BBVA Research

Colombia Economic Outlook

December 2023

Creating Opportunities

Research

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01

Global environment and financial markets

Economic growth and inflation are moderating after the recent monetary tightening cycle. As the moderation consolidates, interest rates will start to reduce.

Main messages

Recent developments

Growth and inflation have been trending downwards, favored by the recent tightening of monetary conditions. The moderation of commodity prices is also allowing inflation to ease, while providing some support to growth. Still expansive fiscal policy and resilient labor markets are backing activity, but making the disinflation process more difficult. Markets have exhibited a positive tone lately, but remain subject to volatility, especially considering that uncertainty remains very high.

Growth outlook

A further deceleration of the global economy is likely moving forward, as monetary conditions will remain tight, fiscal policy will eventually become less expansive, labor markets will continue losing steam and excess savings are set to decline further. However, a deep recession will likely be avoided. Global growth is forecast to decline from 3.4% in 2022 to around 3.0% in both 2023 and 2024.

Inflation and rates outlook

Inflation is also expected to keep easing, continuing its slow convergence to the targets. That will provide some relief to central banks, with rate reductions during 2024, while they continue to reduce liquidity levels.

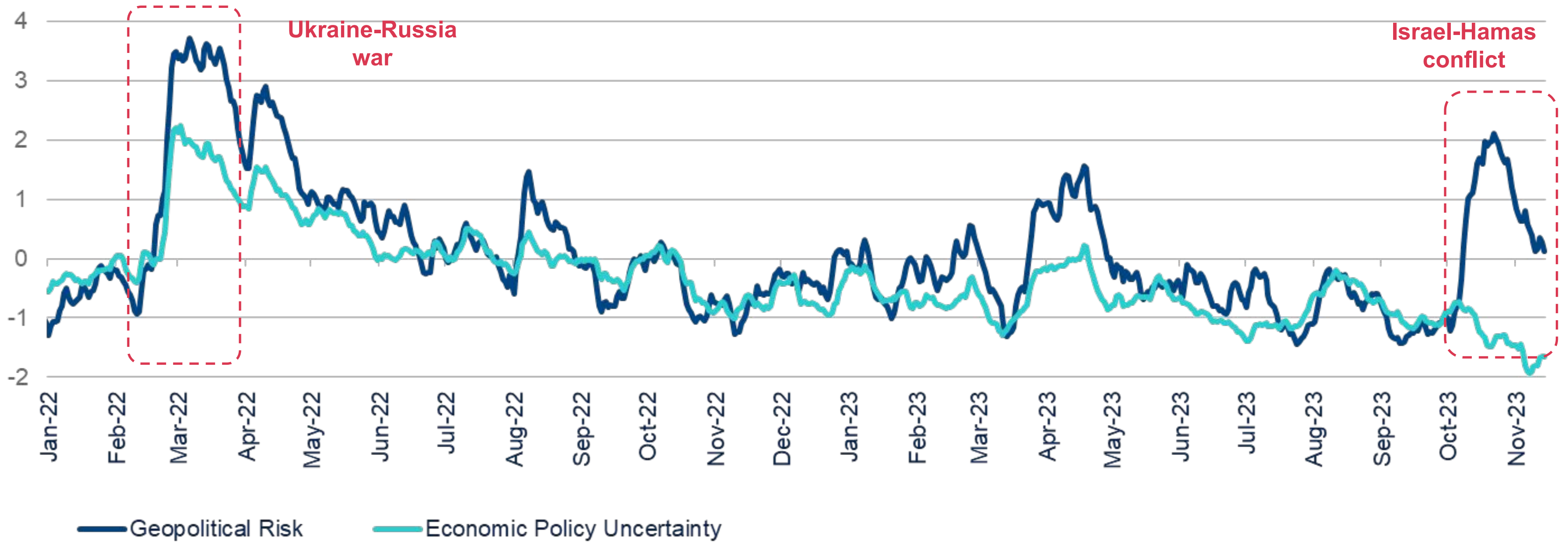
Risks

Recession and financial stress episodes are still possible given tight monetary conditions, high inflation and growth deceleration. Geopolitical uncertainty is also a source of concern, particularly after the beginning of the Israel-Hamas conflict. Another risk is a hard-landing in China.

Geopolitical risks have increased on the Israel-Hamas conflict, but economic policy uncertainty has remained relatively low

GEOPOLITICAL RISK AND ECONOMIC POLICY UNCERTAINTY IN G3 REGIONS (*)

(INDEXES: AVERAGE SINCE 2019 EQUALS TO 0, 28-DAY MOVING AVERAGE)



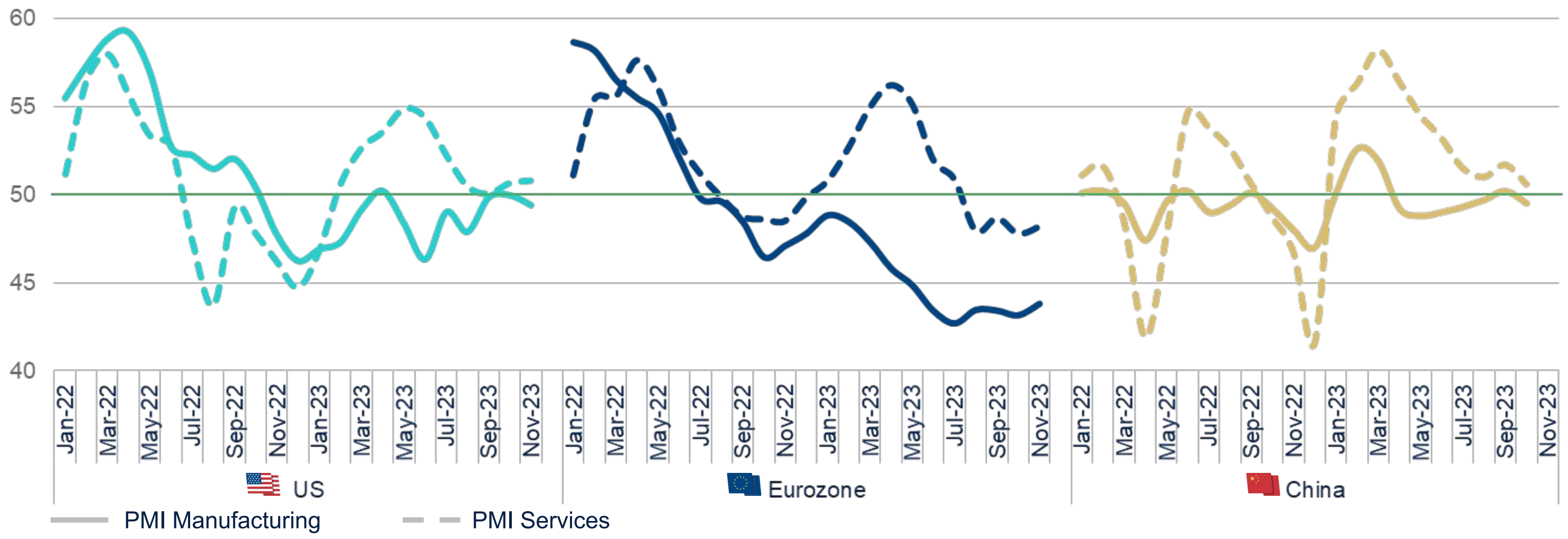
(*): US, Eurozone and China.

Source: BBVA Research Geopolitics Monitor.

Growth continues to trend down, mainly in the eurozone: services are still losing momentum, adding to the weakness in manufacturing

PMI INDICATORS

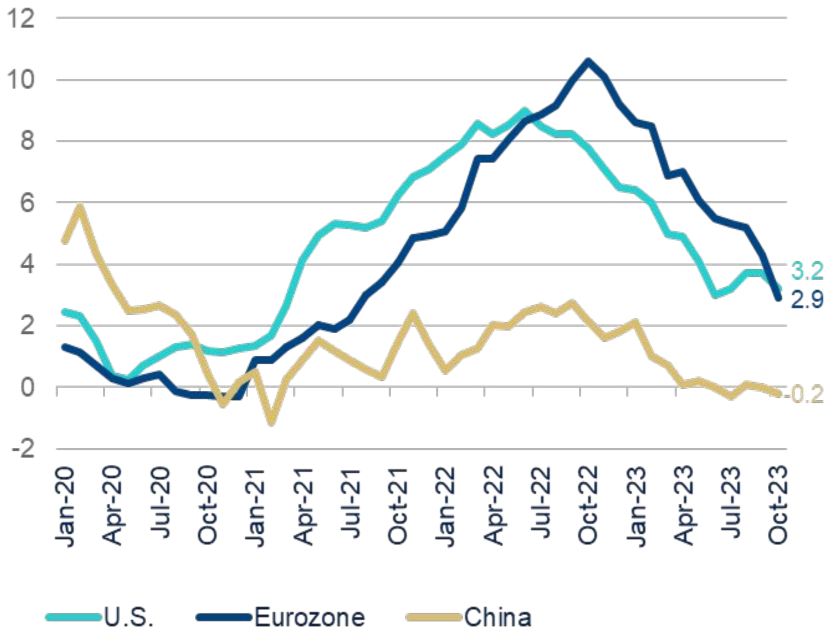
(MORE THAN 50: EXPANSION; LESS THAN 50: CONTRACTION)



Source: BBVA Research based on data from Haver.

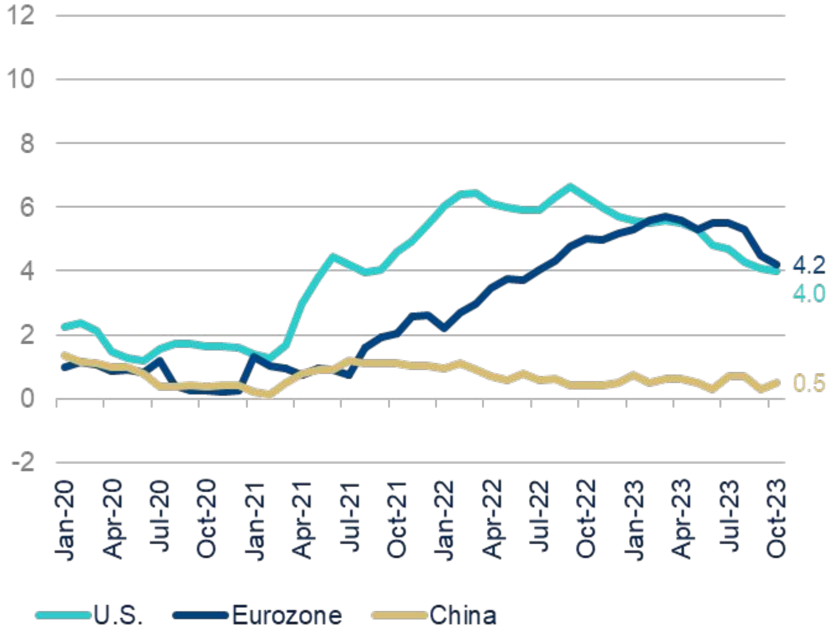
Inflation is also slowing: after the significant decompression of headline figures, there are clearer signs of moderation in (still high) core measures

HEADLINE INFLATION: CPI
(ANNUAL CHANGE, %)



Source: BBVA Research based on data from Haver.

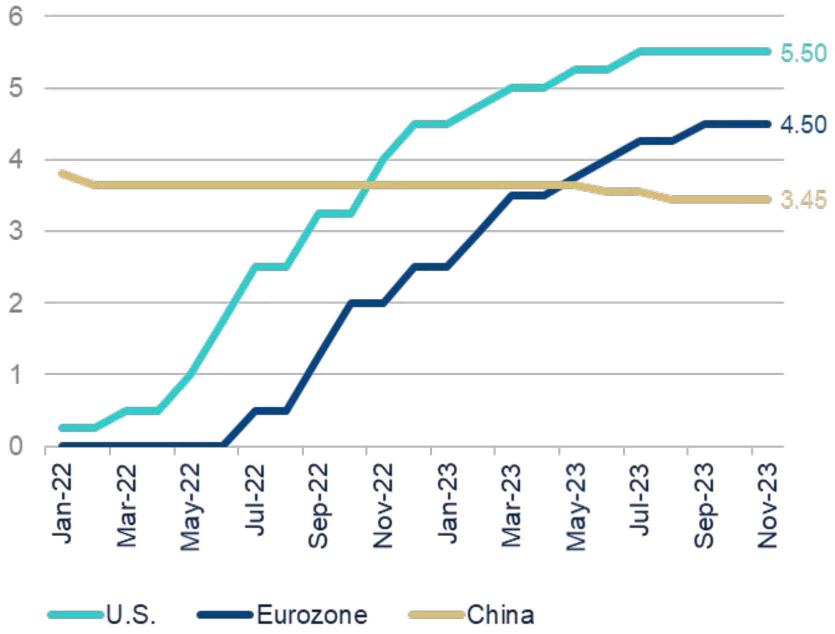
CORE INFLATION: CPI
(ANNUAL CHANGE, %)



Source: BBVA Research based on data from Haver.

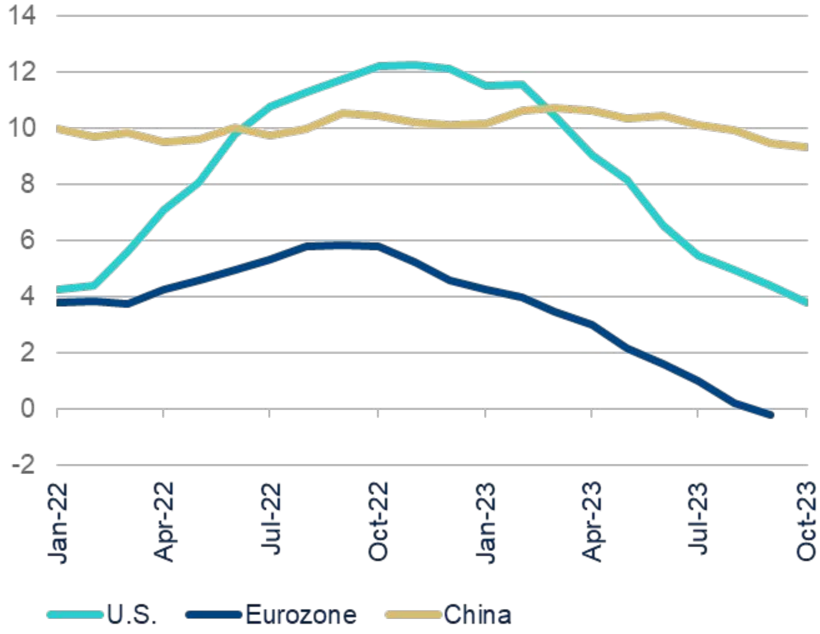
Growth and inflation are easing following the aggressive interest rate hiking cycles -which seem to be over now- and also on the decline of excess savings

POLICY INTEREST RATES (*)
(%)



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

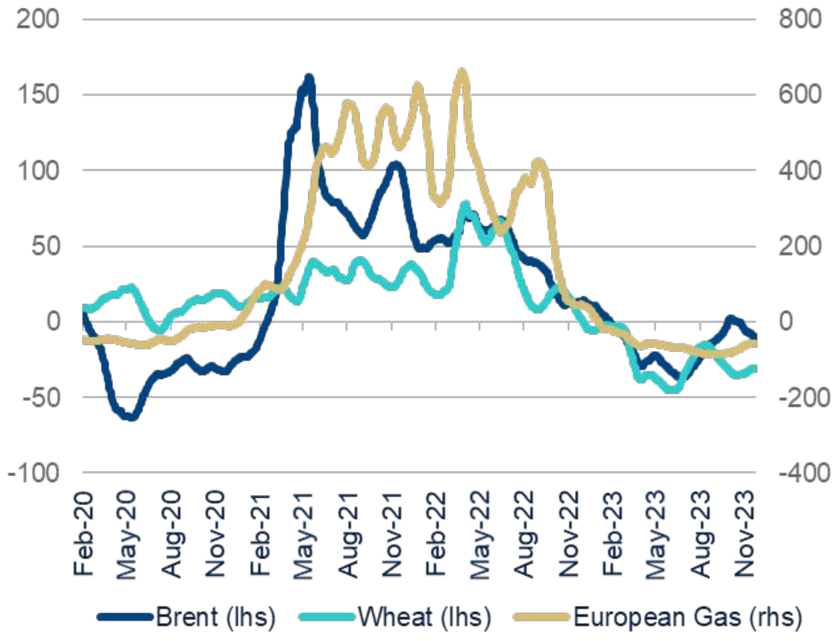
LOANS BY COMMERCIAL BANKS
(ANNUAL CHANGE, %)



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

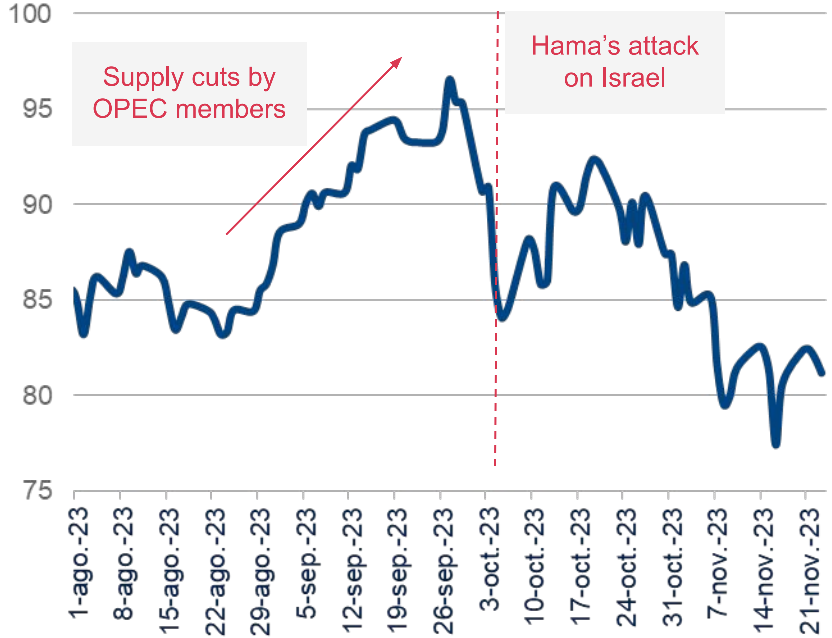
More contained commodity prices (despite Middle-East tensions) are also allowing inflation to ease, while providing some support to economic activity

COMMODITY PRICES
(ANNUAL CHANGE %, 30-DAYS MOVING AVERAGE)



Source: BBVA Research based on data from Haver.

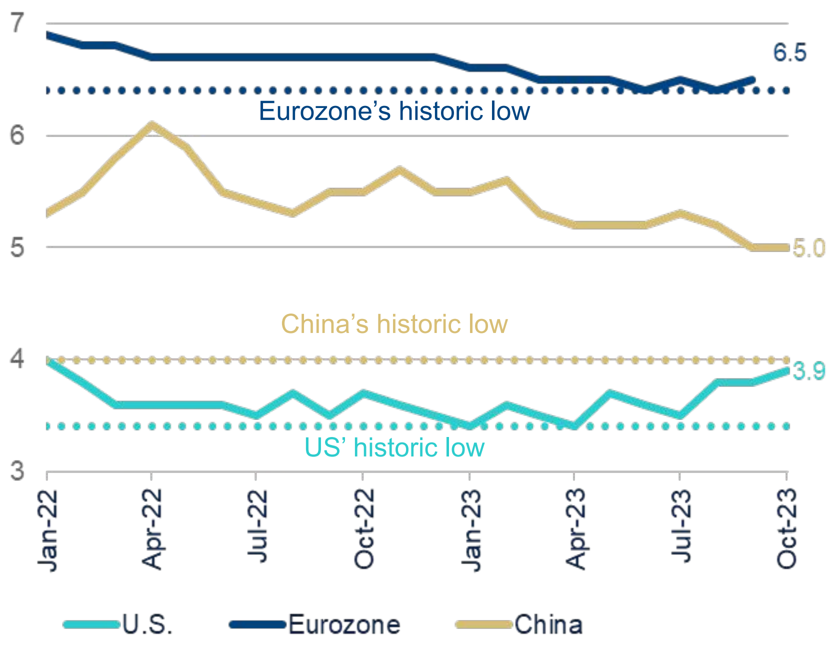
BRENT PRICES
(USD PER BARREL)



Source: BBVA Research based on data from Haver.

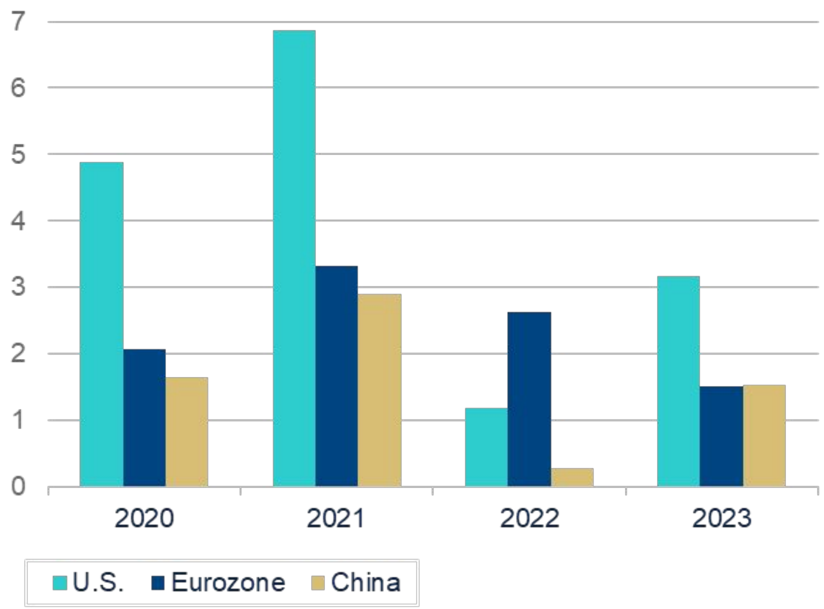
Labor markets and fiscal policy are still supporting growth, helping to prevent recessions while contributing to keep inflationary concerns alive

UNEMPLOYMENT RATE
(% OF THE LABOR FORCE)



(*) Historic low: lowest unemployment rate since Jan/04.
Source: BBVA Research based on data from Haver.

"EXCESSIVE" FISCAL STIMULUS (*)
(% OF GDP)

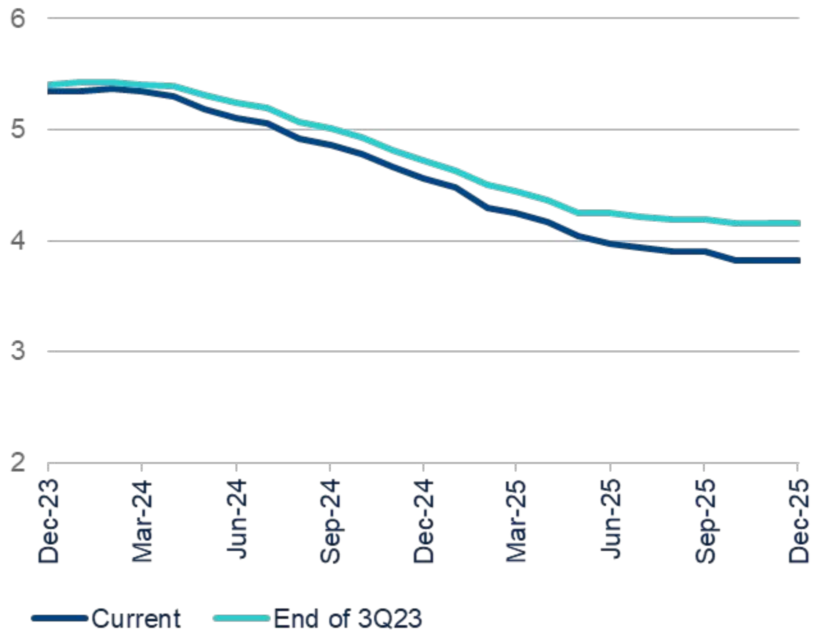


(*) "Excessive" fiscal stimulus: difference between the cyclically-adjusted primary balance and the equilibrium primary balance (calculated as the average relationship between the cyclically-adjusted primary balance and GDP growth in the 2001-2023 period).
Source: BBVA Research based on data from the IMF and AMECO.

Despite the still hawkish tone exhibited by the Fed and the ECB, markets are now pricing an early and more aggressive monetary easing cycle

FED: IMPLICIT RATE IN FUND FUTURES

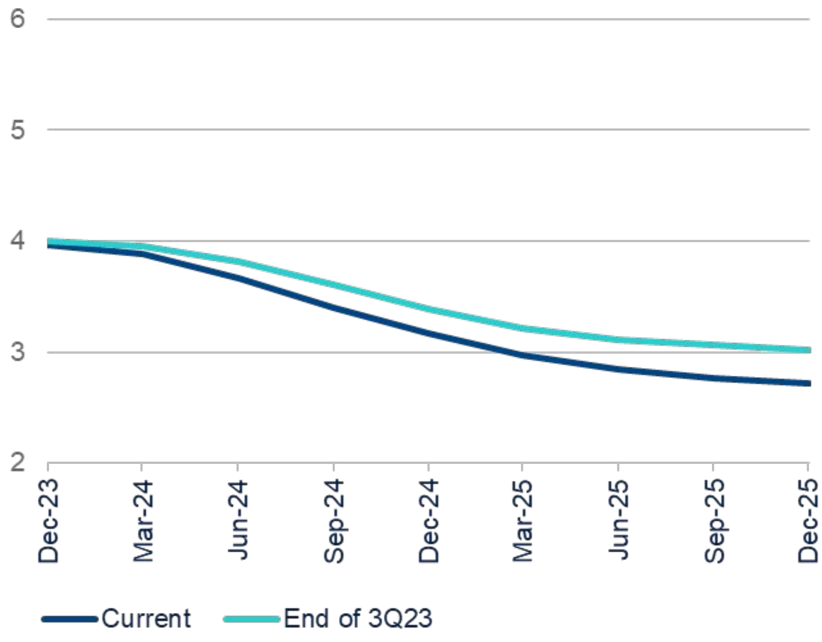
(%)



Source: BBVA Research based on Bloomberg.

ECB: IMPLICIT RATE IN 3-MONTH EURIBOR FUTURES (*)

(%)

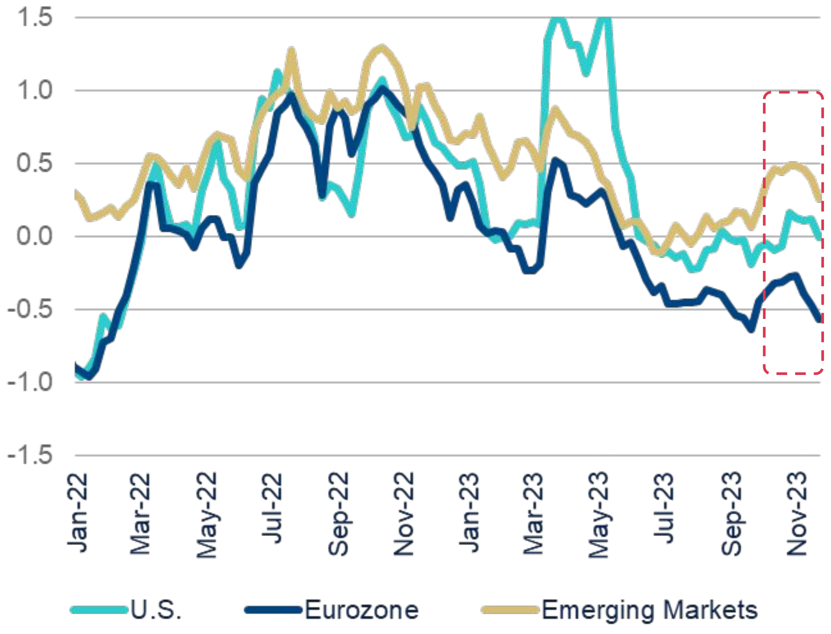


Source: BBVA Research based on Bloomberg.

Financial tensions and sovereign yields have fallen with optimism on inflation and early monetary easing cycle, but markets remain subject to volatility

BBVA RESEARCH FINANCIAL TENSIONS INDEX

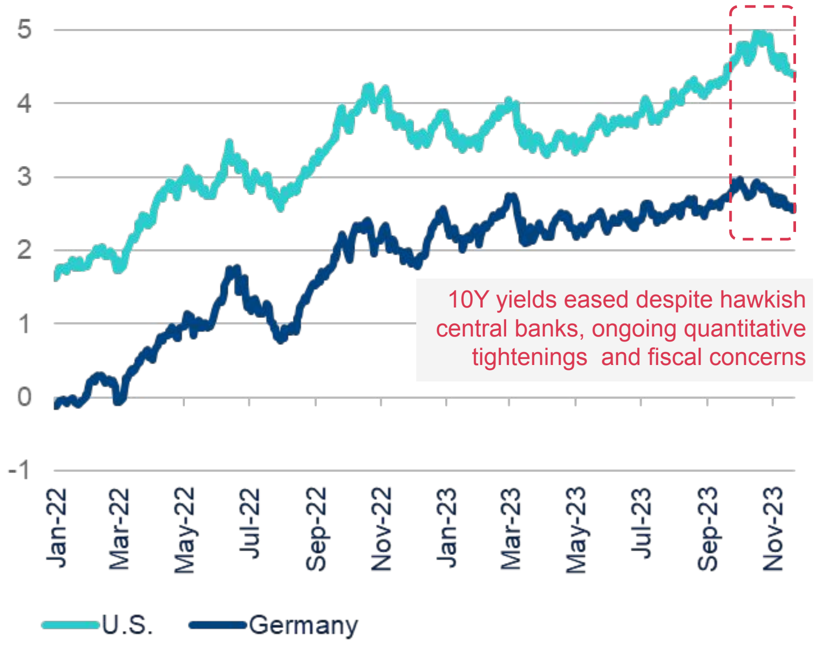
(INDEX: HISTORIC AVERAGE = 0)



Source: BBVA Research based on Bloomberg.

US AND GERMAN SOVEREIGN YIELDS: 10Y

(%)



Source: BBVA Research based on Bloomberg.

A soft landing of both growth and inflation is likely to pave the way for cautious rate-cutting cycles, which are closer now but are not imminent yet

BBVA RESEARCH BASELINE SCENARIO

Growth and inflation slowdown

Growth and inflation will ease on extra demand weakening, given no extra supply shocks, but risks are still significant

Cautious central banks

Fed and ECB rates have peaked, reductions are expected in 2024; anyway, quantitative tightening will continue

Financial volatility

Volatility will remain in place on high interest rates, still hawkish central banks and large uncertainty

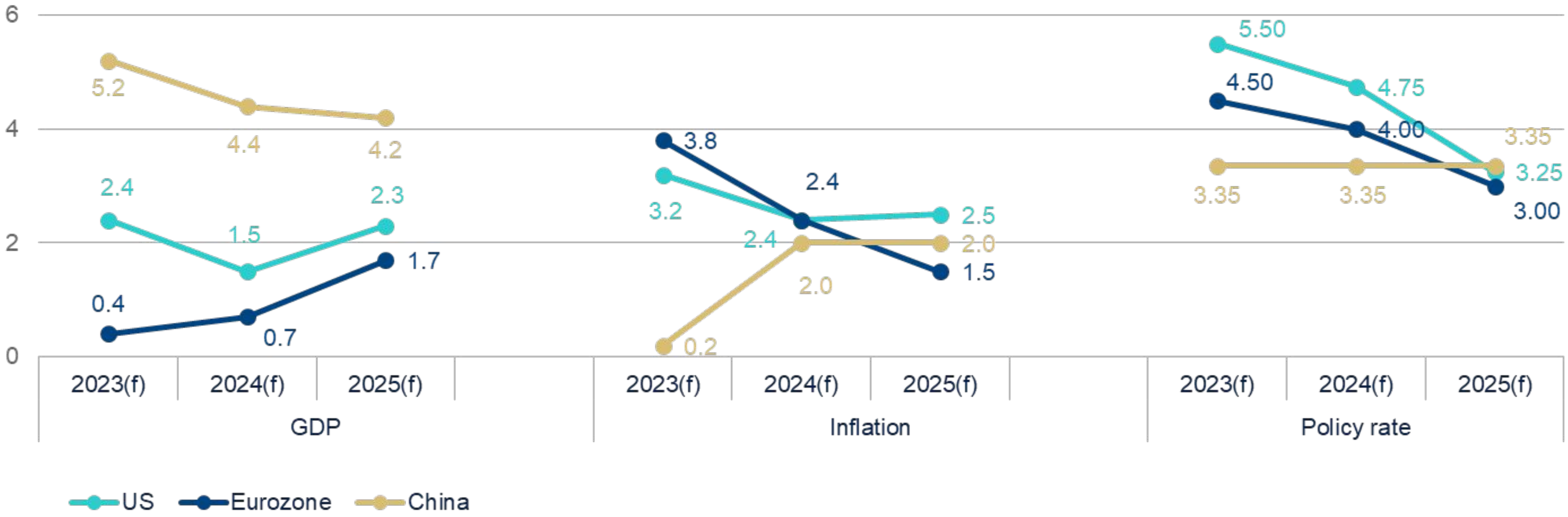
Geopolitical tensions

Rising risks, but large economic effects are not assumed; Middle-East conflict to have limited impact on energy prices

Global growth will be relatively low, while inflation and policy rates will decline without converging to pre-pandemic (ultra-low) levels over the next two years

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

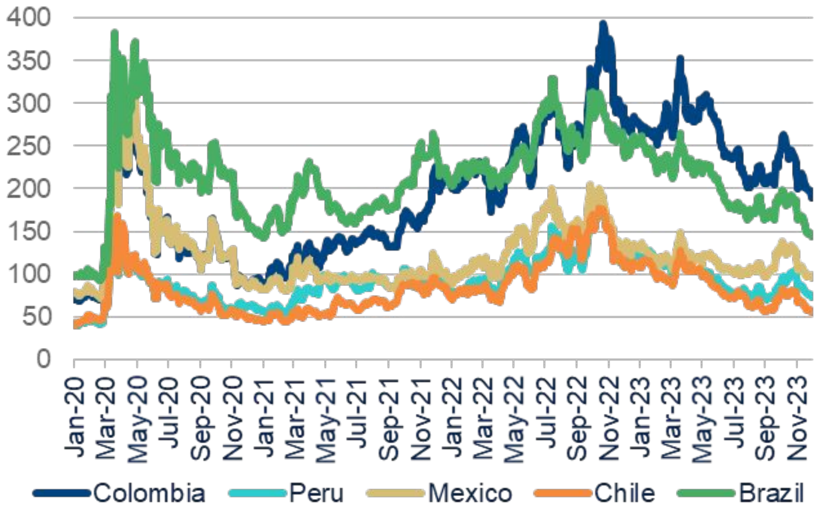
(GDP ANNUAL GROWTH: %; INFLATION: ANNUAL CHANGE %, END OF PERIOD, POLICY INTEREST RATES: %, END OF PERIOD)



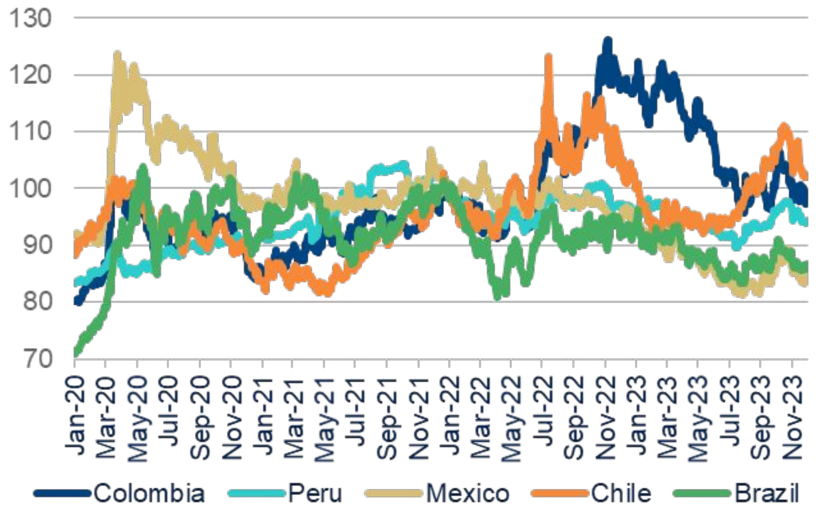
(*) Global GDP growth is forecast to ease from 3.4% in 2022 to around 3.0% (+0.1pp) in 2023, 3.0% (0.0pp) in 2024 and 3.3% in 2025, below the 2000-2022 average (3.6%).
(**) In the case of the Eurozone, interest rates on refinancing operations.
(f): forecasts
Source: BBVA Research based on Bloomberg data.

Risk premia in the region show an important moderation in the year to date, though with high volatility and still at high levels

CDS: MAIN COUNTRIES IN THE REGION
(BSP)



EXCHANGE RATES: MAIN COUNTRIES IN THE REGION
(CURRENCY AGAINST THE DOLLAR; INDEX: JAN-22 = 100)

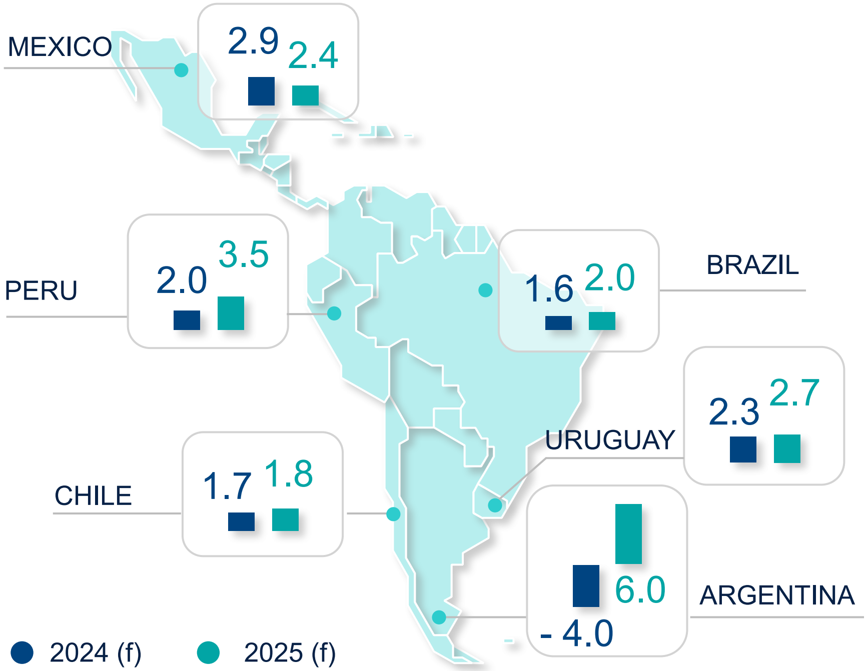


Source: BBVA Research with Bloomberg data

The behavior in the region’s currencies is strongly linked to the market sentiment towards the expected Fed policy. They appreciate in the last couple of weeks but remain highly volatile.

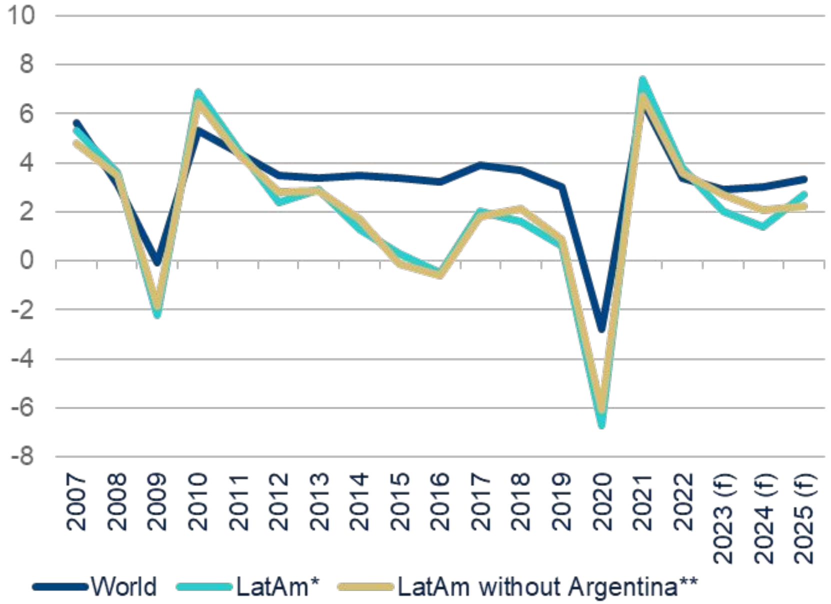
The strong monetary policy adjustment and a more limited global growth, will have a significant effect in the regions growth

GDP GROWTH
(ANNUAL CHANGE, %)



(f): forecast
Source: BBVA Reseach.

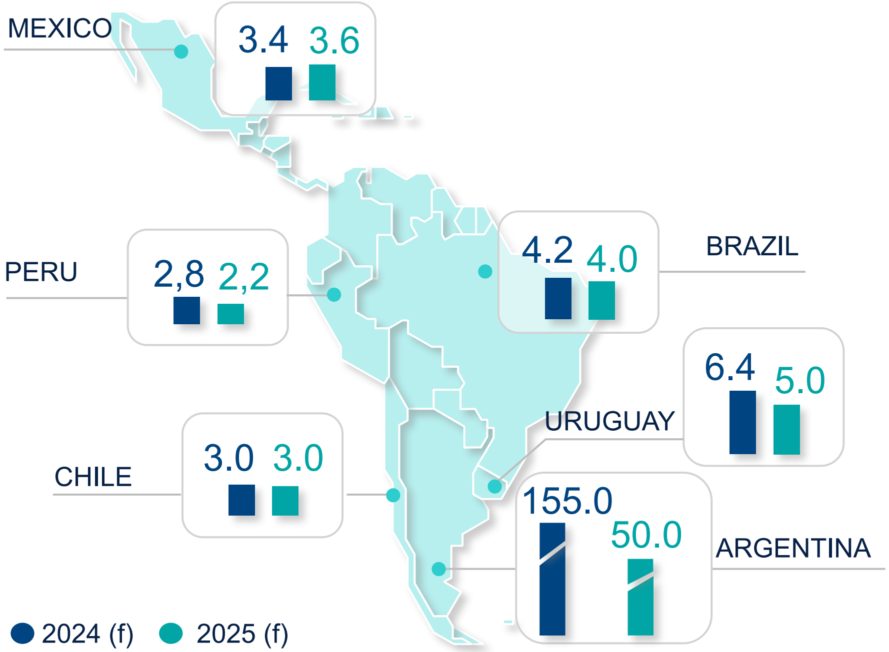
WORLD AND LATAM GDP
(%)



(f): BBVA Research forecasts.
(*): Includes Brasil, Chile, Colombia, México, Perú, Paraguay and Uruguay.
(**): Includes Argentina, Brasil, Chile, Colombia, México, Paraguay, Perú and Uruguay.

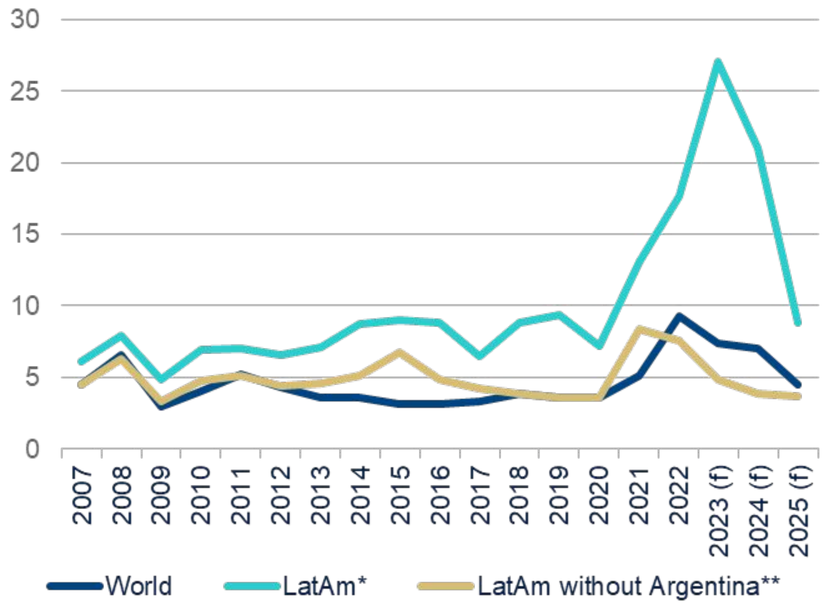
The moderation in inflation, after a restrictive monetary policy stance, will be significant and should, in most countries, lead inflation to their targets in 2024

INFLATION
(ANNUAL CHANGE, EOP, %)



(f): forecast
Source: BBVA Reseach.

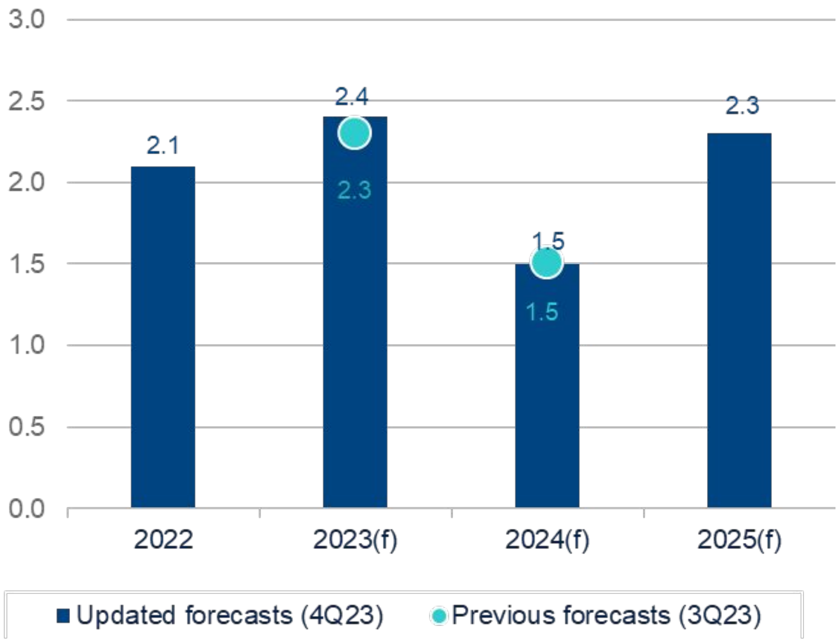
WORLD AND LATAM INFLATION
(ANNUAL CHANGE, EOP, %)



(f): BBVA Research forecasts.
(*): Includes Brasil, Chile, Colombia, México, Perú, Paraguay and Uruguay.
(**): includes Argentina, Brasil, Chile, Colombia, México, Paraguay, Perú and Uruguay.

US: solid domestic demand supports 2023 growth; high interest rates (despite eventual rate cuts from June) likely to weigh more on growth in 2024

US: GDP GROWTH
(ANNUAL CHANGE, %)

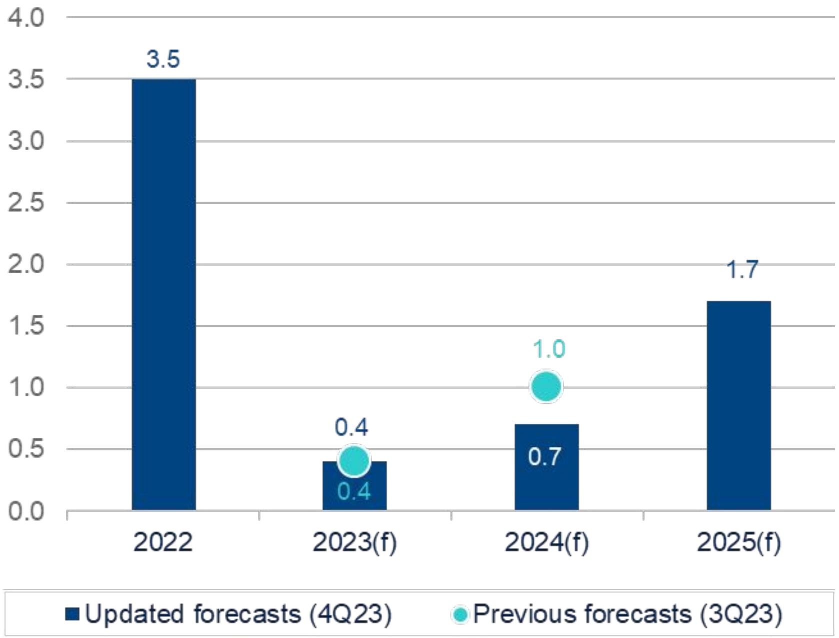


(f): forecast.
Source: BBVA Research

- 2023 growth revised up, despite moderation signs: consumption backed by still significant excess savings and strong labor markets; manufacturing is benefiting from bottleneck normalization.
- Growth to ease in 2024 mainly on the lagged effect of the recent monetary tightening.
- Inflation to keep falling as labor markets come into a better balance.
- Fed: the most likely is a pause with gradual cuts in 2024; fears of incomplete convergence to the 2% target to prevent earlier cuts.
- Risks: recession or financial stress on high rates, presidential elections and expansive fiscal stance.

Eurozone: milder growth and lower inflation favor a reduction of ECB policy rates from September, somewhat earlier than previously expected

EUROZONE: GDP GROWTH
(ANNUAL CHANGE, %)

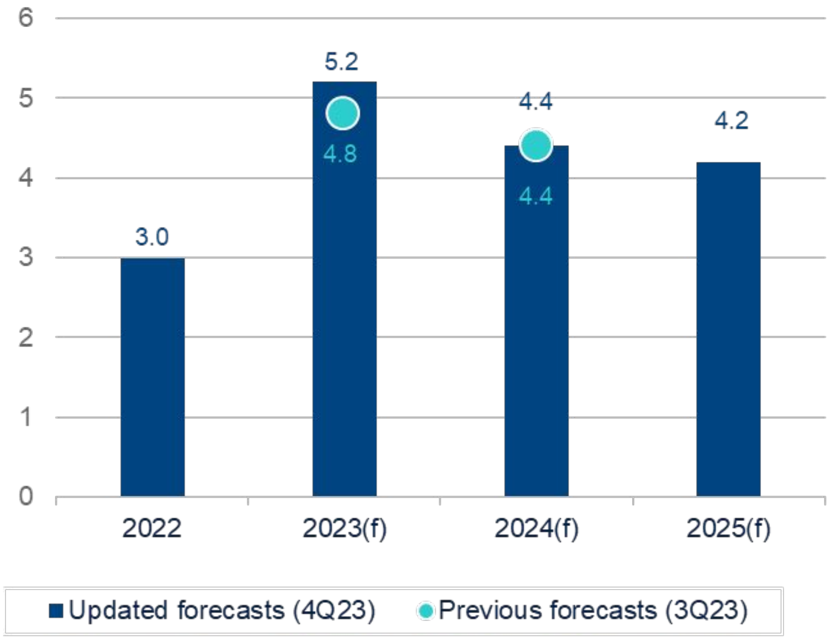


(f): forecast.
Source: BBVA Research

- GDP forecasts: unchanged in 2023 but revised down in 2024; recent data suggest a (minor) recession in 2H23.
- Inflation forecasts revised down: pressures from energy prices, fiscal policy and labor markets to be offset by sharper core disinflation, in line with incoming data.
- ECB: rate cuts from Sep/24, when the disinflation process will be clearer; balance sheet reduction will continue, with focus on PEPP reinvestment and new operational framework.
- Risks: stagflation and competitiveness problems on high energy prices, sovereign debt tensions.

China: recent data reinforce view that a hard-landing will likely be avoided, but growth is set to ease in 2024-25 as structural challenges remain in place

CHINA: GDP GROWTH
(ANNUAL CHANGE, %)



(f): forecast.
Source: BBVA Research

- 2023 GDP was revised upwards in line with incoming data showing that demand improved somewhat after series of stimulus policies were adopted to avoid a hard-landing.
- Growth is likely to weaken ahead and hard-lading is still a risk as real estate tensions, large local government debt and other structural problems (middle-income trap, ageing, US confrontation etc.) remain in place.
- Inflation remains close to zero, but is forecast to converge to 2% on more supportive policies and some confidence improvement.
- Risks: sharp growth deceleration, deflation and balance-sheet recession, geopolitical tensions.

Risks: tensions in the Middle-East add to the concerns about the potential consequences of high inflation and interest rates and a hard-landing in China

Inflation and high interest rate risks	Financial tensions risks	Growth deceleration risks
Higher energy prices on **Middle-East or Ukraine conflicts**	**Risk-off** and financial volatility	**Stagflation,** mainly in the EZ and other energy net-importers
Strong demand on **public spending** (scarce fiscal consolidation)	Tensions in **sovereign debt markets**	**Recession,** including (but not only) in the US
Strong demand on **private spending** (labor tightness, etc.)	Tensions in **private debt markets**	**Hard-landing in China,** with balance-sheet recession and deflation risks

Uncertainty on series of economic, political, geopolitical and climate factors

Economic uncertainty	Political uncertainty	Geopolitical uncertainty	Climate uncertainty
Inflation and macro policy mix	**US presidential** elections	**Israel-Hamas** conflict	**El Niño effects** mainly on S. America
Monetary tightening impact, neutral level	**Political tensions** in DMs and EMs	**Ukraine-Russia** war	**Climate disruptions** and weather shocks
Fiscal consolidation	**Populism** and social unrest	**US-China rivalry:** deglobalization, Taiwan	**Energy transition** policies

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02

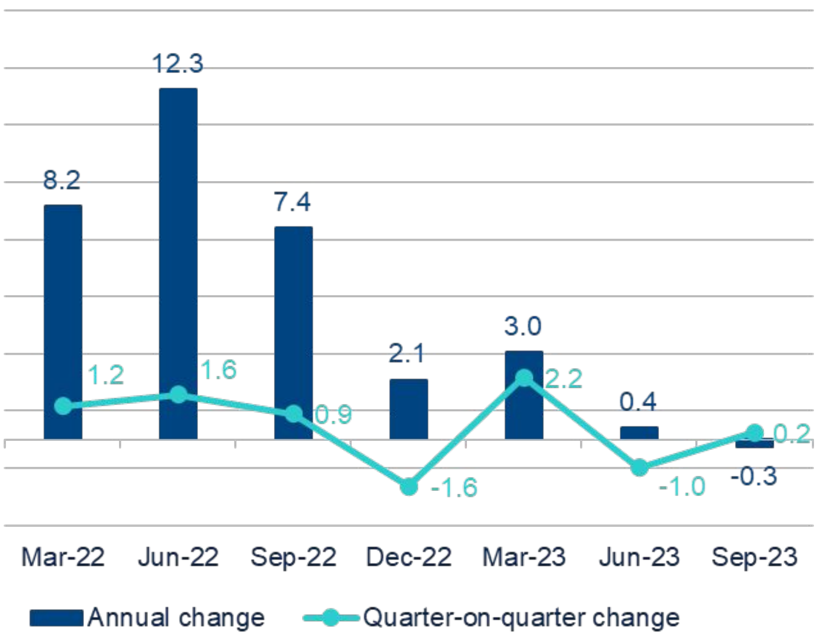
Colombia: growth and employment – 2023

The social services sectors counter the slump in domestic demand. Employment holds up, but shows signs of slowing. This year, GDP will grow by 1.2%.

In 2023, lower domestic demand (especially investment) slowed GDP growth, despite a sharp adjustment in imports

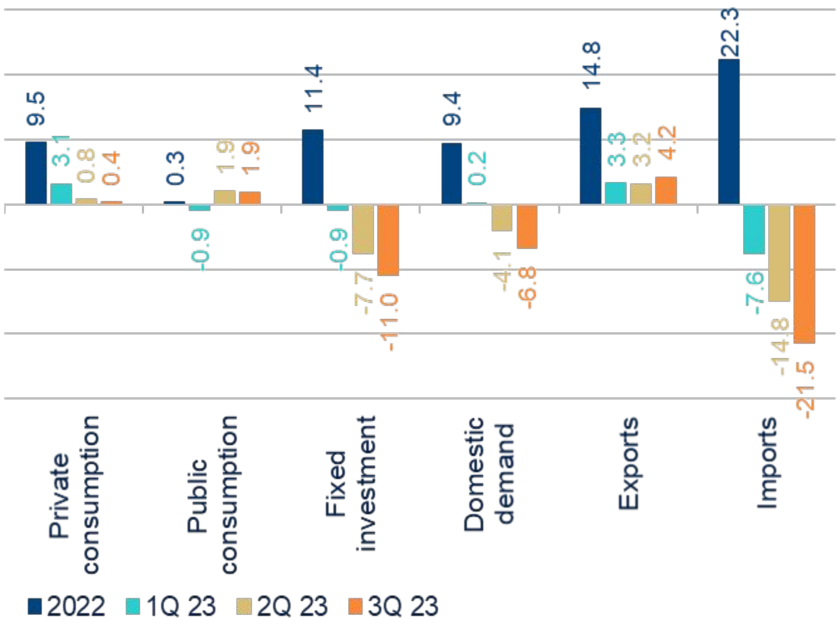
GDP

(REAL ANNUAL AND QUARTER-ON-QUARTER CHANGE, %)



GDP BY DEMAND COMPONENT: COMPONENTS

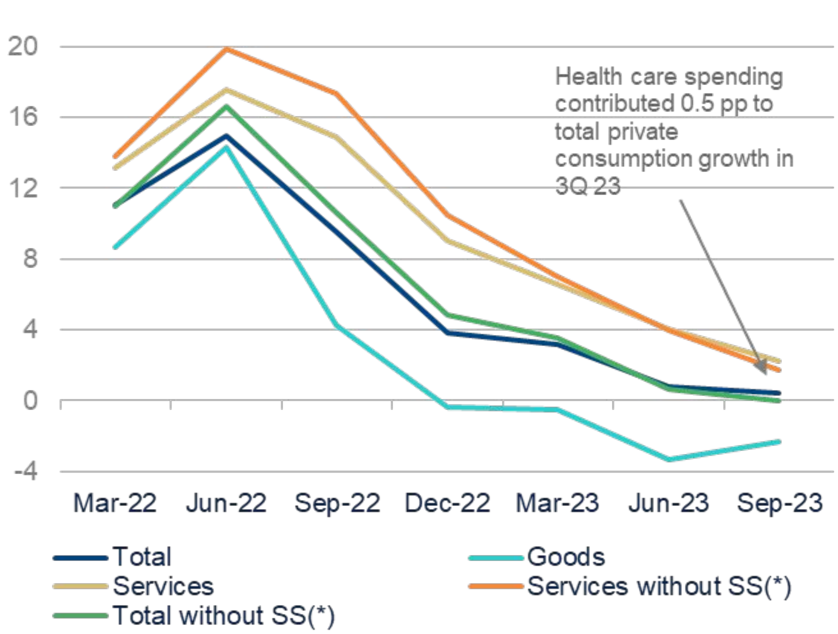
(REAL ANNUAL CHANGE, %)



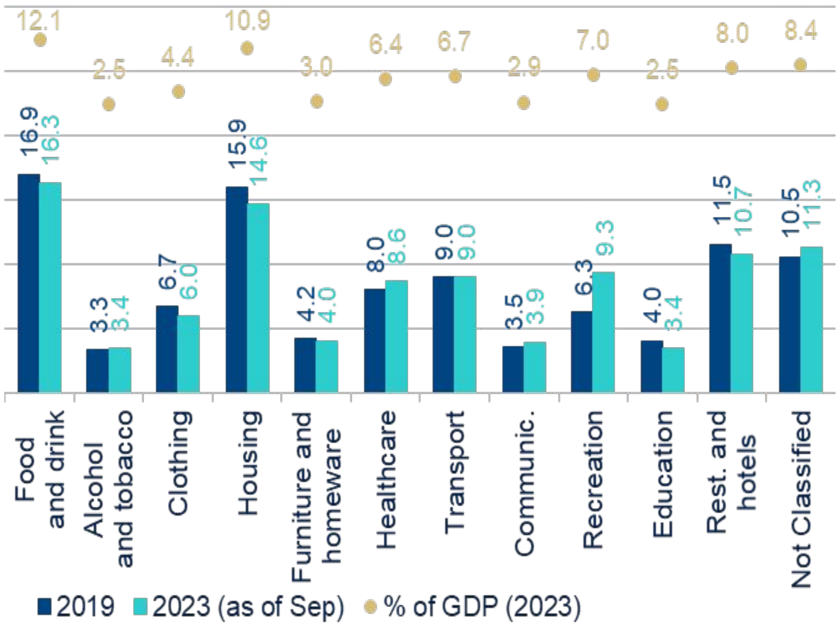
Source: BBVA Research, with DANE data.

Consumption, despite slowing to some degree, held up fairly well, largely on the back of private services and also, more recently, social services(*)

PRIVATE CONSUMPTION: TOTAL AND COMPONENTS
(REAL ANNUAL CHANGE, %)



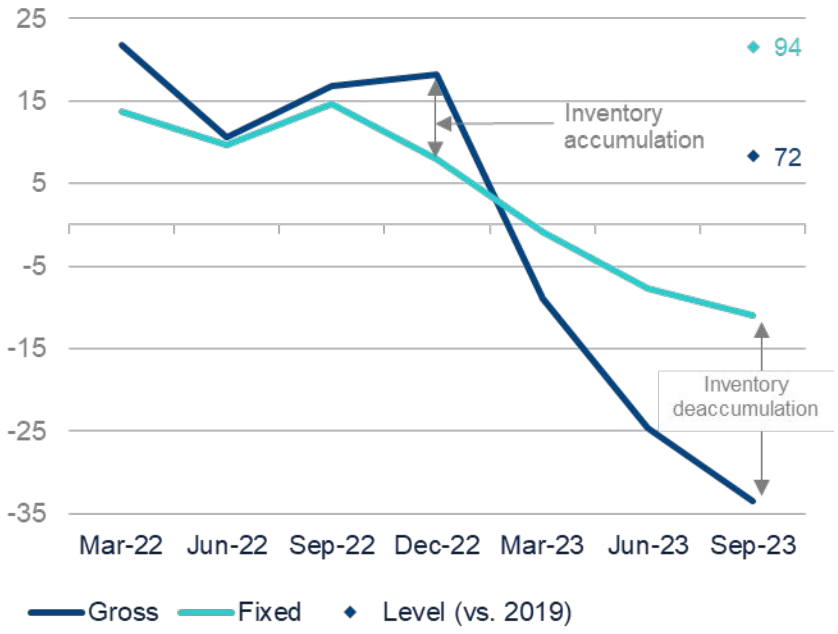
PRIVATE CONSUMPTION: GROUPS OF GOODS
(% OF TOTAL AND % OF GDP)



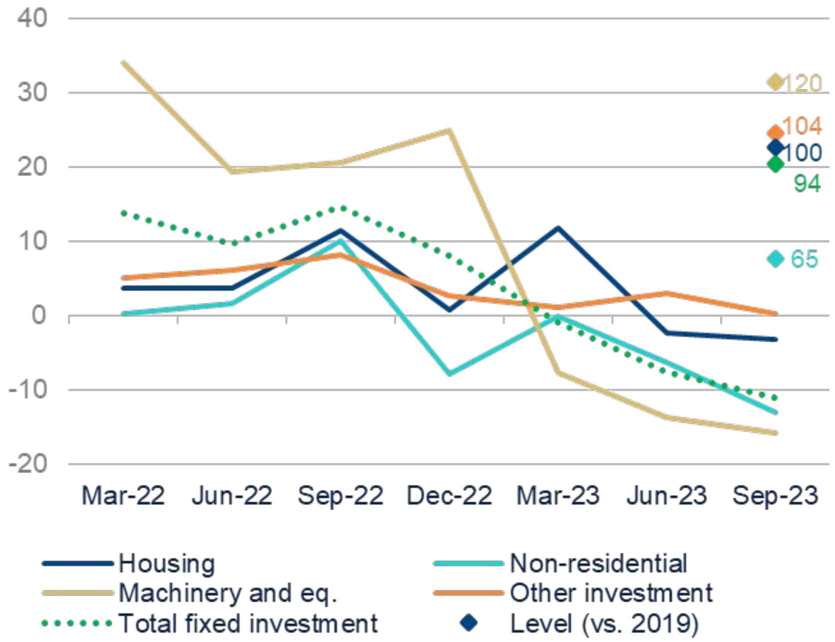
(*): Education and health, mainly associated with government expenditure.
Source: BBVA Research, with DANE data.

Investment fell sharply: from fairly high levels in the case of machinery, with low levels of activity in construction and with lower inventories

GROSS AND FIXED INVESTMENT
(REAL ANNUAL CHANGE AND CONTRIBUTION TO GDP, %)



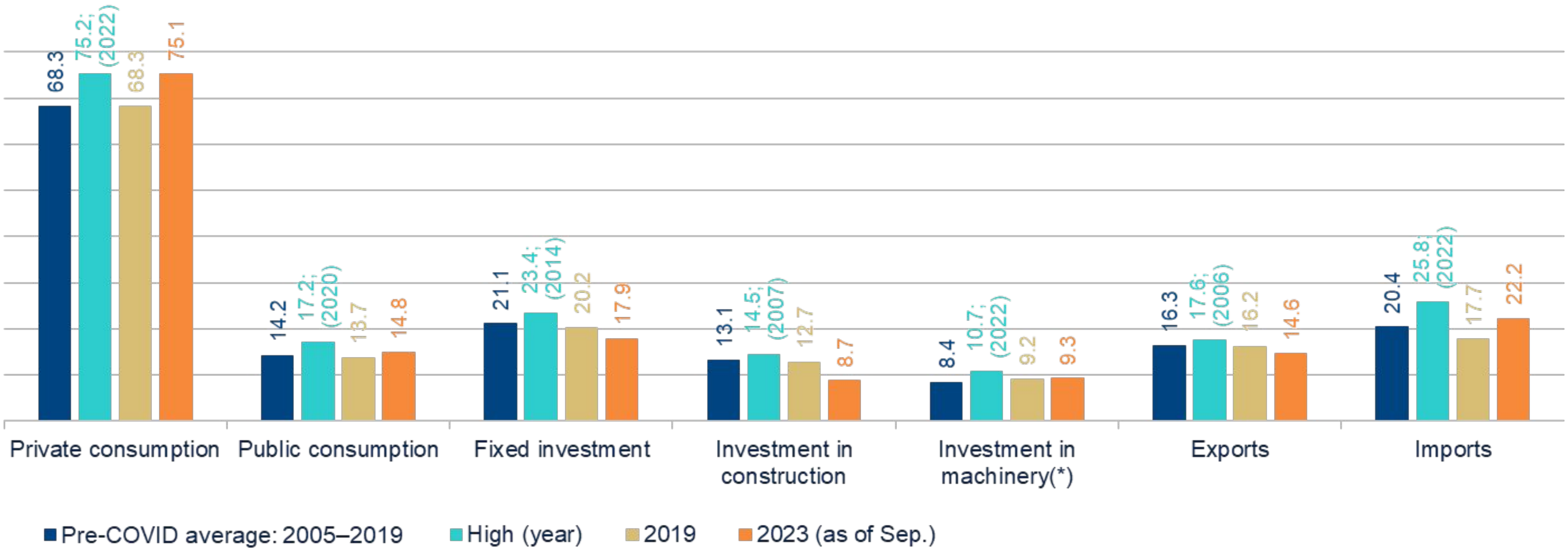
INVESTMENT: COMPONENTS
(ANNUAL CHANGE, % AND INDEX – 2019 = 100)



Source: BBVA Research, with DANE data.

Thus, consumption and imports increased their relative weight within GDP, while investment and exports both face significant challenges

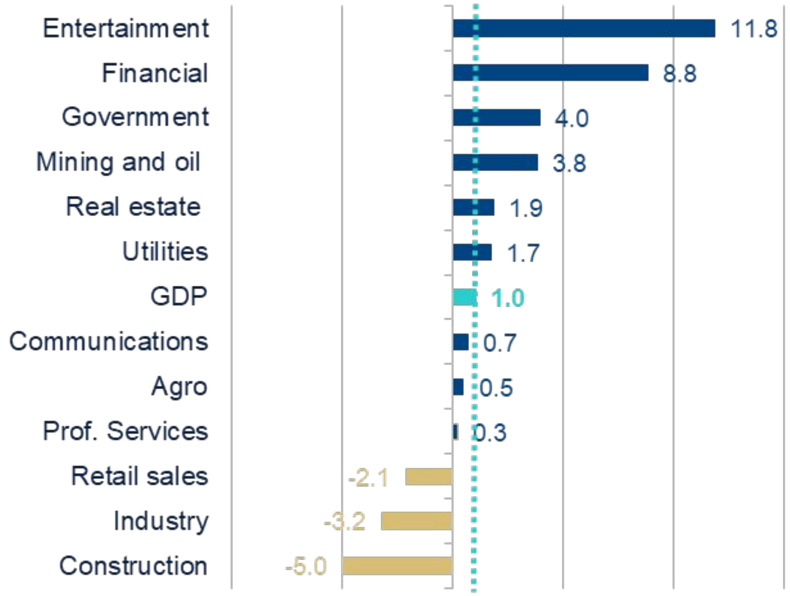
GDP: COMPOSITION
(% OF GDP)



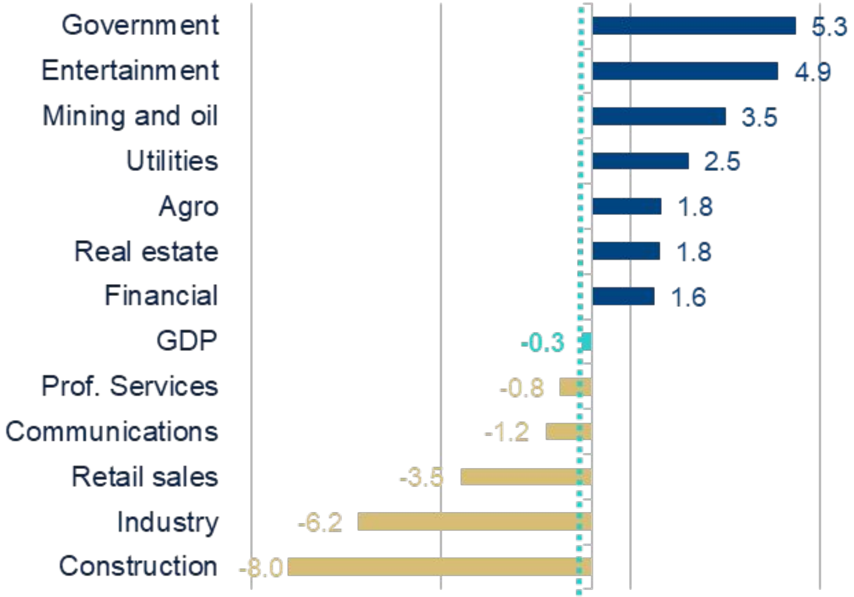
Source: BBVA Research, with DANE data.

Sectors associated with social services and other services (such as government and entertainment) are driving growth within the economy

GDP: ECONOMIC SECTORS
(YTD REAL CHANGE, %)



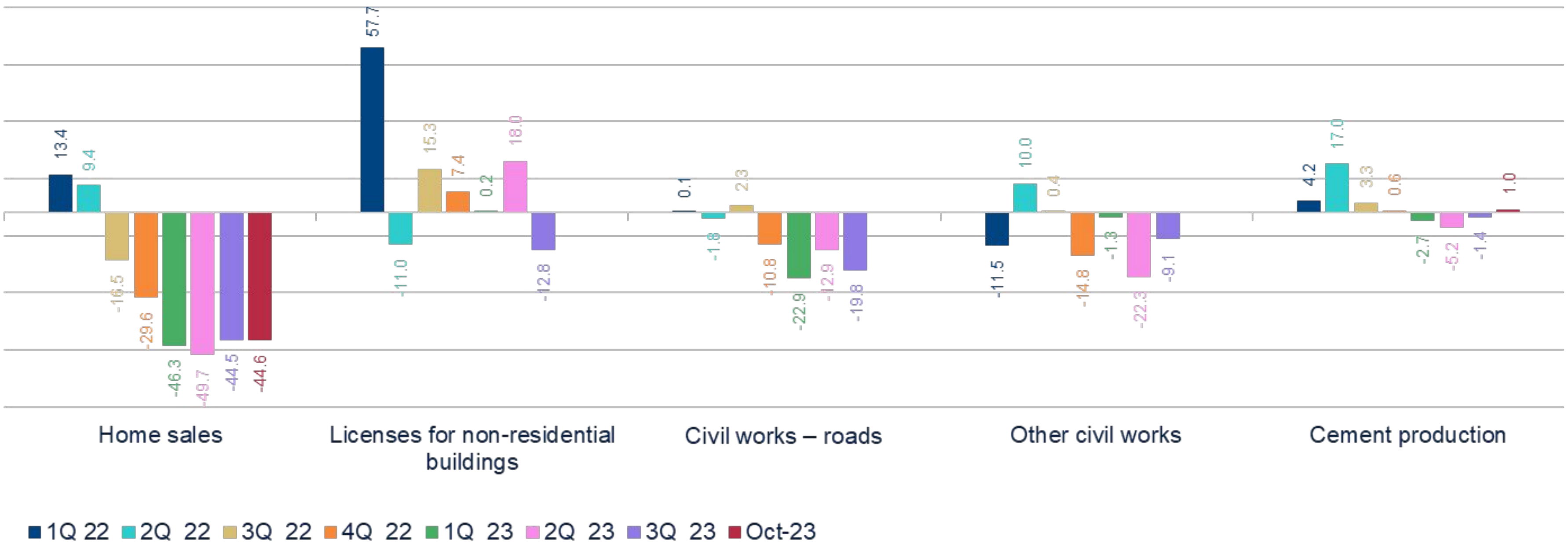
GDP: ECONOMIC SECTORS
(ANNUAL CHANGE AS OF THE THIRD QUARTER, %)



Source: BBVA Research, with DANE data.

Focus on construction: lower private and public activity could take time to reverse, as shown by available leading indicators

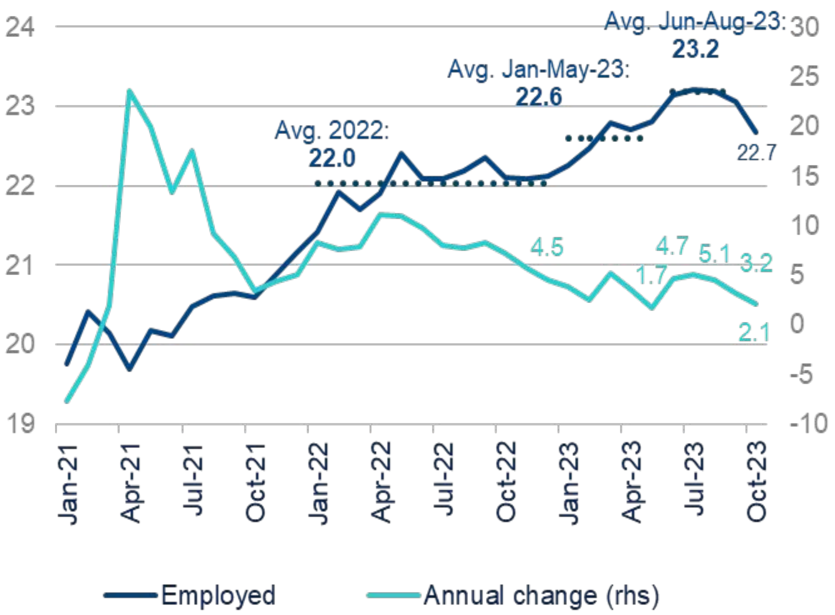
CONSTRUCTION INDICATORS
(REAL ANNUAL CHANGE, %)



Source: BBVA Research, with DANE data.

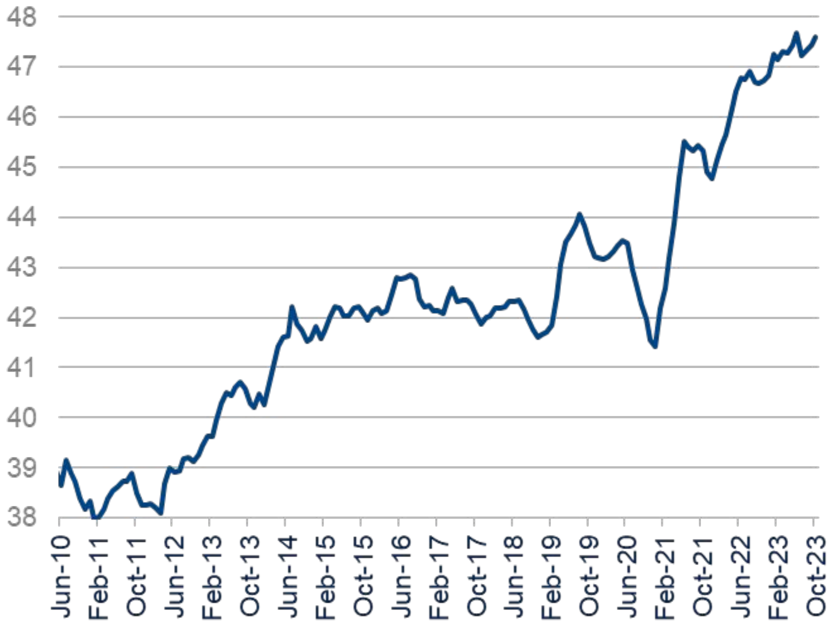
Employment has been recovering and has become more formal, though recent numbers show a moderation

NATIONAL EMPLOYMENT (MILLIONS OF PEOPLE, SERIES AJ. FOR SEASONAL FACTORS, CHANGE, %)



NATIONAL LABOR FORMALITY

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

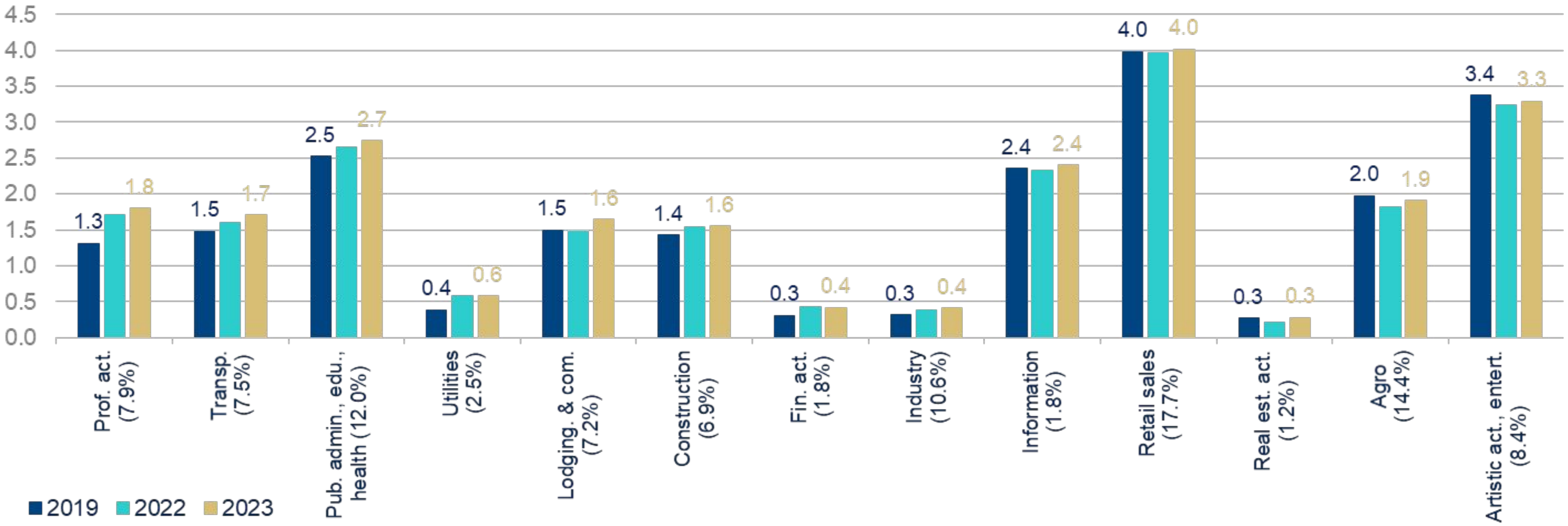


(*): Average levels for January–September 2022 and 2023 and change from January–September 2022 to January–September 2023
Source: BBVA Research, with DANE data.

Services have supported employment. Social services and a sector closely linked to them—professional services—have remained buoyant

SECTORAL EMPLOYMENT

(MILLIONS OF PEOPLE, AS OF SEPTEMBER OF EACH YEAR, %, IN PARENTHESIS: SECTOR'S WEIGHT IN TOTAL EMPLOYMENT)

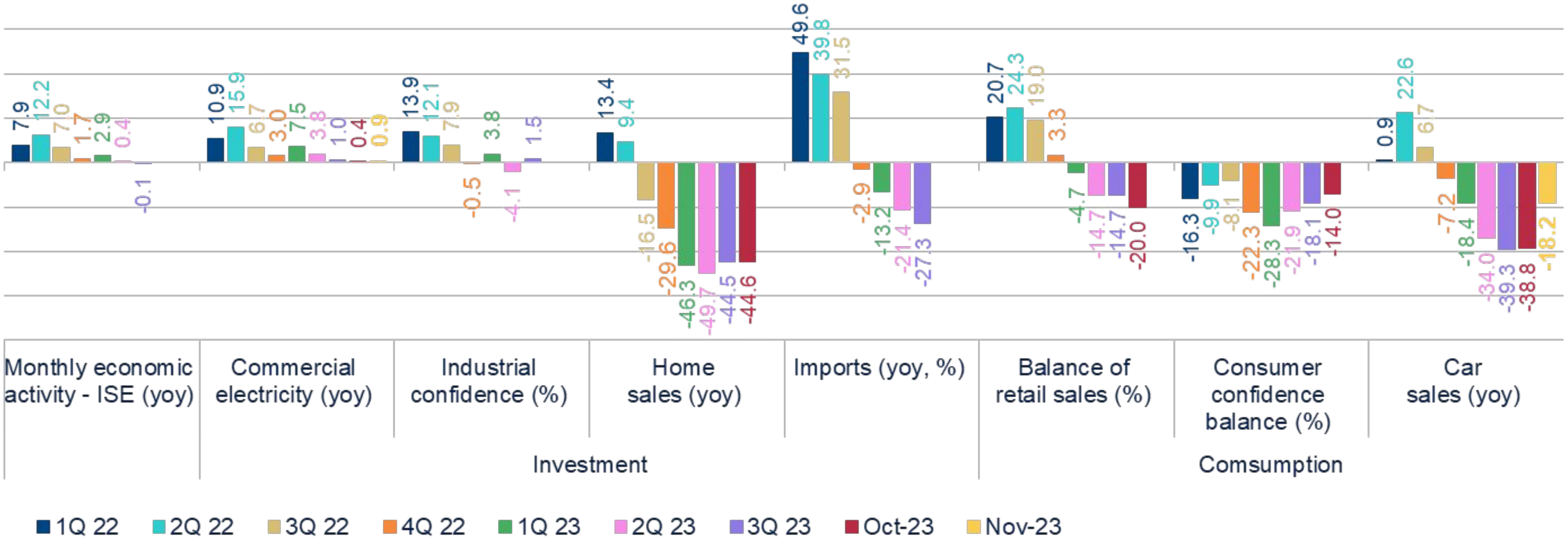


Source: BBVA Research, with DANE data.

Slowing domestic demand, strong social services and a resilient labor market will support a 1.2% GDP growth in 2023

LEADING GROWTH INDICATORS FOR 2023

(ANNUAL CHANGE AND BALANCE OF RESPONSES, %)



Source: BBVA Research, with data from DANE, XM, Fedesarrollo, Camacol, Fenalco and Andemos.

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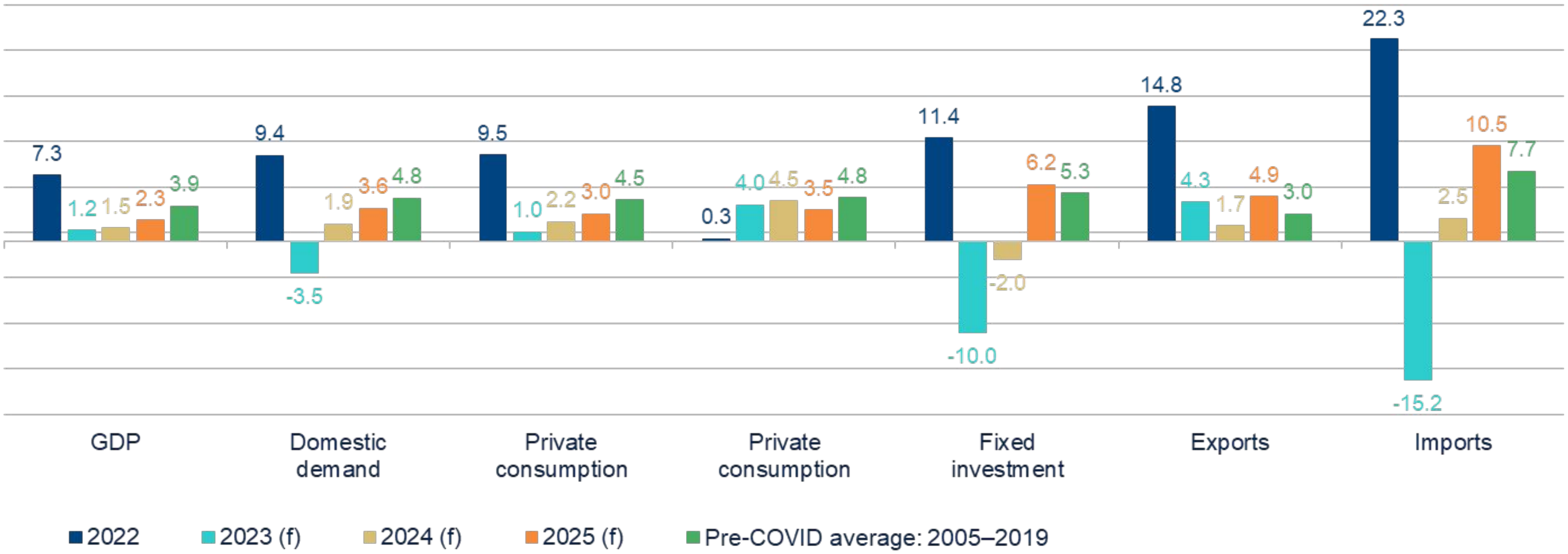
03

Growth and employment forecasts

Domestic demand will start to recover in 2024, driven by an improved performance from consumption. Job creation will gradually slow.

GDP will grow 1.5% in 2024 and 2.3% in 2025, below the pre-COVID average since 2005. Consumption will begin to recover ahead of investment

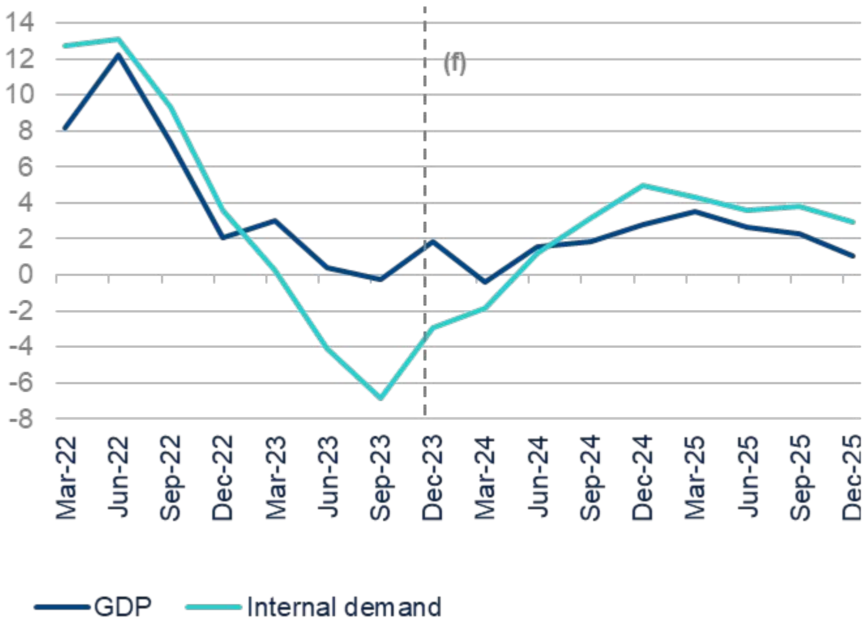
GDP: COMPONENTS OF EXPENDITURE
(REAL ANNUAL CHANGE, %)



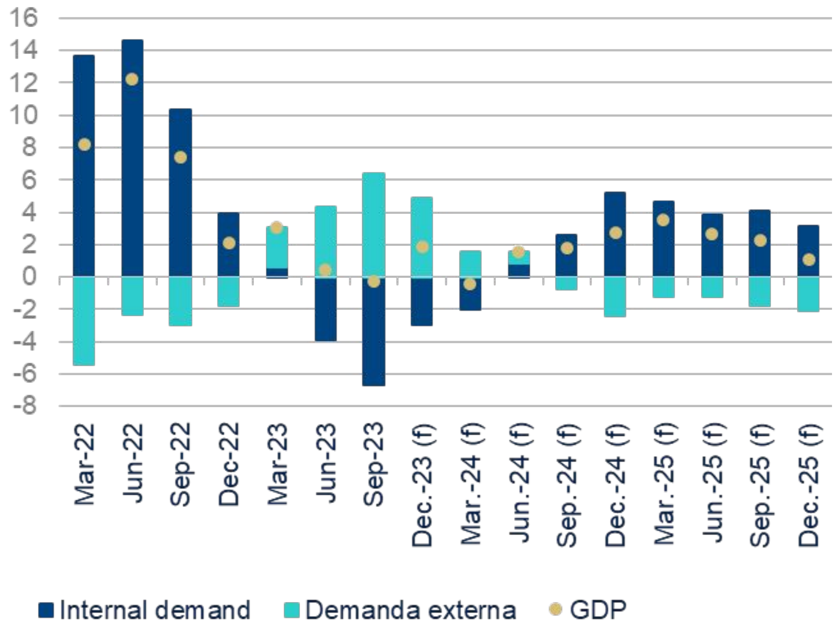
(f): BBVA Research forecasts.
Source: BBVA Research, with DANE data.

The recovery will be slow and gradual, driven by an improvement in private domestic demand and a further boost from public expenditure

GDP AND DOMESTIC DEMAND
(REAL ANNUAL CHANGE, %)



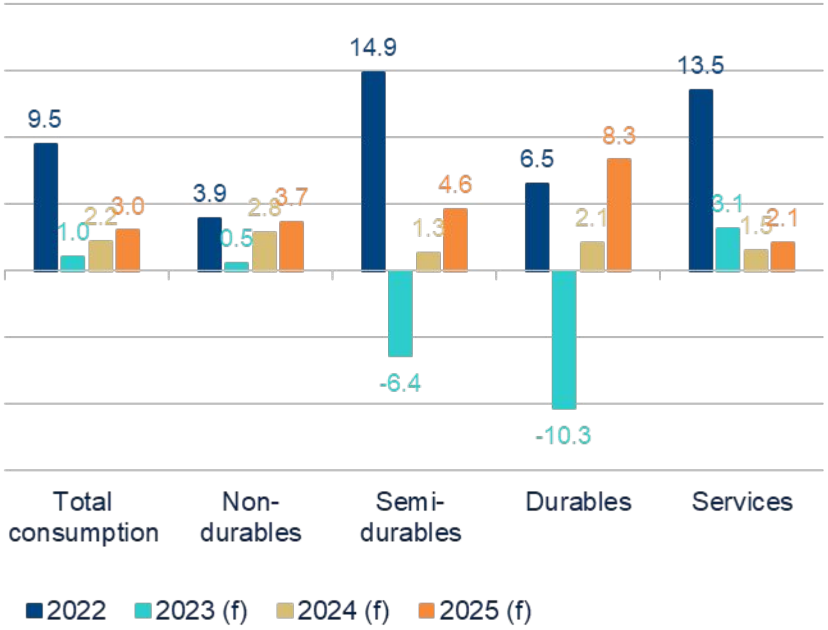
GDP: CONTRIBUTIONS
(CONTRIBUTION TO ANNUAL CHANGE IN GDP, %)



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

Private consumption of goods will recover in 2024 and consolidate in 2025. Spending on services will see a smaller increase in 2024

PRIVATE CONSUMPTION: COMPONENTS
(REAL ANNUAL CHANGE, %)

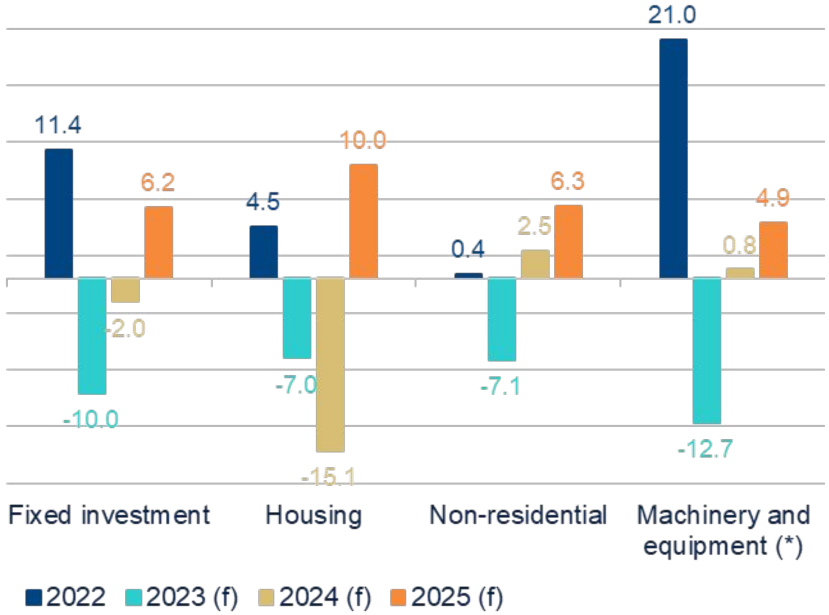


(f): BBVA Research forecasts.
Source: BBVA Research, with DANE data.

- During 2024, lower financing costs will lead to a steady increase in household borrowing and spending decisions, especially on the components that have been hit the hardest this year: durable and semi-durable goods.
- Meanwhile, consumption of services will continue to slow throughout 2024, continuing the trend that began this year, before picking up again in 2025.
- Services will experience two distinct dynamics: private services (restaurants, tourism and entertainment) will lead the slowdown expected for 2024 but should recover in 2025, whereas social services (health and public education) will remain strong, limiting the slowdown in 2024 and then kick-starting consumption in 2025.

Investment in machinery will begin to recover in the second half of 2024. Construction investment will consolidate its recovery in 2025

FIXED INVESTMENT: COMPONENTS
(REAL ANNUAL CHANGE, %)



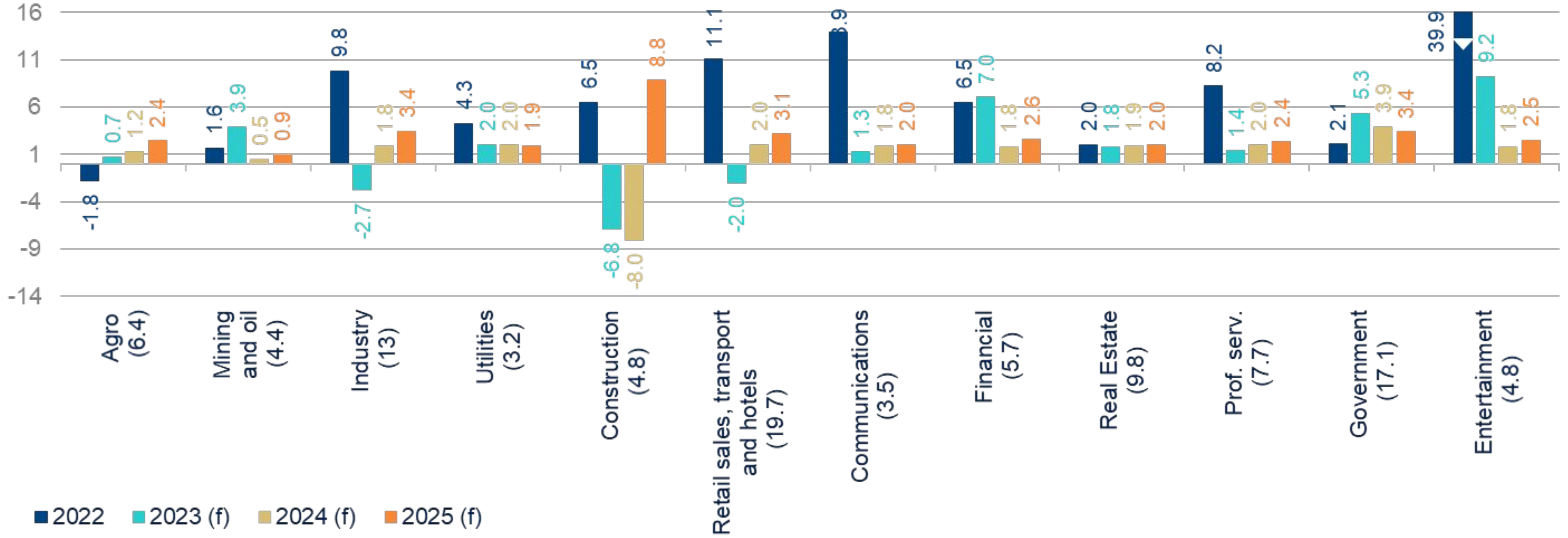
(*): Includes machinery and equipment, biological resources and intellectual property.
(f): BBVA Research forecasts.
Source: BBVA Research, with DANE data.

- The recovery of private consumption of goods and consistently strong exports will lead to a better performance among the sectors related to the production and distribution of goods (industry, commerce, transportation). These sectors will drive the recovery in private investment in machinery from the second half of 2024 onward, while also driving growth in non-residential buildings (office space, business premises, logistics).
- Sharp declines in home sales will steer the performance of the residential construction sector for a prolonged period of time. In addition, the growth in civil works will depend on the execution capacity of the new local governments and the extent to which the national government's investment budget picks up.

The government sector will lead the growth over the next few years, while the recovery in industry and retail sales will be slow

GDP: ECONOMIC SECTORS

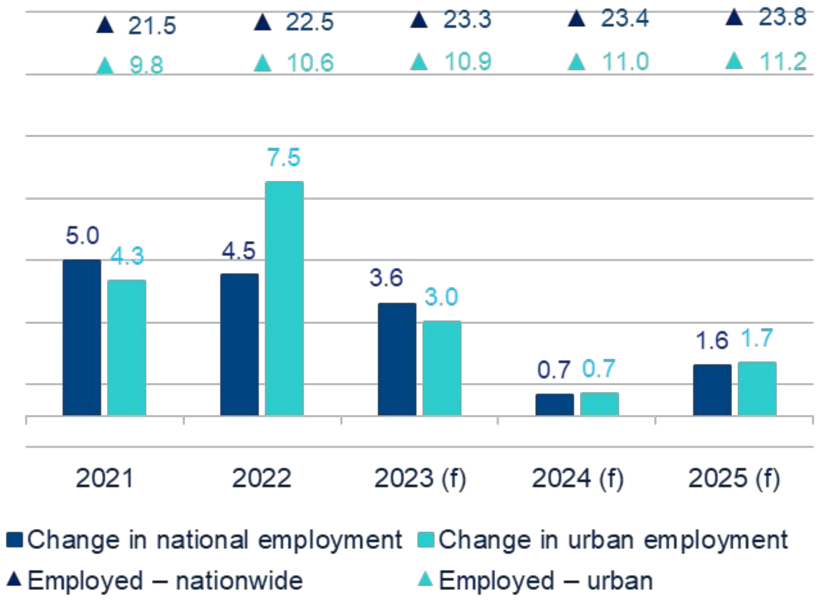
(REAL ANNUAL CHANGE, %, IN PARENTHESIS: WEIGHT OF THE SECTOR TO GDP)



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

Job creation will slow in 2024 and marginally improve in 2025, in line with the wider trend in economic activity

NATIONAL AND URBAN EMPLOYED
(MILLIONS OF PEOPLE AND ANNUAL CHG.(*), %)

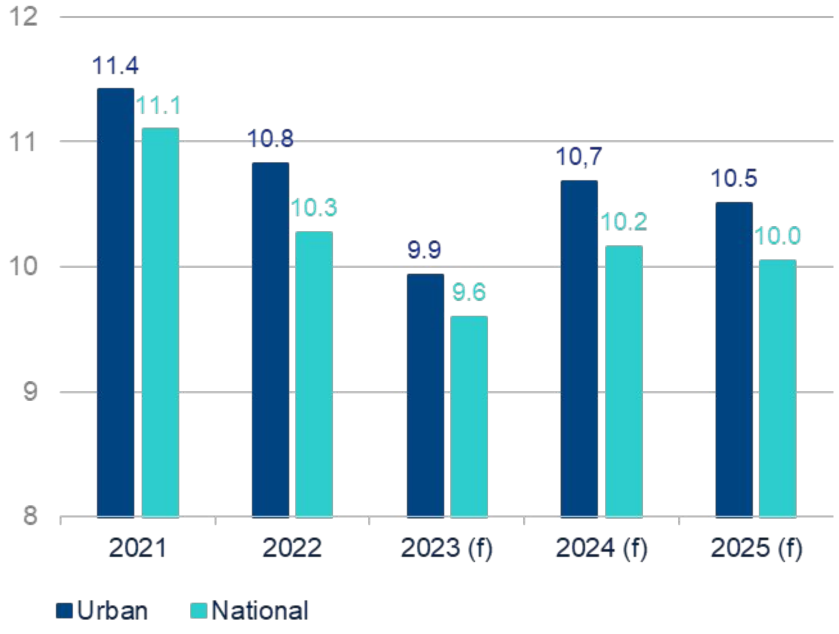


(*): Annual change, end-of-period (December vs. December of the previous year).
(f): BBVA Research forecasts
Source: BBVA Research, with DANE data.

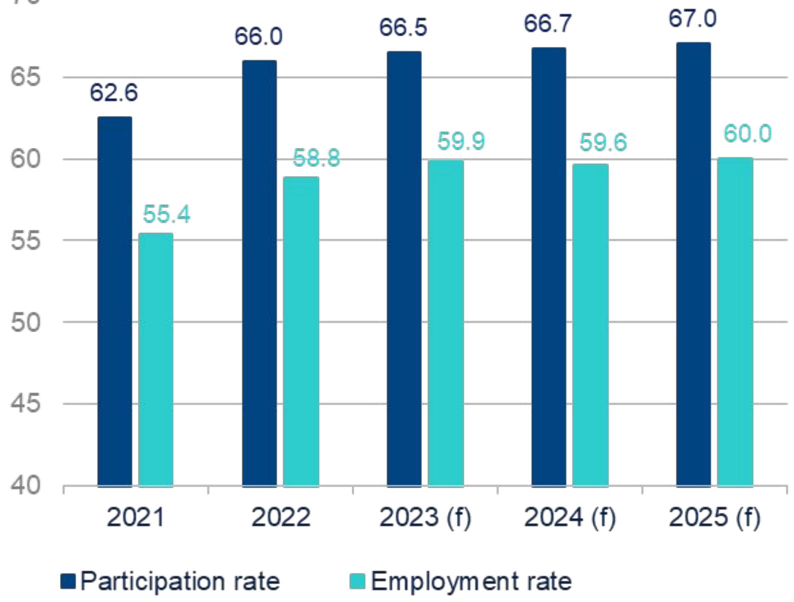
- Based on the expected dynamics in activity, employment will continue to be driven by the services sector (especially social services and the public sector), professional activities and, from the second half of 2024, jobs in industry and commerce.
- In 2025, private services (restaurants, tourism and entertainment) and strong levels of public spending will drive employment.
- Formal employment will tend to worsen over the coming years.

The unemployment rate will increase due to low levels of job creation and an increase in job seekers, traditional behaviour during economic slowdowns

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



URBAN PARTICIPATION AND OCCUPANCY RATES
(% OF POP. OF WORKING AGE, DECEMBER OF EACH YEAR)



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

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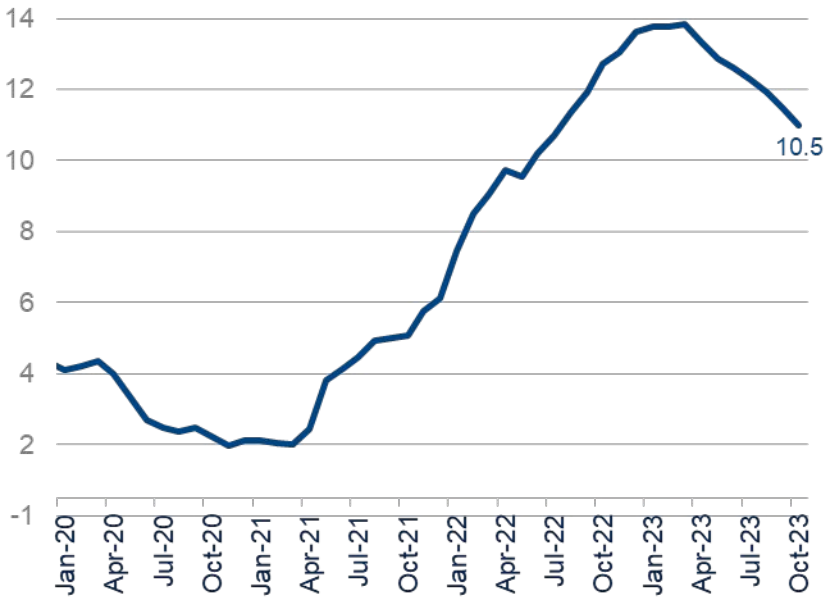
04

Inflation and monetary policy rate

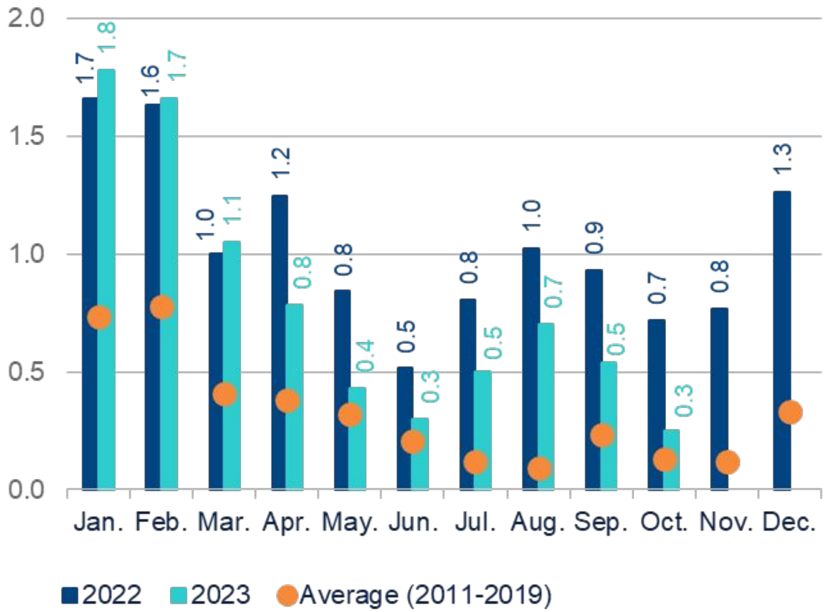
The expected reduction in inflation and the economic slowdown will allow the central bank to reduce interest rates, especially in 2024.

Inflation continues to moderate, but still remains high, with above-average monthly inflation rates

HEADLINE INFLATION
(ANNUAL CHANGE, %)



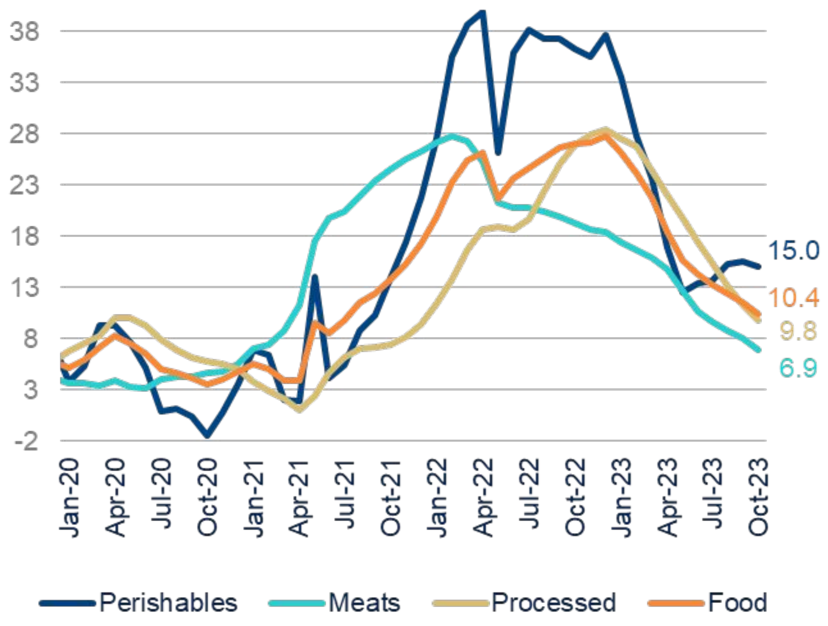
HEADLINE INFLATION
(MONTHLY CHANGE, %)



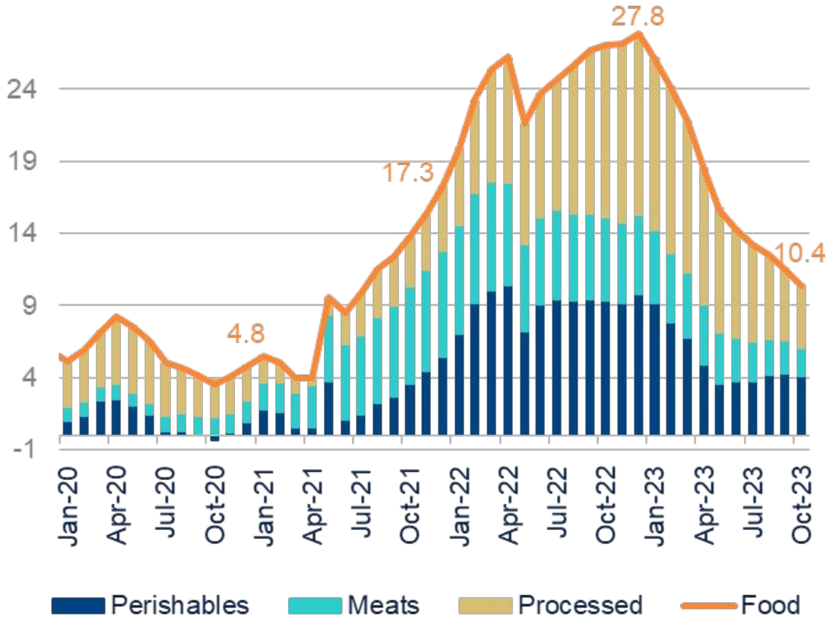
Source: BBVA Research, with DANE data.

Food inflation has slowed at a significant pace in the last year, largely due to perishables, but prices remain high

FOOD INFLATION BY COMPONENTS
(ANNUAL CHANGE, %)



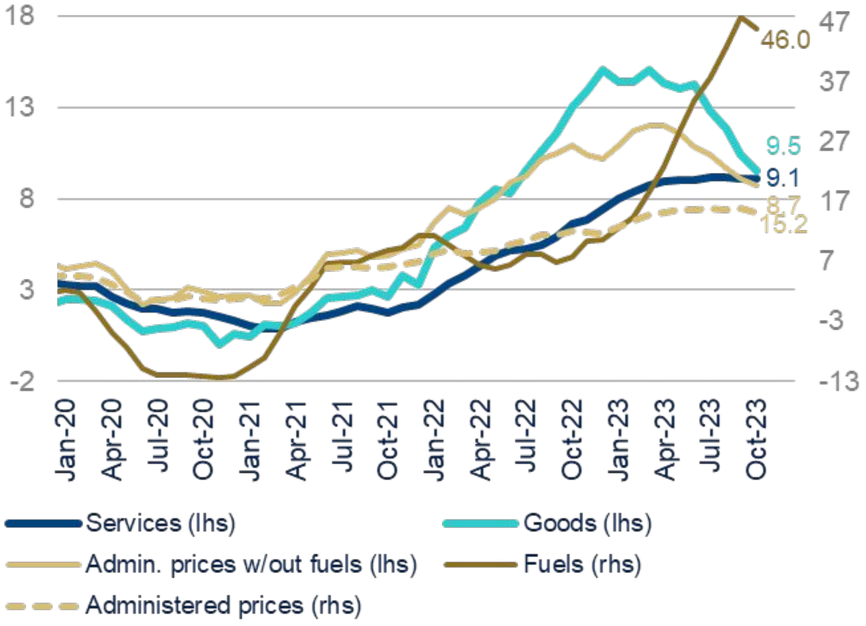
FOOD INFLATION BY COMPONENTS
(ANNUAL CONTRIBUTION TO FOOD INFLATION, %)



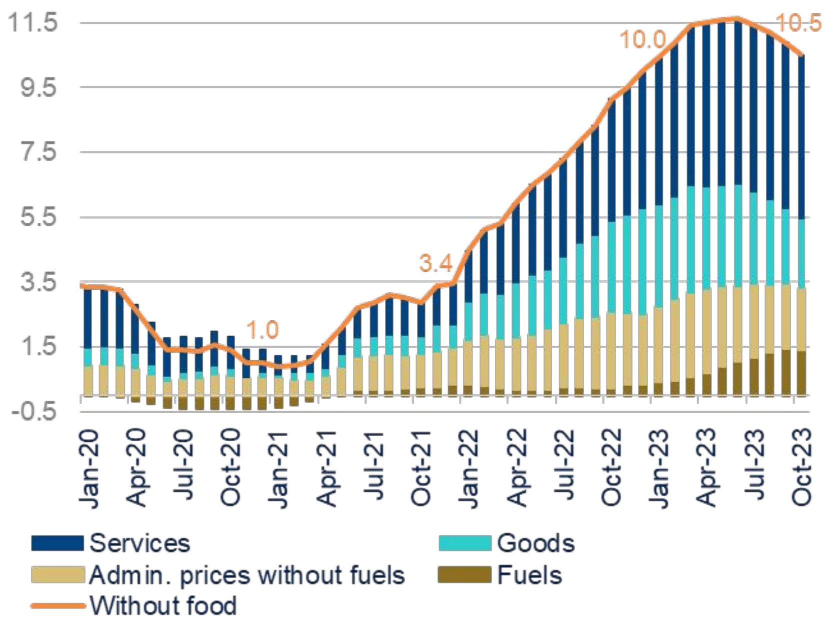
Source: BBVA Research, with DANE data.

Non-food inflation eases, although at a slower pace. Goods and administered prices excluding fuels support the moderation

NON-FOOD INFLATION BY COMPONENTS
(ANNUAL CHANGE, %)



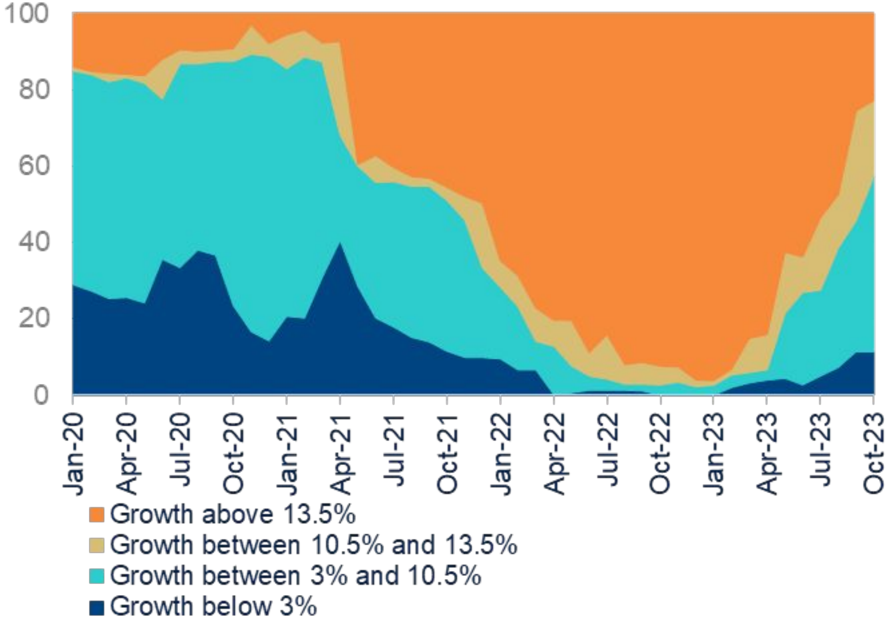
NON-FOOD INFLATION BY COMPONENTS
(ANNUAL CONTRIBUTION TO NON-FOOD INFLATION, %)



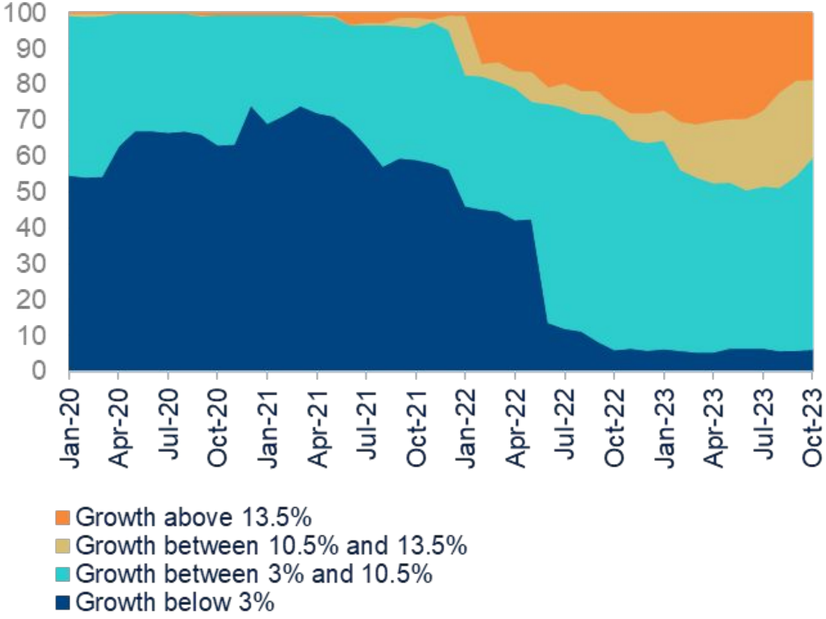
Source: BBVA Research, with DANE data.

The inflationary shock in food items has been more widespread and has been diluted more rapidly than in non-food

FOOD INFLATION BY GROWTH THRESHOLDS
(SHARE, %)



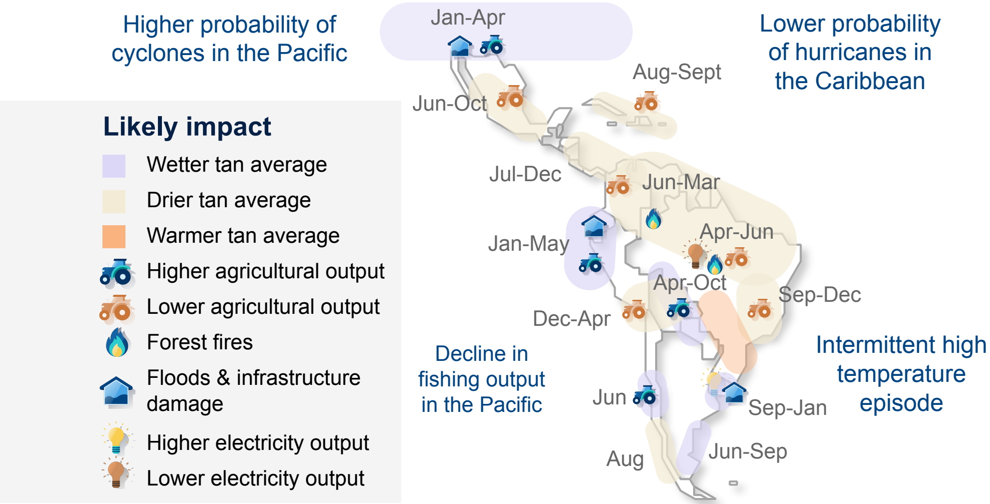
NON-FOOD INFLATION BY GROWTH THRESHOLDS
(SHARE, %)



Source: BBVA Research, with DANE data.

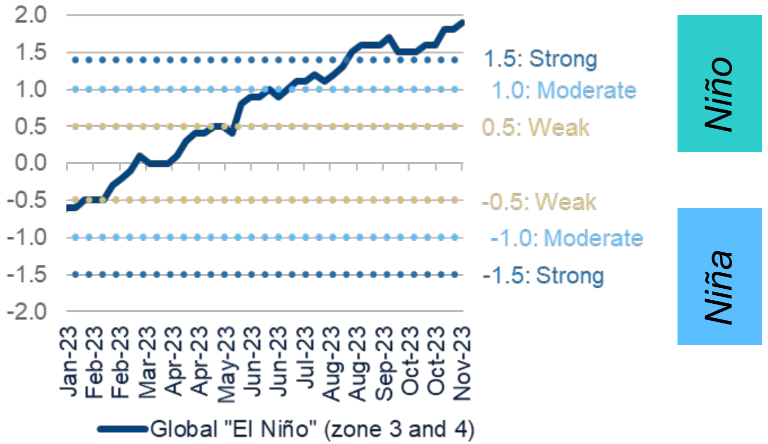
The “El Niño” phenomenon, already in place, will have its strongest impact in Colombia in the start of 2024 and will extend until 2Q24

EFFECTS OF THE “EL NIÑO” PHENOMENON
(DETAILS OF THE IMPACT BY DIFFERENT CATEGORIES AND ZONES)



Source: National meteorological agencies; international Research institute for Climate and Society; United Nations Environment Programme/GRID-Arendal; World Metereological Organization; Oceana; Infobase; La Nación (Argentina); 2000 Argo (Argentina); Meteored (Chile); Bio Bio Chile; Ministerio de Agricultura (Colombia);EIU.

TEMPERATURE DEVIATION IN THE PACIFIC OCEAN
(CENTIGRADE DEGREES)

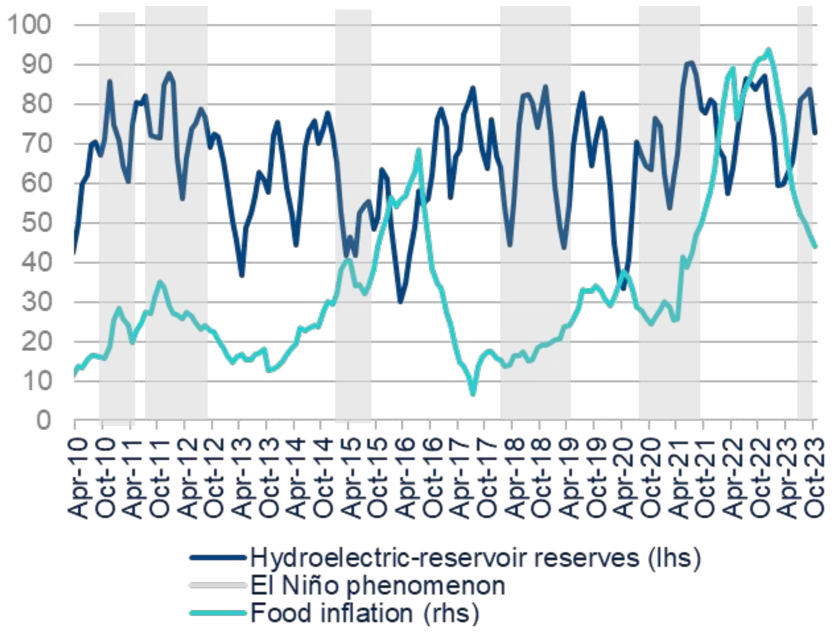


Fuente: BBVA Research con datos de la NOAA

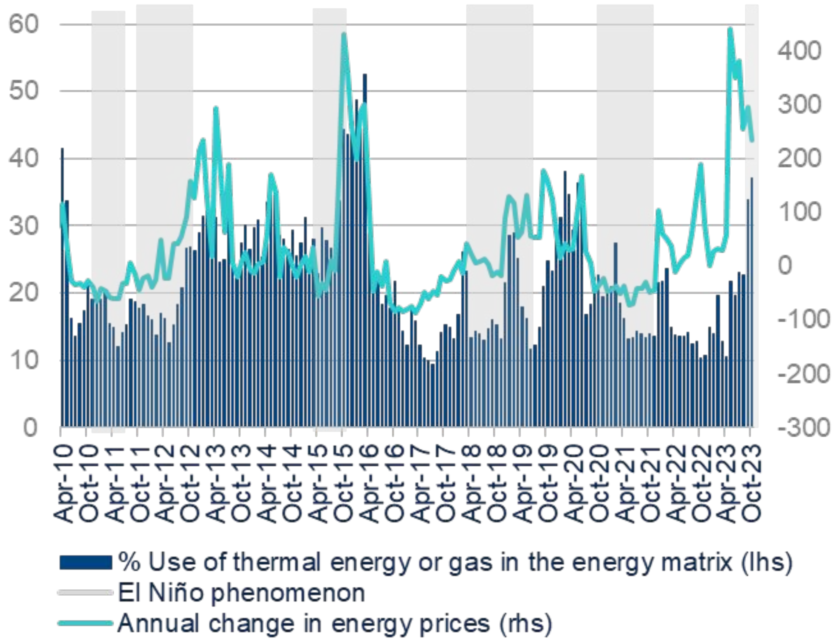
The NOAA measures the temperature anomaly in the Pacific Ocean in the range consistent with a strong “El Niño” phenomenon. Nevertheless, current climate conditions point, for the moment, to a phenomenon of moderate intensity in Colombia.

The effects of the phenomenon will be seen not only in the food basket, but also in the non-food basket through energy and restaurant expenditure

FOOD INFLATION AND LEVEL OF WATER RESERVES
(SHARE AND ANNUAL CHANGE, %)



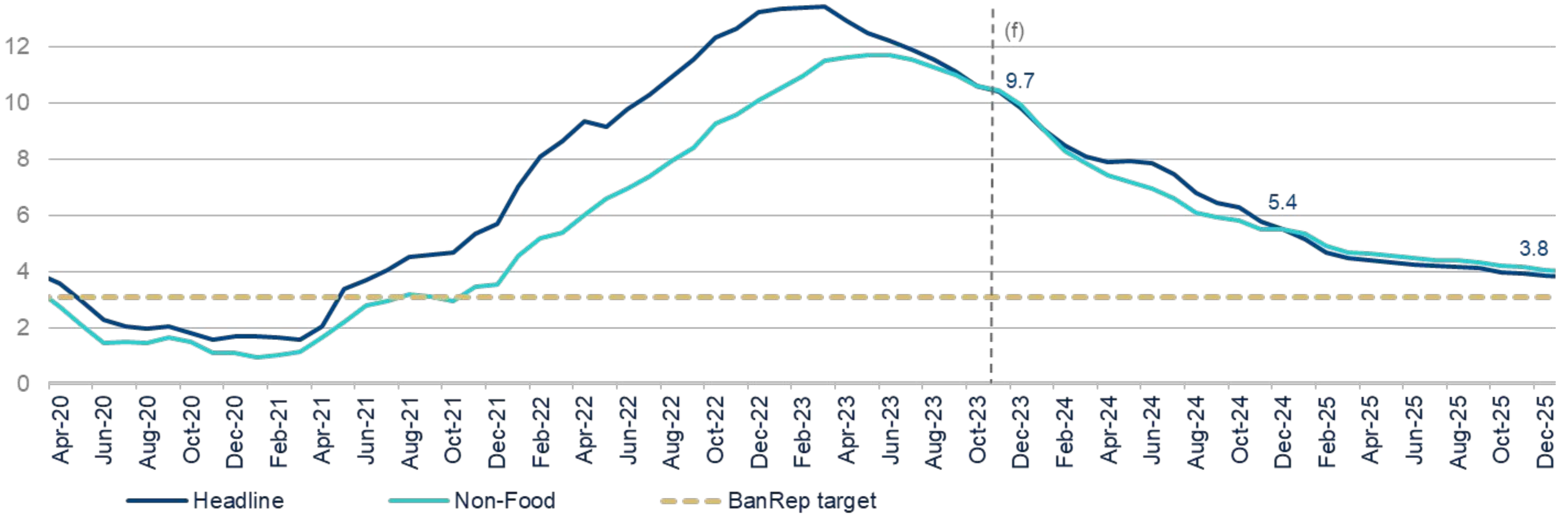
ENERGY PRICES AND USE OF THERMAL ENERGY
(SHARE IN AND ANNUAL CHANGE, %)



Source: BBVA Research h, with data from DANE, XM and NOAA

Inflation is expected to end 2024 at 5.4% and 2025 at 3.8%. The consensus view among analysts is that inflation will be close to the target range in 2025

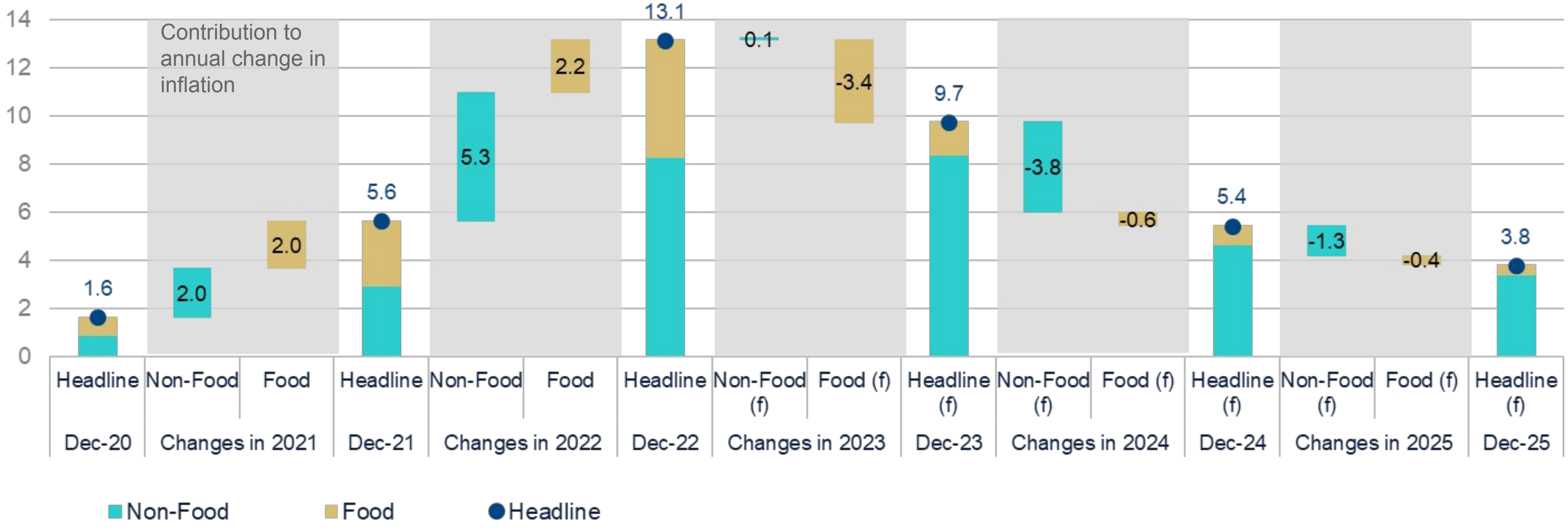
INFLATION: TOTAL AND NON-FOOD
(ANNUAL CHANGE, %)



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

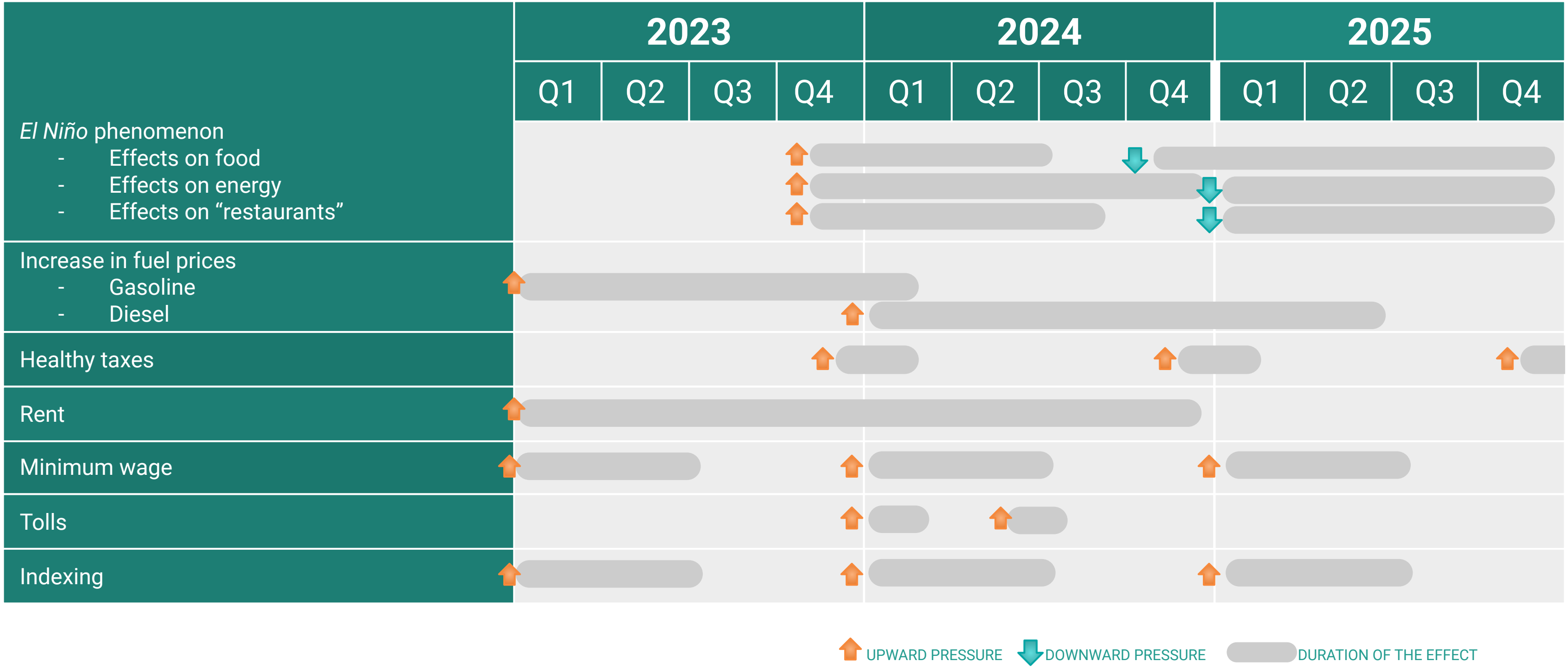
Inflation in 2023 retreated mainly due to the food basket and it will continue to fall in 2024 and 2025, though largely in relation to the non-food basket

HEADLINE INFLATION AND FOOD AND NON-FOOD CONTRIBUTIONS
(CHANGE AND CONTRIBUTION TO THE ANNUAL CHANGE, %)



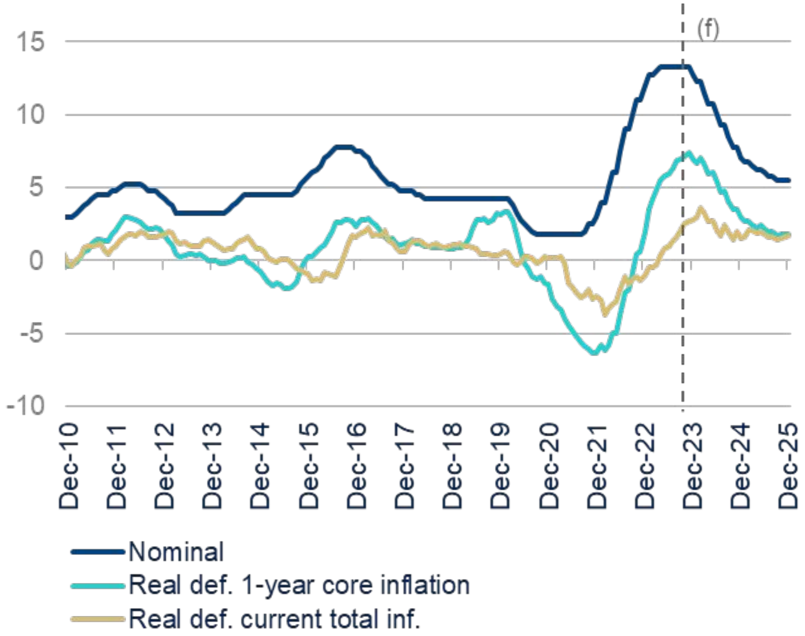
(f): BBVA Research forecasts.
Source: BBVA Research, with DANE data.

Over the next two years, several unique events will affect inflation and should therefore be watched closely



The Central Bank will start lowering interest rates in December 2023 and will bring them to their terminal level by mid 2025

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



(f): BBVA Research forecasts.
Source: BBVA Research with Bank of the Republic data.

- With a weaker domestic demand balance and inflation steadily retreating, the Central Bank will begin its cycle of rate cuts in December 2023 and bring rates to their terminal (nominal long-term) level in mid-2025
- However, there is some uncertainty over where that terminal level will be:
  - With the strong external inflationary cycle, analysts are evaluating if **the long-term rate in the United States** States may be slightly higher than in the past.
  - Various **risk premium** metrics have shown a deterioration in recent years that could exert upward pressure on the long-term rate in Colombia.
  - The **lower national saving rate** may lead to a higher long-term opportunity cost of resources.

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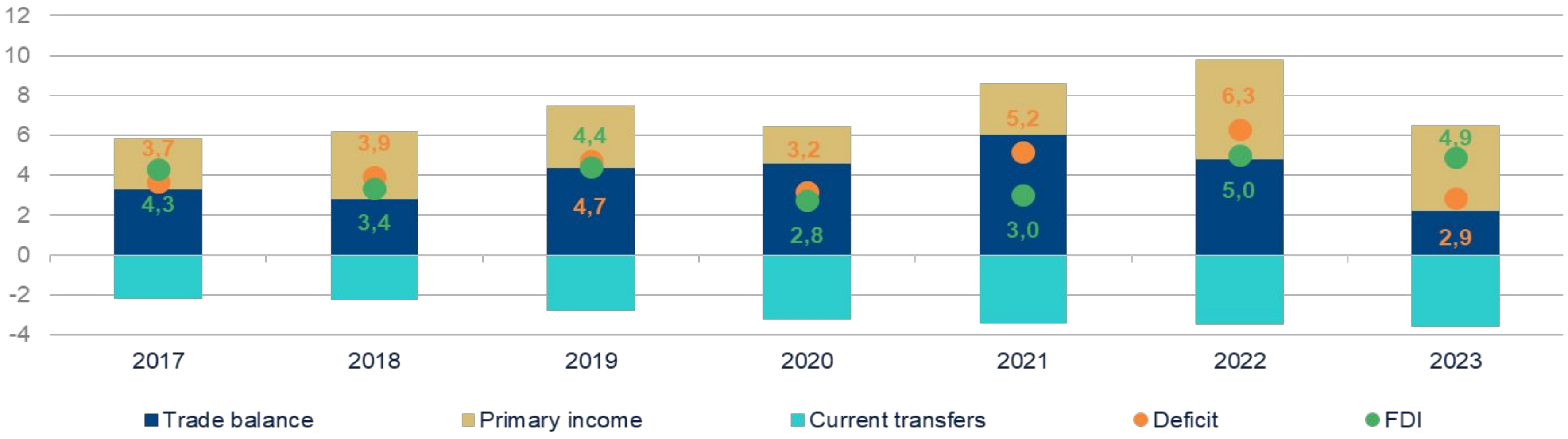
05

Structural balances and exchange rate

The country’s structural deficits will remain high in 2024 and 2025. The external deficit due to the recovery in domestic demand, and the fiscal deficit due to consistently high public expenditure. This will ultimately exert downward pressure on the exchange rate.

As of September, the current account deficit narrowed to 2.9% of GDP, explained by a lower trade deficit from 4.8% in 2022 to 2.3% of GDP in 2023.

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

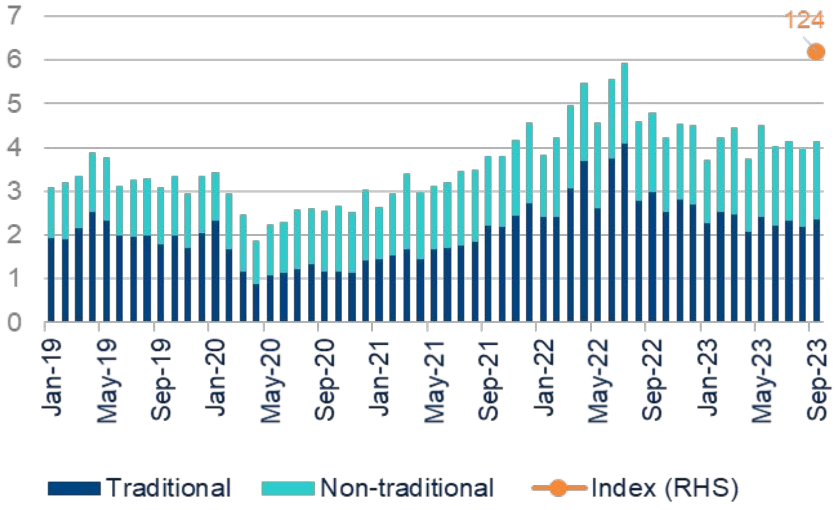


Source: BBVA Research, with Bank of the Republic data.

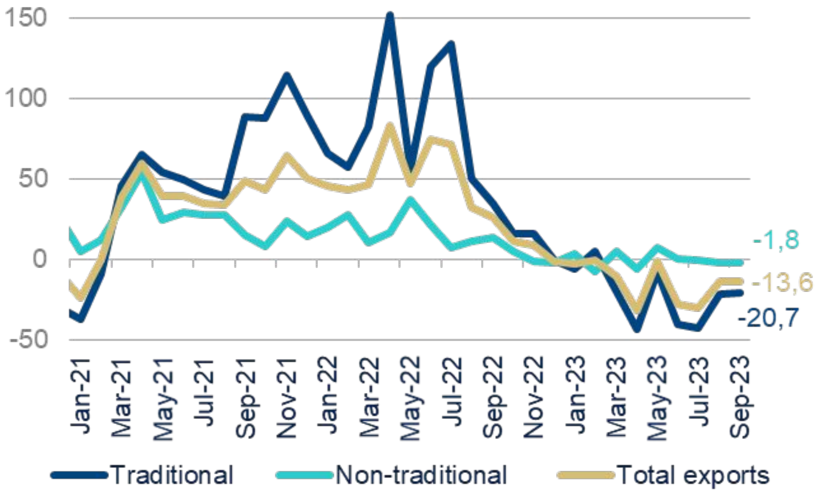
FDI decreased 1.5% annually due to a base effect in 2022, and financed 170% of the deficit (vs. 79% in the same period of 2022).

Exports continue to slow compared to 2022

EXPORTS BY TYPE (BILLIONS OF DOLLARS FOB, INDEX DEC 2019 = 100)



EXPORTS BY TYPE (ANNUAL CHANGE, %)



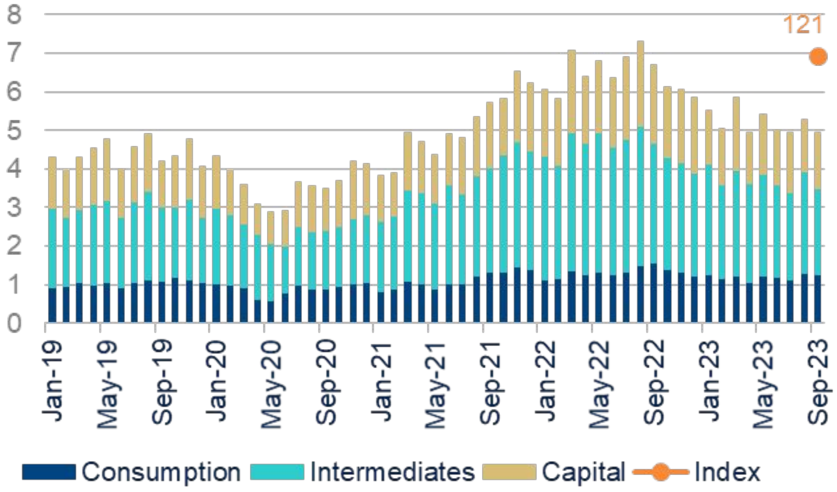
Source: BBVA Research, with Bank of the Republic data.

The slowdown from high levels has affected both non-traditional and traditional exports, the latter having slowed more sharply due to lower international prices.

Imports have responded to the slowdown in domestic demand across all types of goods, thus reducing pressure on the trade deficit

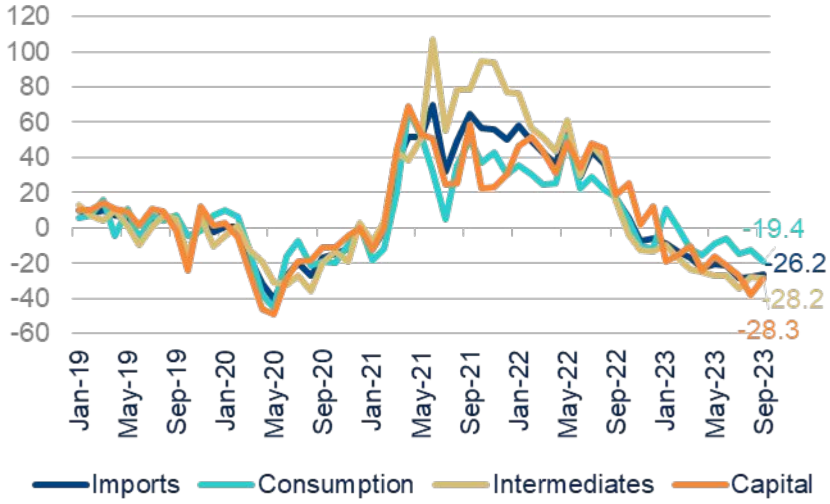
IMPORTS BY TYPE

(BILLIONS OF DOLLARS FOB, INDEX DEC 2019 = 100)



IMPORTS BY TYPE

(ANNUAL CHANGE, %)

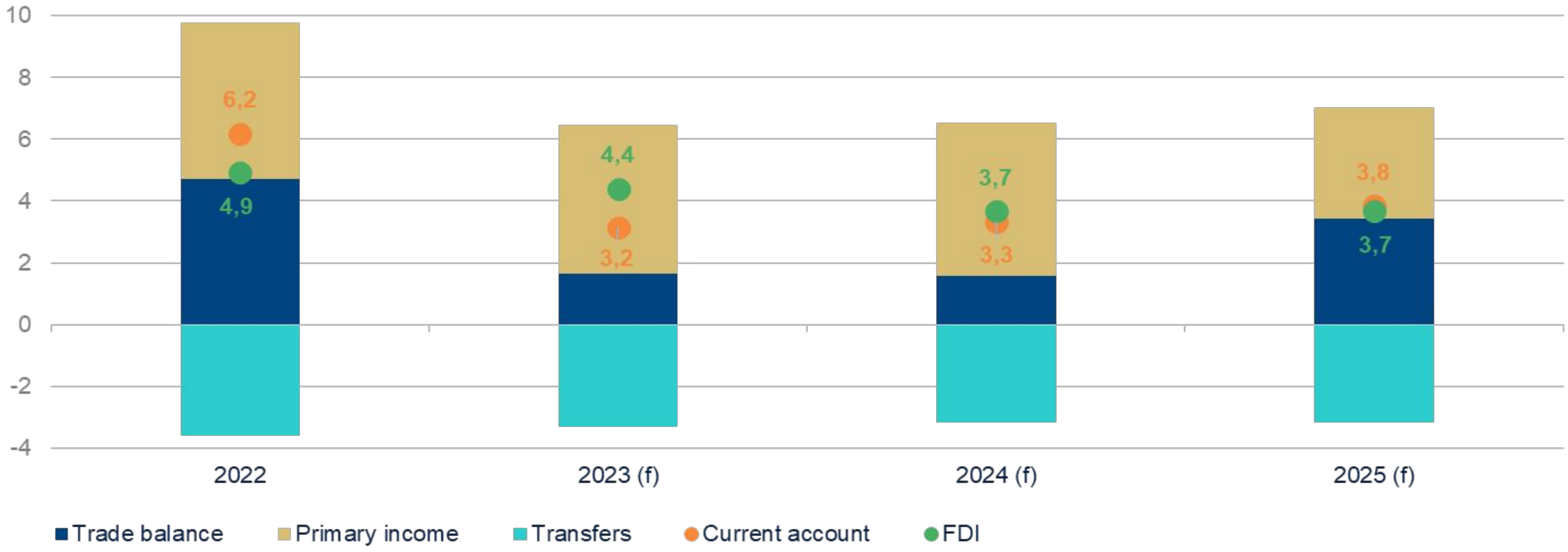


Source: BBVA Research, with Bank of the Republic data.

On the net, despite the moderation in exports, the sharp decrease in imports will reduce the trade deficit, which in turn will lead to an adjustment in the current account deficit.

In 2024, the current account deficit will be under upward pressure from a higher trade deficit, and will be financed mainly by FDI.

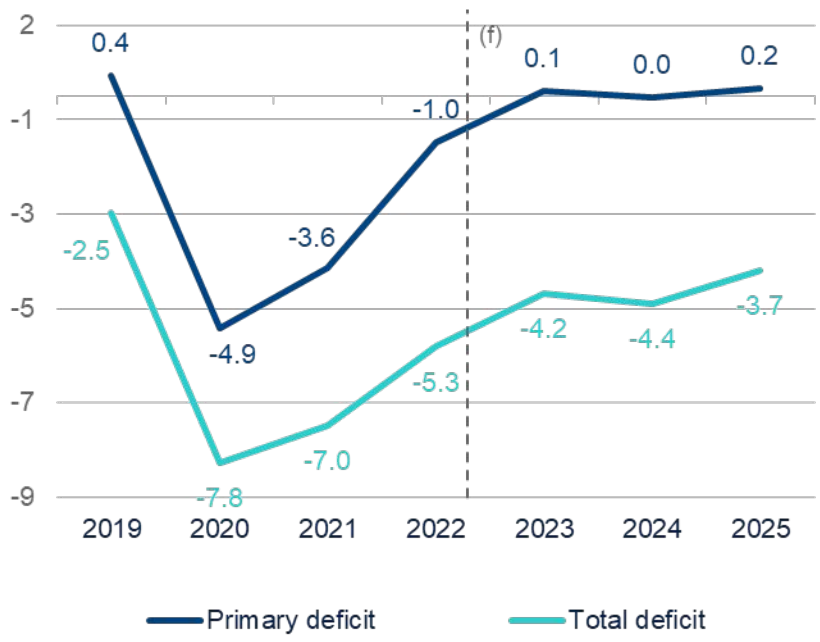
CURRENT ACCOUNT DEFICIT AND FOREIGN DIRECT INVESTMENT (FDI)
(% OF GDP)



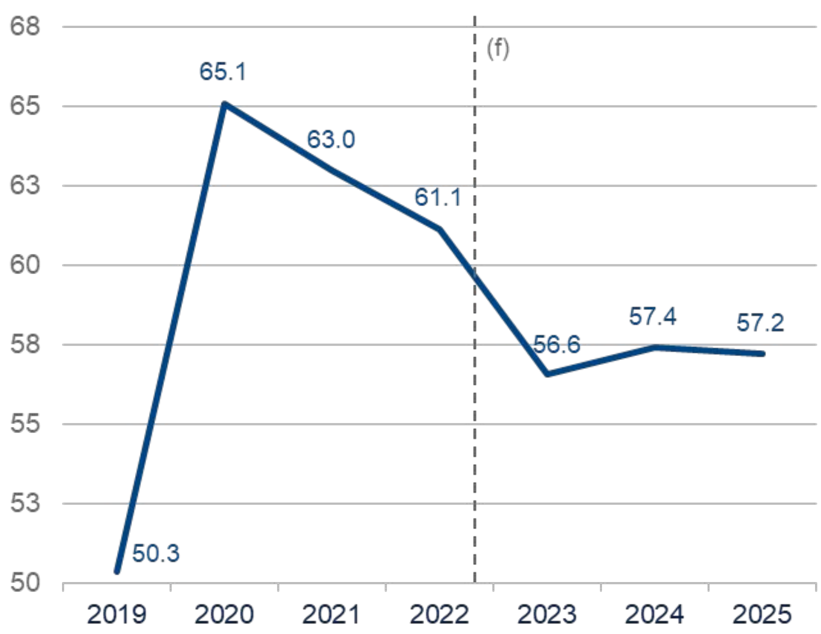
(f): BBVA Research forecasts.
Source: BBVA Research, with Bank of the Republic data.

The fiscal deficit will remain high despite the increase in revenues, in compliance with the fiscal rule. Debt will stabilize at high levels

CENTRAL NATIONAL GOVERNMENT FISCAL DEFICIT
(% OF GDP)



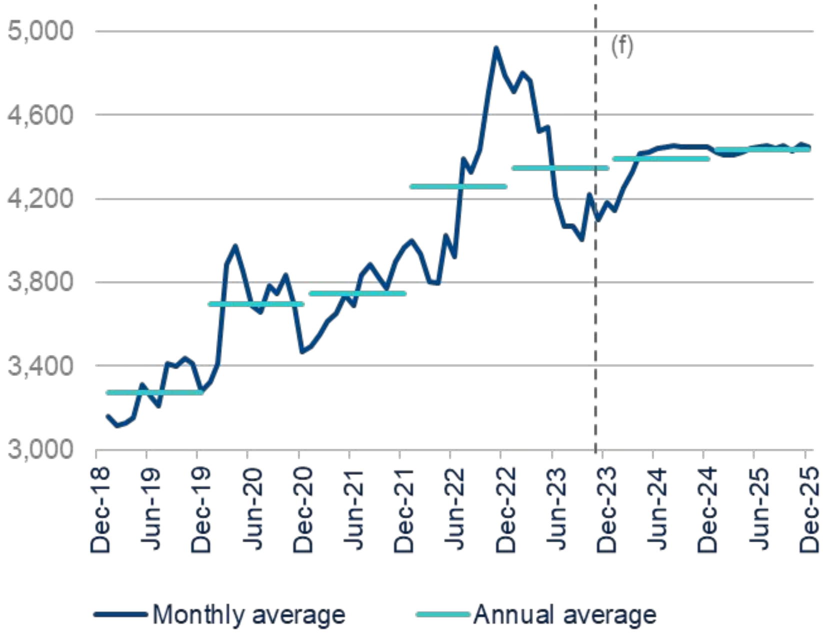
CENTRAL NATIONAL GOVERNMENT GROSS DEBT
(% OF GDP)



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

The exchange rate continues to experience high volatility. We expect it to remain weak in the medium term

EXCHANGE RATE
(COLOMBIAN PESOS PER DOLLAR)



(f): BBVA Research forecasts.
Source: BBVA Research, with Bank of the Republic data.

- Volatility in the Colombian peso has been especially high.
- Its performance has been closely linked to foreign monetary policy expectations.
- Its medium-term trend will continue to be steered by structural factors such as a high external and fiscal imbalance and an interest rate differential with the Fed that will narrow significantly, especially in early 2024.

	Period average		End of period	
	Level	Dev.	Level	Dev.
2022	4,256	13.7	4,788	20.7
2023 (f)	4,350	2.2	4,180	-12.7
2024 (f)	4,390	0.9	4,450	6.5
2025 (f)	4,438	1.1	4,450	0.0

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06

Forecast tables

Macroeconomic forecast

	2020	2021	2022	2023 (f)	2024 (f)	2025 (f)
GDP (% y/y)	–7.3	11.0	7.3	1.2	1.5	2.3
Private consumption (% y/y)	-4.9	14.5	9.5	1.0	2.2	3.0
Public consumption (% y/y)	-0.8	9.8	0.3	4.0	4.5	3.5
Fixed investment (% y/y)	-24,0	17.3	11.4	-10.0	-2.0	6.2
Inflation (% y/y. eop)	1.6	5.6	13.1	9.7	5.4	3.8
Inflation (% y/y. avg)	2.5	3.5	10.2	11.8	7.2	4.2
Exchange rate (eop)	3,469	3,968	4,788	4,180	4,450	4,450
Devaluation (%. eop)	5.9	14.4	20.7	-12.7	6.5	0.0
Exchange rate (avg)	3,693	3,744	4,256	4,350	4,390	4,438
Devaluation (%. eop)	12.9	1.4	13.7	2.2	0.9	1.1
Interest policy rate (%. eop)	1.75	3.00	12.00	12.75	7.00	5.50
Fixed Term Deposit rate (%. eop)	-3.4	-5.7	-6.2	-3.2	-3.3	-3.8
Urban unemployment rate (%, eop)	15.9	11.4	10.8	9.9	10.7	10.5

(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 22	8.2	8.5	3,806	5.00
Q2 22	12.3	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	13.3	4,761	13.00
Q2 23	0.4	12.1	4,214	13.25
Q3 23	-0.3	11.0	4,008	13.25
Q4 23	1.8	9.7	4,180	12.75
Q1 24	-0.4	8.0	4,325	11.50
Q2 24	1.6	7.7	4,440	10.00
Q3 24	1.8	6.4	4,450	8.50
Q4 24	2.8	5.4	4,450	7.00
Q1 25	3.5	4.4	4,410	6.50
Q2 25	2.6	4.2	4,450	6.00
Q3 25	2.3	4.0	4,454	5.50
Q4 25	1.1	3.8	4,450	5.50

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

Disclaimer

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Colombia Economic Outlook

December 2023

Creating Opportunities