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Identifying Fiscal Policy Shocks in Chile and Colombia

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Structural VAR and Structural VEC models were estimated for Chile and Colombia, aiming at identifying fiscal policy shocks in both countries between 1990 and 2005. The impulse responses obtained allow the calculation of a peso-for-peso ($/$) effect on output of a shock to public spending and to the government's net tax revenues, providing a good notion of the incidence of fiscal policy shocks in both countries. When public finances are under control, as they are in Chile, fiscal policy seems to be more effective than when they lack stability and credibility, as seems to be the case of Colombia since the mid nineties.

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