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[Banco de la Republica Holding the Benchmark Interest Rate at 3.25%](#)

A regular meeting of the Board of Directors of Banco de la República was held in the city of Bogotá D.C. on December 30, 2013. In attendance were Mr. Mauricio Cárdenas Santamaría, Minister of Finance and Public Credit, Mr. José Darío Uribe, Governor and Managing Director of Banco de la República, and the Board Members Carlos Gustavo Cano Sanz, Ana Fernanda Maiguashca Olano, Adolfo Enrique Meisel Roca, César Vallejo Mejía and Juan Pablo Zárate Perdomo. These minutes contain a summary of inflation, economic growth and their prospects for the future, which was prepared by the Bank's technical staff (Section 1), in addition to a review of the key deliberations and policy options considered by the Board of Directors (Section 2).

1. INFLATION AND ECONOMIC GROWTH

a. Recent Developments in Inflation

In November, annual consumer inflation was 1.76%, which is 8 basis points (bp) lower than in October. So far this year, the datum comes to 1.67%, which is lower than the accumulated rise for the same period last year (2.34%). The decline in inflation in November is primarily due to the component of regulated items.

The annual variation in the basket for food ended the month at 0.62%, 4 bp lower than the month before. The annual change in the prices for meals away from home and in the change for processed foods showed drops of 23 bp and 15 bp respectively. Within this second group, the prices of imported products or of other products that are produced in the country but are highly tradable have remained unchanged or have continued to fall. This reflects the lower international prices and the limited pressure from the exchange rate. The prices of perishables, in turn, fell 2.1%, which is a smaller drop than the one seen in October (-2.8%).

The annual change in the CPI excluding food in November was at 2.21%, 10 bp lower than the month before. The fact that the annual change in the CPI for regulated items (0.5% annually) was a drop of 62 bp is noteworthy. This is again attributable to public utilities (fees for electricity service) and to the decline in the prices of fuel which was -3.95% annually last month. The accumulated depreciation of the peso over the course of the year and slight upticks in the prices of some imported goods have kept the annual change in the prices for tradable goods excluding food at 1.4%. The non-tradables excluding food, in turn, showed an annual change of 3.7%, which is 6 bp higher than the previous record. The annual variation in rent, the main component of the group, remained at 3.6%.

The average of the four indicators of core inflation monitored by the Banco de la República was 2.46% in November, 2 bp higher than the previous month. This indicator has been stable at around 2.5% since February of this year.

The PPI dropped 1.3% in November in comparison to the same month last year. This decline was less than the one in October (1.9%). The local component rose with respect to the month before (57 bp). The import component rose 1.2% annually, a figure that is higher than the one registered the previous month (0.95%).

In November, inflation expectations continued to stay below the long term target although within the range established by the Board of Directors. The monthly survey of financial market analysts shows an expected inflation of 2.89% 12 months from now. This is 3 bp lower than the expectation a month earlier. For December of this year, the market expects a figure of 1.86%. At the same time, inflation expectations derived from the TES for 2- and 3-year maturities remained relatively stable between 2.3% and 2.6%. Those with 5-year maturities rose a little and were at 2.8%.

b. Growth

According to the information published by DANE, the Colombian economy expanded 5.1% in annual terms during the third quarter of 2013. This figure, which indicated a significant surge with respect to what had been registered in the first half of the year, was in the upper part of the forecast range presented in the previous Inflation Report (between 3.8% and 5.2%). From the beginning of the year to September, the growth of the GDP (3.9% annually) was similar to the key projection made by the technical team at the Banco de la República.

During the July - September quarter, domestic demand grew at a positive rate (6.0% annually). This was due to a very good performance on the part of building construction (26.7% annually), of public works (18.2% annually), a sharp expansion in public consumption (5.7% annually), and a growth in household consumption (4.0% annually) that was close to its historical average. With respect to the international trading accounts, exports slowed down in annual terms in comparison to the second quarter (1.9% vs. 7.8%) due to several supply shocks in mining production that substantially affected foreign sales. In the case of imports, higher annual growth rates were reported in comparison to the second quarter of 2013 (2.9% vs. 1.3%).

On the supply side, the sectors that registered the highest annual growth in the third quarter were construction (21.3%), agriculture (6.6%), and mining and quarrying (6.1%). Industry continued to be the sector with the worse performance (-1.0%). Other sectors such as commerce and finance maintained a favorable rate of expansion as they grew at annual rates of 4.3% and 4.9% respectively.

In the fourth quarter of 2013, household consumption could remain strong. This comes from the indicators such as retail sales published by DANE that show that it grew at an annual rate of 6.6% in October and at 4.5% excluding vehicle sales. Part of this growth is explained by the low base of comparison from last year. The Banco de la República’s Monthly Survey of Economic Expectations (EMEE in Spanish) also reveals that based on data up to October, sales expectations are higher than the average registered for the third quarter of the year. Furthermore, the consumer confidence index (CCI) published by Fedesarrollo in November shows records similar to those seen in the month of October and slight improvements in the indicators of expectations. Likewise, the growth in imports of consumer goods (8.4% real) as well as the stability of the annual growth of the consumer loan portfolio (12.7%) indicates that consumption will maintain the strength seen in the last few quarters.

With respect to investment, the Banco de la República’s Monthly Survey of Economic Expectations (EMEE in Spanish) with data up to October suggests a positive performance of investment other than building construction and public works in the last quarter of the year. The information on imports of capital goods shows that, in October, purchases of these types of goods remained at elevated levels as they grew 5.3% in real pesos (according to the technical team’s estimates).

For total exports in dollars, the annual change in October was -11%. This drop was due to the combined decline in foreign sales of mining (-14.4%), agricultural (-7.4%), and industrial products and others (-0.4%). Total imports, in turn, in dollars grew 2.7% compared to the same period last year.

With respect to supply, the few indicators available show that sectors such as mining, commerce, and construction should continue to show high growth in the fourth quarter of the year. The Ministry of Mining [illegible] cement saw an annual growth of 18.4% and 13.0% respectively.

The figures published by DANE for industry in the month of October reported an annual growth that was [illegible] which, its recent strength suggests that industry is recovering going into the fourth quarter.

Likewise, the imports of raw materials in October suggest that productive activity will expand at the [illegible] with a growth rate of 10.2% in real pesos (according to the technical team’s estimates).

With the above results, the technical team did not modify the estimated range of growth for 2013 as a [illegible] forecasts.

c. Financial Variables

Bank loans (N/C and F/C) in November registered an annual growth rate of 13.30%, a level which is [illegible] to 11.16%.

Broken down by market, the portfolio of loans granted to households registered an annual growth of [illegible] November) and to the slowdown in the foreign currency component (from 18.85% to 16.16%).

The interest rates for loans disbursed by credit institutions since the beginning of the cuts in the policy [illegible] loans, and -184 bp for building loans.

The size of the decline in the real interest rates has been lower due to the effect of the lower rate of [illegible] consumer loans, and -124 bp for construction loans.

The levels of the real interest rates for consumer loans, mortgages, preferential loans ordinary [illegible] average.

d. Foreign Context

In the last few months, global activity has continued recovering mainly in the developed economies and [illegible] of recovery.

In the United States, the most recent figures on economic growth show that the economy expanded in [illegible] fiscal debilitation and perhaps a little less uncertainty coming from this area.

In the euro zone based on November figures, the indicators of business confidence and the activity [illegible] internal and external shocks.

In the case of the emerging economies, productive activity in China continued to expand at a favorable [illegible] November, the performance of retail sales, exports, and production was better than expected. In Latin

America, in turn, productive activity has continued to slow down in Chile while, in Brazil, it is expanding at a moderate pace.

Regarding the international prices for petroleum, these have remained at relatively high levels in [illegible] Foreign prices for food, in turn, remained at relatively low levels with some minor upticks.

Due to all of the above, inflation in the main developed economies is staying at low levels. This, together [illegible] inflation, others such as Brazil, India, and Indonesia are showing higher upswings in their price levels.

The terms of trade declined in October but remain at high levels. No rise in these terms of trade is [illegible] recovery of the global economy and better conditions expected in the global supply of petroleum.

Finally, in their December 17-18 meeting, the Federal Reserve of the United States (FED) decided [illegible] projections for growth and the unemployment rate, some improvements were presented for 2013 and 2014.

So far, the reaction of some market indicators has not been very strong in view of the announcement. [illegible] the local currency, and the interest rates for public debt securities have not changed substantially.

2. DISCUSSION AND POLICY OPTIONS

The board of directors took the following relevant aspects into consideration:

(i) The new information suggests that the world economy is recovering slowly and better than expected. [illegible] and the large emerging economies in Asia and Latin America are growing unevenly.

(ii) In the United States, the Federal Reserve announced that it will purchase a lower amount in financial [illegible] and reaffirmed its commitment to maintaining the current level of interest rates for an extended period.

(iii) The terms of trade declined in October, but they still remain at high levels. An increase in the terms [illegible] recovery in the global economy and better conditions expected for the worldwide supply of oil.

(iv) In Colombia, the economic growth in the third quarter was higher than what had been estimated. [illegible] GDP growth (5.1%) was similar to that projected by the technical team of the Banco de la República.

(v) For the fourth quarter of 2013, the indicators of consumer confidence, economic expectations, retail [illegible] processing fell again in October (-8.1%) although at a slower rate than that recorded a month before.

(vi) Due to the above results, the technical team did not change the estimated growth range for 2013 as [illegible] growth in the second half of the year will be considerably higher than that registered in the first half.

(vii) In November, the overall growth of loans slowed down although it continued to be higher than the [illegible] staying below their historical averages (except for credit cards) and are driving [illegible] economic growth.

(viii) Annual consumer inflation was at 1.76% in November, a figure that was lower than expected. This [illegible] in the prices of regulated items and food. The average for core inflation remained stable at 2.46%.

(ix) The inflation expectations economic analysts have for a year from now as well as those derived from [illegible] public debt paper with maturities of less than five years remained relatively stable and were below 3%.

To summarize, economic growth in 2013 is expected to be similar to what was seen the year before. [illegible] Board of Directors decided that it would be appropriate to keep the benchmark interest rate unchanged.

The members of the Board agreed that it would be appropriate to keep the benchmark interest rate [illegible] In addition, the low level of inflation is basically due to supply shocks with some transitory components.

Another director stated that the information contained in the report indicates a positive performance of [illegible] current monetary policy posture, the output and inflation gaps will gradually close.

Furthermore, another member thought that the fact that the growth rate of the GDP is increasing while [illegible] the target and the output gap is closing.

Finally, other members added that in consideration of the fact that the current level of inflation had been [illegible] in order to hasten the convergence of inflation with the target and the closing of the output gap.

3. POLICY DECISION

The Board of Directors agreed unanimously that it would be appropriate to keep the benchmark interest rate at 3.25%.

The Board will continue to monitor the performance and projections for economic activity and inflation in [illegible] carefully. Finally, they reiterate that the monetary policy will depend on the information available.

Bogota, D. C. January 3, 2014