## UPDATE ON FISCAL STIMULUS AND FINANCIAL SECTOR MEASURES

April 26, 2009

*This note provides an update of information in the paper, "The State of Public Finances: Outlook and Medium-Term Policies After the 2008 Crisis," issued in March 2009 (see: http://www.imf.org/external/np/pp/eng/2009/030609.pdf), as well as in the surveillance note for the March G-20 Meeting (http://www.imf.org/ext `ernal/np/g20/pdf/031909a.pdf).*

*The overall fiscal expansion for the G-20— reflecting both nondiscretionary developments (such as the effect of the automatic stabilizers) and discretionary actions in support of the economy—will be 5½ percent of GDP in both 2009 and 2010 relative to the pre-crisis period, somewhat larger than previously estimated.*

*New discretionary fiscal stimulus measures have raised Fund staff estimates for the G-20 countries to 2 percent of GDP in 2009 and 1.5 percent of GDP in 2010. In addition, new G-20 financial and sectoral support measures increase the estimate of headline support (including guarantees) by 3¼ percent of GDP to 32 percent of GDP, although upfront government financing needs remain unchanged at 3½ percent of GDP. Support provided by the advanced G-20 countries is higher (50 percent and 5¼ percent of GDP).*

### Overall fiscal expansion

1. **Updated Fund staff projections for the April World Economic Outlook indicate that the overall fiscal expansion relative to pre-crisis levels will be larger than previously estimated**.[1] For the G-20, the increase in the average overall fiscal deficit is estimated at 1.3 percent of PPP-weighted GDP in 2008, 5.5 percent in 2009 and 5.4 percent in 2010 (all with respect to 2007, Table 1). This compares with expected expansion of 1.5 percent of GDP in 2008, 4.7 percent in 2009, and 5.1 percent in 2010 at the time of the March 13–14 G-20 Meetings.[2] With discretionary stimulus being withdrawn in 2010, G-20 fiscal positions next year are influenced by higher contributions from automatic stabilizers.

### Fiscal stimulus in the G-20 countries

2. **New measures announced by G-20 countries raise stimulus estimates relative to mid-March from 1.8 percent to 2.0 percent of PPP-weighted GDP in 2009 and from 1.3 percent to 1.5 percent of GDP in 2010** (Table 2). The aggregate amounts have increased

[1]The change in overall fiscal balances is a comprehensive measure of the role of fiscal policy is playing in supporting economic activity, as it comprises both discretionary and automatic components.

[2] Financial sector support measures in the U.S. (1.4 percent of GDP in 2008, 4.5 percent in 2009, and 0.9 percent in 2010) and Japan (0.1 percent of GDP in 2008, 0.5 percent of GDP in 2009 and 0.2 percent in 2010) are excluded.

from US$780 billion to US$820 billion in 2009, and from US$590 billion to US$660 billion in 2010. Stimulus remains weighted to spending by a 2:1 margin and focused mainly on 2009. Estimates for 2010 reflect phased implementation of spending initiated this year or carryover of tax provisions.

3. **The updated estimates reflect recent measures in several countries**:

- The new stimulus package in **Japan** raises estimates from 1.4 percent to 2.4 percent of GDP in 2009, and from 0.4 percent to 1.8 percent of GDP in 2010. The package is tilted toward spending, particularly on public investment, support for local communities, and measures to promote lower carbon emission.[3]

- With introduction of a supplementary budget, estimates for **Korea** for 2009 have increased from 2.3 percent to 3.9 percent of GDP. The new measures are entirely on the expenditure side, with a focus on job creation. For 2010, the amounts are slightly lower—1.2 percent versus 1.3 percent of GDP, previously.

- Stimulus measures in the 2009 budget have increased estimates for **Russia** from 2.3 percent to 4.1 percent of GDP in 2009. For 2010, the estimate has decreased from 1.6 percent to 1.3 percent of GDP in 2010.

Estimates have also changed recently for **Argentina**, **Brazil, France,** and **Turkey**, while estimates for **Canada** now incorporate stimulus measures taken at the provincial level.

**Financial sector support**

4. **Fiscal policy has also continued to play an important role in supporting the financial sector**. Augmented measures in some G-20 countries increase the composite estimate of headline financial and sectoral support (including guarantees) for the G-20 as a whole by 4¼ percent of GDP to 32 percent of PPP weighted GDP, although upfront government financing needs remain unchanged at 3½ percent of GDP (Table 3). Unlike the fiscal stimulus measures, the bulk of financial sector support measures have been provided in the advanced G-20 economies, where the total headline support is now 49¾ percent of GDP, with upfront financing of 5¼ percent of GDP. The average headline support in G-20 emerging markets is around 2½ percent of GDP.

5. **Recent specific measures are**:

- In **Japan**, liquidity facilities were expanded by ¥1 trillion. In April, the government announced additional support to the financial sector, amounting to ¥41¾ trillion, including guarantees, loans, and purchase of commercial papers mostly targeted to Small and Medium Enterprises (SMEs). The central government budget will provide

[3] Staff estimates are lower than headline figures due to inclusion in the latter of financial-sector support.

¥3 trillion to support these operations. Headline support and upfront financing needs will increase by 9¼ percent of GDP and ½ percent of GDP, respectively.

- In **Korea**, the government announced that its state-owned Korea Asset Management Company will issue KRW 40 trillion of government-guaranteed bonds to purchase NPLs and troubled assets of financial institutions and companies under restructuring. The increase in headline support is expected to be 4¼ percent of GDP, while the upfront government financing needs remain unchanged.

- In the **United States**, the Federal Reserve Board announced an increase in purchases of Government Sponsored Enterprises (GSE) debt and mortgage-backed securities by US$100 billion and US$750 billion, respectively. These operations will increase the Fed's liquidity support by 6 percent of GDP, raising the headline support accordingly, but would not entail any upfront government financing.

**Table 1. G-20 Countries: Overall Fiscal Expansion**
*(in percent of GDP)*

| | Overall Balance | | | | Change in the Overall Balance (with respect to 2007) | | |
|---|---|---|---|---|---|---|---|
| | 2007 | 2008 | 2009 | 2010 | 2008 | 2009 | 2010 |
| Argentina | -2.0 | -0.5 | -3.3 | -2.8 | 1.5 | -1.3 | -0.8 |
| Australia | 1.6 | 0.1 | -2.3 | -3.5 | -1.5 | -3.9 | -5.1 |
| Brazil | -2.2 | -1.5 | -1.9 | -0.8 | 0.7 | 0.3 | 1.4 |
| Canada | 1.4 | 0.4 | -3.4 | -3.6 | -1.0 | -4.8 | -5.0 |
| China | 0.9 | -0.3 | -3.6 | -3.6 | -1.2 | -4.5 | -4.5 |
| France | -2.7 | -3.4 | -6.2 | -6.5 | -0.7 | -3.5 | -3.8 |
| Germany | -0.5 | -0.1 | -4.7 | -6.1 | 0.3 | -4.2 | -5.7 |
| India | -5.2 | -8.4 | -10.2 | -8.7 | -3.2 | -5.0 | -3.5 |
| Indonesia | -1.2 | 0.0 | -2.5 | -2.2 | 1.2 | -1.3 | -1.0 |
| Italy | -1.5 | -2.7 | -5.4 | -5.9 | -1.2 | -3.9 | -4.4 |
| Japan 1/ | -2.5 | -5.6 | -9.4 | -9.6 | -3.0 | -6.9 | -7.1 |
| Korea | 3.5 | 1.1 | -3.2 | -4.7 | -2.4 | -6.7 | -8.2 |
| Mexico | -1.4 | -1.8 | -3.6 | -3.7 | -0.4 | -2.2 | -2.3 |
| Russia | 6.8 | 4.3 | -6.2 | -5.0 | -2.5 | -13.0 | -11.7 |
| Saudi Arabia | 15.8 | 35.5 | -3.8 | -1.4 | 19.7 | -19.7 | -17.2 |
| South Africa | 1.2 | -0.4 | -2.9 | -3.2 | -1.6 | -4.1 | -4.3 |
| Turkey 2/ | -2.1 | -2.7 | -5.9 | -5.1 | -0.6 | -3.8 | -3.0 |
| United Kingdom | -2.6 | -5.4 | -9.8 | -10.9 | -2.7 | -7.2 | -8.3 |
| United States 3/ | -2.9 | -4.7 | -9.1 | -8.8 | -1.8 | -6.2 | -5.9 |
| G-20 PPP GDP-weighted average | -1.1 | -2.3 | -6.6 | -6.5 | -1.3 | -5.5 | -5.4 |

Source: Fund staff estimates for the April 2009 World Economic Outlook Update.

1/ Based on staff preliminary analysis, financial sector-related measures of 0.1 percent of GDP in 2008, 0.5 percent of GDP in 2009, and 0.2 percent of GDP in 2010 are excluded. These measures cover both subsidies to and capital injections in public financial institutions.

2/ The reported fiscal balances correspond to the authorities' policy intentions as implied in the EU Pre-Accession Program document.

3/ Excludes cost of financial system support measures (estimated at 1.4 percent of GDP in 2008, 4.5 percent of GDP in 2009 and 0.9 percent of GDP in 2010).

**Table 2. G-20 Countries: Discretionary Measures, 2008-10** 1/2/

*(in percent of GDP, relative to 2007 baseline)*

| | 2008 | 2009 | 2010 |
|---|---|---|---|
| Argentina | 0.0 | 1.5 | … |
| Australia | 0.7 | 2.1 | 1.7 |
| Brazil | 0.0 | 0.6 | 0.8 |
| Canada | 0.0 | 1.9 | 1.7 |
| China | 0.4 | 3.1 | 2.7 |
| France | 0.0 | 0.7 | 0.8 |
| Germany | 0.0 | 1.6 | 2.0 |
| India 3/ | 0.6 | 0.6 | 0.6 |
| Indonesia | 0.0 | 1.3 | 0.6 |
| Italy | 0.0 | 0.2 | 0.1 |
| Japan 4/ | 0.3 | 2.4 | 1.8 |
| Korea | 1.1 | 3.9 | 1.2 |
| Mexico | 0.0 | 1.5 | … |
| Russia | 0.0 | 4.1 | 1.3 |
| Saudi Arabia | 2.4 | 3.3 | 3.5 |
| South Africa 3/ 5/ | 1.7 | 1.8 | -0.6 |
| Turkey 6/ | 0.0 | 0.8 | 0.3 |
| United Kingdom | 0.2 | 1.4 | -0.1 |
| United States 7/ | 1.1 | 2.0 | 1.8 |
| G-20 PPP-GDP weighted average | 0.5 | 2.0 | 1.5 |
| G-20 discretionary impulse 8/ | 0.5 | 1.5 | -0.5 |

Source: IMF staff estimates.

1/ Figures reflect the budgetary cost of crisis-related discretionary measures in each year compared to 2007 (baseline), based on measures announced through mid-April. They do not include (i) "below-the-line" operations that involve acquisition of assets (including financial sector support) or (ii) measures that were already planned for. Some figures represent staff's preliminary analysis.

2/ "..." is used for countries for which no information is available on the size of their fiscal packages.

3/ Fiscal year basis.

4/ Based on staff preliminary analysis, financial sector-related measures of 0.1 percent of GDP in 2008, 0.5 percent of GDP in 2009, and 0.2 percent of GDP in 2010 are excluded. These measures cover both subsidies to and capital injections in public financial institutions.

5/ Stimulus estimates are based on the FY 2009/10 budget.

6/ Includes only discretionary measures taken from September 2008 through March 2009. Another fiscal stimulus package is reportedly under preparation.

7/ Excludes cost of financial system support measures (estimated at 1.4 percent of GDP in 2008, 4.5 percent of GDP in 2009 and 0.9 percent of GDP in 2010).

8/ Change from the previous year.

# Table 3. Headline Support for the Financial Sector and Upfront Financing Need

(As of April 15, 2009; in percent of 2008 GDP) **

| | Capital Injection | Purchase of Assets and Lending by Treasury | Central Bank Support Provided with Treasury Backing | Liquidity Provision and Other Support by Central Bank 1/ | Guarantees 2/ | Total | Upfront Government Financing 3/ | |
|---|---|---|---|---|---|---|---|---|
| | (A) | (B) | (C) | (D) | (E) | (A+B+C+D+E) | | |
| **Advanced North America** | | | | | | | | |
| Canada | 0.0 | 8.8 | 0.0 | 1.6 | 13.4 | 23.7 | **8.8** | |
| United States | 3.9 | 1.3 | 1.1 | 42.1 | 31.3 | 79.6 | **6.3** | 4/ |
| **Advanced Europe** | | | | | | | | |
| Austria | 5.3 | 0.0 | 0.0 | 0.0 | 30.0 | 35.3 | **5.3** | |
| Belgium | 4.7 | 0.0 | 0.0 | 0.0 | 26.2 | 30.9 | **4.7** | |
| France | 1.2 | 1.3 | 0.0 | 0.0 | 16.4 | 19.0 | **1.5** | 5/ |
| Germany | 3.8 | 0.4 | 0.0 | 0.0 | 18.0 | 22.2 | **3.7** | |
| Greece | 2.1 | 3.3 | 0.0 | 0.0 | 6.2 | 11.6 | **5.4** | |
| Ireland | 5.3 | 0.0 | 0.0 | 0.0 | 257 | 263 | **5.3** | |
| Italy | 1.3 | 0.0 | 0.0 | 2.5 | 0.0 | 3.8 | **1.3** | 6/ |
| Netherlands | 3.4 | 2.8 | 0.0 | 0.0 | 33.7 | 39.8 | **6.2** | |
| Norway | 2.0 | 15.8 | 0.0 | 0.0 | 0.0 | 17.8 | **15.8** | |
| Portugal | 2.4 | 0.0 | 0.0 | 0.0 | 12.0 | 14.4 | **2.4** | |
| Spain | 0.0 | 4.6 | 0.0 | 0.0 | 18.3 | 22.8 | **4.6** | |
| Sweden | 2.1 | 5.3 | 0.0 | 15.3 | 47.3 | 70.0 | **5.8** | 7/ |
| Switzerland | 1.1 | 0.0 | 0.0 | 10.9 | 0.0 | 12.1 | **1.1** | |
| United Kingdom | 3.9 | 13.8 | 12.9 | 0.0 | 51.2 | 81.8 | **20.2** | 8/ |
| **Advanced Asia and Pacific** | | | | | | | | |
| Australia | 0.0 | 0.7 | 0.0 | 0.0 | N/A | 0.7 | **0.7** | |
| Japan | 2.4 | 11.3 | 0.0 | 1.2 | 7.3 | 22.1 | **0.8** | 9/ |
| Korea | 2.7 | 5.4 | 0.0 | 0.3 | 13.8 | 22.2 | **0.4** | 10/ |
| **Emerging Economies** | | | | | | | | |
| Argentina | 0.0 | 0.9 | 0.0 | 0.0 | 0.0 | 0.9 | **0.0** | 11/ |
| Brazil | 0.0 | 0.0 | 0.0 | 1.5 | 0.0 | 1.5 | **0.0** | |
| China | 0.5 | 0.0 | 0.0 | 0.0 | 0.0 | 0.5 | **0.0** | 12/ |
| India | 0.0 | 0.0 | 0.0 | 5.6 | 0.0 | 5.6 | **0.0** | |
| Indonesia 13/ | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.1 | **0.1** | |
| Hungary | 1.1 | 0.0 | 0.0 | 4.7 | 1.1 | 6.9 | **1.1** | |
| Poland | 0.4 | 0.0 | 0.0 | 0.0 | 3.2 | 3.6 | **0.4** | |
| Russia | 0.3 | 0.5 | 3.2 | 3.2 | 0.5 | 7.7 | **0.8** | 14/ |
| Saudi Arabia | 0.6 | 0.6 | 0.0 | 8.2 | N/A | 9.4 | **1.2** | |
| Turkey | 0.0 | 0.0 | 0.0 | 0.2 | 0.0 | 0.2 | **0.0** | |
| **Average (PPP GDP Weights)** | | | | | | | | |
| G-20 | 1.9 | 2.5 | 1.0 | 12.4 | 14.3 | 32.1 | **3.4** | |
| G-20 EU | 2.7 | 3.8 | 3.2 | 0.5 | 22.1 | 32.3 | **6.7** | |
| Advanced Economies | 2.9 | 4.0 | 1.3 | 18.8 | 22.8 | 49.8 | **5.3** | |
| Emerging Economies | 0.2 | 0.1 | 0.4 | 1.6 | 0.1 | 2.4 | **0.1** | |

**The figures for upfront government financing do not include estimates of the amounts recovered from the sale of assets acquired through interventions. Projections taking into account the latter are provided in the IMF Companion Paper, “The State of Public Finances.” Source: FAD-MCM database on public interventions. See the Companion Paper, Chapter II. For details.
1/ This table includes operations of new special facilities designed to address the current crisis and does not include the operations of the regular liquidity facilities provided by central banks. Outstanding amounts under the latter have increased substantially, and their maturity has been lengthened in recent months in many cases.
2/ Excludes deposit insurance provided by deposit insurance agencies.
3/ This includes only those components of A, B and C that require upfront government outlays.
4/ Upfront financing is USD 900 bn (6.3 percent of GDP), consisting of TARP (700 bn) and GSE support (200 bn). Guarantees on housing GSEs are excluded. For details, see the IMF Companion Paper: “The State of Public Finances”, Chapter II.
5/ Support to the country's strategic companies is recorded under (B); of which E14 bn euro will be financed by a state-owned bank, Caisse des Depots and Consignations, not requiring upfront Treasury financing.
6/ The amount in Column D corresponds to the temporary swap of government securities held by the Bank of Italy for assets held by Italian banks. This operation is unrelated to the conduct of monetary policy which is the responsibility of the ECB.
7/ A part of the capital injection (SEK50 bn) will be undertaken by the Stabilization Fund.
8/ Costs to nationalize Northern Rock and Bradford & Bingley recorded under (B), entail no upfront government financing.
9/ Budget provides JPY 3,900 bn to support capital injection by a special corporation and lending and purchase of commercial paper by policy-based financing institutions of the BoJ.
10/ KRW 76.7 trillion support for recapitalization and purchase of assets needs upfront financing of KRW 3.5 trillion.
11/ Direct lending to the agricultural and manufacturing sectors and consumer loans are likely to be financed through Anses, and would not require upfront government financing.
12/ Capital injection is mostly financed by Central Huijin Fund, and would not require upfront government financing.
13/ Extensive intervention plans that are difficult to quantify have also been introduced recently.
14/ Asset purchase will be financed from National Wealth Fund; and the government will inject 200 bn rubles to deposit insurance fund financed from the budget.