



# Monetary policy challenges in Colombia

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Board Member

Santander - 9th Annual Latin America European Forum. September 9th 2020

\*The opinions presented here do not represent the position of the Board of Directors



# Content

THE SHOCKS

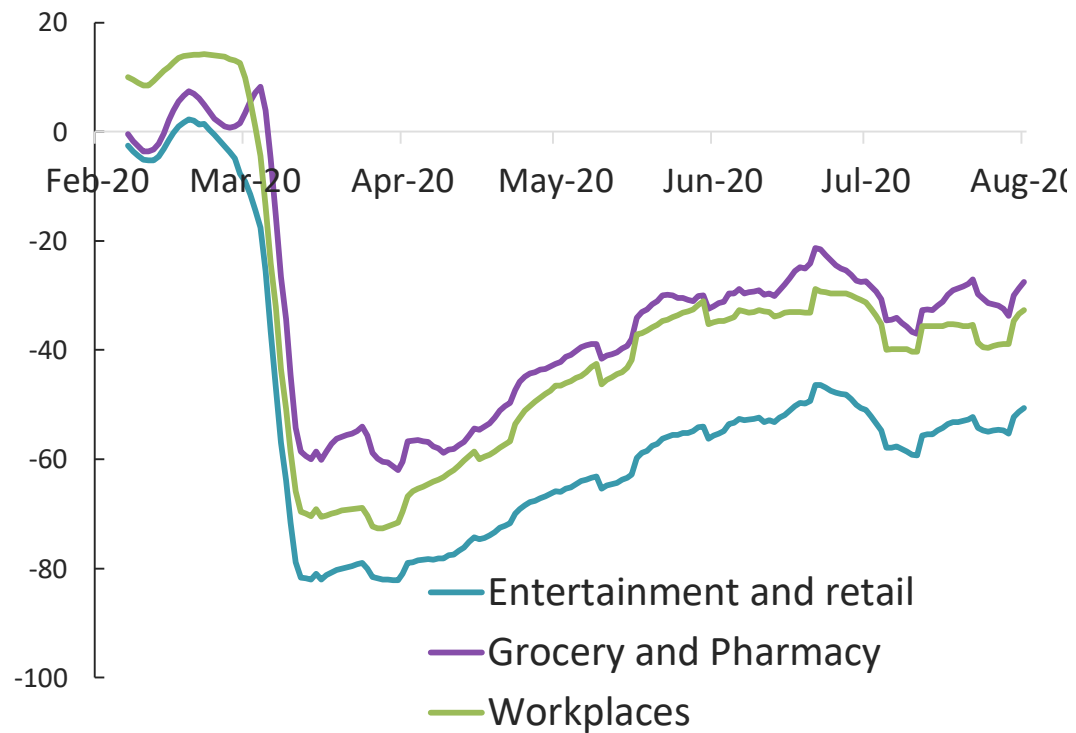
POLICY RESPONSES AND RESULTS

ECONOMIC FORECASTS

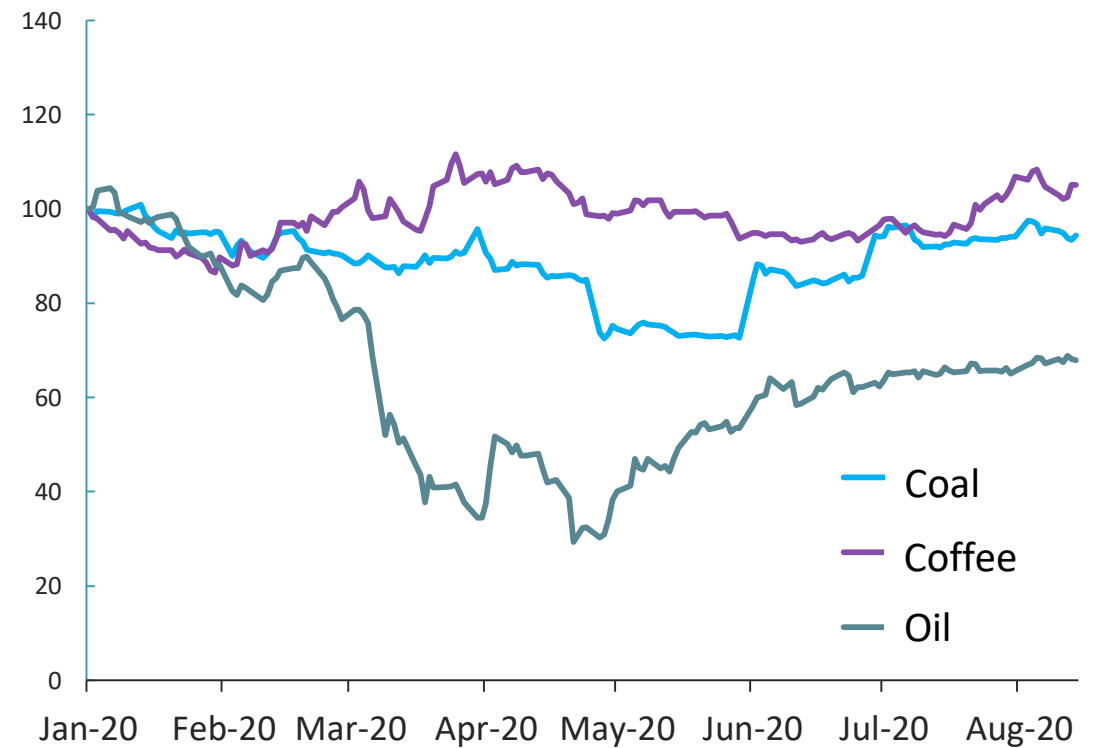
POLICY CHALLENGES

- **The Colombian economy is facing an unprecedented shock** because of containment measures and the drop of international commodity prices

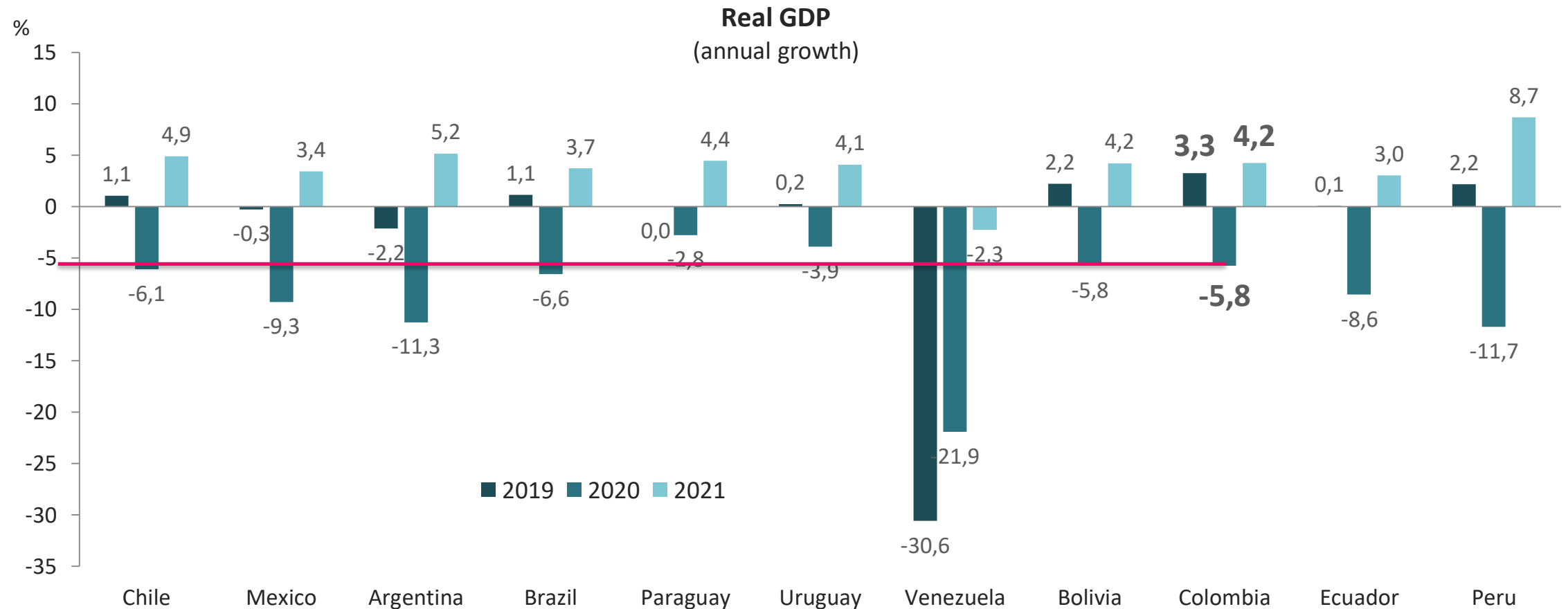
**Google Mobility Trend – Colombia**  
(percental change from baseline)



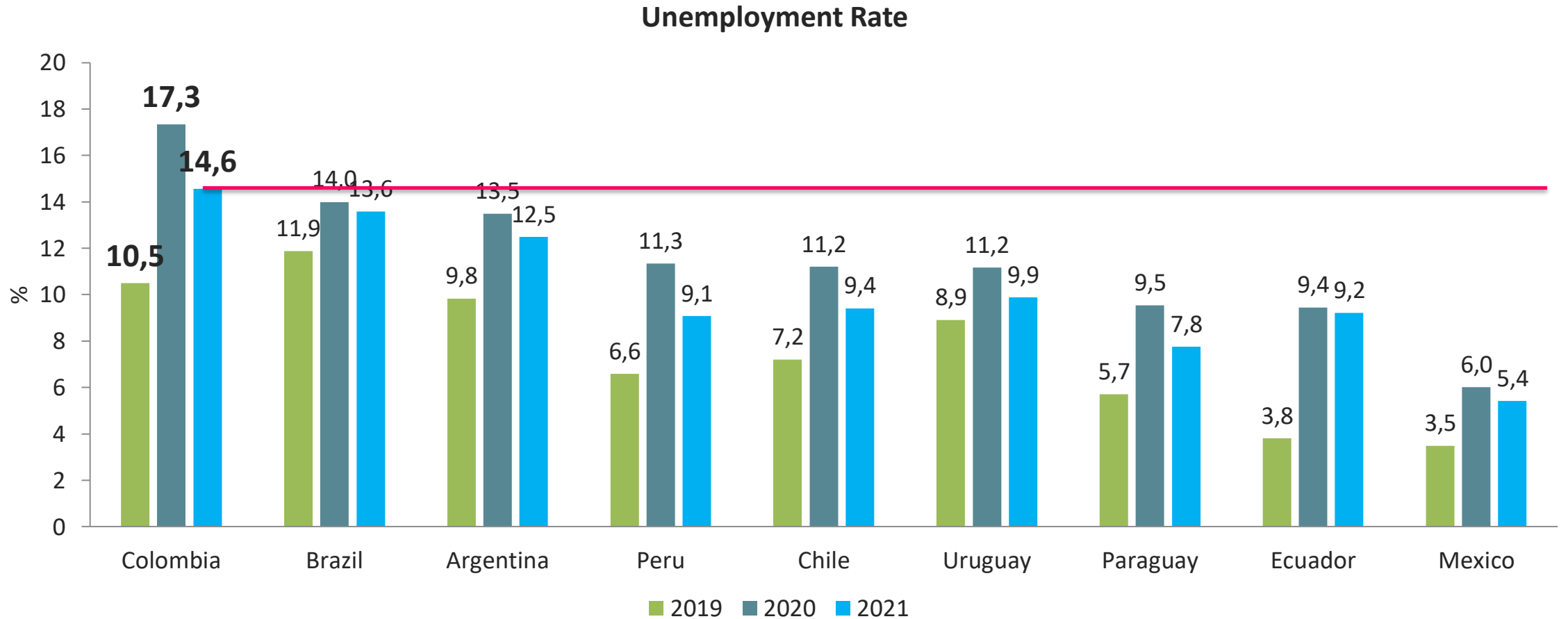
**Commodity prices**  
(January 2020 = 100)



- **Colombia and Latam will suffer a severe recession.** A contraction of real GDP of more than 7,4% is expected.



- **Major effects on the labor market.** The economic rebound expected for 2021 won't be enough to recover the employment levels observed in 2019



- The monetary policy and other institutional frameworks in the Colombian economy provided a strong base to confront this crisis:
  1. The Colombian economy has a fully-fledged inflation targeting regime with exchange rate flexibility with high credibility
  2. Fiscal policy is anchored in the medium term
  3. Adequate level of external buffers
  4. Adequate financial supervision
  5. Contained currency mismatches



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The central bank is using its toolbox to support the economy by:

- **Providing liquidity** to avoid disruptions in the payment systems and contribute to the credit supply by financial institutions
- **Helping stabilize key financial markets** suffering liquidity problems
- **Maintaining external buffers** to facilitate external payments of the economy
- **Supporting the economy** through **interest rates**
- **No QE in Colombia.** Liquidity measures had the purpose of improving the conditions of key financial markets

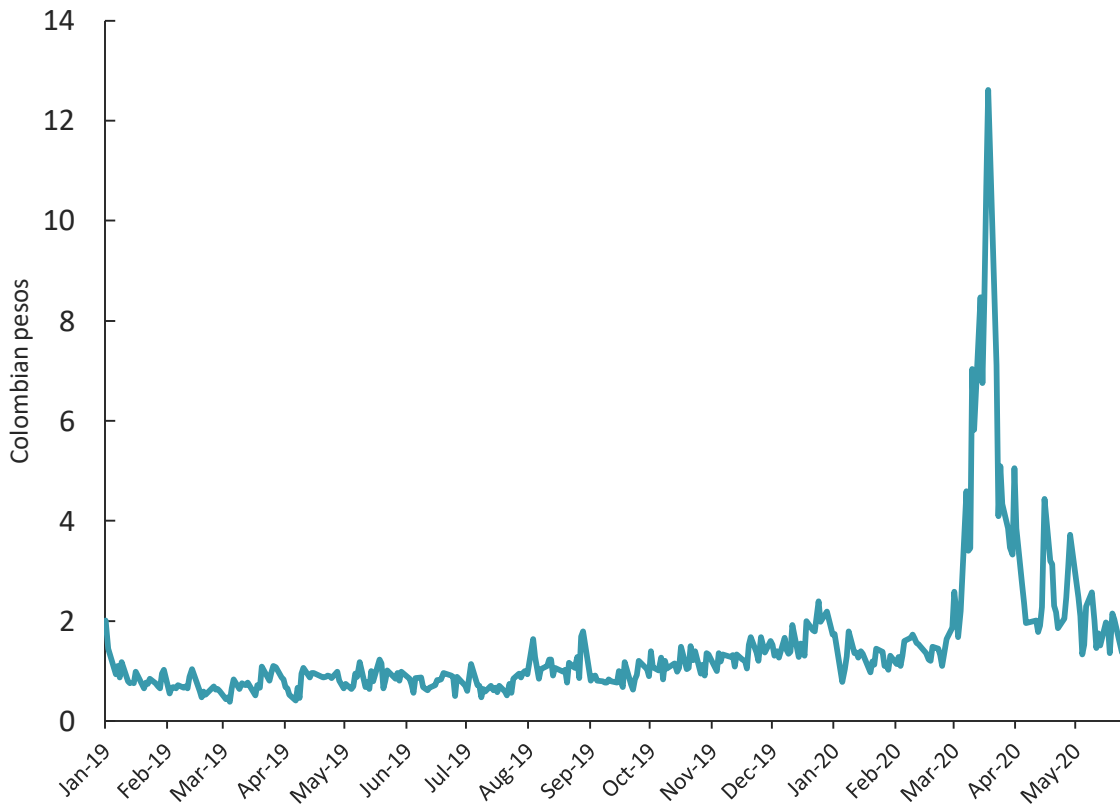


# Central Bank Response

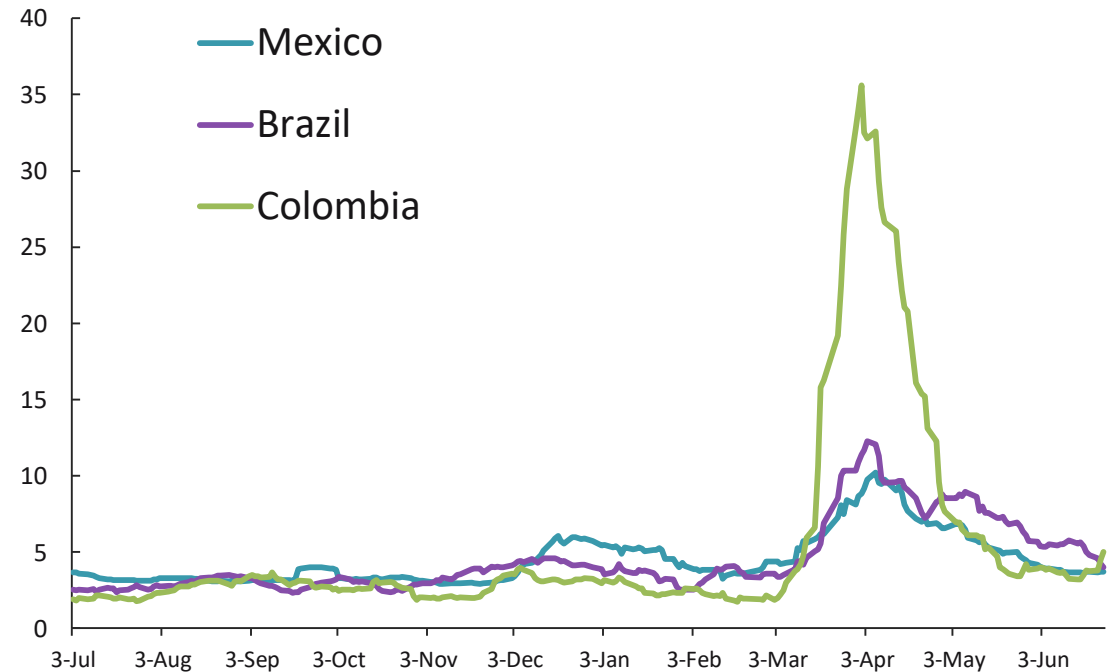
Objectives Actions	Protecting the payments system	Preserve the supply of credit	Stabilizing key financial markets	Provide an economic stimulus
Temporary liquidity (repo operations):  Increase in the allotment counterparties, collaterals and maturities	X	X	X	
Outright purchases of public and private securities	X	X	X	
Reduction of banks' reserve requirements	X	X		X
Auction of FX Non-delivery forwards			X	
Auction of FX swaps	X	X	X	
Reduction of the interest rates		X		X

- These policies improved conditions in local financial markets.

**Bid-Ask Spread for the Colombian peso**

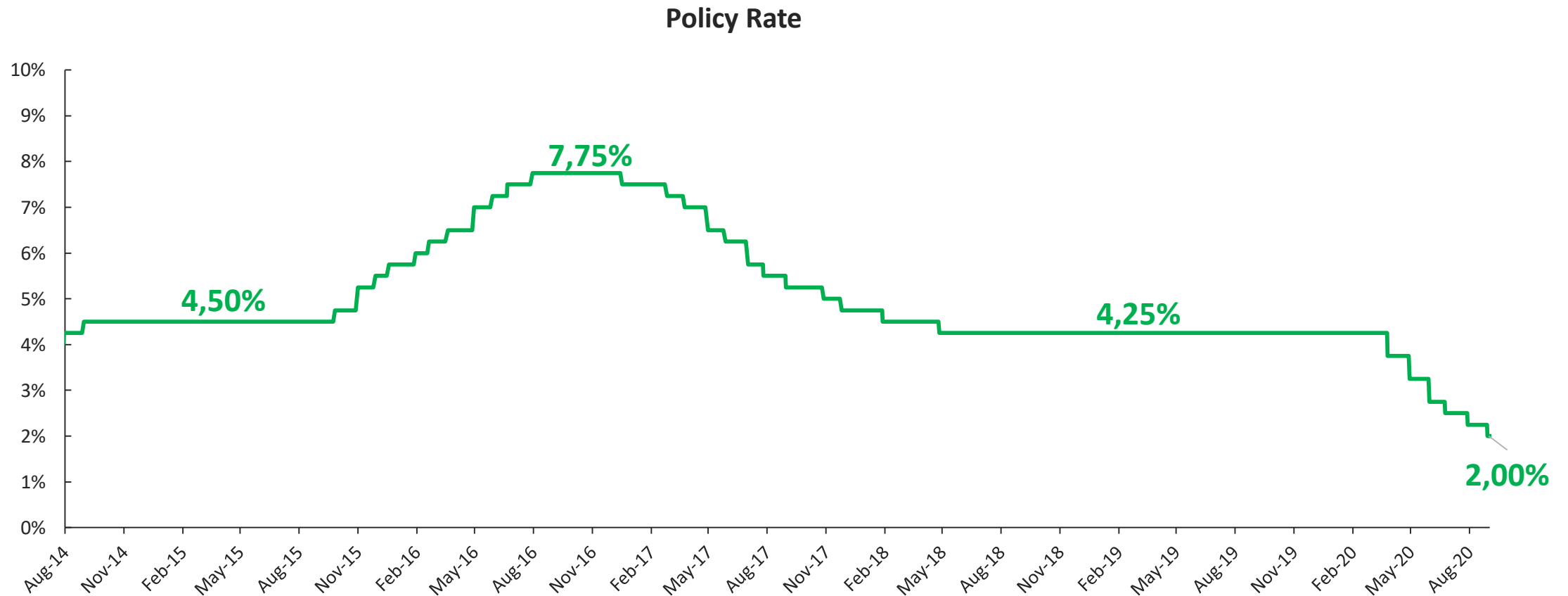


**Bid-Ask Spread for 10-year sovereigns in local currency\***  
(basis points, 10-day moving average)



Source: Banco de la República. \*For Colombia TES 2028, Brazil 2029 and Mexico 2029.

- **Reductions in the monetary policy rate will contribute to relieve the financial burden of debtors and reduce the cost of credit.** However transmission channels have been affected.





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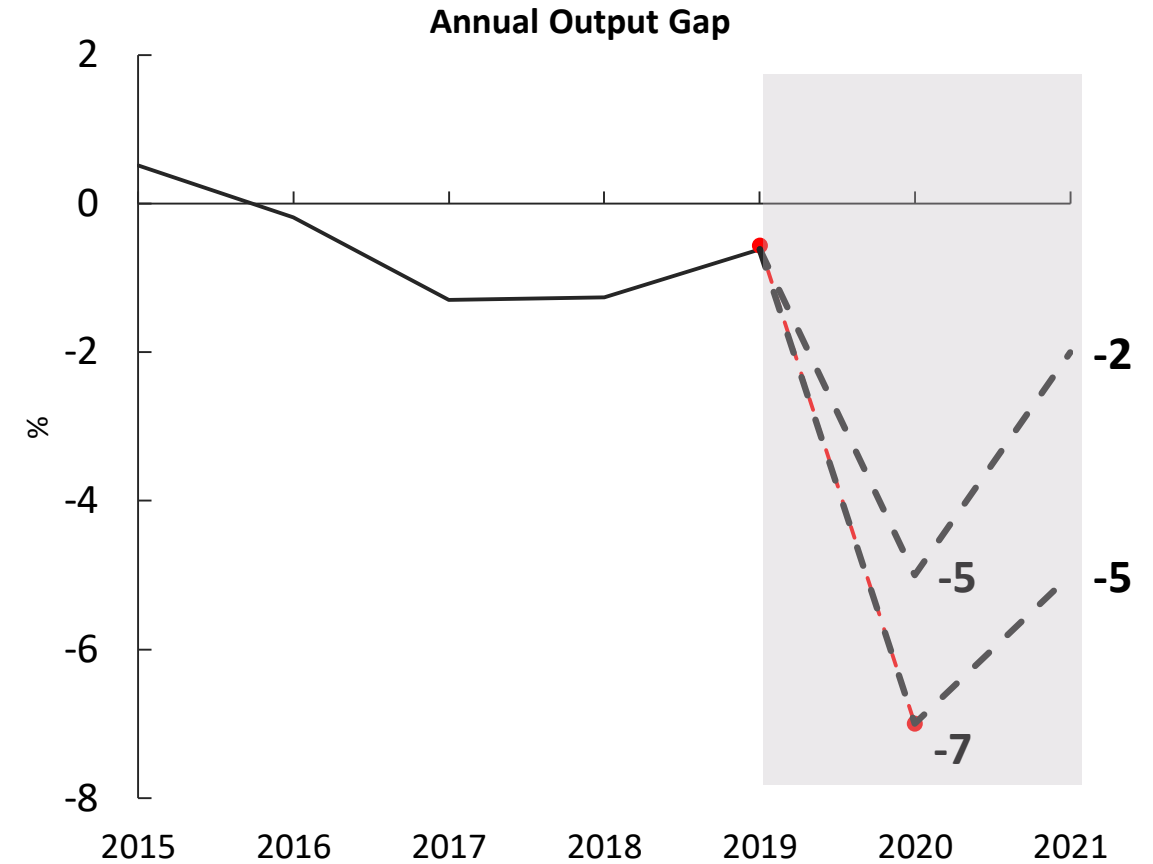
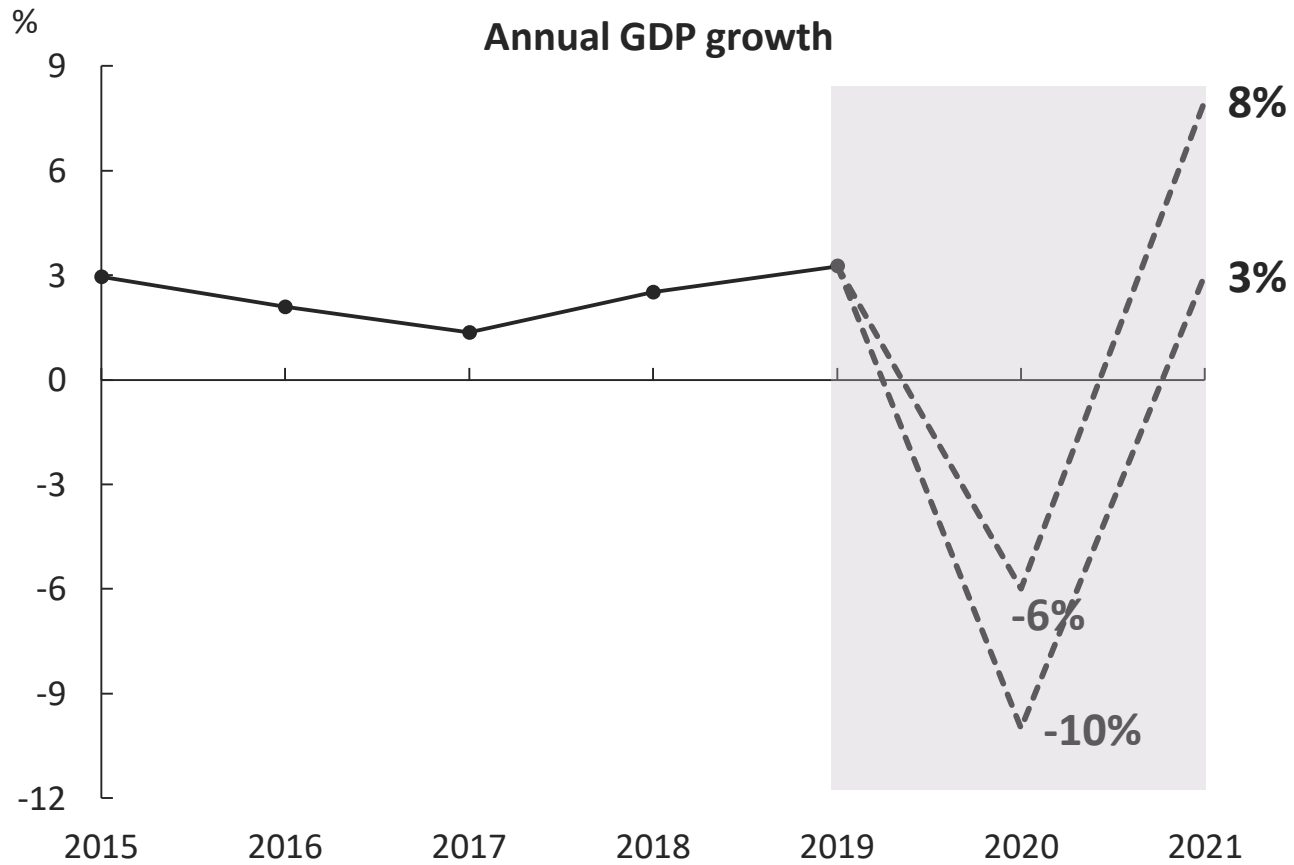
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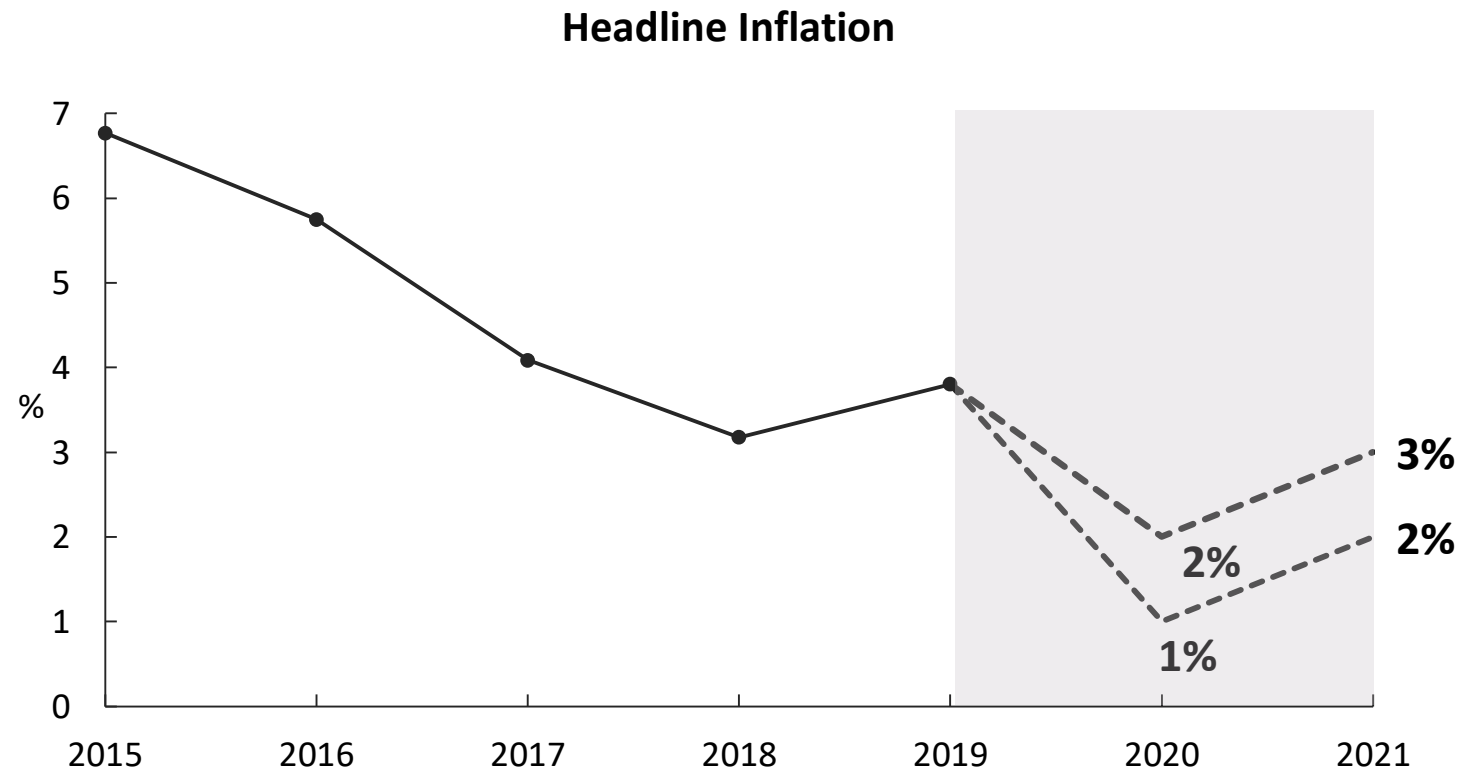
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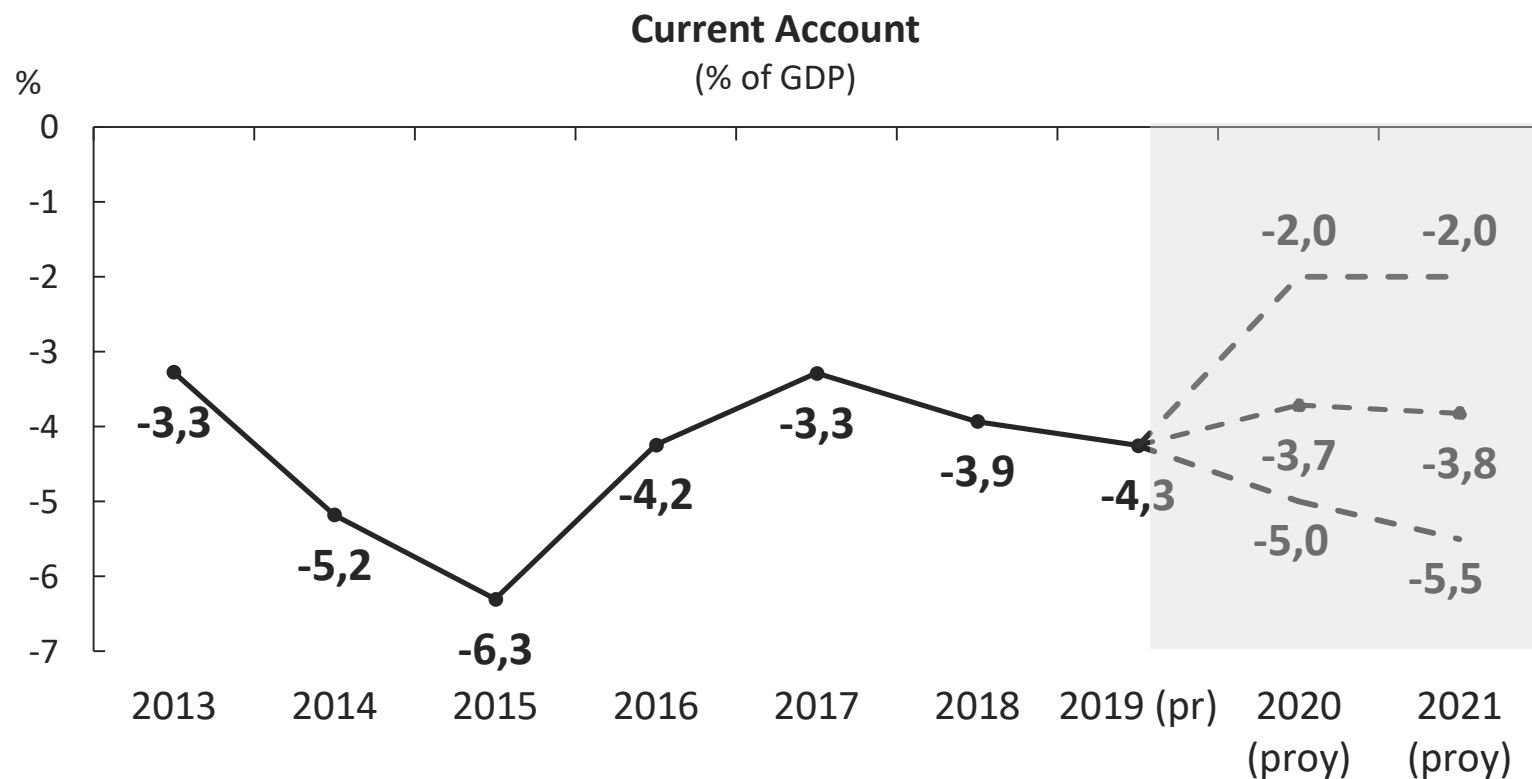
- The staff estimates a contraction of between 6% and 10% this year, consistent with a more negative output gap.



- **Headline inflation will most probably close the year below target.**



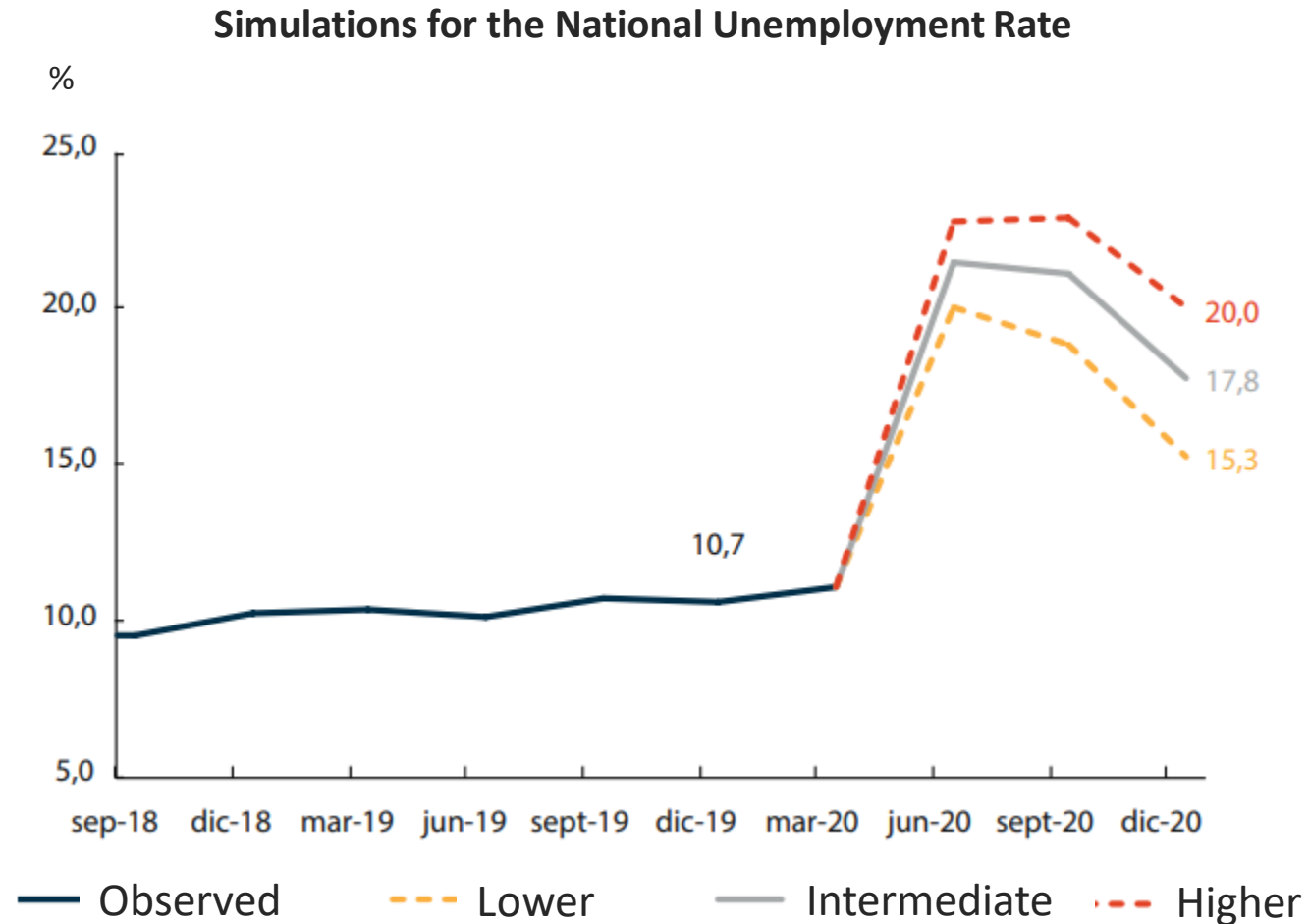
- **The future of the external deficit is highly uncertain, but a contraction is expected.** CB's estimate is that the domestic demand contraction effect will prevail over the ToT shock, and we will see a lower CAD. The number for Q2 (3%) indicates this will be the case.



(pr): preliminary.  
(proy): projection

Source: Banco de la República – Monetary Policy Report

- **A slow normalization of employment is expected.** The rigidities in the labor market partially explain the speed of the adjustment. The gender gap has widened to highly concerning levels.







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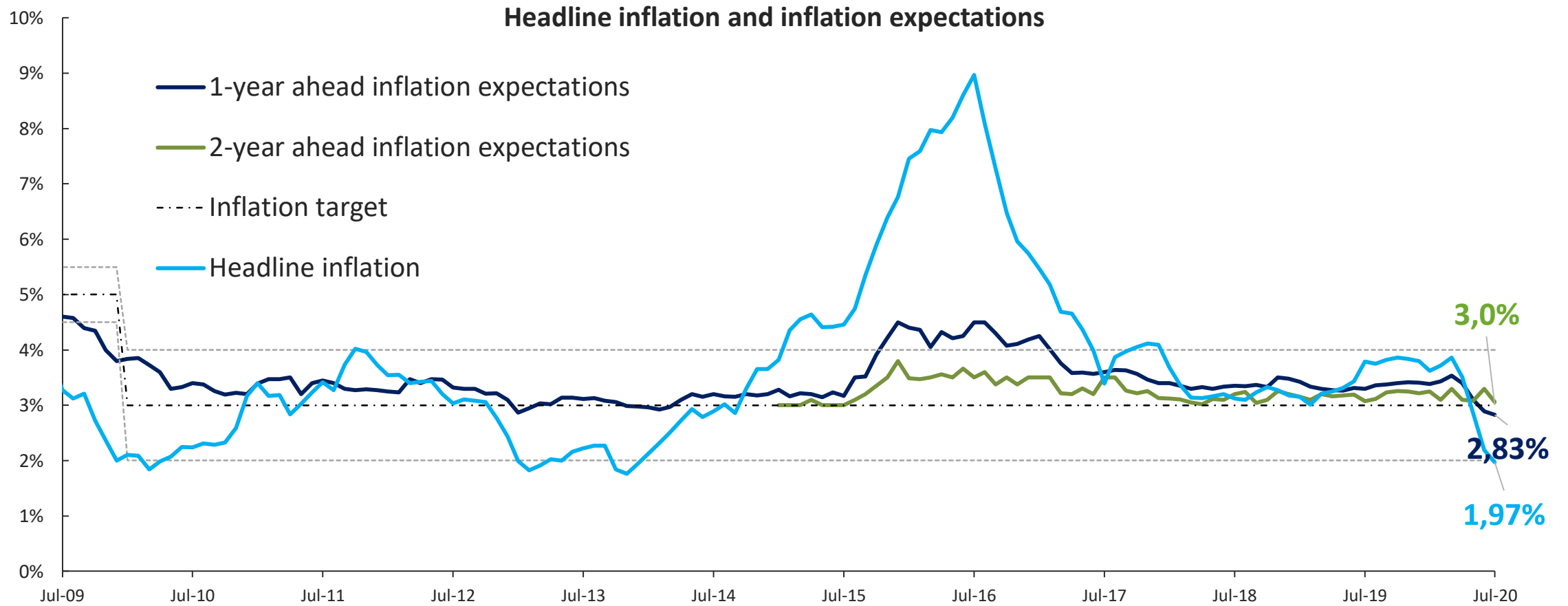
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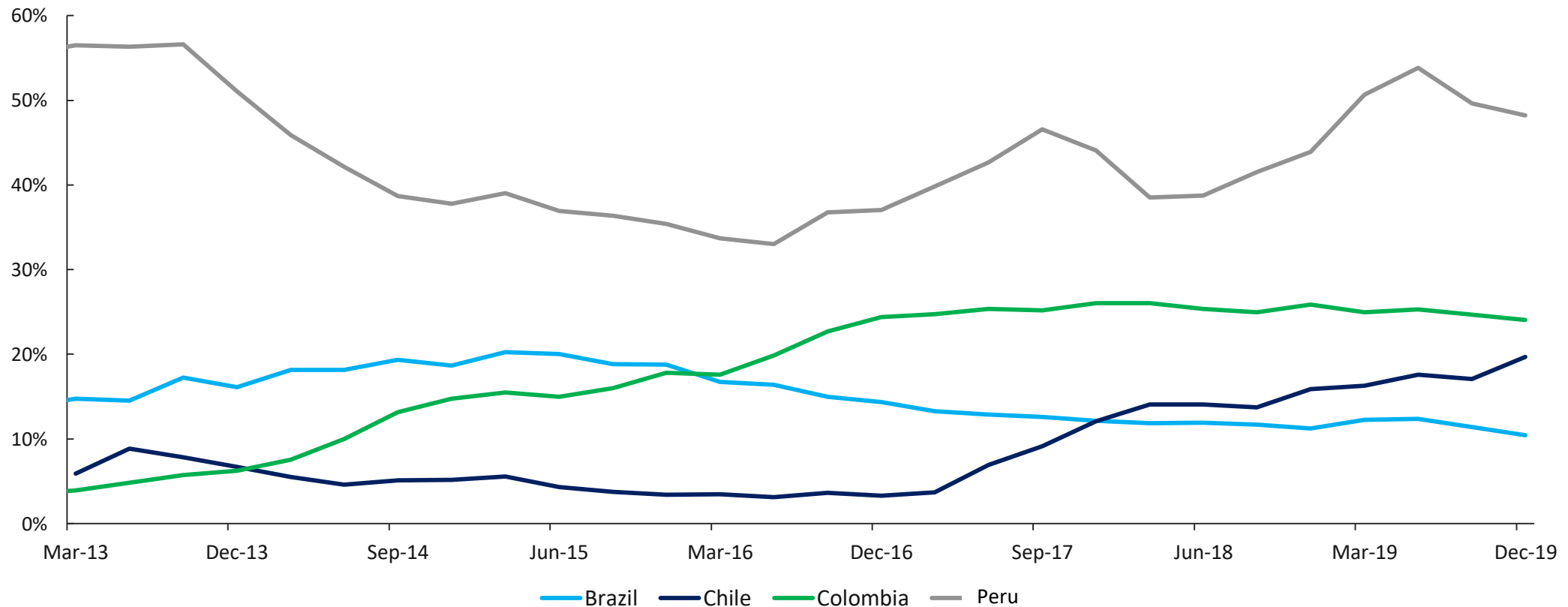
- **Inflation expectations remain close to the target**, and the rate of reduction of expectations seems to be declining. Transmission mechanisms have been affected and there is still high uncertainty about how they will evolve, stemming from the evolution of the pandemic itself.



Source: Banco de la República and DANE

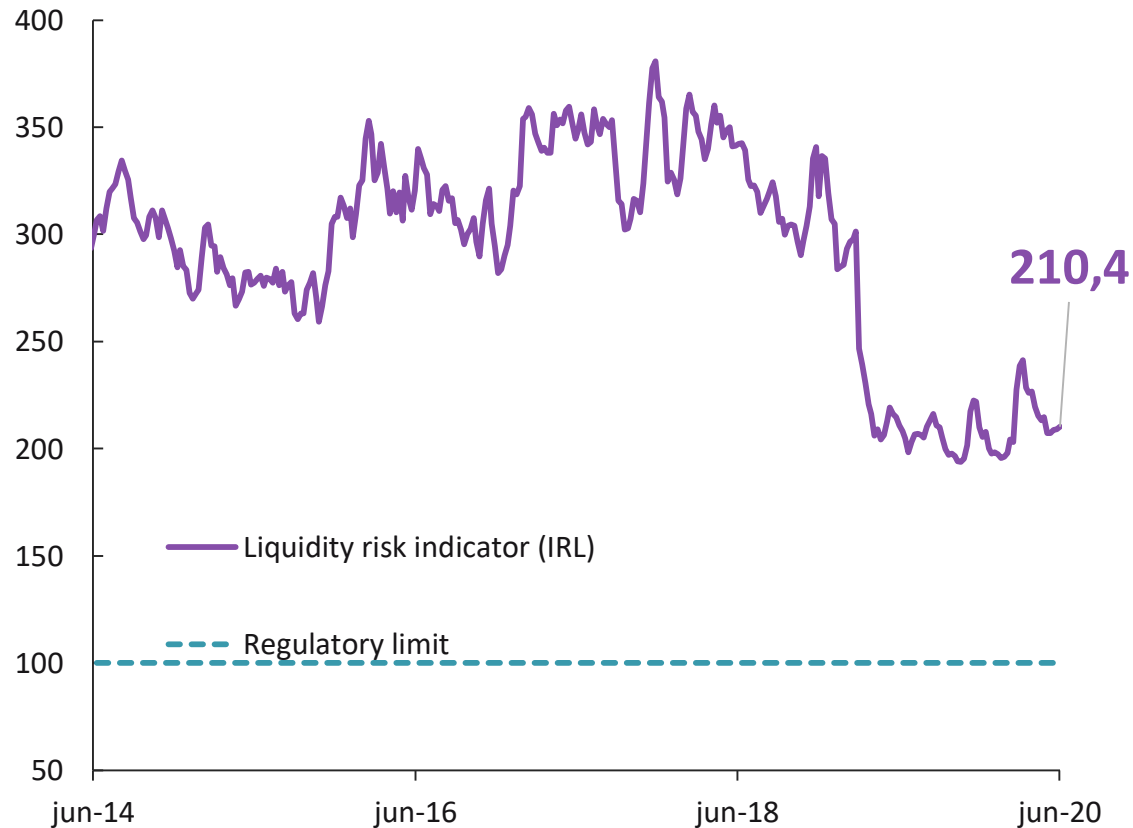
- **BR has taken a gradual approach to its monetary easing, seeking a sustainable level of stimulus to support the recovery.** There is uncertainty surrounding i) effects of the shocks on supply and demand, ii) international financial conditions, iii) public debt dynamics, iv) effects of the shocks on financial stability.

**Foreign participation in the local public debt market**  
(Non-resident holdings as a % of outstanding securities)



- **The financial sector, faces these shocks with high levels of liquidity and solvency.** The length of the recovery period poses challenges to profits and business cases.
- **Risk has increased** and credit supply (and demand) and prices will continue to reveal this.

**Liquidity risk indicator of credit establishment**



**Solvency ratio of credit establishments**

