

Colombia Economic outlook

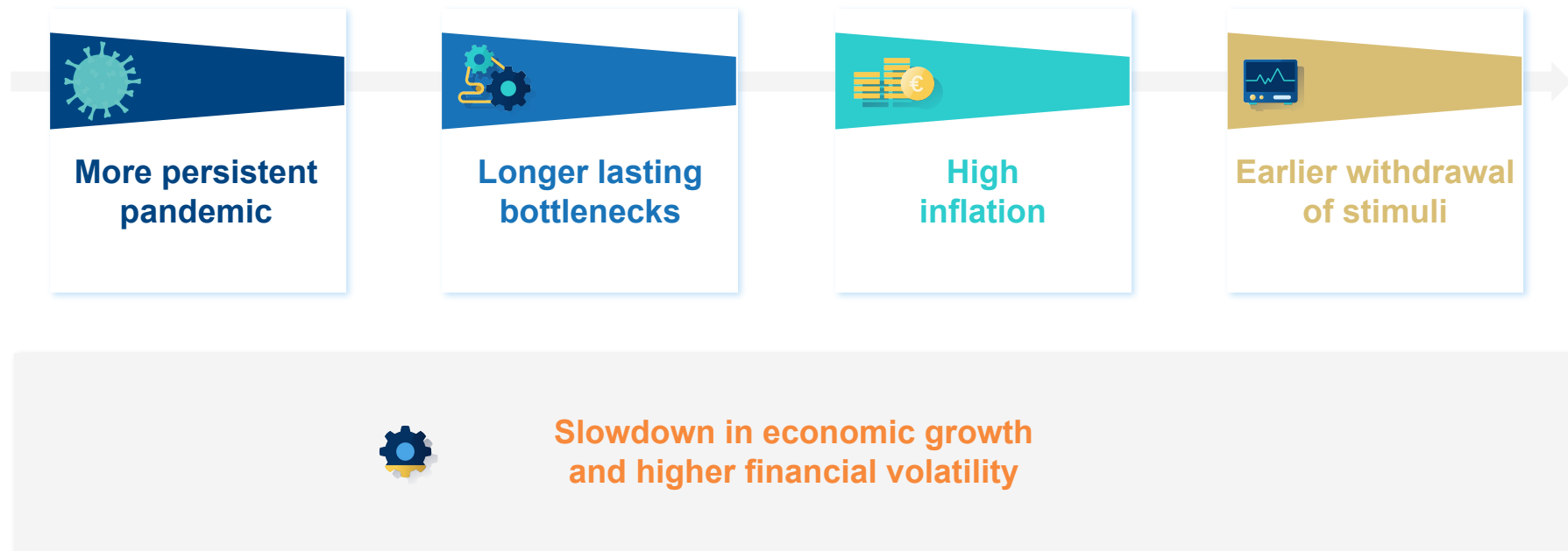
1Q22

Bogotá, January 2022

01

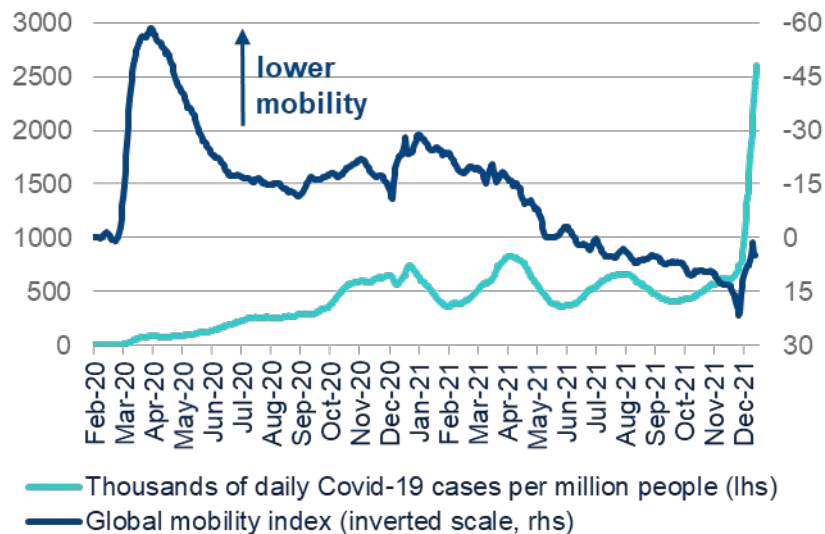
At the end of 2021,
the world economy
began to slow and will
grow less rapidly in
2022

Global environment: growth moderation, with high inflation and earlier withdrawal of monetary stimuli



The new variants of the coronavirus have increased infections, but with a limited negative effect due to vaccination

WORLD: DAILY COVID-19 CASES AND MOBILITY RESTRAINT INDEX^(*) (7-DAY MOVING AVERAGE)



(*): The mobility index reflects changes with respect to the period of reference (January 3 to February 6 2020) based on retail and recreation mobility.

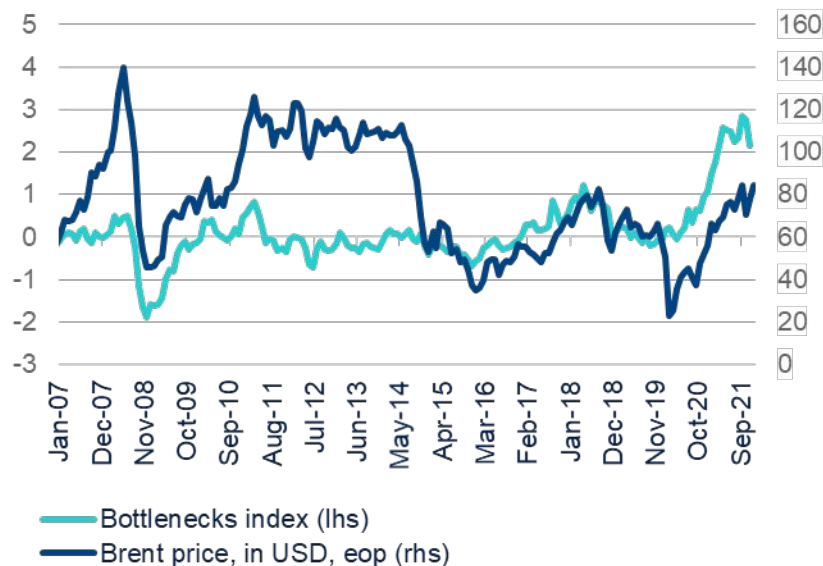
Source: BBVA Research based on data by John Hopkins University, Google and Our World in Data.

- **New, highly contagious strains:** coronavirus mutations in the context of incomplete vaccination.
- **Strong increase in infections** in Europe and more recently in the US and Latam.
- **Limited impact on mobility, hospitalizations and mortality:** widespread immunization in many countries.
- **Increasing supply of vaccines and better treatments** should allow greater control of the pandemic.
- **Risk:** new variants that evade vaccines.

Significant problems in global supply chains remain in place, but they could have peaked

SUPPLY BOTTLENECK INDEX (US) AND BRENT PRICE

(INDEX: 1998-2021 AVERAGE=0; BRENT PRICES: IN USD)

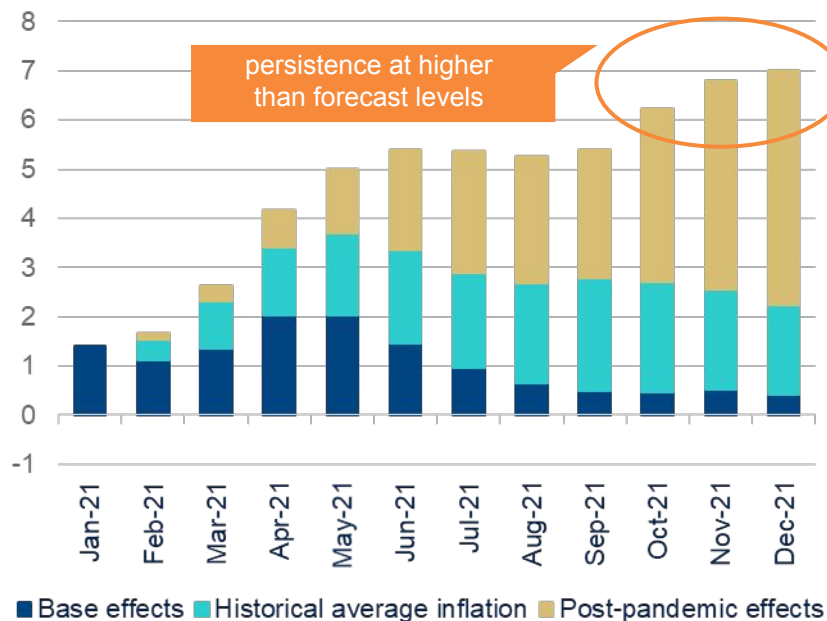


- Production bottlenecks reflect an imbalance between a relatively robust demand and a relatively inelastic supply of goods.
- The problems are largely related to the pandemic, which means that they could be reinforced by the omicron strain.
- Energy transition policies, protectionism and geopolitical problems add complexity and put pressure on energy prices, which remain high despite the moderation in gas prices.
- Anyway, there are recent signs of moderation in bottlenecks, at least in manufacturing.

Inflation remains high, largely on pandemic-related issues (confinements, reopening, consumption composition, spending of accumulated savings...)

US: INFLATION

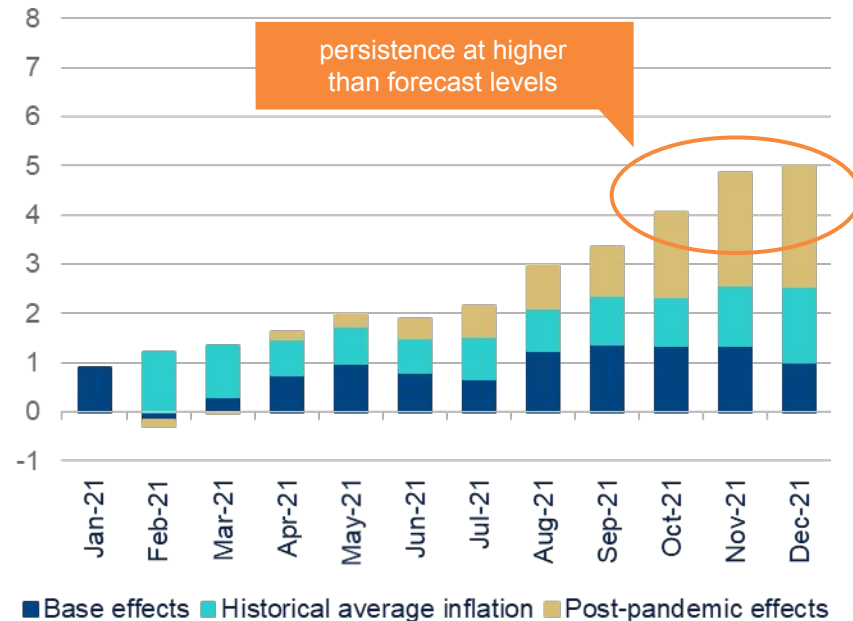
(CPI; Y/Y %)



Source: BBVA Research.

EUROZONE: INFLATION

(CPI; Y/Y %)

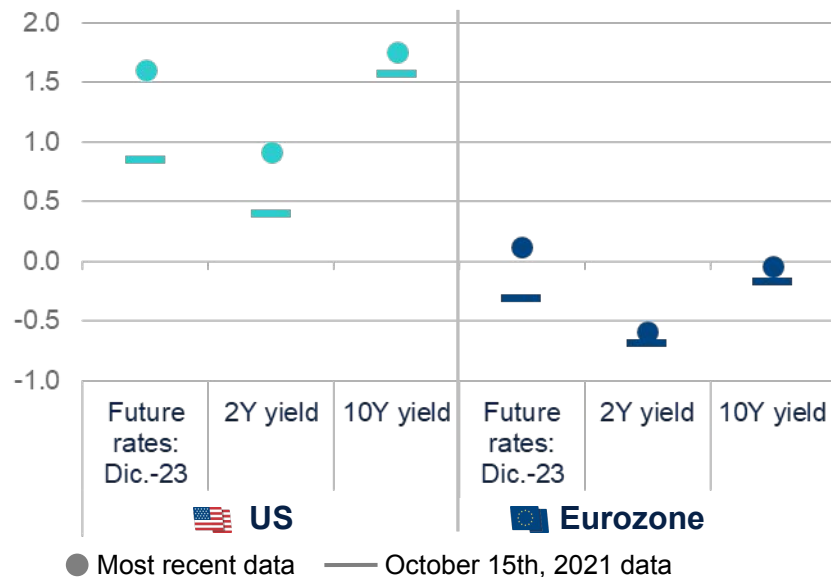


Source: BBVA Research.

Inflation has forced the Fed to bring forward its plans to withdraw stimulus and has caused a moderate adjustment in financial markets

POLICY RATES: MARKET EXPECTATIONS; SOVEREIGN BOND YIELDS (*)

(%)



- The Fed has started a more aggressive tapering and suggested that it will raise policy rates earlier and faster than expected.
- In the Eurozone, markets now discount earlier interest rate hikes, but the change in expectation has not been as sharp as in the US.
- The US 2-year yield has increased significantly, in contrast with the smaller increase of the 10-year yield; in Europe yields remain low.
- The Fed's shift towards a more rapid withdrawal of stimulus has caused a moderate rebound in volatility and in the US dollar.

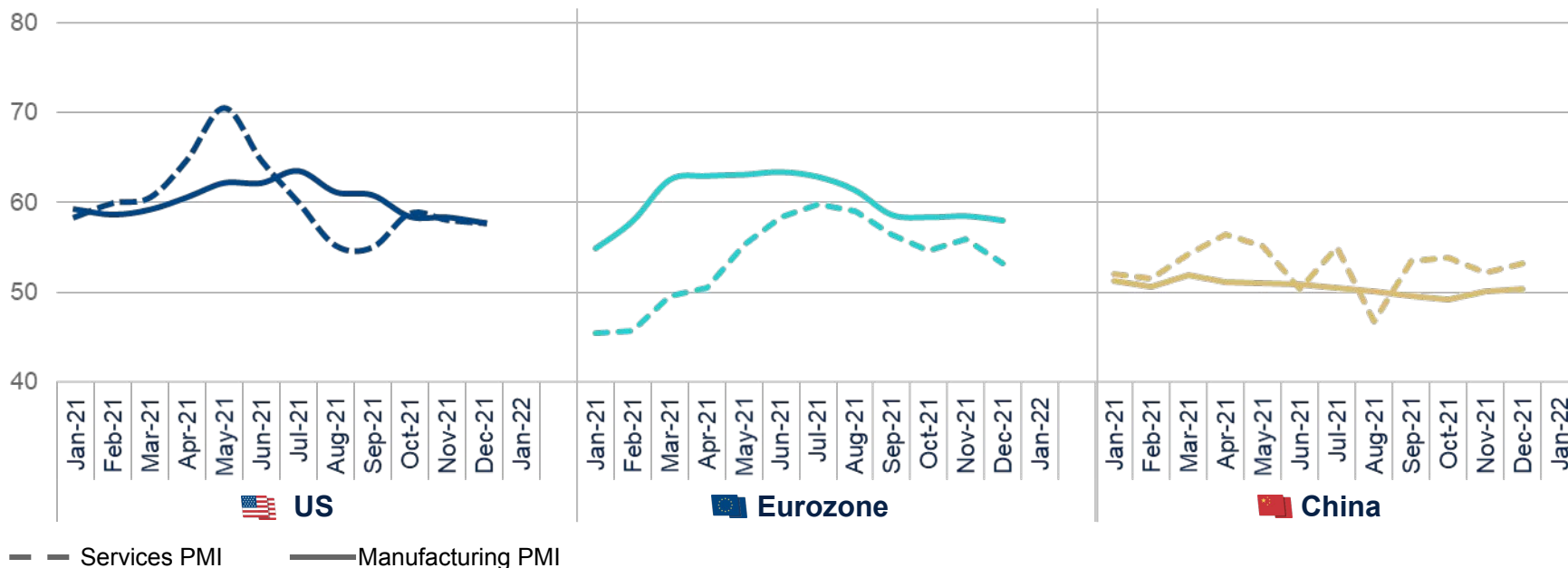
(*): Market expectations for policy rates in Dec/23 implicit in future contracts. Eurozone yields: German bond yields.

Source: BBVA Research based on data by Bloomberg.

Activity continues to expand in the main regions, but is slowing down more than expected

PMI

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



The process of economic normalization will continue, albeit gradually and with eventual turbulences, in a context of increasing risks

BASELINE SCENARIO

New waves of infections, with decreasing effects on health systems and the economy (on vaccination and better treatments)

Pandemic



Remain in place in the first half of 2022 and then normalize on the moderation of demand and the reaction of supply

Bottlenecks



High (mainly in the short term), but gradually decreasing and under control

Inflation



Early withdrawal of economic stimuli to control inflation; limited volatility in financial markets

Economic policy



Gradual moderation of growth, which remains relatively robust

Global context



RISKS ON SEVERAL FRONTS

New strains elude vaccines and significantly reduce mobility

More significant and persistent due to the pandemic, energy transition, protectionism, etc.

Relevant second-round effects with de-anchoring of expectations and wage pressures

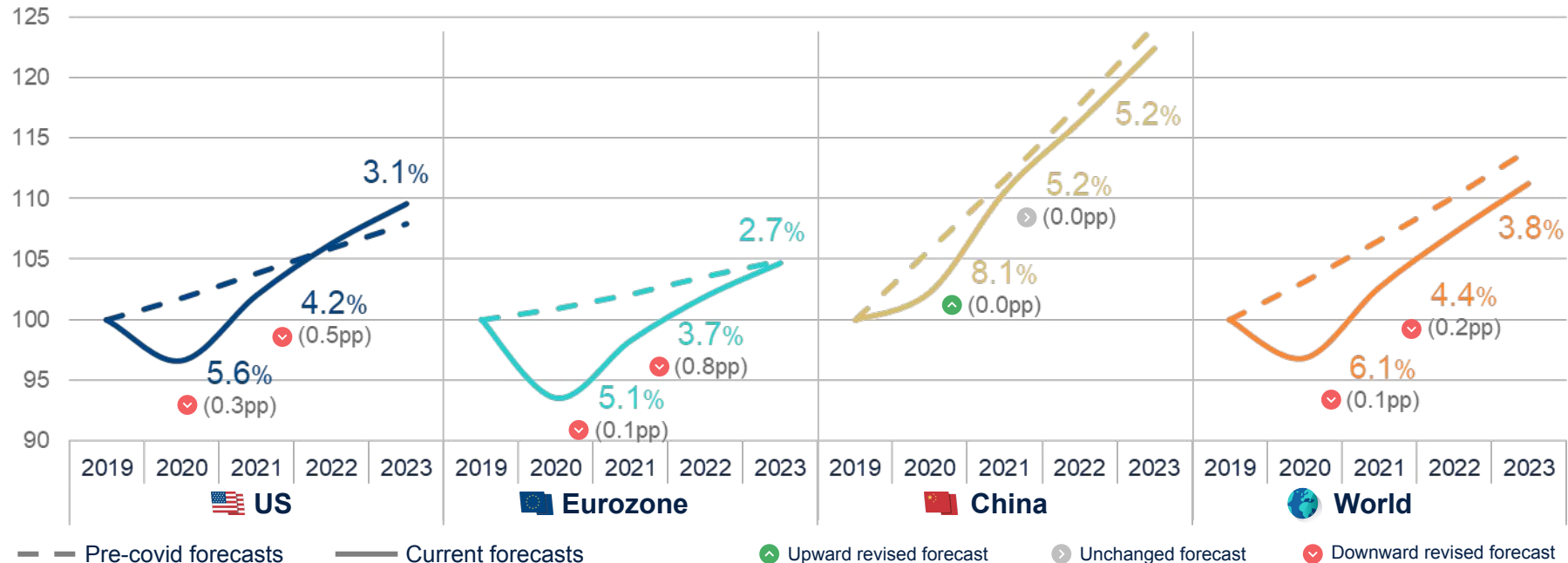
More aggressive withdrawal of stimuli creates turmoil, particularly in debt and emerging markets

In the limit, recession; not only on the aforementioned risks but also on China's sharper deceleration and social and geopolitical tensions

Global growth is estimated to be relatively robust in the next two years, although it will be weaker than previously anticipated

REAL GDP

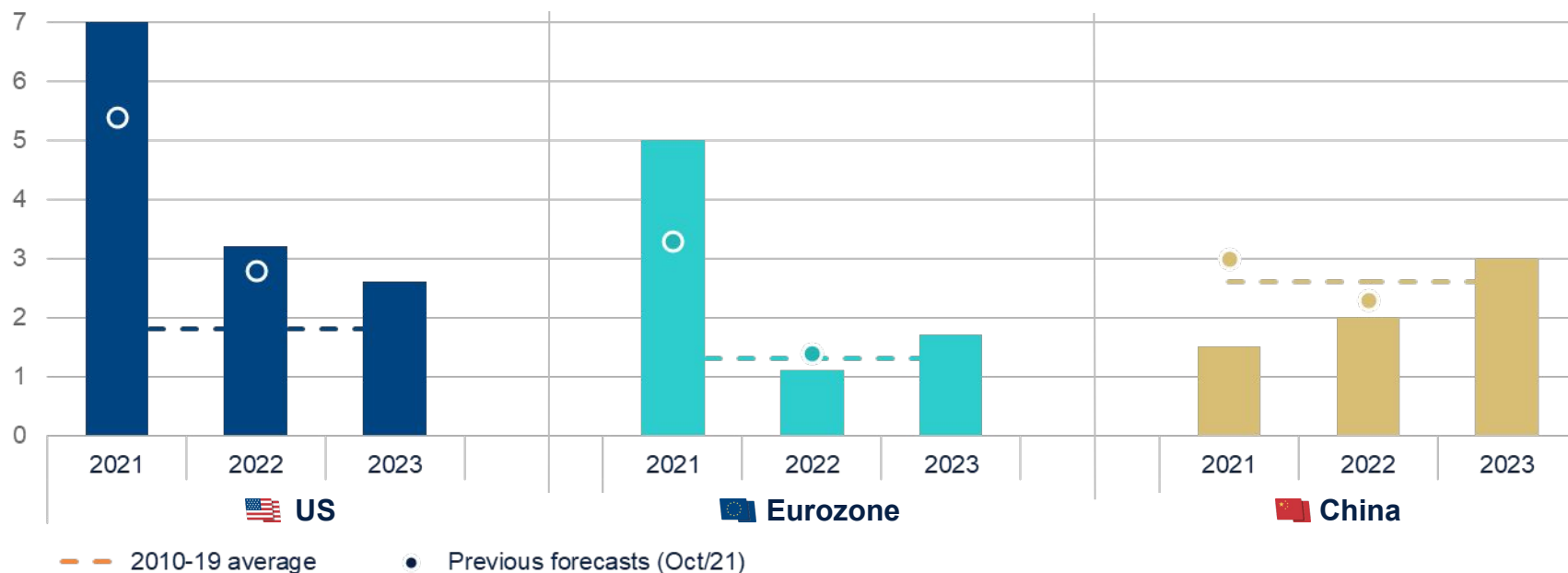
(LINES: GDP LEVEL 2019=100, FIGURES: FORECASTS AND CHANGES WITH RESPECT TO THE PREVIOUS ONES)



Inflation will remain high, mainly in the short term and in the US; risks are to the upside, it is key to avoid significant second-round effects

INFLATION: CPI

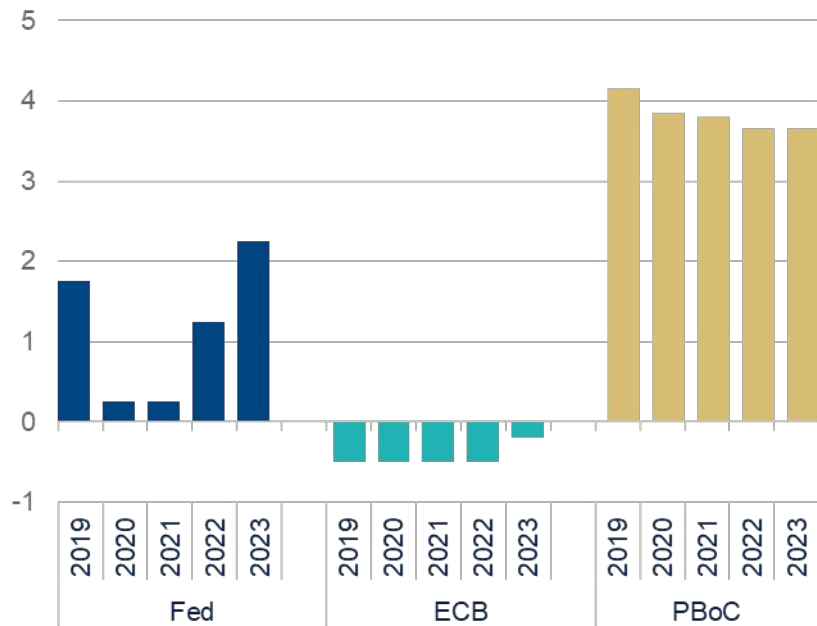
(Y/Y %, END OF PERIOD)



The Fed will react to inflation with a quick tapering and interest rate hikes; the ECB will be more patient and the PBoC will remain focused on growth

POLICY INTEREST RATES (*)

(%, END OF PERIOD)



(*): In the case of the ECB, deposit facility rates. Forecasts for 2022 and 2023.

Source: BBVA Research

US

- The Fed is focused on controlling inflation.
- We expect i) the tapering to end no later than in Feb/22, ii) four 25bp rate hikes in 2022 and four in 2023, iii) balance sheet reduction from this year on.

Europe



- End of the pandemic stimulus program purchases on Mar/22, and bond purchases via asset purchase program will be reduced until mid-2023.
- Interest rates will remain unchanged until the second half of 2023; ECB to exhibit an increasingly hawkish tone.



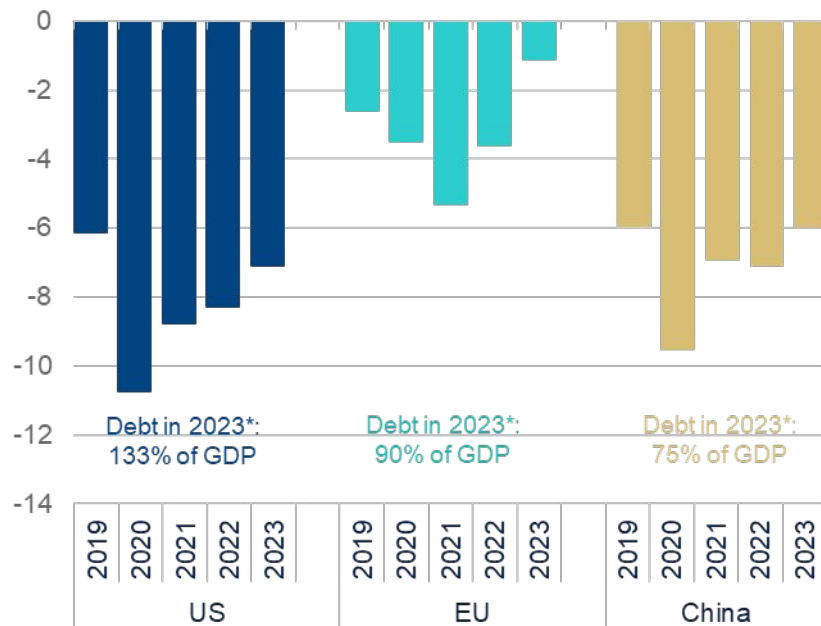
China

- Monetary stimulus is resumed: further cuts in interest rates and bank reserve requirements, among other measures, in 2022 to avoid a sudden slowdown in the economy.

Fiscal policy will still be expansionary in the coming years, but the stimuli will not be as notable as in 2020-2021

STRUCTURAL FISCAL RESULT

(% OF POTENTIAL GDP)



(*): General government gross debt estimated by the IMF.
Source: BBVA Research based on data by the IMF and the European Commission.

US

- New stimuli, more focused on supporting supply (with less impact on inflation).
- After the approval of the infrastructure plan (less significant than expected), the social investment plan is now being debated.

Europe

- Increasing use of NGEU resources will support growth in 2022-23.
- Increasing debate on fiscal rules from 2023 on.

China

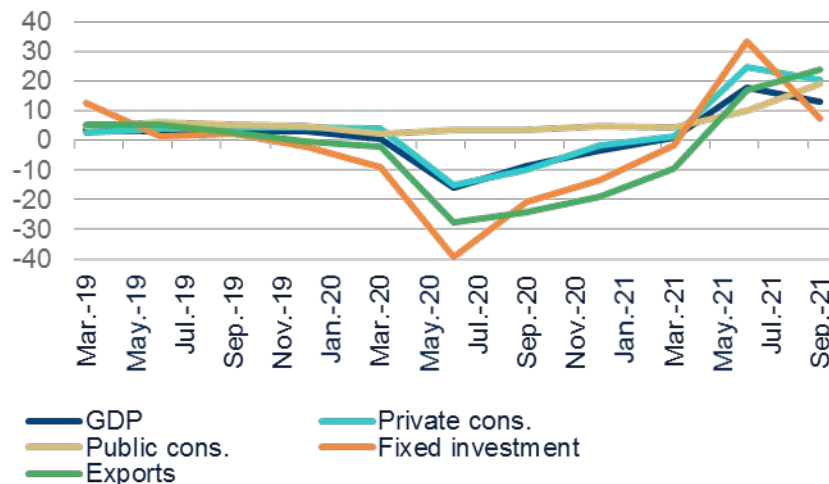
- Additional stimulus measures to counteract the impact of regulatory activism, real estate market adjustments, “zero tolerance” on COVID and energy transition policies.

02

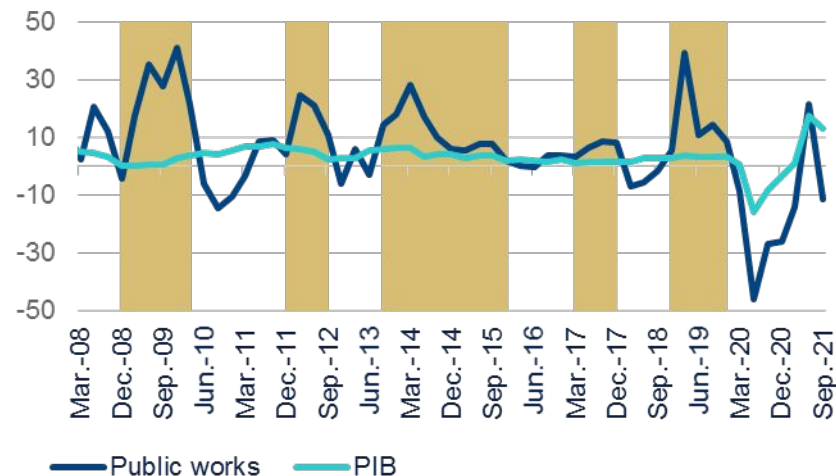
Colombia experienced
a solid recovery in
2021, underpinned
by final consumption

In the third quarter, GDP grew by 13.2% thanks to buoyant final consumption (private and public) and an upturn in exports

GDP AND COMPONENT OF THE DEMAND (YOY % CHANGE)



INVESTMENT IN CIVIL WORKS(*) AND GDP (YOY % CHANGE)

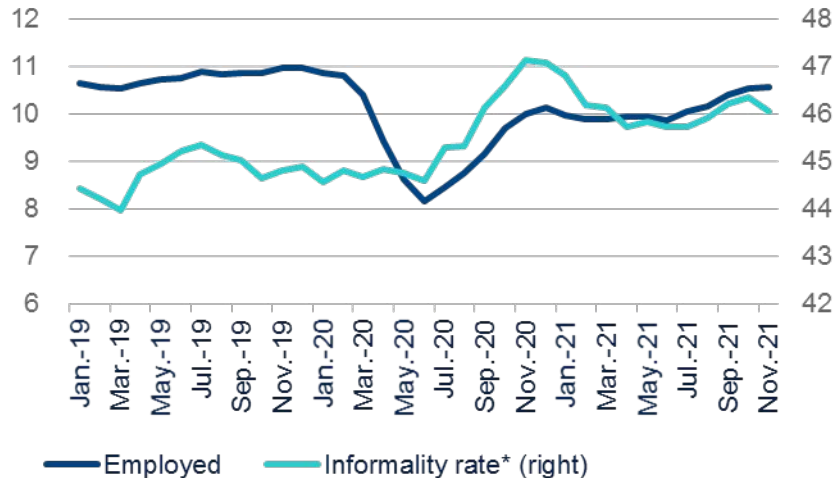


(*): Link between the civil works investment series and the new civil works output series using the growth rate. The new series was deflated by the index of heavy construction costs. The shaded area references the periods in which civil works boosted GDP growth. Source: BBVA Research with DANE data.

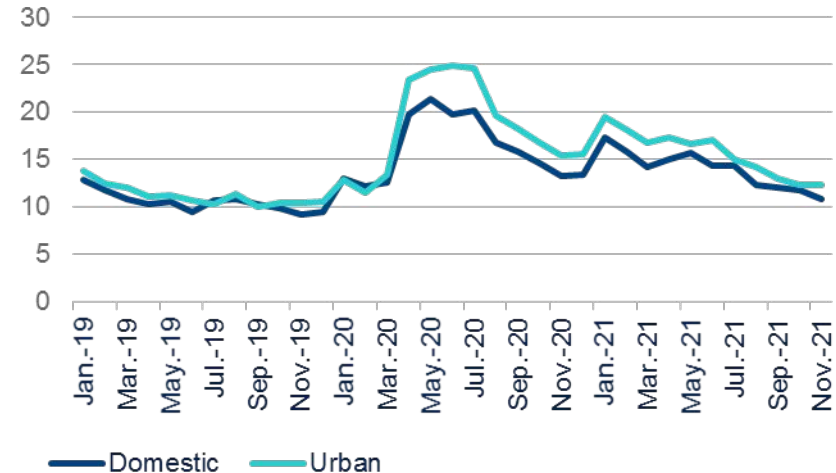
However, civil works are still lagging behind. Unlike in previous years, the civil works sector is not helping the economy recover this time. Nevertheless, there is positive news for 2022 in this respect.

Employment has recovered, mainly in urban areas and driven by informal jobs. The recovery slowed down in November

EMPLOYED PERSONS AND INFORMAL EMPLOYMENT IN CITIES^(*) (THOUSANDS OF PEOPLE AND % OF EMPLOYED PERSONS, ROLLING QUARTER)



URBAN UNEMPLOYMENT RATE (% OF THE WORKFORCE)



(*): Measured as the share of non-wage earners in employment.

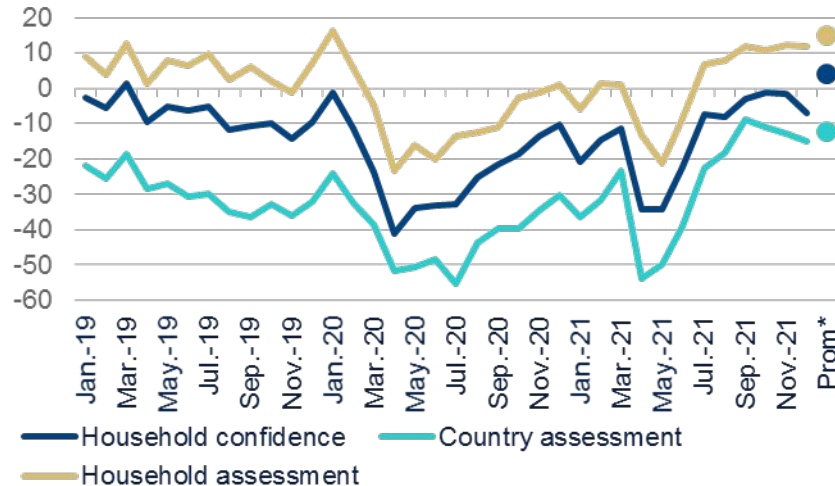
Source: BBVA Research with DANE data.

The unemployment rate has gradually fallen but not yet reached pre-pandemic levels. Not only job creation but also the high level of non-working population has contributed to a further decline in the unemployment rate.

The assessment of household conditions remains in positive territory, but the assessment of country conditions has recently deteriorated

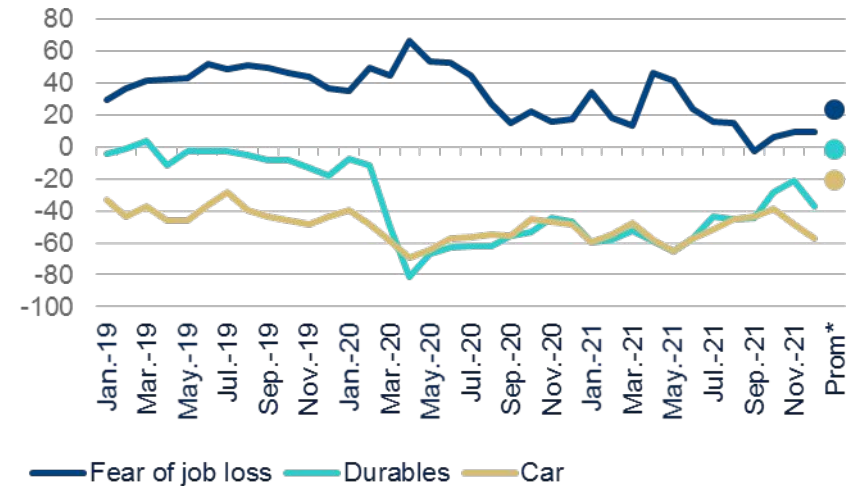
HOUSEHOLD CONFIDENCE BY TYPE

(BALANCE OF RESPONSES)



FEAR OF JOB LOSS AND WILLINGNESS TO BUY

(BALANCE OF RESPONSES)



(*): Average between January 2010 and December 2021.

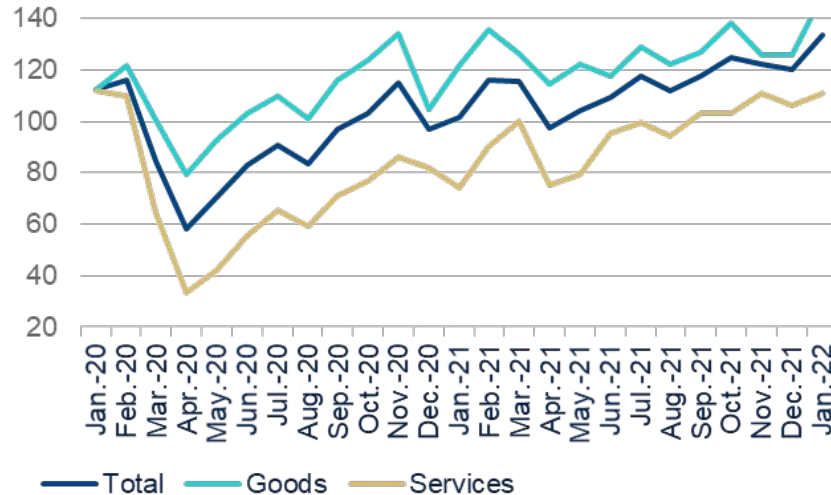
Source: BBVA Research with Fedesarrollo data.

Household purchasing decisions relate more to the household assessment than to the country assessment. Therefore, the behavior of employment and income of the household are key to private consumption

Household consumption is proving to be the main driver of economic recovery, with services already performing better

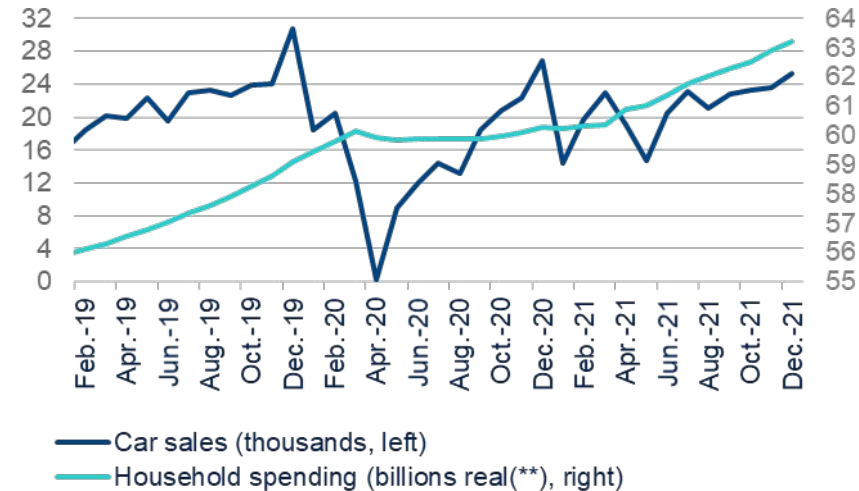
BBVA BIG DATA CONSUMPTION INDEX

(INDEX, SAME PERIOD OF 2019 = 100)



CAR SALES AND HOUSEHOLD SPENDING

(THOUSANDS OF UNITS AND YOY % CHANGE)



(*): Data to January 17 2022. (**): deflated with CPI.

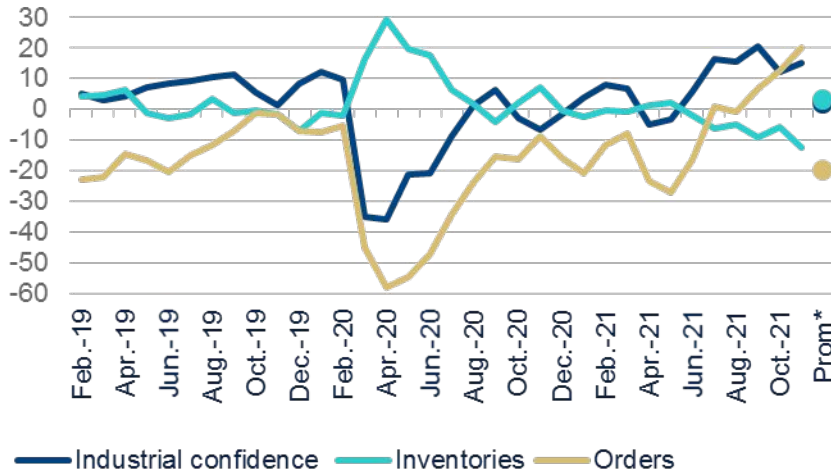
Source: BBVA Research with transactional data from BBVA and Fenalco and Raddar.

Household expenditure indicates an increase in the marginal propensity to consume, as it appears to have increased more than the disposable income in 2021. This growth factor is unlikely to be sustainable over time.

Business confidence increased significantly, as companies have rapidly reduced their inventories and perceived demand has increased

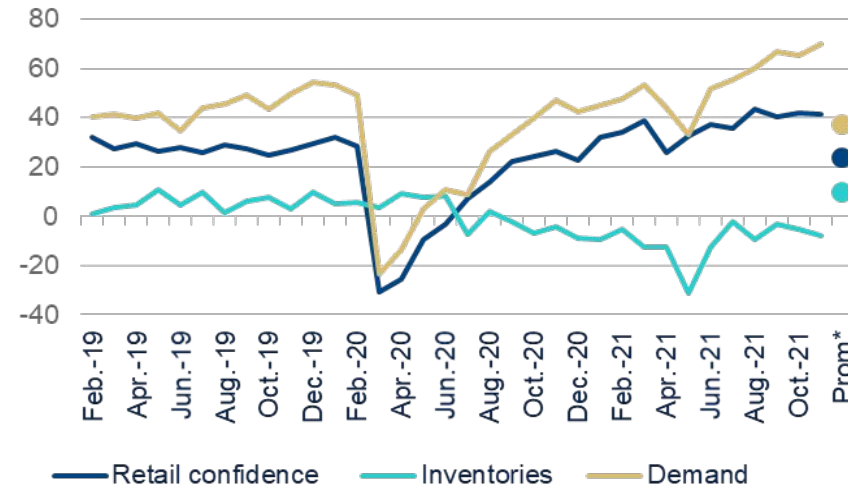
INDUSTRIAL CONFIDENCE

(BALANCE OF RESPONSES)



RETAIL CONFIDENCE

(BALANCE OF RESPONSES)

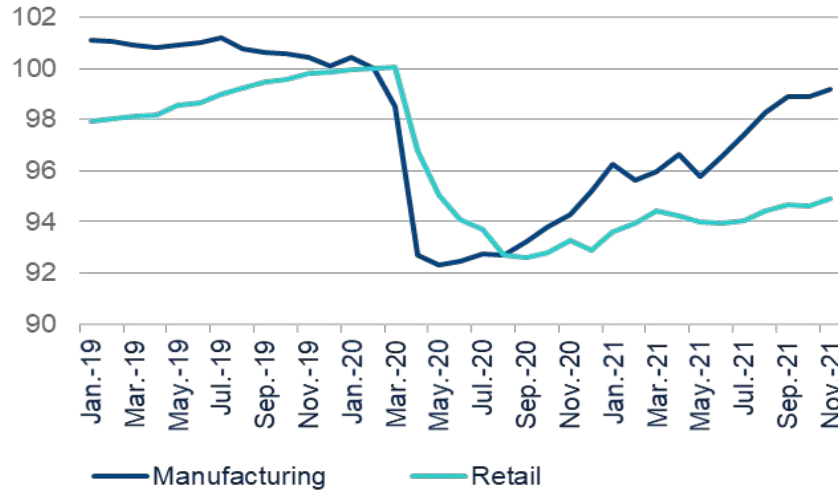


(*): Average between January 2010 and November 2021.
Source: BBVA Research with Fedesarrollo data.

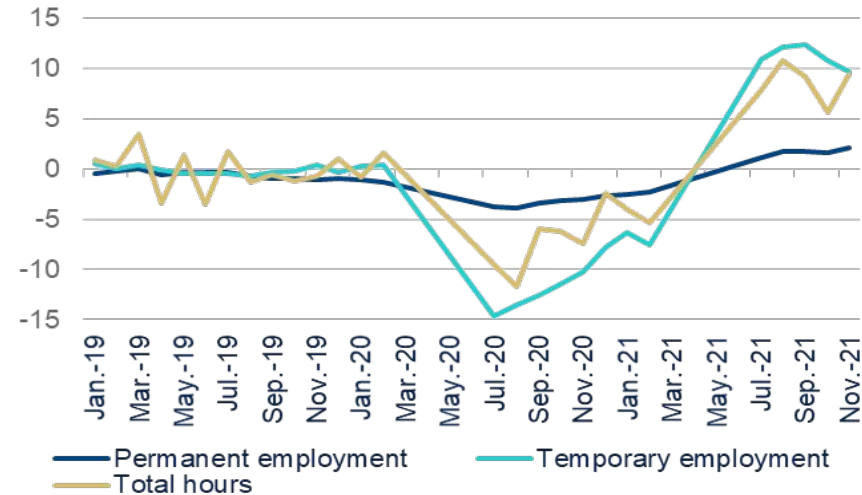
Moreover, industry still has a high installed capacity. This suggests that the cycle of investment in machinery and equipment has not finished yet, although its momentum may be slowing.

Industrial and retail results have led to job creation, although they lag behind general economic activity and have slowed in the fourth quarter

MANUFACTURING AND RETAIL EMPLOYMENT INDICATORS (INDEX, FEB - 20 = 100)



MANUFACTURING EMPLOYMENT BY TYPE (YOY % CHANGE)

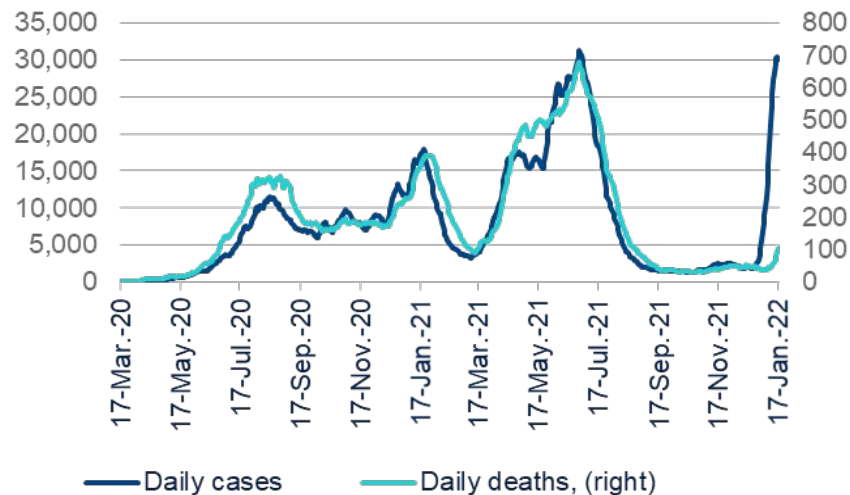


Source: BBVA Research with DANE data.

In retail, the recovery in employment has been slower. Possibly the sales model has changed, requiring less labour intensity.

The economy in early 2022 will be hit by a new wave of contagion, which could draw out the slowdown seen since late 2021

DAILY CASES AND DEATHS (7-DAY MOVING AVERAGE, PEOPLE)



- There is a new wave of infections with a very steep rate of spread.
- For now, deaths are limited, but the scale of the infection could put pressure on the health system in the future and lead to more deaths.
- So far, social behaviour has not been limited by the severity of symptoms and effects on health, but if the health response worsens, we cannot rule out some impact on activity.

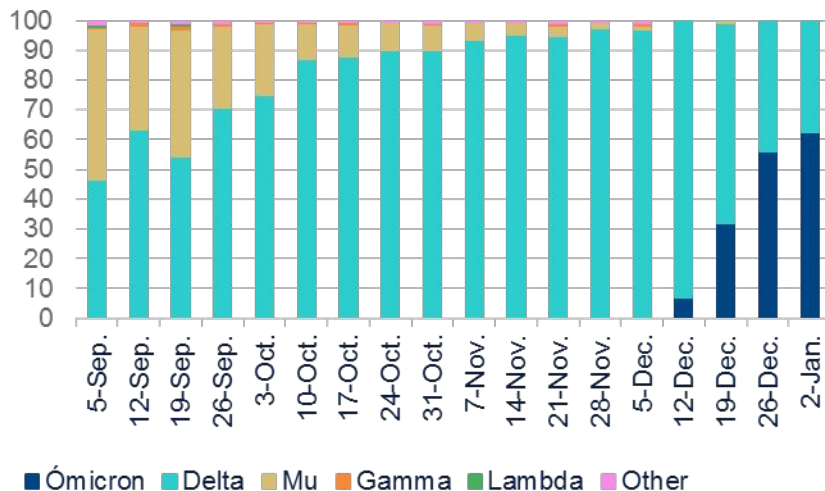
Fuente: BBVA Research with the Health Ministry data.

This wave of contagion will have a much weaker impact on both the economic and health systems than previous waves.

Thanks to advances in vaccination, the health effects of the new coronavirus strains are less severe

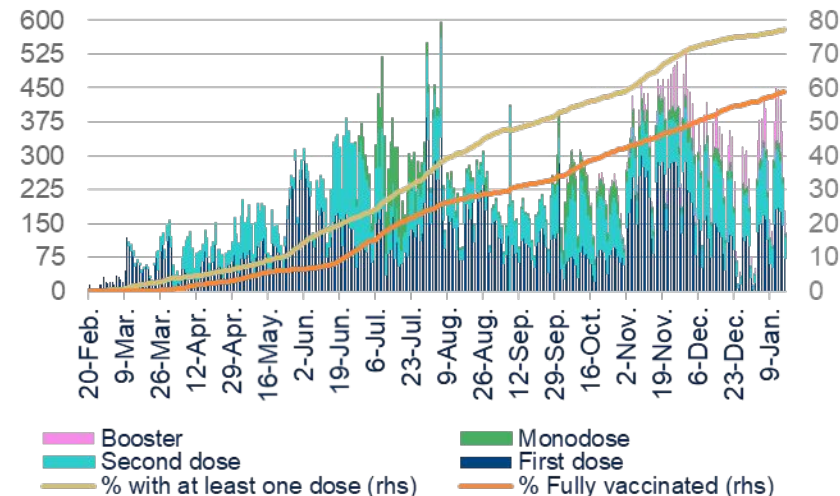
PREVALENCE OF COVID-19 VARIANTS

(% OF SAMPLES SEQUENCED BY VARIANT)



VACCINATION

(DAILY DOSES AND % OF THE POPULATION VACCINATED)



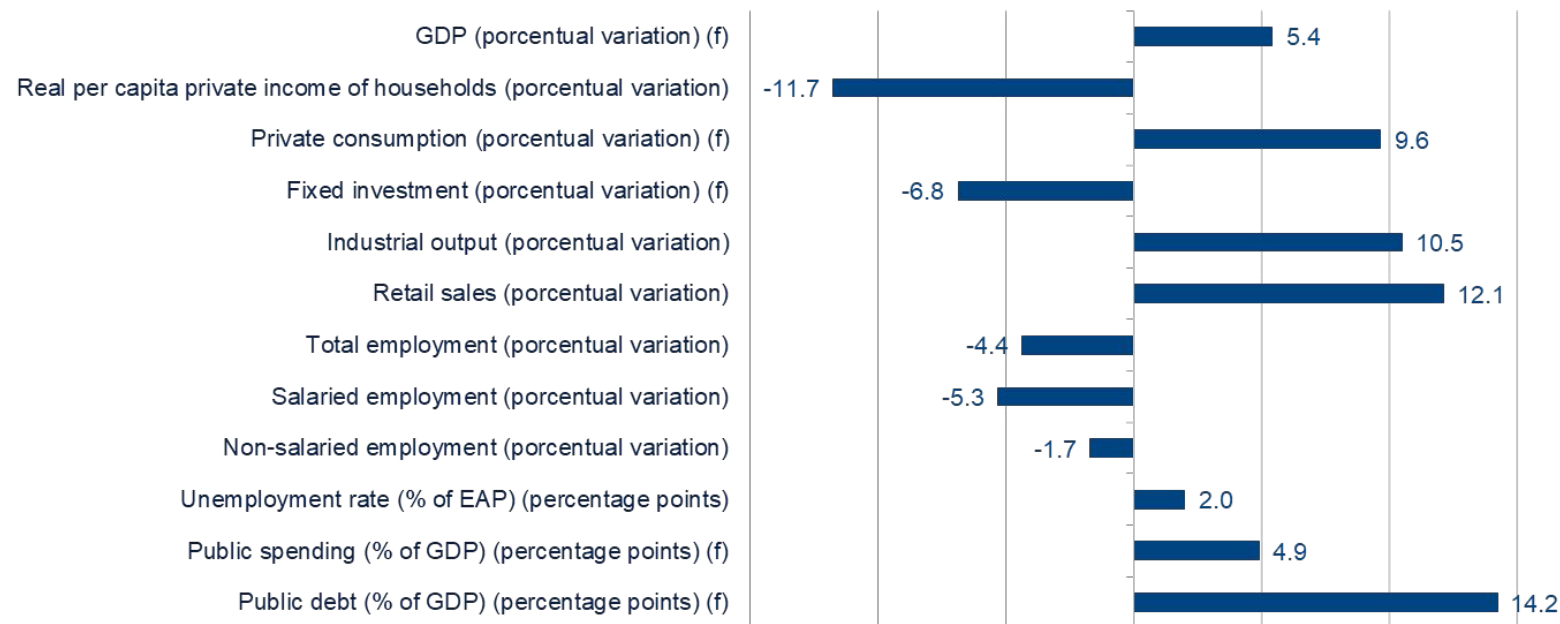
Source: BBVA Research based on data from the Ministry of Health.

Not only will the economic impact be less severe, but so will the measures to mitigate it.

Economic balance at the end of 2021:

BALANCE SHEET OF THE ECONOMY AT THE END OF 2021 (*)

(VARIATION FROM PRE-COVID VALUES)



(*): For all data, the latest available is the fourth quarter of 2021, except for private income, for which data are available from the third quarter. (f): BBVA Research forecast for the fourth quarter of 2021.

Source: BBVA Research based on data from DANE

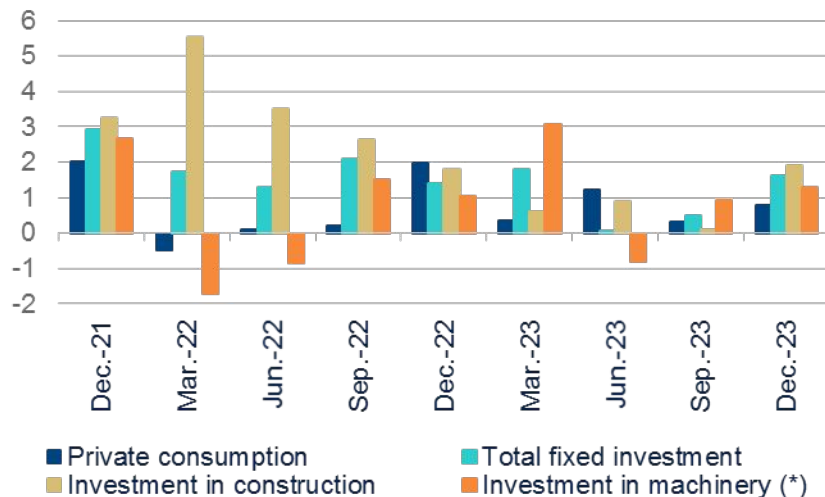
03

Consumption will moderate in 2022-23.

Investment and exports will lead activity, but they cannot compensate for this. So growth will also slow, in addition to the lack of statistical effect

Consumption and investment decisions in the first half of 2022 will be determined by many conflicting factors...

PRIVATE CONSUMPTION AND FIXED INVESTMENT: PROJECTIONS (QOQ % CHANGE)



(*): Includes machinery and equipment, intellectual property and biological resources.

Source: BBVA Research

Short-term factors:

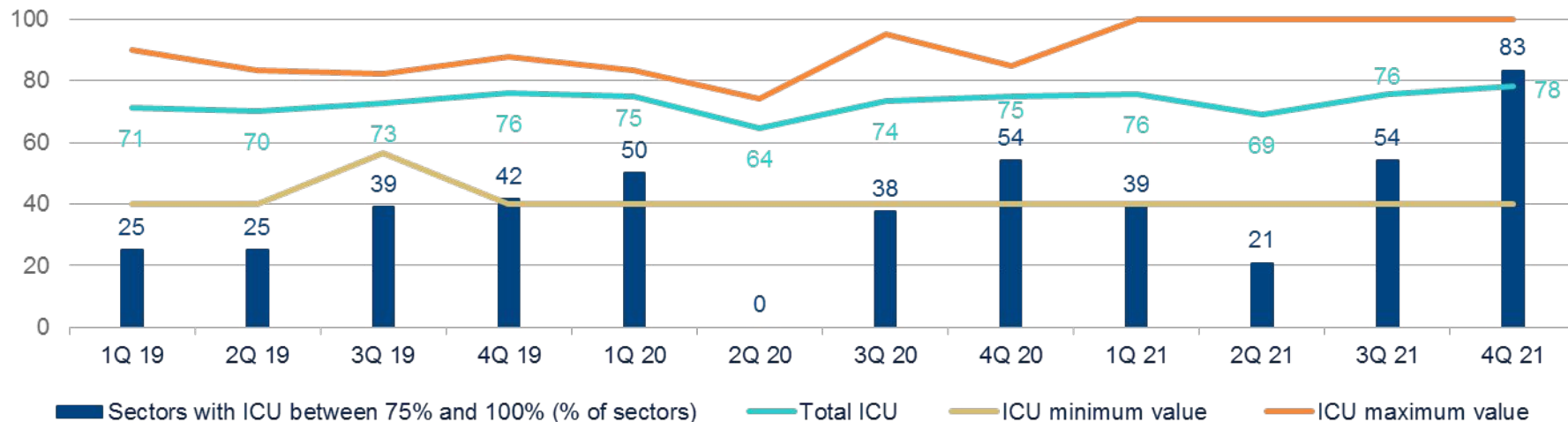
- Wave of contagion: could reduce spending decisions and labour productivity in some sectors with higher need for face-to-face meetings.
- Bottlenecks: higher inflation may reduce the purchasing power of some households. Lower availability of commodities may hamper some productive activities.
- Economic-political volatility: it tends to reduce investment and consumption decisions.
- Increased implementation of civil works: mainly from regional and local governments.

...thereafter, private consumption and machinery investment will improve their momentum and the solid growth in civil works will be maintained. This will lead to positive growth rates in 2022 and 2023.

Production is hampered by bottlenecks, and there appear to be lags in comparison to the rest of the world

INSTALLED CAPACITY UTILISATION -ICU- IN MANUFACTURING

(% OF TOTAL INSTALLED CAPACITY AND SECTORS)



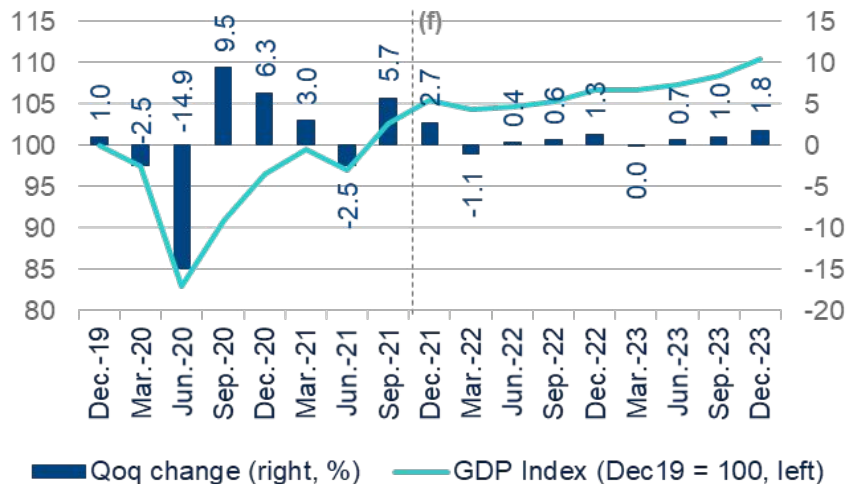
Source: BBVA Research based on data from Fedesarrollo.

In the first half of 2022, the world will continue to face price pressures due to bottlenecks, which will affect the Colombian economy in the form of prices and commodity shortages.

GDP growth will be stronger in the second half of 2022. In 2023, growth will be lower without statistical effects

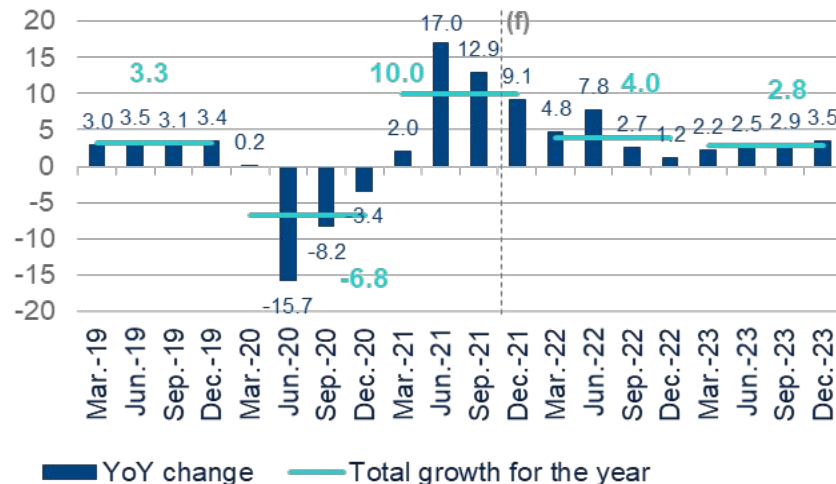
GDP

(CURRENT AND PRE-COVID INDICES AND YOY % CHANGE)



GDP

(YOY % CHANGE)



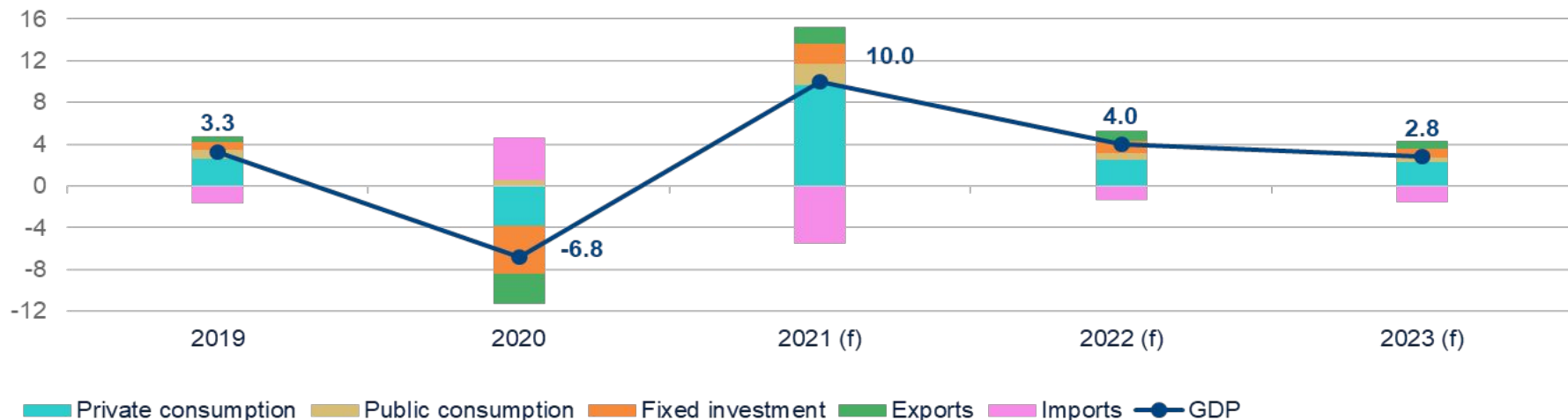
(f): forecast of BBVA Research.

Source: BBVA Research based on data from DANE.

In 2022 and 2023, the economy will grow 4.0% and 2.8%, respectively.

In 2022 and 2023, we expect the economy to expand less through consumption and more through investment and exports

GDP BY COMPONENT (CONTRIBUTION TO YOY % CHANGE)



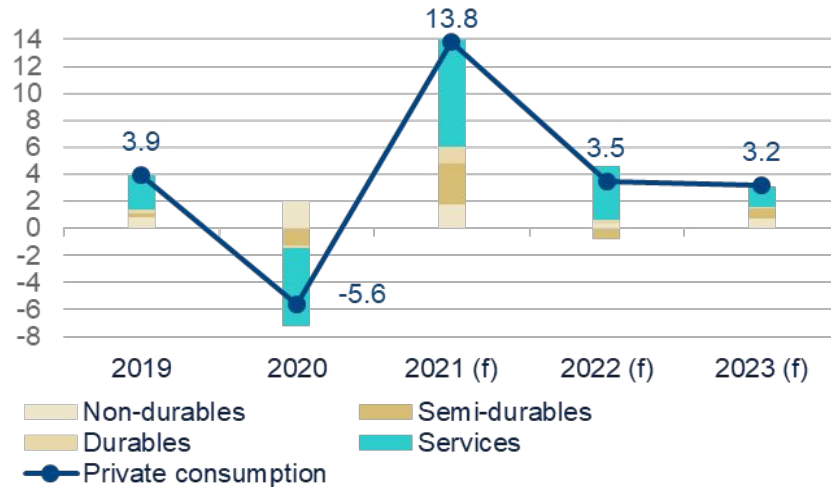
(f): forecast of BBVA Research.
Source: BBVA Research based on data from DANE.

Furthermore, imports will significantly reduce their negative contribution to GDP.

Consumption of goods is giving way to service consumption, which will dominate household spending patterns in 2022 and 2023

PRIVATE CONSUMPTION

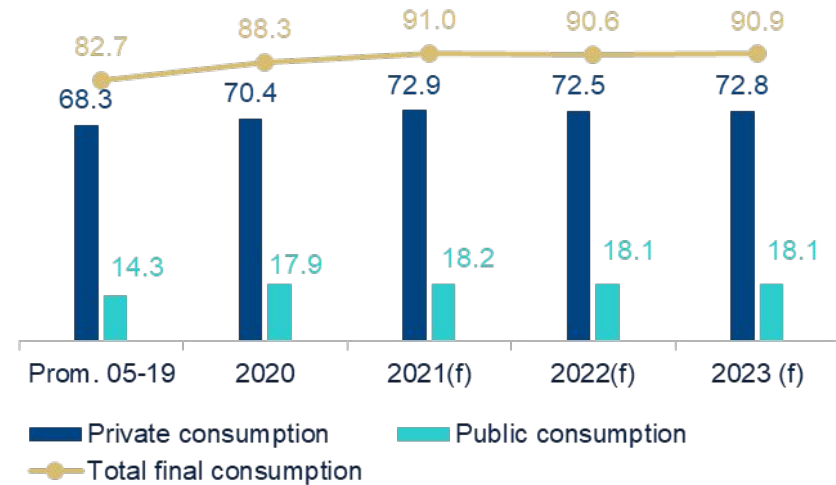
(YOY % CHANGE CONTRIBUTIONS BY COMPONENT, %)



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

FINAL CONSUMPTION

(% OF GDP)

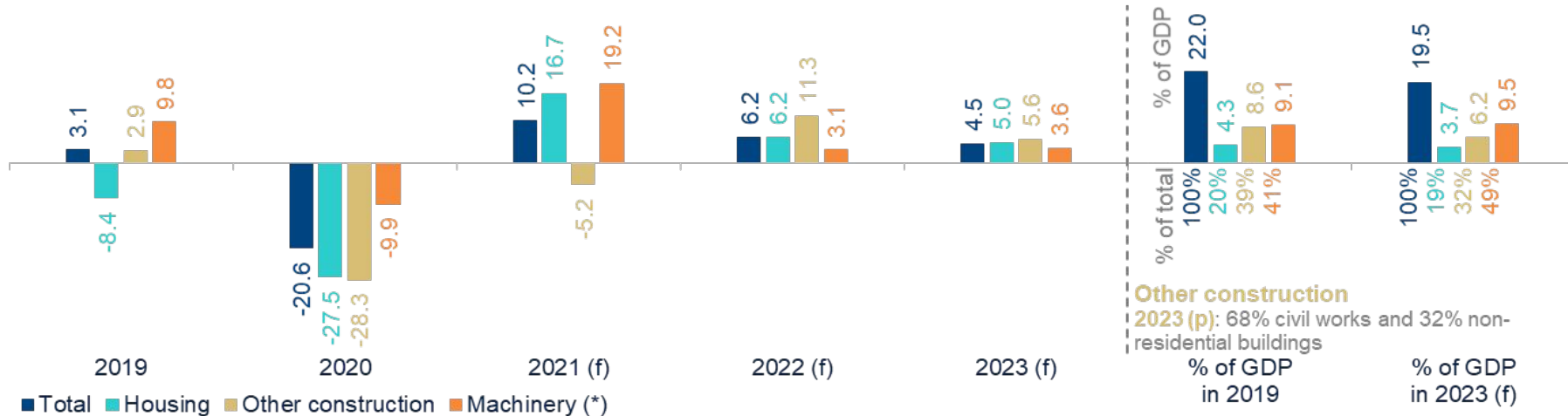


Final consumption will remain high, although its share of GDP will stop growing.

Investment will remain buoyant, driven by civil works from the beginning of 2022 and spending on machinery from the second half of the year

FIXED INVESTMENT

(YOY % CHANGE AND SHARE OF GDP, %)



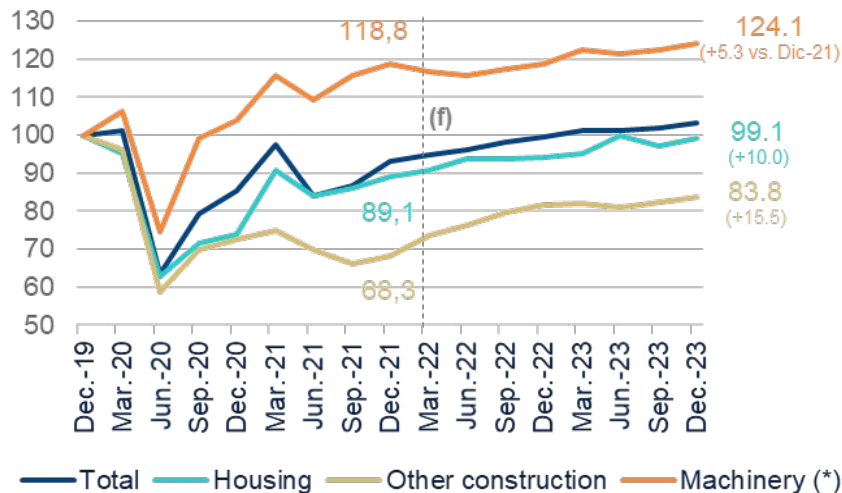
(f): forecast of BBVA Research. (*): Includes machinery and equipment, intellectual property and biological resources.
Source: BBVA Research based on data from DANE.

Progress in civil works will depend on the implementation capacity of local and regional governments in their last two years in office. We expect this implementation to accelerate and be crucial for growth in 2022 and 2023.

Construction will be the most dynamic component of investment over the next two years

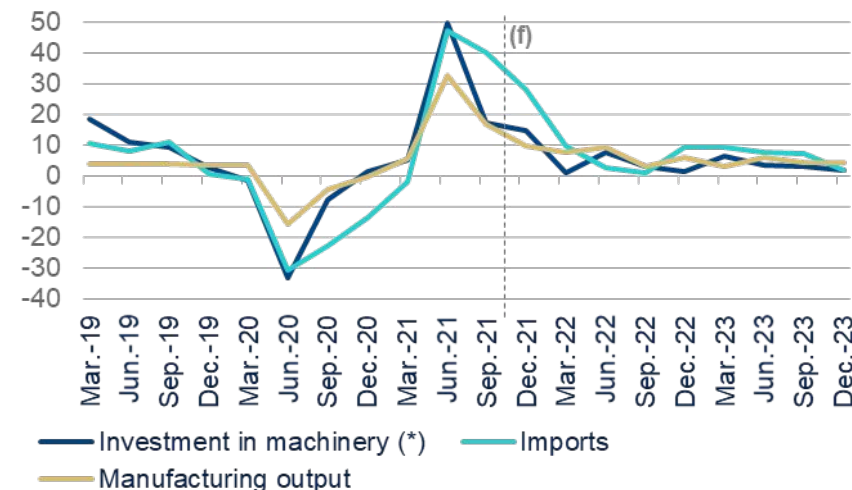
FIXED INVESTMENT

(INDEX, DEC - 19 = 100)



INVESTMENT, LOCAL PRODUCTION AND IMPORTS

(YOY % CHANGE)



(f): forecast of BBVA Research. (*): Includes machinery and equipment, intellectual property and biological resources.

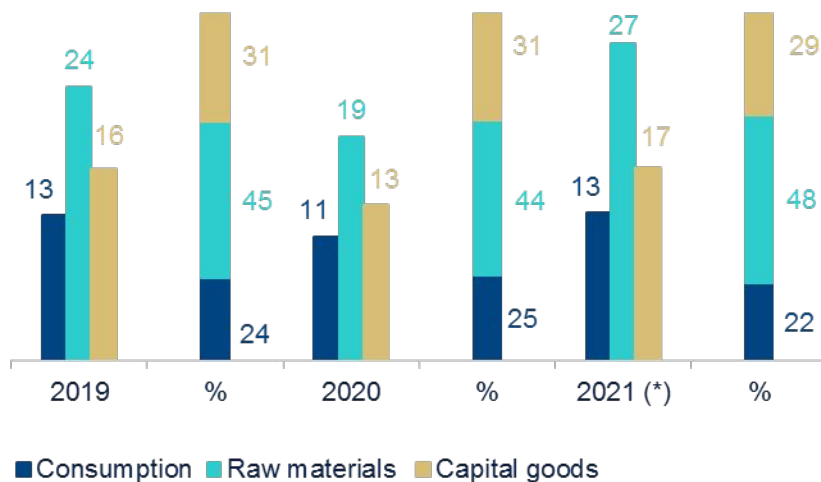
Source: BBVA Research based on data from DANE.

Moreover, the slowdown in investment in machinery and the expected slower pace of industrial production will reduce the upward pressure on imports.

The dynamics of imports is being driven more by local productive activity, and global supply chains, than by consumption

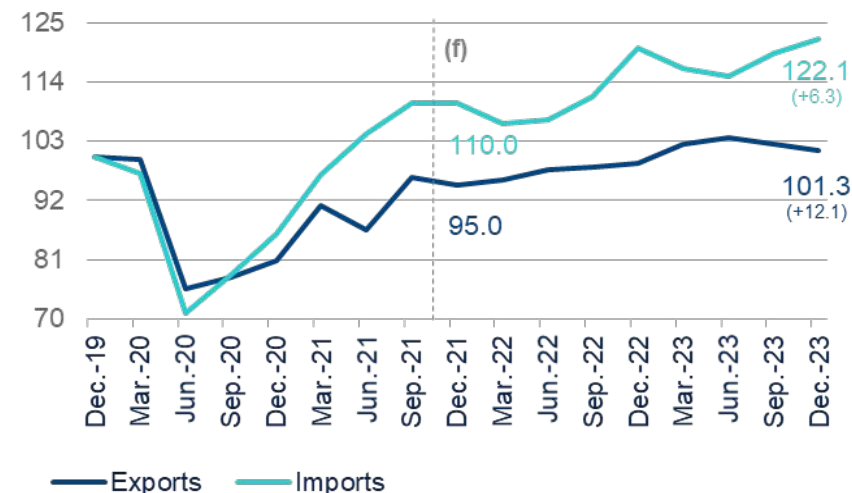
IMPORTS BY TYPE

(BILLIONS OF DOLLARS AND % OF THE ANNUAL TOTAL)



EXPORTS AND IMPORTS

(INDEX, DEC -19 = 100)



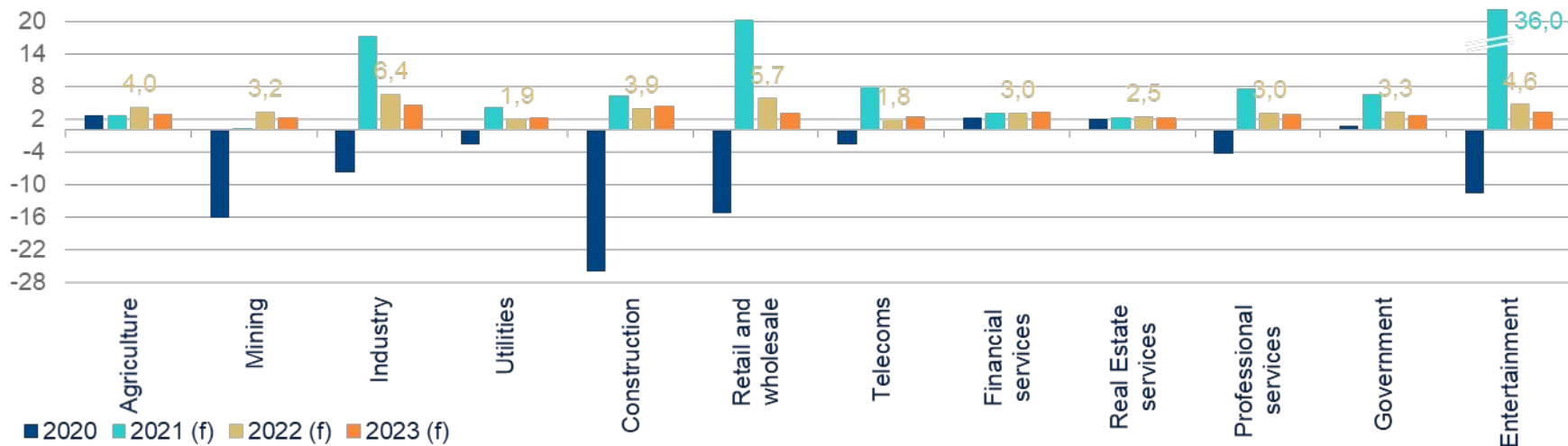
(*): Equivalent to the year between November 2020 and October 2021. (f): forecast of BBVA Research.
Source: BBVA Research based on data from DANE and Banco de la República.

Exports must pick up speed. Despite growth, their dynamics remain lower than those of imports.

By sector, the activities most related to services such as trade and entertainment will stand out

GDP BY SECTORS

(YOY % CHANGE)



(f): forecast of BBVA Research.

Source: BBVA Research with DANE data.

In 2023, the best performing sectors will be industry, construction and trade.

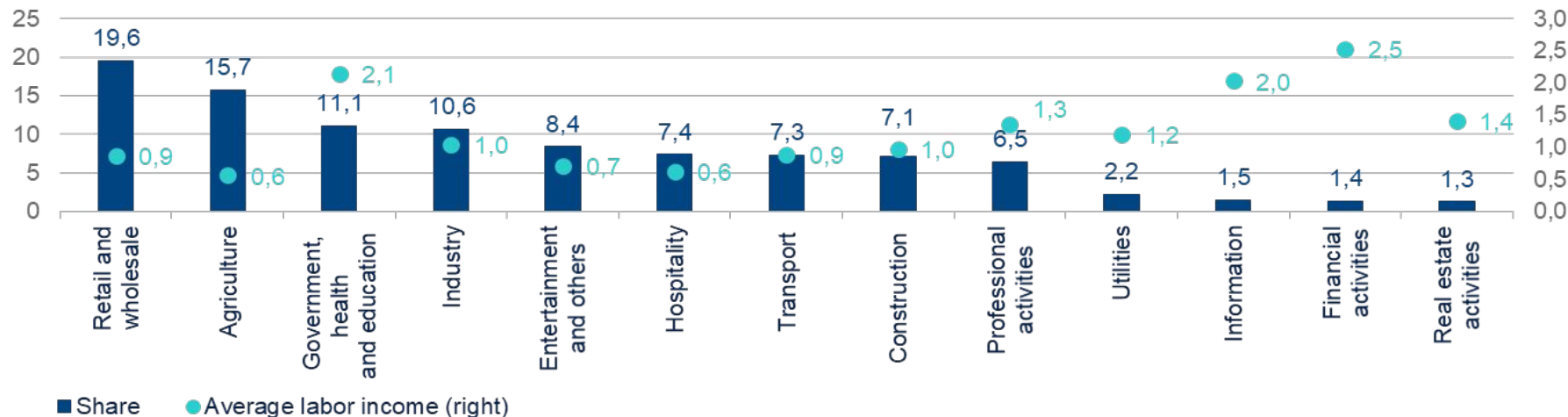
04

Employment remains
the big challenge
for recovery

The trade sector is the main driver of employment in Colombia (19.6%), along with agriculture (15.7%). Next come the government^(*) and industry

NATIONAL EMPLOYMENT BY SECTOR

(SHARE OF TOTAL EMPLOYMENT, MILLION COLOMBIAN PESOS, JAN-SEP 2021)



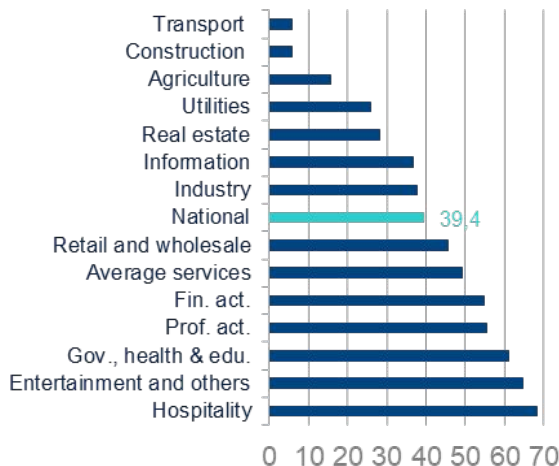
(*) Government includes public administration, health and education.

Source: BBVA Research with DANE data.

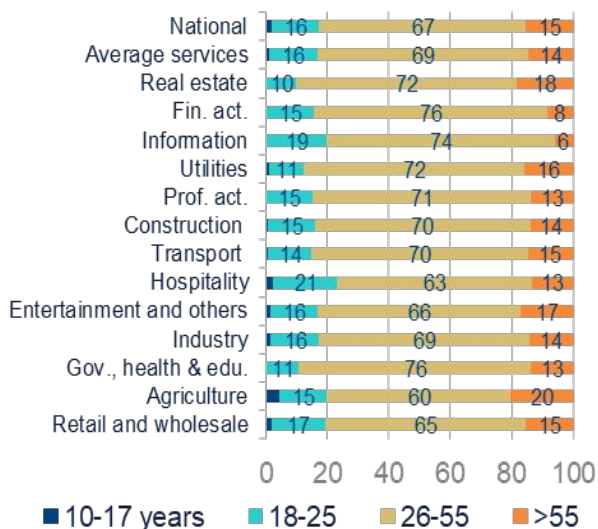
In terms of labor income, financial and information and communications activities are the best remunerated with monthly salaries of more than 2 million pesos, compared to the national average of 1.1 million pesos.

40% of workers are women. Accommodation, government^(*) and entertainment are the most intensive sectors in female workforce

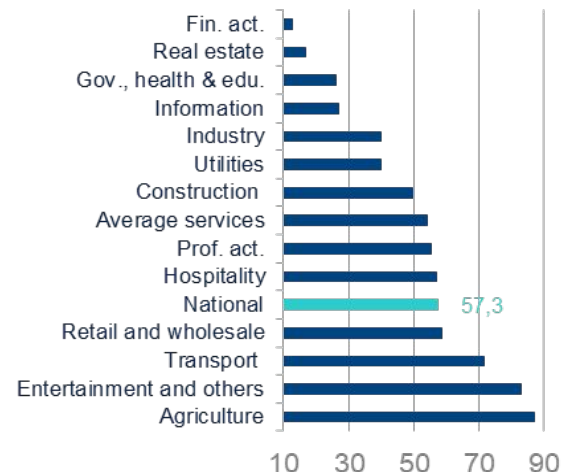
SECTORAL WOMEN EMPLOYMENT
(JAN-SEP 2021, % OF PARTICIPATION)



SECTORAL EMPLOYMENT BY AGE
(JAN-SEP 2021, % OF PARTICIPATION)



SECTORAL WAGED EMPLOYMENT
(JAN-SEP 2021, % OF PARTICIPATION)

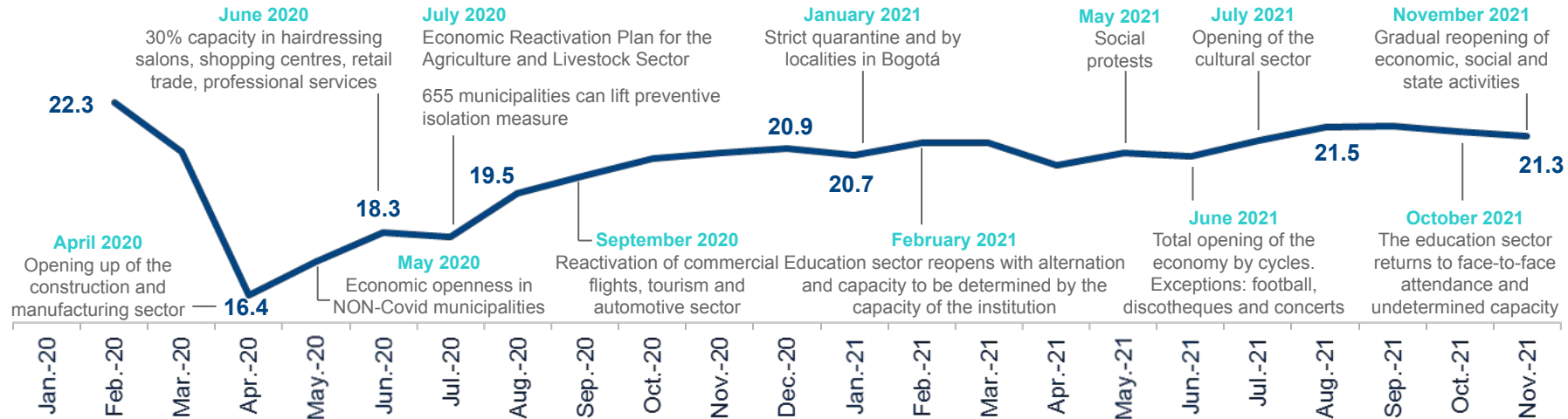


(*) Government includes public administration, health and education.
Source: BBVA Research with DANE data.

Nationwide, 67.5% of workers are between 26 and 55 years old. In the state sector, this proportion reaches almost 76%.
At the national level, the share of non-wage earners in the total number of employees is 57.3%. In agriculture and the entertainment sector, this share is over 80%.

Since the beginning of the pandemic, the labor market has showed closures in certain sectors, mobility restrictions and disruptions to public order

NATIONAL EMPLOYMENT SINCE THE PANDEMIC (SEASONALLY ADJUSTED SERIES, MILLIONS EMPLOYED)



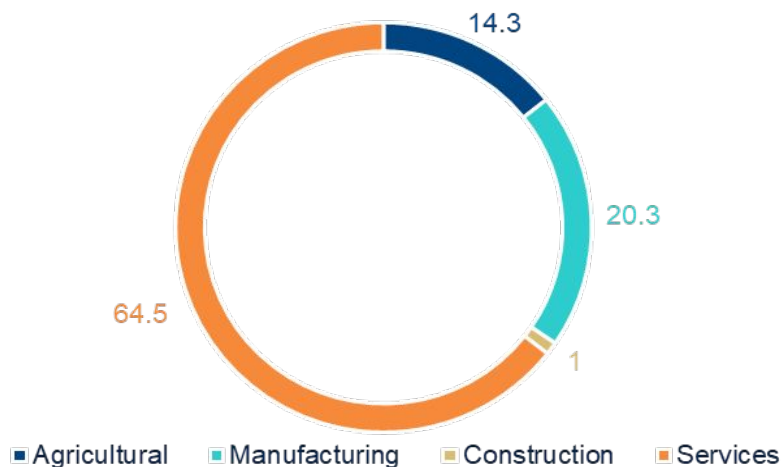
Source: BBVA Research with DANE data and official information.

Reactivation policies have had a positive effect on the number of people in employment. However, pre-pandemic levels have not yet been reached.

The biggest job losses between 2019 and 2021^(*) came from services

REDUCTION IN NATIONAL EMPLOYMENT BY SECTOR

(SHARE, BETWEEN JAN-SEP 2019 – JAN-SEP 2021)



(*) to Jan-Sep 2019 and Jan-Sep 2021.

Source: BBVA Research with DANE data.

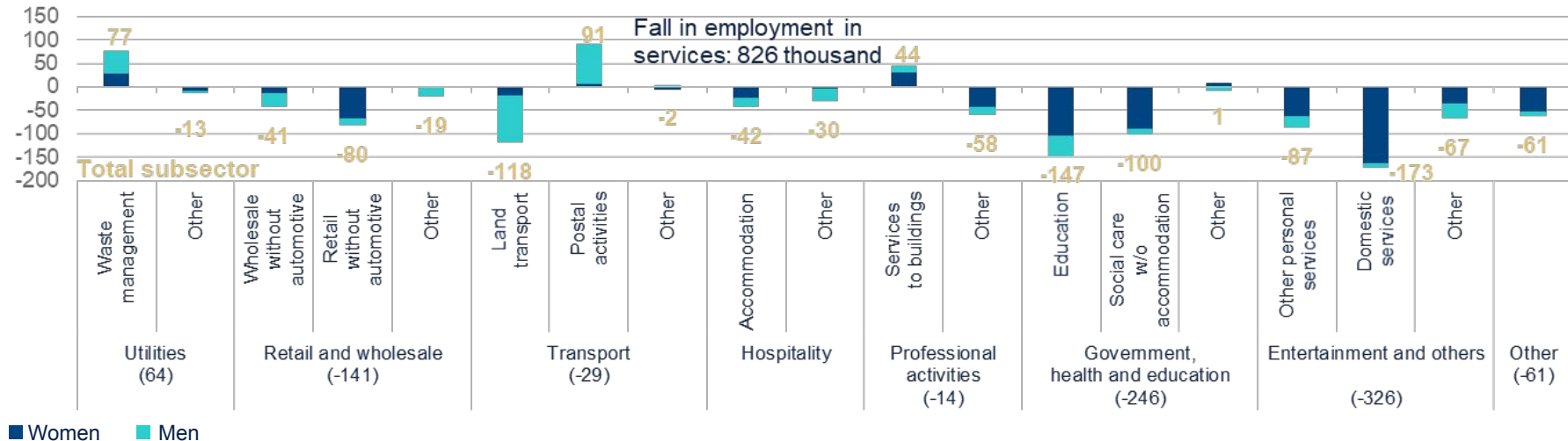
- Between 2019 and 2021, as of September, 64,5% of national employment fell is accounted for by the service sectors.
- The greatest impact on services could be due to the fact that some of its sub-sectors are highly dependent on social interaction.
- In construction, much of the employment recovered as the sector's activity recovered, even if value added was less strong.

Despite the recovery in employment, the number of employed workers is still far from reaching pre-pandemic levels.

Six services sub-sectors accounted for 55% of the national employment decline between 2019 and 2021^(*) and 85% of employment in the service sectors

EMPLOYMENT IN THE SERVICE SECTORS

(CHANGE BETWEEN JAN-SEP 2019 – JAN-SEP 2021, THOUSANDS OF PEOPLE)



(*) to Jan-Sep 2019 and Jan-Sep 2021.

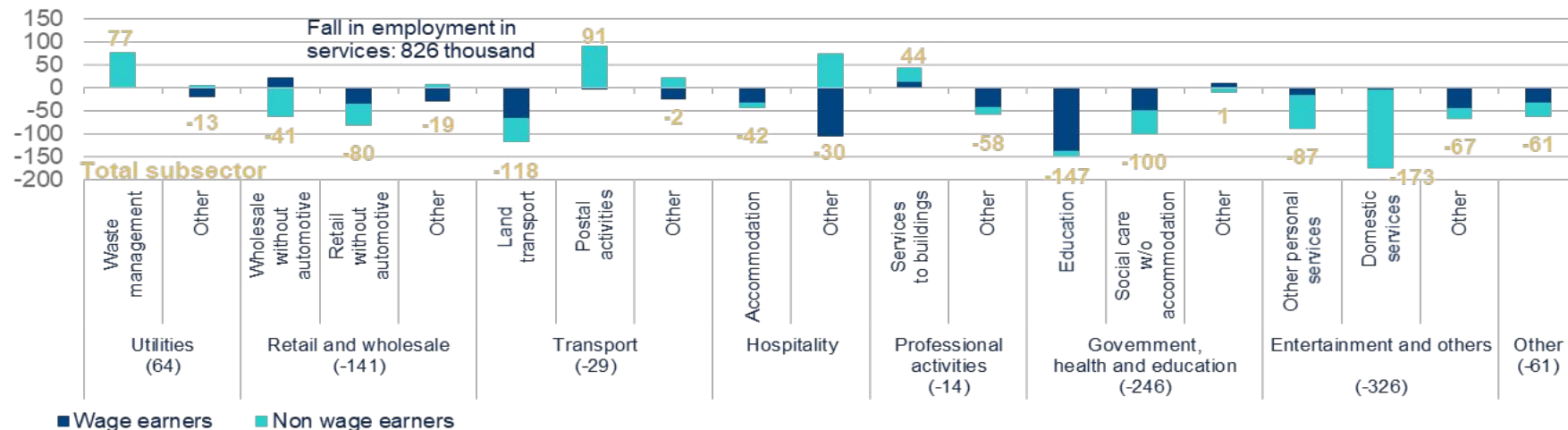
Source: BBVA Research with DANE data.

The recovery in employment must have a high female component, as did its deterioration. Between 2019 and 2021^(*) the reduction of female employment in the service sectors contributed 76% of the total fall in employment in that sector (826 thousand).

And it may also have an important informal component as lost employment in sectors such as entertainment and retail recovers

EMPLOYMENT OF SERVICE SECTORS BY WAGE AND NON-WAGE EARNERS

(CHANGE BETWEEN JAN-SEP 2019 – JAN-SEP 2021, THOUSANDS OF PEOPLE)

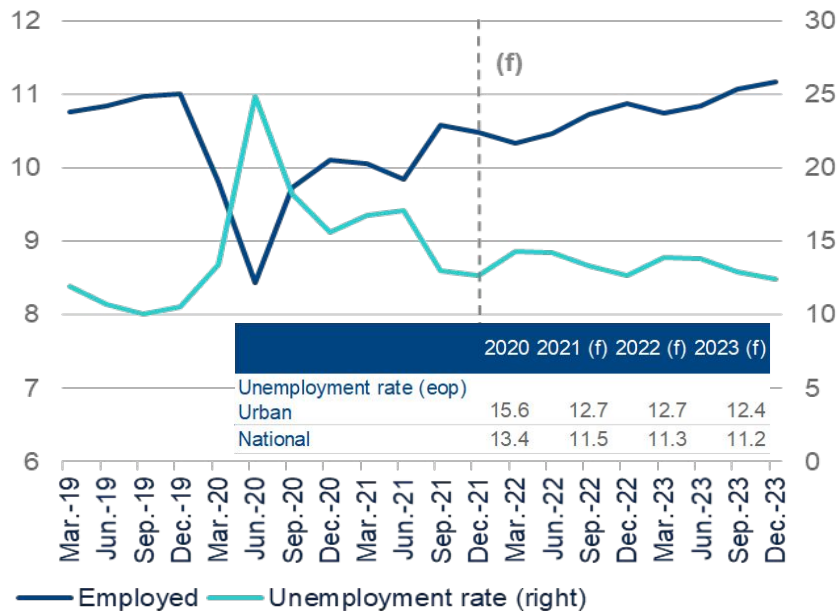


(*) to Jan-Sep 2019 and Jan-Sep 2021.
Source: BBVA Research with DANE data.

Between 2019 and 2021(*) the reduction in non-wage employment in the entertainment sector contributed 79% of the total drop in employment in the sector (326 thousand) and in trade 70% of the drop in the sector (141 thousand).

Employment recovery will remain slow and lag behind activity. In 2022 and 2023, non-wage employment will grow faster than wage employment

EMPLOYED AND URBAN UNEMPLOYMENT RATE (THOUSANDS, % OF WORKFORCE)



URBAN WAGE EARNERS AND NON-WAGE EARNERS (INDEX DEC19=100, S.A. SERIES, QUARTERLY DATA)

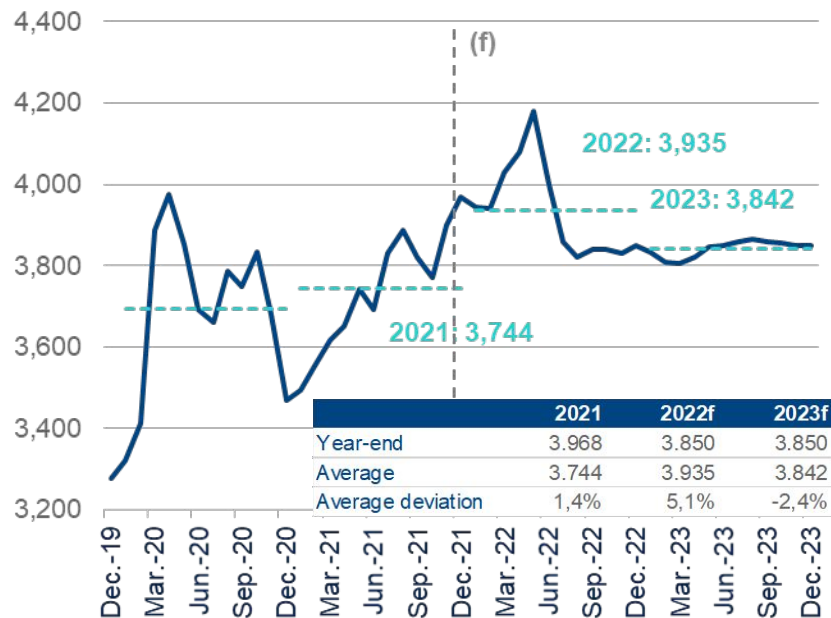


05

Inflationary pressures
will progressively
subside in 2022,
resulting in a tightening
of monetary policy

The exchange rate will continue to face pressures in 2022 and 2023, with a peak in the second quarter of this year

EXCHANGE RATE (PESOS PER DOLLAR)



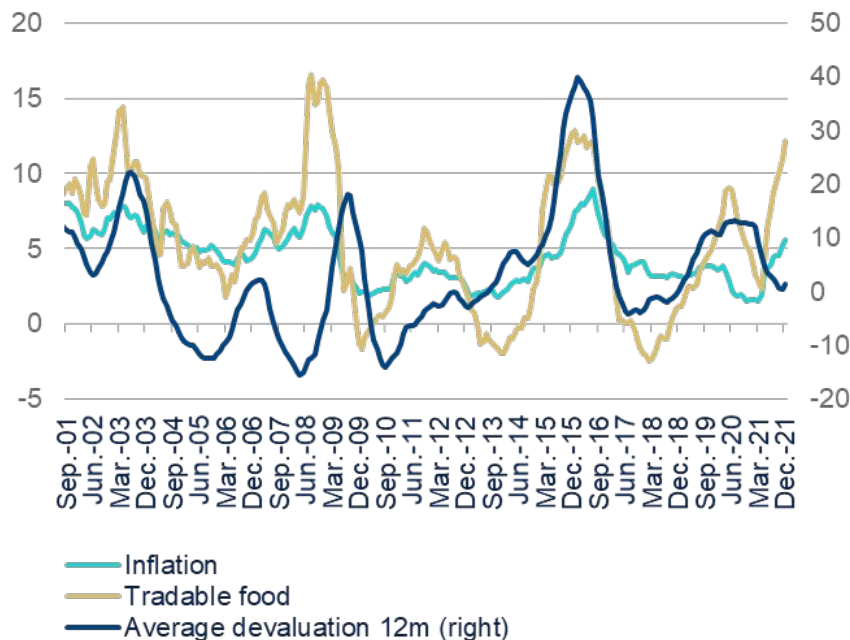
(f): forecast of BBVA Research.

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

- The high current account deficit, the economy's and government's financing needs, the political cycle, and a faster and earlier normalisation of monetary policy in the United States will all exert pressure.
- In 2022, the average exchange rate will be 3,935 pesos, 5.1 per cent more depreciated than that observed in 2021.
- The upward impact of the political cycle on the currency will be significant and will begin in March, when the cross-party consultations take place.
- In 2023, the average exchange rate will be 3,842 pesos, 2.4% lower than in 2022, mainly due to the lack of electoral volatility.

The prices of imported foodstuffs are directly related to the exchange rate. Pressure on this basket of goods will be maintained in H1 2022

DEVALUATION, TOTAL AND TRADABLE FOOD INFLATION (YOY % CHANGE)



- The pass-through of exchange rate depreciation to local prices in Colombia is still low, at 5.0%^(*).
- The effects of devaluation usually show up in prices with a delay of 3 to 5 months. For food, especially imported food, the lag is almost zero and the impact is greater.
- Recent data show an increase in tradable food, which is decoupled from exchange rate depreciation and may have more to do with the high cost of inputs and commodities in the world.

(*) 5.0% of the exchange rate devaluation is passed through to prices.

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

The high share of the basket that is indexed to caused inflation and the minimum wage will provide upward pressure in the first part of the year

DIRECT OR INDIRECT INDEXING MECHANISMS (WEIGHT OF THE ITEMS IN THE BASKET IN BRACKETS)

Inflation caused (30.1%)



Rent



Tolls



Education

New regulation^(*) - UVT (1.1%)



Health payments



Official Certificates



Medical insurance

Minimum wage (12.8%)

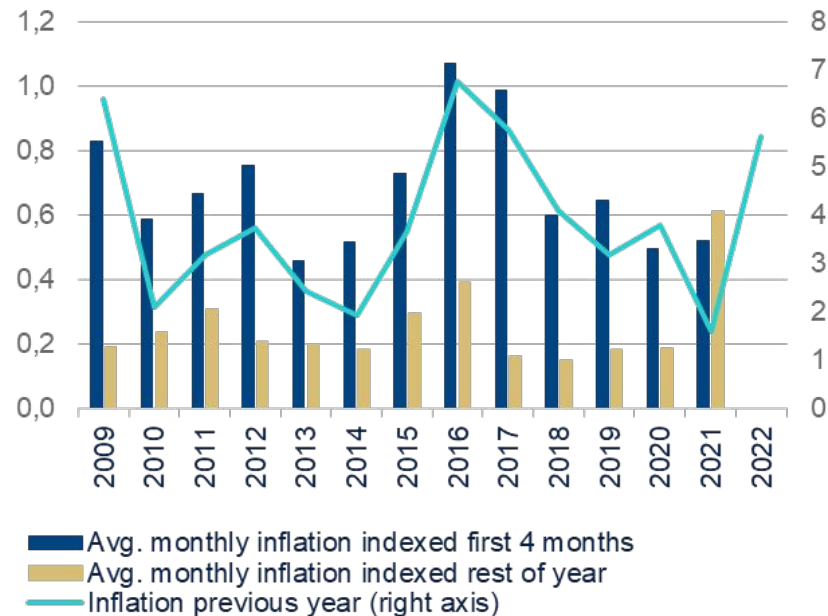


CFH^(**) Domestic service



Vehicle insurance and maintenance

MINIMUM WAGE AND INFLATION (AVERAGE MONTHLY INFLATION AND YOY % CHANGE)



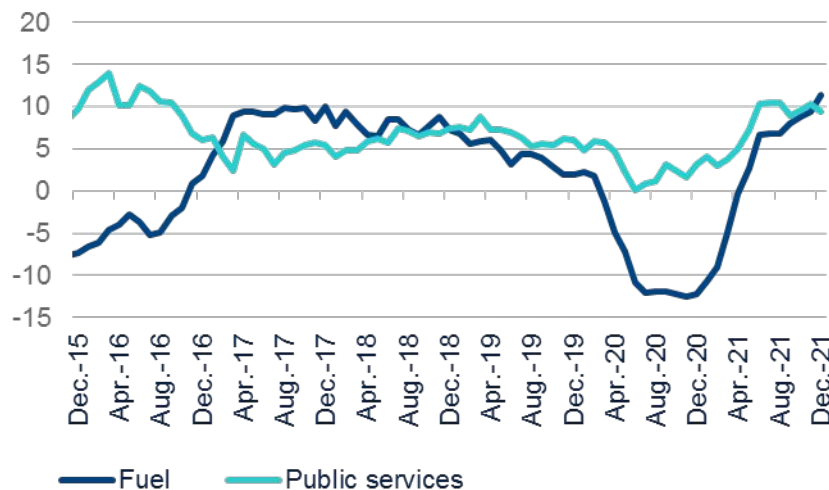
(**): CFH: meals outside the home.

(*): New regulation: refers to tariffs that were linked to the increase in the minimum wage before 2020 and to the UVT after that date, which in turn depends on the inflation caused.

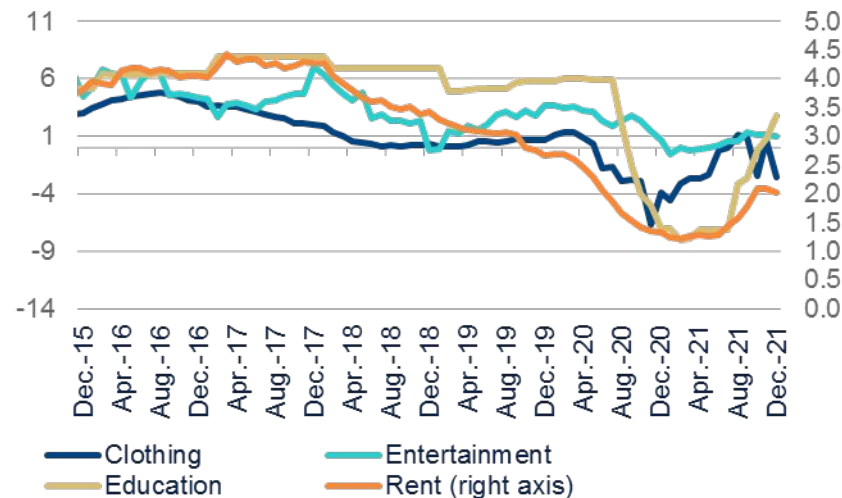
Source: BBVA Research based on data from MinTrabajo, DANE and Banco de la República.

Additional pressures will come from price normalization in some areas affected by different policies

INFLATION OF GOODS AFFECTED BY POLICIES THAT RETURNED TO PRE-PANDEMIC LEVELS (YOY % CHANGE)



INFLATION OF ASSETS AFFECTED BY POLICIES THAT HAVE NOT RETURNED PRE-PANDEMIC LEVELS (YOY % CHANGE)

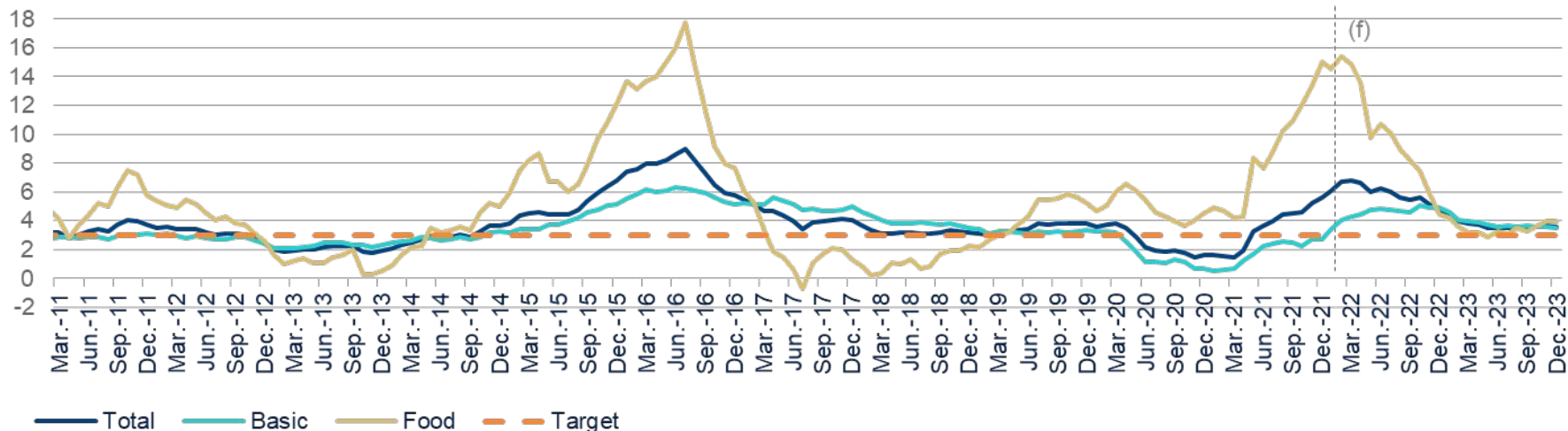


Source: BBVA Research with DANE data.

In addition, some sectors that are already above pre-pandemic levels will be affected by some tax exemptions that will cause additional pressure, a case in point being restaurants.

Taking this into account, inflation will gradually ease in the 2H-22 to close at 4.8%. In 2023, it will continue its adjustment process and close at 3.6%

INFLATION: TOTAL, FOOD AND NON-FOOD (YOY % CHANGE)



(f): BBVA Research forecast.

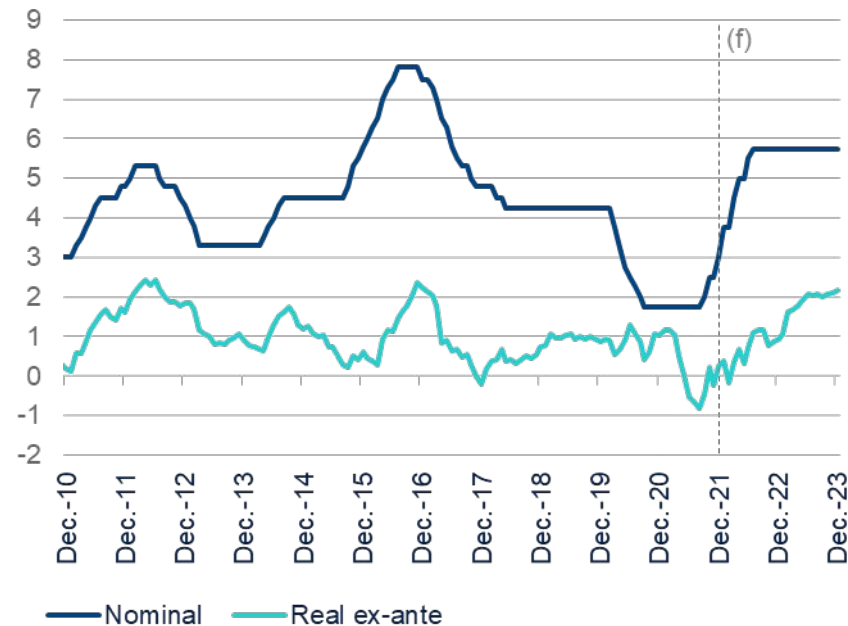
Source: BBVA Research with DANE data.

Inflationary pressures will be concentrated in the first part of the year. Thereafter, they will ease through food prices, which will remain high, and due to more modest growth in the high costs of raw materials and global inputs.

In 2022, monetary policy will become more contractionary

REAL AND NOMINAL MONETARY KEY INTEREST RATE

(%, REAL:WITH BASIC 12-MONTH FORWARD-LOOKING INFLATION)



- The acceleration of inflation and the good economic situation, especially in private household consumption, lead us to expect a faster increase in the key interest rate than originally assumed.
- The first months of 2022 will be crucial to anchor inflation expectations, especially given the strong inflation indexation and the one-off adjustment of the minimum wage.
- We therefore expect the policy rate to rise to 5.75% in 2022 and remain at this level through 2023. Most of the adjustment will be observed in the first half of 2022.

(f): BBVA Research forecast.

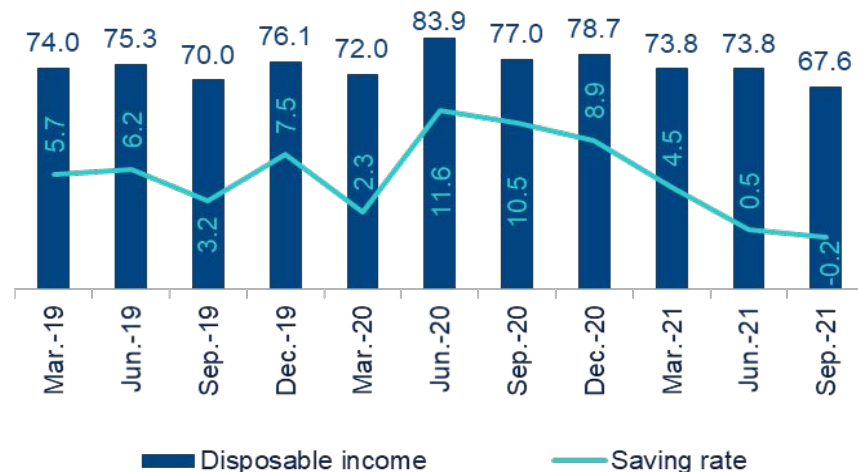
Source: BBVA Research based on data from DANE and Banco de la República.

06

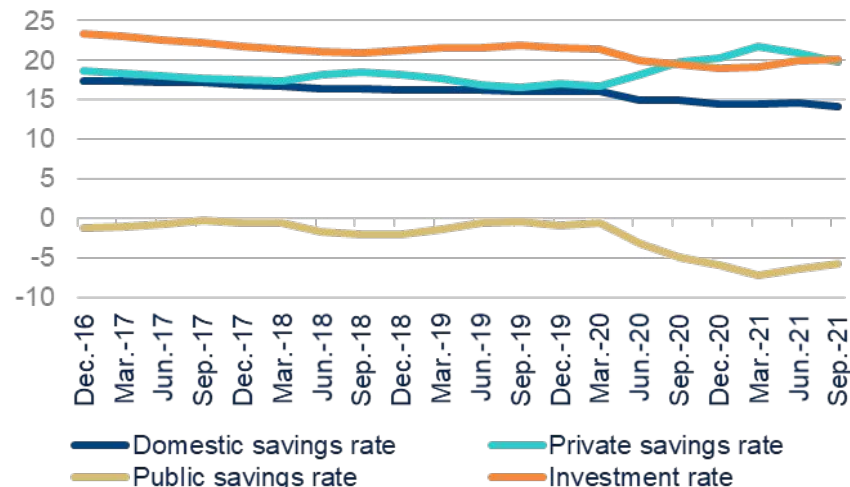
Structural challenges for sustainable growth in the medium and long term

Increased savings are needed to finance future investment

DISPOSABLE INCOME AND HOUSEHOLD SAVINGS (% OF GDP)



GROSS NATIONAL SAVINGS AND INVESTMENT RATE (% OF GDP)



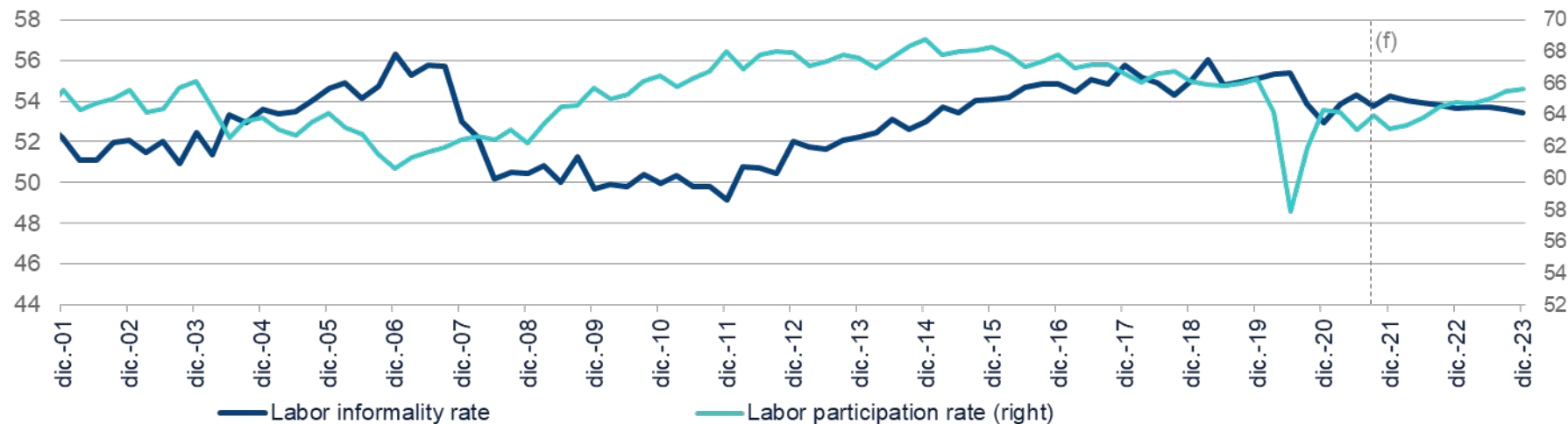
Source: BBVA Research with DANE data.

Increasing savings requires at least two elements: increasing household disposable income and reducing marginal propensity to consume. The latter depends more on household preferences.

Higher household income requires more formal employment and thus higher labour productivity to drive up wages

FORMALITY RATE AND OVERALL PARTICIPATION RATE

(% OF EMPLOYMENT AND EAP)



(f): BBVA Research projection

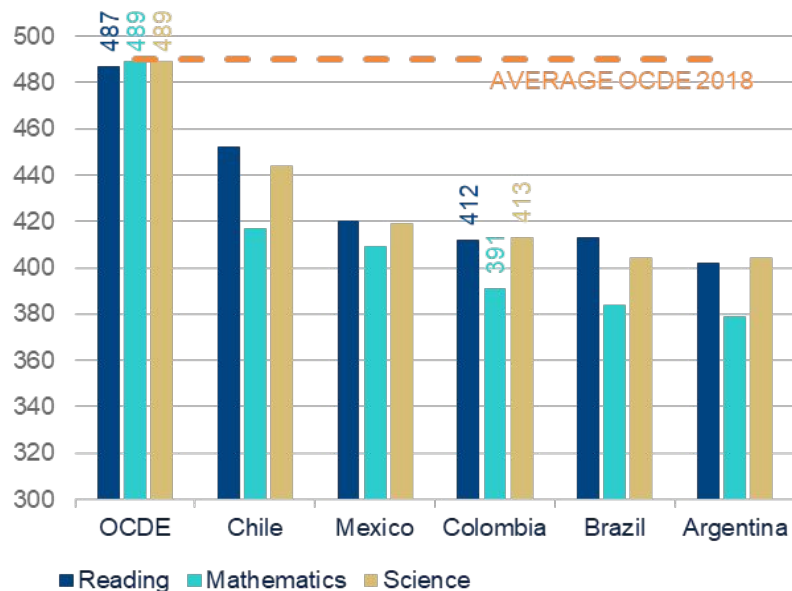
Source: BBVA Research with DANE data.

The country's labor force is still below pre-pandemic levels, especially due to the lower participation of women. On the other hand, education boosts formality.

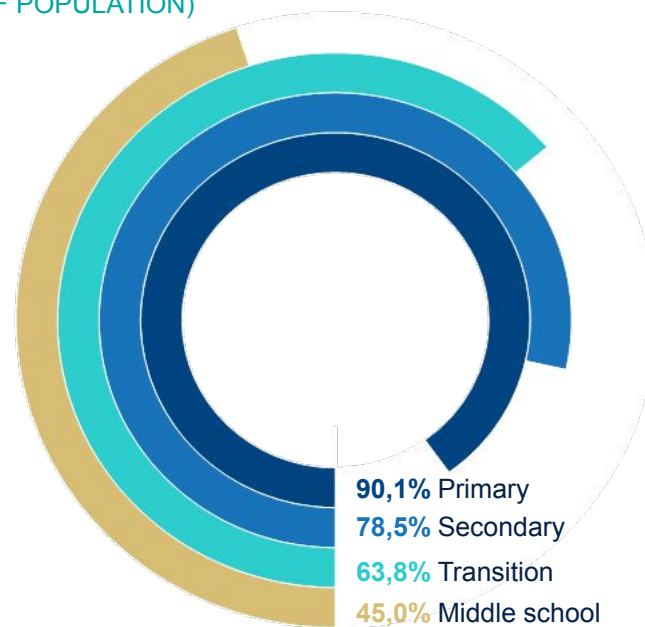
It is also necessary to improve the level of education and reduce the educational gaps caused by the pandemic (I)

HISTORICAL DEBT

PISA 2018 TEST RESULTS



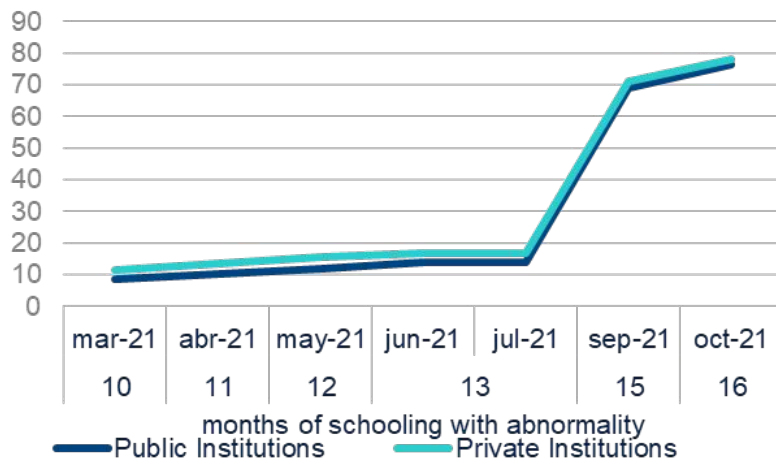
PERCENTAGE OF EDUCATIONAL COVERAGE (% OF POPULATION)



It is also necessary to improve the level of education and reduce the educational gaps caused by the pandemic (II)

IMPACTS DURING THE PANDEMIC

RETURN TO FULL OR PARTIAL FACE-TO-FACE ATTENDANCE (%)

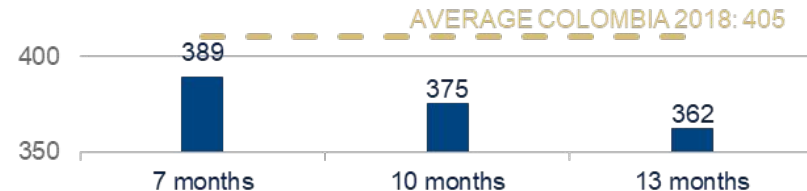


EFFECTS OF CLOSURES ON THE PANDEMIC

LOSS OF LEARNING ADJUSTED YEARS OF SCHOOLING, ACCORDING TO VIRTUAL ATTENDANCE



POTENTIAL IMPACTS ON PISA TEST RESULTS (SCORE)



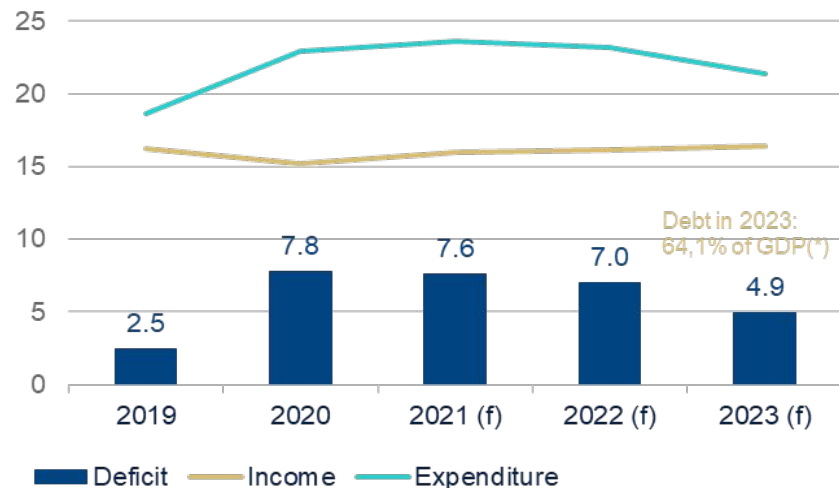
Source: BBVA Research with "Observatorio ExE a la Gestión Educativa" and World Bank data.

The World Bank estimates an 18-year setback in terms of years of schooling. It means an impact on income, exclusion and equity, especially for the most marginalized and vulnerable groups of the population.

Domestic savings are undermined by a large public deficit. Pandemic spending was necessary, but the size of the state must be agreed

PUBLIC SPENDING, REVENUE AND DEFICITS

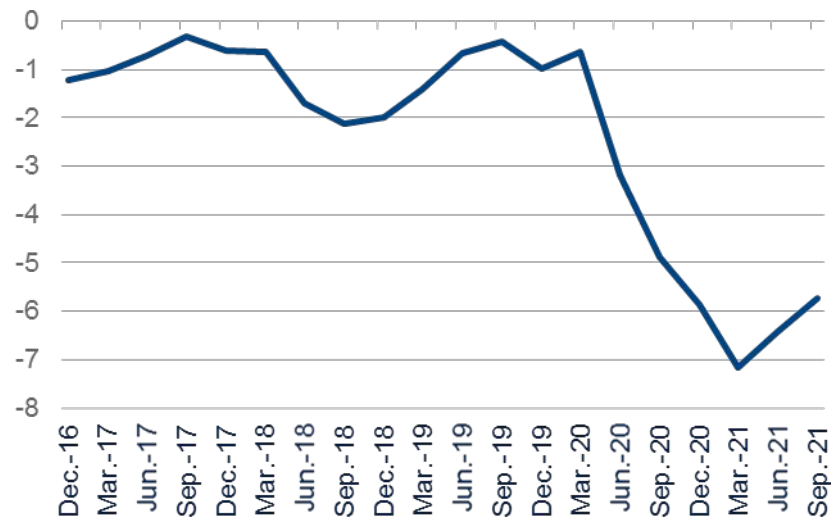
(% OF GDP)



(f): BBVA Research projection. (*): Gross public debt estimated by BBVA Research.
Source: BBVA Research based on data from the Ministry of Finance.

PUBLIC SECTOR SAVINGS

(% OF GDP)

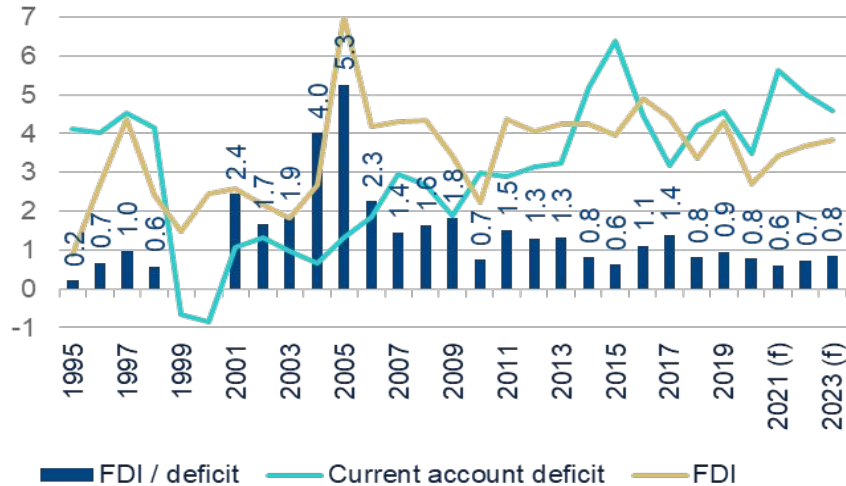


The size of the state we wish to have must be agreed upon in light of efficiency considerations and the country's social demands.

Increasing domestic savings will at the same time reduce the external deficit and reduce dependence on the vagaries of international markets

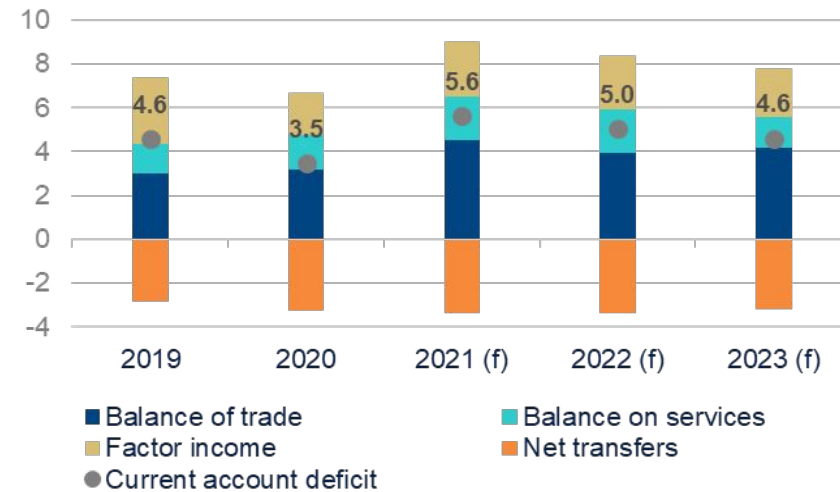
CURRENT ACCOUNT AND FDI

(% OF GDP)



COMPONENTS OF THE CURRENT ACCOUNT DEFICIT

(% OF GDP)



(f): BBVA Research projection.

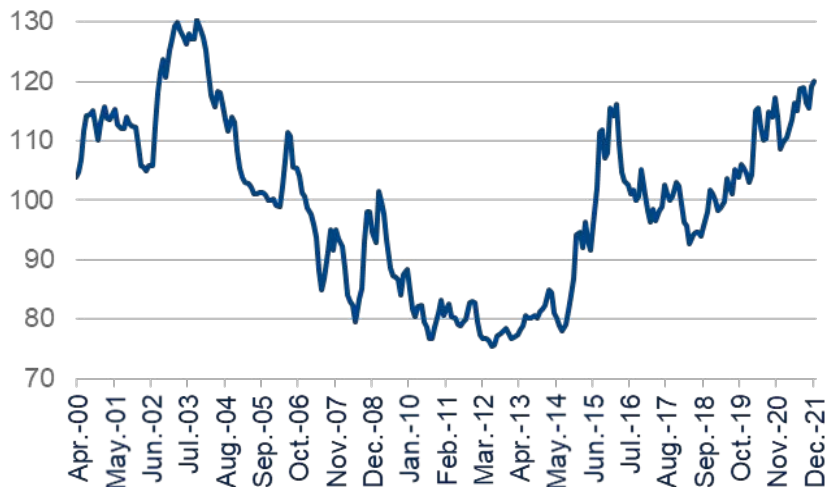
Source: BBVA Research with Banco de la República data.

Moreover, the balance of payments deficit is financed less by foreign direct investment and more by external borrowing (public and private).

The external environment also requires a stronger momentum in exports, which could better exploit the real exchange-rate devaluation

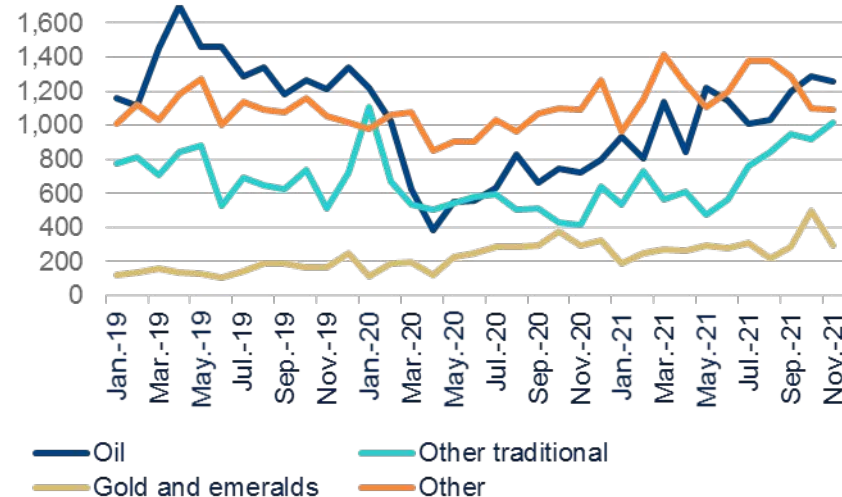
REAL EXCHANGE RATE

(INDEX, JAN.-19 = 100)



EXPORTS BY TYPE

(MILLIONS OF DOLLARS)

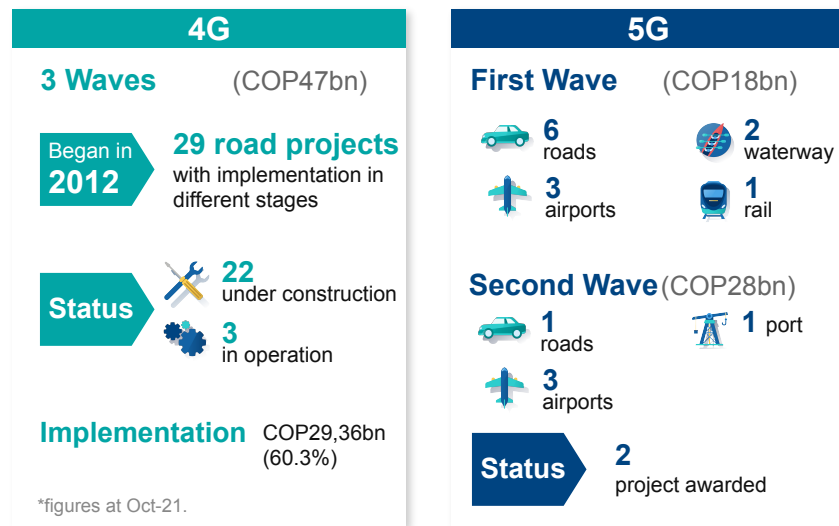


Source: BBVA Research with Banco de la República and DANE data.

In 2021, oil accounted for 33% of exports. Other traditional products (coffee, coal and nickel) accounted for another 22%. Gold and emeralds accounted for 9% of exports. And the rest accounted for only 37% of the total.

External competitiveness also requires further progress in infrastructure: increasing the capacity to generate new large-scale projects

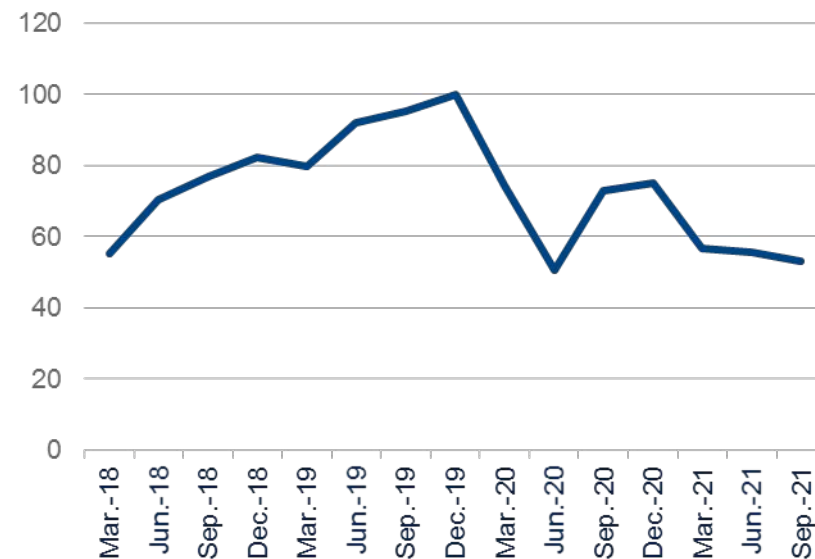
COMPARISON BETWEEN 4G AND 5G



Source: BBVA Research with DANE data.

REAL INDEX OF CIVIL WORKS: ROADS

(INDEX, DEC 19 = 100)



In addition, the implementation capacity of regional and local governments needs to be improved. The pandemic has resulted in reduced capacity to manage urban and departmental projects.

Therefore, the new government and its development plan must address the country's structural challenges, not just short-term needs



Data-driven decisions

Government proposals should not contradict the evidence.



The size of the state must have efficiency and social considerations

Not everything a state wants/can do, it does well.



A plan that promotes private initiative and formal employment

The countries that have grown the most have a large, solid and formal business base.



Education must be essential

The pandemic has deepened the fissures that already existed. Education is the most important driving force for social advancement.



Infrastructure has not gone out of fashion: competitiveness and productivity

Not only for transport, but also for the further development of agriculture and technology.



The short term matters, but it should not be at centre of the government plan

Poverty must be tackled with long-term policies.

Thank you

Macroeconomic forecast

	2017	2018	2019	2020	2021 (p)	2022 (p)	2023 (p)
GDP (% y/y)	1.4	2.6	3.3	-6.8	10.0	4.0	2.8
Private consumption (% y/y)	2.1	3.2	3.9	-5.6	13.8	3.5	3.2
Public consumption (% y/y)	3.6	7.4	5.3	3.7	11.4	3.6	2.8
Fixed investment (% y/y)	1.9	1.0	3.1	-20.6	10.2	6.2	4.5
Inflation (% y/y. eop)	4.1	3.2	3.8	1.6	5.6	4.8	3.6
Inflation (% y/y. avg)	4.3	3.2	3.5	2.5	3.5	6.0	3.7
Exchange rate (eop)	2,991.4	3,212.5	3,277.0	3,468.5	3,967.8	3,850.0	3,850.0
Devaluation (%. eop)	-0.6	7.4	2.0	5.8	14.4	-3.0	0.0
Exchange rate (avg)	2,951.3	2,956.4	3,272.6	3,693.3	3,744.3	3,934.6	3,842.1
Devaluation (%. eop)	-3.4	0.2	10.7	12.9	1.4	5.1	-2.4
Interest policy rate (%. eop)	4.75	4.25	4.25	1.75	3.00	5.75	5.75
Fixed Term Deposit rate (%. eop)	-3.3	-3.9	-4.6	-3.6	-5.0	-4.5	-3.9
Current Account (% GDP)	9.8	10.7	10.5	15.6	12.7	12.7	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)	BanRep 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	1.0	1.5	3,617	1.75
Q2 21	17.6	3.6	3,693	1.75
Q3 21	13.2	4.5	3,820	2.00
Q4 21	9.1	5.6	3,968	3.00
Q1 22	4.8	6.9	4,030	4.50
Q2 22	7.8	6.2	4,000	5.50
Q3 22	2.7	5.5	3,840	5.75
Q4 22	1.2	4.8	3,850	5.75
Q1 23	2.2	3.7	3,805	5.75
Q2 23	2.5	3.5	3,850	5.75
Q3 23	2.9	3.6	3,860	5.75
Q4 23	3.5	3.6	3,850	5.75

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

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Colombia Economic outlook

1Q22

Bogotá, January 2022