
[Download](#)

Keep in mind

In the journal Essays on Economic Policy (ESPE) - we disclose the results and policy proposals that arise from academic research carried out at the *Banco de la República*. When you read us, always keep in mind that the content of our articles, as well as the analyzes and conclusions derived from them, are the sole responsibility of their authors. The material disclosed in our ESPE magazine does not compromise or represent the opinion of *Banco de la República* or that of its Board of Directors.

AUTHORS AND/OR EDITORS

[López-Piñeros, Martha Rosalba](#)

[PRADA JUAN DAVID](#)

[Rodríguez-Niño, Norberto](#)

Publication Date:

Tuesday, 01 December 2009

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.