

---

[Working Paper 1042](#)

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

Javier G. Gómez-Pineda

Publication Date:

Wednesday, 04 April 2018

---

---

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.

A raise in inflation targets would be viable if implemented strategically, that is, at the time of a pickup in demand. Policy interest rates would not be constrained by the zero-bound as the result of a balance between two forces: first, policy interest rates must drop under a raise in the inflation target; and second, policy interest rates must rise under a pickup in demand. We use a simple new-Keynesian, semi-structural model to find the natural rate as well as other non observables, including inflation expectations, for a group of advanced economies. We also use the model to explain the role of demand and monetary policy in the evolution of inflation and the output gap. The document shows how a sizable drop in the natural rate pushed policy interest rates against the zero-bound.

Update: 12/04/2018, 10:50 a. m