Minutes of the Meeting of the Board of Directors of Banco de la República on 31 October 2019

Attachments

Determinantes de las Dinámicas de los Mercados de Capitales (Only Available in Spanish) Anexo estadístico (Only Available in Spanish)

A regular meeting of the Board of Directors of *Banco de la República* took place in Bogotá D.C. on Thursday, October 31, 2019. In attendance were Alberto Carrasquilla Barrera, 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, Carolina Soto Losada, and Roberto Steiner Sampedro.

The main monetary policy discussions considered by the Board are summarized as follows.

1. DISCUSSION AND POLICY OPTIONS

The Board Members emphasized that the behavior of inflation remains consistent with its convergence to the target in 2020. They agreed with the projections of the technical staff, which suggest that inflation will stand away from the 3.0% target in the coming months, and that once the transitory supply shocks that have been taking place have faded, it will come close to it. This scenario is consistent with the behavior of agents' expectations. Several members of the Board also pointed out that, according to the new information, the persistence of the depreciation of the exchange rate has affected the prices of some food items, while regulated prices have remained below the initial estimates.

Although inflation is expected to converge to the target next year, some Board Members pointed out that there are risks that could cause this to happen more slowly than expected initially by the Central Bank's technical staff.

Regarding economic activity, the Board emphasized that economic growth in Colombia exhibits a greater dynamism than the rest of the region. The information available suggests that the pace of growth has continued so far in the second half of the year, therefore the gradual closing of the negative output gap would continue.

On the other hand, the complexities of the labor market continue to be studied by the technical staff, given the Board's concerns on its evolution and possible structural changes it could face.

The Board highlighted the good performance of credit (particularly consumption credit) and the recovery of commercial loans. A full transmission of the benchmark interest rate to portfolio interest rates including consumption has been observed.

As for the external context, the Board noted the low growth of global investment and trade, as well as the lower growth projections both globally and in the region. On the other hand, they agreed that the more expansionary monetary policies, particularly those of the United States Federal Reserve and the European Central Bank, will strengthen an environment of greater liquidity in international markets.

The members of the Board discussed the projections of the balance of payments, assessing the potential vulnerabilities posed by the level of the current account deficit as well as the benefits of having a majority of funding based on foreign direct investment. They highlighted that this greater deficit takes place in an environment of lower external demand, wide international liquidity, and high growth of local investment.

In this context, the Board unanimously decided to maintain the current level of the benchmark interest rate for monetary policy intervention, which it considers as moderately expansionary.

2. POLICY DECISION

The Board of Directors unanimously decided to maintain the benchmark interest rate unaltered at 4.25%.

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