



BANCO DE LA REPUBLICA RAISES ITS BENCHMARK RATES BY 25 BASIS POINTS

At a meeting today, the Board of Directors of Banco del Banco de la República decided, by a majority vote, to raise its benchmark interest rates by 25 basis points. Consequently, the base rate for repo auctions will go from 9.5% to 9.75%.

Inflation was 1.06% in January, exceeding the Bank's forecasts and the market's expectations. This outcome is explained fundamentally by food prices. Non-food inflation was up slightly in January, reaching the top of the target range (4.5%). Closing out the month at 6%, annual inflation increased for the fourth month in a row, exceeding the inflation target for 2008.

In addition to analyzing the origin of current inflation, the Board also identified the factors that pose a risk to future inflation. Although growth in aggregate demand has slowed, thanks to the monetary policy decisions adopted in recent months, the available figures show it remains strong. This is suggested, for example, by the latest consumer confidence surveys and the momentum in exports. Therefore, under the present conditions, the economy is likely to grow by about 5% in 2008.

The various assessments of inflation expectations, based on surveys and the TES market, show expectations for inflation one year or more down the road have increased in recent months. This could make it more costly to reduce inflation in the future, having a negative impact on growth and employment.

The Board also analyzed the international economic situation. Although there is evidence of a slowdown in the United States and Europe, it concluded there are, as yet, no signs of contagion in the Colombian economy. Terms of trade are at historically high levels, the flow of trade remains strong, and international investor confidence in the Colombian economy continues to be solid, as demonstrated by the sharp rise in foreign direct investment in Colombia so far this year, primarily in oil, coal, commerce and communications. In fact, it is the momentum in foreign direct investment, not the short-term capital flows induced by differences in interest rates between Colombia and other countries, that explains the net capital inflows in the balance of payments during that period.

The Board will continue to monitor the international situation carefully, and will keep an eye on inflation and growth trends and forecasts. It reiterated that the course of monetary policy in the future will be determined by new information, as it becomes available.

Bogotá, February 22, 2008