Monetary Policy Report

A regular meeting of the Board of Directors of Banco of the República took place in the city of Bogotá D.C. on Friday, May 22, 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 Central 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 second quarter of 2015 and in the statistical annex.

1. MACROECONOMIC CONTEXT

1. The new figures of global economic activity for the first quarter of 2015 ratified the [illegible] will expand at low or negative rates. With this, it is likely that in 2015 the average economic growth of our trade partners be less than the one observed a year ago.

2. The increase in the benchmark interest rate of the US Federal Reserve is expected to begin towards the end of this year. In turn, the central banks in the euro zone and Japan continued their policy of strong monetary stimulus.

3. In the euro zone and to a lesser extent in the United States, the long-term interest rates [illegible] depreciation of the Colombian peso against the US dollar has been one of the most pronounced in the last week.

4. Oil prices have partially recovered, but still exhibit levels well below the average observed [illegible] similar to those observed at the beginning of 2009. This fall in the terms of trade entails a significant loss in the dynamics of national income.

5. The behavior of external demand and of the prices of commodities has been reflected on [illegible] In the same period, total CIF imports accumulated a 4.4% fall.

6. As for the domestic context, the new information for the first quarter of 2015 and April [illegible] production suggests good behaviors.

7. As for the labor market, the figures to March 2015 show that the seasonally adjusted unemployment rate continues at historically low levels, with a dynamic occupation rate which is explained mainly by salaried employment.

8. In April, total corporate and household debt grew at a lower pace than the one registered [illegible] which in real terms continue at levels below their historic averages (excepting credit cards).

9. With all this, the technical staff considers that growth during the first quarter would [illegible] The amplitude of the interval reflects uncertainty over assumptions in possible extreme scenarios.

10. Regarding prices, inflation increased in April reaching 4.64%, a number higher than had [illegible] excepting food and regulated goods. The average of core inflation completed seven months increasing, registering 3.84%.

11. Inflation expectations by market analysts and those derived from public debt bonds to 2, 3, and 5-year horizons are within a range of 3.1% and 3.5%.

In summary, the increase observed in inflation so far is due to transitory factors, and its medium-term expectations are close to 3.0%, within a context of slow-down in aggregate demand.

2. DISCUSSION AND POLICY OPTIONS

The Board Members agreed that the reduction in the terms of trade has a permanent component [illegible] This adjustment process to the new external conditions is taking place in an orderly way.

Likewise, they agreed that product growth will slow down as part of this process. However, they [illegible] the Central Bank (between 2.0% and 4.0%).

The members of the Board coincide in that the slowdown of the aggregate expenditure will [illegible] authority will have to react in order to conjure said risk.

As for the level reached by the current account deficit of the balance of payments, the Board [illegible] the real devaluation of the peso are necessary elements to reduce it gradually.

3. POLICY DECISION

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