

PENSION SYSTEM AND FINANCIAL DEPTH: EMPIRICAL EVIDENCE OF COINTEGRATION FOR THE BOLIVIAN CASE

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ABSTRACT

The aim of this paper is to empirically assess the nature of the relationship between the Pension System based on individual capitalization accounts and Financial Depth in Bolivia. Accordingly, the contrast of co-integration of Engle-Granger and Johansen are used within a framework of error correction in order to confirm the existence of stable long-term relationships between variables. Overall the results support the view that, in effect, the Pension System is a causal factor of Financial Depth and has sustained, long-term effects. Therefore, government policies designed to strengthen the Pension System must be persistent and sustainable in order to promote the parallel and inclusive development of both social development and Capital Markets. For an econometric analysis of a financial depth model, two alternative specifications are proposed: i) excluding government securities and ii) including government bonds.

Keywords: Financial Depth, Pension System, Cointegration.