Macroeconomic Effects of Structural Fiscal Policy Changes in Colombia

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In the past decade the Colombian Economic Authorities undertook a series of measures that reduced the structural fiscal deficit, decreased the Government currency mismatch and deepened the local fixed-rate public bond market. This paper presents some evidence suggesting that these improvements had important effects on the behavior of the macroeconomy. They seem to have permanently reduced the sovereign risk premium, increased the reaction of output to Government expenditure shocks and strengthened the response of market interest rates to monetary policy shocks.

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