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Fiscal issues and central banking in emerging economies

Bank for International Settlements (BIS)

Summary

The view that central banks have an incentive to monitor the fiscal position of the government rests on at least two grounds. First, the government may be tempted to call on the central bank for finance rather than borrow in capital markets. Second, fiscal policy can have a large impact on the economy due to its effects on aggregate demand, and because perceptions regarding the sustainability of fiscal policy can affect financial markets. Problems in the implementation of fiscal policy could therefore interfere with the two widely accepted goals of central banks, which are to control inflation and contribute to macroeconomic and financial stability. They could also adversely affect the balance sheet or profitability of the central bank.

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