

Fiscal Sustainability and Economic Growth in Bolivia

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Abstract

In this paper we analyze the role played by fiscal sustainability shocks on the Bolivian economic growth performance. To do this, we impose restrictions on a VAR for the Bolivian economy that allow us to identify fiscal sustainability shocks. We argue that imposing long run identification restrictions in our structural VAR is a new (applied to fiscal issues) and useful way to identify the macroeconomic impact of shocks on fiscal sustainability. Our results show a significant lost in the level of GDP in the Bolivian economy as a consequence of the sequence of adverse fiscal sustainability shocks this economy has experienced. Although, fiscal sustainability shocks have not permanent effect on Bolivia's economic growth, the fact that adverse fiscal sustainability shocks has occurred during the period studied (in a significant way at least during the late 70s early 80s and at the late 90s early 2000s) have negatively affected Bolivian economic growth. Our results also show that inflation has been affected by fiscal sustainability shocks, especially the adverse shocks experienced during the period from 1977 to 1986, which ended in the hyperinflation in 1985.

Keywords: SVAR; identifying restrictions; small open economies; fiscal policy; debt.

JEL: E32, E62; F41, H62, H63, O11.

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