

# **Comments to: From old to new economic crisis. What have we learned?, the case of Colombia.**

Rodrigo Caputo, Central Bank of Chile

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# The Paper

- Colombia is facing the current turmoil in a satisfactory way (mild recession?)
- This is also true in other Latinamerican economies (Brasi,Chile, Peru...)
- Two (complementary) hypothesis
- Exogenous elements: stronger fundamentals in the region
- Endogenous elements: better policies
  - Countercyclical monetary policy
  - Floating
  - Fiscal discipline
  - Financial macro-prudential policies

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# Comments I

- In many respects, the Chilean experience is very similar
- In 1999 we also have to choose between defending the peg or avoiding the output contraction
- We defended the exchange rate
  - Private sector was in a very fragile position (severe currency mismatches)
  - Exchange rate passthrough to prices was high
  - IT regime was probably less credible than today
  - Was also the case of Colombia?

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# Comments II

- Free floating (in Chile) had some important consequences
  - Gave the private sector incentives to use the exchange rate derivative market. It went from 1.5 percent of GDP (1998) to 4.0 percent in 1997
  - It gave more credibility to monetary policy: exchange rate pass-through to CPI inflation declined substantially
  - The duration of RER misalignments has declined
  - Is free floating having the same consequences in Colombia?
- Finally, how is fiscal discipline enforced? (Fiscal Rule?)

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