Today’s Challenge: Doing More With Less

Potential GDP Per Capita Growth, 1990–2016
(Percent)

Advanced Economies: Real Income Per Capita
(1990=100)

Global Gross Debt by Income Groups
(Percent of GDP; simple average)

Sources: World Wealth & Income Database; IMF, World Economic Outlook; and IMF staff estimates.
Outline

- Recent Fiscal Developments
  - Advanced Economies
  - Emerging Markets
  - Low Income Developing Countries
  - Risks on the Outlook

- Fiscal Policy Recommendations
  - Countercyclical policies
  - Growth-friendly policies
  - Inclusive policies
  - Generating resources
Recent Fiscal Developments
**Advanced Economies: Relaxation Is In the Air**

**AEs: Fiscal Impulse 2011–22**

*(Percent of potential GDP)*

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<tr>
<td>Change in structural primary deficit (percent of potential GDP)</td>
<td>-1.5</td>
<td>-1.0</td>
<td>-0.5</td>
<td>0.0</td>
<td>0.5</td>
<td>1.0</td>
<td>2011</td>
<td>2012</td>
<td>2013</td>
<td>2014</td>
<td>2015</td>
<td>2016</td>
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**Number of Countries in Which the Fiscal Stance Was Tightened, Loosened, or Remained Neutral, 2010–17**

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<tr>
<th>Year</th>
<th>Tightened</th>
<th>Loosened</th>
<th>Remained neutral</th>
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<tr>
<td>2010</td>
<td>18</td>
<td>5</td>
<td>11</td>
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<tr>
<td>2011</td>
<td>24</td>
<td>6</td>
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<tr>
<td>2012</td>
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<td>2016</td>
<td>10</td>
<td>11</td>
<td>16</td>
</tr>
<tr>
<td>2017</td>
<td>6</td>
<td>12</td>
<td>12</td>
</tr>
</tbody>
</table>

Sources: IMF, *World Economic Outlook*; and IMF staff estimates. Note: 1/ The fiscal stance is considered to have tightened if the ratio of the structural primary balance to potential GDP improves by at least 0.25 percent per year, to have loosened if that ratio deteriorates by at least 0.25 percent per year, and to have remained neutral otherwise.
Emerging Markets: Adapting to New Realities

Sources: IMF, World Economic Outlook; and IMF staff estimates.
Low-Income Developing Countries: Turning the Corner?

Change in Fiscal Balance Ratio, 2011–16
(Percent of GDP)

Expected Change in Fiscal Balance Ratio, 2016–17
(Percent of GDP)

Sources: IMF, World Economic Outlook; and IMF staff estimates.
Main Risks: Policy Uncertainty and High Debt

- **Uncertainty** on fiscal policy

- **Vulnerability** of government balance sheets
  - High debt

- Elevated risks
  - Growth slowdown
  - Tighter financial conditions and weaker currencies
  - Lower commodity prices
  - Contingent liabilities
U.K.: Dealing With Elevated Risks

**Economic Policy Uncertainty Index**

**U.K.: Public Sector Deficit Targets**
*(Percent of GDP)*

Sources: Baker, Bloom and David 2016; U.K. budget; and IMF staff estimates.
China: Debt Is High and Rising

Private, Public, and Augmented Debt
(Percent of GDP)

- Private debt (RHS)
- Public debt (WEO)
- Augmented public debt

Financing Sources of Local Governments
(Percent of GDP)

- Local government bonds (on-budget)
- Other financing sources (off-budget)

Sources: NAO reports, CEIC, IMF estimates.

Note: 1/ Augmented debt includes borrowing by local government financing vehicles (LGFV).
2/ Include LGFV bonds, LGFV trust loans, bank loans, and other items.
Policy Recommendations
A Greater Role for Fiscal Policy

1. Counter-cyclical
2. Growth friendly
3. Inclusive

4. Capacity to Generate Resources
5. Fiscal Risk Management
A Greater Role for Fiscal Policy

5. Fiscal Risk Management

1. Counter-cyclical
2. Growth friendly
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4. Capacity to Generate Resources
A Symmetric Approach to Countercyclicality

- Should be **countercyclical in downturn**: Euro Area, Japan
- Should be **countercyclical in upturn**: U.S., China
- **Procyclical policies when no other option** (e.g., commodity exporters) but drag on growth should be minimized
Risks of Procyclicality

Sources: IMF, *World Economic Outlook*; and IMF staff estimates.

**US: Fiscal Impulse and Output Gap, 2009–22**
(Percent of potential GDP)

**US: General Government Debt, 2009–22**
(Percent of GDP)
A Greater Role for Fiscal Policy

4. Capacity to Generate Resources

5. Fiscal Risk Management

1. Countercyclical

2. Growth friendly

3. Inclusive
Direct and Indirect Effects of Fiscal Policy on Growth

Relationship between Tax Wedge and Employment Rate in Advanced Economies

Net Medium-Term Fiscal Benefit of Job Protection Reforms under Weak Economic Conditions

Sources: Banerji and others 2017; Organisation for Economic Co-operation and Development; World Bank; and IMF staff estimates.
Using Resources More Efficiently Raises Productivity

Distribution of Firm-Level Revenue Productivities

- More efficient country
- Less efficient country

Annual Real GDP Growth Effects from Reducing Resource Misallocation

Sources: ORBIS; World Bank, Enterprise Surveys; and IMF staff estimates.
A Greater Role for Fiscal Policy

5. Fiscal Risk Management

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2. Growth friendly
3. Inclusive

4. Capacity to Generate Resources
Globalization Gains Are Unevenly Distributed

Sources: Standardized World Income Inequality Database; and IMF staff estimates.

1 1985 refers to 1985 or the earliest available year until 1990. 2015 refers to 2015 or the latest available year between 2010 and 2015.

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The Two Pillars of Inclusive Policies

Market Income and Disposable Income Inequality in OECD Countries
(Index 2007 = 100)

- Market income inequality (before transfers and taxes)
- Disposable income inequality (after transfers and taxes)

Benefit generosity and unemployment risk, OECD countries
(Percent)

Sources: OECD; and IMF staff estimates.
A Greater Role for Fiscal Policy

5. Fiscal Risk Management

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4. Capacity to Generate Resources
More Borrowing?

Net Present Value of Future Pension Obligations in Advanced Economies, 2015–50
(Percent of GDP)

Interest–Growth Rate Differentials in Advanced Economies, 1990–2016
(Percent)

Sources: IMF, World Economic Outlook; and IMF staff estimates.
Revenue Mobilization and Expenditure Savings

World Distribution of Tax-to-GDP Ratio, 2016

- AEs
- EMs
- LIDCs

Secondary Education Spending Per Student, 2015

Sources: IMF, World Economic Outlook; and IMF staff estimates.
A Greater Role for Fiscal Policy

5. Fiscal Risk Management

1. Counter-cyclical
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4. Capacity to Generate Resources
Better Analyzing and Managing Fiscal Risks

Four-Step Strategy

1. Identify risks, magnitude, and likelihood
2. Reduce the probability of risks and government exposure
3. Create buffers in the budget to absorb the remaining risks
4. Set safe fiscal targets

Conclusions
Today’s Challenge: Doing More With Less

Fiscal policy is asked to **do more**

► Stabilize the economy (except when debt sustainability is at stake)
► Promote growth with smart policies
► Share the growth dividend more evenly

… **with less** resources…

… and in a prudent way
Thank you for your attention!