Pass-through of the exchange rate to core inflation in Colombia: An analysis of time-varying parameters

Download 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 Rincón-Castro, Hernán Rubiano-López, Pedro Yaya-Garzón, Lisseth Zárate-Solano, Hector Manuel
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). 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.

Publication Date: Tuesday, 19 of October 2021 Abstract
How much of the changes in the exchange rate is passed through to inflation is a question of main interest to the monetary authority, investors, the real sector, and the government itself. This document estimates the degree of pass-through of shocks from the peso exchange rate to core inflation in Colombia for four critical exchange moments faced by the economy: the international dot.com crisis (2002), the deepening of the international financial crisis in the face of the Lehman-Brothers bankruptcy (2008), the international oil price collapse (2014) and the global explosion of the Covid-19 pandemic (2020). To achieve the objective, quarterly information from the period 2000 to 2020 and Bayesian estimates of an autoregressive vector model with changing parameters are used. The results indicate, first, that the degree of pass-through from the exchange shock to inflation depends on the shock and changes over time. Second, a 1% shock to the peso exchange rate passed through 0.05% to core inflation in the detorsion of the international oil price of 2014, 0.03% in the dot.com crisis, 0,02% in the bankruptcy of Lehman-Brothers and 0.01% in the outbreak of the COVID-19 pandemic.

Fuente: https://www.banrep.gov.co/en/pass-through-exchange-rate-core-inflation-colombia-analysis-time-varying-parameters