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# Fiscal policy analysis in the euro area: Expanding the toolkit<sup>☆</sup>

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## Abstract

The absence of historical quarterly fiscal data has limited the analysis of the macroeconomic impact of fiscal policies in the euro area, including the interactions of fiscal and monetary policies. To overcome this gap, we construct a quite disaggregated euro area quarterly fiscal database for the period 1980Q1–2012Q4, based on a rich set of input fiscal data taken from national sources. We discuss how this dataset has allowed and can allow the profession to tackle new policy-relevant research topics. We also provide stylized facts on the cyclical properties of main euro area fiscal aggregates, focusing on the recent economic crisis period.

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## 1. Introduction

The European Central Bank (ECB) sets the monetary policy for the European economies that have adopted the euro currency since January 1999. Therefore, macroeconomic analysis with euro area time series became a common place over the past decade.<sup>1</sup> The construction of historical data (long series) for the euro area has been part of the academic and ECB agenda over the first part of the 2000s, see [Beyer, Doornik, and Hendry \(2001\)](#), [Anderson, Dungey, Osborn, and Vahid \(2007\)](#), [Fagan, Henry, and Mestre \(2001, 2005\)](#). Even though fiscal policy remains a national responsibility, interactions between monetary and fiscal policies are carefully monitored by the monetary authority, see for example, [Duisenberg \(2003\)](#), [ECB \(2008, 2009\)](#). In particular, the assessment of the impact of fiscal policies on euro area GDP and prices, and the constraints that fiscal policies might impose on monetary policy over the medium term is a very relevant endeavor, increasingly so, in the light of the recent policy responses to the EU sovereign debt crisis. Euro area governments introduced a number of discretionary fiscal policy packages: during 2008–2009 fiscal stimuli and since the end of 2009 fiscal consolidation measures. Indeed, these issues have recently attracted a great deal of attention.<sup>2</sup> In addition, the analysis of spillover effects among economic areas, in particular between the US and the euro area, or the euro area and the UK/the rest of the EU are back to the forefront of the policy discussion.<sup>3</sup>

The appropriate assessment of the impact of fiscal policies at the euro area wide level and its interlinkages with other economic areas have been traditionally restricted by the shortcomings of existing quarterly data for the relevant euro area fiscal variables. The whole fiscal surveillance process at the European level is designed on the basis of annual data. The fact that budgetary plans are prepared following an annual budgetary cycle and the discretionary nature of the setup chosen by many government taking measures for the entire year, have traditionally limited the interest in high-frequency fiscal data.<sup>4</sup>

As recently claimed by [Dilnot \(2012\)](#) public policy analysis should not be undertaken lightly without thinking carefully and then finding out the numbers. Given the limitations and the scarcity of historical quarterly euro area fiscal data, we aim in this paper at reviewing existing, scattered national data sources, and on that basis we construct a quarterly fiscal database for the euro area aggregate<sup>5</sup> for the period 1980Q1–2012Q4.<sup>6</sup> The raw ingredients we use are closely linked to the ones used by national statistical agencies to provide their best estimates (intra-annual fiscal

<sup>1</sup> Examples are [Batini, Callegari, and Melina \(2012\)](#), [Coenen, Straub, and Trabandt \(2012\)](#), [Cimadomo \(2011a, 2011b\)](#), [de Castro and Garrote \(2012\)](#), [Kollmann, Ratto, Roeger, and in't Veld \(2013\)](#), [Burriel et al. \(2010\)](#), [Forni, Monteforte, and Sessa \(2009\)](#), [Ratto, Roeger, and in't Veld \(2009\)](#), [Dreger and Marcellino \(2007\)](#), [Fagan et al. \(2005\)](#), [Favero and Marcellino \(2005\)](#), [Smets and Wouters \(2003\)](#), [Bruneau and de Bandt \(2003\)](#), [Aarle, Garretsen, and Gobbin \(2003\)](#) or [Jacobs, Kuper, and Sterken \(2003\)](#).

<sup>2</sup> Just to quote a few examples, see [Davig and Leeper \(2011\)](#), [Cogan, Cwik, Taylor, and Wieland \(2009\)](#), [Burriel et al. \(2010\)](#), [Cimadomo \(2011a, 2011b\)](#), [Cimadomo, Kirchner, and Hauptmeier \(2010\)](#), or [Coenen, Straub, and Trabandt \(2013\)](#), [Coenen et al. \(2012\)](#). In the policy arena, ECB's President introductory statement to the press conference typically incorporates an explicit reference to fiscal policies, see e.g. [Draghi \(2013\)](#).

<sup>3</sup> See, for example, [Auerbach and Gorodnichenko \(2012\)](#).

<sup>4</sup> Nevertheless, a recent strand of the literature has shown that intra-annual fiscal data, when modeled appropriately, contains valuable and useful information for forecasting annual aggregates ([Pérez, 2007](#); [Silvestrini, Salto, Moulin, & Veredas, 2008](#); [Onorante, Pedregal, Pérez, & Signorini, 2010](#); [Pedregal & Pérez, 2010](#); [Asimakopoulou, Paredes, & Warmedinger, 2013](#); [Leal, Pérez, Tujula, & Vidal, 2008](#)).

<sup>5</sup> The current euro area definition comprises the countries members of the euro area as of 31st December 2012.

<sup>6</sup> The database is updated once a year with the latest available data and can be requested at [euro.area.fiscal.database@ecb.europa.eu](mailto:euro.area.fiscal.database@ecb.europa.eu).

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