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ABSTRACT

Theoretical and empirical studies on oil price shocks have mainly focused on measuring its relationship with macroeconomic performance in developing countries. However, the literature has not explored causal effects of oil price variations on subnational public investment. Using a difference-in-differences strategy, this paper contributes to the literature in identifying these effects for both, departments and municipalities in Colombia. Our results suggest that the most recent oil boom, brought by the rise in international oil prices, had mostly positive and disproportionate effects of public investment on oil producing departments and municipalities. On one hand, departments prioritized their investments in five sectors: recreation and sports, agriculture, transportation, attention to vulnerable population, and justice. On the other hand, for municipalities, four sectors were the most benefited: institutional strengthening, justice, equipment, and recreation and sports.