

Colombia Economic Outlook

March 2023

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01

Global environment

Supply shocks have diminished and demand has remained strong. As a result, the probability of a recession in the short term has reduced and inflation is expected to perform better.

Main messages



Recent developments

Supply shocks have eased while demand has remained resilient, triggering upward growth surprises and reducing the odds of a recession in the short-run. Headline inflation has fallen, but core figures remain sticky. After a temporary decoupling, markets have aligned with central banks' view that interest rates will be higher for longer; still, the recent financial volatility, following the SVB bankruptcy, has changed expectations.



Growth outlook

Global growth is forecast to reach 2.8% in 2023 (0.5pp higher than the previous forecast) and 3.3% in 2024 (unchanged forecast), after having reached 3.2% in 2022 and 6.1% in 2021. Positive incoming data and lower energy prices favor an upward revision in 2023 GDP forecasts in the US and, mainly, in the Eurozone, while the easing of covid restrictions supports a sharper recovery in China. Still, a growth slowdown is likely ahead amid higher inflation and interest rates.



Inflation and rates outlook

Persistent core inflation and robust labor markets will force central banks to deliver higher than expected policy rates and no rate cuts before 2024. Inflation is expected to decline gradually as supply shocks wane and demand weakens, but it will remain above the 2% target in both the US and the Eurozone at least till the end of 2024.

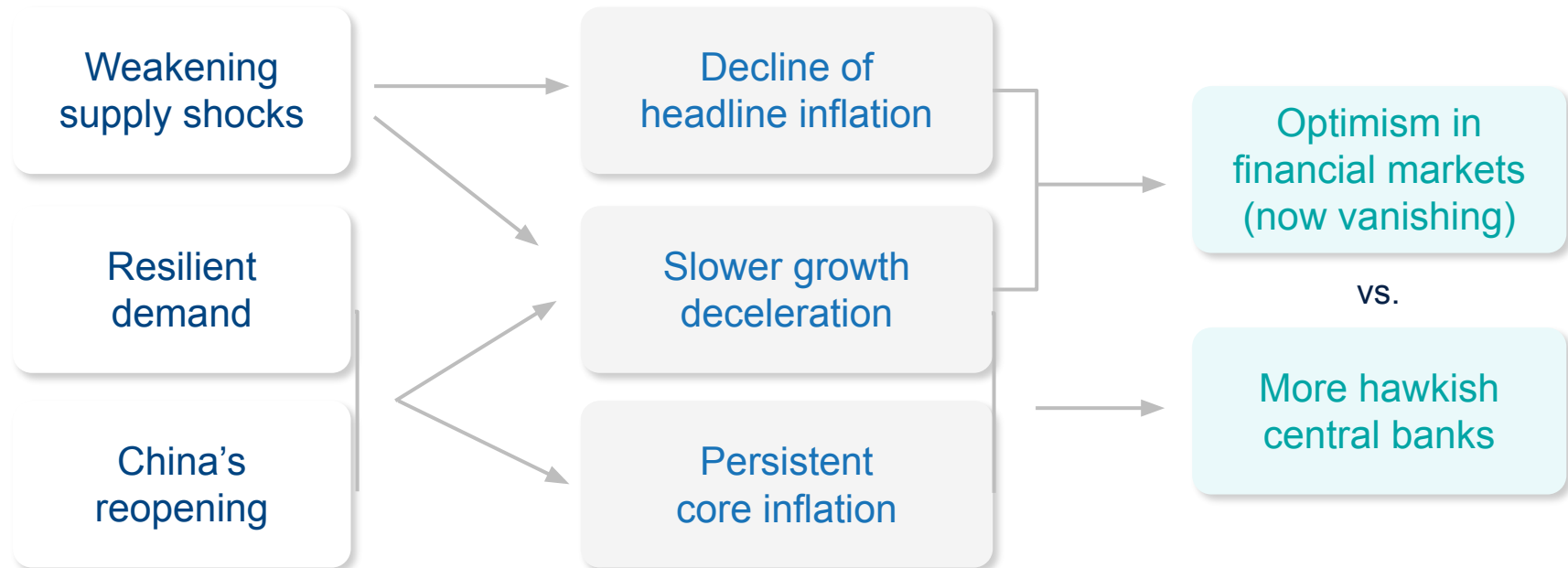


Risks

The main risk is that inflation proves to be more persistent than expected, due to tight labor markets, second-round effects, demand-driven recovery in China, war disruptions, etc., triggering further monetary tightening, and then, potentially, a recession, stagflation or, even, financial instability.

Weakening supply shocks, resilient demand and China's reopening back growth, but also inflation fears despite the recent drop in headline measures

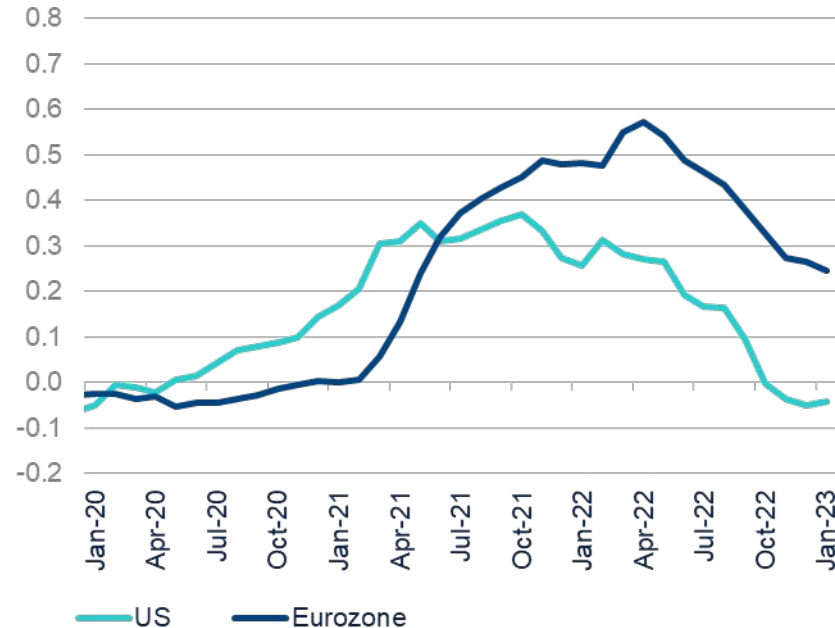
RECENT DEVELOPMENTS IN THE WORLD ECONOMY



Weakening supply shocks: bottlenecks and commodity prices have eased; mild weather and healthy storage have helped to push gas prices down

BBVA RESEARCH BOTTLENECK INDEX

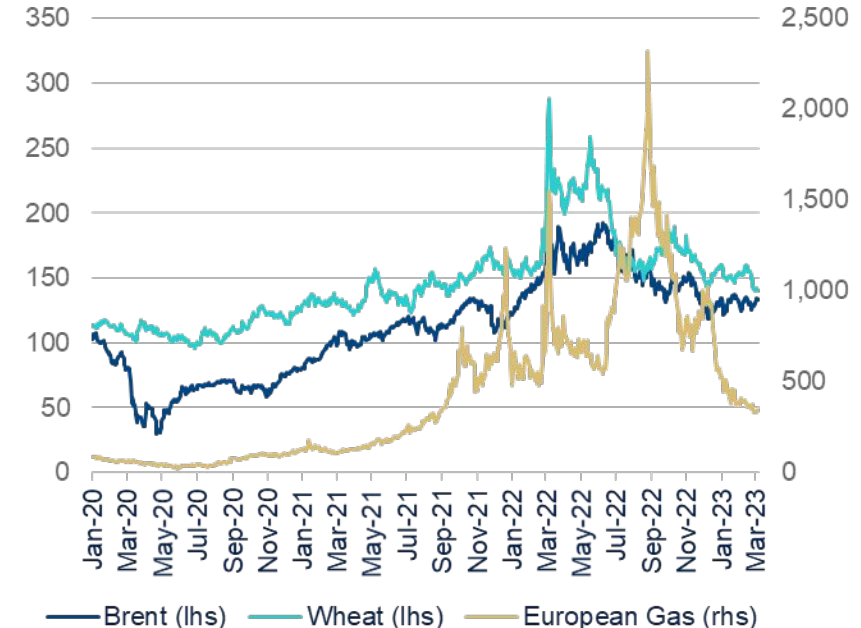
(INDEX: AVERAGE SINCE 2003 = 0)



Source: BBVA Research.

COMMODITY PRICES

(INDEX: 2019 AVERAGE = 100)



Source: BBVA Research based on data from Bloomberg.

Resilient demand: labor markets remain tight, backing private consumption and fueling concerns about more persistent price pressures

US: BEVERIDGE CURVE (*)

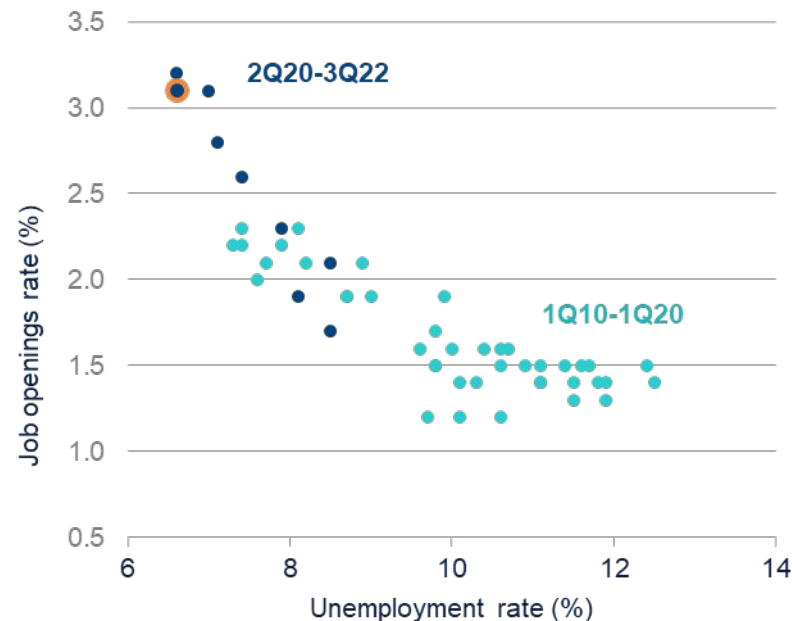
(MOST RECENT MONTHLY DATA HIGHLIGHTED IN ORANGE)



(*) Unemployment: share of labor force. Job openings: share of sum of employment and job openings.
Source: BBVA Research based on data from FRED.

EUROZONE: BEVERIDGE CURVE (*)

(MOST RECENT MONTHLY DATA HIGHLIGHTED IN ORANGE)

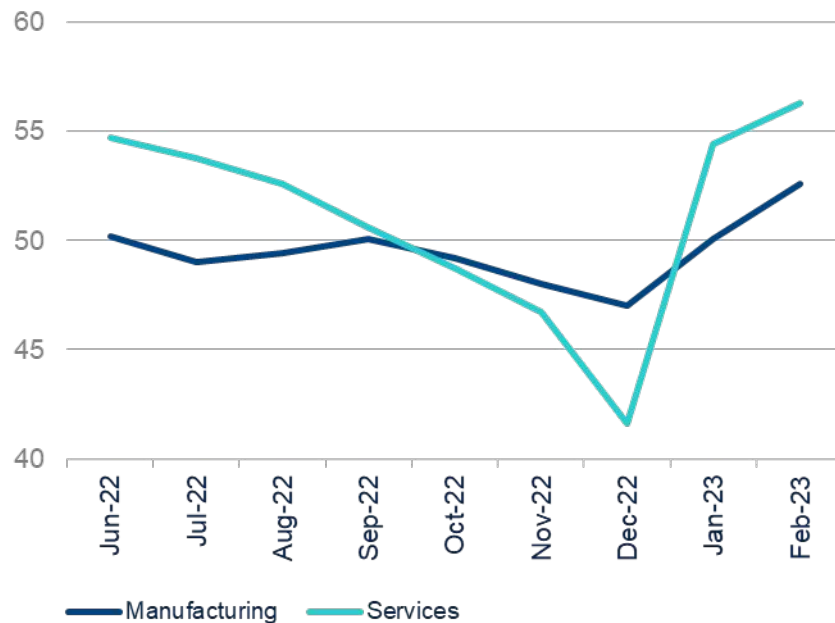


(*) Unemployment: share of labor force. Job openings: share of sum of employment and job openings.
Source: BBVA Research based on data from Eurostat.

China's reopening: after an initial negative impact on activity, unexpected easing of covid restrictions has boosted economic activity

CHINA PMI INDICATORS

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

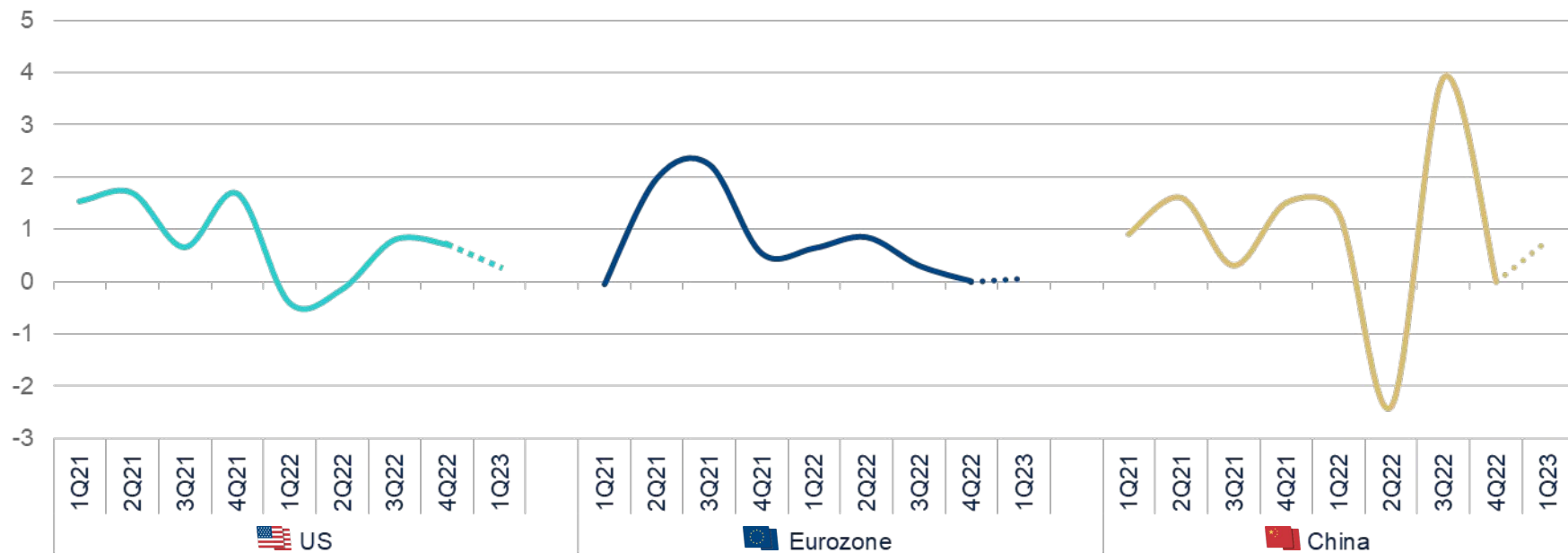


- China's flexibilization of covid policies was **faster than expected**; together with the measures to stabilize the real estate sector, it suggests that the focus is now on growth.
- The reopening initially drove infections up, contributing to the sharp downward surprise of 4Q22 GDP.
- But a solid recovery is now underway according to more recent data.
- The demand recovery pace compared to the rhythm of supply normalization, in a protectionist context, will be key for global activity and inflation dynamics.

Growth has slowed less than forecast, suggesting a recession is now less likely in the US and EZ; after a very weak 4Q22, activity is improving in China

GDP: REAL GROWTH (*)

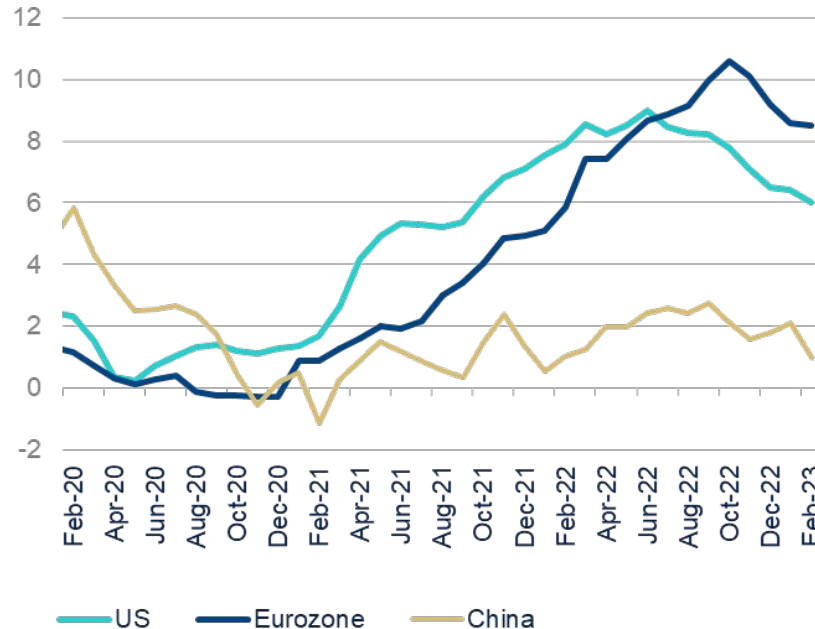
(Q/Q %)



(*) BBVA Research growth forecasts for the 1Q23.
Source: BBVA Research based on data from Haver.

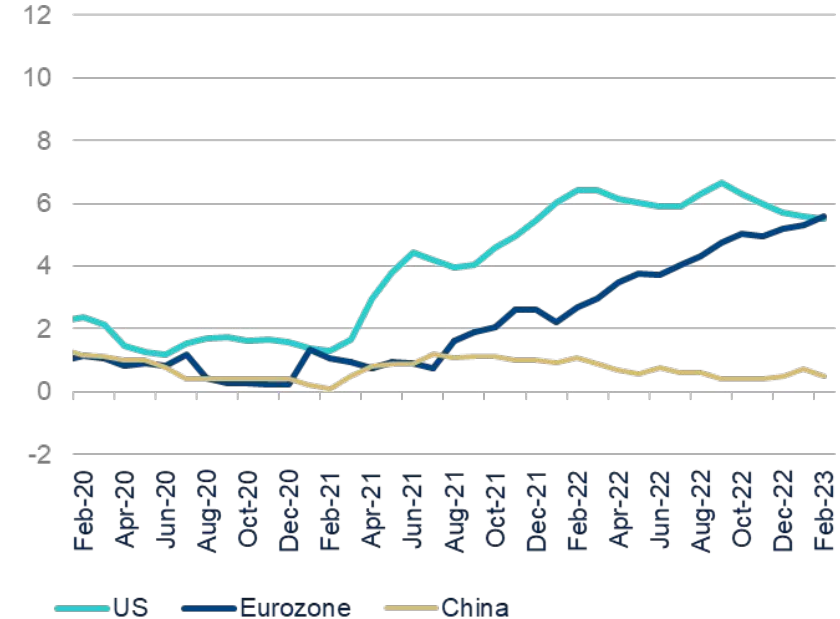
Headline inflation is falling, mainly on declining energy prices, but resilient consumption is still contributing to keep core figures at very high levels

HEADLINE INFLATION: CPI (ANNUAL CHANGE, %)



Source: BBVA Research based on data from Haver.

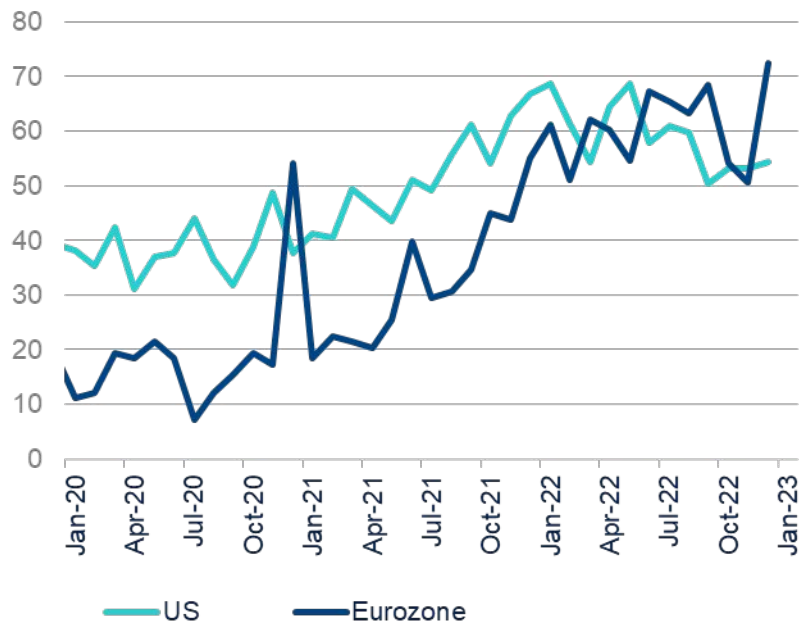
CORE INFLATION: CPI (ANNUAL CHANGE, %)



Source: BBVA Research based on data from Haver.

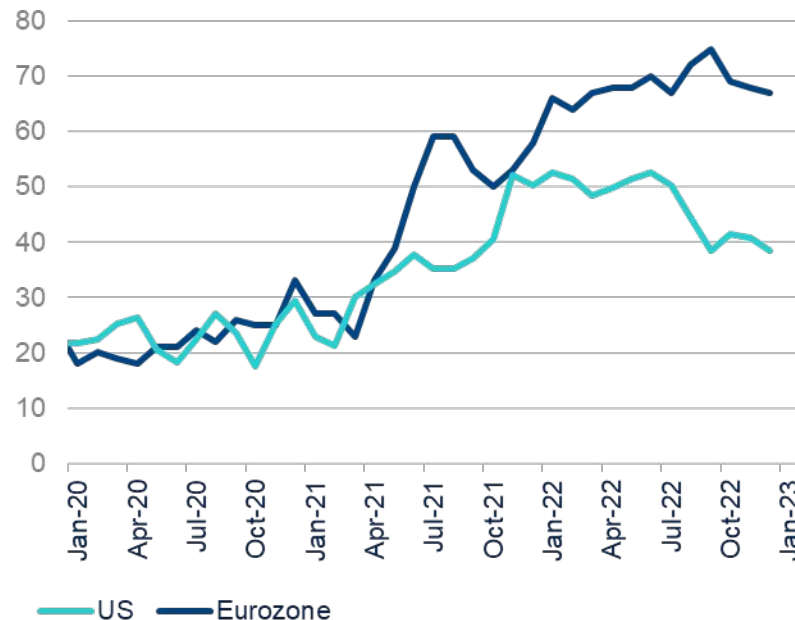
Price adjustments have become less widespread and frequent in the US, but there are no clear signs yet of improvement in the Eurozone

**ITEMS OF THE CPI BASKET WITH ANNUALIZED MONTHLY INFLATION HIGHER THAN 4%
(SHARE OF TOTAL 2-DIGIT CPI ITEMS)**



Source: BBVA Research based on local statistics.

**ITEMS OF THE CPI BASKET WITH THREE CONSECUTIVE MONTHLY PRICE RISES
(SHARE OF TOTAL 2-DIGIT CPI ITEMS)**

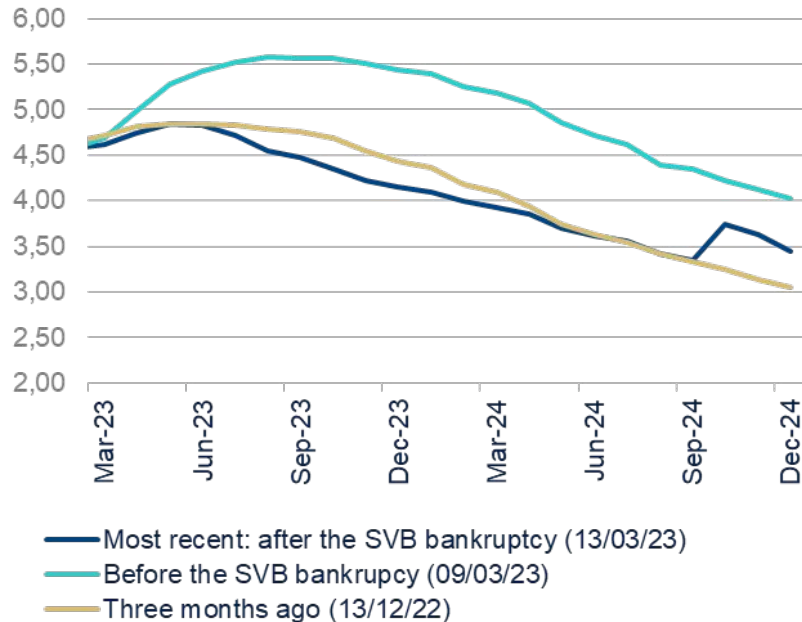


Source: BBVA Research based on local statistics.

Markets have sided with central banks on the view of higher rates for longer, though recent volatility has changed expectations, for now

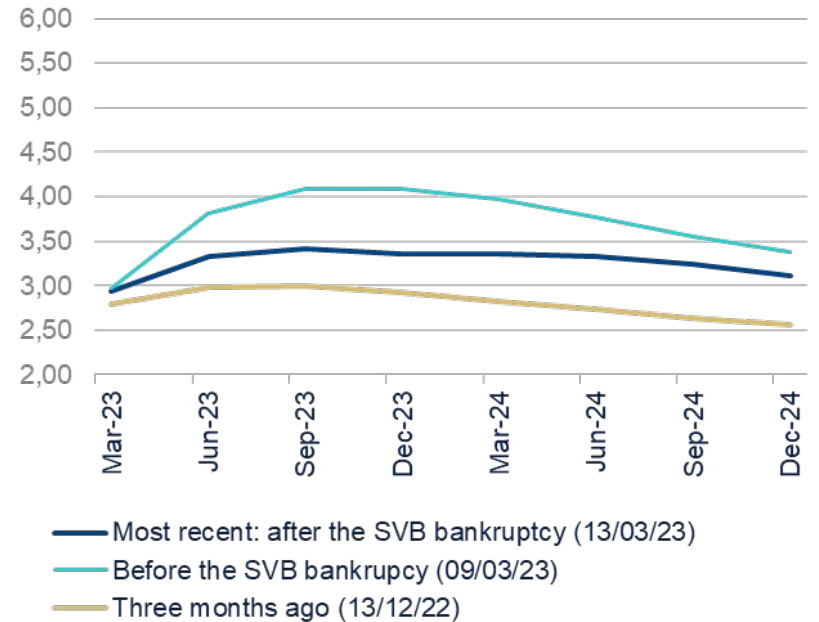
IMPLIED FED INTEREST RATE IN FED FUND FUTURES (%)

(%)



IMPLIED ECB INTEREST RATE IN EURIBOR FUTURES (*) (%)

(%)



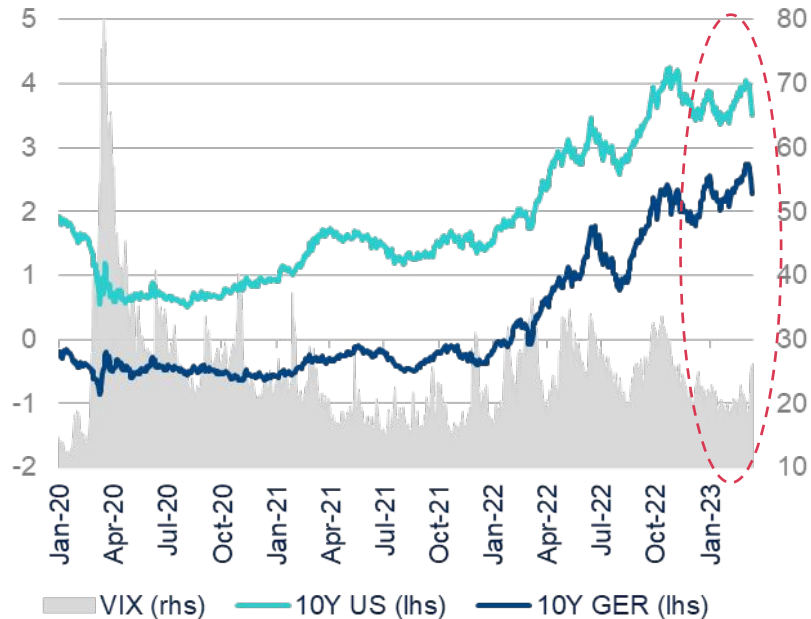
(*) Interest rate of the ECB deposit facility.

Source: BBVA Research based on data from Bloomberg.

Source: BBVA Research based on data from Bloomberg.

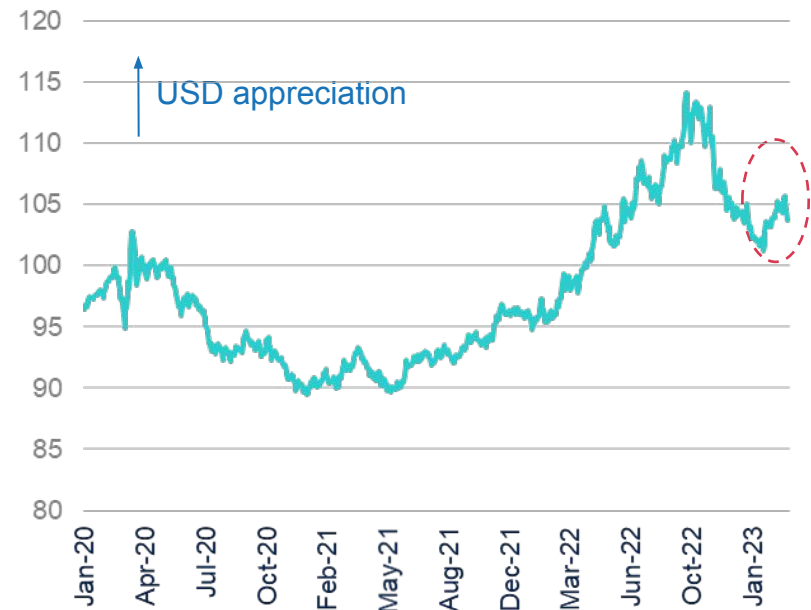
Bond yields have also aligned with the central bank rhetoric, but with volatility

US AND GERMANY 10-YEAR BOND YIELDS, VIX
(%, INDEX)



Source: BBVA Research based on data from Bloomberg.

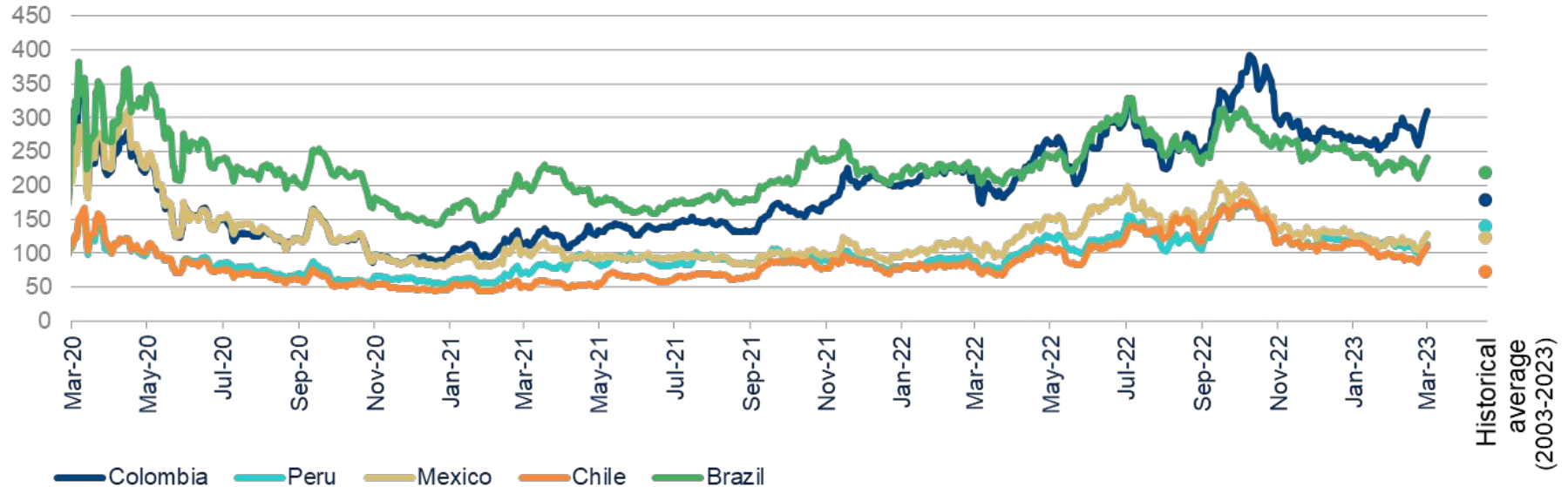
US DOLLAR INDEX: DXY
(INDEX)



Source: BBVA Research based on data from Bloomberg.

The risk premiums of LatAm countries have increased in the last two years. Compared to the average, Colombia has the largest deviation

5-YEAR CDS FOR SELECTED LATAM COUNTRIES (BASIS POINTS)

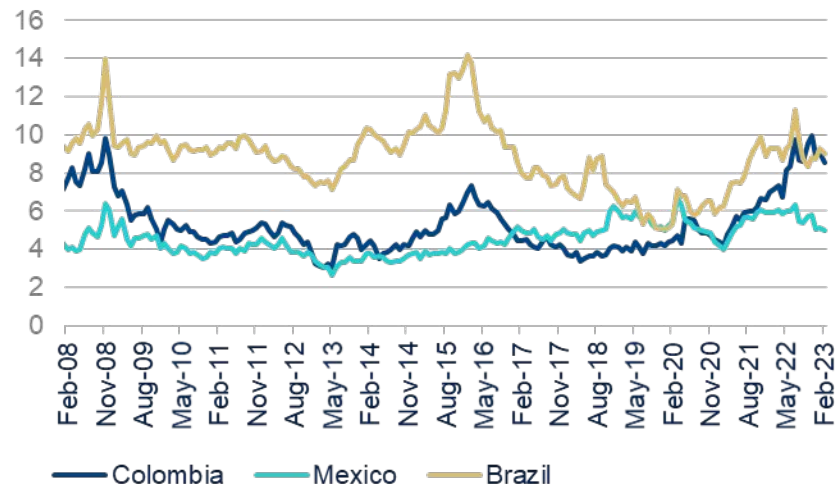


(*): The CDS (Credit Default Swap) is the cost in basis points charged to anyone who wants to insure payments on the sovereign debt of a given country.

Source: BBVA Research with data from Bloomberg.

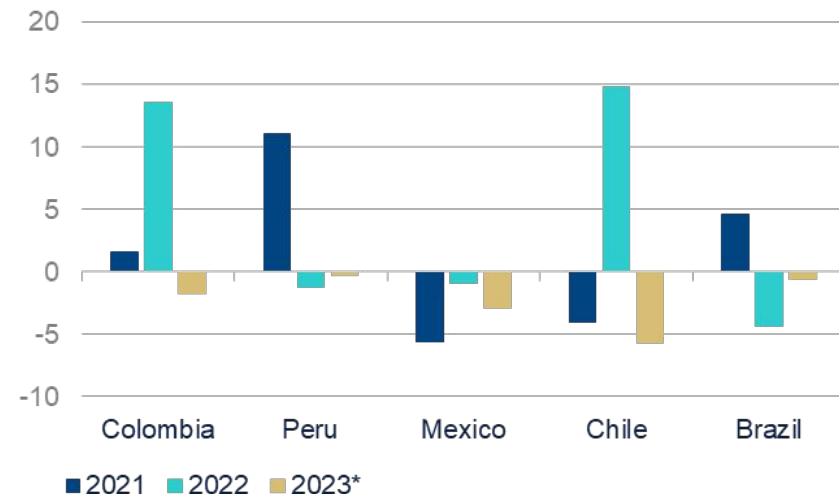
The cost of financing increased in the countries in the region (especially in Colombia and Brazil) above the rates prevailing in the United States.

10-YEAR SOVEREIGN BONDS: SPREAD VS. U.S. (PERCENTAGE POINTS)



(*): Year-to-date for 2023 as at February 22
Source: BBVA Research with data from Bloomberg.

AVERAGE EXCHANGE RATE DEVALUATION (ANNUAL CHANGE, %)



Meanwhile, the countries had cumulative devaluation processes over recent years, with the exception of Mexico. The most notable among these was Colombia.

BBVA Research baseline scenario: interest rates will be higher for longer to ease demand and curve inflation down

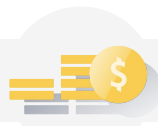
BBVA RESEARCH BASELINE SCENARIO: MAIN ASSUMPTIONS AND FEATURES



COMMODITIES AND BOTTLENECKS

Commodity prices to remain under 2022 levels, but China's demand and supply issues will limit downward corrections and favor rebound of oil prices in 2H23.

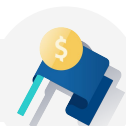
Supply bottlenecks to continue normalizing.



EUROPEAN GAS

Prices assumed to remain somewhat higher than ongoing levels, mainly from mid-2023.

Gas reserves to be enough to prevent shortages, even under relatively unfavorable scenarios.



FINANCIAL AND MONETARY CONDITIONS

More restrictive monetary policy, also through monetary tightening programs.

A strong dollar, higher sovereign yields and modest capital inflows into riskier assets are expected.



ACTIVITY AND PRICES

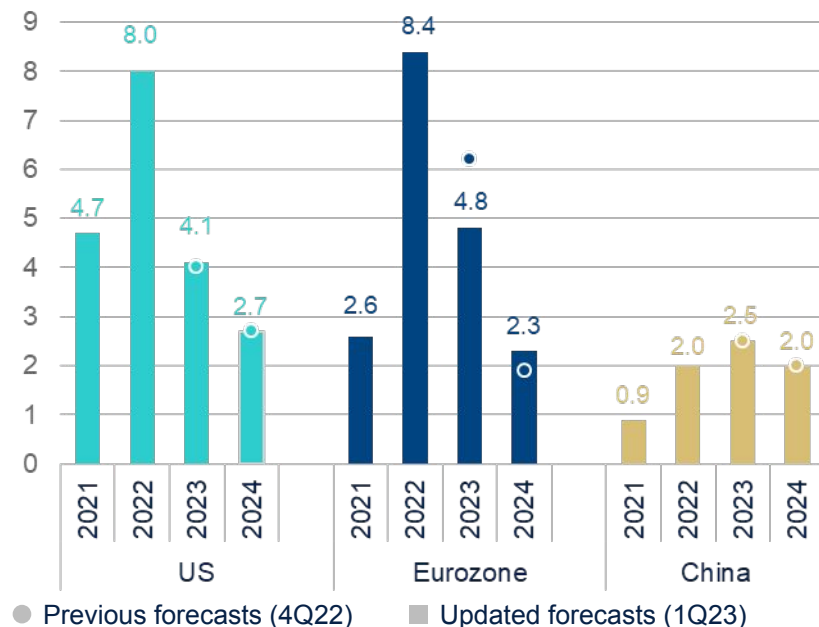
Monetary tightening will pave the way for demand deceleration.

Price and wage pressures will gradually ease and price and wage spirals will be avoided.

Inflation will continue trending downwards, but slower demand deceleration will prevent it from converging to the target over the next two years

INFLATION:CPI

(Y/Y %, PERIOD AVERAGE)

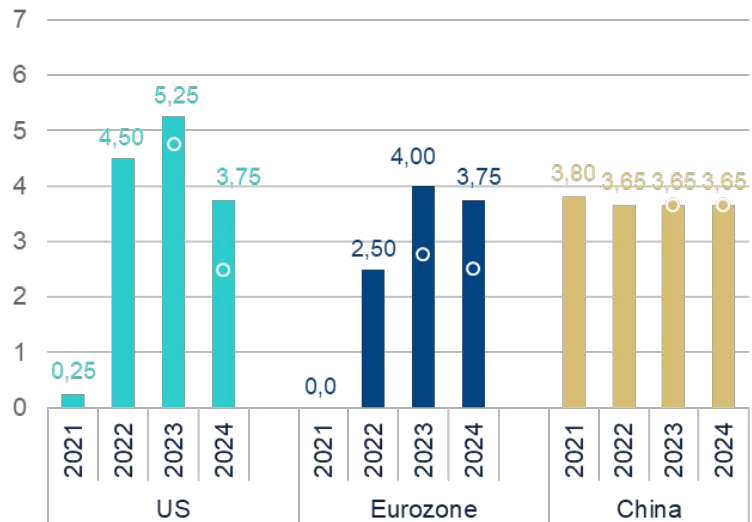


- Downward surprises in headline inflation pave the way for **lower-than-expected price pressures in the short-run** both in the US and the EZ.
- Still, **sticky core prices amid more resilient labor markets** as well as scarcer room for further falls in energy prices **will keep inflation high** for longer than expected.
- In China, **inflation will probably remain under control**, but the risk is that higher domestic demand coupled with the impact of protectionist measures more than offset the effects from the supply normalization, which would add to inflation pressures.

Central banks will remain focused on inflation: interest rates will rise more and will be kept higher for longer than expected

MONETARY POLICY INTEREST RATES^(*)

(%, END OF PERIOD)



● Previous forecasts (4Q22) ■ Updated forecasts (1Q23)

(*) In the case of the Eurozone, interest rates on refinancing operations.

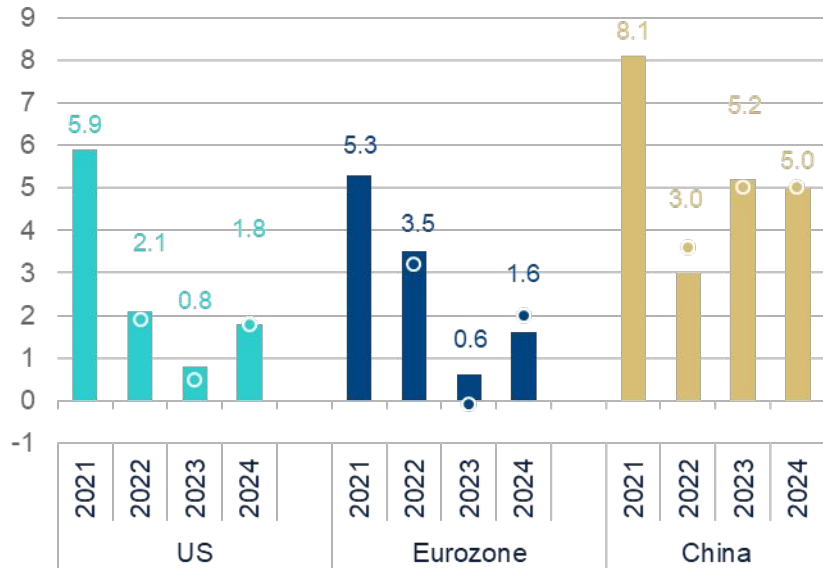
Source: BBVA Research based on Bloomberg data.

- Terminal interest rate will be higher than expected, but uncertainty on the timing and the magnitude is large due to the recent turmoil following the SVB bankruptcy, the volatile inflation dynamics, the unexpected resiliency of demand and doubts about the power of monetary policy in this context.
- The most likely is that interest rates soon reach at least 5.25% in the US and 4.00% in the Eurozone.
- High rates can be expected for longer, given the slow process of disinflation.

Better growth prospects for 2023: a softer deceleration in both the US and the Eurozone, and a stronger rebound in China

GDP: ANNUAL GROWTH IN REAL TERMS (*)

(ANNUAL CHANGE, %)



● Previous forecasts (4Q22) ■ Updated forecasts (1Q23)

(*) Previous forecasts: 0.5% in 2023 and 1.8% in 2024 in the US, -0.1% in 2023 and 2.0% in 2024 in the Eurozone, 5.0% in 2023 and 5.0% in 2024 in China.

Source: BBVA Research.

- Global GDP is expected to grow 2.8% in 2023 and 3.3% in 2024, after having grown 3.2 % in 2022.
- 2023 forecasts have been revised up in the US and the EZ on positive incoming data (resilient demand) and lower energy prices.
- Upward revision in 2023 GDP also in China: the reopening will support consumption and supply-side normalization; policy stimuli will back investment.
- Deceleration prospects remain in place due to monetary tightening and high inflation, but some factors (private sector's balance sheets, NGEU in Europe) will be supportive and a deep recession will likely be avoided.

In an uncertainty context, the main risk is that sticky inflation requires extra monetary tightening, triggering a recession, stagflation or financial instability



MAIN RISKS

MORE PERSISTENT INFLATION AND TIGHTER MONETARY POLICY:

- stronger demand (tight labor markets, fiscal stimulus, etc.)
- demand-driven Chinese recovery
- higher energy prices on the war or other factors
- wage-price spirals



**GLOBAL RECESSION OR
STAGFLATION**

FINANCIAL INSTABILITY



MAIN UNCERTAINTIES

**GEOPOLITICAL
TENSIONS**

**US-CHINA RIVALRY
(DEGLOBALIZATION, ETC)**

**ENERGY TRANSITION AND
CLIMATE CHANGE**

**SOCIAL TENSIONS
AND POPULISM**

02

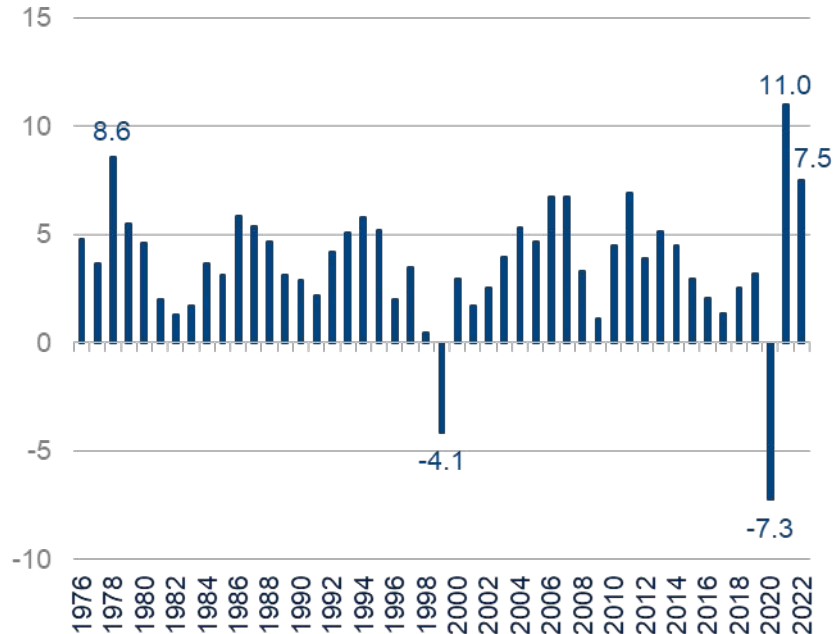
Internal production activity

The economy was situated at elevated levels of activity in 2022. There are some signs of slowdown, but there is also a basis for continued growth.

Growth in 2022 was at an all-time high. The boost came from domestic demand, putting upward pressure on imports.

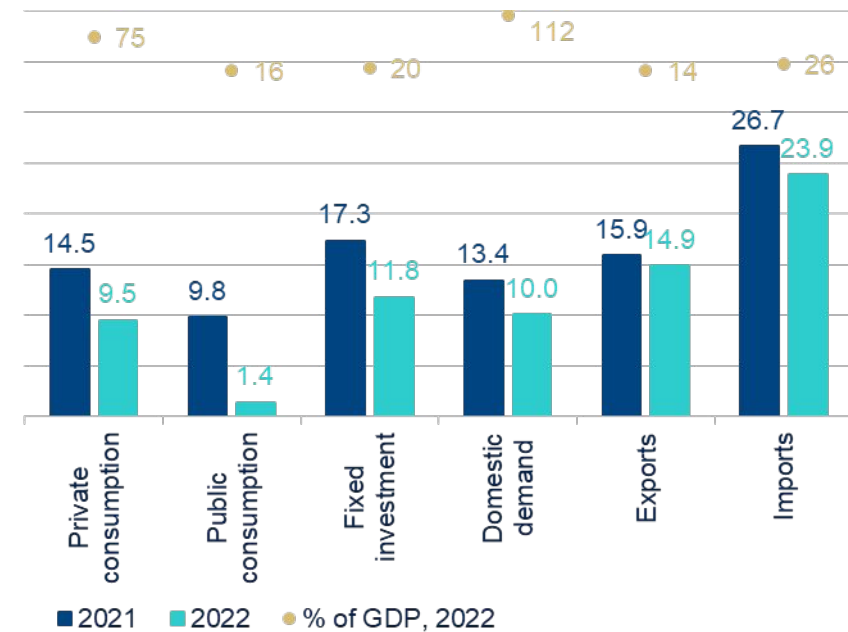
GDP

(REAL ANNUAL CHANGE^(*), %)



GDP COMPONENTS BY DEMAND

(REAL ANNUAL CHANGE, %)



(^(*)): In this and all slides dealing with GDP growth or its components, we refer to the **real** annual change, unless otherwise indicated.

Source: BBVA Research based on data from DANE.

Other variables also saw a significant increase in 2022, reflecting the high levels of activity achieved by the economy



JOB CREATION



Spending capacity

2022	Avg. 01-19 ^(*)
1.6	0.3
MILLION PER YEAR	MILLION PER YEAR



PER CAPITA CONSUMPTION



Well-being

2022	Level 2019
20.3	14.7
MILLION OF PESOS PER YEAR	MILLION OF PESOS PER YEAR



INCREASE IN CONSUMER CREDIT BALANCE



Access to financing

2022	Avg. 01-19 ^(*)
3.3	1.4
TRILLION OF 2022 PER YEAR	TRILLION OF 2022 PER YEAR



INCREASE IN TERMS OF TRADE



Generation of external revenues

2022	Avg. 01-19 ^(*)
12.2	2.9
INCREASE IN BASIS POINTS DURING THE YEAR	INCREASE IN BASIS POINTS EACH YEAR

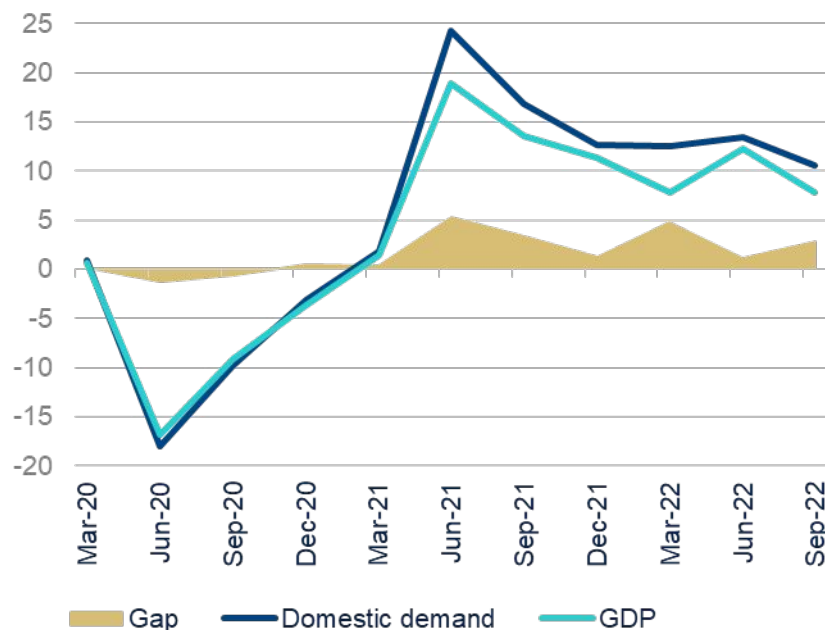
(*): Pandemic is excluded because it is a variation and avoids strong base effects.

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

Domestic demand, although gradually moderating, continued to grow above GDP. Within this, investment showed greater resilience.

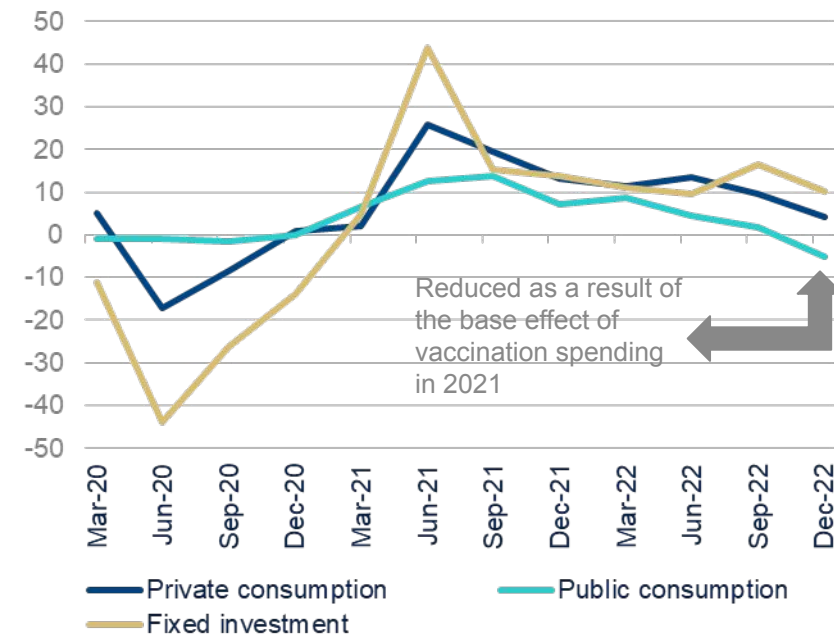
GDP AND DOMESTIC DEMAND

(REAL ANNUAL CHANGE(*), %)



FINAL CONSUMPTION AND INVESTMENT

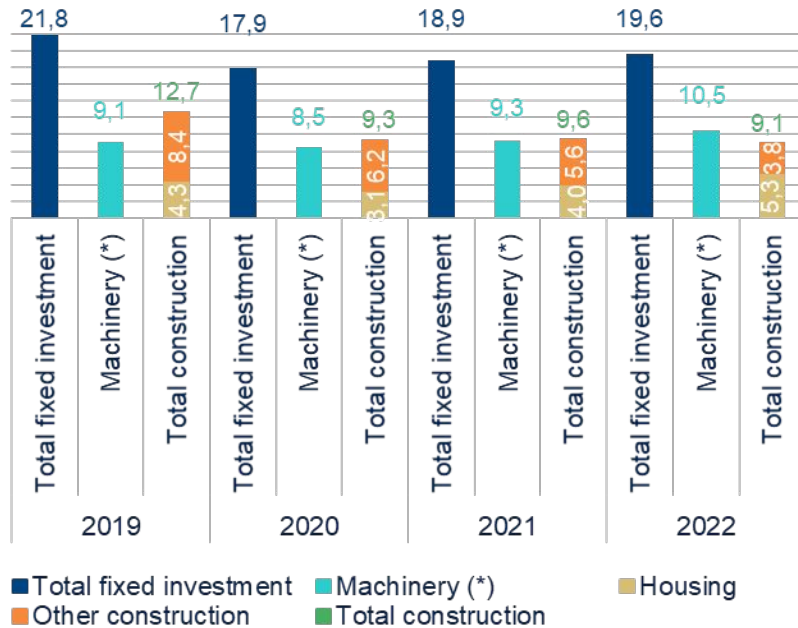
(REAL ANNUAL CHANGE, %)



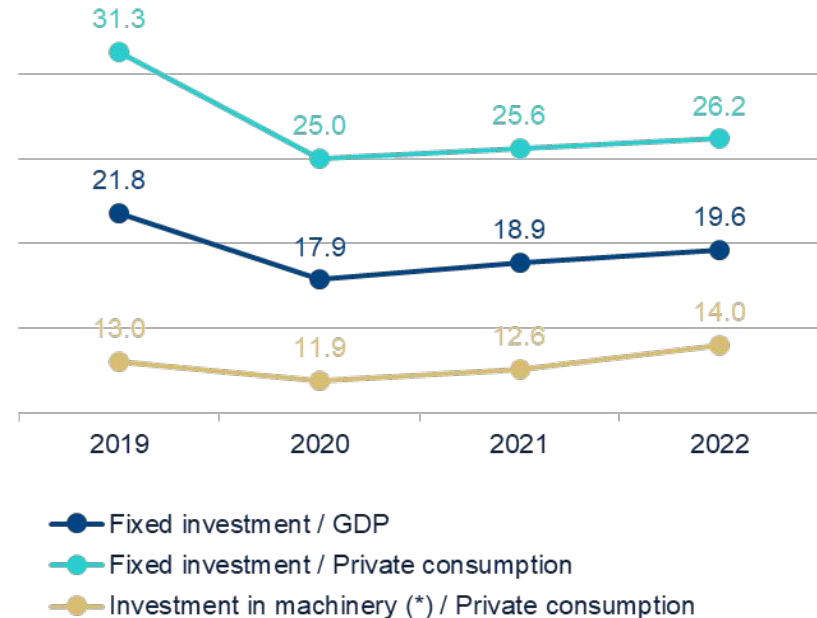
The outstanding performance in investment was explained by higher spending on machinery, which significantly increased its share of GDP

FIXED INVESTMENT BY COMPONENT (% GDP)

(% GDP)



FIXED INVESTMENT COMPARED TO GDP AND CONSUMPTION (% OF GDP AND CONSUMPTION)



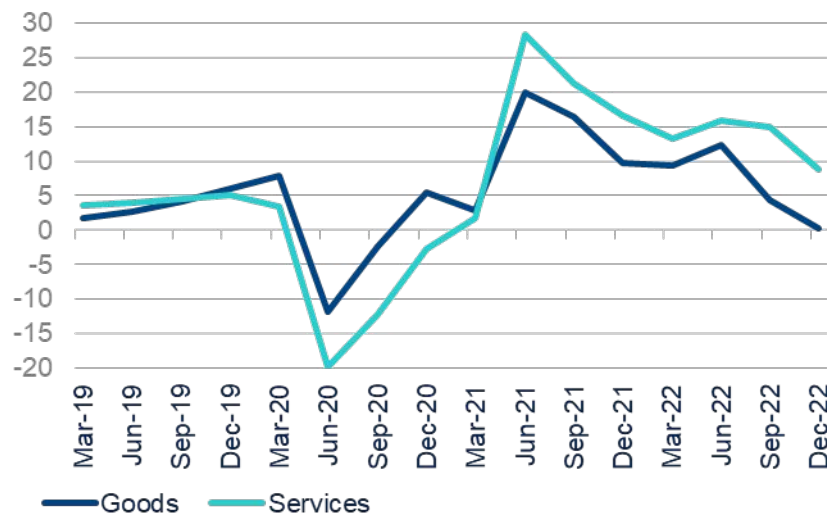
(*): Includes machinery and equipment, biological resources and intellectual property.

Source: BBVA Research with data from DANE.

Spending on services, however, led the performance of private consumption and increased its share of total household spending

PRIVATE CONSUMPTION BY TYPE

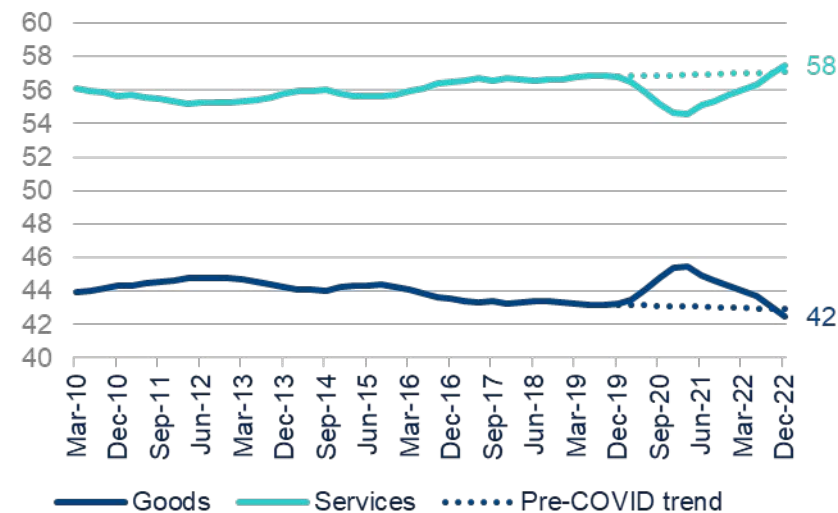
(REAL ANNUAL CHANGE, %)



Source: BBVA Research with data from DANE.

PRIVATE CONSUMPTION BY TYPE

(% OF PRIVATE CONSUMPTION)

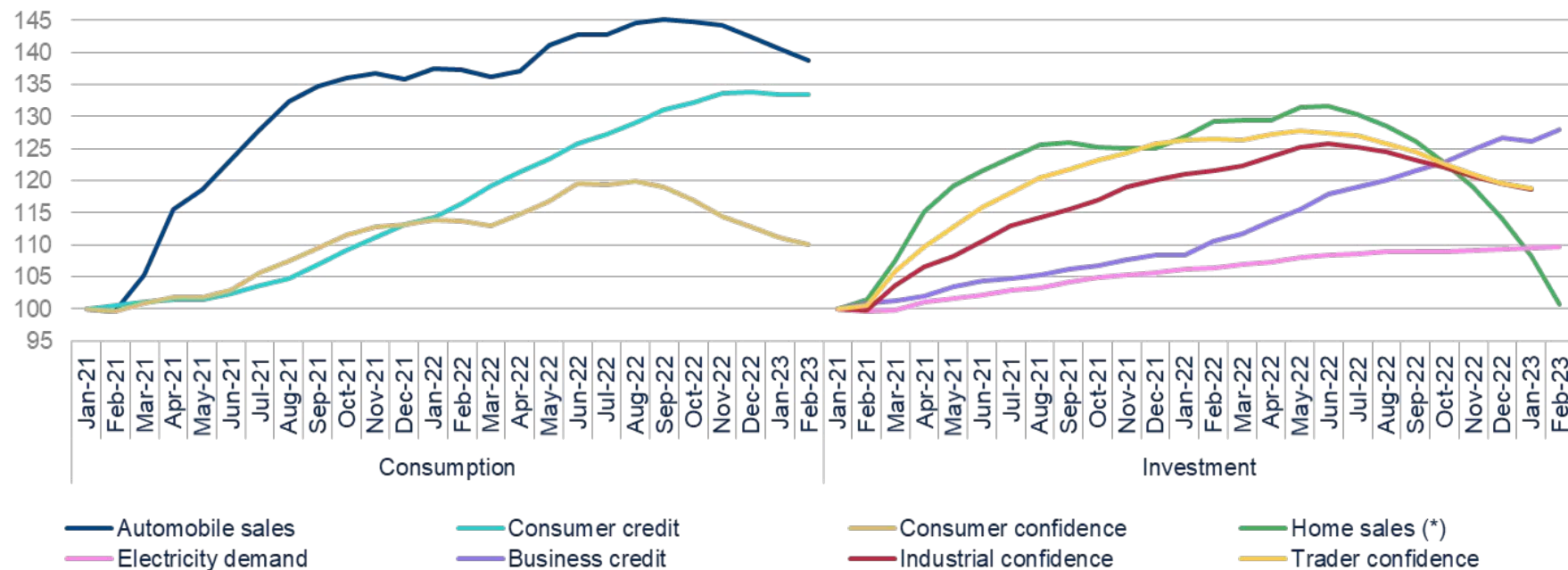


The trend toward greater consumption in services, which the country had been experiencing and which was interrupted by the pandemic, gained momentum when greater social interaction was once again permitted.

Economic indicators point to a slowdown in durable goods consumption and lower housing activity. Credit is starting to slow

LEADING ECONOMIC INDICATORS

(INDEX, JAN 21 = 100. 12-MONTH AVERAGE)



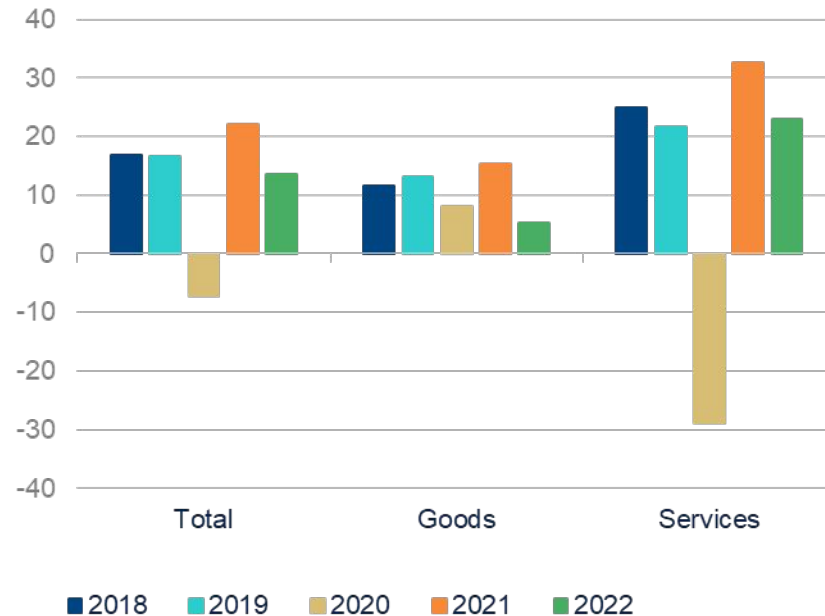
(*): Camacol data between January 2021 and January 2023. February 2023 is taken from La Galería Inmobiliaria.

Source: BBVA Research with data from Fenalco, Banco de la República Fedesarrollo, Camacol, La Galería Inmobiliaria and XM

BBVA data show that the deterioration in household spending remains greater for goods than for services at the start of 2023

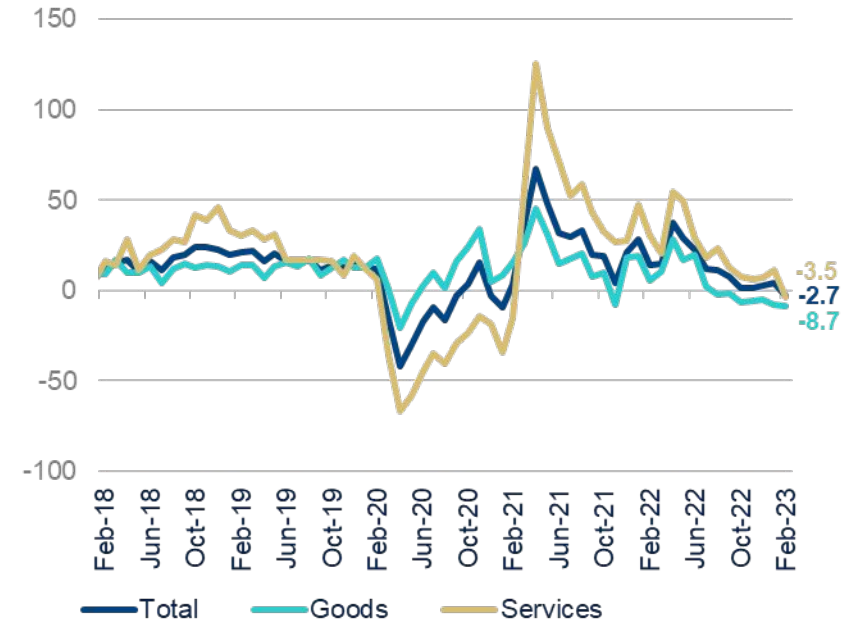
BBVA CONSUMPTION TRACKER: ANNUAL

(REAL ANNUAL CHANGE, %)



BBVA CONSUMPTION TRACKER: MONTHLY

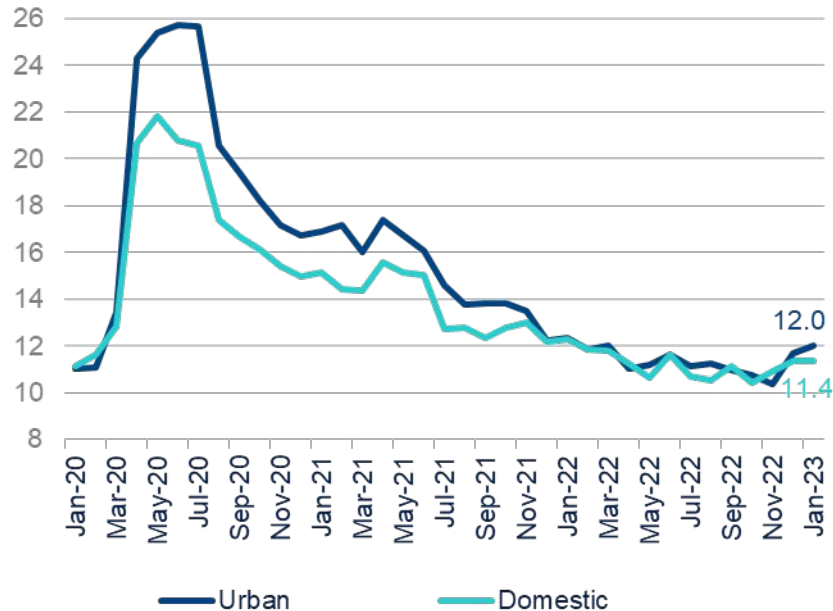
(REAL ANNUAL CHANGE, %)



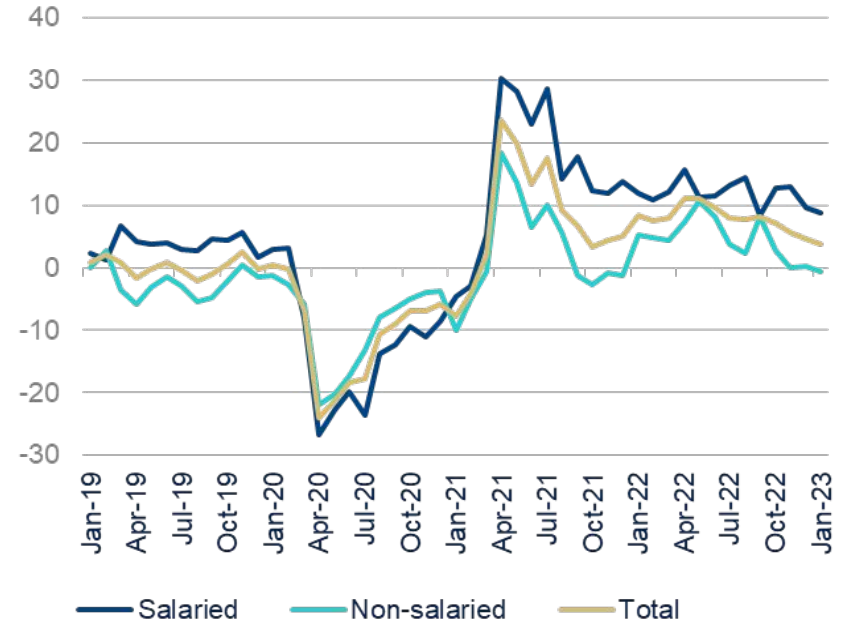
Despite the interruption of the downward trend in the unemployment rate, wage earning employment remains a strong pillar for 2023

NATIONAL UNEMPLOYMENT RATE

(% OF LABOR FORCE, SEASONALLY ADJUSTED SERIES)



NATIONAL EMPLOYED ACCORDING TO EMPLOYEES AND NON-EMPLOYEES (ANNUAL CHANGE, %)



03

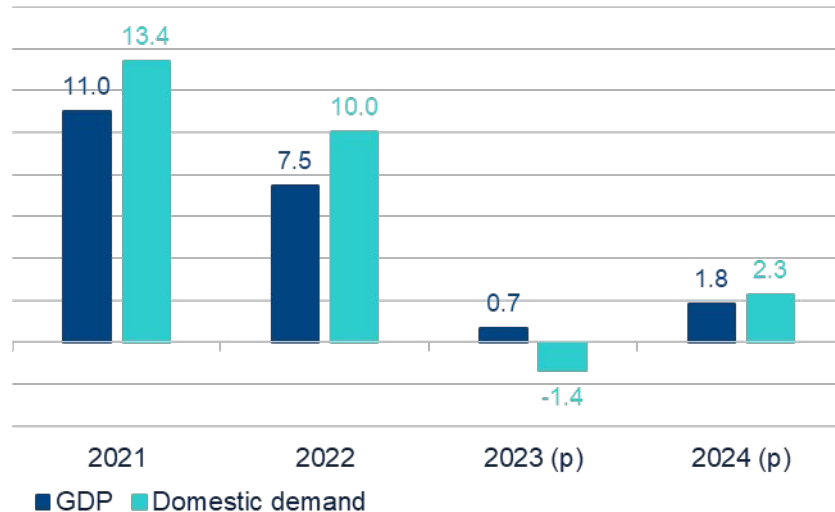
Growth forecasts

The economy will decelerate from high levels, especially due to lower private consumption. However, the economy still has good supports for growth.

We expect the economy to grow 0.7% in 2023 and 1.8% in 2024. Domestic demand will grow below GDP in 2023 and will boost it again in 2024

GDP AND ANNUAL DOMESTIC DEMAND

(REAL ANNUAL CHANGE, %)

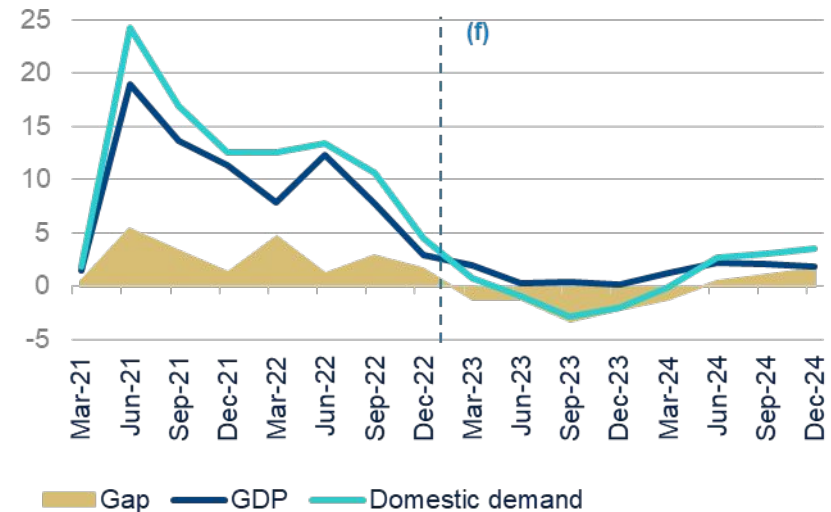


(f): BBVA Research forecasts

Source: BBVA Research with data from DANE.

GDP AND QUARTERLY DOMESTIC DEMAND

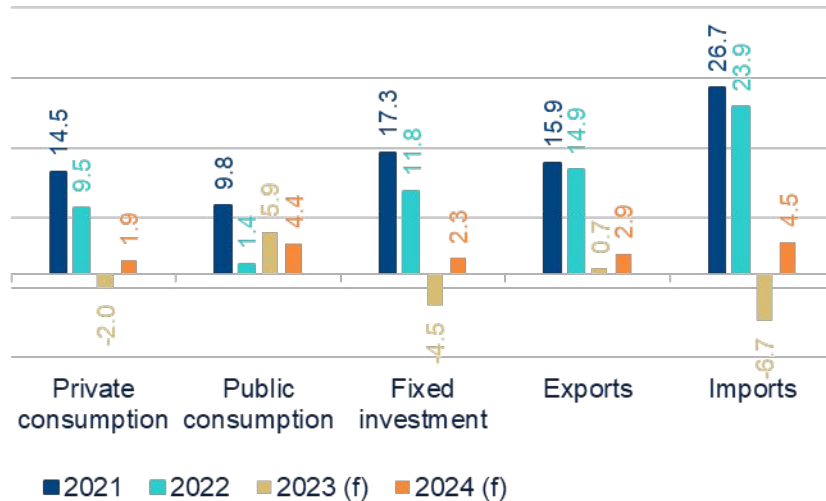
(REAL ANNUAL CHANGE AND DIFFERENCE, %)



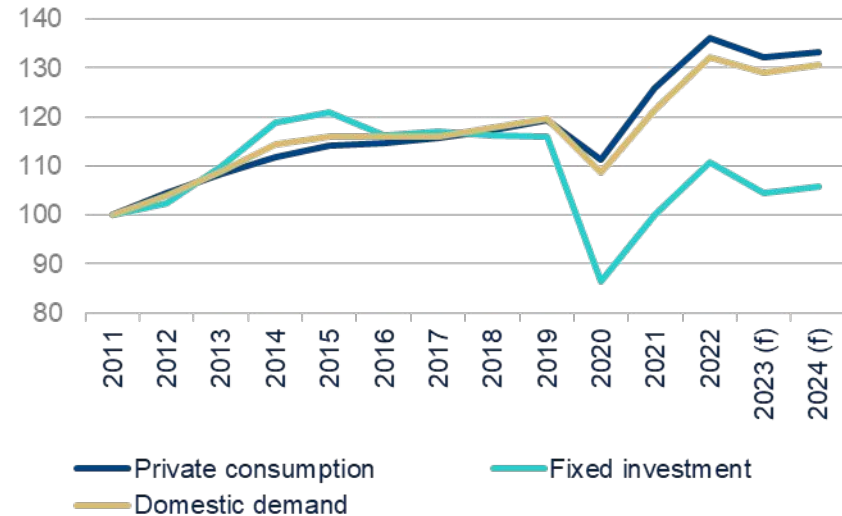
Domestic demand will continue to experience a slowdown until the end of 2023, when it will begin a gradual recovery, surpassing GDP growth in the second half of 2024.

Final consumption will be driven by government spending, which will accelerate. Investment will fall this year and grow slightly in 2024

GDP COMPONENTS (REAL ANNUAL CHANGE, %)



GDP COMPONENTS PER CAPITA (INDEX, 2011 = 100)

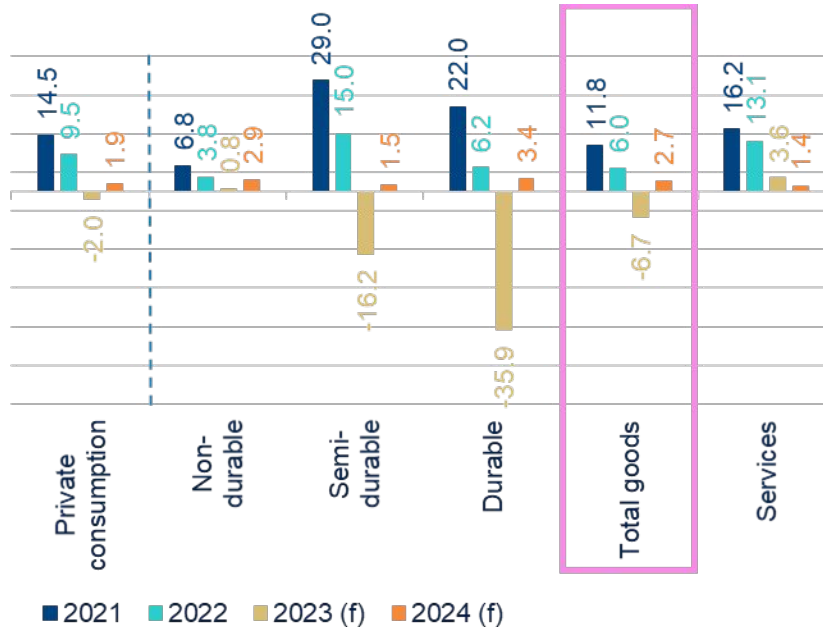


(f): BBVA Research forecasts
Source: BBVA Research with data from DANE.

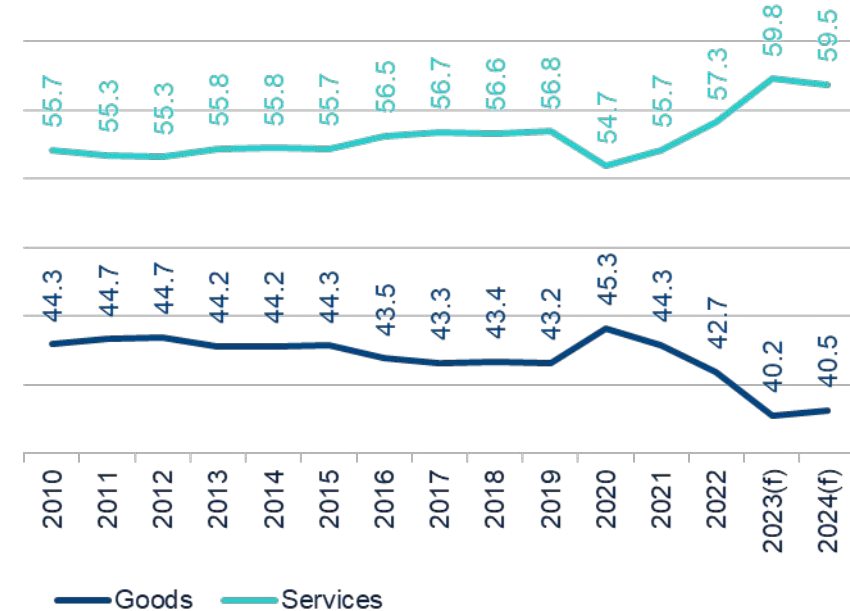
Despite the slowdown in private consumption, it will remain at an all-time high, as shown by *per capita* consumption.

In 2023-24, all household expenditure will slow down, but services will remain in positive territory and gain a greater share of total consumption

PRIVATE CONSUMPTION BY PRODUCT TYPE (REAL ANNUAL CHANGE, %)

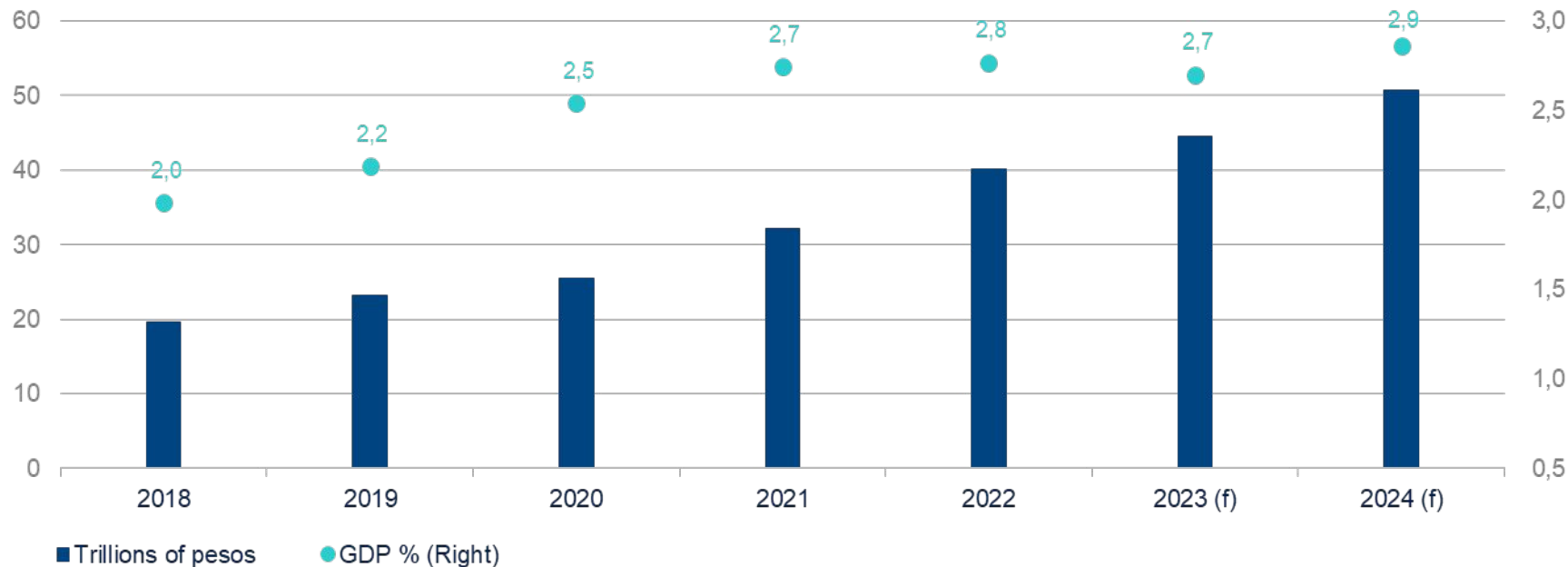


COMPOSITION OF HOUSEHOLD EXPENDITURE (% OF TOTAL CONSUMPTION)



During 2023 and 2024, remittance inflows will continue to support consumption capacity, both due to its value in dollars and the FX effect

REMITTANCE INFLOWS TO COLOMBIA
(NOMINAL TRILLIONS OF PESOS AND % OF GDP)



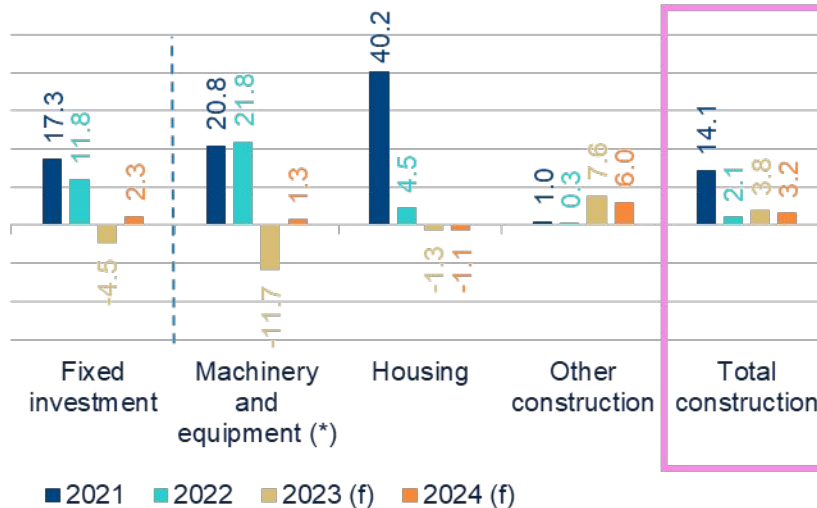
(f): BBVA Research forecasts.

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

In 2023, investment will be supported by civil works construction. Housing construction growth will be negative, both in 2023 and in 2024

FIXED INVESTMENT BY TYPE

(REAL ANNUAL CHANGE, % OF GDP)

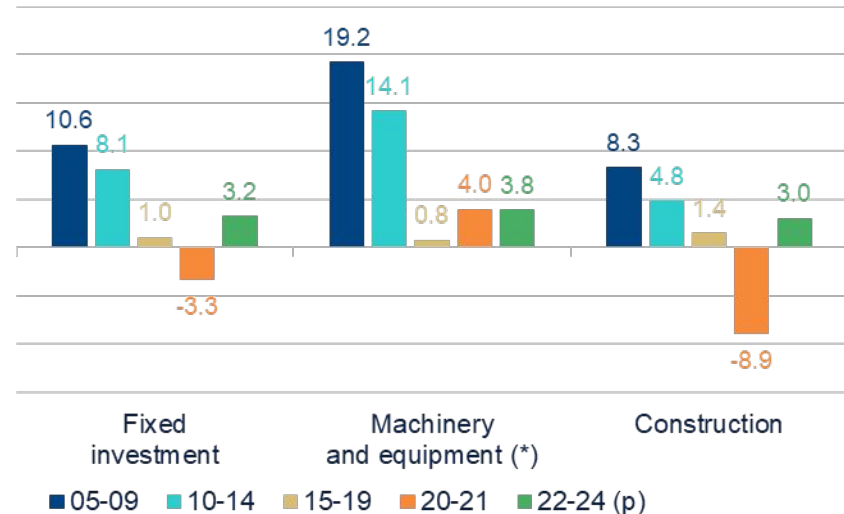


(f): BBVA Research forecasts

Source: BBVA Research with data from DANE.

FIXED INVESTMENT BY TYPE

(AVERAGE REAL ANNUAL CHANGE, %)

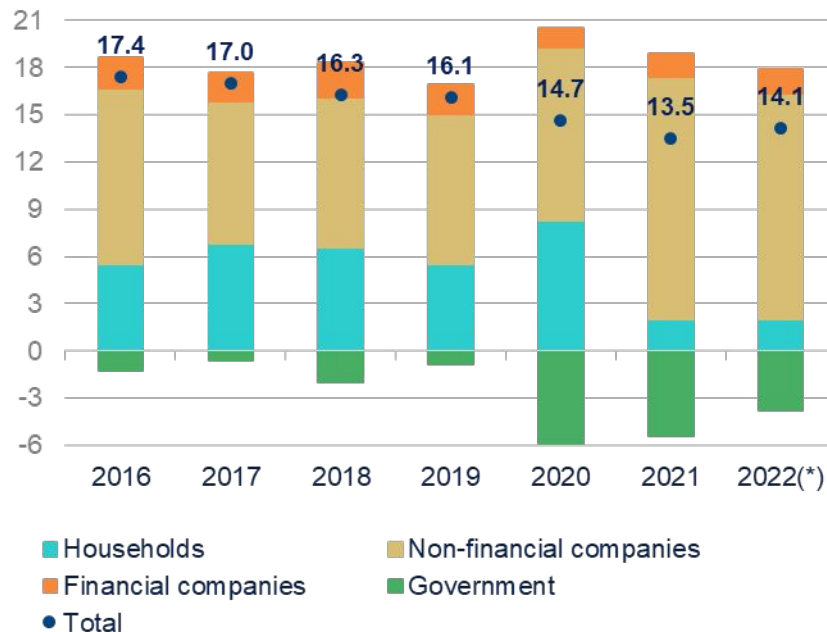


In the last 10 years, the Colombian economy has not been able to consolidate high and consecutive increases in fixed investment. It is necessary to boost its sustained increase in order to increase potential growth.

To some extent, the low investment was explained by the sharp reduction in domestic savings. In addition, this is pressuring the external deficit

DOMESTIC SAVINGS

(% GDP)

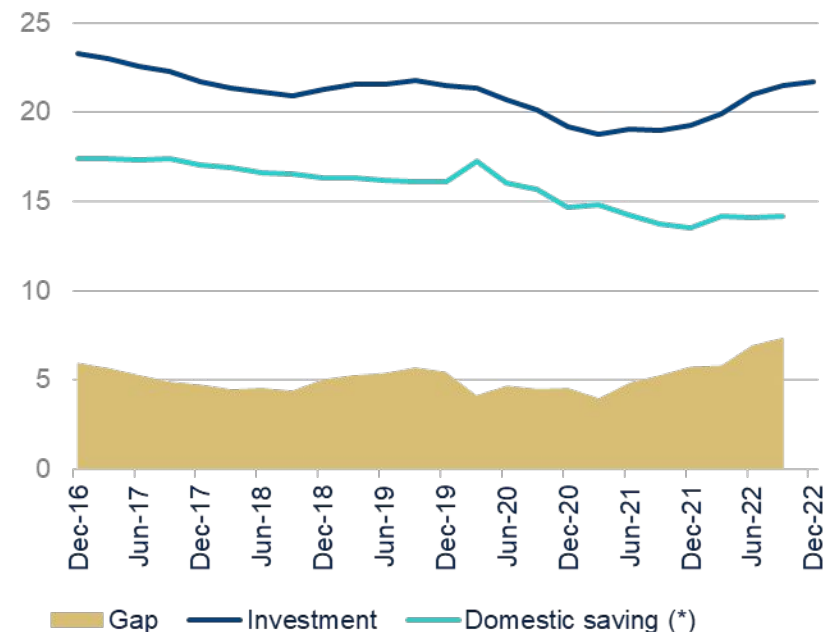


(*) Data as of September.

Source: BBVA Research based on data from DANE.

SAVINGS-INVESTMENT BALANCE

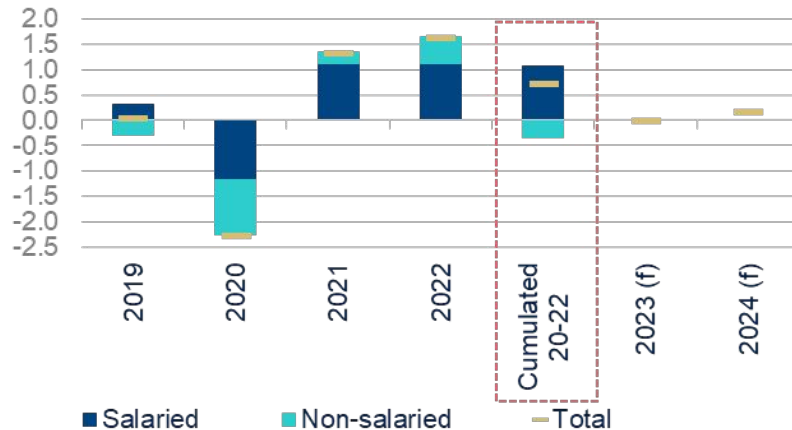
(% OF GDP, ROLLING YEAR)



Despite the slowdown in job creation and the expected higher unemployment rate, the economy is starting from a high level of formal employment

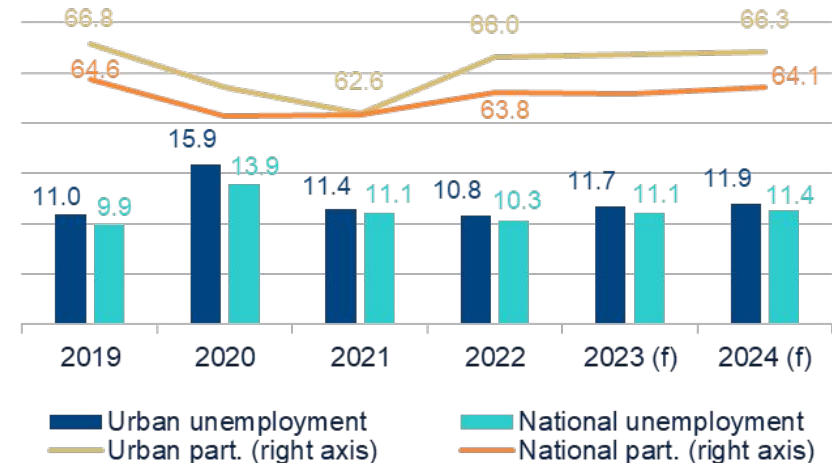
ANNUAL DOMESTIC JOB CREATION

(ANNUAL, MILLIONS OF PEOPLE)



UNEMPLOYMENT(*) AND PARTICIPATION RATES

LABOR(**) (% , END OF PERIOD)



(f): BBVA Research forecasts (*): Unemployment as a % of the active population. (**): Active population as a % of the working-age population.

Source: BBVA Research with data from DANE.

The slowdown in employment growth in 2023 is explained by the decrease in activity and the significant increase in the minimum wage, among other factors.

04

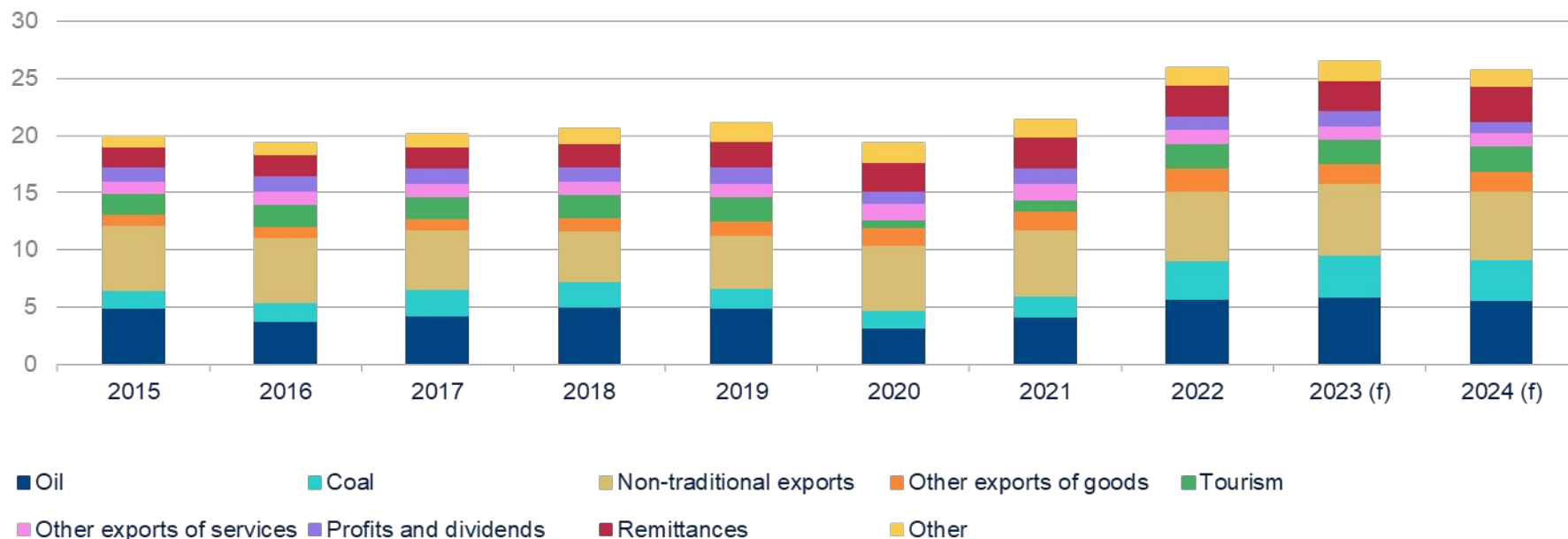
Structural balances

In 2023 and 2024, the fiscal and external deficits will be lower, although they will still remain at high levels.

In 2023-24, foreign exchange inflows from oil (22% of the total), remittances (11%) and coal (14%) will be important. Tourism is gaining relevance (8%)(*)

CURRENT ACCOUNT INFLOWS

(% GDP)



(*): Non-traditional exports (23% of the total) are the most important in terms of foreign exchange generation. However, being the sum of a multitude of products, they were not highlighted in the title.

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

Exports to remain stable in 2023 and 2024, helped by high terms of trade

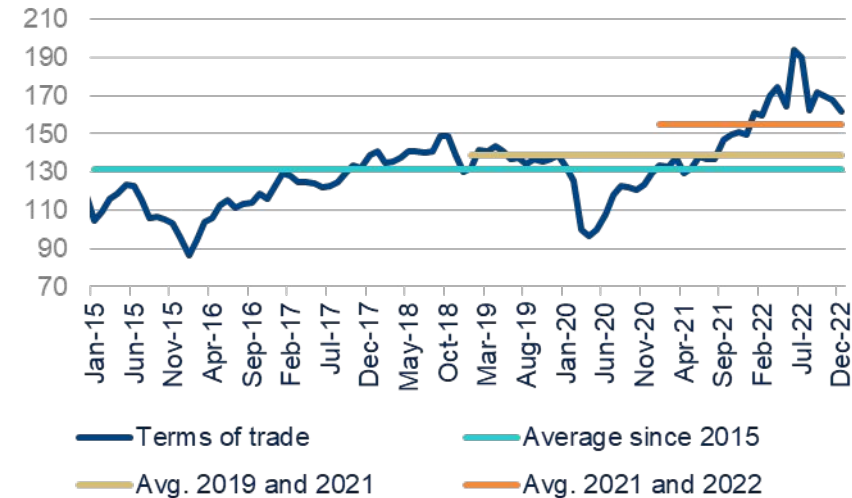
EXPORTS

(BILLIONS OF DOLLARS)



TERMS OF TRADE

(INDEX, YEAR 2000 = 100)



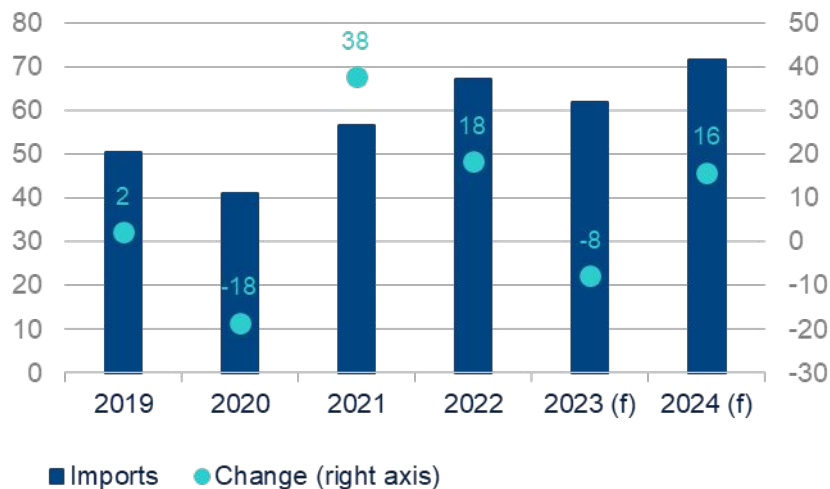
Source: BBVA Research based on data from DANE and Banco de la República.

The terms of trade were above pre-pandemic levels and historical averages.

Imports will decrease in 2023, in line with lower domestic demand and a narrowing of the trade balance deficit

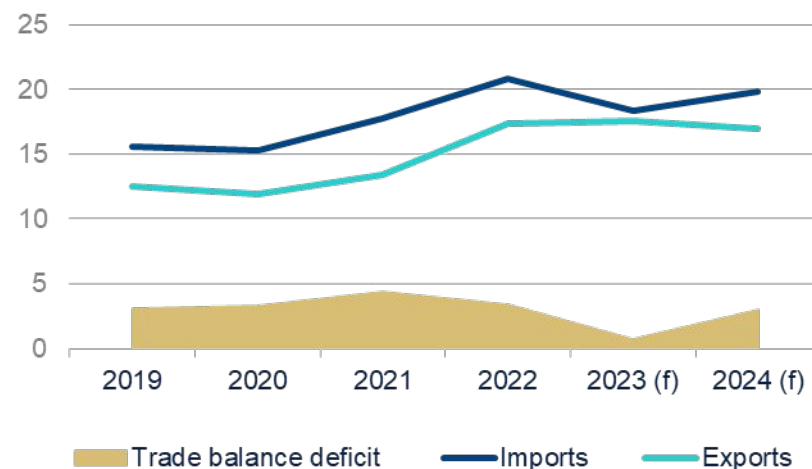
IMPORTS

(BILLIONS OF DOLLARS, ANNUAL CHANGE, %)



TRADE BALANCE

(% GDP)



(f): BBVA Research forecasts.

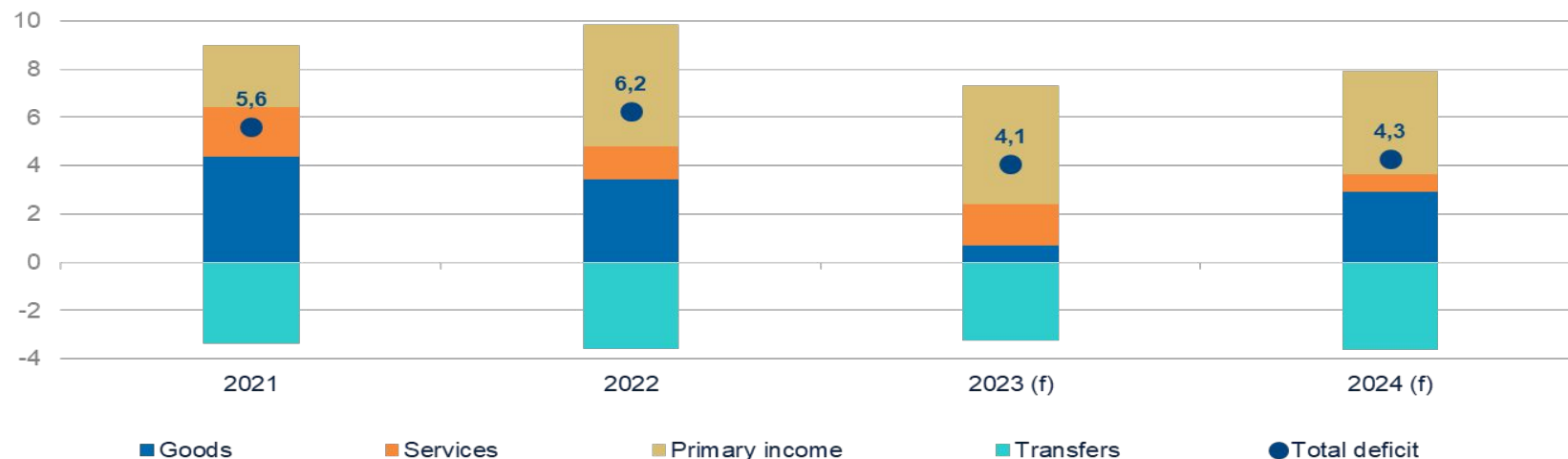
Source: BBVA Research based on data from DANE and Banco de la República.

In 2024, non-traditional exports will gain momentum, although the recovery of imports and the decrease in commodity prices and quantities exported will put upward pressure on the trade deficit.

The external deficit will correct in 2023 and 2024 due to continued strong export performance and the expectation of lower domestic demand.

CURRENT ACCOUNT DEFICIT BY COMPONENT

(% OF GDP)

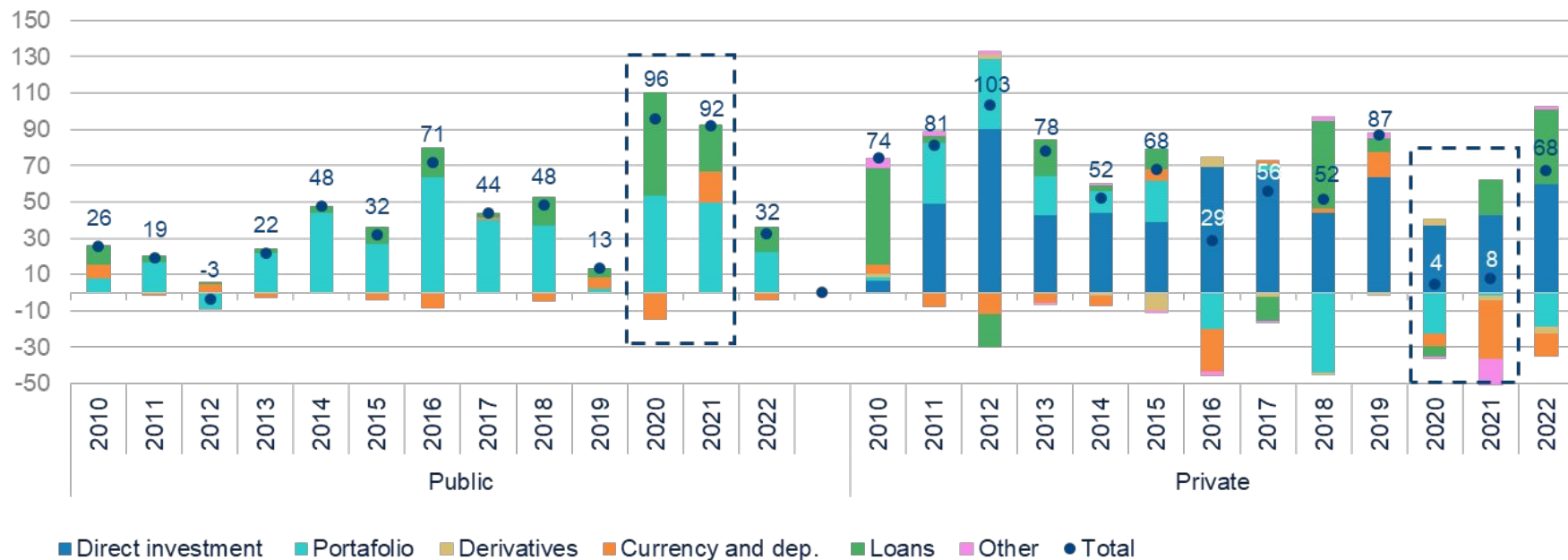


Source: BBVA Research with data from Banco de la República..

In 2023, the FDI will again be the main source of external financing: in 2021, FDI financed 52% of the current account, in 2022 it was 82%, in 2023 it will represent 94% and in 2024 it will represent 84%.

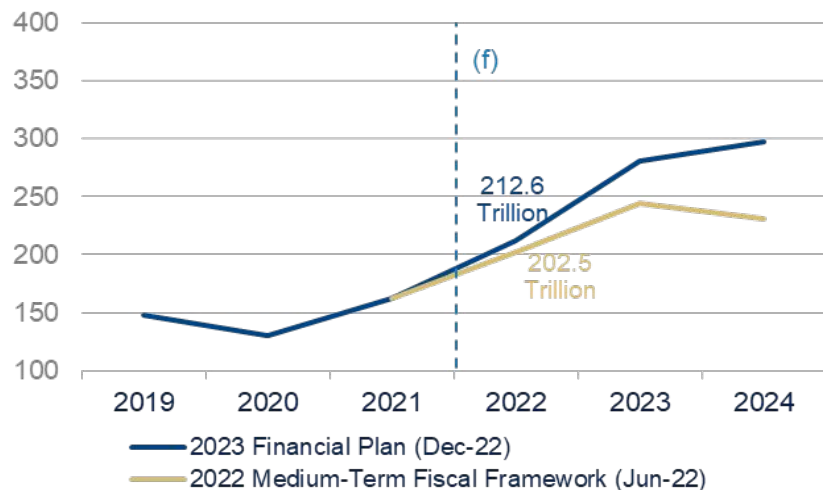
The private sector will again be more important in the financing of the current account, unlike during the pandemic

COMPOSITION OF THE FINANCIAL ACCOUNT BY SECTOR AND ACCORDING TO SOURCE OF FINANCING (% OF TOTAL EXTERNAL FINANCING FOR THE YEAR)

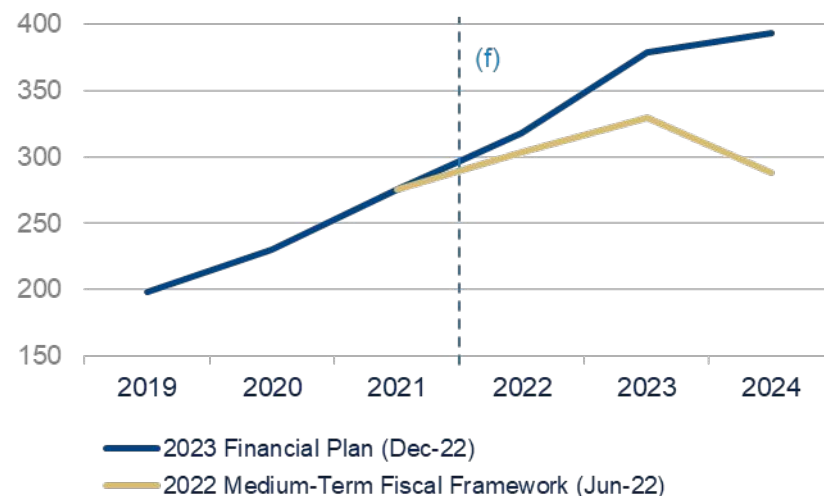


According to the government, in 2023 and 2024 spending will stand at 24.4% and 23.7% of GDP^(*), up from the level for 2019: 18.7%

NATIONAL CENTRAL GOVERNMENT TAX REVENUES (TRILLIONS OF PESOS)



TOTAL NATIONAL CENTRAL GOVERNMENT EXPENDITURE (TRILLIONS OF PESOS)



(f): Ministry of Finance forecasts. (*) The update of the Financial Plan was prior to the publication of the 2022 GDP closing data..

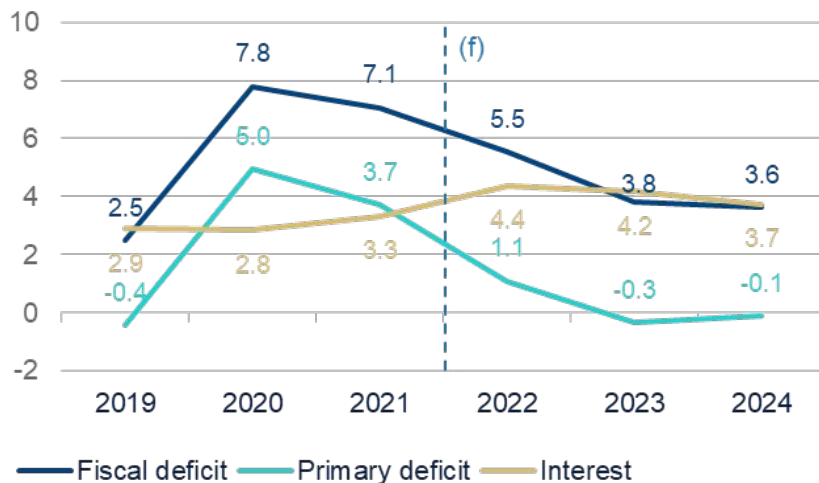
Source: BBVA Research with data from the Ministry of Finance in the 2022 Medium-Term Fiscal Framework and the 2023 Financial Plan Update.

The tax reform in 2022 and higher economic growth will boost government revenues in 2023, allowing for higher spending than previously anticipated, although some of this spending is FEPC.

The government deficit will be in line with the tax rule, thus gradually reducing the debt

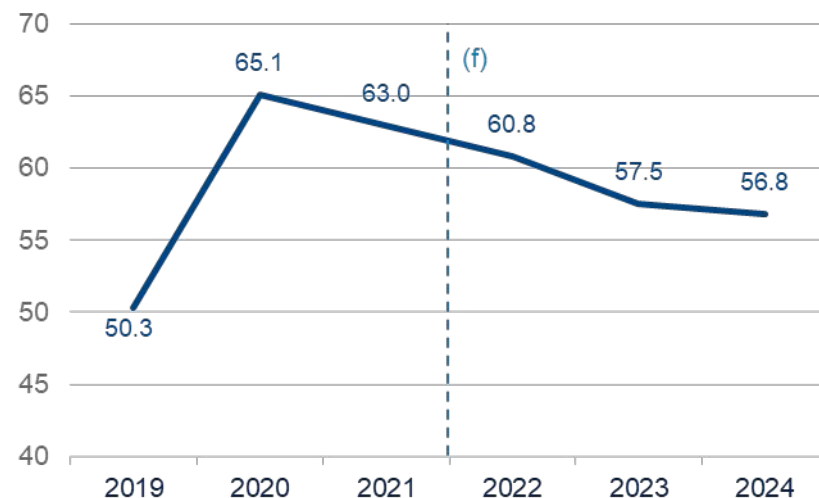
CENTRAL NATIONAL GOVERNMENT BALANCE

(% GDP)



CENTRAL NATIONAL GOVERNMENT DEBT

(% GDP)



(f): BBVA Research forecasts.

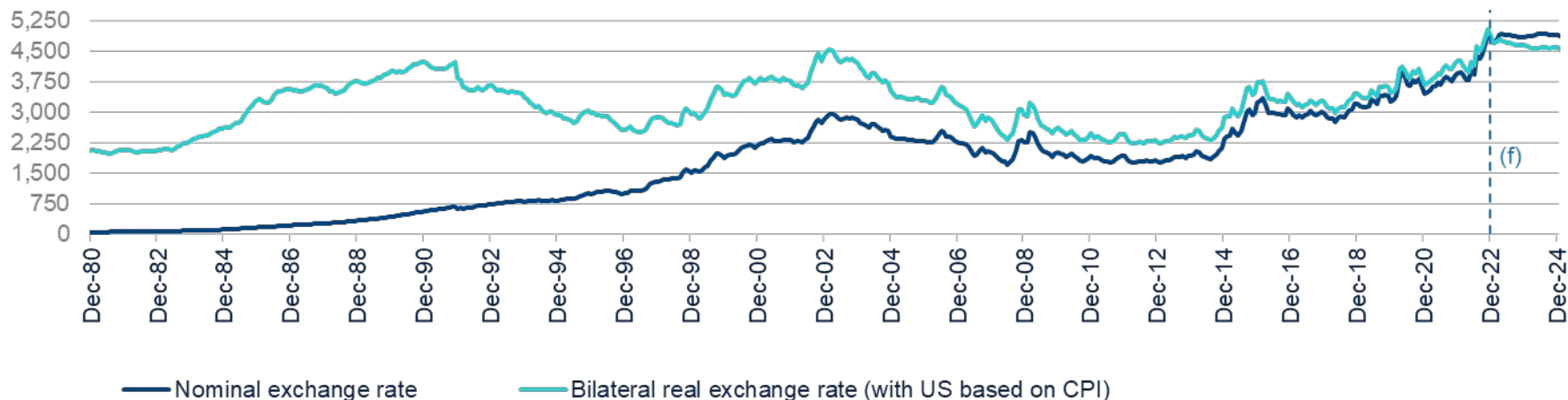
Source: BBVA Research based on data from the Ministry of Finance.

This deficit will be achieved even if the full revenues of the government's 2023 scenario do not materialize as there is room to reduce spending and the government has stated its commitment to the rule on several occasions

The peso is at its highest level (nominal and real). Moreover, it will remain weak, which partly explains the more optimistic outlook for exports

NOMINAL AND REAL BILATERAL EXCHANGE RATE^(*)

(PESOS PER DOLLAR)



	Average	Average Dep.	End of period	End of period dep.
2022	4,256	13.7	4,788	20.7
2023 (f)	4,863	14.3	4,860	1.5
2024 (f)	4,905	0.9	4,910	1.0

(*) Corresponds to the real bilateral exchange rate based on the CPI of Colombia and the United States at Jan 2023 prices; (f): BBVA Research forecasts

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

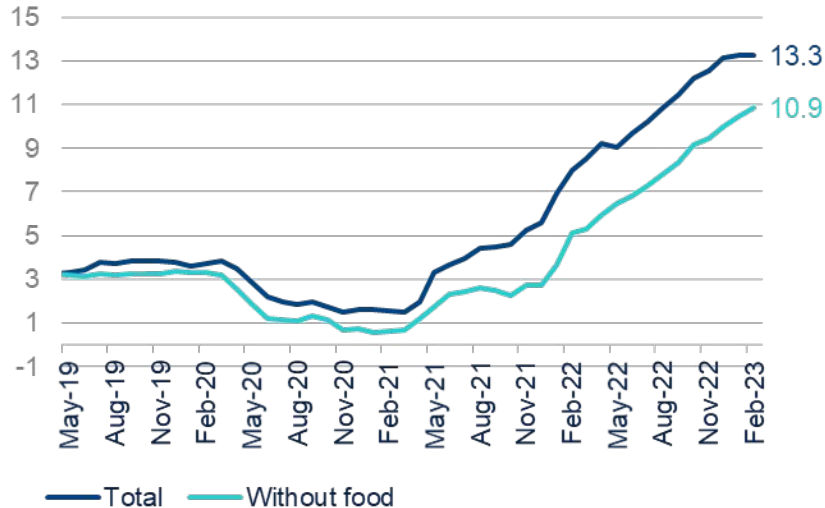
05

Inflation and interest rates

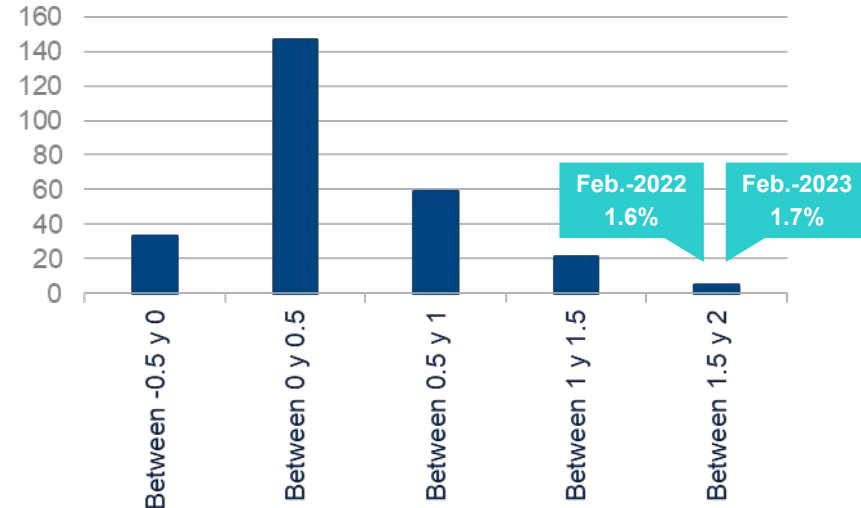
The inflation rate will reduce starting in 2023, but at a more gradual pace than in previous cycles, which will influence the BanRep's reductions to be progressive from the end of next year as well.

Total inflation continues to rise, reaching 13.3%, while without food inflation is beginning to take on greater importance, and reached 10.9%.

TOTAL INFLATION
(ANNUAL CHANGE, %)



TOTAL INFLATION - FREQUENCY 2001-2023
(MONTHLY CHANGE, FREQUENCY)



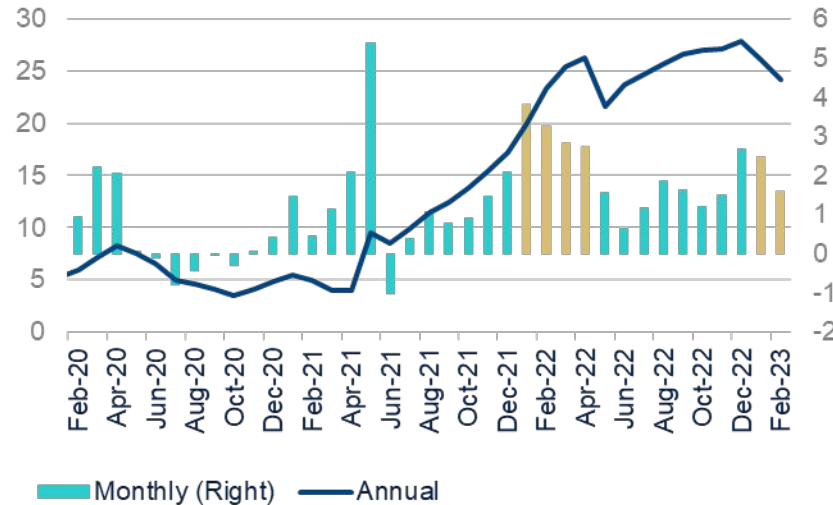
Source: BBVA Research based on data from DANE.

Total monthly inflation remains at the highest levels recorded since 2001 (date of target inflation consolidation). Indexing effects are already seen in the first couple of months of 2023 due to the high levels of inflation at the 2022 year-end.

Food inflation remained at high levels, but in annual terms it is starting to moderated thanks to a high base of comparison in 2022.

FOOD INFLATION

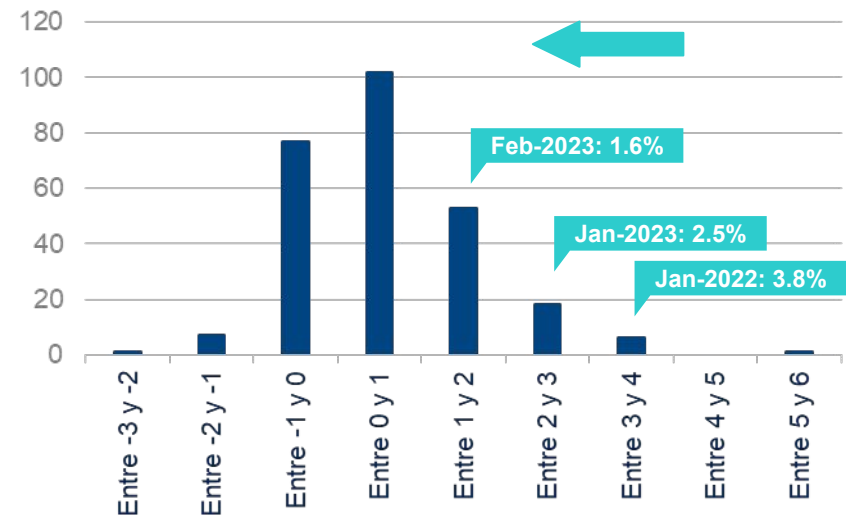
(ANNUAL AND MONTHLY CHANGE, %)



Source: BBVA Research based on data from DANE.

FOOD INFLATION - FREQUENCY 2001-2023

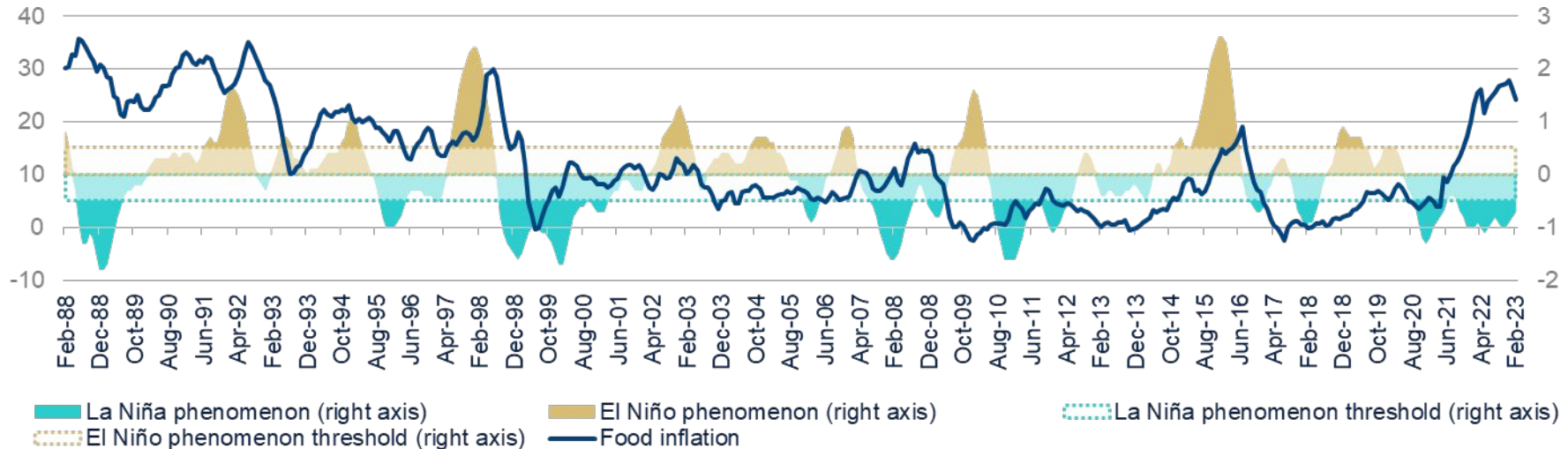
(MONTHLY CHANGE, FREQUENCY)



In the comparison, food inflation in 2022 remained within the highest frequency range since 2001, The new data begins to ease, despite remaining at levels well into its historical highs.

In the food basket, climate distortions with “La Niña” generated important impact in inflation in 2022. There are risks going forward due to “el Niño”.

FOOD INFLATION AND PACIFIC OCEAN TEMPERATURE (ANNUAL CHANGE, % AND DEGREES CELSIUS)

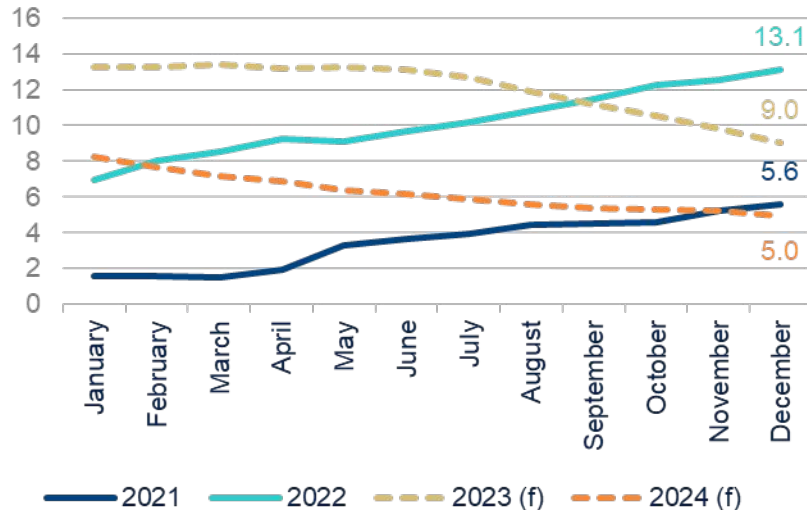


Source: BBVA Research with data from DANE and Climate Prediction Center

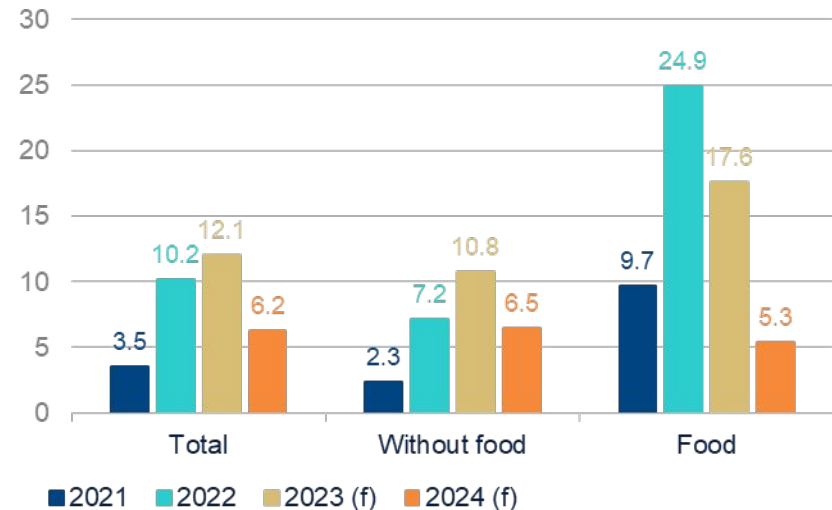
The extended rainy season in 2022 generated supply problems for some agricultural products, pushing in price increases. Meanwhile, the occurrence of droughts is not ruled out, which could have a new impact on the sector.

Inflation is expected to ease moderately in 2023, ending the year at 9%. In 2024, the path will adjust more rapidly, ending at 5%.

TOTAL INFLATION
(ANNUAL CHANGE, %)



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



(f): BBVA Research forecasts.

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

Inflation moderation in 2023 will be observed only until the second half, leading to a higher year average than in 2022. The high levels of average inflation will continue into 2024

The balance of inflation risks is skewed to the upside

UPSIDE RISKS



CLIMATE SHOCKS

The probability of an occurrence of El Niño phenomenon has increased in the last couple of months and may have an effect on food prices



INFLATION FORECASTS

Inflation expectations could continue increasing as a consequence of inflation surprises.



WAGES AND INDEXING

Wage increases well above inflation may have greater than expected impacts on costs and reinforce price indexation.



GASOLINE/DIESEL PRICES

The intensity of fuel price increases could be stronger than expected, in order to reduce the current gap with international prices



CONSUMPTION DYNAMICS

The slowdown in private consumption is still gradual and governments could increase spending this year.

DOWNSIDE RISKS



FOOD INFLATION

In the past, the return from periods of strong food price changes has been faster and more intense than expected for 2023-2024.



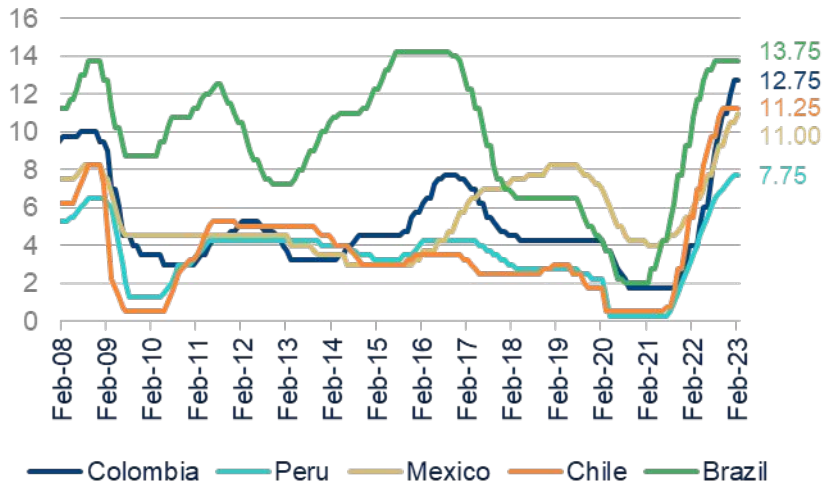
INVENTORY ACCUMULATION

The industry is starting to accumulate inventories which, together with the higher installed capacity it has, could imply a reduction in prices.

The current cycle of rate hikes has been the most pronounced in the last 15 years in the region. Pauses have already been observed in Brazil and Chile

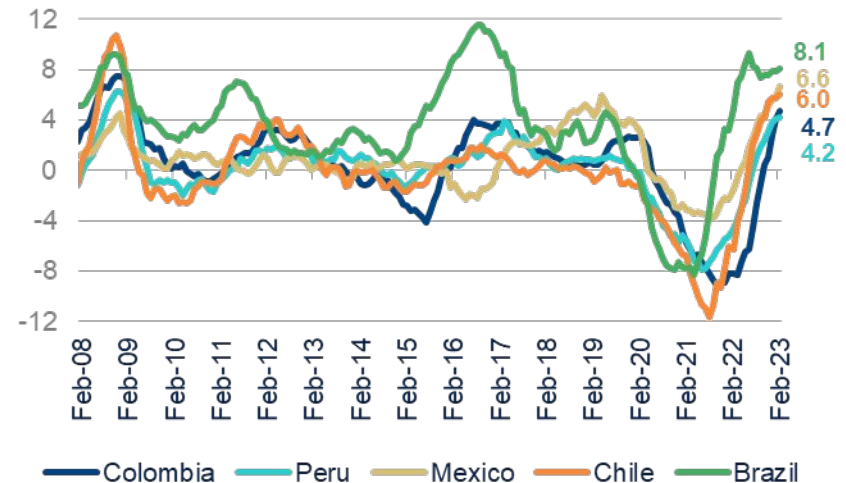
POLICY INTEREST RATE IN THE REGION

(NOMINAL RATE, %)



POLICY INTEREST RATE IN THE REGION

(12 MONTH FORWARD REAL RATE WITH TOTAL INFLATION^(*), %)



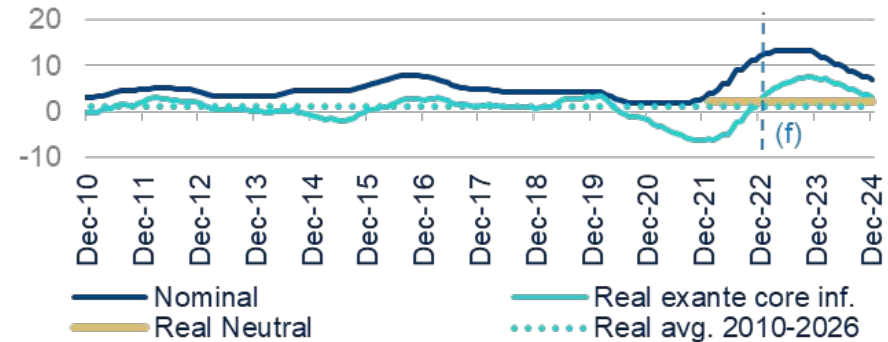
(f): BBVA Research forecasts; (*): Based on BBVA Research forecasts for 12-month forward total inflation.
Source: BBVA Research.

At the level of real rates with expected total inflation, the monetary policy stance is broadly contractionary in the region.

The Central Bank would be close to reaching its terminal rate in the current cycle and would maintain it at this level for most of 2023

- **The central bank is close to reaching its terminal rate**, according to the latest press release and recent speeches by the Manager.
- **However, it still faces a difficult policy challenge.** First, inflation is expected to continue its upward trend, especially core inflation. Second, there are already several signs of moderation in activity and credit interest rates exceed the increases of Banco de la República, with effects on credit disbursements.

POLICY INTEREST RATE
(NOMINAL AND REAL RATE, %)



	Nominal	Real		
		Ex ante core	Ex Post core	Ex Post headline
Jan-23	12.75	4.0	2.1	-0.4
Dec-23	12.50	7.3	2.8	3.2
Dec-24	7.00	3.1	2.0	2.0

(f): BBVA Research forecasts.

Ex ante implies using the 12 month ahead inflation to calculate the real interest rate

Ex post implies using the contemporary inflation to calculate the real interest rate

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

The beginning of the downward cycle would be determined by the performance of economic activity and the change in the trend of total and core inflation. We expect these signals to materialize with the beginning of the reduction of rates in December 2023.

06

Closing remarks

Colombia must aim for a sustainable growth path with social inclusion.

Colombia needs to pursue a more sustainable path to growth with social inclusion

ECONOMIC GROWTH



Promote productivity, competitiveness and formalization in the private sector:

productive public spending, investment in infrastructure, attraction of domestic and foreign investment, diversification of exports along with the strengthening of existing exports, simplification of public-private processes and business formalization.

LABOR MARKET



Promote formal labor inclusion: better and more education with long-term policies, strengthening STEM subjects in basic education, reviewing labor and non-labor costs and their relative price compared to capital, increasing labor productivity to improve wages.

MACROECONOMIC BALANCES



Promote savings and productive spending: increase private savings and return to having public savings, reduce the external deficit, increase potential GDP, reduce intergenerational debt.

INSTITUTIONS



Promote the coordination of macroeconomic policies.

SOCIAL INCLUSION



Promote inclusive growth: collect taxes and give subsidies with better focalization and reinforce the social welfare system.

07

Forecast

Macroeconomic forecast

	2020	2021	2022	2023 (f)	2024 (f)	2025 (f)	2026 (f)
GDP (% y/y)	-7.3	11.0	7.5	0.7	1.8	2.4	3.1
Private consumption (% y/y)	-4.9	14.5	9.5	-2.0	1.9	2.8	3.2
Public consumption (% y/y)	-0.76	9.8	1.4	5.9	4.3	3.4	4.0
Fixed investment (% y/y)	-24.0	17.3	11.8	-4.5	2.3	3.2	3.0
Inflation (% y/y. eop)	1.6	5.6	13.1	9.0	5.0	3.8	3.3
Inflation (% y/y. avg)	2.5	3.5	10.2	12.0	6.2	3.9	3.5
Exchange rate (eop)	3,469.0	3,968.0	4,788.0	4,860.0	4,910.0	4,809.0	4,499.0
Devaluation (%. eop)	5.9	14.4	20.7	1.5	1.0	-2.1	-6.4
Exchange rate (avg)	3,693.3	3,744.3	4,256.0	4,861.8	4,904.4	4,827.1	4,606.5
Devaluation (%. eop)	12.9	1.4	13.7	14.2	0.9	-1.6	-4.6
Interest policy rate (%. eop)	1.75	3.00	12.00	12.50	7.00	5.50	5.50
Fixed Term Deposit rate (%. eop)	-3.4	-5.7	-6.2	-4.1	-4.3	-4.5	-4.6
Urban unemployment rate (%. eop)	15.9	11.4	10.8	11.7	11.9	11.5	11.1

(f): BBVA Research forecast.

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

Main economic variables

	GDP (% y/y)	Inflation (% y/y. eop)	Exchange rate (vs. USD. eop)	Interest Policy Rate (%. eop)
Q1 21	1.5	1.5	3,617	1.75
Q2 21	18.9	3.6	3,693	1.75
Q3 21	13.6	4.5	3,820	2.00
Q4 21	11.3	5.6	3,968	3.00
Q1 22	7.8	8.5	3,806	5.00
Q2 22	12.3	9.7	3,922	7.50
Q3 22	7.8	11.4	4,437	10.00
Q4 22	2.9	13.1	4,788	12.00
Q1 23	2.0	13.4	4,900	13.25
Q2 23	0.2	13.1	4,905	13.25
Q3 23	0.4	11.2	4,865	13.25
Q4 23	0.1	9.0	4,860	12.50
Q1 24	1.2	7.2	4,880	11.00
Q2 24	2.2	6.2	4,935	9.50
Q3 24	2.1	5.4	4,910	8.00
Q4 24	1.8	5.0	4,910	7.00
Q1 25	2.1	4.0	4,816	6.50
Q2 25	1.8	3.8	4,817	6.00
Q3 25	2.9	3.7	4,837	5.50
Q4 25	3.0	3.8	4,809	5.50
Q1 26	2.8	3.6	4,589	5.50
Q2 26	2.9	3.5	4,624	5.50
Q3 26	3.2	3.5	4,579	5.50
Q4 26	3.5	3.3	4,499	5.50

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

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Colombia Economic Outlook

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