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# Growth, governance, and fiscal policy transmission channels in low-income countries

Emanuele Baldacci <sup>a</sup> ... Naoko C. Kojo <sup>a</sup>

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### Abstract

Private investment is the principal transmission channel through which fiscal policy affects growth in high-income countries. In low-income countries, governance and also other considerations suggest that the primary channel is factor productivity. Empirical results reported in this paper confirm this expectation: in low-income countries factor productivity is some four times more effective than investment as a channel for increasing growth through fiscal policy. Although the private investment response to fiscal contraction may be minor, high-deficit low-income countries can nonetheless benefit by reducing unsustainable fiscal deficits because of governance-related factor productivity responses that increase growth.





## Keywords

Growth; Governance; Fiscal policy; Low-income countries

## JEL classification

E62; H62; O4

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