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- Annual inflation dropped from 6.1% to 5.8% between August and September. Leading this decline was the regulated items group, whose annual inflation decreased by one percentage point from 11.1% to 10.1%, mainly driven by the fuels component. Food inflation also registered a significant drop (from 3.4% to 2.7%) attributed to the behavior of perishable food prices. Core inflation, excluding food and regulated items, remained stable at around 5.5%, mostly due to the persistence of annual services inflation at around 7.5%.
- Considering these trends, the technical staff lowered its inflation forecast for 2024 to 5.3%, reducing its core inflation expectation - excluding food and regulated items - to 5%, and projecting headline inflation would continue converging towards the target in 2025. Survey-derived inflation expectations for yearend 2025 continued unchanged at 3.8%, and those implied by public debt markets remained anchored at around 3% on average, although some indicators increased in the final weeks of October.
- Economic activity has maintained an upward trajectory since the last quarter of 2023, reaching higher-than-expected growth rates each quarter. Most recent data indicate that GDP recovery is consolidating. At the same time, the labor market has shown signs of improvement, as the employed population numbers are increasing and the unemployment rate is falling slightly below 10%. Consequently, the technical staff has revised its growth forecast for 2024 slightly up to 1.9%, buoyed by a better performance from private consumption, investment in machinery and equipment, and civil works. Similarly, the growth projection for 2025 was increased to 2.9% within a less restrictive monetary policy environment.

The Board members agreed that recent promising developments relating to inflation and its expectations, along with the downward revision of their forecasts, present favorable conditions for further benchmark rate cuts. They emphasize that monetary policy decisions have been successful in encouraging the gradual convergence of inflation towards the target and in facilitating economic activity recovery. Nevertheless, they warned that new risks are emerging that require prudence in monetary policy decisions. These include a marked devaluation of the COP/USD exchange rate seen during the past weeks. The latter, although a mutual occurrence shared by other Latin American economies as a result of the uncertainty surrounding global financial conditions, has been heightened in Colombia by the significant drop in international oil prices, a growing concern regarding the financing of the 2025 budget, and ambiguity about the medium-term fiscal perspectives associated with the draft Legislative Act on transfers to territorial entities. Clarity regarding the aforementioned is indispensable to restore equanimity to the markets and assert the country's macroeconomic stability. The directors highlighted that the weakening of the peso and other regional currencies has occurred despite the significant interest rate decrease approved by the US Federal Reserve at its September meeting, reducing room for maneuver to continue the monetary policy easing at the recent pace. Against this backdrop, four directors voted for a 50 basis point policy rate reduction, while three voted for a 75 basis point cut.

The majority voting for the 50 bp reduction stressed that newly emerging risk factors render a benchmark rate cut beyond 50 bps unadvisable under current conditions, as this could compromise the future convergence of inflation towards the target. They note that the lack of clarity surrounding the draft Legislative Act on the transfer of powers to the territorial entities without a compensatory pari passu (at the same rate) reduction of the Nation's expenditures highlights the uncertainty regarding the fiscal consequences of said reform. In turn, this translates to greater apprehension in the markets, increasing risk premiums, and the proclivity of further depreciation of the peso, leading to greater inflationary pressures. Furthermore, the fall in oil prices may have an impact on fiscal revenues and on the inflow of foreign currency into the country, which places additional upward pressure on the exchange rate and inflation. In addition to the fiscal and exchange rate risks that underscore the need for continuing caution regarding monetary policy easing, these directors emphasize additional significant sources of risk that had already been flagged in previous Board meetings. These include persistent services inflation, particularly in rents and food away from home, which has been reflected in the entrenchment of core inflation despite the contractionary stance of monetary policy. Finally, they note the possible pressures that could result from a potentially higher increase in the minimum wage than that implicit in the technical staff’s projections, which equals the 2024 inflation forecast plus a labor productivity growth estimate.

The directors who voted in favor of a 75 basis point reduction highlighted the downward trend assumed by inflation in recent months, exhibiting greater declines than those foreseen by the technical staff and the market. This has led to downward revisions of the inflation forecasts for 2024 and 2025 by the technical staff, including the most recent for this Board meeting. Furthermore, inflation expectations remain well anchored for the next two years. Inflationary risks on food prices resulting from the truckers' strike did not materialize, whereas September experienced downward surprises in the prices of regulated items and certain goods. Alternatively, the recovery of economic activity continues to strengthen in the context of a still restrictive monetary policy, and the labor market shows signs of resilience. The fall in the unemployment rate to below historical levels confirms a dynamic economic activity. The abovementioned conditions would mark an exceptional and transient moment in the pace of the monetary policy reductions, opening a final window of opportunity to provide a boost to the economy with a 75 bps reduction. While these directors share the concerns regarding current challenges to the sustainability of public finances, some are confident that institutions and determination will ultimately allow for a consensus that finds a formula to avoid fiscal decline and allay market fears, as has happened in the past. Finally, they believe the peso’s recent depreciation is a phenomenon that stems mostly from international factors, which also explains the depreciation experienced in the currencies of several emerging nations. However, one of the directors warned of the risks if the recent depreciation of the peso is not a transitory phenomenon.

The Board members agreed that the interest rate reduction approved at this session continues to support economic growth recovery while maintaining the necessary prudence in light of persistent risks to the inflation outlook. They reiterate that future decisions will be determined based on new information available.

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