



Banco de la República Holds Its Intervention Interest Rates

At a meeting today, the Board of Directors of Banco de la República unanimously agreed not to alter its intervention interest rates, which means the base rate for repo auctions will remain at 9.25%.

Inflation continued to decline throughout August, mainly due to the drop in food inflation. The core inflation indicators constructed by Banco de la República also showed a reduction in August. Nevertheless, non-tradable inflation, excluding food and regulated prices, continued to climb, reaching 5.56% as opposed to 5.45% the month before.

Real GDP growth rose 6.87% in the second quarter of 2007, fueled by investment and added growth in family consumption. Total GDP growth is slightly below what the Bank expected, and the difference is explained by less momentum in oil exports. The monetary policy being applied by the Board of Directors, which involves intervention interest rate hikes and a marginal reserve requirement, has slowed the growth in monetary aggregates and credit.

International prices for some of Colombia's major export products have increased in recent weeks, and the momentum of exports in dollars continues. Exports to the Venezuelan market have offset the drop in sales to the United States. On the other hand, the problems and uncertainty on international financial markets have increased.

In view of these factors, the Board of Directors considered it appropriate to prolong the pause in its intervention interest rates hikes. It also underscored the significant risks inherent in the inflation and economic growth forecasts. On the one hand, the return to rates of growth in domestic demand that are consistent with the inflation targets and sustainable external accounts might be slower than expected. On the other, the solution to the mortgage crisis in the United States could be slower in coming and have more of an impact on world economic growth than was anticipated initially. In Colombia, this could affect demand and export prices, as well as future access to the international capital market. The Board of Directors will continue to monitor the situation.

Bogotá, Colombia

September 21, 2007