

Relationship between oil price and economic growth in Bolivia: the economic policy role

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Abstract

This paper presents the first evidence about the relationship between international oil price, fiscal policy and economic growth in Bolivia. It has two objectives: to determine if public expenditures are procyclical or counter- cyclical regarding oil price; and to evaluate the role of fiscal policy as a buffer instrument of oil price effect on Bolivian economic growth. Using monthly data for the period of July 2005 - May 2015, it is estimated a fiscal policy equation which links public spending to oil price shocks. Results suggest that public spending increasing is less than proportional regarding increasing of oil incomes (countercyclicity). In turn, it is specified a function in order to obtain product elasticities respect to oil prices, to expenditure, and to both variables interacting each other. The last one has negative sign, namely net effect of oil price downfalls on product decreases as expenditure increases. As a robustness test, the econometric specification proposed by Hamilton (2003) and a Structural VAR (SVAR) model are used. The generality of results is the same.

JEL Classification: C50, E62, E66

Keywords: *Economic growth, fiscal policy, oil prices*