Working Papers Economics - Colombian Framework for Fiscal Policy Economic Evaluation

Download Keep in mind
The series Working Papers on Economics is published by the Office for Economic Studies at the *Banco de la República* (Central Bank of *Colombia*). It contributes to the dissemination and promotion of the work by researchers from the institution. This series is indexed at Research Papers in Economics (RePEc).

On multiple occasions, these works have been the result of collaborative work with individuals from other national or international institutions. 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.

AUTHORS AND/OR EDITORS Herrera-Rojas, Andrés Nicolás López-Valenzuela, David Camilo Ospina-Tejeiro, Juan José Bejarano-Rojas, Jesús Antonio
In a scenario of tighter financial conditions, when the government decides to adjust investment to comply with the fiscal rule, there is a short-term decline in domestic demand and inflation, which allows the central bank to lower the interest rate, leading to a faster recovery in private consumption and investment.

Publication Date: Friday, 8 of August 2025 **Abstract**
Fiscal policy and monetary policy are intricately connected, as government policies influence various macroeconomic variables, affecting prices and, consequently, Central Bank decisions. To elucidate this relationship, this document outlines the model employed by Banco de la República's technical staff to analyze and quantify the impact of fiscal policy on key macroeconomic variables, featuring a detailed fiscal structure that distinguishes it from other models. Furthermore, as an illustration of the analyses conducted with this model, the document presents a simulation that assumes an increase in the risk premium, examining two potential responses the government might consider under tighter financial conditions: adjusting public investment to comply with the fiscal rule, or not adjusting public expenses and incurring in additional debt, leading to non-compliance with the fiscal rule. When the adjustment involves reducing public investment, domestic demand, inflation, and the monetary policy rate decrease. Conversely, financing the revenue shortfall with public debt, thereby failing to comply with the fiscal rule, exacerbates negative effects on private demand.

Fuente: https://d1b4gd4m8561gs.cloudfront.net/en/publications-research/working-papers-economics/colombian-framework-fiscal-policy-economic