

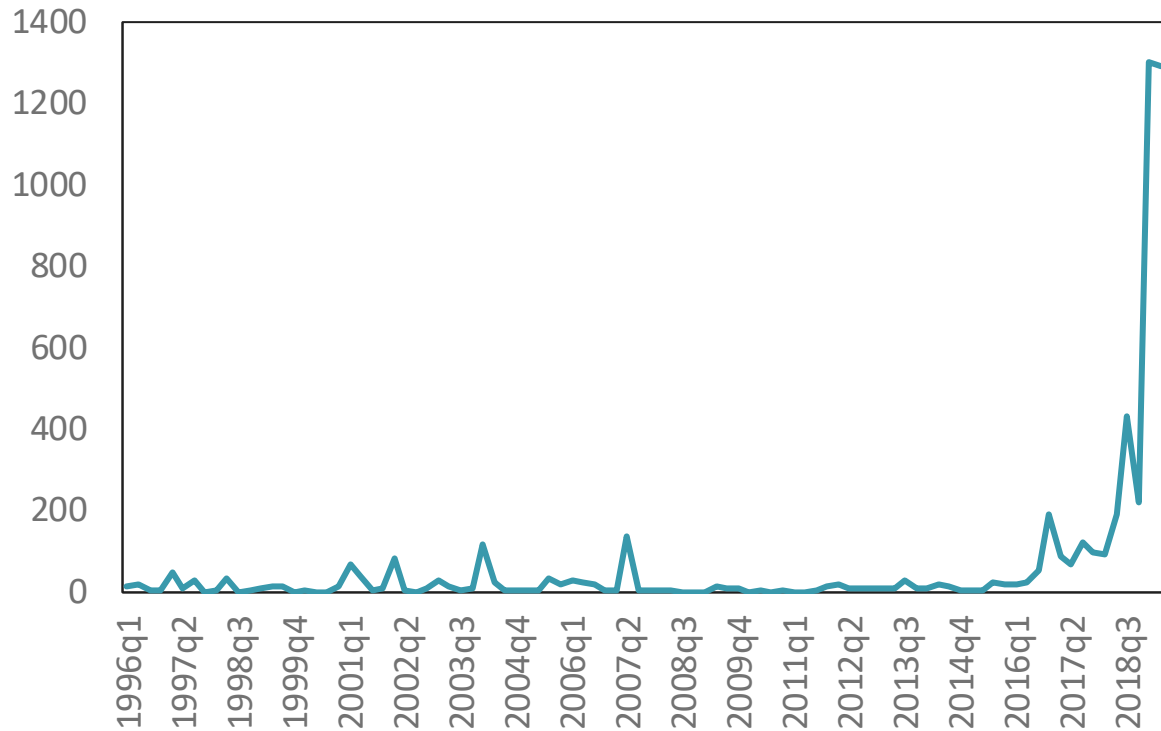


Capital inflows to Emerging Markets

**XV Meeting of Monetary Policy Managers
CEMLA-September 2019
Santo Domingo**

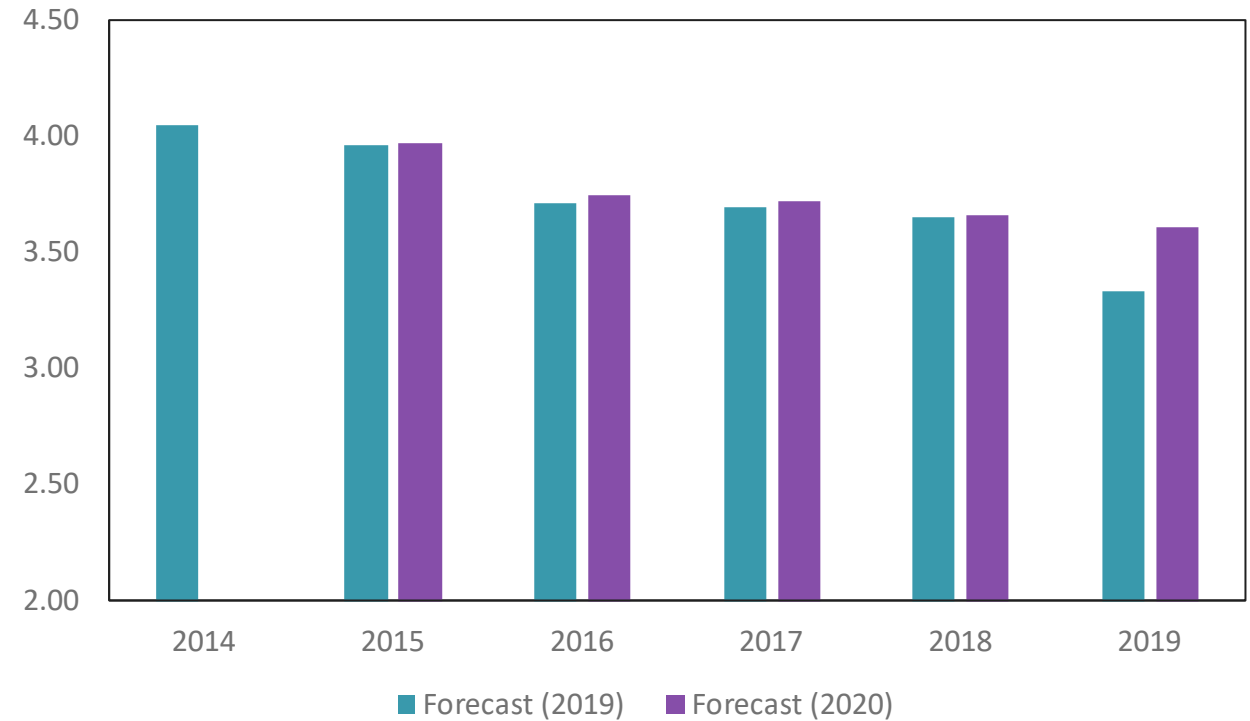
Higher global uncertainty and lower GDP growth

**World Trade Uncertainty index
(weighted by GDP-PPP)**



Source: IMF and own calculations .

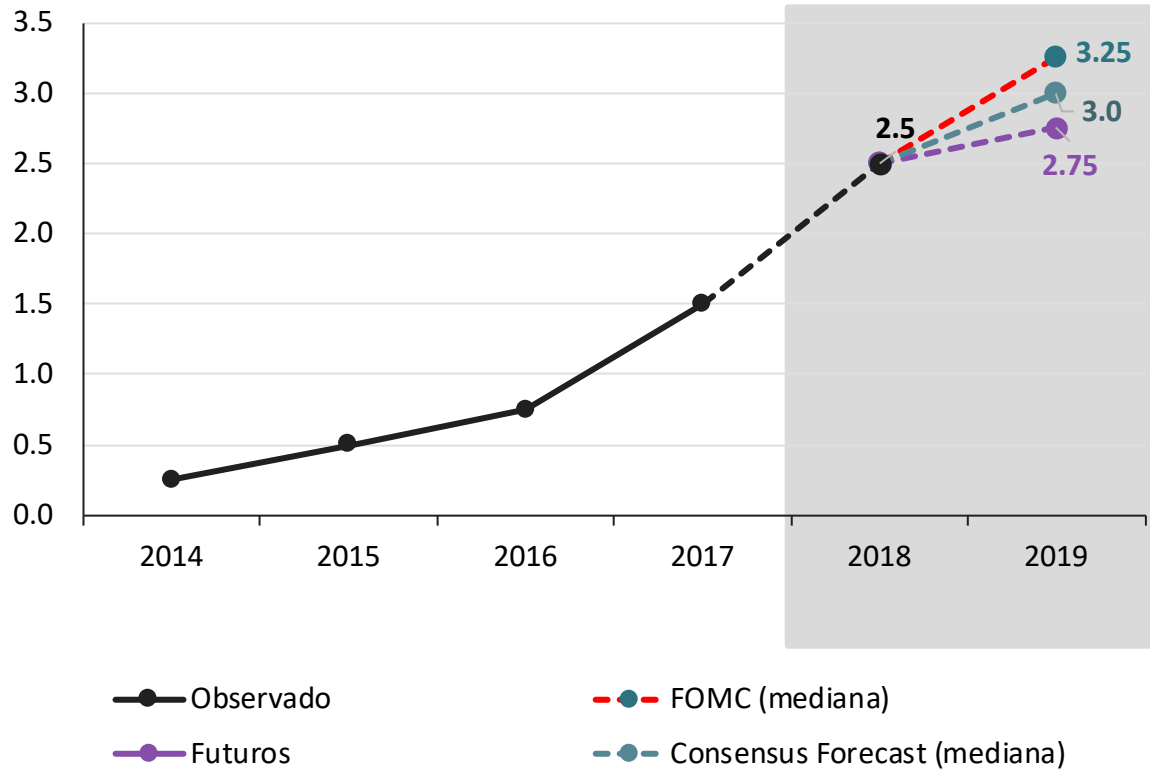
**World GDP forecast (2019-2020)
(percentage of change)**



Source: IMF

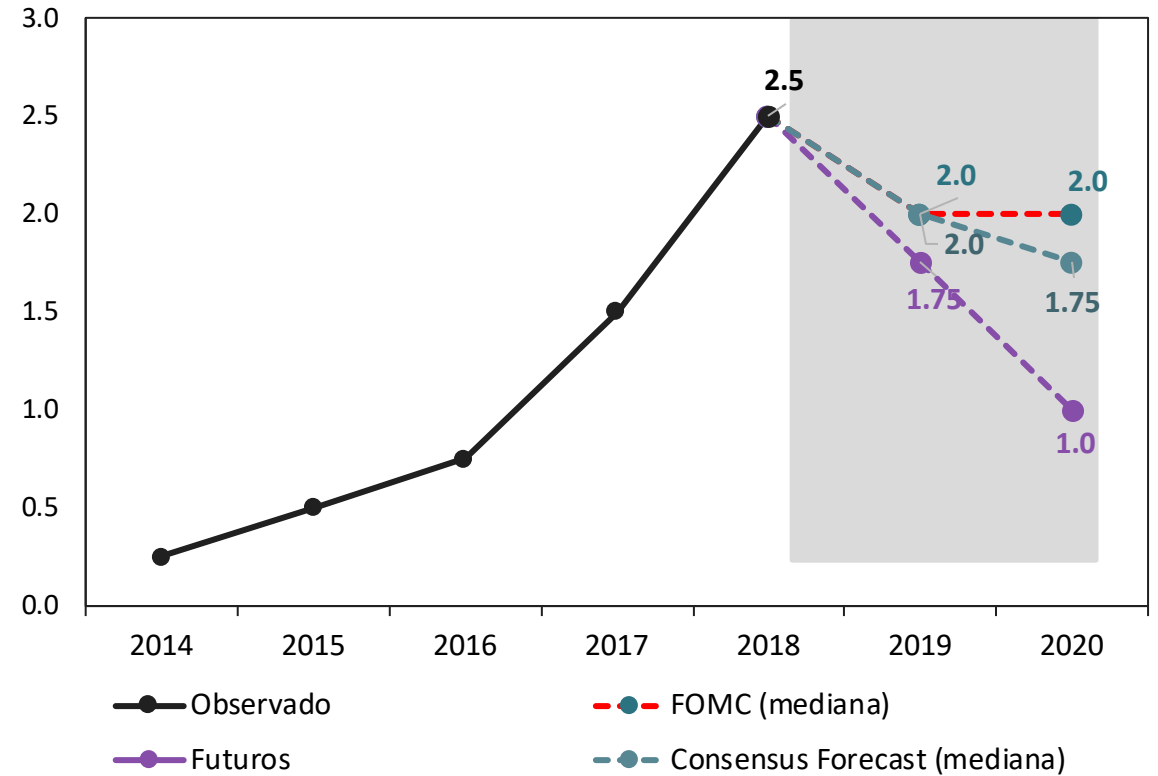
A more expansionary monetary policy in advanced economies

Fed fund rate
(Forecast –September 2018)



Source: Fuente: Bloomberg, Focus Economics y Reserva Federal.

Fed fund rate
(Forecast –September 2019)



Source: Fuente: Bloomberg, Focus Economics y Reserva Federal.

Capital inflows to emerging markets

Higher liquidity and lower interest rates in AE

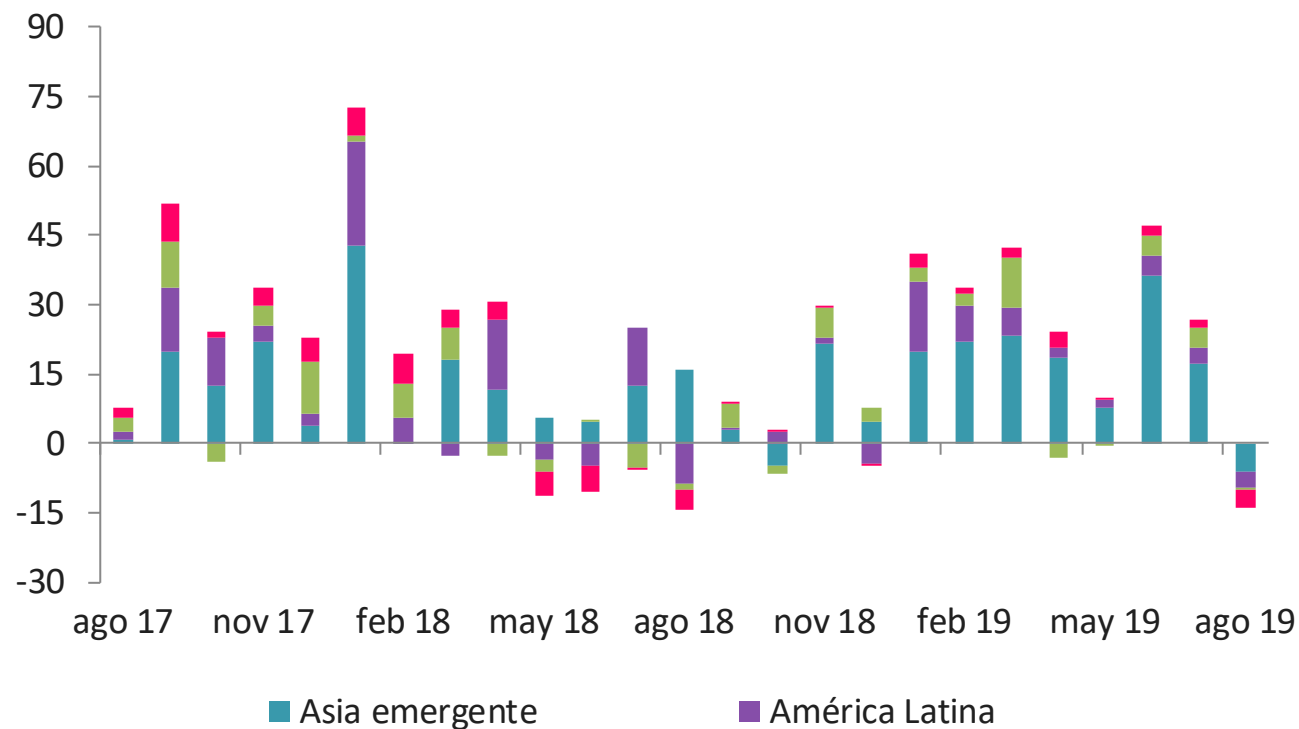


Idiosyncratic factors in EM

Higher uncertainty

Foreign Investment Flows

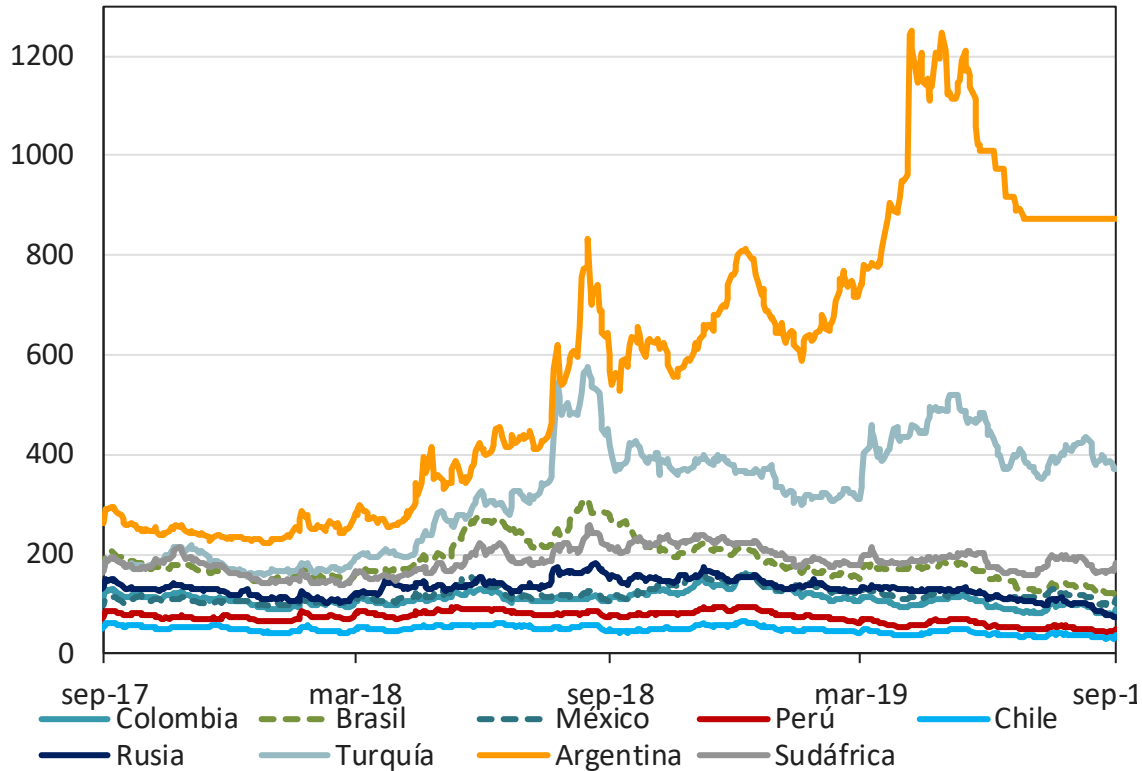
Emerging markets (Billions of U.S. dollars)



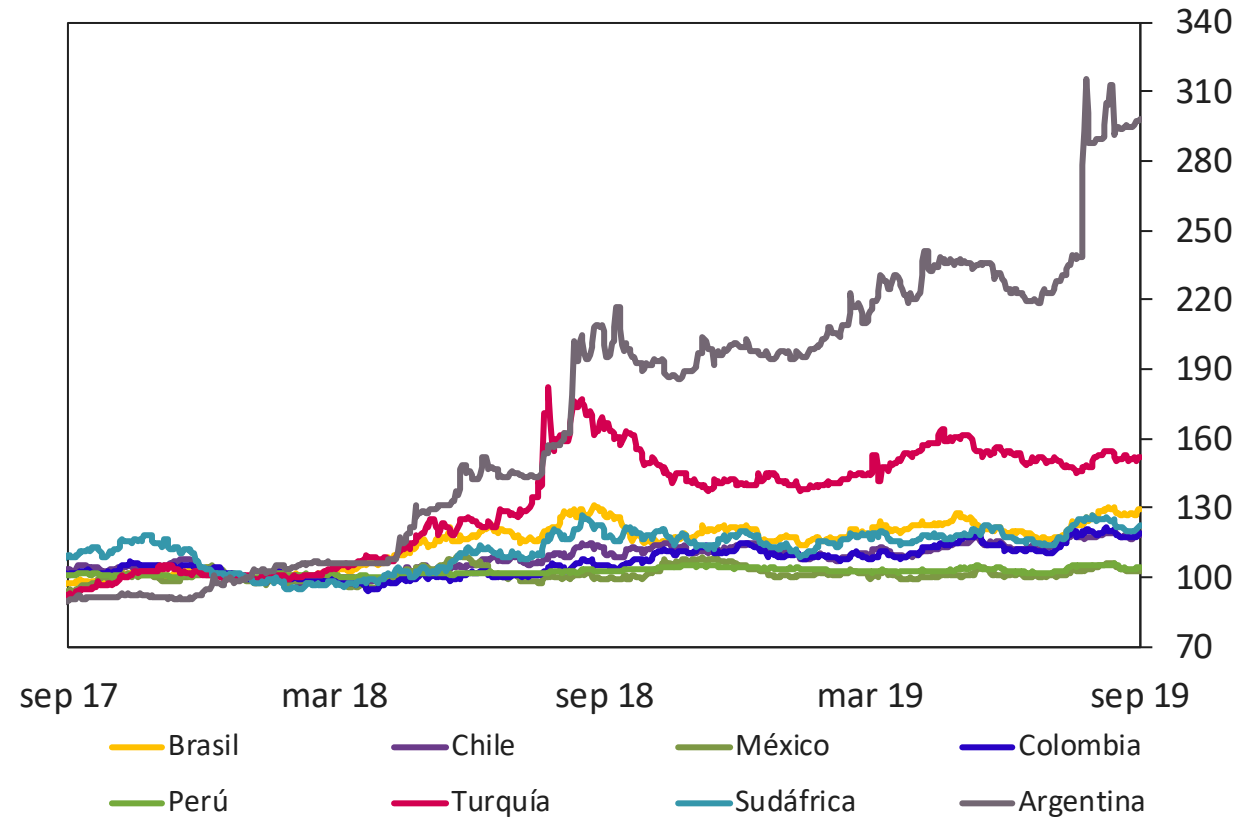
Source: IIF.

Volatility of the international financial markets have affected some emerging economies. However, investors have recognized the soundness of Colombian macroeconomic policy framework and the orderly adjustment to shocks in previous years.

CDS Emerging Markets

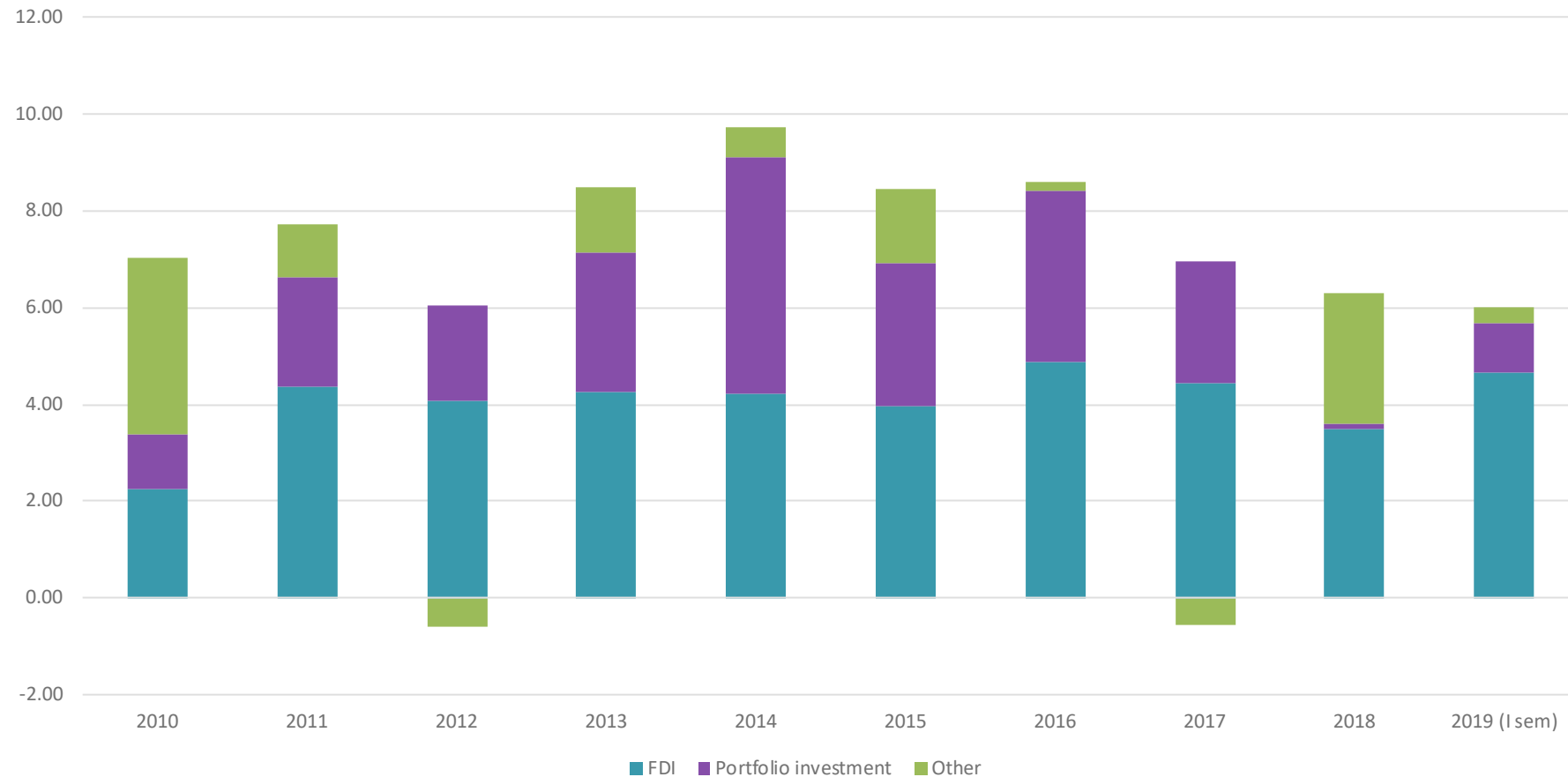


Nominal exchange rate index (Jan/2018=100)



Capital inflows to Colombian economy have remained broadly stable. Foreign direct investment (FDI) has been the main source of external financing.

Composition of foreign capital inflows (Percentage of GDP)





Colombian Policy Framework

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Policy Framework affords to cushion external shocks

Inflation targeting

- Maintaining a low and stable inflation rate
- Reducing the gap between GDP growth and its “potential” level.

Flexible exchange rate.

- Independence of monetary policy
- Mitigates the response of economic activity to external shocks

Exchange rate flexibility is the first line of defense.

The successful of “floating” is due to:

- Limited currency mismatches
- A credible monetary regime
- External buffers (international reserves)
- Sound and robust financial sector

Nominal exchange rate

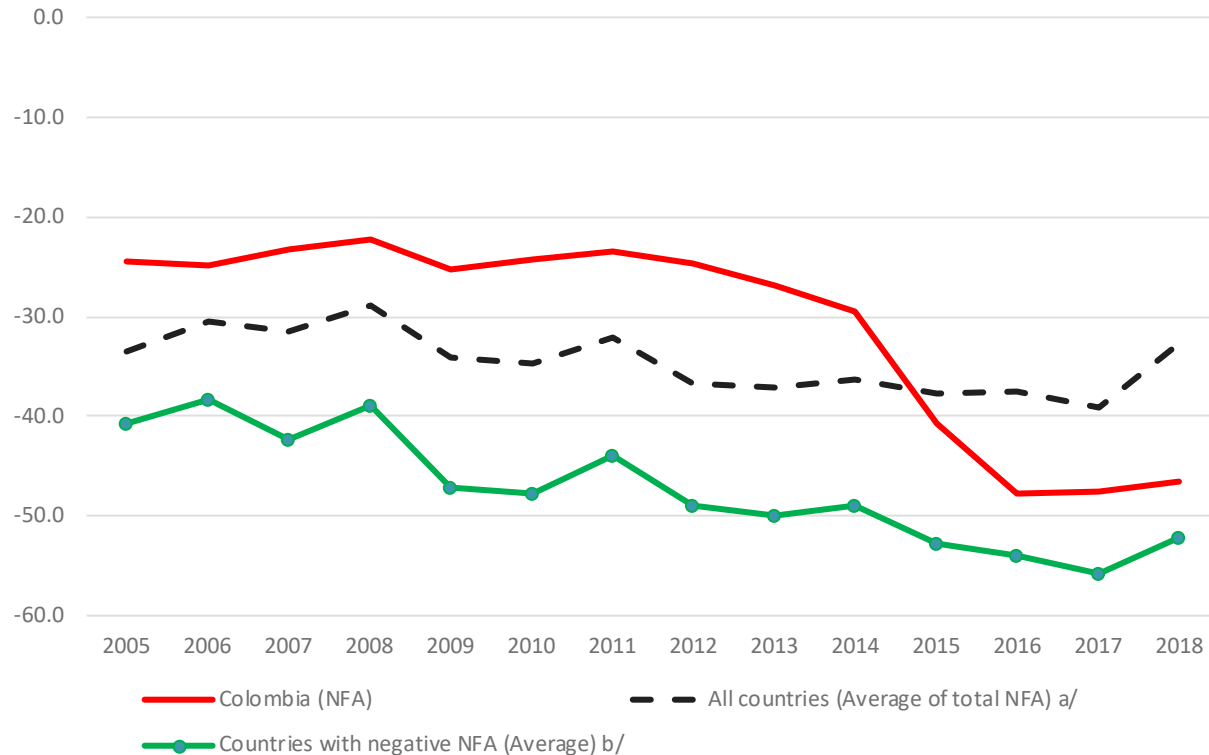
COP/USD



Colombian external funding has been mostly FDI. Portfolio investment has increased but mainly in public debt (LCU). Aggregate currency mismatches in Colombia are lower than the average of countries with negative NFA*.

Total net foreign assets*

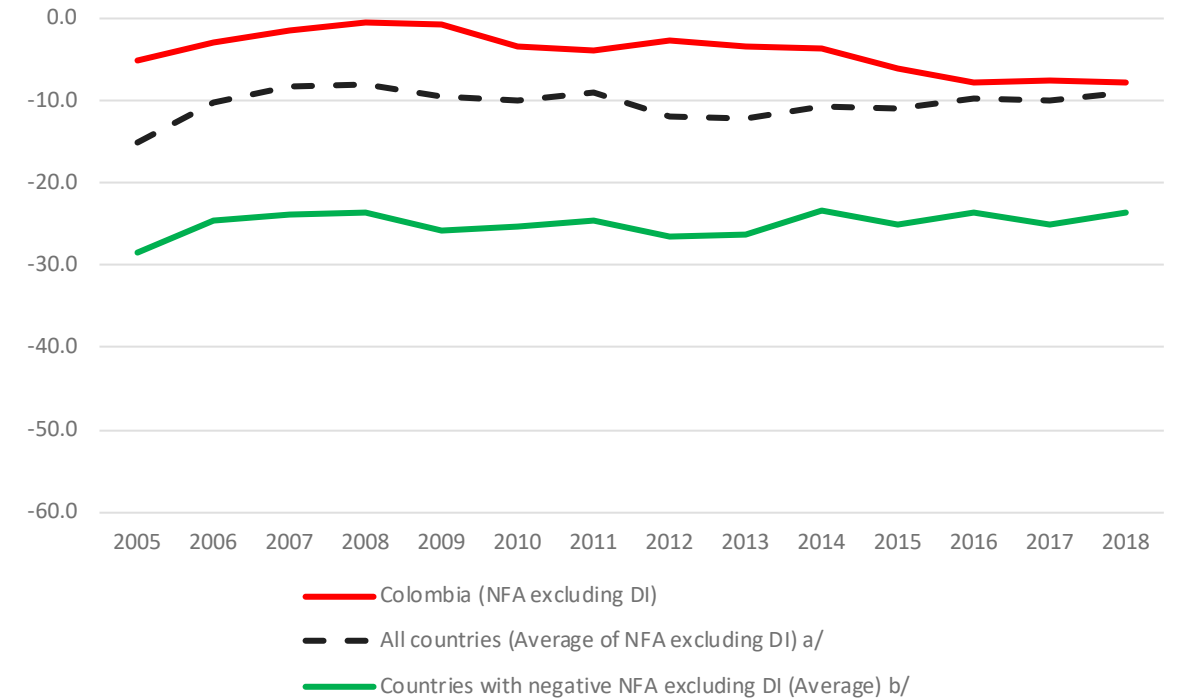
Percentage of GDP



a/ 76 emerging and advanced economies
Source: IMF

Total net foreign assets excluding direct investment*

Percentage of GDP

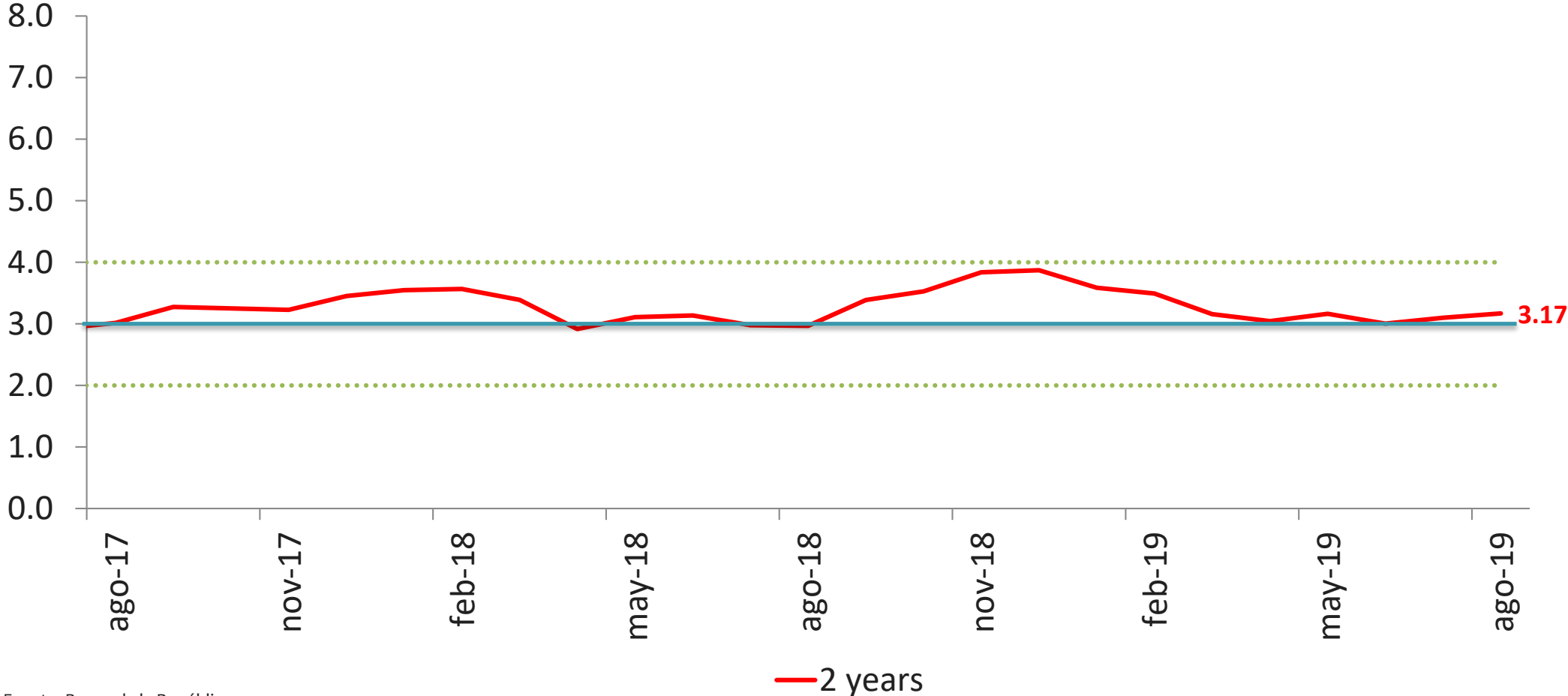


b/ 76 emerging and advanced economies reporting NFA excluding DI (around 100% of GDP to -100% of GDP)
Source: IMF

Well anchored Inflation Expectations in Colombia

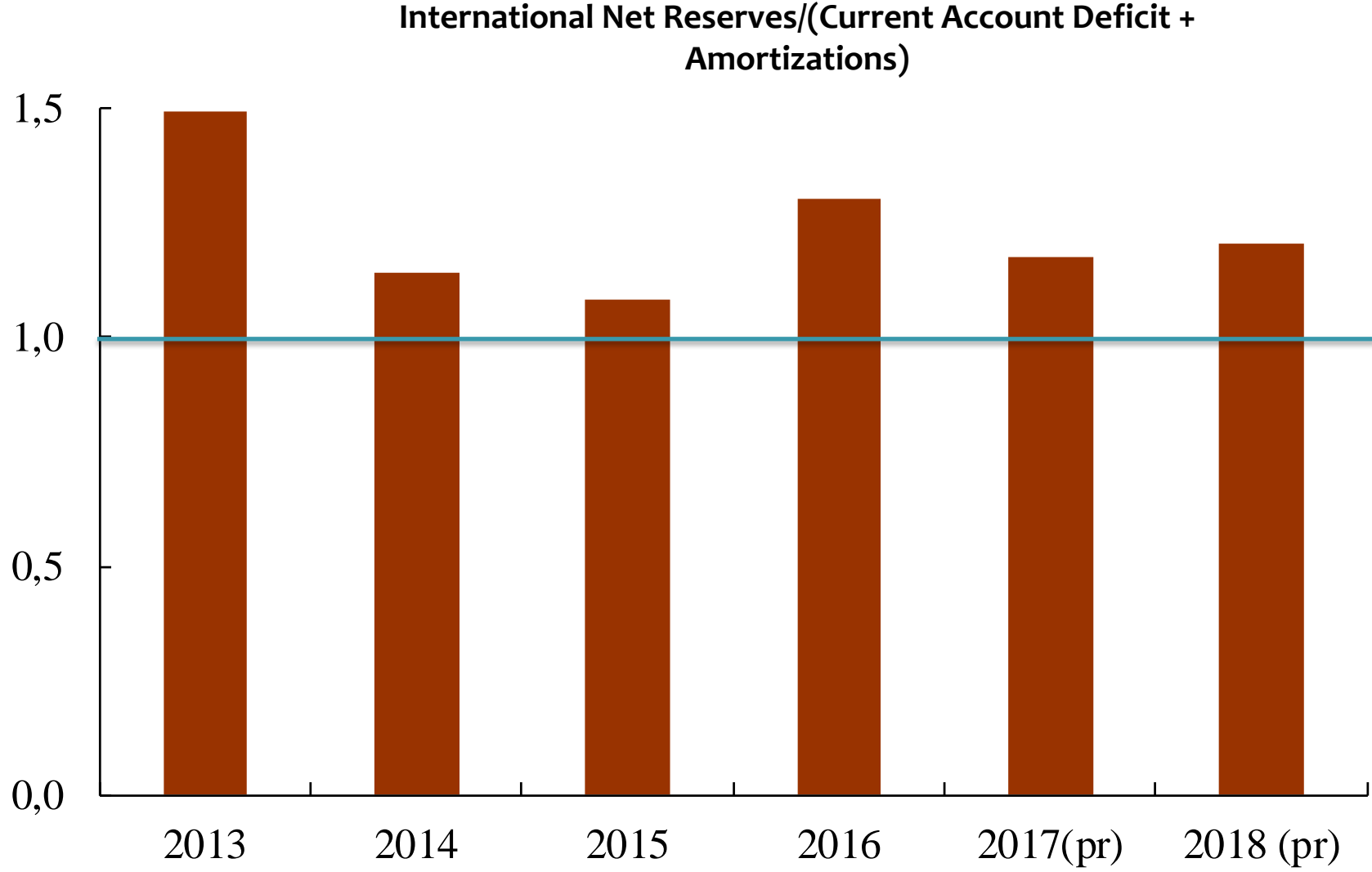
Expectations Implicit in Government Bonds (TES of 2 years)

(Percentage)



Source Fuente: Banco de la República.

A sufficient level of external buffers provides another safeguard against external shocks. The Flexible Credit Line (FCL) by the IMF has complemented the accumulation of international reserves.



Fuentes: bancos centrales, The Economist Intelligence Unit (actualización a junio de 2018) y Banco de la República



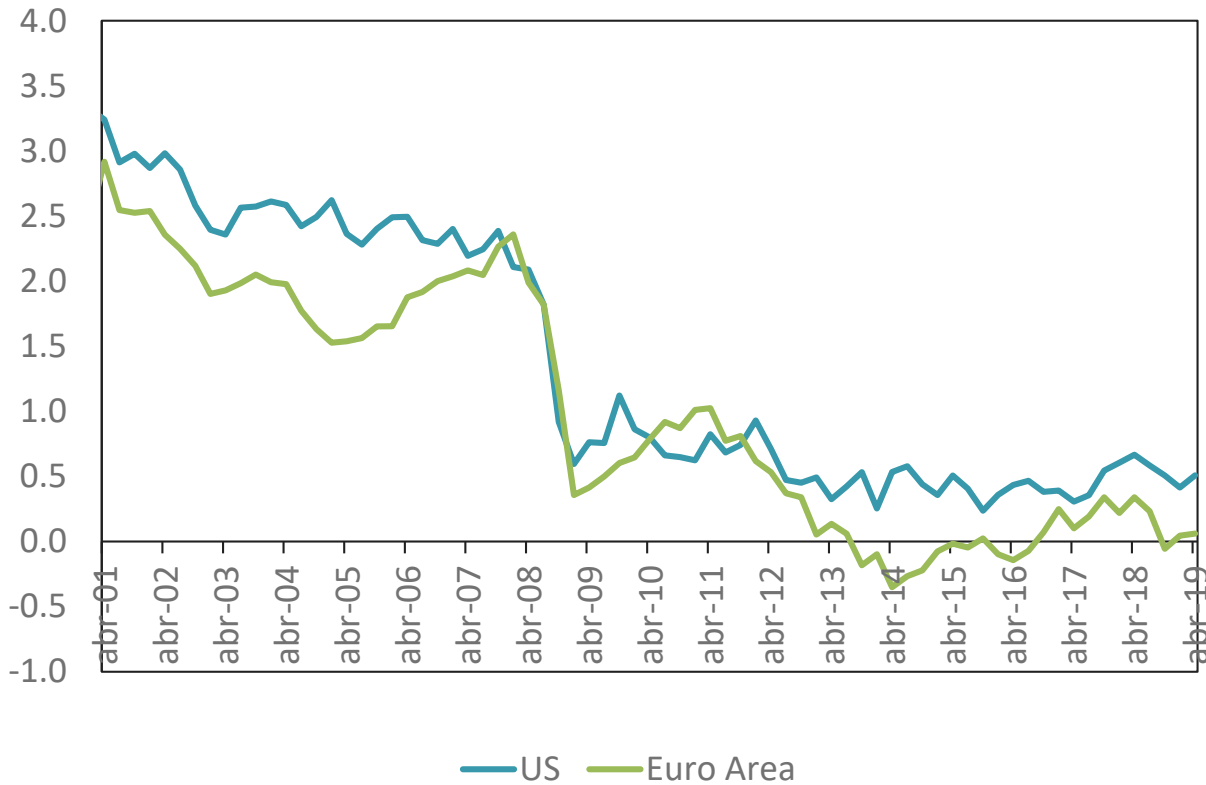
Discussion topics

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What is the impact on MP in EM of lower natural interest rate in AE and lower premium risks in EM?

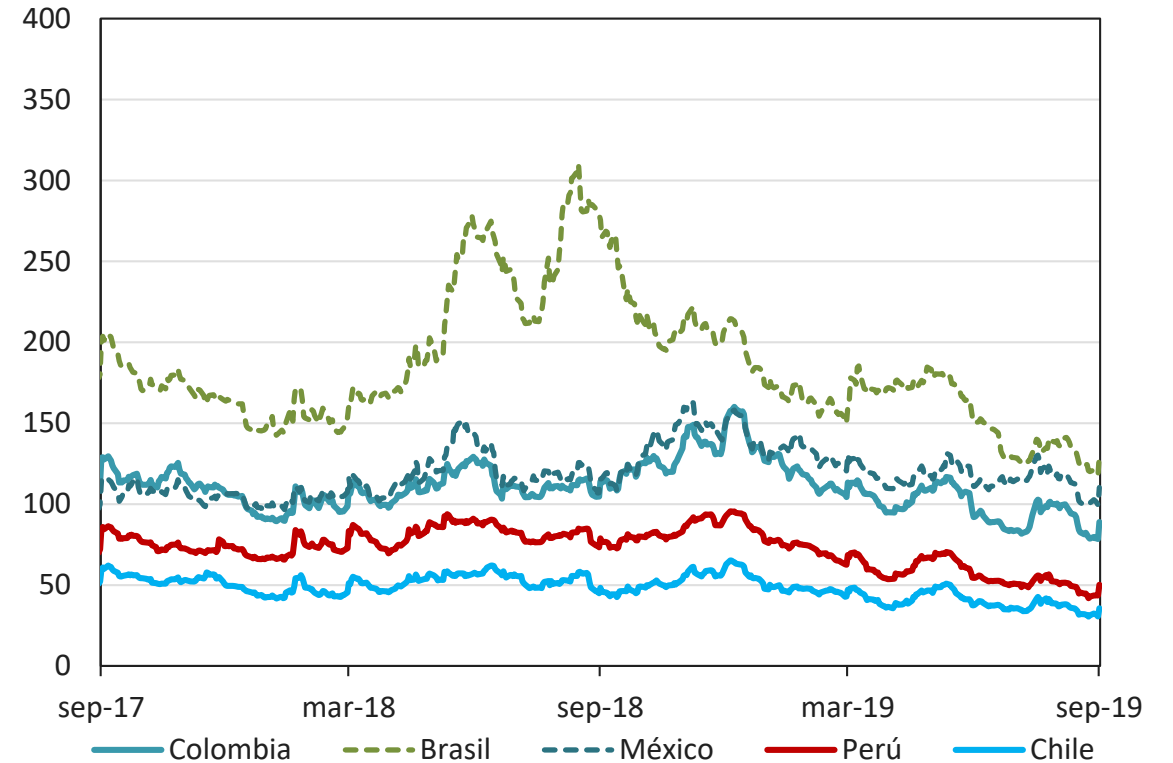
Natural Rate of Interest

(percentage)



Source: New York Fed calculations based on the methodology outlined in Holston, Laubach, and Williams (2017)

CDS Emerging Markets

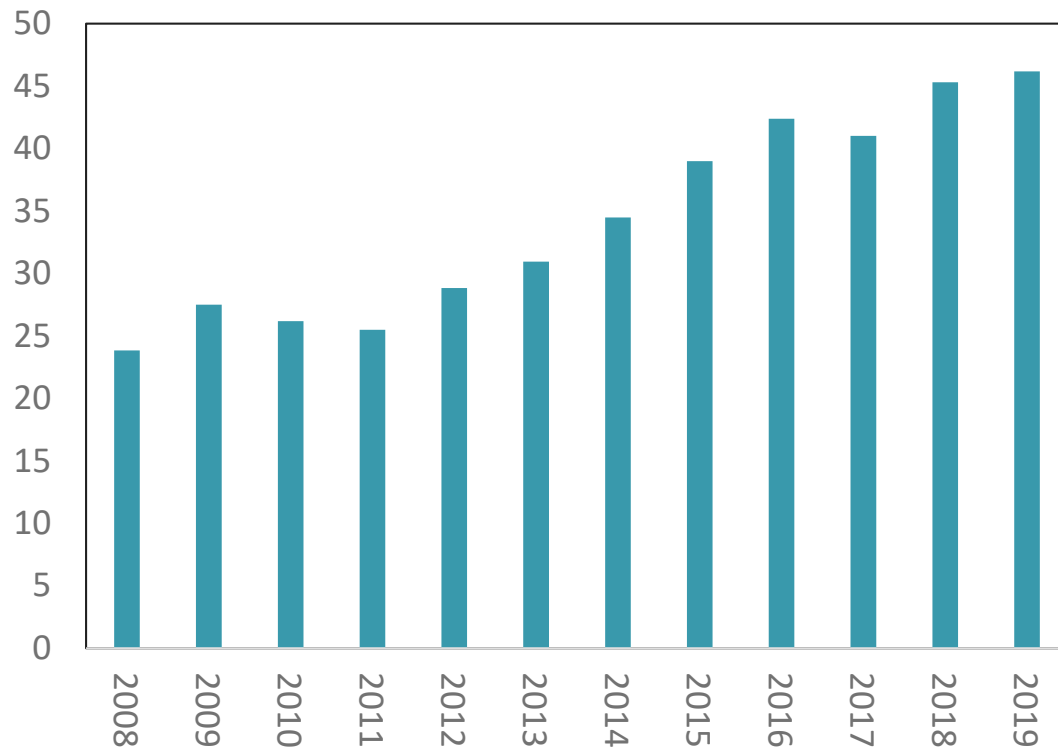


Source: Bloomberg

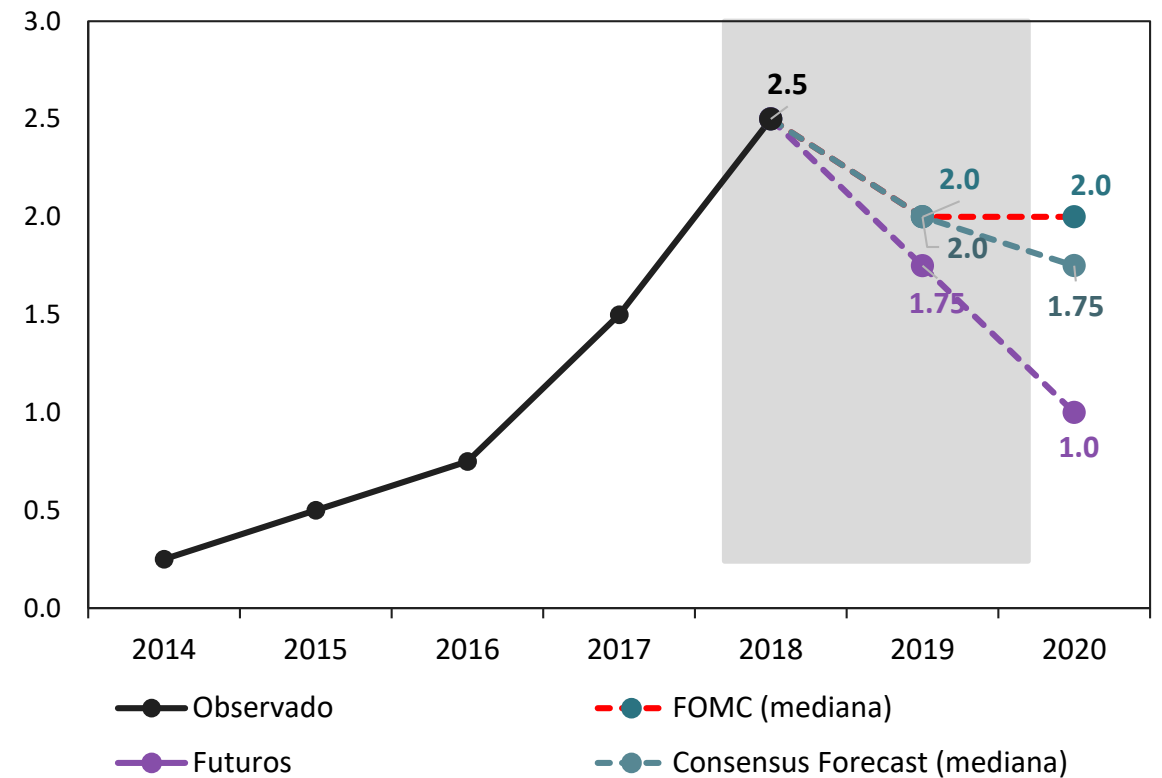
What is the impact of lower international interest rate on macroeconomic imbalances in EM?

External Debt Latin America and the Caribbean

(percentage of GDP)



Fed fund rate (Forecast –September 2019)



Source: New York Fed calculations based on the methodology outlined in Holston, Laubach, and Williams (2017)