Minutes of the Meeting of the Board of Directors of Banco de la República on April 26, 2013

Detailed Explanation of the Macroeconomic Situation (only in Spanish) Must reads Banco de la República Leaves the Benchmark Interest Rate at 3.25% 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 April 26, 2013. It was attended by Mr. Mauricio Cárdenas Santamaria, Minister of Finance and Public Credit, Mr. José Darío Uribe, Governor and Managing Director of Banco de la República, and Board Members Carlos Gustavo Cano Sanz, Ana Fernanda Maiguashca Olano, Adolfo Enrique Meisel Roca, César Vallejo Mejía and Juan Pablo Zárate Perdomo. These minutes contain a summary prepared by the Bank's technical staff on the situation with respect to inflation, economic growth and prospects for the same (Section 1), plus a review of the policy discussion and options considered by the Board of Directors (Section 2).

1. SITUATION WITH RESPECT TO INFLATION AND ECONOMIC GROWTHa. Recent Developments in Inflation
In March, the downward trend in annual consumer inflation came to a halt after nine months. The rate was 1.91%, up eight basis points (bps) from the previous month. The rise in inflation during March was due mainly to the acceleration in price changes for the food basket. As to the non-food CPI, the outcome varied little compared to the previous month. The price variation for tradables gathered speed, offsetting the sharp decline in prices for the basket of regulated items.

With respect to the annual change in the food CPI, the downward trend observed for several months came to an end and the rate in March was 1.4%, up 22 basis points from the month before. Perishables were the group that accelerated the most (having gone from -5.6% in February to 1.9% in March), but remained in negative terrain. Processed foods and dining out dropped off respectively from 1.6% in February to 1.3% in March and from 3.6% in February to 3.2% in March.

Within the non-food CPI, the basket of non-tradables excluding food and regulated items remained at 3.9%, as did its main component: rentals. Both these rates had been declining slowly since November of last year, possibly because pressure from demand has been scant for several quarters, coupled with the decline in inflation expectations, among others.

As for the tradable CPI excluding food and regulated items, the annual change increased (from 0.7% in February to 1.1% in March), contrary to the situation in previous months, when it was stable. This is explained, to some extent, by peso depreciation during the year, which would have begun to pass through to consumer prices.

March saw a continued decline in the annual variation in regulated prices. The outcome for that month was 0.2%, versus 0.7% in February. Once again, electrical power rates dropped sharply.

There were no significant changes in the core inflation indicators during March. The average of the four indicators monitored by Banco de la República was 2.52% compared to 2.49% in February.

The annual variation in the PPI stayed in negative terrain during March (-1.9%) despite the increases witnessed during the last three months. This may be associated with the pass through of depreciation to the imported components of the PPI.

Measurements of inflation expectations remain low. According to the monthly survey of market analysts conducted by Banco de la República, the expectation for December of this year is 2.6% inflation, which is slightly lower than the expectation last month. Expectations twelve months out are for 2.9%, having demonstrated no change in recent months. The quarterly business survey conducted in early April indicates inflation is expected to reach 2.8% by December 2013. The estimates based on fixed-rate TES and UVR point to inflation of between 2.5% and 2.7% at horizons of two to five years.

b. Growth

Available indicators for the first quarter suggest economic activity had slowed. Household consumption would have grown less than in the fourth quarter of 2012, as the following facts suggest. According to DANE, February retail sales were up at an annual rate of 0.6%, down from the 1.3% increase in January and the average of 3.3% in the fourth quarter of 2012. The figures so far this year point to a standstill in sales trends compared to the situation towards the end of last year (discounting automobile sales, the annual growth rate was 2.9%). On the other hand, the consumer confidence index published by FEDESARROLLO showed a sizeable drop in the level for February, although the level in March was maintained. As a result, the average for this index in the first quarter is less than it was during the fourth quarter of 2012. Meanwhile, the consumer loan portfolio continued to slow, with annual growth averaging 16.5% in the first quarter as opposed to 18.4% during the final quarter of 2012. In real terms, this trend has held.

Investment could be expected to recover, given the good momentum in imports of capital goods on average between January and February (growth was 9.0% in real terms, compared to -8.7% in the fourth quarter). Colombian exports by February 2013 were down 6.6% from the same month last year. This is explained by the decline in major exports originating with mining (-11.9%) and agriculture (-6.3%). In contrast, the group of industrial exports and “others” posted an annual increase of 13.4% in February. Once again, exports of vehicles and automotive parts made an important contribution, having risen 354% that month. Other highpoints are the increase in exports of electrical machinery and apparatus (38%) and meat (167%).

On the supply side, the available indicators for industry continue to show deterioration in the sector. The annual change in the IPI by February (coffee milling excluded) was -4.5%, which is similar to what was expected. It is important to note this performance would be related, in part, to one less calendar day in February compared to the same month last year. Business confidence also dropped off during the first quarter to levels below those witnessed at the end of last year. The indicators for orders and inventory show deterioration in the sector, as did expectations for production three months out.

Several of the figures for commerce and construction suggest slowdowns in these sectors as well. According to the FEDESARROLLO survey, the current situation and merchants’ expectations at six months signal some deterioration in the sector. As for construction, cement production posted an annual drop of 4.8%. With that, its tendency component continues to fall.

A decline in the production of coal is expected due to supply shocks during February and March. However, for mining activity as a whole, the rise in oil production should partially offset that negative effect. Oil production rose sharply during the first three months of the year, reaching 1,008 thousand barrels per day, with 8.5% annual growth.

For its part, coffee production would have accelerated between January and March 2013 (by 26% on average). This is according to the National Federation of Coffee Growers and despite the strike and the problems reported by growers.

It is important to bear in mind there were fewer working days during the first quarter of the year compared to the same period in 2012. This was due to Easter Week in March and one day less in February. In the past, similar situations have had a significant impact on first-quarter economic growth figures. As a result, it has been

difficult to interpret current economic trends and to forecast economic activity.

However, economic growth is expected to increase throughout the year to the extent that aggregate spending reacts to the monetary policy measures adopted earlier and to the investment and spending programs announced recently by the central government. The Bank's technical staff forecasts between 3.0% and 5.0% GDP growth for 2013 as a whole, with 4.3% being the most likely figure.

c. Financial Variables

The expansion in bank lending (D/C and F/C) continued to abate, following five months of relative stability. The annual increase by March was 14.2%, down 95 bp from the previous month. The loan portfolio in domestic currency went from 14.4% to 13.2% annual growth between February and March. However, annual growth in the loan portfolio in foreign currency rebounded from 24.8% to 29.4%.

All types of lending expanded less during March, in annual terms, compared to the previous month. Specifically, annual growth declined from 14.2% to 13.2% for commercial loans, from 16.9% to 15.6% for consumer lending, and from 14.5% to 14.1% for mortgage loans.

Nominal interest rates on loans of all types exhibited a downward trend with respect to their levels at the end of July 2012, when the benchmark rate cuts began. Up to March, the principal reaction was in the rates on consumer lending (-165 bp), preferential loans (-152 bp) and micro-credit (-182 bp). Mortgage rates declined to a lesser extent (-94 bp), as did those on credit card lending (-73 bp), ordinary commercial loans (-104 bp) and lending for home construction (-124 bp).

In March, the real interest rate on consumer loans was 15.6% as opposed to 9.8% on mortgages, 5.6% on preferential loans and 8.9% on regular commercial lending. All these rates are below their historical averages calculated since 2000. On the other hand, real interest rates on credit card and treasury loans were 26.9% and 5.2% in that order, surpassing the respective averages calculated since 2000.

d. The External Situation

The various indicators of industrial production, consumption, employment and lending suggest overall economic activity during the first quarter of 2013 remained sluggish. The slow expansion of the global economy is due to weak economic growth in the developed countries, as mirrored in high levels of unemployment and growing doubts about fiscal sustainability in several of those economies. In contrast, the emerging economies continue to display favorable momentum, although some are beginning to show signs of a slowdown due to weakening global demand and the negative impact this has on commodity prices.

The euro zone is still the least dynamic region. Performance figures for its productive sector show a new decline in gross domestic product during the first quarter of 2013. This is consistent with the movement in indicators of business sentiment for the manufacturing and service sectors, which experienced further deterioration in recent months, and the indicators of industrial and retail activity, which continued to wane in annual terms. Although the measures adopted in the euro zone improved financial conditions in the region as of the second half of 2012, the credit channel remains blocked by the mistrust with which financial intermediaries have responded to economic developments.

In the United States, the news is slightly more favorable. Annual growth in output during the first quarter of 2012 came to 2.5%, as opposed to 0.4% in the final quarter of last year. Household consumption and the manufacturing and service sectors continued to grow, while the housing market remained on the road to recovery, but still from relatively low levels. However, several figures for March and April show demand is weakening, apparently due to the impact of the fiscal adjustment and dwindling demand worldwide, which would be affecting US export performance.

Meanwhile, in the emerging economies, China's growth during the first quarter of the year was less than what analysts expected and slackened with respect to the fourth quarter of 2012. The drop-off in industry, retail sales and exports during the first part of the year is evidence of this slowdown. An important consequence of that decline is the reduction in China's imports of raw materials and commodities. This trend, witnessed since late 2010, affects the performance of most emerging economies that had found an important market for their products in China.

In the case of Latin America, the economies of Chile, Mexico and Peru continued to grow at a favorable rate, but have begun to show signs of weakness, especially in the case of Chile and Mexico. In Brazil, the pace of industrial recovery slowed during February. Nevertheless, growth in the Brazilian economy during 2013 is expected to surpass last year's rate (0.9%). Other economies in the region, such as Venezuela and Ecuador, would decelerate compared to the previous year.

As to international commodity prices, the weakness of the world economy caused oil prices to plunge in recent weeks. In the case of other goods exported by Colombia, such as coal, nickel and coffee, prices are below the average for 2012.

Lower international commodity prices, especially for energy, have eased inflationary pressures in the global economy and suggest there is little risk on this front in the near future. Coupled with the expectation of weak global growth, this indicates monetary policy in the developed economies and in several emerging markets would remain expansive. It is worth noting the Central Bank of Japan announced a policy on quantitative easing that would imply doubling the monetary base over the next two years. It would increase from approximately 30% of GDP today to over 60% by 2015.

In short, the forecast is for weaker economic activity worldwide during 2013 compared to 2012. Terms of trade are expected to be less than those on record for last year, breaking the upward trend observed in previous years. If these trends continue, the external impetus to the Colombian economy in 2013 could be less than in past years.

2. DISCUSSION AND POLICY OPTIONS

The Board of Directors took the following relevant factors into account in its deliberations.

(i) On the international scene, indicators of economic activity in the first quarter show modest growth in the United States, Europe in recession, and a slight slowdown in China. Moreover, in Japan, the central bank announced a forceful monetary stimulus program.

(ii) If the current trends in the international economy continue throughout the year, terms of trade and average growth for Colombia's trading partners probably will slacken a bit compared to 2012. As a result, the external boost to aggregate spending would be less than in previous years.

(iii) The first-quarter figures suggest economic activity in Colombia has slowed compared to what was observed in 2012. On the demand side, household consumption would have grown at a slower pace, as evidenced by the changes in indicators of retail trade, household confidence and lending. On the supply side, the available indicators for industry continue to show deterioration. In February, exports in US dollars fell year on year, mainly due to mining exports and those affected by supply shocks in the coal sector. In contrast, industrial exports rose at a good pace.

(iv) The recent trend in several components of aggregate spending, coupled with the effect of fewer working days during the first quarter compared to the same period last year, has made it particularly difficult to interpret current economic trends and to forecast economic activity. Nevertheless, economic growth is expected to increase throughout the year to the extent that aggregate spending reacts to the monetary policy measures adopted earlier and to the investment and spending programs announced recently by the central government. The

Bank's technical staff forecasts between 3.0% and 5.0% GDP growth for 2013 as a whole, with 4.3% being the most likely figure.

(v) In March, annual inflation (1.91%) accelerated slightly and the core inflation rates exhibited no significant changes. The average of these measurements is below target (3%), as are most indicators of inflation expectations.

(vi) By March, the benchmark interest rate cuts had passed through to nominal interest rates in the market. Those on consumer lending, microcredit and preferential loans reacted to a similar extent or more than the Bank's rate, while interest rates on ordinary commercial loans, mortgages and credit card lending were slower to respond. However, recent weeks have seen a significant reduction in interest rates on home mortgages. In real terms, rates have declined less due to the sharp drop in inflation and inflation expectations.

(vii) Loan portfolio growth continued to abate. So far this year, there has been a slowdown in commercial loans in domestic currency, but an increase in financing through corporate bond issues, coupled with more external borrowing. Lending to households (consumer and mortgage loans) also grew less, but at rates superior to those of nominal GDP.

(viii) By December, the price indexes for new and existing homes continued to rise at elevated rates, reaching historic highs.
In short, the Colombian economy currently is growing below its potential and inflation is under 3%. The monetary and fiscal policy measures adopted in 2013 will help to place output near the economy's productive capacity and move inflation towards the long-term target.

POLICY DECISION
Pursuant to its assessment of the current risk balance, the Board of Directors unanimously agreed to hold the intervention interest rate at 3.25%, pending additional data.

The Board will continue its careful monitoring of performance and projections with respect to economic activity and inflation in Colombia, asset markets and the international situation. Finally, it reiterated that monetary policy will depend on new information as it becomes available.

La Junta seguirá haciendo un cuidadoso monitoreo del comportamiento y proyecciones de la actividad económica e inflación en el país, de los mercados de activos y la situación internacional. Finalmente, reitera que la política monetaria dependerá de la nueva información disponible.

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