Working papers economics - The Regional Effects of Monetary Policy in Colombia

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The same monetary policy rate decision does not have uniform effects across regions of the country. Regions experiencing larger declines in inflation also tend to exhibit more pronounced slowdowns in economic activity and employment. This finding suggests that regional heterogeneity primarily reflects differences in the responsiveness of local demand to interest rate changes, rather than variation in the slopes of regional supply curves.

Publication Date: Monday, 21 of September 2026 **Approach**
This paper studies the regional heterogeneity of the effects of monetary policy in Colombia on inflation, economic activity, and employment. To do so, it uses three measures of monetary policy shocks: the difference between the Banco de la República's policy rate decision and the expectations of analysts surveyed by Bloomberg, a narrative measure based on the Bank's internal projections, and a high-frequency measure based on financial market movements around each policy decision.

Using these measures, the authors estimate impulse response functions for each city and department over the period 2008-2025. They also assess whether regional differences in the effects of monetary policy arise from variations in the sensitivity of regional demand to monetary policy or from differences in the slope of the supply curve across regions. In addition, they explore four potential determinants: sectoral composition, financial depth, trade openness, and labor market informality.

Contribution
Monetary policy in Colombia operates at the national level through the policy interest rate. However, regions differ in their productive structure, financial development, exposure to international trade, and degree of labor informality. As a result, a given monetary policy shock may have different effects across territories.

This paper provides novel evidence for Colombia using three monetary policy shock identification strategies that are considered state of the art in the literature. The findings may help inform the design of regional fiscal policy tools that complement national monetary policy.

Results
An increase in the policy interest rate reduces inflation, economic activity, and employment across all regions of Colombia, although the magnitude of these effects differs considerably.

Regions experiencing the largest declines in inflation are also those facing the largest reductions in economic activity and employment. This suggests that regional heterogeneity is driven primarily by differences in the sensitivity of local demand rather than by differences in the slope of the local supply curve.

Mining-intensive departments exhibit the strongest contractions in economic activity, whereas departments with agricultural or more diversified economic structures display more moderate responses. Departments with bank credit levels above their historical trend, greater integration into international trade, and higher levels of labor informality experience additional declines in economic activity, employment, and inflation. These results are robust across the three monetary policy shock identification strategies used in the analysis.

Fuente: https://d1b4gd4m8561gs.cloudfront.net/en/publications-research/working-papers-economics/regional-effects-monetary-policy