

## "Time-Consistent Fiscal Policy and Business-Cycle Amplification in Emerging Markets"

### Abstract:

A small open-economy Dynamic Stochastic General Equilibrium (DSGE) with an endogenous, time-consistent fiscal authority is solved globally and calibrated to emerging-market business-cycle moments. The Markov-perfect government chooses spending under borrowing constraints and convex adjustment costs. Perfect capital mobility and news about fundamentals shape expectations. In equilibrium, fiscal policy is procyclical and tracks the macro state where households anticipate persistent fiscal pressure and reduce saving. The mechanism operates through state-contingent level shifts in the spending rule rather than wealth-slope responses. The framework clarifies why procyclical spending is an optimizing response in the Emerging Markets setting and why commitment or simple rules that smooth spending would improve stabilization and welfare.