

Portfolio allocation and sectoral growth

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Abstract

This paper examines the relationship between sectoral growth and credit aimed at productive sector in Bolivia. Data is of longitudinal nature and that is the reason why Fixed Effects method and Auto-Regressive Vectors in Panel Data (PVAR) methodology were chosen. Likewise, recursive version of both methodologies was applied to observe the evolution of the impact of portfolio allocation - sectoral GDP over time. Under Fixed Effects estimation, sectoral credit positively affects sectoral GDP by 0.12%; the PVAR model outcomes show that shocks from financing to output represent 0.51%; the effect on interest rate is contractionary (0.05%), and effects from Financial Services Law reach 0.02%. The recursive version of both methodologies reveals similar behaviour regarding the evolution of elasticities and impulse response functions.

JEL Classification: C50, E51, E52

Keywords: Fixed effects, random effects, panel VAR, recursive estimation, interest rate