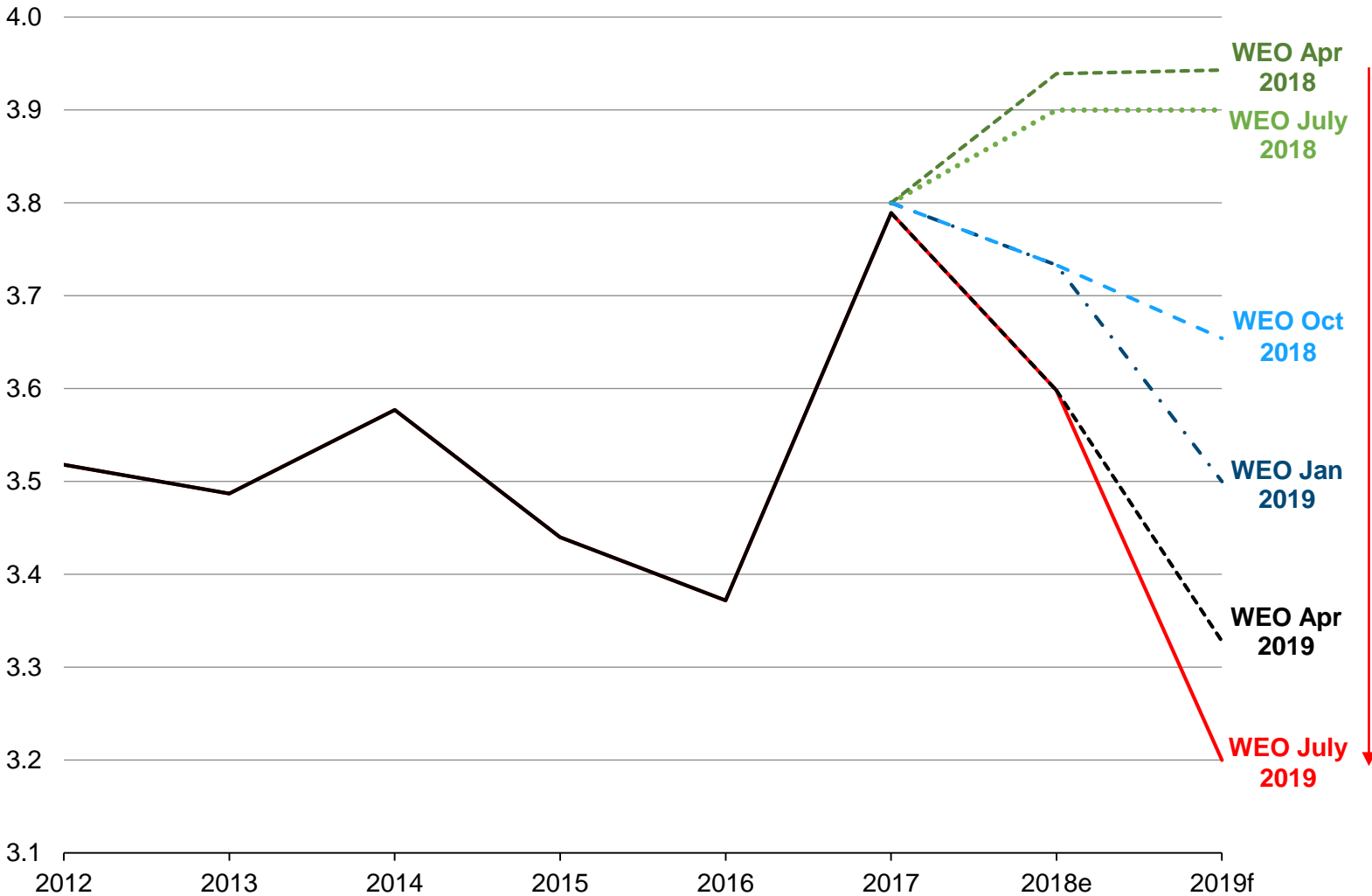


IMF: Global economic environment worsening

Global growth projection by IMF
% YoY



5
successive
downward
revisions

Bleak near term economic prospects

External environment has worsened considerably

- Escalation of trade, technology and currency tensions, along with regional geopolitical flare-ups, worsen downside risks
- Would weigh down earnings and asset prices, imploding high levels of global debt, triggering financial crisis

Major central banks have little room for new shocks

- Prolonged ultra-low interest rates; available instruments, over-utilised, exhausted countercyclical capacities
- Further increases risk of synchronised global recession

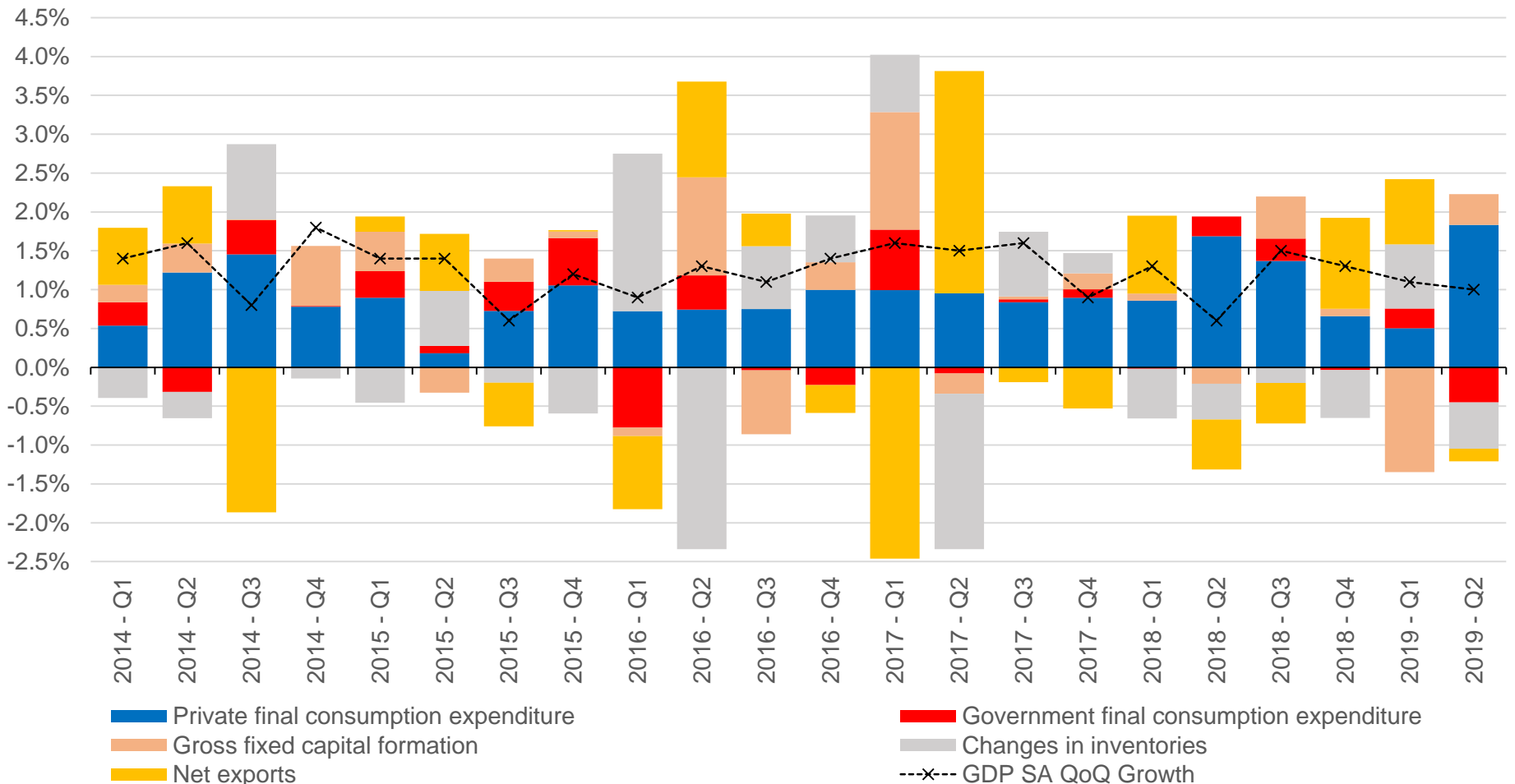
Domestic growth held back by private spending

- Investment has already weakened significantly
- Poor export growth prospects; widespread weak sentiment
- Very vulnerable to further economic shocks

Expansionary fiscal policy now necessary: prudent, not profligate

Contribution to Real GDP

Seasonally adjusted QoQ %Δ in GDP



Fiscal consolidation during recession foolhardy

During recessions, the less the public sector spends, the deeper the recession

- Monetary policy options limited, inadequate to challenge; cannot rely solely on monetary policy¹
- Countercyclical fiscal policy has a greater role to play in economic stabilisation today
- No good macroeconomic reasons to pursue austerity during downturns, recessions; fiscal consolidation can and should be delayed under such circumstances²

¹ IMF. 2017. "A Greater Role for Fiscal Policy". IMF Fiscal Monitor April 2017, 1–44.

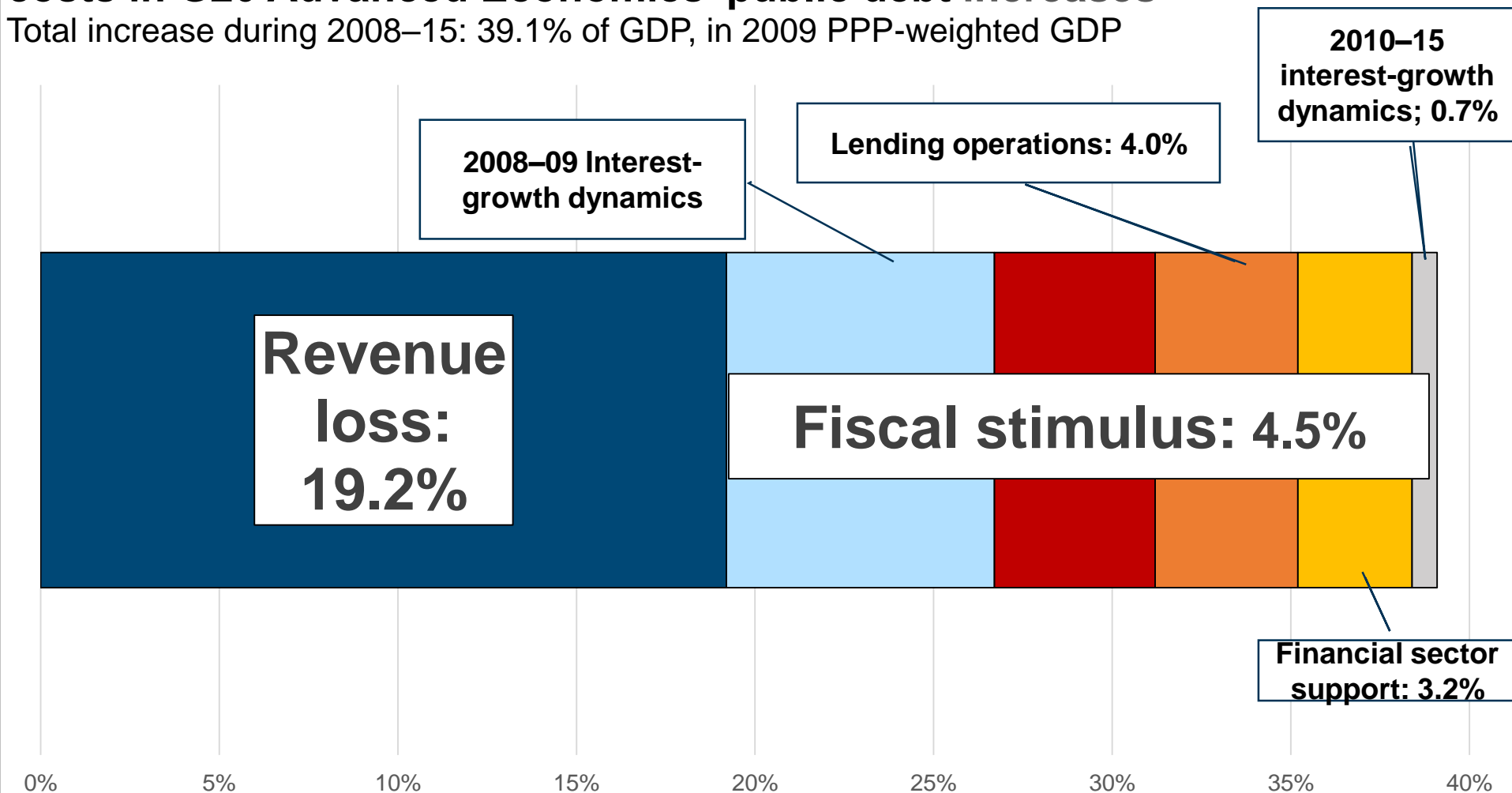
² Wren-Lewis, S. 2016. "A general theory of austerity". BSG Working Paper Series, 2016/014.

G20 OECD: Revenue loss > 4× fiscal stimulus costs, increasing public debt

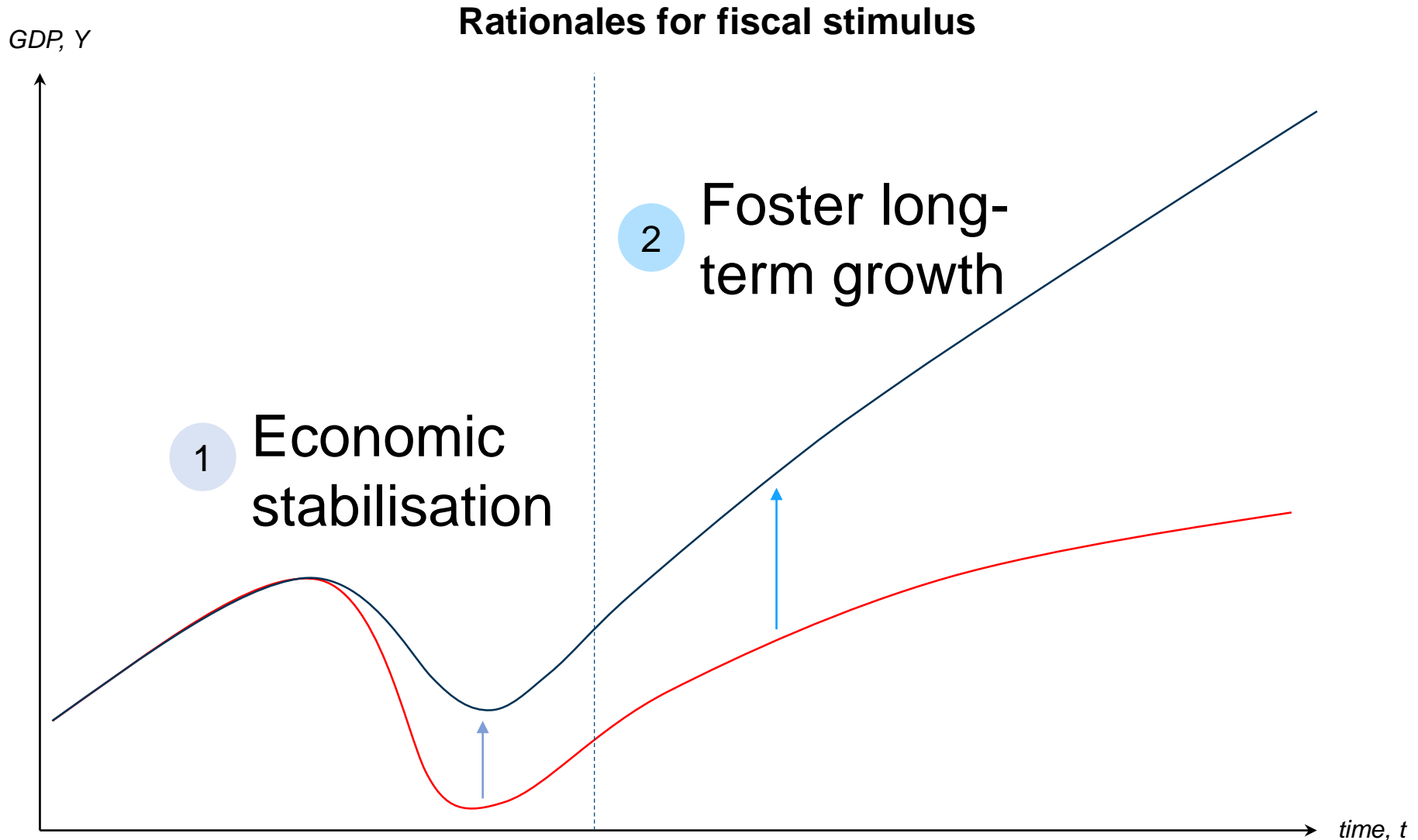
* The Case for a More Expansive Fiscal Policy

Revenue loss nearly four times more than fiscal stimulus costs in G20 Advanced Economies' public debt increases

Total increase during 2008–15: 39.1% of GDP, in 2009 PPP-weighted GDP



Stylised growth impacts from fiscal stimulus



Fiscal spending should be deployed for two main purposes

- 1. Buffer economic downturn**, by putting money into people's pockets to counter decline in aggregate demand ('dampening downturn')
- 2. Lay foundations for future growth** by strengthening economy, e.g., needed infrastructure, human resources ('structural upgrading')

Public spending shapes recovery

1. Social protection: aggregate demand
 - Expand/improve health, welfare, education, training programs, such as child nutrition
 - Increase social protection and nutrition programmes for pre-school children, elderly
2. Transformative school lunch program
 - Reduce malnutrition, micronutrient deficiencies diet-related non-communicable diseases
 - Use food procurement to transform smallholder food agriculture to produce safer, healthier food, and raise farmer incomes

Ensure developmental fiscal spending

3. Universal health care financing

- Revenue financing of health care
- All insurance options more costly, 'perverse'
- Improve public health services' conditions
- Consider GP capitation for primary health care

4. Investment & technology promotion

- Renewable energy: photovoltaic solar panels, palm oil based biodiesel
- Generic medicines, esp. for tropical diseases
- Organic biofortified food products

Compromised government spending will discredit all public policies

1. **Buying over existing assets** does not enhance economic capacities, capabilities, output
2. **Investing in poorly conceived policies** discredits industrial policy in particular, and public policies in general
3. Investing in the **corrupt investments** of the previous government will not improve them, e.g., ECRL