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Abstract

After adopting an inflation targeting framework for monetary policy at the turn of the century, the Central Bank of Colombia started actively using the monetary policy interest rate as its key policy tool. In this regard, this paper examines the interest rate pass-through from the monetary policy rate to the retail rates in Colombia and explores asymmetries in the adjustment process within the framework of a nonlinear version of the ARDL (NARDL) model developed by Shin et al. (2014). Our findings show that the policy rate plays a key role in determining deposit and lending retail rates but the nature of the passthrough varies across different types of lending products. In the case of lending rates, the pass-through is usually a full one, and takes around 12 months to be nearly complete. Our results capture an asymmetric positive pass-through in deposit rates and an upward rigidity in the lending rates of consumer and ordinary corporate loans, key segments of the credit market. These findings imply that most retail lending rates respond more to policy rate cuts than to hikes, indicating that financial intermediaries are more reluctant to raise interest rates than to decrease them following policy adjustments.