Essays on Economic Policy (ESPE in Spanish) - Evidence for a Financial Accelerator in a Small Open Economy, and Implications for Monetary Policy

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Abstract

Using Bayesian estimation techniques, we estimate a small open economy dynamic stochastic general equilibrium model with credit-market imperfections for the Colombian economy. We show that the combination of balance sheet effects and the choice of monetary policy regime are likely to play an important role in the magnification and propagation of initial shocks to the Colombian economy. As an application we show that our model explains the 1998-1999 crisis in Colombia, when a sharp rise in spreads on a relatively small proportion of international debt were passed strongly onto domestic lending rates, provoking a severe recession.

Fuente: https://www.banrep.gov.co/en/publications-research/espe/evidence-financial-accelerator-small-open-economy-and-implications-monetary-policy