A regular meeting of the Board of Directors of *Banco de la República* took place in the city of Bogotá D.C. on Friday, April 27, 2018. 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 quarterly Monetary Policy Report for March 2018 and in the statistical annex (Only Available in Spanish).

1. MACROECONOMIC CONTEXT

1. The average growth forecast of some of Colombia's main trading partners for 2018 was maintained in this Report. For 2019, growth of trading partners is expected to be similar to the forecast for 2018. Thus, the Colombian economy would receive an additional boost from a stronger external demand.
2. The prices of oil and other raw materials are estimated to reach higher levels than those observed in 2017. Particularly, this report revised the forecast for the price of oil upwards, placing it at USD 65 per barrel. This would continue driving the recovery in the country's terms of trade and the positive effects on national income.
3. This report assumes three additional increases in the FED's benchmark interest rate during 2018; consequently, the rate would move within the range of 2.25% to 2.50% at the end of the year. In addition, for 2019, two more increases versus the estimates for 2018 are expected. In this scenario, this fact would not have significant negative impacts on the dynamics of the global economy. In fact, the most recent information on capital flows to emerging economies and the behavior of risk premia suggest that external financing would not exhibit significant changes in the rest of the year.
4. Forecasts suggest that the country's external deficit as a share of GDP should continue correcting in 2018 as a result of a better dynamics of exports of goods and the good performance of current transfers. Thus, the current account deficit in 2018 is estimated close to 3.1% of GDP.
5. The technical staff considers that the Colombian economy would grow 2.7% in 2018 in the baseline scenario. International financing conditions, prices of commodities, and demand from trading partners are expected to be favorable to the expansion of Colombia's GDP in 2018. Additionally, internal factors such as the decline in inflation, an expansive interest rate, and a labor market without many variations would strengthen the process of convergence towards the growth potential. It is important to note that the risk balance is biased upwards by the effects that a more favorable behavior of the price of oil would have on the Colombian economy compared to the baseline scenario. In terms of inflation, the results in the first quarter have proved to be more favorable than expected by the technical staff and by the market. Particularly, in March, headline inflation stood at 3.14%, a figure significantly lower than the one observed in December 2017 (4.09%). The declines were observed in the majority of sub-baskets except for food inflation, which exhibited a slight increase. The preliminary estimate of the technical staff for GDP growth in 2019 is 3.7%.
6. The average of core inflation indicators continued its downward trend, reaching 3.64%. Inflation expectations to December 2018 obtained from the monthly survey to financial analysts posted at 3.27%. Analysts' expectations and those embedded in public debt bonds to horizons greater than or equal to one year stand between 2.87% and 3.30%.

In summary, for 2018, inflation is expected to continue converging to the target, and economic growth is expected to show a greater dynamism for 2018 and 2019. The monetary policy actions carried out so far should consolidate the convergence of inflation to the target and maintain a favorable path for the expansion of the GDP. However, uncertainty about the external and internal conditions and on the volatility of oil prices remains high, all of which could affect the dynamics of prices and economic activity.

2. DISCUSSION AND POLICY OPTIONS

The Board Members emphasized the positive behavior of inflation and highlighted that in recent months there have been falls, both in headline inflation, as in the various core inflation indicators. This decline has been higher than expected by the Central Bank's technical staff and by the market. In this line, inflation expectations and inflation forecasts for the policy horizon have also reduced in recent months.

The members of the Board argued that the reduction of the nominal exchange rate reinforces the reduction of inflation projections. However, they noted that the future behavior of this variable is subject to a high degree of uncertainty, since it depends on highly volatile factors such as the prices of commodities and capital flows.

Some Board Members noted that improvement trends are consolidating in different indicators of real activity. They emphasized the good performance of exports of goods and services and the recovery in the dynamics of various sectors of the economy, as is the case of trade and tourism. Nevertheless, other sectors that are considered important due to their share in GDP as well as to their economic linkages and participation in the demand for labor, have not yet exhibited strong signals of recovery. This is the case of the construction sector.

Some of the members of the Board stressed that the decline in inflation and inflation expectations, in the absence of policy decisions, increases the real interest rate, which reinforces the desirability of reducing the benchmark intervention rate to maintain the moderately expansionary monetary policy stance.

Some Board Members noted that, despite the recovery of economic activity, the projected growth is below potential, for which spare capacity would continue increasing this year. This is another factor that indicates that the intervention rate should be reduced.

3. POLICY DECISION

The Board of Directors of *Banco de la República* at today’s meeting decided unanimously to reduce the benchmark interest rate by 25 bp to 4.25 %.

Bogotá, D. C.