Minutes of the Meeting of the Board of Directors of Banco de la República on Friday, May 26, 2017

Monetary Policy Report Last modified Sunday the 28th of April, 2024
A regular meeting of the Board of Directors of *Banco de la República* took place in the city of Bogotá D.C. on Friday, May 26, 2017. 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, José Antonio Ocampo Gaviria, Adolfo Meisel Roca, 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 monthly Monetary Policy Report for April 2017 and in the statistical annex. (Only available in Spanish).

1. MACROECONOMIC CONTEXT

- In the first quarter of 2017, the Colombian economy grew 1.1% on a yearly basis, somewhat below the Central Bank's expectations (1.3%). The most dynamic sectors were agriculture (7.7%) and financial services (4.4%), while mining, construction, retail, and transport fell (-9.4% -1.4%, -0.5%, and -0.3%, respectively). Versus the previous quarter, GDP fell 0.2%, which corresponds to an annualized -0.9% rate.
- On the demand side, calculations by the technical staff suggest that household consumption would have slowed down, while government consumption would have increased its pace of growth; investment, on the other hand, would have ceased to fall. With this, domestic demand would have recovered somewhat. GDP on the demand side will be published by DANE on 26 May.
- The figures for Colombian foreign trade (in US dollars) for the first quarter show a 31.4% growth in the value of exports, explained largely by sales of mining assets. The value of imports, on the other hand, increased 6.9%. With this, the balance of trade would have closed due to an increase in external sales higher to that of purchases.
- The information available for the second quarter is scarce, but it suggests that the economy continues exhibiting low dynamism. To April, oil production remained at levels similar to those of the past 6 months, and coffee reduced substantially compared to the first quarter. On the other hand, the consumer confidence index improved compared to previous months, although it remains far below its historic average.
- Household credit (consumer and mortgage) maintained nominal growth rates close to those observed in recent months, while business credit continues to decline. This takes place within a context in which the transmission of the reduction in the benchmark rate has been higher to commercial credit rates than to household credit rates.
- The technical staff at the Central Bank maintains its growth forecast for the whole year at 1.8%, within a range of 0.8% and 2.6%.
- Regarding annual inflation, it posted at 4.66% in April, with no significant changes compared to March. In the month, regulated items generated upward pressures (moving from 4.05% to 6.75%) which offset the decline in food inflation (from 3.65% to 2.49%). Tradables and non-tradables (excluding food and regulated items) also exhibited declines in their annual price variation, although of a lesser magnitude. The average of core inflation indicators also remained relatively stable.
- Inflation expectations obtained from the survey to financial analysts for the end of 2017 increased slightly, and for 2018 they remained close to the levels of the survey performed in April. Inflation expectations embedded in

public debt bonds (Break-Even Inflation and Forward Break-Even Inflation) showed some increases.

- The figures available for other countries suggest that the Latin American economies remain weak. The picture is better for developed economies. The United States is expected to perform better in the second quarter than in the first. The unemployment rate remained low in April, and the market anticipates that the Fed will increase the benchmark interest rate at its June meeting. In Europe, positive performance of consumer confidence indicators and of perception by industrialists continues.
- Colombia's terms of trade to March increased thanks to the increase in the prices of its main export products. Much of this trend would continue should oil remain at its current levels, which appears to be the case, considering the extension of the agreement on the limits to production until March 2018 announced by the OPEC.

In all, for 2017, the strong transitory shocks that diverted inflation from its target are expected to continue fading in an environment of a weak economic activity. The monetary policy actions undertaken so far, which consider these effects, should strengthen convergence of inflation to its target.

2. DISCUSSION AND POLICY OPTIONS

The members of the Board agreed that the new information confirms a slowdown of the output higher than forecast by the Central Bank's technical staff. Under these conditions, they agreed on the desirability of a further reduction in the benchmark intervention rate that reduces the contractionary stance of the monetary policy. They also noted that this path of interest-rate reductions should have the expected effects on economic activity, given that the policy transmission channels are operating normally.

Four Board Members voted for a 25-bp reduction of the benchmark interest rate. They considered that, although the recent inflation data are positive, the high persistence that some groups of the CPI have shown and the indexation that some prices and wages continue to show can undermine efficient convergence of inflation to its long-term target. In this context, it is sensible to follow a path of gradual reductions in the benchmark interest rate while the declining inflation forecasts consolidate.

The other three members of the Board proposed a 50-bp reduction to the benchmark interest rate. In their opinion, the rapid slowdown of economic activity and the uncertainties of the various actors regarding the future recovery of growth indicate the desirability of a significant reduction in the interest rate that induces higher growth in domestic demand. One of the Board Members felt that, to the extent that a good part of the inflation is inertial, positive recent data allows for more optimism regarding the inflation forecasts.

3. POLICY DECISION

The Board of Directors of *Banco de la República*, by majority, decided to reduce the benchmark interest rate by 25 bp to 6.25%.

The decision to reduce the benchmark interest rate by 25 bp was approved by four (4) members of the Board. The remaining three (3) Board Members voted for a 50 bp reduction.

Bogotá, D. C.

Fuente: https://www.banrep.gov.co/en/news/board-directors/minutes-may-2017