Twin deficits in Colombia: Exist? What causes what? Which is the degree of impact?

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Publication Date: Thursday, 23 of December 2021 **Abstract**The objectives of this paper are to analyze for Colombia if there is a relationship between the public saving-investment imbalance and the external imbalance with annual data from 1970 to 2019 and, if there is one, evaluate what causes what and estimate the impact of a disturbance of the cause on the other before and after the international financial crisis between 2007 and 2009. The empirical methodology uses tests of causality from Granger, a standard VAR model and regressions of local projections of Jordà (2005), which allow estimating a model of single equation regression and impulse response functions with fully identified shocks. The results obtained do not reject the presence of the twin deficits, but statistical causality occurs from the external balance to the public balance, contrary to what the Keynesian theory of open economy predicts, on the one hand, and the Ricardian equivalence hypothesis, on the other. It is estimated that a shock of one percentage point of the external imbalance increases the public imbalance on average by 0.25 percentage points in the second year and 0.32 percentage points in the third year. The fiscal impact of an external shock is also found to be greater after the crisis.

Fuente: https://www.banrep.gov.co/en/twin-deficits-colombia-exist-what-causes-what-which-degree-impact