

The Global Fiscal Outlook



Carlo Cottarelli
Director, Fiscal Affairs Department

March 19, 2013

What Happened in 2008?



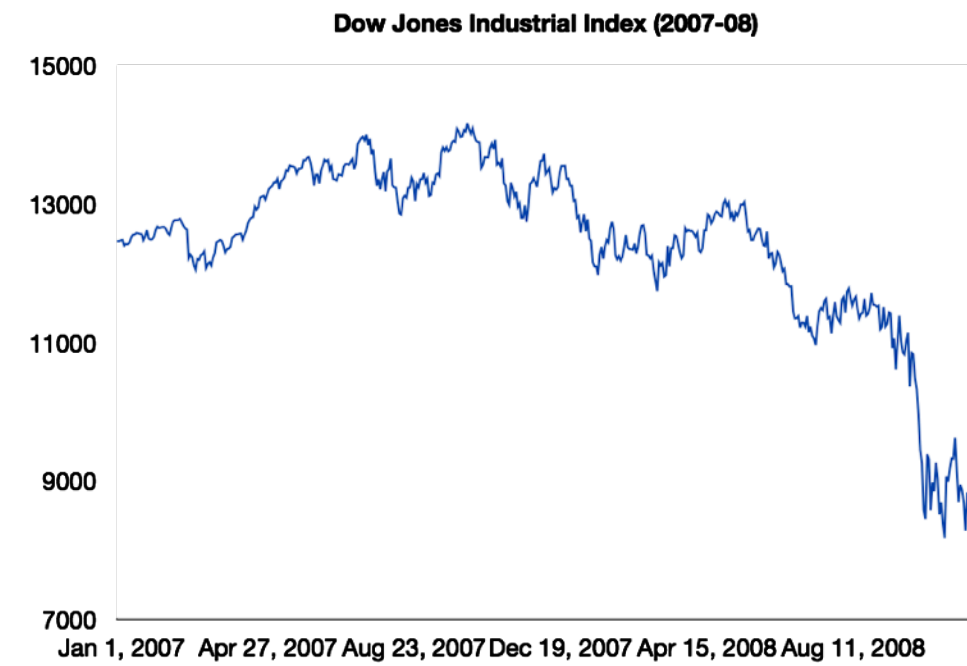
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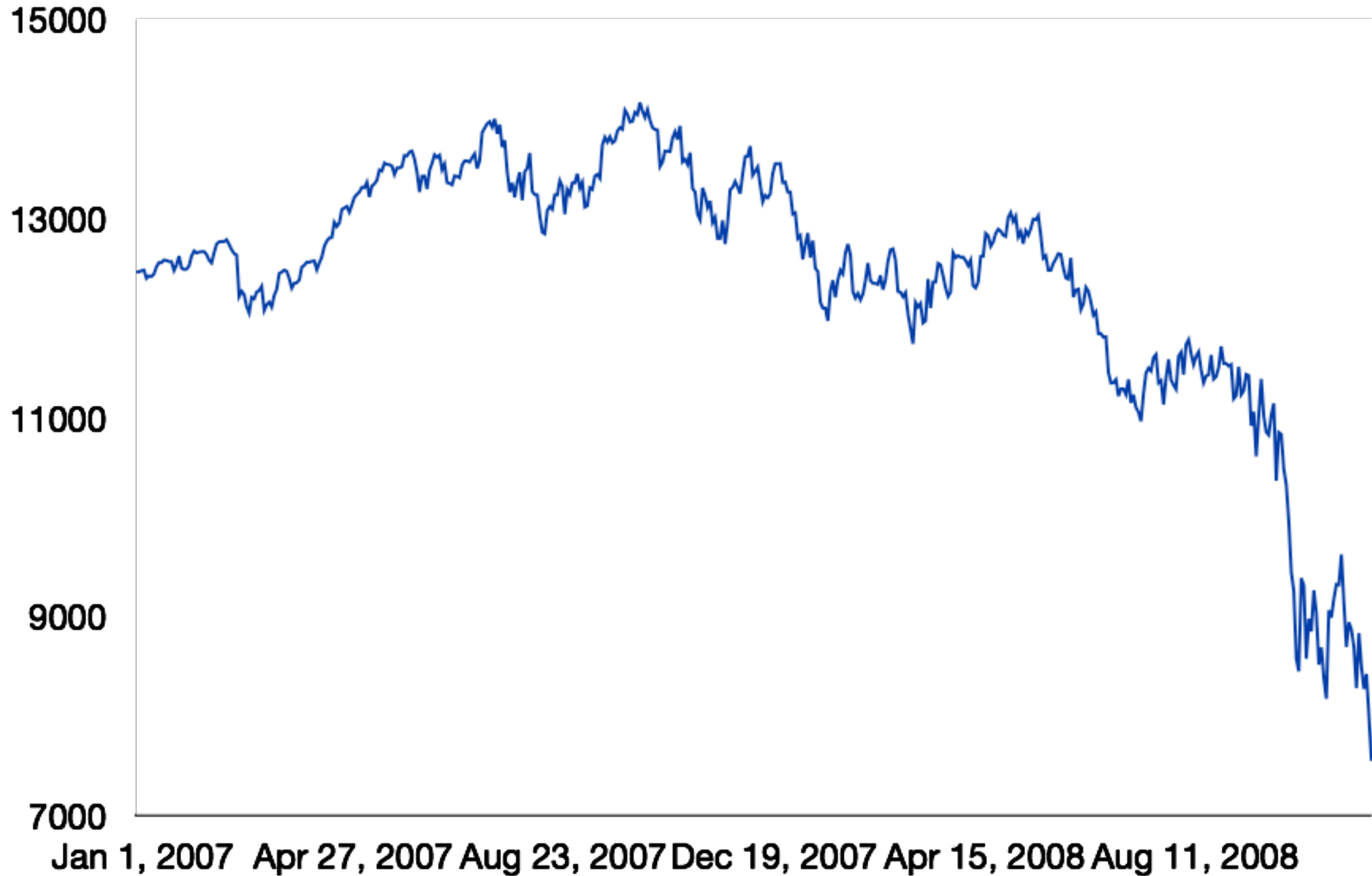


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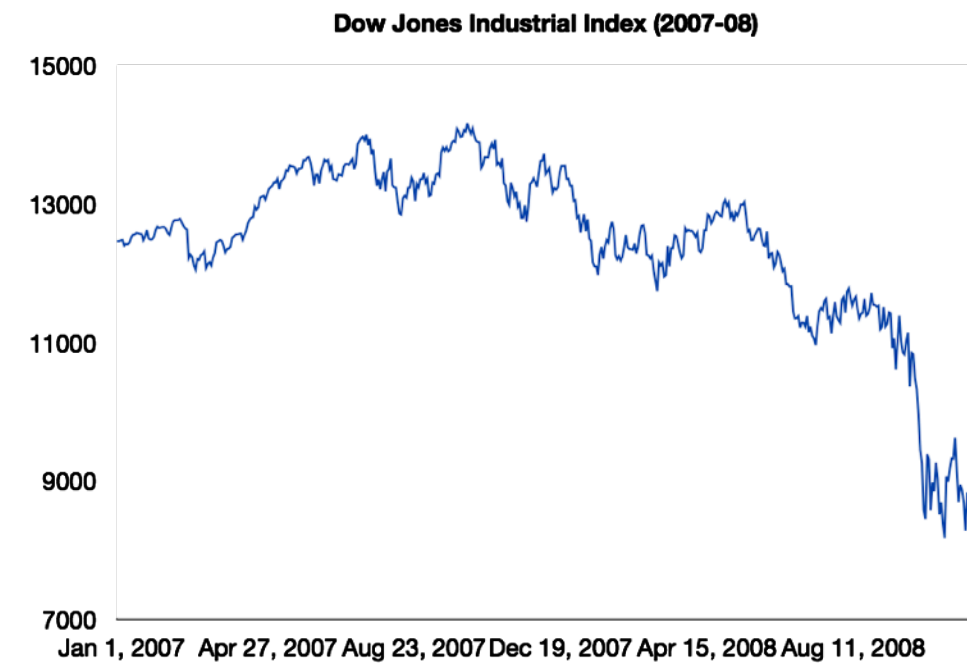


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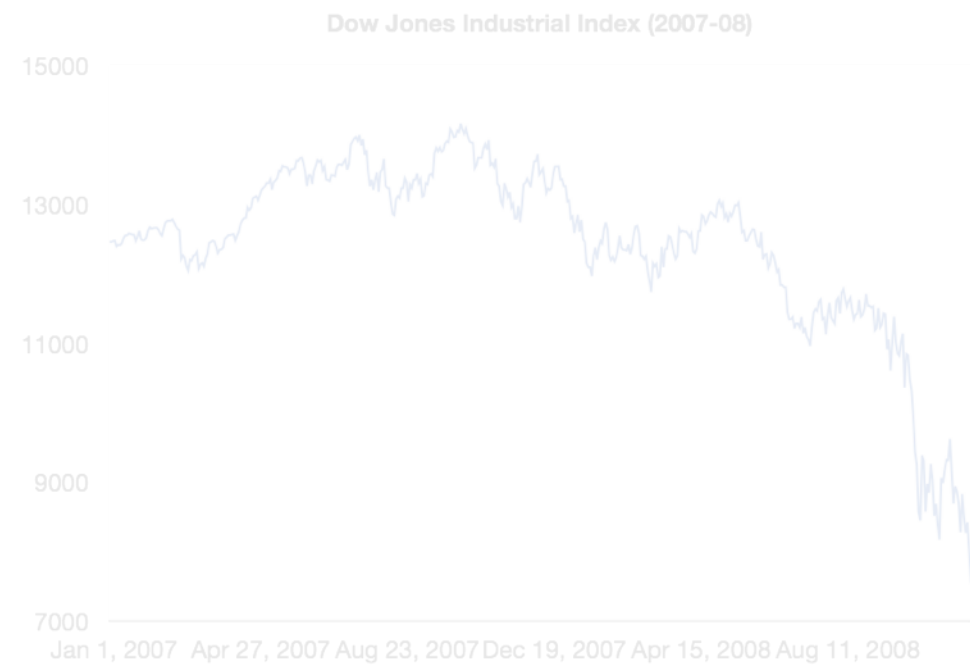
Dow Jones Industrial Index (2007-08)



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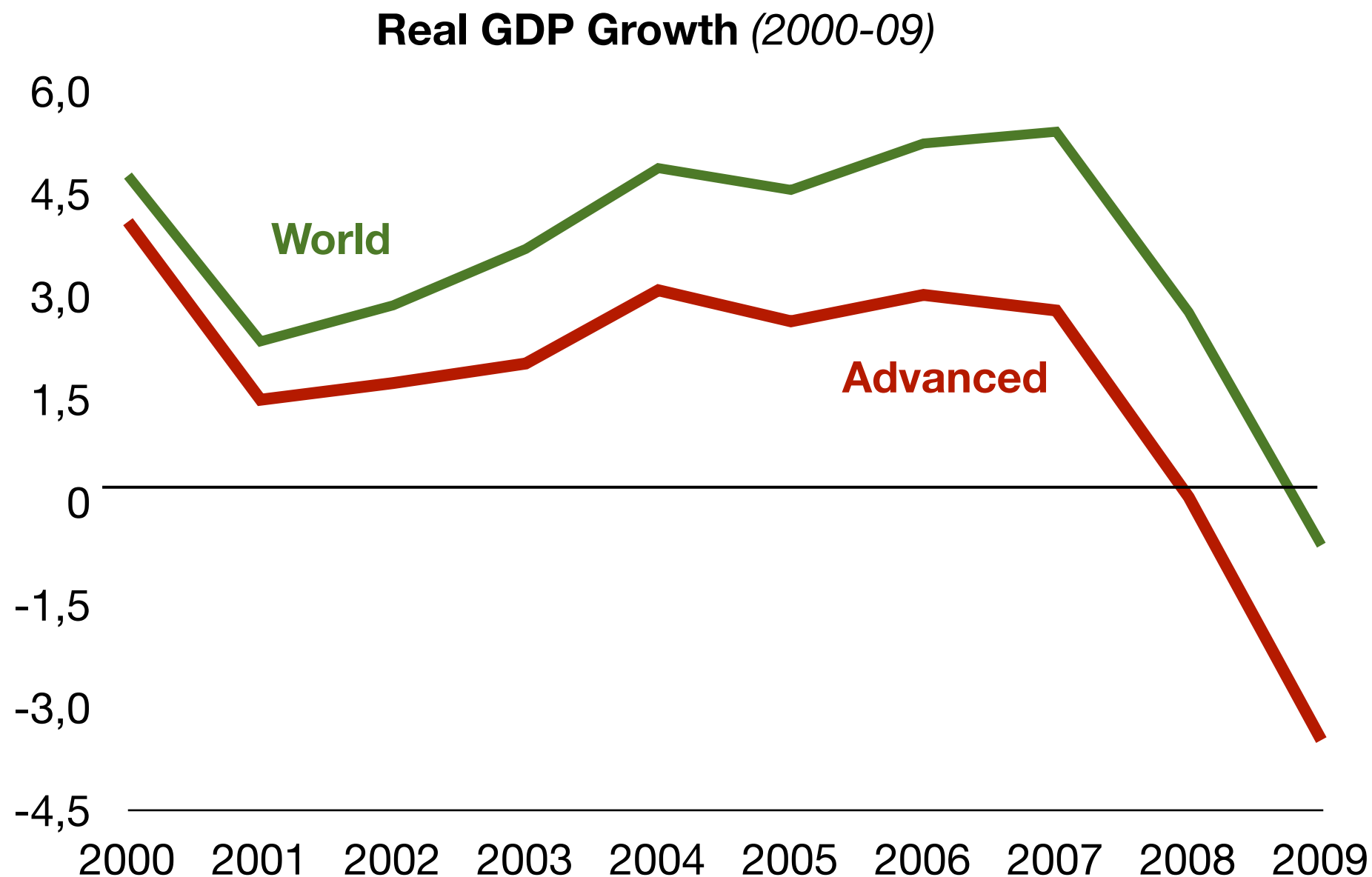
A New Role for Fiscal Policy

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- This was not an ordinary recession

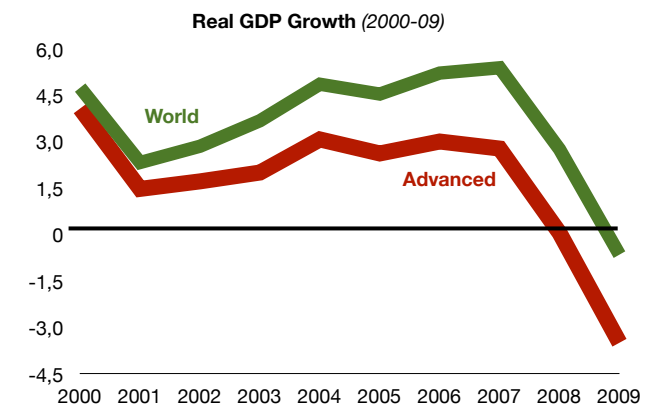
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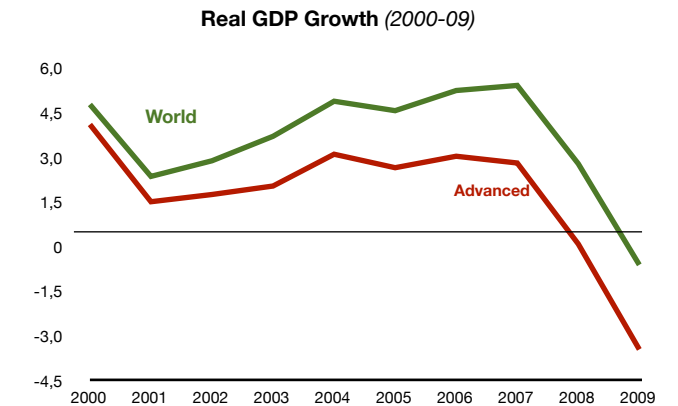
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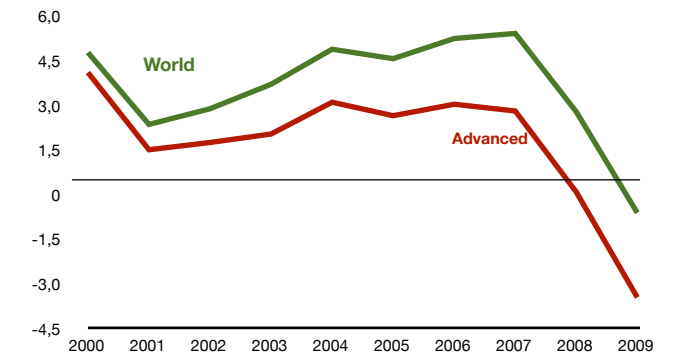
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A New Role for Fiscal Policy

Real GDP Growth (2000-09)

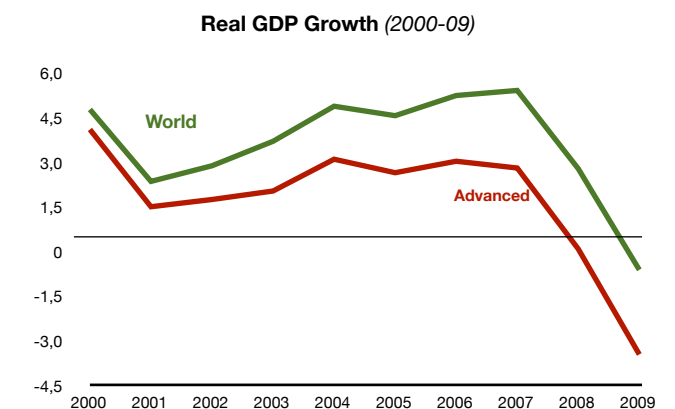
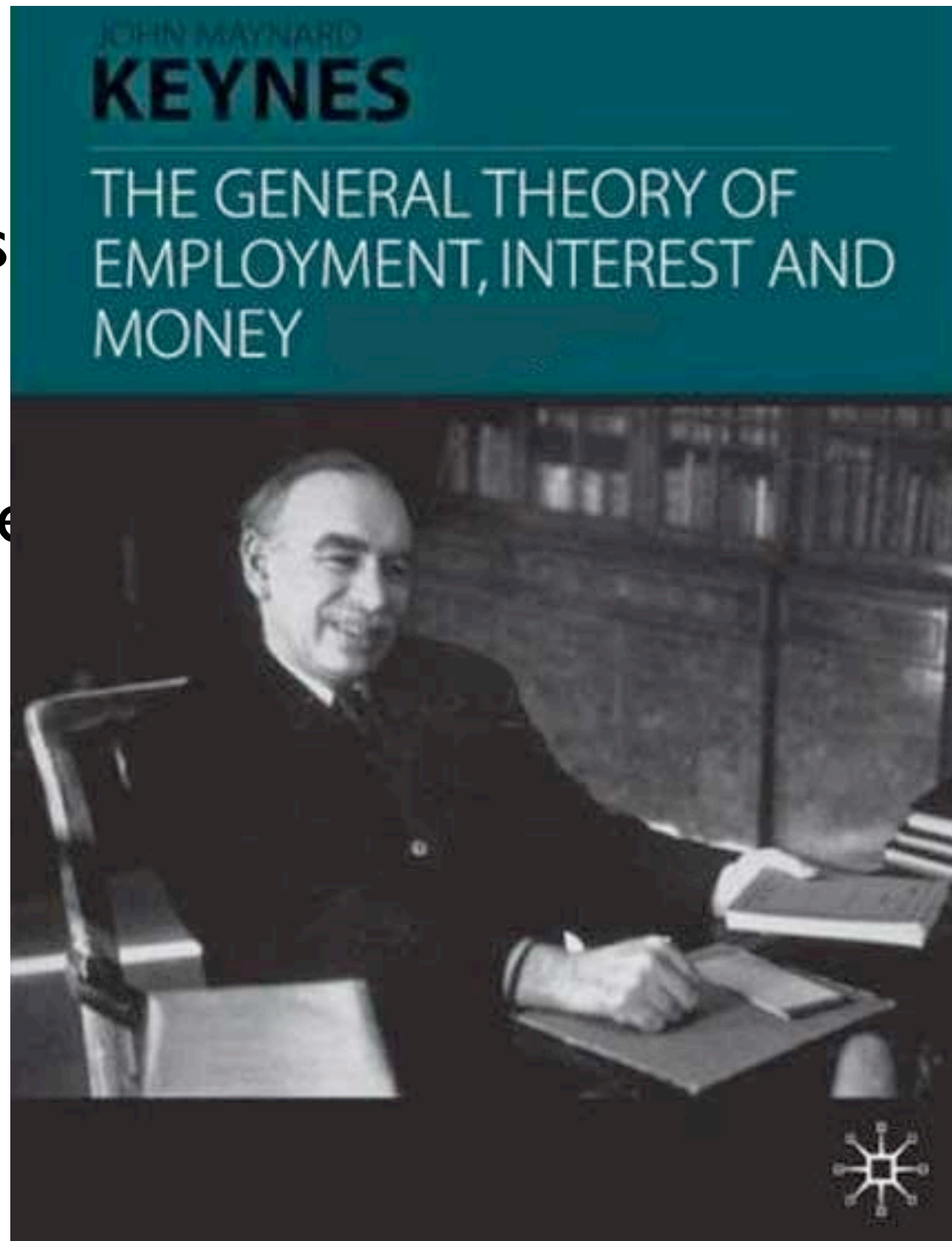


- This was not an ordinary recession
- Recession turned into a demand recession

A New Role for Fiscal Policy

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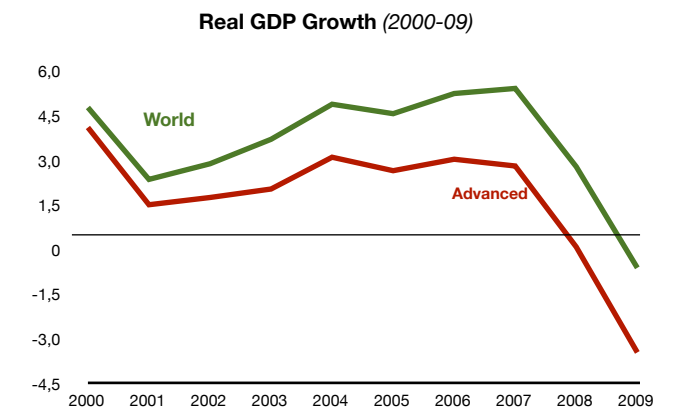
- Recession



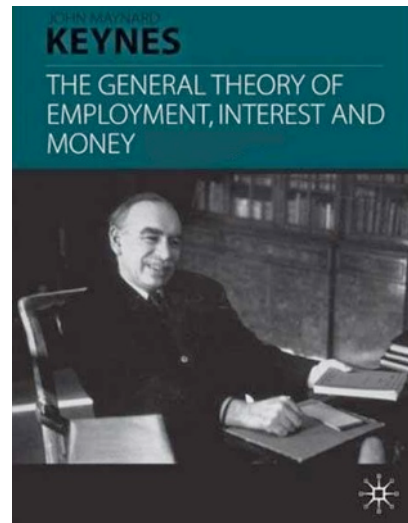
Recession

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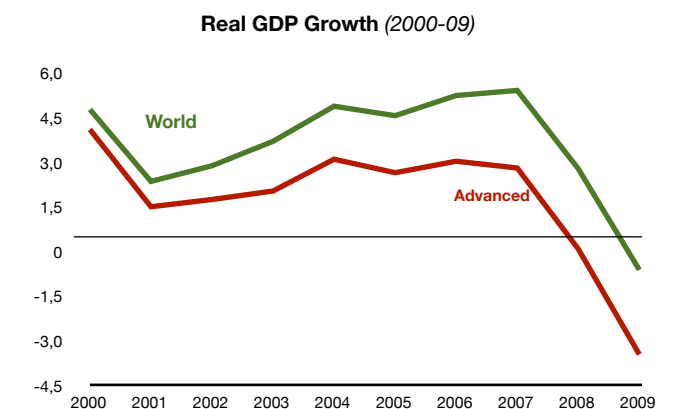


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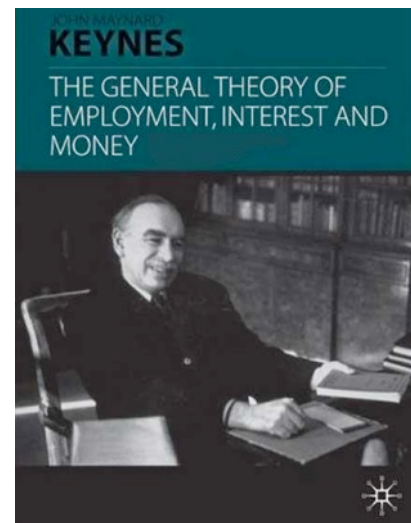


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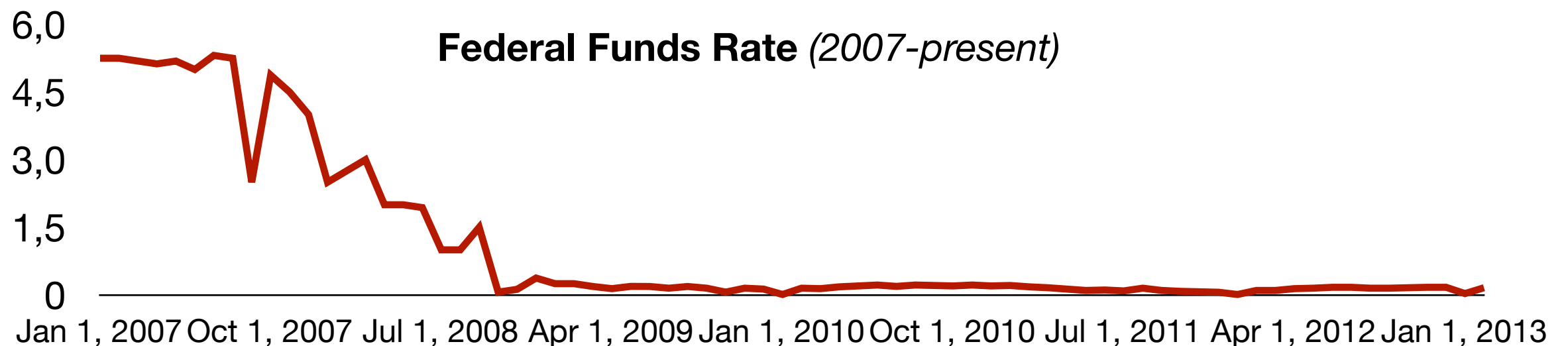
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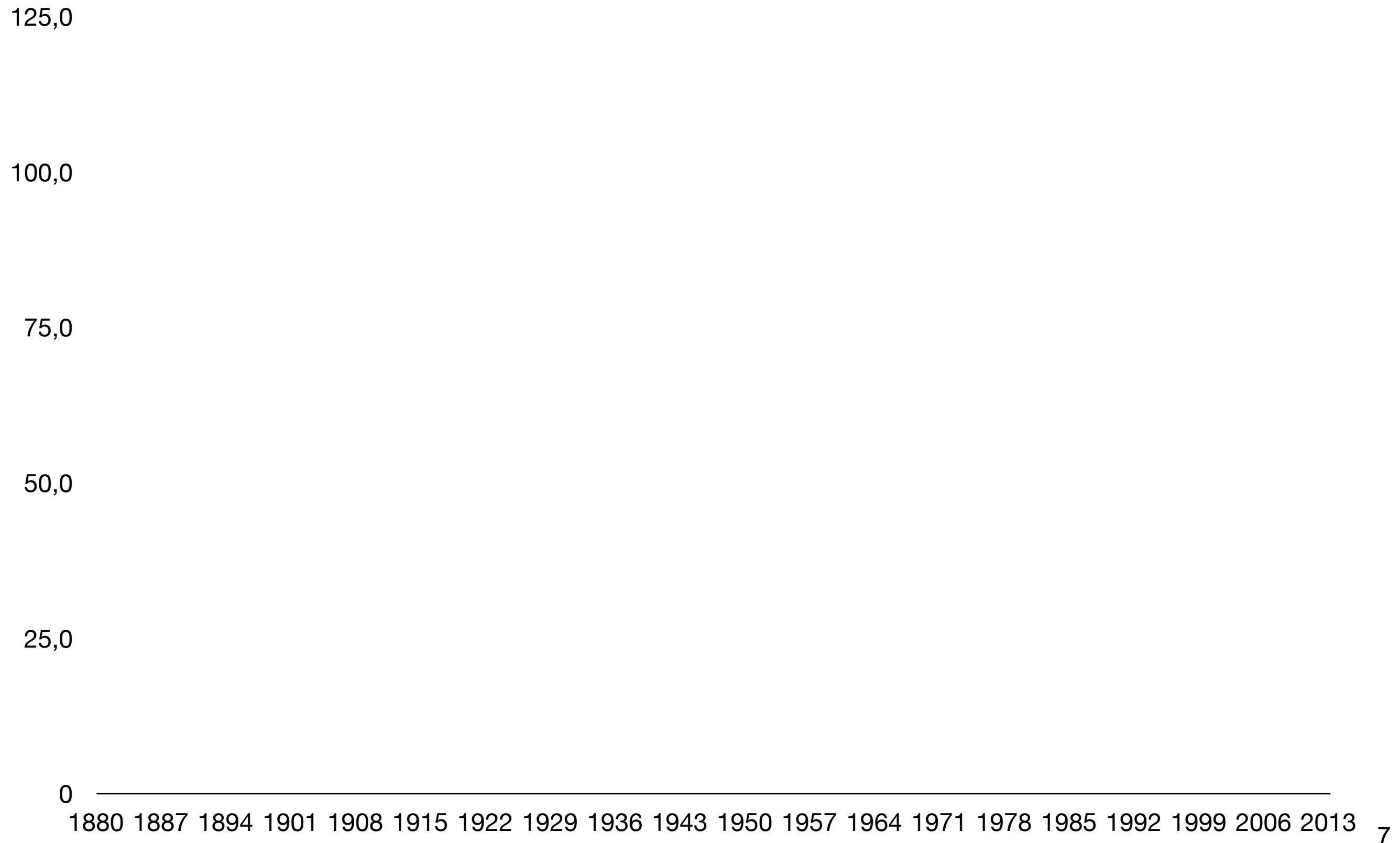


- Monetary lever was not working



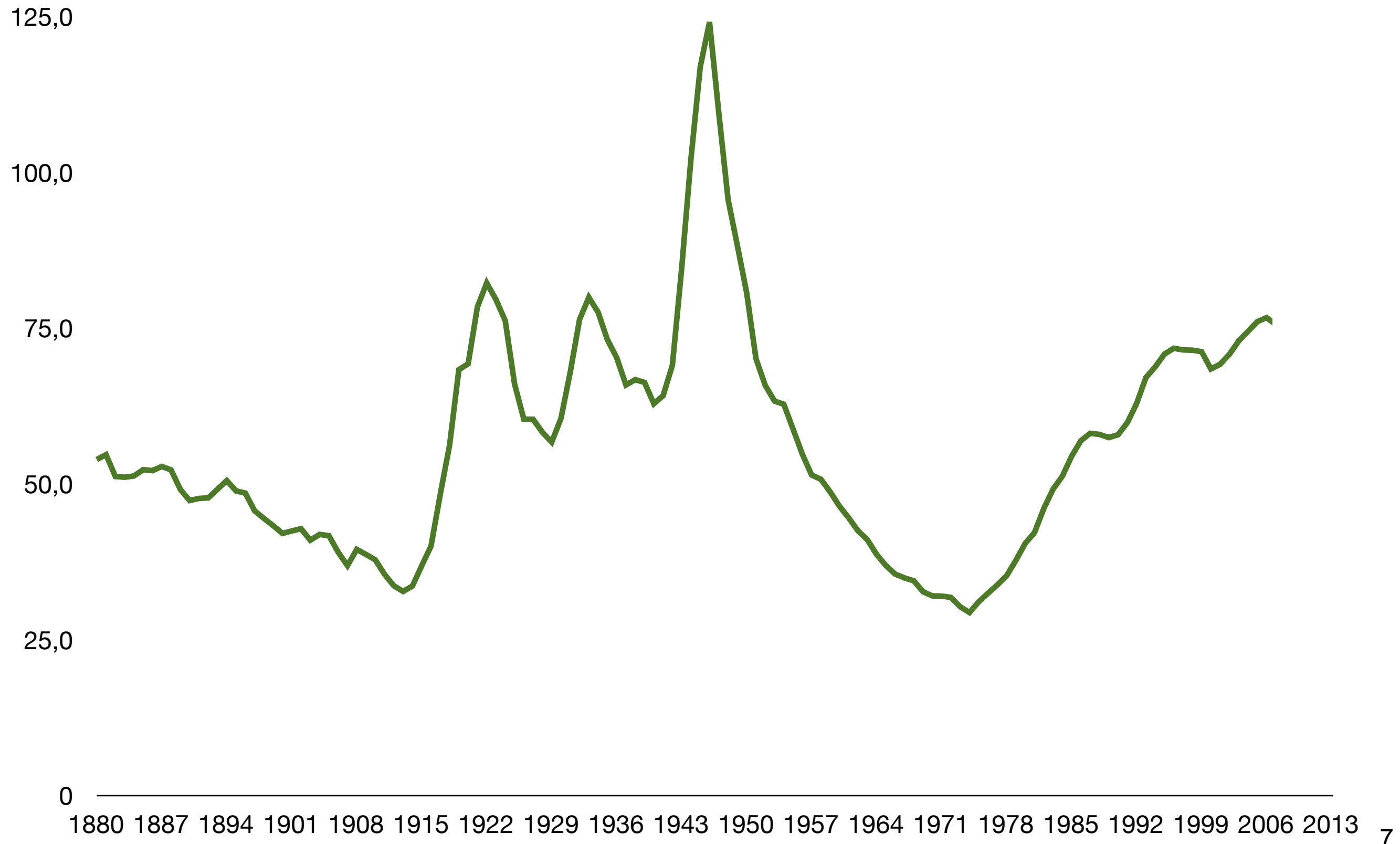
General Government Gross Debt

Advanced Economies, 1880-2013 *(Percent of GDP)*



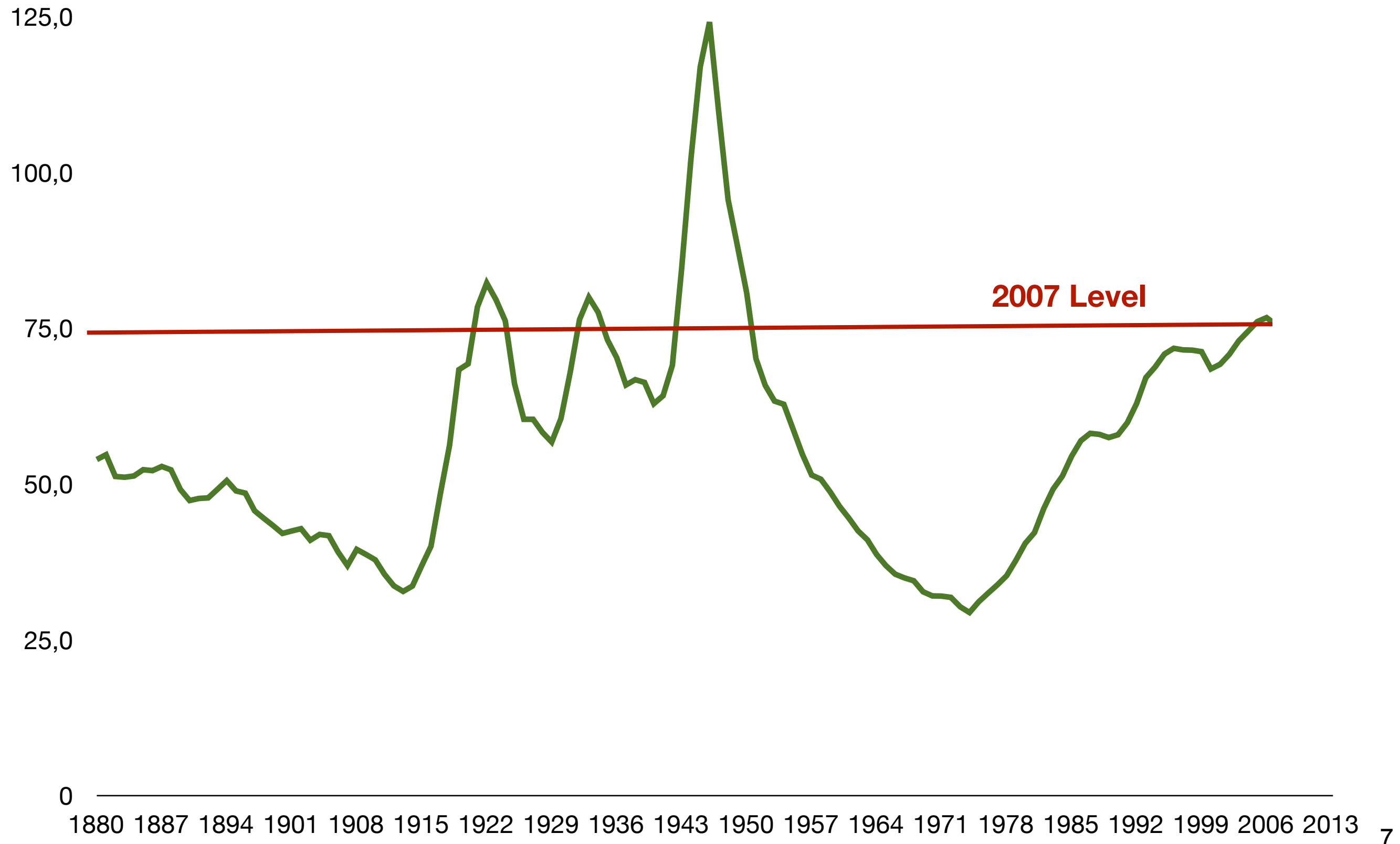
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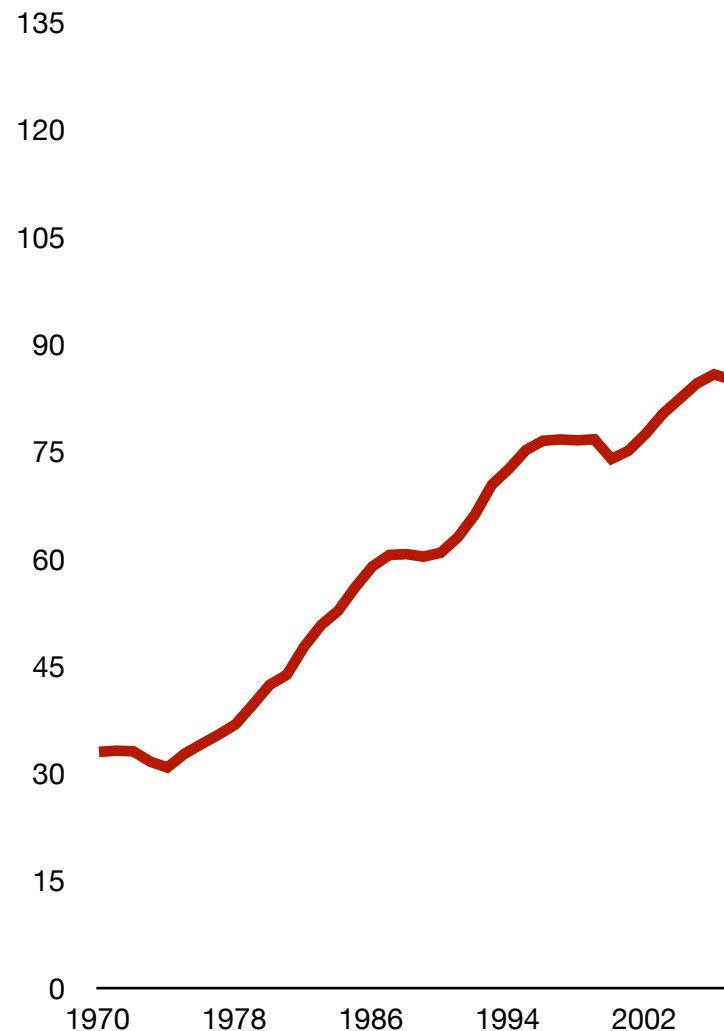
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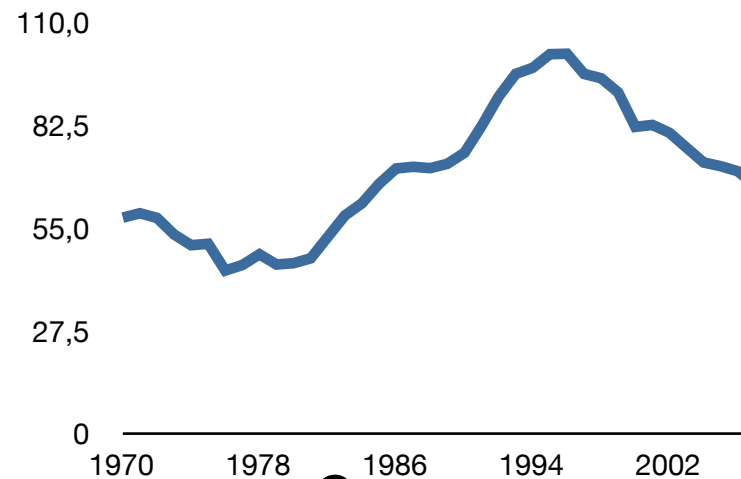
General Government Gross Debt

G7 Economies, 1970-2007 *(Percent of GDP)*

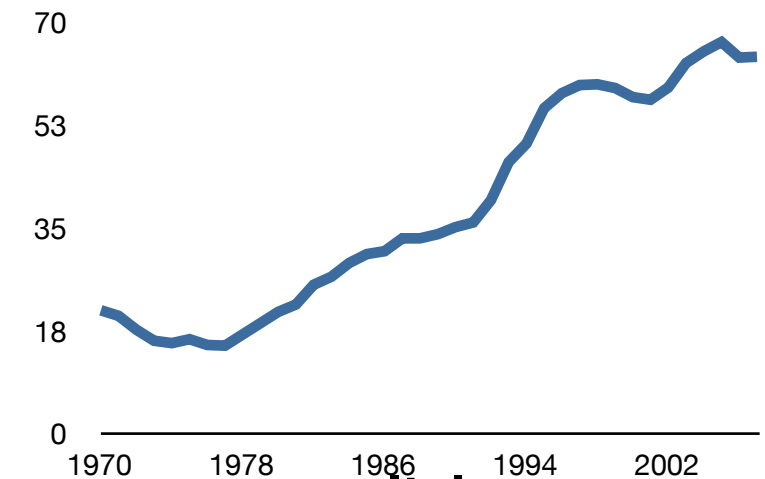
G7



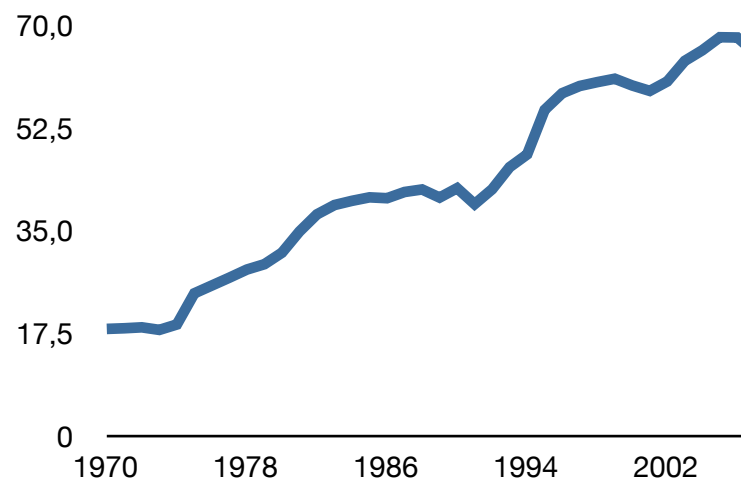
Canada



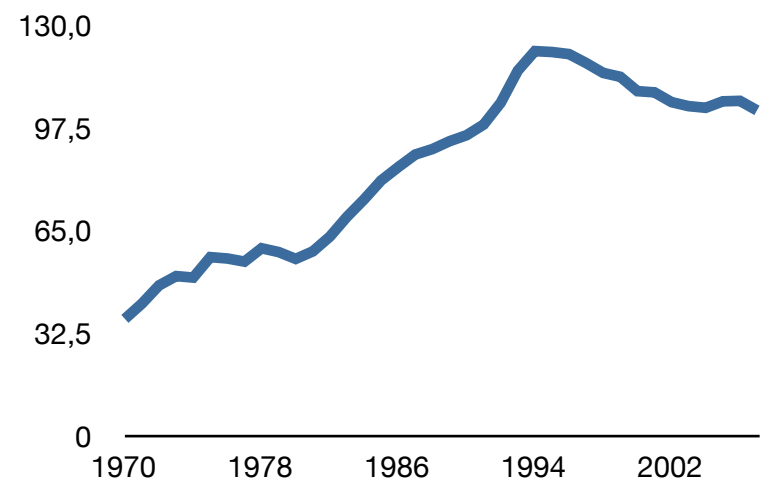
France



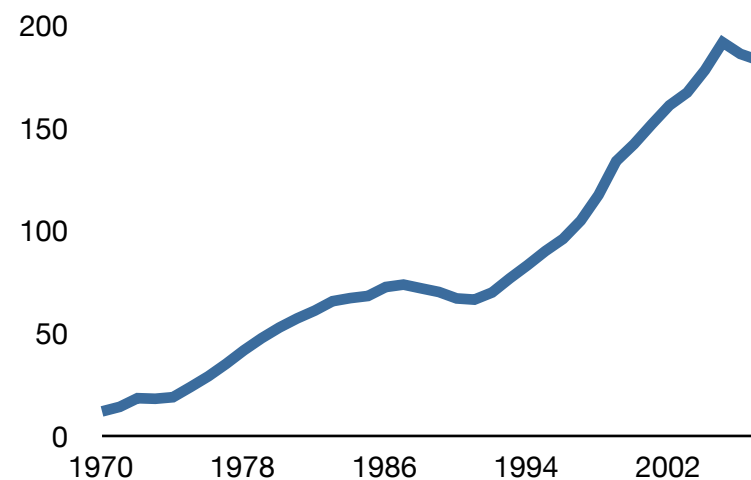
Germany



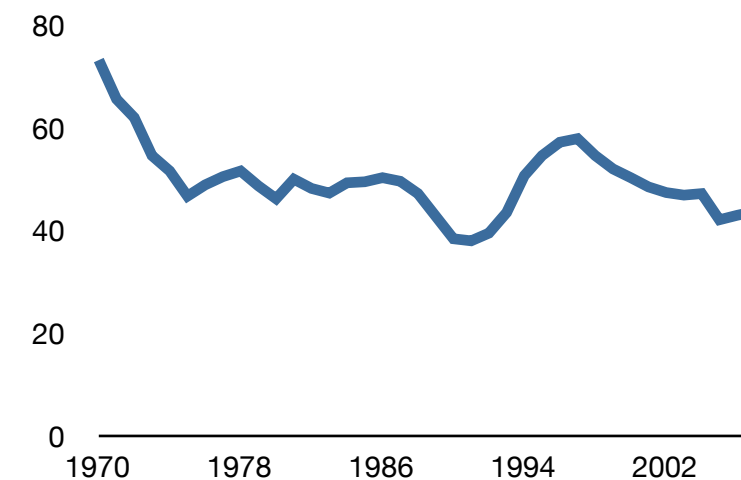
Italy



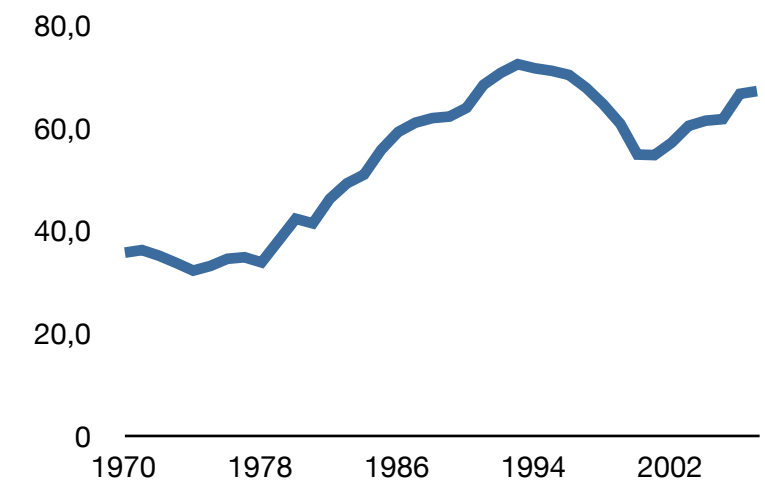
Japan



United Kingdom

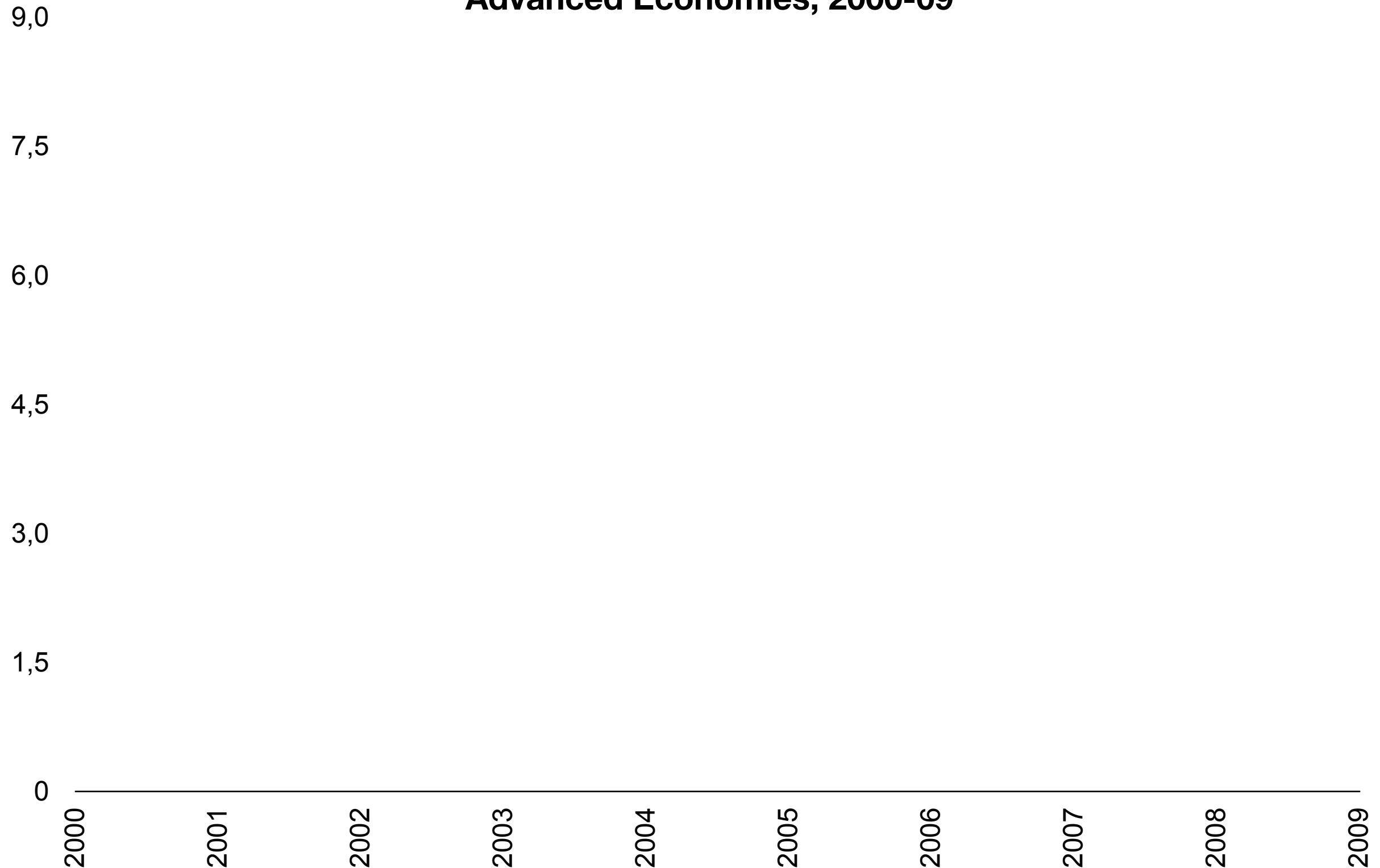


United States



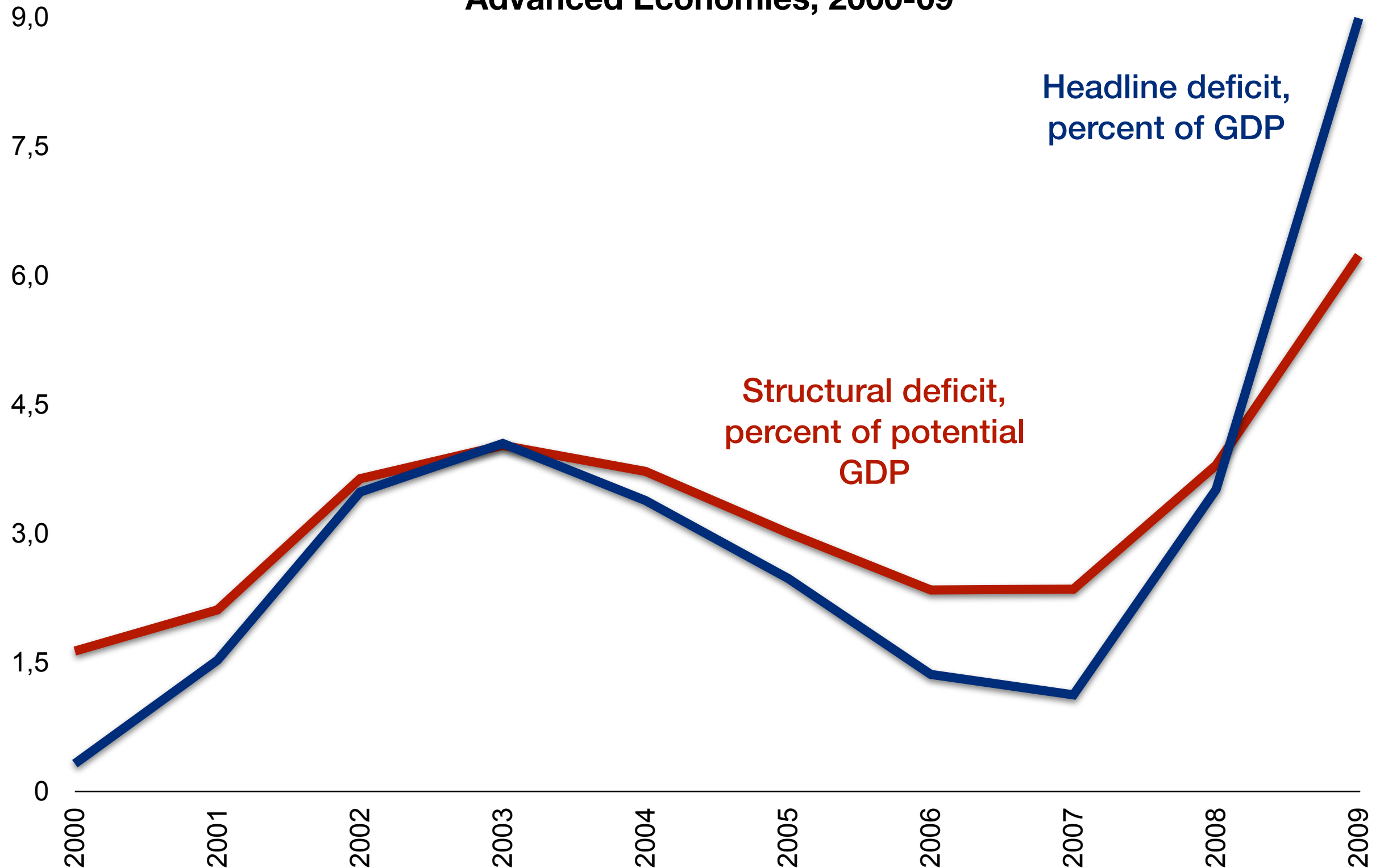
General Government Deficits

Advanced Economies, 2000-09



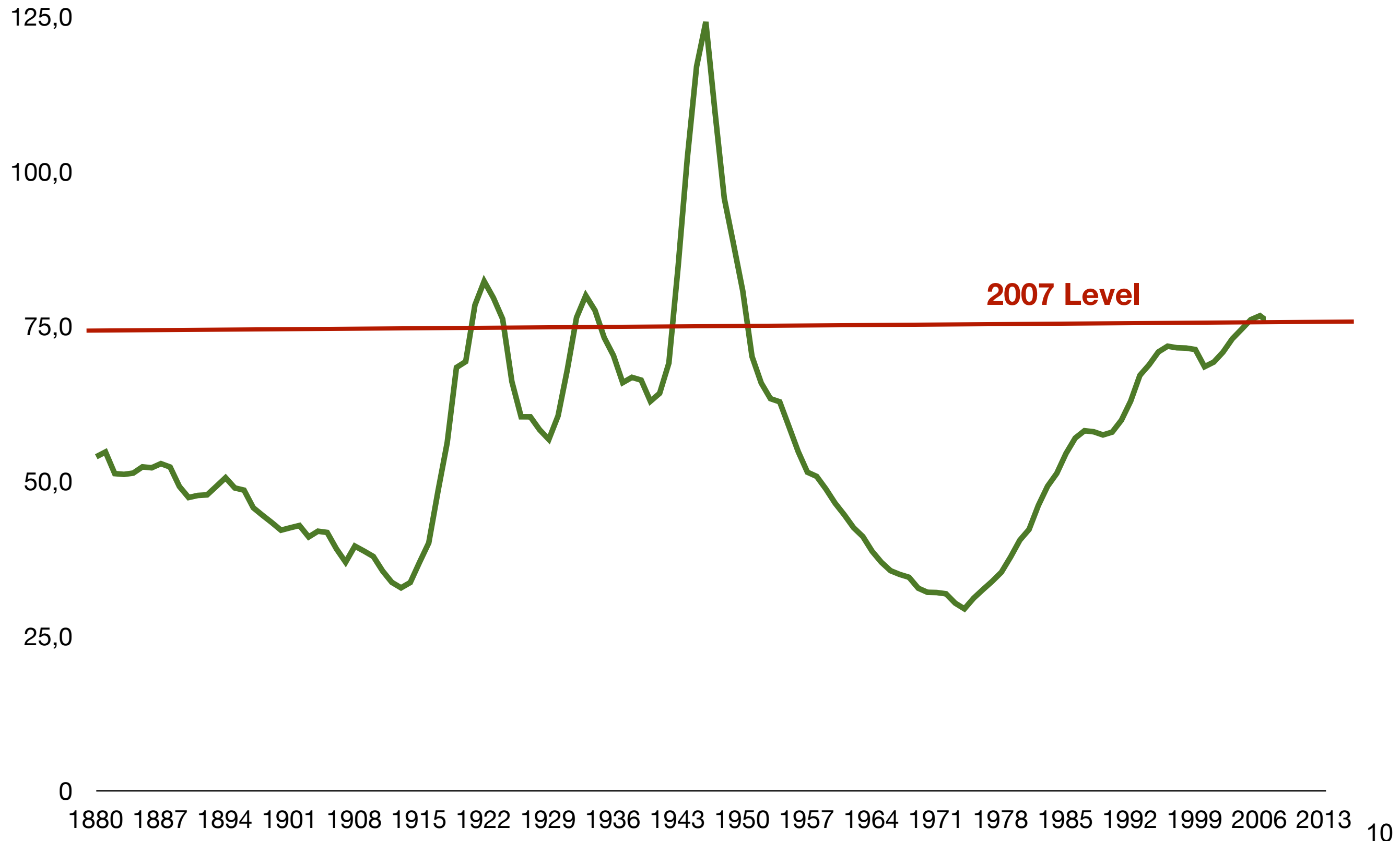
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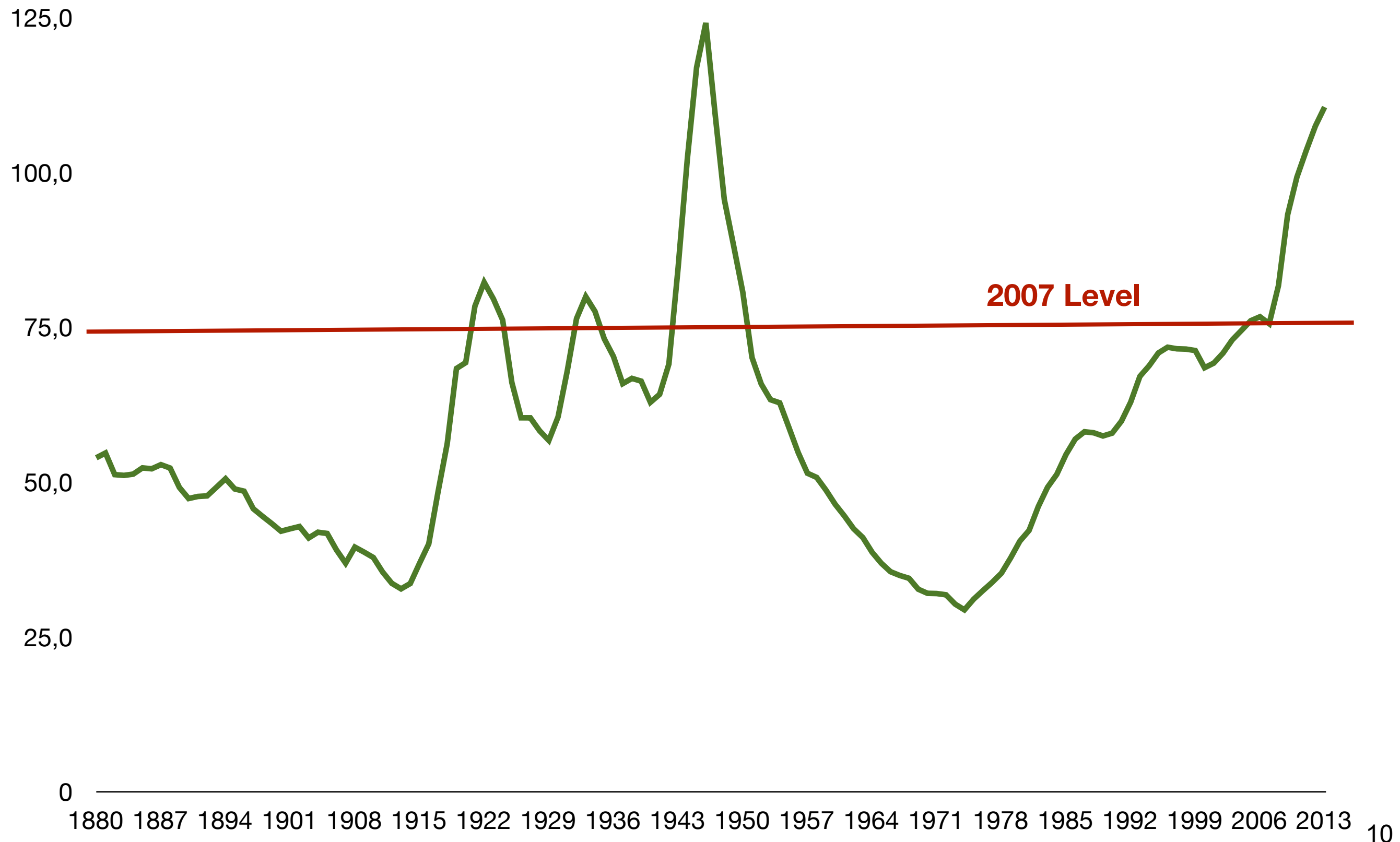
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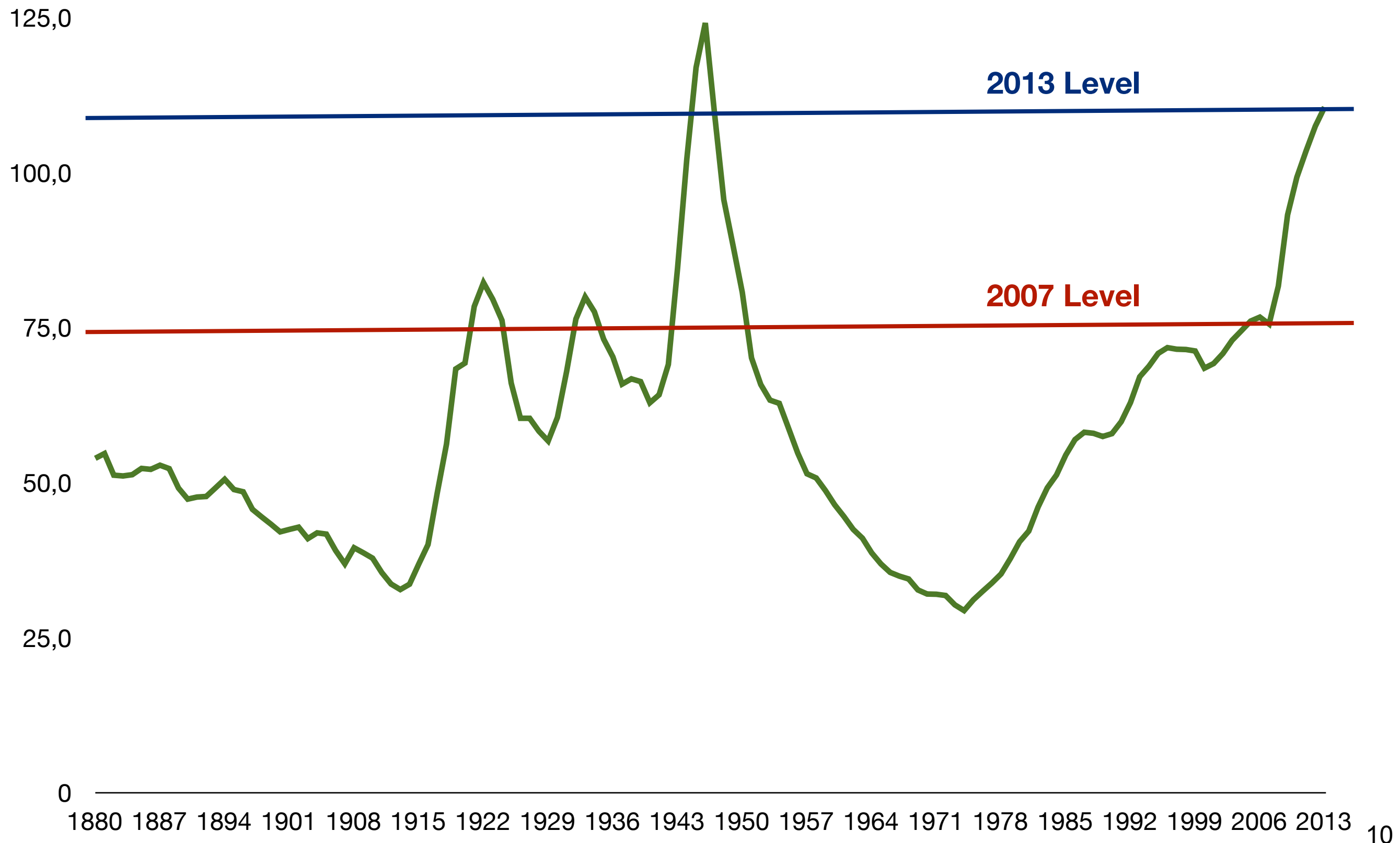
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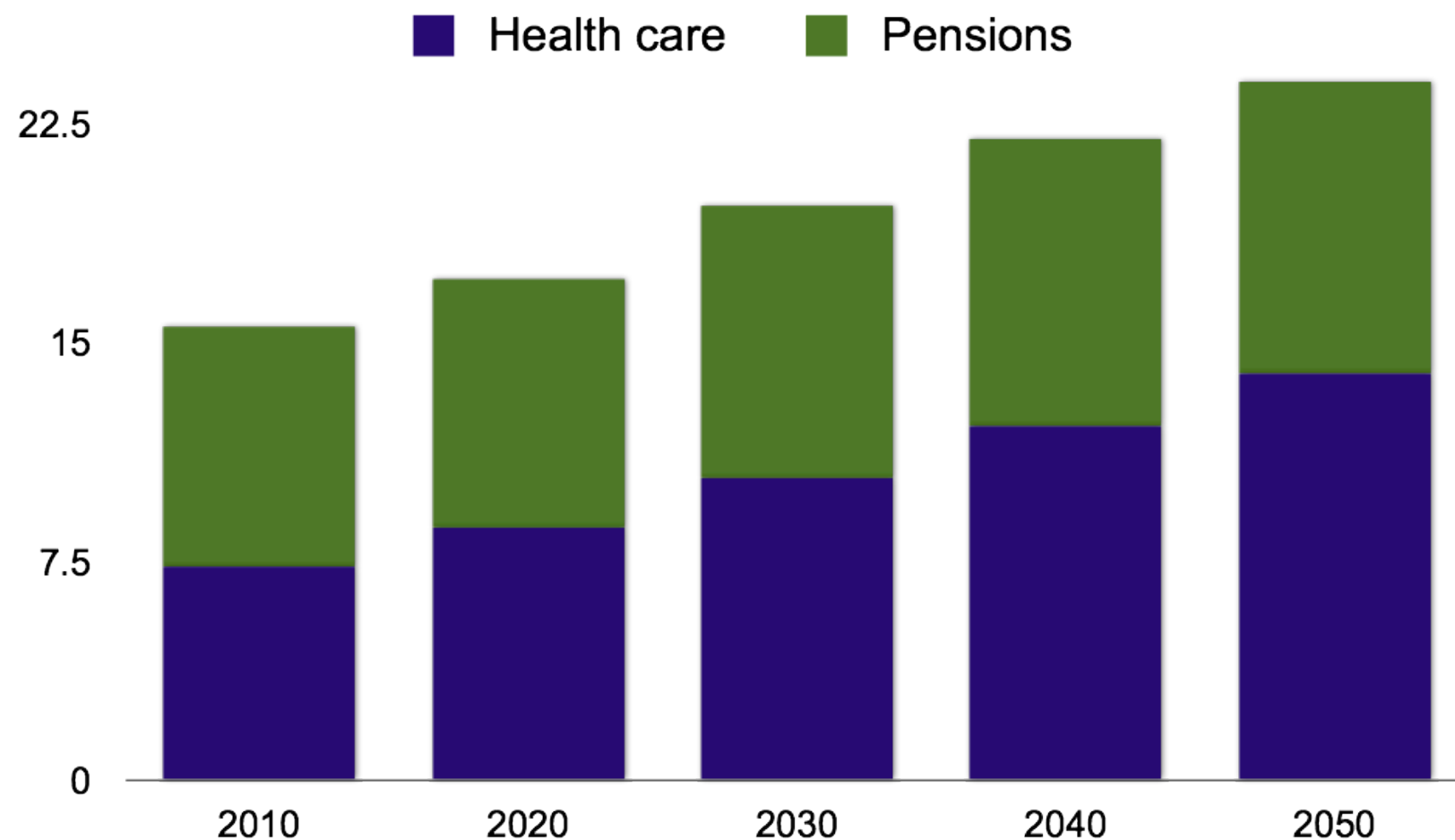
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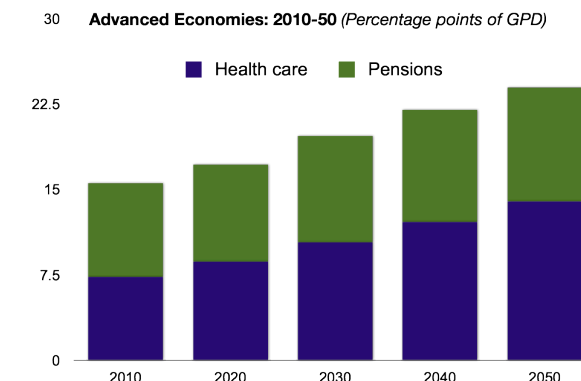
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30 **Advanced Economies: 2010-50** (*Percentage points of GDP*)



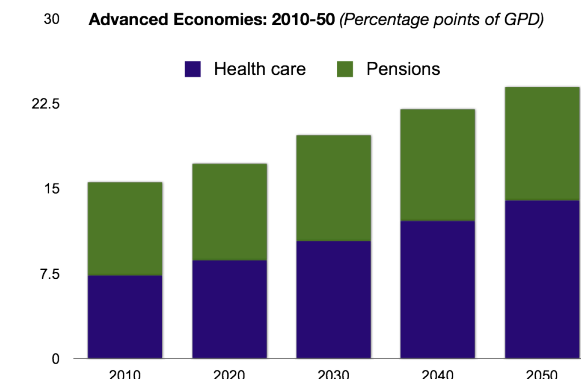
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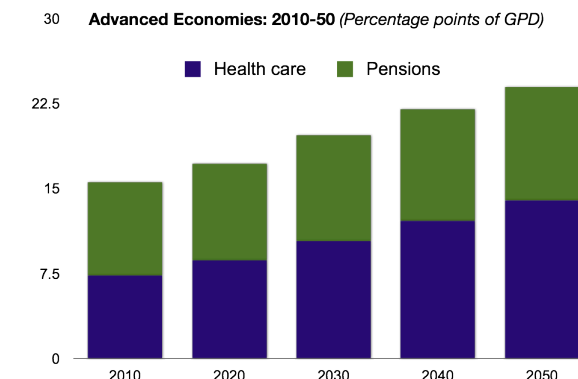
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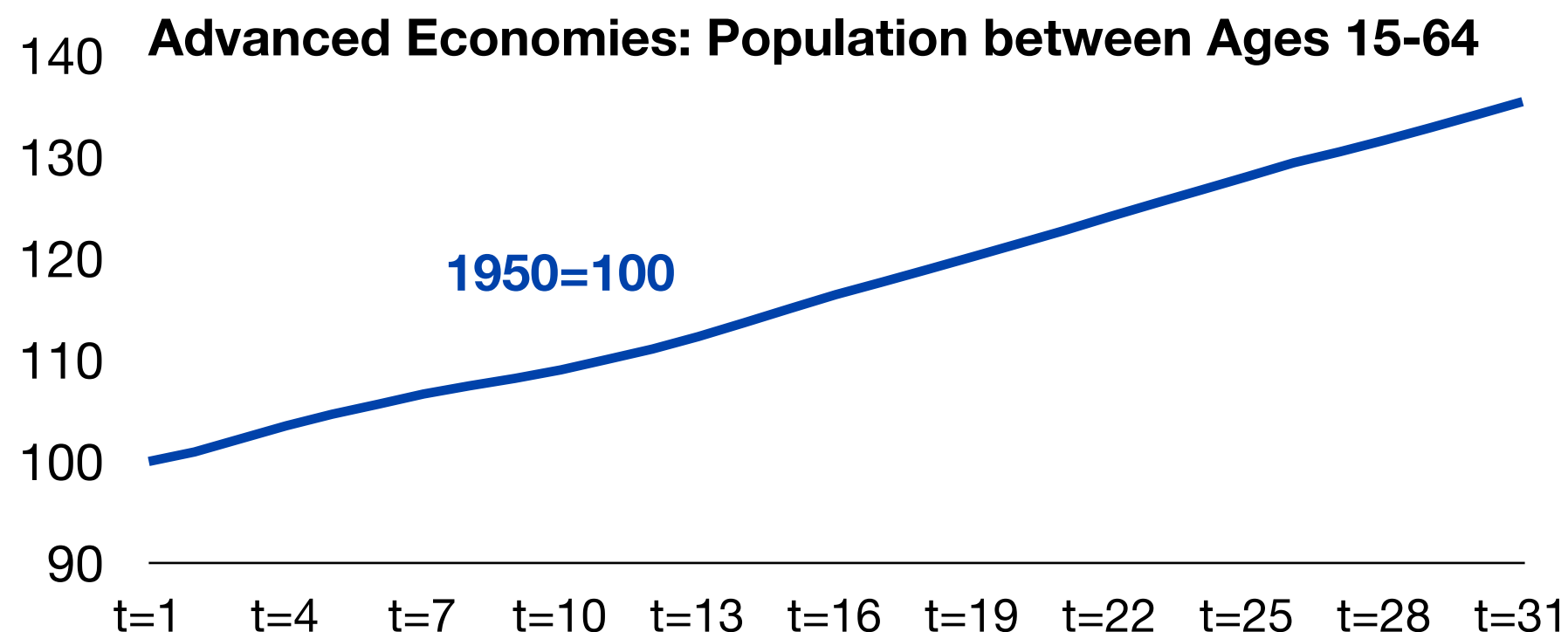
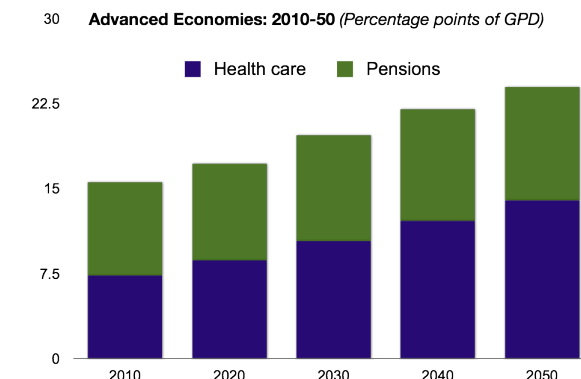
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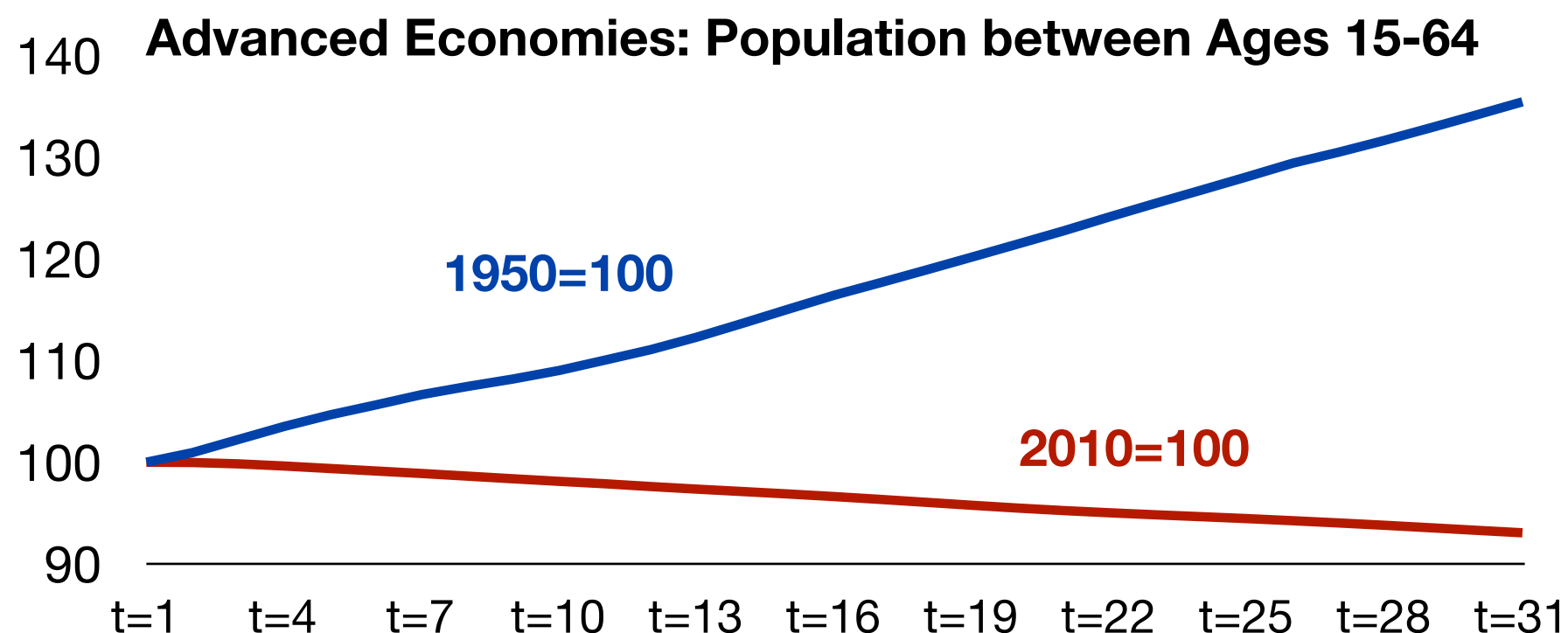
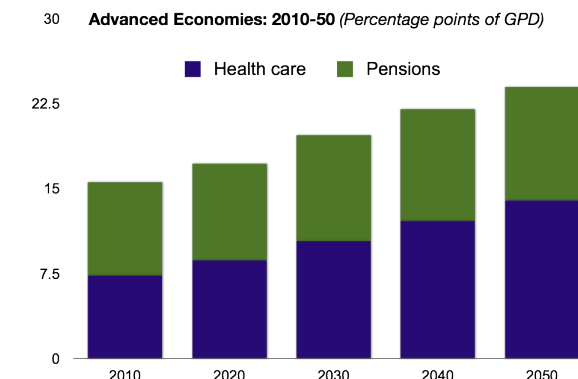
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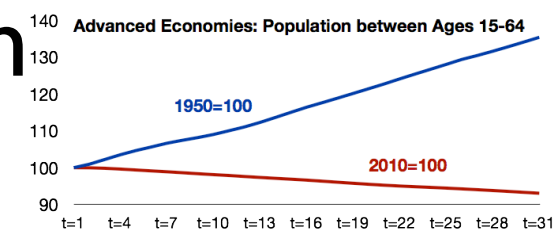
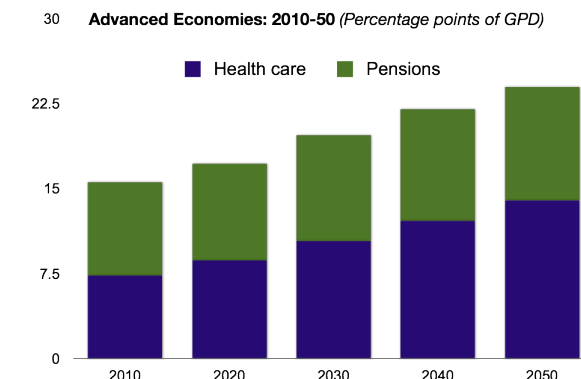
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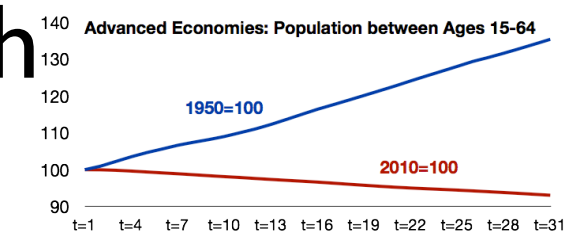
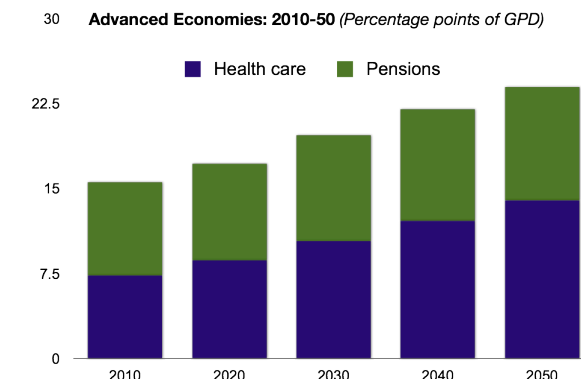
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- Financial sector in most advanced economies was repressed



25 Advanced Economies



Advanced Economies: Three country groups

Group 1



Group 3

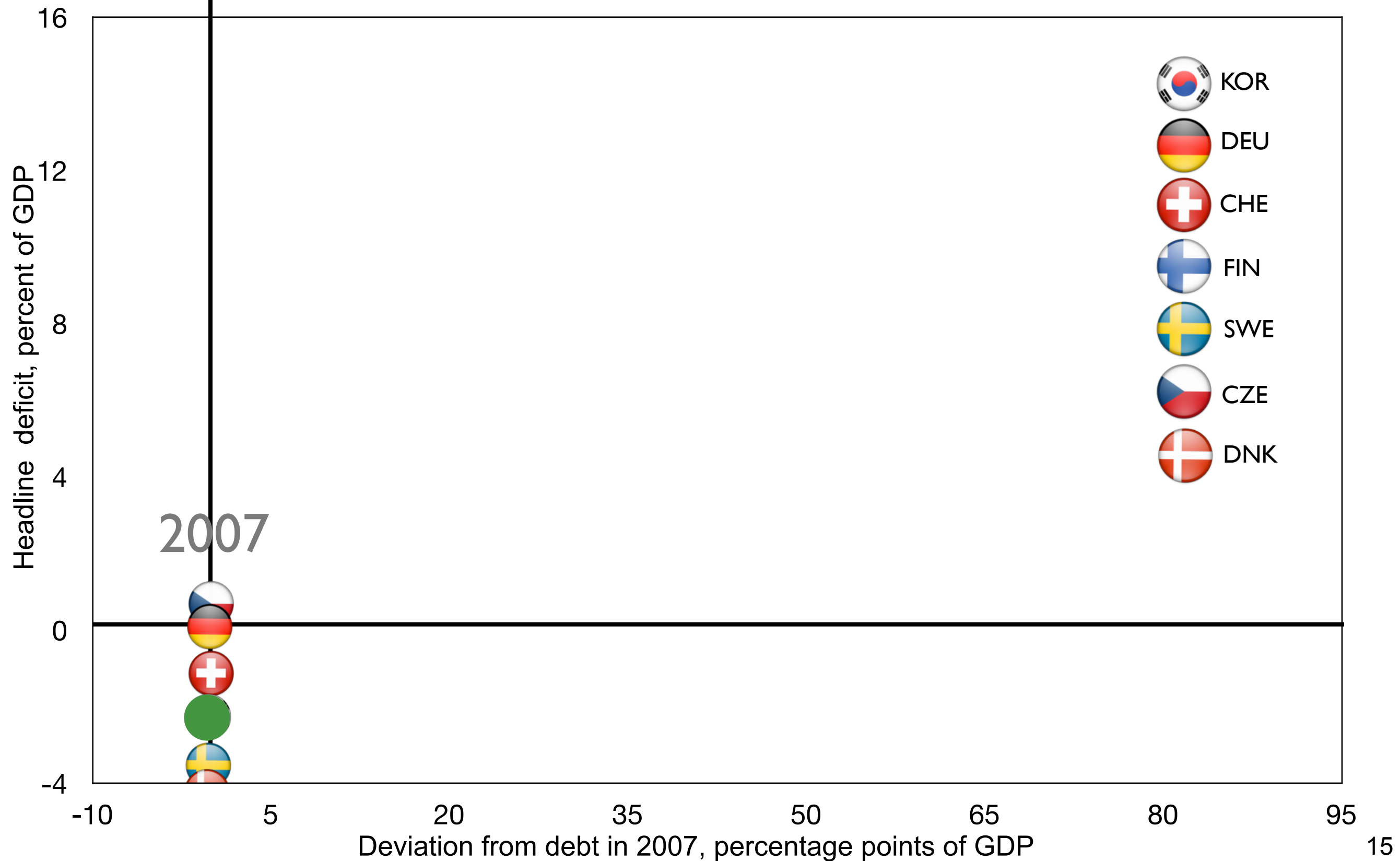


Group 2



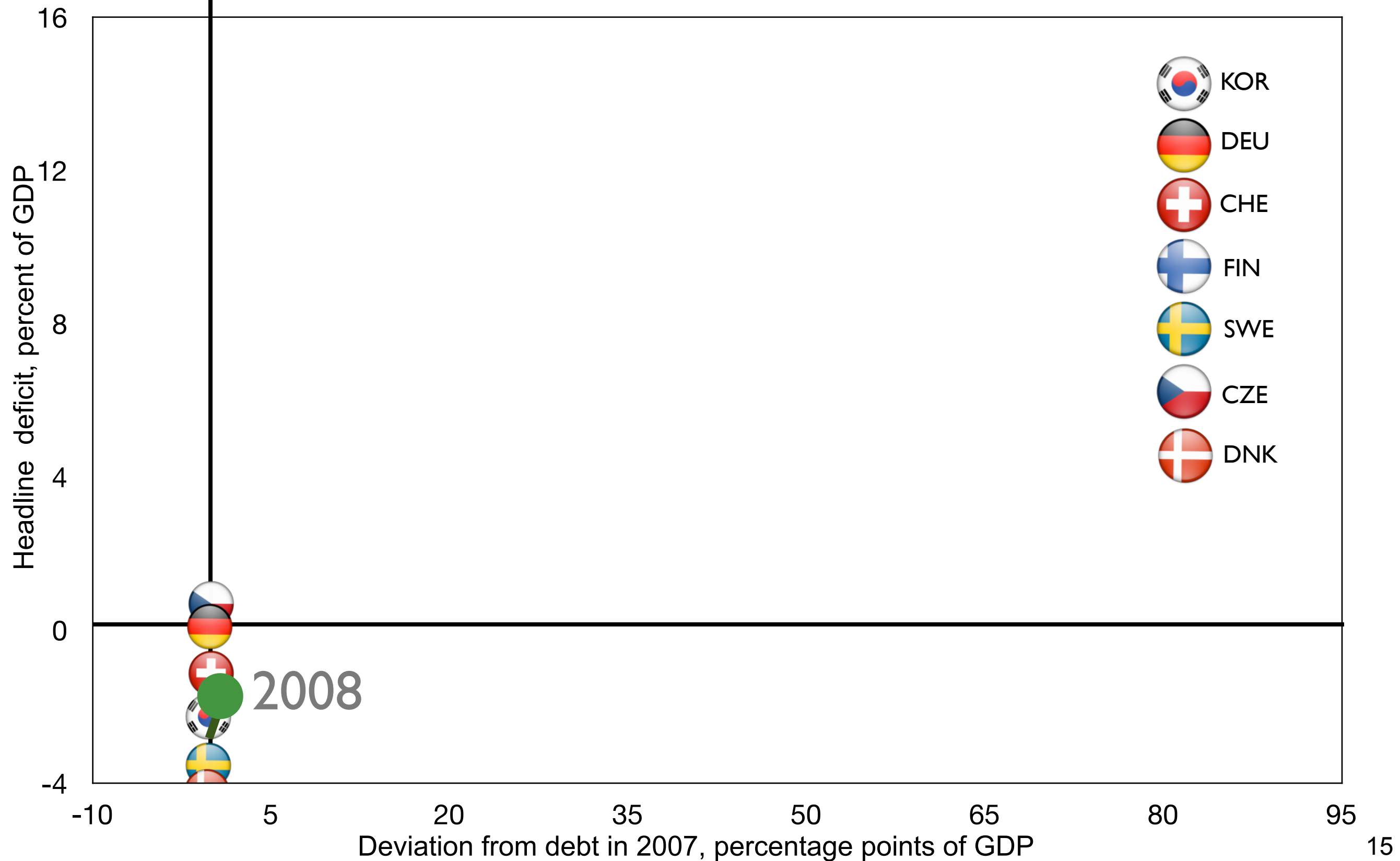
Group 1: Declining or stable debt

(General Government)



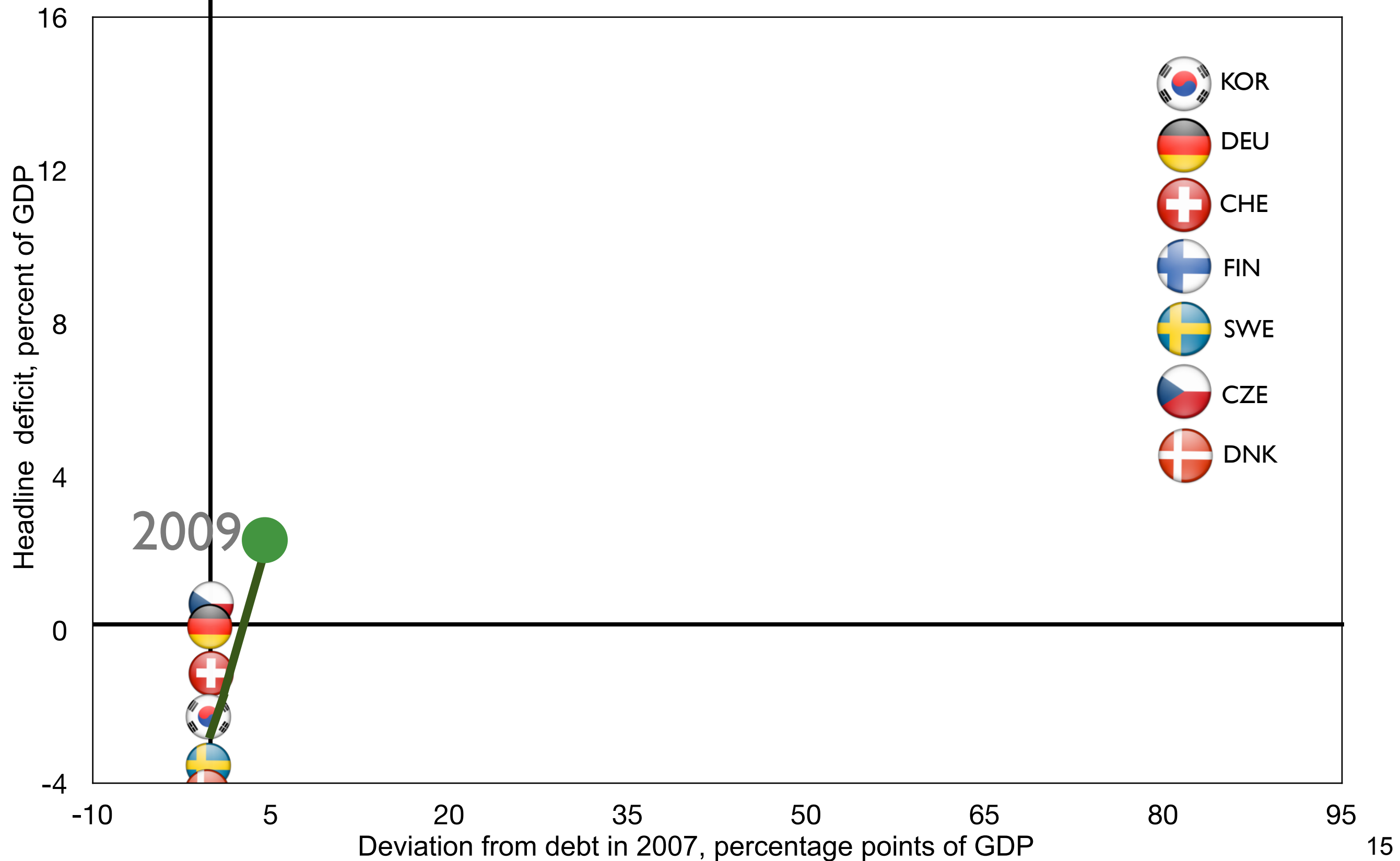
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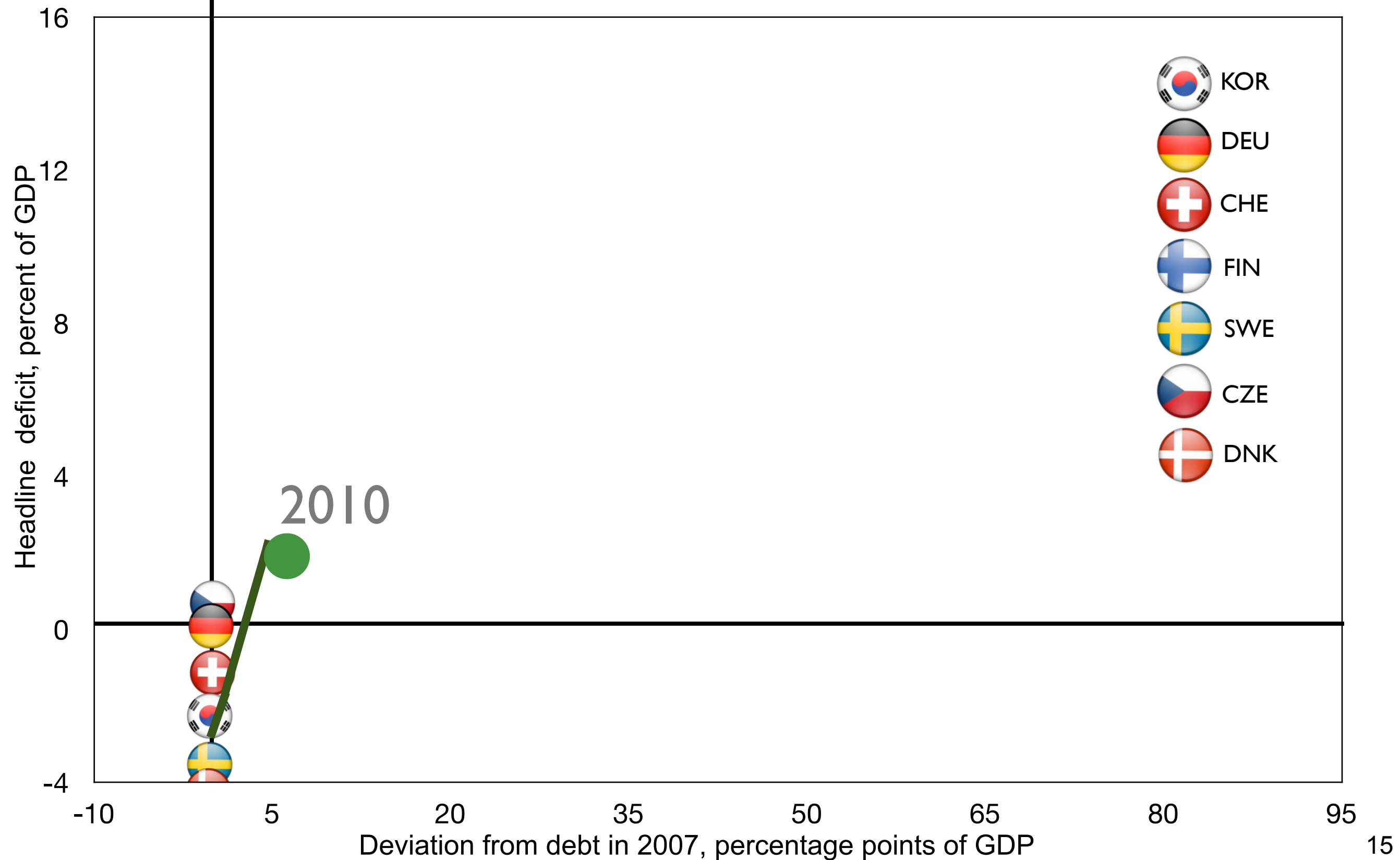
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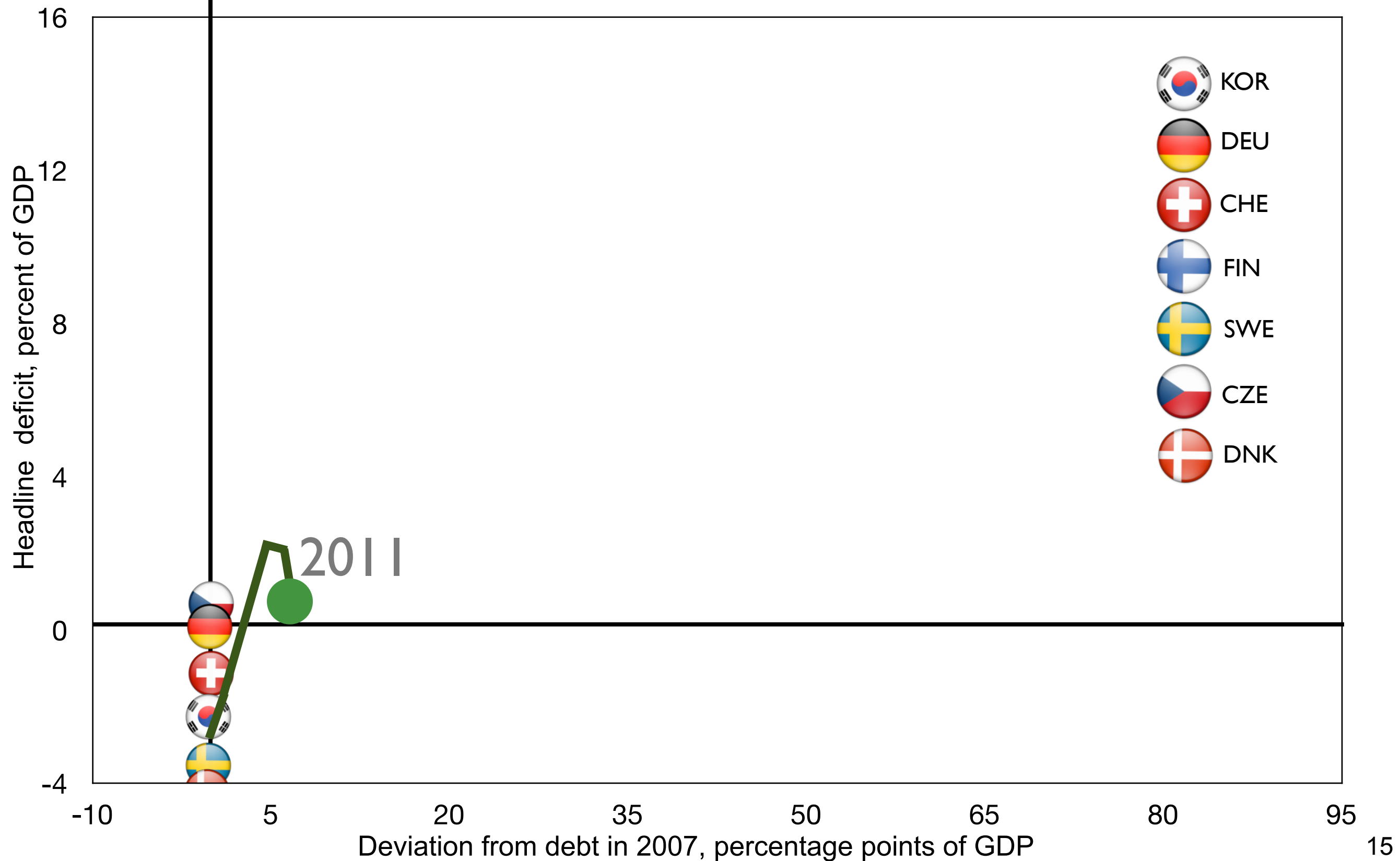
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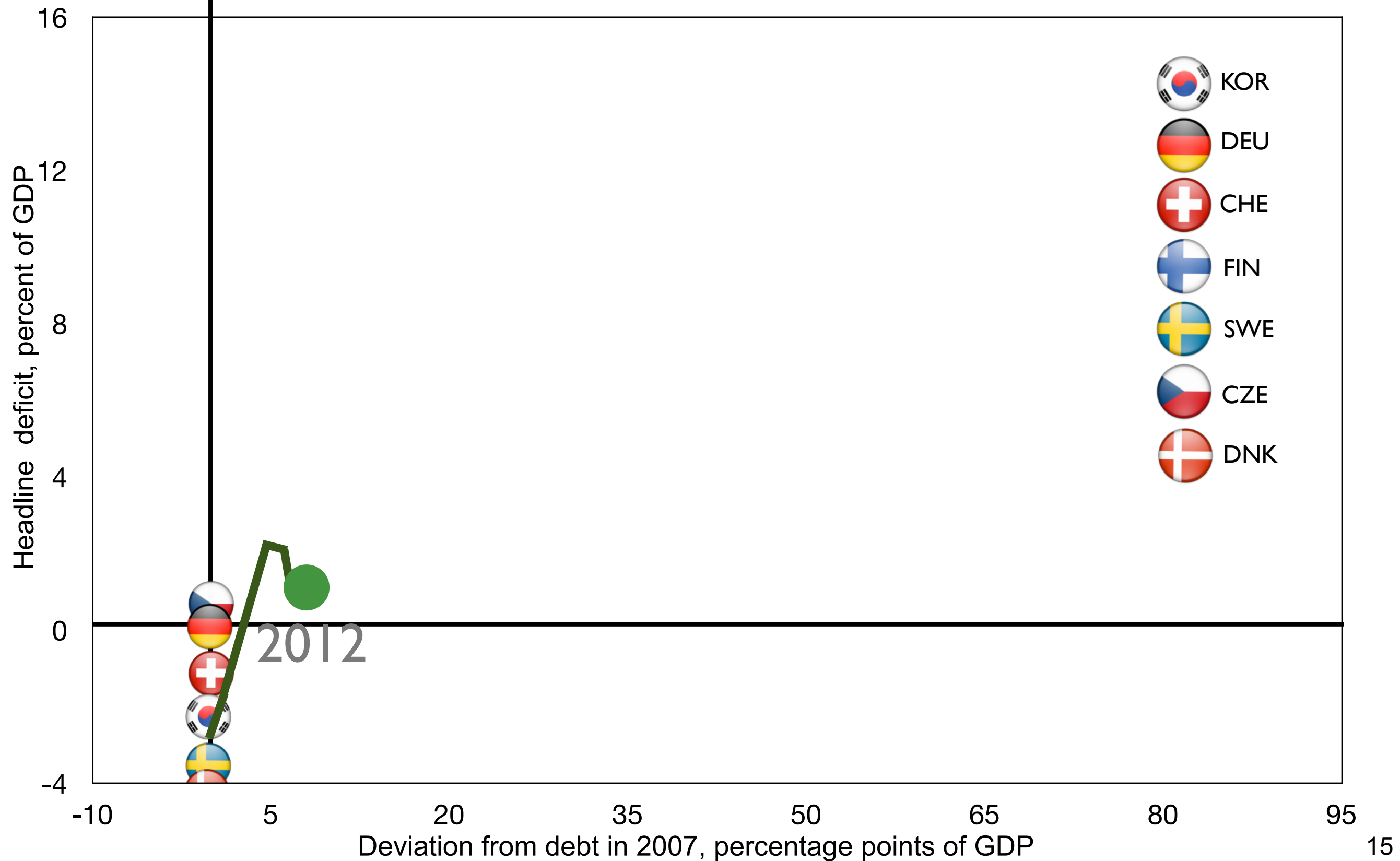
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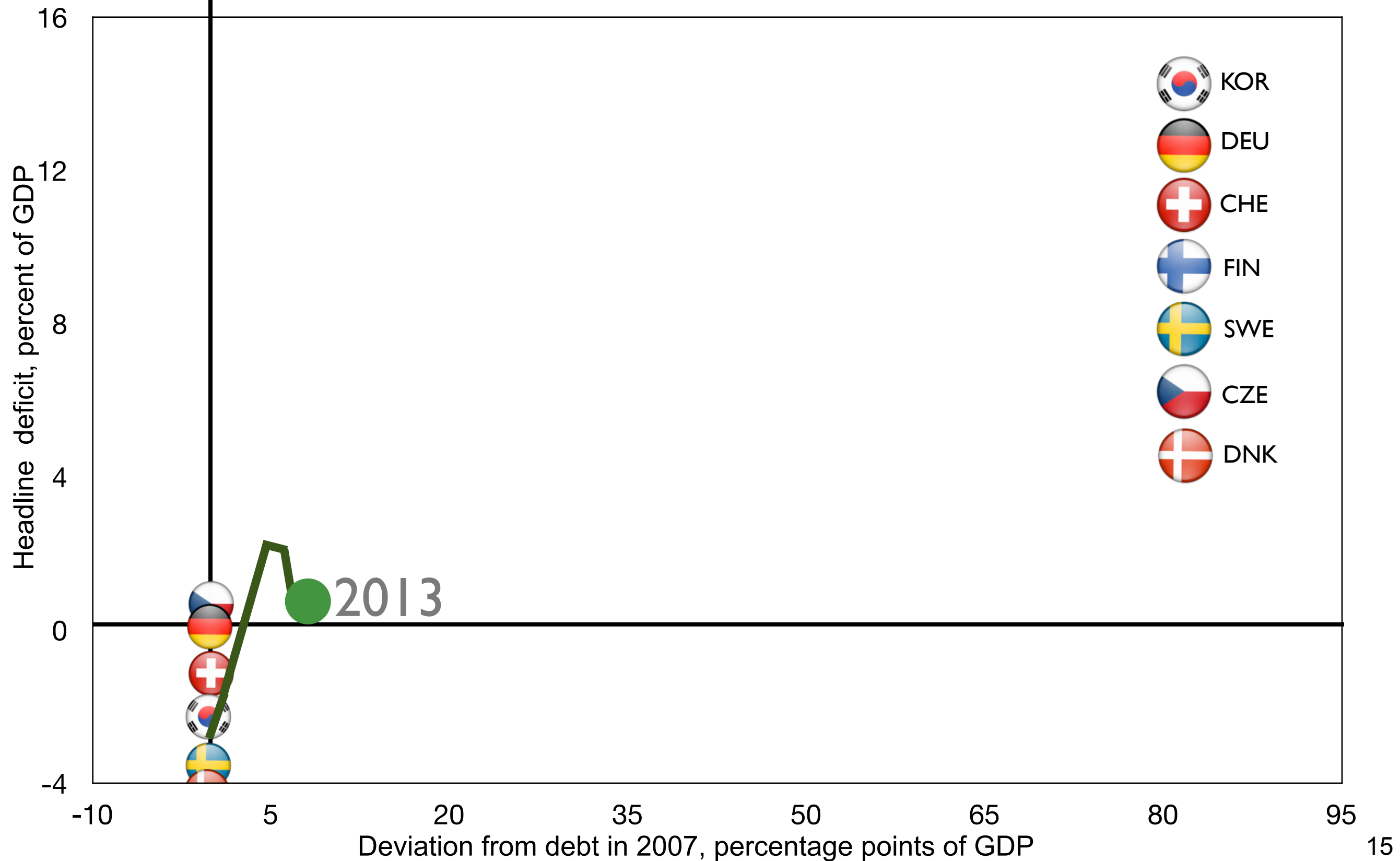
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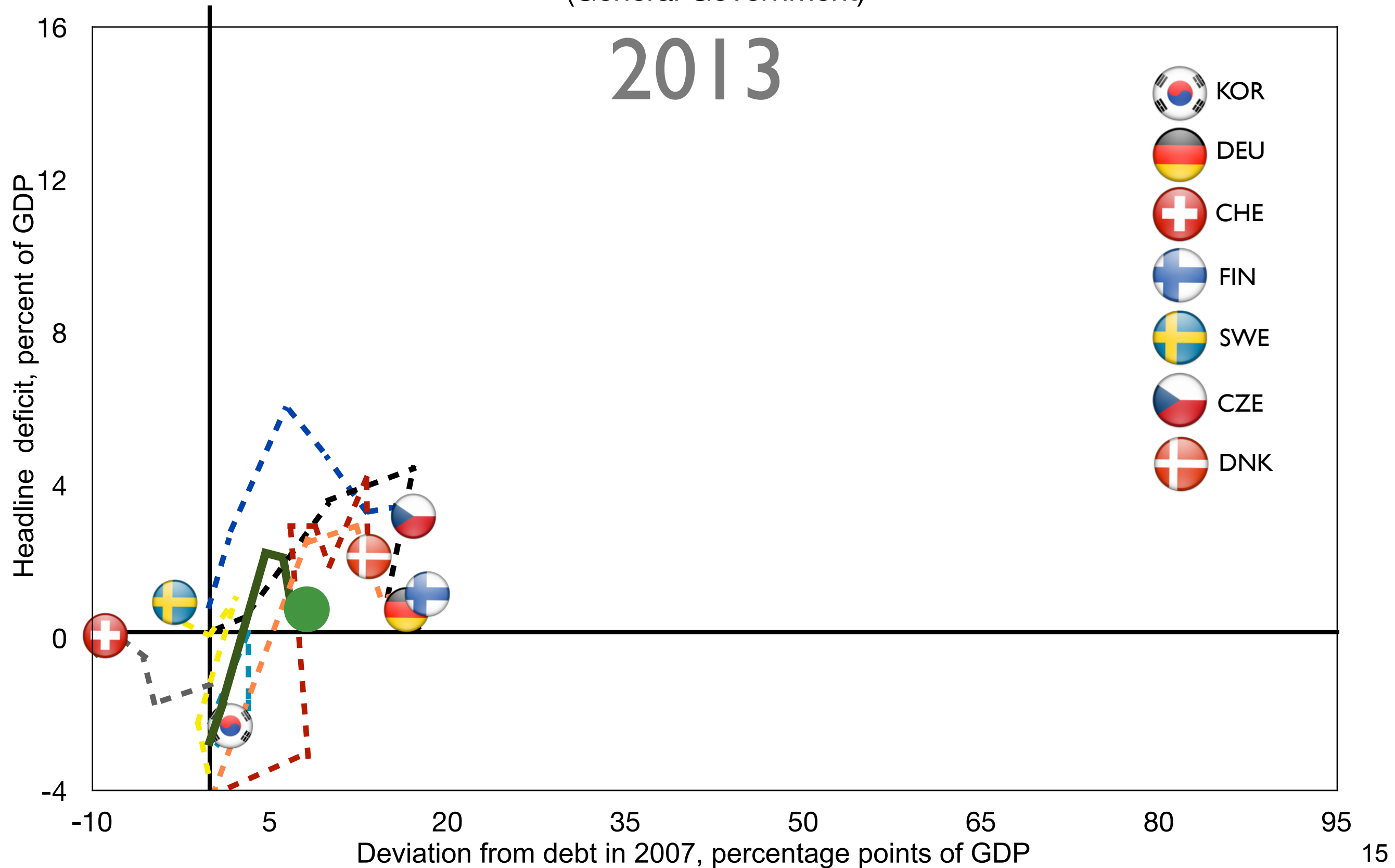
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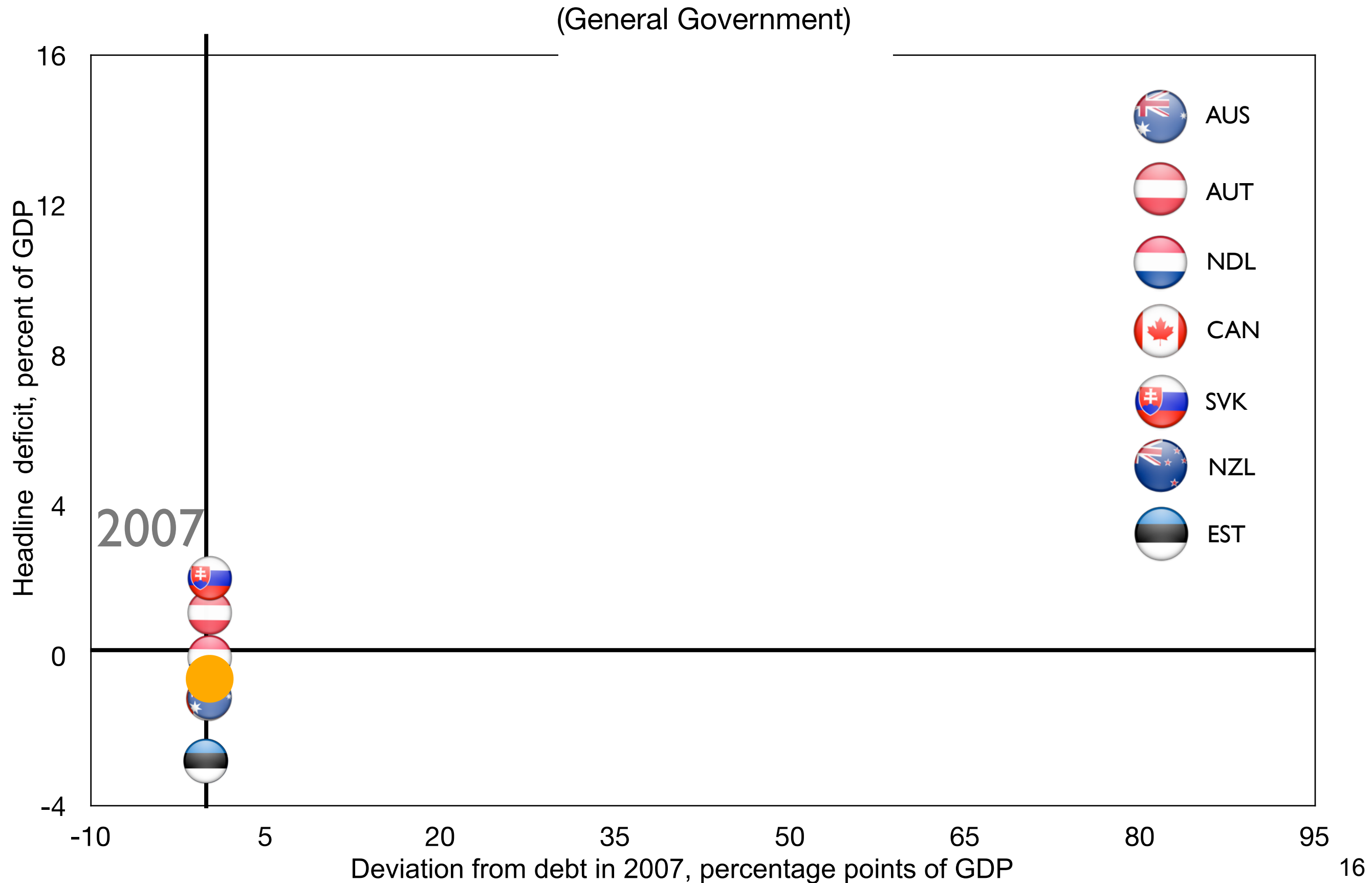


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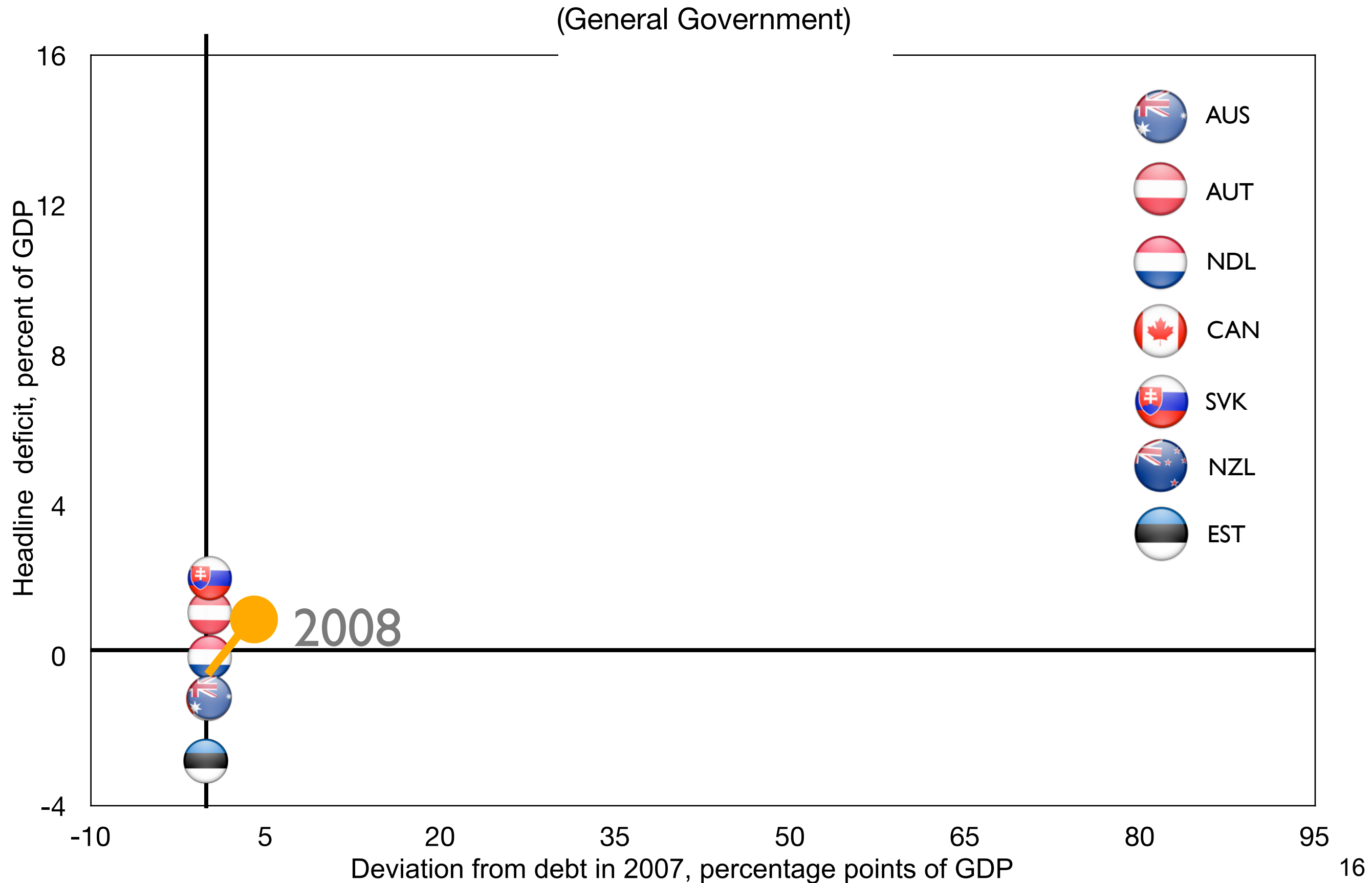
(General Government)



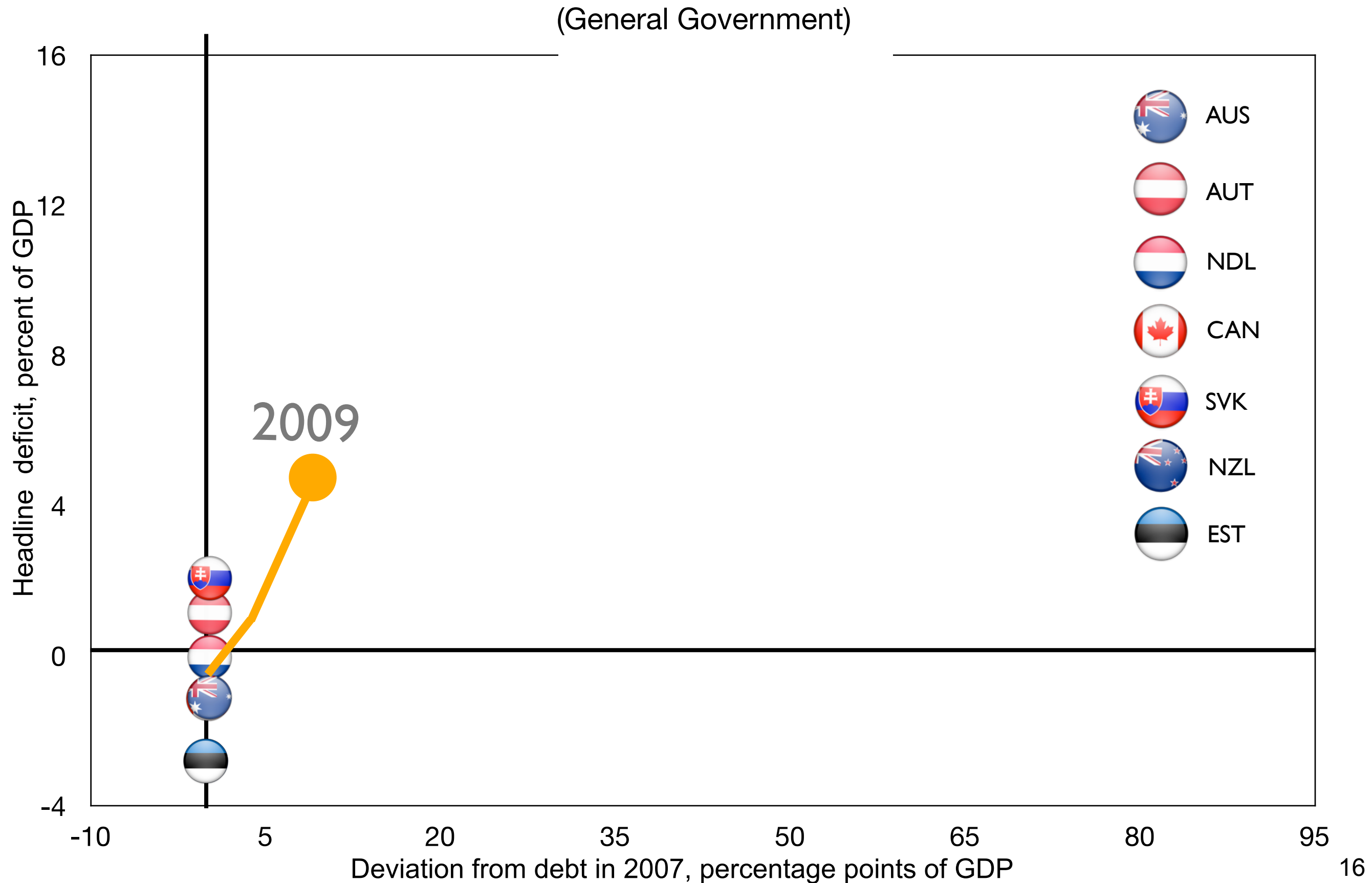
Group 2: Some small increase in debt at relatively low levels



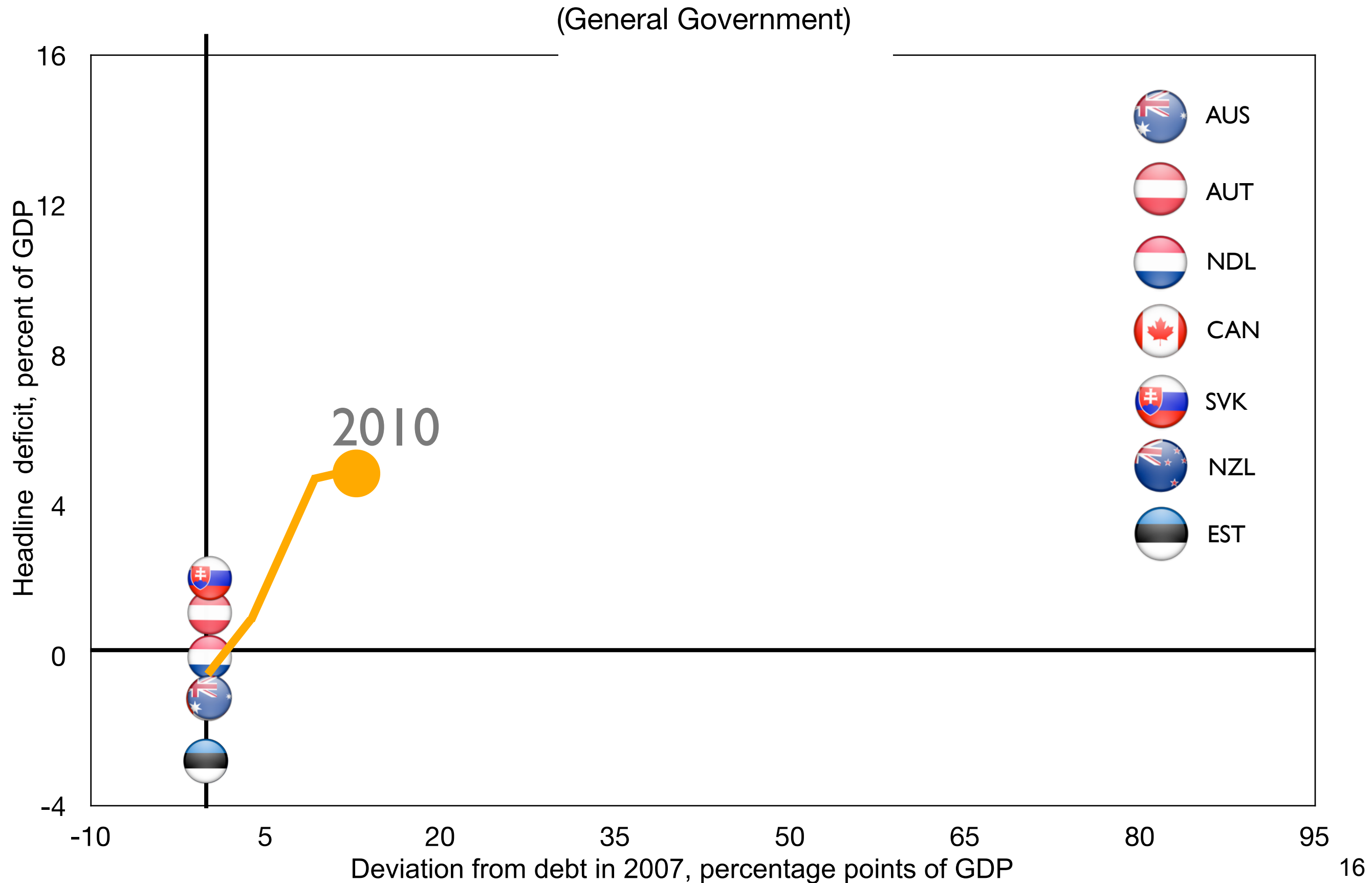
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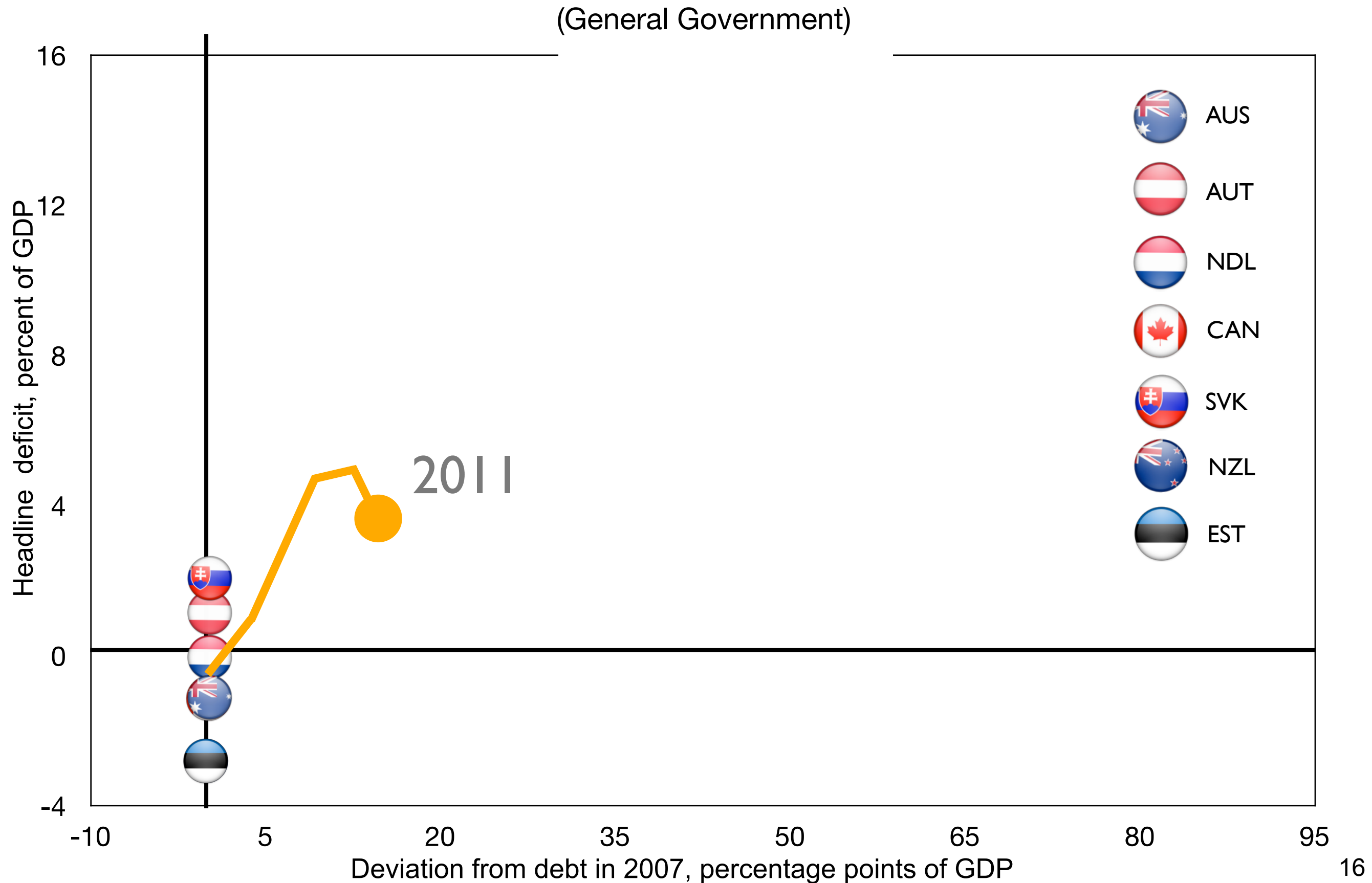
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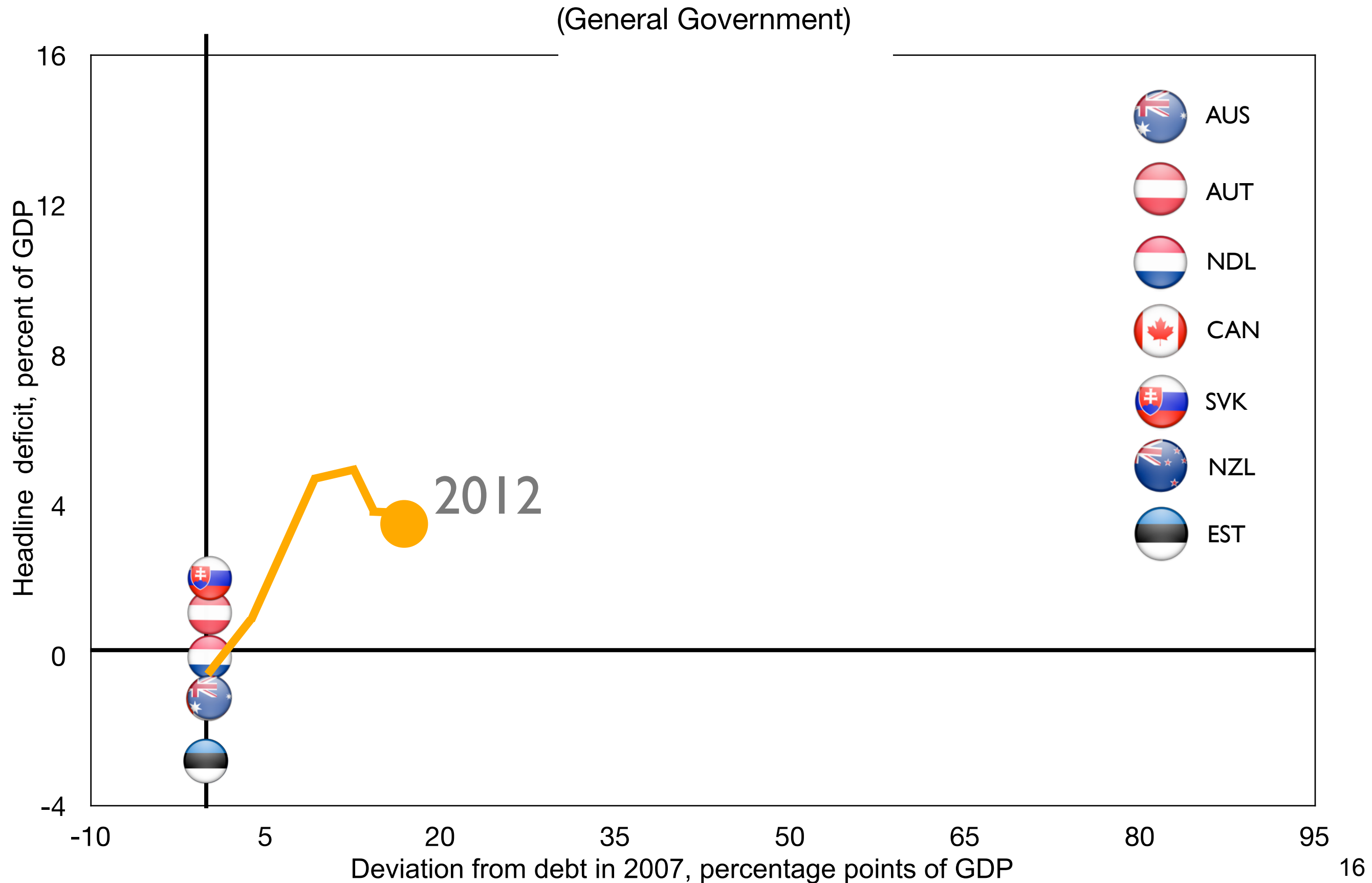
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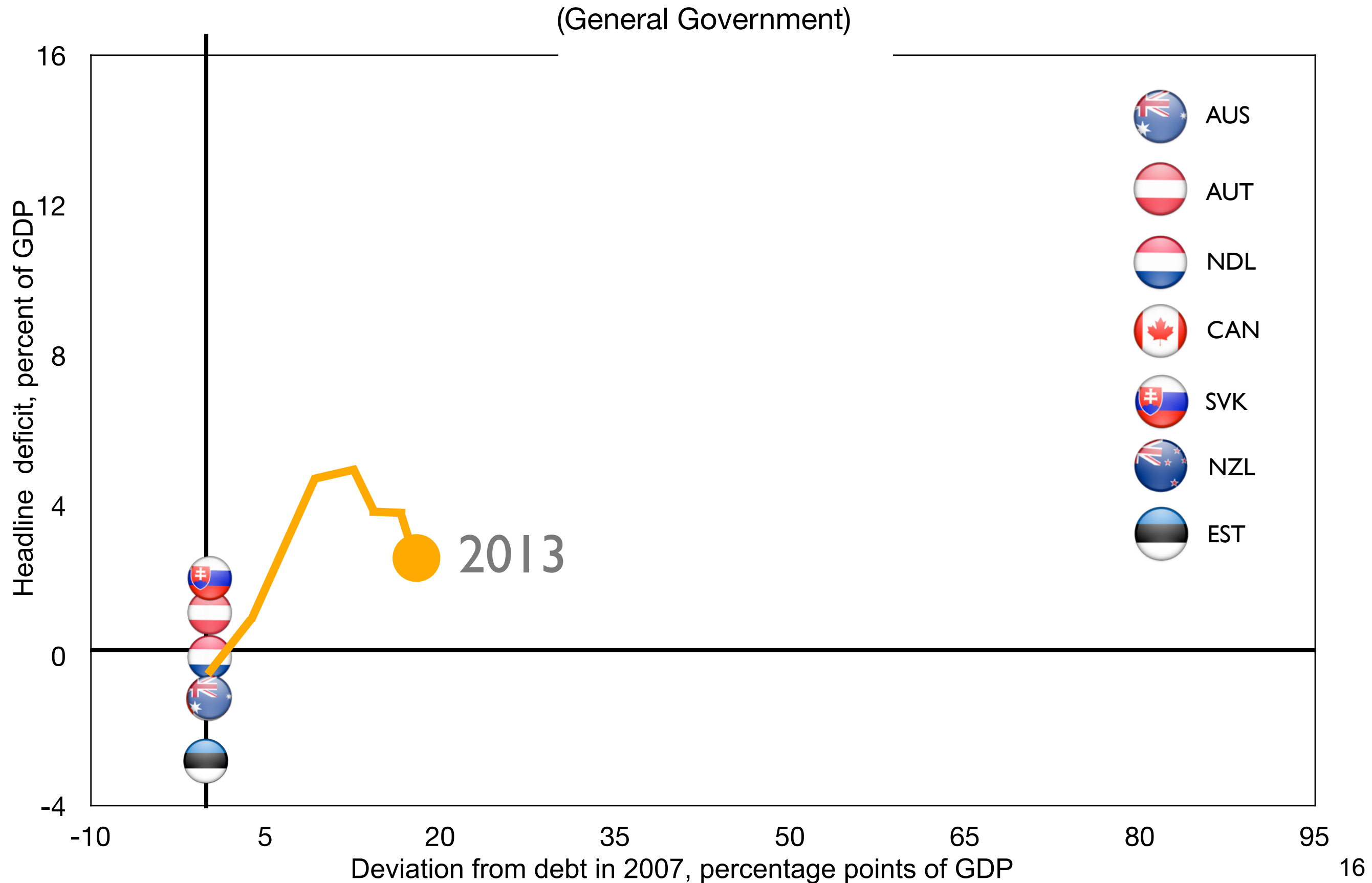
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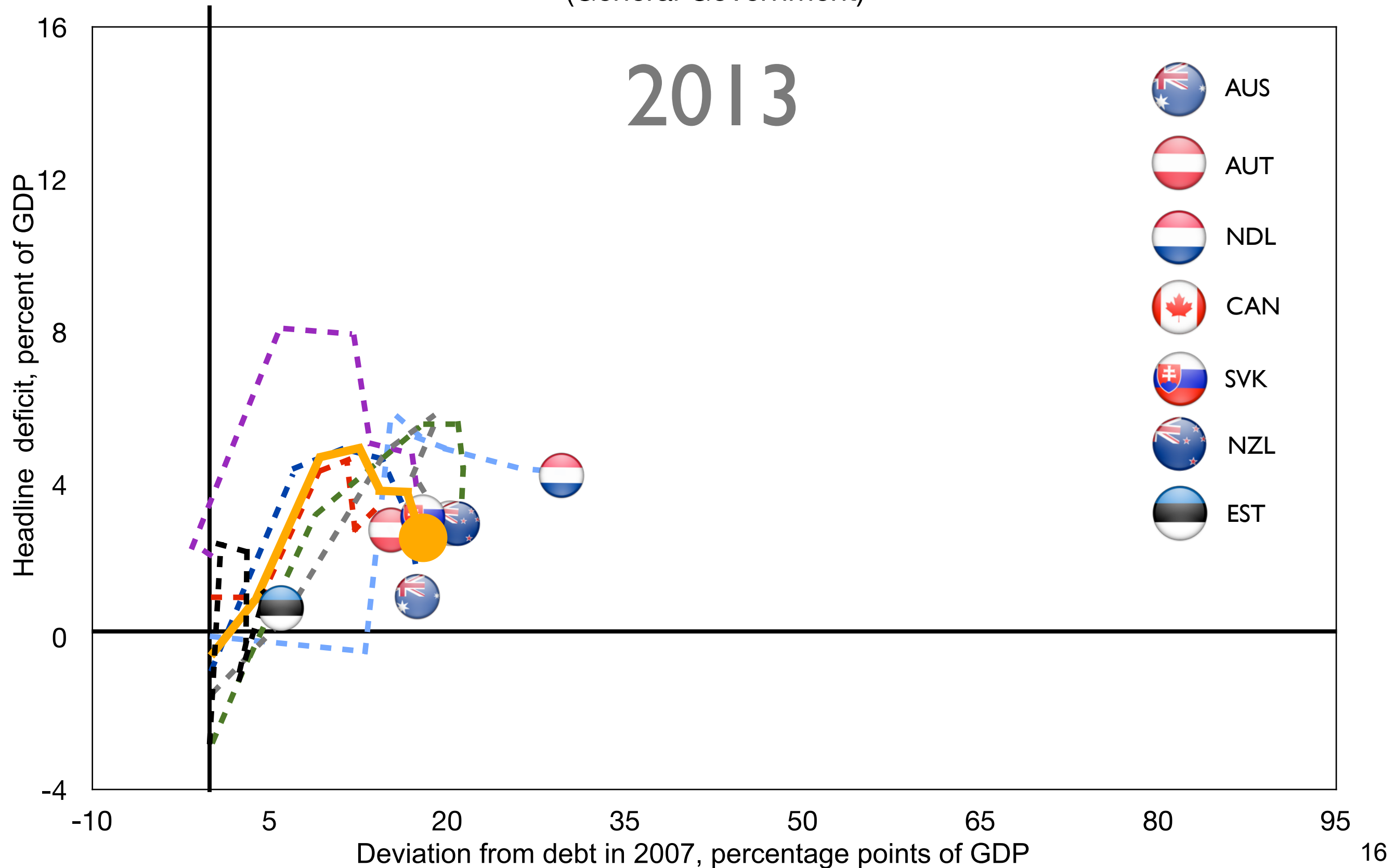


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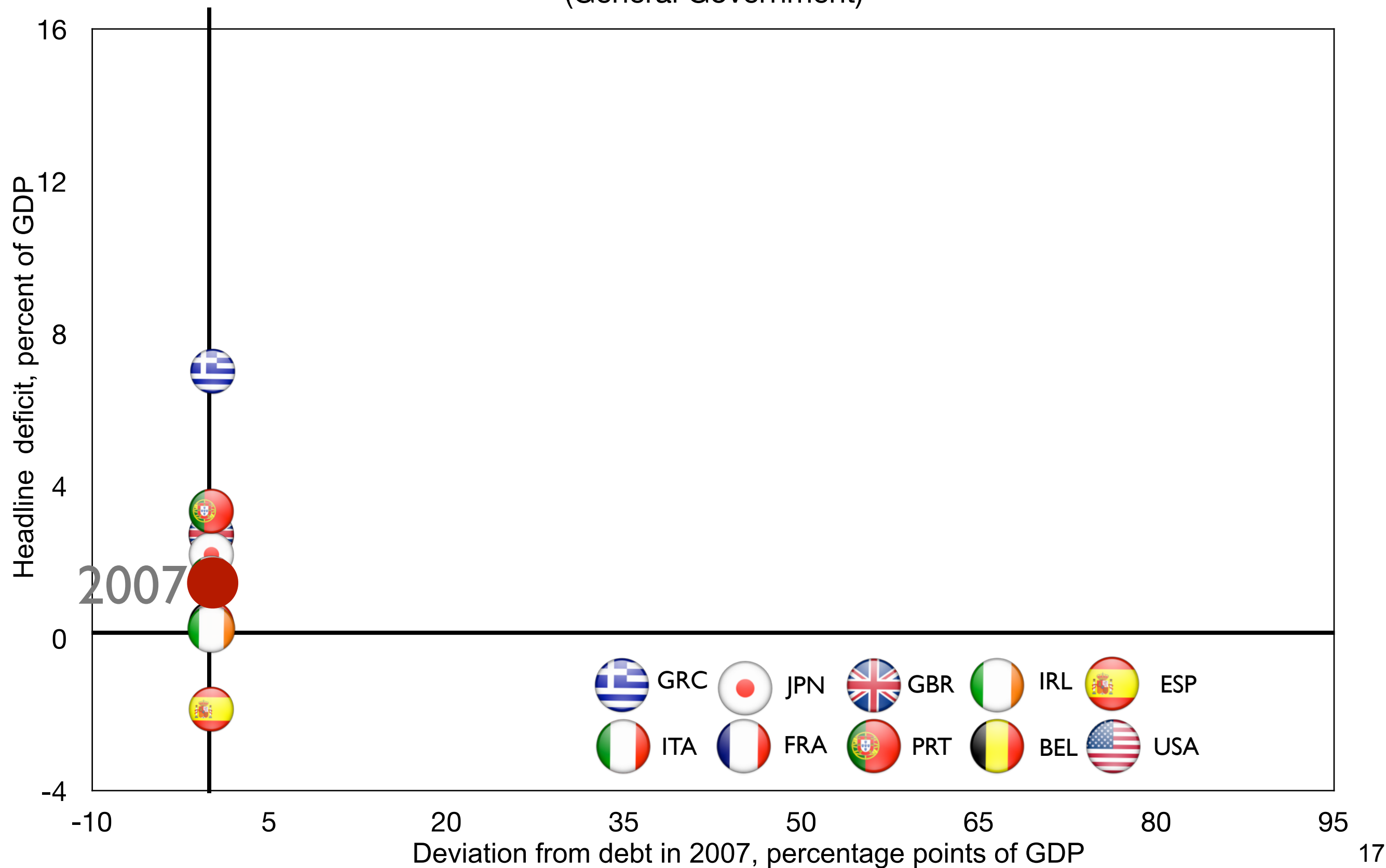
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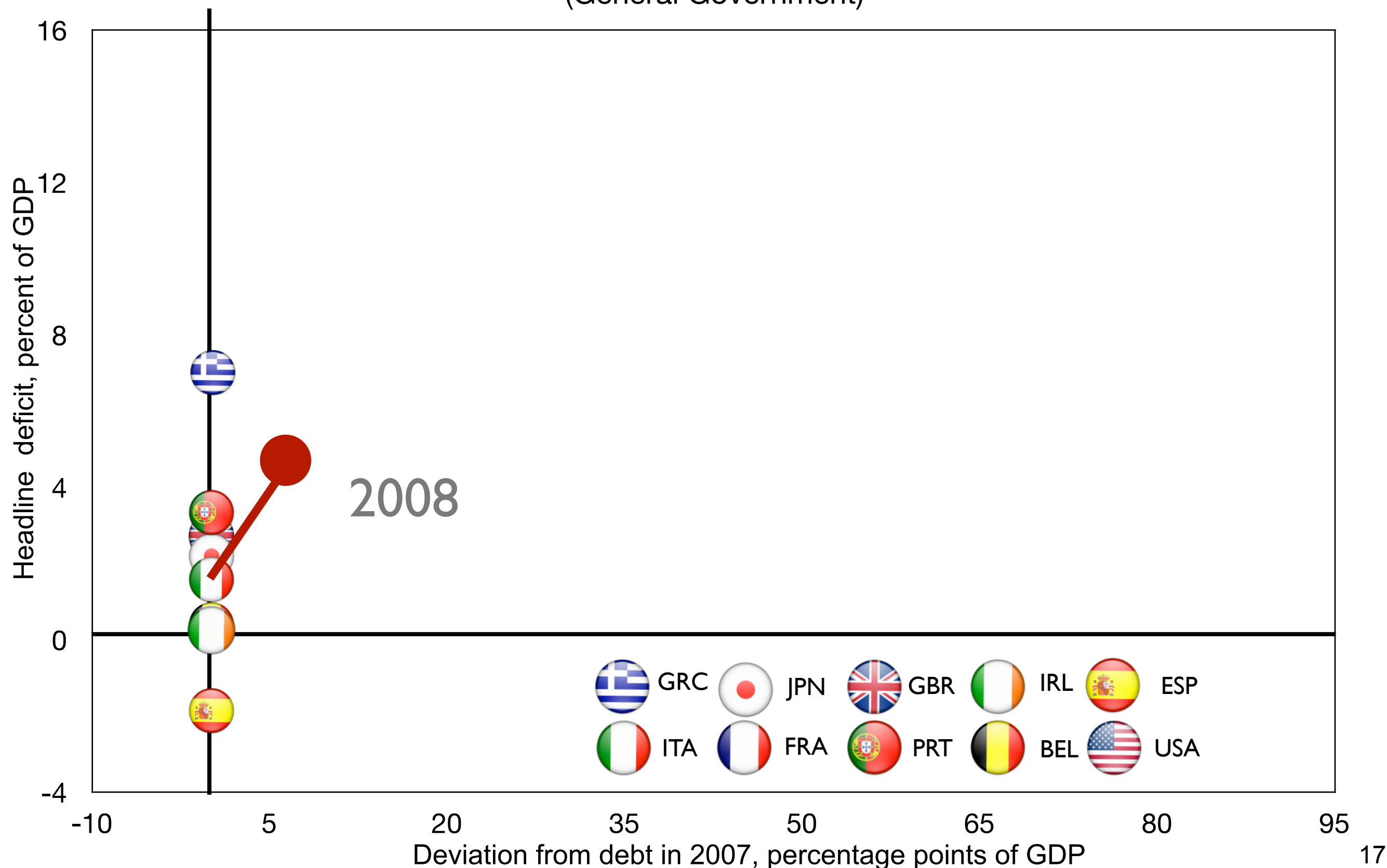
Group 3: Debt higher than 90 percent of GDP and rising

(General Government)



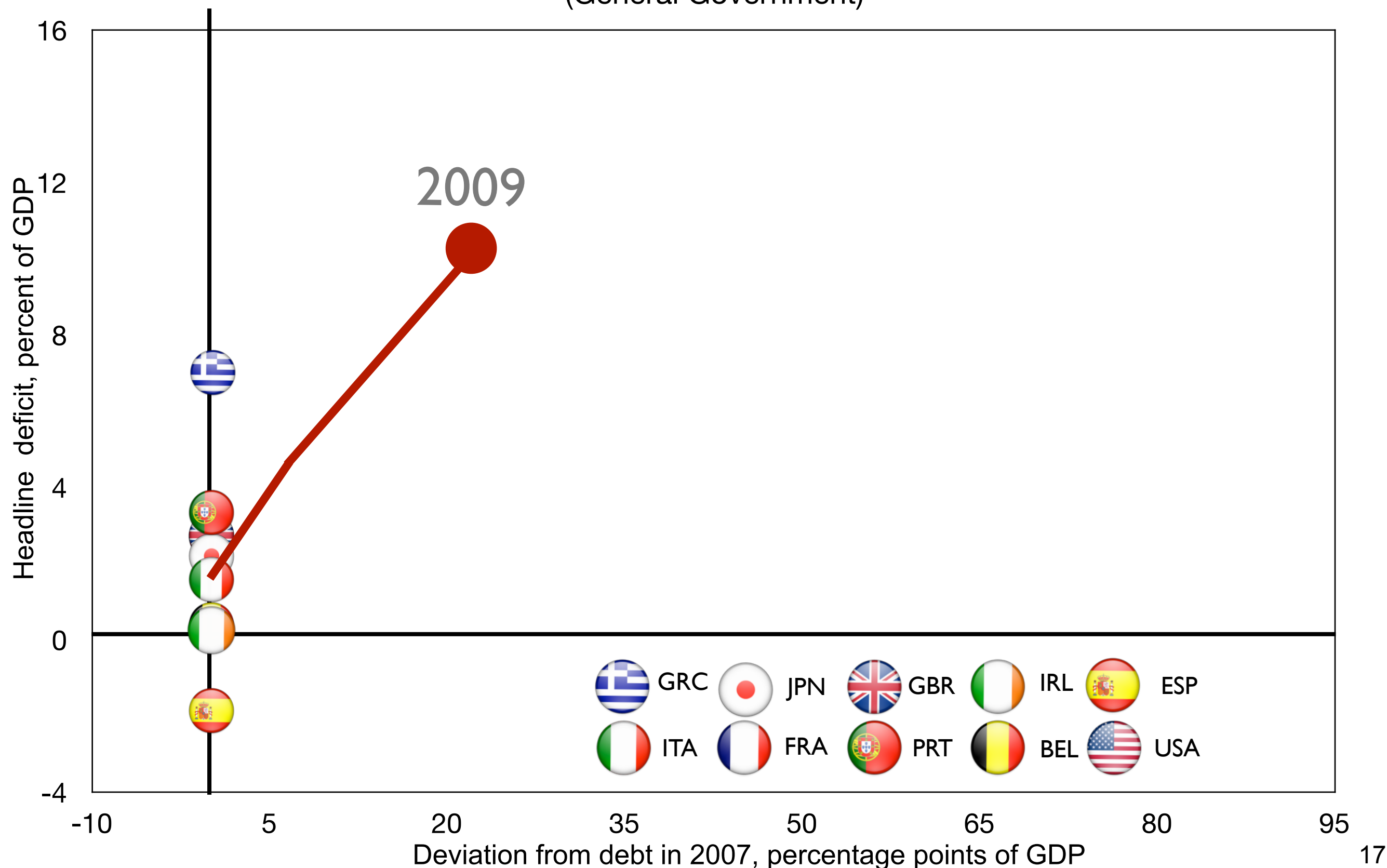
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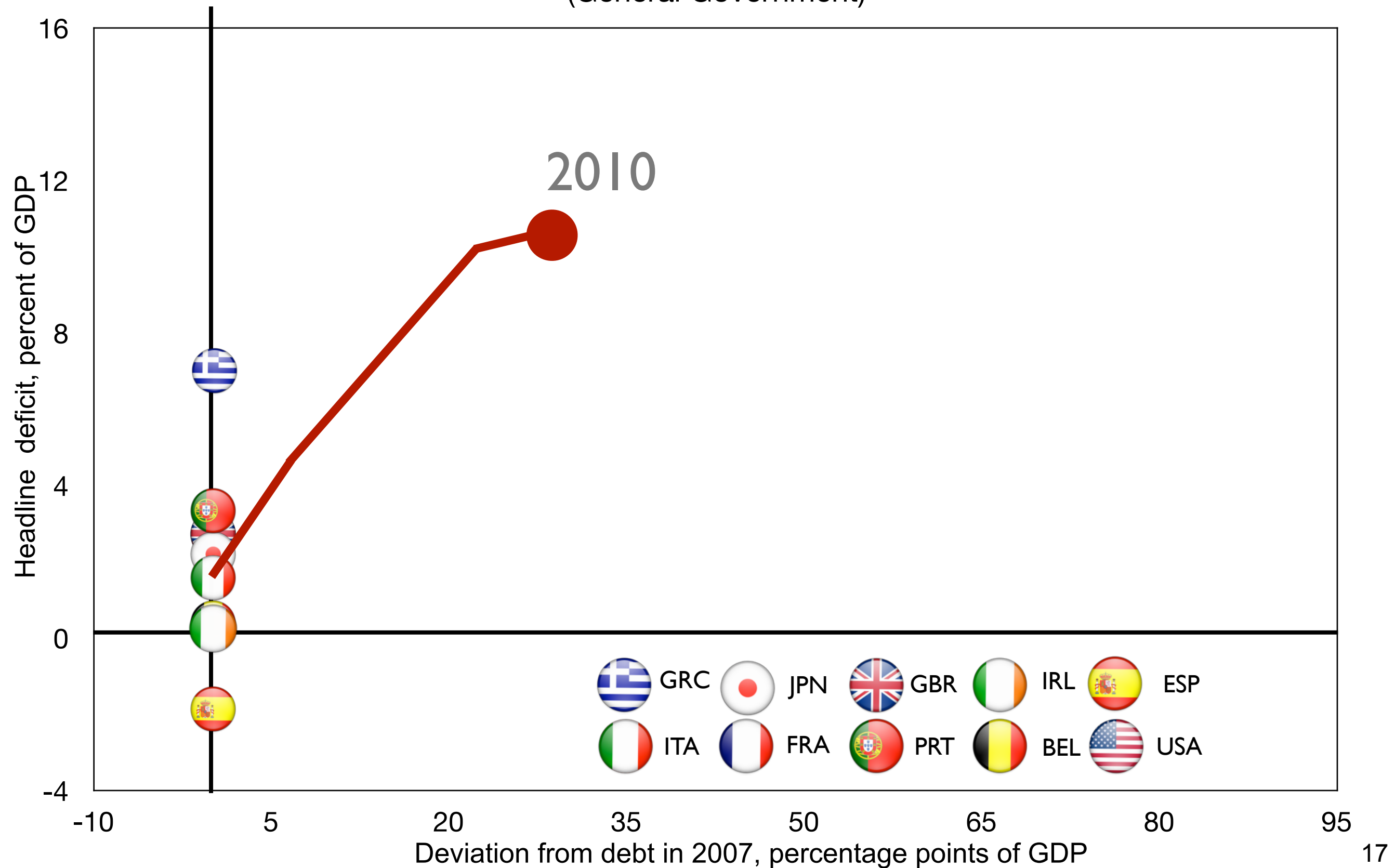
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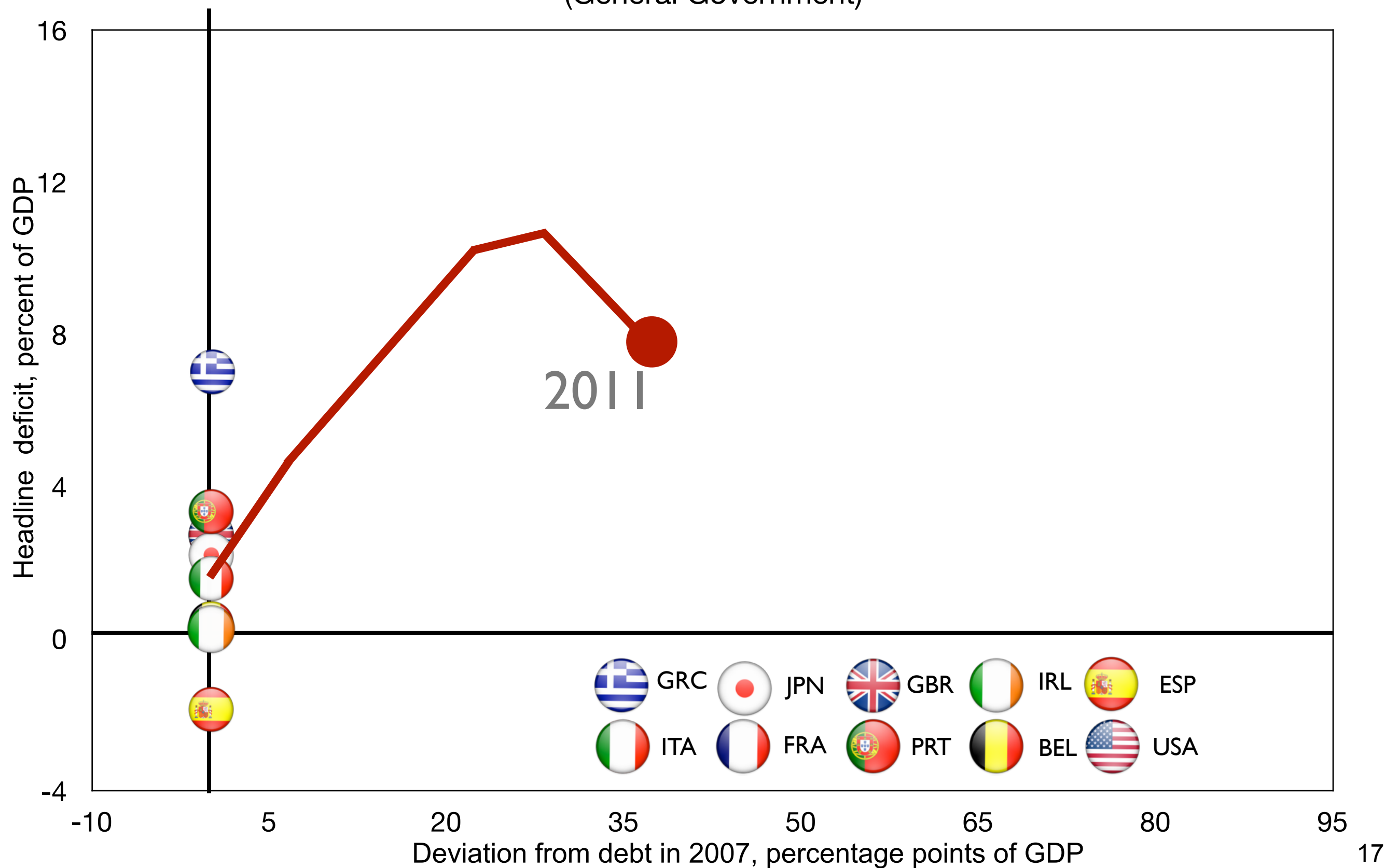
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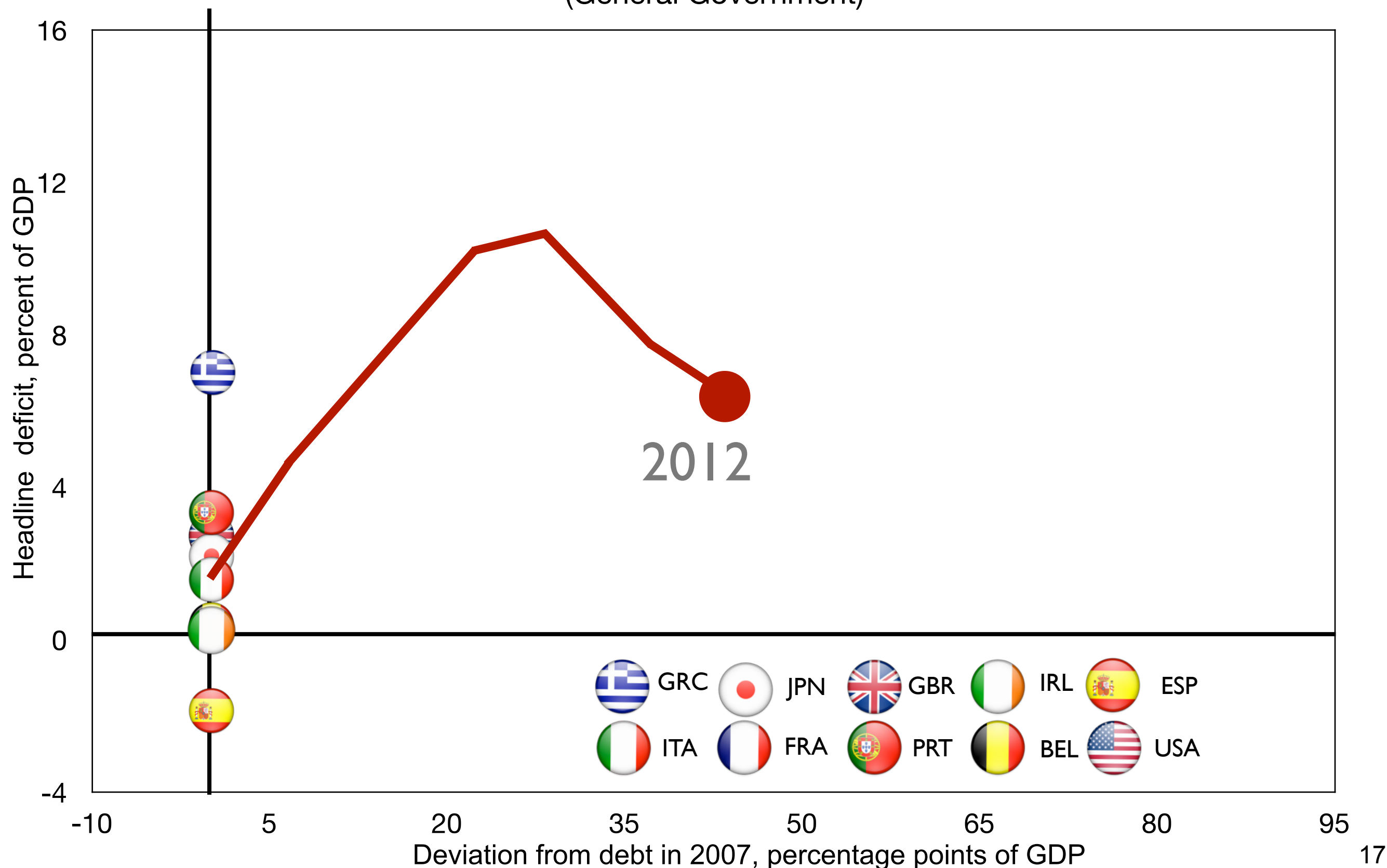
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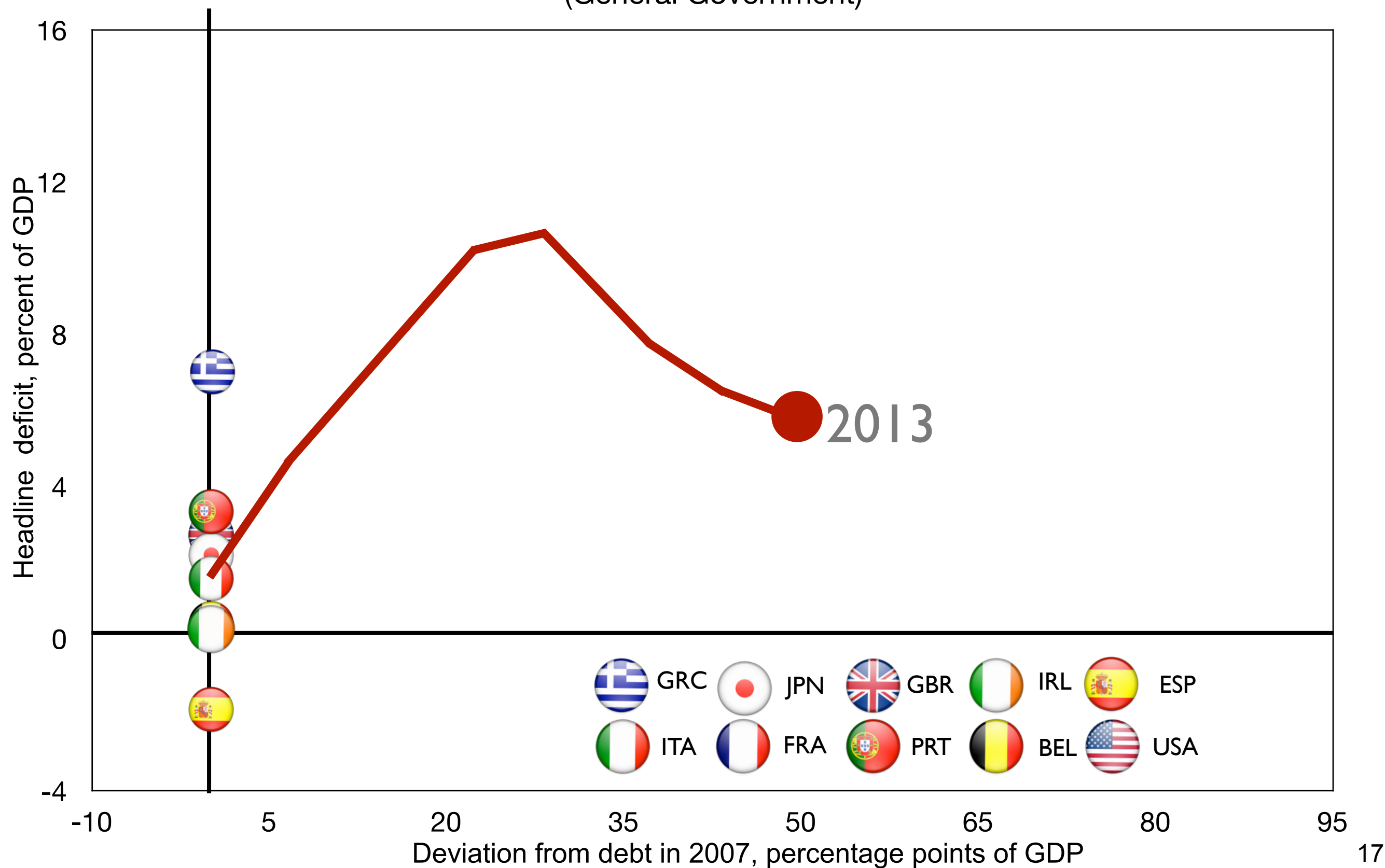
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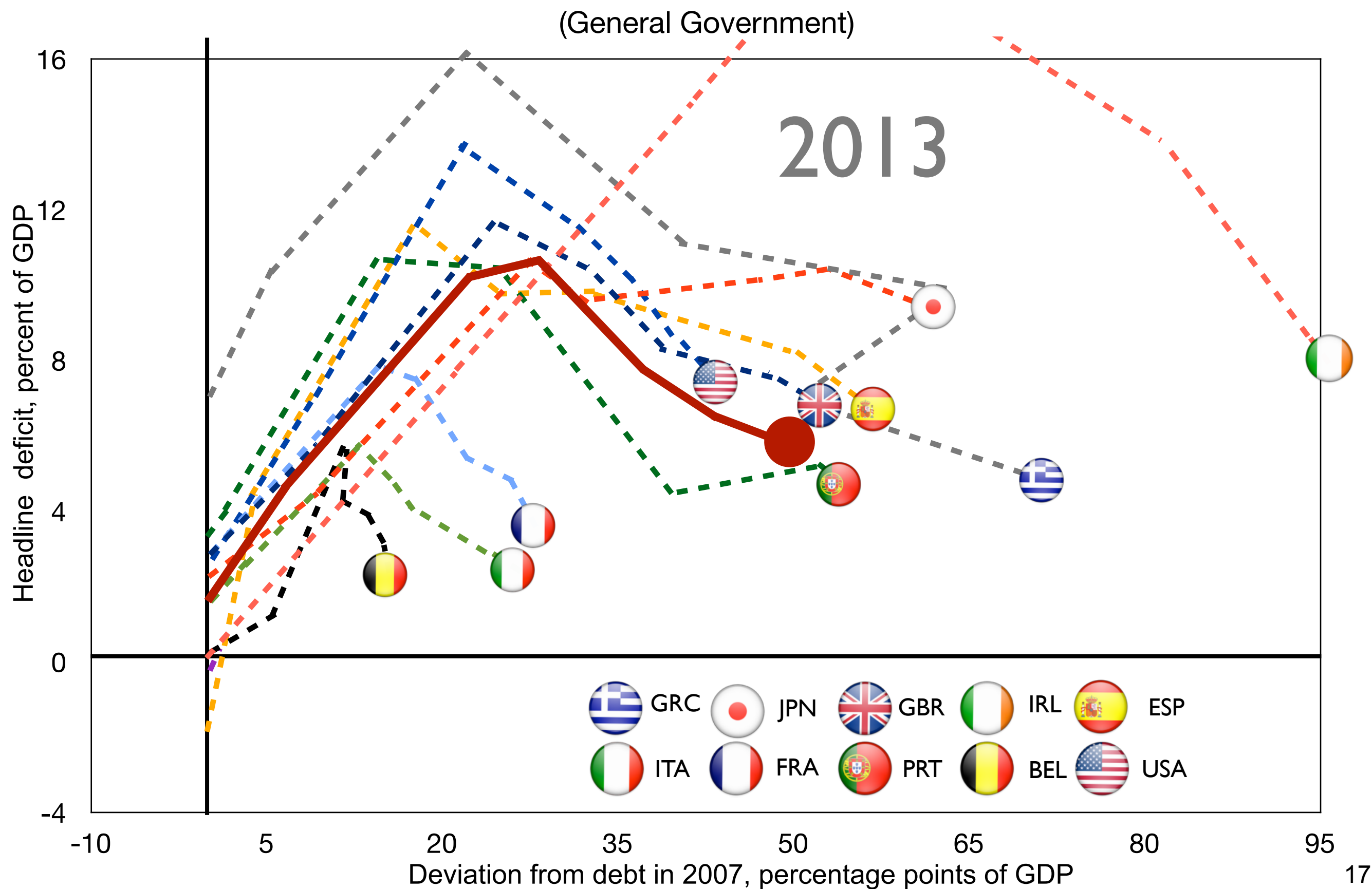


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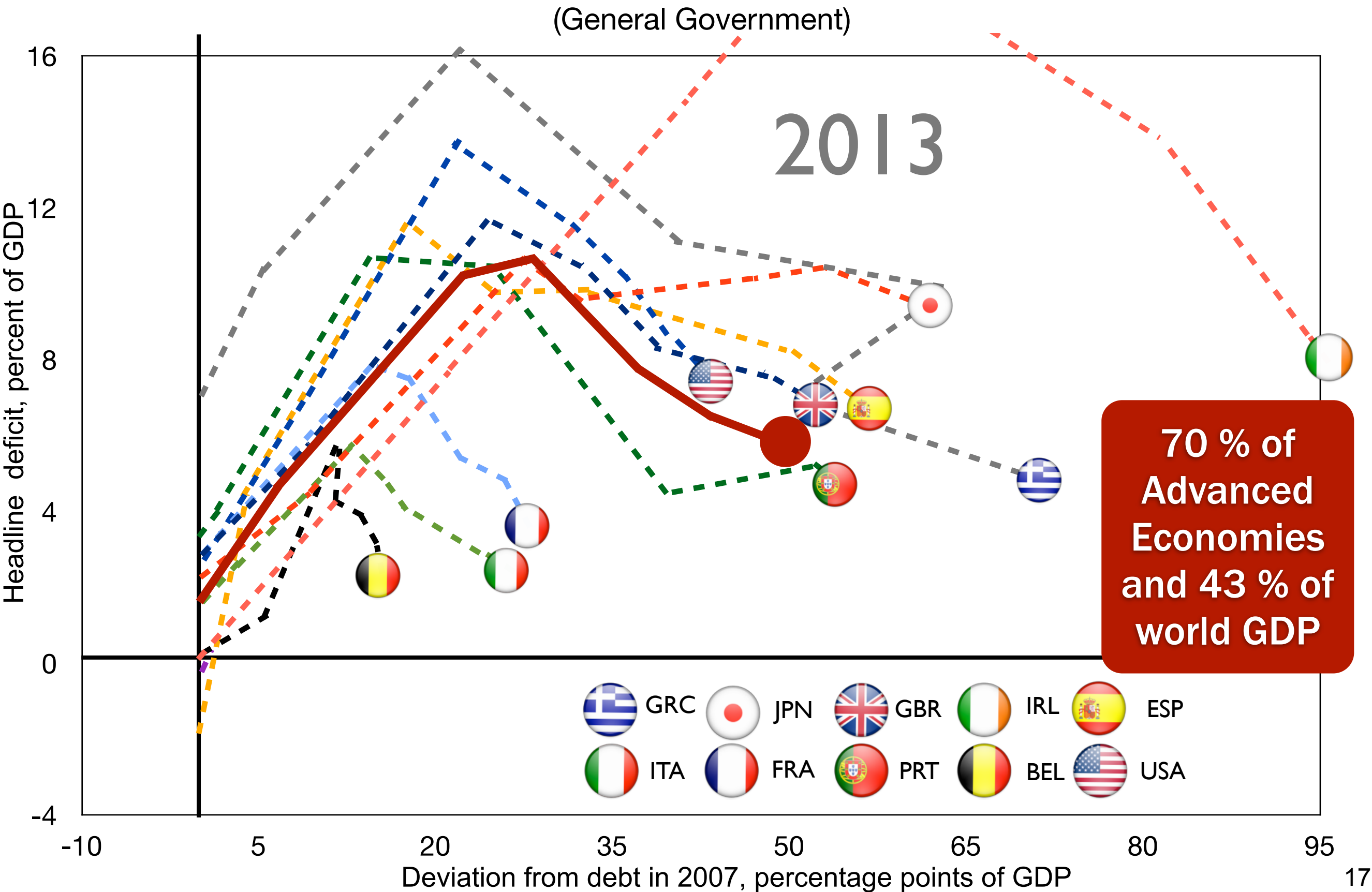
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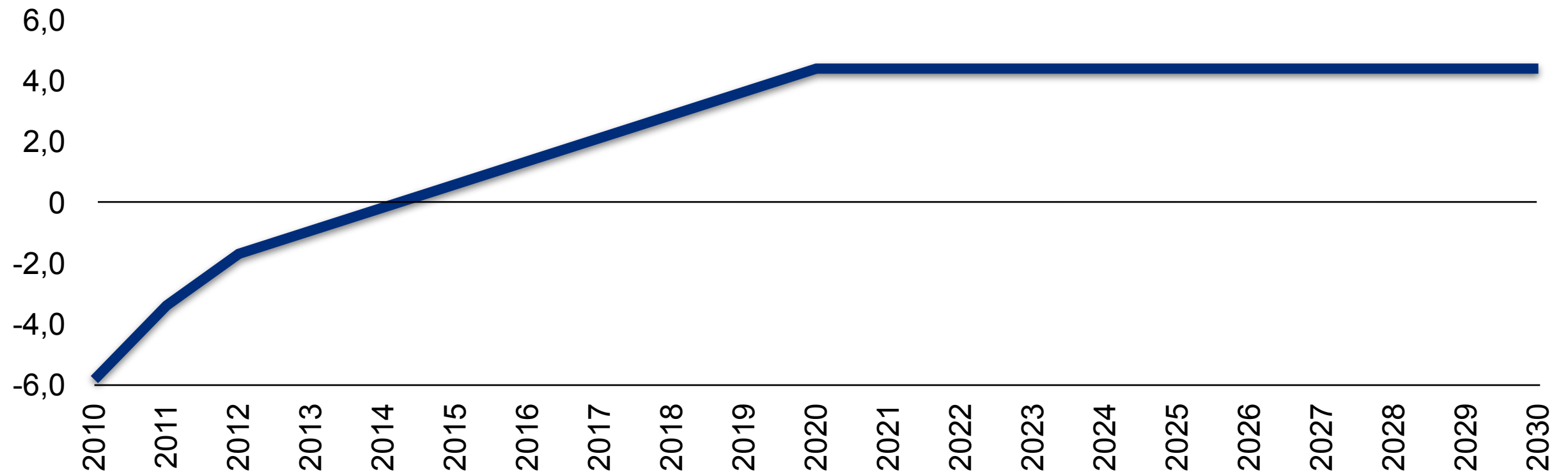


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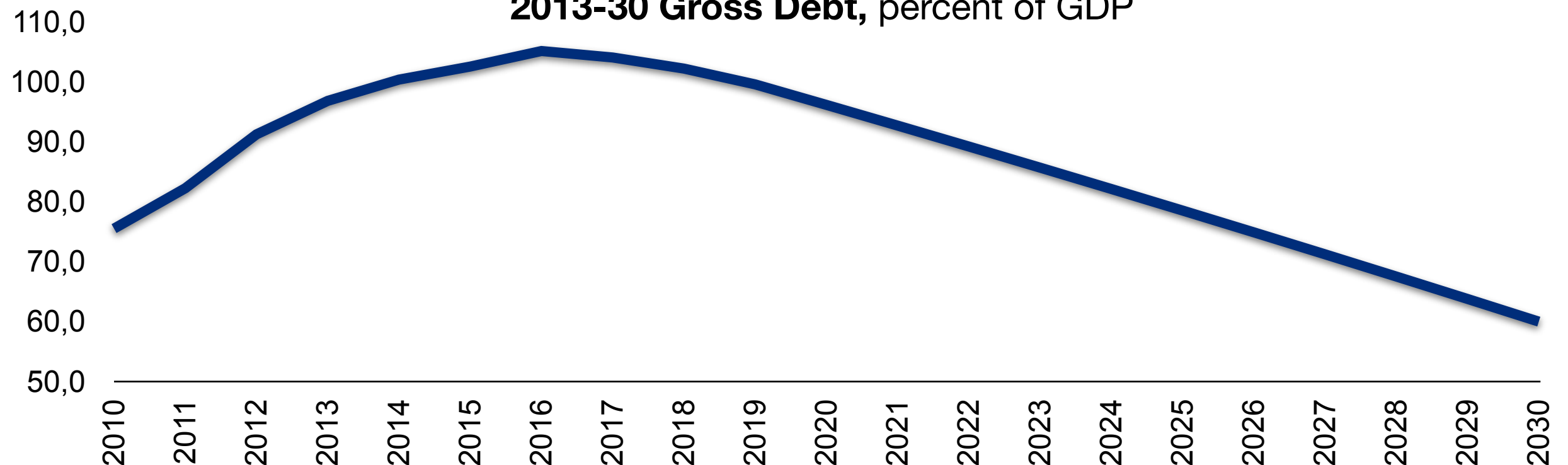


UK: Illustrative Adjustment Needs: 60% of GDP by 2030

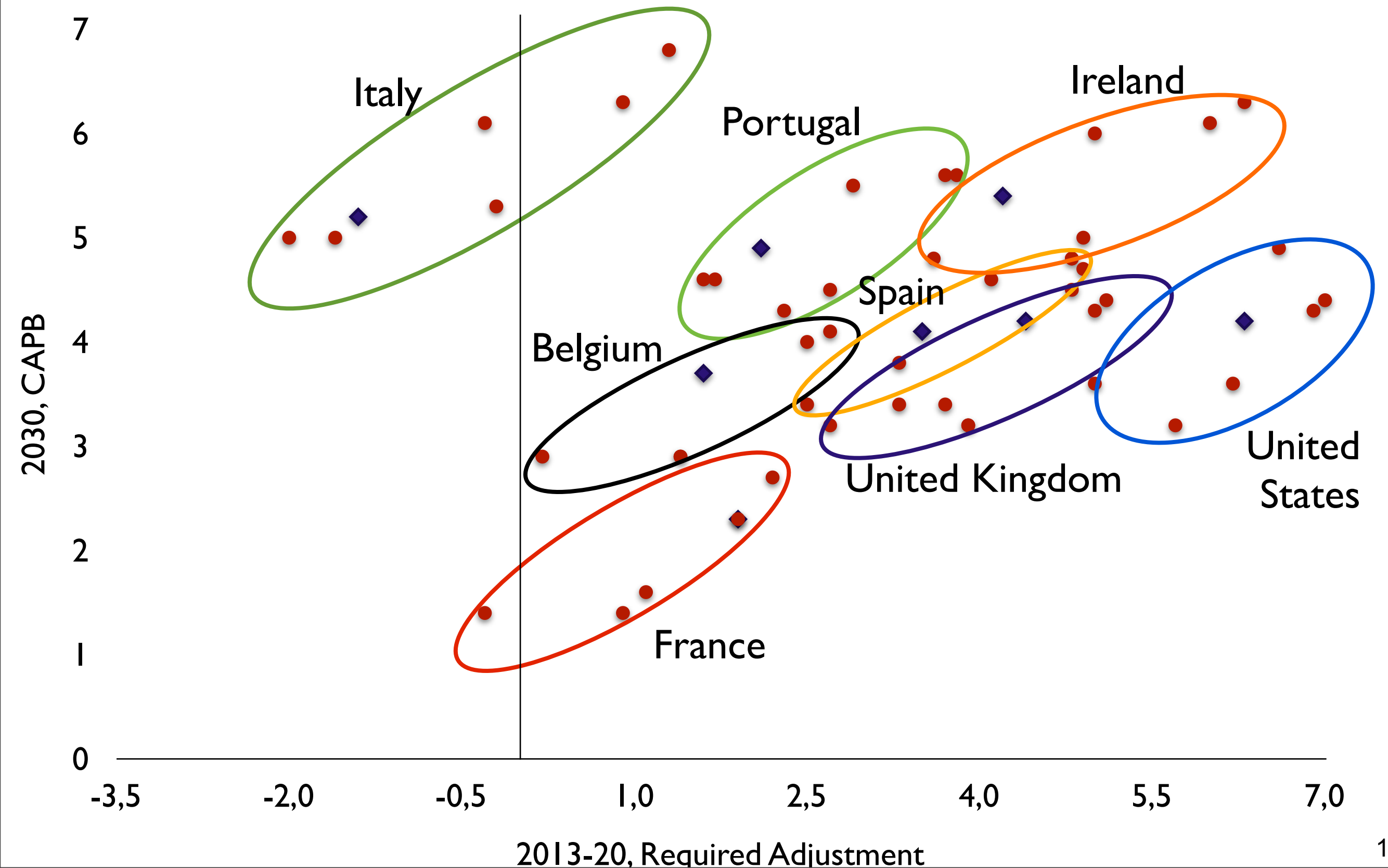
2013-30 Cyclically Adjusted Primary Balance, percent of GDP



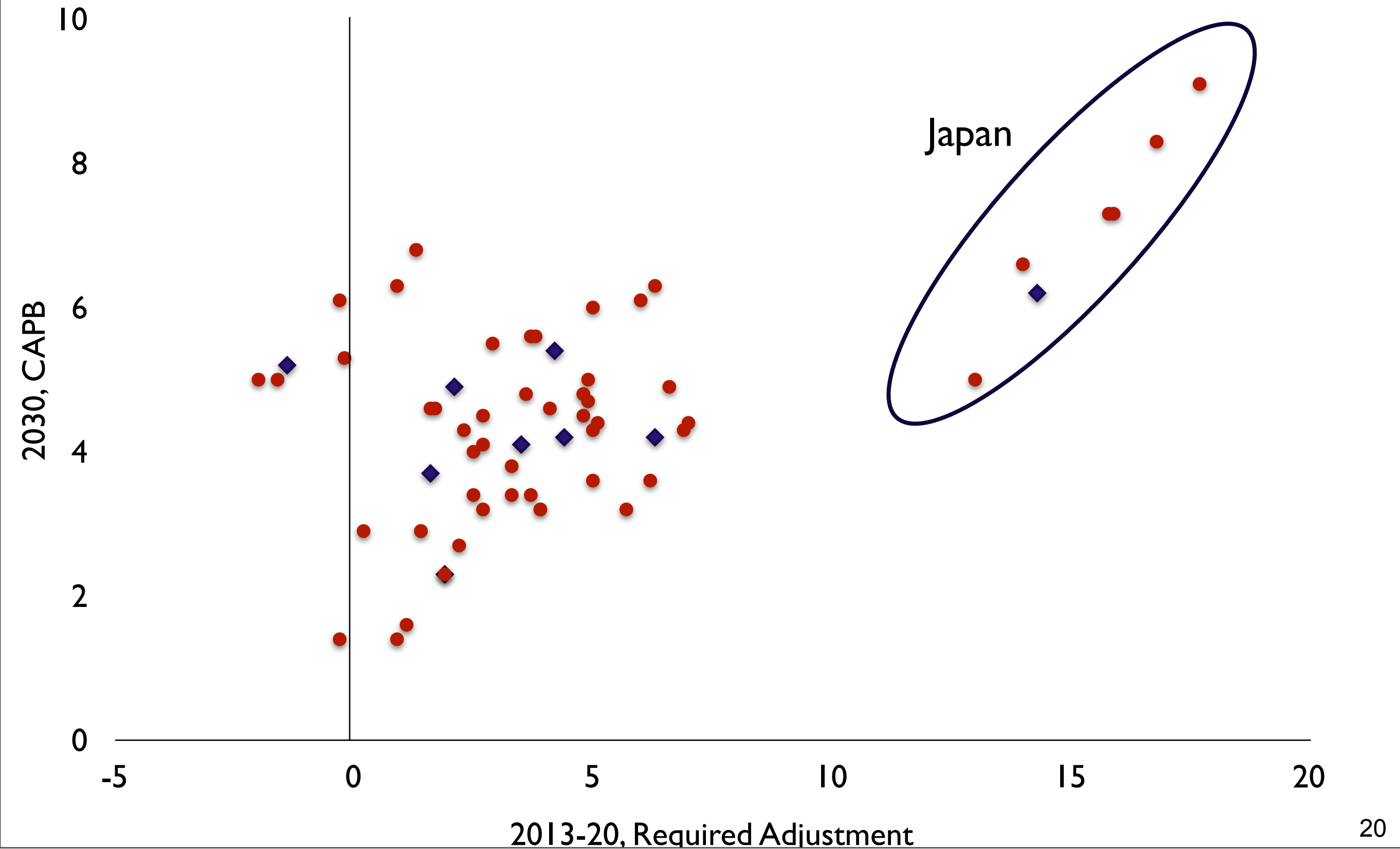
2013-30 Gross Debt, percent of GDP



Across Different Scenarios: CAPB in 2030 and Required Adjustment Needs, 2013-30

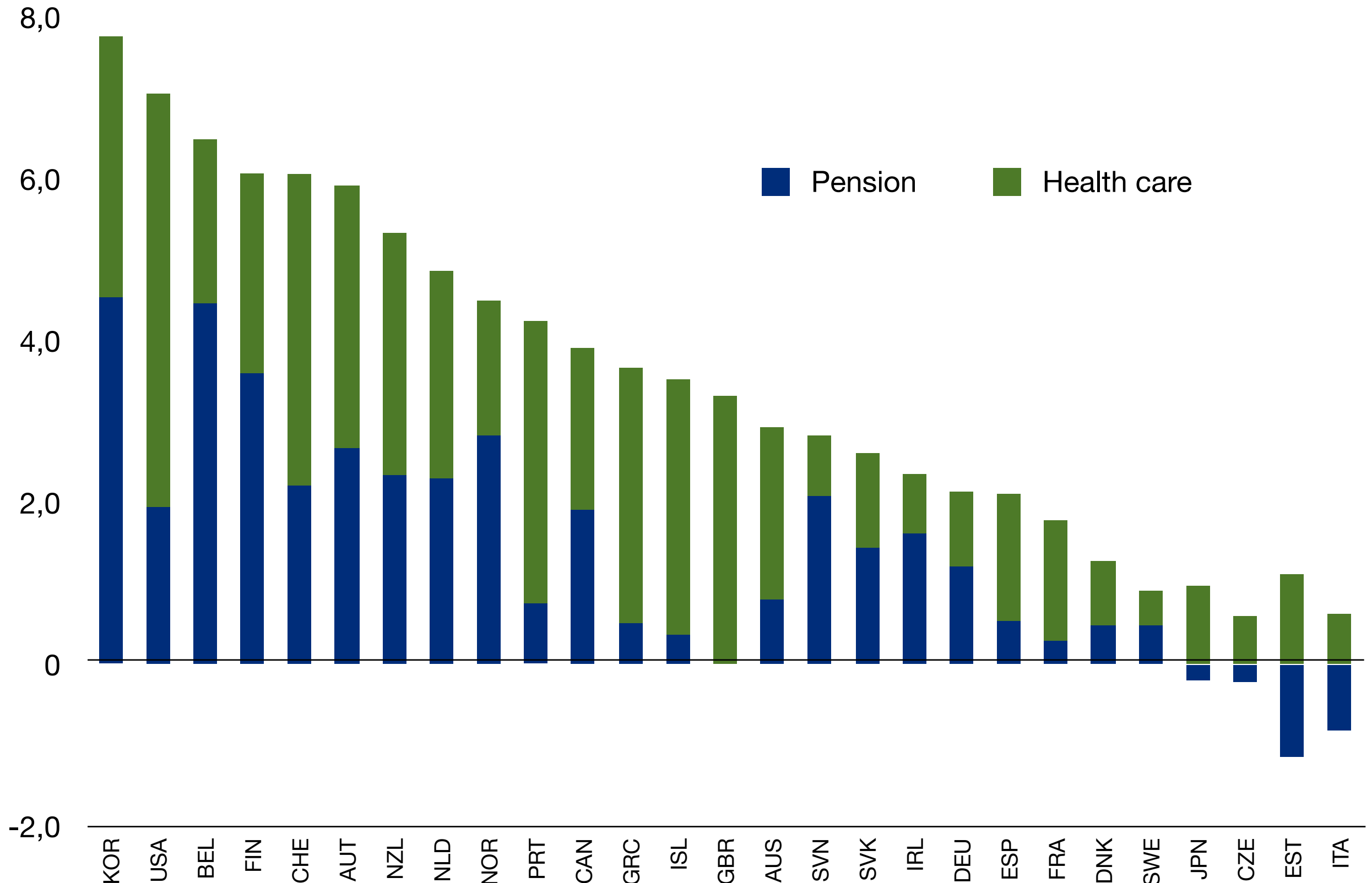


Across Different Scenarios: CAPB in 2030 and Required Adjustment Needs, 2013-30



Increase in Entitlement Spending, 2010-30

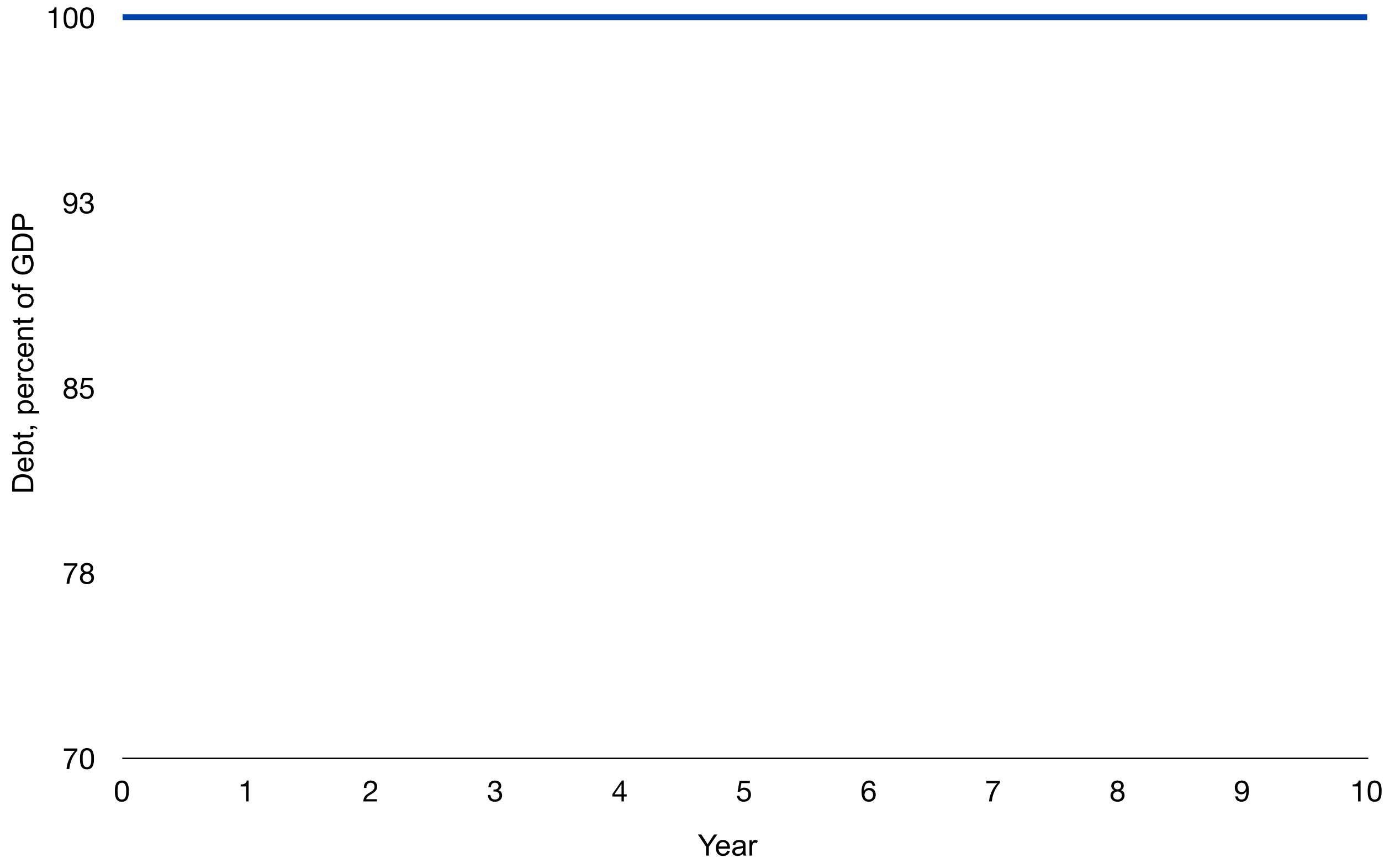
(Percentage points of GDP)



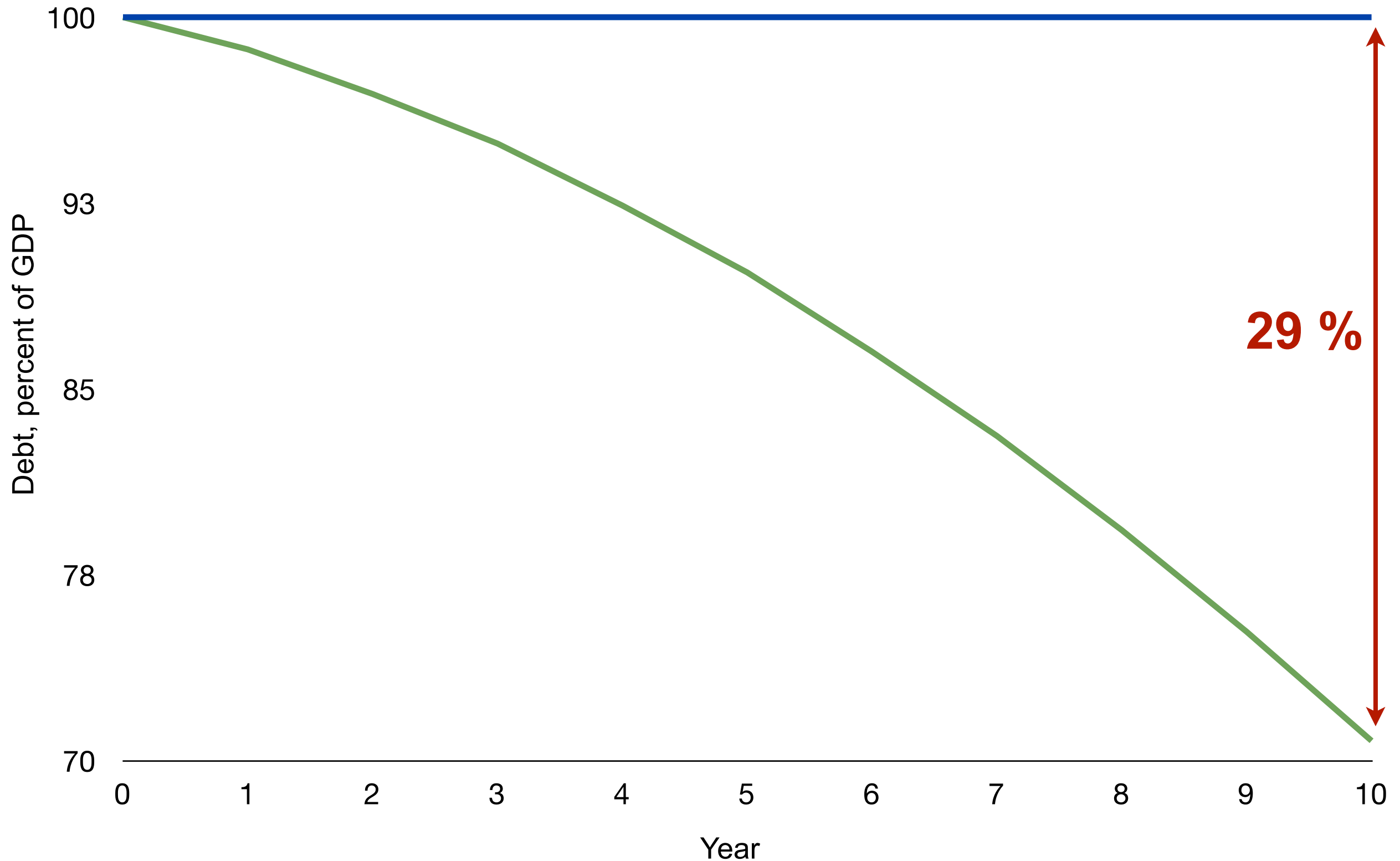
Two Requirements to Ensure a Low $r-g$

- Structural reforms to raise potential growth

Effects on debt of boosting growth by 1 percentage point



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- Strategy to keep interest rates under control

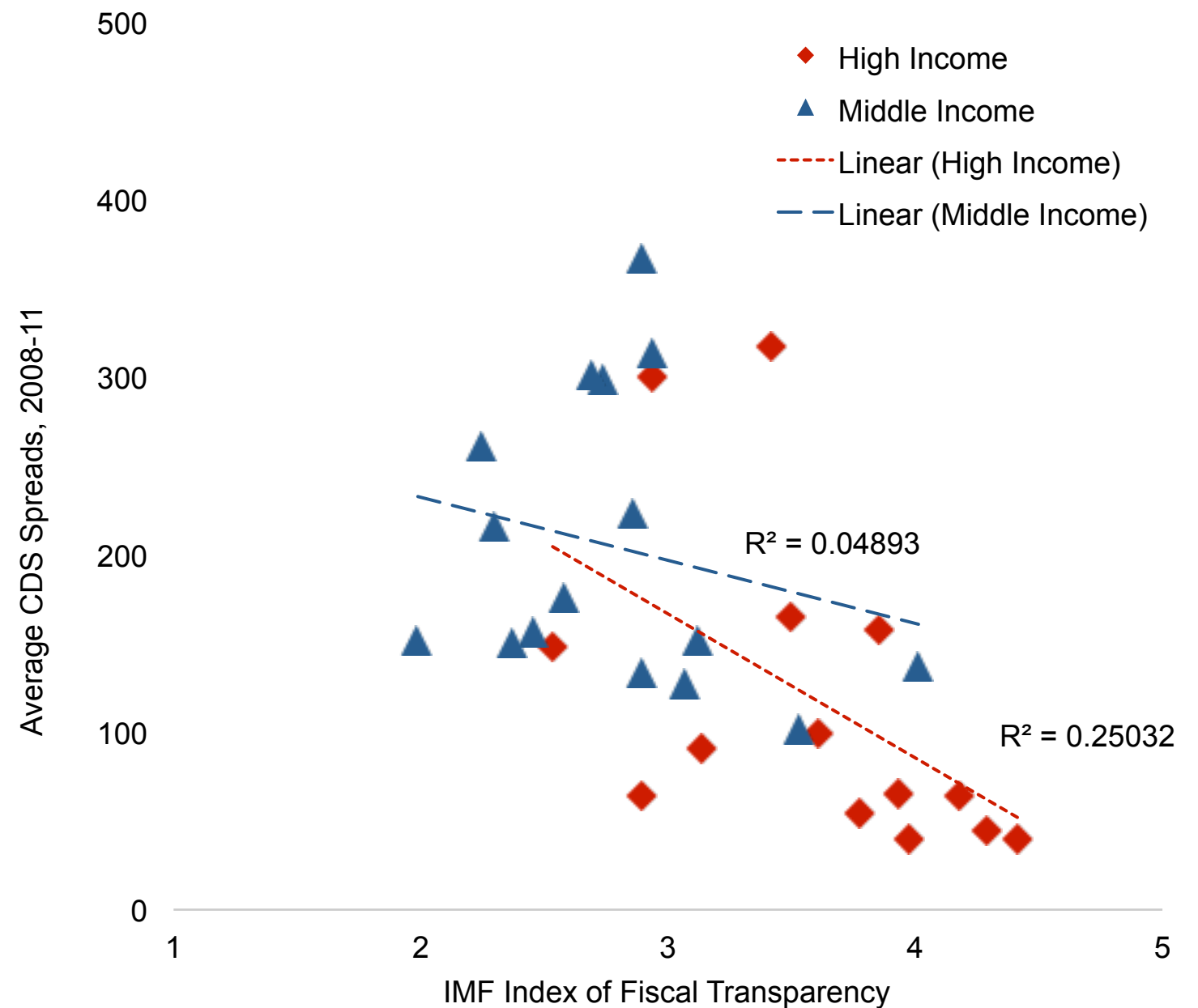
Four Components to Keep Interest Rates Low:

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Intensity of
market pressures

Four Components to Keep Interest Rates Low:

Appropriate pace of
fiscal adjustment

Magnitude of
the initial fiscal
imbalances

Intensity of
market pressures

State of the
economy

Four Components to Keep Interest Rates Low:

Medium-term fiscal plan
and strong fiscal
institutions

Appropriate pace of
fiscal adjustment

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Four Components to Keep Interest Rates Low:

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Need to reform
entitlement
spending

Four Components to Keep Interest Rates Low:

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Four Components to Keep Interest Rates Low:

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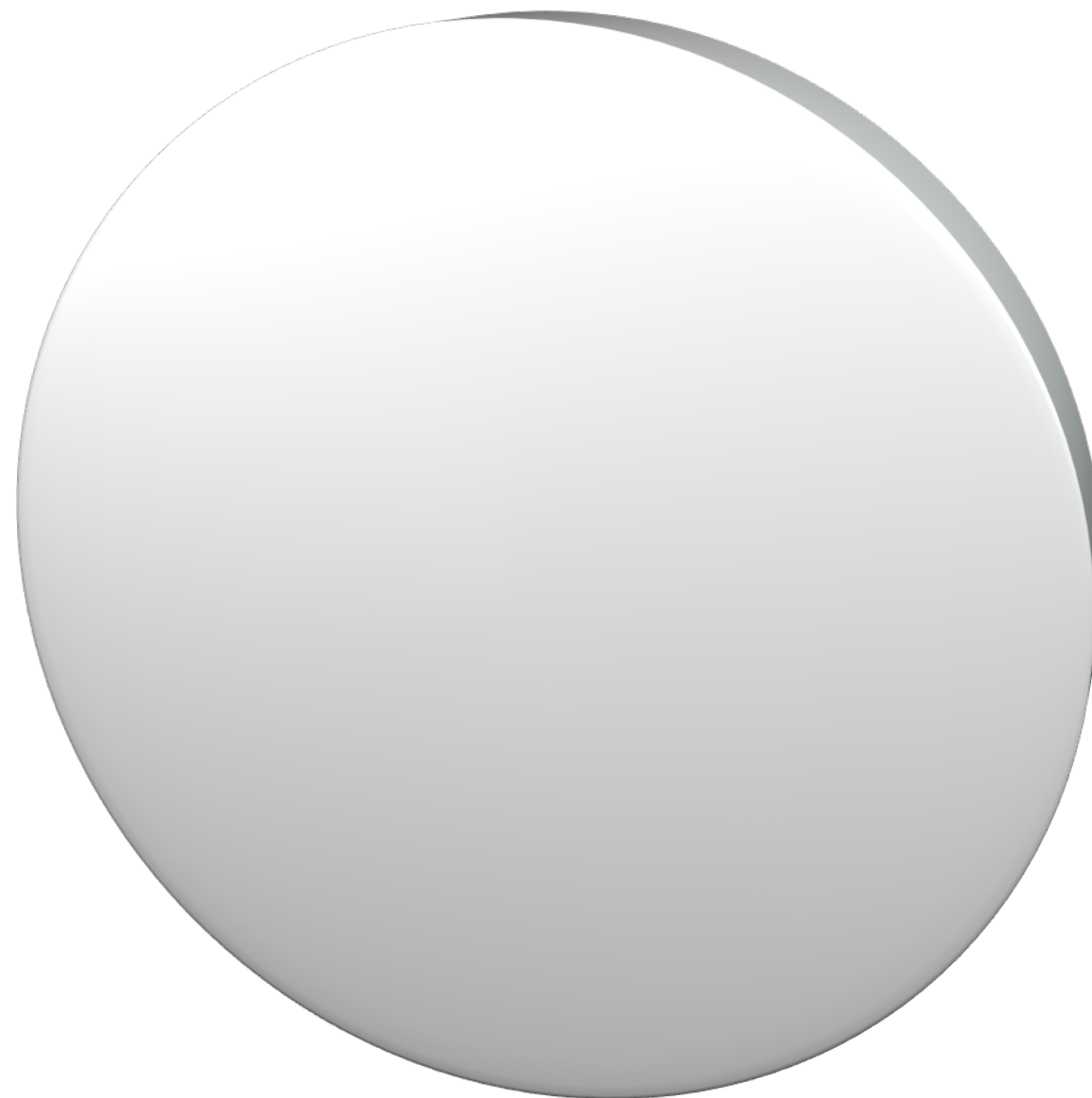
Appropriate tools to
implement fiscal
adjustment

Relaxed monetary
policy

United Kingdom: Financing of deficit by BoE

Flow of Central Bank Financing Over Deficit, percent

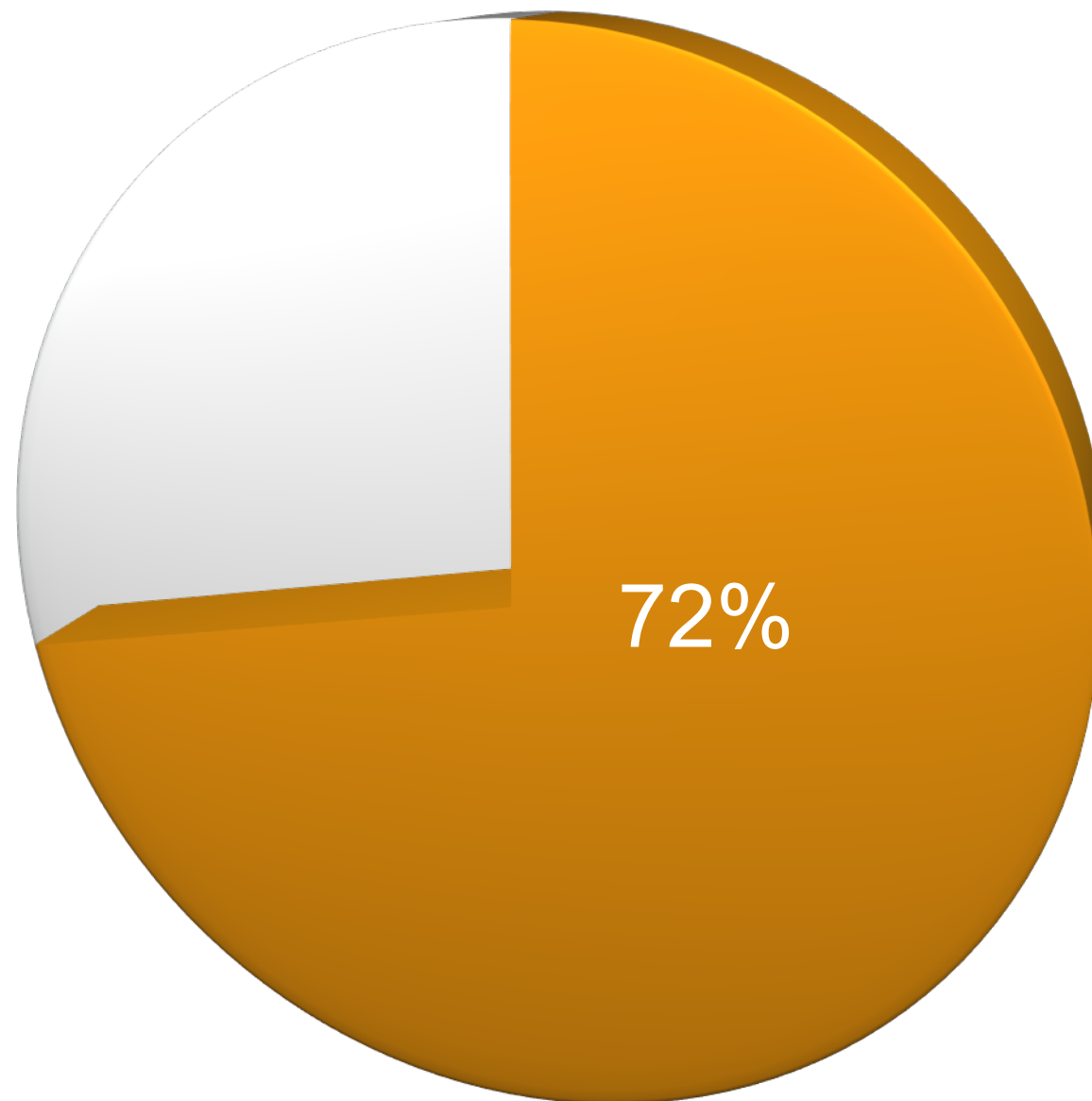
2009-12



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Thank you!