Colombia Economic Outlook

Pedaling toward economic revival

June 2024
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Global Outlook: Activity and markets
Main messages

**Recent developments**
A very soft landing so far. Growth has surprised upwards and inflation has halted its downward trend, mostly due to the service sector dynamism. With fiscal policy to some extent offsetting the contractionary impact of monetary tightening, the room for central banks cutting interest rates has declined. Still, financial volatility remains low.

**Growth outlook**
Growth will weaken in the next few quarters and recover somewhat in 2025. In the US, 2024 growth was revised up, but a soft-landing, with weaker demand and labor markets, is still expected. In the Eurozone, a cyclical recovery is expected to gain momentum ahead. In China, despite positive incoming data and increasing stimuli, structural challenges will eventually drive growth down.

**Inflation and rates outlook**
The ECB has started cutting interest rates, but the Fed will wait more than anticipated to launch its easing cycle. Domestic demand will eventually weaken, paving the way for further disinflation and rate cuts. However, inflation concerns will not fully subside and, therefore, interest rates are likely to remain at contractionary levels.

**Risks**
If activity doesn't weaken due to the dynamism of the services sector and/or a manufacturing recovery occurs, inflation converging to 2% would be at risk. In the current geopolitical context, new supply shocks could also prevent inflation from slowing. All this would leave little room for lower interest rates.
A very soft landing: growth and inflation remain resilient, reducing the room for central banks cutting interest rates

**Recent scenario drivers**

**Tight monetary conditions** are hitting demand with long lags and through the traditional channels; tightening effects softened by monetary easing prospects.

**Expansionary fiscal policy** has been favoring activity, partially offsetting the impact of monetary tightening.

**Supply “normalization”:** moderated input prices and bottlenecks, favored also by oversupply in China; despite geopolitics, trade tariffs, US elections...

**Recent macro trends**

**Resilient growth,** mainly in the US and service sector; recovery signs in Europe and China as well as in manufacturing.

**Inflation has surprised upwards:** it has stopped falling lately on more persistent services inflation.

**Limited financial volatility** as positive growth view prevails, despite prospects of delayed monetary easing by the Fed.
Commodity prices have remained relatively stable recently despite ongoing geopolitical tensions

**BILATERAL TENSIONS INDEX**
(AVERAGE SINCE 2017 EQUALS TO 0; 28-DAY MOVING AVERAGE)

**COMMODITY PRICES**
(INDEX: 2019 AVERAGE = 100, 30-DAYS MOVING AVERAGE)

Source: BBVA Research Geopolitics Monitor.

Source: BBVA Research based on data from Haver.
Growth is holding up better than expected, mainly due to service dynamism, and there are now some signs of recovery, in particular in manufacturing.

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

Source: BBVA Research based on data from Haver.
Despite growth resilience and recovery signs, GDP is below (mainly in Europe), and service consumption is close to pre-COVID trends.
Headline inflation has been moving sideways lately, to a large extent due to higher than expected service inflation persistence.

CPI INFLATION: HEADLINE, CORE AND SERVICE
(Y/Y %)

Source: BBVA Research based on data from Haver.
Fiscal policy continues, in general, to support activity, to some extent offsetting the contractionary impact of high interest rates

**GOVERNMENT CONSUMPTION**  
(INDEX: 2016-2019 AVERAGE = 100, CHAINED VOLUMES)

**CYCLICALLY-ADJUSTED PRIMARY FISCAL BALANCE**  
(SHARE OF POTENTIAL GDP)

Source: BBVA Research based on BEA and ECB data.

(f): forecast.  
Source: BBVA Research based on IMF data.
Markets have raised again their interest rate expectations as the Fed's easing cycle is delayed and the ECB remains cautious despite the recent 25 bps cut

**US: IMPLICIT RATE IN FED FUND FUTURES (%)**

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

(* Depo interest rates.

Source: BBVA Research based on Bloomberg.)
Financial volatility remains low even though sovereign rates have reached high levels and concerns about geopolitics and US elections have heightened.

**SOVEREIGN YIELDS AND VOLATILITY**

(%, INDEX)

**BBVA RESEARCH FINANCIAL TENSIONS INDEX**

(INDEX: HISTORIC AVERAGE = 0)

Source: BBVA Research based on data from Haver.
Recent local growth: Activity, employment and inflation
In 2023, the economy grew by 0.6% and remained stable in the first half of 2024. The economy shows signs of marginal recovery with nuances.

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

Source: BBVA Research based on DANE data.
In 2023, Bogotá grew in line with the country (0.6%), and half of the departments grew above that figure.

GDP GROWTH BY DEPARTMENT
(REAL ANNUAL CHANGE, %)

GDP CONTRIBUTION BY DEPARTMENT
(CONTRIBUTION, % OF DOMESTIC GDP)

Source: BBVA Research based on DANE data.
All components of demand, with the exception of government expenditure and exports, performed better in the first quarter.

COMPONENTS OF GDP
(REAL ANNUAL CHANGE %)

<table>
<thead>
<tr>
<th>Component</th>
<th>2022</th>
<th>Mar-23</th>
<th>Jun-23</th>
<th>Sep-23</th>
<th>Dec-23</th>
<th>Mar-24</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP</td>
<td>7.3</td>
<td>10.2</td>
<td>10.7</td>
<td>11.5</td>
<td>12.3</td>
<td>23.6</td>
</tr>
<tr>
<td>Domestic demand</td>
<td>-0.7</td>
<td>-0.1</td>
<td>3.3</td>
<td>3.3</td>
<td>1.3</td>
<td>0.8</td>
</tr>
<tr>
<td>Private consumption</td>
<td>4.4</td>
<td>4.4</td>
<td>4.4</td>
<td>0.4</td>
<td>2.8</td>
<td>0.8</td>
</tr>
<tr>
<td>Public consumption</td>
<td>-2.6</td>
<td>-0.8</td>
<td>-0.8</td>
<td>-1.9</td>
<td>-0.7</td>
<td>0.7</td>
</tr>
<tr>
<td>Fixed investment</td>
<td>-2.5</td>
<td>-9.4</td>
<td>-11.5</td>
<td>-14.1</td>
<td>-6.5</td>
<td>-2.9</td>
</tr>
<tr>
<td>Exports</td>
<td>-1.3</td>
<td>-14.1</td>
<td>-23.2</td>
<td>-14.1</td>
<td>-14.1</td>
<td>-14.1</td>
</tr>
</tbody>
</table>

Source: BBVA Research based on DANE data.
Fixed investment in machinery and equipment and housing, and private consumption of goods are the main barrier to GDP growth

PRIVATE CONSUMPTION AND FIXED INVESTMENT: COMPONENTS
(REAL ANNUAL CHANGE %)

Source: BBVA Research based on DANE data.
The economy continues to deaccumulate inventories in an atypical manner

ACCUMULATION (+) OR DEACCUMULATION (-) OF INVENTORIES AND GDP GROWTH
(% OF GDP AND REAL ANNUAL CHANGE)

Source: BBVA Research based on DANE data.
The agriculture, government and entertainment sectors show marginal recovery, while industry shows the weakest momentum

**GDP: SECTORAL**

(REAL ANNUAL CHANGE, IN PARENTHESIS SECTORAL CONTRIBUTION, %)

Source: BBVA Research based on DANE data.
In this context, job creation began to slow down since late 2023, with the most pronounced setbacks in accommodation and food services and agriculture.

NATIONAL AND URBAN EMPLOYED (MILLIONS OF PEOPLE, SEASONALLY ADJUSTED SERIES)

CHANGE IN EMPLOYMENT BY SECTOR (AVERAGE ANNUAL CHANGE JAN-APR, THOUSANDS OF PEOPLE)

Source: BBVA Research based on DANE data.
The unemployment rate has increased in most of the country (except Bogotá, Villavicencio, Florencia), with greater deterioration in the periphery.

### Average Unemployment Rate January-April 2023 (Annual Change, %)

- High unemployment
- Lower unemployment

### Average Unemployment Rate January-April 2024 (Annual Change, %)

- High unemployment
- Lower unemployment

Data for 23 cities and their metropolitan areas

Source: BBVA Research based on DANE data.
Inflation eased quickly in 2023 and part of 2024, but is facing resistance due to the persistence of in regulated sectors and services.
Inflation expectations continue to fall and are moving closer to the Central Bank's target range

TOTAL INFLATION: TWELVE-MONTH EXPECTATIONS
(ANNUAL CHANGE, %)

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

TOTAL INFLATION: EXPECTATIONS AT THE END OF EACH YEAR (ANNUAL CHANGE, %)

Source: BBVA Research with data from Latin Focus
Global economy forecasts
BBVA Research baseline scenario: inflation and interest rates are likely to decline, but will remain relatively high, favoring subdued activity growth

Scenario drivers

**Interest rates to gradually fall**, also in the US, where cuts were postponed amid large uncertainty, but will remain at contractionary levels

**Fiscal policy will scarcely contribute to ease inflation pressures**, mainly in the US; some consolidation is likely in Europe from 2025, given new fiscal rules

**Supply conditions**: geopolitical context makes negative shocks more likely than in the past, but no particular shock is assumed in baseline scenario

Macro trends: prospects

**Global growth to be weak in 2H24** and recover somewhat in 2025; China’s structural deceleration will weigh down

**Inflation will ease further**, but is set to remain higher than in recent decades on demand (fiscal policy, etc.) and supply (geopolitics, protectionism, etc.) issues

**Volatility on geopolitics and US elections**, likely offsetting the positive effects triggered by lower Fed rates
GDP growth prospects: a softer landing in the US, a cyclical recovery in the Eurozone and a structural deceleration in China

**GDP GROWTH (*)**

(%)  

Updated forecast (2Q24)  Previous forecast (1Q24)

<table>
<thead>
<tr>
<th>Year</th>
<th>US</th>
<th>Eurozone</th>
<th>China</th>
</tr>
</thead>
<tbody>
<tr>
<td>2023</td>
<td>2.5</td>
<td>2.3</td>
<td>5.2</td>
</tr>
<tr>
<td>2024(f)</td>
<td>2.2</td>
<td>0.7</td>
<td>4.6</td>
</tr>
<tr>
<td>2025(f)</td>
<td>1.9</td>
<td>1.4</td>
<td>4.2</td>
</tr>
</tbody>
</table>

Upward revision in 2024 on robust domestic demand and downward in 2025 on higher rates, base effects

1H24 recovery to continue ahead, led by consumption on rising real incomes, still high savings; monetary easing to be increasingly supportive

Supply-led rebound in 1Q24 on fiscal boost; structural challenges (US tariffs, real estate...) will weigh down

Global GDP growth: 3.2% in 2023, 3.1% (+0.0 pp in comparison to previous forecast) in 2024 and 3.3% (+0.0 pp) in 2025.

Source: BBVA Research.
Inflation forecasts revised upwards in the US and Eurozone, mostly on service stickiness, and downwards in China, amid deflation concerns

**HEADLINE INFLATION: CPI**
(YOY %, END OF PERIOD)

Disinflation to resume in 2H24 as consumption, labor markets and housing prices moderate

Upward revision on services stickiness and higher oil prices; still in line to reach 2% target by mid-2025

Low inflation in a context where demand remains weak amid low confidence, real estate fears...

<table>
<thead>
<tr>
<th></th>
<th>2023</th>
<th>2024(f)</th>
<th>2025(f)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>US</strong></td>
<td>3.4</td>
<td>3.2</td>
<td>2.5</td>
</tr>
<tr>
<td><strong>2024(f)</strong></td>
<td>2.9</td>
<td>2.7</td>
<td>2.0</td>
</tr>
<tr>
<td><strong>2025(f)</strong></td>
<td>-0.8</td>
<td>1.7</td>
<td>2.0</td>
</tr>
</tbody>
</table>

(f): forecast.
Source: BBVA Research.
The ECB has started cutting rates; the Fed will wait at least until Sep/24 to launch its easing cycle amid still uncertain growth and inflation moderation.

**Policy Interest Rates (\(^*\))**

<table>
<thead>
<tr>
<th>Year</th>
<th>US 2023</th>
<th>US 2024(f)</th>
<th>US 2025(f)</th>
<th>Eurozone 2023</th>
<th>Eurozone 2024(f)</th>
<th>Eurozone 2025(f)</th>
<th>China 2023</th>
<th>China 2024(f)</th>
<th>China 2025(f)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2023</td>
<td>5.50</td>
<td>5.00</td>
<td>3.75</td>
<td>4.00</td>
<td>3.25</td>
<td>2.25</td>
<td>3.45</td>
<td>3.25</td>
<td>3.25</td>
</tr>
<tr>
<td>2024(f)</td>
<td>4.50</td>
<td>3.00</td>
<td></td>
<td>3.25</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2025(f)</td>
<td>3.00</td>
<td></td>
<td></td>
<td>2.25</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*(f): forecast.  
\(^*\) In the case of the Eurozone, interest rates of the deposit facility.  
Source: BBVA Research.
Growth in the region will improve in 2025, however, much of the momentum comes from the acceleration in Argentina.

**GDP GROWTH (ANNUAL % CHG.)**

- **Argentina** (f): 2024: 1.8, 2025: 2.8
- **Brazil** (f): 2024: 2.1, 2025: 2.0
- **Colombia** (f): 2024: 1.8, 2025: 2.8
- **Mexico** (f): 2024: 2.5, 2025: 2.4
- **Peru** (f): 2024: 2.9, 2025: 2.7
- **Paraguay** (f): 2024: 3.5, 2025: 3.5
- **Uruguay** (f): 2024: 3.3, 2025: 2.7
- **Chile** (f): 2024: 2.7, 2025: 1.8
- **World and Latam GDP (%):**
  - **2024 (f):**
    - World: 1.6
    - Latam: 2.7
  - **2025 (f):**
    - World: 2.7
    - Latam: 3.3

(f): BBVA Research forecasts.

(*) : Includes Argentina, Brazil, Chile, Colombia, Mexico, Paraguay and Uruguay.

(**): Includes Brazil, Chile, Colombia, Mexico, Peru, Paraguay and Uruguay.

Source: BBVA Research.
Inflation has been more persistent than anticipated in 2024, however a gradual convergence toward the targets in 2025 is still expected.

**INFLATION**
(ANNUAL % CHG. EOP)

- **MEXICO**: 4.2, 3.5
- **BRAZIL**: 4.0, 4.0
- **COLOMBIA**: 5.4, 3.8
- **CHILE**: 3.7, 3.0
- **PERU**: 2.6, 2.4
- **URUGUAY**: 5.5, 4.6
- **ARGENTINA**: 140.0, 45.0

**WORLD & LATAM INFLATION**
(ANNUAL % CHG. EOP)

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

(2024 (f)  2025 (f))

Source: BBVA Research.
The cycle of interest rate reductions has been late in Colombia and Mexico. However, countries that started earlier cycles have slowed them down.

Looking ahead, the moderation of rates is expected to continue — in most countries at a slower pace than what has been observed to date. Colombia is expected to accelerate its rate reductions toward the end of the year, and Mexico is expected to carry out a more continuous, albeit gradual, cycle of cuts going forward.
Base scenario: soft-landing: demand moderates on monetary policy and waning excess savings.

Risks: demand strength, protectionism, geopolitics, among other factors, could prevent inflation and interest rates from declining ahead.

Risk 1: strong demand: as monetary policy and waning savings don’t offset fiscal impulse and labor tightness.

Risk 2: negative supply shocks: on ongoing armed conflicts, protectionism, US elections, green policies, climate events, etc.

Risk 3: hard-landing: demand weakens sharply on monetary policy, waning saving or China’s structural deceleration.

Risk 4: positive supply shocks: productivity gains (potentially on AI and green investment), large Chinese supply, etc.
Forecasts for Colombia

I. Economic activity and employment
The Colombian economy will gradually recover

**GDP (REAL ANNUAL CHANGE %)**

<table>
<thead>
<tr>
<th>Year</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>2023</th>
<th>2024 (f)</th>
<th>2025 (f)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>-7.2</td>
<td>3.2</td>
<td>10.8</td>
<td>7.3</td>
<td>0.6</td>
<td>1.8</td>
<td>2.8</td>
</tr>
</tbody>
</table>

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

**Elements of our forecast**

- The growth moderation cycle, which began in mid-2022, will reach a turning point in the second half of this year.

- Annual growth will continue to accelerate to changes above 3% in at least two quarters of 2025. Baseline effects and higher housing inventories will boost the result.

- The behavior of net external demand will be decisive in the results of growth. In 2024, when domestic demand will still be weak, it will contribute positively to GDP. In 2025, the boost from domestic demand to imports will lead to a negative contribution of the net external balance.
Between 2024 and 2025, all components of demand will accelerate, especially investment and imports

GDP: FORECASTS OF THE DEMAND COMPONENTS
(REAL ANNUAL CHANGE %)

Elements of our forecast

- **Households** will accelerate their spending on goods, while it will moderate in services. Better financial conditions will support expenditure.

- **The investment will have three moments.** In the short-term, civil works will continue to be in positive territory and better consumption of goods will boost industrial output and expenditure on machinery. By the end of the year, non-residential construction will take advantage of the low commercial vacancy. Then, this year's improved housing sales will boost construction in 2025.

- **Domestic demand will accelerate strongly next year,** also thanks to the presence of more housing “inventories” in foreclosure.

(f): Forecasts from BBVA Research.
Source: BBVA Research based on DANE data.
The government will stand out in 2024-25, along with entertainment dynamics. Acceleration in Industry, Commerce, Mining and Construction to boost GDP

Elements of our forecast

- **In 2024**, public expenditure on healthcare will cause the government sector to lead growth. Likewise, public services will stand out. Construction will show some recovery, but still in slightly negative territory. The slow pace in this sector will condition the demand for minerals and related industrial products, impacting these sectors.

- **In 2025**, the industrial and construction sectors will accelerate their recovery, leading growth along with government. Mining will turn positive due to demand from construction, but tempered by low growth in the oil sector. The services sectors, except entertainment, will accelerate compared to 2024.

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**SECTORAL GDP**

(ANNUAL CHANGE, %)

<table>
<thead>
<tr>
<th>Sector</th>
<th>2024 (f)</th>
<th>2025 (f)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Entertainment</td>
<td>3.1</td>
<td>2.4</td>
</tr>
<tr>
<td>Public serv.</td>
<td>3.0</td>
<td>1.9</td>
</tr>
<tr>
<td>Government</td>
<td>3.4</td>
<td>2.2</td>
</tr>
<tr>
<td>Agro</td>
<td>1.6</td>
<td>1.8</td>
</tr>
<tr>
<td>Real estate serv.</td>
<td>2.2</td>
<td>1.2</td>
</tr>
<tr>
<td>Trade</td>
<td>3.0</td>
<td>2.1</td>
</tr>
<tr>
<td>Professional serv.</td>
<td>3.0</td>
<td>1.1</td>
</tr>
<tr>
<td>Financial serv.</td>
<td>2.8</td>
<td>0.7</td>
</tr>
<tr>
<td>Communications</td>
<td>3.0</td>
<td>2.1</td>
</tr>
<tr>
<td>Industry</td>
<td>0.7</td>
<td>2.0</td>
</tr>
<tr>
<td>Mining</td>
<td>4.0</td>
<td>2.0</td>
</tr>
<tr>
<td>Construction</td>
<td>-0.4</td>
<td>4.0</td>
</tr>
</tbody>
</table>

(f): BBVA Research Forecasts

Source: BBVA Research based on DANE data.
In this context, employment growth will deteriorate further in 2024, to start recovering in 2025.

**NATIONAL AND URBAN EMPLOYED**
(ANNUAL CHANGE IN DECEMBER OF EACH YEAR, %)

<table>
<thead>
<tr>
<th>Year</th>
<th>National</th>
<th>Urban</th>
</tr>
</thead>
<tbody>
<tr>
<td>2021</td>
<td>5.0</td>
<td>4.3</td>
</tr>
<tr>
<td>2022</td>
<td>4.5</td>
<td>4.5</td>
</tr>
<tr>
<td>2023</td>
<td>2.5</td>
<td>1.8</td>
</tr>
<tr>
<td>2024 (f)</td>
<td>0.7</td>
<td>1.0</td>
</tr>
<tr>
<td>2025 (f)</td>
<td>1.4</td>
<td>1.4</td>
</tr>
</tbody>
</table>

**NATIONAL AND URBAN UNEMPLOYMENT RATE**
(% OF WORKFORCE)

<table>
<thead>
<tr>
<th>Year</th>
<th>National</th>
<th>Urban</th>
</tr>
</thead>
<tbody>
<tr>
<td>2021</td>
<td>11.4</td>
<td>11.1</td>
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<td>2022</td>
<td>10.8</td>
<td>10.3</td>
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<td>10.6</td>
<td>10.4</td>
</tr>
<tr>
<td>2025 (f)</td>
<td>10.4</td>
<td>10.3</td>
</tr>
</tbody>
</table>

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

II. Fiscal Accounts
The fiscal deficit will remain high due to a combination of low capacity to reduce spending and weak revenue collection

**Elements of our forecast**

- **Public expenditure will remain at high levels** compared to pre-covid levels. Estimated expenditure for 2024 is consistent with the tax rule and implies a sharp budget cut.

- **The revenues will also be above those of 2017-19**, driven by two tax reforms. Even so, they will be lower than those budgeted by the government, since some of them will not materialize (settlement of disputes, non-deductibility of royalties, extraordinary dividends from Ecopetrol).

- **Thus, in 2024-25 there will be larger deficits than in 2017-19** although a correction is expected in 2025. These results are in line with compliance with the fiscal rule.

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**REVENUES, EXPENSES AND DEFICIT OF THE CENTRAL NATIONAL GOVERNMENT (% OF GDP)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenues</th>
<th>Expenditure</th>
<th>Deficit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Avg. 17-19</td>
<td>18.7</td>
<td>15.7</td>
<td>3.1</td>
</tr>
<tr>
<td>2020</td>
<td>23.1</td>
<td>16.1</td>
<td>7.0</td>
</tr>
<tr>
<td>2021</td>
<td>23.1</td>
<td>16.2</td>
<td>7.0</td>
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<tr>
<td>2022</td>
<td>21.5</td>
<td>18.8</td>
<td>5.3</td>
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<tr>
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<td>23.1</td>
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<td>5.0</td>
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<tr>
<td>2024 (f)</td>
<td>22.8</td>
<td>18.1</td>
<td>5.7</td>
</tr>
<tr>
<td>2025 (f)</td>
<td>21.8</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(f): BBVA Research forecasts

Source: BBVA Research based on data from the Ministry of Finance.
Tax accounts will face challenges in the coming years

**Expenditure**

- **High and inflexible spending** that has not been reversed following the pandemic.
- **Approval of new reforms** could imply additional expenditure.
- **Efficiency of** expenditure to support economic recovery.

**Income**

- **Slow recovery of economic activity** and increase in labor informality.
- **Efficiency in tax collection** (control of tax evasion and effective collection rate).
- **Balance of tax revenues** between natural and legal persons.
Forecasts for Colombia

III. External sector and exchange rate
Exports to fall 3.5% in 2024 and grow 4.7% in 2025, with a weaker traditional basket due to lower commodity prices

GOODS EXPORTS: BY TYPE
(MILLIONS OF USD, %)

Elements of our forecast

- **Exports will maintain low growth**, partly explained by a weaker traditional basket, which will fall 4.8% in 2024 and grow by a timid 0.5% in 2025.

- **Commodity prices will maintain a** downward trend in products such as coffee and coal, and oil from 2025.

- **Non-traditional exports will grow 2.6% in 2024**, driven by higher external demand. In 2025 they will grow 3.3%, in line with the dynamism of external demand and favored by an expected average depreciation of 4.7%.
Imports will grow 5.6% in 2024 and 9.8% in 2025, driven by the recovery in domestic demand, especially in durable goods

Elements of our forecast

- The data observed during 2024 suggest weak imports, especially in intermediate and capital goods.
- Imports will regain some traction in the second part of 2024, especially due to the growth of durable goods consumption and in line with the dynamization of economic activity. In 2025, they will have a greater dynamic due to the consolidation of a better domestic demand figure.

TOTAL IMPORTS: BY TYPE OF GOOD
(MILLIONS OF USD, %)
In 2024, the current account deficit will stand at 2.9% of GDP. From now on, it will be pressured upward by the growth of imports.

**Elements of our forecast**

- In 2024, moderate exports and the recovery of imports will lead to a deterioration of the trade balance, which will put upward pressure on the current account deficit. In 2025, the deficit trade pressure will be accentuated.

- In the short-term, the deficit in primary income will be contained by lower remittances of profits abroad and remittances will remain strong, in line with observed data. Going forward, increased economic activity will lead to increases in profit flows abroad, and the deterioration of the labor market in issuing countries will slow down remittances.
So far this year, exchange rate volatility has been mainly associated with global factors (Fed rate expectations).

### Elements of peso behavior

- **So far this year, the exchange rate has remained relatively stable** compared to recent years. This is partly due to significant currency flows for tax payments and large-scale corporate operations, which have offset the upward pressure from the external context.

- **The volatility so far this year is mainly due to the external environment** and decisions by the United States Federal Reserve.

- **So far this year, the exchange rate averaged 3,896 pesos per dollar, a figure 9.9% lower than the average observed in 2023.**
We expect a depreciation of the peso in the second part of the year, to stabilize below 4,200 pesos in 2025

Elements for the expected devaluation

- The expected reduction in the rate differential with the Fed for the remainder of the year (with a 325 bp reduction from BanRep and 50 bp from the Fed).

- The expected deterioration of macroeconomic imbalances (external and fiscal).

- The high political uncertainty, especially on account of the discussion of structural reforms.

- In addition to the above, there is high uncertainty regarding factors such as a possible sovereign rating downgrade, a further delay in the Fed's rate cut, the development of local reforms and a more challenging fiscal outlook.

### COLOMBIAN PESO EXCHANGE RATE

<table>
<thead>
<tr>
<th></th>
<th>2022</th>
<th>2023</th>
<th>2024 (f)</th>
<th>2025 (f)</th>
</tr>
</thead>
<tbody>
<tr>
<td>End of period</td>
<td>4,788</td>
<td>3,954</td>
<td>4,155</td>
<td>4,190</td>
</tr>
<tr>
<td>Devaluation EOP</td>
<td>20.7</td>
<td>-17.4</td>
<td>5.1</td>
<td>0.8</td>
</tr>
<tr>
<td>Period average</td>
<td>4,256</td>
<td>4,326</td>
<td>3,987</td>
<td>4,176</td>
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<tr>
<td>Devaluation period avg.</td>
<td>13.7</td>
<td>1.6</td>
<td>-7.8</td>
<td>4.7</td>
</tr>
</tbody>
</table>

(f): BBVA Research Forecasts.
Source: BBVA Research with data from BanRep.
Forecasts for Colombia

IV. Inflation and monetary policy
Inflation will continue to recede, with less momentum in the coming months, due to base effects in food and persistence in services.

### Elements of our forecast

- **Food**: Some upward pressures are expected due to base effects and climatic factors in 2024 and a more stable dynamic in 2025.

- **Diesel price**: Direct and indirect effects on the prices of the economy.

- **Services**: high persistence in its inflation, but a gradual moderation is expected in the remainder of 2024.

- **Demand**: Lower demand pressures in goods and some services.

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**TOTAL INFLATION AND THE BANK'S TARGET RANGE (ANNUAL CHANGE, %)**

- **Month of December 2022**: 12.1%
- **April 2023**: 9.3%
- **February 2024**: 5.4%
- **December 2024**: 3.8%

(f): BBVA Research Forecasts

Source: BBVA Research based on DANE data.
The Central Bank began its rate cut in December and continues in this gradual adjustment process. The real rate remains around highs.

Recent interest rate trends

- The Central Bank has accumulated 150 bp of cuts, with 50 bp in the last two meetings.
- The Board's stance remains highly restrictive on the real rate (using one-year non-food inflation expectations).
- Despite the Issuer's slow rate adjustment, market rates have shown an earlier and greater reduction as a consequence of less pressure from regulatory issues, greater public sector liquidity in the financial market and less pressure from credit growth.

(*) The 1-year inflation expectations excluding food from the BanRep survey are used.
Source: BBVA Research with data from BanRep
The monetary policy rate will reach 8.5% at the end of 2024 and will approach its neutral level in 2025: Around 6.0%

Factors in policy decisions

- The Central Bank will continue its cycle of rate cuts in the coming months, probably at the same pace as the most recent ones. This is explained by uncertainty about the speed of inflation convergence (especially services), some potential price shocks, the positive GDP surprise in the first quarter and the delay in the Fed's rate cut.

- An acceleration in reductions is expected starting in September, when risks dissipate and the Fed's rate-lowering cycle begins.

- The terminal rate of the current cycle will be around 6.0% (higher than before the pandemic) due to a similar upward revision in the U.S. neutral rate.
Opportunities and Risks to Drive the Recovery
Oportunidades y riesgos para pedalear la reactivación

**On the external side**

- **Nearshoring**
- Lower interest rates
- Cyclical recovery of trade partners
- High exchange rate (COP)
- FDI

**On the local side**

- Expanded agricultural and tourism frontier
- Lower interest rates
- Lower Inflation
- Diversity of industries and producing regions

**Opportunities**

- Geopolitical tensions
- Logistics costs
- Trade and migration restrictions

**Risks**

- Uncertain impact of reforms
- Fiscal deterioration and public investment
- Low internal savings
A country of regions that needs to smooth the terrain to pedal with better cadence and without cuts in the peloton (I)

THE THREE GREAT NEEDS

- Improve the education, inclusion, and health of Colombians
  
  with a major social infrastructure plan.

- Connect production and consumption centers
  
  (internal and external)
  with multimodal and efficient transportation.

Benefits

- labor productivity increases and employment and activity are generated in the short-term.

- logistics costs significantly reduced, with improvements in competitiveness in the long term.
A country of regions that needs to smooth the terrain to pedal with better cadence and without cuts in the peloton (II)

**Actions to boost the Colombian business fabric**

- Conduct business rounds for the insertion of Colombian companies in local and global value chains
- Discount the value of investment in capital assets in "high" technologies from regional taxes
- Increase digital infrastructure and internet coverage in rural and remote areas of the country.
- Reduce internet access costs, especially in vulnerable populations.
- Develop a flexible hiring scheme, with a commitment to training in high-demand jobs.

*Benefits*

*Increase in the country's business productivity and formal employment.*
A country of regions that needs to smooth the terrain to pedal with better cadence and without cuts in the peloton (III)

SPECIFIC PROJECTS TO PROMOTE THE REGIONAL AND NATIONAL DEVELOPMENT OF THE COUNTRY

- Promote ecological and non-traditional tourism with the provision of public goods in remote regions
- Building large renewable energy projects with the use of the forces of nature
- Encourage the substitution of livestock for agriculture with public investment in areas with agricultural potential.
- Create logistics centers for industrial and agricultural warehousing
- Rehabilitate infrastructure in poor condition with local employment in the affected area
- Connect small towns to major trunk roads with local employment in the affected area
- Improve the design of entrances and exits in large cities with emphasis on freight transportation
- Develop a national housing plan (including with public funds)

The country's tourism frontier is expanded, there is increased foreign exchange from the export of services, logistics costs are reduced, regional revenues increase and there is a boost in economic recovery.
Overview of macroeconomic forecasts
## Main macroeconomic variables

<table>
<thead>
<tr>
<th></th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>2023</th>
<th>2024 (f)</th>
<th>2025 (f)</th>
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</thead>
<tbody>
<tr>
<td><strong>GDP (% y/y)</strong></td>
<td>-7.2</td>
<td>10.8</td>
<td>7.3</td>
<td>0.6</td>
<td>1.8</td>
<td>2.8</td>
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<td>Private consumption (% y/y)</td>
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<td>Public consumption (% y/y)</td>
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<td>Fixed investment (% y/y)</td>
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<td>-9.5</td>
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<tr>
<td><strong>Inflation (% y/y, EOP)</strong></td>
<td>1.6</td>
<td>5.6</td>
<td>13.1</td>
<td>9.3</td>
<td>5.4</td>
<td>3.8</td>
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<tr>
<td>Inflation (% y/y, average)</td>
<td>2.5</td>
<td>3.5</td>
<td>10.2</td>
<td>11.7</td>
<td>6.8</td>
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<td><strong>Exchange rate (EOP)</strong></td>
<td>3,469</td>
<td>3,968</td>
<td>4,788</td>
<td>3,954</td>
<td>4,155</td>
<td>4,190</td>
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<tr>
<td>Devaluation (% EOP)</td>
<td>2.5</td>
<td>14.4</td>
<td>20.7</td>
<td>-17.4</td>
<td>5.1</td>
<td>0.8</td>
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<tr>
<td><strong>Exchange rate (average)</strong></td>
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<td>3,744</td>
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<td>4,326</td>
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<td>13.7</td>
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<td>-7.8</td>
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<td><strong>Banco de la República rate (% EOP)</strong></td>
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<td><strong>Current account (% GDP)</strong></td>
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<td>-6.2</td>
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<td><strong>Urban unemployment rate (% EOP)</strong></td>
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<td>11.4</td>
<td>10.8</td>
<td>10.2</td>
<td>10.6</td>
<td>10.4</td>
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(f): BBVA Research forecasts.
Source: BBVA Research with data from DANE and Banco de la República.
## Main macroeconomic variables

<table>
<thead>
<tr>
<th></th>
<th>GDP (% y/y)</th>
<th>Inflation (% y/y. EOP)</th>
<th>Exchange rate (vs. USD. EOP)</th>
<th>Banco de la República Rate (%)</th>
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<tr>
<td>Q1 22</td>
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<tr>
<td>Q1 25</td>
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<td>Q4 25</td>
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<td>3.8</td>
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<td>6.00</td>
</tr>
</tbody>
</table>

Source: BBVA Research with data from DANE and Banco de la República.
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Colombia Economic Outlook

Pedaling toward economic revival

June 2024