

# Inflation Targeting in Colombia, 2002-2012

Working Paper No. 818 Keep in mind

The series Working Papers on Economics is published by the Office for Economic Studies at the *Banco de la República* (Central Bank of *Colombia*). It contributes to the dissemination and promotion of the work by researchers from the institution. This series is indexed at Research Papers in Economics (RePEc).

On multiple occasions, these works have been the result of collaborative work with individuals from other national or international institutions. The works published are provisional, and their authors are fully responsible for the opinions expressed in them, as well as for possible mistakes. The opinions expressed herein are those of the authors and do not necessarily reflect the views of Banco de la República or its Board of Directors.

AUTHOR OR EDITOR Franz Hamann Marc Hofstetter Miguel Urrutia

After decades using monetary aggregates as the main instrument of monetary policy and having different varieties of crawling peg exchange rate regimes, Colombia adopted a full-fledged inflation-targeting (IT) regime in 1999, with inflation as the nominal anchor, a floating exchange rate, and the short-term interest rate as the main instrument. We examine the experience of the Colombian Central Bank over the last decade, a period of consolidation and innovation of its IT strategy. We study the increasing number of instruments used by the CB, including systematic foreign exchange interventions, announcements, and, sporadically, macro-prudential policies, capital controls, and changes in reserve requirements, among others. The study also examines some political economy dimensions that help explain the behavior of the CB during this period. To guide the discussion, we estimate a small-scale open-economy-policy-model.

The views expressed in the paper are those of the authors and do not represent those of the Banco de la República or its Board of Directors.