Minutes of the Meeting of the Board of Directors of Banco de la República on 31 July 2020

Attachments

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

At its meeting on 31 July, the Board of Directors of the Central Bank (BDBR) assessed the latest figures available on the national and global economic activity. Outlined below are the main elements of the monetary policy discussion.

The Board considers that the economic activity indicators together with the extension of the measures for preventative isolation and the restrictions imposed on the operation of several sub-sectors indicate that there would be a significant contraction of output during the second quarter of 2020.

Despite the better performance of some high-frequency indicators starting in May, both household and corporate income have been severely affected, and a significant amount of spare production capacity continues to be observed. Added to this, there is a lower external demand forecast for all of 2020. Given the high degree of uncertainty, the members of the Board highlighted that it is difficult to determine the amount of spare capacity.

Additionally, the Board Members expressed their concern regarding the marked deterioration of the labor market. In June, labor market indicators exhibited results similar to those of the previous month, with unemployment figures at historical levels. The Board anticipates a gradual recovery of employment as the economic activity recovers.

The members of the Board discussed the inflation figure in June (2.19%, below the target), and, particularly, inflation excluding food and regulated items, which reduced to 1.6%. They also referred to the continued decline of inflation expectations, below the 3.0% target, even over one-year and longer horizons.

As for the external front, the BDBR highlighted the improvement of financial conditions supported by the comprehensive response by central banks, which has been reflected by lower sovereign risk premia, lower volatility, and greater liquidity in global and local money markets, public debt, and foreign exchange markets. Similarly, oil prices and workers' remittances have exhibited a recovery trend. In this environment, there has been a correction of the strong depreciation of the peso that took place at the onset of the pandemic.

In this context, the members of the of the Board considered that monetary policy should have a more expansionary stance in order to support the recovery of economic activity and lead inflation to its target within the policy horizon; therefore, they reduced the benchmark interest rate by a quarter of a percentage point to 2.25%.

Link

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Publication Date:
Monday, August 3, 2020 - 12:00

Hour
13:01

- Print