



Macroeconomic Conditions and Monetary Outlook

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Webinar Credicorp Capital
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*Opinions presented herein do not represent those of the Central Bank of Colombia nor of its Board of Directors.



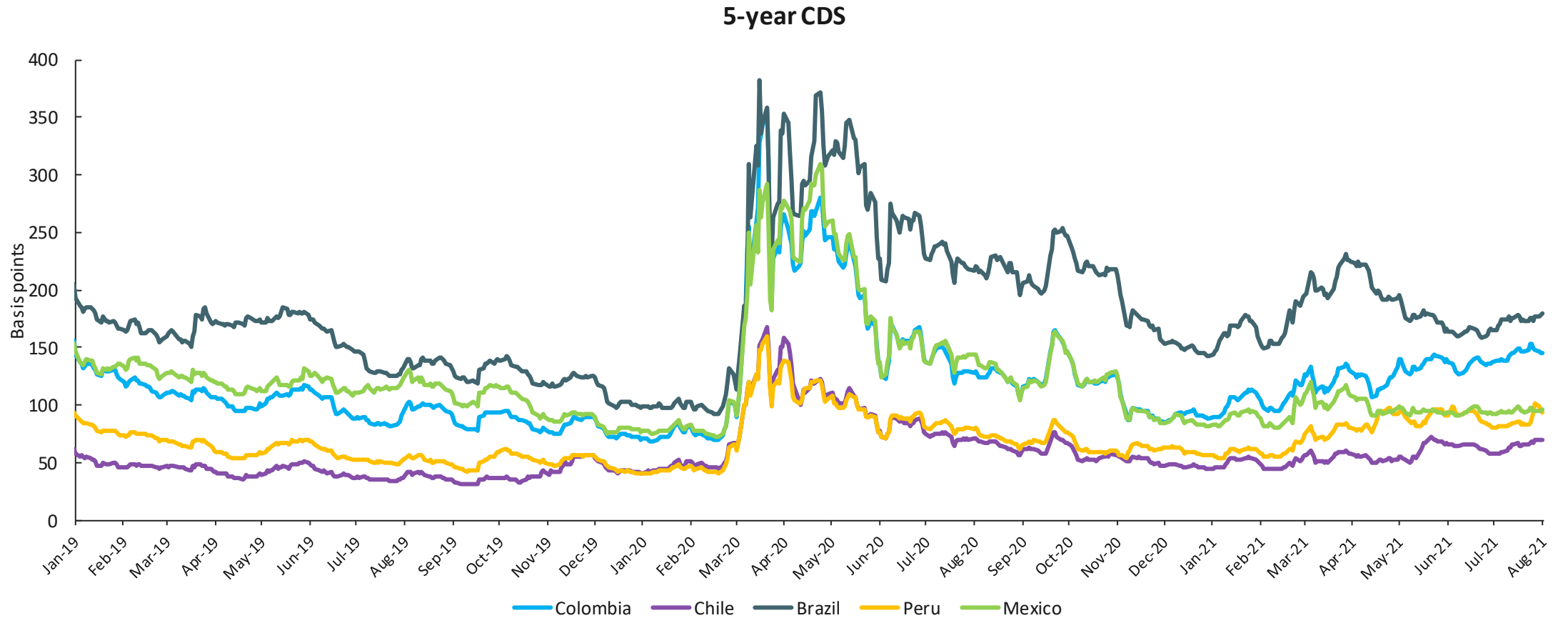
Content

EXTERNAL CONTEXT

MONETARY POLICY STANCE

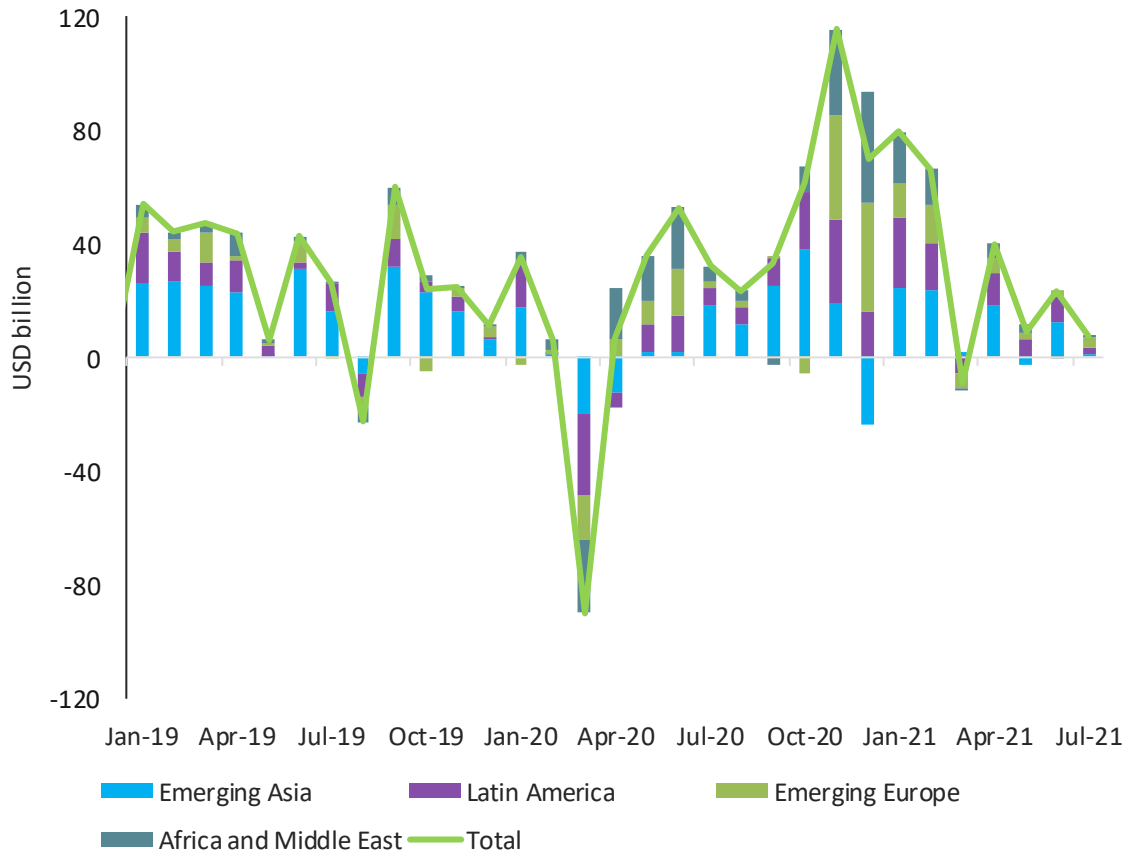
POLICY CHALLENGES

- **External liquidity remains abundant**, but Colombia's risk premia has risen following a more challenging and uncertain fiscal situation

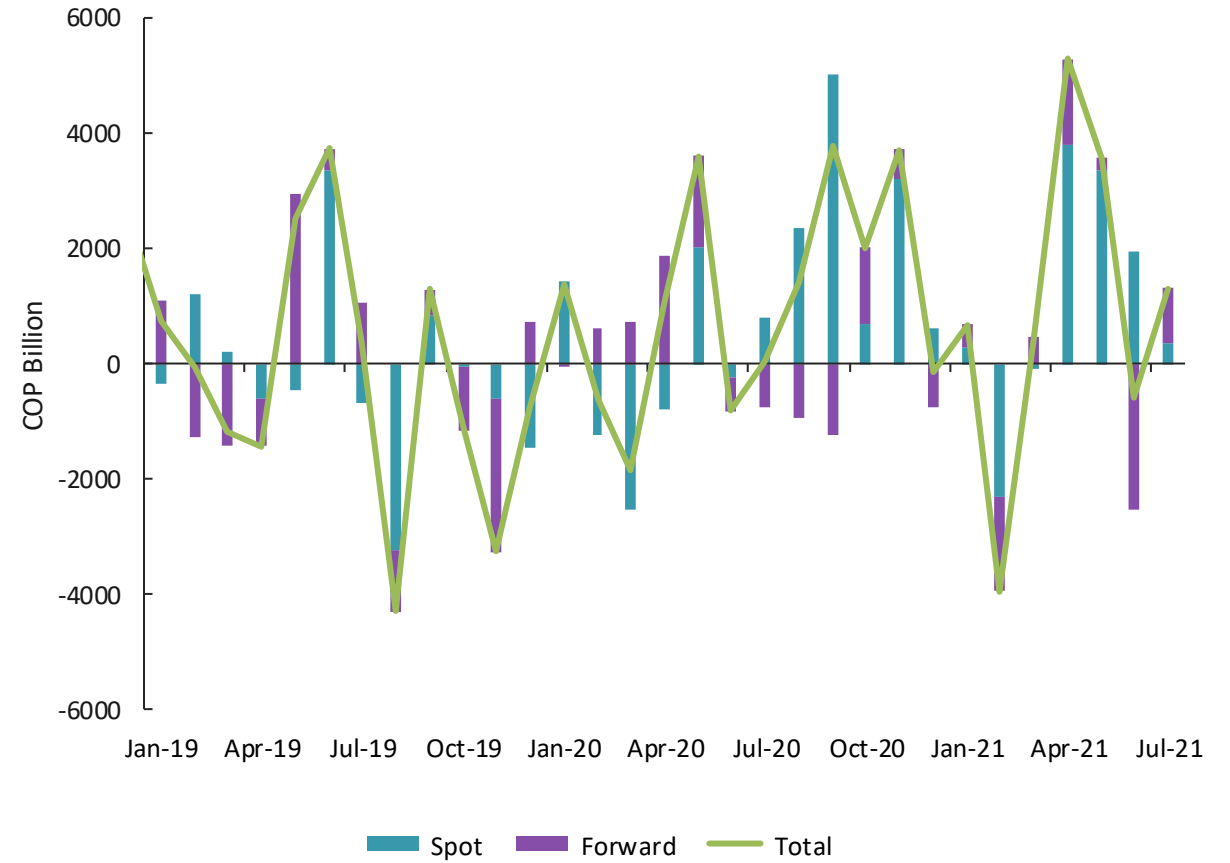


- **Portfolio flows to emerging markets are trending lower**
- **Flows to Colombia's public debt market remain positive** despite the lower credit rating

Portfolio flows to emerging markets



Foreign flows to the local TES market



Sources: IIF and Banco de la República.

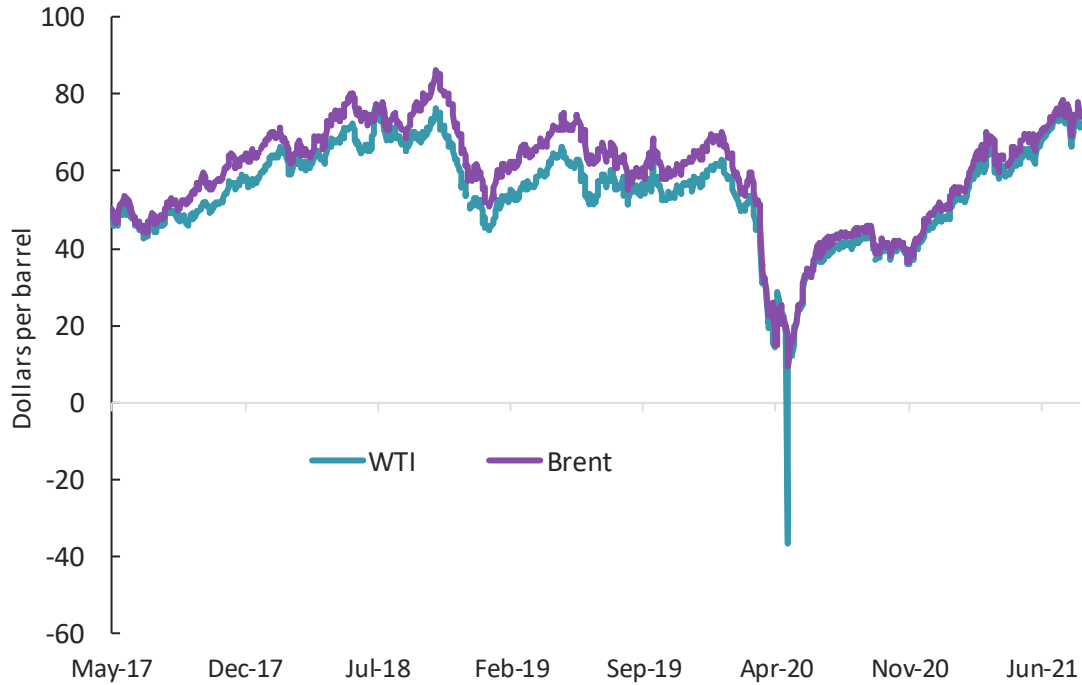
- Progress in the vaccination programs and supportive fiscal and monetary policies in advanced economies have improved the outlook for global growth
- The recovery path is likely to be heterogeneous across countries, reflecting, among other, differences in the vaccination process

IMF Economic Growth Projections
(% change)

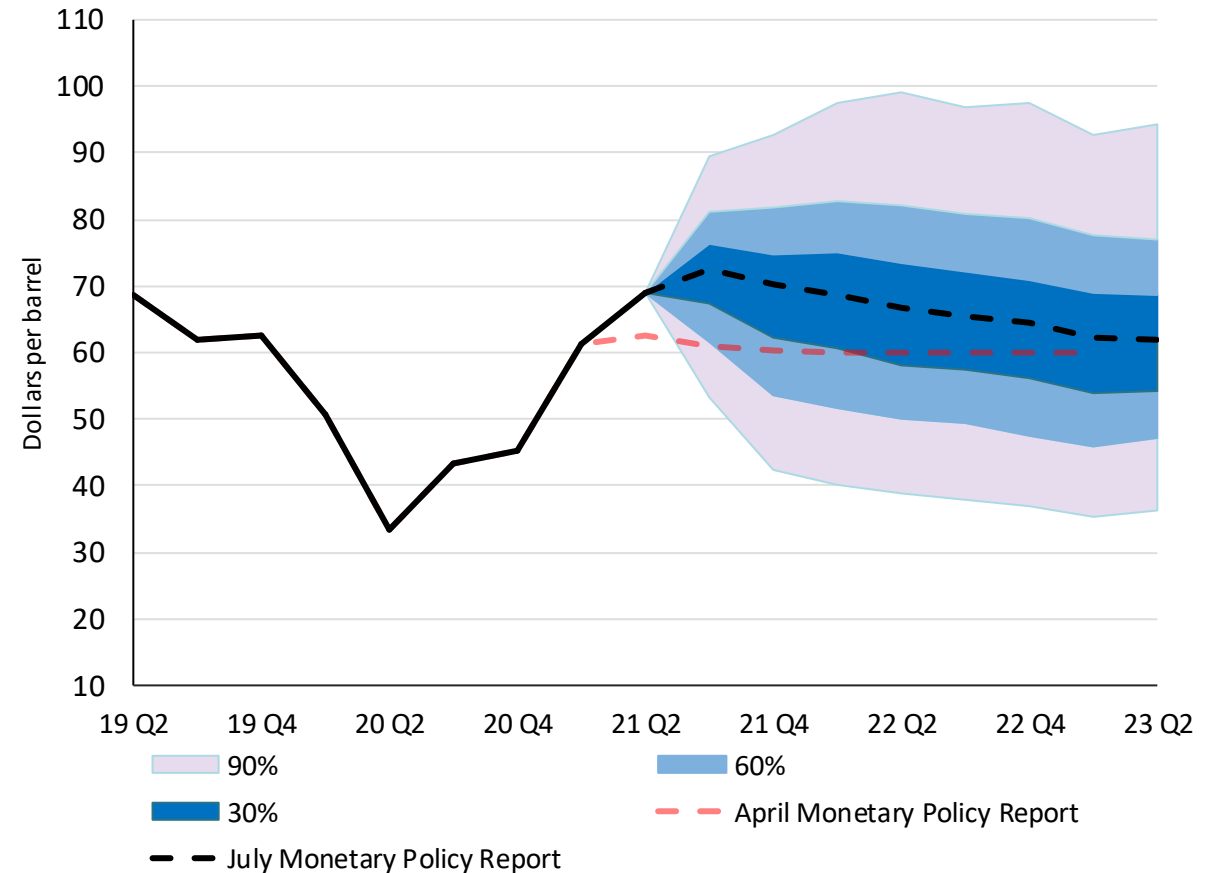
	2022 Projection	Difference from January WEO Update
World Output	4.9	0.7
Advanced Economies	4.4	1.3
United States	4.9	2.4
Euro Area	4.3	0.7
Japan	3.0	0.6
China	5.7	0.1
Emerging Markets	5.2	0.2
Brazil	1.9	-0.7
Mexico	4.2	1.7

- Oil prices have risen to pre-pandemic levels, but there is uncertainty surrounding the duration of a high price scenario

Oil prices



Forecast for Oil prices



Sources: U.S. Energy Information Administration and Banco de la Republica – [Monetary Policy Report July 2021](#)





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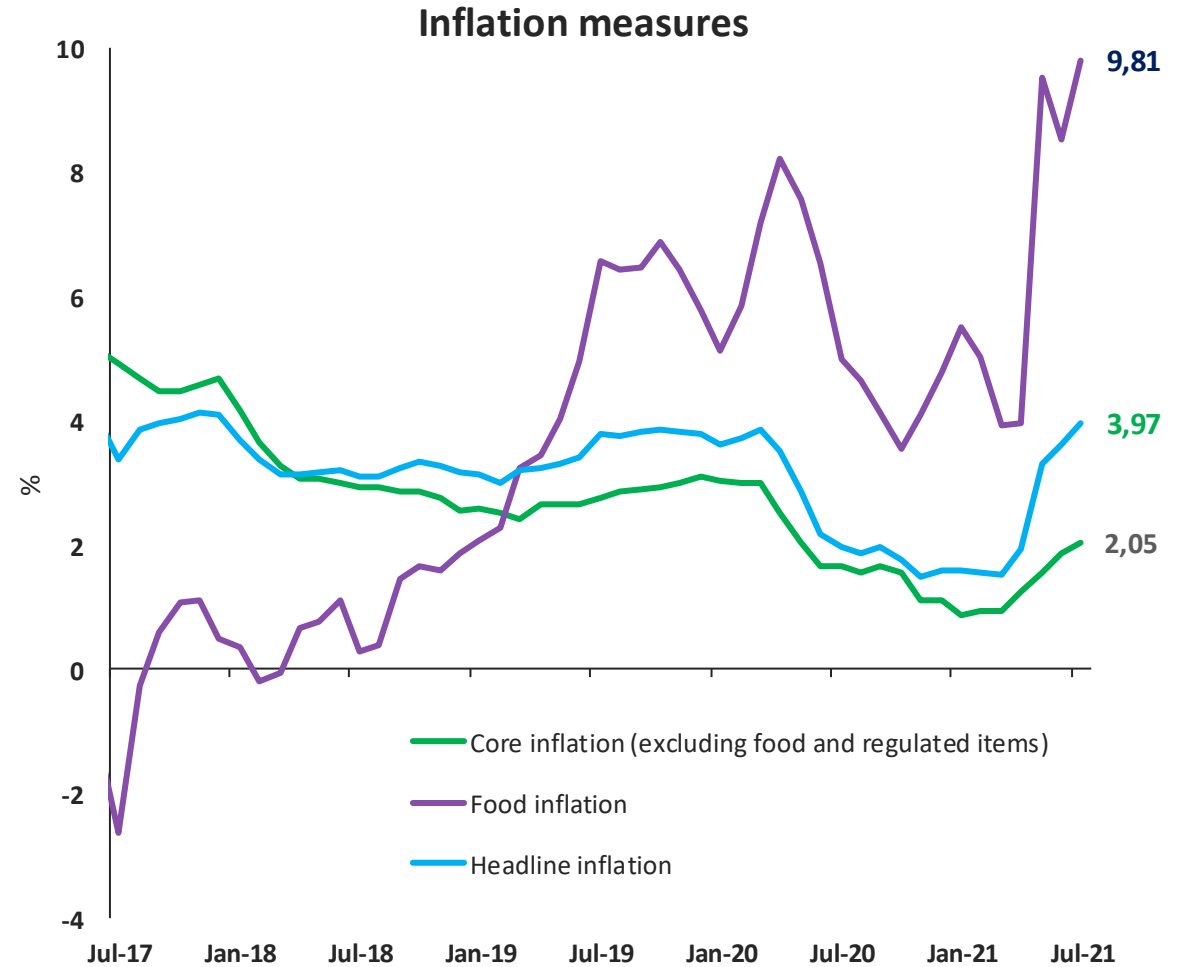
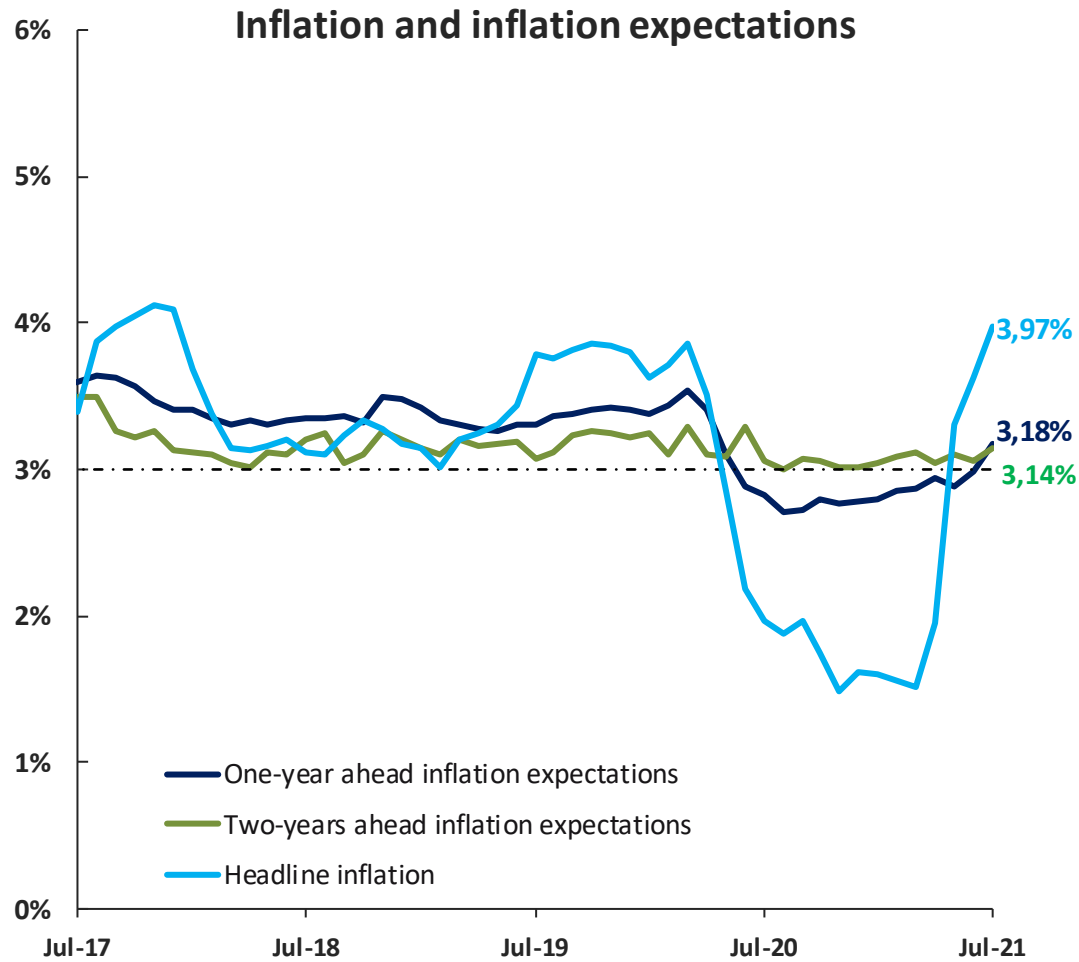
CONTEXT

MONETARY POLICY STANCE

POLICY CHALLENGES

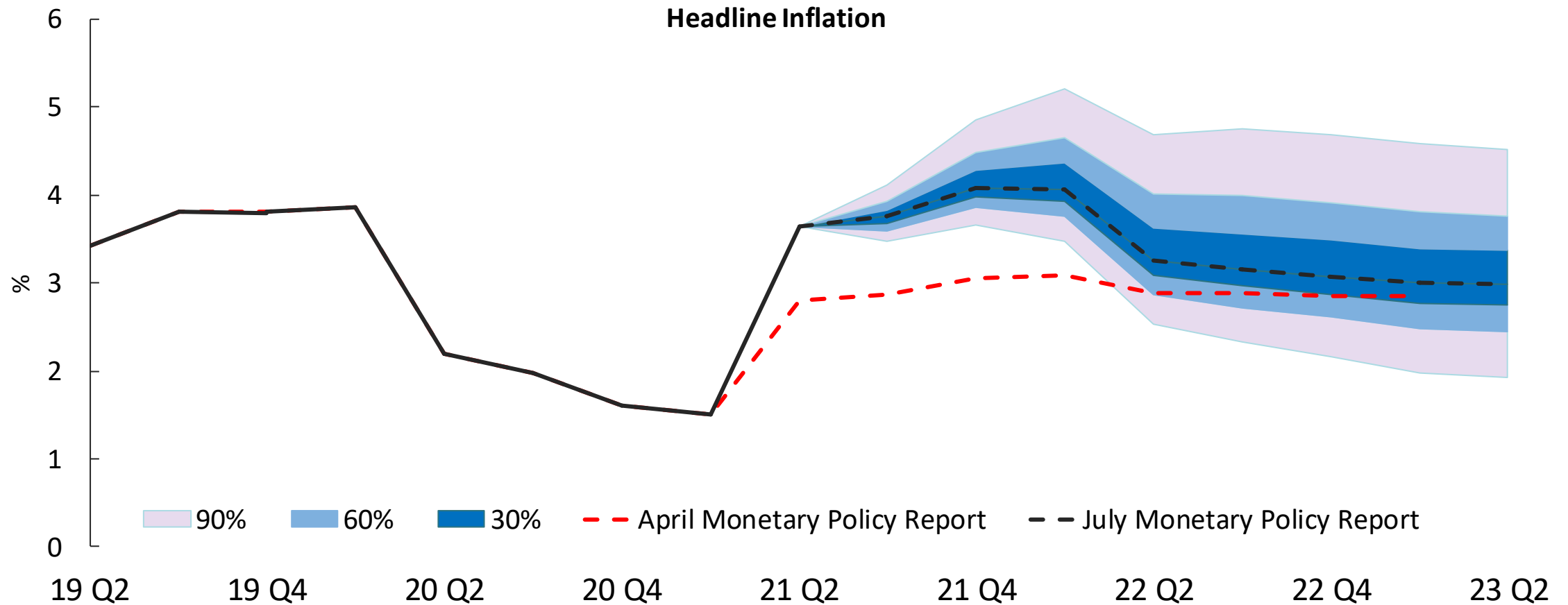
- The monetary policy response is supported by a sound macroeconomic policy framework:
 1. Monetary policy is guided by a fully-fledged inflation targeting regime with exchange-rate flexibility
 2. Adequate external buffers
 3. Adequate financial supervision and regulation
 4. A Medium-Term Fiscal Framework seeking to achieve a sustainable path for public debt, which has been significantly challenged on account of the pandemic

- **The high credibility of the Central Bank** maintains inflation expectations close to the target

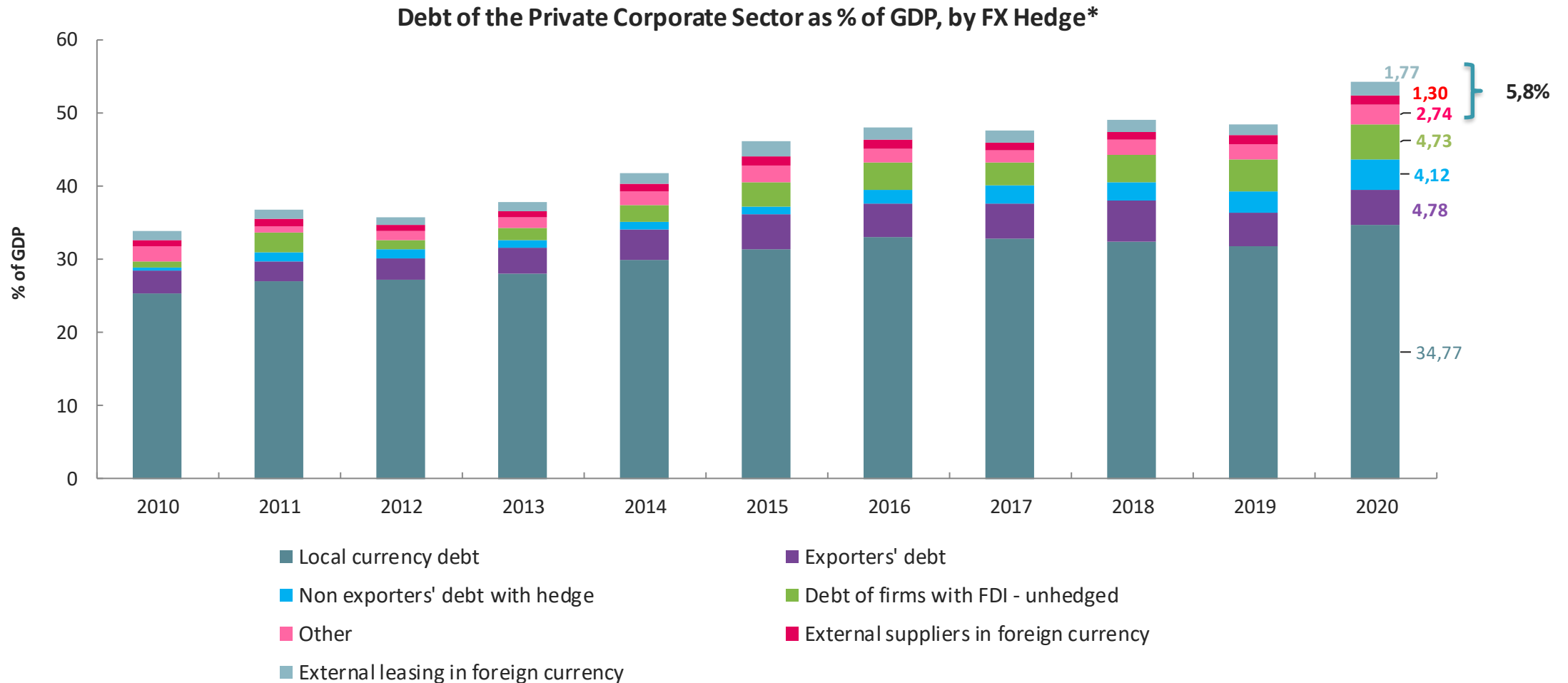


Source: Banco de la República (monthly expectations survey) and DANE.

- **Various transitory shocks recently caused an increase in inflation** : a national strike, increased commodity and import prices, disruption of international value chains and higher global logistical costs
- **Inflation is now expected to be above target by the end of this year (3.7% - 4.9%)** and should converge to the target in 2022



- **Currency mismatches are low**, allowing the exchange rate to become the first line of defense against external shocks without creating financial stability concerns. Unhedged FX denominated debt of the corporate sector has not changed substantially and nowadays represents only 5.8% of GDP



Source: Banco de la República – Financial Stability Report 2021-I. *Fx debt from suppliers and leasing is not available by ID, and it is not possible to identify if this debt has an FX hedge.

- External liquidity levels are adequate

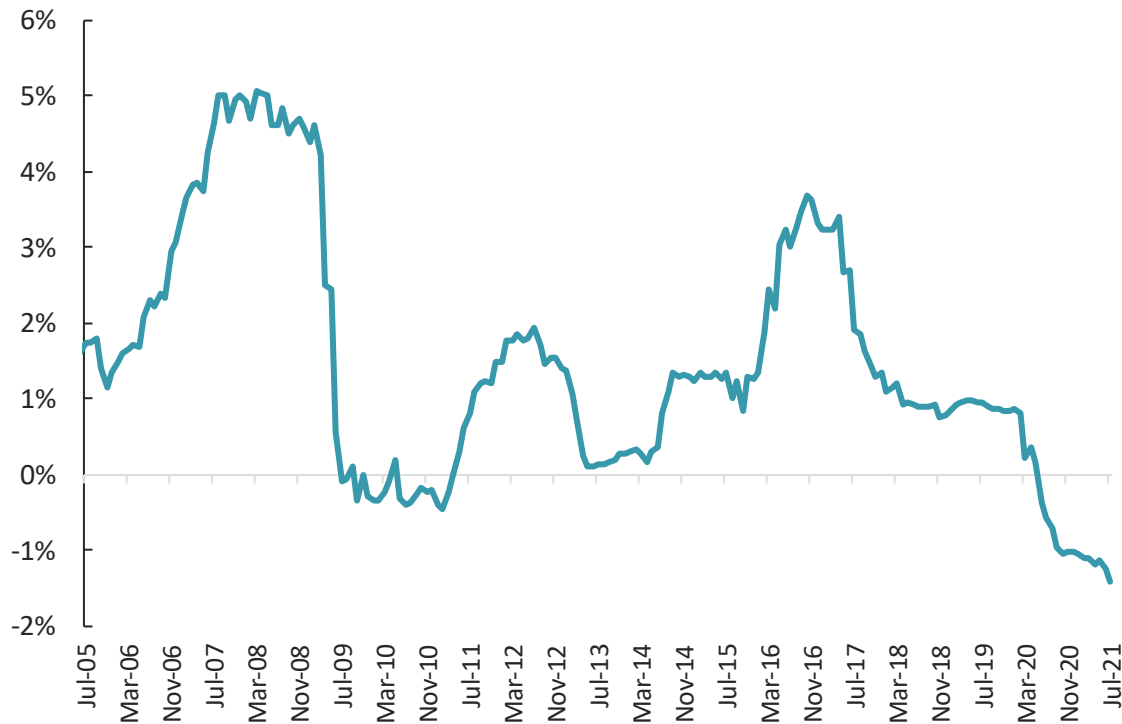
International Reserves and the Flexible Credit Line



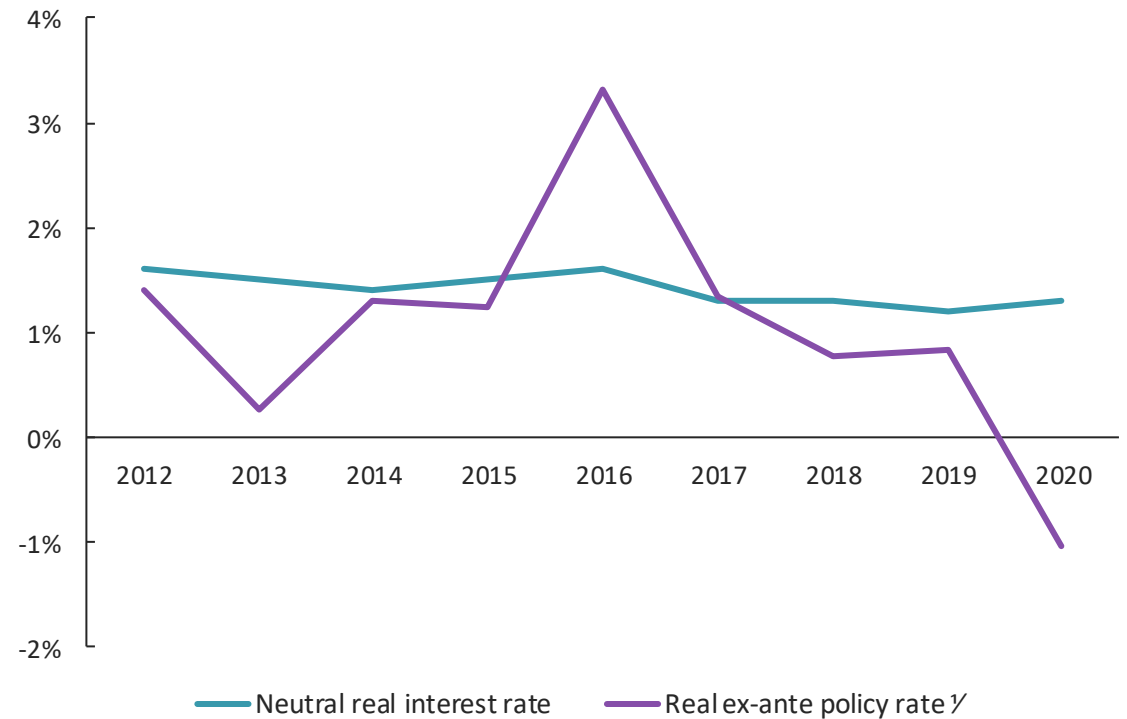
Source: Banco de la República and IMF. *The reduction observed in December is explained by the disbursement of USD 5.4 billion from the FCL to the government.

- As a result of high credibility and contained currency mismatches, the CB has been able to maintain a highly counter-cyclical stance

Real ex-ante policy interest rate



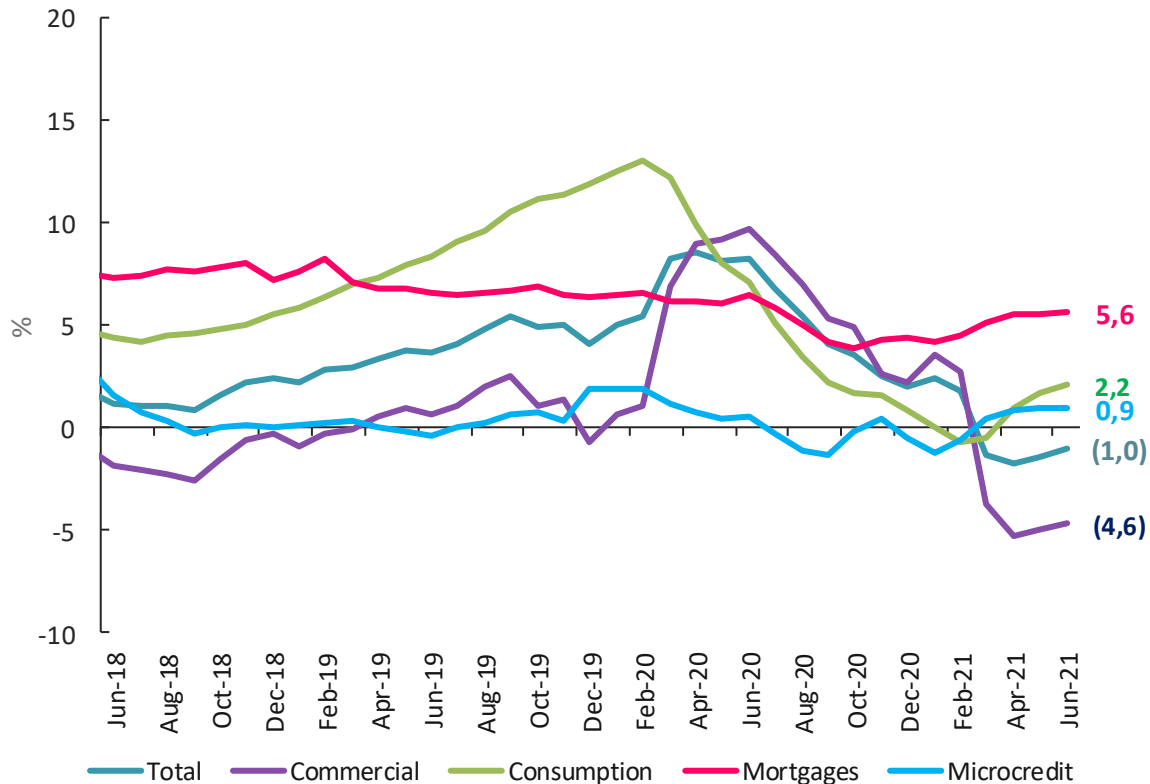
Real Interest Rates*



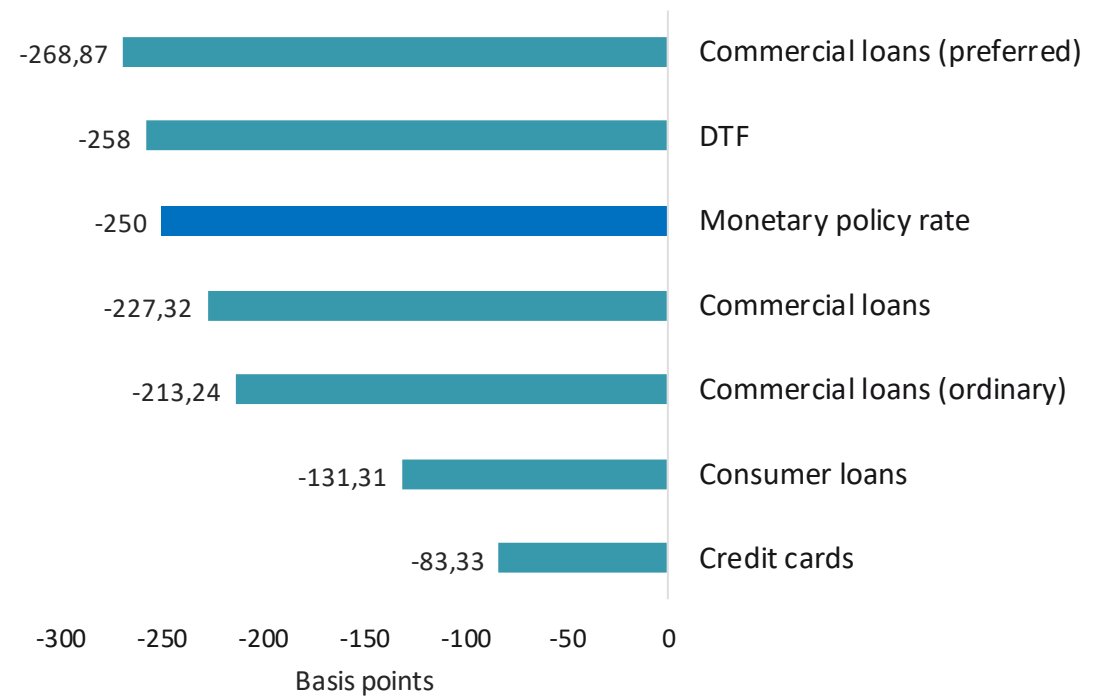
Source: Banco de la República – [July 2021 Monetary Policy Report](#). *Estimate of the neutral real interest rate. †Real ex-ante interest rate is calculated using one-year ahead inflation expectations obtain from surveys.

- **Financial intermediation has supported the transmission of monetary policy**
- The growth of the loan portfolio has increased recently, and the lower monetary policy rate has been transmitted to most interest rates in the financial system

Loan portfolio – Real Annual Growth Rate

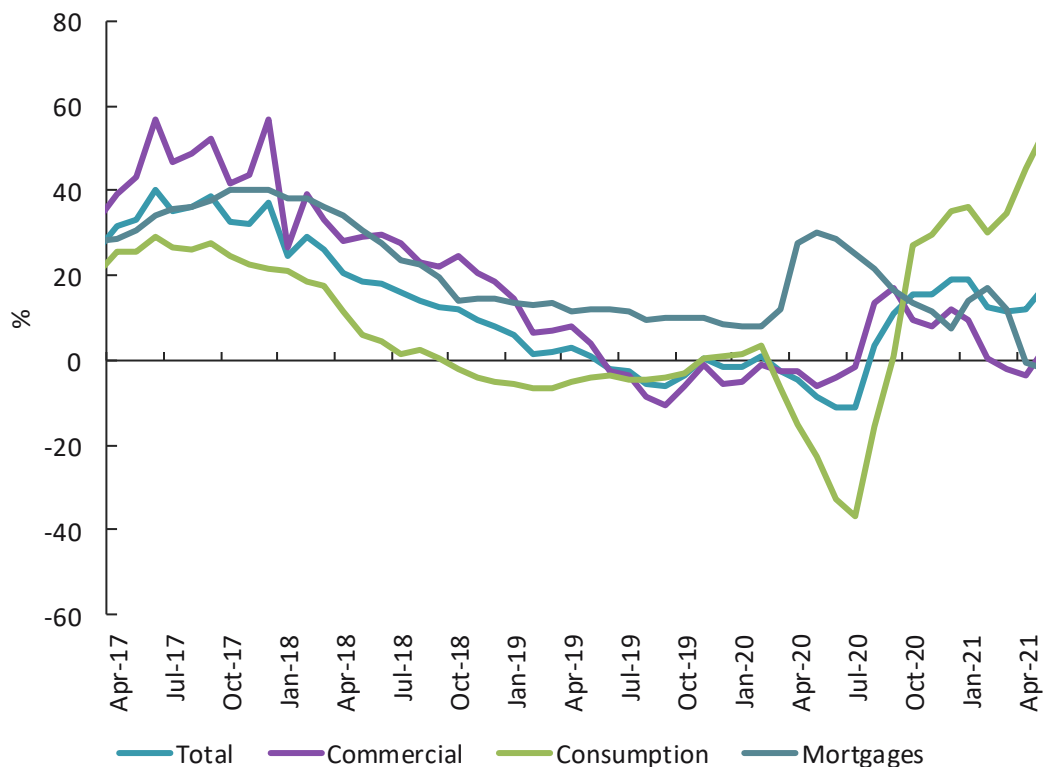


Transmission of interest rates - change in interest rates since march 2020



- **The loan portfolio deteriorated in line with the economic slowdown**
- The Debtor Support Program (PAD) has benefitted loans for COP 37.6 trillion (7% of the total loan portfolio). **There is uncertainty surrounding the future of non-performing loans after the expiration of the PAD and financial institutions have increased provisions to manage this risk**

Non-performing loans - Real Annual growth rate



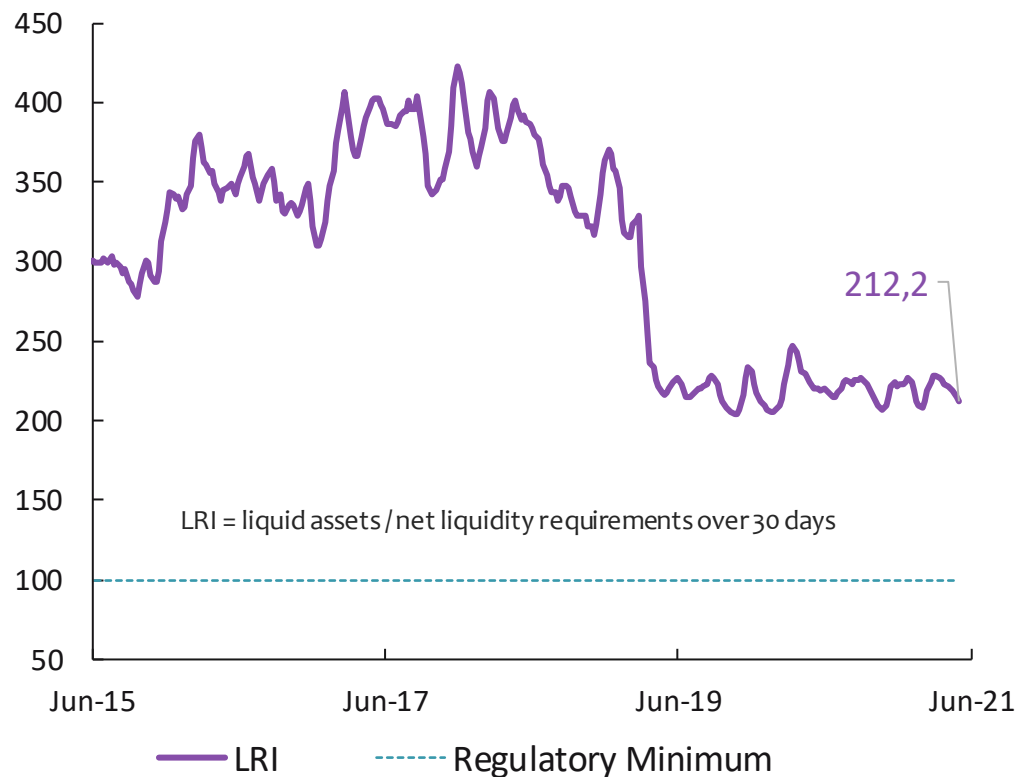
Loan portfolio in the Debtor Support Program (PAD)

Type of loan	Amount in PAD (COP trillion)	Amount in PAD (% of loan portfolio)
Commercial	\$ 13,3	4,8%
Consumption	\$ 19,4	11,8%
Microcredit	\$ 1,04	7,8%
Mortgages	\$ 3,8	4,7%
Total	\$ 37,68	7,05%

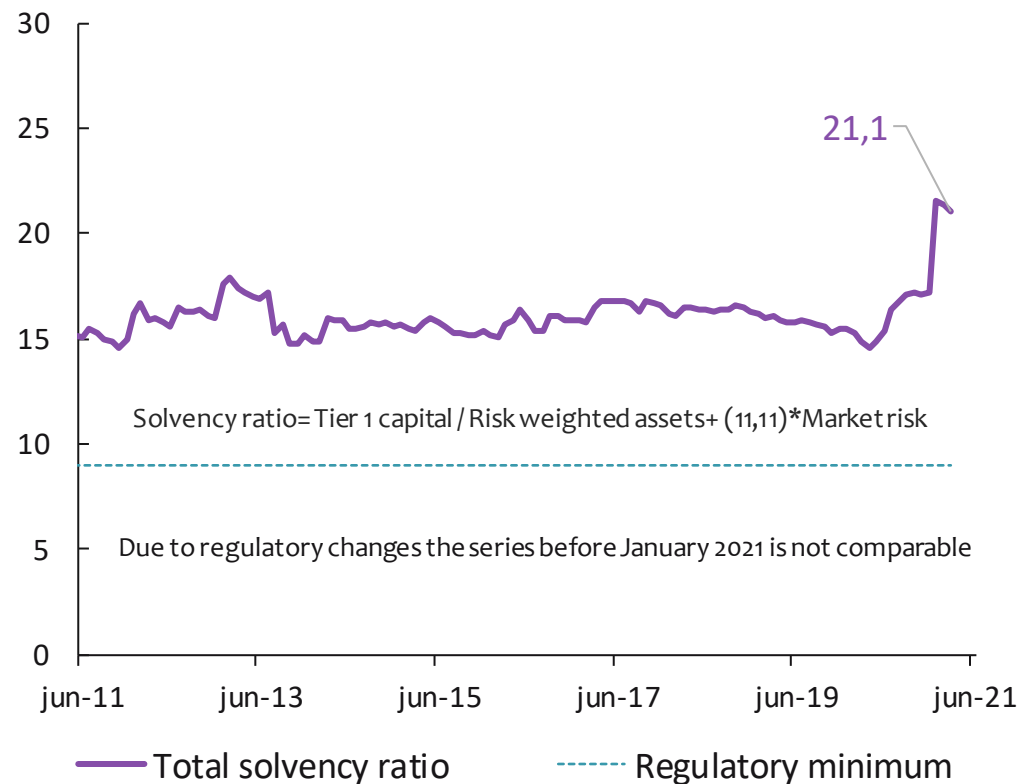
Source: Office of the Financial Superintendent; calculations by Banco de la República.

- Besides the higher provisions, liquidity and solvency levels of financial intermediaries remain well above regulatory limits

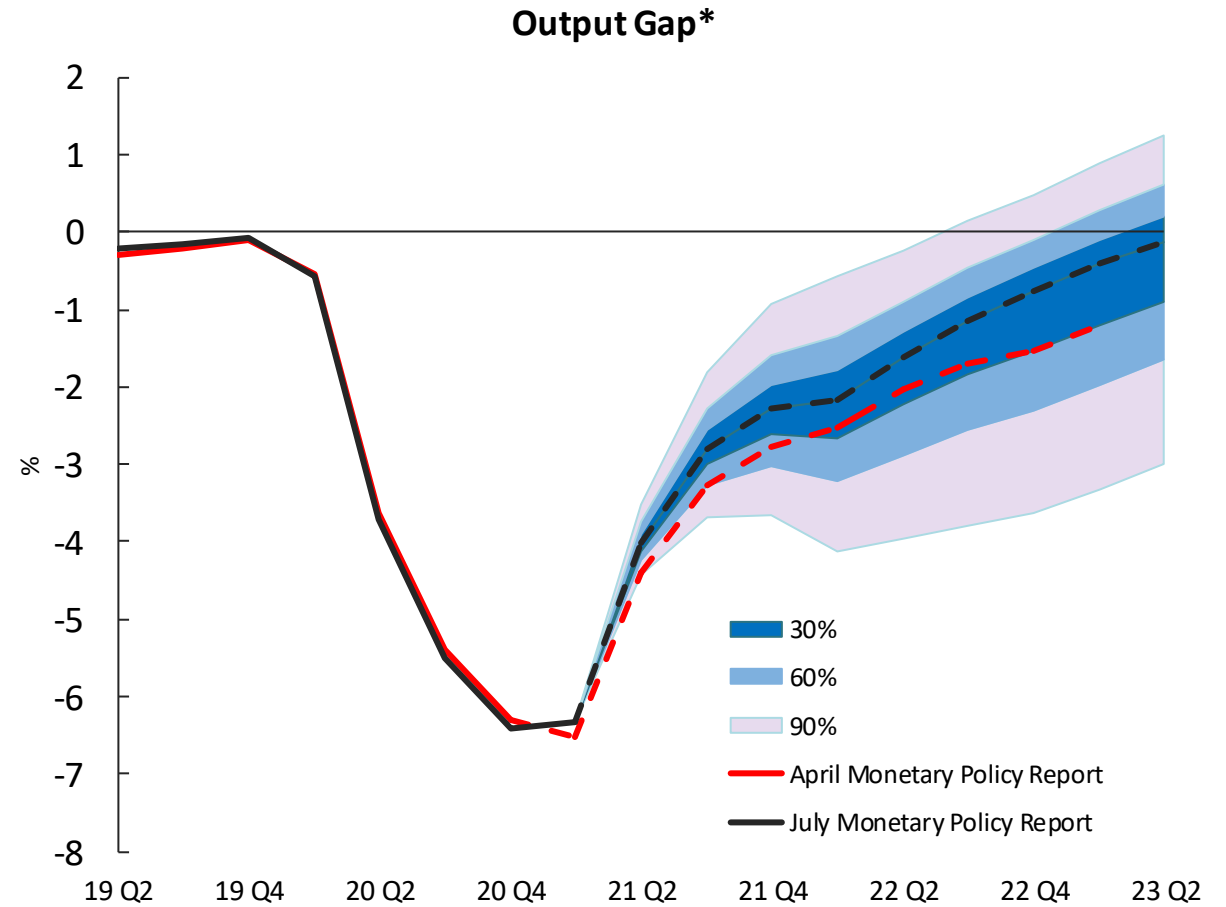
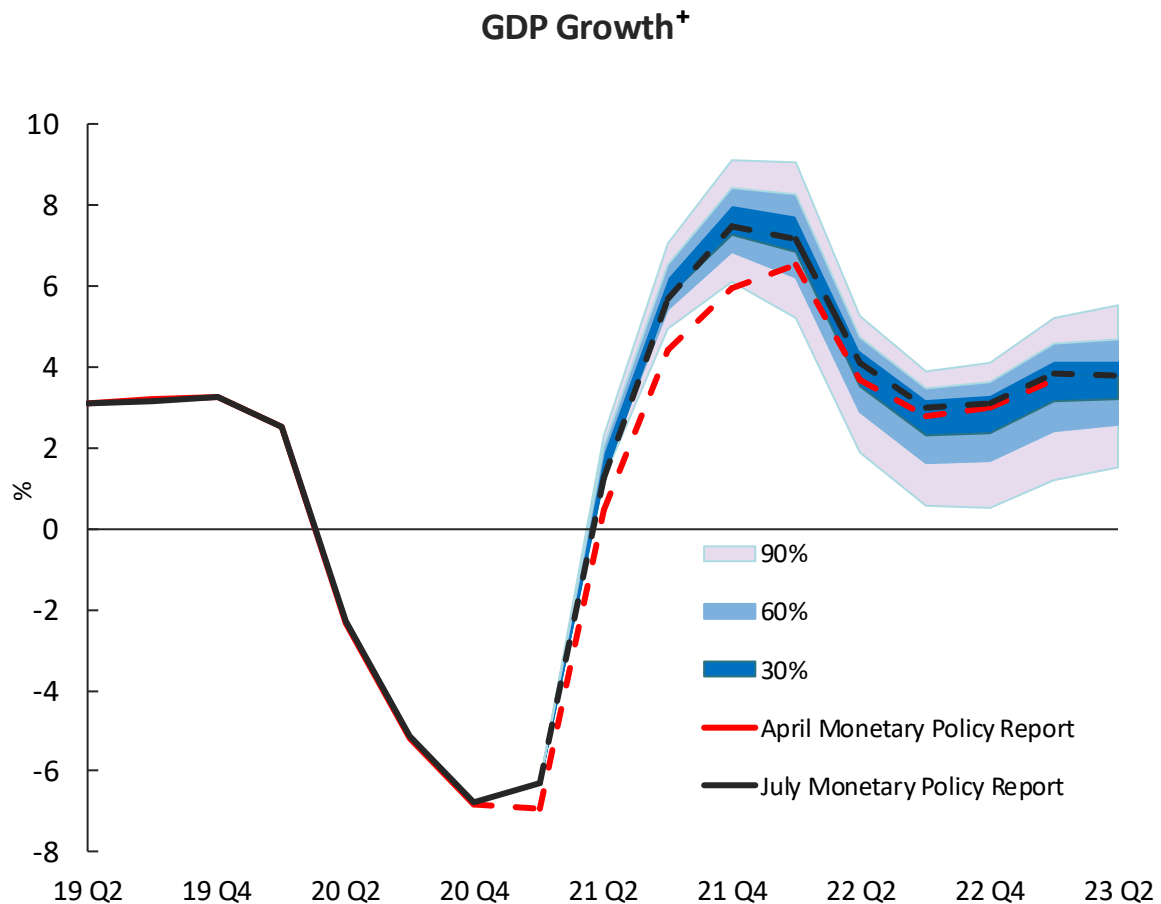
Liquidity Risk Indicator (LRI)



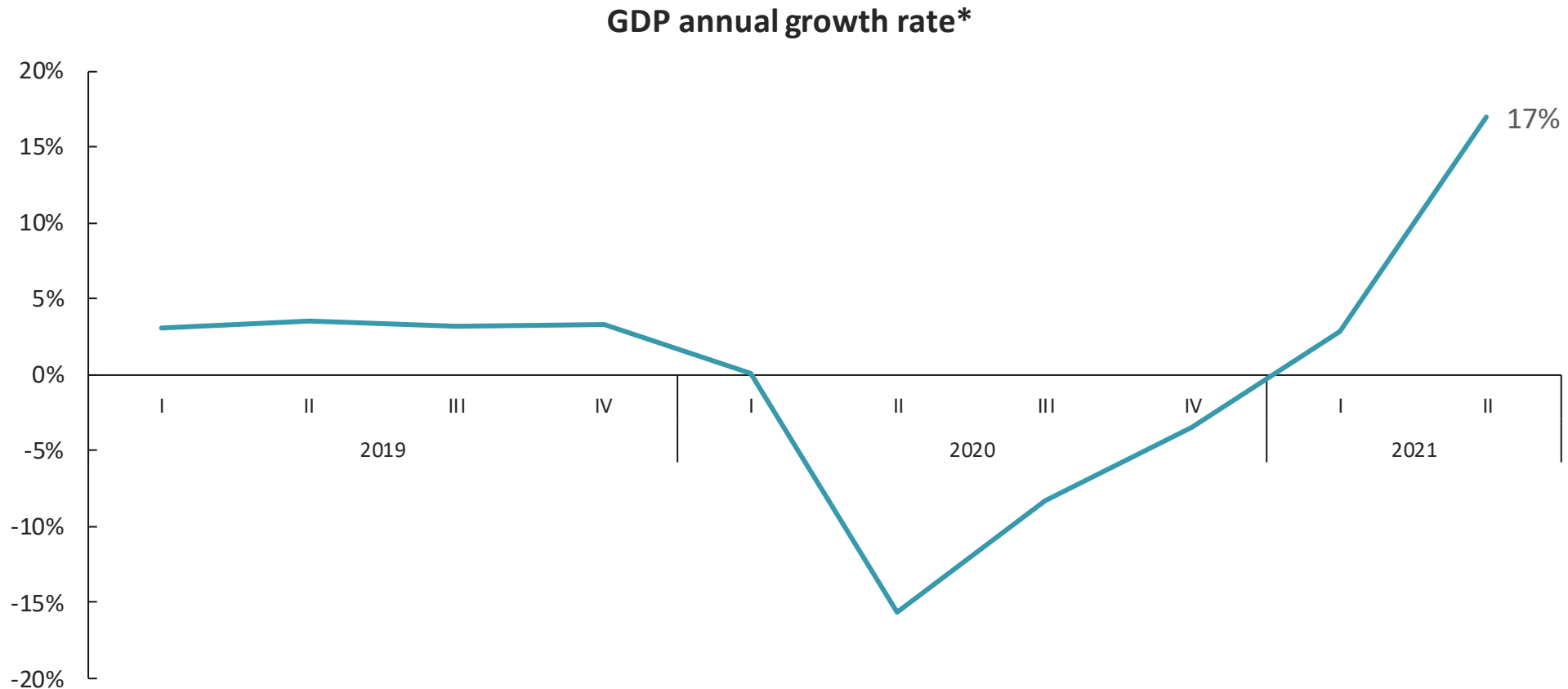
Solvency Ratio of Credit Establishments



- **The expansionary policy has supported the economic recovery.** Growth figures for Q1 surprised on the upside and the effects of the shocks in the second quarter (social unrest and the national strike) appear to have been limited. Accordingly, **the CB staff increased this year's growth forecast to 7.5% from 6%, in a range of 6.1% to 9.1%**
- **The convergence of economic activity toward pre-pandemic levels continues** and output is now projected to reach 2019 levels by the end of 2021

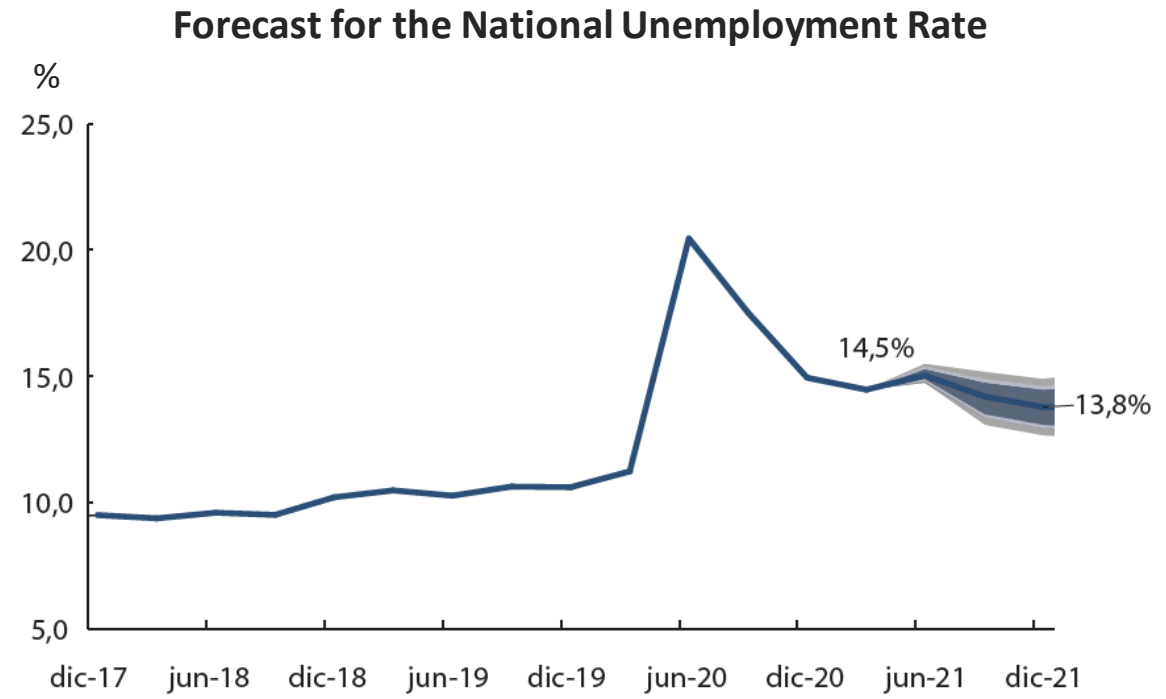
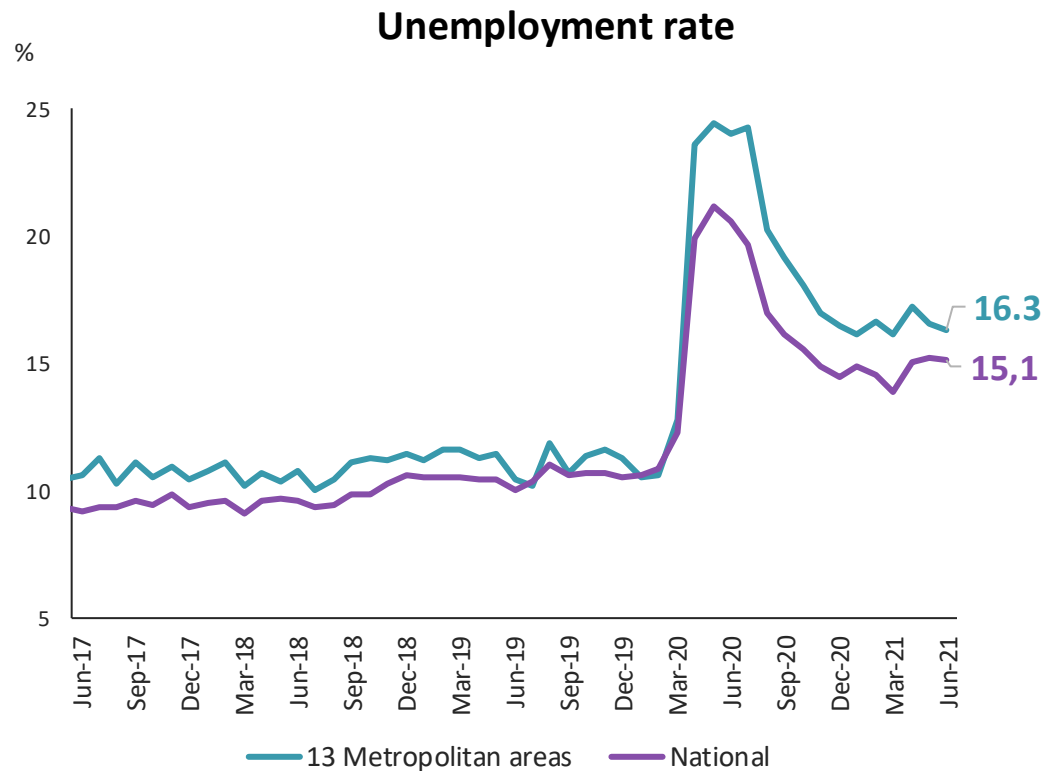


- Second quarter GDP growth was 17% while the central bank's staff was expecting 17,3%*
- The median of analysts' expectations for Q2 GDP growth was 14,6%. This is a very good outcome given the shocks faced during that period (National strike and social unrest)



Source: DANE and Banco de la República (expectations survey). * Seasonally adjusted series.

- **The labor market has partially recovered, but there remains significant slack.** Unemployment levels are especially high among women and the younger population
- Forecasts from the Central Bank's staff suggest a moderate decline of the unemployment rate during the remainder of 2021

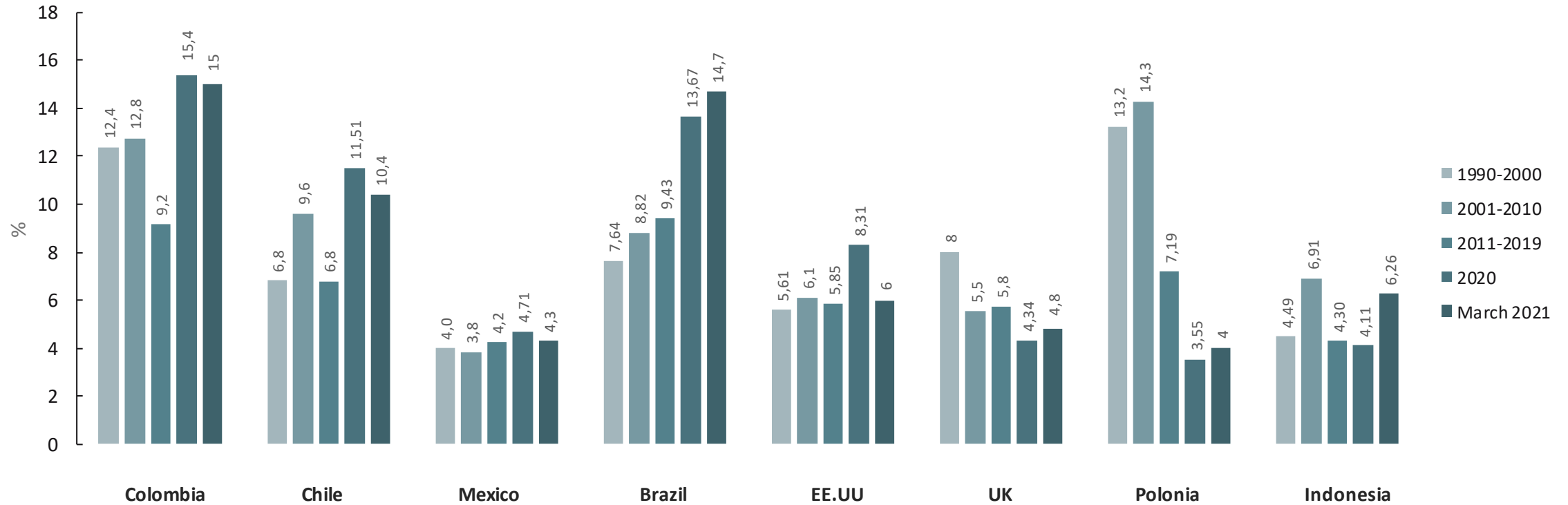


Note: seasonally adjusted series.

Source: DANE and Banco de la República – [Labor Market Report August 2021](#)

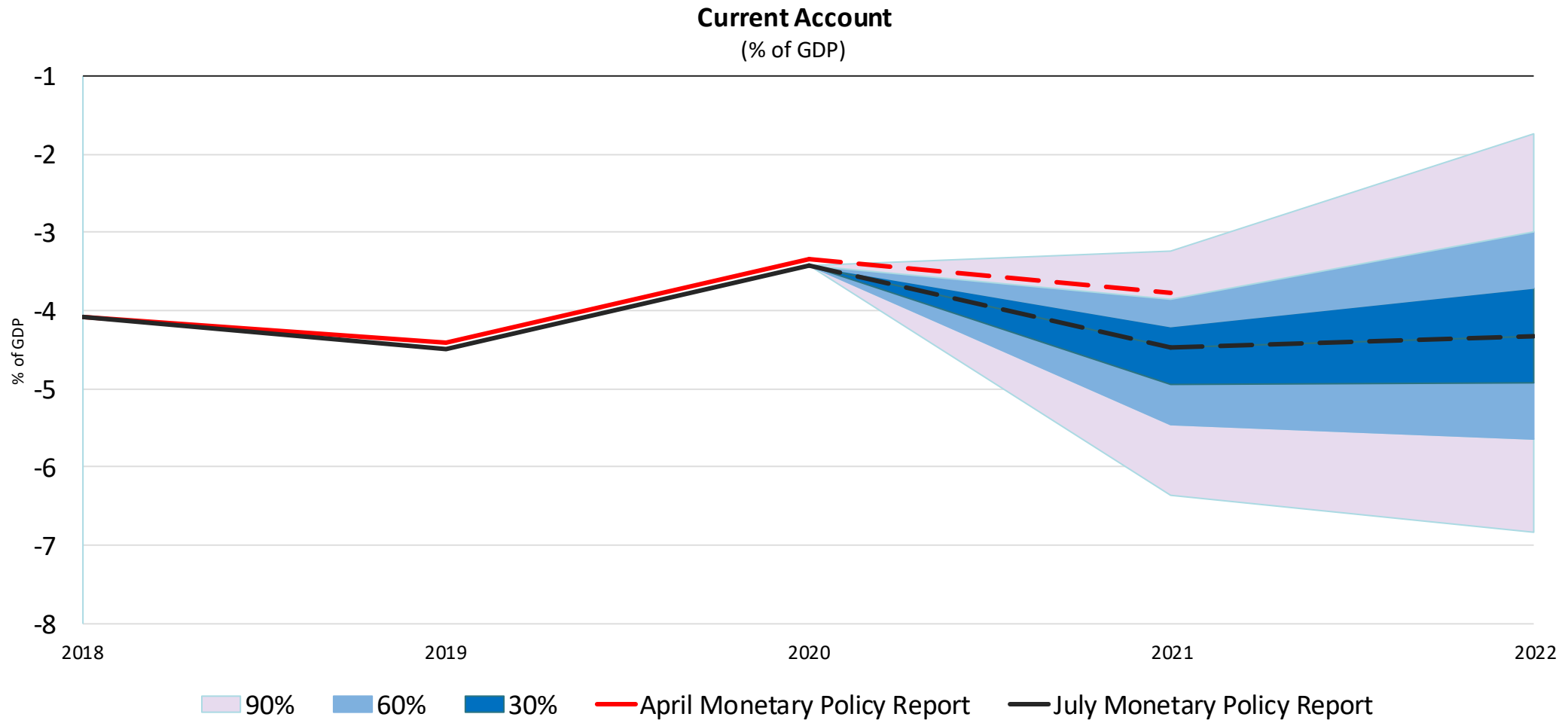
- Of course, not everything is cyclical; Colombia has historically shown high unemployment rates, reflecting structural rigidities in the labor market

Unemployment rate



Source: World Bank and National Statistical Offices

- **Despite better terms-of-trade, the external deficit is expected to increase this year to 4,5% of GDP on the back of a higher domestic demand and profit remittances from foreign companies**





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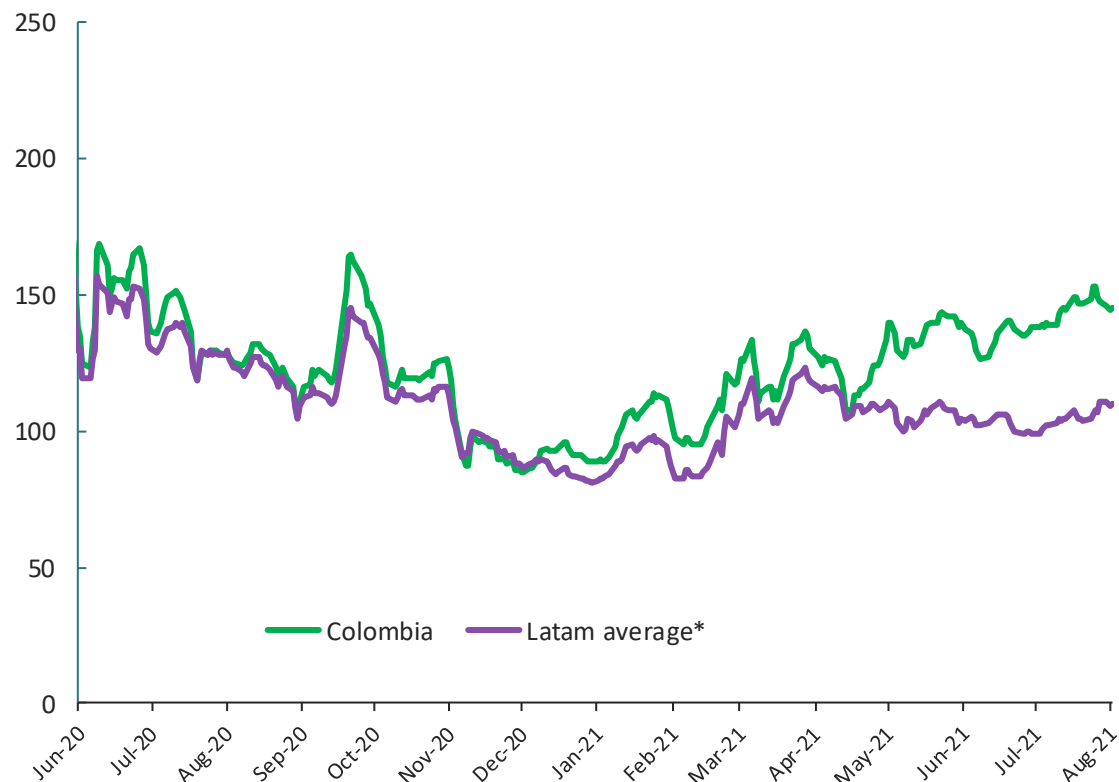
POLICY CHALLENGES

- There is uncertainty regarding:
 - **External financial conditions.** Liquidity in advanced economies remains abundant but a faster than expected normalization of monetary policy in advanced economies is a risk
 - **Risk perception about Colombia,** given the social tensions, the political uncertainty and the fiscal challenges that the country is facing

Slope of the U.S. Treasuries Curve



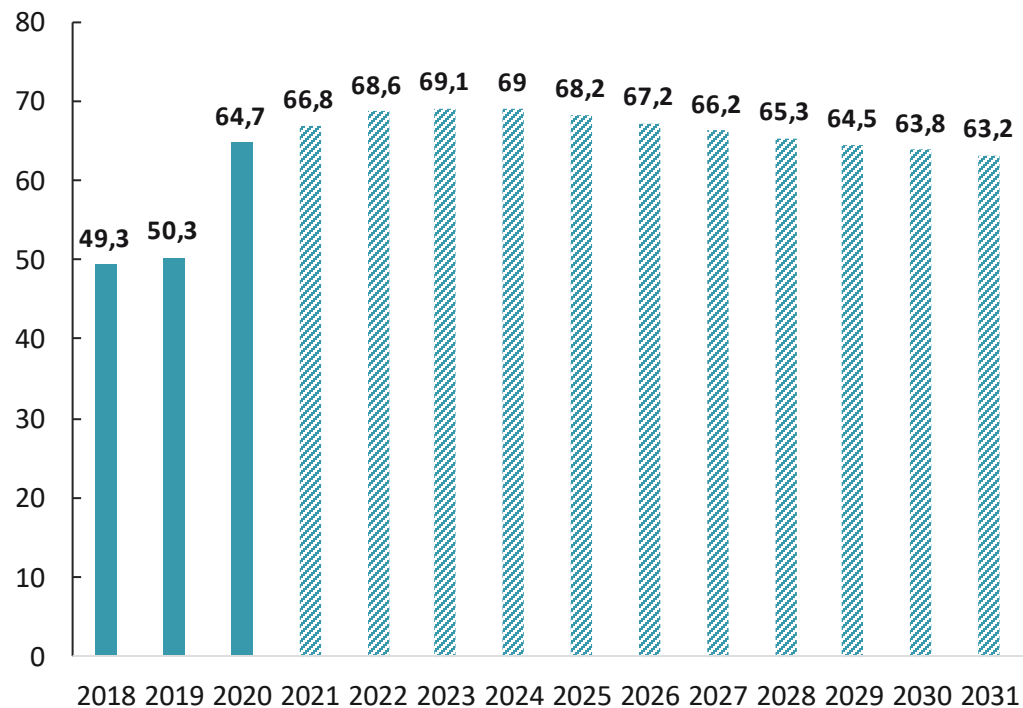
5-year CDS



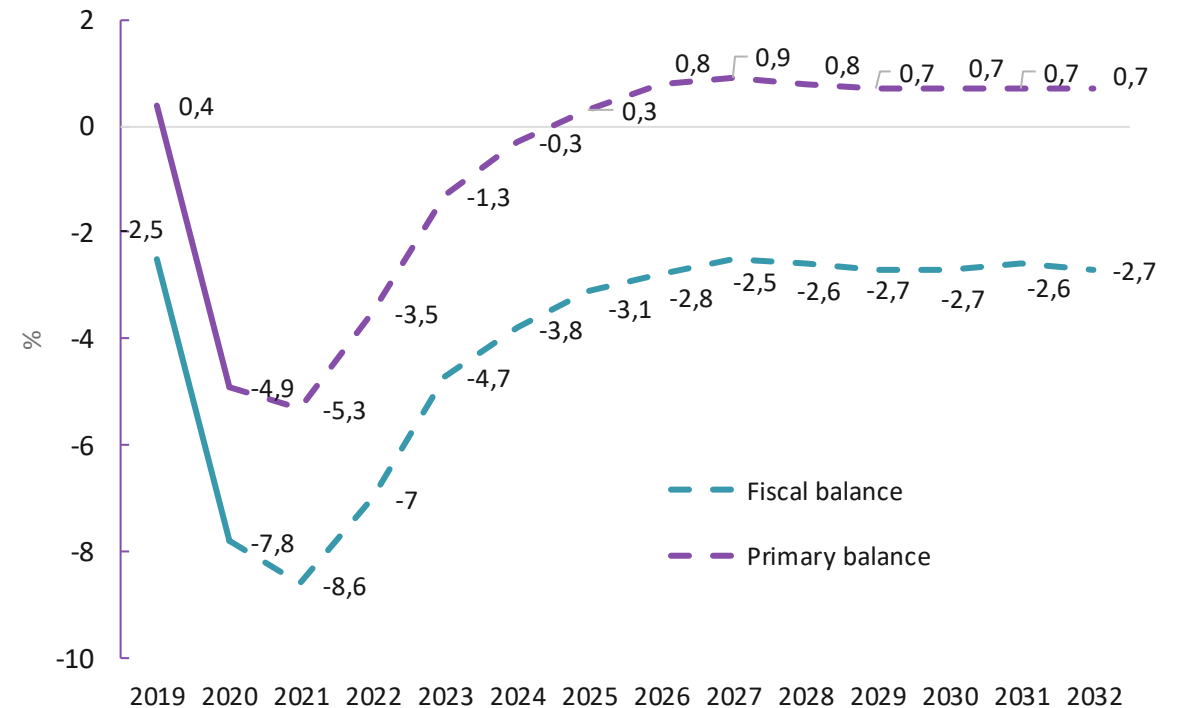
Source: Bloomberg. * Simple average of 5-year CDS for Chile, Brazil, Peru and Mexico

- **The pandemic caused a significant increase in public debt**
- Fiscal measures are required to stabilize and then reduce the public debt ratio
- Funding for the Government remains adequate, albeit at a higher cost on account of a higher risk perception

Gross Debt of the National Government
(% of GDP)



Central National Government Fiscal Balance



Source: Ministry of Finance – [Medium Term Fiscal Framework](#) 2021

- While Colombia's monetary policy ought to remain supportive in the medium-term, the recent behavior of inflation & inflation expectations, the narrowing of the output gap, the widening of the fiscal & external imbalances, and the prospect of less benign global financial conditions, suggest that monetary policy could soon become less expansionary than in the recent past.
- How soon, how gradual and by how much would the policy rate of interest rise will depend on the information that becomes available in the coming weeks.