Macroeconomic Outlook for Colombia

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* The opinions presented here are personal and do not represent the official position of the Banco de la República or its Board of Directors.
• International financial conditions have improved and expectations of further monetary easing in advanced economies have increased.

Source: Bloomberg and Consensus Forecast.
• Despite the lower risk premia and the expectations of lower fed funds rate, EM currencies have depreciated.
• Growth has deteriorated and a deceleration of the global economy is now a source of concern.
• In this scenario, the growth of Colombia’s trading partners is expected to slow down.

¹ USA, Euro area, China, Brazil, Ecuador, Peru, Mexico, Chile. Weighted by non-traditional exports. * Non-traditional exports exclude coffee, oil and derivatives, coal, ferronickel, gold, bananas and flowers. For 2019 first semester YoY growth.

Source: Banco de la República and Departamento Administrativo Nacional de Estadística - DANE
• Trade tensions might be driving down industrial production and global trade, which implies a downside risk for the economic activity in Colombia and other EMEs.

Source: CPB – Bureau for Economic Policy Analysis and Banco de la República

*Annual growth rate for the quarterly moving average.
• Lower growth and the uncertainty about the global economy could affect commodity prices and the level of Colombia’s terms of trade.

Source: U.S Energy Information Administration (EIA)

• This in turn could have negative impact on investment and the fiscal accounts.
• There has been a persistent negative output gap that is expected to close over the next two years.

Source: Banco de la República.

a/ The graph shows the symmetric intervals at 30%, 60% y 90% confidence levels for the output gap path over an 8 month horizon. The intervals are built from the forecast errors of the central scenario.

b/ The results assume an active monetary policy in which the monetary policy rate is adjusted to reach the inflation target.
• Growth is expected to increase in 2019 on the back of a dynamic private domestic demand.
• The growth figure for Q2 was surprisingly positive after a disappointing Q1. For 2019, BanRep estimates a growth rate of 3.2%.

Public consumption at the regional level has been robust in 2019. For the central government however, some weakness has been observed.
• Investment remains strong, except for the housing sector.
• Private consumption is growing fast.

*Seasonally adjusted. Source: DANE.
• Internal demand and consumption in Colombia remain strong compared to other countries in the region.

Source: Central Banks. For Chile, household consumption includes NPISH.
• This is consistent with a strong growth of consumer loans.

Source: Central Banks, statistics offices and financial supervisors.
• Imports have increased due to higher domestic demand. As a result, the current account deficit is widening.
• Inflation expectations are close to target over the policy horizon.

• We are facing a transitory shock, but inflation should converge to the 3% target in 2020.
Recent episodes have shown evidence of low pass-through in Colombia when compared to the region.

Inflation should remain subdued if pass-through remains low. Hence, the recent depreciation of the COP is not expected to entail a significant risk for the achievement of the inflation target.

Source: DANE and the IMF-Regional Economic Outlook 2016. * The bars show the cumulative response of consumer prices two years after a 1 percent increase in the nominal effective Exchange rate. Pass-through estimates for individual countries are obtained from country-specific regressions while average regional pass-through correspond to panel model estimates. “Implied pass-through” corresponds to the product of the cumulative exchange rate pass-through to import prices after two years and the country-specific “import-content” of domestic consumption. “Import content” is the proportion of households’ consumptions that is made of imports.
• In this scenario monetary policy has remained moderately expansionary, supporting a gradual closing of the negative output gap.
External Conditions

Growth, inflation and policy responses

Risks

Financial system
The rebound in domestic demand plus a weaker external demand is causing a widening of the current account deficit.

Source: IMF. For Colombia: BanRep's estimates.

Current Account (% of GDP)

-7% -5% -3% -1% 1% 3% 5% 7%


Chile Colombia Mexico Peru

Source: IMF. For Colombia: BanRep's estimates.
• But the current account deficit is being financed mostly by FDI.
• Net foreign assets without the stock of net FDI are substantially larger.
And better international financial conditions should facilitate the financing of the current account deficit, albeit in a more volatile external environment.

*The index reflects the relative frequency of own-country newspaper articles that contain a trio of terms pertaining to the economy (E), policy (P) and uncertainty (U). In other words, a national EPU index value is proportional to the share of own-country newspaper articles that discuss economic policy uncertainty in that month. The GEPU Index value for each month as the GDP-weighted average of 18 national EPU index values, Davis, Steven J., 2016. "An Index of Global Economic Policy Uncertainty," Macroeconomic Review.*
• Furthermore, the country holds adequate external liquidity buffers.
The government’s medium term fiscal framework envisions a declining path for the debt ratio. This forecast is subject to global and local uncertainty.
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Financial system
• The financial system remains liquid, profitable and well capitalized.
• Convergence to the Basel III standard is underway.

1 30-Day LCR is the ratio of high-quality liquid assets to total net cash outflows over the next 30 calendar days. In March 2019 the Liquidity Coverage Ratio (LCR) was adjusted to comply with Basel III. The indicator shown was adjusted to account for that change. Source: Superintendencia Financiera de Colombia. Calculations by Banco de la República.
While currency mismatches remain low in both the real and financial sector.
Thank you