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Financial Globalization, Economic Growth, and Macroeconomic Volatility

Working Paper No. 430 Keep in mind
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This paper evaluates the effects of financial globalization on growth and macroeconomic volatility, from 1984 to 2003, for a sample of 43 countries. Particular attention is given to those effects on the member countries of the Latin American Reserve Fund (FLAR): Bolivia, Colombia, Costa Rica, Ecuador, Peru, and Venezuela. The findings show that financial globalization spurs growth, when the countries? income level is controlled; it does not increase macroeconomic volatility, as it is commonly stated, but does not reduce it either. Belonging to FLAR does not seem to make a difference in terms of growth and macroeconomic volatility; however, the findings of a strong negative effect on the volatility of consumption might be related to the fact that those countries have an insurer (FLAR) that has helped them to smooth consumption during periods of adverse external shocks.

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Fuente: https://www.banrep.gov.co/en/borrador-430