Minutes for Banco de la República's Board of Directors Meeting on March 26, 2021

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After a thorough evaluation of the most recent indicators of economic activity, inflation, the credit market and international financial conditions, Banco de la República's board of directors (BDBR) decided unanimously on March 26 to hold the benchmark interest rate at 1.75%.

The monetary policy discussion centered on the following factors:

Annual inflation in February 2021 was 1.56%, while inflation on foods was 5.02% and the average for core inflation indicators was 1.21%. The directors highlighted continued stability in expected inflation, which survey results project at 2.7% and 3.1% for the end of 2021 and 2022, respectively. While the directors supported the technical staff's forecast of low inflation in the first quarter followed by an acceleration over the rest of the year, they noted that observed inflation in February had exceeded both the technical staff's and market analysts' expectations.

The directors also noted mixed signals regarding economic activity. While GDP growth in 2020 (-6.8%) was slightly above the technical staff's expectations, a resurgence of the pandemic and the subsequent implementation of additional quarantine measures led to a deceleration in economic activity in January. By contrast, several indicators suggested recovery in February and a slight improvement in the economic outlook for the remainder of the year. As a result, the technical staff has revised its growth projection for 2021 up to 5.2%, reflecting expectations shared by a diverse set of market analysts and international agencies, which have also recently revised their 2021 projections upward.

Unfortunately, and despite this relative improvement in the growth outlook, weakness in Colombia's labor market has persisted, and in January a recovery in employment observed in previous months came to a halt.

International financial conditions continue to be broadly favorable amid high levels of global liquidity. However, a confluence of recent factors suggests that conditions on the margin may have tightened somewhat. These include an increase in medium- and long-term interest rates in international financial markets and increased inflation expectations in the United States following its recent approval of a fiscal stimulus package.

In this context, the directors highlighted the importance of Colombia's congress to approve a fiscal adjustment program aimed at guaranteeing the sustainability of the public finances, and which would allow Banco de la República to maintain an expansive monetary policy stance without compromising macroeconomic stability.

The directors also noted the full transmission of the policy interest rate on commercial credit rates, a portfolio now showing growth similar to pre-pandemic levels. Consumer and mortgage interest rates have also fallen, though at a slower pace. As expected, both the default portfolio and liability provisions have increased as certain debt relief measures have been withdrawn, though this has come without risk to the stability of the financial system.

Despite improvement on several counts, significant economic uncertainty persists. Some of the directors emphasized the adverse effects on economic activity that would result from a third wave of the pandemic, which, should it materialize, could raise the need for additional monetary stimulus.

By contrast, some directors highlighted a risk in the opposite direction associated with a larger and more rapid tightening of international financial conditions in light of a loosening of fiscal policy in the United States. This would have particular relevance in the event that Colombia's congress does not approve a fiscal adjustment plan along the lines of the one currently being prepared by the national government.

MONETARY POLICY DECISION

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

Fuente: https://www.banrep.gov.co/en/minutes-banco-republicas-board-directors-meeting-march-26-2021