Working papers economics - Colombian Monetary Policy Interest Rate: Its Expectations and the Pass-Through to Interest Rates of CDs and Credit

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AUTHORS AND/OR EDITORS Cárdenas-Cárdenas, Julián Alonso Cristiano-Botia, Deicy J. González-Molano, Eliana Rocío Huertas-Campos, Carlos Alfonso
Expectations about the monetary policy rate (MPR) play a key role in the transmission to deposit and credit interest rates. This process is neither immediate nor uniform across financial products.

Publication Date: Friday, 3 of October 2025 **Approach**
This document analyzes the transmission of changes in the monetary policy rate (MPR) to the interest rates of deposits (CDs) and credits, incorporating agents' expectations regarding the future dynamics of the MPR. Using econometric models, the study seeks to answer key questions in the analysis of the pass-through:
(i) How long does it take for changes in the MPR to be transmitted to CDs and credit interest rates?
(ii) What factors affect this pass-through?
(iii) Are there asymmetries in this pass-through?

Contribution
This study explicitly incorporates expectations about the monetary policy rate (MPR), measured through both surveys of economic analyst expectations and market instruments (such as overnight indexed swaps – OIS), to analyze their influence on the pass-through from the MPR to CDs and credits interest rates in Colombia. Unlike previous studies that considered only the observed MPR, this research highlights the role of expectations in the transmission process. It also emphasizes the importance of expectations as a signal of the Central Bank's credibility.

Findings
The credibility of the Central Bank of Colombia (Banco de la República) plays a key role in how its decisions regarding the monetary policy rate (MPR) affect market rates. When market agents trust the Bank's decisions, they are better able to anticipate future movements, which facilitates a faster response in CDs and credits rates. This study analyzes how such expectations influence the transmission of the MPR to market interest rates in Colombia. By including expectations in the models, the transmission is observed to be faster than in previous studies.

The results show that transmission is neither immediate nor uniform across financial products: CD rates react faster than credit rates. Additionally, unexpected changes in the MPR affect deposit rates first, followed by loan

rates. The transmission is also asymmetric, in the short term, transmission tends to be faster during phases of MPR decline. Conversely, over longer horizons, transmission is more pronounced during periods of MPR increase.

Fuente: https://www.banrep.gov.co/en/publications-research/working-papers-economics/colombian-monetary-policy-interest-rate