



Do fiscal rules reduce the political budget cycle? Evidence from Italian municipalities

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The paper provides evidence that fiscal rules can limit the political budget cycle. It uses data on Italian municipalities during the early 2000 and shows that: 1) municipalities are subject to political budget cycles in capital and total spending; 2) the Italian sub-national fiscal rule introduced in 1999 has been enforced by the central government; 3) municipalities subject to the fiscal rule show more contained political budget cycles than municipalities not subject to the rule (the sub-national fiscal rule does not apply to municipalities below 5,000 inhabitants).