Box 1: A 200-Basis-Point Increase in the Monetary Policy Interest Rate Between January and March 2026 - Monetary Policy Report, April 2026

Download 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.

AUTHORS AND/OR EDITORS Ospina-Tejeiro, Juan José Publication Date: Friday, 12 of June 2026
During January and March 2026, the Board of Directors of *Banco de la República* (BDBR) increased the monetary policy interest rate from 9.25% to 11.25% (Graph B1.1). The pace of this increase was faster than that of typical benchmark-rate adjustments. It was adopted in a context where many individuals, companies, and economic analysts began to expect inflation to exceed previous estimates due to the sharp rise in companies' labor costs early in the year. This relatively swift rise in policy rates was intended to curb inflation's impact on prices and safeguard households' purchasing power, particularly that of the most vulnerable populations. An illustrative explanation of this monetary policy interest rate adjustment is provided below.

During January 2026, inflation expectations across all measures monitored by *Banco de la República* rose significantly, reaching levels above 6% (Graph B1.2), continuing to increase on average through February. By January, the various economic agents whose inflation expectations are surveyed—including businesspeople, unions, academia, financial analysts, and buyers and sellers of public debt—revised their 2026 outlooks relative to their earlier responses, indicating they expected prices to escalate further in the year than they previously forecast, and thus inflation would deviate further from its target. Simply put, in January, they expected a larger overall increase in prices, meaning households' purchasing power would decline.

Notably, this increase in inflation expectations was quite abrupt. For all measures of inflation expectations monitored by the Bank, this single-month jump was the largest in its tracked history (Graph B1.3). In light of this scenario, *Banco de la República* sought to neutralize the effect of this increase in expectations on the real borrowing and savings conditions. The example presented below illustrates why this was necessary, what variables could influence the decision, and how the mechanism functions.