

The Monetary Policy Rule During The Transition To A Stable Level Of Inflation: The Case Of Colombia

Working Paper No. 404 Keep in mind

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During the transition from a moderately high level of inflation to an internationally accepted level, the target, the inflation rate, the nominal interest rate and the nominal equilibrium interest rate may be difference stationary. Policy rules estimation, however, is usually performed under stationarity assumptions. In this note we set up a monetary rule useful for characterizing the behavior of a central bank during this transition. As in previous research, estimation may be carried out by GMM on a nonlinear equation. We illustrate these results by characterizing the behavior of the Colombian Central Bank during the period of full inflation targeting, that is after 2000.

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