Minutes for Banco de la República's Board of Directors Meeting on December 18, 2020

Attachments

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

Anexo estadístico (Only Available in Spanish)

After considering the most recent information available on economic activity, inflation, and international conditions, Banco de la República's board of directors (BDBR) in its meeting on December 18 held the benchmark interest rate at 1.75%. Five board members voted in favor of leaving the rate unchanged, while two voted for a 25 bp reduction.

The policy discussion centered on the following factors:

The directors highlighted that inflation in November (1.49%) was below levels expected by analysts and economic authorities. They also emphasized that expected inflation remains reasonably well-anchored on the medium-term forecast horizon (2.7% for 2021 and 3.0% for 2022); that economic recovery is progressing at a favorable pace despite ongoing risks related primarily to the COVID-19 pandemic and its fiscal fallout; that monetary policy transmission has been adequate over the course of the year; and that external financial conditions continue to be favorable in terms of financing the Colombian economy.

For the majority, the main arguments for holding the current expansionary monetary policy stance centered on the need to focus on medium-term measures of expected inflation and its deviation from the target. They noted that despite low measures of inflation, the recent decline and the prospect of a further reduction in the short term would begin to reverse in the second quarter of 2021. Given medium-term inflation expectations that remain close to the target and information related to economic activity that points to a rapid recovery, they considered a deepening of the current expansionary policy stance unnecessary. Those in the majority placed value on the potential for frequent changes to the benchmark interest rate, possibly in opposite directions, to signal instability to the market.

The minority argued in favor of a 25 bp reduction in the benchmark interest rate. They emphasized that recent data has shown surprisingly low inflation, allowing for the expectation of a lower inflation trajectory on the policy horizon. Though it has not yet happened, if such expectations were adopted by the market it would lead to a less expansionary real policy interest rate than currently exists. This group argued that it would be reasonable to suggest that this context of lower inflation is the result of a more negative output gap than previously considered. As a consequence, they suggested that there would be space for a reduction in the benchmark interest rate, and that this would contribute more to tightening the inflation and output gaps. They also mentioned that the potential risks to the Bank's capacity to reduce its interest rate slightly further have fallen, a factor that was referenced by all of the directors in relation to a reduction in external vulnerabilities.

Finally, the BDBR agreed to return to its regular decision-making structure for monetary policy meetings, which had been modified due the pandemic.

Monetary Policy Decision

The BDBR decided by majority to hold the Banco de la República's benchmark interest rate at 1.75%.

Link

[Other measures taken by BR on account of COVID-19]

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