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[Governor's Overview: Developments in inflation and monetary policy decisions \(246 KB\)](#)

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## **OBJECTIVES**

Monetary policy in Colombia is based on inflation targeting, which is intended primarily to keep inflation low and to ensure stable growth in output near its long-term trend. Accordingly, the objectives of monetary policy combine the goal

of price stability with maximum sustainable growth in output and employment. In this respect, monetary policy complies with the constitution and contributes to the well being of the Colombian population.

## **HORIZON AND IMPLEMENTATION**

The Board of Directors of Banco de la República (the Central Bank of Colombia) (BDBR) sets quantitative inflation targets for the current year and the next. BDBR policy initiatives are designed to meet each year's target and to provide for longterm

inflation at around 3.0%. The annual change in the consumer price index (CPI) is the inflation measurement used.

## **THE DECISION-MAKING PROCESS**

Monetary-policy decisions are based on an analysis of the current state of the economy and its future prospects, and on an assessment of the inflation forecasts against its targets. If the assessment suggests, with enough certainty, that inflation will deviate from its target under current monetary-policy conditions and within the time horizon in which this policy operates and that this deviation is not due to temporary shocks, the BDBR will proceed to modify its policy stance. For the most part, this is done by changing the benchmark interest rate (charged by Banco de la República on short-term liquidity operations).

## **COMMUNICATION AND TRANSPARENCY**

Decisions on monetary policy are announced immediately after meetings of the Board of Directors. This is done through a press bulletin posted at once on Banco de la República's website ([www.banrep.gov.co](http://www.banrep.gov.co)).

Inflation reports are published quarterly and are designed to lend transparency to the Board's decisions. They also contribute to a better understanding of monetary policy and help to enhance its credibility. Specifically, these reports: i) let the public know how the Board of Directors and the Technical Governor of the Bank view recent and anticipated changes in inflation and its short-term and mid-term determinants; ii) explain the implications of those determinants for monetary-policy management within the scope of inflation targeting; iii) describe the context and analysis that justifies monetary-policy decisions made during the quarter; and iv) provide information that helps agents in the economy to form their own expectations about future developments with respect to inflation and growth in output.