

INTERNATIONAL MONETARY FUND

# FISCAL MONITOR

Fiscal Policy in  
the Great Election Year

2024  
APR



**FISCAL AFFAIRS**

*XXXVI Seminario Regional de  
Política Fiscal – May 6-8, 2024*

## **IMF's Fiscal Monitor**

**MAY 7, 2024**

Juan Toro – Deputy Director - FAD

# April 2024 Fiscal Monitor – two main chapters

## Chapter 1: Fiscal Policy in the Great Election Year

The chapter highlights heightened risks to public finances given potential distortions from a record number of elections this year in the context of elevated public debt, still-high interest rates, and slowing growth prospects. Decisive fiscal consolidation efforts are needed to safeguard sustainable finances, while protecting the most vulnerable.

## Chapter 2: Expanding Frontiers: Fiscal Policies for Innovation and Technology Diffusion

Amid the recent rise in industrial policies focusing on innovation in specific sectors, the chapter presents a cost-effective mix of fiscal policies to promote innovation more broadly and facilitate technology diffusion across countries and firms.

CONTENTS	
Assumptions and Conventions	vi
Further Information	vii
Preface	viii
Foreword	ix
Executive Summary	xi
<b>Chapter 1. Fiscal Policy in the Great Election Year</b>	<b>1</b>
Introduction	1
Recent Fiscal Developments and Outlook	3
The Great Election Year and Fiscal Politics	13
Fiscal Policy Sustainability and Structural Spending Pressures	14
Policy Conclusions	16
Box 1.1. US Fiscal Policy Uncertainty and Bond Spreads	19
Box 1.2. Building Tax Capacity in Low-Income and Emerging Market Economies	20
Box 1.3. Reform of the European Union Economic Governance Framework	21
References	22
<b>Chapter 2. Expanding Frontiers: Fiscal Policies for Innovation and Technology Diffusion</b>	<b>25</b>
Introduction	25
Directing Innovation toward Specific Sectors	26
Promoting Innovation at the Technology Frontier	30
Accelerating Technology Diffusion across Countries and Firms	34
Conclusion	39
Box 2.1. Industrial Policies for Innovation: Lessons from Historical Cases	41
Box 2.2. Fiscal Support for Green Innovation	43
Box 2.3. Addressing Barriers to the Diffusion of Green Technology	44
References	46
<b>Economy Abbreviations</b>	<b>49</b>
<b>Glossary</b>	<b>51</b>

[Fiscal Policy in the Great Election Year \(imf.org\)](https://www.imf.org)

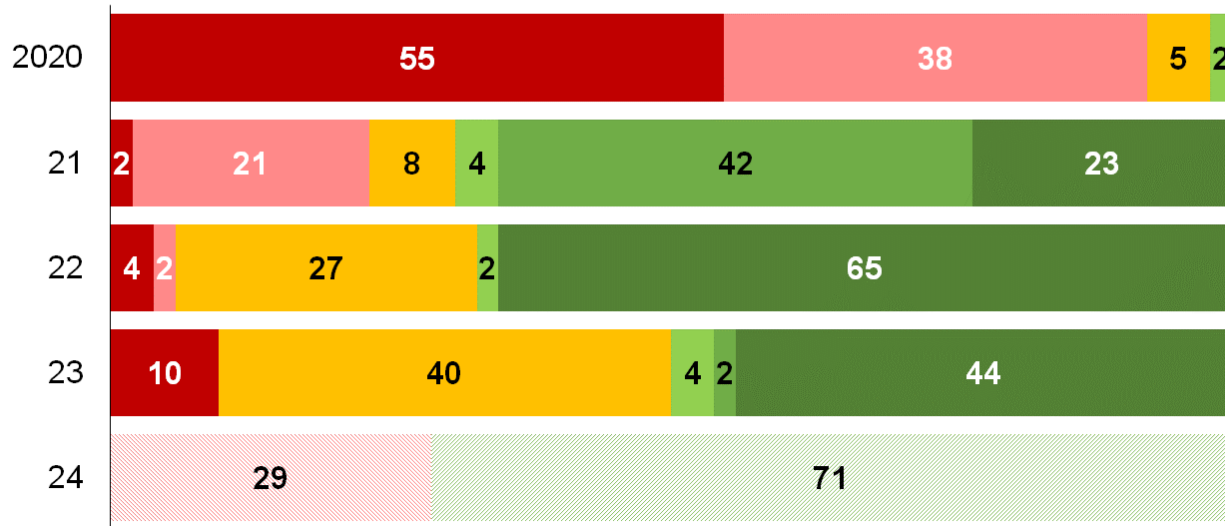
Presentation focuses on Ch1, with some reflections about Ch2 at the end.

# Paused Progress Toward Policy Normalization

## Fiscal and Monetary Policy Mix

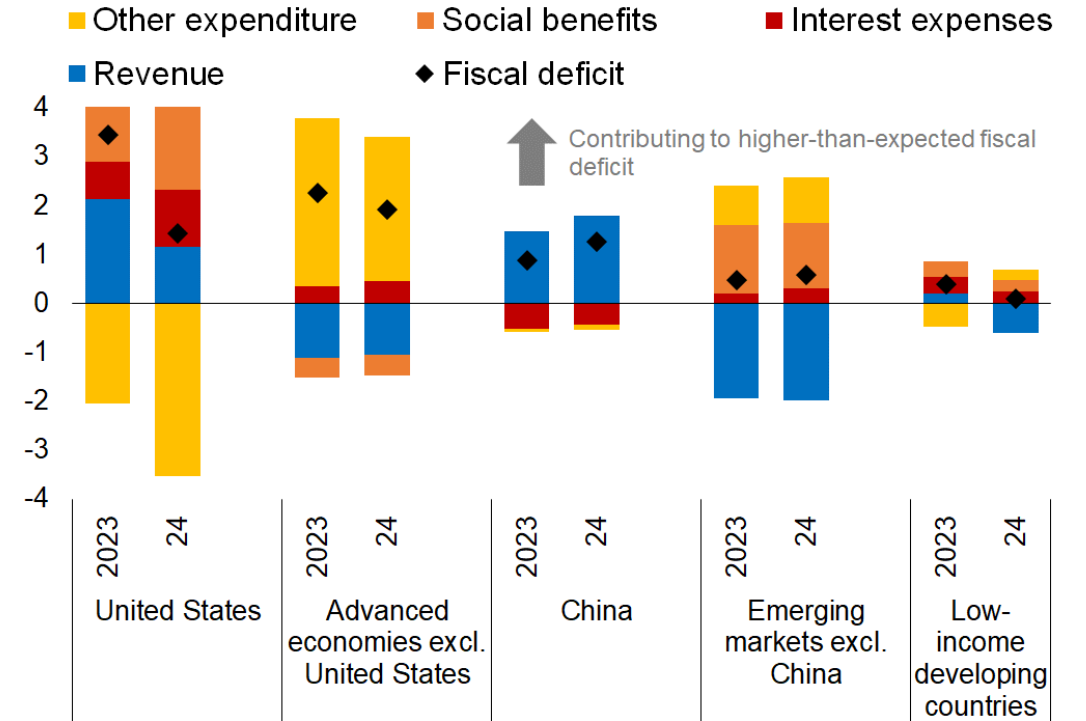
(Percent of economies)

- Loosening fiscal + loosening monetary
- Loosening fiscal + tightening monetary
- Tightening fiscal + unchanged monetary
- Tightening fiscal + tightening monetary
- Fiscal loosening (2024 prj.)
- Fiscal tightening (2024 prj.)
- Loosening fiscal + unchanged monetary
- Tightening fiscal + loosening monetary
- Tightening fiscal + unchanged monetary



## Current versus Prepandemic Projections for Fiscal Deficits

(Percentage points of GDP)



Sources: Bank for International Settlements 2023; IMF, World Economic Outlook (WEO) database; and IMF staff calculations.

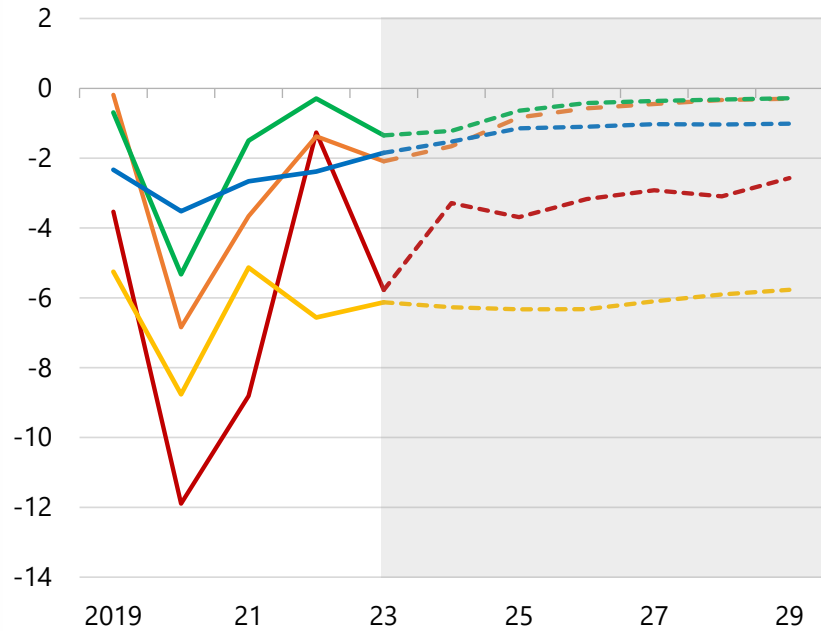
Note: Fiscal policy is tightening (loosening) if the annual change in the cyclically adjusted primary balance is positive (negative or zero). Monetary policy is tightening (loosening) if the annual change in the central bank policy rate is positive (negative or zero). The sample comprises 34 advanced economies and 20 emerging market economies.

Sources: IMF, Government Finance Statistics database; IMF, World Economic Outlook (WEO) database; and IMF staff calculations.

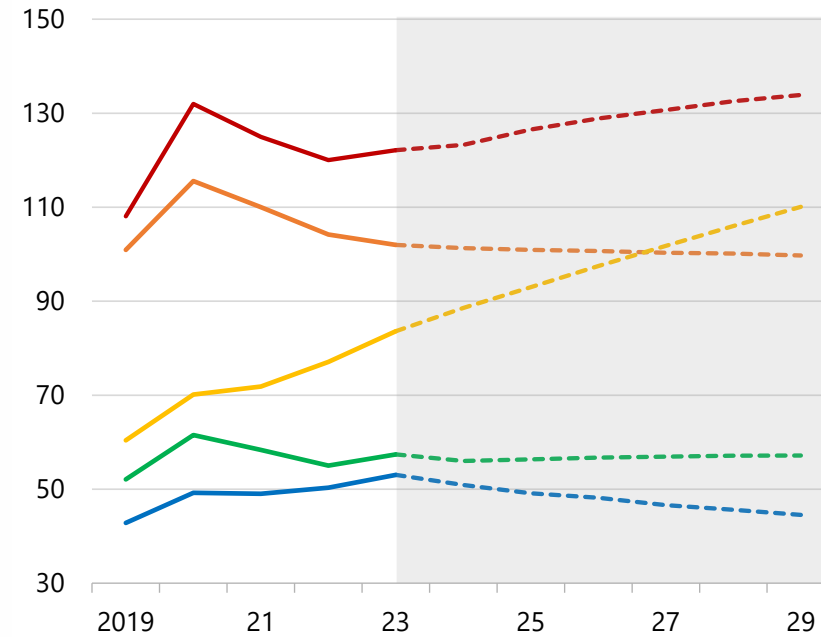
Note: For China, social benefit spending is not separately reported in the WEO. Current projections refer to the April 2024 WEO; prepandemic projections are from the October 2019 WEO.

# Divergences in Progress Toward Policy Normalization

**Primary Balance**  
(Percent of GDP)



**Public Debt**  
(Percent of GDP)



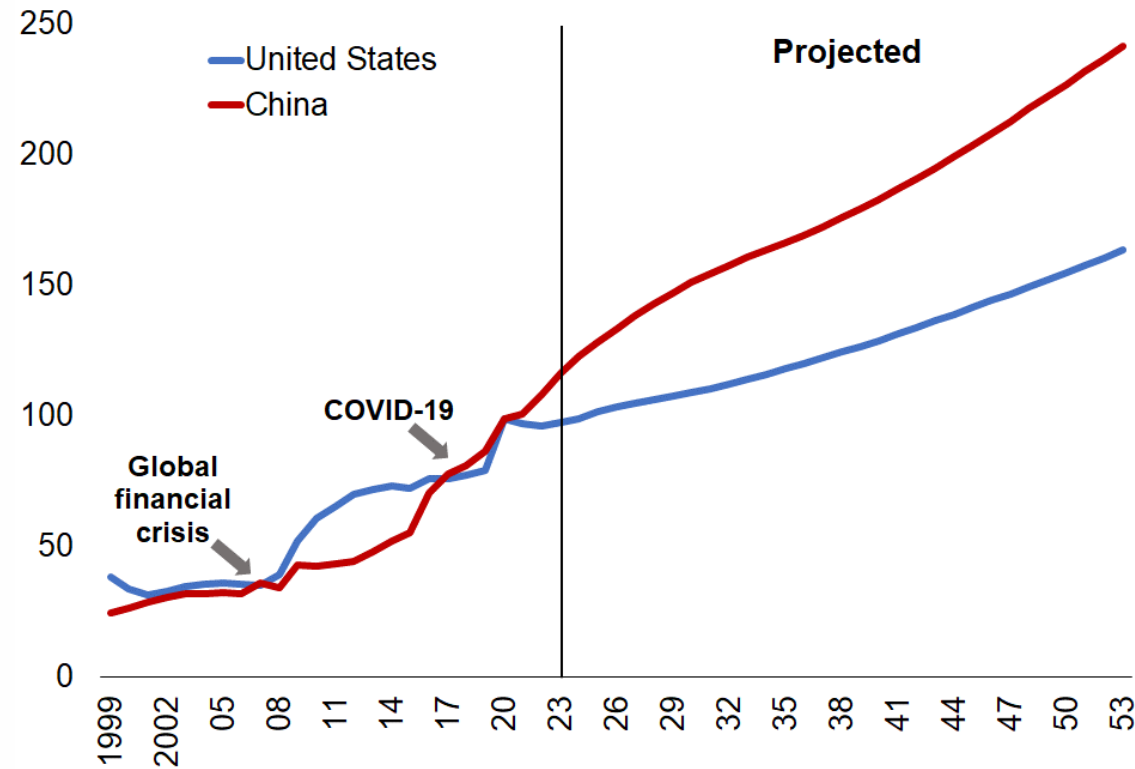
— United States — Advanced economies — China — Emerging markets — Low-income developing countries

Sources: IMF, World Economic Outlook database.

Note: Charts show general government primary balance and debt. Averages are weighted by purchasing power parity adjusted nominal GDP in dollars.

# The Two Largest Economies Driving Global Trend

**Evolution of Public Debt in China and the United States**  
(Percent of GDP)

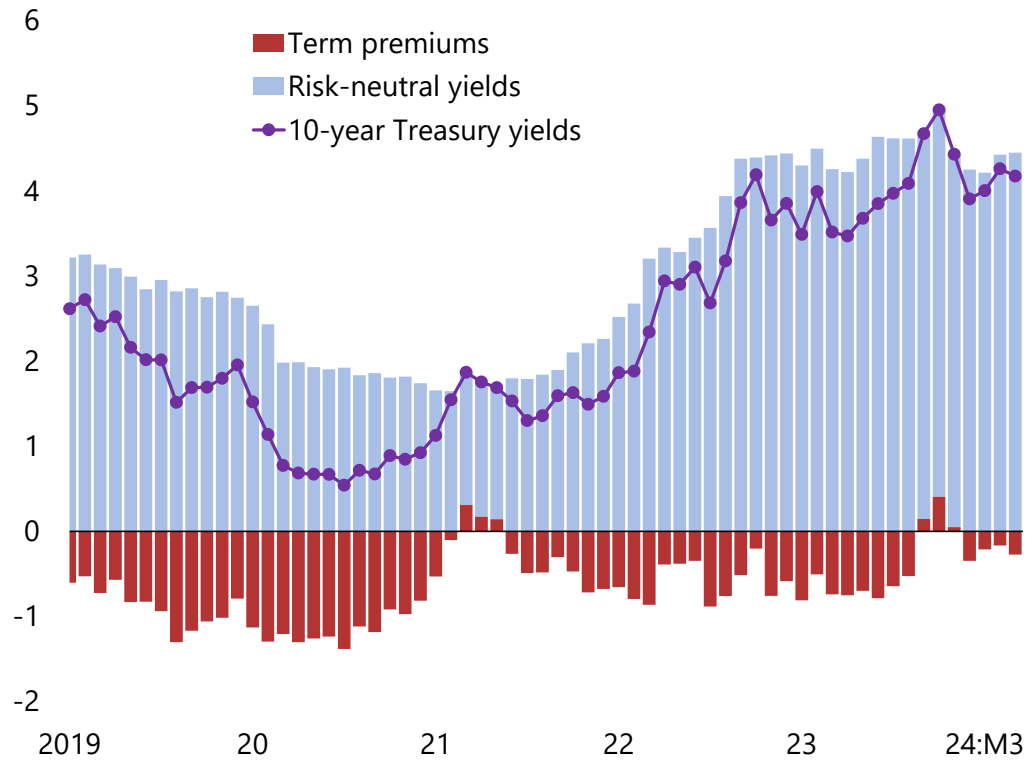


Sources: IMF 2024; US Congressional Budget Office 2024; and IMF staff calculations.

Note: For the United States, the figure shows federal debt held by the public under unchanged policies. For China, it shows augmented debt, which expands the perimeter of government to include the activity of local government financing vehicles (LGFVs), government guided funds, and special construction funds (see Table 4 and Appendix III in IMF 2024). This is different from debt numbers shown in Table 1.2 which excludes about one-third of local government financing vehicles debts that are categorized as government guaranteed debt or "possible to be recognized debt" as well as debt tied to special construction and government guided funds. The projection for the United States assumes unchanged policies over the forecast horizon. The projection for China reflects the IMF staff's baseline scenario.

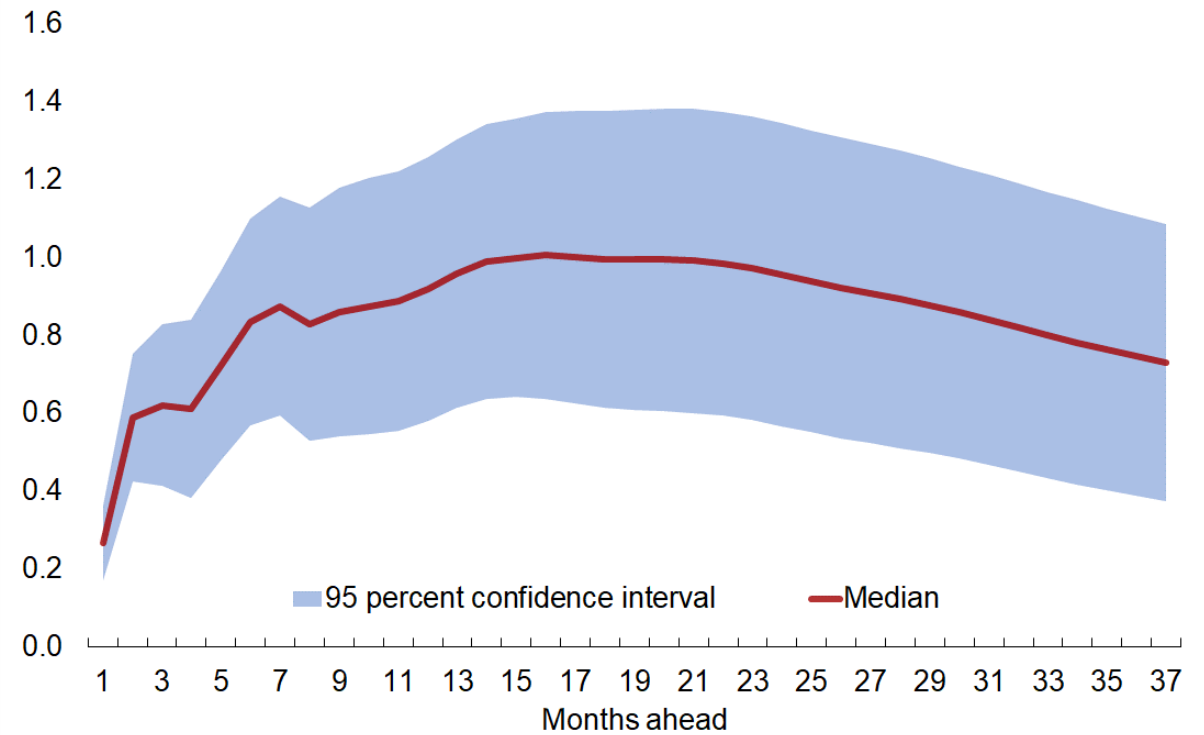
# US Policies and Global Financing Conditions

**Nominal Yields and Term Premiums for 10-Year US Treasuries**  
(Percent)



Source: Federal Reserve Bank of New York.  
Note: The decomposition into monthly risk-neutral yields and term premiums is based on Adrian, Crump, and Moench (2013).

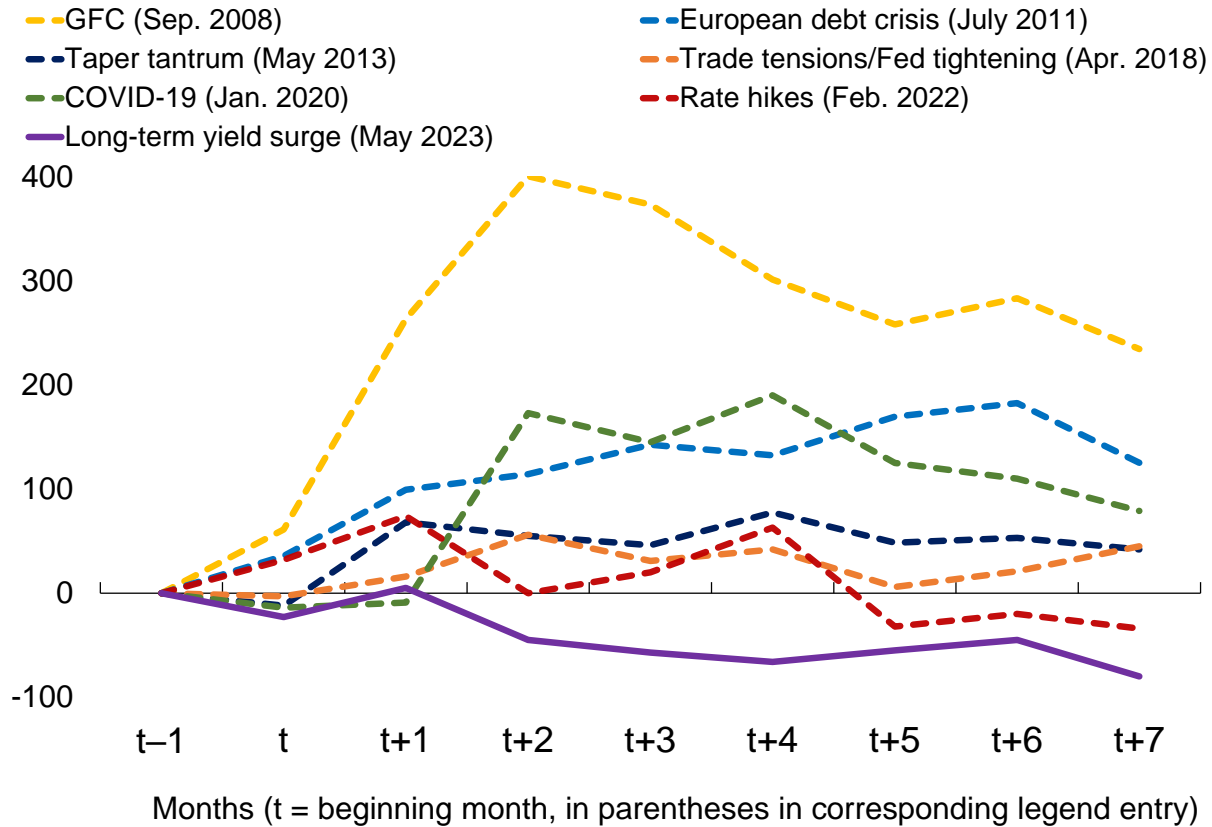
**Spillover Impacts of US Long-Term Nominal Interest Rates on Emerging Market Economies**  
(Percentage points)



Sources: Organization for Economic Co-operation and Development database; and IMF staff calculations.  
Note: The impulse response shows, for each country group, the impact on a panel of economies of a temporary spike in the US long-term nominal interest rate of 1 percentage point, based on a panel vector autoregression estimation. See Online Annex 1.2 for more details.

# Differentiated Effects

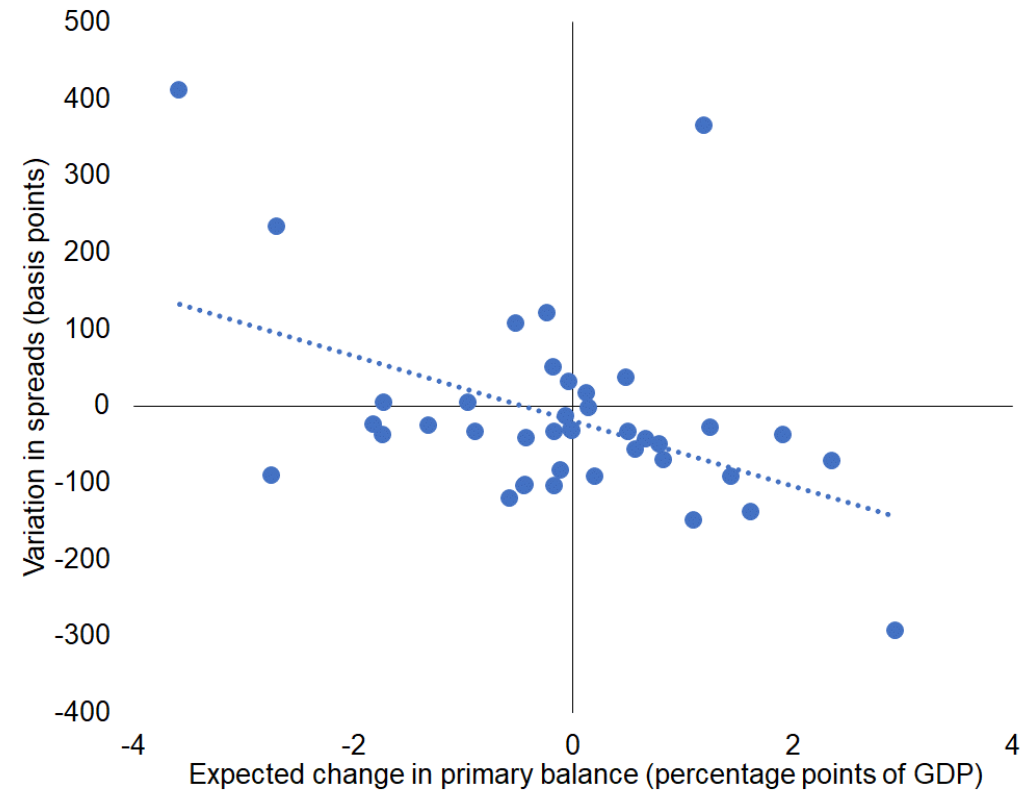
**Changes in Emerging Market Bond Index Spreads, Selected Episodes (*Basis points; Median*)**



Sources: JPMorgan, Emerging Market Bond Index; and IMF staff calculations.

Note: Each line in the figure tracks the changes in the median Emerging Market Bond Index from the value in the beginning month of an episode, shown in parentheses in the corresponding legend entry, over subsequent months. GFC = global financial crisis.

**Changes in Sovereign Spreads and the Fiscal Outlook (*Percentage points*)**

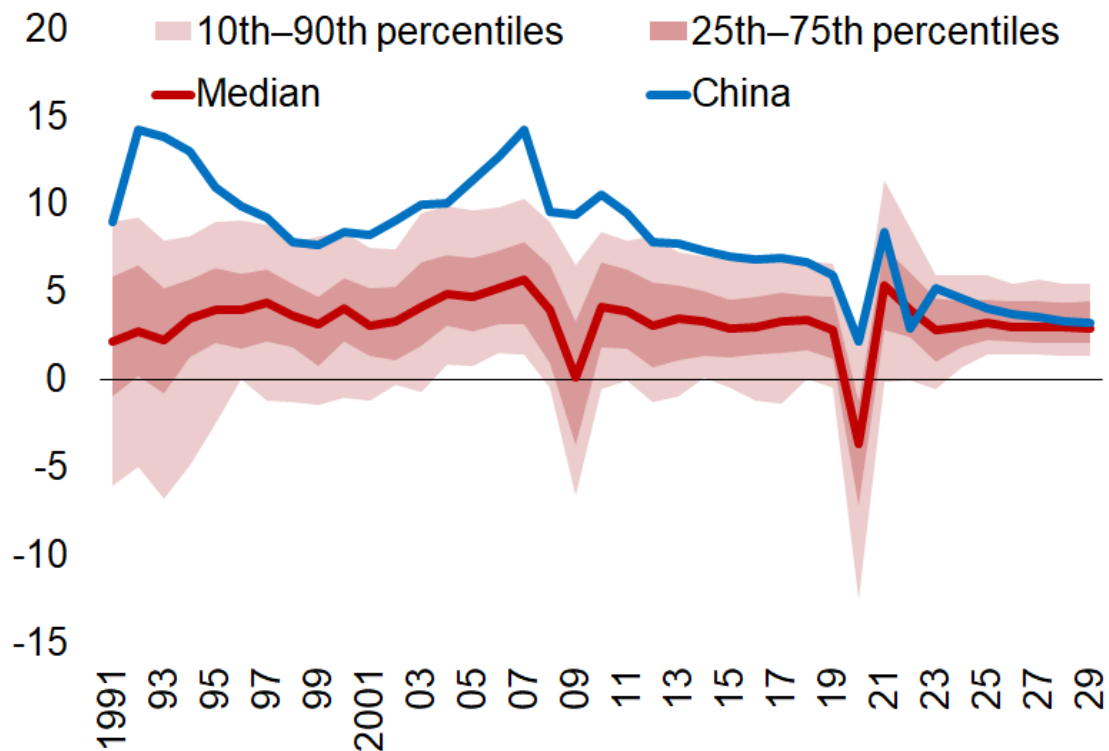


Sources: Haver Analytics; IMF, World Economic Outlook database; and IMF staff

Note: The vertical axis captures the variation in spreads for 40 emerging market economies in 2023. The horizontal axis captures the expected change in the primary balance in percentage points of GDP between 2023 and 2028. The dotted line reports a linear regression of the chart data points.

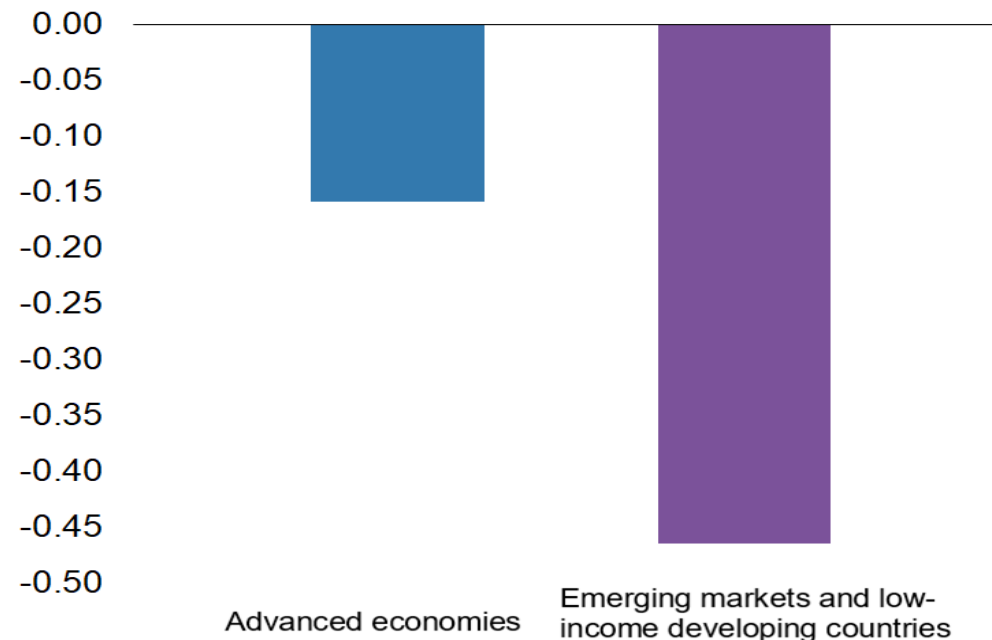
# Slowing Growth in China Posing Global Growth and Fiscal Challenges

**The Evolution of Growth in China and the World**  
(Percent)



Sources: IMF, World Economic Outlook (WEO) database; and IMF staff calculations.

**Impact of China's Slowdown on Total Revenues**  
(Percentage points of GDP)



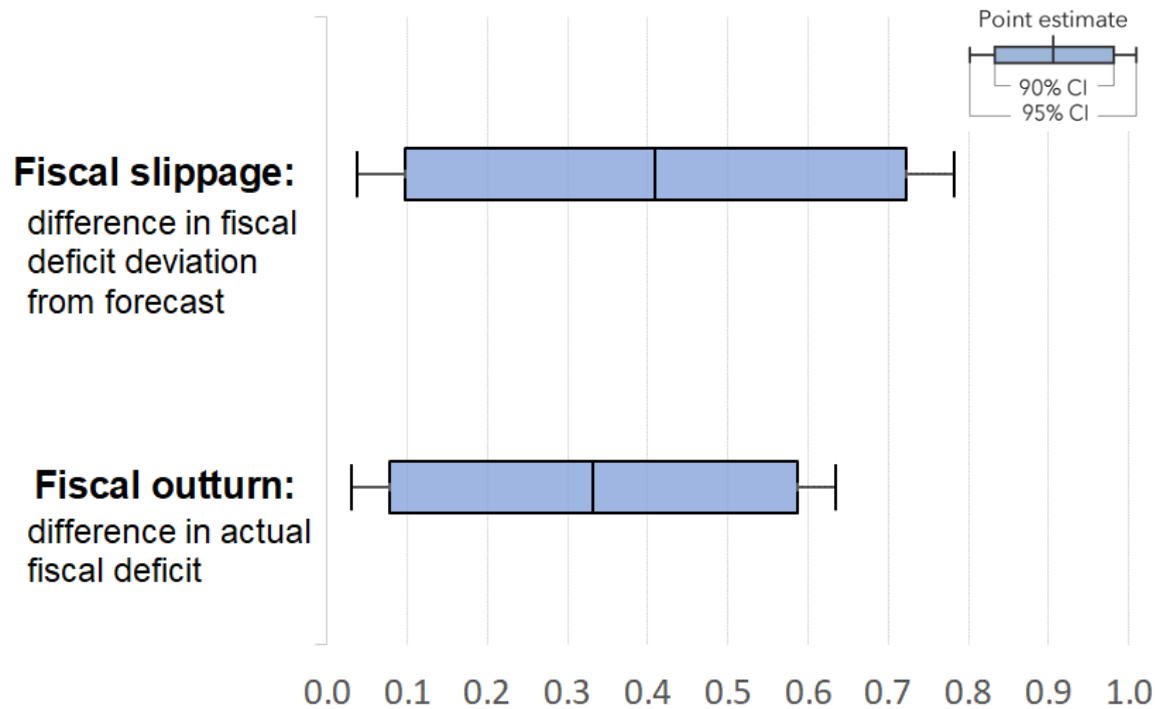
Sources: IMF, World Economic Outlook (WEO) database; and IMF staff calculations.

Note: The bars in panel 1 show the estimated average response of annual primary balances to GDP growth in China that is 1 percentage point lower in 2023–28. The growth spillover effects have been estimated, based on the IMF's Group of Twenty Model, as the percent deviation of GDP from the steady-state growth path in the absence of the shock to the Chinese economy (see Box 1.1 of the October 2023 World Economic Outlook; see also Chen, Fomino, and Rawlings 2024). The final impact on revenue is calculated by applying elasticities of revenues to growth, estimated with pooled mean group heterogeneous panel regressions, for 30 advanced economies, 29 emerging market economies, and 49 low-income developing countries. The period sample is from 1970 to 2019.

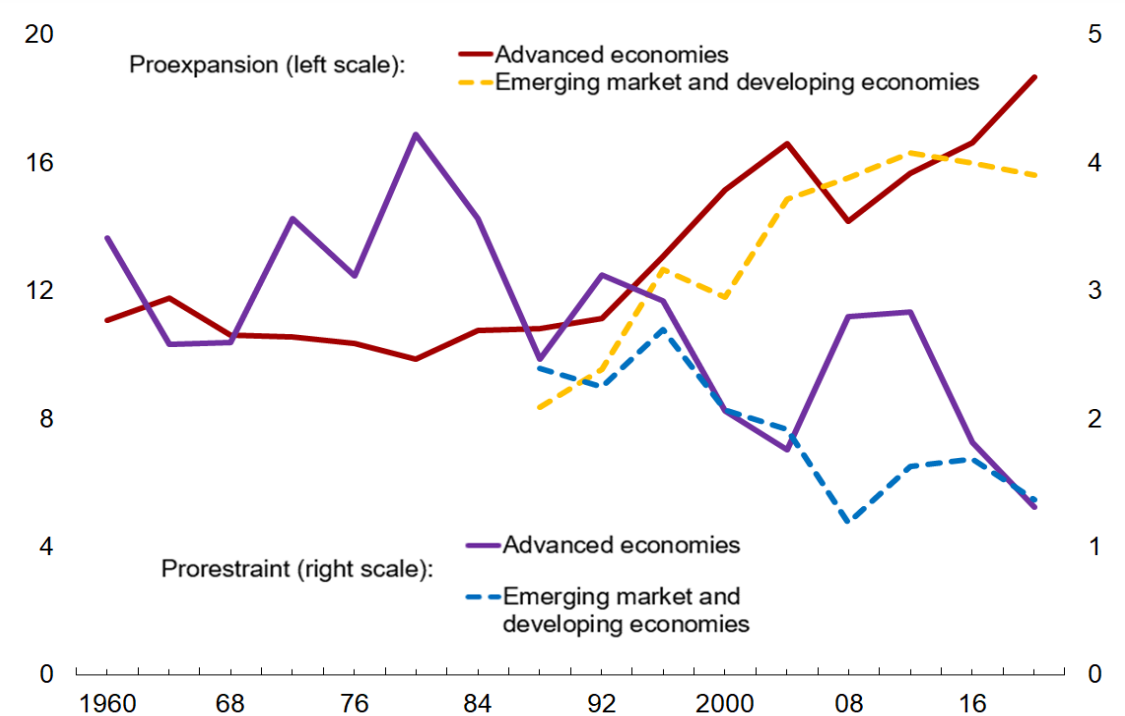


# Election Effects Posing Risks to Further Policy Normalization This Year

**Effect of elections years on the fiscal deficit**  
(election years vs. non-election years; percentage points of GDP)



**Rise of Expansionary Fiscal Discourse**  
(Percent)

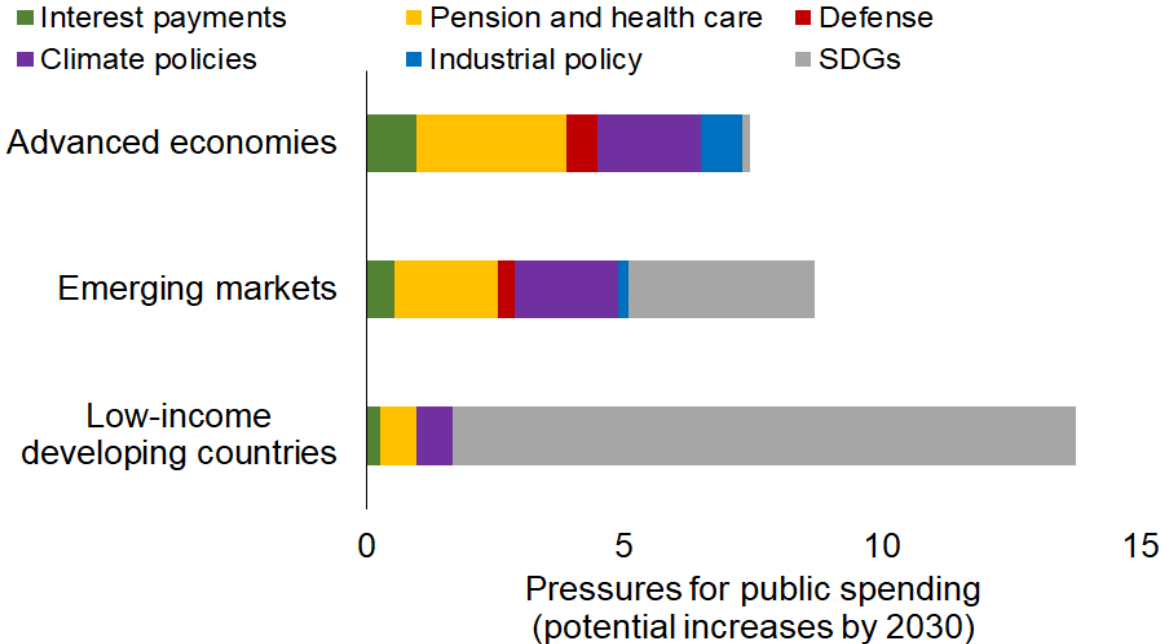


Sources: IMF, Fiscal Rules Dataset; IMF, World Economic Outlook (WEO) database; National Elections across Democracy and Autocracy data set; World Bank, World Development Indicators; and IMF staff calculations.  
Note: The sample consists of 168 economies spanning the period from 1990 to 2020. The panel estimates use the generalized method of moments estimator. Deficit outturns are realized deficit values recorded in the WEO database, while deficit surprises are the difference between deficit outturns and their WEO expectation one year ahead. See Online Annex 1.3 for more details. A positive fiscal slippage means a fiscal deficit outturn that is higher than its one-year ahead forecast. CI = Confidence interval.

Sources: Cao, Dabla-Norris, and Di Gregorio (forthcoming); Manifesto Project Database; and IMF staff calculations.  
Note: Manifesto Project data capture both spending intentions and value judgments. For each year in the figure, the year associated with the data refers to the first of four years the data cover. In panel 1, platform data are first averaged at the country-election level, then by country-year, and finally by four-year period. The vertical axes shows the mean outcomes across all country-years in each four-year period. In panel 2, the top red line sums the shares of all categories below it. The vertical axis reports the mean share of platform statements by policy realm in which a party potentially advocates for more government spending or support. "Social" includes support for the welfare state (for example, health, child, and elder care; pensions; and social housing) and education.

# Mounting Spending Pressures over the Medium Term

Potential Annual Increases in Spending through 2030  
(Percentage of GDP)

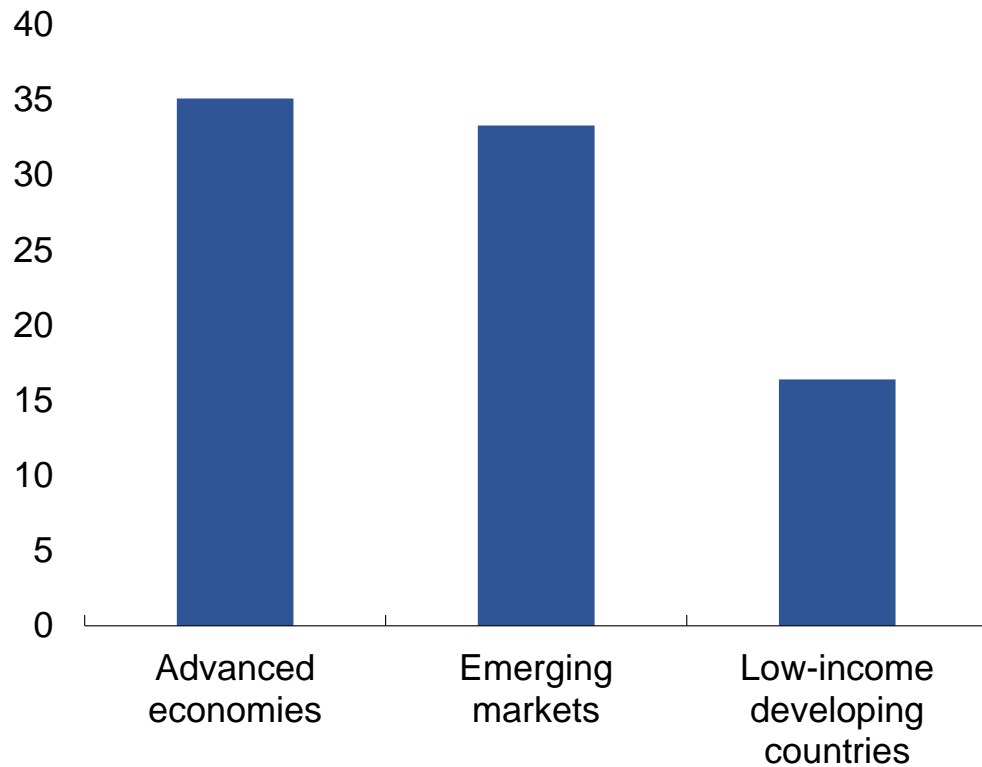


Source: IMF staff calculations.

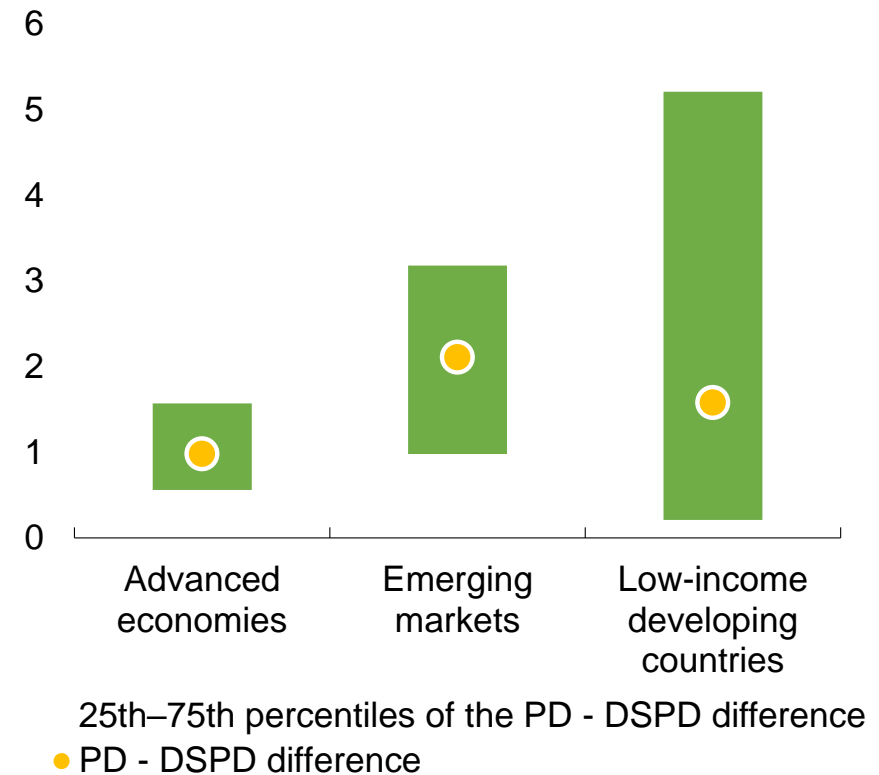
Note: Online Annex 1.4 provides details on the construction of this figure. For advanced and emerging market economies, climate policies include spending on both mitigation and adaptation. For low-income and developing countries, climate policies include spending only on adaptation. SDGs = UN Sustainable Development Goals.

# Elevated Risks for Debt Sustainability

**Share of Economies with Primary Deficit above Debt-Stabilizing Level in 2029**  
(Percent)



**Required Adjustments of Primary Deficit**  
(Projected primary deficit minus debt-stabilizing level; Percent)



Source: IMF, World Economic Outlook database; and IMF staff calculations.

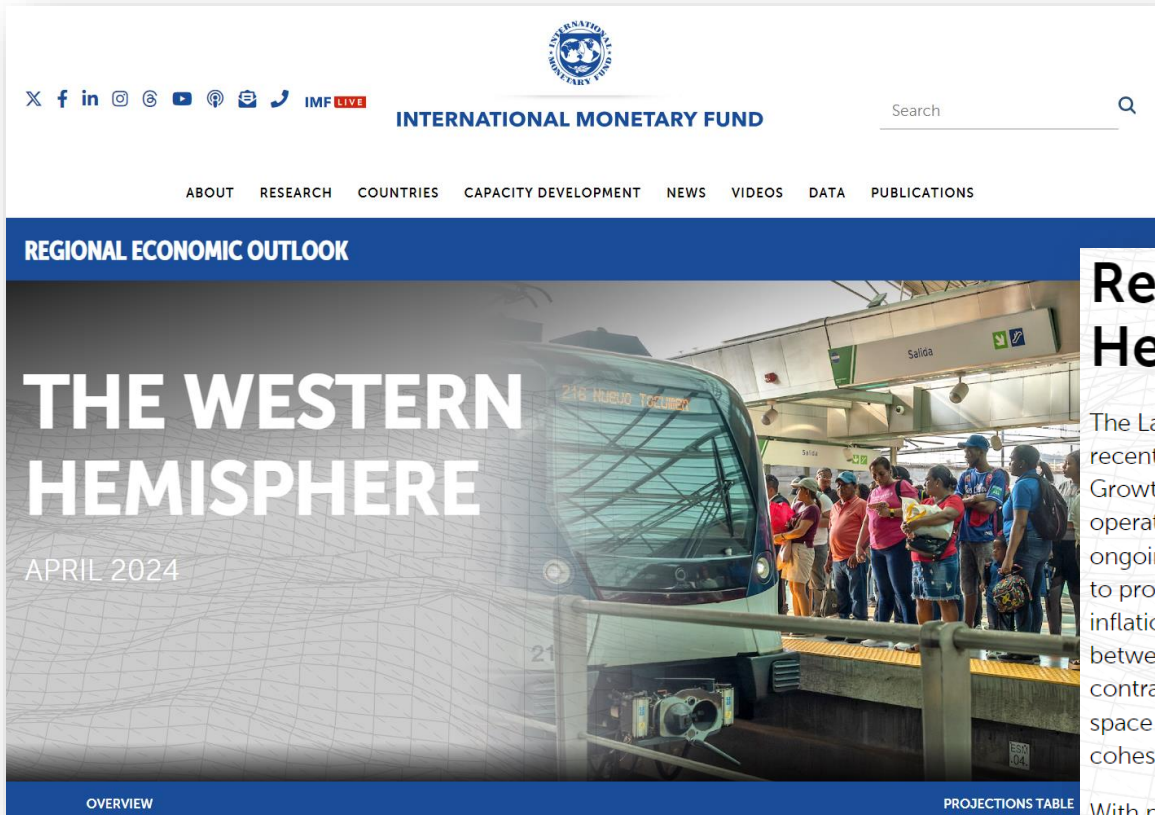
Note: See footnote 15 in the FM chapter text for the formula used to calculate the debt-stabilizing primary deficit (DSPD). The sample includes 37 advanced economies and 83 emerging market economies, excluding a few with outlier values (below -20 and above 20 percent of GDP). Values in the blue bars in left chart indicate the share of economies with  $PD > DSPD$  in 2029.  $DSPD - PD$  difference reported for countries with  $PD > DSPD$  only. The dots in the right chart correspond to weighted averages for each economic group.

# Call for Durable and Credible Fiscal Tightening – Building Fiscal Sustainability

- The pace of consolidation should be calibrated depending on fiscal risks and macroeconomic conditions that each country faces.
- Front-loaded consolidation would be desirable for economies with high debt risks and lacking credible medium-term framework.
- Efforts are needed to immediately phase out legacies of crisis-era fiscal policy and pursue reforms to curb rising spending, while protecting the most vulnerable.
- Revenues should keep up with spending over time (MTRS). In emerging market and developing economies, broadening tax base and enhancing institutional capacity could yield additional revenues as much as 9 percent of GDP – IMF Staff Discussion Note.
- Credible medium-term frameworks would provide sound foundation for sustainable public finances – Medium-Term Revenue Strategy (MTRS), which link tax system reforms with spending needs of development agendas, could be a good frame to guide these reforms.
- The functioning of fiscal rules in the region should be also analyzed to help in this direction.

# THE WESTERN HEMISPHERE – REGIONAL ECONOMIC OUTLOOK

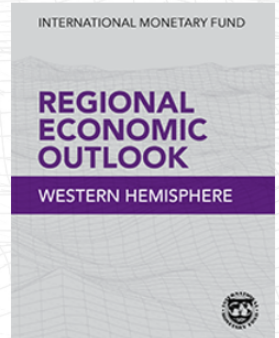
It also calls for retaking fiscal consolidation – notably by strengthening tax capacity.



## Regional Economic Outlook for the Western Hemisphere, April 2024

The Latin America and the Caribbean region has shown remarkable resilience in the face of recent global challenges, rebounding more strongly than expected from the pandemic. Growth is now moderating, from 2.3% in 2023 to 2.0% in 2024, as most economies are operating at potential. This moderation is also due to a weaker external environment and the ongoing impact of tight policies aimed at curbing inflation. Inflation is on a downtrend, thanks to prompt measures by the region's central banks and global disinflation trends. With inflationary pressures subsiding, monetary policy easing can continue, striking a balance between durably bringing inflation back to target and avoiding an undue economic contraction. Fiscal policy should focus on expediting consolidation efforts to rebuild policy space by mobilizing revenue while safeguarding essential social expenditures to uphold social cohesion.

With poverty and inequality still high in the region, it is imperative to boost potential growth—which averages about 2.5%, lagging behind peer economies. Structural reforms to raise growth should focus on enhancing the rule of law, improving the business environment, boosting labor force participation—especially of women—and addressing informality. Tackling crime and violence can also deliver substantial social and economic gains.



[Regional Economic Outlook, Western Hemisphere, April 19th, 2024 \(imf.org\)](https://www.imf.org/publications/ro/2024/04/western-hemisphere)



PRESENTATION



VIDEO: PRESS BRIEFING



PRESS BRIEFING TRANSCRIPT



DATA

# Ch2 – Expanding Frontiers: Fiscal Policies for Innovation and Technology Diffusion

## Key Questions

1. When should governments **direct innovation** to specific sectors, and how?
2. What are the most cost-effective fiscal policies to **promote innovation** at the technology frontier?
3. What fiscal policies can facilitate **technology diffusion** below the technology frontier?

## Policy Takeaways

1. Countries should avoid **targeting specific sectors** – unless social gains are clear and capacity is strong.
2. **Countries at the technology frontier** should promote innovation more broadly by increasing public investment in fundamental research and incentivizing R&D across firms.
3. **Countries below the frontier** should focus on technology adoption, by investing in physical, digital, and human capital.
4. **International collaboration** is critical for innovation and technology diffusion. Resist pressures for inward-looking industrial policies.

# How FAD helps countries adopt the fiscal policy priorities

FAD is mainly a Technical Assistance (TA) Department in Public Finances – around 75% Budget

## Unveiling the Global Public Finance Partnership: First Partners, First Projects

Thursday, Apr 18, 2024 | 09:00 AM - 09:30 AM | Location: Cedar Hall, HQ1-1-660



This event will announce the first contributions to the Global Public Finance Partnership (GPFP) and initial workplan. Launched in 2024, the GPFP will assist in fostering good policies and strong management of member countries' public resources by combining the IMF's leading expertise on public revenue and spending. The GPFP aims to support the G20's call to boost domestic resource mobilization, as stressed in the Managing Director's Global Policy Agenda presented in October 2023. It will primarily support low-income developing countries and fragile and conflict-affected states in boosting domestic resource mobilization and managing public spending more effectively.



[Unveiling the Global Public Finance Partnership: First Partners, First Projects \(imfconnect.org\)](https://imfconnect.org)

# TA in Revenue

## What's New

TAX AND CUSTOMS ADMINISTRATION | TAX POLICY | ANALYTICAL AND LEARNING RESOURCES

[Revenue-Portal \(imf.org\)](https://imf.org)

## Tax Policy for Inclusive Growth in Latin America and the Caribbean'

Fiscal challenges in Latin American and the Caribbean (LAC) have been exacerbated by the COVID-19 pandemic, calling for a careful assessment of how to mobilize revenues in an inclusive and growth-friendly manner. This chapter provides an overview of taxation in LAC before the pandemic and compares it to OECD countries. LAC countries collect significantly lower tax revenue than OECD countries and have tax structures that rely more on corporate-income taxes (CIT), which might be hampering investment and growth. Conversely, personal-income taxes (PIT) play a minor role in LAC, a fact that does not appear to be fully aligned with the region's level of development. LAC countries could strengthen their PIT to mobilize revenue and improve tax progressivity by addressing critical design flaws (e.g., minimum/maximum rates and thresholds) and increasing deductions. Possible adverse growth effects could be mitigated by providing incentives to participation, particularly of low-wage female workers (e.g., through earned-income tax of non-labor income of high-income earners. CIT reforms would need to focus on setting regions—when assessed to be relatively high—to attract investment and alleviate profit tax base—streamlining tax deductions and incentives while ensuring that they are safe. Implications of ongoing global corporate tax reforms would need to be evaluated on a case-by-case basis. VAT could be improved by tackling exemptions and reduced rates, combined with measures to compensate vulnerable households. Immovable property, inheritance, and gift taxes could also be considered as potential revenue sources in an inclusive and growth-friendly manner.

### Key Results

The chapter exacerbates pre-existing fiscal challenges faced by LAC, as demonstrated by public debt levels which were high (IMF 2021a). Such challenges are likely to remain sizable and continue (health, education and transfers to households costs arising from monetary policy normalization and other structural expenditure outlays due to aging. Most regions in the world, is not progressive enough given debt levels and others 2021).

The chapter provides a detailed assessment of tax structures in LAC and compares them to OECD countries, a natural benchmark. The fact that several LAC countries are—or are likely to be—highly dependent on the value-added tax (VAT), the corporate-income tax (CIT), and the personal-income tax (PIT) is associated with income levels and long-term growth. The chapter also discusses how the taxation of capital and labor can be improved and to provide a more equitable tax structure to households.

The chapter is led by Santiago Acosta-Cumbeche (lead), Samuel Patañagura, and supported by excellent research support by Genesvieve Lindor and Seamus O'Connell. The chapter covers a diverse set of countries ranging from the largest economies in LAC to smaller ones. Annex 1 lists the countries that are OECD members (Chile, Colombia, Costa Rica, and Mexico) and those that are not. The chapter is at an advanced stage to become a member. This provides perspective on the progress of the region. In this chapter, however, only the LAC countries are included.

### What's New

TAX AND CUSTOMS ADMINISTRATION | TAX POLICY | ANALYTICAL AND LEARNING RESOURCES



#### IMF TECHNICAL NOTE

##### Tax Administration: Essential Analytics for Compliance Risk Management

This technical note introduces analytics for compliance risk management in tax administration. Together with the accompanying tools, the note is intended as a guide for IMF to support capacity development in compliance planning, risk and intelligence groups.

FEBRUARY 2024

ENGLISH | HONORABLE | IN THE AND SUPERIOR ADMINISTRATION

### Our Capacity Development Work

The Fiscal Affairs Department (FAD) provides capacity development (CD) in fiscal policy, including reform design and implementation, sharing knowledge with governments' fiscal institutions such as ministries of finance and tax and customs administrations, supporting fiscal systems, and strengthening tax and customs institutions' modernization. Strategic advice, as well as hands-on implementation support, peer-to-peer learning, and training are delivered to countries in various ways:

(i) IMF staff and qualified technical experts offer expert advice to country officials both in country and remotely from headquarters; (ii) a network of Regional Capacity Development Centers provides hands-on implementation support to countries under the guidance of headquarters; and (iii) in-person and online training courses are provided for government officials on targeted topics.

### External Projects

The IMF's capacity development work in the revenue domain is also delivered through multiple collaborative projects with other ID partners. For more information on our partners, please see CD Partners.



**TADAT**  
The Tax Administration Diagnostic Assessment Tool provides an objective assessment of the health of key components of a country's tax administration.

VISIT SITE



**VITARA**  
The VITA Training to Advance Revenue Administration is a joint project with the OECD, CIAT, and OITA to strengthen tax administrations' knowledge in various institutional and technical areas.

VISIT SITE



**PCT**  
The Platform for Collaboration on Tax is a joint initiative of the IMF, OECD, UN, and World Bank Group to strengthen collaboration on domestic resource mobilization.

VISIT SITE



**ISoRA**  
INTERNATIONAL SURVEY ON REVENUE ADMINISTRATION  
Powered by IIA-FIT



**ISoCA**  
INTERNATIONAL SURVEY ON CUSTOMS ADMINISTRATION  
Powered by IIA-FIT



# TA in Spending

Figure 3. The Budget Cycle

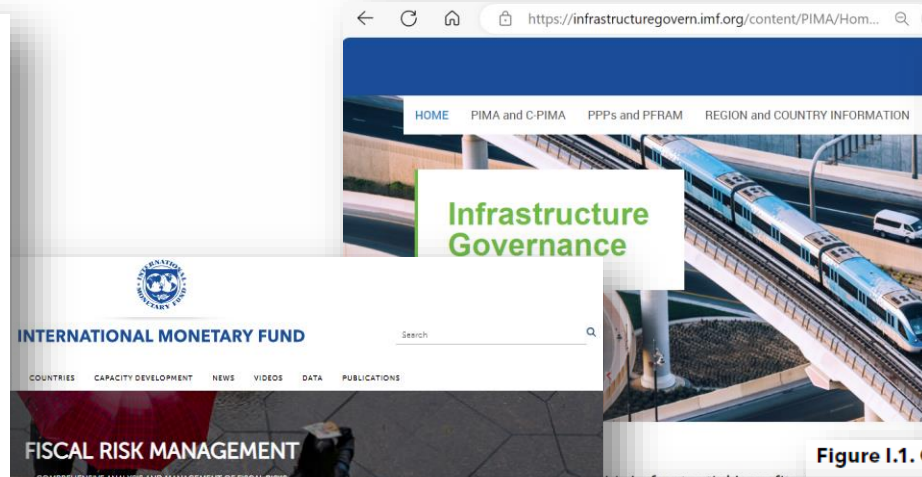
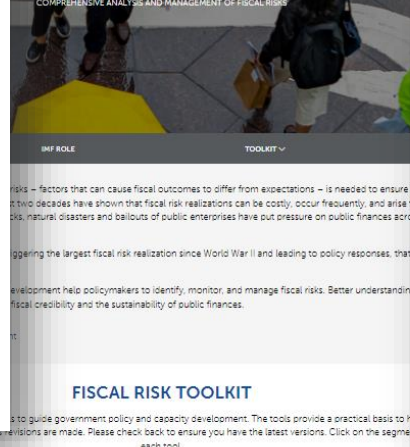


Figure I.1. Overview of the PIMA Framework



INTERNATIONAL MONETARY FUND  
EUROPEAN; FISCAL AFFAIRS; AND STRATEGY, POLICY, AND REVIEW DEPARTMENTS

## Reforming the EU Fiscal Framework Strengthening the Fiscal Rules and Institutions

Prepared by Nathaniel Arnold, Ravi Balakrishnan, Bergljot Barkbu, Hamid Davoodi, Andresa Lagerborg, W. Raphael Lam, Paulo Medas, Julia Otten, Louise Rabier, Christiane Roehler, Asghar Shahmoradi, Mariano Spector, Sebastian Weber, and Jeromin Zettelmeyer

DP/2022/014

2022 SEP

DEPARTMENTAL PAPER



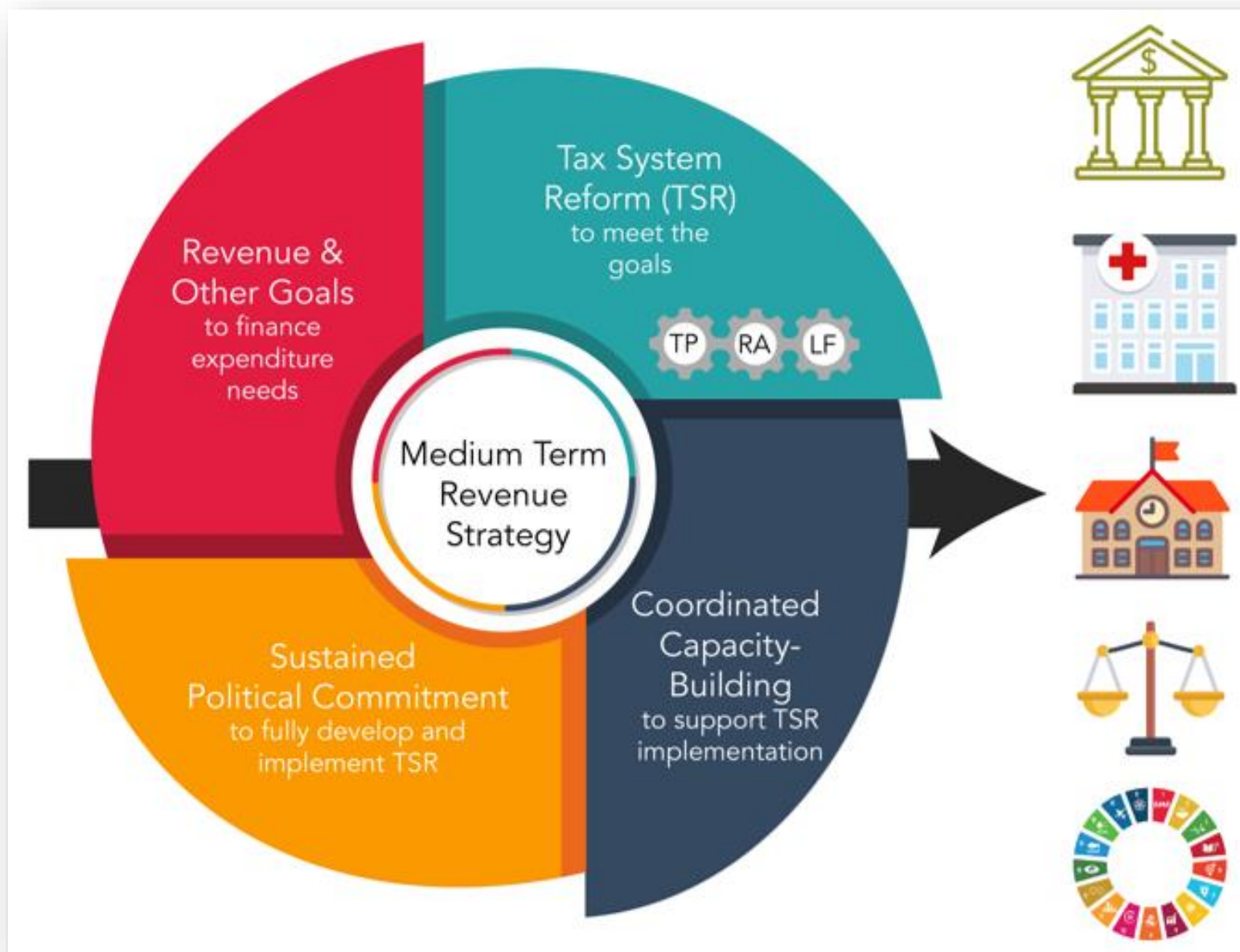
Source: IMF 2018c.

[Fiscal Risk Management \(imf.org\)](https://www.imf.org)



Fiscal Risk  
Click on the segment about each tool.

# MTRS – Revenue and Spending to support development



**THANKS FOR YOUR ATTENTION**