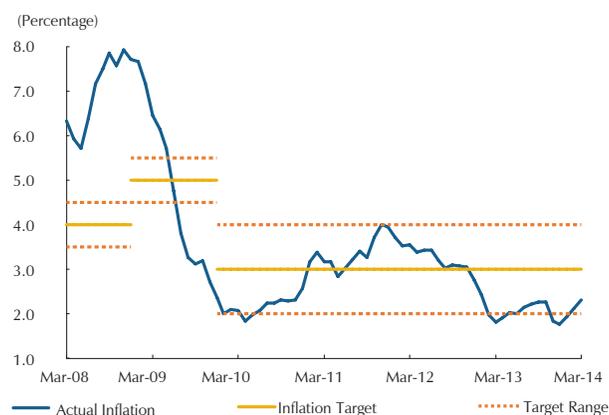


DEVELOPMENTS IN INFLATION AND MONETARY-POLICY DECISIONS

Graph A
Total Consumer Inflation



Sources: DANE and Banco de la República.

Annual inflation in the first quarter of 2014 rose slightly more than expected and was 2.51% by March (Graph A). The average of the four measures of core inflation behaved similarly, registering a rate of 2.69%. The larger increases in prices for food and regulated goods and services account for the growth in inflation.

The different measures of price increase expectations at one and five years are around 3.0%. The forecasts point to more homogeneous annual increases in the food and regulated groups, as well as in tradables and non-tradables, with a trend toward the midpoint of the target range. If

so, inflation would be around 3.0% by the end of the year.

The Colombian economy grew 4.3% in 2013, with more momentum in the second half of the year than in the first, mainly due to investment performance. In every quarter, household consumption continued to grow at rates near its historical average, and public spending rose at a rate that exceeded the increase in output. On the supply side, the most growth in the second half of the year was in construction and mining. Industry was the only sector that declined.

Recent figures on growth in retail sales, consumer confidence, coffee production, energy consumption and the continued decline in unemployment suggest the momentum in the economy so far during 2014 has been strong. Weak performance by exports and the manufacturing industry are the exceptions.

Total growth in lending has accelerated slightly, following a downward trend since last August. This is due to a better momentum in commercial loans and mortgages. Real interest rates have declined as a result of the rise in inflation.

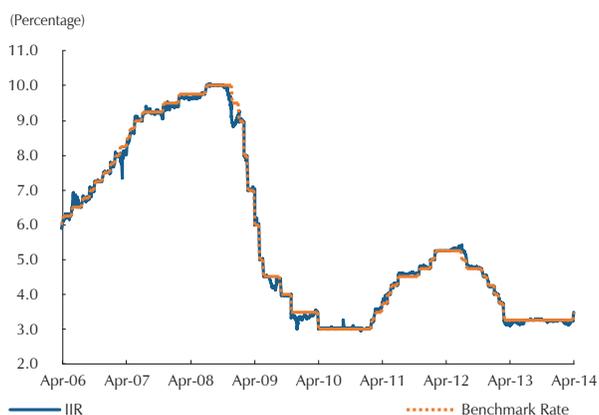
Externally, the latest figures on economic activity indicate the United States could sustain a gradual economic recovery, while the expansion in the euro area would continue at a modest pace. Growth in the key emerging countries has slowed. Therefore, the new estimates suggest the economic growth Colombia's trading partners would experience this year is likely to be similar to what it was in 2013.

The international price of oil remains high and the prices of other commodities exported by Colombia, such as nickel and coffee, rose. As such, terms of trade are expected to remain favorable in 2014; however, their contribution to national revenue could be less dynamic compared to 2013.

Liquidity levels in the United States remain less expansive. The risk premia in several emerging economies have fallen recently, financial assets in domestic currency have increased in value, and their currencies have appreciated against the dollar. These changes have been particularly pronounced in Colombia, especially in the government debt market, thanks to larger foreign capital inflows.

Considering the foregoing, the Bank's technical staff estimates first-quarter GDP growth will range between 4.2% and 5.4%, with 4.8% being the most likely figure. For all of 2014, the most feasible figure is 4.3%, within a range of 3.3% to 5.3%.

Graph B
Banco de la República Reference Rate and the Interbank Interest Rate (IIR)
(2007-2014)a/



Sources: Office of the Colombian Superintendent of Finance and Banco de la República

After assessing the risk balance, the Board of Directors decided in February and March 2014 to hold the benchmark interest rate at 3.25% (Graph B). In May of the same year, it was raised to 3.50%, inasmuch as current macroeconomic stability and the convergence of inflation towards its long-term target are consistent with a slightly less expansionary monetary-policy stance than is currently the case. The Board also decided in March to extend the Bank's international reserves purchase program for three months, which means \$ 1,000 million will be accumulated between April and June.