

Note from the Guest Editors: Fiscal Policy Challenges Facing the Recent Macroeconomic Uncertainty

The fourteenth edition of the annual conference organized by *Banco de la República's* journal *Ensayos Sobre Política Económica* (ESPE) is focused on analyzing the fiscal policy challenges facing the recent macroeconomic uncertainty, a very relevant issue *vis-à-vis* the events that took place after the prices of commodities dropped during 2014. However, its background goes a little further back. The international financial crisis of 2007 set out new challenges for governments all around the globe. In USA and Europe, economic recovery through expansive fiscal policies played a key role, although their significance was highly debated by analysts. The unbalances in the fiscal accounts of the countries most affected by the crisis improved, but the debt levels remain high. Currently, the authorities have less fiscal space to respond with stabilization programs.

With the sudden fall in the prices of commodities in 2014, particularly oil, the primary Latin American exporting economies in this sector (Colombia among them) exhibited a reversion in their growth cycles. Given the size of the shock and its consequences, it will probably end up affecting their long-term growth. The fall in the price of commodities came along with unbalances in several fronts, all with impacts on fiscal management: local currencies depreciated, inflation and interest rates increased, capital flows to the region were interrupted, and risks to the financial markets increased. On the other hand, public finances registered deterioration as a consequence of the fall in revenues, and public debt increased significantly.

In order to understand the nature of the shocks as well as their interactions and future implications, the ESPE journal called for papers at the end of 2016. The call was widely accepted by scholars, researchers, and specialists in macroeconomic and fiscal fields. We received a significant number of papers from several countries, with different work methodologies applied to Colombia and other regions.

After those papers were examined by the guest editors and external referees, to whom we express our gratitude, the seven papers that are part of this publication were accepted. The articles selected cover a broad spectrum related to recent fiscal policy challenges. Todd Walker, a renowned professor from the Department of Economics at Indiana University is our special guest. He discusses the importance of the coordination between fiscal and monetary policies in emerging economies. Professor Walker's lecture opens this special number of ESPE.

In his analysis, Professor Walker uses both frontier theories and the empirical properties of the aforementioned coordination. He presents evidence of how the emerging economies that adopt inflation targeting schemes without the corresponding fiscal reforms are less successful in achieving their goals. Thus, the fiscal policy is essential to anchor inflation expectations and to empower the central bank to reach its goals. Professor Walker also analyzes the consequences of the lack of such coordination. After this article, Eddie Gerba (from the London School of Economics) examines the importance of fiscal policy in stabilizing the economies in the euro zone and the USA, and its interaction with monetary policy. To this purpose, he estimates a structural BVAR.

The article by López, Pinchao, and Rodríguez (Cámara de Comercio de Cali, Fedesarrollo, and *Banco de la República*, respectively) deals with the existing asymmetries in the spending multipliers and taxes in Colombia, which depend on business cycle stages. Next, the paper by Ganiko and Montoro (from the *Consejo Fiscal de Perú* and *Banco Central de la Reserva del Perú*, respectively) estimates a semi-structural model for commodities-exporting economies, particularly in the case of Peru, in order to evaluate the macroeconomic impacts of four different fiscal policy rules. Coming next, Giménez, Prior, and Tortosa-Ausina (the first two from the *Universitat Autònoma de Barcelona* and the latter from *Universitat Jaume I*), present the effects of public expenditure over economic growth in Latin America, with special attention on Colombia. They use stochastic techniques to emphasize institutional quality.

The following three papers close this edition of the journal. First, Alberola (BIS), Kataryniuk (Banco de España), Melguizo (OECD), and Orozco (OECD) analyze the fiscal policy stance from a group of Latin American economies and the suitability of fiscal rules with financing restrictions. Secondly, Medellín (Fedesarrollo) presents a study about the role of public savings in the effectiveness of exchange intervention in Colombia. Finally, Furceri and Tovar (both from the IMF) present a document about the effects and the determinants of fiscal policy stabilization in which they used an innovative set of countercyclical fiscal measures that are time-dependent and that allow to consider both country-specific and global effects.

We hope that the papers included in this special edition of ESPE will be of interest and will promote academic and policy debates in all of these areas.

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