Box 1: The transmission of the Monetary Policy Interest Rate and Its Expectations to Certifcate of Deposit and Credit Interest Rates - Report of the Board of Directors to the Congress of Colombia, February 2025

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Pursuant to Article 5 of Law 31 of 1992, the Board of Directors of Banco de la República (the Central Bank of Colombia) submits a report to the Honorable Congress of Colombia, informing about the performance of the economy and its outlook. This report is submitted twice a year, in March and July, within ten business days following the start date of the sessions of the Congress.

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As part of the inflation-targeting framework governing monetary policy in Colombia, *Banco de la República* uses the monetary policy interest rate (MPR) as an instrument. By changing the MPR, *Banrep* induces variations in market interest rates at different terms and in asset prices, thereby influencing spending and investment decisions of households and frms. The mechanisms through which monetary policy decisions affect various economic variables are called monetary policy transmission channels, which ultimately impact growth and inflation. The main channels are the interest rate channel, the credit channel, the exchange rate channel, the asset price channel, and the expectations channel.

This box describes the interest rate and credit channels and highlights the importance of the transmission of changes in the MPR and its expectations to the economy’s interest rates. It also presents some results from estimates for Colombia regarding this transmission to the interest rates on certificate of deposits (CDT) and credit.

Fuente: https://d1b4gd4m8561gs.cloudfront.net/en/publications-research/report-board-directors-congress/box1-february-2025