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In 1995, when contagion from the tequila crisis was spreading in Latin America, both Chile and Colombia were exempt from contagion and presented high rates of economic growth. Several analysts attribute this positive performance to the fact that both had undertaken prudential measures to avoid excessive exposure to short term capital flows and pressures towards excessive real exchange rate appreciation: Both countries were using a reserve requirement on short term foreign indebtedness, crawling-bands, and other instruments for reducing domestic vulnerability to capital flows.

The parallelism between Chile and Colombia continued after the Asian crisis. In this period, despite the fact that short-term liabilities represented only a small share of foreign debt in both countries, vulnerability to the international financial crisis was high. In both, real interest rates rose sharply in 1998 and GDP growth was negative in 1999.

The similarities between Chile and Colombia, however, do not go much farther. During the 1990s, GDP growth rates were very high in Chile while in Colombia they were below historical standards. Chile had fiscal surpluses and high private savings, while in Colombia there was a rapidly increasing fiscal deficit and falling domestic savings. This paper presents a comparative analysis of the macroeconomic policies of Chile and Colombia during the 1990s, in particular the exchange rate regimes, the capital account regulations, and the gestation and management of financial crises.