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PII: S0176-2680(16)30141-0
DOI: http://dx.doi.org/10.1016/j.ejpoleco.2016.08.010
Reference: POLECO1588

To appear in: *European Journal of Political Economy*

Received date: 12 November 2015
Revised date: 11 August 2016
Accepted date: 23 August 2016

Cite this article as: Dimitris Papageorgiou and Evangelia Vourvachaki Macroeconomic effects of structural reforms and fiscal consolidations: Trade-off and complementarities, *European Journal of Political Economy* http://dx.doi.org/10.1016/j.ejpoleco.2016.08.010

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Macroeconomic effects of structural reforms and fiscal consolidations: Trade-offs and complementarities

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Abstract

This paper studies the impact of product and labour market structural reforms and the effects of their joint implementation with alternative debt consolidation strategies. The set-up is a dynamic general equilibrium model calibrated for the Greek economy. The results show that structural reforms produce important long-run GDP gains that materialize earlier, the faster the reforms are implemented. When implemented jointly with fiscal consolidations, structural reforms may amplify the short-run costs of fiscal tightening. The GDP dynamics depend on the fiscal instrument used for public debt consolidation. In the long run, however, there are complementarity gains irrespective of the fiscal instrument used.

Keywords

Structural reforms, Debt consolidation, Small open economy, General equilibrium model

JEL classification codes: E27, E62, O4.

Accepted manuscript

"In every press conference since I became ECB President, I have ended the introductory statement with a call to accelerate structural reforms in Europe. The same message was also conveyed [...] in three quarters of all press conferences since the introduction of the euro." Mario Draghi (President of the ECB)[1]

[1] Introductory speech by Mario Draghi at the ECB Forum on Central Banking, Sintra, 22 May 2015.

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