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- In March, annual headline inflation reached 7.4%, completing 12 months of consecutive declines from its March 2023 peak of 13.3%. Likewise, inflation excluding food and regulated items significantly decreased and stood at 6.8% in March. The reduction in annual inflation was largely driven by decreases in the goods and food baskets. In contrast, inflation in the services and regulated items component continues to show relative downward rigidity.
- Inflation's observed descending path has been reflected in a downward revision of inflation expectations over the past year, corroborated by various measures. Viewed at the margin, the sample median drawn from Banco de la República's monthly survey of economic analysts between March and April maintained their one- and two-year inflation expectations stable at 4.6% and 3.5%, respectively. Expectations drawn from public debt markets mostly decreased, though they continued at levels above the inflation target.
- The recent performance of the Economic Monitoring Indicator (ISE) during the initial months of the year reflects the positive performance of the primary sector driven by an increase in agricultural supply and mining, further supported by some tertiary sector activities such as health, education, and entertainment. Consequently, the technical staff revised their economic growth projection upward for 2024 to 1.4% from the 1.1% forecast in March. For 2025, the technical staff estimates a 3.2% growth, with consumption continuing to improve and investment recovering from the low levels seen in 2024.
- Seasonally adjusted unemployment figures, though relatively stable, denote a slight upward trend in the national unemployment rate and in the thirteen main cities, both falling at close to 11%. Nevertheless, despite recent increases in the unemployment rate, it remains at similar levels to those observed pre-pandemic.
- Economic conditions in the United States, characterized by persistent above-target core inflation, a tight labor market, and upward revisions in economic growth projections, have contributed to increases in medium- and long-term interest rates in global markets, implying potentially less favorable external conditions for the country.

The Board of Directors reached a unanimous decision to lower interest rates to support economic recovery and address inflation, which is effectively decreasing and approaching the target. They noted that the concern of a significant impact on food or power costs by the El Niño phenomenon has been waning. They pointed out that the positive behavior of goods prices has contributed to a noticeable decrease in inflation excluding food and regulated items. They warned that the labor market, although exhibiting favorable behavior up to the third quarter of 2023, has begun to show signs of deterioration. Consequently, they pointed out that, in the first quarter of 2024, salaried employment stagnated while informal employment grew, indicating lower job generation activity and a decline in job quality. They stressed that the drop in aggregate demand has primarily impacted the manufacturing, trade, and housing construction sectors, which are adversely affected by interest rates and other factors that undermine the investment climate. The differences among the directors arose primarily from differing outlooks on the manner in which they interpreted the economic environment and inherent risks. Five

directors voted for a 50 basis-point cut of the benchmark policy rate, one director opted for a 75 basis-point decrease, and one backed a 100 basis-point reduction.

The board members who voted for a 50-bps reduction consider it appropriate to maintain the pace of policy rate cuts in line with the previous meeting, which they judged to be a substantial reduction. In this regard, they point out that a 50-bps reduction in the policy rate implies that the ex-ante real interest rate - most significant for investment decisions - will continue its downward trend. Acknowledging that favorable conditions exist for further monetary policy easing, this group of directors warns that international financial conditions have been becoming less favorable, as shown by increases in long-term U.S. treasury bond interest rates and the increased likelihood that the U.S. Federal Reserve will postpone its interest rate cuts. This has been reflected in the fall in the value of zero-coupon TES bonds in an environment of higher volatility and lower liquidity, while the appreciation tendency of the peso to the US dollar seen since last year has ameliorated. They note that, under these conditions, aggressive policy rate reductions generate abrupt exchange rate increases that could have undesirable impacts on inflation's downward path and place a burden on public debt. They highlight that a larger-than-expected reduction in the policy rate might lead to some reversal in the market's re-anchoring of expectations or reinforce somewhat the recent weakening experienced by financial markets. Some of the directors in this cohort warn that the expected increase in the National Government's deficit over one GDP point in 2024 could delay the convergence of inflation towards its target within the time frame anticipated by the Board of Directors. Thus, special care needs to be taken regarding the extent of monetary policy rate cuts.
The director who opted for a 75-bps decrease mostly agreed with the majority group's diagnosis regarding the favorable conditions that support continuing the interest rate cuts initiated in December. However, they consider it possible to speed up the pace of interest rate cuts without risking the progress achieved towards lowering inflation. In their view, reversing the sharp decline in investment is a priority that requires a larger policy rate cut, which can serve as a positive signal to investors. Along this line, many business executives consulted underscore the paralysis seen in financial closings for projects owing to high interest rate levels. Amid this backdrop, an additional interest rate cut could contribute to creating a more favorable atmosphere for investment and support further growth.

Finally, the director who voted for a 100-bps decrease emphasized that monetary policy continues to be highly restrictive despite the interest rate cuts made by the Board of Directors so far. In their opinion, what is now required is prioritizing the reactivation of the economy. This, among its multiple benefits, would contribute to increasing tax revenues and strengthening the country's public finances.

With today's decision, the Board continues with growth-enhancing policy rate cuts while maintaining a policy stance in line with the objective of driving inflation to its target by mid-2025. The Board reiterates that future decisions will be taken considering new information as it becomes available.

Fuente: https://www.banrep.gov.co/en/news/board-directors/minutes-april-2024