

Box 5

Recent Shifts in Interest Rate Dynamics in the Colombian Economy

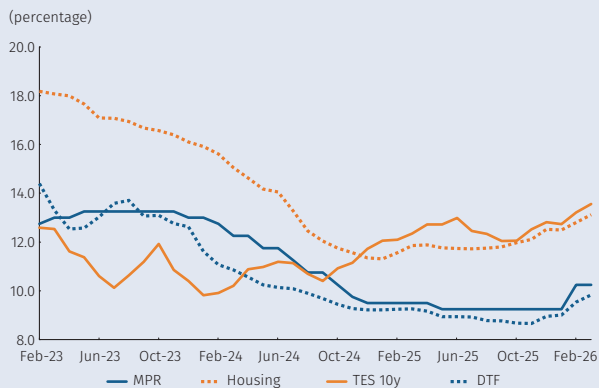
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In recent discussions of Colombia's macroeconomic environment, relatively little attention has been paid to the changing relationship between *Banco de la República's* (Banrep) monetary policy rate and market interest rates. Such discussions often assume that Banrep's policy rate is the sole — or at least the main — determinant of the lending rates faced by households and firms within the financial system. However, in recent periods, the interest rate on government bonds has exerted a growing influence on long-term lending rates set by credit institutions, a development that has often been overlooked.

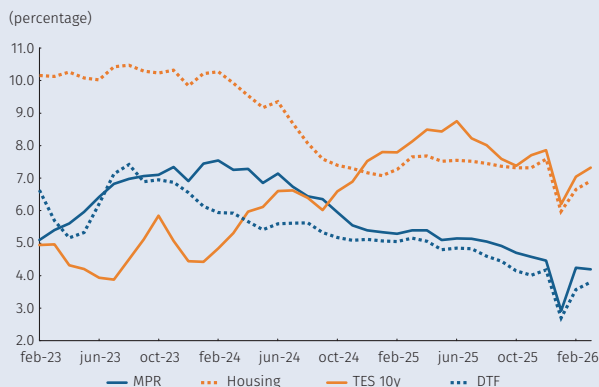
To illustrate this phenomenon, Graph B5.1 shows the behavior of interest rates on 90-day term deposits (DTF for its Spanish acronym), monetary policy (MPR), ten-year public debt (10-year TES), and home purchase loan disbursements since February 2023.

Graph B5.1
Interest rates

A. Nominal



B. Reales



Sources: Financial Superintendence of Colombia, Colombian Ministry of Finance and Public Credit, and Banco de la República.

In both panels showing nominal and real interest rates, it is evident that the deposit rate (that is, the rate that measures the marginal cost of banking operations) closely follows the monetary policy rate (MPR), with the exception of the interest rate on home purchase loans, otherwise referred to as the housing loan rate. During 2023 and 2024, the latter declined in both nominal and real terms, following the downward trend in the MPR and in inflation. However, beginning in late 2024, although the MPR continued to decline, the housing loan rate stopped falling. In fact, once it was surpassed by the 10-year government bond interest rate, the housing loan rate began to rise rapidly, closely tracking the government bond yield rather than the MPR.

It is important to emphasize that the 10-year public debt interest rate is responding mainly to factors other than the MPR¹ in the current environment. Both the 10-year public debt interest rate and the housing loan rate increased significantly during 2025, long before Banrep increased the MPR. In fact, the sharp increase in the MPR in the first quarter of 2026 did not appear to affect the interest rate on home purchases, which continued to track the 10-year government bond rate closely. Note that the housing loan rate only begins to closely track the government bond interest rate after the latter has surpassed it.

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1 See <https://www.banrep.gov.co/en/blog/performance-interest-rates-government-bonds>.

This explains the discrepancy with the MPR: when interest rates on government bonds exceed the loan interest rate, borrowers have to pay the financial system at least the interest rate on public debt. This compensates the financial system for the opportunity cost of allocating depositors' funds to loans rather than investing in government bonds.²

The conclusions drawn from these graphs are corroborated by computing correlations using simple regression analyses. Table B5.1 presents four regressions using housing loan rate and the term deposit interest rate as dependent variables, and the monetary policy rate and the 10-year government bond interest rate as independent variables, all in nominal terms.³

Table B5.1
Correlations using simple regressions

	Regression 1	Regression 2	Regression 3	Regression 4
	Dependent variable: housing loan rate		Dependent variable: 90-day term deposit certificates	
Estimation	OLS	OLS	OLS	OLS
Sample	2003:01-2024:12	2025:01-2026:03	2003:01-2024:12	2025:01-2026:03
MPR	0.25*** (0.03)	0.04 (0.26)	0.84*** (0.01)	0.82*** (0.15)
10-year TES	0.77*** (0.04)	0.79*** (0.19)	0.14*** (0.01)	0.04 (0.11)
n	264	15	264	15
F	505.95	13.67	3633.31	27.64
R2 Adjusted	79.34%	64.41%	96.51%	79.19%

Source: Prepared by the author.

Regressions 1 and 3 examine the period from January 2003 to December 2024. According to regression 1, over this long horizon both the monetary policy interest rate and the public debt interest rate are directly linked to the housing loan rate; in fact, the association with the government bond interest rate is quantitatively greater than with the MPR. Something similar occurs when the term deposit interest rate is used as a dependent variable in regression 3: the policy and government bond interest rates are closely linked to the fixed-term deposit rate, although in this case, the association is stronger with the MPR.

Regressions 2 and 4 focus on the period under study, as shown in the graphical analysis: the 15 months after December 2024. In regression 2, it is evident that the link between the housing loan rate and the policy rate fades in that period, while the link between the MPR and the government debt interest rate continues to show statistical significance (the coefficient estimated for 10-year TES in regression 2 is practically the same as in regression 1). The opposite occurs with the fixed-term deposit rate: the relation between it and the government debt rate disappears in that period, while the relation between the fixed-term deposit rate and the monetary policy rate remains statistically significant, as the MPR coefficient estimated in regression 4 is practically the same as in regression 3.

2 This exercise used the ten-year government bond interest rate, considering it closely aligns with the average term of loan disbursed for home purchases. (see: [https:// www.banrep.gov.co/ en/publications-research/ special-reports-financial-stability/credit-risk-September-2025](https://www.banrep.gov.co/en/publications-research/special-reports-financial-stability/credit-risk-September-2025)).

3 Since the deflators are the same for these three rates, using real interest rates would not alter the regression results.

These correlations are consistent with the concept that, in the current environment, the interest rate on housing loans is more responsive to the government bond interest rate than to the MPR, in contrast to past behavior.⁴ Likewise, the results of the simple regression are consistent with the concept that the fixed-term deposit rate has recently been more responsive to the policy rate. From a macroeconomic standpoint, these results show that the worsening of the fiscal situation has not only made public debt more expensive but also increased the cost of housing loans and the financing of long-term investment projects. From a financial system perspective, fiscal deterioration, by raising the cost of credit (*ceteris paribus*), tends to increase the intermediation margin on loans, thereby increasing the net margin that credit institutions earn. At the same time, the results show that recent adjustments in the MPR have mitigated the increase in those margins, as they are also associated with a recent increase in the deposit rate and, therefore, in the marginal costs of credit institutions.

⁴ These results do not reflect measures of elasticities, as the relationship between various interest rates in the economy involves a more complex dynamic structure that is beyond this descriptive scope. However, the post-2024 disappearance of the correlation between the housing interest rate and the monetary policy rate, and between the deposit rate and the public debt rate, is evidence consistent with the weakening of the link between those rates in the recent period.