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

Oil Revenue (% of GDP) 2020

- Pre-covid forecast
- Post-covid forecast

Brent Crude Oil (U.S. dollars per barrel)
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 stakeholders
  - 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 Oil and Non-Oil Revenues (percent of GDP)

Nigeria: COVID-19 Macroeconomic Impact 2020

<table>
<thead>
<tr>
<th>National income and prices</th>
<th>Pre-COVID19</th>
<th>Proj.</th>
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<tbody>
<tr>
<td>Real GDP (at 2010 market prices)</td>
<td>2.5</td>
<td>-3.4</td>
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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&Gs) | 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.