Subnational fiscal policy and economic cycles in Colombia

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Abstract

This paper studies the relationship between subnational fiscal policy and economic cycles in Colombia. To do so, we estimate a dynamic panel data model for Colombian municipalities and departments during the period 1990-2018. The main findings show that, on average, subnational fiscal policy in Colombia was pro-cyclical in this period. However, results highlight lower pro-cyclicality following the main reforms to intergovernmental transfers and the introduction of subnational responsibility laws. The former led to a less pro-cyclical design of this source of revenues, while the latter fostered fiscal discipline and local finances' sustainability. Furthermore, we find evidence of higher pro-cyclicality of capital expenditures in less-developed municipalities and departments, which coincides with the increase in royalties' participation in this group of territorial entities.

Fuente: https://www.banrep.gov.co/en/subnational-fiscal-policy-and-economic-cycles-colombia