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- Inflation remains on a downward path, falling for eight consecutive months and reaching 10.15% in November. The decrease in the annual food inflation from 10.36% in October to 8.25% in November substantially contributed to moderating headline inflation. In particular, the significant drop in annual inflation for perishable foods, decreasing to 7.8% in November after maintaining levels at around 13% in preceding months, is worth noting. The positive impact of lower food inflation was partially offset by higher annual inflation in regulated items, reaching 16.9% in November, attributed to increases in fuel and energy prices. Furthermore, between June and November, annual core inflation, excluding food and regulated items, registered a consistent monthly decrease, dropping from 10.51% to 8.86% year-over-year.
- Inflation expectations at different horizons showed mixed results. The sample median of economic analysts surveyed by Banco de la República increased their forecast for the end of 2024 from 5.2% in November to 5.7% in December but maintained their two- and five-year inflation expectations stable at 3.8% and 3%. Expectations for two-year inflation derived from TES markets, factoring in inflation and liquidity premium, underwent a notable trend reversal in the last quarter, declining from 6.1% to 5.4% between October and December.
- Economic activity continues to decelerate. The economic tracking indicator (ISE) showed an annual change of -0.4% in October. Secondary activities, encompassing manufacturing industries and construction, witnessed the most substantial declines. Meanwhile, within the tertiary sector, notable setbacks in September were observed in the macro-sectors of trade, transportation, and lodging, as well as in the public administration, health, and education sectors. The technical staff revised its growth forecast for 2023 downward from 1.2% to 1.0%, returning to the economic activity projection it had maintained until this past August.
- Adjustment in the country’s economic activity toward levels more compatible with the economy’s productive capacity has contributed to reducing the current account deficit of the balance of payments. On a quarterly basis, it fell to 1.7% of GDP in the third quarter of 2023, a notable contrast to the 7.1% of GDP recorded during the same quarter in 2022. Over the entire year, the forecast places it at 2.8% of GDP for 2023, from the 6.2% deficit observed in 2022. This significant correction in the external imbalance is primarily attributed to a substantial decrease in imports linked to adjustments in domestic demand. Additionally, the improvement in net factor income, reflective of diminished profits remitted abroad by foreign-invested companies within the country, contributes to this positive trend. The strengthening of the country’s external position resulting from the reduction of this deficit renders the economy less vulnerable to potential downturns in global economic conditions.
- External financial conditions and their outlook have improved against a backdrop of declining, albeit still high, global inflation levels. In the case of the United States, the most recent projections suggest that the Federal Reserve Bank’s policy interest rate path will adopt a lower trend than previously expected. In this context, the Colombian peso appreciated against the US dollar, and Colombia’s sovereign risk premium decreased, achieving its lowest level in the past 18 months.

Board members underscored that the contractionary stance of monetary policy has played a pivotal role in mitigating the accrued macroeconomic imbalances of recent years. The tempering of domestic demand to levels compatible with productive capacity has been instrumental in establishing a foundation for diminishing inflation and fostering a more sustainable external position. To consolidate these advances, the directors emphasized the need for monetary policy to continue focusing on ensuring the convergence of inflation towards the target and achieving sustainable levels of output.

Furthermore, directors stressed the presence of significant risks on the policy horizon. The most immediate concern revolves around the uncertainty regarding the increase in the minimum wage for 2024 in an economy as intricately indexed as Colombia's. Likewise, attention was drawn to the inherent risks associated with the El Niño phenomenon and its potential impact on food and energy prices, the elimination of the subsidy on diesel fuel, and the imposition of taxes on ultra-processed foods. Taking these considerations into account, five directors voted for a 25-basis-point reduction in the policy interest rate, while two directors voted to keep it unchanged at the current level of 13.25%.

The directors who voted for a 25-basis-point reduction articulated the rationale, deeming it timely and imperative to adopt this decision in the present circumstances. Concurrently, they acknowledged the persisting risks and uncertainties on the inflationary and macroeconomic fronts, underscoring the need for meticulous consideration in future decisions. They cautioned against interpreting this decision as the commencement of an uninterrupted cycle of policy interest rate cuts, emphasizing that each decision will be scrutinized in due time based on the latest available information. Their emphasis on proceeding with a moderate interest rate reduction rested on various justifications. Notably, they pointed out the consistent decline in both headline and core inflation for eight consecutive months since July, showcasing the efficacy of monetary policy in curbing demand excesses. They anticipated this effect to persist, steering inflation convergence toward the target within a 12 to 18-month horizon, as outlined in the Board's November session. Furthermore, they highlighted a downward adjustment in inflation expectations implicit in the prices of the public debt market since October. The November decrease in the producer price index and the substantial contraction of aggregate demand by 6.8% in the third quarter, resulting in a 0.3% GDP contraction during the same period, were underscored. This trend appeared to persist into October, evidenced by a 0.4% decline in the ISE in that month. The directors also noted the emerging impacts of the recent economic contraction on the labor market, with seasonally adjusted data revealing an increase in the national unemployment rate from a low of 9.3% in August to 9.9% in October. In parallel, they drew attention to the greater-than-expected adjustment in the current account deficit of the balance of payments, mitigating the country's macroeconomic vulnerability and facilitating in making more more viable the reduction in the interest rate. Finally, they highlighted the recent improvements in external financial conditions. In conjunction with the smaller external imbalance, this has contributed to a reduction in the country's risk premium and a revaluation of the exchange rate.

Members of the Board who voted to maintain the interest rate unchanged underscored the presence of uncertainties that warrant prudence. Consequently, they recommended preserving the stability of the monetary policy rate. Their emphasis on caution stemmed from apprehensions regarding the recent trajectory of inflation expectations, notably those derived from economic analysts, which exhibited an uptick in December surveys for year-end 2024. They drew attention to the escalation in inflation excluding food in November, registering an annual rate of 10.61% compared to October's 10.51%. They accentuated the uncertainty that surrounds making a decision of such magnitude, vulnerable to the surprise that could result from an excessively elevated minimum wage increase. Furthermore, they added that, despite the ongoing reduction in inflation, the pace of decline has been gradual, suggesting an erosion in the credibility of monetary policy that could be further jeopardized by a premature reduction in the interest rate. Concerns were also voiced regarding the fiscal plan for the upcoming years and the government's adherence to the current fiscal rule.

Finally, the directors unanimously reiterated their call for restraint in the upcoming adjustment of the minimum wage, urging that any increase should not significantly exceed the annual change in the Consumer Price Index for 2023. The latter considering the purchasing power gains seen in 2023 and expected for 2024 resulting from the expected drop in inflation.