

The series Working Papers on Economics is published by the Office for Economic Studies at the *Banco de la República* (Central Bank of *Colombia*). 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.

Autores y/o editores

[Daniel Ordoñez](#)

[Melo-Velandia, Luis Fernando](#)

[Óscar M. Valencia](#)

We test current account sustainability based on the framework developed by Hakkio and Rush [1991] and Husted [1992] using a two-regime threshold vector error correction model. This methodology allows us to characterize short-run nonlinearities in the current account. We estimate the model for four Latin American economies: Chile, Brazil, Colombia, and Mexico. We find a long-run relationship between the current account components, which implies strong sustainability for Chile and Mexico and weak sustainability for Colombia and Brazil. For the first two countries, the predominant regime is associated with a current account surplus. In contrast, for Colombia and Brazil, the prevailing regime corresponds to a situation in which there is a long-run deficit. In general, the impulse response analysis shows that expenditure and income shocks have positive and significant responses in the predominant regime for both series.