



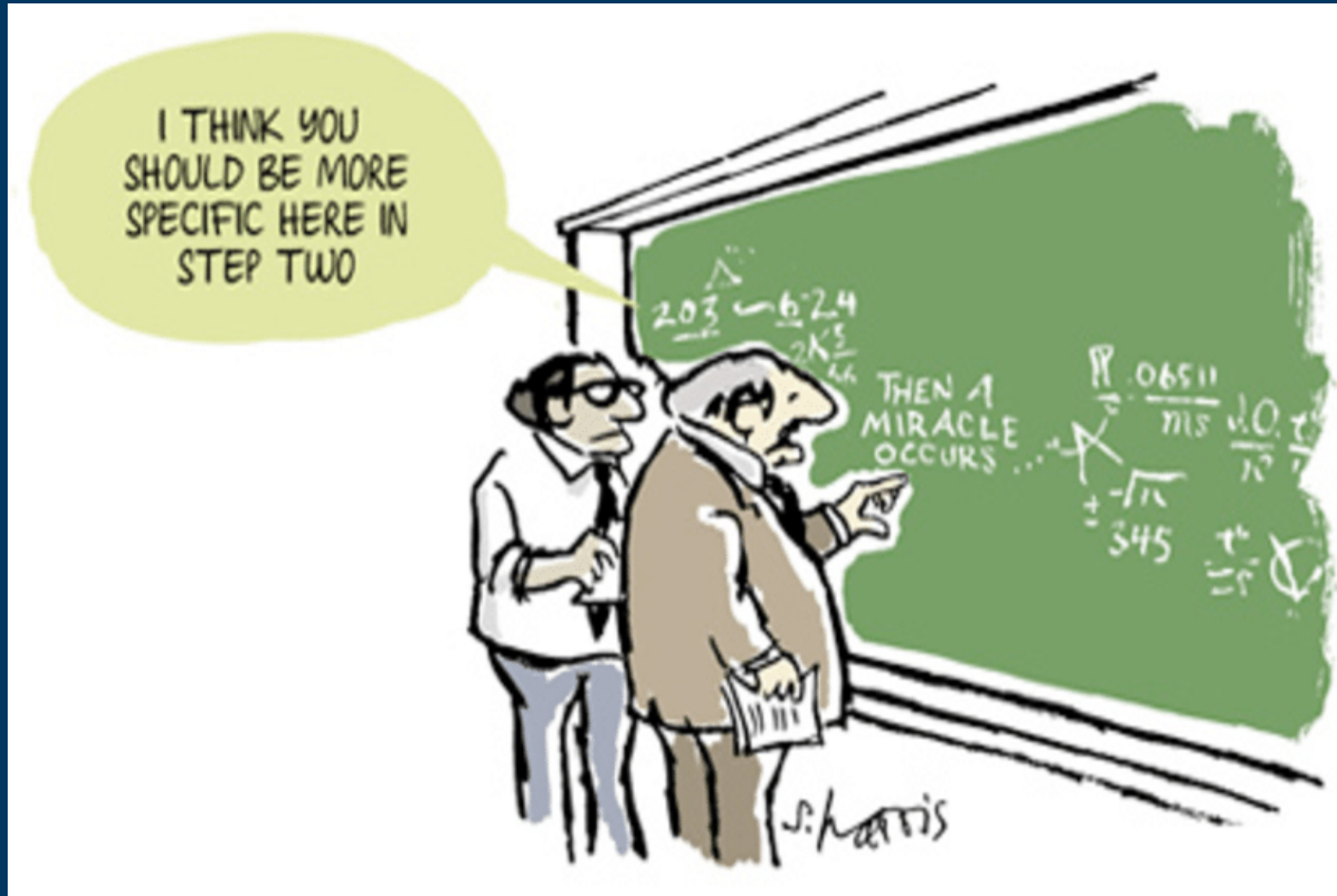
Transmission Mechanisms: Some Challenges

Jaime Jaramillo-Vallejo

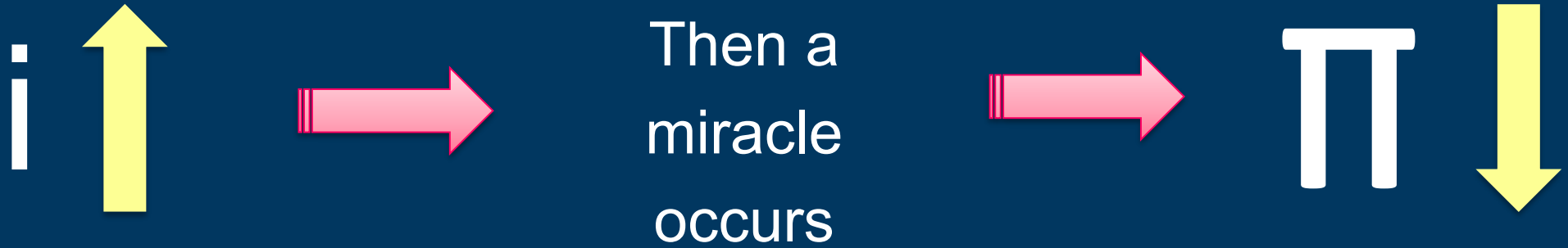
Independent Governing Board Member

November 25, 2022

AN OLD JOKE:



AN "IT" JOKE:



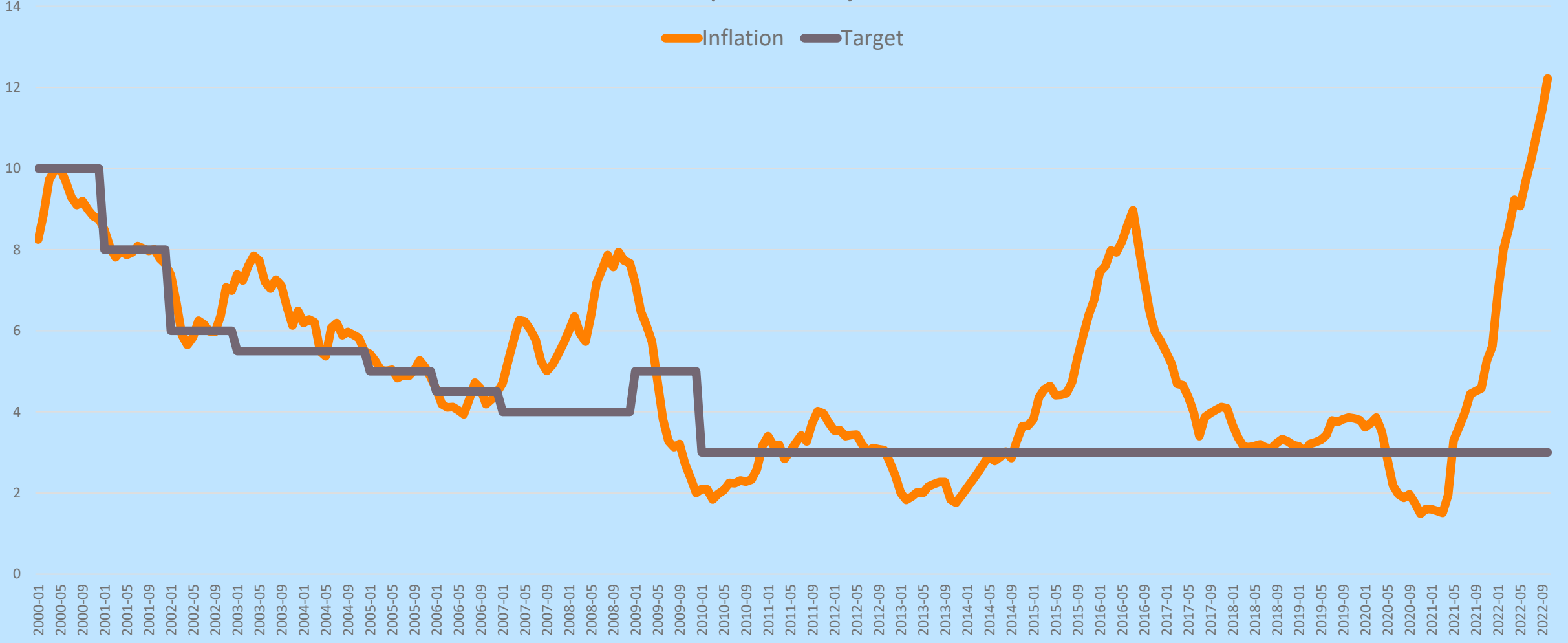
THREE IMPORTANT POINTS:

- Inflation targeting (**IT**) has been **very successful in delivering price stability**
- The **transmission mechanisms** of IT are **complex**
- **Transmission mechanisms** are **imperfect** and may **take time**

DELIVERING PRICE STABILITY

11/2022

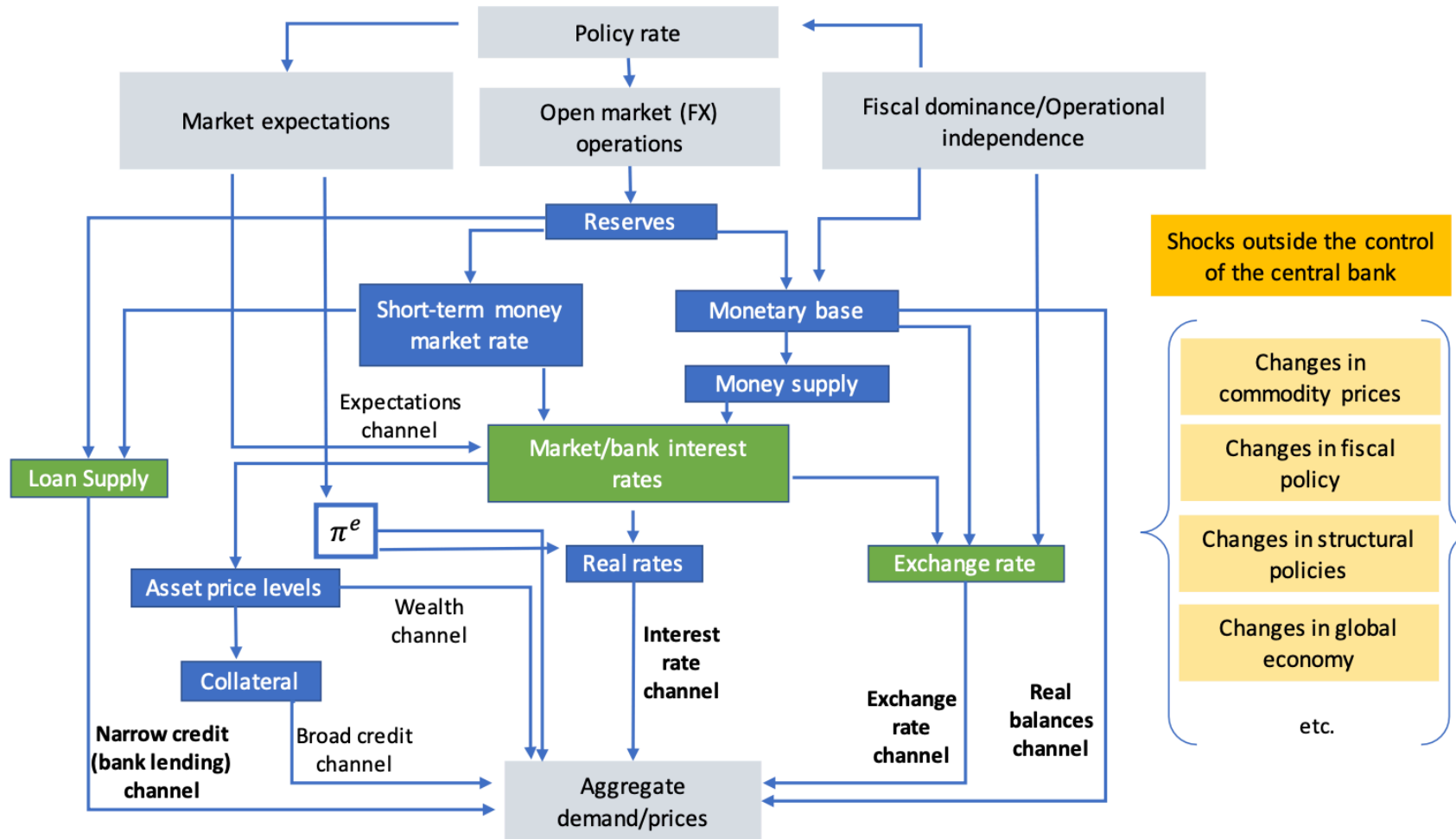
Colombia: Inflation & Inflation Target (Percent)



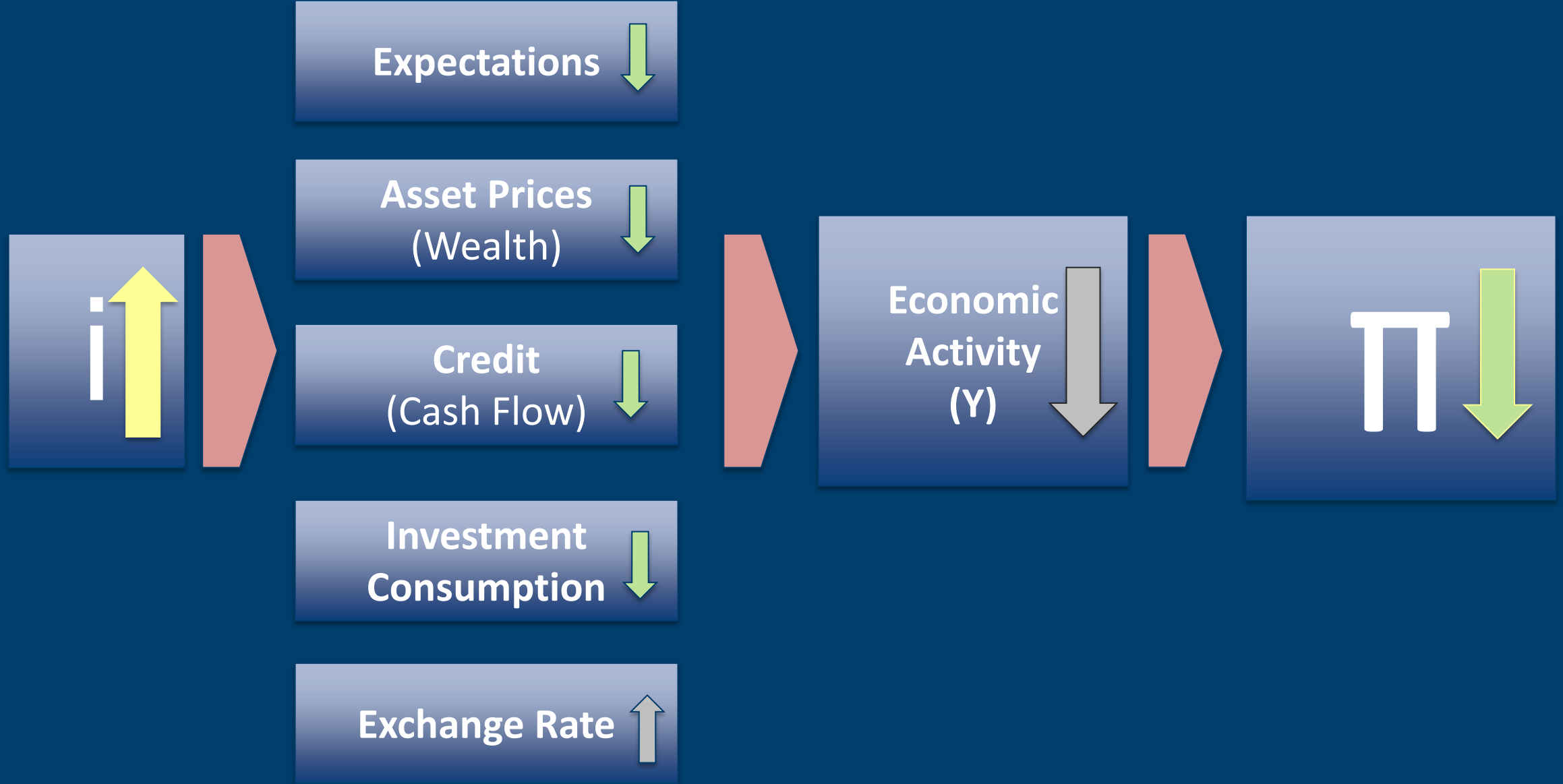
Source: Banco de la República

COMPLEXITY

Figure 1. Channels of Monetary Transmission



SIMPLIFYING:



CHALLENGE 1: **MARKETS & INSTITUTIONS**

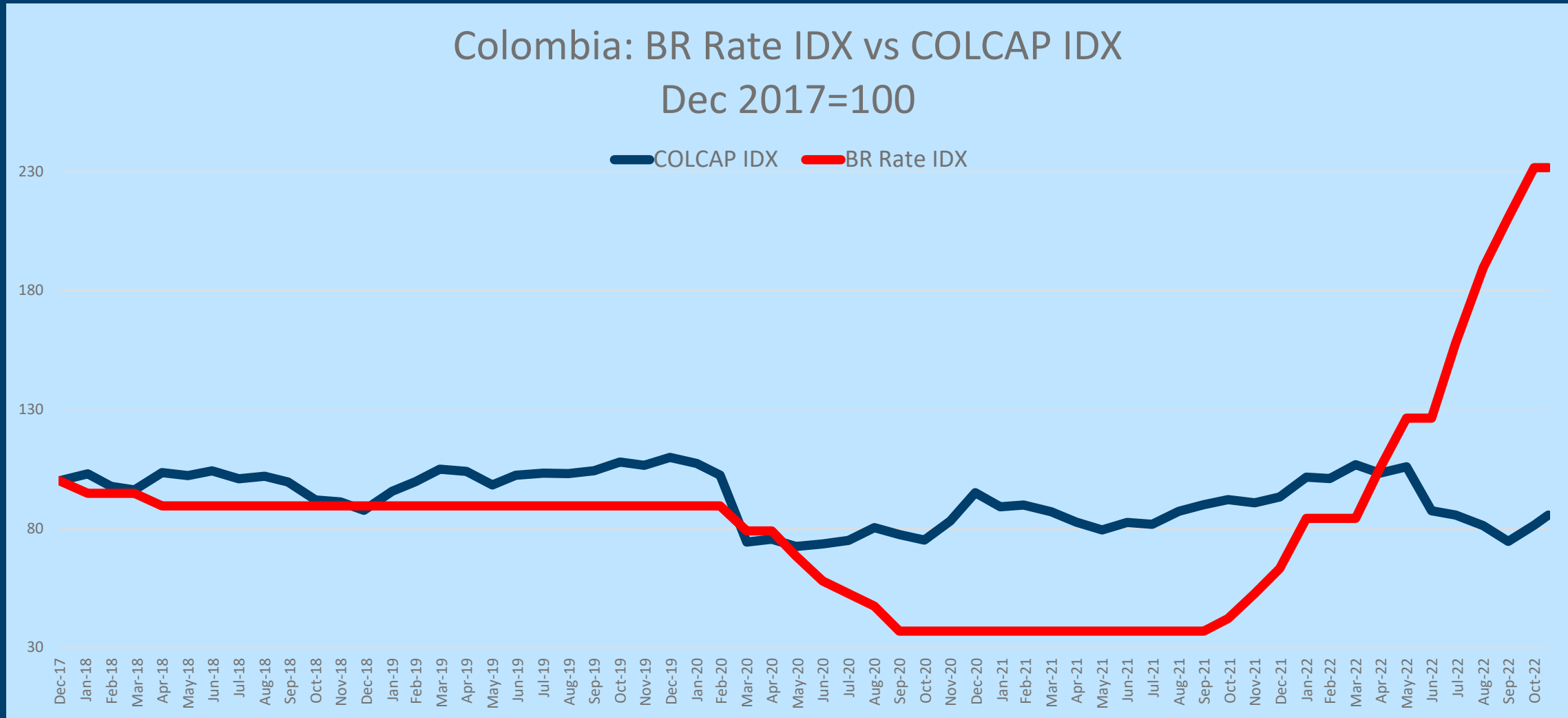
- **Basic assumption:** that **markets and the institutions** that run them **are there and work efficiently**
- Examples of **markets:**
 - An **interbank (money)** market
 - A **capital** market—private and public papers
 - A **foreign exchange** market
- Examples of **institutions:**
 - **Central bank** that is independent and can set its own policies
 - A competitive **banking system**
 - **Institutional investors**

CHALLENGE 2-A: **ASSET MARKET IMPERFECTIONS**

Two major **financial** assets markets in Colombia:

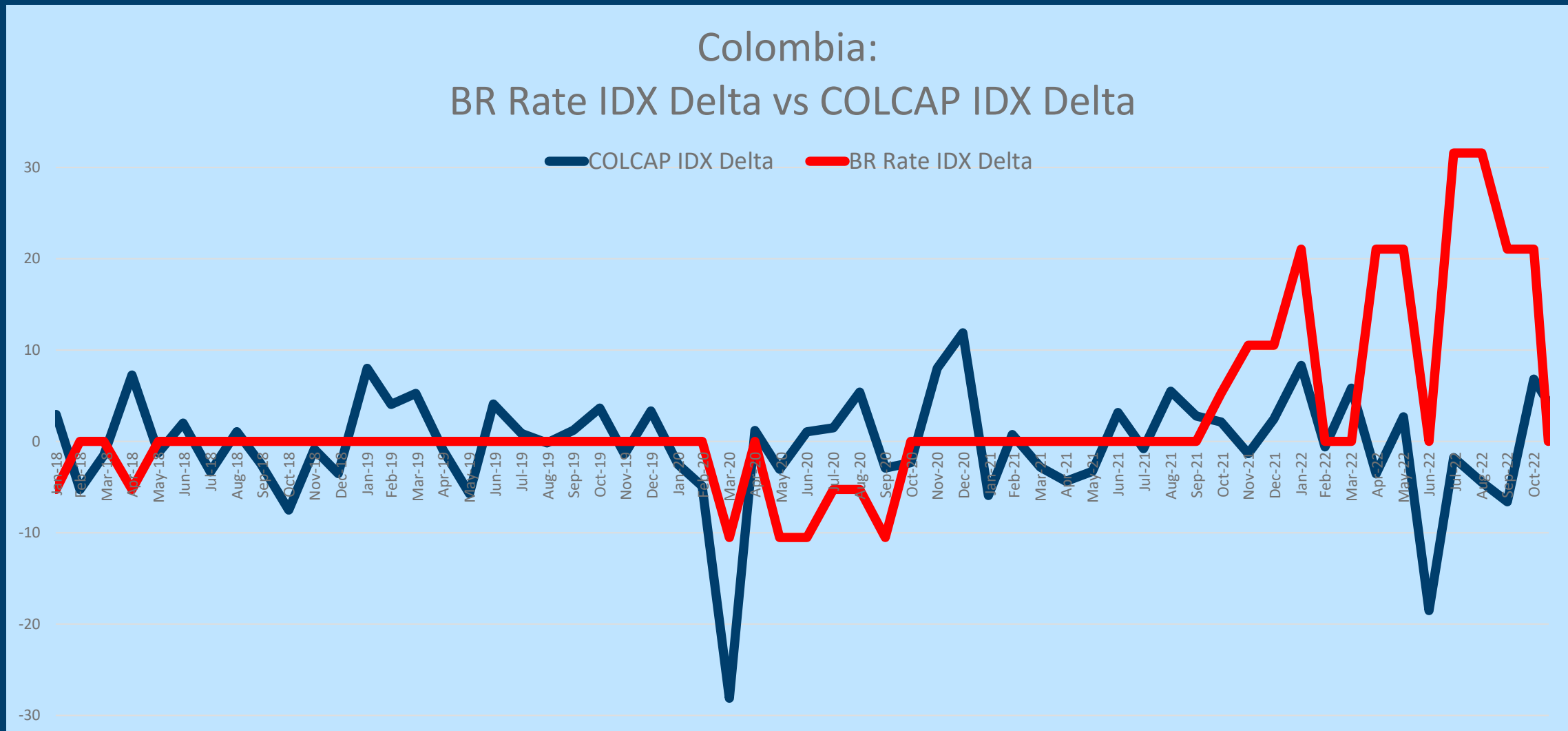
- **Stock Exchange:** stocks, private bonds mostly (COLCAP)
(3% to 4% of GDP)
- **TES Market:** government bonds: (38% of GDP)
 - **Foreign investors** take part (26% of stock)
 - **Pesos and UVR (indexed bonds)**
 - **Different maturities**

CHALLENGE 2-B: ASSET MARKET IMPERFECTIONS -- STOCK MKT



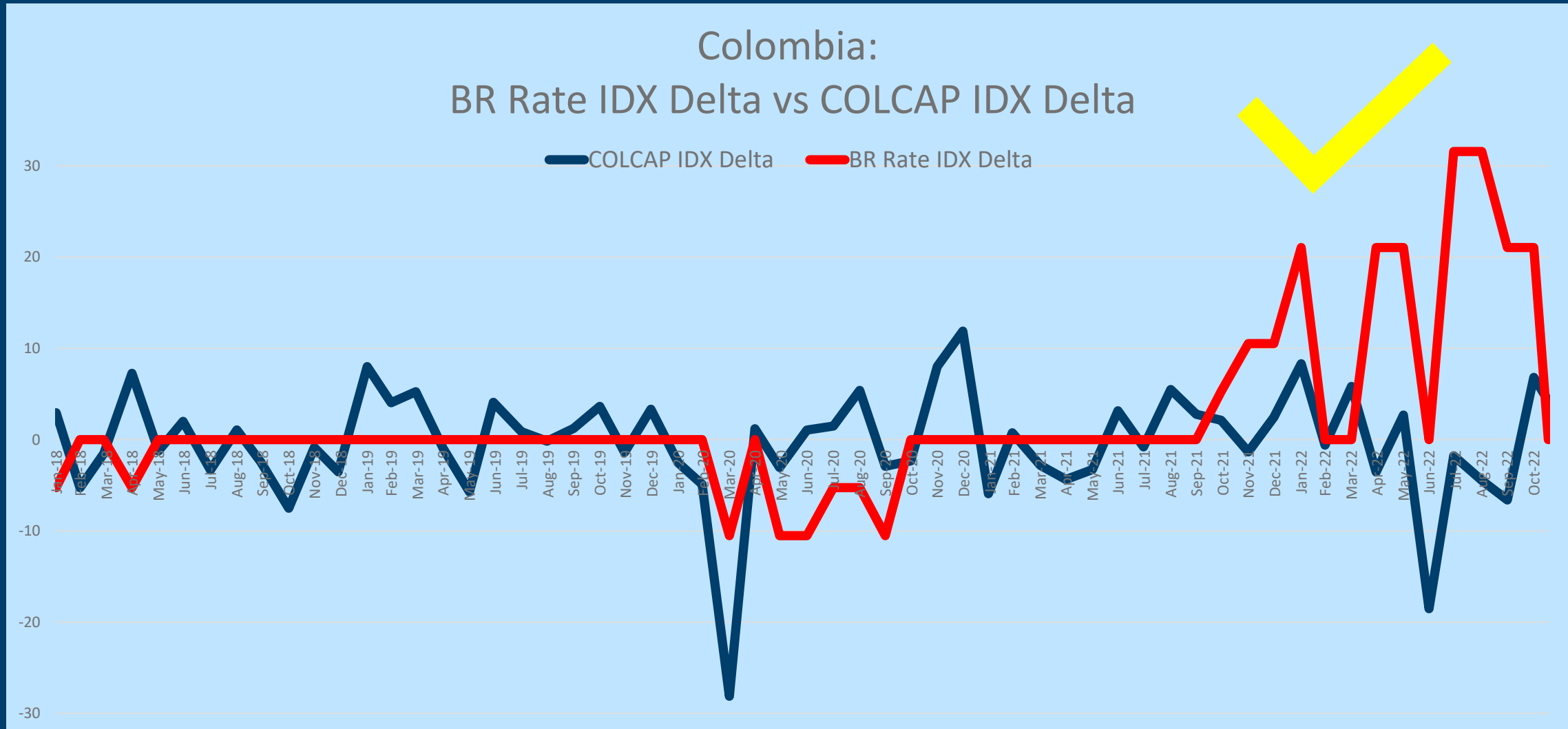
Source: Banco de la República

CHALLENGE 2-C: ASSET MARKET IMPERFECTIONS -- STOCK MKT



Source: Banco de la República

CHALLENGE 2-C: ASSET MARKET IMPERFECTIONS -- STOCK MKT

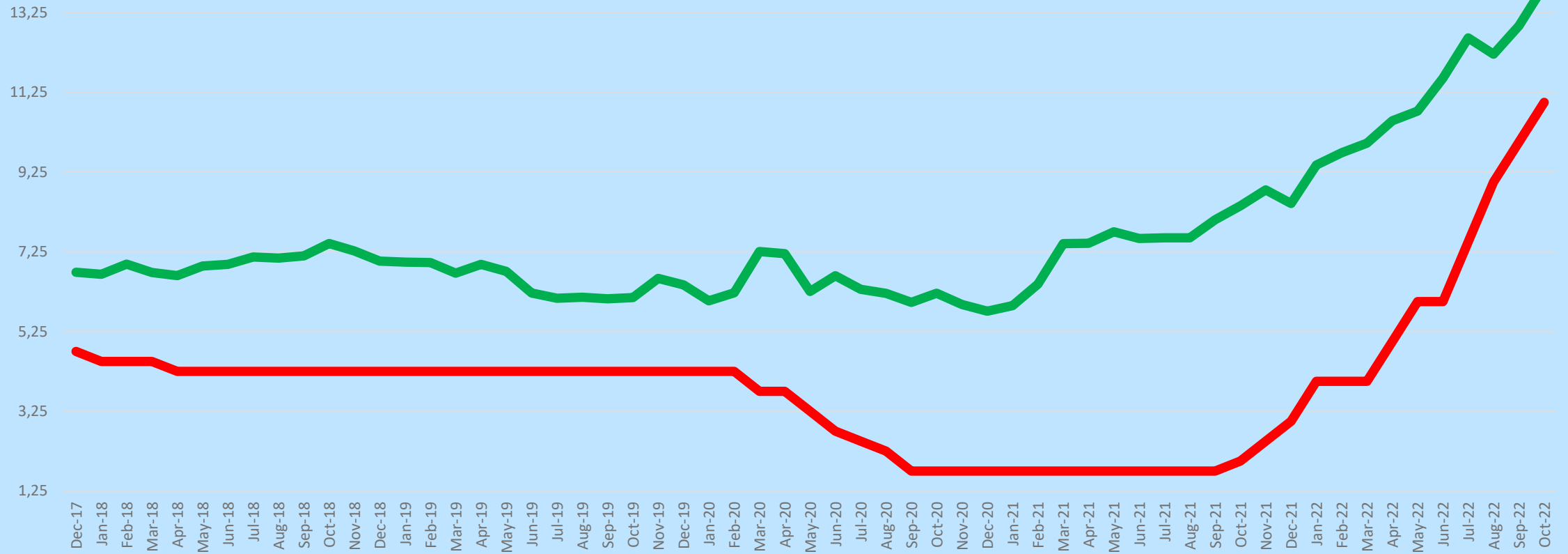


Source: Banco de la República

CHALLENGE 2-D: ASSET MARKET IMPERFECTIONS – TES MKT

Colombia: TES 10 vs BR Rate (Percent)

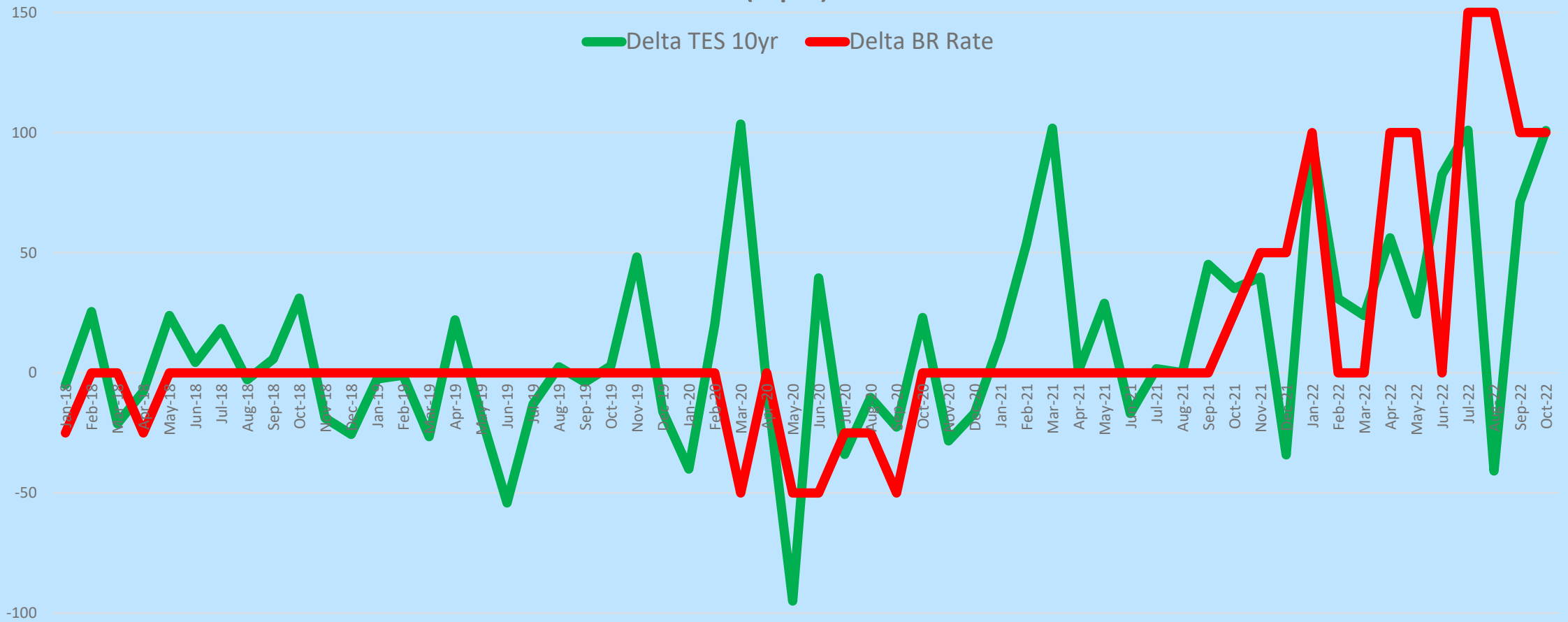
TES 10yr BR Rate



Source: Banco de la República

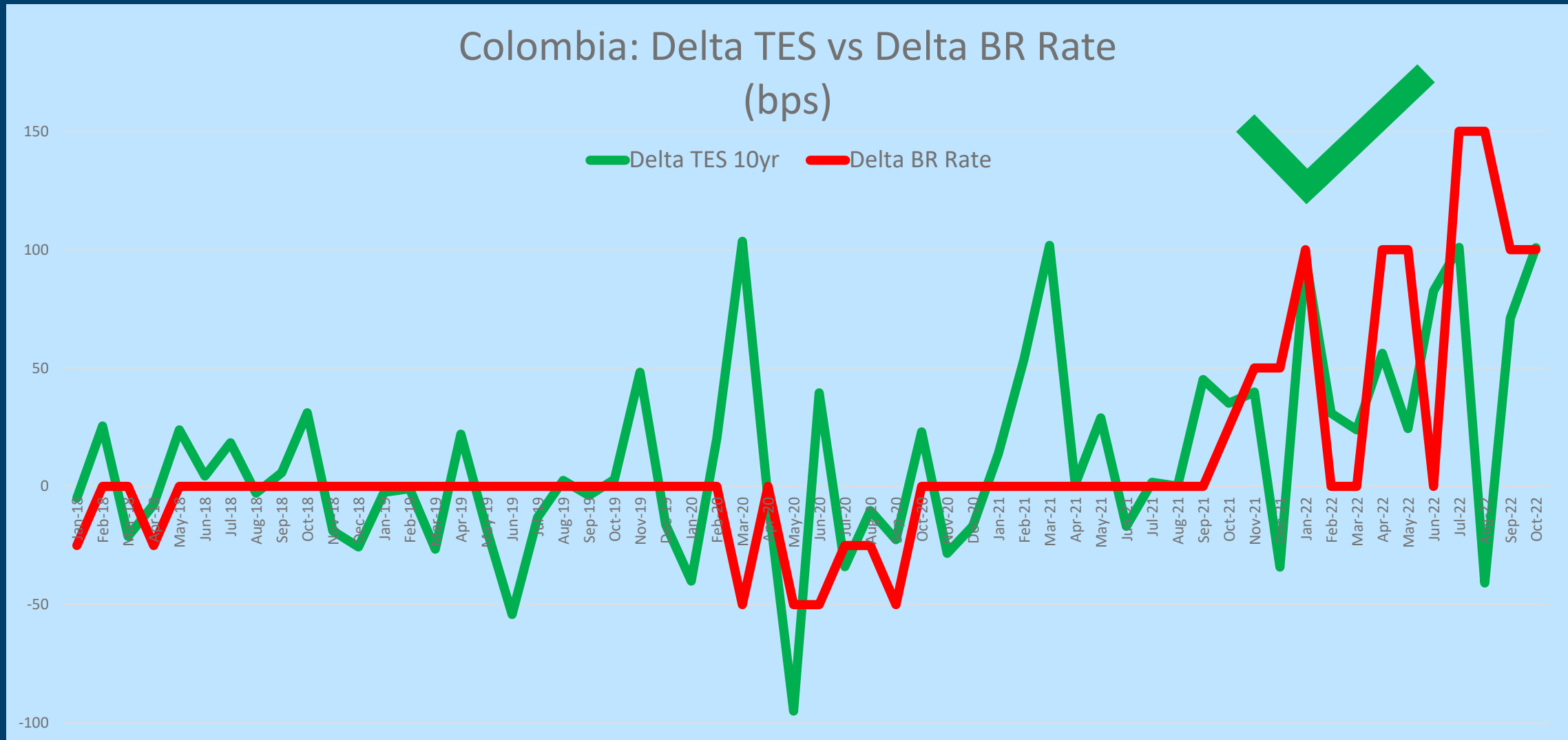
CHALLENGE 2-E: ASSET MARKET IMPERFECTIONS – TES MKT

Colombia: Delta TES vs Delta BR Rate (bps)



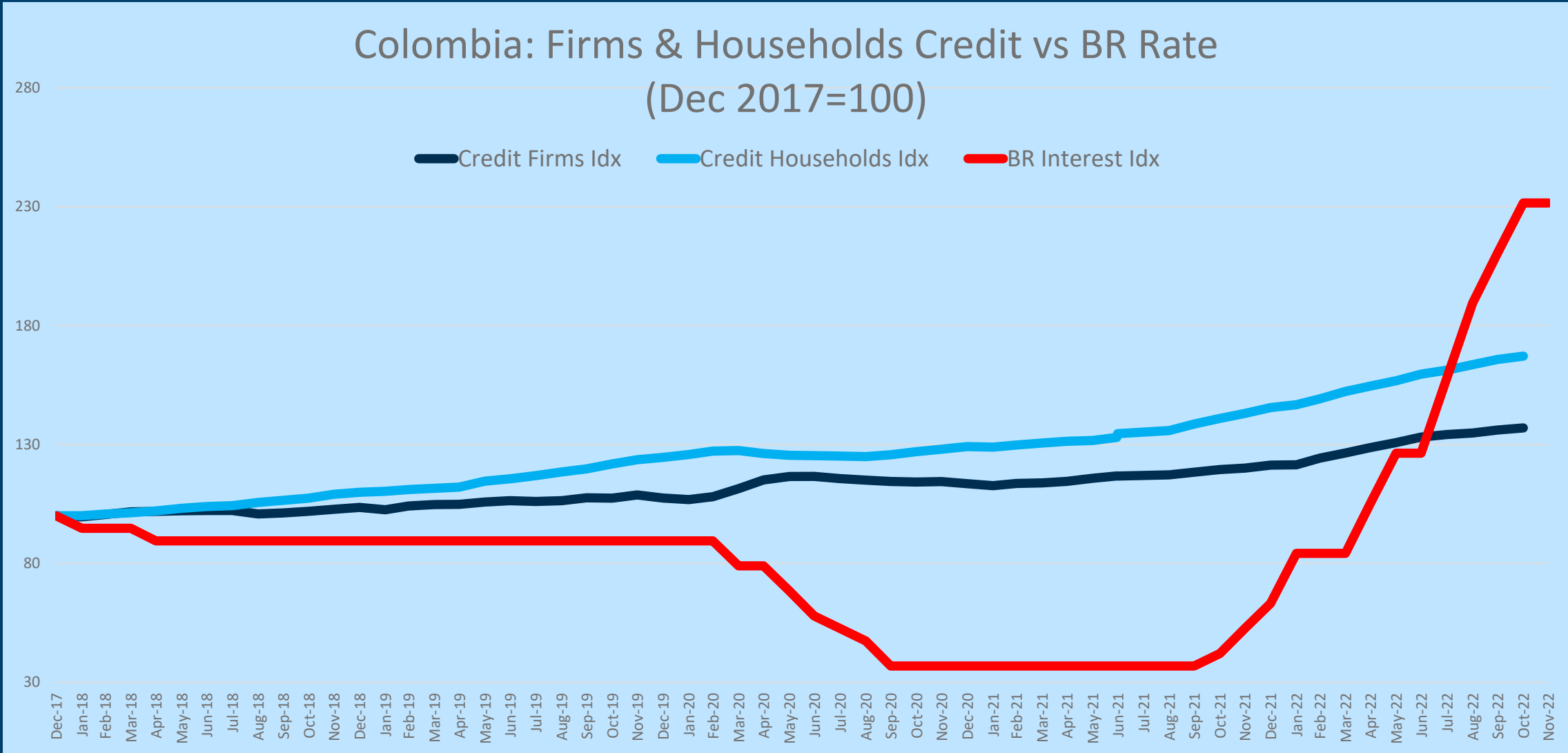
Source: Banco de la República

CHALLENGE 2-E: ASSET MARKET IMPERFECTIONS – TES MKT



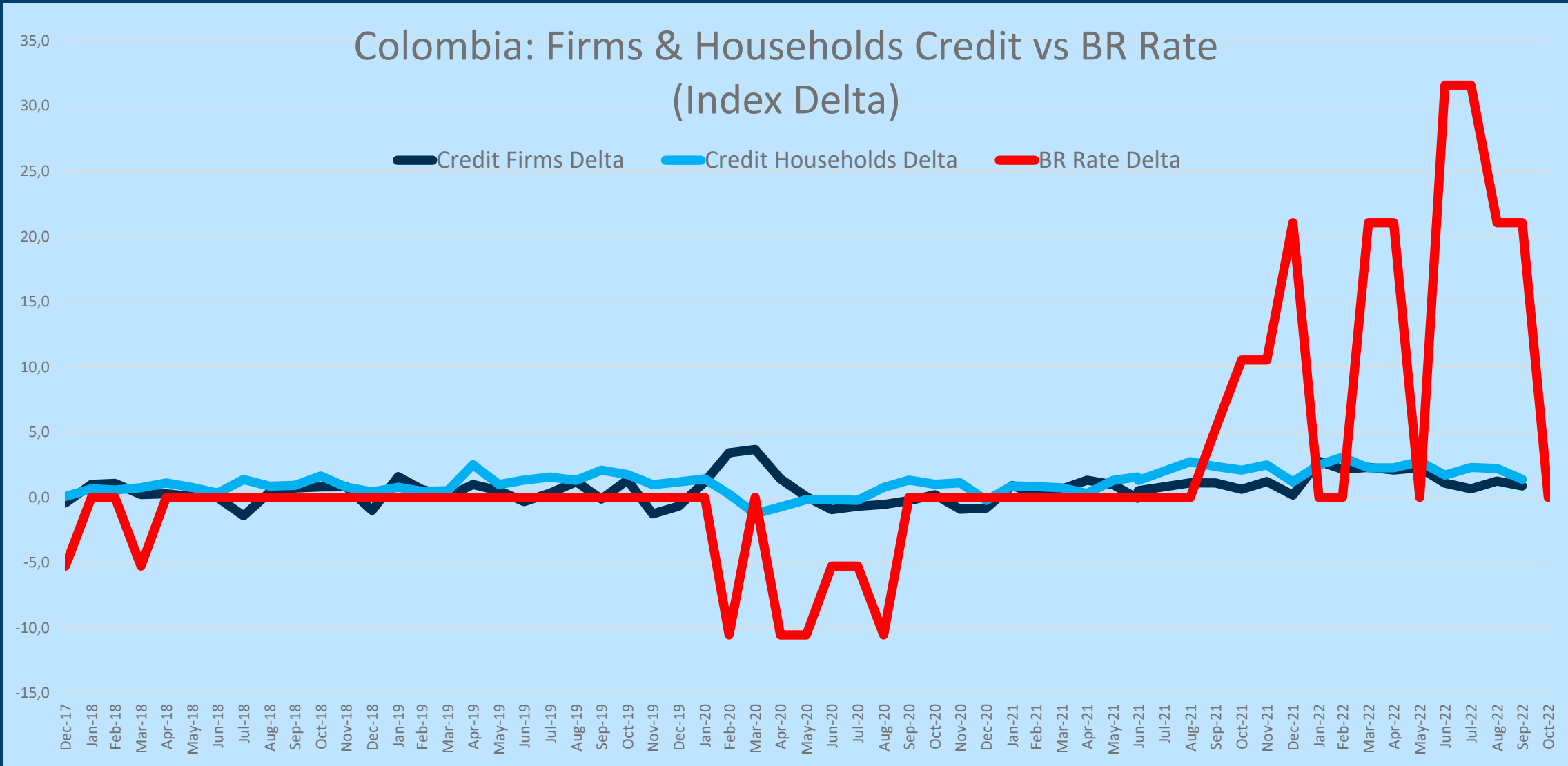
Source: Banco de la República

CHALLENGE 3-A: CREDIT MARKET IMPERFECTIONS



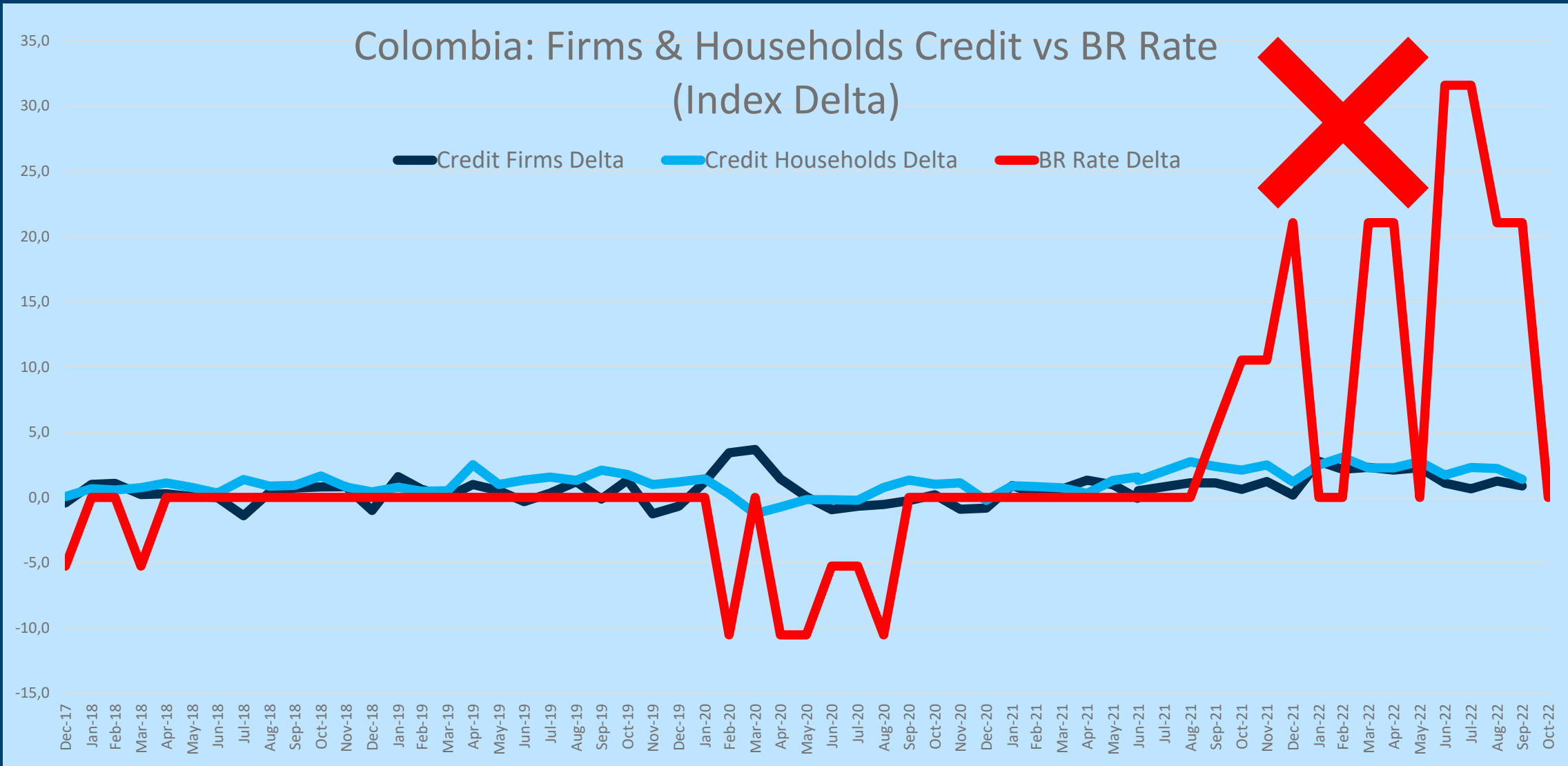
Source: Banco de la República

CHALLENGE 3-B: CREDIT MARKET IMPERFECTIONS



Source: Banco de la República

CHALLENGE 3-B: CREDIT MARKET IMPERFECTIONS

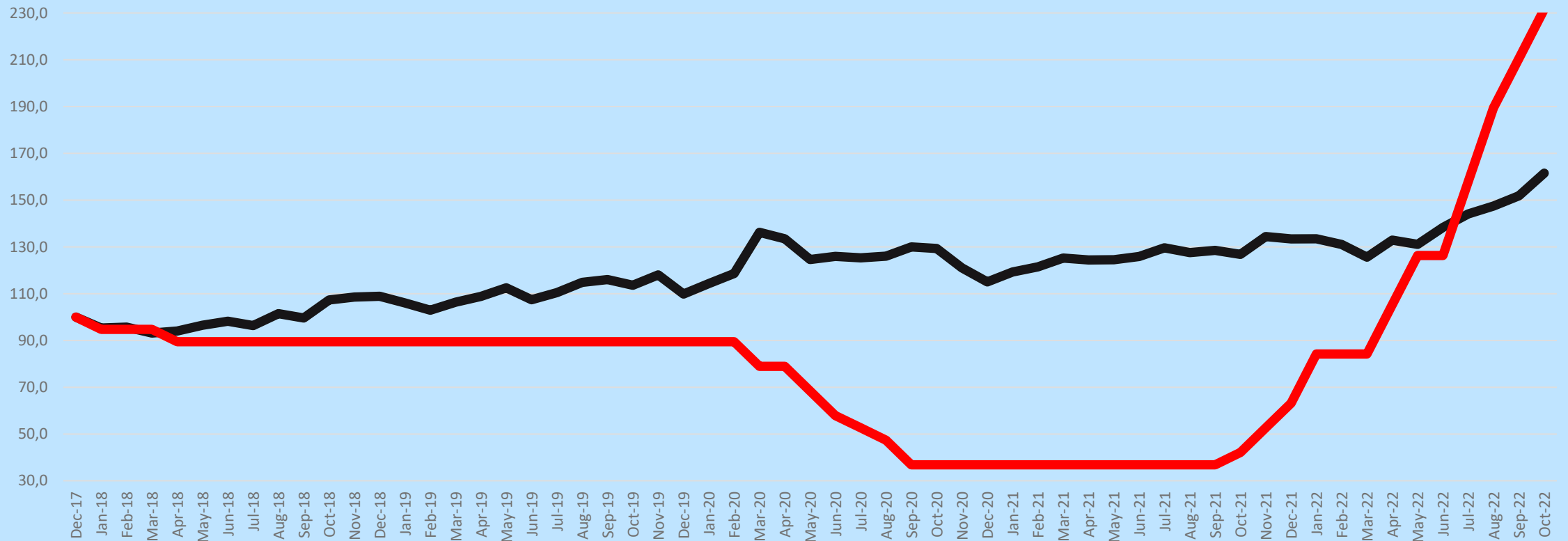


Source: Banco de la República

CHALLENGE 4-A: EXCHANGE RATE MARKET IMPERFECTIONS

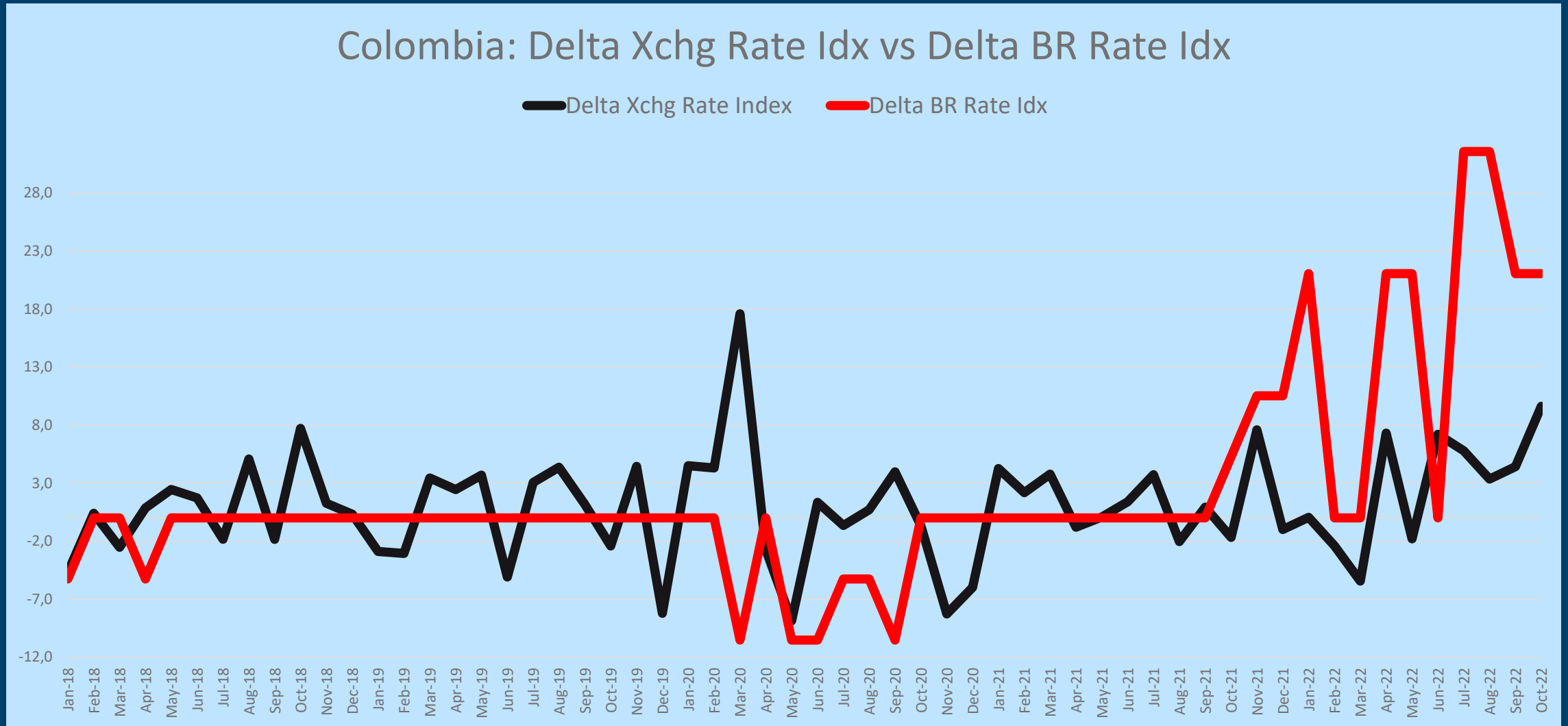
Colombia: Xchg Rate Index vs BR Rate Index (Dec 2017=100)

— Xchg Rate Index — BR Rate Index



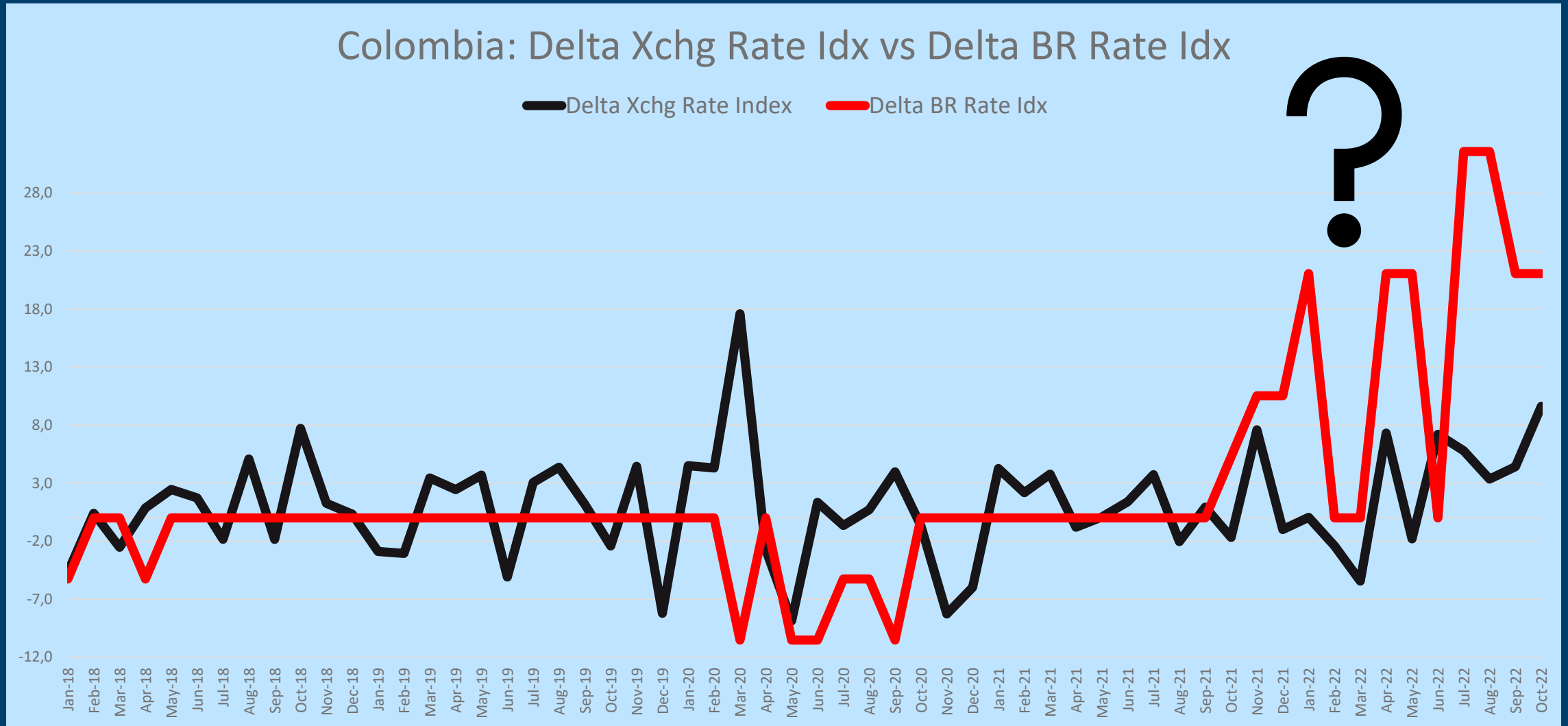
Source: Banco de la República

CHALLENGE 4-A: EXCHANGE RATE MARKET IMPERFECTIONS



Source: Banco de la República

CHALLENGE 4-A: EXCHANGE RATE MARKET IMPERFECTIONS

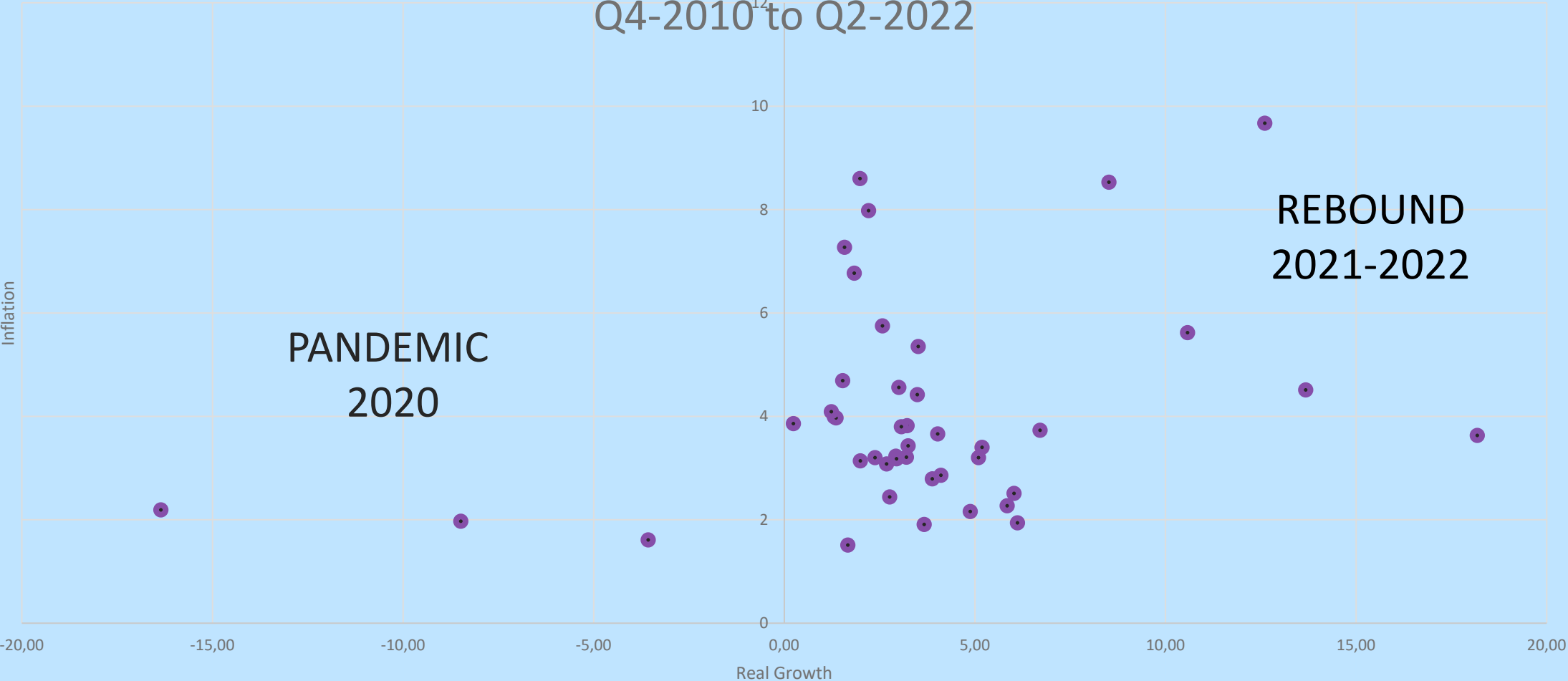


Source: Banco de la República

DOES INFLATION MATTER FOR REAL GROWTH?

Colombia: Real Growth vs Inflation

Q4-2010¹² to Q2-2022



Source: Banco de la República

EMS FACE DAUNTING CHALLENGES WITH IT

HOWEVER:

- Inflation targeting (IT) has been **very successful in delivering price stability**
- **Transmission mechanisms** are **imperfect** and may **take time**

**A TOUGH MOMENT, ESPECIALLY FOR UKRAINE
BUT KEEP UP THE GOOD WORK!**

THANK YOU!