Monetary Policy Report - October 2019

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As per its constitutional mandate, *Banco de la República* **must ensure that the purchasing power of the currency is maintained in coordination with the general economic policy1.** In order to fulfill this mandate, the Board of Directors of *Banco de la República* (hereinafter BDBR) adopted a flexible inflation targeting scheme, by which monetary policy actions (MP) seek to lead inflation to a specific target and achieve the maximum levels of sustainable output and employment.

The flexibility of this scheme allows the BDBR to maintain an adequate balance between the achievement of the inflation target and the purpose of smoothing output and employment fluctuations around their sustainable growth path. The BDBR set a 3.0% inflation target based on the annual variation in the consumer price index (CPI). In the short term, inflation may be affected by factors that are not under control of the monetary policy such as changes in food prices due to climatic phenomena. To incorporate this, the BDBR announces, along with the inflation target, a ±1 percentage point range (i.e., 3.0 ± 1 pp) which is not a target of the monetary policy, but reflects the fact that inflation can fluctuate around the target, and not always be equal to 3.0%.

The main instrument of the BDBR to control inflation is the policy interest rate (overnight repo rate, or benchmark interest rate). Given that monetary policy actions take time to have a full effect on the economy and inflation2, in order to determine their value, the BDBR assesses the inflation forecast and inflation expectations vis-à-vis the inflation target, as well as the current situation and outlook of the economy.

The BDBR meets once a month, but it produces monetary policy decisions only in eight of its meetings (in January, March, April, June, July, September, October, and December). In the remaining four months (February, May, August, and November), in principle, no such decisions are made3. At the end of the meetings where monetary policy decisions are produced, a press release is published and a press conference by the Governor of the Central Bank and the Minister of Finance is held. The minutes of the meeting describing the positions that led the Board to its decision are published on the following business day. Additionally, the Monetary Policy Report (MPR)4 produced by the Central Bank's technical staff is published in January, April, July, and October, together with the minutes. On the Wednesday of the week following the Board meeting, the Governor clarifies concerns about the minutes, and the Bank's Deputy Technical Governor presents the MPR. This dissemination scheme seeks to deliver relevant and up-to-date information that contributes to better decision-making by the agents of the economy5.

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1 Political Constitution of Colombia (1991), Article 373 and Sentence C-481/99 of the Constitutional Court.

2 For further details, see M. Jalil and L. Mahadeva (2010). "Transmission Mechanisms of Monetary Policy in Colombia", Universidad Externado de Colombia, Faculty of Finance, Government, and International Relations, ed. 1, vol. 1, no. 69, October.

3 A Board Member may request an extraordinary meeting at any time to make MP decisions.

4 Formerly known as Inflation Report.

5 The current communication scheme was approved by the BDBR in its August 2019 meeting.

Fuente: https://www.banrep.gov.co/en/news/monetary-policy-report-october-2019