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Authors: Milojko Arsic, Aleksandra Nojkovic, Sasa Randjelovic



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Determinants of discretionary fiscal policy in Central and Eastern Europe

Milojko Arsic^{*}, Aleksandra Nojkovic^{**} and Sasa Randjelovic^{***}

University of Belgrade-Faculty of Economics, Kamenicka 6, 11000 Belgrade, Serbia

**E-mail address: arsicm@ekof.bg.ac.rs*

***E-mail address: nojkovic@gmail.com*

****Corresponding author. Tel.: +381 63 396 198, fax: +381 11 2639 560;*

E-mail address: randjelovic@ekof.bg.ac.rs

Highlights

- Fiscal policy in the CEE was procyclical to the output gap both before and during the crisis.
- The absorption gap in the CEE countries does not affect fiscal policy.
- Before the crisis, rising public debt in the CEE countries was a brake for future deficits.
- Election cycles affect fiscal policy only in the pre-crisis period, while no evidence of an impact of government fragmentation on fiscal policy in the CEE countries has been found.
- In the pre-crisis period the CEE countries with a fixed (hard peg) exchange rate regime were running lower fiscal deficits than those with a floating regime, while in the (post-)crisis period no impact of the exchange rate regime on fiscal balance has been captured.
- An arrangement with the IMF triggers a reduction of the fiscal deficit in the CEE countries (when the entire sample period is taken into account), while EU accession has no impact on the fiscal balance.

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