

# Constant-Interest-Rate Projections and Its Indicator Properties

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This paper propose indicator variables for the implementation of monetary policy in an inflation targeting regime. Using constant interest rate projections, the notion of a target-compatible interest rate is presented. This variable allows to extract some characteristics that the expected future path of the interest rate have to fulfill in order to be compatible with the target. The specific formulation of the target-compatible interest rate is presented under alternative assumptions over the forecasting horizon (unconditional or conditional forecasts) and the objective of the monetary authority (inflation target or a loss function). The empirical counterpart of the various formulations is shown using a DSGE model for Colombia; a small open economy with an inflation targeting regime.

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