BBVA Research

Colombia Economic Outlook

3Q21

Bogotá, July 2021

Creating Opportunities

01

Global recovery will continue to be driven by G3 economies,

where vaccination has been more efficient and public stimuli have been considerable

The recovery is gaining momentum, favored by an increasing control of the pandemic and policy stimuli, but inflation is a rising source of concern

RECENT EVOLUTION OF THE GLOBAL ECONOMY

Covid-19

Acceleration of vaccination; declining infections despite new strains.

Activity and inflation

Solid recovery; significant rebound of inflation.

Economic policy

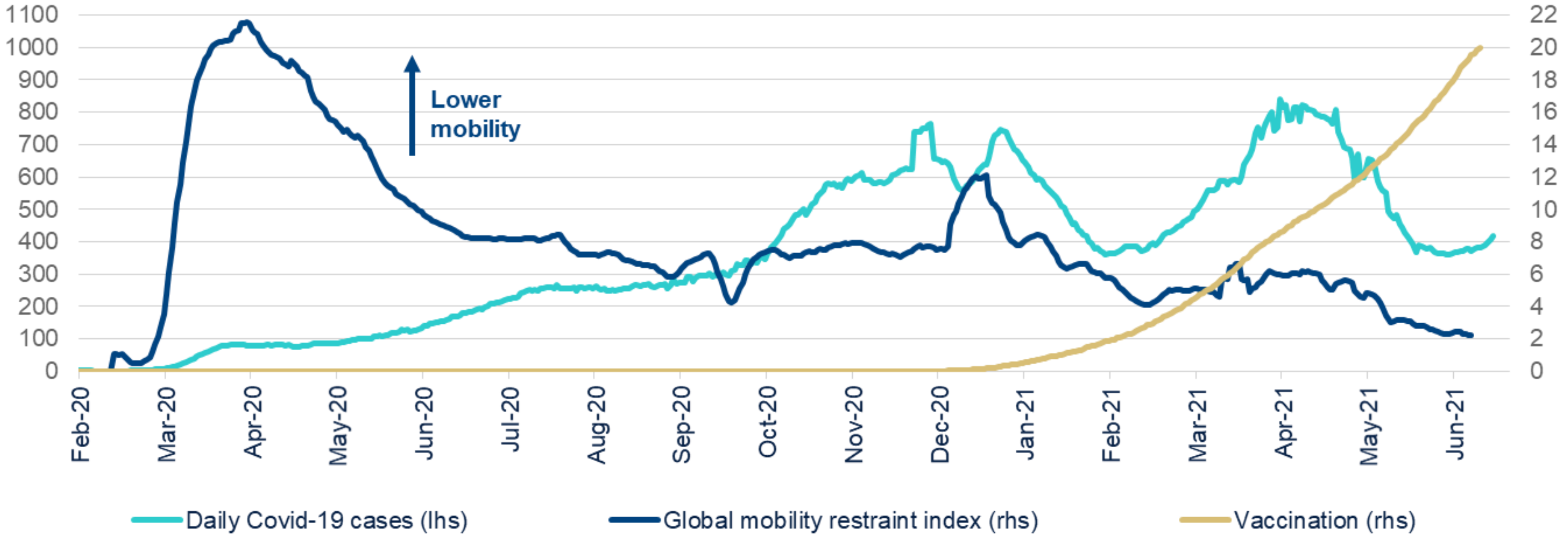
Focus on growth, but the withdrawal of stimuli by the Fed and the ECB is getting closer

Financial markets

A more complex environment, despite the still ample global liquidity.

The acceleration of vaccination has paved the way for a reduction of infections and an economic reopening, mainly in developed countries

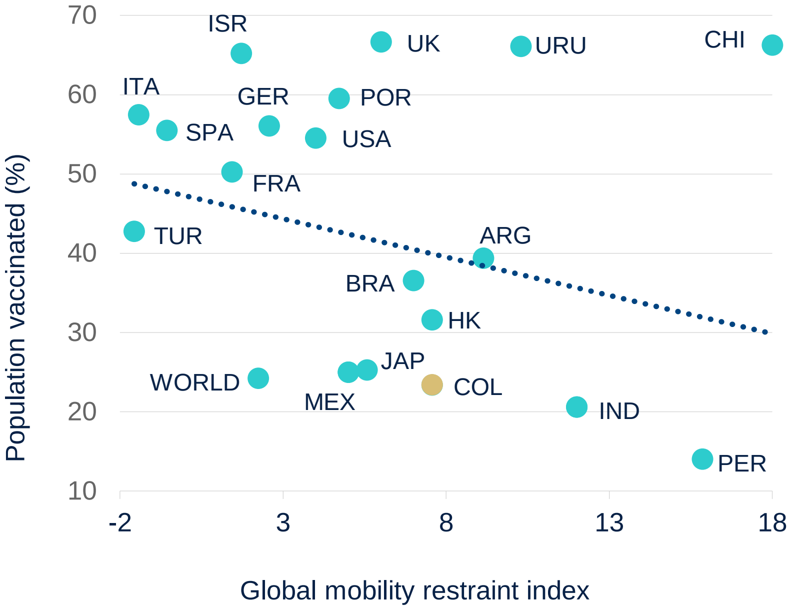
WORLD: DAILY CODIV-19 CASES, POPULATION VACCINATED AND MOBILITY RESTRAINT INDEX (*)
(THOUSANDS OF CONTAGIONS, 7-DAY MOVING AVERAGE; SHARE OF THE POPULATION WITH AT LEAST ONE DOSE OF THE ANTI-COVID VACCINES; MOBILITY RESTRAINT: 7-DAY MOVING AVERAGE)



(*) The mobility restraint index reflects changes with respect to the period of reference (January 3 to February 6 2020). Higher values represent lower mobility. Vaccination data does not include figures for China.
Source: BBVA Research based on data by John Hopkins University, Google and Our World in Data.

Vaccination has already reached much of the population in the US and Europe, and is accelerating in emerging countries

POPULATION VACCINATED AND MOBILITY RESTRAINT (*)
SHARE OF THE POPULATION WITH AT LEAST ONE DOSE OF THE VACCINES; MOBILITY RESTRAINT INDEX: 7-DAY MOVING AVERAGE)

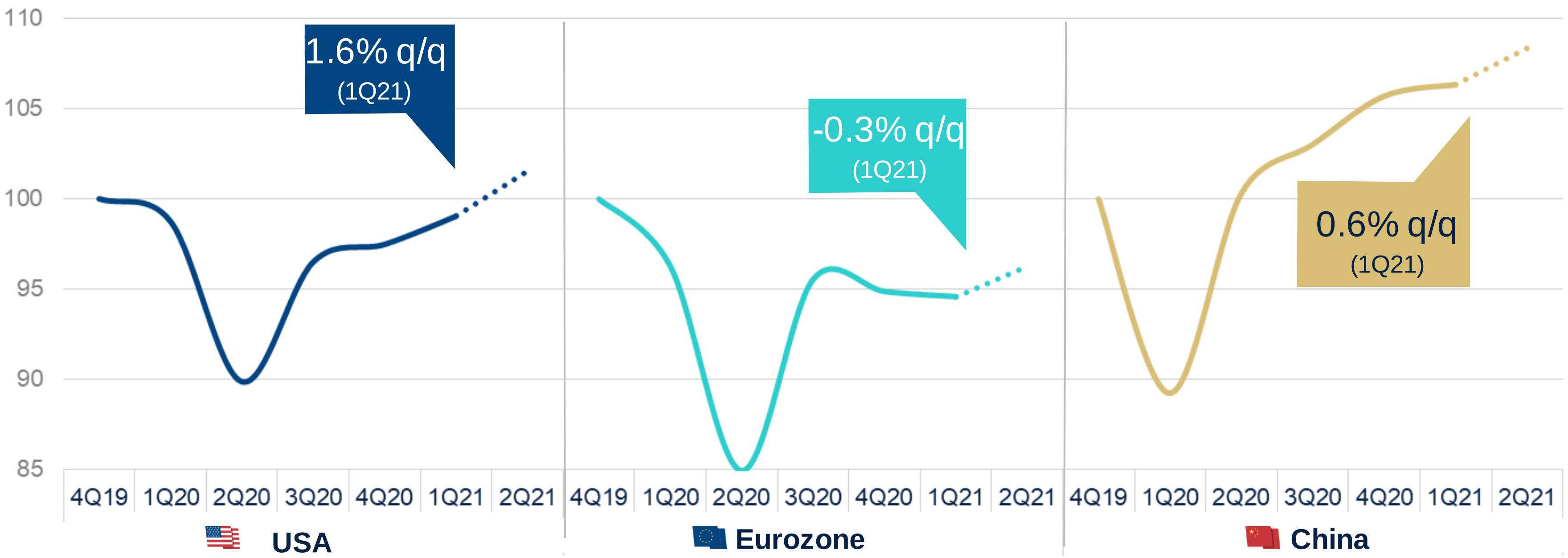


- Vaccination has reduced infections and increased mobility in the US and Europe.
- Vaccine inoculation has recently accelerated in Latin America, although infections remain at high levels.
- Recent outbreaks in countries with advanced vaccination (UK, Israel, Spain, Chile, etc.) maintain the concerns about new strains.
- Still, the available evidence suggests that the main vaccines are effective against the new variants of the coronavirus.

(*) The mobility restraint index reflects changes with respect to the period of reference (January 3 to February 6 2020). Higher values represent lower mobility. Vaccination data does not include figures for China.
Source: BBVA Research based on data by John Hopkins University, Google and Our World in Data.

Growth accelerates somewhat more than expected in the US, restarts in Europe, and remains high in China despite the recent moderation

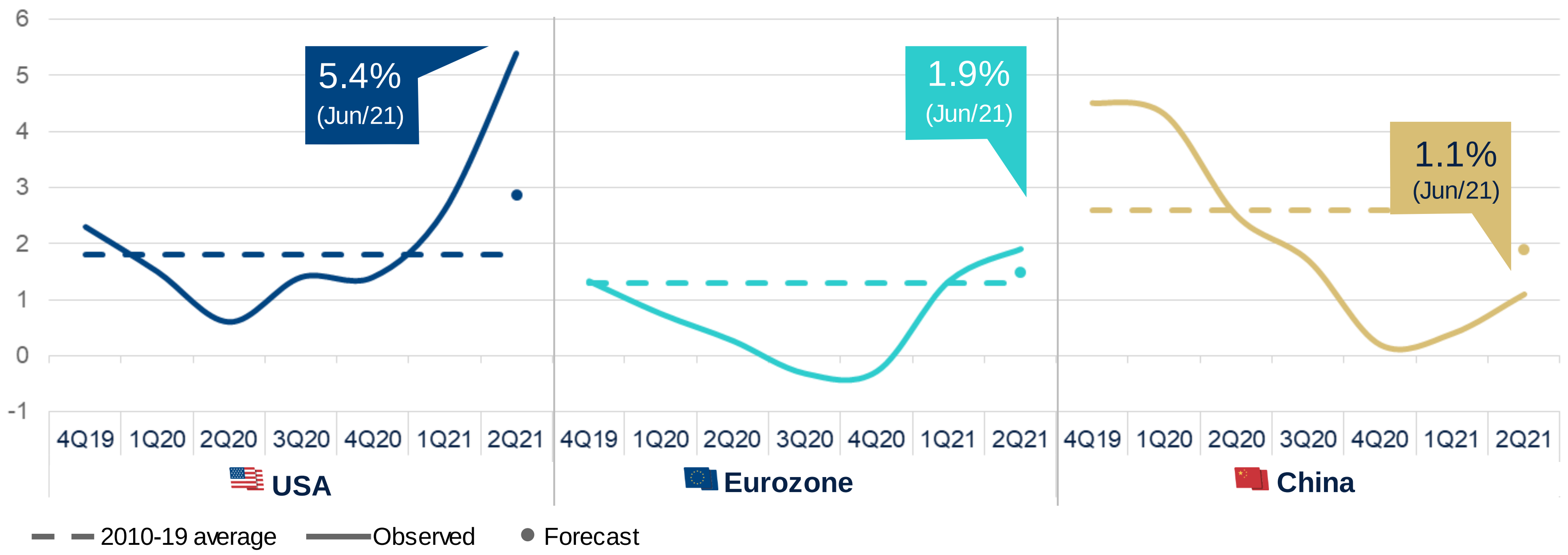
REAL GDP LEVEL (*)
(4Q19=100)



(*) Observed data till 1Q21. 2Q21: BBVA Research forecasts.
Source: BBVA Research based on local statistics.

Inflation surprises to the upside, mainly in the US, driven by the reopening, supply bottlenecks and commodity prices

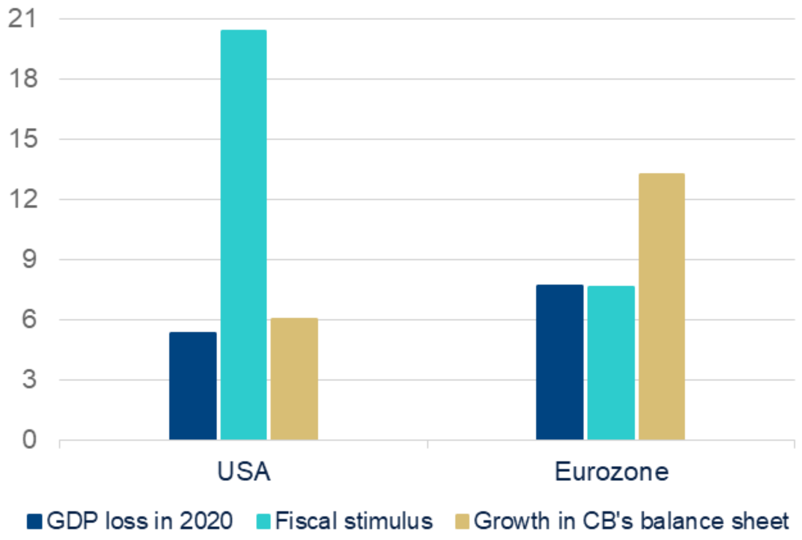
INFLATION: CPI (*)
(Y/Y %, END OF PERIOD)



(*) Forecast: BBVA Research Apr/21 estimations.
Source: BBVA Research based on local statistics.

Inflation and significant fiscal stimuli increase the pressure on central banks, which, however, remain focused on the recovery

GDP LOSS IN 2020 AND STIMULI FROM 2021(*)
(PP, % OF GDP)

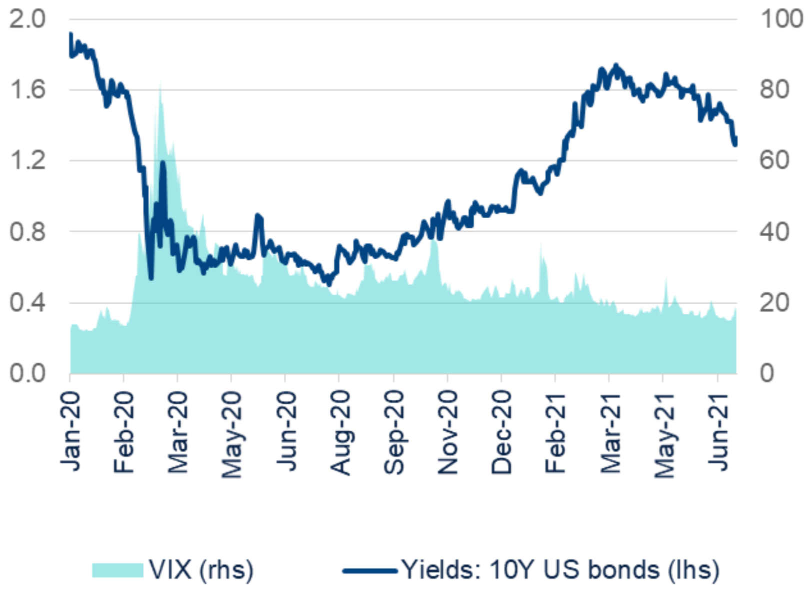


(*) GDP loss in 2020: difference between forecast GDP before the crisis and the actual data. Fiscal stimuli: US: USD 0.9tn approved in Dec/20, USD 1.9tn approved in Mar/21, and further USD 1.5tn expected ahead; UE: NGEU and measures announced by the main countries in the region. Central bank's balance sheet: expected accumulated expansion between the end of 2020 and the end of 2022.
Source: BBVA Research.

- The Fed has suggested that it will soon begin to discuss tapering bond purchases and that it will bring forward rate hikes, but not until 2023.
- Political debate in the US about additional fiscal stimuli, possibly less significant than anticipated and more focused on investment.
- In Europe, after the approval of the NGEU, the details for its implementation are being finalized; suspension of fiscal targets in 2021-22 increases scope for further stimulus.
- The ECB maintains a high rate of asset purchases; strategic review: "symmetric" inflation target of 2%.

Markets are more convinced that the Fed will act to control inflation; the prospect of stimulus withdrawal generates volatility

10-YEAR US BOND YIELD AND VIX
(%, INDEX)



Source: BBVA Research based on data by Bloomberg.

- Short-term bond yields have risen in the US on the prospect of higher rates in early 2023 (or earlier).
- Long-term bond yields have fallen on the view that inflation will be controlled, the stabilization of growth expectations and lower bond supply.
- The rise in short-term rates has appreciated the US dollar and generated volatility ...
- ... but global liquidity continues to back equity markets, certain risk assets and moderate flows into emerging markets.

A faster recovery going forward, with higher inflation and increasing challenges for central banks

GLOBAL ECONOMIC PROSPECTS

Covid-19

Convergence towards "normality", first in developed and later in emerging countries.

Activity and inflation

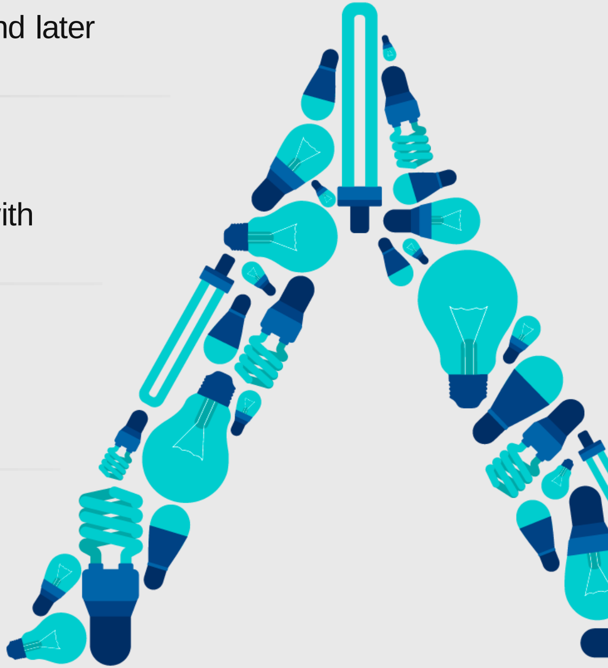
Stronger growth; higher inflation than in recent past, with upside risks.

Economic policy

Tapering in 2022, stable rates until 2023 (risk of earlier hikes), and expansionary fiscal policy in developed economies.

Financial markets

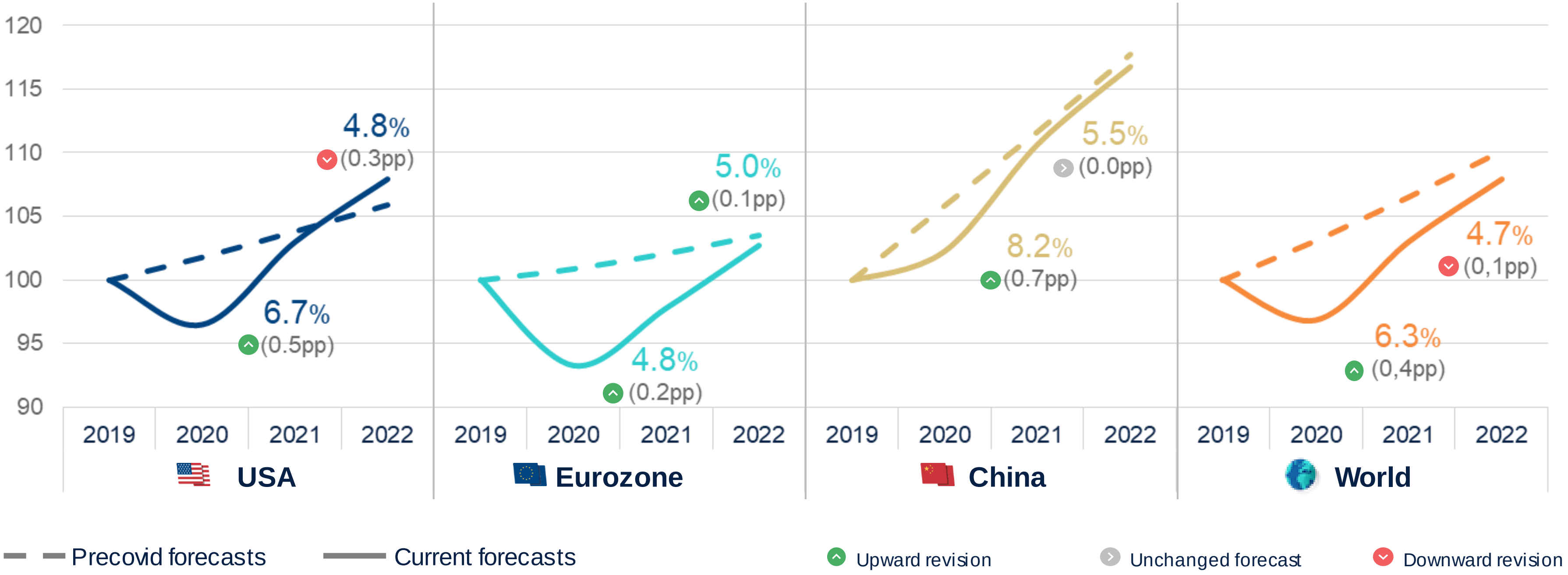
Higher pressure on risky assets and EMs, given the process of withdrawal of stimuli.



Global growth will be stronger than expected in 2021 and will ease in 2022

REAL GDP

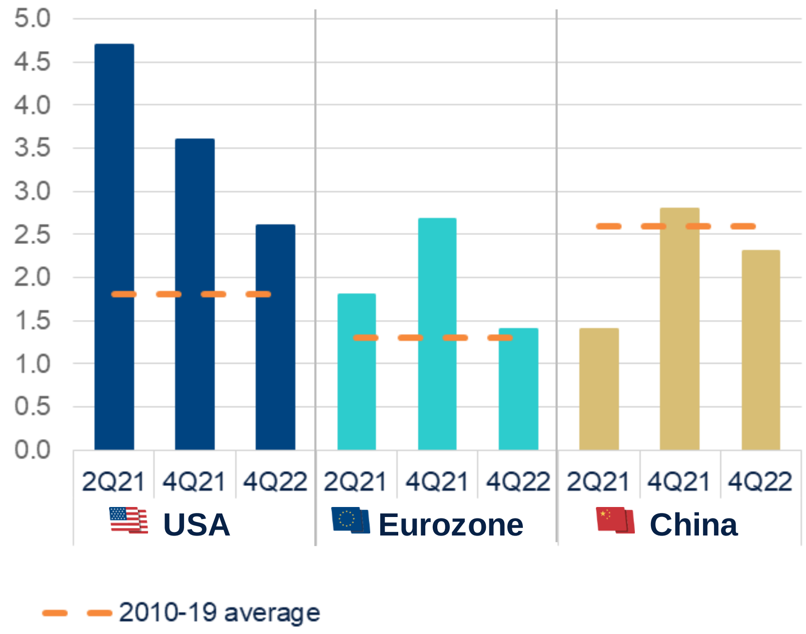
(LINES: GDP LEVEL 2019=100, FIGURES: GROWTH FORECASTS AND, BETWEEN PARENTHESIS, CHANGE WITH RESPECT TO PREVIOUS FORECASTS)



Source: BBVA Research.

Inflation in the US and Europe is expected to slow down, but it will remain above the previous decade's levels, in an environment of increasing risks

INFLATION: CPI
(Y/Y %, PERIOD AVERAGE)

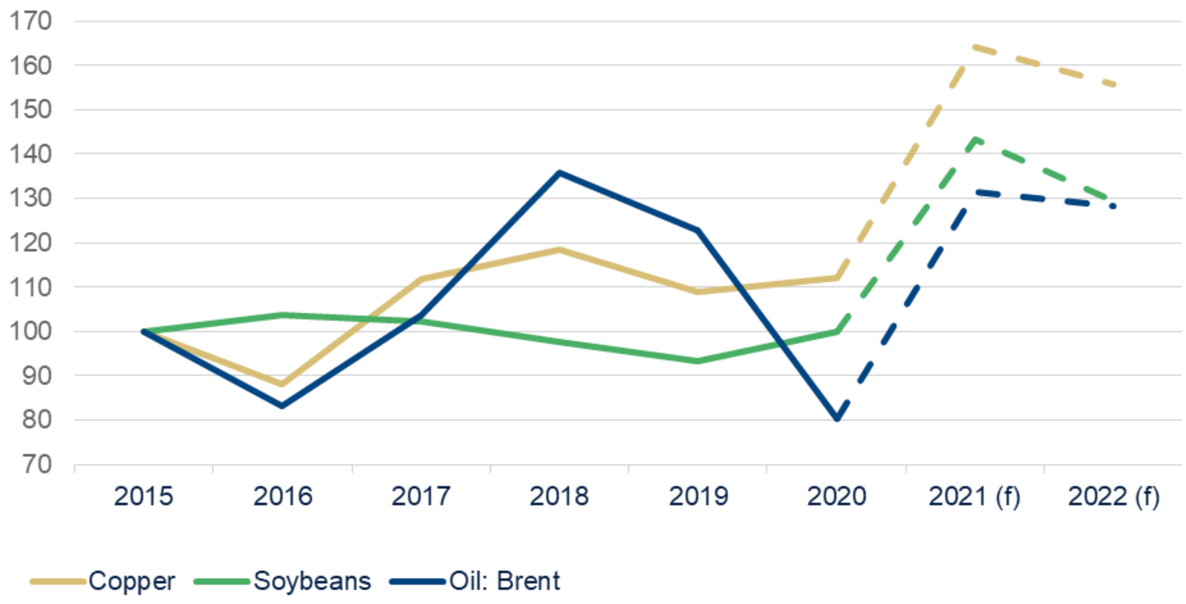


Source: BBVA Research.

- Expected moderation of inflation
  - more favorable base effects
  - lower commodity prices
  - bottlenecks will ease on greater supply
  - absence of widespread wage pressures
- Inflation "normalization": above 2010-19 levels
  - CBs more tolerant with inflation
  - more supportive fiscal, social and labor policies
  - trade protectionism
  - energy transition and change in relative prices
  - labor market tensions
- In China, inflation will rise moderately on demand recovery and less positive base effects.
- Monetary and fiscal policies will be key for the future inflation dynamics.

Commodity prices have increased more than expected, mostly on the back of high demand, but should ease -remaining high though- as supply catches up

COMMODITY PRICES: ANNUAL AVERAGES
(ÍNDEX: 2015 = 100 AVERAGE)



	2021 (f)	2022 (f)
COPPER ($ per ton)	4.1	3.9
SOYBEAN ($ per lb)	502	454
BRENT ($ per barrel)	69	67

(f) Forecast.
Source: BBVA Research.

Economic policies remain focused on supporting growth, but monetary policy keeps also an eye on inflation, and will gradually shift to exit policies

	PROSPECTS FOR MONETARY POLICY	PROSPECTS FOR FISCAL POLICY
US	Tapering in the beginning of 2022 and stable interest rates until 1Q23 (slightly earlier than expected)	Additional stimulus of around 7% of GDP, more long-term and investment-focused than previous bills
Eurozone	Accommodative stance and scale down of bond purchases (PEPP) from Sep/21	NGEU: minor short-term impact; potentially greater in the long run
	New strategy: "symmetric" inflation target of 2%;	Fiscal rules: suspended at least in 2021-22
China	Unchanged rates in 2021-22; lower dynamism of credit and regulatory tightening	Gradually less expansionary

Risks: inflationary pressures increase the room for policy mismanagement and open the door for more negative macroeconomic scenarios

INFLATIONARY RISKS

on larger demand pressures, slow supply response or unanchoring of expectations, specially if central banks don't react timely to inflationary pressures

FINANCIAL RISKS

particularly in public and private debt markets, and in emerging economies (weaker exchange rates, earlier hikes of local policy rates), mostly if central banks overreact (or markets perceives this way) to inflationary pressures.

EPIDEMIOLOGIC RISKS

new strains, slow vaccination in EMs...

OTHER RISKS

evolution of accumulated savings, investment and potential GDP, social unrest, deglobalization, strategic rivalry between the US and China...

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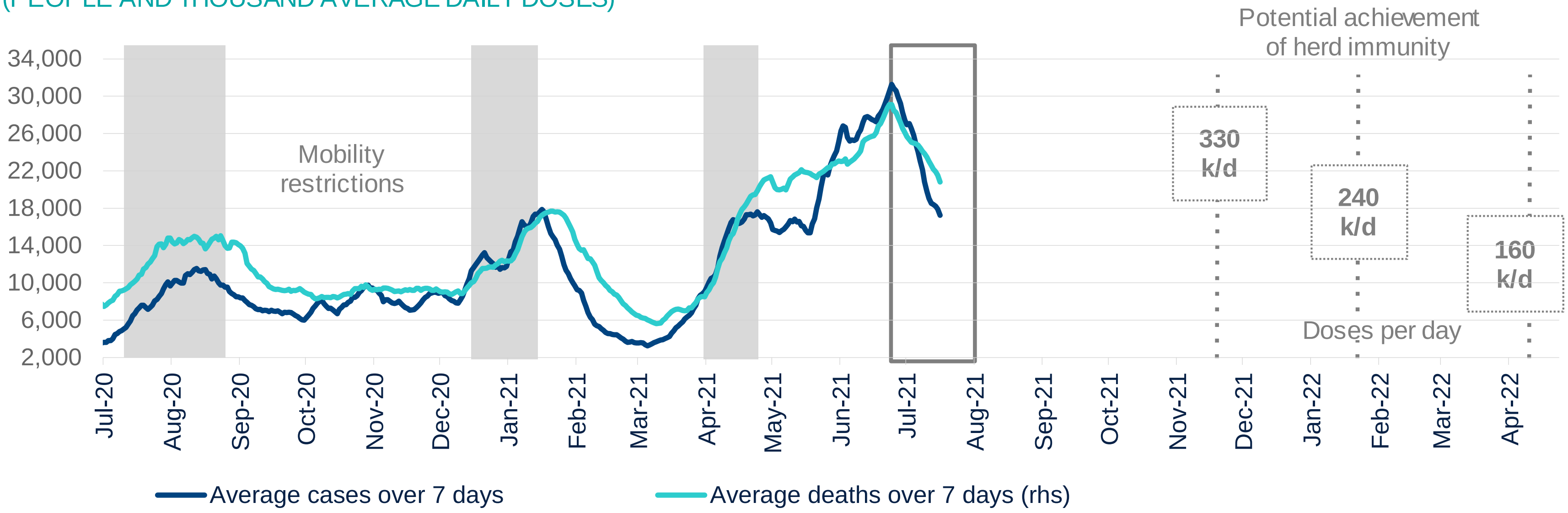
02

In Colombia, the third wave of the pandemic is subsiding,

in hand with the acceleration in vaccinations

After a very strong and extensive third wave, the rate of infections is starting to dwindle. However, the risk of new strains is latent

DAILY CASES AND DEATHS
(PEOPLE AND THOUSAND AVERAGE DAILY DOSES)

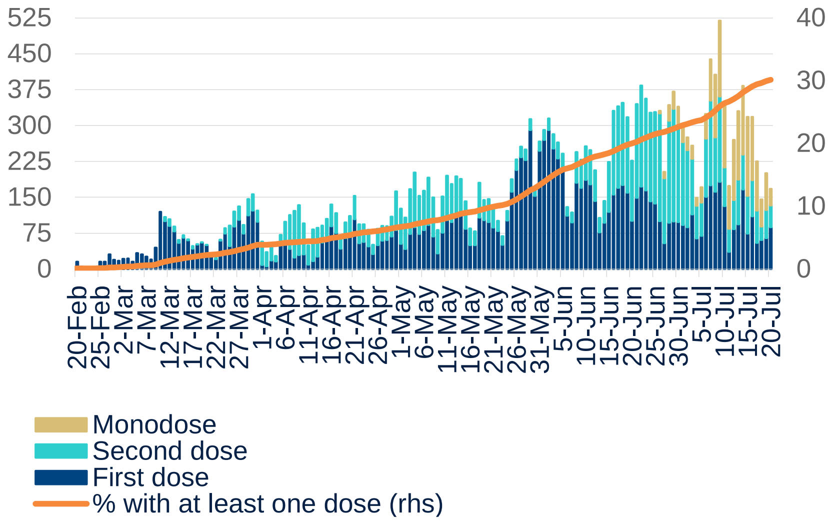


Source: BBVA Research based on data from the National Institute of Health.

If the rate of vaccinations achieved last month (300,000 doses per day) is maintained, and the population shows up to get vaccinated, herd immunity could be achieved in November. Our scenario assumes that it could be achieved in the first quarter of 2022.

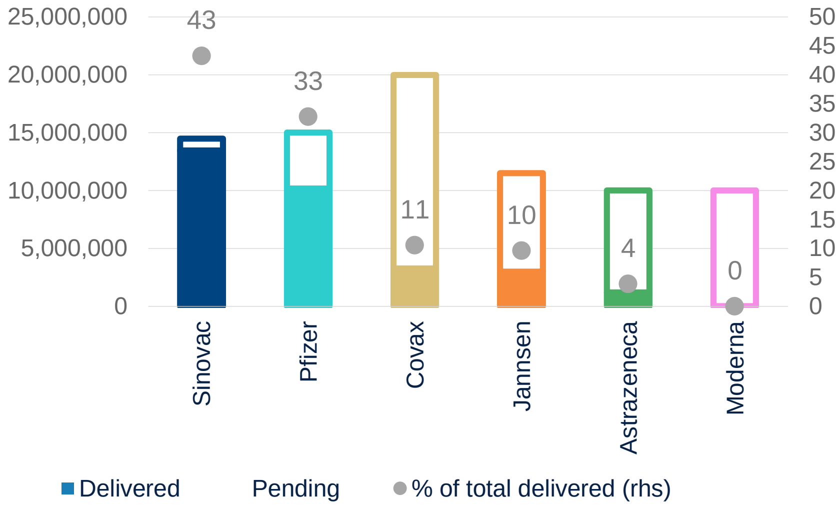
Vaccinations are accelerating with the availability of supply, the start of the process in remote regions and the vaccination initiative of the private sector

VACCINE ROLLOUT (THOUSANDS OF DOSES PER DAY AND % OF PEOPLE VACCINATED)



Source: BBVA Research based on data from the Ministry of Health.

VACCINES PER LABORATORY (DOSES DELIVERED VS. DOSES PLEDGED AND % PER LABORATORY)

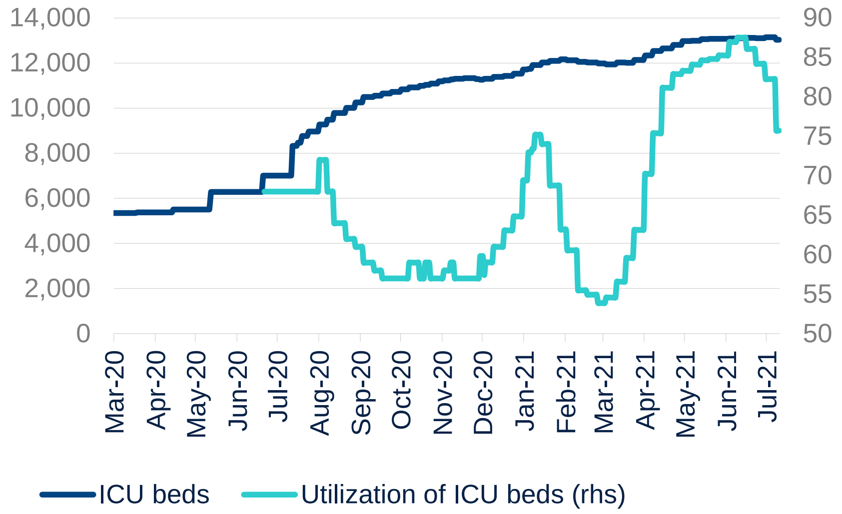


Source: BBVA Research based on data from the Ministry of Health.

The smooth progress of vaccination depends crucially on the timely arrival of new supply. For the time being, Sinovac and Pfizer are the primary suppliers.

In the third wave, the health care system reached a maximum limit of usage, with several regions at levels of technical saturation

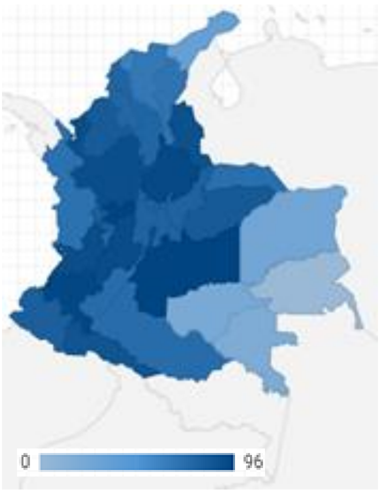
INTENSIVE CARE BEDS AND USE
(NUMBER OF BEDS AND % OF USE)



Source: BBVA Research based on data from the Ministry of Health.

USE OF INTENSIVE CARE BEDS
(DATA AS OF JULY 10, %)

	Maximum 19 Jun	Current 20 Jul
Colombia	87.5	75.7
Casanare	100	67
Meta	98	96
Bogotá	97	78
Risaralda	97	86
Antioquia	95	87
Caldas	95	84
Tolima	95	90
Caquetá	94	74
Cauca	93	94
Nariño	93	74
Boyacá	92	70
Santander	91	87
Valle	91	90



If faced with a new wave or worsening of infections due to new variants, the stress on the health system could again be significant, with limited capacity for expansion.

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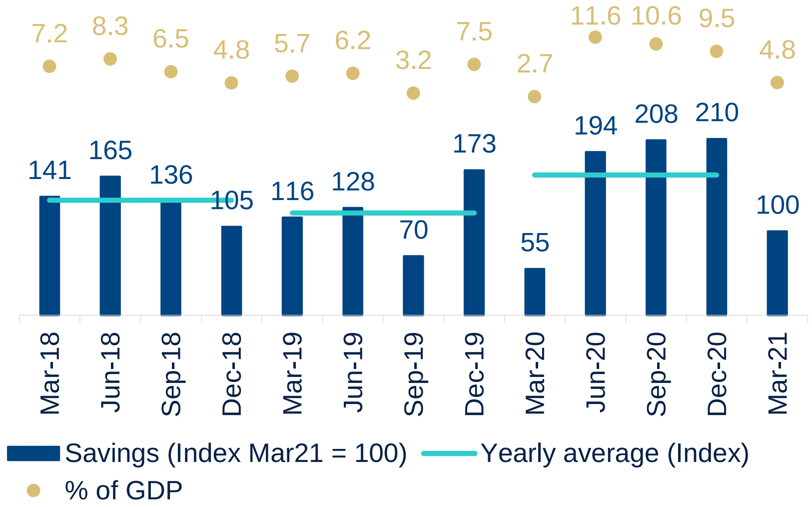
03

The pandemic entailed an increase in aggregate savings in the economy,

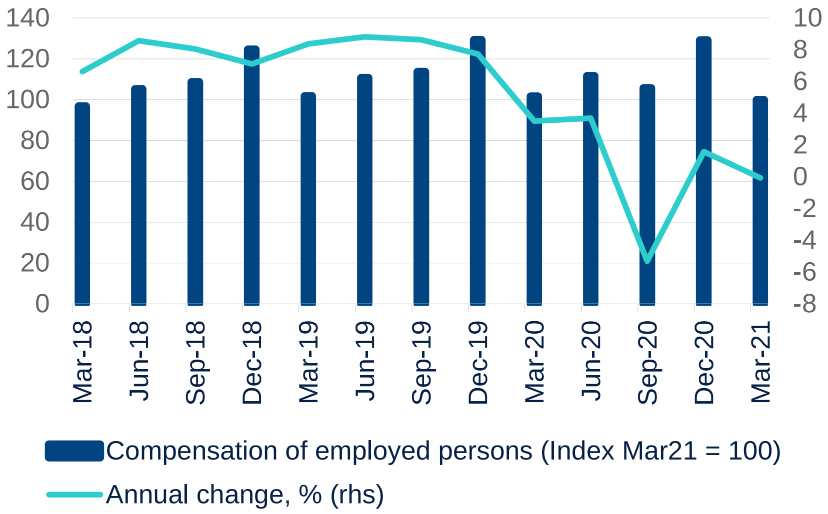
but with large differences between economic agents

Households saw a reduction of labor income in 2020, but the reduction in final consumption and fall in fixed asset purchases were more profound

FINANCIAL STRUCTURE OF HOUSEHOLDS
(REAL SAVINGS INDEX, MAR21 = 100 AND % OF GDP)



COMPENSATION OF EMPLOYED PERSONS (REAL REMUNERATION INDEX, MAR21 = 100, AND ANNUAL CHANGE)

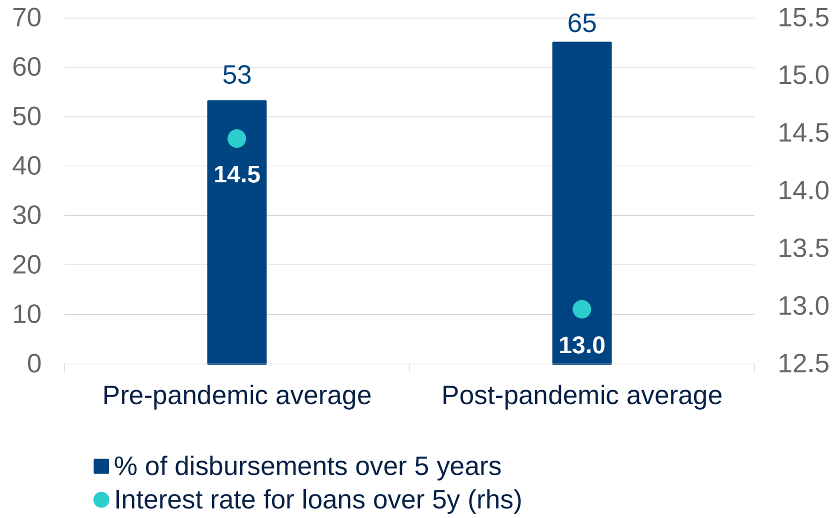


Source: BBVA Research based on DANE data.

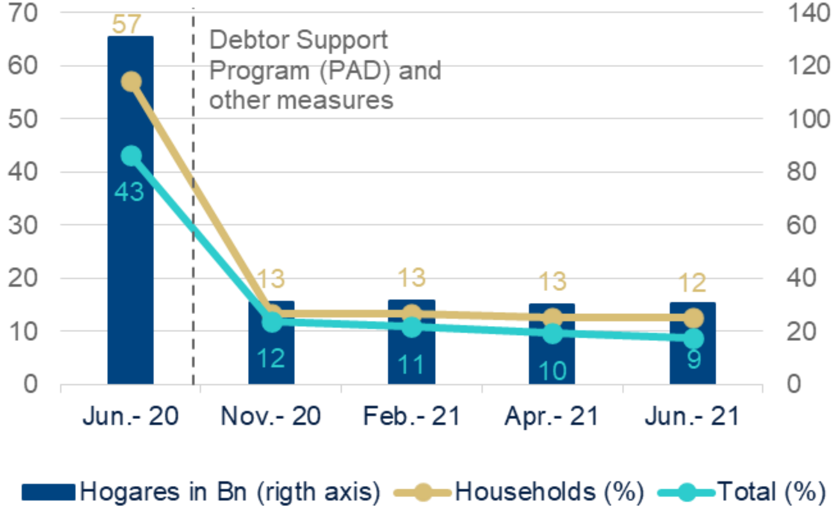
Since the end of 2020, there has been a progressive recovery of wages. In addition, public aid for households and financial relief have been maintained. Previous savings partly explain the recovery in consumption.

At the same time, the reduction of interest rates and the extension of debt terms helped households' financial balance sheets

DISBURSEMENTS AND CONSUMPTION INTEREST RATES (% AND BP)



TOTAL AND HOUSEHOLDS LOANS WITH RELIEF (% OF THE BALANCE OF EACH SEGMENT, IN TRILLIONS)

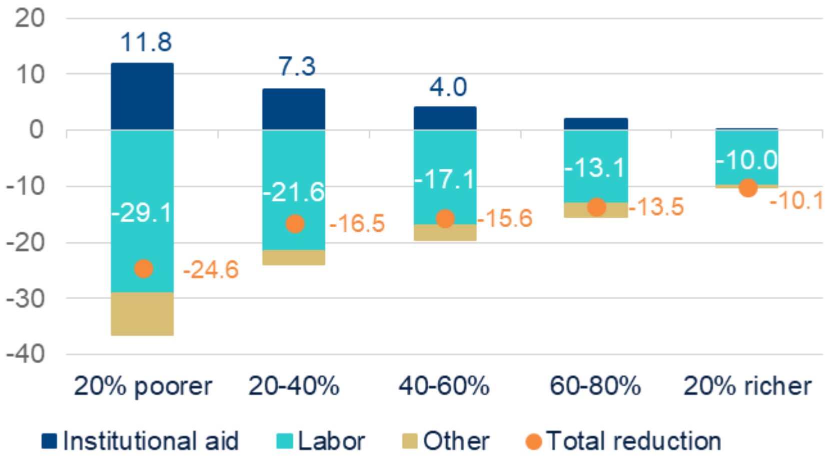


Source: BBVA Research based on data from Banco de la República and Superfinanciera.

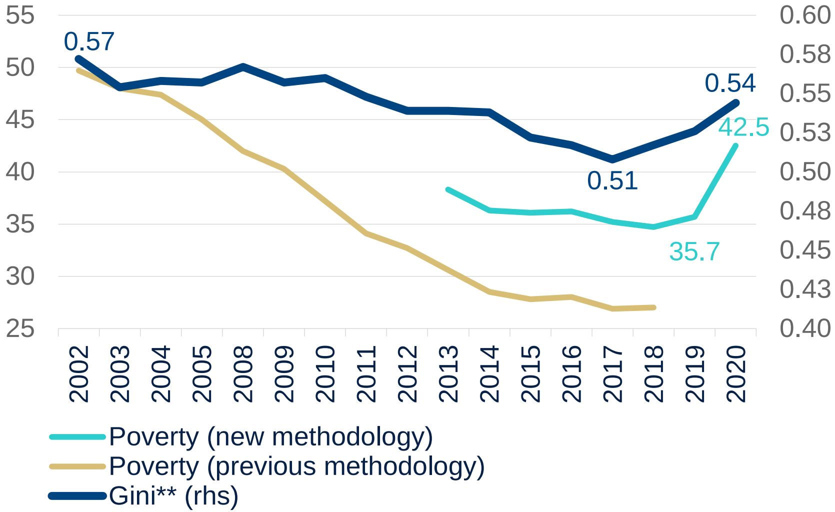
The financial burden of households notably increased at the start of the pandemic. The level of financial burden has tempered since then, but remains high.

However, poverty and inequality increased due to the effects of the pandemic, despite the government's effort to distribute larger subsidies

AVERAGE REAL HOUSEHOLD INCOME BY QUINTILES (*)
(2019–20 CHANGE, CONTRIBUTION TO CHANGE BY SOURCE OF INCOME)



POVERTY RATE AND INEQUALITY INDEX
(%)

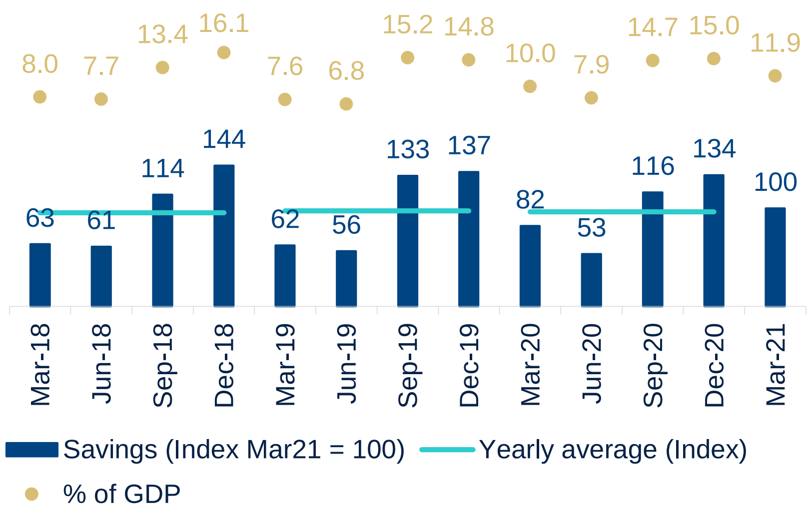


(*): Institutional aid is ordinary and extraordinary financial transfers. (**) The GINI measures the distribution of income and goes from 0 to 1. The higher the GINI, the greater the inequality.
Source: BBVA Research, Ministry of the Treasury with data from DANE.

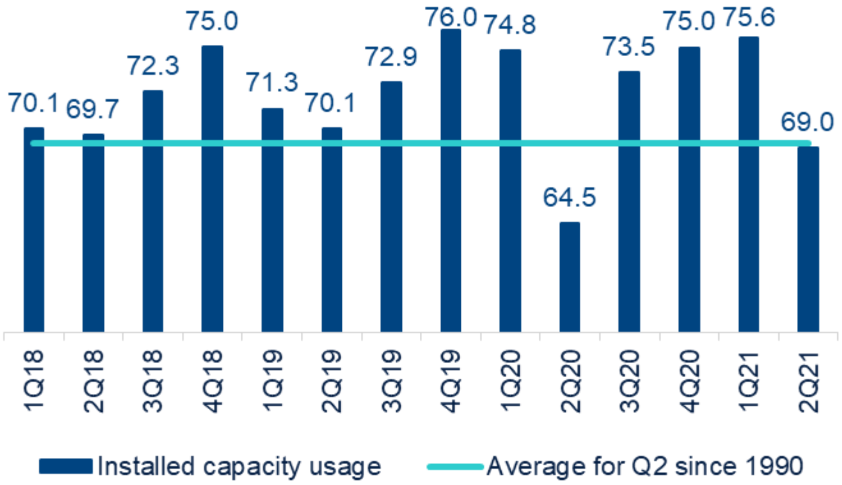
The 30% of households with the highest incomes account for 56% of the country's total expenditure. With their higher level of savings in 2020 and a lesser impact on their income, they were who accelerated private consumption recovery.

Firms maintained a similar level of savings as in previous years, which means a high effort given the lower GDP (activity)

COMPANY SAVINGS
(REAL SAVINGS INDEX, MAR21 = 100 AND % OF GDP)



INSTALLED CAPACITY USAGE
(% OF TOTAL)

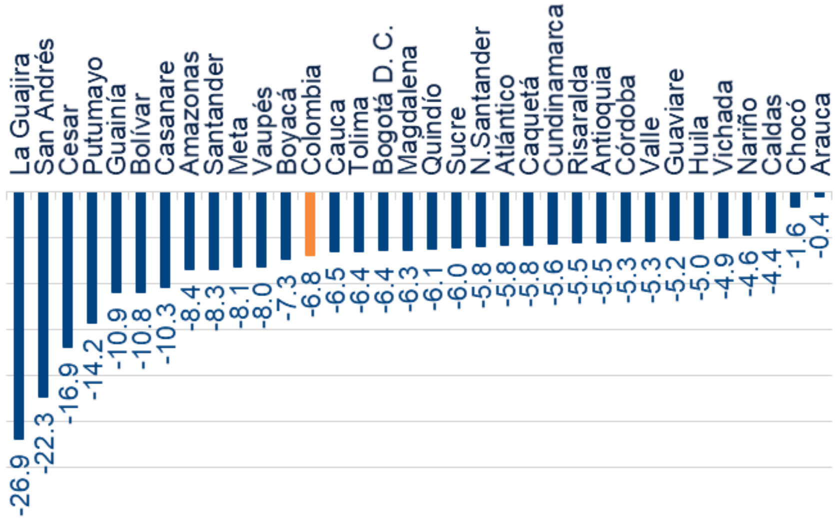


Source: BBVA Research based on data from DANE and Fedesarrollo.

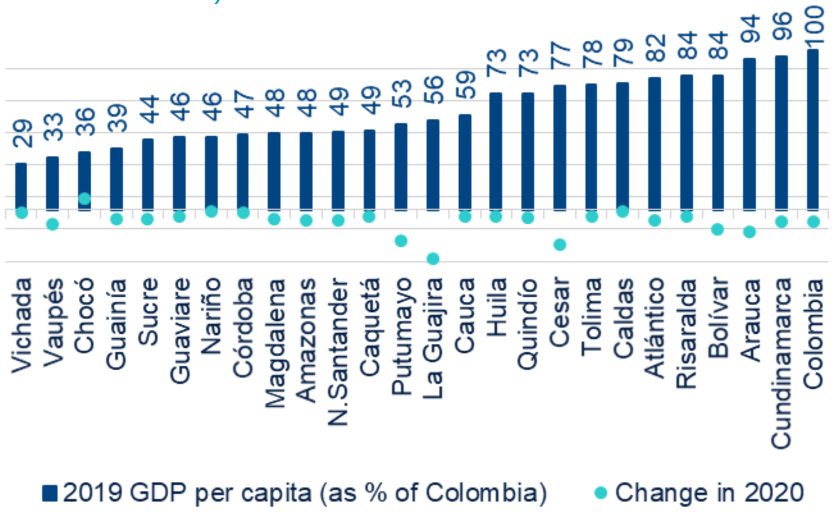
Companies have a high use of installed capacity: a key element for making investment decisions. In addition, according to *Confecámaras*, 96,431 companies were created in the first quarter of 2021 (+9.3 YoY).

The regions also had an uneven result in 2020, with a greater impact on the areas most exposed to mining and tourism

GDP PER DEPARTMENT IN 2019 AND 2020
(ANNUAL CHANGE, %)



DEPARTMENTS WITH LOWER GDP PER CAPITA THAN COLOMBIA (COLOMBIA PER CAPITA GDP = 100; % ANNUAL CHANGE IN 2020)

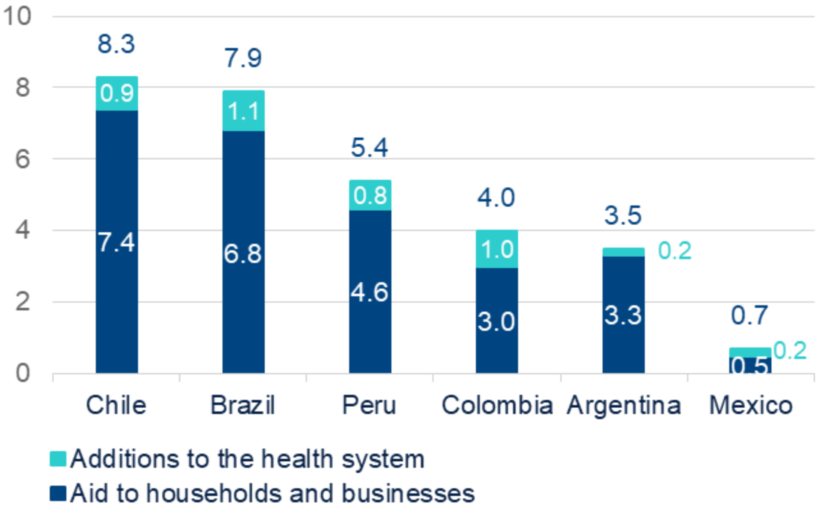


Source: BBVA Research based on DANE data.

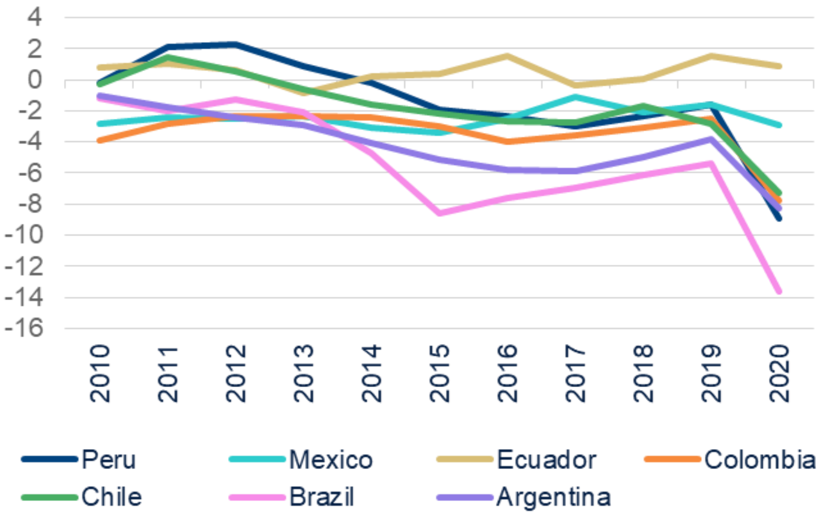
In the departments with a lower GDP per capita than Colombia as a whole, seven saw their income drop more than the country overall: Vaupés, Putumayo, La Guajira, Cesar, Bolívar, Arauca and Cundinamarca (the latter of which was due to an increase in population).

At the Central National Government level, the impairment of finances was significant, explained by the decline in revenue and hike in expenditure

EMERGENCY EXPENDITURE
(% OF GDP)



FISCAL DEFICIT
(% OF GDP)



Source: BBVA Research, Ministry of the Treasury with data from IMF and Haver.

The increase of the deficit was not exclusive to Colombia. Other countries also saw their deficits increase in 2020, as well as their public debts.

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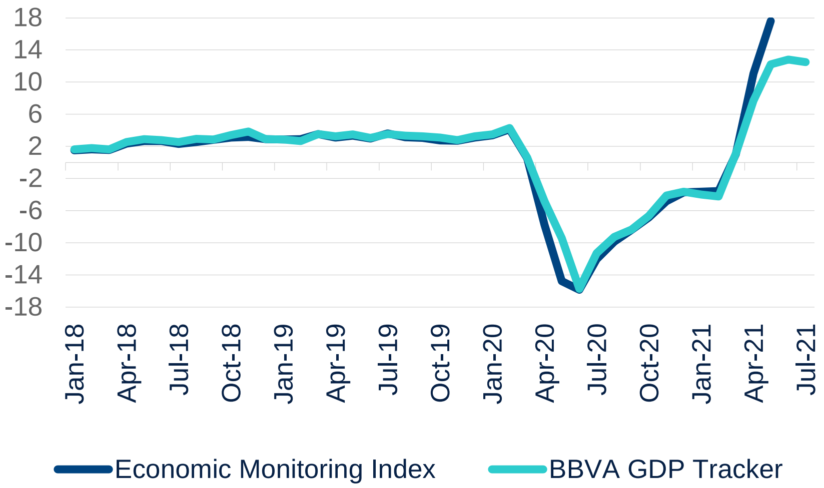
04

GDP in Colombia continues its recovery

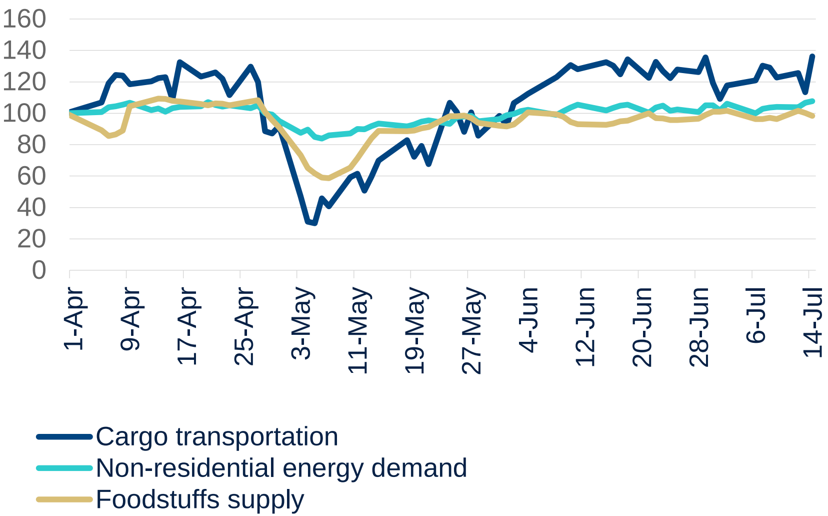
driven by internal demand and exports

Annual growth, with respect to 2020, started strong and was sustained despite transitory lockdowns and logistical challenges, due to base effects

ISE(**) AND BBVA GDP TRACKER
(ANNUAL CHANGE, %, QUARTERLY AVERAGE)



ENERGY, SUPPLY (*) AND CARGO TRANSPORTATION
(INDEX, AVERAGE MAR21 = 100)

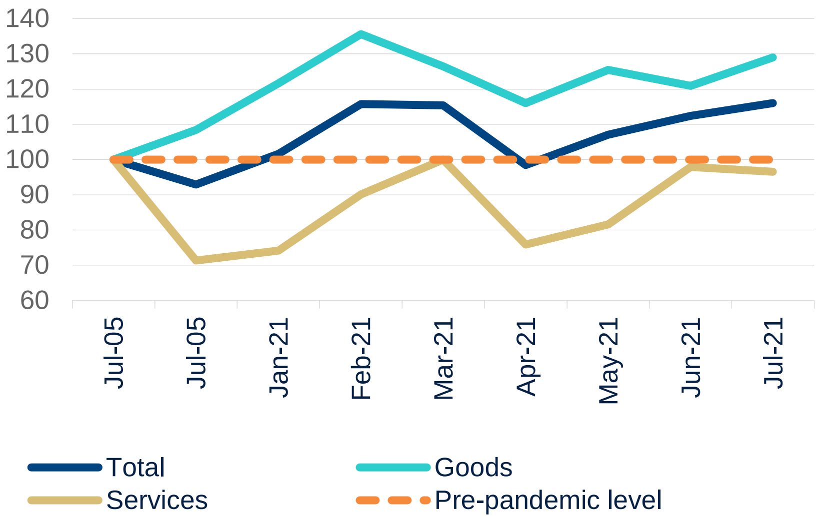


(*): Supply: entry of merchandise to food supply centers. (**) ISE corresponds to the economic monitoring index
Source: BBVA Research based on data from DANE, the Ministry of Transportation, XM and BBVA.

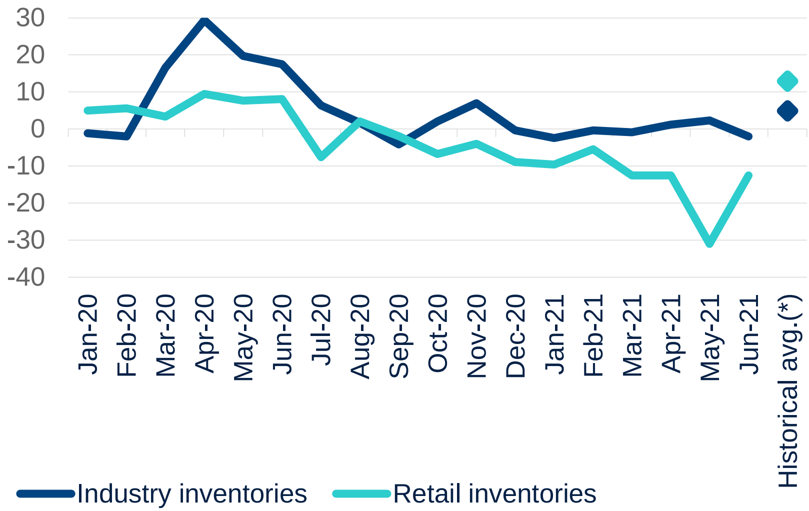
Household savings remain an important source of growth, which will fade over the course of the year and leave the momentum to the labor market recovery.

The effect of the logistical constraints was more evident in supply than in demand, resulting in a depletion of business inventories

BBVA CONSUMPTION TRACKER
(INDEX, SAME PERIOD IN 2019 = 100, DATA TO JULY 19)



INDUSTRY AND TRADE INVENTORIES
(RESPONSE BALANCE)

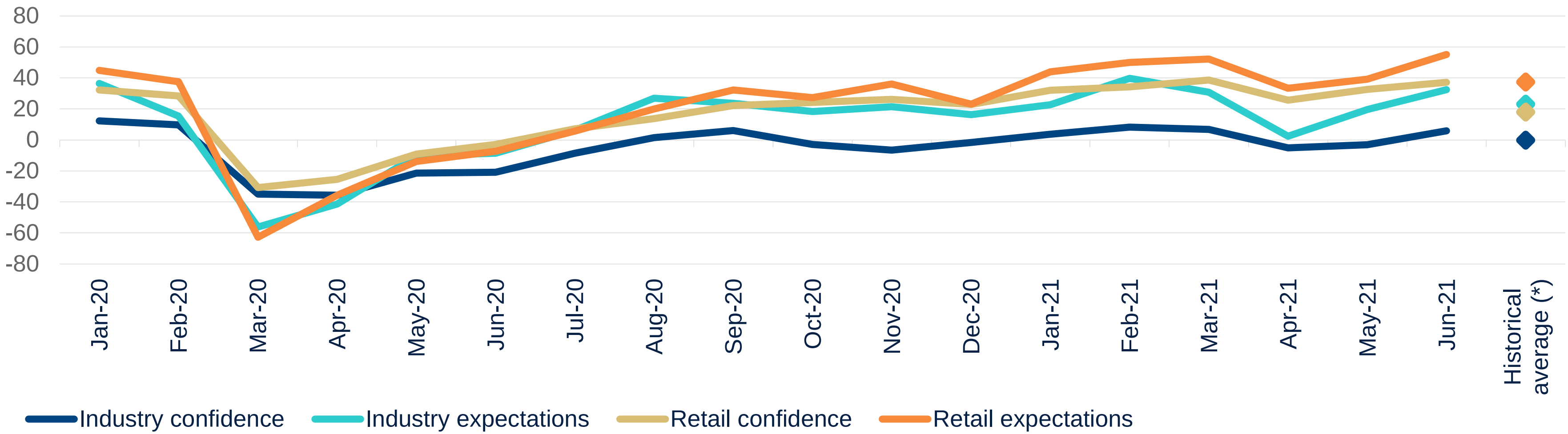


(*): since 1980 for industry and 1998 for retail.
Source: BBVA Research with data from BBVA and Fedesarrollo.

In addition, greater restrictions were placed on imports than exports, according to records provided by the National Tax and Customs Office (DIAN).

As a result, business confidence and expectations about future performance improved in May

BUSINESS CONFIDENCE AND EXPECTATIONS
(RESPONSE BALANCE)

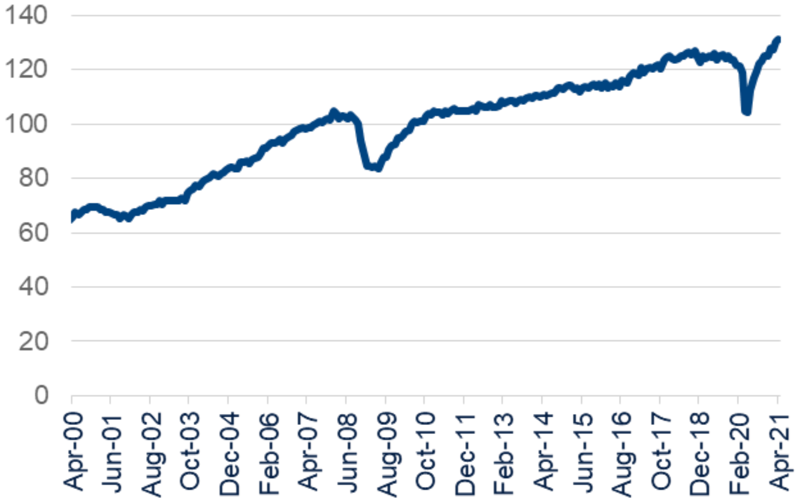


(*): since 1980 for industry and 1998 for retail.
Source: BBVA Research based on data from Fedesarrollo.

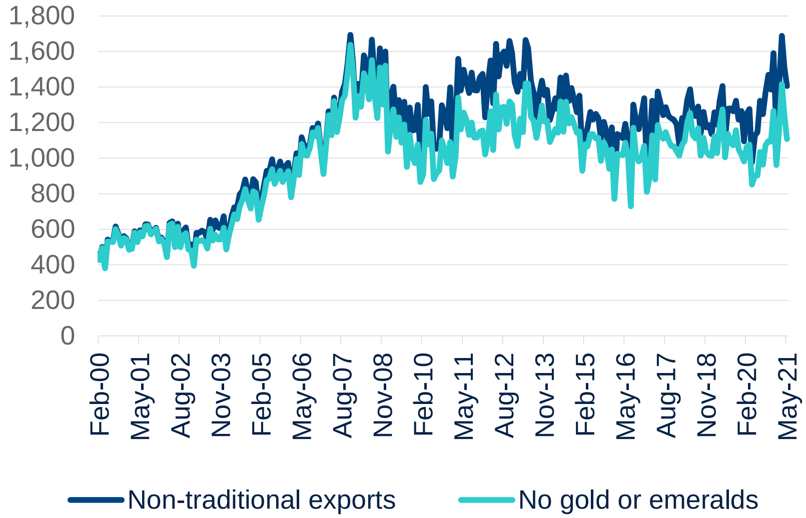
In other words, the investment cycle is expected to remain strong, boosting imports.

The better investment outlook is partially due to the more robust global environment, which drove up global trade and the prices of raw materials

GLOBAL TRADE INDICATOR
(INDEX ADJUSTED FOR SEASONAL VARIATION, 2010 = 100)



COLOMBIA: NON-TRADITIONAL EXPORTS
(MILLIONS OF USD)

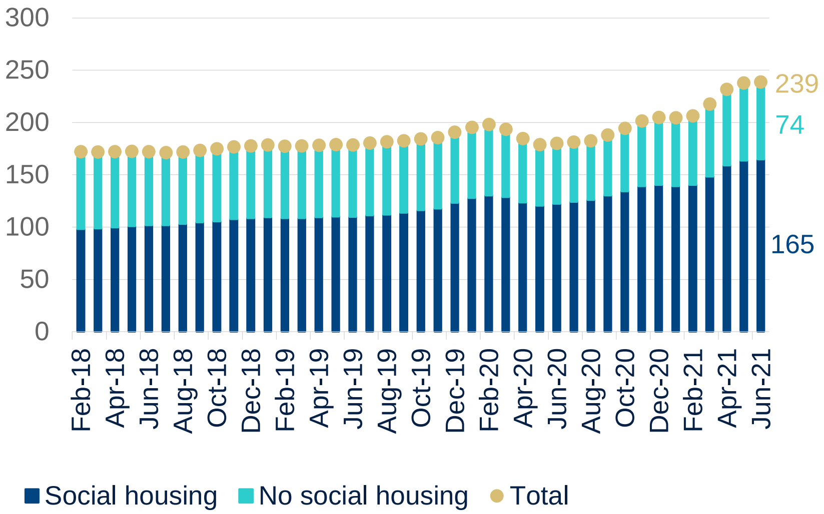


Source: BBVA Research based on data from Haver and DANE.

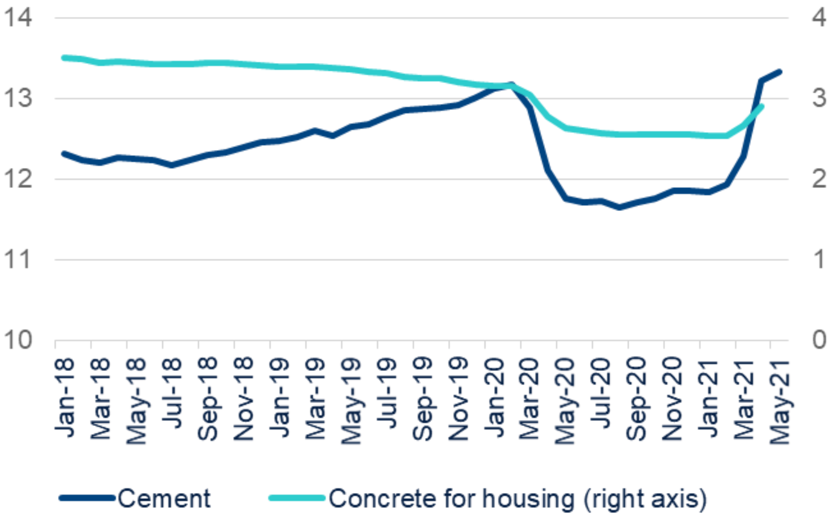
The petroleum sector has generated efficiencies since 2014. Thus, the current price of petroleum could contribute more returns to the national revenue (gross operating surplus).

In addition, the acceleration of the construction sector indicators also anticipates good dynamism in this type of investment

HOUSING SALES
(THOUSANDS OF UNITS, 12 MONTH ROLLING)



CEMENT AND CONCRETE FOR HOUSING
(MILLION TONS PER YEAR, 12 MONTH ROLLING)

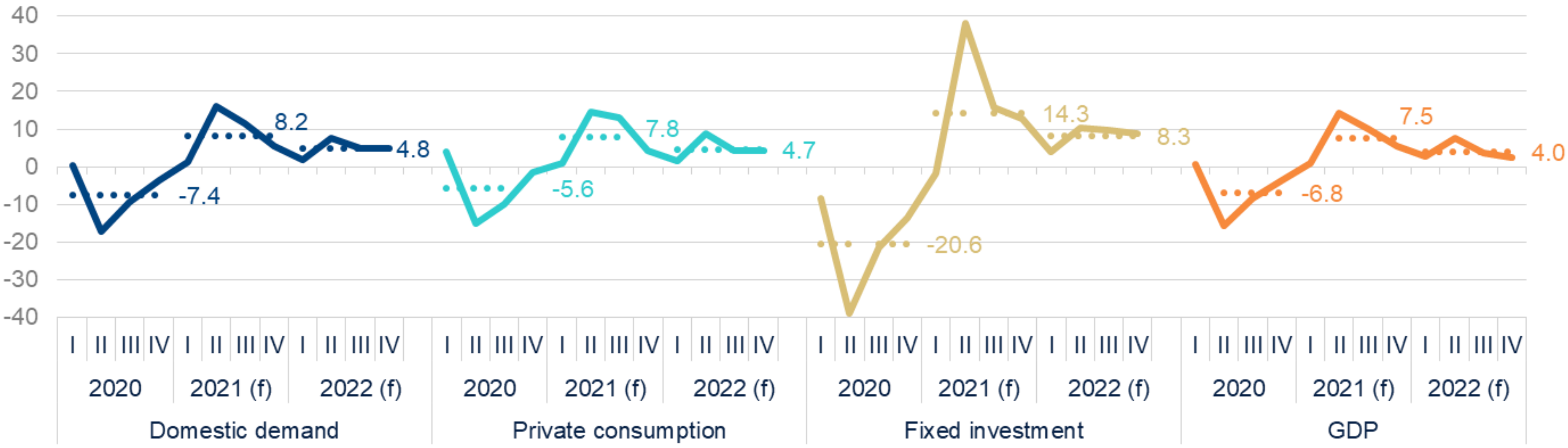


Source: BBVA Research based on data from Camacol - Coordenada Urbana and DANE.

Housing sales remain at record highs, although more concentrated in social housing and middle-income housing.

As a result, domestic demand will grow above GDP, driven by investment and private consumption, while public consumption will slow

GDP AND DOMESTIC DEMAND BY COMPONENT
(ANNUAL CHANGE, %, QUARTERLY FREQUENCY)

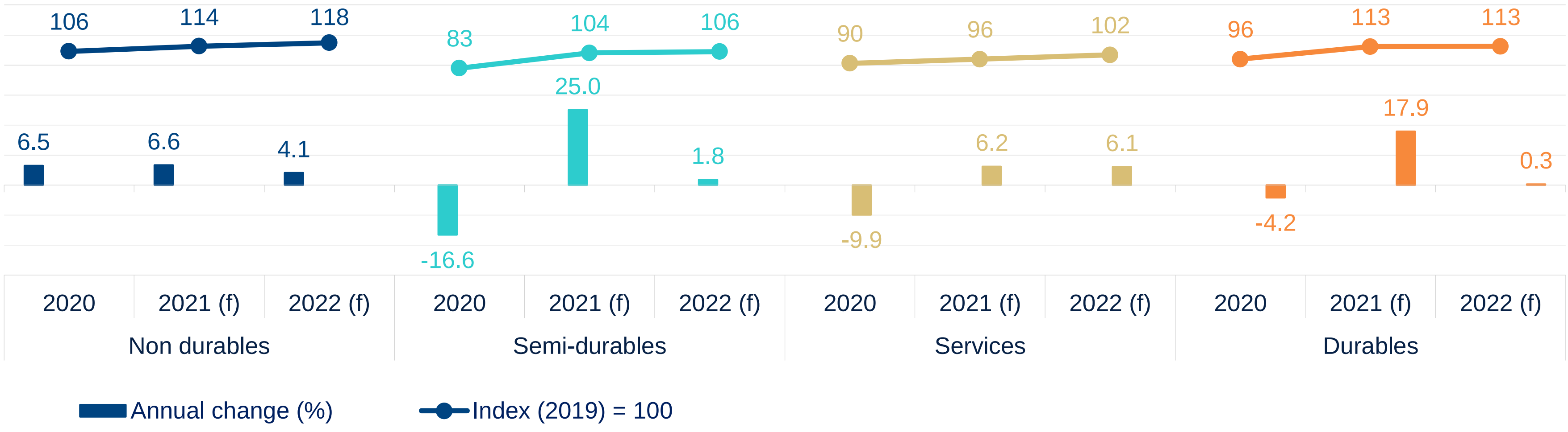


(f): BBVA Research forecast.
Source: BBVA Research based on DANE data.

During the second half of the year, some health-related restrictions on activity cannot be ruled out. However, the economy has learned to operate better under lockdown measures.

Private consumption will be driven by goods in 2021 and services in 2022, as the latter will accelerate with the achievement of "herd immunity"

PRIVATE CONSUMPTION BY COMPONENT
(INDEX, 2019 AVERAGE = 100)

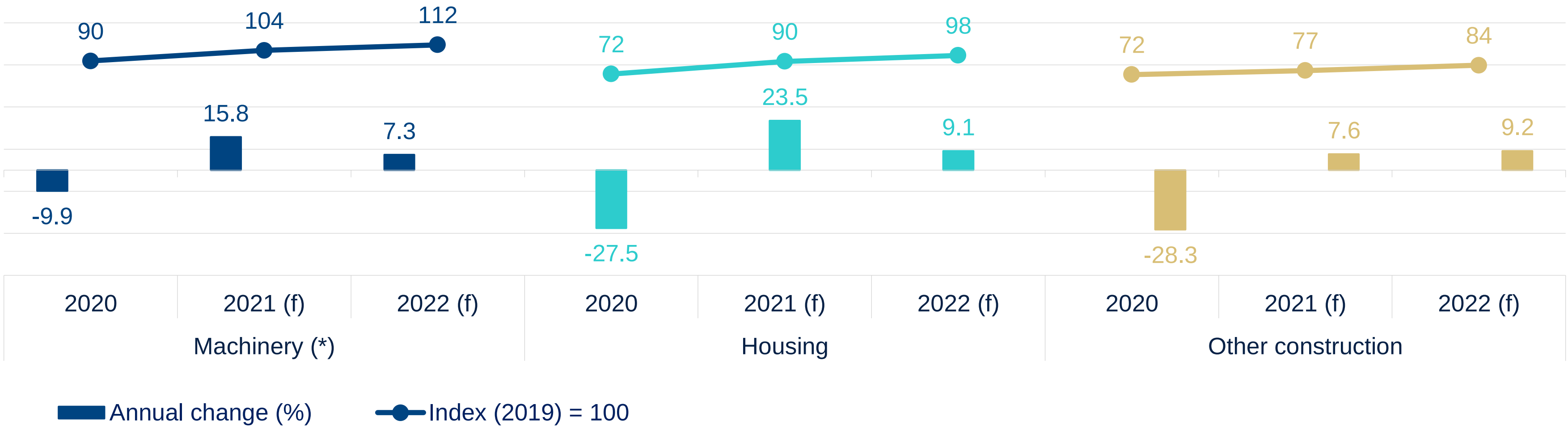


(f): BBVA Research forecast.
Source: BBVA Research based on DANE data.

Despite the backlog of services, they are recovering faster than expected, as they have been operating better with each wave of health restrictions.

Investment will have an outstanding performance in machinery and equipment and in housing, with significant lags in non-residential buildings

FIXED INVESTMENT BY COMPONENT
(INDEX, 2019 AVERAGE = 100 AND ANNUAL CHANGE, %)

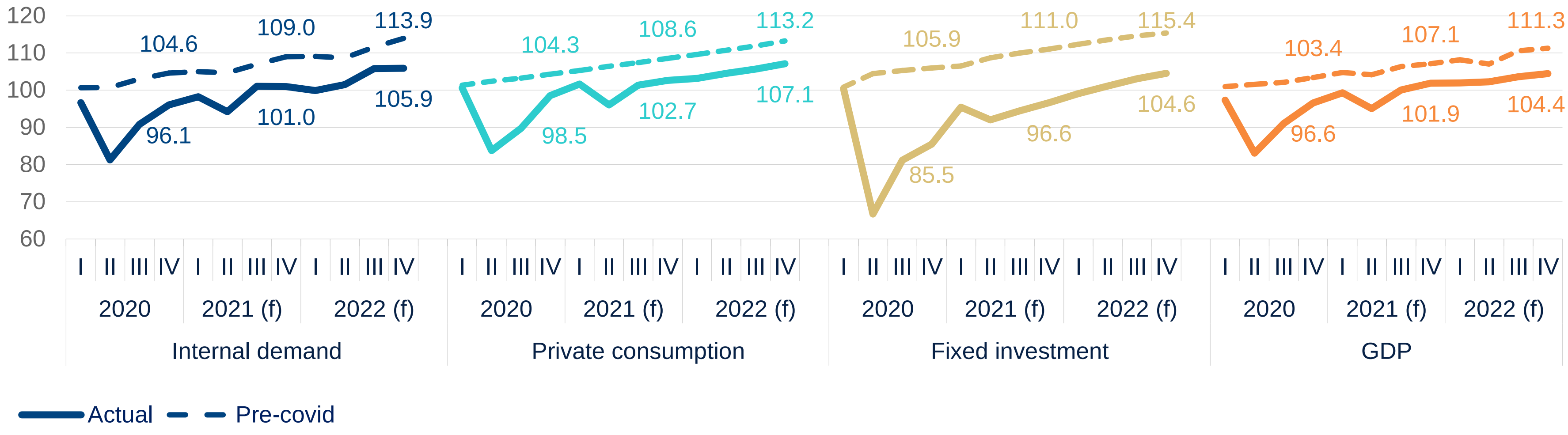


(f): BBVA Research forecast. (*): includes machinery and equipment, transport equipment, biologic material and intellectual property
Source: BBVA Research based on DANE data.

In particular, housing continues to be driven by medium- and low-priced construction. High-priced housing will still go through an adjustment period during 2021 and 2022.

The recovery of the economy will close gaps created against the GDP that would have been attained without the pandemic.

LEVEL OF GDP AND DOMESTIC DEMAND BY COMPONENT (*)
(INDEX, DEC 19 = 100)

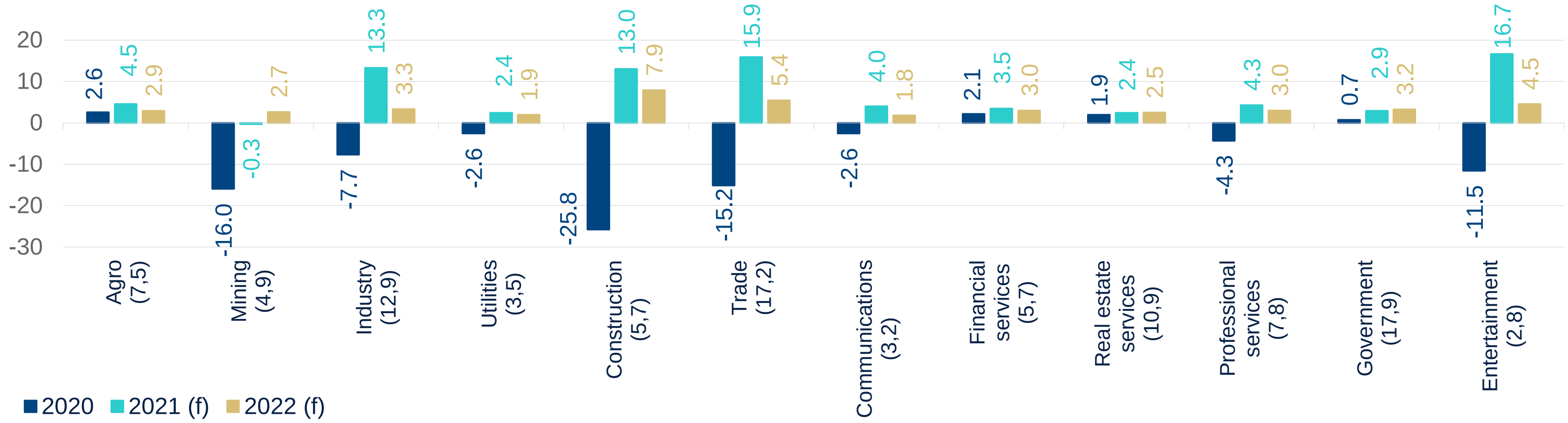


(f): BBVA Research forecast. (*) Compares the current projected trend for each component of the GDP with the trend the component would have achieved without the pandemic.
Source: BBVA Research based on DANE data.

Fixed investment, being one of the worst affected components of GDP, will also be one of the components to quicker close the gap.

Growth in 2021 will be led by the recovery of the sectors most affected by the pandemic, mainly trade and industry

GDP OF OUTPUT BY COMPONENT
(ANNUAL CHANGE, %, SHARE OF GDP IN PARENTHESES)

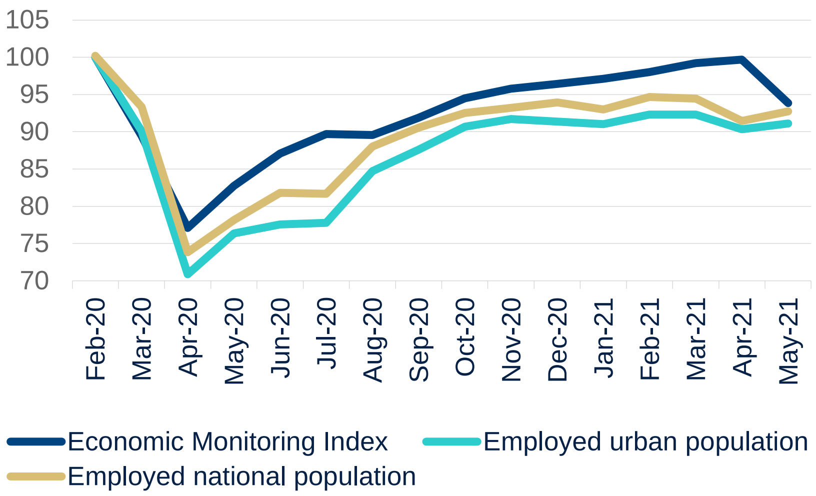


(f): BBVA Research forecast.
Source: BBVA Research based on DANE data.

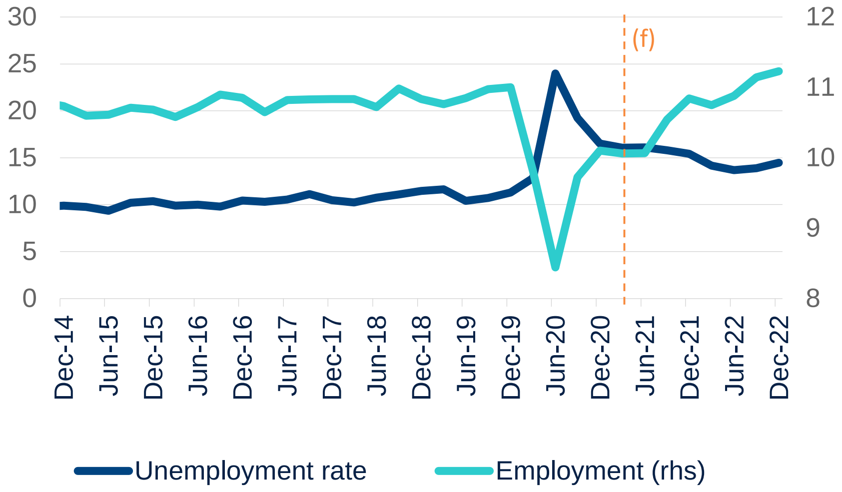
Growth will moderate in 2022, but construction, trade and entertainment will remain buoyant, driven by less restrictive measures.

Employment is lagging behind economic activity, with the production dynamics in May affected by transitory logistical factors

EMPLOYMENT AND ACTIVITY
(INDEX, FEB 20 = 100, SEASONALLY ADJUSTED SERIES)



UNEMPLOYMENT RATE AND URBAN EMPLOYMENT RATE (% OF THE WORKFORCE AND MILLIONS OF PEOPLE)



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

The lag in employment is specially strong in formal employment. The unemployment rate will gradually decline, but will take time to return to pre-pandemic levels and will not do so in the coming years.

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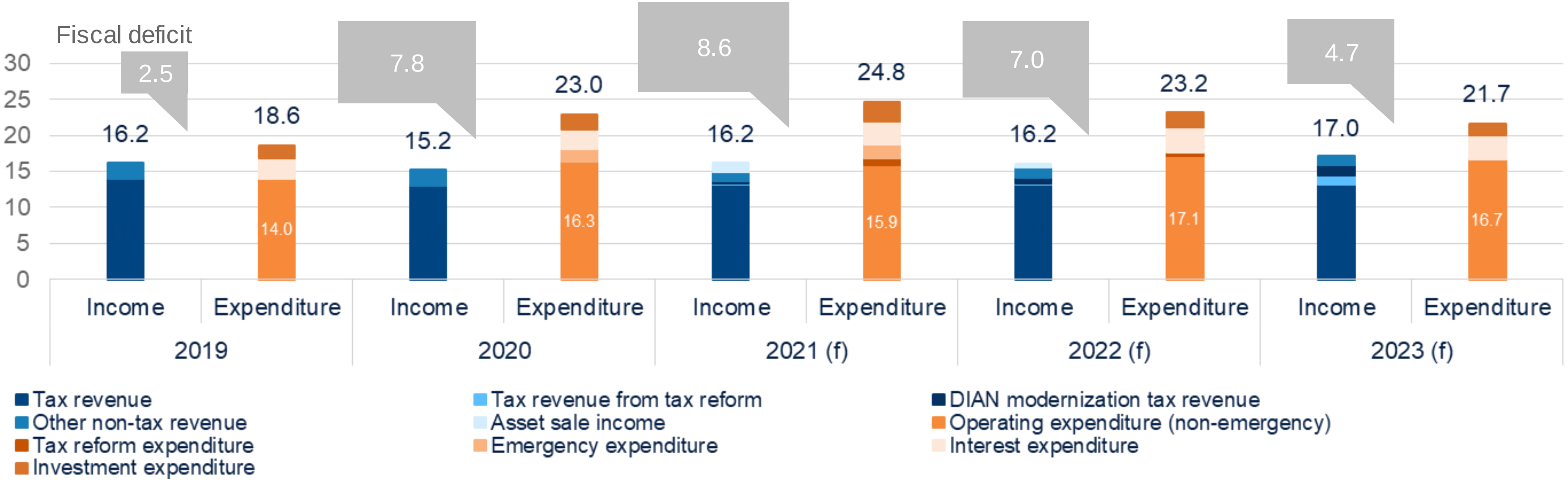
05

In the coming years, the fiscal and external deficits will be high,

and will require access of the country to ample financing sources

According to the government, spending will remain high and the reform will contribute significant resources only from 2023. The adjustment will be weak

REVENUE AND EXPENDITURE OF THE CENTRAL NATIONAL GOVERNMENT
(% OF GDP)

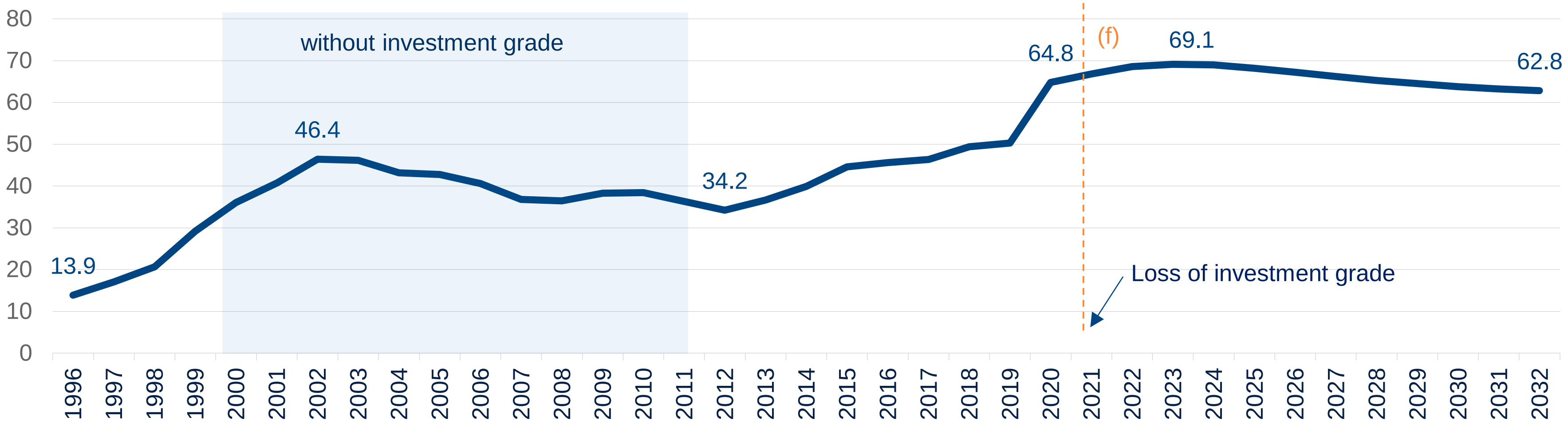


(f): Ministry of Finance forecast.
Source: BBVA Research based on data from the Ministry of Finance.

In 2021, the Government deficit will be 8.6% of GDP, above the 7.8% of 2020, and in 2022 it will be 7.0%. In 2022, operating expenditures will be higher than in 2020 (without emergency expenditures) and will remain high. However, investments will decline.

The Government is on a path of rising debt until 2023, reaching around 70% of GDP in 2023–24

DEBT OF THE CENTRAL NATIONAL GOVERNMENT AND SOVEREIGN RATING
(% OF THE GDP AND RATING)

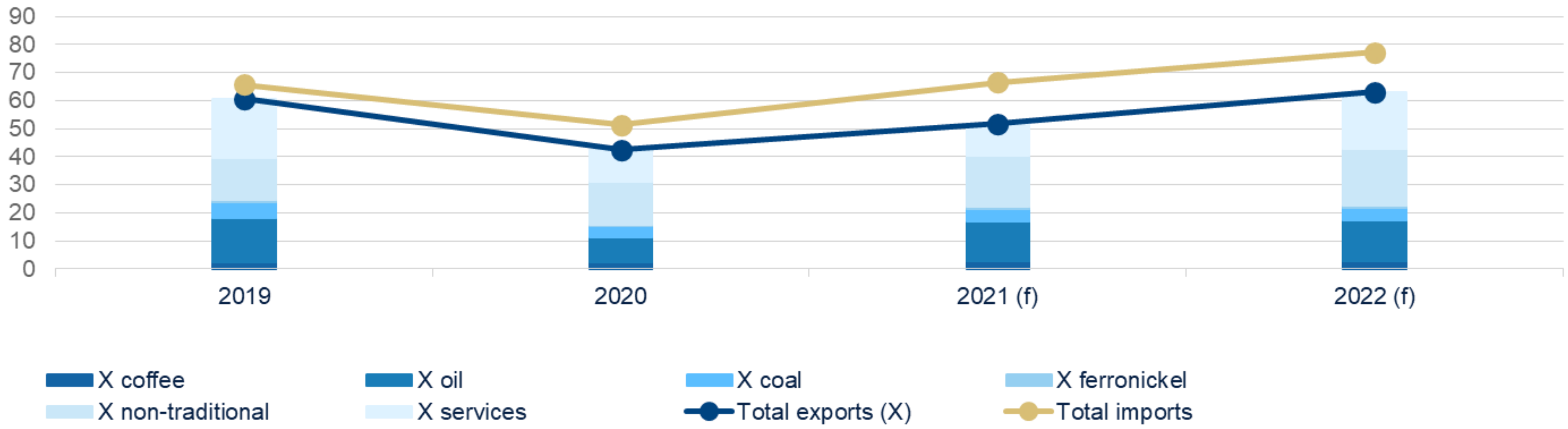


(f): Ministry of Finance forecast.
Source: BBVA Research based on data from the Ministry of Finance.

Debt is already well above the 2011 levels, when Colombia regained its investment grade rating. S&P and Fitch reduced Colombia's sovereign debt rating, loosing the investment grade in July 2021.

Internal demand will boost imports. Exports will grow driven by the improved global demand, but will be limited by the local mining production

EXPORTS (X) AND IMPORTS
(% OF GDP, IN BILLIONS OF USD)

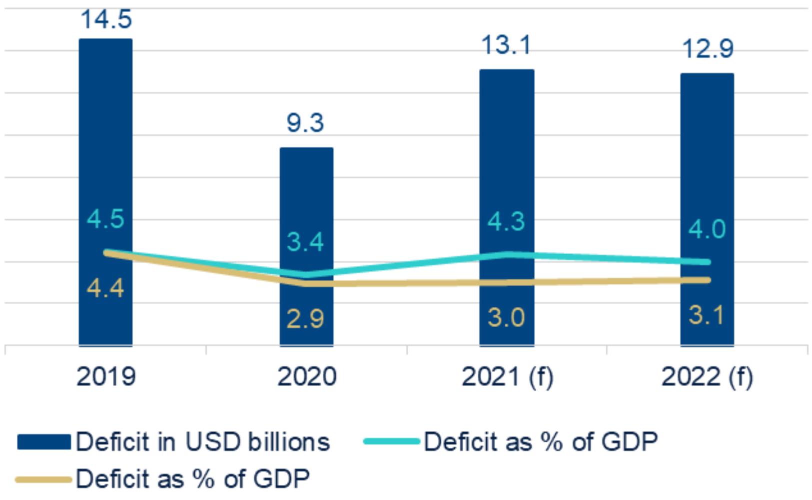


(f): BBVA Research forecast.
Source: BBVA Research based on data from Banco de la República.

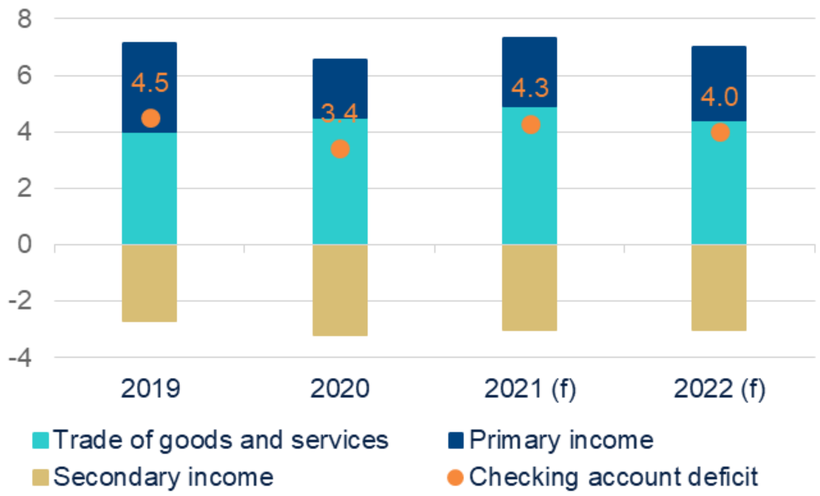
The trade deficit will increase gradually and will be the principal source of imbalance in the current account.

The checking account deficit will be under upward pressure due to domestic demand recovery and fewer traditional exports

CHECKING ACCOUNT DEFICIT
(% OF GDP, IN BILLIONS OF USD)



CHECKING ACCOUNT DEFICIT BY COMPONENT
(% OF GDP)



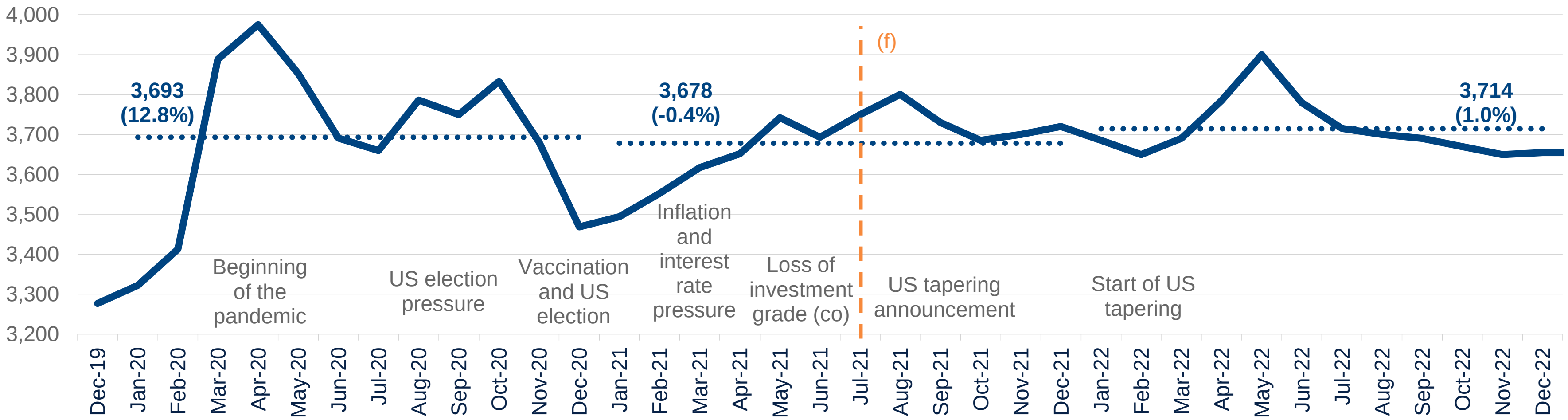
(f): BBVA Research forecast.
Source: BBVA Research based on data from Banco de la República.

The current account financing is more dependent on public resources and portfolio investment than before, as FDI no longer fully covers the deficit as it did in previous years.

The exchange rate will remain under upward pressure until mid-2022, with an average rate of 3678 for 2021 and 3714 for 2022

EXCHANGE RATE

(PESOS PER DOLLAR, YEARLY AVERAGE INDICATED BY THE DOTTED LINE, AND AVERAGE DEPRECIATION IN PARENTHESIS)



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

This is due to external factors, such as the announcement and start of tapering by the Fed, and local factors such as the electoral cycle.

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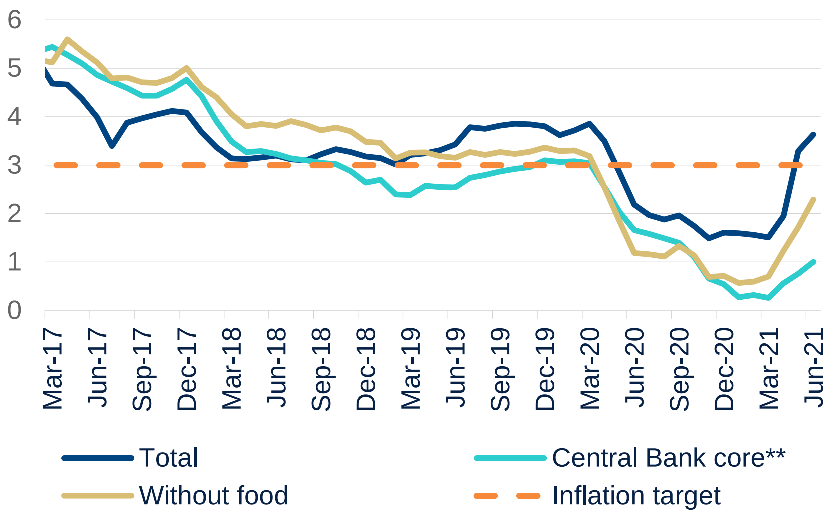
06

Inflation acceleration will be mostly transitory;

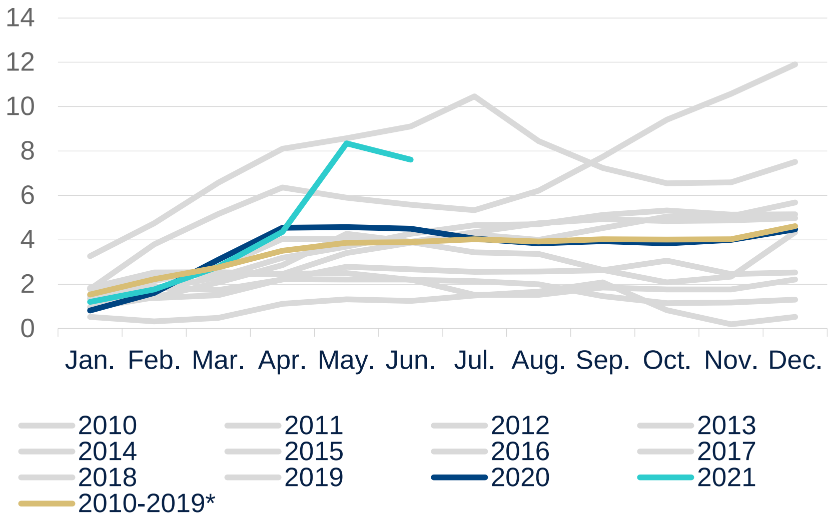
however, in hand with the improvement in activity, will pressure policy interest rates to the upside.

The normalization of tariffs and food prices have driven inflation upward in 2021 with an incidence of external shocks

HEADLINE AND CORE INFLATION
(ANNUAL CHANGE, %)



FOODSTUFFS INFLATION
(YEAR-TO-DATE CHANGE, %)

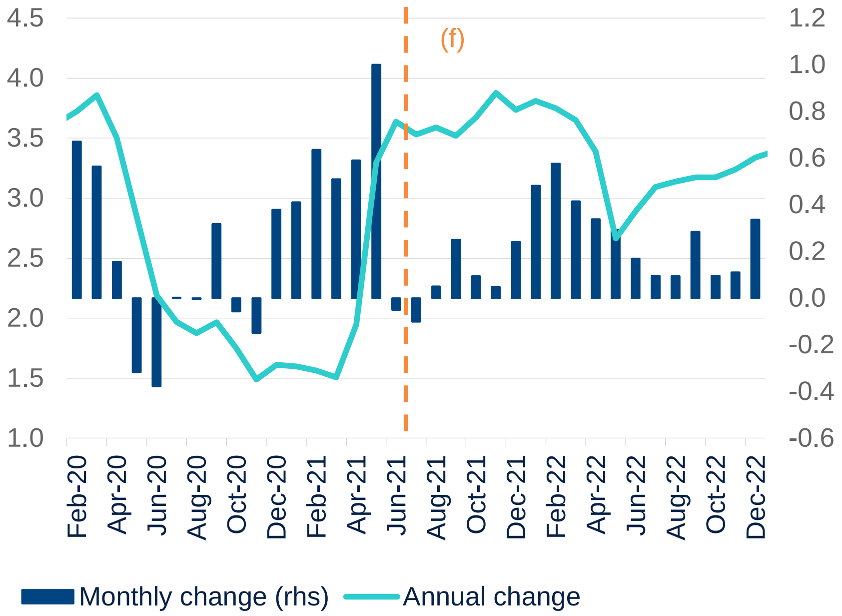


(*) Average for the period between 2010 y 2019. (**) excludes food and administered prices
Source: BBVA Research based on DANE data.

Some shocks have been more permanent in nature with effects on the country's production structure. However, the low levels at which it was found have allowed it to remain within the range expected by the Central Bank.

This would leave inflation at 3.7% in 2021, with some upside risks. In 2022, some risks will moderate, allowing the year to close at 3.3%

INFLATION
(ANNUAL AND MONTHLY CHANGE, %)



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

Internal demand

The recovery in the services sectors continues to be slow and without price pressures.

However, good **consumption and investment dynamics** could lead to bottlenecks and price pressures.

International prices

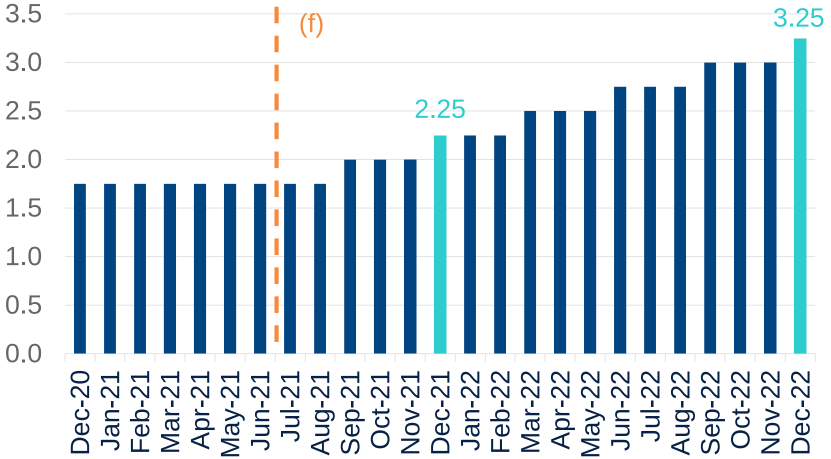
The increase in **international prices of raw materials,** which is already present in producer prices, could be **transferred to a larger extent** and by indirect channels to some consumer prices.

Pass-through

The **significant exchange rate devaluation** and the continuation thereof will have significant implications for **tradeable goods** in the basket and some services whose cost structure depends on the exchange rate.

Higher growth and inflation set the stage for the start of the rate hike cycle in September 2021. The rate is expected to close 2021 at 2.25%

MONETARY POLICY RATE
(%)



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

GDP AND INFLATION

The **output gap** closed faster than anticipated (BanRep revised their growth forecast upward to 6.5% from 4.7%) and the **inflation risks** are biased upward. Justifying an earlier interest rate hike

EMPLOYMENT AND POVERTY

The Central Bank emphasizes that the high level of **unemployment** and **informality** and the notable increase in **poverty** justify maintaining an **expansionary monetary policy**.

EXTERNAL AND FISCAL ENVIRONMENT

Access to **external financing** under normal conditions and **fiscal consolidation** are variables that contribute to the Central Bank's capacity to maintain an **expansionary policy.**

The Central Bank will also be closely following the performance of the labor market. Thus, despite starting slightly earlier than expected, the adjustment will be gradual, closing 2022 at 3.25%.

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07

The good global and local momentum allow for an anticipated recovery

In conclusion

The global and internal demand boots economic recovery amidst higher inflation and exchange rate

MAIN MESSAGES

Covid-19

A good vaccination rate allows to achieve herd immunity in 1Q22. Caution with new strains. The economy learns to coexist with the virus

Activity and inflation

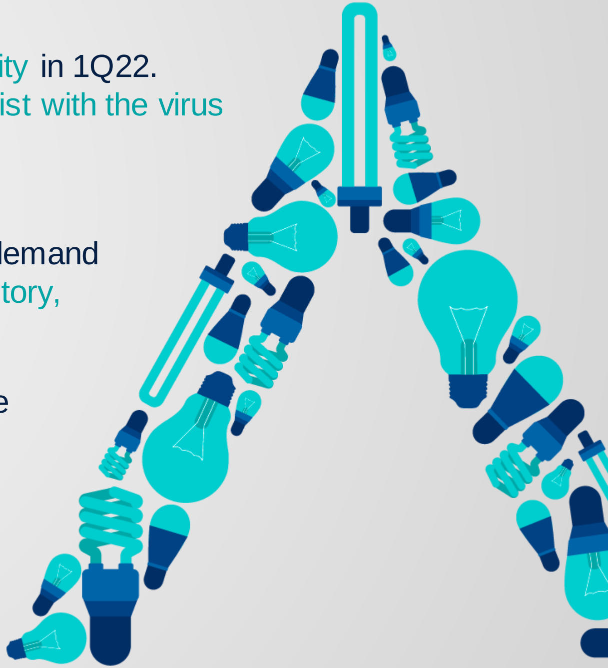
Solid recovery, despite logistical restrictions. Internal demand and exports lead activity. Hike in inflation seems transitory, but with upward risks.

Financial markets

The Central Bank starts rising rates in 2021, but will be gradual. The exchange rate will remain weak until mid 2022 due to tapering and other local factors.

Macro Imbalances

Despite the tax reform and expenditure adjustment, the external and fiscal deficits will remain high, needing important external funding sources



Macroeconomic forecast

	2017	2018	2019	2020	2021 (f)	2022 (f)
GDP (% y/y)	1.4	2.6	3.3	-6.8	7.5	4.0
Private consumption (% y/y)	2.1	3.2	3.9	-5.8	7.8	4.7
Public consumption (% y/y)	3.6	7.4	5.3	3.7	2.4	1.2
Fixed investment (% y/y)	1.9	1.0	3.1	-21.1	14.3	8.3
Inflation (% y/y. eop)	4.1	3.2	3.8	1.6	3.7	3.3
Inflation (% y/y. avg)	4.3	3.2	3.5	2.5	3.0	3.3
Exchange rate (eop)	2,991.4	3,212.5	3,277.0	3,432.5	3,720.0	3,655.0
Devaluation (%. eop)	-0.6	7.4	2.0	4.7	8.4	-1.7
Exchange rate (avg)	2,951.3	2,956.4	3,272.6	3,693.3	3,678.0	3,714.2
Devaluation (%. eop)	-3.4	0.2	10.7	12.8	-0.4	1.0
Interest policy rate (%. eop)	4.75	4.25	4.25	1.75	2.25	3.25
Fixed Term Deposit rate (%. eop)	5.3	4.5	4.5	1.9	1.8	2.8
Current Account (% GDP)	-3.3	-3.9	-4.2	-3.4	-4.4	-4.0
Urban unemployment rate (%. eop)	9.8	10.7	10.5	15.6	14.1	13.3

(f): Forecast.
Source: BBVA Research with DANE and Banco de la República data.

Main macroeconomic variables

	PIB (% a/a)	Inflación (% a/a, fdp)	Tipo de cambio (vs. USD, fdp)	Tasa BanRep (%, fdp)
Q1 18	1.6	3.1	2,852	4.50
Q2 18	2.8	3.2	2,893	4.25
Q3 18	2.9	3.2	3,038	4.25
Q4 18	2.9	3.2	3,213	4.25
Q1 19	3.6	3.2	3,125	4.25
Q2 19	3.1	3.4	3,256	4.25
Q3 19	3.2	3.8	3,400	4.25
Q4 19	3.3	3.8	3,277	4.25
Q1 20	0.6	3.9	3,888	3.75
Q2 20	-15.7	2.2	3,691	2.50
Q3 20	-8.4	2.0	3,750	1.75
Q4 20	-3.6	1.6	3,469	1.75
Q1 21	1.1	1.5	3,617	1.75
Q2 21	14.4	3.6	3,693	1.75
Q3 21	9.9	3.5	3,730	2.00
Q4 21	5.5	3.7	3,720	2.25
Q1 22	2.7	3.6	3,690	2.50
Q2 22	7.6	2.8	3,780	2.75
Q3 22	3.6	3.2	3,690	3.00
Q4 22	2.5	3.3	3,655	3.25

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

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Colombia Economic Outlook

3Q21

Bogotá, July 2021

Creating Opportunities