
Contenidos relacionados

[Banco de la Republica Holding the Benchmark Interest Rate at 3.25%](#)

Última modificación

Lunes, 29 de abril de 2024

A regular meeting of the Board of Directors of Banco de la República was held in the city of Bogotá D.C. on December 30, 2013. In attendance were Mr. Mauricio Cárdenas Santamaría, Minister of Finance and Public Credit, Mr. José Darío Uribe, Governor and Managing Director of Banco de la República, and the Board Members Carlos Gustavo Cano Sanz, Ana Fernanda Maiguashca Olano, Adolfo Enrique Meisel Roca, César Vallejo Mejía and Juan Pablo Zárate Perdomo. These minutes contain a summary of inflation, economic growth and their prospects for the future, which was prepared by the Bank's technical staff (Section 1), in addition to a review of the key deliberations and policy options considered by the Board of Directors (Section 2).

1. INFLATION AND ECONOMIC GROWTH

a. Recent Developments in Inflation

In November, annual consumer inflation was 1.76%, which is 8 basis points (bp) lower than in October. So far this year, the datum comes to 1.67%, which is lower than the accumulated rise for the same period last year (2.34%). The decline in inflation in November is primarily due to the component of regulated items.

The annual variation in the basket for food ended the month at 0.62%, 4 bp lower than the month before. The annual change in the prices for meals away from home and in the change for processed foods showed drops of 23 bp and 15 bp respectively. Within this second group, the prices of imported products or of other products that are produced in the country but are highly tradable have remained unchanged or have continued to fall. This reflects the lower international prices and the limited pressure from the exchange rate. The prices of perishables, in turn, fell 2.1%, which is a smaller drop than the one seen in October (-2.8%).

The annual change in the CPI excluding food in November was at 2.21%, 10 bp lower than the month

before. The fact that the annual change in the CPI for regulated items (0.5% annually) was a drop of 62 bp is noteworthy. This is again attributable to public utilities (fees for electricity service) and to the decline in the prices of fuel which was -3.95% annually last month. The accumulated depreciation of the peso over the course of the year and slight upticks in the prices of some imported goods have kept the annual change in the prices for tradable goods excluding food at 1.4%. The non-tradables excluding food, in turn, showed an annual change of 3.7%, which is 6 bp higher than the previous record. The annual variation in rent, the main component of the group, remained at 3.6%.

The average of the four indicators of core inflation monitored by the Banco de la República was 2.46% in November, 2 bp higher than the previous month. This indicator has been stable at around 2.5% since February of this year.

The PPI dropped 1.3% in November in comparison to the same month last year. This decline was less than the one in October (1.9%). The local component rose with respect to the month before (57 bp). The import component rose 1.2% annually, a figure that is higher than the one registered the previous month (0.95%).

In November, inflation expectations continued to stay below the long term target although within the range established by the Board of Directors. The monthly survey of financial market analysts shows an expected inflation of 2.89% 12 months from now. This is 3 bp lower than the expectation a month earlier. For December of this year, the market expects a figure of 1.86%. At the same time, inflation expectations derived from the TES for 2- and 3-year maturities remained relatively stable between 2.3% and 2.6%. Those with 5-year maturities rose a little and were at 2.8%.

b. Growth

According to the information published by DANE, the Colombian economy expanded 5.1% in annual terms during the third quarter of 2013. This figure, which indicated a significant surge with respect to what had been registered in the first half of the year, was in the upper part of the forecast range presented in the previous Inflation Report (between 3.8% and 5.2%). From the beginning of the year to September, the growth of the GDP (3.9% annually) was similar to the key projection made by the technical team at the Banco de la República.

During the July - September quarter, domestic demand grew at a positive rate (6.0% annually). This was due to a very good performance on the part of building construction (26.7% annually), of public works (18.2% annually), a sharp expansion in public consumption (5.7% annually), and a growth in household consumption (4.0% annually) that was close to its historical average. With respect to the international trading accounts, exports slowed down in annual terms in comparison to the second quarter (1.9% vs. 7.8%) due to several supply shocks in mining production that substantially affected foreign sales. In the case of imports, higher annual growth rates were reported in comparison to the second quarter of 2013 (2.9% vs. 1.3%).

On the supply side, the sectors that registered the highest annual growth in the third quarter were construction (21.3%), agriculture (6.6%), and mining and quarrying (6.1%). Industry continued to be the sector with the worse performance (-1.0%). Other sectors such as commerce and finance maintained a favorable rate of expansion as they grew at annual rates of 4.3% and 4.9% respectively.

In the fourth quarter of 2013, household consumption could remain strong. This comes from the indicators such as retail sales published by DANE that show that it grew at an annual rate of 6.6% in October and at 4.5% excluding vehicle sales. Part of this growth is explained by the low base of comparison from last year. The Banco de la República's Monthly Survey of Economic Expectations (EMEE in Spanish) also reveals that based on data up to October, sales expectations are higher than the average registered for the third quarter of the year. Furthermore, the consumer confidence index (CCI) published by Fedesarrollo in November shows records similar to those seen in the month of October and slight improvements in the indicators of expectations. Likewise, the growth in imports of consumer goods (8.4% real) as well as the stability of the annual growth of the consumer loan portfolio (12.7%) indicates that consumption will maintain the strength seen in the last few quarters.

With respect to investment, the Banco de la República's Monthly Survey of Economic Expectations (EMEE in Spanish) with data up to October suggests a positive performance of investment other than building construction and public works in the last quarter of the year. The information on imports of capital goods shows that, in October, purchases of these types of goods remained at elevated levels as they grew 5.3% in real pesos (according to the technical team's estimates).

For total exports in dollars, the annual change in October was -11%. This drop was due to the combined decline in foreign sales of mining (-14.4%), agricultural (-7.4%), and industrial products and others (-0.4%). Total imports, in turn, in dollars grew 2.7% compared to the same period last year.

With respect to supply, the few indicators available show that sectors such as mining, commerce, and construction should continue to show high growth in the fourth quarter of the year. The Ministry of Mining estimates an annual growth of 4.4% and 19.0% respectively, for the production and delivery of

The figures published by DANE for industry in the months of October, registered an annual growth that was 10.1% in real pesos. This result is similar to the growth registered in the third quarter of the year, which was 10.0% in real pesos. Likewise, the imports of raw materials in October suggest that productive activity will expand at the high

With the above results, the technical team did not modify the estimated range of growth for 2013 as a

c. Financial Variables

Bank loans (N/C and E/C) in November registered an annual growth rate of 13.30%, a level which is

broken down by market, the portfolio of loans granted to households registered an annual growth of 14.1% in November and to the slowdown in the foreign currency component (10.8% to 10.1%).

The interest rates for loans disbursed by credit institutions since the beginning of the cuts in the consumer

The size of the decline in the real interest rates has been lower due to the effect of the lower rate of

The levels of the real interest rates for consumer loans, mortgages, preferential loans and other

d. Foreign Context

In the last few months, global activity has continued recovering mainly in the developed economies and

In the United States, the most recent figures on economic growth show that the economy expanded in

In the past, some have based on November figures whether global business confidence regarding the activities of internal and external shocks, showing any favorable signs. Thus, the region remains vulnerable to both
In the face of the restrictive economic productive activity in China's economy, it is expected that favorable
at a moderate pace and the activity has continued to slow down in China while, in Brazil, it is expected
Regarding the international price for oil, it has still remained at a relatively high level in the
upgraded to a higher price level. In the past, it has remained relatively low levels for some time.
Due to all of the above inflation in the main developed economies is staying at low levels. This is true for
India, and Indonesia are showing high inflation levels in the past few days, with inflation, for example, in Brazil,
The terms of trade declined in October but remain at high levels. And in the conditions expected in the
global supply of goods.
Finally, in the December 17, 2013 meeting, the Federal Reserve of the United States (FED) decided to de-
crease the benchmark interest rate from 0.25% to 0.175% and to increase the amount of the quantitative easing program
for 2014 and to purchase more government and corporate securities. Some improvements were presented
So far, the reaction of commodity market indicators has not been very strong in view of the announcement in
the local currency, and the interest rates for public securities have not changed substantially.

2. DISCUSSION AND POLICY OPTIONS

The board of directors took the following relevant aspects into consideration:

- (i) The new information suggests that the world economy is recovering slowly and better than expected.
and the large emerging economies such as India and China are growing steadily, and growing again.
 - (ii) In the United States, the Federal Reserve announced that it will purchase a moderate amount of financial
assets in the period.
 - (iii) The terms of trade declined in October but they still remain at high levels. An increase in the terms
conditions expected for the world supply of goods.
 - (iv) In Colombia, the economic growth in the third quarter was higher than what has been estimated.
Banco de la Republica. GDP growth (3Q13) was similar to that reported by the technical group. The
 - (v) For the fourth quarter of 2013, the indicators of consumer confidence and economic expectations, retail
sales, and the manufacturing sector are showing a moderate recovery in the global market.
 - (vi) Due to the above results, the technical team did not change their estimated growth rate for 2013 as
growth in the second half of the year will be considerably higher than the first half.
 - (vii) In November, the official growth of Brazil slowed down a little but continued to be higher than the
average for the year. The official growth of Brazil slowed down a little but continued to be higher than the
 - (viii) Annual consumer inflation was at 1.76% in November, a figure that was lower than expected. This
average for the year is 1.76%.
 - (ix) The inflation expectations are similar to what is expected for next year, as well as those derived from
technical analysis. The inflation expectations are similar to what is expected for next year, as well as those derived from
- To summarize, economic growth in 2013 is expected to be similar to what was seen in the year before.
The benchmark interest rate is unchanged.

The Board of Directors decided that it would be appropriate to keep the benchmark interest rate at 7.25%.
The members of the Board agreed that it would be appropriate to keep the benchmark interest rate with
in addition, the low level of inflation is basically due to supply shocks with some temporary components.
Another director stated that the information contained in the report indicates a positive performance of
current monetary policy, positive, and the current inflation gap is slightly negative.
Furthermore, another member thought that the fact that the growth rate of the GDP is increasing while
the inflation and the output gaps is closing.
Finally, the members agreed that in consideration of the fact that the current level of inflation has been
and the closing of the output gap, the Board should consider the possibility of a gradual increase in the benchmark

3. POLICY DECISION

The Board of Directors agreed unanimously that it would be appropriate to keep the benchmark interest

The Board will continue to monitor the performance and projections for economic activity and inflation in monetary policy will depend on the information available.

Bogota, D. C. January 3, 2014