Minutes of the Banco de la República Board of Director's meeting on May 31, 2013

Detailed Explanation of the Macroeconomic Situation (only in Spanish) Must reads BANREP Leaves the Benchmark Interest Rate Unaltered and Continues he International Reserve Purchase Program Last modified Monday the 29th of April, 2024
A regular meeting of the Board of Directors of Banco de la República was held in the city of Bogotá D.C. on May 31, 2013. In attendance were Mr. Mauricio Cárdenas Santamaría, Minister of Finance and Public Credit, Mr. José Darío Uribe, Governor and Managing Director of Banco de la República, and full-time co-directors Messrs. Carlos Gustavo Cano Sanz, Ana Fernanda Maiguashca Olano, Adolfo Enrique Meisel Roca, César Vallejo Mejía and Juan Pablo Zárate Perdomo. Inflation and the economic situation were discussed with respect to growth and prospects for the future, and monetary-policy decisions were reached.

1. INFLATIONARY AND ECONOMIC GROWTH SITUATIONBackgrounda. Recent Developments in Inflation:
Consumer inflation in April was 2.02% which is 10 basis points (bp) above what was seen in March. The surge in annual inflation was concentrated in food and regulated prices as was anticipated.

The annual variation in the CPI for food rose for the second consecutive month and went to 1.6%, which is 20 bp more than it was in March. The upward pressure comes from perishable food (the annual change went from -1.9% in March to 0.4% in April). The annual rise in prices for processed food, in turn, was low in magnitude again. This could be related to the relative stability that international prices for grain, oil and oleaginous products showed at the end of last year and the beginning of the current one.

In the CPI excluding food, the increase in the prices for regulated items, which saw an annual change of 0.9% last month (70 bp higher than in March), stands out. This surge occurred in the fees for electricity. The other components of this group –transportation, gas, natural gas– declined.

With respect to the other components of the CPI excluding food, the annual change for tradable in April was 0.98%, which implied a drop of 15 bp in comparison to March. The prices for a significant number of durable consumer goods, including cars, continued falling just as they have been for several quarters. Since the depreciation of the peso in the last few months has been moderate, its transmission to consumer prices has been limited. The annual variation for non-tradables, in turn, did not show significant changes but rather remained at 3.8%. Its main component, the sub-basket for rent, also remained at that level.

In April, the indicators of core inflation showed few changes. The average for all of them was at 2.48%, 4 bp below the datum for the previous month and the lowest level since October 2010.

The annual change in the PPI remained in negative territory in April (-2.4%) due to the decline in the local component (produced and consumed) since the imported component rose. The latter is related to the depreciation of the peso.

With respect to inflation expectations, the different measurements are at or below the 3% target. The expectation data obtained through the Bank's monthly survey for the end of the year dipped slightly to 2.5% while the expectation for 12 months went to 3.0% (thus rising a little with respect to what had been registered in the previous survey). Meanwhile, the estimates for the TES at horizons of 2, 3, and 5 years continued to

fluctuate between 2.6% and 2.8% during April and the first three weeks of May.

b. Growth

The latest information on the performance of the economy in the first quarter of 2013 suggests that this slowed down in comparison to what had been seen at the end of last year as was predicted in earlier reports. The indicators for that period are influenced by the lower number of working days in February and March.

In the first quarter of the year, household consumption grew at rates that were slightly lower than the ones registered in the fourth quarter of 2012. According to the figures from the Retail Monthly Sample (MMCM in Spanish) published by DANE in March, the annual growth of sales was 0.9% in the first quarter (less than the 3.3% for the last quarter of 2012). This performance could be explained by an annual drop in the sales of vehicles (-11.4%). In contrast, sales of other goods grew 4.0% in the first three months of the year.

A slowdown was also seen in imports of consumer goods in dollars. Between January and March 2013, they expanded at an annual rate of 3.3%, which is lower than what was registered for the last quarter of 2012 (15.4%). This growth was affected by the performance of the imports of durable consumer goods, which grew 1.6% during this period after having registered 11.2% in the fourth quarter. From this data, the conclusion can be drawn that the consumption of non-durable and semidurable goods and services continued expanding at rates similar to those seen towards the end of last year while in the durable goods segment, there was a marked slowdown.

Regarding investment, the information on imports of capital goods shows that this item shrank in March (-6.7% annual growth). This also points to lower investment in areas other than housing construction and public works.

Exports in dollars, in turn, registered a fall of 20% in March with respect to the same month last year (it went from US$5.712 billion to US$4.567 billion). Sales abroad for the main groups declined as follows: mining, 22.3% annually; agriculture, 24.2%; and industry, 9.4%.

With regards to the supply indicators, the news shows mixed performance. Production of coffee continues to expand at favorable rates. Energy related mining showed positive growth in petroleum production while coal production was affected by labor problems and environmental penalties. The industrial sector registered significant deterioration during the quarter. In March, the index of industrial production excluding threshing shrank 11.5% in annual terms. Based on this rate, industrial production showed an annual contraction of 6.0% in the first quarter. This figure is the lowest that has been seen for an entire quarter since 2009. Given what was previously stated, it is not considered necessary to revise the growth forecasts for the first quarter. A large part of the slowdown had already been anticipated and was incorporated into the forecast for the financial period which took into account the lower number of working days in the first quarter. That being the case, the predicted range remains between 2.0% and 3.5%. This result assumes a positive performance for public consumption and the investment in public works projects.

The information for the second quarter of 2013 is scarce and is available only for April. Some of the data suggest a recovery in the expansion of economic activity. In the area of demand, consumer confidence rebounded significantly in April from the levels registered in February and March, and it rose above its historical average again. This strength was due to some better economic expectations in the medium and long term on the part of households. According to the information published by Econometria, in turn, vehicle sales registered a positive annual growth in April (3.3%) after the sharp drops in previous months (-18.5% on average for the first quarter).

In the area of supply, the indicators available for the month of April showed an improvement. In the case of industry, the indicators of purchase orders and inventory improved significantly according to the Fedesarrollo survey. Nonetheless, the trend component continues to suggest a deterioration. Likewise in April, the indicator

for production expectations as of three months also rose and the drop in the trend component halted. Nevertheless, it is advisable to wait for new information to confirm any change in the trend for this series.

The merchants consulted by Fedesarrollo, in turn, reported a slight improvement in the current and future outlook for their sales in April. However, the trend component continues to show a weakening in this case also, and the Fenalco survey also registers this performance.

Last of all, the total demand for energy surged 8.1% annually in April and the demand for non-regulated energy for industry climbed 8.2% annually. Given that the correlation between energy use and industrial production is high, a recovery in this area is expected to be seen in April.

We can expect Colombian economic expansion to increase over the course of the year to the degree that aggregate expenditures react to the previous monetary policy measures and to the programs announced by the national government last month. The Bank's technical team holds to their forecast of 3.0% to 5.0% growth in the GDP for 2013 with 4.3% being the most probable rate.

c. Financial Variables

In April, the growth of bank loans (N/C and F/C) continued to decline as it registered an annual growth rate of 14.0% which is 18 bp lower than that for the month before. This slowdown can be explained by the performance of the portfolio in national currency, which went from growing at an annual rate of 13.2% in March to 12.6% in April. During the same period, the portfolio in foreign currency saw an upswing in its annual change as it went from 29.4% to 36.3%.

Going by types, the slowdown was concentrated in loans allocated to households with a reduction in the growth rates for consumer credit (from 15.6% to 14.6% between March and April) and for the mortgage portfolio (from 14.1% to 13.7% between March and April). The commercial loan portfolio, in turn, presented a slight recovery in its annual growth during April (13.5% compared to 13.2% in March). This was mainly due to the strength of the portfolio in foreign currency.

The real interest rate in April for disbursements allocated to consumer loans was 15.5%. For mortgages, it was 9.5%; for preferential loans, it was 4.6%; and for regular commercial loans, 8.4%, all of which rates are below their respective historical averages calculated since 2000. However, the real interest rates for credit card loans and for the treasury loans were at 26.4% and 5.1% respectively. These rates are above their averages calculated since 2000.

The nominal interest rates for all of the different types of loans granted marked a declining trend in comparison to their levels during the last part of July 2012 when the policy interest rate began to go down. Up until April, the strongest reaction was seen in the rates for preferential loans (-237 bp), housing construction (-178 bp), consumer loans (-160 bp), and micro-credit (-160 bp). In the case of others, –the interest rates for regular loans (-151 bp), mortgages (-117 bp), and credit cards (-107 bp) – they declined to a lesser degree. This reduction has also been transmitted to the real interest rates in spite of the recent drop in inflation. During the above mentioned period, the declines of 177 bp in preferential loans, 118 bp in construction loans, 96 bp in consumer loans, 91 bp in regular commercial loans, and 87 bp in micro-credit stand out.

d. The External Context

Recent data suggest that growth in the industrialized economies will be similar to what was expected in the latest Inflation Report. The United States is growing at a moderate rate, Europe continues to contract, and Japan seems to be starting to react to the vigorous monetary stimulus measures. However, several of the emerging country economies in Asia and Latin America have slowed down more than expected.

In the euro zone, the contraction of the GDP was less than what had been registered in the last quarter of 2012. In spite of that, the deterioration of the economies on the periphery continued to affect Germany and, to a greater degree, France. The latest figures on productive activity show that the economy in the region has continued to shrink. Nevertheless, in the case of Germany, the information is more favorable and could be indicating a bit of a recovery in the next few months. Thus, the region's rate of deterioration may be slowing down.

In the United States, some private expenditure indicators for the second quarter suggest that the economy has continued to expand at a slow rate. The information on consumption, manufacturing, and services indicates that growth held steady in April. The housing market, likewise, continued to recover and the prices of other financial assets, to appreciate.

In China, the economy has expanded at a lower rate than expected. As of April, the information on exports, industrial activity, and retail sales show an annual growth that is lower than it was in past years. Likewise, the growth of investment in fixed assets has continued to slow down.

In the case of Latin America, productive activity slowed down in Mexico, Chile, and Peru in March. Part of this phenomenon could be associated with the effect of having fewer working days due to Easter week in the first quarter. Although the recovery of economic activity has continued in Brazil, its expansion was less than what had been expected by the economic authorities and analysts.

Regarding the international prices for commodities, the price quotes for petroleum have declined in the last few weeks. The current average price of oil is 3.5% below the average for 2012. With respect to other raw materials such as copper, coal, and nickel, their prices are also below the levels for 2012. In addition, the international prices for food have not shown significant rises so far this year and none are expected for the next few months due to the fact that climate conditions have been normal in the producing areas. Furthermore, record harvests are expected in Brazil.

Except for specific cases, consumer inflation is at low, stable levels in both the advanced and emerging economies. For the next few months, upward risks are not expected.

In a context of weak economic growth and low inflation, the monetary stimulus measures implemented by the central banks of the main developed economies are expected to remain steady for the rest of the year.

Finally, the lower prices for commodities in comparison to the average seen in 2012, a slowdown in economic growth in Latin America that was more serious than expected, and the conjectures about the possibility that the Federal Reserve of the United States may begin to reduce its asset purchase program along with other factors affected the risk premiums and the exchange rates in the region.

To summarize, weaker global economic activity is still being projected for 2013 in comparison to what was seen in 2012. The slower growth in the emerging economies leads one to anticipate that the demand for Colombian exports could be slightly lower than was previously estimated. In this context, terms of trade that are lower than the average seen in 2012 continue to be predicted. If these trends continue, the stimulation of the Colombian economy from abroad in 2013 could be more limited than in previous years.

2. DISCUSSION AND POLICY OPTIONS

The board of directors took the following relevant aspects under consideration:

(i) The recent data suggest that the industrialized economies' growth will be similar to what was expected a month ago. The United States is growing at a slow rate, Europe continues to contract, and Japan seems to be starting to react to the strong monetary stimulus measures. However, several of the emerging country economies

in Asia and Latin America have slowed down more than expected.

(ii) The slower growth in the emerging economies leads one to anticipate a slightly lower demand for Colombian exports than was previously estimated and terms of trade that are lower than the average seen in 2012.

(iii) The Colombian peso like the currency of several Latin American countries has depreciated with respect to the dollar. This could be associated with the reduction in the international prices for the commodities that these countries export, the slowdown in their economic growth, and the conjectures about the possibility that the Federal Reserve of the United States may begin to reduce its asset purchase program. The Banco de la Republica's intervention in the local foreign exchange market as well as the measures adopted by the government have reinforced the tendency of the peso to depreciate.

(iv) The indicators that are available so far suggest that growth in the second quarter will be higher than the growth in the first. In April, consumer confidence improved substantially as did the indicators of business expectation in industry, commerce, and consumption of electricity. In addition, the reductions in the benchmark interest rate are still being transmitted to the nominal and real interest rates and total credit halted its slowdown.

(v) In general, it is to be expected that Colombian economic expansion will rise over the course of the year to the degree in which aggregate expenditure reacts to the prior monetary policy measures and the programs announced by the national government last month. The Bank's technical team holds to their forecast that the GDP will grow 3.0% to 5.0% in 2013 with 4.3% being the most probable rate.

(vi) In April, annual inflation (2.02%) surged. The measurements of core inflation did not show significant changes. Both the average of those measurements and the inflation expectations are at or below the target (3%).

In summary, the growth of the Colombian economy was below 3% in the first quarter, but the monetary policy and fiscal actions that have been taken so far are expected to contribute to getting the output to go to its potential level over the course of the year. Furthermore, there is a high probability that inflation will culminate within the target range. In this context and with the evaluation of the risk balance, the Board of Directors decided it would be advisable to keep the benchmark interest rate at 3.25%.

3. POLICY DECISION

Based on the evaluation of the balance of risks, the Board of Directors agreed unanimously to keep the benchmark interest rate unaltered at 3.25%.

The Board will continue to monitor the performance and projections for economic activity and inflation in the country, the asset markets, and international situation carefully. Finally, they reiterate that the monetary policy will depend on the new information available.

Fuente: https://www.banrep.gov.co/en/news/board-directors/minutes-may-2013