A regular meeting of the Board of Directors of *Banco de la República* took place in the city of Bogotá D.C. on Friday, September 29, 2017. In attendance were Mauricio Cárdenas Santamaría, Minister of Finance and Public Credit; Juan José Echavarría, Governor of the Central Bank; and Board Members Gerardo Hernández Correa, Ana Fernanda Maiguashca Olano, Adolfo Meisel Roca, José Antonio Ocampo Gaviria, and Juan Pablo Zárate Perdomo.

These minutes contain a summary of the outlook on the macroeconomic situation by the technical staff of the Central Bank (section 1), followed by a review of the main discussion regarding monetary policy by the Board of Directors (section 2).

Further detail on the macroeconomic situation prepared by the technical staff from the Central Bank will be presented in the monthly Monetary Policy Report for August 2017 and in the statistical annex. (Only available in Spanish).

1. MACROECONOMIC CONTEXT

1. With figures to the first half of 2017, the country's current account of the balance of payments registered a deficit of USD $6,119 m (4.1% of GDP), higher in US dollars than a year ago (USD $5,992 m, 4.6% of GDP), but similar to that forecast by the technical staff at the Central Bank. By components, the increase in the current account deficit (USD $127 m) was explained by higher net outflows of factor income (USD $1,248 m) and, to a lesser extent, by non-factor services (USD $125 m). Otherwise, the lower deficit in trade of goods (USD $996 m) and the larger current transfers (USD $249 m) contributed to the decline in the external deficit.
2. As for the external context, global activity would have continued recovering, driven mainly by the advanced economies. However, Colombia’s trading partners in the region continue to exhibit low performance of their economic activity. In the United States, the market has significantly increased the likelihood that the Fed would increase its benchmark rate once more in the rest of the year. Additional increases are expected for 2018.
3. Regarding the price of oil, the news about greater compliance with the OPEC agreements in recent weeks, as well as a more dynamic demand, would have contributed to increase the prices in this market. The average price for the year to date (28 September) for Brent oil is USD $52.5/b, higher than the average forecast for 2017 (USD $51, Brent).
4. In Colombia, the information available for the third quarter of 2017 suggests that the pace of expansion of the GDP would have been low, but higher than the records for the first half of the year. This performance would be partly explained by a low basis for comparison in the same period of 2016 (as a result of supply shocks in transport that took place in July last year, as well as by the effect of the Easter holiday). However, when controlling these effects, the dynamics of the GDP in the third quarter reflects acceleration. Additionally, the behavior of some indicators of economic activity has been somewhat better than expected.
5. Regarding the labor market, the seasonally adjusted series of the unemployment rate to July show a relatively stable unemployment rate at the national level, and an increasing trend in the 13 urban areas.
6. As for credit, since March total indebtedness shows a relatively stable nominal growth (close to 6.0%). In the last few months, household credit has slowed, but keeps increasing at rates that exceed inflation and growth of nominal GDP. Commercial debt grows at a low rate, somewhat lower than inflation. The interest rates on commercial loans (exception for construction) have registered falls that are higher than the one for the policy rate. Transmission towards households’ interest rates on loans has been lower.
7. With all this, growth in the second half of this year is expected to be low, but higher than in the first half of 2017. This is due to a better performance of domestic demand, both in consumption and investment. The contribution of the foreign trade accounts to GDP growth would have been less negative. For all of 2017, the technical staff maintained its estimation for GDP growth close to 1.6%, within a range between 1.0% and 2.0%.
8. As expected, after a year of continuous decline, inflation increased in August and stood at 3.9% on a yearly basis. The greatest inflationary pressures concentrated in perishable goods and, to a lesser extent, in regulated items and non-tradable goods. On the contrary, the tradable sector, together with processed foods and meals outside the home, contributed to lower inflation.
9. Inflation expectations to December 2017 obtained from the monthly survey to financial analysts increased slightly, posting at 4.18%. Analysts’ expectations and those embedded in public debt bonds to horizons greater than or equal to a year increased slightly, standing between 3.4% and 3.6%.
10. In all, for the remainder of 2017, inflation is expected to increase slightly, taking into account that it is likely that food prices do not exert downward pressures and that non-food inflation will continue to reflect the effects of the indexing of prices and the increase in indirect taxes at the beginning of the year. This would

take place in an environment of weak economic activity. Monetary policy actions undertaken so far, which consider these effects, should strengthen convergence of inflation to its target.

2. DISCUSSION AND POLICY OPTIONS

The members of the Board highlighted that, as expected, the figure for annual inflation increased in August to 3.87% after a year of continuous decline. This performance was mainly explained by the higher pace of the yearly increase of food CPI due to a low basis for comparison. However, the average of core inflation indicators continued descending, standing at 4.74%.

The figures available for economic activity suggest that economic growth in the third quarter would be low, but higher than in the first half of the year. Thus, Board Members expect higher growth for the rest of the year, in line with past forecasts.

They also emphasized that, although external demand remains weak, it has been recovering mainly thanks to the performance of developed economies. Also, that higher oil prices could lead to an improvement in the country's terms of trade, which would bring their average to be higher than in 2016.

Five Board Members voted to keep the benchmark interest rate unaltered at 5.25%, while two of them voted in favor of reducing it by 25 bp.

The members of the majoritarian group considered that after a 250 bp reduction of the benchmark rate, and given that the real value of the reference rate is close to its neutral level, a pause would be timely until new information on the future performance of inflation and inflation forecasts, the output gap, and the current account deficit is available. For this group, the possibility of leading monetary policy to an expansionary stance will depend on the above-mentioned factors.

The remaining two Board Members considered that the weakness of economic activity deserves an immediate counter-cyclical response, since the output gap is increasing, and the results in terms of inflation have been good and according to the forecasts. Inflation expectations to twelve months are within the target range. This group considers that inflation will continue converging to its target, as it has done up to now, and that it is important now to provide a greater stimulus to the recovery of economic growth. The current account deficit will continue reducing, given the levels of the exchange rate, external prices, and economic activity.

3. POLICY DECISION

The Board of Directors of *Banco de la República* at today’s meeting decided to maintain the benchmark interest rate at 5.25%.

The decision to maintain the benchmark interest rate unchanged was approved by five (5) members of the Board. The two (2) remaining Board Members voted for a 25 bp reduction.

Bogotá, D. C.