BBVA Research

Colombia Economic Outlook

October 2023

Creating Opportunities

Contents

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01

Global environment and financial markets

The global growth of our trading partners will slowdown in 2024, conditioning Colombia's capacity for recovery. In addition, financial markets have seen a recent appreciation.

Main messages

Recent developments

The global economy is easing at different paces across regions: incoming data are more favorable in the US, slightly worse than forecasted in the EZ and negative in China. Still, even though rate tightening cycles seem to be over, persistent inflation amid tight labor markets pave the way for the Fed and the ECB to maintain a hawkish tone, while leaving doors open for further hikes, if inflation proves to be more persistent than expected.

Growth outlook

A soft-landing is expected, with global growth declining from 3.5% in 2022 to around 2.9% (+0.0pp) in 2023 and 3.0% (+0.1pp) in 2024. In the US, resilient domestic demand paves the way for higher growth forecasts and makes a recession unlikely. In China, growth prospects deteriorated significantly and risks augmented, but extra measures are expected to support confidence and prevent a hard-landing. In the Eurozone, a timid GDP expansion, slightly below previous forecasts, is now anticipated.

Inflation and rates outlook

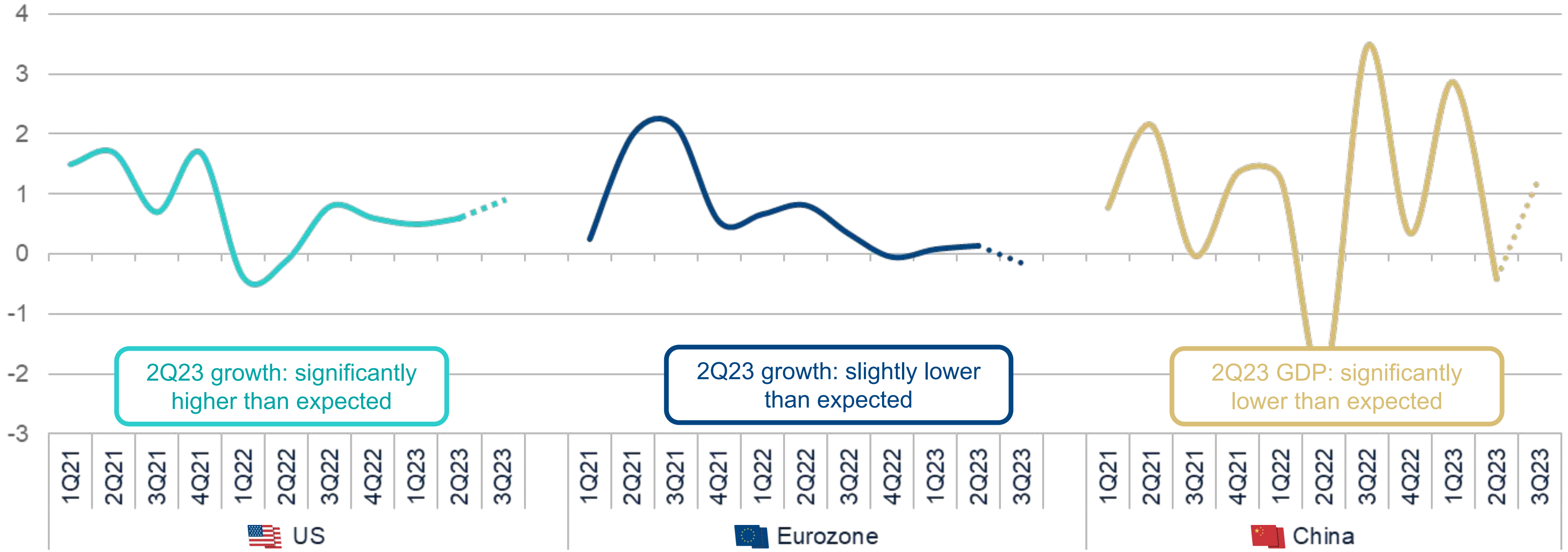
Inflation is likely to continue slowing ahead, allowing the Fed and the ECB to skip further rate hikes over the next few months. Still, it will continue above targets, and upward risks will remain alive, making rate cuts unlikely in the short-run and favoring a reduction of central bank balances.

Risks

Recession and financial instability episodes driven by persistent inflation (on second-round effects, higher oil prices, etc) and contractionary monetary policy are still possible. A sharper deceleration of China, geopolitical tensions and US presidential elections are also a source of risks.

GDP growth is losing momentum, mainly in China, but also in the Eurozone; labor markets and excess savings are still supportive, especially in the US

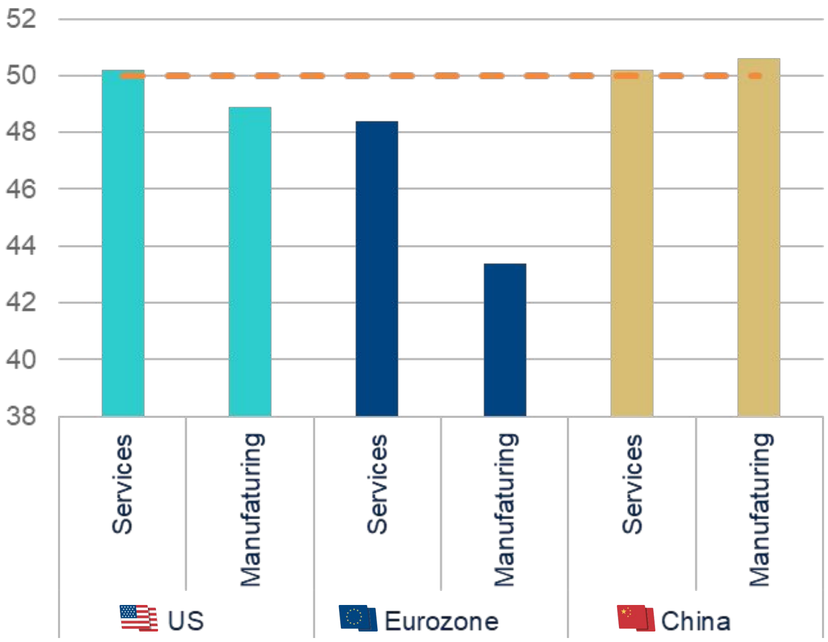
GDP: REAL GROWTH (*)
(Q/Q %)



(*) BBVA Research growth estimation for 3Q23.
Source: BBVA Research based on data from Haver.

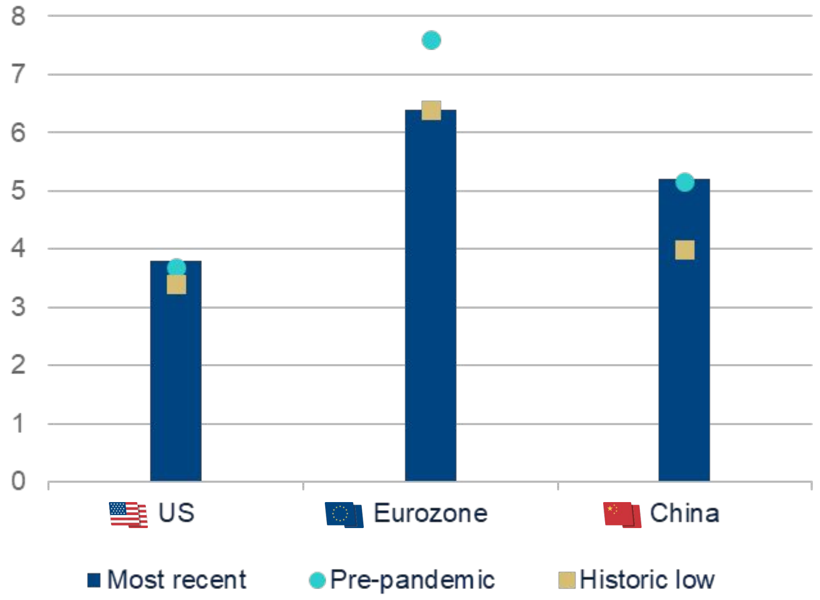
The service sector is losing some of its strength, adding to the weakness in manufacturing; labor markets remain robust despite the recent moderation

PMI INDICATORS: MOST RECENT FIGURES (*)
(MORE THAN 50: EXPANSION; LESS THAN 50: CONTRACTION)



(*) Most recent data: Aug/23 in China. Sep/23 in the US and in the EZ.
Source: BBVA Research based on data from Haver.

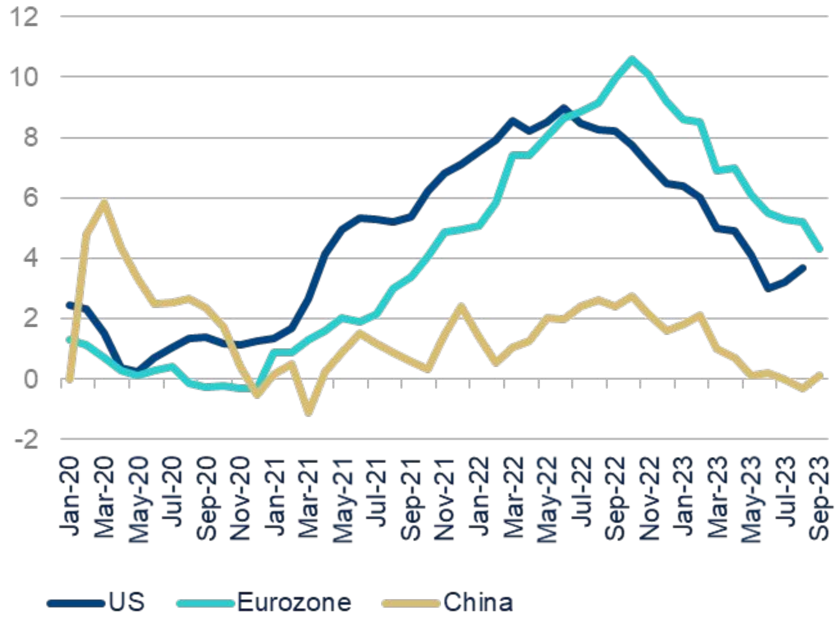
UNEMPLOYMENT RATE (*)
(% OF THE LABOR FORCE)



(*) Most recent data: Aug/23 in the US, Jul/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.

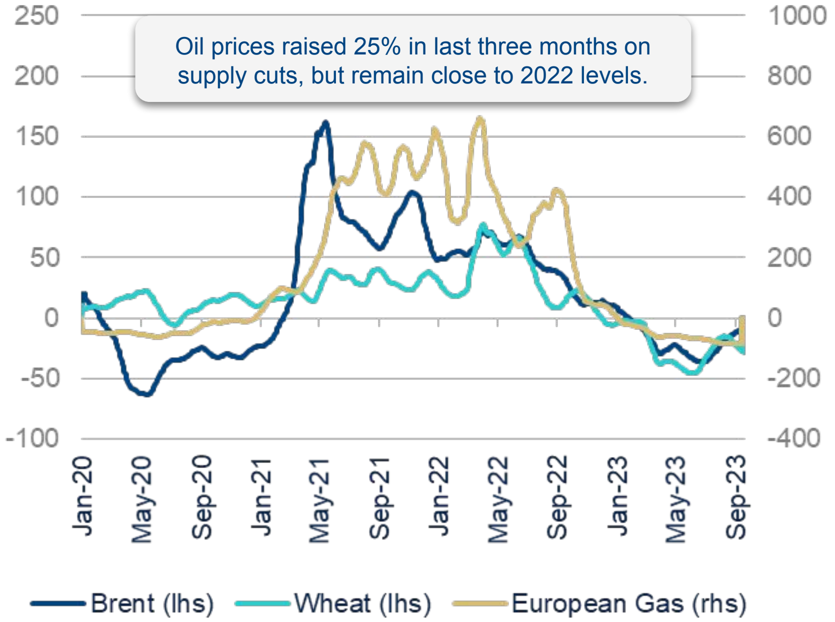
Inflation has been slowing thanks to base effects, easing of bottlenecks and declining commodity prices (despite the recent oil upward trend)

INFLATION: CPI
(Y/Y %)



Source: BBVA Research based on data from Haver.

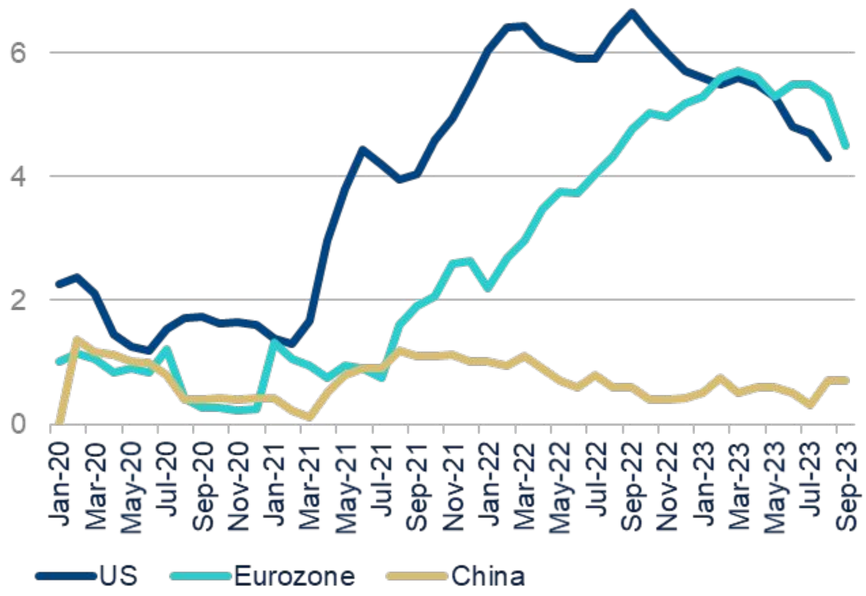
COMMODITY PRICES
(Y/Y %, 30-DAYS MOVING AVERAGE)



Source: BBVA Research based on data from Haver.

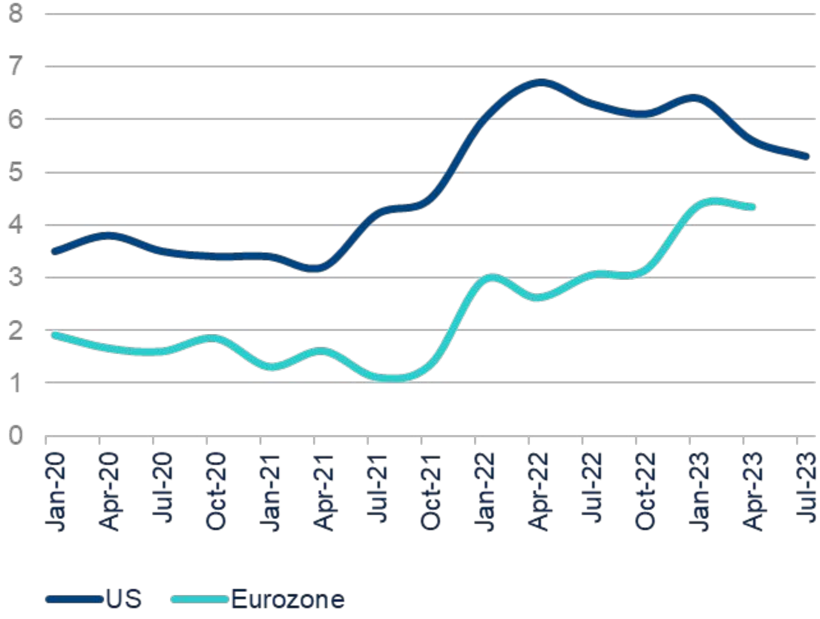
Core inflation remains sticky at high levels, also fueled by (limited) some second-round effects

CORE INFLATION: CPI
(Y/Y %)



Source: BBVA Research based on data from Haver.

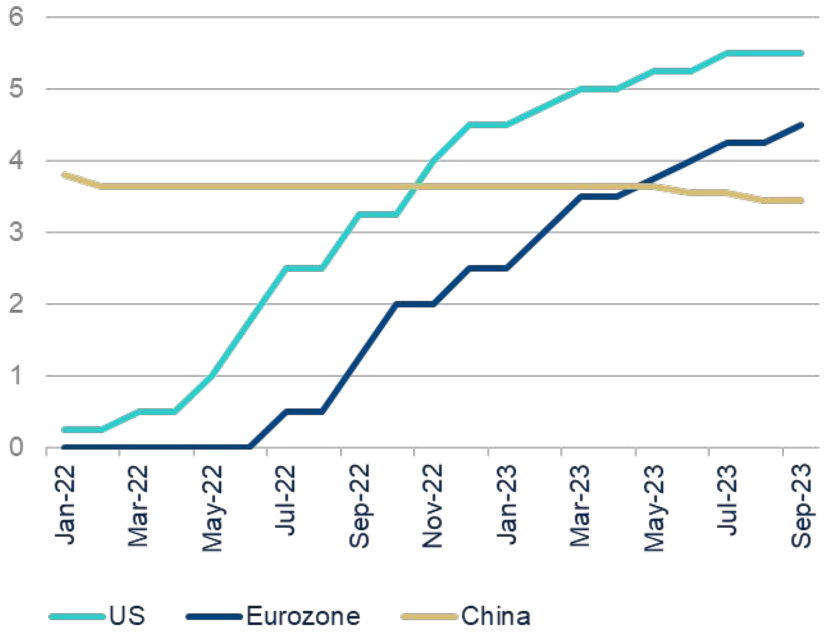
WAGE GROWTH (*)
(Y/Y %, QUARTERLY DATA)



(*) US: Atlanta Wage Tracker; 3Q23 data represents data for Aug/23 only. EZ: negotiated wages.
Source: BBVA Research based on data from the Fed and Eurostat.

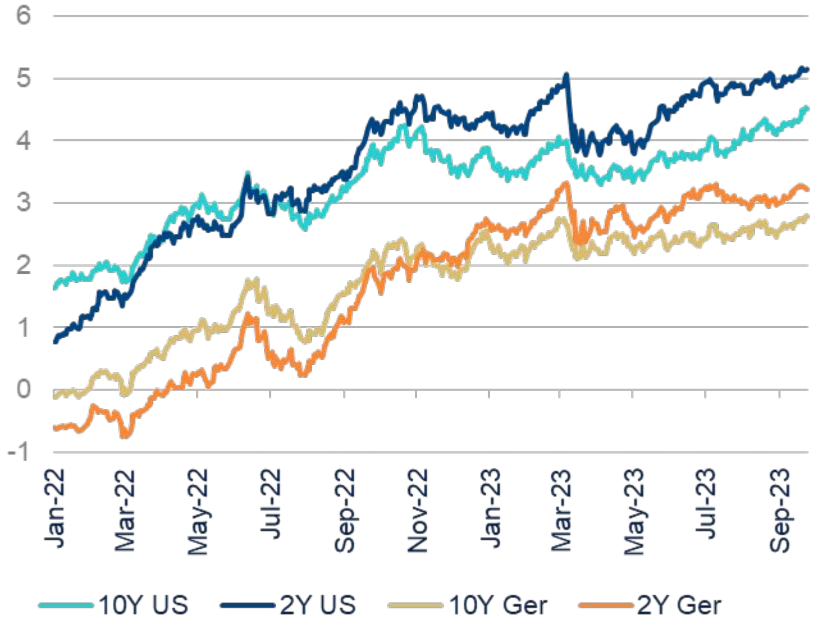
Fed and ECB rate hike cycles seem to be over, but doors are open for extra raises if inflation surprises upwards; PBoC: (small) rate cuts to back growth

POLICY INTEREST RATES (*)
(%)



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

US AND GERMAN SOVEREIGN YIELDS: 2Y AND 10Y
(%)

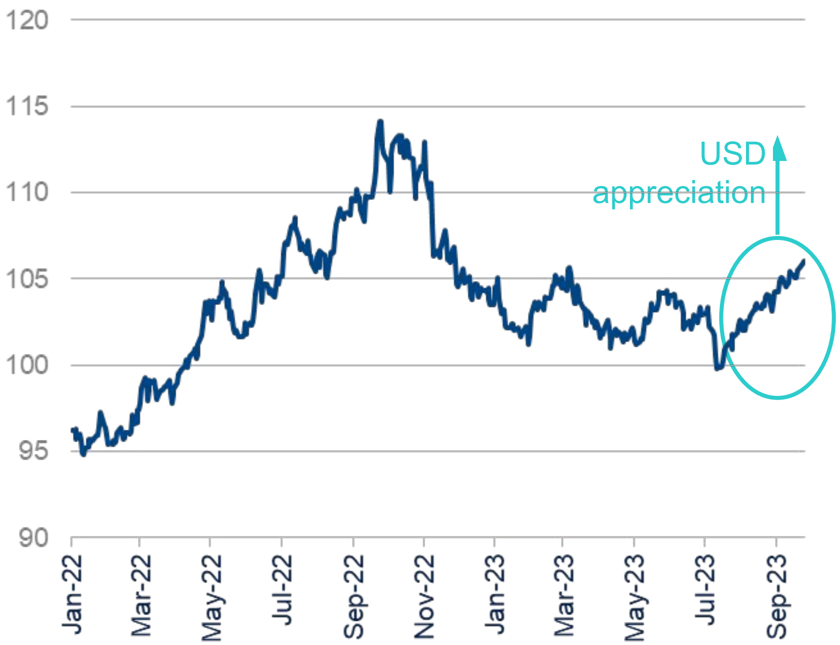


Source: BBVA Research based on Bloomberg.

Despite higher interest rates and a stronger US dollar, financial tensions remain relatively low; the US banking turmoil has eased

US DOLLAR INDEX: DXY

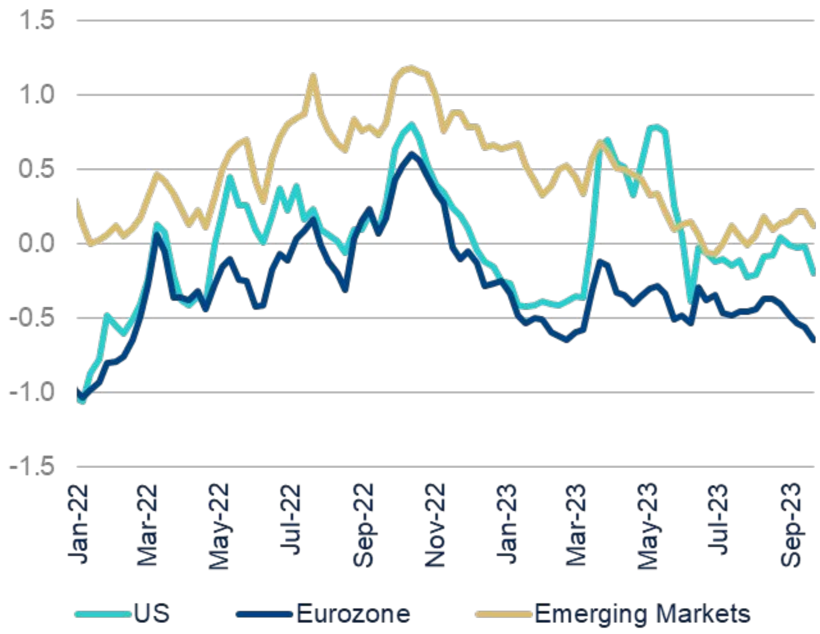
(%)



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

BBVA RESEARCH FINANCIAL TENSIONS INDEX

(INDEX: HISTORIC AVERAGE = 0)

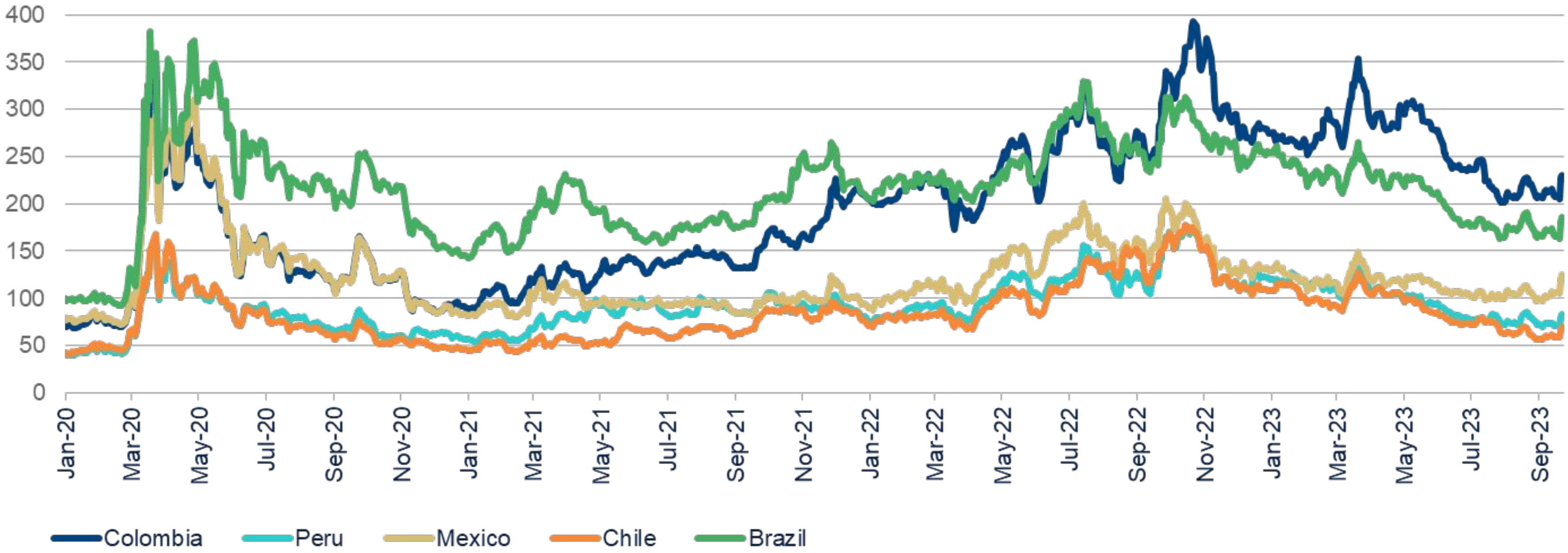


Source: BBVA Research based on Bloomberg.

The country risk premium has fallen by 42.3% since its recent peak in October 2022, although it is still 66% higher than the LATAM average(*)

5-YEAR CDS FOR SELECTED COUNTRIES

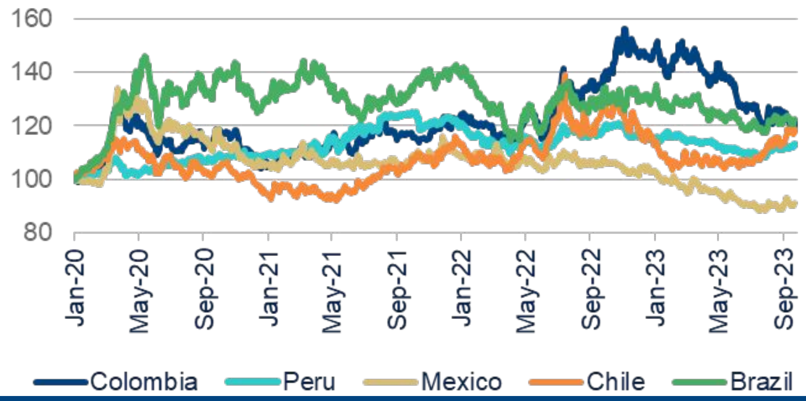
(BASIS POINTS)



(*): Refers to the average of the five countries charted on this slide. Data to Sep. 22 of 2023
Source: BBVA Research with data from Bloomberg.

In line with the lower risk, the exchange rate appreciated 20.3% from the peak in November 2022, although it does remains highly volatile

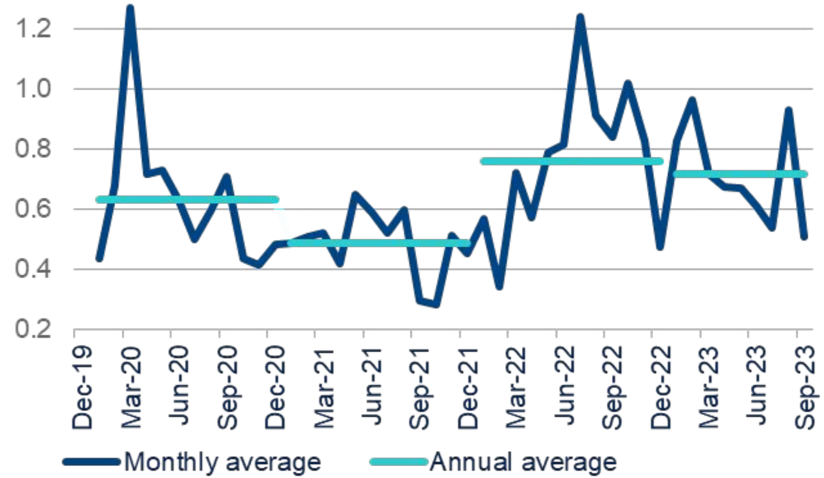
EXCHANGE RATE FOR SELECTED COUNTRIES (INDEX, JANUARY 2020 = 100)



Currency variation	Colombia	Peru	Mexico	Chile	Brazil
Current (Sep. 29 of 2023)	4078.5	3.78	17.42	891.53	5.03
From Dec. 31 of 2019	23.7	14.2	-7.9	18.6	24.9
From Nov. 4 of 2022	-20.3	-4.3	-10.8	-3.8	-0.5

Source: BBVA Research with data from Bloomberg.

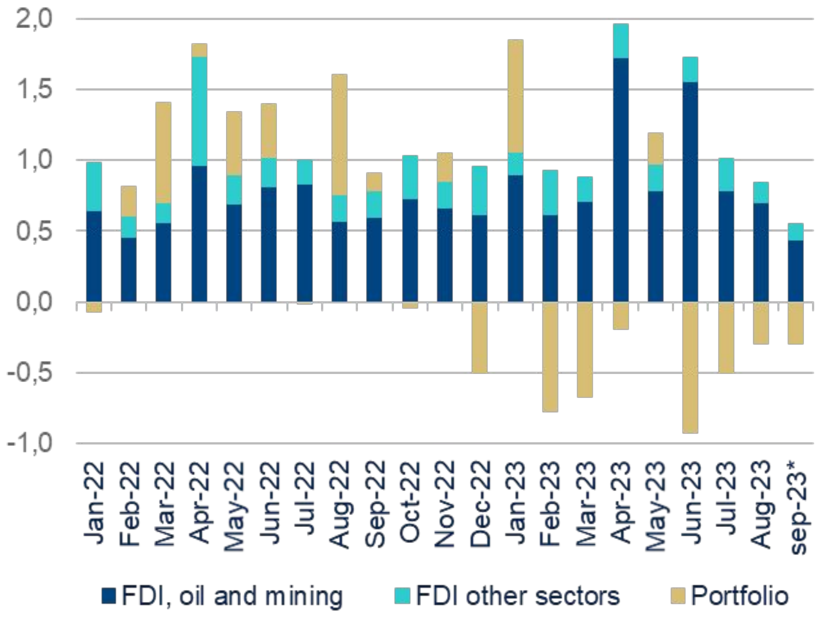
COLOMBIA EXCHANGE RATE VOLATILITY (AVG. OF THE ABSOLUTE VALUE OF THE DAILY CHANGE, %)



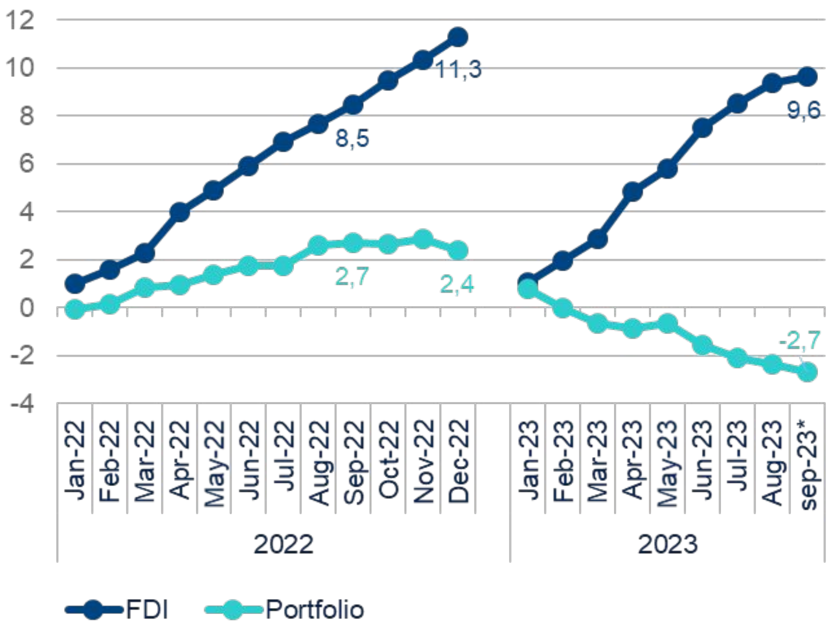
Strong oil prices also favored the appreciation of the Colombian peso between May and September.

In the year to date, there has been an inflow of foreign direct investment resources and an outflow of portfolio investment

PORTFOLIO AND FOREIGN DIRECT INVESTMENT (BILLIONS OF DOLLARS)



CUMULATIVE PORTFOLIO AND FOREIGN DIRECT INVESTMENT FOR THE YEAR (BILLIONS OF DOLLARS)



* Data as of september 15.
Source: BBVA Research with data from Banco de la República from direct FX reports.

Global growth is likely to soft land while monetary policy will remain restrictive for a longer than usual period to help inflation ease towards targets

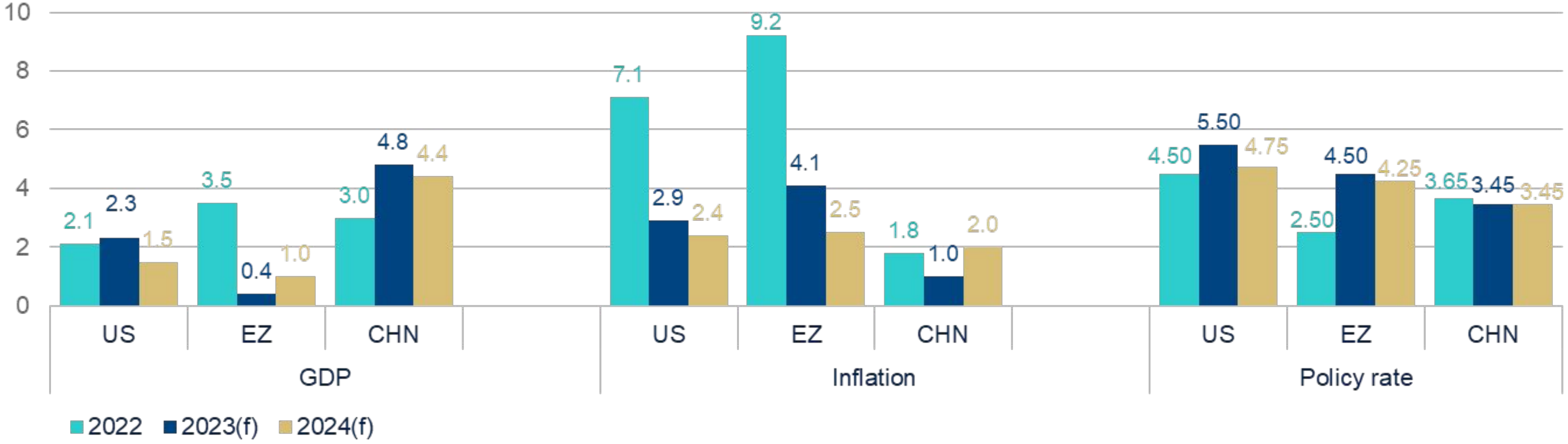
BBVA RESEARCH BASELINE SCENARIO: GDP GROWTH, INFLATION AND POLICY INTEREST RATES (*)

(GDP GROWTH: %, INFLATION: YOY %, EOP, POLICY INTEREST RATES: %, EOP)

Global growth: from 3.5% in 2022 to 2.9% (+0.0pp) in 2023 and 3.0% (+0.1pp) in 2024

Inflation will remain high, but will trend down as demand weakens and given no extra supply shocks

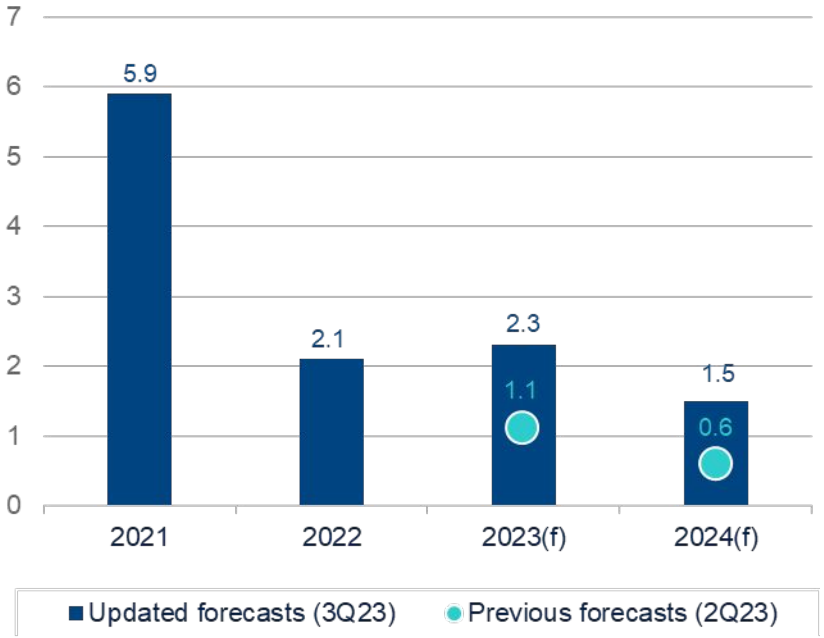
Monetary tightening cycle is likely over in the US and the EZ, but no rate cuts in the short term



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

US: growth resilience signs make a recession unlikely ahead, postponing the prospects for the beginning of the easing cycle to mid-2024

US: GDP GROWTH
(%)

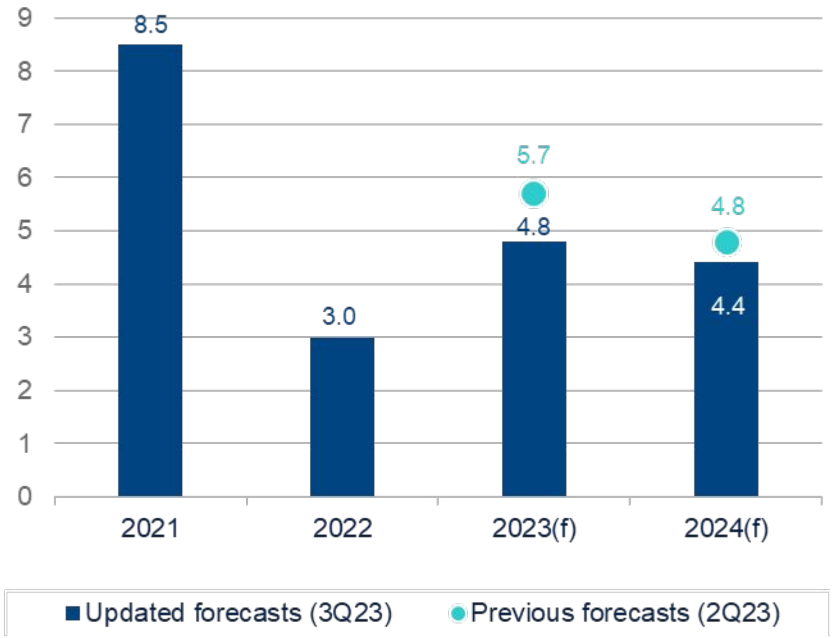


(f): forecast.
Source: BBVA Research

- GDP forecasts revised up on robust domestic demand: solid consumption and resilient investment (boosted by housing market recovery as well as IRA and CHIPS acts).
- Inflation expected to reach 2.9% in Dec/23 and 2.4% in Dec/24; upside risks are still relevant.
- Fed: inflation improvement will prevent extra rate rises (but a hike is still possible in 4Q23); an easing cycle from Jun/24 is likely to take rates to 4.75% in Dec/24.
- Risks: a recession or financial stress on tight monetary conditions and persistent inflation, presidential elections.

China: prospects deteriorated significantly and risks increased given structural challenges, but a gradual growth slowdown is still likely

CHINA: GDP GROWTH
(%)

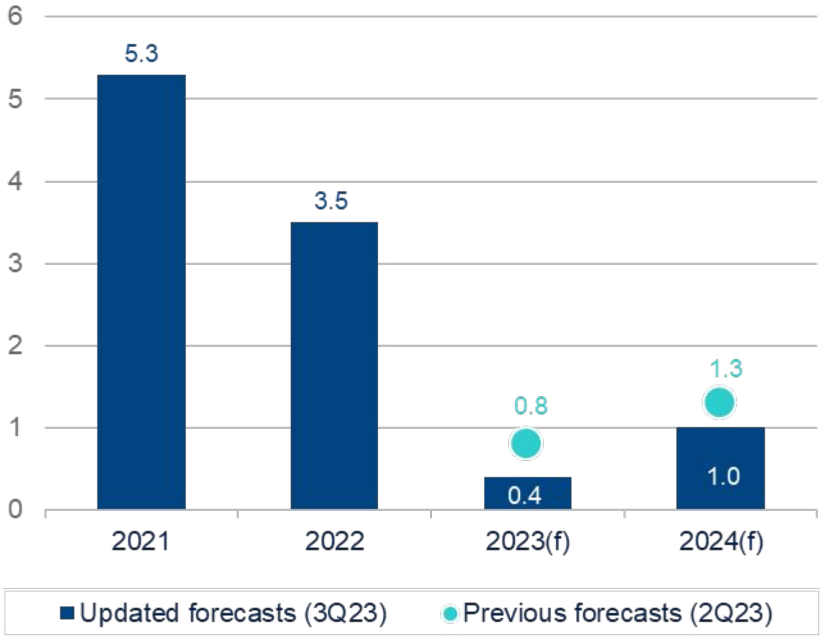


(f): forecast.
Source: BBVA Research

- Generalized deceleration on weak confidence, real estate crunch, 2021 "regulatory storms" and global slowdown.
- Still, the most likely scenario is that further targeted monetary, fiscal and regulatory measures sustain growth and drive inflation up.
- Although a soft-landing is still expected, GDP forecasts have been revised down on incoming data and a costly (but controlled) addressing of real estate imbalances.
- Structural challenges: balance-sheet recession and deflation, US-China confrontation, middle-income trap, unfavorable demographics, etc.

Eurozone: persistent inflation, despite weaker GDP growth, is likely to force the ECB to maintain policy rates at restrictive levels for long

EUROZONE: GDP GROWTH
(%)



(f): forecast.
Source: BBVA Research

- Growth revised down on incoming data amid a deceleration of China, whose effects will be mostly offset by higher US growth.
- Fiscal policy is still supportive, but will likely become more targeted and less expansionary onwards.
- Average inflation forecasts revised up: 5.7% in 2023, 3.0% in 2024 on service stickiness, rebound in oil prices.
- ECB: rates are likely to remain at current levels until Dec/24; increasing focus on liquidity reduction measures.
- Risks: higher energy prices, more persistent inflation, stagflation, China's deceleration.

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02

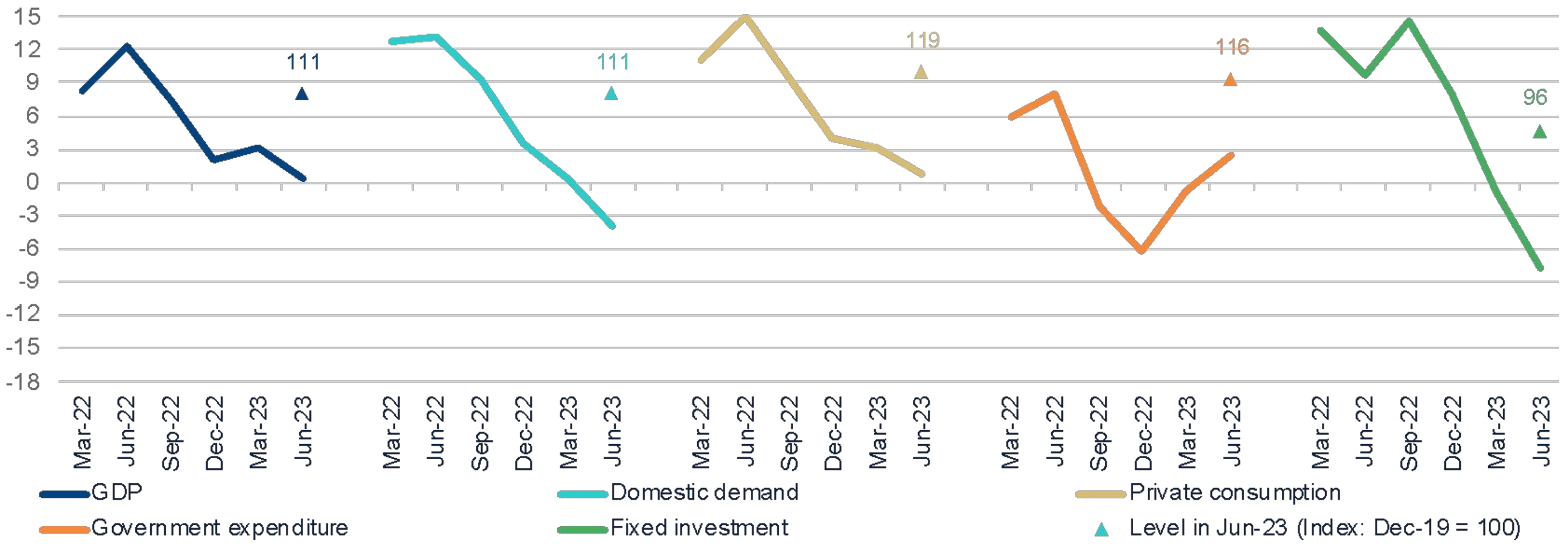
Growth and employment

Activity moderation continued in the second quarter in Colombia, even though consumption, service sector activity and GDP remain at high levels. As a response to this performance, the labor market maintains positive levels of formality and occupation.

Domestic demand fell, dragged down by lower investment and moderation of private consumption, despite better performance of Government expenditure

GDP AND DOMESTIC DEMAND

(ANNUAL CHANGE, %)

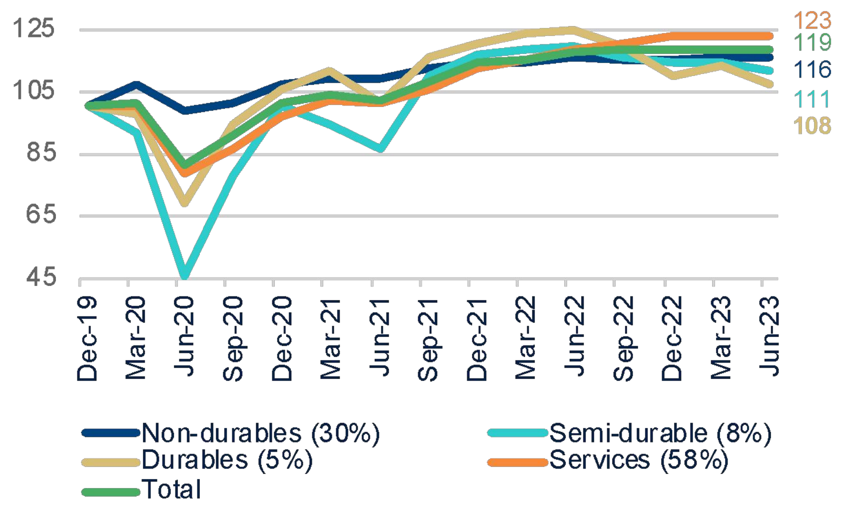


Source: BBVA Research, with data from DANE.

The adjustment in consumption is explained by the drop in durable and semi-durable goods since mid-2022. Services have had a better performance

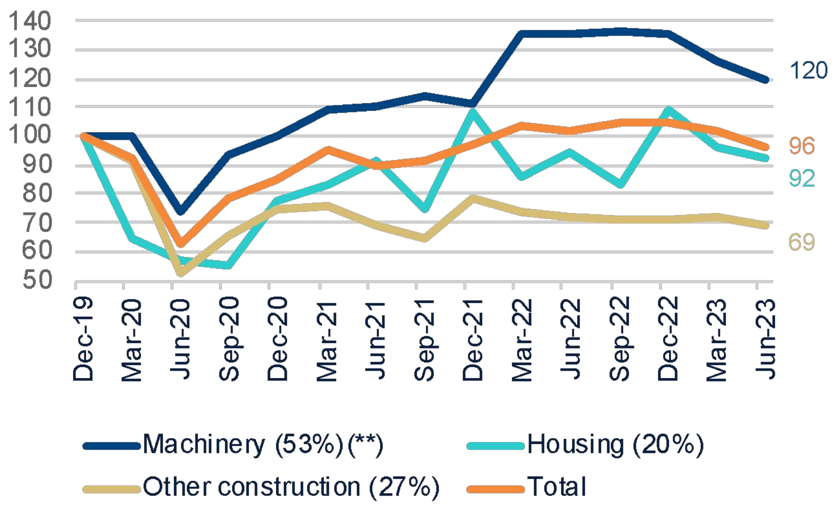
PRIVATE CONSUMPTION: GOODS AND SERVICES

(INDEX, DEC 19 = 100)



FIXED INVESTMENT

(INDEX, DEC 19 = 100)



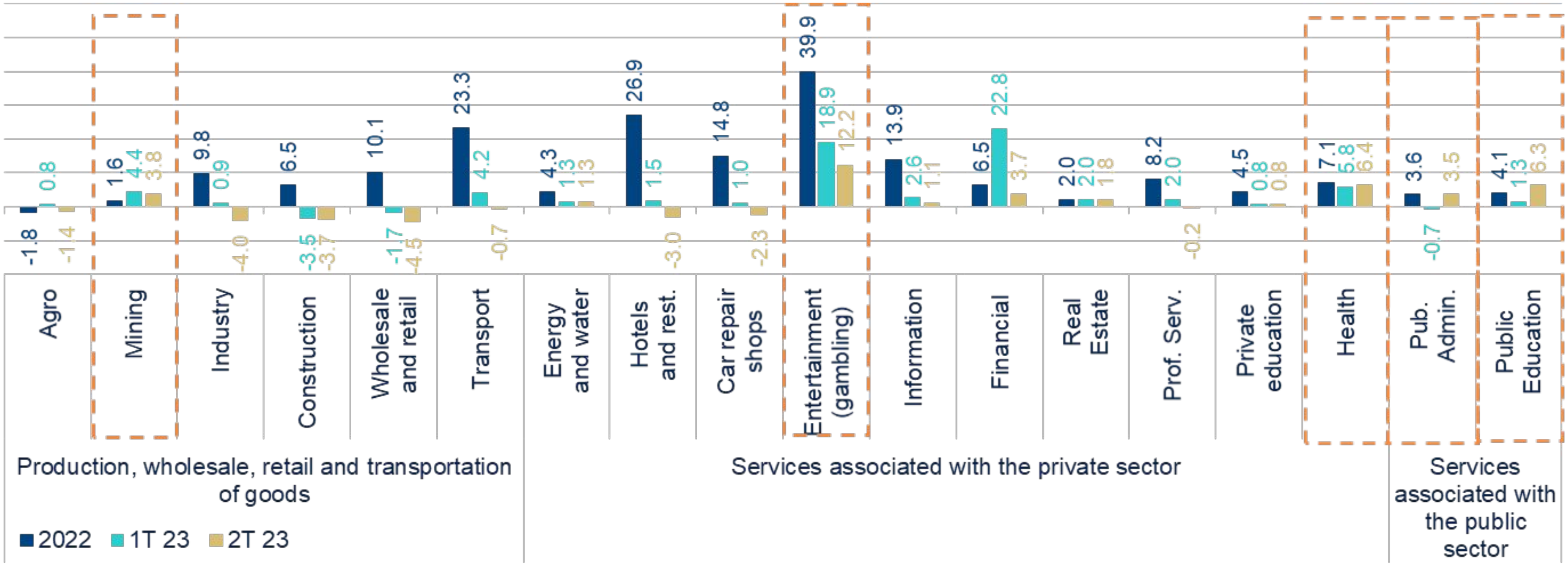
(*): The value in parentheses in the legend is the group's percentage of total consumption in fixed investment in 2022. (**): Includes machinery, transportation equipment, biological resources and intellectual property.
Source: BBVA Research, with data from DANE.

Investment was driven by expenditure on machinery and equipment until the end of 2022. Since then, this investment group joined the already declining non-residential construction and the lack of dynamism in housing.

Service sectors that boosted GDP the most were those related to the public sector. Goods sectors fell (except mining)

GDP: ECONOMIC SECTORS

(REAL ANNUAL CHANGE, %)

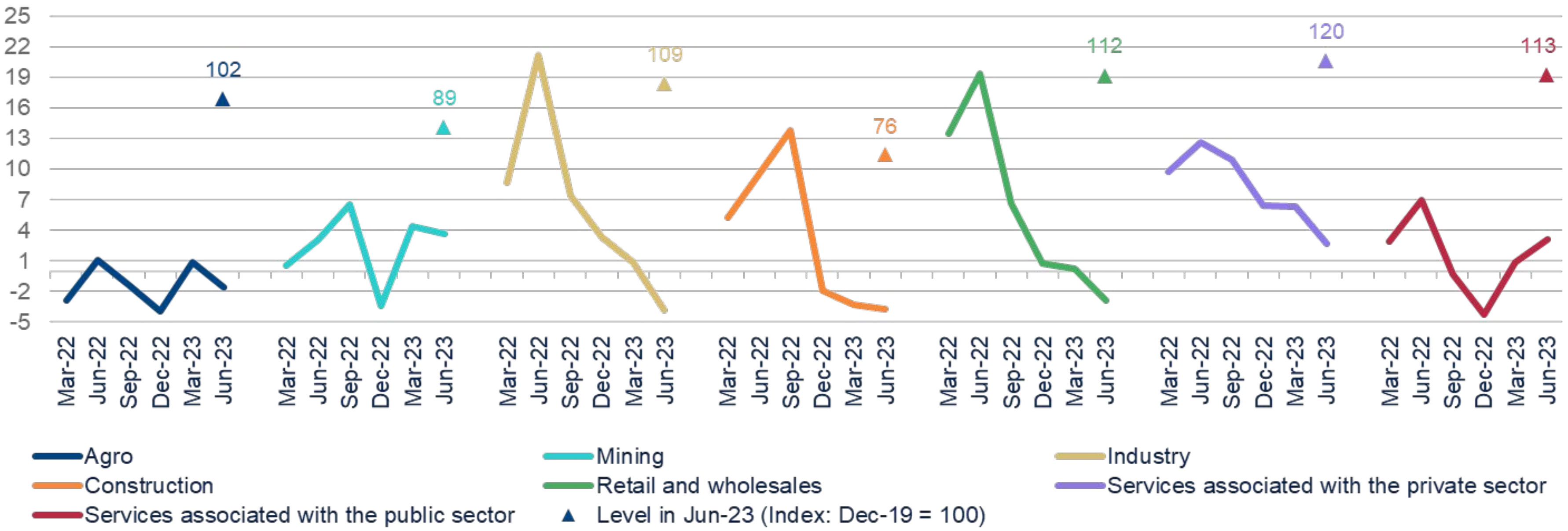


Source: BBVA Research, with data from DANE.

The construction and mining sectors are still below their pre-pandemic output levels

GDP BY SECTORS

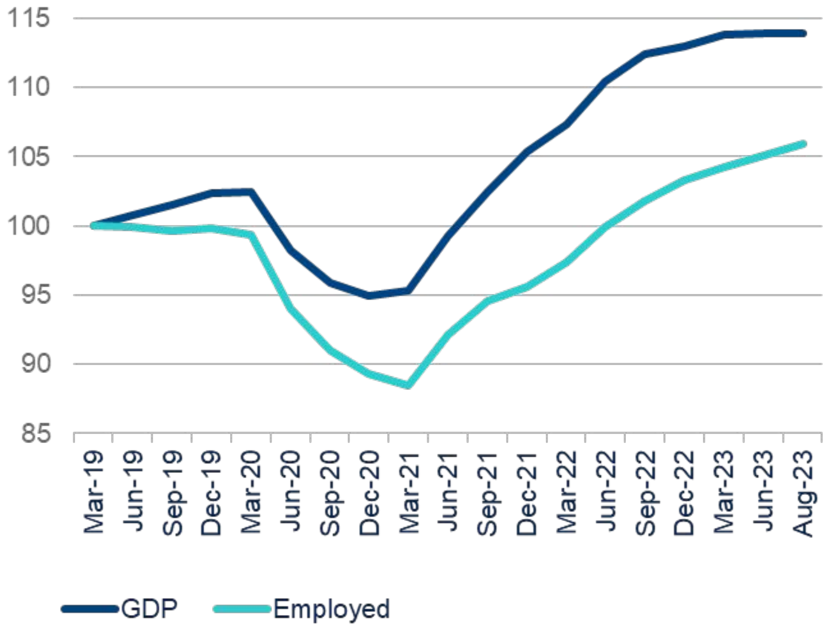
(ANNUAL CHANGE, %)



Source: BBVA Research, with data from DANE.

Employment has shown dynamism despite the slowdown in activity

OCCUPIED NATIONAL POPULATION
(INDEX MARCH 2019 = 100, 12-MONTH AVERAGE)



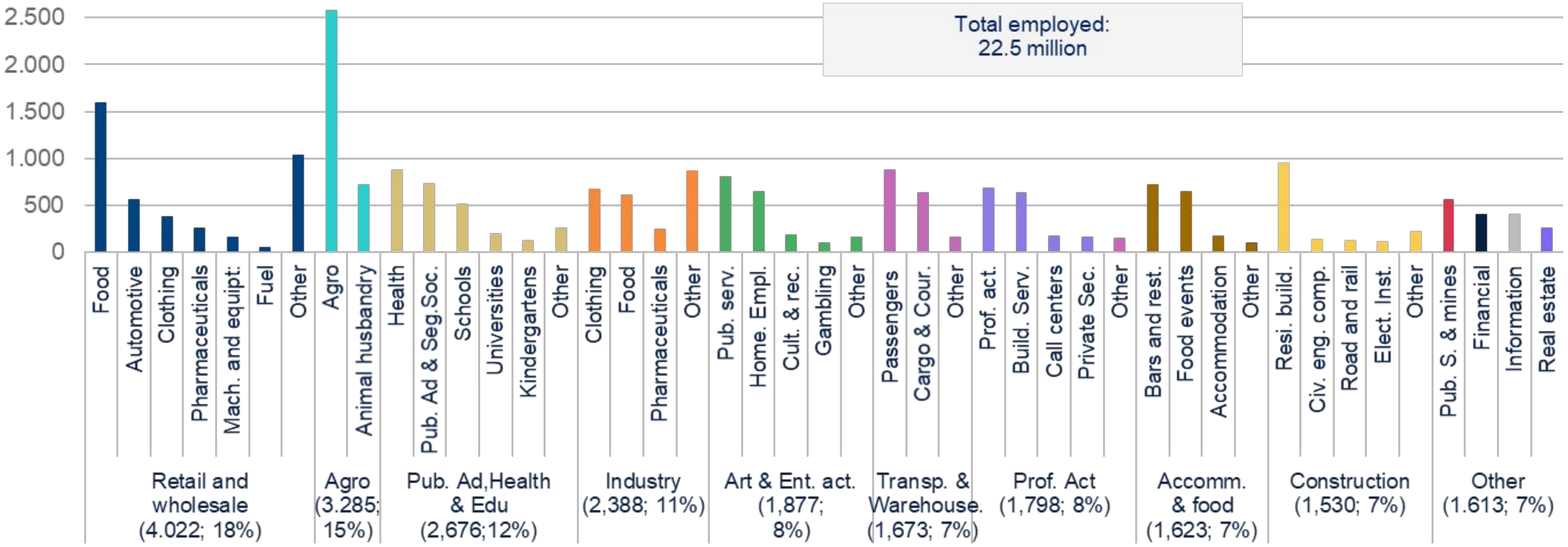
Source: BBVA Research, with data from DANE.

- The employment rate is at high levels (58.5%), above pre-pandemic levels (56.9%).
- Employment generation continues to lag behind activity.
- The service sectors (private, public and social) have been the main drivers of recent employment gains.

The 68% of employment is in the service sectors and has responded well to the increased activity

NATIONAL EMPLOYMENT BY SECTOR

(THOUSANDS OF PEOPLE, FIRST HALF OF 2023)

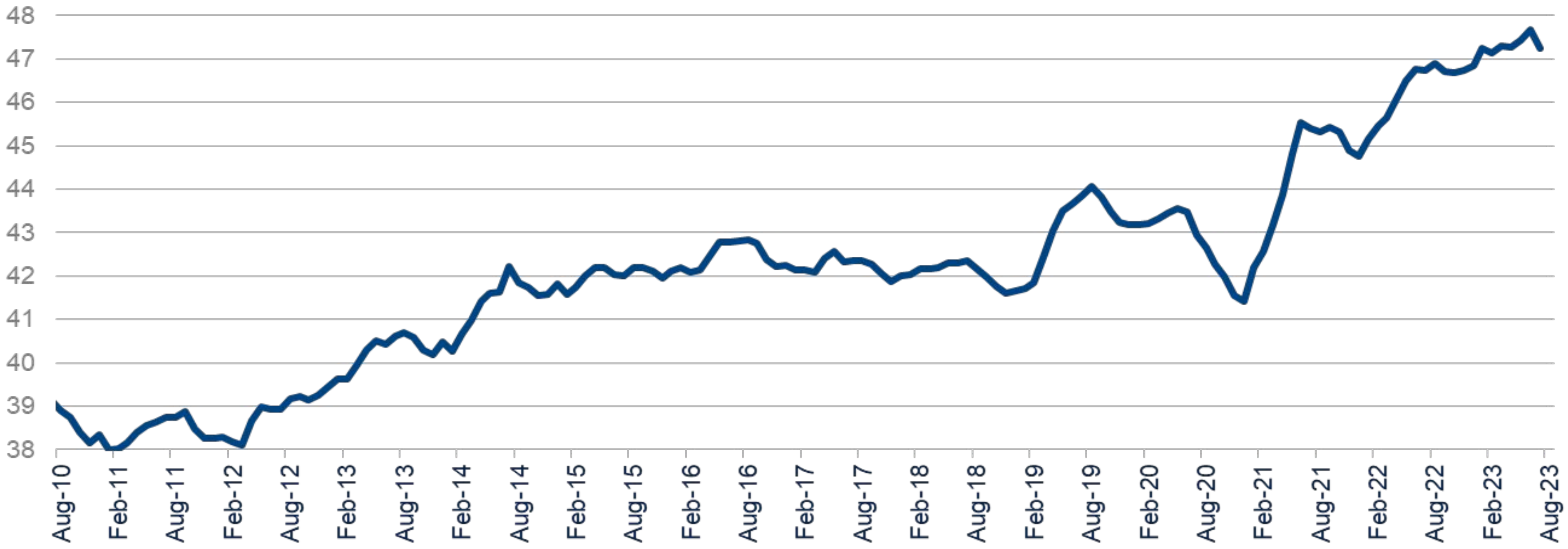


Source: BBVA Research, with data from DANE.

The country increased formal employment in the recent economic expansion cycle

NATIONAL LABOR FORMALITY

(%, WAGE EARNERS/EMPLOYED, SIX-MONTH AVERAGE)



Source: BBVA Research, with data from DANE.

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03

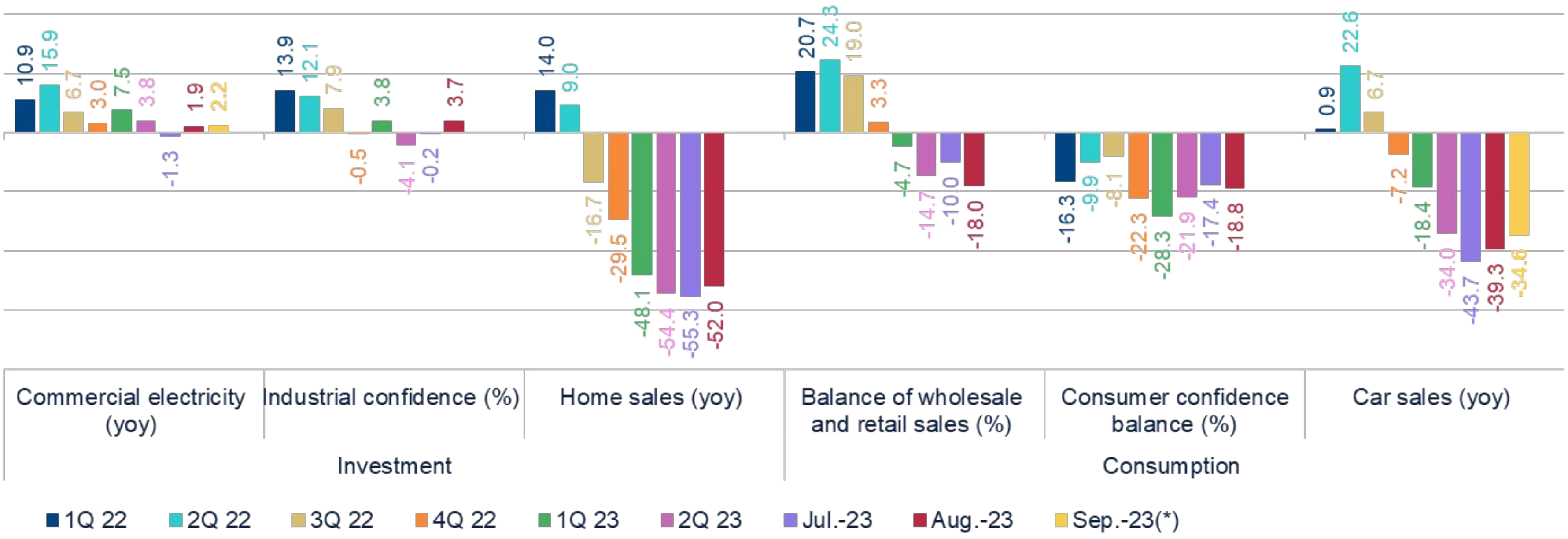
Growth and employment forecasts

The economy will have a gradual path toward recovery, with moderate dynamics. Investment will be the one that will decline the most and government expenditure will be important for the economy to gain traction. The labor market will deteriorate accordingly.

Recent indicators reflect a marked weakness in goods consumption and a very timid recovery in manufacturing activity in Q3

RECENT ECONOMIC INDICATORS

(ANNUAL CHANGE AND BALANCE OF CONFIDENCE, %.)

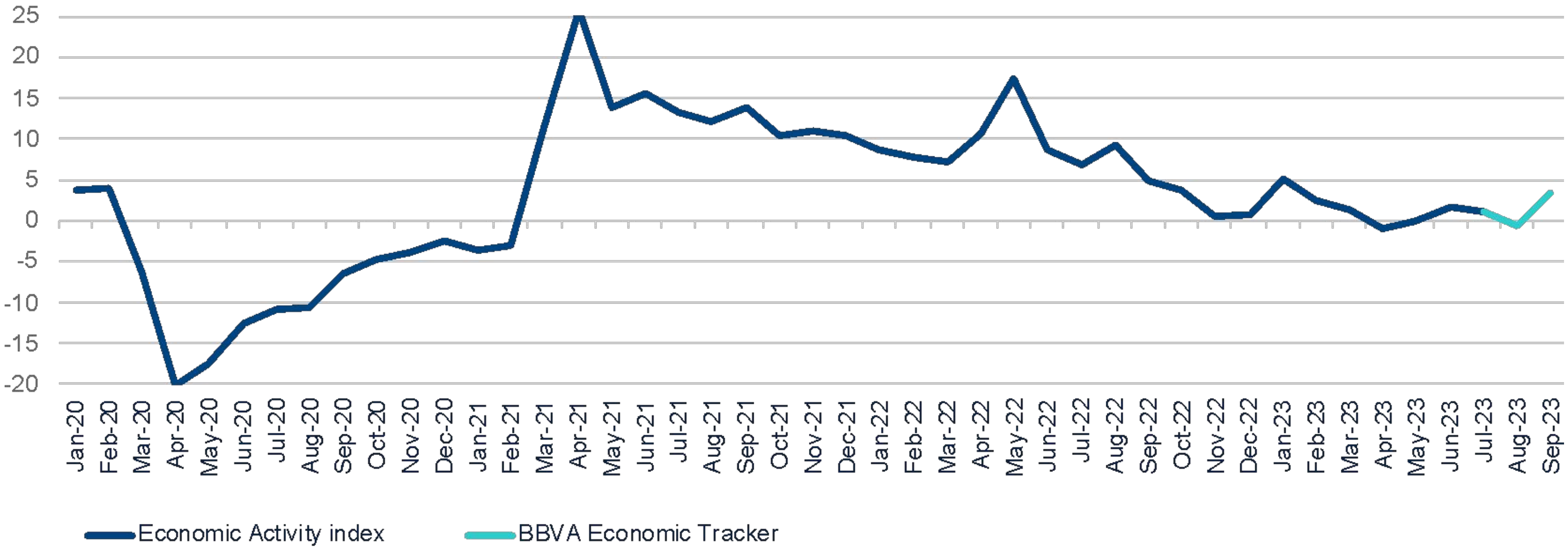


(*): Commercial electricity data up to September 28.
Source: BBVA Research with data from XM, Camacol, La Galería Inmobiliaria, Fenalco, Fedesarrollo and Fenalco.

Our real-time activity indicator confirms the slow recovery the economy seems to be experiencing

REAL TIME ESTIMATOR OF ECONOMIC ACTIVITY: BBVA RESEARCH *GDP TRACKER*

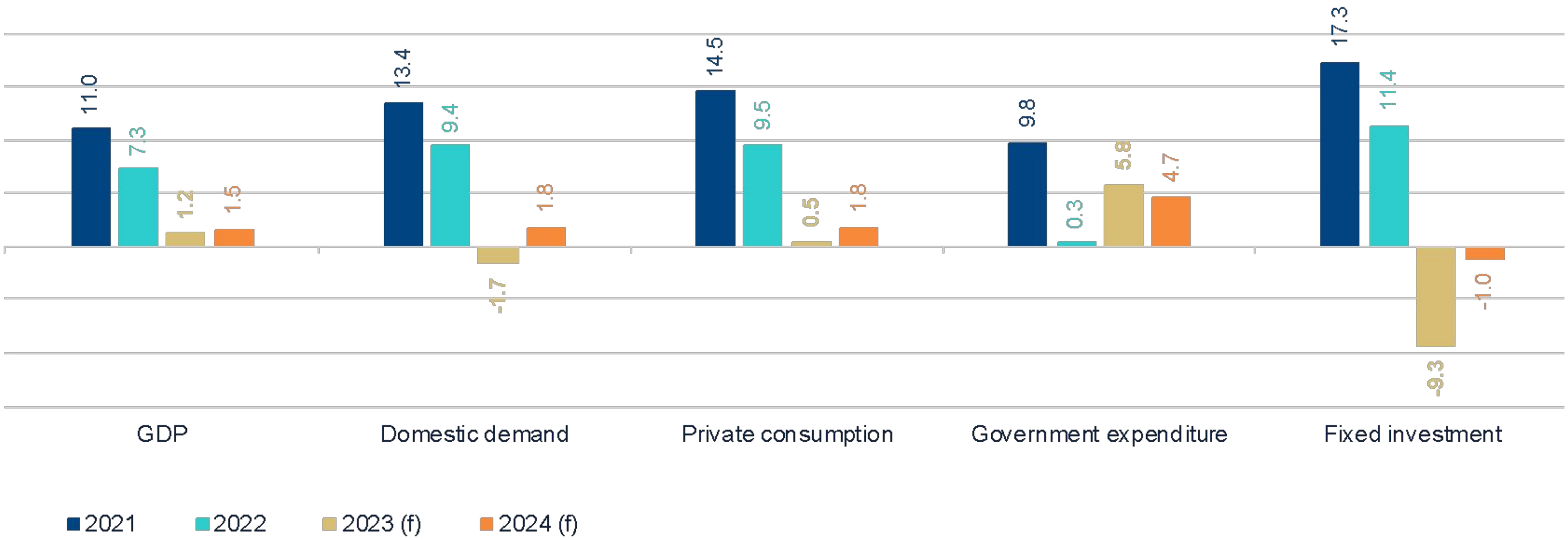
(ANNUAL CHANGE, %)



(*): Energy demand data up to September 9.
Source: BBVA Research with data from XM, Camacol, La Galería Inmobiliaria, Fenalco, Fedesarrollo and Fenalco,

Annual GDP growth will continue to decelerate until the first part of 2024, from when it will begin to gradually recover

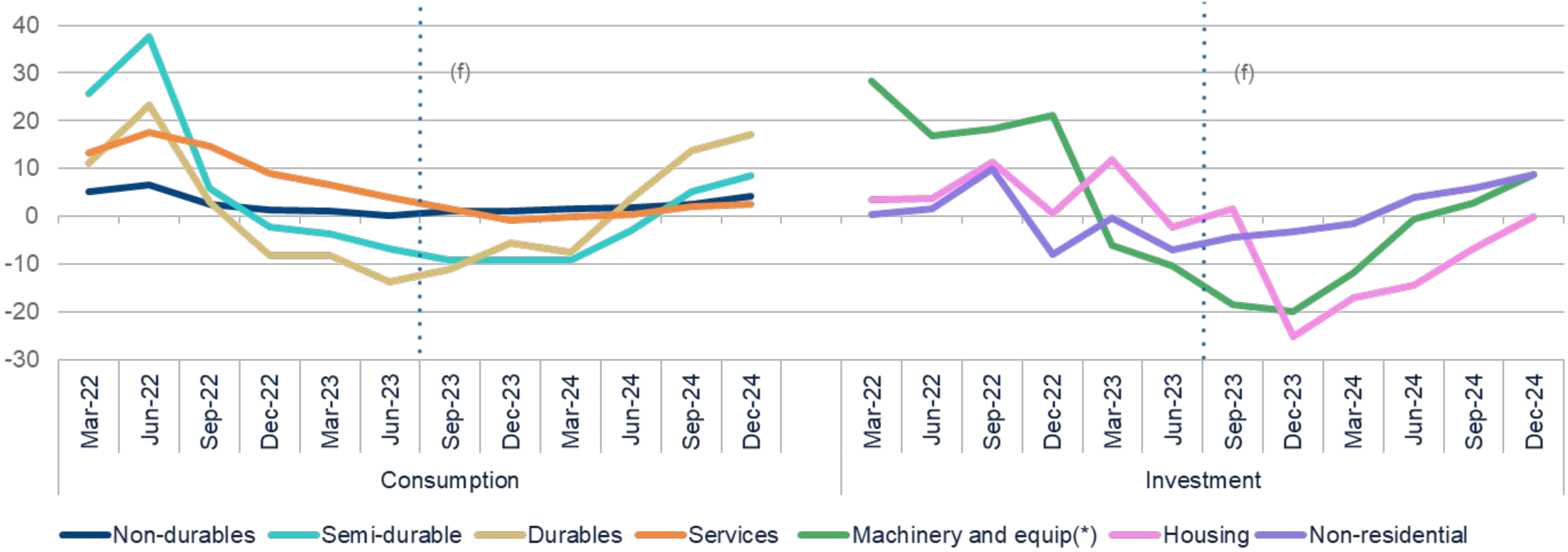
GDP AND DOMESTIC DEMAND
(ANNUAL CHANGE, %)



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

Private consumption will be supported by services in 2023 and goods in 2024. Investment will be low in housing and will recover in other areas in 2024

CONSUMPTION AND INVESTMENT
(ANNUAL CHANGE, %)

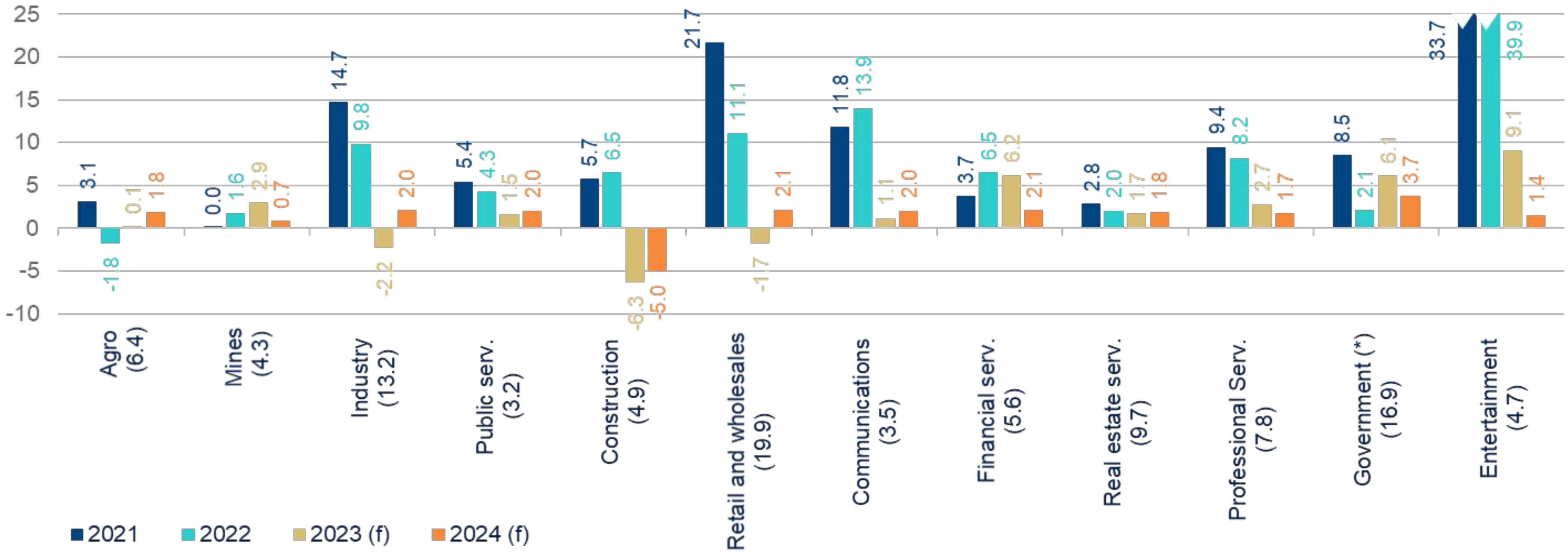


(f): Forecasts by BBVA Research. (*): Includes machinery, equipment, transport, intellectual property and biological resources.
Source: BBVA Research, with data from DANE.

Gradual recovery in private spending will boost the performance of the industry, retail and wholesale and nonresidential construction through 2024

GDP: ECONOMIC SECTORS

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

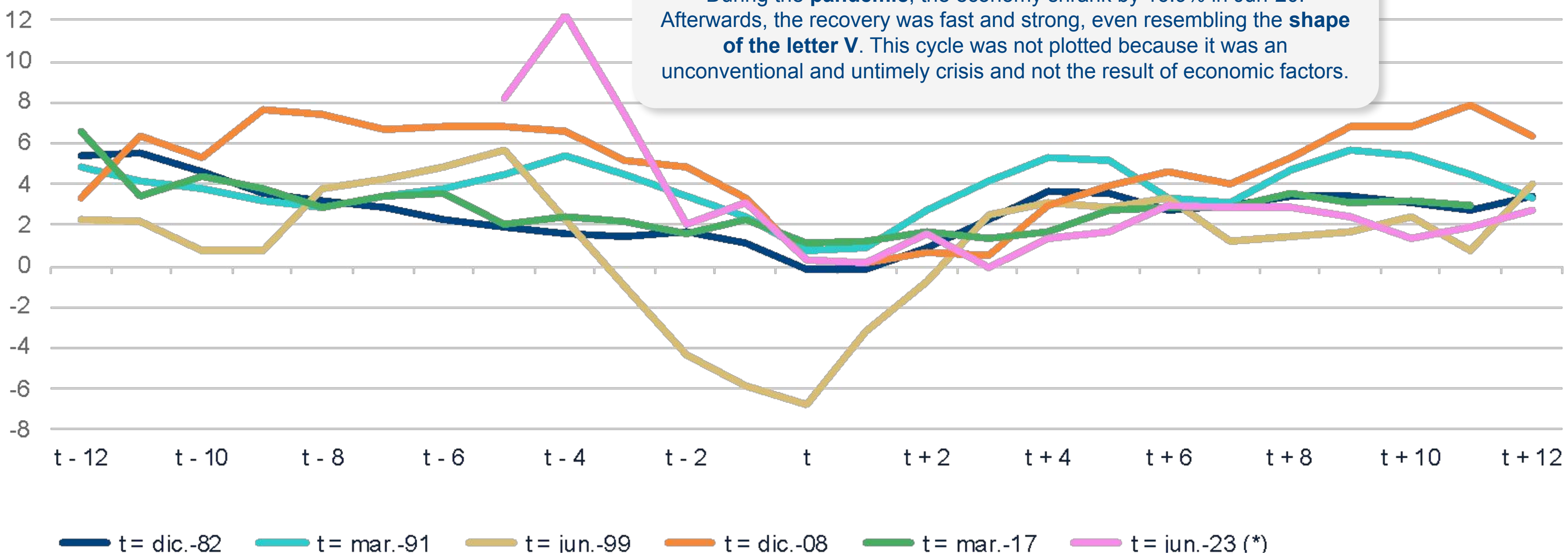


(f): BBVA Research forecasts. (*) Government includes public administration education and health.
Source: BBVA Research, with data from DANE.

The current economic recovery cycle will be one of the least dynamic, being similar to that of the 2017-2019 period

GDP: COLOMBIA'S HISTORICAL CYCLES
(ANNUAL CHANGE, %)

During the **pandemic**, the economy shrank by 16.9% in Jun-20. Afterwards, the recovery was fast and strong, even resembling the **shape of the letter V**. This cycle was not plotted because it was an unconventional and untimely crisis and not the result of economic factors.

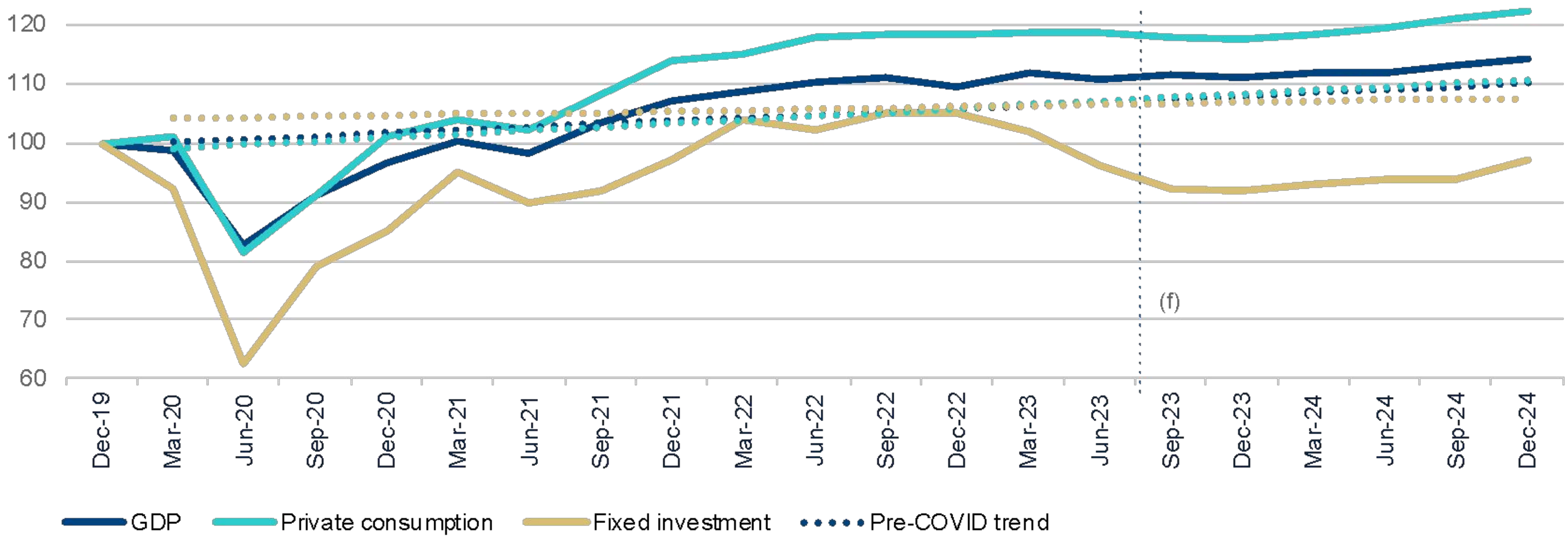


t: is the worst performing quarter of the economy in each economic cycle. Based on quarterly data.
Source: BBVA Research with data from DANE.

The gap between consumption and GDP will reduce relative to pre-covid trend. Investment will face significant challenges to improve in the mid-term

GDP, CONSUMPTION AND INVESTMENT

(INDEX: DEC-19 = 100 AND PRE-COVID TREND(*))

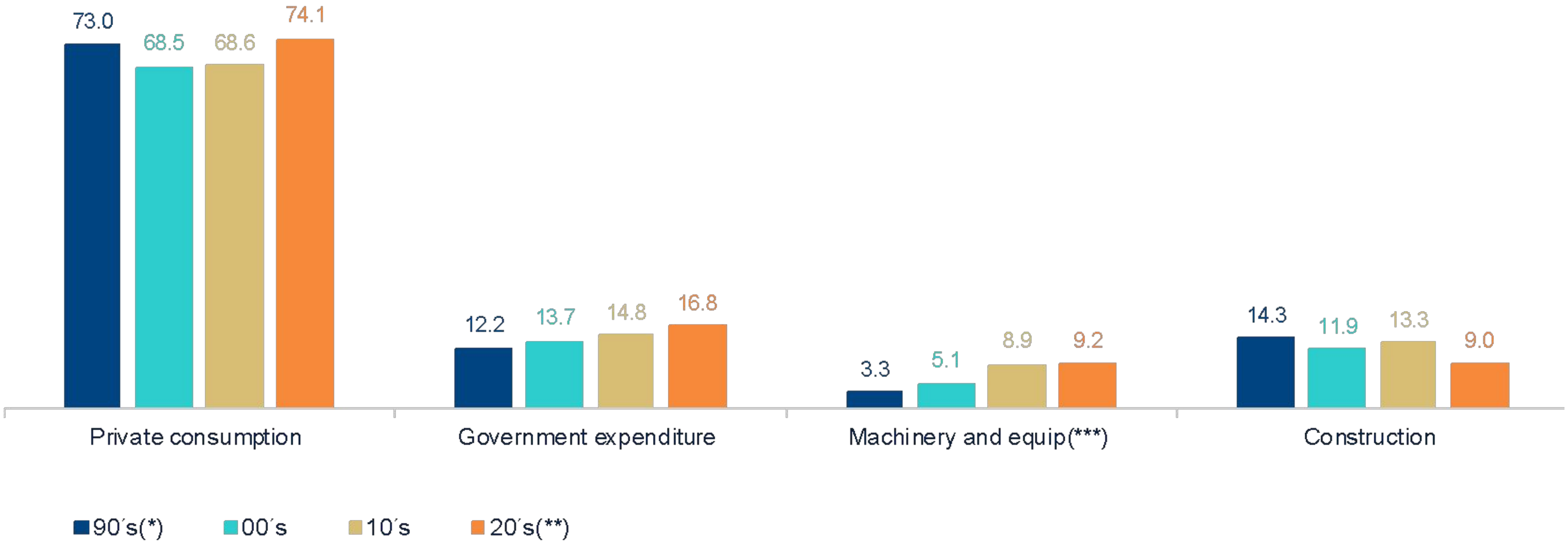


(f): BBVA Research forecasts.(*): The pre-covid trend is constructed with an estimated linear trend for data between 2015 and 2019.
Source: BBVA Research, with data from DANE.

Lower investment is conditioning potential GDP. While investment in machinery(***) remains strong, the challenge is on the construction side

CONSUMPTION AND INVESTMENT

(% OF GDP)

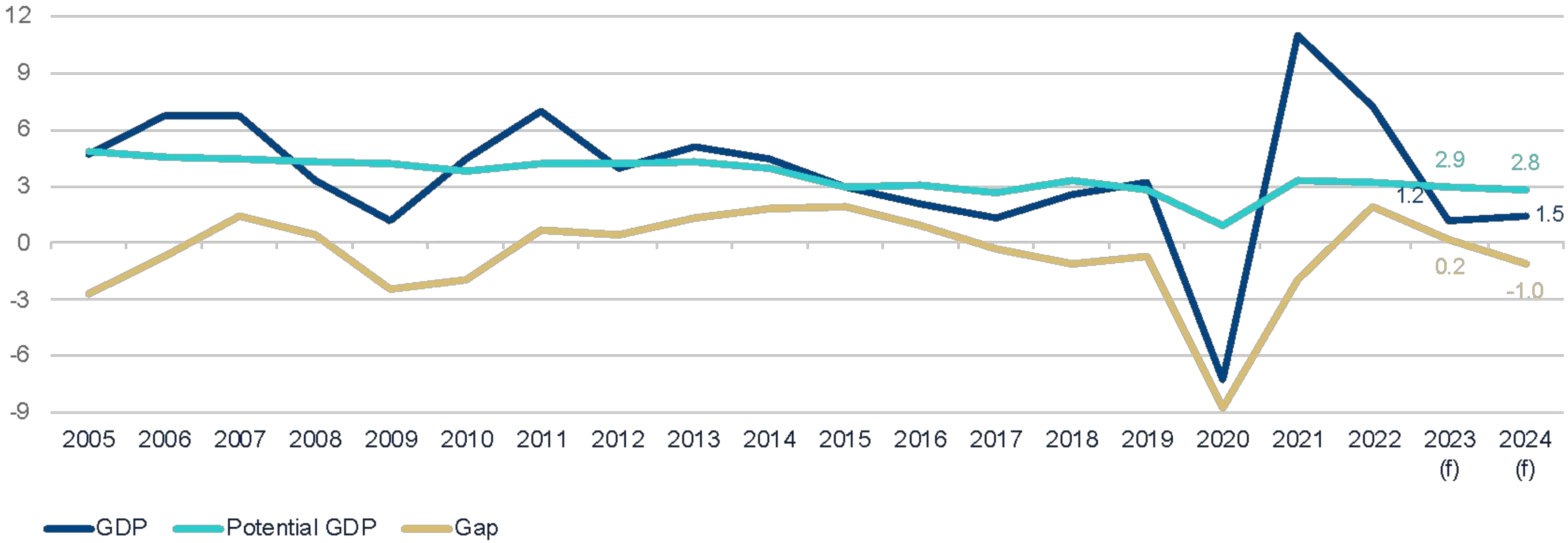


(*): Between 1994-1999. (**): Between 2020 and 2024. (***): Includes machinery and equipment, biological resources and intellectual property.
Source: BBVA Research, with data from DANE.

Economic growth to fall below potential growth in 2023 and 2024, with the output gap turning negative next year

GDP, POTENTIAL GDP AND OUTPUT GAP

(ANNUAL CHANGE AND GAP, %)

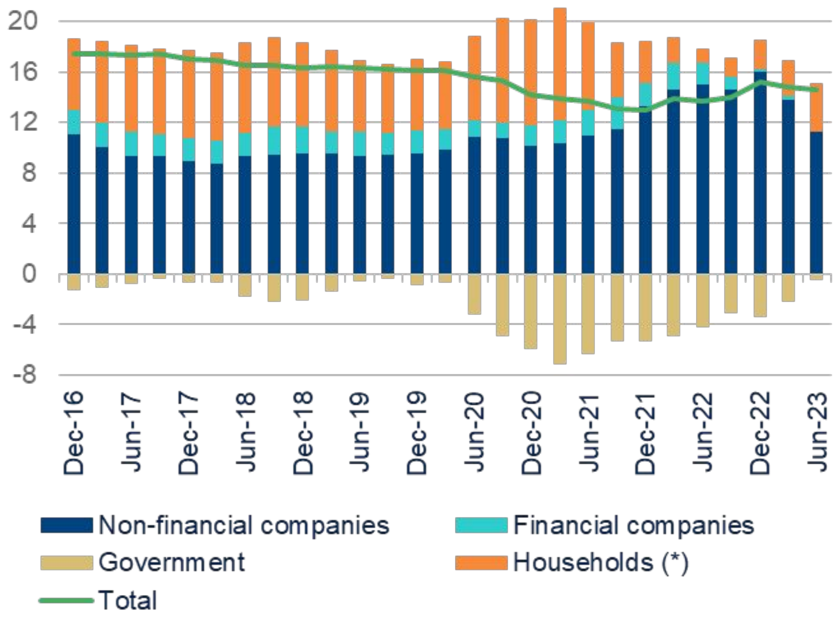


(f): BBVA Research forecasts.
Source: BBVA Research, with data from DANE.

Good news: household savings have increased and seem to have conditions to continue improving in the future: lower consumption and inflation

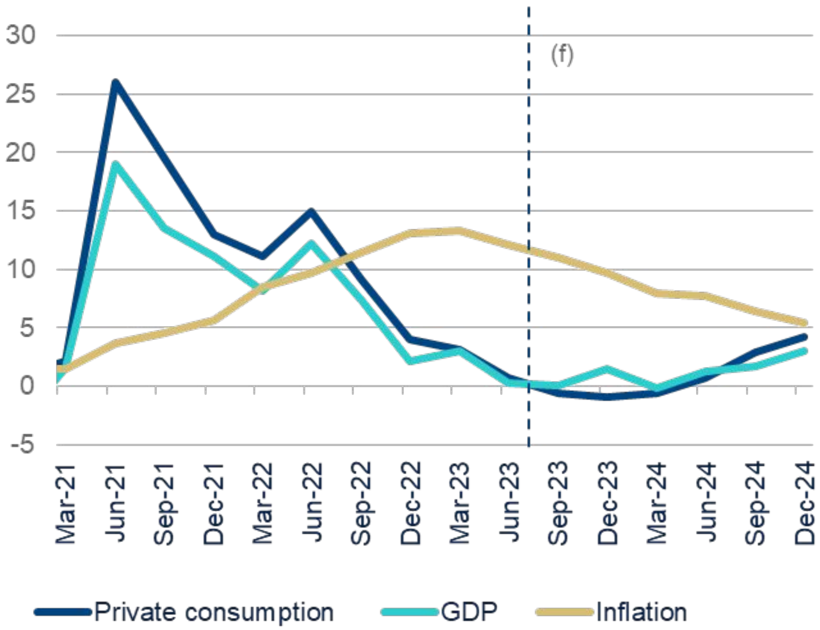
GROSS DOMESTIC SAVINGS

(% OF GDP)



GDP, PRIVATE CONSUMPTION AND INFLATION

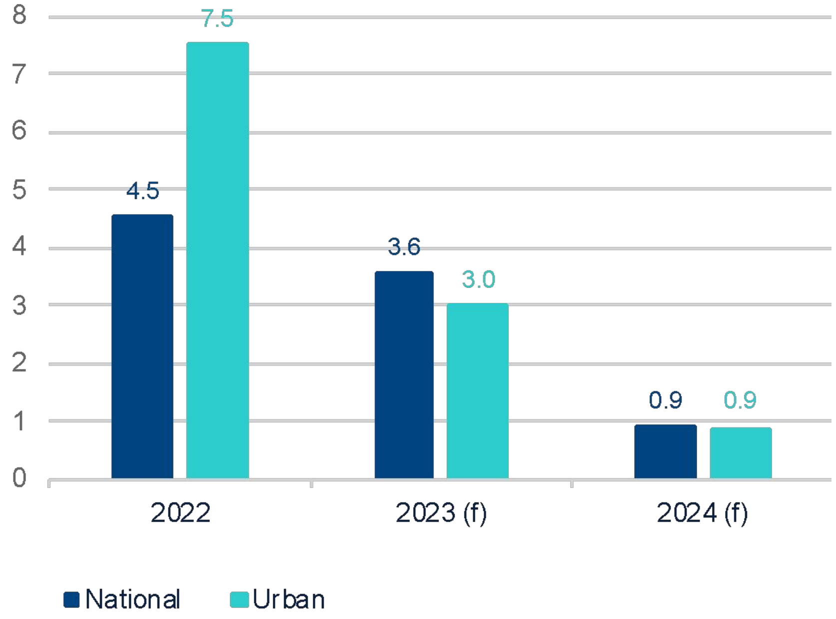
(ANNUAL CHANGE, %)



(f): BBVA Research forecasts. (*): Includes non-profit institutions serving households.
Source: BBVA Research, with data from DANE.

We expect a moderation in job creation, in line with the slowdown in activity

NATIONAL AND URBAN EMPLOYMENT
(ANNUAL CHANGE FOR DECEMBER OF EACH YEAR, %)



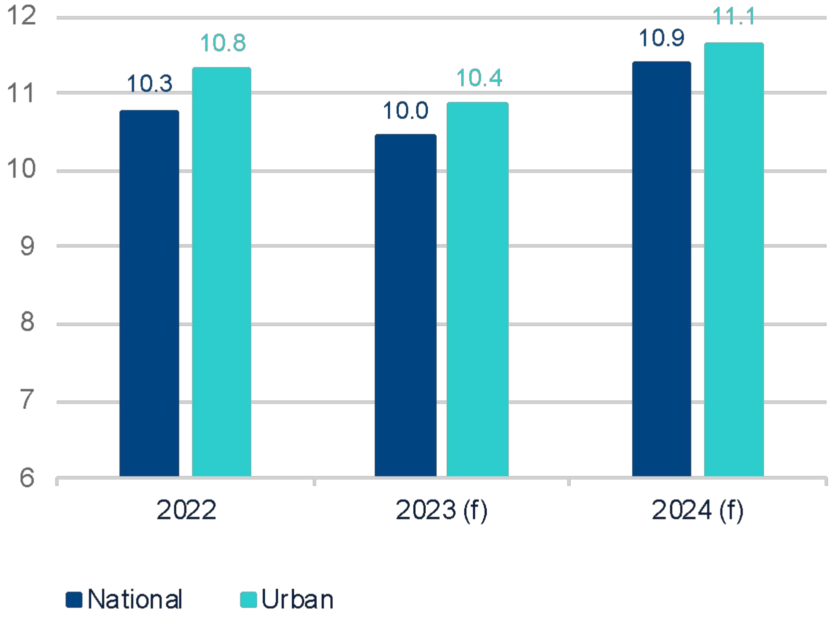
(f): BBVA Research forecasts.
Source: BBVA Research, with data from DANE.

- National employment will moderate its growth path in the remainder of 2023, from the current 4.5% in August to 3.6% in December. By 2024, we expect employment growth to be 0.9%.
- Employment will continue to be driven by the services sector (especially those related to social services and the public sector), professional activities and, from the second half of 2024, industry and commerce.
- We expect an increase in the share of non-wage earners, leading to a deterioration in the quality of employment.

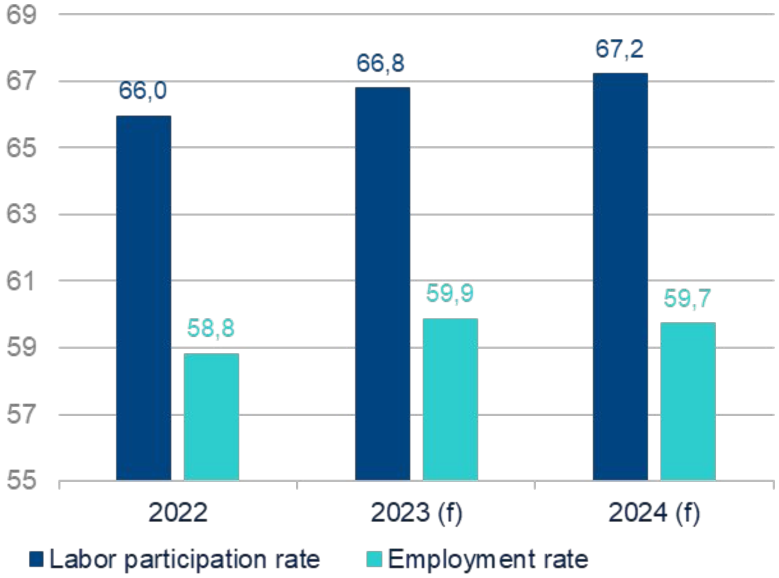
Unemployment rate to rise slightly due to low job creation and increased job search that tends to occur during slowdowns

NATIONAL AND URBAN UNEMPLOYMENT RATE

(% OF THE LABOR FORCE, DECEMBER OF EACH YEAR)



URBAN LABOR PARTICIPATION AND OCCUPATION RATES (% OF WORKING AGE POPULATION, DECEMBER OF EACH YEAR)



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

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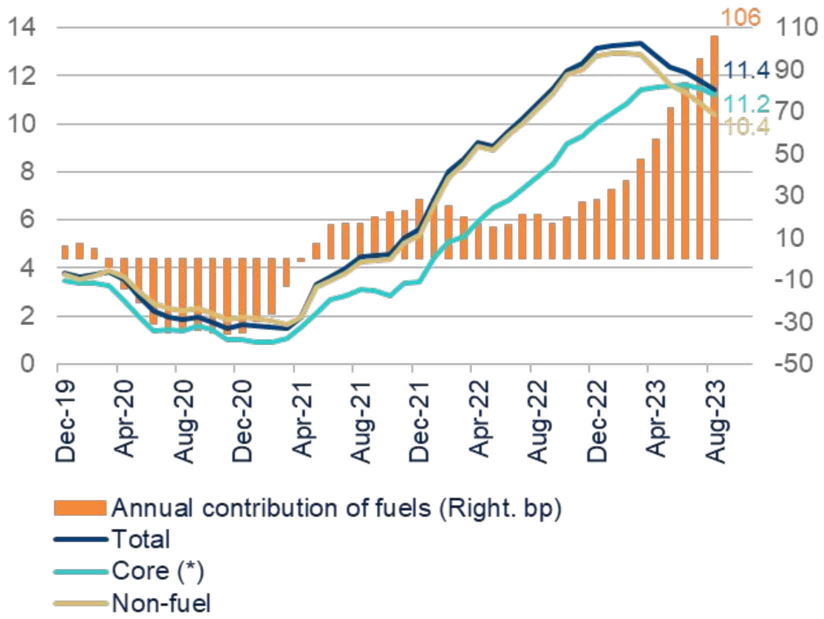
04

Inflation and monetary policy rate

Inflation and the monetary policy rate will gradually decline, improving financial conditions for households and businesses. However, this will be at a moderate pace compared to other inflation reduction cycles.

Total inflation is on a downward trend; core (non-food) inflation remains persistent; food inflation is erratic

HEADLINE, CORE(*) AND NON-FUEL INFLATION(**)
(ANNUAL CHANGE, %, RIGHT IN BASIS POINTS)

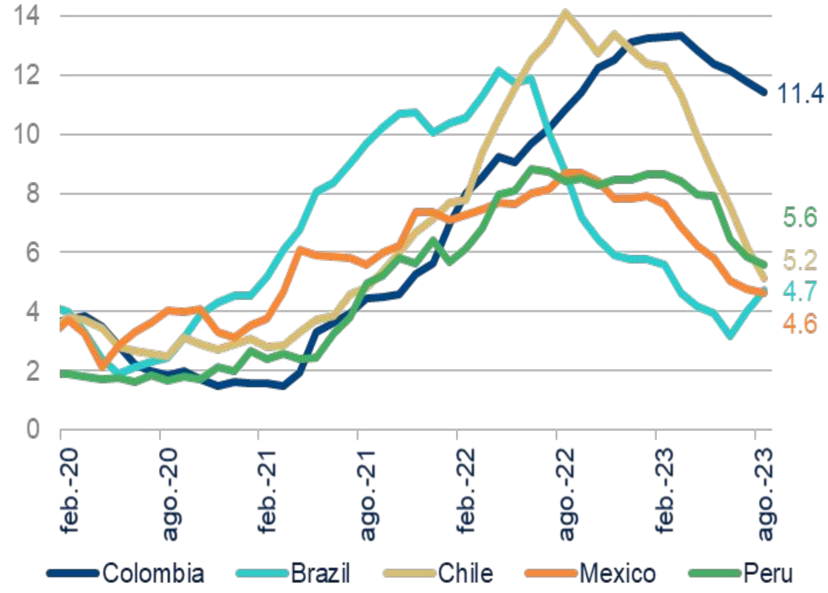


(*): Core inflation: inflation excluding food. (**): Non-fuel inflation: headline inflation excluding gasoline and diesel.
Source: BBVA Research, with data from DANE,

- Core inflation is gradually moderating, after peaking in June 2023 (at 11.6%), largely due to base effects. However, some demand pressures remain in place.
- The (direct and indirect) effects of indexation placed upward pressure on prices and inflation expectations.
- The increase in gasoline prices to reduce subsidies generates additional pressures. Gasoline prices have increased by nearly 60% from July 2022 to September 2023.

Inflation in Colombia behaves differently than in other countries in the region

TOTAL INFLATION
(ANNUAL CHANGE, %)

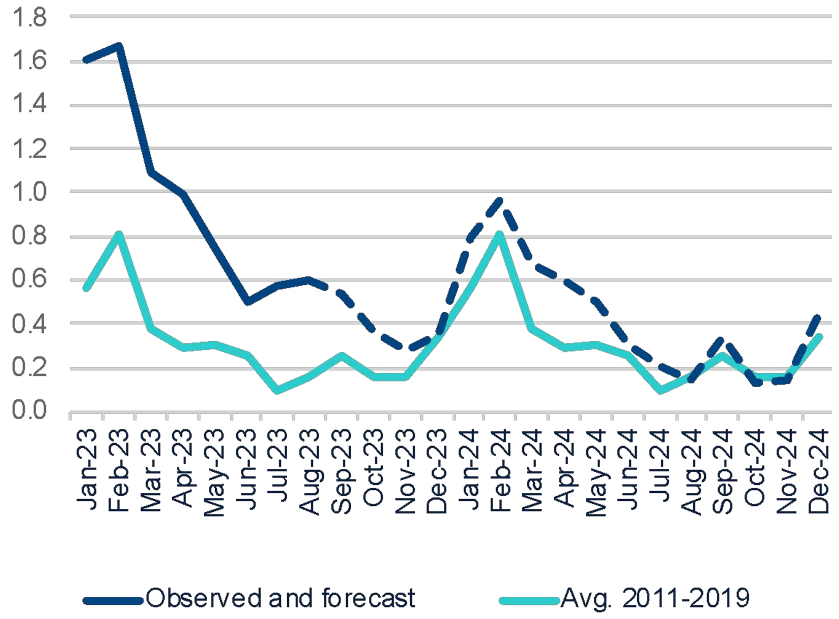


Source: BBVA Research with data from DANE and the central banks of each country referenced.

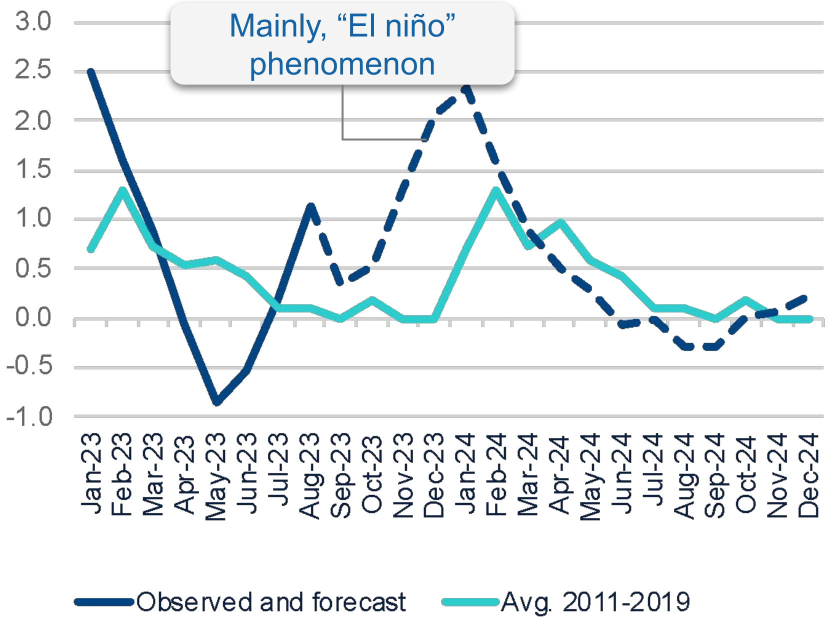
- Colombia reached its inflationary peak later than the other countries and is also lagging behind in the downward cycle.
- In 2021-22, demand in Colombia grew very fast and has been resilient. Consumption is high and the GDP gap is still positive. In addition, the peso (COP) devalued more than other countries' currencies, especially in the second part of 2022.
- In Colombia, the increase in gasoline prices, as a result of the rise in oil prices, was delayed. Some economies implemented the increase at the same time, while some others maintained the price regulated and never passed it on.

Monthly inflation variations, from the current high levels, will gradually tend to historical averages

CORE INFLATION(*)
(MONTHLY CHANGE, %)



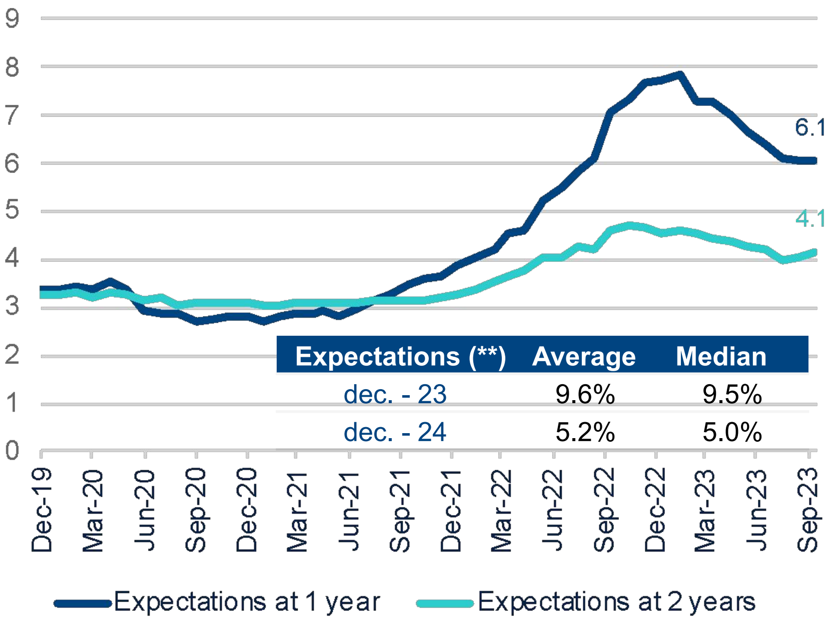
FOOD INFLATION
(MONTHLY CHANGE, %)



Forecast: BBVA Research forecasts (*) Core inflation: Inflation without food.
Source: BBVA Research, with data from DANE.

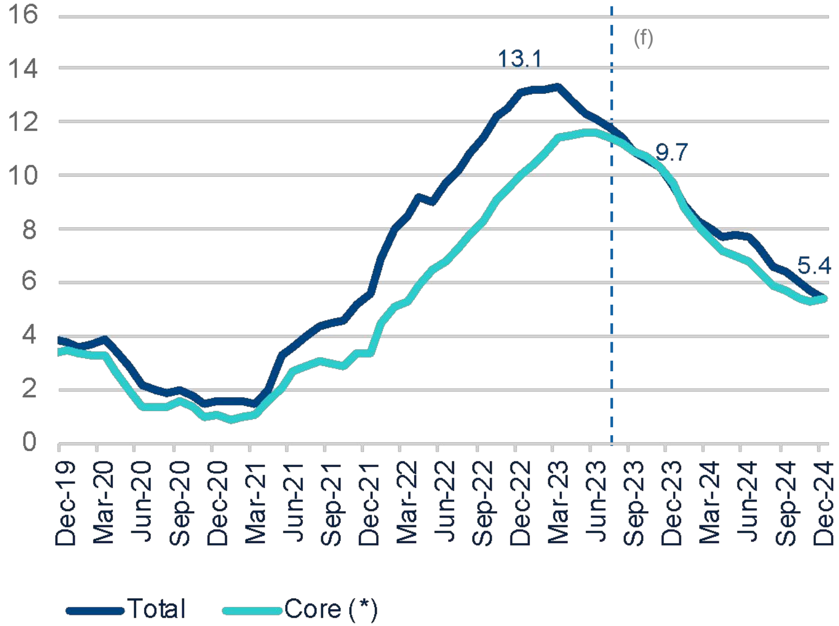
Inflation expectations anticipate a decrease in inflation in 2024. We expect inflation of 9.7% at the end of 2023 and 5.4% at the end of 2024

INFLATION EXPECTATIONS IN BANCO DE LA REPUBLICA SURVEY (ANNUAL CHANGE, %)



Expectations (**)	Average	Median
dec. - 23	9.6%	9.5%
dec. - 24	5.2%	5.0%

HEADLINE AND CORE INFLATION FORECASTS(*) (ANNUAL CHANGE, %)



(f): BBVA Research forecasts (*) Core inflation: Inflation without food (**) End-of-period expectations of the Banco de la República Survey.
Source: BBVA Research with data from DANE and Banco de la República Expectations Survey.

The inflation forecast includes climate, activity, regulatory and wage issues, but is not risk-free

MAIN ELEMENTS OF THE CENTRAL FORECAST

- El Niño phenomenon (drought in Colombia), with effects through food and basic inflation (mainly through an increase in energy tariffs).
- Slow economic activity in 2023-24 and progressive closing of the output gap.
- Gradual increase in the price of diesel from the beginning of 2024 to mid-2025.
- Two digit minimum wage increase.
- Persistence of inflation.

DOWNSIDE RISKS

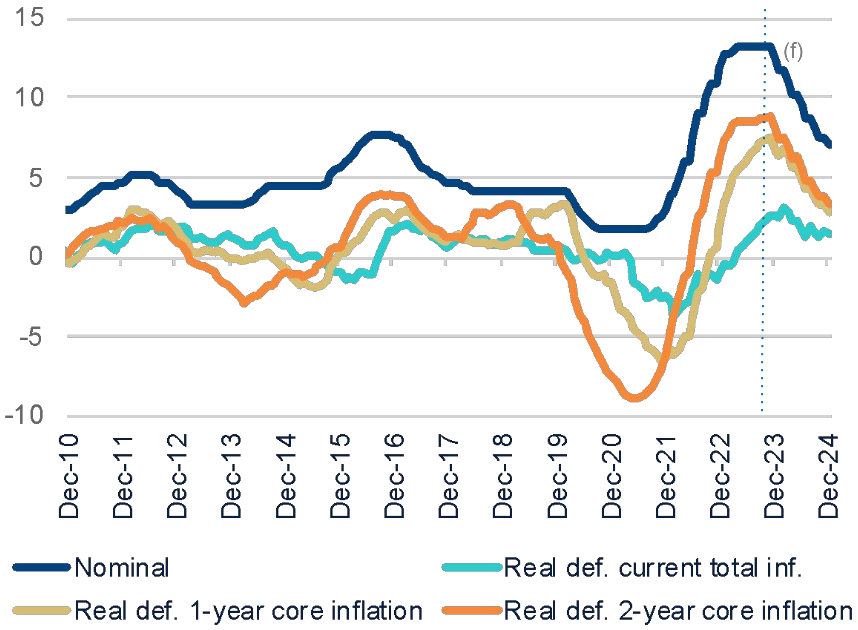
- No or lower increase in diesel prices.
- A more moderate than expected El Niño phenomenon
- Lower than expected consumption.
- Lower wage increases.

UPSIDE RISKS

- Higher or faster diesel increases.
- Reduced supply of inputs, food and other goods due to climate or logistics.
- Higher pass-through of devaluation to inflation.
- Higher minimum wage increase or higher public expenditure.

Banco de la República will begin its downward cycle at the end of 2023 and consolidate the downward trend in 2024

NOMINAL AND REAL POLICY RATE (E.A., REAL RATE USING DIFFERENT INFLATION MEASURES, %)



(f): BBVA Research forecasts.
Source: BBVA Research with data from Banco de la República.

- We maintain our rate scenario. We expect Banco de la República will start its cycle of reductions in December 2023 with 75bp, to close this year at 12.5% and then bring it to 7.0% by the end of 2024.
- However, there is a great deal of uncertainty about the timing of reductions and the speed.

		Real rates		
	Nominal rate	Deflated with current inflation	Deflated with 1-year core inf.	Deflated with 2-year core inf.
Aug-23	13.25	1.6	6.9	8.6
Dec-23	12.50	2.6	6.7	8.1
Jun-24	9.50	1.7	4.9	5.6
Dec-24	7.00	1.5	2.8	3.3

Research

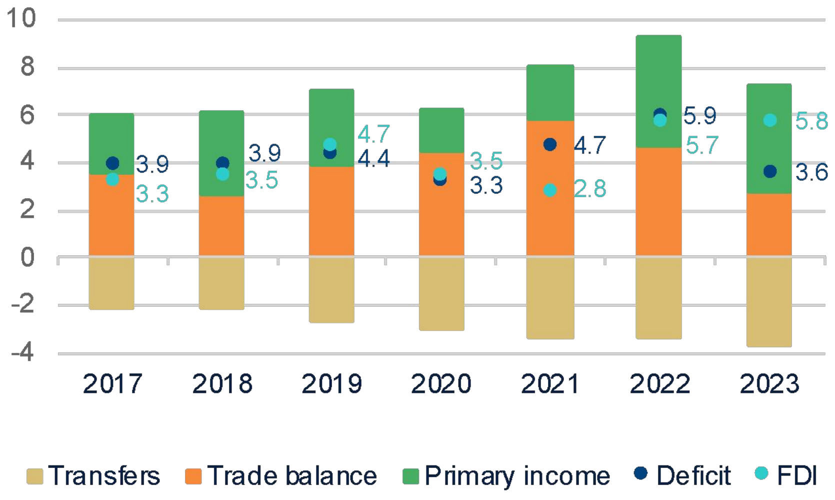
05

Structural balances and exchange rate

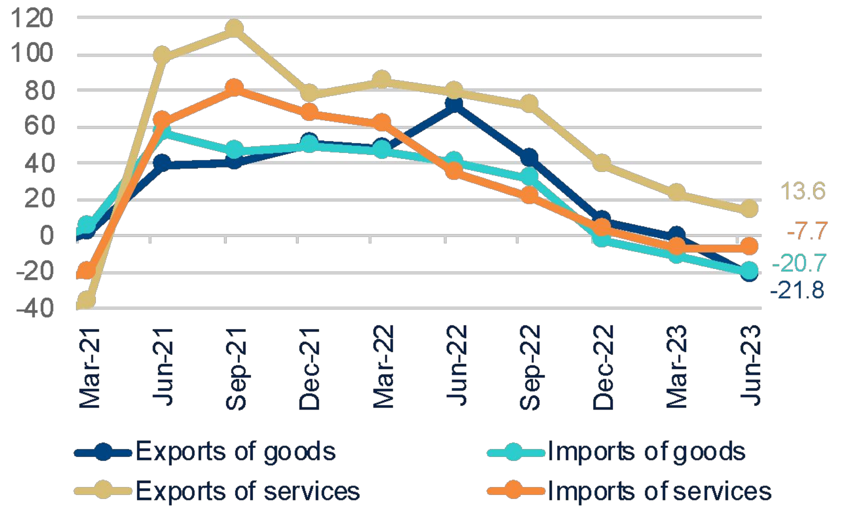
The fiscal and external deficits will gradually increase in 2024, putting upward pressure on the exchange rate. The external deficit will deteriorate due to the gradual recovery of domestic demand. The fiscal deficit is deteriorating due to the increase in current expenditure and the demanding path of revenues.

In the first half of the year, the current account deficit narrowed, explained by a lower trade deficit from 4.7% of GDP in 2022 to 2.7% of GDP in 2023

CURRENT ACCOUNT DEFICIT AND COMPONENTS
(FIRST SIX MONTHS OF EACH YEAR, % OF GDP)



TRADE BALANCE
(ANNUAL CHANGE, %)



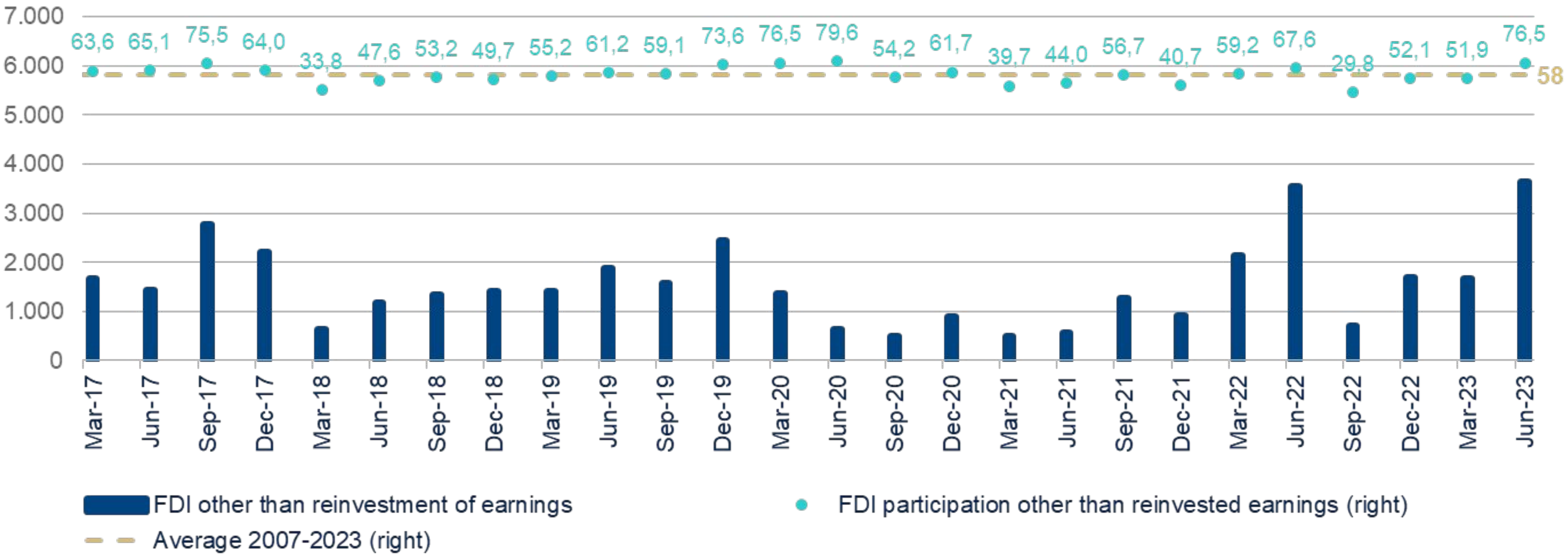
Source: BBVA Research with data from Banco de la República.

Imports decreased, especially in capital goods: they fell 17.4% annually so far this year. FDI grew 3.1% YoY in the first half of the year and financed 162% of the deficit (vs. 96% in the same period of 2022).

76% of foreign direct investment (FDI) are inflows of new resources into the country, not including reinvestment of profits of foreign companies

FOREIGN DIRECT INVESTMENT

(MILLIONS OF DOLLARS AND % OF TOTAL)

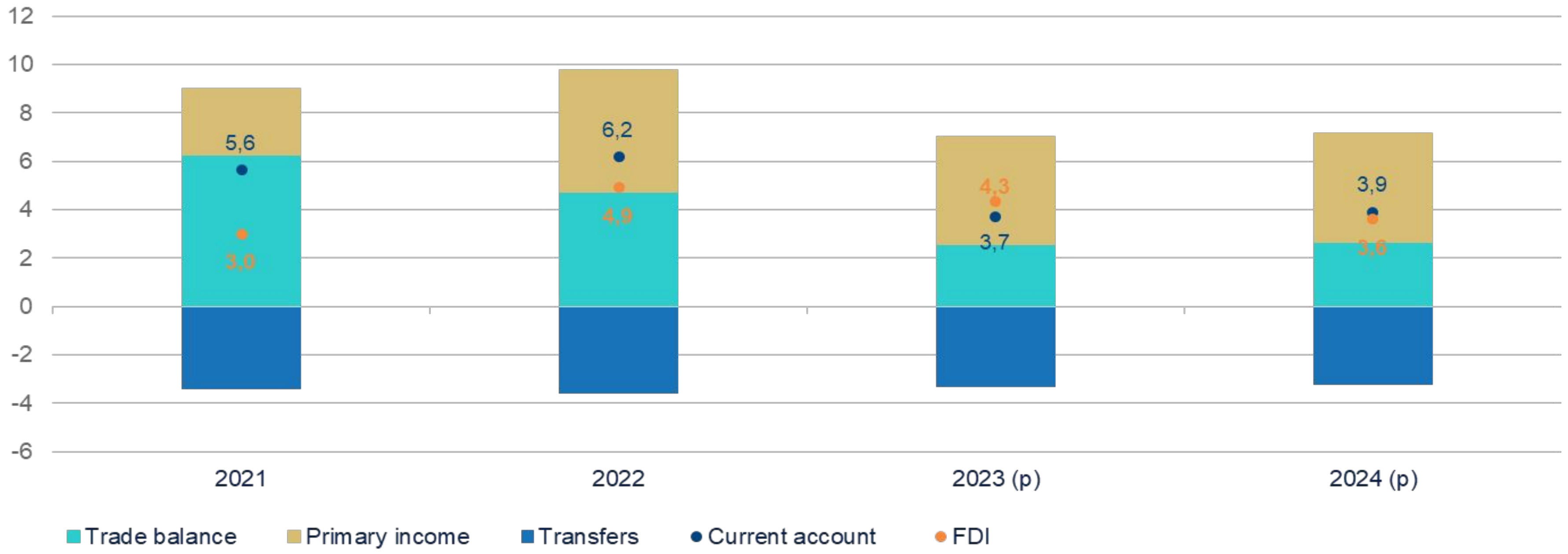


Source: BBVA Research with data from Banco de la República.

In 2024, the external deficit increases due to the trade imbalance, moderated by lower dividend remittances and financed mainly by FDI

CURRENT ACCOUNT DEFICIT AND FOREIGN DIRECT INVESTMENT (FDI)

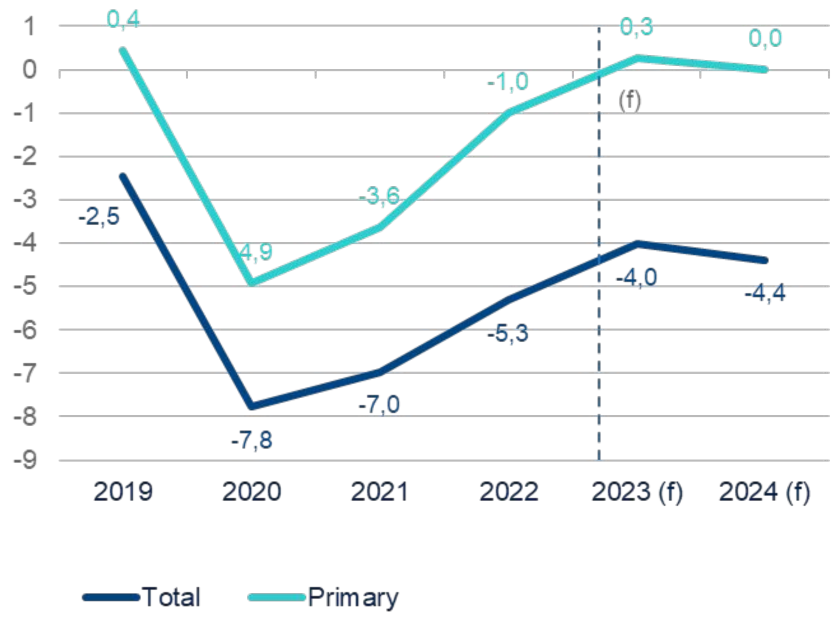
(% OF GDP)



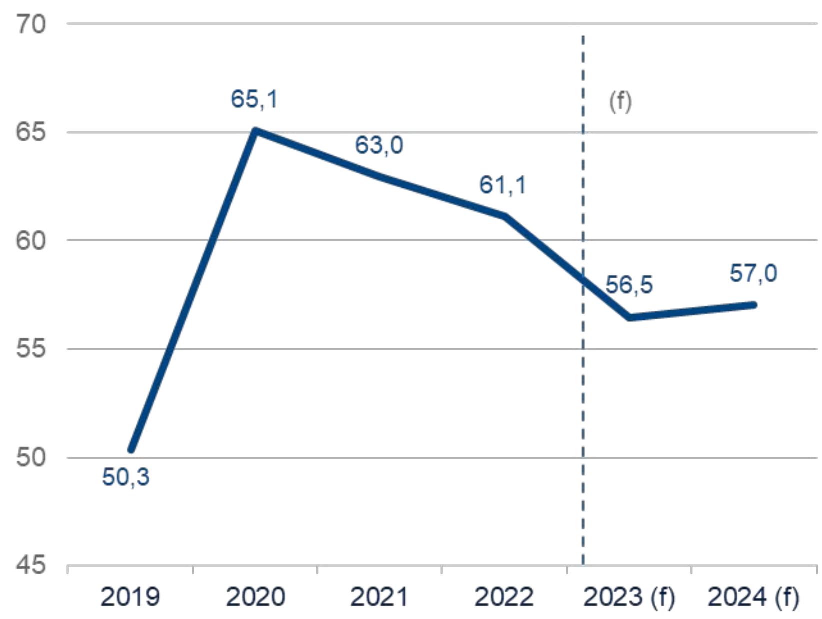
(f): BBVA Research forecasts.
Source: BBVA Research with data from Banco de la República.

The path toward improved fiscal accounts will be interrupted in 2024, when the deficit and public debt will increase

FISCAL DEFICIT
(% OF GDP)



CENTRAL NATIONAL GOVERNMENT PUBLIC DEBT
(% OF GDP)

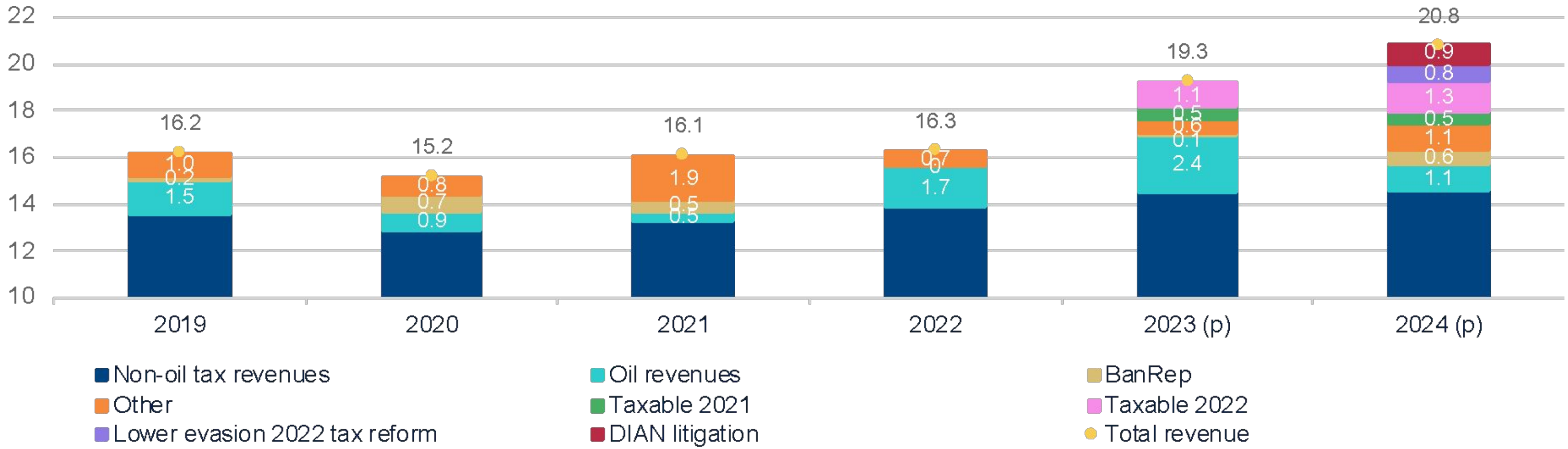


(f): BBVA Research forecasts.
Source: BBVA Research with data from the Ministry of Finance.

The revenue target set by the government is ambitious in terms of recovering resources from litigation and in terms of DIAN efficiency

REVENUE OF THE CENTRAL NATIONAL GOVERNMENT BY SOURCES

(% OF GDP)



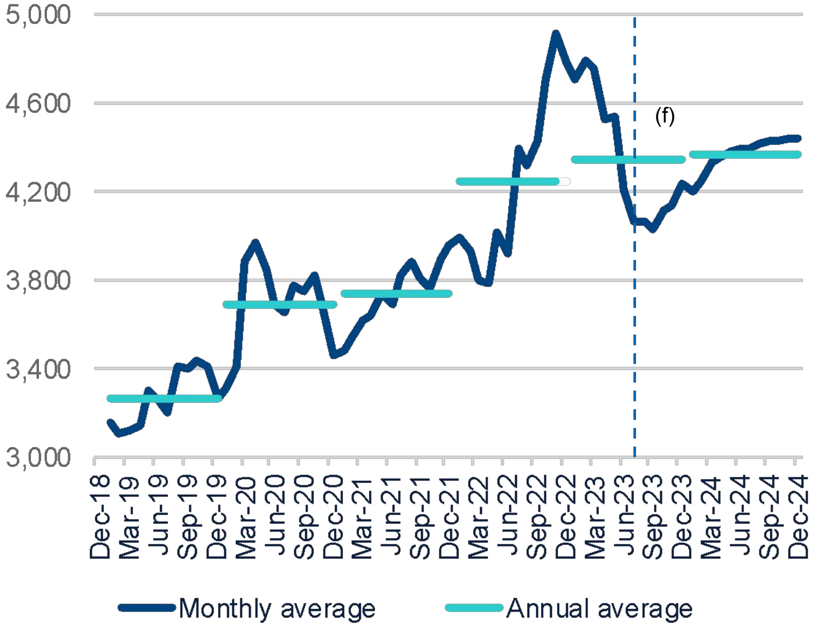
(f) Forecasts from the Medium-Term Fiscal Framework.

Source: BBVA Research with data from the Ministry of Finance.

In 2024 government revenues are high and some seem challenging and/or temporary. If the revenue targets are not met, expenditure would have to reduce in order to meet the fiscal rule.

We expect structural factors to weaken the Colombian peso again at the end of the year and marginally in 2024

EXCHANGE RATE
(COLOMBIAN PESOS PER DOLLAR)



(f): BBVA Research forecasts.
Source: BBVA Research with data from Banco de la República.

- With the expected narrowing of the rate differential, weakening activity and still high fiscal and external imbalances, the Colombian peso is expected to depreciate by the end of the year and in 2024.
- Political uncertainty, the external environment and the local economic transition will keep volatility high.

	Period average		End of period	
	Level	Dev.	Level	Dev.
2022	4.256	13,7	4.788	20,7
2023(f)	4.350	2,2	4.240	-11,4
2024(f)	4.377	0,6	4.450	5,0

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06

Closing remarks

How to achieve a more successful economic recovery?

The economic recovery can be more successful if:

A boost to private investment

1. Irrigation systems and roads for the agricultural sector
2. Energy transition that takes advantage of all sources
3. More efficient machinery to drive tech. improvement
4. Confidence and stable regulation for investment

Efficient public investment

1. Aimed at reducing costs: infrastructure and logistics
2. Focus on future growth: education and health
3. Aimed at strengthening regional economies

"Leveraging" counter-cyclical sectors

1. Housing sector: countercyclical in the past due to employment and chain linkages
2. Infrastructure sector: moving resources to the regions and generating employment
3. Environment sector: promote forestry recovery and boost regions and employment.

A successful recovery will be key for Colombia's social indicators not to deteriorate.

Macroeconomic forecast

	2020	2021	2022	2023 (p)	2024 (p)
GDP (% y/y)	–7.3	11	7.3	1.2	1.5
Private consumption (% y/y)	-4.9	14.5	9.5	0.5	1.8
Public consumption (% y/y)	-0.8	9.8	0.3	5.8	4.7
Fixed investment (% y/y)	-24	17.3	11.4	-9.3	-1.0
Inflation (% y/y. eop)	1.6	5.6	13.1	9.7	5.4
Inflation (% y/y. avg)	2.5	3.5	10.2	11.8	7.2
Exchange rate (eop)	3,469	3,968	4,788	4,240	4,450
Devaluation (%. eop)	5.9	14.4	20.7	-11.4	5.0
Exchange rate (avg)	3,693	3,744	4,256	4,350	4,377
Devaluation (%. eop)	12.9	1.4	13.7	2.2	0.6
Interest policy rate (%. eop)	1.75	3.0	12.0	12.5	7.0
Fixed Term Deposit rate (%. eop)	-3.4	-5.7	-6.2	-3.7	-3.9
Urban unemployment rate (%, eop)	15.9	11.4	10.8	10.4	11.1

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

Principales variables macroeconómicas

	GDP (% y/y)	Inflation (% y/y. eop)	Exchange rate (vs. USD. eop)	Interest Policy Rate (%. eop)
Q1 21	1.6	1.5	3,617	1.75
Q2 21	19.0	3.6	3,693	1.75
Q3 21	13.5	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	7.4	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	0.3	12.1	4,214	13.25
Q3 23	0.1	11.0	4,008	13.25
Q4 23	1.5	9.7	4,240	12.50
Q1 24	-0.1	8.0	4,335	11.00
Q2 24	1.3	7.7	4,398	9.50
Q3 24	1.7	6.4	4,435	8.00
Q4 24	3.0	5.4	4,450	7.00

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

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Colombia Economic Outlook

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Creating Opportunities