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Five Directors voted in favor of this decision, and two voted for a 25 basis-point reduction. In its policy discussion, the Board of Directors considered the following elements:

- In September, both headline (11.0%) and core (9.5%) inflation continued to decline, as compared to previous months, albeit less than anticipated, remaining well above the target. Annual inflation of goods (10.4%) and food prices (11.5%) decreased since August; however, the inflation rate for services (9.1%) and regulated items (15.8%) remained stable.
- Inflation expectations derived from the government debt securities markets have increased for all maturities and remain above the target. On the other hand, according to surveys conducted by the Bank, headline inflation expectations for 2023 and 2024 increased, while expectations for inflation excluding food exhibited mixed behavior. Increases in inflation expectations are associated, among other factors, with perceived risks such as the El Niño phenomenon, the decision to establish the minimum wage above the observed inflation, and the necessary adjustments to fuel prices. Additionally, the appreciation of the Colombian peso to the US dollar in October, driven by changes in international financial conditions, could have also affected inflation expectations.
- The Bank’s technical staff forecasts a 0.4% annual economic activity growth during the third quarter of the year, while expected growth for 2023 was revised upward from 0.9% to 1.2%. While these growth rates represent a substantial deceleration relative to previous years, economic activity levels remain high, and unemployment has reached historic lows amidst robust labor participation rates. Sectoral performance has been irregular, with stagnation or decline in primary and secondary sectors and growth in the tertiary sector. On the demand side, there have been declines in both investment and the consumption of durable and semi-durable goods, in contrast with higher service-related consumption. The decline in investment has played a pivotal role in the marked reduction of imports and the narrowing of the current account deficit.
- Despite the efforts to address the external imbalances within the economy, there is a growing perception of heightened external risks. On the one hand, the technical staff has revised the projected path of interest rates in developed markets upward. This upside adjustment, driven by enduring global inflation pressures, tightens financing conditions for the Colombian economy. On the other hand, international political instability fosters additional uncertainty within financial markets, potentially leading to ramifications in the foreign exchange market due to shifts in capital flows and commodity prices.

In their analysis, the Directors acknowledge the inflationary challenges the Colombian economy will encounter in the upcoming year. They emphasize domestic risks stemming from the rising likelihood of a strong *El Niño* phenomenon, which could impact agricultural and energy markets. Additionally, they anticipate repercussions from the minimum wage increase on the indexed prices of specific goods and services. Furthermore, they perceive global political uncertainty as a new external risk factor.

The Directors are also mindful of the potential impact of interest rates on economic activity and the associated risks. Consequently, they concur on the desirability of commencing a process to gradually lower the intervention interest rate as soon as it is prudent.

In this particular context, five Directors voted to keep the intervention rate steady at its current level of 13.25%, and two Directors voted in favor of a 25 basis points reduction that would bring the rate to 13%. The decision by the Directors reflects the weight they assign to the risk factors mentioned above.

The majority faction, which opted for maintaining the existing rate, underscores the prevalence of inflationary risks. To the extent these risks influence inflation expectations and reduce the anticipated real interest rate, thereby tempering the contractionary aspect of monetary policy, thus leading to increased costs in the endeavor to bring inflation back in line with the target. The decision to maintain the current rate unchanged serves to contain inflation expectations and safeguard the Bank's credibility.

A director within the majority group also noted that the urgency of reducing the intervention rate has been offset partially by the reductions observed since August in CDT interest rates and lending rates in the credit markets. These reductions are partly a response to the liquidity injections provided by *Banco de la República* over the past few months, specifically in three and six-month maturities.

The two Directors who voted for a 25 basis point reduction in the intervention rate consider that the rate increases have contributed to closing the output gap and will continue to do so until demand-induced pressures on prices within the economy are entirely alleviated. They emphasize the external and fiscal adjustments made by the economy over the past year, which have rendered it less susceptible to vulnerabilities. While they do not dispute the existence of inflationary risks acknowledged by the other Directors, they consider these risks relatively minor compared to the downside risk facing economic activity and employment. This concern particularly pertains to the impact of interest rates on investment projects.

All members of the BDBR unanimously concurred on an appeal for prudence in determining the minimum wage for the year 2024. In this context, they note the decrease in inflation from 2022 to 2023 has led to a substantial increase in real wages throughout this year, which will be reinforced further by the anticipated inflation reduction in 2024.

The Directors reiterated their unwavering commitment to achieving the 3% inflation target while carefully weighing the repercussions of their decisions on both economic activity and employment rates. Furthermore, they affirmed that forthcoming decisions will be taken considering any new information.

Fuente: https://www.banrep.gov.co/en/news/minutes-31-10-2023