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Assessing the Macroeconomic Effects of Fiscal Policy in Colombia

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The focus of this paper is on the short-term macroeconomic effects of fiscal policy in Colombia in a structural vector autoregression context. Government spending shocks are found to have positive and significant effects on output, private consumption, employment, prices and short-term interest rates. The cumulative output multiplier fluctuates between 1.12 and 1.19 from the first to third year after the spending innovation. Shocks to direct taxation seem to be less efficient, because they mainly affect private investment, whereas shocks to indirect taxation do not seem to affect real activities significantly. From a policy perspective, our results support the smoothing role of fiscal policy on output fluctuations, which implies its capacity to restore real activity effectively in critical times like the ones currently being forecast. From a theoretical standpoint, the results are consistent with real business cycle and Keynesian models of both traditional partial equilibrium and new general equilibrium types.

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