Minutes of the Meeting of the Board of Directors of Banco de la República on July 27, 2017

Monetary Policy Report Must reads Banco de la República reduces the benchmark interest rate by 25 bp to 5.5%
Last modified Sunday the 28th of April, 2024
A regular meeting of the Board of Directors of *Banco de la República* took place in the city of Bogotá D.C. on Thursday, July 27, 2017. In attendance were Mauricio Cárdenas Santamaría, Minister of Finance and Public Credit; Juan José Echavarría, Governor of the Central Bank; and Board Members Gerardo Hernández Correa, Ana Fernanda Maiguashca Olano, Adolfo Meisel Roca, José Antonio Ocampo Gaviria, and Juan Pablo Zárate Perdomo.

These minutes contain a summary of the outlook on the macroeconomic situation by the technical staff of the Central Bank (section 1), followed by a review of the main discussion regarding monetary policy by the Board of Directors (section 2).

Further detail on the macroeconomic situation prepared by the technical staff from the Central Bank will be presented in the quarterly Monetary Policy Report for June 2017 and in the statistical annex. (Only available in Spanish).

1. MACROECONOMIC CONTEXT
a. The new information continues to suggest a weak GDP growth for the second quarter of 2017. On the supply side, the indicators available continue to suggest a weak performance. The figures point at a deterioration of industry, construction of buildings, and mining, while energy demand has improved. On the demand side, there has been an acceleration of investment and growth of total consumption very similar to the one observed in the first quarter of the year. In contrast, net exports have contributed negatively to GDP growth.

b. In the labor market, the figures to May exhibit an increasing trend in the unemployment rate and stagnation of employment for the 13 main cities of the country. As for the national total, the unemployment rate remains stable, while the number of employed individuals decreased *vis-à-vis* April 2017. The unemployment gap is expected to widen, given that a further increase in the average unemployment rate is forecast for this year.

c. In real terms, total indebtedness grows at low rates. The real commercial portfolio is stagnant, while that of households grows at figures that exceed nominal GDP growth. The reductions in the benchmark interest rate have been transmitted to the interest rates for commercial loans and, to a lesser extent, to those of households.

d. In the external context, the economies of the United States and the European Union continue to show signs of moderate recovery. The main analysts changed marginally their growth prospects for 2017. However, the economies of Colombia’s trading partners in the region continue to exhibit a low performance, with downward revisions in their growth forecasts for this year. With this information, the technical staff kept its growth forecast for Colombia’s trading partners unchanged.

e. Oil prices have fallen to levels lower than forecast in the previous quarter. This behavior is explained by a greater global oil production, including the United States and the OPEC countries.

f. With the information available, the new estimate for the current account deficit for 2017 is 3.7% of GDP (USD 11,461 m), within a range of 3.3% and 4.2%. Uncertainty about the conditions and availability of financing, as

well as the sensitivity of some capital flows to the prospects of the general economic activity, determine the forecast range. As for capital flows, resources from direct investment are expected to be the main source of funding in 2017, despite being lower than those recorded in 2016, followed by portfolio flows and other external loans and credits.

g. Thus, recent figures of economic activity for the second quarter suggest that output would have grown at a low rate, similar to the one recorded in the first quarter. The dynamics of domestic demand would have been weak, although somewhat better than three months ago. Net exports would have been similar to those of the first quarter of 2017.

h. Inflation stood at 3.99% on a yearly basis in June, registering a 38 bp drop *vis-à-vis* May. All major groups contributed to this fall, with tradable items standing out from the sub-branch for inflation excluding food, and perishable and processed foods from within the one for food inflation (as an effect of some fruits and vegetables, and beef and sugar, particularly).

i. Inflation expectations to December 2017 obtained from the monthly survey to financial analysts at the beginning of July lowered, posting at 4.28%. The same trend is reflected in the quarterly survey to firms, with 4.43% as the figure for the end of this year. Those embedded in public debt bonds are between 3.3% and 3.6%.

j. In all, for 2017, the strong transitory shocks that diverted inflation from its target are expected to continue fading in an environment of a weaker economic activity. The monetary policy actions undertaken so far, which consider these effects, should strengthen convergence of inflation to its target.

2. DISCUSSION AND POLICY OPTIONS

The Board Members emphasized that inflation has continued to fall. In June, the four core inflation indicators dropped, which shows that convergence to the target range in the policy horizon is being achieved. They also emphasized that, although the information available suggests a greater-than-expected weakness of demand for the second quarter of 2017, and a growth rate lower than expected by the technical staff of the Central Bank, the outlook for the second half of the year shows improvement. This result is expected to be driven by civil works, exports, and tourism.

Six Board Members voted for a 25 bp reduction to the benchmark interest rate. The members of the majoritarian group felt that there is space for this reduction, given the weakness of the economic activity and the declining trend of the data on inflation and core inflation. The new intervention rate is approaching neutral ground. In the discussion, there were different views on the existing margin to continue reducing it.

One member of the Board voted in favor of maintaining the intervention rate unchanged. The policy rate has been lowered 200 bp since December of 2016, and it is possibly in a position close to neutral. Growth of the economy is low and lower than expected, but there is still a long way to go to reach the long-term 3.0% inflation target. It seems appropriate to wait until there is new information on the behavior of both variables before choosing to reduce rates.

3. POLICY DECISION

The Board of Directors of *Banco de la República* decided to reduce the benchmark interest rate by 25 bp, placing it at 5.5%. The decision to reduce the benchmark interest rate was approved by six (6) members of the Board. The remaining member voted not to modify the benchmark interest rate.

Bogotá, D. C.

Fuente: https://www.banrep.gov.co/en/news/board-directors/minutes-july-2017