Journal of Economic Cooperation and Development

Macroeconomic impact of fiscal policy shocks in Burundi: Evidence from a structural VAR approach

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ABSTRACT

Given the vital importance of fiscal policies in maintaining stability and fostering economic growth, it is essential to thoroughly assess how fiscal policy shocks influence macroeconomic dynamics. This study examines how fiscal policy shocks affect real output, inflation, and interest rates in Burundi using a structural VAR model with quarterly data from 2010 to 2022. The findings indicate that public expenditure shocks lead to a short-term boost in economic activity and an increase in tax revenue; however, their influence on inflation remains limited. Nonetheless, the positive effect on output diminishes over time because of decreasing marginal returns. Additionally, the observed decline in interest rates indicates a supportive monetary policy. Conversely, tax revenue shocks tend to drive public spending and generate moderate but increasing inflationary impacts. They also contribute to stabilizing interest rates and support more sustained economic growth than do spending shocks. Variance decomposition confirms the key role of tax revenue in output fluctuations. These findings emphasize the importance of fiscal policy choices in shaping economic outcomes and highlight the need for strong coordination between fiscal and monetary policies to maintain macroeconomic stability. They also stress the importance of designing sustainable fiscal strategies and closely monitoring inflation transmission channels to better anticipate the effects of fiscal measures on Burundi's economy.

Keywords: Fiscal policy, government spending, tax revenues, real gross domestic product, household consumer price index, interest rates.

JEL Classification: C32, E62, H30.

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