[Working Paper No. 431]

Keep in mind

Autor o Editor
Hernando Vargas Herrera

The Colombian economy experienced several shocks in the past ten years. The permanent fall of inflation, the adoption of inflation targeting (IT) and a financial crisis altered the transmission mechanism of monetary policy. Low inflation and IT reduced inflation persistence and contributed to anchor inflation expectations. The evidence is less conclusive with respect to the changes of the responsiveness of inflation to domestic conditions (output or marginal cost gaps). Increased competition may have encouraged a higher degree of price flexibility, but a more stable inflation environment may have raised the sensitivity of aggregate supply to inflation surprises. The short-run money-inflation relationship was broken in the presence of low inflation, exogenous shocks to the demand for money and a policy regime that stabilized short-run interest rates. The sensitivity of aggregate demand to the interest rate varied with the indebtedness of private agents and the credit channel was severed after the financial crisis. The IT regime implied a stabilization of short-run interest rates, making the monetary policy stance and objectives clearer to the public. However, interest rate pass-through appears to be incomplete and seems to respond to the varying importance of the credit channel and the general state of the economy.

La serie Borradores de Economía es una publicación de la Subgerencia de Estudios Económicos del Banco de la República. Los trabajos son de carácter provisional, las opiniones y posibles errores son responsabilidad exclusiva del autor y sus contenidos no comprometen al Banco de la República ni a su Junta Directiva.