July 2020 Monetary Policy Report

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Vis-a-vis the beginning of the pandemic some months ago, the real and financial dimensions of the macroeconomic outlook have been better outlined, although uncertainty remains very high and several of its sources are still present. On the one hand, the duration of the effects of the pandemic and of the mandatory preventative isolation measures imposed has been longer than initially expected.

In some countries, the number of new cases of Covid-19 has increased again after a reduction during part of May and June. In Colombia, the increase in the number of cases and the occupation of the health system have generated new periods of restriction to mobility, although they have been geographically located. This implies a slower recovery of global and local economy than initially expected.

On the other hand, external financial conditions have become more favorable, which has been reflected by lower sovereign risk premia, lower volatility, and a significant improvement of liquidity in global and local money markets, public debt and foreign exchange markets. Similarly, oil prices and workers' remittances from abroad have somewhat recovered. In this environment, there has been a correction of the strong depreciation of the peso that took place at the onset of the pandemic.

Within this context, unlike the April Monetary Policy Report, the forecast by the technical staff at the Central Bank presented in this report reflects the macroeconomic adjustment expected for the following two years. The declining figures for economic activity and inflation would suggest that, although the shocks suffered by the economy have impacted aggregate supply and demand, the factors associated with the latter would prevail.

However, it remains difficult to determine the probability of the potential scenarios and, therefore, simple ranges are presented for the main macroeconomic variables. These intervals are the result of multiple simulations that attempt to capture the uncertainty regarding the pace of the economic recovery, the duration of the sectoral closures and its effects on the output, the magnitude of the spare capacity, and the impacts of transitory regulatory measures (tax cuts and price reliefs) on the performance of headline inflation, among others.

Fuente: https://www.banrep.gov.co/en/july-2020-monetary-policy-report