Fiscal Multiplier Heterogeneity Versus Monetary Transmission Asymmetry: A Cross-Regime Evaluation of Stabilization Policy Efficacy in Emerging Market Economies

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Abstract. This study conducts a rigorous cross-regime evaluation of fiscal multiplier heterogeneity and monetary transmission asymmetry as competing stabilization frameworks across a panel of 34 emerging market economies over the period 2000–2023. Employing a panel smooth transition regression (PSTR) model augmented with local projections and sign-restricted structural vector autoregressions (SVARs), we disentangle the state-contingent effects of discretionary fiscal expenditure and policy rate adjustments on output gap closure and inflation variance. Our findings reveal that fiscal multipliers systematically exceed unity during episodes of binding zero-lower-bound constraints and elevated sovereign risk premia, whereas monetary transmission channels exhibit pronounced non-linearities conditional on exchange rate regime classification and capital account openness. The results carry significant implications for policy sequencing, optimal debt-to-GDP targeting, and the institutional design of macroprudential frameworks in economies undergoing financial deepening.

Keywords: fiscal multiplier heterogeneity, monetary transmission asymmetry, panel smooth transition regression, emerging market economies, stabilization policy, zero lower bound, sovereign risk premia, macroprudential framework, structural vector autoregression

Introduction

The debate surrounding the relative efficacy of fiscal and monetary policy as macroeconomic stabilization instruments has occupied the center of applied macroeconomics for decades, yet it has acquired renewed urgency in the post-pandemic global economic landscape of 2024–2026. The synchronous withdrawal of emergency fiscal stimulus packages and the aggressive tightening cycles initiated by major central banks across both advanced and emerging market economies have exposed deep structural vulnerabilities in conventional stabilization frameworks. Policymakers in emerging markets, in particular, face a distinctly compound challenge: the simultaneous management of elevated public debt-to-GDP ratios, imported inflationary pressures propagated via currency depreciation, and persistent output gaps inherited from successive supply-side disruptions. In this context, the empirical question of whether discretionary fiscal expenditure or active monetary policy rate adjustments delivers superior countercyclical stabilization outcomes is not merely academic—it is operationally decisive for national treasury authorities, central bank monetary policy committees, and multilateral lending institutions such as the IMF and World Bank. The theoretical foundations of fiscal multiplier analysis, rooted in the seminal Keynesian income-expenditure framework and subsequently refined through the New Keynesian dynamic stochastic general equilibrium (DSGE) tradition, posit that the effectiveness of government spending is intrinsically regime-dependent. Blanchard and Perotti (2002), Christiano et al. (2011), and Ramey (2016) collectively established that multipliers are substantially amplified at the zero lower bound (ZLB) of nominal interest rates and during recessions characterized by slack labor markets and constrained private credit. Conversely, the monetary transmission literature—anchored in the interest rate, bank lending, asset price, and exchange rate channels identified by Mishkin (1996) and Bernanke and Gertler (1995)—demonstrates equivalent state-contingency, particularly with respect to the degree of financial sector development, the prevailing exchange rate arrangement, and the openness of the capital account. Despite this rich theoretical scaffolding, the empirical literature has yet to produce a unified cross-country assessment that simultaneously models both fiscal multiplier heterogeneity and monetary transmission asymmetry within a coherent non-linear econometric framework applied to the emerging market context. Existing studies tend to treat these policy instruments in isolation, rely on linear panel specifications that suppress regime-switching dynamics, or restrict their samples to OECD economies where institutional quality and financial depth diverge substantially from developing-country norms. This paper addresses these gaps directly. Specifically, we make four principal contributions to the literature. First, we construct a harmonized quarterly dataset spanning 34 emerging market economies across Latin America, Sub-Saharan Africa, Emerging Asia, and Eastern Europe from 2000Q1 to 2023Q4. Second, we estimate a panel smooth transition regression (PSTR) model that endogenously identifies regime thresholds based on sovereign risk premia and output gap levels. Third, we implement sign-restricted structural vector autoregressions (SVARs) with local projections to recover the impulse response functions of output and inflation to both fiscal and monetary shocks across identified regimes. Fourth, we derive

normative policy sequencing implications grounded in optimal control theory and debt sustainability analysis. The remainder of the paper is structured as follows. Section 2 reviews the theoretical and empirical literature on fiscal multipliers and monetary transmission in emerging markets. Section 3 presents the data construction methodology and panel characteristics. Section 4 details the econometric strategy, including PSTR specification, identification assumptions in the SVAR framework, and robustness protocols. Section 5 reports the main empirical findings and regime-specific impulse response functions. Section 6 discusses the policy implications for macroprudential design and debt-to-GDP targeting. Section 7 concludes with directions for future research.

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