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- In November, annual inflation fell to 5.2%, below the 5.4% seen in October. Core inflation, excluding food and regulated items, remained close to 5.4%, as a result of persistent inflationary pressures in the services sub-basket (7.3%). The latter is due to upward pressures from the food away from home and rental categories, which recorded annual price variations in November of 7.7% and 8.6%, respectively.
- For 2025, the Bank’s technical staff expects inflation to continue converging toward the target, albeit more slowly than projected in October. This slowdown is primarily attributed to upward exchange rate pressures and their pass-through to prices, which limits the scope for maintaining the pace of interest rate reductions. Price pressures are also anticipated due to increases in the minimum wage and the prices of some regulated items, limiting the scope for maintaining the pace of interest rate reductions.
- Recent exchange rate pressures stem, among other sources, from tighter global financial conditions, including rising long-term U.S. interest rates, slower anticipated FED rate cuts, and higher risk premiums for emerging economies. Moreover, the decline in international oil, coal, and nickel prices has translated into a decrease in the terms of trade. Additionally, uncertainty surrounding Colombia’s public finances concerning the challenges to comply with the government’s fiscal rule parameters, the financing gaps to meet the 2025 National Budget, and the possible consequences of the recently approved reform of the *Sistema General de Participaciones* (*SGP* for its Spanish acronym) - the system that transfers funds to the territorial entities - may have, have heightened fluctuations in the foreign exchange and public debt markets.
- GDP growth reached 2.0% in the third quarter of 2024, driven by a 20.3% recovery in gross capital formation from earlier very low levels, boosting domestic demand. Cumulative economic growth through September was 1.6% compared to the same period in 2023. The dynamism of economic activity would have continued in the fourth quarter, as suggested by the annual variation of the Economic Tracking Indicator (*ISE* for its Spanish acronym) seen in October (3.1%). Meanwhile, labor market indicators remain stable, with unemployment rates below pre-pandemic levels. In 2025, economic activity levels would continue to recover amid a backdrop of less restrictive monetary policy, consistent with inflation’s convergence to the 3% target.

Notwithstanding their differences regarding the requisite monetary rate adjustment, all Board members acknowledged the progress made in 2024 to steer a decline in the annual inflation rate toward the target within an environment where economic activity has gradually recovered and the labor market has remained stable, as unemployment rates fell below historical averages. In unison, the Directors cautioned about the emergence of new external and domestic macroeconomic risks that may affect the path of inflation’s convergence toward the target and sway market confidence. They agreed that 2025 may bring a challenging macroeconomic scenario that requires vigilance and harmonization in both monetary and fiscal policy design. In this context, the vote for adjusting the benchmark rate was divided, with five directors voting for a 25-bps cut, one for a 50-bps reduction,

and one for a 75-bps decrease.

The members of the voting majority highlighted the progress achieved in reducing inflation throughout the year, buttressed by the gradual but continual loosening of the monetary policy stance. Nevertheless, they pointed out that core inflation, excluding food and regulated items, has been more persistent than projected and failed to fall in November versus October. Consequently, they warn that advancement to decrease headline inflation further will depend mainly on decreases in services prices, which tend to be highly indexed to past inflation and thus have experienced a considerably slower reduction than the decline notes in goods. They also note that the continued peso depreciation affects the prices of tradable goods. In fact, the recent rebound in the producer price index (PPI) underscores the likelihood of this phenomenon. All of the above bring about a significant risk for the future disinflation process. Accordingly, this group of Directors stresses that said risk factors require additional caution concerning monetary rate cuts in order to maintain the convergence path of inflation toward the target. Among others, it would help alleviate pressures of the currency's devaluation in the foreign exchange market, contributing to containing inflation and simultaneously benefiting the National Government's external debt service. They also pointed out that measures contributing to dispelling uncertainty surrounding the sustainability of public finances would reduce risk premiums and depreciation pressures on the peso. Beyond the exchange rate risks, these Directors highlighted the existence of other risks that support their position, including a recent slight rebound noted in analysts' surveys regarding inflation expectations for the coming year (from 3.8% to 3.9%) and a rebound in several indicators of these market expectation implicit in public debt securities of different maturities. They also emphasized the uncertainty surrounding the expected increase in the minimum wage.

The Director who voted for a 50-bps reduction in the interest rate shares the concerns of the other Board members regarding the more restrictive and uncertain international financial conditions and the deteriorating national fiscal outlook that required further caution surrounding interest rate cut decisions. They also recognize the positive results of the monetary policy that succeeded in reducing inflation, placing it on a path with a high probability of achieving the target by 2025. At the same time, they consider there is room to further propel the rebound in gross capital formation enjoyed during the third quarter to ensure greater economic dynamism that will bring the Colombian economy closer to the growth rates observed before the pandemic. In this regard, they note that the 1.8% GDP growth projected for Colombia in 2024 is lower than the average GDP expansion recently estimated for Latin America (2.1%). They stress that the recent recovery in specific components of gross fixed capital formation, such as civil works and machinery and equipment, which contribute more than 50% to fixed investment, suggests that an improvement of close to 3.0% could be reached in 2025 for Colombia, which is higher than the forecast for Latin America (2.3%), and will help it recover the position it held for almost a decade before 2020.

Finally, the Director who voted for a 75-bps reduction acknowledged the impact monetary policy has been making on the decrease in inflation. At the same time, they consider that the real interest rate, measured as the difference between the nominal policy interest rate and observed inflation, is broadly located in contractionary territory and, therefore, offers significant room to stimulate economic activity in order further to solidify the economic recovery cycle seen in 2024. They emphasize that the monetary policy rate is a key macroeconomic variable that stimulates economic growth, as showcased by this year's positive recovery trend. They note that further inducement to economic growth will significantly strengthen public finances. Concerning exchange rate pressures, they warn that these are not exclusive to Colombia, nor do they originate solely locally, but they also affect other countries in the region.

The Directors conceded that the interest rate reduction approved at today's meeting continues to support economic growth recovery while maintaining the necessary caution in light of persistent risks to the inflation outlook. The Board of Directors reiterates that future decisions will be determined based on the latest information available.

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