Dynamic Adjustment of Fiscal Policy in Response to Asymmetric Economic Shocks: A Case Study of Eurozone Peripheral Economies

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Abstract. This study critically examines the fiscal policy responses of Eurozone peripheral economies to asymmetric economic shocks between 2024 and 2026. Using a dynamic stochastic general equilibrium model, we analyze the efficacy of various fiscal instruments in stabilizing output and employment. Preliminary findings reveal that coordinated fiscal interventions significantly mitigate economic volatility, suggesting a paradigm shift in fiscal policy management within the Eurozone.

Keywords: Fiscal Policy, Asymmetric Economic Shocks, Eurozone Peripheral Economies, Dynamic Stochastic General Equilibrium Model, Economic Stability

Introduction

The ongoing challenges facing the Eurozone, particularly in the context of peripheral economies, underscore the critical need for effective fiscal policy frameworks that can respond dynamically to economic shocks. These shocks have often been asymmetric, disproportionately affecting certain economies and creating significant disparities in economic performance across the region. As globalization intensifies and economic ties become ever more interlinked, the ability of national governments to swiftly and effectively respond to such shocks is paramount. Recent years have seen the manifestation of diverse economic shocks, ranging from geopolitical tensions, fluctuating commodity prices, to pandemics, which have tested the resilience of fiscal policies across the Eurozone. Peripheral economies, often characterized by structural vulnerabilities and higher debt levels, are especially susceptible to these disruptions. This has made the exploration of dynamic fiscal policy responses not only relevant but essential to ensure economic stability and growth. In this paper, we conduct an empirical analysis focusing on the fiscal policy adjustments by Eurozone peripheral economies in response to asymmetric shocks during the period from 2024 to 2026. Employing a dynamic stochastic general equilibrium (DSGE) model, we scrutinize the efficacy of various fiscal instruments such as government spending, taxation, and transfer payments in stabilizing key economic variables including output and employment. The paper is structured as follows: We begin by reviewing the literature on fiscal policy responses to economic shocks, with a particular focus on the Eurozone context. This is followed by a detailed description of the DSGE model employed in our analysis. We then present our empirical findings, highlighting the implications of different fiscal strategies. Finally, we conclude with recommendations for policy formulation, emphasizing the need for coordinated fiscal strategies within the Eurozone.

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