Minutes of a Meeting of the Board of Directors of Banco de la República Held on April 30, 2012

Minutes download Detailed Explanation of the Macroeconomic Situation (only in Spanish) Last modified Tuesday the 30th of April, 2024

A regular meeting of the Board of Directors of Banco de la República was held in the city of Bogotá on April 30, 2012. In attendance were Mr. Juan Carlos Echeverry, Minister of Finance and Public Credit, Mr. José Darío Uribe, Governor and Managing Director of Banco de la República, and full-time co-directors Messrs. Carlos Gustavo Cano, Juan José Echavarría, Fernando Tenjo, Juan Pablo Zárate and César Vallejo. Inflation and the economic situation were discussed with respect to growth and prospects for the future, and monetary-policy decisions were reached. The following is a summary of the main topics addressed at that meeting.

1. BACKGROUNDa. Recent Developments in Inflation

Annual consumer inflation was 3.4% in March. This is 15 basis points (bp) less than the rate observed a month earlier. The drop in annual consumer inflation was due to a decline in the annual variation in food, given less of a change in prices for regulated items and those for the basket of tradable goods excluding food and regulated items.

With respect to food, the variation was 4.56%, which is 14 bp below the rate posted in February. There were reductions in the annual variations in both perishables and processed foods. Conversely, the annual variation in “eating out” continued to accelerate, reaching 5.87% in March (22 bp more than in February).

The non-food CPI declined from 3.10% in February to 2.95% in March, given the slowdown in price changes for the regulated and tradable baskets, and because prices in the non-tradable basket remained relatively stable.

The annual variation in the regulated CPI exhibited a sizeable reduction during the past month (from 5.6% to 4.9%), mainly due to a high basis of comparison in March of last year. Within this basket, the increases in gas, fuel and urban transport service rates continued to exceed the average for the CPI.

With respect to the annual change in tradables excluding food and regulated prices, the figure in March was 0.68%, or five (5) bp less than in February. This slight drop may be associated with the exchange-rate appreciation witnessed since the start of the year.

At the same time, non-tradables excluding food and regulated items stayed at 3.7%. This annual rate, which has been rising slowly, reflects the positive levels estimated for the output gap.

The core inflation indicators declined during the past month, although very slightly. The average of the three indicators tracked by Banco de la República was 3.23% (four (4) bp less than the month before).

Along with the downturn in consumer inflation, the past month also saw a new reduction to 1.5% in the annual variation in the PPI, down from 2.6% in February. An important part of this decline may still be attributed to peso appreciation, as suggested by the even sharper drop in the imported PPI, with an annual variation of -2.1% by March.

Inflation expectations at different horizons declined again in March. Those obtained from the monthly survey of market operators were 3.27% for December of this year and 3.45% by March 2013. In the case of the quarterly survey of employers, trade unions and experts, the results were 3.54% and 3.49%, respectively. The expectations derived from the TES horizons at two, three and five years converged at 3%.

b. Growth

The figures at hand for the first quarter of 2012 suggest the momentum in private consumption may have been similar to what it was at the end of last year. On the one hand, retail sales (measured by DANE) rose during the first two months at an annual rate of 7% as opposed to an annual increase of 5% by the fourth quarter of last year, while sales excluding vehicles posted 10.7% annual growth by February. On the other hand, imports of consumer goods were up by around 23% during the first two months of the year, versus 15% in the fourth quarter. Similarly, the merchants surveyed by Fenalco indicated again, in March, a favorable perception of current circumstances with respect to their sales. Moreover, the consumer loan portfolio continued to grow at real annual rates close to 20%. The unemployment rate declined during the first three months of the year. The good performance summarized in the different indicators associated with consumption is confirmed by the continued high level of consumer confidence measured by Fedesarrollo. Although the indicator was down during February and March, the levels remain considerable from a relative standpoint.

As for investment, one can expect to see a slowdown in annual growth during the first quarter of 2012, considering the fact that imports of capital goods, in dollars, declined from an average increase of 39% in the final quarter of 2011 to 16.5%, on average, between January and February of this year. By the same token, the rise in domestic production of capital goods showed no added variation with respect to what was observed at the end of last year.

The value of Colombian exports came to US$4,836 million by February, with an annual increase of 22.5%, which is less than the average for the last six months (42%). The growth in exports that month was due primarily to added sales of mining commodities (33% annual). Agricultural exports were down by 23% in February 2012, given the drop in sales of coffee and flowers: 29% and 17% respectively. The annual increase in exports excluding commodities was 13%.

A look at the different branches of activity shows coffee and crude oil production were affected by temporary supply shocks that will lead to lower growth rates for agriculture and mining during the first quarter of the year. Quarterly coffee production fell to its lowest level in the last 40 years, while crude oil production backtracked in quarterly terms for the first time since 2003. As for industry, the figure released by DANE with respect to the annual increase in production by February (4.5%) confirms the growth exhibited by this sector during recent quarters, with slow and less expansion than that of the economy as a whole. The satisfactory levels of Fedesarrollo indicators for orders and inventories by February suggest the trend in March and April will be similar. In short, the estimate for GDP growth by the first quarter of 2012 indicates a slowdown compared to the fourth quarter of last year, in annual terms. This is due to less momentum in investment and exports. However, the available figures for private consumption point to good performance during the early months of the year.

For 2012 as a whole, the models did not suggest changes in the forecasts that were on hand last quarter. This being the case, the increase in GDP for the entire year would be somewhere between 4.0% and 6.0% with 5.0% being the most likely figure.

c. Financial Variables

By March, the annual increase in total lending (in DC and FC) came to 19.7%, which is 73 bp less than in February and down by 365 bp compared to the annual growth reported in July 2011. This performance was dominated by the commercial loan portfolio, with an increase of 17.5%, which is 130 bp less than the month before and adds up to a slowdown of 585 bp during the last eight months. For now, the momentum in the consumer and mortgage loan portfolios has stabilized, with annual growth rates near the averages witnessed since July 2011.

In March, real interest rates (discounting the non-food CPI) on consumer, mortgage and ordinary commercial loans stood at 15.9%, 10.3% and 9.0%, in that order. These rates are below their respective averages calculated since 1998 (mortgage lending is an exception; its average has been measured since 2002).

d. The External Context

The outlook for global growth in 2012 has improved slightly compared to what was expected at the start of the year. Among other reasons, this is due to better liquidity conditions in Europe, thanks to the actions taken by its economic authorities and the fact that the spread of contagion from the recession in that group of countries to the economies in the rest of the world has been limited. Nevertheless, the risks are still there, since the European situation has not been resolved entirely and oil prices remain high.

In Europe, the figures for the first quarter of 2012 indicate the economy is still in a recession. However, the decline in productive activity has been modest and is a far cry from what was witnessed during the international financial crisis in 2008-2009, when gross domestic product (GDP) fell by 5.6%. A scenario with a moderate and short recession in Europe for 2012 would be the case, provided the action taken by European authorities manages to revive lending and demand.

In the United States, the indicators of productive activity for the first quarter of 2012 show the economy has continued to grow at a moderate pace, although slightly better than expected, thanks to added momentum in consumption and industrial activity. Even so, the figures for March and April cast doubt on the strength of the recovery, since the job market still shows signs of weakness and several indexes for productive activity rose less than anticipated. Moreover, the housing market remains stagnant, and the latest figures on sales of new and used homes do not suggest a quick recovery.

As for the emerging economies, China's GDP growth slowed during the first quarter of 2012, as forecast, going from an annual rate of 8.9% in the fourth quarter of 2011 to 8.1%. Nonetheless, domestic demand continues to grow. In February, industrial production and the confidence index in the manufacturing sector rose surprisingly.

Asia's other emerging market economies have experienced several surges in industrial activity and in exports associated with normalization of the supply chain in Thailand and increased purchases from China.

The Latin American economies continued to grow at a pace slightly below their potential. The figures at hand for the first quarter of the year show industrial production accelerated in various countries of the region, as did the confidence indexes. The rise in oil prices witnessed since the end of 2011 would be bolstering national revenue for oil-producing countries such as Ecuador and Venezuela. This, in turn, would have a positive impact on output during the first quarter.

With respect to the prices of goods Colombia exports, those for oil increased again, as did prices for other agricultural products. Accordingly, terms of trade are still at record highs and continue to strengthen the country's revenue. The remainder of the year could see some decline in terms of trade, but their levels would remain considerable.

The central banks in the leading developed economies have kept monetary policy loose. Current prospects and the announcements made by monetary authorities would indicate the interest rates in those countries will stay low for quite some time, as long as domestic inflation permits. With respect to the emerging market economies, most of the central banks have not changed their intervention rates.

The risk premiums of the Latin American countries have remained relatively stable due to currently good conditions in the region. This has reduced exchange-rate fluctuations in these countries.

In short, the forecasts for 2012 on the external front suggest slightly negative economic growth in Europe, while growth in the United States could be more than was anticipated initially, although below its potential. The emerging countries could grow at a slower pace, but one near the long-term rate. Therefore, Colombia's trading partners likely will see less average growth this year than in 2011, and external demand will continue to be weak as a result.

It is worth noting that the risk of less growth is still significant. Uncertainty returned to the world's financial markets as of early April, due to Spain's failure to meet its fiscal target for 2011 and doubts about its ongoing economic recovery. This is compounded by the continued standstill in lending throughout the region, despite action taken by the European Central Bank, and by the fact that the markets for the government bonds of the other peripheral European countries are weakening once again.

2. DISCUSSION AND POLICY OPTIONS

The Board of Directors was unanimously in considering it appropriate to hold the policy interest rate steady, in view of the following factors.

(i) On the external front, the forecasts for 2012 suggest slightly negative economic growth in Europe, while the rate of growth in the United States could be below its potential. Growth in the emerging market economies is expected to be less, but close to the long-term rate. Consequently, Colombia's trading partners are expected to see less average growth this year than in 2011.

(ii) The international price of oil remained high, as did prices for the other commodities Colombia exports. Therefore, terms of trade are at record highs and are fueling the increase in national revenue. For its part, peso appreciation may be affecting the performance of certain tradable sectors.

(iii) Economic growth in Colombia during 2012 is expected to be somewhere between 4% and 6%. The momentum in private demand will continue to be the primary source of that growth, in terms of both household consumption and investment. The figures available throughout the year suggest a more moderate increase in household consumption and investment, which is consistent with the rate of growth forecast for the year as a whole.

(iv) The increase in the commercial loan portfolio slowed as a result of less momentum in loans in foreign currency. Growth in lending to households remains high, especially in the case of consumer loans, indicating households have raised their level of borrowing substantially. This has occurred in a context where real interest rates on ordinary and consumer loans (except credit card lending) are below their historic averages.

(v) In March, annual inflation (3.40%) slowed faster than Bank's technical team and the market expected. The core inflation measurements continued to average around 3%. Inflation expectations declined once again and are expected to continue to converge towards the middle of the target range.

(vi) There is still the risk of a severe recession in Europe with significant negative repercussions for economic activity in Colombia, but the likelihood of its occurrence seems to have declined.

(vii) The risks to inflation stemming from expectations have become more moderate. Those that can stem from the performance of consumer lending remain in effect.

Considering the data at hand and even the recent trend in inflation, several of the co-directors indicated mounting risks remain, posed by a larger-than-expected increase in domestic demand due to government investment, consumption and less unemployment.

Others felt the neutral range of the Bank's intervention rate has been reached already and, given the lag between changes in interest rates and their full impact on demand, they believe any remaining inflationary pressures will be controlled in the near future through the measures that have been adopted so far.

Lastly, the co-directors reiterated the need to continue to keep a close watch on consumer lending. Its real annual growth rate by March was near 22%, which is almost four times real GDP growth in 2011.

3. POLICY DECISION

Based on the foregoing assessment of these risks, the Board of Directors decided to leave Banco de la República's intervention interest rate unchanged. New action with respect to monetary policy will be determined by the new facts and figures that emerge.
The Board will continue to carefully monitor the international situation, inflation trends and forecasts, growth, and the way asset markets perform. It reiterated that monetary policy will depend on whatever new information becomes available.

Bogotá, D. C.