

Accepted Manuscript

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PII: S0164-0704(17)30255-0
DOI: [10.1016/j.jmacro.2018.01.004](https://doi.org/10.1016/j.jmacro.2018.01.004)
Reference: JMACRO 3004

To appear in: *Journal of Macroeconomics*

Received date: 28 June 2017
Revised date: 3 November 2017
Accepted date: 15 January 2018

Please cite this article as: Mihály Tamás Borsi, Fiscal multipliers across the credit cycle, *Journal of Macroeconomics* (2018), doi: [10.1016/j.jmacro.2018.01.004](https://doi.org/10.1016/j.jmacro.2018.01.004)



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Fiscal multipliers across the credit cycle*

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Abstract

This paper studies the differences between fiscal multipliers in OECD economies across the credit cycle. Impulse responses are obtained using a state-dependent model with direct projections, in which multipliers depend on the state of credit markets. Identification of the effects of fiscal stimulus and austerity measures is achieved by distinguishing between unanticipated increases and decreases in government spending. The empirical results imply that the financial environment matters. Expansionary fiscal policies are associated with large multipliers during credit bust episodes, and spending increases likewise foster economic growth in periods of rapid credit expansion, albeit to a lesser extent. In contrast, the output effect of contractionary fiscal policies is never statistically different from zero. Regime-specific multipliers of the individual components of GDP and the unemployment

*I would like to thank Máximo Camacho, Matteo Ciccarelli, María Dolores Guilló, Francesco Turino, and seminar participants at the Banco de España, STATEC, ASSET 2015, SAEe 2015, and RES 2016 for their valuable comments and suggestions. Furthermore, I am grateful to Yuriy Gorodnichenko for kindly sharing the data on government spending forecast errors. This paper was partly written while visiting the Associate Directorate General Economics and Research and the Associate Directorate General International Affairs of the Banco de España. All remaining errors are my own.

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