Detailed Explanation of the Macroeconomic Situation

Must reads

Banco de la República Raises the Benchmark Interest Rate by 25 Basis Points and Expands Its Foreign Currency Buying Program

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A regular meeting of the Board of Directors of Banco de la República was held in the city of Bogotá D.C. on June 20, 2014. In attendance were Mr. Mauricio Cárdenas Santamaría, Minister of Finance and Public Credit, Mr. José Darío Uribe Escobar, Governor and Managing Director of Banco de la República, and the Board Members Carlos Gustavo Cano Sanz, Ana Fernanda Maiguashca Olano, Adolfo Enrique Meisel Roca, César Vallejo Mejía and Juan Pablo Zárate Perdomo.

A synthesis is presented below of the view held by the Banco de la República's technical team with regarding policy considered by the Board of Directors are summed up (section 2). discussion points

A more detailed explanation of the macroeconomic situation de la República is presented in the data section of the May 2014 Inflation Report and in the statistics appendix. written by the technical team at the Banco

1. MACROECONOMIC CONTEXT

With respect to the macroeconomic context, the technical team would like to draw attention to the following points:

i. The information available indicates that the main developed countries continue to expand at a moderate rate. [illegible] exception of Colombia, a slowdown has predominated in several countries in Latin America. [illegible] as

ii. The performance of commodity prices has been mixed. The price for petroleum remains above what [illegible] case of prices for imported food such as wheat and corn, decreases were seen in the last few weeks.

iii. In the euro zone, the risk of deflation persists. This has led the European Central Bank to announce [illegible] has in several economies in Latin America. In Asia, there is stability. [illegible] has risen recently just as it

iv. The global financial markets have shown a favorable performance in the last few weeks. The indices [illegible] trend of the exchange rates in the region particularly pricey rain. [illegible] interest rates in that country make the future

v. In April the value of Colombian exports in dollars declined in comparison to the same month last year. [illegible] other traditional products, such as coffee, bananas, and flowers, recorded foreign sales of minerals and of agricultural products

vi. The annual growth of the GDP for the first quarter of 2014 was 6.4% and the growth for 2013 was [illegible] industry registered a growth of 3.3% after two years of negative rates. It should be noted that [illegible] sectors.

vii. Although the GDP figures with respect to demand have not been published yet, the information [illegible] data on imports of capital goods for industry and agriculture). [illegible] growth of the construction sector and the

viii. For the second quarter, the indicators for sales and consumer confidence indicate that household [illegible] performance in the second quarter. Imports of durable consumer goods will have registered a favorable

ix. The above is consistent with the behavior of the consumer portfolio in May, which stopped [illegible] acceptable rates in the last few months and is mainly concentrated in wage earning jobs. [illegible] has stayed at [illegible] continue

x. To the above add the fact that the real interest rates are dropping for households as well as for [illegible] portfolio has likewise been improving. [illegible] and consumer loan portfolios. The positive trend for the mortgage

xi. In May, annual consumer inflation continued the upward trend it has been on since the beginning of [illegible] the item that has contributed the most to the increase in inflation. [illegible] So far this year, food has also been

xii. Two aspects of the recent performance of the variation in consumer prices should be noted: i) The [illegible] expectations are showing rises and some are beginning to surpass the midpoint of the target range.

xiii. The state of the economy as described by the growth data in the first quarter, the positive indicators [illegible] the probability that inflationary pressure may be spreading throughout the entire economy. [illegible] increases

xiv. To summarize, it can be stated that the most recent data show an economy and inflation that are [illegible] a low level (compared to its average since 2008) and could [illegible] continue stimulating domestic demand.

2. DISCUSSION AND POLICY OPTIONS

The Board of Directors agreed that the economy grew more strongly than expected in the first quarter of [illegible] members, has slowed [illegible] at least of even, in the opinion of some [illegible] accelerated pace than had been previously [illegible]

Regarding inflation, the members of the Board agreed that in spite of the fact that expectations have risen [illegible] the result of climate factors, i.e., the result of supply shocks instead of an excess of demand. [illegible] has been

The Board indicated that a gradual adjustment in the benchmark interest rate was justified considering [illegible] the impacts of the monetary policy of the United States, (ii) the weakening of international trade, and (iii) [illegible]

The members of the Board of Directors decided that, in the above-mentioned context, it is necessary to [illegible] financial system balances. [illegible] normalizing the monetary policy and closely monitoring the reaction of the

3. POLICY DECISION

The Board of Directors decided unanimously that it would be appropriate to raise the benchmark interest rate by 25 bp and set it at 4%.