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GLOBAL FISCAL STIMULUS HELPS SPUR RECOVERY

Signs are emerging that the pace of contraction in the global economy is abating following significant fiscal stimulus.

QIC research indicates that the 'Obama fiscal package' in the US will boost GDP growth by 0.7 percentage points in 2009 and by 1.3 percentage points in 2010.

In Australia, the Rudd Government's package will boost GDP growth by 1.1 percentage points in 2009 and 0.6 percentage points in 2010.

The implementation of the fiscal packages has coincided with a sharp improvement in investor confidence following the slump experienced after the failure of Lehman Brothers. Equity market volatility has fallen to its lowest level since September 2008 and share markets have surged by 35 per cent since March 2009.

QIC Chief Economist Matthew Peter commented that if the fall in confidence that occurred in late 2008 was to reverse, the impact of fiscal packages would be magnified.

"If the fall in confidence experienced in late 2008 was to be reversed over coming months, the impact of the US fiscal package on GDP growth would be twice as large," Peter said.

"Our research indicates that this positive shock would improve US GDP growth by 0.8 percentage points in 2009 and 2010 and reduce the unemployment rate by nearly one percentage point by the end of 2010.

"There would also be positive flow-on effects for the global economy given that the US economy accounts for around one quarter of world output.

"History tells us that an improvement in confidence could occur very quickly, and the opportunity cost to investors who take a 'wait and see' approach may be significant", he said.

However, Peter cautioned that large fiscal packages have clouded the longer term outlook as governments will eventually need to raise taxes and lower spending to stabilise the build in public debt.

"The challenge for policy makers is to find the correct balance between the benefits of short-term stimulus, and the longer-term costs of elevated debt," Peter said.

The QIC 'Red Paper' – *Fiscal Packages with a confidence shock on the side – Implications for investors* can be downloaded in full from the Knowledge Centre of QIC's website - www.qic.com.

QIC is one of Australia's largest institutional fund managers with \$65 billion¹ under management for its Australian and overseas clients.

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¹ As at 31 March 2009