

# Colombia Outlook

## Recovery Under Uncertainty

November 2021

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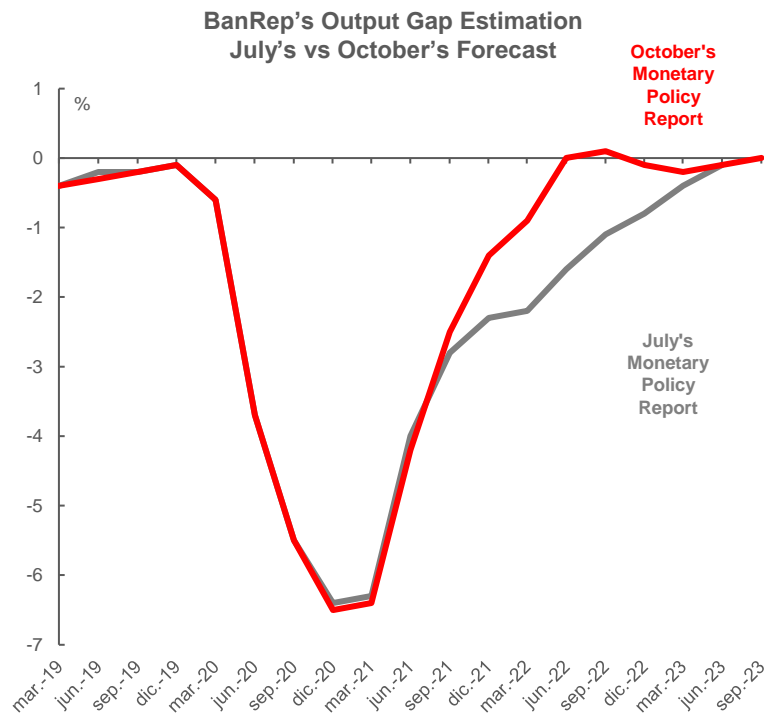
## Key Takeaways

- The economy is reaching pre-pandemic levels of activity sooner than expected as the government lifts restrictions and its vaccination plan advances. The central bank expects the output gap to close by mid-2022.
- Inflation should close 2021 around 5% y/y and indexation effects would extend the current temporary shock. In 2022, inflation is expected to end the year at ~3.7% y/y.
- The central bank has started its hiking cycle. The hawkish side of the BanRep Board has said that the hiking cycle should be faster at the beginning to avoid a more contractionary stance in the future. We expect BanRep to reach the nominal neutral rate of 5% by December 2022.
- Despite positive macroeconomic news and a better fiscal outlook, local asset prices remain volatile. Election campaigns could put further pressure on local markets in 2022.

# In Q3-2021, Colombia probably reached pre-pandemic production levels. BanRep expects the output gap to be closed by mid-2022.



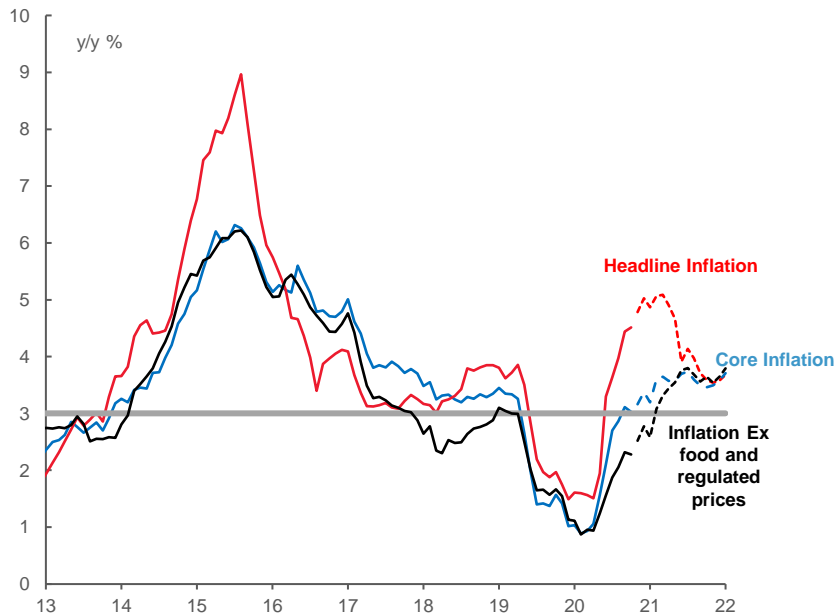
Sources: Scotiabank Economics, DANE.



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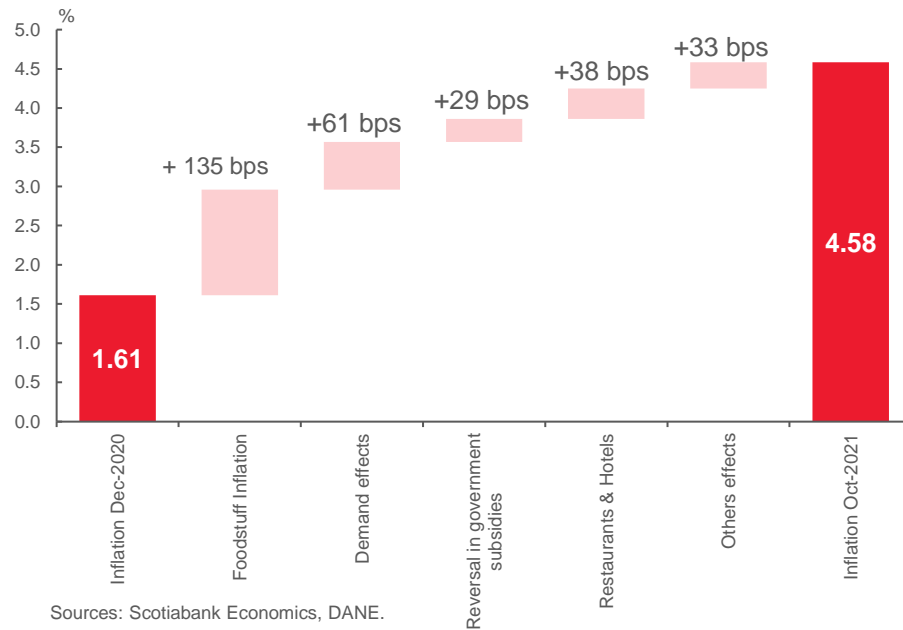
**Despite supply shocks being temporary, indexation should extend CPI inflation. Reversion in headline inflation should start in the H2-2022, while core inflation should remain within the target range.**

**Inflation Expectations**



Sources: Scotiabank Economics, DANE.

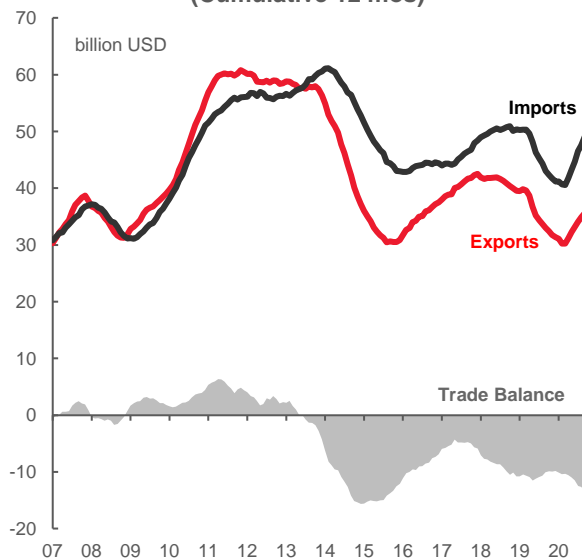
**Inflation by Source  
Dec-2020 vs Oct-2021**



Sources: Scotiabank Economics, DANE.

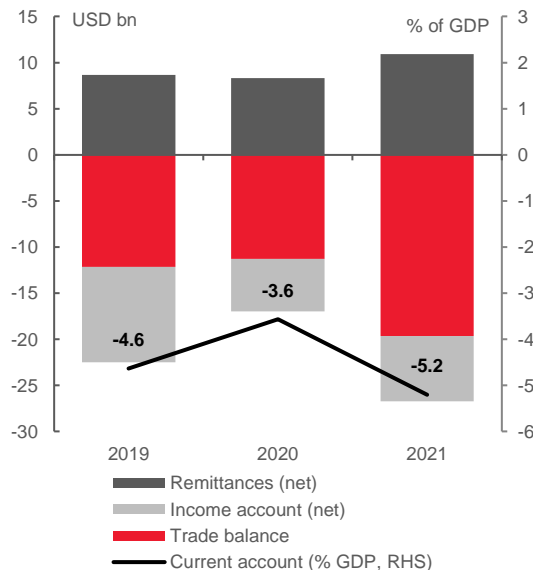
# Economic recovery and the asymmetric impact of international prices for exports and imports are together widening the current account deficit. Financing is still sufficient, but FDI recovery is crucial.

Export and Import Dynamics  
(Cumulative 12 mos)



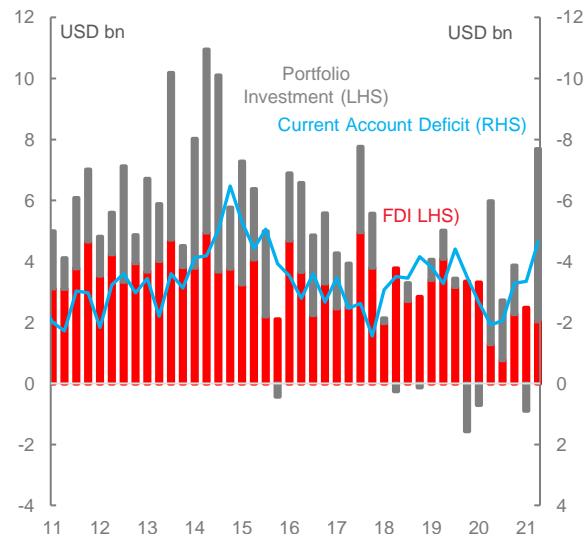
Sources: Scotiabank Economics, DANE.

Expected Current Account Deficit



Sources: Scotiabank Economics, BanRep.

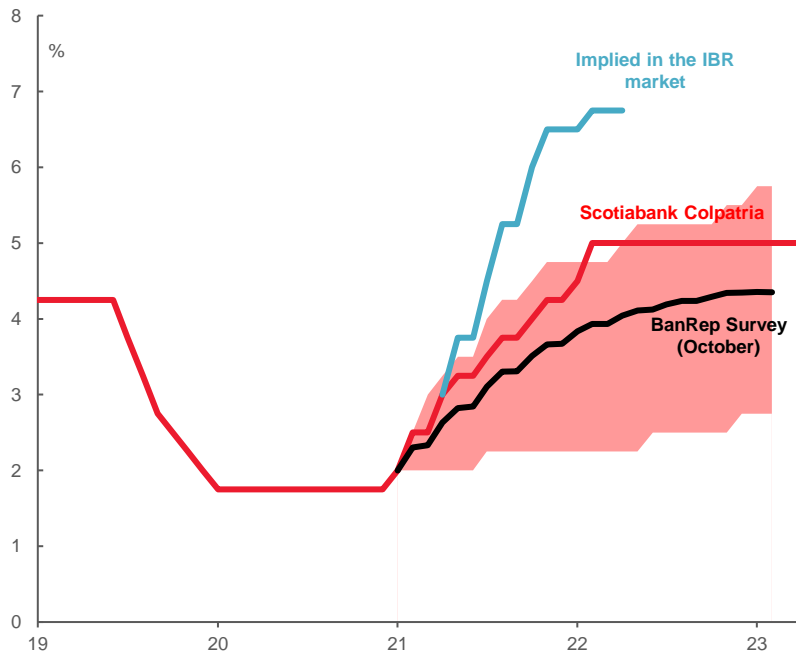
BoP Financial Account Inflows



Sources: Scotiabank Economics, BanRep.

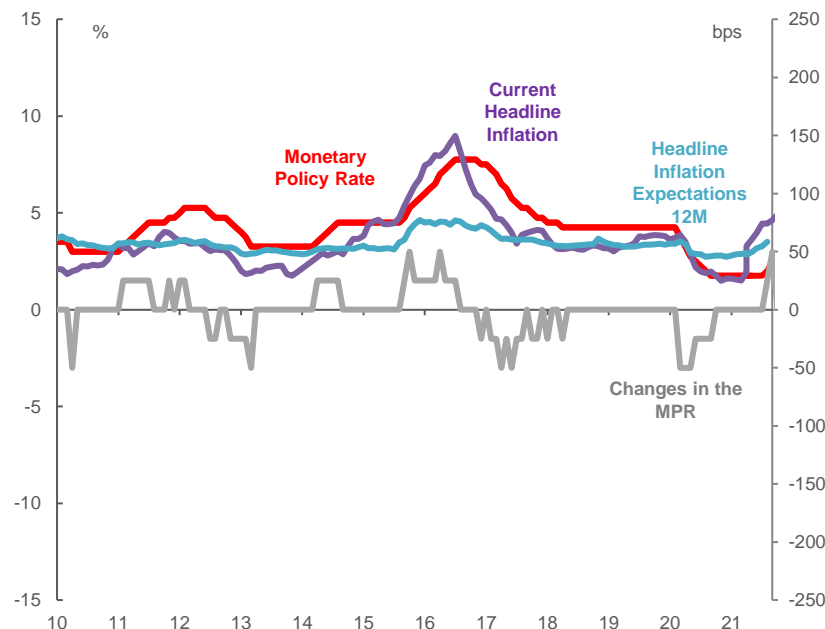
**The central bank has started a more aggressive-than-normal hiking cycle and the neutral rate should be reached in 2022. The IBR market is pricing an even higher terminal rate that would be achieved sooner.**

Monetary Policy Rate Expectations



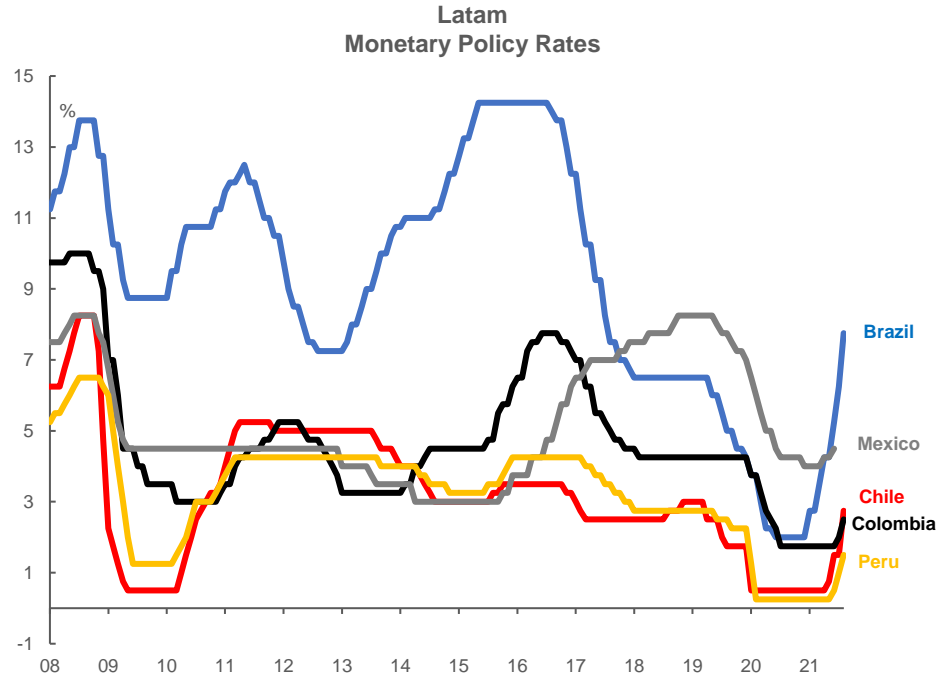
Sources: Scotiabank Economics, BanRep, Bloomberg.

Monetary Policy Rate vs Rate Movements

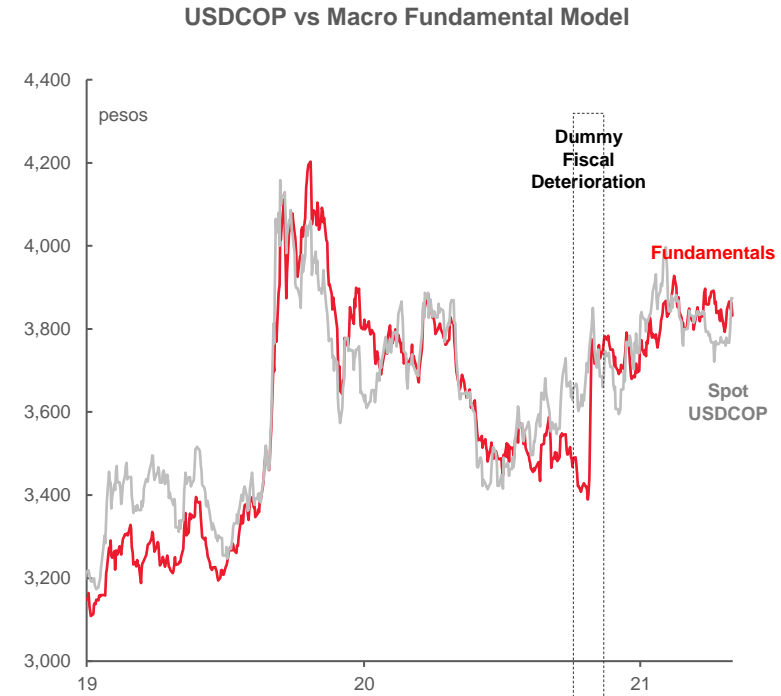


Sources: Scotiabank Economics, BanRep.

# Divergences in monetary policy cycles and the electoral calendar could keep the COP under pressure.



Sources: Scotiabank Economics.

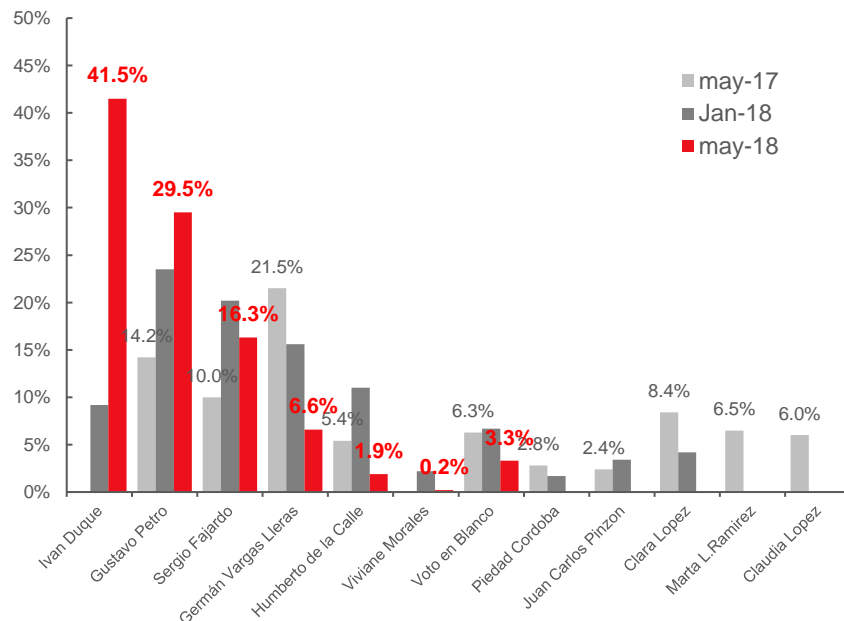


Sources: Scotiabank Economics, Bloomberg.

# The main phase of the presidential election starts early in 2022. The Congressional elections are the first milestone.

Four months before the 2018 elections, polls did not show President Duque as the favourite.

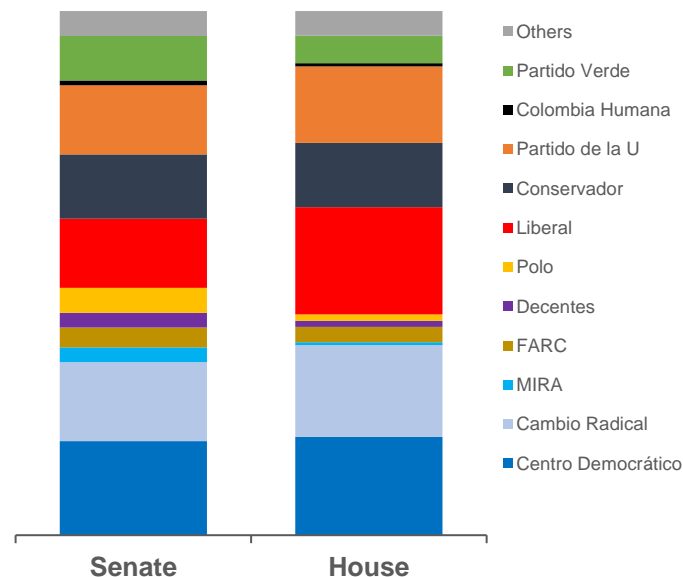
## Voting Intention in 2018 Elections



Sources: Scotiabank Economics, Centro Nacional de Consultoría.

Congress in 2022–26 would be more divided as big names (e.g., Uribe, Mockus) are not present to add more seats for the big parties.

## Congressional Composition

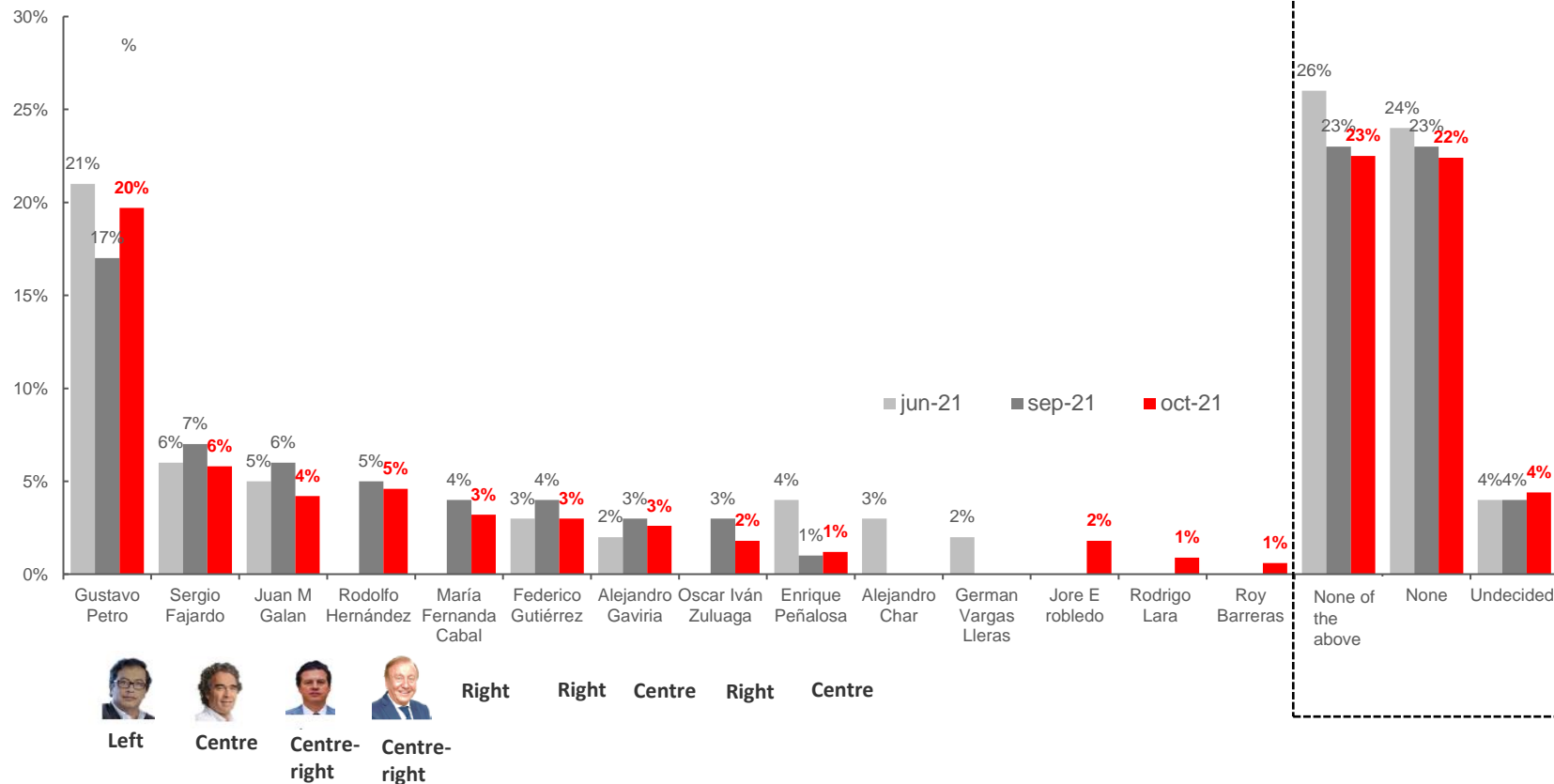


Sources: Scotiabank Economics, Congreso Visible Universidad de los Andes

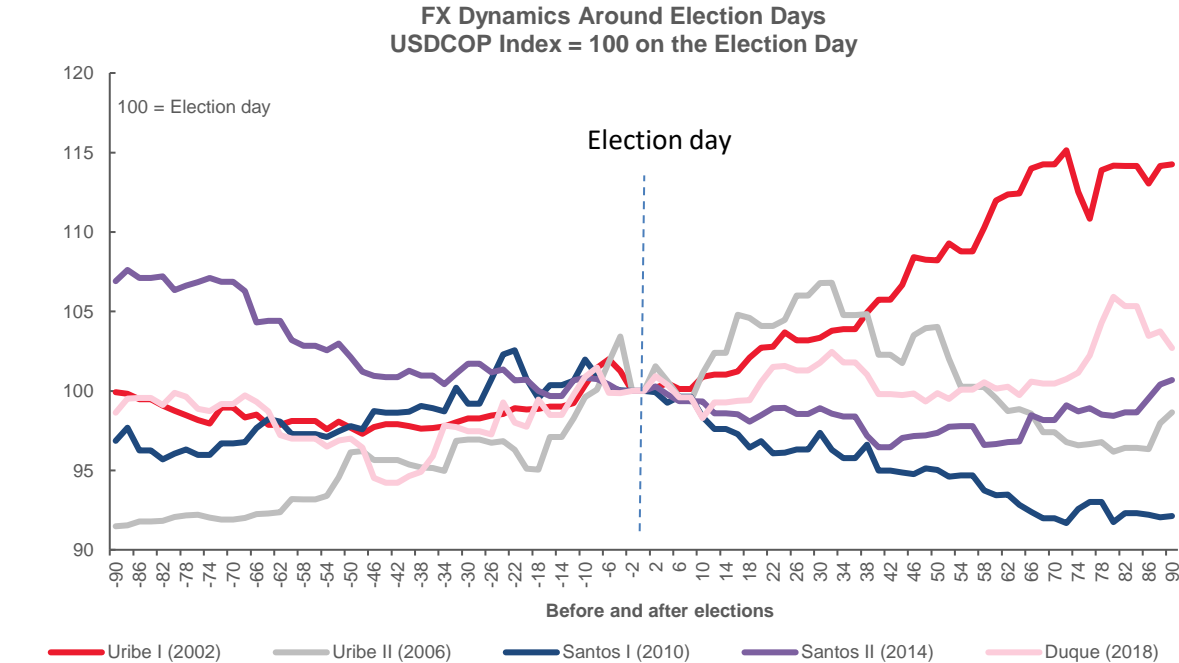


# Currently, there are 42 potential presidential candidates. The undecided population leads the polls.

Voting Intentions—Presidential Elections 2022



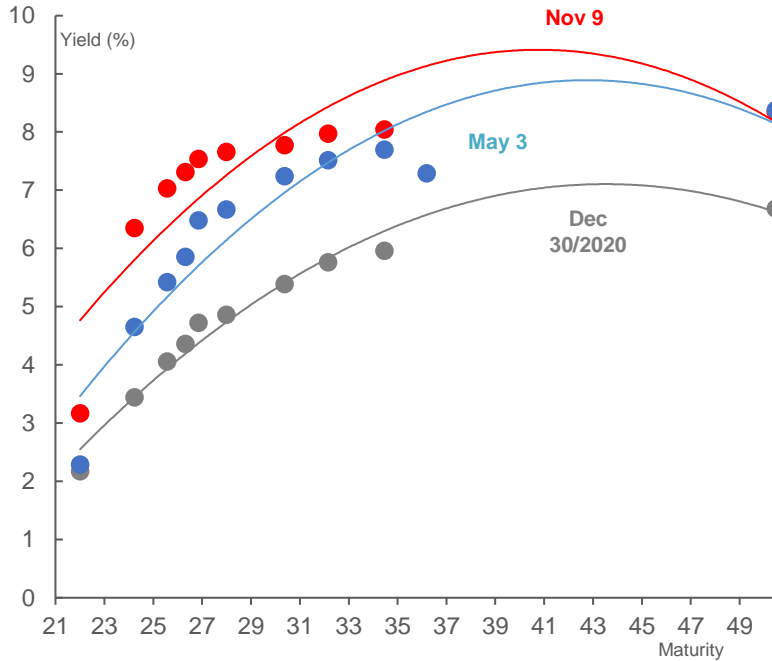
# Elections don't have a certain effect on the exchange rate.



Sources: Scotiabank Economics, Bloomberg.

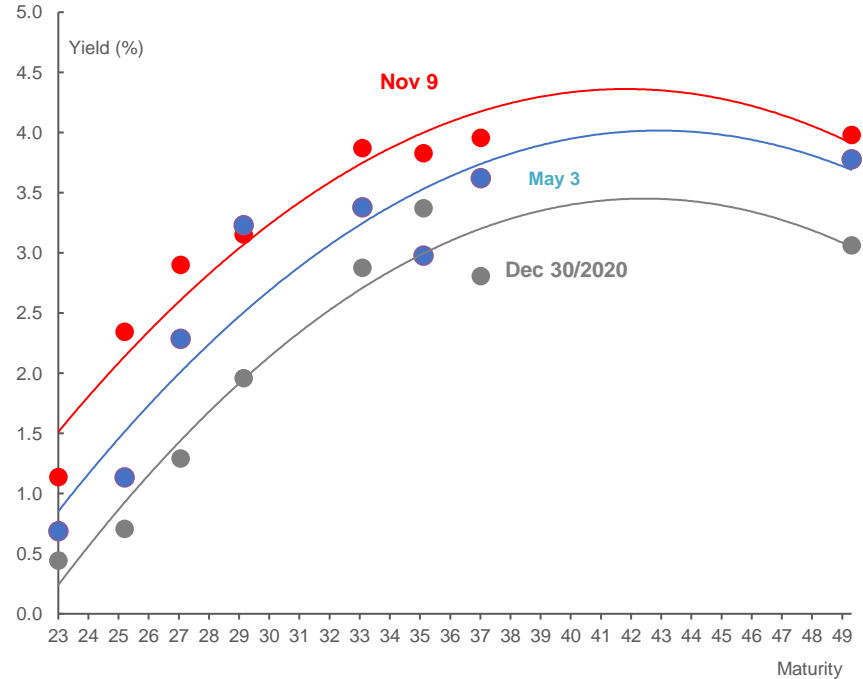
**After the shock due to fiscal uncertainty, the long end of the curve has been relatively affected by the local and external environment. Monetary policy is driving movements in the short end and the belly of the curve.**

**Yield Curve COLTES**



Sources: Scotiabank Economics, Bloomberg.

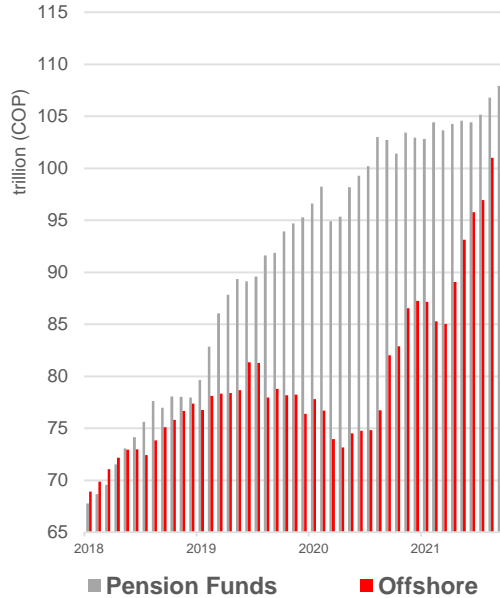
**Yield Curve COLTES UVR**



Sources: Scotiabank Economics, Bloomberg.

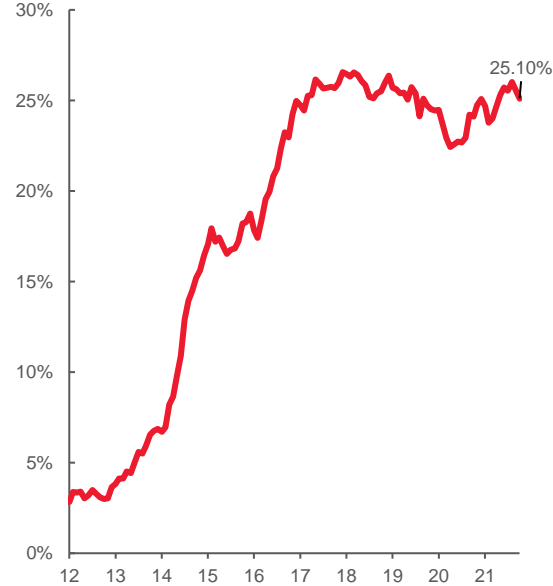
# In YTD terms, offshore investors remain the main buyers of COLTES. Positioning on the long end of the linkers curve is gaining momentum.

## Coltes Bondholders Record



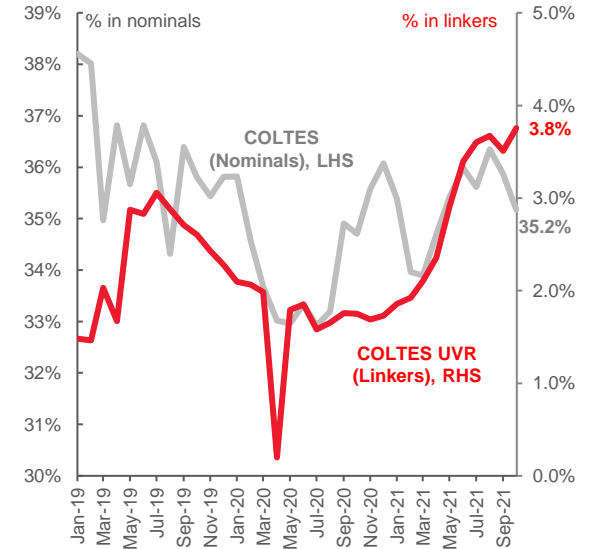
Sources: Scotiabank Economics, MoF.

## Offshore COLTES Ownership (% of total outstanding)



Sources: Scotiabank Economics, MoF.

## Offshore Share in Nominals and Linkers Curve (% of outstanding in each reference)



Sources: Scotiabank Economics, MoF.

# Macroeconomic Forecasts

Forecasts	2019	2020	2021	2022	2023	2024	2025
<b>National Accounts</b>							
Real GDP (y/y, %)	3.3	-6.8	9.1	4.5	3.70	3.60	3.60
Domestic demand (y/y, %)	3.2	-6.6	8.9	4.4	3.80	3.70	3.70
Consumption (y/y, %)	4.2	-3.9	12.2	3.3	3.50	3.40	3.40
Private (y/y, %)	3.9	-5.6	13.8	3.4	3.30	3.30	3.30
Government (y/y, %)	5.3	3.5	6.6	3.0	3.00	3.00	3.00
Gross fixed capital formation (y/y, %)	3.5	-20.6	13.1	15.5			
Net exports (% of GDP)	-7.8	-7.0	-10.3	-11.4			
Exports (y/y, %)	3.2	-18.1	6.8	8.1			
Imports (y/y, %)	7.6	-17.0	26.0	11.6			
<b>Labour Market</b>							
Unemployment (% average)	10.5	16.1	13.5	10.8	10.7	10.0	9.5
<b>Balance of Payments</b>							
Trade balance (USD, bn)	-12.9	-12.4	-19.7				
Merchandise exports (USD, bn)	53.0	39.1	44.6				
Merchandise imports (USD, bn)	65.8	51.6	64.2				
Current account (USD, bn)	-14.3	-9.1	-15.8				
Current account (% of GDP)	-4.4	-3.35	-5.2	-3.8	-3.60	-3.50	-3.50
Terms of trade (y/y, %)	6.86	-7.14					
<b>Prices, Rates &amp; Exchange rate</b>							
CPI (y/y, %, eop)	3.80	1.61	4.9	3.7	3.4	3.0	3.0
CPI (y/y, %, average)	3.52	2.53	3.4	4.2	3.5	3.0	3.0
Ex Food CPI (y/y, %, eop)	3.45	1.03	3.2	3.7	3.1	3.0	3.0
COP (\$, eop)	3297	3422.00	3760.0	3655.0	3712.0	3350.0	3350.0
COP (\$, average)	3281	3694	3705	3722	3699		
BanRep MPR (% eop)	4.25	1.75	3.00	5.00	5.00	5.00	5.00
<b>Fiscal Indicators*</b>							
Gross debt central government (% of GDP)	50.3	64.7	66.8	68.6			
Central government deficit(%GDP)	-2.5	-7.8	-8.6	-7			
Fiscal rule (% of GDP)	-2.5	-7.8	-8.6	-2.5	-1.8	-1.2	
Primary balance (% of GDP)	0.4	-4.9	-5.3	0.7	1.3	1.8	
NFPS balance (% of GDP)	0.5	2					
Gross debt central government (% of GDP)	50.3	64.8	65.4	65	65	64	

\* Source: Financing Plan 2021

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