Box 3: Determinants of Sovereign Debt Interest Rates at Different Maturities - Report of the Board of Directors to the Congress of Colombia - July 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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Interest rates on public debt tend to respond to different determinants, depending on maturity. Since 2024, short-term interest rates on Colombian peso-denominated public debt (TES) have declined in line with the cuts in *Banco de la República's* monetary policy rate (MPR). On the contrary, long-term interest rates have increased, driven by other structural factors. In this context, this box aims to identify the main factors that have driven this increase over the last year and a half. The evidence suggests that the increase in long-term interest rates is mainly due to the deterioration of the country's fiscal outlook.

In general, short-term interest rates are mainly influenced by the MPR and by market expectations regarding its future trajectory. In Colombia, this relationship can be analyzed by breaking down short-term TES interest rates into two factors: market expectations regarding the future course of monetary policy and a compensation for investing over a longer horizon 2. These monetary policy expectations can be mainly derived from surveys, the TES market, or the f inancial derivatives market (swaps)3, with the latter two sources being highly similar (Graph B3.1). Furthermore, the fact that most movements in the interest rates of short-term securities can be explained by these expectations (Graph B3.2) suggests that monetary policy is the main factor driving their performance (Espinosa, Melo, and Moreno, 2014).

Fuente: https://d1b4gd4m8561gs.cloudfront.net/en/publications-research/report-board-directors-congress/box3-july-2025