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*Banco de la República* (the Central Bank of Colombia) produces information for decision-making, accountability, and public dissemination. Particularly, the Financial Markets Report is framed within the principle of public dissemination and contributes to the Bank's service of providing quality economic information and research.

In line with the above, this report aims to provide the public with a general analysis of the behavior and trends of domestic and international financial markets. Additionally, the report highlights the key factors

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that elucidate the behavior of these markets, along with their interactions. The report also provides a description of the main changes in monetary policy and central bank decisions worldwide.

In 2020, financial assets experienced highly volatility due to the uncertainty surrounding the COVID-19 pandemic. After the pandemic forced most governments to implement isolation measures at the end of the first quarter of 2020 (1Q20), global economy-and consequently financial markets-experienced a rapid deterioration. The increase in risk perception indicators both locally and globally exceeded that observed during the 2008 Financial Crisis. Subsequently, both the economy and financial markets began a gradual recovery process due to unprecedented monetary and fiscal stimulus, advancements in COVID-19 vaccine development, and the partial reopening of most economies.

At the local level, historically low levels of business and consumer confidence indexes were reached. A significant contraction in retail sales, industrial production, and overall economic activity was observed, as along with a deterioration in medium-term growth and inflation expectations. The Colombian peso depreciated 4.7% vis-a-vis the US dollar, following the behavior of oil prices and other emerging market currencies. Public debt securities recorded net appreciations, mainly from 2Q20 onwards, in a context of expansionary policies by central banks, increased risk appetite, a gradual economic recovery, and expectations surrounding vaccine development. As for the stock market, a slight recovery has been observed; however, the COLCAP (an index created by MSCI and BVC to measure the performance of the Colombian equity market) lags significantly behind its regional counterparts. In 2020, the Board of Directors of Banco de la República (the Central Bank of Colombia) lowered its interest rate by 250 bps (from 4.25% to 1.75%) and adopted a set of measures aimed at reinforcing the liquidity of the payment system, ensuring the proper functioning of the economy, and thus contributing to minimizing the impact of the pandemic on businesses, households, and the financial system.

In the fourth quarter of 2020 (4Q20), financial markets showed good performance, continuing the recovery process that began in the 2Q20. This behavior occurred in a context of: i) gradual economic recovery in most countries; ii) continuation of the unprecedented monetary and fiscal stimulus, and expectations of further stimulus following the US presidential elections; iii) development of multiple COVID-19 vaccines, while the world experiences an increase in the pace of contagion; iv) recovery of most commodity prices; and v) specific events that generated volatility during the quarter.

This edition of the document is divided into eight sections, with this introduction being the first. Section two provides an executive summary of the document. Section three presents a description of the most significant events in the international economic environment. Subsequently, section four outlines the behavior of key risk perception indicators at the local level. Section five describes the global and local foreign exchange markets. Section six offers an analysis of the global and local money and fixed income markets. Additionally, section seven describes the performance of the local primary private debt market. Finally, section eight analyzes the behavior of the stock markets.