

The Impact of the Global Financial Crisis on Economic Reform Processes in Africa

January 28-29, 2010: House of Science (Haus der
Wissenschaft), Bremen, Germany

Prospects for Growth, Employment and Poverty Reduction in Africa after
the GFC: Countercyclical Fiscal Policy for Africa

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Abstract:

To counter the effects of the international crisis on the domestic economy, most governments in Africa could initiate a macroeconomic stimulus package. The package would be fiscal expansion complemented by currency depreciation implemented through exchange rate management. The fiscal expansion would be largely financed by borrowing from the central bank, with a component of additional external assistance. Exchange rate management is a necessary complement in order to 1) to raise the relative price of tradables to prevent the fiscal expansion from generating an unsustainable trade deficit; and 2) to achieve a real exchange rate associated with the fiscal expansion that is sufficiently trade altering but not excessively inflationary.

Prospects for Growth, Employment and Poverty Reduction in Africa after the GFC: Countercyclical Fiscal Policy for Africa¹

1. Introduction

Before the global financial crisis the macro policy framework common to most African countries was deregulation across markets, combined with a cautious monetary policy and a neutral fiscal policy would enable the relative price changes implied by deregulation to be realized in practice. This policy framework, based on a ‘price constrained framework’, has as its prerequisite that the world economy operates near its potential.² Since mid-2008 it has been clear that aggregate demand is insufficient to permit the world economy to achieve its potential. In response governments of the major industrial countries introduced ‘stimulus packages’ designed to replace the fall in private demand with public expenditure.

World trade in the major export commodities of African countries fell in 2008, and declining prices of these commodities will not restore their quantities and values to their pre-2008 level.³ The fundamental problem is the deficiency of demand at any price and at any set of relative prices. Were it the case, for example, that Sierra Leone’s exports of cocoa remained the same or fell, this would mean that the cocoa exports of some other country fell.

In a demand constrained world economy, African governments have two general policy options. They can pursue a ‘business-as-usual’ and ‘hope-for-the-best’ option in which they continue with the policy framework designed for a robust world economy and await international recovery. This would follow advice to place primary emphasis in macro policy on preventing inflation, reaching targets for fiscal deficits, and maintaining a free-floating exchange rate.⁴

¹ A previous version of this paper was presented as the keynote address to the Caucus of African Governors of the IMF, World Bank, African Development Bank, Sierra Leone, 12 August 2009 (Weeks 2009c). The revision of the paper benefited from comments by Joseph Stiglitz of Columbia University and Samura Kamara, Minister of Finance of Sierra Leone.

² An early use of this terminology is found in Liejonhufvud 1968, Section 2. The theoretical and policy difference between ‘price constrained’ and ‘quantity constrained’ economies is discussed in Weeks (1989). The recently revised edition can be found at <http://jweeks.org>.

³ See, for example, UN 2009, p. 17, and African Development Bank 2009.

⁴ A clear statement of this approach is found in an IMF report on the global financial crisis, Countries should focus on macroeconomic stability. In some countries with falling inflation there may be scope for monetary easing; others, however, still experience continued or renewed price pressures. Those with flexible exchange rates should allow them to move, so that they function as shock absorbers. (IMF 2009a, viii)

Choosing this option would be a triumph of hope over experience.⁵ When the world economy is deflating a fiscal policy guided by fears of inflation would result in a contraction of the demand for domestic goods to aggravate the contraction in exports. As the economy contracts due to the world recession and a restrictive fiscal policy, any deficit target would become increasingly difficult to realize. A reduction in expenditure, or an increase in taxes, would further depress private domestic expenditure, which would reduce revenue from sales taxes. A floating exchange rate with falling export demand could result in a declining economy aggravated by depreciation-induced inflation.

The other option, firmly endorsed by African finance ministers in August 2009,⁶ is an active fiscal policy to reduce the impact of the international downturn through purposeful management of the public budget. The policy objective is to compensate for fluctuations in private sector demand by use of ‘countercyclical’ fiscal policy. After it fell out of political fashion for almost three decades, opinion has moved back in favor of fiscal intervention which was the mainstream for over thirty years after World War II.

A January 2009 IMF report on the world economy called for a ‘firm commitment’ to a ‘timely implementation of fiscal stimulus across a broad range of advanced and emerging economies’. In line with this commitment, a May 2009 press release reported that the IMF recommended a fiscal stimulus for a low income country, Mozambique.⁷ In its survey of the impact of the financial crisis, the World

⁵ A critical review of orthodox IMF policies can be found in Stiglitz 2002.

⁶ The endorsement is in the Freetown Declaration, the consensus statement by African finance ministers and governors of the IMF and World Bank following their meeting in Freetown (Caucus of African Governors 2009). The keynote address to the meeting is summarized in Weeks 2009e.

⁷ The complete statement on fiscal policy reads as follows,

In current circumstances, the timely implementation of fiscal stimulus across a broad range of advanced and emerging economies must provide a key support to world growth. Given that the current projections are predicated on strong and coordinated policy actions, any delays will likely worsen growth prospects. Countries that have policy room should make a firm commitment to do more if the situation deteriorates further. Fiscal stimulus packages should rely primarily on temporary measures and be formulated within medium-term fiscal frameworks that ensure that the envisaged build up in fiscal deficits can be reversed as economies recover and that fiscal sustainability can be attained in the face of demographic pressure. (IMF 2009c, 1)

A press release titled ‘IMF Mission Calls for Fiscal Stimulus in Mozambique’ states, ‘In the short term, given Mozambique’s low level of public debt, the [IMF] mission sees scope to at least partly offset the impact of the global economic crisis on Mozambique with

Bank also recommended that governments ‘assess their ability to undertake countercyclical policies’.⁸ The African Development Bank as well has recommended countercyclical fiscal intervention.⁹ Without explicitly mentioning countercyclical measures, in 2009 the IMF recommended for Sierra Leone that the country’s fiscal deficit be allowed to increase to respond to the impact of the financial crisis on import prices.¹⁰

These statements and recommendations by international agencies suggest that a new policy consensus is emerging in favor of countercyclical responses to the world downturn. It is appropriate that policy makers in Africa take advantage and follow this emerging view. This rest of this paper considers how governments in Africa might design and implement such a policy that could be effective in low income countries.

2 Countercyclical Fiscal Intervention

Countercyclical policy increases demand when the economy grows below its long run potential, and decreases it when output encounters resource scarcities that provoke inflationary pressure. This output stabilization policy maintains an economy as close to its potential as is consistent with other goals of policymakers. It is not a growth policy, which would involve public investment to contribute to increasing productive capacity.

An active fiscal policy can be summarized as follows: if a country’s potential growth rate is low, increasing public investment subject would be the appropriate response; simultaneously a government would use current expenditure to generate the demand necessary to reach the greater potential created by the public investment.

somewhat more expansionary fiscal and monetary policies.’ (IMF 2009d). The IMF approved higher deficit limits for El Salvador and Ethiopia (Bretton Woods Project 2009, 9)

⁸ ‘The challenge for policymakers in this environment is to assess their ability to undertake countercyclical policies given the resources available to them as well as their institutional and administrative capacity to rapidly expand and adapt existing programs.’ (WB 2009, 10)

⁹ The AfDB’s 2009 report calls on donors and lenders to ‘[Focus] on results, rather than prescribing rigid policies and actions, allowing countries space to respond according to their particular needs and circumstances.’ More specific, it recommends that donors and governments ‘[i]ncrease flexibility in macroeconomic frameworks to allow more scope to balance macroeconomic stability and the need to stimulate domestic demand.’ (ADB 2009, 2)

¹⁰ ‘[IMF] Staff is proposing that the primary fiscal deficit be revised upward by 0.4 percentage points of GDP to accommodate the unanticipated budget impact of the rise in world oil prices.’ (IMF 2009b, 5).

Public expenditure is a more effective instrument for countercyclical intervention than taxation, because of the relative inflexibility of the latter. Capital projects are inappropriate because they often cannot be initiated quickly enough to respond to demand declines, and cannot be stopped without wastage when the economy becomes over-heated. Much of current expenditure is also inappropriate because it is not practical or rational to suspend it. For example, it would not be rational health or education policy to hire more medical staff or teachers during a downturn and lay them off when the economy recovers.

Effective countercyclical expenditure would be based on projects using relatively employment intensive techniques to create rapidly-completed facilities that have a large component of repair and maintenance.¹¹ Examples of such programs are digging sanitation ditches, repair of public buildings, environmental improvement through erosion reduction, and clearing of rural footpaths. These activities are currently being implemented throughout Sierra Leone by the National Commission for Social Action as part of a countercyclical policy (Weeks 2009d). The projects would make a contribution to community welfare, though their primary purpose is to increase aggregate demand through the expenditures of those employed directly and indirectly. The projects have the following characteristics:

- 1) identified and 'stock-piled' prior to the need for them, with accounting procedures in place to reduce the likelihood of misuse of funds;
- 2) easily initiated and quickly terminated, implying that they should be implemented by the central government in order to avoid delays due to limited administrative capacity of local governments; and
- 3) wages and salaries are the major element of expenditure, with a low capital component.

Some issues that plague public works projects with controversy need not be relevant for ones whose purpose is countercyclical. For example, the wage at which workers are paid is a secondary consideration because these are not long term or even medium term employment schemes. The appropriate wage will vary across countries and regions, guided by the principle that the primary purpose of the projects is to increase demand quickly. This would be best achieved by hiring as many people as possible, which implies paying wages at or below prevailing rates. These programs

¹¹ The ILO defines such projects as 'labor-intensive public works'. The ILO website provides further information, <http://www.ilo.org/public/english/employment/recon/eiip/index.htm>

would be introduced when the labor is in excess supply, and would be unlikely to affect prevailing wage rates. A recent ministry of finance study in Sierra Leone recommended this type of employment program, ‘cash for work’, as a policy measure to counter the effects of the financial crisis (MoFED-EPRU 2009).¹²

Clear rules should be established for the initiation and termination of countercyclical projects. A ‘countercyclical’ expenditure that becomes permanent negates its purpose. Initiation and termination could be triggered by a policy rule based on appropriate macroeconomic indicators. The specific indicator will vary by country, determined by the development and structure of the economy.

If the size of the stimulus required to prevent an economy from contracting is large, donor support in addition to current aid levels commitments might be required. However, donor funding does not lend itself to countercyclical programs because of its fixed, but often unreliable, schedule of allocation and disbursement.¹³ To make their funding more appropriate for countercyclical programs, donors should accelerate disbursement and adjust their allocation procedures to allow for an ‘aid fund’ analogous to national mechanisms created for resource booms. Money could be drawn from such a fund when the economy was below potential, and ‘hoarded’ when near full potential. If donor grants ear-marked for investment would not be used for countercyclical expenditures, for reasons explained above.

As a practical matter, the countercyclical fiscal stimulus in most African countries must be largely funded by public sector borrowing. If the implied increase in the deficit exceeds a level consistent with achieving other policy goals, such an inflation target or size of the domestic public debt, increased grants should be sought to fill the funding shortfall.

¹² In Sierra Leone the most important cash for work project in 2009 was supported by US\$ 4 million from the World Bank. It employed about 14,000 people in activities of infrastructure maintenance.

¹³ At the annual Caucus of African governors of the IMF, World Bank and African Development Bank held in Freetown in August 2009, a frequent criticism of IMF and World Bank practice by ministers the slow-disbursing nature of their lending and grant programmes. This criticism was directed specifically at three programmes of the IMF, the Extended Credit Facility (ECF), the Stand-by Credit Facility (SCF) and the Rapid Credit Facility (RCF). The ECF replaced the Poverty Reduction and Growth Facility (PRGF).

3. Arguments over deficits

Two technical arguments are presented to justify abandoning fiscal policy for economic management: the possible inflationary effect of deficits, and the putative tendency for public borrowing to ‘crowd out’ private by causing interest rates to rise. The analysis of the relationship between public deficits and inflationary pressures is straight-forward.

If the economy is operating at full potential, increased spending from any source, public or private, must result in a reduction of expenditure of another type. If the expenditure is by the public sector, its inflationary impact will depend on how it is financed. The expenditure can be financed through borrowing through sales of government securities to the private sector (‘open market operations’) or by the ministry of finance borrowing from the central bank (‘monetizing the deficit’).

An increase in a deficit is not inflationary if financed by bond sales to the private sector, because the net change in the money supply is zero. The government takes money out of circulation by the bond sale, and returns the same amount to circulation through its increased expenditure. If the private sector holds its desired amount of bonds before the borrowing, the government must offer the bonds above the prevailing interest rate. If the increased bond rate transmits to private financial markets and investment is sensitive to interest rates, ‘crowding out’ results. In contrast, if the government borrows directly from the central bank, the money supply increases and inflation results, with an important exception: in an open economy the increased money in circulation will be spent on imports, reducing the inflationary impact, but creating or increasing a trade deficit.

If the economy is operating at less than full potential, neither type of deficit financing should generate more than minor and transitory inflation, though ‘crowding out’ could occur. An increase in government expenditure financed by bond sales to the private sector would increase aggregate demand. As before, no change in the money supply occurs. As before, if the public held their desired amount of government debt prior to the bond sale, the new issues must be at a higher interest rate, creating upward pressure on private interest rates, depressing private investment expenditure. The net change in aggregate demand would be positive and less than the increase in public expenditure. Financing the expenditure by direct borrowing from the central bank would not require a higher bond rate. The increase in aggregate

demand would equal the increase in public expenditure, and monetizing the deficit generates an increase in the money supply sufficient to circulate the increased output that results from more public expenditure.

Few sub-Saharan countries have sufficiently developed bond markets to allow for effective open market operations. With the absence of an effective secondary bond market the major motivation of commercial banks to hold public bonds is statutory requirements on the composition of reserves. This implies high interest rates to induce banks to purchase bonds beyond the legal requirements. The absence of a secondary market and high yields on public bonds means that financing deficits by bond sales has the perverse effect of discouraging commercial banks from funding productive investments, which are riskier than holding government securities.¹⁴ The major economic effect of higher interest rates is to increase the cost of servicing the domestic public debt.

With the economy well below its potential, monetizing the deficit is an effective tool for the expansion of aggregate demand, generating neither inflation nor ‘crowding out’ of private expenditure. The government’s expenditures on infrastructure could be consciously designed to ‘crowd in’ private investment by lowering costs of transport, electricity and water supply. In many African countries, Zambia, for example, the cost of servicing the public debt should a greater concern than inflation or ‘crowding out’.

4. Exchange rate management

The fiscal expansion, by increasing output and private demand, will increase imports and generate a trade deficit or make an existing deficit larger. This is the problem that undermined the use of active fiscal policy in developing countries in the past and discredited it as an instrument of macro management, especially in Latin America in the 1970s. Exchange rate depreciation or devaluation can be used to counter the tendency of fiscal expansion to create an unsustainable trade balance.

Thus, depreciation or devaluation is an intended part of a countercyclical policy, and causes a rise in the domestic price level equal to at least the ‘pass-through rate’ (marginal propensity to import) times the change in the nominal exchange rate. While necessary and intended, this exchange rate induced increase in the price level

¹⁴ This process is discussed in detail for Zambia in Weeks, *et. al.* (2006).

creates the risk of destabilizing inflation if the nominal devaluation is large. Managing this risk is an essential part of a successful active fiscal policy.

As fashion moved against active fiscal policy over the last three decades, there was a shift to a view that ‘flexible’ exchange rates were the only practical policy choice for governments. Therefore, it is necessary to explain why exchange rate management by African governments would be both feasible and possible as part of policy to counter the global crisis.¹⁵ In practice almost all governments intervene in foreign exchange markets.¹⁶ The policy choice is not between ‘fixed’ and ‘flexible’ exchange rate regimes, but selection of the most appropriate point on a range of forms and degrees of intervention in the context of the characteristics of the economy (Fischer 2001). Governments and central banks repeatedly shift between ‘flexible’ and ‘fixed’ exchange rates.¹⁷ Any time a central bank intervenes to moderate the rise or fall of the national currency, it is ‘fixing’ the exchange rate, however briefly.

The exchange rate management that would be part of the proposed stimulus package would not seek to maintain a ‘fixed’ rate for the domestic currency against any foreign currency. The purpose of the intervention would be to control the rate of depreciation of the national currency against the currencies of major trading partners in order to prevent a widening of the trade gap as the economy expanded and prevent excessive weakening that would stimulate unmanageable inflation. The exchange rate managers would face two possible contexts, one in which the fiscal expansion was accompanied by no ‘weakening’ of their currency and another in which fiscal expansion automatically provokes depreciation.¹⁸

¹⁵ An argument in favour of a global return to managed exchange rates is found in Rolnick and Webber (1989), who write, ‘we maintain there is a convincing case that a fixed exchange rate system is feasible and should be established. Theory shows it feasible, and overlooked empirical evidence shows it possible.’

¹⁶ The IMF categorises countries by exchange rate regime, and the Annual Report for 2007 lists only thirty-five countries out of over 150 as having an ‘independently floating’ exchange rate. Only two were in the sub-Saharan region, Democratic Republic of Congo and Somalia. The listing of the latter seems an anomaly in light of the political turmoil in the country. Another anomaly is the absence of Sierra Leone from the table of exchange rate regimes.

¹⁷ Exchange rate management is treated in Rolnick and Webber (1989) and Bartolini and Prati (1997). An IMF Staff Paper from the 1970s shows how much the conventional wisdom has moved against exchange rate management (Lipschitz 1978).

¹⁸ The well-known Fleming-Mundell model predicts that a fiscal expansion would result in exchange rate appreciation. That analysis is not relevant to most of Africa because the countries have no significant level of portfolio flows due to lack of the necessary financial institutions. Theoretical problems in the model are discussed in Weeks 2009b.

The *devaluation case* occurs if there is no market pressure to weaken the national currency as public expenditure increases. The government must act directly on the exchange rate, to raise the price of tradables, which will reduce import demand and raise the return to exporters. The mechanism for exchange rate management will differ with the characteristics of financial and foreign exchange markets in each country. In effect, the government would temporarily be implementing a ‘crawling peg’ exchange rate regime. The *depreciation case* occurs if the fiscal expansion is accompanied by market pressure to weaken the currency. While the market pressure to weaken the exchange rate serves the government’s purpose of increasing competitiveness, intervention is potentially necessary to prevent the currency from depreciating at a rate that generates unmanageable inflation pressures.¹⁹

5. Algebra of Countercyclical Fiscal Policy

For success the proposed countercyclical policy package must achieve the appropriate balance between fiscal expansion and exchange rate depreciation. With underutilized resources both measures should stimulate output. If a nominal devaluation results in a real devaluation, exports may not increase if their exchange rate elasticity is low. This would be the case for exporters of minerals and petroleum, whose prices are denominated in international currencies. For these countries, the main impact of the devaluation would be on import demand.

Both devaluation and fiscal expansion have potentially negative effects that require careful management. Since the income elasticity of taxes is typically less than unity in sub-Saharan countries, increasing government expenditure will always increase the fiscal deficit relatively to national income. Simultaneously there would be an increased and possibly unsustainable trade deficit. The policy goal is to prevent the latter through devaluation, which has its own problem, the inflation it generates.

Identifying the appropriate balance between increased expenditure and devaluation is facilitated by use of algebra. The rate of growth of the real demand for output (y) can be specified as the weighted sum of the growth of autonomous expenditures times the multiplier:

$$y = \beta[a_1i + a_2g + a_3x - a_4z]$$

¹⁹ Exchange rate management in Zambia is discussed in detail in Weeks, et. al. (2007).

The lower case letters i , g , x and z are the rates of change of expenditures that are exogenous with respect to national income, including the exchange-rate-induced components of trade (private investment, government expenditure, exports, and imports, respectively). The a_i terms are the shares in national income of each variable and β is the multiplier. Exports have an autonomous component whose rate of change is x^0 , and a component determined by the real exchange rate. Imports are a function of national income and the real exchange rate. Define ϵ_X and ϵ_Z as the elasticities of exports and imports with respect to the real exchange rate, p as the price level and δ the marginal propensity to import:

$$x = x^0 + \epsilon_X e^*$$

$$z = \delta y - \epsilon_Z e^*$$

The change in the real exchange rate (e) is the change in the real rate (e^*) minus the rate of inflation (p), and *ceterius paribus* the rate of inflation is the pass-through rate of a devaluation of the currency (the marginal propensity to import, δ).

$$e^* = e - p = e - \delta e = (1 - \delta)e$$

$$x = x^0 + \epsilon_X(1 - \delta)e$$

$$z = \delta y - \epsilon_Z(1 - \delta)e$$

These can be substituted into the growth of demand equation. We interpret x^0 as an external shock to export demand, and it causes depressed expectations that render the growth of private investment zero. Assume that the government seeks to prevent national income from falling ($y = 0$). To simplify, write a_3/a_2 as α and define $(\epsilon_X + \epsilon_Y) = \epsilon_T$. If the trade elasticities are positive, ($\epsilon_T > 0$), a real devaluation improves the trade balance (Marshall-Lerner condition).²⁰ For zero growth, the real demand equation is:

$$0 = a_2 g + a_3 x^0 + a_3 \epsilon_T (1 - \delta) e$$

For any shock to exports (x^0) the relationship between the change in expenditure and the devaluation is determined by three parameters, the ratio of exports to government expenditure, the real exchange rate elasticity of trade, and the

²⁰ The more familiar condition of greater than unity refers to the nominal exchange rate and export and import values.

propensity to import. If the exchange rate is constant, the government expenditure that stabilizes output is:

$$g = \alpha x^0$$

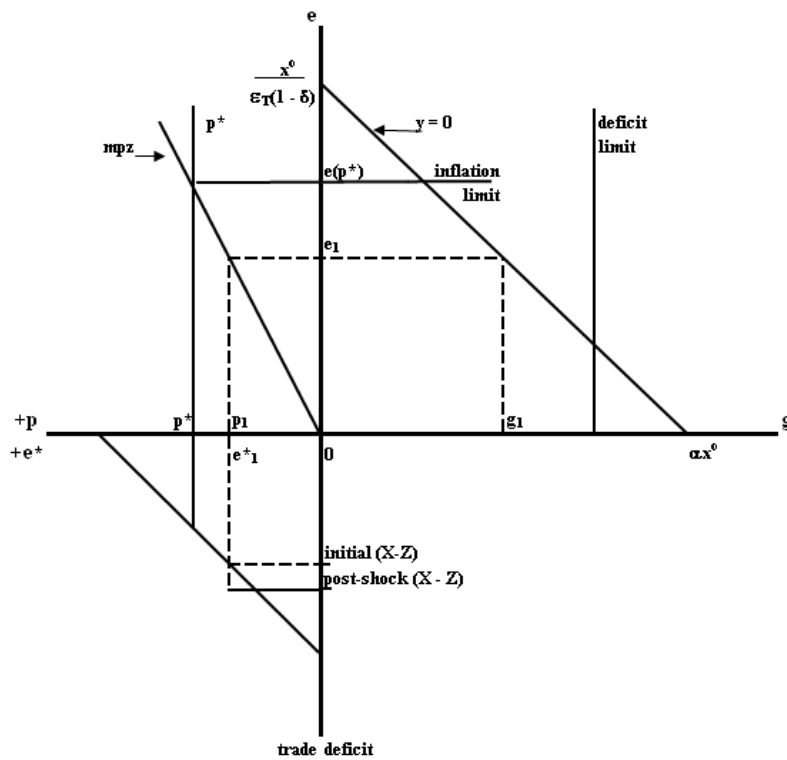
For no increase in government expenditure, stabilizing output requires the nominal devaluation to be:

$$e = x^0 / [\varepsilon_T(1 - \delta)e]$$

The relationship between e and g for zero growth is shown in the upper right quadrant of Figure 1. The upper left quadrant relates the nominal exchange rate to its inflationary effect (e and p), and the lower left quadrant links the change in the real exchange rate to the trade deficit (e^* and $X-Z$). An export shock decreases national income and increases the trade deficit. We assume that the government must return to the initial trade deficit or suffer an unsustainable loss of reserves. The initial deficit requires a real devaluation of e^*_1 , which implies a nominal devaluation of e_1 . This sets the lower limit of the devaluation, which defines a feasible range for the increase of government expenditure to prevent a fall in output ($g > g_1$).

Two other goals of the government constrain policy, inflation and deficit limits. In Figure 1 there is a feasible policy range, below the 'inflation limit' and above the 'deficit limit' in the upper right quadrant. If the acceptable inflation rate is below p_1 , then no combination of devaluation and increased expenditure is consistent with restoring the trade balance and stabilizing output in the short run, though it would be possible with a series of devaluations in the medium term. This demonstrates the necessity for exchange rate management. Leaving the currency to float when expenditure increases can result in excessive inflation as the depreciation seeks balance of trade sustainability. If the limit for the fiscal deficit were below g_1 , there might remain a feasible short term region involving a low expenditure increase and a large devaluation.

Figure 1: Policy Options for countercyclical intervention



6. Constraints on Macro Policy

The algebra and diagrammatic presentation make it clear why policy conditionalities such as those required by the IMF in its lending (and typically accepted by the World Bank and bilateral agencies) make effective responses to the global crisis difficult or impossible. Setting a single digit limit to inflation makes it almost impossible to achieve a trade improving exchange rate adjustment unless it were accompanied by severe deflationary macro policies.

For example, in Sierra Leone the structural rate of inflation in the late 2000s was eight percent, due to various bottlenecks that were the legacy of the country's civil war (see Weeks, 209d), and the import share in national income was about one-third. Even if there were no inflation due to world prices, any devaluation greater than six percent would breach a single digit inflation rule. Adding a minimum target for foreign exchange holding to inflation and deficit limits, as in the case of Sierra Leone (IMF 2009b), renders macro policy over-determined to the point of total inflexibility.

More generally, if a country's import share is high, as is the case for most sub-Saharan countries whose regional average is over one-third, inflation limits set a severe limit to exchange rate adjustment. In practice in a highly open economy, inflation limits render exchange rate adjustment a pro-cyclical policy because they must be accompanied by deflationary macro policy. As they entered the crisis of 2008, African governments found their policy space squeezed between the Scylla of inflation caps and the Charybdis of deficit restriction. It was this policy squeeze that prompted the Freetown Declaration.

Depending on the size of the external shock to be redressed and current donor flows, many sub-Saharan countries may not require a substantial increase in grants for a fiscal stimulus to be effective in stabilizing the economy. However, the government will need donors and the IMF to grant 'policy space' through the following measures, which feature in the Freetown Declaration:

- 1) elimination of the pro-cyclical conditionalities and 'benchmarks' for deficit limits, inflation rates and foreign exchange holdings;
- 2) donor reliability on delivery of assistance because the fiscal stimulus will be 'finely tuned' and late or non-delivery of assistance could provoke macroeconomic instability; and, more generally,
- 3) a suspension of the 'business as usual' approach to negotiations over assistance which emphasize policy issues such as tax reform that the external crisis has rendered of less immediate importance.

The combination of a carefully calibrated stimulus package and donor flexibility offers the firm prospect of overcoming the potentially serious effects of the external shocks. While the stimulus package involves risks, these are minor compared to the certain effect of the global depression on poverty and public welfare.

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