Monetary Policy Report - January 2020

Report Principales variables del pronóstico macroeconómico (Only available in Spanish) Box 1 - Evaluation of the Predictive Capacity of Expected Inflation Measures Box 2 - Literature Review: Weighing the Drivers of Portfolio Flows to Emerging … Keep in mind
The Monetary Policy Report presents the Bank's technical staff's analysis of the economy and the inflationary situation and its medium and long-term outlook. Based on it, it makes a recommendation to the Board of Directors on the monetary policy stance. This report is published on the second business day following the Board of Directors' meetings in January, April, July, and October.

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Banco de la República (the Central Bank of Colombia) is required by the Constitution to maintain the purchasing power of Colombia’s currency in coordination with general economic policy1. In order to fulfill this mandate, the Central Bank of Colombia’s Board of Directors (hereafter BDBR) has adopted a flexible inflation targeting scheme, by which monetary policy actions (MP) seek to lead inflation to a specific target and achieve maximum levels of sustainable output and employment.

The flexibility of this scheme allows the BDBR to maintain an adequate balance between reaching its inflation target and smoothing output and employment fluctuations around their sustainable growth paths. The BDBR has set a 3.0% inflation target based on annual change in the consumer price index (CPI). In the short term, inflation may be affected by factors outside of monetary policy control, such as changes in food prices due to climate-related phenomena. To factor in this reality, the BDBR has also set a ±1 percentage point range outside its inflation target (i.e., 3.0 ± 1 pp). This range does not represent a monetary policy target, but rather reflects the fact that inflation can fluctuate around the target and will 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 their full effect on the economy and inflation2, 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, in order to determine their value.

The BDBR meets once a month, producing monetary policy decisions in eight of its meetings (January, March, April, June, July, September, October, and December). In principle, no such decisions are made in the BDBR’s four remaining meetings (February, May, August, and November)3. At the end of the meetings in which monetary policy decisions are produced, a press release is published and a press conference held by the Governor of the Central Bank and the Minister of Finance. The minutes of the meeting describing the positions that led the BDBR 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 scheme5 seeks to deliver relevant and up-to-date information to contribute to better decision-making by the agents of the economy.

Boxes

- Box 1 - New Estimates for Colombia’s Potential (Trend) GDP and Output Gap

Leonardo Bonilla Mejía, José David Pulido

- Box 2 - Food Prices drove Inflation in 2019

Edgar Caicedo G., Nilson Felipe Lizarazo B., Eva María Ramírez G.

1 Political Constitution of Colombia (1991), Article 373 and Decision 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 the Inflation Report.

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

Fuente: https://www.banrep.gov.co/en/monetary-policy-report-january-2020