

---

## [Detailed Explanation of the Macroeconomic Situation](#)

Must reads

### [The Board of Directors of the Central Bank of Colombia maintains the Benchmark Interest Rate at 4.5%](#)

A regular meeting of the Board of Directors of Banco of the República took place in the city of Bogotá D.C. on Friday, March 20, 2015. In attendance were Mauricio Cárdenas Santamaría, Minister of Finance and Public Credit, José Darío Uribe Escobar, Governor of the Central Bank, and Board Members Carlos Gustavo Cano Sanz, Ana Fernanda Maiguashca Olano, Adolfo Meisel Roca, César Vallejo Mejía, and Juan Pablo Zárate Perdomo.

These minutes contain a summary of the outlook of the technical staff of the Bank on the macroeconomic situation (section 1), followed by a review of the main discussion regarding monetary policy by the Board of Directors (section 2).

A [more detailed description of the macroeconomic](#) situation prepared by the technical staff from the Central Bank will be presented in the Inflation Report for the first quarter of 2015 and in the statistical annex.

## 1. MACROECONOMIC CONTEXT

1. So far in 2015, the behavior of oil prices and other commodities exports and imported goods has been very volatile, and the price of trade for the first quarter of 2015 is near the levels observed in the beginning of 2009.
2. In March of 2014, the appreciation of the US dollar continued versus the majority of the region, and this behavior has been more accentuated in Brazil, followed by Colombia.
3. The recovery of the world economy is still weak and uneven, in the United States, growth for the fourth quarter was 1.7%, and the average for the first quarter of 2015 is projected at 2.0%, a figure slightly higher than the one for 2014 (1.7%).
4. In the United States, the long-term interest rate of public debt bonds stopped falling and ended the year in the second semester, and that the increase for the year be lower than projected in prior months.
5. In Colombia, the strong fall of exports and the high increase of imports maintained what levels, while the remaining sectors descended significantly.
6. The economic growth of the last quarter of 2014 (7.5%) registered at the lower part of the range estimated by the technical staff (3.9% to 7.5%).

certain and industry registered falls, while agriculture presented low dynamism. The all projected for the year (4.8%).

7. The figures of activity for January and February of 2015 suggest that the slowdown of the production has persisted; growth rates higher than the target, but low, while industrial production mainly by basic employment, to date, salary increases do not suggest labor costs pressures on the prices.
8. Regarding the labor market, the figures to January show a seasonally adjusted increase in the number of employment, to date, salary increases do not suggest labor costs pressures on the prices.
9. In February, the annual growth of credit portfolio showed a downward again due to the slower rates on short term loans continue at levels below the average averages (excepting credit cards).
10. Given that if the latest trends are confirmed, the most probable estimation of growth rate for 2015 is 2.0% and 2.5%, which reflects the uncertainty over the impact of external scenarios.
11. Regarding price inflation in February increased and registered 4.36%, a number higher than the 4.00 and the target of 3.0%. The average of the inflation completed the goods increasing, registering 3.53%.
12. Inflation expectations by the market analysts for December were increased from 3.3% to 3.5%, and the 3.0% target for the year. The target was increased, a part of this last increment would be related to the increase of the inflationary risk premium.
13. Depreciation of the peso versus the average of currencies with which Colombia trades increases the demand for imports, but it also has a positive effect on inflation, having a more persistent effect on inflation.

In all, by the end of 2014, the Colombian economy slowed down, starting from an output level that was close to the full use of the productive capacity. Inflation increased mainly due to transitory factors, and its expectations are above 3.0%. Given that part of the reduction of oil prices and national income is lasting, a permanent adjustment of the internal expenditure of the economy is necessary.

## 2. DISCUSSION AND POLICY OPTIONS

The members of the Board highlight that growth of the Colombian economy for 2014 (4.6%) was lower than the projection by the Central Bank (4.8%), while that for 2013 was revised from 4.7% to 4.9%. The Board expects growth for 2015 to be lower than the one registered for last year, and Board Members agree that this slowdown represents a necessary adjustment facing the new external conditions that led to a significant diminution of the terms of trade. Some Board Members consider this could have a strong negative impact on national income. Additionally, they mentioned that depreciation provides stimulus for exports and for the sectors that compete with imports, and contributes to moderate the negative impact of oil price on the external and fiscal accounts. Likewise, it increases prices in the short term, especially those of tradable goods.

The Board Members also reiterated their commitment to maintaining inflation and inflation expectations anchored to the target. They coincided that in the short term total consumer inflation will continue showing upward pressures caused by temporary increases in the prices of food and, to a smaller extent, by the transfer of depreciation to the prices of tradable goods of the family basket. The pressure is expected to start yielding in the second semester, and inflation is foreseen to converge to the target (3.0%) in the policy horizon.

## 3. POLICY DECISION

The Board of Directors unanimously decided to maintain the benchmark interest rate at 4.5%.

Bogotá, D. C.

