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- Annual inflation fell in August to 6.1%, below forecasts by the Bank’s technical staff and the market. This easing was partly driven by lower-than-expected prices in the food basket, with food inflation falling from 5.3% to 3.4% between July and August, primarily resulting from an ample supply of perishable products. The regulated items basket also experienced inflationary relief, with some public service prices seeing more minor adjustments, along with a downward trend in year-to-year fuel price changes. Core inflation excluding food and regulated items dropped to 5.5%, mostly due to lower goods inflation reflecting smaller increases in international prices and costs.
- Most public debt market inflation expectations declined, with several pointing to inflation approaching the 3% target over the next twelve months. Nevertheless, Banco de la República’s monthly survey of economic analyst expectations remained relatively unchanged, with above-target forecasts for 12 to 24-month horizons. This expectation variance could be credited to a slower easing in the benchmark rate foreseen by analysts versus that of the market.
- Seasonally adjusted GDP grew 1.8% year-on-year in the second quarter, driven by a robust 1.6% increase from internal demand primarily provoked by household consumption that remains at high levels relative to its pre-pandemic trend. On the other hand, while gross fixed capital formation rose by 2.2%, it remains below pre-pandemic levels and at considerably lower levels had the pre-pandemic trend continued. On the supply side, agriculture, arts and recreation, and public administration were the most dynamic sectors. Also noteworthy was an expansion in the civil works category (13.9%), offsetting the drop in the construction sector. Some July economic activity indicators, including retail sales, sectoral surveys, and the ISE (economic tracking indicator for its Spanish acronym), suggest that the economy continued to extend its recovery into the third quarter.
- Despite a 50 bp interest rate cut and expectations of further cuts by the US Federal Reserve, risk premiums rose in Latin America. The latter has been more prominent in Colombia, as credit default swaps for the country - a measure of debt risk at different horizons – show Colombia’s current risk premium levels above those of its main Latin American peers and other emerging economies. This is partly attributed to falling oil prices and fiscal challenges, among other factors.

The members of the Board of Directors agreed that economic activity in Colombia has been gaining force over the course of 2024 as annual inflation continues to cool. This process has been facilitated by a monetary policy that has simultaneously sought to bring inflation closer to the target while limiting the impact on economic activity. Although the fall in inflation has been significant, it continues at a high level, twice above target, which invites caution, making it necessary to continue with a contractionary monetary stance. To this end, the Directors debated the best decision based on assessments and projections prepared by the Bank's technical staff. Four Board members voted for a 50-basis point policy rate cut, and three voted for a 75 bp reduction without reaching a consensus.

The majority considers that conditions are favorable for further monetary policy easing. These feature the substantial decline seen in annual inflation during July and August, the decrease in inflation expectations implied in the behavior of the debt market, and the recent interest rate cut by the Fed along with signs that this easing will continue. However, some members of this group consider that accelerating the pace of policy rate cuts beyond 50 bps could entail significant risks that could hamper the stability of this process. Tempering factors include (i) the still high level of inflation in Colombia compared to both regional and international counterparts, (ii) the persistence of inflation in services, particularly in indexed items such as rents, (iii) the uncertainty surrounding adjustments to the minimum wage for next year, and (iv) inflexibility in economic analysts' inflation expectations, in line with their prognosis of a looser monetary outlook. This group of directors emphasizes that the growing fiscal uncertainty, given the unclearness of the size of the fiscal deficit and the way it will be financed, makes it difficult for the country to fully benefit from more relaxed external financial conditions, contributing to increasing inflationary exchange rate risks. Under these conditions, they highlight that a 50 bp reduction in the policy rate, preceded by similar cuts in past meetings, is a significant step to reduce the contractionary stance and consistent with the objectives proposed by the Board of Directors. It also contributes to reinforcing the perception that policy interest rate cuts may continue in the future, which has been essential for easing the lending and deposit interest rate terms in the financial system beyond the benchmark rate. The prospect of a sustained inflation and interest rate reduction process has also contributed to the economic recovery signaled in 2024 and to positive outlooks for Colombia's economic growth for 2025 and 2026 at rates in line with its potential. This occurs amid a backdrop of stable year-on-year employment levels and an unemployment rate that remains below the Bank's technical staff's long-term projection.

The directors of the Board, who voted for a 75-basis point reduction, emphasized that monetary policy has been able to encourage a sustained decline in inflation, bringing it closer to the target. Some underscored that this fact is reflected in the inflation expectations obtained from both public debt markets and analysts and is a critical element that provides confidence in achieving the inflation target as the monetary policy easing continues to take effect in the context of lower international prices and more favorable external financial conditions. They emphasize that these circumstances provide the opportunity to encourage the outbreaks of economic reactivation currently experienced, particularly in investment, and therefore boost the prospects for future economic growth. In this regard, this group of directors notes that the fall in gross fixed capital formation halted, and its main components - civil works and machinery and equipment - grew in the second quarter of 2024. One of the directors highlighted the lack of macroeconomic space to increase investment. Another positive factor with the past adjustment is the improvement in the current account deficit, with a reduction that has continued into the second quarter of 2024. Some directors add that the labor market shows signs of weakening by registering in July 2024 a national unemployment rate of 9.9%, higher by 0.3 pp than the 9.6% level seen in July 2023. They emphasize that the creation of 21,000 jobs last July is the lowest job creation figure seen post-pandemic. They point out a year-on-year drop in labor force participation (64.2% in July 2024 vs. 64.8% in the same month of 2023) and a lower employment rate (57.8% versus 58.6% in 2023). They also note that the unemployment rate in the quarter from May to July 2024 was 10.2% compared to 9.8% in the same quarter in 2023. In this context, these directors emphasize their concern that the monetary policy stance has become more restrictive, considering that the inflation rate reductions have outpaced the policy rate cuts.

The members of the Board agreed that the decision adopted at this session continues to support the recovery of economic growth while maintaining the necessary prudence considering persistent risks to the inflation outlook. The Board of Directors reiterates that future decisions will be determined based on new information available.

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