

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 Sebastián Amador

In this paper output gaps that include financial cycle information are evaluated against models used in policy analysis by the Colombian central bank. Employing this dataset is no trivial matter, since policy related models are the only relevant yardstick, and emerging economies (such as Colombia) have been historically more vulnerable to financial imbalances. Unlike previous works, finance neutral gaps were evaluated in a monetary policy context exactly as it is routinely performed by a central bank. The distribution of output gap revisions is analyzed, and a metric to compare real time robustness across models is developed. This metric constitutes a novel way to summarize the distribution of real time uncertainty around output gaps, and policy makers should employ it to compare different methods. Also

the real time policy performance of finance neutral gaps is studied, separating suggested ex-post from operational ex-ante usefulness. Results suggest finance neutral gaps are neither more robust in real time nor more operationally useful than the benchmark estimates. This implies that policy makers should consider uncertainty to the extent that it affects the estimations real time forecasting capabilities.

The series Borradores de Economía is published by the Economic Studies Department 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.