Minutes for Banco de la República's Board of Directors Meeting on January 29, 2021

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En su sesión del 29 de enero, la Junta Directiva del Banco de la República revisó la última información disponible sobre actividad económica, inflación y condiciones internacionales. La Junta decidió mantener la tasa de política 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 January 29 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 monetary policy discussion centered on the following factors:

Year-end inflation in 2020 was 1.6%, while the average of core inflation indicators was 1.3%. Expected inflation remained stable at 2.7% for 2021 and 3.1% for 2022. The Bank's technical staff projects low levels of inflation for the first quarter of 2021 before an acceleration through the remainder of the year.

Fourth-quarter indicators suggested a continued recovery in economic activity at the end of 2020 that is expected to persist over the course of this year.

External conditions continue to favor financing of the Colombian economy amid high levels of global liquidity, low central bank interest rates, and significant optimism over the deployment of COVID-19 vaccines.

The Colombian financial system continues to offer favorable and stable conditions for solvency and liquidity. In this context, the credit portfolio and interest rates continue to respond to monetary policy stimulus.

The directors highlighted persistent uncertainty so far this month related to the economic effects of additional waves of the pandemic.

For the majority, the main arguments in favor of 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. Several directors in the majority noted that despite low measures of inflation and the prospect of a further reduction in coming months, this trend could be expected to 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 recovery, they considered a deepening of the current expansionary policy stance unnecessary.

One of the directors in the majority, by contrast, considered it possible that inflation could settle at a lower trajectory and that market expectations could account for this view. However, this director suggested it would be prudent to wait for further information in order to determine if this scenario comes to fruition.

Those in the majority group placed significant weight on signals of instability that could be sent to markets through frequent and potentially inverse changes to the benchmark interest rate. Finally, they suggested that it would be appropriate to wait for further information regarding key economic indicators.

A minority group of directors recommended a 25 bp reduction in the benchmark interest rate. They emphasized that recent inflation data has been at historic lows and anticipated a lower inflation path on the forecast horizon, which would open additional space to support economic recovery through a more expansive policy stance. They argued that maintaining the current posture could lead to a less expansionary real policy interest rate than currently exists.

This group also signaled their concern over the aggressive new wave of the coronavirus present in January and its possible effects, together with additional closures and restrictions, on economic activity and the output gap. In their judgment this created greater uncertainty over the magnitude of potential recovery in December, and as a result they considered that there was space available for a reduction of the policy rate. They underlined that external conditions and Colombia's continued access to international financial markets would also offer a margin to adjust the interest rate downward.

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

Fuente: https://www.banrep.gov.co/en/minutes-banco-republicas-board-directors-meeting-january-29-2021