Colombia 2020

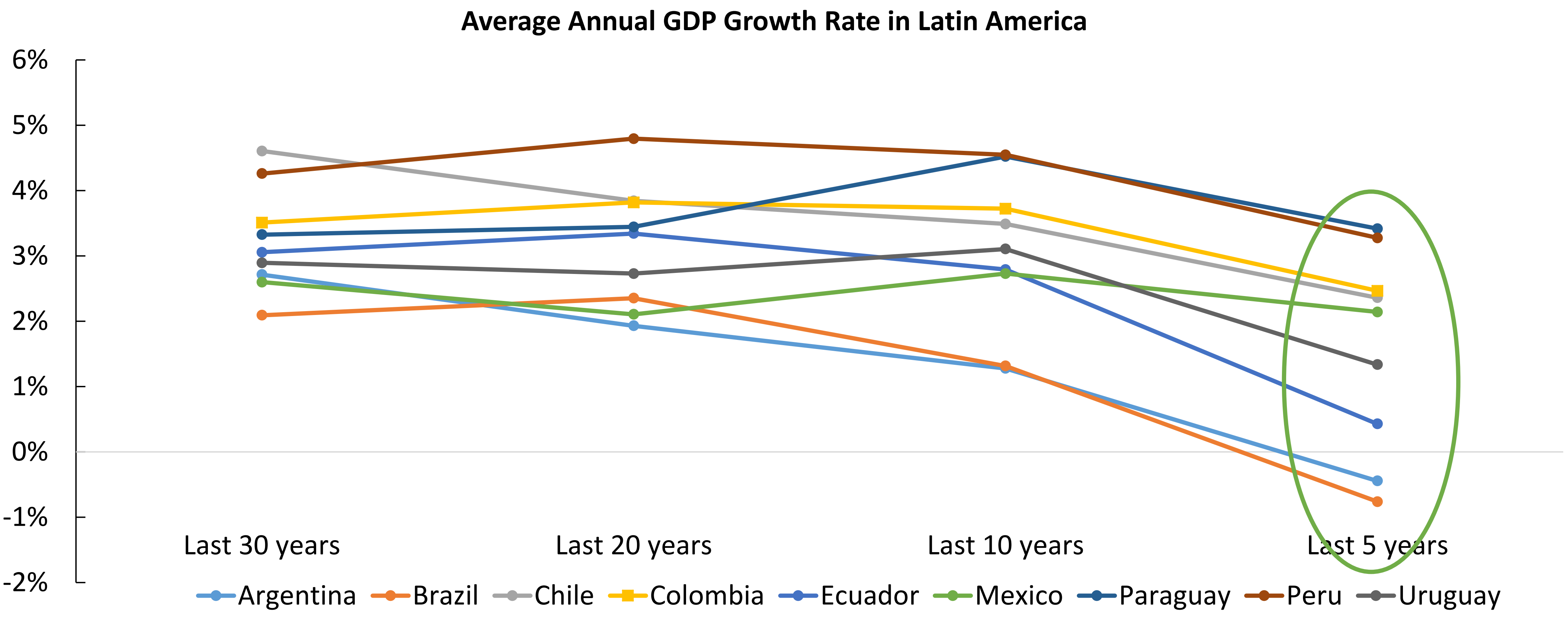
Ana Fernanda Maiguashca
January 2020

* The opinions presented here are personal and do not represent the official position of the *Banco de la República* or its Board of Directors.

Contents

- **Growth**
- External Balance
- Inflation and Policy Responses
- Risks

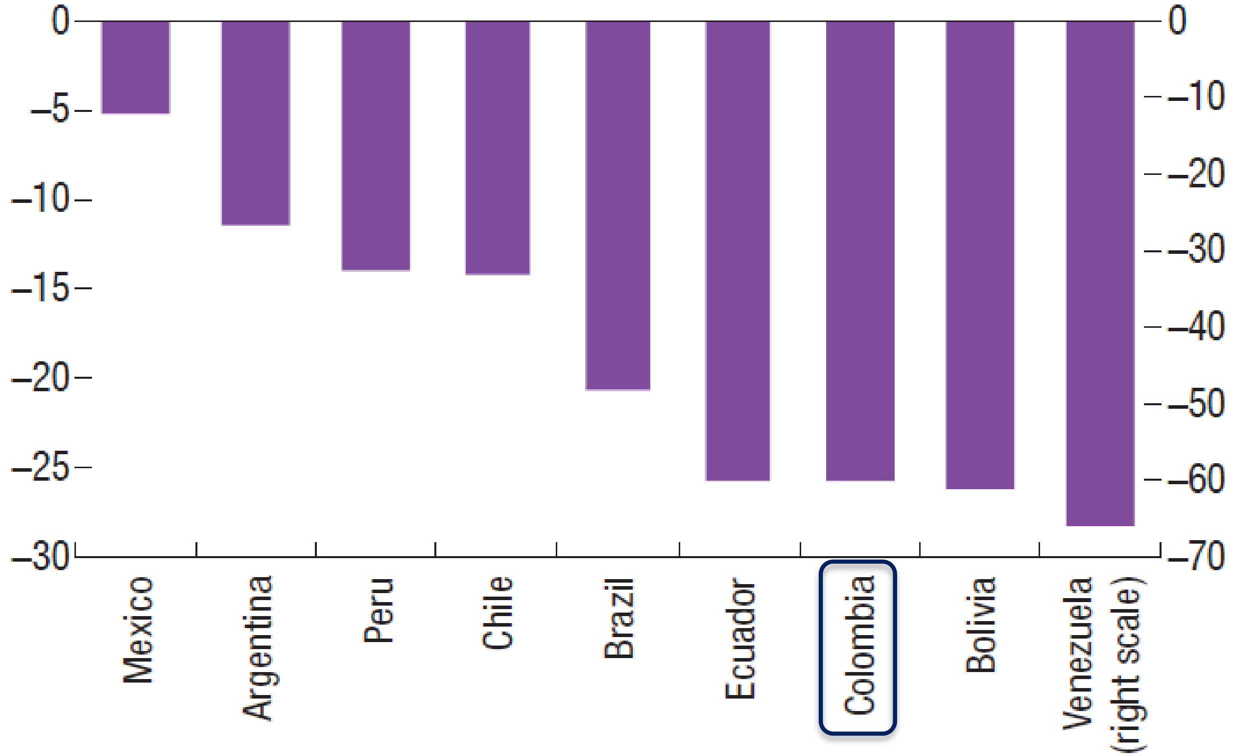
- The decade begins after five years of below historic growth adjusting after the terms-of-trade shock.



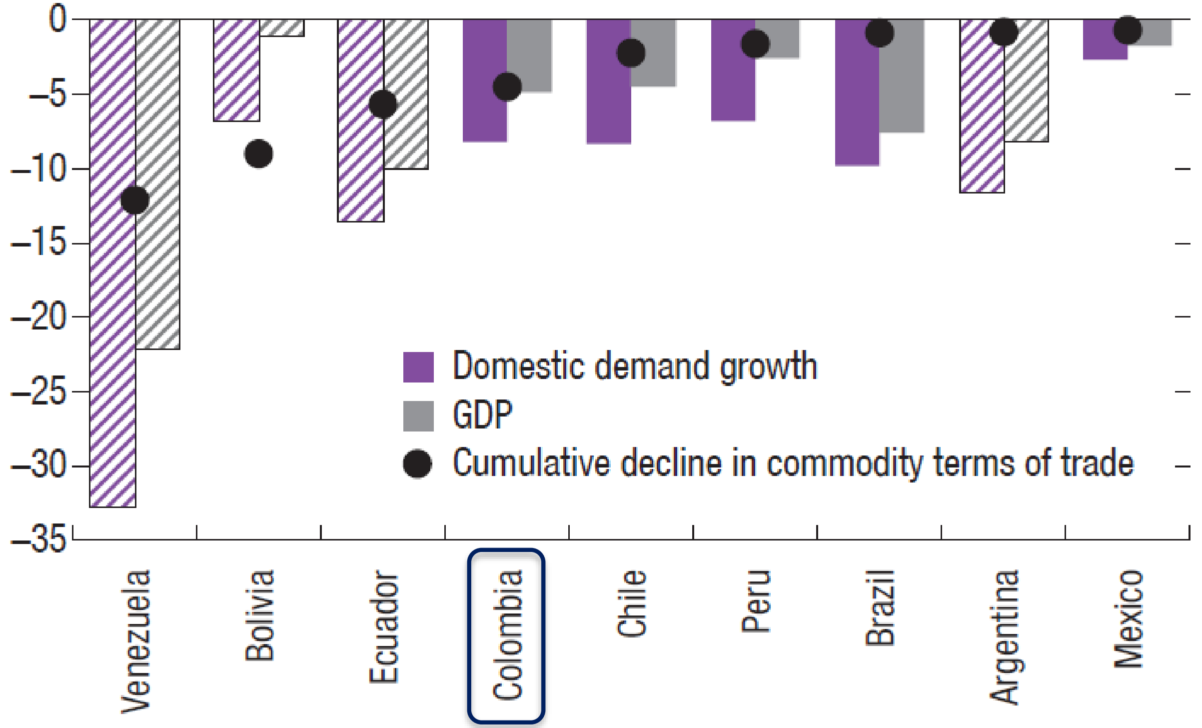
Source: International Monetary Fund. Banrep's calculations. Includes 2019 forecasts.

- The **ToT shock is the common denominator** for the region.
- The **Colombian economy adjusted successfully** despite facing a larger shock relative to other countries.

Terms-of-Trade Movements 2010-2015*
(Peak to trough, percent change)



Change in Domestic Demand and Output Growth, 2011–16
(Percentage points)

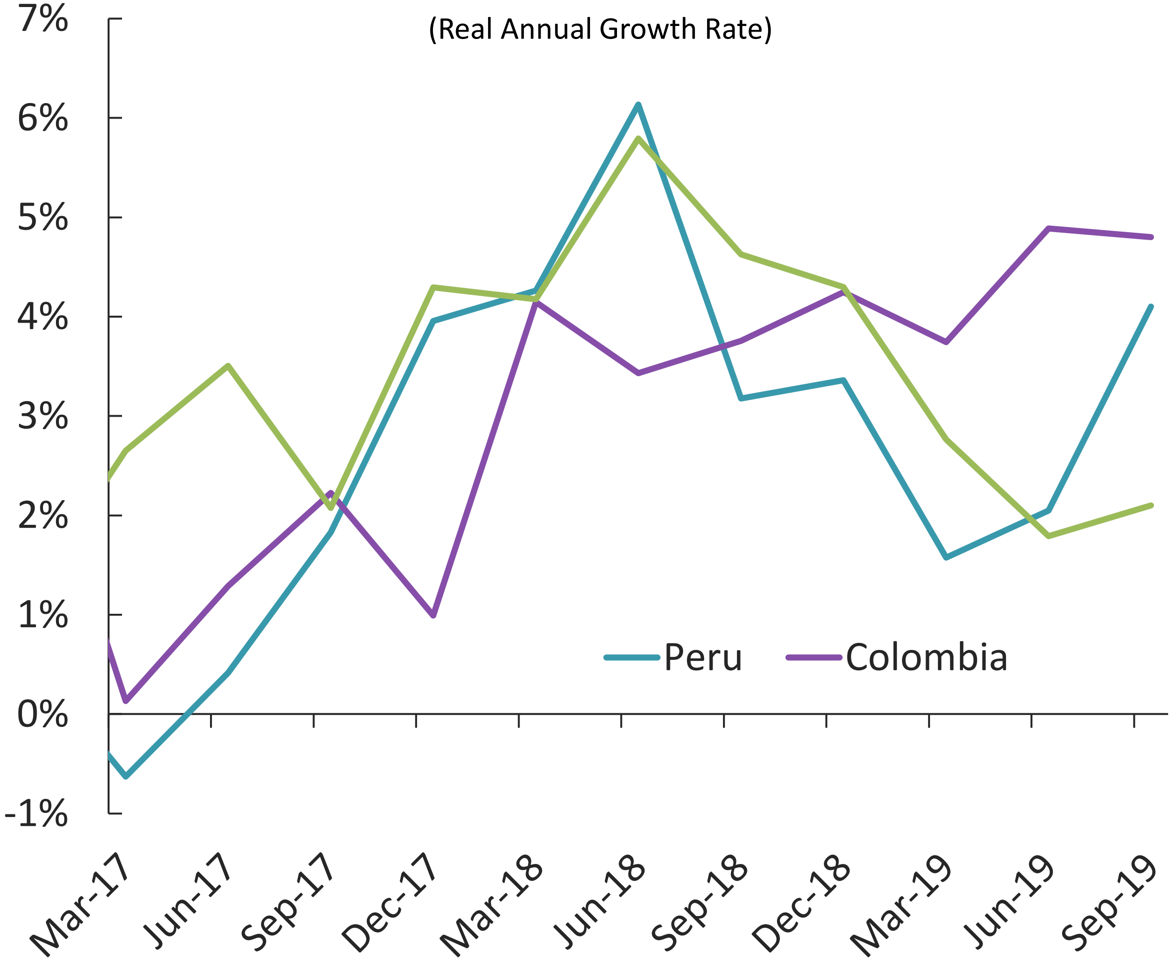


Source: Banco de la República and IMF Regional Economic Outlook April 2017. *Peak and trough are defined using annual data for 2010-2016. For ToT the peak to trough are defined using annual data for Bol, Col, and Ven correspond to 2012 to 2016; for Ecu and Per to 2011 to 2016; for Bra to 2011 to 2015; for Chl to 2010 to 2016; for Arg to 2014 to 2015; and for Mex to 2013 to 2015. For the graph on the right: bars with pattern denote country with a managed exchange rate regime.

- **Timing** seems to have been slightly different: Colombia moving later than the rest of the region.
- Internal demand and consumption in Colombia has **recovered strongly** after the adjustment.

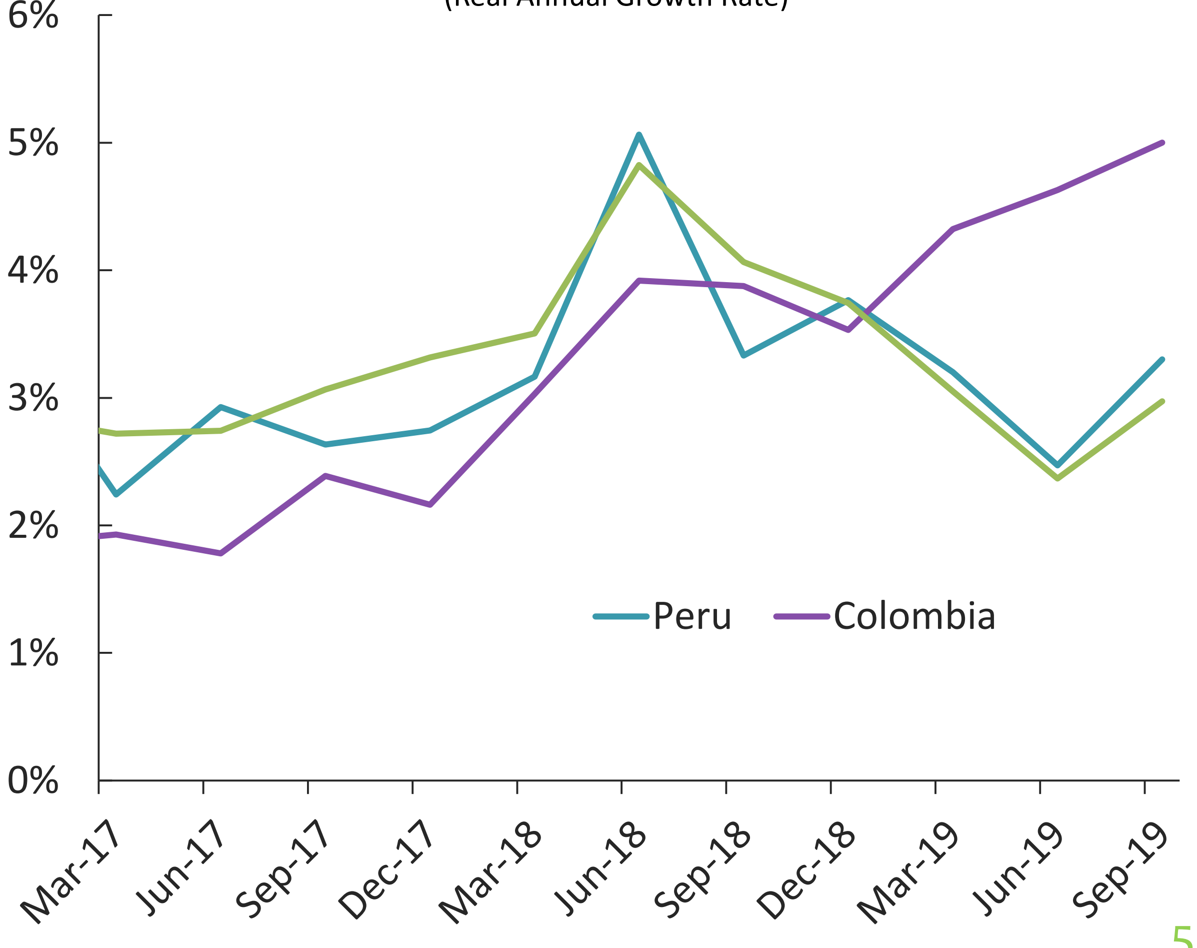
Internal Demand

(Real Annual Growth Rate)



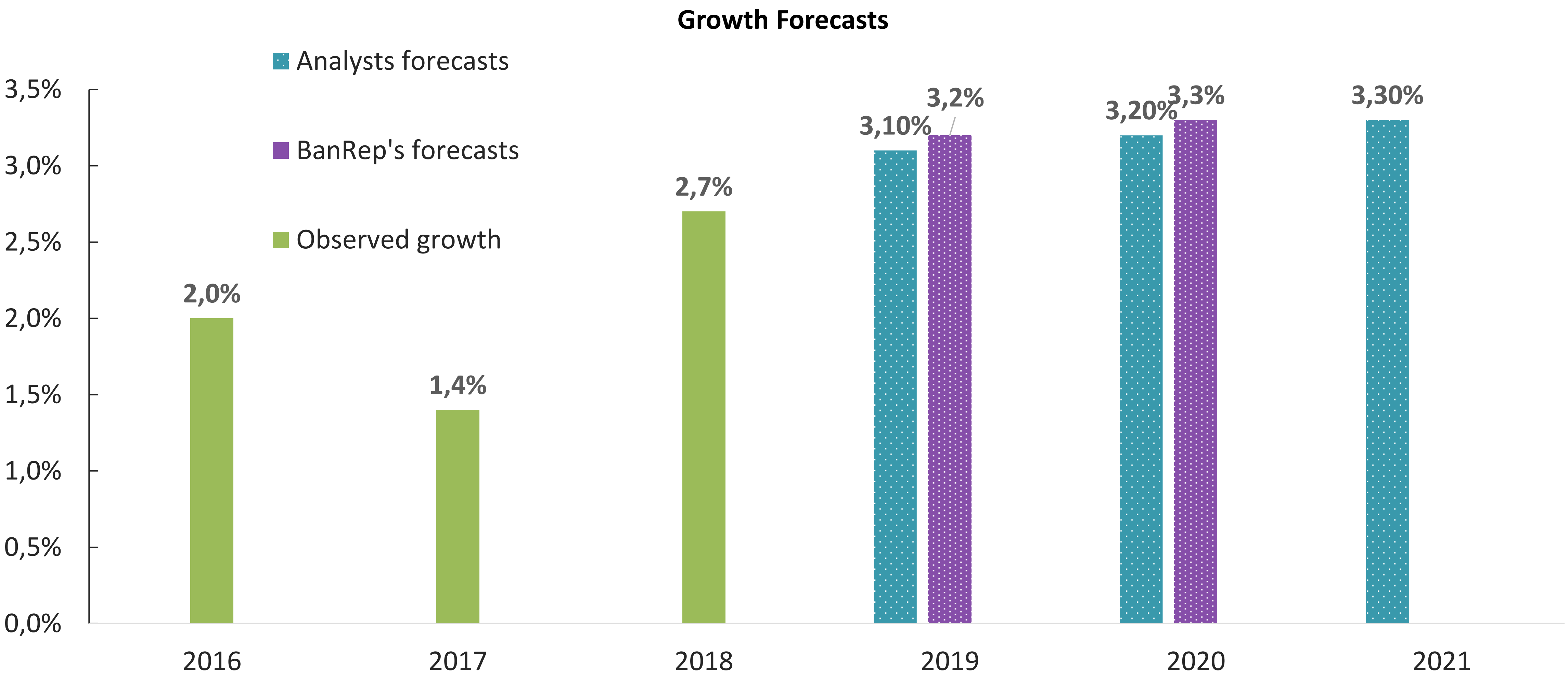
Household Consumption

(Real Annual Growth Rate)



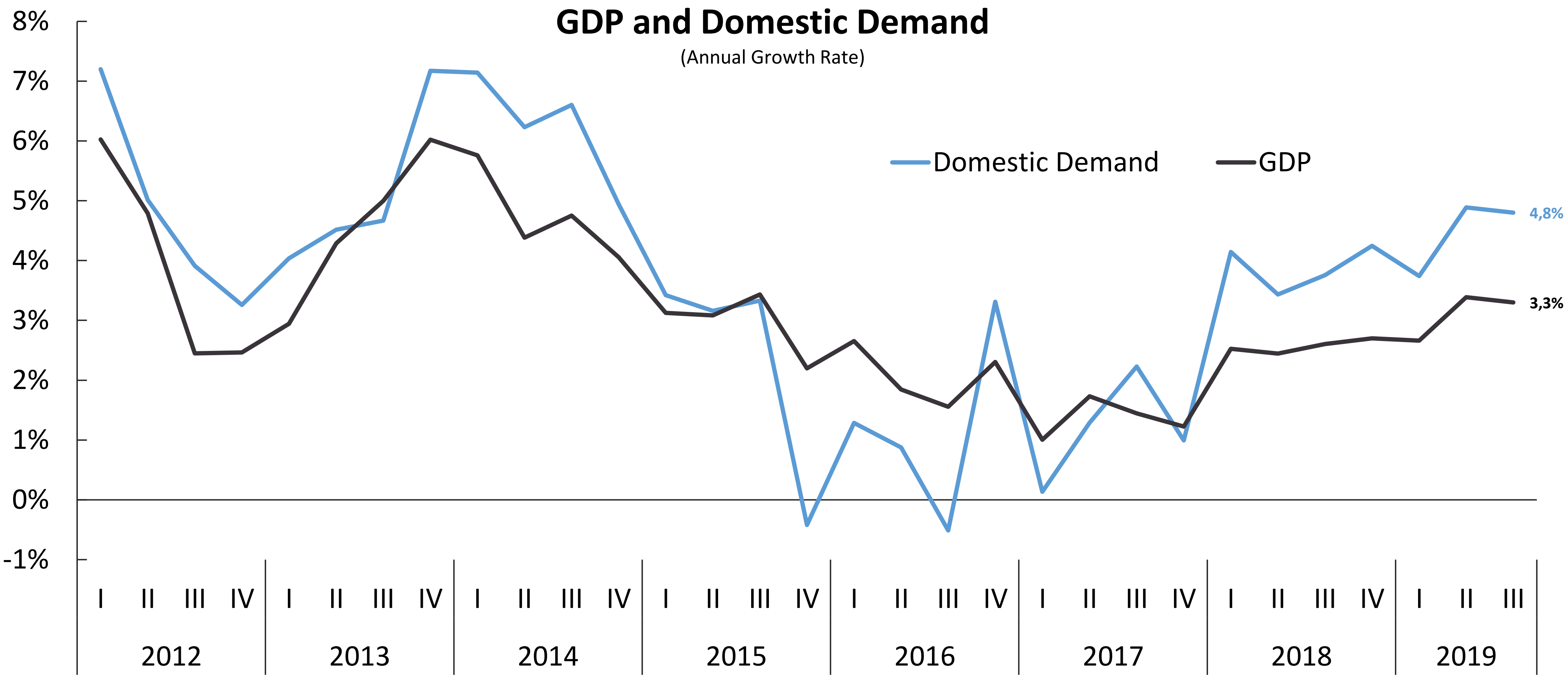
Source: Central Banks. For Chile, households consumption includes NPISH.

- Forecasts suggest that dynamism **will continue** through 2020, amidst an uncertain global environment.



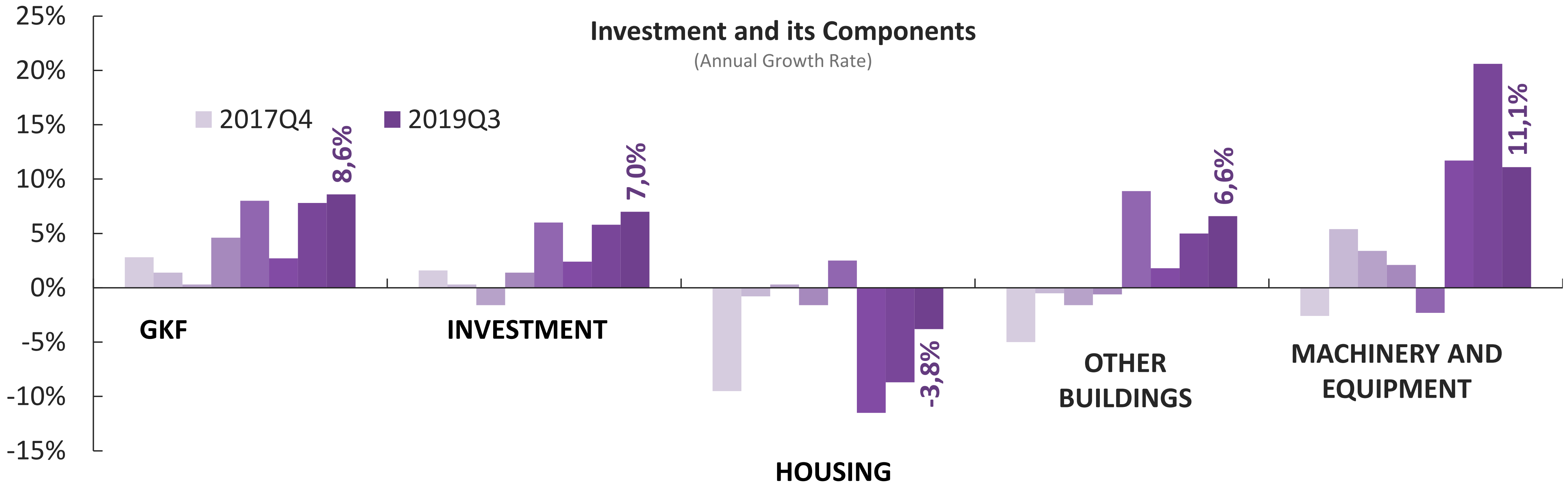
Source: Banco de la República and Consensus forecast. Analysts forecasts are the median of consensus forecasts individual predictions.

- Growth is responding to a **dynamic domestic demand.**
- Central Bank estimates a growth rate of **3.2% for 2019 and forecasts 3.3% in 2020.**



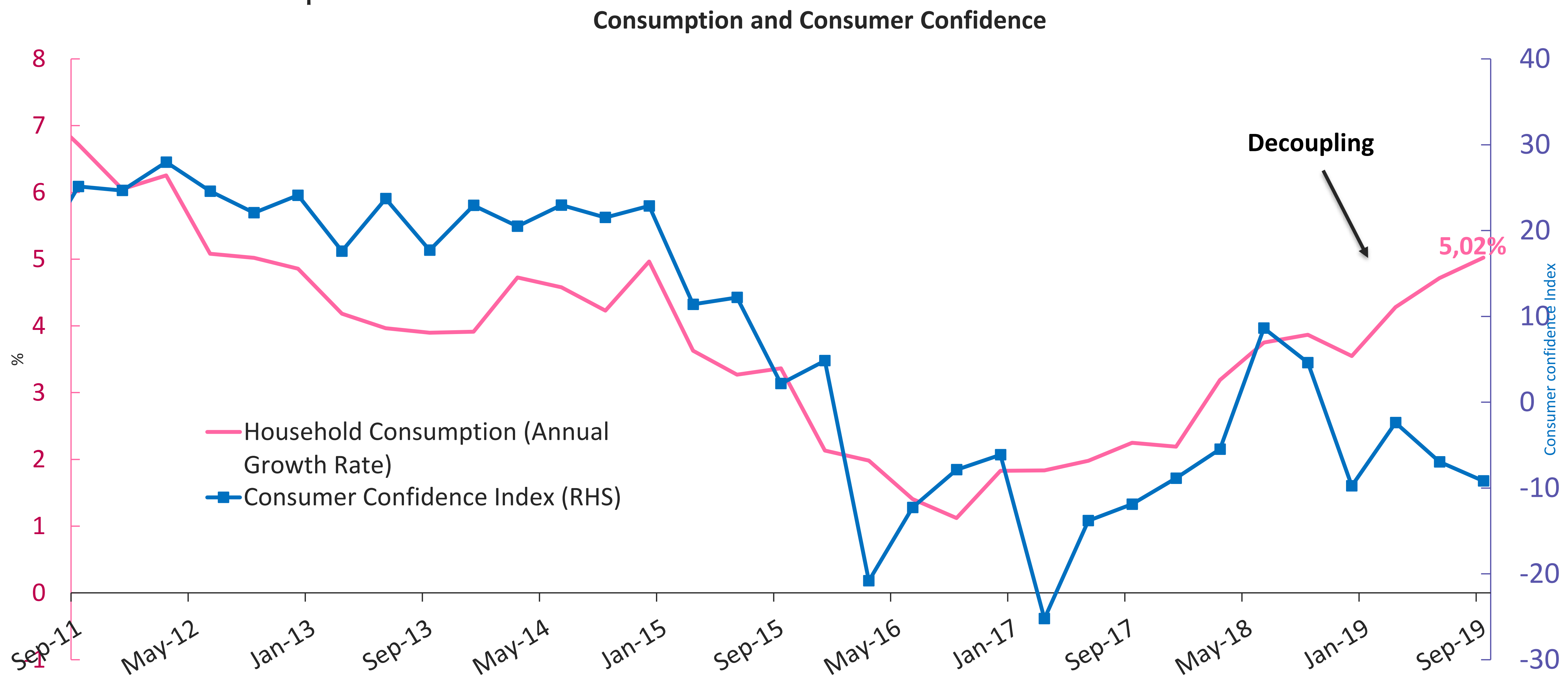
Source: DANE and Banco de la República.

- **Investment remains strong**, except for the housing sector; **machinery and equipment** is growing significantly. Some deceleration is expected for 2020 but other components should pick up.



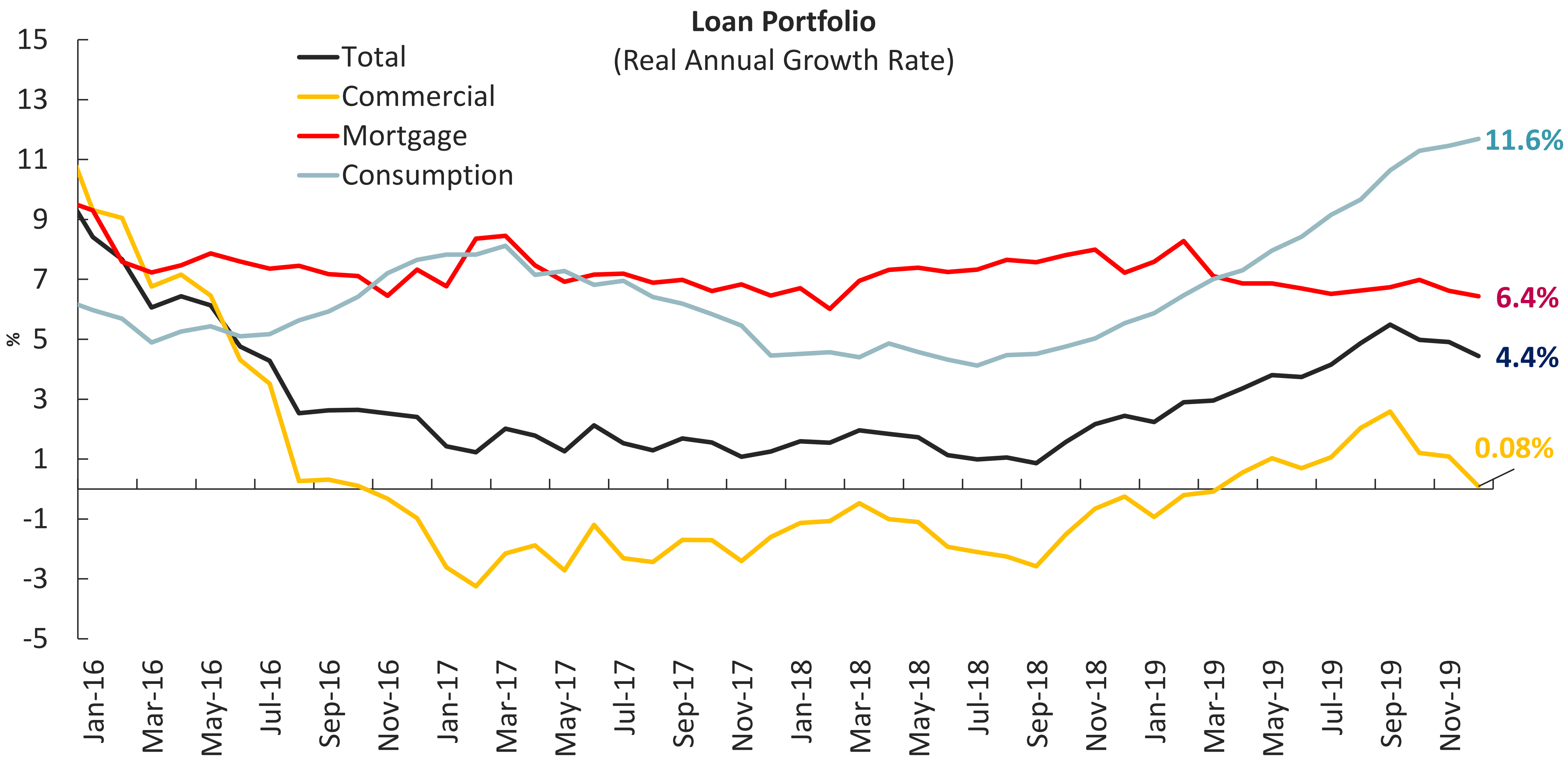
Source: DANE. Calculations by Banco de la República

- **Consumption** is growing at a fast rate, though a **disconnection** with consumer **sentiment** persists.



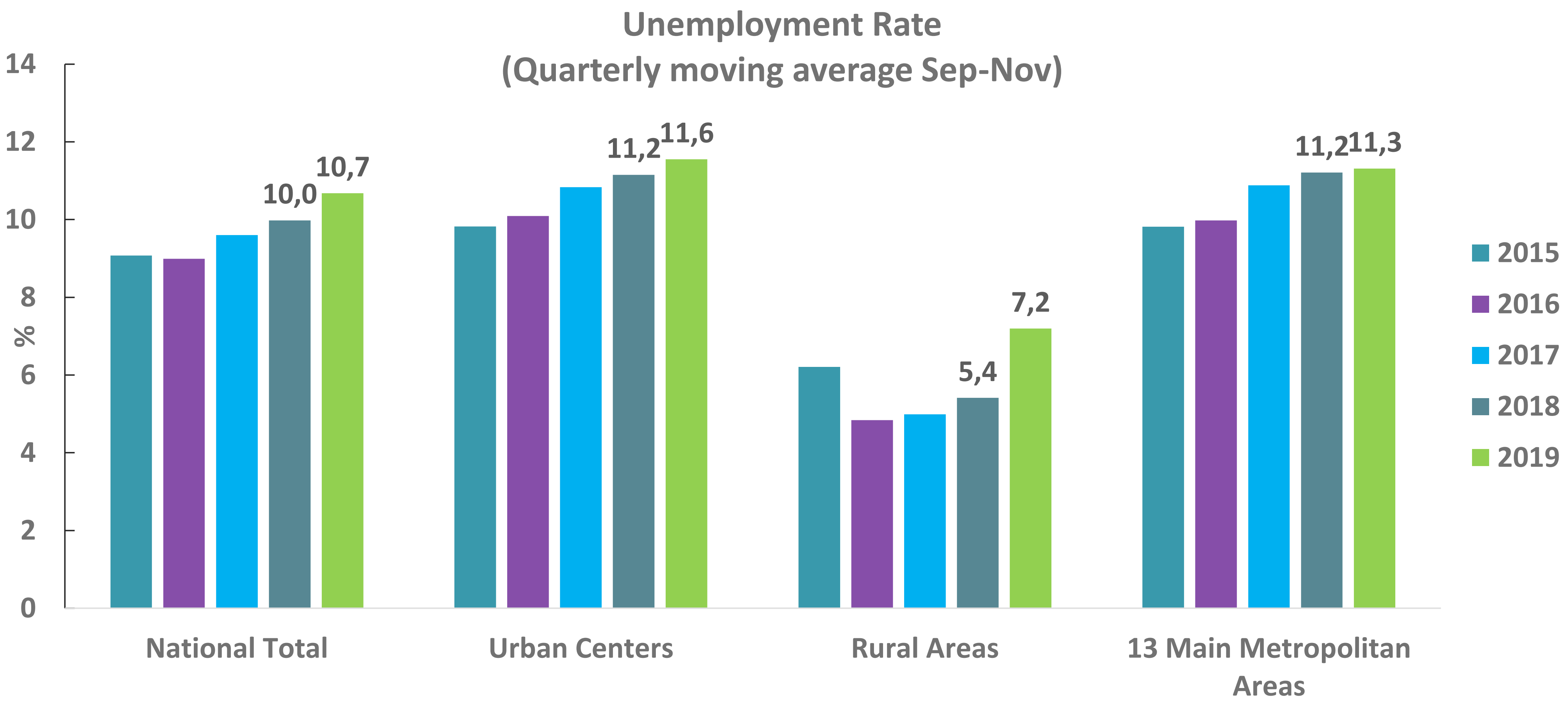
Source: DANE and Fedesarrollo

- A strong growth of **consumer loans** is supporting household consumption.



Source: Financial Superintendence and Banco de la República

- The **labor market has been showing weakness** that contrasts with the dynamics of internal demand. Unemployment rate has increased compared to previous years. The increment is most noticeable in rural areas. It is difficult to assess the migration effect, given the scale of this phenomenon.



Source: DANE. Seasonally adjusted

Contents

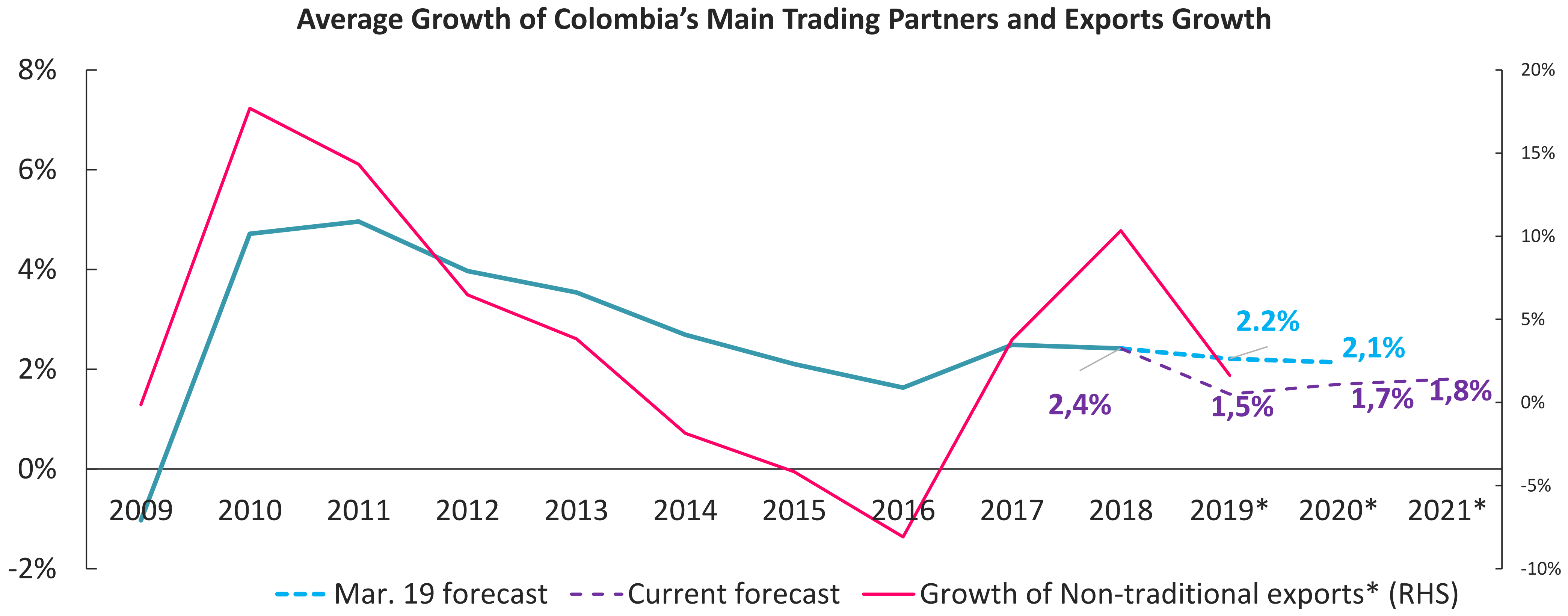
Growth

External Balance

Inflation and Policy Responses

Risks

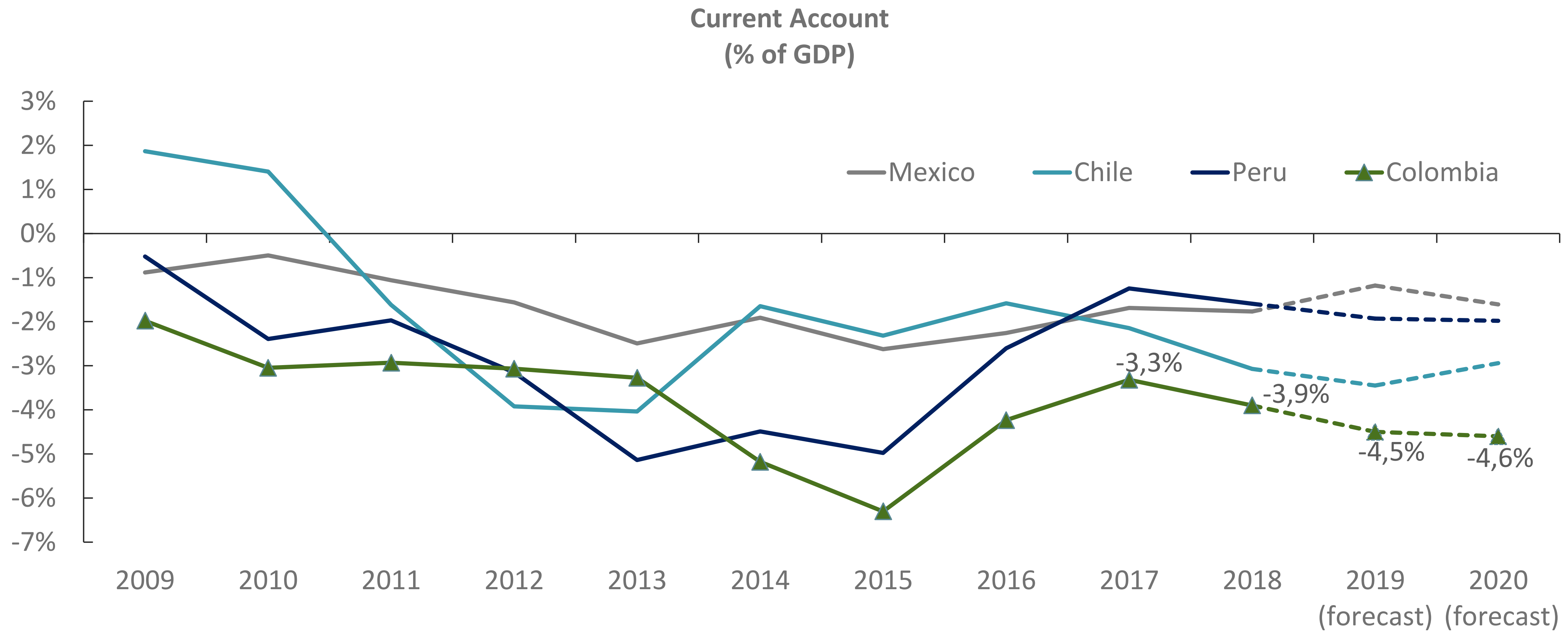
- In a decelerating scenario for the global economy, the growth of Colombia's trading **partners is expected to slow down.**



¹ USA, Euro area, China, Brazil, Ecuador, Peru, México, Chile. Weighted by non-traditional exports.

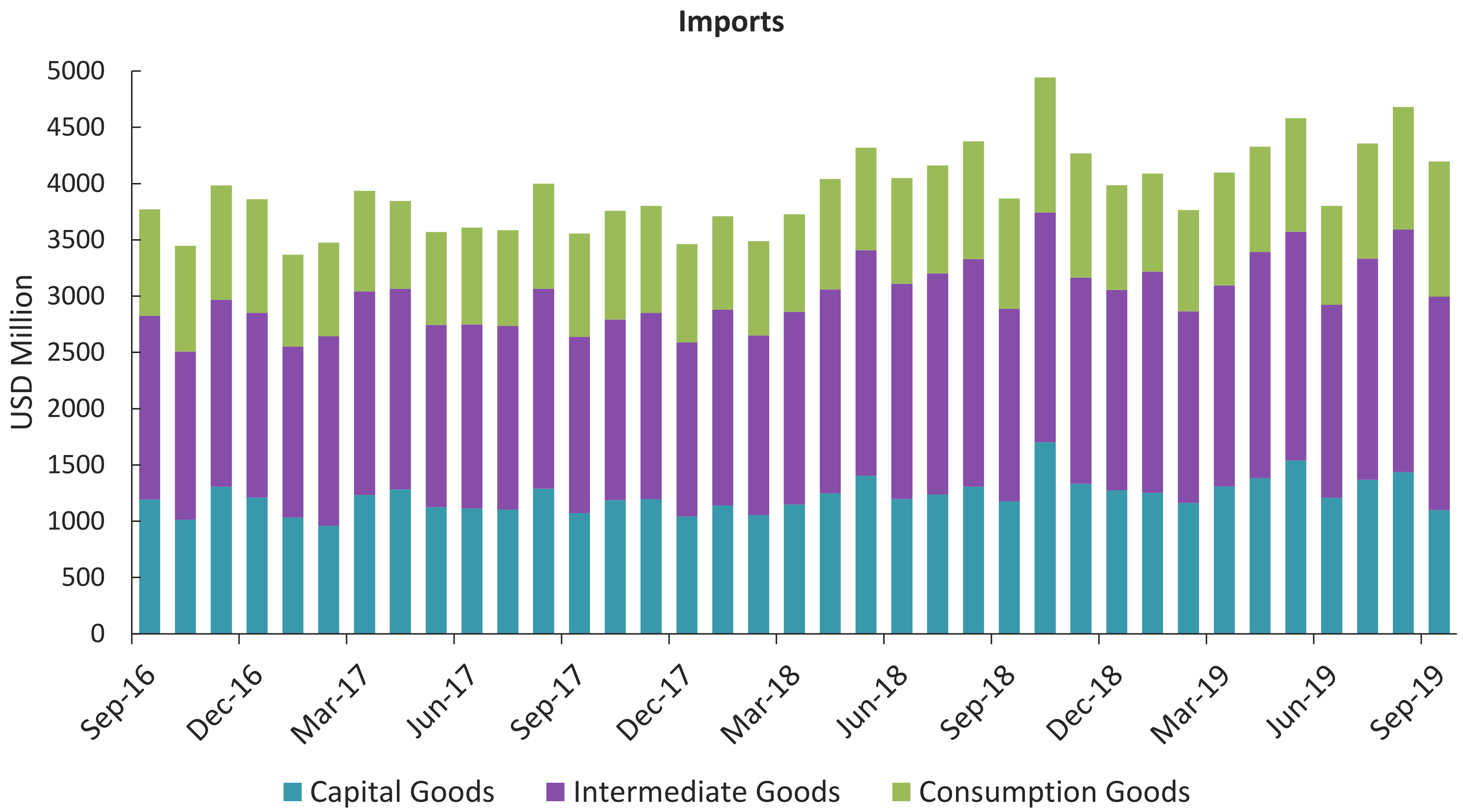
*Forecast. Source: *Banco de la República* and *Departamento Administrativo Nacional de Estadística* – DANE.

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



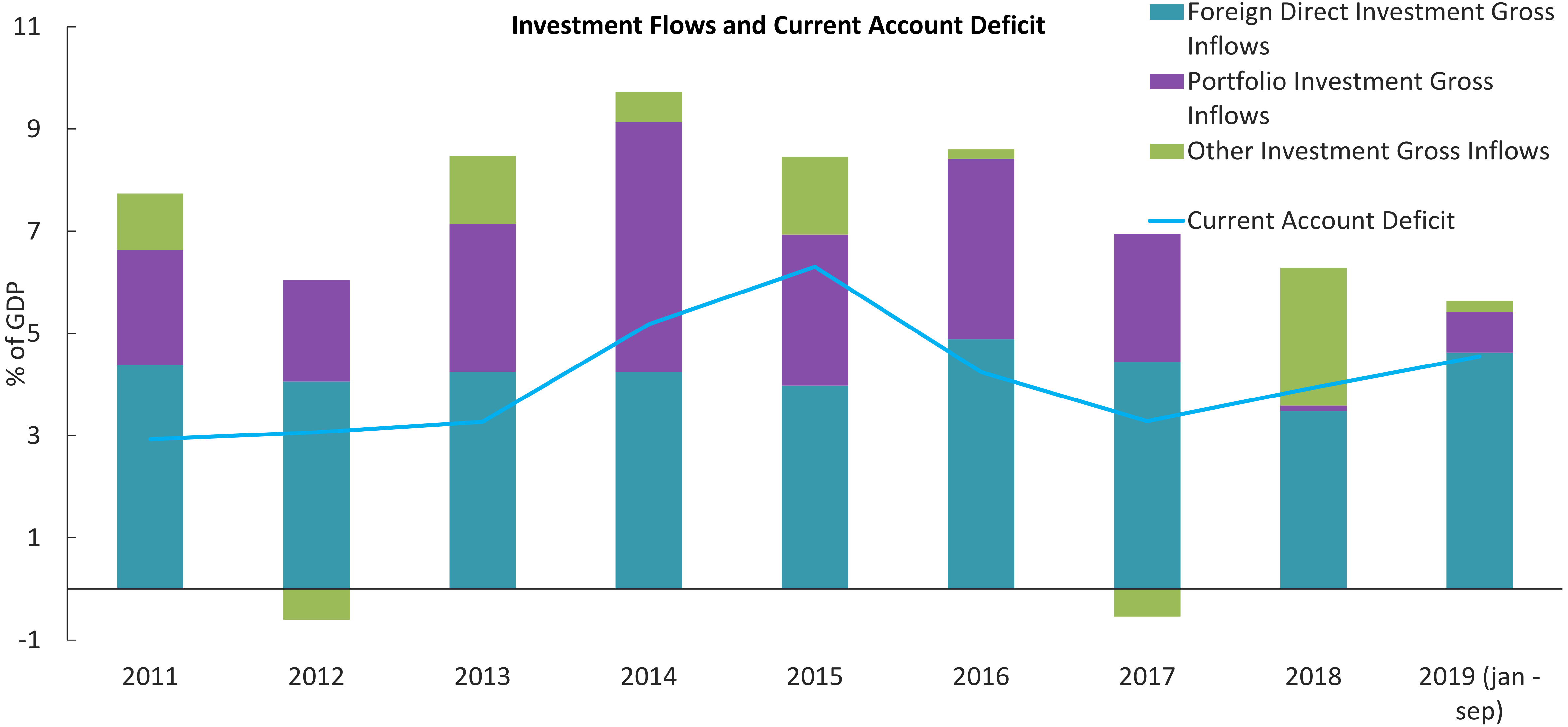
Source: IMF (WEO) estimates. For Colombia: BanRep's estimates.

- However, **consumption goods represent only a small fraction** of total imports, rendering a “productive” CAD.



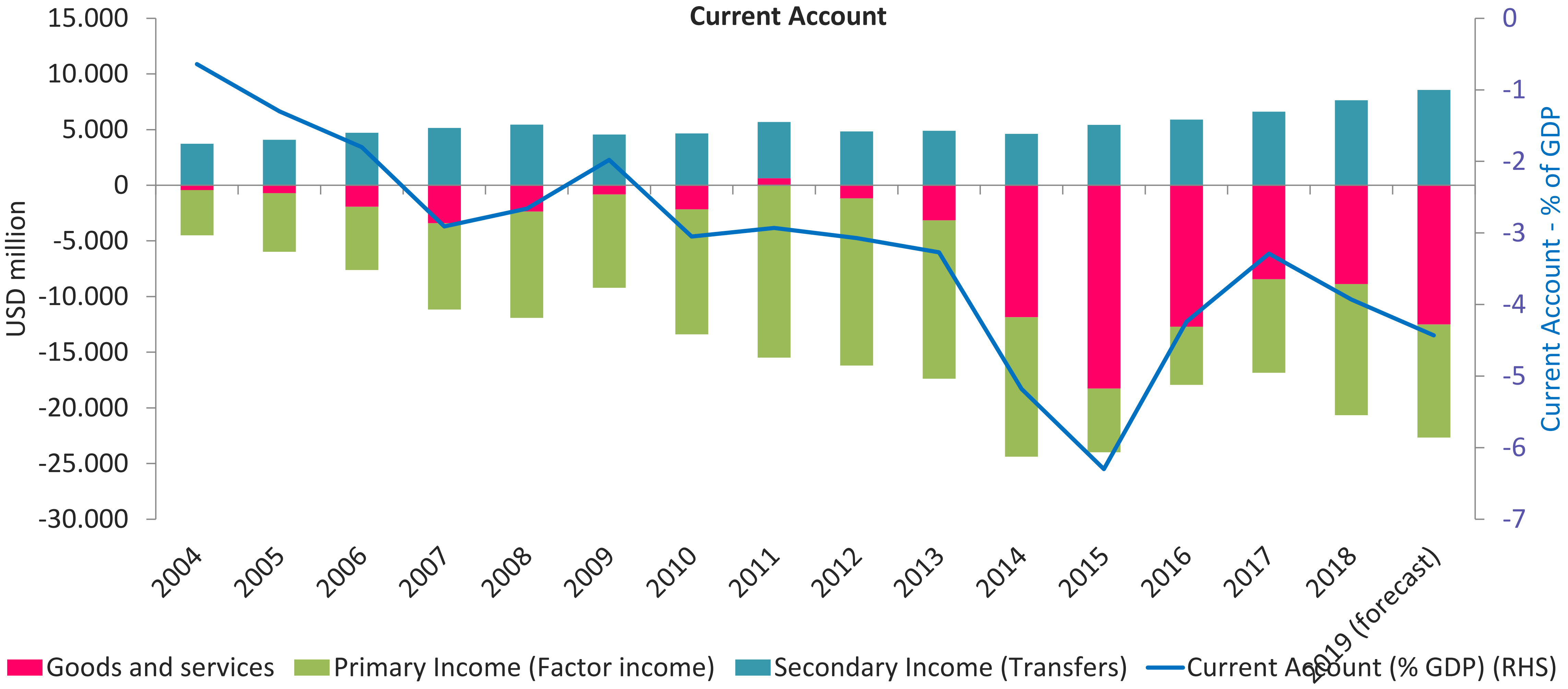
Source: Banco de la República

- Which has been **mostly financed by FDI,** mitigating part of the vulnerability of the large CAD.



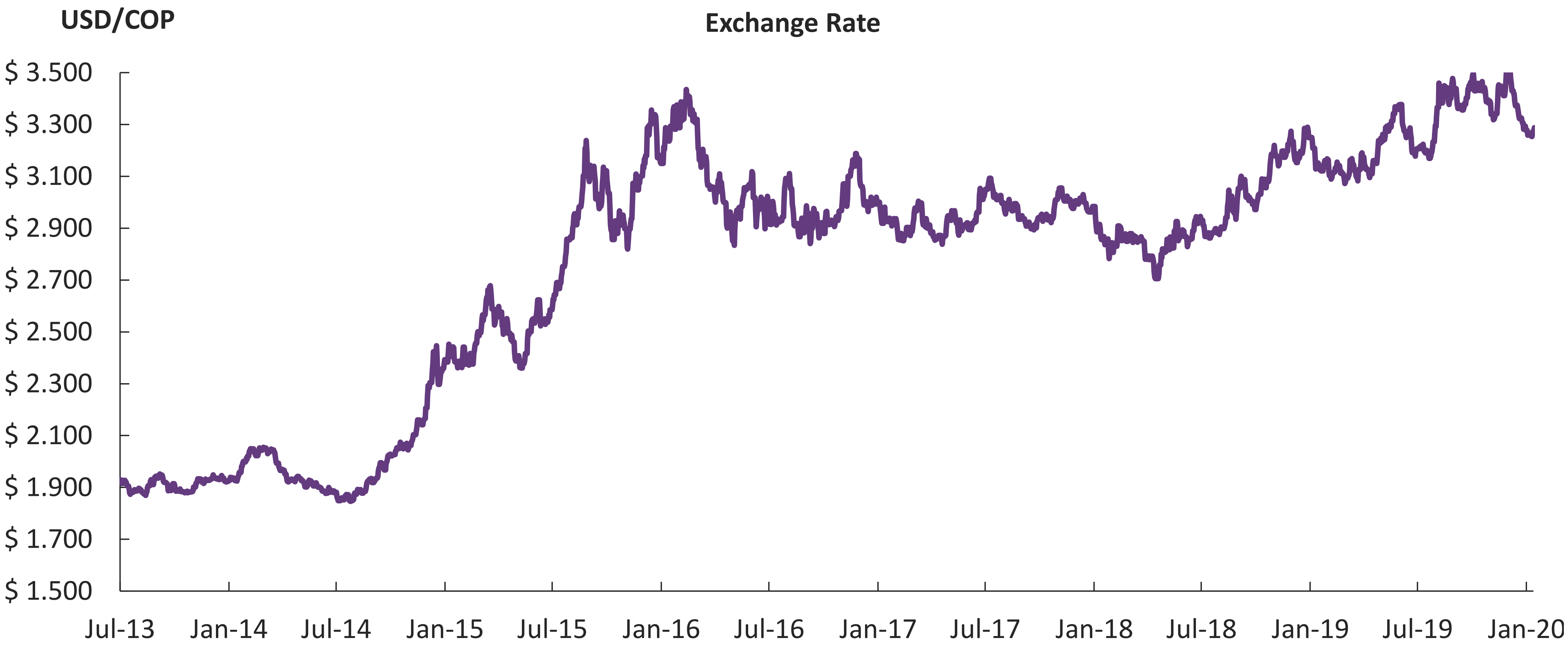
Source: Banco de la República.

- Trade balance and **factor income** explain the current account deficit, partially offset by the net income of **current transfers. Factor income** has already proved to move **countercyclically**.



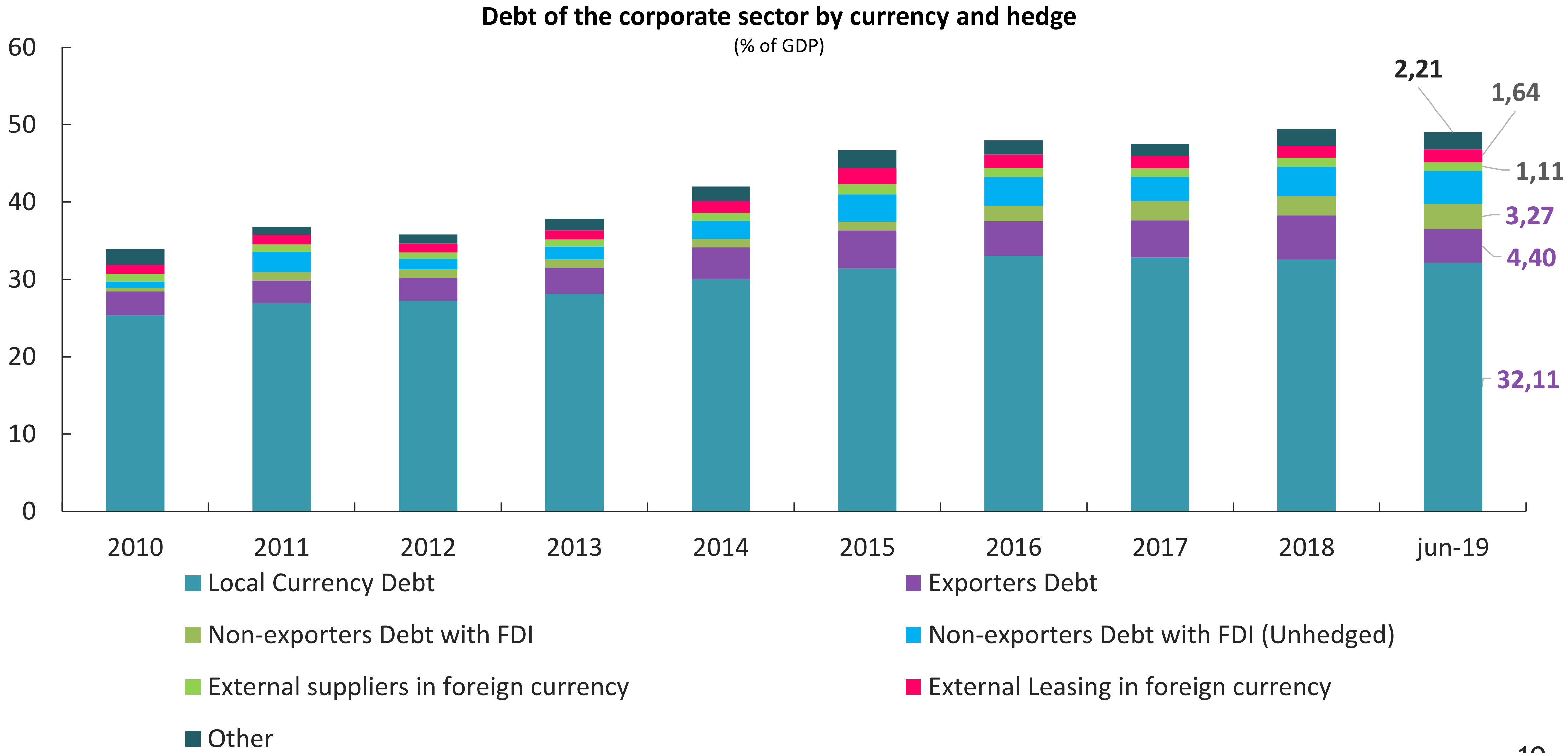
Source: Banco de la República.

- A **floating exchange rate** is a crucial piece of the policy framework.



Source: Banco de la República

- **Currency mismatches** remain low in both the real and financial sector, and they concentrate in companies that either export, hedge or have FDI



*For the categories: debt due to suppliers in foreign currency, foreign currency leasing and "other", the information is insufficient to determine if firms hedge these debts.

Source: Banco de la República, Financial Superintendency and DANE

Contents

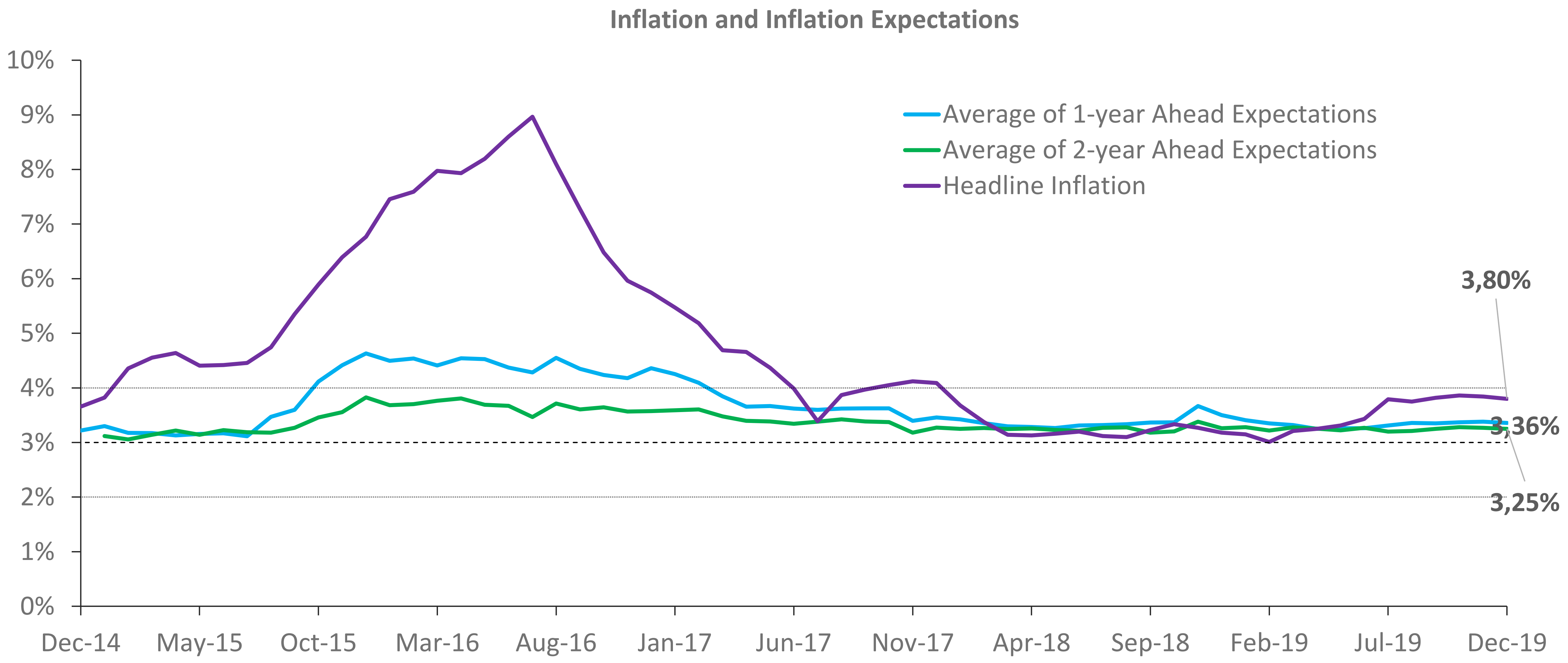
Growth

External Balance

Inflation and Policy Responses

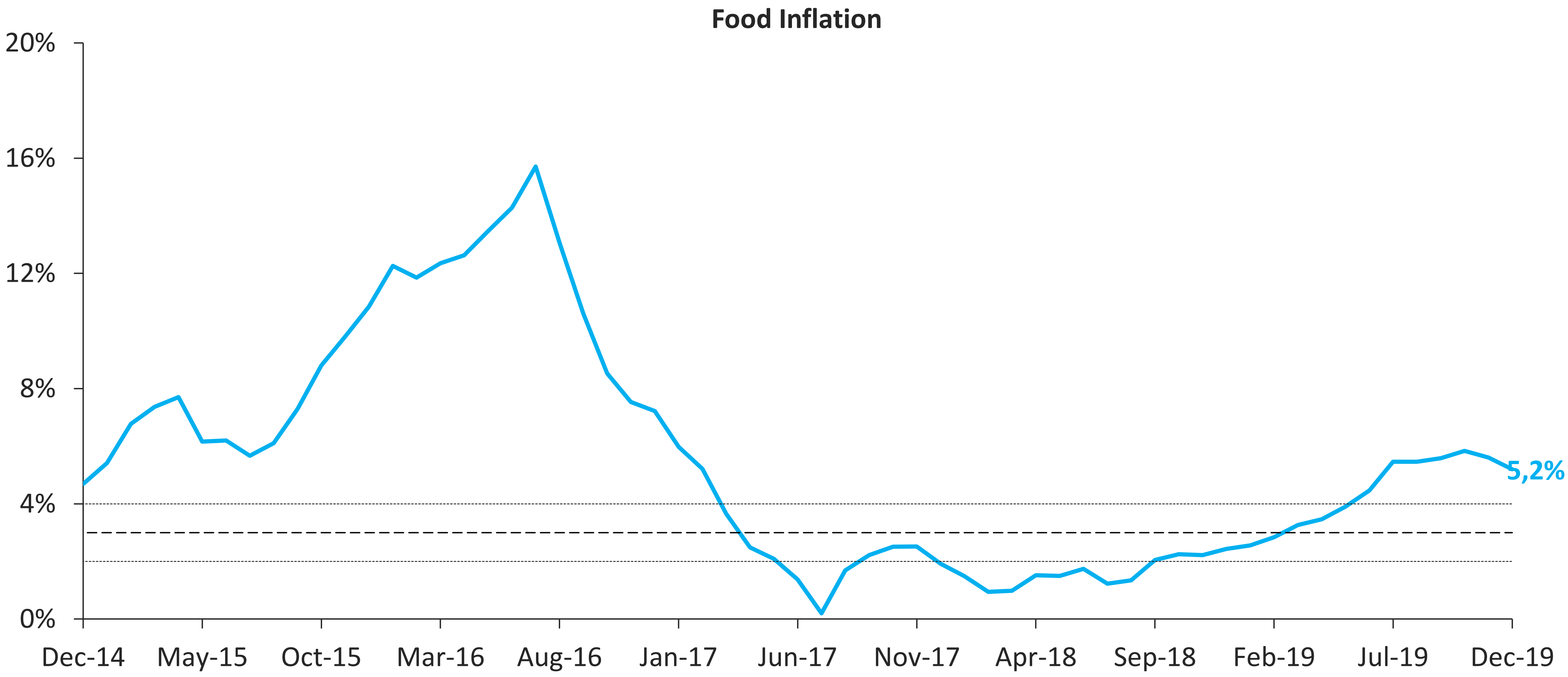
Risks

- Inflation **expectations are close to the 3%** target over the policy horizon.
- Central Bank estimates **convergence to target by December 2020.**



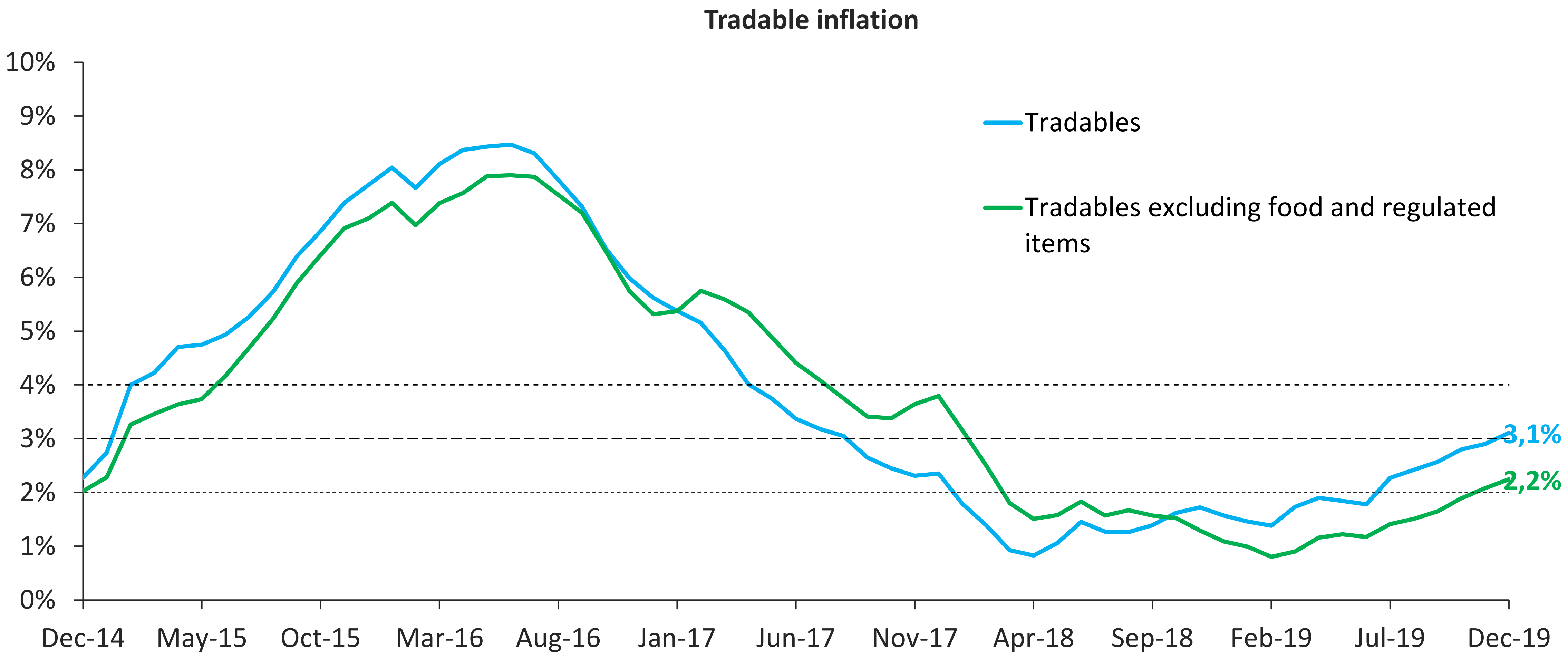
Source: DANE and Banco de la República – Monthly Survey of Economic Expectations

- There was a **temporary shock** to food inflation throughout 2019, that started to fade.



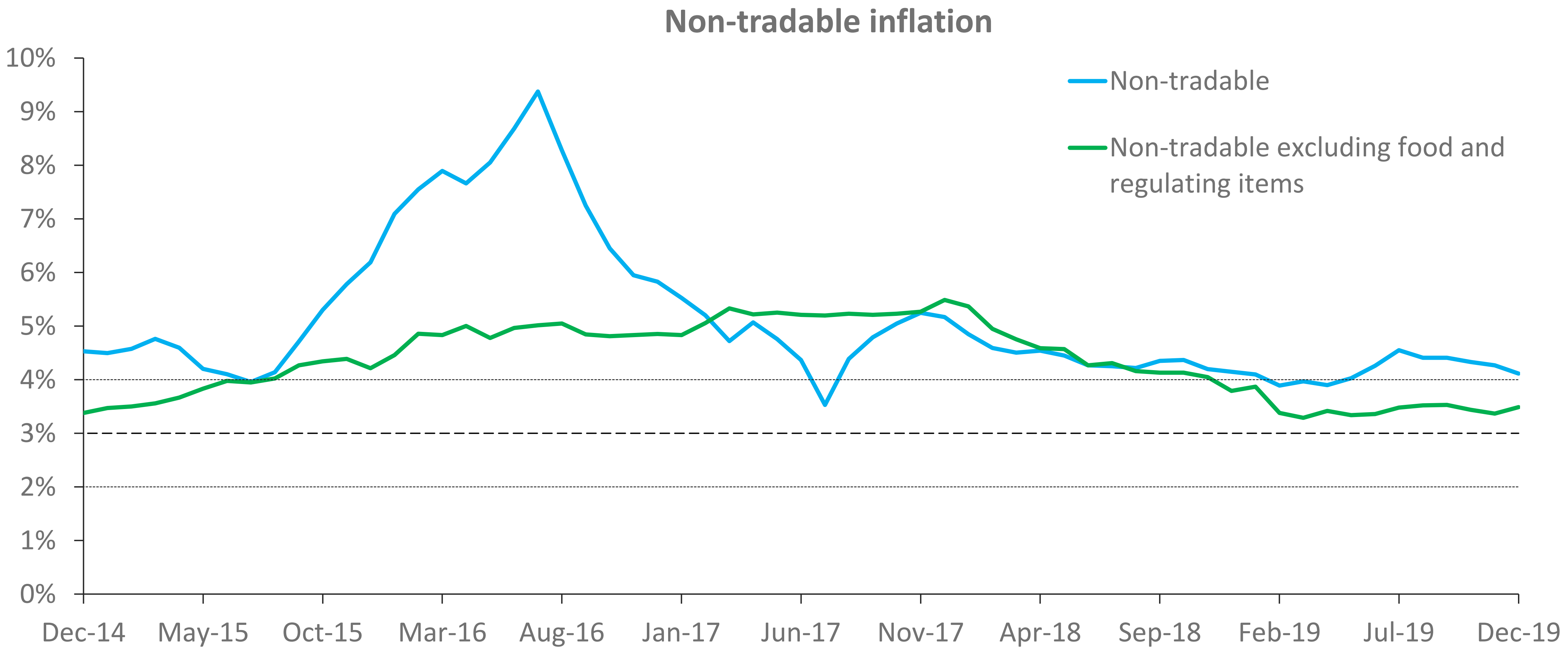
Source: DANE. Calculations by Banco de la República

- Although **passthrough is low,** there was **some impact** of depreciation in tradable and headline inflation.



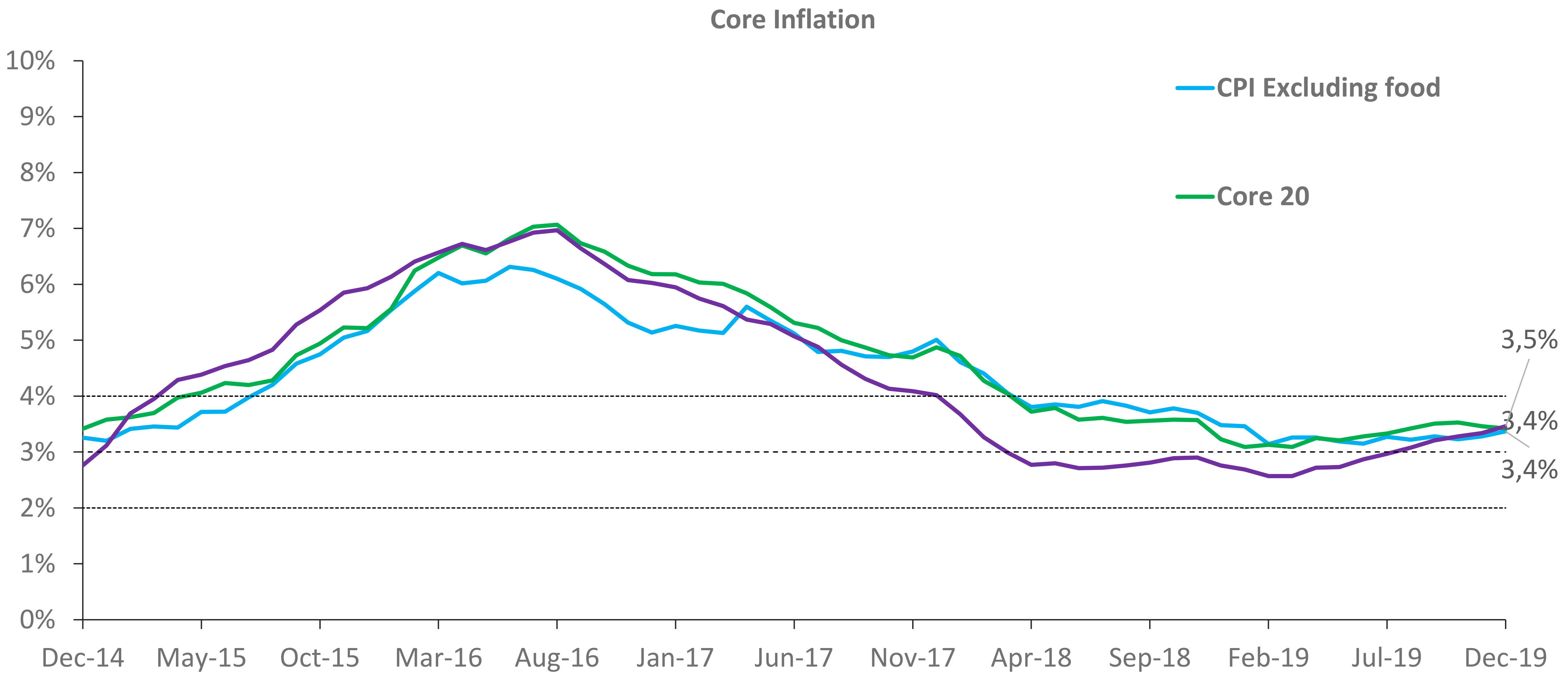
Source: DANE. Calculations by Banco de la República

- **Non tradable inflation fell** during H2 2019 reflecting few structural pressures in the inflationary process.



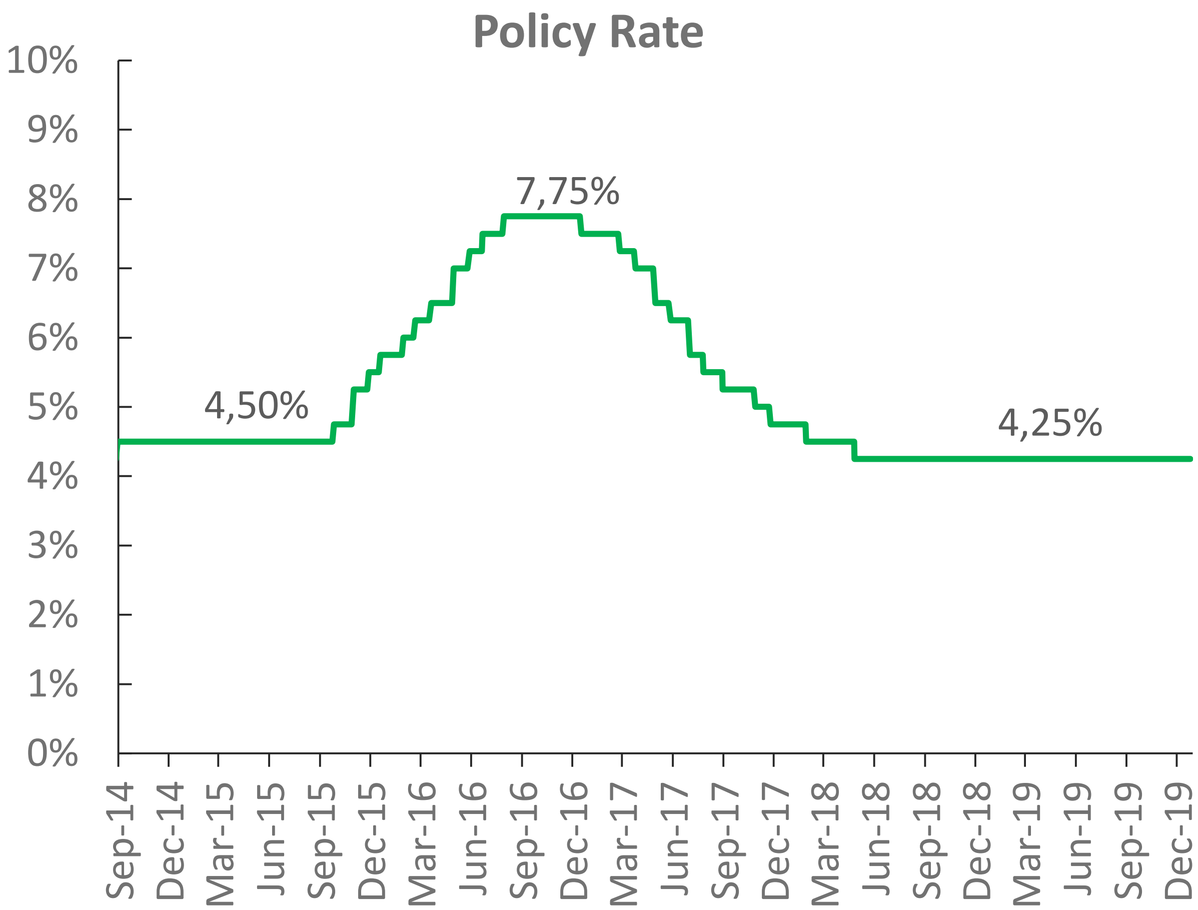
Source: DANE. Calculations by Banco de la República

- **Core inflation** indicators reflected too a temporary shock, most probably affected by exchange rate, though it was a **small deviation**.

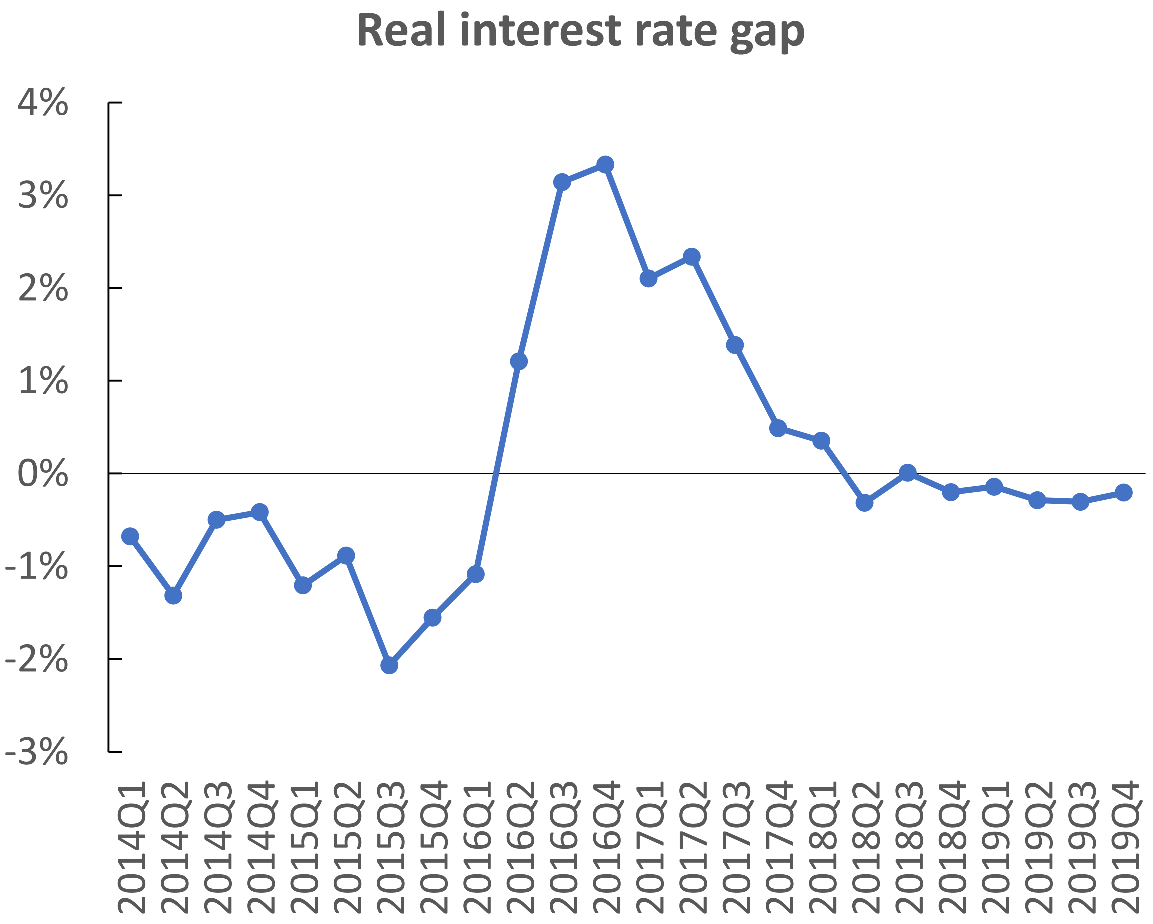


Source: DANE. Calculations by Banco de la República. The "Core 20" inflation measure excludes the CPI components with the largest price volatility representing 20% of the CPI basket.

- In this scenario monetary policy has remained **moderately expansionary**, supporting the closing of the negative output gap.



Source: Banco de la República.



Source: Banco de la República. * Observed real interest rate minus an estimate.

Contents

Growth

External Balance

Inflation and Policy Responses

Risks

Global Uncertainty

New Normal

Discontent

Trade

MP

Neutral Interest Rate

CAD

Thank you