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## **Fiscal devaluation and economic activity in the EU countries over year 1995-2014**

In the aftermath of the global financial crisis, a fiscal devaluation (hereafter: FD) has been debated as fiscal policy tools aimed at restoring competitiveness in countries being locked into single currency regime. In this paper we verify the efficiency of such policy using a set of panel and spatial panel data models of selected macro variables such as value added in export, net exports, GDP, employment and labour costs growth for 27 EU countries over the period 1995 – 2014. Our findings show that FD unambiguously increases both value added in exports and net exports, accelerates GDP and employment growth and decelerates labour cost per employee. The effects of FD are non-linear: stronger in the members of the Euro area and are weaker in the countries either with more coordinated or centralised wage bargaining process or with higher unemployment benefits. Furthermore, the results indicate that ignoring spatial effects in the analysis of the effects of FD can lead to erroneous conclusions. Specifically, FD implemented in one country can benefit other countries, especially through export channel, provided that they are strongly integrated in global value chains. These findings are robust to changes in the estimation methods, the sample composition, the set of explanatory variables and the selection of a spatial weight matrix.