
Banco de la República's board decides by majority to hold interest rates at 1.75%

Banco de la República's board of directors (BDBR) in its meeting on July 30 voted by majority to hold the benchmark interest rate at 1.75%. The decision was based on the following considerations:

- Leading indicators suggest a return to the prevailing growth trajectory, following a recent slowdown in economic activity deriving from roadblocks and other disruptions to public order. As a result, the technical staff has revised its growth projection for 2021 upward from 6.5% to 7.5%. Nevertheless, the output gap remains in negative territory and excess productive capacity persists, as reflected in recent labor market figures, in the context of continued high levels of uncertainty.
- Inflation increased from below 2.0% in the first quarter to 3.3% in May and 3.63% in June, with price pressures coming from both internal and external sources. Nevertheless, inflation excluding food and regulated items continues at low levels (1.87% in June). Some inflationary pressures could prove persistent and have an effect on expected inflation, as the economy continues to recover and reduce excess capacity.
- Vaccination campaigns have helped push global recovery, especially in advanced economies. However, new variants of the coronavirus continue to pose a significant risk to the world economy. Inflationary pressures in the United States and other advanced economies suggest a risk of tightening international financial conditions.
- The technical staff projected that the current account deficit would increase from 3.4% of GDP in 2020 to 4.5% in 2021 and 4.3% in 2022. This would be in line with an expected recovery in domestic demand, driven in particular by household consumption and investment. A moderation of the current account deficit beginning in 2022 would be consistent with implementation of the fiscal reform package recently presented by the national government.

Banco de la República's board members concurred that the space available to maintain current levels of monetary stimulus is closing, given recent inflation behavior and its possible persistence, as well as the upward revision to the growth forecast. In reviewing these circumstances and the general balance of risks, the BDBR made a majority decision to hold the benchmark interest rate at 1.75%. Five board members voted to hold the current rate, while two board members voted for a 25-basis point increase.

Trasmisión en tiempo real de la rueda de prensa que se hace inmediatamente termina la reunión de la Junta Directiva. En esta transmisión se informan la decisiones de política monetaria a través de la lectura del comunicado de prensa y las respuestas a las preguntas que los medios de comunicación presentes formulan a los voceros.

Link

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