World Economic Crisis:
Government Responses – Stimulus Packages

July 2009

The views expressed are those of the author in his private capacity and do not necessarily represent those of the OECD or its Member governments.
This presentation will

- Report on general OECD work on government responses to the economic crisis, especially stimulus packages;
- Outline types of measures used by governments as responses to the crisis;
- Report on stimulus packages to assist the shipbuilding sector.
Macroeconomic objectives

• General macroeconomic objectives that could be targeted by fiscal policy measures

➢ Moderating size of economic downturn by injecting liquidity into economy to cushion adverse employment effects

➢ Prevent downturn from gathering momentum – timing of measures important

➢ Support economic recovery while favouring structural policies that could potentially enhance long-term growth
Broad types of measures

From work undertaken by the OECD, the following broad types of measures were identified;

• measures aimed at supporting banks and supporting the financial system;
• general measures aimed at supporting business;
• measures aimed at particular industry sectors;
• measures to support household consumption and reduce their exposure to the crisis;
• measures to stimulate innovation and long term growth;
• non-financial measures.
Size of fiscal packages

2008-2010, as % of 2008 GDP

- **↑ Supportive fiscal packages**
  - i) Decrease in tax revenues
  - ii) Increase in government spending

- **↓ Tightening fiscal packages**
  - i) Increase in tax revenues
  - ii) Decrease in governments spending
Government Investment

Stimulus - Implies an increase in investment spending

Tightening - Implies a decrease in investment spending

Countries: Australia, Poland, Canada, Mexico (2), Korea, Denmark, Germany, Spain, Luxembourg, New Zealand, Portugal, Finland, United States, Japan, Sweden, Norway (2), Czech Republic, France, United Kingdom, Austria, Belgium, Hungary, Italy, Netherlands, Slovak Republic, Switzerland, Ireland, Iceland.
Government subsidies to business

% GDP

Stimulus - Implies an increase in subsidies

Tightening - Implies a decrease in subsidies

Spain, Korea, Slovak Republic, Japan, Portugal, Mexico (2), Czech Republic, Germany, Luxembourg, Canada, Norway (2), France, Belgium, Switzerland, Australia, Austria, Denmark, Finland, Ireland, New Zealand, Poland, Sweden, United Kingdom, United States, Netherlands
Specific categories of government responses

- Direct and indirect subsidies;
- Special loans, guarantees and credit arrangements;
- Government procurement measures;
- Capitalisation measures, incl. partial or full public sector ownership;
- R&D support - incl. to support other policy measures – environment;
- Employing and training support;
- Direct buyer assistance;
- Public sector acquisition of excess stocks or cancelled orders;
- Protection from competition (eg. tariff support, domestic preferences);
- Specific (as opposed to general) tax arrangements, including relief from VAT type taxes
Stimulus packages to assist shipbuilding

• Questionnaire sought information on measures announced or planned:

  a) where assistance was not specifically directed to shipbuilding, but where there is significant benefits to the shipbuilding industry; and

  b) where assistance was specifically directed to the shipbuilding industry
Nil responses

<table>
<thead>
<tr>
<th>Australia</th>
<th>Denmark</th>
<th>France</th>
<th>Italy</th>
<th>Japan</th>
<th>Netherlands</th>
<th>Poland</th>
<th>Portugal</th>
<th>Slovakia</th>
<th>Spain</th>
<th>Sweden</th>
<th>Ukraine</th>
</tr>
</thead>
</table>

[Korea advised that it plans to expand the scope of existing packages to assist shipyards in preparing for a liquidity crisis, but that in its view it has not adopted any packages that would meet the definitions in the questionnaire.]

[Croatia and Turkey advised that packages are under consideration but that a final decision had not yet been taken.]
Positive responses

The following respondents provided details of their stimulus packages affecting the shipbuilding sector

<table>
<thead>
<tr>
<th>Respondent</th>
<th>Type a) Packages*</th>
<th>Type b) Packages*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canada</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>China</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Finland</td>
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<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Romania</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Chinese Taipei</td>
<td>Yes</td>
<td>Yes</td>
</tr>
</tbody>
</table>
Measures identified by respondents

The following measures were identified in the responses that included details of the measures contained in packages:

- government procurement (Canada, Chinese Taipei);
- credit guarantees (Finland, Romania, Chinese Taipei);
- refinancing of export credits (Finland);
- interest equalisation (Finland);
- loans (Germany, Norway);
- loan guarantees (Norway);
- restructuring support (China);
- R&D support (China);
- employment support (Romania).
Guiding principles for stimulus packages

• Some specific guidelines mentioned by OECD/others (eg G8/G20) in the context of stimulus packages were:

  ➢ Crisis measures should not reduce competition nor be protectionist;

  ➢ Measures should be temporary, and designed and implemented in the least distortive manner;

  ➢ There should be clear “exit strategies” to prevent further downstream risks;

  ➢ Credibility of medium term fiscal framework strengthened through a clear commitment to long term fiscal sustainability