



Minutes of the Banco de la República Board of Director's meeting on November 19, 2010

On November 19, 2010 the regular meeting of the Board of Directors of the Banco de la República was held in the city of Bogotá.

Present were:

Juan Carlos Echeverry, Minister of the Treasury and Public Credit
José Darío Uribe, Governor of Banco de la República

Full-time Board members present:

Carlos Gustavo Cano
Juan José Echavarría
Fernando Tenjo
César Vallejo
Juan Pablo Zárate

The inflationary and economic growth situations as well as the outlook for both were discussed and decisions were made in relation to monetary policy. Below is a summary of the main topics dealt with in this meeting.

1. BACKGROUND

a. Recent developments in inflation

Annual consumer inflation was at 2.33% in October (monthly was 0.09%) which is 5 basis points (bp) more than September.

The higher amount registered in comparison to September was due to upward pressure from regulated prices and from the tradables excluding food and regulated goods and services. The annual change in the prices of regulated goods and services, driven by utilities and fuel, went from 5.62% in September to 5.94% in October. In contrast, the annual change in the prices for tradable goods excluding food and regulated prices went from -0.62% in September to -0.57% in October.

Meanwhile, the annual change in the prices for non-tradable goods and services excluding food and regulated prices declined for the fourth consecutive month and was at 3.52% in October compared to 3.58% in September. In addition, the prices for food showed a 3 bp drop from 1.72% in September to 1.69% in October.

With respect to the core inflation indicators, these remained stable with respect to the month before and their average was 2.3%. The lowest amount registered is still being seen in the CPI excluding food and regulated prices with 1.67% annually.

With the data available as of November 10, inflation expectations derived from the negotiations for 1-, 5- and 10-year public debt were at 1.47%, 3.46% and 3.72% with variations of 58 bp, -7 bp and -6 bp respectively compared to the average for the previous month.

Inflation expectations from the monthly survey done by the Banco de la República at the beginning of November continue to show declines and were within the long term target range set by the Board of Directors.

The pressures from non-salary costs remain at low levels. Significant pressure on that front has not been seen in spite of the upswing registered in the last few months. The annual change in the producer prices (PPI) was 2.7% with respect to the 2.3% that was registered in September while the monthly variation was -0.3%.

b. Growth

The information for the third and fourth quarters suggest that domestic demand is showing an expansion that is slightly above what was registered in the first half of the year and is characterized by the strength of household consumption and a sustained recovery of investment.

The consumer confidence information from FEDESARROLLO shows a slight dip in October in comparison to the most recently registered information. Nevertheless, the levels remain high and clearly above the average seen in the first half of the year. This has also been reflected in the DANE trade indicators. As of September, the commercial retail sales had grown at an annual rate of 18.6%. It is expected that investment will continue to recover in the third and fourth quarters. This forecast is based on the rise in imports of capital goods, the favorable performance of direct foreign investment and the local production of

machinery and equipment. At the same time, the surge in building permits and the strength of mortgage loans also support a better performance in construction. For the fourth quarter and, in particular, for 2011, add the positive boost that the policy of tariff reductions mainly for capital goods could provide to the factors mentioned above.

With respect to foreign trade, the total exports in dollars showed an annual change of 15.0% using the data as of September. This was driven primarily by the mining sector, which had an annual variation of 21.5%. In contrast, the growth of total imports in dollars showed a minor rise in September with an annual change of 43% compared to the 41.9% registered in August. At this time, the surge in imports was due to the trend of imports of capital goods that showed a 54.9% annual rate of expansion. The other two groups had lower rates of growth than those that had been seen a month before (from 40.3% to 34.5% for intermediate goods and from 51.4% to 13.5% for consumer goods).

For the third quarter, the available supply indicators have had mixed performances and suggest that the economic growth in various branches such as industry, electricity, gas and water, and transportation could moderate. According to the most recent information from DANE, industry grew at an annual rate of 2.8% in September. In contrast, the performance in the mining and commercial sectors has been favorable.

In the labor market, the available data indicate that the unemployment rate was 10.6% for the national total and 11.5% for the 13 cities. These figures are lower than those from the year before.

c. Foreign context

Last month the most important event in the foreign context was the FED's announcement of the start up of a new program for purchasing a total of between 850 and 900 billion dollars in securities (with a direct allocation of 600 billion and the rest as the reinvestment of resources from previous packages).

At the same time, the recent events in Europe have raised the perception of risk in the international markets. The crisis in Ireland has revived the fears in the region of this spreading to larger economies such as Spain and Italy and raised doubts about the European Union's ability to face a more marked crisis in the latter ones.

With respect to the United States, the 2.0% growth (a/q) for the third quarter of 2010 was slightly above that registered for the second quarter of the same year, 1.7% (a/q). Likewise, a marked slowdown with a 1.5% (a/q) growth for the third quarter was seen in Europe. This was much lower than the 3.9% (a/q) for the second quarter. In addition, the limited data from the fourth quarter does not make it possible to expect a surge in growth for the above mentioned economies.

The emerging economies in the region also felt the effects of the rise in risk even though the levels remain low. Thus in the last few weeks, a drop in the region's main stock indexes together with a depreciation of their currencies compared to the dollar has been seen. Nevertheless, the positive economic performance, the risk premiums that are still low and the favorable level of prices for some commodities should continue to contribute to the capital flows into emerging economies.

In spite of the lower growth for some industrialized countries, the terms of trade are expected to remain at historically high levels.

d. Financial variables

In October, the averages for the nominal rates for consumer and regular loans were at 16.9% and 9.4% respectively with declines of 62 bp and 34 bp with respect to the previous month. The rate for mortgage loans was at 12.1%, which was 11 bp lower than what had been registered in September. Thus, the interest rates for loans to households and businesses are at historically low levels.

In October, the annual growth for the average total gross portfolio was 10.7% while a month ago it had grown at a rate of 9.2%. The strongest portfolios are still the mortgage one with an annual change of 19.8% and the consumer portfolio with an annual variation of 13.7%. This figure is 276 bp lower in the case of the mortgage portfolio and 134 bp higher for the consumer portfolio based on the data registered in September. In October, the annual growth of the commercial portfolio rose 178 bp in comparison to September and was at 7.8%.

Between October 29 and November 19, 2010, the rates for the public debt securities rose 26 bp and 13 bp for the 1- and 1-year securities. The 10-year securities were at 8.06% for the same date, 57 bp higher than what had been registered as of October 29.

2. DISCUSSION AND POLICY OPTIONS

The board members' main points of discussion and analysis focused on the following aspects: (i) the inflation projections for 2010 and 2011, (ii) the change in the prices for tradable goods, (iii) the lagged effect of the monetary policy measures on production and prices, (iv) the growth projections for the economy and employment for 2010 and 2011, (v) the rise in consumer confidence and the performance of investment, (vi) the recent momentum in the financial system portfolio, (vii) the upswing in the prices for financial assets and housing, (viii) the drop in inflation expectations, (ix) the recent trend for capital flows, (x) the performance of public debt securities, (xi) the balance of risks between growth and inflation in the context of an economy that is recovering and an inflation that is in the lower half of the long term target range, and (xii) the need to maintain the credibility of the monetary authority and anchor inflation expectations around the long term target, (xiii) the growth data and projections for the worldwide economy.

The Board of Directors emphasized the following aspects of the inflation trend during the month: (i) annual consumer inflation in August was 2.33%, which was higher than what had been seen a month before that but lower than what the market expected, (ii) the core inflation indicators continue to show low, stable levels, (iii) inflation expectations remain at low levels, and (iv) the result of inflation over the last month is in line with the projections made by the technical team, which show to a high degree of confidence that inflation will be in the lower half of the long term target range in 2010 and 2011.

The Board emphasized that the Colombian economy is still showing signs of getting stronger driven by consumer confidence, the high terms of trade, the strengthening of business investment and the recovery of the financial system portfolio. For 2011, a growth similar to what was seen in 2010, which was close to 4.5%, is expected.

The information available on the performance of the economies of the United States, Europe and Japan in the third quarter show weak growth though with important differences between the countries. The Asian economies and a significant part of the Latin American ones are growing at high rates. The international prices for the commodities that are the most relevant to Colombia remain at historically high levels in spite of the recent decline in the prices for some of them.

In the last few weeks, events in Europe and Asia have emerged that have affected the performance of the markets by raising the perception of risk around the world. Latin America has not been an exception. As a consequence, there has been a drop in the main stock indexes for the region recently together with a depreciation of their currencies with respect to the dollar.

The Board of Directors believes that the monetary policy posture has contributed to the growth of the economy without jeopardizing inflation target.

3. POLICY DECISION

The Board of Directors agreed to keep the benchmark rate of the Banco de la República unchanged and it will remain at 3%.

Bogotá, Colombia
December 3, 2010