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AUTHORS AND/OR EDITORS

[Vargas-Herrera, Hernando Cardozo-Ortiz, Pamela Andrea Rojas-Moreno, Juan Sebastián Quicazán-Moreno, Carlos Andrés Ariza-Murillo, Sara Barreto-Ramírez, Itza Alejandra Herrera-Rojas, Andrés Nicolás León-Díaz, Laura Viviana Mateus-Gamboa, Julián Camilo Orozco-Vanegas, Camilo Andrés Ruiz-Cardozo, Cristhian Hernando Torres, Nicolás Fernando Lozano-Morales, Felipe Morales-Pineda, Gabriel](#)

Publication Date:
Friday, 28 of January 2022

In 2021, the global economy experienced a faster-than-expected recovery compared to the beginning of the year. This recovery led to increases in commodity prices and, in some cases, disruptions to global supply chains due to growing demand, resulting in increased inflationary pressures globally. In response to these pressures, most central banks globally began withdrawing the monetary stimulus adopted during 2020 to address the pandemic. This led to higher rates on debt securities in emerging economies and to a lesser extent in developed economies. During this period, the U.S. dollar strengthened, while

currencies of emerging markets and of the region were also pressured by idiosyncratic factors. Furthermore, stock markets in developed countries outperformed those of emerging countries. This period was characterized by high volatility in financial markets due to the possible effects of the new COVID-19 variants.

Throughout the fourth quarter of 2021 (4Q21), financial markets were characterized by higher inflationary pressures, resulting in higher interest rates and a continued strengthening of the US dollar. Additionally, factors such as a new variant of COVID-19 (Omicron), expectations of a faster withdrawal of monetary stimulus, and idiosyncratic effects influenced the markets during this period.

Colombian markets were not an exception. During 2021, the Board of Directors of Banco de la República (the Central Bank of Colombia), BDBR, increased its interest rate by 125 basis points (bps) to 3.0% by December 2021. This was in response to the improved GDP dynamism, strong performance of domestic and external demand, and better economic projections, factors that allowed the gradual withdrawal of the monetary stimulus to start. Meanwhile, the Colombian peso depreciated, public debt devalued, and the local risk perception measured through CDS and EMBI increased. This was in response to multiple factors such as the country's investment grade downgrade, political uncertainty ahead of the parliamentary and presidential elections in 2022, inflationary pressures translating into higher inflation expectations, and significant widening of the fiscal and current account deficits compared to pre-pandemic levels.

During 4Q21, Colombian financial markets continued to exhibit a behavior similar to that observed throughout the year. The Colombian peso depreciated in line with the US dollar strengthening, public debt depreciated in accordance with the movements in US Treasuries in a context of less expansionary policies by central banks, and greater inflationary pressures. However, the stock market was mainly favored by the strong performance of financial and customer staples sector stocks. During this period, the BDBR increased its interest rate by 100 bps.

Additionally, this edition includes a Box analyzing the relationship between the participation of foreign investors in the local public debt market and the sensitivity of local financial conditions to changes in global factors. It also explores how the composition of this non-resident investor base and its share in the total market agents in the market could affect such sensitivity.