

Revista Ensayos sobre Política Económica (ESPE) - Fiscal Policy and the Cycle in Latin America: the Role of Financing Conditions and Fiscal Rules

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Publication Date: Monday, 3 of December 2018

Abstract

A stronger macroeconomic position when the financial crisis erupted allowed Latin American economies to mitigate its impact through fiscal expansions, temporarily reversing the characteristic procyclical behaviour of fiscal policy. At the same time, in the last two decades fiscal rules have been extensively adopted in the region. This paper analyses the stabilising role of discretionary fiscal policy over time, and the influence of fiscal financing conditions and of fiscal rules in said behaviour for a sample of eight Latin American economies. The analysis shows three main results: i) fiscal policies became countercyclical during the crisis, but they have turned procyclical again in recent years; ii) financing conditions are the key driver of fiscal procyclicality, while iii) fiscal rules tend to neutralise it.