

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.

Autor o Editor

Javier Gomez, Juan Manuel Julio

Colombia has been on a steady disinflation path since the early 1990s. The paper presents a model of the transmission mechanisms of monetary policy in Colombia, in order to examine this disinflation. The model is used to describe the evolution of inflation in response to shocks to the terms of trade, the risk premium, across different monetary policy rules; and in particular, under different assumptions about the formation of inflation expectations. We then illustrate the behaviour of the economy under a permanent shift to the inflation target and quantify the sacrifice ratio under different kinds of formation of inflation expectations. This helps us to judge to what extent the shift towards a more forward-looking wage and price setting affects the disinflation process and its cost. Finally, we estimate the welfare gains from disinflation and provide a inflation forecast for Colombia.