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Author: Nicolaas Groenewold

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Australia saved from the financial crisis by policy or by exports?

Nicolaas Groenewold,

Economics,

UWA Business School,

University of Western Australia,

Crawley, WA 6009

email: nic.groenewold@uwa.edu.au

Australia and the GFC: Saved by Fiscal Policy, Monetary Policy or China?

ABSTRACT

There is general agreement that Australia weathered the Global Financial Crisis (GFC) better than many other advanced countries. There is less agreement as to why. In popular discussion, fiscal policy and continued strong export demand have been championed, with less support for monetary policy. But there is little formal empirical work which disentangles the relative contributions of these three factors. It is the purpose of this paper to make a start in this direction. It does so within the framework of a small vector-autoregressive model. The main finding is that the three factors together actually exacerbated the effects of the GFC on average over the 2009 to 2011 period, with most of the blame falling on fiscal policy. This seemingly anomalous finding is further explored and explained by households' response to cash hand-outs which were saved and not spent; indeed, it is conjectured that they took cash hand-outs and government predictions of doom as indicators that bad times were ahead and saved rather than spent in response. (Approx 165 words)

I Introduction

It has been a common observation in recent years that Australia was spared the worst effects of the Global Financial Crisis (GFC); while many advance countries suffered significant recessions after 2008, Australia avoided a recession although its growth rate did fall. This is borne out by Figure 1 which shows a comparison of year-on-year growth rates for Australia and that of the OECD as a whole since 2000.