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## 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 Friday, October 30, 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 economic situation (section 2) and an overview of the main policy discussions considered

Further detail on the macroeconomic situation will be presented in the Inflation Report for the third quarter of 2015 and the Central Bank's annual report.

### 1. MACROECONOMIC CONTEXT

1. Recent figures continue to reflect a weak dynamics of global economy, lower than expected in the *Inflation Report* issued in June 2015, and supported by domestic demand rather than by the foreign trade.

2. In the United States, the first GDP estimate for the third quarter exhibited a moderate growth, rates, also supported by domestic demand. In the euro zone continues expanding at modest

3. In China, several indicators suggest a deepening of the slowdown, despite the stimulus package, and a further deterioration of the property market.

4. New data suggests that Colombia's main partners in Latin America will continue showing a promising growth, with rates such as Ecuador, Chile, Mexico and Peru would continue

5. With all the foregoing, growth for Colombia's major trading partners in 2015 would be lower than projected in the report.

6. In the third quarter, the price of oil was on average below the expectations of the technical staff, but it rose in the fourth. However, deterioration has been lower than estimated by the projections in the *Inflation Report* issued in June.

7. This behavior of the prices of exports and the deterioration of the quantities exported/exports. In August, total exports have risen 3.5% on a yearly basis. Agricultural items, so far this year,

8. In spite of the depreciation of the peso, the decline in the prices of imported goods in US is maintained on a yearly basis, and Colombia's year-to-August trade account has remained in

9. With the above, GDP is expected to grow 1.5% in the third quarter, 1.5% deficit in the trade balance and current

10. In Colombia, the most recent figures for the third quarter suggest that growth could have been higher, but it is not clear if this is due to a better performance in the manufacturing sector, or if it is due to a better performance in the services sector, or if it is due to a better performance in the construction sector.

11 The unemployment rate continues at low levels, although the employment generation has  
12 Real interest rates for credits continue below their historical averages, and the evolution of  
13 Considering the foresaid, the Central Bank revised downward its most likely growth forecast  
14 In September, and the consumer inflation stood at 5.25% on a yearly basis, surpassing  
15 All measures for inflation expectations decreased in the last month as are above the ceiling of  
In all the chain increases in the prices of goods that are mostly affected by the depreciation of  
the Argentine national income has moderated, in a context of increasing inflation expectations.

## 2. DISCUSSION AND POLICY OPTIONS

The majority of the Board Members agree that the increases in inflation reflect not only the  
impact of transitory shocks attributable to *El Niño* and devaluation, but also the effect of higher  
the domestic credit and the balance of payments. The inflation is the result of a combination of  
enduring conditions due to *El Niño* and the depreciation of the Argentine peso, and the effect of  
pressures of external vulnerability generated by excess capital inflows, but to prevent inflation

As for the magnitude of the increase in the benchmark interest rate, there were several opinions.  
The majority of the Board Members call for a stronger reaction than

Other Board Members, although sharing the macroeconomic diagnosis of the majority, consider  
that the monetary policy should be more flexible and should take into account the need to  
pass through the monetary policy allows for greater predictability of interest rates, and improves the

One of the Board Members emphasized the transitory nature of the acceleration of inflation due  
to *El Niño* and to the variation of the exchange rate. Although the expectations, a 250 pressure  
assumes this purpose.

## 3. POLICY DECISION

The Board of Directors of Banco de la República, by majority, decided to increase the  
benchmark interest rate by 500 to 6.25%.