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Abstract
This paper provides a novel dataset of time-varying measures of fiscal counter-cyclicality for an unbalanced panel of advanced and emerging market economies from 1980 to 2014. The use of time-varying measures of fiscal counter-cyclicality overcomes the major limitation of existing studies assessing the determinants and the effects of fiscal countercyclicality that rely on cross-country regressions and, therefore, are not able to account for country-specific as well as global factors. The key findings of the paper are as follows: (i) fiscal counter-cyclicality has increased over time for many economies over the last two decades; (ii) fiscal counter-cyclicality is positively associated with financial deepening, the level of economic development, trade openness, government size as well as with political factors; (iii) fiscal counter-cyclicality significantly reduces output volatility. Our results are robust to various specifications and endogeneity checks.