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## [Detailed Explanation of the Macroeconomic Situation](#)

### Must reads

#### [Banco de la República keeps the Benchmark Interest Rate at 4.5%](#)

A regular meeting of the Board of Directors of Banco de la República was held in the city of Bogotá D.C. on October 30, 2014. In attendance were Mr. Mauricio Cárdenas Santamaría, Minister of Finance and Public Credit, Mr. José Darío Uribe Escobar, Governor and Managing Director of Banco de la República, and Board Members Carlos Gustavo Cano Sanz, Ana Fernanda Maiguashca Olano, Adolfo Meisel Roca, César Vallejo Mejía and Juan Pablo Zárate Perdomo.

These minutes contain a summary of how Banco de la República's technical team views the macroeconomic situation (Section 1), followed by a review of the key policy discussion points considered by the Board of Directors (Section 2).

A more [detailed description of the macroeconomic situation](#) prepared by the technical staff from the Central Bank is provided in the data section of the September 2014 edition of the Inflation Report, as well as in the statistical appendix.

## 1. MACROECONOMIC CONTEXT

Regarding the macroeconomic context, the technical staff highlights the following elements:

1. In the present report, the growth forecast for external demand was reduced for this and the next year, but would present lower growth rates than their respective potential.
2. The risk premium measures adopted by several countries of the euro zone, as well as by some emerging and developing economies, and the depreciation of their currencies against the US dollar.
3. In the United States, appreciation of the dollar and the fall in the international energy prices could have led to a decrease in the demand for oil and other raw materials, and a consequent decrease in the external demand, increased uncertainty upon the performance of its exportation sector.
4. Facing the prospect of a lower inflation in the United States, as well as the greater risk of a year has been projected a decline and thus the term rate 10/20, regarding this movement contributed to the downturn in the long-term interest rates.
5. The current levels in the international price of oil are situated below the forecast produced by the technical staff, which is a situation that will generate a lower national income that continues to be sustained.

6. The weakness in the external demand as well as the lower international prices of the basic mining products, the uncertainty and other factors presented high annual growths, while the mining sector descended, but less intensely.
7. Until August, the imports in dollars have grown 6.8%, which is explained by the increase of those destined to the external consumption as well as to capital goods; those of raw materials presented a lower increase rhythm.
8. With the aforementioned in the main text and the new figures of foreign trade, the technical staff sector due to the fall in the income from oil, and it supposed that the only use of external financing savings by the remainder of sectors would have continued in the second half of the year.
9. As for internal growth, the new indicators of supply and demand for the third quarter of 2014 and the fourth quarter of 2014 have been released. They showed that the growth of the gross value added in the manufacturing sector was 4.3%, the growth of the gross value added in the services sector was 4.3%, and the growth of the gross value added in the construction sector was 4.3%. The growth of the gross value added in the manufacturing sector was 4.3%, the growth of the gross value added in the services sector was 4.3%, and the growth of the gross value added in the construction sector was 4.3%. The growth of the gross value added in the manufacturing sector was 4.3%, the growth of the gross value added in the services sector was 4.3%, and the growth of the gross value added in the construction sector was 4.3%.
10. In the third quarter, banking credit continued to slow down, recording an annual rate over the last three years that is lower than the level of weak trading of the increases in the benchmark interest rate to the interest rates of the loans.
11. Considering the aforementioned, the technical staff from Banco de la República estimates an annual growth of 4.3% for 2014, the growth of the manufacturing sector is 4.3%, the growth of the services sector is 4.3%, and the growth of the construction sector is 4.3%.
12. The new product gap estimations for 2014 indicate that this would be slightly positive and not, but could remain positive.
13. Regarding inflation, the result of 2.86% at September was aligned to the expectations of the technical staff. On the other hand, the result of 2.86% at September was aligned to the expectations of the technical staff. On the other hand, the result of 2.86% at September was aligned to the expectations of the technical staff.
14. Along the year and until September, an inflation of 3.08% has registered, an inflation that is close to the target of 3.0%. The inflation expectations for the next year are 3.0%, and the inflation expectations for the next 3 years are 3.0%.

In summary, aggregate demand continues to show a strong growth in a context close to the full use of the productive capacity. At the same time, inflation expectations remain close to 3%. This takes place within an environment of deterioration of the terms of trade and a growing uncertainty regarding the recovery of the economic activity worldwide and the cost of external financing, which are factors that may impact aggregate demand and the exchange rate.

## 2. DISCUSSION AND POLICY OPTIONS

The Board of Directors unanimously decided to keep the benchmark interest rate at 4.5%.

The Board Members highlighted that the economy is showing a strong dynamic, but that there are risks of negative clashes in the traditional policy horizon which may result in a slowdown. Particularly, the external environment continues to show symptoms of weakness, and the terms of trade for Colombia have deteriorated. If this trend is maintained, the growth of national income as well as the aggregate expense will be affected.

On the other hand, inflation expectations are anchored at levels close to 3.0%. The average of the indicators of basic inflation and total inflation converges towards the goal.

Under these conditions, the Members of the Board agreed to maintain the benchmark interest rate unaltered, as well as to continue monitoring the performance of the economy.

## 3. POLICY DECISION

The Board of Directors of the Central Bank unanimously decided to maintain the benchmark interest rate at 4.5%.

