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Colombia Economic Outlook

March 2024

Creating Opportunities

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01

Global economic outlook and financial markets

The monetary policy continues to contain global growth, though the policy stance will change and start to support growth at the end of 2024 and 2025.

Main messages

Recent developments

Tight monetary conditions have hit the manufacturing sector, but services remain resilient, mainly in the US. The latter has prevented a faster disinflation, which together with geopolitical risks, have kept central banks cautious. Markets have scaled back aggressive monetary easing expectations, but financial volatility remains limited.

Inflation and rates outlook

Inflation is expected to slow further moving ahead, as service pressures are likely to subside, assuming no new supply shocks emerge. That would set the conditions for the Fed and the ECB to gradually cut rates from the middle of this year onwards.

Growth outlook

Growth is likely to lose steam, although not as much as expected, in the US, and to remain relatively weak in the Eurozone and China over the next few quarters. Some recovery is forecast from the second half of the year, driven by lower inflation and lower interest rates, but not in China, where structural deceleration factors are expected to prevail. Still, the Eurozone recovery will likely be weaker than anticipated.

Structural factors

Geopolitics will significantly influence future economic dynamics, molding policies and global conflicts. It will potentially increase uncertainty and trigger supply shocks. Combined with other factors, such as demographics and fiscal policy, these shocks will pressure inflation, compelling central banks to keep policy interest rates above pre-COVID levels.

Supply normalization and (surprisingly slow) demand weakening amid high interest rates have triggered an (incomplete) easing of growth and inflation

Main scenario drivers

Waning supply shocks: easing of commodity prices and bottlenecks, despite geopolitical tensions

Demand moderation, on monetary tightness, but backed by fiscal policy and labor markets

Recent macro trends

Declining inflation, which is still above targets, mostly on service pressures

Growth soft-landing: manufacturing weakness, but resilience services

Central banks and financial markets

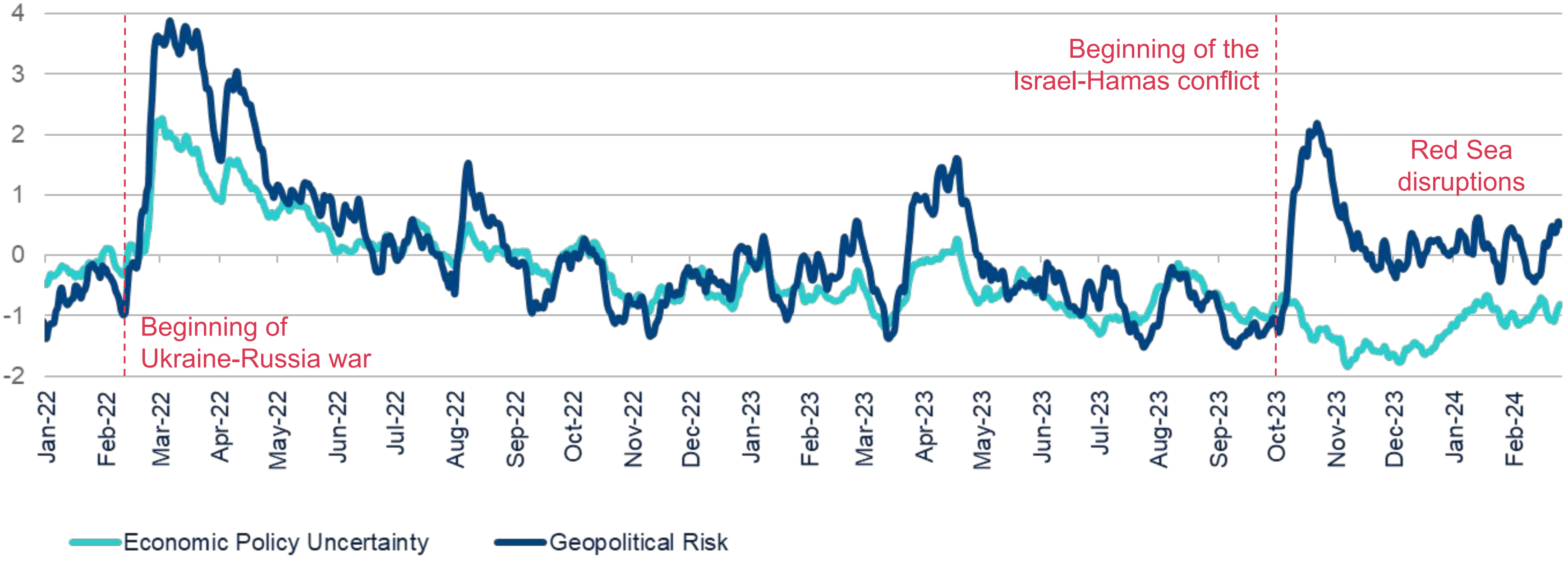
Rate-hiking cycles seem over; focus on timing and speed of coming easing cycles

Limited financial volatility, despite the scaling back of sharp monetary easing expectations

The geopolitical context continues to be a source of concern; the conflict in the Middle-East has escalated somewhat, with limited economic effects so far

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

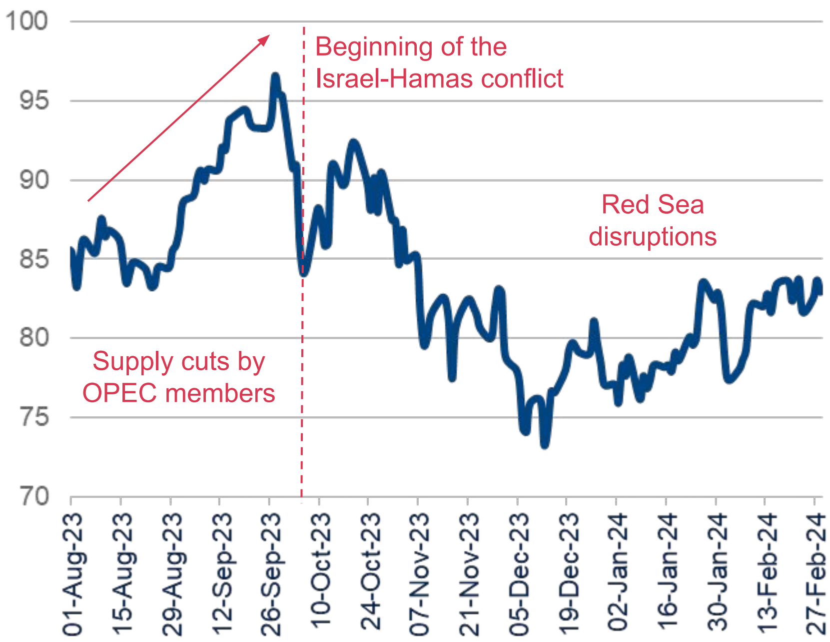
(INDEXES: AVERAGE SINCE 2019 EQUALS TO 0, 28-DAY MOVING AVERAGE)



(*): G3 regions: U.S., Eurozone and China.
Source: BBVA Research Geopolitics Monitor.

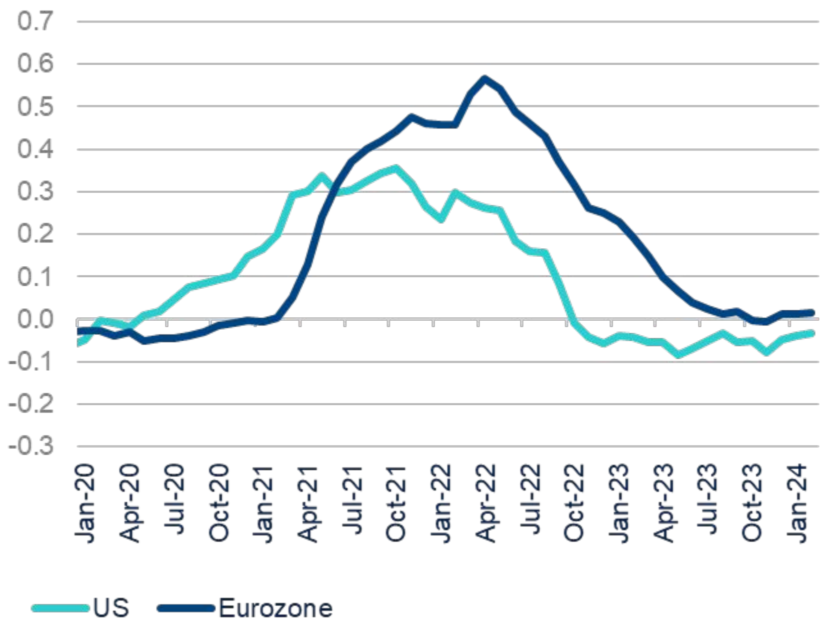
Despite geopolitical tensions, including the maritime disturbances in the Red Sea, commodity prices and bottleneck disruptions remain relatively low

BRENT PRICES
(USD PER BARREL)



Source: BBVA Research based on data from Haver.

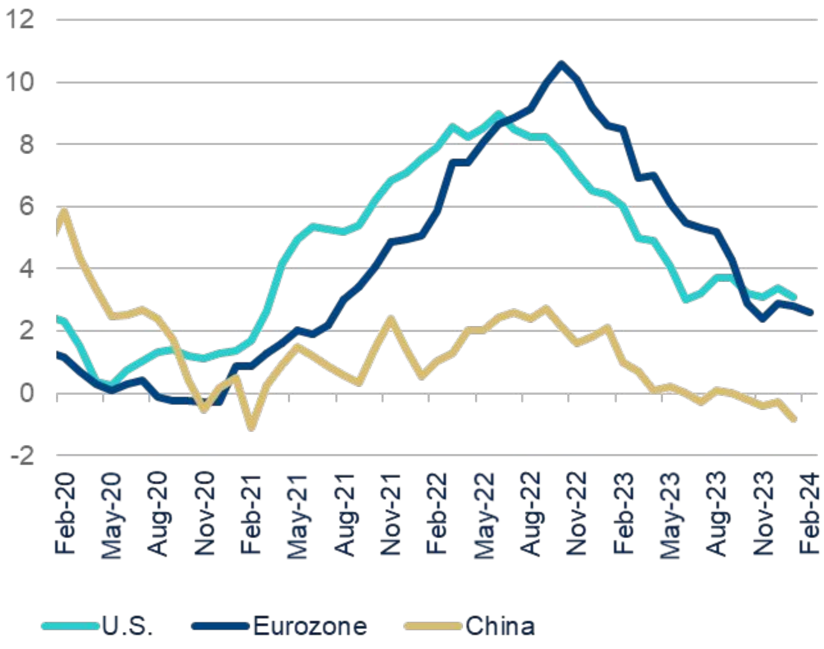
BBVA RESEARCH BOTTLENECKS INDICATOR
(INDEX)



Source: BBVA Research based on data from Haver Analytics.

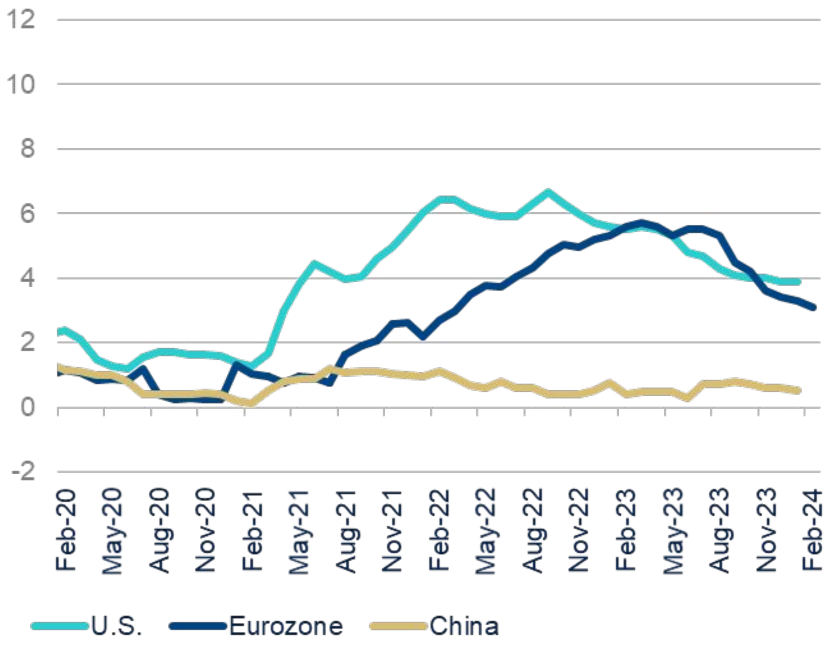
The disinflationary trend has lost some steam in the last few months, amid resilient service inflation; in China, deflation fears remain alive

CPI INFLATION: HEADLINE
(Y/Y %)



Source: BBVA Research based on data from Haver.

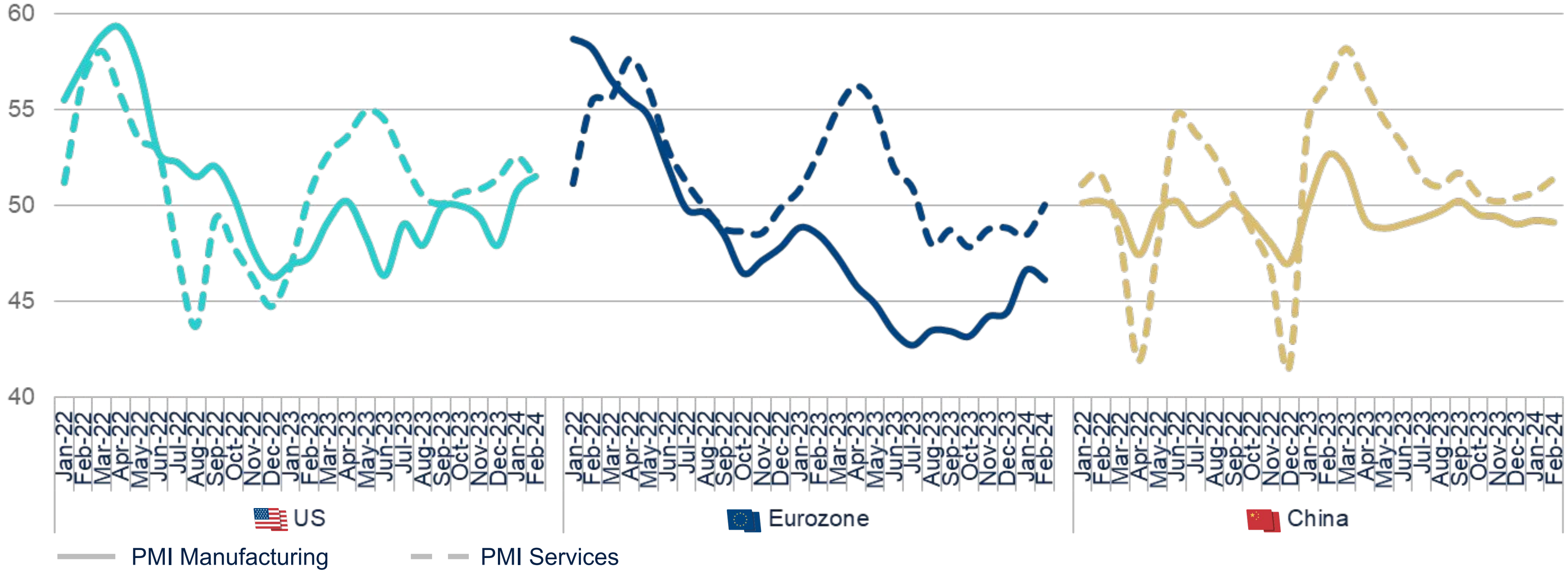
CPI INFLATION: CORE
(Y/Y %)



Source: BBVA Research based on data from Haver.

Growth remains more positive in the US and in the services sector, but after a previous slowdown there are now preliminary recovery signs in other markets

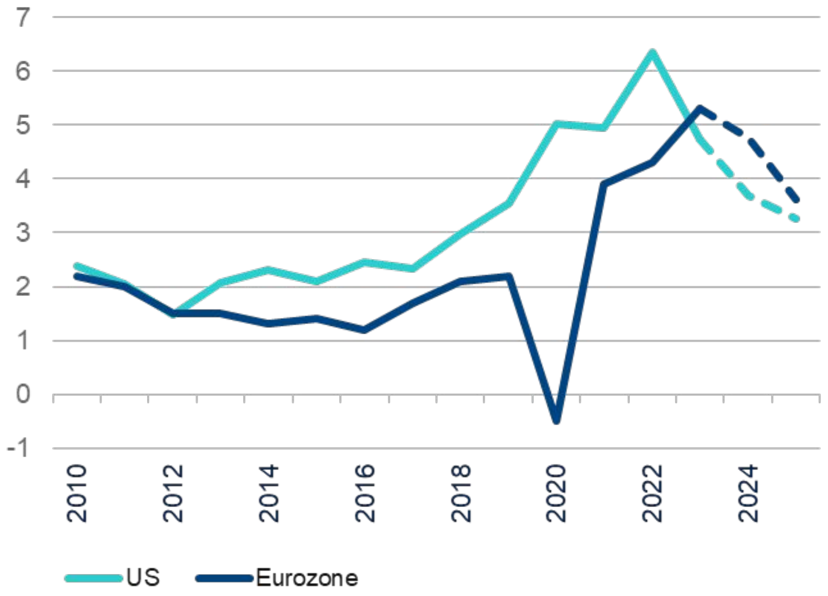
PMI INDICATORS
(MORE THAN 50: EXPANSION; LESS THAN 50: CONTRACTION)



Source: BBVA Research based on data from Haver.

Tight labor markets, fiscal policy and excess savings are still supporting growth, partially offsetting the contractionary impact of monetary policy

NOMINAL WAGES: ANNUAL GROWTH (*)
(%)

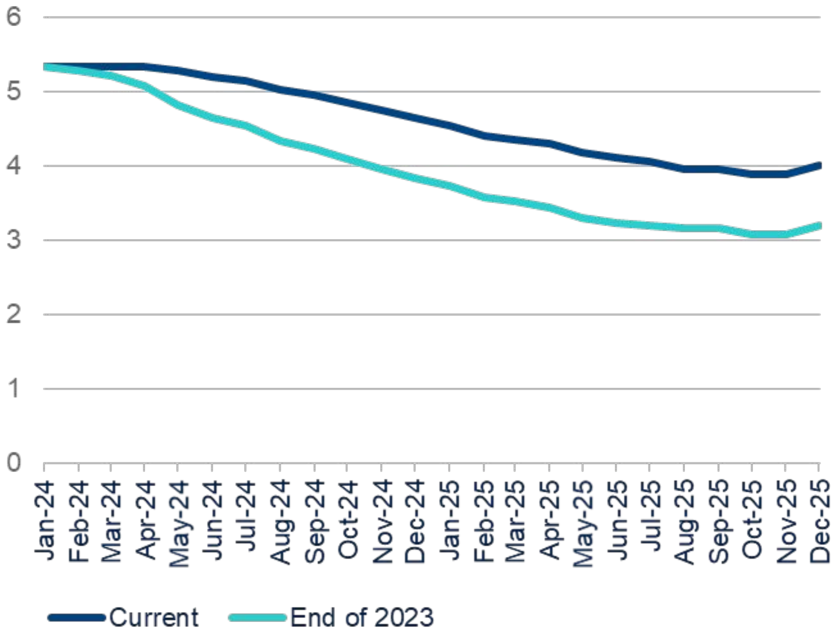


(*) 2024 and 2025 figures: simulated paths consistent with BBVA Research activity and inflation forecasts. US data: average hourly earnings of production and nonsupervisory employees, total private. Eurozone data: compensation per employee
Source: BBVA Research based on data from the BLS and Eurostat.

- Some factors continue backing activity, mainly the services sector, but less than before:
  - labor markets: low unemployment and robust wage growth;
  - fiscal policy: robust spending;
  - excess savings: still supportive, but waning.
- Anyway, monetary tightening has favored a gradual growth slowdown:
  - borrowing costs have increased;
  - bank lending has sharply eased;
  - exchange rate has appreciated (at least in US)
  - inflation expectations have remained broadly anchored (slightly above 2%).

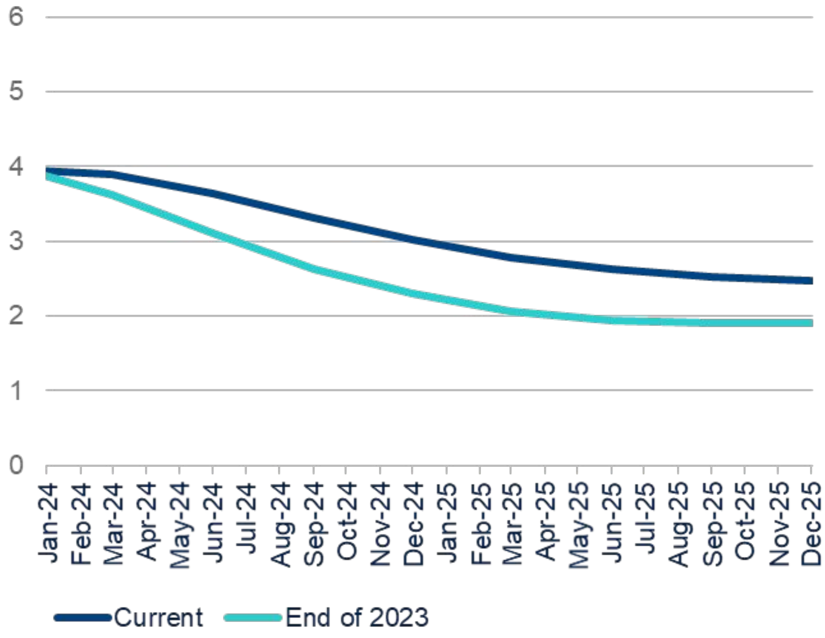
Markets have scaled back their expectations for aggressive easing following the latest macro data and signs of caution from central banks

US: IMPLICIT RATE IN FED FUND FUTURES
(%)



Source: BBVA Research based on Bloomberg.

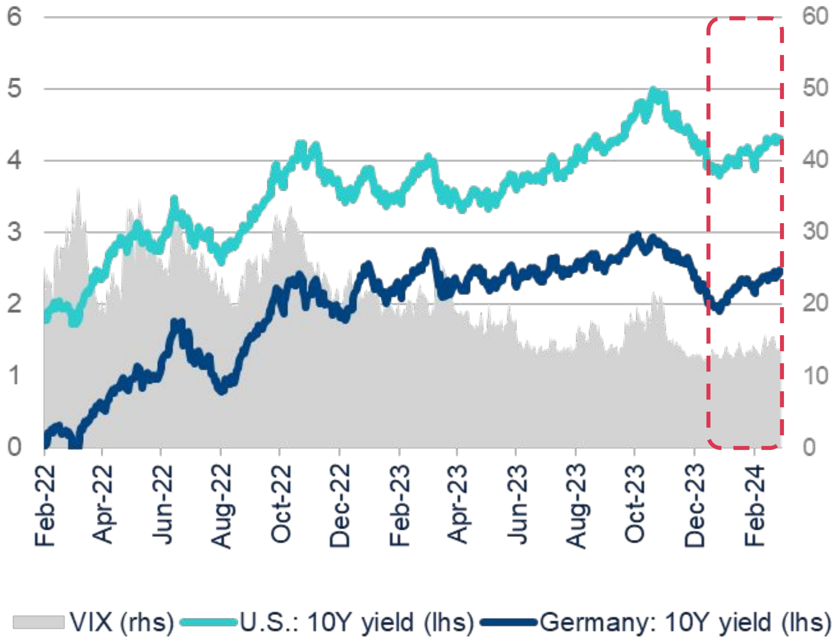
EZ: IMPLICIT RATE IN 3-MONTH EURIBOR FUTURES (*)
(%)



(*) Depo interest rates.
Source: BBVA Research based on Bloomberg.

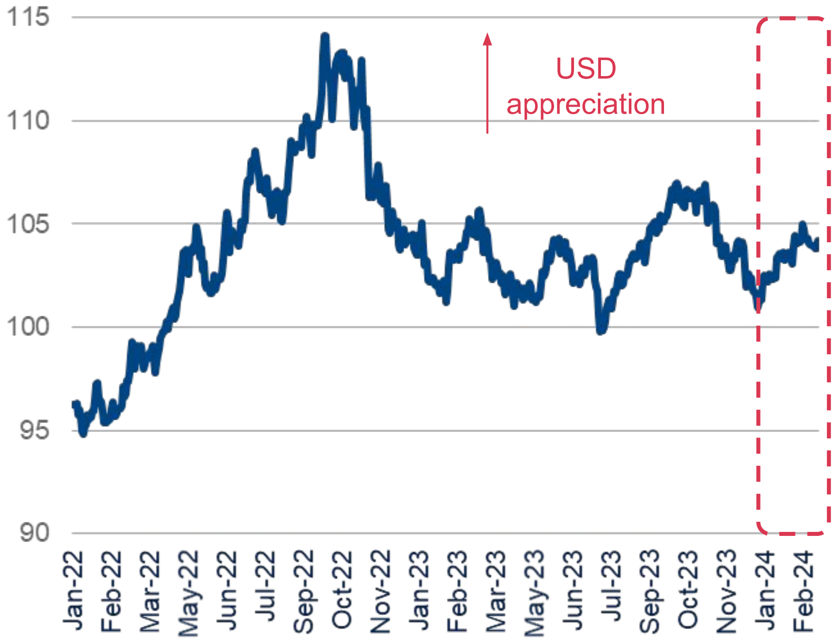
Despite the recent increase in sovereign yields and the USD strength, volatility remains limited on markets soft-landing view

SOVEREIGN YIELDS AND VOLATILITY
(%, INDEX)



Source: BBVA Research based on Bloomberg.

US DOLLAR: DXY
(INDEX)

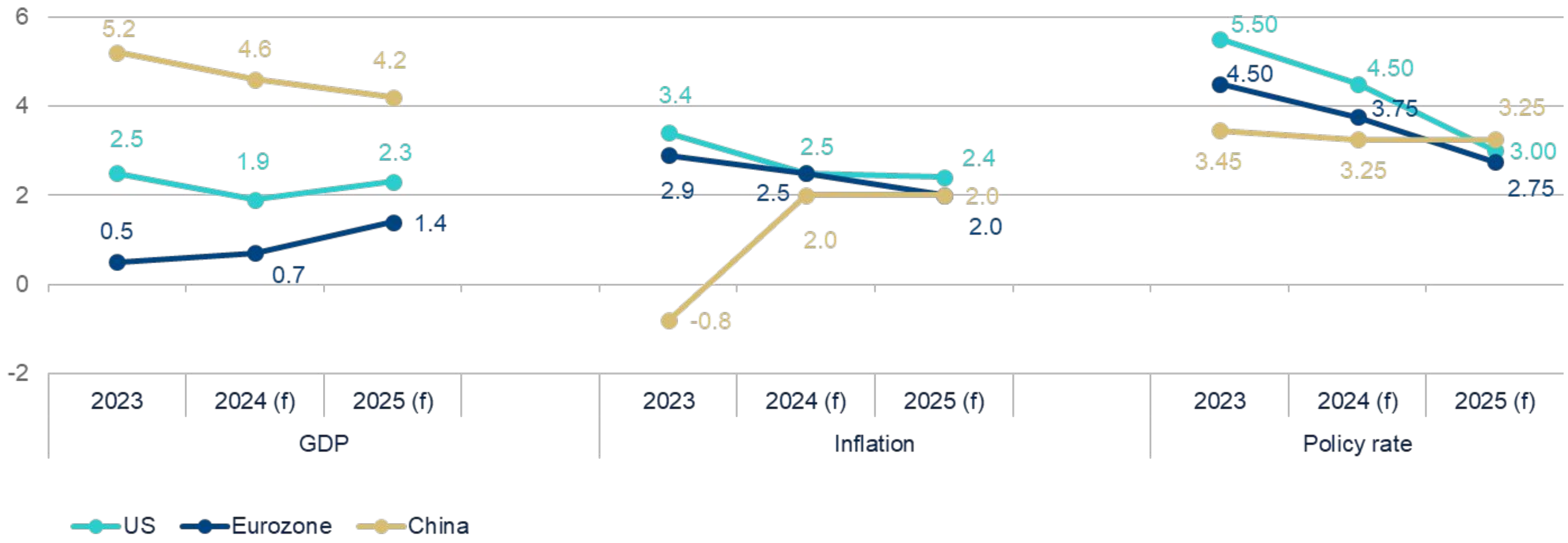


Source: BBVA Research based on Bloomberg.

Global: weak growth will lead to an extra easing of inflation and rate cuts from mid-2024; still, price pressures and interest rates will remain relatively high

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

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

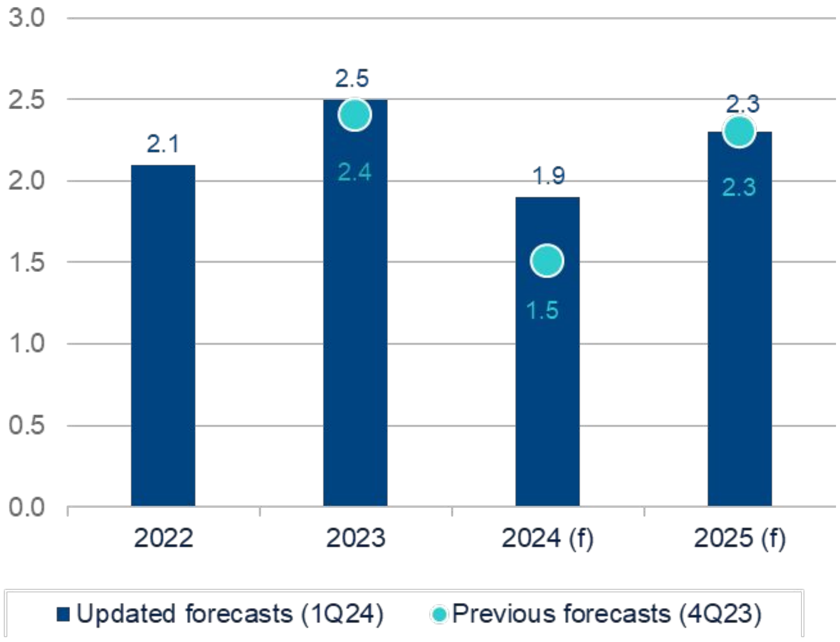


(*) Global GDP growth: 3.1% (+0.1pp in comparison to previous estimation), 3.1% (+0.1pp) in 2024 in 2024 and 3.3% (+0.0) in 2025.
(**) In the case of the Eurozone, interest rates on refinancing operations.
Source: BBVA Research.

U.S.: demand strength supports a higher growth in 2024, but a moderation is still likely ahead, which would allow a cautious Fed to cut rates from mid-year

U.S.: GDP GROWTH

(%)

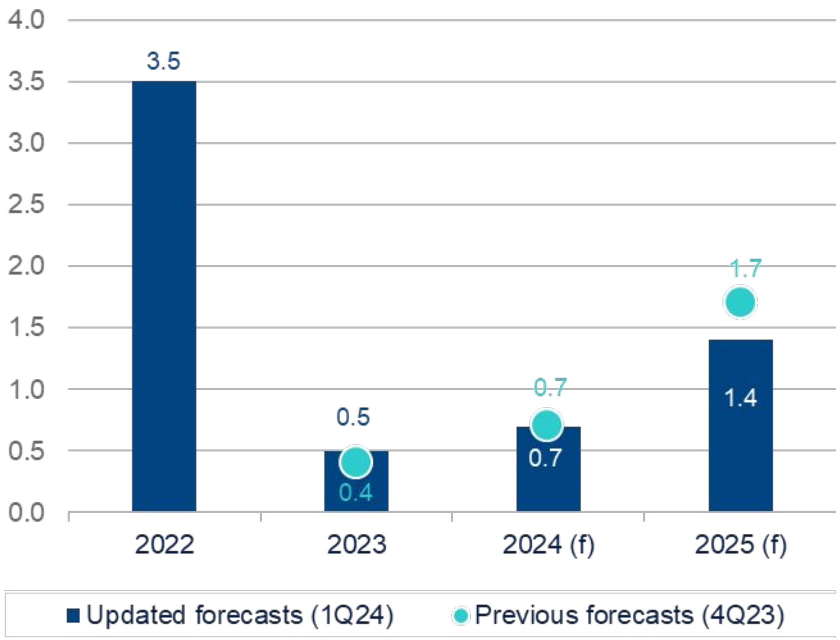


(f): forecast.
Source: BBVA Research.

- Internal demand and service inflation remains resilient, but further easing is likely on excess savings depletion and tight monetary conditions.
- Extra inflation moderation (forecasts remain broadly unchanged) would pave the way for a monetary easing from May/24, which would take rates to 4.50% in Dec/24 and 3.0% in Dec/25, supporting a growth recovery from late this year.
- A growth acceleration that jeopardizes the inflation convergence to 2% and keeps rates higher is possible, but not very likely; anyway, risks are balanced and a sharper decline of growth and inflation is also a possibility.
- Policy rates: 100 bps cuts this year and 150 bps cuts in the next one are expected.
- Risks: presidential elections, recession or financial stress on high rates, expansive fiscal stance.

Eurozone: weak growth and declining inflation favor cautious cuts of ECB policy rates from Jun/24, which would then favor a mild recovery ahead

EUROZONE: GDP GROWTH
(%)

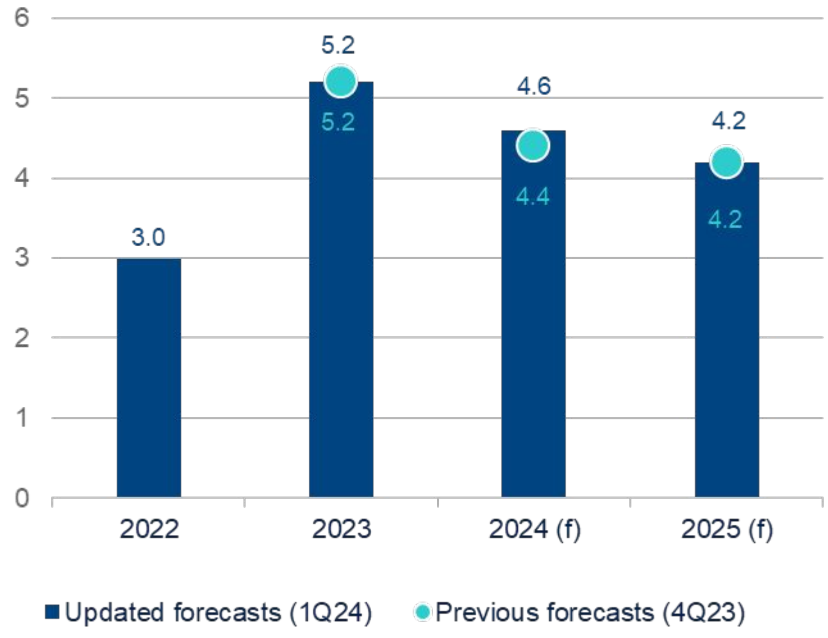


(f): forecast.
Source: BBVA Research.

- Growth: stagnation (no recession) in 2023 and beginning of 2024; cross-country divergence.
- A recovery is likely from mid-year, but 2025 GDP forecast was cut on prospects of larger fiscal consolidation given the new fiscal rules.
- Inflation forecasts revised down on incoming data and lower energy prices, despite service inflation and wage dynamism.
- Policy rates: 75 bps cuts this year and 100 bps cuts in the next one are expected.
- Quantitative tightening will continue, mainly through a reduction of the PEPP portfolio; new operational framework by 2Q24.
- Risks: geopolitical tensions, stagflation and sovereign debt tensions.

China: targeted fiscal, monetary and regulatory policies are likely to sustain growth, but will not prevent a structural slowdown of GDP growth

CHINA: GDP GROWTH
(%)

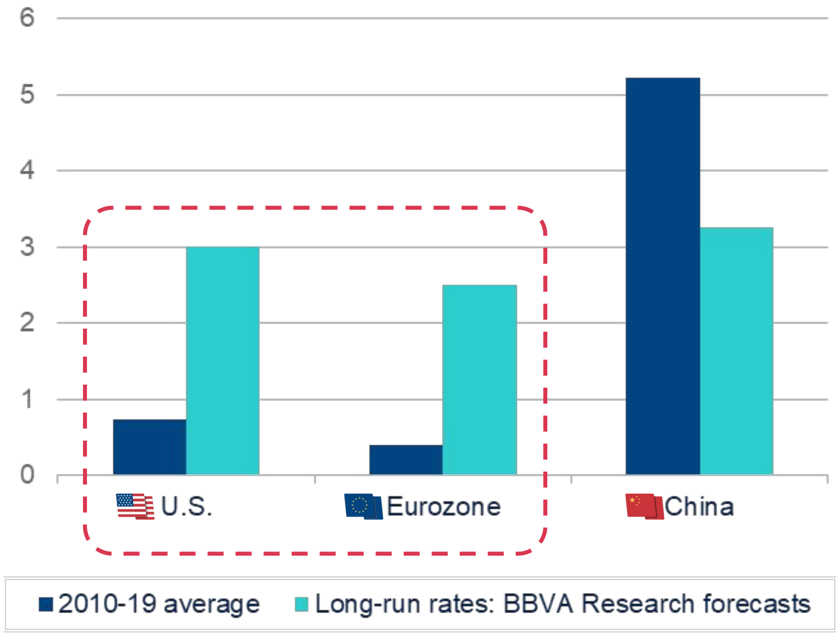


(f): forecast.
Source: BBVA Research.

- Activity, in particular the troubling real estate sector, will be backed by monetary and fiscal measures and some regulatory easing.
- Fiscal policy is expected to remain expansionary and more cuts in reserve requirements and policy rates are likely after the Fed starts reducing rates.
- A structural growth slowdown is likely on real estate problems, local government debt, ageing, US relationship…
- Inflation remains below zero, but is forecast to converge to 2% on supportive policies, pork price normalization, confidence improvement.
- Risks: real estate tensions, deflation, balance-sheet recession, weak FDI and financial inflows, geopolitical tensions.

Over the next few years, geopolitics and other factors will likely help to keep inflationary pressures and interest rates higher than in the pre-COVID period

NOMINAL POLICY INTEREST RATES (*)
(%)

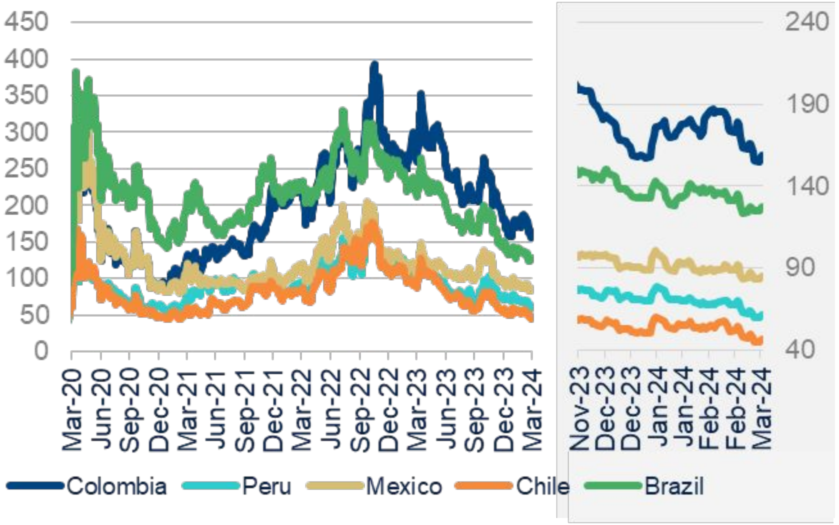


(*) In the case of the Eurozone, interest rates on refinancing operations.
Source: BBVA Research based on data from the BLS and Eurostat.

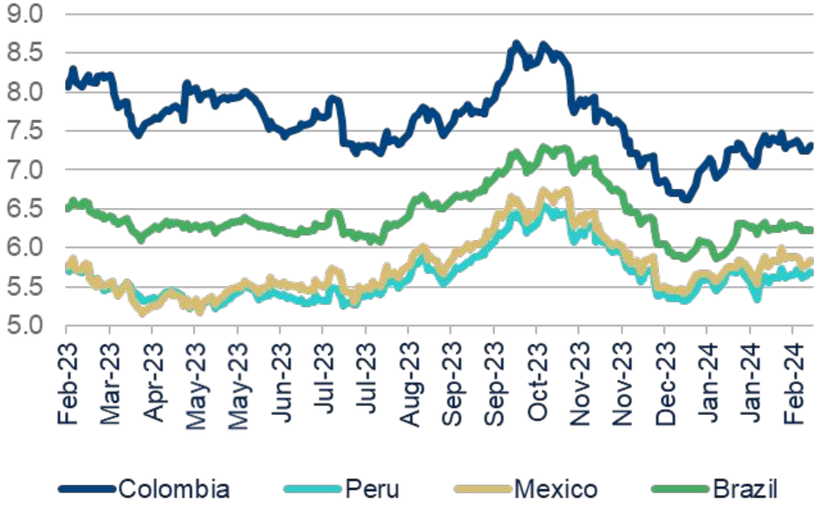
- Geopolitics will be a source of uncertainty, supply shocks and price pressures:
  - conflicts in Ukraine and Middle-East, and potentially in other regions: pressure on energy and other input prices;
  - lack of coordination on key global issues: protectionism, climate policies, etc..
- Other factors potentially fueling inflation:
  - elections in the US and other regions (tariff increases, migration policies, etc.);
  - extreme weather events, climate policies;
  - tight labor markets, adverse demographics;
  - fiscal policy: strong spending (defense, green, social...); high public debt levels.
- Productivity gains could, at least partially, weaken inflationary pressures.

Colombia's risk premium has been significantly reduced, but it remains above some countries in the region and is more volatile

CDS: SOME COUNTRIES IN THE REGION
(BASIS POINTS)



SOVEREIGN DEBT RATES IN DOLLARS: SOME COUNTRIES IN THE REGION
(REFERENCES AROUND 10 YEARS, %)

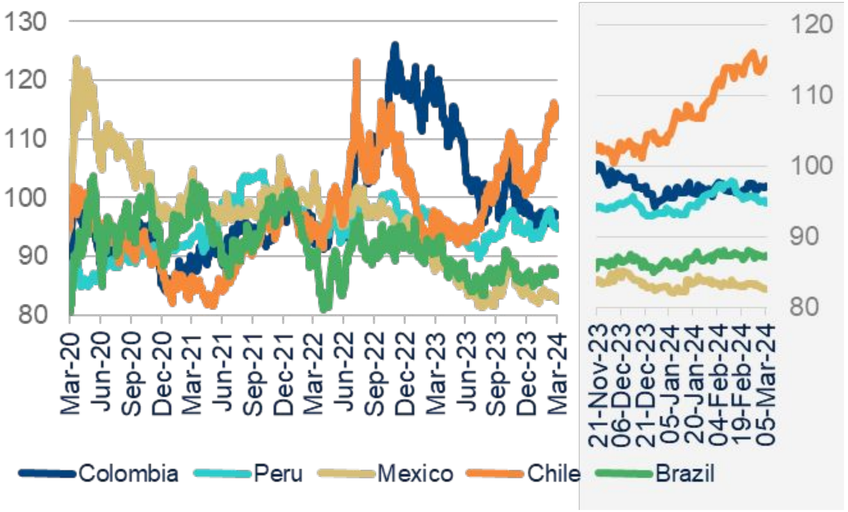


Data for CDS up to March 5; data for sovereign debt in USD up to February 28
Source: BBVA Research based on Bloomberg data.

Dollar interest rates on the region's sovereign debt have seen slight increases so far this year, driven mainly by the activity of US treasury bonds. Behavior for Colombia is more volatile and more sensitive, which coincides with the behavior of risk premiums.

After a significant appreciation cycle in 2023, currencies remain stable in the region, with the exception of Chile

EXCHANGE RATES: SOME COUNTRIES IN THE REGION
(INDEX JAN-2022 = 100)



Data up to March 5 2024
Source: BBVA Research based on Bloomberg data.

DEPRECIATION AND VOLATILITY: SOME COUNTRIES IN THE REGION
(PERCENTAGE CHANGE AND INDEX)

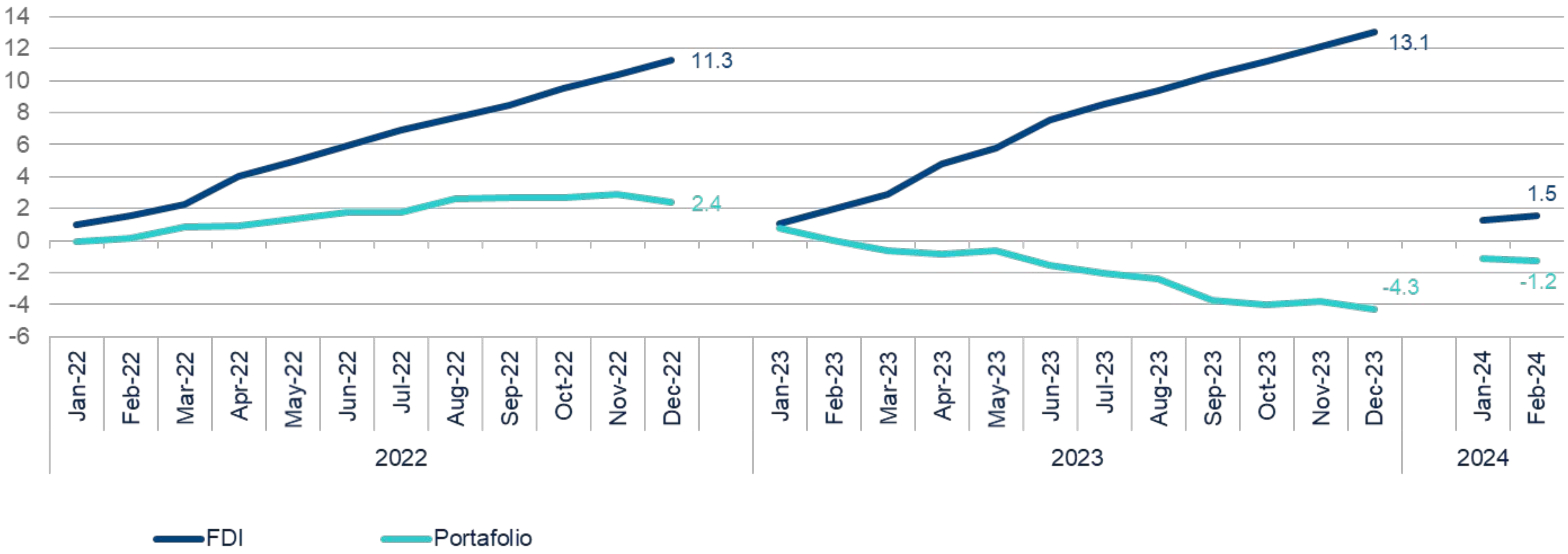
	COP	PEN	MXN	CHL	BRA
Change (%)					
Last month	0.5	-2.7	-1.0	2.6	-0.5
Year-to-date	2.4	1.5	-0.1	10.8	2.0
One year	-17.5	0.6	-5.7	22.0	-4.7
Two years	3.1	0.1	-19.2	21.7	-2.2
Volatility					
Last month	0.5	1.0	0.3	1.1	0.3
Consecutive year	0.5	1.4	0.5	3.7	0.6
One year	6.6	1.8	2.5	6.6	2.0
Two years	8.9	2.3	6.4	6.8	3.3

(*): Volatility corresponds to the standard deviation of each variable (using the Index Jan-22 = 100) in each framework

Colombia's currency, after being the most depreciated in the region in 2022, was the most appreciated in 2023. Its volatility reduced significantly so far in 2024 after having been the most volatile in the last two years.

Foreign inflows were concentrated in direct investment, as portfolio investment has been falling since 2023

FOREIGN PORTFOLIO AND DIRECT INVESTMENT CUMULATIVE FOR THE YEAR
(MILLIONS OF DOLLARS, EXCHANGE BALANCE)



*Data as of February 9
Source: Source: BBVA Research based on BanRep data.

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02

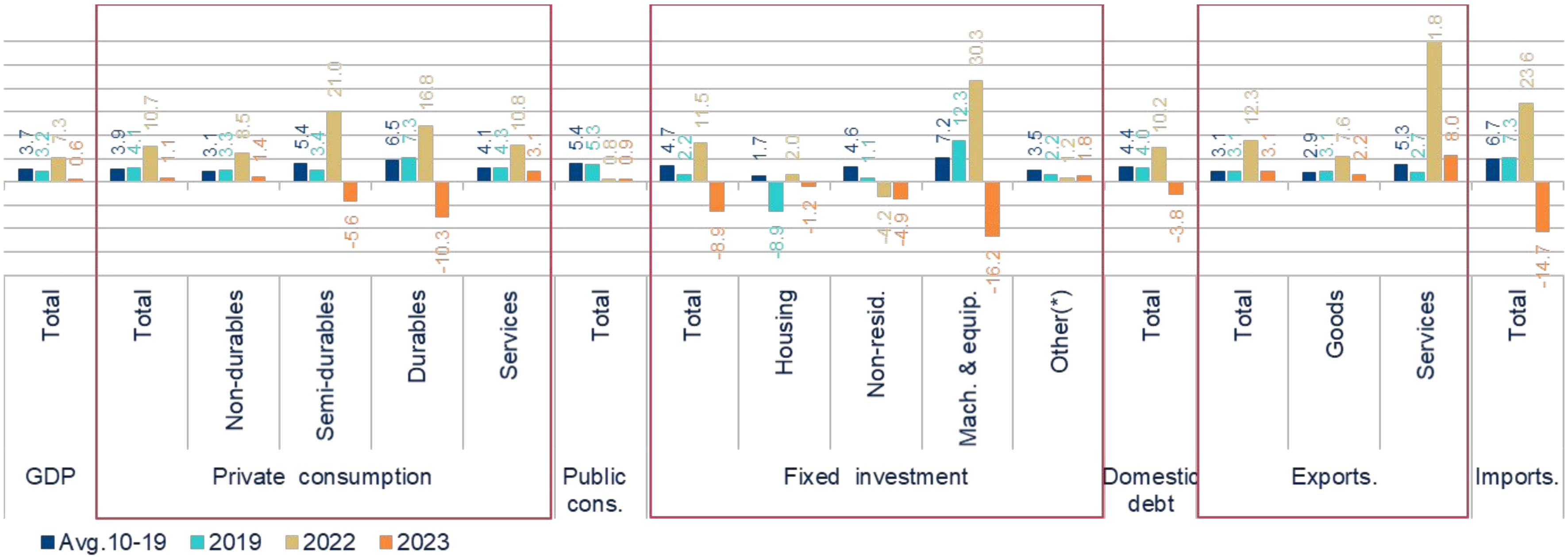
Recent growth developments

The economy decelerated significantly at the close of 2023, mainly due to the strong moderation in internal demand, and particularly due to the investment.

In 2023, GDP grew by 0.6%. Investment and consumption of goods fell sharply. Exports driven by services. Imports declined

GDP: BREAKDOWN OF DEMAND COMPONENTS

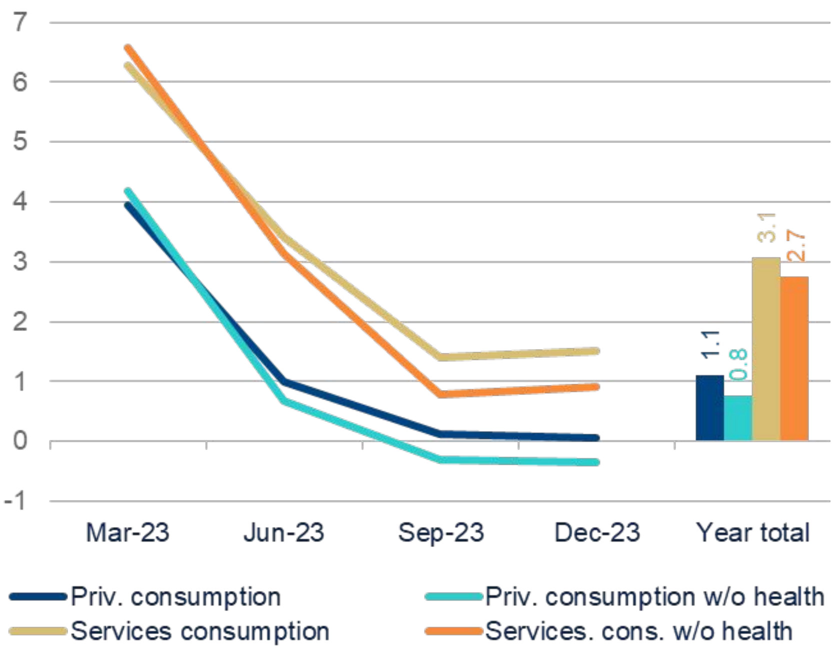
(REAL ANNUAL CHANGE, %)



(*): Biological resources and intellectual property.
Source: BBVA Research based on DANE data.

Services not only drove exports, but also private consumption: services related to public expenditure were significant

PRIVATE CONSUMPTION: INCIDENCE OF HEALTH EXPENDITURE (REAL ANNUAL CHANGE, %)



Source: BBVA Research based on DANE data.

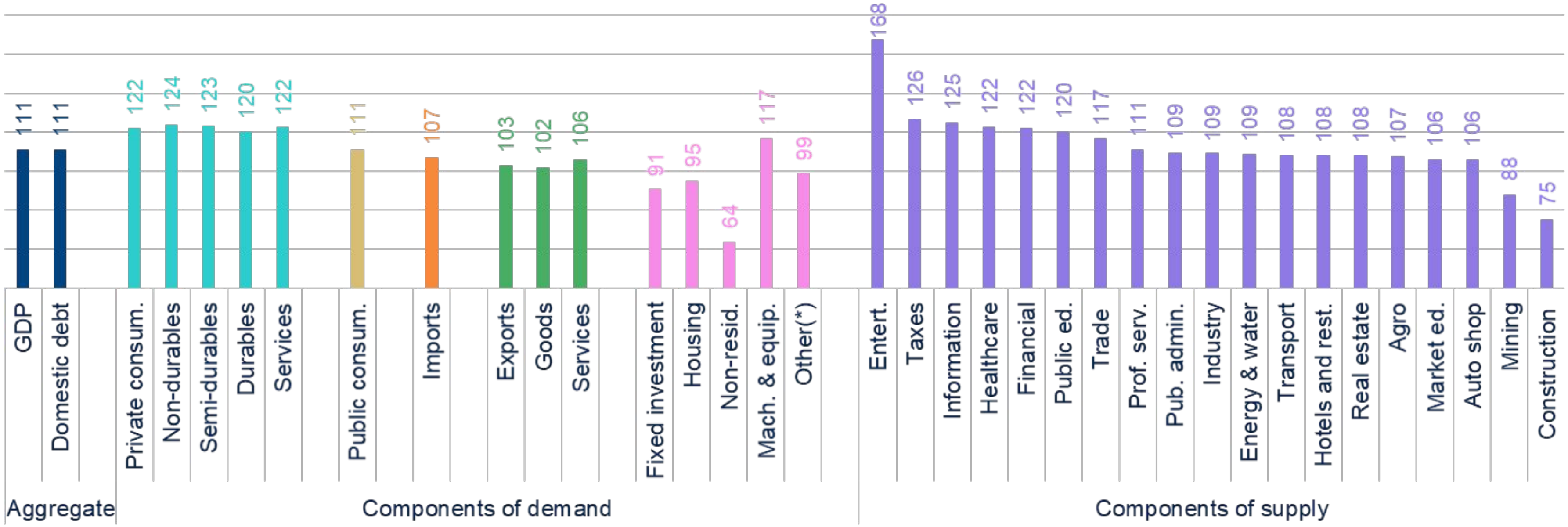
- The services are divided into two main groups: those driven exclusively by private spending (households' own resources) and those that are co-financed with public resources (social services). The former include, for example, tourism and entertainment. The latter include healthcare and public education. Expenditure was driven by the latter, which partly offset the sharp slowdown in private spending.

- Services grew 3.1% in 2023, driven largely by health expenditure.

- In fact, total healthcare expenditure contributed three-tenths of a percentage point to growth in private consumption in 2023.

Construction-related fixed investment and the construction and mining sectors continue to lag behind pre-pandemic levels

GDP IN 2023: BREAKDOWN OF DEMAND AND SUPPLY COMPONENTS
(INDEX, FULL YEAR 2023 VS. FULL YEAR 2019 = 100)

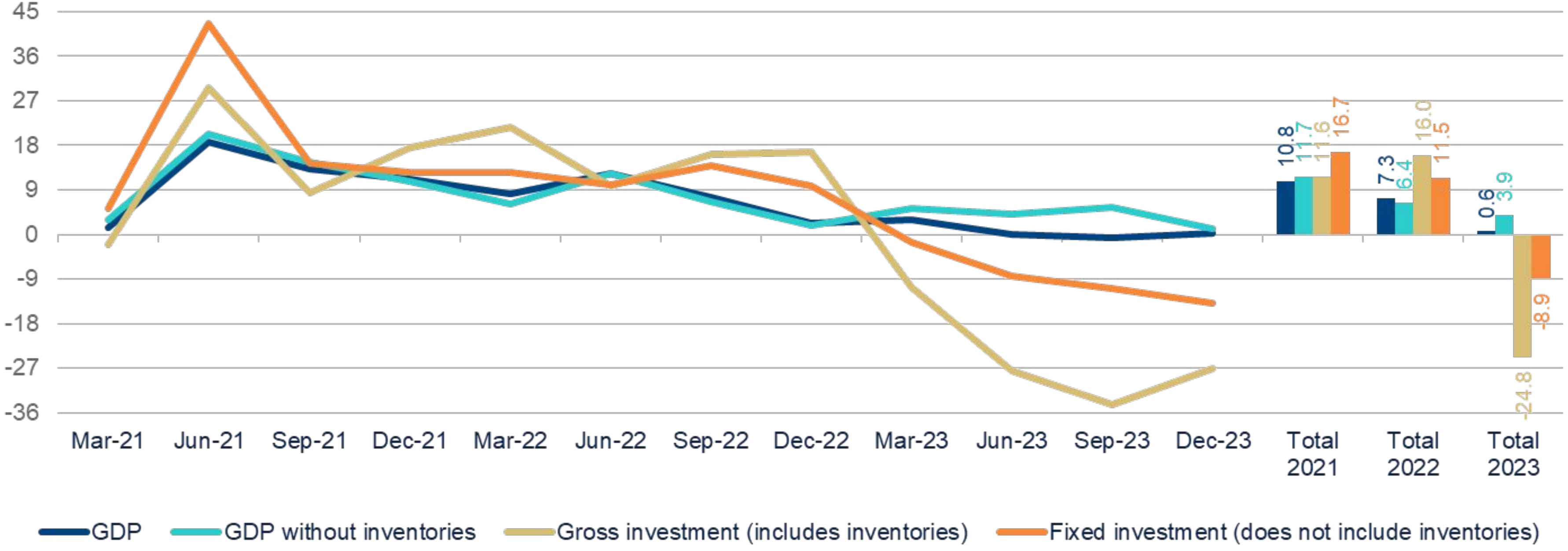


Source: BBVA Research based on DANE data.

The deaccumulation of inventories, generated by lower activity in sectors such as construction and industry, account for part of the slowdown in GDP

GDP & INVESTMENT: CORRECTION FOR INVENTORIES

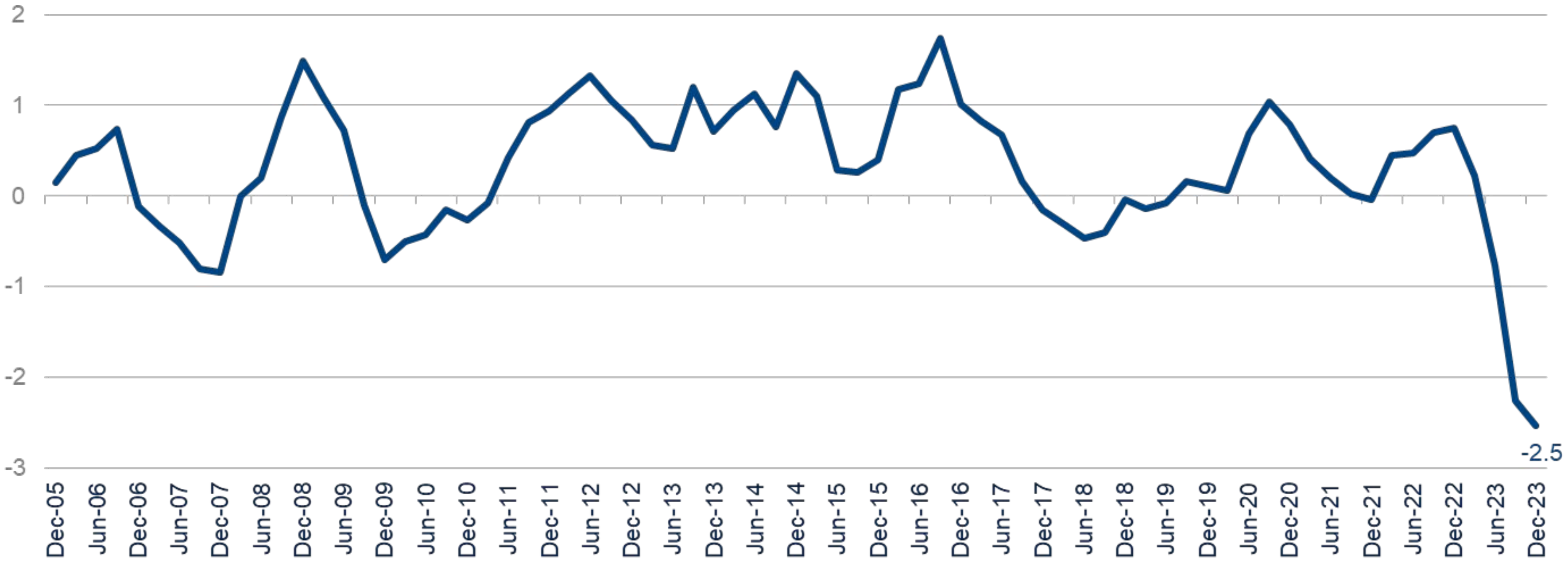
(REAL ANNUAL CHANGE, %)



Source: BBVA Research based on DANE data.

The deaccumulation of inventories is very high in historical terms and as a share of GDP

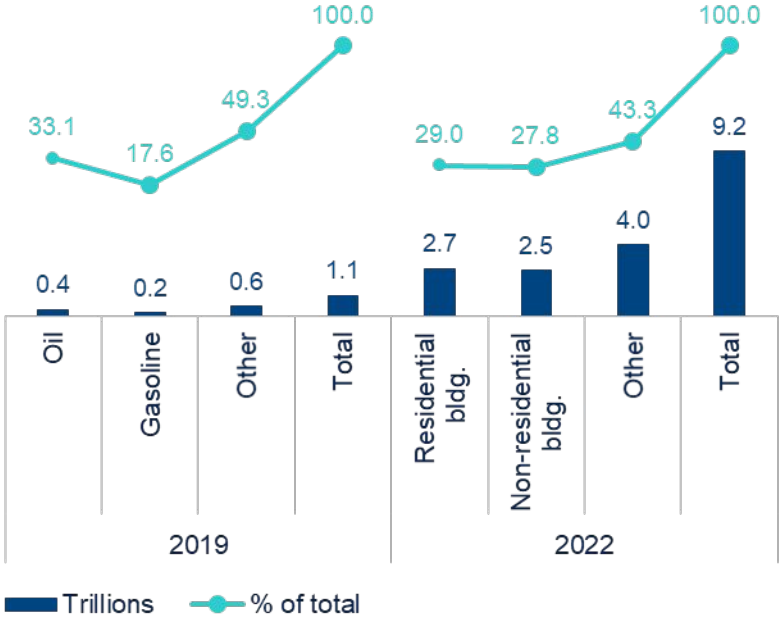
CHANGE IN INVENTORIES
(% OF GDP)



Source: BBVA Research based on DANE data.

Construction, which accumulated large inventories in 2022, was one of the main contributors to an unprecedented deaccumulation in 2023

CHANGE IN INVENTORIES: SECTORAL
(TRILLIONS AND %, 2019 & 2022)



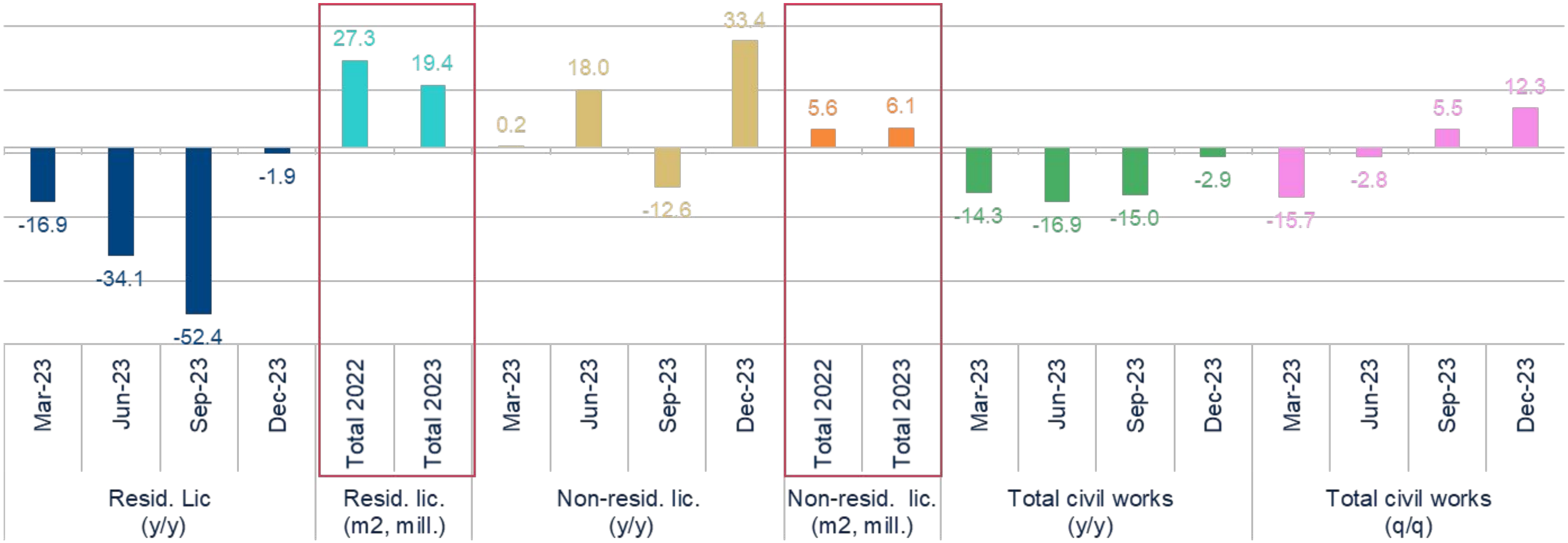
Source: BBVA Research based on DANE data.

- On average, inventories contribute little to growth within a single year. This is because annual seasonalities, with periods of accumulation and decumulation of inventories, end up compensating for one another.
- For example, in 2019, a "normal" year in stock behavior, only 1.1 tn. (0.1% of GDP) of inventories were accumulated in a few stocks of mainly oil and gasoline.
- By contrast, in 2022, inventories accumulated 9.2 tn. (0.8% of GDP) due to the sharp increase in unfinished construction activities.
- Then, the construction slump in 2023, which was deep and swift, led to an unprecedented reduction in inventories.

The good news is that the non-residential and civil works sector is already showing signs of recovery: possible increase in activity throughout 2024(*)

CONSTRUCTION SECTOR INDICATORS

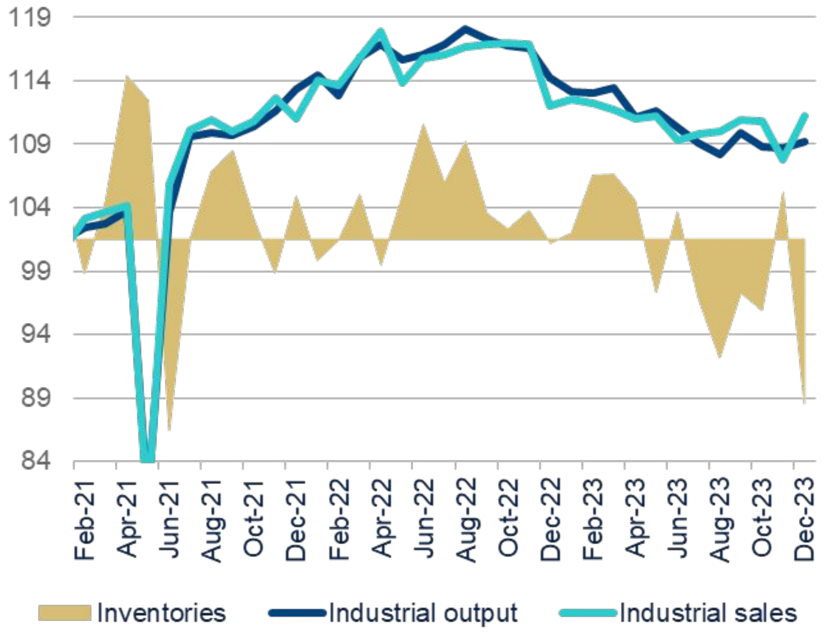
(ANNUAL CHANGE—Y/Y—MILLIONS OF M^2—m2, mill.—AND QUARTER-ON-QUARTER CHANGE—Q/Q)



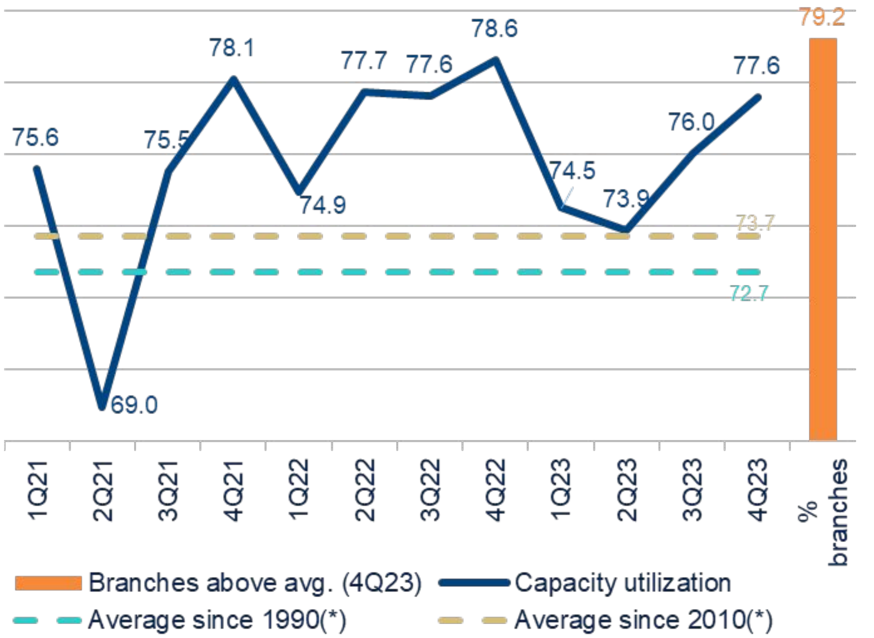
(*): This would lead to a gradual buildup of inventories.
Source: BBVA Research based on DANE data.

Industry also deaccumulated inventories in 2023 and increased utilization of installed capacity: indicators for expected recovery

MANUFACTURING OUTPUT & SALES
(REAL ANNUAL CHANGE, %)



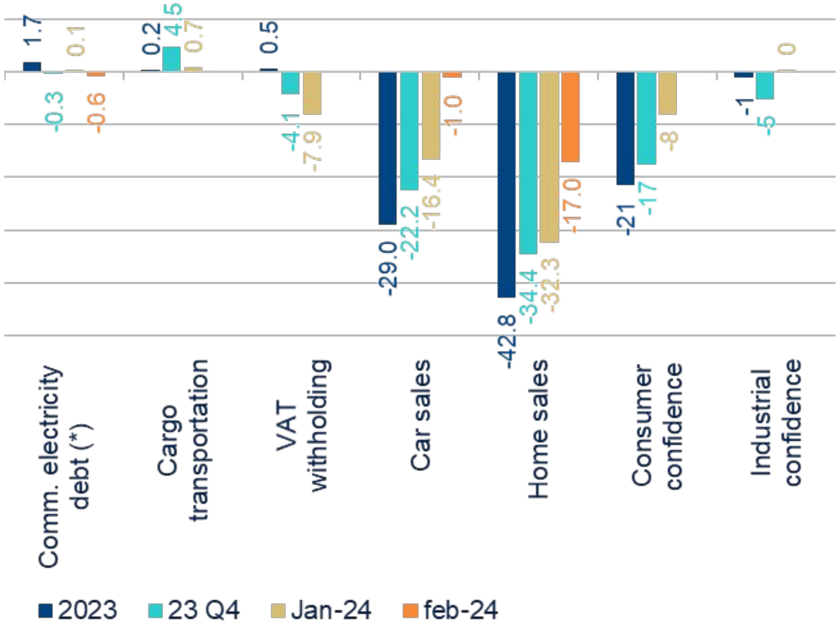
INSTALLED CAPACITY UTILIZATION—ICU—IN INDUSTRY (% OF TOTAL)



(*): Averages for the fourth quarters in the period indicated.
Source: BBVA Research based on DANE data.

However, other economic indicators suggest that recovery will be slow and will take time to consolidate

LEADING HIGH-FREQUENCY INDICATORS
(REAL ANNUAL CHG. & RESPONSES BALANCE IN CONFIDENCE, %)



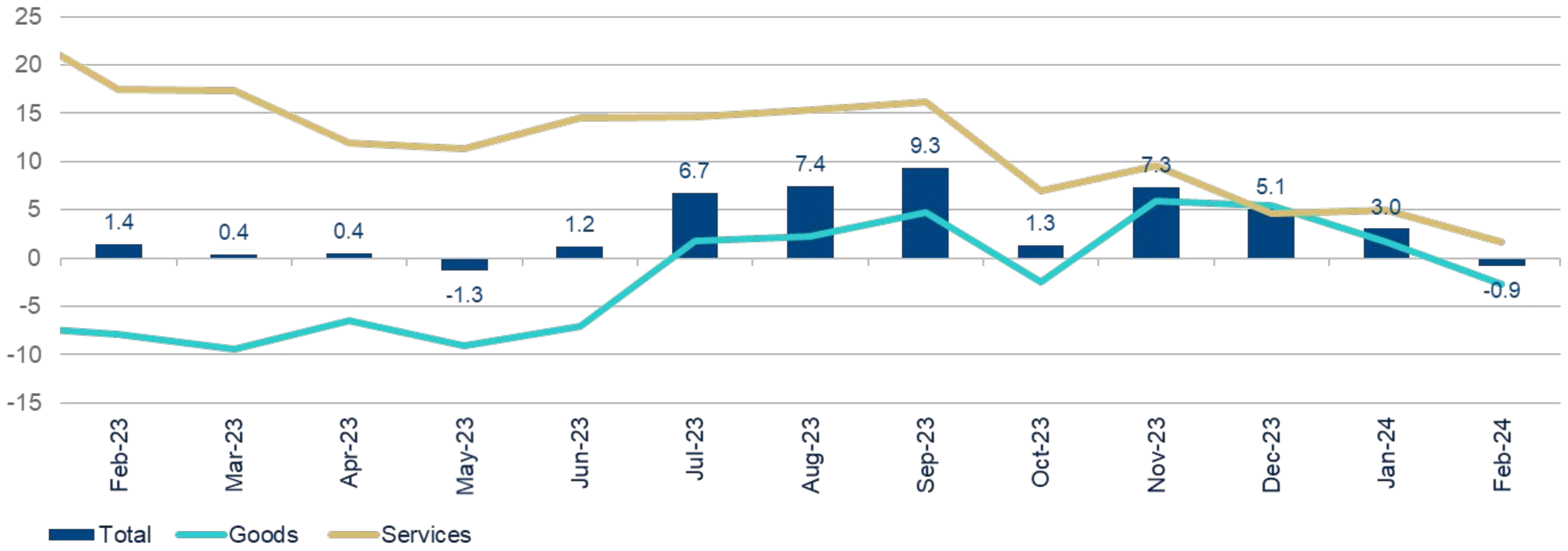
Source: BBVA Research based on DANE data.

- Sales of durable goods **(vehicles) and housing**, although showing smaller declines, display **low levels of transaction activity**.
- Data for **electricity demand and freight transportation** (related to industrial and commercial activity) are not showing stable recovery and exhibit **erratic behavior**.
- On the positive side, **confidence** indicators have **recently improved**, but they are still in negative territory for consumers and have not yet materialized into more positive consumption or output data.

The slow recovery of economic activity this year is confirmed by the performance of our big data indicator for consumption

COLOMBIA: BBVA BIG DATA CONSUMPTION

(REAL ANNUAL CHANGE DEFLATED BY CPI, %)



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Source: BBVA Research based on BBVA transactional data.

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03

Determining factors for economic growth 2024-2025

Improved household and corporate financial conditions will help the recovery. However, the labor market and low growth in trading partners will limit their strength.

These will be the determining factors of economic growth in 2024 and 2025

1.

HOUSEHOLD SAVINGS RECOVERY

2.

BETTER HOUSEHOLD AND FIRMS FINANCIAL CONDITIONS (RATES, INFLATION, CREDIT)

3.

LOW GROWTH FROM MAIN TRADE PARTNERS

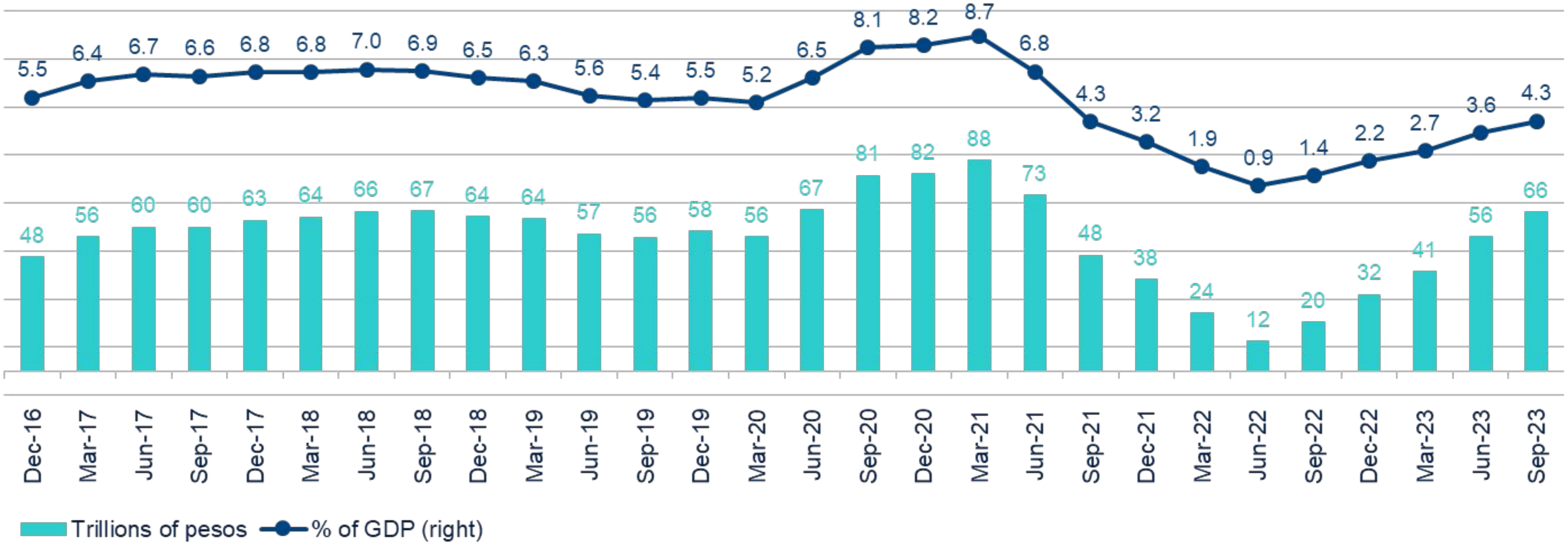
4.

EMPLOYMENT MODERATION

Household savings have been gradually increasing and will underpin future purchasing decisions, especially in durable goods and housing

HOUSEHOLD SAVING RATE

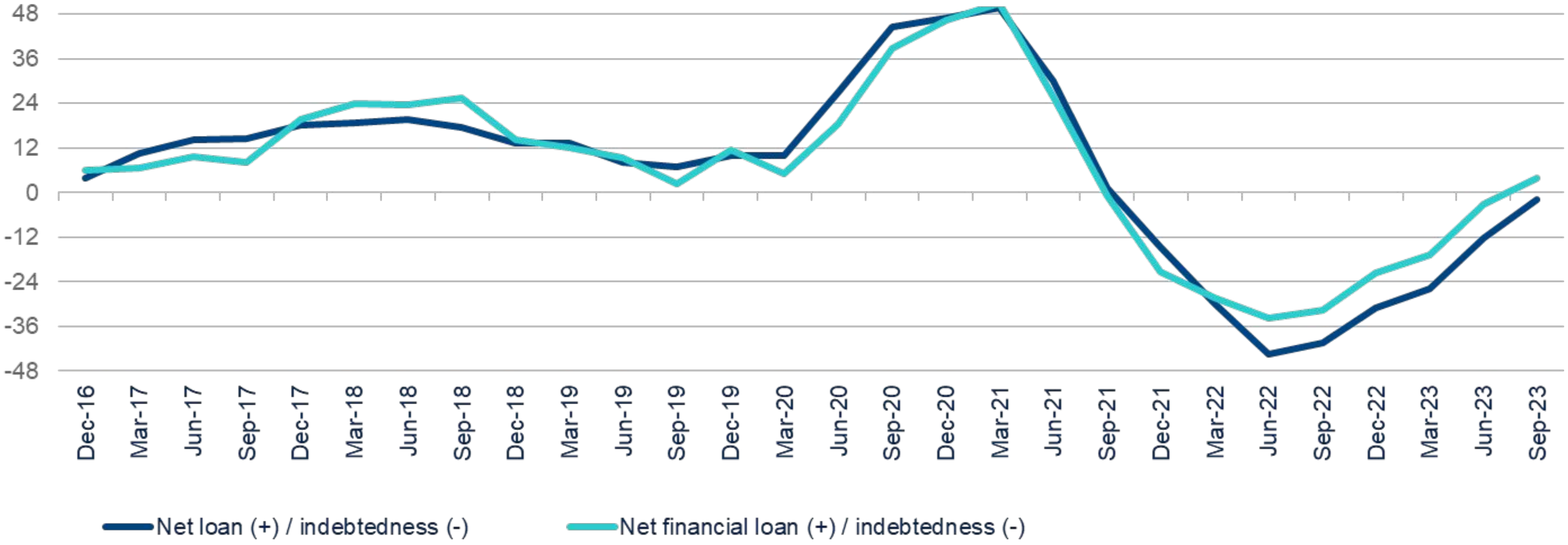
(ANNUAL CUMULATIVE; TRILLIONS OF PESOS AND % OF GDP)



Source: BBVA Research based on DANE data.

In 2023, households returned to financial equilibrium: this will give them room to take on new debt when conditions are favorable

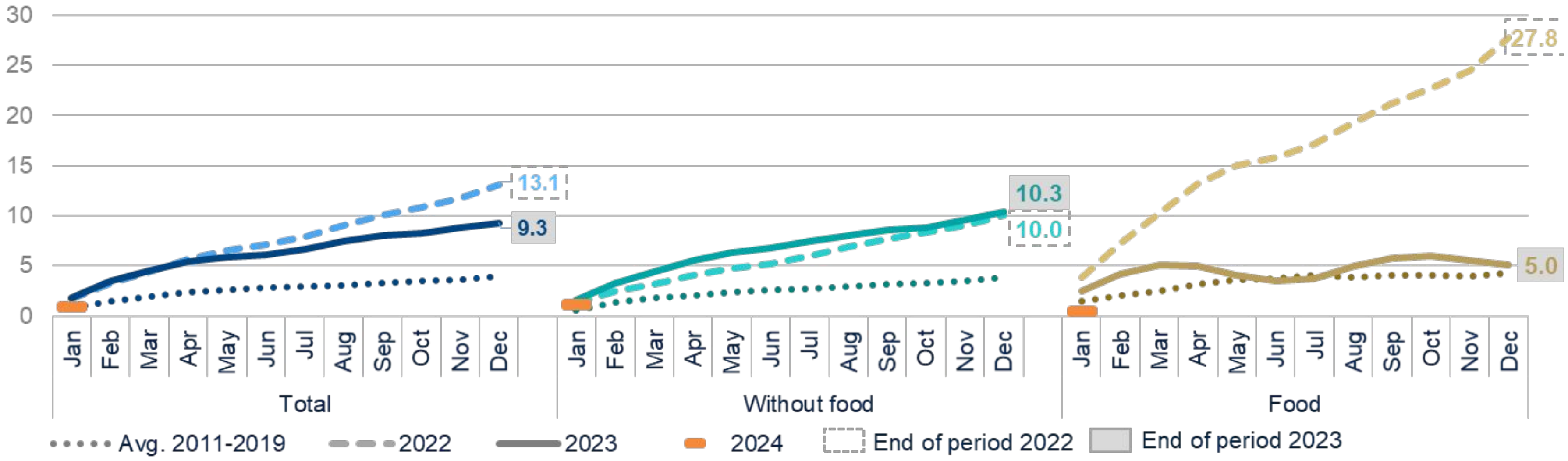
HOUSEHOLD NET BORROWING OR INDEBTEDNESS (*)
(ANNUAL CUMULATIVE FLOW OF NEW INDEBTEDNESS (-) OR CREDITOR POSITION (+), TRILLIONS OF PESOS)



(*): Net lending/net borrowing = Net acquisition of financial assets - net issuance of liabilities. Net lending means that households are in surplus and have resources to lend to other sectors or keep in the sector. Indebtedness means that resources were not sufficient and require other sectors to finance their economic activity.
Source: BBVA Research based on DANE data.

Inflation is approaching its average levels: the year starts out at lower levels than those seen in 2022 and 2023

INFLATION: TOTAL, NON-FOOD AND FOOD
(YEAR-TO-DATE CHANGE, %)

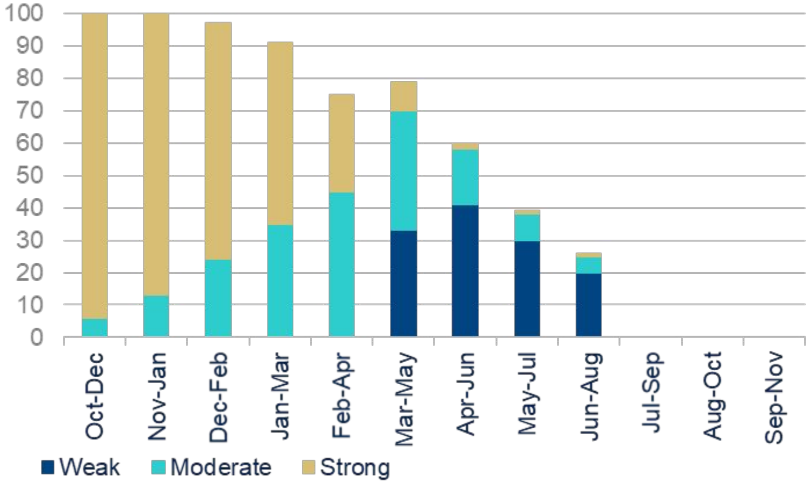


Source: BBVA Research based on DANE data.

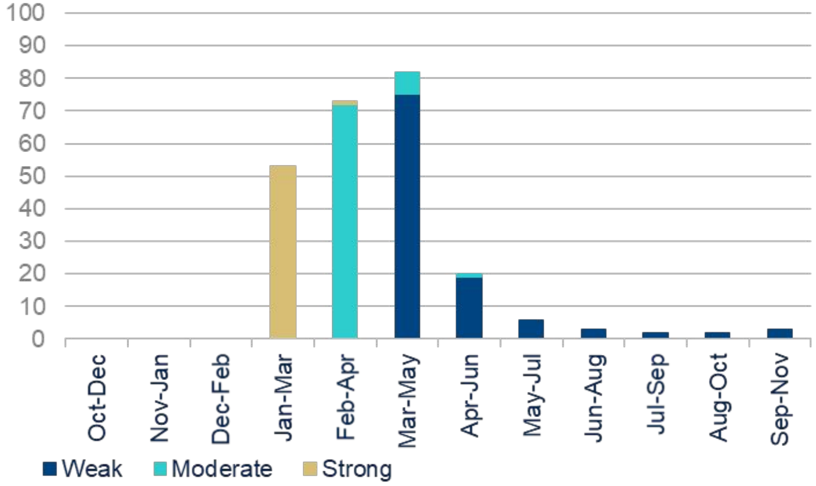
In 2023, food inflation allowed for the largest adjustments. In 2023, inflation excluding food did not subside due to strong pressures from administered prices, despite significant reductions in the inflation of goods.

NOAA has lowered its estimates of the intensity of the El Niño event. It is expected to moderate in April and disappear by June

EXPECTED INTENSITY OF EL NIÑO
(PROBABILITY OF OCCURRENCE, OCTOBER FORECAST, %)



EXPECTED INTENSITY OF EL NIÑO
(PROBABILITY OF OCCURRENCE, FEBRUARY FORECAST, %)



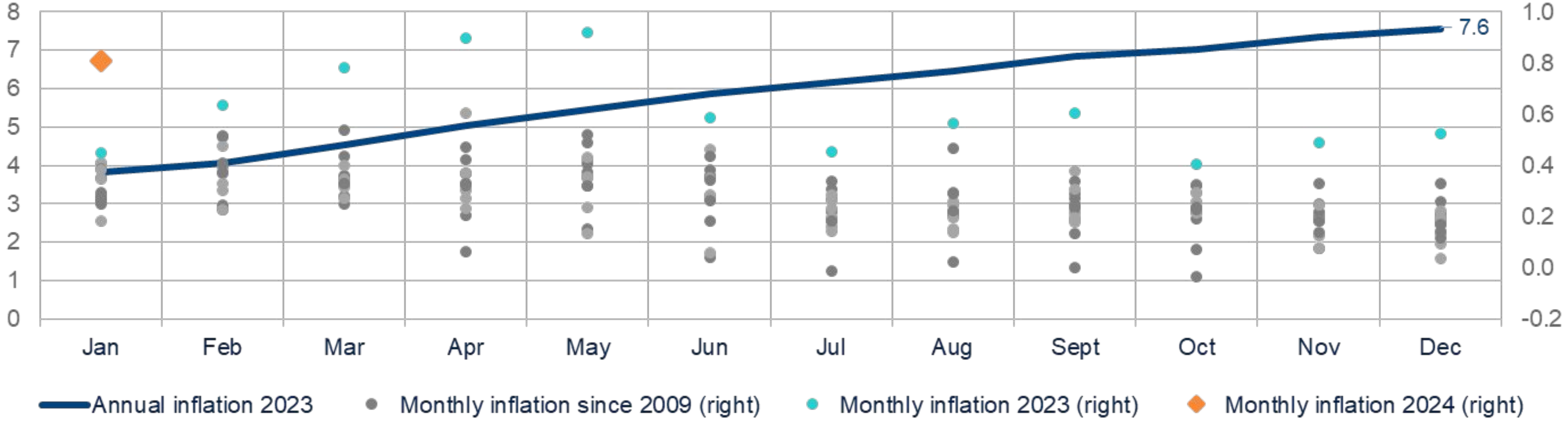
Source: BBVA Research based on NOAA data.

The effects of the El Niño event have materialized mainly through energy inflation, while food inflation has not yet felt impacts but are expected to in the coming months.

Rent inflation is above historical averages and will be relevant in determining core inflation(*)

RENT INFLATION (**)

(MONTHLY & ANNUAL CHANGE, %)



(*): Core inflation refers to inflation without food. (**): The rent inflation shown adds the effective and the imputed

Source: BBVA Research based on DANE data.

The recent increase in month-to-month rent inflation could be attributed to a higher-than-estimated indexation effect, a lag in price adjustments, a lower supply of units available for lease or other factors related to rental demand.

Inflation, in its transition towards the target, continues to be affected by several factors, uncertainty remains high around the expected path of inflation

El Niño phenomenon: effects on food and administered prices.

Minimum wage increase: indexation and salary payments of other employees not tied to the minimum.

Exchange rate: transmission to domestic prices of the expected average devaluation.

Increase in price of diesel: from mid-2024 gradually over 18 months.

Increased housing rent: upward pressure in 2024 due to a lower supply.

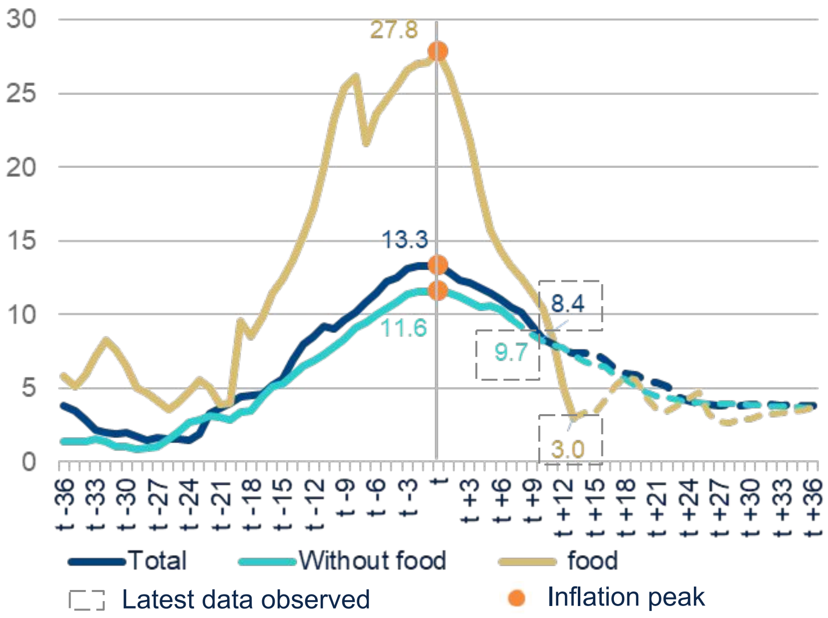
Inputs: increase in prices of products from abroad.

Private consumption: slow recovery of goods without putting pressure on supply.

Downward effect on inflation

Expected improvements in inflation will mean better financial conditions for households

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

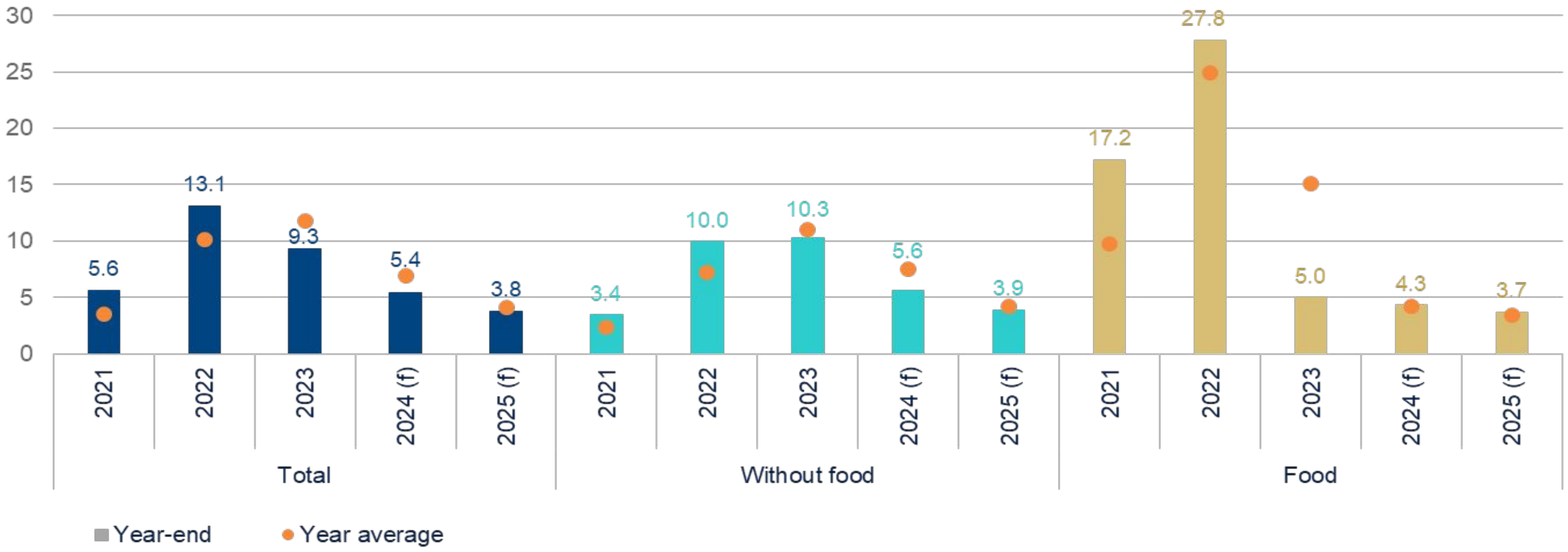


Source: BBVA Research based on DANE data.

- The moderation in inflation from the different baskets is progressing. Headline and non-food inflation are expected to continue to decline.
- Total inflation declined significantly from its peak (13.3%), with food inflation being even deeper (peaking at 27.8%). Non-food inflation declined less from its peak (11.6%), reflecting the greater persistence that is typical of this basket.
- Food inflation will stabilize at low levels, while non-food inflation will continue to decline in the coming years.

Inflation will continue to decline over the next few years, closing 2024 at 5.4% and 2025 at 3.8%

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

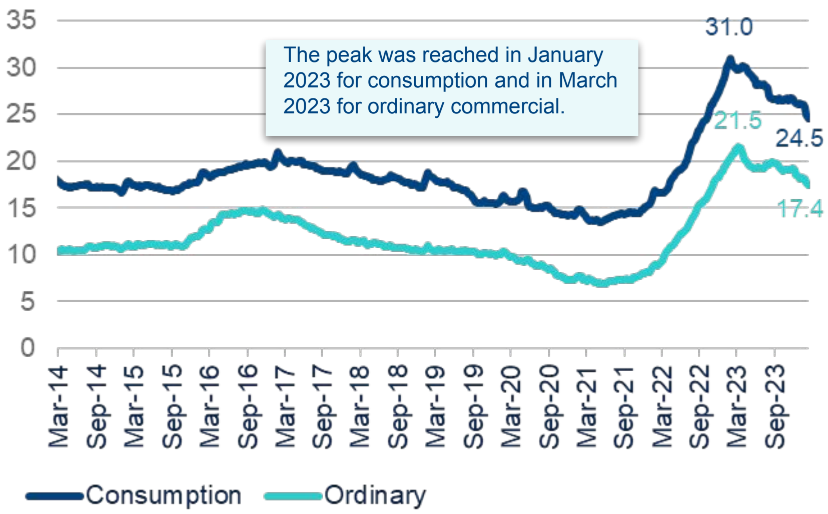


(f): BBVA Research forecasts.
Source: BBVA Research based on DANE data.

Interest rates on credit placements, after a sharp increase in 2022, have shown significant signs of reduction

CREDIT PLACEMENT INTEREST RATES

(%)



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

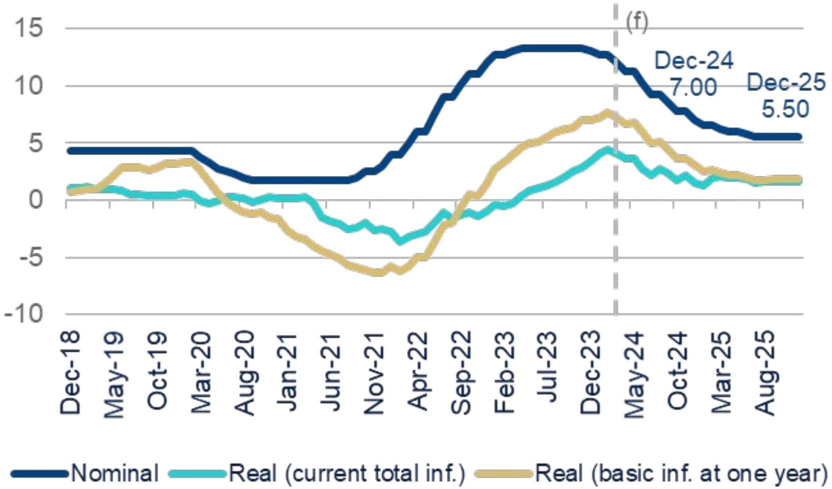
- After a strong upward cycle, due to the hikes in policy rates, TES and risk premiums and the implementation of the NSFR, credit rates are becoming more moderate.
- This reduction is mainly associated with lower funding costs and TES rates. They will continue to fall as BanRep adopts a more expansionary stance on its interest rates.
- The reduction of financial costs improves households' and companies' capacity and willingness to borrow.

This path is expected to continue in the coming months, supported by the central bank's rate reductions and improvements in financial institutions' funding costs.

BanRep will accelerate rate cuts, thanks in part to declining inflation and the weak performance of the economy. It will close 2024 at 7.0%

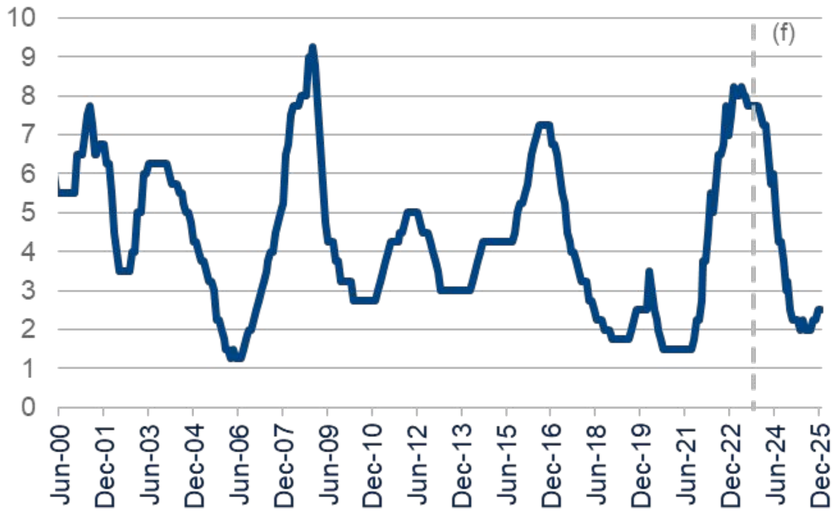
NOMINAL AND REAL POLICY RATE

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



DIFFERENTIAL BETWEEN BANREP AND FED RATE

(%)

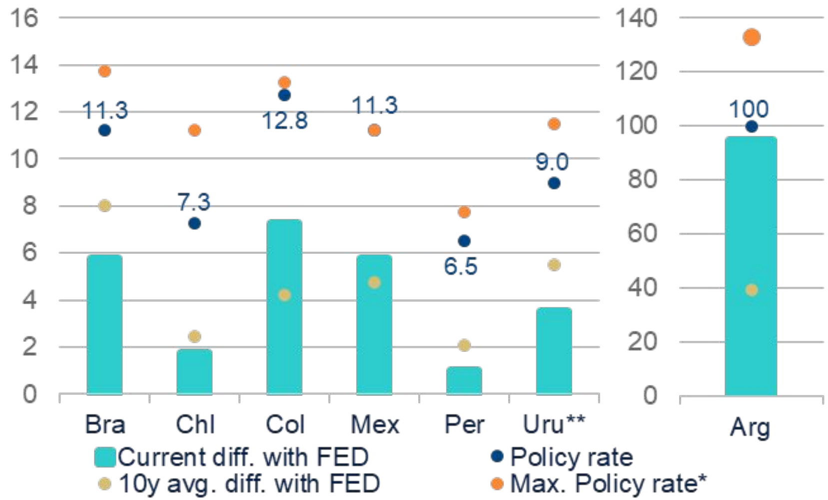


(f): BBVA Research forecast.
Source: BBVA Research based on data from Banco de la República, DANE and the Federal Reserve.

This will be reflected in a rapid closing of the interest rate differential with the Fed, which despite cutting rates in 2024 and 2025, will do so at a slower pace. The differential will be adjusted to pre-pandemic levels.

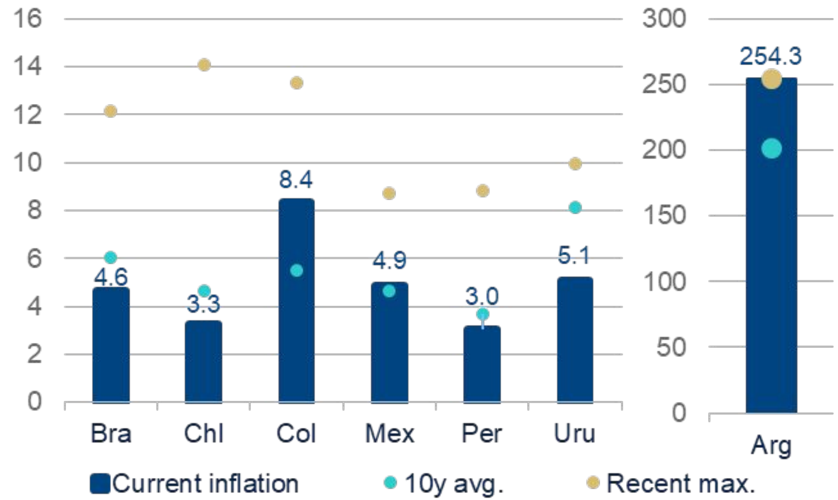
Inflation, relative to its recent peak, has corrected significantly, and in most economies stands below its 10 year average

MONETARY POLICY RATE AND DIFF. WITH FED FUNDS RATE (%)



(*): Max rate in the post pandemic cycle; (**): For Uruguay we use the average from Sep-2020
Source: BBVA Reseach .

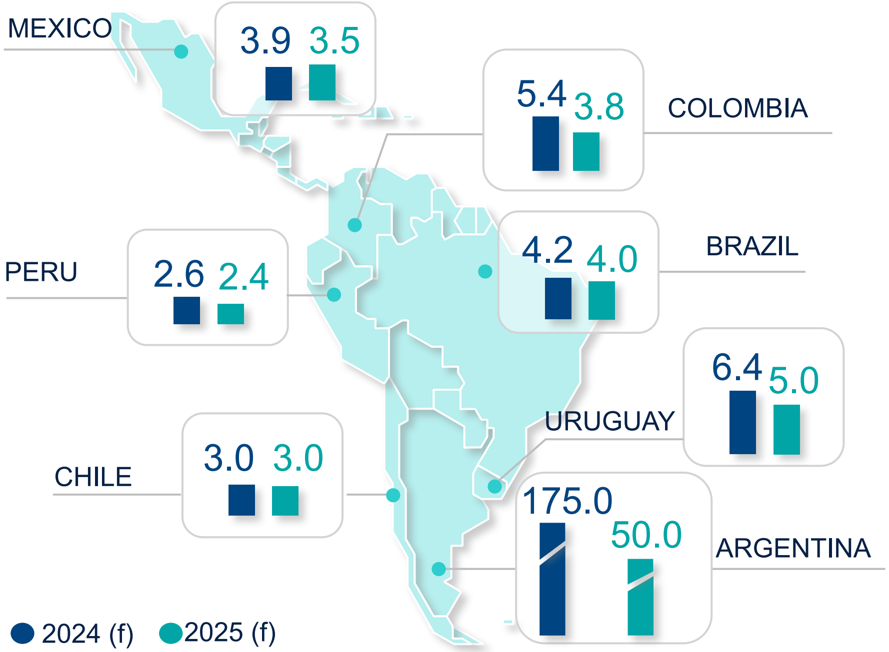
INFLATION: CURRENT, PEAK AND 10 YEAR AVERAGE (%)



At the same time, most economies have started a rate reduction cycle, although the rates remain high relative to average levels. The differential with the FED funds rate is lower than the last decade average for most economies, with the exception of Colombia and Mexico, that have materialized less rate reductions to date.

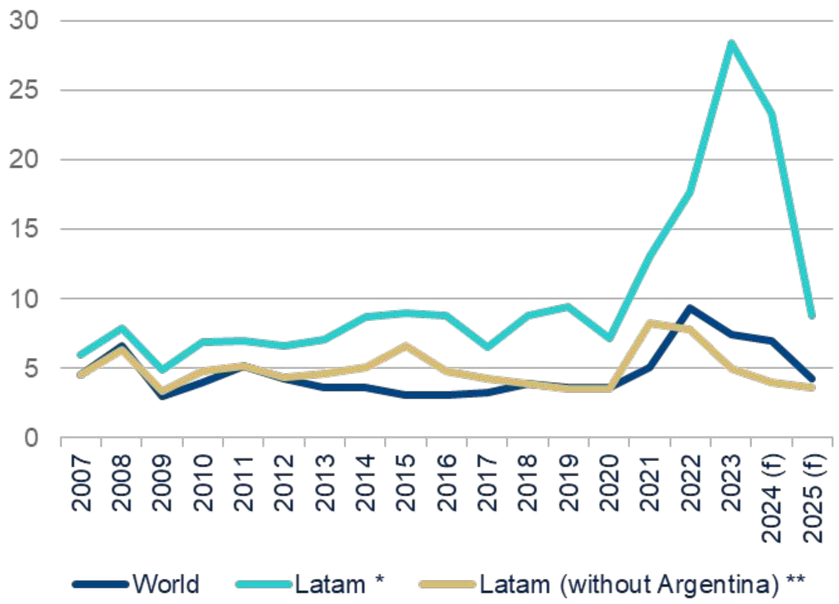
The inflation reduction cycle is close to end in most economies, reaching their inflation objectives in 2024 or 2025

INFLATION
(ANNUAL CHANGE EOP, %)



(f): forecast
Source: BBVA Reseach.

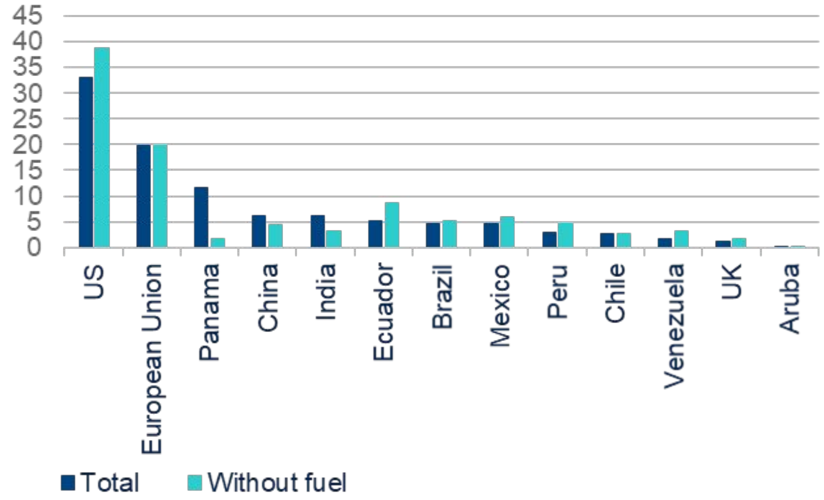
GLOBAL AND LATAM INFLATION
(ANNUAL CHANGE EOP, %)



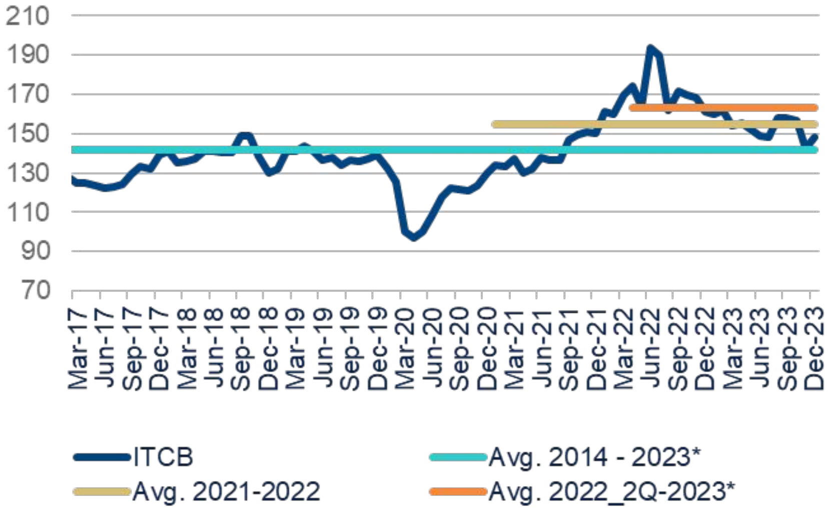
(f):BBVA Research forecast.
(**): Includes Brazil, Chile, Colombia, Mexico, Peru, Paraguay and Uruguay.
(*): Includes Argentina, Brazil, Chile, Colombia, Mexico, Paraguay, Peru and Uruguay.

An additional factor driving growth will be stronger growth in the United States and China, two of the country's largest trading partners

MAIN EXPORT DESTINATION COUNTRIES
(% OF TOTAL MAIN DESTINATIONS IN 2023)



TERMS OF TRADE OF GOODS
(INDEX, JAN 2001 = 100)

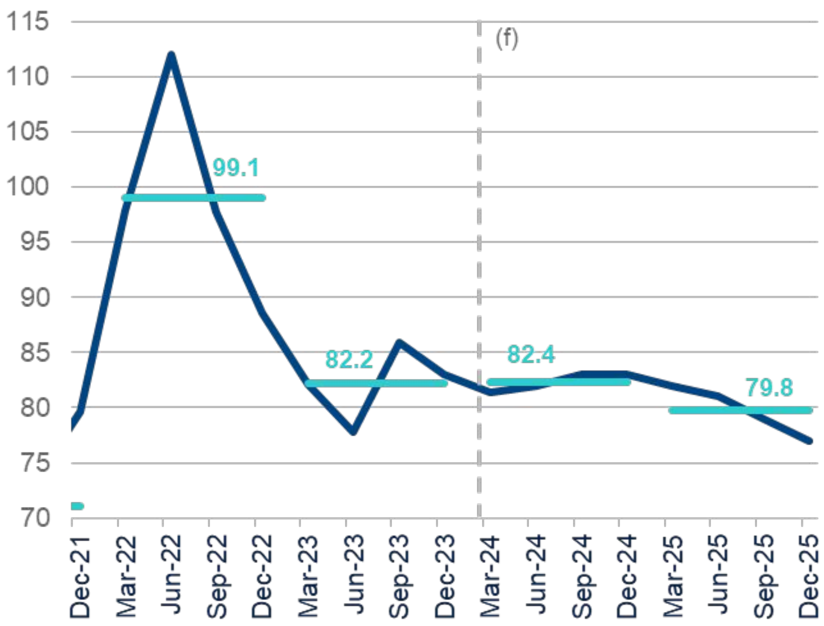


*Excludes 2020 in the calculation
Source: BBVA Research based on DANE data.

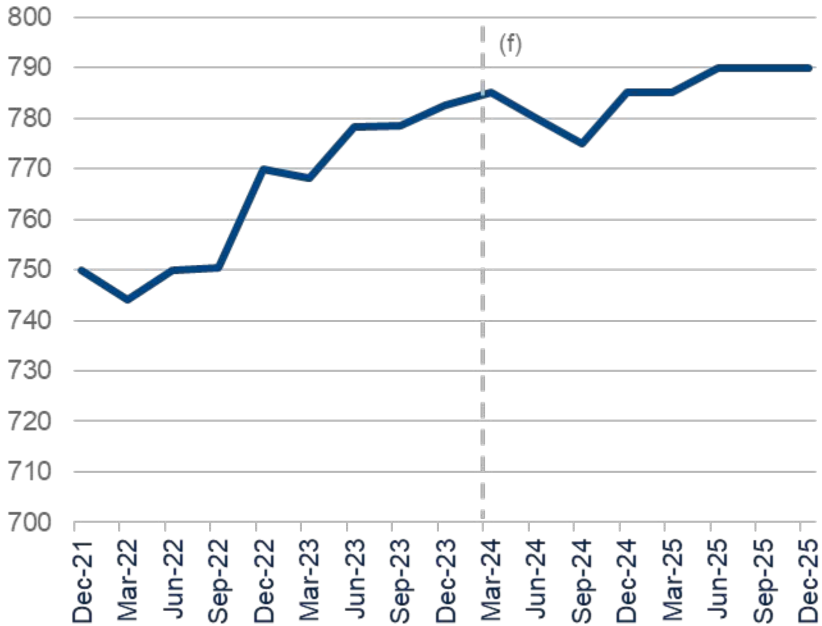
However, this momentum will be limited by the recent downturn in the terms of trade and the drop in oil prices expected in 2024.

The prices of goods exported by Colombia fell in 2023. They will continue to trend downward in 2025. Oil production will be stable

PRICE PER BARREL OF BRENT OIL
(DOLLARS PER BARREL, AVG. QUARTER & YEAR)



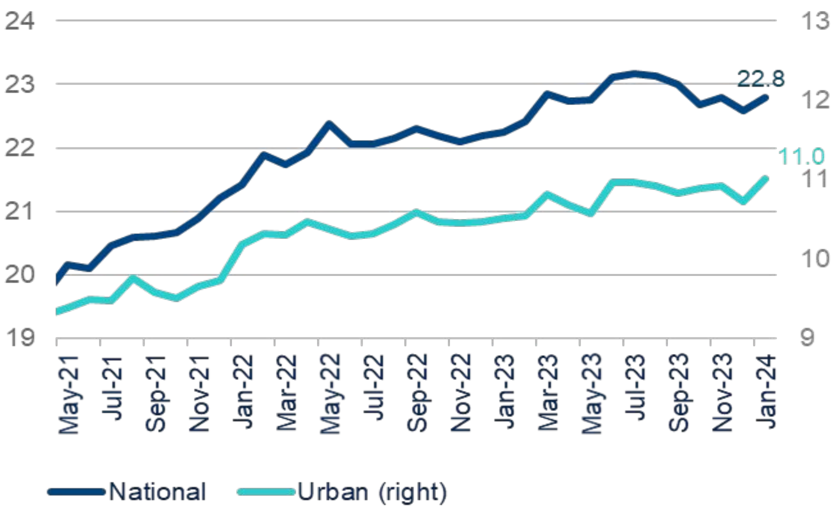
OIL PRODUCTION
(THOUSANDS OF BARRELS OF OIL PER DAY)



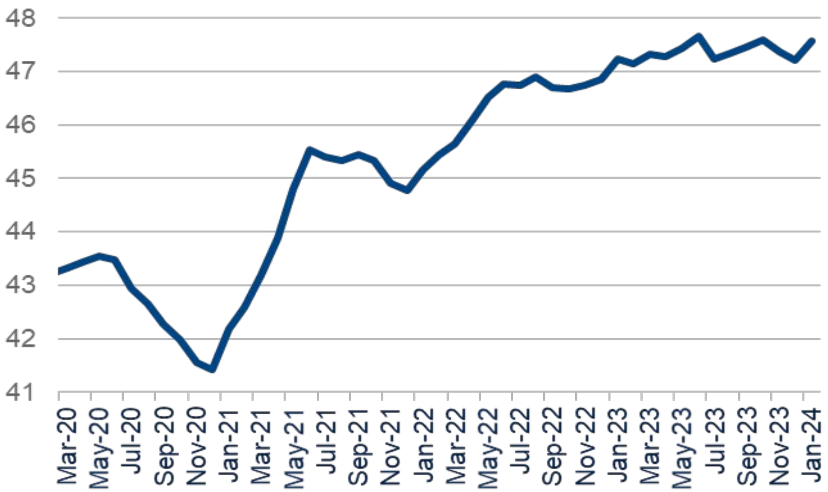
Source: Source: BBVA Research based on BanRep data.

The slowdown in employment will also dampen recovery: employment remained buoyant until August, after which it became moderate

NATIONAL AND URBAN EMPLOYED
(MILL., SERIES SEASONALLY ADJUSTED, ANNUAL CHANGE %)



NATIONAL LABOR FORMALITY RATE (%, WAGE EARNERS/EMPLOYED, SIX-MONTH AVERAGE)

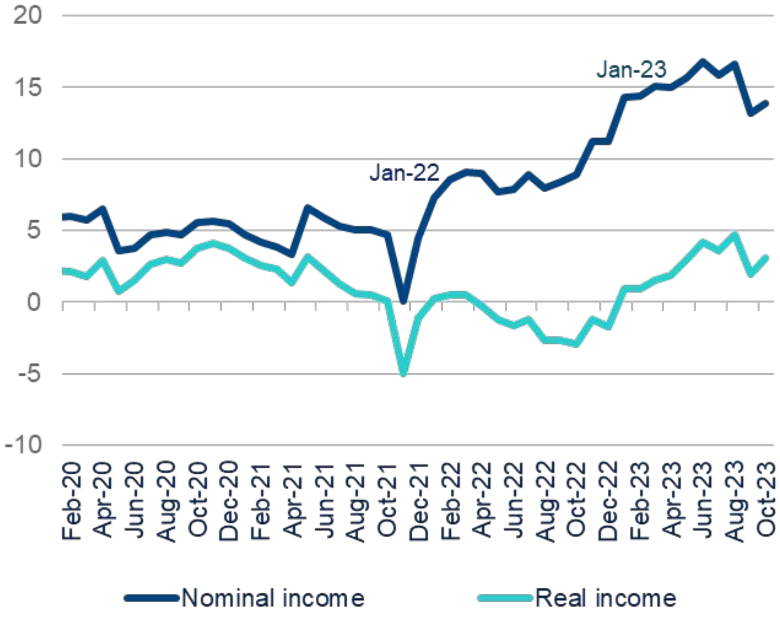


Source: BBVA Research based on DANE data.

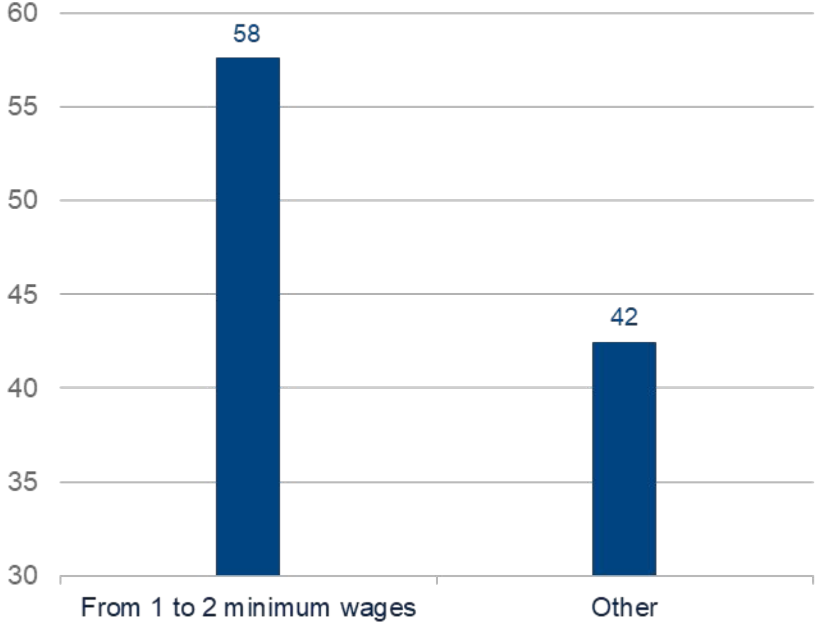
Gains in formality have been lower since mid-2023.

In 2023, labor income increased, but it could slow despite the boost provided by the increase in minimum wage at the beginning of the year

AVERAGE LABOR INCOME
(ANNUAL CHANGE, %)



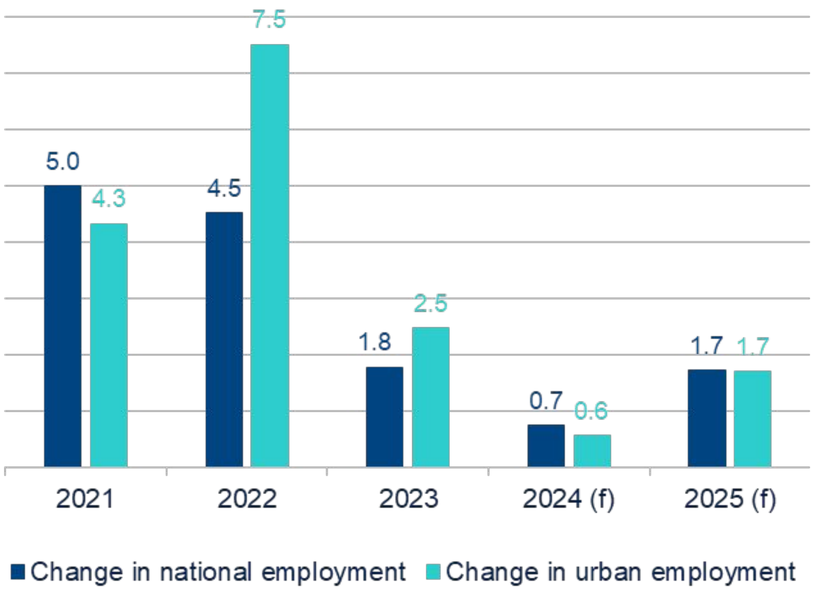
DISTRIBUTION OF WAGE EARNERS BY INCOME IN MINIMUM WAGES (% OF WAGE EARNERS)(*)



(*): Data from January-October 2022
Source: BBVA Research based on 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
(ANNUAL CHANGE EOP (*), %)

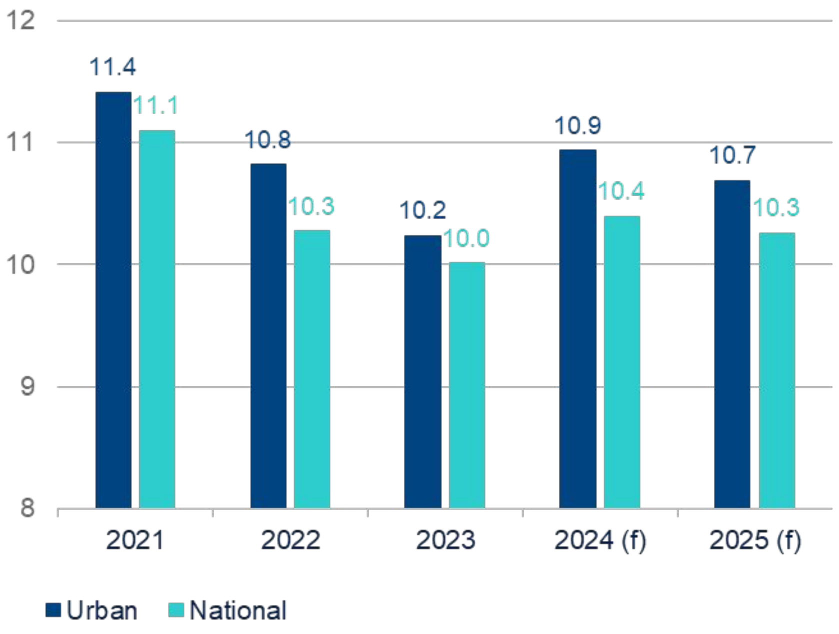


(*): Annual change, end-of-period (December vs. December of the previous year).
(f): BBVA Research forecasts.
Source: BBVA Research based on DANE data.

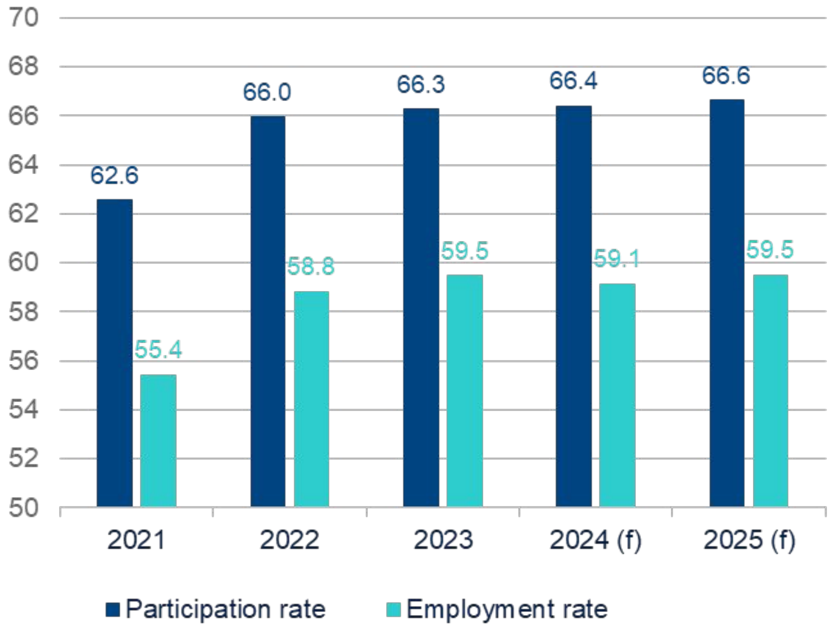
- Expectations about activity suggest that employment will be dominated by the services sector, related to social services. Starting in the second half of 2024, employment in commerce will accelerate, and by the end of the year, so will employment in industry.
- In 2025, employment growth will accelerate, in line with the acceleration of activity, driven by the construction sector with the consolidation of residential and non-residential buildings, which are labor-intensive, industry and private services.

The unemployment rate will rise due to lower job creation, with a slightly higher labor supply than it is today

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 based on DANE data.

BBVA Research

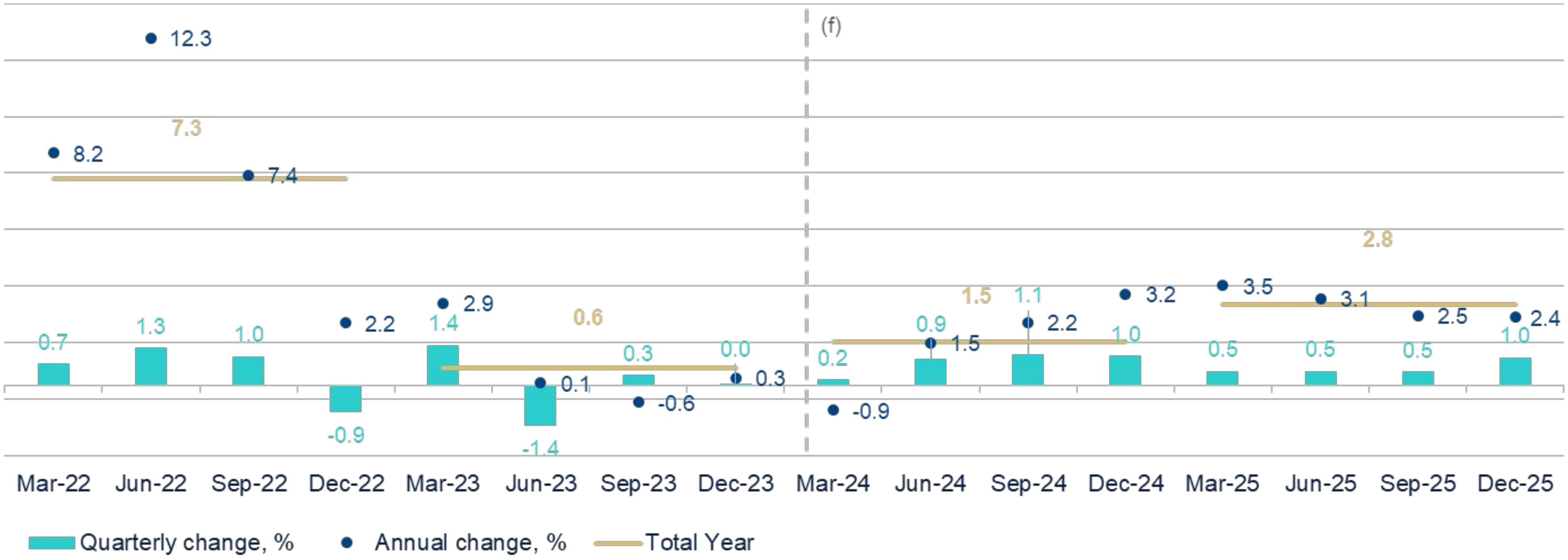
04

Growth forecasts

The economy will gain strength, driven first by consumption, production and trade of goods, and then by investment.

We expect GDP to recover gradually, consolidating better annual growth rates as of the second half of this year

GDP: GROWTH
(ANNUAL AND QUARTER-ON-QUARTER CHANGE, %)

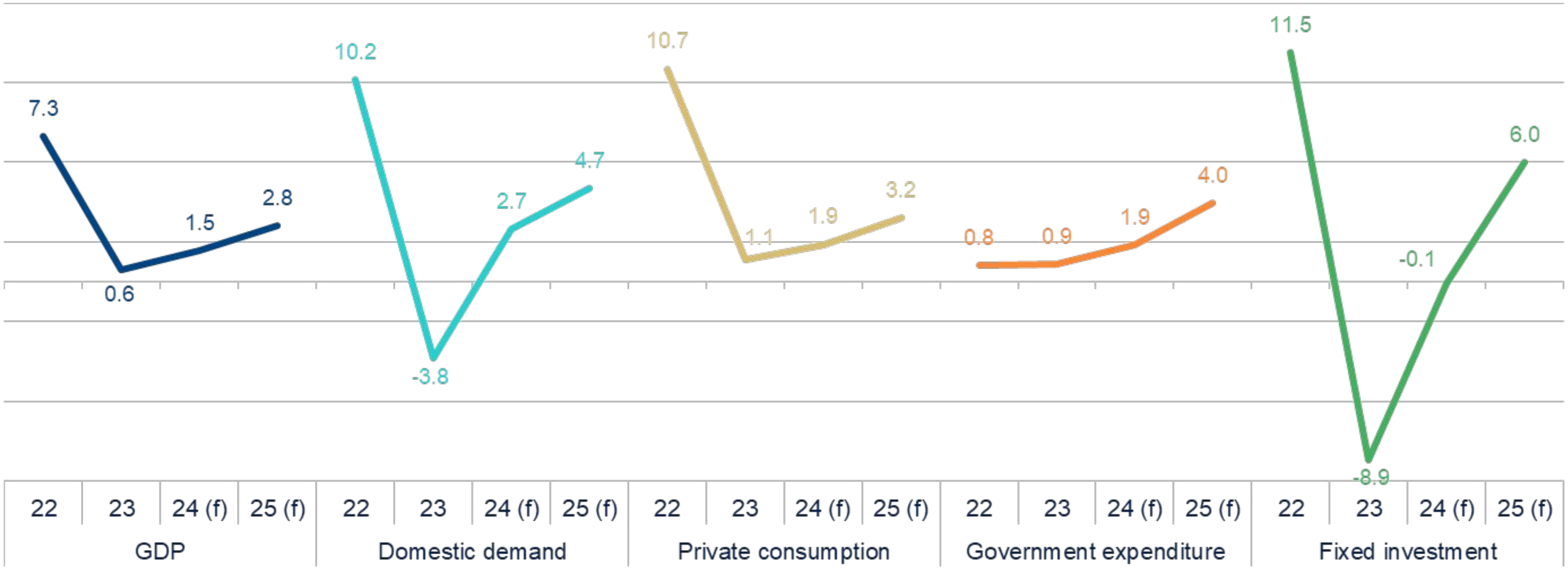


(f): BBVA Research forecasts.
Source: BBVA Research based on DANE data.

Domestic demand will lead the recovery, growing above GDP (vs. its negative contribution in 2023). All its components will gradually improve

GDP: COMPONENTS OF DEMAND

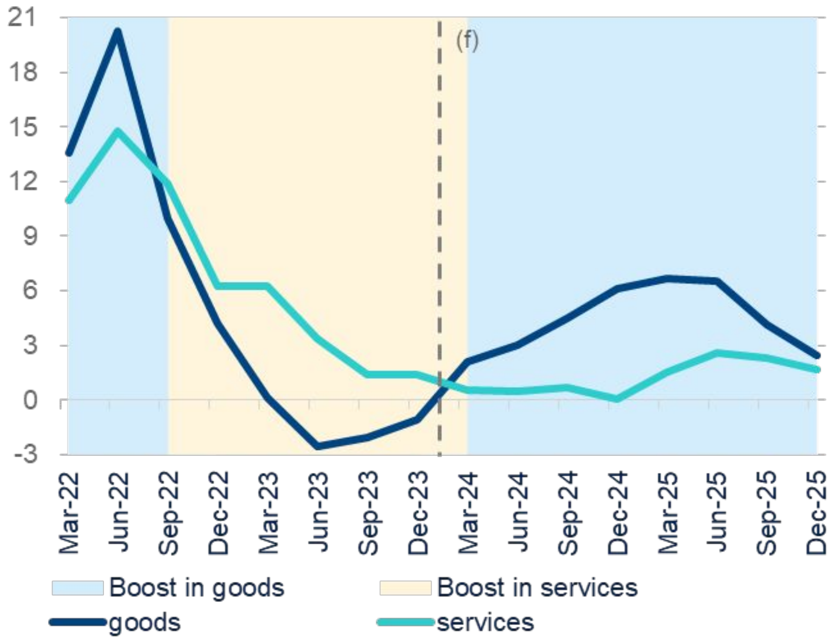
(YOY % CHANGE)



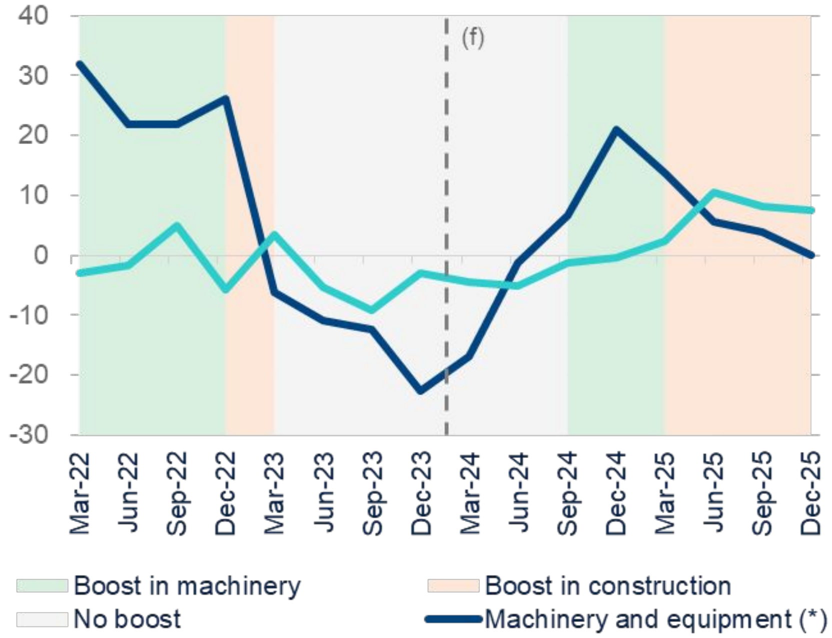
(f): BBVA Research forecasts.
Source: BBVA Research based on DANE data.

Private consumption will be led by spending on goods (especially durable and semi-durable). Investment, first in machinery and then in construction

PRIVATE CONSUMPTION: COMPONENTS
(YOY % CHANGE)



FIXED INVESTMENT: COMPONENTS
(YOY % CHANGE)

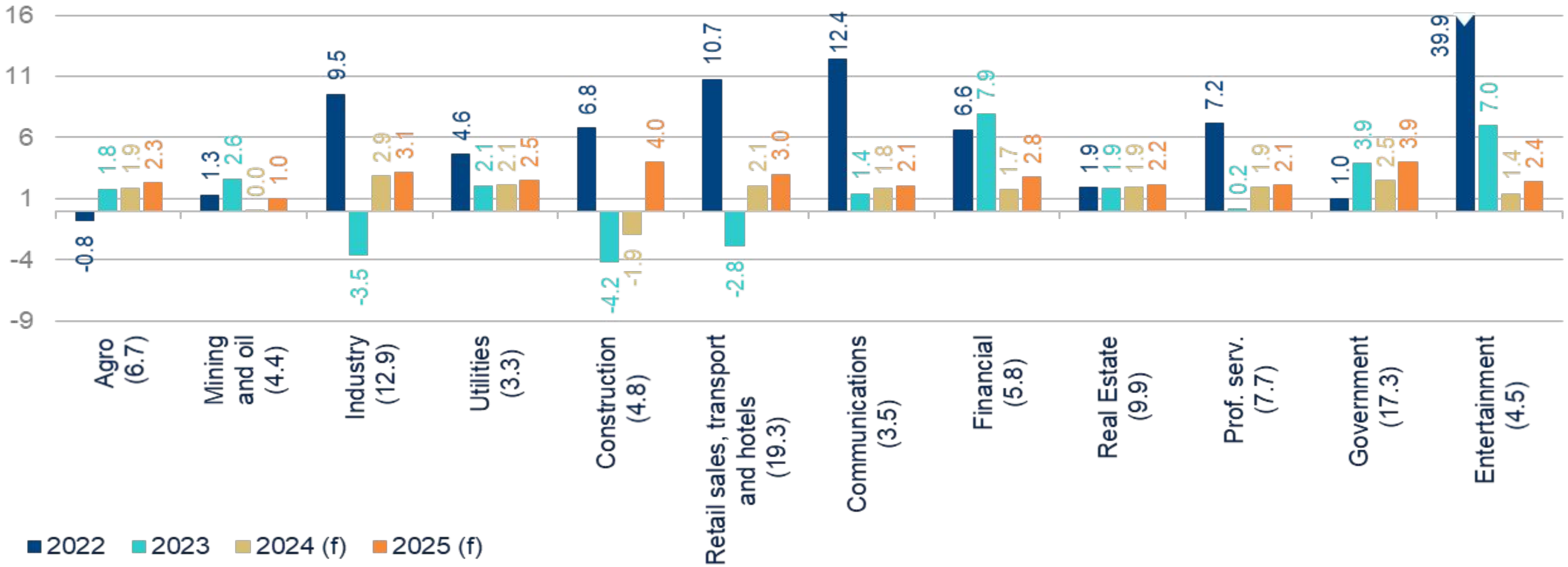


(f): BBVA Research forecasts.
Source: BBVA Research based on DANE data.

Trade and industry to recover in 2024 and 2025, contributing to GDP growth in these years

GDP: ECONOMIC SECTORS

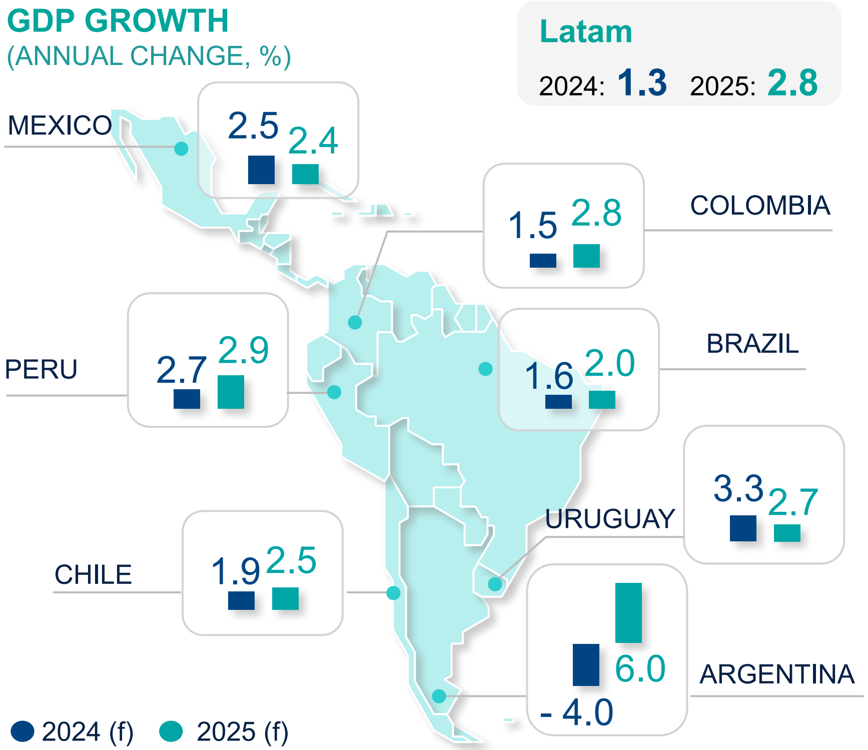
(REAL ANNUAL CHANGE, %, IN PARENTHESES: WEIGHT OF THE SECTOR IN GDP)



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

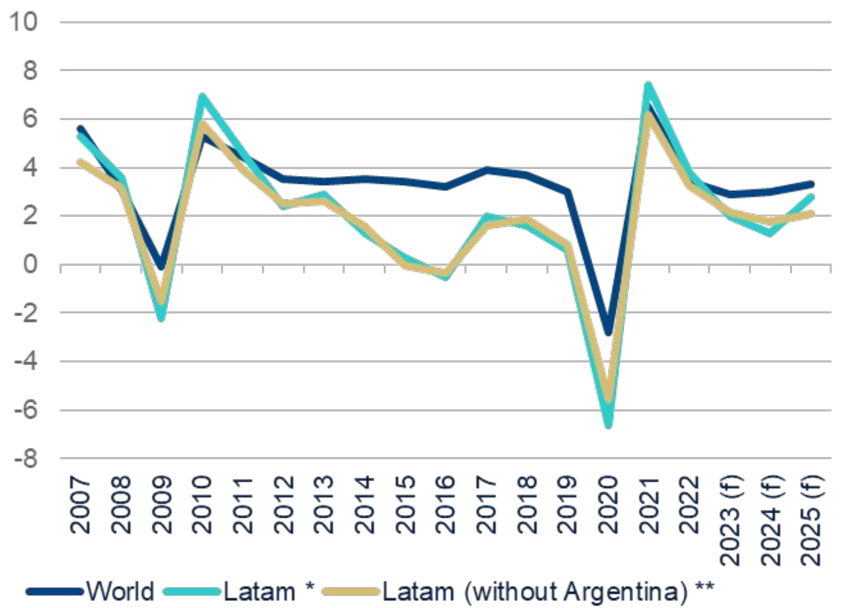
Economies in the region set the stage for a recovery in activity that will consolidate in 2025, supported in lower interest rates and inflation

GDP GROWTH
(ANNUAL CHANGE, %)



(f): forecast
Source: BBVA Reseach.

GLOBAL AND LATAM GDP
(%)

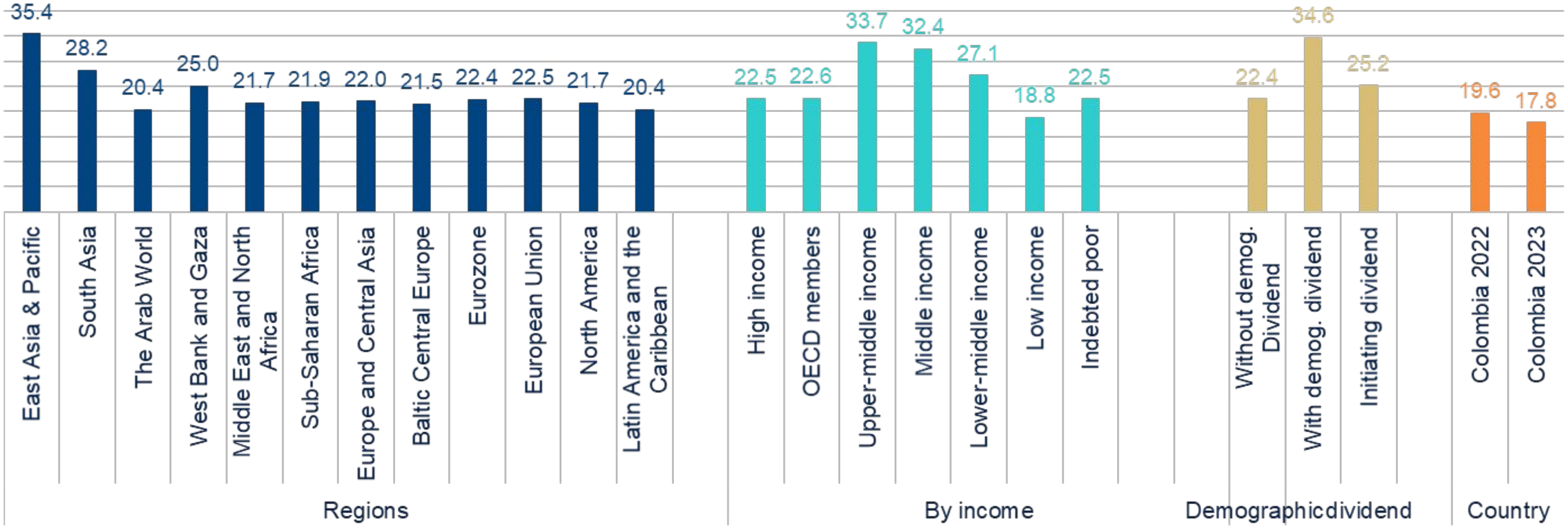


(f):BBVA Research forecast.
(**): Includes Brazil, Chile, Colombia, Mexico, Peru, Paraguay and Uruguay.
(*): Includes Argentina, Brazil, Chile, Colombia, Mexico, Paraguay, Peru and Uruguay.

Recovery in investment is not only a short-term necessity—it will also determine the future growth capacity of the economy

FIXED INVESTMENT RATE

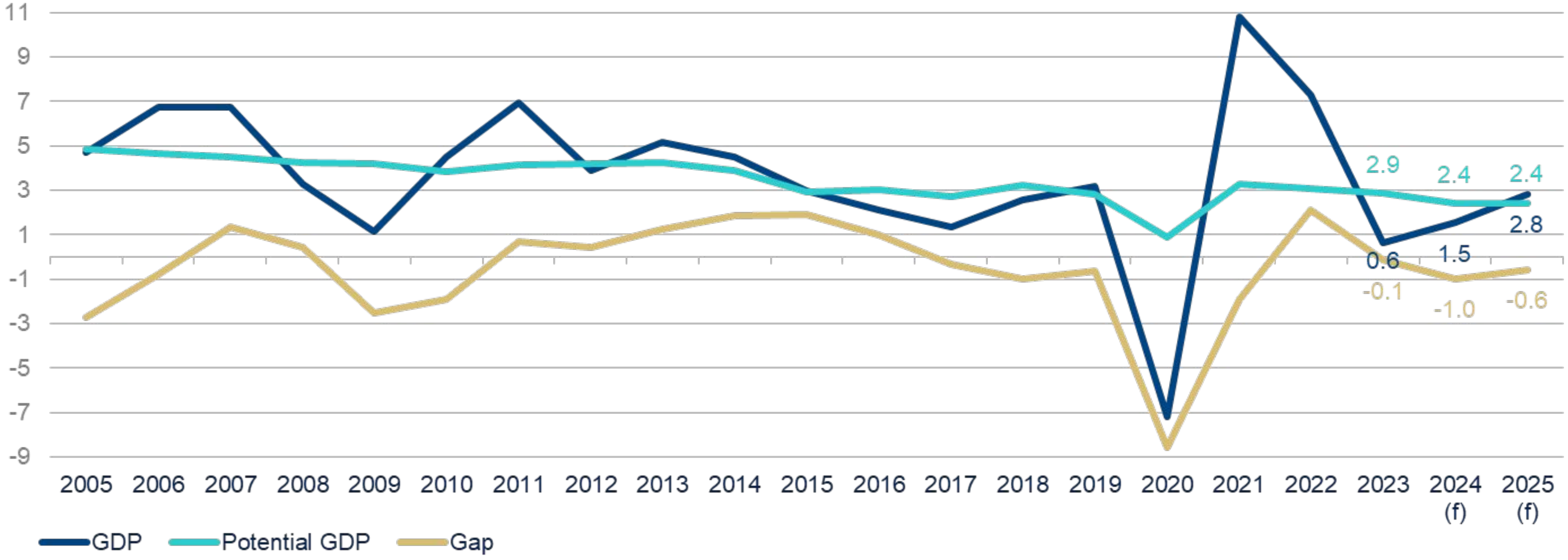
(% OF GDP, DATA AS OF 2022.
)



Source: BBVA Research based on data from the World Bank.

BBVA Research's expected investment path indicates that the economy's potential GDP will not be able to grow above 3% in the medium term

POTENTIAL GDP
(YOY % CHANGE)



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

Research

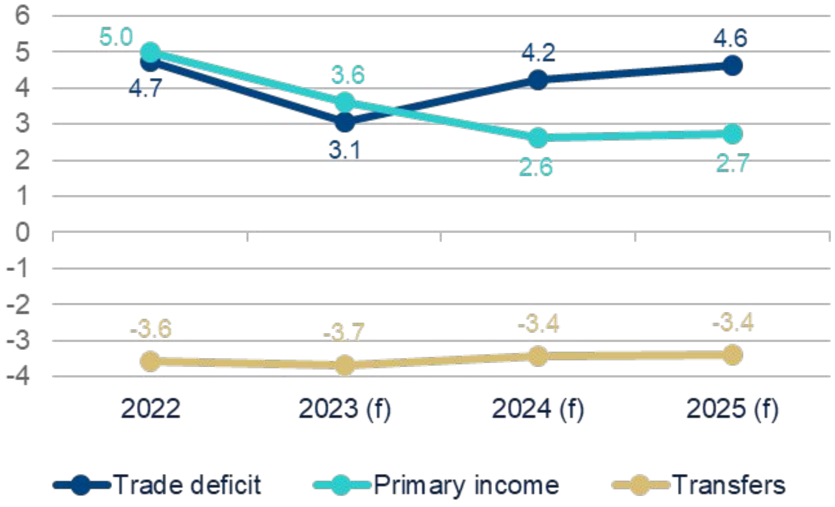
05

Structural balances and exchange rate

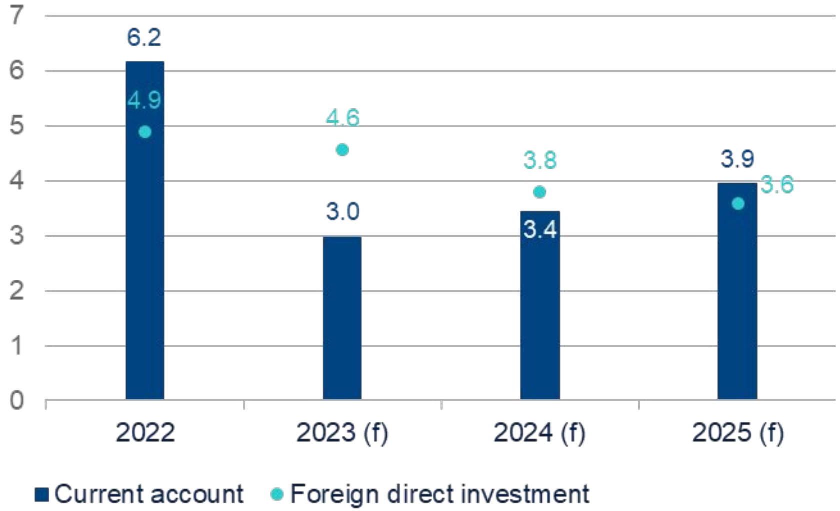
Macroeconomic imbalances will deteriorate. This, together with the monetary policy stance, will weaken the Colombian peso..

Economic recovery will increase the trade imbalance, boosting imports and putting upward pressure on the total foreign deficit

CURRENT ACCOUNT DEFICIT: COMPONENTS
(% OF GDP)



CURRENT ACCOUNT DEFICIT AND FOREIGN DIRECT INVESTMENT (% GDP)

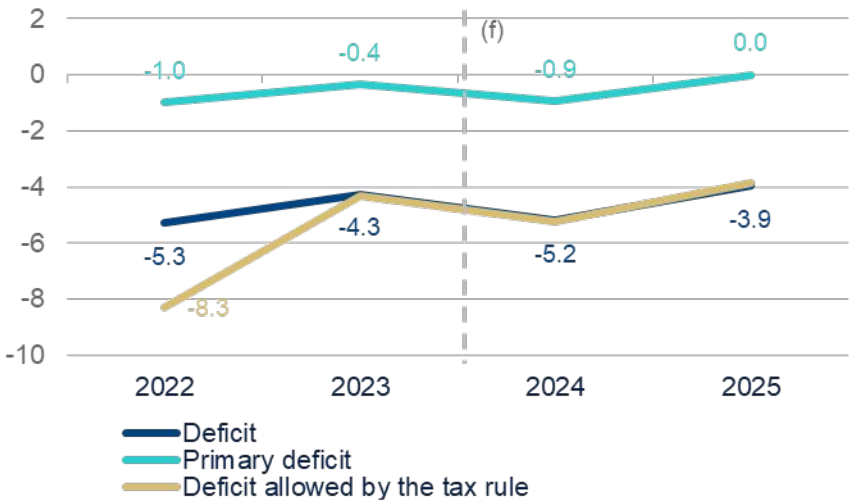


(f): BBVA Research forecasts.
Source: BBVA Research based on Banco de la República data.

The foreign deficit will be financed entirely by foreign direct investment.

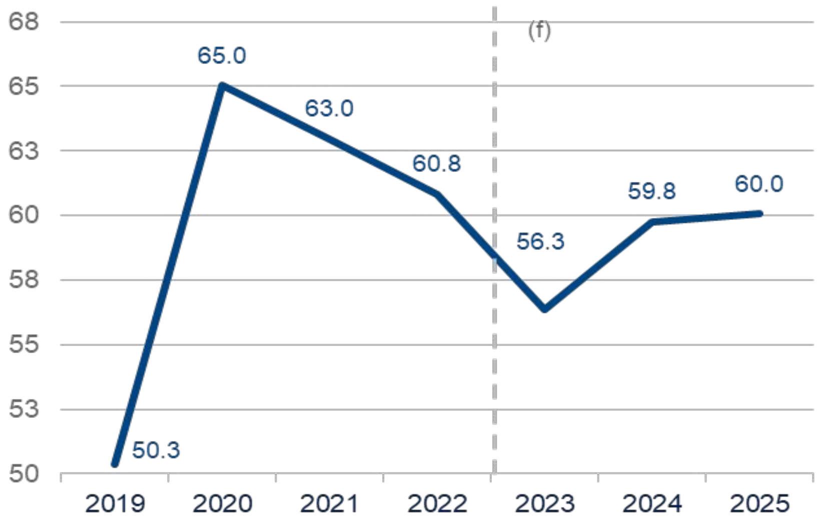
In 2024, the fiscal deficit will increase, interrupting its path of reduction, and it will remain high in 2025. The tax rule is complied at its limit

FISCAL DÉFICIT OF THE NATIONAL CENTRAL GOVERNMENT (% OF GDP)



(f): BBVA Research forecasts.
Source: BBVA Research based on the Ministry of Finance data.

NATIONAL CENTRAL GOVERNMENT GROSS DEBT (% GDP)(*)

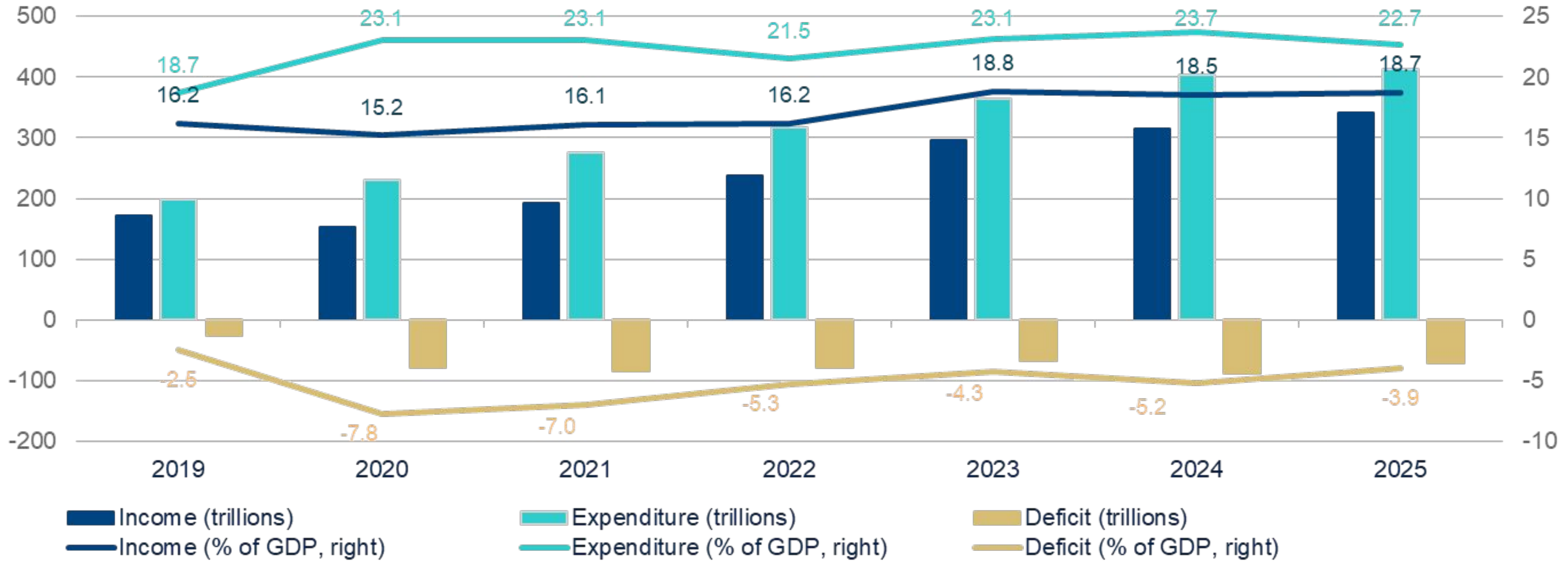


After the reduction of the debt in 2023, largely explained by the lower year-end exchange rate, in 2024 the debt will increase to levels similar to those of 2022, mainly due to the higher exchange rate and primary deficit

Despite the increase in revenues, in 2024 the deficit will be similar to that of 2022, with expenditures higher than in 2020 and 2021

REVENUE, EXPENDITURE AND DEFICIT OF THE NATIONAL CENTRAL GOVERNMENT

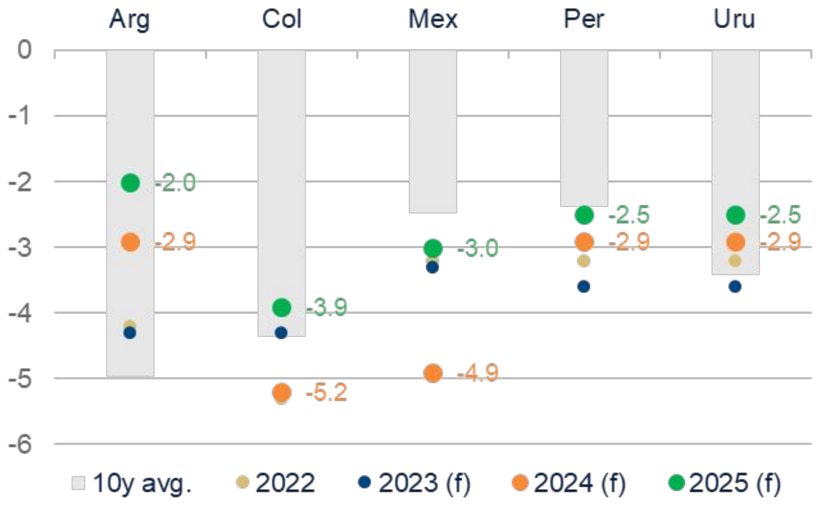
(TRILLIONS OF PESOS AND % OF GDP)



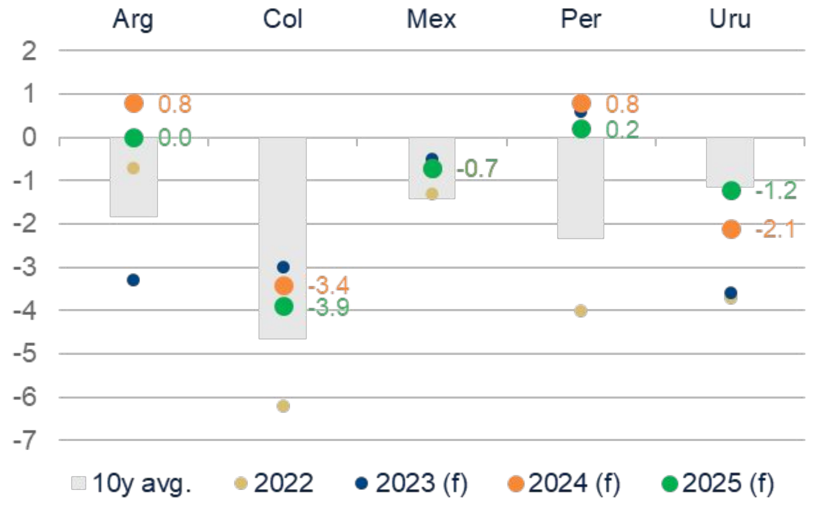
(f): BBVA Research forecasts.
Source: BBVA Research based on the Ministry of Finance data.

The fiscal adjustment will be heterogeneous. Colombia and Mexico show a deterioration in 24 but will improve in 25. Argentina will show an improvement

FISCAL BALANCE
(% OF GDP)



CURRENT ACCOUNT BALANCE
(% OF GDP)

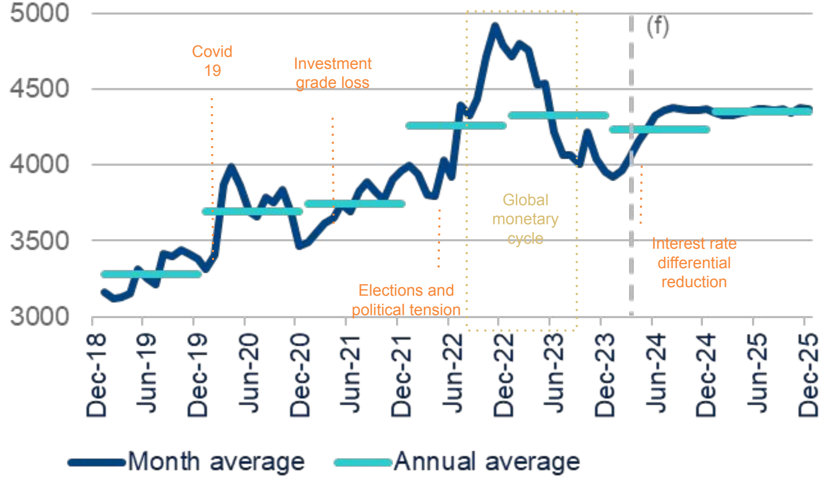


(f): forecast
Source: BBVA Reseach.

In the external front, a small deficit or superavit is expected in most economies with the exception of Colombia that will sustain a widder deficit than the region average.

The closing in the interest rate differential would support a depreciation of the peso in the second quarter

EXCHANGE RATE
(PESOS PER DOLLAR)



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

- The influx of resources for paying taxes has mitigated the weakening of the peso.
- However, with a more accelerated adjustment of interest rates, closing the differential with the Fed faster, a depreciation is expected in the second quarter of the year (close to 10%).
- The gradual improvement in demand, especially for imported goods, will cause a deterioration in the foreign balance, which, together with the deterioration of the fiscal balance, will maintain pressure on the exchange rate and cause it to stabilize at around 4,360 pesos per dollar.

The exchange rate should stabilize at around 4,360 pesos per dollar between the second half of 2024 and the end of 2025. The average would be 4,237 in 2024 and slightly higher in 2025.

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06

Closing remarks

Long-term growth has enormous challenges to overcome

Higher interest rates and increasing geopolitical risks

Interest rates in developed countries (and Colombia) will land at higher levels than those that prevailed before. Also, deterioration in geopolitical conditions may increase the cost of financing and pressure inflation

Less support in production factors

The demographic boom is waning gradually and reduces its impact to potential GDP through the labor market. At the same tie, investment (particularly in infrastructure) has been low and halts the capital accumulation, productivity and the capacity to export.

Uncertainty due to the impact of reforms

The country is undergoing the discussion of significant reforms in Congress, with significant uncertainty surrounding the final reforms approved and the impact on economic relations in the country.

New inflation shocks can still occur

Global geopolitical tensions, increases in international logistics prices and the increased utilization of installed capacity in Colombia could increase the country's structural inflation in the medium term.

Deterioration of structural balances

Further deterioration of macroeconomic imbalances, either due to lower growth, higher expenditure or lower revenues, could lead to revision of the sovereign rating and higher financing costs.

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07

Forecast tables

Main macroeconomic variables

	2020	2021	2022	2023	2024 (f)	2025 (f)
GDP (% y/y)	–7.2	10.8	7.3	0.6	1.5	2.8
Private consumption (% y/y)	-4.9	14.5	9.5	1.1	1.9	3.2
Public consumption (% y/y)	-0.8	9.8	0.3	0.9	1.9	4.0
Fixed investment (% y/y)	-24.0	17.3	11.4	-8.9	-0.1	6.0
Inflation (% y/y, EOP)	1.6	5.6	13.1	9.3	5.4	3.8
Inflation (% y/y, average)	2.5	3.5	10.2	11.8	6.8	4.1
Exchange rate (EOP)	3,469	3,968	4,788	3,954	4,365	4,365
Devaluation (%, EOP)	5.9	14.4	20.7	-17.4	10.4	0.0
Exchange rate (average)	3,693	3,744	4,256	4,326	4,237	4,353
Devaluation (%, average)	12.9	1.4	13.7	1.6	-2.1	2.7
Banco de la República rate (%, EOP)	1.75	3.00	12.00	13.0	7.00	5.50
Current account (% GDP)	-3.4	-5.7	-6.2	-2.7	-3.4	-3.9
Urban unemployment rate (% EOP)	15,9	11,4	10.8	10.2	10.8	10.6

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

Main macroeconomic variables

	GDP (% y/y)	Inflation (% y/y, EOP)	Exchange rate (vs. USD, EOP)	Banco de la República 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	2.2	13.1	4,788	12.00
Q1 23	2.9	13.3	4,761	13.00
Q2 23	0.1	12.1	4,214	13.25
Q3 23	-0.6	11.0	4,008	13.25
Q4 23	0.3	9.3	3,954	13.00
Q1 24	-0.9	7.6	4,045	12.00
Q2 24	1.5	7.4	4,325	10.25
Q3 24	2.2	6.0	4,365	8.50
Q4 24	3.2	5.4	4,365	7.00
Q1 25	3.5	4.1	4,325	6.25
Q2 25	3.1	3.9	4,365	5.75
Q3 25	2.5	3.9	4,369	5.50
Q4 25	2.4	3.8	4,365	5.50

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

Disclaimer

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Colombia Economic Outlook

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Creating Opportunities