

FAD

*Ambrogio Lorenzetti; The Effects of Good Government on the City Life; Fresco; Palazzo Pubblico, Siena (Italy)*

# IMF Fiscal Monitor



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Washington, DC



World Economic and Financial Surveys

# IMF FISCAL MONITOR

May 2010

Navigating the Fiscal Challenges Ahead



International Monetary Fund

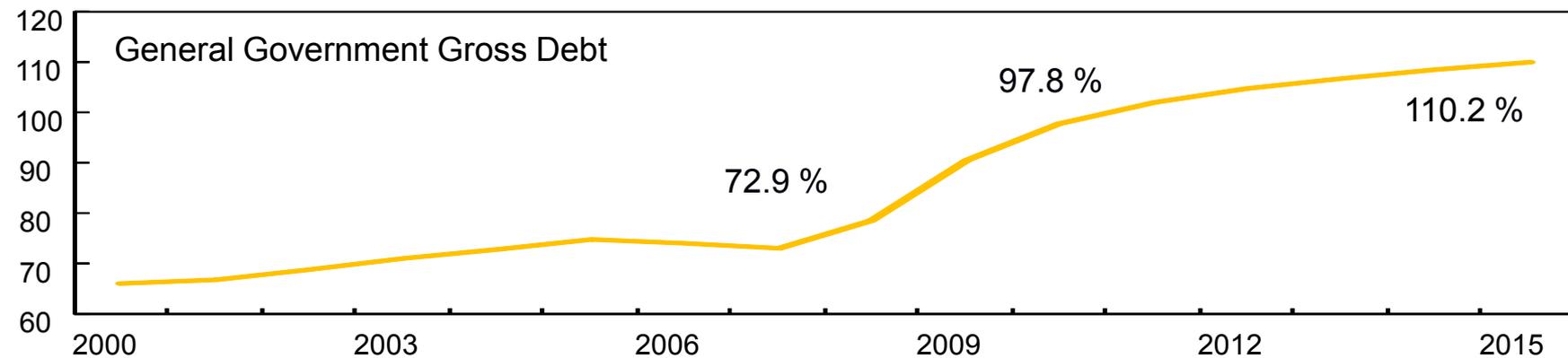
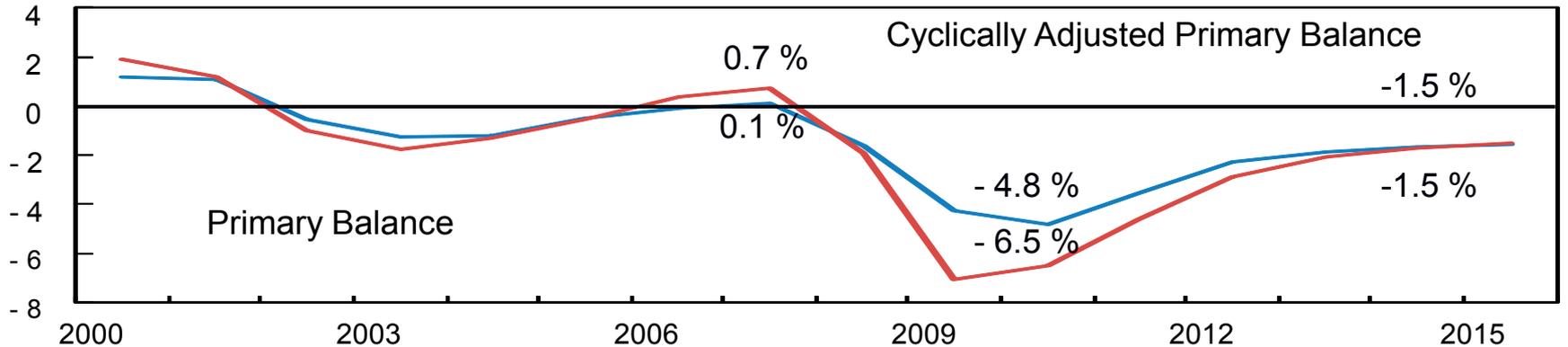
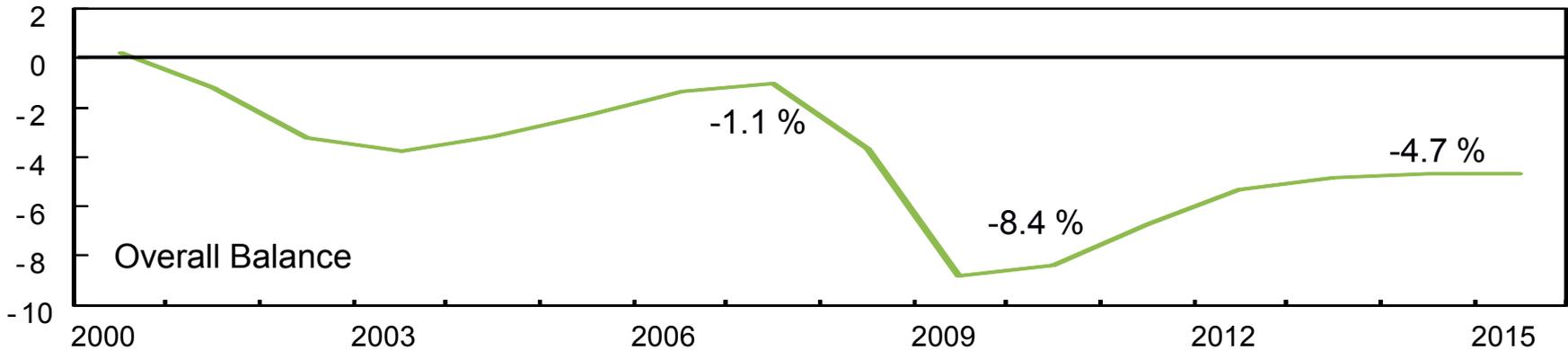
# Fiscal Risks Have Risen for Three Reasons



1. Underlying fiscal trends somewhat weaker
2. Increased focus on fiscal weaknesses
3. More needed to define exit strategies

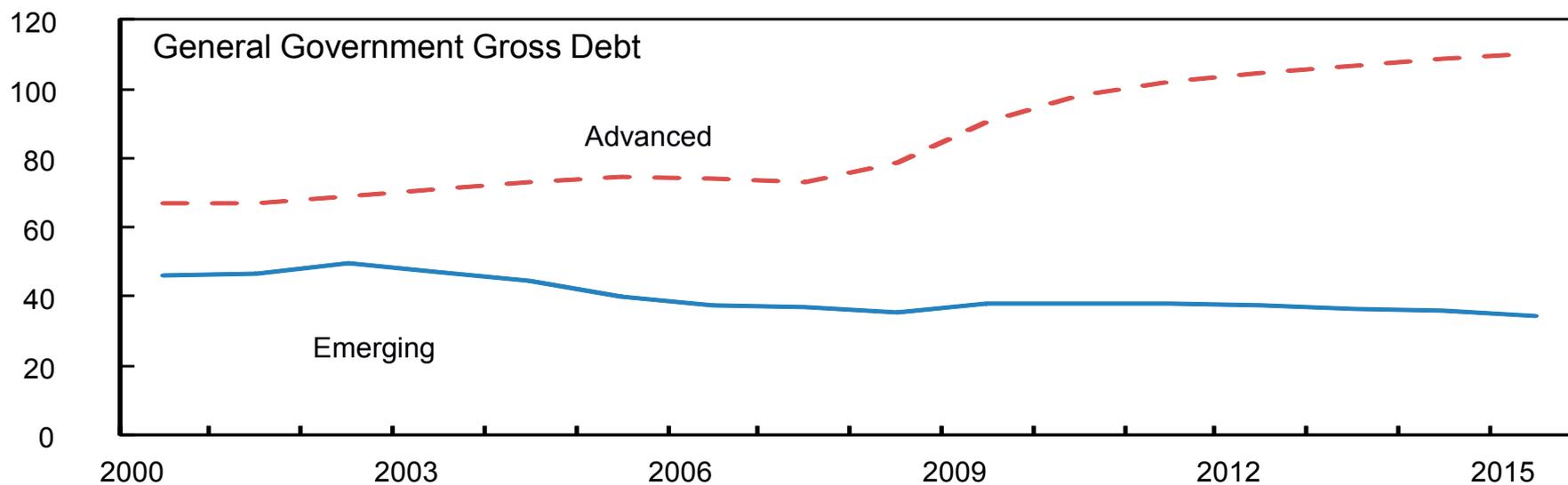
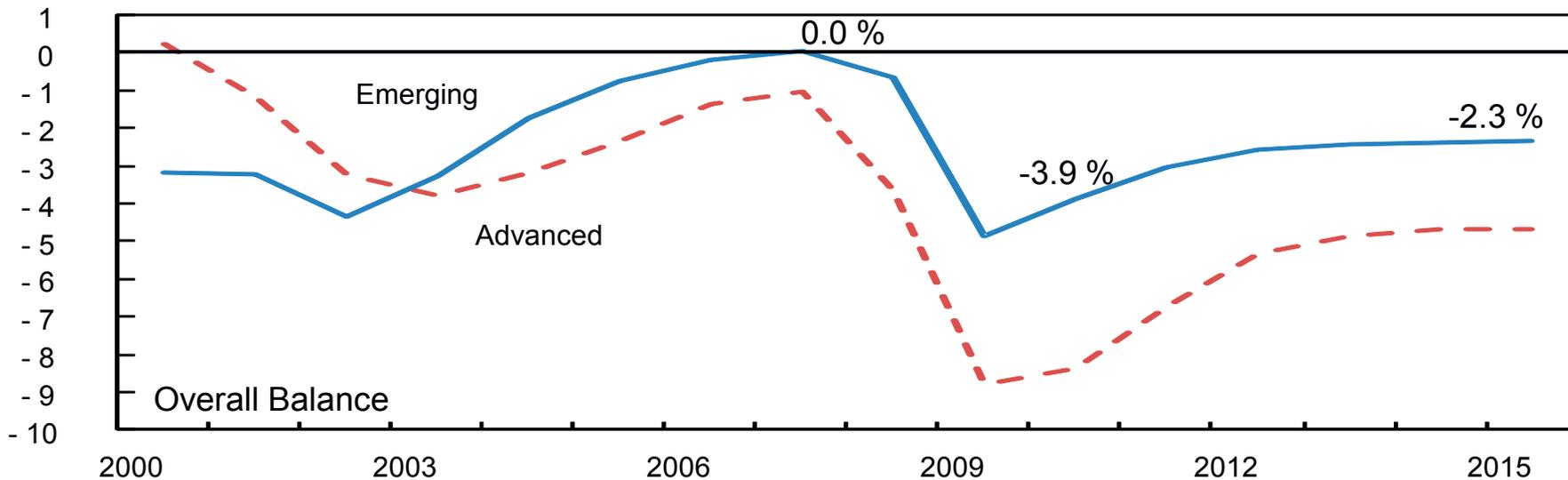
# Fiscal Outlook in Advanced Economies

(In percent of GDP)

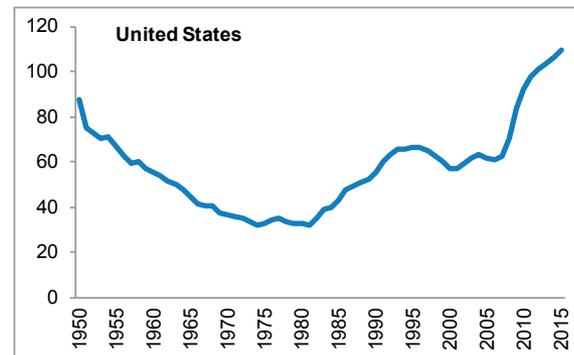
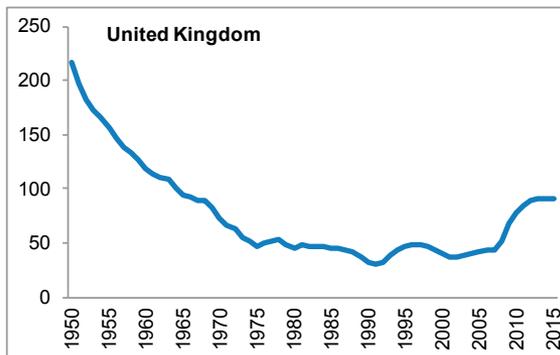
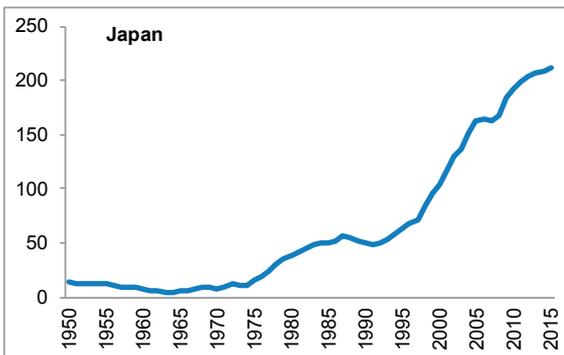
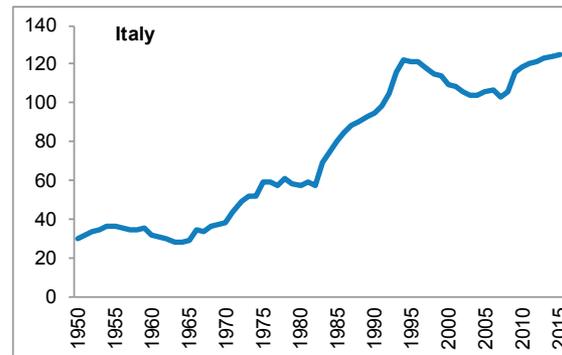
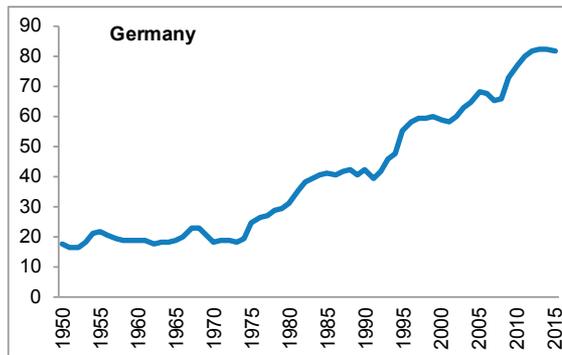
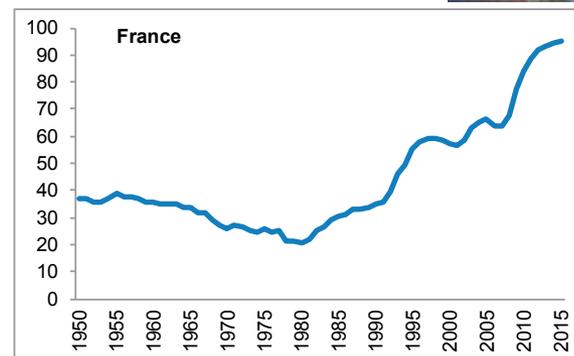
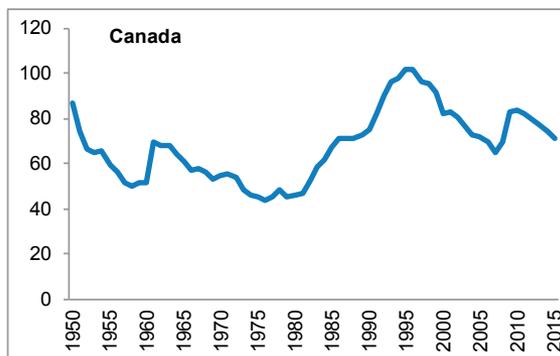
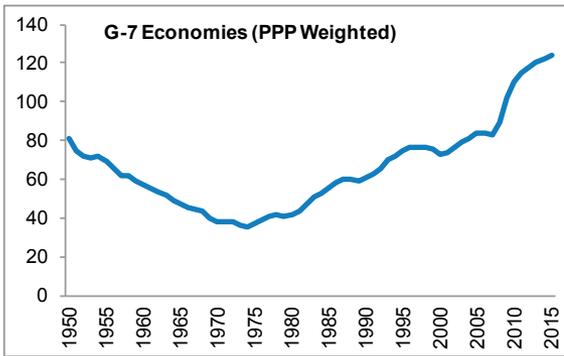


# Fiscal Outlook in Emerging Economies

(In percent of GDP)



# General Government Gross Debt in G-7 Economies, 1950-2015 (In percent of GDP)

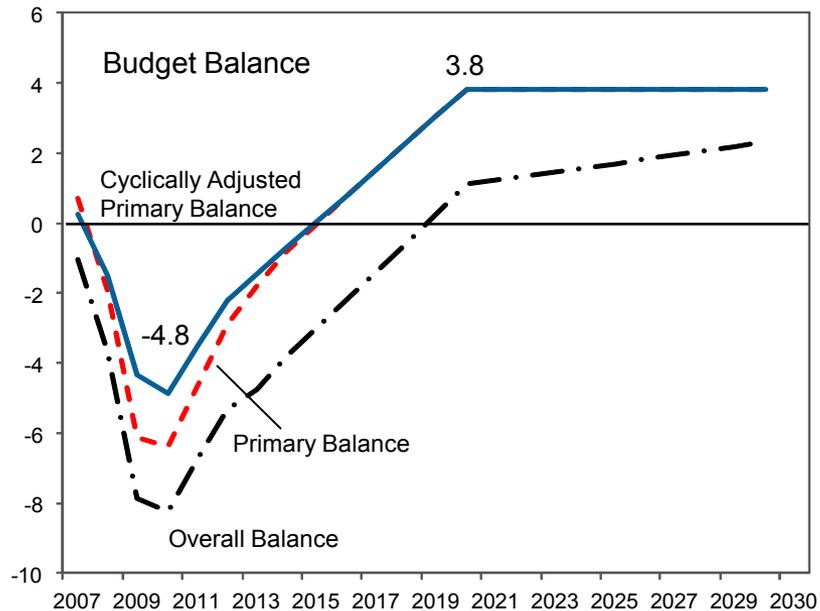


# Fiscal Balances in Advanced and Emerging G-20 Economies

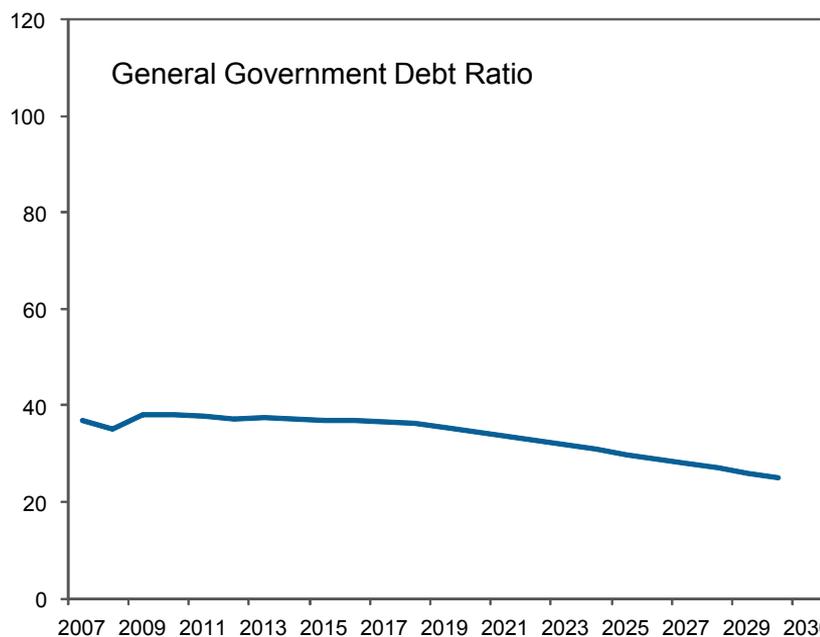
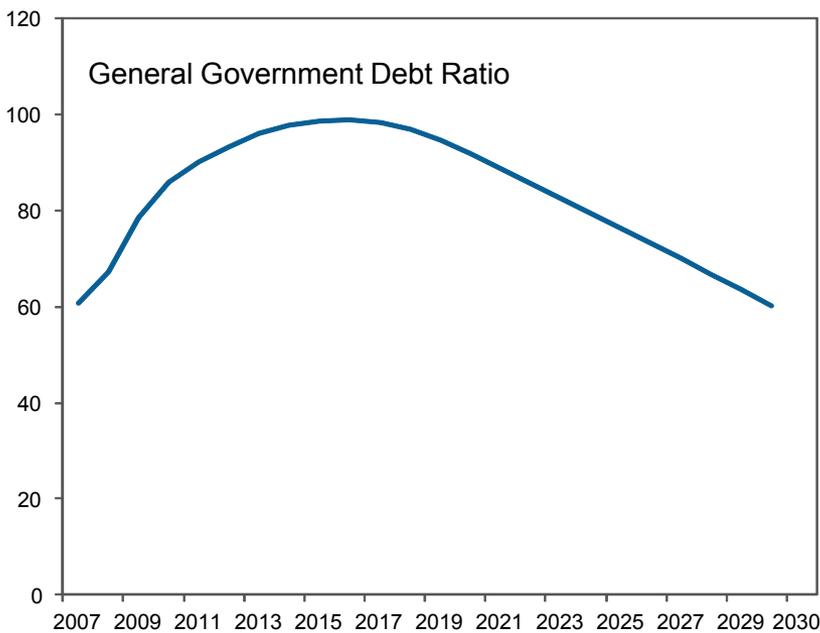
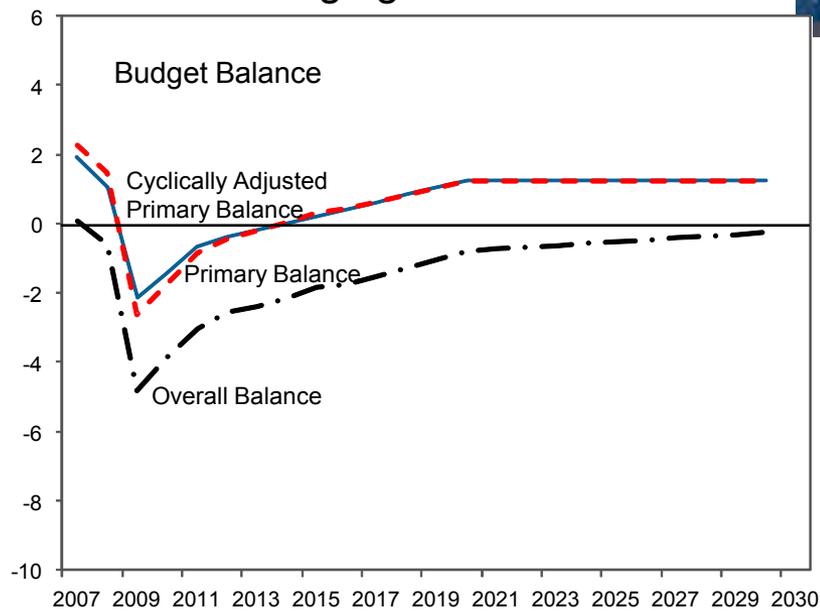
(In percent of GDP)



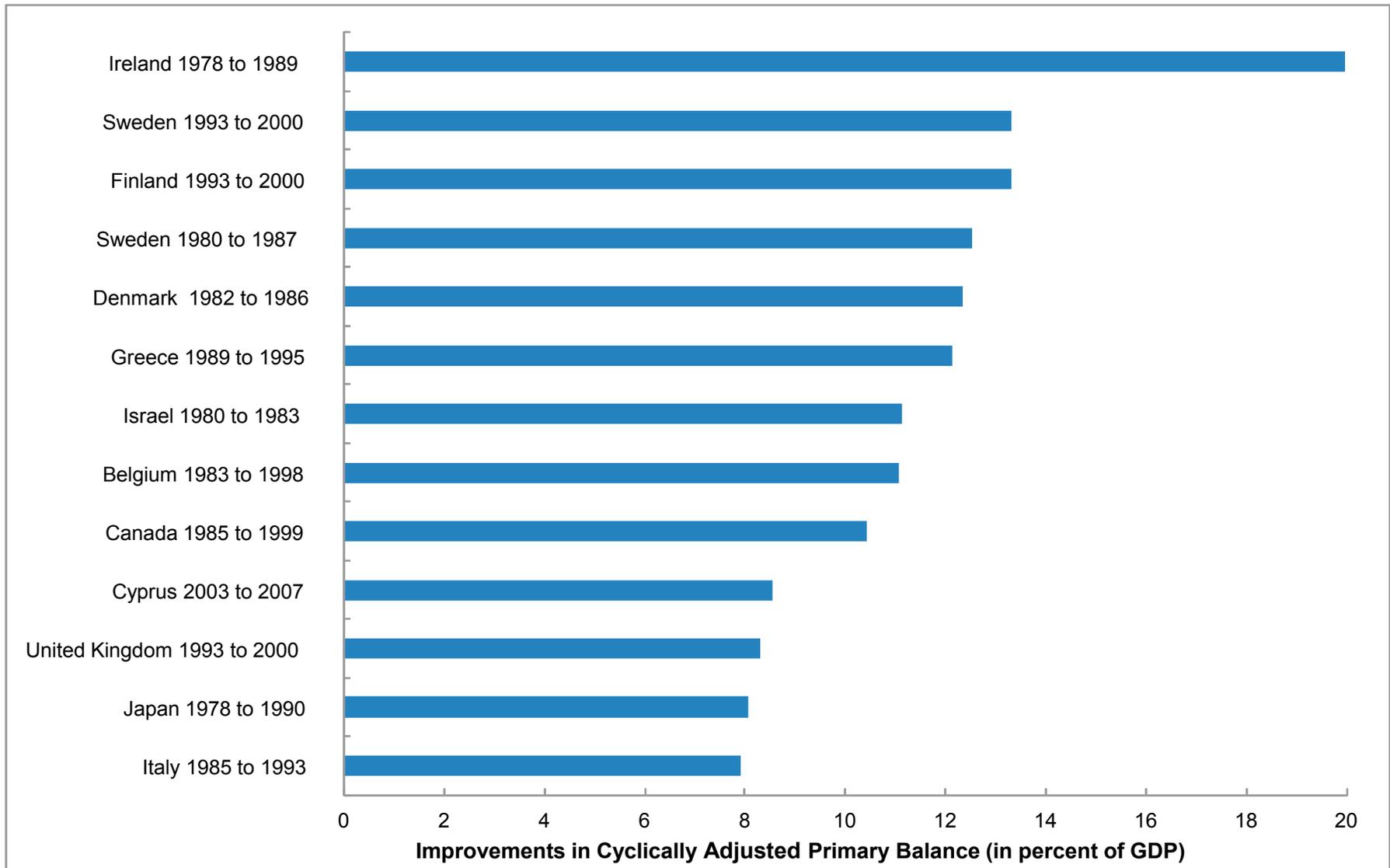
## Advanced Economies



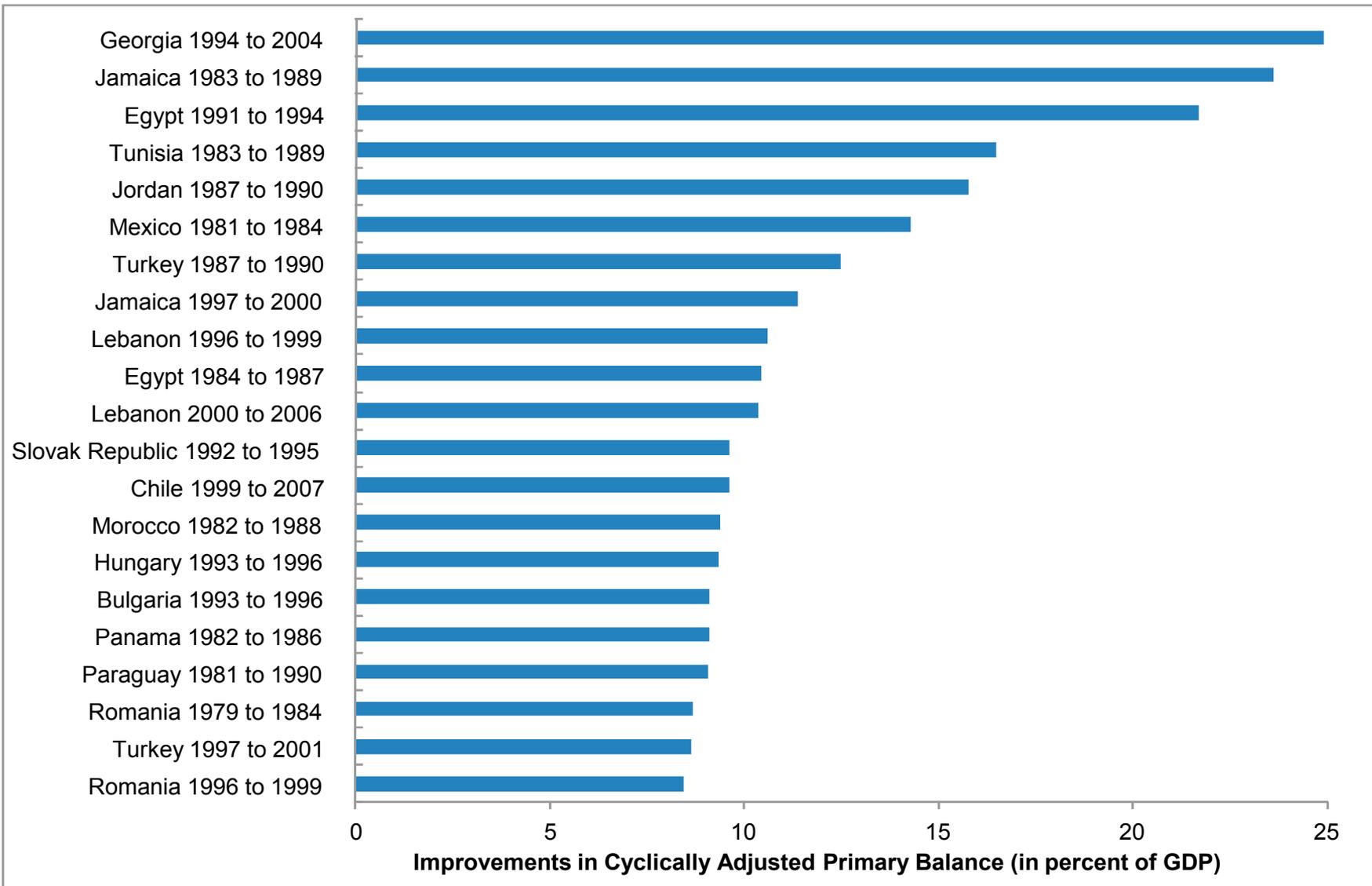
## Emerging Economies



# Episodes of Large Fiscal Adjustments, Advanced Economies



# Episodes of Large Fiscal Adjustments, Emerging Economies

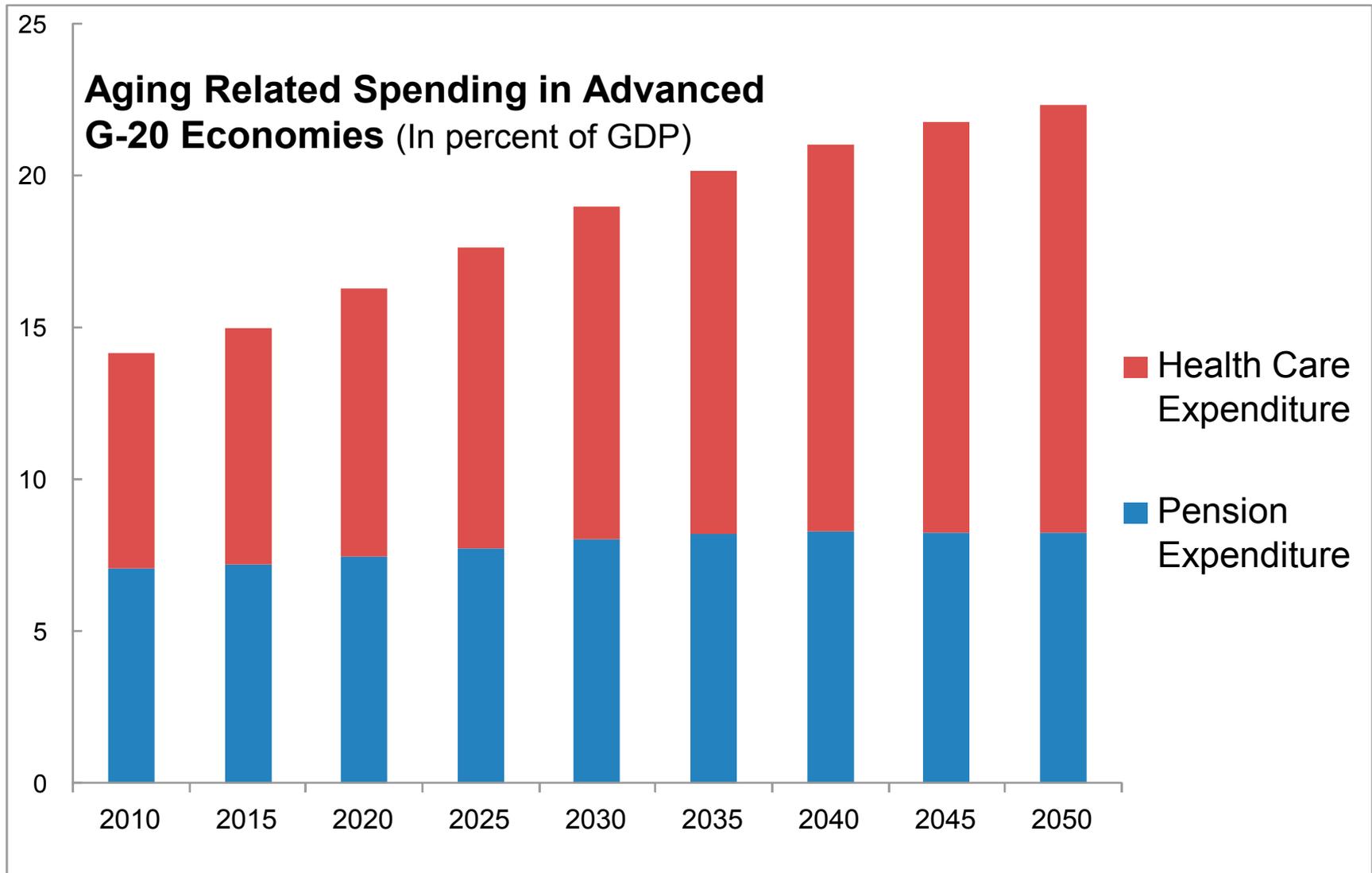


# A Three-Pillar Strategy for Consolidation



1. Stabilize age-related spending relative to GDP
2. Reduce non age-related spending relative to GDP
3. Raise additional revenues in an efficient and equitable manner

# Fiscal Challenge: Demographic Trends are Unfavorable



# Supply-Side Measures to Contain Health Spending



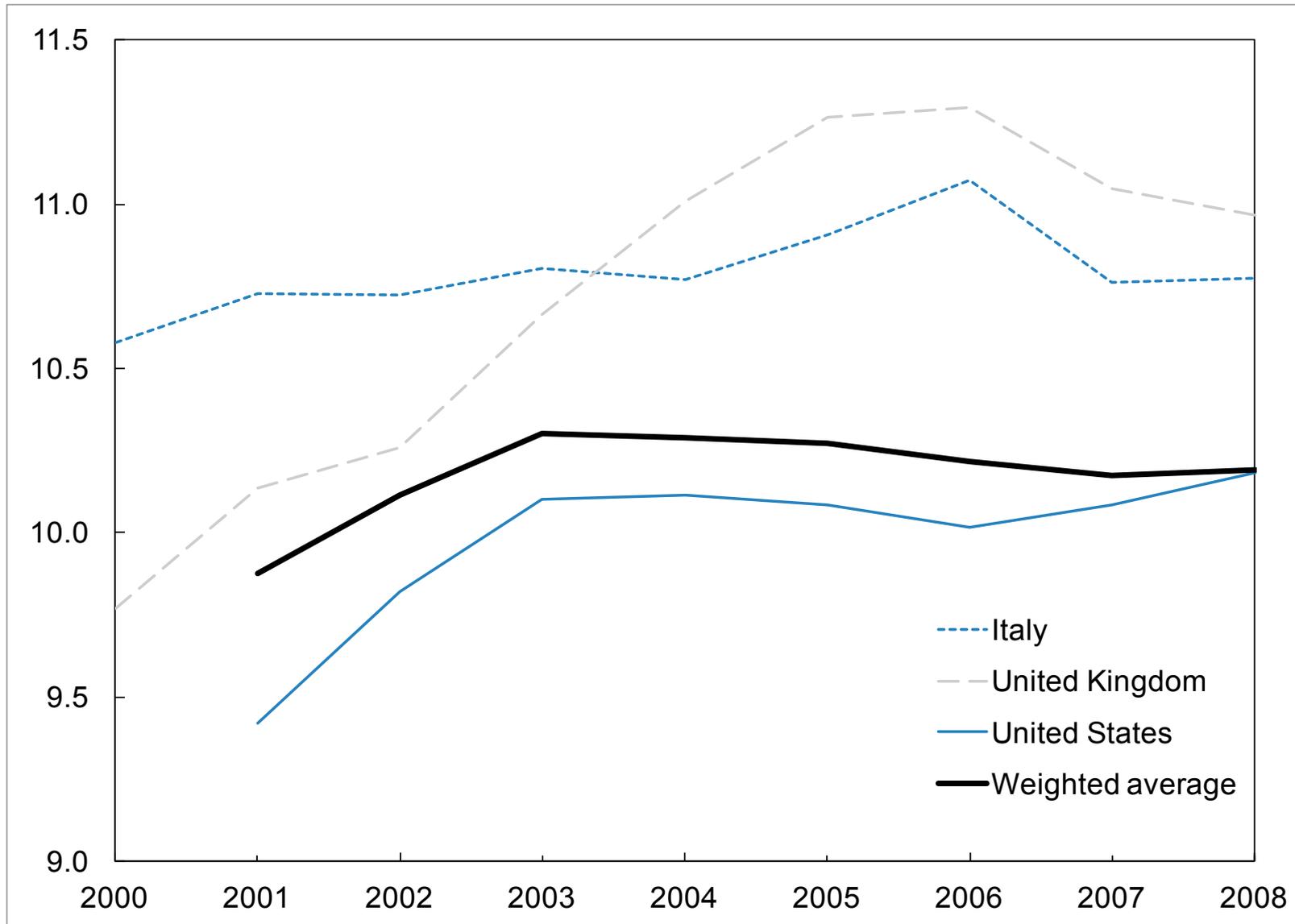
Measures	Rationale
<b>Reimburse providers based on case-based methods or global budgets</b>	Discourage unnecessary services
<b>Implement health information technology</b>	Greater efficiency in service delivery
<b>Strengthen cost-effectiveness analysis of treatments</b>	Improve allocative efficiency
<b>Reduce generosity of publicly financed benefits package</b>	Limit to what public funds can cover



# Demand-Side Measures to Contain Health Spending

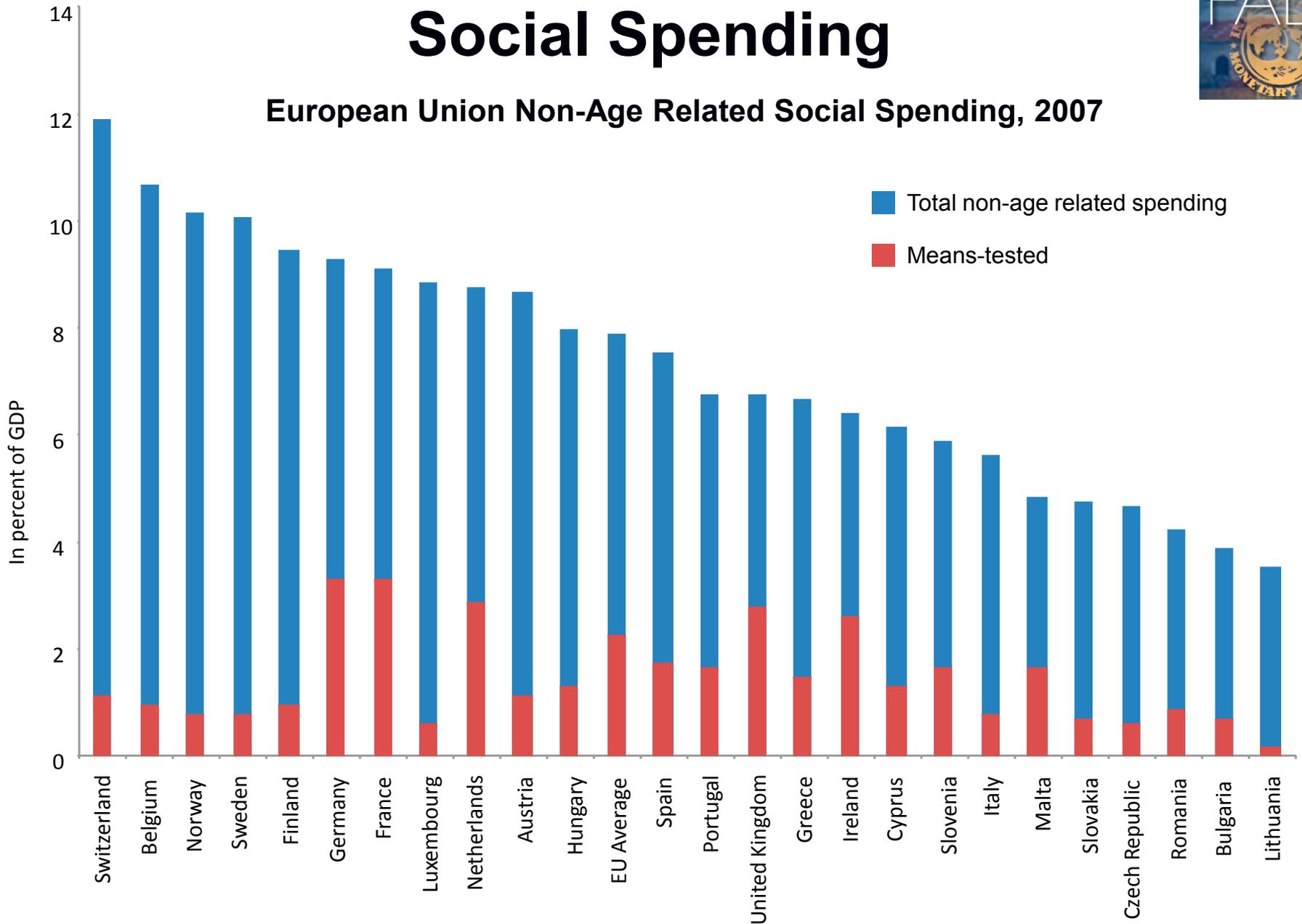
Measures	Rationale
<b>Higher copayments</b>	Reduce incentives for excessive use
<b>Reduce tax expenditures for private health insurance</b>	Reduce incentives for excessive use

# Public Sector Wages in Selected G-7 Countries (As share of potential GDP)



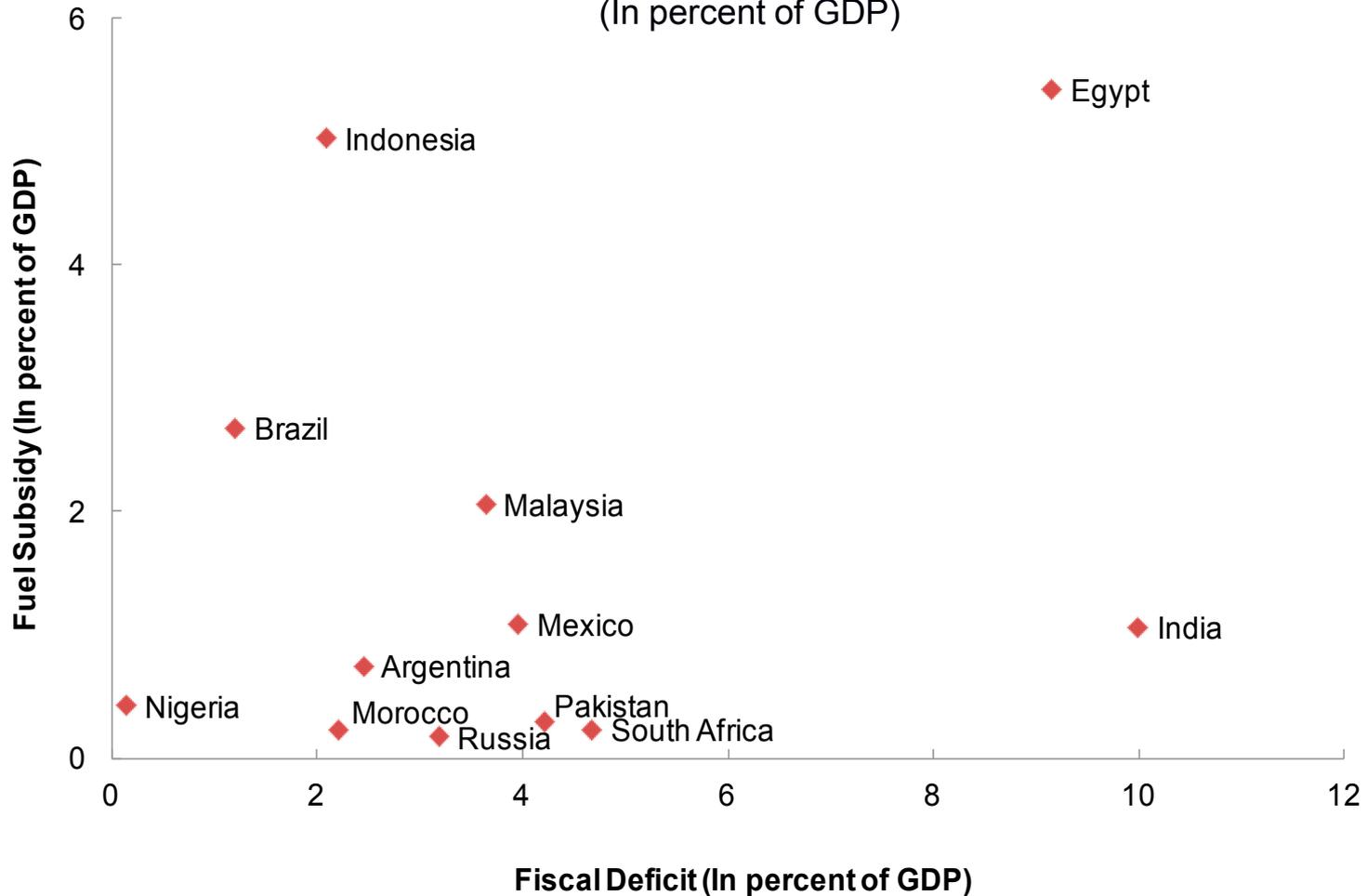
# Social Spending

## European Union Non-Age Related Social Spending, 2007



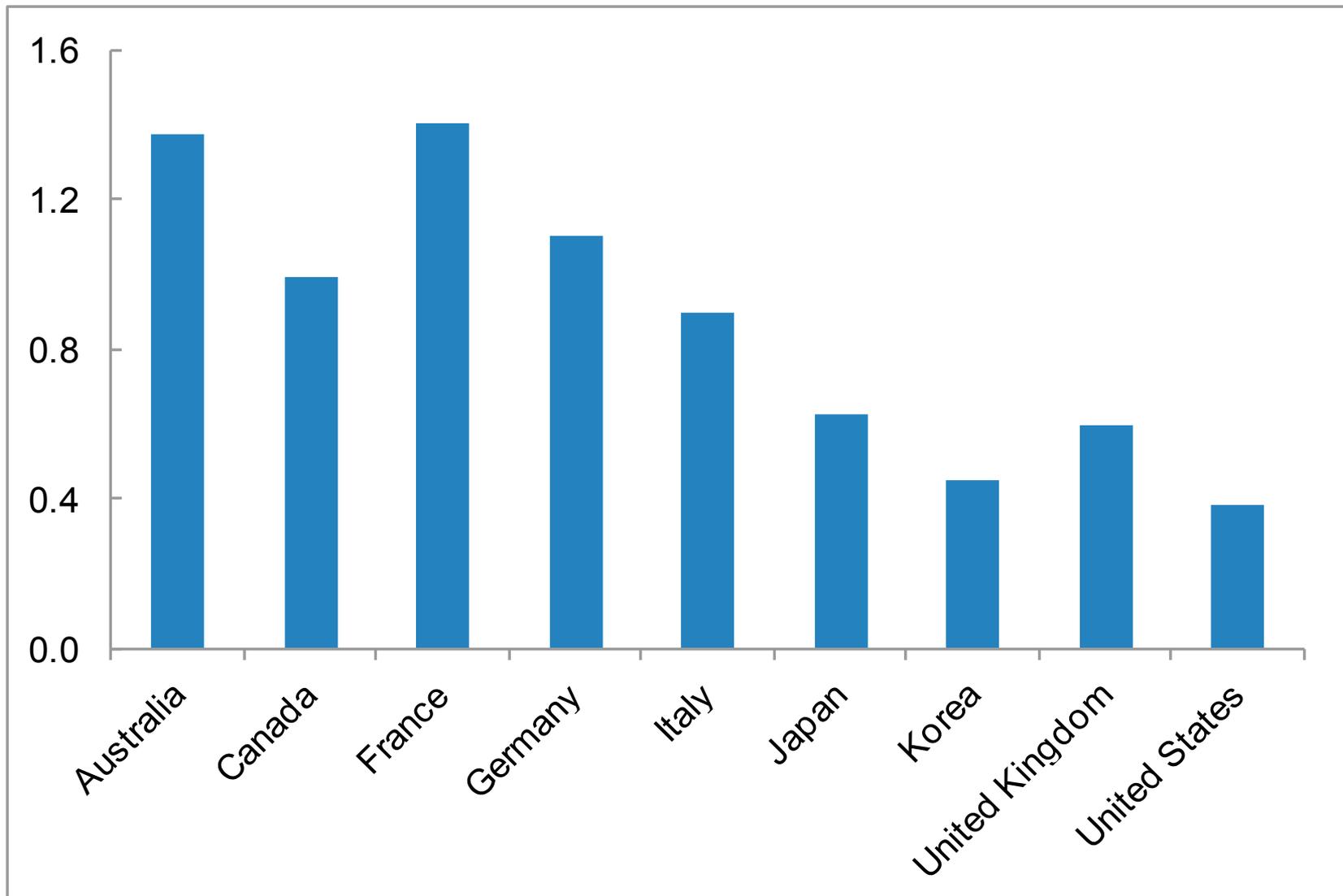
# Fuel Subsidies

**Projected 2010 Fiscal Deficit and Fuel Subsidies in Emerging Economies**  
(In percent of GDP)



# Advanced G-20: Budgetary Subsidies

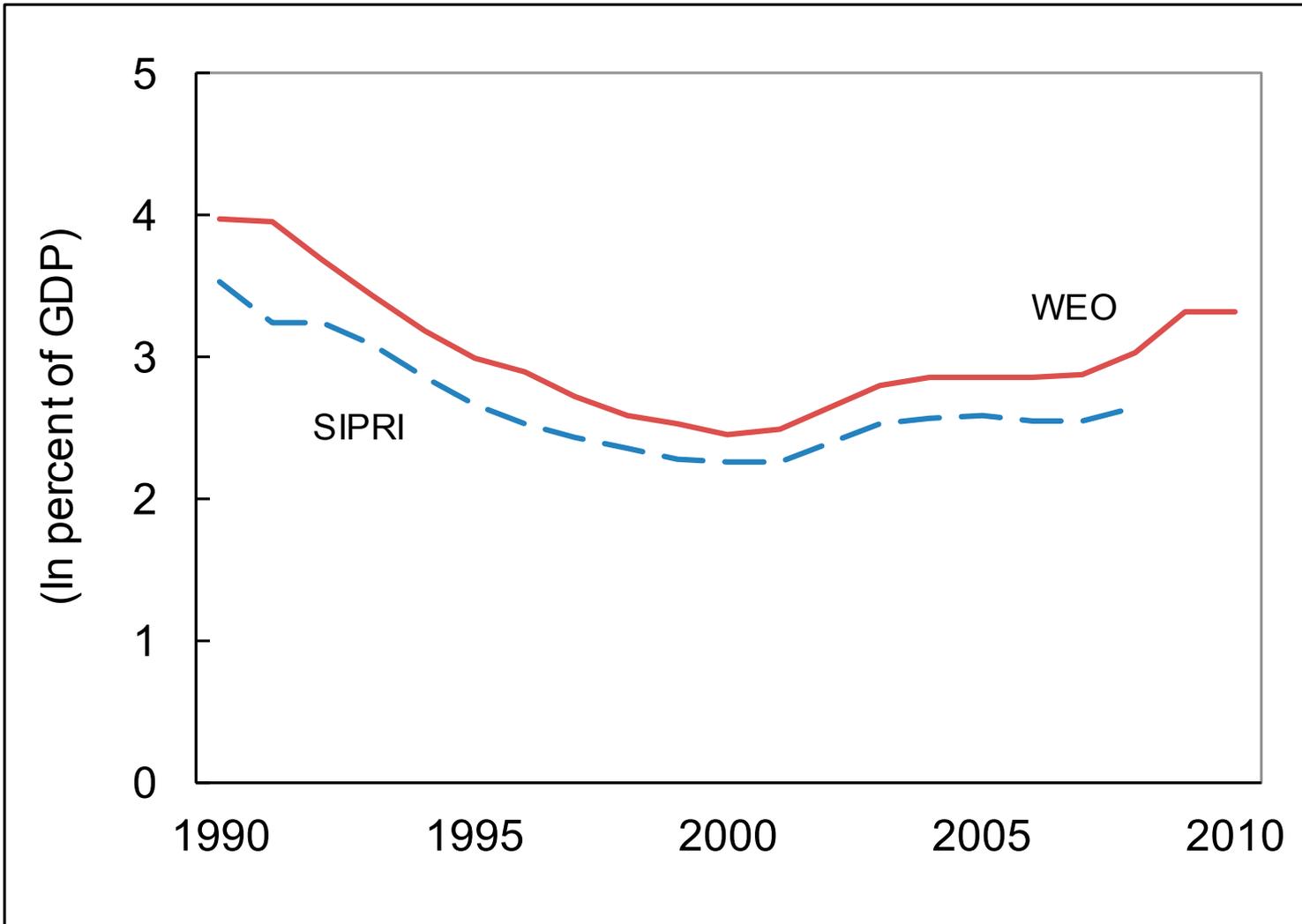
(In percent of GDP)



Source: Eurostat and OECD.

Note: Data for 2008, or nearest year available.

# Military Expenditures in Advanced Economies, 1990-2010

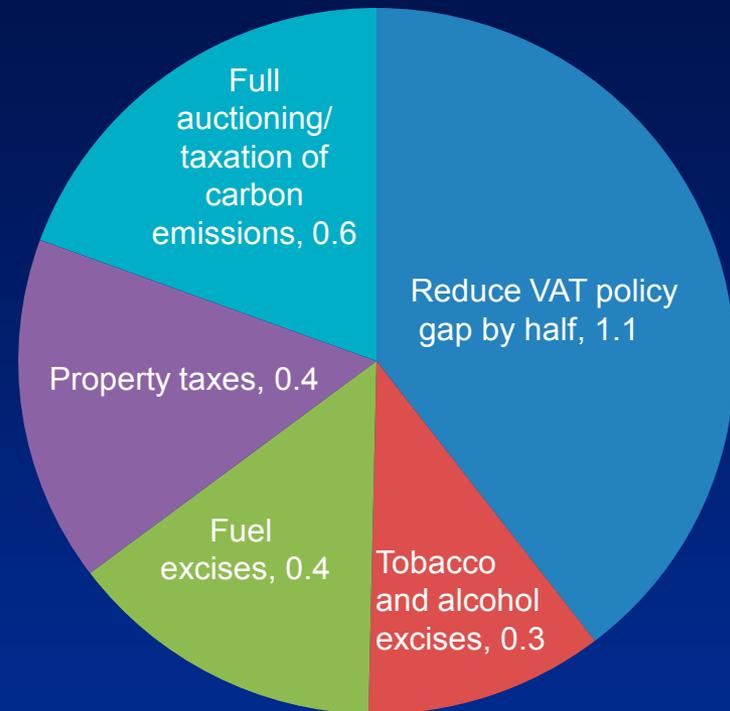


# Less Distortionary Tax Measures

## Potential Revenue Increases in Advanced G-7 Countries

PPP weighted averages

Total Increase in Revenue: 2.8 percent of GDP



### ■ In addition:

- 10 percent VAT in the US (4.5 percent of US GDP) and Japan (2.6 percent of Japan GDP)
- Revenues from fighting tax evasion (0.7 percent of GDP from VAT)

# Timing of the Exit

<b>Actions</b> \ <b>Timing</b>	<b>2010</b>	<b>2011</b>
<b>Deficit Reductions</b>	<ul style="list-style-type: none"> <li>• EMCs where growth is picking up faster</li> <li>• Any country under pressure from markets</li> </ul>	All other countries
<b>Entitlement Reforms</b>	All countries facing aging pressures	...
<b>Strengthening Fiscal Institutions</b>	All countries	...



**Thank you!**