

Colombia

Economic outlook

4Q21

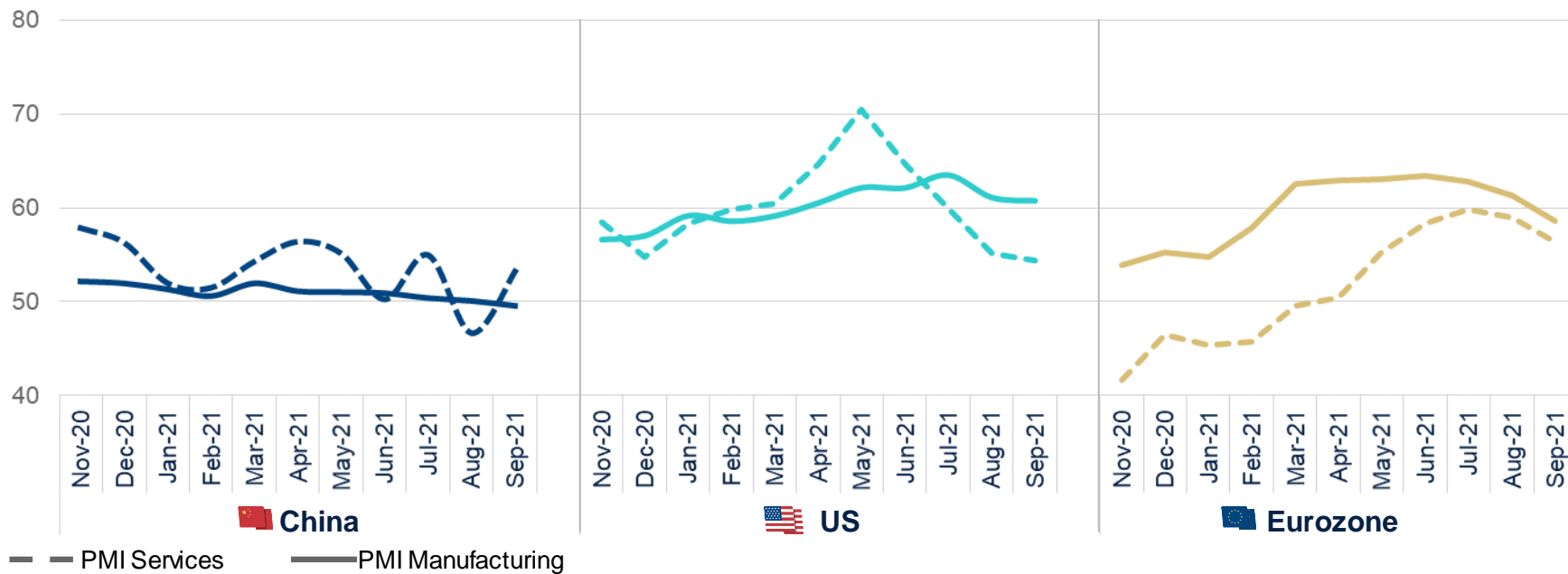
01

Global recovery
continues, though
bottlenecks have moderated
growth and pressured inflation

Growth is moderating, mainly in the US and China, after a strong rebound driven by the economic activity reopening in the first half of the year

PMI

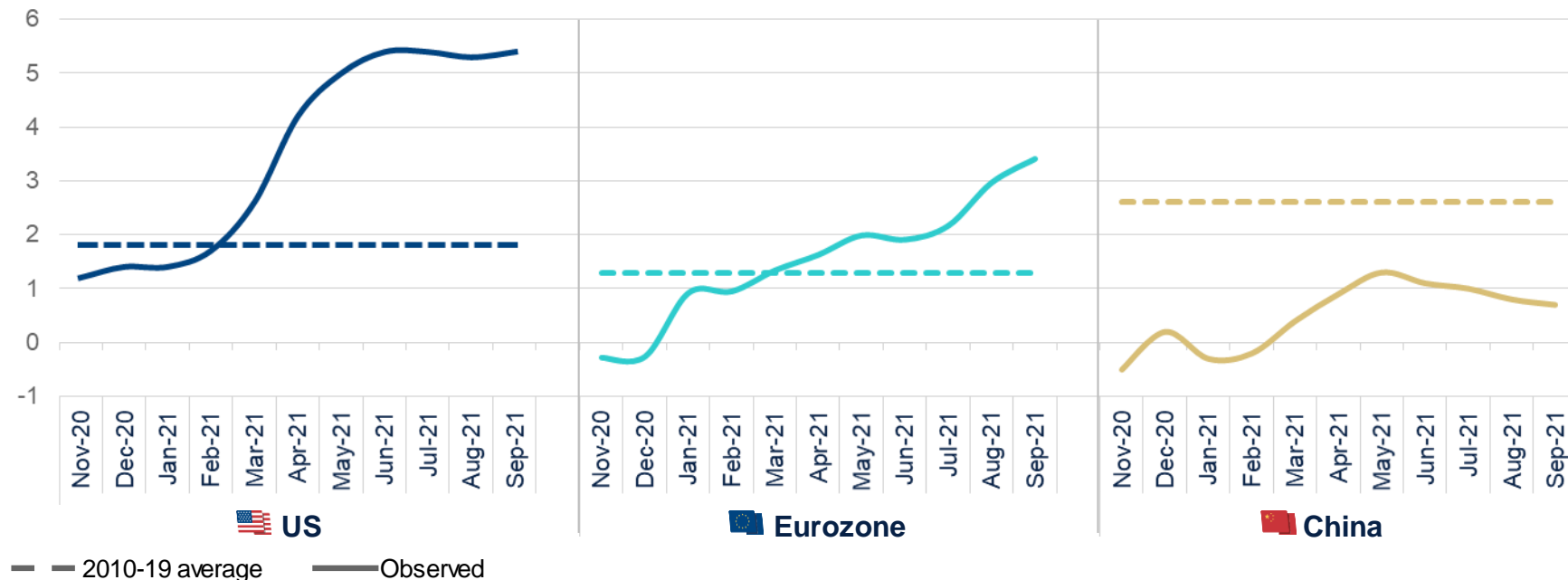
(HIGHER THAN 50: EXPANSION; LOWER THAN 50: CONTRACTION)



Inflation remains high, more in the US than in Europe

INFLATION: CPI

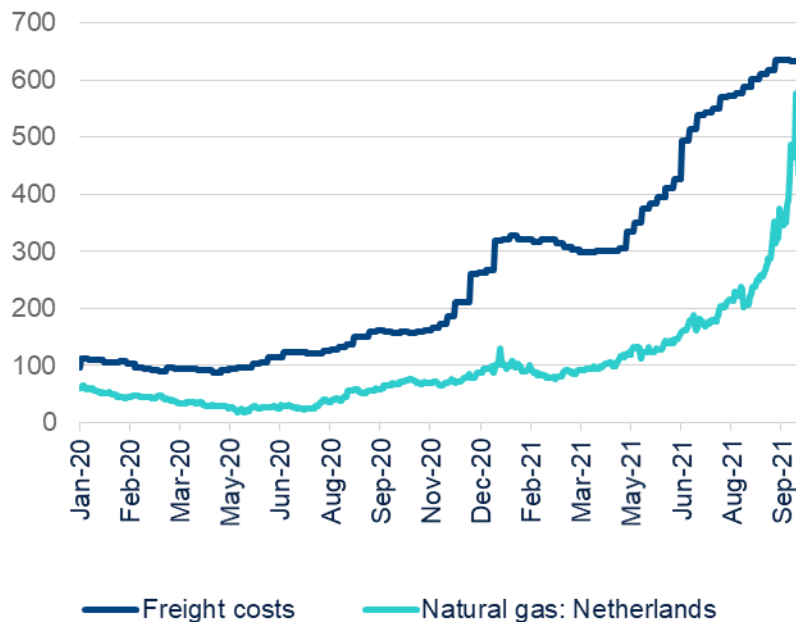
(Y/Y %, END OF PERIOD)



Source: BBVA Research based on local statistics.

Supply chain disruptions have contributed to both the growth moderation and the increasing inflationary pressures

FREIGHT COSTS AND GAS PRICE (*) (INDEXES)



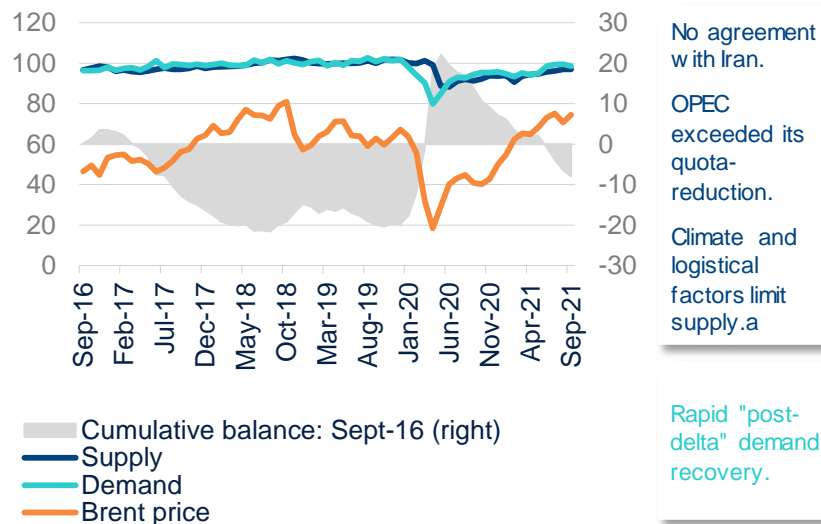
- More significant and persistent bottlenecks than anticipated, particularly in the manufacturing and transport sectors.
- Moreover, the price of some commodities, mainly in the **energy sector**, has risen significantly.
- A number of factors are behind these strong and unexpected cost pressures:
 - Supply rigidity, especially given the expansion of the Delta strain in China and the US.
 - labor shortage in some sectors.
 - demand resilience and rapid activity reopening.
 - higher demand for goods vs. services.
 - weather disruptions.
 - energy transition policies.
 - trade protectionism.
 - geopolitical tensions.

(*) Freight cost: world composite indicator. Gas price: Dutch natural gas future.
Source: BBVA Research based on data by Bloomberg.

The recovery in the demand for commodities has exceeded the ability or willingness to improve supply, resulting in price increases

OIL SUPPLY AND DEMAND

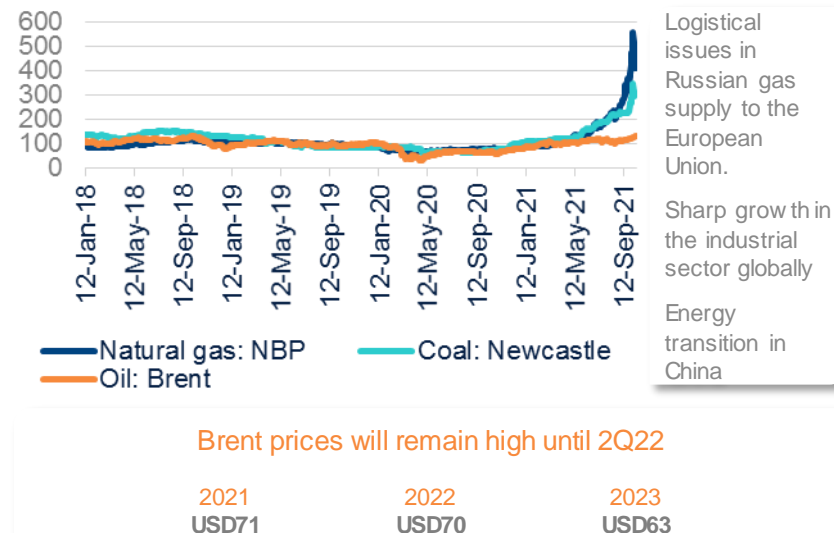
(MILLIONS OF BARRELS PER DAY, PRICE IN USD)



Source: BBVA Research based on data from HAVER and Bloomberg.

MAIN PRICES OF FOSSIL ENERGY SOURCES

(AVERAGE 2018 = 100)

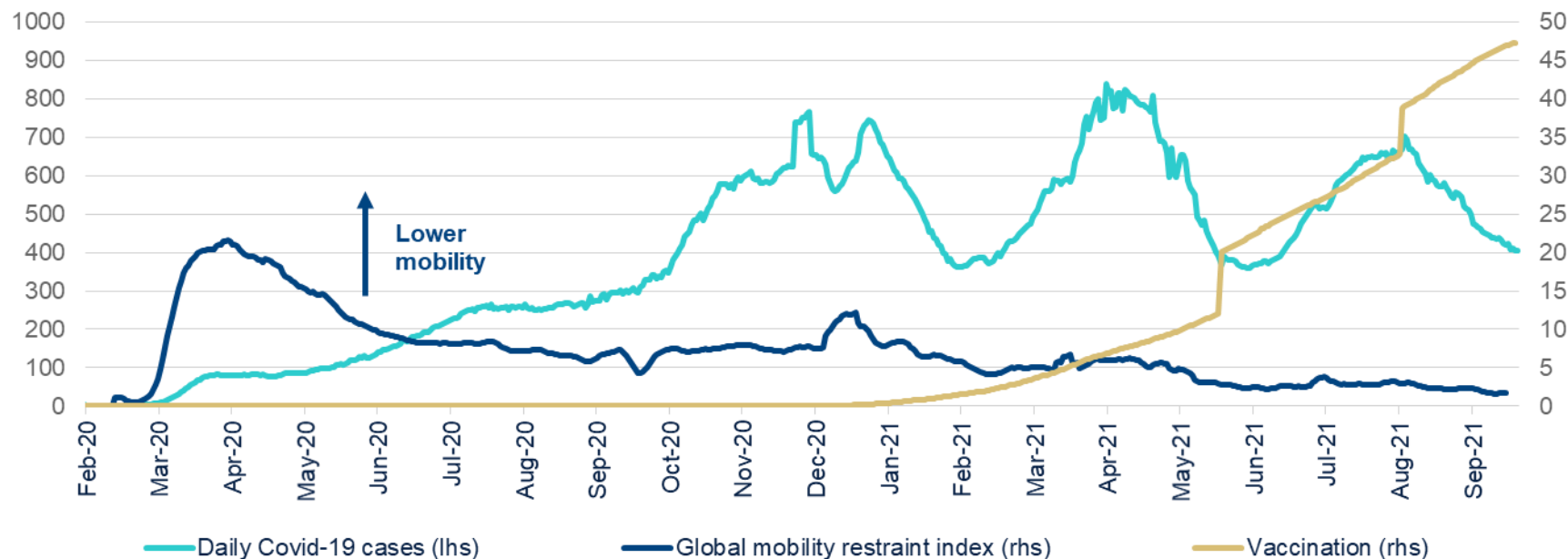


Recently, there is also precautionary demand for fossil fuels for heating and production during winter in the northern hemisphere to take into account. This led to strong price hikes to the point of threatening output capacity in some countries.

Vaccination has reduced the economic impact of the new contagion waves, but the Delta variant remains a concern, particularly in China and the US

WORLD: DAILY CODIV-19 CASES, POPULATION VACCINATED AND MOBILITY RESTRAINT INDEX (*)

(THOUSANDS OF CONTAGIONS, 7-DAY MOVING AVERAGE; SHARE OF THE POPULATION WITH AT LEAST ONE DOSE OF THE ANTI-COVID VACCINES; MOBILITY RESTRAINT: 7-DAY MOVING AVERAGE)

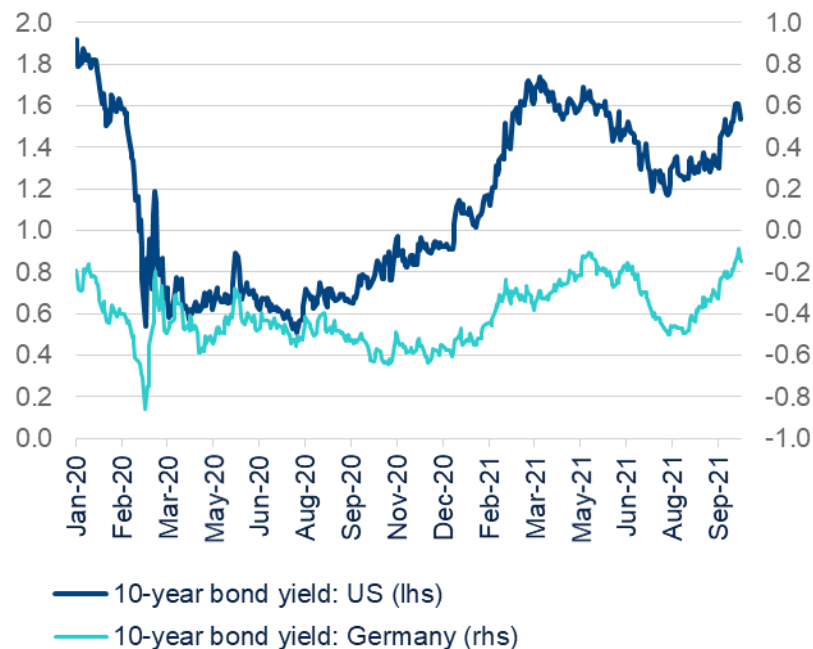


(*) The mobility restraint index reflects changes with respect to the period of reference (January 3 to February 6 2020). Higher values represent lower mobility.
Source: BBVA Research based on data by John Hopkins University, Google and Our World in Data.

The announcement by the Fed that the tapering will start in 2021 puts pressures on bond yields and supports the dollar

10-YEAR BOND YIELDS

(%)



- US bond yields have increased due to the prospect that the Fed will begin to withdraw stimulus somewhat earlier than expected and also on higher inflation expectations.
- Bond yields have also risen in the Eurozone, with the ECB reducing the PEPP purchases.
- The dollar has appreciated against the euro and emerging currencies.
- Capital flows to emerging markets have eased.
- Financial volatility has been limited, despite the concerns about the debt crisis of the Evergrande real estate group in China.

The recovery will continue, but will lose momentum due to the ongoing supply shocks, which will temporarily pressure inflation and central banks

MAIN FEATURES OF BBVA RESEARCH'S GLOBAL ECONOMIC SCENARIO

Bottlenecks



Larger impact than expected on activity (to the downside) and inflation (to the upside); negative effects expected until around mid-2022.

Economic policies



Expansionary fiscal and monetary policies in the G3 despite the gradual withdrawal of stimuli (Fed: tapering in 4Q21 and starting rate hikes in 4Q22).

Pandemic



Convergence towards "normality"; eventual new waves will have a lower impact on activity.

Growth and inflation



Robust growth, although somewhat weaker than previously estimated; relatively high inflation, though losing strength from 2022 onwards.

Financial markets



Risk assets pressured by the withdrawal of monetary stimulus by the Fed; a US dollar somewhat more appreciated than expected.

Emerging economies



Complex environment: lagged exit from the pandemic, inflation pressures on CBs, declining global liquidity (capital flows); positive commodity prices for exporters.

Risks

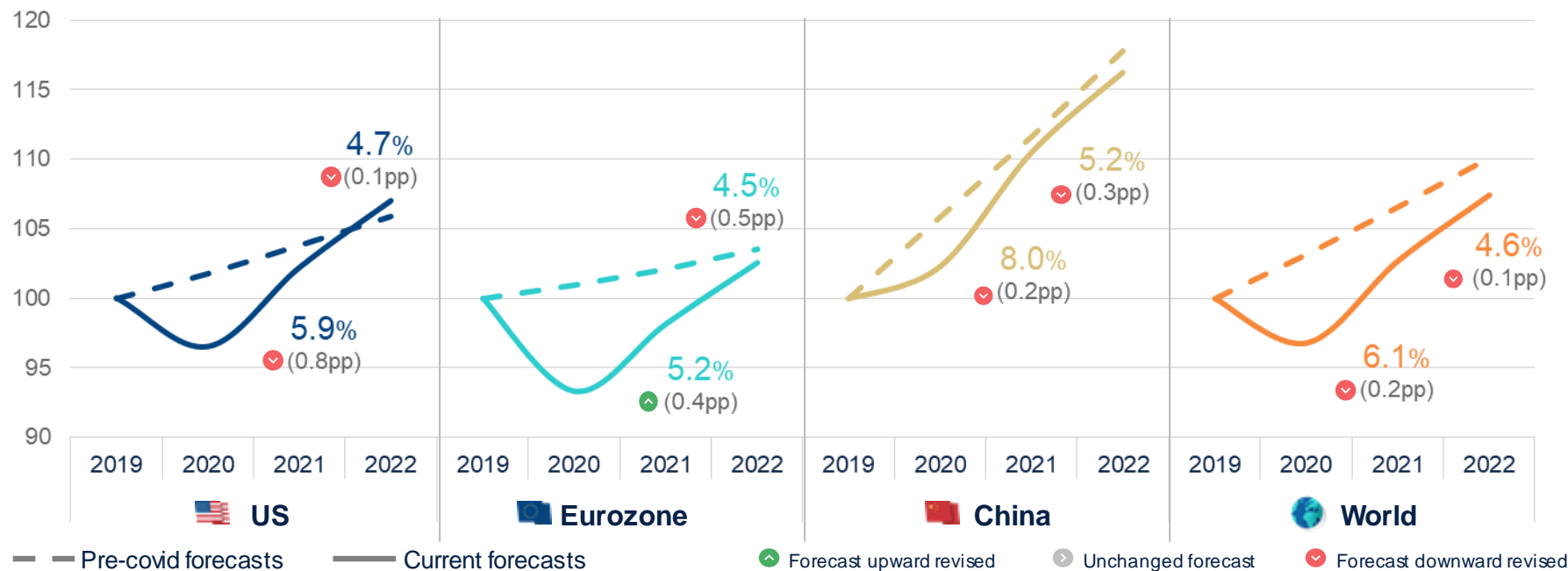


Mostly negative: persistence of supply shocks, stimulus withdrawal, slowdown in China, pandemic (new strains, incomplete vaccination), etc.

Global growth will be less robust than anticipated, mainly due to the supply shocks and the somewhat faster slowdown in China

REAL GDP

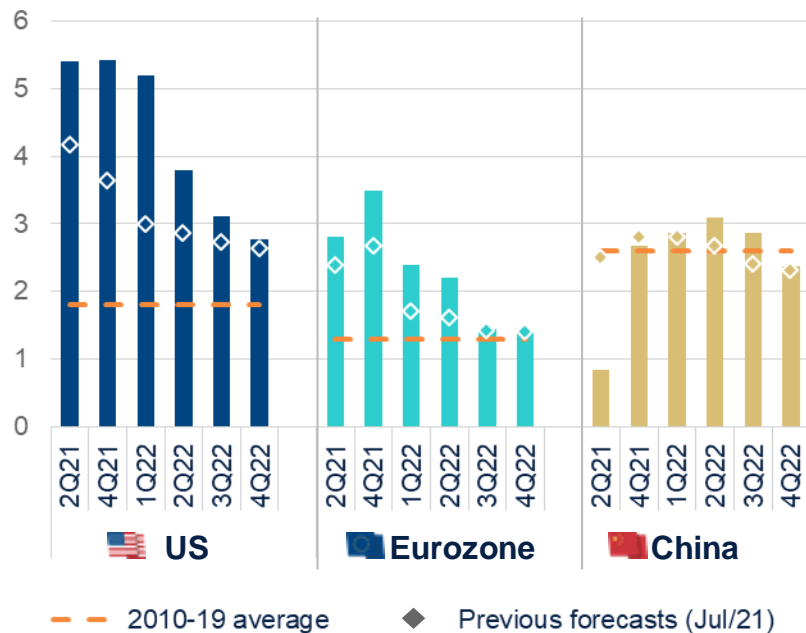
(LINES: GDP LEVEL 2019=100, FIGURES: FORECASTS AND CHANGES WITH RESPECT TO THE PREVIOUS ONES)



Inflation will remain higher than previously expected and above previous decade's levels, but will gradually slow down in 2022

INFLATION: CPI

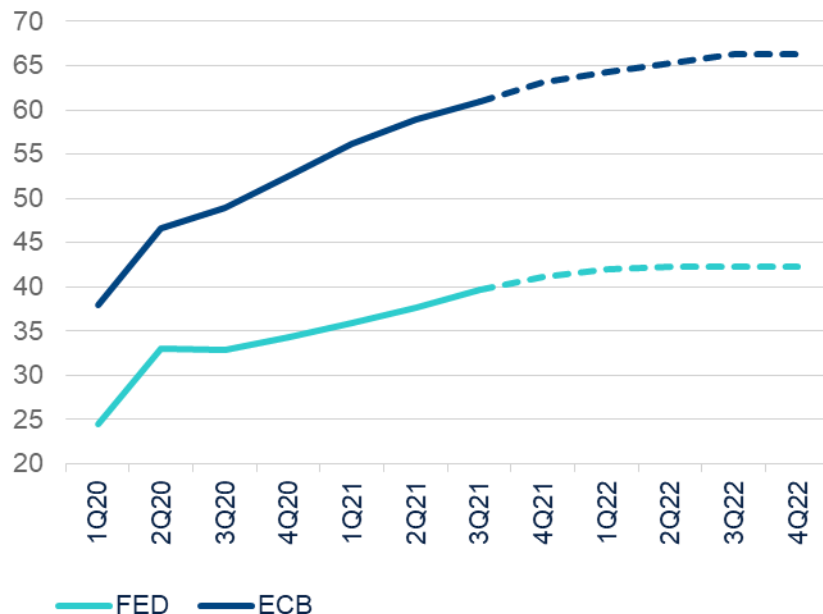
(Y/Y %, PERIOD AVERAGE)



- Inflation forecasts in the US and the Eurozone have been revised upwards.
- More favorable base effects, the transitory nature of most supply shocks and the absence of generalized wage pressures should allow inflation to moderate from 2022 onwards.
- Risks are biased to the upside; anchoring expectations is key.
- Inflation in China remains low due to positive base effects, but rising production costs and energy prices will create upward pressure in the coming quarters.

The Fed will soon begin withdrawing monetary stimulus; the ECB will be more patient and the PBoC will adopt additional measures to support activity

FED AND ECB BALANCE SHEETS (SHARE OF GDP)



Forecast in dotted lines

Source: BBVA Research based on data by the Fed and the ECB..



US

- Fed expected to start the withdrawal of stimulus earlier than expected: tapering in 21Q4 and increases in rates in 22Q4.
- New investment-focused **fiscal stimulus** (7% of GDP), despite political uncertainty.



Europe

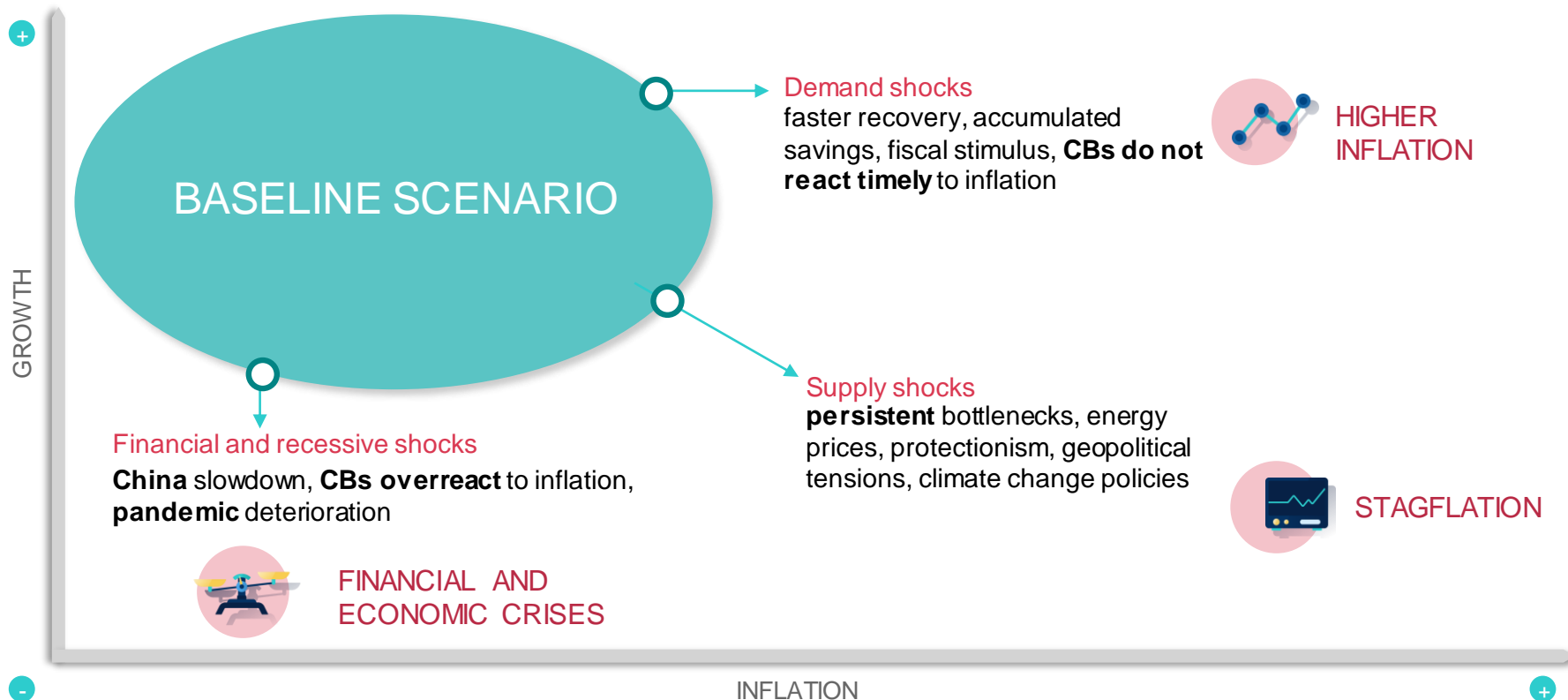
- The **ECB** is closer to ending the stimulus program, but will remain patient with inflation and rates.
- Implementation of **NGEU** funds and support measures to offset energy rises.



China

- **new stimulus** to reduce the effect of regulatory measures (in real estate and financial sector) and supply shortages.

Risks: supply shocks, the withdrawal of stimuli, the slowdown in China, among other factors, could generate more negative global scenarios



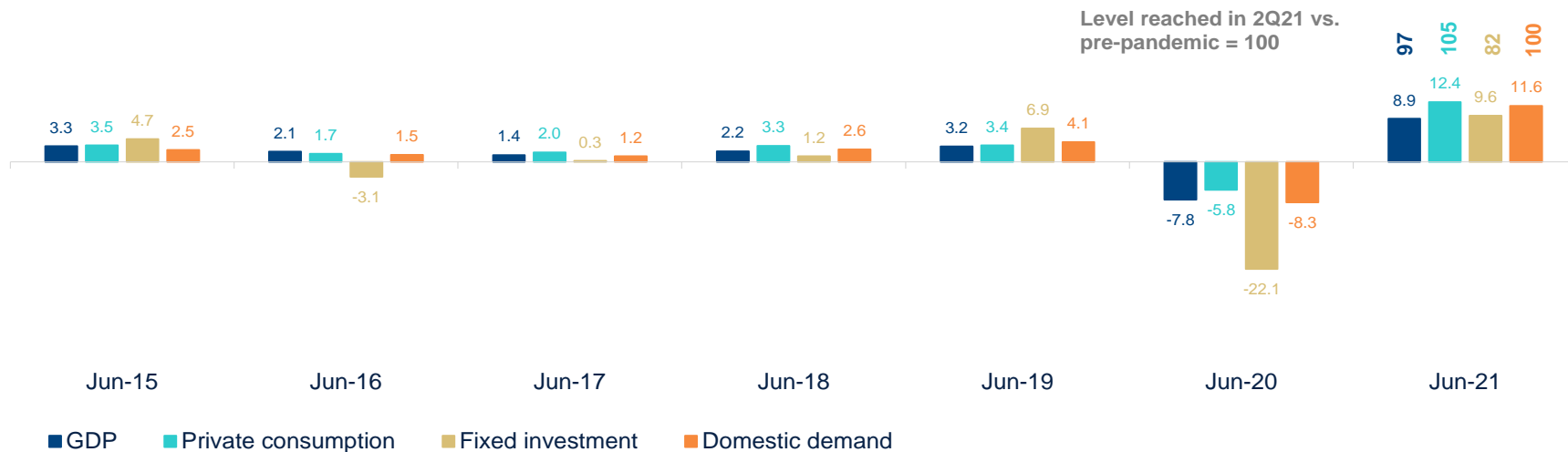
02

In Colombia,
activity maintains an outstanding
rate of recovery, especially due
to private consumption

In the first six months, the sustained momentum of private consumption boosted the economy's outstanding recovery...

GDP AND COMPONENTS: ACCUMULATED IN THE FIRST SIX MONTHS OF EACH YEAR

(ANNUAL CHANGE IN %; DEC 19 INDEX = 100)



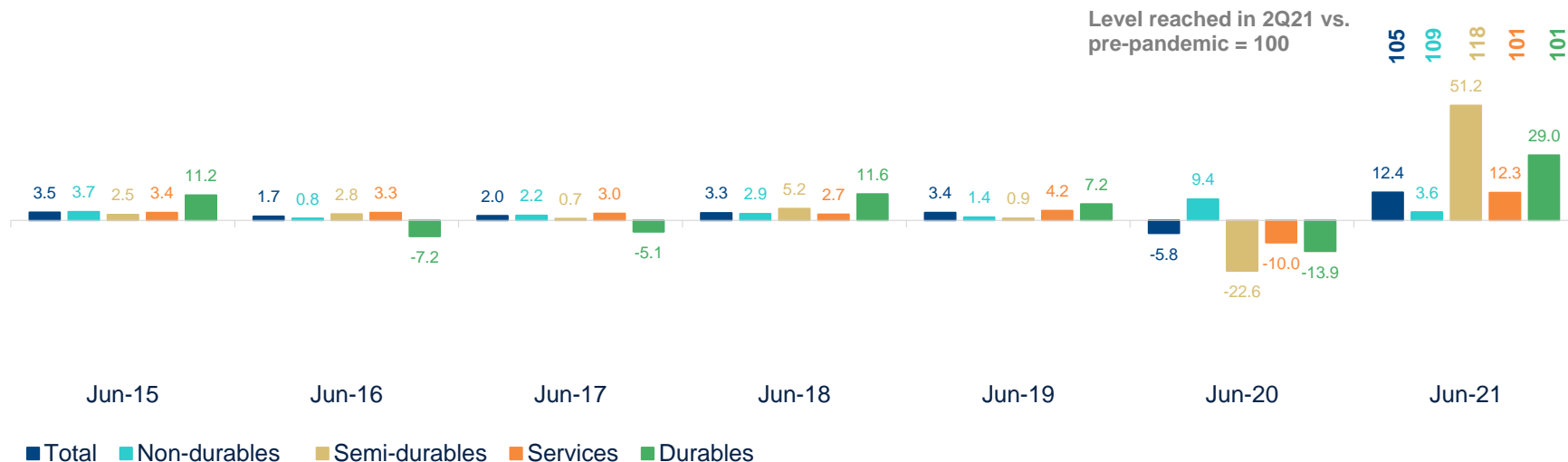
Source: BBVA Research based on DANE data.

...and accompanied the rebound of fixed investment. However, the performance of the latter was temporarily disrupted by business uncertainty and logistical problems generated by protests in April and May.

The performance of semi-durable and durable goods and services helped consumption exceed pre-pandemic levels and led to its strong recent trend

PRIVATE CONSUMPTION AND COMPONENTS: ACCUMULATED IN THE FIRST SIX MONTHS OF EACH YEAR

(ANNUAL CHANGE IN %; DEC 19 INDEX = 100)



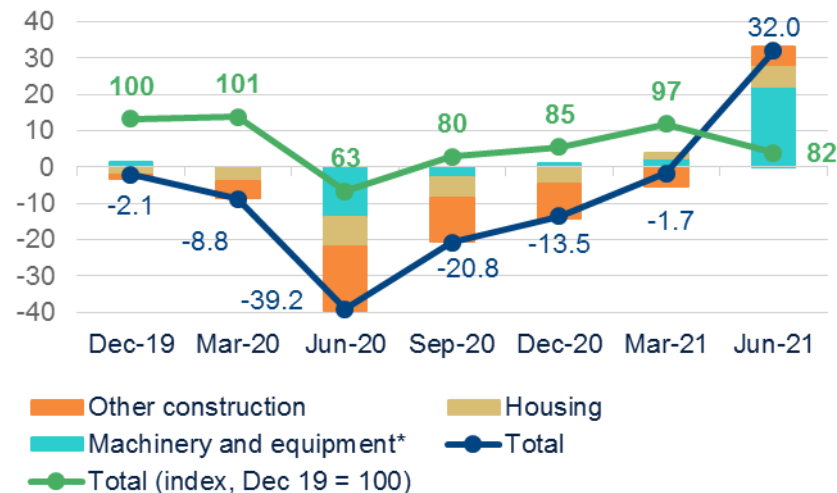
Source: BBVA Research based on DANE data.

Meanwhile, non-durable goods continued to grow, even during times of lockdown. In the case of services, it was online betting that expanded most during the first half of the year.

This dynamism of final consumption led entrepreneurs to increase output capacity through investment and to reduce inventories

INVESTMENT AND COMPONENTS

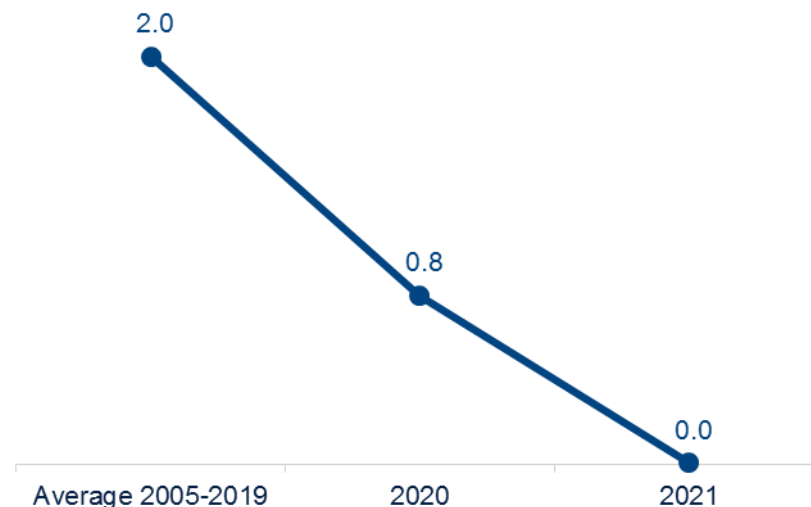
(ANNUAL CHANGE IN %, DEC 19 INDEX= 100)



(*): Includes machinery and equipment, biological resources and intellectual property
Source: BBVA Research based on DANE data.

INVENTORY BUILD-UP IN THE FIRST SIX MONTHS

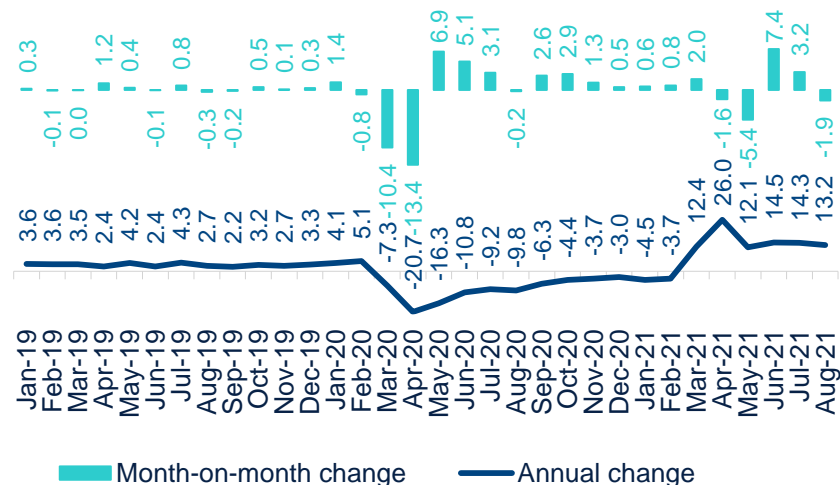
(% OF GDP)



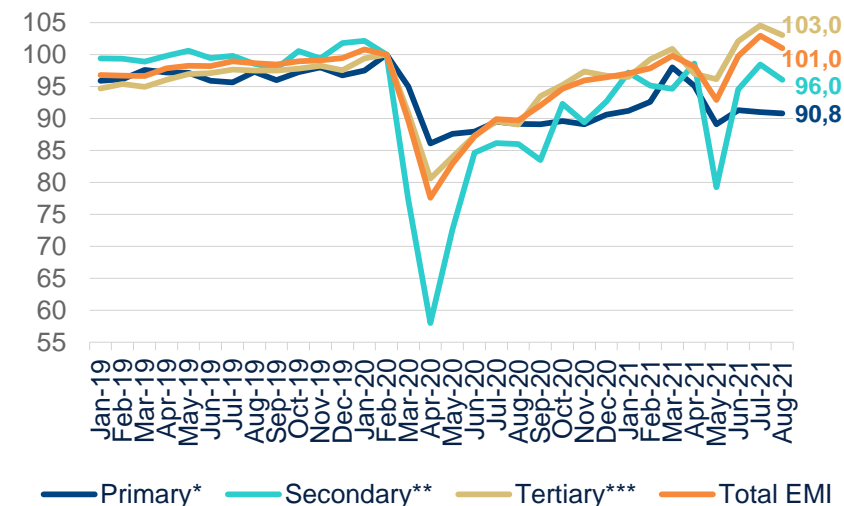
Investment in machinery has been the most dynamic. By June, it was already at 104.8% of its pre-pandemic value. Housing is recovering slowly, based on low- and medium-priced housing.

The recovery continued in the third quarter. In August, the economy exceeded the pre-COVID level by 1%, as did consumption in 1Q21

ECONOMIC MONITORING INDEX (EMI) (ANNUAL AND MONTH-ON-MONTH CHANGE, %)



ECONOMIC MONITORING INDEX (EMI) BY COMPONENT (INDEX, FEB 20 = 100)



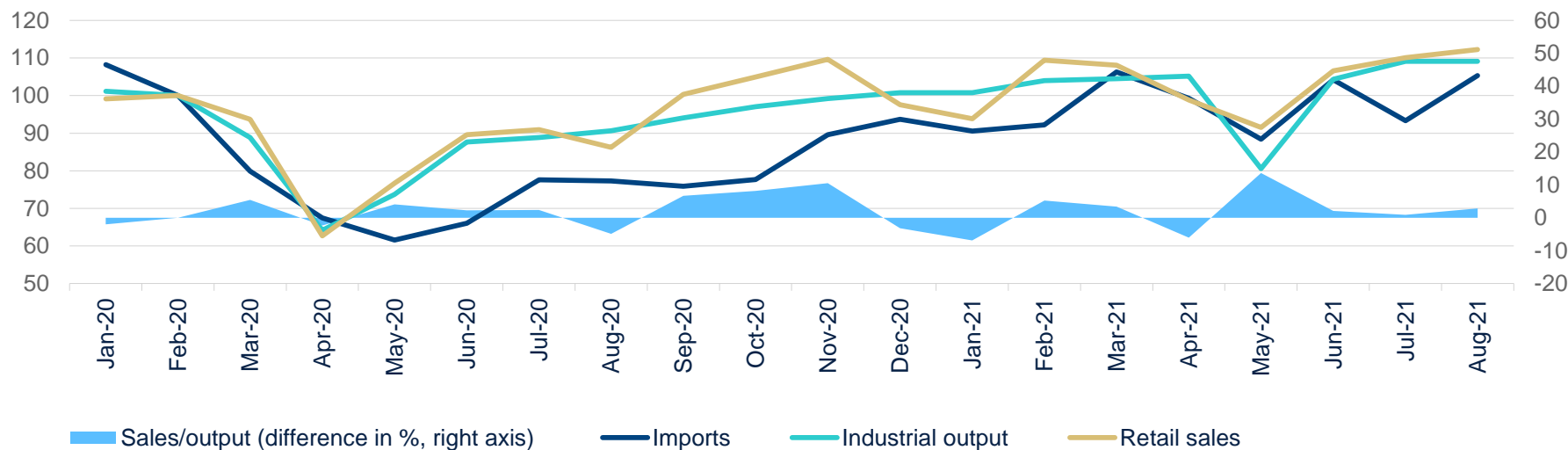
(*): Agro. and mining. (**): manufacturing and construction. (***): Other sectors: services.
Source: BBVA Research based on DANE data.

Primary activities such as agro. and mining still have ample room for improvement, especially due to low oil and coal output. Secondary activities are better in industry than in construction. Services are strongly on the rise.

The dynamics remained demand-led, with a stronger pace than supply even when counting the momentum of imports

INDUSTRIAL OUTPUT, RETAIL SALES AND IMPORTS

(INDEXES FEB 20 = 100, DIFFERENCE IN %)

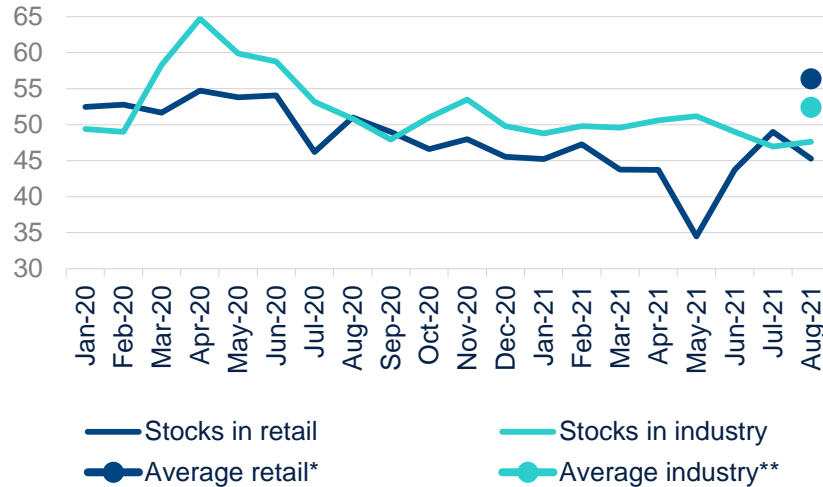


Source: BBVA Research based on DANE data.

As a result, aggregate inventories and momentum in production activity and imports remained low.

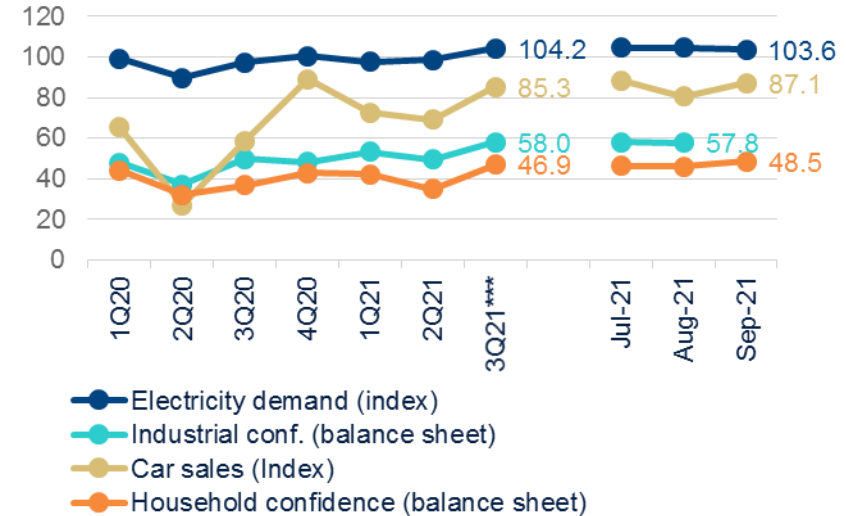
Inventory levels registered by the business community remain low: a precondition for accelerating output and employment

VALUATION OF INVENTORIES IN INDUSTRY AND TRADE (BALANCE OF ANSWERS, >50: GROWING)



(*) Since 1998. (**): Since 1980. (***): Data as of August for industrial confidence.
Source: BBVA Research based on Fedesarrollo, XM and Fenalco data.

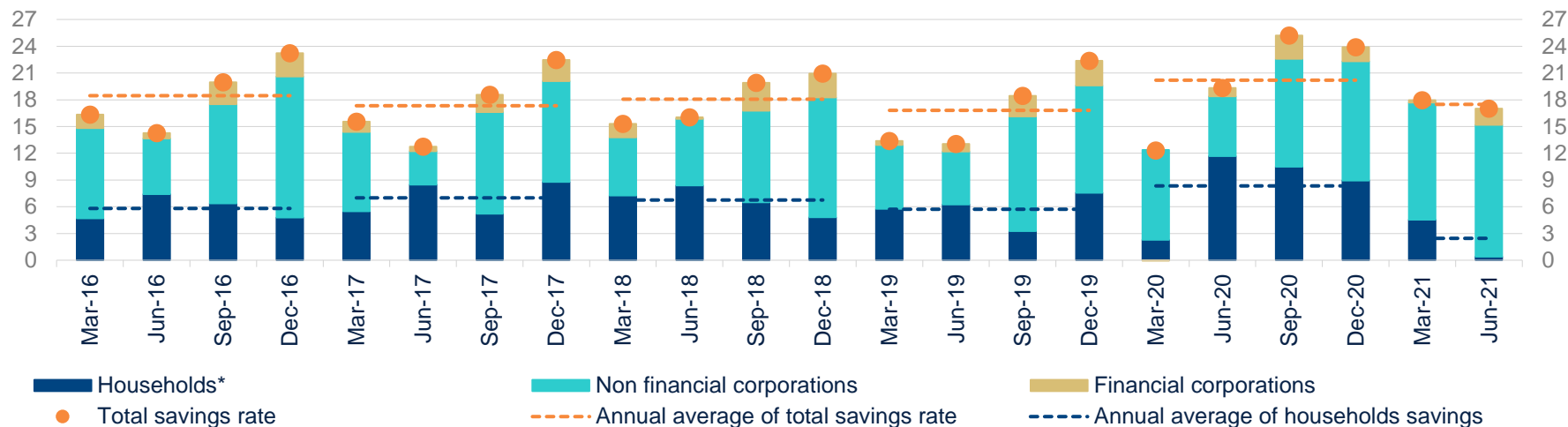
INDUSTRIAL OUTPUT, RETAIL SALES AND IMPORTS (INDEXES FEB 20 = 100, DIFFERENCE IN %)



In addition, the latest indicators show that consumption maintains a strong dynamic.

Part of the economy's dynamism, particularly for consumption, is explained by the savings retained when lockdown was at its strictest

PRIVATE INTERNAL SAVINGS (% OF GDP)



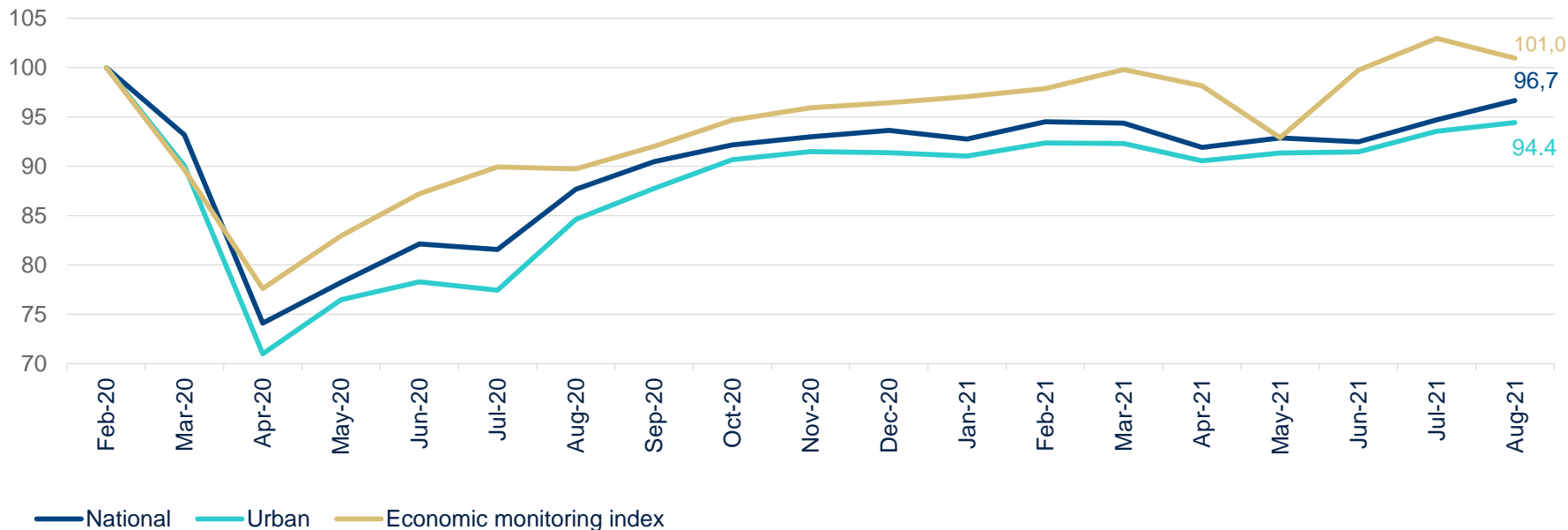
(*): Includes non-profit organizations
Source: BBVA Research based on DANE data.

This source of growth seems to be coming to an end. Looking forward, the recovery of domestic demand will depend more on the dynamics of the economy at the margin, led by improvements in the labor market and higher domestic output.

Job recovery continues to lag behind activity despite recent good data on new job creation

NATIONAL AND URBAN EMPLOYED POPULATION INDEX AND ECONOMIC MONITORING INDEX

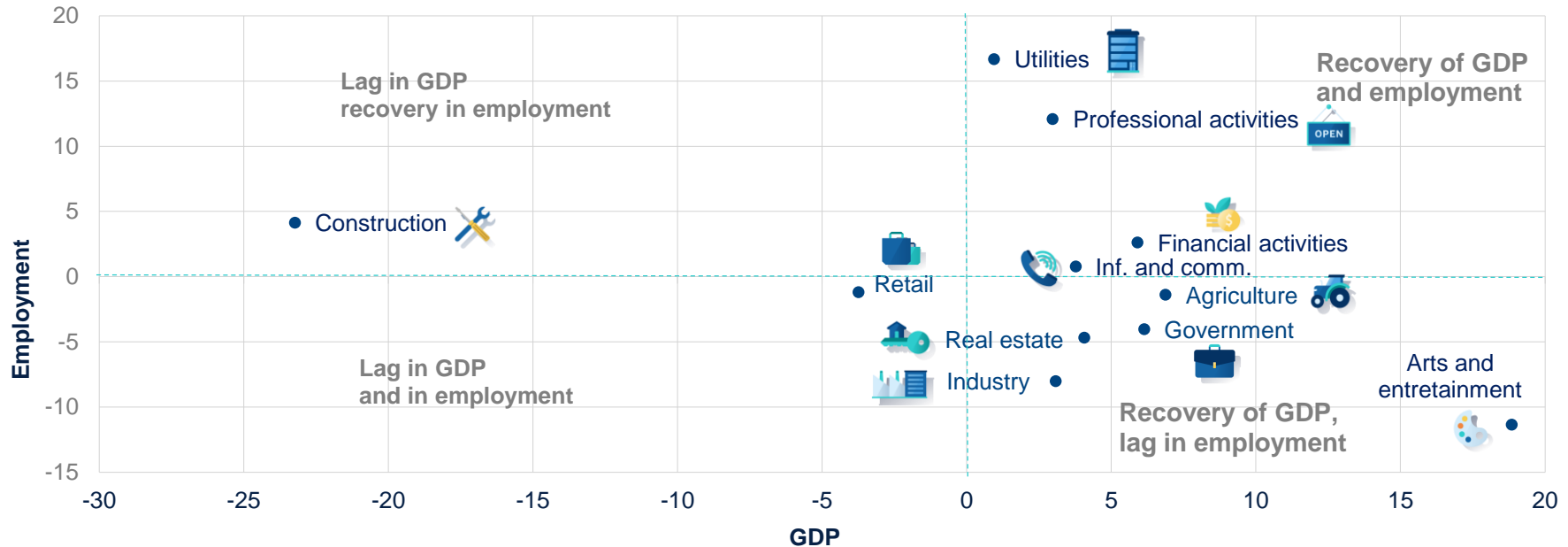
(FEB 2020 = 100*, SEASONALLY ADJUSTED SERIES)



Based on the data up to August, the lag in employment goes beyond the sectors still hardest hit by social distancing measures

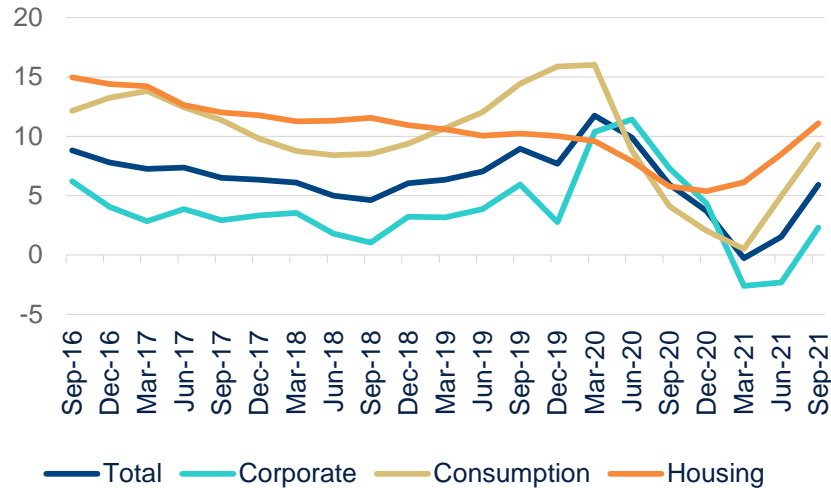
GDP AND SECTORAL EMPLOYMENT

(%, GDP GROWTH BETWEEN 1H19 AND 1H21 AND EMPLOYMENT BETWEEN AUGUST 2019 AND AUGUST 2021)

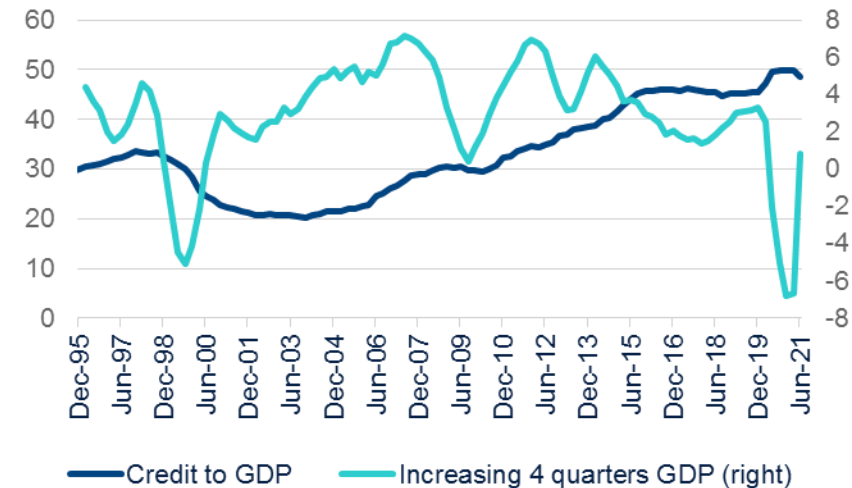


The dynamic growth of borrowing is also contributing to the increase in families' activities and, albeit more slowly, that of companies

TOTAL PORTFOLIO AND BY TYPE*
(ANNUAL CHANGE, %)



GDP CYCLE AND CREDIT TO GDP
(ANNUAL CHANGE AND % OF GDP)

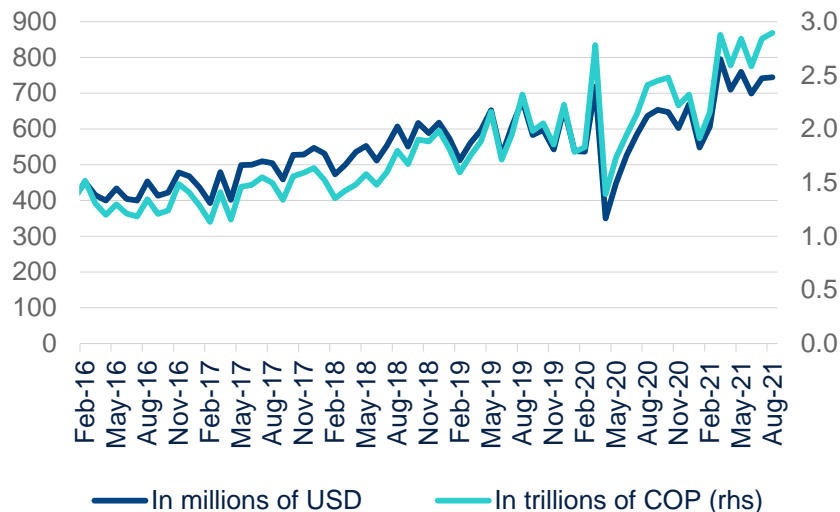


(*): The data used are from the Colombian Financial Supervisor (*Superfinanciera*) up to July 2021, and these are merged with the growth of the BanRep preliminary figures for August and September
Source: BBVA Research based on data from the *Superfinanciera*, BanRep and DANE

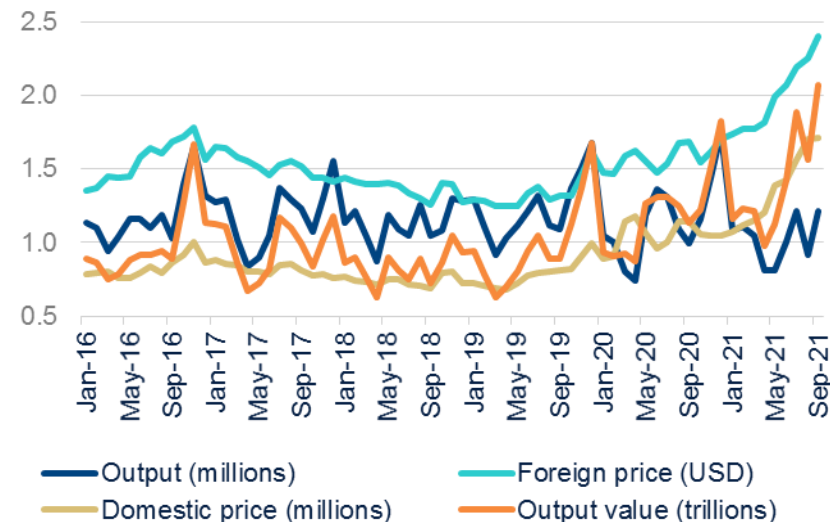
Compared to other cycles of GDP slowdown, the current cycle allowed credit to flow to the economy.

Remittances, coupled with devaluation, are a source of financing for households: they have grown 30% during the year until August

MONTHLY REMITTANCES
(MILLIONS OF USD AND TRILLIONS OF COP)



MONTHLY COFFEE MARKET (MILLIONS OF BAGS, MILLIONS OF COP, USD AND TRILLIONS OF COP)



Source: BBVA Research based on Banco de la República, Federación Nacional de Cafeteros and ICO data.

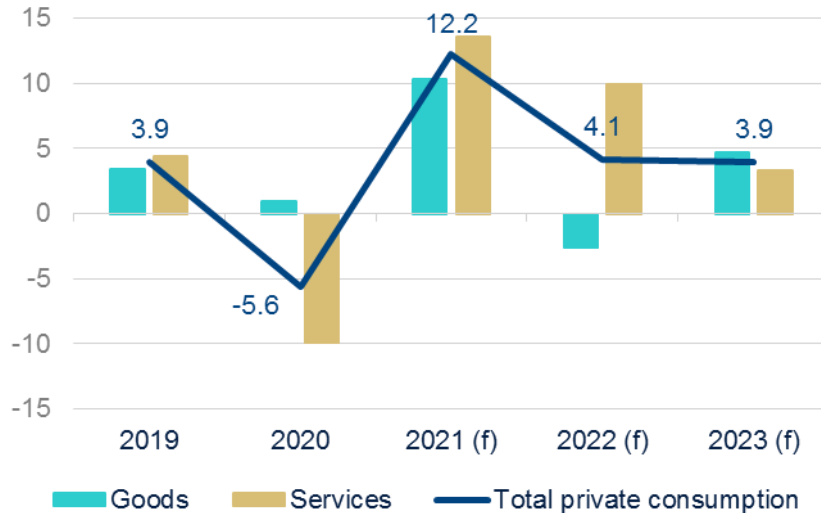
The coffee growing regions are also benefiting from higher coffee revenues. Between January and September, households received an additional 2.7 trillion to what they received in the same period of 2020 (an additional 0.3 trillion per month).

03

By 2022, we expect
the recovery to continue with
some nuances

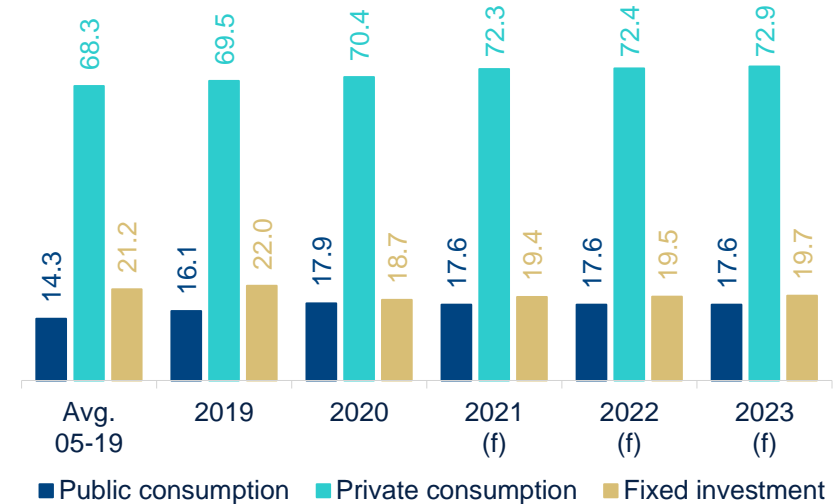
Private consumption will continue to boost growth. Consumption of services will outpace consumption of goods

PRIVATE CONSUMPTION AND ITS COMPONENTS (ANNUAL CHANGE, %)



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

DOMESTIC DEMAND COMPONENTS (% OF GDP)

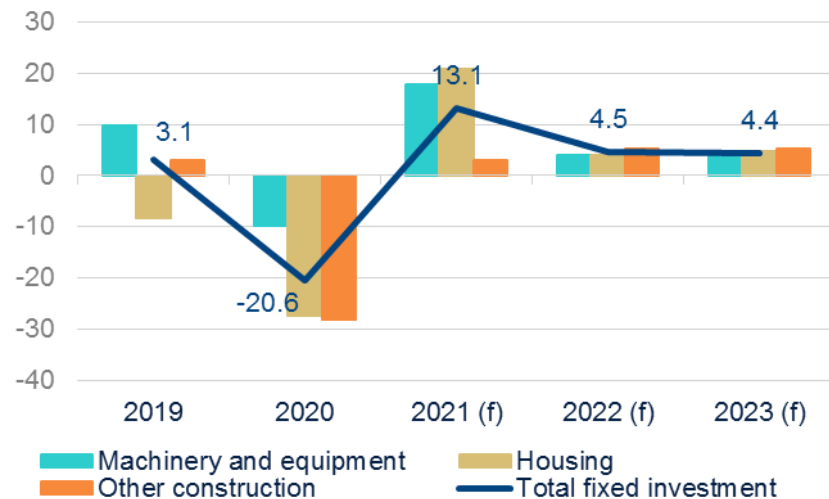


In domestic demand, the weight of final consumption, both private and public, will gain relevance with respect to other components. In fact, private demand will end this year four points above its historical share of GDP and will continue to grow.

Investment will continue to increase, although it will stabilize at a growth rate more in line with the recovery process in the medium term

FIXED INVESTMENT AND ITS COMPONENTS

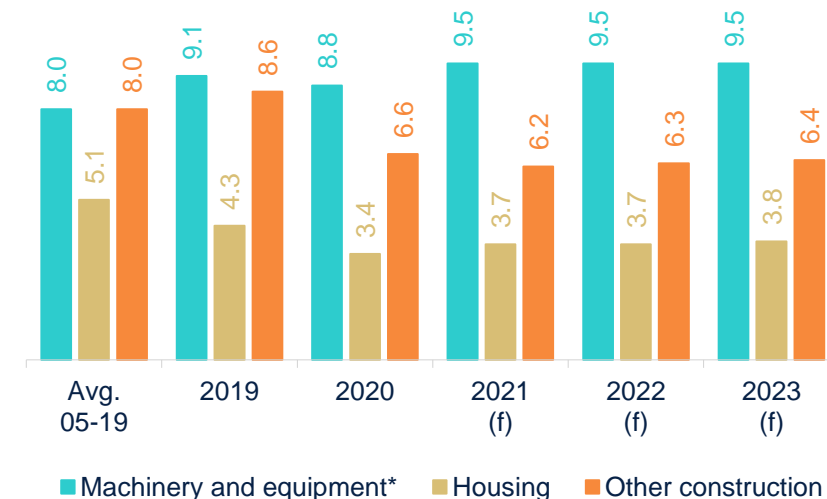
(ANNUAL CHANGE, %)



(*): Includes intellectual property and biological resources; (f): BBVA Research forecasts.
Source: BBVA Research based on DANE data.

INVESTMENT COMPONENTS

(% OF GDP)

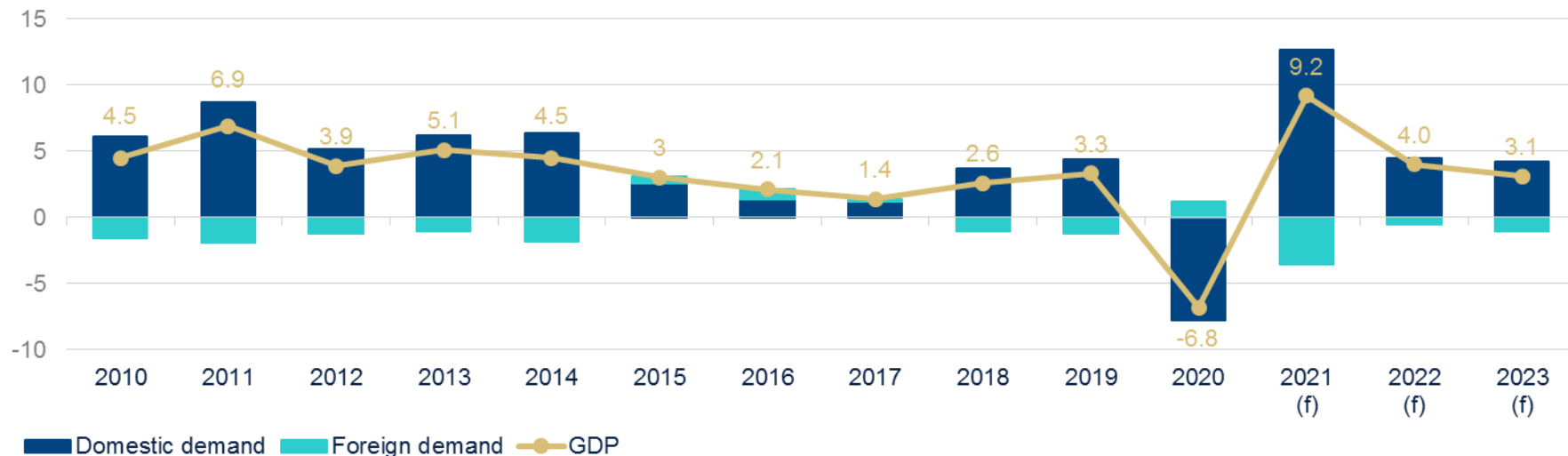


The composition of investment changed: more machinery and equipment and less construction, especially that other than housing. Large infrastructure projects must be planned to reverse this latest trend.

However, domestic demand will remain the main driver of GDP growth, along with a major rally in exports

GDP AND DEMAND CONTRIBUTIONS

(ANNUAL CHANGE AND CONTRIBUTIONS, %)



(f): BBVA Research forecasts.

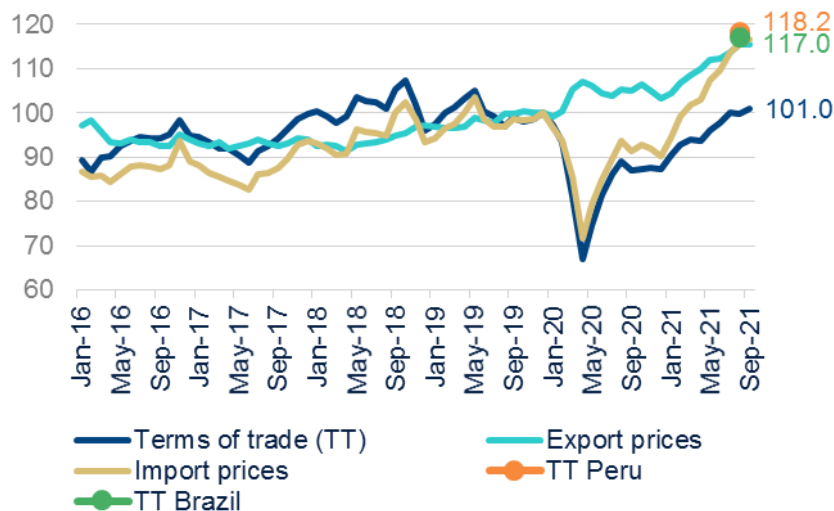
Source: BBVA Research based on DANE data.

Export growth and a more modest growth in imports, as investment growth moderates and consumption of goods stalls, shall determine a less negative contribution of foreign demand, in line with the historical average.

Exports will grow above imports in 2022, but the latter will remain higher than the former in the medium term

TERMS OF TRADE

(INDEX, DEC 19 = 100)



EXPORTS

- A recovery in oil and coal output is expected.
- The main trading partners will maintain a good dynamic.
- The local output scale and worker productivity are growing.
- With the slowdown in domestic demand, there could be room to compete abroad with this better production scale.



IMPORTS

- They will slow down due to lower domestic demand.
- Household expenditure on imported goods is expected to decline and investment in machinery and equipment is expected to see slower growth.
- High international prices and currency devaluation will continue to push domestic expenditure on imported goods up.

Source: BBVA Research based on data from the respective central banks.

The country's export capacity will also depend on access to raw materials in global value chains. In addition, the mining sector is expected to take greater advantage of high international prices and currency devaluation.

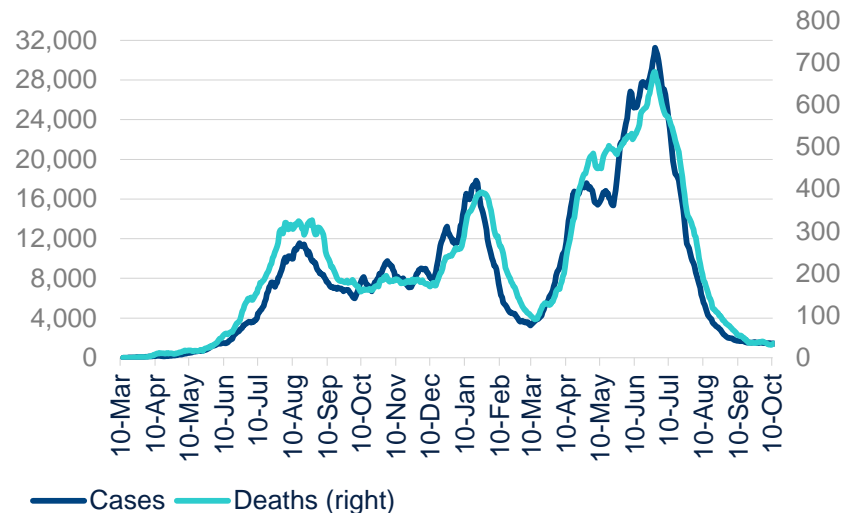
04

The better evolution
of the health situation,
and the lessons learned by local
and national governments and
families to help them navigate
outbreaks, shall support recovery

Cases and deaths related to COVID-19 have dropped significantly as the country learns to live with the pandemic

CASES AND DAILY DEATHS

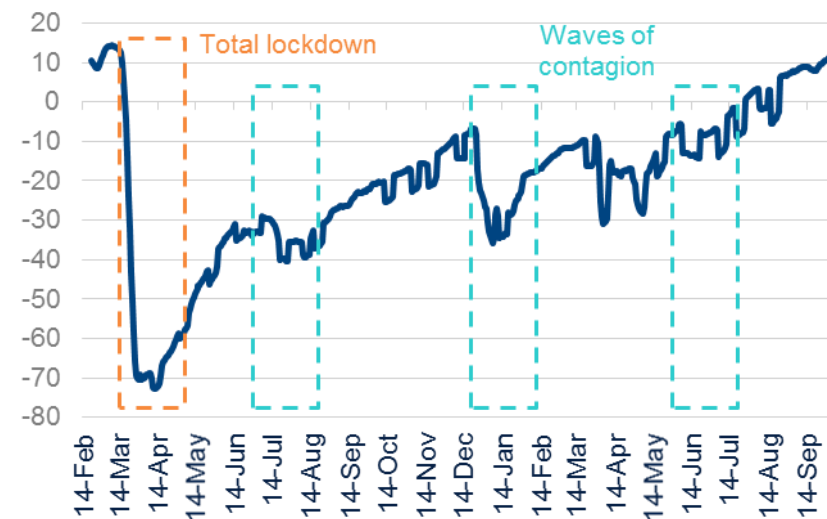
(7-DAY MOVING AVERAGE – DATA UNTIL OCT 17)



Source: BBVA Research based on data from INS and Google.

MOBILITY INDICATOR

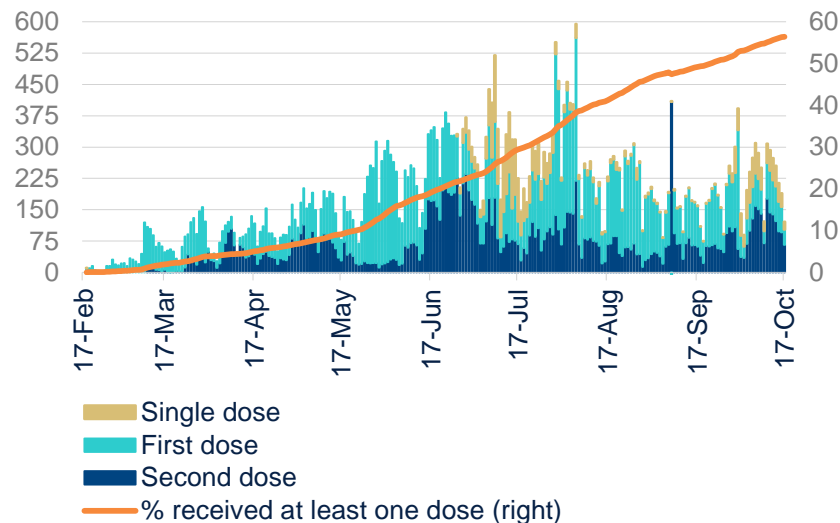
(CHANGE FROM FEBRUARY 14, 2020, 7-DAY MOVING AVERAGE)



An increase in contagion is expected in mid-November, which we expect to be less damaging in terms of economic activity.

Vaccination has recently picked up pace again with the availability of materials and the expansion of the population groups able to receive them

DAILY VACCINATION AND % VACCINATED (DOSE AND %)



TIMES TO ACHIEVE HERD IMMUNITY (TENTATIVE DATE)

% of the population		
	70%	90%
330	December 2021	February 2022
240	December 2021	March 2022
160	January 2022	June 2022
100	April 2022	July 2022

- Assuming purchased material and donations are available.
- Assuming the population is willing to receive the vaccine.
- Assuming uniformity in applying the vaccine.

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

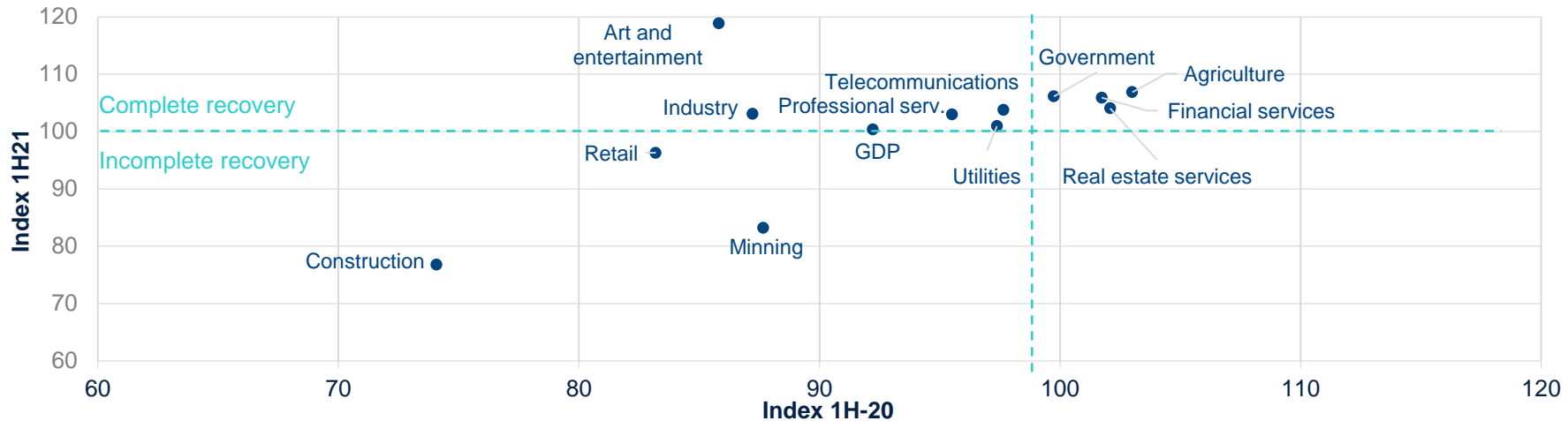
If a rate of 240,000 vaccines per day is sustained, 70% of the population would be vaccinated by the beginning of 2022 and 90% of the population would be vaccinated by the beginning of April 2022. Herd immunity will be achieved in the first quarter of 2022.

05

The proximity of
herd immunity
and the vaccination process
allows sectors to continue
to open

In the first half of 2021, six of the nine sectors of the economy that contracted a year earlier have returned to their pre-pandemic levels

VALUE ADDED BY ECONOMIC SECTORS (INDEX 100 = FIRST HALF OF 2019*)

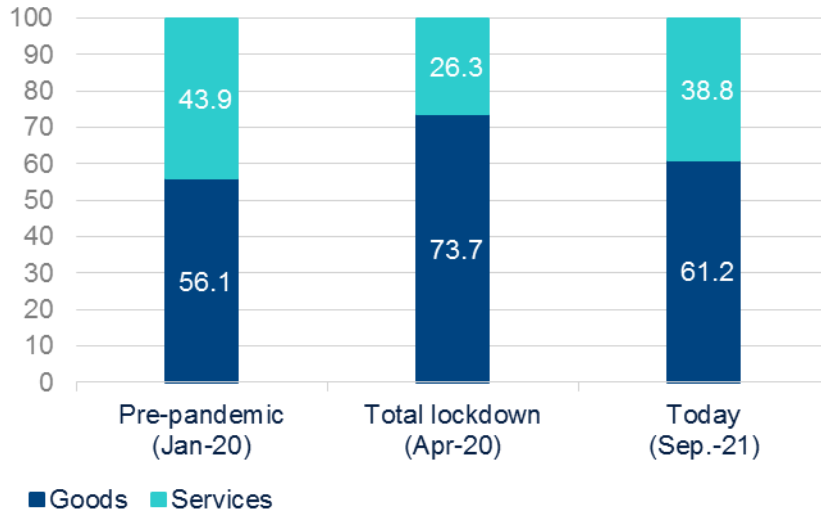


* Y axis = index of value added in the first half of 2021 and X axis = index of value added in the first half of 2020.
Source: BBVA Research based on DANE data.

Entertainment showed a significant rebound thanks to gambling and betting. For their part, mining, construction and trade remained below their level in the same period of 2019.

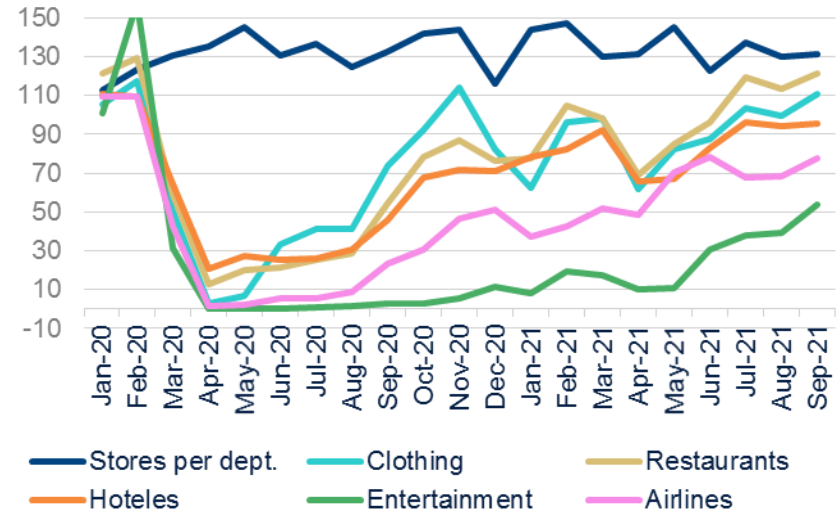
At the start of the pandemic, services lost a leading role in household expenditure; this started to reverse in the latest data

BBVA BIG DATA CONSUMPTION INDEX BY TYPE
(% OF TOTAL)



Source: BBVA Research based on transactional data from BBVA.

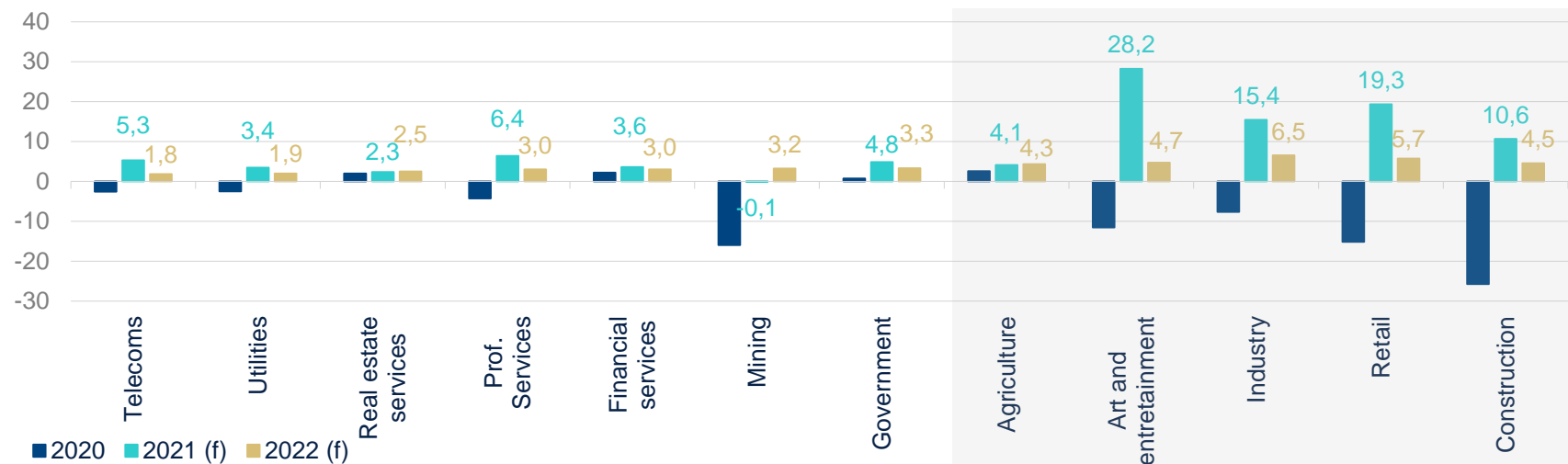
BBVA BIG DATA CONSUMPTION INDEX BY SECTOR
(INDEX 100 = SAME PERIOD IN 2019)



With advances in vaccination plans and the easing of social distancing measures, service-related sectors are beginning to see a revival.

We hope that beyond the reopening of the sector, the consumption of services will set other sectors in motion such as entertainment, commerce and industry

GDP ON THE SUPPLY SIDE (ANNUAL CHANGE, %)



(f): BBVA Research forecasts.

Source: BBVA Research based on DANE data.

For its part, construction shall continue to recover since the major fall of 2020. Similarly, momentum in agriculture will continue thanks to an increase in non-traditional exports.

The main drivers of sector growth among the best performing sectors in 2022



AGRICULTURE

- Positive dynamic in demand for non-traditional exports.
- Good recent performance that maintains a good flow of resources to the sector.



ENTERTAINMENT

- Reduced mobility restrictions.
- Revival of traditional entertainment sectors.
- Uptick in online entertainment.



TRADE

- Revival of accommodation and restaurant sectors.
- Growth in the consumption of goods is moderate, but has an effect on services.



INDUSTRY

- Dynamic growth in investment is maintained.
- Good performance of household consumption.
- Good performance of agro-industrial sectors.



CONSTRUCTION

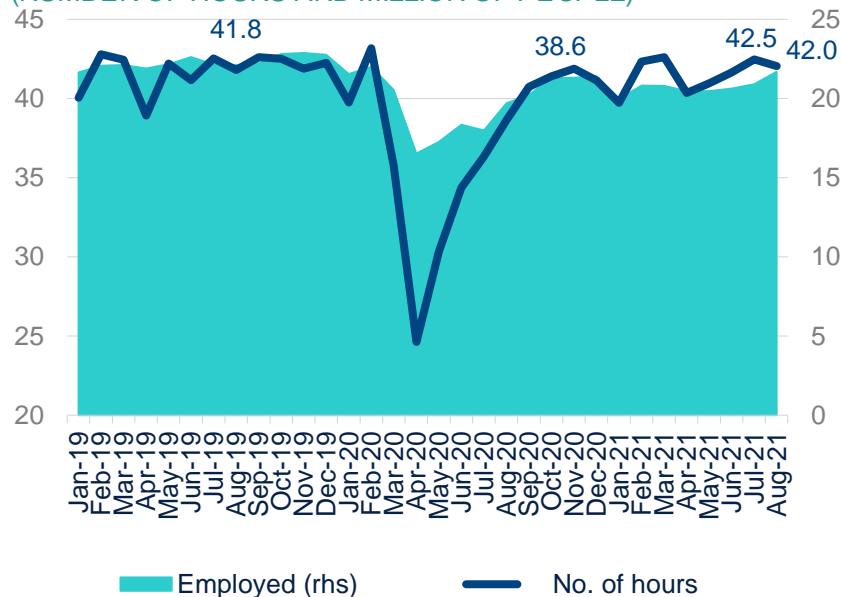
- Demand for housing is high, especially in the medium- and low-price segments where there are subsidies.
- The execution of civil, regional and local works will see better performance in 2022.

06

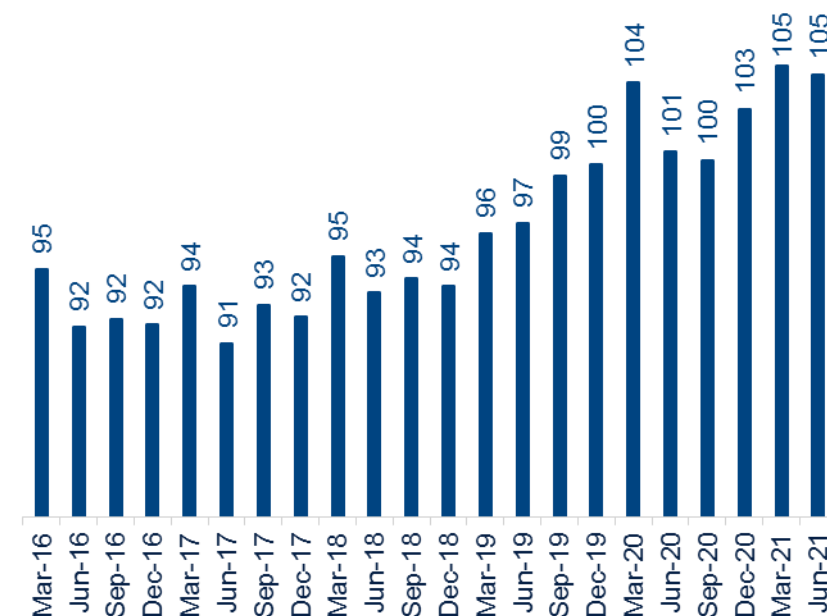
The recovery
of the labor market
remains one of the
major challenges

Hours worked have increased as has output per worker: efficiency gains can lead to employment growth

**AVERAGE WEEKLY HOURS WORKED PER WORKER
AND NATIONAL EMPLOYED POPULATION**
(NUMBER OF HOURS AND MILLION OF PEOPLE)

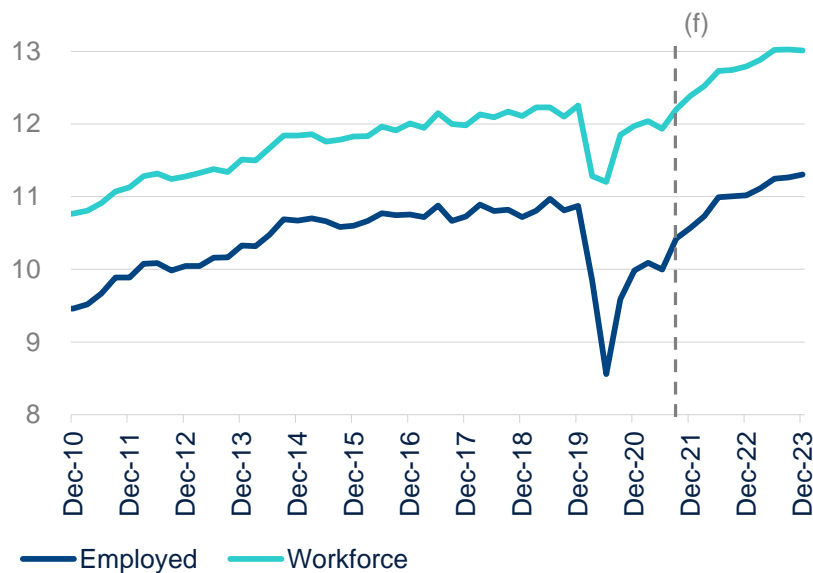


REAL GDP PER WORKER
(INDEX DEC 19 = 100)

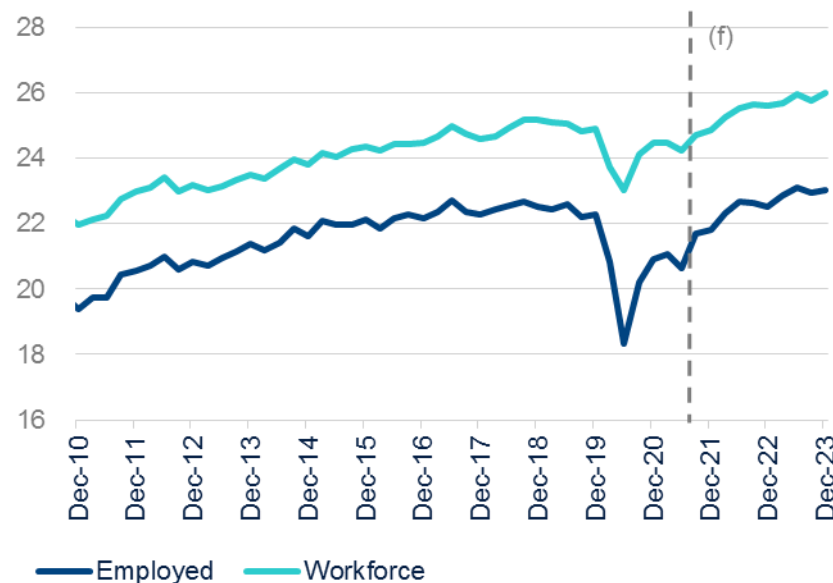


Employment will only recover its pre-pandemic level well into 2022, while more people will gradually enter the workforce

EMPLOYED POPULATION AND WORKFORCE IN 13 CITIES (MILLION OF PEOPLE, SEASONALLY ADJUSTED SERIES)



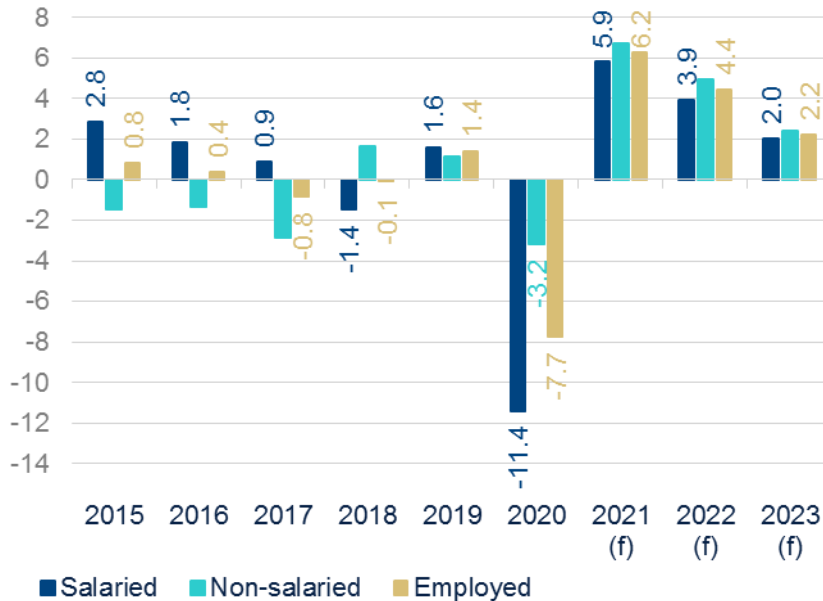
NATIONAL EMPLOYED POPULATION AND WORKFORCE (MILLION OF PEOPLE, SEASONALLY ADJUSTED SERIES)



After the rebound in employment in 2021, it will moderate its growth in the subsequent years, led by non-wage-earning employment

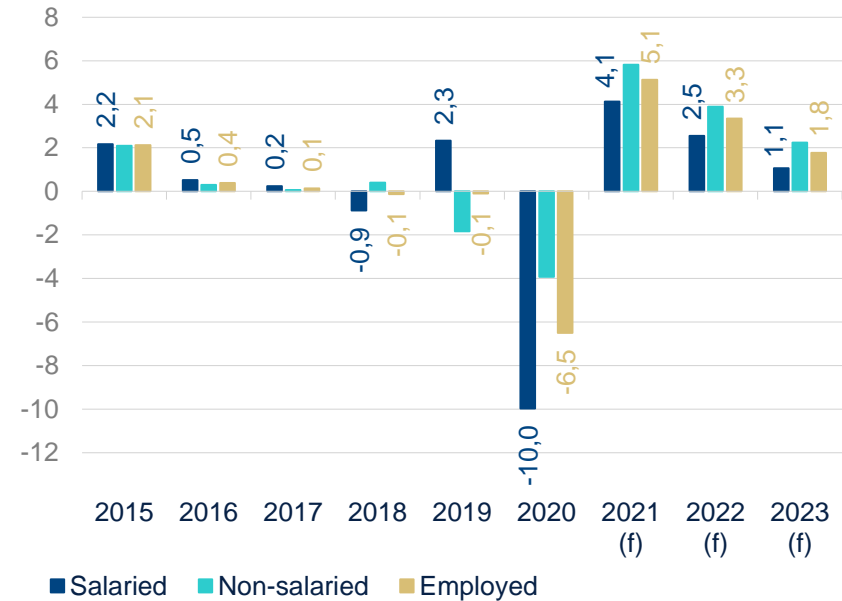
URBAN SALARIED AND NON-SALARIED, EMPLOYED POPULATIONS

(%, ANNUAL CHANGE, LAST QUARTER)



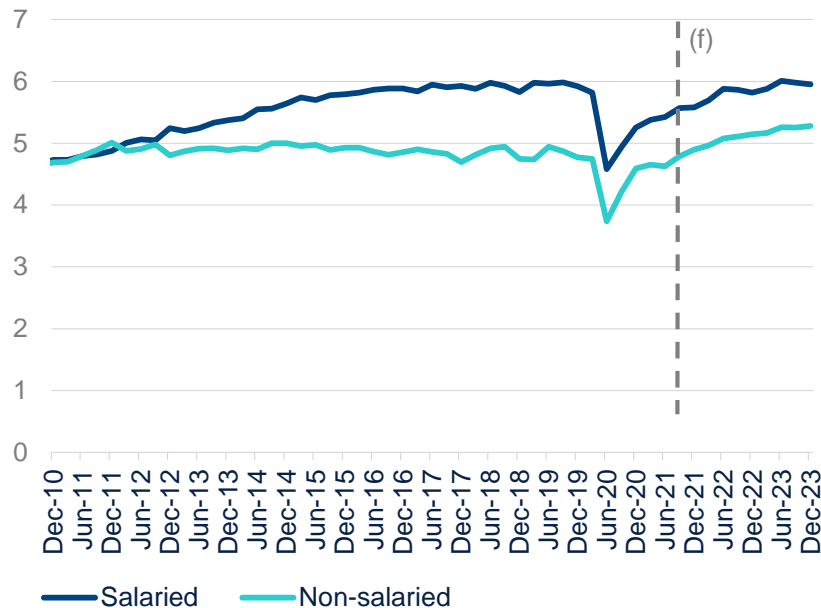
NATIONAL SALARIED AND NON-SALARIED, EMPLOYED POPULATIONS

(%, ANNUAL CHANGE, LAST QUARTER)

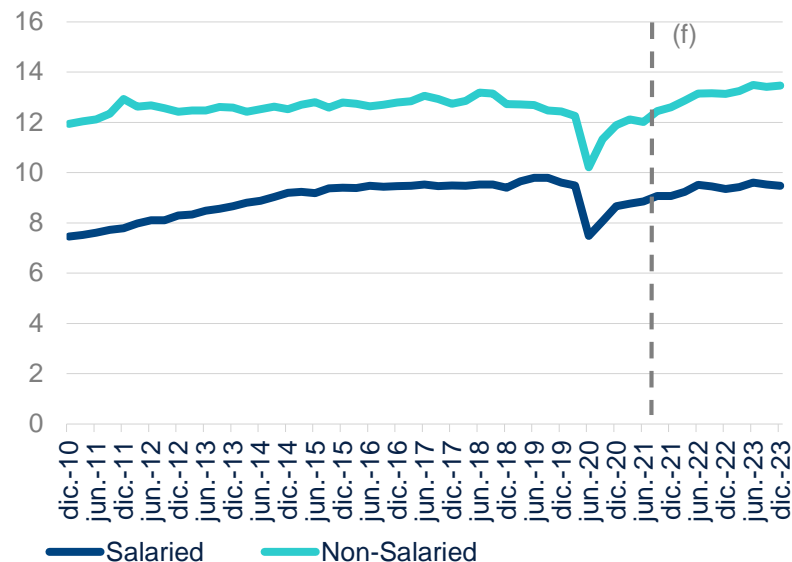


The type of job recovery deepens the informality of the labor market despite attempts by the government to promote formality

SALARIED AND NON-SALARIED IN 13 CITIES
(MILLION OF PEOPLE, ROLLING QUARTER, SEASONALLY ADJUSTED SERIES)

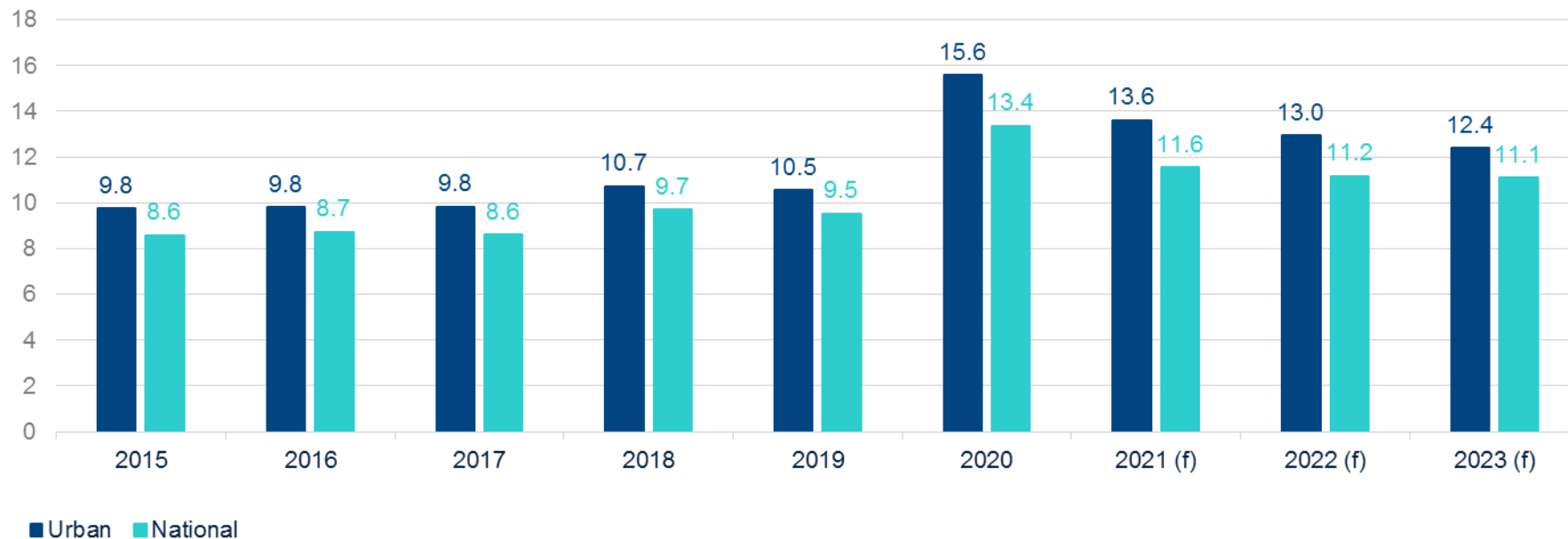


NATIONAL SALARIED AND NON-SALARIED
(MILLION OF PEOPLE, ROLLING QUARTER, SEASONALLY ADJUSTED SERIES)



In this regard, the urban unemployment rate will be 13.0 at the end of 2022 and 12.4 at the end of 2023

NATIONAL AND URBAN UNEMPLOYMENT RATE (% OF THE WORKFORCE)



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

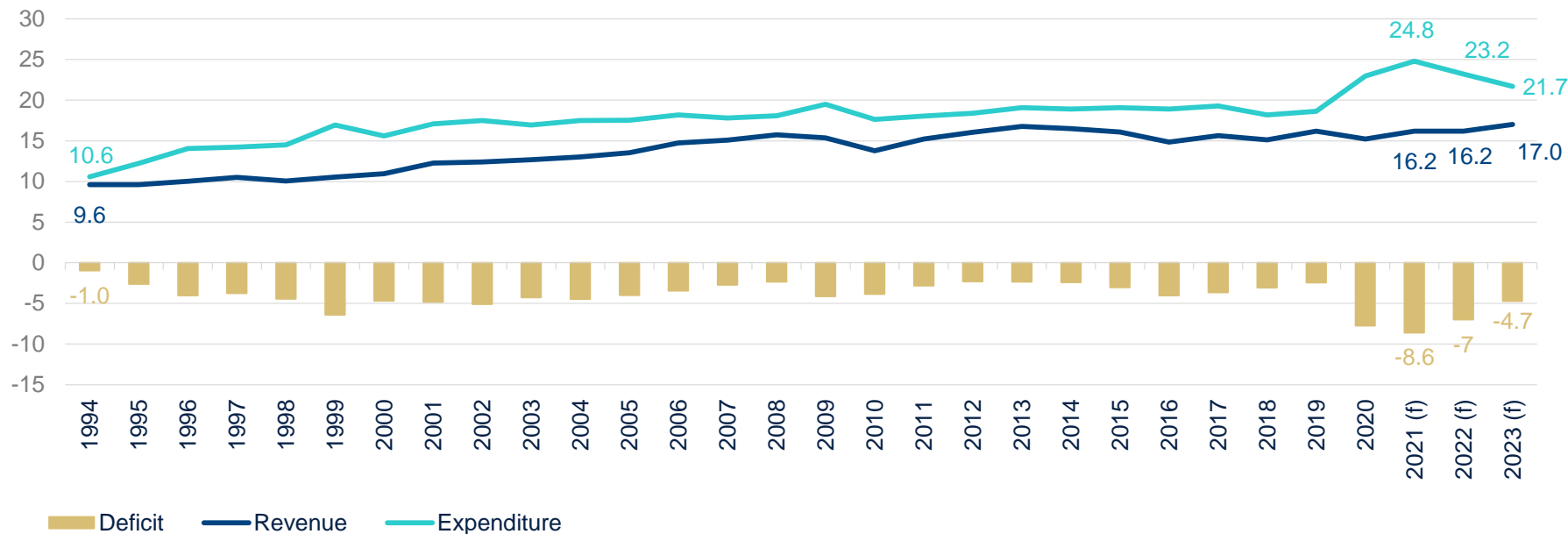
07

High twin deficits

will continue to demand
important external funding

The increase in pandemic expenditure corrects very gradually as income increases. Revenue from the reform will only be collected until 2023

REVENUE, EXPENDITURE AND DEFICIT OF THE CENTRAL NATIONAL GOVERNMENT (% OF GDP)

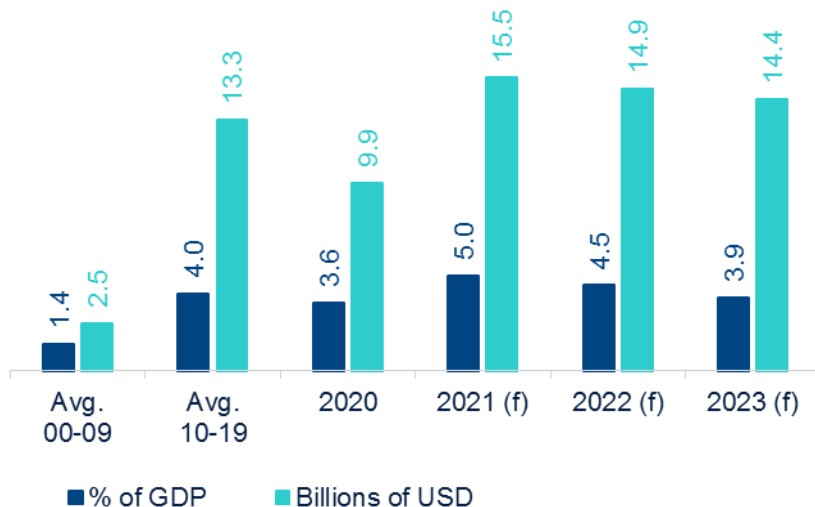


(f): Minhacienda forecasts.

Source: BBVA Research based on Minhacienda data

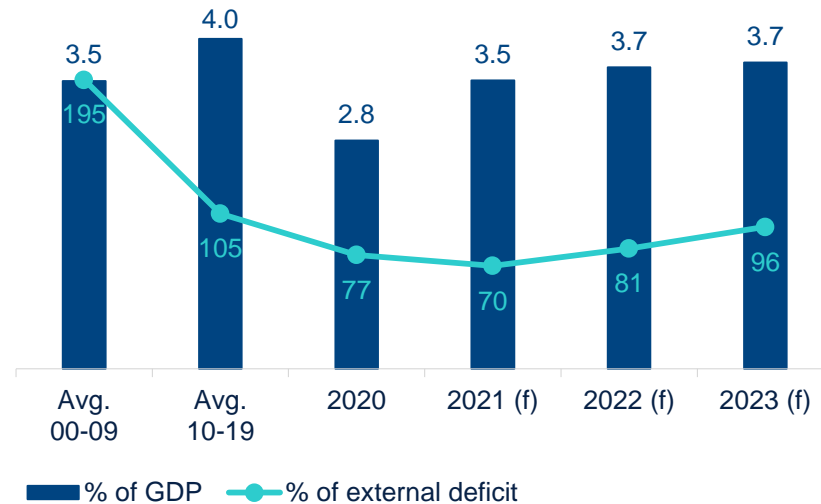
The external deficit will be above the average of the past decades, despite the improvement of commodity prices

CURRENT ACCOUNT DEFICIT (% OF GDP)



(f): BBVA Research forecasts.
Source: BBVA Research based on BanRep data.

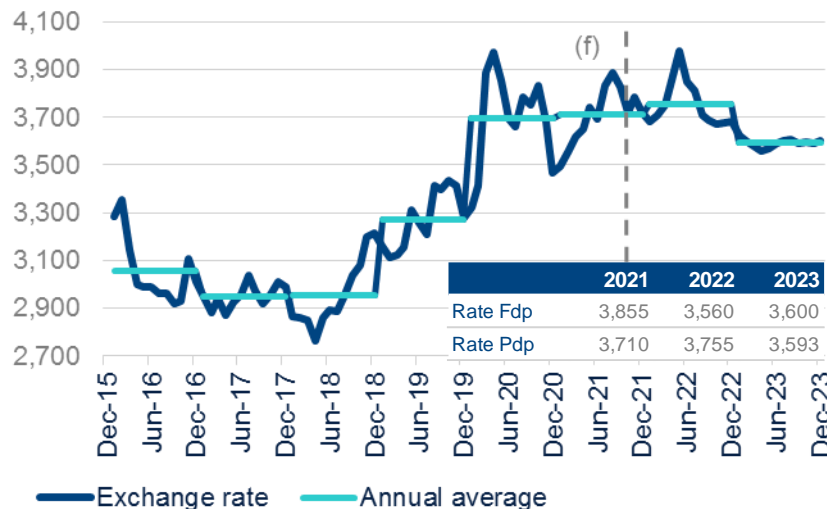
FOREIGN DIRECT INVESTMENT (%)



The lower inflow of FDI, relative to the external deficit, requires the Colombian economy to obtain new sources of financing through foreign loans and to be more exposed to the volatility of foreign portfolio flows.

Government monetizations have helped the colombian peso outperform other currencies and contain the volatility driven by the tapering announcements

EXCHANGE RATE (COP PER USD)



(f): BBVA Research forecasts.

Source: BBVA Research based on data from Banco de la República.

↑ UP

- Start of tapering: November 2021.
- Anticipation of the us monetary policy normalization cycle.
- High twin deficits and funding requirements.
- Volatility of emerging flows, particularly in Latam.
- Local (regional) political cycle.

↓ DOWN

- National government monetizations: sale of ISA and purchase of international reserves.
- High prices of raw materials.
- Start of the rate hike cycle, good relative economic performance.

We expect some further marginal effect toward the end of October and November, when the tapering is announced and materialized. After a break, we expect upward pressure during the election period.

08

The recent rise

in global and local inflation is
an issue to be considered in
the context of recovery

In recent history, inflation has been above the target range in three episodes that coincide with a shock in the currency exchange or food prices

TOTAL INFLATION (ANNUAL CHANGE, %)

2007 - 2009

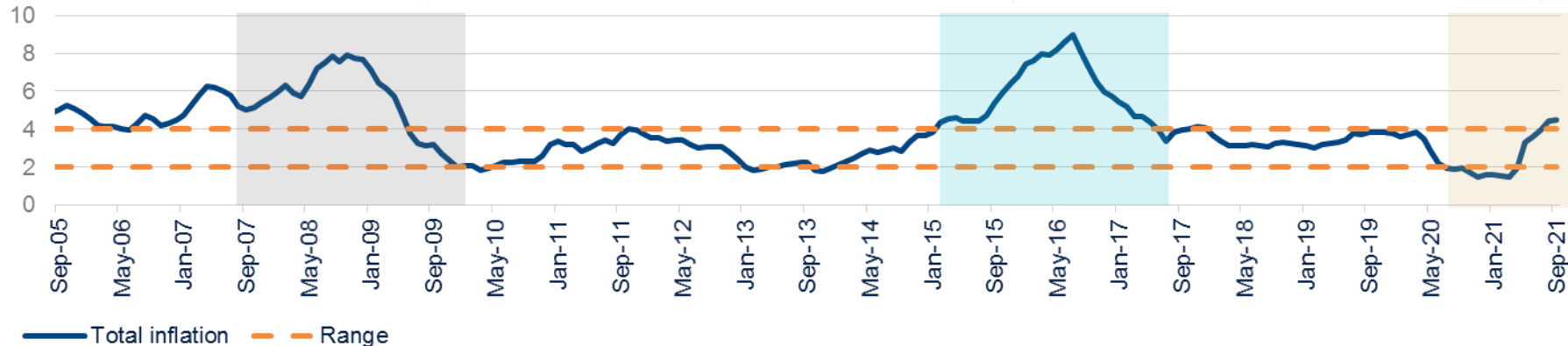
Oil boom leads to an increase in biofuels that push out the use of oil, and raises food prices around the world.

2015 - 2016

Oil shock leads to a strong depreciation that, in the company of a strong El Niño phenomenon, pushes food price inflation upward.

2021 - 2022

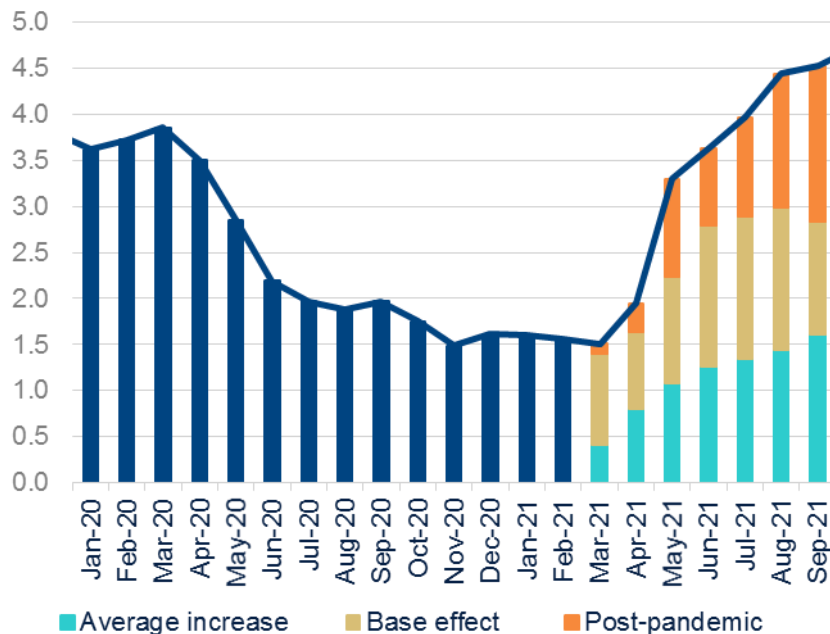
Multi-input global and local shock...



Inflation acceleration during the year is due to some base effects that occurred throughout 2020 and to post-pandemic factors that emerged in 2021

TOTAL INFLATION

(ANNUAL CHANGE, %)



Post-pandemic

External

Rise in commodity prices.
Rise in freight costs.
Increased global demand.
Bottlenecks.
Accumulated depreciation.

Local

Bottlenecks.
Rise in internal freight costs.
Higher demand vs. supply.
Logistical problems.

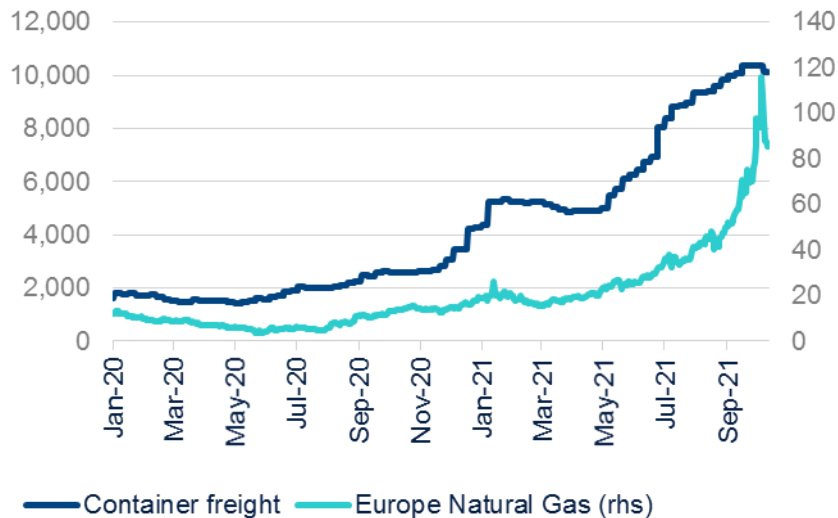
Base effect

Termination of subsidies for regulated goods.
Termination of special education rates.
Reopening of some services.

These factors include increases in the costs of global transport and commodities, which are transmitted to the local cost structure

TRANSPORTATION AND ENERGY COSTS

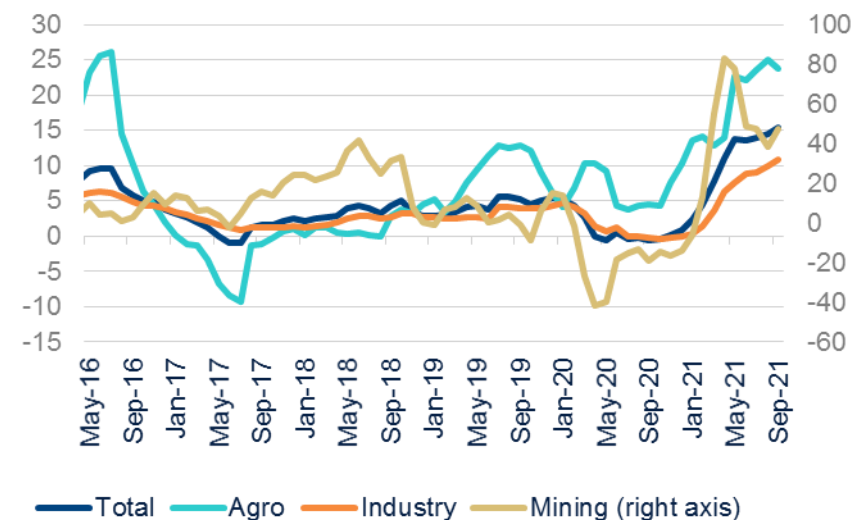
(USD 40-FT CONTAINER; EUR/MWH)



Source: BBVA Research based on Bloomberg and DANE data.

PPI FOR DOMESTIC CONSUMPTION BY SECTOR

(ANNUAL CHANGE, %)

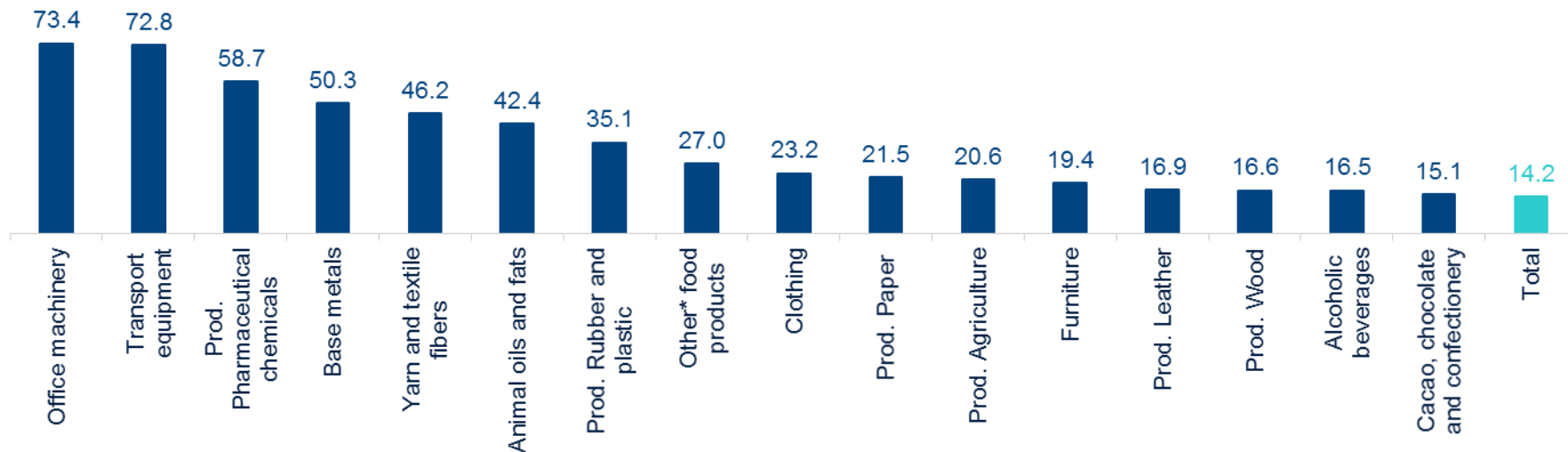


The local spread of the shock is already beginning to be evident, which could lead to a faster and greater transfer of costs to prices, especially if demand continues to strengthen.

However, sectors with higher exposure to imported supply will catalyze the external inflationary effects to the local market faster

PRODUCTS WITH THE LARGEST SHARE OF IMPORTED INPUTS

(% OF TOTAL)



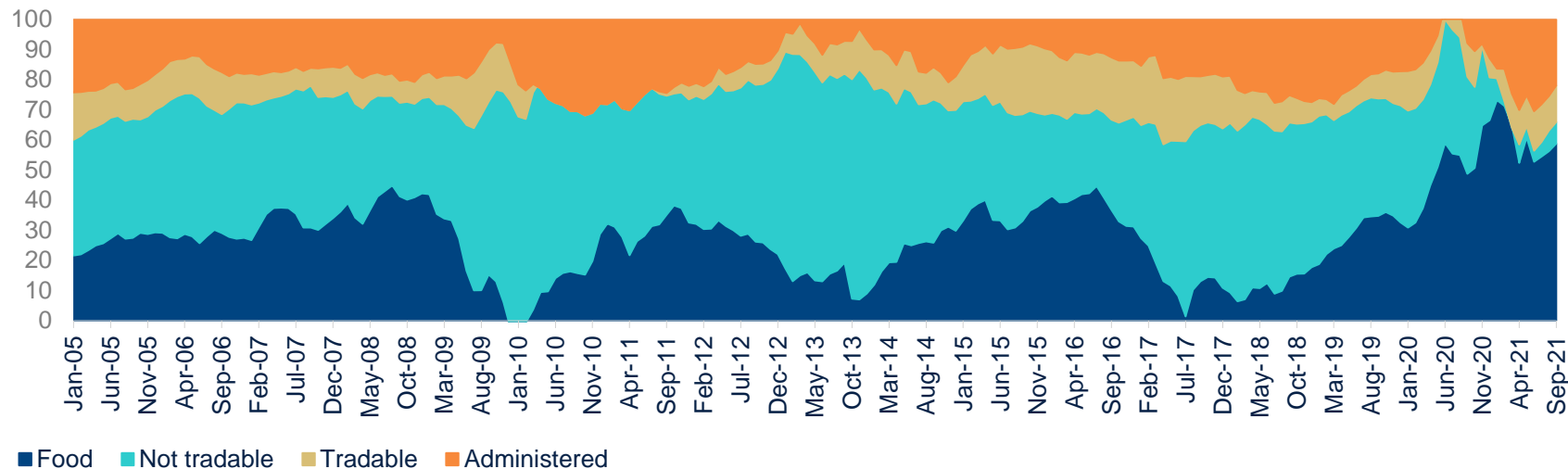
Source: BBVA Research based on DANE data.

Among these, capital goods and chemical and metal products particularly stand out.

At the local level, food prices have caused most of the inflationary shock due to idiosyncratic and other external factors

RELATIVE CONTRIBUTION BY BASKET TO TOTAL INFLATION

(%)

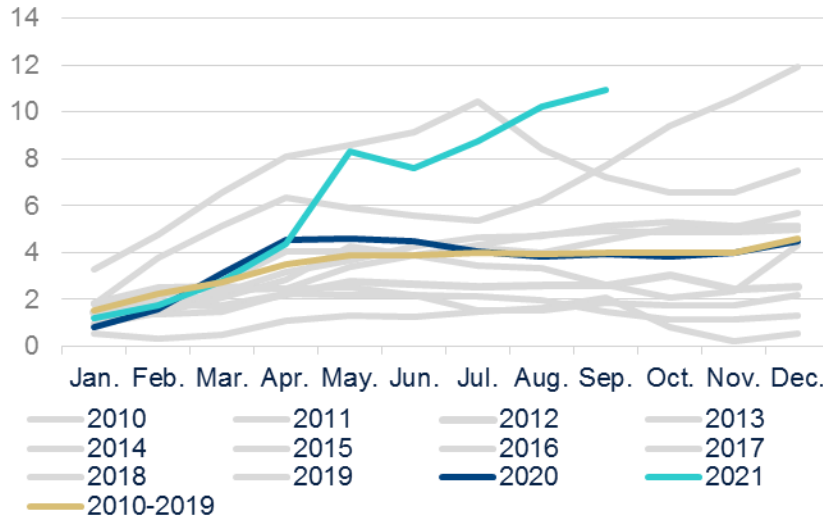


Source: BBVA Research based on DANE data.

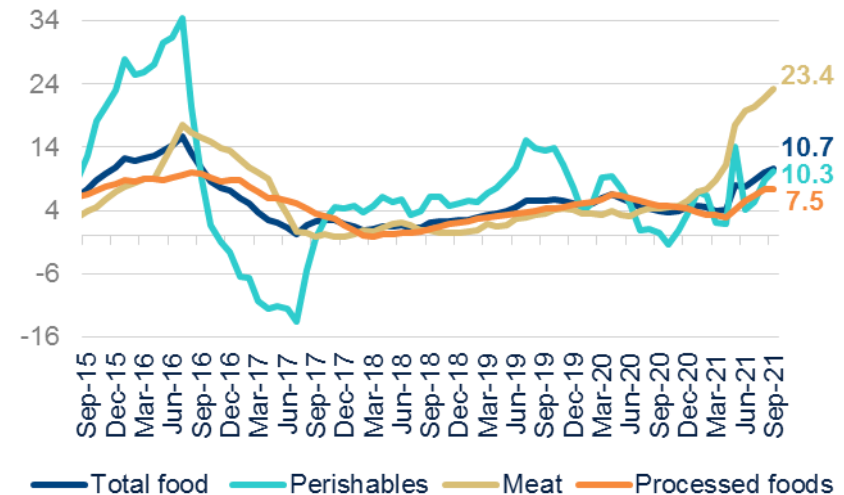
It should be noted that the contribution of non-tradable goods to inflation is very low, a situation that must be normalized as the opening up of the services sector is consolidated.

There is widespread acceleration among food prices, led by meat which faces high foreign demand and local supply constraints

INFLATION OF FOOD PRICES (ACCUMULATED ANNUAL CHANGE)



INFLATION OF FOOD PRICES: PROCESSED FOODS, MEATS AND PERISHABLES (ACCUMULATED ANNUAL CHANGE)

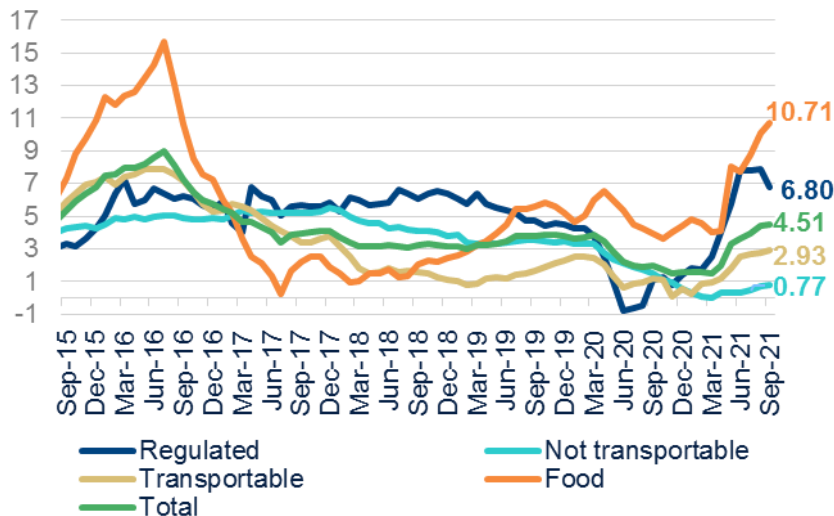


Source: BBVA Research based on DANE data.

Similarly, climate factors have had a bullish, albeit moderate, impact against past shocks, which will be diluted as the winter season ends and without further major shocks anticipated.

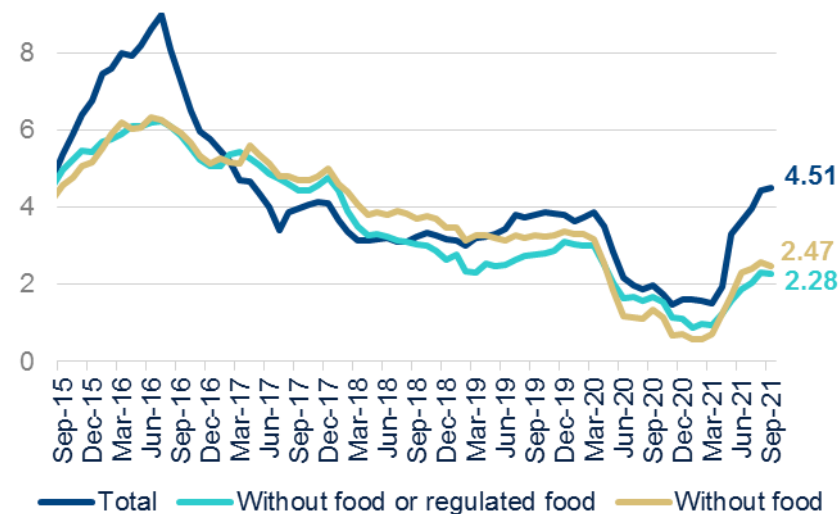
Beyond food prices, we shall start noticing some upward pressure in other baskets, which slowly move toward normal levels

INFLATION ACCORDING TO ECONOMIC CLASSIFICATION (ANNUAL CHANGE, %)



Source: BBVA Research based on DANE data.

CORE INFLATION INDICATORS (ANNUAL CHANGE, %)

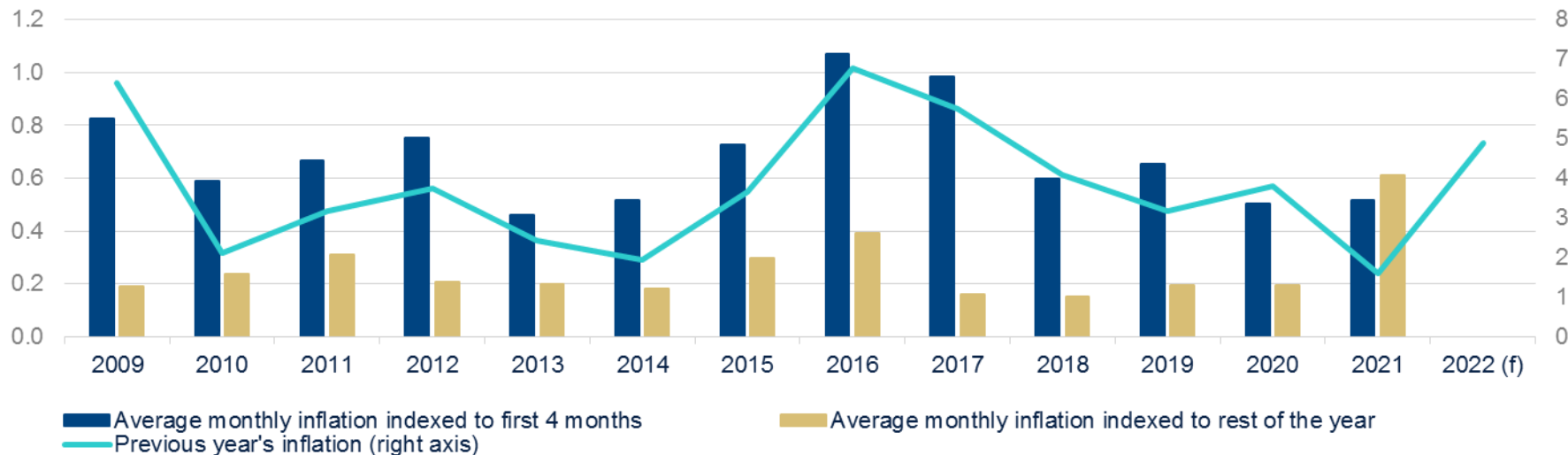


Core inflation still remains low, but marked by a gradual upward trend as the economic reopening consolidates.

In addition, inflation closing on an upward trend and above the target range ceiling will also bring greater pressure on inflation in 2022...

INDEXED MONTHLY INFLATION AND TOTAL INFLATION

(MONTHLY AND ANNUAL CHANGE, %)



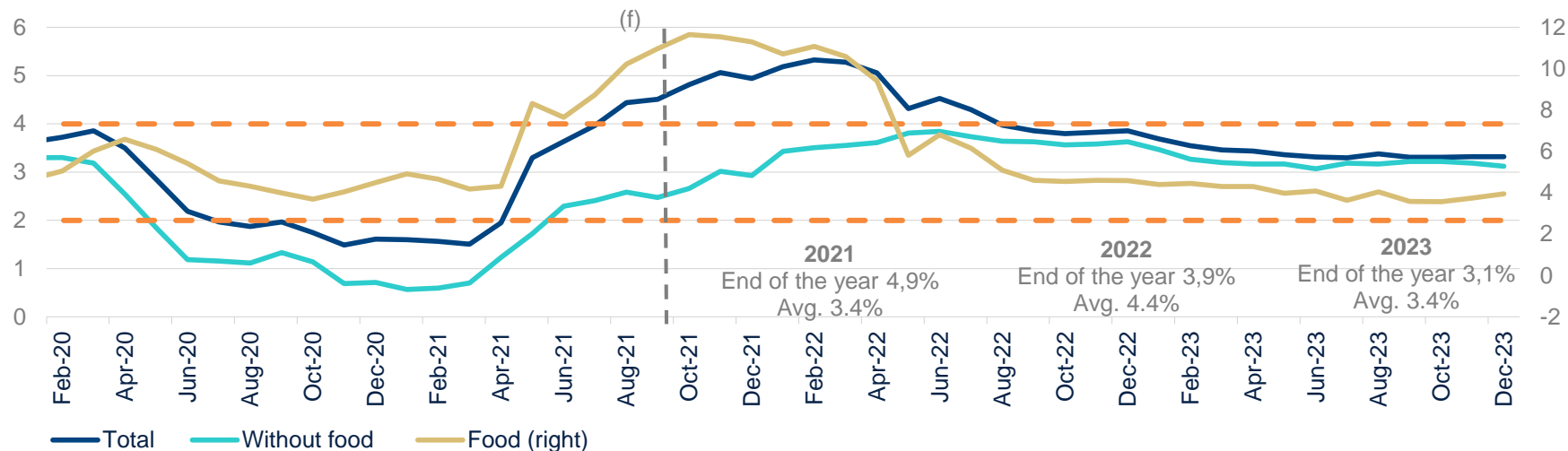
(f): BBVA Research forecasts.

Source: BBVA Research based on DANE data.

... especially in prices that depend directly on inflation in the immediately preceding year, such as health care fees, tolls, services that depend on the minimum wage, among others.

In this regard, inflation will close the year at 4.9% and start to moderate in the second half of 2022, closing the year at 3.9%

TOTAL INFLATION, WITH AND W/O FOOD (ANNUAL CHANGE, %)



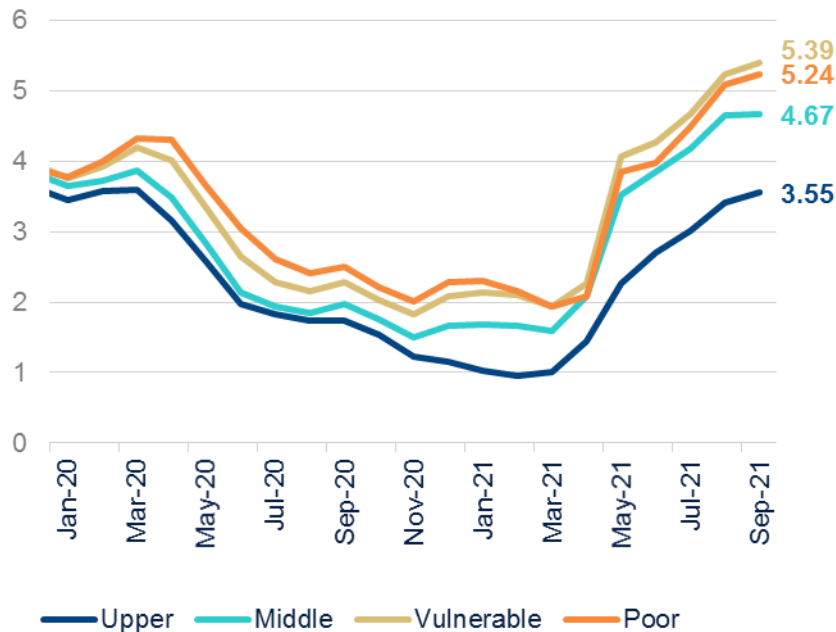
(f): BBVA Research forecasts.

Source: BBVA Research based on DANE data.

Food prices, input costs and indexing will continue to push up inflation in the first part of 2022. These factors will moderate their contribution throughout the year, but with greater strength in the second half.

The impact of inflation on household income levels has also been very different. Therefore, keeping inflation under control is paramount

INFLATION BY INCOME LEVEL (ANNUAL CHANGE, %)



THE IMPORTANCE OF CONTROLLED INFLATION



It maintains people's purchasing power.



It anchors expectations, avoiding inflationary spirals.

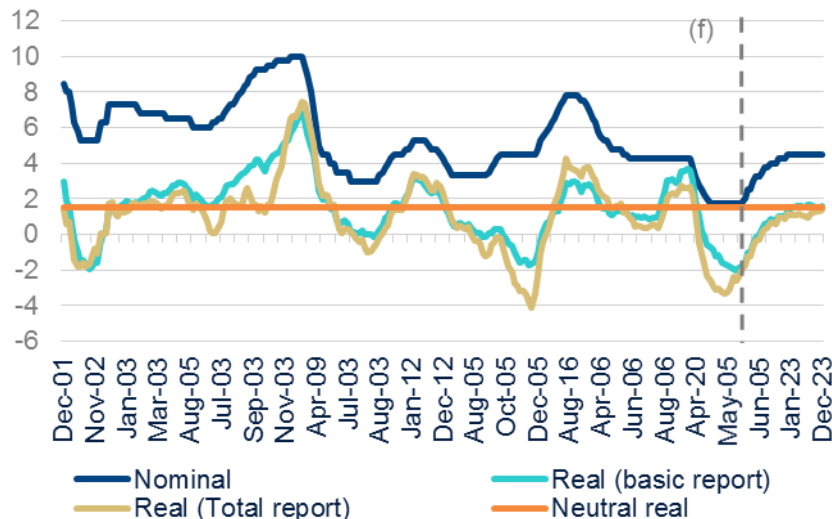


It reduces negative effects on production and investment decisions.

BanRep changed its policy stance, and started an upward cycle in rates starting in September

POLICY INTEREST RATE

(% - REAL WITH 12 MONTH-AHEAD CPI)



(f): BBVA Research forecasts.
Source: BBVA Research based on BanRep data.

REASONS TO START THE RATE HIKE CYCLE



Increased expected **growth** for 2021 and 2022.



Upward revision of **inflation** for 2021 and 2022.



Higher **current account deficit**: demand pressure proxy.

The **speed** of rate adjustment will depend on the evolution of **inflation expectations**.

We expect an adjustment of approx. 100 bps for the remainder of the year. By 2022, the moderation of economic dynamics and inflation pressures will allow the adjustment speed for monetary policy to be moderated, and a further 150 bps would increase throughout the year.

09

The pace of recovery

moving forward will depend on the ability to adequately address the obstacles and challenges ahead

The first major challenge is to consolidate the revival and recovery of the economy that is already under way

CONSOLIDATION OF THE REVIVAL AND RECOVERY



Rising inflation, commodity prices, bottlenecks and global supply chains.



Financing in a more demanding scenario at the global level.

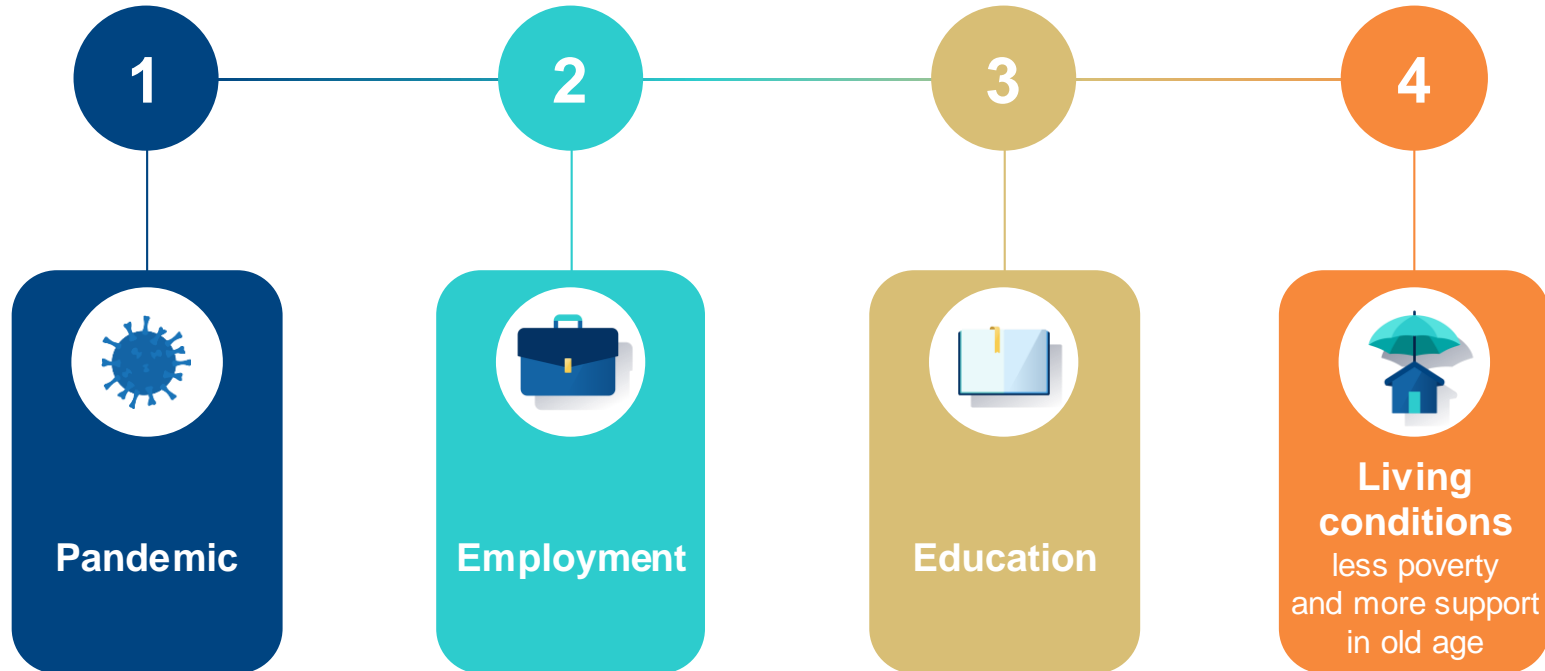


Controlled volatility and confidence in the midst of the 2022 political transition.



Evolution of the pandemic and its impact on economic activity.

To ensure more sustainable medium-term growth, effort must be focused on



Macroeconomic forecast

	2017	2018	2019	2020	2021 (f)	2022 (f)	2023 (f)
GDP (% y/y)	1,4	2,6	3,3	-6,8	9,2	4,0	3,1
Private consumption (% y/y)	2,1	3,2	3,9	-5,6	12,2	4,1	3,9
Public consumption (% y/y)	3,6	7,4	5,3	3,7	7,4	3,6	3,3
Fixed investment (% y/y)	1,9	1,0	3,1	-20,6	13,1	4,5	4,4
Inflation (% y/y. eop)	4,1	3,2	3,8	1,6	4,9	3,9	3,3
Inflation (% y/y. avg)	4,3	3,2	3,5	2,5	3,4	4,4	3,4
Exchange rate (eop)	2.991,4	3.212,5	3.277,0	3.432,5	3.720,0	3.685,0	3.600,00
Devaluation (%. eop)	-0,6	7,4	2,0	4,7	7,2	-0,9	-2,3
Exchange rate (avg)	2.951,3	2.956,4	3.272,6	3.693,3	3.710,1	3.755,4	3.592,5
Devaluation (%. eop)	-3,4	0,2	10,7	12,8	0,4	1,2	-4,3
Interest policy rate (%. eop)	4,75	4,25	4,25	1,75	3,00	4,50	4,50
Fixed Term Deposit rate (%. eop)	5,3	4,5	4,5	1,9	2,5	3,5	4,9
Current Account (% GDP)	-3,3	-3,9	-4,6	-3,6	-5,0	-4,5	-3,9
Urban unemployment rate (%. eop)	9,8	10,7	10,5	15,6	13,6	13,0	12,4

(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 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	3.3	3,8	3.277	4,25
Q1 20	0.6	3,9	3.888	3,75
Q2 20	-15.7	2,2	3.691	2,50
Q3 20	-8.4	2,0	3.750	1,75
Q4 20	-3.6	1,6	3.469	1,75
Q1 21	1.1	1,5	3.617	1,75
Q2 21	17.6	3,6	3.693	1,75
Q3 21	11.9	4,5	3.730	2,00
Q4 21	7.4	4,9	3.720	3,00
Q1 22	4.2	5,3	3.750	3,50
Q2 22	7.0	4,5	3.850	4,00
Q3 22	3.2	3,9	3.690	4,25
Q4 22	2.0	3,9	3.685	4,50
Q1 23	2.9	3,5	3.580	4,50
Q2 23	3.5	3,2	3.590	4,50
Q3 23	3.3	3,3	3.590	4,50
Q4 23	2.7	3,3	3.600	4,50

Source: BBVA Research with DANE and Bancode la República data.

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Colombia Economic outlook

4Q21