

The principal goal of the proposed project is to evaluate a short- and medium-term impact of macroeconomic factors, mainly variables reflecting performance of fiscal policy as well as institutional environment on public debt sustainability in the EU member states in years 1995-2016.

The project starts with the empirical disaggregation of long-term government bond yields into global-, regional- and country-specific components. Then it focuses on the analysis of an impact of domestic economic circumstances, including fiscal stance, on country-specific part of long-term government bond yields as well as on how country-specific factors determine a magnitude of the effects of regional and global factors on domestic sovereign bond yields. The project investigates to what extent a structure of changes of fiscal balance influences long-term government bond yields. Specifically, it explores an impact of tax- and expenditure-based fiscal impulses (consolidations and expansions) on the yields. It also explores an impact of these factors on public debt to GDP level. Lastly, the project focuses on identification of economic and institutional factors causing non-linear effects of fiscal impulses on long-term yields and public debt. Specifically, we will study the short- to medium-run influence of fiscal impulses on the yields and public debt by exploring their interactions with different economic conditions (recessions vs. expansions), different monetary regimes (flexible vs. fixed exchange rate), public debt sustainability (high vs. low creditworthiness, during episodes of sovereign debt crises) and the stability of the domestic financial sector (e.g. share of non-performing loans, episodes of systematic banking crisis). Furthermore, we also intend to explore non-linearities caused by country-specific product and labour market regulations or by accompanying structural reforms. The planned study will cover the old and new EU member states. To the best of our knowledge the previous empirical studies have not investigated an impact of different kinds of fiscal impulses on long-term bond yields and public debt using such a comprehensive set of economic and structural control variables in the sample of all EU countries.