The Colombian Economy in the Nineties: Capital Flows and Foreign Exchange Regimes

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During several decades, Colombia was considered a very special case among Latin American countries due to its outstanding economic stability. Despite deep political problems and a long tradition of violence, economic growth was sustained. Colombia experienced moderate economic cycles and a steady GDP growth (Banco Interamericano de Desarrollo, 1995). Between 1931 and 1998, the rate of growth of GDP was always positive and inflation was kept under control, although the latter one remained at moderately high levels, between 20% and 30%, during almost three decades starting in the early seventies. Quoting Dornbusch and Fisher (1992), Colombia was, “par excellence, the country of moderate inflation”. Before the nineties, Colombian economic stability was well grounded in a relatively orthodox fiscal policy, a monetary policy that was complacent with inertial inflation but which had a high degree of aversion against inflation rates above 30%, and a foreign exchange policy that gave heavy weight to real exchange rate stability among other policy objectives.