

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

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Joint Vienna Institute, Vienna, June, 2014



World Economic and Financial Surveys

# Fiscal Monitor

**Public Expenditure Reform**  
**Making Difficult Choices**

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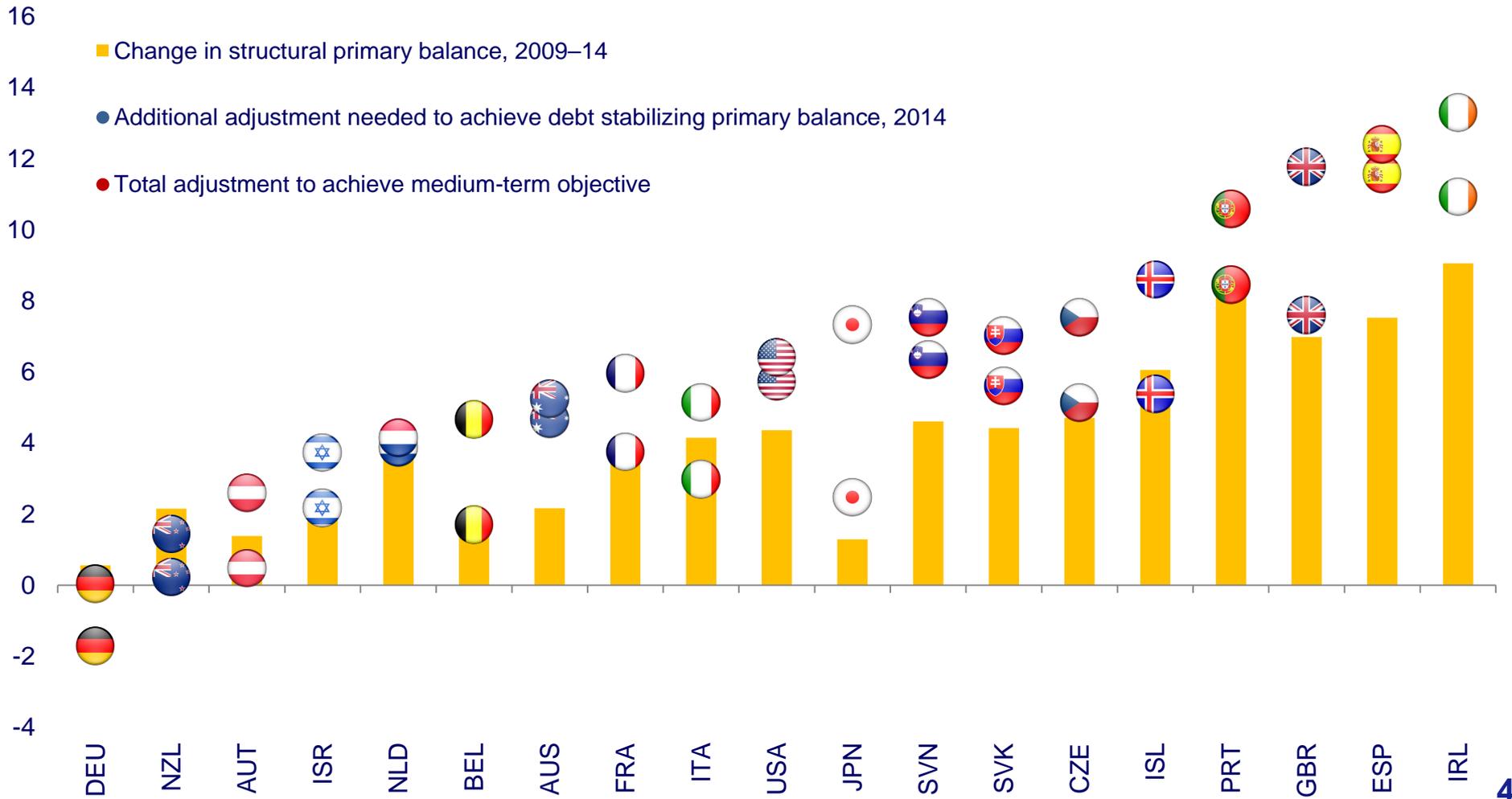
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I N T E R N A T I O N A L M O N E T A R Y F U N D

- **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

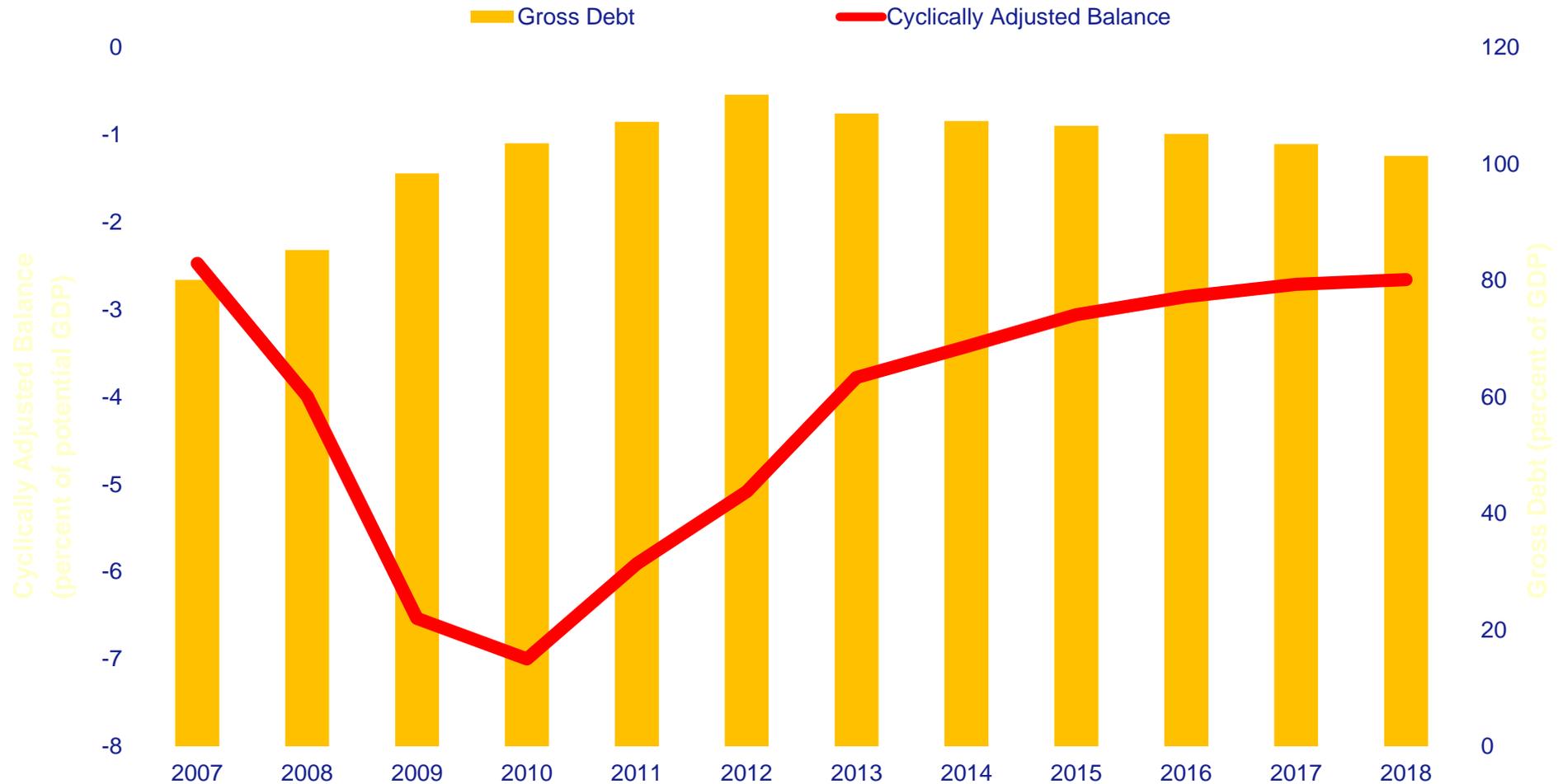
# Advanced economies: some progress but still some way to go...

**Required Adjustment to Medium-Term Budgetary Objective**  
(percent of GDP)



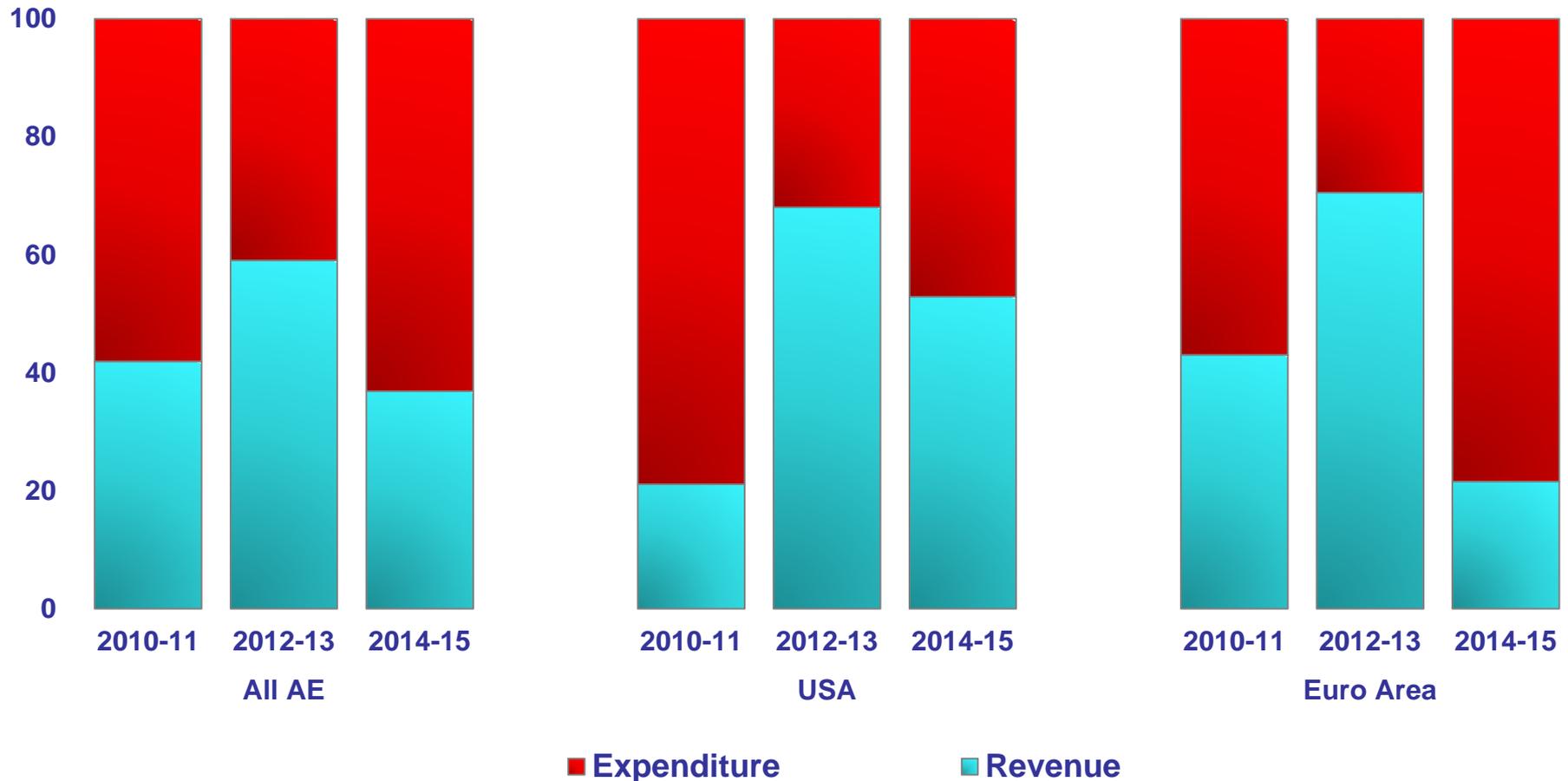
# AEs: Fiscal Vulnerabilities Remain Elevated

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



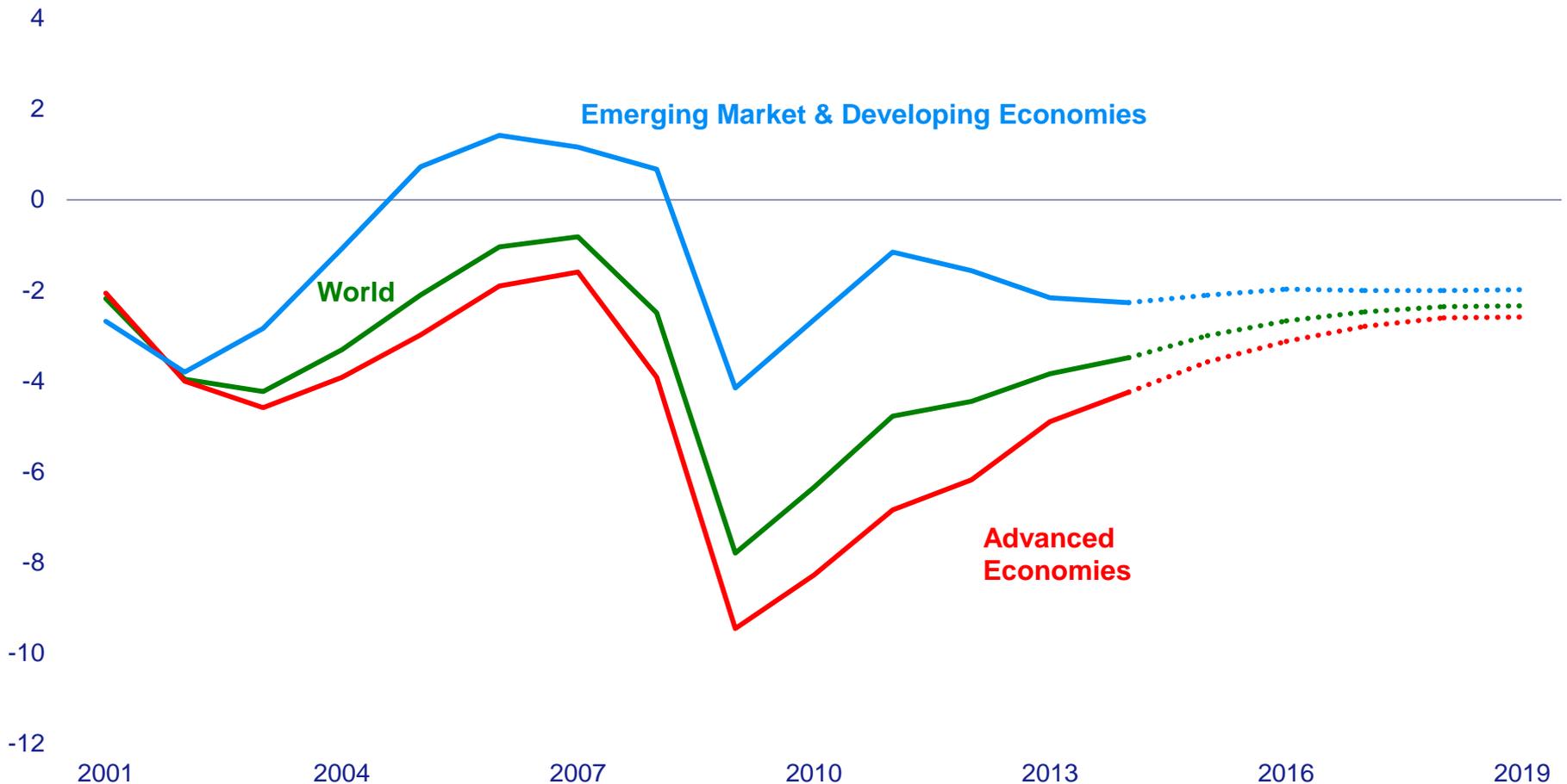
# AEs: Composition of Fiscal Adjustment is Shifting

## Advanced Economies: Contribution to the Change in the Cyclically Adjusted Primary Balance



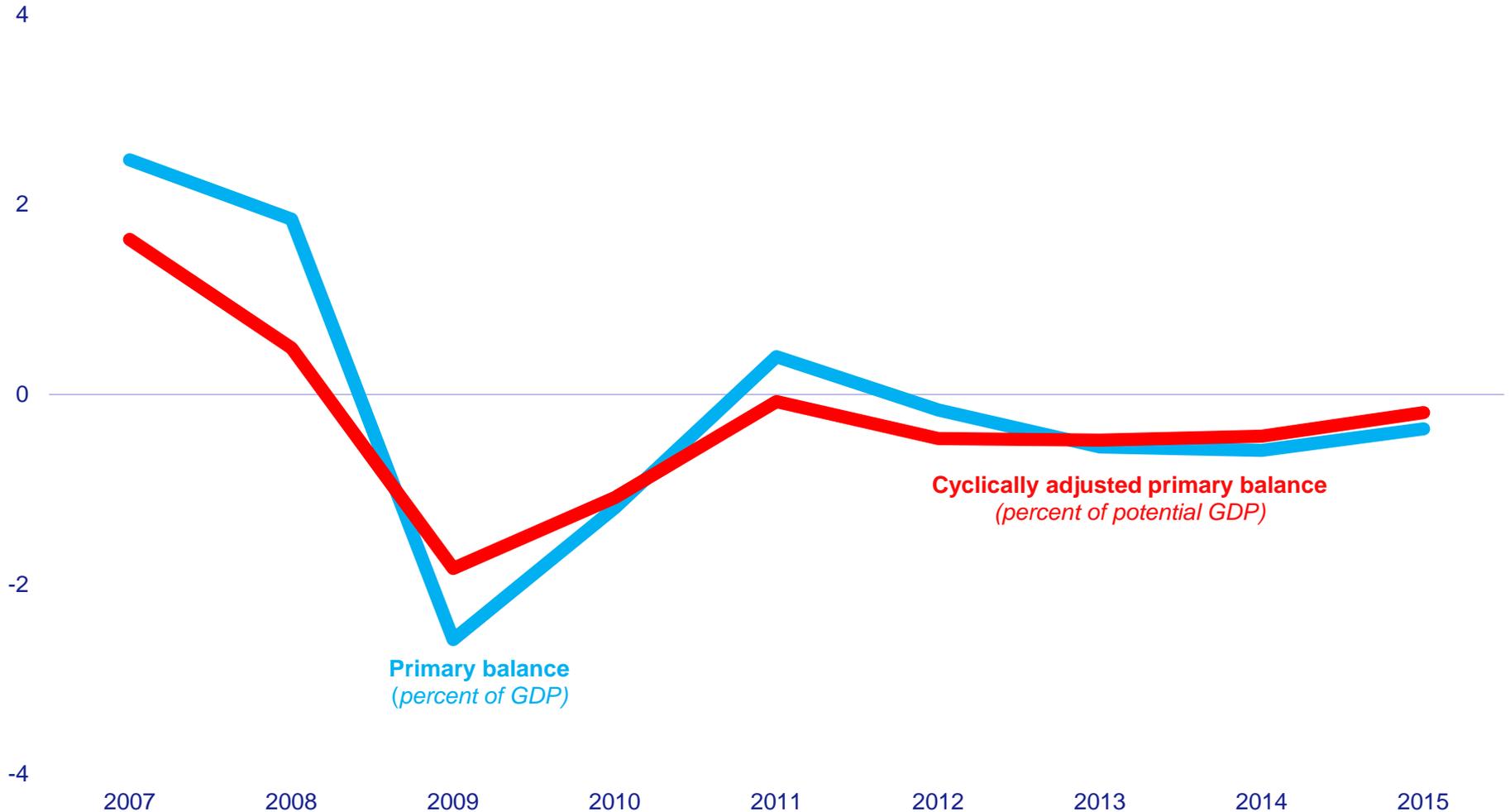
# Improved fiscal balances somewhat eased sovereign debt risks

**Overall Fiscal Balance**  
*(percent of GDP)*

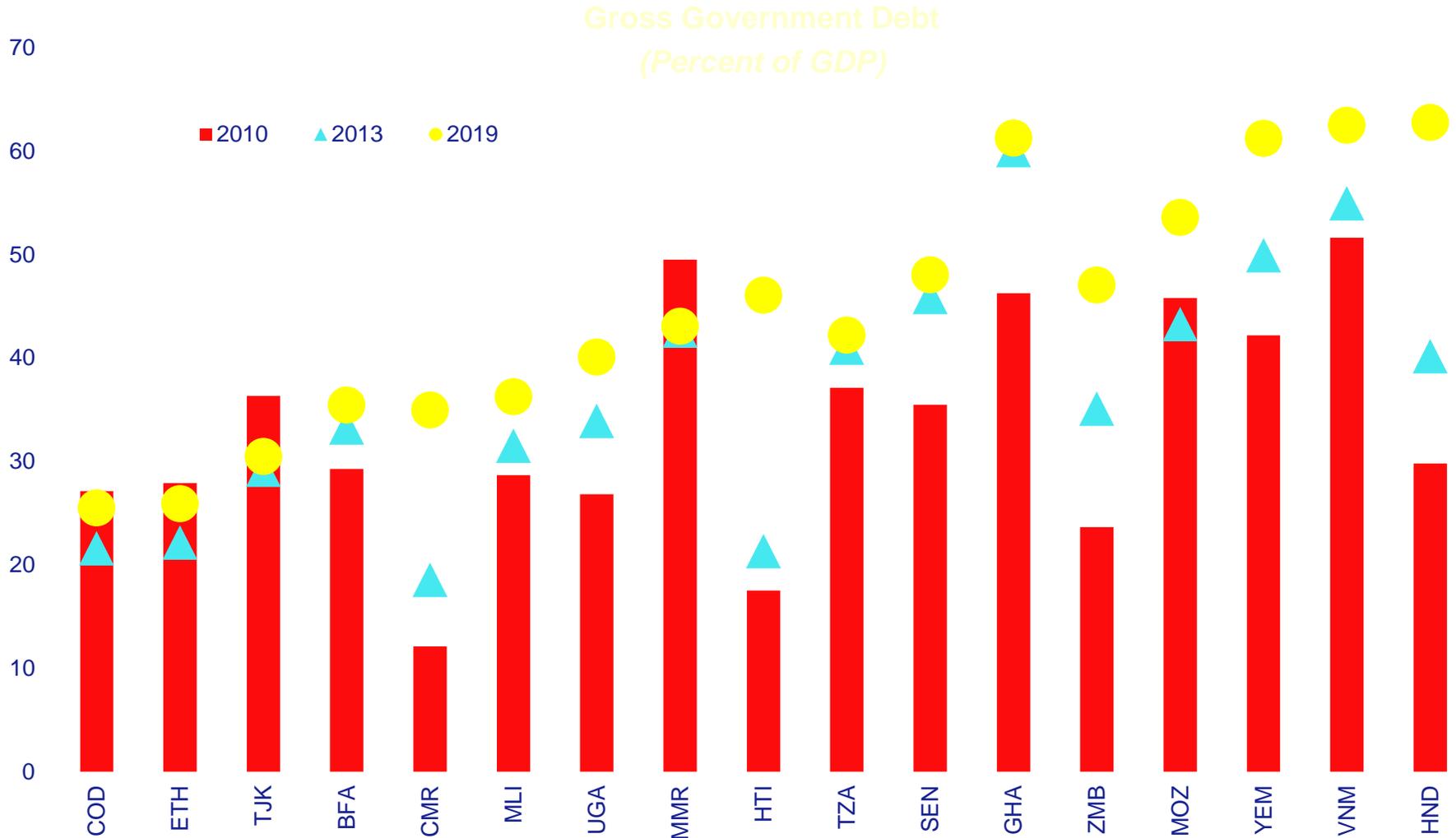


# EMs: Current Fiscal Plans Continue to Postpone Consolidation

## Primary and Cyclically Adjusted Primary Balances

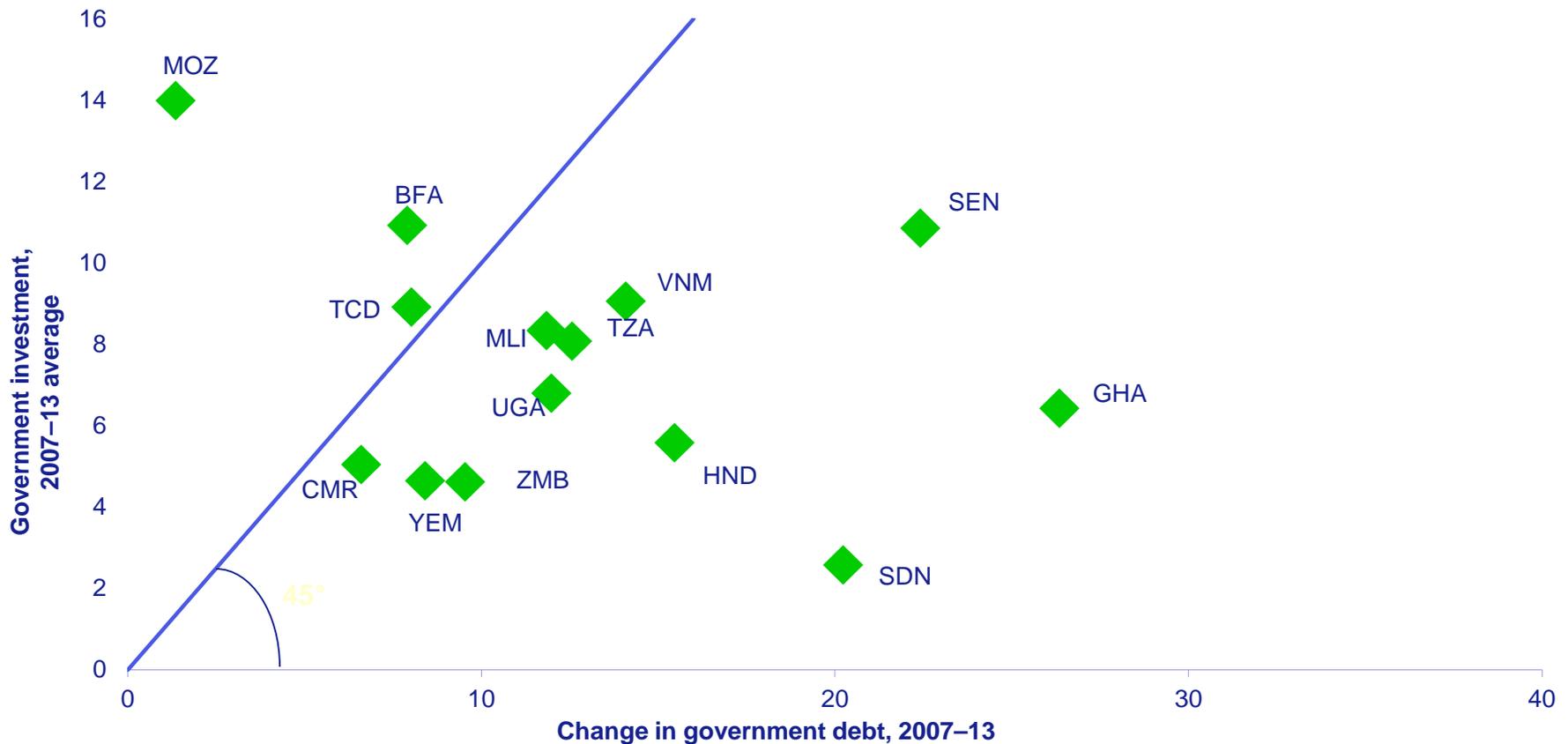


# Public Debt on the Rise in Over Half of Low-Income Countries



# LICs: Is This Time Different?

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



# Looking forward: Selected fiscal risks

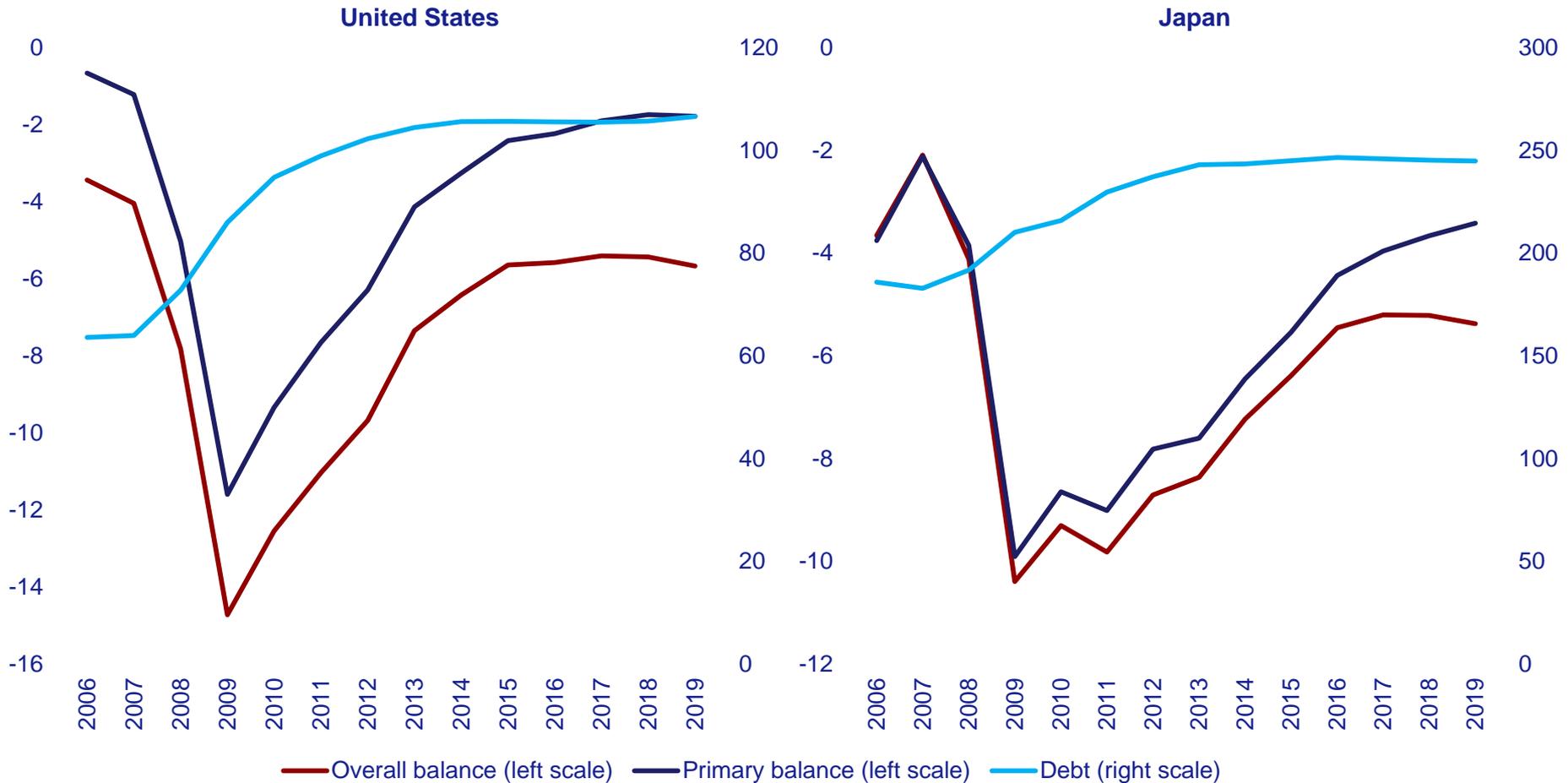
- **Lack of medium-term plans in key economies**
- **Tightening global liquidity conditions**
- **Reducing sovereign debt in a very low inflation environment**
- **Containing public contingent liabilities**
- **Medium-term expenditure pressures**

# Fiscal risk No 1

- **Lack of medium-term plans in key economies**
  - Unites 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)**

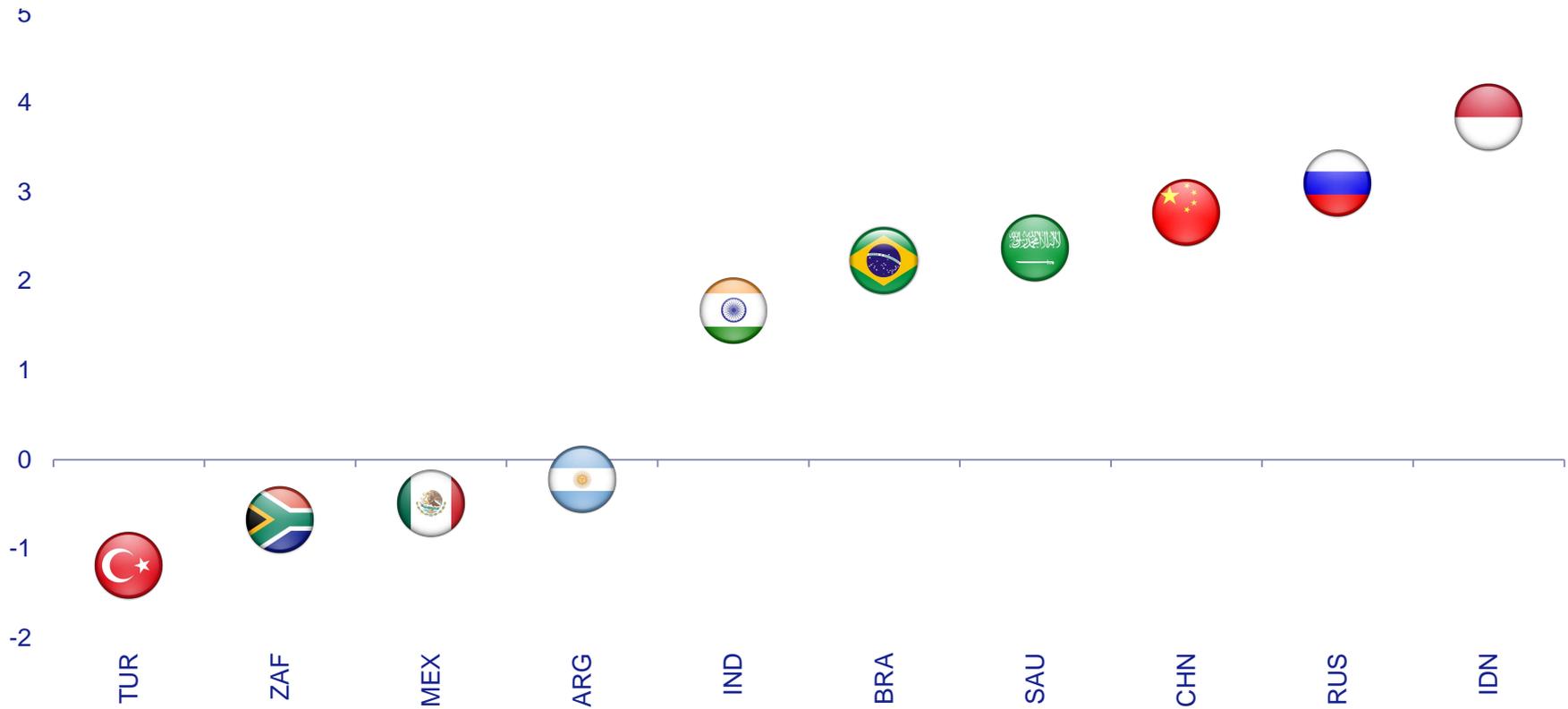


## Fiscal risk No 2

- 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

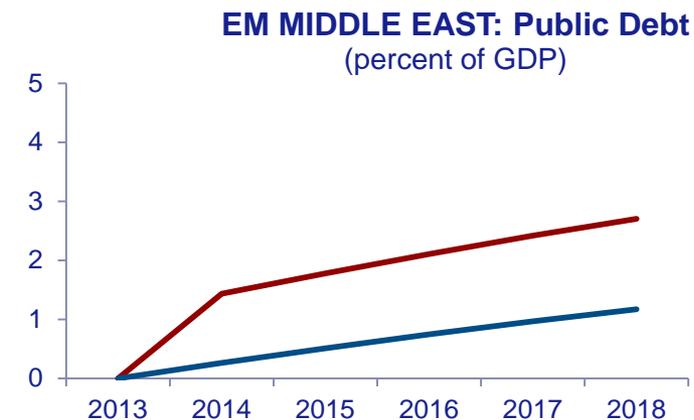
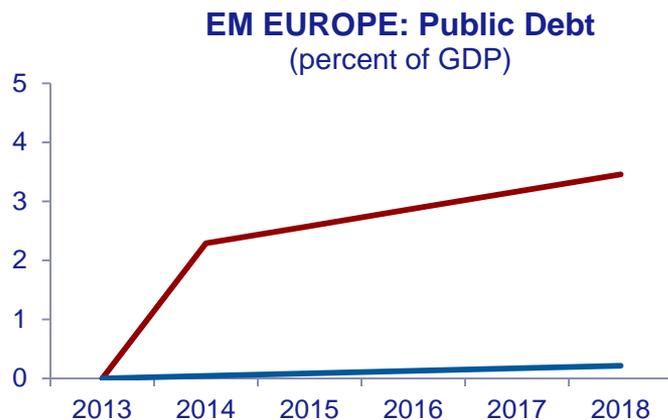
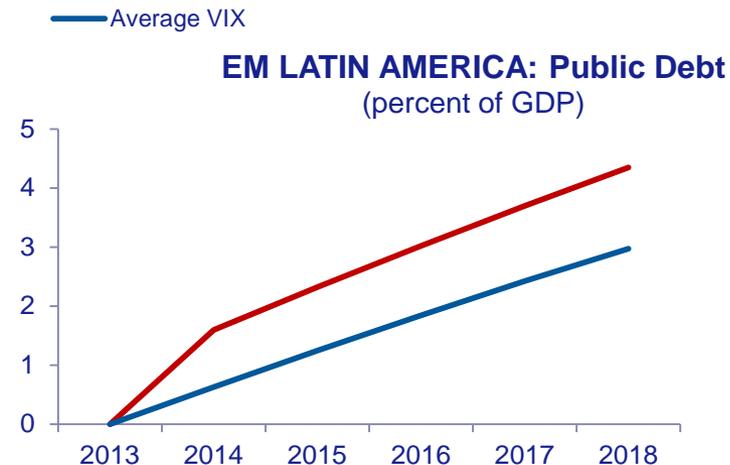
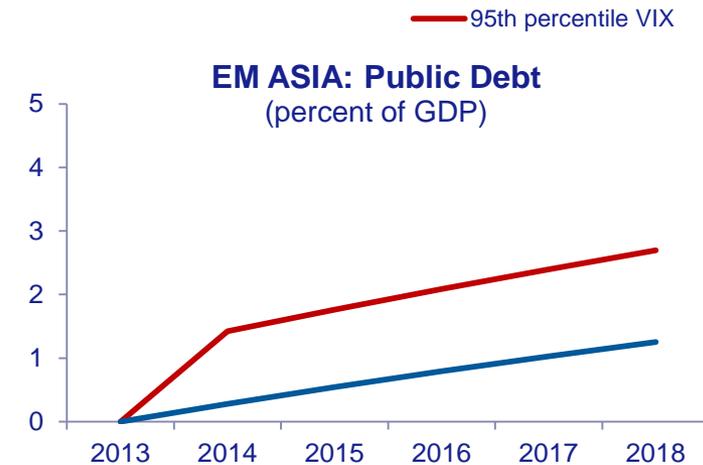
# Financing terms are becoming less favorable

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



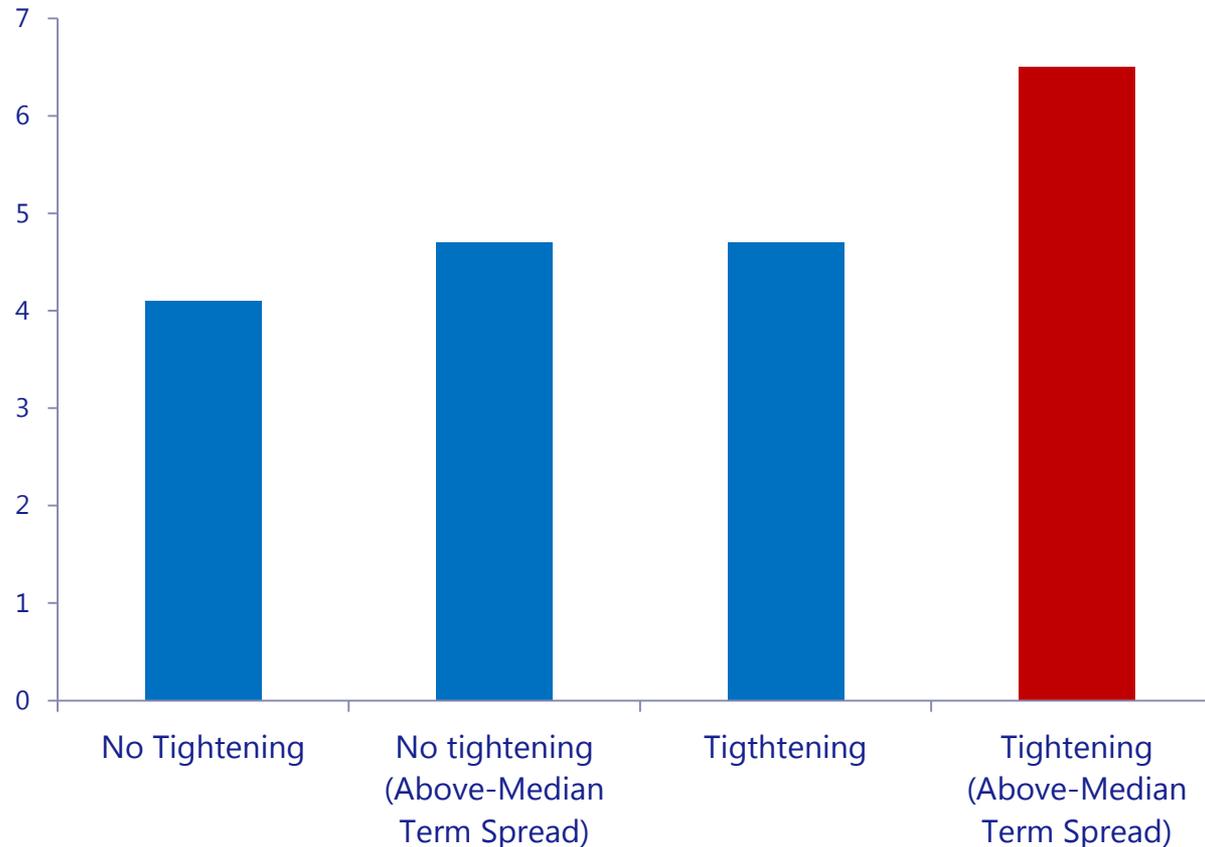
# Debt dynamics will worsen in EMs

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



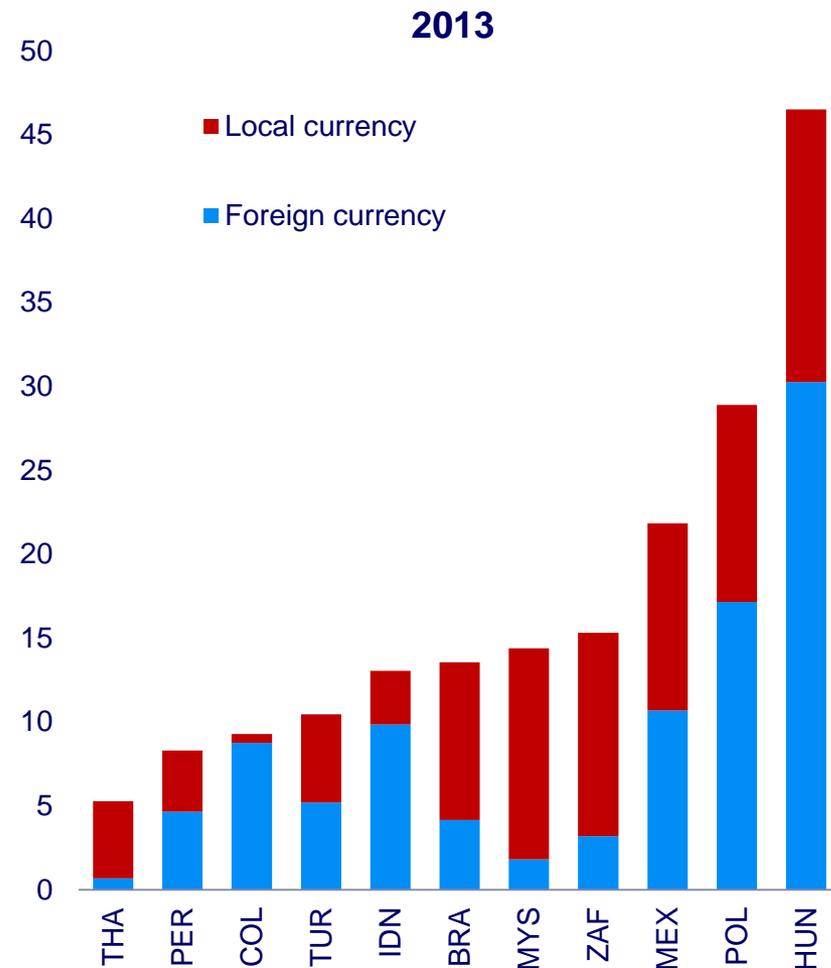
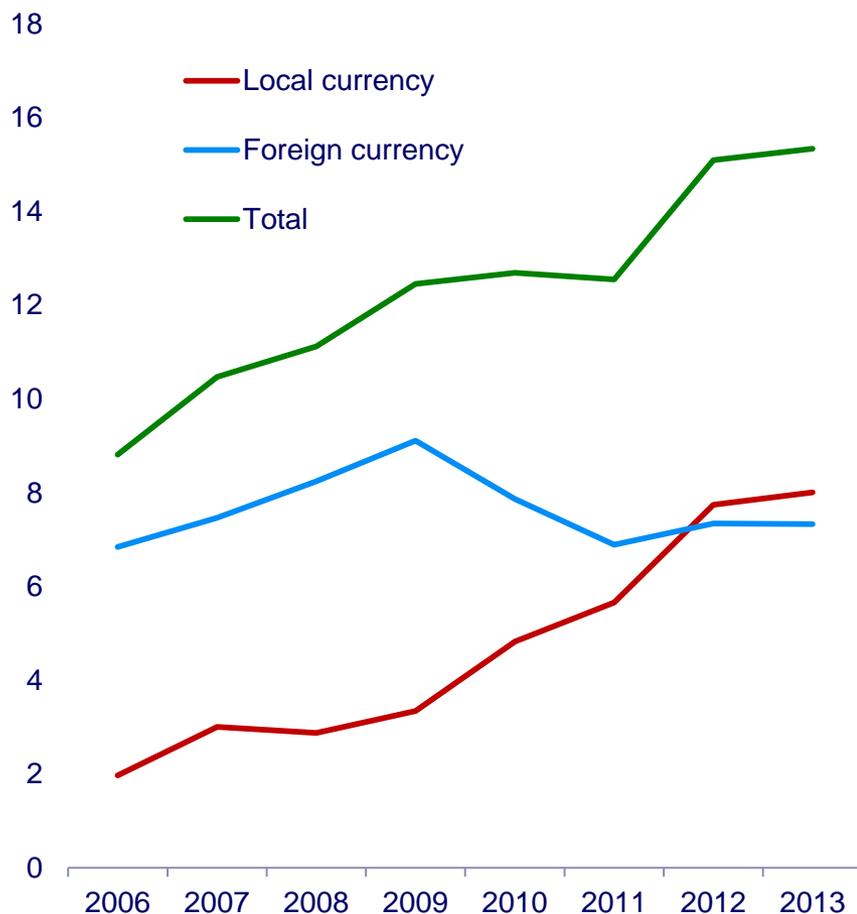
# And fiscal distress episodes can rise

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



# Non resident holdings of local currency public debt have increased

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

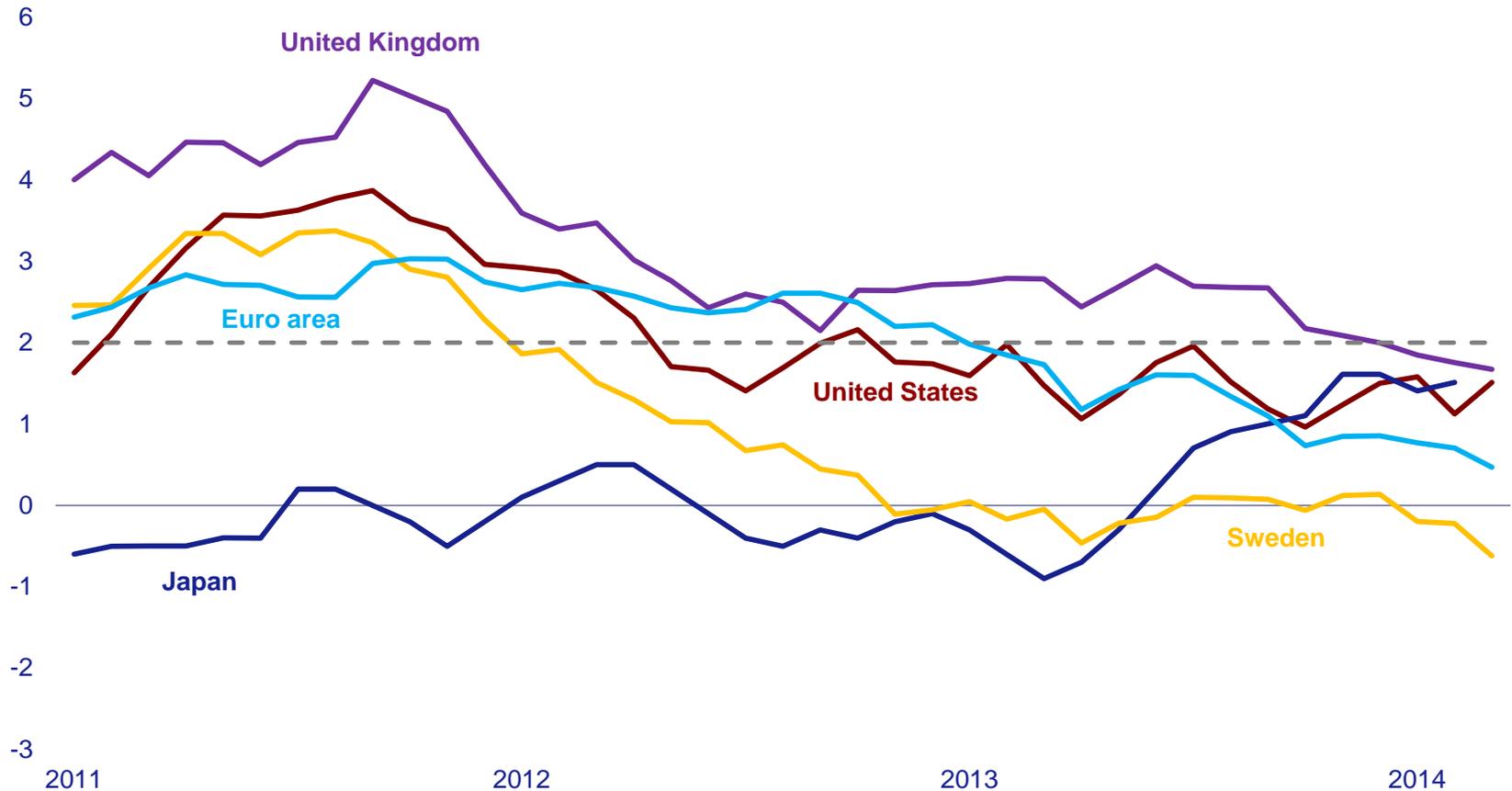


# Fiscal risk No 3

- 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

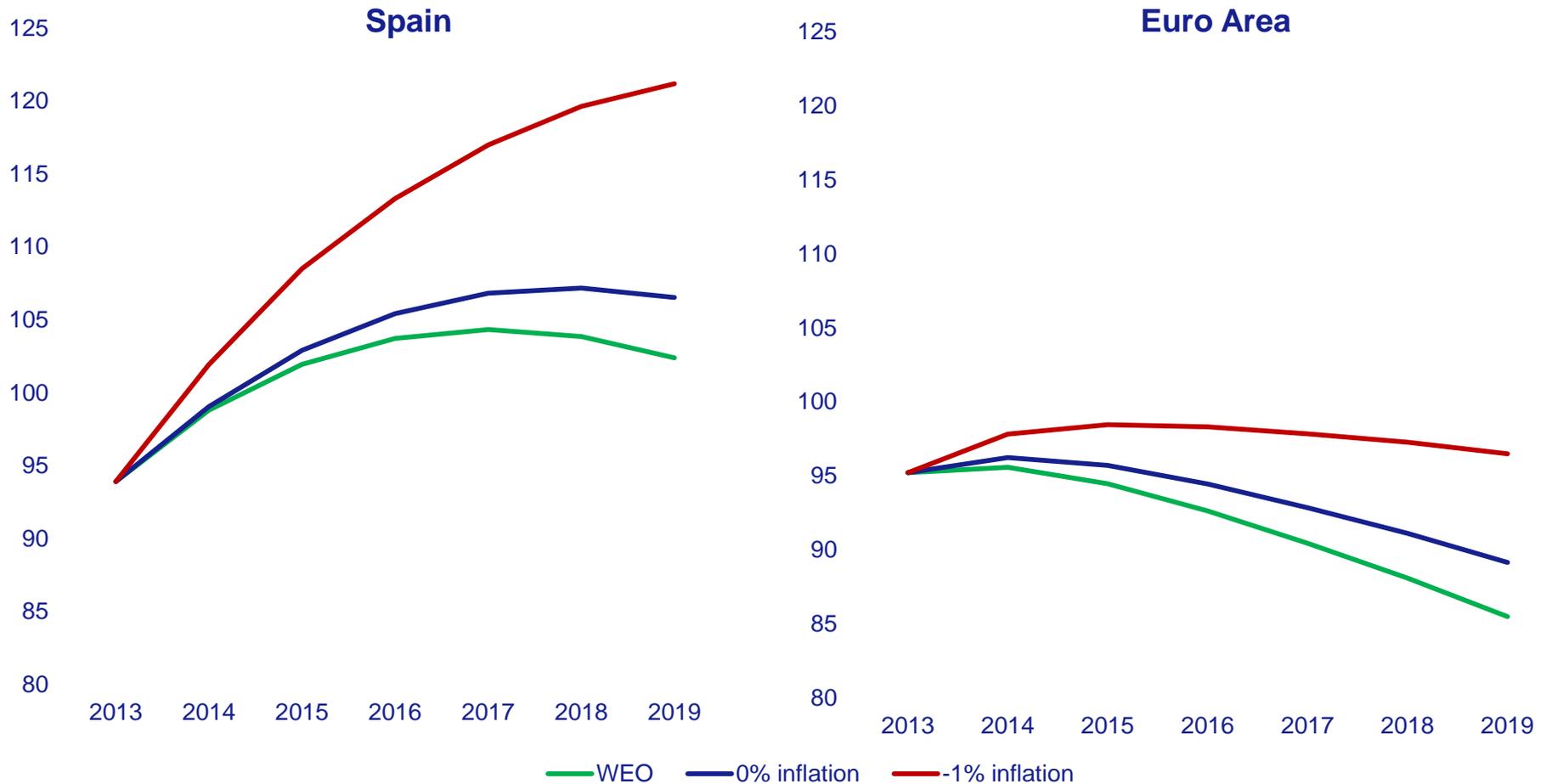
# Inflation has trended down consistently in the euro area

**Inflation Rate in Euro Area, Japan, Sweden, the United Kingdom, and the United States**  
(Percent)



# Low inflation can severely worsen debt dynamics

## Spain and Euro Area: Government Debt Under Three Inflation Scenarios (Percent of GDP)

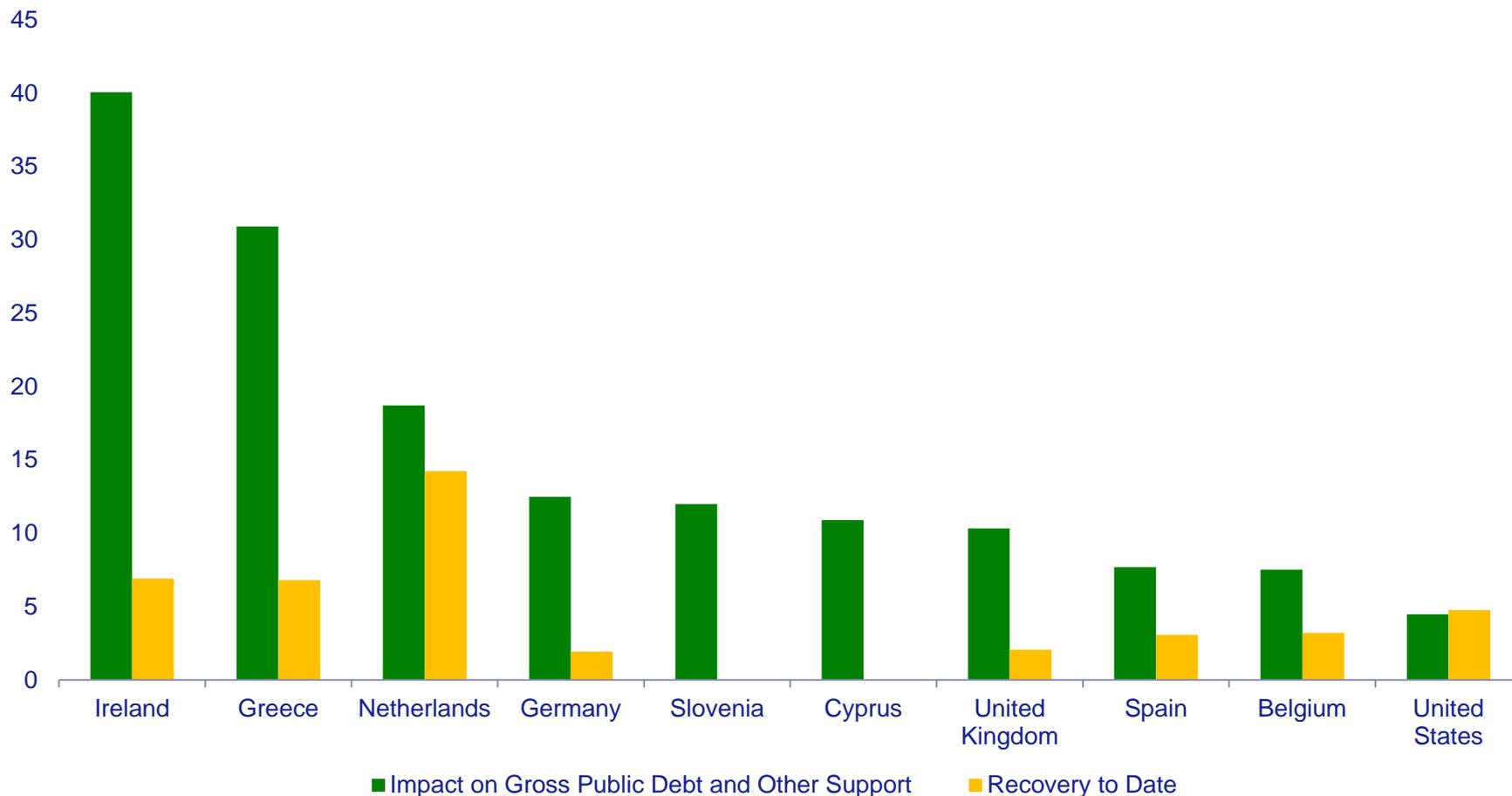


# Fiscal risk No 4

- 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

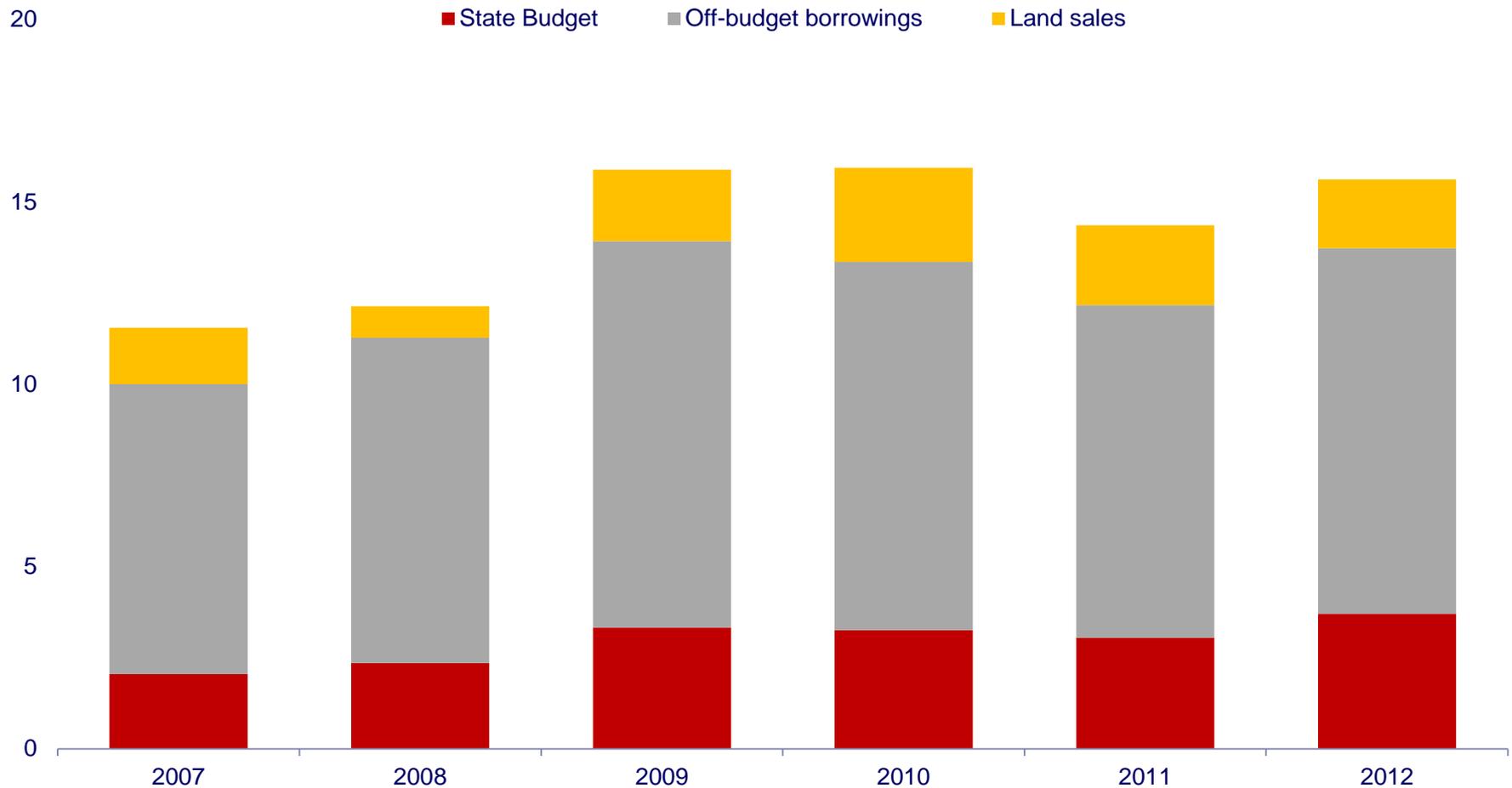
# Banking crises have had a high fiscal cost

**Selected Advanced Economies: Financial Sector Support and Recovery**  
*(percent of 2013 GDP)*



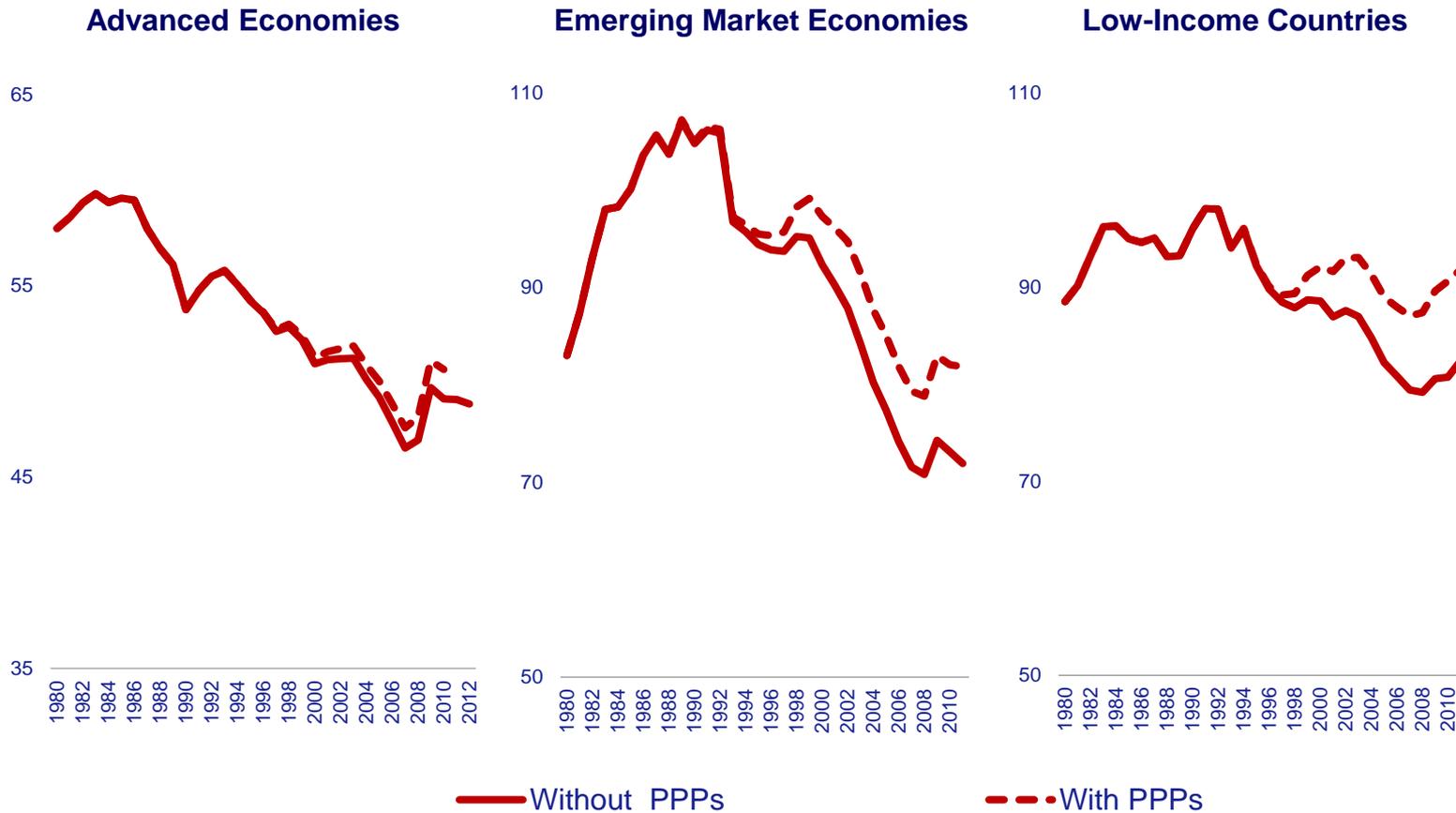
# Other contingent liabilities also matter

**China: Financing Sources of Infrastructure Investment**  
*(percent of GDP)*



# Benefits and risks of public private partnerships

## General Government Capital Stock (Percent of GDP)



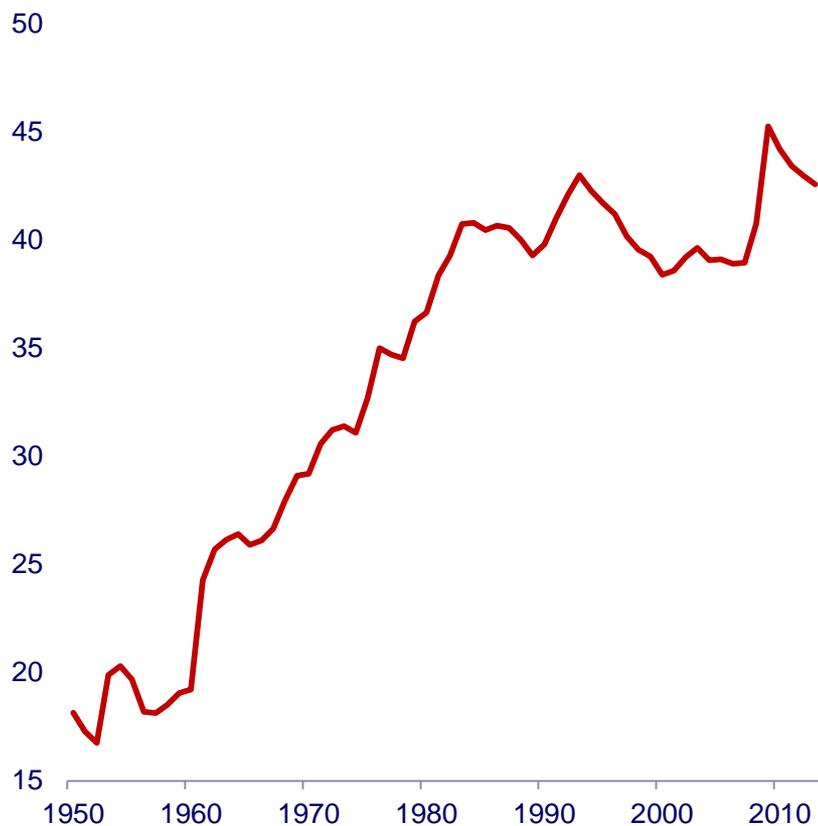
# Fiscal risk No 5

- 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**

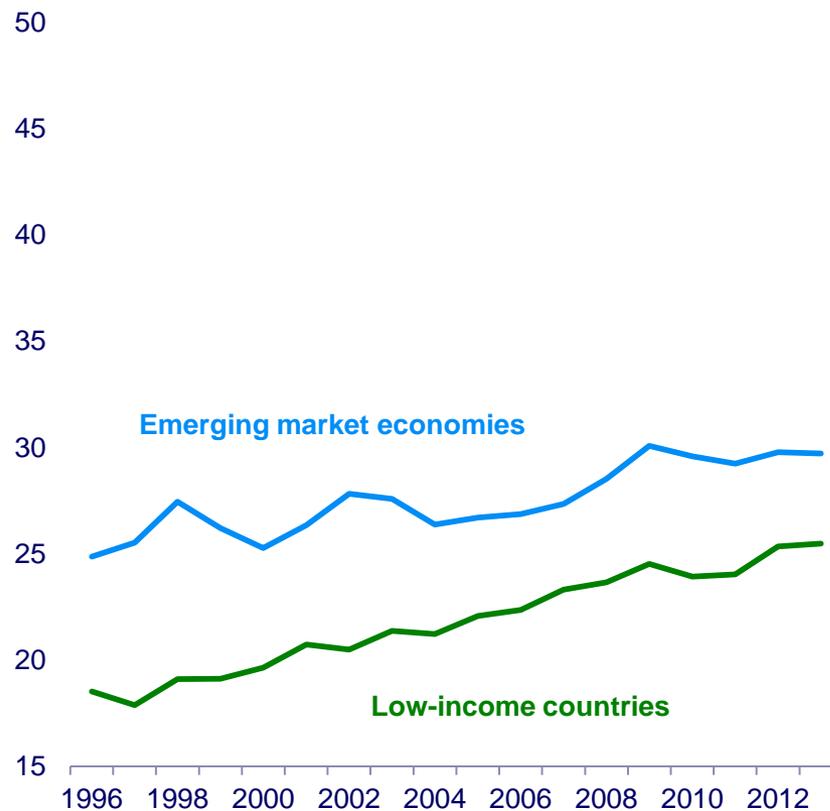
# Government spending has been on an upward trend for decades

## General Government Expenditure (Percent of GDP)

Select Advanced Economies, 1950–2013



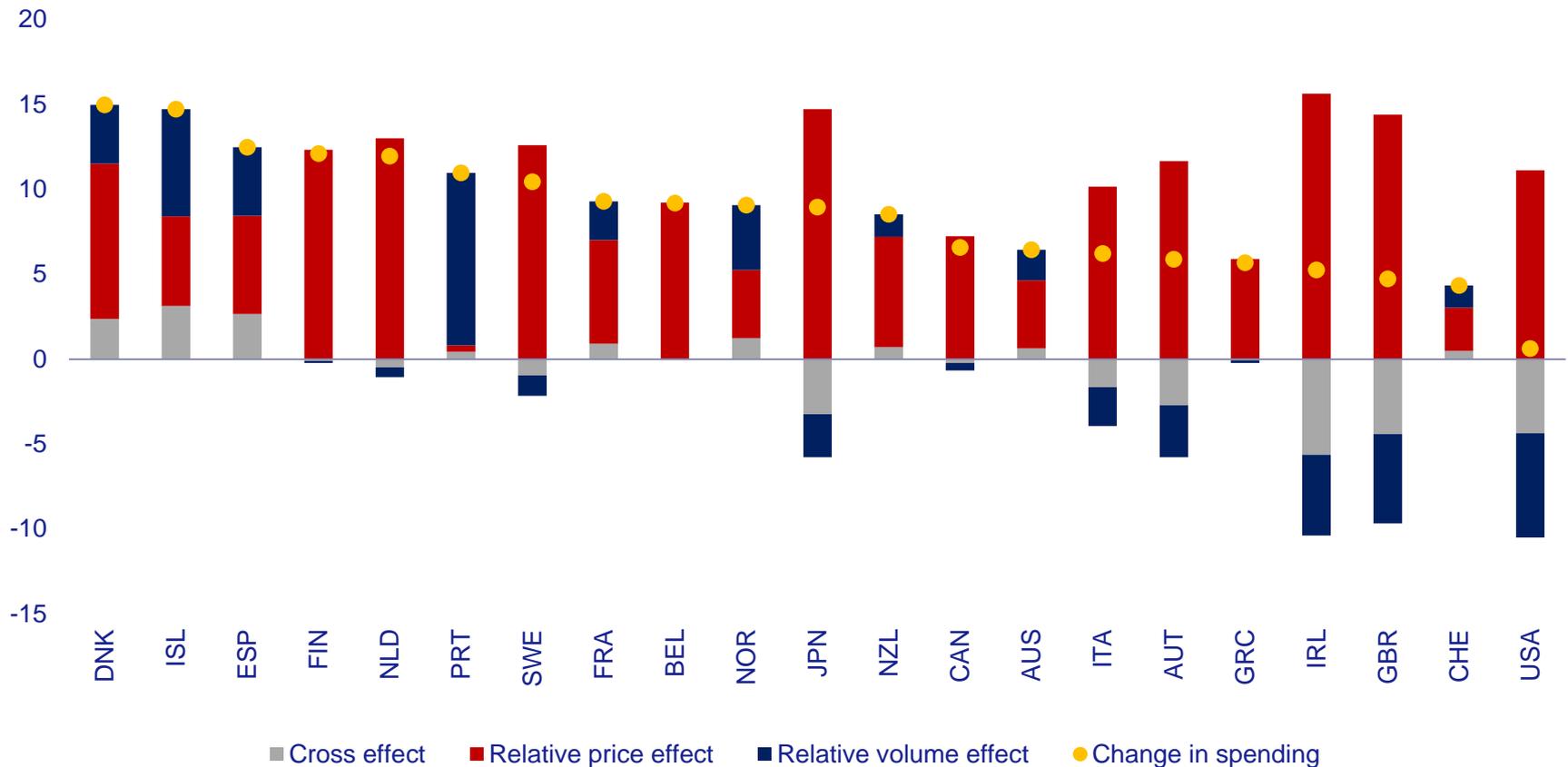
Emerging Market Economies and Low-Income Countries,  
1996–2013



# Baumol effects partially drive spending ...

**Government Consumption, 1960-2011**  
*(Percent of GDP)*

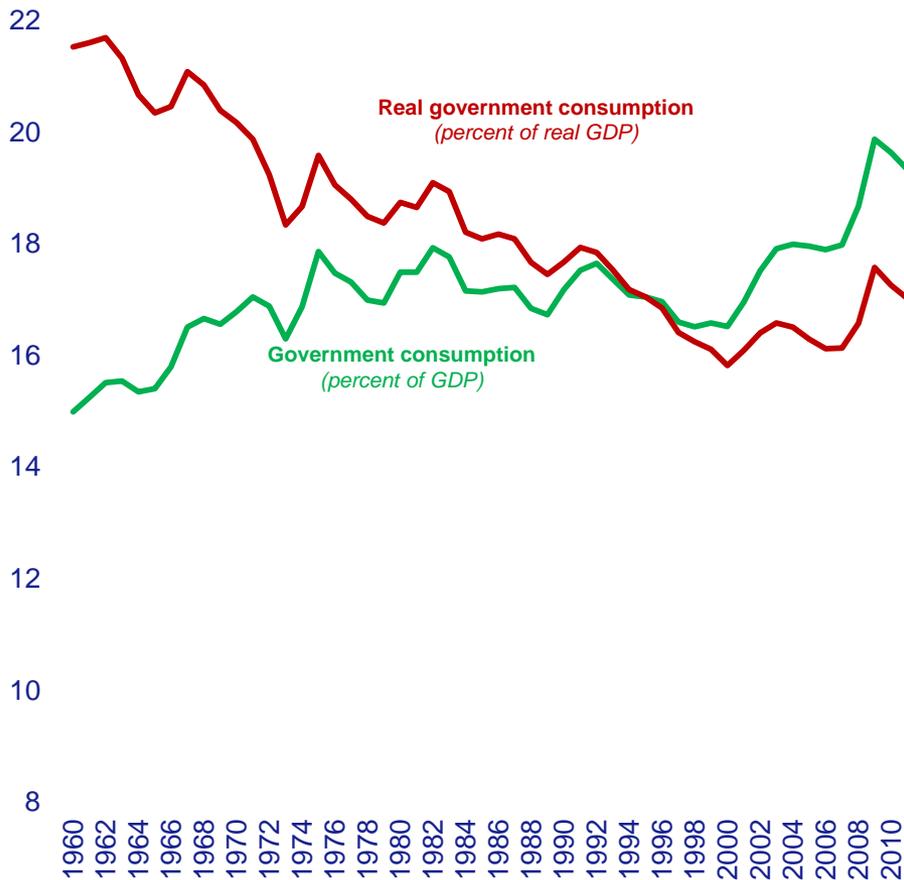
Selected Advanced Economies



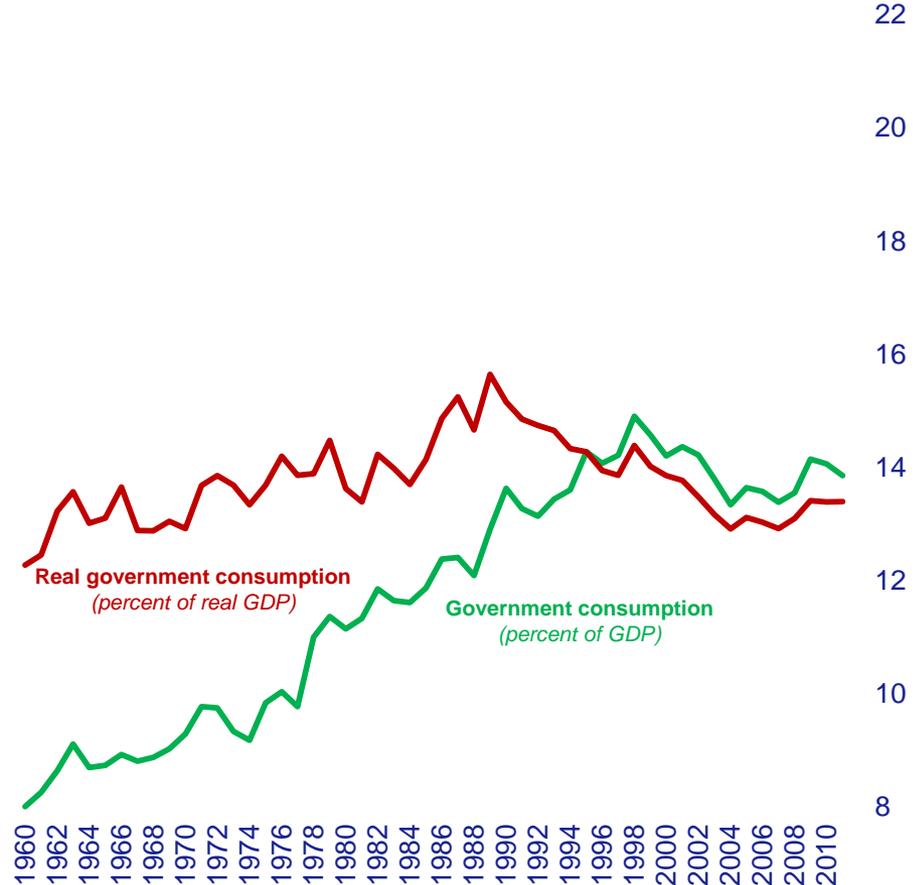
# ... even if real government consumption is contained

**Government Consumption, 1960-2011**  
*(Percent of GDP)*

**Advanced Economies**

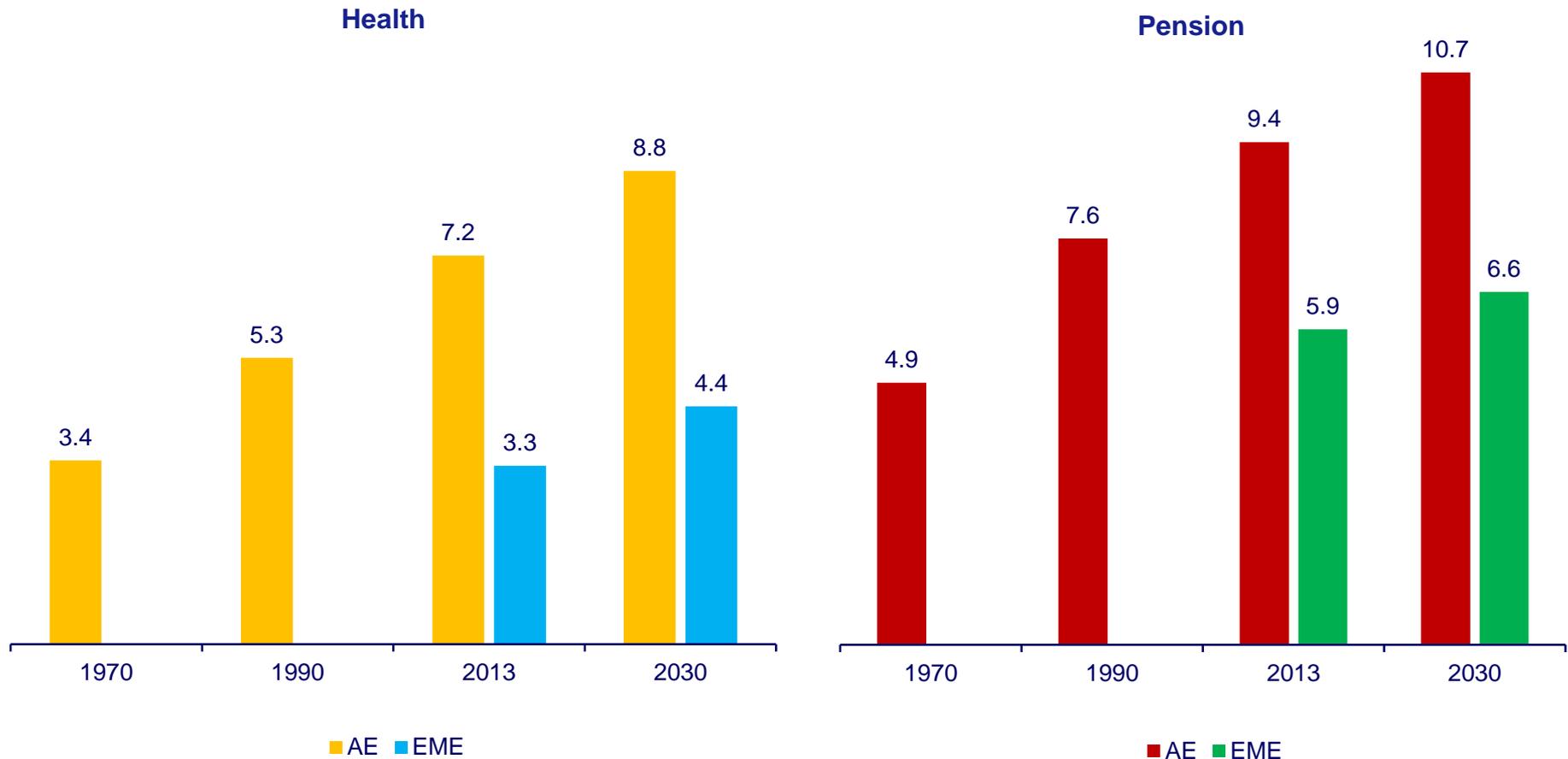


**Emerging Market Economies**



# Population aging will exacerbate the trend going forward

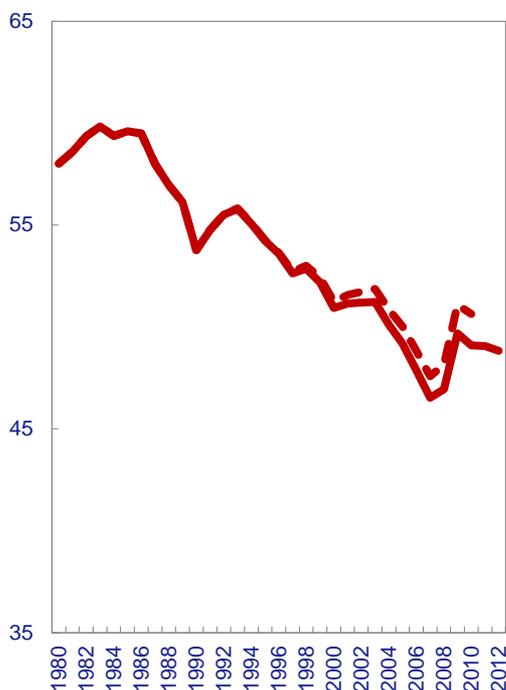
**Age-Related Expenditure in Advanced and Emerging Economies**  
*(Percent of GDP)*



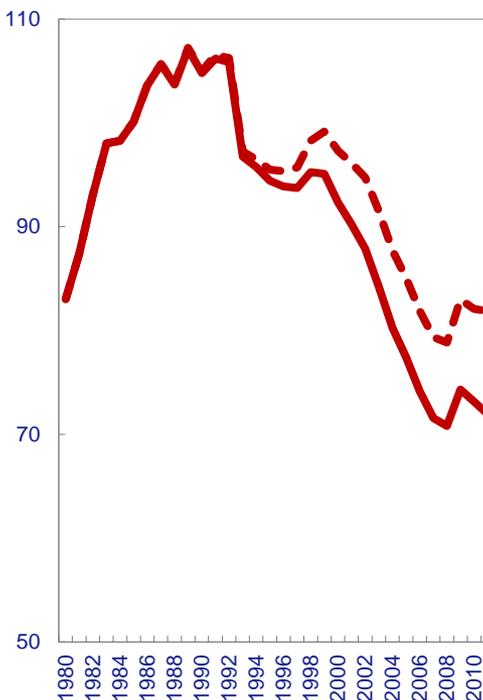
# The secular decline in public capital stocks may present additional needs

## General Government Capital Stock (Percent of GDP)

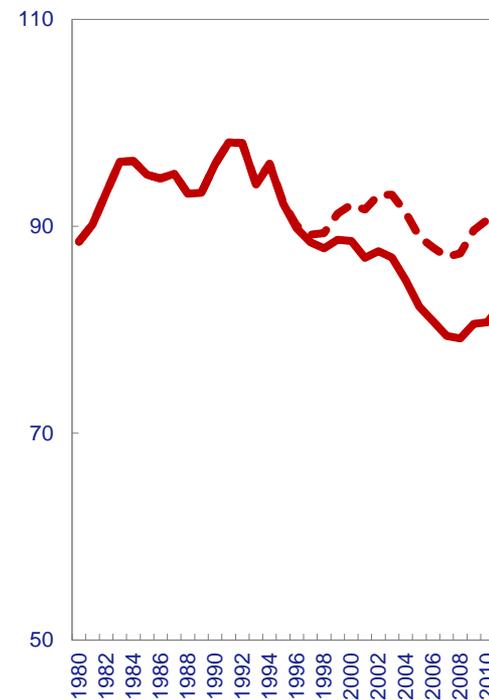
Advanced Economies



Emerging Market Economies



Low-Income Countries



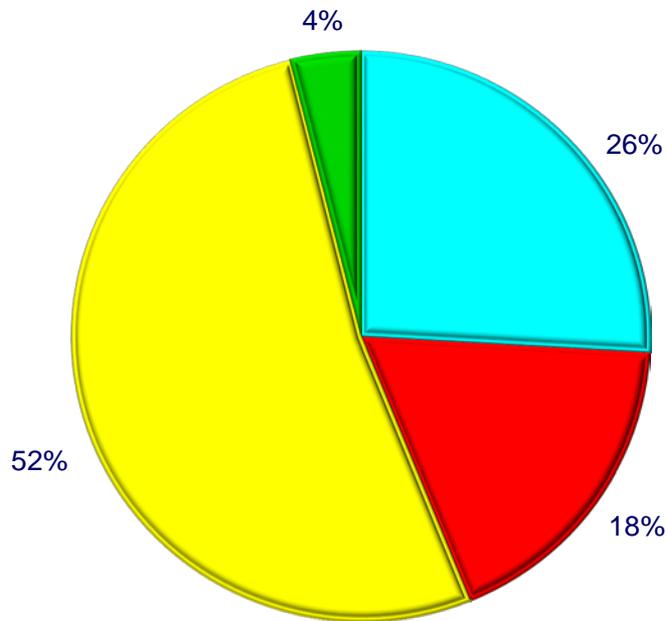
— Without PPPs

- - - With PPPs

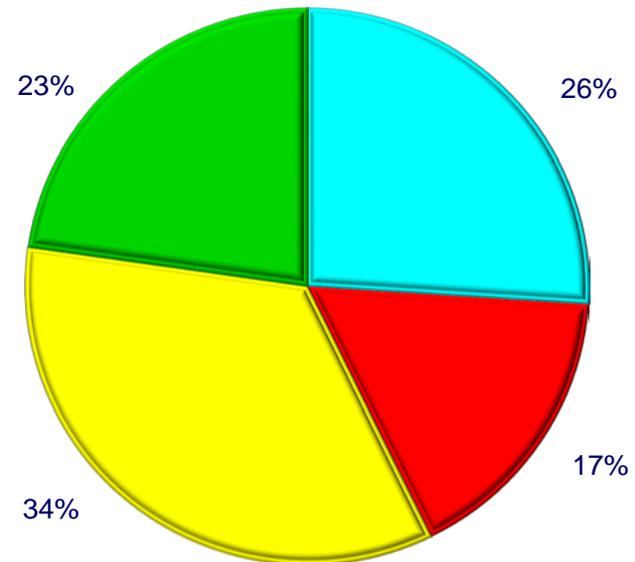
# Spending reforms will have to tackle the largest budget items...

**Expenditure Structure**  
(Percent of total primary expenditure)

**Advanced Economies**



**Emerging Market Economies and Low-Income Countries**



■ Compensation of employees   ■ Goods and services   ■ Social benefits and subsidies   ■ Investment

World Economic and Financial Surveys

## Fiscal Monitor

**Public Expenditure Reform**  
**Making Difficult Choices**  
.....

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INTERNATIONAL MONETARY FUND

# Thank you!

<http://www.imf.org/external/pubs/ft/fm/2014/01/fmindex.htm>