BBVA Research

Colombia Economic Outlook

June 2023

Creating Opportunities

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01

Global environment

Global growth remains strong as we move through 2023, buoyed by the labor markets and China's recovery. However, we will see a sharper slowdown in 2024 if interest rates remain persistently high.

Main messages

Recent developments

A combination of easing supply shocks (due to lower commodity prices and normalized supply bottlenecks) and resilient demand (on tight labor markets and lingering post-covid reopening effects) has continued to support growth. While, in general, headline inflation has peaked, core inflation has yet to decline more significantly. In this context, the central bank's focus on inflation has been reaffirmed, which has helped to create tensions in US regional banks.

Growth outlook

2023 growth will be higher than previously forecast, mostly due to positive incoming data, but 2024 growth will be weaker than anticipated, thanks to the lagged impact of tighter monetary and credit conditions. Global growth will slow from 3.4% in 2022 to 2.9% (+0.2pp higher than the previous forecast) in 2023 and 2.9% (-0.3pp) in 2024.

Inflation and rates outlook

Central banks will keep rates at restrictive levels for some time, probably for longer than markets are expecting. Liquidity withdrawal programs, credit tightening boosted by the US banking turmoil and, eventually, less expansive fiscal policies will also favor a gradual easing of demand and prices. Still, some second round effects will contribute to keep inflation above the targets for a long period. Against this backdrop, the main risk is that high inflation and tight monetary conditions triggers a sharp recession or new financial instability episodes.

Growth and inflation are easing, but remain resilient, spurring a monetary tightening that continues to cause episodes of financial volatility

RECENT DEVELOPMENTS IN THE WORLD ECONOMY

Growth resilience

Slow growth deceleration on tight labor markets and lingering post-covid effects.

Inflation persistence

Lower inflation on eased energy prices and bottlenecks, but sticky core inflation.

Restrictive monetary policy

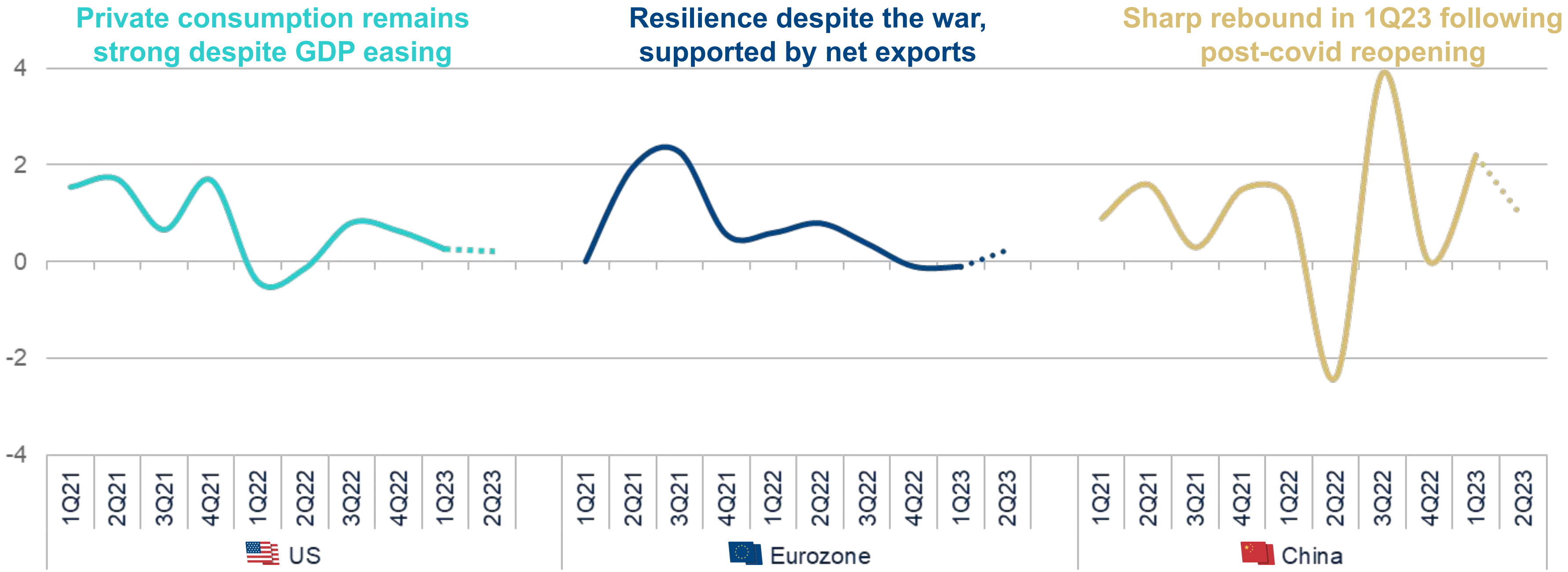
Central banks focused on inflation; policy rates at (or close to) peak, but higher for longer.

Financial stress

Bank turmoil, with contagion mostly limited to US regional banks (no financial dominance).

GDP growth is slowing down in the US, remains very moderate in the EU and has rebounded significantly more than expected in China in 1Q23

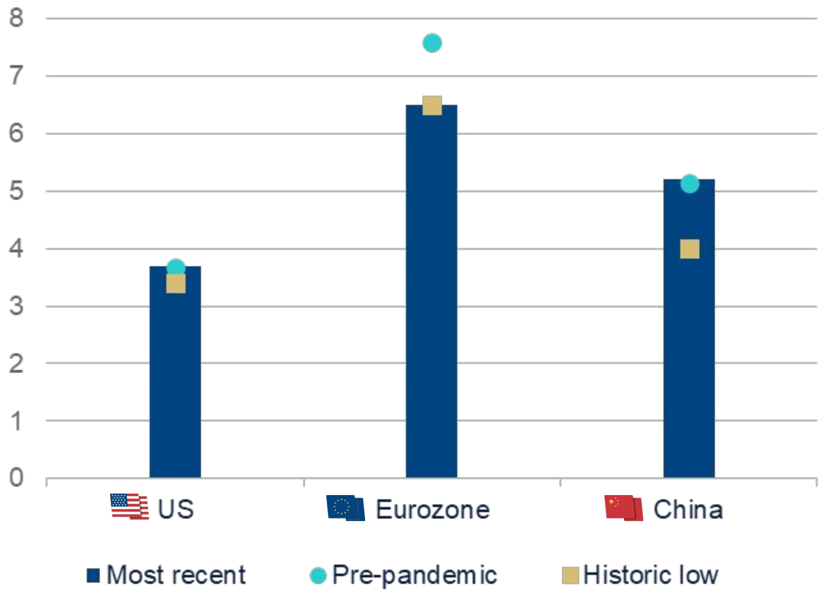
GDP: REAL GROWTH
(Q/Q %)



(*) BBVA Research growth forecasts for 2Q23.
Source: BBVA Research based on data from Haver.

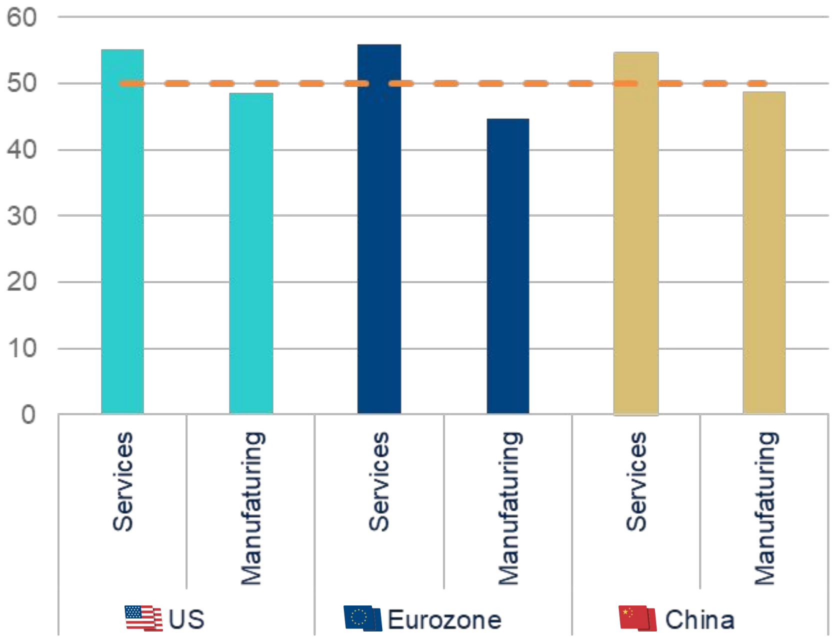
Activity dynamism, mainly in private consumption and the services segment, has been supported by strong labor markets and lingering reopening effects

UNEMPLOYMENT RATE (*)
(% OF THE LABOR FORCE)



(*) Most recent data: May/23 in the US, Apr/23 in China and in the EZ. Pre-pandemic: 2019 average. Historic low: lowest level since Jan/04
Source: BBVA Research based on data from Haver.

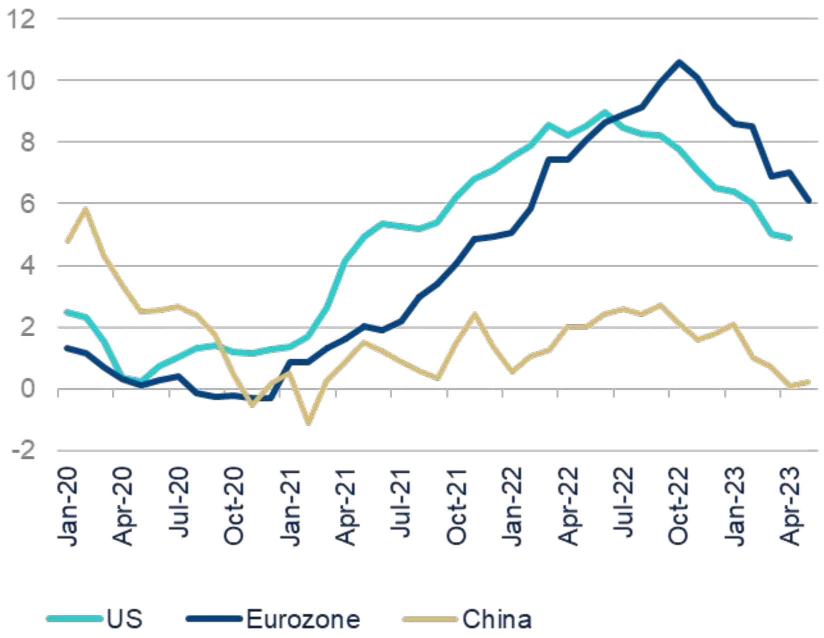
PMI INDICATORS: MAY/23
(MORE THAN 50: EXPANSION; LESS THAN 50: CONTRACTION)



Source: BBVA Research based on data from Haver.

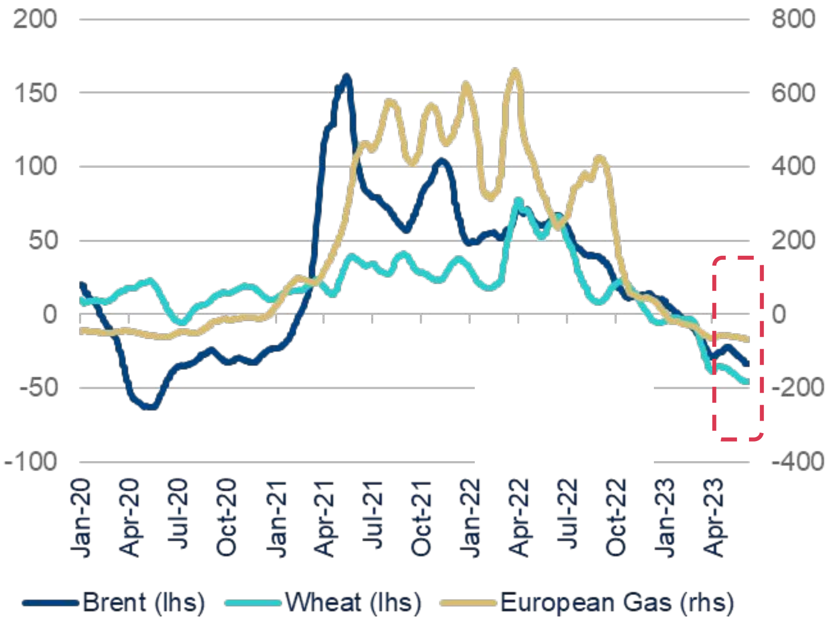
Headline inflation has been trending downwards, favored mainly by lower energy prices, the easing of supply bottlenecks and favorable base effects

INFLATION: CPI
(Y/Y %)



Source: BBVA Research based on data from Haver.

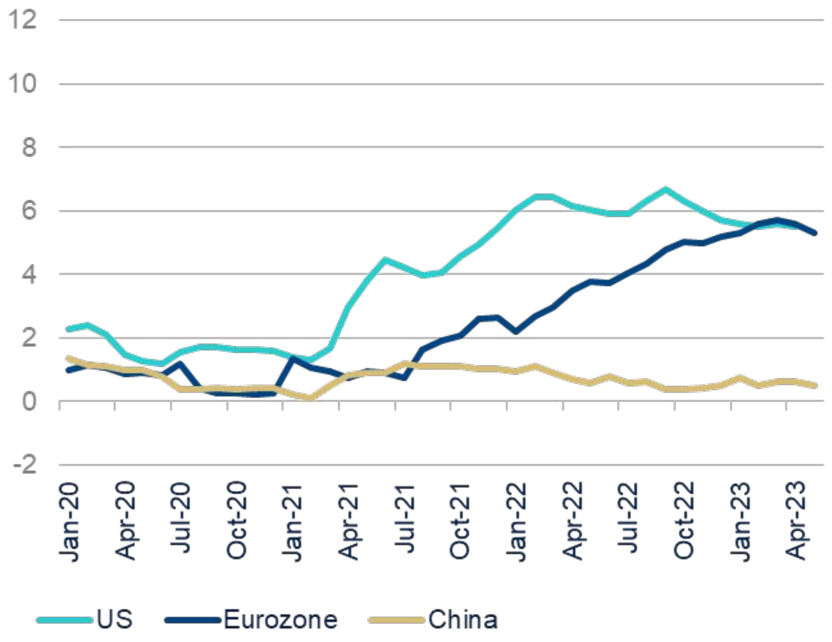
COMMODITY PRICES
(Y/Y %, 30-DAYS MOVING AVERAGE)



Source: BBVA Research based on data from Haver.

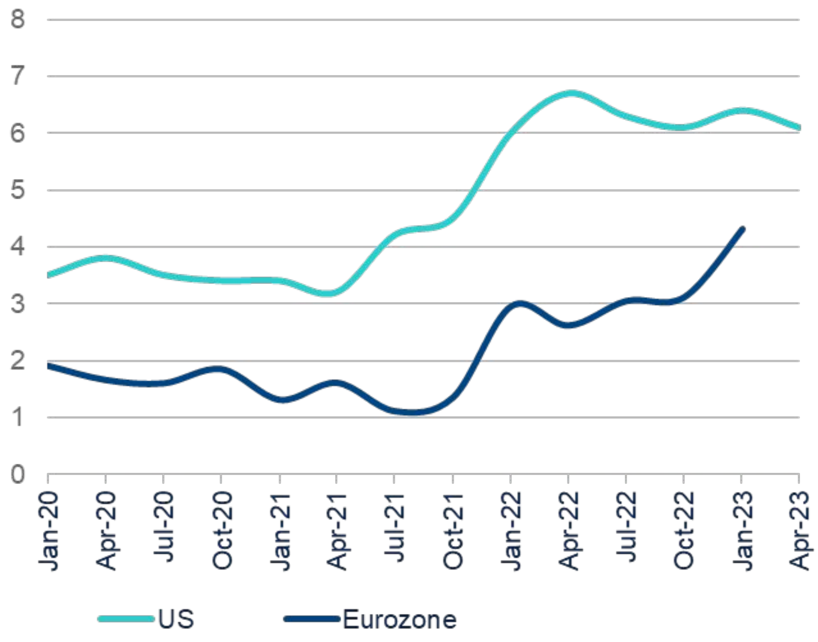
Core inflation has stabilized at high levels in a context where robust demand has favored some (limited) second-round effects

CORE INFLATION: CPI
(Y/Y %)



Source: BBVA Research based on data from Haver.

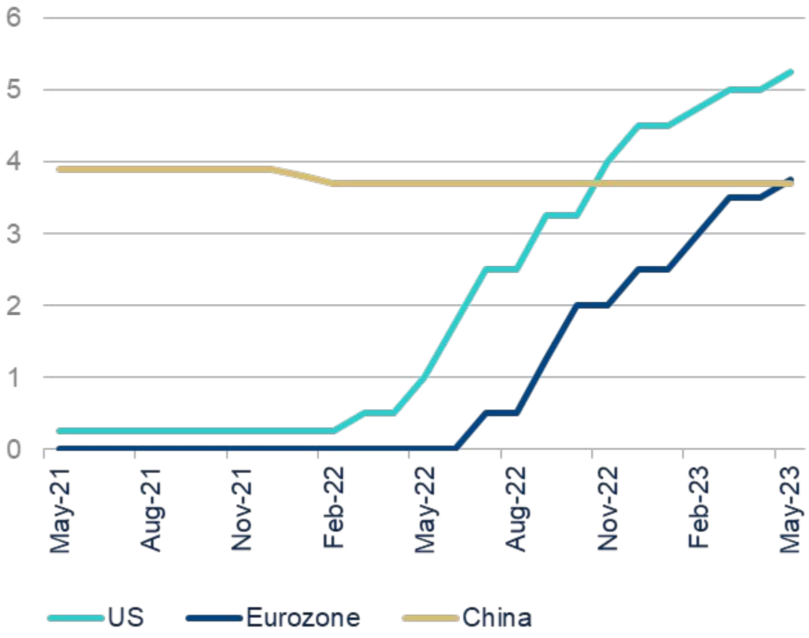
WAGE GROWTH (*)
(Y/Y %, QUARTERLY DATA)



(*) US: Atlanta Wage Tracker; 2Q23 data represents data for Apr/23 only. EZ: negotiated wages.
Source: BBVA Research based on data from the Fed and Eurostat.

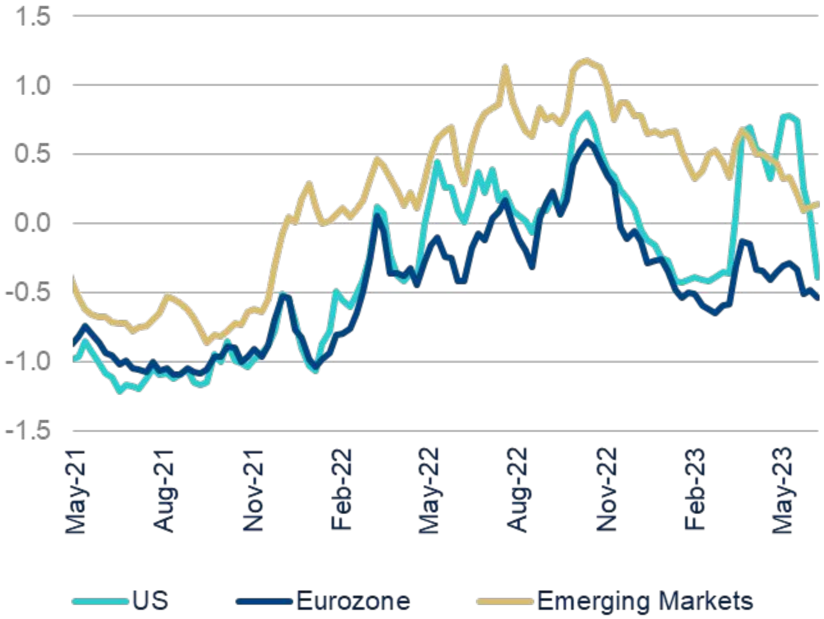
The sharp reversal of monetary conditions continues to pave the way for episodes of instability in financial markets

POLICY INTEREST RATES (*)
(%)



(*) Refi rates in the case of the ECB.
Source: BBVA Research based on data from Bloomberg.

BBVA FINANCIAL TENSIONS INDEX
(INDEX: HISTORIC AVERAGE = 0)

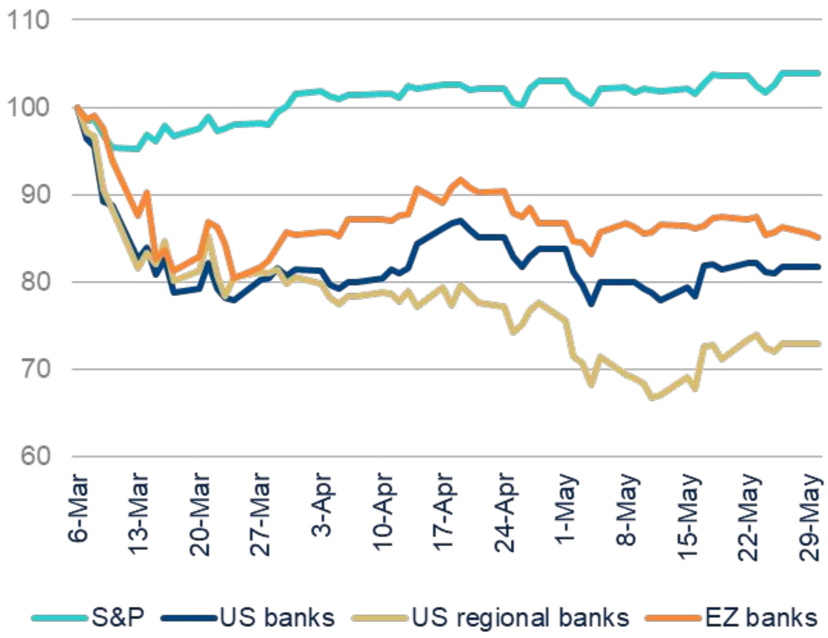


Source: BBVA Research based on Bloomberg.

Bank stress, driven by deposit outflows and asset losses, has boosted credit tightening; policy reaction has limited contagion, prevented financial dominance

EQUITY MARKETS

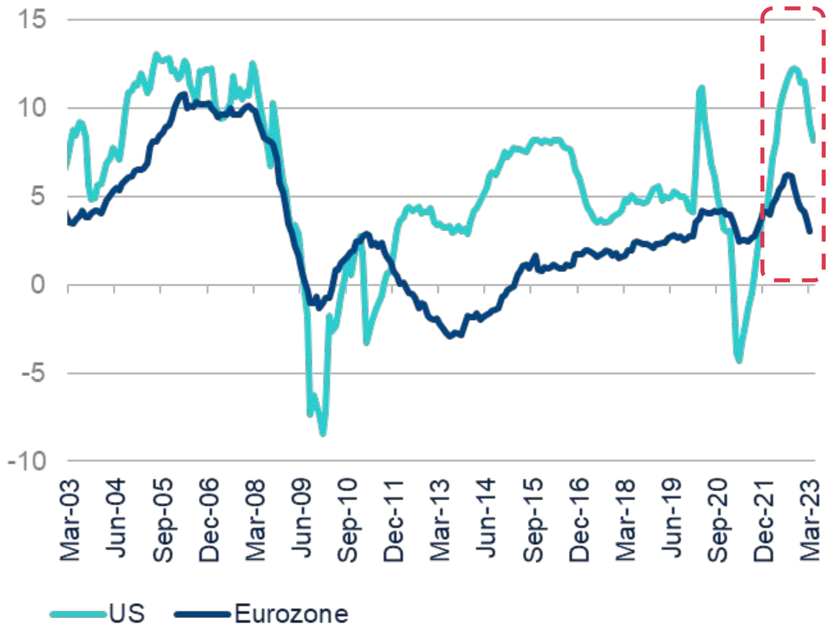
(INDEX: MARCH 6TH = 100)



Source: BBVA Research based on Bloomberg.

LENDING BY COMMERCIAL BANKS

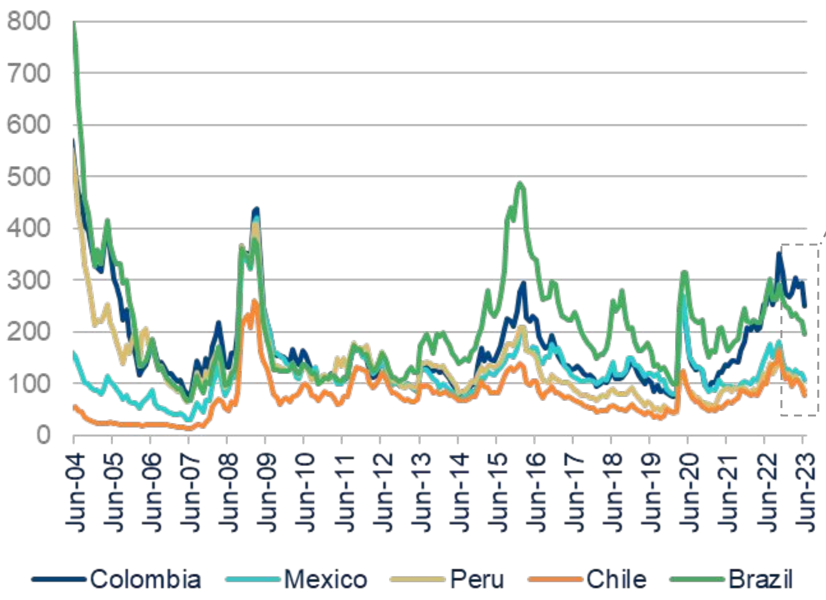
(YOY %, MONTHLY DATA)



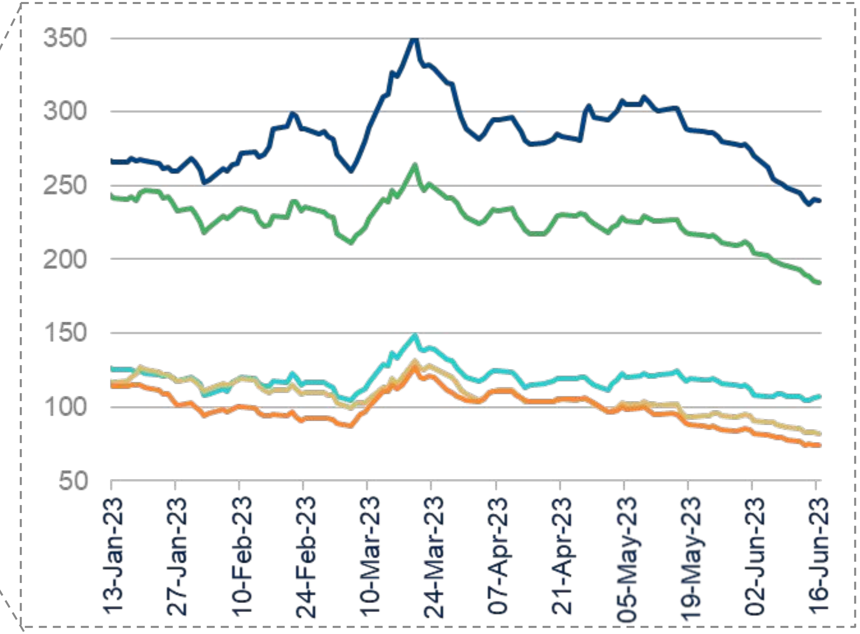
Source: BBVA Research based on data from FRED and ECB.

LatAm risk premiums have declined in the year to date, aided by the moderation of tensions from the global environment

5Y CDS
(MONTHLY AVERAGE, BASIS POINTS)



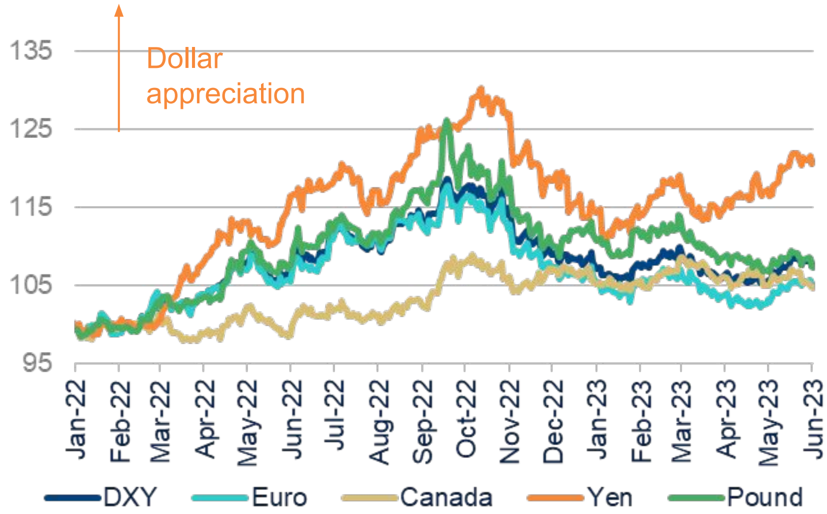
5Y CDS
(DAILY, BASIS POINTS)



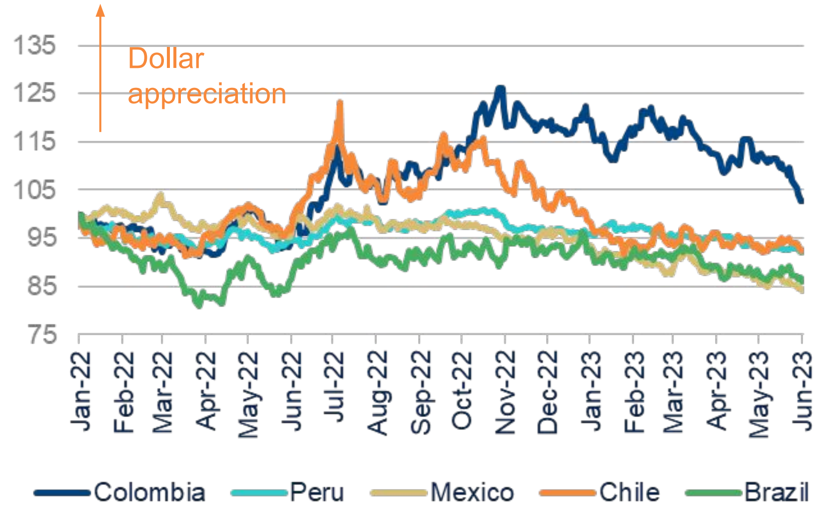
Source: BBVA Research, based on Bloomberg data.

The proximity to the end of the hiking rate cycle in the US has caused the dollar to weaken against most currencies, correcting some of its gains

EXCHANGE RATE AGAINST THE DOLLAR
(DEVELOPED ECONOMIES, INDEX: JAN-22 = 100)



EXCHANGE RATE AGAINST THE DOLLAR
(LATAM, INDEX: JAN-22 = 100)

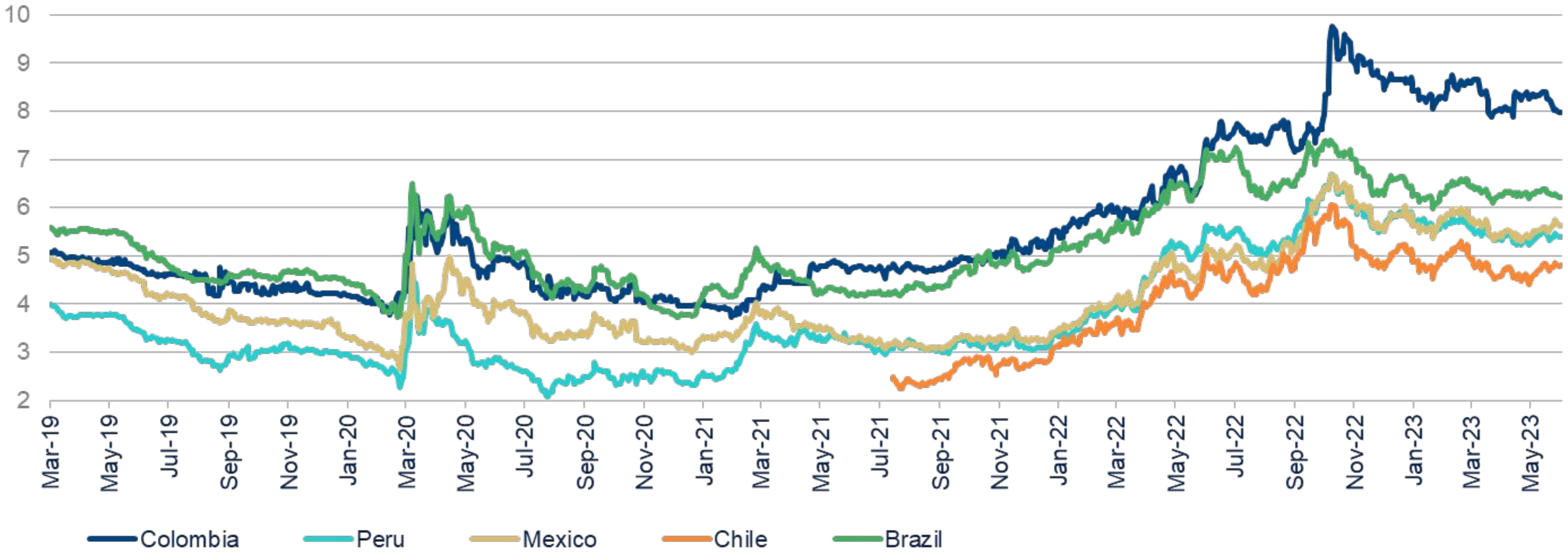


(*): This ratio is defined as pesos times the simple average of the value of the region's currencies (normalized to Jan-22 = 100).
Source: BBVA Research, based on Bloomberg data.

The region's currencies have also appreciated significantly, especially since the fourth quarter of 2022. While the Colombian peso has gained considerable ground in recent months, it still remains weak against its regional peers.

This scenario has mapped, partially, on interest rates on their dollar-denominated debt

10-YEAR PUBLIC DEBT IN DOLLARS
(TERMS CLOSEST 10 YEARS, %)



Source: BBVA Research, based on BanRep and Bloomberg data.

Prospects for growth and inflation easing despite recent resilience: credit tightening amid banking stress likely to add to monetary tightening

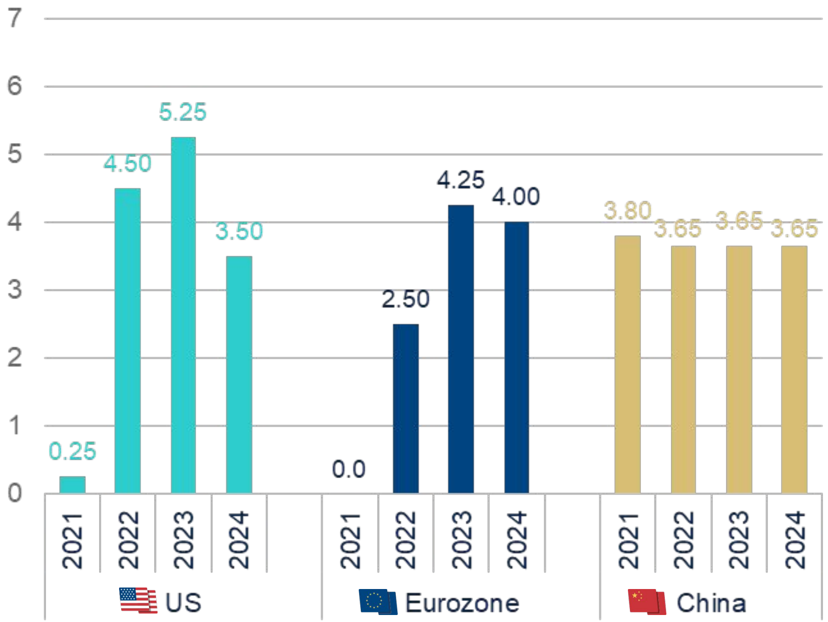
BBVA RESEARCH BASELINE SCENARIO

High-for-long interest rates	Growth slowdown	Gradual disinflation	Financial volatility
Restrictive monetary stance, also on credit tightening and liquidity withdrawal; cautious policy reversal from 1Q24 (or later).	Labor markets and demand will eventually ease, driving growth down despite supply normalization.	Contained commodity prices and limited second round effects, but inflation above targets for some time.	Relatively high volatility and limited flows to riskier assets; US banks stress, with no contagion to large banks or abroad.

Central banks will remain focused on inflation despite banking stress: after reaching restrictive levels, rates will likely remain unchanged for while

MONETARY POLICY INTEREST RATES (*)

(%, END OF PERIOD)

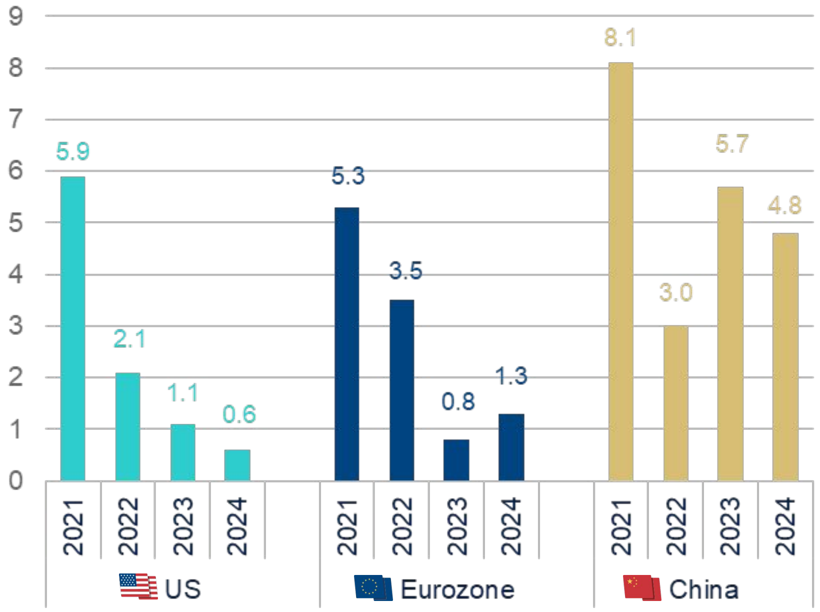


(*) In the case of the Eurozone, interest rates on refinancing operations.
Source: BBVA Research based on Bloomberg data.

- Central banks are likely to use policy rates to fight inflation and liquidity tools to address bank stress; financial dominance is not expected, but is a risk.
- The rate hiking cycle is presumably over in the US (but one more hike is possible) and closer to its end in the EZ, where at least two more hikes are likely.
- Easing cycles are not likely before 1Q24 in the US and 4Q24 in the EZ.
- Still, Fed and ECB will maintain quantitative tightening programs in place, with a gradual and predictable liquidity withdrawal pace.
- Credit tightening and, eventually, fiscal policy are likely to help monetary policy to reign in on inflation.

GDP forecasts: up in 2023 on robust demand and easing supply shocks, but down in 2024 on the lagged impact of tighter monetary and credit conditions

GDP: ANNUAL GROWTH IN REAL TERMS (*)
(%)



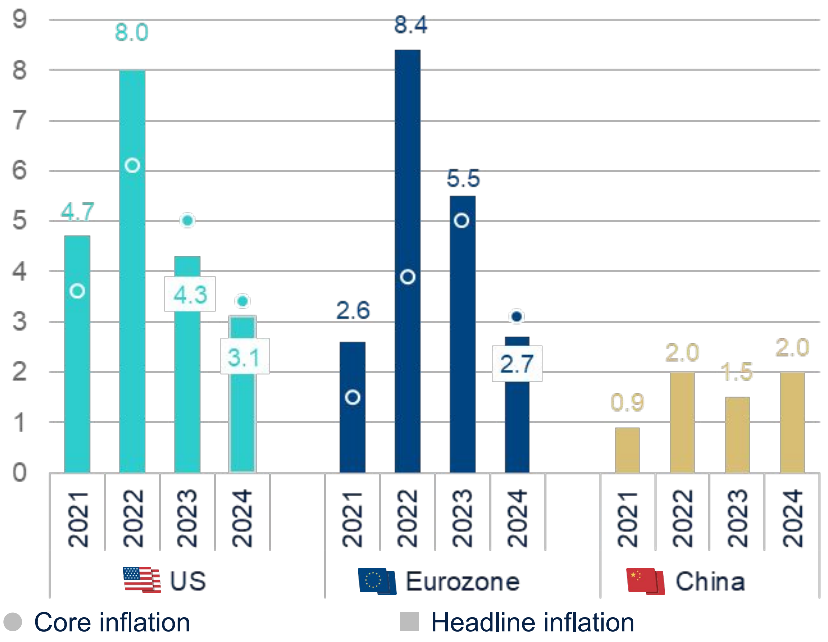
(*) Previous forecasts: 0.8% in 2023 and 1.8% in 2024 in the US, 0.6% in 2023 and 1.6% in 2024 in the Eurozone, 5.2% en 2023 and 5.0% in 2024 in China.
Source: BBVA Research.

- 2023 upward revisions (US: 0.3pp, EZ: 0.2pp, CHN: 0.5pp) on supportive incoming data reflecting strong private consumption (mainly in the US and China) and lower energy prices (mainly in the EZ).
- 2024 downward revisions (US: -1.2pp, EZ: -0.3pp, CHN: -0.2pp) on effects of tighter monetary policy and less supportive credit conditions, to which the recent banking stress is likely to contribute.
- Vanishing reopening effects, easing fiscal support and financial volatility are also likely to hit growth.
- Global growth to slow from 3.4% in 2022 to 2.9% (+0.2pp) in 2023 and 2.9% (-0.3pp) in 2024.

Inflation will continue to ease, but will be more persistent than previously expected; it will be over the targets for long in the US and EZ

INFLATION:CPI

(Y/Y %, PERIOD AVERAGE)



Source: BBVA Research.

- Supply improvement (lower commodity prices, bottleneck normalization) and monetary tightening will pave the way for a further decline in inflation: headline inflation has peaked; core inflation is set to soon ease more significantly.
- Still, the dynamism of private consumption amid tight labor markets will favor (contained) increases in wages and profit margins, slowing inflation's downward trend.
- In China, price pressures remain under control despite the post-covid recovery due to favorable commodity prices, supply recovery and private sector "balance sheet recession".

In an uncertain context, the risk that high inflation and tight monetary conditions triggers a recession or financial instability has increased lately

MAIN RISKS

PERSISTENT INFLATION AND TIGHT MONETARY POLICY:

- strong demand
- tight labor markets
- China recovery
- higher commodity prices
- wage-price spirals
- not fully anchored expectations

FINANCIAL INSTABILITY
(contagion from US banking stress, vulnerabilities in real estate and leveraged sectors, non-banking sector, etc.)

GLOBAL RECESSION

MAIN UNCERTAINTIES

GEOPOLITICAL TENSIONS

US-CHINA RIVALRY (DEGLOBALIZATION, ETC)

ENERGY TRANSITION AND CLIMATE CHANGE

SOCIAL TENSIONS AND POPULISM

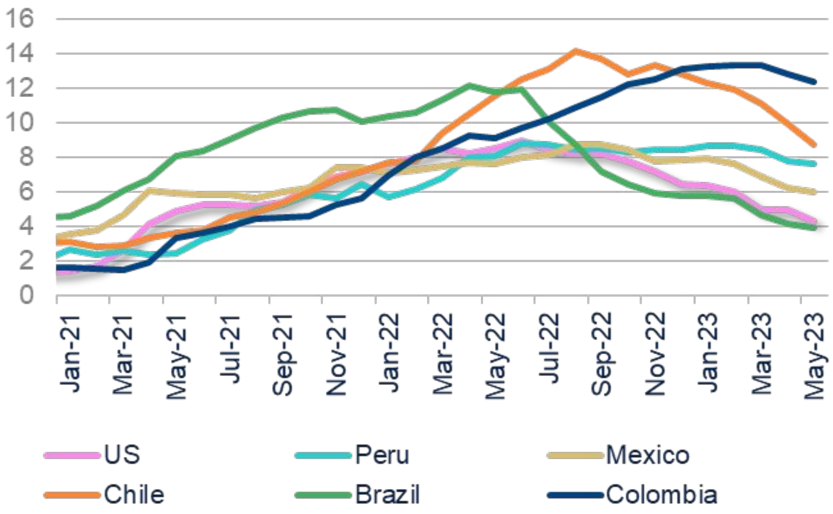
02

Inflation and monetary policy rate

As inflation and the monetary policy rate continue to fall, especially in 2024, financial conditions for households and businesses will steadily improve, making it easier for them to navigate the economic slowdown.

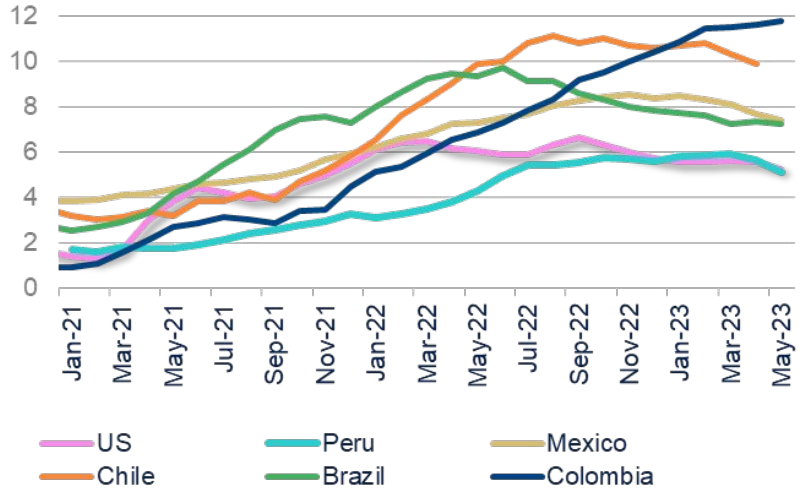
Inflation began to abate earlier in Brazil and the US and later in Colombia, Peru and Mexico

HEADLINE INFLATION BY COUNTRY
(ANNUAL CHANGE, %)



Source: BBVA Research, based on Bloomberg and Haver data.

CORE INFLATION BY COUNTRY
(ANNUAL CHANGE, %)

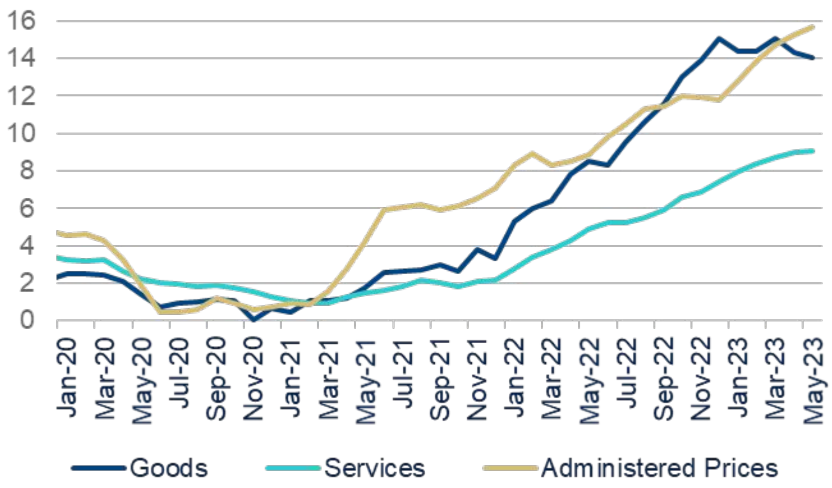


(*) Core inflation defined as: In US, Peru and Chile: without food or energy, Mexico: without volatile food or energy, Brazil: without volatile food or petrol, Colombia: without food.
Source: BBVA Research, based on Bloomberg and Haver data.

Core inflation has been more persistent than headline inflation all around the world, with most economies reporting gentle declines but Colombia still experiences slight increases.

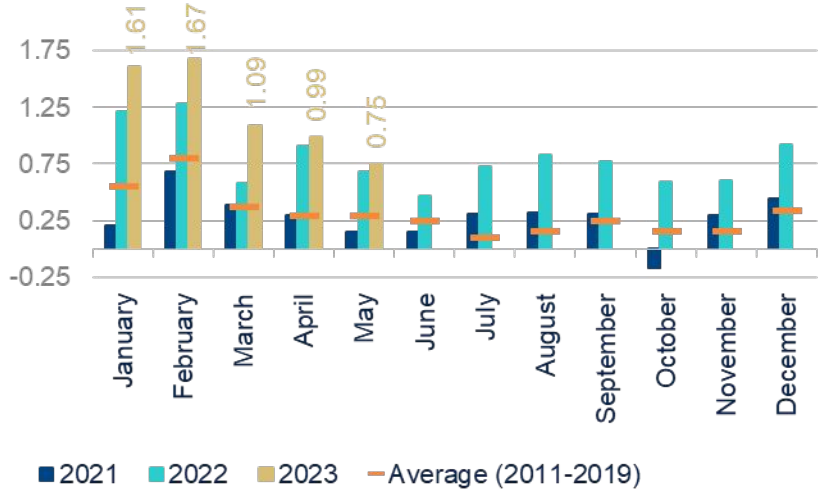
In Colombia, core inflation continues to face important pressure from administered prices and, to a lesser extent, from the high demand for services

CORE INFLATION(*): MAIN BASKETS
(ANNUAL CHANGE, %)



(*): Core inflation: relates to the basket of goods without food items.
Source: BBVA Research, based on DANE data.

CORE INFLATION(*)
(MONTHLY CHANGE, %)

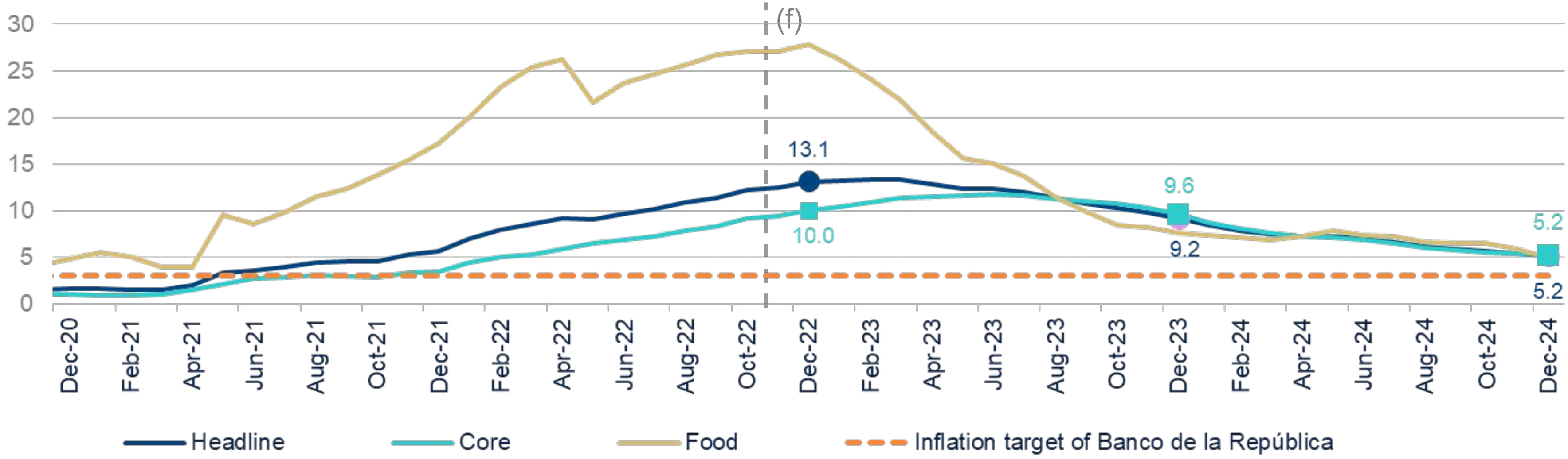


(*): Core inflation: relates to the basket of goods without food items.
Source: BBVA Research, based on DANE data.

Monthly changes in core inflation have been easing since the start of the year, but still remain well above the average of the previous decade.

Headline inflation will ease gradually from the second quarter of 2023, despite enduring some additional pressure from core inflation in this year

INFLATION
(ANNUAL CHANGE, %)

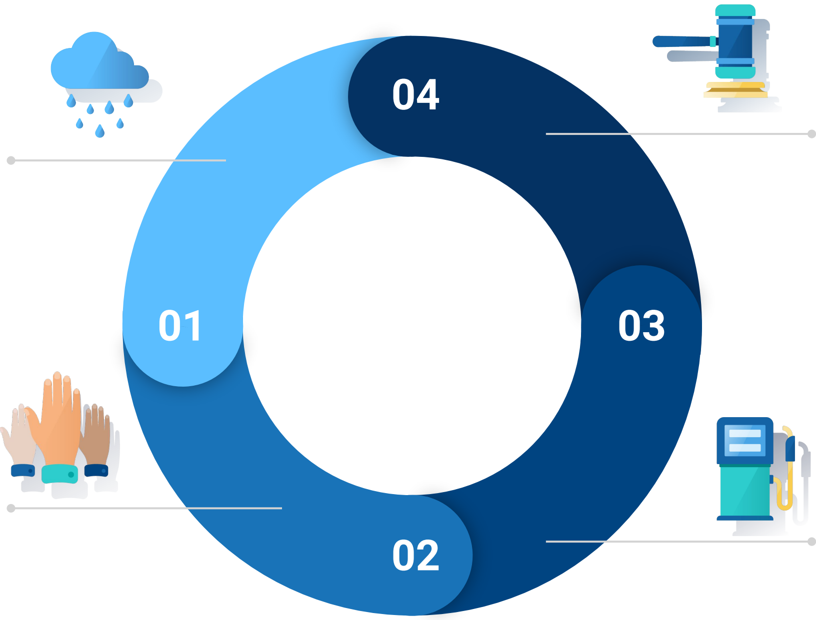


(f): Forecast.
Source: BBVA Research, based on DANE data.

Food inflation will continue to gradually fall. For the core inflation, demand-driven baskets will soon relent (second half of the year), while administered prices and index-linked services will decline more slowly.

The inflation moderation cycle will remain subject to high uncertainty, among other factors, due to the “*El Niño*” phenomenon

UNCERTAINTIES



Duration of the “*El Niño*” event

A long lasting “*El Niño*” phenomenon of high intensity may lead to longer impacts on both food and core inflation, with more persistent effects.

More resilient demand

Although demand is expected to slow sharply in the second half of the year, the first quarter results could imply a more gradual moderation.

Further changes in fuel prices

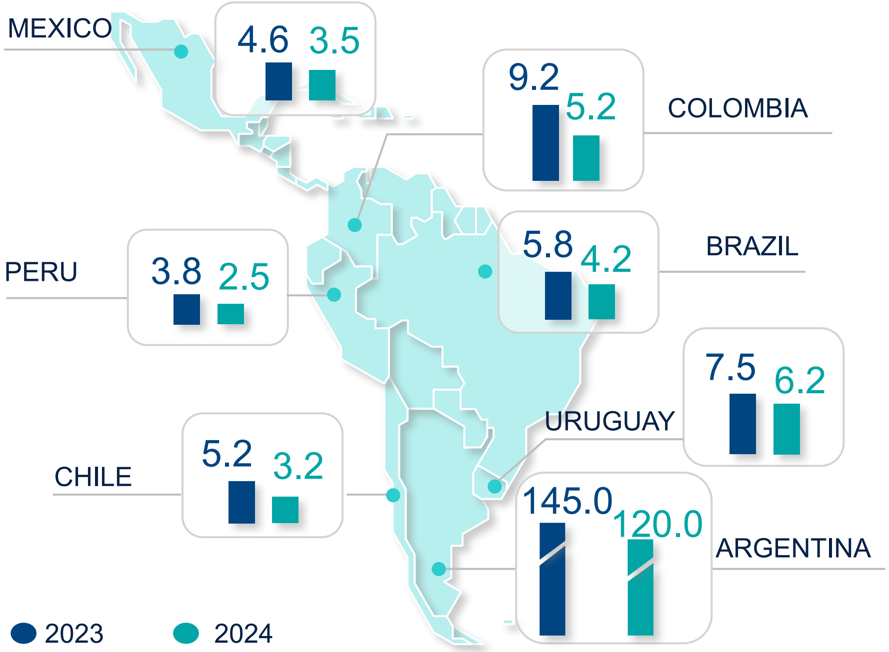
The change in the expected trend of increases in price of oil and/or diesel in 2023 and 2024 could generate different second-round effects on headline inflation.

Price contention

The desire to contain energy costs faced by companies or households, could lead to a moderation in tariff hikes and/or subsidies that could reduce inflation in the short run.

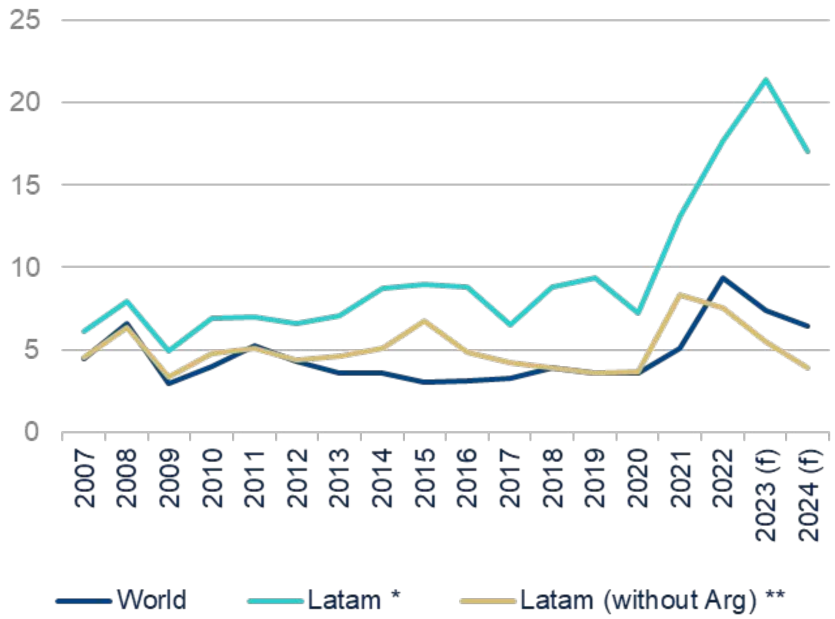
Inflation is expected to moderate significantly in the next two years, though still above the inflation target for most countries

HEADLINE INFLATION
(END OF PERIOD ANNUAL CHANGE, %)



Source: BBVA Reseach.

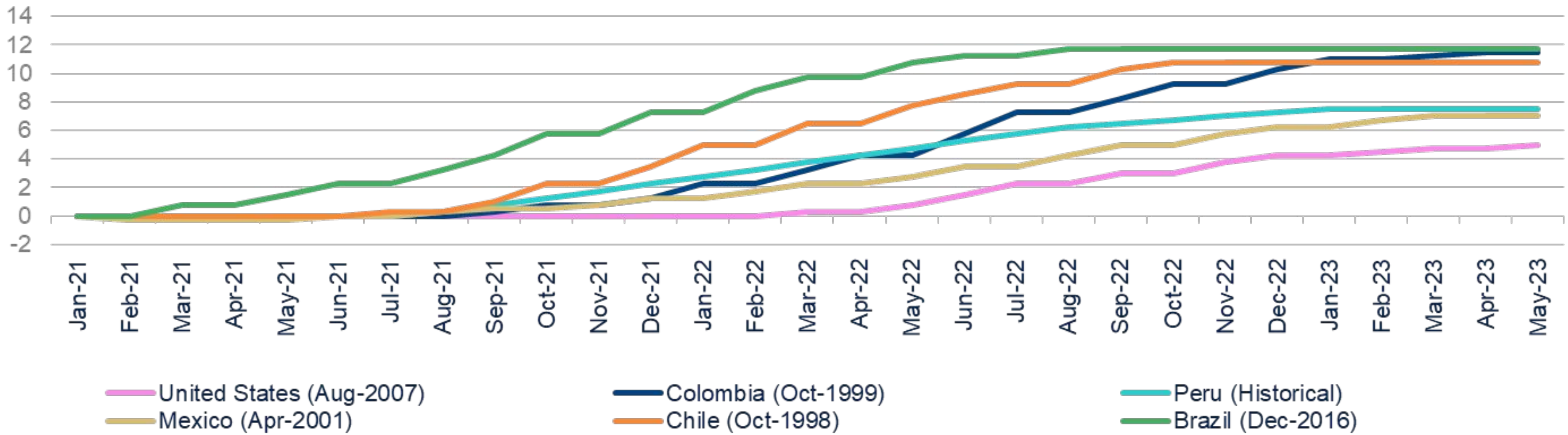
WORLD AND LATAM INFLATION
(END OF PERIOD ANNUAL CHANGE, %)



(f): BBVA Research projections.
(*): Includes Brazil, Chile, Colombia, Mexico, Peru, Paraguay and Uruguay.
(**): Includes Argentina, Brazil, Chile, Colombia, Mexico, Paraguay, Peru y Uruguay.

There has been a sharp increase in monetary policy interest rates in response to rising inflation

DIFFERENCE BETWEEN THE CURRENT POLICY RATE AND ITS VALUE IN JANUARY 2021 FOR EACH COUNTRY (PERCENTAGE POINTS(*))

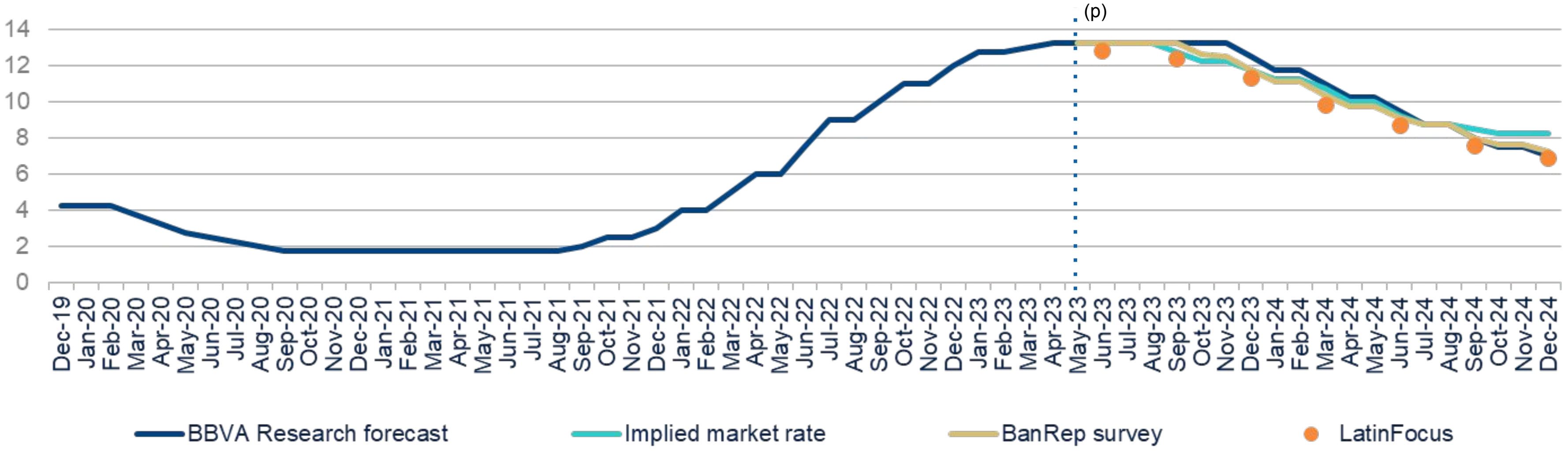


(*): The previous high in the policy rate for each country is shown in brackets in the legend. In the case of Peru, the current level is the highest since the start of the inflation targeting scheme.
Source: BBVA Research, based on BBVA Research data.

Colombia followed a different cycle: it started to raise interest rate later than other emerging countries. With the exception of Brazil, all economies reached their highest policy rate in at least 15 years amid the current monetary tightening cycle.

In Colombia, the cycle of monetary policy rate cuts is expected to begin toward the end of the year...

MONETARY POLICY RATE IN COLOMBIA
(%)

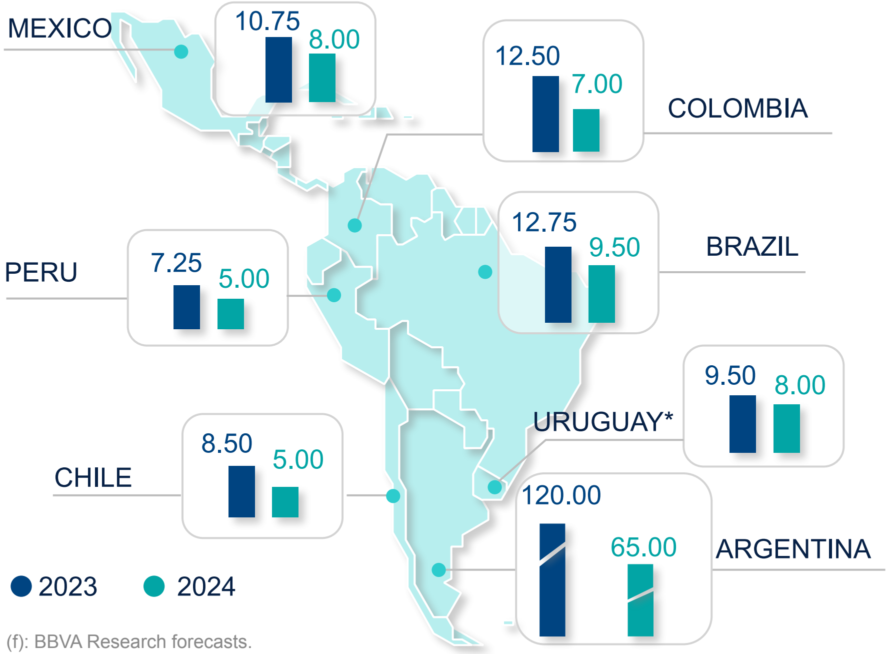


(*): Implied market rate: calculated from the IBR curve. (f): BBVA Research forecasts.
Source: BBVA Research, based on BBVA Research data.

...The reduction cycle is expected to begin in December 2023, with a 75 bp cut closing at 12.5%. This cycle will then continue at a significant pace throughout 2024, bringing the policy rate to 7.0%.

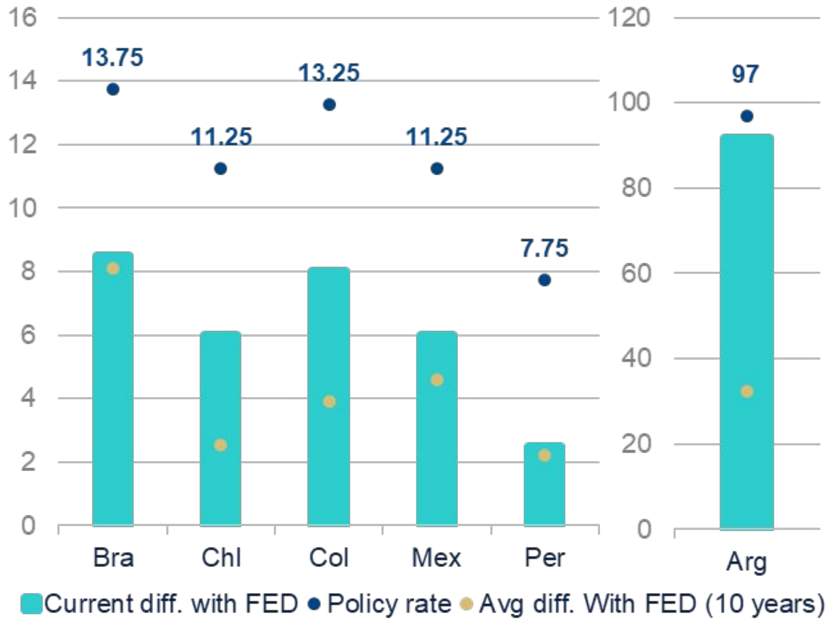
Most LatAm countries will begin to lower interest rates in 2023

MONETARY POLICY RATE
(EoP, %)



(f): BBVA Research forecasts.
(*): For Uruguay, it refers to the lending rate.
Source: BBVA Research.

MONETARY POLICY RATE AND DIFFERENCE VERSUS THE FED (%)



Source: BBVA Research.

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03

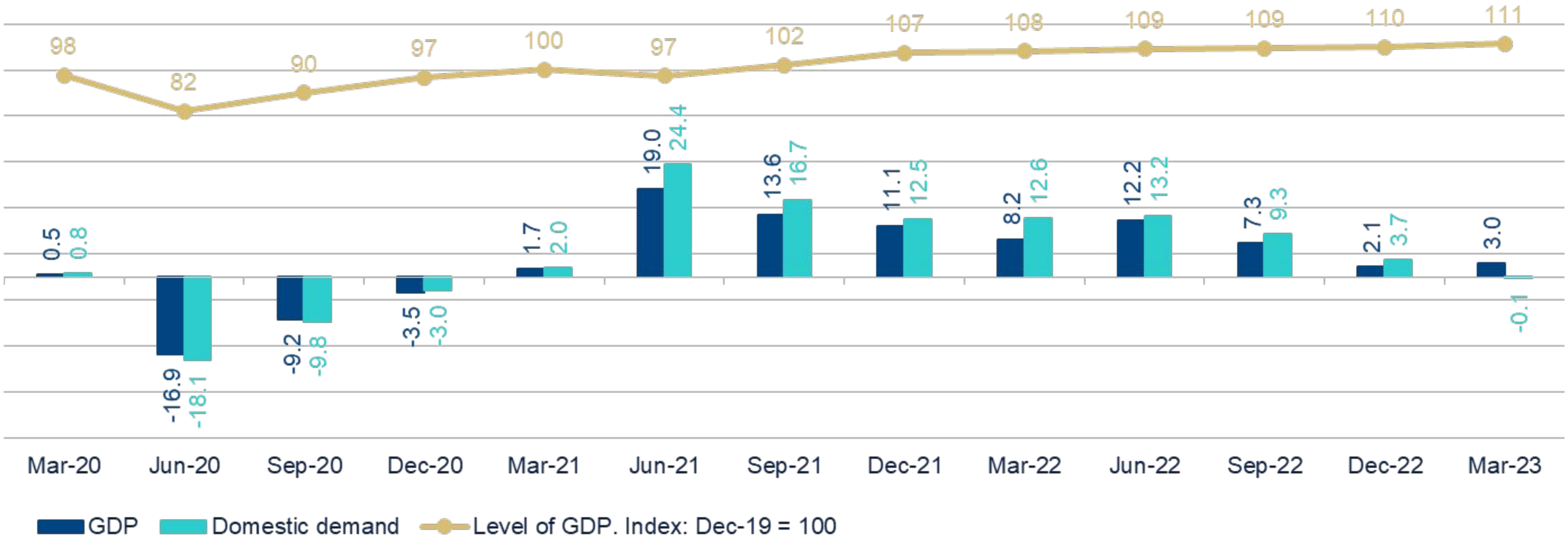
Growth and employment

Colombia has shown resilience amid the slowdown, taking advantage of the tailwinds from the services sectors and a still-strong labor market.

Despite the slight decline in domestic demand, the economy reported further solid growth at the start of the year and activity remained at high levels

GDP AND DOMESTIC DEMAND

(ANNUAL CHANGE, % AND INDEX: DEC-19 = 100)

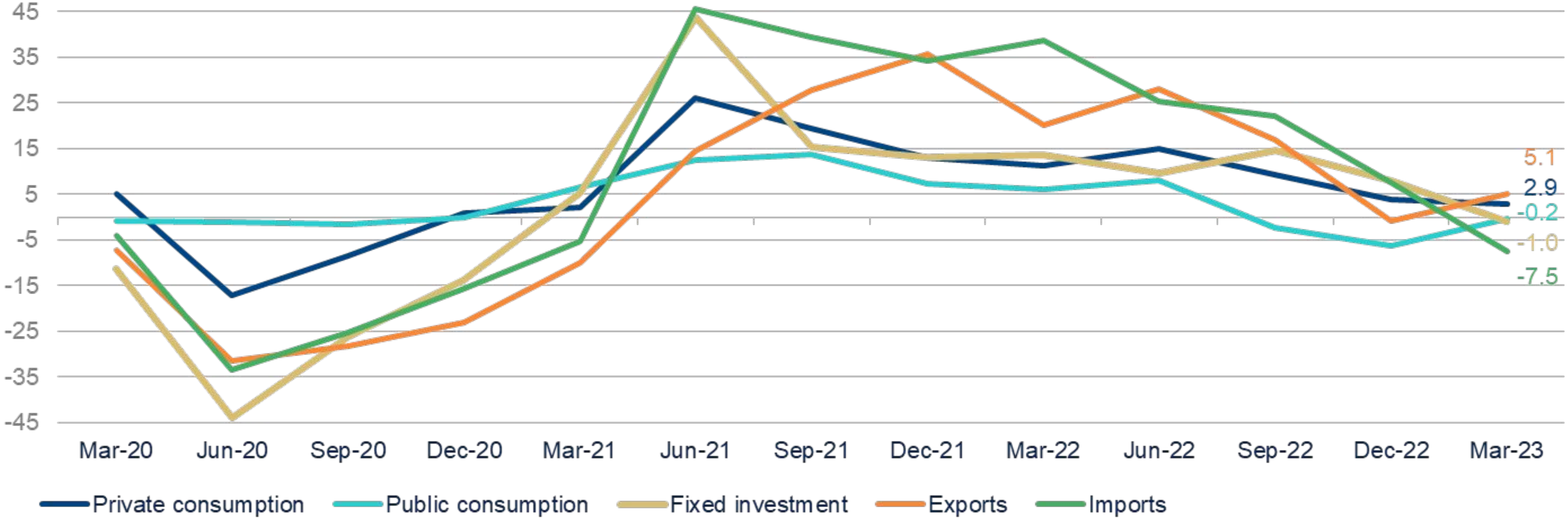


Source: BBVA Research, based on DANE data.

Private consumption (slowing) and exports (driven by an increase in services) remain in positive territory. All others are contracting

DOMESTIC DEMAND BY COMPONENT

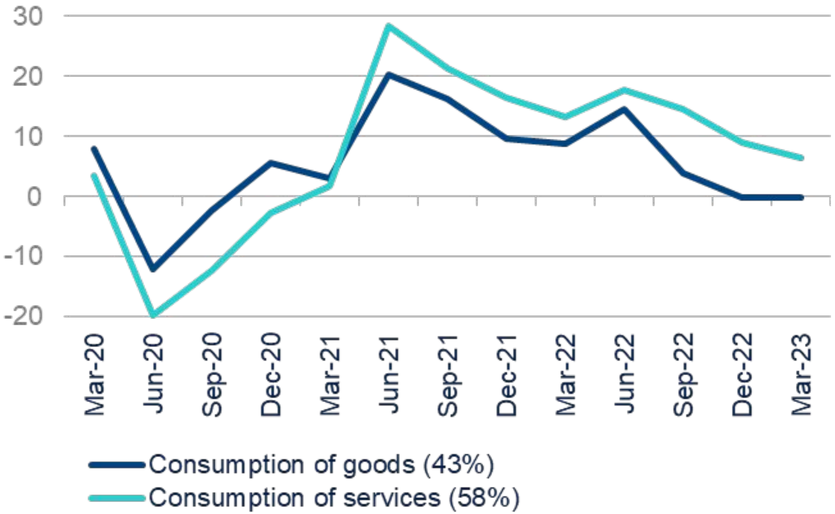
(ANNUAL CHANGE, %)



(*): In orange, when domestic demand grew less than GDP.
Source: BBVA Research, based on DANE data.

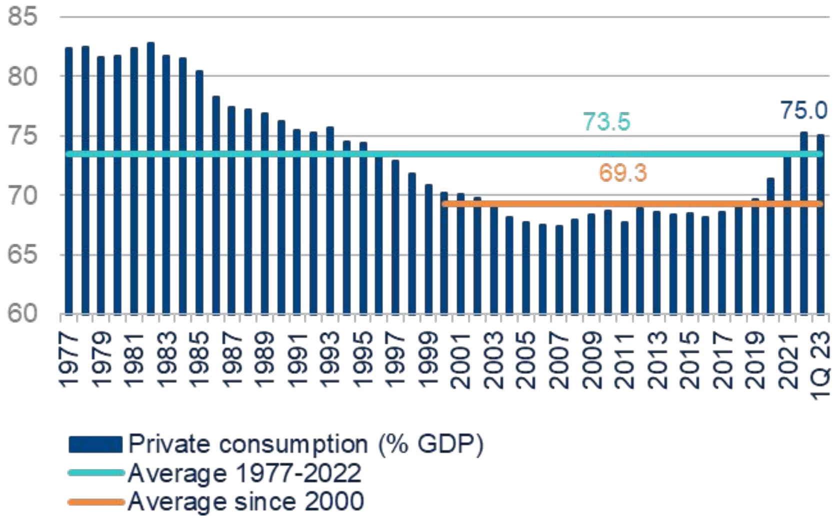
Goods consumption fell sharply in late 2022 while services held up better. For both, a moderation from high levels was foreseeable

HOUSEHOLD CONSUMPTION BY MAJOR GROUPS
(ANNUAL CHANGE, %(*))



(*): The value shown in brackets in the legend is the group's percentage of total consumption
Source: BBVA Research, based on DANE data.

RATE OF CONSUMPTION
(% OF GDP)

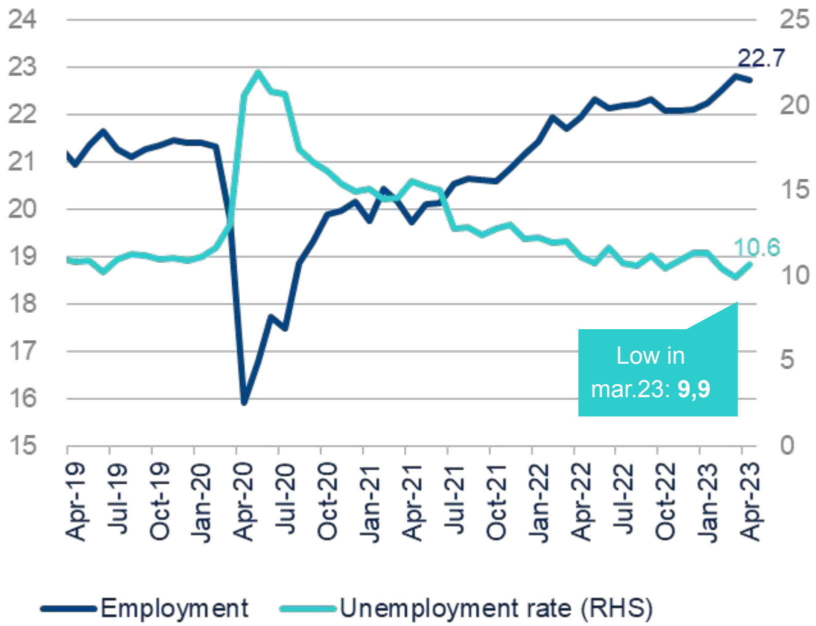


Source: BBVA Research, based on DANE data.

The share of consumption in GDP is at a three-decade high and coincides with a decline in the rate of investment and savings ofthe economy.

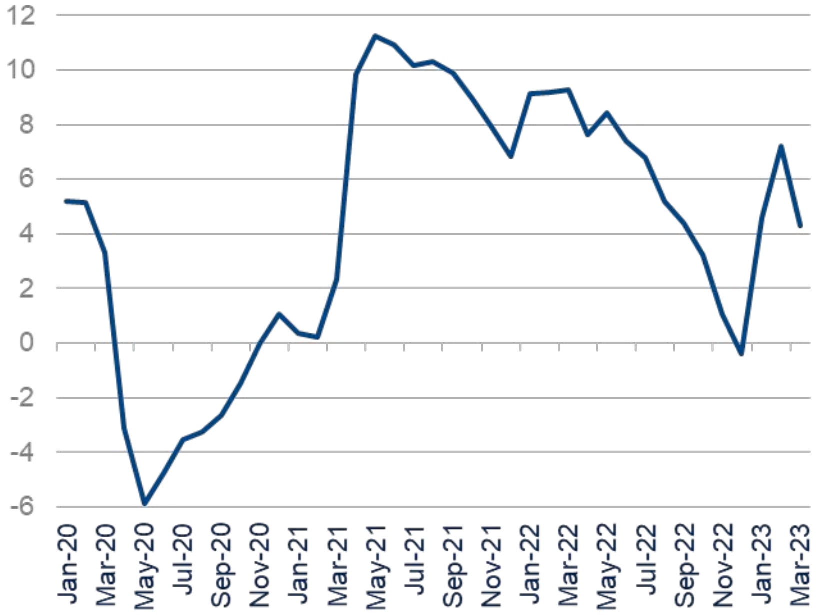
Consumption is being supported by a strong labor market, both in terms of the number of employees and the payroll

EMPLOYED AND UNEMPLOYMENT RATE
(SEASONALLY ADJUSTED SERIES, % OF LABOR FORCE)



(*): Up to Dec-22 taken from DANE (base of contributors to social security) and for 2023, from the Households National Survey -GEIH- with information for wage earners.
Source: BBVA Research, based on DANE data.

REAL TOTAL PAYROLL(*)
(ANNUAL CHANGE, %)

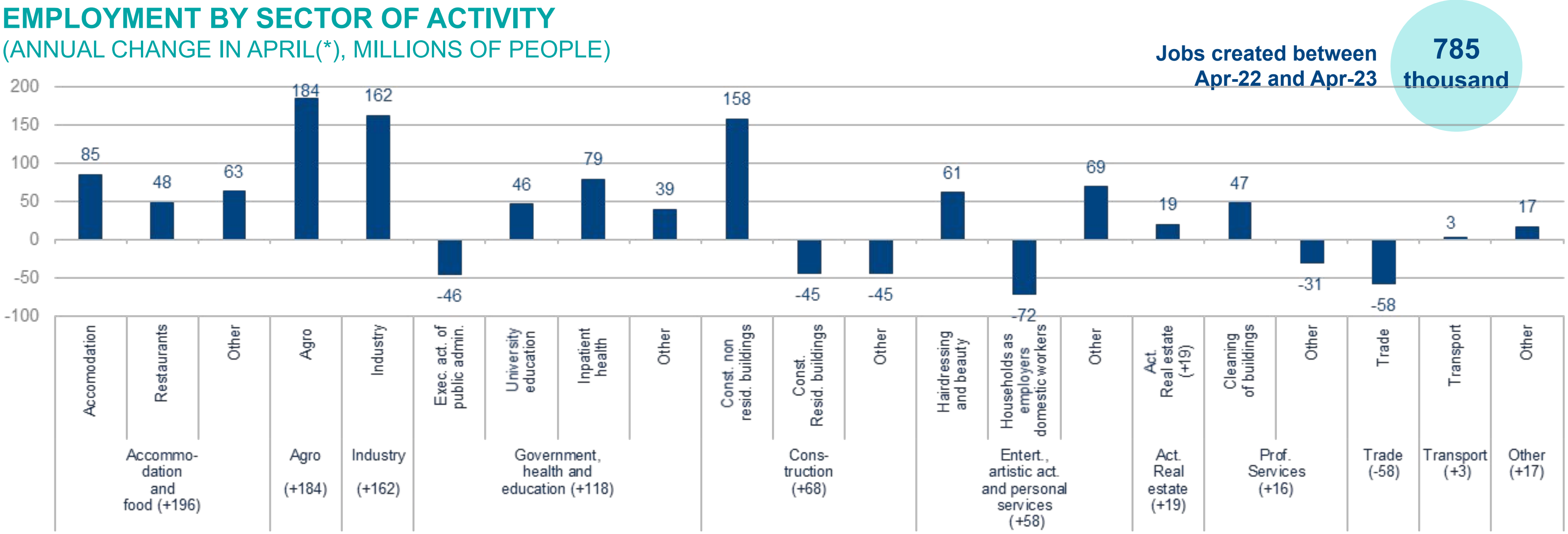


Source: BBVA Research, based on DANE data.

Job creation has been strong in service sectors, in line with the robust demand for these activities

EMPLOYMENT BY SECTOR OF ACTIVITY

(ANNUAL CHANGE IN APRIL(*), MILLIONS OF PEOPLE)

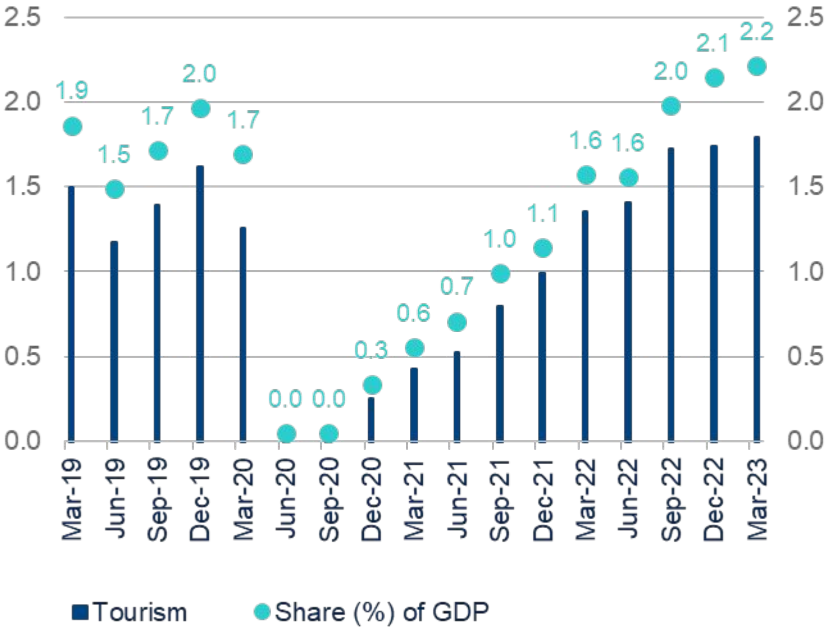


(*): Change between April 2022 and April 2023.
Source: BBVA Research, based on DANE data.

Services such as accommodation and food (196k) and public administration, health and education (118k) account for 40% of the employment created between April 2022 and April 2023. Agriculture (184k) and industry (162k) created another 44% of employment.

External demand has also been important for the service sector, boosting tourism of foreigners

EXPORTS OF TOURISM SERVICES
(BILLIONS OF DOLLARS, % OF GDP)



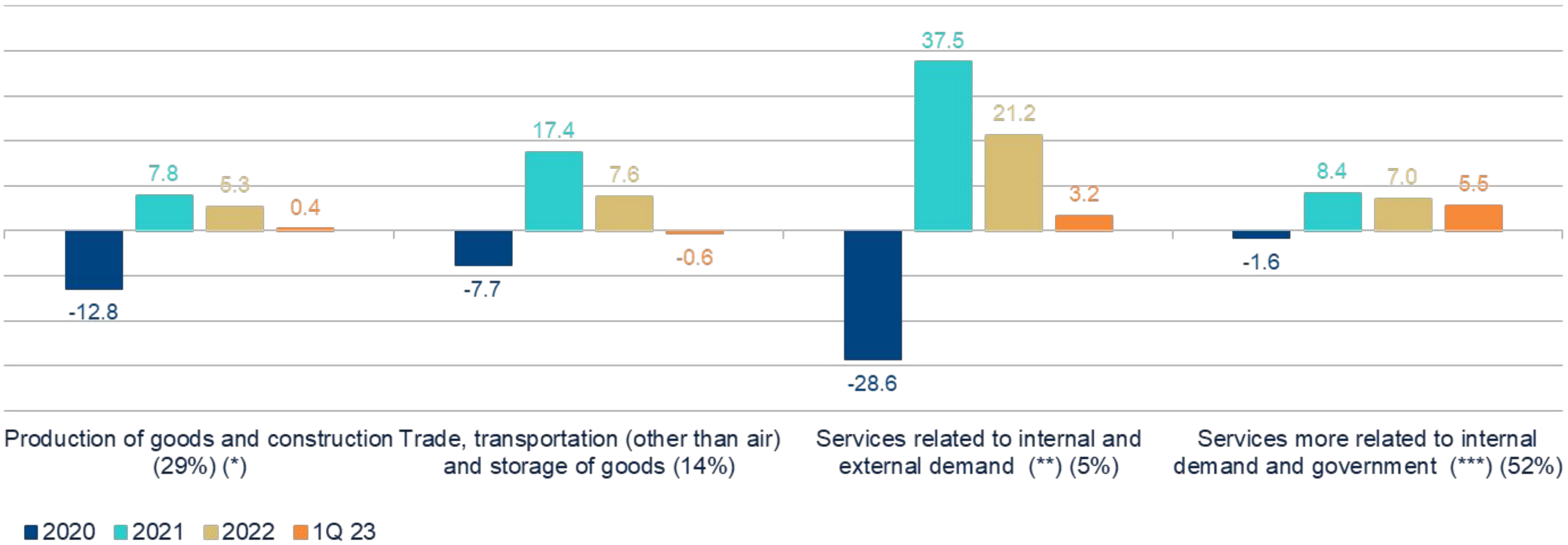
Source: BBVA Research, based on BanRep data.

- Tourism of foreigners accounted for 2.2% of GDP and 8% of total exports at the start of 2023 (1.9% and 8.3%, respectively, in 2019).
- Its share of exports happens to be higher than that of coffee (3.4%), ferronickel (0.9%), flowers (2.6%), bananas (0.7%), the chemical industry (3.9%).

Sectors associated with services have had a stronger performance recently, in line with the demand, where goods have shown a more notable slowdown

GDP: GROUPS OF SECTORS

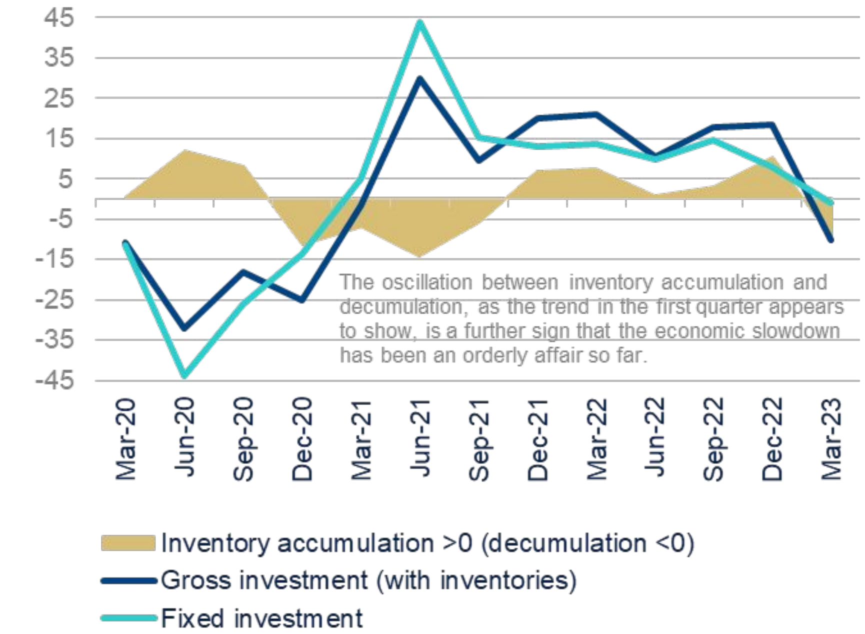
(ANNUAL CHANGE, %)



(*): Agro-industry, mining and construction. The value shown in brackets in the legend is the share of each sector in GDP. (**): Hotels, restaurants and air transport (***): Utilities, financial services, real estate, self-employed, government, education, health, events and gambling.
Source: BBVA Research, based on DANE data.

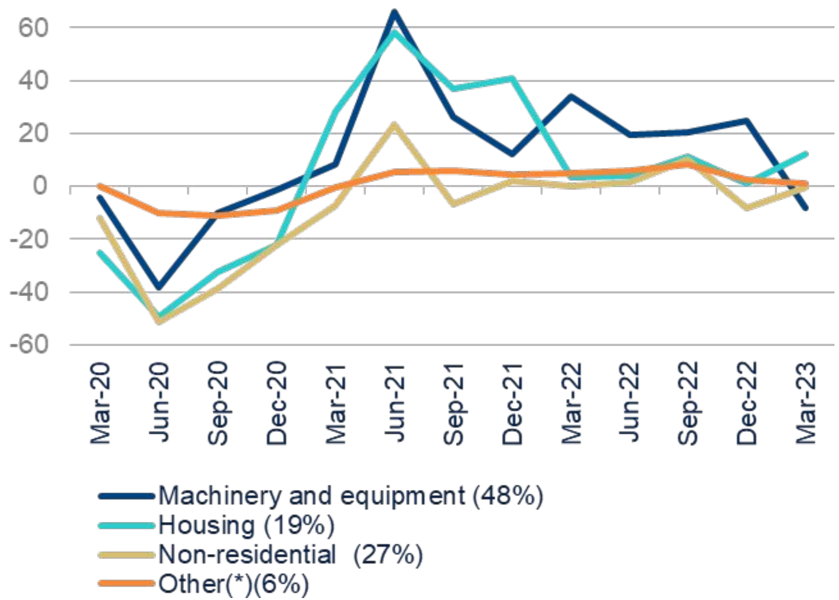
Investment slowed, largely due to the decumulation of inventories and the downward adjustment in spending on machinery and equipment

TOTAL, GROSS AND FIXED INVESTMENT(*), AND INVENTORIES (ANNUAL CHANGE AND DIFFERENCE, %)



(*): Gross investment includes inventories. Fixed investment excludes inventories.
Source: BBVA Research, based on DANE data.

FIXED INVESTMENT (EXCLUDING INVENTORIES) BY COMPONENT (ANNUAL CHANGE, %)

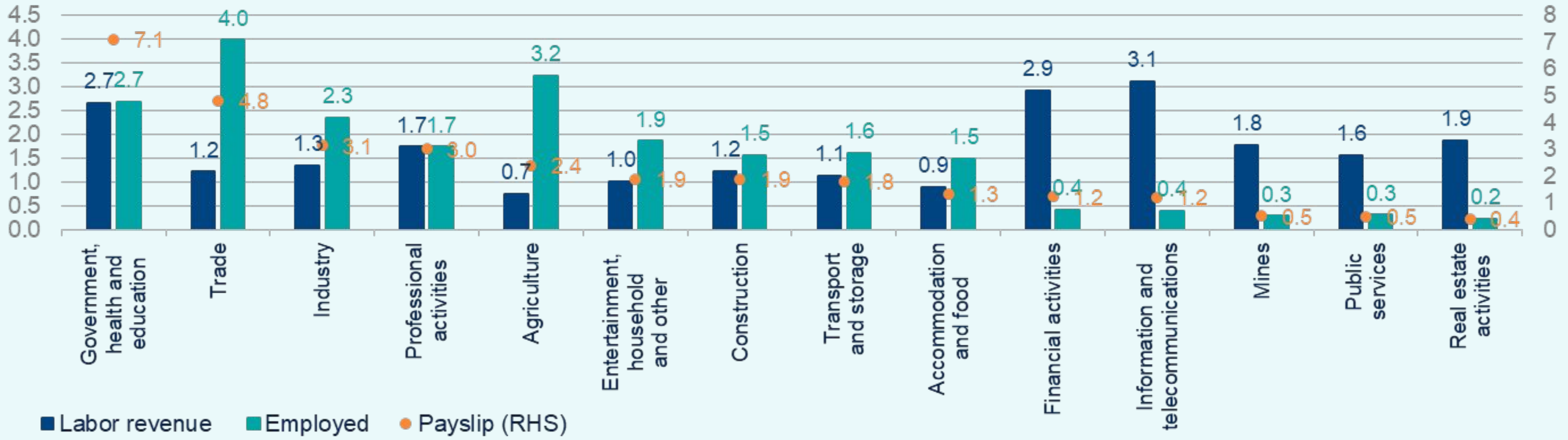


(*): The value shown in brackets in the legend is the share of each component in total fixed investment. Other: intellectual property and biological resources.
Source: BBVA Research, based on DANE data.

Box 1: In 2022, 22 million people were employed in Colombia, average labor income was COP 1.4 mn and the total payroll was COP 31 bn(*)

TOTAL PAYROLL, EMPLOYMENT AND LABOR INCOME BY SECTOR IN 2022

(MONTHLY AVERAGE, MILLIONS OF PEOPLE AND MILLIONS OF PESOS AND BILLIONS OF PESOS)

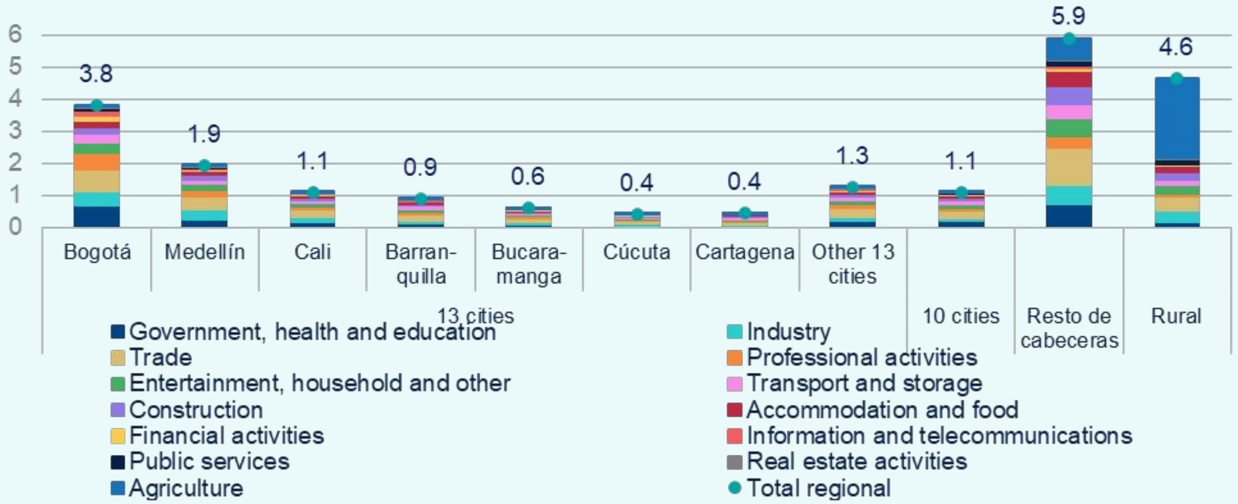


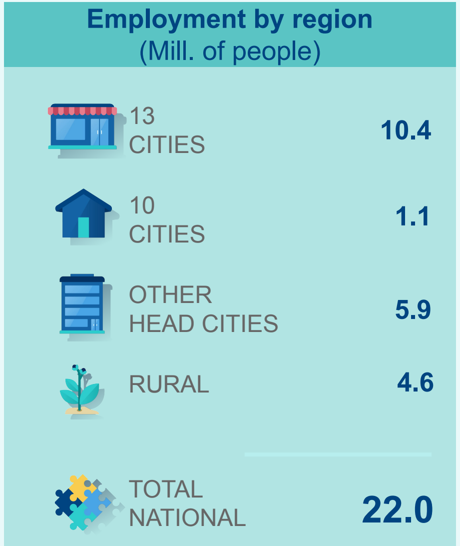
(*): 2022 data from the National GEIH (Household Survey).
Source: BBVA Research, based on DANE data.

Of the total payroll, 58% is concentrated across four sectors, and the sector with the highest employment is trade/commerce.

Box 1: Regionally, 23 capital cities accounted for 52% of national employment and seven of these accounted for 41%

NATIONAL EMPLOYMENT BY REGION AND SECTOR IN 2022
(MONTHLY AVERAGE, MILLIONS OF PEOPLE)(*)



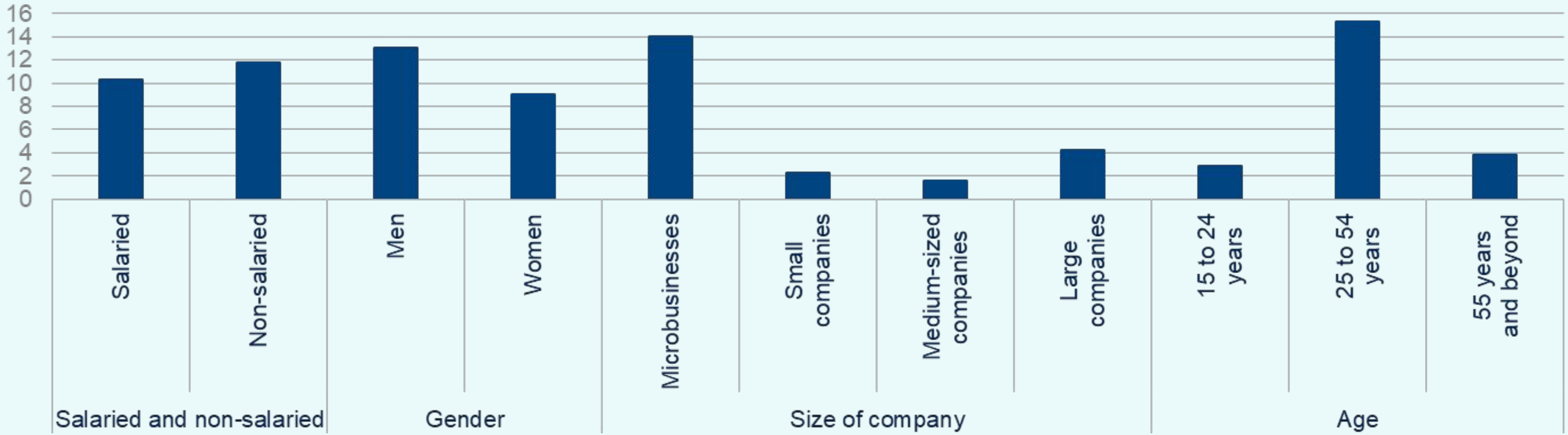


(*): 2022 data from the National GEIH (Household Survey).
Source: BBVA Research, based on DANE data.

These seven cities account for more than 60% of national employment in the professional activities (62%), real estate (66%), financial (67%) and information and telecommunications (70%) sectors.

Box 1: By other categories, men, microbusinesses and 25–54 year-old accounted for about 60% of national employment in 2022

NATIONAL EMPLOYMENT BY EMPLOYMENT DEPENDENCY CATEGORIES, GENDER, FIRM SIZE AND AGE IN 2022 (MONTHLY AVERAGE, MILLIONS OF PERSONS)(*)



(*): 2022 data from the National GEIH (Household Survey).
Source: BBVA Research, based on DANE data.

Meanwhile, non-wage earners accounted for 53% of the total employment in 2022.

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04

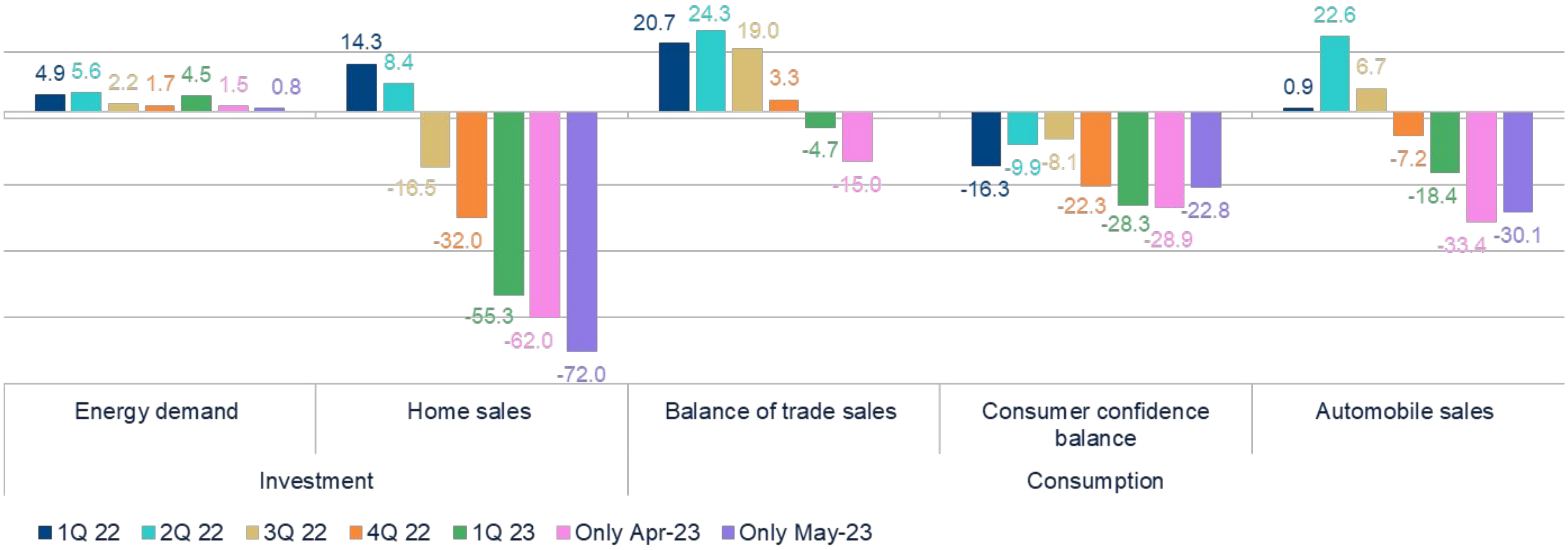
Growth and employment projections

Leading indicators show that the economic slowdown is continuing. Domestic demand for goods will be the most affected, while demand for services will continue to grow.

In Colombia, available leading indicators show that the economic slowdown will continue, led by good consumption

GROUPS OF SECTORS

(ANNUAL CHANGE, %)

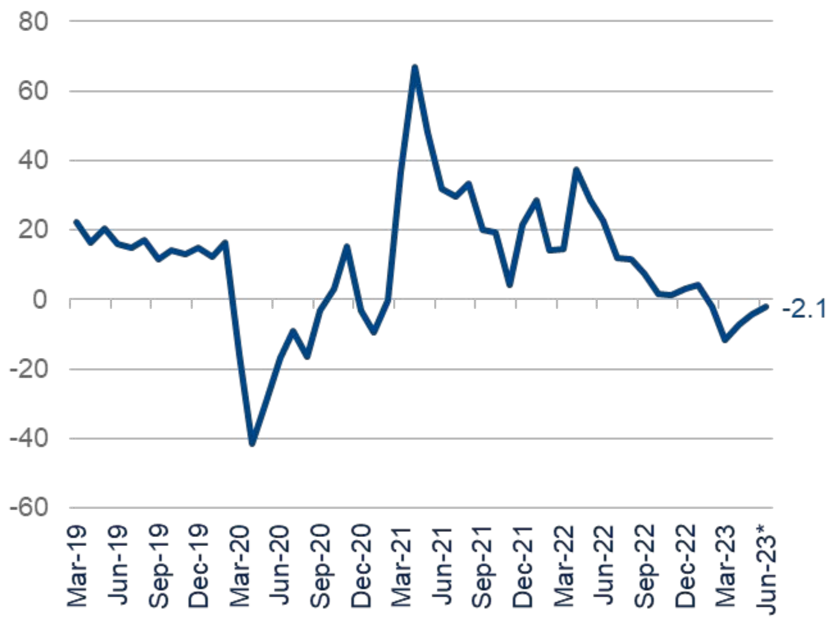


Source: BBVA Research, based on data from XM, Camacol, La Galería Inmobiliaria, Fenalco, Fedesarrollo and ANDI.

High-frequency indicators confirm an orderly economic slowdown

BBVA CONSUMPTION TRACKER(*)

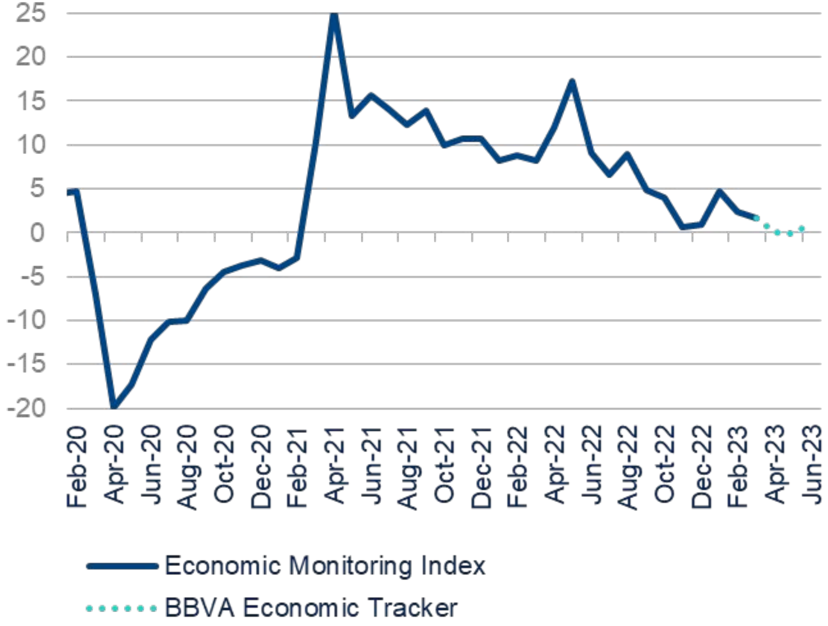
(REAL ANNUAL CHANGE, %)



(*): Based on data as of June 13, 2023.
Source: BBVA Research, based on BBVA Colombia transactional data.

ISE AND BBVA *ECONOMIC TRACKER*

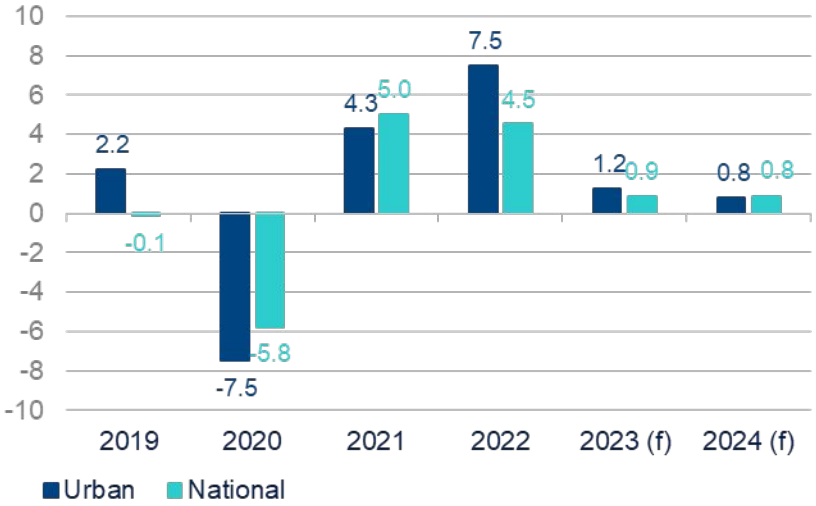
(REAL ANNUAL CHANGE, %)



Source: BBVA Research.

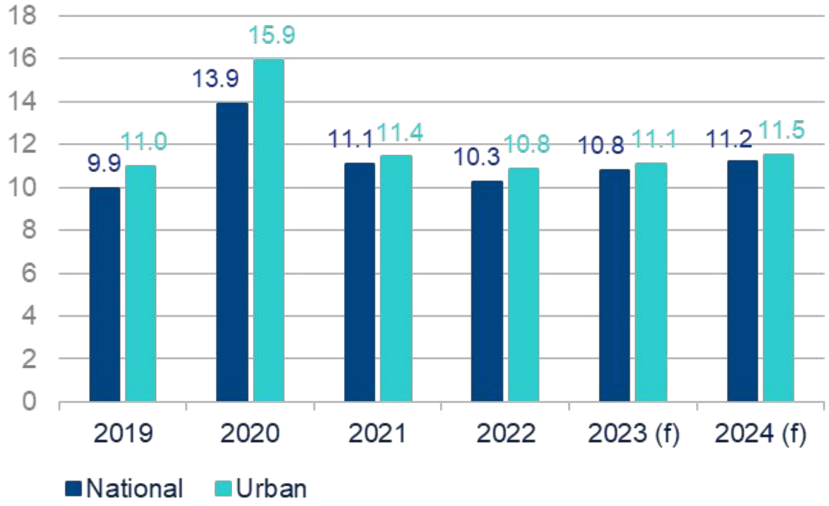
While employment levels will remain high, annual job creation will continue to slow and will be less concentrated on formal employment

NATIONAL AND URBAN EMPLOYMENT
(%, ANNUAL CHANGE, DECEMBER)



(f): BBVA Research forecasts (*): Change between December of each year.
Source: BBVA Research, based on DANE data.

NATIONAL AND URBAN UNEMPLOYMENT RATE
(% OF WORKFORCE, DECEMBER)

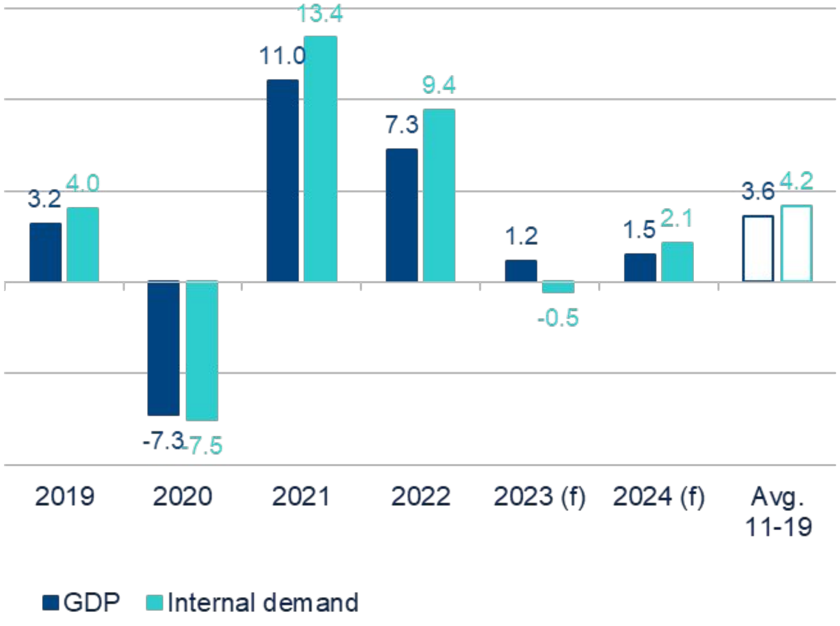


Employment growth will be driven by services, including the public sector. Slower economic growth, among other factors, will push more people into the labor force and exert upward pressure on unemployment and informal employment

Colombia will growth of 1.2% in 2023 and 1.5% in 2024. Internal demand will improve throughout 2024, driving a recovery in GDP

GDP AND DOMESTIC DEMAND

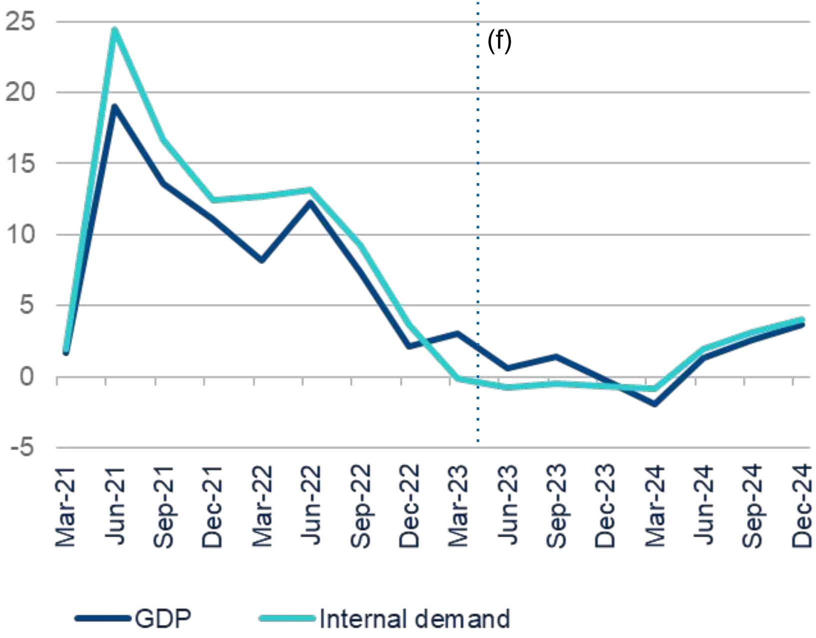
(ANNUAL CHANGE, %)



(f): BBVA Research forecasts.
Source: BBVA Research, based on DANE data.

GDP AND DOMESTIC DEMAND

(ANNUAL CHANGE, %)

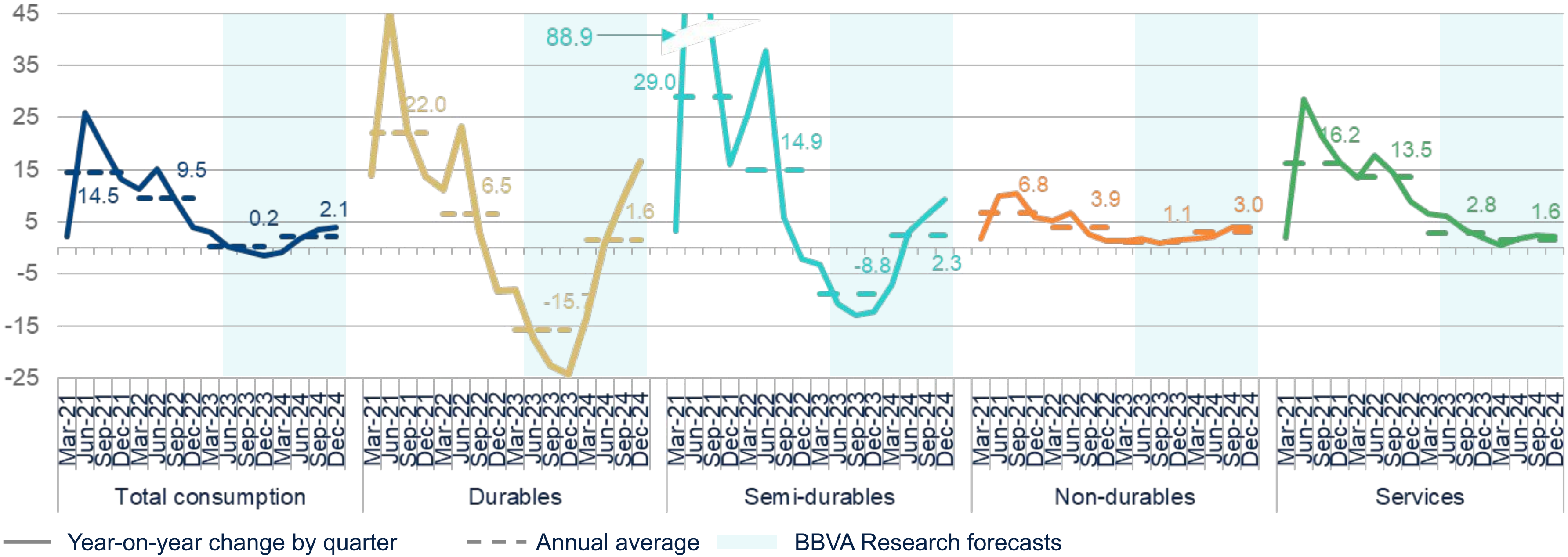


Source: BBVA Research, based on LatinFocus data.

Consumption growth will slow in 2023. Led by the contraction in durable and semi durable goods. Services and non durables remain in positive territory

HOUSEHOLD CONSUMPTION BY COMPONENT

(ANNUAL, QUARTERLY CHANGE AND ANNUAL AVERAGE, %)

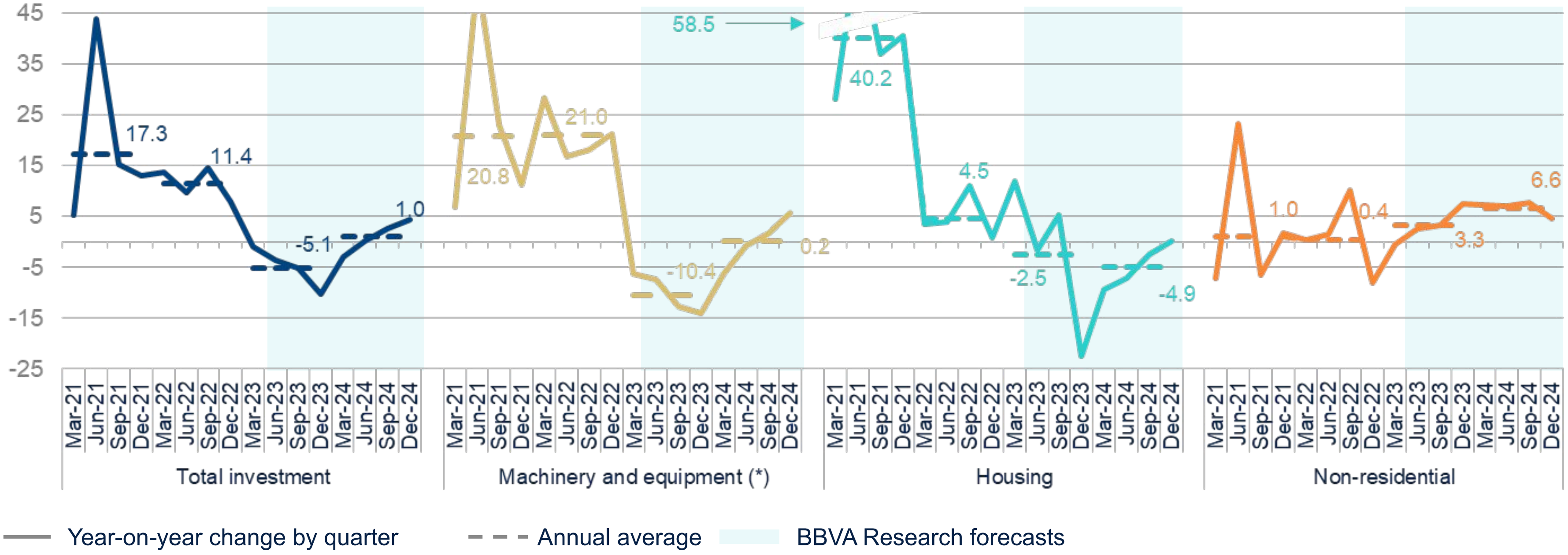


(f): BBVA Research forecasts.
Source: BBVA Research, based on DANE data..

Investment: two years underperforming. Civil works (regional public spending) and buildings will have a slightly better performance

FIXED INVESTMENT BY COMPONENT

(ANNUAL, QUARTERLY CHANGE AND ANNUAL AVERAGE, %)

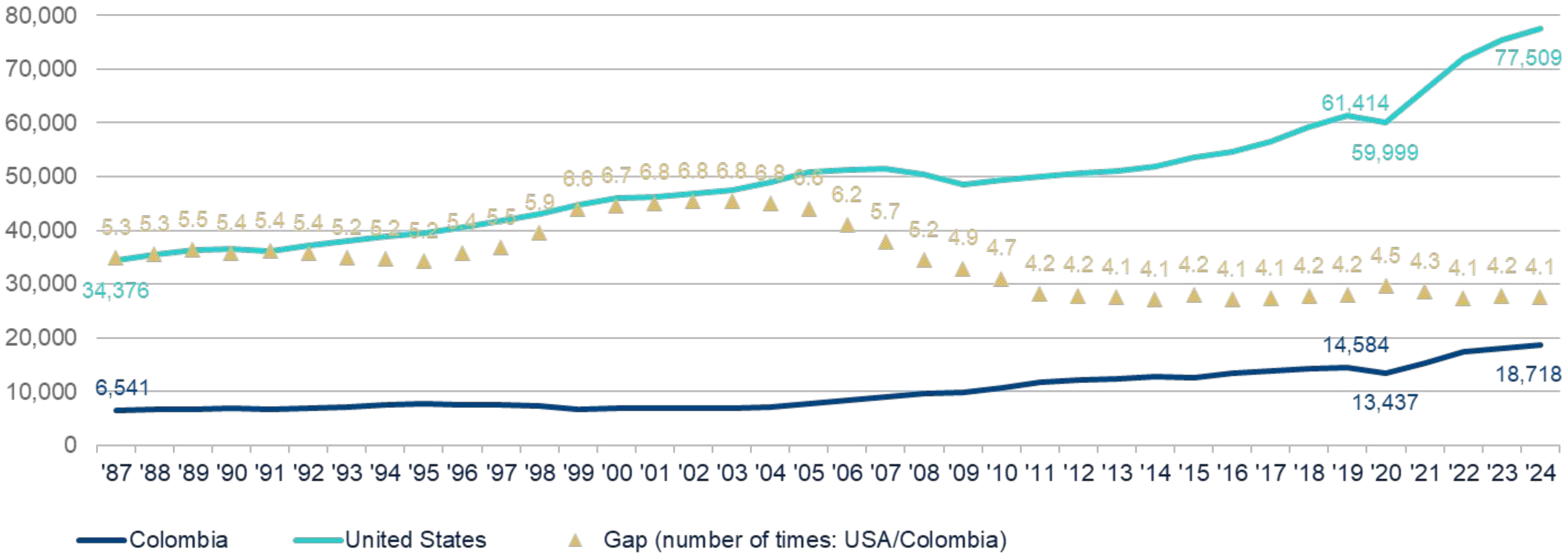


(f): BBVA Research forecasts.
Source: BBVA Research, based on DANE data..

The post-pandemic performance and orderly slowdown in 2023 and 2024 will allow the per capita GDP gap with the US to narrow relative to 2020

GDP PER CAPITA OF COLOMBIA AND THE UNITED STATES

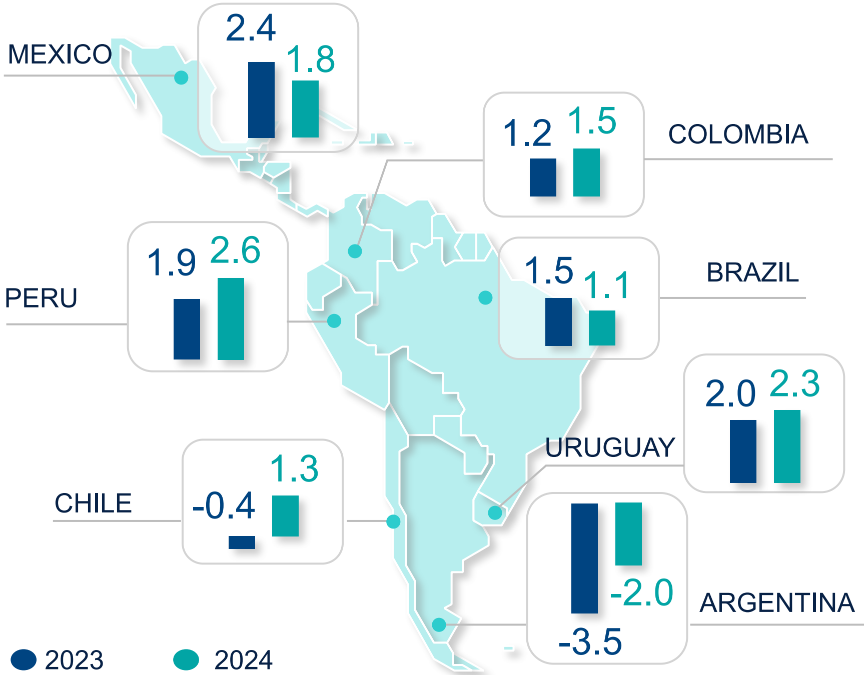
(CURRENT ANNUAL DOLLARS IN PPP AND GAP IN NUMBER OF TIMES)



Source: BBVA Research, based on data from Penn University and IMF.

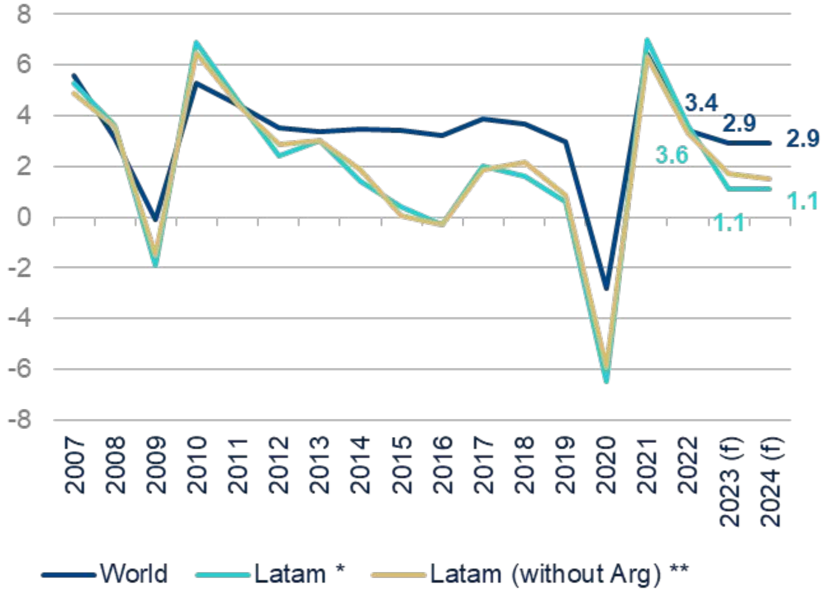
Latam will experience a significant growth moderation in 2023, greater than the world average, and will maintain a weak performance in 2024

GDP GROWTH
(ANNUAL CHANGE, %)



Source: BBVA Reseach.

WORLD AND LATAM GDP
(ANNUAL CHANGE %)



(f): BBVA Research projections.
(*): Includes Brazil, Chile, Colombia, Mexico, Peru, Paraguay and Uruguay.
(**): Includes Argentina, Brazil, Chile, Colombia, Mexico, Paraguay, Peru y Uruguay.

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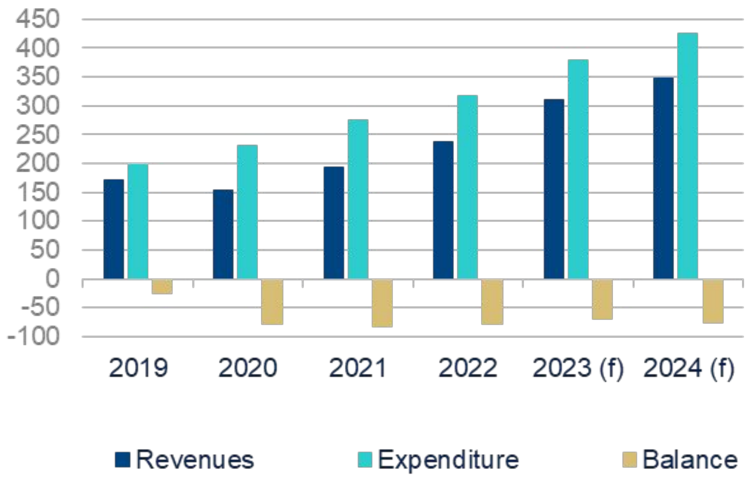
05

Structural balances and exchange rate

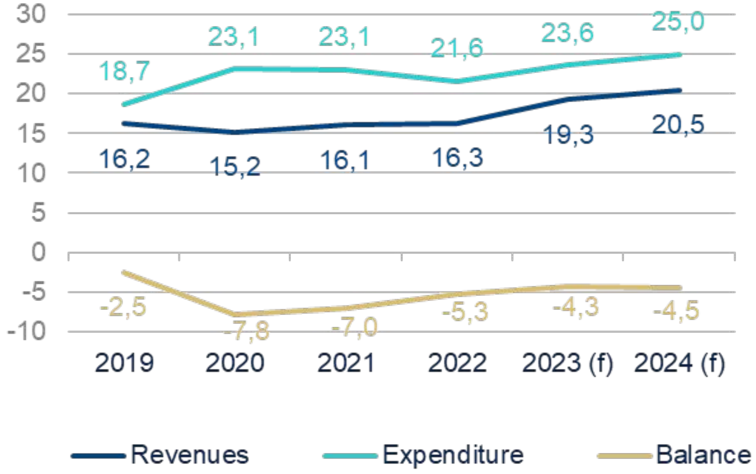
Financing needs for the colombian economy will reduce, but will remain higher than the average of LatAm, exerting upward pressure on the exchange rate

Since the pandemic, public spending has been high and will keep rising in 2023 and 2024, reaching historically high levels.

NATIONAL CENTRAL GOVERNMENT REVENUES, EXPENDITURE AND BALANCE (BILLIONS OF PESOS)



NATIONAL CENTRAL GOVERNMENT REVENUES, EXPENDITURE AND BALANCE (% OF GDP)

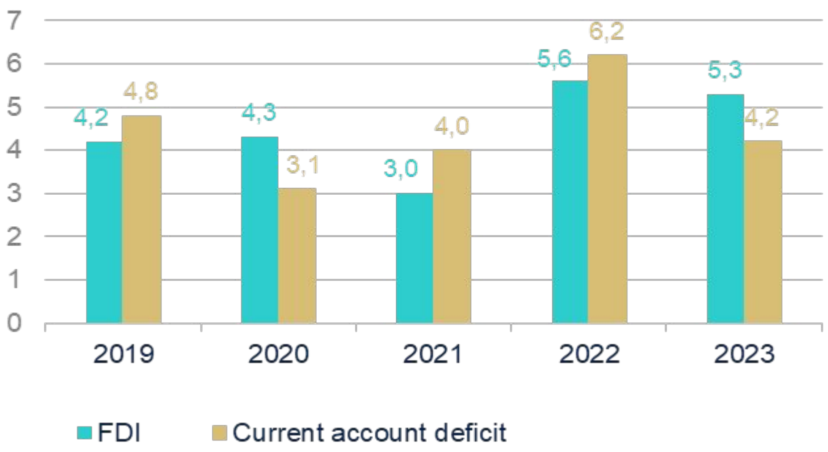


(f): Government forecasts in the 2023 Medium Term Fiscal Framework.
Source: BBVA Research, based on Finance Ministry data.

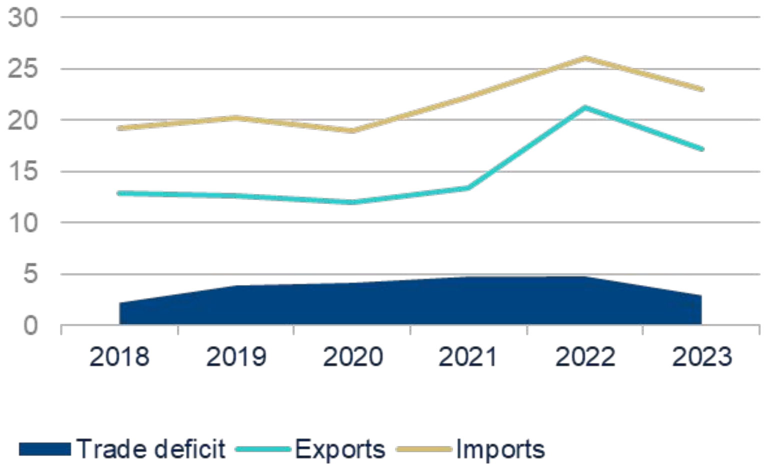
In 2024, in the government's scenario, spending will be financed by high revenues and a loosen deficit.

The current account deficit reduced at the beginning of the year, in part due to the lower trade deficit. Foreign direct investment financed the deficit

CURRENT ACCOUNT DEFICIT AND FOREIGN DIRECT INVESTMENT (FIRST QUARTER OF EACH YEAR, % OF GDP)



TRADE BALANCE OF GOODS AND SERVICES (FIRST QUARTER OF EACH YEAR, % OF GDP)



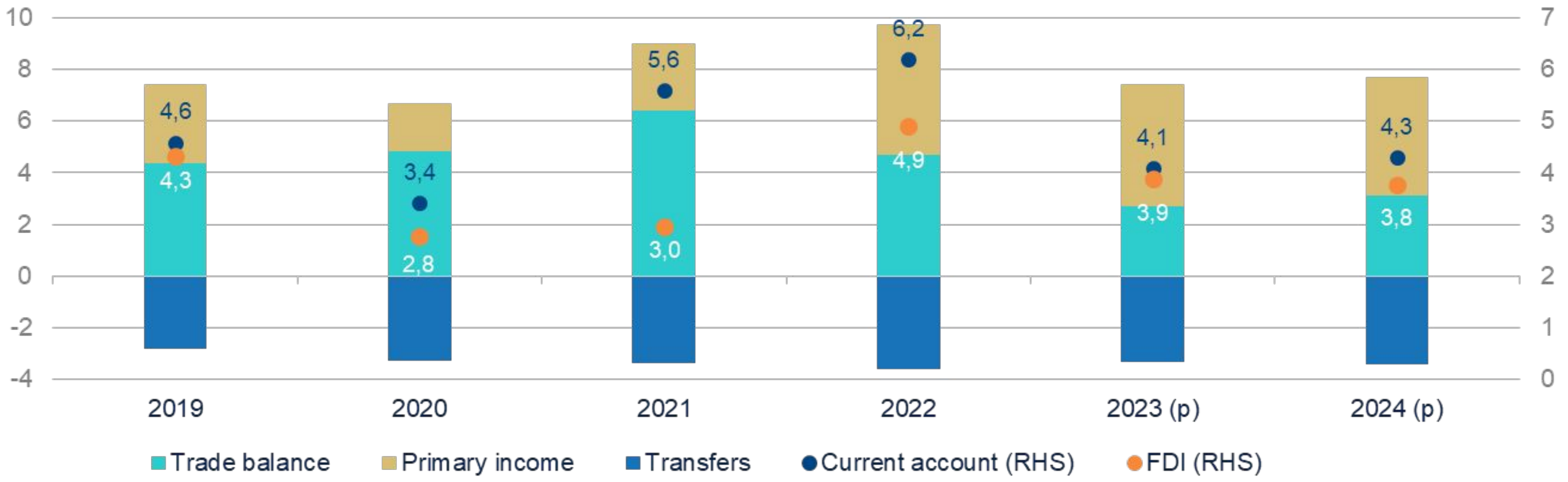
Source: BBVA Research, based on BanRep data.

Declining imports, together with relatively stable exports and high terms of trade, allowed the country's trade deficit to narrow. FDI accounted for 125% of the external deficit in 1Q23.

The external deficit in 2023 and 2024 will be lower than in 2022: lower domestic demand (low imports) and relatively stable exports

COMPONENTS OF THE CURRENT ACCOUNT DEFICIT AND FOREIGN DIRECT INVESTMENT

(% OF GDP)

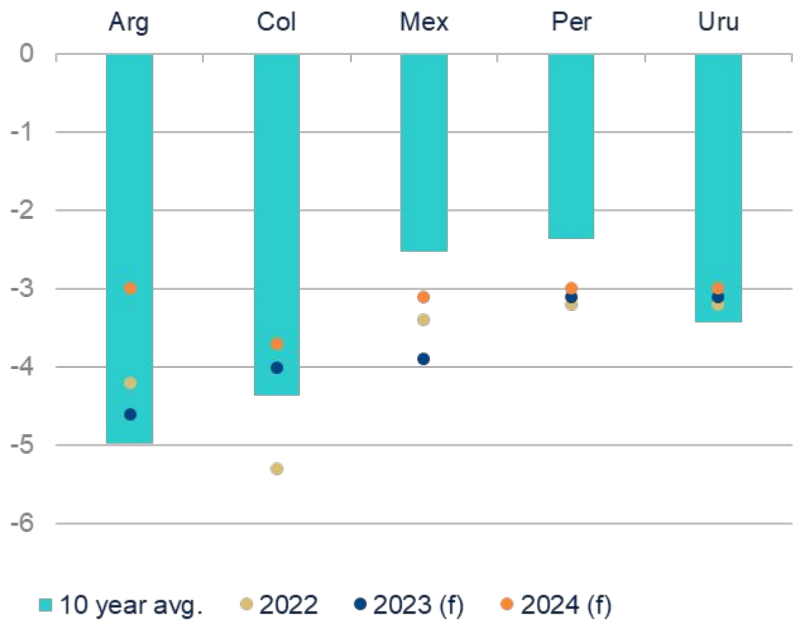


Source: BBVA Research, based on Banco de la República data.

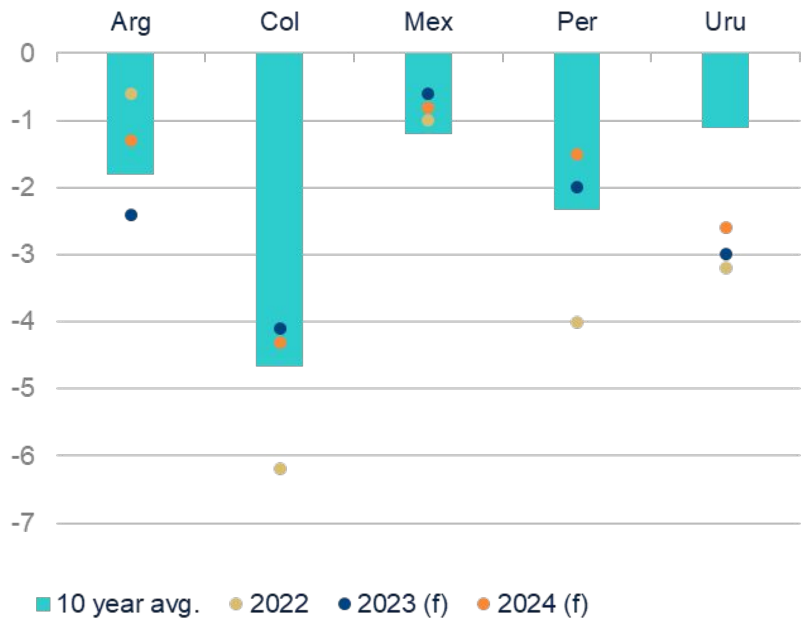
A gradual reduction in the prices of traditional goods, such as coal and oil, is expected, which will reduce revenue from traditional exports. In parallel, demand for imported goods will gradually recover.

A reduction in the current account and fiscal deficits is expected in most countries in the region between 2022 and 2024

FISCAL BALANCE
(% OF GDP)



CURRENT ACCOUNT BALANCE
(% OF GDP)

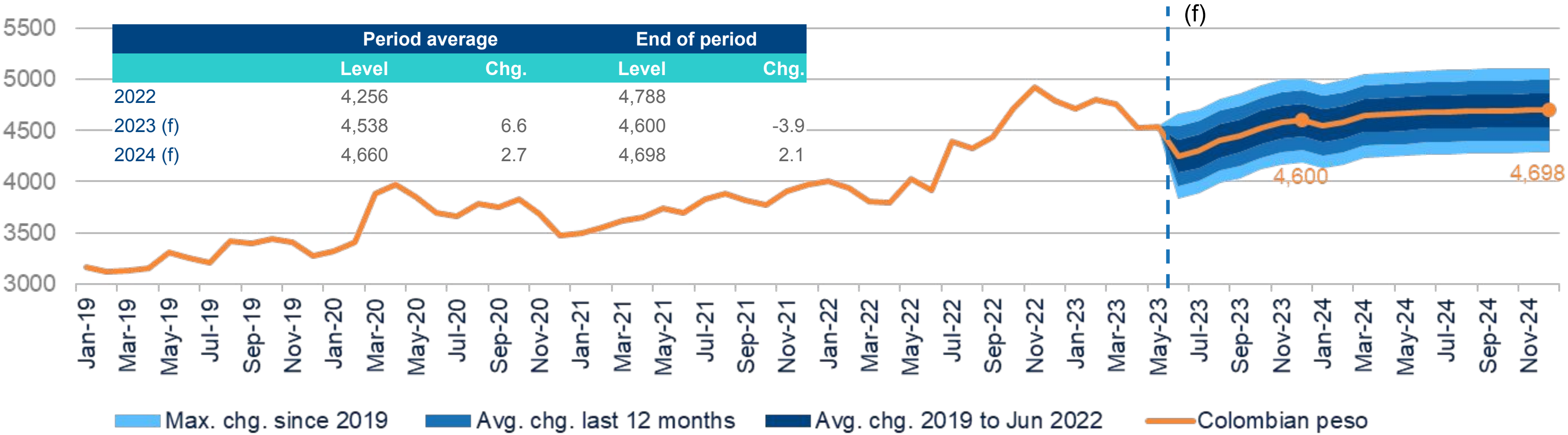


Source: BBVA Reseach.

The exchange rate has been highly volatile in recent months, having appreciated strongly of late largely due to global cycles

EXCHANGE RATE OF THE COLOMBIAN PESO AGAINST THE DOLLAR (PESOS PER DOLLAR)

	Period average		End of period	
	Level	Chg.	Level	Chg.
2022	4,256		4,788	
2023 (f)	4,538	6.6	4,600	-3.9
2024 (f)	4,660	2.7	4,698	2.1



We have used the standard deviation of the average monthly exchange rate from 2019 to May 2023.
(f): BBVA Research forecasts.
Source: BBVA Research, based on BanRep data.

The exchange rate is expected to close 2023 at around 4,600 pesos per dollar, showing a gradual trend toward depreciation. In 2024, the exchange rate will close at around 4,700 pesos per dollar.

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06

Closing remarks

Colombia will navigate in orderly deceleration waters in the next quarters. There are tailwinds that need to be used to its advantage, hoist sails and calibrate the compass to promote a sustainable economic growth.

How to navigate the orderly slowdown waters?

By taking advantage of tailwinds

1. Local and global demand for services
2. Nearshoring
3. Energy transition

Hoisting new sails to sail faster

1. New productive sectors, new opportunities
2. Better logistics for trade, both internal and external

Calibrating the compass

1. Promotion of public and private investment
2. Clear and stable rules
3. Promotion of formal employment and business
4. Coordination between public policies

An inclusive growth with access to opportunities for all

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07

Tables with projections

Creating Opportunities

Macroeconomic forecast

	2020	2021	2022	2023 (f)	2024 (f)
GDP (% y/y)	–7.3	11.0	7.3	1.2	1.5
Private consumption (% y/y)	-4.9	14.5	9.5	0.2	2.1
Public consumption (% y/y)	-0.8	9.8	0.3	5.2	4.3
Fixed investment (% y/y)	-24.0	17.3	11.4	-5.1	1.0
Inflation (% y/y. eop)	1.6	5.6	13.1	9.2	5.2
Inflation (% y/y. avg)	2.5	3.5	10.2	11.7	6.7
Exchange rate (eop)	3,469	3,968	4,788	4,600	4,698
Devaluation (%. eop)	5.9	14.4	20.7	-3.9	2.1
Exchange rate (avg)	3,693,3	3,744.3	4,256.0	4,537.8	4,660.1
Devaluation (%. eop)	12.9	1.4	13.7	6.6	2.7
Interest policy rate (%. eop)	1.75	3.00	12.00	12.50	7.00
Fixed Term Deposit rate (%. eop)	-3.4	-5.6	-6.2	-4.1	-4.3
Urban unemployment rate (%, eop)	15.9	11.4	10.8	11.1	11.5

(f): BBVA Research forecast.
Source: BBVA Research based on data from Banco de la República and DANE.

Macroeconomic forecast

	GDP (% y/y)	Inflation (% y/y. eop)	Exchange rate (vs. USD. eop)	Interest Policy Rate (%. eop)
Q1 21	1.7	1.5	3,617	1.75
Q2 21	19.0	3.6	3,693	1.75
Q3 21	13.6	4.5	3,820	2.00
Q4 21	11.1	5.6	3,968	3.00
Q1 22	8.2	8.5	3,806	5.00
Q2 22	12.2	9.7	3,922	7.50
Q3 22	7.3	11.4	4,437	10.00
Q4 22	2.1	13.1	4,788	12.00
Q1 23	3.0	13.3	4,761	13.00
Q2 23	0.6	12.4	4,250	13.25
Q3 23	1.4	10.8	4,450	13.25
Q4 23	-0.2	9.2	4,600	12.50
Q1 24	-2.0	7.5	4,645	11.00
Q2 24	1.3	6.9	4,678	9.50
Q3 24	2.6	5.9	4,693	8.00
Q4 24	3.7	5.2	4,698	7.00

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

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Colombia Economic Outlook

June 2023

Creating Opportunities