

## **Fiscal policy and economic adjustment in emerging economies: what happens after the reforms?**

### **SUMMARY**

Fiscal reform in developing countries has succeeded in increasing tax revenue from indirect taxes. Here it is assumed that those taxes will be transferred backwards to wages rather than forward to prices. This implies a certain degree of flexibility of nominal wages, which, however is not so unrealistic in informal sectors. Under these assumptions it is shown how some simple fiscal policies, such as a balanced budget expansion or an adjustment to a shock to the current account, work. The adjustment to a shock to the current account under the rule of balanced budget appears particularly painful under these assumptions.

Six keywords:

Fiscal policy, tax shifting, Latin America, developing countries, multiplier, income distribution.