

Fiscal Behaviours in EMU Countries: A Dynamic Approach

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The aim of the paper is to shed new light on recent fiscal behaviours in EMU countries by estimating a time varying parameter model. Results of studies on European countries are controversial. This could stem from the fact that studies are based on constant parameter models, even if some studies have shown non-linearity in fiscal behaviour. We contribute to the literature by using a dynamic approach. We defined fiscal behaviour by the response of the cyclical adjusted primary balance to the output gap and debt variations. We focused our study on 11 EMU countries over the period from 1999Q1 to 2012Q2 in quarterly data. We estimated dynamic cyclical and debt sensitivities by a Kalman Filter Maximum Likelihood approach. Our results show that the fiscal stance and debt sensitivities have changed at least once during the period for all studied countries. We note that countries have modified their policy to respond to the crisis. Most countries pursued a counter-cyclical policy from 2008, but they set aside the objective of debt stabilization. In contrast, the current period is characterized by a-cyclical or pro-cyclical policy, but by a better sustainability concern. Results indicate that behaviors are not homogeneous. This could have implications on the coordination of fiscal policies.