Minutes of the Meeting of the Board of Directors of Banco de la República on 25 September 2020

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At its meeting on 25 September, the Board of Directors of *Banco de la República* (the Central Bank of Colombia) assessed the latest figures available on the domestic and global economic activity. The monetary policy discussion focused on the following aspects.

- Inflation in August remained below target: 1.88% vs 3.0%. On the other hand, inflation expectations suggest that the economic agents' perception to one and two years reiterates this difference. Indeed, surveys place one-year expectations at 2.75%, while two-year expectations embedded in inflation-indexed bonds are at 2.05%.
- The economy faces a sharp contraction that the technical staff of the Central Bank estimates between -6.0% and -10% for 2020.
- While July data reflect a slight decline in national unemployment (19.8%), the labor market and households´ disposable income continue to suggest a situation of marked deterioration, especially of formal labor.
- Most interest rates have fallen since the beginning of the crisis reflecting significantly the reduction of the monetary policy rate in a context that also exhibits increases in credit volumes to both households and businesses.
- The international outlook suggests that major central banks will continue to pursue a broadly expansionary monetary policy, and that the high supply of global liquidity and credit will persist for several months. On the side of demand, while the dynamics of the current account deficit continue to reflect lower funding needs *vis-à-vis* the period preceding the crisis, public borrowing needs have increased significantly.
- Uncertainty on several fronts, both domestic and external, remains high. Regarding possible risk factors, some Board Members highlighted their concerns, including:
- The possibility that the epidemiological dynamics—which have been favorable in recent weeks—may be reversed, as has been observed in some countries, thus forcing a new contractionary cycle.
- The possibility that the increase in public debt required to face a prolongation of the crisis will make it more difficult to transmit monetary policy to longer-term interest rates.

The Board considered the risk balance and, with a 4-3 vote, decided to reduce the benchmark interest rate by a quarter of a percentage point to 1.75%. Three members of the Board voted to keep the rate unaltered.

The main elements supporting the vote to reduce the rate considered providing additional stimulus by using the space provided by the low level of inflation recorded, and the fact that inflation expectations stand below 3.0%. Those who voted to keep the rate at 2.0% argued that the risks faced could be boosted by a move towards a more expansive policy stance.

Fuente: https://www.banrep.gov.co/en/minutes-meeting-board-directors-banco-republica-25-september-2020