Download

Main Macroeconomic Forecast Variables January 2024

Monetary Policy Report Graphs (Only Available in Spanish)

Keep in mind

The Monetary Policy Report presents the Bank's technical staff's analysis of the economy and the inflationary situation and its medium and long-term outlook. Based on it, it makes a recommendation to the Board of Directors on the monetary policy stance. This report is published on the second business day following the Board of Directors' meetings in January, April, July, and October.

AUTHORS AND/OR EDITORS

Office of the Deputy Technical Governor Office for Monetary Policy and Economic Information Programming and Inflation Department Inflation Section Macroeconomic Programming Section Forecasting Process Management and Assessment Section Macroeconomic Modeling Department Forecasting Section Models and Capacities Development Section

Although there is a declining inflationary trend, current levels remain elevated and exceed the 3% target. Projections suggest a notable deceleration of inflation in 2024 in an environment of moderate economic growth. However, a more substantial recovery in economic activity is anticipated for 2025, driven by increased household consumption and business investment activity. The current monetary policy interest rate is compatible with the convergence of inflation to the 3% target by mid-2025 and with the recovery of economic growth next year.

See te Report

Publication Date:
Tuesday, 26 of March 2024

Inflation continues to decline but remains well above 3%. It is anticipated to decrease significantly in 2024 and draw closer to the established target in the first half of 2025.

- The ongoing moderation in the economy's price levels is evidenced by the decline in headline inflation from 11% to 9.3% between September and December 2023.
- A noteworthy contributor to the decrease in inflation has been the reduction of food prices adjustments throughout 2023, complemented by favorable trends in the price of goods.
- The decrease in inflation has, however, been constrained by the behavior of the price of services, which continue to exhibit high consumption levels, acerbated by the indexation of prices to recent elevated inflation rates. Additionally, necessary adjustments in fuel prices have curbed the inflation’s decline.
- Going forward, the outlook is for inflation to continue its downward trajectory, converging toward the 3% target by the first half of 2025.
- Factors supporting the prospect of a gradual inflation reduction include the absence of significant appreciations in the exchange rate, together with lower external inflation, reduced pressure on spending over prices due to the economic deceleration, and the cumulative impact of Banco de la República’s monetary policy measures.
- However, persistent risks remain that could slow down the anticipated fall in inflation, such as an unforeseen increase in the exchange rate or heightened impacts of the El Niño (ENSO) phenomenon on food and energy prices.

The decrease in inflation would occur against a backdrop of slow economic growth for 2024 and a recovery thereof in 2025.

- Towards the close of 2023, economic activity persisted in its deceleration, reflecting the low levels of investment and, to a lesser extent, a moderation in consumption.
- The unemployment rate, while still relatively low, has witnessed a recent uptick in the past months.
- The economy is poised to sustain modest growth rates for 2024, further consolidating the ongoing convergence of inflation toward the established target.
- An acceleration in economic activity should begin in the latter half of 2024, attaining sustainable levels in 2025 in line with the economy's productive capacity.

The monetary policy stance has contributed towards mitigating inflation and addressing broader macroeconomic imbalances within the country. Notably, inflation rates and associated expectations have declined, albeit persisting above the 3% target, concurrent with an overall deceleration of economic activity. Against this backdrop, the Board of Directors of Banco de la República adjusted its monetary policy interest rate, lowering it from 13.25% to 12.75%.

- The monetary policy decisions enacted by Banco de la República have contributed to rectifying prevailing macroeconomic imbalances accumulated in recent years, including elevated inflation, excessive spending and credit levels, and a pronounced external deficit.

- Consequently, the macroeconomic landscape has undergone requisite adjustments characterized by:
    - A realignment of economic activity towards levels more consistent with the economy’s productive capacity.
    - Attainment of a more sustainable balance in foreign transactions.
    - A reduction in both inflation rates and associated expectations.
- Considering these outcomes and amid diminishing inflationary pressures and subdued economic growth, the Board of Directors of Banco de la República opted to decrease the monetary policy interest rate by 25 basis points during its meetings of December 2023 and January 2024, bringing it down to 12.75%.
- This interest rate adjustment acknowledges the reduction in inflation and its associated expectations, in alignment with the overarching goal of steering inflation towards the 3% target by mid-2025 while fostering sustained economic growth over time.

For more information, review "Chapter 1: Summary".

Monetary Policy Presentation (Only in Spanish)

Box Index

Box 1 - Regional Economic Pulse: High-Frequency, Short-Lag Indicators to Understand Local Economies
Mora-Pérez, Dora Alicia; Cortázar-Gómez, Diana María; Ramírez-Rodríguez, Carolina y Orozco Gallo, Antonio José