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## [Detailed Explanation of the Macroeconomic Situation](#)

### Must reads

[Banco de la República announces the Quantitative Inflation Target for 2015 and maintains the Benchmark Interest Rate at 4.5%](#)

A regular meeting of the Board of Directors of Banco de la República was held in the city of Bogotá D.C. on October 30, 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 Board Members Carlos Gustavo Cano Sanz, Ana Fernanda Maiguashca Olano, Adolfo Meisel Roca, César Vallejo Mejía and Juan Pablo Zárate Perdomo.

These minutes contain a summary of how Banco de la República's technical team views the macroeconomic situation (Section 1), followed by a review of the key policy discussion points considered by the Board of Directors (Section 2).

A more detailed [description of the macroeconomic situation](#) prepared by the technical staff from the Central Bank is provided in the data section of the September 2014 edition of the Inflation Report, as well as in the statistical appendix.

## 1. MACROECONOMIC CONTEXT

Regarding the macroeconomic context, the technical staff highlights the following elements:

1. The information ratified the weak growth of world economy. United States showed a weak and 2015 was projected. External demand will continue to be slow next year, except for the economy of the US.
2. The prices of oil fell strongly. This behavior which pressures world inflation downwards, and also economies with a strong dependence on oil. In these cases generates a depreciation of the terms of trade and therefore a reduction of their national income.
3. Facing the prospect of low inflation in the United States and greater risks of a slowdown in world trade, on average, the Fed in 2015 has happened together with a slight decrease in the long-term interest rates.
4. The measures to limit the price of various countries in the Eurozone as well as of some emerging countries has reduced and their currencies have depreciated against the dollar.
5. For Colombia, the fall in the international price of oil has implied deterioration in the trend of this trend continue, the national income will continue to be affected negatively.

6. Weakness in the output and demand and the lower international prices of primary commodities have led to a temporary deterioration of the external balance. This has been explained by the loss of primary materials, those destined to consumption, and to a smaller extent, those of capital goods.
7. The new figures of foreign trade validate the projection of a greater deficit in the current account in the second semester and suppose that the GDP reduction of a greater deficit in the current account sectors would have continued in the second half of the year.
8. As for Colombia's economic growth, the most recent indicators of supply and demand suggest that growth has been maintained. The main reason for this is that the demand for goods and services has increased more than exports, and with this the balance of trade would contribute negatively to the product.
9. In October, banking credit continued to slow down, but still recorded annual rates larger than the benchmark rate. The external debt transaction of the increase of the benchmark interest rate towards the loan rates.
10. Given the aforesaid, the technical staff maintained the projection for the range for annual economic growth for all of 2014 between 4.5% and 5.5%, with 5% as the most probable figure.
11. Regarding prices, 2014 is expected by the technical staff, annual inflation increased from 2.86% in measurements of core inflation increased, and their average posted at 2.76%.
12. So far, this year, until October, accumulated inflation reached 3.25%. With this result, by the end of 2014, inflation expectations derived from global surveys on a one-year horizon as well as for 2, 3, and 5 years, are all anchored close to the target.
13. So far, depreciation of the peso has been partially transmitted to the CPI of tradable goods transmitted to a greater extent to internal prices, generating greater inflation expectations.

In summary, aggregate demand continues to show a strong growth in a context close to the full use of the productive capacity. As was expected, inflation increased, a fact explained by the greater pace of increase in the prices of food, which is expected to be transitory. At the same time, inflation expectations remain stable, and are somewhat over 3.0%. This takes place within an environment of deterioration of the terms of trade and of uncertainty about the recovery of the economic activity worldwide together with the cost of external financing, which are factors that may impact aggregate demand as well as the exchange rate.

## 2. DISCUSSION AND POLICY OPTIONS

The Board of Directors unanimously decided to maintain the benchmark interest rate at 4.5%.

The members of the Board highlighted the strong dynamism of the Colombian economy, and a more adverse external environment in the horizon of monetary policy.

The strong fall in the international prices of oil and other commodities consolidates a weak external scenario that will affect the performance of the Colombian economy negatively during 2015. As was expected, the Colombian peso has depreciated, which may buffer the effects of the weakness of external variables on the output gap, and might have an effect on short-term inflation. The floating exchange rate regime has proven to be an efficient mechanism to absorb external shocks.

Inflation expectations are anchored to levels close to the target. The average of the core inflation indicators converges towards that target, while total inflation registers a higher value due to transitory shocks in supply.

Under these conditions, the Board Members agreed to maintain the benchmark interest rate unaltered, as well as to continue monitoring the performance of the economy.

## 3. POLICY DECISION

The Board of Directors unanimously decided to maintain the benchmark interest rate at 4.5%.

