Working Papers Economics - Collateralized Liquidity Interest Rate: A New Measure of the Overnight Price of Money

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Publication Date: Friday, 18 of September 2026 **Approach**
Short-term interest rates are important because they serve as the starting point for the determination of other interest rates in the economy. For this reason, several countries have recently sought to strengthen their calculation methodologies to ensure they meet transparency and market representativeness standards and accurately reflect the money markets they are designed to measure.

In line with these efforts, this paper proposes the application of a clustering algorithm to make use of information from the largest trading segment of the Colombian money market, the collateralized segment, in order to derive an interest rate that reflects the overnight price of money and offers certain advantages over existing benchmark rates. Compared with other indicators available in Colombia, such as the one-day Interbank Rate (TIB) and the overnight Bank Reference Indicator (IBR), the proposed rate, the Collateralized Liquidity Interest Rate (LICA), captures the dynamics of a market with significantly higher daily trading volumes, making it less vulnerable to collusion and manipulation concerns.

Contribution
The clustering algorithm presented in this paper could be applied to strengthen the calculation of benchmark rates in other countries by making use of information from the collateralized segment of the money market. As such, the paper contributes to the international discussion on more robust money market benchmark rates, supports the monitoring that central banks must undertake to ensure the effective implementation of monetary policy under an inflation-targeting framework, and facilitates future research requiring the identification of transactions associated with liquidity demand or securities demand within the collateralized segment of the money market.

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Results

The proposed Collateralized Liquidity Interest Rate (LICA) is calculated using daily transaction amounts that are more representative of the money market than those underlying the overnight IBR. Between 2025 and January 2026, the overnight IBR was calculated using average daily transactions of COP 0.8 trillion, whereas the proposed rate was based on average daily transactions of COP 6.1 trillion over the same period.

In addition, the LICA rate shares desirable features with the IBR framework, such as mitigating counterparty risk premiums. This is because the rate is derived from a blind trading system with no counterparty limits, involving participants and collateral with similar characteristics. Likewise, LICA allows each participating institution to exert a differentiated influence on the rate according to its trading volume, in contrast to the equal weighting scheme used in the overnight IBR.

Compared with the methodologies used to calculate SOFR and CORRA, the current benchmark rates in the United States and Canada money markets, the methodology proposed in this paper offers the advantage of identifying and excluding transactions associated with securities demand based on the information available each day, rather than relying on a fixed parameter.

Fuente: https://www.banrep.gov.co/en/publications-research/working-papers-economics/collateralized-liquidity-interest-rate