Fiscal Policy and the Current Account

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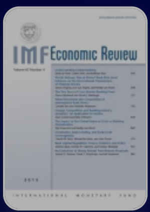

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Notes

1. The paper primarily analyzes association between changes in overall fiscal policy and the current account for an individual country. It does not delve into

Indeed in export-led economies, growth shocks would imply a co-movement in fiscal and external balances, whereas external financing constraints accompanying say, an adverse growth shock, could induce corrections in both fiscal and current account deficits.

6. The following were included in all regressions: a constant term; the lag of the current-account-to-GDP ratio (to control for year-to-year persistence in the current account); the lag of per capita PPP GDP (to control for current account movements related to income convergence); year dummies (to control for common shocks across countries); and fixed country effects (as Hausman test did not support random effects). In regressions 3–7, noninteracted dummies were included to allow for heterogeneous intercepts. The results are almost identical with GMM (system) methods that address the estimation bias arising from the inclusion of the lagged dependent variable. Robustness to outliers

10. Studying the individual episodes, we can, in fact, confirm that the real exchange rate response to fiscal policy changes is nil in advanced economies but supportive in emerging economies.

11. The list of countries included in our sample can be found in Supplementary Appendix III available on the journal website.

12. In the results presented in the paper we include the output gap when using quarterly data and the log of the real GDP when using annual data. We have also run a specification for quarterly data using real GDP. But with shorter time series our estimates were affected by the nonstationarity of the output series. Although the results were qualitatively similar over the first quarters,

response of output is small this will not represent a large change in the budget balance.

17. The cutoff is calculated for the average over the whole sample.

18. How restrictive is the assumption that government consumption does not react to output within a year? Corsetti, Meier, and Müller (2010) discuss this issue in detail and, while it might be that during the 2008–09 crisis governments reacted quickly to economic conditions (maybe as fast as 5 to 8 months), this is more of the exception than the norm. Indeed, budgets are done on an annual basis and changes during the fiscal year are more cumbersome. In fact, the evidence from VARs that use quarterly data show that in response to output shocks the response of government consumption

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Electronic supplementary material

Supplementary Appendices

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