



Macroeconomic Outlook for Colombia

BBVA 5th Latin America Local Markets Conference

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



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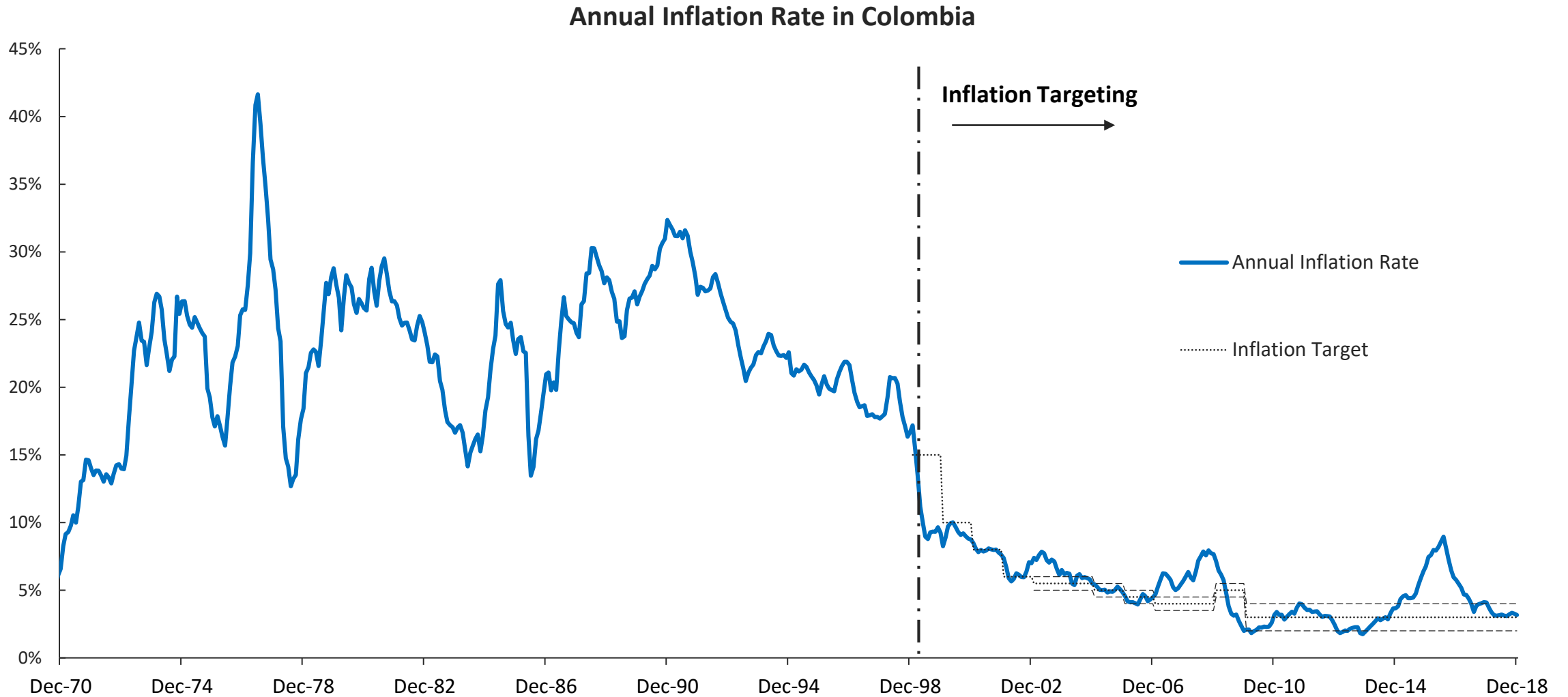
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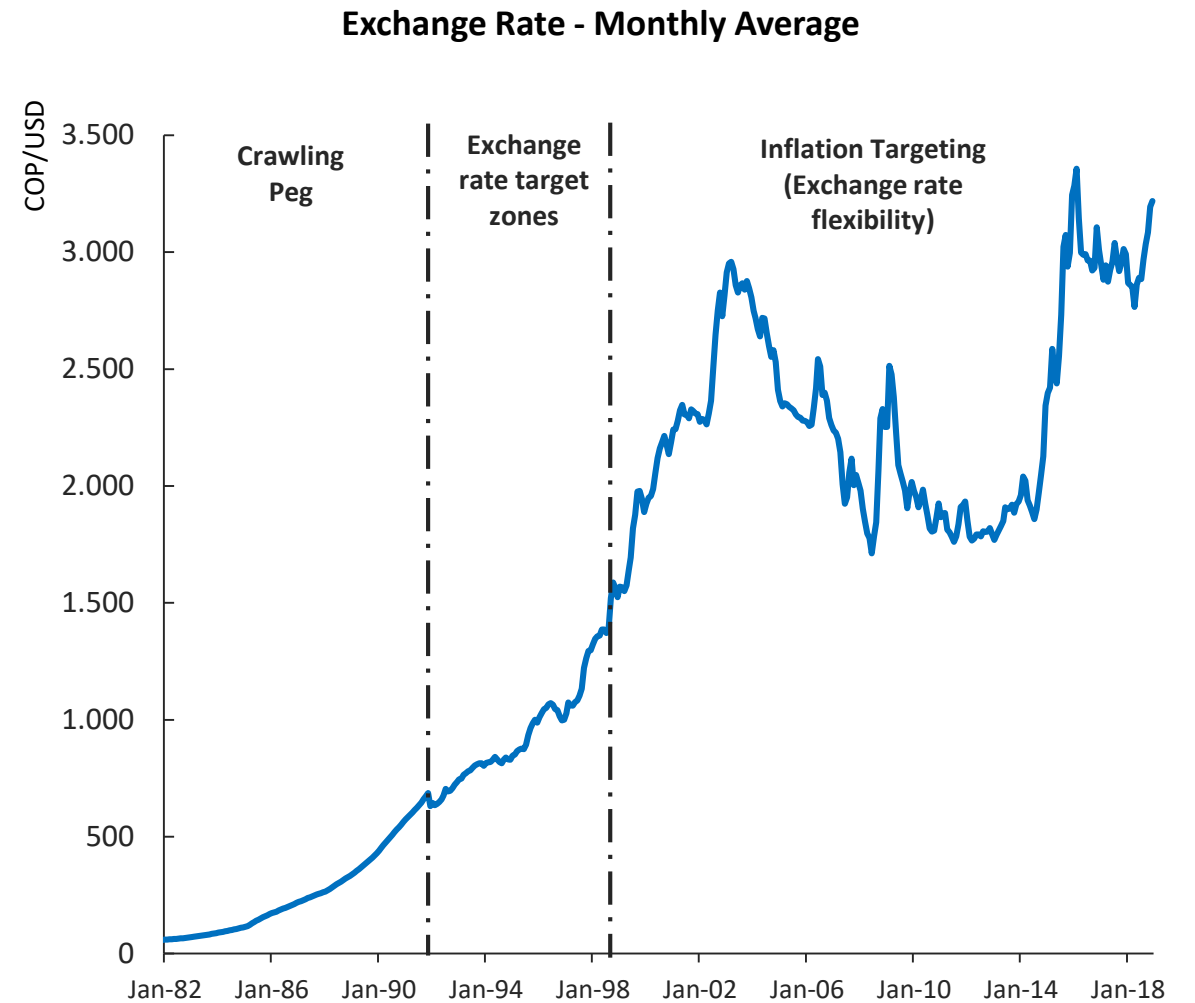
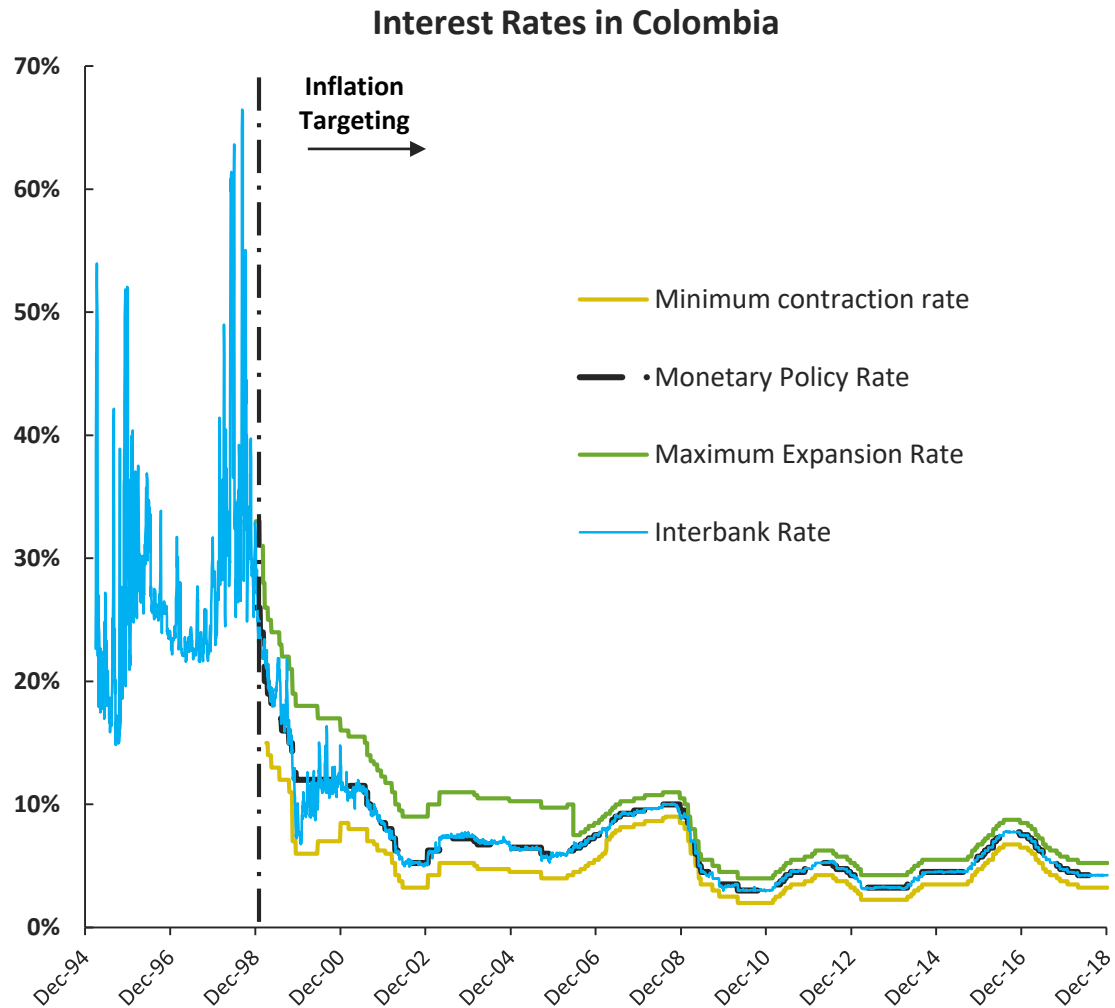
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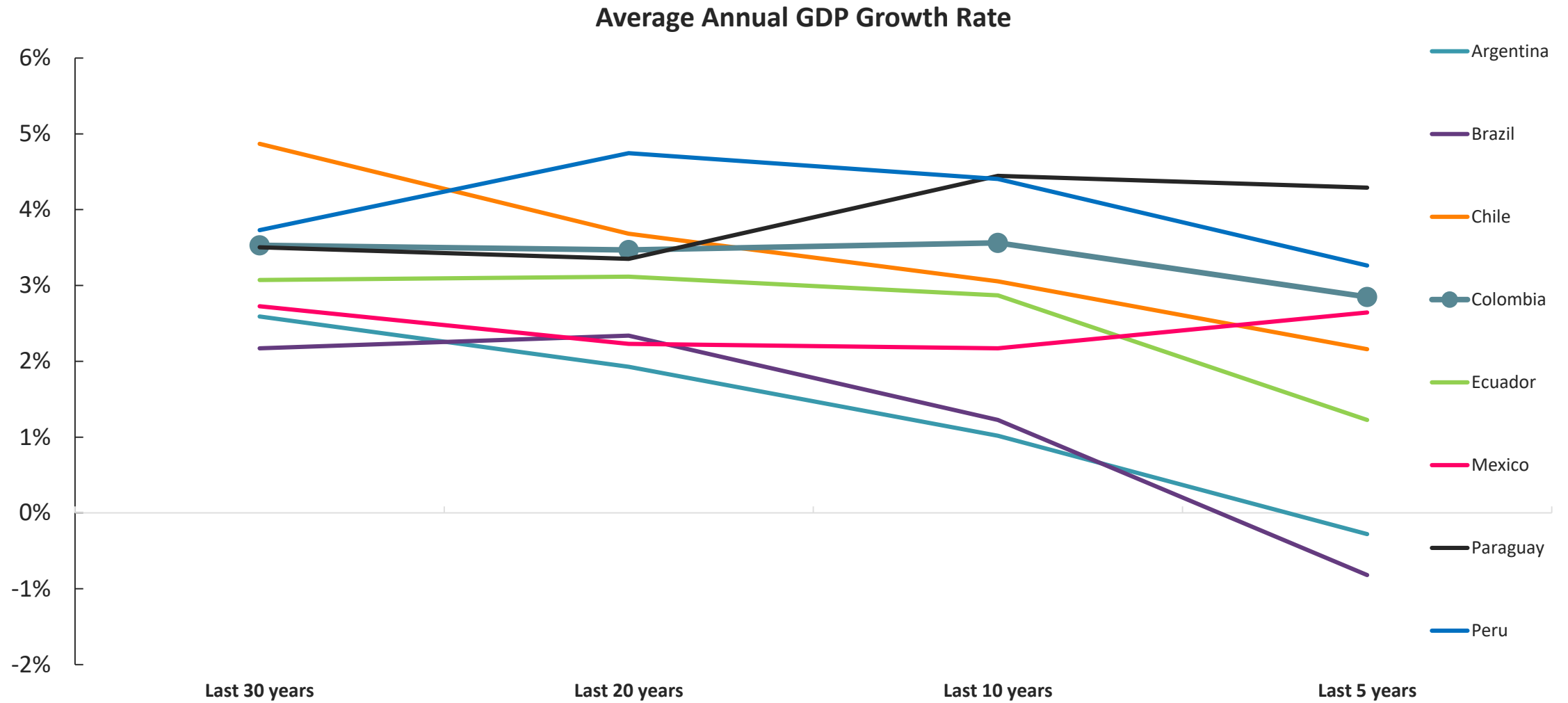
- Colombia has gained important benefits after the adoption of sound economic policies in recent decades.
- Inflation and its volatility decreased notoriously with the inflation targeting regime.



- The positive results of the inflation targeting regime were possible due to a successful implementation of monetary policy.

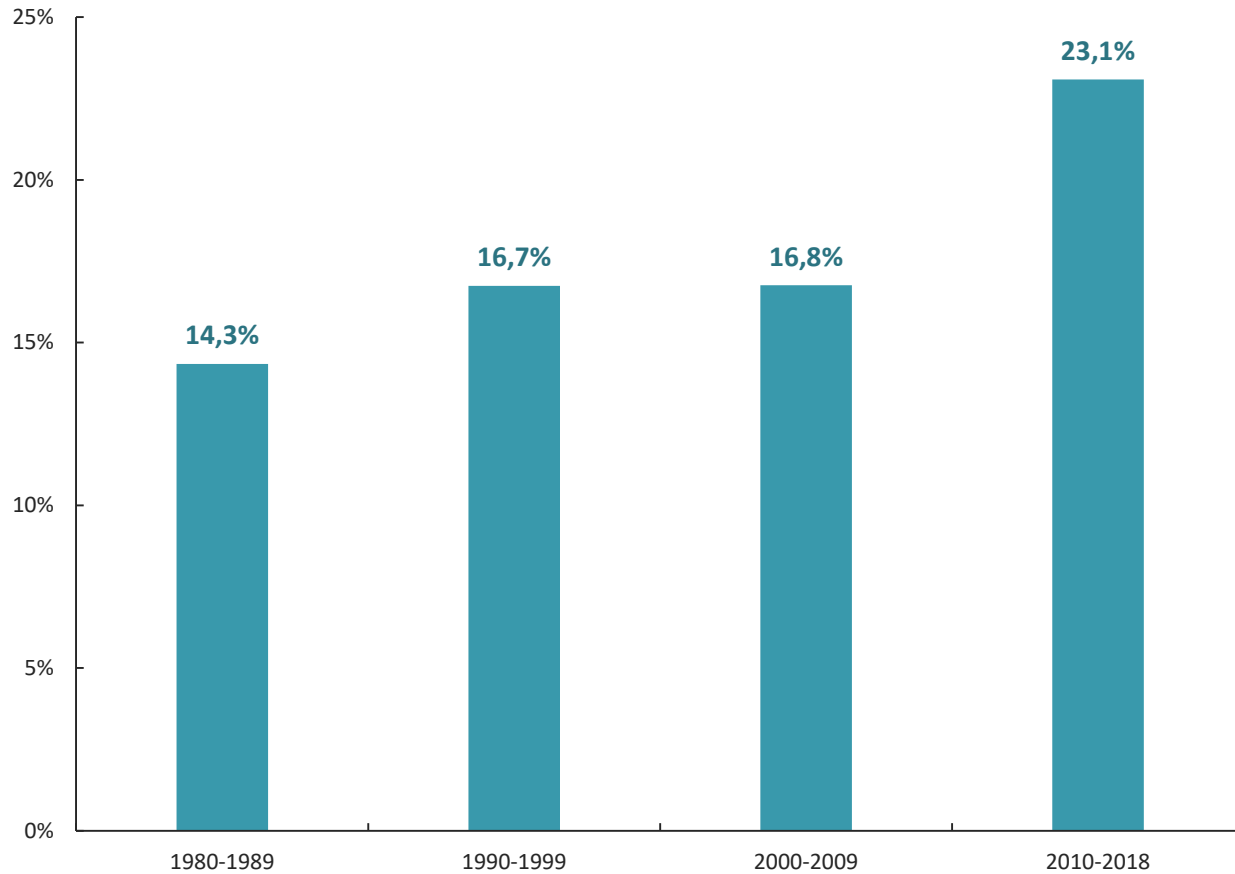


- Growth remains remarkably stable over time compared to other countries in the region.



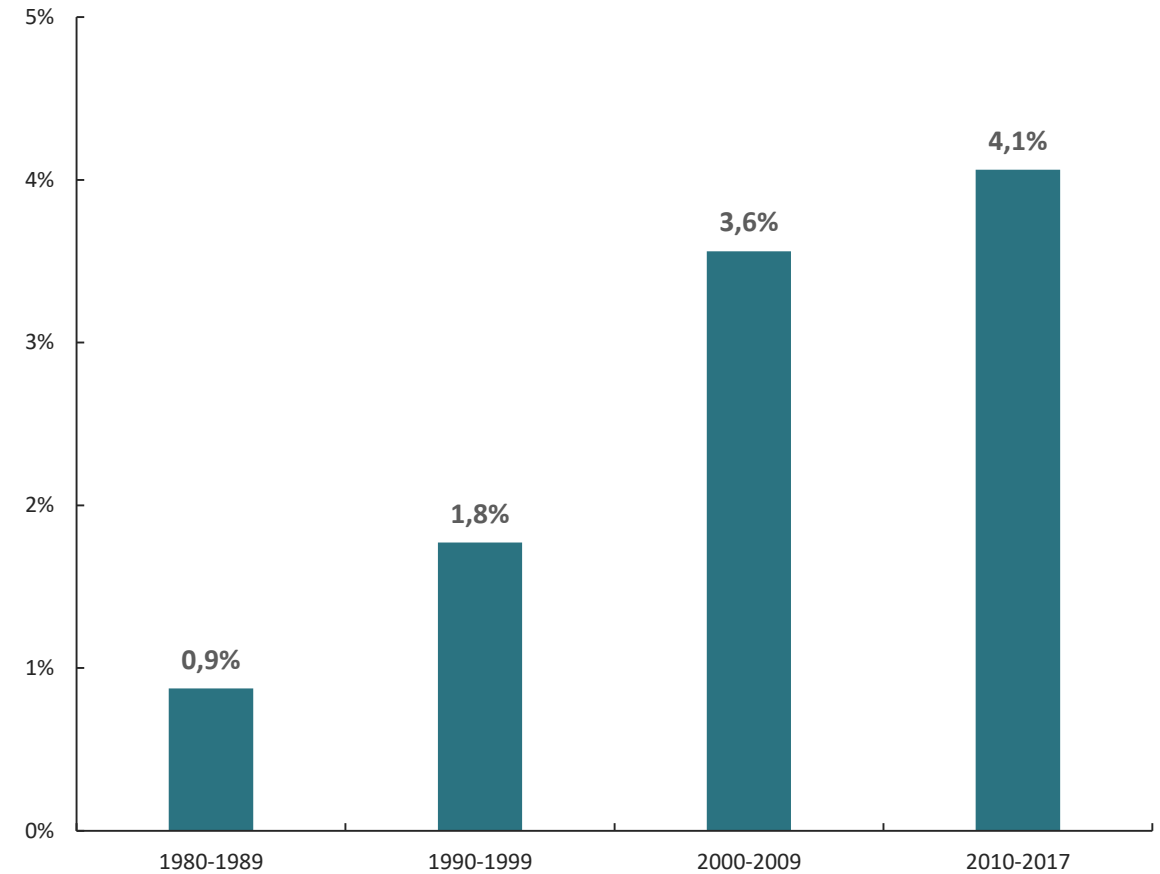
- And macroeconomic stability, along with improved security and favorable external conditions, has in turn allowed for higher investment and higher levels of foreign direct investment.

Investment
(Real, % GDP)



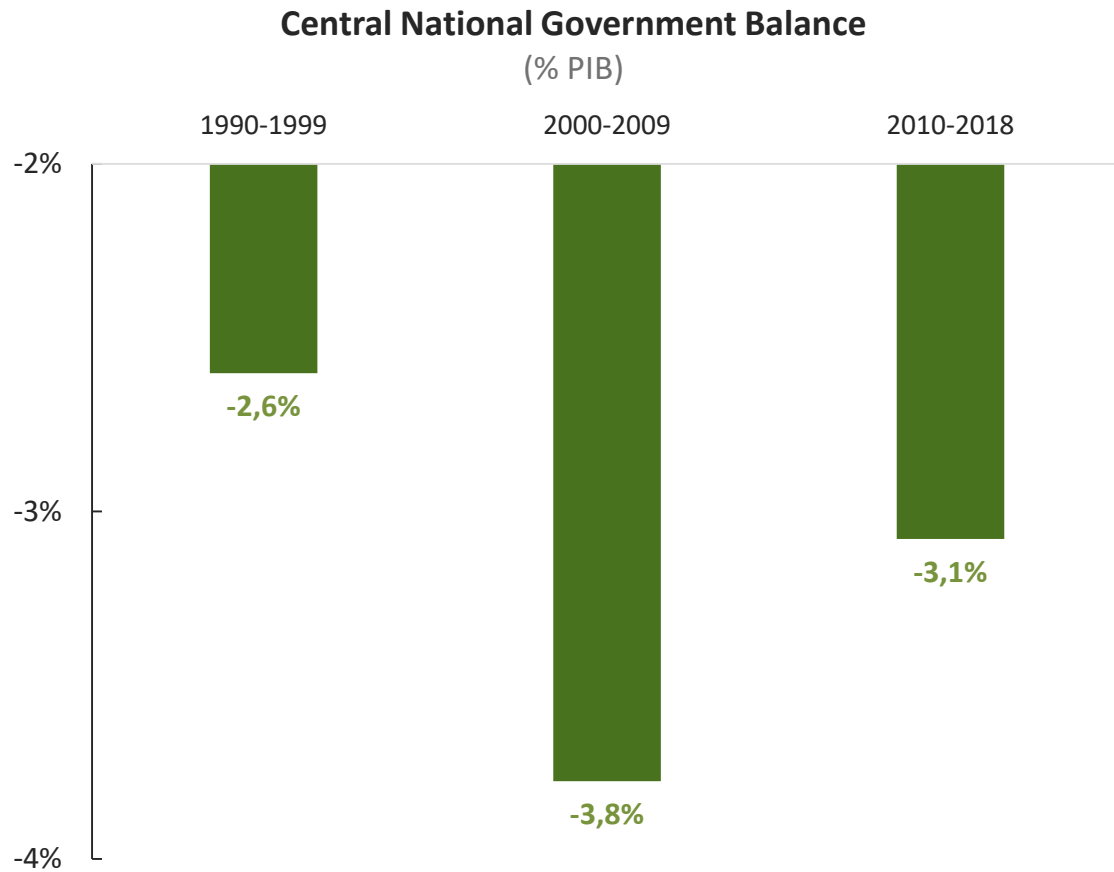
Source: *Departamento Administrativo Nacional de Estadística - DANE*

FDI
(% of GDP)

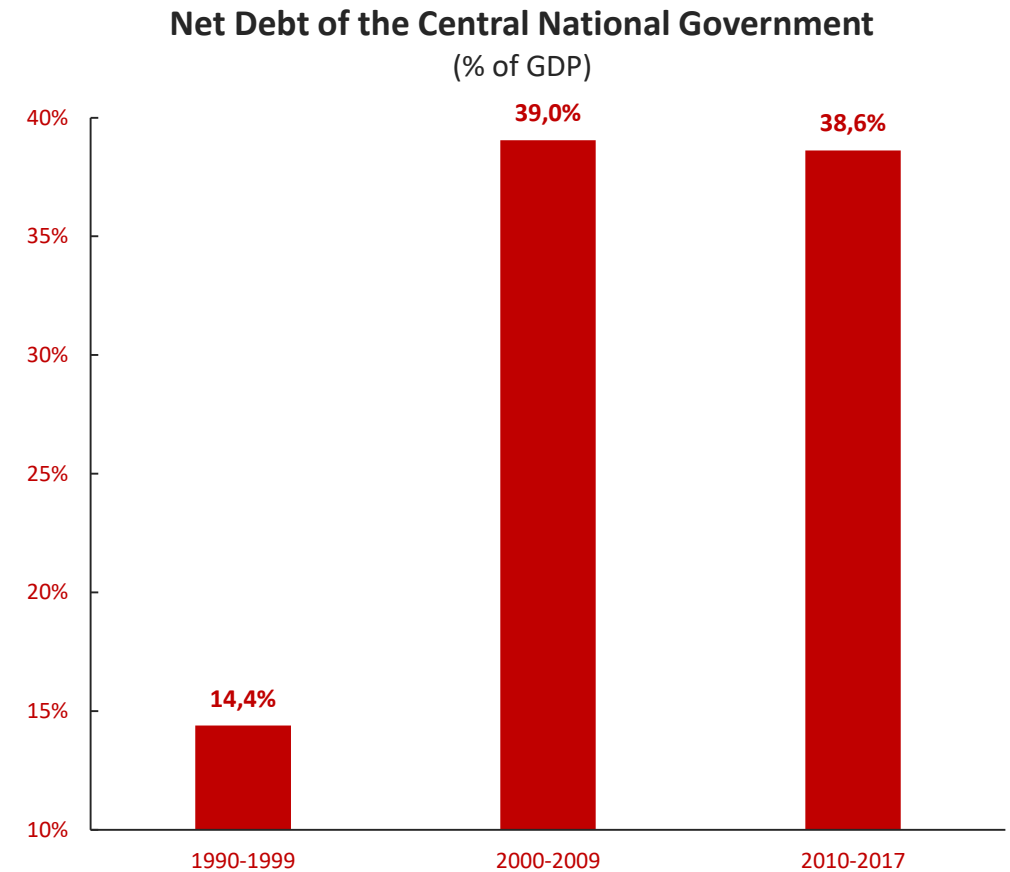


Source: *Banco de la República – Balance of Payments*

- Fiscal policy has also improved thanks to lower deficits and the establishment of a fiscal rule.

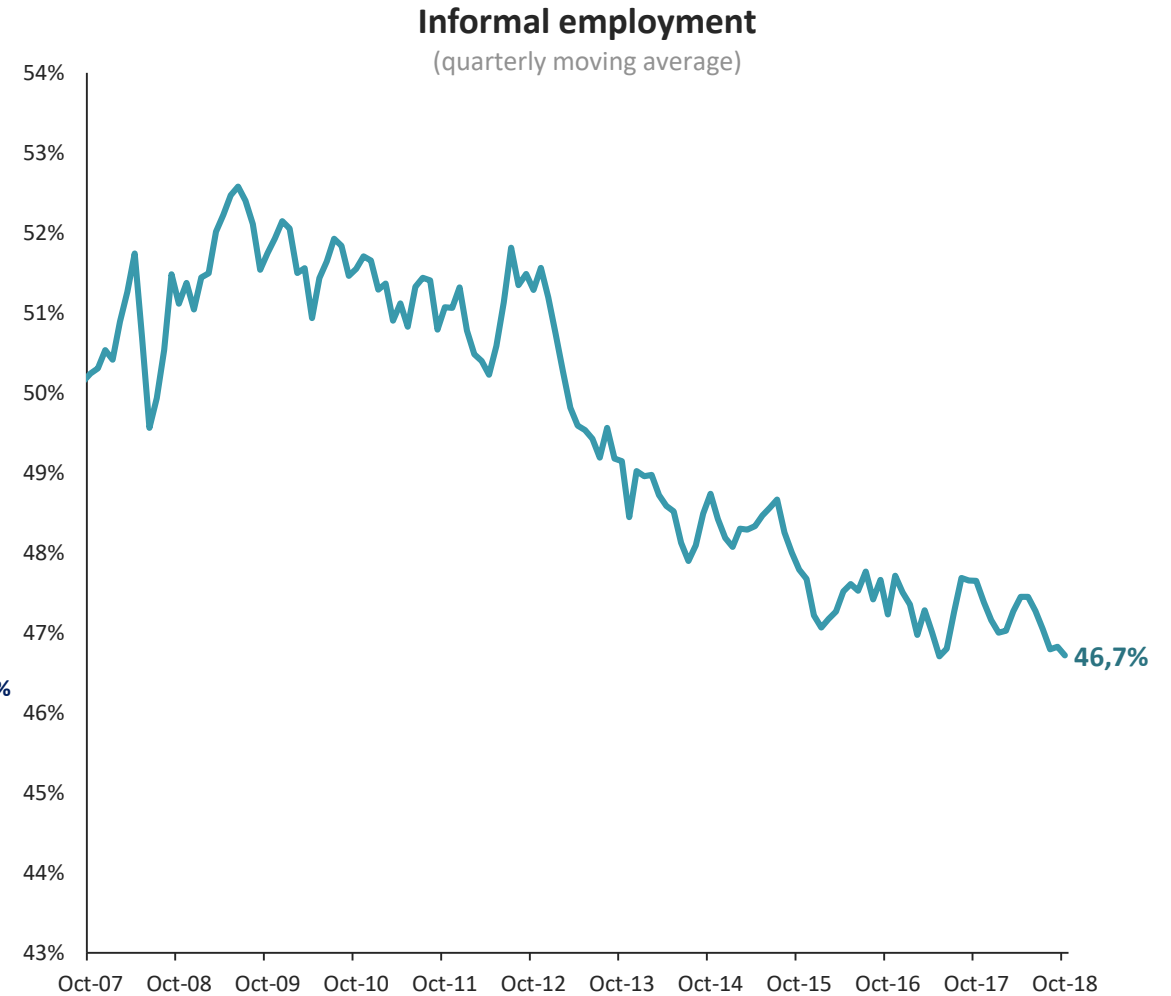
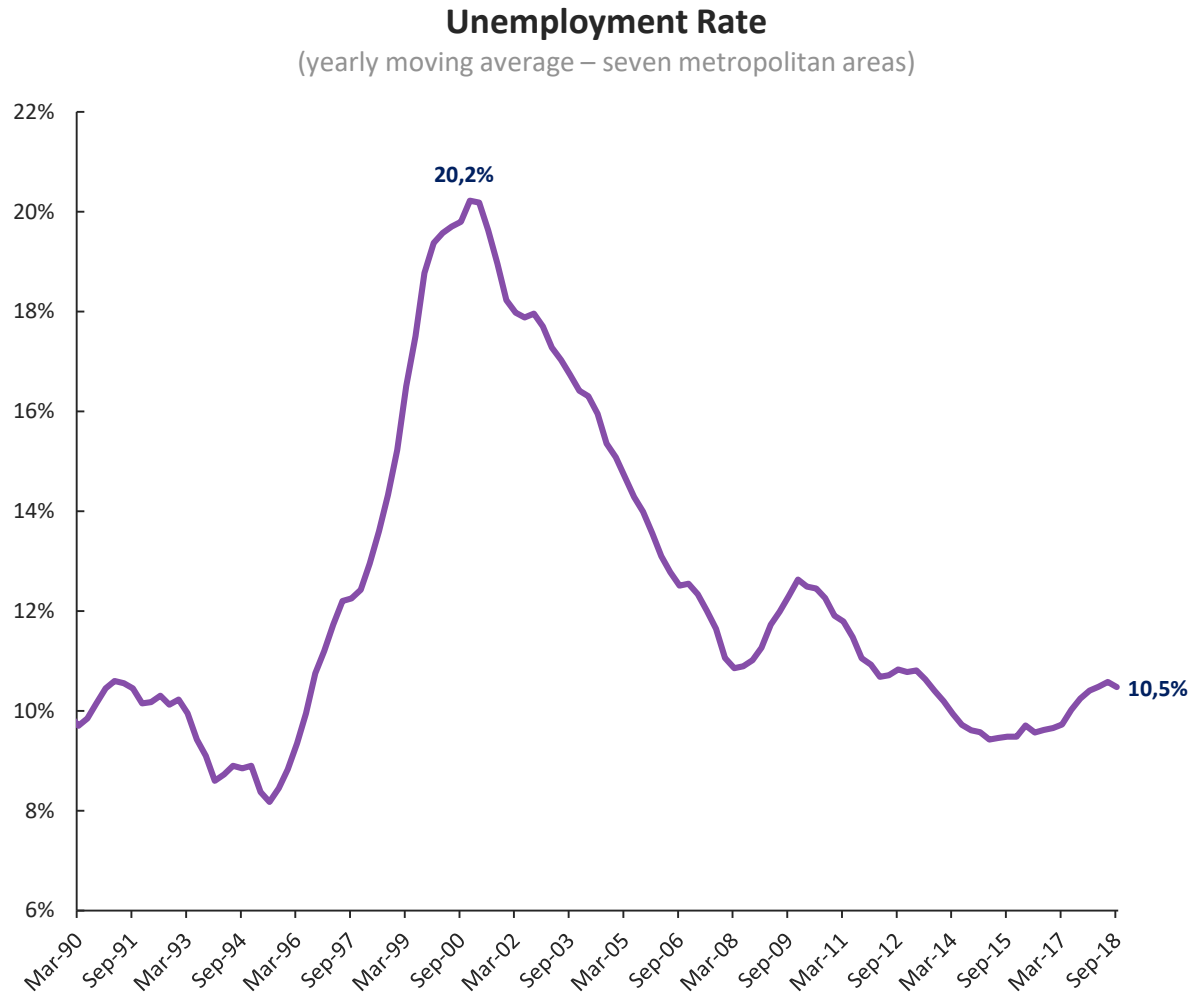


Source: Ministry of finance

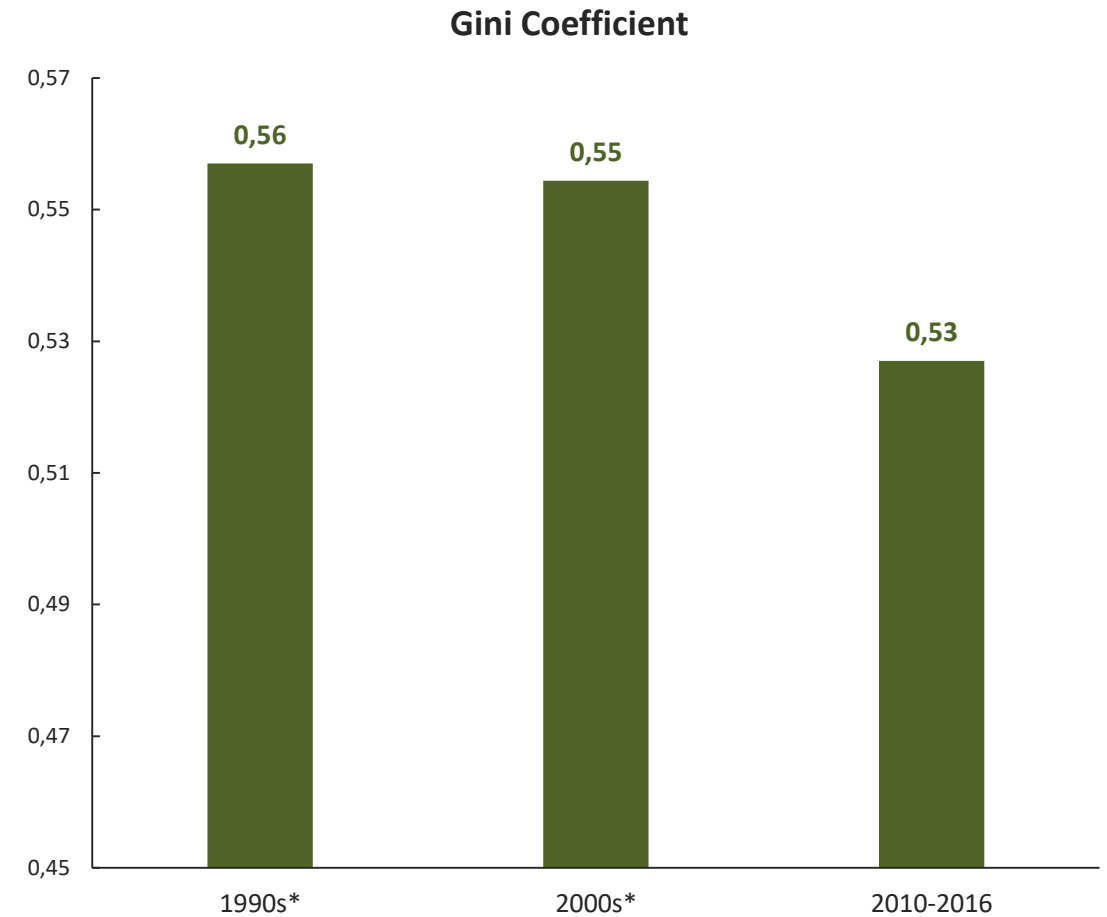
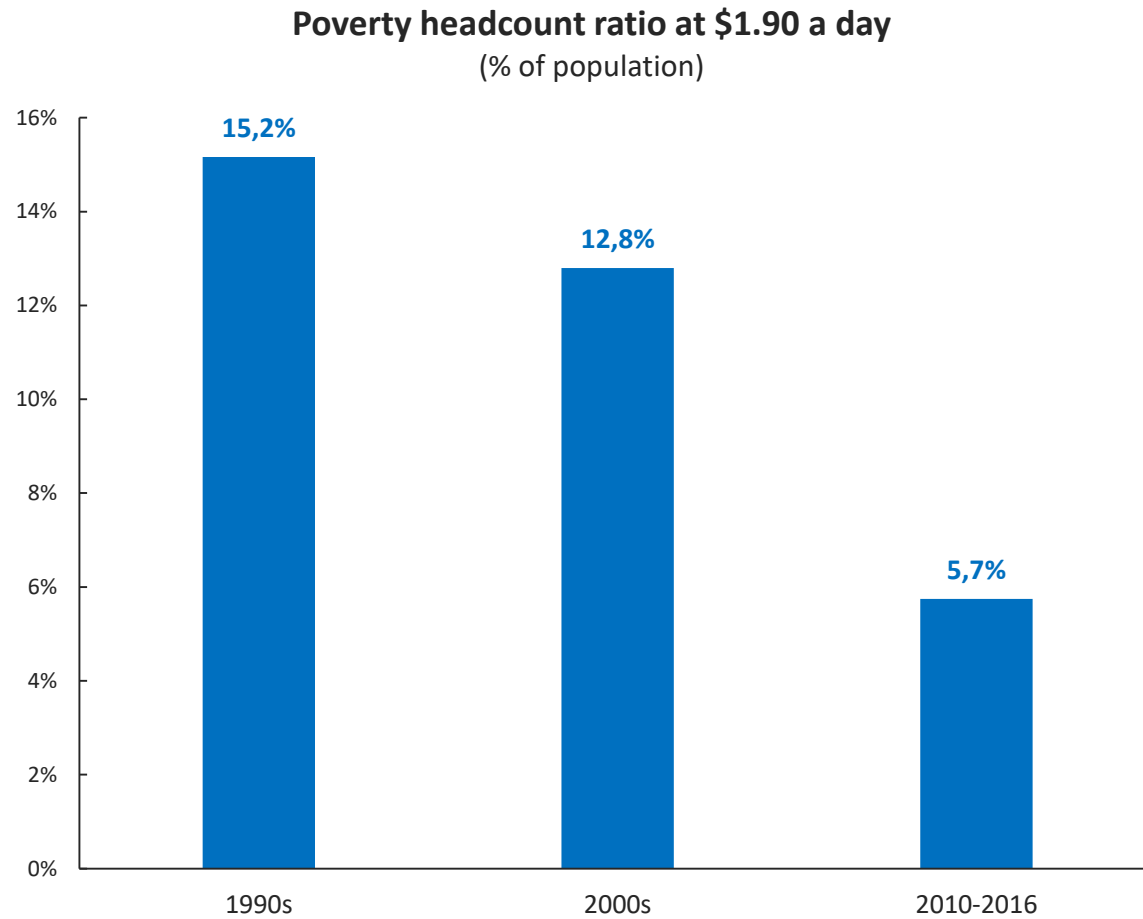


Source: Ministry of finance

- Colombians have benefited from the stable macroeconomic environment as shown by the consistent reduction in the unemployment rate since the year 2000.
- On the other hand, labor informality is still an important challenge, despite improvements achieved during the last decade.

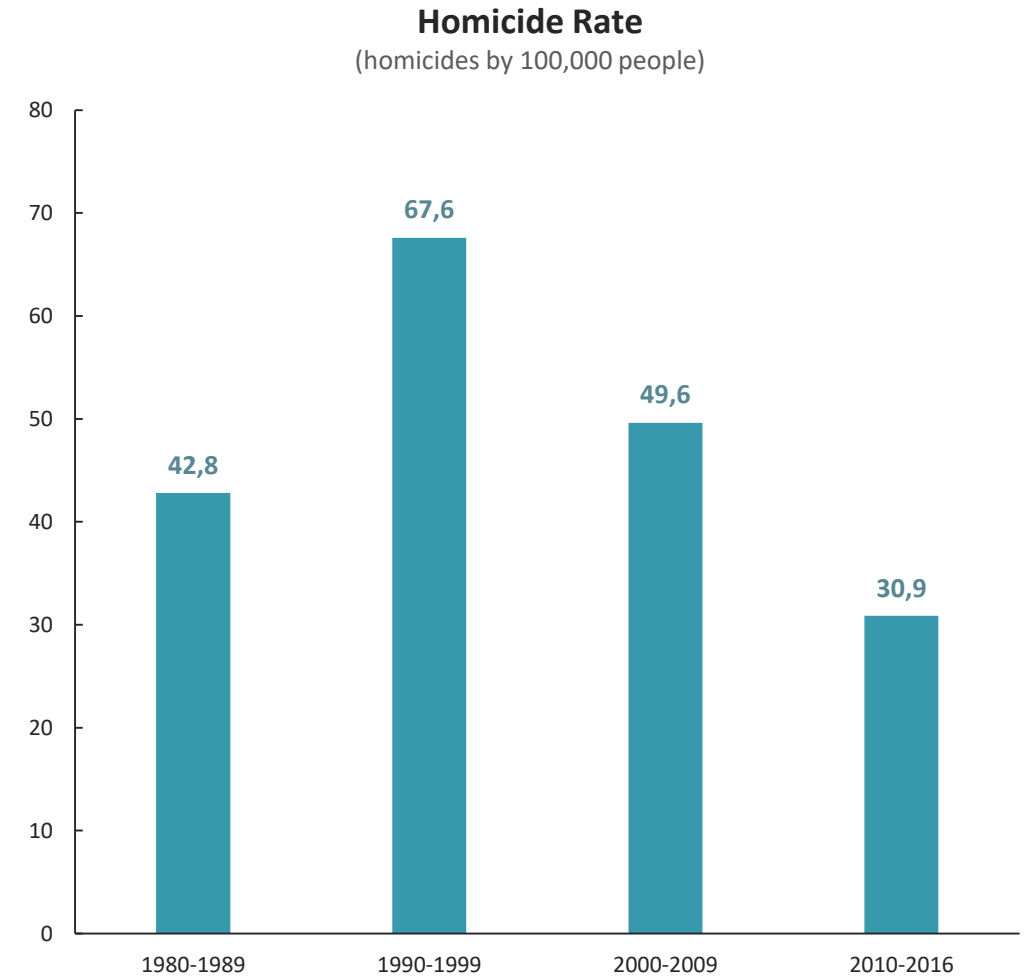
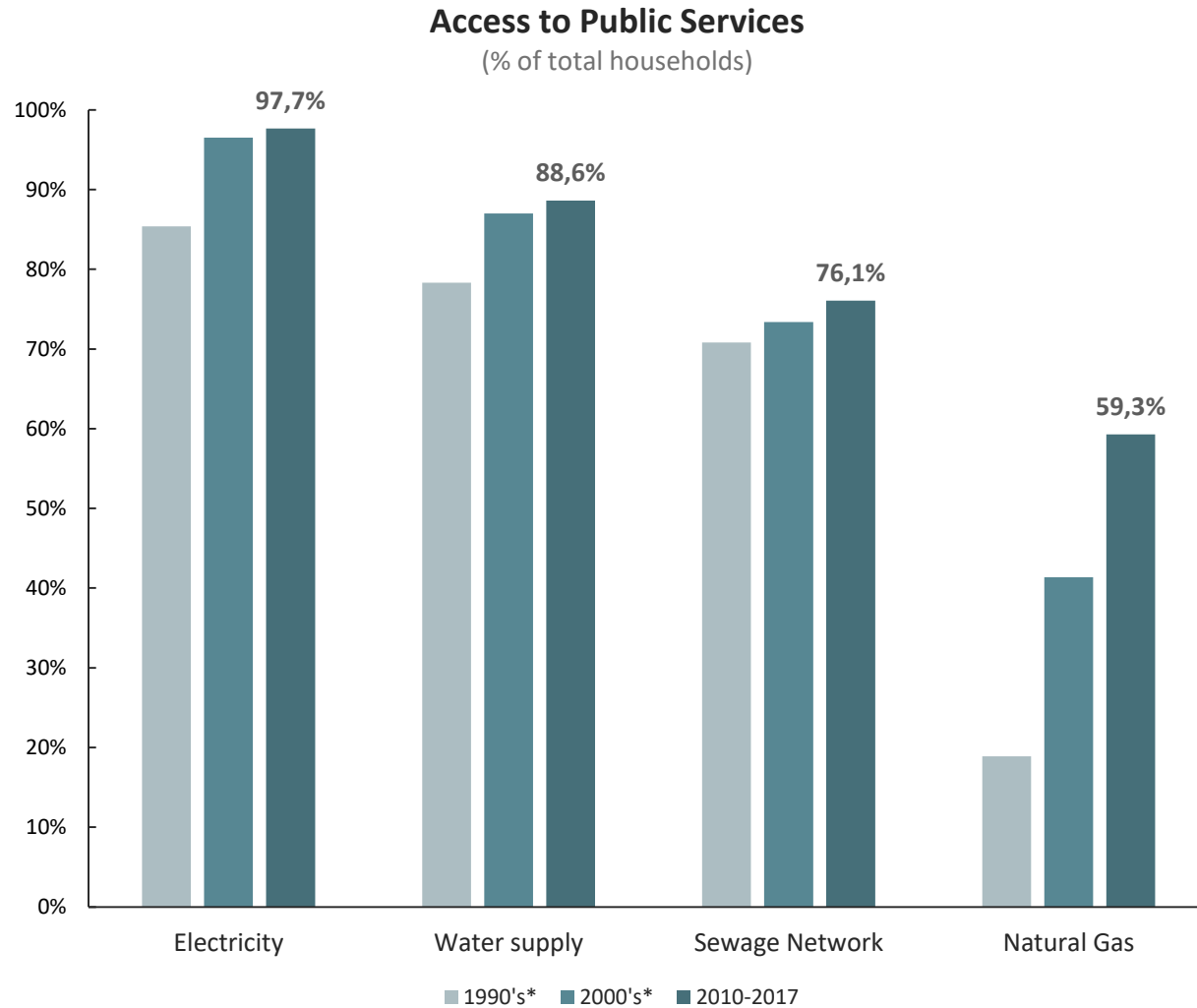


- The improvements in the labor market, together with the reduction of poverty and inequality, allowed for the consolidation of the middle class.



* For the 1990s: 1992, 1996 and 1999. For the 2000s: all decade except 2006 and 2007.
Source: World Bank

- Overall, the quality of life for households has improved through higher access to public services and lower violence levels.



*For the 1990's: 1993 and 1997 surveys. For the 2000's: 2003 and 2008 surveys.
Source: DANE. Encuesta nacional de calidad de vida.

Source: Medicina Legal and World Bank



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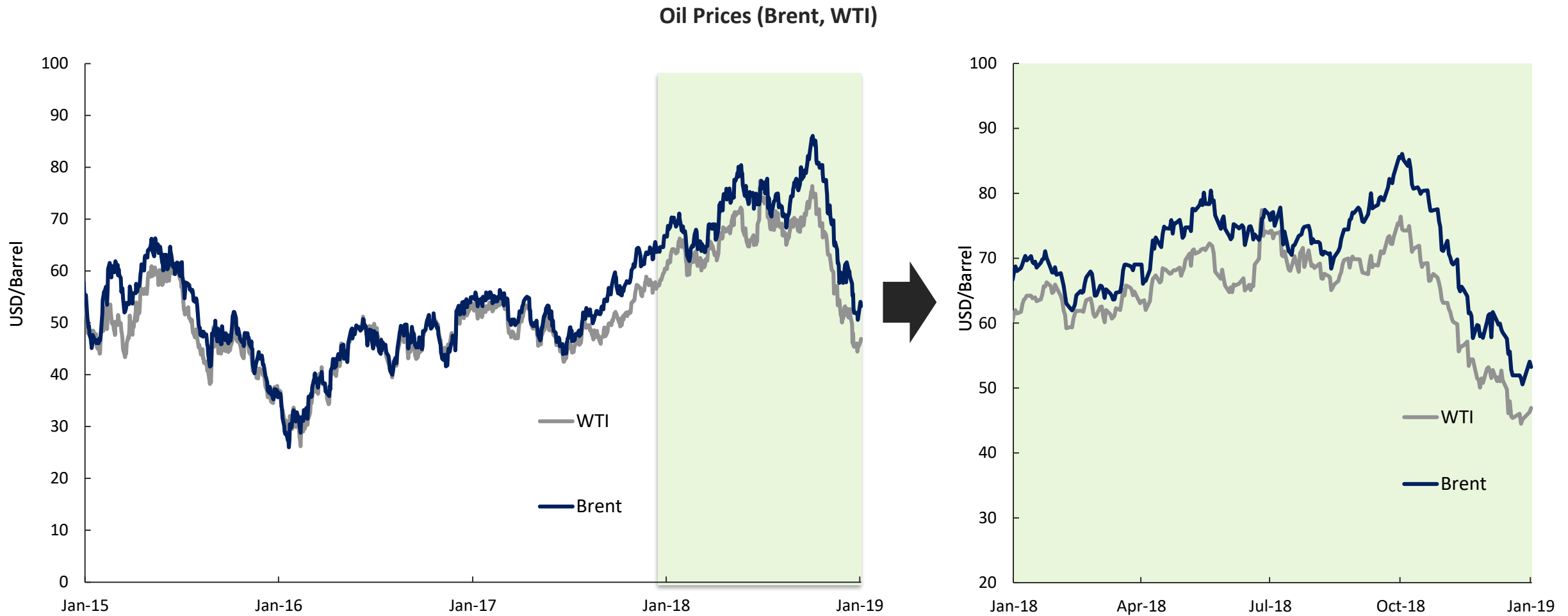
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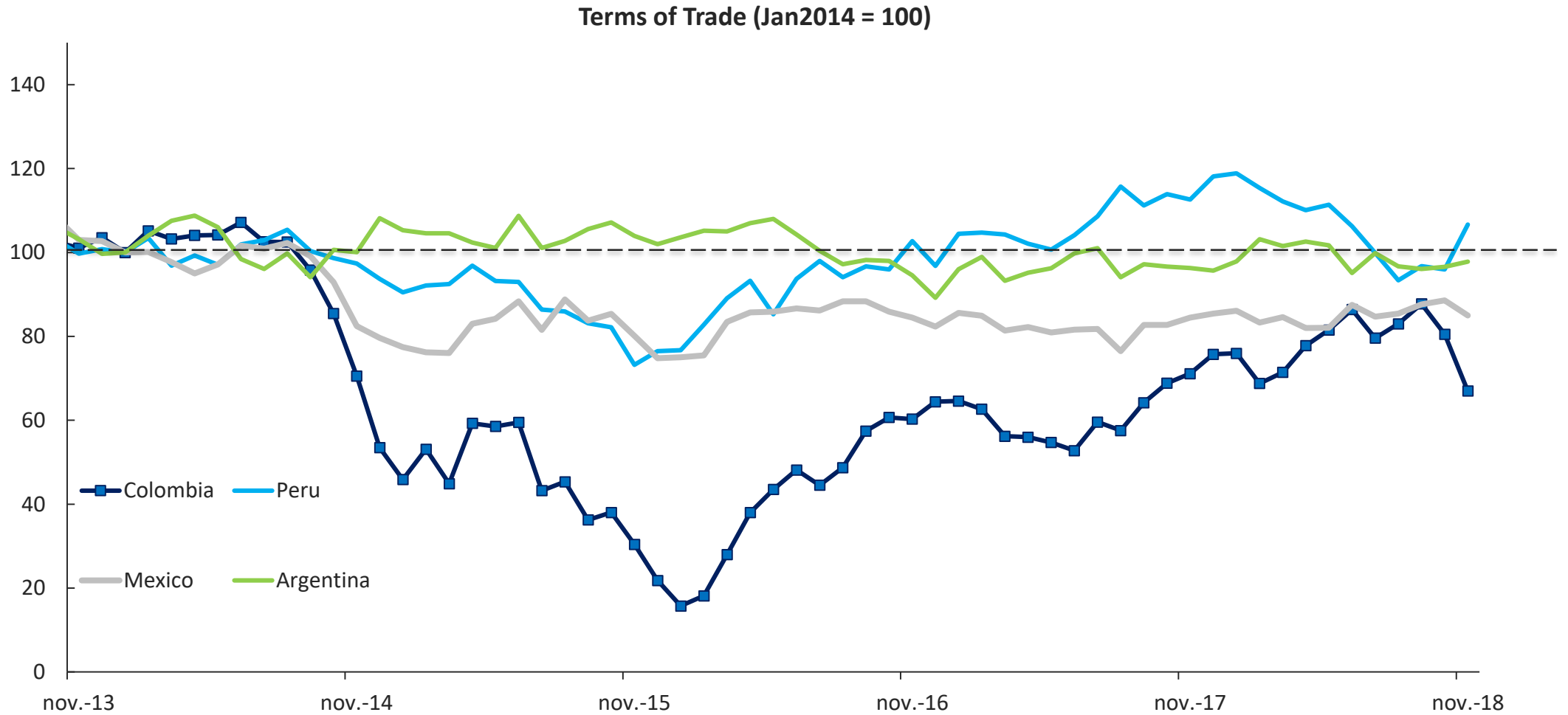
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- The Colombian economy faced higher volatility in its terms of trade during the last year.



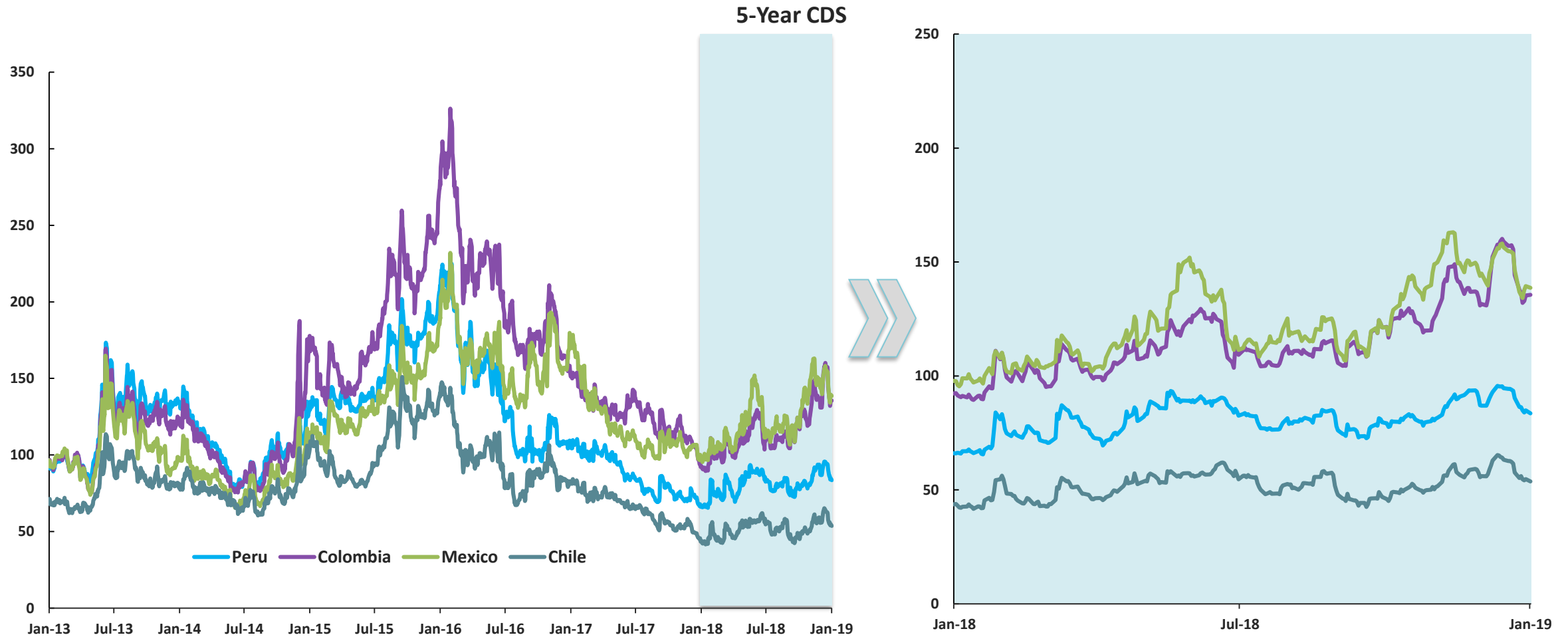
Source: U.S Energy Information Administration (EIA)

- The Colombian economy faces higher volatility in its terms of trade.



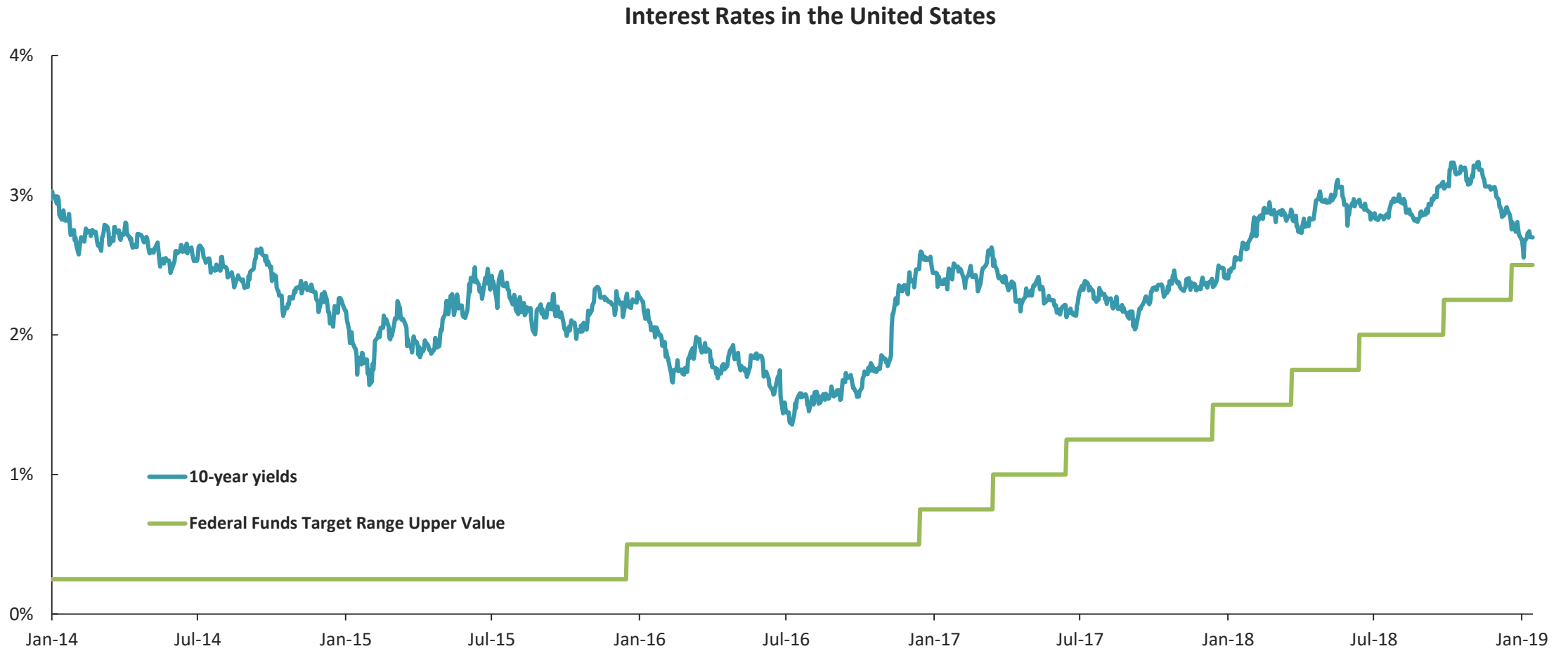
Source: Bloomberg - Citigroup ToT Index

- Although Colombia's credit risk remains at historically low levels, its volatility has increase recently.



Source: Bloomberg.

- ...Amid a global financial tightening.



- While the growth of trading partners is expected to slowdown.

Average growth of Colombia's main trading partners¹ and exports growth

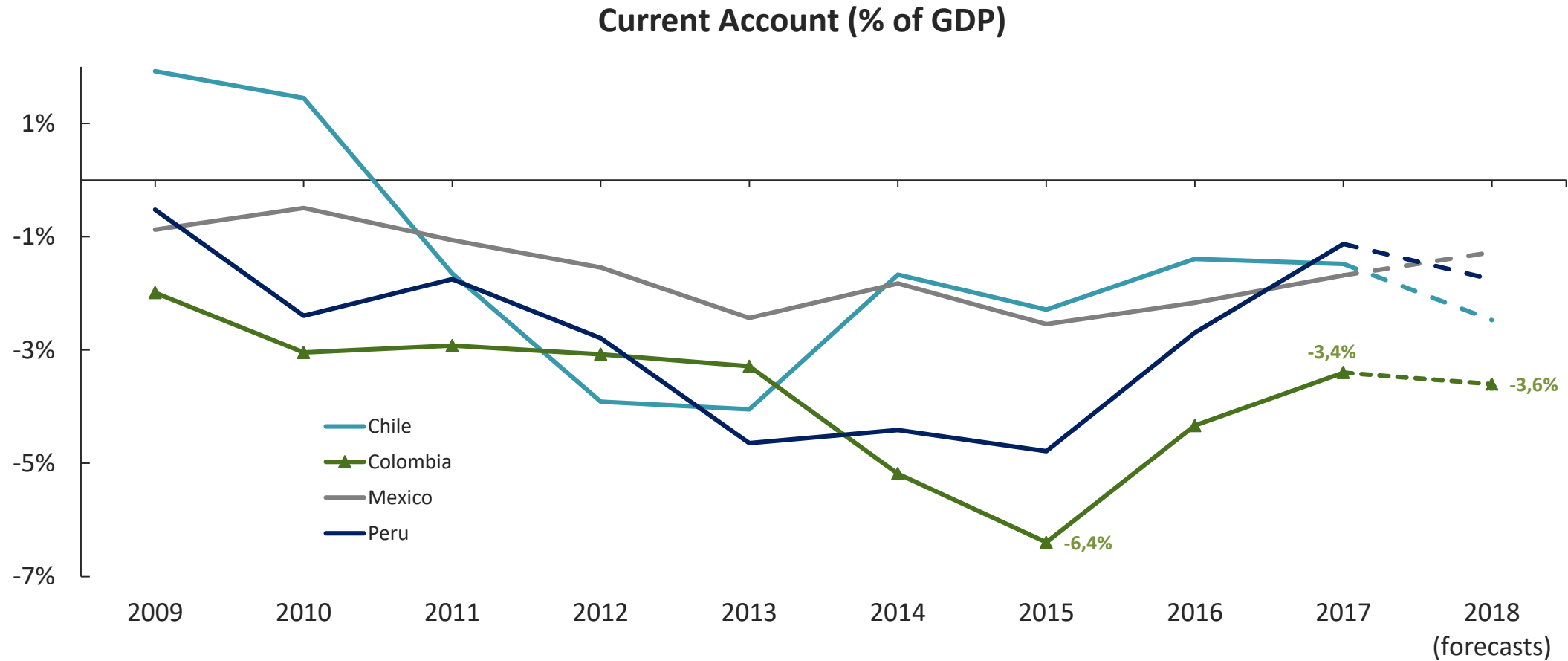


¹ USA, Euro area, China, Brazil, Ecuador, Peru, México, Chile. Weighted by non-traditional exports.

* Exports growth figure available up to 2013-Q3

Source: Banco de la República and Departamento Administrativo Nacional de Estadística - DANE

- This more volatile external context finds the Colombian economy with some macroeconomic adjustment still remaining.



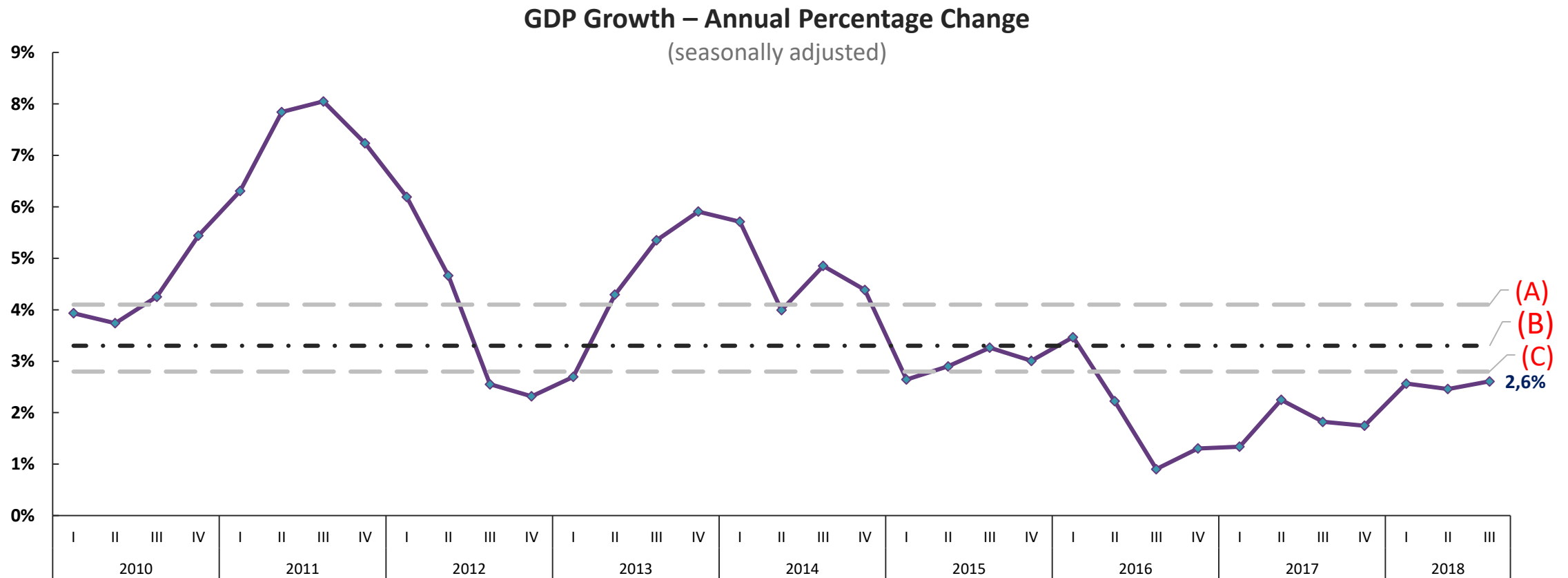
Source: IMF. For Colombia: Banco de la República

- And a negative output gap prevails.

▪ IMF's Estimates¹:

- Maximum Long Term Potential Growth: 4,1% (A)
- Minimum Long Term Potential Growth: 2,8% (C)

▪ BanRep's long term Estimate: 3,3%² (B)



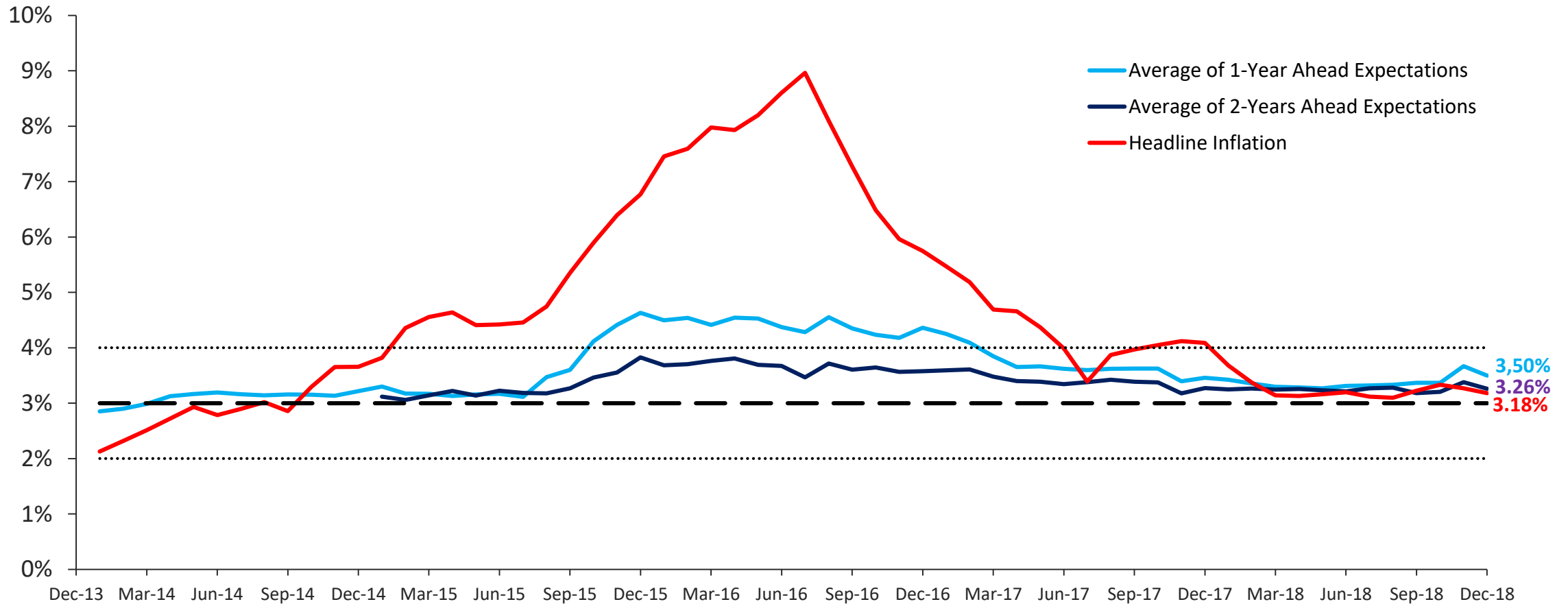
Source: DANE. Methodology 2015. Seasonally adjusted series

1/ Lanau, Rodriguez-Delgado, and Roldós. *Potential Growth in Colombia* - Selected Issues Paper, April 2017

2/ Assumes 2% per capita GDP growth, population growth of 1% and productivity growth of 0,3%. It refers to a long run estimate in the absence of structural reforms.

- On the other hand, inflation and inflation expectations have converged to the 3% target.

CPI Inflation and its Expectations





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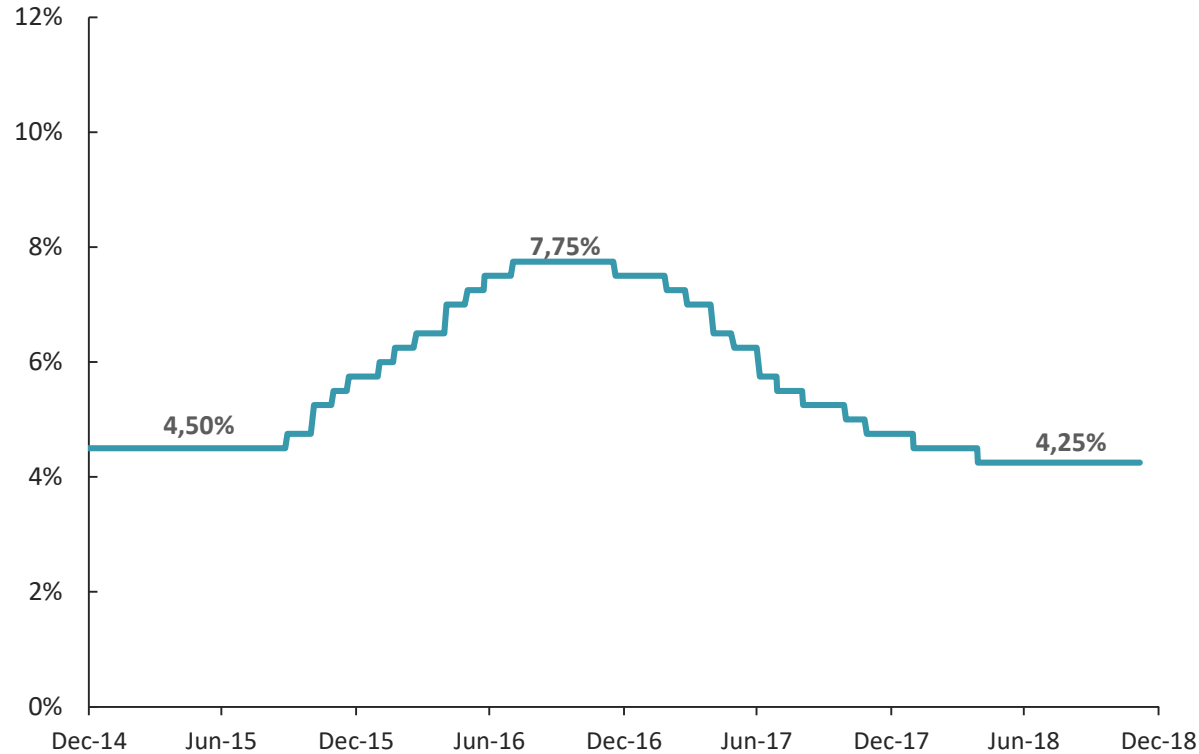
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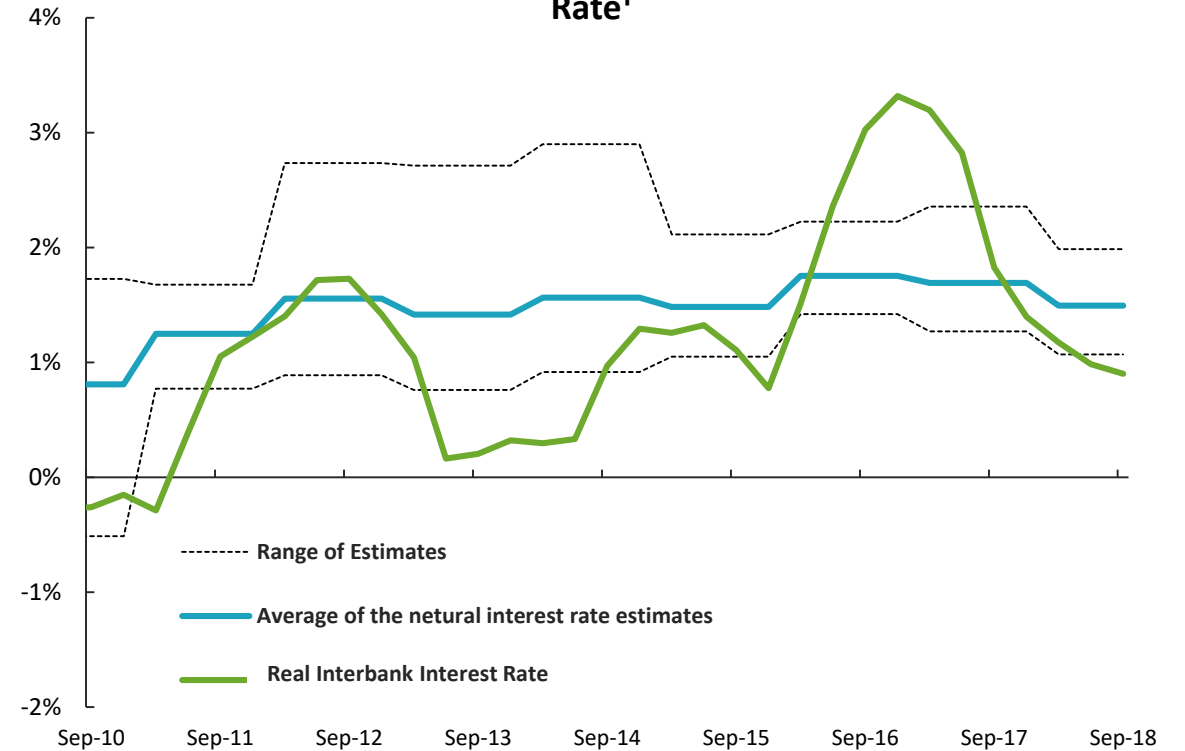
- Monetary policy has remained moderately expansionary...

Policy Rate



Source: Banco de la República.

Real Interest Rate and Estimates for the Neutral Interest Rate¹

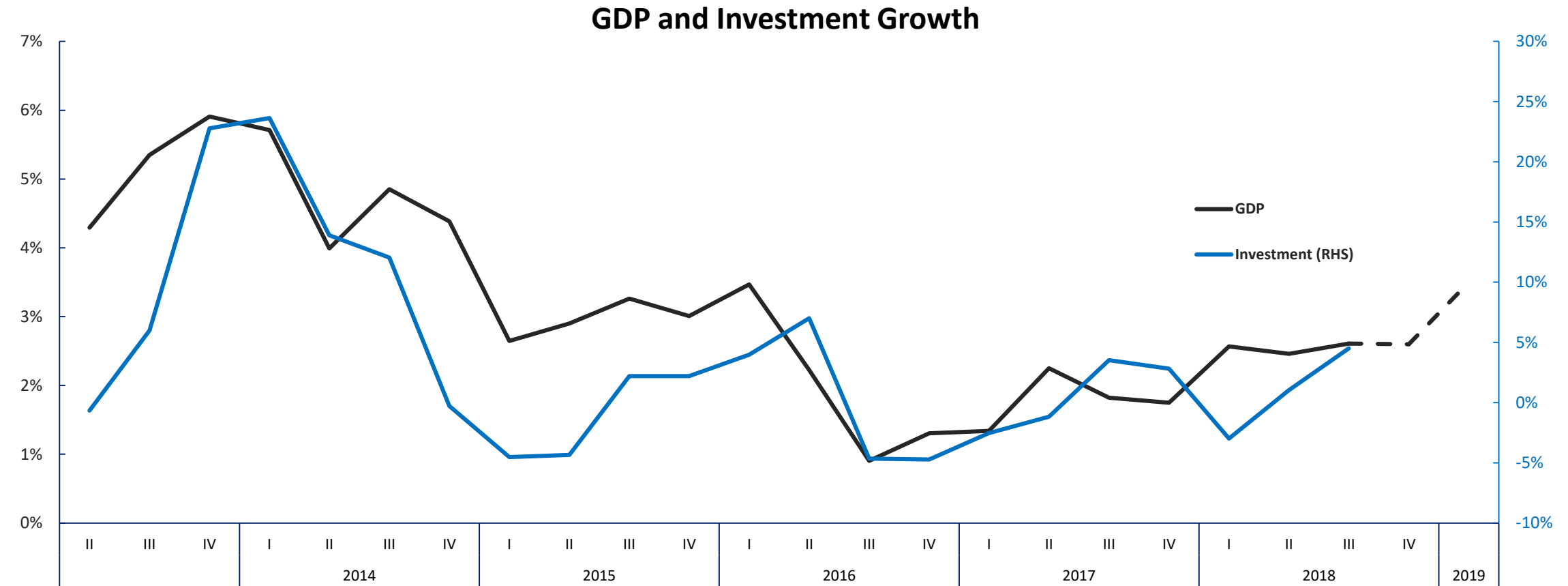


Source: Banco de la República.

... as inflation has converged to target and a negative output gap remains.

¹ The range of estimates represents the averages obtained by applying different methodologies, disregarding the uncertainty related to any particular methodology by itself. The mean presented is calculated as the average of the average estimate produced by each methodology alone. The methodologies used are presented in Box 2 of the September 2018 Inflation Report.

- Growth is expected to increase in 2019...



Source: Departamento Administrativo Nacional de Estadísticas - DANE

- ...this would lead to a gradual normalization of monetary policy.

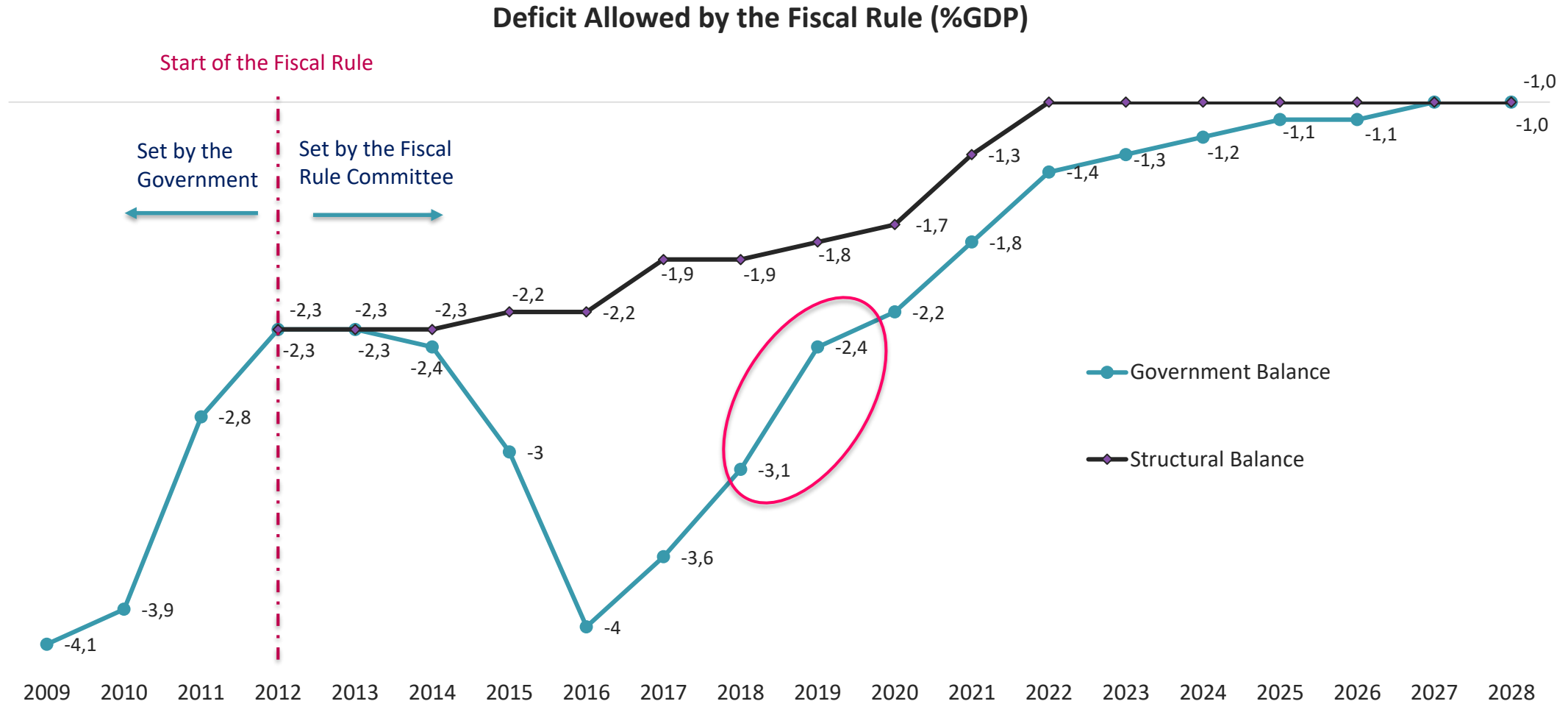
- This outlook is nonetheless uncertain, due to the risks stemming from external volatility which could affect both growth and inflation expectations.

Exchange Rate - USD/COP



Period	COP Depreciation
2014-2017	54%
2018	8.9%
2018-Q4	6.4%
2019-YTD	-3.3%

- Additionally, fiscal policy is geared towards fulfilling the decreasing structural deficit targets set by the fiscal rule.



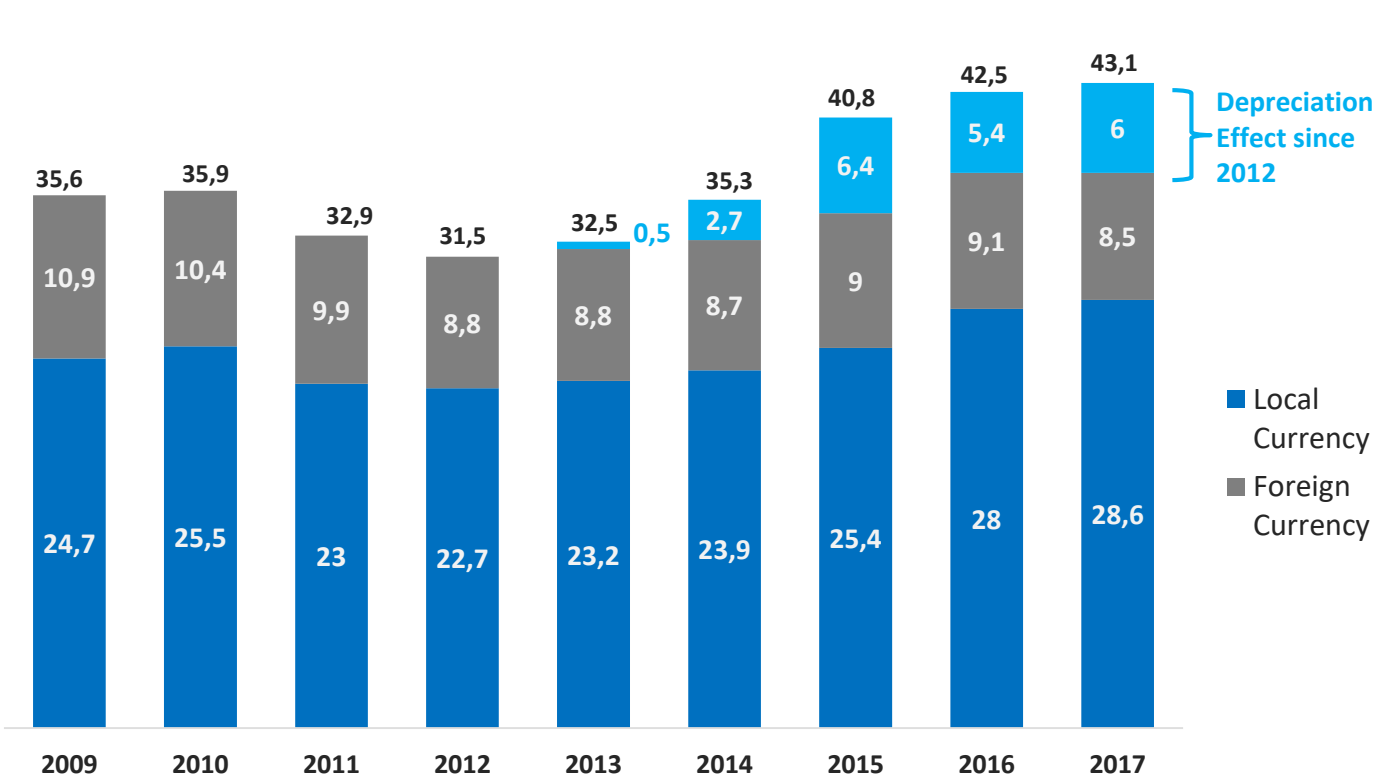
Source: Ministry of Finance

- A tax reform was recently approved, maintaining the fiscal rule and with the objective of reducing taxes for firms and promoting investment, particularly in innovative sectors.
- To fulfill that objective the reform included changes for various agents:
 - **Firms:**
 - A reduction of the corporate tax rate from 33% in 2019, to 32% in 2022, 31% in 2021 and 30% in 2022.
 - Firms will now be allowed to deduct the VAT paid on capital goods from their income tax.
 - The creation of a special status for new investment of over COP 1,02 trillion¹ with a tax rate of 27%.
 - The creation of a special regime for small companies to simplify their taxation.
 - Companies will be allowed to deduct 50% of the amount paid on industry and trade tax -“ICA” from their income tax.
 - **Individuals:**
 - The creation of new tax brackets.
 - An increase in the tax rate for dividends to 15%.
 - **Non-resident investors:**
 - A significant reduction of the tax rate for investments in government bonds by non-residents, from 14% to 5%.

¹Approximately USD 320 million.

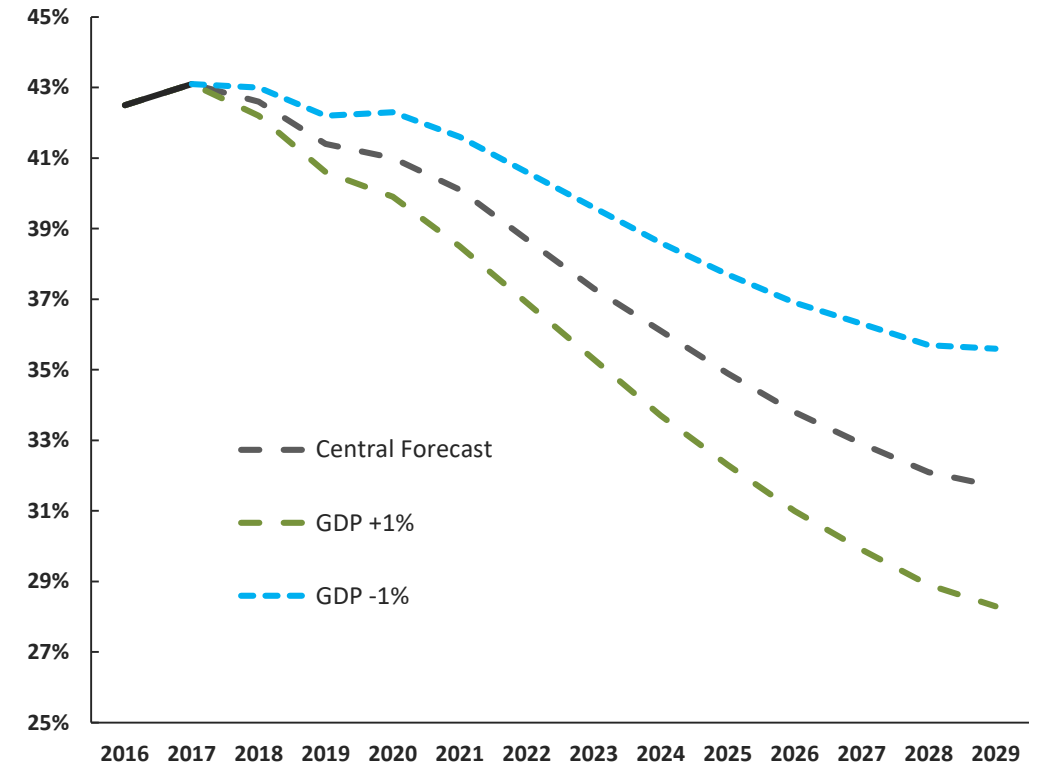
- Compliance with the fiscal rule in the future remains a challenge, despite the expected decreasing path for the Government Net Debt.

Government's Net Debt (%GDP)



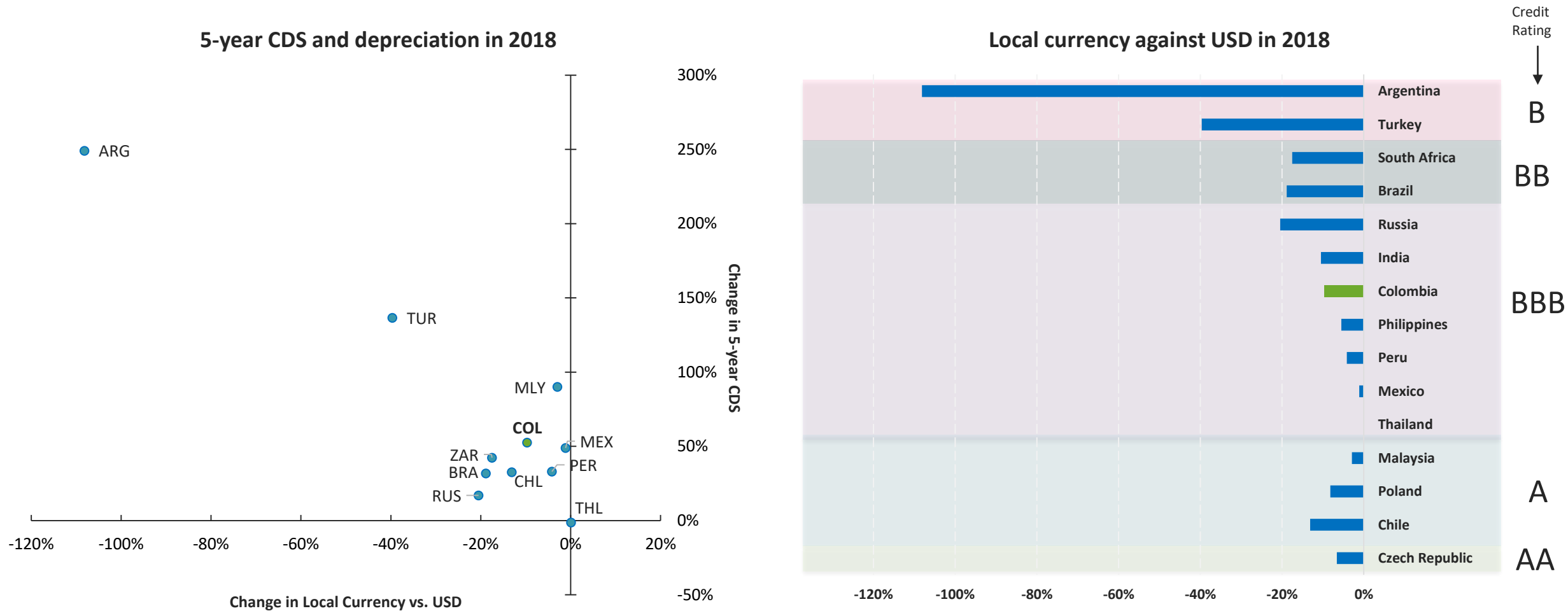
Source: Ministry of Finance – Medium Term Fiscal Framework

Government's Net Debt Forecasts



Source: Ministry of Finance – Medium Term Fiscal Framework

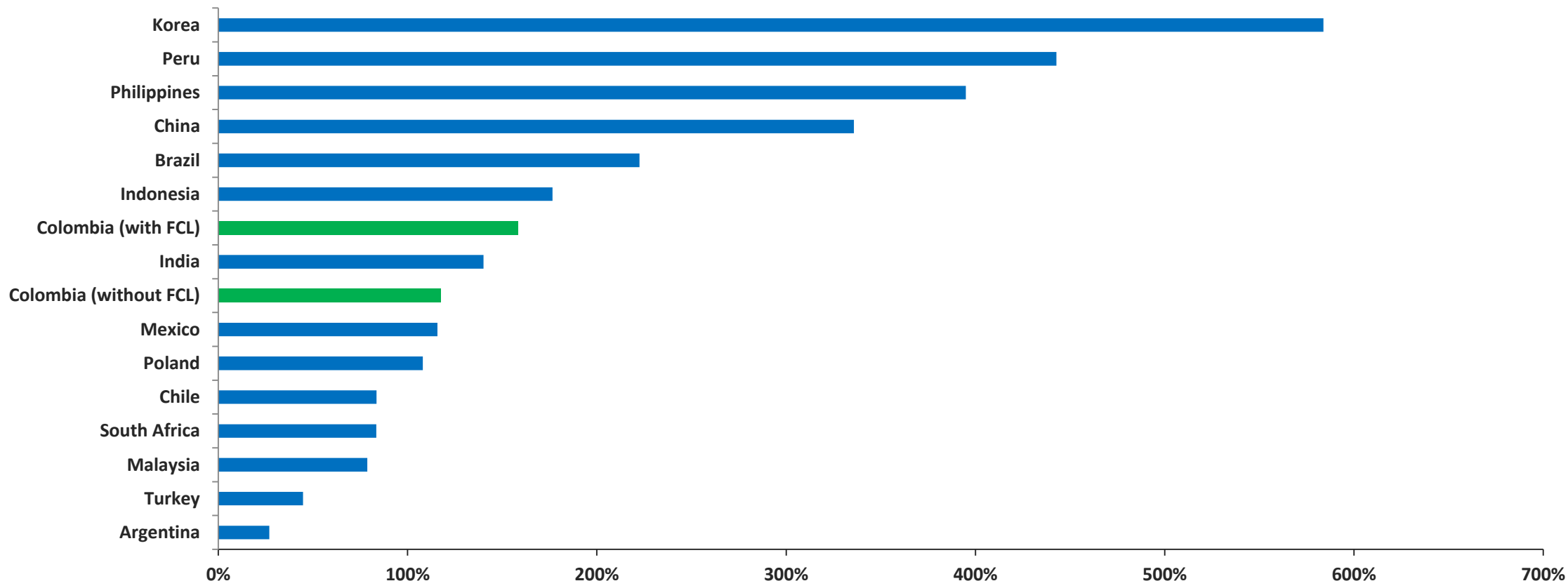
- An appropriate macro policy mix is essential to limit vulnerability in a more volatile world. So far, markets have acknowledged Colombia's strong macroeconomic policy framework.



Source: Bloomberg. Calculations by Banco de la República.

- Other policy fronts are also considered to preserve the macro-financial strength.

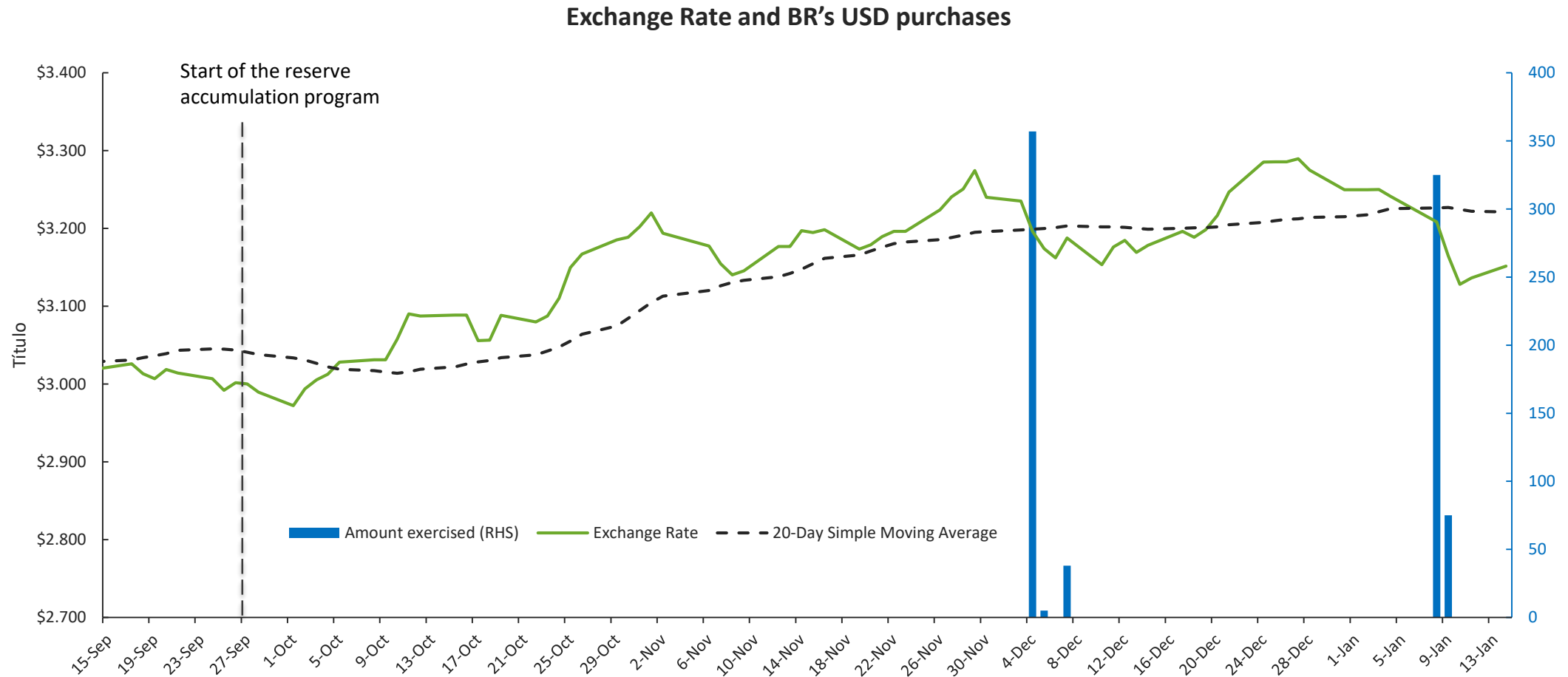
International Reserves to Short-term Debt and Current Account Balance



FCL = IMF's Flexible Credit Line. Source: IMF. Calculations by Banco de la República

- The country's external liquidity position is strong, to maintain it in a more volatile external environment BanRep began a gradual international reserves accumulation program.

- Current reserve accumulation is undertaken by means of put options, to minimize the impact on the FX market.



Source: Banco de la República



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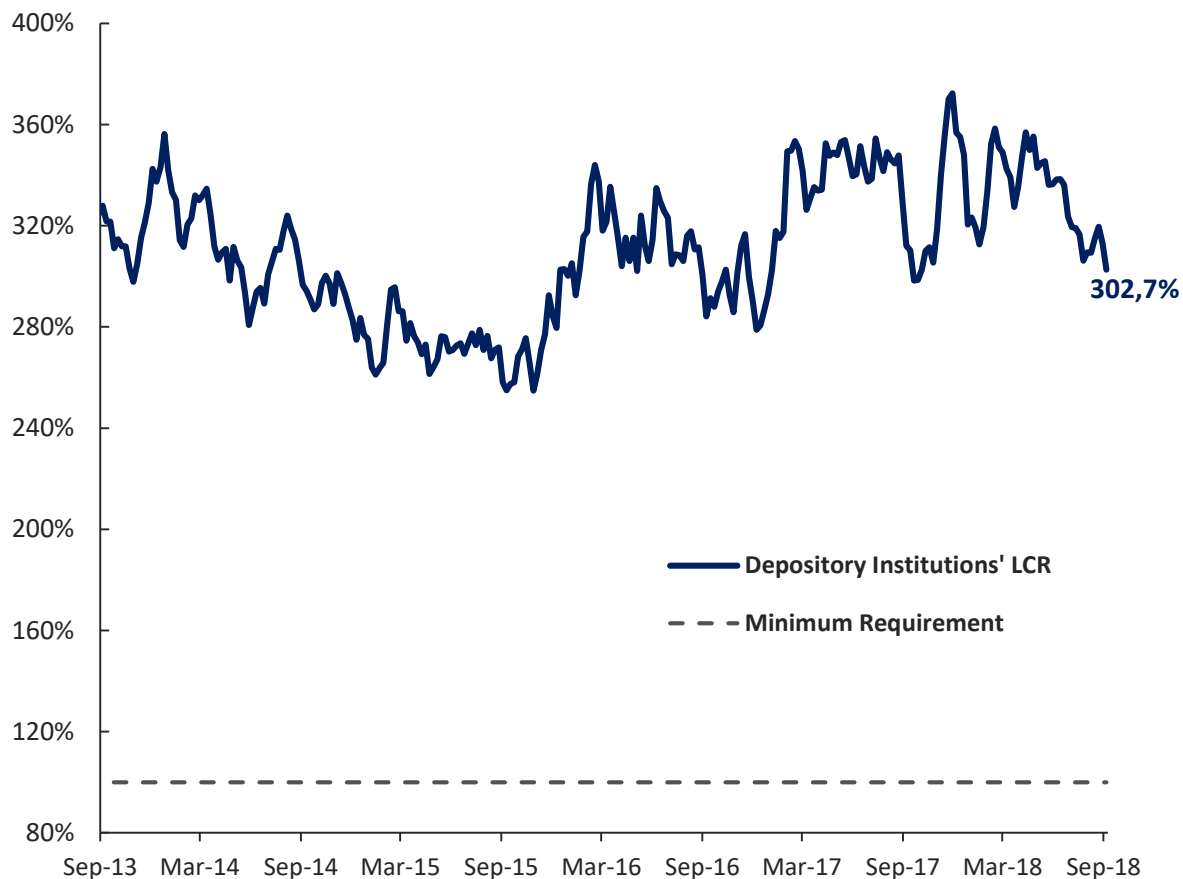
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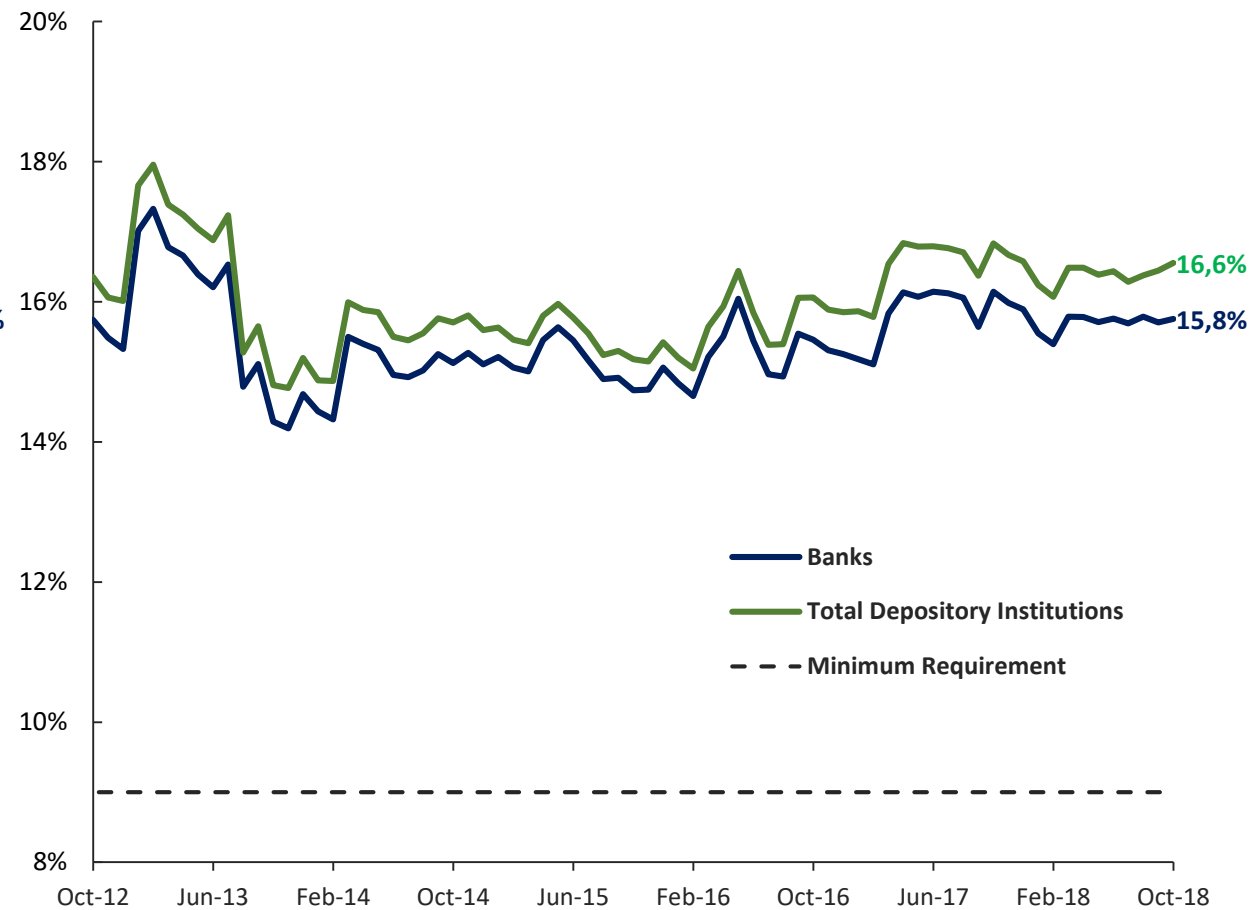
Financial System

- The financial system remains liquid, profitable and well capitalized.
- Convergence to the Basel III standard is underway.

30-Day Liquidity Coverage Ratio¹ (LCR)



Total Solvency Ratio (Tier II)

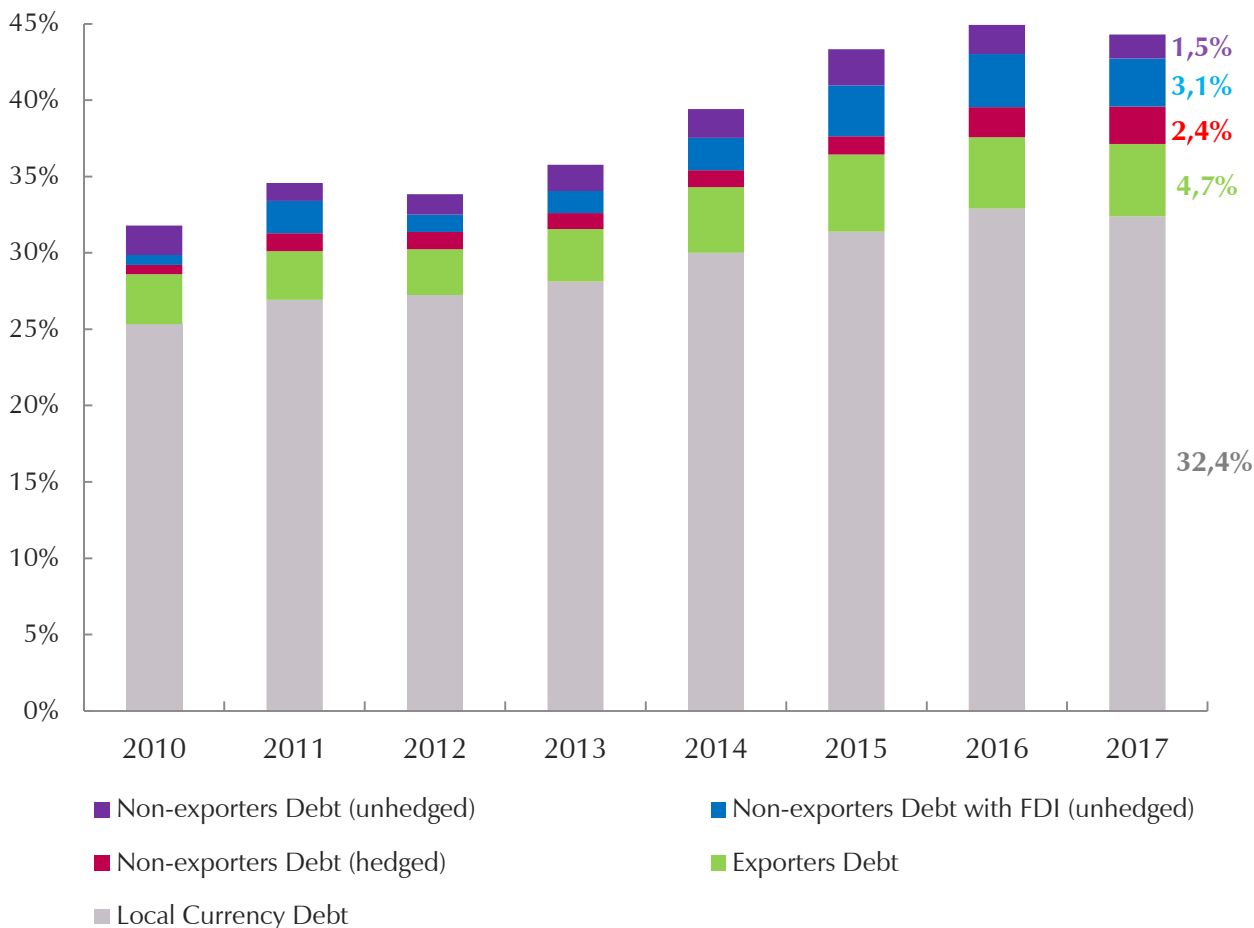


¹ 30-Day LCR is the ratio of high quality liquid assets to total net cash outflows over the next 30 calendar days.

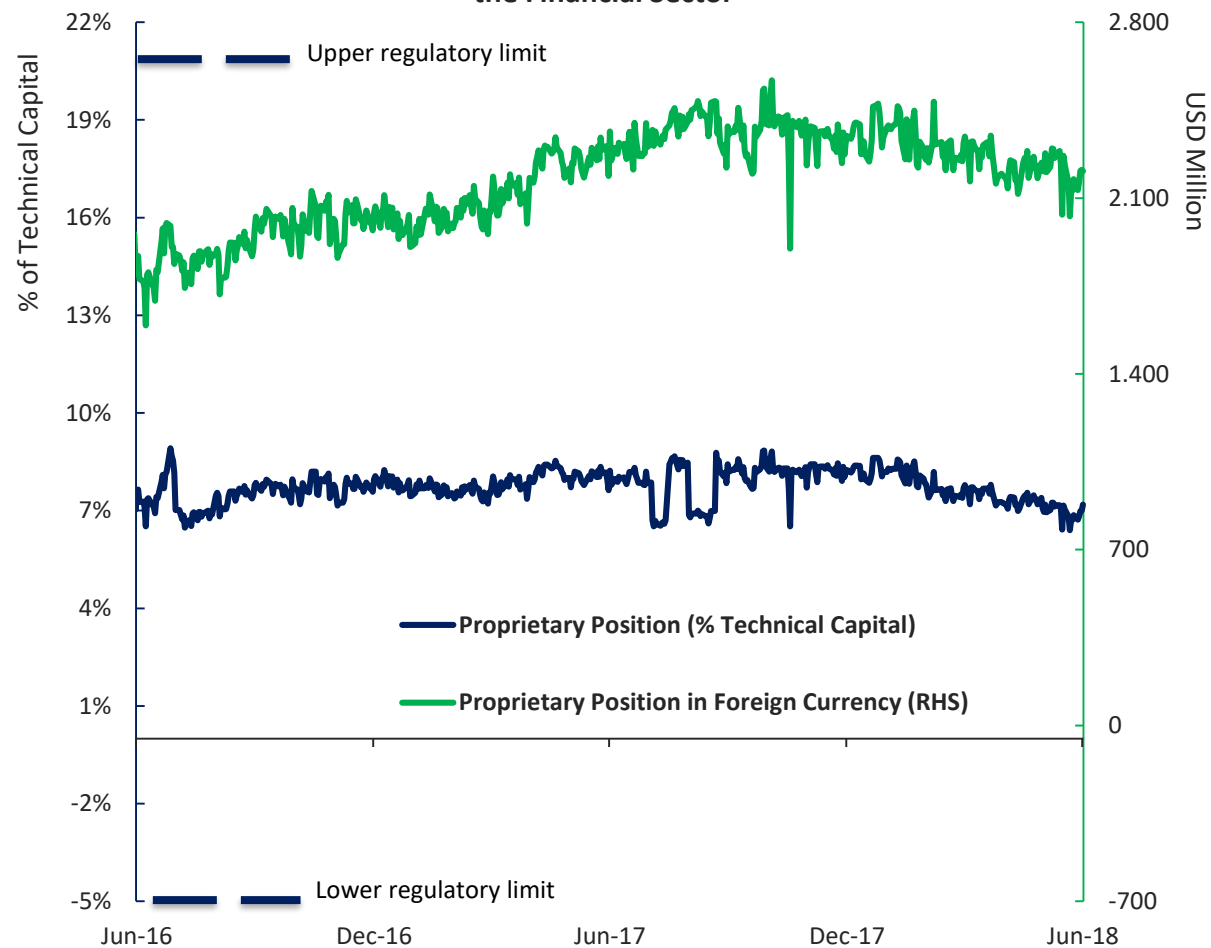
Source: Superintendencia Financiera de Colombia. Calculations by Banco de la República.

- While currency mismatches remain low in both the real and financial sector.

Debt of the Corporate Private Sector by currency and hedge
(% of GDP)



FX Proprietary Position (Assets minus liabilities in foreign currency) of the Financial Sector*



*FX Market intermediaries: Includes credit establishments and brokerage firms.

Source: Banco de la República.



Thank you