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Contents; I. Introduction; II. Literature Review; III. Fiscal Policy During Banking Crises; Figures; 1. Frequency and Duration of Banking Crises; 2. Economic Consequences of Banking Crises; Tables; 1. Fiscal Aggregates; IV. The Effectiveness of Fiscal Response; 2. Budget Composition: Revenues; 3. Budget Composition Expenditures; 3. Fiscal Policy and Crisis Length; 4. Fiscal Expansion Composition and Post-Crisis Growth; 5. Fiscal Policy, Resolution Policies, and Crisis Length; 6. Fiscal Policy Composition, Resolution Policies, and Crisis Length 7. Fiscal Policy Composition, Resolution Policies, and Post-Crisis Growth 8. Explaining Crisis Length Controlling for Initial Fiscal Conditions; 9. Explaining Crisis Length Controlling for Initial Economic Conditions; 10. Explaining Post-Crisis Growth Controlling for Initial Fiscal Conditions; 11. Explaining Post-Crisis Growth Controlling for Initial Economic Conditions; V. Robustness Analysis; VI. Conclusion; Appendixes; Appendix Tables; A1. Episodes of Banking Crisis in the World, 1980-2008; A2. Budget Composition: Revenues; A3. Budget Composition: Expenditures A4. The Relationship Between Containment and Resolution Policies and Crisis Length A5. Robustness Estimations: Different Definition of Crisis Duration Based on Stock Market Recovery; A6. Robustness Estimations: Focusing on Discretionary Expansionary Fiscal Policy; A7. Robustness Estimations: Controlling for Endogeneity; References

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## Sommario/riassunto

This paper studies the effects of fiscal policy response in 118 episodes of systemic banking crisis in advanced and emerging market countries during 1980-2008. It finds that timely countercyclical fiscal measures contribute to shortening the length of crisis episodes by stimulating aggregate demand. Fiscal expansions that rely mostly on measures to support government consumption are more effective in shortening the crisis duration than those based on public investment or income tax cuts. But these results do not hold for countries with limited fiscal space where fiscal expansions are prevented by funding constraints. The composition of countercyclical fiscal responses matters as well for output recovery after the crisis, with public investment yielding the strongest impact on growth. These results suggest a potential trade-off between short-run aggregate demand support and medium-term productivity growth objectives in fiscal stimulus packages adopted in distress times.

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