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**MONETARY AND FISCAL POLICY INTERACTIONS:
EVIDENCE FROM EMERGING EUROPEAN ECONOMIES**

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Abstract

This paper examines the interactions between fiscal and monetary policy for some former transition, emerging European economies over the 1995Q1-2010Q4 period by using a Markov regime-switching model. We consider the monetary policy rule proposed by Taylor (1993) and the fiscal policy rule suggested by Davig and Leeper (2007) in accounting for monetary and fiscal policy interactions. Empirical results suggest that monetary and fiscal policy rules exhibit switching properties between active and passive regimes and all countries followed both active and passive monetary policies. As for fiscal policy, the Czech Republic, Estonia, Hungary, and Slovenia seem to have alternated between active and passive fiscal regimes while fiscal policies of Poland and the Slovak Republic can be characterized by a single fiscal regime. Although the policy mix and the interactions between monetary and fiscal policy point a diverse picture in our sample countries, the monetary policy seems to be passive in all countries after 2000. This finding is consistent with the constraints imposed by European Union enlargement on monetary policy.

JEL Classifications.: E52, E62, E63, C22, P52

Keywords: Monetary policy, fiscal policy, monetary-fiscal interactions, time series models, transition economies

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