

Colombia's economic growth

Strong dynamics of Colombia's economic activity at the beginning of 2022

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Domestic demand led economic performance

During the first quarter of 2022, the economy grew 8.5% YoY, above our initial expectation (6% y/y) and more in line with recent estimates (according to our BBVA Research GDP Tracker real-time indicator). On a quarter-on-quarter - QoQ - basis, the economy grew 1.0%, showing a slowdown compared to the close of 2021, when it grew 2.5% QoQ. Domestic demand grew, once again, above GDP. This has been the case since the fourth quarter of 2020, while reflecting a high increase in imports. Household consumption is the most dynamic component, driven by solid results in spending on durable and semi-durable goods and the strong dynamism of the services sector. Investment also performed well, driven by increased purchases of machinery and progress in intellectual property. Exports, although lower than in Q4 2021, were for the second consecutive period above those prevailing in Q4 2019.

At BBVA Research we expect the economy to slow down progressively from the second half of this year, especially in household consumption. The latter will be beneficial for better savings rates and healthy financial leverage levels for households. On the contrary, exports are expected to continue to perform well thanks to the exchange rate devaluation, commodity prices and good growth in most trading partners. All in all, GDP growth is estimated at 4.5% in 2022, albeit with an upward bias due to better first quarter results.

- The dynamics of the beginning of the year 2022 were outstanding, even above the initial reports that had been given, as the monthly activity figures for January and February were revised upwards.
- Household consumption continued to make the largest contribution to GDP, growing above GDP and increasing its share of aggregate demand. It grew by 12.2% YoY and by 2.3% QoQ. Its share in GDP increased from 73% in March 2021 to 76% in March 2022. The recovery of the labor market explains part of this behavior, but this performance still suggests that household savings remain low and that the increase in the consumer credit portfolio continues to be relevant in explaining these figures.
- Investment grew above GDP and helped the investment rate to continue its recovery process. In March 2022, the investment rate stood at 19.7% of GDP, up from 18.1% in the 2021 average, but still below pre-pandemic levels, when the investment rate stood at around 22%. Spending on machinery continues to lead this item and increased its share within total investment: from 36% in 2019 to 47% today (from 7.8% to 9.2% of GDP, over the same periods). This change in the composition of investment, which reflects a loss of participation of the construction sector in favor of the purchase of machinery, may determine an increase in manufacturing productivity and other sectors of the economy, but it also means that it is necessary to accelerate the execution of civil works of infrastructure from national, regional and local governments.
- Imports continue to gain relevance within GDP. While between 2005 and 2019 they meant, on average, 20% of GDP, in 2021 they were already 22.8% and in the first quarter of this year they reached 26.7% of GDP.

- By sector, commerce, industry and entertainment (specifically, online betting) showed high activity. Conversely, mining and construction are the sectors lagging the furthest behind pre-pandemic levels.
- By sector groups, secondary and tertiary activities led the behavior of the quarter's dynamics. On the contrary, the primary sector (agriculture and mining) remained stagnant, even below the levels of the first half of 2021, when it had had a greater recovery that was interrupted by the logistical problems of April and May last year.
- Within the primary sector, the biggest lag is in the mining sector, which remains 15% below pre-pandemic activity. The agricultural sector is also being held back by lower rice inventories, reduced coffee production and lower domestic demand for beef. The latter has been negatively impacted by higher selling prices. Among secondary activities, the construction sector remains with significant gaps with respect to the other sectors, which widened even further in March, compared to the first two months of 2022.
- For the full year 2022, we expect GDP growth of 4.5%, with an upward bias due to higher growth than expected at the beginning of the year. Of course, growth rates will be differential in the two halves of the year.
- In the first half of the year, growth will continue to accelerate, with high investment and consumption decisions.
- In the second half of the year, household consumption will gradually slow down. Specifically, consumption should grow at lower rates in order to improve the level of savings being made by households and the government, to reduce pressures on price increases and to mitigate the risks of household leverage. In fact, Banco de la República's decisions go in this direction: to give the right signals to make long-term growth more sustainable, with healthier financial balances for economic agents and to prevent inflationary pressures from being maintained over time.
- On the other hand, exports will continue with an outstanding performance, while it is expected that investment in civil works will continue to gradually accelerate as national, local and regional governments accelerate the execution of their infrastructure investment plans.
- Finally, DANE slightly revised 2021 growth from 10.6% to 10.7%, thanks to a better balance of gross investment last year.

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