Detailed Explanation of the Macroeconomic Situation
Contenidos relacionados
The Board of Directors of the Central Bank of Colombia maintains the Benchmark Interest Rate at 4.5%

A regular meeting of the Board of Directors of Banco of the República took place in the city of Bogotá D.C. on Friday, March 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 by the Board of Directors (section 2).

A more detailed description of the macroeconomic situation prepared by the technical staff from the Central Bank will be presented in the Inflation Report for the first quarter of 2015 and in the statistical annex.

1. MACROECONOMIC CONTEXT

1. So far in 2015, the behavior of oil prices and other commodities exported and imported by Colombia suggests that deterioration of the terms of trade continues, but at a slower pace. Therefore, it is probable that the terms of trade for the first quarter of 2015 be near the levels observed in the beginning of 2009.
2. In March of 2014, the appreciation of the US dollar continued versus the majority of currencies, and the risk premia were increased. Within the countries of the region, this behavior has been more accentuated in Brazil, followed by Colombia.
3. The recovery of the world economy is still weak and uneven. In the United States, real activity indicators show that recovery continues, and that growth in the present quarter will be similar to that registered by the end of 2014. The economic activity in the euro zone is still fragile; low growth estimations have not changed for 2015. The main emerging economies continue slowing down or presenting historically low increases. Facing this context, the technical staff maintained the average growth forecast of our trade partners for 2015 at 2.0%, a figure slightly higher than the one for 2014 (1.7%).
4. In the United States, the long-term interest rates of public debt bonds stopped falling and registered below the average for 2014. According to the latest announcement by the Federal Reserve, it is probable that the first increment in its benchmark interest rate will take place at the beginning of the second semester, and that the increase for the year be lower that projected in prior months.
5. In Colombia, the strong fall of exports and the high increase of imports registered in December suggest that current account deficit for all of 2014 may be higher than what was projected in the previous report. In January, total exports in dollars fell again at a rate similar to the fall in the prices of oil. Those of agricultural origin presented higher growth levels, while the remaining sectors descended significantly.
6. The economic growth of the last quarter of 2014 (3.5%) registered at the lower part of the range estimated by the technical staff (3.3% - 4.7%). On the supply side, the mining sector and industry registered falls, while agriculture presented low dynamism. The remaining sectors grew similarly to or more than the increase in the output. During all 2014, the real GDP expanded 4.6%, a figure lower than the mid point of the interval projected for the year (4.8%).
7. The figures of activity for January and February of 2015 suggest that the slowdown of the GDP observed since the second quarter of 2014 still persists. The registers for retail trade, consumer confidence, and sales expectations suggest so. On the supply side, oil production has presented growth rates higher than the forecast, but low, while industrial production fell again.
8. Regarding the labor market, the figures to January show a seasonally adjusted unemployment rate that continues at low levels, with a dynamic occupation rate, explained mainly by salaried employment. To date, salary increases do not suggest labor costs pressures on the prices.
9. In February, the annual growth of corporate credit slowed down again, due to the slower pace of increase of direct external credit. Household credit also reduced its dynamics. Nevertheless, increases in both types of debt portfolio surpass the increase of nominal GDP estimated for the present year. This has taken place together with credit interest rates which in real terms continue at levels below their historic averages (excepting credit cards).
10. Given this, if the latest trends are confirmed, the most probable estimation of growth projected for 2015 (3.6%) could be reduced. This revision would consider greater deterioration of national income and of exports, lower external financing, as well as cuts of public expenditure announced by the Government. All this will generate moderation of the demand, especially through lower levels of private investment. The amplitude of the interval (between 2.0% and 4.0%) reflects the uncertainty over assumptions on extreme scenarios.
11. Regarding prices, inflation in February increased and registered 4.36%, a number higher than had been forecast by the market average and the technical staff at the Central Bank. Acceleration of inflation is explained mainly by the higher pace of increase in the prices of food, and secondly, by the increase in the annual change of the group of tradable goods excluding food and regulated goods. The average of core inflation completed five months increasing, registering 3.53%.
12. Inflation expectations by the market analysts for December were increased from 3.3% to 3.6%, while those in a one and two year horizons remained relatively stable and registered 3.2% and 3.1%, respectively. Those embedded in public debt bonds increased,

and are still at the upper half of the target range. A good part of this last increment would be related to the increase of the inflationary risk premium.

13. Depreciation of the peso versus the average of currencies with which Colombia trades was increased, and its pass-through to the sector of trandable goods of the CPI accelerated. Despite this, the impact on total inflation has been low, similar to the average observed in prior periods of nominal depreciations. This pass-through may be expected to continue in the next months, although its magnitude is uncertain and depends on many factors. In this context, the risk that the tradable sector of the CPI increases more than it was forecast persists, contaminating expectations and having a more persistent effect on inflation.

In all, by the end of 2014, the Colombian economy slowed down, starting from an output level that was close to the full use of the productive capacity. Inflation increased mainly due to transitory factors, and its expectations are above 3.0%. Given that part of the reduction of oil prices and national income is lasting, a permanent adjustment of the internal expenditure of the economy is necessary.

2. DISCUSSION AND POLICY OPTIONS

The members of the Board highlight that growth of the Colombian economy for 2014 (4.6%) was lower than the projection by the Central Bank (4.8%), while that for 2013 was revised from 4.7% to 4.9%. The Board expects growth for 2015 to be lower than the one registered for last year, and Board Members agree that this slowdown represents a necessary adjustment facing the new external conditions that led to a significant diminution of the terms of trade. Some Board Members consider this could have a strong negative impact on national income. Additionally, they mentioned that depreciation provides stimulus for exports and for the sectors that compete with imports, and contributes to moderate the negative impact of oil price on the external and fiscal accounts. Likewise, it increases prices in the short term, especially those of tradable goods.

The Board Members also reiterated their commitment to maintaining inflation and inflation expectations anchored to the target. They coincided that in the short term total consumer inflation will continue showing upward pressures caused by temporary increases in the prices of food and, to a smaller extent, by the transfer of depreciation to the prices of tradable goods of the family basket. The pressure is expected to start yielding in the second semester, and inflation is foreseen to converge to the target (3.0%) in the policy horizon.

3. POLICY DECISION

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

Bogotá, D. C.