BanRep Blog: The Changing Relationship Between the Benchmark Policy Rate and Mortgage Rates in Recent Times

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In recent discussions about Colombia's macroeconomic environment, the weakening relationship between *Banco de la República's* (the Central Bank of Colombia) monetary policy rate (MPR, or the benchmark policy rate) and market interest rates has received comparatively little attention. Indeed, in recent months, yields on government bonds have exerted a stronger influence on long-term lending rates set by financial institutions, a development that has often gone unnoticed.

To illustrate this phenomenon, Graph 1 shows the behavior of average interest rates on 90-day term deposits (CDT for its Spanish acronym), the MPR, the ten-year government debt securities yield, and the average interest rate of home purchase loan disbursements (mortgages) from February 2023 onward. The graph displays nominal interest rates, which represent the annual financial cost per 100 pesos.

Graph 1. Nominal interest rate

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

The graph shows that the average interest rate on 90-day term deposits in the financial system (90-day CDT rate) closely tracked the MPR. However, the interest rate on housing loans (mortgages) follows a different path. During 2023 and 2024, the mortgage rate fell, mirroring the MPR's downward trajectory and coinciding with a significant decline in inflation. Since the end of 2024, despite the continued decrease in the MPR, the mortgage rate stabilized; once it was surpassed by the interest rate on 10-year government bonds, the mortgage rate began to rise rapidly, closely tracking the 10-year government debt securities yield rather than the MPR.

It is important to underscore that, in the current scenario, the 10-year government bond yield is no longer in lockstep with the MPR. Both the interest rate on government bonds and the mortgage rate increased significantly throughout 2025, long before the BanRep raised its MPR. In fact, the steep increase in the MPR in 2026 did not appear to affect the mortgage rate, which continued to track the 10-year government bond yield closely. Note that the mortgage rate only starts to closely track the government bond yield once the latter surpasses it. This fact explains the disconnect with the MPR: when interest rates on government bonds exceed the loan interest rate, lenders will generally require returns comparable to those available on government bonds before extending long-term loans. This compensates the financial system for the opportunity cost of allocating depositors' funds to loans rather than investing in government bonds.

The conclusions drawn from this graph are corroborated by a simple regression analysis. Table 1 presents the results of two regressions that use the mortgage rate as a dependent variable and the MPR and the 10-year government bond yield as independent variables, all in nominal terms. The coefficients in the table indicate the estimated effect of each independent variable on the mortgage rate. The asterisks next to them indicate which of these relationships are statistically significant.

Regression 1 studies the period from January 2003 to December 2024. Over this long horizon, both the MPR and the government bond rate yield are directly linked to the mortgage rate (in fact, the effect of the government bond interest rates was quantitatively greater than that of the MPR). Regression 2 focuses only on the following fifteen months: from January 2025 to March 2026. During this time, the relationship between mortgage rates and the MPR weakened considerably, while the relationship between mortgage rates and government bond rates remains strong and statistically significant (the estimated coefficient, 0.79, is nearly the same as in regression 1, 0.77).

This result indicates that the deterioration of the fiscal outlook not only increases the cost of servicing government debt but also raises the cost of mortgages and long-term investment financing across the economy.

Table 1. Results of simple mortgage rate regressions compared to the BanRep benchmark rate and the 10-year government bond rate

Note: OLS is the acronym for ordinary least squares, which is the simplest and most commonly used econometric method for estimating regressions, where **n** is the number of observations (sample size); the **F-statistic** helps determine the level of association between the independent variables and the dependent variable; and the **adjusted R^2** indicates what percentage of the change in the mortgage rate is explained by the model. **Source:** BanRep's calculations.

These correlations are consistent with the notion that, in recent times – as exemplified in regression 2 – the mortgage interest rate is more responsive to government bond yields than to the MPR, in contrast to the historical behavior illustrated in regression 1)1. This result indicates that the deterioration of the fiscal outlook not only increases the cost of servicing government debt but also raises the cost of mortgages and long-term investment financing across the economy.

An extended version of this analysis can be found in Box 5 published in the April 2026 Monetary Policy Report, "Recent Shifts in Interest Rate Dynamics in the Colombian Economy".

1 ? It is worth clarifying that 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 disappearance of the correlation between the mortgage rate and the benchmark rate after 2024 is consistent with a weakening association between those rates in recent years.

Relevant Economic Concepts

- Benchmark interest rate
  - The interest rate at which *Banco de la República* lends to or borrows from financial institutions, generally for a one-day term. This rate is *Banco de la República*'s main policy instrument. Also referred to as the monetary policy interest rate (MPR) or the intervention rate.
- Mortgage interest rate
  - The interest paid by households on home purchase loans; it represents the annual cost of financing a house or apartment through the financial system. Also referred to as the home purchase loan interest rate.
- Public debt
  - The money a government borrows to cover its expenses when its own collected income, such as taxes, is insufficient.
- Government bonds
  - They are debt instruments issued by the government. In Colombia, the best-known are the TES (Treasury Securities). They are traded on the financial market and have different terms and interest rates (fixed or variable).
- Government bond interest rate

    - The interest paid by the government to the buyers of public bonds.
- Correlation
    - A statistical measure that assesses the relationship between two variables and the direction of their movement, without implying that one causes the other. If both go up or down concurrently, they are said to have a positive correlation; if one goes up and the other goes down, they are said to have a negative correlation; and if there is no clear relationship, then they have a null correlation.
- Regression
    - Regression is a statistical tool used to analyze and measure how changes in one variable influence another. It involves selecting a dependent variable, which is the one to be explained, along with one or more independent variables, to assess whether they account for changes in the dependent variable.
- Fixed-term deposit rate (DTF for its Spanish acronym)
    - The fixed-term deposit rate is the average of the interest rates that banks and other financial institutions in Colombia pay on 90-day fixed-term deposits (CDT for its Spanish acronym). In other words, it measures how much financial institutions pay individuals or companies to save their money for a fixed term.

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Related Questions and Answers

How do the benchmark rate, the 90-day CDT rate, the mortgage rate, and the 10-year government bond rate move relative to each other?

The average interest rates of the 90-day CDTs (DTFs) closely track the behavior of *Banco de la República's* benchmark rate, indicating a direct and stable relationship between the two over the period analyzed. However, the interest rate on home purchase loans (mortgage rate) has followed a different path: during 2023 and 2024, this rate mirrored the benchmark rate's downward trend, but as of year-end 2024, even as the benchmark rate continued to fall, the mortgage rate stabilized and began to rise when it was surpassed by the ten-year government yield, following closely behind.

Why did the mortgage interest rate stop following the benchmark rate as of the end of 2024?

As of the end of 2024, the interest rate on ten-year government bonds exceeded the benchmark rate and the mortgage rate. From that moment onward, the mortgage rate began to rise, closely following that of government bonds, because mortgages must offer returns at least comparable to those of government bonds for them to remain attractive for potential lenders. In other words, when the interest rate on government bonds exceeds that of loans, lenders must charge borrowers at least the equivalent of the government yield in order for loans to remain a competitive use of their funds compared to government bond purchases.

How is the relationship between these three rates (benchmark, mortgage, and government bonds) analyzed in this blog?

First, a graphical analysis is performed to illustrate the relationship across different time periods. Regressions are then run to determine whether a strong statistical relationship exists between the rates. Both assessments demonstrate that, over the extended period under evaluation (2003-2024), the mortgage rate behavior is associated with both the benchmark rate and the government bond rate; however, in the most recent period (2025-2026), its relationship with the benchmark rate disappears, while its relationship with government yields continues.

What is the key economic implication of the relationship between the mortgage rate and the government bond rate?

In the most recent interval, the mortgage rate has been more responsive to the government bond rate than to the benchmark rate. Given the recent deterioration in the fiscal situation, the most significant implication of this association is not only that servicing government bonds becomes more expensive, but also that the cost of mortgage loans and financing for long-term investment projects rises.

Fuente: https://www.banrep.gov.co/en/blog/relationship-benchmark-policy-rate-mortgage-rates