



**WP/20/XX**

# IMF Working Paper

---

## **The Fiscal Multiplier of Public Investment: The Role of Corporate Balance Sheet**

by Raphael Espinoza, Juliana Gamboa-Arbelaez, and Mouhamadou Sy

*IMF Working Papers* describe research in progress by the author(s) and are published to elicit comments and to encourage debate. The views expressed in IMF Working Papers are those of the author(s) and do not necessarily represent the views of the IMF, its Executive Board, or IMF management.

I N T E R N A T I O N A L M O N E T A R Y F U N D

**IMF Working Paper**

Fiscal Affairs Department

**The Fiscal Multiplier of Public Investment: The Role of Corporate Balance Sheet**Prepared by **Raphael Espinoza, Juliana Gamboa-Arbelaez, and Mouhamadou Sy<sup>1</sup>**

Authorized for distribution by

**Catherine Pattillo and Nikolay Gueorguiev**

September 2020

***IMF Working Papers* describe research in progress by the author(s) and are published to elicit comments and to encourage debate.** The views expressed in IMF Working Papers are those of the author(s) and do not necessarily represent the views of the IMF, its Executive Board, or IMF management.

**Abstract**

This paper explores whether public investment crowds out or crowds in private investment. To this aim, we build a database of about half a million firms from 49 countries. We find that the effect of public investment on corporate investment depends both on leverage and financial constraints. Public investment boosts private investment for firms with low leverage. However, for firms with high leverage, private investment does not react to an increase in public investment, in line with theory (Myers 1977). We also find that the effect of public investment on corporate investment is much weaker for firms that are financially constrained.

JEL Classification Numbers: E22; E62; G31; G39; R42.

Keywords: Public investment; private investment; fiscal multipliers; crowding in; crowding out; corporate balance sheet.

Authors' E-Mail Addresses: [REspinoza@imf.org](mailto:REspinoza@imf.org); [gambo038@umn.edu](mailto:gambo038@umn.edu); [MSy@imf.org](mailto:MSy@imf.org)

---

<sup>1</sup> The authors are grateful for comments and suggestions from N. Gueorguiev, C. Pattillo.