

[Working Paper No. 457](#)

Keep in mind

La serie Borradores de Economía es una publicación de la Subgerencia de Estudios Económicos del Banco de la República. Los trabajos son de carácter provisional, las opiniones y posibles errores son responsabilidad exclusiva del autor y sus contenidos no comprometen al Banco de la República ni a su Junta Directiva.

Autor o Editor

Esteban Gómez González

Sandra Rozo

Asset prices have recently become a common topic in economic debate. Nevertheless, much time has been spent in determining if they effectively exhibit a bubble component, and not in examining whether asset prices affectively contain relevant information concerning future market developments. This paper is a first effort in Colombia in this direction, aimed towards the construction of early warning indicators using financial and real variables. Results show evidence to support that there is relevant information embedded in these series, as all indicators (except the new housing price indicator) show a significant deviation for the year(s) prior to the 98-99 crisis. Additionally, the exercises here conducted show that the performance of asset price indicators is enhanced by including credit and investment. When the early-warning indicators are on, the role of the policy maker should be more active in the market; not necessarily in terms of altering interest rates, but in communicating with market agents, promoting portfolio and perspective (i.e. short and long-term) diversification and urging financial agents to make the best use of the tools that are available to them.

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.