



IMF-OAP and FAD Seminar

A Fair Shot—Tailoring Fiscal Responses

Fiscal Monitor

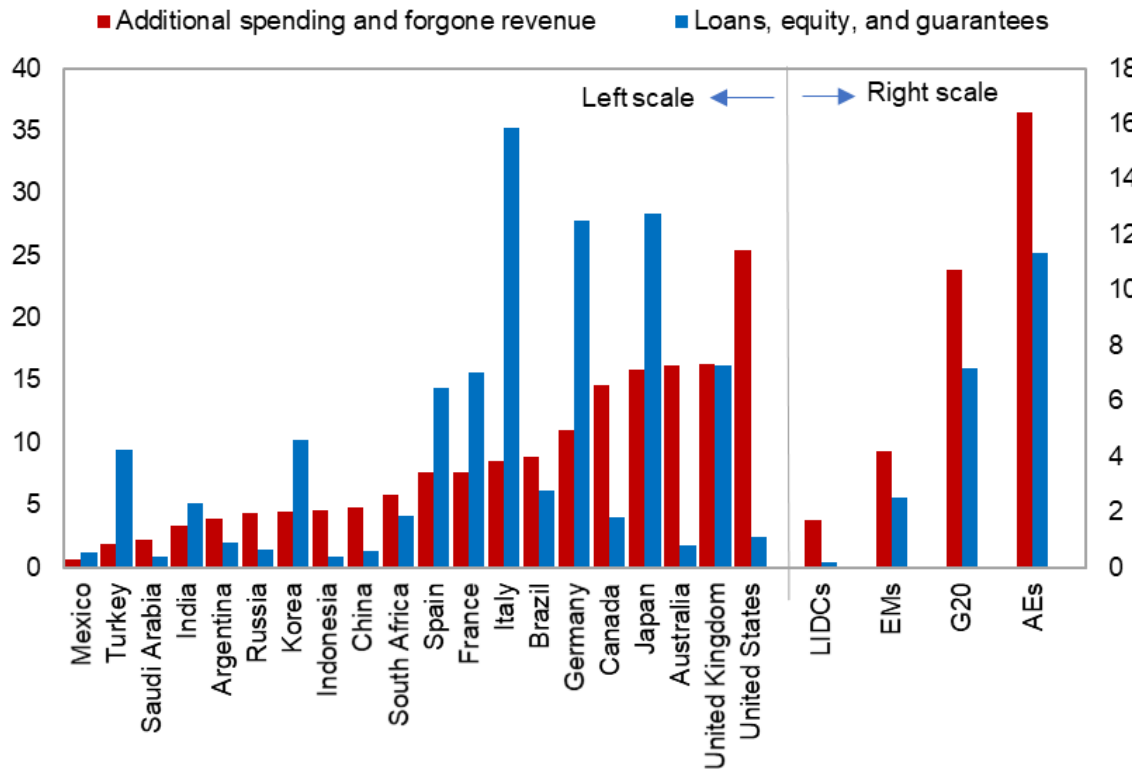
JUNE 15, 2021

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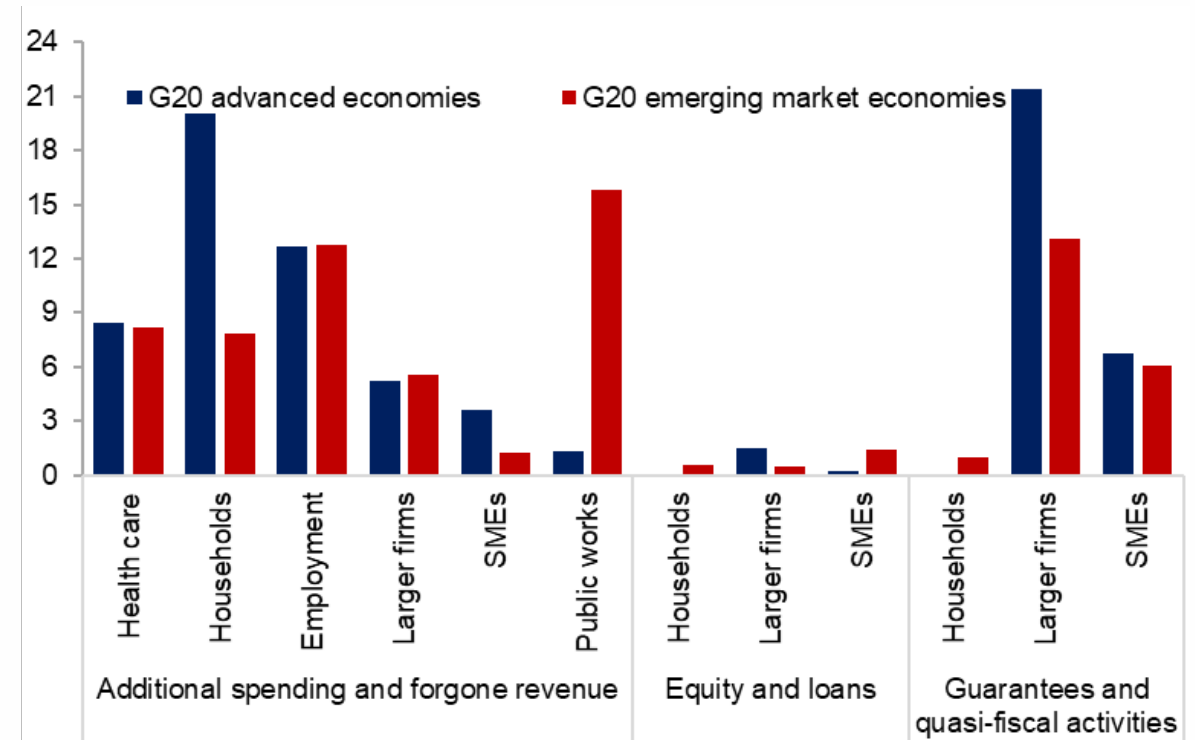
1. *Recent Fiscal Developments and Outlook*
2. *Fiscal Policies in Balancing Short-term Support Needs and Medium-term Sustainability*

Governments have adopted exceptional measures in response to COVID-19

Size of fiscal support (Percent of 2020 GDP)



Types of beneficiaries (percent of total)



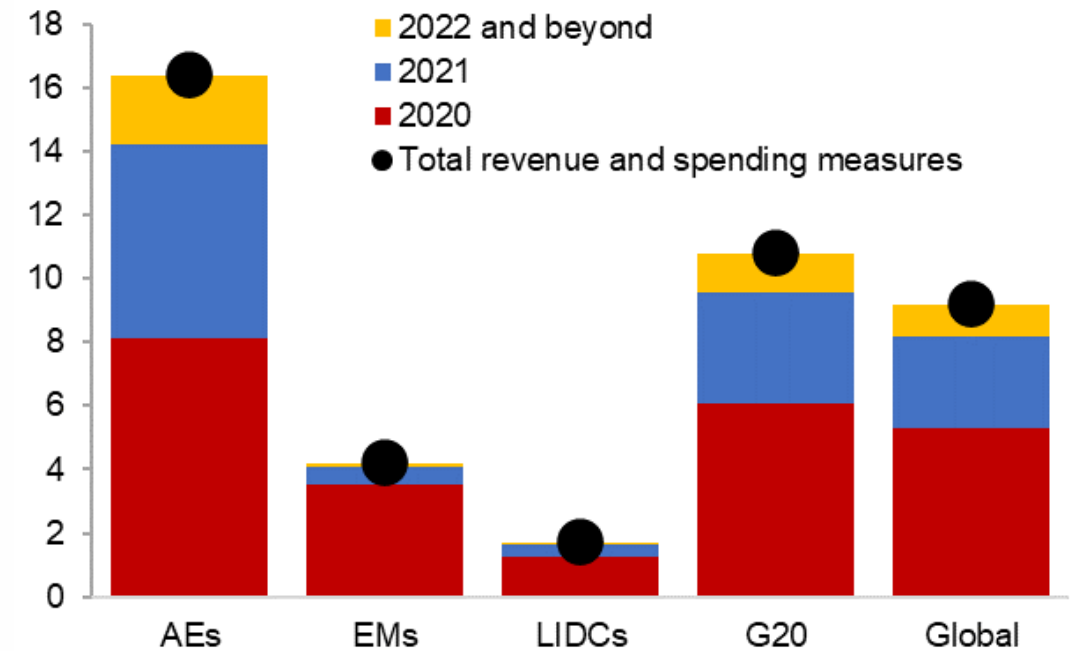
Sources: IMF, Fiscal Monitor Database of Country Fiscal Policies in Response to COVID-19; and IMF staff estimates.

Note: Data refer to fiscal measures announced between January 2020 and March 17, 2021. AEs = advanced economies; EMs = emerging market economies; G20 = Group of Twenty; LIDCs = low-income developing countries; SMEs = small and medium-sized enterprises.

... and have tailored support policies as the crisis evolves.

- Fiscal support in many countries continue in 2021 and beyond;
- The size of support depends on fiscal space;
- Increasingly targeted:
 - Health crisis (vaccination)
 - Vulnerable households
 - Viable but liquidity-constrained firms
- Structural transformation for the post-COVID19 environment.

Time Horizon of Revenue and Spending Measures
(Percent of 2020 GDP)



Sources: IMF, Fiscal Monitor Database of Country Fiscal Policies in Response to COVID-19; and IMF staff estimates.

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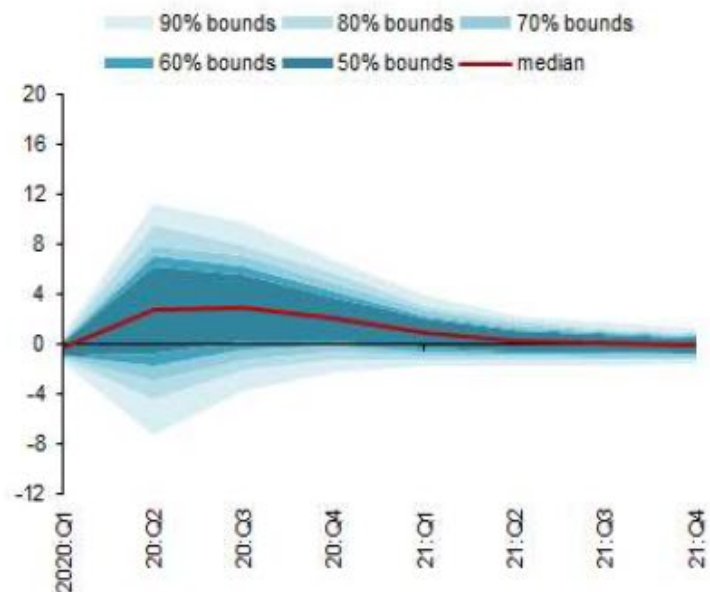
Forceful government support has prevented a more severe global contraction.

Impact of Fiscal Support on Quarterly GDP Growth

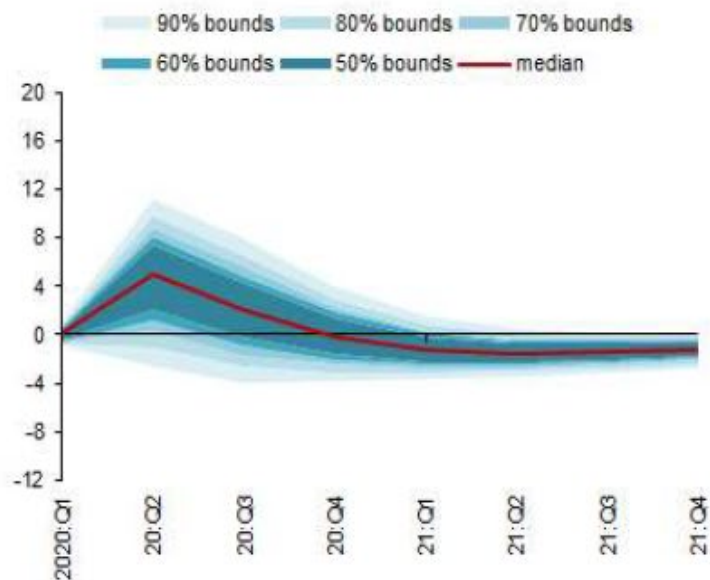
(Percentage point deviation from the baseline)

At the global level, fiscal support has mitigated the fall in global growth in 2020 by about 2 percentage points.

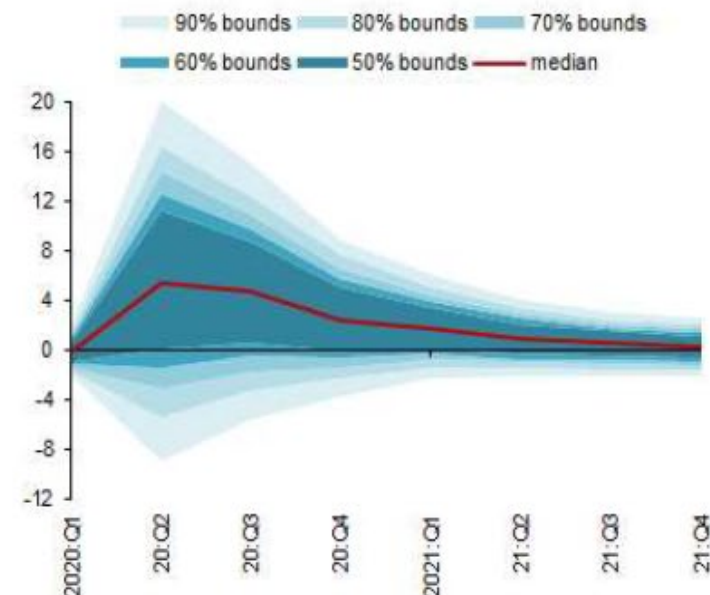
1. World



2. Advanced Economies



3. Emerging Markets excluding China



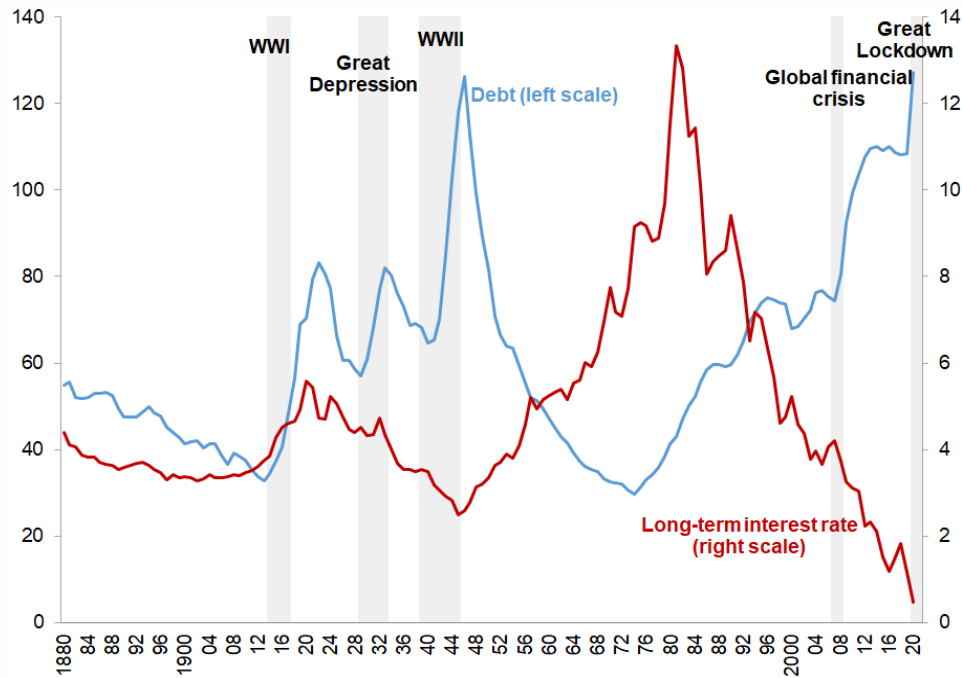
Sources: Chudik, Mohaddes, and Raissi (2021).

Note: Estimates are based on a Threshold-augmented global VAR model featuring quarterly data for 33 advanced and emerging market economies during 1979-2019 and the IMF Fiscal Monitor database of country fiscal measures. The bounds are the range of the likely outcomes (rather than statistical significance) based on constellation of global, regional, and country-specific disturbances that the world economy had experienced. The model has not explicitly model lockdowns or COVID-19 supply disruptions.

Public finances benefiting From low interest rates in several countries

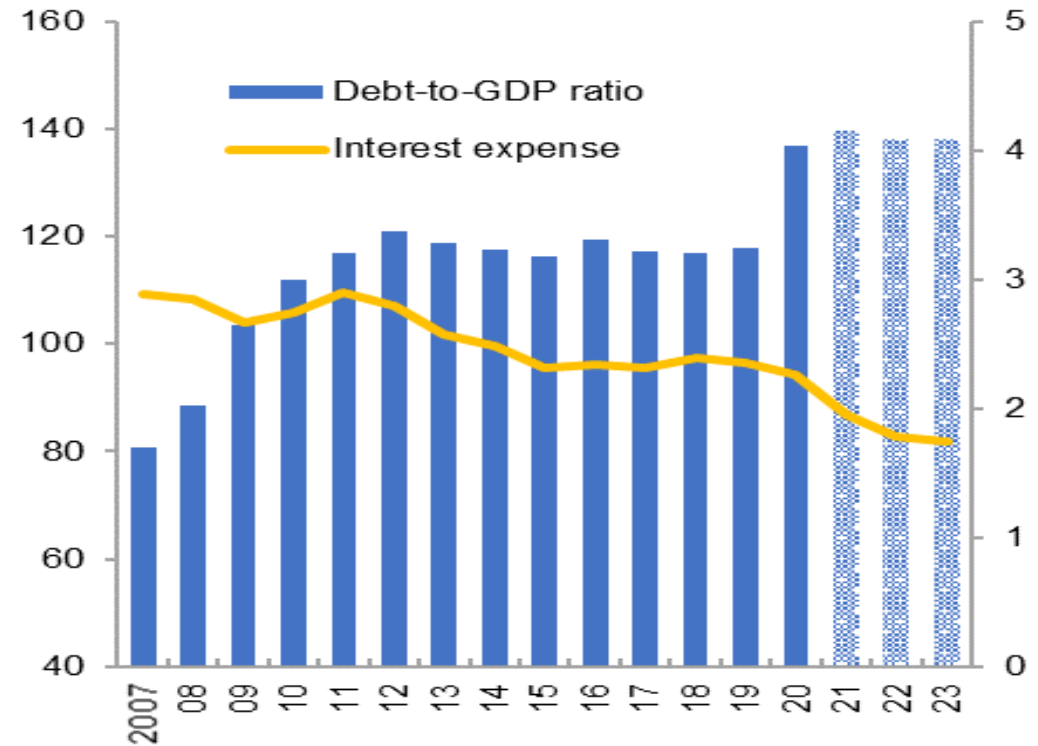
Public Debt and Bond Yields in Advanced Economies, 1880-2020

(Percent of GDP, left scale; percent, right scale)



Interest Expense and Government Debt in G7 Economies

(Percent of GDP; Debt-to-GDP, left scale; interest expense, right scale)

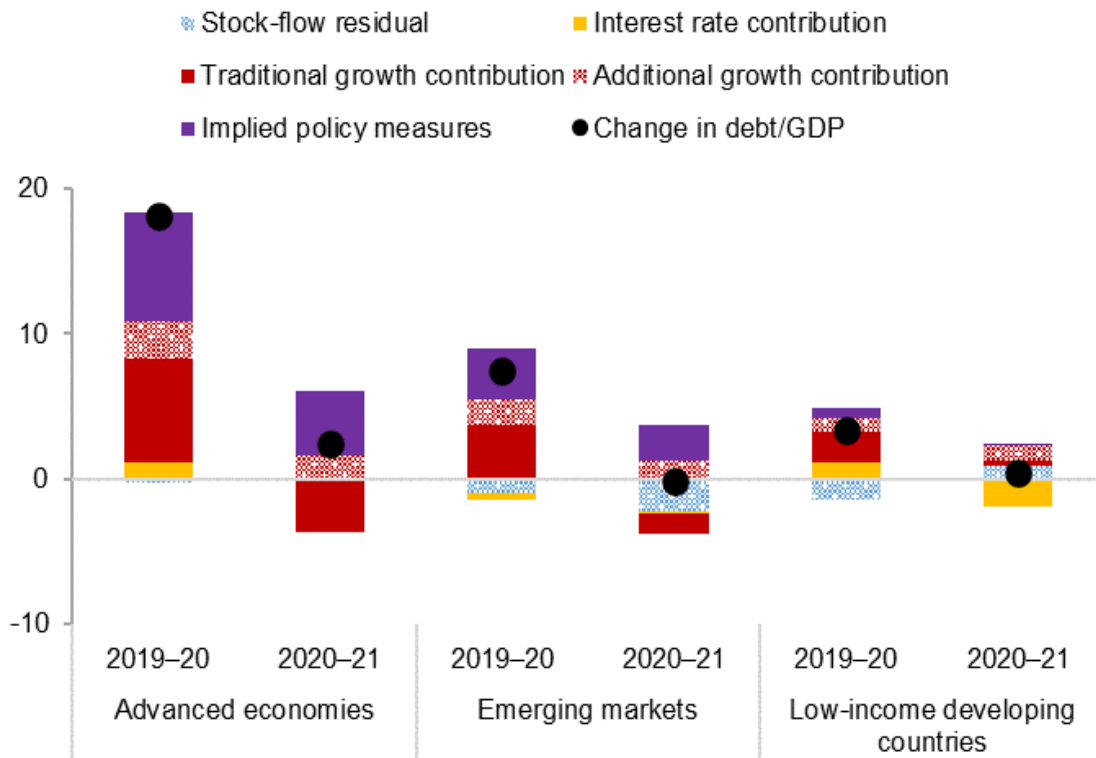


Sources: IMF, Historical Public Debt Database; IMF, World Economic Outlook database; JST Macro-History database; Maddison Database Project; Thomson Reuters Datastream, Global Financial Data; and IMF staff calculations.

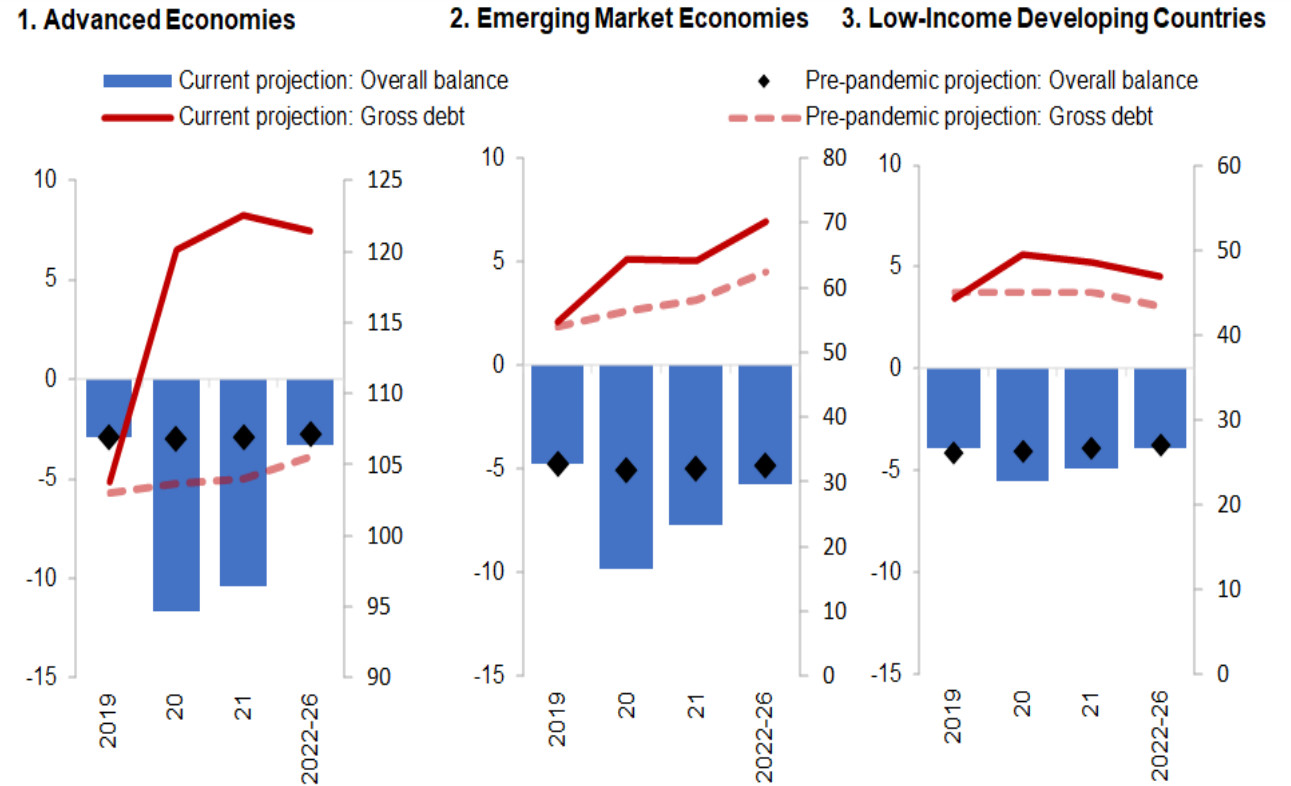
Note: The public-debt-to-GDP and long-term interest rates series for advanced economies are based on a constant sample of 20 countries, weighted by GDP in purchasing power parity terms. WWI = World War I; WWII = World War II.

Challenges remain: managing high public debt

Changes in Government Debt (Percent of GDP)



The Effect of the Covid-19 on fiscal forecasts (Percent of GDP; Overall balance, left scale; Gross debt, right scale)



Sources: IMF, World Economic Outlook database.

Note: Additional growth contribution refers to the effect on the primary surplus through lower revenues. The stock-flow residual is the change in the debt ratio resulting from factors (such as bailouts or exchange rate changes) other than those listed. The overall effect of output growth on debt-to-GDP ratio is measured by the sum of traditional and additional growth contributions (solid and dotted red bars).

... and addressing heightened fiscal risks.

Common Fiscal Risks

Macroeconomic risks

Contingent liabilities

Institutional risks

Heightened uncertainty from the pandemic



Growth, debt and financing conditions, scars (poverty, human capital)

Off-budget exposures, such as guarantees, public sector undertakings

Highlight weaknesses in medium-term planning and capacity to manage fiscal risks

Fiscal Policies should remain flexible and supportive to the recovery

➤ Priorities

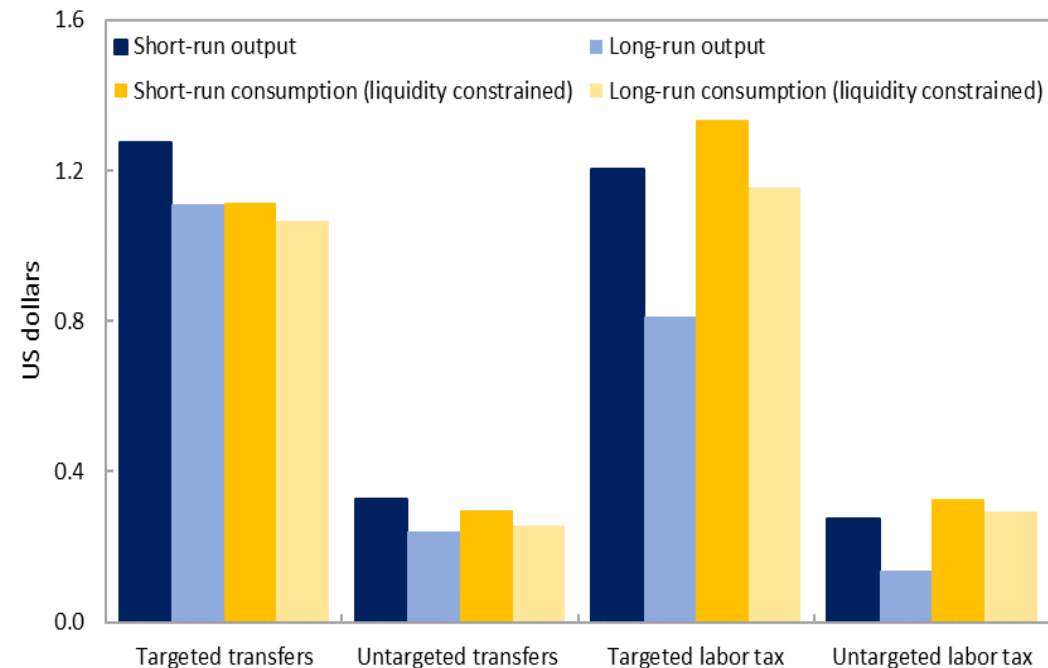
- Vaccination
- Support recovery; more targeted to the most vulnerable.

➤ Credible medium-term fiscal framework

- Degree of scarring (potential growth; long-term unemployment)
- Reduce debt levels; limit the rise of borrowing costs
- Rebuild fiscal buffers

➤ Make economies more inclusive, green, and resilient

Targeted Measures Have a Greater Impact (Fiscal Multipliers) on Output

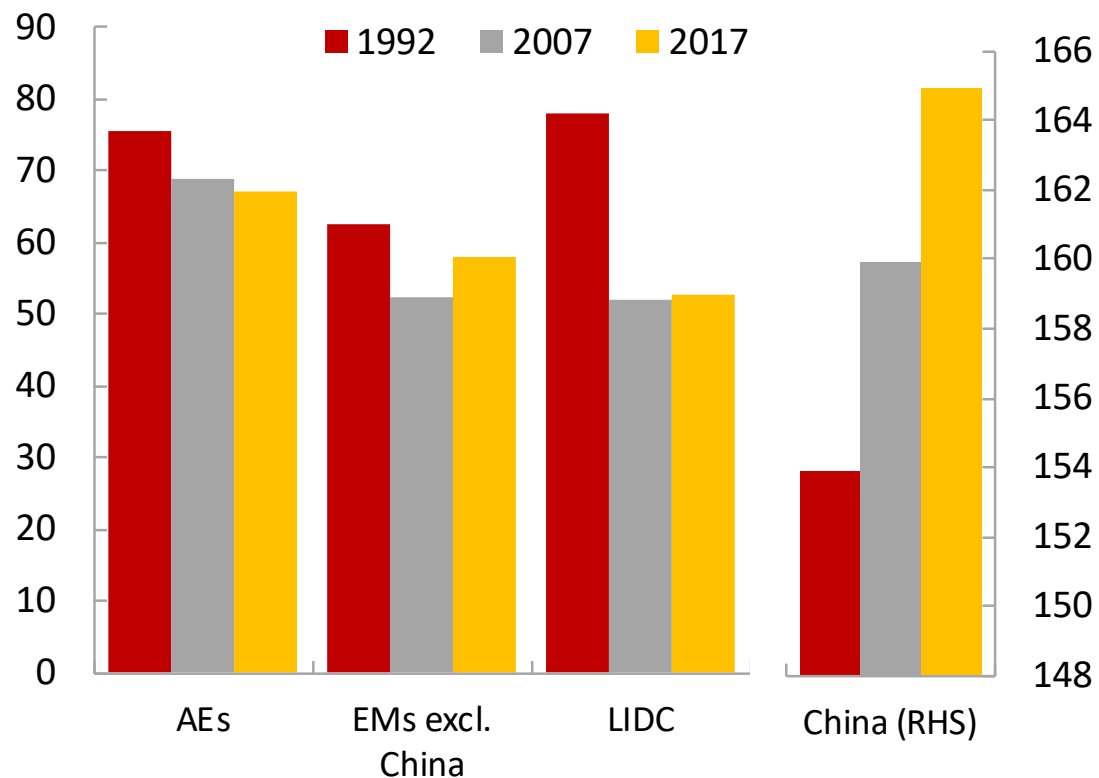


Sources: Fiscal Monitor (Fall 2020).

Note: The tax multipliers plotted are converted such that a positive number refers to an increase in a variable in response to a tax cut measure. Short (long)-run multipliers refer to cumulative multipliers at the end of one (five) years.

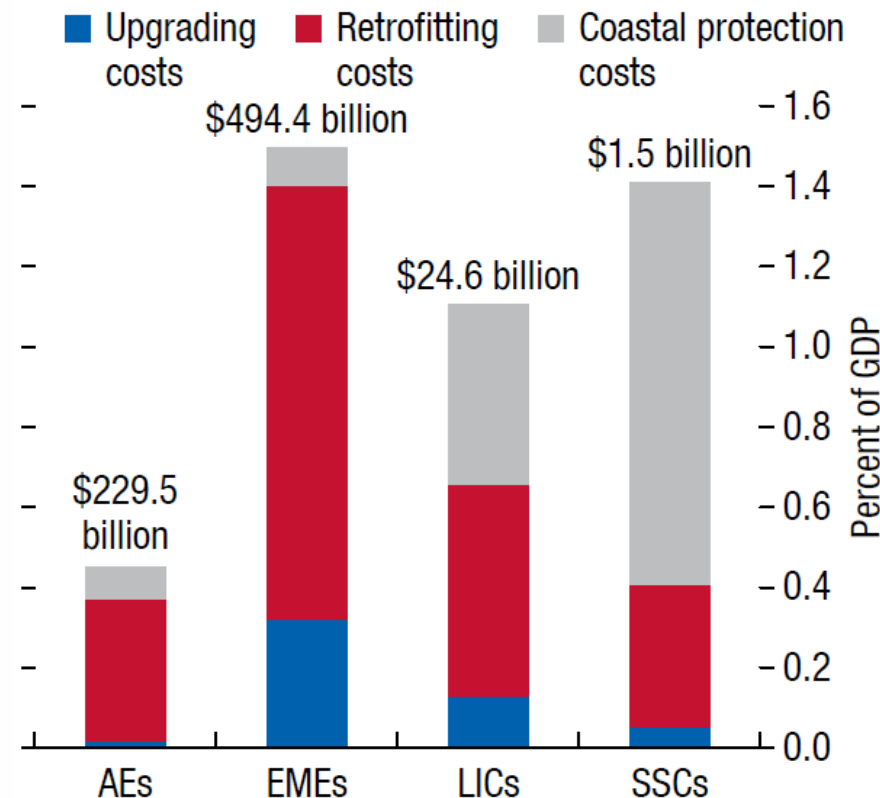
Scaling up public investment in the COVID-19 recovery

Public Capital Stocks, 1992, 2007, and 2017
(Ratio to GDP)



Source: IMF Investment and Capital Stock Dataset.
Note: AEs = advanced economies; EMs = emerging markets; LIDCs = low-income developing countries.

Annual Climate Change Adaptation Costs
(in percent of GDP)

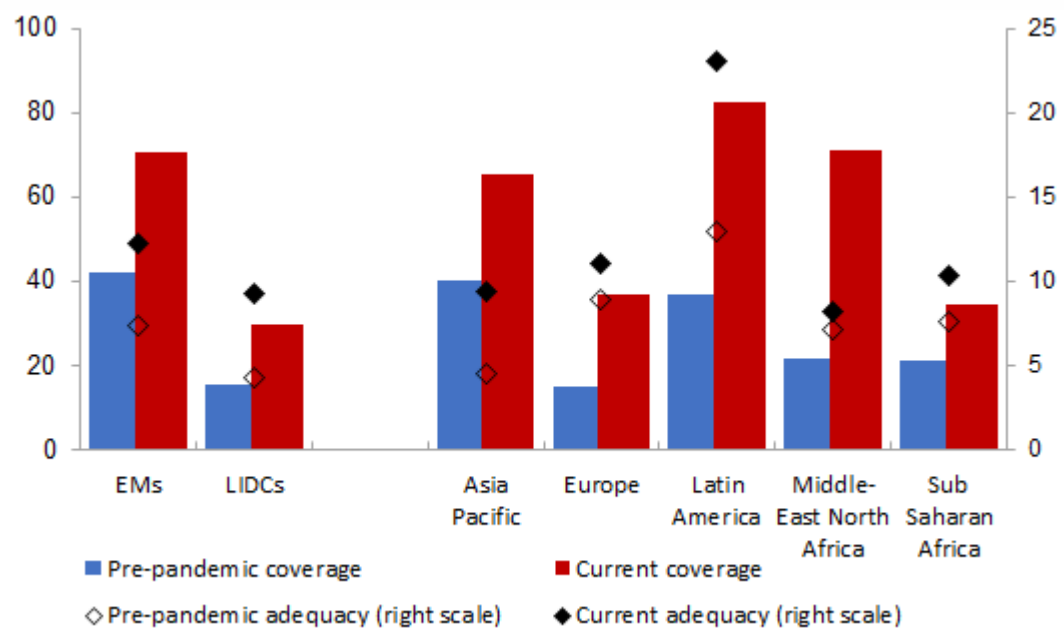


Sources: Rozenberg and Fay 2019; Fiscal Monitor (2020).
Note: Upgrading costs estimated WEO projections. Retrofitting costs calculated using share of exposed public assets. Coastal protection costs based on global representations of coastal zones and climate model in Nicholls and others (2019).

Strengthening social protection systems and reforming tax systems for an inclusive economy in the Post-COVID-19 environment.

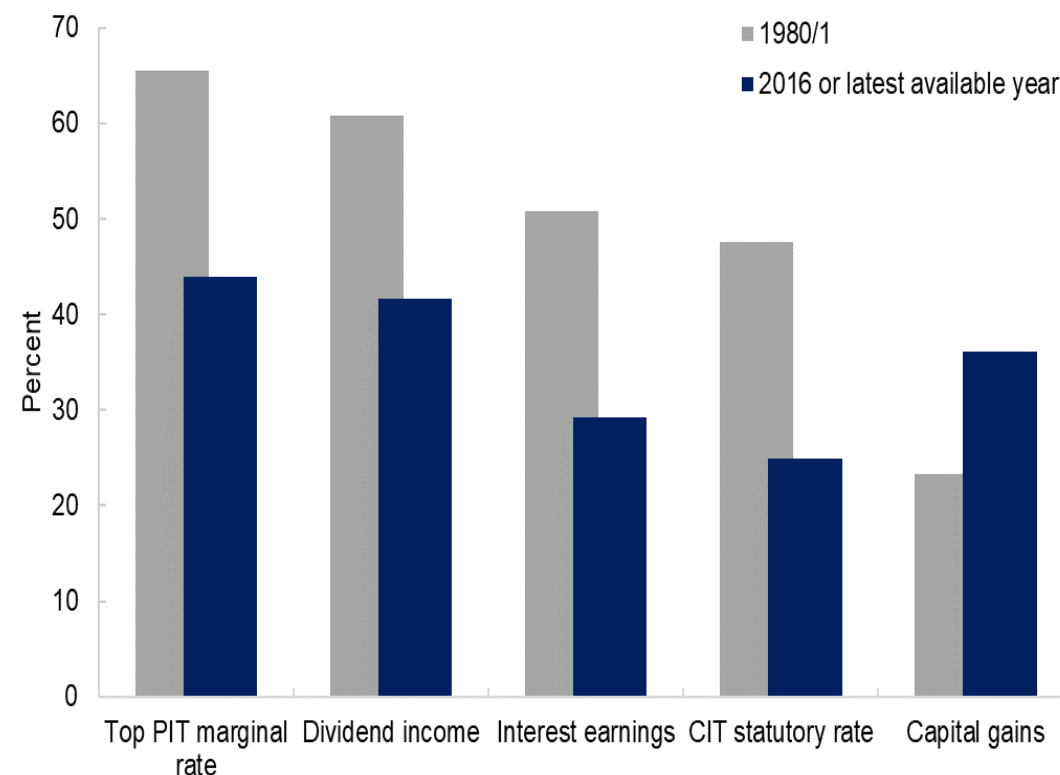
Adequacy and Coverage of Social Safety Nets

(Percent of eligible beneficiaries, left scale; percent of household pre-transfer income, right scale)



Sources: World Bank ASPIRE; Gentilini and others 2020; and IMF staff estimates.
 Note: Adequacy is the total transfer amount received by beneficiaries as a share of pretransfer total income. Coverage denotes the share of population that receives social assistance. Numbers indicate population-weighted group averages. Some countries have a really high coverage (sometimes exceeding 100 percent of the population) owing to program duplications. Those exceeding 100 percent of the population are excluded. Post-Covid-19 data are constructed by adding Covid-19 social assistance to pre-Covid-19 information. EM = Emerging markets; LIDC = Low-income developing countries.

The top marginal tax rates for both labor and capital income have declined since the 1980s (in percent of GDP)



Sources: Carey and others (1993); and Harding and Marten (2018).
 Note: CIT=corporate income tax; PIT=personal income tax.

Conclusions

- Governments should keep fiscal policies flexible and targeted as the crisis evolves.
- They need to balance the needs of providing near-term support and managing risks from high debt and long-term scarring.
- Developing credible medium-term fiscal framework can help achieve this balance while contributing to inclusive growth and green economy.
- Priorities would be to scale up quality public investment, strengthen social protection, and making tax systems fairer.



FISCAL AFFAIRS

Thank you!