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While in the early nineties Colombia grew at rates exceeding 4\% and was catalogued as one of the top

emerging markets, in 1999 its economy fell 4%, its exchange rate regime (a target zone) collapsed and by June of 2000 its unemployment level peaked at 20.4%. This turn of events is clearly associated to an episode of financial distress and a troubled intermediary sector that has haunted the Colombian economy in the late 1990's. The purpose of this paper is to understand the macroeconomic consequences of the recent financial crisis in Colombia. I solve, calibrate and simulate a simple version of the optimal growth model where banks absorb real resources from the economy and are also vulnerable to crises. The results are useful because they replicate the recent behavior of several macroeconomic variables in Colombia. Moreover, they give some insight into what should be expected from these variables in the near future. There are two fundamental take aways. First, the negative wealth and welfare effects of the Colombian financial crisis are non-negligible and long lasting (five years approximately). Second, the data suggests that the crisis which permeated the Colombian financial system since the last months of 1997 or first months of 1998 has been deepened by another adverse financial shock that hit the Colombian intermediary sector in mid/late 1999.