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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.

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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 findings 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, defined 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.