

[Download](#)

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

Lozano-Espitia, Ignacio

Arias-Rodríguez, Fernando

The series [Borradores de Economía \(Working Papers on Economics\)](#) contributes to the dissemination and promotion of the work by researchers from the institution. On multiple occasions, these works have been the result of collaborative work with individuals from other national or international institutions. This series is indexed at Research Papers in Economics (RePEc). 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.

Fecha de publicación

Tuesday the 19th of April, 2022

## Abstract

This paper aims to provide evidence on the relationship between fiscal and monetary policy in Colombia through an empirical exploration of the credit risk channel. Under this approach, fiscal policy plays an important explanatory role in the sovereign risk premium, which, in turn, could affect the exchange rate and inflation expectations. The Central Bank reacts to inflation expectations using the policy interest rate; consequently, such reaction could be indirectly influenced by fiscal behavior. Using monthly data from January 2003 to December 2019, we estimate both jointly and independently the reduced-form core equations of a system that describes the credit risk channel in a small open economy. Our findings are in line with the model predictions. Fiscal policy affected the country's sovereign risk during this period, but only slightly. Hence, there is insufficient evidence to sustain the idea that monetary policy has been significantly influenced by government fiscal management.