

Banco de la República's board of directors (BDBR) voted unanimously to hold the benchmark interest rate at 1.75%

Banco de la República's board of directors (BDBR) in its meeting on June 28 voted unanimously to hold the benchmark interest rate at 1.75%. The decision was based on the following considerations:

- Colombia's economy grew more than expected in the first quarter of 2021 and, according to the monthly economic tracking indicator (ISE), appears to have maintained its dynamism through April. However, a third wave of COVID-19 and, in particular, roadblocks and other disruptions to public order will likely be reflected in reduced economic activity in the second quarter. Despite this, the positive economic performance through April justified an upward revision in growth projections for 2021, from 6% to 6.5% in the central forecast scenario. Even in this case, however, economic activity would remain below 2019 levels this year. Persistent high levels of unemployment and economic informality were additional considerations.
- Annual inflation in May exceeded projections at 3.3%. Upward pressures from food prices (9.52%), and in particular from perishable foods (18.16%), came as the result of supply difficulties in several cities. Core inflation excluding foods and regulated items (1.56%) remained below the target and was similar to projections. A portion of the recent increase in inflation could prove to be somewhat persistent and affect inflation expectations, which remain anchored.
- Despite growth in foreign demand and improved terms of trade, the current account deficit is expected to expand in line with increased dynamism in domestic demand.
- Inflation in the United States was unexpectedly high and is expected to remain above the Federal Reserve's 2% target. This has raised the possibility of a faster start to normalization in U.S. monetary policy than previously expected, which could lead to a return to less favorable international financial conditions and affect risk appetite for investments in emerging markets.
- Given Colombia's current fiscal situation and levels of public debt, a failure to enact the fiscal adjustment required for the public finances could compromise access to financing and increase financing costs, which would eventually reduce the space for monetary policy to continue supporting recovery in economic activity and employment.

In considering these circumstances and the general balance of risks, the BDBR decided unanimously to hold the benchmark interest rate at 1.75%.

Monetary policy decisions will continue to depend on new information related to the evolution of the risks mentioned above.

Trasmisión en tiempo real de la rueda de prensa que se hace inmediatamente termina la reunión de la Junta Directiva. En esta trasmisión se informan la decisiones de política monetaria a través de la lectura del comunicado de prensa y las respuestas a las preguntas que los medios de comunicación formulen de manera virtual a los voceros.

Link

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