

**FISCAL RULES AND THEIR MACROECONOMIC
CONSEQUENCES**

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Abstract

Fiscal rules are a commonly recognized framework within fiscal policy, currently implemented in 106 countries worldwide. However, the existing literature presents mixed findings regarding the macroeconomic outcomes of fiscal rules. This thesis aims to examine how fiscal rules influence key macroeconomic indicators. The first objective is to examine the effects of fiscal rules on economic growth. In this research, we examine 200 advanced and emerging market economies over the period from 1985 to 2020, employing generalized method of moments estimation. Our results indicate that fiscal rules have a positive effect on economic growth in advanced economies but a negative effect in emerging markets. Additionally, we observe that budget balance rules play a significant part in driving the positive impact of fiscal rules in advanced economies. Conversely, in emerging markets, debt rules, budget balance rules, and expenditure rules are associated with declines in economic growth, while revenue rules exert a positive influence. Furthermore, we find that effective governance enhances economic growth; however, the existence of fiscal rules appears to limit this beneficial effect in both advanced and emerging economies.

The second objective of this thesis is to examine the effects of fiscal rules and inflation targeting on fiscal balances. Using recently developed Difference-in-Differences estimators (de Chaisemartin & D'Haultfoeuille, 2020; 2023a; 2023b; 2024) and dynamic panel models, the analysis is conducted on a dataset of 136 emerging market economies. The results show that fiscal rules and inflation targeting, when implemented individually, do not significantly affect overall fiscal balances. However, when adopted jointly, there is evidence of long-run improvement in fiscal outcomes. Sequencing also plays a role: fiscal rules appear more effective when introduced after inflation targeting, suggesting that the presence of a credible monetary anchor may enhance the fiscal impact of rule-based frameworks.

The third objective assesses the inflationary effects of fiscal rules in emerging market economies, drawing on panel data from 1990 to 2021. The analysis finds that fiscal rules, when applied in isolation, are associated with increased inflation. However, this inflationary effect does not persist when fiscal rules are implemented in conjunction with inflation targeting, highlighting the potential moderating influence of coordinated monetary-fiscal frameworks. Overall, the thesis underscores the importance of institutional context, sequencing, and policy coordination in shaping the macroeconomic effectiveness of fiscal rules—whether in fostering growth, supporting fiscal discipline, or stabilizing inflation.