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The assessment of inflationary pressures in Colombia has faced two important challenges in the present decade. The first one occurred in 2006 and consisted of detecting an overheating economy in the midst of fast growing investment and increasing measured productivity. The second challenge took place in 2007-2008, when the economy was hit by a number of supply shocks and core inflation indicators sent diverging signals about the transmission of those shocks to macroeconomic inflation. An evaluation of the first episode shows that traditional indicators of productivity and unit labor costs were not sufficient to identify supply and demand movements. Thus, policymakers had to rely on a wider array of variables to gauge the state of the economy. Regarding the second episode, an evaluation of core inflation indicators according to standard criteria suggests that no particular measure seems to be clearly superior to the others. Hence, the assessment of inflationary pressures should not rely only on one or few core inflation indicators, since some signals could be picked by some measures and not by others. Moreover, this result suggests that the analysis of core inflation measures must be complemented with a careful examination of the persistence of the shocks and a close monitoring of their impact on inflation expectations. It is found that the latter are formed on the basis of past inflation, but that the inflation target also plays a role. In addition, inflation expectations partially move with supply shocks, an outcome that reflects a degree of credibility of monetary policy.

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