
[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%](#)

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 a moderate deterioration of trade for the first quarter of 2015, close to the levels observed in the beginning of 2009.
2. In March of 2014, the appreciation of the US dollar continued versus the majority 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 GDP growth continued to improve, reaching 1.7% in the fourth quarter of 2014, with a forecast 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 have started to rise, beginning to rise in the second semester, and that the increase for the year will be lower than projected in prior months.
5. In Colombia, the steep fall of exports and the high increase of imports has registered in all sectors, but the non-oil sector has registered a slight recovery, presenting higher growth rates, while the remaining sectors descended significantly.
6. The economic growth of the last quarter of 2014 (3.5%) registered at the lower end of the range projected for 2014 (4.8% to 5.6%), 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 production has persisted, and rates higher than the target, but low, supply and demand.
8. Regarding the labor market, the figures for January show a seasonally adjusted, based on the rate of total employment. To date, salary increases do not suggest labor costs pressures on the prices.
9. In February, the annual growth of consumer credit slowed down again due to the slower pace of short-term terms continue at levels below the historical averages (excluding credit cards).
10. Given that if the latest trends are confirmed, the most probable estimation of growth rate (between 2.0% and 2.5%) reflects the uncertainty over assumptions on extreme scenarios.
11. Regarding price inflation in February, increases had registered 4.26%, a number higher than the 4.00% target for the goods. The average change in inflation compared the goods increasing, registering 3.53%.
12. Inflation expectations by the market analysts for December were increased from 3.3% to 3.5%, and the rate is at the upper limit 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 increases the demand for the goods, but also increases the inflationary 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.

