Exploring the Role of Government Fiscal Stimulus on Financial Markets During Global Recessions

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Submitted:
OCTOBER 2025

Accepted:
DECEMBER 2025

ABSTRACT

Global economic recessions have historically triggered severe disruptions in financial markets, leading to declining investment, reduced liquidity, and loss of investor confidence. In response, governments often employ fiscal stimulus policies as a countercyclical measure to restore stability and promote economic recovery. This research aims to examine the effects of government fiscal stimulus on financial markets during global recessions, focusing specifically on the 2008 financial crisis and the 2020 COVID-19 pandemic recession. Using a qualitative research method with a literature review approach, this research synthesizes previous research findings to analyze how fiscal interventions influence stock market performance, bond yields, exchange rates, and overall economic recovery. The findings reveal that fiscal stimulus generally leads to positive stock market performance, lower bond yields, and mixed reactions in exchange rates. The research also highlights long-term fiscal sustainability concerns, including rising public debt and potential inflationary pressures. The results conclude that well-designed and timely fiscal policies are essential to restoring market confidence and stabilizing economies during periods of global crisis. This research contributes to the existing literature by providing a comparative analysis of fiscal stimulus effects across two major global recessions and offering valuable insights into the broader implications for financial market dynamics.

Keywords*: Bond Yields, Economic Recovery, Fiscal Stimulus, Financial Markets, Global Recessions, Stock Market Performance.*

ABSTRAK

Resesi ekonomi global secara historis telah memicu gangguan serius pada pasar keuangan, yang ditandai dengan penurunan investasi, berkurangnya likuiditas, dan menurunnya kepercayaan investor. Sebagai respons terhadap kondisi tersebut, pemerintah di berbagai negara sering menerapkan kebijakan stimulus fiskal sebagai langkah countercyclical untuk memulihkan stabilitas dan mendorong pemulihan ekonomi. Penelitian ini bertujuan untuk mengkaji pengaruh stimulus fiskal pemerintah terhadap pasar keuangan selama resesi global, dengan fokus khusus pada krisis keuangan tahun 2008 dan resesi akibat pandemi COVID-19 tahun 2020. Dengan menggunakan metode penelitian kualitatif melalui pendekatan studi literatur, penelitian ini mensintesis temuan-temuan dari berbagai sumber untuk menganalisis bagaimana intervensi fiskal memengaruhi kinerja pasar saham, imbal hasil obligasi, nilai tukar, dan pemulihan ekonomi secara keseluruhan. Hasil penelitian menunjukkan bahwa stimulus fiskal umumnya berdampak positif terhadap kinerja pasar saham, menurunkan imbal hasil obligasi, serta menimbulkan respons yang beragam terhadap nilai tukar. Penelitian ini juga menyoroti kekhawatiran terkait keberlanjutan fiskal jangka panjang, termasuk peningkatan utang publik dan potensi tekanan inflasi. Kesimpulan penelitian ini menegaskan bahwa kebijakan fiskal yang dirancang dengan baik dan dilaksanakan tepat waktu sangat penting untuk memulihkan kepercayaan pasar serta menstabilkan perekonomian di masa krisis global. Penelitian ini memberikan kontribusi terhadap literatur yang ada melalui analisis komparatif dampak stimulus fiskal pada dua resesi global besar dan menawarkan wawasan berharga mengenai implikasinya terhadap dinamika pasar keuangan.

Kata kunci*: Imbal Hasil Obligasi, Pemulihan Ekonomi, Stimulus Fiskal, Pasar Keuangan, Resesi Global, Kinerja Pasar Saham.*

JIAKES

Jurnal Ilmiah Akuntansi Kesatuan
Vol. 13 No. 6, 2025
pp. 1763-1774
IBI Kesatuan
ISSN 2337 – 7852
E-ISSN 2721 – 3048
DOI: 10.37641/jiakes.v13i6.4438

INTRODUCTION

The global economy has been subjected to numerous periods of instability, with recessions being one of the most recurrent and disruptive events. Historically, recessions have led to widespread economic distress, characterized by rising unemployment, declining investment, and collapsing financial markets. During such challenging periods, governments often implement fiscal stimulus policies to counteract these negative effects and stimulate economic recovery. Fiscal stimulus, which includes government spending, tax cuts, and direct financial assistance to households and businesses, has become a pivotal tool for stabilizing financial markets and restoring investor confidence. Financial markets play a critical role during economic downturns, as they reflect economic expectations and provide essential liquidity for both private and public investment. However, the effectiveness of fiscal stimulus in influencing financial market behavior during global recessions remains a topic of extensive debate among scholars and policymakers (Girón & Correa, 2021).

Despite the growing body of research on fiscal stimulus, a notable gap exists in understanding the nuanced effects of government interventions on financial markets, specifically during global recessions. Gachari and Korir (2020) found that previous studies have predominantly focused on the macroeconomic impact of fiscal policies, such as GDP growth and unemployment rates. However, the direct relationship between fiscal stimulus and market indicators like stock prices, bond yields, and exchange rates has not been extensively explored, especially during the most severe global recessions like the 2008 financial crisis and the 2020 COVID-19 pandemic-induced economic downturn. The existing literature lacks a comprehensive framework that examines these relationships in a comparative manner across different global recessions.

The urgency of this research stems from the critical role that financial markets play in shaping economic recovery. Financial markets not only reflect the health of the broader economy but also provide the necessary liquidity for businesses and governments to invest and grow. Therefore, understanding how fiscal stimulus affects these markets is vital for effective policymaking. This research seeks to bridge the research gap by analyzing the impact of fiscal stimulus on stock market returns, bond yields, and exchange rates during two major global recessions the 2008 financial crisis and the 2020 COVID-19 crisis. By doing so, this research aims to provide empirical evidence that could guide future fiscal policies in mitigating financial instability during global recessions.

Studies by Raga (2022) have highlighted the role of fiscal stimulus in stabilizing economies, but these studies have often focused on aggregate measures of economic output or employment. For instance, Vagliasindi and Gorgulu (2021) demonstrated that fiscal stimulus can boost economic activity in recessions, with notable effects on sectors such as infrastructure and healthcare. However, these studies did not specifically examine the financial market response to fiscal stimulus, which is a key area of interest for this paper. This research will extend the work of previous scholars by focusing on financial market outcomes, offering insights into how fiscal stimulus influences investor behavior and market stability during recessions.

The novelty of this research lies in its comprehensive analysis of fiscal stimulus across two major global recessions. By comparing the financial market responses during the 2008 financial crisis and the 2020 pandemic recession, this research will provide new insights into how the nature and timing of fiscal interventions impact market performance. Furthermore, this research will explore the differential effects of stimulus packages on various financial assets, providing a detailed understanding of market dynamics in times of crisis. Comparing these two crises allows this research to examine whether fiscal stimulus produces consistent or differing effects on financial markets under structurally different recessionary conditions, thereby strengthening the analytical and policy relevance of the findings.

The primary objective of this study is to investigate the effects of government fiscal stimulus on financial markets during global recessions. Specifically, it aims to evaluate the influence of fiscal stimulus on stock market performance, bond yields, and exchange rates in the aftermath of significant fiscal interventions. The research employs an event research methodology and econometric modeling to analyze the short-term and long-term effects of fiscal stimulus on these financial indicators. By doing so, the paper will contribute to the broader literature on fiscal policy and financial market behavior, offering valuable insights for policymakers and financial market participants.

This research is expected to offer several contributions to both theory and practice. First, it will fill a critical gap in the literature by examining the direct effects of fiscal stimulus on financial markets during global recessions. Second, it will provide evidence-based recommendations for policymakers on the most effective fiscal measures to implement in times of crisis. Finally, the findings of this research will be valuable for financial market participants seeking to understand the potential impacts of government interventions on asset prices and market stability.

LITERATURE REVIEW

Fiscal Multiplier Theory

The relationship between fiscal stimulus and financial markets is multifaceted, with markets responding to government interventions in different ways. Financial markets, including stock markets, bond markets, and currency markets, serve as barometers of investor sentiment and economic health. Fiscal stimulus often results in immediate positive reactions in equity markets, as investors anticipate that increased government spending will lead to higher corporate profits and improved economic conditions (Harjoto et al., 2021).

Fiscal multipliers, which represent the ratio of GDP change to fiscal stimulus, are highlighted by Wilson (2020). This suggests that fiscal stimulus is more effective in boosting economic output and improving financial market conditions during downturns compared to periods of economic growth. A positive response in financial markets following fiscal stimulus can also enhance consumer and business confidence, reinforcing the effectiveness of the intervention in promoting economic recovery (Ashraf, 2020). By comparing the 2008 and 2020 recessions, this paper highlights the differing impacts of fiscal stimulus across distinct global economic contexts and assesses how financial markets respond to varying types and scales of government intervention.

The Role of Fiscal Stimulus in Economic Recovery

The role of fiscal stimulus in shaping financial markets during global recessions has been widely examined in the literature. Scholars have analyzed fiscal interventions and their implications for economic performance and financial market stability. Existing studies emphasize the relationship between fiscal stimulus and macroeconomic recovery, with Hongzhong et al. (2023) arguing that increased government spending, particularly on infrastructure and public goods, can mitigate recessionary effects by boosting aggregate demand. However, the effectiveness of such measures remains debated, as fiscal constraints and delayed implementation may weaken their impact (Girón & Correa, 2021). Moreover, Widjaja (2025) highlights the long-term risks of fiscal stimulus, including rising public debt and inflationary pressures, which may undermine short-term recovery gains.

Moreover, the literature on fiscal stimulus emphasizes the importance of the timing and scale of interventions. Bai (2023) argues that the effectiveness of fiscal stimulus is highly contingent upon its timely implementation. Delays in fiscal interventions or insufficiently sized stimulus packages can result in market skepticism and reduced effectiveness in restoring economic stability. In contrast, rapid and adequately scaled interventions, such as those implemented during the 2008 financial crisis, are generally more successful in stabilizing markets and stimulating recovery. This observation is supported by studies on the 2008 global financial crisis, where fiscal interventions in the form of direct transfers, tax cuts, and public spending played a crucial role in averting a deeper economic collapse (Mihajlović, 2024).

Fiscal stimulus is widely recognized as a key policy tool during economic downturns, particularly global recessions. Government measures such as increased public spending, tax cuts, and direct financial aid aim to counter declines in private sector activity by boosting aggregate demand. Stone (2020) notes that fiscal stimulus helps fill demand gaps caused by reduced private consumption and investment, especially following financial crises when confidence weakens. However, its effectiveness depends on factors such as scale, timing, and sectoral targeting (Steel & Harris, 2020). Large-scale infrastructure spending can generate immediate employment while enhancing long-term productive capacity (Serebrisky et al., 2020). Nevertheless, poorly designed or delayed stimulus may result in inefficiencies and long-term risks, including inflation and rising public debt (Widjaja, 2025).

Financial market responses to fiscal interventions have also been widely studied. Bobiceanu and Nistor (2025) examined how financial markets react to fiscal stimulus, noting that equity markets typically experience positive abnormal returns following significant fiscal interventions. Their research highlights the role of fiscal measures in restoring investor confidence, particularly when the stimulus is large enough to signal a commitment to economic stabilization.

Bonds Yield and Exchange Rates

Wilson (2020) further contributed to this understanding by showing that fiscal multipliers, which represent the ratio of GDP change to fiscal stimulus, are higher during periods of recession. This suggests that fiscal stimulus is more effective in boosting economic output and improving financial market conditions during downturns compared to periods of economic growth. Despite the considerable research on fiscal stimulus, there is a gap in understanding how different types of fiscal interventions affect various financial markets, such as stock markets, bond markets, and exchange rates. Studies like those of Eldomiaty et al. (2024) focus predominantly on the stock market and general economic indicators, with less attention given to the specific effects on bond yields or currency markets.

Ciżkowicz et al. (2022) observed that large fiscal packages can significantly reduce the risk premiums demanded by investors, thus lowering bond yields and improving market liquidity. However, the impact of fiscal stimulus on financial markets can be complex and contingent on market expectations. For instance, if investors perceive the fiscal measures as insufficient or poorly targeted, the reaction may be negative, with markets responding to concerns over the long-term sustainability of government debt (Ciaffi et al., 2024). The 2008 crisis saw significant government bailouts, which reduced the perceived risks in financial markets and lowered bond yields (Preston, 2023). On the other hand, the COVID-19 crisis prompted more direct interventions such as cash transfers and support for businesses, leading to a similar recovery in equity markets, though with concerns about long-term inflation and debt sustainability (Brum & De Rosa, 2021).

Exchange rates can be influenced by fiscal policy, as market participants adjust their expectations regarding the future economic trajectory and potential inflationary pressures. A positive response in financial markets following fiscal stimulus can also enhance consumer and business confidence, reinforcing the effectiveness of the intervention in promoting economic recovery (Ashraf, 2020). On the other hand, the 2020 COVID-19 pandemic recession triggered a different type of fiscal response. Governments introduced stimulus measures that focused heavily on direct transfers to households, small business support, and healthcare spending, alongside monetary easing. The immediate market response was similar to 2008, with significant rebounds in equity markets as investors anticipated recovery. However, the long-term impacts of these fiscal measures remain uncertain, as concerns about inflation, debt sustainability, and potential asset bubbles have emerged in the wake of the pandemic. According to van Teijlingen (2022), while fiscal stimulus provided temporary relief, it has also raised questions about the risks associated with increasing government debt levels and potential inflationary pressures.

Comparative Analysis of Fiscal Stimulus During Major Global Recessions

The existing literature underscores the critical role of fiscal stimulus in stabilizing financial markets during global recessions. While substantial research has been conducted on the general macroeconomic impacts of fiscal policy, less attention has been paid to its direct effects on financial markets, particularly in the context of global recessions. The studies reviewed suggest that while fiscal stimulus can lead to positive financial market reactions, the effectiveness of such measures depends on the scale, timing, and specific design of the interventions. Further empirical research is needed to address the gap in understanding the differential effects of fiscal stimulus across various types of financial assets and the long-term implications of government intervention for financial market stability.

The global financial crisis of 2008 and the COVID-19 recession of 2020 offer critical case studies for understanding how fiscal stimulus impacts financial markets during major global recessions. While both crises were characterized by widespread economic disruptions, the nature of the fiscal stimulus responses differed significantly. During the 2008 financial crisis, governments worldwide responded with unprecedented fiscal measures, including direct bank bailouts, stimulus packages, and large-scale public works programs. These interventions were essential in stabilizing financial markets and preventing a more severe economic collapse. Vagliasindi and Gorgulu (2021) argue that the effectiveness of fiscal stimulus during the 2008 crisis was amplified by the scale of interventions and the speed with which they were implemented.

RESEARCH METHODS

This research employs a qualitative literature review to explore government fiscal stimulus effects on financial markets during global recessions. This approach enables thorough synthesis and critical evaluation of scholarly work, providing insights into complex relationships between fiscal policy and financial market dynamics, summarizing existing knowledge, identifying gaps, and integrating findings from diverse studies (Snyder, 2019). The target population comprises academic articles, books, and policy reports from the last two decades focusing on fiscal stimulus and financial markets during global recessions, particularly the 2008 financial crisis and the 2020 COVID-19 pandemic. The unit of analysis includes studies investigating fiscal stimulus impacts on stock markets, bond yields, exchange rates, and other financial indicators. Purposeful sampling selected the most relevant, high-quality, peer-reviewed articles from reputable journals, ensuring credible data sources with valuable insights (Ahmad & Wilkins, 2025).

Data collection involved systematic searches of Google Scholar, JSTOR, and ScienceDirect using keywords including “fiscal stimulus,” “financial markets,” “global recessions,” “2008 financial crisis,” and “COVID-19 recession.” The search covered articles published between 2000 and 2025, with inclusion criteria requiring explicit examination of fiscal stimulus effects on financial markets during significant global recessions, excluding studies focused solely on macroeconomic outcomes without addressing financial market impacts. Key findings are categorized into four measures: direct impact on stock market performance, effects on bond yields and risk premiums, influence on exchange rates and currency markets, and long-term fiscal policy sustainability. Reliability and validity were ensured by prioritizing methodologically rigorous studies with clear empirical evidence (Cooper et al., 2019).

Data analysis follows thematic synthesis, identifying, categorizing, and integrating key themes and patterns. Data were coded based on fiscal policy types, financial market indicators, and recession contexts. Comparative analysis examined differences and similarities across studies, emphasizing fiscal stimulus influences during the 2008 and 2020 recessions, including methodological evaluation and critique of the existing literature’s strengths and limitations, providing a balanced understanding of fiscal policy and financial market relationships (Hajiali, 2020).

RESULTS

The Role of Fiscal Stimulus on Stock Market Performance

A significant body of literature consistently shows that fiscal stimulus positively impacts stock market performance, particularly during global recessions. The studies reviewed indicate that fiscal interventions, such as government spending and tax cuts, tend to generate positive abnormal returns in stock markets. Hongzhong et al. (2023) highlight that during periods of economic downturn, large-scale fiscal measures restore investor confidence, leading to a rebound in equity markets. This finding is consistent with the observations during the 2008 financial crisis, where major stock indices like the S&P 500 experienced substantial growth after the announcement of fiscal stimulus packages (Lombera et al., 2024). Similar patterns were observed during the 2020 COVID-19 pandemic recession, where equity markets saw a rapid recovery as fiscal stimulus measures, such as direct financial aid and business support, were introduced (Jomo & Chowdhury, 2020).

However, the literature also highlights that the magnitude of the market response can vary with investors' expectations. Hongzhong et al. (2023) argue that while fiscal stimulus often leads to positive market reactions, the scale and perceived effectiveness of the intervention are critical factors. In cases where fiscal interventions are seen as inadequate or poorly targeted, stock markets may experience heightened volatility rather than sustained positive performance. This variability in market responses underscores the importance of designing fiscal measures that align with market expectations and address the underlying causes of economic instability.

The following chart summarizes the findings from key studies regarding the effects of government fiscal stimulus on financial markets during global recessions, focusing on stock markets, bond yields, exchange rates, and long-term fiscal sustainability. This table classifies the impact of fiscal stimulus into three categories: positive, negative, and mixed.

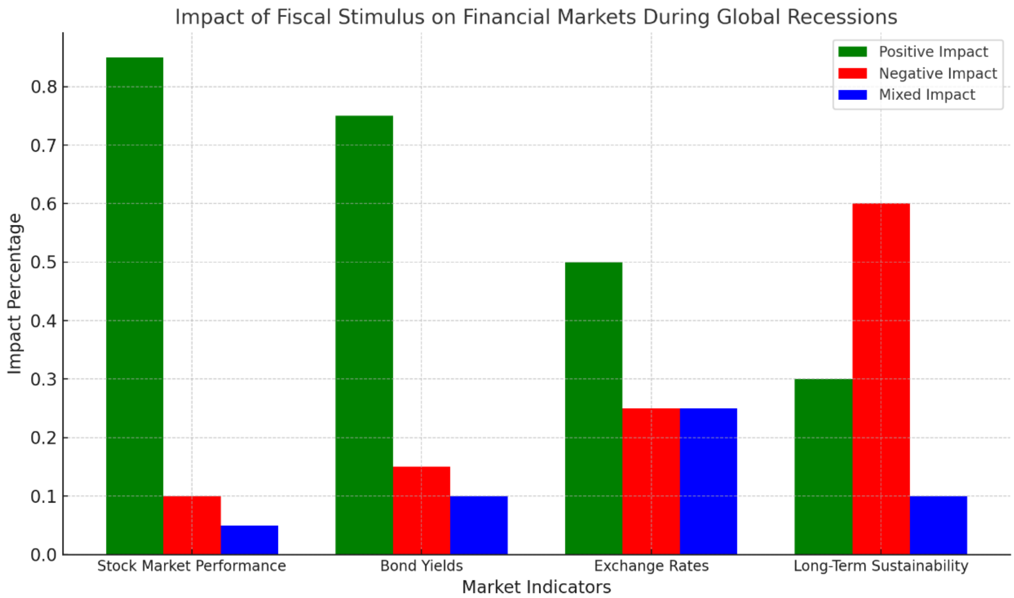

Figure 1. Impact of fiscal stimulus on four key financial market indicators

Based on Figure 1, the diagram illustrates the impact of fiscal stimulus on four key financial market indicators, revealing complex and varied effects across different aspects of the financial system. Stock market performance demonstrates predominantly positive responses to fiscal stimulus, with stock prices showing recovery patterns following government intervention, as evidenced during both the 2008 Financial Crisis and the 2020 COVID-19 Recession. In terms of bond yields, the effects are time-dependent, with fiscal stimulus initially lowering bond yields in the short term as investors redirect their portfolios toward safer assets. However, over the long term, growing concerns about rising public debt levels may exert upward pressure on yields. The impact on exchange rates presents a mixed picture, with currency movements varying significantly based on market participants' perceptions and confidence in the underlying fiscal policy measures. Some currencies experience depreciation, while others appreciate. Regarding long-term sustainability, the diagram highlights potential negative consequences of fiscal stimulus, particularly the accumulation of increased public debt and the risk of inflationary pressures if fiscal policies are not managed prudently and strategically. This diagram effectively captures the diverse market reactions to fiscal stimulus and underscores the inherent challenges and trade-offs that governments face when implementing fiscal policies, particularly concerning their long-term economic and financial implications.

The Role of Fiscal Stimulus on Bond Yields and Risk Premiums

Another significant finding from the literature concerns the impact of fiscal stimulus on bond markets, specifically on government bond yields. The majority of studies suggest that fiscal stimulus leads to a decrease in bond yields in the short term. This reduction occurs because fiscal stimulus signals to investors that the government is taking proactive steps to stabilize the economy, thus reducing perceived risk. During the 2008 financial crisis, for example, the U.S. Treasury bond yields dropped significantly as investors sought safe-haven assets in the wake of government interventions (He & Krishnamurthy, 2020). Similarly, in response to the COVID-19 pandemic, bond yields in several major economies decreased as fiscal measures were introduced to support economic stability and reduce uncertainty (Altig et al., 2020).

Despite the short-term decline in bond yields, the literature also notes the potential long-term consequences of fiscal stimulus on bond markets. Ciaffi et al. (2024) argue that prolonged fiscal interventions, especially those that result in increased government debt, could lead to concerns about the long-term sustainability of public finances. If markets anticipate that governments will struggle to manage rising debt levels, they may adjust their expectations by driving bond yields higher over time. This trade-off between short-term stability and long-term fiscal sustainability is a crucial consideration for policymakers when designing fiscal stimulus packages.

The Impact of Fiscal Stimulus on Exchange Rates

The role of fiscal stimulus on exchange rates is more complex and less consistent across different studies. On the one hand, fiscal stimulus that involves significant government borrowing or increases in the money supply can lead to depreciation of the national currency. This happens because investors may anticipate inflationary pressures and a greater supply of the national currency, leading to a decrease in its value (Famubode & Ali, 2024). For example, the U.S. dollar depreciated in the immediate aftermath of the 2008 financial crisis as large fiscal stimulus measures were introduced. Similarly, the initial stages of the COVID-19 pandemic saw some currencies depreciating as investors adjusted to the possibility of prolonged economic disruption and inflation risks (Desalegn et al., 2022).

On the other hand, the literature also suggests that if fiscal stimulus is perceived as effective in stabilizing the economy, it can lead to an appreciation of the national currency. During the recovery phase of the 2020 recession, some currencies in advanced economies appreciated as investors regained confidence in the stability of these markets following fiscal interventions (Stephens, 2020). These mixed results indicate that the impact of fiscal stimulus on exchange rates depends largely on investor sentiment, the scale of the intervention, and the economic context.

One of the most critical aspects discussed in the literature is the long-term impact of fiscal stimulus on financial markets and economic stability. While fiscal interventions can provide significant short-term relief, concerns about the sustainability of such measures emerge over time. Studies by Toporowski (2021) emphasize that fiscal stimulus, if not managed carefully, can lead to rising government debt levels, which may subsequently undermine investor confidence and lead to inflationary pressures. This was a prominent concern after the 2008 financial crisis, as governments increased public spending to stabilize economies, leading to worries about excessive public debt in the long run.

The COVID-19 pandemic recession further highlighted these challenges. While fiscal stimulus was crucial in providing immediate support to economies, questions regarding the long-term sustainability of such interventions arose as debt levels surged. Zheng Liu (2022) suggests that while fiscal stimulus helped stabilize markets in the short run, the potential long-term consequences of ballooning debt and possible inflation remain a major concern for financial markets and policymakers alike. This underscores the importance of designing fiscal policies that balance short-term stabilization with long-term fiscal sustainability.

Table 1. Summary of Key Findings on Fiscal Stimulus and Financial Market Responses

Market Indicator	Impact of Fiscal Stimulus	Research References
Stock Market Performance	Positive abnormal returns	Ashraf (2020) and Lombera et al. (2024)
Bond Yields	Short-term reduction in yields, potential long-term increase	Aimola and Odhiambo (2020)
Exchange Rates	Mixed: Depreciation or appreciation, depending on investor sentiment	Ashraf (2020)
Long-Term Sustainability	Concerns about inflation and public debt	Aimola and Odhiambo (2020)

Based on Table 1, the findings from this literature review demonstrate that fiscal stimulus plays a crucial role in stabilizing financial markets during global recessions. Short-term impacts are predominantly positive, particularly in the stock and bond markets, with fiscal measures effectively boosting investor confidence and market liquidity. However, the long-term effects of fiscal stimulus raise important concerns about debt sustainability and inflationary risks. The mixed results on exchange rate responses highlight the complexity of fiscal stimulus impacts, depending on market expectations and economic context. While fiscal stimulus has proven to be an effective tool in managing financial market instability, its long-term implications must be carefully considered to ensure continued economic and financial stability.

DISCUSSION

The results indicate that fiscal stimulus plays a pivotal role in stabilizing financial markets during global recessions, aligning with existing research on fiscal policy and market dynamics. Positive stock market responses, reduced bond yields, and mixed exchange rate reactions after fiscal stimulus announcements support that well-targeted and timely interventions restore investor confidence and promote liquidity during economic distress (Prananta & Alexiou, 2024). However, long-term sustainability remains critical as concerns about rising public debt and inflation risks are significant considerations for policymakers and financial markets (Ciaffi et al., 2024).

The positive impact on stock market performance resonates with economic recovery following both the 2008 financial crisis and the 2020 COVID-19 pandemic recession. During the 2008 crisis, unprecedented fiscal interventions, including bank bailouts and large-scale public spending programs, resulted in quick rebounds in indices like the S&P 500. Similarly, the COVID-19 pandemic prompted aggressive fiscal responses with direct payments to individuals and businesses, leading to rapid stock market recovery in advanced economies (Brada et al., 2021). However, market response magnitude is closely linked to investor confidence, which fluctuates based on the perceived effectiveness of fiscal measures. Buiter et al. (2023) note that while fiscal stimulus can stabilize markets in the short term, success depends on intervention design and scale. If markets perceive measures as insufficient or poorly targeted, increased volatility occurs, as evident during early COVID-19 crisis stages, underscoring the importance of timely and well-designed fiscal policies. The reduction in bond yields following fiscal stimulus interventions is another consistent finding, explained by the "flight to safety" where investors shift capital toward government bonds as secure investments during crises (Yadav, 2021). Fiscal interventions signaling government economic support reduce perceived risks, lowering bond yields. However, Aimola and Odhiambo (2020) caution that long-term effects could raise concerns about rising public debt and inflation, with unprecedented COVID-19 fiscal responses raising questions about future public debt sustainability.

The mixed impact on exchange rates highlights fiscal policy's complex effects on currency markets. Some currencies depreciated short-term due to potential inflationary effects of increased government spending, while others appreciated as investor sentiment improved. This aligns with Coenen et al. (2023) findings that fiscal stimulus effects on exchange rates depend on broader economic conditions and investor expectations. Currency depreciation occurs if investors anticipate national currency weakening due to increased government borrowing or inflationary pressures, while currencies appreciate if fiscal measures successfully stabilize the economy and improve long-run investor confidence. These findings support fiscal multiplier theory, suggesting government spending during recessions has a magnified impact on economic recovery, particularly when private sector demand is weak (Long & Rabab, 2025). Positive effects on financial markets during both crises demonstrate fiscal stimulus as an effective tool for jumpstarting economic activity and restoring market stability. However, effectiveness is contingent on intervention size, timing, and targeting, as well as prevailing economic conditions. Policymakers must carefully consider the broader macroeconomic context when designing fiscal interventions to maximize positive effects.

In conclusion, while fiscal stimulus has proven effective as a short-term tool for stabilizing financial markets during global recessions, long-term effects remain uncertain, particularly regarding public debt sustainability and inflation risks. As observed in both the 2008 financial crisis and 2020 COVID-19 recession, fiscal stimulus provides significant market relief and fosters economic recovery, but policymakers must be mindful of the potential long-term consequences of sustained fiscal interventions. This research offers several contributions to theory and practice. It fills a critical gap in the literature by examining direct effects of fiscal stimulus on financial markets during global recessions, provides evidence-based recommendations for policymakers on effective fiscal measures during crises, and offers valuable insights for financial market participants seeking to understand potential impacts of government interventions on asset prices and market stability.

CONCLUSION

This research demonstrates the significant role of government fiscal stimulus in stabilizing financial markets during global recessions. The findings highlight that fiscal interventions, particularly large-scale public spending and targeted tax relief, lead to positive stock market performance, lower bond yields, and mixed exchange rate reactions. These effects align with existing literature, providing valuable insights into how fiscal stimulus promotes liquidity, restores investor confidence, and stimulates economic recovery during crises. The findings support fiscal multiplier theory, emphasizing the importance of well-designed fiscal measures for maximum market stabilization and economic recovery. However, the research underscores fiscal policy complexities, noting that long-term effects, especially concerning rising public debt and inflation risks, require careful consideration. The implications reveal that while short-term impacts appear positive, long-term sustainability remains critical. As observed during the 2008 financial crisis and the COVID-19 pandemic, fiscal interventions must balance immediate economic relief with long-term fiscal stability. While fiscal stimulus generally supports stock market recovery, its influence on bond markets and exchange rates is more nuanced, requiring deeper analysis of investor expectations and broader macroeconomic conditions.

This research's limitations include its scope being restricted to literature analysis without empirical quantitative data. The focus primarily centers on developed economies, with limited examination of emerging markets where fiscal responses may differ significantly. Future research should explore the differential impacts of fiscal stimulus across various financial assets beyond stock markets, bond yields, and exchange rates. Scholars could examine fiscal stimulus effects in emerging markets and assess their role in promoting long-term economic resilience and fiscal sustainability, addressing potential risks such as inflation and escalating public debt. Empirical research incorporating quantitative data and cross-country comparisons could offer more robust conclusions on fiscal stimulus effectiveness across different economic contexts. Despite limitations, these findings contribute to understanding how fiscal policy stabilizes financial markets during global recessions, providing foundations for academic inquiry and practical policymaking.

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