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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

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