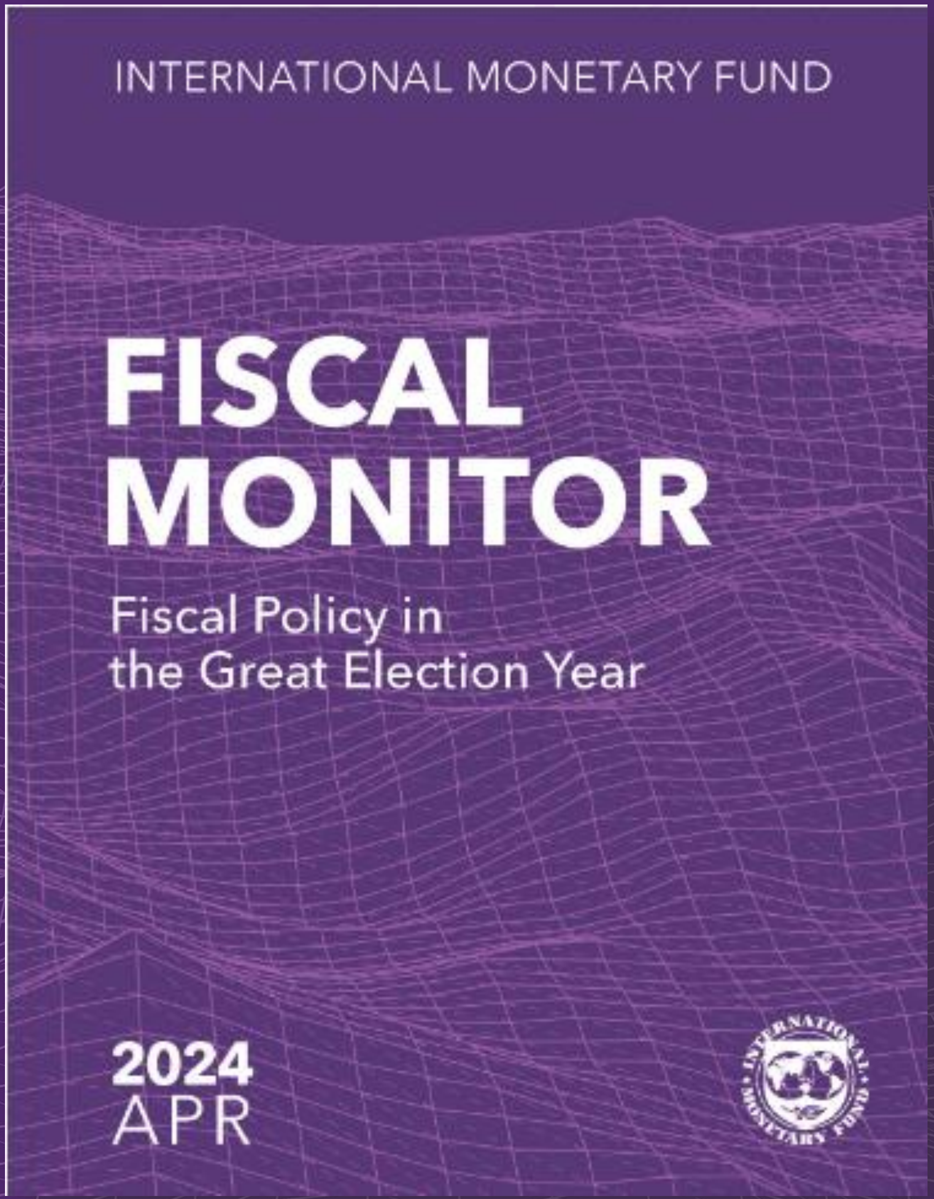


FISCAL AFFAIRS

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

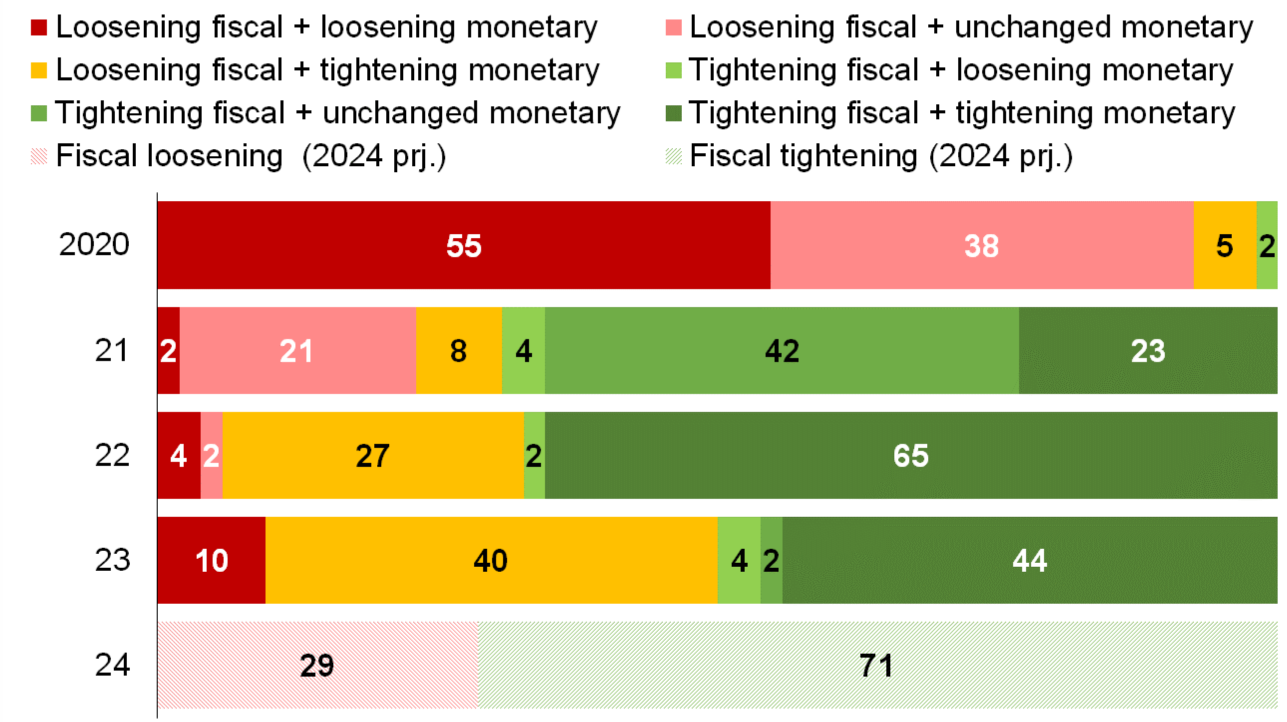
[Fiscal Policy in the Great Election Year (imf.org)]

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

Paused Progress Toward Policy Normalization

Fiscal and Monetary Policy Mix

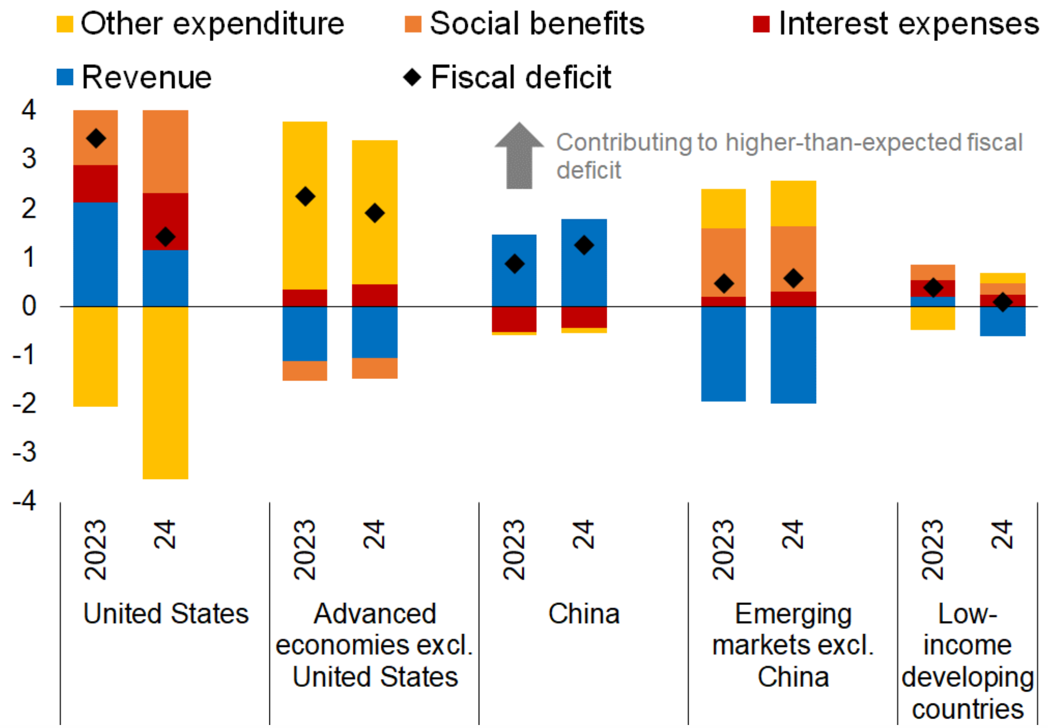
(Percent of economies)



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.

Current versus Prepandemic Projections for Fiscal Deficits

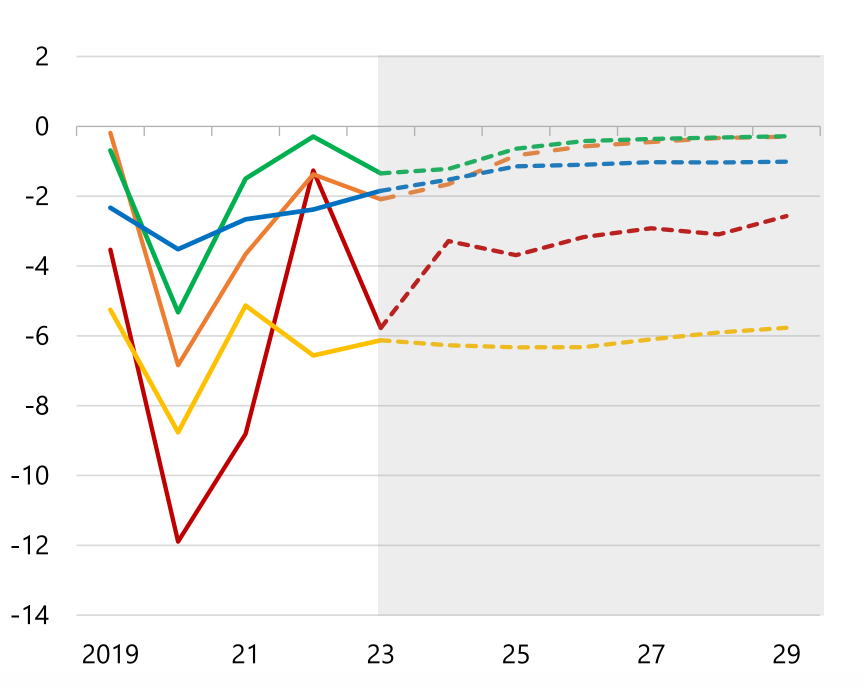
(Percentage points of GDP)



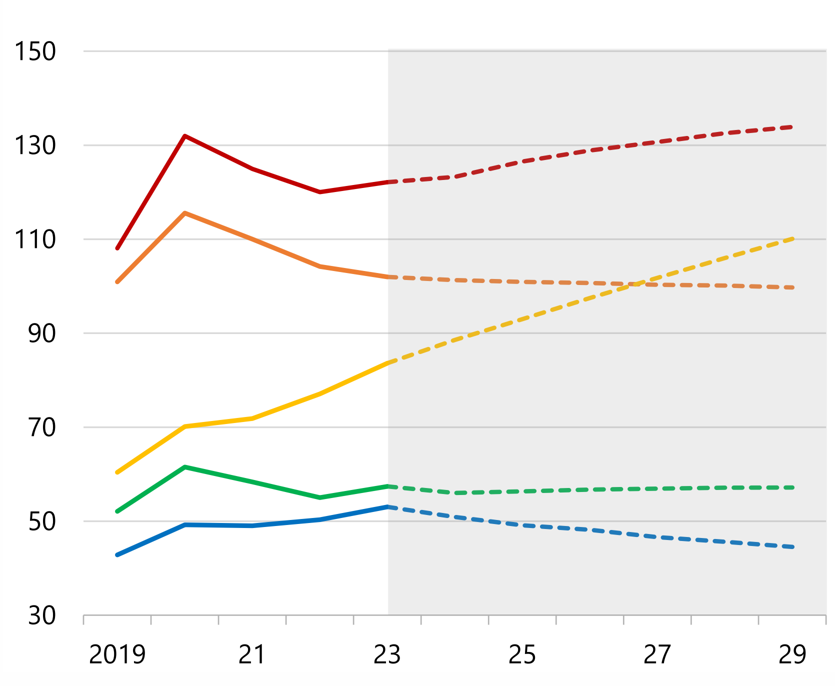
Sources: IMF, Government Finance Statistics database; IMF, World Economic Outlook (WEO) database; and IMF staff calculations.
Note: For China, social benefit spending is not separately reported in the WEO. Current projections refer to the April 2024 WEO; prepandemic projections are from the October 2019 WEO.

Divergences in Progress Toward Policy Normalization

Primary Balance
(Percent of GDP)



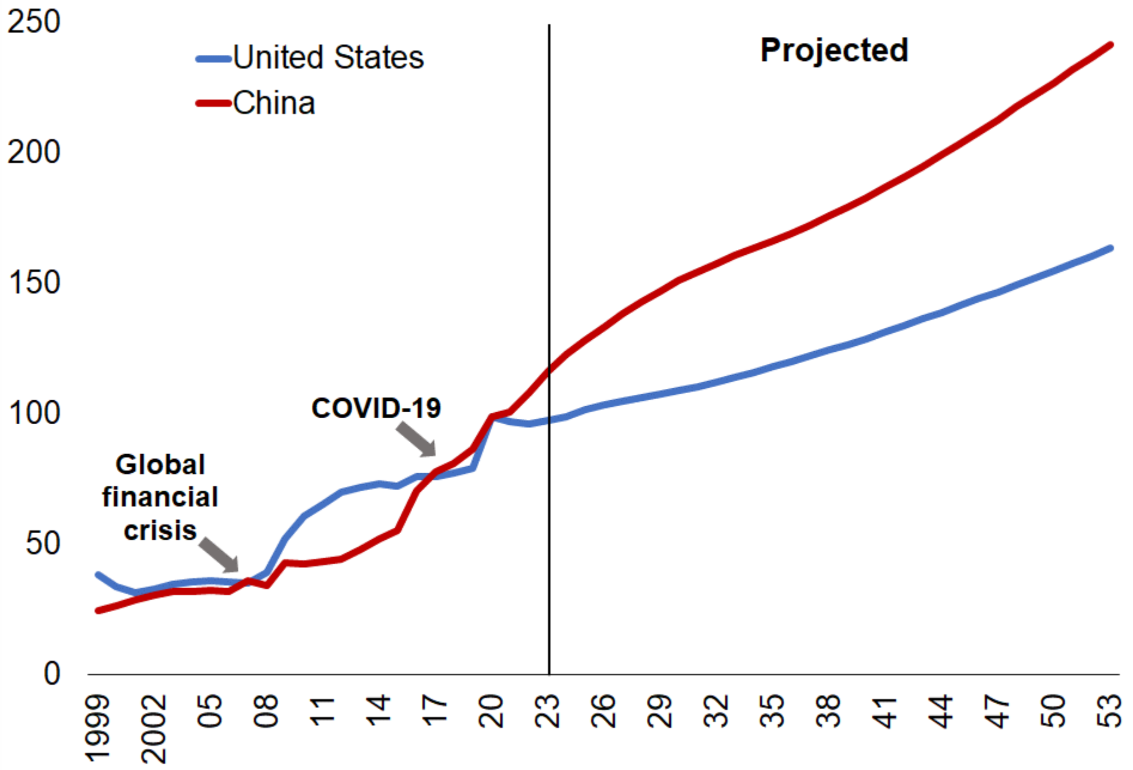
Public Debt
(Percent of GDP)



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

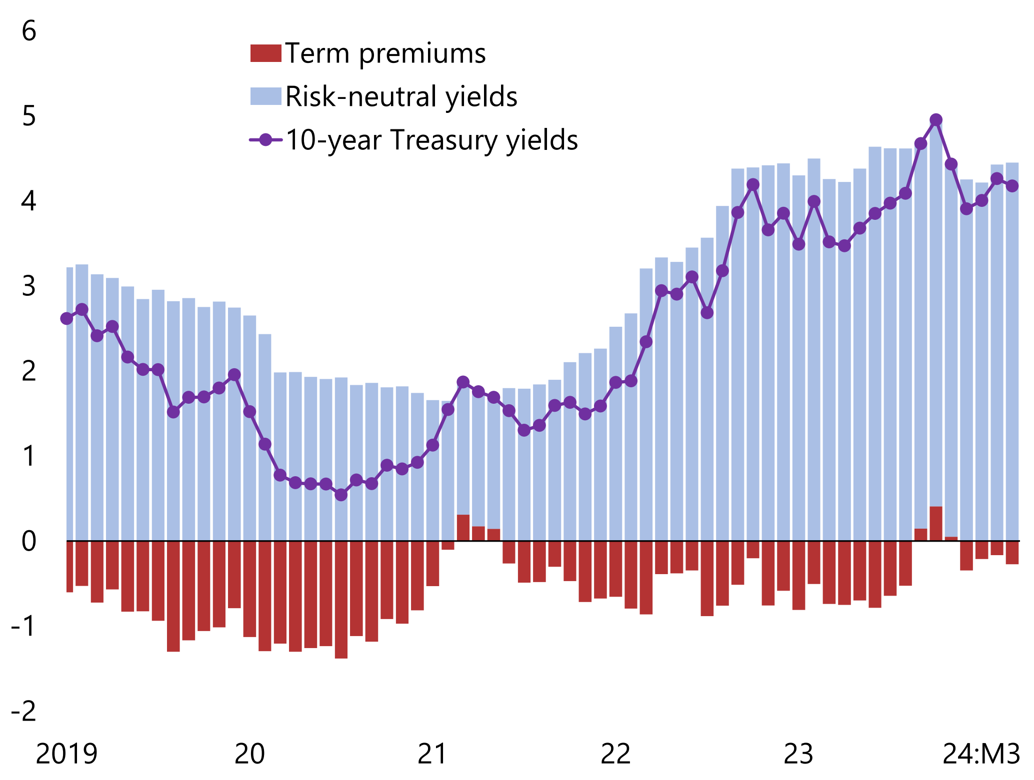
Evolution of Public Debt in China and the United States
(Percent of GDP)



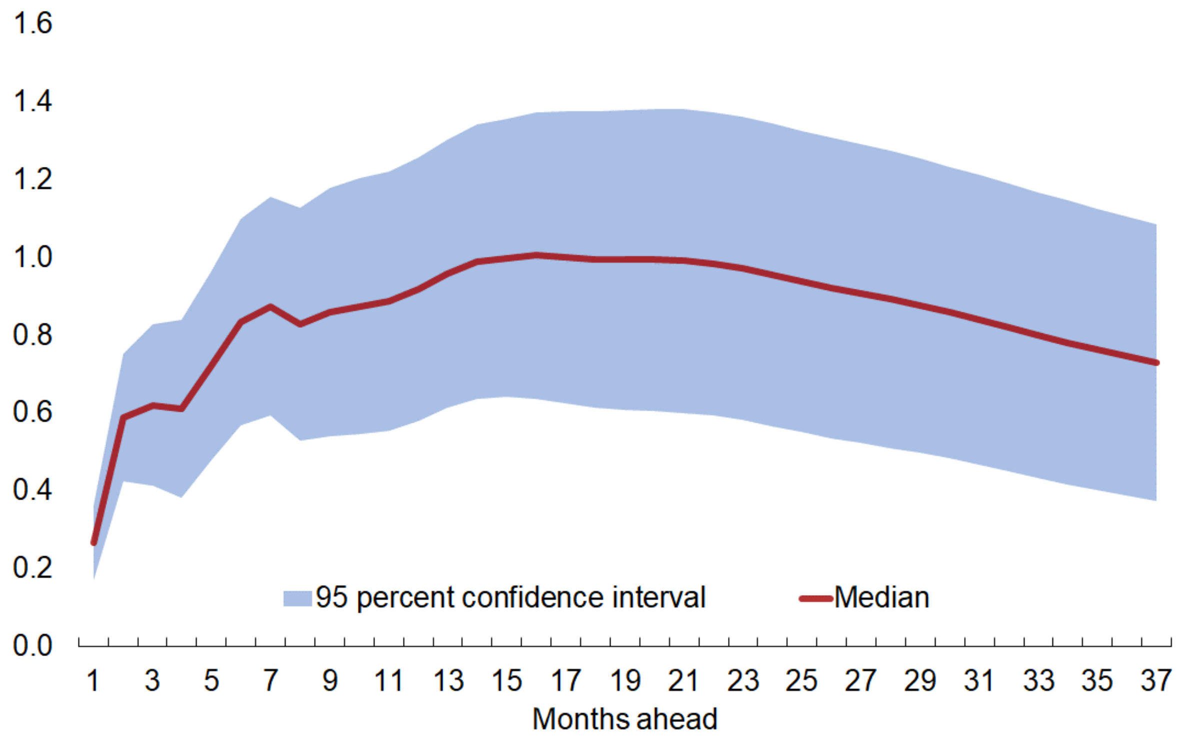
Sources: IMF 2024; US Congressional Budget Office 2024; and IMF staff calculations.
Note: For the United States, the figure shows federal debt held by the public under unchanged policies. For China, it shows augmented debt, which expands the perimeter of government to include the activity of local government 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)



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

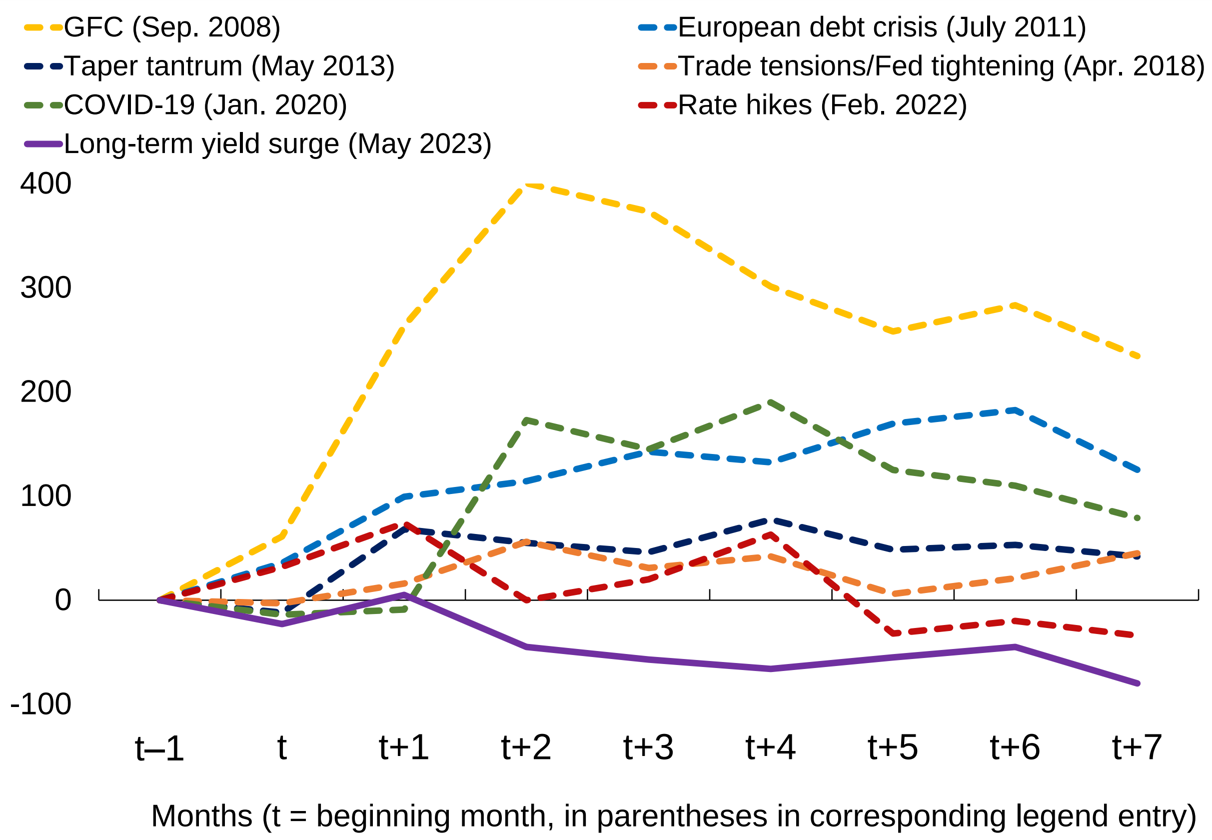


Source: Federal Reserve Bank of New York.
Note: The decomposition into monthly risk-neutral yields and term premiums is based on Adrian, Crump, and Moench (2013).

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.

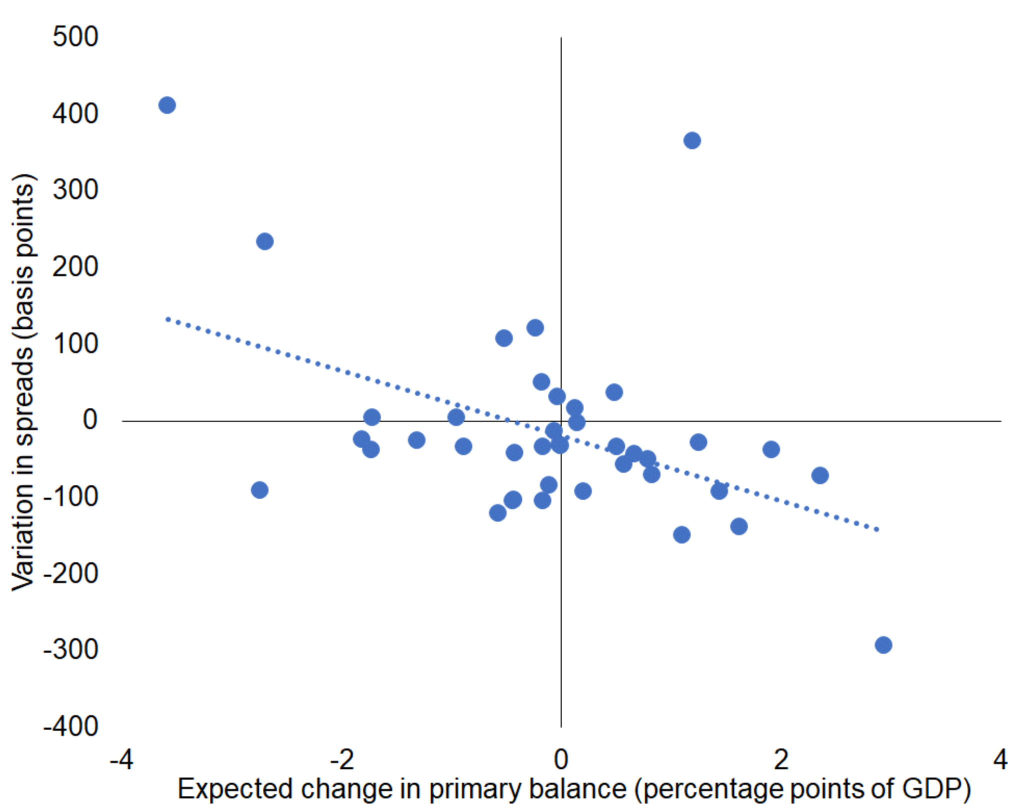
Differentiated Effects

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.

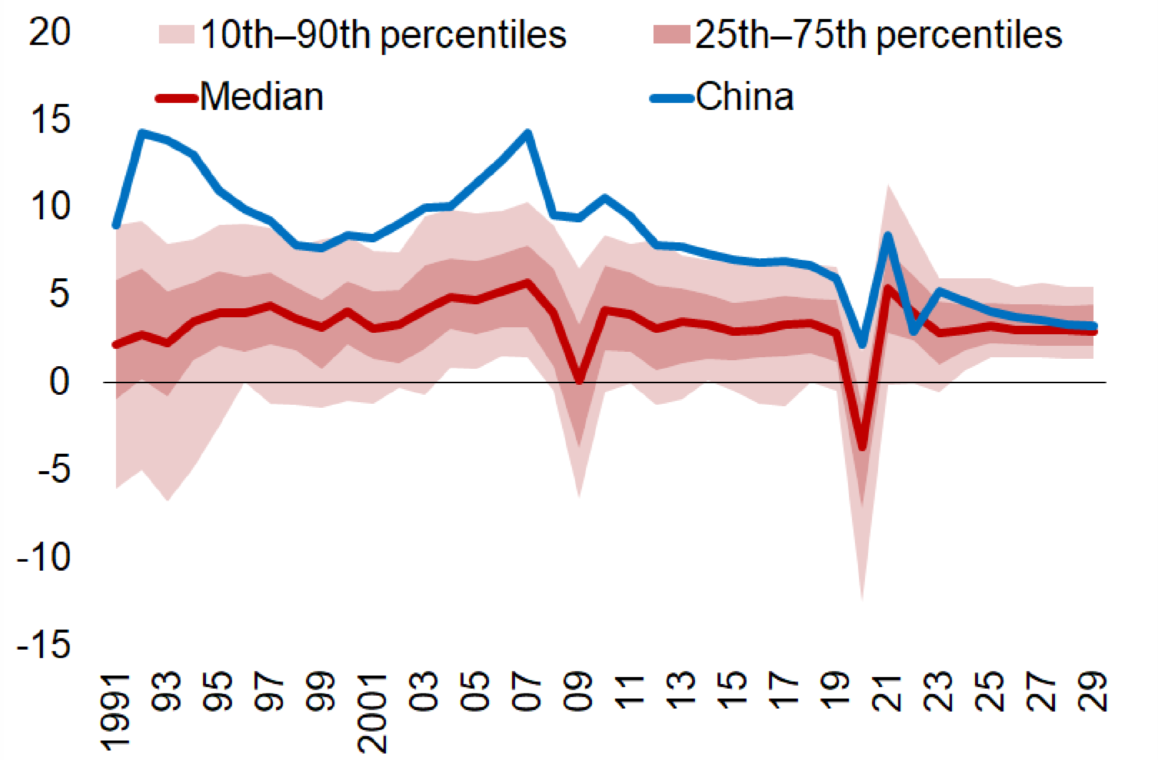
Changes in Sovereign Spreads and the Fiscal Outlook *(Percentage points)*



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.

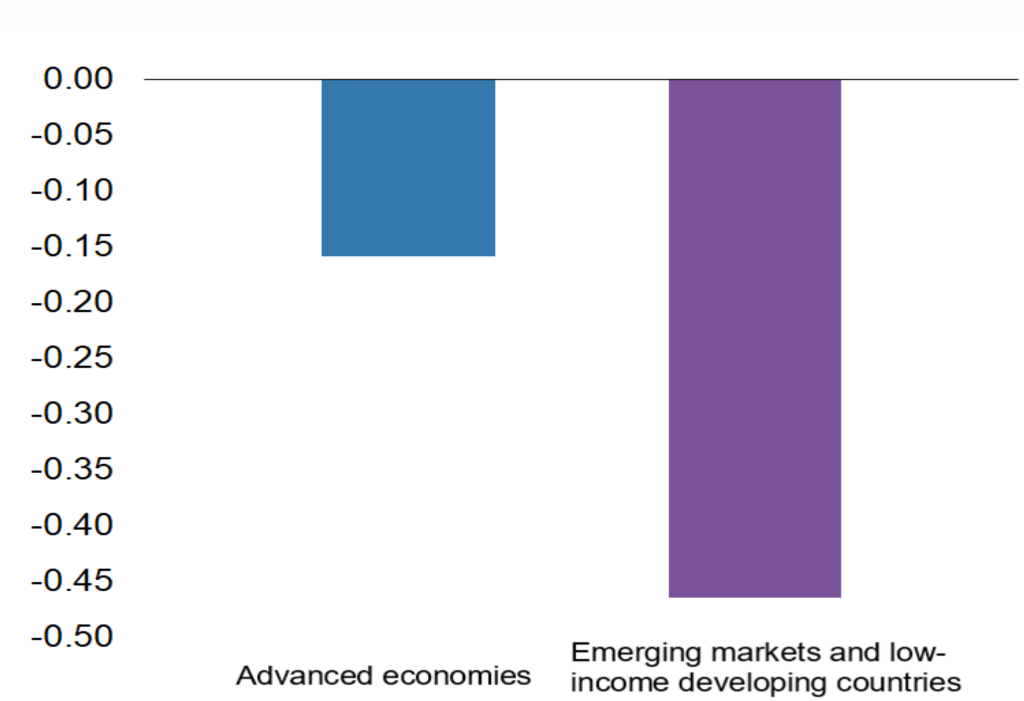
Slowing Growth in China Posing Global Growth and Fiscal Challenges

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



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

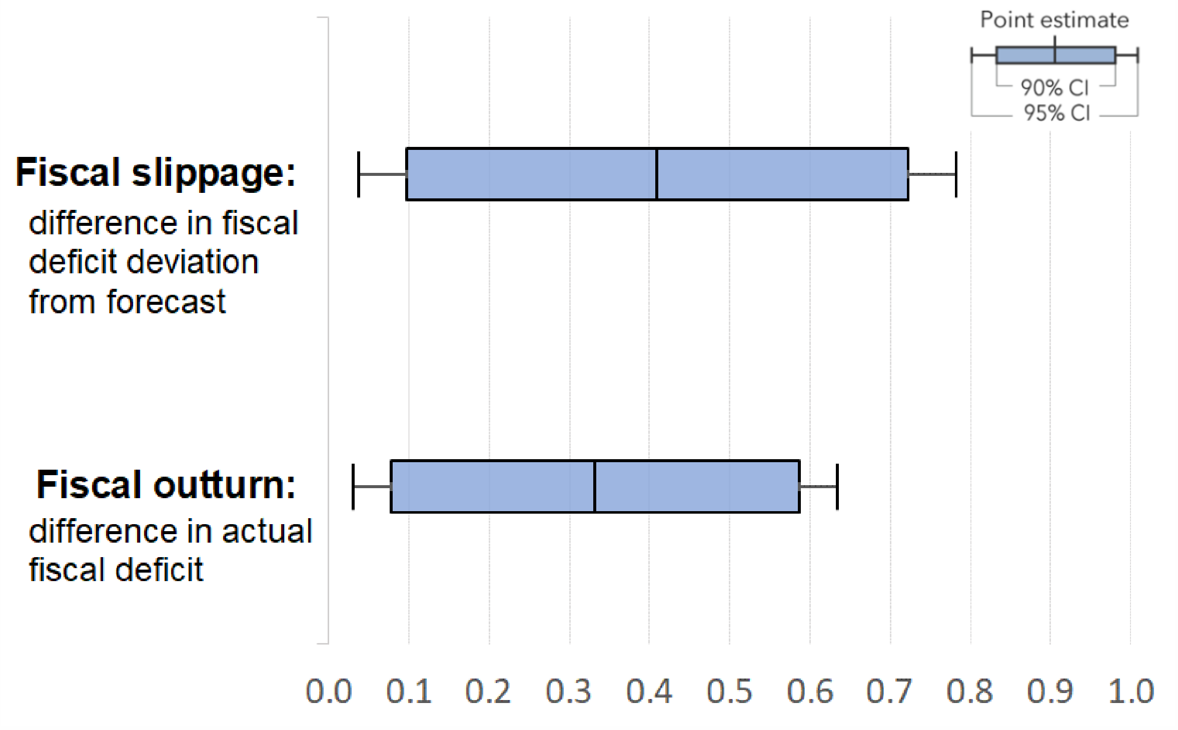
Impact of China's Slowdown on Total Revenues
(Percentage points of GDP)



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, Fornino, 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.

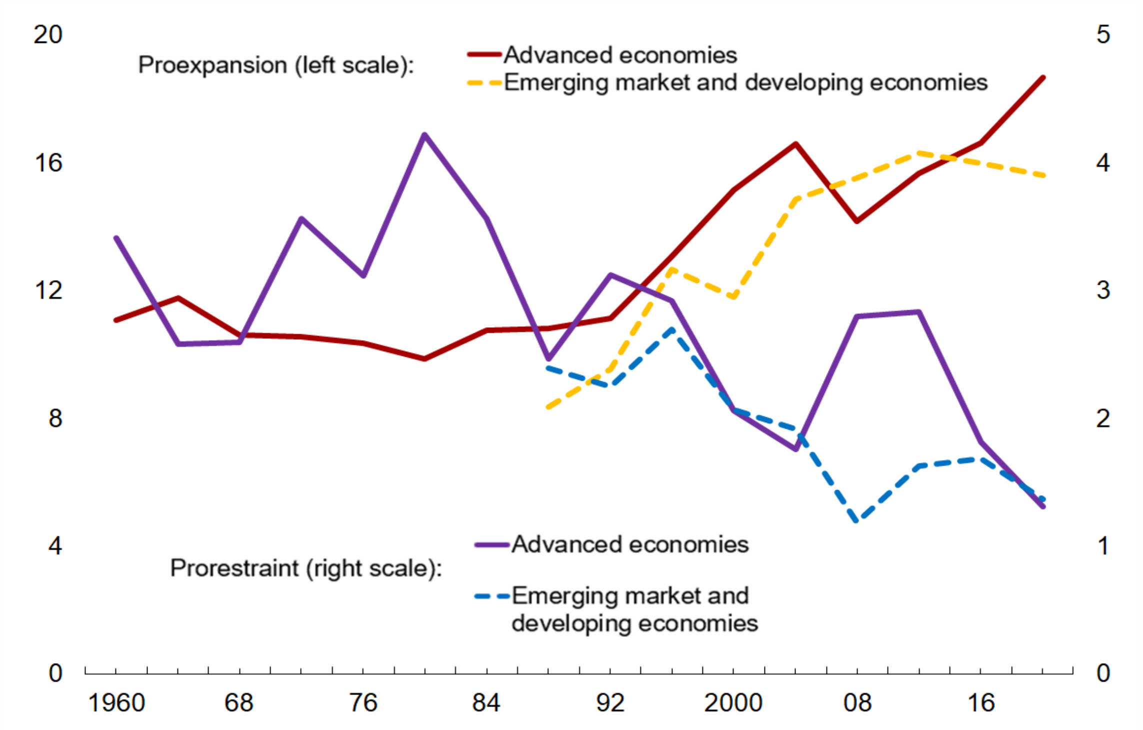
Election Effects Posing Risks to Further Policy Normalization This Year

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



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.

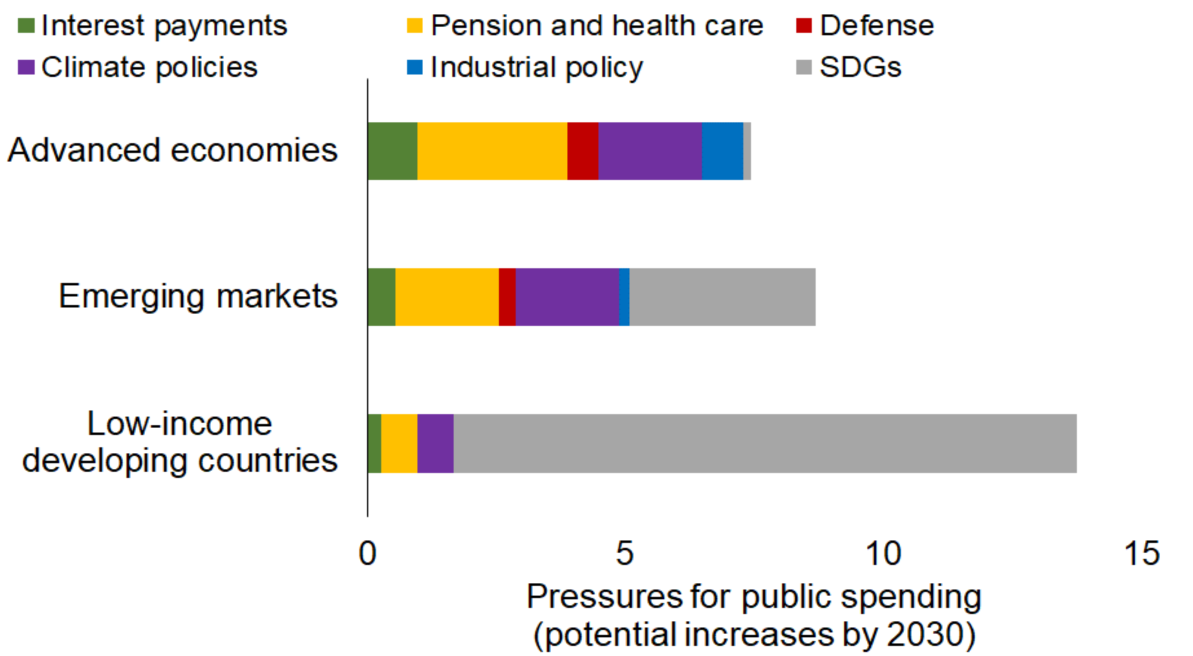
Rise of Expansionary Fiscal Discourse
(Percent)



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

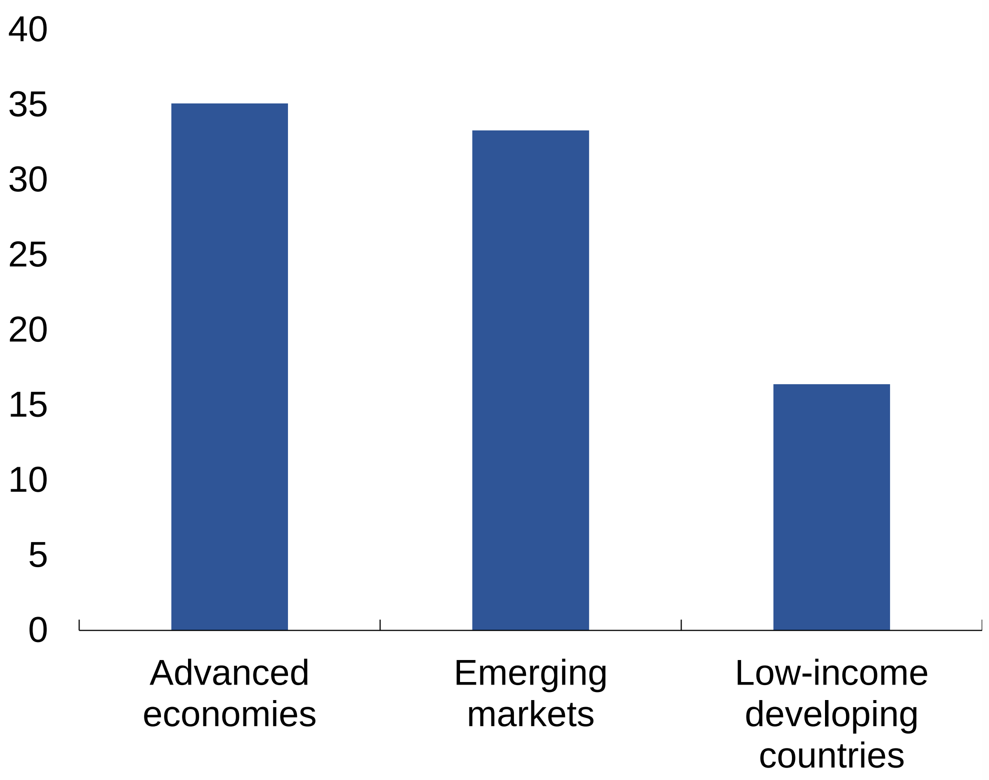
Potential Annual Increases in Spending through 2030
(Percentage of GDP)



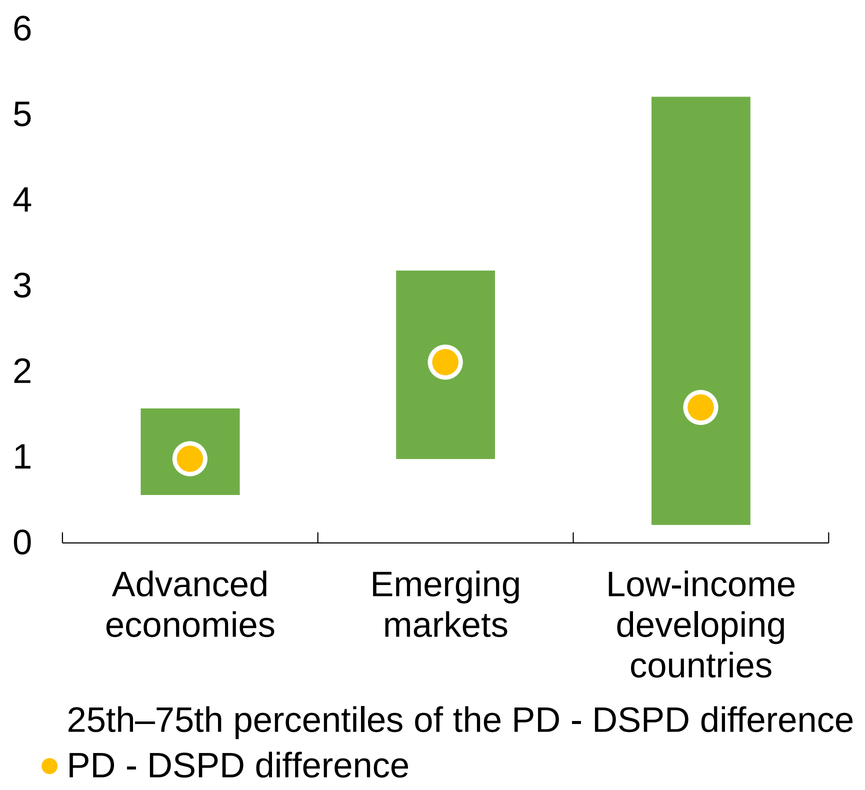
Source: IMF staff calculations.
Note: Online Annex 1.4 provides details on the construction of this figure. For advanced and emerging market economies, climate policies include spending on both mitigation and adaptation. For low-income and developing countries, climate policies include spending only 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)



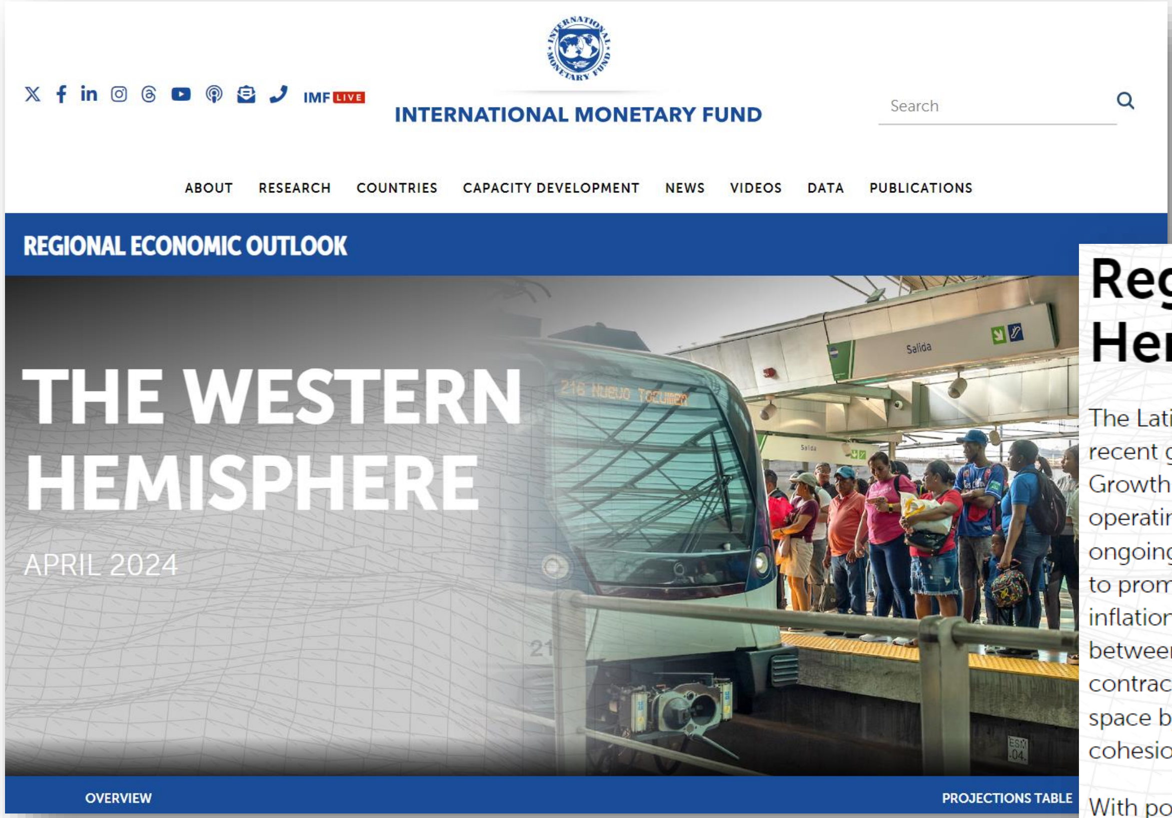
Source: IMF, World Economic Outlook database; and IMF staff calculations.
Note: See footnote 15 in the FM chapter text for the formula used to calculate the debt-stabilizing primary deficit (DSPD). The sample includes 37 advanced economies and 83 emerging market economies, excluding a few with outlier 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.

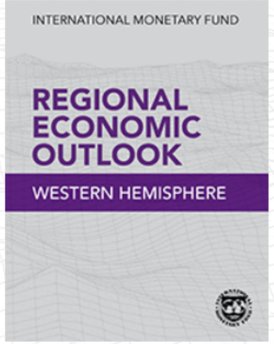
THE WESTERN HEMISPHERE – REGIONAL ECONOMIC OUTLOOK

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.

PDF PRESENTATION | VIDEO: PRESS BRIEFING | PRESS BRIEFING TRANSCRIPT | DATA

[Regional Economic Outlook, Western Hemisphere, April 19th, 2024 (imf.org)]

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.

Figure 1. GPFP Structure

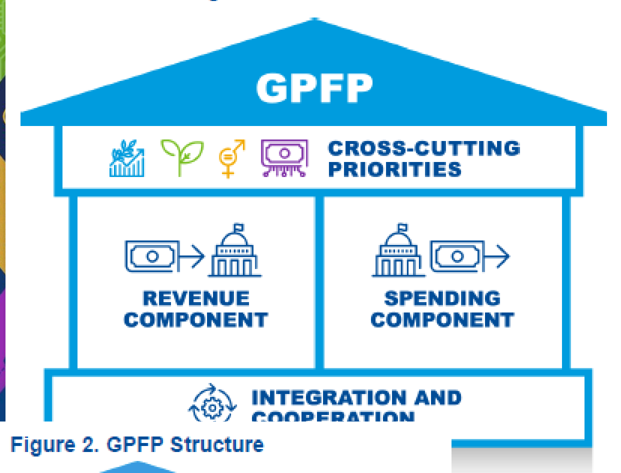
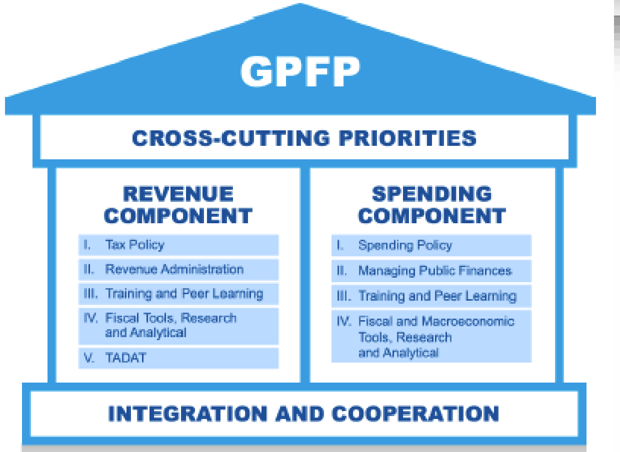
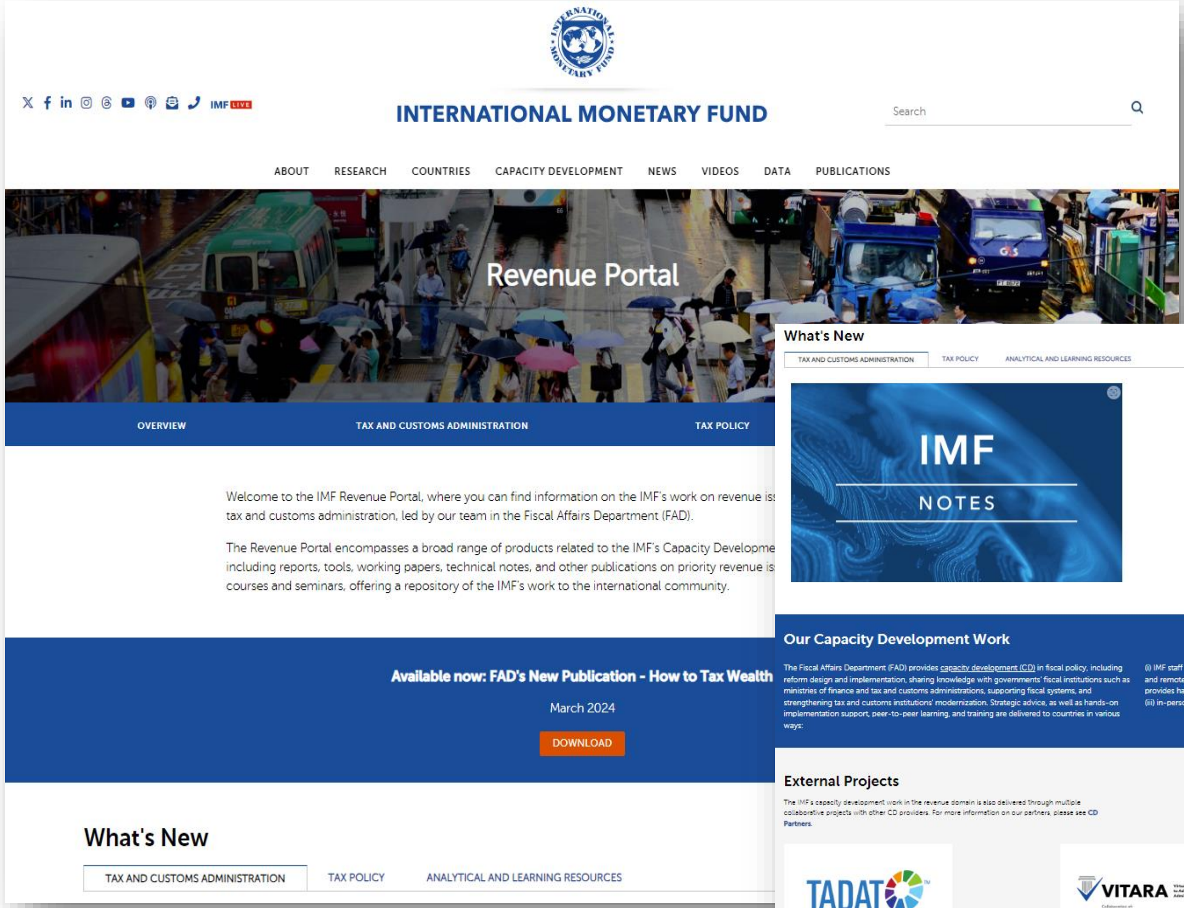


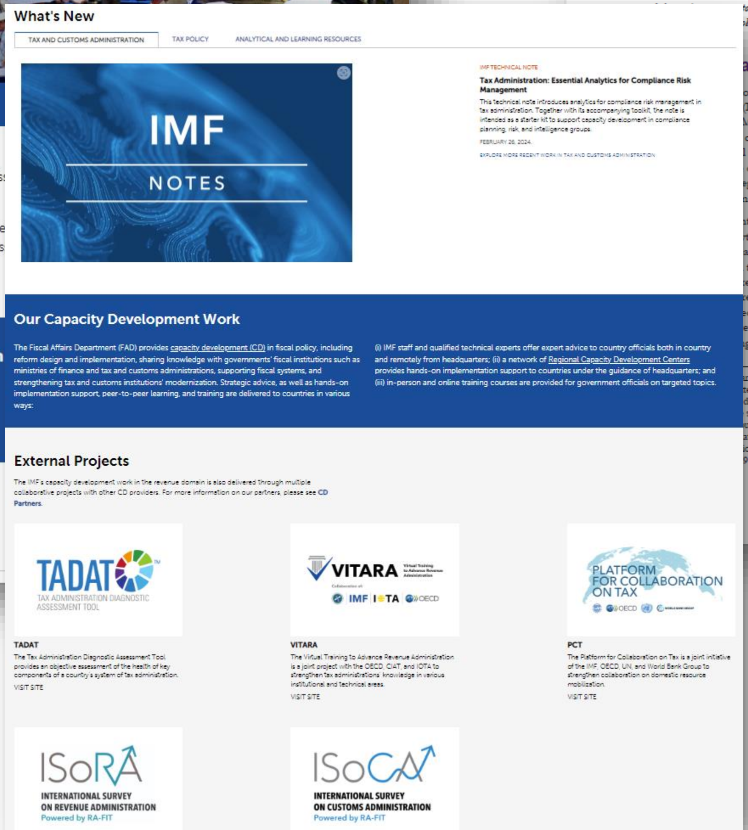
Figure 2. GPFP Structure



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

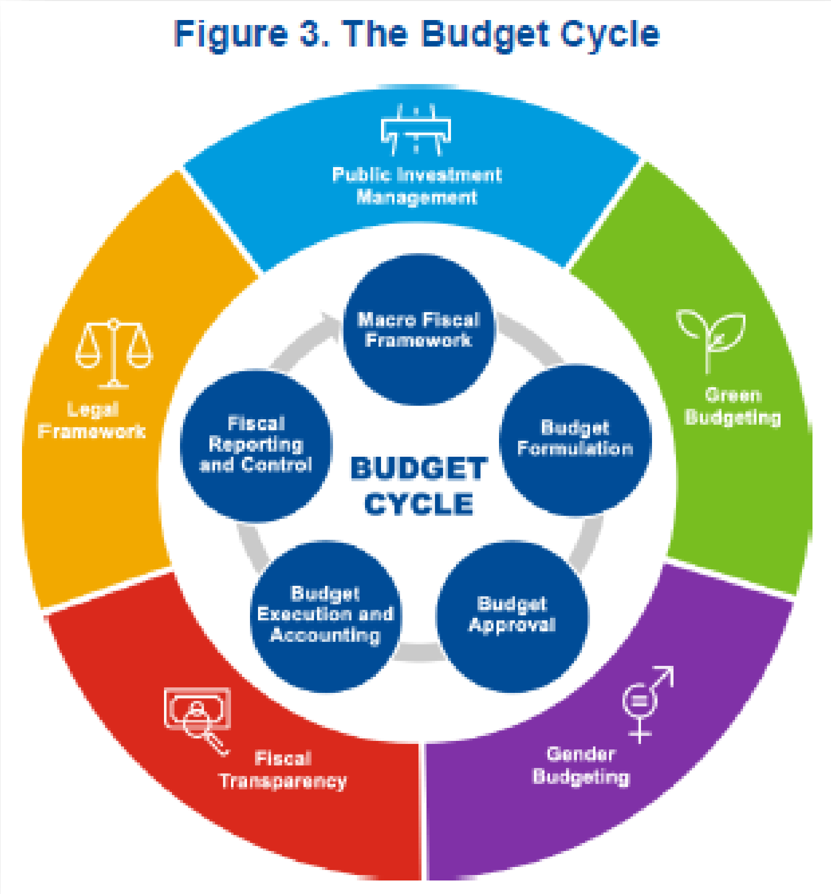
TA in Revenue

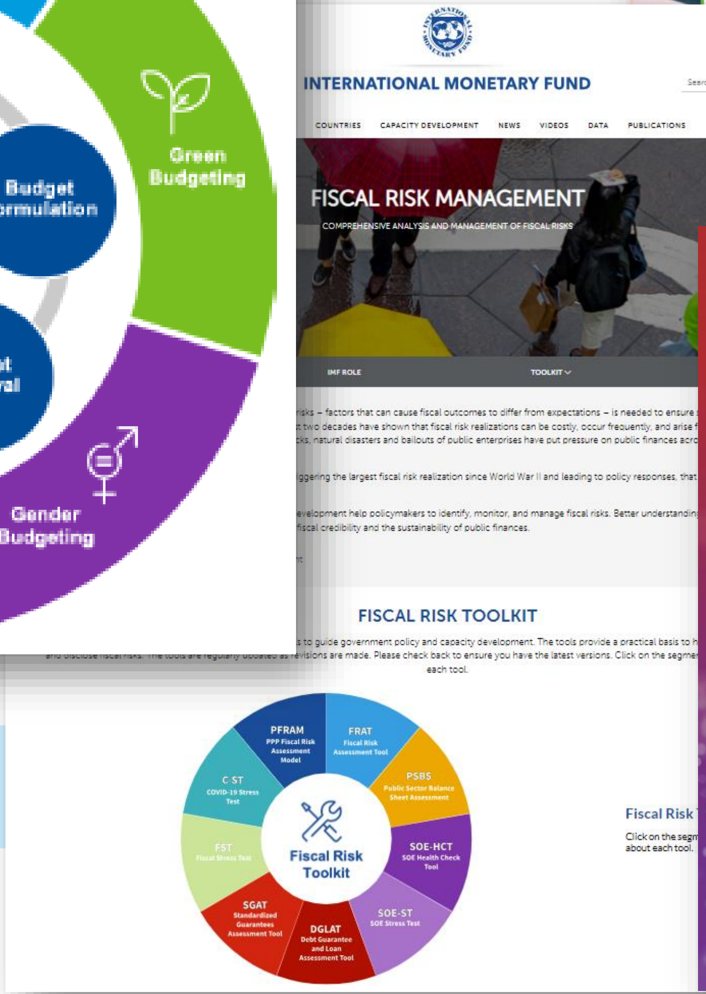


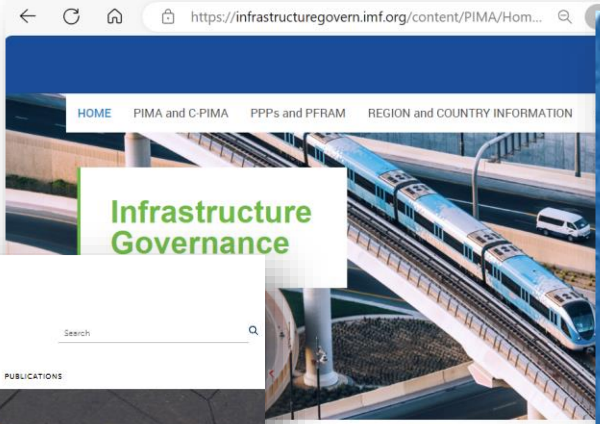


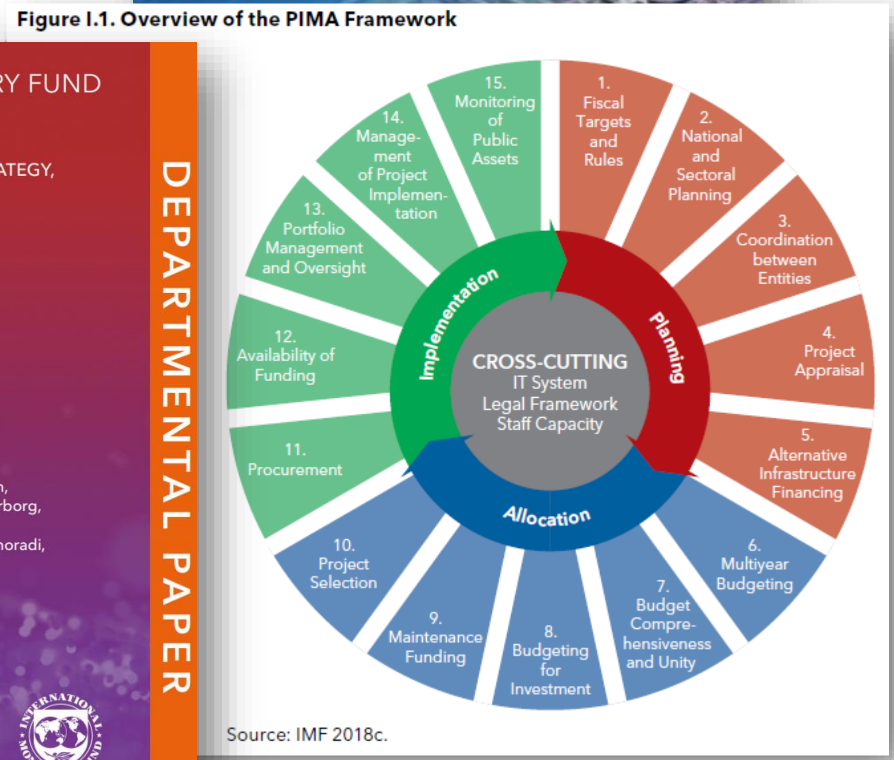
[Revenue-Portal (imf.org)](https://www.imf.org)

TA in Spending



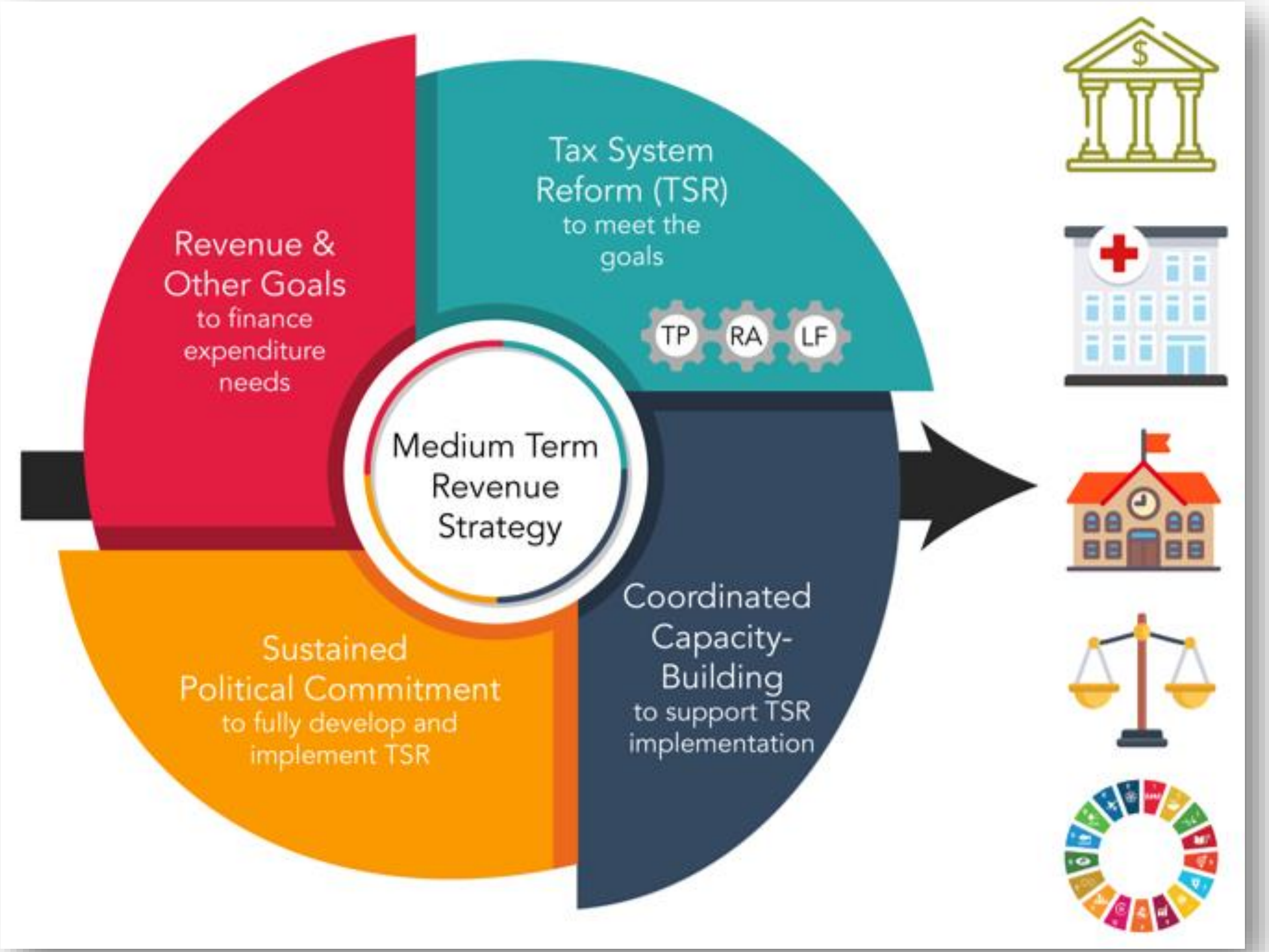






[Fiscal Risk Management (imf.org)]

MTRS – Revenue and Spending to support development



THANKS FOR YOUR ATTENTION