Essays on Economic Policy (ESPE in Spanish) - Colombia‘s Recent History of Monetary Policy from 1990 to 2010

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This article presents a reconstruction of the history of Colombia’s central bank’s (Banco de la Republica) monetary policy between 1990 and 2010, during which explicit inflation targeting was adopted by October of 2000. To do so we developed a theoretical modified Taylor rule with interest rate smoothing for an open and small economy and accordingly estimated a two regime Markov switching model which allowed the switching dates to be endogenously determined. We found that one regime had explicit inflation targeting (from the year 2000 to 2010), whereby the inflation rate became a stationary series consistent with our empirical finding that Banco de la República enforced a monetary policy that satisfied more likely the Taylor principle. This inflation stabilizing regime did present itself in some quarters before the year 2000, but not as the predominant regime. The other regime was more prevalent during the 1990s, but did not satisfy the Taylor principle as it allowed a unit root behavior of the inflation rate. Finally, we found no evidence that Banco de la República changed its behavior in terms of output fluctuations during the period studied.

Fuente: https://www.banrep.gov.co/en/publications-research/espe/reconstructing-colombias-recent-history-of-monetary-policy