Colombia's economic growth

Economic growth showed outstanding dynamics at year-end 2021

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In 2021, private consumption led growth dynamics

In 2021, GDP grew 10.6% YoY, above BBVA Research's expectations (10.0%) and driven by final consumption. With respect to 2019, GDP grew by 2.8%. Private consumption grew by 14.6% and public consumption by 12.1%. Fixed investment, although it expanded above GDP, still failed to recover its pre-pandemic levels. By sector, while entertainment and arts, manufactruring, retail and wholesale trade, transportation, hotels and restaurants and information and communications had the strongest dynamics, mining and, especially, construction remained the lagging activities. Moving forward, although 2022 started with higher growth dynamics than expected by BBVA Research, again driven by consumer spending, we maintain our full-year GDP change forecast at 4.0% (January 2022 forecast presented here). This is because the higher inflation and interest rates that are materializing could determine a lower-than-expected growth dynamic in the second half of the year, offsetting the better start of the year.

- In 2021, economic growth stood at 10.6% (BBVA Research expected 10.0%), not only due to a good dynamic at the end of the year, but also due to some upward corrections in the two previous quarters -explained by better investment in buildings and final consumption- and the reduction of growth in 2020, the latter determining a less demanding statistical base for the 2021 measurement.
- In the fourth quarter, the economy grew 10.8% when compared to the same period a year ago (BBVA Research: 9.1%e). In addition, the expansion compared to the third quarter of 2021 was 4.3% quarter-on-quarter (BBVA Research: 2.7%e), reflecting outstanding dynamics of the economy at the close of the previous year.
- Throughout 2021, private consumption was the main factor behind the economic recovery. Households increased their spending by 14.6% YoY, in real terms, and stood at 113% of the pre-covid level. This higher spending was mainly explained by: the higher income generated by the recovery of employment during 2021, the savings generated in 2020 and spent in 2021, the lower savings generated in 2021 and the progressive acceleration of consumer credit.
- During the past year, households decided to allocate a greater proportion of their income for consumption, drastically reducing the portion that was dedicated to savings, which could be close to zero for the year as a whole. The latter, although it helped the economy to recover, does not seem to be sustainable over time, nor is it healthy to guarantee a better performance of fixed investment in the future nor for the progressive closing of the external deficit.
- In the fourth quarter of 2021, fixed investment still failed to return to pre-pandemic levels as, although it grew well in 2021, at 11.2% YoY, it stood at 88% of the level it had in the fourth quarter of 2019. On the contrary, exports showed a significant rebound and, at year-end, managed to slightly surpass their pre-covid level.

- Healthcare spending was very strong. In the full year 2021, the human health sector grew 17.5%, with an expansion of 25.5% of health care providers.
- Through the monthly series of the economic activity indicator, it can be seen that the dynamics at the end of the year was negative for agriculture, especially for lower coffee production, and with no growth for the financial sector. On the contrary, the retail and wholesale trade, transportation, hotels and restaurants, government, education and health, and manufacturing continued to show positive double-digit variations and more than compensated the sectors with lower growth. In total, the economic activity index for the month of December alone grew 11.8% year-over-year and stood at 107% of its pre-pandemic level (with February 2020 as the baseline).
- For 2022 we expect GDP growth of 4.0%. We believe final consumption to decelerate, both in its private component (households) and as explained by government spending. On the contrary, investment in construction, especially civil works, and exports will continue to accelerate in response to the improved execution of municipal and regional public works, in the first case, and due to the continued good global growth, in the second case. In addition, the recovery shown by the labor market, together with the lower growth of household consumption and government spending, will help to improve the economy's total savings level.
- There are two biases in this forecast that seem, for now, to offset each other. On the one hand, the start of the year was better than expected, especially in private consumption. This slowed in February, according to our Big Data Consumption Tracker, but to levels that are still elevated. On the other hand, inflation and interest rates are materializing at higher levels than previously expected and will possibly imply lower growth dynamics in the second half of the year, compared to our expectations.
- Finally, in this release of official figures for GDP, growth for 2019 and 2020 was revised downwards. In 2019, due to a sharp reduction in investment, growth went from 3.3% to 3.2%. In 2020, it was reduced from -6.8% to -7.0% due to worse results in final consumption and exports, when measured by expenditure, and manufacturing when measured by production.

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