The 90-Day DTF Interest Rate: Why Does It Remain Constant?

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The 90-day DTF rate is the main benchmark interest rate in Colombia. Since mid-July 2002 this rate has remained more or less constant at around 7.8 percent. More importantly, it did not react to any of two 100-basis-point increases in the overnight repo rate, the main tool of monetary policy that Banco de la República has to influence domestic interest rates, which has rendered the repo rate rather inefficient as a monetary policy tool. This paper studies the DTF rate and its development over time. It shows that a significant pass-through from the overnight interest rates to the DTF rate that was present before July 2002 thereafter seems to have vanished. It also provides a number of explanations to why the DTF rate has remained constant: Overnight rates have in real terms been negative and might, therefore, have been more out of the market than the DTF rate; due to heavy government borrowing, the yield curve has been too steep to allow a further lowering of the DTF rate; competition in the financial system is low, leading to sticky interest rates; the DTF rate is not a free-market auction rate but an offer rate set by the banks; and the DTF rate is a very dominant benchmark.

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