

Colombia Economic Outlook

2Q21

01

Global environment

The global economy continues to recover despite the still complex epidemiological context

2020



Beginning and expansion of the pandemic, lockdowns, and vaccines developments



Massive fiscal and monetary stimuli



Sharp rise in financial volatility, followed by a gradual normalization



Incomplete and heterogeneous GDP rebound after the initial crash

Start of 2021



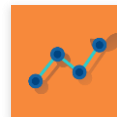
Start of vaccination, at different paces



Reinforced stimuli (fiscal packages in the US)



Increase of long term yields in the US and dollar appreciation

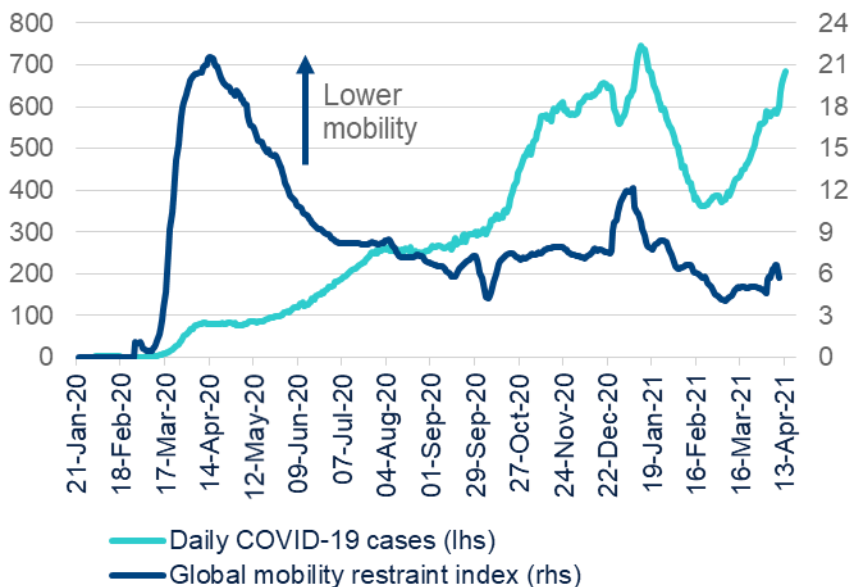


Recovery at different paces, depending on vaccination and stimuli

COVID-19 infections have increased again, following a sharp decrease at the start of the year, but mobility remains relatively high

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

(CASES: THOUSANDS OF PEOPLE , 7-DAY MOVING AVERAGE)



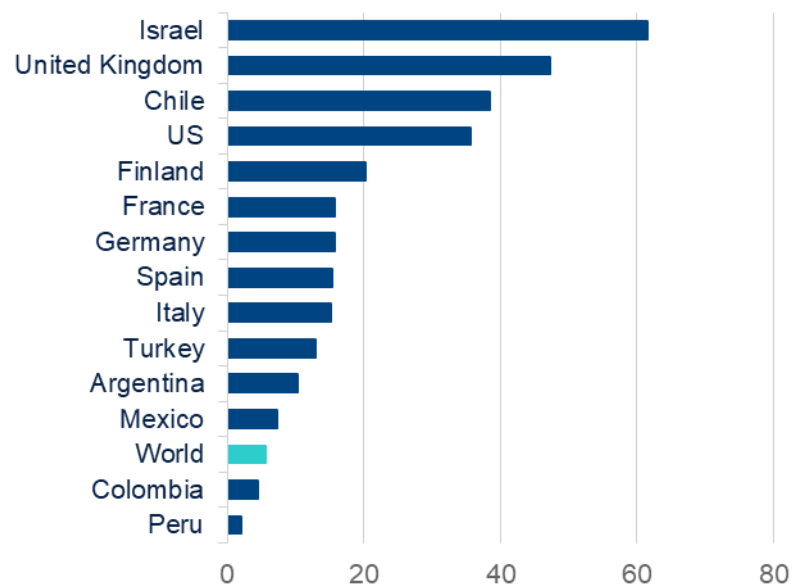
- Recent augment in infections in the US and, mainly, in Europe and Latin America, which have been forced to consider new restrictions.
- Virus mutations facilitate its spread.
- Less severe restrictions have limited the effect of contagions on mobility and on economic activity.

(*) The mobility restraint index reflects changes with respect to the period of reference (January 3 to February 6 2020). Higher values represent lower mobility. BBVA Research based on data from John Hopkins University and Google.

Vaccination has advanced quickly in some areas, but supply restrictions have limited the progress in most countries

POPULATION VACCINATED

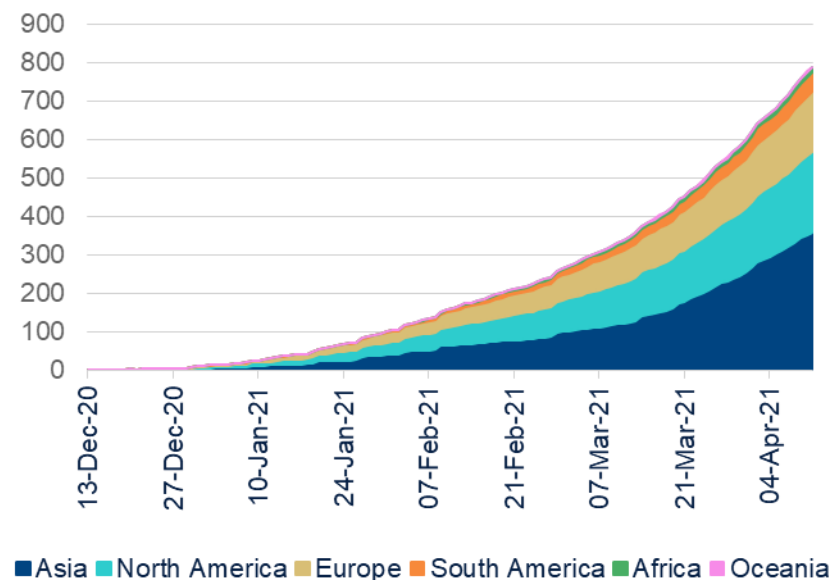
(% OF POPULATION THAT HAS RECEIVED AT LEAST ONE DOSE OF THE ANTI-COVID VACCINE AS OF APRIL 11 2021)



- The inoculation process advances with **heterogeneity** across countries.
- A **growing but still insufficient** supply has prevented a quicker rollout of vaccines.
- **Logistical and confidence problems** have also weighed negatively on the pace of vaccination.
- The available vaccines exhibit a **high rate of effectiveness**, according to growing evidence.

A growing supply will allow an acceleration of the vaccines rollout, but the risk of an early lift of restrictions has to be avoided

VACCINES SUPPLY (MILLIONS OF DOSES INOCULATED)

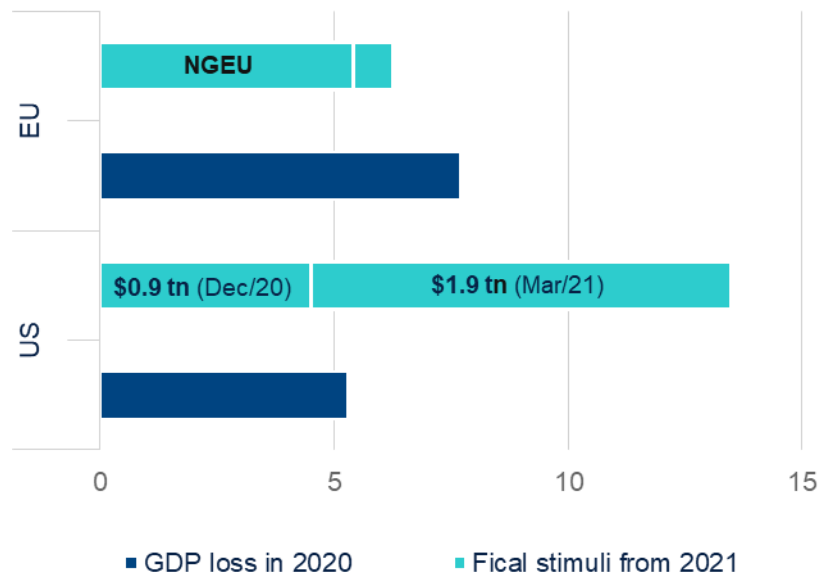


- A greater supply from a larger set of vaccines will make the control of the pandemic easier.
- The example posed by the leading countries in terms of vaccination suggests that an early reopening entails risks.
- The new strains will demand vaccines “adaptability”, something feasible in a reasonable period of time given the new technologies, but it could be a source of uncertainty going forward.

The new fiscal impulse in the US reinforces the view that economic policy is fully committed with the recovery, although it creates risks

GDP LOSS IN 2020 AND FISCAL STIMULUS(*)

(PP, % OF GDP)



- **Fiscal policy in the US:** approved measures supporting consumption (13% of GDP) and measures supporting investment currently being discussed (up to 15% of GDP over the next 10-15 years).
- **The Fed** is not worried about inflation and has suggested it will keep interest rates at zero level through at least 2023.
- In **Europe** the focus is on making **NGEU funds** available from mid year on.
- The **ECB** is intensifying asset purchases in this quarter with the aim of preserving the monetary policy accommodative stance.

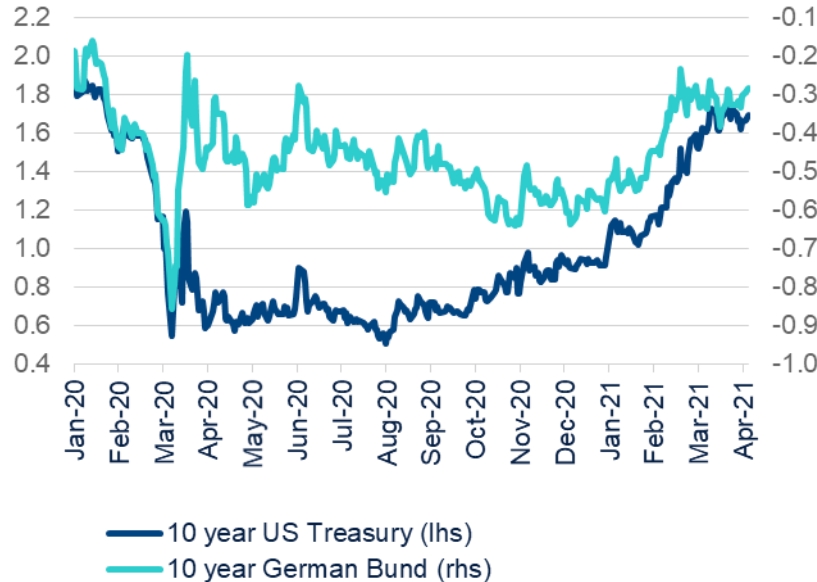
(*) GDP loss in 2020: difference between forecasted GDP before the crisis and the actual data. Fiscal stimuli to be implemented from 2021. US: USD 900 billions approved in Dec 2020 and USD 1.900 billion approved in Mar 2021. EU: NGEU and measures announced by the main countries in the region.

Source: BBVA Research.

Fast vaccination and the fiscal impulse in the US have triggered a rise in long term yields and a dollar appreciation

10-YEAR BOND YIELDS

(%)

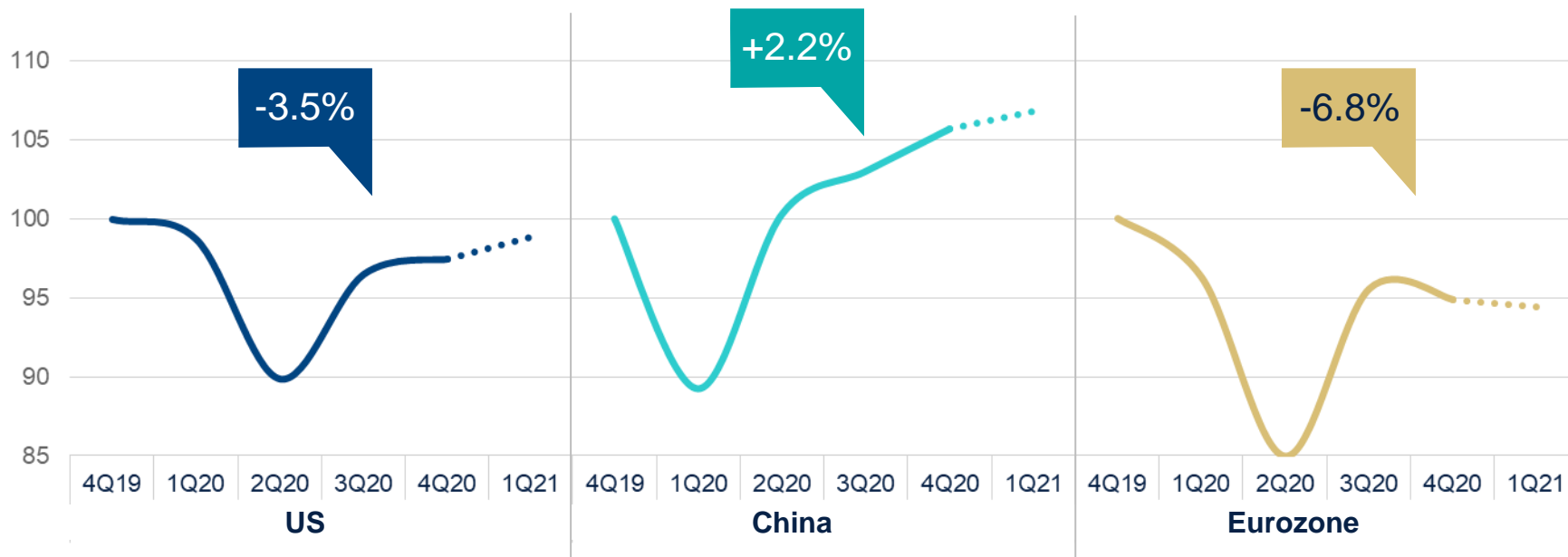


- Fiscal measures in the US have reinforced growth and inflation prospects.
- Markets have brought forward their forecasts for the withdrawal of monetary stimuli.
- Long term debt yields have significantly increased in the US, and at a lower degree in Europe.
- Equity markets have exhibited volatility episodes.
- The dollar has appreciated and emerging markets assets have suffered losses amid diminished capital inflows.

Growth is accelerating in the US, moderating in China and remains negative in Europe at the start of 2021, following a better-than-expected end of 2020

GDP LEVEL IN REAL TERMS(*)

(4Q19=100)



GDP growth in 2020

(*) Observed data up to 4Q20. BBVA Research forecasts for 1Q21

Source: BBVA Research based on local statistics.

Reinforced recovery prospects on stimuli and vaccines rollout; inflation and financial stress to remain contained, despite risks

Rest of 2021

2022



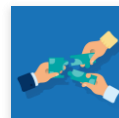
Mass vaccination
with high heterogeneity across countries



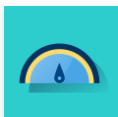
“New normal”



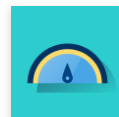
Reinforced fiscal stimulus
and unchanged rates in G3



Reinforced fiscal stimulus, unchanged rates
in G3 and start of Fed tapering



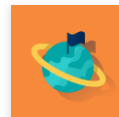
Limited risk aversion, only a gradual rise of long
term rates and a slightly dollar depreciation



Limited risk aversion, only a gradual rise of long
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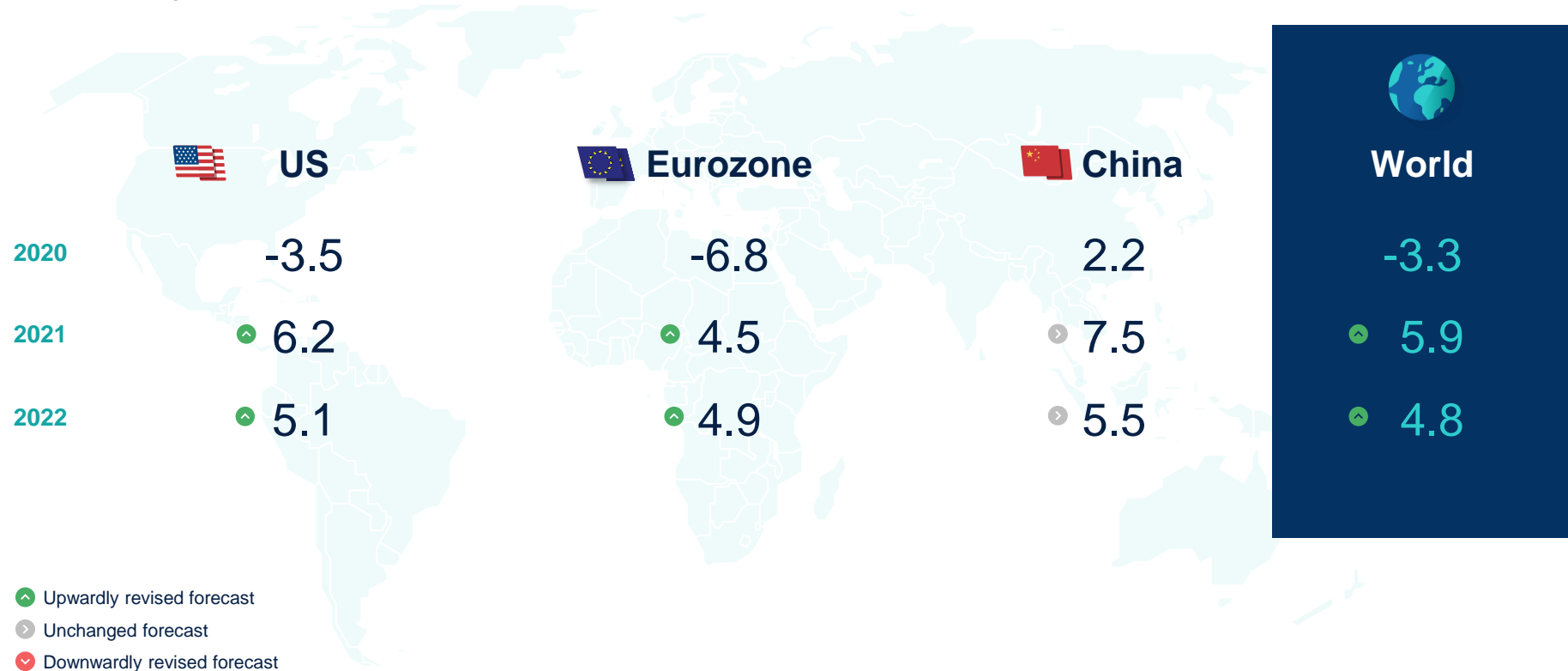


Global recovery,
led by the US and China



Global recovery,
including in Europe and emerging markets

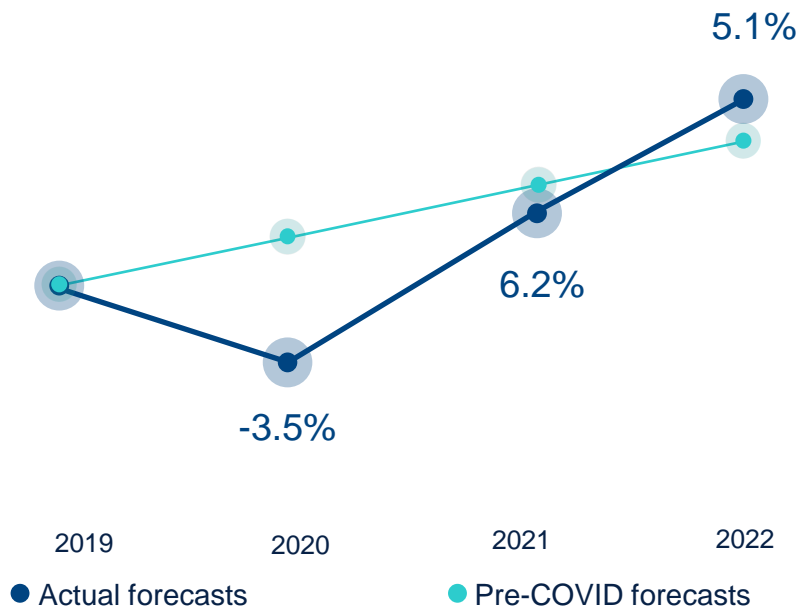
Global growth will be higher than previously forecast and it will be led by the US and China



US: growth will pick up sharply, but the Fed will take some time before starting to withdraw the monetary stimulus

US: REAL GDP

(LINES REPRESENT GDP LEVEL AND FIGURES REPRESENT ACTUAL GDP GROWTH FORECASTS)



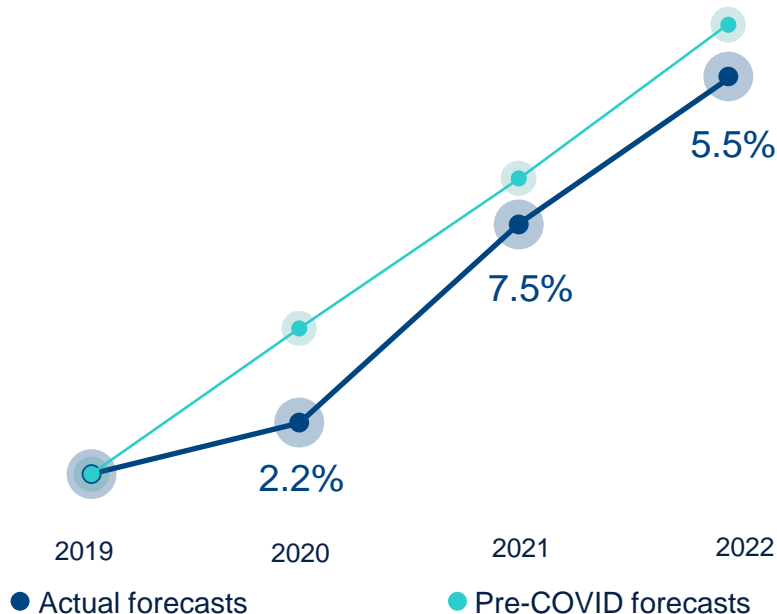
Source: BBVA Research.

- Revised growth (2021: +2.6 pp; 2022: + 2.7 pp) on stimulus, reopening and fast vaccination.
- Approved fiscal measures will have a particularly strong effect on consumption.
- A new, investment-focused fiscal package is likely to be approved in 2021.
- Inflation will rebound, but will remain under control, averaging 2.5% in 2021.
- The labor market recovery will be gradual and the Fed will only start hiking rates in 2023

China: having the pandemic under control will allow the economy to grow significantly, despite the gradual withdrawal of stimulus measures

CHINA: REAL GDP

(LINES REPRESENT GDP LEVEL AND FIGURES REPRESENT ACTUAL GDP GROWTH FORECASTS)



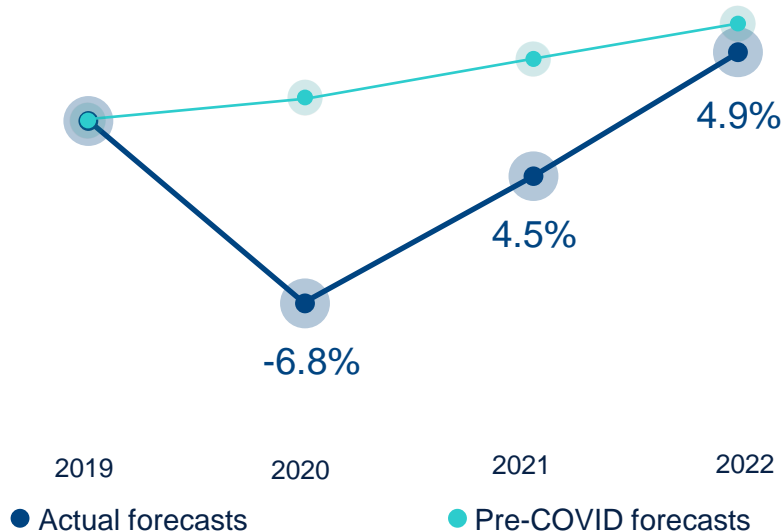
Source: BBVA Research.

- Unchanged GDP forecasts, but with an upward bias due to higher global growth
- Economic policy is increasingly focused on curbing financial risks
- Interest rates will remain unchanged, in a context of regulatory tightening
- Fiscal policy will be less expansionary going forward than in 2020
- Tensions with the US will remain on the radar during the J. Biden administration

Eurozone: growth will accelerate from the middle of the year onwards due to vaccination, the NGEU and the effects of higher growth in the US

EUROZONE: REAL GDP

(LINES REPRESENT GDP LEVEL AND FIGURES REPRESENT ACTUAL GDP GROWTH FORECASTS)



Source: BBVA Research.

- The pandemic continues to affect the economy: GDP has fallen moderately in 4Q20 and probably also in 1Q21
- Higher growth forecasts (2021: + 0.4pp; 2022: + 0.5pp) mostly due to greater US dynamism
- The ECB will focus on maintaining accommodative monetary conditions, while reviewing its strategy
- NGEU: small short-term impact, but long-term effect could be high
- In a context of higher oil prices, inflation will average 1.5% this year

Risks will remain significant, mostly on the downside, but a positive scenario with an even faster recovery cannot be dismissed



EPIDEMIOLOGICAL RISKS



Virus mutations



Slow vaccination



New waves of infections



ECONOMIC-FINANCIAL RISKS



Inflation



Savings
evolution



Financial
stress



Flows into
EMs



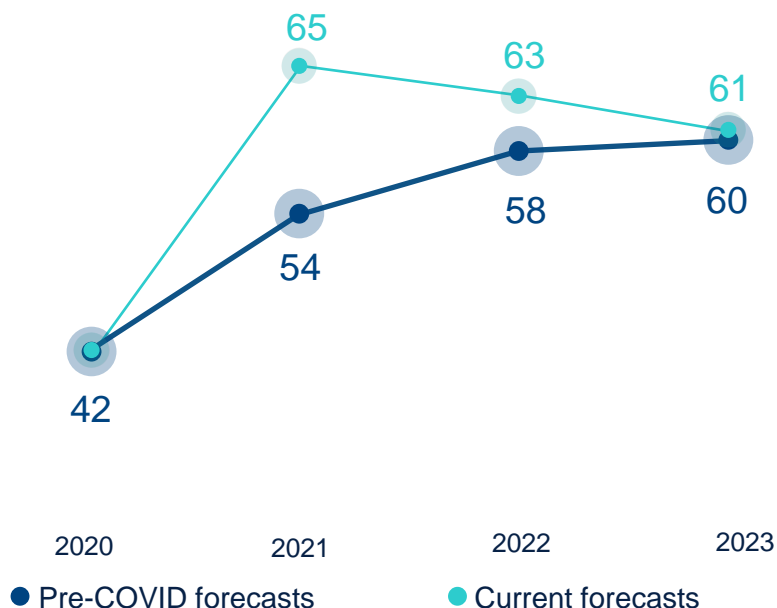
Corporate
bankruptcies



Public debt
sustainability

Oil prices, like those of other commodities, rise sharply on higher prospects for global growth.

PRICE PER BARREL OF BRENT OIL (DOLLARS PER BARREL)



Source: BBVA Research based on data from Haver.

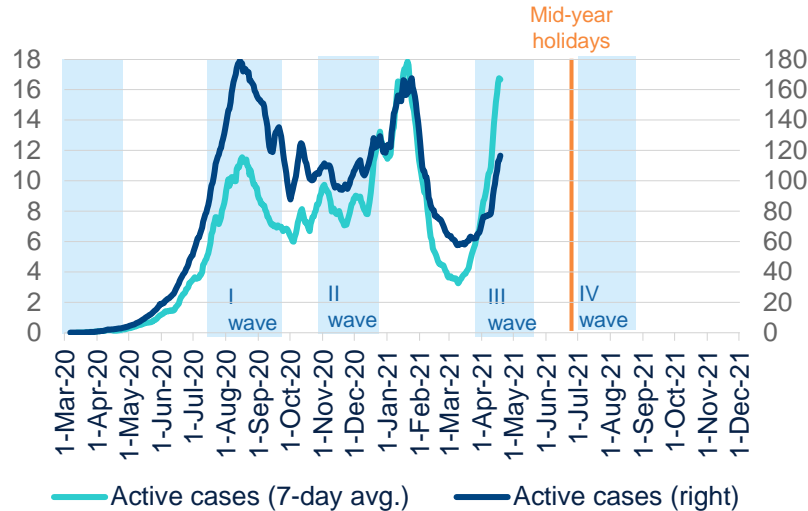
- Higher global growth, particularly in the US, has increased the expected demand for oil.
- OPEC+ has delayed and slowed the normalization of its output, softening the adjustment in supply.
- This has resulted in a sharp increase in the price of crude oil during the first months of 2021.
- During the remainder of 2021, the price of crude oil will remain similar to current levels due to a recovery in demand.
- However, the reaction, albeit slightly delayed, of supply will bring the price to its long-term level of around USD 60.

02

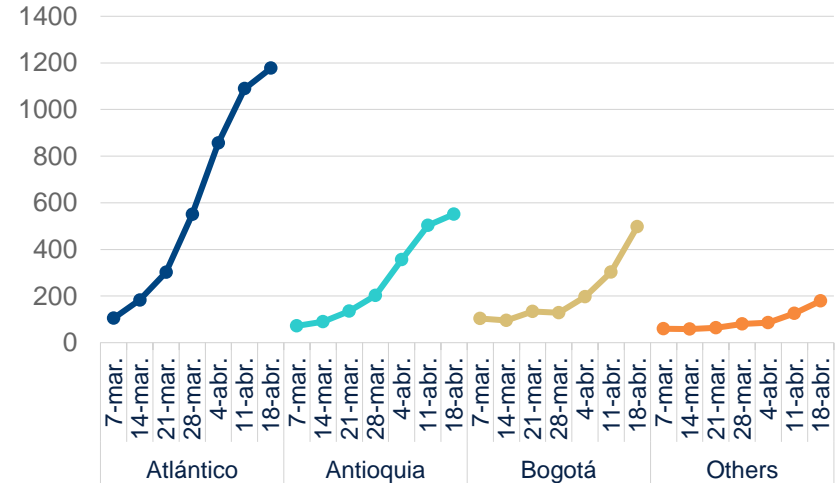
Colombia will face new waves of infection in the midst of mass vaccination challenges

Colombia faces a third wave of infections after Easter, with a strong impact in the northern region and Antioquia

DAILY AND ACTIVE CASES (THOUSANDS OF PEOPLE)



DAILY CASES PER MILLION PEOPLE (7-DAY AVERAGE)

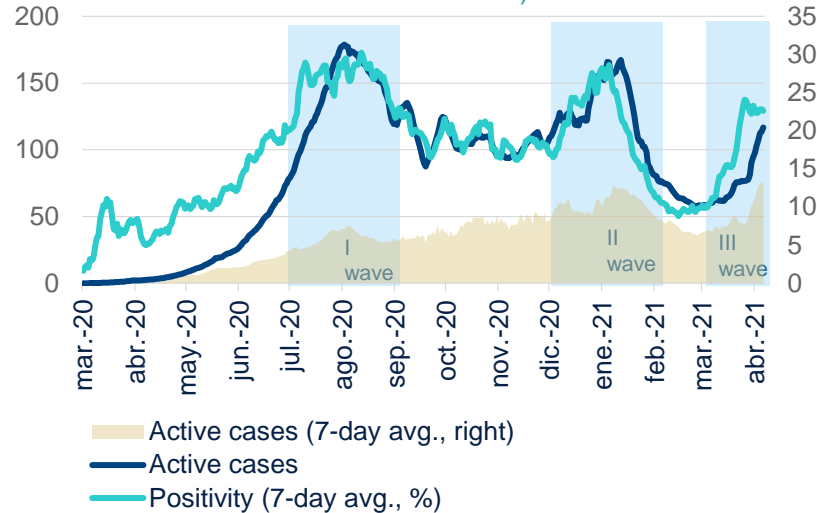


Source: BBVA Research based on data from the National Institute of Health.

Given the pattern of the virus in Colombia, another wave of infections after the mid-year holidays and subsequent new measures to restrict mobility cannot be ruled out.

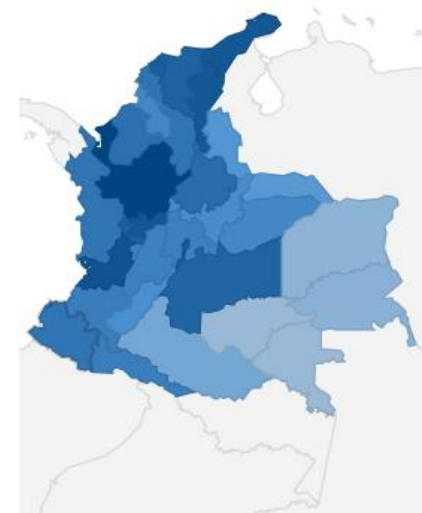
This situation once again puts pressure on the health system, this time with a particularly high impact in the north and Antioquia

RELATIONSHIP BETWEEN POSITIVITY, TESTS AND ACTIVE CASES (THOUSANDS OF PEOPLE AND TESTS, % POSITIVE TESTS OUT OF TOTAL TESTS)



USE OF INTENSIVE CARE BEDS (DATA AS AT APRIL 18, %)

	ICU Usage (%)
Colombia	75.4
Antioquia	97
Cauca	87
Caldas	85
Cesar	85
La Guajira	85
Bogota	82
Atlantico	81
Risaralda	80
Magdalena	78
Meta	77
Santander	72



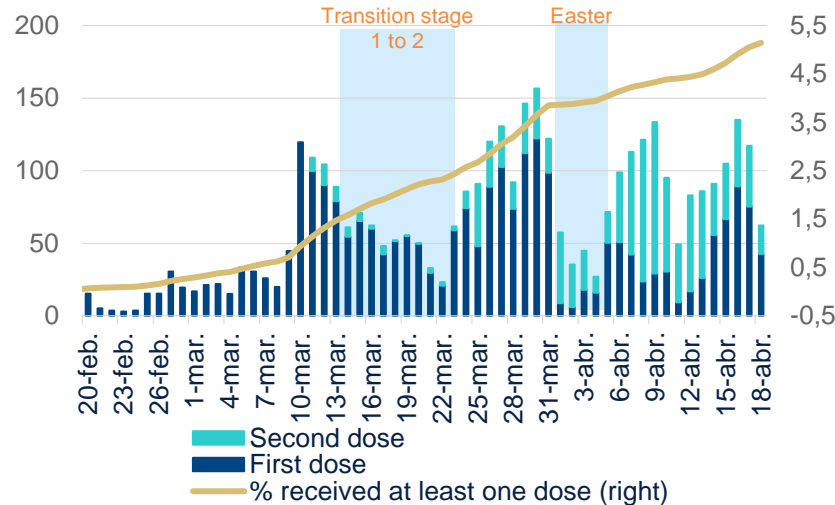
Source: BBVA Research based on data from the National Institute of Health.

This time around, a swift response in the number of tests performed is observed. It is also worth highlighting that the positivity rate has stabilized, though at high levels, below the previous peaks.

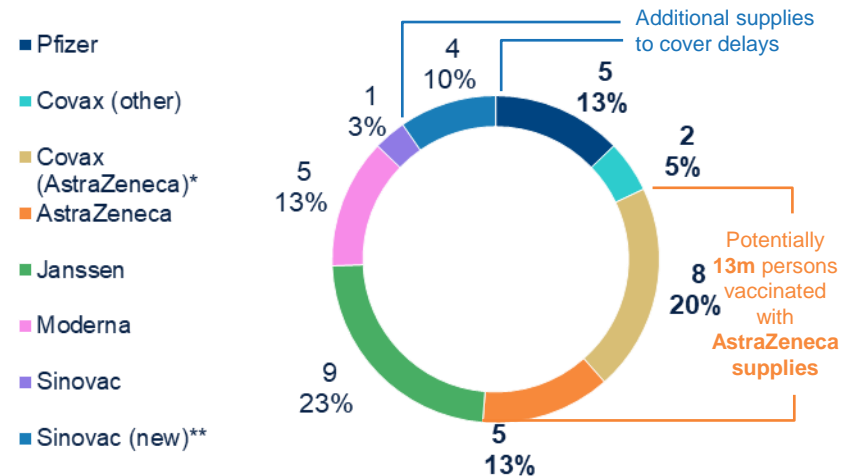
Vaccination is progressing at a slower rate than expected due to logistical difficulties and issues with doses availability

VACCINE ROLLOUT

(THOUSANDS OF DOSES PER DAY AND % OF PEOPLE)



VACCINES PER LABORATORY (POTENTIAL MILLIONS OF PEOPLE VACCINATED AND % OF TOTAL)



* Assuming 80% of the COVAX quota involves AstraZeneca supplies.

** Details of the contract signed are not known, but are assumed based on tax appropriation information.

.Source: BBVA Research based on data from the National Institute of Health.

Risks relating to AstraZeneca vaccine supplies and the vaccine war mean that Colombia is expected to reach the target for vaccinating vulnerable populations in the third quarter.

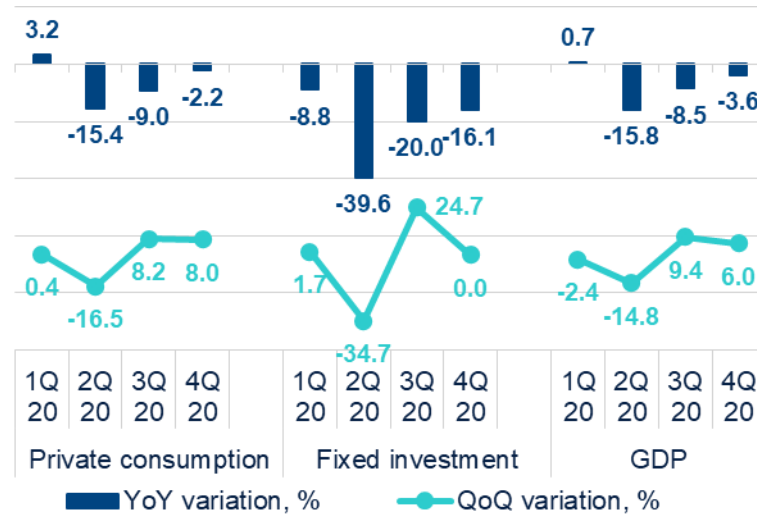
03

Feeling the impact
of tailwinds due to
the global context,
Colombia's growth
will be significant

The economy strengthened throughout 2020, closing with a significant rebound in the fourth quarter due to private consumption

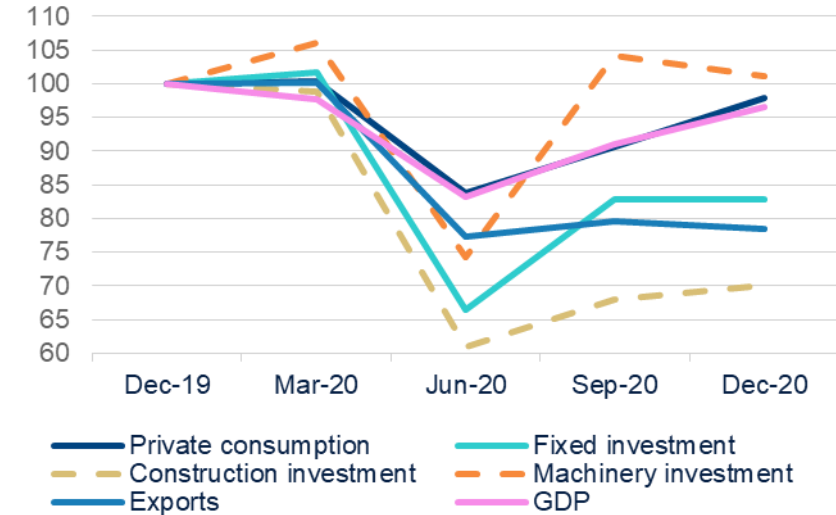
DYNAMICS: GDP AND ITS COMPONENTS IN 2020

(ANNUAL AND QUARTERLY CHANGE, %)



INDEX: GDP AND ITS COMPONENTS IN 2020

(DEC 19 INDEX = 100)



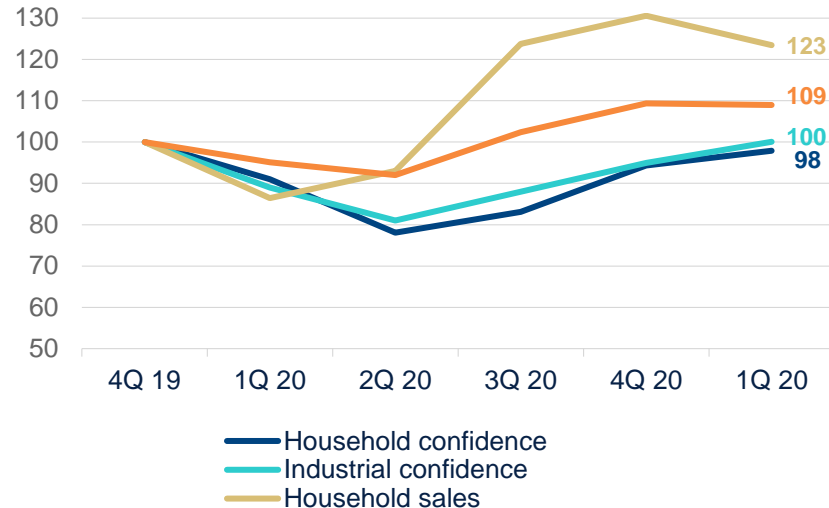
Source: BBVA Research based on DANE data.

Whereas investment revealed two dynamics: recovery in machinery and equipment and poor performance in construction.

At the beginning of 2021, figures contracted compared to the dynamic at the end of 2020

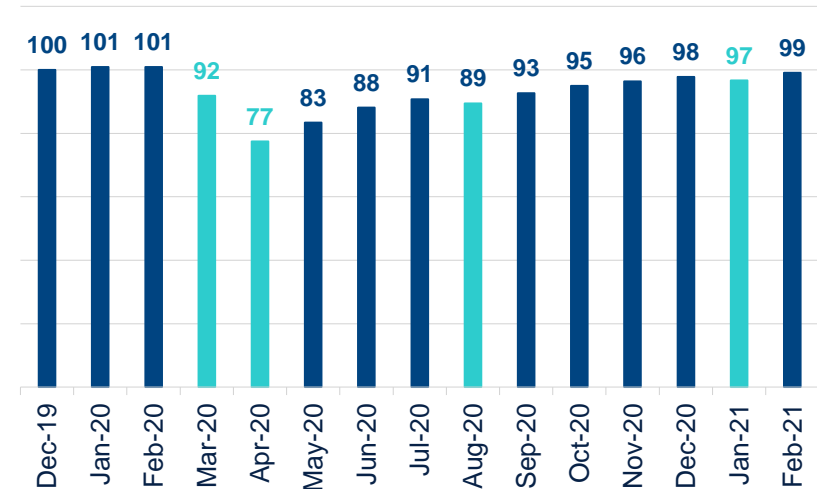
SELECTED LEADING INDICATORS

(Q419 INDEX = 100, FIGURES ADJ. FOR SEASONAL VARIATION)



EMI(*)

(DEC 19 INDEX = 100, %)



(*): EMI: Economic monitoring index.

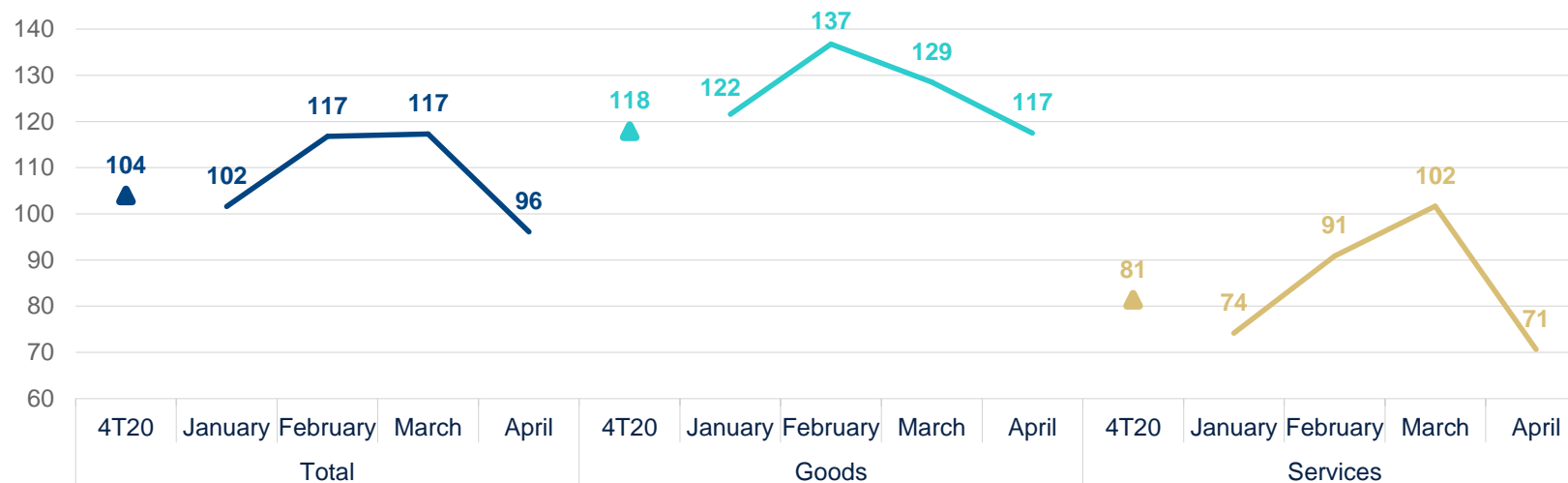
Source: BBVA Research based on data from DANE, *Coordinada Urbana* - Camacol and Fedesarrollo.

Going forward, there may be additional negative effects due to lockdowns. We cannot rule out that localized restrictions on mobility may continue through the third quarter of the year.

In March, spending on services recovered to pre-pandemic levels. However, this trend was interrupted by new mobility restrictions in April

BBVA CONSUMPTION TRACKER BY TYPE*

(INDEX, SAME PERIOD IN 2019 = 100, ACTUAL)



*Data as of April 20.

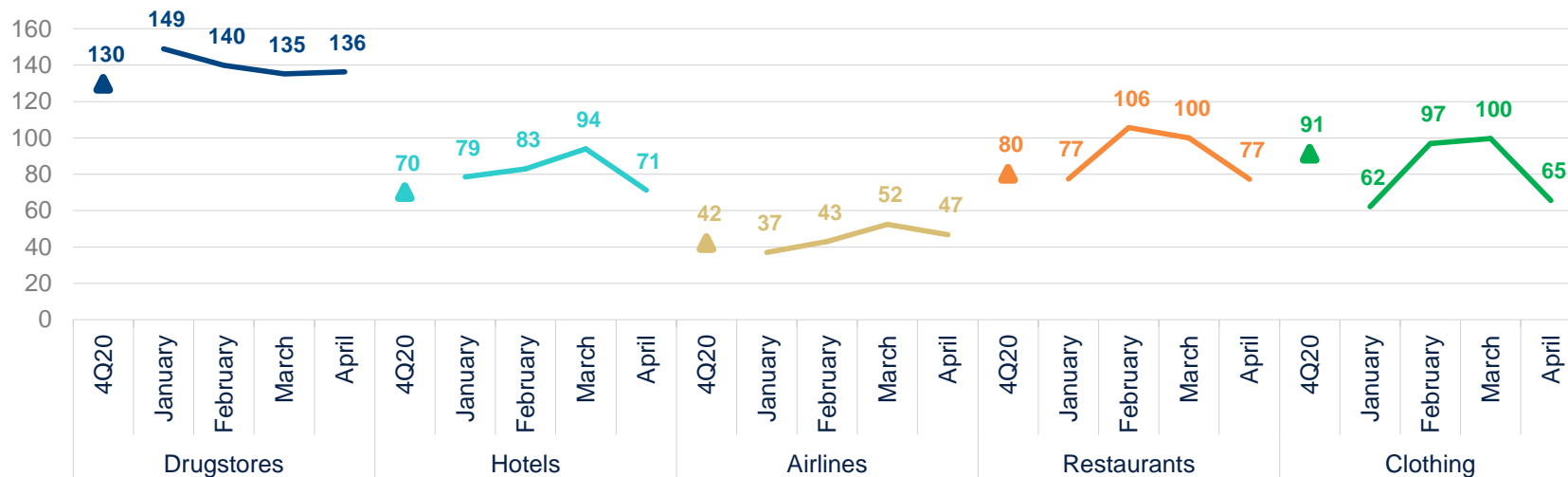
Source: BBVA Research based on data on purchases made with BBVA debit and credit cards.

The partial slowdown in total consumption in January was offset in the quarter by positive dynamics in February and March.

Of the sectors most affected, hotel spending has shown better performance compared to other tourism-related sectors

BBVA CONSUMPTION TRACKER BY SECTOR*

(INDEX, SAME PERIOD IN 2019 = 100, ACTUAL)



*Data as of April 20.

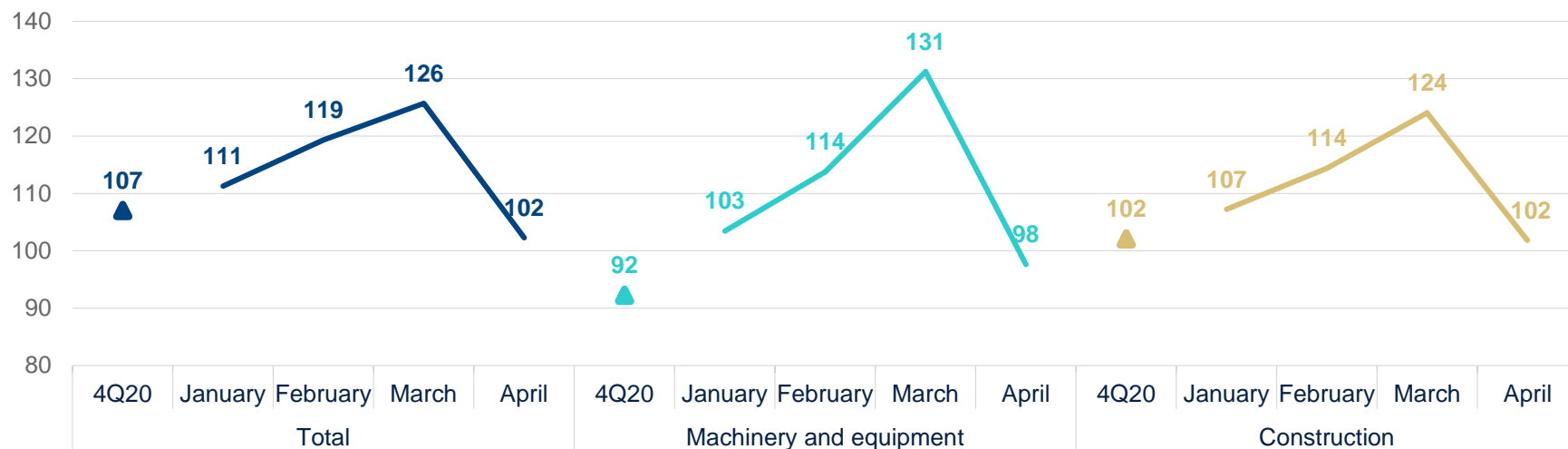
Source: BBVA Research based on data on purchases made with BBVA debit and credit cards.

After restrictions on mobility in January, spending on restaurants and clothing recovered to exceed pre-pandemic levels.

Investment continued its recovery in the first quarter, although the impact of the confinements led to reduced investment decisions in April

BBVA INVESTMENT TRACKER AND COMPONENTS

(INDEX, SAME PERIOD IN 2019 = 100, ACTUAL)



*Data as of April 19.

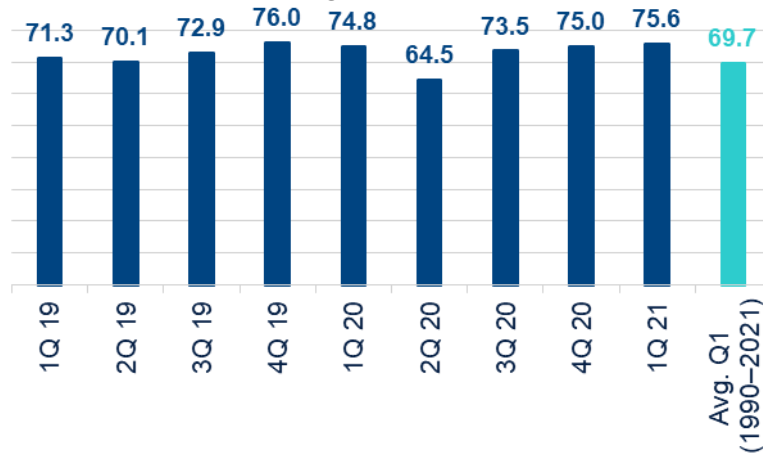
Source: BBVA Research based on BBVA transactional data for legal-person customers.

In April, there is a moderation in all investment indicators, with a stronger effect on machinery and equipment

Confidence indicators support the recovery of investment this year, despite the negative effects of confinements in the short term

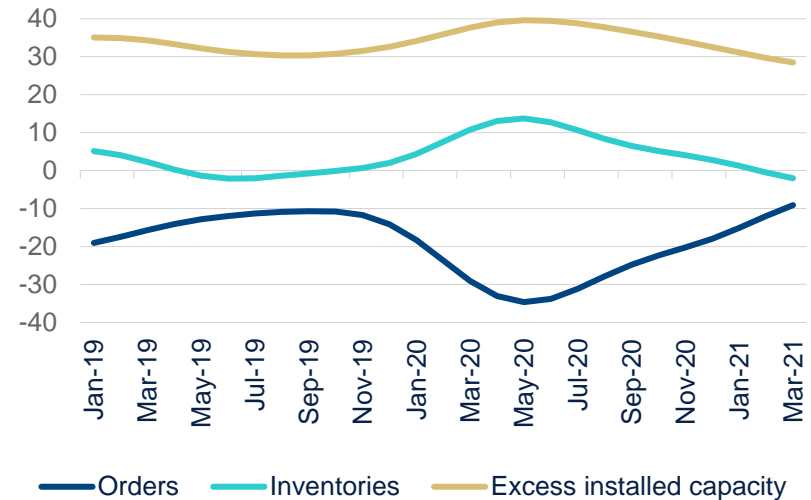
INSTALLED CAPACITY (IC) USAGE (% OF TOTAL CAPACITY)

In the first quarter of 2021, 78% of sectors had an IC that was above their averages since 2014.



Source: BBVA Research based on data from Fedesarrollo.

ORDERS, INVENTORIES AND EXCESS CAPACITY (RESPONSE BALANCE, FIGURES ADJ. FOR SEASONAL VARIATION)

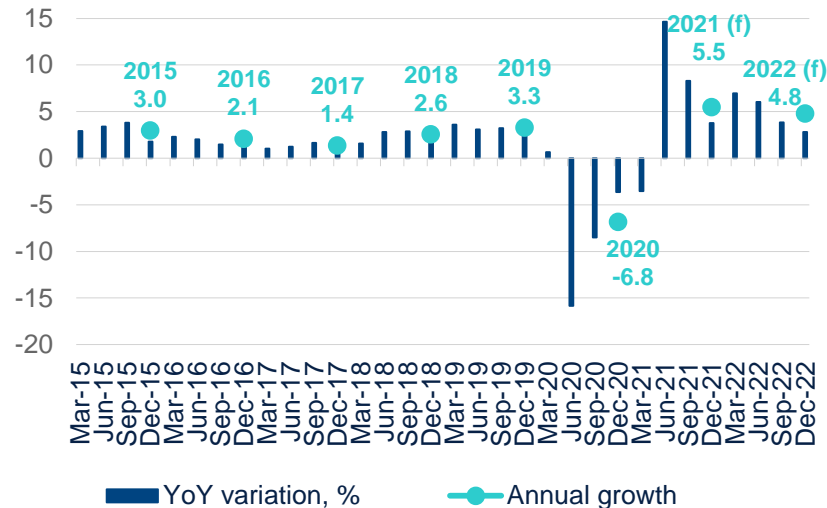


Both installed capacity utilization and industrial confidence are recovering and are predictive of a better second half in 2021.

We expect GDP growth to be 5.5% for 2021 and 4.8% for 2022, with production reaching pre-pandemic levels by the end of the year

GDP

(YEAR-ON-YEAR CHANGE, %)

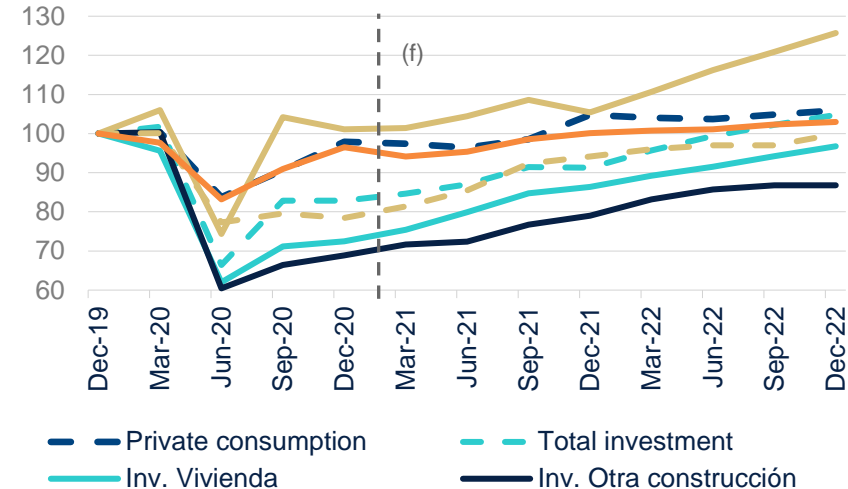


(f): BBVA Research forecast.

Source: BBVA Research based on DANE data.

GDP BY COMPONENT

(INDEX, DEC 19 = 100)

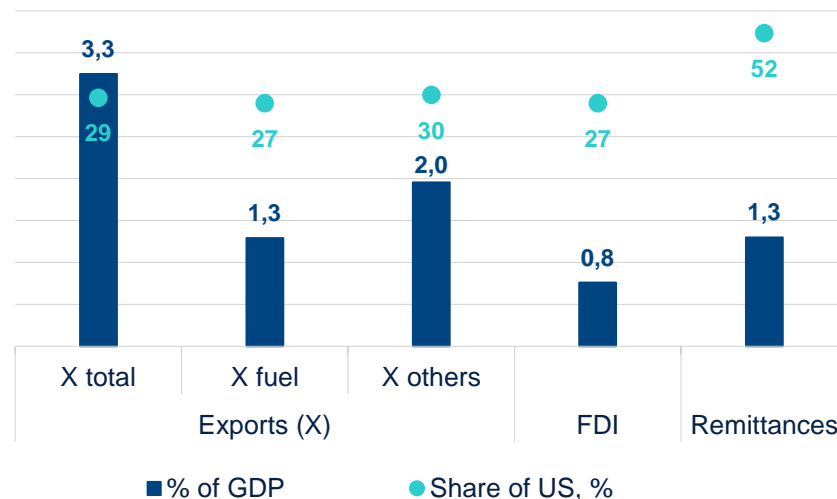


Pre-pandemic levels are reached faster in private consumption, with a significant rebound in investment in 2022. Exports will continue to lag.

In 2021 and 2022, we expect strong support for growth from greater expansion in the US, through several transmission channels

US TRANSMISSION CHANNELS TO COLOMBIA

(% OF GDP AND % OF TOTAL)



- We also predict that the price of oil will be 55% higher in 2021 than the average recorded in 2020.
- This result is not only the product of growth in the United States, but also of China's further expansion.
- Oil prices will remain relatively stable in 2022.

Source: BBVA Research based on data from DANE and *BanRep*

The US accounts for around 30% of the country's exports and FDI and is a major issuer of remittances. The latter boost private consumption.

In addition to external stimulus, improved private demand and public spending will offset the negative impact of lockdowns and fiscal reform

SUMMARY OF MAIN FACTORS DETERMINING GROWTH IN 2021 AND 2022

UP

(year in which it is most relevant)

New factors:

- Positive dynamics at 2020 year-end (2021)
- Progressive recovery in domestic demand (2021 and 2022)
- Higher growth in the United States (2021 and 2022)
- Better oil price (especially 2021)
- More public spending (especially 2021)

Previous stimuli are maintained: subsidies for housing demand (2021 and 2022), gradual vaccination (2021 and 2022), sectoral reopening (especially 2021), gradual recovery of the labor market (2021 and 2022), among others.



Down

(year in which it is most relevant)

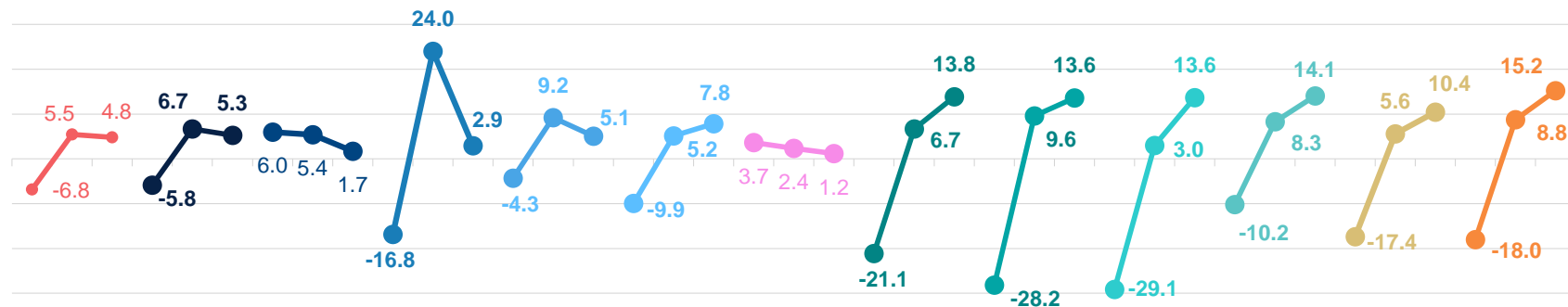
New factors

- Tax reform: confidence effect (2021) and income effect (2022)
- New restrictions on mobility (especially 2021)
- Expectations of rising interest rates around the world (especially 2022)

In 2021, consumption of goods will lead the recovery. In 2022, this will depend on investment and exports and, within consumption, on services

GDP BY COMPONENT

(ANNUAL CHANGE, %)



GDP	2020	2021 (f)	2022 (f)	Total	2020	2021 (f)	2022 (f)	Non durables	2020	2021 (f)	2022 (f)	Semi-durables	2020	2021 (f)	2022 (f)	Durables	2020	2021 (f)	2022 (f)	Services	2020	2021 (f)	2022 (f)	Total	2020	2021 (f)	2022 (f)	Housing	2020	2021 (f)	2022 (f)	Non-residential	2020	2021 (f)	2022 (f)	Machinery	2020	2021 (f)	2022 (f)	Exports	2020	2021 (f)	2022 (f)	Imports	2020	2021 (f)	2022 (f)																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																

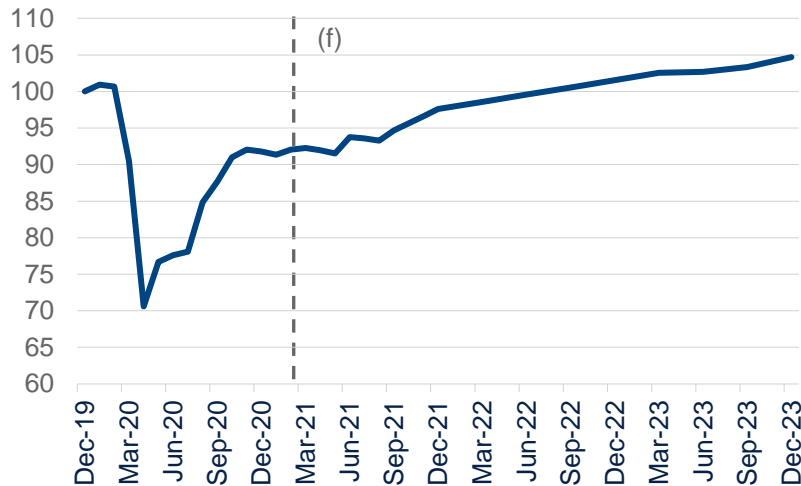
(f): BBVA Research forecast.

Source: : BBVA Research based on DANE data.

Recovery is gradually reflected in the labor market with new hires having a bias toward greater informality

URBAN EMPLOYMENT

(INDEX, DEC 2019 = 100, SEASONALLY ADJUSTED)



(f): BBVA Research forecast.
Source: BBVA Research based on DANE data.

URBAN UNEMPLOYMENT AND INFORMAL EMPLOYMENT RATE (% WORKFORCE AND % EMPLOYED)



Urban employment will reach pre-pandemic levels by mid-2022. At the end of 2021 and 2022, the urban unemployment rate will be 14.6% and 14.1% respectively, compared to 10.5% at the end of 2019.

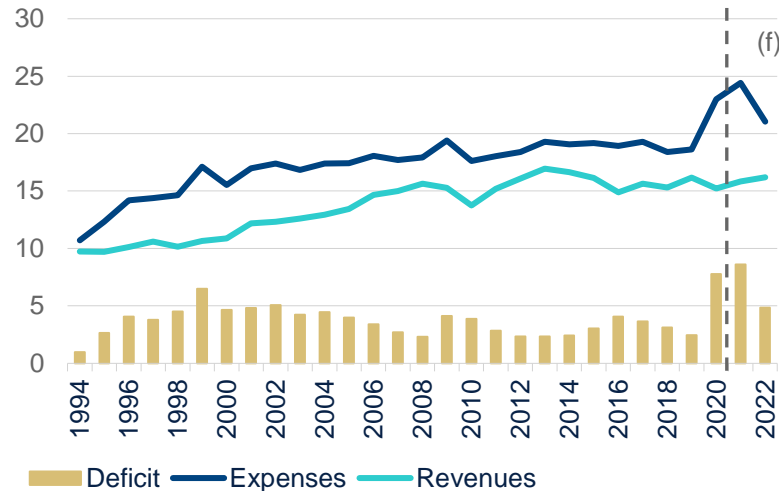
04

All eyes are on the fiscal accounts.

Attentive to activity, exchange rate
and rating effects

The government faces the largest fiscal deficit and debt in recent history due to increased spending to tackle the pandemic and lower revenue

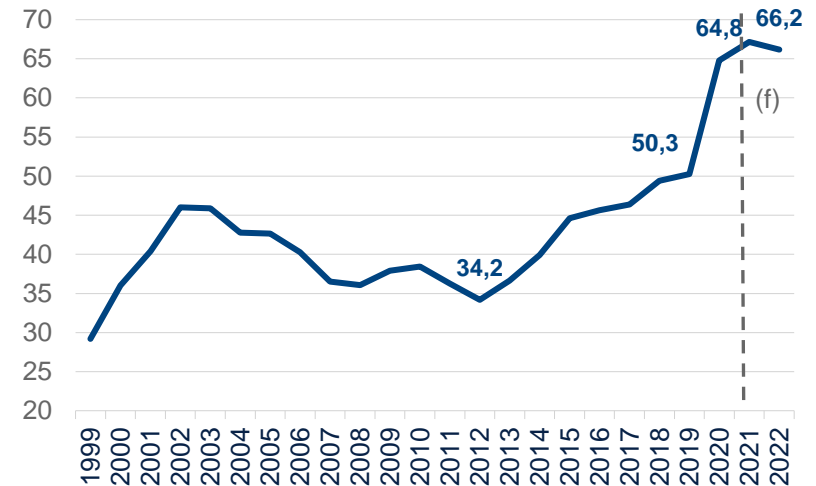
CENTRAL GOVERNMENT BALANCE SHEET (%OF GDP)



(f): BBVA Research forecast.

Source: BBVA Research based on data from the Ministry of Finance. (f): BBVA Research forecasts.

GROSS CENTRAL GOVERNMENT DEBT (% OF GDP)



According to official estimates, the fiscal deficit was 7.8% of GDP in 2020 (with a primary deficit of 5%) and will be 8.6% in 2021 including asset sales of around 1.5% of GDP.

The fiscal situation means that further reform to increase income is imperative in a context of greater social support needs

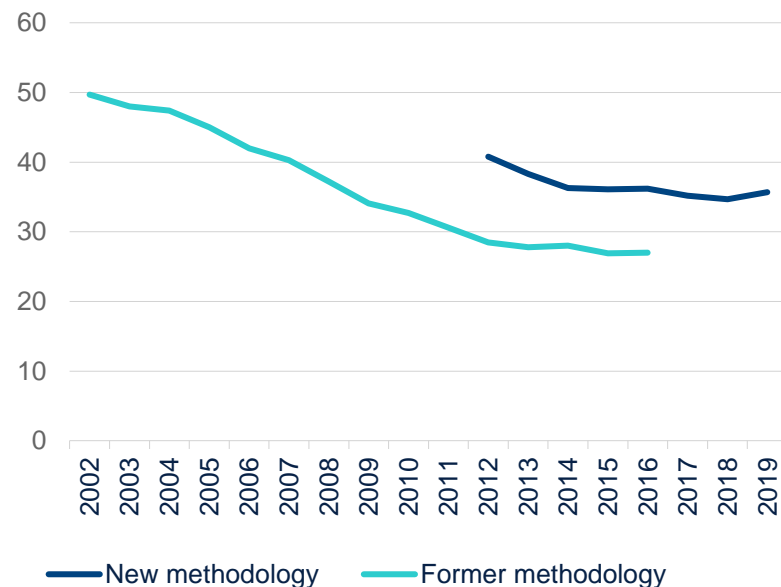
- The Colombian government is in the process of discussing with Congress a fiscal plan that should outline an income and expenditure plan that is compatible with stabilizing and subsequently reducing public debt and, therefore, send a clear message of medium-term fiscal sustainability.
- The fiscal plan will go hand in hand with a structural social support plan that allows the most vulnerable households to meet the challenges that arose previously and those caused by the pandemic.
- The government has announced that changes are required to its Fiscal Rule in order to be able to design this plan.

We must not rule out that both the reform and the discussion process may have a negative impact on economic activity, confidence and prices in 2021 and 2022. Some of these potential effects have already been included in our scenario.

Presenting a credible fiscal plan that allows for medium-term fiscal sustainability is critical to the nation's sovereign rating and, therefore, its financing costs.

In terms of the social spending plan, the number of more vulnerable households receiving direct transfers and subsidies is expected to increase

POVERTY RATE (% OF POPULATION)



Source: BBVA Research based on DANE data.

Poverty is the percentage of the population that does not have enough income to buy a basic basket of goods. In 2019 this income was 328,000 pesos.



SOCIAL SPENDING

PROPOSALS

Increases the number of households receiving direct monetary transfers

Increases the number of households receiving VAT compensation

CURRENT

2.4M

HOUSEHOLDS
IN "FAMILIAS EN
ACCIÓN"

3.0M

HOUSEHOLDS
DUE TO
PANDEMIC

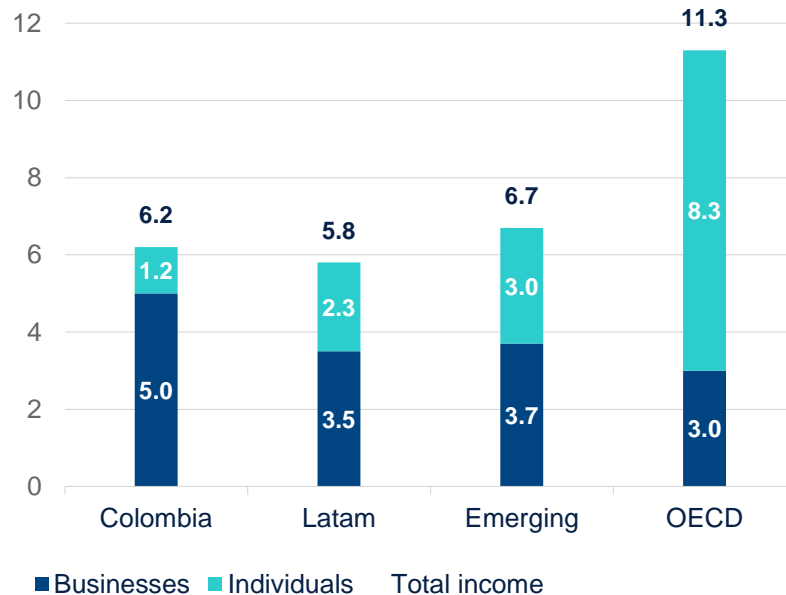
2.0M

HOUSEHOLDS

In terms of fiscal reform, tax revenues from natural persons are expected to increase, but are expected to increase significantly for companies

INCOME TAX COLLECTION

(% OF GDP)



Source: BBVA Research based on data from the Ministry of Finance.



TAX REVENUE

PROPOSALS

INDIVIDUALS

- Elimination of VAT exempted goods
- Extension of the wealth tax
- Introduction of the Solidarity tax for 6 months
- Extension of the base for the personal income tax
- Reduction of personal income tax exemptions

CORPORATES

- Changes of the industry and commerce tax (ICA) payment scheme
- Marginal corporate tax rate of 24% and 30%.
- Corporate tax surcharge of 3 p.p.

CURRENT

10%
CONSUMER BASKET
Until **2021**

2M From
PEOPLE PAYING **\$4.8**
GROSS/MONTH

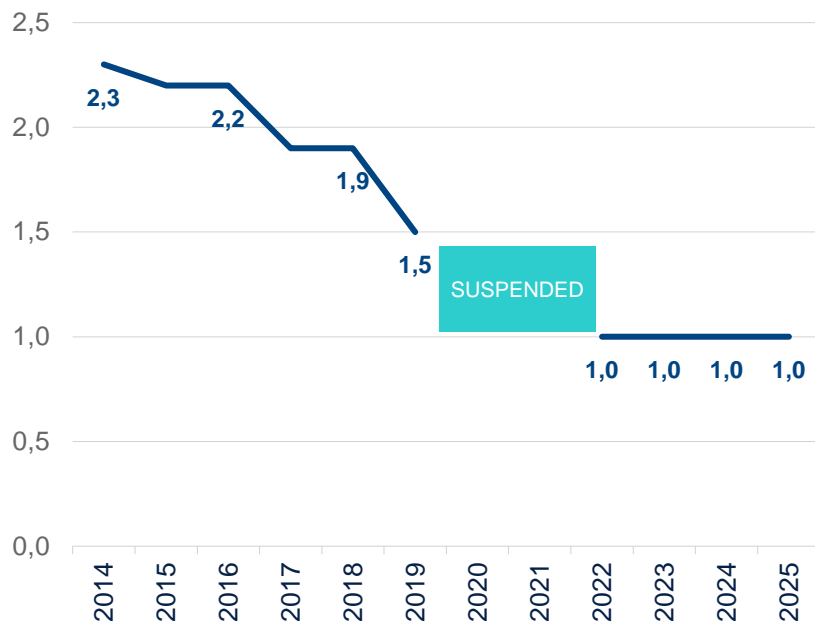
50%
DISCOUNT

31% **30%**
2021 2022

In terms of tax rules, new rules are being designed that will take effect in 2022 after the current rules are suspended

TAX RULES STRUCTURAL DEFICIT

(% OF GDP)



Source: BBVA Research based on data from the Ministry of Finance.



TAX RULES

PROPOSALS

Change in the objective of the fiscal rule

Changes the escape rule clauses

CURRENT

Central Government deficit

Extraordinary events that compromise the country's macro-economic stability

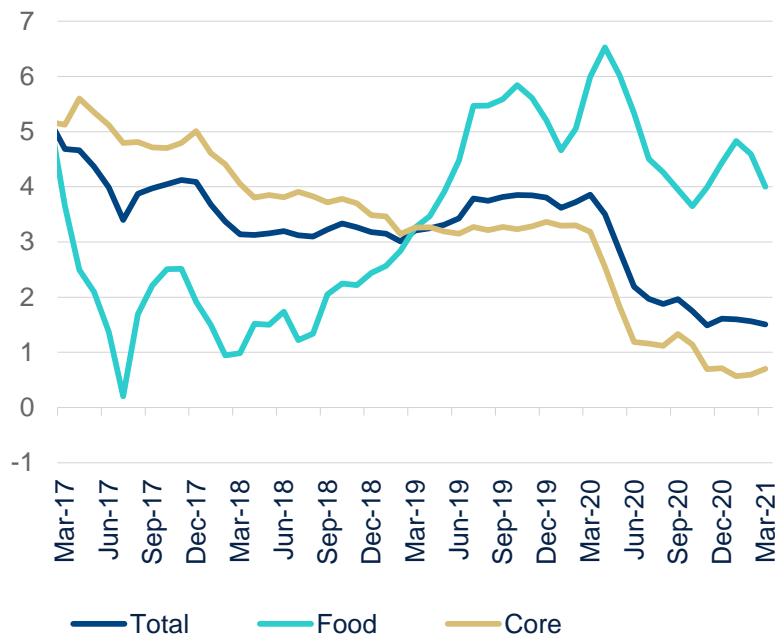
05

Higher inflation, activity,
and upward pressure
on global interest rates
will keep BanRep on its
toes in 2021

Inflation remained relatively stable in the first months of the year due to weak demand, however, this will soon change

TOTAL INFLATION, WITH AND W/O FOOD

(ANNUAL CHANGE, %)

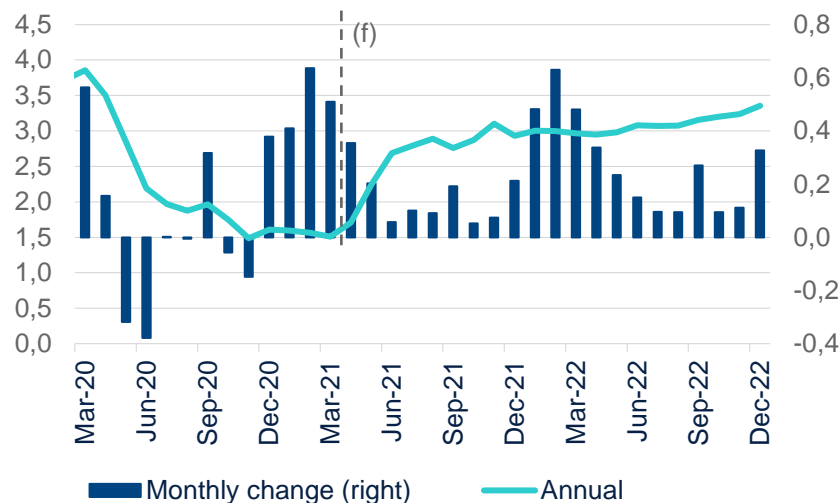


- Total inflation for the year has remained around 1.6%. Downward pressures due to a decreased effect on index-linked factors and weak demand were partially offset by the increase in food prices and delayed tariff adjustments.
- The exchange rate pass-through remains limited, although it is more evident in the case of food, for which demand is more robust.
- In March, inflation will have reached its lowest point for the year and will begin to gradually rise toward levels closer to the inflation target.

The statistical base effect, gradual recovery in demand and fiscal reform will lead to inflation at 2.9% at the end of 2021 and 3.4% in 2022

TOTAL INFLATION

(ANNUAL AND MONTHLY CHANGE, %)



(f): BBVA Research forecast.

Source: BBVA Research based on DANE data.

BALANCE OF RISKS FOR INFLATION

UP

Additional increase in goods and services affected by regulatory measures in 2020

Bottlenecks due to supply constraints

Increased indirect taxation in fiscal reform (VAT)

Significant exchange rate devaluation

Loss of ability to implement countercyclical policy



DOWN

Rapid normalization of food prices

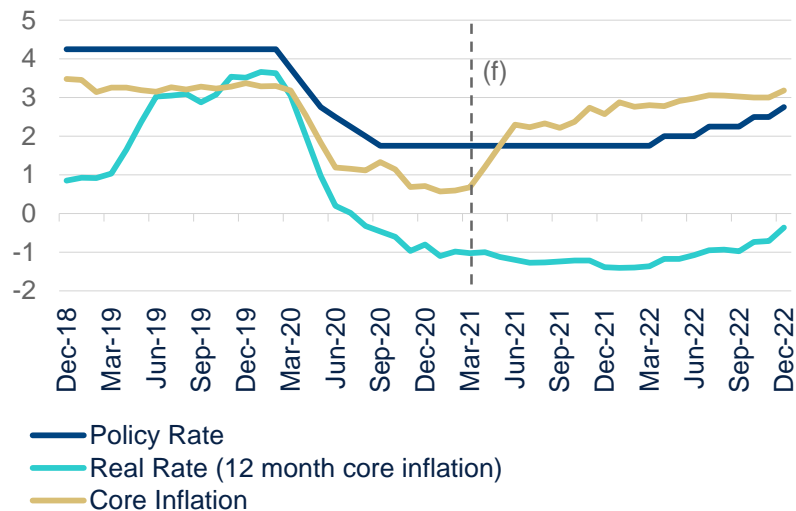
Additional impacts of mobility restrictions on demand

The balance of risks on inflation is trending upward due to the significant effect of global dynamics, bottlenecks and the anticipated impact of fiscal reform (VAT).

Banco de la República will be closely monitoring inflation trends, activity and the external environment...

POLICY RATE AND BASIC INFLATION

(ANNUAL CHANGE AND ANNUAL EFFECTIVE RATE, %)



(f): BBVA Research forecast.

Source: BBVA Research based on DANE and BanRep data.

BALANCE FOR THE POLICY POSITION

UP (rates)

Upward pressure of external rates, market rates or policy rates

Rising inflationary pressure from internal or external factors

Overheating of the economy due to lower-than-expected potential growth

Loss of ability to implement countercyclical policy



DOWN (rates)

Economic effects of future waves of infection

Delayed vaccine rollout limiting activity recovery

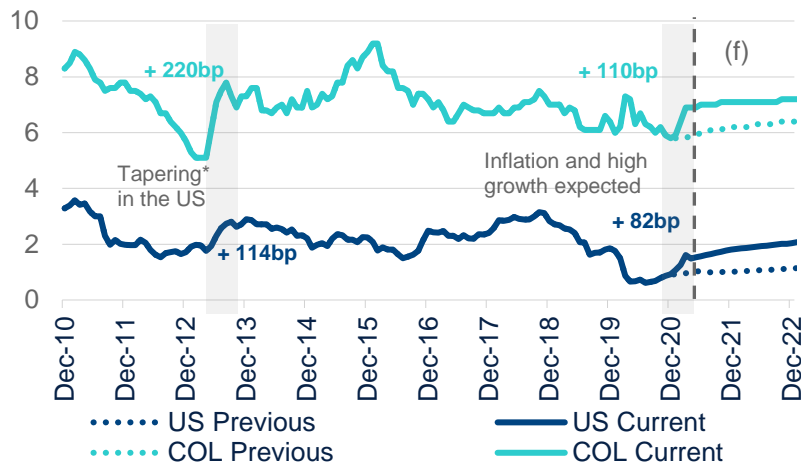
Downward unexpected inflationary effects due to weak demand

Further deterioration of the labor market

...to identify the appropriate time to start its cycle of monetary policy normalization, which we expect will be gradual and will begin in April 2022 .

But the recent increase in long-term interest rates and their local effects will also be relevant in global markets

10-YEAR INTEREST RATES IN THE US AND COLOMBIA (ANNUAL EFFECTIVE RETURN)



- The recent hike in long term interest rates brought to memory the movement caused by the announcement of the 2013 tapering.
- Situation that may have repercussions in a higher financing cost for the economy but also in smaller portfolio inflows
- We expect long term external rates to continue increasing, this will continue pressuring the local market. Albeit at a slower pace than the recently observed.

* Tapering was the name given to the period following the announcement by the US Federal Reserve that it would begin withdrawing monetary stimulus after the global financial crisis.

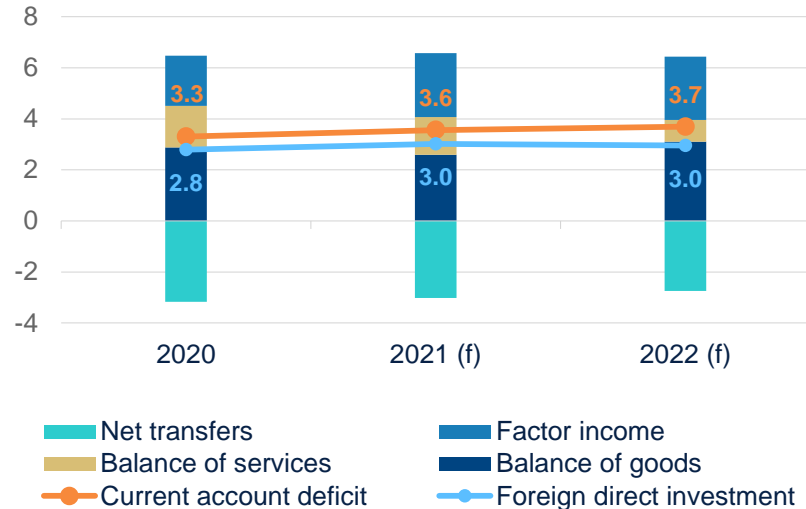
(f): BBVA Research forecast.

Source: BBVA Research with Bloomberg and BanRep.

This situation already affects portfolio inflows to the region and the exchange rate.

Economic recovery in the coming years will marginally expand the current account deficit, increasing funding requirements

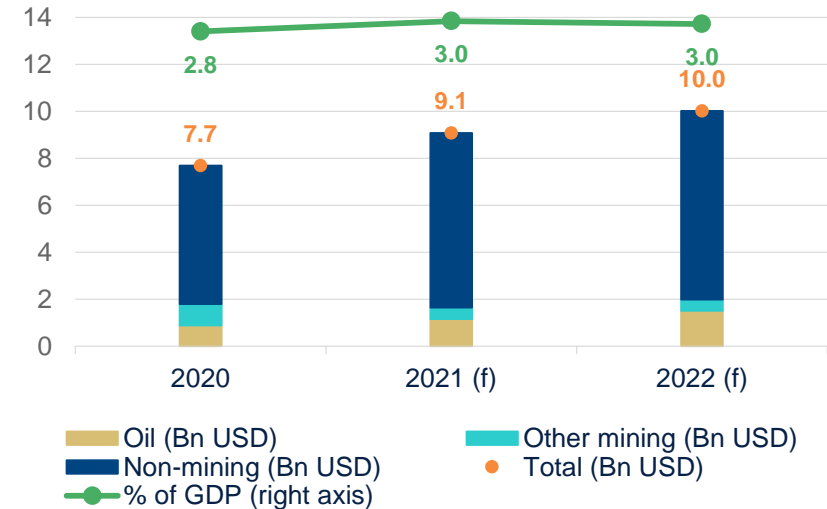
CURRENT ACCOUNT DEFICIT AND FDI (% OF GDP)



(f): BBVA Research forecast.

Source: BBVA Research based on data from *BanRep*.

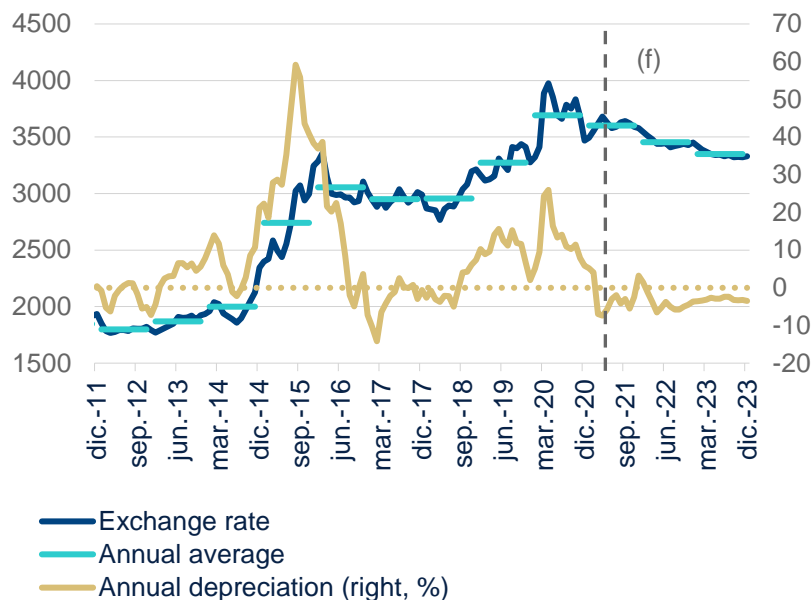
FOREIGN DIRECT INVESTMENT — FDI (BILLIONS OF DOLLARS AND % OF GDP)



In 2021–22, FDI will cover 82.5% of the current account deficit. Close attention must be paid to the outlook for portfolio flows due to the expectation of higher interest rates in the US.

Fiscal discussions and the external outlook will keep the exchange rate high in 2021, but we expect a gradual appreciation in 2022

EXCHANGE RATE AND DEVALUATION (PESOS TO THE DOLLAR AND ANNUAL CHANGE)



- Appreciation at the end of 2020 was partly reversed at the beginning of 2021, mainly due to a strong adjustment in global markets with rising rates in the US.
- For the second half, we anticipate some pressure on the exchange rate depreciation due to the effects of the fiscal discussion on sovereign rating decisions.
- By 2022, consolidated economic recovery and moderated tension in global markets will enable the exchange rate to appreciate gradually.

(f): BBVA Research forecast.

Source: BBVA Research based on BanRep data.

06

The pandemic: A year of learning and challenges

In conclusion

A year of the pandemic brought progress that we can harness in the future



Digitization

Internet access

Fixed Internet access points grew by **8.7%** (+600,000) at 3Q20*.

New sales channels

The number of transactions made through remote channels rose by **78.5%** between January and July 2020**.

In addition to simplified processes, payments and telemedicine.



Modern working methods

Remote working/ Working from home

Remote working methods grew by **80%** with the onset of the pandemic***.

Further regulations were introduced in this regard. *Circular* 0041, 0021 and Decree 491 of 2020.

In addition to training in new skills.



Investment in health

Improved infrastructure

Advances in sector infrastructure (Increased flow of public resources to the sector).

The sector increased in **7,185** intensive care beds, reaching a total of **12,531**.



Social

Banking services

+1.6 million adults entered the financial system.

Social support networks

The beneficiaries of government transfers increased by **3 million** households with income support.

Population knowledge

Implementation of SISBEN IV° which allows for a better understanding of the socio-demographic conditions of vulnerable populations.

°System for Identifying Potential Beneficiaries of Social Programs

*MinTic (2020) **Cámara de Comercio Electrónico (2020). ***MinTrabajo (2020).

However, it also brought about opportunities for improvement and posed challenges for the country



Macro balance

Fiscal sustainability

Closing the fiscal deficit in the coming year requires of important settings.

Productivity

The colombian economy has had a low historic growth of productivity, which limits structural improvement in economic and social conditions



Labor

Social gaps

Closing labor gaps in most affected populations (women, young people, people with less education).

Informal economy

Reduction of informality.

Labor market flexibilization

A reduction in non-labor costs is required and facilitate labor mobility



Social

Education

Closing educational gaps.

Poverty

Better targeting of public spending.

Pensions

Improvement in pension coverage and a revision of the current subsidy system



Health

Coverage

Extension of health system coverage in rural areas.



Digitization

Infrastructure and digital skills

The country's competitiveness will be closely linked to the digital development

Appendix

Macroeconomic forecast

	2017	2018	2019	2020	2021 (f)	2022 (f)
GDP (% y/y)	1.4	2.6	3.3	-6.8	5.5	4.8
Private consumption (% y/y)	2.1	3.2	3.9	-5.8	6.7	5.3
Public consumption (% y/y)	3.6	7.4	5.3	3.7	2.4	1.2
Fixed investment (% y/y)	1.9	1.0	3.1	-21.1	6.7	13.8
Inflation (% y/y. eop)	4.1	3.2	3.8	1.6	2.9	3.4
Inflation (% y/y. avg)	4.3	3.2	3.5	2.5	2.4	3.1
Exchange rate (eop)	2,991.4	3,212.5	3,277.0	3,432.5	3,580.0	3,450.0
Devaluation (%. eop)	-0.6	7.4	2.0	4.7	4.3	-3.6
Exchange rate (avg)	2,951.3	2,956.4	3,272.6	3,693.3	3,600.3	3,453.3
Devaluation (%. eop)	-3.4	0.2	10.7	12.8	-2.5	-4.1
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	1.8	2.5
Current Account (% GDP)	-3.3	-3.9	-4.2	-3.3	-3.6	-3.7
Urban unemployment rate (%. eop)	9.8	10.7	10.5	15.6	14.6	14.1

(f): Forecast.

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

Main macroeconomic variables

	GDP (% y/y)	Inflation (% y/y. eop)	Exchange rate (vs. USD. eop)	Interest Policy Rate (%. eop)
Q1 18	1.6	3.1	2,852	4.50
Q2 18	2.8	3.2	2,893	4.25
Q3 18	2.9	3.2	3,038	4.25
Q4 18	2.9	3.2	3,213	4.25
Q1 19	3.6	3.2	3,125	4.25
Q2 19	3.1	3.4	3,256	4.25
Q3 19	3.2	3.8	3,400	4.25
Q4 19	3.2	3.8	3,277	4.25
Q1 20	0.7	3.9	3,888	3.75
Q2 20	-15.8	2.2	3,691	2.50
Q3 20	-8.5	2.0	3,750	1.75
Q4 20	-3.6	1.6	3,469	1.75
Q1 21	-3.5	1.5	3,617	1.75
Q2 21	14.6	2.7	3,580	1.75
Q3 21	8.3	2.8	3,640	1.75
Q4 21	3.8	2.9	3,580	1.75
Q1 22	7.0	3.0	3,480	1.75
Q2 22	6.0	3.1	3,445	2.00
Q3 22	3.8	3.2	3,430	2.25
Q4 22	2.8	3.4	3,450	2.75

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Colombia Economic Outlook

2Q21