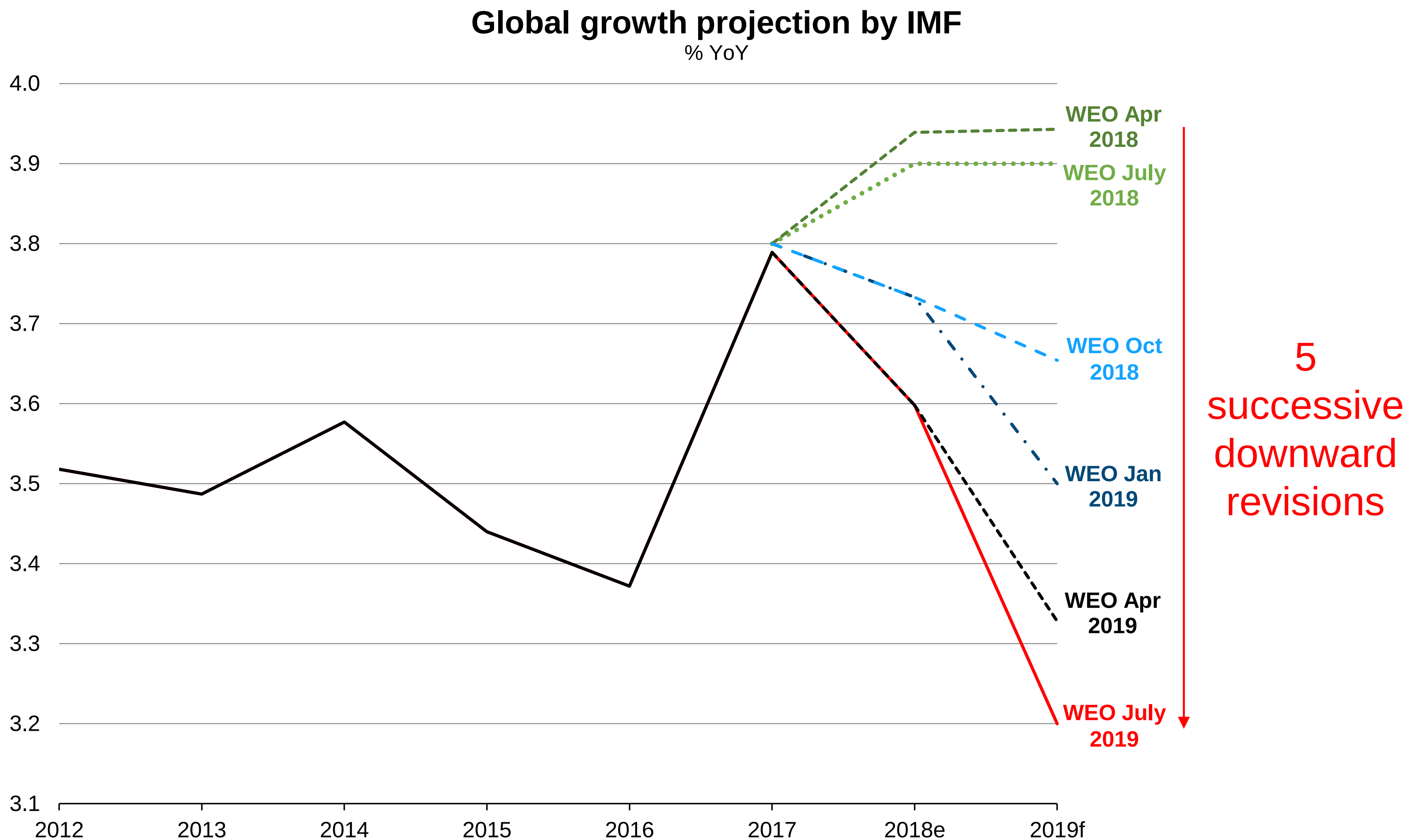
# IMF: Global economic environment worsening




*Source: IMF World Economic Outlook (2018, 2019)*

# 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

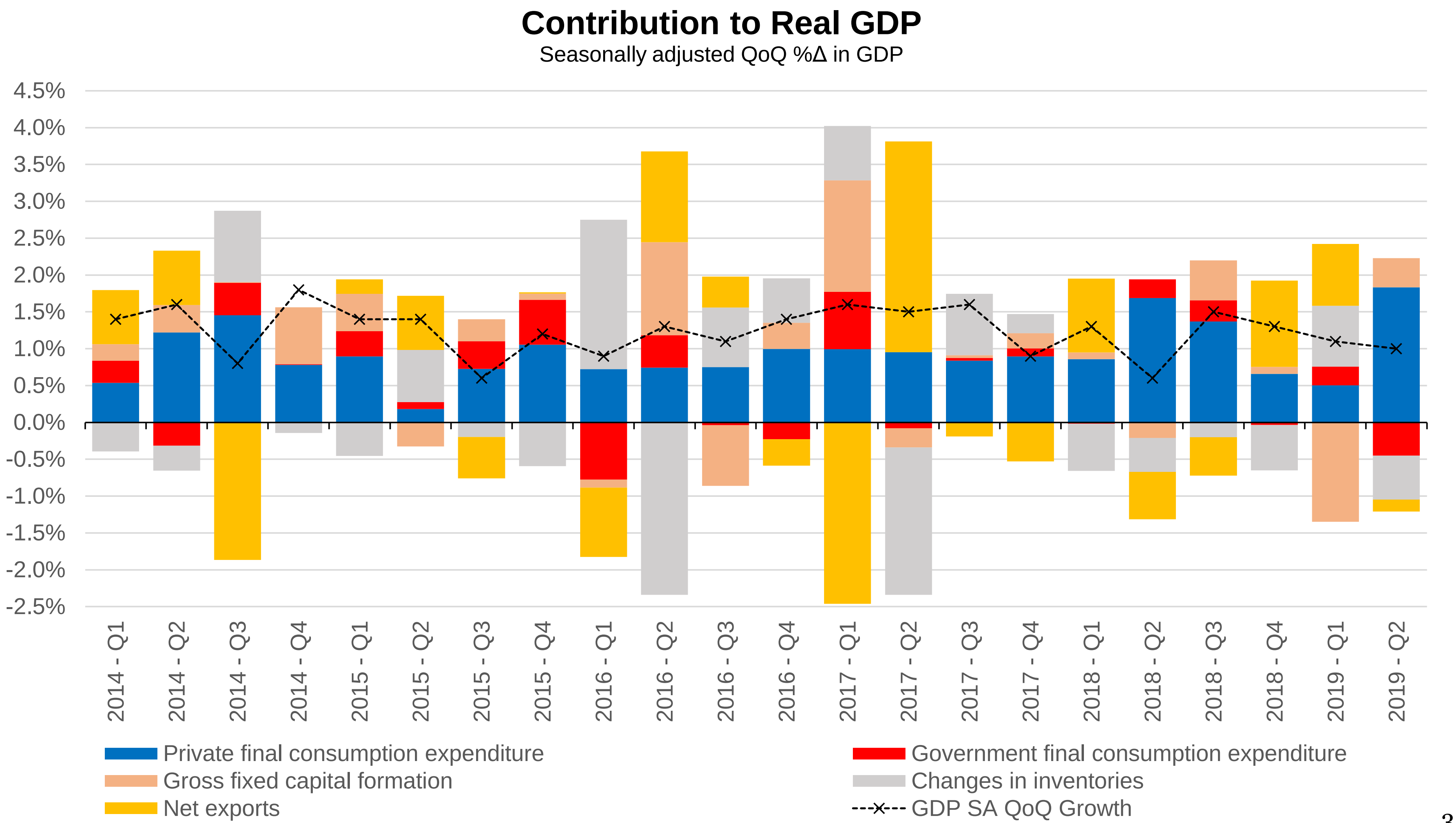
**Major central banks have little room for new shocks**

- 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




*Source: Department of Statistics Malaysia*

# Fiscal consolidation during recession foolhardy

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

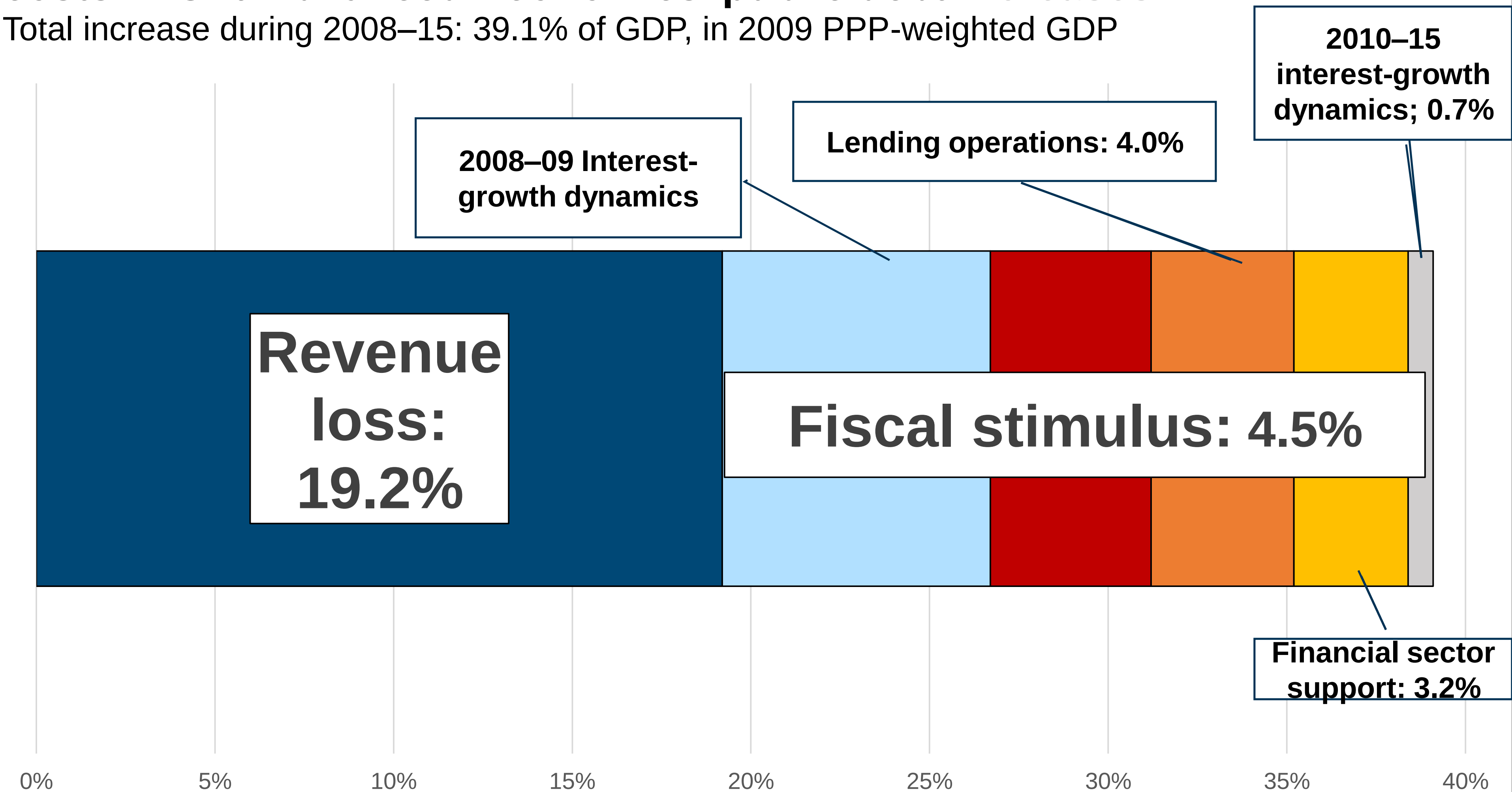
- Monetary policy options limited, inadequate to challenge; cannot rely solely on monetary policy[1]
- Countercyclical fiscal policy has a greater role to play in economic stabilisation today
- No good macroeconomic reasons to pursue austerity during downturns, recessions; fiscal consolidation can and should be delayed under such circumstances[2]

[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

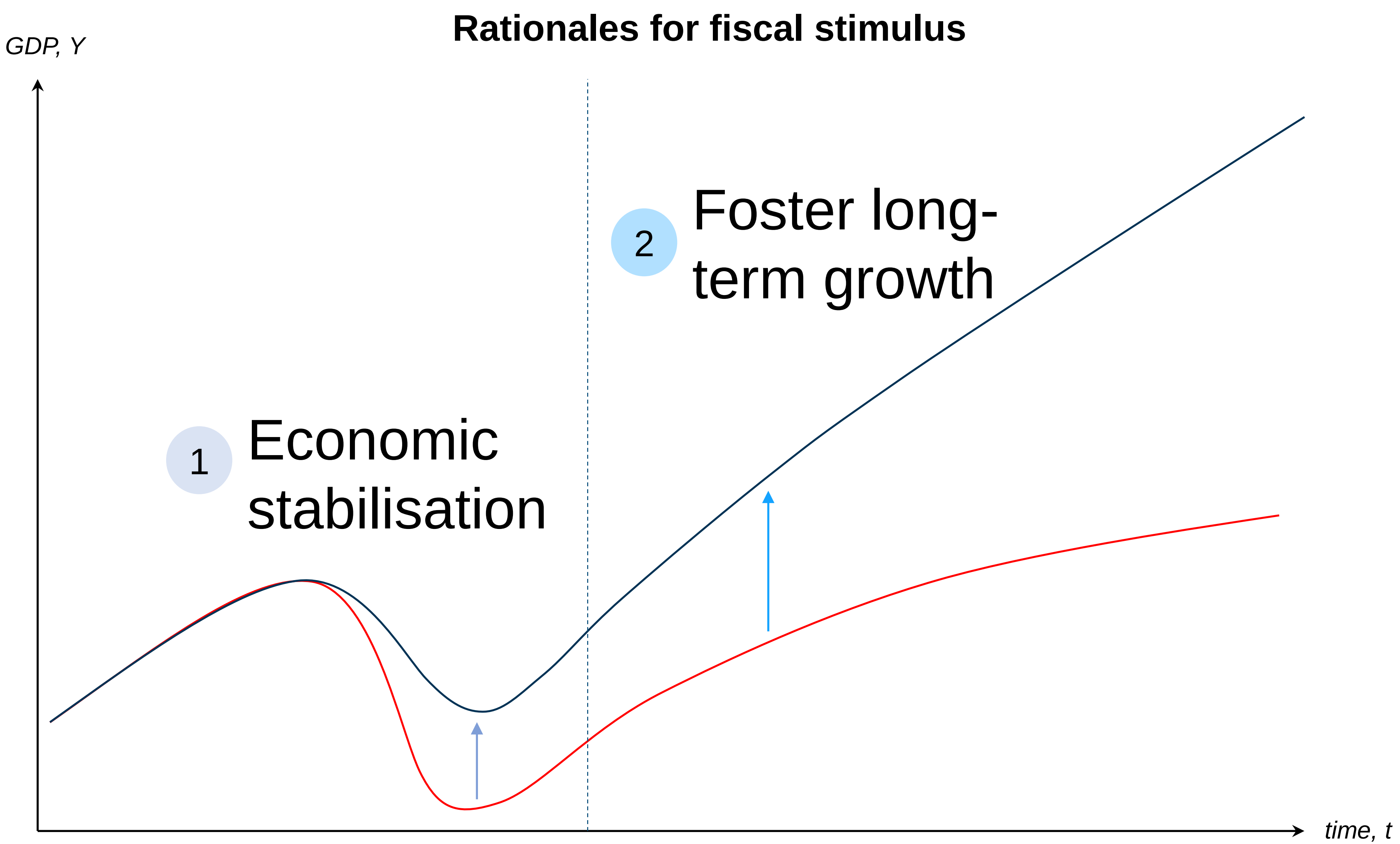
**Revenue loss nearly four times more than fiscal stimulus costs in G20 Advanced Economies' public debt increases**

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




*Source: IMF staff estimates based on the April 2010 World Economic Outlook*

# Stylised growth impacts from fiscal stimulus




*Source: IMF World Economic Outlook (2018, 2019)*

# 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