



International Monetary Fund

April 2017 Fiscal Monitor

Achieving More with Less

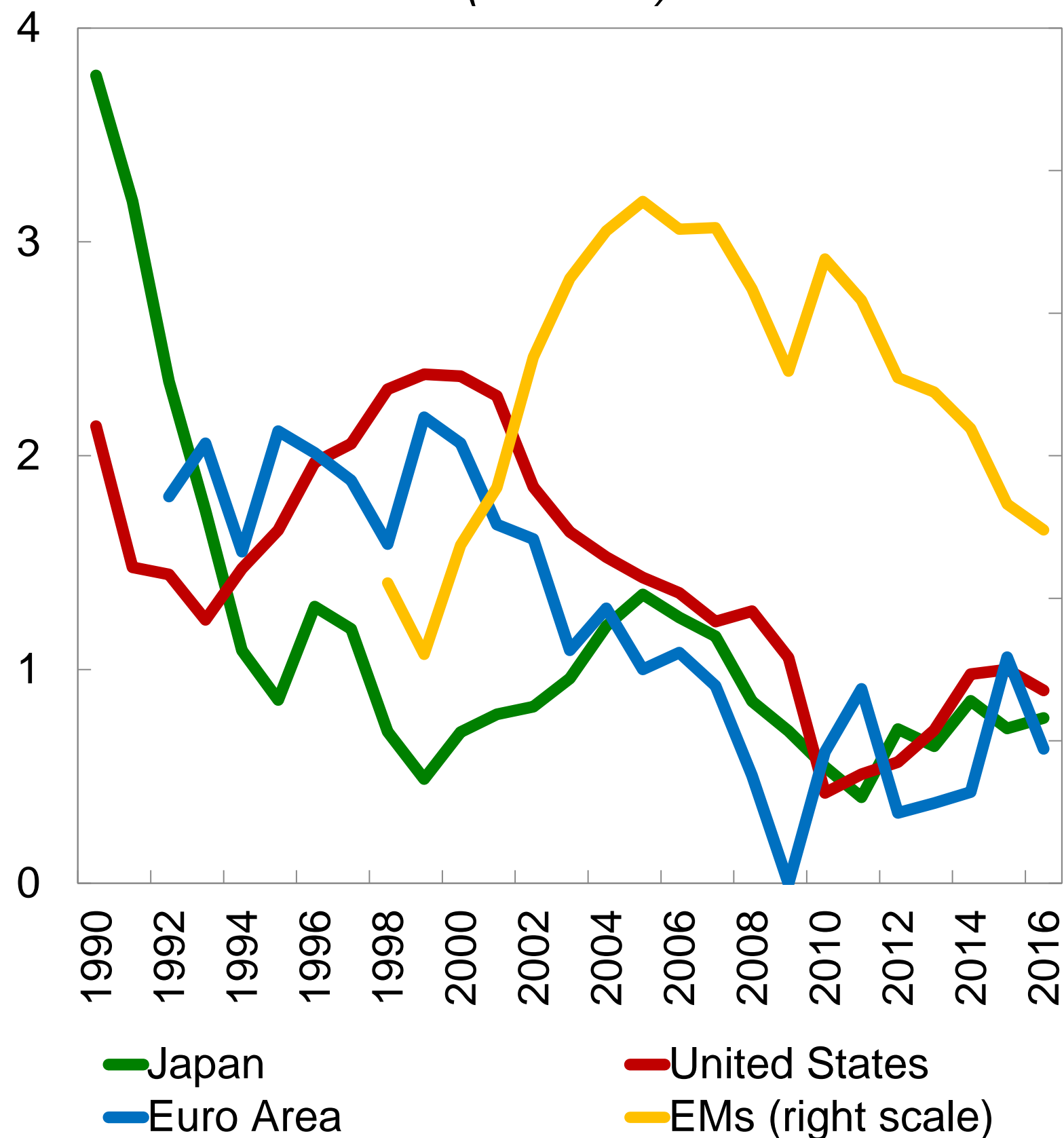
Victor Lledó

Senior Economist, IMF Fiscal Affairs Department

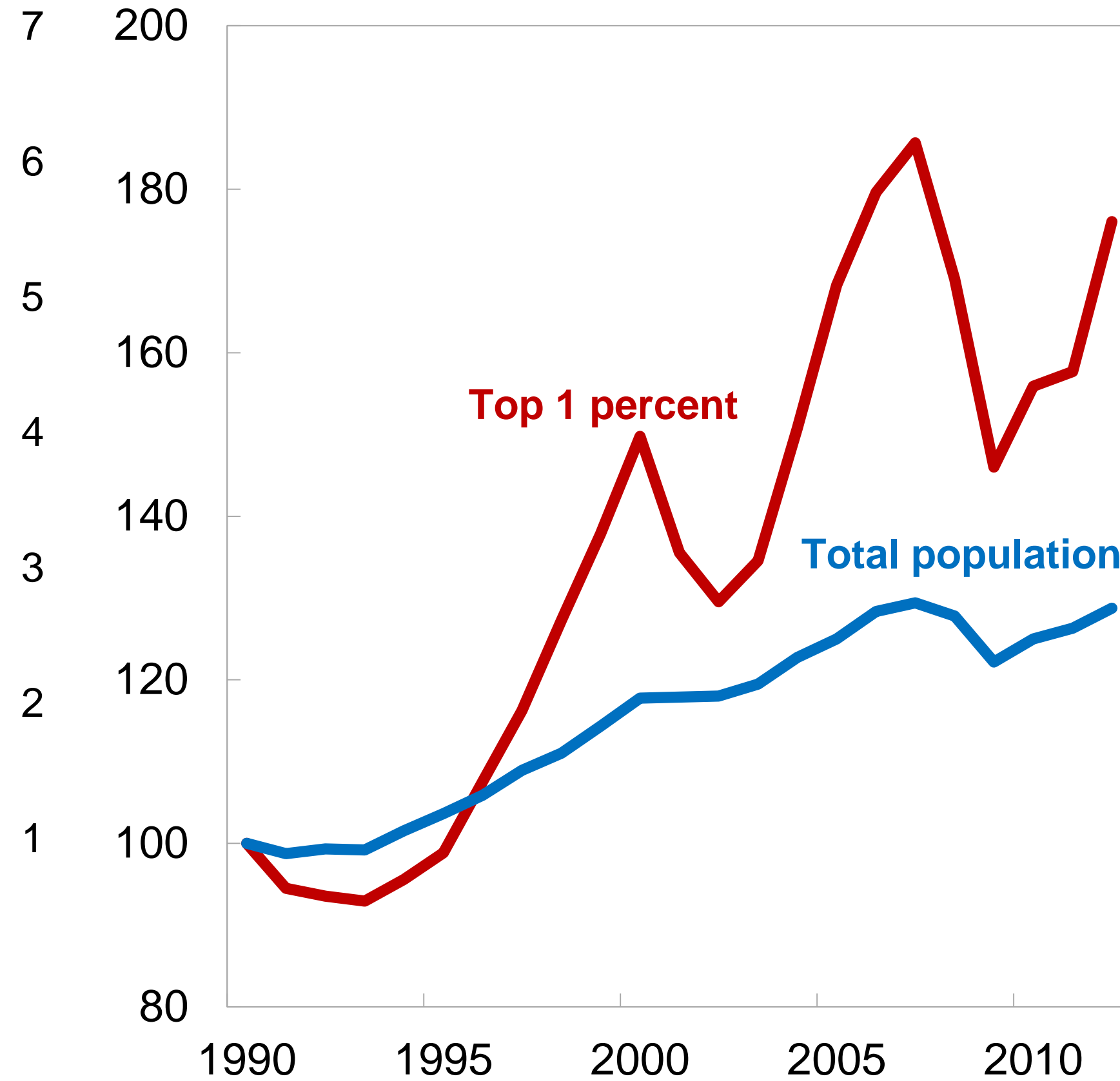
May 9, 2017

Today's Challenge: Doing More With Less

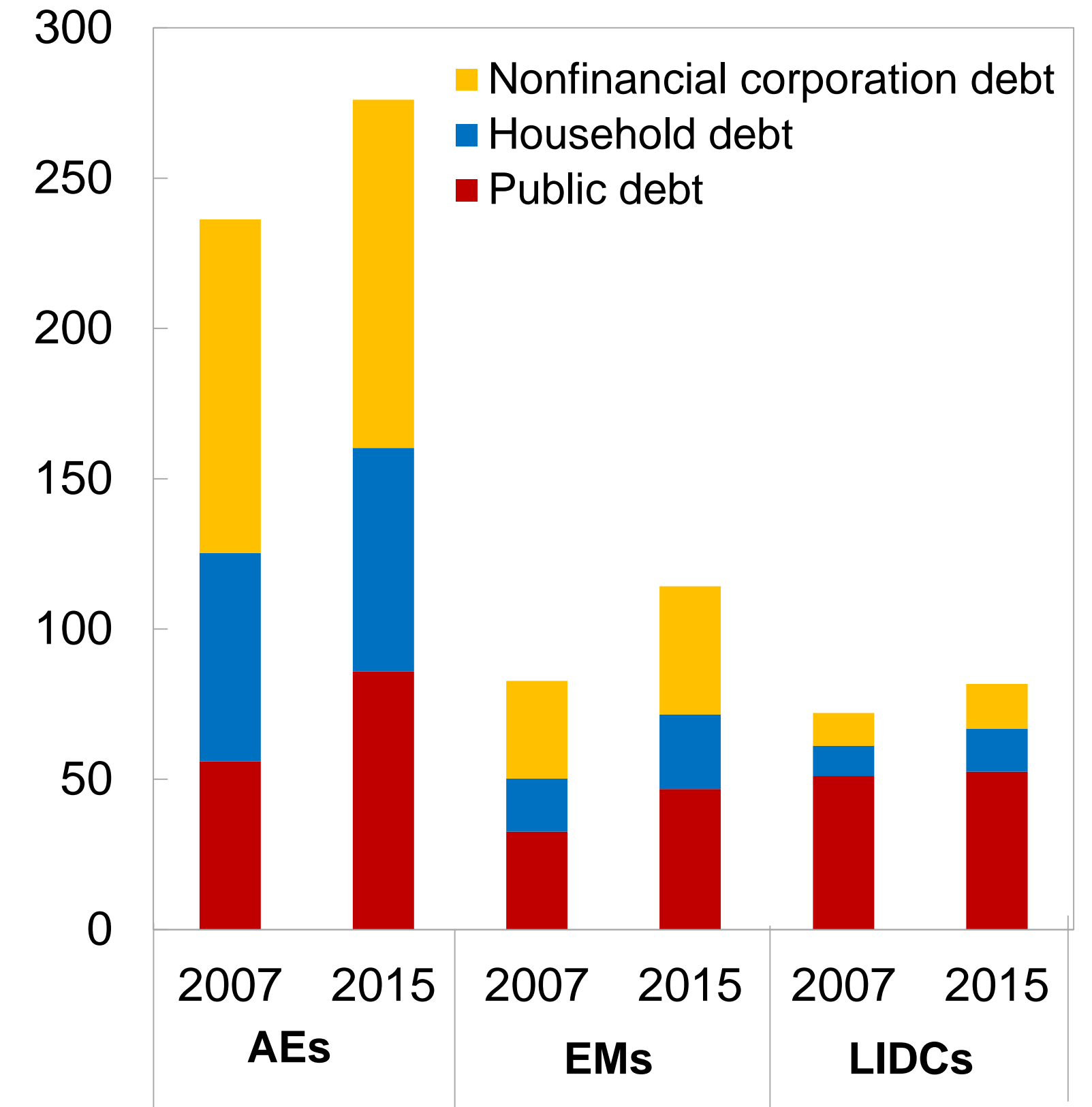
Potential GDP Per Capita Growth, 1990–2016
(Percent)



Advanced Economies: Real Income Per Capita
(1990=100)



Global Gross Debt by Income Groups
(Percent of GDP; simple average)



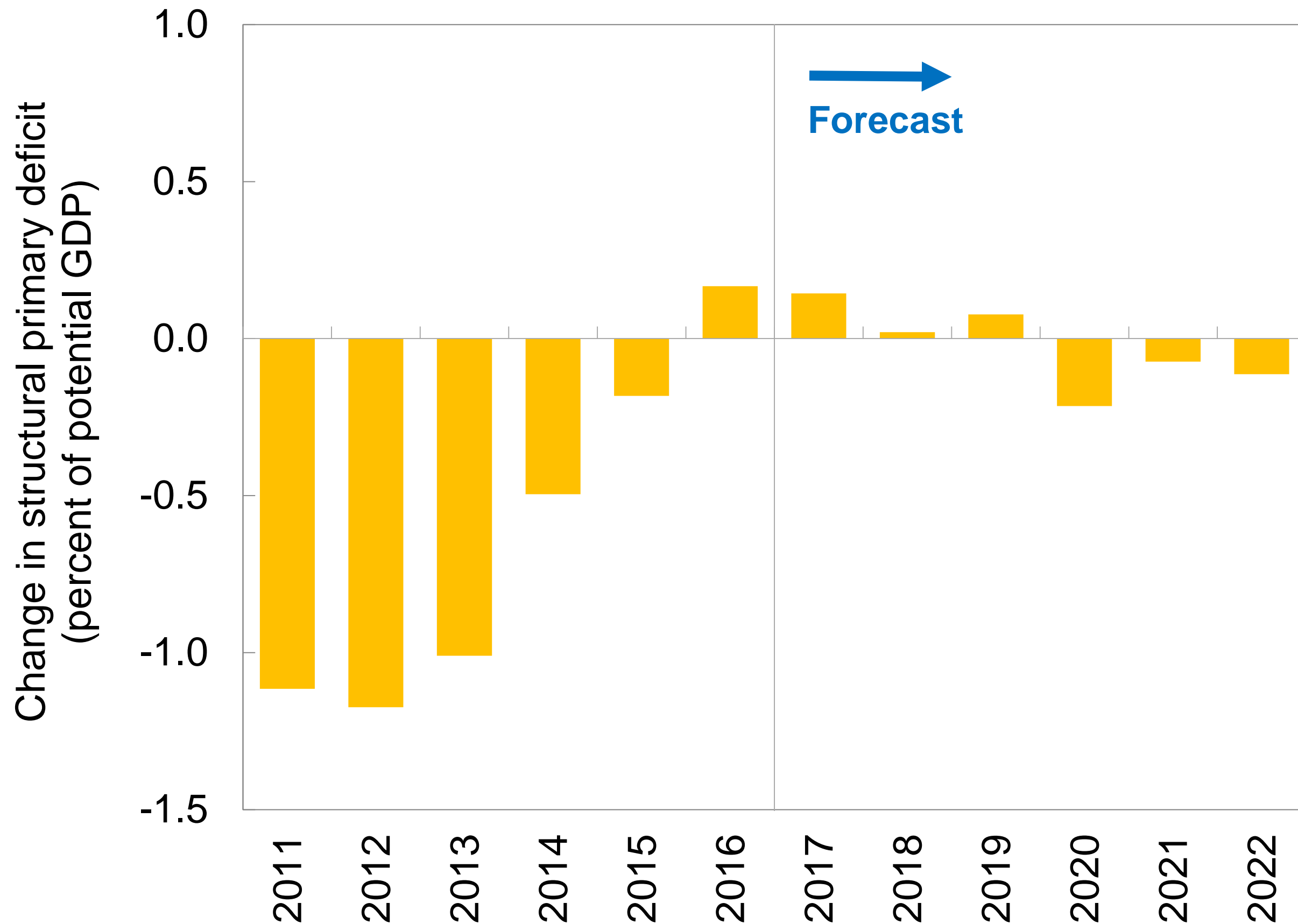
Outline

- **Recent Fiscal Developments**
 - Advanced Economies
 - Emerging Markets
 - Low Income Developing Countries
 - Risks on the Outlook
- **Fiscal Policy Recommendations**
 - Countercyclical policies
 - Growth-friendly policies
 - Inclusive policies
 - Generating resources

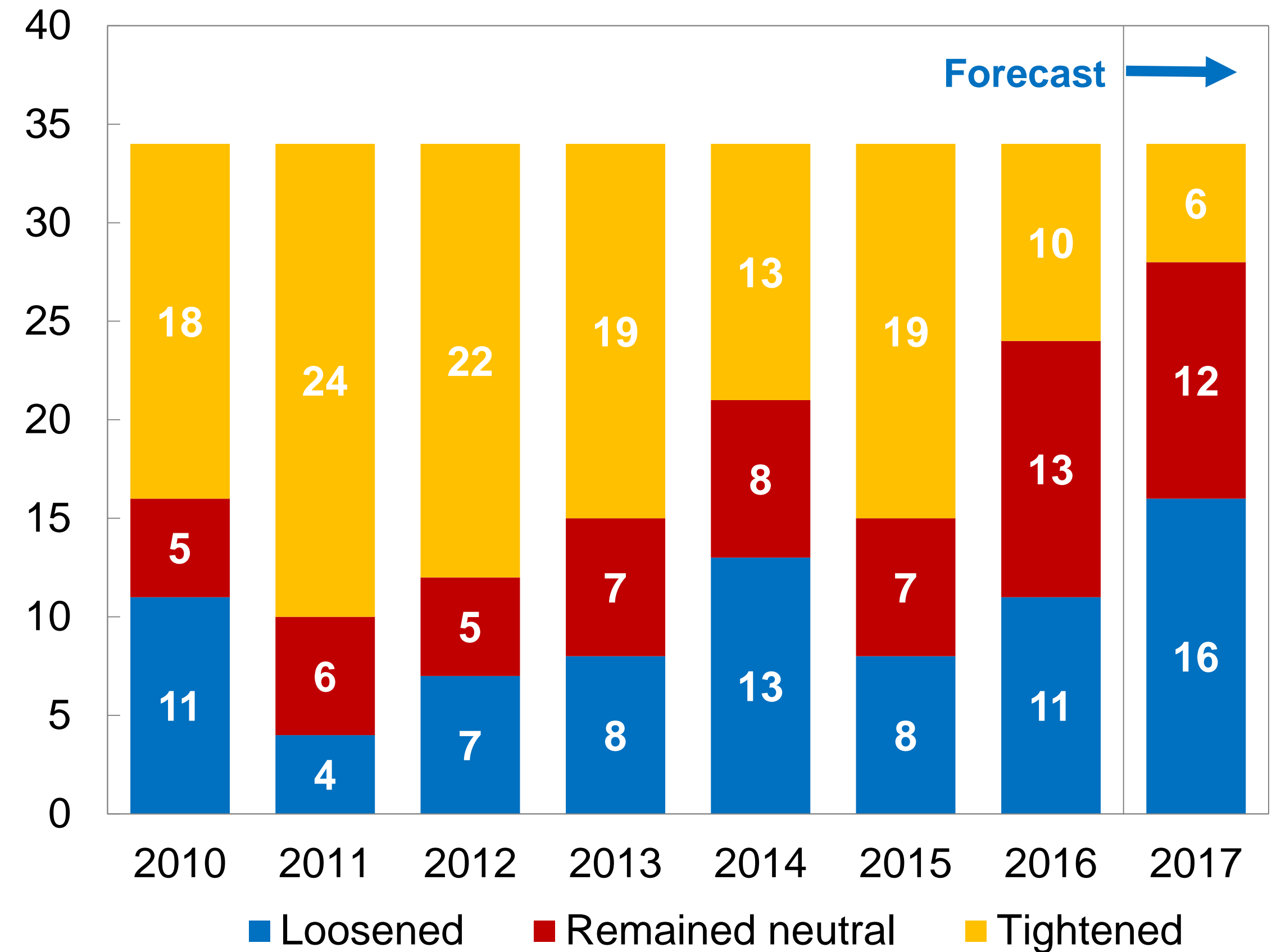
Recent Fiscal Developments

Advanced Economies: Relaxation Is In the Air

AEs: Fiscal Impulse 2011–22
(Percent of potential GDP)



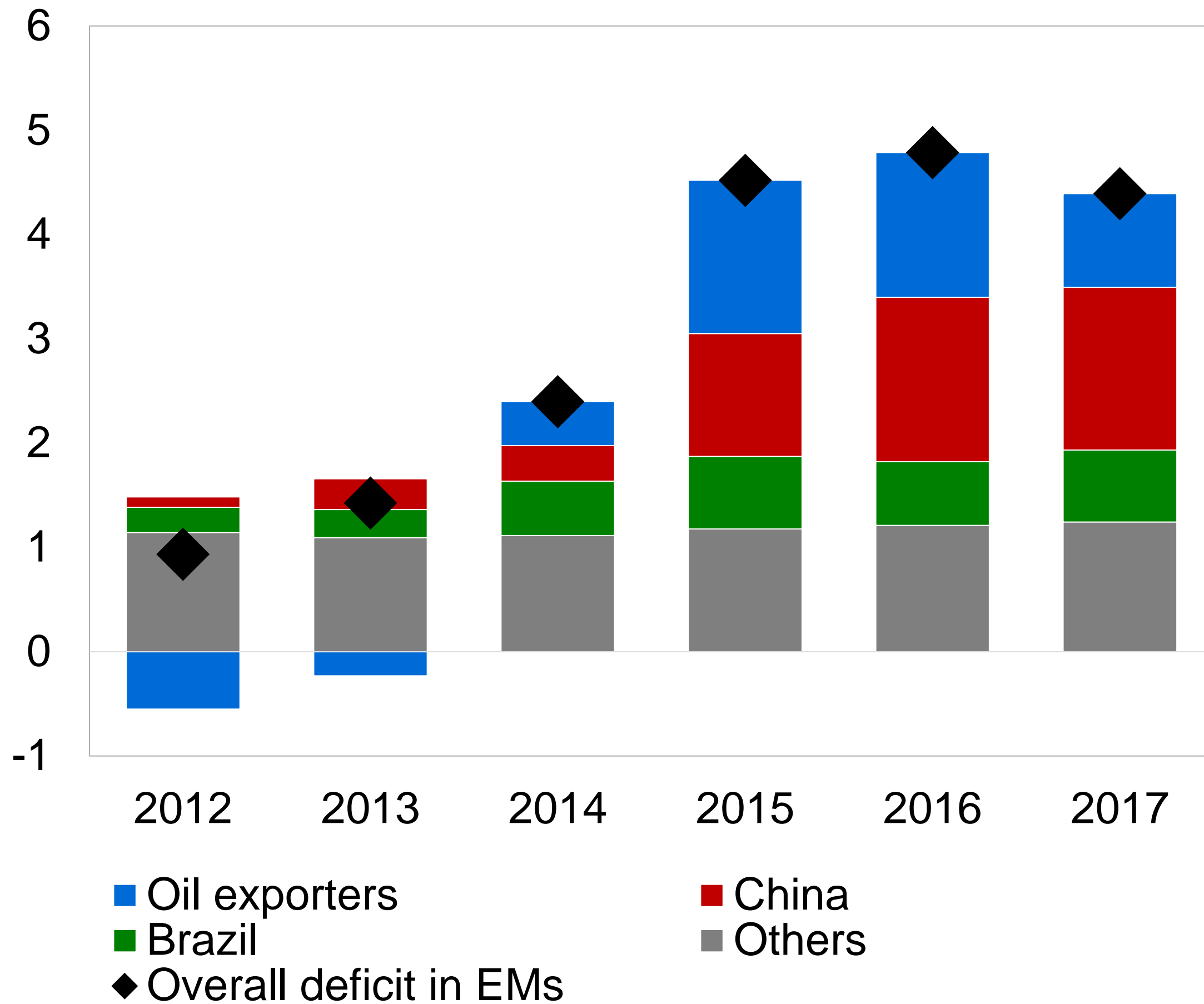
Number of Countries in Which the Fiscal Stance Was Tightened, Loosened, or Remained Neutral, 2010–17 1/



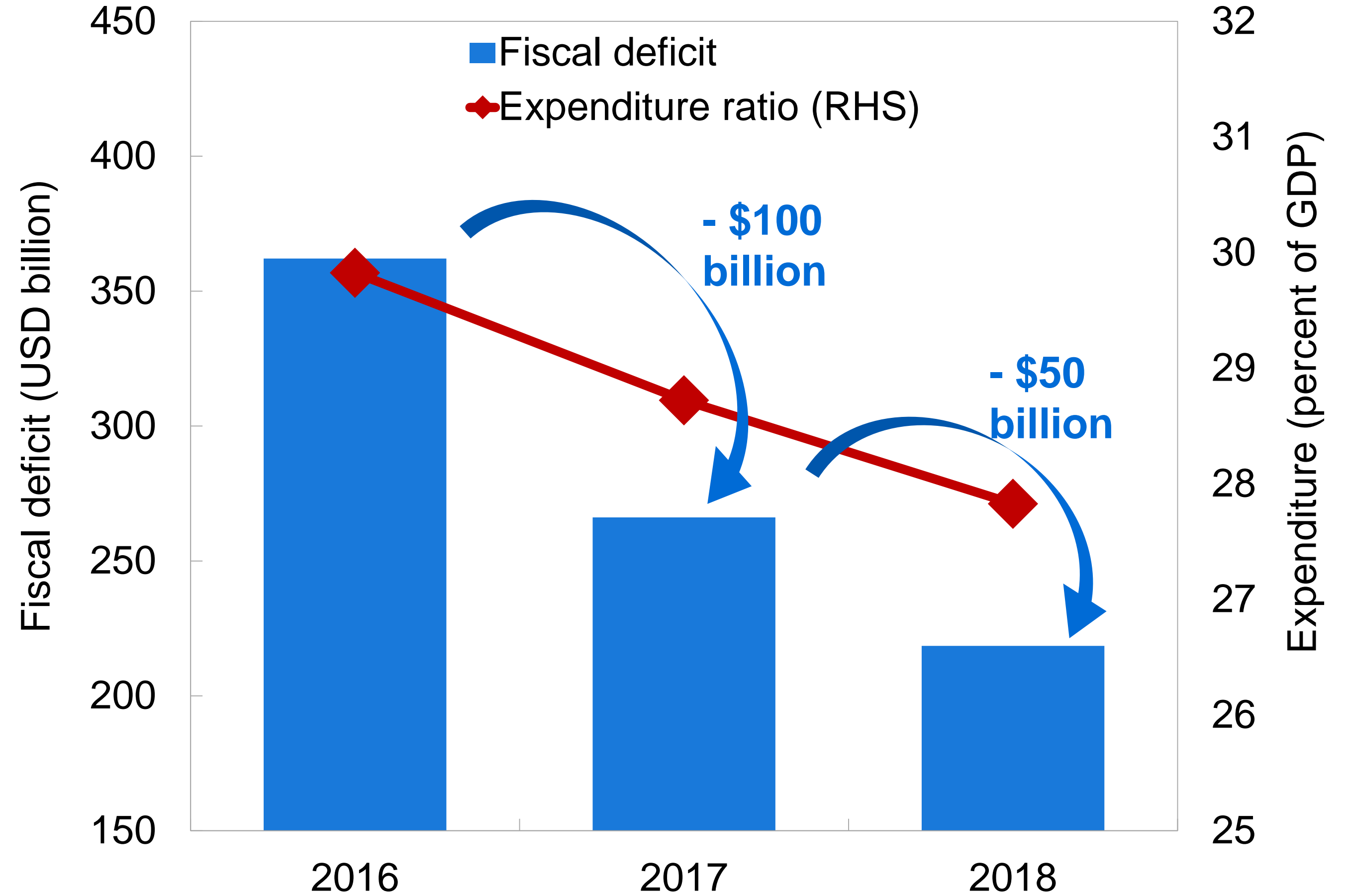
Sources: IMF, *World Economic Outlook*; and IMF staff estimates. Note: 1/ The fiscal stance is considered to have tightened if the ratio of the structural primary balance to potential GDP improves by at least 0.25 percent per year, to have loosened if that ratio deteriorates by at least 0.25 percent per year, and to have remained neutral otherwise.

Emerging Markets: Adapting to New Realities

EMs: Contributors to Overall Deficit, 2012–17
(Percent of GDP)



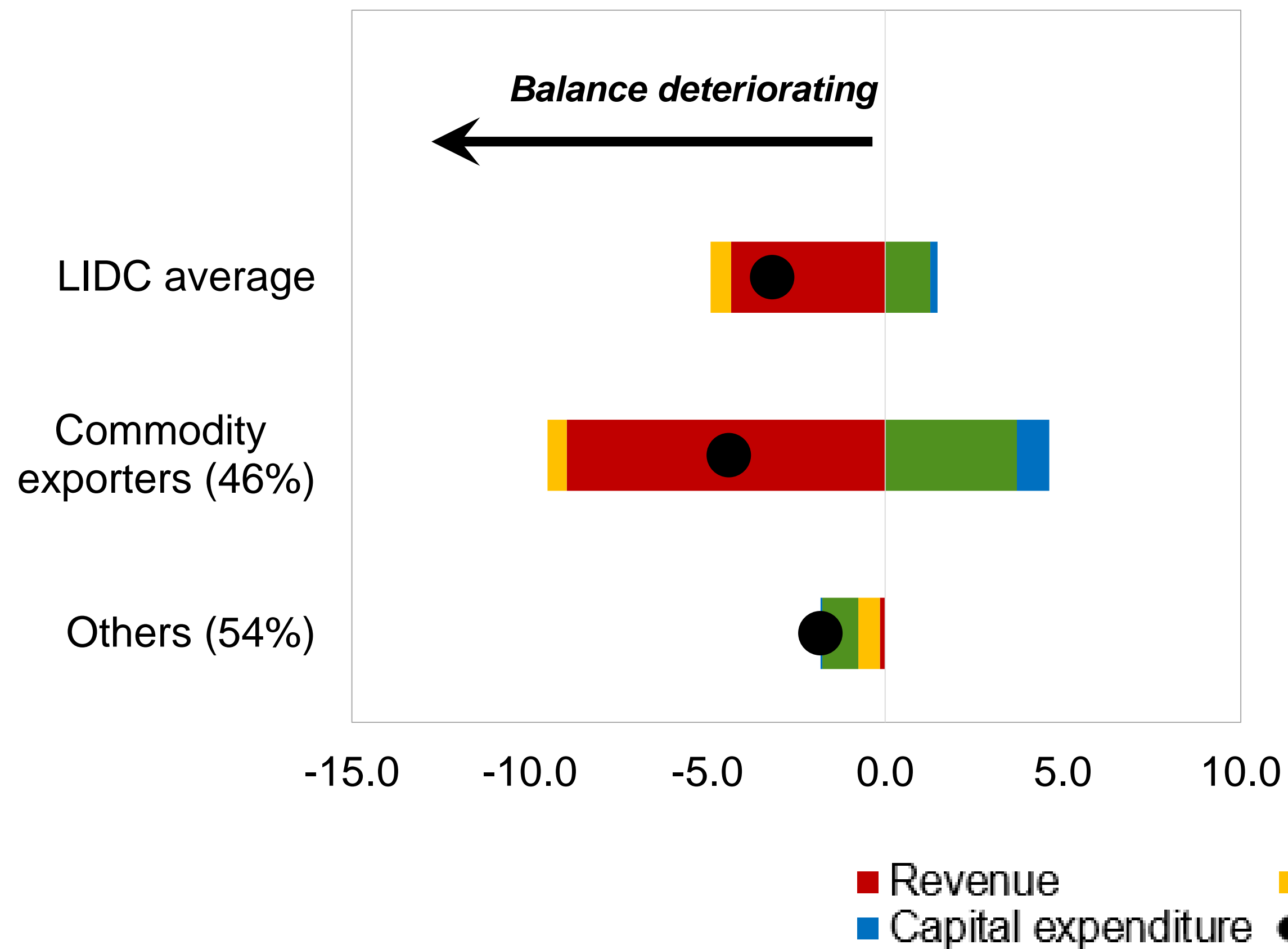
EM Oil Exporters: General Government Deficit and Expenditure



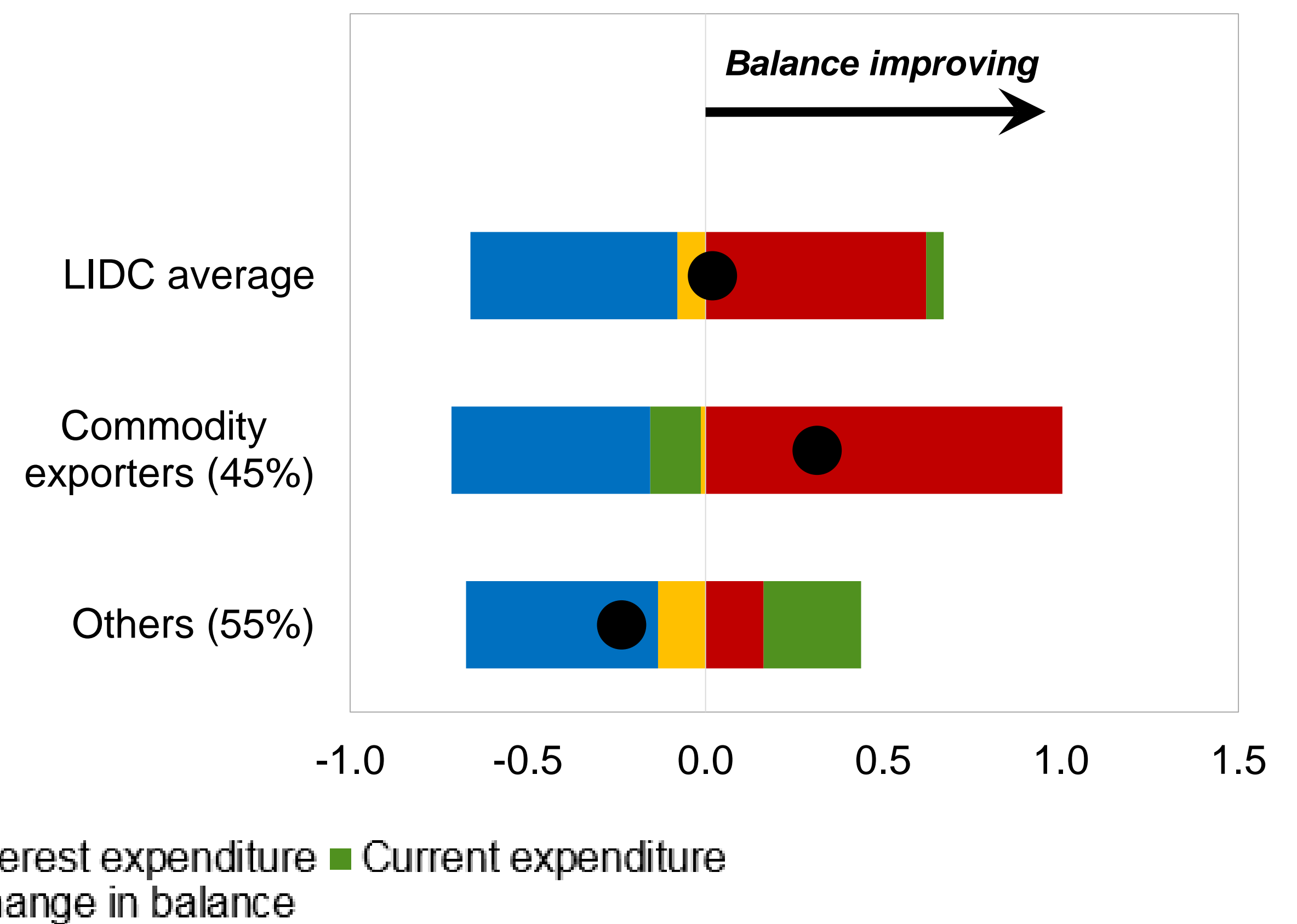
Sources: IMF, *World Economic Outlook*; and IMF staff estimates.

Low-Income Developing Countries: Turning the Corner?

Change in Fiscal Balance Ratio, 2011–16
(Percent of GDP)



Expected Change in Fiscal Balance Ratio, 2016–17
(Percent of GDP)

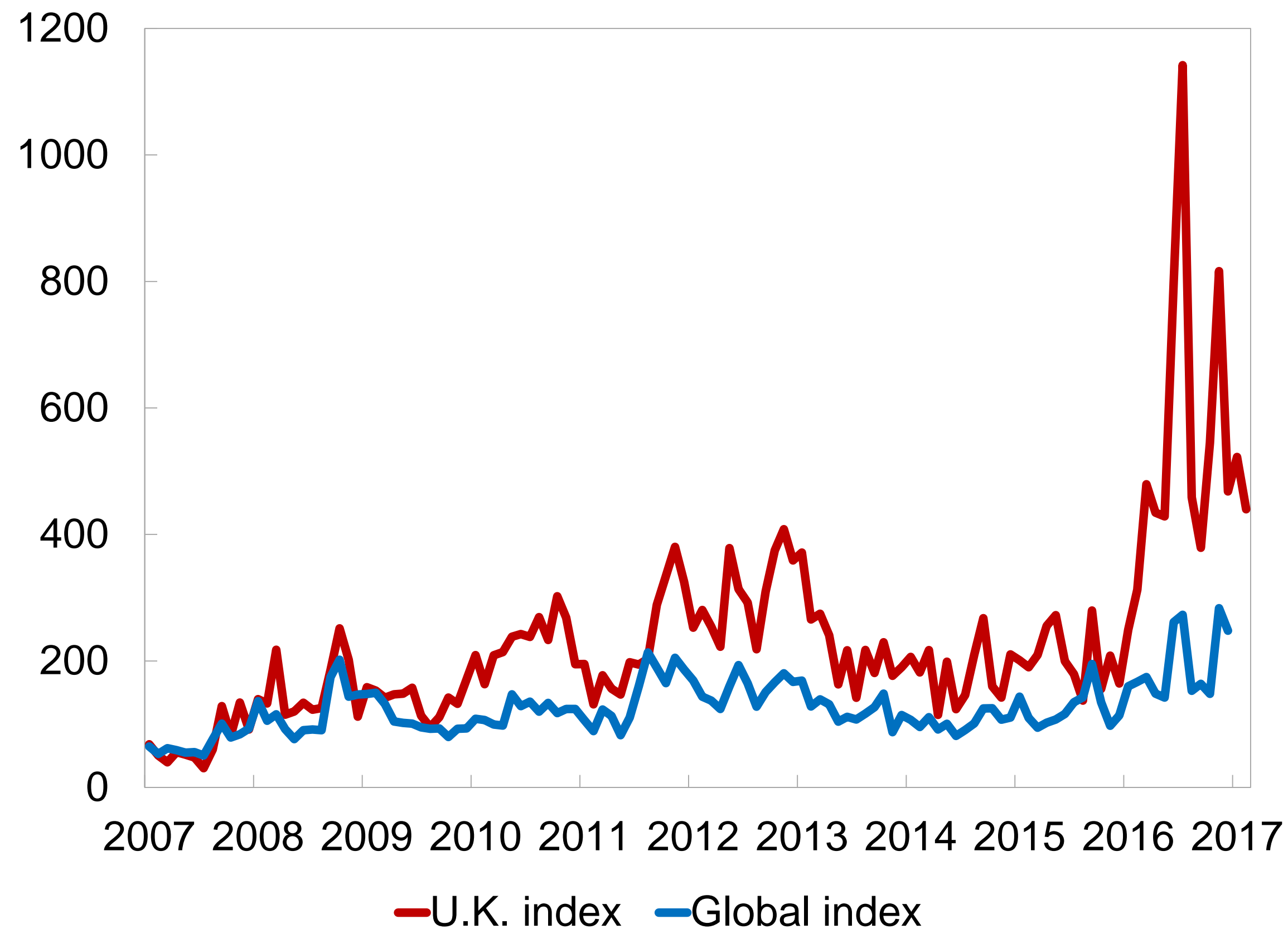


Main Risks: Policy Uncertainty and High Debt

- **Uncertainty** on fiscal policy
- **Vulnerability** of government balance sheets
 - High debt
 - Elevated risks
 - ✓ Growth slowdown
 - ✓ Tighter financial conditions and weaker currencies
 - ✓ Lower commodity prices
 - ✓ Contingent liabilities

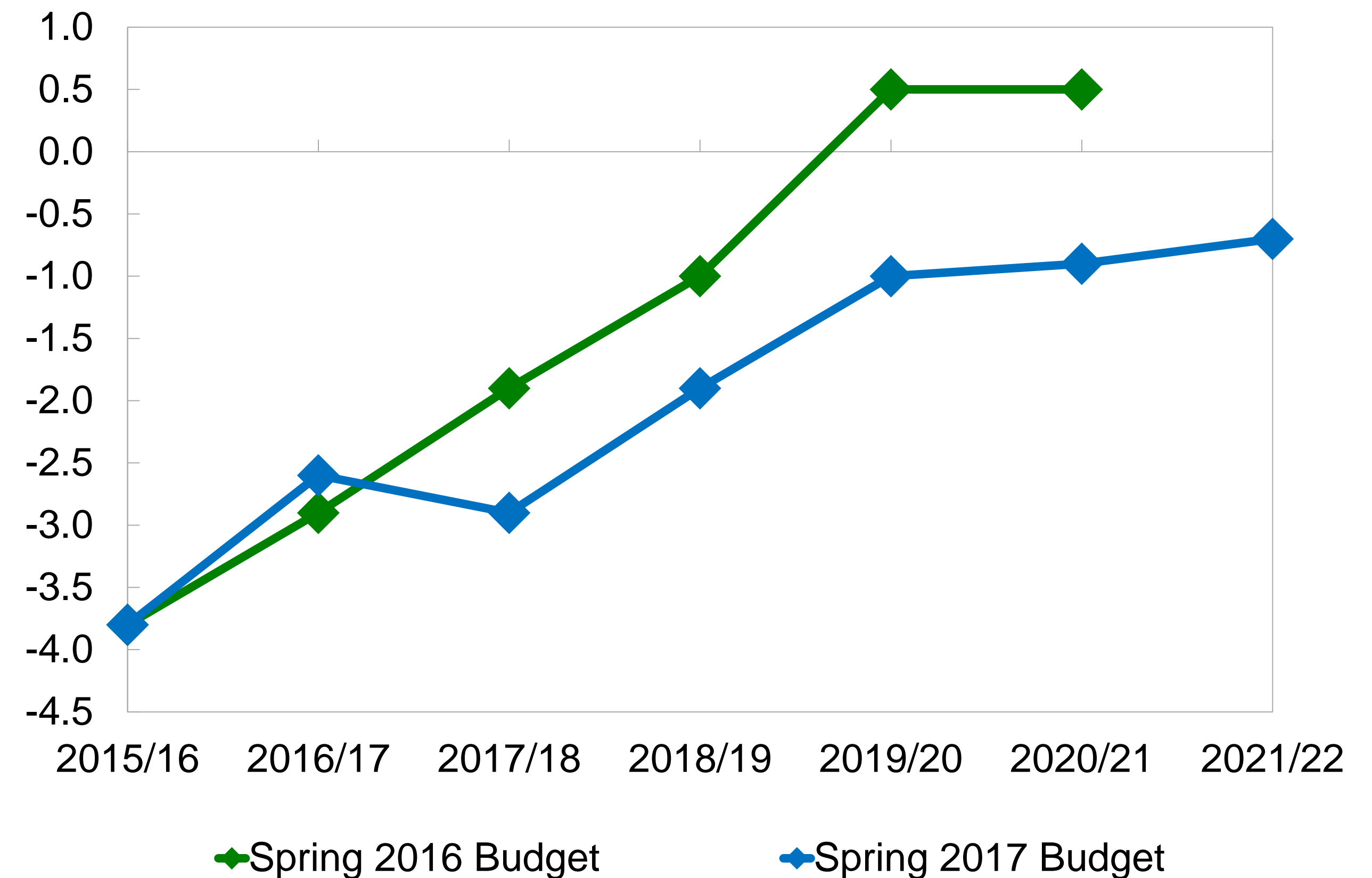
U.K.: Dealing With Elevated Risks

Economic Policy Uncertainty Index



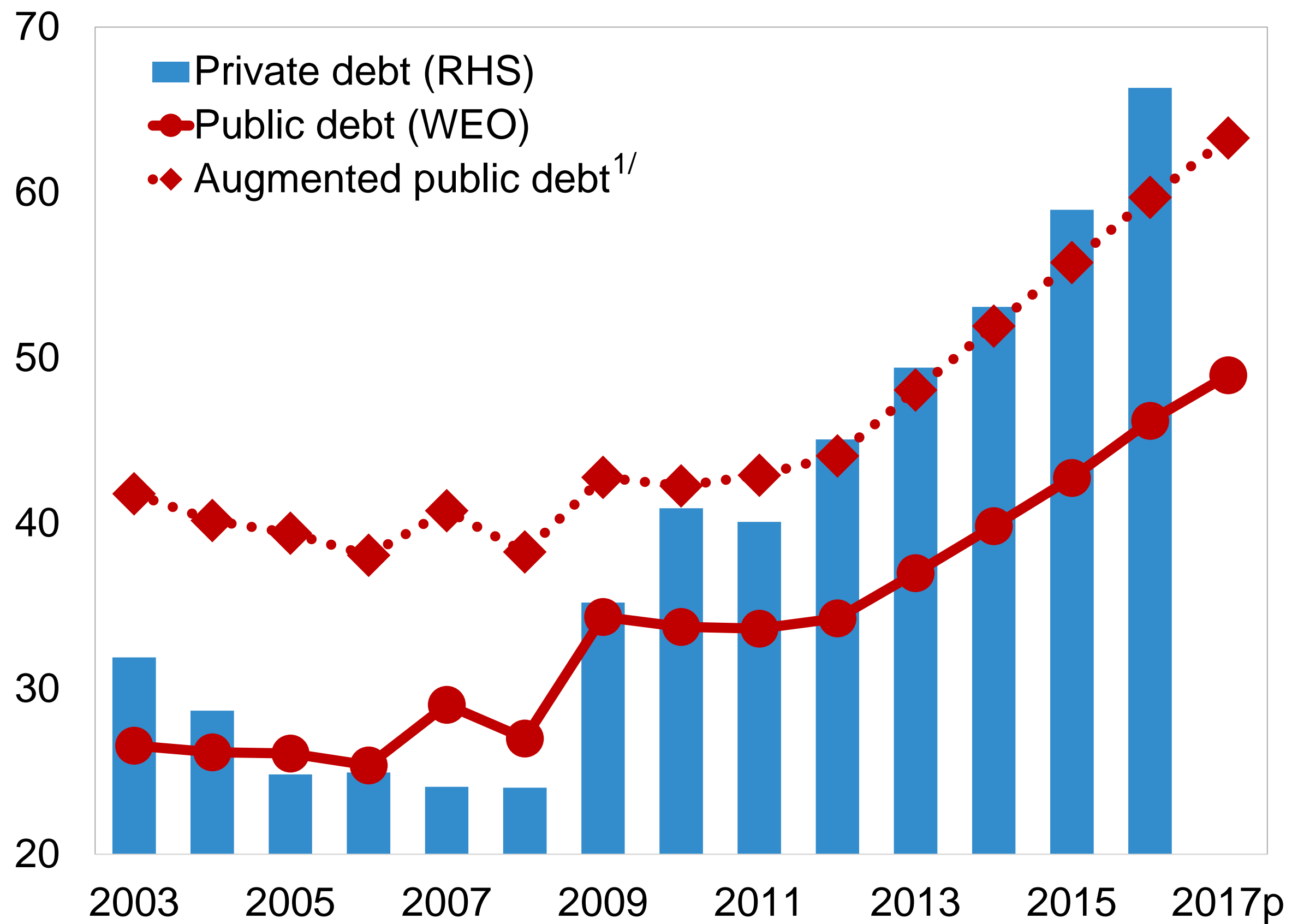
U.K.: Public Sector Deficit Targets

(Percent of GDP)

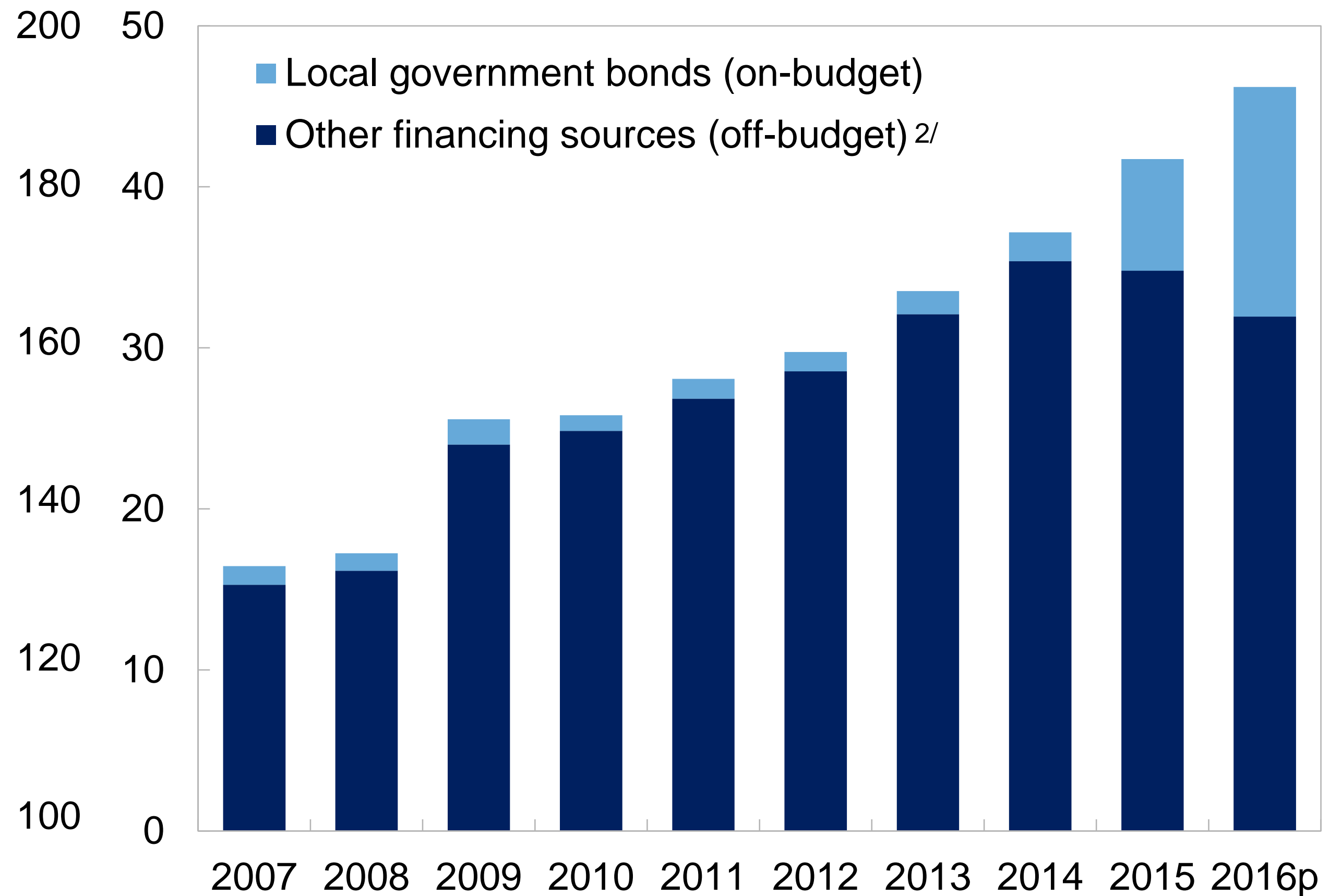


China: Debt Is High and Rising

Private, Public, and Augmented Debt
(Percent of GDP)



Financing Sources of Local Governments
(Percent of GDP)



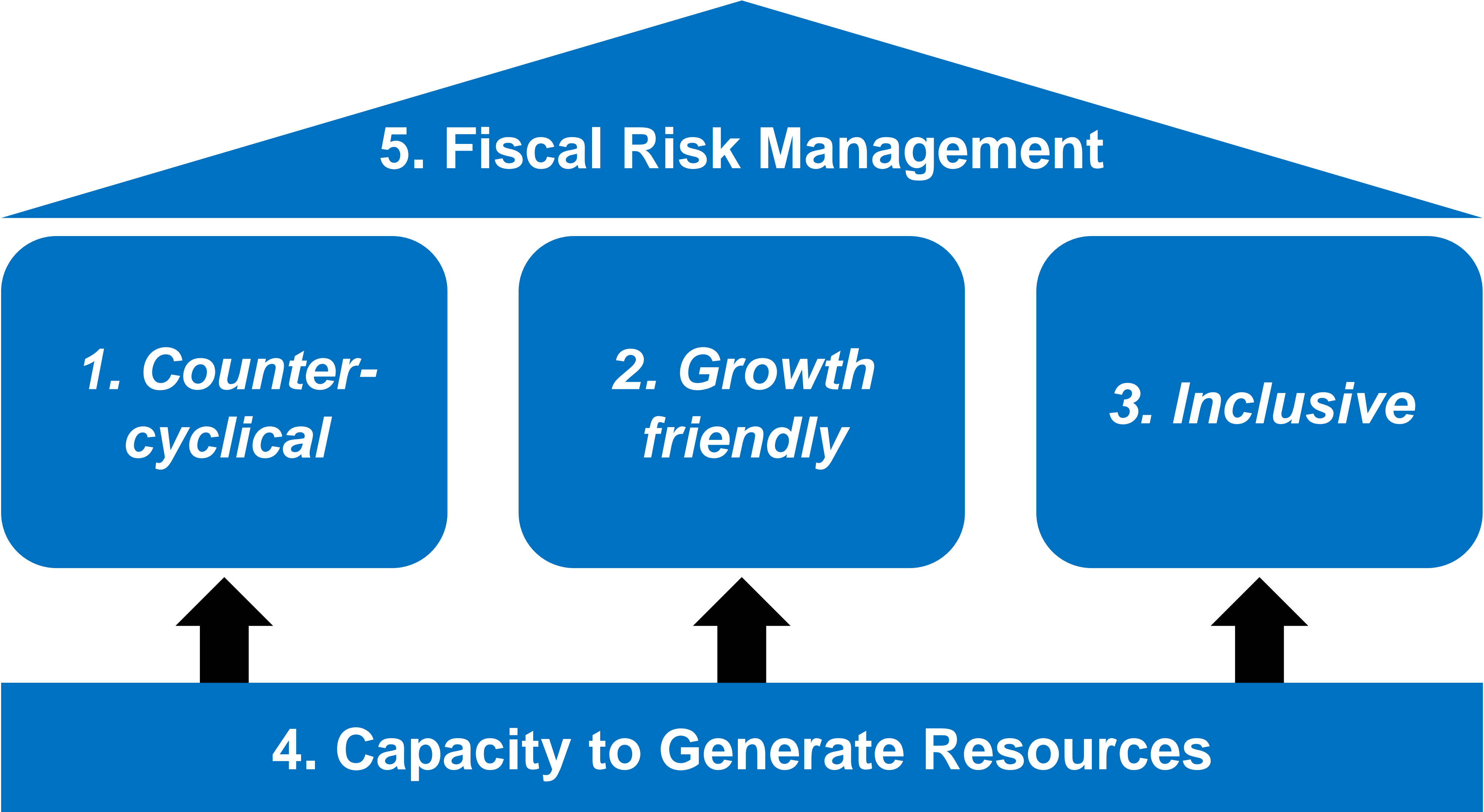
Sources: NAO reports, CEIC, IMF estimates.

Note: 1/ Augmented debt includes borrowing by local government financing vehicles (LGFV).

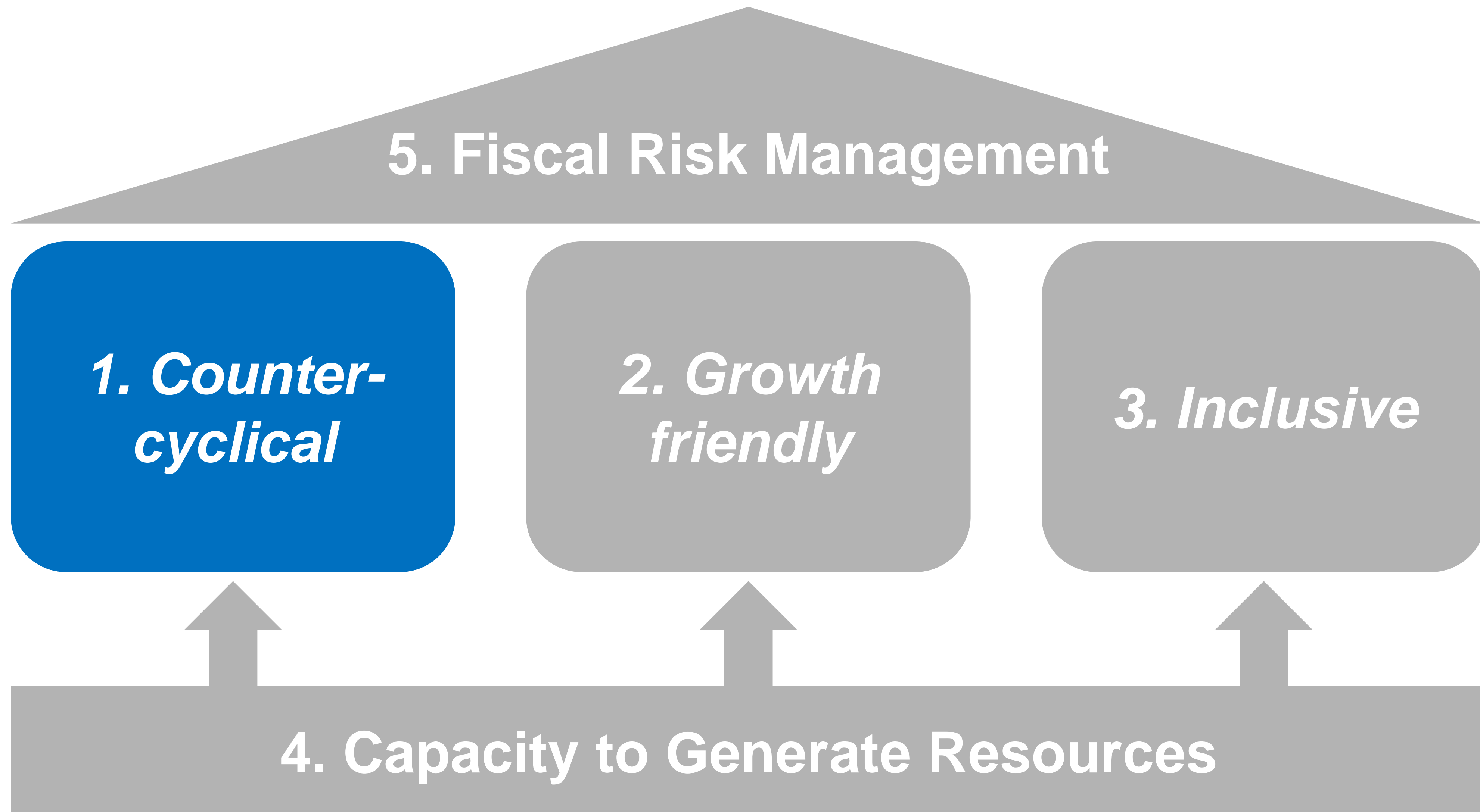
2/ Include LGFV bonds, LGFV trust loans, bank loans, and other items.

Policy Recommendations

A Greater Role for Fiscal Policy



A Greater Role for Fiscal Policy

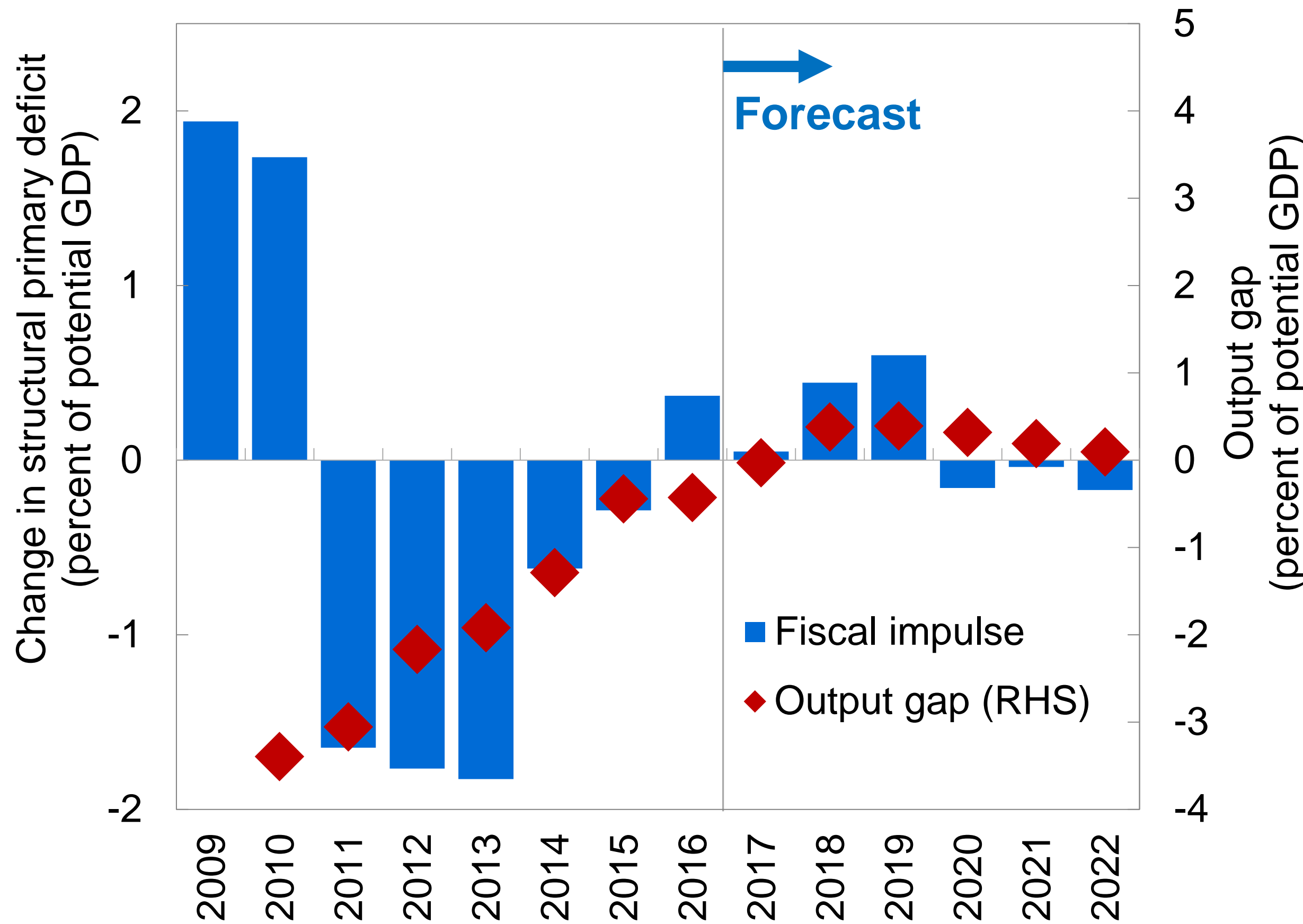


A Symmetric Approach to Countercyclicality

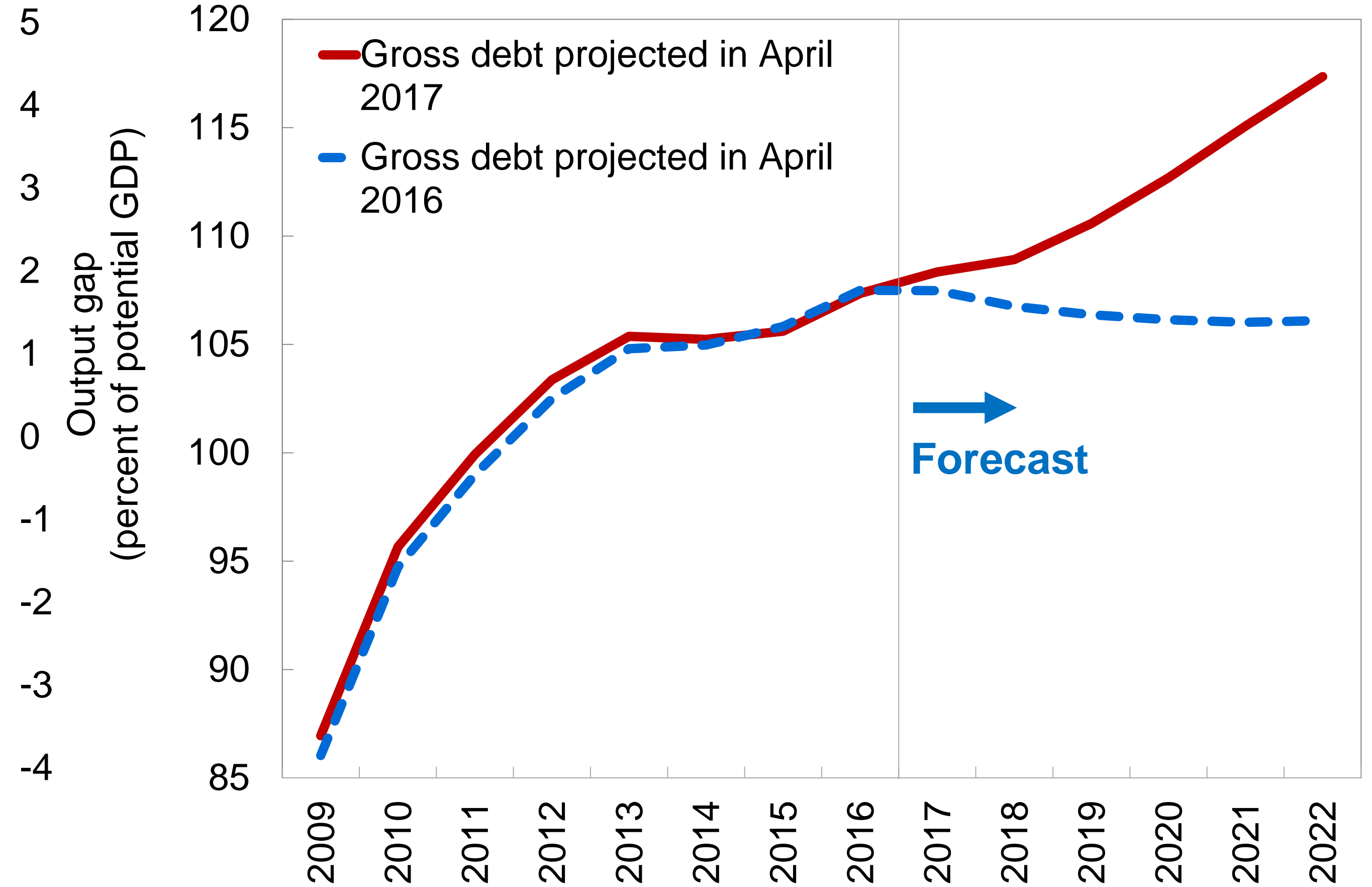
- Should be **countercyclical in downturn**: Euro Area, Japan
- Should be **countercyclical in upturn**: U.S., China
- **Procyclical policies when no other option** (e.g., commodity exporters) but drag on growth should be minimized

Risks of Procyclicality

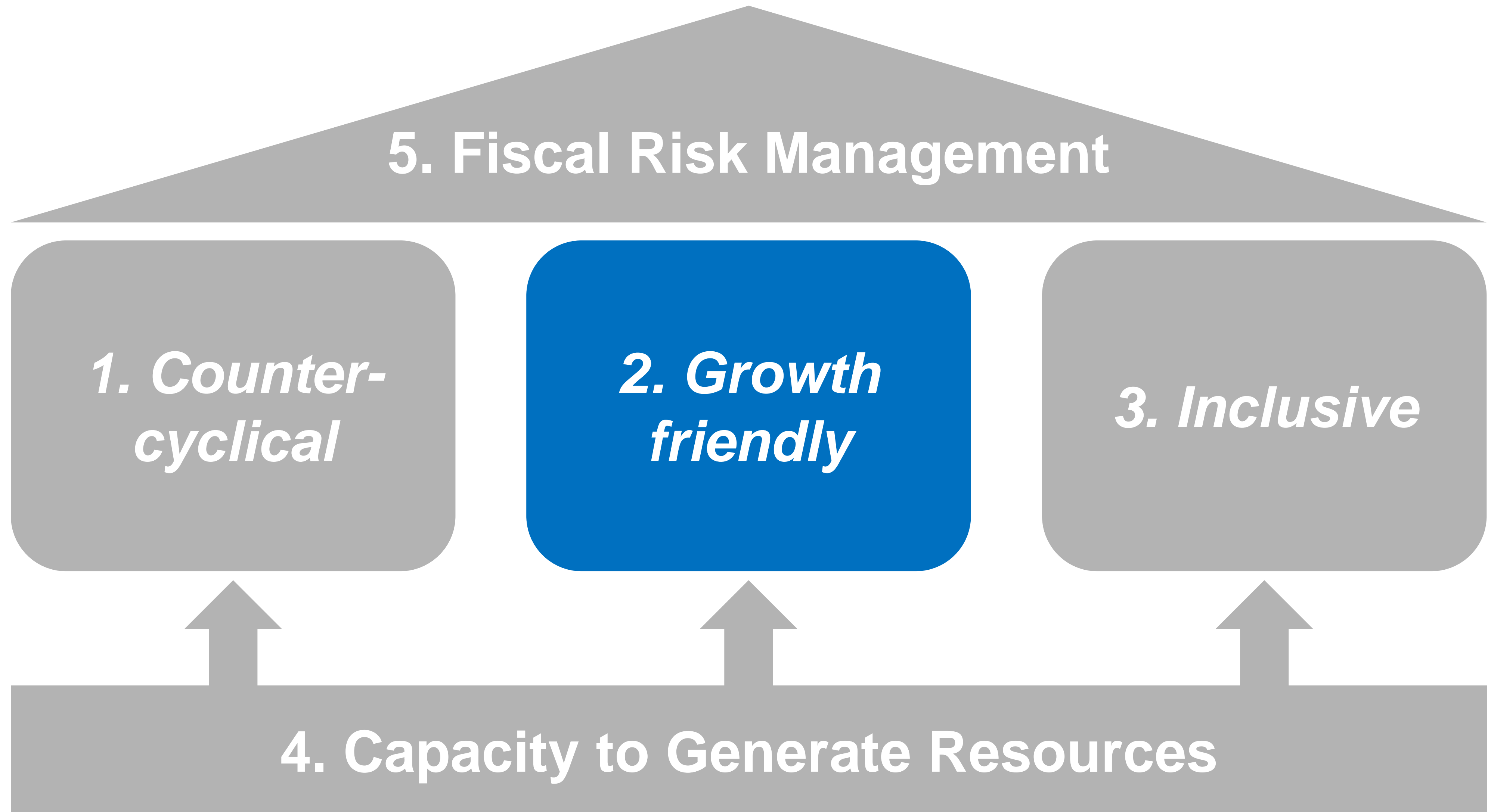
US: Fiscal Impulse and Output Gap, 2009–22
(Percent of potential GDP)



US: General Government Debt, 2009–22
(Percent of GDP)

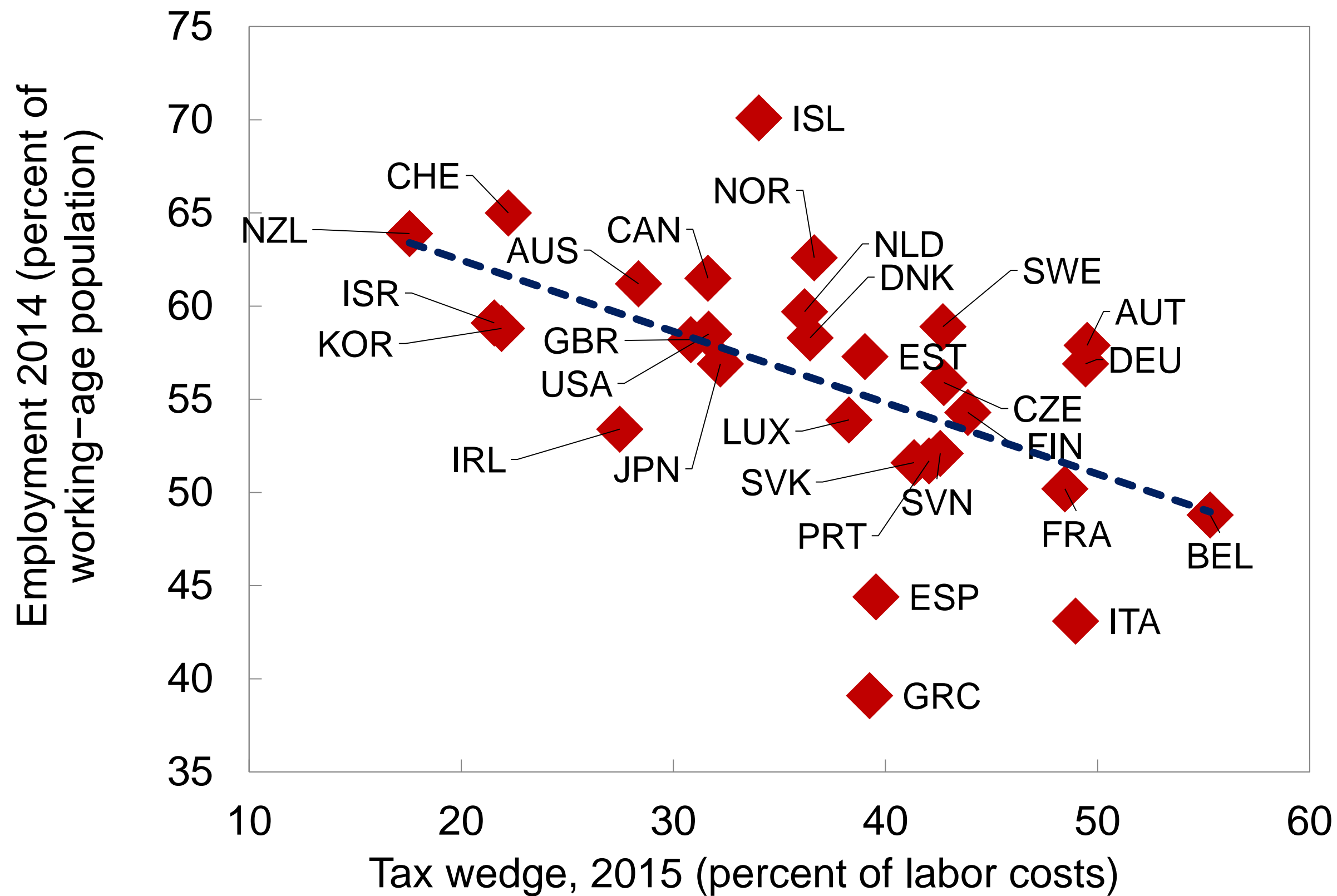


A Greater Role for Fiscal Policy

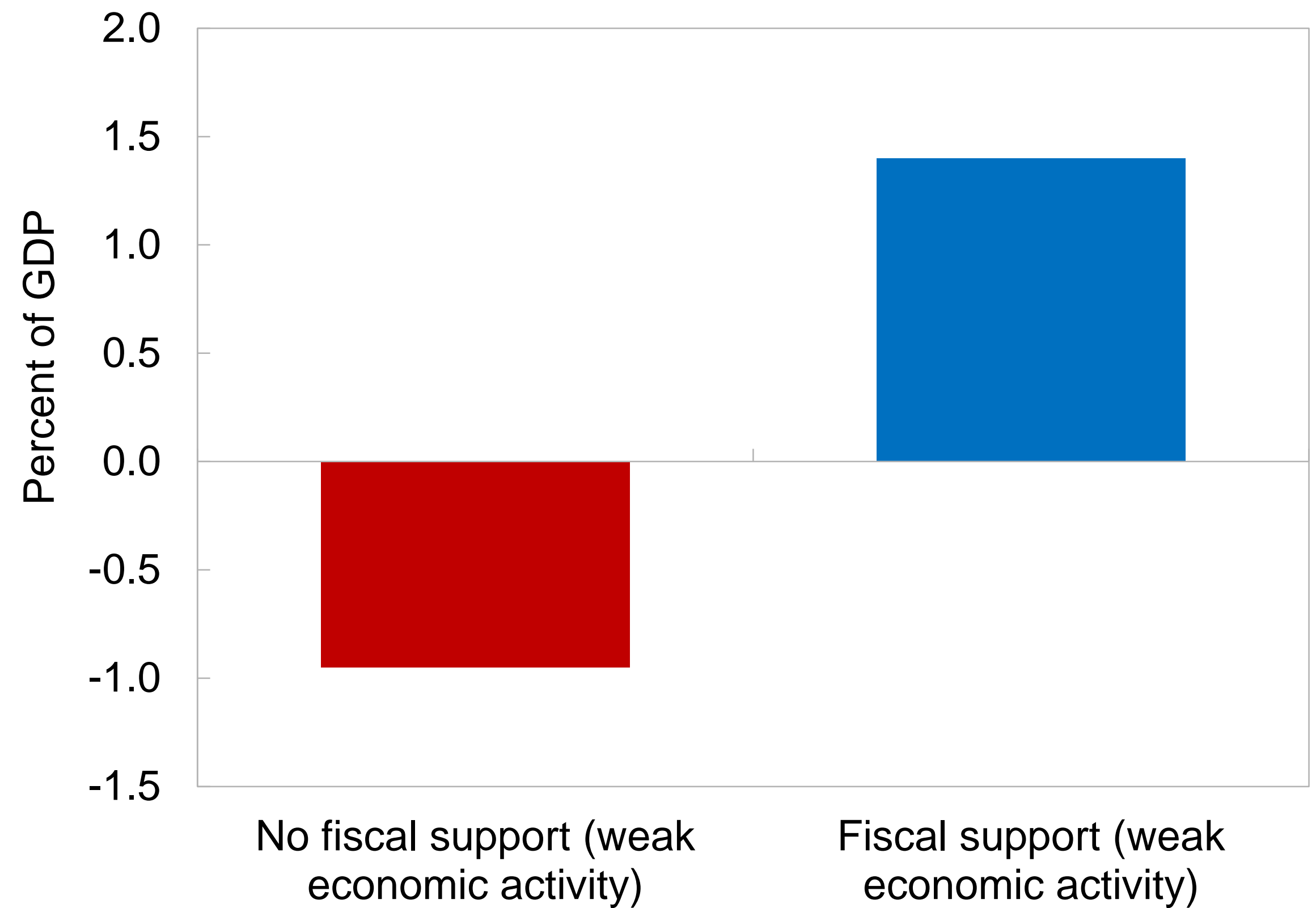


Direct and Indirect Effects of Fiscal Policy on Growth

Relationship between Tax Wedge and Employment Rate in Advanced Economies

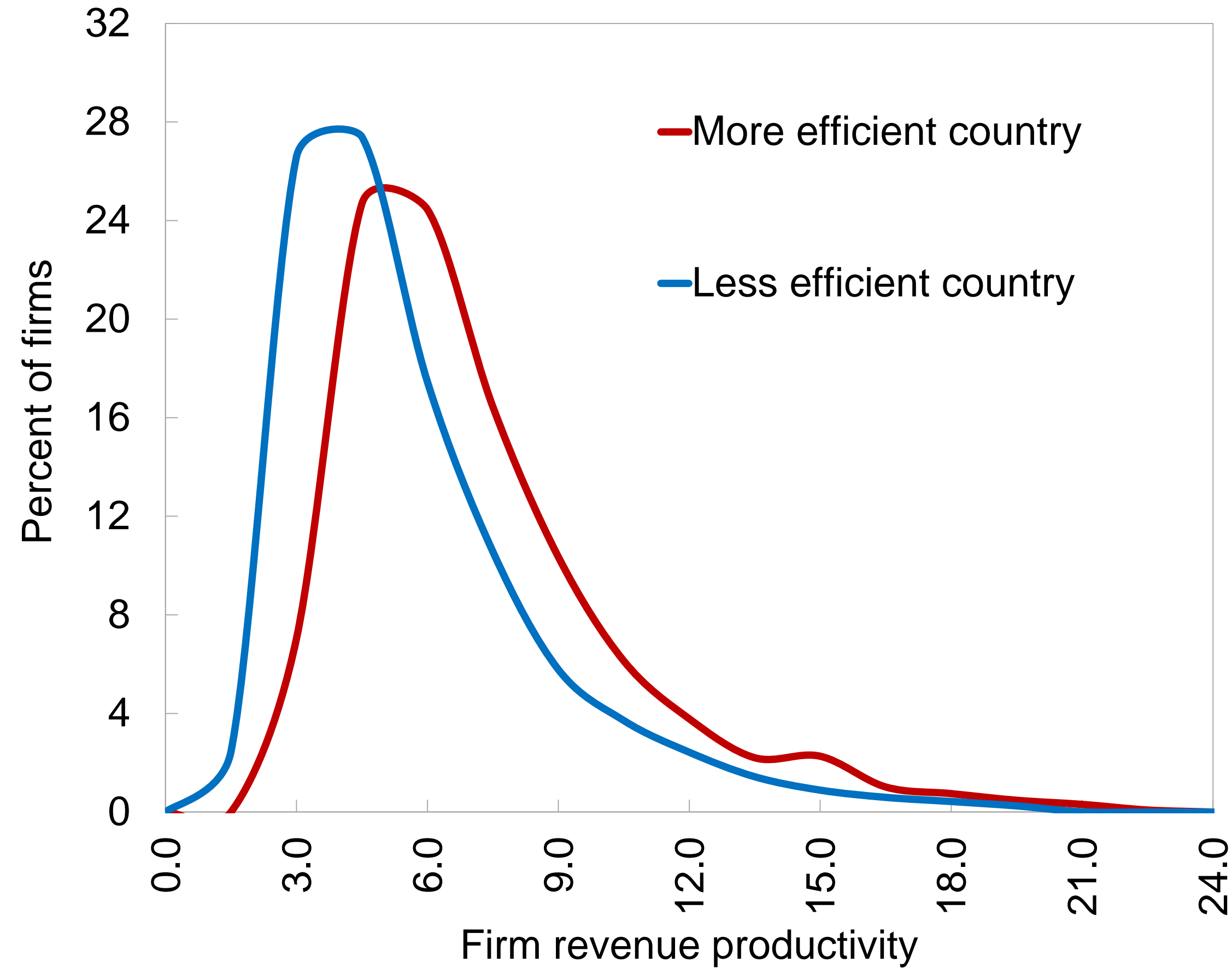


Net Medium-Term Fiscal Benefit of Job Protection Reforms under Weak Economic Conditions

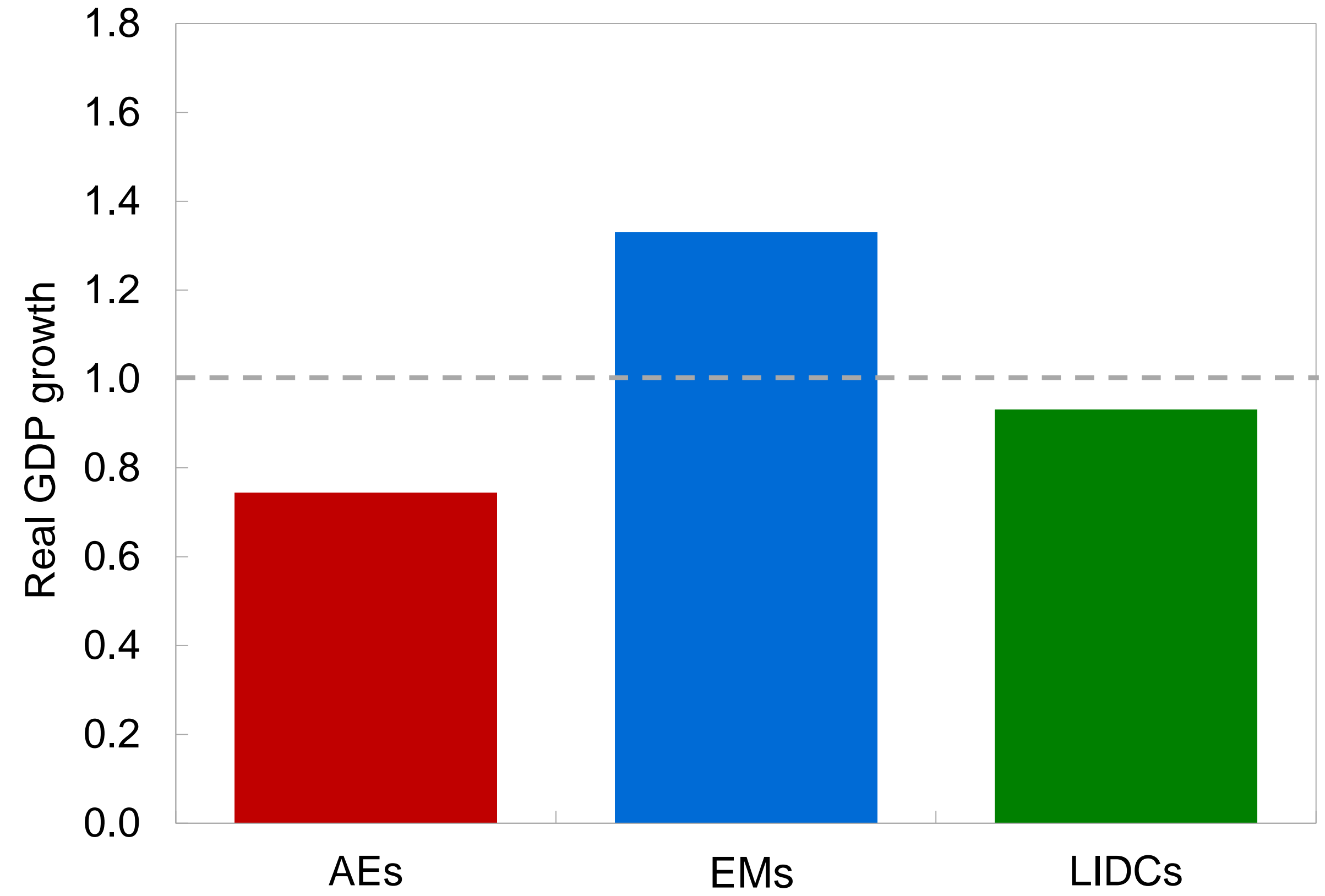


Using Resources More Efficiently Raises Productivity

Distribution of Firm-Level Revenue Productivities

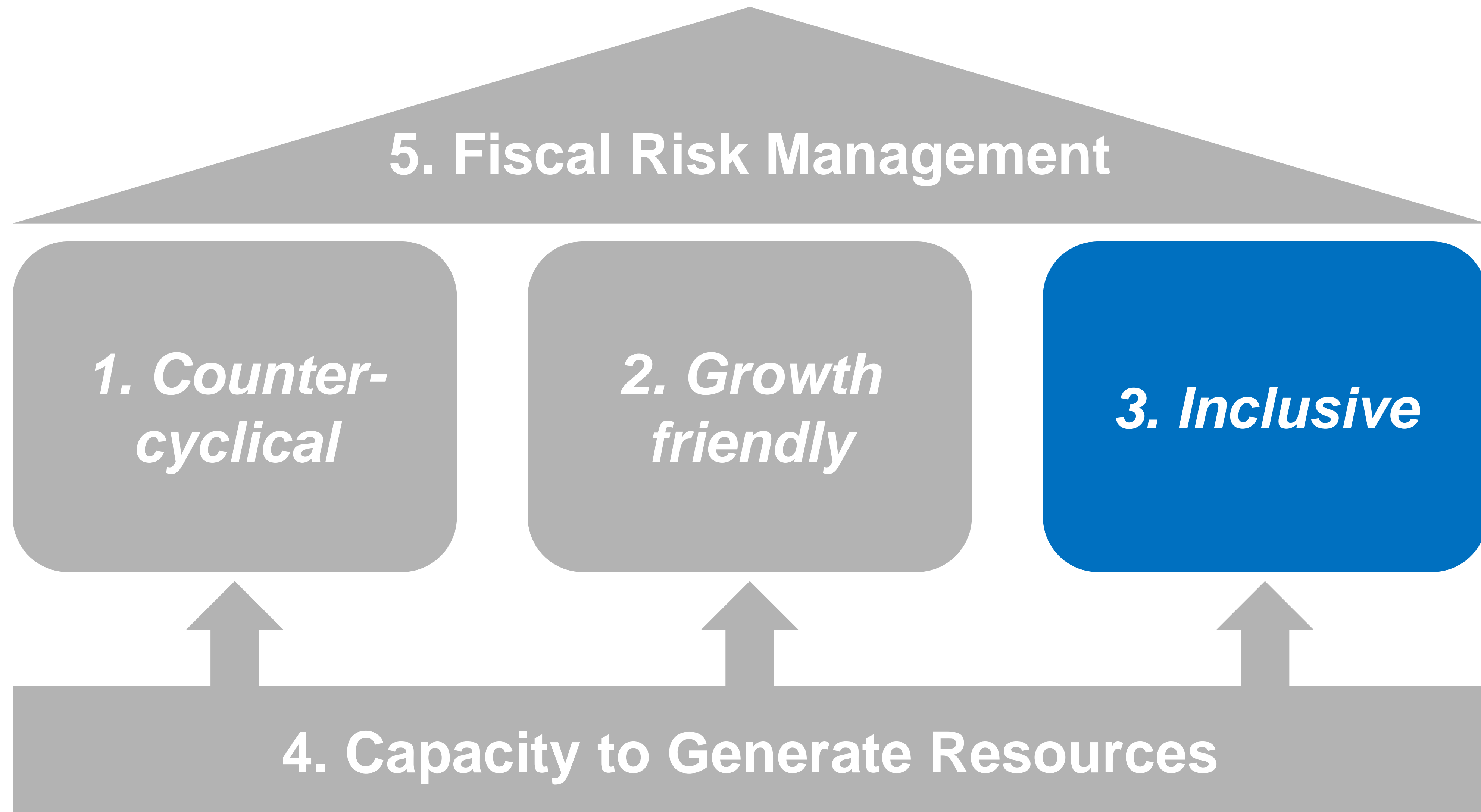


Annual Real GDP Growth Effects from Reducing Resource Misallocation



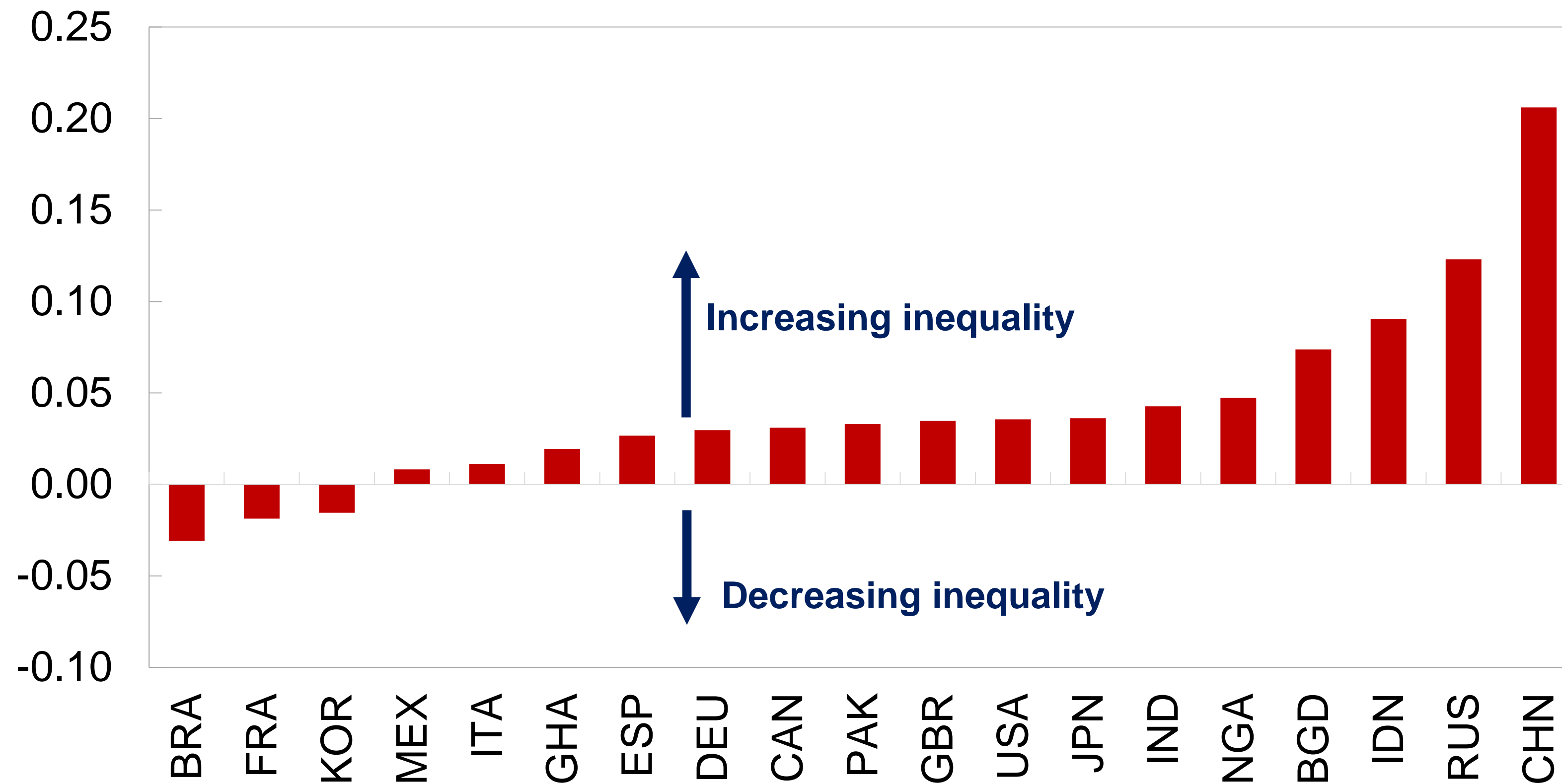
Sources: ORBIS; World Bank, Enterprise Surveys; and IMF staff estimates.

A Greater Role for Fiscal Policy



Globalization Gains Are Unevenly Distributed

Change in Disposable Income Inequality for Selected Countries,
1985–2015¹
(Change in Gini index)



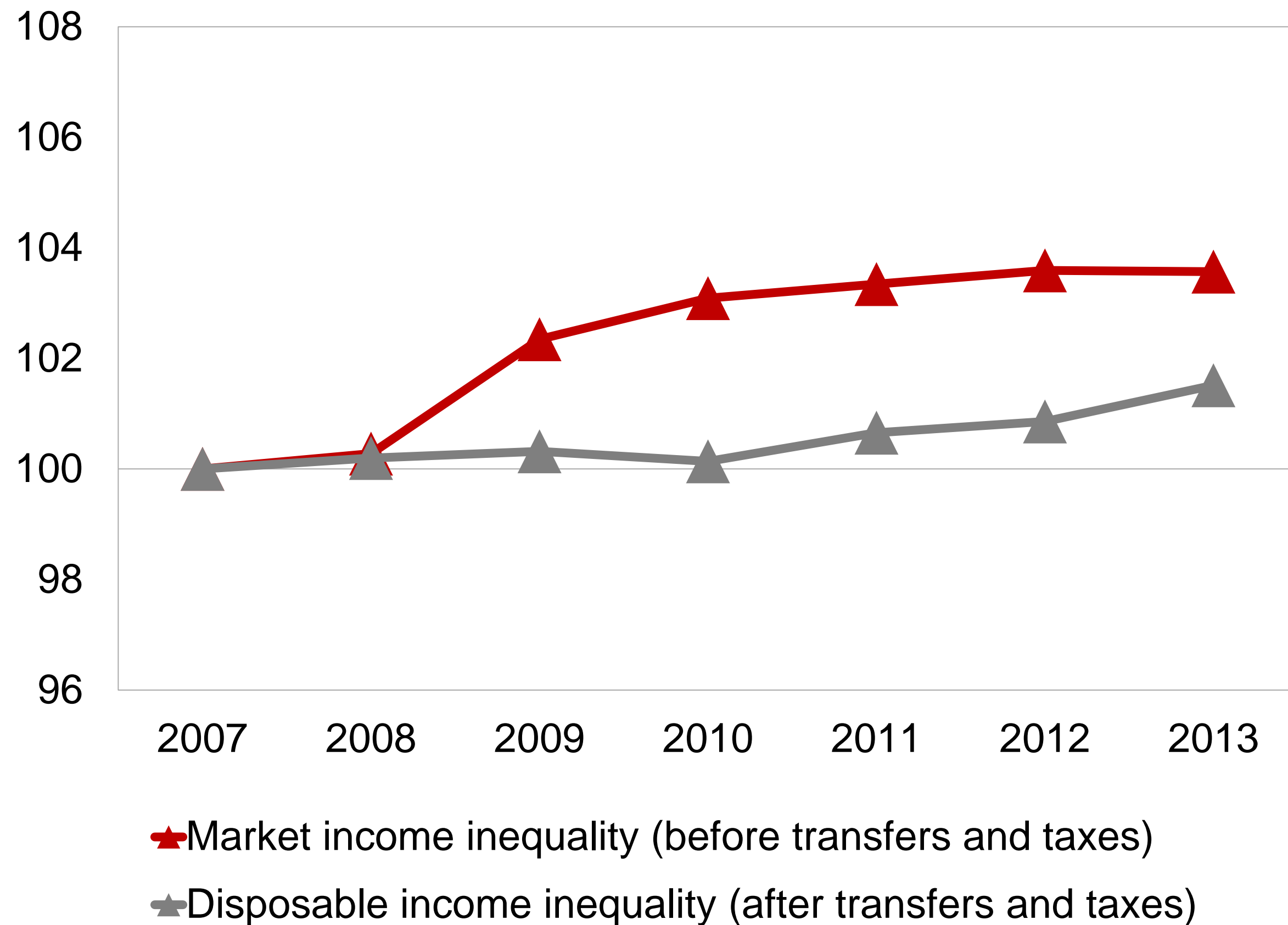
Sources: Standardized World Income Inequality Database; and IMF staff estimates.

¹ 1985 refers to 1985 or the earliest available year until 1990. 2015 refers to 2015 or the latest available year between 2010 and 2015.

The Two Pillars of Inclusive Policies

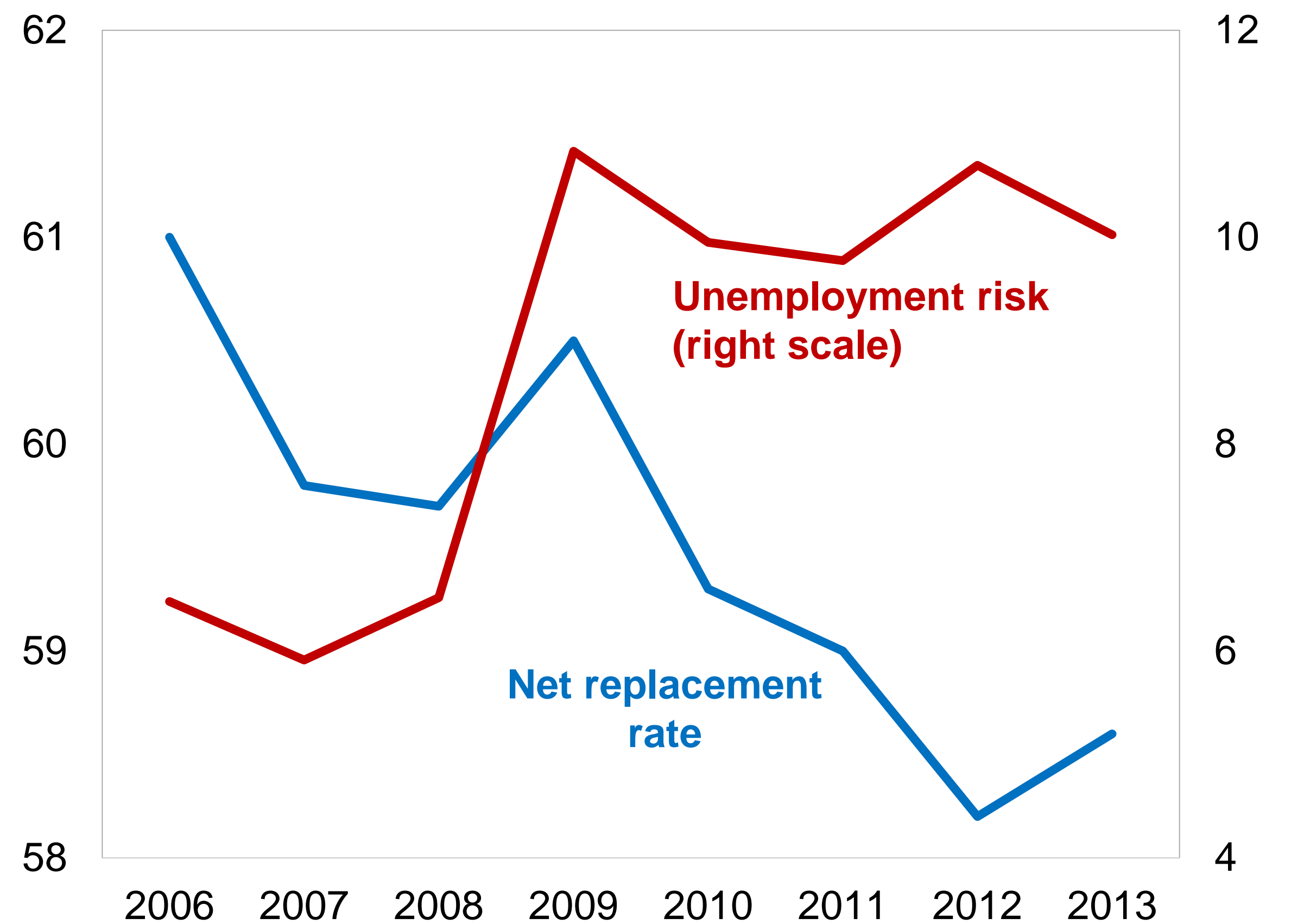
Market Income and Disposable Income Inequality in OECD Countries

(Index 2007 = 100)

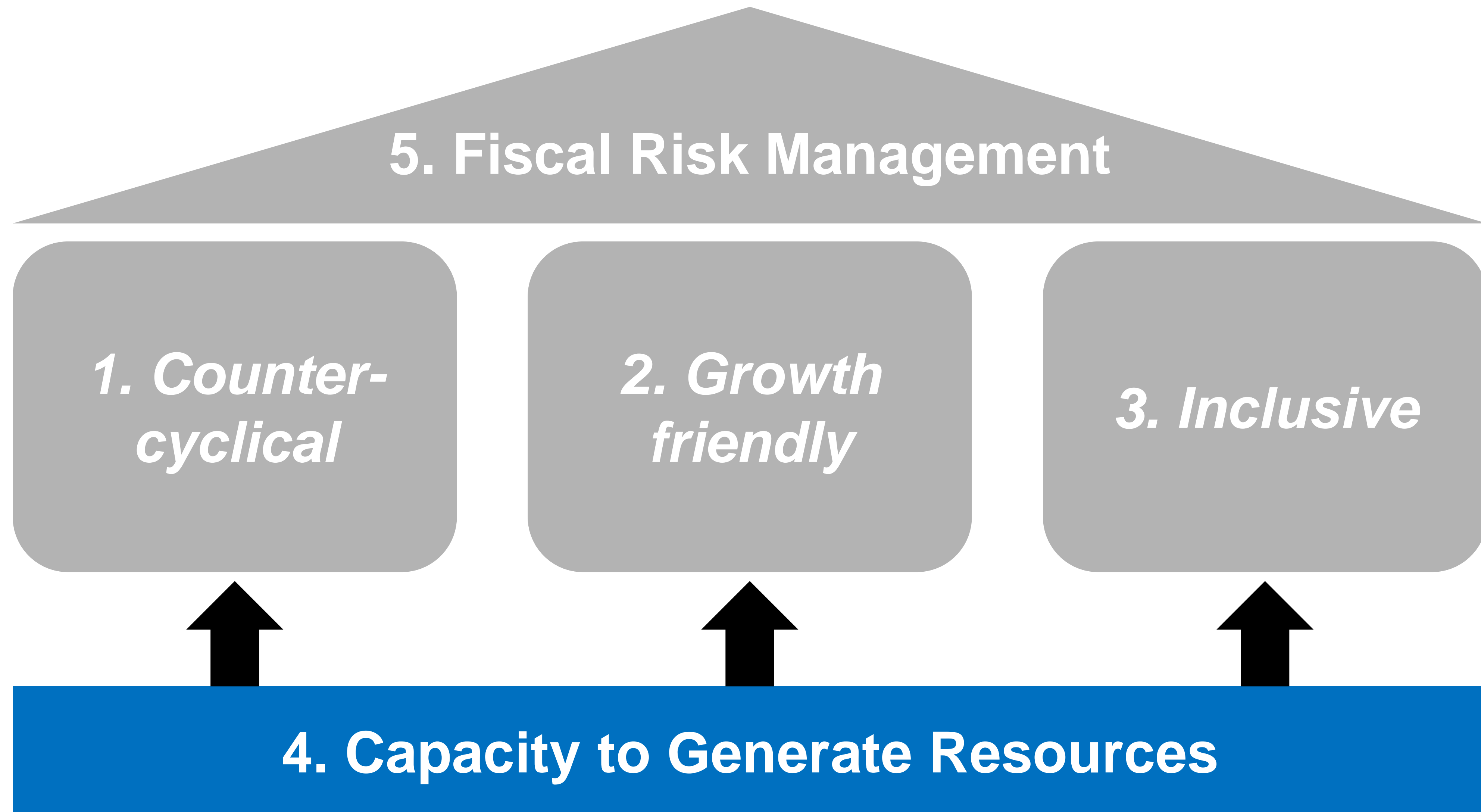


Benefit generosity and unemployment risk, OECD countries

(Percent)

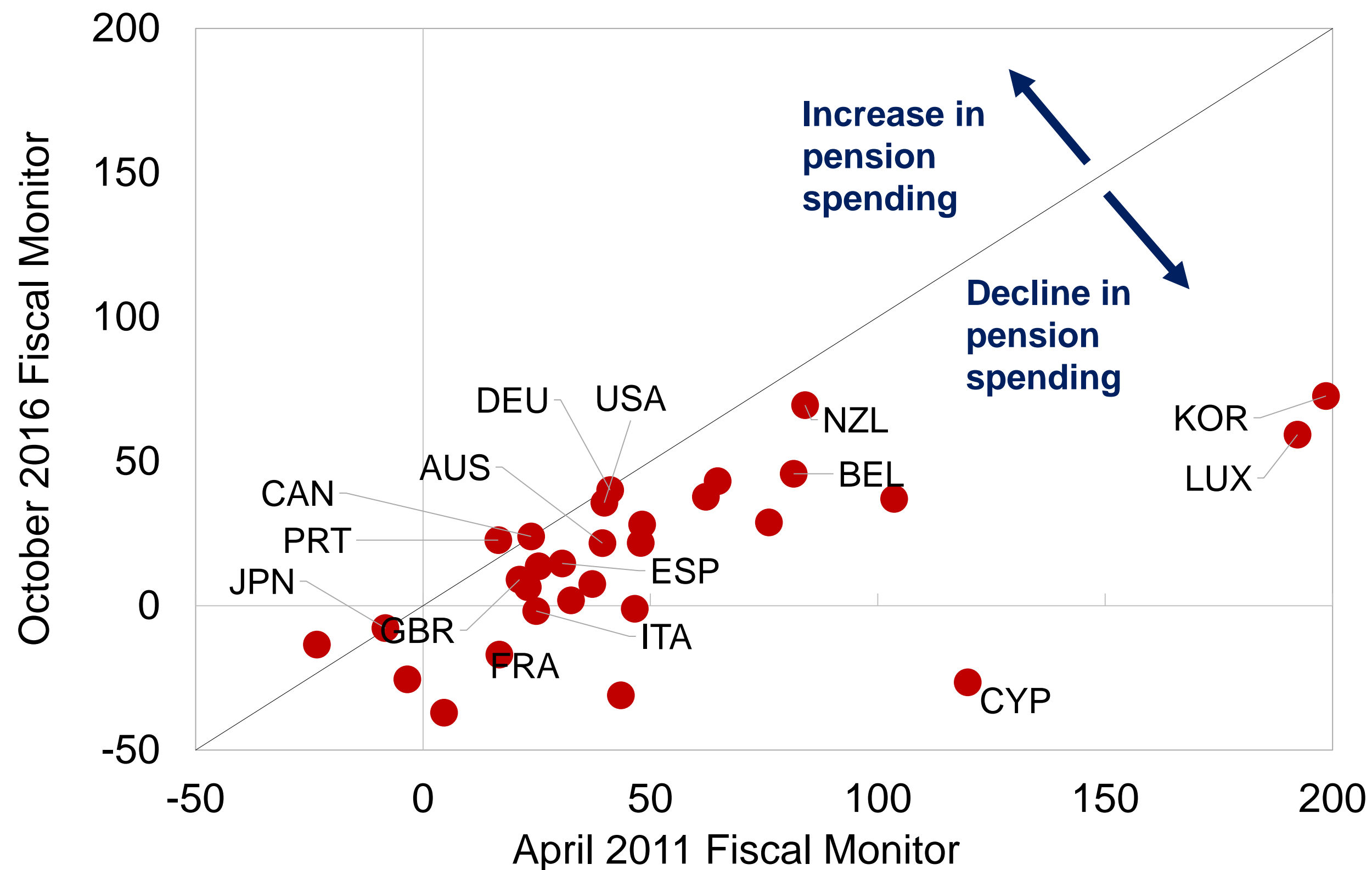


A Greater Role for Fiscal Policy

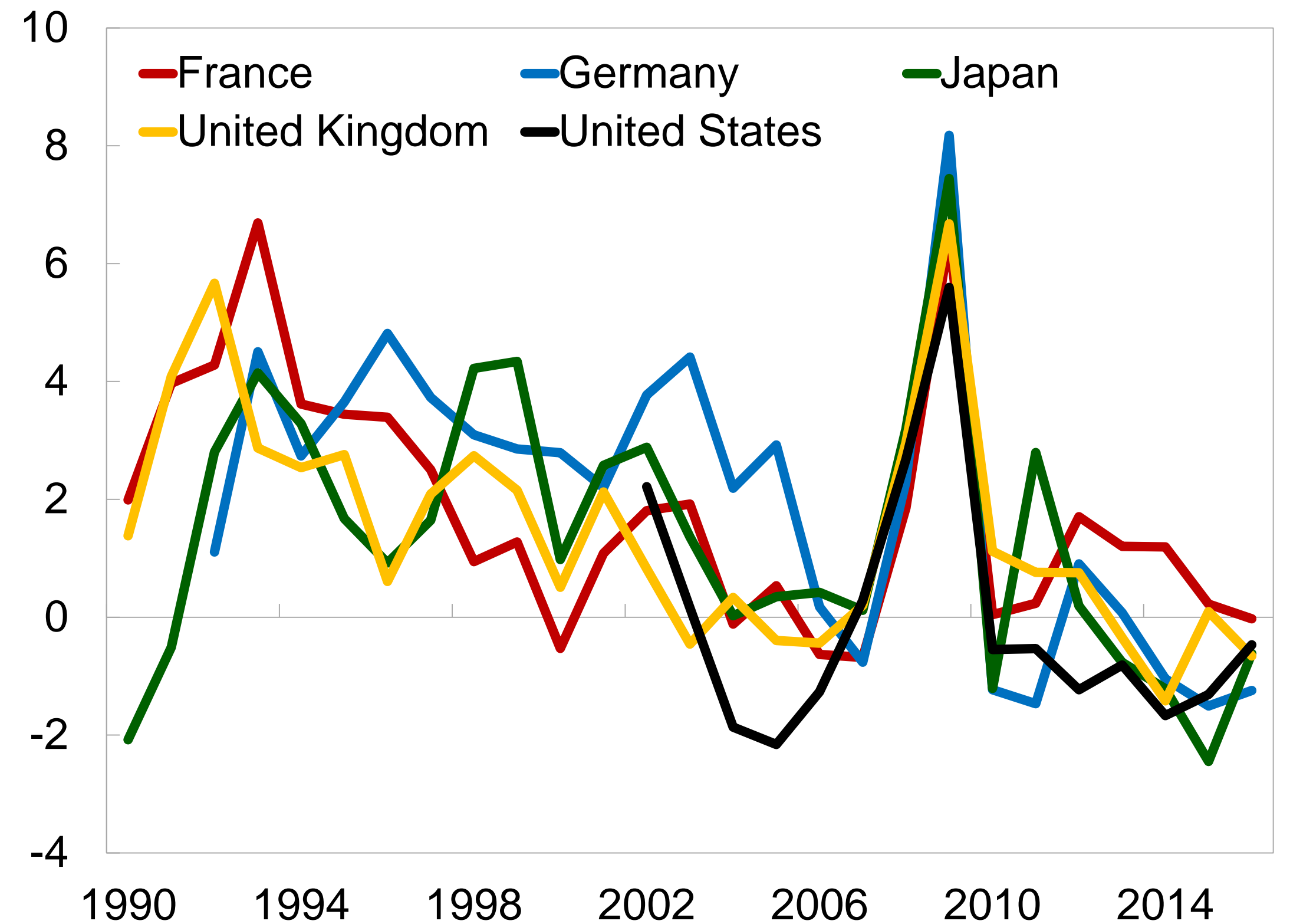


More Borrowing?

Net Present Value of Future Pension Obligations in Advanced Economies, 2015–50
(Percent of GDP)

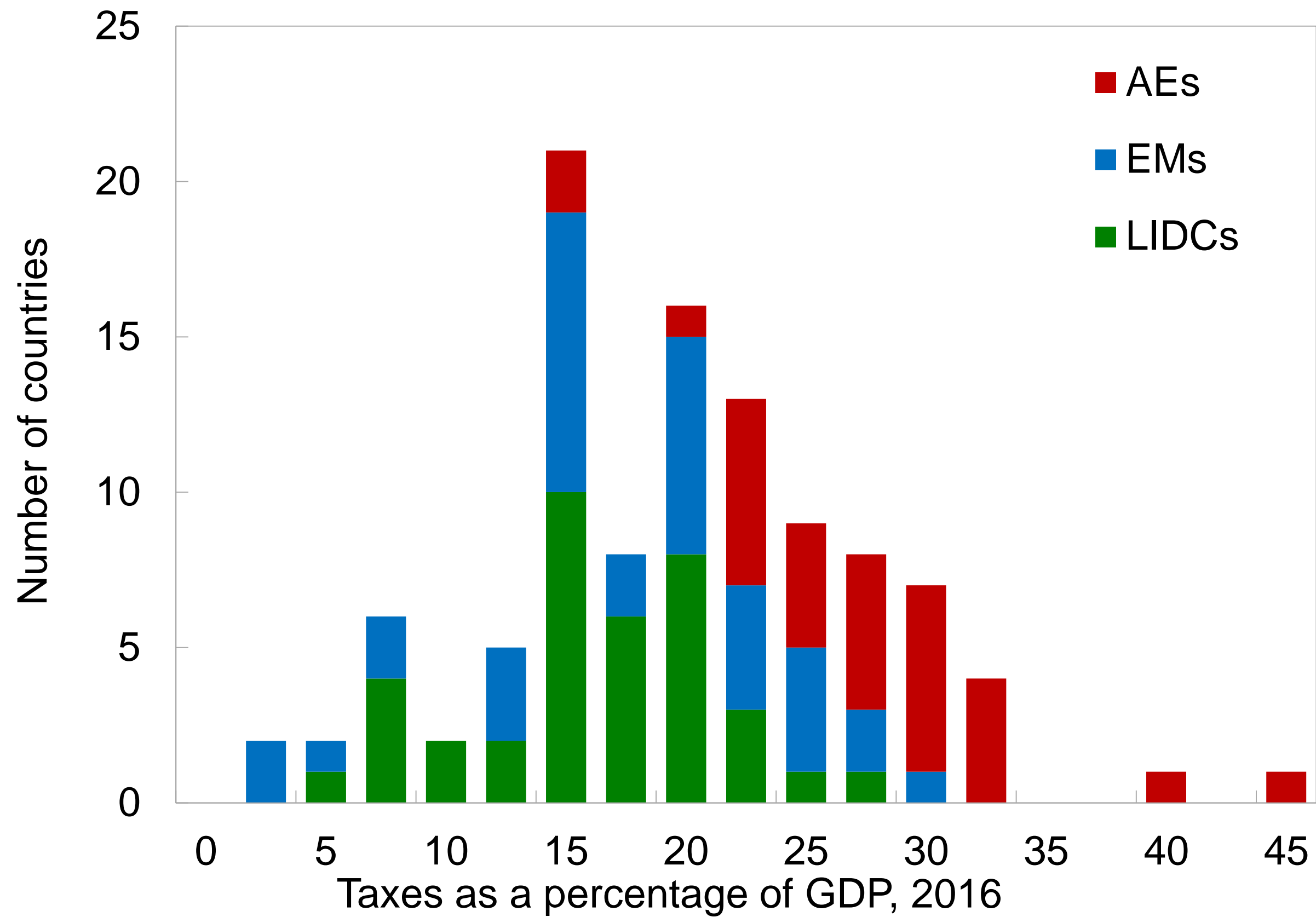


Interest–Growth Rate Differentials in Advanced Economies, 1990–2016
(Percent)

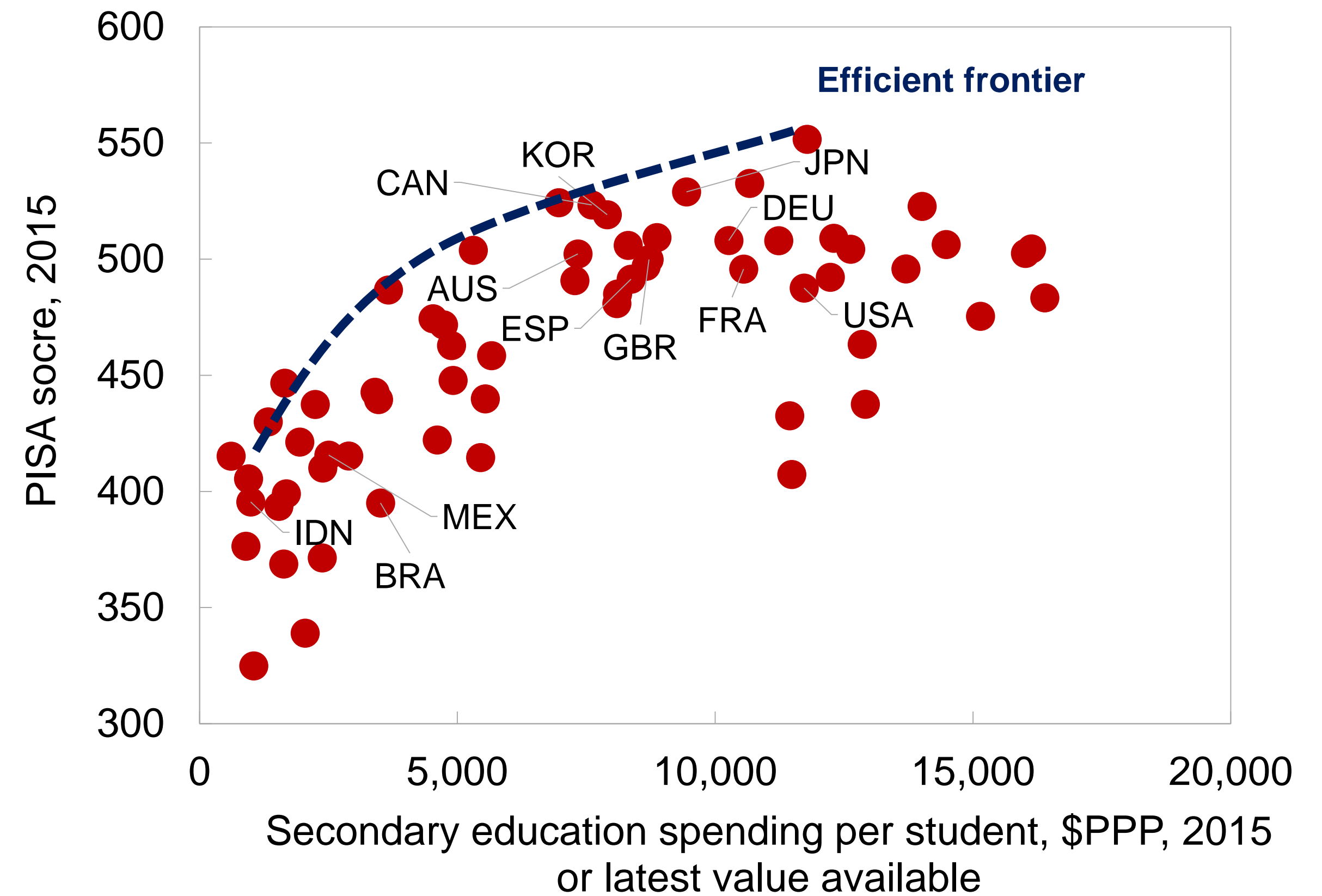


Revenue Mobilization and Expenditure Savings

World Distribution of Tax-to-GDP Ratio, 2016

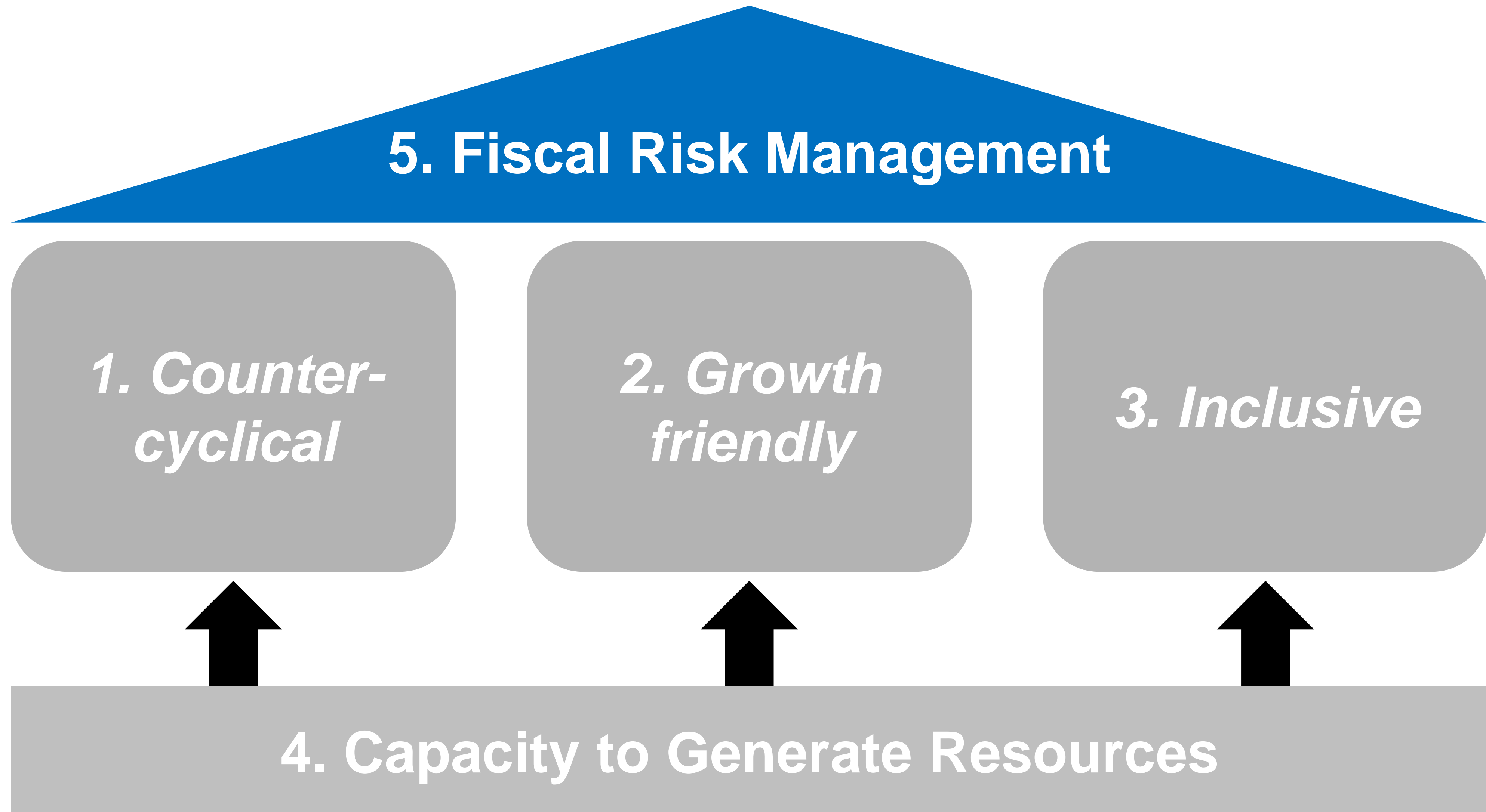


Secondary Education Spending Per Student, 2015



Sources: IMF, *World Economic Outlook*; and IMF staff estimates.

A Greater Role for Fiscal Policy



Better Analyzing and Managing Fiscal Risks

Four-Step Strategy



Source: “Analyzing and Managing Fiscal Risks: Best Practices.” IMF Policy Paper.

Conclusions

Today's Challenge: Doing More With Less

Fiscal policy is asked to **do more**

- ▶ Stabilize the economy (except when debt sustainability is at stake)
- ▶ Promote growth with smart policies
- ▶ Share the growth dividend more evenly

...**with less** resources...

... and in a prudent way

**Thank you for your
attention!**