Minutes of the Meeting of the Board of Directors of Banco de la República on 31 August 2020

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- In the second quarter of the year, the economy contracted 15.5% in annual terms, a slowdown caused by the decline in domestic demand. Despite the contraction of the country's major trading partners, net external demand contributed positively to growth, since the fall in exports was lower than the contraction of imports.
- While data to July reiterate the deterioration of the labor market, a moderate recovery was recorded in that month *vis-à-vis* the previous month. In any case, there is still spare productive capacity.
- In July, consumer inflation continued to decline (1.97%), with food prices standing out, while inflation excluding food and regulated items stopped falling. Expectations from analyst surveys place inflation at 2.87% at the end of 2021, while expectations embedded in financial instruments are at 1.56% for August 2022.
- The reduction in the benchmark interest rate continues to be transmitted to the different interest rates. The largest reductions have taken place in interbank interest rates, fixed-term deposits, and in commercial credit rates. Smaller reductions have occurred in consumer interest rates while mortgage rates have remained stable. This behavior of interest rates has taken place in a context in which the portfolio has continued to slow down, particularly for consumer credit.
- The most recent growth figures from major trading partners confirm an unprecedented contraction of external demand. These prospects, together with trade tensions between the US and China in the context of very low inflationary pressures, have determined that major central banks continue to pursue a broadly expansionary monetary policy. Thus, international financial conditions for Colombia continue to improve, while the current account deficit continues to decline.

Under these conditions, the Board of Directors of the Central Bank considered that the risk balance suggests it is appropriate to provide an additional boost to the economy and unanimously reduced the benchmark interest rate by a quarter of a percentage point to 2.0%. The Board highlighted that the impact of monetary policy will be greater inasmuch as the conditions of the pandemic allow to continue reopening the different economic sectors gradually.