Box 2: Estimated effects of the minimum wage on inflation in Colombia - Monetary Policy Report - January 2025

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Several studies have pointed to the influence of the minimum legal wage (SM for its Spanish acronym) on the labor market and the observed distribution of wages and prices in the economy, among other effects. In 2022, Banco de la República conducted a comprehensive study on the macroeconomic effects of the legal minimum wage in Colombia (Arango et al., 2022). In this Box, we summarize some of their fndings and other relevant results from related literature, particularly its effects on inflation.

As pointed out by Arango et al. (2022), increases in the minimum wage can affect prices via various conduits. One is labor costs, defned as increased labor costs as a factor of production cost that can lead to a higher sale price. Another is aggregate demand, where higher worker income places upward pressure on prices through increased consumption. A third factor is inflation expectations, whereby agents may expect higher price adjustments as a consequence of the behavior of the previous conduits.

Fuente: https://www.banrep.gov.co/en/publications-research/monetary-policy-report/box-2-january-2025