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Ambrogio Lorenzetti; The Effects of Good Government on the City Life; Fresco; Palazzo Pubblico, Siena (Italy)

Fiscal Policy and the Global Crisis

Presentation at Koç University, Istanbul

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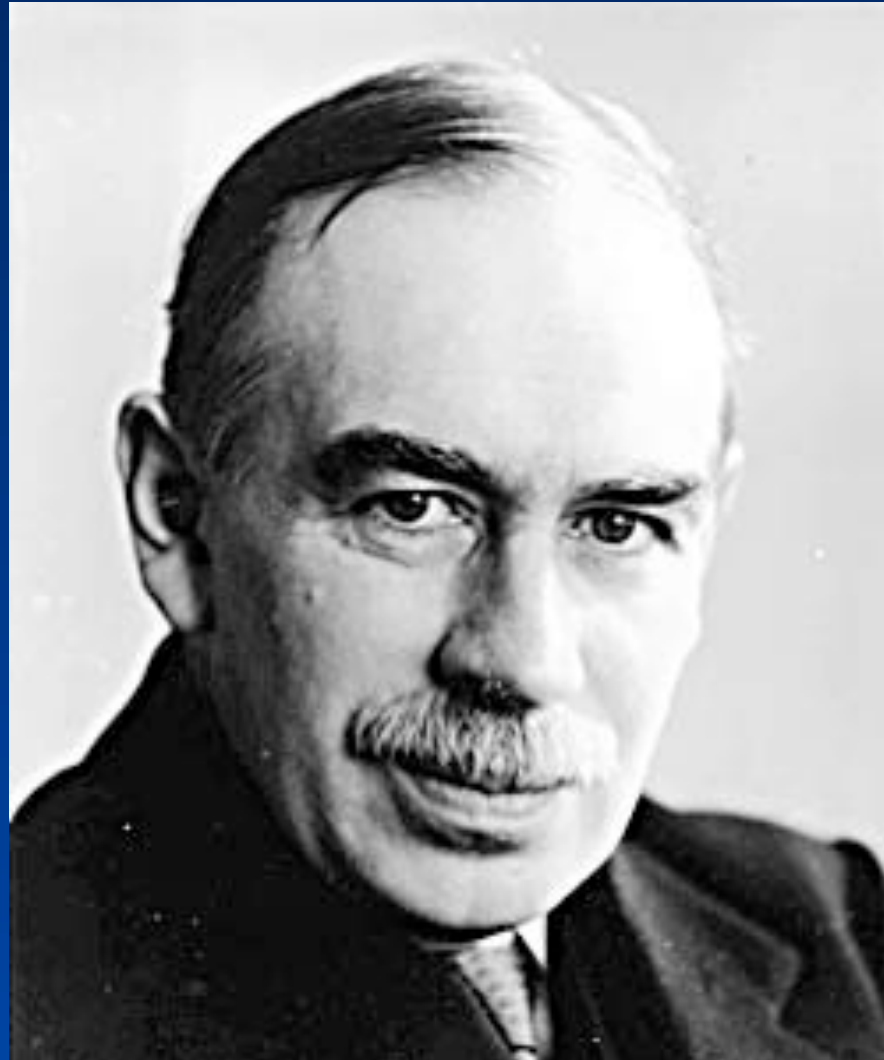
June 9, 2009



Two fiscal questions

- *What is the appropriate fiscal policy in the short term....and what does this imply for the fiscal outlook?*
- *What are the key elements of a fiscal strategy to ensure fiscal solvency?*

John Maynard Keynes



Charles Ponzzi





Here is the Challenge

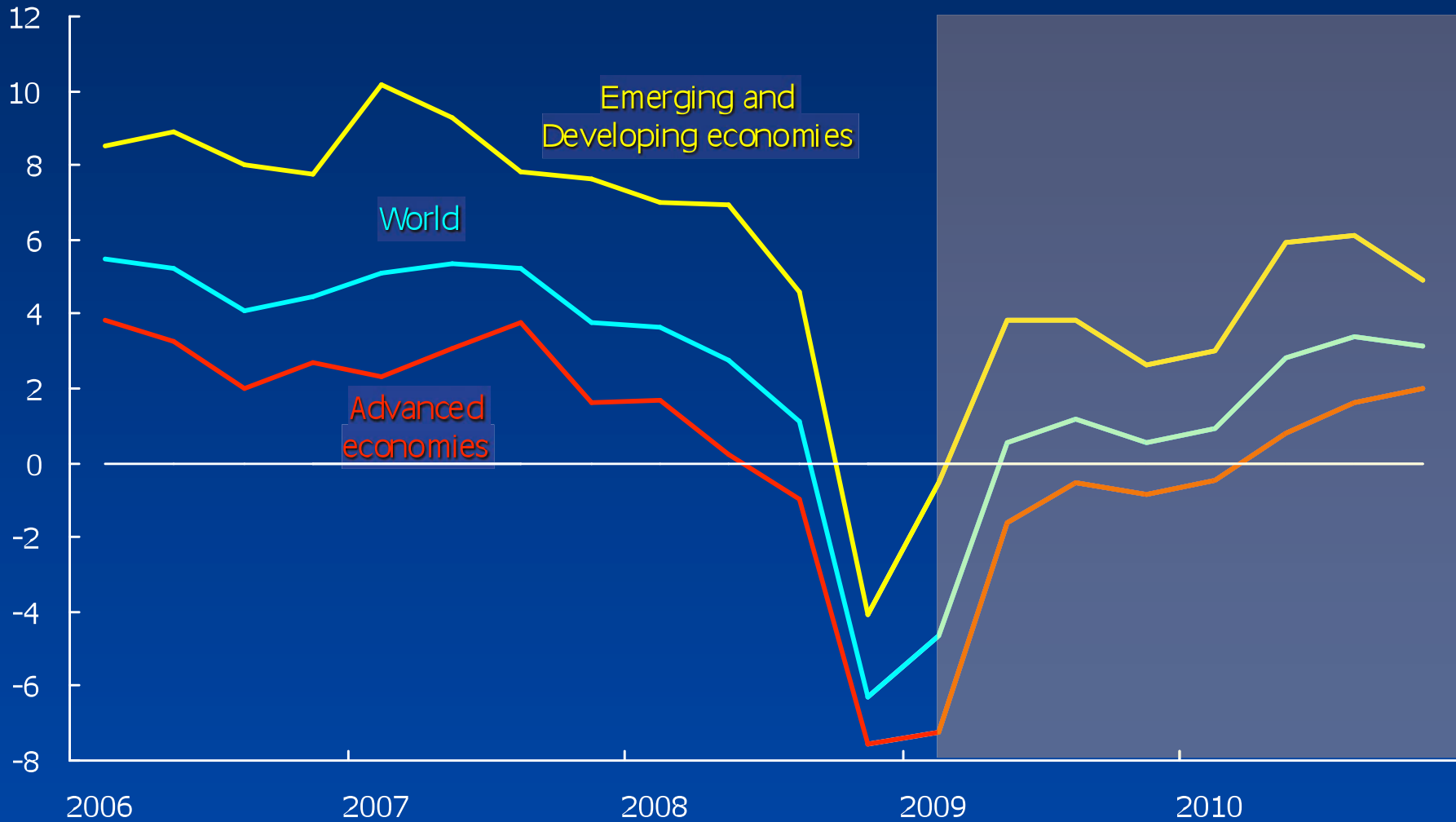
- *To allow fiscal policy to support the economy*
- *While reassuring markets that this is not a Ponzi scheme*



Growth Projections

Real GDP Growth

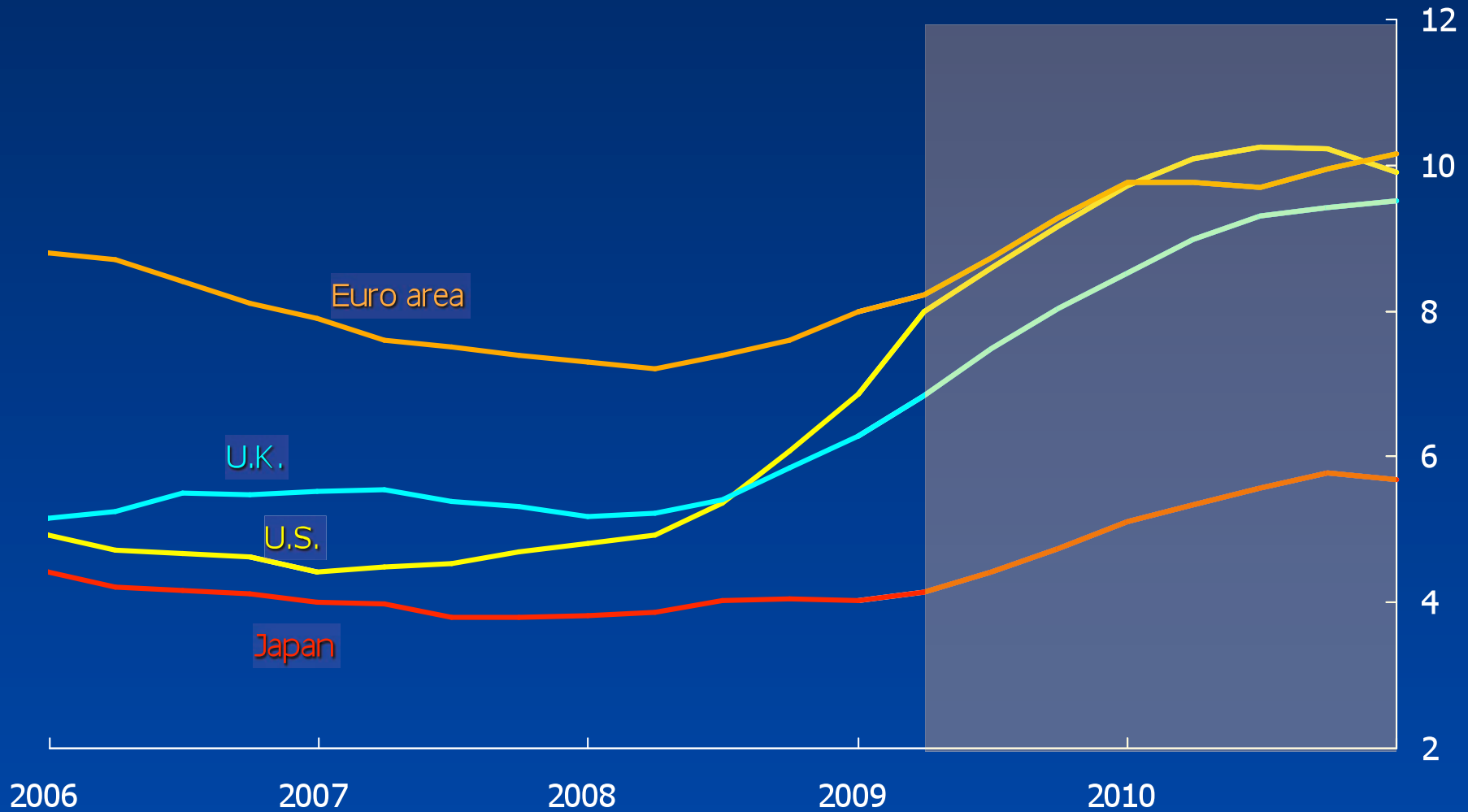
(in percent; QoQ; saar)



Unemployment Rate Projections



Unemployment Rate
(in percent)

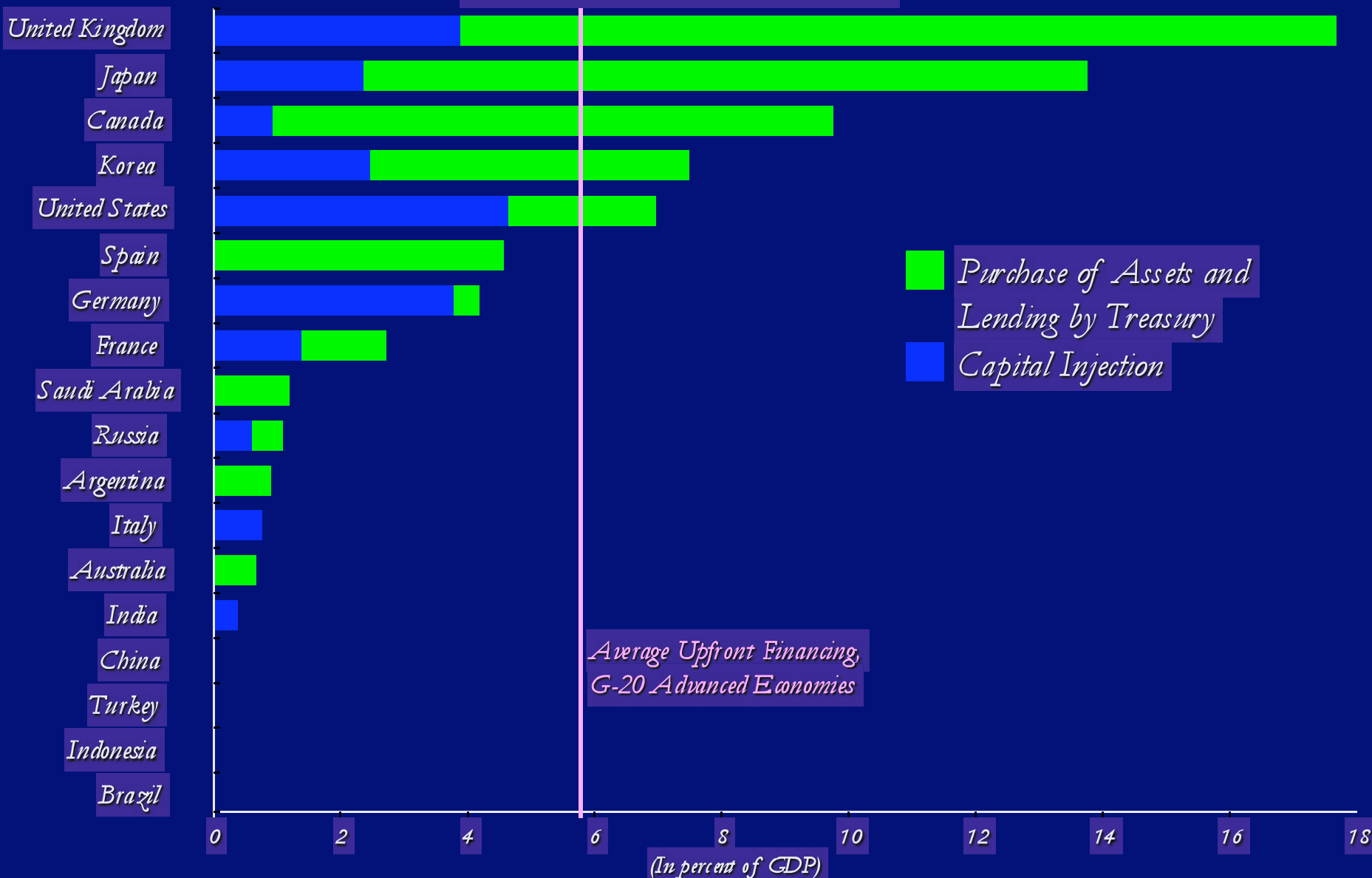




What roles can government play?

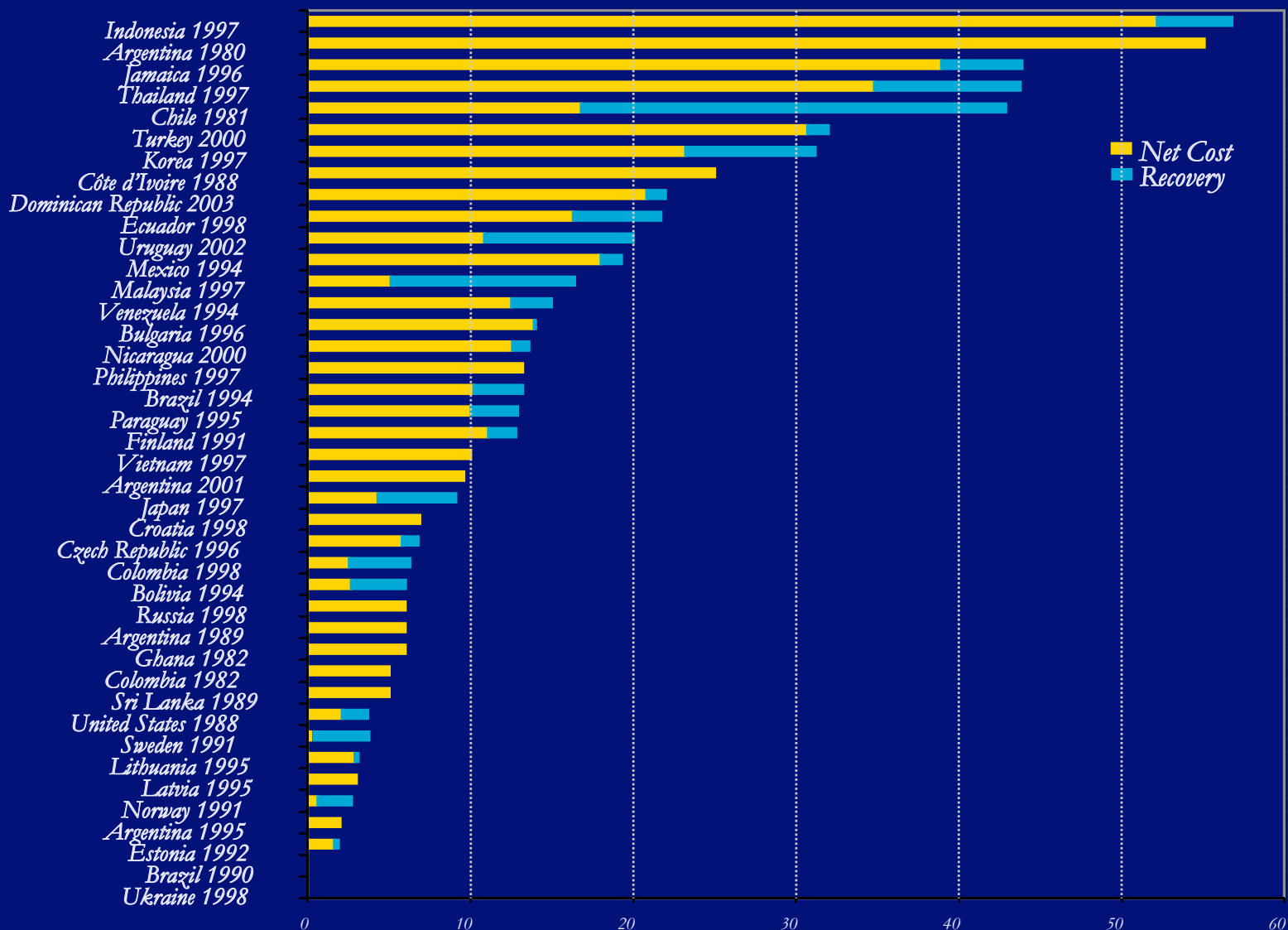
- *Interventions to address the financial sector problems*
- *Fiscal policy to support aggregate demand*

Support Measures with Immediate Effect on Government Debt



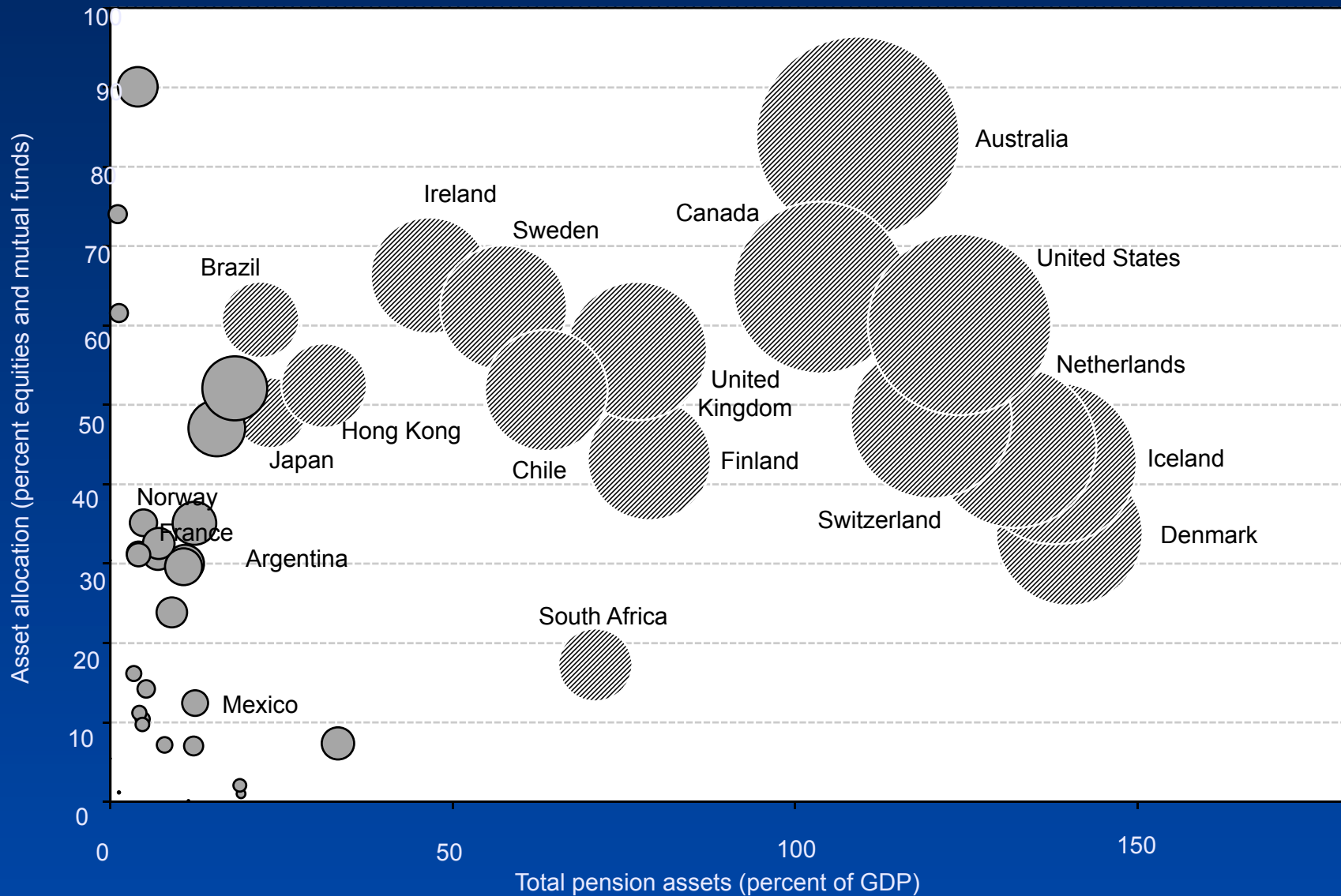
Gross and Net Fiscal Cost of Banking Crises

(in Percent of GDP)



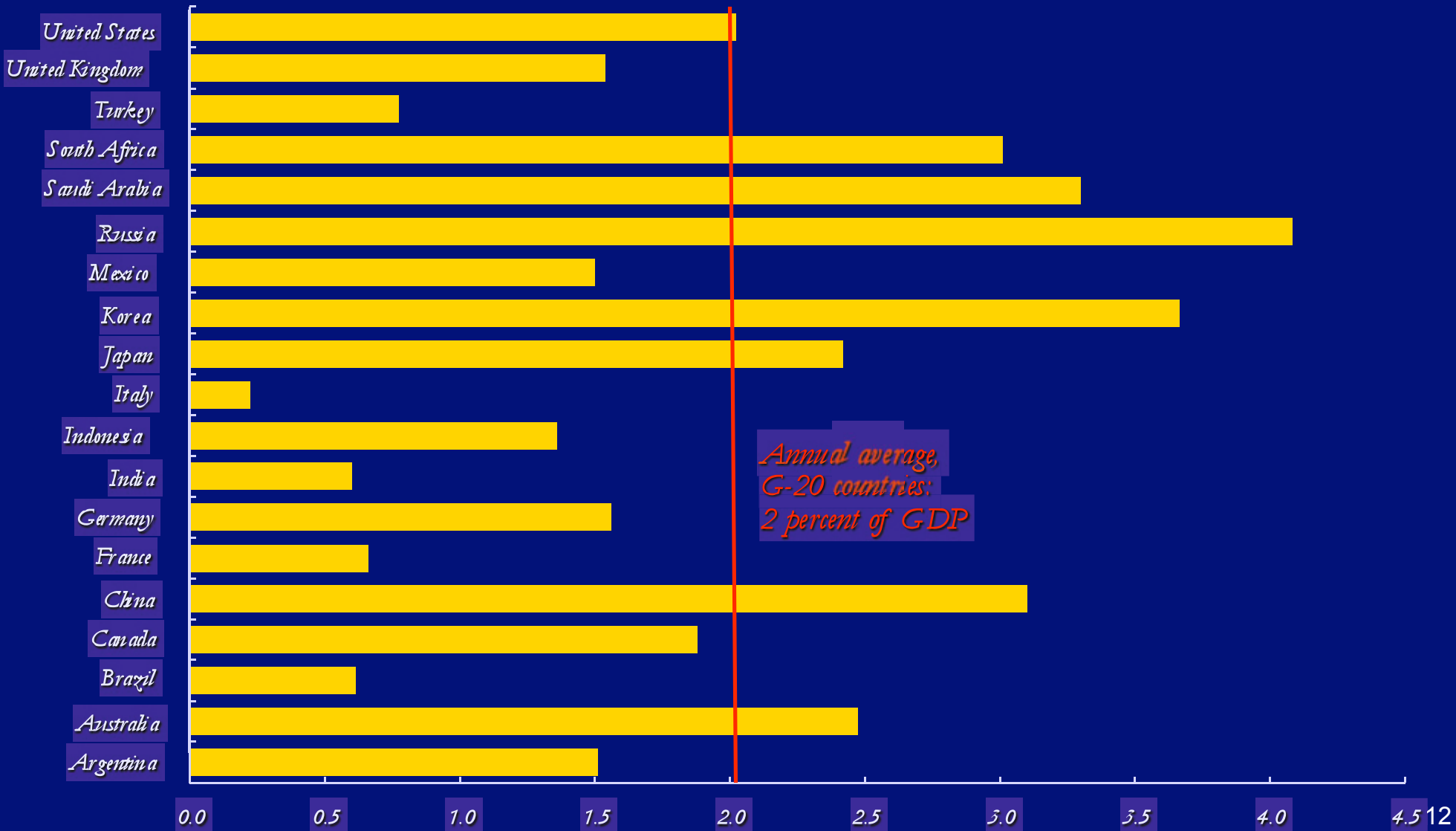
Source: Laeven and Valencia (2008), Japan Deposit Insurance Corporation, Hoelscher and Quintyn (2003), and IMF staff estimates.

Pension Plan Assets by Country, End-2007



Intervention to Support Aggregate Demand

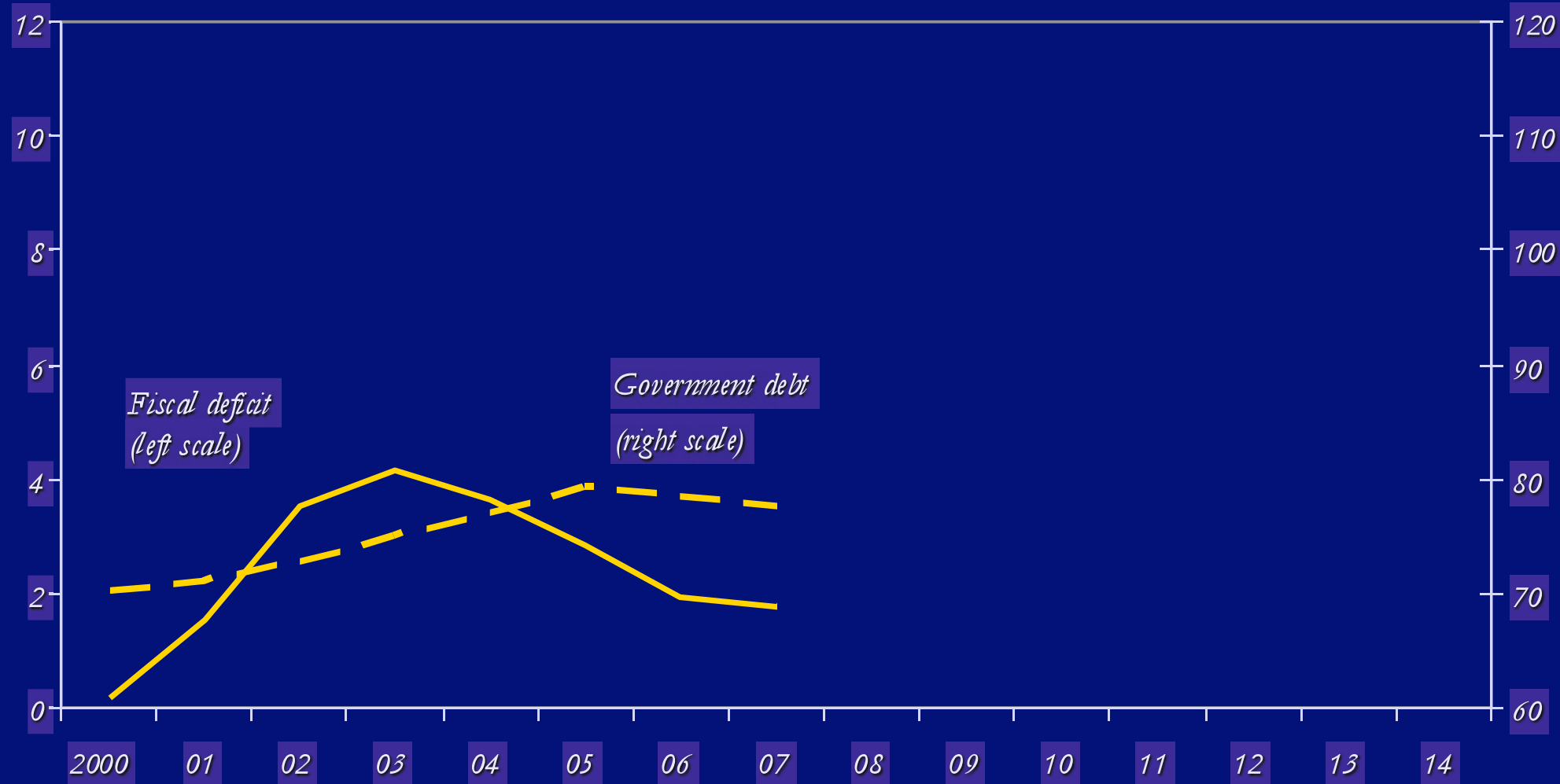
G-20 Countries: Discretionary Measures, 2009





Outlook for Public Finances in Advanced G-20 Countries

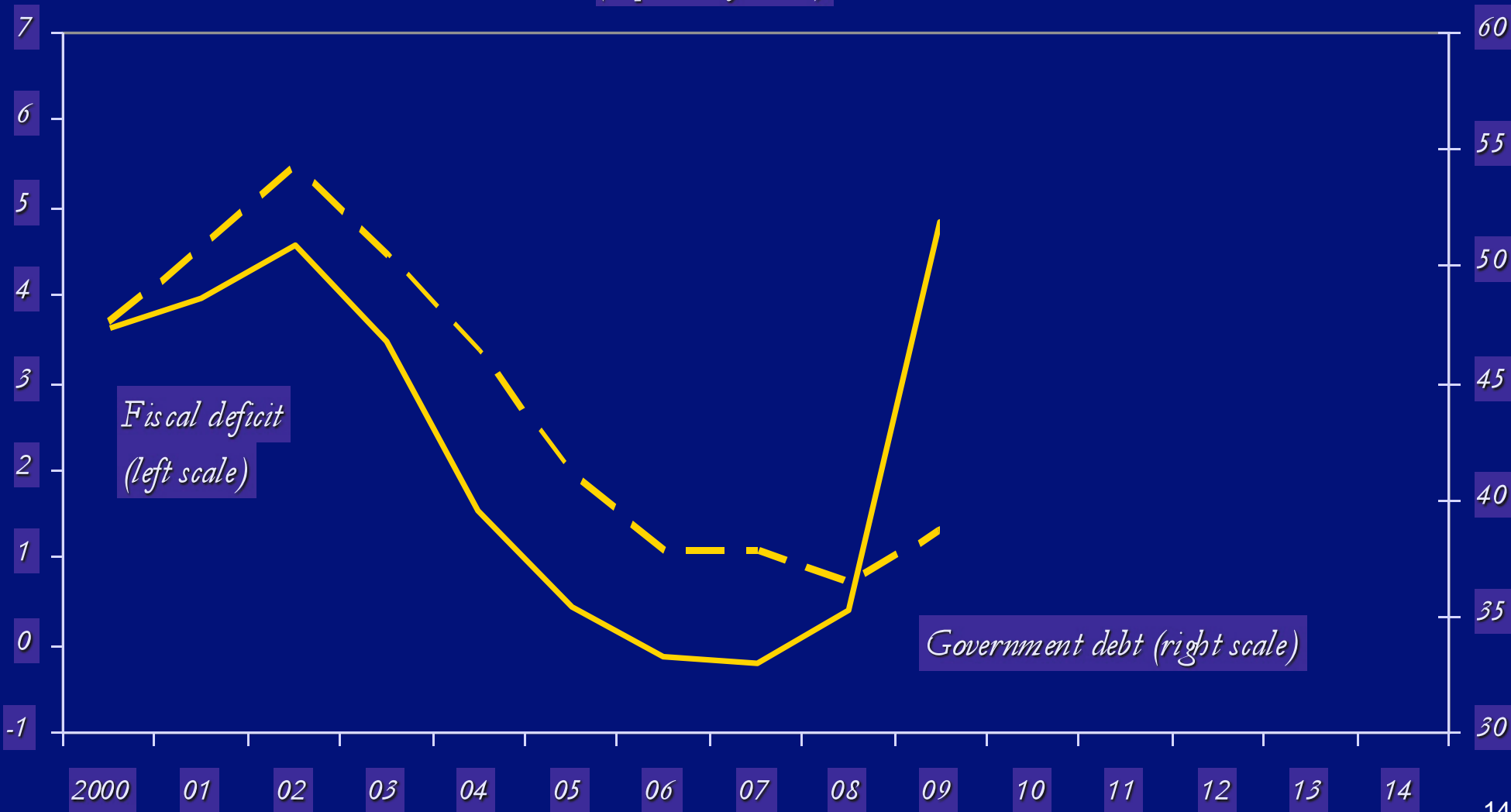
(In percent of GDP)





Outlook for Public Finances in Emerging Market G-20 Countries

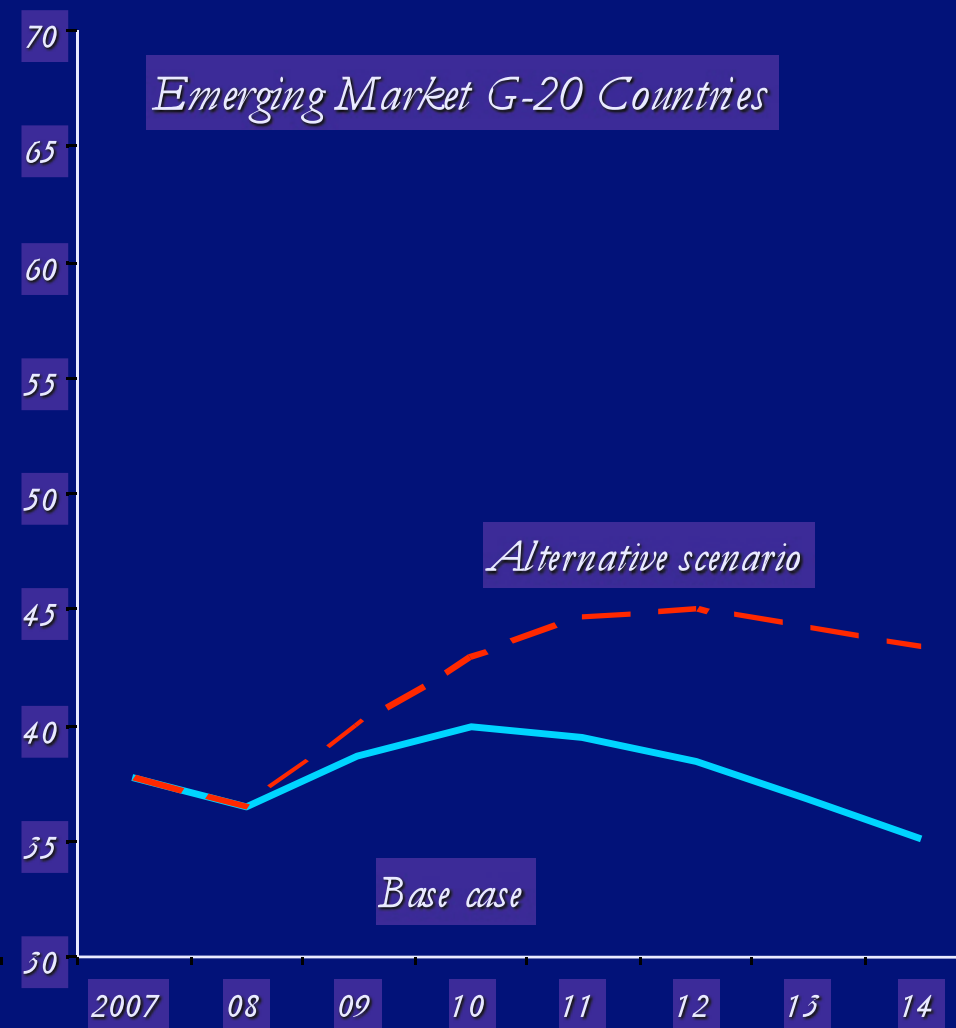
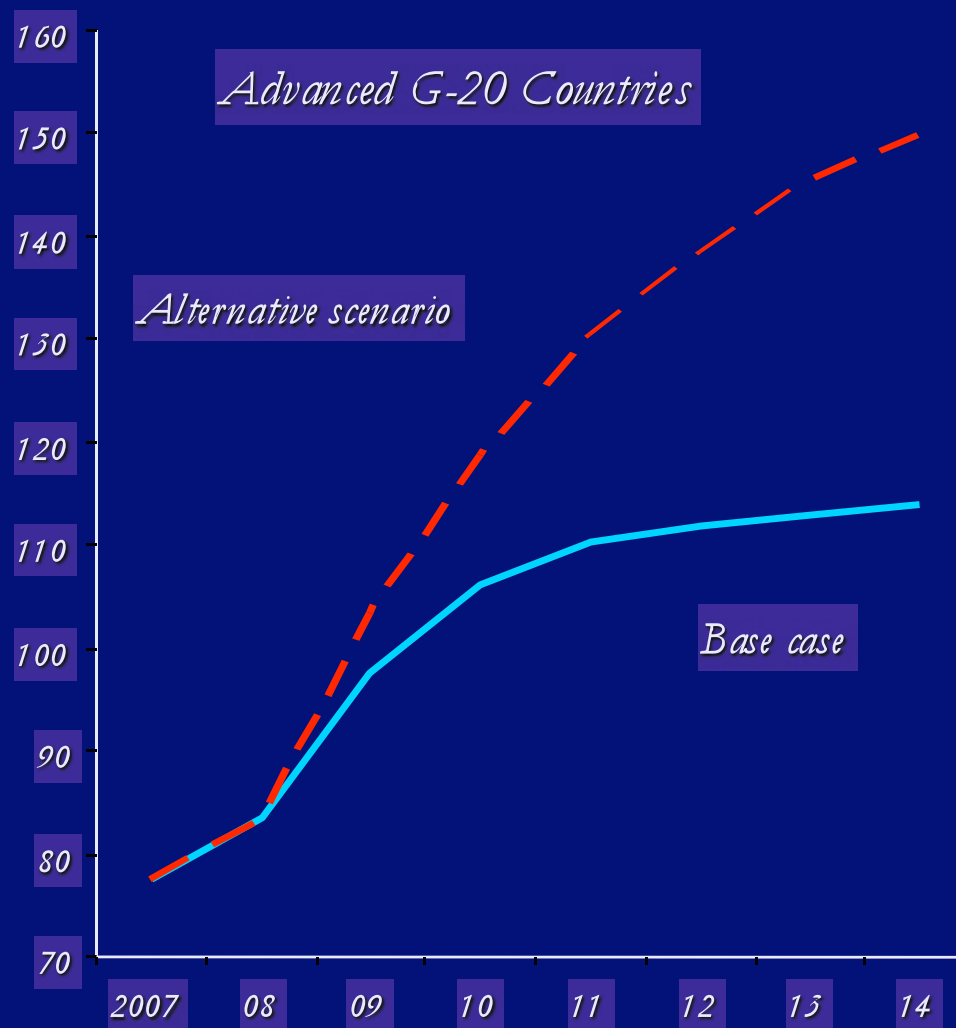
(In percent of GDP)





Prolonged Slowdown/Higher Interest Rate/Contingent Liability Shock

Government Debt (In percent of GDP) 1/



Source: IMF staff estimates.

1/ Figure reports results of a 2 percentage point decline in growth, and a 200 basis point increase in real interest rates relative to the baseline starting in 2009; as well as a contingent liability shock corresponding to expected cost of guarantees (column A in Table A4.1 in Appendix IV). Averages based on PPP GDP weights.



Fiscal Solvency

- *Confidence in governments' solvency has been a source of stability*
- *Critical to ensure that challenging fiscal outlook does not raise doubts about solvency*