

[Download](#)

[Other Working Papers](#)

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*). 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

Juan Manuel Julio-Román

The series Borradores de Economía (Working Papers on Economics) contributes to the dissemination and promotion of the work by researchers from the institution. On multiple occasions, these works have been the result of collaborative work with individuals from other national or international institutions. This series is indexed at Research Papers in Economics (RePEc).

Publication Date:

Wednesday, 02 October 2019

The opinions contained in this document are the sole responsibility of the author and do not commit Banco de la República or its Board of Directors.

Abstract

The adoption of a Time-Varying Vector Auto-Regression with residual Stochastic Volatility approach to address the state and time dependency of the exchange rate pass-through, ERPT, is proposed. This procedure is employed to estimate the size, duration and stability of the ERPT to flexible relative price changes in Colombia through a fairly simple Phillips curve. For this, the generalized impulse responses, i.e. pass-throughs, from different periods of time are compared. It was found that the ERPT is bigger and faster than previous estimates for broader price indexes. It was also found that regardless of the existence of time-varying shock sizes, i.e. time varying standard deviations, the ERPT before full Inflation Targeting, IT, is marked and significantly larger before than during full IT, and also that the ERPT relates to real exchange rate volatility. The second results relates to the benefits derived from the adoption of full IT in this country. It was finally found that the output gap and flexible relative price change residual volatilities drop permanently and importantly at 1998Q3, emphasizing the role of the free float regime adoption in the success of IT in this country.