# Minutes of the Meeting of the Board of Directors of Banco de la República on 26 April 2019

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A regular meeting of the Board of Directors of *Banco de la República* took place in the city of Bogotá D.C. on Friday, April 26, 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 April 2019 and in the statistical annex (Only Available in Spanish).

1. MACROECONOMIC CONTEXT

- The average growth projection of Colombia's main trading partners was revised downward in this report for 2019 and 2020. Thus, a slowdown is still expected for this year and the following *vis-á-vis* 2018, but with a growth figure still above the one observed for 2015 and 2016. However, there are still risks of a more pronounced slowdown in the advanced economies as well as in some emerging economies.
- The announcements made by the Fed in the last month suggest a greater perception of downside risks regarding growth of the United States, which, should they materialize, would lead to a more rapid and pronounced slowdown in the US economy that was forecasted in the previous report. This, together with the absence of inflationary pressures, has significantly reduced the likelihood of increases in the benchmark interest rate this year and the next.
- Given the above, a lower cost of international financing than the one anticipated earlier is expected. For Colombia, this should bring about a lower path for risk premia, with a slower convergence to its historical average.
- The price of oil has exceeded the forecasts made a month ago, largely as a result from the observed and expected supply constraints in the crude oil market. However, this is expected to be a transitory phenomenon, and the price of oil should return to levels around USD $62 per barrel in the coming months. Thus, a marginal upward revision of the oil price forecast for 2019 has been made in this report, for which an average price of USD $63.4 per barrel (Brent) is expected.
- The projections suggest that the country's external deficit as a share of GDP should continue to expand in 2019 as a consequence of a higher deficit in the balance of trade in goods. This is a result of lower-then-expected external sales and a better dynamics of imports, which reflect the higher expected growth in domestic demand *vis-a-vis* 2018. The remaining items are expected to partially offset this estimated behavior of the trade balance. Thus, for 2019, the estimate of the current account deficit remains within a range between 3.9% and 4.7% of GDP, with 4.3% as the most likely figure.
- For the first quarter of 2019, the annual growth of the Colombian economy would continue to increase gradually. In this report, the technical staff confirms its GDP growth forecast in the first quarter of 2019 at 3.2%, a figure close to the long-term growth estimate for the Colombian economy. This would be consistent with domestic demand showing a greater dynamism than had been estimated in the previous report, while that of external

demand would be subtracting more from GDP, in line with the figures of external trade and the projections of the balance of payments.

- For 2019, the technical staff forecasts GDP growth at 3.5%, a figure similar to the one presented a month ago. However, a greater dynamism of domestic demand and net exports is expected, which would subtract more from growth. The acceleration of GDP growth versus the 2.7% figure for all of 2018 would take place within a context of more favorable international financial conditions.
- Annual inflation in March was slightly higher than expected a month ago, and reached 3.21%. However, inflation results for the first quarter have been lower than forecast at the start of the year. In March, the increase in annual inflation was widespread, except for the non-tradable segment. Food inflation was driven by supply problems in the south of the country, while the tradable component rose slightly after continuous falls. Also, the generalized increase in the fees for public utilities explained the upward pressure exerted by the group of regulated items on the CPI. On the other hand, inflation excluding food and regulated items fell to 2.38% and the average of core inflation indicators remains below 3.0%.
- The different measures of inflation expectations remain slightly above the target (3.0%). Analysts' expectations stand between 3.2% and 3.3% to different horizons not over 24 months, and those embedded in public debt bonds stand around 3.3%.

In all, observed inflation is somewhat above the target, while the average core inflation indicators remains somewhat below 3.0%. The economic activity continues to recover at a better pace from levels that have been lower than the natural output of the economy. With this, and with the growth estimate for all of 2019, the output gap is expected to continue closing in the rest of the year. Monetary policy actions taken so far should consolidate the convergence of inflation to the target and maintain a favorable path for GDP expansion. Uncertainty on global growth remains high.

## 2. DISCUSSION AND POLICY OPTIONS

The Board Members emphasized that the average of core inflation indicators did not change in March, and continues below the 3.0% target. Although inflation accelerated this month, the members of the Board considered that, given the composition of this increase and the general dynamics of inflation, this change does not jeopardize reaching the target. On the other hand, inflation expectations continue to be close to the target.

Regarding productive activity, the Board noted that there is no new information to modify their assessment from the previous meeting, characterized by a reactivation of output growth that is still in progress, and due to which GDP is expected to stand at 3.5% in 2019. Some Board Members continue to be concerned about the following issues: (i) the pace at which the reactivation is taking place; (ii) the poor dynamics of the labor market and uncertainty about its drivers; and (iii) the low growth of commercial loans (despite the improvement in risk indicators for the financial system).

As for the external environment, the members of the Board stressed that, despite the news of better growth figures in the United States and China, an environment of lower external demand, wide international liquidity, and high volatility is still expected. With this, the Colombian economy would face neither external funding restrictions nor increases in its risk premia.

In general, the members of the Board agreed on their concern regarding the current account deficit projected for 2019, which is driven by the recovering dynamism of domestic demand and the low growth figures of the country's trading partners. They highlighted that the composition of the current account and its financing mitigate the external vulnerability to some extent. Two positive elements are the fact that the imports of capital goods and raw materials for productive processes are a dominant factor in the widening of the trade balance deficit, and that funding mainly comes from foreign direct investment.

In the absence of substantial changes within the context of an inflation figure that is very close to the target, an ongoing (albeit slow) GDP growth reactivation, and an international environment that exhibits better liquidity conditions, the Board unanimously decided to maintain the benchmark interest rate at 4.25%, a level they consider moderately expansionist.

3. POLICY DECISION

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

Fuente: https://www.banrep.gov.co/en/minutes-04-2019