Recent Fiscal Developments and Outlook:
The April 2014 IMF Fiscal Monitor

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Outline

• Recent Fiscal Developments and Outlook

• Selected fiscal risks
  • Lack of medium-term plans in key economies
  • Tightening global liquidity conditions
  • Reducing sovereign debt in a very low inflation environment
  • Containing public contingent liabilities
  • Medium-term expenditure pressures
Advanced economies: some progress but still some way to go…

Required Adjustment to Medium-Term Budgetary Objective

(percent of GDP)

- Change in structural primary balance, 2009–14
- Additional adjustment needed to achieve debt stabilizing primary balance, 2014
- Total adjustment to achieve medium-term objective
AEs: Fiscal Vulnerabilities Remain Elevated

Evolution of Gross Debt and Cyclically Adjusted Balance, 2007–18

- Gross Debt
- Cyclically Adjusted Balance
Advanced Economies: Composition of Fiscal Adjustment is Shifting

Advanced Economies: Contribution to the Change in the Cyclically Adjusted Primary Balance
Improved fiscal balances somewhat eased sovereign debt risks

Overall Fiscal Balance

(percent of GDP)

Emerging Market & Developing Economies

Advanced Economies

World

EMs: Current Fiscal Plans Continue to Postpone Consolidation

Primary and Cyclically Adjusted Primary Balances

Primary balance (percent of GDP)

Cyclically adjusted primary balance (percent of potential GDP)
Public Debt on the Rise in Over Half of Low-Income Countries

Gross Government Debt (Percent of GDP)

2010 2013 2019

COD ETH TJK BFA CMR MLI UGA MMR HTI TZA SEN GHA ZMB MOZ YEM VNM HND

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LICs: Is This Time Different?

Change in Government Debt and Government Investment
(Percent of GDP)

Government Investment, 2007–13 average

Change in government debt, 2007–13

LICs: Is This Time Different?

Change in Government Debt and Government Investment
(Percent of GDP)
Looking forward: Selected fiscal risks

- Lack of medium-term plans in key economies
- Tightening global liquidity conditions
- Reducing sovereign debt in a very low inflation environment
- Containing public contingent liabilities
- Medium-term expenditure pressures
Fiscal risk No 1

- Lack of medium-term plans in key economies
  - United States
  - Japan

- Tightening global liquidity conditions

- Reducing sovereign debt in a very low inflation environment

- Containing public contingent liabilities

- Medium-term expenditure pressures
The current stance is not sustainable

United States and Japan: Fiscal Outlook
(Percent of GDP)

United States

Japan

Overall balance (left scale)  Primary balance (left scale)  Debt (right scale)
Fiscal risk No 2

• Lack of medium-term plans in key economies

• Tightening global liquidity conditions

• Reducing sovereign debt in a very low inflation environment

• Containing public contingent liabilities

• Medium-term expenditure pressures
Financing terms are becoming less favorable

G-20 Emerging Market Economies: Change in the 2014 Interest Rate Growth Differential Relative to 2008-13 Average
(Percentage points)
Debt dynamics will worsen in EMs

Emerging Economies: Permanent 100bp Increase in US 10-y Bond Yields

EM ASIA: Public Debt
(percent of GDP)

EM LATIN AMERICA: Public Debt
(percent of GDP)

EM EUROPE: Public Debt
(percent of GDP)

EM MIDDLE EAST: Public Debt
(percent of GDP)
And fiscal distress episodes can rise

Emerging Economies: US Monetary Policy Tightening and Incidence of Sovereign Debt Crises

![Bar chart showing the incidence of fiscal distress episodes in relation to US monetary policy tightening and above-median term spread.](chart)
Non resident holdings of local currency public debt have increased

Currency Composition of Nonresident Government Debt Holdings
(Percent of GDP)

2013

- Local currency
- Foreign currency
- Total

2006 2007 2008 2009 2010 2011 2012 2013

2013

THA  PER  COL  TUR  IDN  BRA  MYS  ZAF  MEX  POL  HUN

Local currency
Foreign currency
Total

0  5  10  15  20  25  30  35  40  45  50

0  2  4  6  8  10  12  14  16  18
Fiscal risk No 3

- Lack of medium-term plans in key economies
- Tightening global liquidity conditions
- Reducing sovereign debt in a very low inflation environment
- Containing public contingent liabilities
- Medium-term expenditure pressures
Inflation has trended down consistently in the euro area
Low inflation can severely worsen debt dynamics

Spain and Euro Area: Government Debt Under Three Inflation Scenarios
(Percent of GDP)
Fiscal risk No 4

• Lack of medium-term plans in key economies

• Tightening global liquidity conditions

• Reducing sovereign debt in a very low inflation environment

• Containing public contingent liabilities

• Medium-term expenditure pressures
Banking crises have had a high fiscal cost

Selected Advanced Economies: Financial Sector Support and Recovery

(percent of 2013 GDP)
Other contingent liabilities also matter

China: Financing Sources of Infrastructure Investment

(percent of GDP)

- State Budget
- Off-budget borrowings
- Land sales

2007 2008 2009 2010 2011 2012
Benefits and risks of public private partnerships

General Government Capital Stock
(Percent of GDP)

Advanced Economies
Emerging Market Economies
Low-Income Countries

Without PPPs
With PPPs
Fiscal risk No 5

- Lack of medium-term plans in key economies
- Tightening global liquidity conditions
- Reducing sovereign debt in a very low inflation environment
- Containing public contingent liabilities
- Medium-term expenditure pressures
Government spending has been on an upward trend for decades.
Baumol effects partially drive spending …

Government Consumption, 1960-2011
(Percent of GDP)

Selected Advanced Economies

Cross effect  Relative price effect  Relative volume effect  Change in spending
... even if real government consumption is contained
Population aging will exacerbate the trend going forward

Age-Related Expenditure in Advanced and Emerging Economies

(Percent of GDP)

Health

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Pension

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The secular decline in public capital stocks may present additional needs

General Government Capital Stock (Percent of GDP)
Spending reforms will have to tackle the largest budget items…

Expenditure Structure
(Percent of total primary expenditure)

Advanced Economies
- Compensation of employees: 52%
- Goods and services: 18%
- Social benefits and subsidies: 4%
- Investment: 26%

Emerging Market Economies and Low-Income Countries
- Compensation of employees: 34%
- Goods and services: 23%
- Social benefits and subsidies: 26%
- Investment: 17%
Thank you!