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Main Macroeconomic Forecast Variables October 2023

Monetary Policy Report Graphs (Only Available in Spanish)

Keep in mind

The Monetary Policy Report presents the Bank's technical staff's analysis of the economy and the inflationary situation and its medium and long-term outlook. Based on it, it makes a recommendation to the Board of Directors on the monetary policy stance. This report is published on the second business day following the Board of Directors' meetings in January, April, July, and October.

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The Colombian economy continued to register high levels of economic activity, the labor market continues to improve, and inflation declined somewhat faster than anticipated. Inflation is expected to continue to decline in the coming quarters and converge closer to the target by the end of 2024. Household and business spending is projected to ease further after very strong growth in 2022 and approach values more consistent with the economy's sustainable productive capacity.

See the Report

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Inflation has decreased since April, and it is projected to continue to reduce significantly throughout 2024 as it converges toward 3%.

- In September 2023, the headline annual inflation rate was 10.99% and completed six consecutive months of declines.
- Core inflation, excluding food and regulated items, has experienced three consecutive months of reductions and currently stands at 9.5%.
- The reduction in inflation has been slower than the projected by the Central Bank and market analysts, primarily due to:
    - More persistent price increases in services and regulated baskets, which are affected by

indexation mechanisms of past inflation and minimum wage.
    - Increases in some prices of perishable food items.
- Going forward, monetary policy actions will continue contributing to inflation reduction in 2024 and its convergence toward the 3% target during 2025.
- Projections for 2024 consider the impact of the El Niño with moderate effects on food and energy prices, the implementation of healthy taxes, and necessary adjustments in fuel prices.

Economic activity and employment continue to grow, with a projected GDP growth of 1.2% for 2023. The economic slowdown this year allows economic activity and consumption and investment expenditures to align with the long-term productive capacity of the economy, contributing to inflation reduction.

- For the third quarter, available economic indicators suggest an annual GDP growth of 0.4%. Despite the low growth rate, economic activity would maintain the high levels achieved in the first half of the year.
- Employment continues to grow in most economic sectors, and the unemployment rate remains historically low.
- The economic slowdown has been milder than the projected by the Central Bank, resulting in an upward revision of the 2023 growth rate from 0.9% to 1.2%.
- For 2024, the economy is expected to maintain a slow growth pace (0.8%), contributing to the inflation convergence to the target. Private consumption will adjust, while investment levels will remain lower than before the pandemic.
- In 2025, the economy is expected to return to growth rates close to those sustainable in the long-term.
- These adjustments in the economy are reflected in a reduction of the current account deficit and less vulnerability to external conditions changes.

The policy interest rate remains at 13.25%, currently appropriate level to consolidate inflation reduction toward the 3% target and to foster sustainable economic growth.

- In the September and October meetings of 2023, the Board of Directors, by majority, decided to keep the interest rate unchanged at 13.25%.
- The current monetary policy stance is driven by persistent high inflation, forecasts and expectations of inflation exceeding the 3% target, and with levels of economic activity close to its productive capacity.

The Bank will continue to monitor the economy and its key risks to make decisions that are in the best interest of the country. Some important risk factors to watch in the coming months include:

- El Niño phenomenon evolution, which may result in additional impacts on inflation.
- Wage adjustments that will be determined in the coming months.
- The persistence of higher price increases, particularly, in the services sub-basket.
- The behavior of global short and long-term interest rates that may affect the exchange rate.
- The economic slowdown.

Reducing inflation brings multiple benefits to the economy:

- Reducing inflation toward the target supports the preservation of wage purchasing power.
- Low and stable inflation prevents regressive income and wealth redistributions. In particular, low-income individuals and the unemployed have fewer mechanisms to shield themselves from the eroding impact of inflation on their income and savings.
- When inflation is low, it becomes more predictable and facilitates the development and continuity of long-term financing markets (such as TES and mortgages), enabling the financing of government, corporate, and household investment projects.
- Additionally, when inflation is low, real interest rates are lower, making it more affordable to finance these projects.
- When inflation is low and stable, price movements of goods and services are more informative about the sectors in which it is most valuable to increase production. This leads to a better sectoral allocation of capital and labor and, therefore, to raising the total productivity of the economy.

For more information, review "Chapter 1: Summary".

Monetary Policy Presentation (Only in Spanish)

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