

FISCAL POLICY RULES AND DEBT SUSTAINABILITY IN GREECE AFTER THE ENTRY IN EUROZONE

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ABSTRACT

This paper examines the sustainability of public finances in Greece and the stance of fiscal authorities for the period followed the entry in Eurozone. Using a sample of quarterly data, covering the period from 2000:I to 2012:II, we estimate a simple fiscal policy feedback rule according to which the primary balance to GDP ratio reacts to the debt stabilizing surplus and the output gap. According to this approach, fiscal policy may be characterized as active or passive. The results show that the Greek fiscal policy regime after the entry in Eurozone may be classified as active, meaning that the public debt is in an unsustainable path. In order to check whether there were periods where the fiscal authorities have switched their stance to debt and the economic cycle, especially after the bail-out agreement with the IMF and the European Union, we use rolling regressions from 2009:III to the end of our sample. The results clearly show that even if the fiscal policy remains active there are signs of improvements.

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