Fiscal Policy Challenges for Resource-Rich Countries

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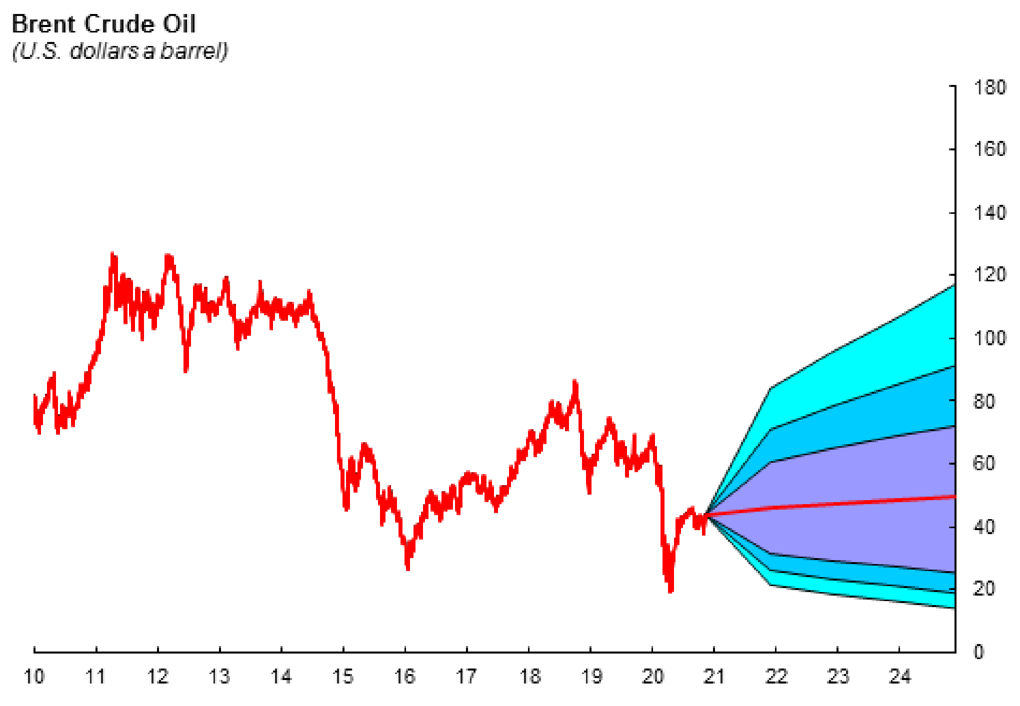
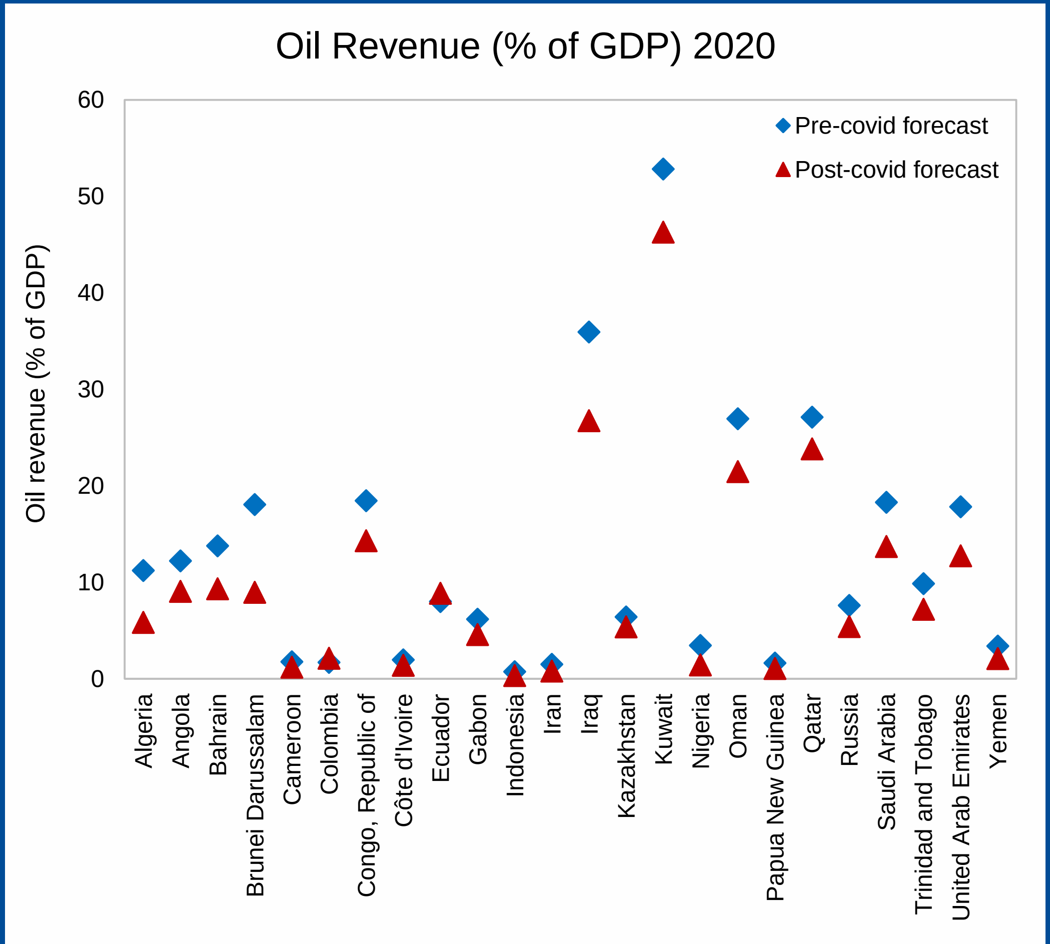
FAD

A Multiple Shock Environment

- Weaker growth
  - Domestic non-resource activity decline because of lockdown
  - Weaker global economy
- Financing constraints for market access countries: capital outflows from global risk reversal
- Multiple Fiscal challenges
  - Lower resource revenue
  - Lower domestic revenue
  - Spending pressures from Covid-19 response needs

Example: Oil Price Decline Impact





Short-term fiscal policy response (2020)

Accommodate additional Covid-19 spending needs (‘whatever it takes’) and maintain priority spending.

How?

- Use buffers if available (liquid assets, SWF, new borrowing).
- No fiscal space? Expenditure reprioritization.
- A commitment to preserve fiscal sustainability in the medium term.
- Other macro policies can support the fiscal response (e.g., exchange rate flexibility).

Short-term fiscal policy response (2020)

Temporary suspension of fiscal rules may be necessary

Oil exporters' ability to muster a fiscal response to the crisis should not be constrained by excessively rigid fiscal and operational rules

Considerations:

- Clearly **communicate the reasons** for the activation of the escape clauses or the suspension of the rule.
- Establish (ex-ante) a **limit to the period of suspension** of the rule and outline how the government envisages returning to the fiscal rule's targets subsequently (and procedures for possible revisions).
- Regularly **report on progress** and explain any necessary deviations.

Medium-term fiscal policy response

How to design a transition framework to a sustainable fiscal policy?

- **How much?**
  - Target non-oil primary balance consistent with i) debt sustainability, ii) objectives for sharing of oil revenue across future generations and iii) stabilization buffer needs.
  - Could have interim medium-term target based on debt.

- **How fast?**
  - Frontloaded enough to maintain confidence in macro stability, including debt sustainability.
  - Gradual enough to ensure i) continued basic provision of public goods and services as well as social protection and ii) positive non-oil growth.
  - Some countries have more flexibility (fiscal space) than others but generally should reach long-term targets within a 5-10 year period.

- **When to start?**
  - As soon as economically and politically feasible possible given magnitude of the shock.
  - The crisis may provide window of opportunity to adopt difficult structural expenditure and revenue reforms.

Medium-term fiscal policy response

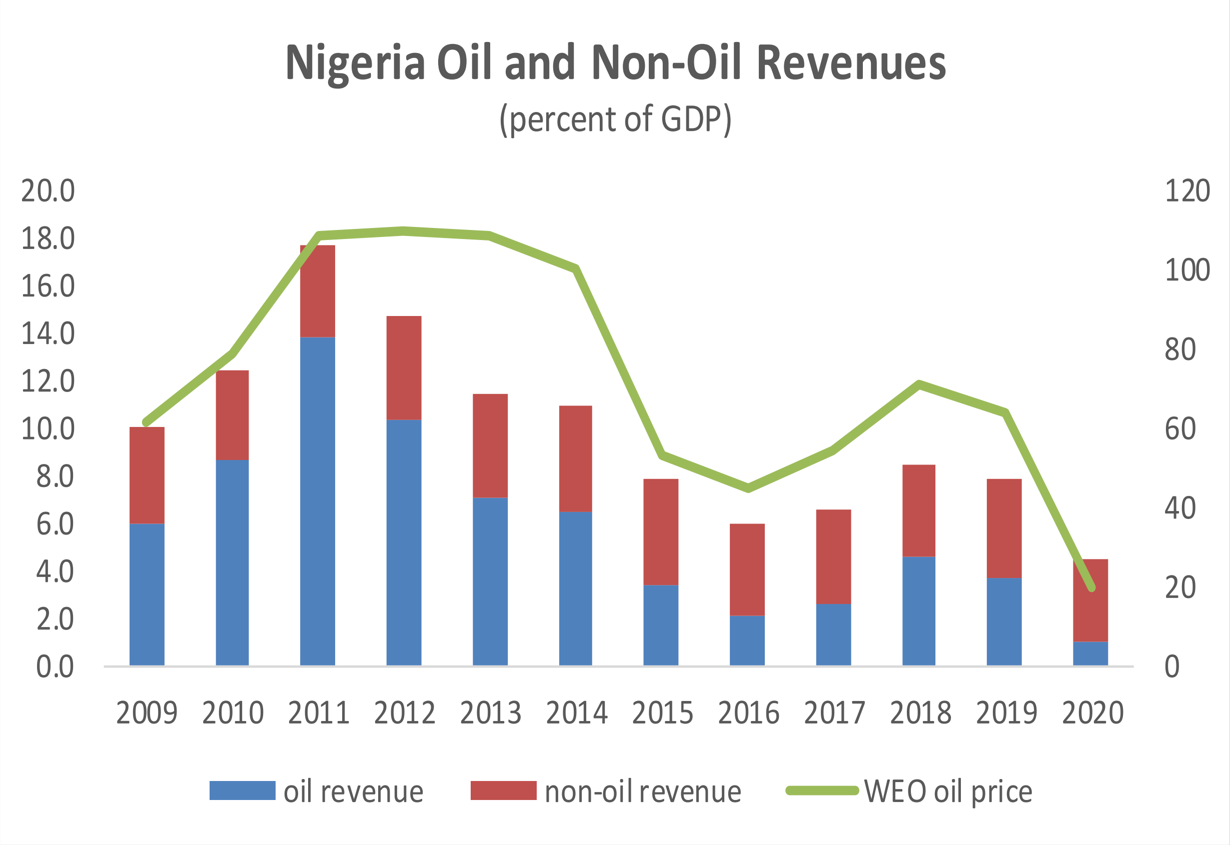
Can fiscal rules help?

- **Fiscal rules can foster fiscal discipline**
  - By increasing cost from deviation, either political costs (signaling effect) or even legal costs (if rules set in laws)
  - Empirically, experience with fiscal rules in resource rich countries is mixed
- **Having a comprehensive macroeconomic framework is a prerequisite**
  - What are the broader objectives of the rules? Reconcile development needs with fiscal sustainability
  - Improve medium-term fiscal planning
  - Engage in proactive communication with the civil society and stakesholders
  - Plan for price volatility through fiscal buffers
  - Address energy subsidies in oil exporters

Country case studies

- How have oil exporters responded so far?
- Two brief case studies : Nigeria (Hua) and Ecuador (Fernanda).

Nigeria is hit hard by the decline of oil prices...



Nigeria: COVID-19 Macroeconomic Impact 2020

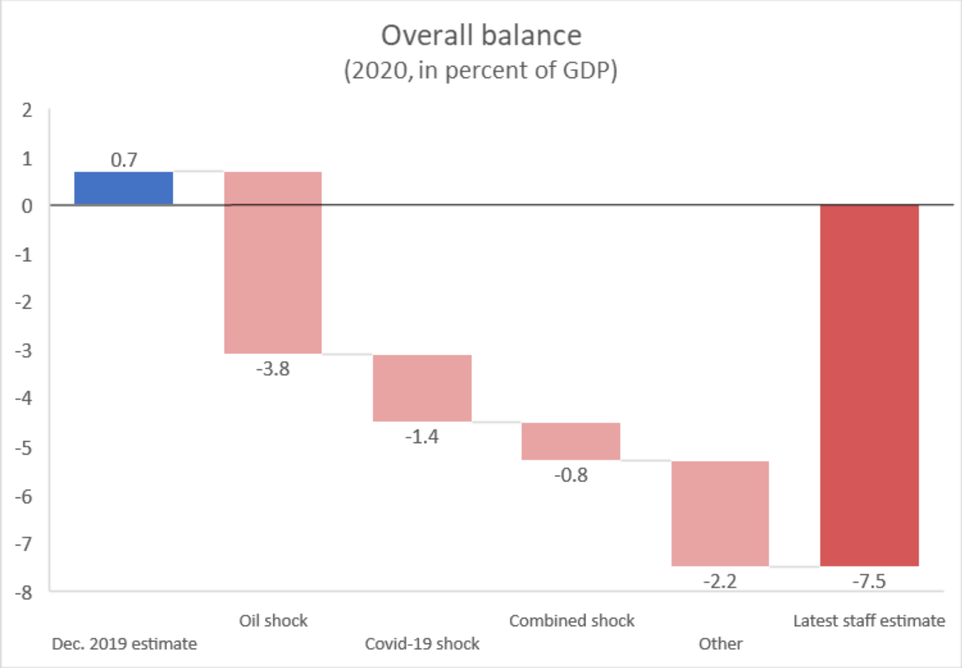
	Pre-COVID19	Proj.
National income and prices	(Percent increase)	
Real GDP (at 2010 market prices)	2.5	-3.4
Consolidated government operations	(Percent of GDP)	
Total revenues and grants	8.5	4.9
Oil and gas revenues	3.8	1.5
Overall balance	-4.6	-6.8
Public gross debt	31.1	34.8
FG interest-to-revenue ratio	59.4	102.1
External sector		
Current account balance (Percent of GDP)	-1.1	-3.3
Gross international reserves (US$ billions)	36.0	25.3
(equivalent months of imports of G&Ss)	4.8	3.8

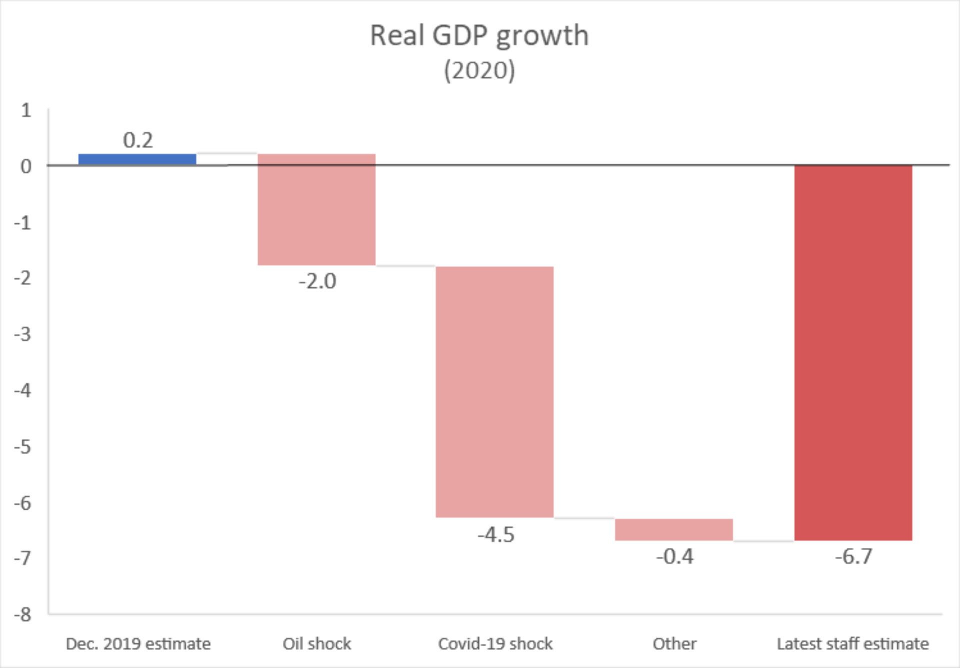
Sources: Nigerian authorities; and IMF staff estimates.

And needs to accommodate Covid-19 spending in the absence of fiscal space

- Cutting non-essential current and capital spending
- Removing fuel subsidies
- Drawing on extrabudgetary funds
- RFI program ($3.4 billion) and donor support

Ecuador: The impact of the oil price and COVID-19 shocks





Short-term fiscal policy response (2020)

- Measures to support the population and businesses have been constrained by lack of fiscal space
- To create fiscal space, the government has announced temporary taxes on large firms and on wages; measures to contain the public sector wage bill; and a temporary increase in import duties.

Beyond 2020

- Ambitious expenditure rationalization and a growth-friendly tax reform is needed to anchor public debt sustainability.