

Tuesday the 22th of June, 2021

The relationship between managing public finances and the business cycle has attracted much interest to economic research. Studies on the matter suggest that industrialized countries have a countercyclical fiscal policy while emerging countries have a procyclical one, meaning that advanced countries tend to reduce public spending in boom times and increase it in downturns, which helps stabilize their economies. In contrast, emerging economies raise spending in boom periods and cut it back in downturns, accentuating their business cycles as a result. This is explained by weaker institutions and the difficulties that emerging economies have in getting access to external credit. During the last few years, many emerging economies have escaped the procyclical trap by getting more closely integrated into international capital markets and adopting fiscal rules. [+ info, only in Spanish]