PUBLIC VERSION

Working Papers from the Board of Directors Banco de la República

Monetary Policy Report

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Board of Directors

Banco de la República

Monetary Policy Report

OFFICE OF THE DEPUTY TECHNICAL GOVERNOR

MARCH 2018

I. External Context

1. The external context continued to improve in the last month. The persistence of oil prices at relatively high levels is the factor with greater positive impact.
2. Global financial conditions continue to favor capital flows to emerging economies. To date, they have not been compromised by the monetary policy stance of advanced economies.
3. The information available shows that, so far in 2018, the recovery of economic growth of the country's trading partners continues.
4. Inflation in the United States recorded a yearly 2.4% in March. Inflation in the euro zone stood at 1.3%.
5. So far in 2018, on average, the price of Brent oil has been USD 68.07 per barrel. It is important to note that for the period from 1 to 25 April, this average is USD 71.09 per barrel.
6. As a result, Colombia's terms of trade continue to exhibit recovery, mainly explained by higher oil prices.

a. External Growth Scenarios

Baseline or more likely scenario (Table 1)

7. This report maintains the growth forecasts for the country's trading partners, compared to those presented in March. Consumption and investment would continue to drive growth in advanced economies. Emerging economies would experience recovery in the future, supported by greater demand by advanced economies and better terms of trade. For 2019, a growth dynamics similar to the forecast for 2018 is expected from the country's trading partners.
8. In the United States, the best prospects for growth and the emergence of inflationary pressures would lead to envisage three additional increases to the FED's benchmark interest rate during 2018 in the baseline scenario. Thus, it would move from the current range (1.50-1.75) to (2.25 to 2.50) by the end of 2018. Added to this is the program for balance sheet reduction, which would continue to be met as announced.
9. Monetary policy by the European Central Bank would continue to be expansive, although less than before, considering recent announcements of cuts to its asset purchase program. Inflation is expected to remain at low levels.

10. This report revised the forecast for the price of Brent oil upwards, which is estimated to be around USD 65 per barrel. For 2019, this reference would be at about USD 63 per barrel. This projection still anticipates a reduction originated in a supply response, although the declines expected in the coming quarters would be less than those considered in the previous report.
11. The factors that would contribute to the reduction in the price of oil during the remainder of the year would be:
    i. The high prices observed in the last few months, which would lead to an increase in production, particularly in the United States, which would be concentrated in the second half of the year.
    ii. The gradual erosion of the agreements between the OPEC and Russia.
12. Some of the negative risks in the baseline scenario for the external context are:
    i. A faster and/or higher-than-expected increase in the Fed's benchmark interest rate, which could raise external financing beyond what was considered for the baseline scenario.
    ii. Global financial instability due to the high levels of leverage that can be seen today in several economies.
    iii. Imposition of trade barriers in the United States and other countries.
    iv. A failed renegotiation of the North American Free Trade Agreement (NAFTA).
    v. Adverse effects associated with the negotiation of Brexit.

13. The main upward risk faced in the baseline scenario for external context would be:
    i. A higher oil price than referred to in this scenario. Should this risk materialize, it would represent a positive drive to the growth of the Colombian economy through several channels.

Table 1: Economic Growth Forecasts for Colombia's Major Trading Partners

Country or Region	2018			2019		
	Low	Baseline	High	Low	Baseline	High
USA	2.0	2.8	3.6	1.4	2.4	3.4
	1.6	2.6	3.4	-	-	-
Euro Zone	1.9	2.4	2.9	1.0	2.0	2.6
	1.5	2.3	2.9	-	-	-
China	5.8	6.5	7.0	5.5	6.3	7.0
	5.5	6.5	7.0	-	-	-
Brazil	1.6	2.6	3.6	1.0	2.7	4.0
	1.0	2.4	3.4	-	-	-
Ecuador	0.5	1.8	3.0	0.0	1.5	3.0
	0.0	1.5	2.5	-	-	-
Venezuela	(10.0)	(7.0)	(4.0)	(6.0)	(3.0)	0.0
	(8.0)	(5.0)	(2.0)	-	-	-
Peru	2.6	3.8	4.6	2.5	3.8	4.7
	2.8	4.0	4.8	-	-	-
Mexico	1.3	2.2	3.0	1.0	2.3	3.5
	1.3	2.2	3.0	-	-	-
Chile	1.7	3.0	3.7	1.0	3.0	4.0
	1.4	2.7	3.4	-	-	-
Trading partners	-	2.6	-	-	2.6	-
	-	2.5	-	-	2.6	-
Trading partners excluding Venezuela	-	2.9	-	-	2.8	-
	-	2.9	-	-	2.9	-

The current forecast is shown in black.
The forecast from the previous quarterly Report is shown in red.

II. Foreign Trade and Balance of Payments

Exports of Goods

14. In February 2018, the value of total exports in US dollars recorded an annual 8.3% growth, explained by increases in the group of Other Exports[1] and mining goods, which offset the decline in agricultural exports. So far in 2018, total exports expanded 13.9%, with positive variations in the three groups mentioned above.
15. For the annual variation in February, the rebound of the contribution of the oil refining and others, and Food, Beverages and Tobacco excluding coffee stand out (**Table 2**). On the other hand, for the year so far, coal and oil stand out as the items that contributed the most to overall growth.
16. External sales of the group of Other Exports grew significantly (27.1%), explained mainly by increases in food, beverages, and chemical products. Something similar occurred with the variation of the year to date.
17. In contrast, agricultural exports fell 7.9% due to the fall in external sales of coffee and bananas. However, this group exhibited a 5.4% increase in the year to date, explained by flowers.
18. Thus, the growth of total exports is explained by an increase in prices (16.5%), which more than offset the decline of exported volumes (-1.3%). The highest increase in prices took place in mining goods (16.5%),

[1] Excluding oil and its derivatives, coal, ferro-nickel, gold, coffee, bananas, and flowers. Includes other mining and agricultural goods. Exports of manufactured goods accounted for 95.2% of this group in January.

followed by the group of Other Exports (3.2%). On the contrary, goods of agricultural origin fell -8.0%. Regarding the quantities exported, agricultural goods (0.2%) and Other Exports (23.2%) grew, while the volumes exported of mining goods fell (-10.5%).

19. According to the foreign trade preview by DIAN, in March, exports excluding oil and its derivatives fell -6.5% on a yearly basis.

Table 2: Behavior of Exports in US dollars

	Annual Variation [Contribution]	Item	Annual variation of the item	Contribution to annual variation
February 2018				
		Main contributing items to annual variation, in the same direction:		
Total Exports	8.3%			
Agricultural goods	-7.9%	Coffee (not roasted)	-13.4%	-1.0
	[-1.2]	Bananas	-6.6%	-0.2
Mining goods	4.2%	Oil refining and others	54.3%	2.6
	[2.5]	Coal, lignite, and peat	7.7%	1.4
Other exports*	27.1%	Foods, beverages, and tobacco, excluding coffee	57.8%	2.6
	[7.1]	Chemical products	28.4%	2.1
Accumulated value for January - February 2018				
Total Exports	13.9%			
Agricultural goods	5.4%	Flowers	12.8%	0.5
	[0.8]	Bananas	17.8%	0.4
Mining goods	11.3%	Coal, lignite, and peat	30.4%	5.1
	[6.9]	Oil	7.9%	2.6
Other exports	24.9%	Foods, beverages, and tobacco, excluding coffee	46.2%	2.1
	[6.2]	Chemical products	23.9%	1.7

* The largest annual growth rates of external sales of this group were reported toward the United States and Ecuador (17.7% and 12.7%, respectively). Source: DANE.

Imports of Goods

20. In February, the value of CIF imports in US dollars increased 0.1% annually. The fall of external purchases of intermediate goods (-5.9%) was offset by the expansion of imports of capital goods (9.9%) and of consumer goods (1.1%). In the first two-month period of 2018, total imports grew 5.2%, supported by increases in the three groups of goods (**Table 3**).

21. In the case of imports of capital goods, the contribution of external purchases of Other Fixed Equipment for industry and industrial machinery stands out. In contrast, the reduction of external purchases of intermediate goods is explained by the significant reductions in the category of fuels and of raw materials for agriculture, which fell 32% and 28%, respectively, in February. Regarding fuel imports, part of the behavior is explained by the high basis of comparison of February 2017, when it grew 18% in annual terms.

22. Based on the indices of prices and quantities, it is observed that the growth of imports in February is explained by the increase in prices (4.8%), which was partially offset by a 4.2% fall in the index of quantities. The increase in the price index took place in the three groups of goods, while the fall of quantities imported is concentrated entirely in the group of intermediate goods.
23. According to the preview of foreign trade by DIAN, in March, CIF imports recorded an annual 6.5% fall.

Table 3: Behavior of Imports in US dollars

IMPORTS				
	Annual Variation [Contribution]	Main contributing items to annual variation, in the same direction: Item	Annual variation of the item	Contribution to annual variation
Total Imports	0.1%			
Capital Goods	9.9%	Transport Equipment	29.2%	0.4
	[2.7]	Industrial Machinery	20.0%	1.0
Raw materials	-5.9%	Animal Feed	-46.1%	-0.8
	[-2.9]	Fuel	-35.8%	-3.7
Consumer Goods	1.1% [0.3]	**Non-durable consumption goods**	**3.5%**	**0.4**
		Tobacco	252.4%	0.1
		Durable consumption goods	**-1.5%**	**-20.0**
		Vehicles for Private Use	-14.5%	-0.9
Accumulated value for January - February 2018				
		Main contributing items to annual variation, in the same direction:		
Capital Goods	10.2%	Industrial Machinery	10.5%	0.7
		Other fixed equipment (for industry)	17.3%	1.0
	[2.9]	Transport Equipment	23.4%	0.4
Raw materials	3.9%	Electricity	617.4%	0.0
	[1.9]	Chemical and Pharmeceutical Products	18.5%	1.5
Consumer Goods	1.4% [0.3]	**Non-durable consumption goods**	**6.2%**	**0.8**
		Tobacco	344.8%	0.1
		Beverages	50.3%	0.3
		Durable consumption goods	**-3.8%**	**-0.4**
		Vehicles for Private Use	-19.7%	-1.3

Source: DANE

Balance of Trade for Goods

24. With the above results, and with the figures for imports in FOB values, the trade balance ended with a 560 million-dollar deficit FOB in February, equivalent to a 0.7% increase of the deficit in the same month of 2017.
25. In the first two-month period of 2018, the trade deficit was 950 million dollars FOB. This means a USD $395 million reduction of the deficit *vis-à-vis* the previous year.

Balance of Payments

26. With the information available for the first quarter and the external context scenario presented hereinbefore, the new estimate of the current account deficit for 2018 is 3.1% of GDP (USD 10,605 m) in the baseline scenario, within a range of 2.8% and 3.5% for the deficit in the low and high-growth scenarios, respectively. It is worth mentioning that uncertainty about the conditions and availability of financing, as well as the sensitivity of some capital flows to the prospects of the external context and to economic activity in general determine this range.
27. The current account deficit as a proportion of GDP projected for 2018 (3.1%) is lower than what was observed in 2017 (3.3%). This correction is explained mainly by the lower trade deficit in goods (**Table 4**). Additionally, higher income from current transfers would continue to contribute positively to the narrowing of the external imbalance. On the contrary, widening of factorial income and of the deficit of non-factor services is expected.
28. Exports of goods are expected to increase 11.9% annually in the baseline scenario. This dynamism would be explained by the expansion of external sales of oil and its derivatives and of industrial products, in a context of better prices and higher growth of the country's main trading partners. Imports are expected to grow 7.1%, a rate higher than the one observed in 2017.
29. For 2018, the deficit of services is estimated at levels higher than in 2017. On the side of expenses, these would increase due to higher travel expenses by Colombians abroad in a context of a favorable exchange rate, the increase in outflows for freight, and the increase in oil technical services given the higher international oil prices. On the other hand, income would increase mainly by the larger inflows associated with tourism, in line with the improvement of global growth.
30. Due to factorial income, higher net outflows are expected *vis-à-vis* 2017, mainly due to the increase of the profits of foreign companies in the oil sector, and, to a lesser extent, to the improvement of the profits of companies that operate in sectors different from mining and energy. This is consistent with the higher growth expected for the economy. Higher interest payments on the external debt are also forecast.
31. The increase of income from current transfers, resulting from the higher growth expected from countries where remittances are originated, would contribute to a lower deficit in 2018.

Table 4:

BALANCE OF PAYMENTS (Millions of US Dollars)	2017	2018 Baseline	Variation
CURRENT ACCOUNT (A+B+C+D)	**-10,359**	**-10,187**	**-246**
Percentage of GDP	**-3.3**	**-3.1**	**0.2**
A. Goods	**-4,766**	**-3,206**	**1,561**
a. Exports	39,474	44,156	4,681
Main	27,313	31,002	3,689
Other Exports	12,161	13,154	993
b. Imports	44,241	47,361	3,121
B. Non-factor Services	**-4,111**	**-4,902**	**-791**
a. Exports	8,326	9,220	894
b. Imports	12,438	14,122	1,685
C. Factor Income	**-8,167**	**-9,794**	**-1,628**
D. Current Transfers	**6,685**	**7,297**	**612**

Memo Item:

Mining and oil sector (a-b)[1]	**17,751**	**20,209**	**2,458**
a. Exports	20,798	24,364	3,567
b. Factor Income Revenue	3,047	4,155	1,108

[1] Including oil and derivatives, coal, and ferronickel

32. In terms of financing of the current account, for 2018, direct investment is expected to continue being the main item of inflows of foreign capital. However, foreign direct investment flows (FDI) in Colombia would record an annual 6.4% decline (**Table 5**). This would be explained by the effect of the basis for comparison originated in the resources received by companies from the communications sector in the previous year. It is worth noting that, correcting for this effect, these would increase 13.7%, driven largely by investments destined to the mining and oil sectors.
33. Additionally, increased borrowing is expected from the public sector (net disbursements), in contrast to the net amortizations of 2017. Regarding portfolio investment, the baseline scenario for 2018 assumes a lower bond issuance by the government and entities from the public sector. The dynamism of the purchase of TES by foreigners is also expected to continue.

Table 5:

	2017 (prl.)	2018 (prj.) Baseline	Variation
FINANCIAL ACCOUNT (A+B+C+D+E)	**-9,694**	**-10,605**	**-911**
Percentage of GDP	***-3.1%***	***-3.1%***	***0.0%***
A. Direct Investment (ii-i)	**-10,828**	**-9,589**	**1,239**
i. Foreign Investment in Colombia (FDI)	14,518	13,583	-935
ii. Colombian Investment abroad	3,690	3,993	304
B. Portfolio Investment	**-1,577**	**107**	**1,683**
i. Public Sector	-7,250	-4,641	2,609
ii. Private Sector	5,673	4,748	-926
C. Other investment (loans, credits, and other derivatives)	**2,166**	**-1,800**	**-3,966**
D. Reserve Assets	**545**	**677**	**132**
ERRORS AND OMISSIONS	**665**	**0**	

III. Growth, Domestic Demand, and Credit

34. According to the information available on real activity for the first quarter of the year, GDP growth would have accelerated compared to figures for the fourth quarter last year and throughout 2017. This would have taken

place in a context in which the effects of the supply shock to air transport in the fourth quarter last year and the implementation of the VAT in the same period last year would have already faded to a great extent. Particularly, the technical staff estimates a 2.3% expansion for this period.

35. The seasonally adjusted series in the monthly Economic Monitoring Indicator (ISE) by DANE confirms this. This indicator expanded 2.4% on a yearly basis in February, similar to what was registered in January (2.3%), and larger than in the fourth quarter of 2017 (1.4%).
36. In this context, the acceleration of GDP growth would have been accompanied by a large increase in absorption, which would have resulted, to a large extent, from a recovery of investment. Total consumption is also expected to increase its annual growth rate compared to the previous quarter thanks to the acceleration in private consumption. Although public consumption slows down somewhat, its rate of expansion is greater than the one for private spending. On the other hand, net exports have contributed positively to GDP expansion.
37. The indicators available support this forecast. According to the results of the monthly retail survey (EMCM) by DANE, retail sales (excluding fuels) expanded 6.4% annually in February. The aggregate for the first two-month period of 2018 registered a yearly growth of 5.9%, which represented a significant acceleration *vis-à-vis* -3.0% in the fourth quarter last year.
38. Excluding vehicle sales, the remaining aggregate expanded 5.4% on a yearly basis in the same month. For the first two months of the year, the growth rate was 3.9% on a yearly basis, which also meant a better behavior versus the fourth quarter (-0.5%).
39. According to the same survey, the index of retail sales of motor vehicles increased 12.2% on a yearly basis. For the first two months of the year, the figure was 19.0%, significantly higher than at the end of last year (-15.6%).
40. Other indicators closely correlated with household consumption also suggest a better performance of this component of GDP during the first quarter of 2018. With figures to March, the Consumer Confidence Index (ICC) published by *Fedesarrollo* improved marginally versus the levels of previous months. Despite the fact that its level remains below the average calculated since November 2001, this shows a recovering trend since a year ago.
41. With figures to February, the seasonally adjusted series of the balance of sales of the monthly survey of economic expectations (EMEE) by *Banco de la República* suggests recovery of private consumption during the two-month period of January-February.

42. Regarding the labor market, the seasonally adjusted series for the national unemployment rate and in the thirteen major metropolitan areas to February did not exhibit significant changes versus the previous month.
43. As for employment, the seasonally adjusted figures of recent months suggest that, marginally, the number of employed individuals has increased for the national aggregate, while in the thirteen areas it remains at standstill. Increases in employment at the national level are primarily due to the recent dynamics in the different regions other than the thirteen areas. In the latter, with information from the moving quarter ending in February, the seasonally adjusted series exhibit a fall in salaried employment and an increase in the number of non-salaried employed workers versus the figures from the previous month.
44. On the other hand, the indicators available related to Gross Capital Formation suggest that investment other than construction and civil works would have expanded at a faster pace than in the fourth quarter last year. This can be inferred from the figures for imports in US dollars published by DANE to February along with the previews of foreign trade published by DIAN to March, both carried to constant pesos.
45. Regarding foreign trade, according to the same sources, growth in exports and stagnation of imports are expected. The expansion of sales abroad would result from good performances of both traditional goods (particularly coal and oil) and non-traditional goods and services. As for imports, its zero growth would have been related to the contraction in transport equipment and durable consumer items.
46. On the supply side, the available indicators exhibited mixed results, although those with a higher correlation with GDP, such as retail sales and industry indicators, showed a favorable performance.
47. In February, total industrial production (IPI) grew 1.5%. Excluding oil refining, the remaining industries increased 0.8%. Oil refining expanded 4.7%.
48. Energy demand recorded an annual 3.2% expansion in March, and its trend shows a positive slope. The regulated and non-regulated components grew 3.4% and 2.97%, respectively.
49. Oil production in March stood at 857 mbd, resulting in an annual 6.5% increase. However, the average level of the first quarter (847 mbd) grew by only 0.7% *vis-à-vis* the same period of 2017, and fell versus the fourth quarter of that year (862 mdb).
50. According to the Federation of Coffee Growers, coffee production in March stood at 1,037,000 bags, which meant an annual 1.7% increase. Despite this, the result of the first quarter was a 5.5% fall. It is important to note

that, according to the experts of the guild, a fall close to 3.0% is expected in the first half of the year.

51. Regarding construction, in February, cement production and shipments fell 6.9% and 4.8% on a yearly basis, respectively. On the other hand, construction permits exhibited an annual 12.0% decrease in February, with which the year so far shows a 3.6% fall.
52. With this, the technical staff at the Central Bank forecasts GDP growth for the first quarter of 2018 at an annual 2.3%, within a forecast range between 1.8% and 2.8%.
53. Regarding GDP growth projections for the full year, the technical staff of *Banco de la República* maintained the central point presented in the previous *Inflation Report*: 2.7% as the most likely figure, albeit contained this time within a range between 2.0% and 3.5% (vs. 1.5% and 3.5%). As usual, the ceiling and the floor of the range, as well as the central figure for GDP growth in 2018 are consistent with the assumptions of external fundamentals of the balance-of-payments scenarios discussed above.
54. In this sense, for 2018, and compared to 2017, recovery of our main trading partners' economic growth is expected, allowing for a positive contribution of external demand to GDP expansion. Also, the forecasts of international commodity prices would record increases, which implies a higher level in the terms of trade than that observed over the past year. In addition, the slight widening of the current account deficit for 2018 versus 2017 would imply a greater inflow of resources to the country to finance the expansion of domestic demand.
55. On the side of expenditure, a greater dynamism of domestic demand is anticipated, defined by major expansions of gross capital formation. Thus, the benefits referred to in the tax reform related to private investment and the good dynamics projected for civil works, would boost the performance of this item of GDP in 2018. Particularly, regarding the latter component of investment, good performance would result from a greater expenditure in infrastructure by regional governments, which would complement the expansion of exploration and exploitation activities by different companies in the oil sector and spending on tertiary roads and 4G highways.
56. Private consumption is expected to expand at a slightly higher pace in 2018 than last year. This item should be favored by the reduction of inflation and by monetary policy actions taken in the past few months. Additionally, public consumption growth is expected to be somewhat lower than in 2017. This would result from the effects of the electoral calendar and from the adjustment expected in the fiscal accounts by the National Central

Government (GNC), which would be partially offset by greater implementation by regional and local governments.

57. Regarding the foreign trade accounts, a positive contribution of external demand to GDP growth is expected. Sales abroad would be driven by better performances both of commodities as well as of those classified as non-traditional and services. Imports would also record increases led by a greater expansion of an intensive domestic demand for goods and services from abroad.
58. On the sectoral side, for 2018, financial services and social services are expected to be the most dynamic branches. Industry and mining would stop falling this year, the latter as a result both of a higher production foreseen of coal and oil, as well as of the improvement in international prices. Finally, the agricultural sector is expected to grow more moderately than in the previous year, explained by a fall in coffee production and a reduced expansion of other agricultural products.

IV. Behavior of Inflation and Prices

59. Headline inflation in March was 3.14%, a record 23 basis points lower than in February. This completes three consecutive months of declines in annual inflation, which stands very close to the long-term goal set by the Board of Directors of the Central Bank (3.0%) (**Table 6**). Inflation for the year to date and to 12 months stood at 1.58% and 3.14%, respectively.
60. Monthly variation in March was 0.24%, a figure lower than expected both by the market (0.38%) as by the technical staff at *Banco de la República*.
61. During the first quarter, but especially in February and March, headline inflation fell faster than expected by the technical staff in its December 2017 quarterly report.
62. The fall of yearly inflation in the last month took place in all major groups, except for food, where the annual variation increased slightly, as shown below.
63. On the other hand, the sharp fall in consumer inflation between December and March (from 95 basis points) was led by tradables and, to a lesser extent, by non-tradables and non-perishable food products (processed items and meals outside the home). Regulated items and perishable goods were the only segments of the CPI which exerted upward pressures.
64. The Core inflation indicator, measured as the average of the four indicators monitored by the Central Bank (3.64%), continued to fall for the third consecutive month. All core inflation indicators declined in March. The CPI excluding food and regulated items was the one that fell the most (from

3.91% to 3.49%). Something similar happened to the CPI excluding food (from 4.40% to 4.05%), and to Core-20 (from 4.27% to 4.04%). The CPI excluding primary food, fuel, and public utilities (from 3.26% to 2.99%) reached the long-term inflation target for the first time in several years.

Table 6:

Headline and Core Inflation to March 2018

Description	Weight	Dec 2016	Mar 2017	Jun 2017	Sept 2017	Dec 2017	Jan 2018	Feb 2018	Mar 2017	Participation percentage in monthly deceleration	Participation percentage in deceleration of the year to-date
Headline inflation	**100.00**	**5.75**	**4.69**	**3.99**	**3.97**	**4.09**	**3.68**	**3.37**	**3.14**	**100.00**	**100.00**
Non-food inflation	**71.79**	**5.14**	**5.13**	**5.12**	**4.71**	**5.01**	**4.61**	**4.40**	**4.05**	**104.53**	**70.74**
Tradables	26.00	5.31	5.59	4.41	3.41	3.79	3.16	2.50	1.80	70.01	48.97
Non-Tradables	30.52	4.85	5.33	5.21	5.21	5.49	5.37	4.95	4.76	26.00	23.75
Regulated items	15.26	5.44	4.05	6.01	5.68	5.86	5.27	6.14	6.01	8.51	(1.98)
Food inflation	**28.21**	**7.22**	**3.65**	**1.37**	**2.22**	**1.92**	**1.49**	**0.94**	**0.98**	**(4.53)**	**29.26**
Perishables	3.88	(6.63)	(13.09)	(14.72)	(0.32)	5.84	6.50	5.86	7.13	(24.27)	(6.73)
Processed food	16.26	10.74	6.28	3.29	0.84	(0.91)	(1.27)	(1.81)	(2.01)	12.64	18.48
Eating out	8.07	8.54	8.94	7.62	6.01	5.21	4.05	3.51	3.32	7.09	17.52
Core inflation indicators											
Non-food inflation		5.14	5.13	5.12	4.71	5.01	4.61	4.40	4.05		
Core 20		6.18	6.01	5.31	4.87	4.87	4.72	4.27	4.04		
CPI excluding perishable foods, fuel and utilities		6.03	5.61	5.07	4.31	4.02	3.68	3.26	2.99		
Inflation excluding food and regulated items		5.05	5.44	4.87	4.44	4.76	4.42	3.91	3.49		
Average of core inflation indicators		**5.60**	**5.55**	**5.09**	**4.58**	**4.66**	**4.36**	**3.96**	**3.64**		

65. In March, the annual variation of the main components of the CPI excluding food (tradables, non-tradables and regulated items) exhibited a slowdown.
66. Tradables completed three months falling, moving from 2.50% in February to 1.80% in March. These falls had been anticipated in previous reports, although they have been stronger than expected. Particularly, three factors explain the downward dynamics of tradable prices so far this year. The appreciation of the peso *vis-à-vis* the US dollar so far this year, higher than expected in the quarterly December report; the disappearance (mainly in the first two months of the year) of the effect associated with the increase in the VAT at the beginning of last year; and the weakness of demand, which has limited price increases in this and other segments of the CPI
67. On the other hand, the yearly variation of non-tradables excluding food and regulated items moved from 4.95% in February to 4.76% in March. The contraction was widespread in non-tradable goods, being the sub-basket of Others (which includes soccer tickets) the one which fell the most (from 7.21% 6.27%), which reversed a good part of the transitional supply shock that had taken place by the end of 2017. Also, in March there were records lower than those observed in February in the sub-baskets of items affected by the exchange rate (from 5.65% to 5.06%); leases (from 4.05% to 3.91%); and indexed items (from 6.18% to 6.10%).
68. It must be noted, however, that in the latter case (indexed items, which includes prices of health and education services) factors such as the high inertia of adjustments in their rates and the increase of the minimum wage

in 2018 (close to 6.0%) may have induced increases above the forecast, for which few further declines are expected in the remainder of the year.

69. The annual variation of regulated items fell in March (6.01%) versus February (6.14%). The fall of fuel (from 9.38% to 7.86%) explains the decline in this group. In this case, the variation so far this year has been minimal, favored by the appreciation of the peso, which would offset the increases in international fuel prices. In contrast, Transport increased from 6.46% to 6.63%, and Public Utilities varied little (from 4.83% to 4.88%).
70. As for public utilities, increases in energy rates are expected in the coming months on account of the new regulatory framework that involves adjustments in the distribution fee. However, this should be partially offset by decreases in the rates of garbage collection in Bogotá from April, close to 10%, due to the change of providers. It is also important to note that, regarding transport, additional increases are expected due to the gradual incorporation of the new technological platform for the taxi service in Bogotá, which has just begun to be implemented.
71. Annual food inflation rose slightly in March (0.98%) versus February (0.94%), and interrupted the decreasing trend observed since December last year (1.92%).
72. The only component in food that contributed to increase inflation was that of perishable goods, moving from 5.86% in February to 7.13% in March. On the contrary, meals outside the home (from 3.51% to 3.32%) and processed foods (from -1.81% to -2.01%) continued to fall, favored by weak demand and the recent behavior of the US dollar.
73. However, international food prices have increased so far this year. Should this trend continue, it could generate inflationary pressures once the exchange rate ceases to appreciate.
74. On the other hand, food supply in supply centers (particularly perishables) continues recording high levels, therefore the increase registered in the annual variation of its CPI is not due to problems of low production and supply as to a very low basis of statistical comparison in the same period last year. This situation will become more evident during the second half of this year.
75. The annual adjustment in non-labor costs, proxied by the PPI for total domestic supply (domestically produced and consumed items plus imported goods), fell again in March (1.65%), after an upward boost last month. Inflation for producers in March closed at 0.24%, lower than the same period last year. The contraction of the annual inflation rate to producers in March is explained by the imported component, which stepped from positive ground in February (0.58%) to negative territory in March (-

0.56%). Contrastingly, the local component increased from 2.41% to 2.61%.

76. As for costs of labor, the slower pace of adjustment of the wages of housing construction (3.9%) and heavy construction (3.6%) so far this year stand out, at rates not seen since April 2015. With figures to February, the annual adjustments of wages in the industry also decreased (from 6.2% to 5.6%), while those for trade picked up (from 4.3% to 5.9%). No upward pressures are expected on wages in the coming months due to the slack that the labor market would exhibit in the rest of the year.
77. According to the latest monthly survey to financial analysts by the Central Bank (applied at the beginning of April), inflation expectations to December this year stood at 3.27%, below the ones registered for March (3.35%). On the other hand, expectations to twelve months (3.29%) and to twenty-four months (3.26%) remained stable in April. Also, in the latest quarterly expectations survey (April 2018), respondents expect annual inflation in December 2018 to post at 3.59%. These expectations to 12 months are at 3.58% and at 3.55% to |24 months.
78. Since the previous meeting of the BDBR (20 March) and with data to 24 April, Break-even Inflation expectations embedded in government bonds (TES) in pesos and UVR lowered 43 bp, 28 bp, 15 bp, and 15 bp for 2, 3, 5, and 10-year terms, respectively. Currently, such measures stand at 2.87%, 2.99%, 3.13% and 3.30%, respectively
79. Using the Forward Break-Even Inflation (FBEI) curve, the estimation of annual inflation for 2018 is 3.82% (obtained by adding the accumulated inflation observed for the remainder of the year to inflation expectations). For 2019, 2020, and 2021, they are at 3.10%, 3.19%, and 3.25%, respectively.