE RESPECT TO THE BASE)



The performance of the country and main cities has also been determined by the measures to contain the pandemic

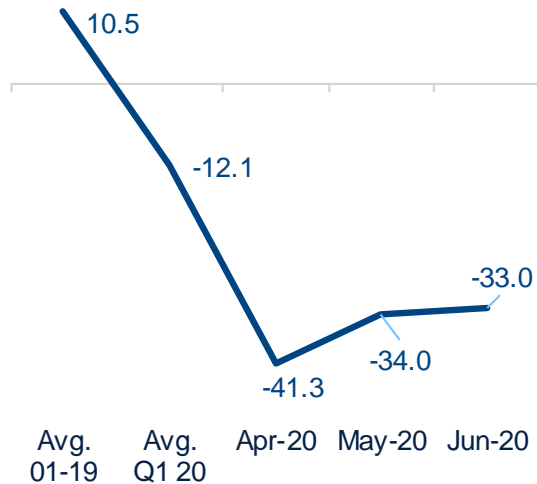
	March	April	May	June	Second Semester
Colombia	Strict confinement		Gradual flexibilization of the confinement		
	April 13 Infrastructure	April 27 Construction and some industries	May 11 Other industries and wholesale retail	June 1st Retail sales, some professional activities and other services	July Pilots in hotels, restaurants and air travel
Bogotá	New strict localized confinement to overcome the peak of contagion in the second semester				
Medellín	Quick containment measures, but recent acceleration in contagion led to confinements				
Cali	No strict confinement despite a high ICU occupancy				
Barranquilla	After a prolonged strict confinement, new cases have decreased				

Regional importance will determine the impact of localized measures in each city over national activity

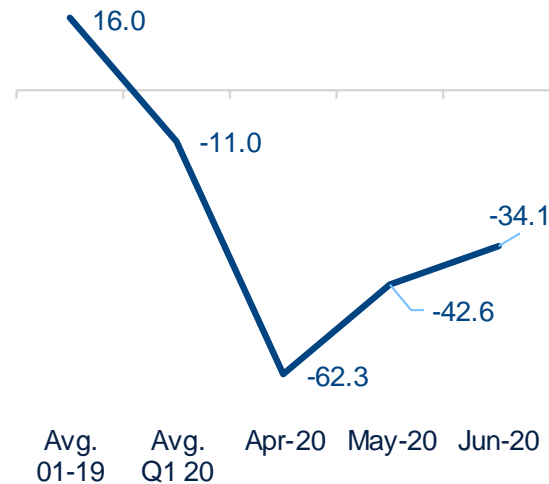


Additionally, some indicators anticipate a slow recovery in household expenditure in the months following the strict confinement

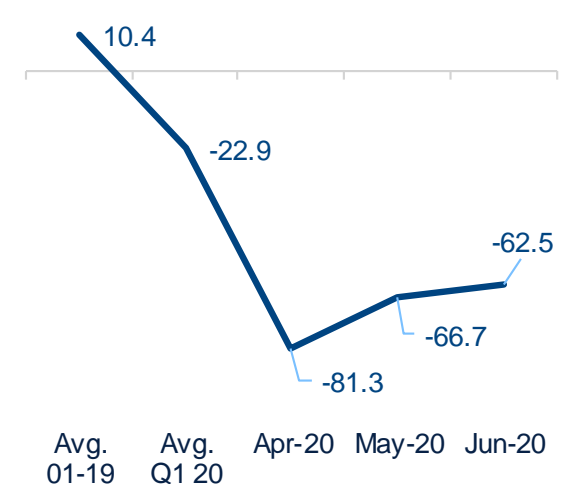
CONSUMER CONFIDENCE



DISPOSITION TO PURCHASE A HOUSE



DISPOSITION TO PURCHASE DURABLE GOODS



Source: BBVA Research with Fedesarrollo data

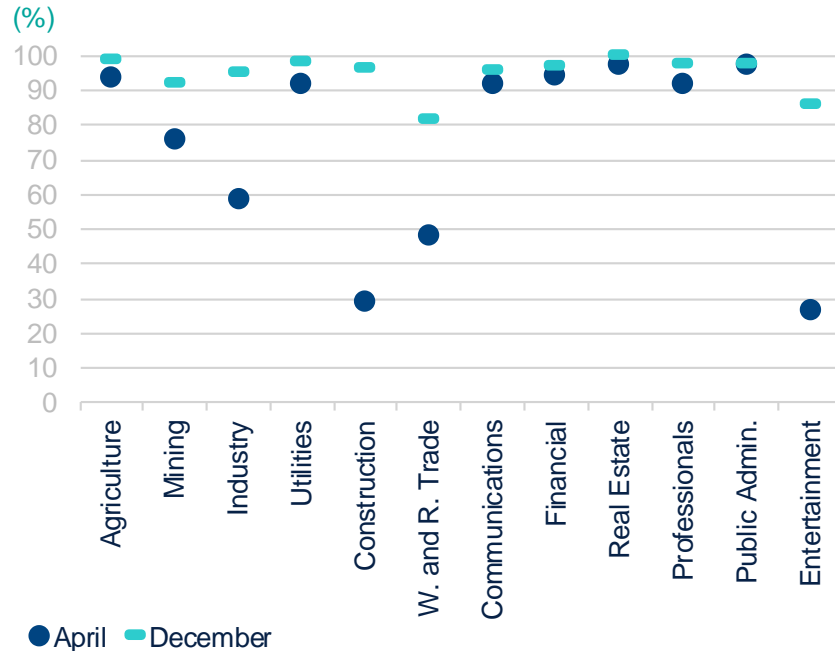
Households don't reveal yet a significant preference to purchase durable goods. Their fear of losing their job and the negative valuation on present conditions of the household explain the slow recovery in expenditure

04

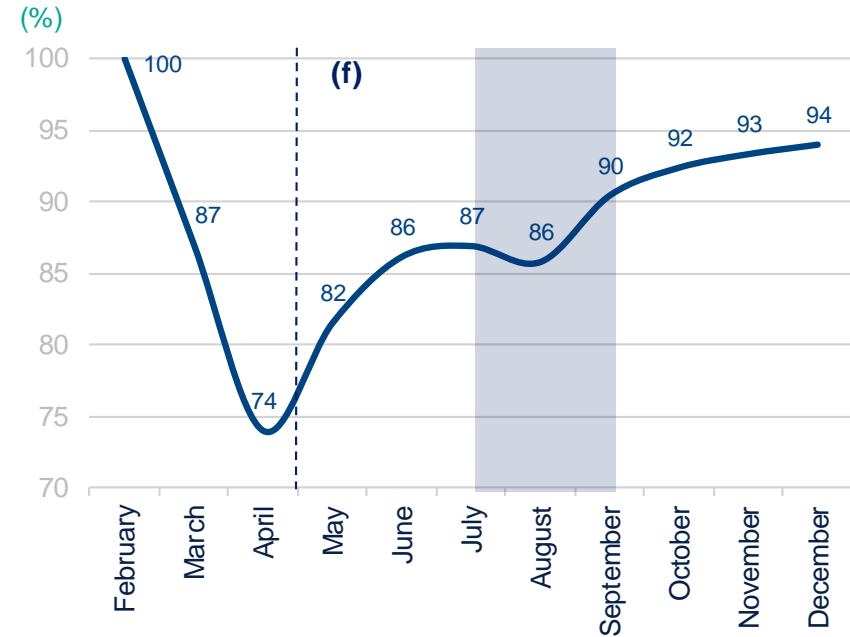
The economic recovery will depend on the degree of sector aperture and the capacity of the recovery of private demand

The recovery path of the economy in 2020 is limited by the degree of confinement determined by local authorities

ESTIMATED ECONOMIC ACTIVITY AT THE SECTOR LEVEL IN 2020



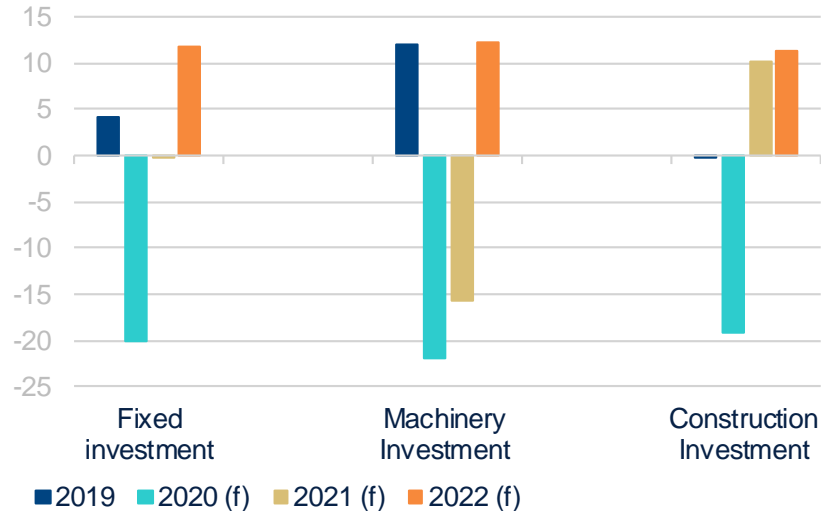
ESTIMATED MONTHLY ECONOMIC ACTIVITY LEVEL IN 2020



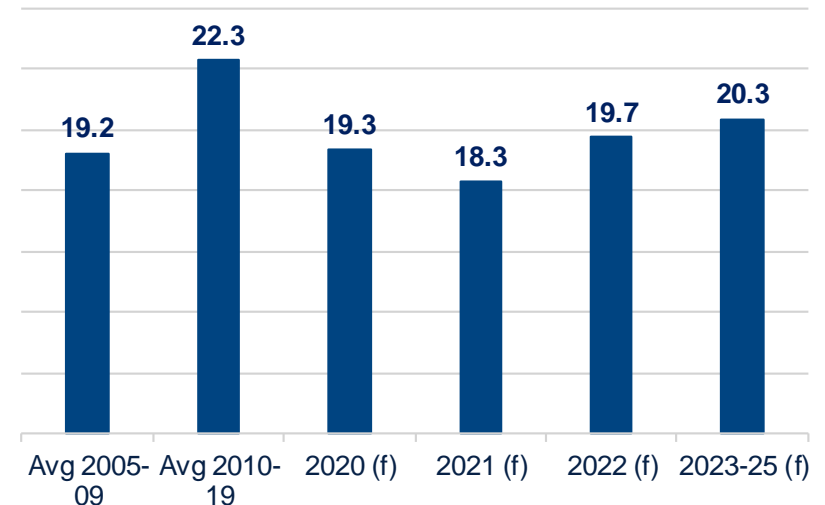
Corresponds to a period of total or partial confinement at the regional level

Idle capacity will lead to a contraction in machinery investment for a prolonged time. Construction will recover sooner

FIXED INVESTMENT (ANNUAL VARIATION, %)



INVESTMENT RATE (% OF GDP)



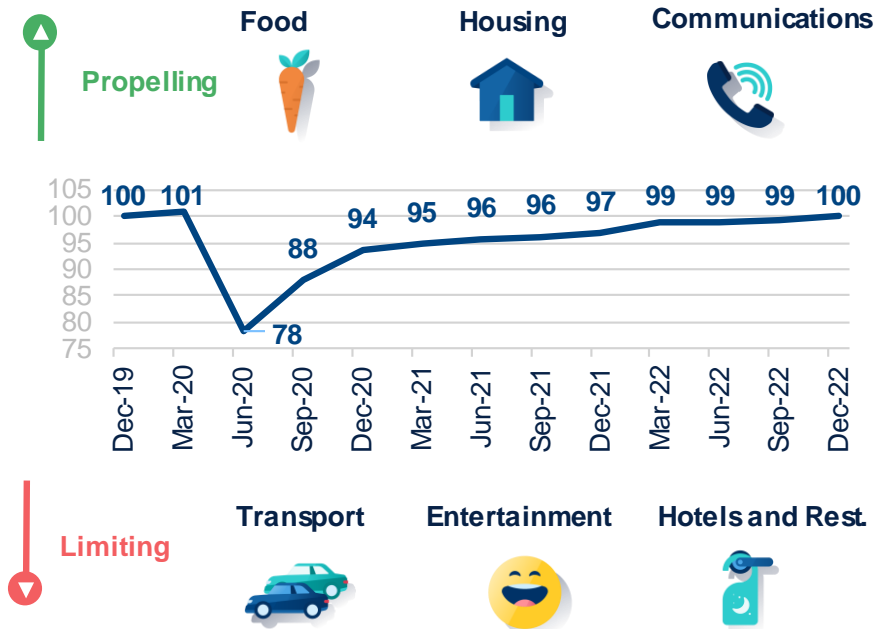
(f): Forecast by BBVAResearch
Source: BBVA Research with DANE data

The lower investment rate will reduce potential growth in the colombian economy in the mid term

Private consumption will remain weak in the mid term driven by the shortfall of household income. The fall in consumption explains also the idle capacity

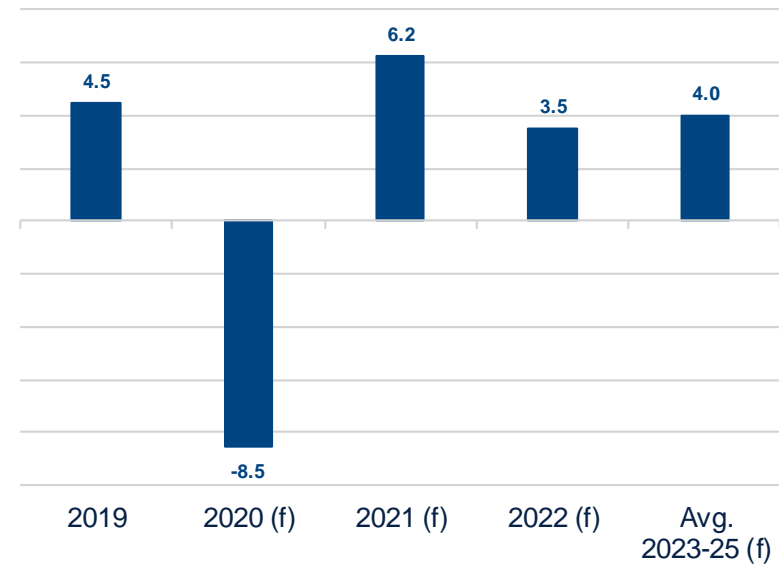
PRIVATE CONSUMPTION TRAYECTORY

(DEC 19=100 INDEX)



PRIVATE CONSUMPTION GROWTH

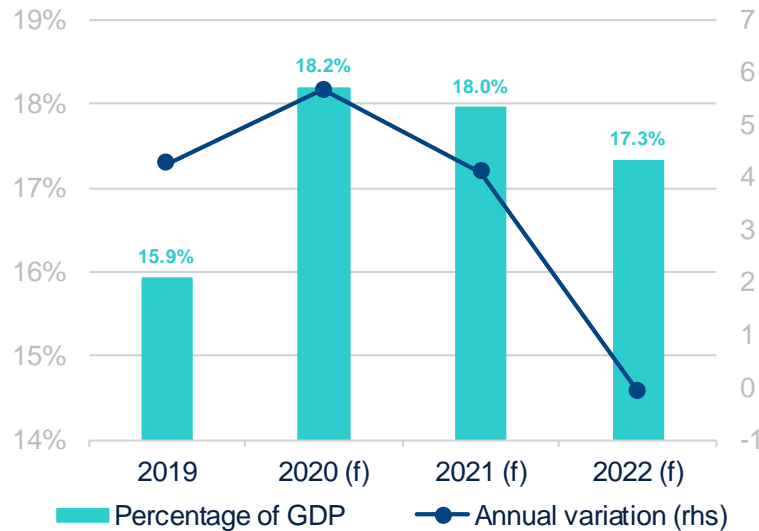
(ANNUAL VARIATION, %)



Public expenditure will gain importance in the economy, both in consumption and investment in infrastructure

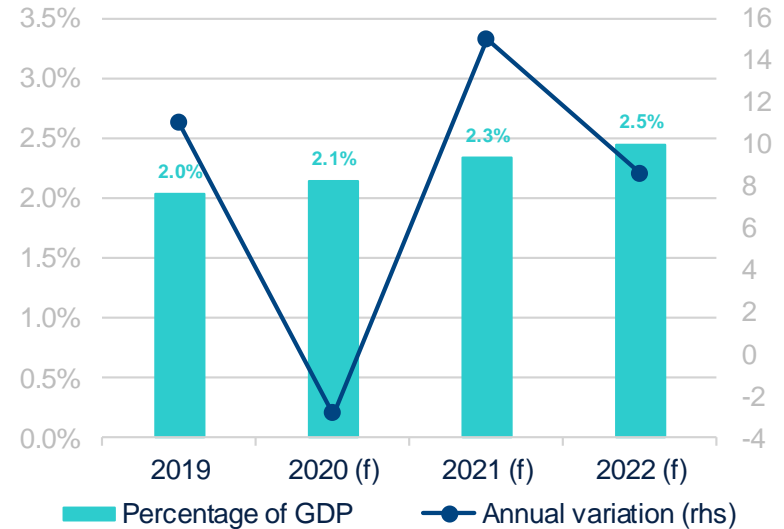
PUBLIC CONSUMPTION

(% OF GDP AND ANNUAL VARIATION IN %)



CIVIL WORKS

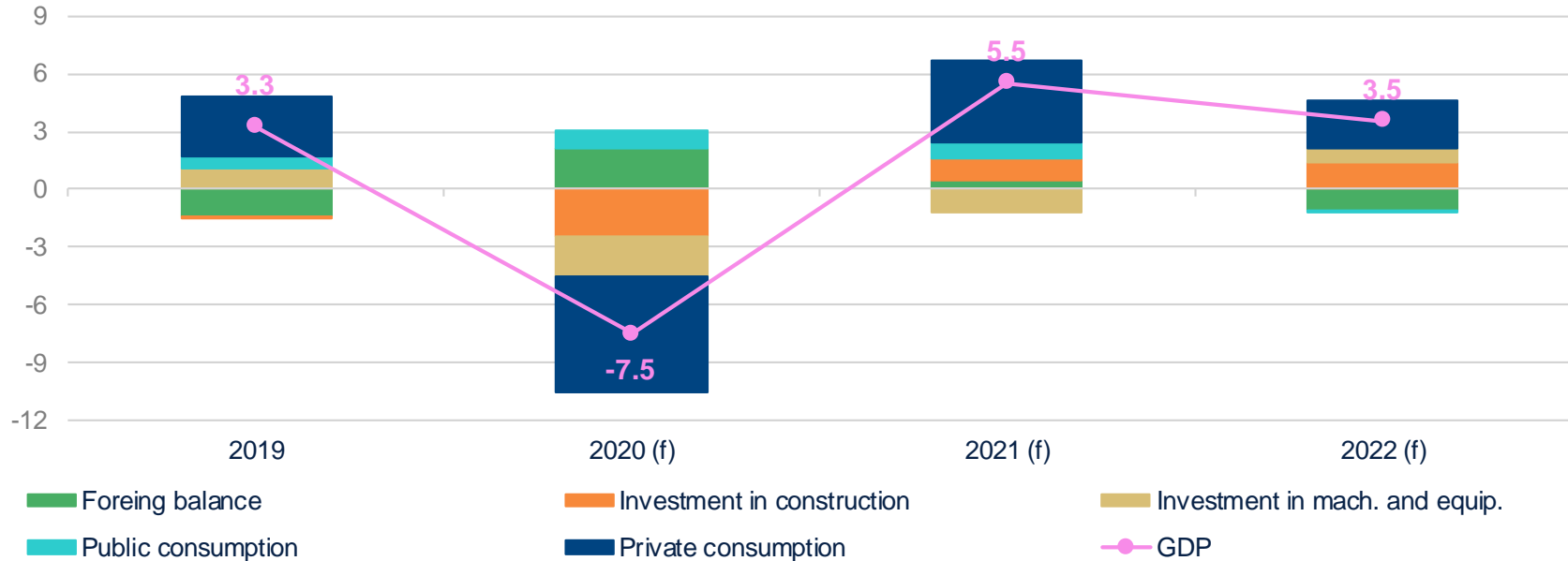
(% OF GDP AND ANNUAL VARIATION IN %)



The reduction in imports and public consumption have a positive impact on 2020 GDP, for 2021 consumption explains most of the growth

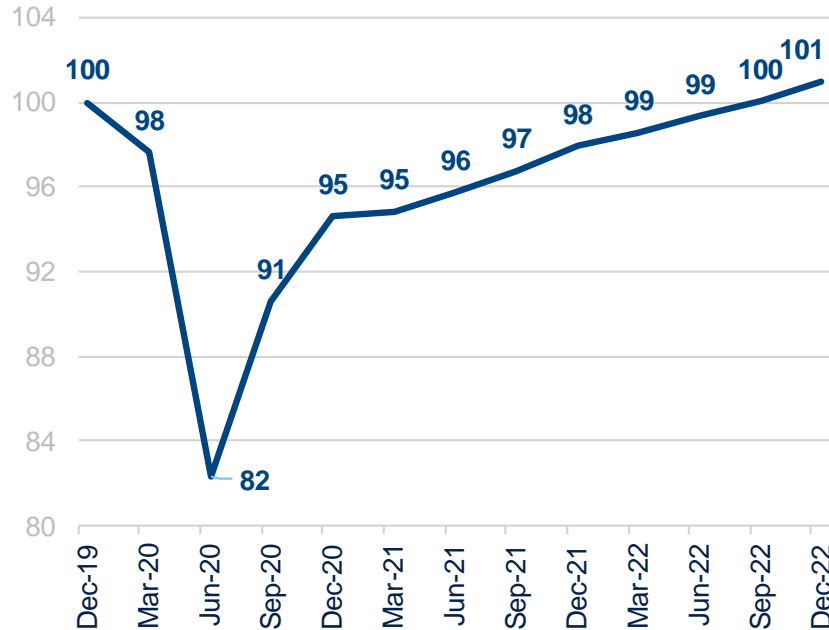
CONTRIBUTION TO GDP GROWTH BY DEMAND

(CONTRIBUTION TO ANNUAL GROWTH, %)

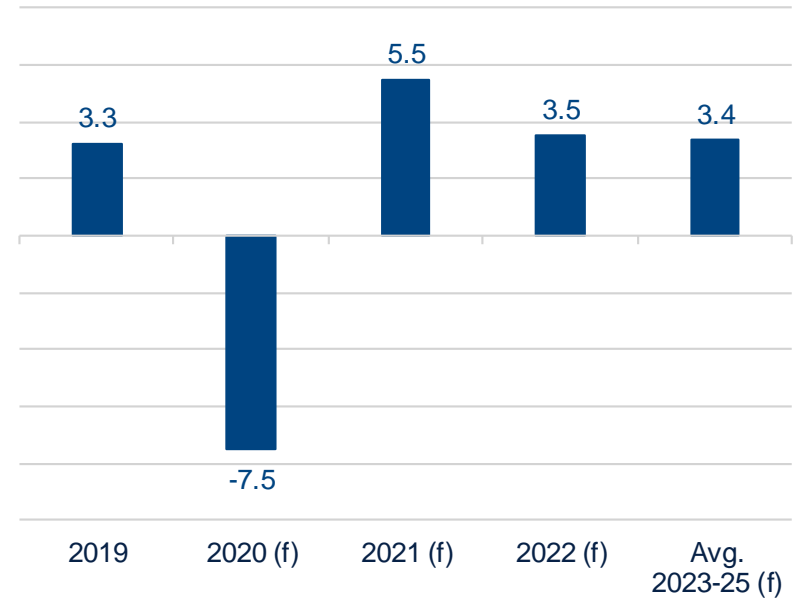


In the mid term, the GDP will have a gradual process of recovery. The economy will take until the end of 2022 to reach the same level attained at the end of 2019

GDP
(DEC19=100 INDEX)



GDP
(ANNUAL VARIATION, %)



Given the ample uncertainty due to the pandemic, we have a wide forecast range

On the upside



More public expenditure and a more ambitious infrastructure plan



Faster recovery of exports and better commodity prices

On the downside



Duration and debt of regional and national confinement



Greater unemployment duration and fall in income

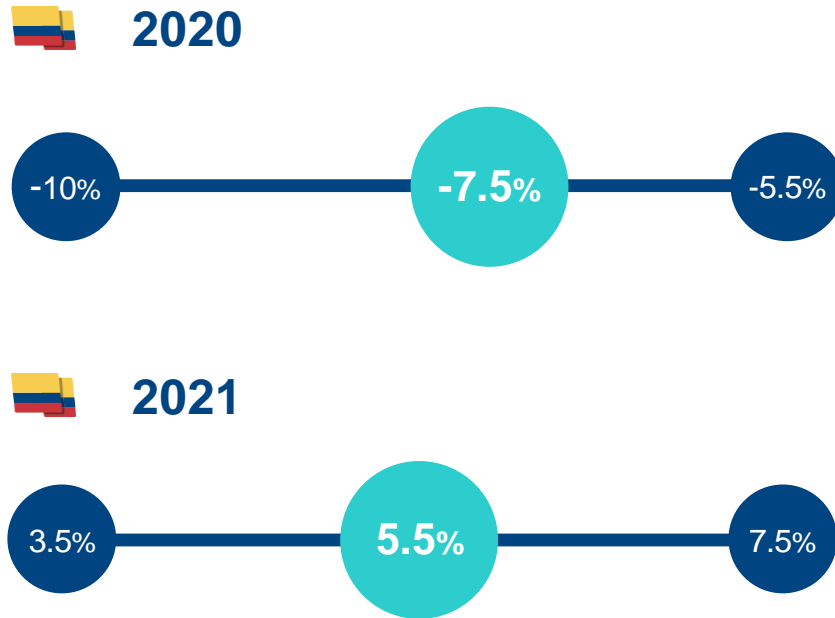


Low success in public policy to incentivize the housing sector in a context with higher unemployment



More generalized insolvency in companies

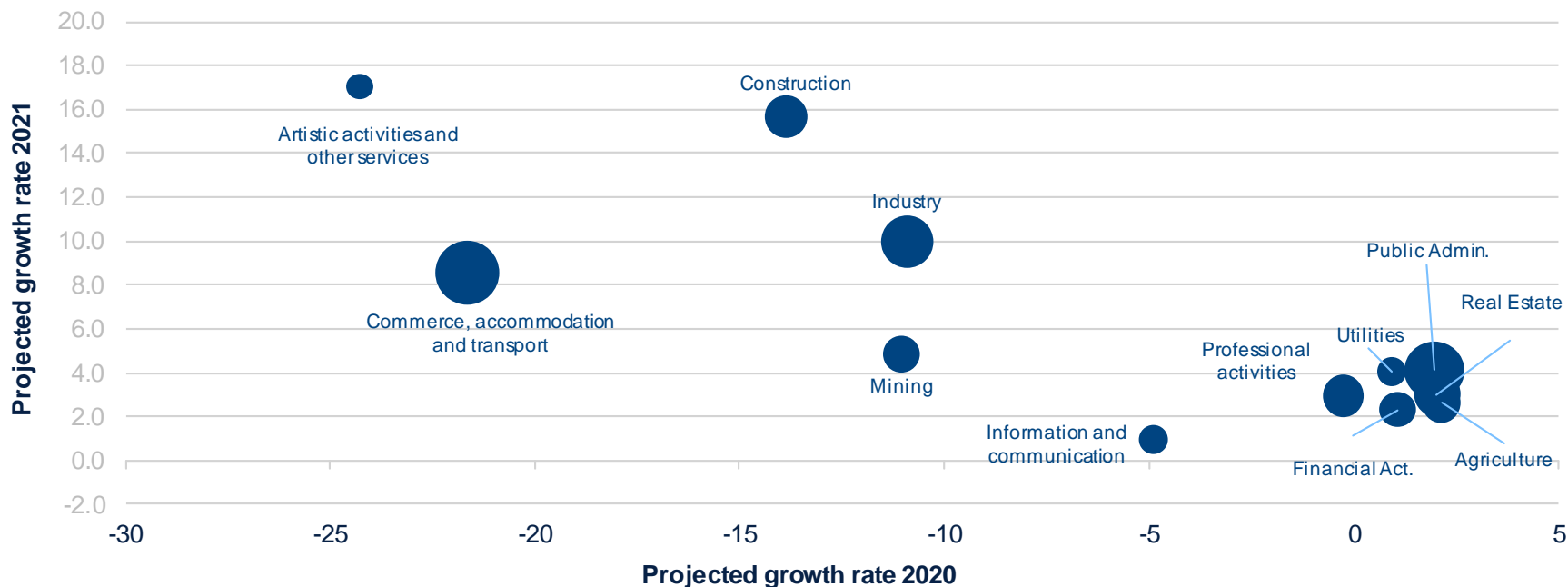
Expected growth for 2020 and 2021 has significant uncertainty



Government, utilities and real estate are the sectors that will remain strong both in 2020 and 2021, propelling growth

GDP BY SECTOR GROWTH FORECASTS IN 2020 AND 2021

(ANNUAL VARIATION, %)

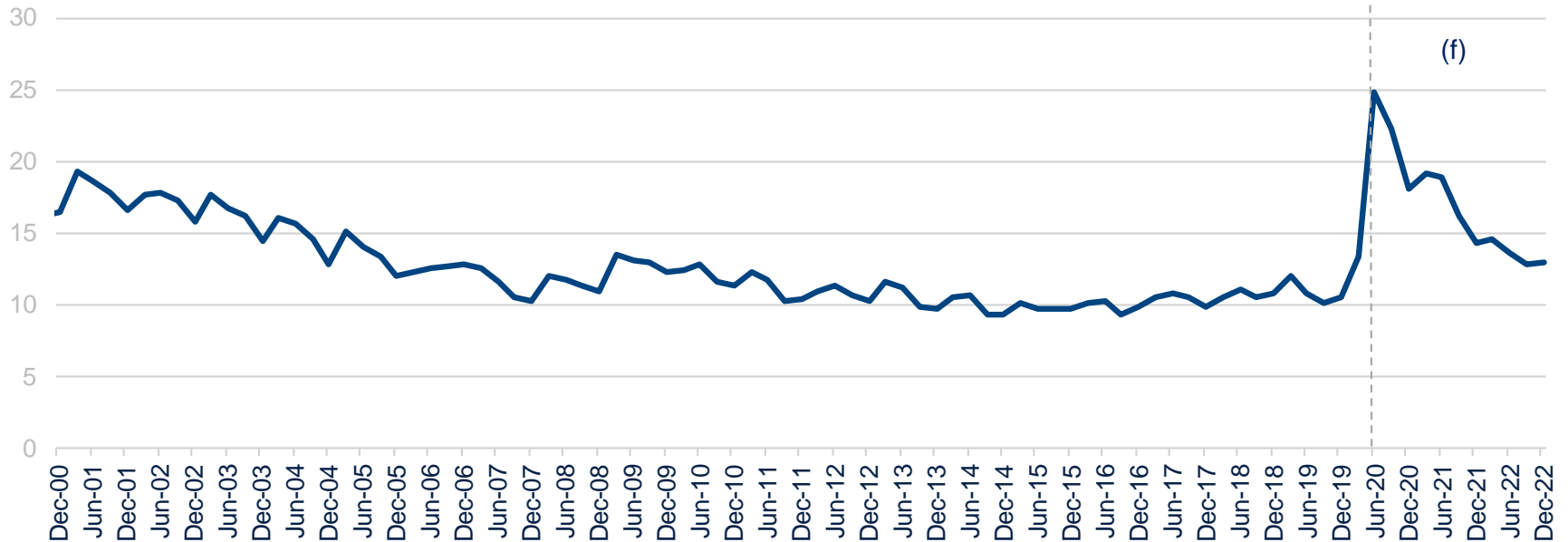


The size of the sphere represents the share in GDP. The greater the sphere, higher share of GDP
Source: BBVA Research

Unemployment rate will remain high for some time, averaging 20% in 2020

URBAN UNEMPLOYMENT RATE

(13 CITIES, END OF QUARTER, % OF THE LABOR FORCE)



(f): Forecast

Source: BBVA Research with DANE data.

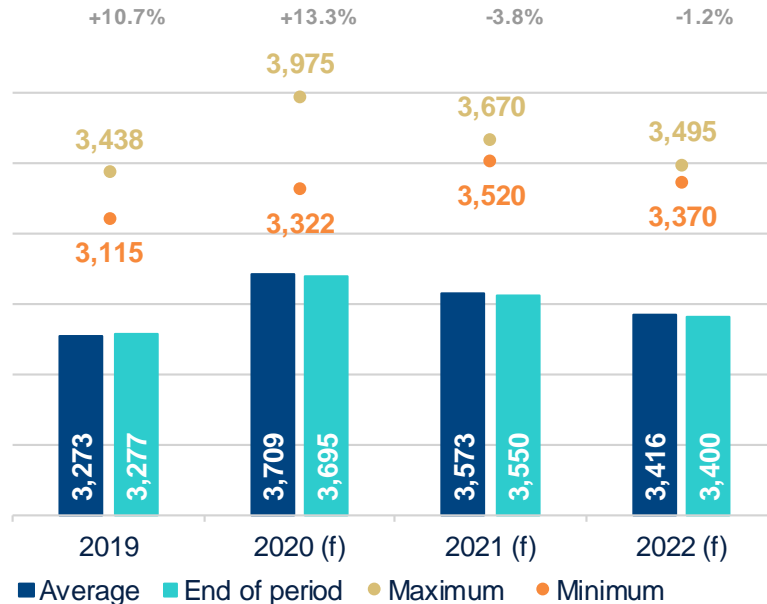
05

Week demand will allow for an prolonged expansionary monetary policy in a low inflation context and the gradual strengthening of the peso

The most severe effects of the pandemic are left behind, but the strengthening of the peso will be slow

EXCHANGE RATE (PESOS PER DOLLAR)

Annual average depreciation

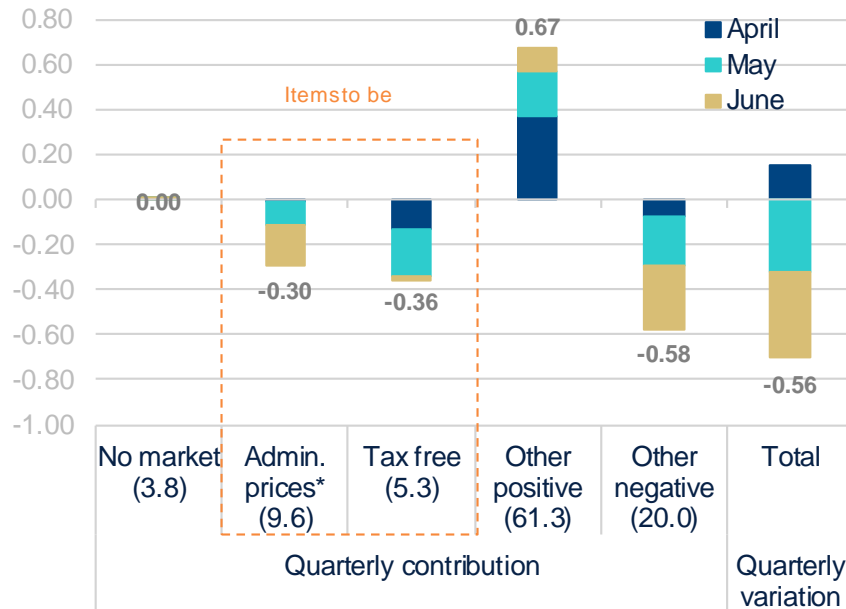


(f): Forecast
Source: BBVA Research with BanRep data

- **Ample liquidity:** the strong response by Central Banks around the world allow to reduce the risk perception and facilitate the return to normality in portfolio flows
- **Global risk reduction:** March and April risk aversion has receded gradually
- **Oil prices:** with the recovery of the global economy oil prices have risen from their lows in April
- **Government resources:** an important part of the available resources to tackle the pandemic have come from abroad

Inflation surprised on the downside in the first half of the year, mostly due to public policies implemented to tackle the pandemic

CONTRIBUTION TO INFLATION BY TYPE OF GOOD (CONTRIBUTION TO THE QUARTERLY INFLATION AND QUARTERLY INFLATION, %)



On the upside



Hike in foodstuffs at the beginning of confinement



Exchange rate depreciation



Rise in health related articles

On the downside



Subsidies and discount on utilities



No VAT days



Foodstuffs correction



VAT exempted goods and services

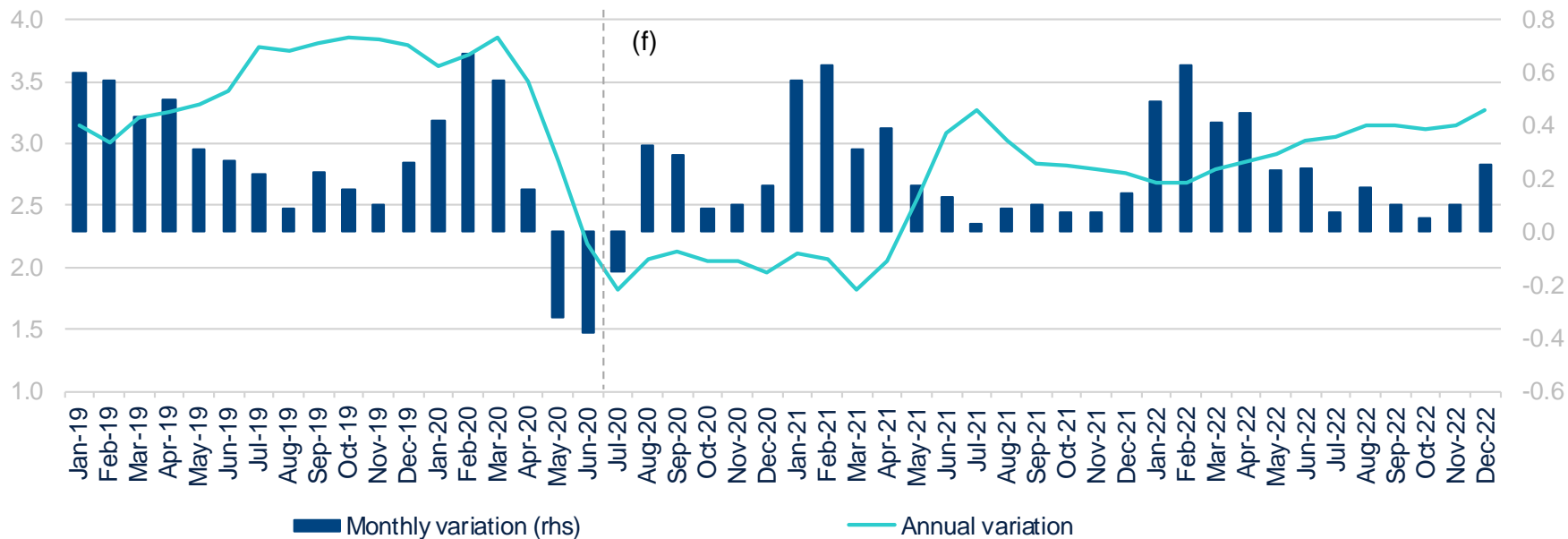


Gas price reduction

Public policies that end in the third quarter will push inflation upward. Inflation will close 2019 at 1.9% and 2021 at 2.8%

HEALINE INFLATION

(ANNUAL AND MONTHLY VARIATION, %)

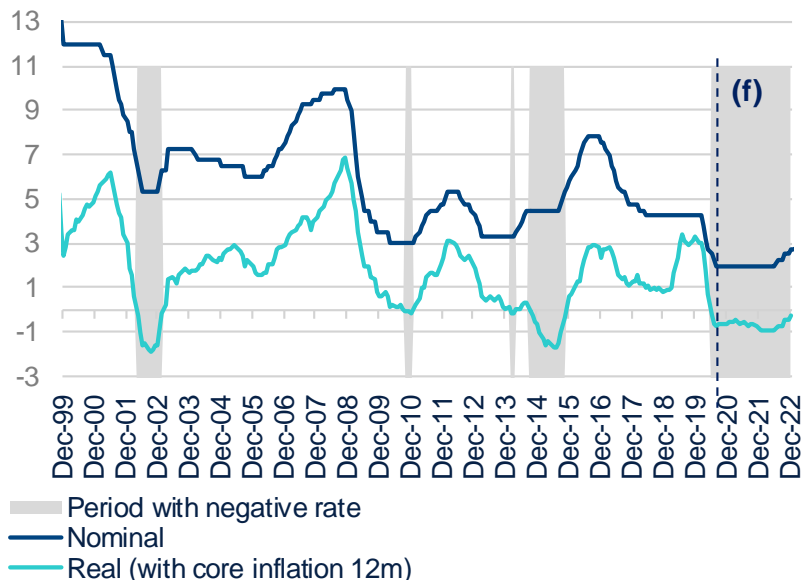


(f): Forecast by BBVA Research
Source: BBVA Research with DANE data

Banco de la República will reduce its benchmark rate to 2% in the next months and will remain at this level for a prolonged time

REAL AND NOMINAL MONETARY POLICY RATE (%)

(%)



Banco de la República strengthens its liquidity provision program

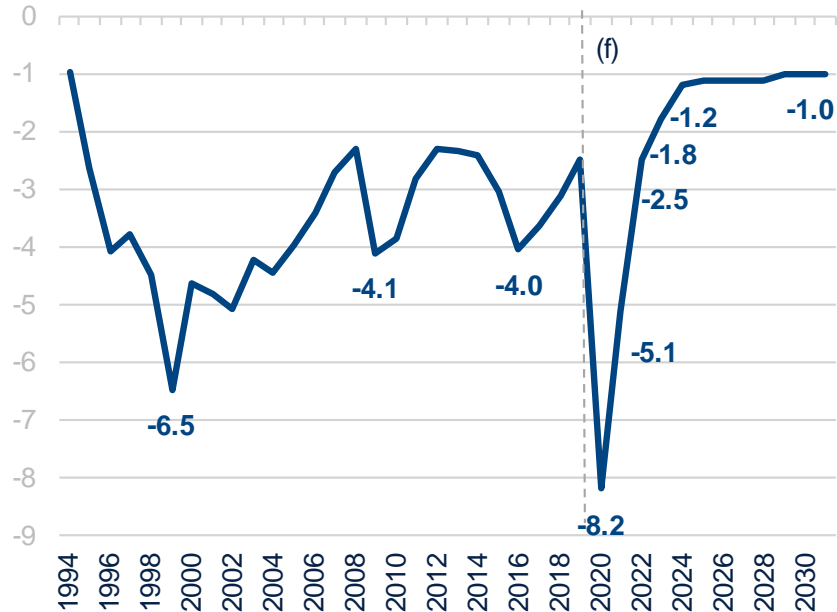
- **New participants:** for repo operations
- **New collaterals:** private debt and securities as repo collaterals
- **Longer duration:** in all repo operations. Up to a year in public debt, 6 months in securities and 30 days in private debt
- **Dollar liquidity:** NDF renovation but suspension of Swaps due to low demand

06

The adjustment of
macroeconomic imbalances
remains a challenge for the
Colombian economy

Fiscal rule flexibility allows a higher fiscal deficit for 2020 and 2021. Other countries have also resorted to the scape clauses due to the size of the shock

FISCAL BALANCE OF THE CENTRAL GOVERNMENT (% OF GDP)



COUNTRIES THAT HAVE FLEXIBILIZED THE FISCAL RULE



European Union



Germany



Austria



France



Panama



Peru



Brazil



Italy



Paraguay



Costa Rica



Indonesia

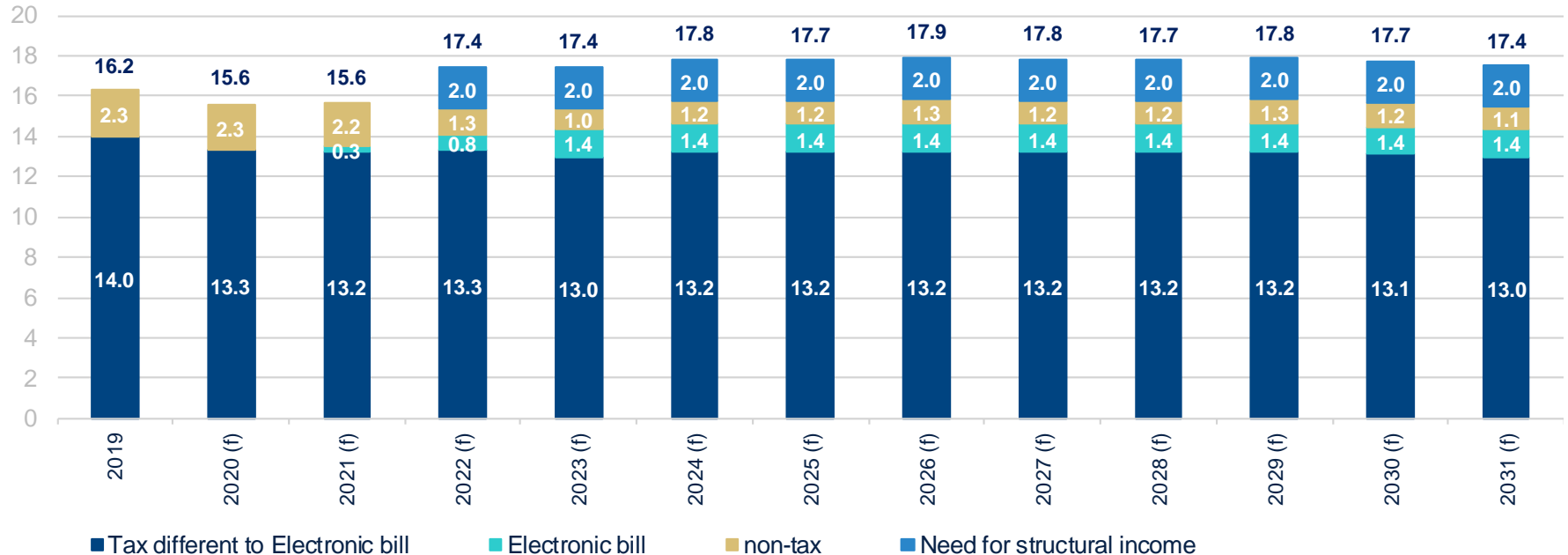


India

(f): Forecast by the Government in the Mid Term Fiscal Plan
Source: BBVA Research with MinHacienda data

In the short run, the government scenario has high non tax revenues and in the mid term an important tax reform

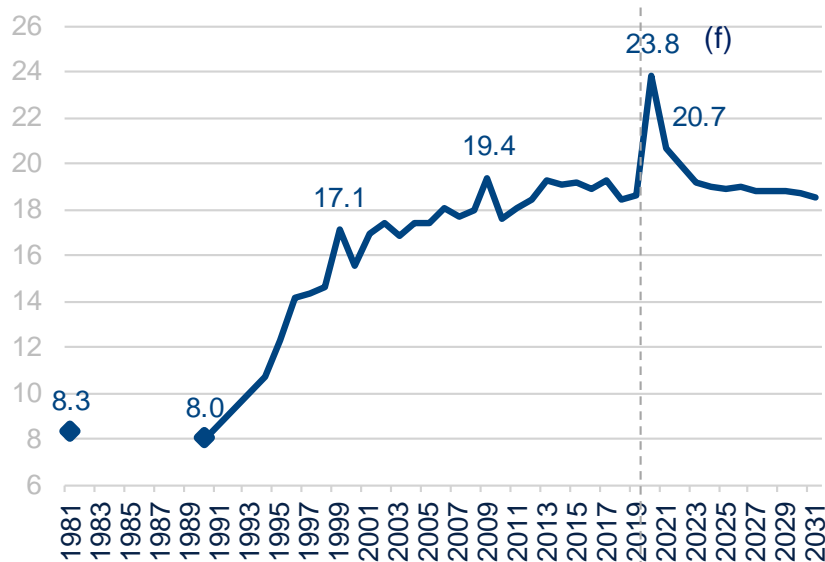
CENTRAL GOVERNMENT REVENUE (% OF GDP)



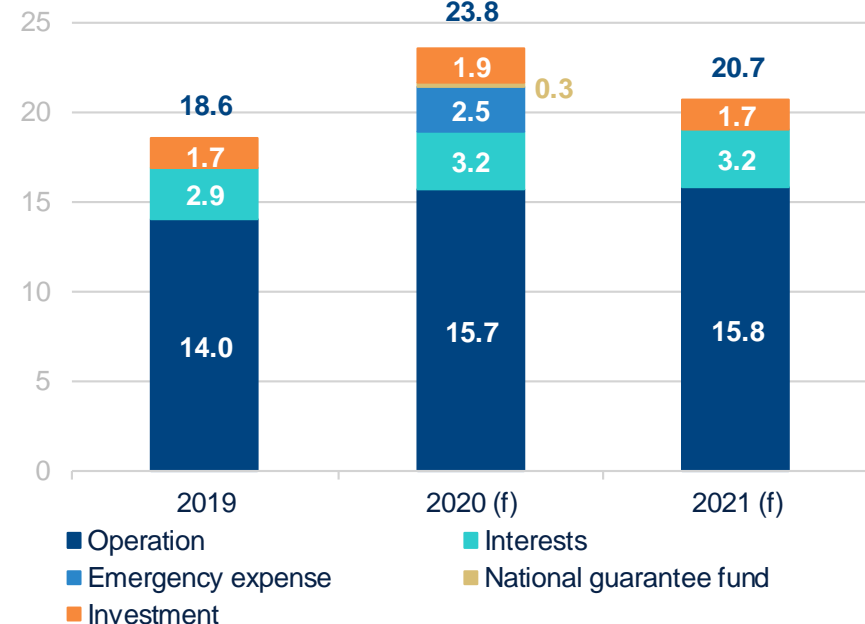
(f): Forecast by the Government in the Mid Term Fiscal Plan
Source: BBVA Research with MinHacienda data

Public expenditure is high as percentage of GDP in 2020 and 2021. In 2020 they include the expenditure for the pandemic

CENTRAL GOVERNMENT EXPENDITURE (% OF GDP)



CENTRAL GOVERNMENT EXPENDITURE BY COMPONENTS (% OF GDP)



The Government traced a routemap for the public finances and an adjustment strategy based on demanding fiscal assumptions and commitments



2020 and 2021 fiscal target

The Government self-imposed a maximum deficit (8.2% of GDP in 2020 and 5.1% in 2021) during the suspension of the fiscal rule



The fiscal rule returns in 2022

The fiscal rule returns from 2022 and the expected deficit for 2022 is set to reach pre Covid-19 levels of 2.5% of GDP

The government will be monitored by the fiscal rule committee



Tax reform and investment adjustment

Need for permanent additional revenue of 2% of GDP from 2022, and a contribution by the electronic invoice of 1.4% of GDP from 2023

Expenditure reduction path mostly by a reduction in investment

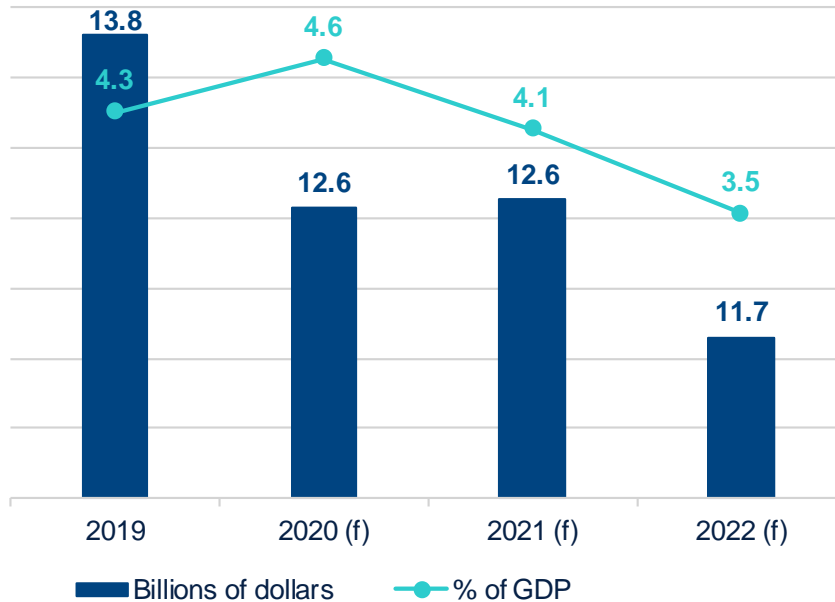


Optimistic growth path

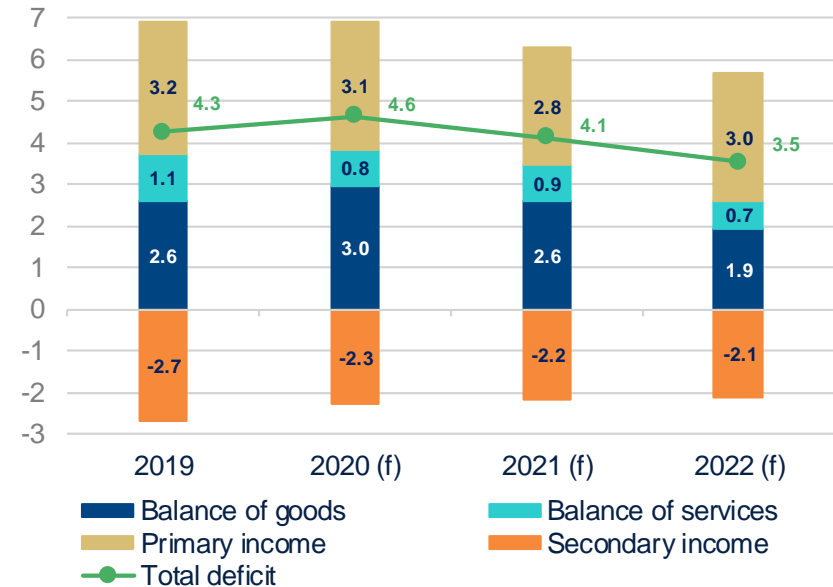
From 2021, projected growth by the government is higher than estimates by analyst consensus and BBVA Research

On the other hand, the current account deficit reduces in value between 2020 and 2022, despite remaining high as percentage of GDP

CURRENT ACCOUNT DEFICIT (USD BILLIONS AND % OF GDP)

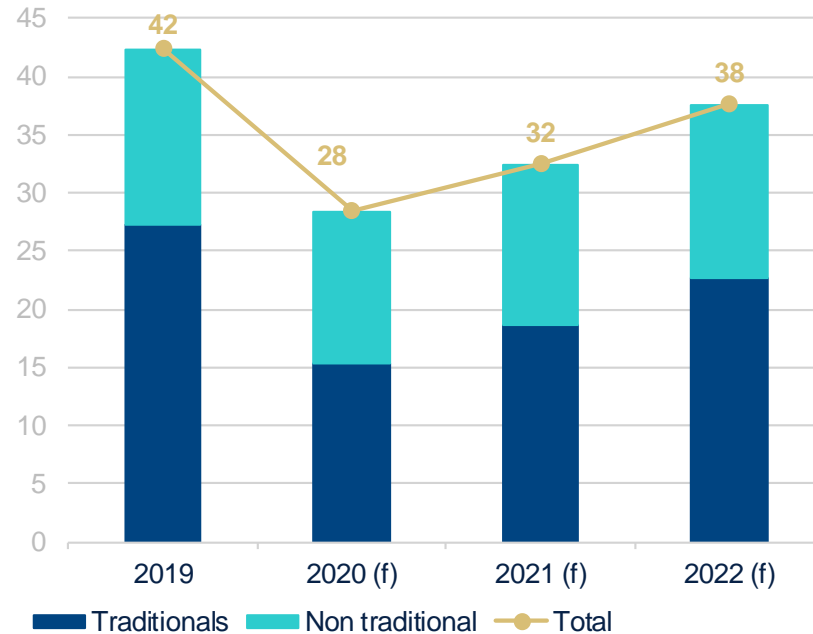


DECOMPOSITION OF THE CURRENT ACCOUNT DEFICIT (% OF GDP)

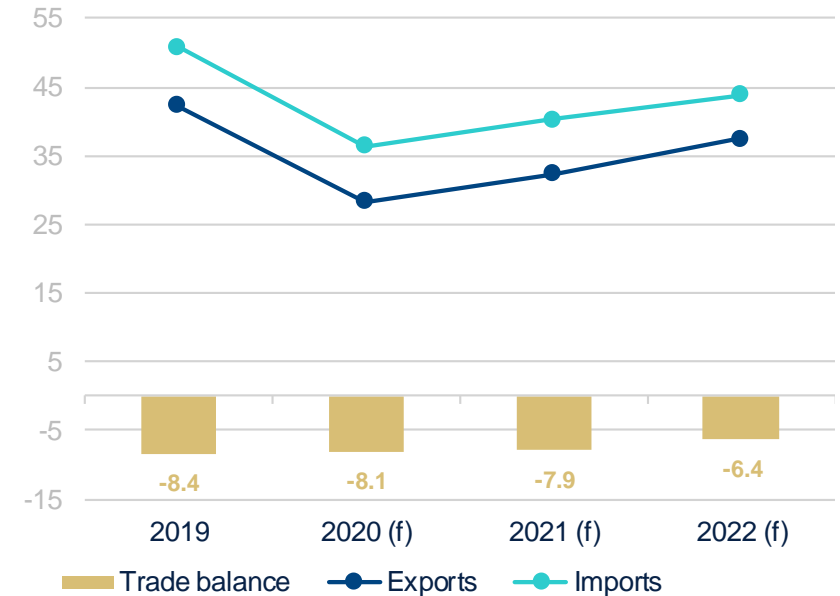


Both imports and exports are expected to fall significantly in 2020 and recover only gradually thereafter

EXPORTS BY TYPE (USD BILLIONS)



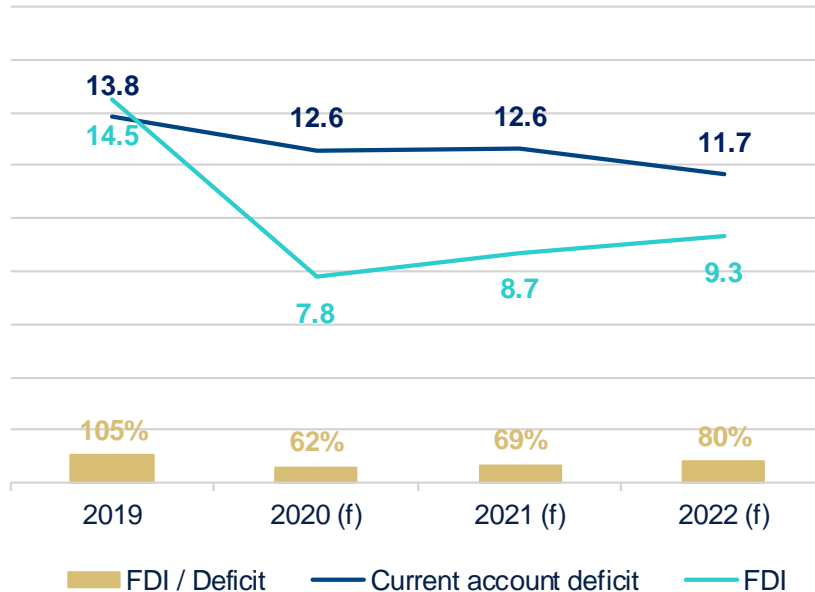
TRADE BALANCE (USD BILLIONS)



In 2020 foreign direct investment reduces, needing alternate sources of financing for the current account. Most will come from government resources

CURRENT ACCOUNT DEFICIT AND FID FLOWS

(USD BILLIONS AND %)



In 2020 – 2022, current account deficit will not be fully covered by FDI

- In 2020, according to the Mid Term Fiscal Plan, the government will bring USD 10.9 billions as part of their Covid-19 funding.
- In 2021 and 2022 financing will depend more on the private sector: we expect portfolio flows to increase in line with the ample liquidity (at odds with outflows observed in 2020)

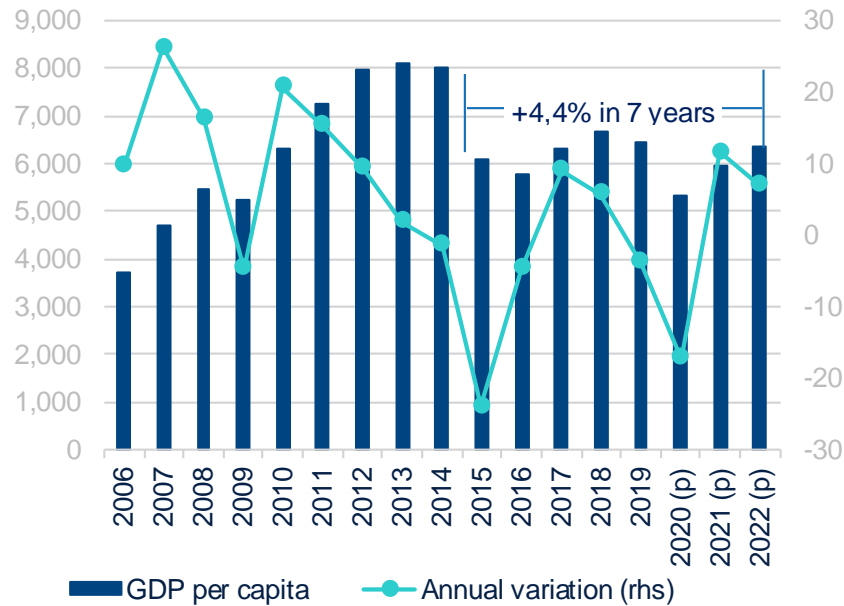
07

Mid term challenges: safeguard
the progress in social welfare
and consolidate it for the future

The fall in GDP, accompanied by the Exchange rate depreciation, will imply a significant fall in per capita GDP in 2020 and its slow recovery

PER CAPITA GDP

(NOMINAL DOLLARS AND ANNUAL VARIATION, %)



- The economic recovery must be centered in the protection of the welfare of the most vulnerable, who will lose part of the gains of the last 20 years
- Institutional strength, public policy actions and improvements in productivity will be important for this objective

Recovery can be built from various actions



**Social and
transport
infrastructure**



Housing



**Agro industrial
development**



**Don't forget the
structural reforms**



**Environmental and
social sustainability**



**Entrepreneurial
reinforcement**



Formality

Public expenditure reform

Tax reform

Subsidy system reform

Labor reform

Justice reform

09

Annex

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	-7,5	5,5
Private Consumption (% y/y)	1,6	2,1	3,0	4,5	-8,5	6,2
Public Expenditure (% y/y)	1,8	3,6	7,0	4,3	5,7	4,1
Fixed Investment (% y/y)	-2,9	1,9	1,6	4,3	-20,1	-0,1
Inflation (% y/y, eop)	5,7	4,1	3,2	3,8	1,9	2,8
Inflation (% y/y, average)	7,5	4,3	3,2	3,5	2,6	2,5
Exchange rate (eop)	3009,5	2991,4	3212,5	3277,0	3695,0	3550,0
Devaluation (% eop)	-7,2	-0,6	7,4	2,0	12,8	-3,9
Exchange rate (average)	3055,3	2951,3	2956,4	3272,6	3709,3	3572,5
Devaluation (% eop)	11,4	-3,4	0,2	10,7	13,3	-3,7
Policy interest rate (% eop)	7,50	4,75	4,25	4,25	2,00	2,00
DTF rate (% eop)	6,9	5,3	4,5	4,5	2,6	2,3
Fiscal Balance Central Nation Government (% GDP)	-4,0	-3,6	-3,1	-2,5	-8,2	-5,1
Current Account (% GDP)	-4,3	-3,3	-3,9	-4,3	-4,6	-4,1
Urban unemployment rate (% eop)	9,9	10,4	10,7	10,8	18,0	14,8

(f) Forecast.

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

Principal macroeconomic variables

TABLE A2. MACROECONOMIC FORECAST

	GDP (% y/y)	Inflation (% y/y, eop)	Exchange rate (vs. USD, eop)	Policy interest rate (%, eop)
Q1 17	1,0	4,7	2.943	7,00
Q2 17	1,2	4,0	2.958	5,75
Q3 17	1,7	4,0	2.918	5,25
Q4 17	1,5	4,1	2.991	4,75
Q1 18	1,8	3,1	2.852	4,50
Q2 18	2,8	3,2	2.893	4,25
Q3 18	2,7	3,2	3.037	4,25
Q4 18	2,7	3,2	3.212	4,25
Q1 19	2,9	3,2	3.125	4,25
Q2 19	3,2	3,4	3.256	4,25
Q3 19	3,5	3,8	3.399	4,25
Q4 19	3,5	3,8	3.277	4,25
Q1 20	1,1	3,9	3.888	3,75
Q2 20	-16,6	2,2	3.691	2,50
Q3 20	-9,0	2,1	3.725	2,00
Q4 20	-5,4	1,9	3.695	2,00
Q1 21	-2,8	1,7	3.620	2,00
Q2 21	16,2	3,0	3.550	2,00
Q3 21	6,8	2,8	3.520	2,00
Q4 21	3,5	2,8	3.550	2,00

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

Colombia Outlook

3Q20

Colombia: on the recovery path with
big challenges

July 2020

Disclaimer

This document has been prepared by BBVA Research Department. It is provided for information purposes only and expresses data, opinions or estimations regarding the date of issue of the report, prepared by BBVA or obtained from or based on sources we consider to be reliable, and have not been independently verified by BBVA. Therefore, BBVA offers no warranty, either express or implicit, regarding its accuracy, integrity or correctness.

Any estimations this document may contain have been undertaken according to generally accepted methodologies and should be considered as forecasts or projections. Results obtained in the past, either positive or negative, are no guarantee of future performance.

This document and its contents are subject to changes without prior notice depending on variables such as the economic context or market fluctuations. BBVA is not responsible for updating these contents or for giving notice of such changes.

BBVA accepts no liability for any loss, direct or indirect, that may result from the use of this document or its contents.

This document and its contents do not constitute an offer, invitation or solicitation to purchase, divest or enter into any interest in financial assets or instruments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

With regard to investment in financial assets related to economic variables this document may cover, readers should be aware that under no circumstances should they base their investment decisions on the information contained in this document. Those persons or entities offering investment products to these potential investors are legally required to provide the information needed for them to take an appropriate investment decision.

The content of this document is protected by intellectual property laws. Reproduction, transformation, distribution, public communication, making available, extraction, reuse, forwarding or use of any nature by any means or process is prohibited, except in cases where it is legally permitted or expressly authorized by BBVA.

This report was produced by :

Chief Economist

Juana Patricia Téllez
juana.tellez@bbva.com

María Paula Castañeda
mariapaula.castaneda@bbva.com

Mauricio Hernández
mauricio.hernandez@bbva.com

María Claudia Llanes
maria.llanes@bbva.com

Alejandro Reyes
alejandro.reyes.gonzalez@bbva.com

Paulo Mauricio Sánchez
paulomauricio.sanchez@bbva.com

Intern Students

Cristian Guillermo Benavides
cristianguillermo.benavides@bbva.com

Juan Camilo Cobos
juancamilo.cobos@bbva.com