Monetary Policy Report

A regular meeting of the Board of Directors of Banco de la República took place in the city of Bogotá D.C. on August 21, 2015. In attendance were Mauricio Cárdenas Santamaría, Minister of Finance and Public Credit; José Darío Uribe Escobar, Governor of the Central Bank; and co-directors Carlos Gustavo Cano Sanz, Ana Fernanda Maiguashca Olano, Adolfo Meisel Roca, Cesar Vallejo Mejia, and Juan Pablo Zarate Perdomo.

The following is a summary of the vision of the technical staff at Banco de la República on the macroeconomic situation (section 1) and an overview of the main policy discussions considered by the Board of Directors (section 2).

Further detail on the macroeconomic situation prepared by the technical staff at will be presented in the Inflation Report for the second quarter of 2015 and in the statistical annex.

1. MACROECONOMIC CONTEXT

1. In the present report, the figures of global economic activity continue to reflect a weak [illegible] and the major Latin American economies recorded low increases or setbacks in their output.

2. In the United States and the euro zone, long-term interest rates have decreased, but they [illegible] the benchmark interest rate of the Federal Reserve, and the US dollar continues to strengthen.

3. The lower prospects of global growth, high levels of oil production and the increasing [illegible] will continue to be important this year, with a negative and significant effect on national income.

4. Lower prices of commodities and weakness in external demand have reflected on the [illegible] (-49.3%), followed by the fall in exports of agricultural goods (-13.3%) and other sectors (-3.0%).

5. The new foreign trade information continues to suggest that this year the current account [illegible] forecast interval remains between 4.8% and 6.4%, with 5.6% as the most likely outcome.

6. As for the domestic context, indicators of retail trade for the second quarter, confidence of [illegible] exhibited a significant increase.

7. Regarding the labor market, the unemployment rate (seasonally adjusted) stopped falling, and in year terms job creation slowed down in June. Excluding seasonal effects, the overall participation rate and the occupancy rate declined.

8. Real interest rates decreased, registering below their historical averages calculated since 2000 [illegible] improved its dynamics. Both types of credit are growing at rates higher than nominal GDP growth.

9. With all of the above, the technical staff maintained its estimate for economic growth for the second quarter of 2015 between 2.0% and 3.5%, with 2.7% as the most likely figure. For 2015, the most likely outcome remains at 2.8%, within a range from 1.8% to 3.4%.

10. In July, annual inflation increased slightly and stood at 4.46%, somewhat higher than [illegible] their average stood at 4.20%, thus accumulating ten months of consecutive increases.

11. Inflation expectations by financial analysts to one and two years and those embedded in [illegible] current inflation and are placed at the higher portion of the target range.

In all, inflation remains above the upper limit of the target range and domestic expenditure in the [illegible] an eventual intensification of El Niño could slow down said convergence.

2. DISCUSSION AND POLICY OPTIONS

The members of the Board highlighted that the Colombian economy has received a very strong [illegible] terms of trade.

For some Board members, recent information could suggest that output growth could be lower [illegible] decision regarding the stance of policy.

Other members of the Board agree that recent data points at lower growth. This group opined [illegible] the nature of inflation and the mechanisms of convergence towards the medium-term target.

Another group expressed that the upward pressure on inflation originated by the pass-through of [illegible] strengthening the credibility of the Central Bank.

3. POLICY DECISION

The Board of Directors, by majority, considered maintaining the benchmark interest rate at 4.5%.