Minutes of the Meeting of the Board of Directors of Banco of the República of February 20, 2015

Detailed Explanation of the Macroeconomic Situation Must reads The Board of Directors of the Central Bank of Colombia maintains the Benchmark Interest Rate at 4.5% Last modified Monday the 29th of April, 2024
A regular meeting of the Board of Directors of Banco of the República took place in the city of Bogotá D.C. on February 20, 2015. In attendance were Mauricio Cárdenas Santamaría, Minister of Finance and Public Credit, José Darío Uribe Escobar, Governor of the Central Bank, 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 the outlook of the technical staff of the Bank on the macroeconomic situation (section 1), followed by a review of the main discussion regarding monetary policy 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 Inflation Report of December 2014 and in the statistical annex.

1. MACROECONOMIC CONTEXT
1. By the end of 2014 the terms of trade descended significantly and registered levels not seen from the beginnings of 2009. Additional falls are expected in this indicator at the beginning of 2015, in spite of the recovery observed in the last few days in the prices of oil.

2. In the last few weeks, the risk premia of Colombia and several other countries in the region reduced, but remain at levels higher than the average registered in 2014. So far this year to February, the value of the peso versus the US dollar has been volatile, although without a definite trend.

3. Recovery of the world economy continues to be weak, although it has been somewhat better in some developed countries than had been forecast. In the United States, the indicators of real activity aim at a good result in the present quarter. The growth of Germany to the end of 2014 turned out better than had been forecast, and in January the confidence and industry indicators of the euro zone showed positive trends. The main emerging economies continue slowing down or presenting historically low increases. Facing this context, the technical staff maintained the average growth forecast for our trade partners for 2015 presented in the previous report.

4. In the United States, the long-term interest rates of public debt bonds stopped falling and registered below the average for 2014. It is likely that the first increase in the benchmark rate of the Federal Reserve takes place at the beginning of the second semester and that it continues gradually. Greece's financing problems and uncertainty about its permanence in the euro zone increased the volatility of the stock markets in that region.

5. In Colombia, the increase of imports and the fall of exports in December resulted somewhat greater than the forecast. These data suggest that deficit in the trade balance could be greater in the fourth quarter of 2014 than had been estimated. On the side of financing, capital inflows directed to portfolio investment continued in January; however, new announcements about plans for foreign direct investment in the oil sector continue reflecting an important fall in this type of external financing.

6. Regarding the labor market, the figures to December show a seasonally adjusted unemployment rate that continues at low levels thanks to the dynamism of the occupation rate, explained mainly by salaried employment.

7. New data for the fourth quarter of 2014 suggest that domestic demand continued to be dynamic, and that net exports would have subtracted more than expected to the output. With this information, the forecast of economic growth for 2014 was kept between 4.5% and 5.0%, with 4.8% as the most probable figure.

8. The few data of real activity for the first quarter of 2015 show mixed signals. On the supply side, oil and coffee production in January grew more than had been estimated. On the demand side, the fall in car sales suggests a slowdown in the consumption of durables for that month.

9. In January, annual growth of corporate credit slowed down again, due to the slower pace of increase of direct external credit. Household credit maintained relatively stable growth rates. Increases in both types of debt portfolio surpass the increase of nominal GDP estimated for the present year. This took place together with increasing credit interest rates, although in real terms they continue at levels below their historic averages (excepting credit cards).

10. With all this, for 2015 the technical staff maintained the most probable growth rate at 3.6%, within a range between 2.0% and 4.0%. The amplitude of the interval reflects the uncertainty over assumptions in possible extreme scenarios. In turn, the most probable value considers a lower dynamics in national income and a reduction of external financing, which could moderate expenditure, especially through a lower level of private investment.

11. Regarding prices, inflation in January increased and registered 3.82%, a number higher than had been forecast by the technical staff of the Bank and by the market average. The acceleration of inflation is explained mainly by the greater pace of increase in the prices of food. The average of core inflation completed four months increasing, registering 3.22%.

12. Inflation expectations by market analysts and those derived from public debt bonds are in the upper half of the target range on the average.

13. Although the greater level of the exchange rate has been partially passed through to internal prices, this transmission has probably not finished. On the other hand, the magnitude of the pass through depends on many factors, which makes it uncertain. In this context, given the depreciation accumulated to February 2015, there is a risk that the annual variance of the group of tradables without food and regulated goods increases more than was forecast. A high pass through to the group of tradables could affect expectations and have more persistent effects upon inflation.

In all, by the end of 2014, domestic demand showed dynamism in a context close to the full use of the productive capacity. Inflation and inflation expectations register slightly above 3.0%. This takes place in an environment of deterioration of the terms of trade and of uncertainty of its future evolution and impact upon the aggregate demand.

2. DISCUSSION AND POLICY OPTIONS

The members of the Board expect an adjustment of the growth rate of the economy to changes in the external conditions, and a transitory increase of core inflation that could deviate it temporarily from its target. Inflation expectations are anchored to the target, in spite of the increase in inflation observed in recent months.

For some Board Members, as long as the effect of the diminution of the terms of trade has a permanent component, the national income fall is partly structural and, therefore, it is not adequate to try to substitute this

loss of income through a more expansive monetary policy.

One of the members expressed that in spite of the apparent slowdown of the economy that has been forecast, which would cause the return of the output gap to a negative region during the present year, the benchmark interest rate should be kept unaltered, at least for what is left of the year, except in the case that extraordinary or unforeseen events alter significantly the fundamentals of the economy.

Finally, the members of the Board mentioned that if there is an over-adjustment in expenditure by the private sector in relation to the new potential GDP, the monetary authority should be open to a counter-cyclical policy.

3. POLICY DECISION
The Board of Directors unanimously decided to maintain the benchmark interest rate at 4.5%.

Bogotá, D. C.

Fuente: https://www.banrep.gov.co/en/news/board-directors/minutes-february-2015