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The cyclicity of fiscal policy: New evidence from unobserved components approach

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**Highlights**

- The paper employs the multivariate version of the unobserved components model to reinvestigate the cyclicity of fiscal policy in eleven OECD countries.
- The new approach disentangles the correlations in cycles from the correlations in slopes of the relevant variables while allowing for those correlations in the model.
- The results suggest that fiscal policy is mildly counter-cyclical in seven of the eleven countries analyzed which resonates with the standard Keynesian models. The results remain robust when we use subsamples and an alternative fiscal policy variable.
- However, the slope (growth) of government consumption is positively correlated with real GDP in these economies.
- There is no evidence of procyclical fiscal policies in any of these eleven industrial countries.

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