BBVA Research

Colombia Economic Outlook

3Q22

Creating Opportunities

BBVA Research

Contents

BBVA Research

01

Global economic deceleration in a high inflation context

Central banks accelerate the process of raising interest rates to reduce inflation

Main messages

Inflationary pressures

Inflation remains at unusually high levels. The pressures on prices have recently been reinforced by the impact of the war in Ukraine on commodity prices and the maintenance of supply bottlenecks, in a context of relative strength in demand (despite the recent slowdown). The risk of significant second-round effects and de-anchoring of expectations is moderate, given central bank reaction, but it is increasing.

Central bank reaction

Central banks have accelerated the process of raising interest rates. Their recent tone suggests that they will not hesitate to do what is necessary to control inflation in the medium and long term. The Fed will soon raise rates to restrictive levels, while in the Eurozone, in a context of less robust demand and risk of financial fragmentation, rates will converge to neutral rates.

Economic prospects

The global economy will slow down significantly, with negative growth for more than a quarter in the US and the Eurozone, that will contribute to slow down inflation, which, however, will remain well above central bank targets in the short term. In the Eurozone, GDP contractions are expected in the coming quarters, fundamentally due to the disruptions created by the war, including energy shortages. The sharp monetary tightening makes a (mild) recession in the US likely. The environment is very uncertain due to the co-occurrence of multiple shocks.

Risks

A more persistent inflation could trigger even more severe increases in interest rates, and thus a deeper and more widespread recession. Other risks are a financial fragmentation within the Eurozone, crises in the debt and emerging markets, the persistence of the pandemic (mainly in China), stagflation, social protests, etc.

In a complex and uncertain environment, central banks have been forced to accelerate rate hikes in order to tackle inflation

RECENT DEVELOPMENTS IN THE WORLD ECONOMY

COMMODITIES
Energy and food prices under heavy pressure due to war in Ukraine

SUPPLY DISRUPTIONS
Persistent bottlenecks due to war and covid mobility restrictions in China

DEMAND RESILIENCE
Robust employment and accumulated savings; weakness caused by covid in China

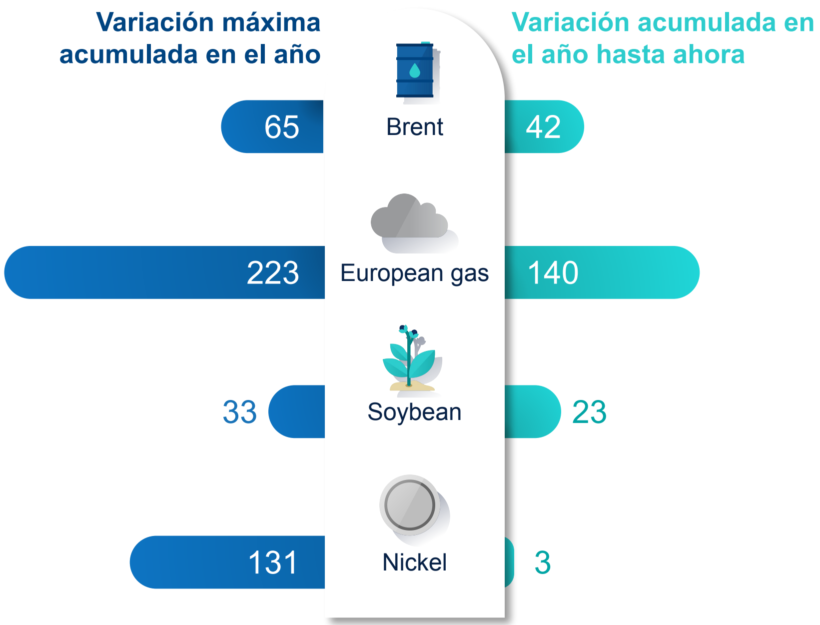
HIGH, PERSISTENT AND GENERALIZED INFLATION
Prices also pressured by incipient second-round effects and structural factors (such as de-globalization), with a risk of de-anchoring expectations.

MORE AGGRESSIVE CENTRAL BANKS AND FINANCIAL VOLATILITY
Stronger and earlier monetary tightening, particularly in the U.S., to reduce demand, which has kept financial volatility high.

Commodity prices have risen more than expected after the war, despite recent global slowdown concerns

COMMODITY PRICES

(ACCUMULATED PERCENTAGE VARIATION IN THE YEAR UP TO JULY 11, 2022)

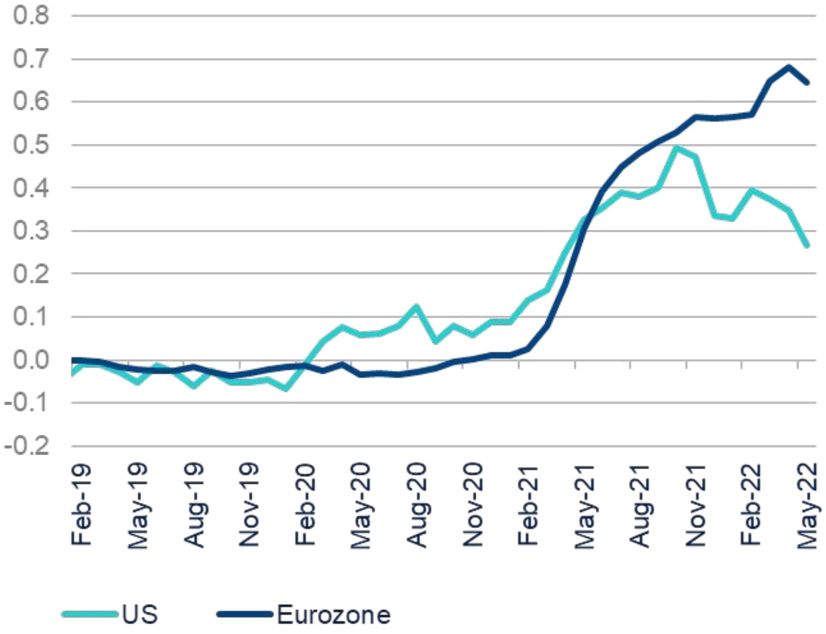


Source: BBVA Research based on data from Haver.

- War and sanctions have pressured commodity prices:
  - oil: affected by sanctions against Russia
  - gas: pressured by fears of supply restrictions b Russia
  - food: impacted by fertilizer prices and disruptions in Ukraine
  - metals: less direct exposure to the war, but pressured by energy transition
- The risk of a sharp global slowdown has recently triggered falls in commodity prices (but not in the gas price in Europe).

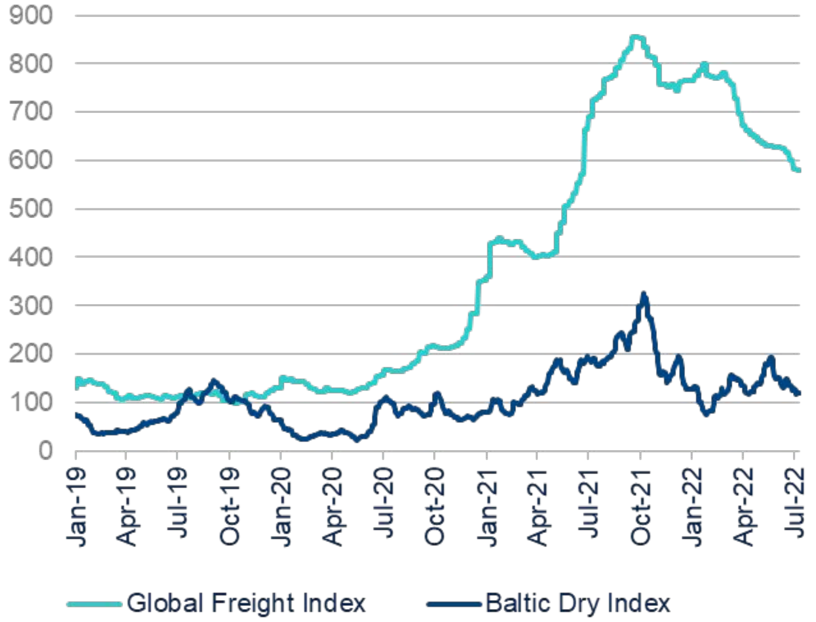
Bottlenecks remain at very high levels, but there are signs of improvement, mainly in the US

BBVA RESEARCH BOTTLENECK INDEX
(INDEX: AVERAGE SINCE 2003 = 0)



Source: BBVA Research.

CONTAINER FREIGHT RATES: GLOBAL AND BALTIC
(INDEX: 2012 = 100)

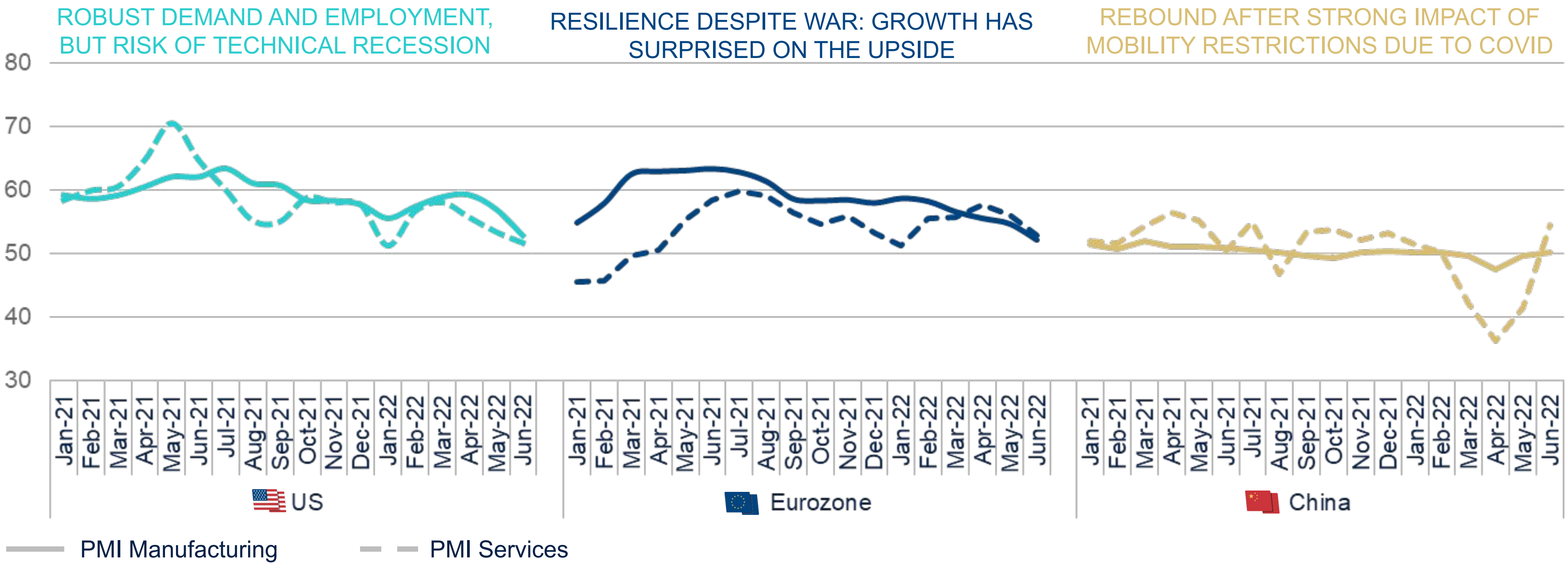


Source: BBVA Research based on data from Haver.

Growth is easing, but demand remains resilient given the high level of accumulated savings and the dynamism of both consumption and services

PMI INDICATORS

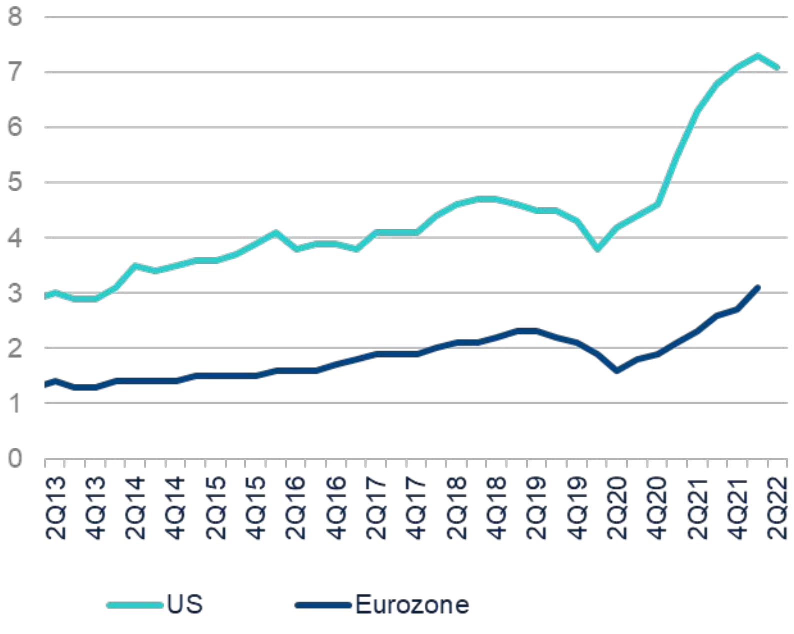
(MORE THAN 50: EXPANSION; LESS THAN 50: CONTRACTION)



Source: BBVA Research based on data from Haver.

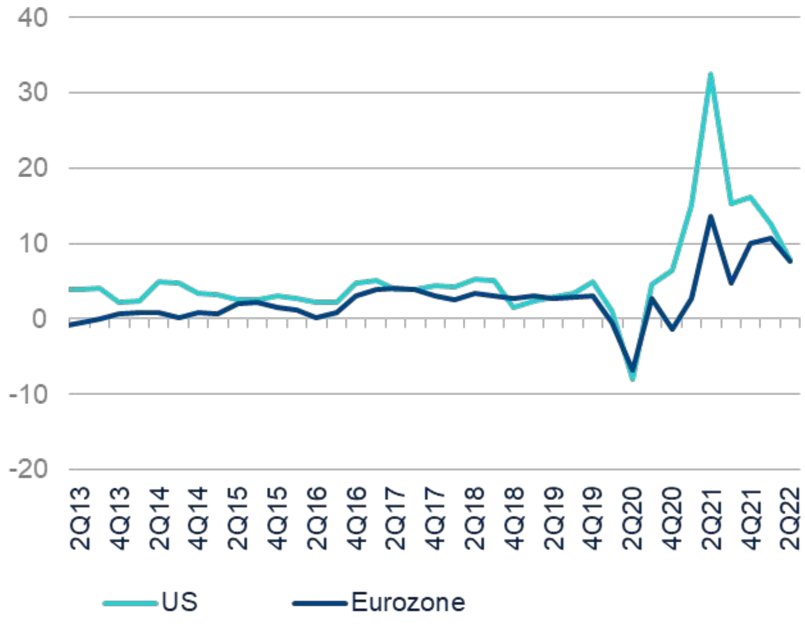
Dynamic labor markets support private consumption, but reinforce concerns about inflationary dynamics

LABOR MARKET: VACANCY RATE
(%, QUARTERLY AVERAGES)



* Vacancies as a proportion of the sum of total employment and the number of vacancies.
Source: BBVA Research based on data from Haver.

PRIVATE CONSUMPTION: RETAIL SALES
(% Y/Y, QUARTERLY AVERAGES)

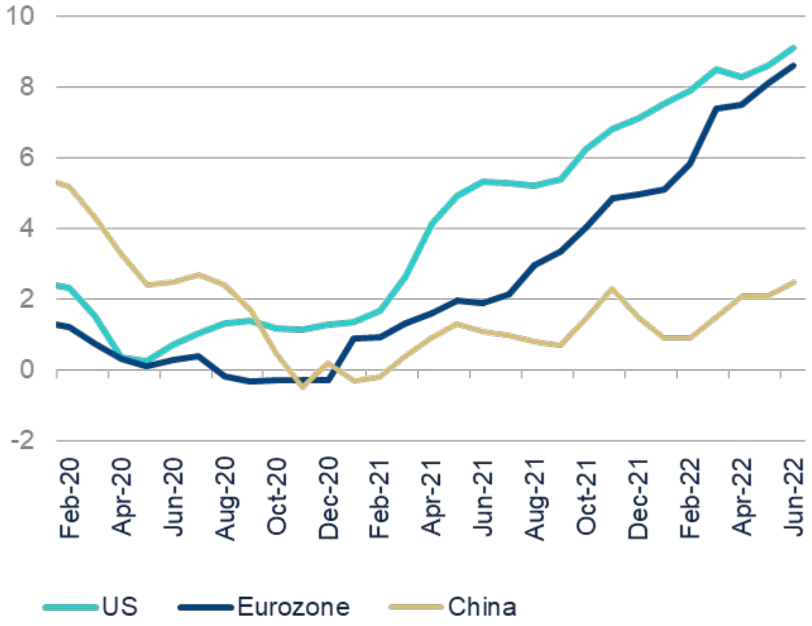


Source: BBVA Research based on data from Haver.

High, persistent and widespread inflationary pressures, largely due to supply-side and labor market-related factors

INFLATION: CPI

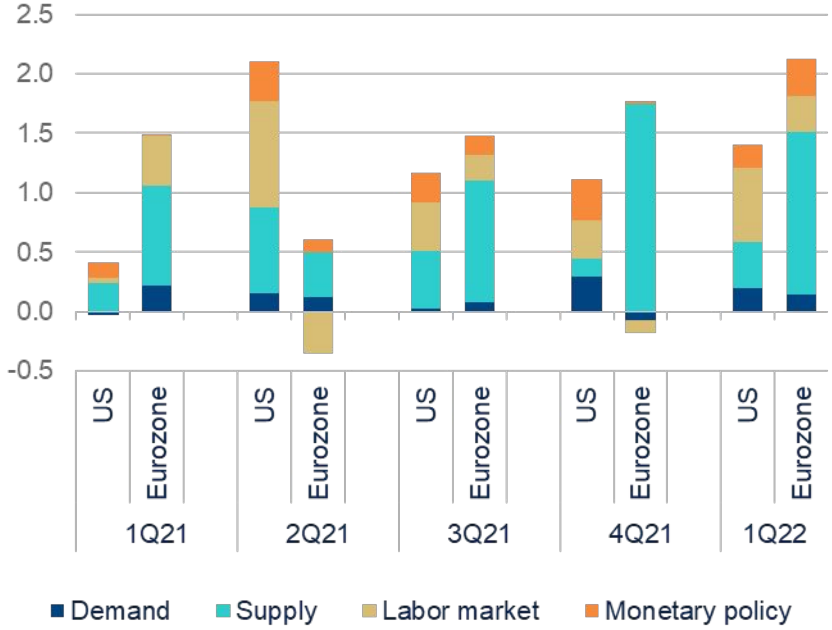
(Y/Y %)



Source: BBVA Research based on local statistics.

SHOCKS TO CORE INFLATION

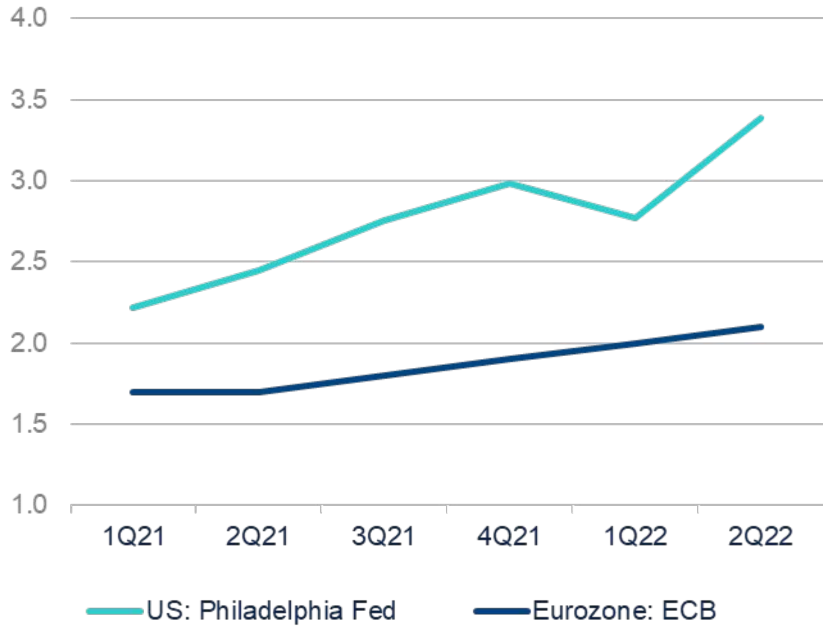
(PP)



Source: BBVA Research estimates using a SVAR model.

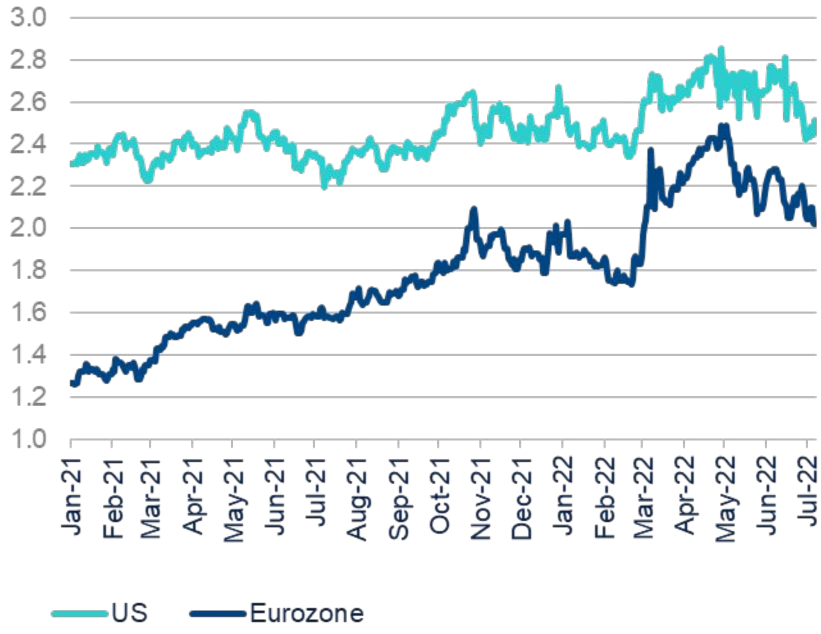
Inflation expectations have risen significantly

5-YEAR INFLATION EXPECTATIONS: ANALYSTS SURVEYS (%)



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

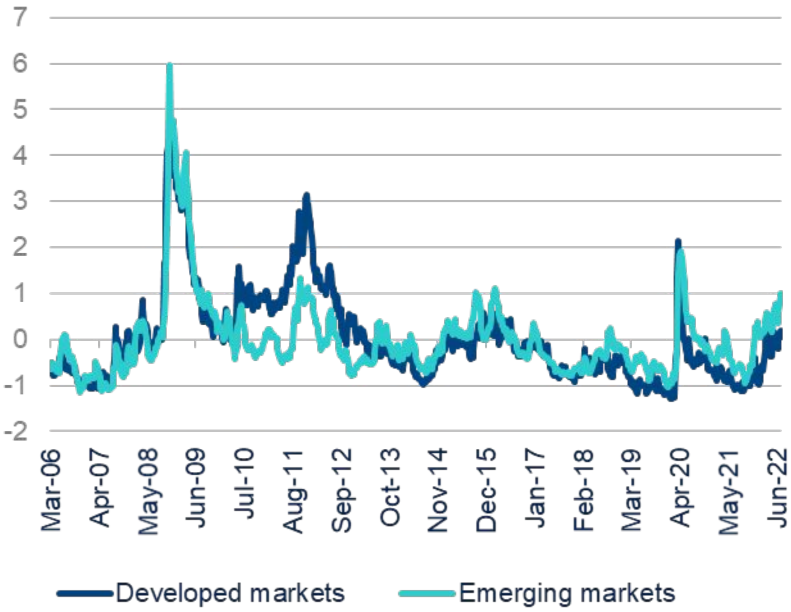
LONG-TERM INFLATION EXPECTATIONS: MARKETS* (%)



* Based on 5Y5Y forward swaps.
Source: BBVA Research based on Haver data.

Central banks hawkish tone in response to rising inflation, in a context of activity slowdown, has increased financial volatility

BBVA RESEARCH FINANCIALTENSIONS INDEX
(INDEX: AVERAGE SINCE 2005 = 0)



Source: BBVA Research.

- The Fed has raised rates to 1.75% (+150bp since March) and has indicated further significant adjustments in the coming months.
- The ECB has indicated that its rate hike cycle will begin this month and that it will address the risk of fragmentation with flexible PEPP reinvestment and a new instrument.
- Sovereign bond yields have risen sharply since March, although they have recently moderated due to cyclical risk.
- Stock markets have fallen, risk premia have moved higher and the dollar has appreciated.

The interest rate hikes needed to anchor inflation expectations will have a negative impact on activity and cause recessionary episodes

BBVA RESEARCH CENTRAL SCENARIO

MONETARY TIGHTENING
Impact through demand (consumption/investment), financial burdens/wealth, credit...

COMMODITIES
Price pressure will be compounded by gas shortages in the Eurozone (at least in the coming winter).

SUPPLY DISRUPTIONS
In the absence of new negative shocks, supply bottlenecks reduce gradually

GROWTH SLOWDOWN
Mild recessions in the Eurozone, due to gas shortages, and in the U.S., due to interest rate hikes

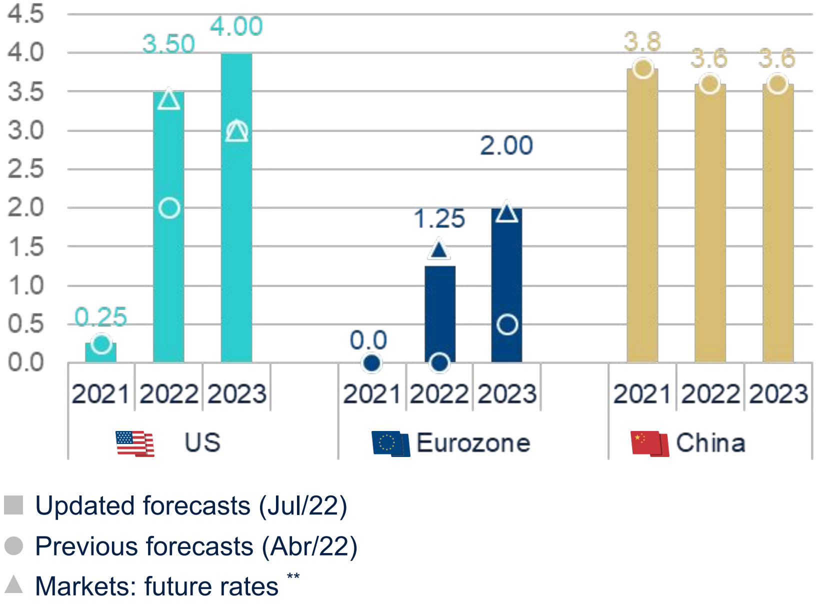
INFLATION MODERATES SLOWLY
It remains well above inflation target in 2022-23

FINANCIAL VOLATILITY
Stronger dollar, higher risk premia, capital outflows from EM

RISKS: BIAS TOWARDS LOWER GROWTH WITH THE POSSIBILITY OF A CRISIS
A more persistent inflation could trigger more negative macroeconomic scenarios

Interest rates will rise more and sooner than expected; they are expected to reach restrictive levels in the US and be close to neutral in the Eurozone

MONETARY POLICY INTEREST RATES*
(%, END OF PERIOD)



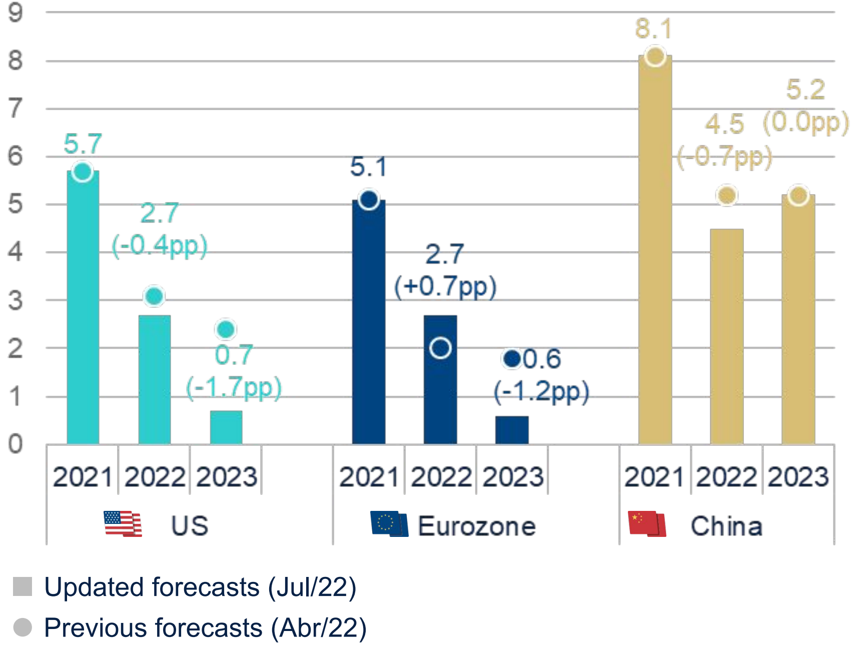
- The Fed is expected to raise rates to 4.0%, above equilibrium levels (between 2% and 3%), while continuing to sell assets to reduce its balance sheet.
- The ECB is already starting its rate hike cycle, which will be less aggressive than the Fed's due to lower demand pressures and the risk of financial fragmentation.
- Unlike the US, fiscal policy in the Eurozone will focus on growth, through NGEU funds and the suspension of fiscal rules until 2023.
- In China, policies will continue to exhibit a moderately expansionary tone.

* In the case of the Eurozone, interest rates on refinancing operations. 2022 and 2023 are BBVA projections
** Data as of July 11.
Source: BBVA Research based on Bloomberg data.

Global slowdown: after growing 6.2% in 2021, world GDP will grow 3.4% in 2022 and 2.5% in 2023 (respectively, 0.6pp and 1.1pp less than expected)

GDP: ANNUAL GROWTH IN REAL TERMS

(%)



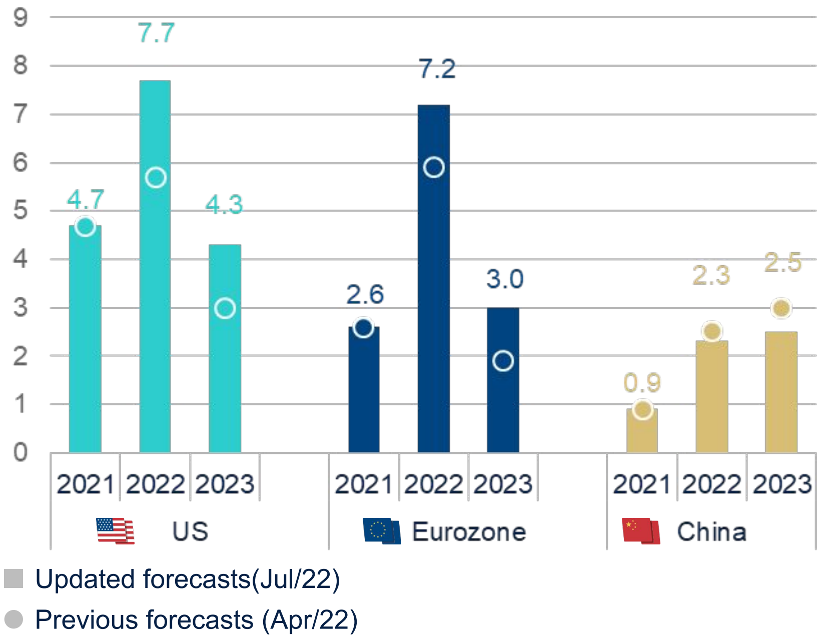
* Forecast change in parentheses. 2022 and 2023 are BBVA projections
Source: BBVA Research.

- Rising rates will likely lead the US into a recession in 2023, which is expected to be mild given robust employment and sound household and financial system balance sheets.
- In the Eurozone, the impact of the war will be stronger in the coming quarters due to the expected gas restrictions, pushing GDP growth to slightly negative rates.
- In China, growth will recover from the impact of recent lockdowns, but the "zero-covid" policy remains as a potential problem.

Inflation to remain well above central bank targets, mainly in the short term

INFLATION:CPI*

(Y/Y %, PERIOD AVERAGE)



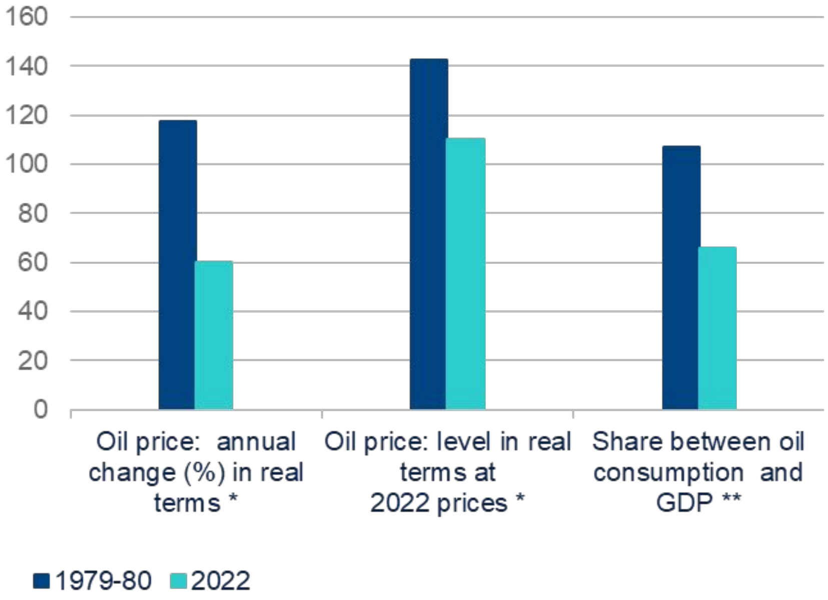
*2022 and 2023 are BBVA projections
Source: BBVA Research.

- Upward revision of inflation forecasts, mainly due to higher commodity prices.
- Inflation will eventually decline as current shocks lose strength and central banks continue to act
- Slowing demand will reduce the scope for significant wage increases, making a wage-price spiral unlikely.

The likelihood of a prolonged period of higher inflation has increased, but a return to the inflationary spiral of the 1970s remains far away

OIL: PRICE AND INTENSITY OF USE

(PRICE VARIATION AND INTENSITY: %; PRICE LEVEL: USD/BARREL)



* Maximum observed in each period.
** For the world economy.
Source: BBVA Research based on data from the Fed and Haver.

- A less vulnerable economic structure:
  - less oil-intensive production
  - more open economies and lower levels of unionization make a wage-price spiral less likely
- A more credible monetary policy:
  - independent
  - with explicit inflation targets
  - with exclusive prerogative to fight inflation
  - with effective action and monitoring tools

Risks: further inflationary persistence could trigger more aggressive interest rate hikes and a sharp macroeconomic deterioration

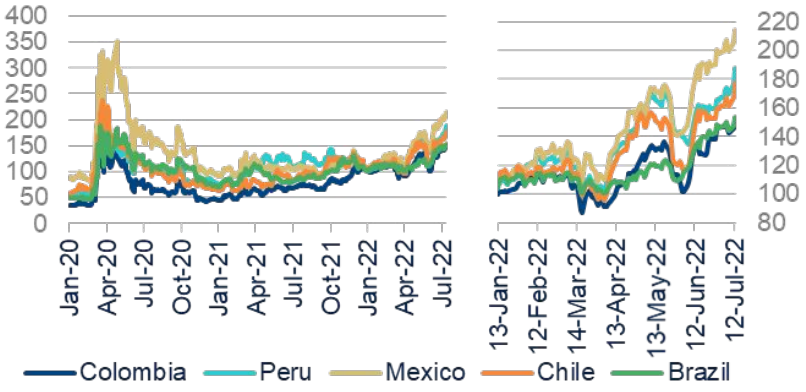
MAIN SHORT-TERM RISKS TO THE WORLD ECONOMY

- Persistent inflation
- More severe recession
- Financial fragmentation in the EZ
- Tension in debt and emerging markets
- Stagflation
- Deterioration of the war in Ukraine or other geopolitical conflicts
- Hard-landing in China
- Covid
- Social tensions and populism

The international context (monetary policy, inflation and growth concerns) has increased pressure on the region's premiums and currencies

5-YEAR CDS FOR COUNTRIES IN THE REGION

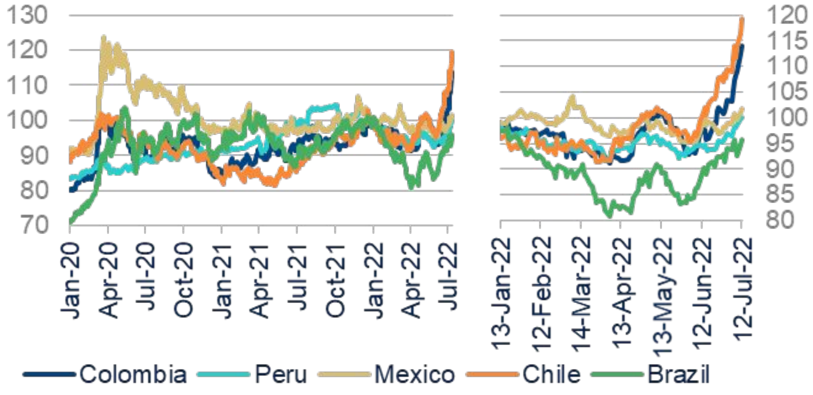
(INDEX: JAN 3 2022 = 100)



	Colombia	Peru	Mexico	Chile	Brazil
12-Jul-22	302	139	189	125	311
Average since 2020	160	84	121	74	209

EXCHANGE RATES FOR COUNTRIES IN THE REGION

(INDEX JAN 3 2022 = 100)



	Colombia	Peru	Mexico	Chile	Brazil
12-Jul-22	4,627	3.97	20.86	1016	5.44
Average since 2020	3,768	3.71	20.76	789	5.24

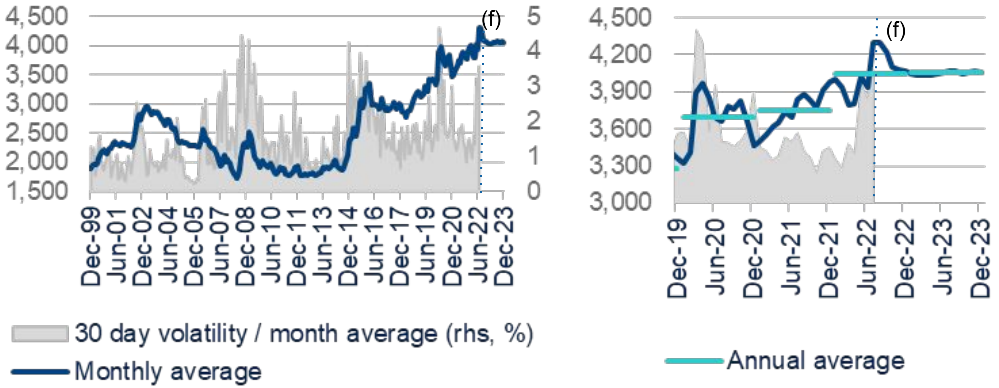
Source: BBVA Research based on Bloomberg data.

Although the downturn has been shared in the region, the effects in Chile and Colombia have been somewhat more marked in their currencies, especially due to idiosyncratic factors.

Amid a troubled global context and a challenging local situation, the peso reaches all-time highs with high volatility

EXCHANGE RATE

(MONTH AVERAGE, PESOS PER DOLLAR AND %)



	2020	2021	2022 curr. year	2022 (f)	2023 (f)
Average year	3,693	3,747	3,971	4,047	4,053
Average deviation	12.9	1.5	6.0	8.0	0.1
End of period	3,469	3,968	4,381	4,070	4,060

(*) The 30d volatility corresponds to the standard deviation of the daily closing price.
(f): Forecasts by BBVA Research. Source: BBVA Research based on Bloomberg data.

- More aggressive discourse from the Fed and other central banks
- Fear of slower growth and possible recession in the US
- Reduced liquidity, particularly for emerging economies
- High current account and fiscal deficits, with significant financing requirements
- Uncertainty on idiosyncratic issues

We expect the current pressure to moderate, at least partially, towards the last quarter of the year, when markets will discount the path of rate hikes by the FED, the activity scenario for 2023 and portfolio flows start to normalize. With this, the average exchange rate for this year and 2023 will stand around 4,050 pesos per dollar.

BBVA Research

02

Colombia shows great performance so far in 2022

Household consumption and investment in machinery and equipment grow faster than expected

Colombian economy: Key messages

International setting

Inflation remains at unusually high levels. Pressures have recently been reinforced by the impact of the Ukraine war on commodity prices and the continuation of bottlenecks, in an environment with a relatively resilient demand (despite the slowdown). **Global growth will slow significantly,**with negative growth in more than one quarter in the United States and Europe, which will contribute to the fall in inflation, although it will remain well above target in the short term. **Central banks accelerate the process of raising interest rates..** The Fed will soon raise rates to restrictive levels. **Volatility in financial variables and risk premiums in emerging countries will remain** in line with the pace of announcements or changes in growth prospects or interest rates.

Economic outlook

In 2022, activity continues to surprise on the upside due to the strong dynamism of private consumption and investment in machinery and equipment. We estimate that the economy will grow 6.8% annually this year. **In 2023, household consumption will gradually slow down** due to higher interest rates, base effects and lower employment growth. **Investment in machinery and equipment will moderate, while investment in construction will be buoyant. As a result, Colombia will grow by 2.0% in 2023.**

Inflation and monetary policy

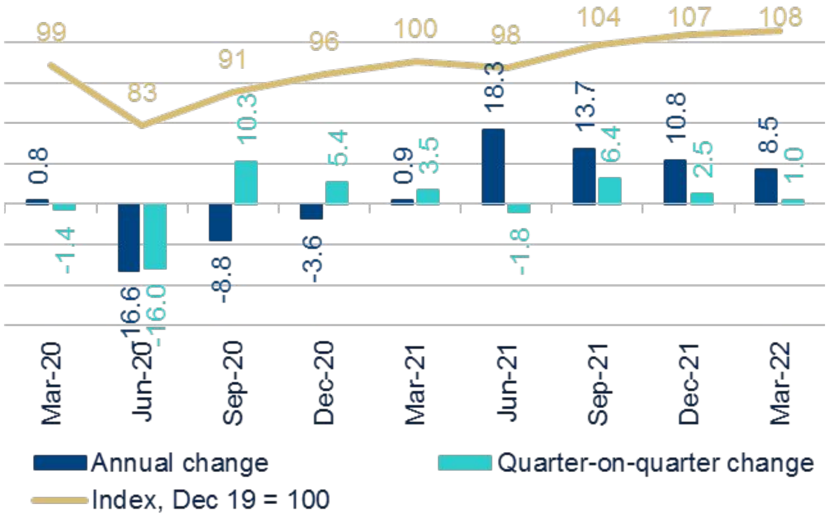
Inflationary shocks have proven to bestronger and more persistent. **Inflation remains high, closing 2022 at 9.2% and gradually moderating in 2023 to 5.0%, despite weak domestic demand.** Inflation has now spread from food to a broader base of goods. In this scenario, **the Central Bank has already raised rates to 7.5% and will continue its cycle, taking the interest rate to 9.0%.**

Macro balances

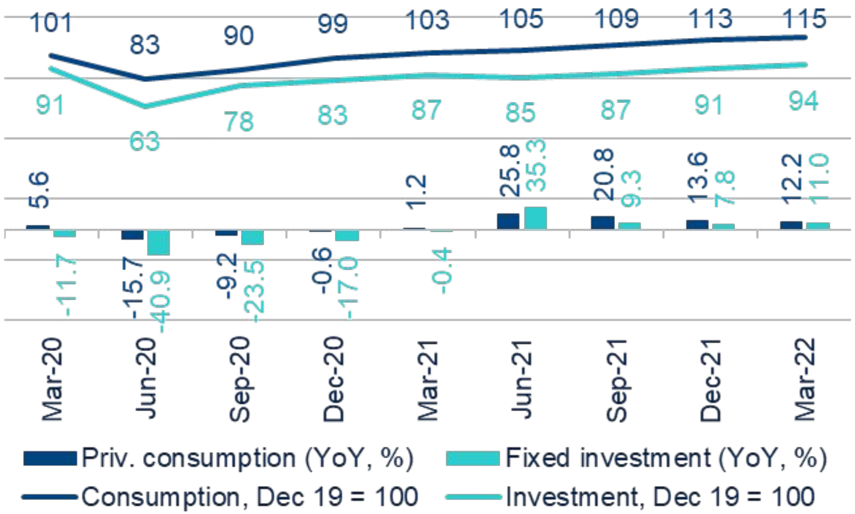
The dynamism of domestic demand continues to exert pressure on the external imbalance in 2022. The current account will close with a deficit of 5.2% of GDP. However, in 2023, the slowdown in domestic demand will favor a healthy adjustment of domestic demand to 4.3% of GDP. **The fiscal imbalance remains a challenge for the coming years** in spite of a recent improvement in both the balance sheet and debt as a percentage of GDP.

Activity continued to surprise on the upside due to the strong dynamism of household consumption and investment in machinery and equipment

GDP
(INDEX, DEC 19 = 100, PERCENTAGE CHANGES)



PRIVATE CONSUMPTION AND FIXED INVESTMENT
(INDEX, DEC 19 = 100, PERCENTAGE CHANGES)

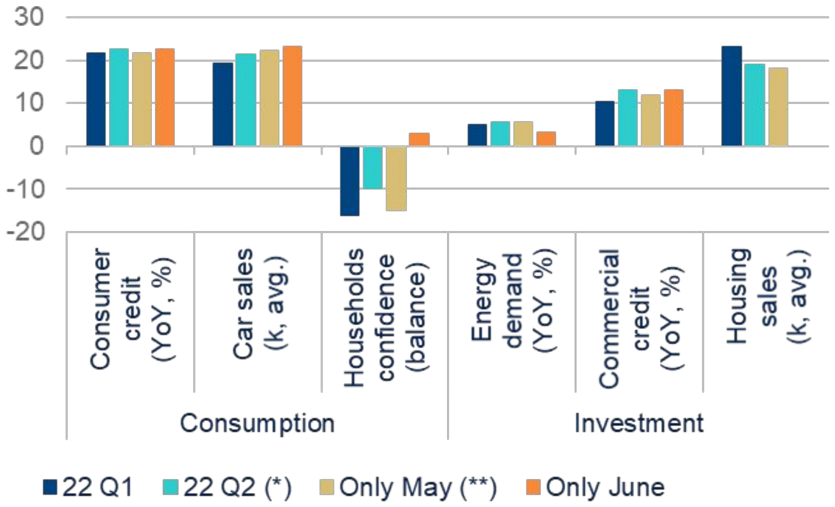


Source: BBVA Research based on DANE data.

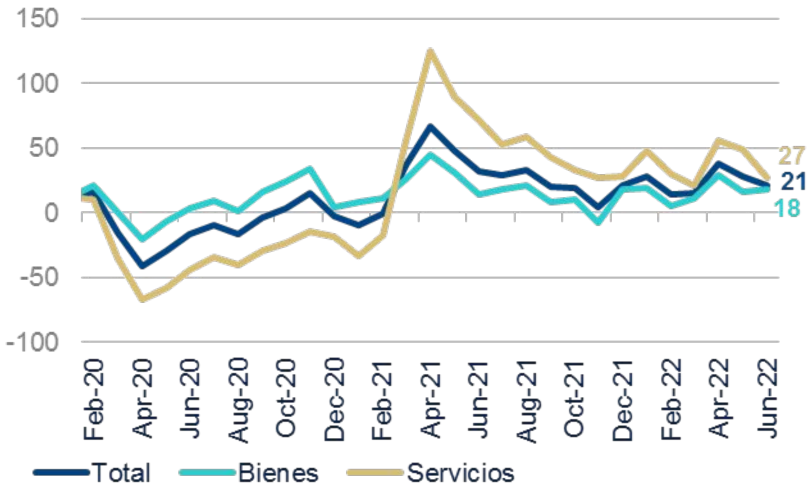
In the first quarter, GDP grew 8.5% annually and 1.0% quarter-on-quarter (at a level of 108 / Dec 19 = 100). Domestic demand supported growth: household consumption grew 12% annually (115) and investment 11% annually (94).

Leading indicators for the second quarter continue to show the strength of both household consumption and investment

RECENT CONSUMPTION AND INVESTMENT INDICATORS (ANNUAL CHANGES AND BALANCES, %)



BBVA BIG DATA CONSUMPTION INDICATOR*** (AVERAGE REAL ANNUAL CHANGE, MONTHLY, %)



(*): The data for automobile sales are as of May. (**): Annual changes with base effects.
Source: BBVA Research based on data from BanRep, Fenalco-Andemos, Fedesarrollo, XM, Camacol-Coordenada Urbana and BBVA transactional data.

Although there is some evidence of a slowdown in some indicators, the increases that continue to be shown are at high levels.

The current dynamics of household consumption are related to: improvements in formal employment, high inflow of remittances and increased credit

+9.4%
People paying pension contributions
March 2022
(annual change, %)

+12.9%
Value of pension contributions
March 2022
(annual change, %)

+$5bn.
In additional remittances for all 2022(f) vs. 2021
(billions of pesos)

+$3.3bn.
Of monthly increase in consumer credit this year vs. 1.7bn. each month in 2019
(billions of pesos)

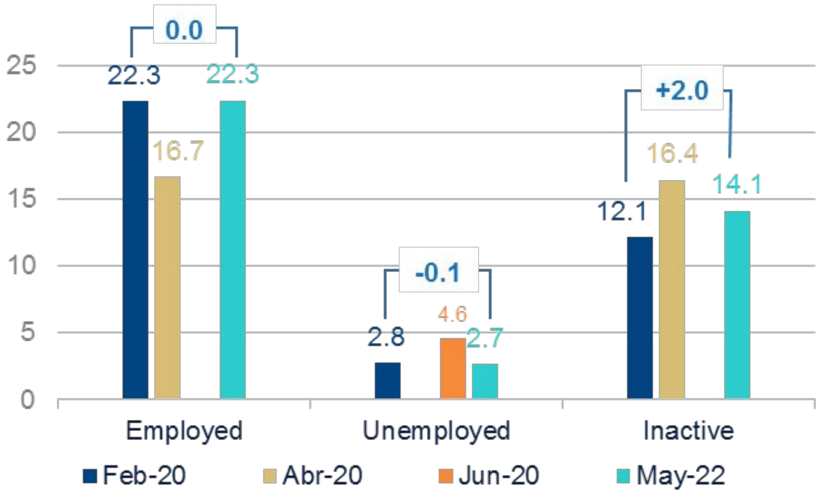
(f): Forecasts by BBVA Research.
Source: BBVA Research based on data from Superfinanciera and BanRep.

- The recovery in employment is strong from the end of 2021, even more so in formal employment. In 2023 it will slow down: with a lower global boost to exports and local production.
- Remittances increased due to both higher volume and devaluation. Lower global growth, especially in the United States, will curtail their growth in the coming year.
- Consumer credit has accelerated since 2021. Higher interest rates should slow down this behavior.

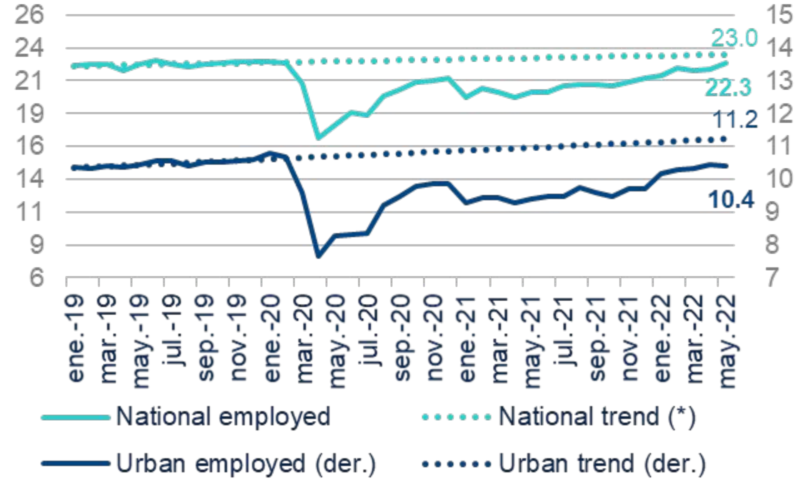
In conclusion, the factors behind consumption dynamics will tend to slow down and point to lower consumption growth, especially in 2023. This behavior is necessary to improve the balance sheets of households.

The labor market continues to recover. Employed persons have already reached pre-pandemic levels at national level.

BALANCE OF THE LABOR MARKET
(MILLIONS OF PEOPLE. SEASONALLY ADJUSTED SERIES)



NATIONAL AND URBAN EMPLOYED
(MILLIONS OF PEOPLE, SEASONALLY ADJUSTED)

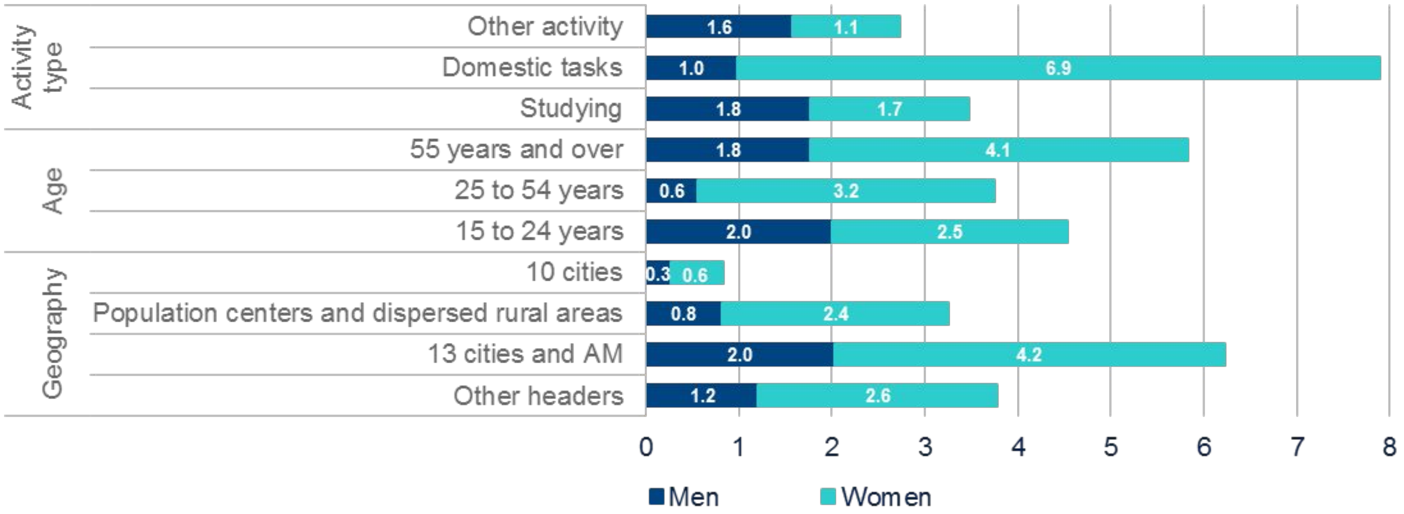


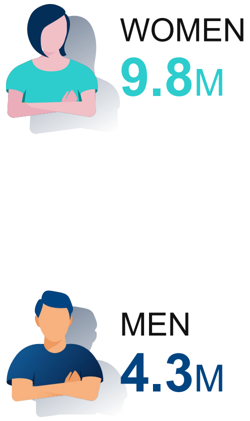
(*): Statistical estimate of the trend of employed persons according to the behavior of the labor market in the year prior to the pandemic (2019).
Source: BBVA Research based on DANE data.

However, two million people still remain inactive compared to February 2020 and there is a lag with respect to the trend at mostly urban level.

Of the 14.1 m. of inactive people (36.2% of the working age population), 70% are women, 56% do housework and 32% are young people under 25

INACTIVE NATIONAL POPULATION AS OF MAY 2022
(MILLIONS OF PEOPLE)



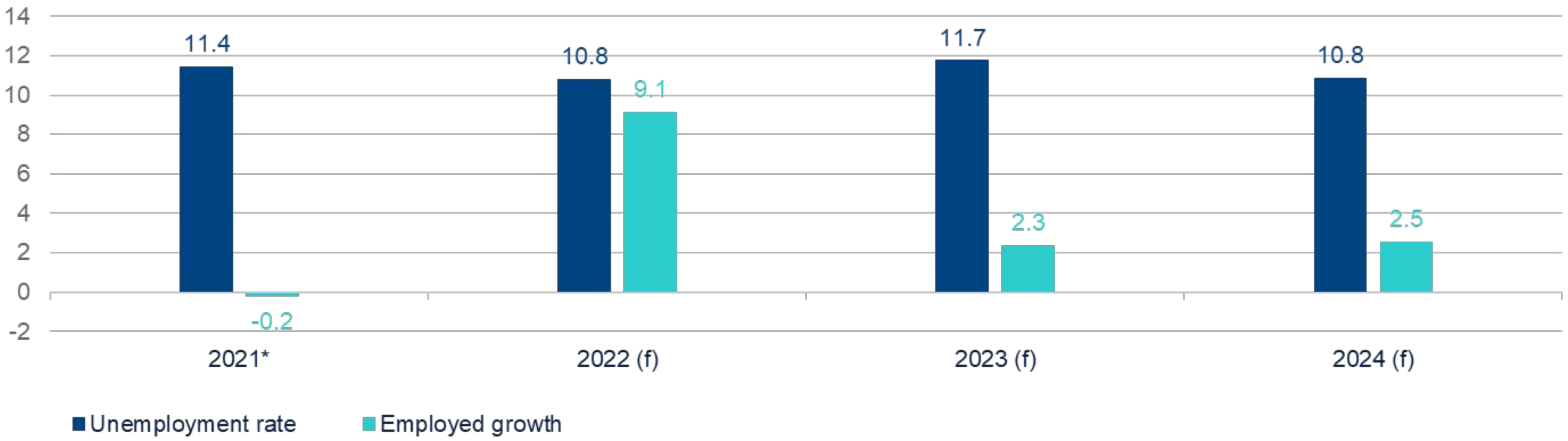


Source: BBVA Research based on data from DANE.

Going forward, the behavior of this population and their desire and/or ability to enter the labor supply will be key.

The employed will continue to grow in 2023, but at a slower rate. The labor force will start to grow at a faster pace

UNEMPLOYMENT RATE AND EMPLOYED AS OF DECEMBER
(% OF THE LABOR FORCE AND ANNUAL CHANGE)

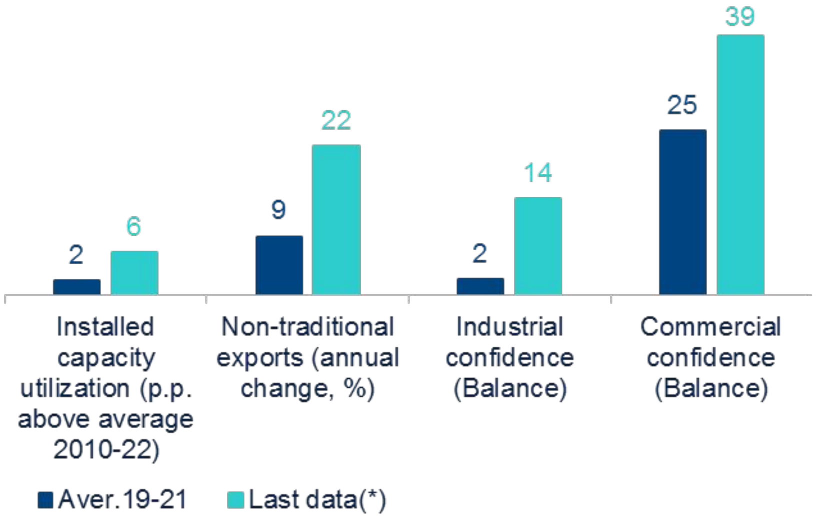


(f): Forecasts by BBVA Research.
(*): For 2021, it is the growth of the seasonally adjusted series of employed persons. The new methodology does not yet have spliced series without seasonal adjustment.
Source: BBVA Research based on DANE data.

Slower economic growth in 2023 and the progressive reactivation of the service sector will encourage greater labor participation of the currently inactive population, with an increase in the unemployment rate next year.

Investment explained by high installed capacity utilization, improved exports, strong confidence and increased construction

FACTORS DRIVING FIXED INVESTMENT
(UNITS ARE SPECIFIED IN THE GRAPH)



Source: BBVA Research based on data from Fedesarrollo, DANE y Camacol-Coordenada Urbana.

CONSTRUCTION SECTOR INDICATORS

HOME SALES

2019	**191 mil**
2020	**207 mil**
2021	**253 mil**
2022(*)	**257 mil**

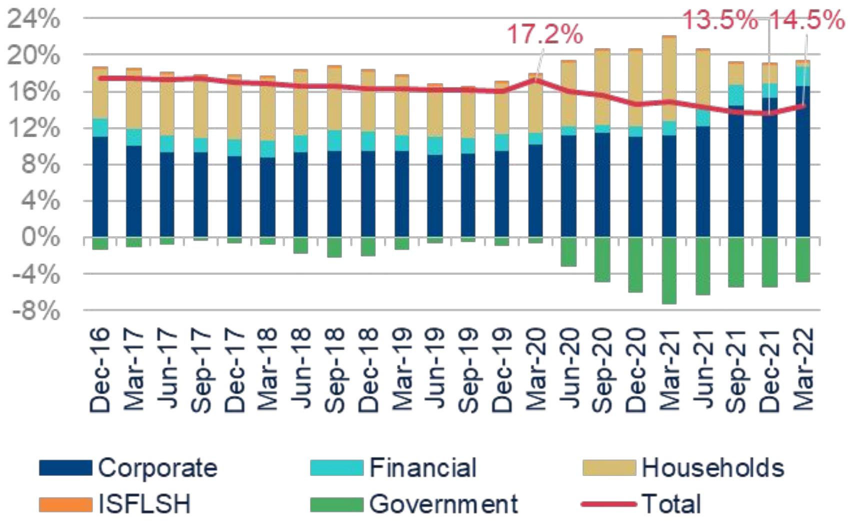
(*) Between June 2021 and May 2022.

2023 is the last year of local and regional governments: **it is related to a higher execution of civil works**

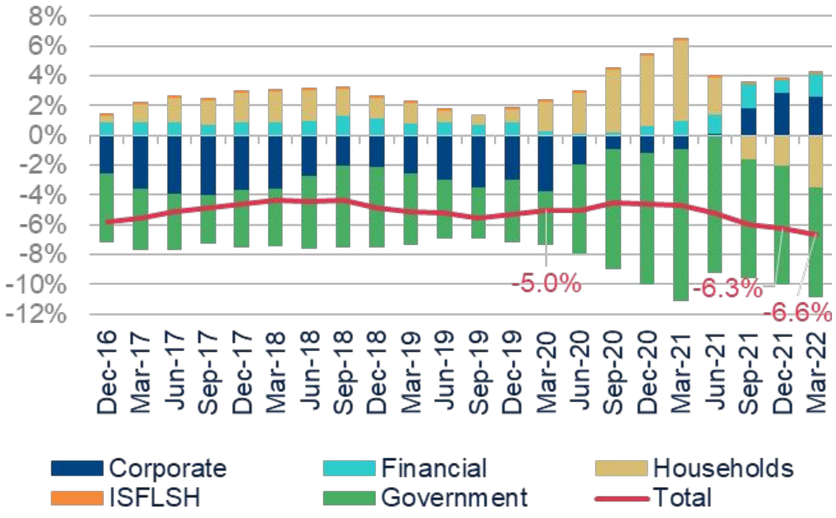
The factors that explain investment will gradually slow down: lower domestic demand requires less future investment and lower global growth will reduce exports, affecting confidence. Construction will remain strong.

The slowdown in final consumption (private and government) will play a key role in increasing the economy's level of savings...

SAVINGS RATIO
(4-QUARTER ACCUMULATED, % OF GDP)



NET LENDING (-) / BORROWING (+) WITH THE REST OF THE WORLD (4-QUARTER ACCUMULATED, % OF GDP)



Source: BBVA Research based on DANE data.

...and to reduce the net lending that the economy is demanding from the rest of the world.

BBVA Research

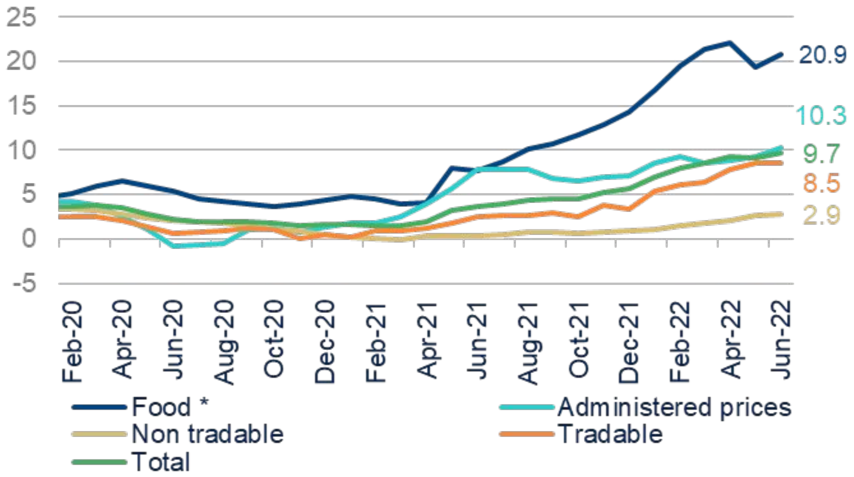
03

Inflation

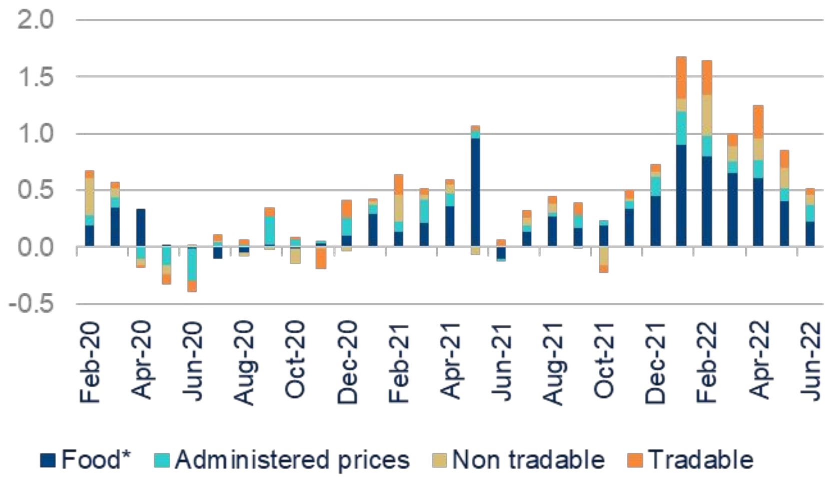
will gradually decline due to lower domestic demand dynamics and monetary policy action

The combination of supply (bottle necks, commodity prices and agricultural supplies) and demand shocks have pressured inflation to the upside

ANNUAL INFLATION AND MAIN BASKETS
(ANNUAL CHANGE, %)



ANNUAL INFLATION AND MAIN BASKETS
(CONTRIBUTION TO MONTHLY VARIATION, %)

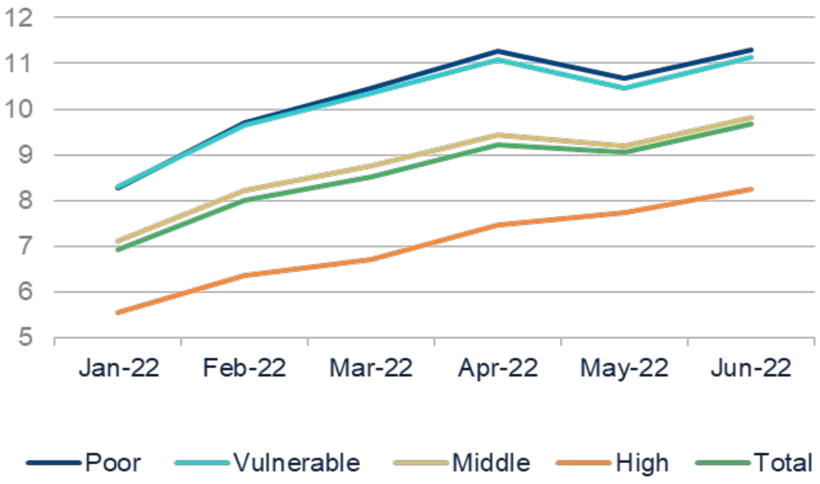


(*) Food includes dining outside the home.
Source: BBVA Research based on DANE data.

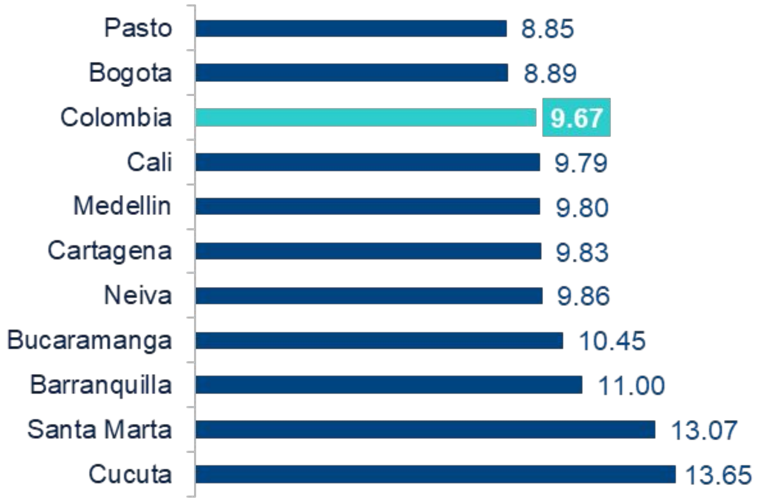
In the beginning, the shocks concentrated on food inflation. But, during 2022, they have been observed as well in the core inflation. With this, headline inflation reached its highest level in the last two decades.

Inflation is affecting all population groups, but has had a greater impact on the most vulnerable groups due to the high weight of food expenditure

INFLATION BY INCOME LEVEL
(ANNUAL CHANGE, %)



INFLATION BY CITY
(ANNUAL CHANGE, %)

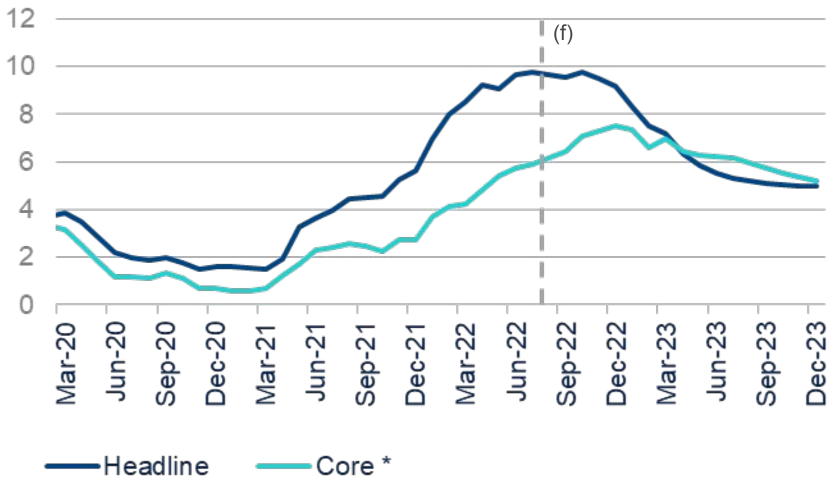


Source: BBVA Research based on DANE data.

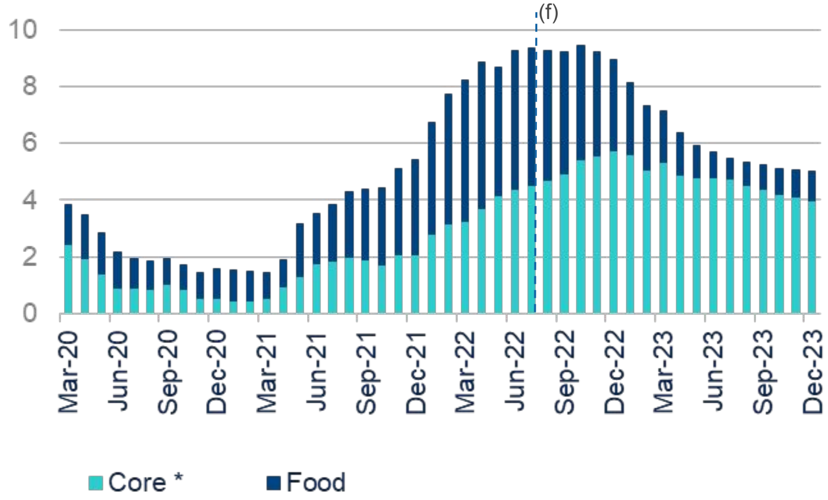
Furthermore, by city in the country, the impact of price increases has also been varied, with significant effects in Cúcuta, where it reached 13.6%, a difference of nearly 480 basis points in comparison with Pasto, the least affected city.

Headline inflation will remain at high levels in the remainder of 2022, closing at 9.2%, and will moderate to 5.0% for the close of 2023, still above the target

INFLATION: HEADLINE AND CORE
(ANNUAL CHANGE, %)



CONTRIBUTIONS TO INFLATION: FOOD AND CORE
(CONTRIBUTIONS TO THE ANNUAL CHANGE, %)

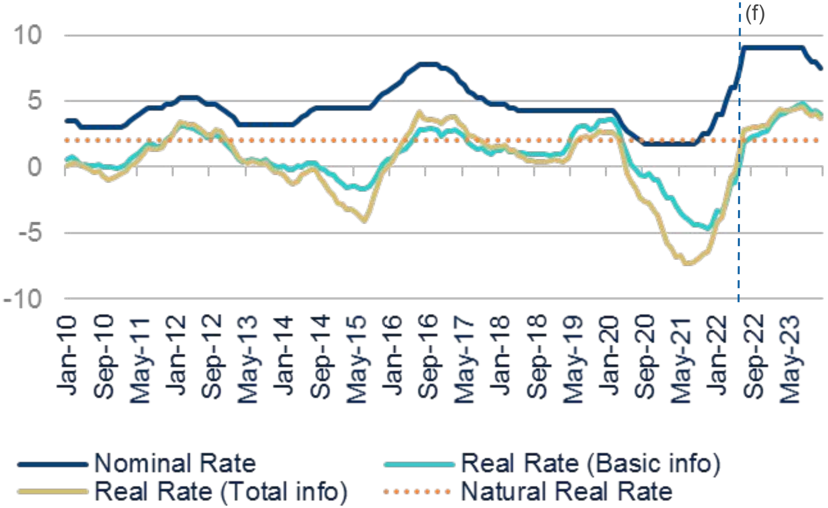


(*) Excludes dining outside the home.
Source: BBVA Research based on DANE data.

A moderation in food inflation is expected in 2022, though limited and gradual due to the persistence of high input costs. Core inflation will continue its upward trend, affected by a combination of demand and supply shocks. For 2023, inflation, despite moderating, will be pressured by indexation.

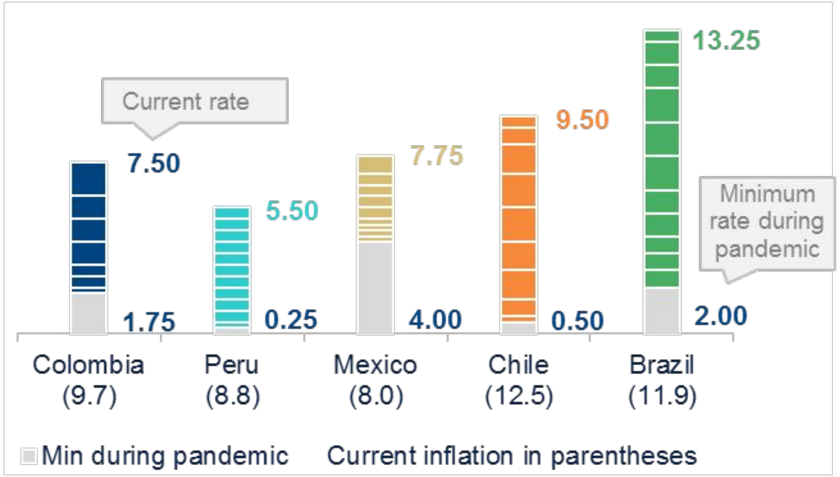
In order to control inflation and with the aim of achieving more sustainable growth in the medium term, BanRep will increase its rate to 9.0%

INTERVENTION INTEREST RATE
(NOMINAL AND REAL - WITH INF. AT 12 MONTHS, %)



Source: BBVA Research with data from BanRep, DANE and Haver Analytics.

INTEREST RATE POLICY OF COUNTRIES IN THE REGION (%)



Each block in the country column represents a policy rate adjustment with its corresponding size and ordered in chronological from the minimum during the pandemic until its current rate.

The main central banks in the region have also raised their policy rate, although in most cases it is still below inflation, with the exception of Brazil. Colombia leads in the size of the latest increase, although Brazil and Chile's average monthly adjustments have been larger.

BBVA Research

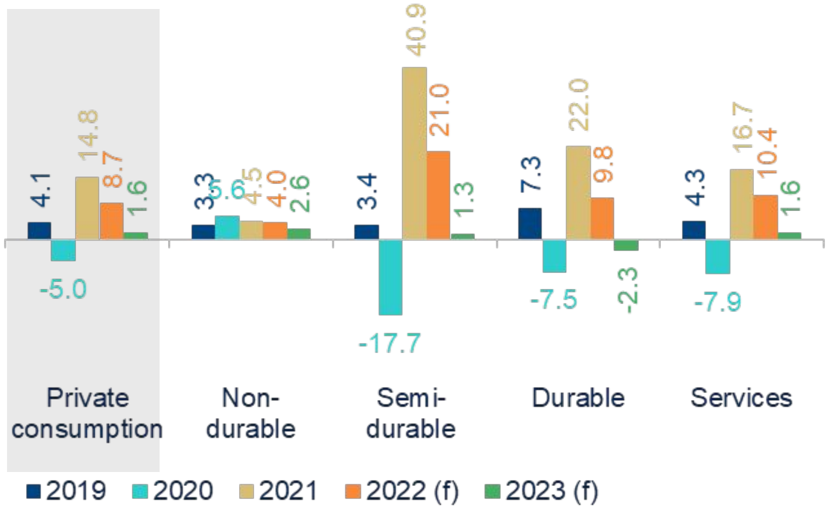
04

Towards a healthy slowdown

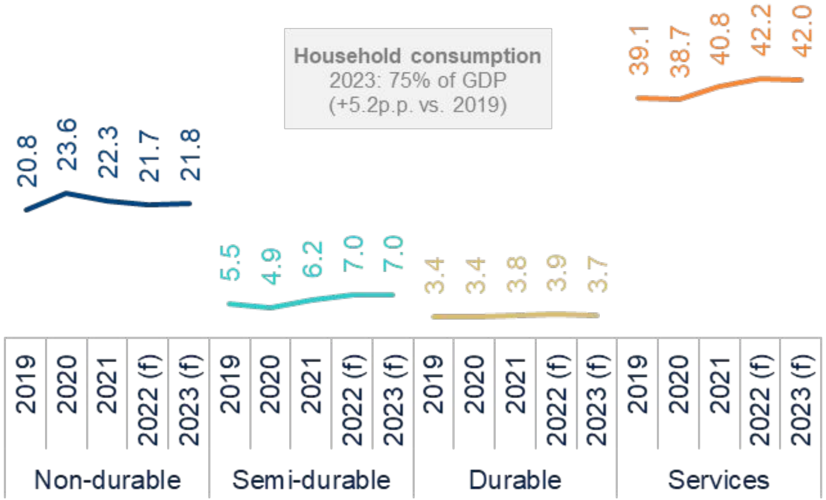
Gradual narrowing of internal and external imbalances

Household consumption will gradually slow down due to higher interest rates, base effects and lower employment growth

TOTAL HOUSEHOLD CONSUMPTION
(ANNUAL CHANGE, %)



COMPOSITION OF HOUSEHOLD CONSUMPTION
(% OF GDP)

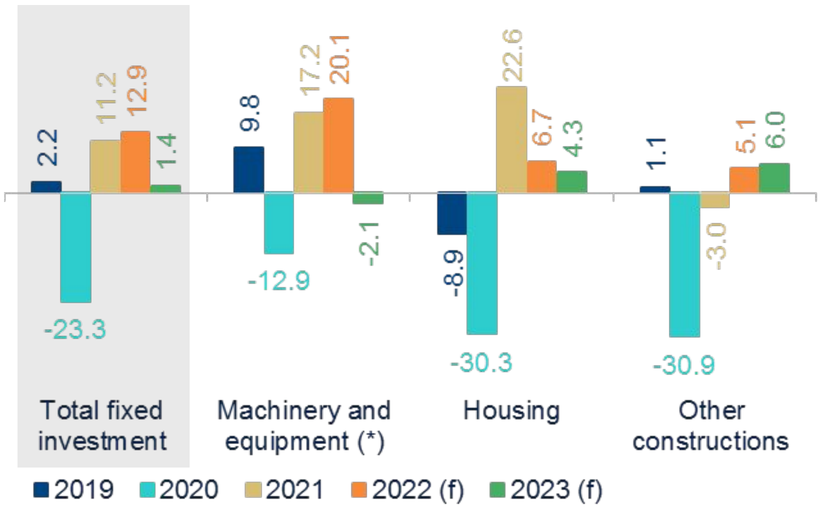


(f): Forecasts by BBVA Research.
Source: BBVA Research based on DANE data.

Spending on non-durable goods (basic consumption) and services (the reactivation process that maintains the economy) will show more resilience to moderation. Durables and semi-durables will correct part of their current high dynamics.

Two different investment dynamics: the purchase of machinery and equipment is slowing down and there is a good momentum in construction...

FIXED INVESTMENT BY COMPONENT
(ANNUAL CHANGE, %)



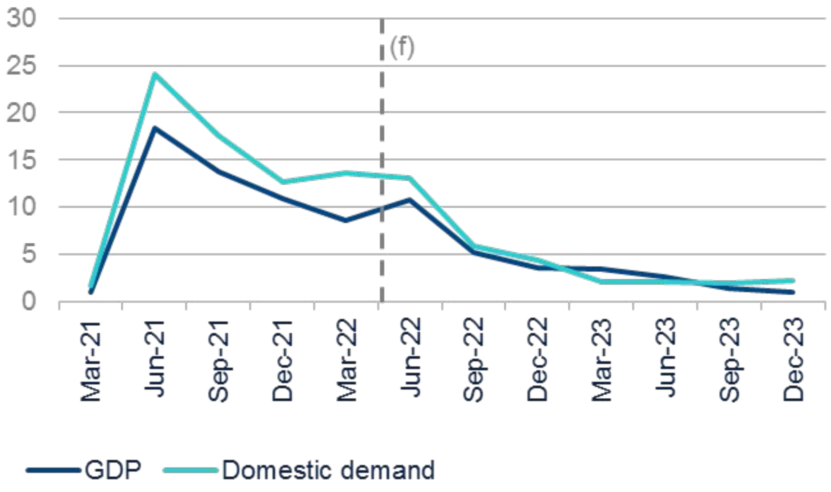
COMPOSITION OF FIXED INVESTMENT
(% OF GDP)

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

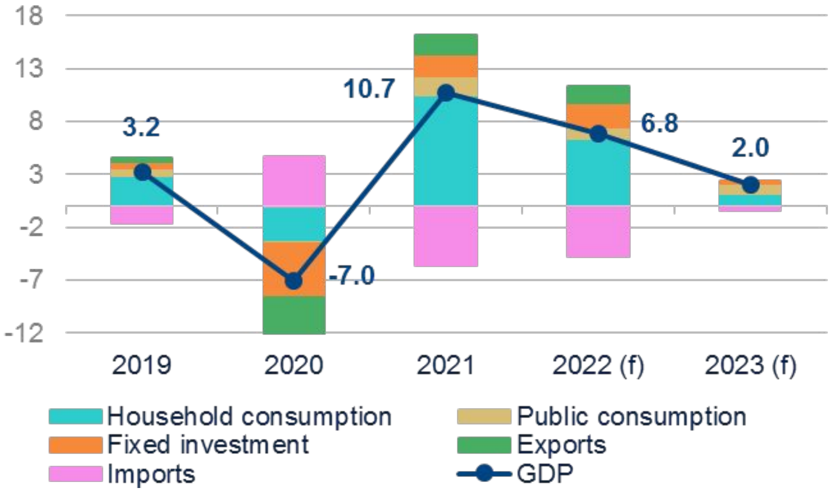
...construction will be driven by the completion of homes that were pre-sold and by the acceleration of civil works. The latter tends to occur most strongly in the final years of regional and local governments.

As a result, domestic demand is expected to moderate its growth in the remainder of 2022 and in 2023. GDP to grow 6.8% in 2022 and 2.0% in 2023

GDP AND DOMESTIC DEMAND
(ANNUAL CHANGES, %)



GDP BY DEMAND
(CONTRIBUTION TO ANNUAL CHANGE,%)



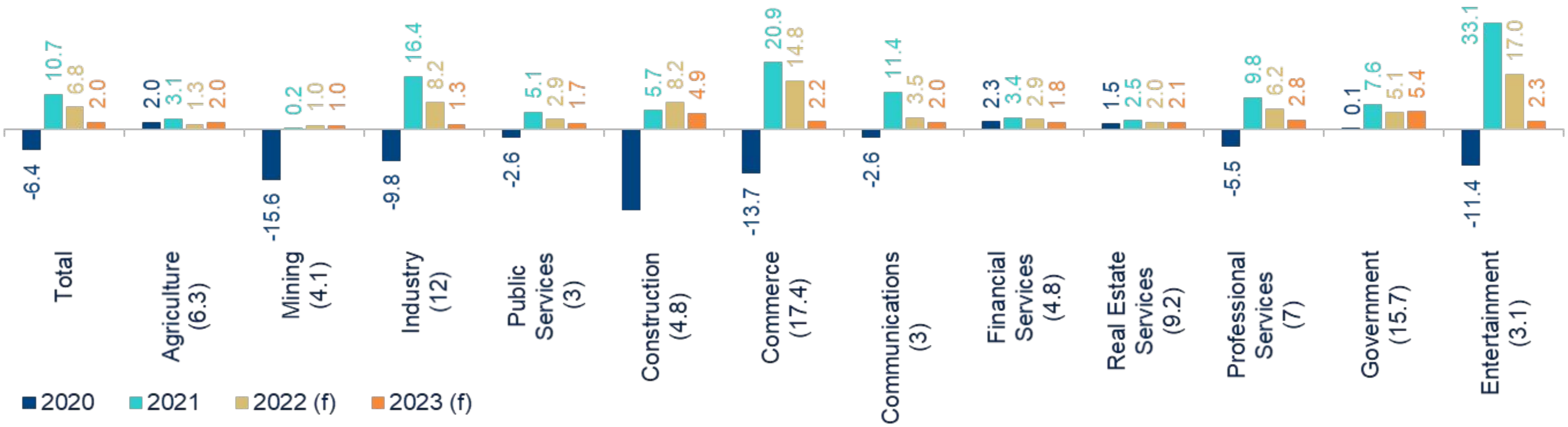
(f): Forecasts by BBVA Research.
Source: BBVA Research based on DANE data.

Exports will also stabilize their levels due to lower global demand. At the same time, imports will adjust sharply downward, leading to a less negative contribution of net external demand in 2023.

Strong sector performance to continue in 2022 and moderate in 2023

GDP BY ECONOMIC SECTOR

(THE WEIGHT OF THE SECTOR IN GDP IS IN PARENTHESES. ANNUAL CHANGE, %)



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

The slowdown in consumption will be a key factor in the moderation of the sector. In addition, the expectation of increased spending by the new government will drive growth in sectors prioritized in the political agenda.

In 2023, sectors related to construction, government and the reactivation of services will lead growth

SECTORS THAT WILL GROW BELOW GDP IN 2023

- Oil, coal and other mining
- Manufacturing industry
- Utilities

SECTORS THAT WILL GROW AT A SIMILAR RATE TO GDP IN 2023

- Agriculture
- Financing services
- Real Estate
- Communications
- Retail, hotels and restaurants (*)

SECTORS THAT WILL GROW ABOVE GDP IN 2023

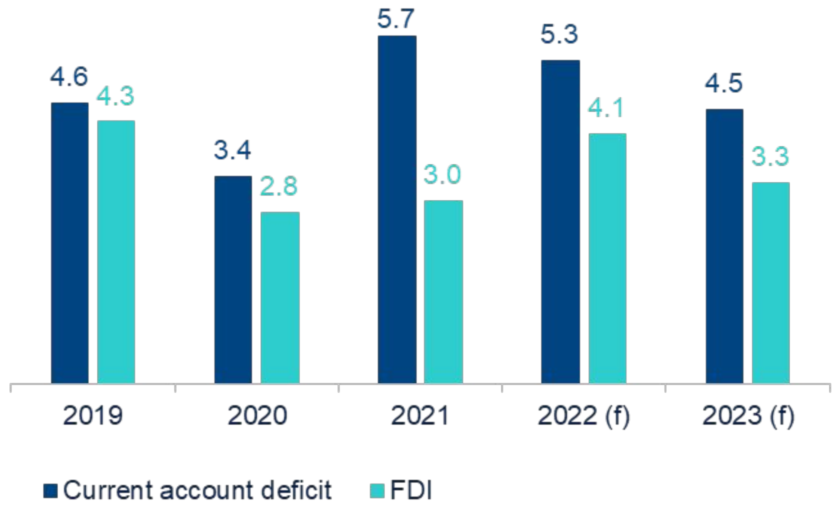
- Construction
- Leisure
- Professional services
- Government (**)

(*): Includes commerce, transportation, and hotels and restaurants. (**): Includes government, health and education.
Source: BBVA Research.

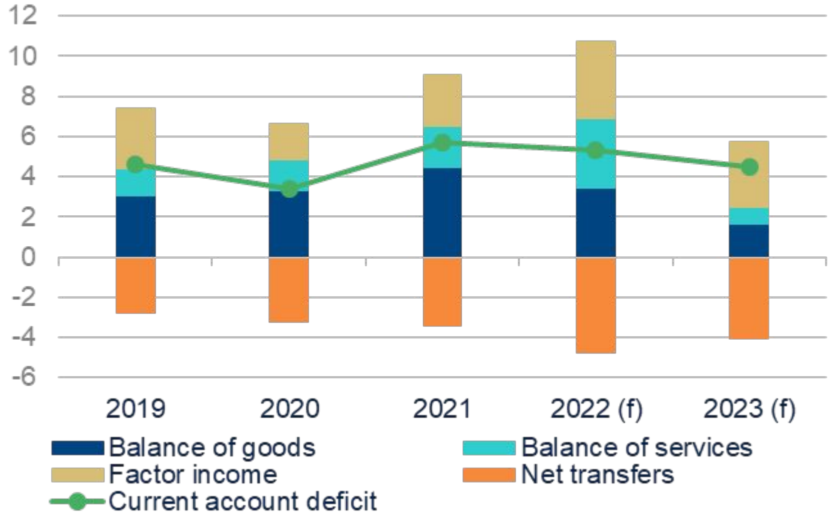
The global slowdown will limit growth in the most export-related sectors, while the moderation of consumption and foreign trade will reduce retail performance.

The dynamism of domestic demand exerts pressure on the external imbalance in 2022. The slowdown will then favor a healthy adjustment

CURRENT ACCOUNT DEFICIT AND FDI (% OF GDP)



COMPOSITION OF THE CURRENT ACCOUNT DEFICIT (% OF GDP)

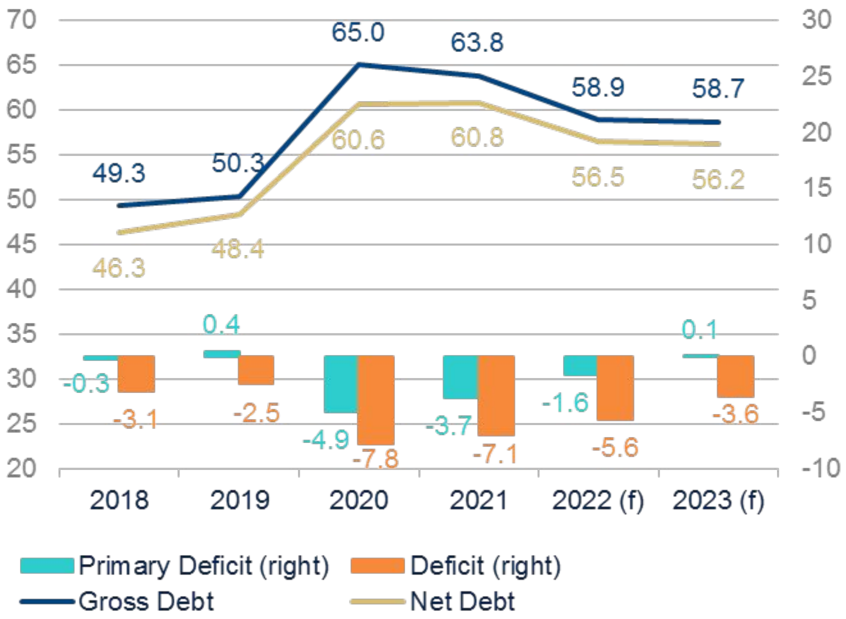


(f): Forecasts by BBVA Research.
Source: BBVA Research based on BanRep data.

Exports will also stabilize their levels due to lower global demand. At the same time, imports will adjust sharply downward, leading to a less negative contribution of net external demand in 2023.

The fiscal framework shows a smaller fiscal imbalance and lower debt. However, the challenges remain significant

FISCAL BALANCE AND CENTRAL GOVERNMENT DEBT (ESTIMATED IN THE MFMP , % OF GDP)



- The deficit of the Central National Government this year would be 5.6% of GDP and will fall to 3.6% in 2023. All this within a context of reducing net debt to 56% of GDP by 2023.
- The projections include a high expenditure path as a share of GDP over a 10-year horizon and a demanding task of revenue generation for the same period.
- The new government's decisions will be key in defining the details of the public finances in the coming years.

Source: BBVA Research based on data from the Ministry of Finance, Medium Term Fiscal Framework (MFMP) June 2022.

BBVA Research

05

Moving forward: building on what has already been built

Economic and social challenges for the short and medium term

The new government's economic challenges

Navigate a less favorable international environment amid a healthy slowdown in local growth

Protect the most vulnerable households to continue healing the scars left by the pandemic

Build on what has been built to increase the country's short and medium-term growth

Promote investment and formal employment with a view to increasing potential growth

Help reduce the country's macroeconomic imbalances, especially on the fiscal and external fronts

Promote reforms to increase the productivity and competitiveness of the Colombian productive fabric

Materialize and consolidate advances in energy transition and environmental sustainability (including a reduction in deforestation), in a responsible manner

Research

06

Forecasts

Main macroeconomic variables

	2017	2018	2019	2020	2021	2022 (f)	2023 (f)
GDP (% y/y)	1.4	2.6	3.2	–7.0	10.7	6.8	2.0
Private consumption (% y/y)	2.1	3.2	4.1	-5.0	14.6	8.7	1.6
Public consumption (% y/y)	3.6	7.4	5.3	-0.6	10.3	5.9	5.4
Fixed investment (% y/y)	1.9	1.0	2.2	-23.3	11.2	12.9	1.4
Inflation (% y/y. eop)	4.1	3.2	3.8	1.6	5.6	9.2	5.0
Inflation (% y/y. avg)	4.3	3.2	3.5	2.5	3.5	9.1	5.9
Exchange rate (eop)	2,991.4	3,212.5	3,277.0	3,468.5	3,967.8	4,070.0	4,060.0
Devaluation (%. eop)	-0.6	7.4	2.0	5.8	14.4	2.6	-0.2
Exchange rate (avg)	2,951.3	2,956.4	3,272.6	3,693.3	3,744.3	4,046.8	4,052.5
Devaluation (%. eop)	-3.4	0.2	10.7	12.9	1.4	8.1	0.1
Interest policy rate (%. eop)	4.8	4.3	4.3	1.8	3.0	9.0	7.5
Current Account (% GDP)	-3.2	-4.2	-4.6	-3.4	-5.7	-5.3	-4.5
Urban unemployment rate (%, eop)	9.8	10.7	10.5	15.6	11.4	10.8	11.7

(f): Previsiones de BBVA Research.
Fuente: BBVA Research con datos de DANE y Banco de la República.

Main macroeconomic variables

	GDP (% y/y)	Inflation (% y/y. eop)	Exchange rate (vs. USD. eop)	Interest Policy Rate (%. eop)
Q1 19	3.5	3.2	3,125	4.25
Q2 19	3.0	3.4	3,256	4.25
Q3 19	3.2	3.8	3,400	4.25
Q4 19	3.1	3.8	3,277	4.25
Q1 20	0.8	3.8	3,888	3.75
Q2 20	-16.5	2.2	3,691	2.50
Q3 20	-8.8	2.0	3,750	1.75
Q4 20	-3.6	1.6	3,469	1.75
Q1 21	0.9	1.5	3,617	1.75
Q2 21	18.3	3.6	3,693	1.75
Q3 21	13.7	4.5	3,820	2.00
Q4 21	10.8	5.6	3,968	3.00
Q1 22	8.5	8.5	3,806	5.00
Q2 22	10.8	9.7	3,922	7.50
Q3 22	5.2	9.6	4,220	9.00
Q4 22	3.6	9.2	4,070	9.00
Q1 23	3.4	7.2	4,030	9.00
Q2 23	2.6	5.5	4,060	9.00
Q3 23	1.4	5.1	4,050	8.50
Q4 23	0.9	5.0	4,060	7.50

Fuente: BBVA Research con datos de DANE y Banco de la República.

Disclaimer

This report was prepared by:

Chief Economist
Juana Téllez
juana.tellez@bbva.com

Mauricio Hernández
mauricio.hernandez@bbva.com

María Claudia Llanes
maria.llanes@bbva.com

Andrés Felipe Medina
andresfelipe.medina.grass@bbva.com

Laura Katherine Peña
laurakatherine.pena@bbva.com

Alejandro Reyes
alejandro.reyes.gonzalez@bbva.com

Olga Serna
olgaesperanza.serna@bbva.com

David Gracia
davidesteban.gracia@bbva.com
Estudiante en práctica

INTERESADOS DIRIGIRSE A: BBVA Research Colombia Carrera 9 No 72-21, piso 10. Bogotá, (Colombia).
Tel.: 3471600 ext 11448 - bbvaresearch@bbva.com / www.bbvaresearch.com

BBVA Research

Colombia Economic Outlook

3Q22

Creating Opportunities