The Implementation of Inflation Targeting in Colombia

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Explicit inflation targets have existed in Colombia since the early nineties1 . The Colombian authorities announced a quantitative in‡ation target for the first time in 1991. The announcement was made by the Minister of Finance, at a time when there was no clear distinction between the tasks of the central bank and those of the government with respect to macroeconomic management, nor there was any autonomy in the design and execution of monetary policy. In 1991, a new Constitution assigned the design and conduct of monetary, exchange, and credit policies exclusively to the Board of Directors of Banco de la República and made the central bank independent from the central government. According to the Constitution, ”The State, through Banco de la República must preserve the purchasing power of currency”. In addition to the constitutional mandate, in 1992 the Central Bank Law stated that the Board of Directors must announce each year a quantitative inflation target. The reduction of inflation in Colombia has faced several hurdles. To begin, the introduction of explicit inflation targets in Colombia had two special features. First, unlike other countries, the inflation target was not initially announced as part of a policy framework to achieve price stability. Second, there was a marked deviation between observed inflation and the first announced target. Thus, inflation targeting in Colombia started with low credibility and confusion about its nature and operational meaning.