

Essays on Economic Policy (ESPE in Spanish) - Output Gaps and Stabilisation Policies in Latin America: The Effect of Commodity and Capital Flow Cycles

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AUTHOR OR EDITOR Enrique Alberola Rocio Gondo Marco Lombardi Diego Urbina AUTHORS AND/OR EDITORS Rocio Gondo Marco Lombardi Diego Urbina Publication Date: Sunday, 30 of April 2017 Abstract We provide a measure of the output gap that filters out the impact of the commodity and net capital inflows booms for Latin American countries. These two factors temporarily boost output and so are likely to push up estimates of potential growth in the region to unrealistic levels, thereby resulting in an underestimation of the output gaps during the upswing of the commodity cycle. We also shed light on the interaction between the two components. The results show that commodity prices have been the dominant factor explaining deviation of activity from sustainable levels. A timely consideration of these factors could prevent a procyclical fiscal policy bias in the region.