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Fiscal Multipliers in Emerging Markets: Expenditure, Growth, and Debt Sustainability

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Abstract— Fiscal policy remains a critical macroeconomic stabilization instrument, particularly for emerging market economies that frequently face external shocks and cyclical fluctuations. This study investigates the magnitude, persistence, and determinants of fiscal multipliers in emerging markets with a focus on government expenditure, debt sustainability, institutional quality, and exchange rate regimes. Using balanced panel data for 25 emerging market economies over the period 2000–2025, fiscal multipliers are estimated using Structural Vector Auto Regression (SVAR) and the Local Projection Method. The results indicate that government spending multipliers range between 0.3 and 0.6, while tax multipliers vary between 0.2 and 0.4. The analysis further reveals that multiplier effects are state-dependent, with stronger responses during economic downturns and under fixed exchange rate regimes. Conversely, high public debt levels and weak institutional quality significantly reduce fiscal policy effectiveness. The findings highlight the importance of maintaining fiscal credibility and strengthening institutional frameworks to enhance the growth impact of fiscal policy in emerging markets.

Keywords: Debt sustainability, Emerging markets, Exchange rate regimes, Fiscal multipliers, Institutional quality, Public expenditure

I. INTRODUCTION

Fiscal policy plays a central role in macroeconomic stabilization and economic growth. In emerging market economies (EMEs), fiscal interventions are frequently used to counteract economic downturns, stimulate demand, and support employment. However, the effectiveness of fiscal policy varies significantly across countries depending on structural characteristics such as fiscal space, institutional quality, trade openness, and exchange rate regimes.

The concept of the **fiscal multiplier** measures the change in national output resulting from a change in government spending or taxation. While empirical studies for advanced economies often report multipliers close to or exceeding

unity during recessions, emerging markets typically experience smaller and less persistent multiplier effects.

These differences arise due to several structural constraints including: higher public debt levels, limited fiscal credibility, external sector leakages and financial market imperfections. Despite growing research on fiscal multipliers, the interaction between **debt sustainability and institutional quality** remains insufficiently explored in the context of emerging markets.

This study aims to fill this gap by providing a comprehensive empirical assessment of fiscal multipliers across emerging economies using panel data and modern econometric techniques.

II. REVIEW OF LITERATURE

The literature on fiscal multipliers has expanded significantly over the past two decades. Early Keynesian studies emphasized the strong demand-stimulating effects of government expenditure.

Blanchard and Perotti (2002) introduced an influential SVAR framework to identify fiscal shocks and estimate their impact on output.

Auerbach and Gorodnichenko (2012) demonstrated that fiscal multipliers are state-dependent, with significantly larger effects during recessions than expansions.

Ilzetzki, Mendoza, and Végh (2013) found that fiscal multipliers are smaller in emerging economies, particularly in countries with high trade openness and flexible exchange rate regimes.

More recent studies highlight the importance of institutional quality. Countries with stronger governance frameworks tend to experience higher fiscal multipliers because public spending is implemented more efficiently and policy credibility is higher.



However, empirical research simultaneously incorporating debt sustainability, institutional quality, and exchange rate regimes remains limited, particularly for emerging market economies.

This study contributes to the literature by integrating these determinants into a unified empirical framework.

III. DATA AND METHODOLOGY

Data Sources

The empirical analysis uses **panel data for 25 emerging market economies from 2000 to 2025**. Data sources include: IMF World Economic Outlook, World Bank World Development Indicators, IMF Government Finance Statistics, World Governance Indicators

IV. RESULTS AND DISCUSSION

Baseline estimates suggest that fiscal multipliers in emerging markets are positive but modest. Government spending multipliers range between 0.3 and 0.6.

TABLE I: Descriptive Statistics

Variable	Mean	Min	Max
GDP Growth	4.3	-8.2	11.4
Gov Expenditure	18.7	10.2	32.5
Public Debt	57.4	22.1	104.6

V. POLICY IMPLICATIONS

The findings provide several policy lessons: Fiscal stimulus should be **counter-cyclical**, Maintaining **debt sustainability** is essential, Institutional reforms can enhance fiscal effectiveness and targeted spending on **infrastructure and human capital** yields stronger growth effects.

VI. CONCLUSION

This study examined fiscal multipliers in emerging market economies using panel data and modern econometric techniques. The results confirm that fiscal multipliers are positive but smaller than those observed in advanced economies.

Fiscal policy effectiveness depends strongly on macroeconomic conditions, institutional quality, and debt sustainability. Strengthening fiscal governance and maintaining credible policy frameworks are therefore essential for maximizing the growth impact of fiscal interventions in emerging markets.

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