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Keep in mind

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Fiscal multipliers are different across countries and according with economic circumstances. The studies about the effect of a government spending shock on output have focus their attention on the behavior of consumption. However, the crowding out of investment is also an important matter of study. In this sense, balance sheet effects play an important role in all countries and in all circumstances. The aim of this paper is to study this important issue in a small open economy that is also characterized by an important proportion of non-Ricardian agents and commodity revenues. The results show that balance sheet effects might reduce the fiscal multiplier by half. Also, that this result might be mitigated if a subsidy, financed with the income taxes revenues from a higher fiscal multiplier, is implemented. Finally, the paper also shows that a structural fiscal rule delivers less welfare losses, due to financial frictions, than other rules.

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