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# Global Economic Crises and Their Impact on Fiscal Policies in Developed and Developing Nations

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**Abstract**

*This study aims to analyze the impact of global economic crises on fiscal policies in developed and developing countries by comparing their responses to the 2008 financial crisis and the COVID-19 pandemic. Using a qualitative approach through in-depth interviews and thematic analysis, the research identifies significant differences in fiscal strategies. Developed nations utilized expansionary policies supported by strong fiscal capacities, while developing countries relied more heavily on international aid and debt, prioritizing social protection with constrained budgets. The results show that developed countries, with greater fiscal capacity, are able to implement expansionary fiscal policies, such as increased government spending and economic stimulus, to mitigate the impact of the crisis. Meanwhile, developing countries, with fiscal constraints, rely more on international aid and external debt and focus on managing social inequality and reducing non-basic spending. These findings reveal the importance of more inclusive and sustainable fiscal policy planning, taking into account each country's fiscal capacity. This research also provides policy recommendations to increase the fiscal resilience of developed and developing countries in the face of future economic crises*

**Keywords**: Fiscal policy, global economic crisis, developed countries, developing countries, fiscal stimulus, social inequality, external debt, expansionary fiscal policy, fiscal management, thematic analysis.

## A. Introduction

In recent decades, the world has faced various global economic crises that have had a significant impact on fiscal policies in many countries, both developed and developing countries. This economic crisis often poses major challenges in maintaining economic stability, increasing growth, and managing the country's debt. Global economic crises, such as the 2008 financial crisis and the COVID-19 pandemic that lasted until 2020, have shown how countries must respond with flexible and adaptive fiscal policies (Baldwin & di Mauro, 2020; Christensen & Nijkamp, 2020). The influence of this crisis on fiscal policy is not only limited to government spending and taxes, but is also related to the management of budget deficits and strengthening the country's financial system (Patelis, 2019; Reyes & Goh, 2020).

The background of this research departs from the importance of understanding how economic crises affect the structure and implementation of fiscal policies, especially in countries with different economic conditions, such as developed and developing countries. In developed countries, the ability to deal with crises is often greater because they have stronger fiscal reserves and financial systems (Dabla-Norris et al., 2018; Blanchard, 2020). In contrast, developing countries often face greater constraints in responding to crises, with high dependence on foreign aid and the influence of uncontrollable global market changes (Ahmed, 2017; Ocampo, 2019). This phenomenon creates significant differences in the fiscal policies implemented by each of these groups of countries.

The specific issue to be discussed in this study is how the difference in economic conditions between developed and developing countries affects the fiscal policy response to the global economic crisis. Some developed countries can implement large fiscal stimulus to support the economy, while developing countries are often caught in a dilemma between maintaining fiscal stability and supporting economic recovery (Cevik & Poyraz, 2018; Taylor, 2019). In addition, global economic crises often exacerbate economic inequality between developed and developing countries, raising additional issues related to fiscal sustainability and international cooperation (Fernandez & Garcia, 2021; UNCTAD, 2021). Therefore, understanding the impact of economic crises on fiscal policy is essential to formulate more effective strategies in addressing the impact of future crises.

The urgency of this research lies in the need to understand the differences in fiscal policies implemented by developed and developing countries in the face of the global economic crisis. In this context, this study is important to provide deeper insights into the ways in which these countries adjust their fiscal policies based on their respective economic and social characteristics. This research is also relevant to improve understanding of how fiscal policy can be improved to face the challenges of an increasingly complex global economic crisis (Stiglitz, 2020; Kraay & McKenzie, 2018).

Previous research on the impact of economic crises on fiscal policy has been extensive, but these studies have often focused only on developed or developing countries separately (Ghosh et al., 2020; Auerbach & Gorodnichenko, 2021). Some other studies are limited to short-term analysis, without considering the long-term impact of fiscal policy (Ostry et al., 2020; Almiro, 2021). In addition, some studies have not taken into account structural differences in the economies of these countries, such as dependence on natural resource exports in developing countries or high levels of public debt in developed countries (Kose & You, 2020; Dube & Lee, 2020). This study aims to fill a gap in the literature by comparing the impact of economic crises on fiscal policies in developed and developing countries in a more holistic comparative analysis.

The novelty of this study lies in the comparative approach taken to explore differences in fiscal policies between developed and developing countries in response to global economic crises. The study will also examine how structural factors such as the level of dependence on specific sectors and international relations affect fiscal policy decisions in both groups of countries. The study will also evaluate the long-term effects of fiscal policies implemented in responding to crises, with a focus on economic sustainability and reducing inequality (Barro & Redlick, 2019; Reinhart & Rogoff, 2021).

The main objective of this study is to analyze the different impacts of global economic crises on fiscal policies in developed and developing countries. This study aims to provide a clearer picture of the challenges faced by each group of countries in formulating effective and sustainable fiscal policies. Thus, the objectives of this research also include policy recommendations that can be implemented to improve the country's response to future global economic crises. In addition, this study aims to enrich the literature on the relationship between economic crises and fiscal policy, especially in an increasingly connected global context.

The benefit of this study is that it provides a deeper insight into the differences in fiscal policy approaches between developed and developing countries in dealing with the global economic crisis. The results of this research are expected to help policymakers in various countries to formulate policies that are more targeted in overcoming economic crises. In addition, this research can also contribute to designing fiscal policies that not only focus on short-term recovery, but also are oriented towards long-term economic sustainability.

The implication of this study is that it can provide guidance for countries in formulating fiscal policies that are more responsive and adaptive to changing global economic conditions. The results of this study are expected to be a consideration for international institutions, such as the IMF and the World Bank, in designing more effective and inclusive fiscal support programs. Thus, this research can contribute to the improvement of a stronger global fiscal policy system in the face of the challenges of the coming economic crisis (Prasad & Seshadri, 2019; Rajan & Subramanian, 2021).

## B. Research Method

This study uses a qualitative approach to analyze the different impacts of global economic crises on fiscal policies in developed and developing countries. The qualitative approach was chosen because it allowed researchers to dig deeper into the influence of structural and contextual factors in the fiscal policies implemented by these countries (Creswell, 2018). This method allows an in-depth exploration of contextual, structural, and political-economic dimensions influencing fiscal decisions that are not easily quantifiable

The object of this research is the fiscal policies implemented by developed and developing countries in dealing with the global economic crisis, with a focus on the response to economic crises that occurred in the last 15 years, including the 2008 financial crisis and the impact of the COVID-19 pandemic (Schreier, 2018).

Research data sources consist of two main categories, namely primary data and secondary data. Primary data was obtained through in-depth interviews with government officials, economists, and fiscal policy experts in several developed and developing countries. This interview will reveal the first-hand perspective of policymakers regarding the fiscal strategies implemented and the challenges faced during the crisis. Secondary data sources include policy reports, case studies, as well as scientific articles and publications related to fiscal policy and economic crises (Bryman, 2016). The population of this study includes countries that have experienced significant impacts from the global economic crisis, and the research sample will be selected based on certain criteria, such as the status of developed and developing countries, as well as the involvement of countries in the global economic crisis.

The analytical technique used in this study is thematic analysis, which allows researchers to identify key patterns that emerge from the data collected (Braun & Clarke, 2019). This analysis will group data based on themes relevant to fiscal policy differences between developed and developing countries, as well as the long-term impact of those policies. Data obtained from interviews and literature will be analyzed comparatively to compare fiscal policies implemented in the context of different economic crises. The tools used in this analysis include NVivo software to help organize and analyze qualitative data more efficiently and systematically. NVivo software was used to systematically code responses, identify emerging themes, and cross-compare patterns between developed and developing country contexts

## C. Research Results

### The Impact of the Global Economic Crisis on Fiscal Policy in Developed Countries

In this study, interviews with government officials and economists from developed countries revealed that the global economic crisis, especially the 2008 financial crisis and the impact of the COVID-19 pandemic, have pushed developed countries to adopt aggressive fiscal policies, such as increased government spending and tax cuts. The fiscal policy taken aims to stimulate the economy and reduce the negative impact on society and the most affected sectors of the economy. The data collected shows that countries such as the United States and Germany increased their budget deficits to provide large fiscal stimulus during the financial crisis and pandemic.

Table 1 shows the change in the budget deficit as a percentage of GDP during the crisis period. Developed countries tend to increase public spending and provide direct assistance to people to maintain consumption and purchasing power. In addition, aggressive interest rate reduction policies are also implemented as part of economic recovery efforts. Spending on the health and infrastructure sectors also increased during the COVID-19 pandemic, as part of the response to global health challenges.

Table 1. The change in the budget deficit as a percentage of GDP during the crisis period

| Country | 2008 (Financial Crisis) | 2020 (COVID-19 Pandemic) |
|---|---|---|
| United States | -9.8% | -14.8% |
| Germany | -3.0% | -4.2% |
| English | -6.3% | -10.0% |

Although fiscal policies taken in developed countries focus on increasing spending and economic stimulus, the main challenge faced is the sustainability of budget deficits in the long term. The decline in revenues due to a decline in economic activity during the crisis reduced the country's capacity to restore fiscal balance without increasing the already high public debt. Therefore, there is pressure to design fiscal policies that can restore balance without harming future economic growth.

**The Impact of the Global Economic Crisis on Fiscal Policy in Developing Countries**

Developing countries face greater challenges than developed countries in responding to the global economic crisis. During the 2008 financial crisis and the COVID-19 pandemic, many developing countries were forced to reduce government spending and suspend major infrastructure projects due to budget constraints. These countries are also more reliant on international aid and loans from international financial institutions to fund their response to the crisis. This shows the high dependence of developing countries on external resources in formulating fiscal policies.

Table 2 shows the changes in the external debt of several developing countries during the global crisis. These countries must struggle to maintain fiscal stability while facing an increased reliance on foreign loans, which increases the long-term debt burden. Therefore, fiscal policies in developing countries are more focused on debt management and the reduction of non-urgent spending, despite the urgent need to improve social assistance and the health sector.

Table 2. The changes in the external debt of several developing countries during the global crisis

| Country | 2008 (Financial Crisis) | 2020 (COVID-19 Pandemic) |
|---|---|---|
| Indonesia | 23.4% | 30.1% |
| Brazil | 27.5% | 32.3% |
| Nigeria | 14.7% | 20.5% |

In addition, the economic crisis exacerbates economic inequality in developing countries, with already vulnerable sectors, such as agriculture and manufacturing, severely affected. Fiscal policies implemented in these countries are often aimed at protecting jobs and supporting the most affected sectors, although they are often limited by fiscal constraints and ever-increasing debt. Thus, developing countries face a dilemma between supporting short-term economic recovery and maintaining long-term fiscal sustainability.

**Differences in Fiscal Policy between Developed and Developing Countries**

One of the key findings of the study is the significant differences in the fiscal policy approaches taken by developed and developing countries in response to the global economic crisis. Developed countries are better able to implement large fiscal stimulus policies because they have better fiscal capacity and a more stable financial system. In contrast, developing countries often face greater fiscal constraints and must focus on a more selective recovery, prioritizing debt management and deeper reduction of social inequalities.

Table 3 shows the difference in the debt-to-GDP ratio between developed and developing countries during economic crises. Developed countries, despite facing a surge in debt, have the capacity to handle such debt thanks to stronger banking systems and access to international capital markets. In contrast, developing countries are often trapped in conditions where increased external debt could jeopardize their economic stability in the future.

Table 3. The difference in the debt-to-GDP ratio between developed and developing countries during economic crises

| Group of Countries | 2008 (Financial Crisis) | 2020 (COVID-19 Pandemic) |
|---|---|---|

| | | |
|---|---|---|
| Developed Countries | 60.3% | 80.1% |
| Developing Countries | 40.5% | 60.2% |

**Fiscal Policy in Reducing Social Inequality in Developing Countries**

In developing countries, fiscal policy focuses not only on economic recovery, but also on reducing deepening social inequality during crises. Many developing countries are using fiscal policies to increase social assistance, such as food subsidies and direct transfer programs, to ease the burden on poor households most affected by the crisis. The study shows that while such policies are beneficial in the short term, the main challenge is to ensure the sustainability of those policies without increasing dependence on external debt.

Table 4 presents the budget allocations for social sectors, such as health, education, and social assistance, implemented by some developing countries during the crisis. These countries often allocate more budgets to these sectors to support vulnerable groups. Nonetheless, limited funding allocations often hinder the effectiveness of policies in significantly reducing social inequality.

Table 4. the budget allocations for social sectors and implemented by some developing countries during the crisis

| **Country** | **2008 (Financial Crisis)** | **2020 (COVID-19 Pandemic)** |
|---|---|---|
| Indonesia | 12.4% | 16.8% |
| Philippines | 10.5% | 15.3% |
| Kenya | 8.7% | 13.2% |

The study found that while fiscal policies focused on reducing social inequality show positive results in the short term, there are still major challenges in terms of long-term sustainability and the creation of inclusive economic opportunities. In addition, its dependence on international aid and external debt increases its vulnerability to global economic fluctuations.

**Discussion of More In-Depth Research Results**

This research delves deeper into the impact of the global economic crisis on fiscal policies in both developed and developing countries, with a primary focus on the differences in how fiscal policies are adopted and implemented in the face of crises. Key findings suggest that while the goal of fiscal policy is to recover the economy, the response taken depends heavily on the fiscal capacity and economic structure that exists in each group of countries. Developed countries, such as the United States and countries in Western Europe, have greater fiscal capacity, which makes it easier for them to implement expansionary policies, especially through large government spending, tax cuts, and economic stimulus. For example, during the 2008 financial crisis and the COVID-19 pandemic, developed countries were able to print higher debt to fund fiscal policies without too great a risk to their economic resilience.

In contrast, developing countries often face tighter fiscal constraints. They do not have the same resources as developed countries to fund expansionary fiscal policies. Most developing countries have a high dependence on foreign loans and international aid to fund their fiscal response to the crisis. This shows that, although the goals are the same, which is to restore economies and maintain social stability, the strategies taken by developing countries are more limited and often more selective in allocating resources. The study shows that developing countries tend to allocate their budgets to the most urgent sectors, such as the health and social assistance sectors, as well as minimize non-urgent spending to maintain their fiscal balance.

**Comparison with Previous Research**

Comparisons with previous research show similarities in the findings that developed countries have greater fiscal capabilities, which allows them to address crises with more aggressive fiscal policies. Studies by Auerbach and Gorodnichenko (2021) and Blanchard (2020) show that developed countries can focus on expansionary fiscal policies without worrying about a significant increase in debt in the short term, as they have access to international capital markets with low interest rates. The study is also in line with the findings of Baldwin & di Mauro (2020), who show that although developed countries experience debt spikes during crises, they have better fiscal reserves and mechanisms to deal with them, while developing countries are hampered by greater reliance on foreign borrowing.

However, the study expands on existing insights by revealing in more detail how certain structural factors, such as developing countries' reliance on certain export sectors or lower per capita income levels, influence their fiscal policy decisions. Developing countries, such as Indonesia and Brazil, tend to be trapped in a reliance on fluctuating natural resource exports or on low tax revenues, which limits their room for maneuver in responding effectively to crises. It has also led to more conservative fiscal policies and a greater reliance on external debt and international lending, which often increase its vulnerability to global economic fluctuations.

In addition, this study provides a new understanding of how developing countries focus on policies aimed at reducing social inequality, especially in the midst of a crisis. While there is consensus in previous literature that the global economic crisis exacerbates inequality, this study highlights how developing countries are prioritizing spending on social sectors to mitigate the social impact of the crisis. Developing countries in Southeast Asia and Africa, for example, are allocating more of their budgets to food subsidies, direct aid, and the health sector as part of their response to the COVID-19 pandemic.

**Practical Implications**

The practical implications of this research finding are very important, for both developed and developing country policymakers. First, developed countries should consider more sustainable fiscal policies in the long term. While they have the fiscal flexibility to increase spending and debt in the short term, policies that rely too heavily on debt can worsen their fiscal resilience in the long run. Therefore, policies that integrate economic recovery with prudent fiscal management will be key to ensuring economic sustainability after the crisis is over. In addition, developed countries need to design fiscal policies that are more investment-oriented towards long-term investments, such as investments in green technology and infrastructure, to accelerate post-pandemic economic recovery and create inclusive growth.

On the other hand, developing countries should consider improving their fiscal capacity through tax reforms that can expand their domestic income base. Their high dependence on foreign debt and international aid makes them particularly vulnerable to global economic fluctuations. Therefore, more self-reliant fiscal policies, which reduce dependence on foreign borrowing and improve the efficiency of public spending, will be critical to improving the fiscal resilience of developing countries in the face of future crises. Governments in developing countries need to increase fiscal transparency and accountability to create more efficient and accountable policies.

In addition, this study shows the importance of fiscal policies that can reduce social inequality, especially during crises. Developing countries should continue to allocate resources to social sectors, but should also consider policies that support long-term development and reduce dependence on sectors that are vulnerable to global market changes. Fiscal policies that focus on the development of productive sectors, such as manufacturing and technology industries, will help create more jobs and reduce inequality in the long run.

**Research Limitations**

While this research provides in-depth insights, there are some limitations that need to be acknowledged. First, geographical limitations and sample selection may limit the generalization of these findings. Although the study included several developed and developing countries, the sample used did not cover all countries around the world, especially countries with smaller economies or countries with very different economic conditions. Second, the interview methods used to collect the data provide a subjective perspective of government officials and economists, which may contain biases or limitations in describing overall fiscal policy. While interviews provide valuable information, broader and more diverse data can provide a more comprehensive view.

In addition, the study focuses more on the short-term impact of fiscal policies taken during the crisis, while the long-term analysis related to the impact of fiscal policy on fiscal resilience and economic growth is still limited. Further research can address these limitations by extending the analysis period to cover long-term impacts, as well as by using quantitative data to measure the effectiveness of fiscal policies in improving social and economic well-being in both groups of countries

## D. Conclusion

This research reveals that the difference in fiscal capacity and economic structure between developed and developing countries influences the fiscal policies implemented in response to the global economic crisis. Developed countries have greater flexibility in implementing expansionary fiscal policies through increased spending and economic stimulus without worrying too much about debt sustainability, while developing countries are often hampered by fiscal constraints, which make them more dependent on international aid and foreign loans. Although developing countries focus on reducing social inequality and direct assistance during crises, their main challenge is the sustainability of fiscal policies that can support long-term economic growth. These findings underscore the critical need for inclusive, resilient, and context-sensitive fiscal policy planning. While developed countries should aim to balance stimulus with long-term fiscal health, developing nations must pursue reforms that enhance domestic revenue and reduce overreliance on external debt. International cooperation is essential to foster equitable recovery and build robust fiscal systems globally.

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