

Colombia Economic Outlook

1Q21

Economic recovery will consolidate
in 2021 amidst some
heterogeneities

January 2021

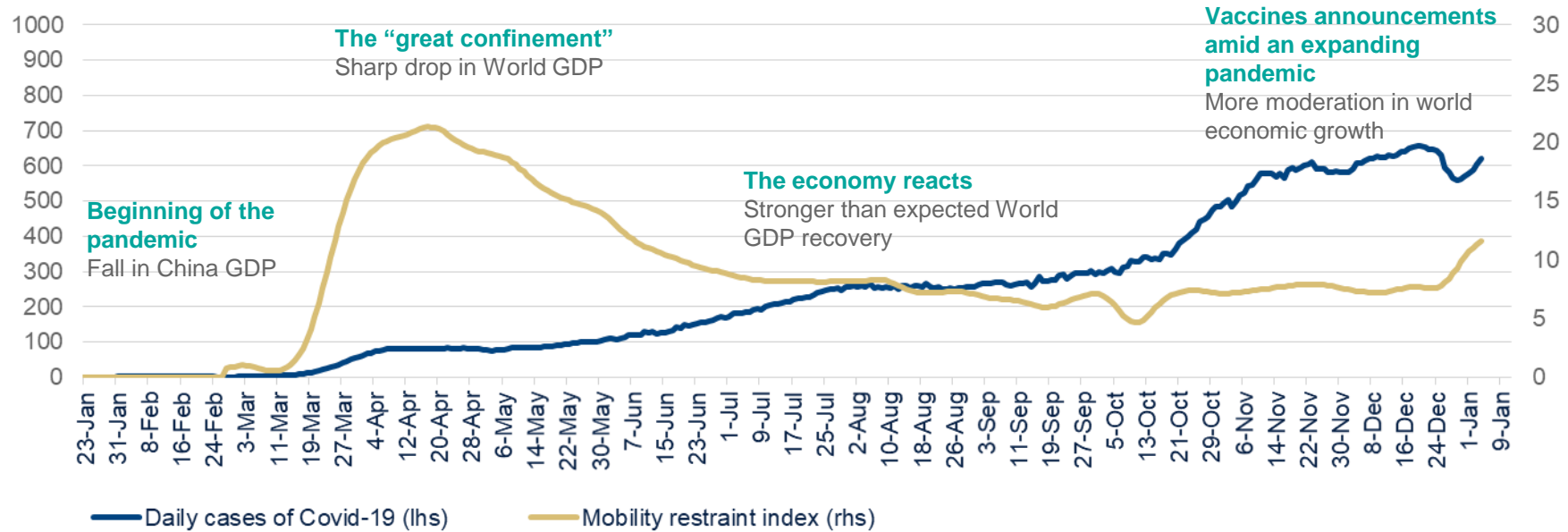
01

Global growth will return to positive territory in 2021, although the recovery will be incomplete and heterogeneous

Covid-19 vaccines are a key development after a year marked by the expansion of the pandemic, lockdowns and an economic crisis

WORLD DAILY CASES OF COVID-19 AND GLOBAL MOBILITY RESTRAINT INDEX (*)

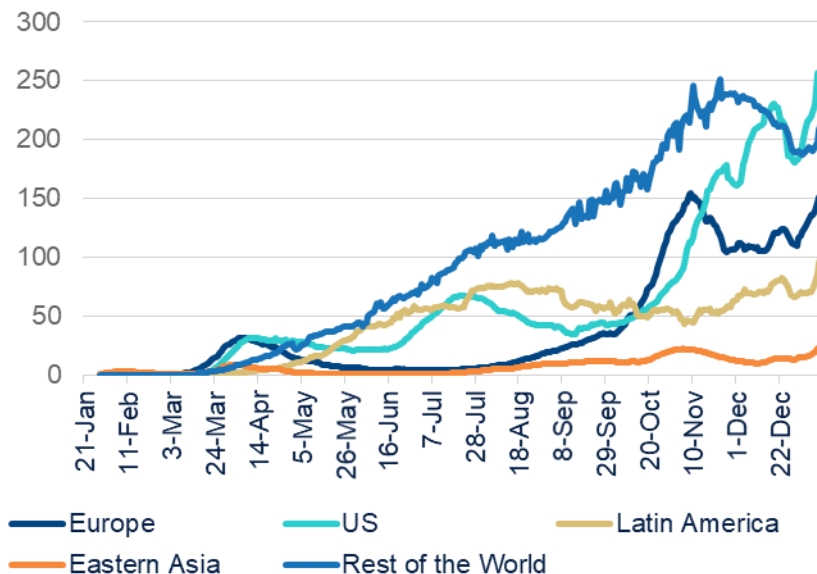
(DAILY CASES: THOUSANDS OF PEOPLE, 7-DAY MOVING AVERAGE; INDEX: HIGHER VALUES INDICATE LOWER MOBILITY)



*: The mobility restraint index reflects changes with respect to the period of reference (January 3 to February 6 2020). It is the simple average of all countries within Google Mobility Reports.
BBVA Research based on data from John Hopkins University and Google.

Infections have surged in the last months, particularly in the US and Europe; the new strains of the virus pose a threat

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



- In the **US, Europe and Latam** contagions have increased again in the last few weeks.
- **Eastern Asia** is experiencing outbreaks, but the situation remains under control.
- **Rising uncertainty** on the evolution of the pandemic due to **the new strains** of the virus.
- **Mobility** has decreased again, particularly in recent weeks and in Europe, but less than in the first wave.

(*): Europe: Germany, Spain, France, Italy, Portugal, United Kingdom, and Turkey. Latin America: Argentina, Brazil, Chile, Colombia, Mexico, Peru and Uruguay. Eastern Asia: China, South Korea, Japan and Singapur.
Source: BBVA Research based on data from John Hopkins University.

Covid-19 vaccine inoculation process has already started in some of the main world economies, in line with expectations

EU



Population covered by the vaccine purchase contracts already signed

(not all approved yet)

Inoculation started at a low pace with the BioNTech/Pfizer vaccine.

US



Population covered by the vaccine purchase contracts already signed

(not all approved yet)

Inoculation started with the BioNTech/Pfizer and Moderna vaccines.

CHINA

Inoculation started with the Sinopharm vaccine.

OTHER REGIONS

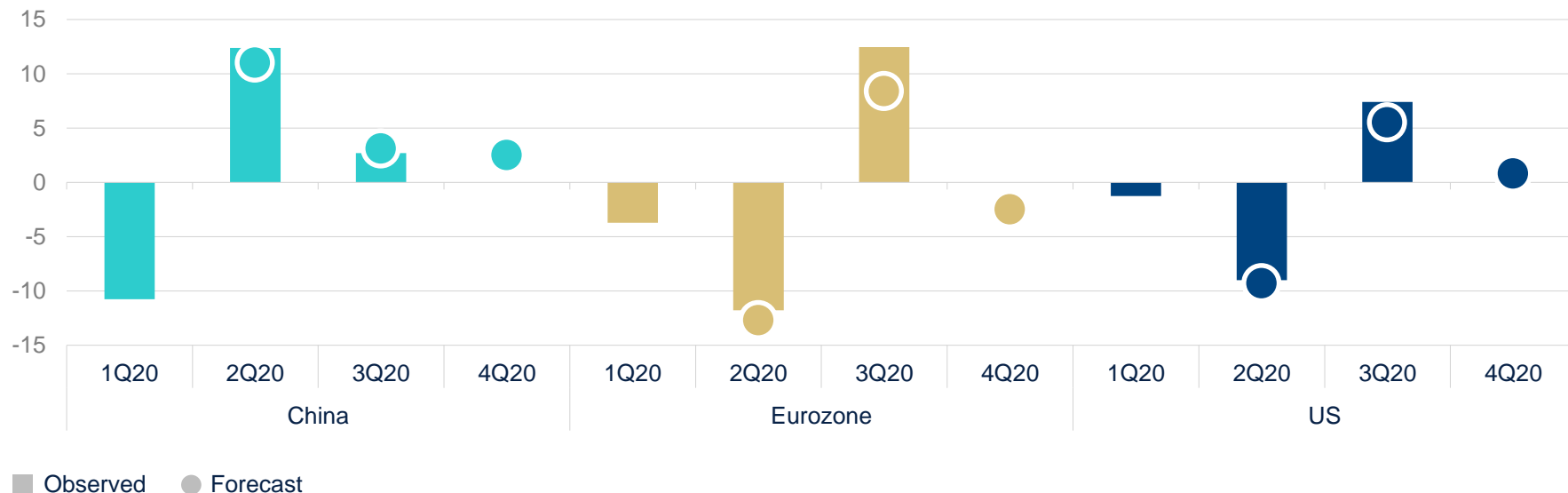
Heterogeneity across countries.

Ongoing vaccination in Israel, United Kingdom, Russia, Argentina, Chile, Mexico etc.

Economic growth has picked up significantly more than expected in the third quarter, but has moderated in the fourth due to the increase in infections

GDP: OBSERVED AND FORECASTED

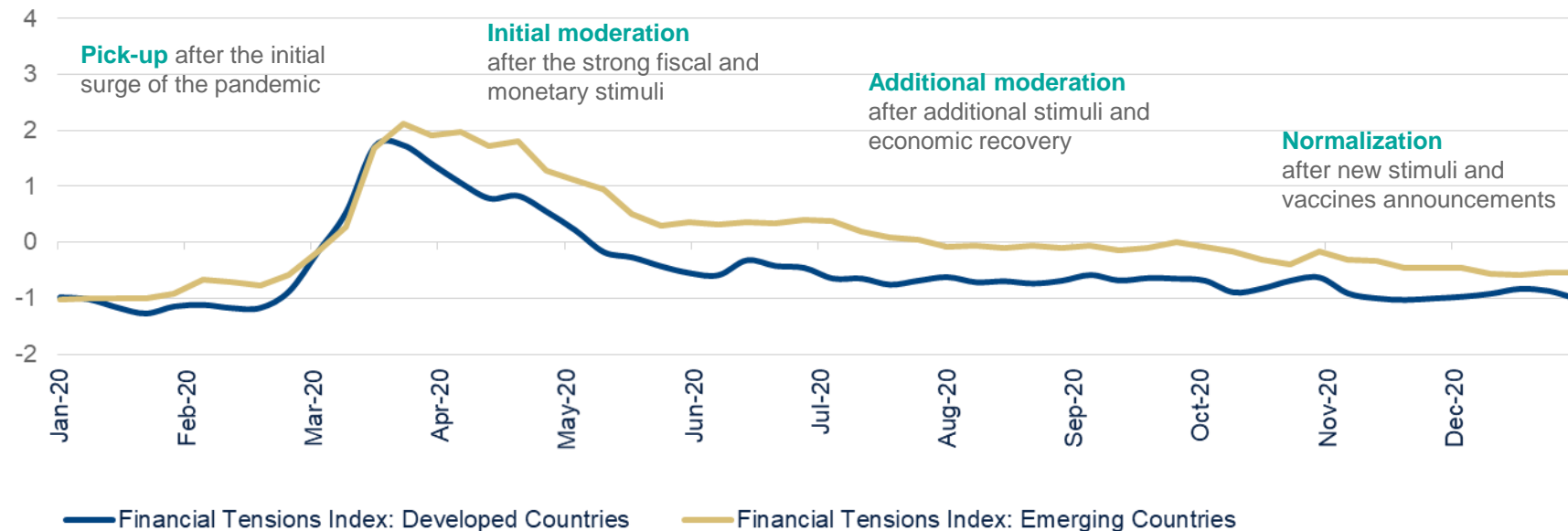
(Q/Q %)



Financial tensions have converged to pre-crisis levels, thanks to economic stimuli and the vaccine development

FINANCIAL TENSIONS

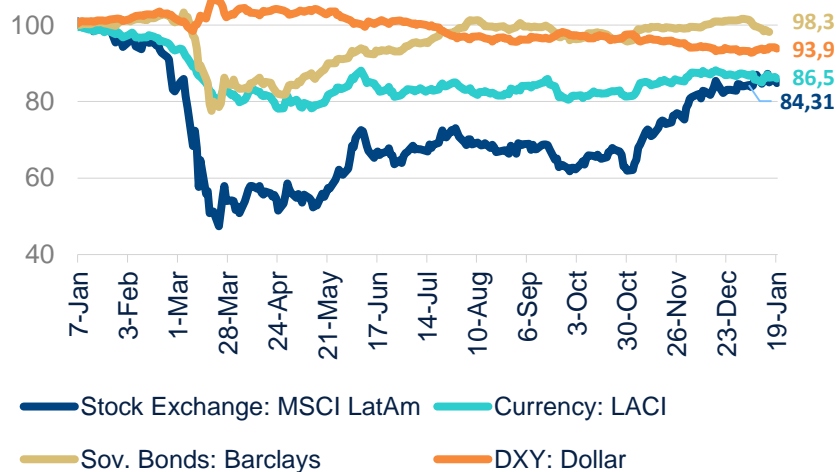
(FINANCIAL TENSIONS INDEX: AVERAGE FROM 2006 = 0)



In this context, financial assets have gained value in Colombia and throughout the region...

REGIONAL INDICES OF FINANCIAL ASSETS

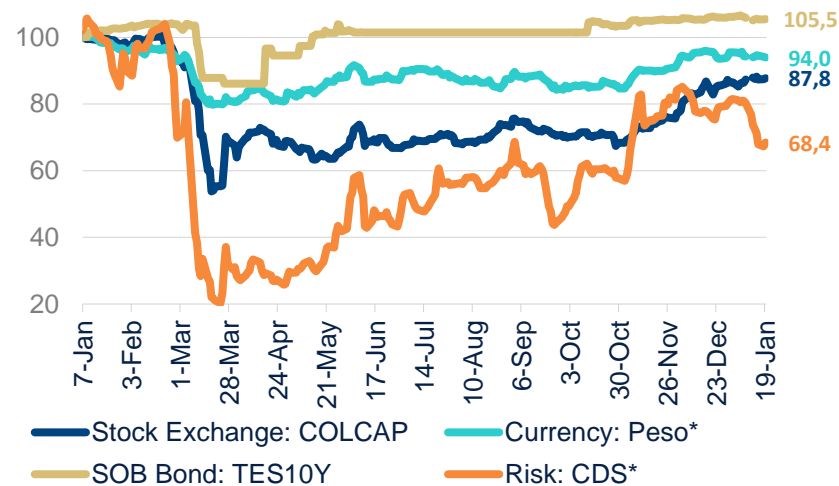
(DEC 31, 2019 INDEX = 100)



* Inverted scales are used./ upward movements imply a gain in value
Source: BBVA Research based on Bloomberg data..

FINANCIAL ASSETS IN COLOMBIA

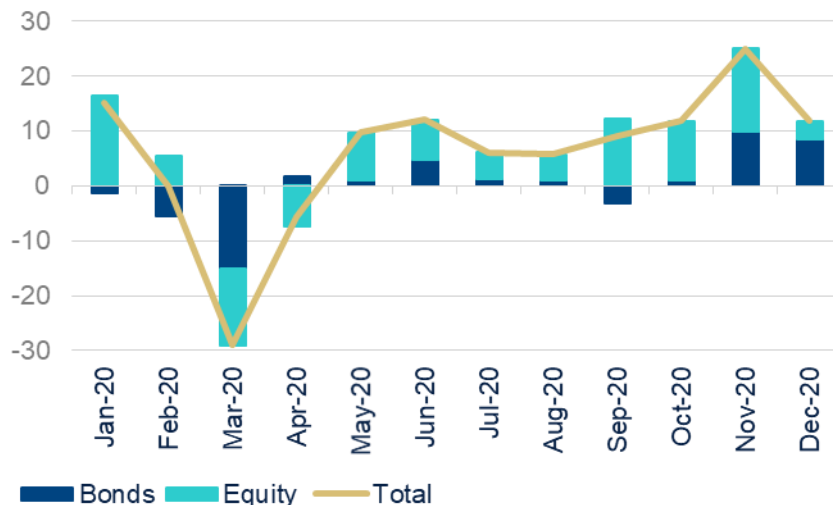
(DEC 31, 2019 INDEX = 100)



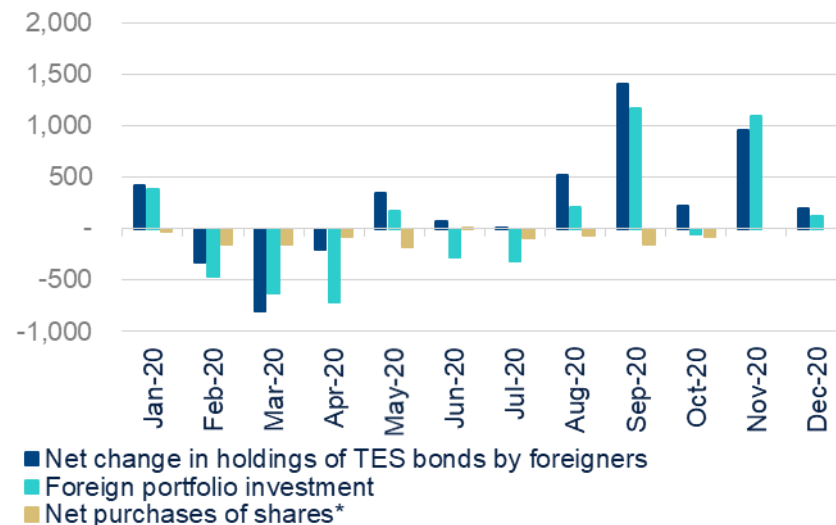
...especially from November onward, after the U.S. election and the effectiveness of the major vaccines was announced.

This was helped by the capital inflows that have been common to all emerging regions since November, in both bonds and shares

CAPITAL FLOWS IN LATAM (BILLIONS OF DOLLARS)



PORTFOLIO FLOWS INTO COLOMBIA (MILLIONS OF DOLLARS)



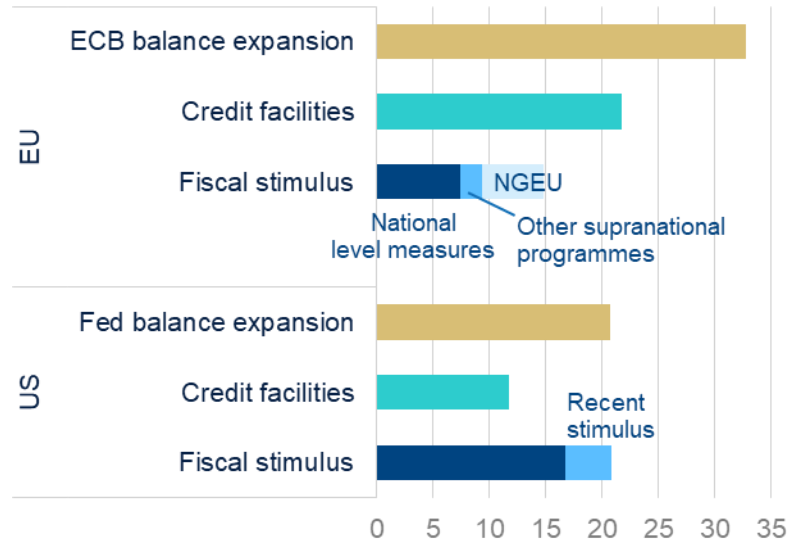
(*) Available up to October 2020.

Source: BBVA Research with data from IIF, Bloomberg, Colombia Stock Exchange and Banrep.

In addition, the government took advantage of the stronger global environment to issue long-term bonds (2031 and 2061), with favorable results in terms of demand and interest rates.

Economic policy remains committed to the recovery: reinforced monetary stimuli, NGEU approval, and new fiscal measures in the US

ECONOMIC STIMULI * (% OF GDP)



- **ECB:** new stimuli announced in December, including the extension of the asset purchasing programme.
- **Fed:** economic support through zero level interest rates and quantitative easing.
- **Fiscal policy in Europe:** NGEU funds will be available from around mid-year.
- **Fiscal policy in the US:** imminent additional measures after a recent package of 0.9 trillion dollars.

* Fiscal stimulus: expenditure increases and tax cuts, excluding resources used in credit programs. In the case of the Eurozone, national level measures represent the average stimulus launched in Germany, France, Italy and Spain while supranational measures include the EIB measures and the SURE. Credit Programs: in the case of US it includes the Fed credit facilities. For the Eurozone it represents the average of Credit Guarantee Funds in Germany, France, Italy and Spain. CBs balances: expected accumulated increase between 2020 y 2021.

Source: BBVA Research based on local statistics.

A large-scale distribution of vaccines will pave the way for economic recovery, which will be gradual and heterogeneous across countries

MAIN ASSUMPTIONS BEHIND FORECASTS, UNDER A HIGHLY UNCERTAIN ENVIRONMENT

COVID-19



Massive distribution of vaccines in the main economies in 1H21 and afterwards in the others.

Return to “normality” in 2022

Economic Policy



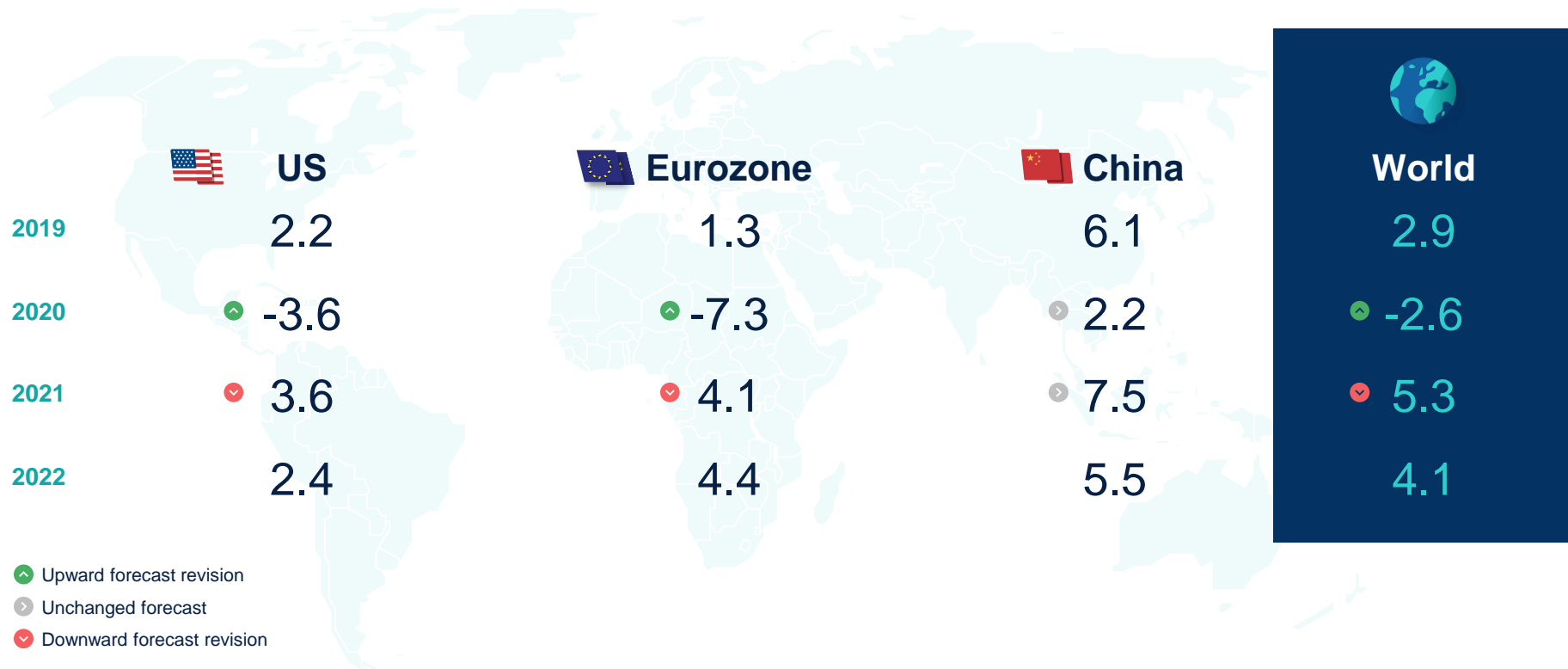
Stimuli will be maintained, or even amplified, at least until the recovery consolidates.

Financial Markets



Volatility and risk aversion will remain relatively low, in 2021-22.

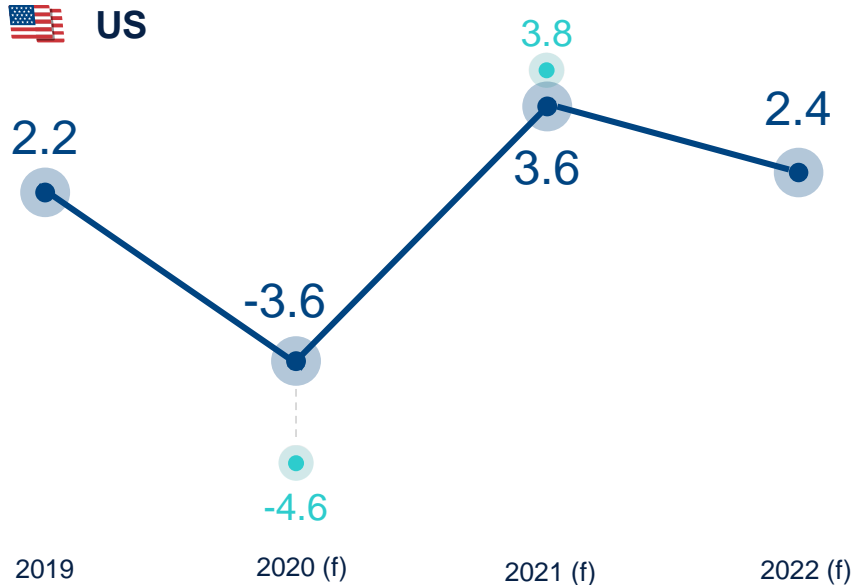
Economic growth will slow down more than expected in the short-term, due to rising contagions, but it will invigorate from mid-year on



US: GDP is forecast to grow 3.6% in 2021 and 2.4% in 2022, but prospects of more stimuli add an upward bias to these figures

GDP: ANNUAL GROWTH

(%)



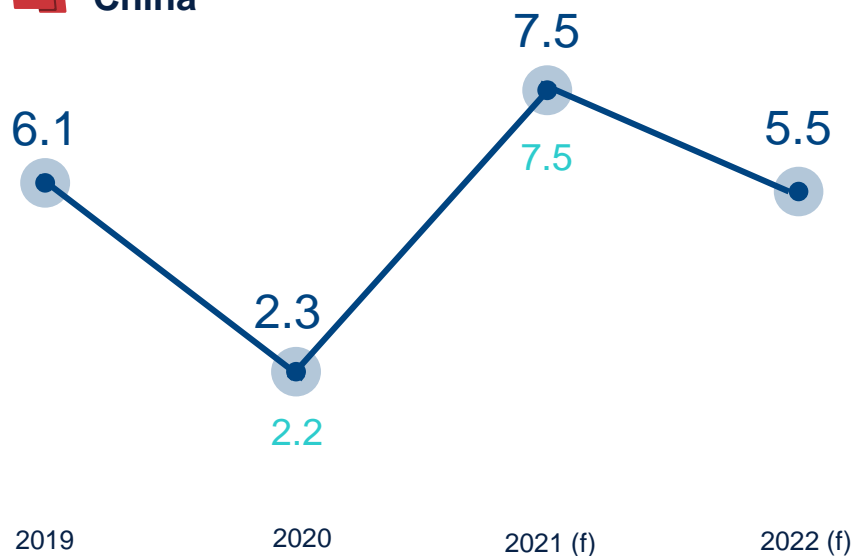
- Growth is moderating at the end of 2020 and beginning of 2021, due to the pandemic.
- Given that the Democratic Party will control the Presidency and Congress, there are reinforced expectations of new stimuli to sustain the recovery.
- More fiscal measures will be announced soon, adding an upward bias to growth forecasts.
- Fed will keep supporting the economy through asset purchases and unchanged rates until 2025.
- Inflation will stay around 2%.
- Covid evolution and its effects on the economy remain as the main sources of uncertainty.

China: after skipping a contraction in 2020, the economy will grow significantly again in 2021

GDP: ANNUAL GROWTH

(%)

 China



● Actual ● Previous

(f): forecast.

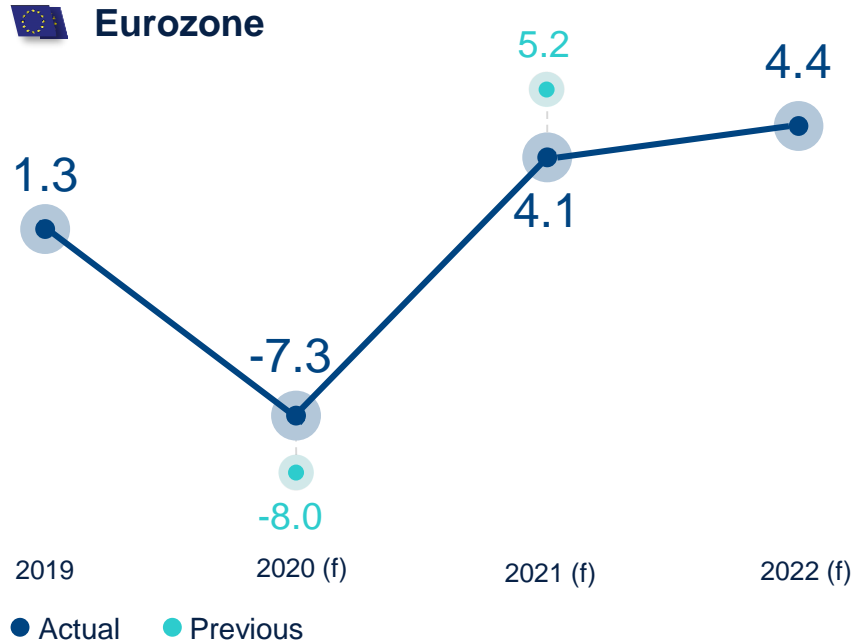
Source: BBVA Research.

- The recovery continues with a greater dynamism in supply, although the gap with demand is narrowing.
- Inflationary pressures are limited and deflation continues to pose a risk.
- Interest rates will remain unchanged, but tighter financial regulation is likely.
- No additional fiscal stimuli is foreseen.
- Risks also include the US relationship, a default of debt bonds of state enterprises and the housing market.

Eurozone: slower recovery in 2021 due to the ongoing expansion of the pandemic; NGEU funds and vaccines will boost GDP from mid-year on

GDP: ANNUAL GROWTH

(%)



Source: BBVA Research.

- **Lower private demand** due to rising contagions and new confinements, but also support from public spending and exports in the short-run.
- **NGEU**: Little effect in the short-term, but in the long-term its impact could be more significant.
- **Monetary policy** has turned even more accommodative on greater uncertainty and the risks coming from the pandemic and low inflation.
- The euro will continue to appreciate moderately, converging gradually to its equilibrium level.
- After achieving a *brexit* deal, the main **risks** are those related to the pandemic.

Uncertainty will remain high, despite improved perspectives



Epidemiological uncertainty

- Virus strains and new waves of contagions.
- Vaccines: distribution pace, effectiveness, social rejection.
- Herd immunity.
- “New normalcy” and social preferences.



Financial uncertainty

- Deterioration of corporate, public and banking sector balance sheets (NPL, bankruptcy, debt, restructurings).
- Financial tensions.
- Portfolio flows to emerging markets.



Economic uncertainty

- Stimuli effectiveness.
- Savings evolution.
- Significant disruptions in sectors and value chains.
- Inflation and oil prices.
- Lagged recovery in emerging economies.
- Size of the impact of the pandemic on potential GDP.



Geopolitical uncertainty

- China – US rivalry.
- Social unrest.
- Protectionism.

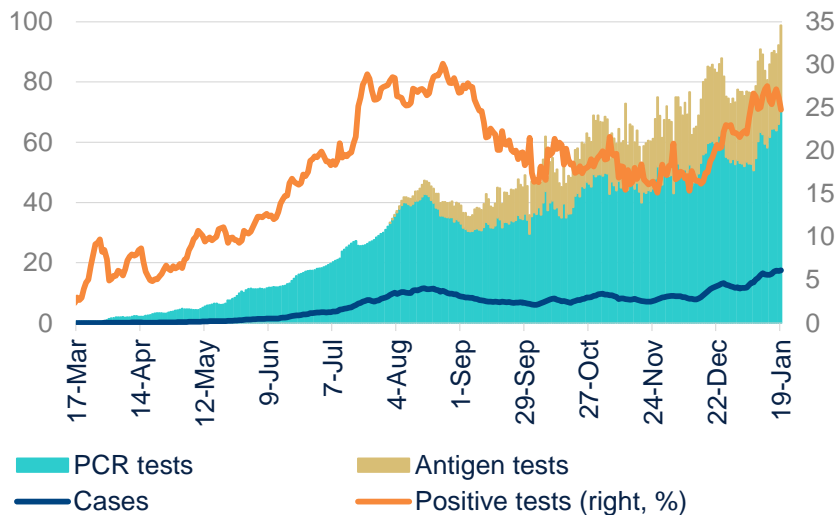
02

Strong investment
increased the capacity
of the health system
and will ensure the start of mass
vaccination in 2021

Colombia is facing a second wave of infections due to the Christmas holidays with greater testing capacity.

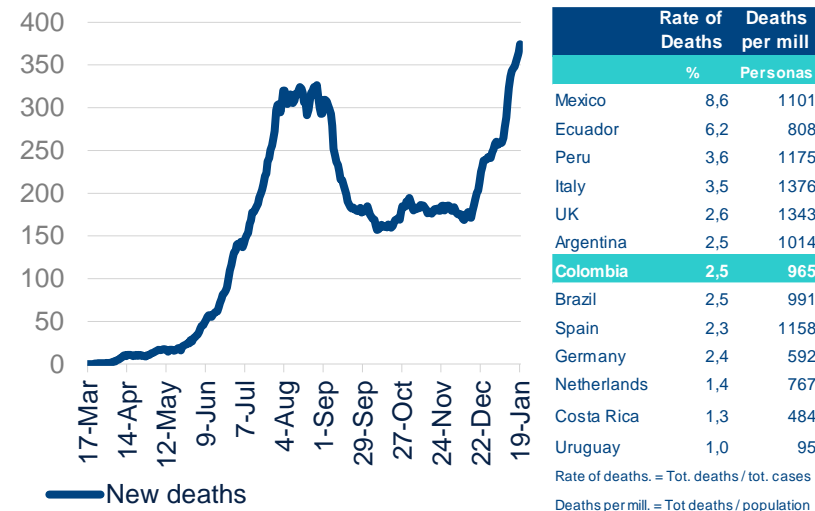
NEW CASES VS. TESTS

(7-DAY MOVING AVERAGE, THOUSANDS)



NEW DEATHS, DEATH RATE & DEATHS PER MILL.

(7-DAY MOVING AVERAGE, DATA AS OF JANUARY 19, 2021)

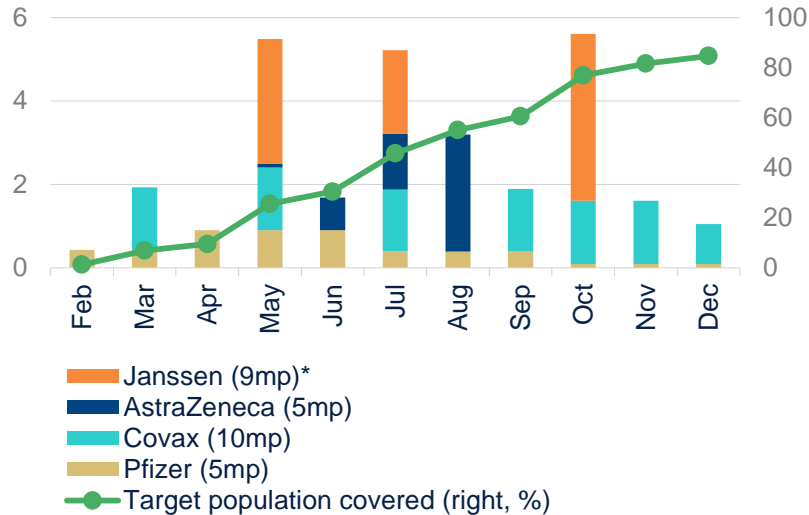


Source: BBVA Research with data from National Institute of Health and Worldometers.

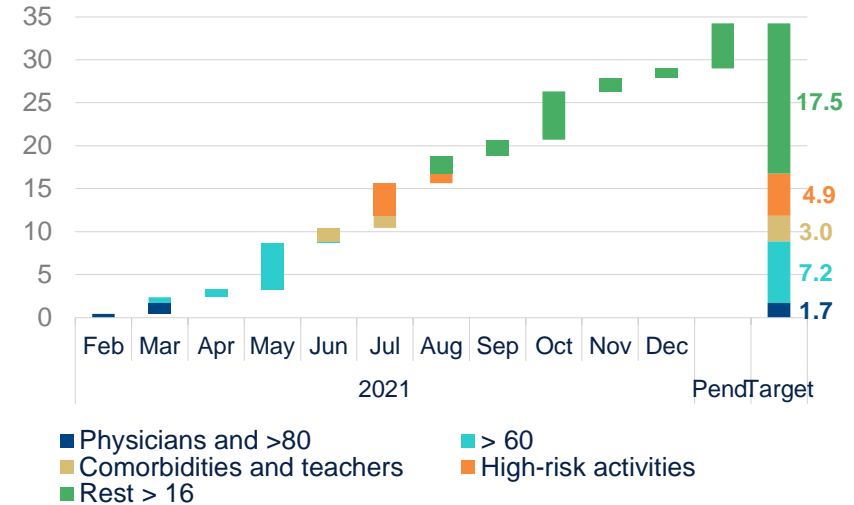
The increase in deaths has been significant. The mortality rate is around 2.5% with 965 deaths per million inhabitants.

The government closed contracts with the main pharmaceutical companies to inoculate 85% of the target population (target: 34.2 million people)

TIMELINE FOR VACCINE AVAILABILITY (MILLIONS OF PEOPLE AND % OF TARGET POPULATION)



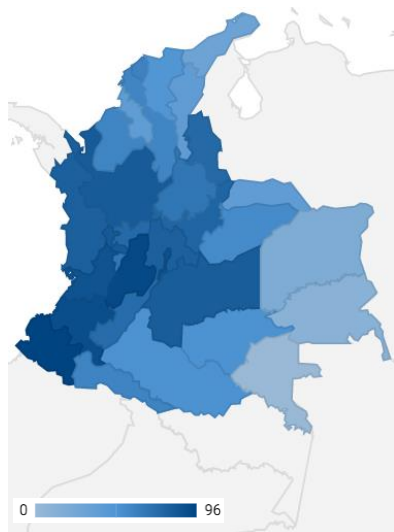
INOCULATION PROCESS IN COLOMBIA (MILLIONS OF PEOPLE)



The most vulnerable population segments (individuals over 60 and those with comorbidities) will be prioritized for vaccination. We estimate they will be vaccinated by August.

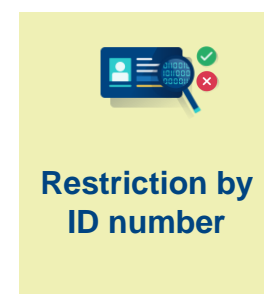
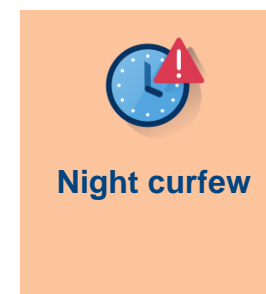
ICU availability and varying infection rates will continue to highlight regional discrepancies that may continue to be reflected in the economy

USE OF ICUs (% BY STATE)



State	%ICU	%Pop
Colombia	75	100
Nariño	96	3,2
Tolima	93	2,7
Cauca	90	3,0
Bogotá	88	15,4
Valle	87	9,0
Risaralda	83	1,9
Antioquia	82	13,3
Meta	81	2,1
Chocó	79	1,1
Cundinamarca	79	6,4
Boyacá	76	2,5
N. Santander	74	3,2
Caldas	73	2,0
Huila	72	2,2
Quindío	66	1,1
Santander	66	4,5

MOBILITY RESTRICTION MEASURES: LOCAL



NATIONAL MEASURES

The Government extended the selective isolation phase until **February 28 of 2021**. Gives the Interior Ministry to take special measures according to the below defined ICU capacity utilization and the contagion acceleration certified by the Health Ministry

● ICU >85%:

● ICU >80%:

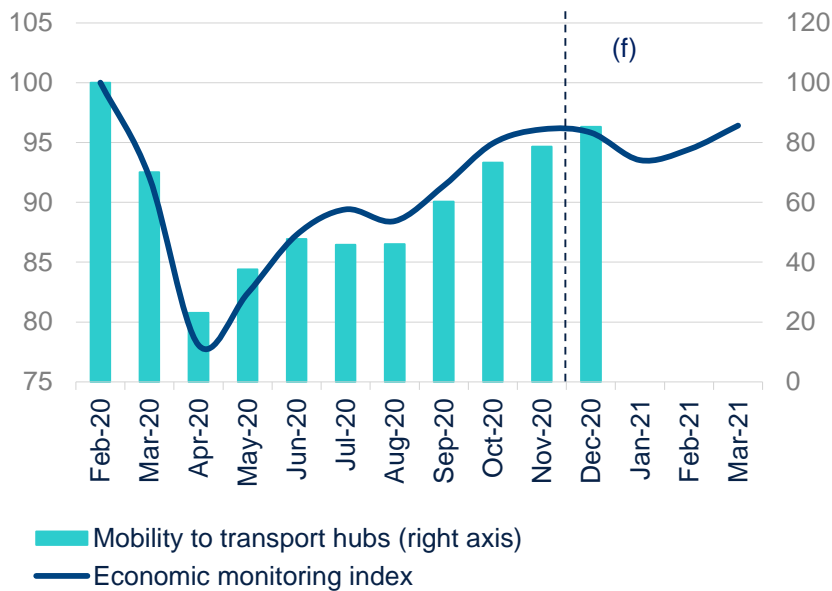
● ICU >70%:

Source: BBVA Research with data from Ministry of Health and local governments.

The regional capacity of health systems to respond to the demands of the pandemic will determine lockdown policies or other government initiatives.

The relationship between mobility, which is affected by targeted lockdowns, and economic activity is very high

ECONOMIC MONITORING INDEX & GOOGLE MOBILITY INDEX (FEB 2019 INDEX = 100 AND %)



- The behavior of the pandemic and the measures to contain it will continue to have an influence on economic recovery.
- Both mobility and the GDP improved in the third quarter of 2020. Mobility continued to recover at the end of the year, and we also expect GDP to follow.
- In the first quarter of 2021, targeted lockdowns may interrupt the recovery process.

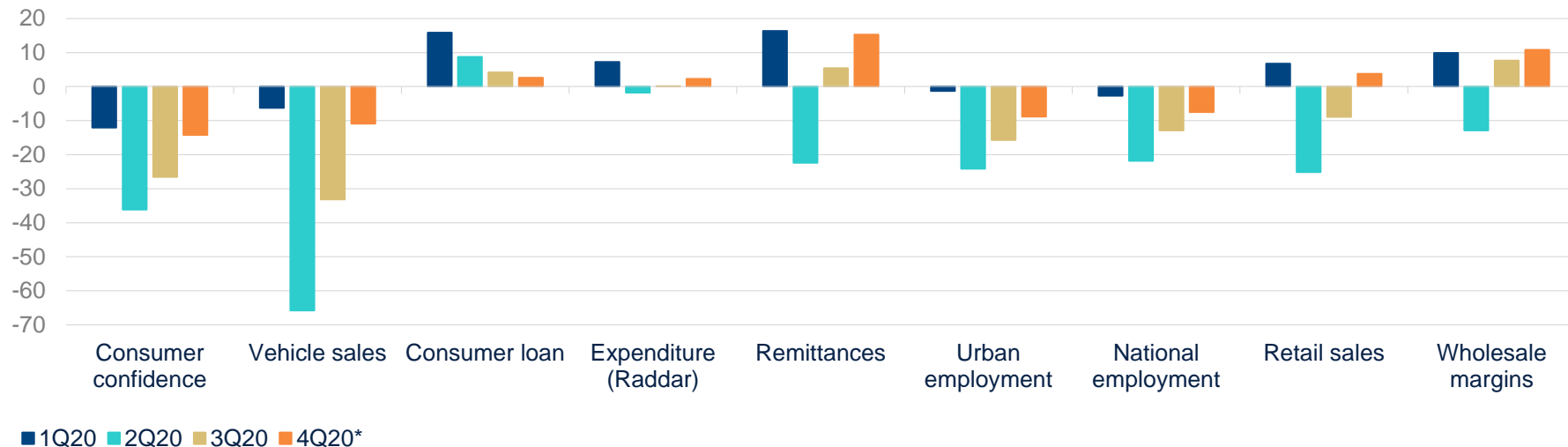
03

Economic recovery will
be consolidated in 2021,
although differences in performance will
continue

Leading consumer indicators showed significant dynamism, driven by the relaxation of restrictions and retail strategies

LEADING CONSUMPTION INDICATORS

(ANNUAL CHANGE AND RESPONSE BALANCE FOR CONFIDENCE INDICATORS, %)

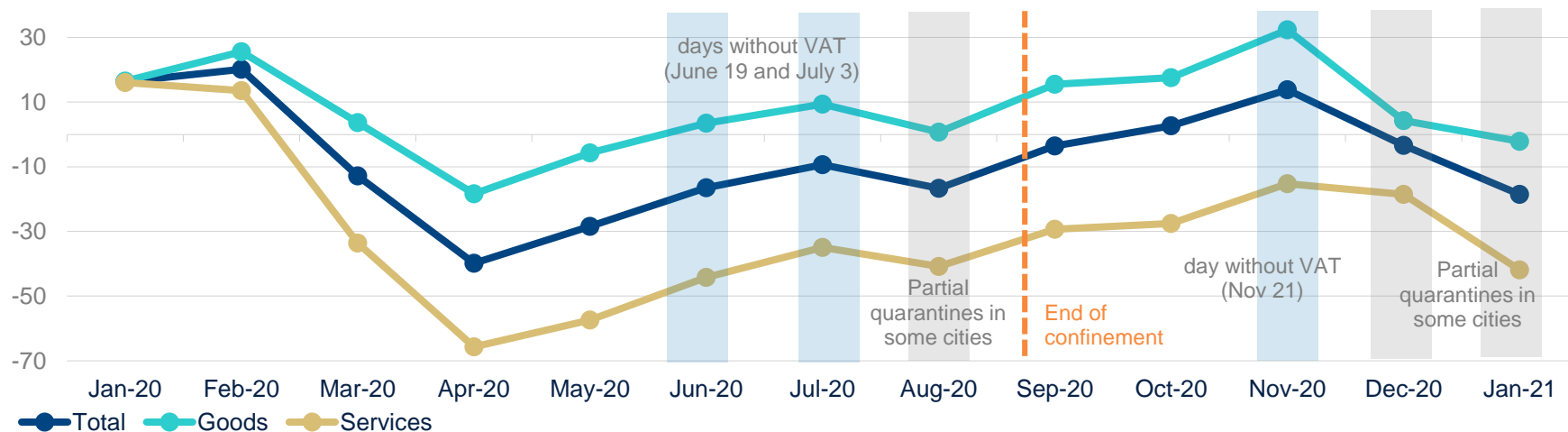


(*) In the fourth quarter, data from December for Consumer Confidence, Vehicle Sales, Raddar and Credit. Data from November for Expenditure, Remittances and Employment. Retail and Wholesale Sales.
Source: BBVA Research with data from DANE, Fenalco, BanRep, Raddar and Fedesarrollo.

The “No VAT day” and faster payment of Christmas bonuses for some employees helped bring forward part of December's expenditure.

Our indicator shows outstanding dynamism in the fourth quarter of 2020, which has slowed since December due to lockdown measures

BBVA CONSUMPTION TRACKER (*) (ANNUAL CHANGE, %)



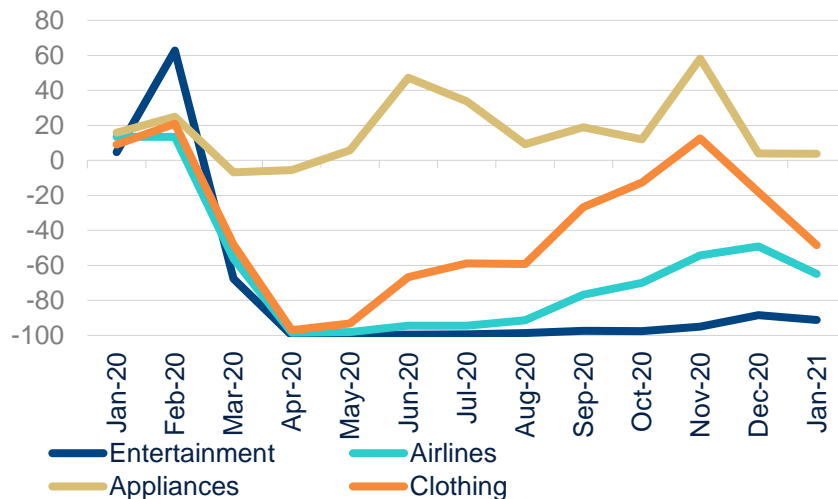
*Data as of January 18, 2021.

Source: BBVA Research based on BBVA transactional data.

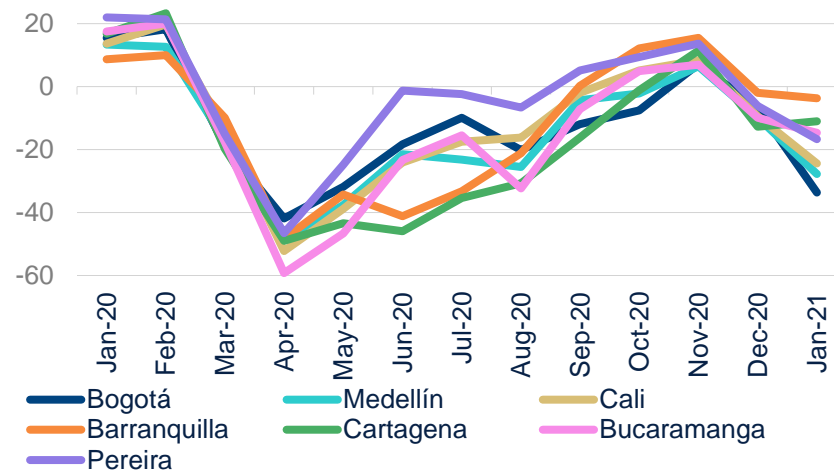
Consumption in 2020 fell by 6.7% in nominal terms, with a 9.2% growth in expenditure on goods and a 28% drop in expenditure on services.

Lower expenditure on services allowed for an increase on good purchases, partially offsetting the reduction on consumption

BBVA CONSUMPTION TRACKER BY TYPE (*)
(ANNUAL CHANGE, %)



BBVA CONSUMPTION TRACKER BY CITY (*)
(ANNUAL CHANGE, %)



*Data as of January 18, 2021.

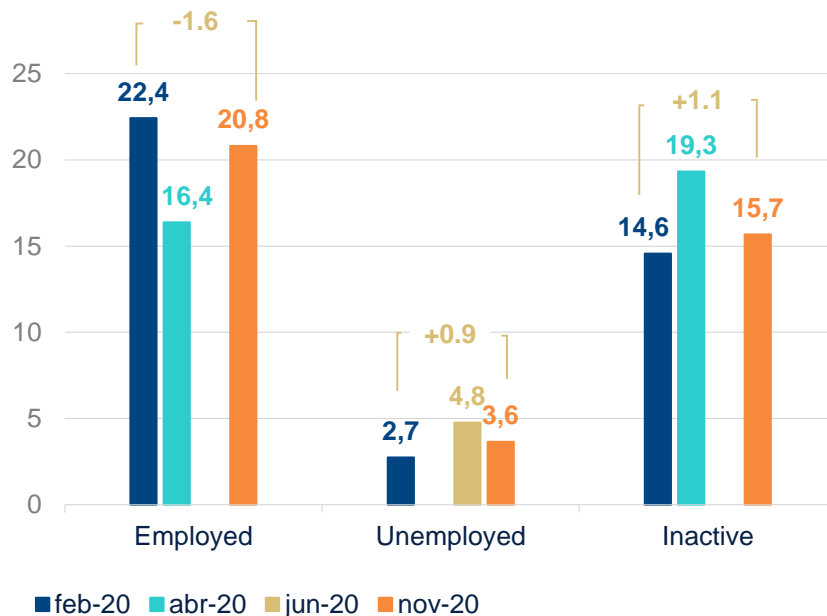
Source: BBVA Research based on BBVA transactional data.

Additional disparities are seen in recovery by city: those with higher levels of tourist activity suffered slowdowns and will be negatively affected by further lockdowns.

In the future, employment performance and public support for employment and households will be key to sustaining consumption recovery

LABOR MARKET AT THE NATIONAL LEVEL

(MILLIONS OF PEOPLE)



- By November, 73% of the jobs lost during the worst periods of the lockdown had been recovered. 1.6 million jobs still remain to be recovered.
- In addition to labor income, household expenditure has been supported by government subsidies. Support for vulnerable households was extended until mid-year and PAEF* will be maintained in the first quarter of 2021. PAEF covers more than 20% of formal payrolls and costs about 0.1% of GDP per month.

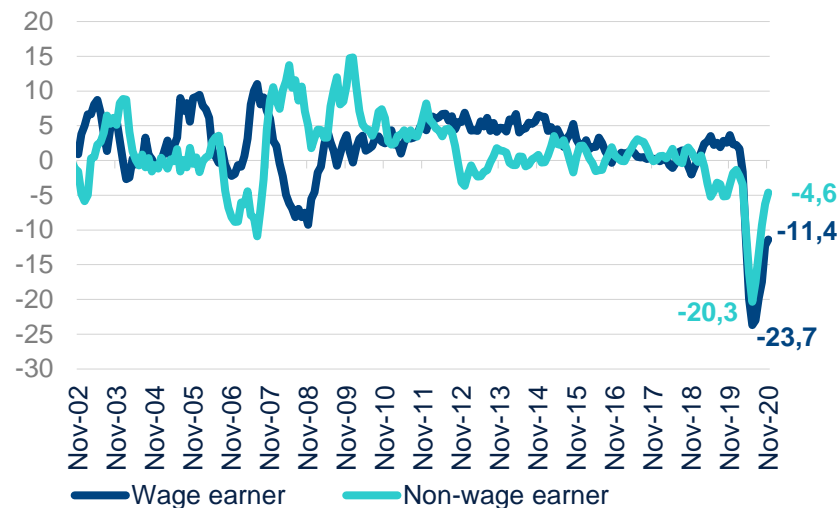
* Programa de apoyo al empleo formal (Formal employment support program).

Source: BBVA Research with data from DANE.

Recovered jobs have a highly informal component, creating further disparities in the recovery

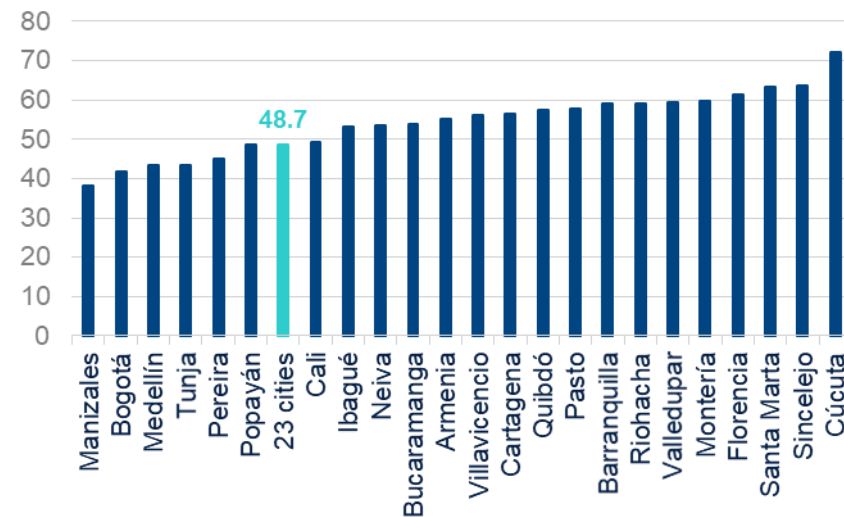
NATIONAL JOB CREATION BY TYPE

(ANNUAL CHANGE, %)



INFORMAL EMPLOYMENT BY CITY

(% OF EMPLOYED INDIVIDUALS, NOV-20)

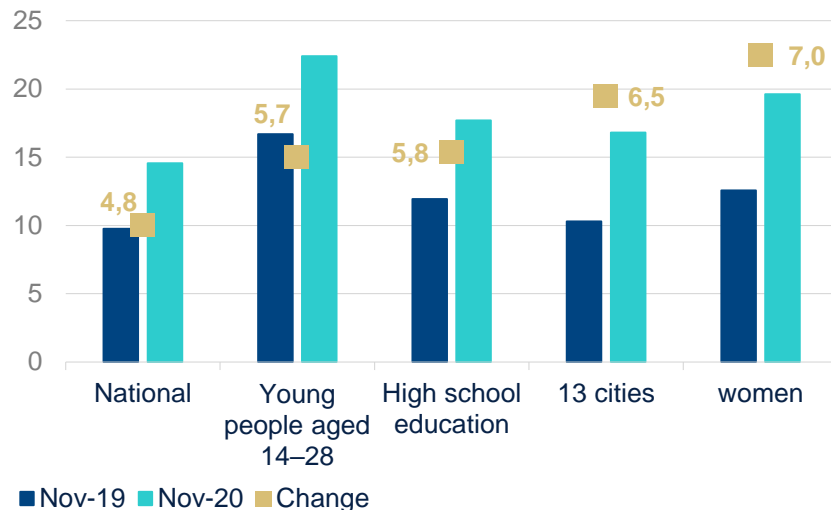


Source: BBVA Research with data from DANE.

Informality had a diverging behavior, increasing in the five largest cities and for the 23 city aggregate, while other cities had a more dispersed behavior.

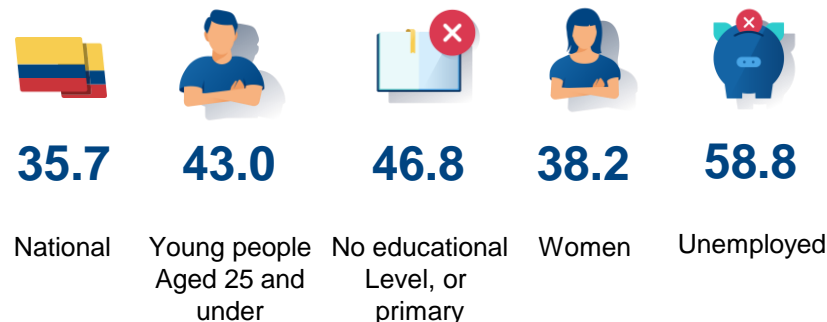
The unemployment rate deteriorated further for women, people in urban areas, people with a high school education and young people

UNEMPLOYMENT RATE BY GROUP (% OF LABOR FORCE*, PERCENTAGE POINTS)



*Quarterly data. Nov refers to the quarter ended in November.
Source: BBVA Research with data from DANE.

TOTAL MONETARY POVERTY BY POPULATION GROUP (2019, % OF GROUP'S POPULATION)



Unemployment makes people more vulnerable. In 2019, 58.8% of people in households in which the head of the household was unemployed were poor.

Investment also shows a recovery according to recent indicators available. However, conflicting trends have also appeared

LEADING INVESTMENT INDICATORS

(ANNUAL CHANGE AND RESPONSE BALANCE FOR CONFIDENCE INDICATORS, %)

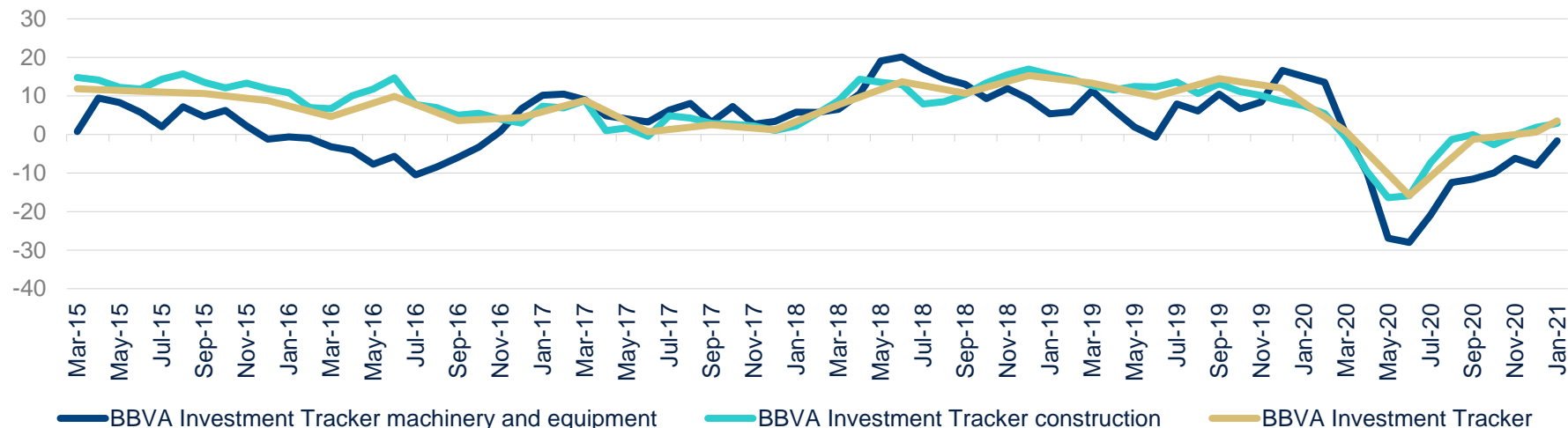


(*) In the fourth quarter, data from December for Energy, Oil Production, Industrial Confidence, Housing Sales and Credit. Data from November for Exports, Industrial Production and Imports.
Source: BBVA Research with data from DANE, XM, ANH, Camacol, BanRep and Fedesarrollo.

Investment in machinery and equipment recovered faster (V-shaped: due to restocking of inventories, prior savings and partly thanks to a one-off decision). Investment in housing will recover later.

Investment recovery, very strong between Jul-Sep 2020 in order to replenish inventories, will continue at a slower pace after the initial rebound

BBVA INVESTMENT TRACKER (*) (ANNUAL CHANGE, %)



*Data as of January 18, 2021.

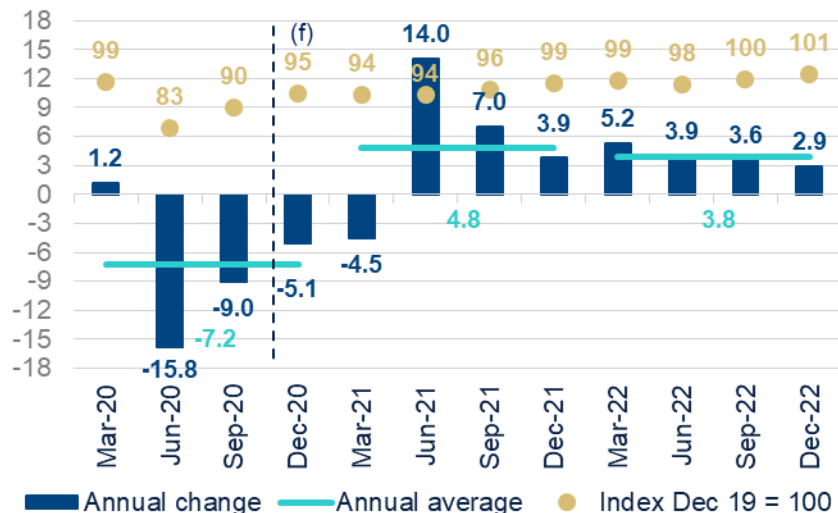
Source: BBVA Research with transactional data from BBVA

Investment behavior is likely determined by the performance of inventories and the solvency capacity of companies, which varies by size and by city.

Overall, these trends in the leading indicators point to a progressive recovery of economic activity, consolidating in 2021

GDP: ANNUAL CHANGE AND INDEX

(ANNUAL CHANGE IN %, INDEX: DEC 19 = 100)

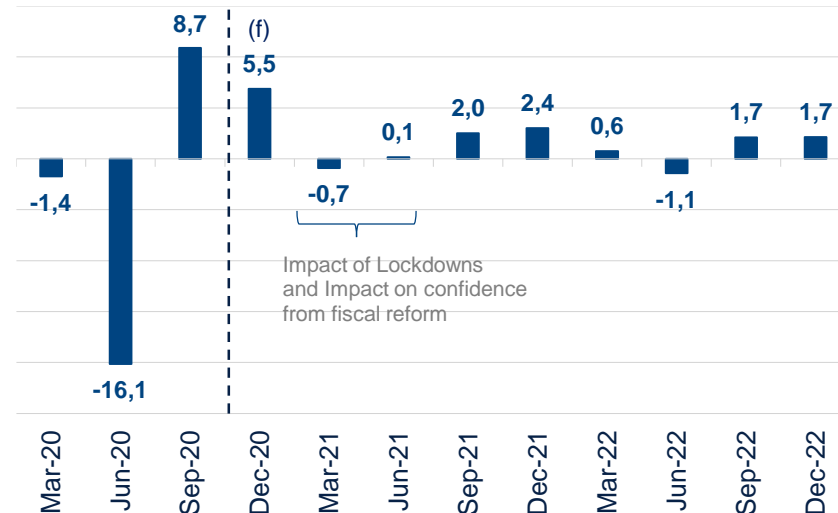


(f): BBVA Research forecasts.

Source: BBVA Research with data from DANE.

GDP: QUARTERLY CHANGES

(Q/Q, %)

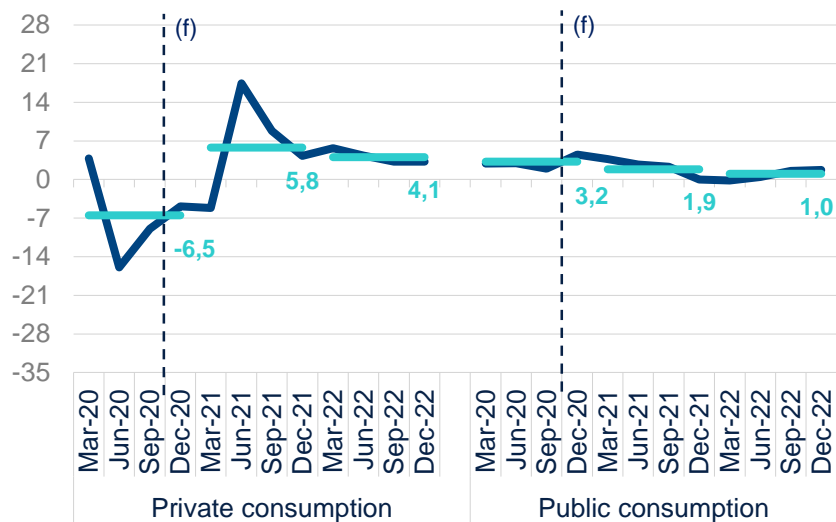


By the end of 2022, there will be a return to the GDP level of 2019, following the sharp Covid-19 shock that led it to mid-2013 levels.

Performance will be driven by domestic demand, with public consumption remaining positive and private demand regaining traction

FINAL CONSUMPTION

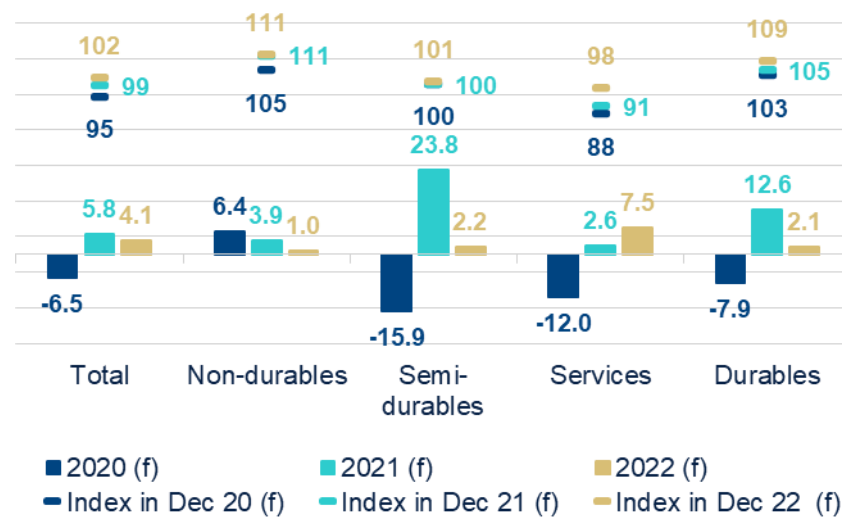
(ANNUAL CHANGE, %)



(f): BBVA Research forecasts.
Source: BBVA Research with data from DANE.

BREAKDOWN OF PRIVATE CONSUMPTION

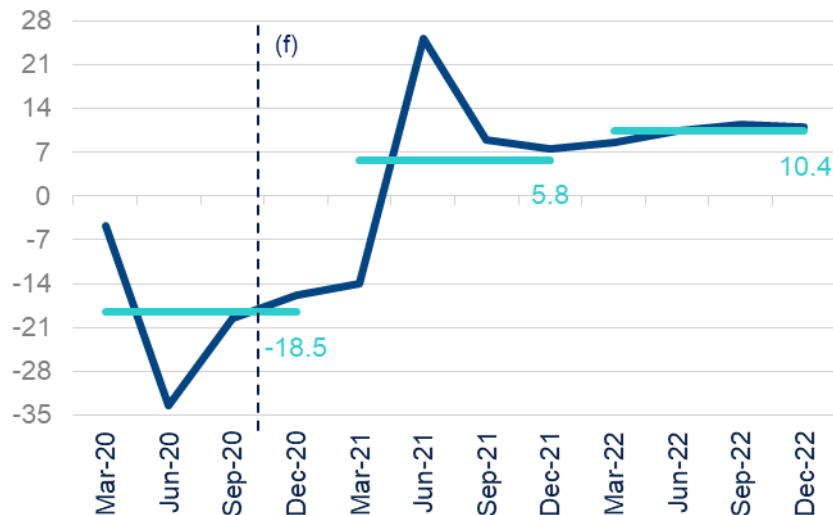
(ANNUAL CHANGE IN %, INDEX: DEC 19 = 100)



Private consumption will show two disparate trends in 2021, consolidating the recovery for goods while services show a slower recovery. Services will drive consumption in 2022.

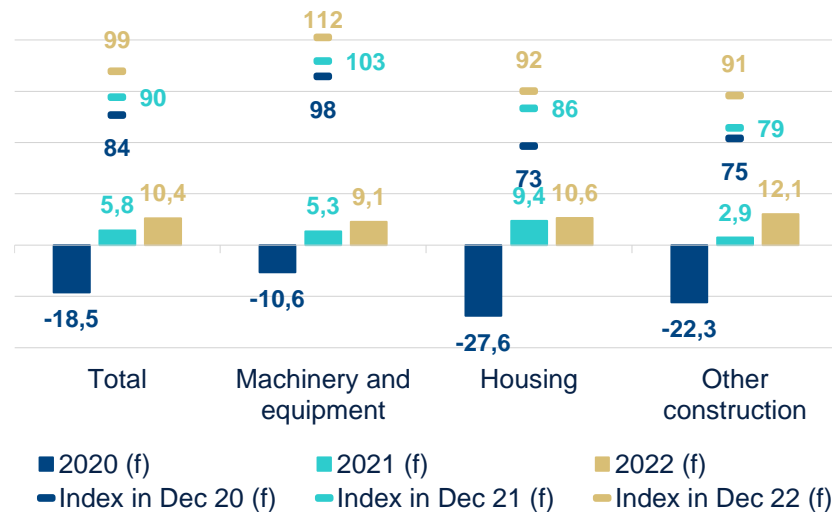
Investment will see positive momentum in 2021, thanks to the continued expenditure on machinery that began in Jul - Sep 2020, and the rebound in housing

FIXED INVESTMENT (ANNUAL GROWTH, %)



(f): BBVA Research forecasts.
Source: BBVA Research with data from DANE.

BREAKDOWN OF FIXED INVESTMENT (ANNUAL CHANGE IN %, INDEX: DEC 19 = 100)

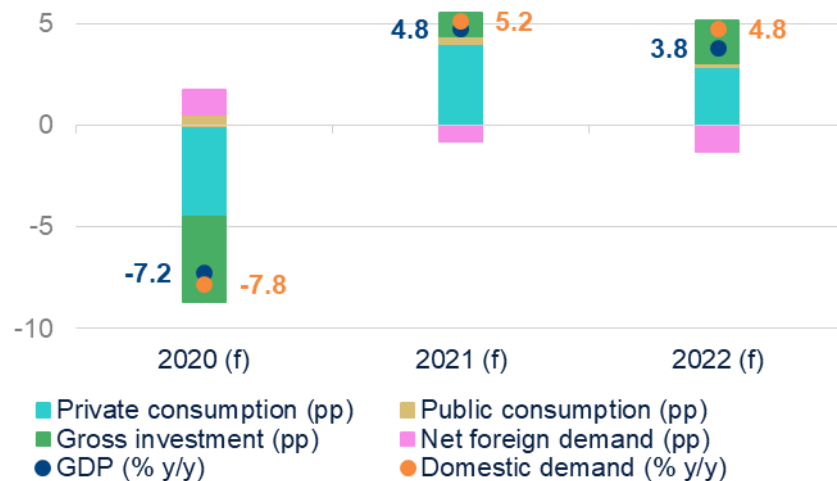


Investment will recover pre-pandemic levels at the same time as the GDP (end of 2022) and a little after private consumption (March 2022), despite the shortfall in non-residential recovery.

Overall, domestic demand will continue to drive GDP growth, while foreign demand will contribute negatively from 2021 onward

GDP BY DEMAND COMPONENT

(CONTRIBUTION TO Y/Y IN GDP, PP, AND ANNUAL CHANGE, %)

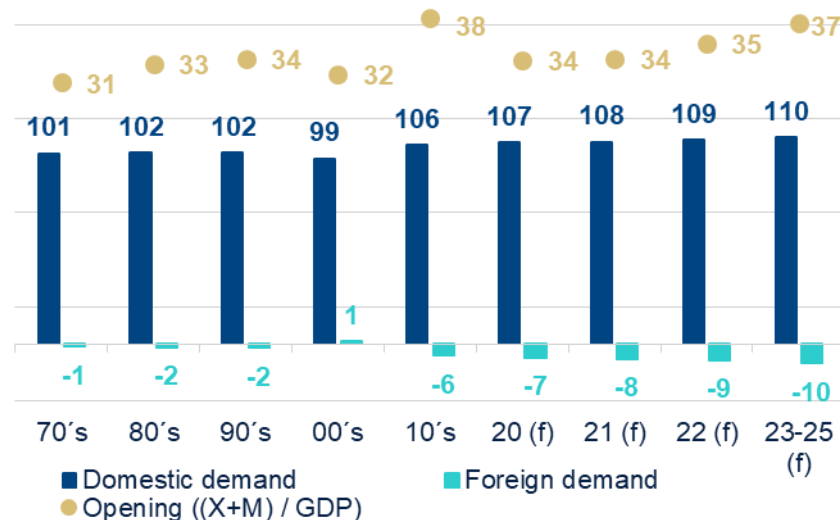


(f): BBVA Research forecasts.

Source: BBVA Research with data from DANE.

GDP BY COMPONENT: A HISTORICAL VIEW

(SHARE OF GDP, %)

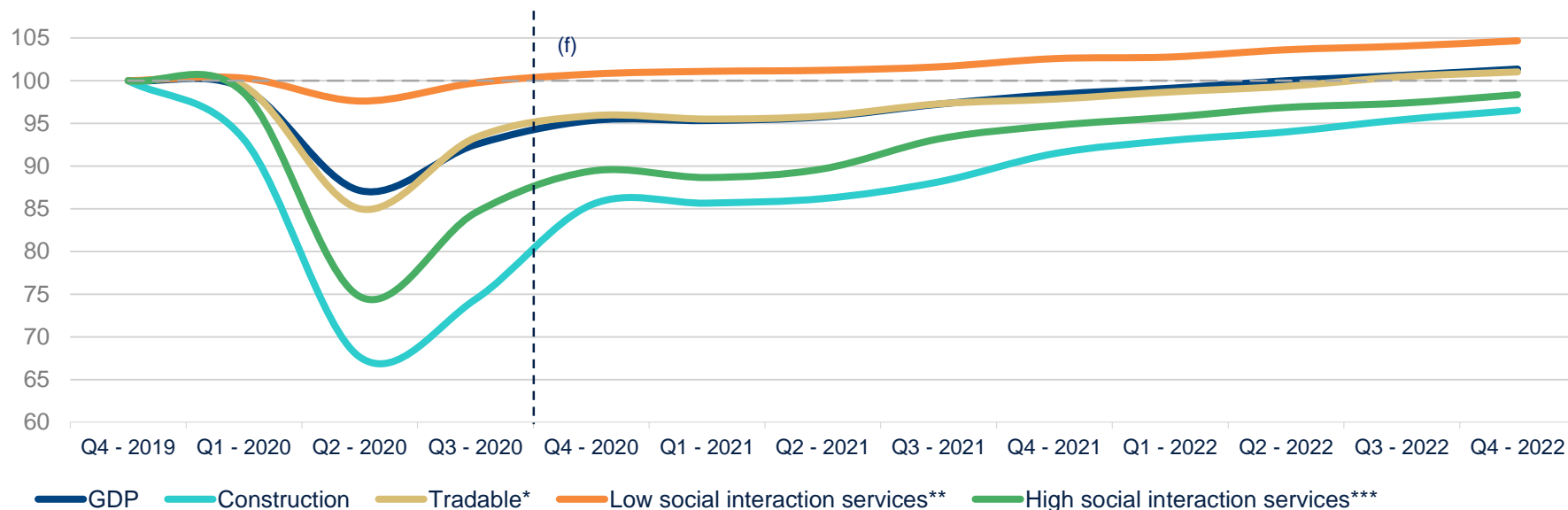


External demand contribution will be negative in 2021–22, due to the faster rebound in imports driven by domestic demand vs. exports. Then, in 2023, exports will improve their performance.

Social interaction sectors, in addition to having the most negative effect on activity during the lockdown, will take longer to return to pre-pandemic levels

GDP BY ECONOMIC SECTOR

(INDEX: DEC 19 = 100)



* Tradable sectors include the agriculture, mining and industry sectors. ** Includes financial activities, real estate, utilities, government and information and communications. *** Includes the trade, hotel and restaurant, and transport sectors, artistic activities, professional services and other business services..

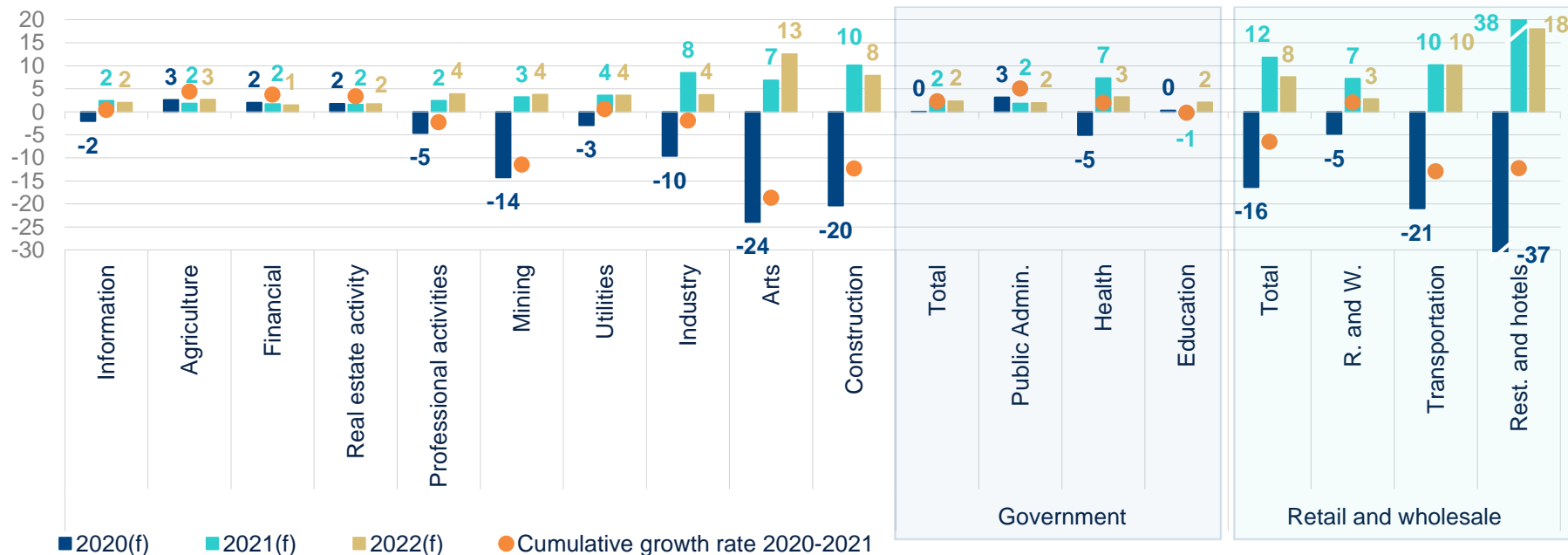
(f): BBVA Research forecast.

Source: BBVA Research with data from DANE.

2021 growth rate will be boosted by the rebound effect of the sectors most affected by the pandemic. In 2022 the recovery will continue at a slower pace

GDP ON THE SUPPLY SIDE

(ANNUAL CHANGE AND CUMULATIVE RATE, %)



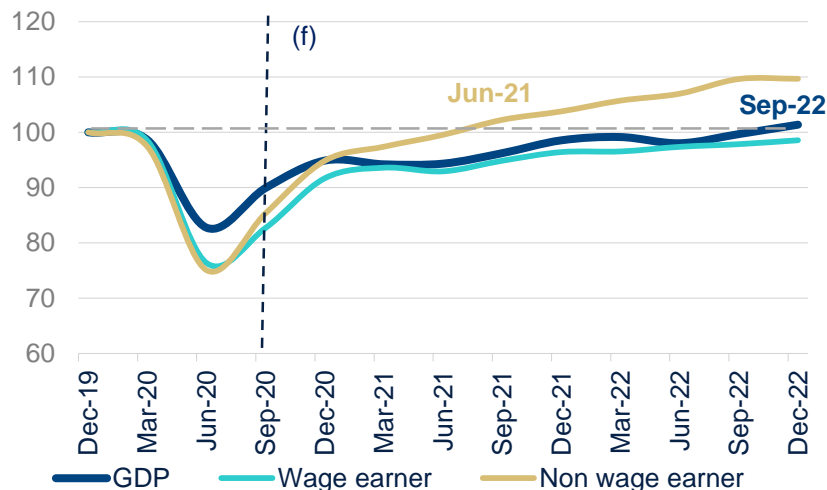
(f): BBVA Research forecast.

Source: BBVA Research with data from DANE.

The recovery of the economy will be accompanied by an improvement in employment, although mostly driven by informal employment

GDP AND URBAN JOBS BY TYPE

(SEASONALLY ADJUSTED INDEX, INDEX: DEC 19 = 100)

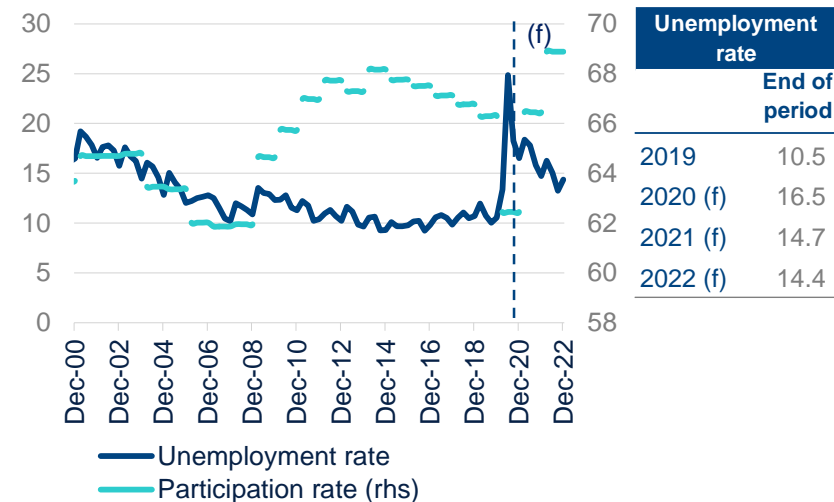


(f): BBVA Research forecast.

Source: BBVA Research with data from DANE.

UNEMPLOYMENT RATE AND LABOR PARTICIPATION

(% OF LABOR FORCE AND WORKING AGE POP., URBAN)



The unemployment rate will gradually reduce, due to an increase in the number of people willing to work.

04

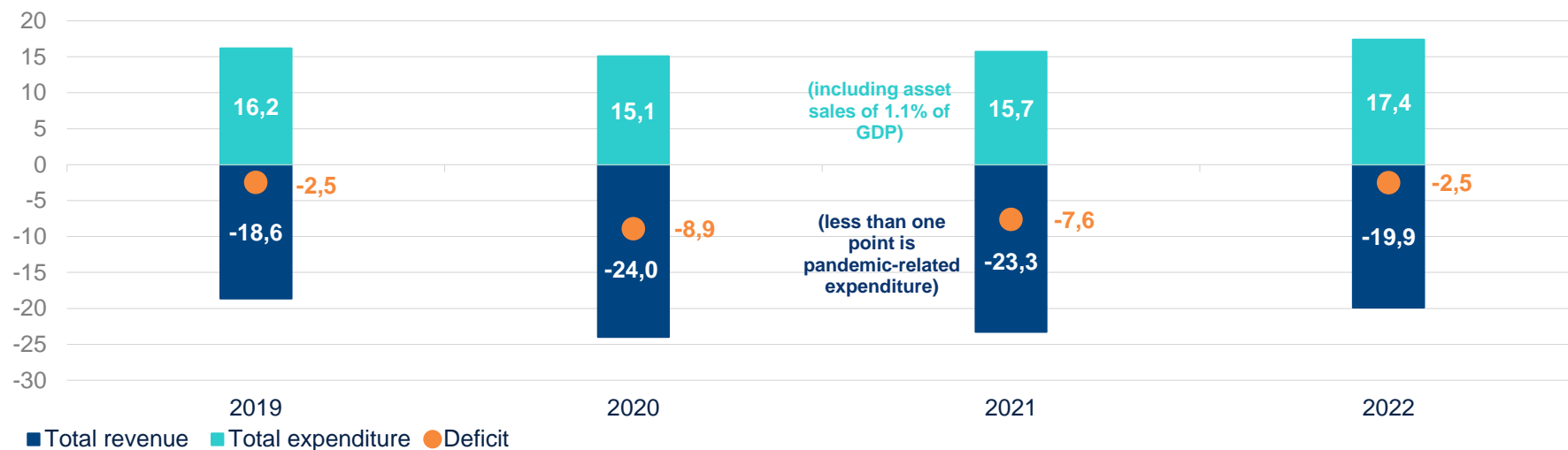
Heterogeneities in macroeconomic balances:

The external deficit adjusted more quickly
than the fiscal deficit

The most recent estimate of the fiscal accounts by the Government highlights the challenge of converging to the Fiscal Framework goals

REVENUE, EXPENDITURE AND FISCAL DEFICIT

(% OF GDP, NATIONAL CENTRAL GOVERNMENT)



Source: BBVA Research with data from Minhacienda in the Medium Term Fiscal Framework for 2022 and the Committee of Experts on Fiscal Rule.

This year, all eyes will be on the discussion of a fiscal reform or a more ambitious asset sale program.

The main points of a fiscal reform could be the elimination of exemptions (in income tax and VAT) and an expenditure review



Review of exemptions

Context: exemptions hinder revenue collection, progressiveness, efficiency and the simplicity of the tax system.

Content of the tax reform: it could include an increase in the VAT rate of some basic goods, accompanied by compensation for the most vulnerable, and a review of other exemptions, especially in terms of corporate taxes.



Review of personal taxation

Context: the tax system collects more revenue from companies than from individuals. About 80% of the income tax falls on enterprises

Content of the tax reform: it could include a universal personal income tax return



Expenditure efficiency

Context: Subsidies are poorly targeted and do not help reduce income inequality in the country

Content of the tax reform: it could improve the targeting of subsidies through better segmentation of beneficiaries.

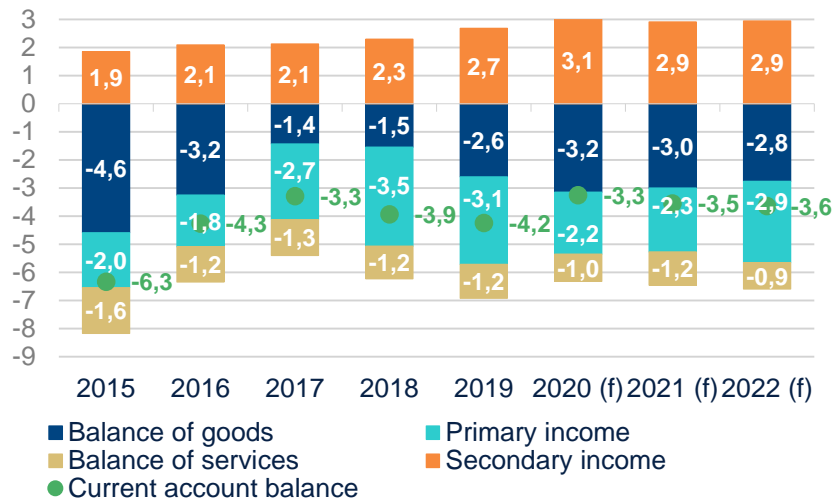
Source: BBVA Research.

The government needs structural revenue and also to send a strong message about the sustainability of fiscal accounts in the medium term.

On the other hand, sending fewer dividends abroad and a strong surge in remittances helped close the current account deficit

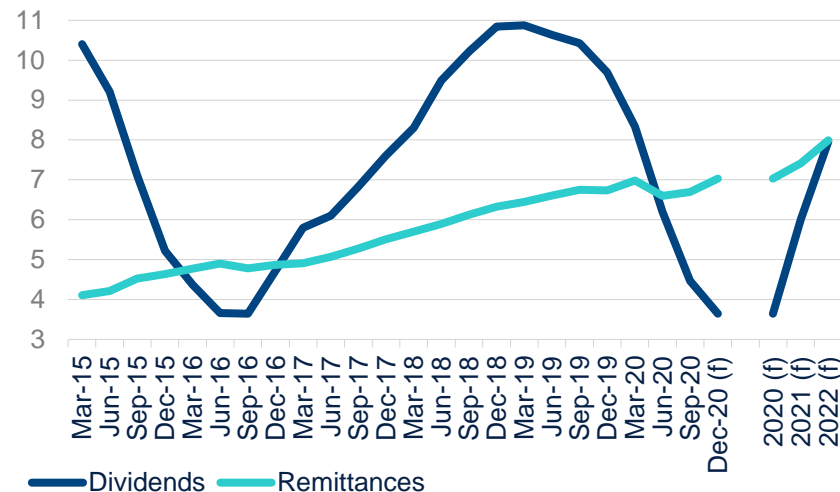
CURRENT ACCOUNT DEFICIT

(CONTRIBUTIONS TO DEFICIT, % OF GDP)



DIVIDEND REIMBURSEMENTS ABROAD AND ARRIVAL OF REMITTANCES

(USD BILLIONS, 4 QUARTER-STOCK)



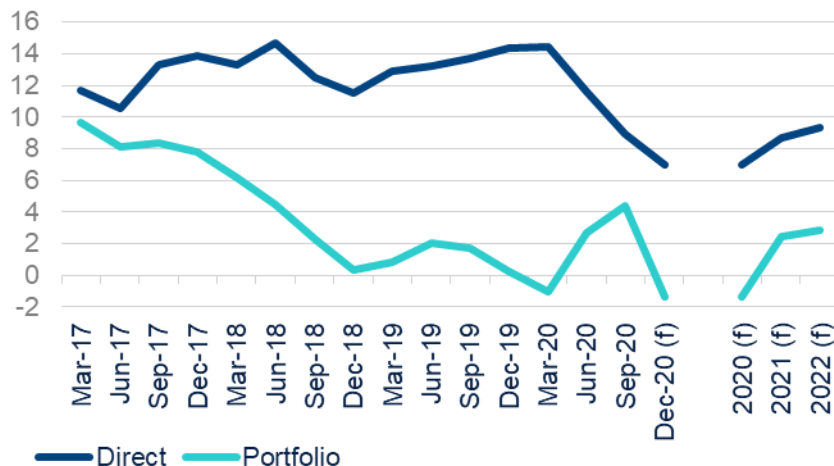
(f): BBVA Research forecasts.

Source: BBVA Research with data from *Banco de la República*.

From this point forward, the very gradual recovery in mining production and the good performance of labor markets in developed countries will maintain the trend.

External public resources financed the current account in 2020. For 2021 and 2022 financing will depend more on private funding

EXTERNAL INVESTMENT: DIRECT AND PORTFOLIO (USD BILLIONS, 4 QUARTER-STOCK)

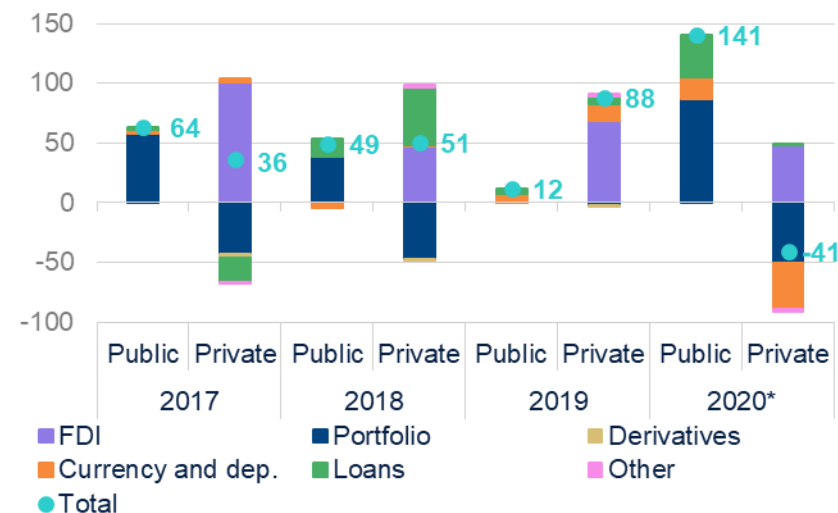


(*): Data as of September.

(f): BBVA Research forecasts.

Source: BBVA Research with data from *Banco de la República*.

SOURCES OF EXTERNAL FINANCING (% OF TOTAL)

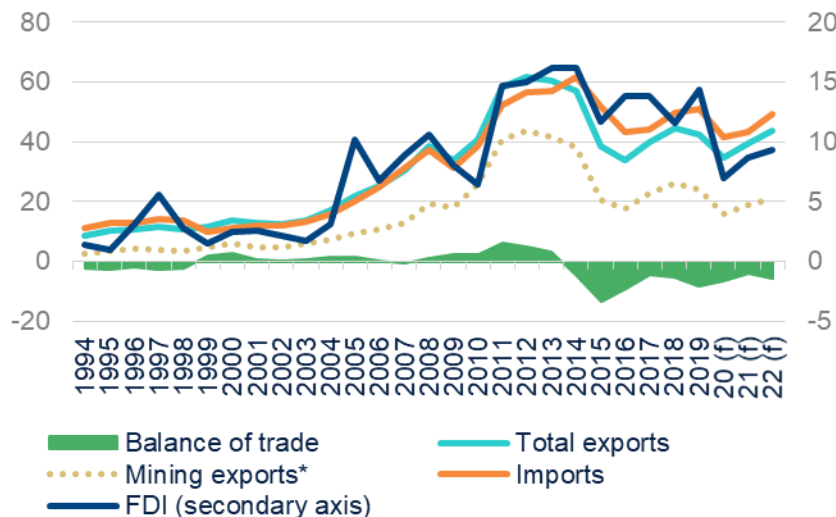


The recovery of foreign direct investment (FDI) and the larger portfolio inflows will help meet these financing needs.

The recovery of exports, mainly mining, will help increase FDI inflows and maintain the trade deficit relatively stable

FDI AND TRADE BALANCE

(BILLIONS OF DOLLARS)



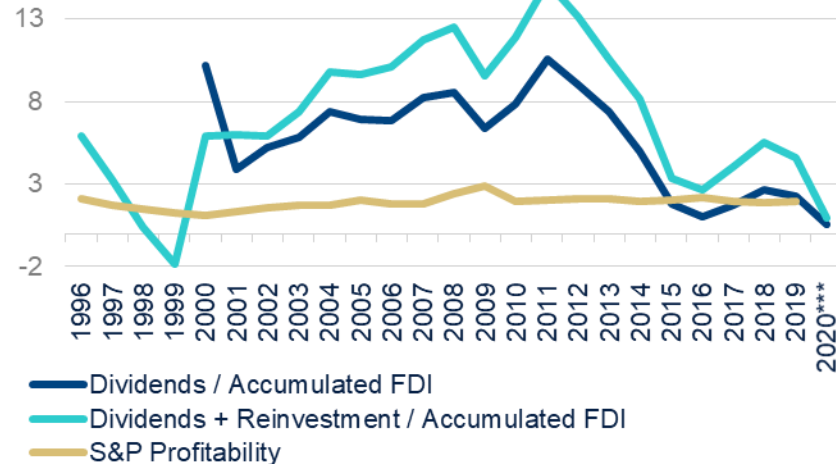
(*) Gold, emeralds, oil, coal and iron-nickel alloy (**): Measured through the remittance of dividends abroad (***) data as of September.

(f): BBVA Research forecasts.

Source: BBVA Research with data from DANE and Fedesarrollo.

PROFITABILITY** OF FOREIGN INVESTMENT

(DIVIDEND REIMBURSEMENT/FDI STOCK, %)

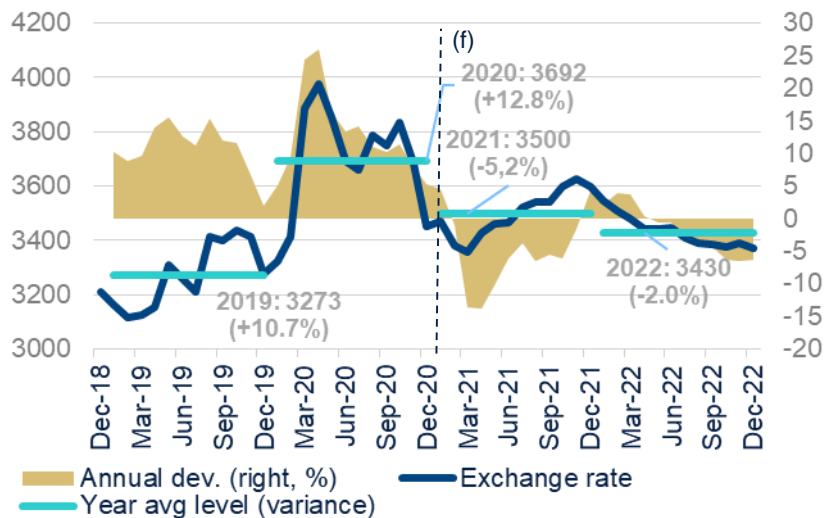


In addition, an improvement in the domestic profitability of FDI can be achieved thanks to a better economic and business environment, encouraging the inflow of external investment.

The exchange rate will follow an appreciation process over the next two years, although it may show upward volatilities due to fiscal uncertainty

AVERAGE MONTHLY EXCHANGE RATE

(PESOS PER DOLLAR AND %)



(f): BBVA Research forecasts.

Source: BBVA Research with data from BanRep.

- At the end of 2020, several positive factors led to a **strong appreciation of the peso**: the news about vaccines, US election results, the IMF disbursement, and its partial monetization, among others.
- We expect **further appreciation** in the first months of 2021 due to seasonality effects and an appetite for emerging market assets (until April).
- However, the gains in the price of crude oil and the anticipation of a lower risk scenario should already be reflected in the peso. Thus, the second half will be less positive due to the uncertainty of a fiscal reform, rating announcements and an expected slowdown in portfolio flows.

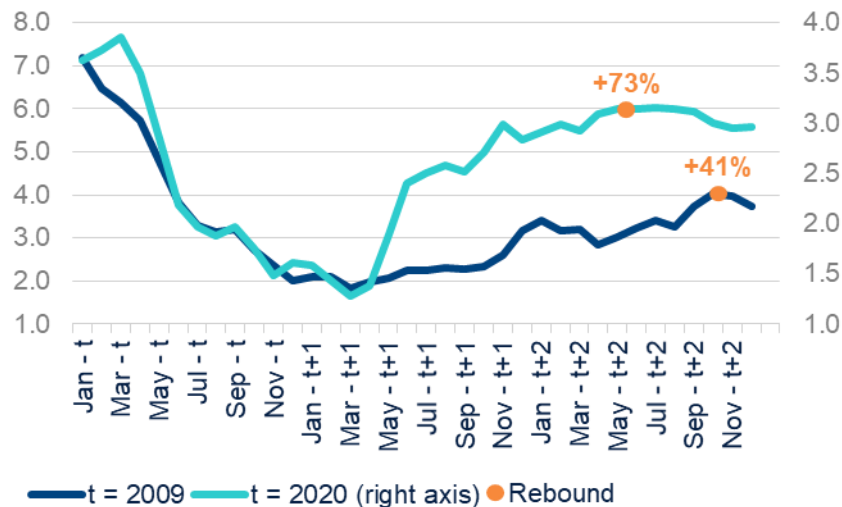
Ample global liquidity supports a weakening cycle of the dollar and the strengthening of emerging currencies, especially.

05

The Central Bank has
enough inflationary room
to keep interest rates low for a long time

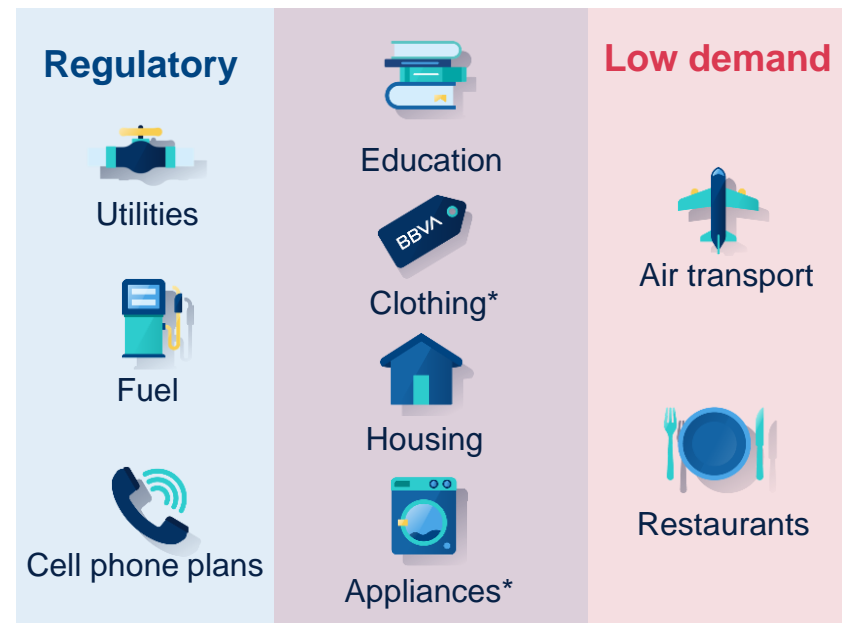
Annual inflation ended 2020 at 1.6%, the lowest level for a year-end since 1954

INFLATION: COMPARISON BETWEEN LOW GROWTH YEARS (ANNUAL CHANGE, %)



*Affected by the "Day Without VAT".

Source: BBVA Research with data from DANE.

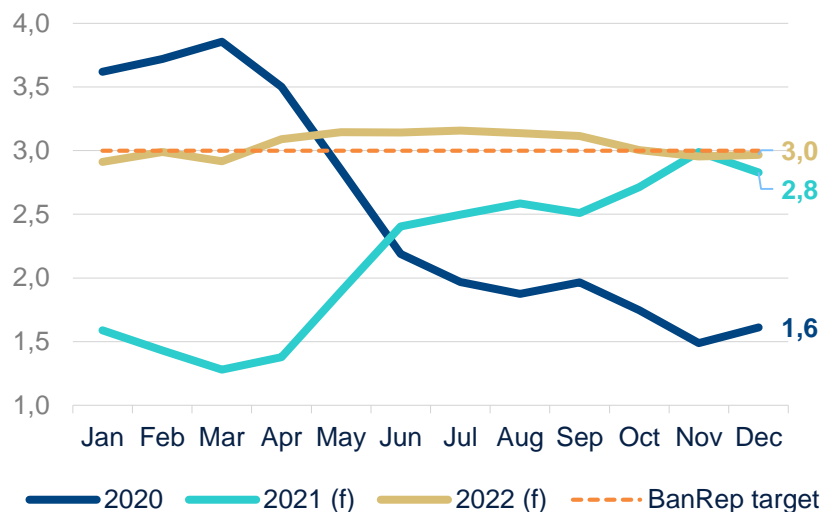


Given that not all of the reduction in inflation was due to demand effects, but also to one-off discounts, inflation will increase faster than in previous cycles.

We expect annual inflation to be around the Central Bank's target at the end of 2021 and 2022 (target: 3.0%)

INFLATION

(ANNUAL CHANGE, %)



(f): BBVA Research forecasts.

Source: BBVA Research with data from DANE.

INFLATION RISKS IN 2021



High share of education fees and housing normalization.



Increased transmission of costs associated to biosecurity measures and capacity constraints.



Over-adjustment in utility fees after the end of special tariff conditions due to the health emergency.



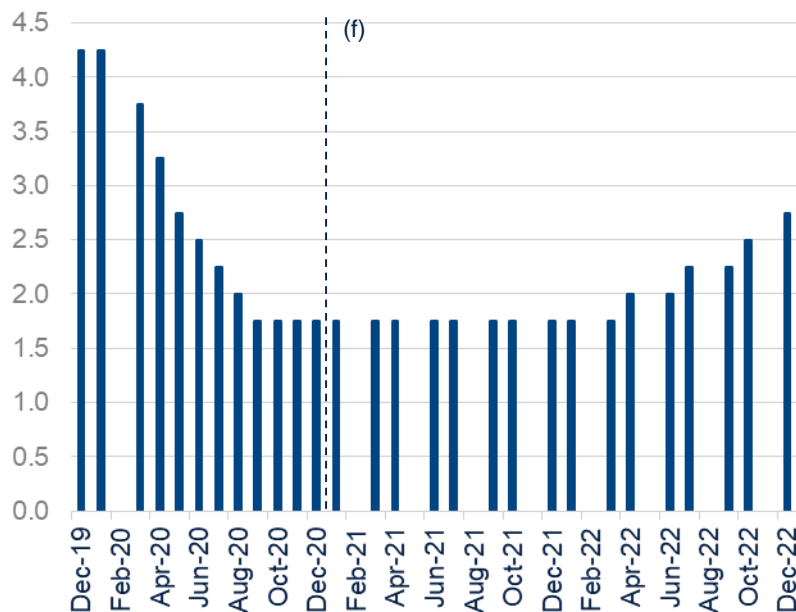
Excessive indexing of prices and rates to the minimum wage.

Inflation risks are skewed upward and will be determined by the rate at which housing and education fee discounts are normalized.

The Central Bank will maintain the interest rate at 1.75% until the second quarter of 2022, when it begins a policy standardization cycle

POLICY INTEREST RATE

(ANNUAL EFFECTIVE, %)



- In the short term, new restrictions on mobility and the expectation of lower inflation until April 2021 may keep the discussion of possible rate cuts open with the Bank's Board of Directors, in line with the split vote of the December 2020 policy meeting.
- In the medium term, the risks of an accelerated upturn in inflation due to the negotiation of reduced rate agreements on some services (education fees and housing, especially) could promote the discussion for an early start to the upward rate cycle.
- Gains from additional rate cuts, in the current context, may be limited, while the costs of anticipating an upward rate cycle could slow down the economic recovery process, especially for investment.

(f): BBVA Research forecasts.

Source: BBVA Research with data from BanRep

06

Conclusions:

recovery is consolidating amid heterogeneous trends. Public policy can play a role in reducing such disparities

What to take away



Global growth with greater dynamism in Asia than in the rest of the world, a disparity that is also determined by the evolution of the pandemic.



Household savings due to the limited expenditure in some services is boosting purchases of retail goods around the world, including Colombia.



Regional disparities in Colombia: the most service-oriented cities have seen the greatest economic impact from lockdowns.



Investment will recover faster in machinery and equipment, then in housing, and will trail much more in non-residential buildings.



Employment will recover, but with lower momentum for women, for wage earners and for young people



More formal companies with lower exposure to the service sector had a greater capacity to cope with the crisis.



While the external deficit adjusted rapidly, the fiscal deficit will take longer to moderate.



07

Annex

Main macroeconomic variables

TABLE A1. MACROECONOMIC FORECAST

	2017	2018	2019	2020 (f)	2021 (f)	2022 (f)
GDP (% y/y)	1.4	2.5	3.3	-7.2	4.8	3.8
Private consumption (% y/y)	2.1	3.0	4.5	-6.5	5.8	4.1
Public consumption (% y/y)	3.6	7.0	4.3	3.2	1.9	1.0
Fixed investment (% y/y)	1.9	1.5	4.3	-18.5	5.8	10.4
Inflation (% y/y. eop)	4.1	3.2	3.8	1.6	2.8	3.0
Inflation (% y/y. avg)	4.3	3.2	3.5	2.5	2.2	3.0
Exchange rate (eop)	2,991.4	3,212.5	3,277.0	3,432.5	3,600.0	3,370.0
Devaluation (%. eop)	-0.6	7.4	2.0	4.7	4.9	-6.4
Exchange rate (avg)	2,951.3	2,956.4	3,272.6	3,693.3	3,498.8	3,431.7
Devaluation (%. eop)	-3.4	0.2	10.7	12.8	-5.2	-1.9
Interest policy rate (%. eop)	4.75	4.25	4.25	1.75	1.75	2.75
Fixed Term Deposit rate (%. eop)	5.3	4.5	4.5	1.9	1.9	2.5
Current Account (% GDP)	-3.3	-3.9	-4.2	-3.3	-3.5	-3.6
Urban unemployment rate (%. eop)	10.4	10.7	10.5	16.5	14.7	14.4

(f) Forecast.

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

Main macroeconomic variables

TABLE A2. MACROECONOMIC FORECAST

	GDP (% y/y)	Inflation (% y/y. eop)	Exchange rate (vs. USD. eop)	Interest Policy Rate (%. eop)
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	3,038	4.25
Q4 18	2.7	3.2	3,213	4.25
Q1 19	3.0	3.2	3,125	4.25
Q2 19	3.1	3.4	3,256	4.25
Q3 19	3.5	3.8	3,400	4.25
Q4 19	3.5	3.8	3,277	4.25
Q1 20	1.2	3.9	3,888	3.75
Q2 20	-15.8	2.2	3,691	2.50
Q3 20	-9.0	2.0	3,750	1.75
Q4 20	-5.1	1.6	3,432	1.75
Q1 21	-4.5	1.3	3,357	1.75
Q2 21	14.0	2.4	3,465	1.75
Q3 21	7.0	2.5	3,540	1.75
Q4 21	3.9	2.8	3,600	1.75
Q1 22	5.2	2.9	3,480	1.75
Q2 22	3.9	3.1	3,445	2.00
Q3 22	3.6	3.1	3,385	2.25
Q4 22	2.9	3.0	3,370	2.75



Colombia Economic Outlook

1Q21

Economic recovery will consolidate
in 2021 amidst some
heterogeneities

January 2021

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