[Monetary Policy Report](#)
Contenidos relacionados
[Banco de la República maintains the benchmark interest rate at 4.25%](#)

A regular meeting of the Board of Directors of *Banco de la República* took place in the city of Bogotá D.C. on Thursday, January 31, 2019. In attendance were Alberto Carrasquilla Barrera, Minister of Finance and Public Credit; Juan José Echavarría, Governor of the Central Bank; and Board Members Gerardo Hernández Correa, Ana Fernanda Maiguashca Olano, José Antonio Ocampo Gaviria, Carolina Soto Losada, 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 monthly Monetary Policy Report for January 2019 and in the statistical annex (Only Available in Spanish).

1. MACROECONOMIC CONTEXT

1. The external context forecast for 2019 presents a slight deterioration *vis-à-vis* 2018 and the estimations presented in the previous report. Particularly, the average growth of the country's trading partners projected for 2019 was revised slightly downward to 2.3%, taking into account a lower performance forecast for the euro zone and for some Latin American countries. The lower global demand and the strength of global oil production reduced the price that had been forecast for 2019. Thus, for 2019, an average price of USD 63 per barrel (Brent) is estimated.
2. In this environment, the risks toward a more pronounced slowdown in global growth increased. This, together with the absence of inflationary pressures in advanced economies, suggests lower increases in external interest rates, particularly the Fed's. In Colombia, the lower price of oil and a somewhat weaker growth of the country’s trading partners would contribute to a gradual increase in sovereign risk premia.
3. The new estimates suggest that the external imbalance would have widened in 2018, and that, in an external scenario as described above, this trend would continue in 2019. Thus, the current account deficit would have been close to 3.7% of GDP in 2018. For 2019, the current account deficit is estimated between 3.5% and 4.3% of GDP, with 3.9% as the most likely scenario, given the lower external income from exports of goods and a stable dynamism of imports.
4. The information available for the fourth quarter suggests that the economy would have grown at a similar pace as in the third quarter. However, a slightly more dynamic domestic demand than forecast in the previous report is estimated. This is due to the fact that household consumption would be performing somewhat better because of spending on durable goods and that the positive impact observed on public consumption at the beginning of the year would be reversing more slowly than expected. The better performance of domestic demand is being offset by a net external demand that subtracts more from GDP, due to a lower growth of exports and higher imports.
5. With this, the technical staff at the Central Bank forecasts that yearly GDP growth for the fourth quarter of 2018 would be 2.7% as the most likely figure. Taking this into account, the GDP growth forecast of 2.6% in 2018 was maintained. The forecast range containing this projection is between 2.5% and 2.7%. Thus, in 2018, domestic demand would have expanded *vis-à-vis* 2017 with positive contributions both from total consumption and investment.
6. For 2019, GDP growth is forecast at around 3.4% within a range between 2.4% and 4.0%. This forecast considers lower prospects for international commodity prices (particularly oil) and a slightly weaker global economy. Despite this, the Colombian economy would continue to enjoy access to international financing, although this would take place in a context of high uncertainty and with marked downside risks. Additionally, it is considered that the changes introduced by the *Ley de financiamiento* represent a positive impact on investment that would boost growth, partly offsetting the fewer prospects in the external context.
7. In Colombia, at the end of 2018, inflation stood at 3.18%, a surprise to the downside in the last month, mainly due to a more favorable performance of the prices of tradable and non-tradable inflation (excluding food and regulated items). As a result, inflation excluding food and regulated items fell to 2.64%, and the average of core inflation indicators fell to 3.03%.
8. The different measures of inflation expectations remain above the target (3.0%). However, analysts’ expectations remain relatively stable in the survey for January, and inflation expectations for December 2019 are at 3.50%. Those embedded in public debt bonds lowered in January, and are currently around 3.6%.

In summary, observed inflation has been lower than expected, and it maintains its convergence to the target. However, some upward pressures on inflation in the first part of 2019 are not ruled out, associated with the transitory effects of a weak *El Niño* and the estimated impact of the increase in the minimum wage. Economic activity continues to recover from levels of product lower than the productive capacity of the economy. Monetary policy actions taken so far should consolidate the convergence of inflation to the target and maintain a favorable path for GDP expansion. Uncertainty about external financing conditions and the performance of some emerging economies remains high.

2. DISCUSSION AND POLICY OPTIONS

The Board members emphasized the good performance of inflation at the end of 2018, especially of core inflation indicators. Although there are some risks associated to the increase in the minimum wage and the performance of some prices, the latter are limited and even have become weaker, especially due to the expectation of a low-intensity *El Niño* and the reduced impacts of the devaluation of the peso on consumer prices of tradable products so far. For this reason, the Board expressed its confidence in that inflation will stand once more at levels close to the target and below the inflation expectations of market agents.

Regarding productive activity, the Board Members considered that the reactivation is still in progress, although still at a somewhat slow pace. Particularly, they highlighted the increase in investment, several months of growth in industrial production, increases in retail sales, and better consumer expectations. The *Ley de financiamiento* will contribute to the reactivation by means of higher levels of investment. Thus, they considered that economic growth in 2019 will be very close to 3.5%.

Vis-à-vis the previous Board meeting, international liquidity has tended to improve. There has been a change in the monetary policy stance of the Fed towards a more moderate pace of increase of its interest rates, the price of oil has partially recovered, and the reactivation of the Latin American economy will boost demand for manufacturing exports and tourist activity in the country. In contrast to these positive trends, projections of economic growth in Europe and China have weakened, and there are still no signs of stopping the trade war between the United States and China. In any case, several Board Members expressed their concern about the expected widening of the current account deficit during the current year, although they all expressed their confidence in that it will not face financing problems, and also that it will be covered mostly by foreign direct investment.

In the context of an inflation figure very close to the target, reactivation in progress, but slow, and an international environment that has improved albeit retaining many uncertainties, the Board unanimously decided to maintain the reference interest rate unaltered at 4.25%, a level considered by the members of the Board as moderately expansionist.

3. POLICY DECISION

The Board of Directors unanimously decided to maintain the benchmark interest rate unaltered at 4.25%.