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Banco de la República

Monetary Policy Report

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Monetary Policy Report

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I. External Context and Balance of Payments

1. The available data suggest that growth of the country's trading partners for 2016 and for 2017 would be somewhat higher than forecast a quarter ago, although it would still be modest.
2. As for the United States, performance in the second half of the year was significantly higher than in the first, and somewhat above expectations. During the third quarter, growth was supported by consumption and net exports. Both consumer and business confidence exhibited a strong recovery during the fourth quarter. In line with this, the indicators of industrial production and retail suggest that the fourth quarter would be more dynamic than the first half of the year.
3. In December, employment continued to grow at a good pace. The unemployment rate remains close to the levels estimated for full employment, and wages grow at annual rates between 2.5% and 3.5% in January 2017.
4. Headline inflation increased in December reaching 2.1%, while core inflation posted at 2.2%. The projection of headline inflation for 2017 is above the Fed's target (2.0%).
5. As for the euro zone, GDP for the third quarter grew as expected by the technical staff, and very similar to previous quarters. Business and consumer surveys suggest that confidence increased in the fourth quarter, which has been reflected in the good outcome of industrial production and retail in November.
6. In December, total yearly inflation rose to 1.1%, while core inflation remained at 0.9%. In this context, the European Central Bank (ECB) did not alter its benchmark interest rates at the meeting in January, and confirmed the amounts of its intervention at 80 billion euro until March, and 60 billion euro starting April.
7. China's GDP for the fourth quarter posted at 6.8%, above that observed during the previous three quarters (6.7%).
8. In Latin America, GDP growth in the third quarter was very modest. Brazil and Ecuador exhibited decreases, but lower than those of previous quarters; Colombia, Mexico, and Argentina slowed down compared to the second quarter; Chile maintained its rate of expansion from the second quarter, and Peru grew at a higher pace (although a decline was expected). Indicators of economic activity to November suggest a fall in the growth rate for Peru and Chile, and a lower setback for Brazil, although the figure was below the one expected a quarter ago.
9. In December, inflation in several Latin American emerging economies fell, except for Mexico. This might be associated with the strong depreciation of its

currency. Other currencies of the region have appreciated *vis-à-vis* the US dollar.

10. The country's terms of trade would have increased in the fourth quarter thanks to the rise in the prices of its main export products. Specifically, oil and coal have remained at high levels, compared with a few months ago. Oil has maintained its price above USD 54 per barrel after the OPEC and other developing countries' agreement to reduce the quantities produced and the inventories. Additionally, cuts in production in Libya and Nigeria continue to take place.
11. In December, capital inflows to fixed income were observed in Latin America, while in January the volatility of the financial markets remained low and the CDS in the region fell, except for Mexico's. Ten-year interest rates in developed economies increased.

Exports

12. In November, the value of exports in US dollars registered a yearly 12.6% increase due to the behavior of all groups, particularly agricultural goods (23.8%), and mining goods (15.3%). To date, exports have fallen 16.5%, mainly due to the fall in the external sales of mining goods (-22.7%). (**Table 1**).

Table 1
Behavior of Exports in US dollars

November 2016			
	Annual Variation	Main contributing items: Item	Annual variation of the item
Total	12.6%		
Agricultural goods	23.8%	Banana Coffee	102.3% 17.0%
Mining goods	15.3%	Oil Refining Coal	63.9% 10.1%
Other exports*	3.6%	Machinery and Equipment Vehicles	87.2% 34.8%
Accumulated value for January-November 2016			
Total	-16.5%		
Agricultural goods	-5.3%	Coffee	-13.8%
Mining goods	-22.7%	Oil	-40.4%
Other exports*	-9.3%	Chemical Products Food, beverages, and tobacco, excluding coffee	-11.4% -8.2%

* Within this group, the destinations which contributed most to the fall were Venezuela, the US, and Ecuador, with annual reductions of 68.1%, 3.7%, and 3.5%, respectively.
Source: DANE

13. So far this year, the price index for total exports recorded a significant drop (-14.7%), while the volume index fell moderately (-2.2%). This would indicate that the value of exports fell mainly as a result of the reduction in prices, from which the most significant was that of mining products (-18.5% annually, accumulated to November).
14. According to the preview for foreign trade by DIAN, in December, exports excluding oil and its derivatives increased 26.3% on a yearly basis (according to this source, they had grown 10.7% in November; however, the increase reported later by DANE was 18.4%).

Imports

15. In November, CIF imports in US dollars registered an annual 1.8% fall due mainly to setbacks of capital goods purchases (-7.6%), while those of consumer goods increased (5.9%), interrupting the downward trend of the last 18 months. Year to date, imports fell 18.1% (**Table 2**).

Table 2
Behavior of Imports in US dollars

November 2016			
	Annual Variation	Main contributing items: Item	Annual variation of the item
Total	-1.8%		
Capital Goods	-7.6%	Industrial Machinery Other fixed equipment	-20.6% -17.2%
Raw materials	-1.6%	Fuels	-16.9%
Consumer Goods	5.9%	Private Vehicles Food products	12.3% 19.8%
Accumulated Value for January-November 2016			
Total	-18.1%		
Capital Goods	-28.4%	Transport Equipment Industrial Machinery	-55.9% -29.2%
Raw materials	-13.4%	Fuels Chemical and Pharmaceutical Products Mining Products (for industry)	-27.9% -10.7% -15.9%
Consumer Goods	-11.7%	Private Vehicles	-21.9%

Source: DANE

16. The price index for total imports to November registered a 12.3% fall, while the volume index fell 6.7%. This would indicate that, although the major cause is prices, imports were reduced by a combined effect of prices and quantities.

17. According to the preview for foreign trade by DIAN, CIF imports recorded an annual 4.8% fall in December. (According to this source, they would have fallen 6.4%; however, the decline reported later by DIAN was -1.8%).

II. Projections of External Variables

a. External Growth Scenarios

Baseline or more likely scenario (Table 3)

18. A considerable uncertainty is perceived in the external context due to many factors: the impact of the new American government's economic policies, the implications of *Brexit*, the possible financial instability in Europe and in China, among others. However, the baseline scenario assumes that such risks do not materialize, or that if they do, they would not have a significant impact in 2017.
19. In the present report, growth figures for the country's trading partners were slightly revised upwards for 2016 and 2017. Although it is expected to remain at low levels, a higher pace is projected for this year.
20. Growth figures for the United States were revised upwards for 2016 and 2017, given the good GDP in the third quarter and recent records of other indicators of economic activity for the fourth quarter. Consumption would continue driving the economy, supported by a higher household income provided by the increase in wages and employment. Investment would be strengthened by the increasing confidence, while net exports would not be an important driver.
21. In this context, three increases in the benchmark reference rate by the Fed's Open Market Committee (FOMC) are expected. The market's probability (close to 50%) foresees the first increase in May.
22. The baseline scenario does not provide for protectionist measures in the United States that may alter the trade patterns in 2017, and assumes that the fiscal stimuli for public investment and tax cut would bring about effects, especially in 2018. Inflation would continue increasing, and it would remain above the Fed's target.
23. The economy of the euro zone would also be supported by consumption and investment, as exports are not likely to contribute to growth in the region. The ECB would maintain its expansionary policies throughout 2017.
24. China is expected to continue with a slow deceleration while the transition to the economic model based on consumption takes place. The measures to control the debt overhang are expected to smooth it; also, that there be an active fiscal policy in the event of very strong decelerations.
25. More downward risks are perceived than upwards. Some of the downside risks are:
    - Drastic changes in the United States implemented by the new government.

- Higher-than-estimated effects of *Brexit*.
- Financial instabilities in China or in Europe.
- Instabilities derived from the political processes in the euro zone.
- Fall in confidence due to high political uncertainty and terrorist attacks.

26. A more expansionary fiscal policy in the United States with effects in 2017 could be an upside risk.
27. As for oil, it is expected that a) the agreement reached by the OPEC is met partially, b) supply continues to be limited in Nigeria and Libya, and c) the United States and other non-OPEC countries respond to high prices by increasing their production. Considering these factors, an average price of USD 54 per barrel (Brent) is expected for 2017.

Table 3
Economic Growth Forecasts for Colombia's Major Trading Partners

Country or Region	2016			2017		
	Low	Baseline	High	Low	Baseline	High
USA	1.5	1.6	1.7	1.0	2.3	3.0
Euro Zone	1.5	1.6	1.7	0.8	1.6	2.0
China	6.6	6.7	6.8	5.4	6.4	6.8
Brazil	(3.8)	(3.5)	(3.2)	(0.5)	0.5	1.5
Ecuador	(2.3)	(2.1)	(1.9)	(1.5)	0.2	1.0
Venezuela	(15.0)	(12.0)	(9.0)	(9.0)	(6.0)	(1.0)
Peru	3.8	4.0	4.2	3.0	4.2	5.0
Mexico	1.9	2.1	2.3	0.5	1.9	2.5
Chile	1.5	1.7	1.9	1.0	2.0	3.0
Trading partners	0.00	0.40	0.70	0.50	1.70	2.60

Note: While China's growth in 2016 was already observed, the low and high scenarios from the balance of payments are reported.

b. Projection of the Balance of Payments

28. With results to September 2016, the information available to date for the fourth quarter and the external context scenario presented in the previous section, the new estimate of the current account deficit for 2016 is 4.5% of GDP (USD 12,624 m), within a range between 4.3% and 4.7%, lower than observed in 2015, when it stood at 6.5% of GDP (USD 18,922 m).
29. The correction versus the 2015 deficit is mainly explained by the lower deficit in the trade of goods, given that the reduction of imports exceeds the one of total exports (**Table 4**). Additionally, the lower deficit in the balance of services, the decline of factor income, and the improvement of transfers would have contributed to close the external imbalance.
30. It is worth mentioning that, compared to 2015, the **baseline scenario** for 2016 includes expansions of the exported volumes of coal (11%), nickel (3.0%), and

coffee (0.4%), while those for oil would decrease by 22.4%. With this, a yearly 17.9% fall is projected for commodity exports, while a reduction of around 8.1% is estimated for the remaining exports. Thus, in the baseline scenario, total exports in US dollars would contract by 13.5%.

31. On the other hand, imports in US dollars would have decreased (17.3% on a yearly basis), due to a significant reduction of inputs and capital goods for industry, a less-dynamic domestic demand, and falls in the prices of imported goods in US dollars.
32. Additionally, a decrease in the deficit in trade in services is estimated, which would have been driven by the lower employment of technical services for oil production, by the lower freight rates due to contraction of the volume imported, and by the effects of the depreciation on the balance sheet of some items related to tourism.
33. Similarly, a reduction in net outflows of factor income is expected compared to 2015, associated particularly with the lower profits from companies in the mining-energy sector, and, to a lesser extent, to the other sectors, given the slowdown in economic activity. On the other hand, higher interest payments on loans and debt would have been registered.
34. Regarding the projection presented a quarter ago, a lower contraction of traditional exports is expected due to higher prices of the main commodities, as well as to the volumes of coal and coffee shipped. Additionally, the estimate of non-traditional exports was raised due to the lower slowdown observed in sales of this type of goods during the last quarter of the year. As for external purchases, a lower fall is expected, given the available data for the last months of the year. For the balance of services and factor income, the deficit calculated for 2016 presented no significant changes compared to the previous quarterly report.

Table 4

BALANCE OF PAYMENTS - (Millons of USD)	2015	2016
		Baseline
CURRENT ACCOUNT (A+B+C+D)	**(18,922)**	**(12,624)**
Percentage of GDP	**(6.5)**	**(4.5)**
A. Goods	**(13,970)**	**(10,138)**
a. Exports	38,080	32,926
Main products	23,854	19,593
Other exports	14,226	13,333
b. Imports	52,049	43,064
B. Non-factor Services	**(4,542)**	**(3,375)**
C. Factor Income	**(5,527)**	**(4,515)**
D. Current Transfers	**5,117**	**5,404**

35. Regarding financing, capital flows in 2016 are expected to be lower than those received in 2015, mainly due to the decrease in net resources for portfolio investment and other external loans and credits (**Table 5**).
36. Net FDI inflows in Colombia would have recorded a 16% increase compared to a year before, produced by the resources from the sale of Isagén and the lower investment by Colombians abroad (**Table 5**). Aside from the effect of Isagen, net foreign investment would have contracted 19.5%.
37. On the other hand, the greatest liabilities due to loans and other credits would have been associated with a higher indebtedness of the national government with multilateral banks and to other credits from the rest of the non-financial public sector.

Table 5

BALANCE OF PAYMENTS - (Millons of USD)	2015	2016 Baseline
CAPITAL AND FINANCIAL ACCOUNT (A+B+C+D+E)	**(18,356)**	**(13,038)**
A. Net Foreign Investment in Colombia	**(7,514)**	**(8,710)**
a. Foreign Investment in Colombia	11,732	12,125
b. Colombian Investment abroad	4,218	3,415
B. Portfolio Investment	**(9,532)**	**(4,670)**
a. Public sector	(6,213)	(6,343)
b. Private sector	(3,319)	1,673
C. Derivative Instruments	**2,129**	**(798)**
D. Other investment (loans and other credits)	**(3,854)**	**1,018**
a. Assets	(491)	4,623
b. Liabilities	3,363	3,605
E. Reserve Assets	**415**	**122**
ERRORS AND OMISSIONS	566	(414)

38. A deficit in the current account equivalent to 3.7% of GDP (US$ 10,759 m), (lower than the estimate for 2016) is projected for 2017. This would be associated mainly with a lower deficit of the trade balance for goods due to a better outlook for the prices of some of the main export products, and to the recovery of the country´s main trading partners, contrasting with the slight increase that imports would exhibit.
39. The services deficit would be at levels above those of 2016 as a result of higher freight rates considering the growth of the volume imported and the price of oil. In addition, increases of imports of services related to the oil industry are considered, as well as for the payment of insurance related to 4-G concessions.

40. Greater net outflows of factor income are expected compared with 2016. This would take place, on the one hand, due to the increase in the profits of companies operating in the mining and energy sector, and on the other, to higher interest payments on loans and debt securities.
41. Revenue growth due to current transfers would also exert downward pressure on the current account deficit for 2017, as a result of the higher growth expected in the United States.
42. In terms of capital flows, resources from net FDI would be the main source of financing, despite being lower than those recorded in 2016. It is worth noting that this item would exhibit a recovery in investment directed to the energy-mining activity. Added to this, there would be capital inflows related to loans and other external credits (provided in their majority by multilateral agencies), bonds emissions (mainly on the part of the Government), and portfolio flows associated with net purchases of TES by foreign investors. The latter are estimated to be lower than observed in 2016.
43. Uncertainty regarding the conditions and availability of financing, as well as the sensitivity of some capital flows to the prospects of economic activity in general, determine that the forecast range for the current account deficit in 2017 would stand between 3.0% and 4.4% of GDP, with 3.7% as the baseline scenario.

III. Growth, Domestic Demand and Credit

44. The most recent information on the performance of real activity suggests that during the fourth quarter of 2016 the Colombian economy would have continued exhibiting low growth, lower than the one observed during the first half of the year, although somewhat higher than in the third quarter.
45. Between October and December, domestic demand would have increased very little. Total consumption would have accelerated slightly, with private and public contributions, as investment would have contracted, accumulating four consecutive quarters with negative growth rates. Net exports would have contributed to the expansion of the economy, on account of foreign sales of traditional goods and a decrease in imports, particularly of capital goods.
46. According to the Monthly Survey of Retail Trade (EMCM) by DANE, retail sales in November grew 6.1% compared to the same month in 2015. The accumulated value for October-November did so by 3.4%, which represented an acceleration with respect to the figures for the third quarter (-2.0% annually).
47. The good behavior of the indicator was due largely to vehicle sales as well as of other durable goods. Regarding motor vehicles, in November sales grew 23.8% on a yearly basis, driven by the 15th International Motor Show in Bogotá (11.2% for the October-November, vs. -12.7% in the third quarter).

48. Excluding vehicle sales, the remaining aggregate expanded 3.0% on a yearly basis (2.0% in the two-month period vs. 0.1% in the third quarter). Sales of appliances and home furniture contributed the most (2.6 p.p.) The other goods contributed little to the better performance of retail sales. Thus, it is possible that the increase in automobiles and household appliances in November is due partly to the purchases made prior to the increase in VAT.
49. Other auxiliary indicators suggest a mediocre growth of consumption. For example, the consumer confidence index (ICC) of December fell versus the records of the past four months, the averages for the third and fourth quarters, and the figure calculated since November 2001. The drop in the ICC was due to a fall in the expectations component rather than to the current economic conditions component of households. The seasonally adjusted series of the balance of sales of the monthly survey of economic expectations (EMEE) by the Central Bank to November also points to the same direction.
50. Regarding gross capital formation (FBC), the figures for imports of capital goods (in constant pesos) suggest that during the fourth quarter of 2016, the aggregate of investment in machinery, equipment, and transport equipment would have registered a negative growth rate again. The balance of investment expectations of the EMEE to November also allows to forecast substantial drops in gross capital formation, excluding construction of buildings and civil works.
51. As for external trade, the figures published by DANE of exports in US dollars to November and the information published by DIAN to December suggest growth in real terms of this sector of GDP. This is due to the behavior of foreign sales of traditional goods. On the other hand, a real contraction of imports is expected, mainly capital goods.
52. On the supply side, the indicators also suggest that the weakness of the activity would have persisted during the fourth quarter of 2016.
53. With information to November, industrial production grew 1.6% on a yearly basis, (1.4% excluding oil refining). With this, it expanded close to 1.0% in October-November, and 3.5% in the year to date, on average. It is worth noting that the sub-branch of oil refining increased 2.7% in November, after which it stopped growing at double-digit rates, as it did mostly along the year (20% for the year to date). The trend components for the total industry and excluding refining exhibit a flat and a downward slope, respectively.
54. In December, industrial confidence fell compared to the previous month. The survey by Fedesarrollo showed a slight increase in the indicators of orders and stock (counter-cyclical). Expectations to three months fell, although it should be noted that the volatility of this indicator has increased in the last year. The trend components for each of the series suggest weakening of the sector.

55. As for farming activity, with data to November, cattle slaughter contracted 9.9% on a yearly basis. In October-November, it fell at a slower pace than observed during the third quarter (-12.4% vs -13.7%). On the other hand, in December, coffee production stood at 1,319,000 60-kg sacks, which represented a 9.3% fall. However, in quarterly terms, the fourth quarter exhibited acceleration (5.4% vs -12.2% in the third). At the end of the year, production was 14,232,000 sacks, which represents a 0.4% yearly increase.
56. Regarding construction, the few available indicators suggest a weak behavior of building activity. Cement production and shipments fell 3.5% and 4.6%, respectively, in November, although construction licenses expanded 12.4% (the accumulated value for twelve months shows a 7.4% fall).
57. As for mining, in December, oil production amounted to 837 thousand barrels per day (mbd), which represented an annual 15.7% contraction. For the whole year, oil production dropped 11.7%, with a level close to 885 mbd, on average.
58. The seasonally adjusted series of the real activity index (ISE) expanded at an annual 1.1% rate in November, recovering versus the figure observed in October (-0.2%). The aggregate for October-November grew 0.5%, lower than the average for the third quarter (1.0%).
59. Consequently, this information allows forecasting that yearly GDP growth for the fourth quarter would have posted between 1.0% and 2.0%, with 1.5% as the most likely figure.
60. This implies a forecast for GDP growth of 1.8% for 2016, within a range between 1.6% and 2.0%. The extent of the range and the midpoint were revised downwards versus the ones presented in the previous Inflation Report (from 1.5% to 2.5%, with midpoint 2.0%).
61. The range for of the economic growth forecast was revised downwards for 2017, but the midpoint was maintained. Therefore, yearly GDP growth is projected between 0.7% and 2.7%, with 2.0% as the most likely figure.

IV. Behavior of Inflation and Prices

62. Annual inflation closed 2016 at 5.75%, a figure above the target range, but below the ones for December 2015 (6.77%) and November 2016 (5.96%). Annual inflation has fallen steadily from a recent peak in July (**Table 9**).
63. Monthly variation was 0.42%, higher than expected both by the market (0.28%) and the technical staff at *Banco de la República*.
64. The fall in total annual inflation in the last month was concentrated on the CPI for food, tradables (excluding food and regulated items), and regulated items. On the contrary, there was a slight increase in the annual variation of inflation for non-tradable goods (excluding food and regulated items).

65. Core inflation, measured by the average of the four indicators monitored by the Central Bank, moved from 5.74% in November to 5.60% in December. However, it was higher than the one for December 2015 (5.43%).

Table 9

Headline and Core Inflation to December 2016

Description	Weight	Dec 2015	Sept 2016	Oct 2016	Nov 2016	Dec 2016	Participation percentage in monthly acceleration	Participation percentage in acceleration of the year to-date
Headline inflation	**100.00**	**6.77**	**7.27**	**6.48**	**5.96**	**5.75**	**100.00**	**100.00**
Non-food inflation	**71.79**	**5.17**	**5.92**	**5.64**	**5.31**	**5.14**	**61.40**	**7.39**
Tradables	26.00	7.09	7.20	6.49	5.74	5.31	**47.13**	40.32
Non-tradables	30.52	4.21	4.85	4.81	4.83	4.85	**-0.67**	-16.57
Regulated items	15.26	4.28	6.19	6.07	5.64	5.44	**14.95**	-16.37
Food inflation	**28.21**	**10.85**	**10.61**	**8.53**	**7.54**	**7.22**	**38.60**	**92.61**
Perishables	3.88	26.03	6.66	-2.18	-4.94	-6.63	38.96	135.48
Processed food	16.26	9.62	12.56	11.75	10.89	10.74	7.54	-21.05
Eating out	8.07	5.95	9.18	8.64	8.36	8.54	-7.90	-21.82
Core inflation indicators								
Non-food inflation		5.17	5.92	5.64	5.31	5.14		
Core 20		5.22	6.73	6.58	6.33	6.18		
CPI excluding perishable foods, fuel and utilities		5.93	6.65	6.37	6.08	6.03		
CPI excluding food and regulated items		5.42	5.84	5.52	5.22	5.05		
Average of core inflation indicators		**5.43**	**6.29**	**6.03**	**5.74**	**5.60**		

Source: DANE. Calculations by *Banco de la República*.

66. In the last month, all the core-inflation indicators fell, with the CPI excluding food and regulated items reaching the lowest level (5.05%), and Core-20 the highest (6.18%) (**Table 9**). Yearly inflation excluding foods posted at 5.14%, 17 bp lower than in November.

67. Within the CPI excluding food, the greatest fall was that of the yearly variation of the CPI for tradables (excluding food and regulated items), moving from 5.74% in November to 5.31% in December. From mid 2016, the annual variation of this segment of the CPI has been declining, which could suggest that transmission of the accumulated depreciation of the peso between mid 2014 and the first months of 2016 would be almost complete. On the other hand, it should be noted that in the past few months the results observed for this group have been lower than anticipated by the SGEE.

68. Annual CPI variation of non-tradable goods in December recorded a slightly higher level than the one observed in November (4.85% vs 4.83%). It is worth mentioning that this subgroup has been relatively stable for the past 11 months, fluctuating between 4.8% and 5.0%, largely due to the behavior exhibited by the annual CPI variation of leases (around 4.0%). The other sub-groups of non-tradable goods have adjusted at a faster pace, affected perhaps by a higher indexation and a greater effect of the adjustment of wages at rates above the ceiling of the target range.

69. In December, the CPI for regulated items stood at 5.44%, falling 20 bp compared to a month ago. This is mainly due to a significant decline in the annual CPI variation of energy. In contrast, in the last month there was an increase in the annual variation of CPI of fuels (from 0.90% in November to 1.83% in December). The sub-group of transport remained stable at 6.06%. It should be noted that for the first months of the year several adjustments have been announced in transport fares in various cities of the country, at rates between 5.0% and 10%.
70. As expected, the annual CPI variation of food decreased in December (from 7.54% in November to 7.22%). Thus, there have been five consecutive months of significant declines in this indicator due to the gradual disappearance of the effects of *El Niño* on the prices of perishable foods, mainly. Normalization of the climatic conditions (along with the end of the mid-July trucking strike) has given way to the recovery of agricultural supply and to increases in the supply indicators in recent months.
71. The highest drop took place again in perishable goods, whose annual variation stood at -6.6%, *vis-à-vis* 4.9% in November (especially thanks to decreases in the prices of bananas, potatoes, and several fruits). There was also a slight decrease in the annual change of the CPI for processed items. However, the prices of beef once more registered increases related with the fall of cattle slaughter. Meals outside the home increased 18 bp, standing at 8.54% by the end of 2016. This component of food was driven last year particularly by the 7.0% adjustment to the minimum wage, the high prices of food, and public utilities.
72. The pressures of non-labor costs eased in December, judging by the behavior of the annual variation of the PPI for domestic supply (produced and consumed domestically, plus imported goods), which moved from 3.91% in November to 1.62% in December. The annual variation of the local component of the PPI (3.85%) decreased 101 bp *vis-à-vis* November, while the imported component decreased 496 bp (-3.13%).
73. As for labor costs, the behavior was mixed. Wage adjustments for retail increased from 5.76% in October to 6.72% in November; those for industry increased from 6.08% to 6.22%. With information to December, the wages for heavy construction (4.29%) and housing (4.28%) remained stable.
74. For 2017, the minimum wage increase (7.0%) was higher than inflation to December 2016 and the inflation target. This may entail some upward pressures on prices via labor costs for the current year. However, the available indicators suggest that the labor market would have a comfortable margin, which may limit, to some extent, inflationary pressures originated by the increase in the minimum wage.

75. According to the most recent monthly survey to financial analysts (applied at the beginning of January), inflation expectations to December 2017 are 4.51%. Inflation expectations to twelve and twenty four months moved from 4.36% to 4.25% and from 3.58% to 3.59%. Inflation expectations obtained from the quarterly survey (from January) stood at 5.09% to December 2017 and at 4.51% to December 2018. Finally, those obtained from public debt bonds in pesos and UVR (Breakeven Inflation, BEI) on average to 25 January increased 41 bp, 27 bp, and 6 bp for 2, 3, and 5 year-terms, compared to the average data of December, posting at 4.78%, 4.31%, and 3.81%, respectively.