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The increase in inflation is the result of the convergence of multiple phenomena, including historically high external and internal cost shocks and high levels of demand. Added to these, indexation processes to higher inflation rates and exchange rate pressures on prices in a context of deteriorating international financial conditions.

Monetary policy actions are aimed at pushing inflation to the 3% target, while ensuring that economic activity is sustainable. Determining the horizon for convergence towards the target takes into consideration the dilemma between a faster reduction in inflation and the short-term costs this could entail in terms of output and employment.

In this adverse environment, the Board has raised the policy rate since September 2021 from 1.75% - the level it deemed necessary at the time to countercyclically address the recessionary challenges of the pandemic - to the current 11%. This adjustment has been consistent with the objective of bringing inflation to 3%, initially through a process of monetary policy normalization and, more recently, by assuming a contractionary stance.

With the information at hand and given the size of the shocks recorded, annual inflation would be around 7% by the end of 2023, a course consistent with inflation returning to the 3% target by the end of 2024.

Reducing inflation would be facilitated if those who determine prices and wages were to incorporate in their decisions the expected path of convergence towards the target.

Fuente: https://www.banrep.gov.co/en/board-directors-banco-republica-reiterates-3-inflation-target