

THE IMPACT OF FISCAL POLICY ON GROSS DOMESTIC PRODUCT IN THE EUROPEAN UNION. A PANEL VAR MODEL APPROACH

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Abstract:

In our research, we intend to observe the influence of fiscal policy together with the interest rate and inflation rate on economic growth in the European Union member states. Therefore, our goal is to identify the impact of the main instruments of fiscal policy, using an unrestricted panel VAR model, on the evolution of GDP. In this way we can understand what is the response of the GDP of the member states of EU 27 to the evolution of public debt, government deficit, government spending, interest rate and inflation. Using impulse response functions we have seen that private consumption has a positive influence on GDP, the rise in public debt has a negative influence on the evolution of GDP, government expenditure has an alternating influence that turns from positive in the first half of the observation period into negative in the second, the interest rate has a strong negative influence while the inflation rate has a positive influence on the evolution of GDP.

Keywords: *monetary policy, fiscal policy, economic growth*

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