

---

[Working Paper No. 1010](#)

Keep in mind

The series Working Papers on Economics is published by the Office for Economic Studies at the *Banco de la República* (Central Bank of *Colombia*). The works published are provisional, and their authors are fully responsible for the opinions expressed in them, as well as for possible mistakes. The opinions expressed herein are those of the authors and do not necessarily reflect the views of Banco de la República or its Board of Directors.

AUTHORS AND/OR EDITORS

[Ojeda-Joya, Jair](#)

[Oscar E. Guzman](#)

In this paper we estimate the effect of government consumption shocks on GDP using a panel of 21 developing economies. Our goal is to better understand the reasons for the low fiscal multipliers found in the literature by performing estimations for alternative exchange rate regimes, business-cycle phases, and monetary policy stances. In addition, we perform counterfactual simulations to analyze the possible gains from fiscal-monetary policy coordination. The results imply that government consumption shocks are usually followed by monetary policy tightening in developing economies with flexible regimes. Our

---

simulations show that this reaction partially explains the presence of low fiscal multipliers in these economies. Government consumption shocks imply lower multipliers in developing economies during flexible regimes, economic slowdowns or monetary contractions. In addition, implementing fiscal programs during monetary expansions seems to improve significantly their economic stimulus.