



# Monetary Policy and the Exchange Rate in Colombia

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The role of the exchange rate and the exchange rate regime in the monetary policy decision-making process in Colombia is described. The rationale for the intervention of the Central Bank in the FX market is explained and the experience in this regard is reviewed. Special attention is given to the seemingly varying effectiveness of different types of intervention and to the challenges posed by the sterilization of purchases of foreign currency. The exchange rate regime, FX regulation and FX policy determine the resilience of the economy in the face of external shocks and allow for the possibility of countercyclical monetary policy responses. A virtuous circle is created in which the volatility present in a flexible exchange rate regime improves the conditions for the functioning of a flexible exchange rate regime.