

Fiscal Affairs Department

# November 2010 Fiscal Monitor

## Fiscal Exit: From Strategy to Implementation



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Tokyo, Japan  
December 7, 2010

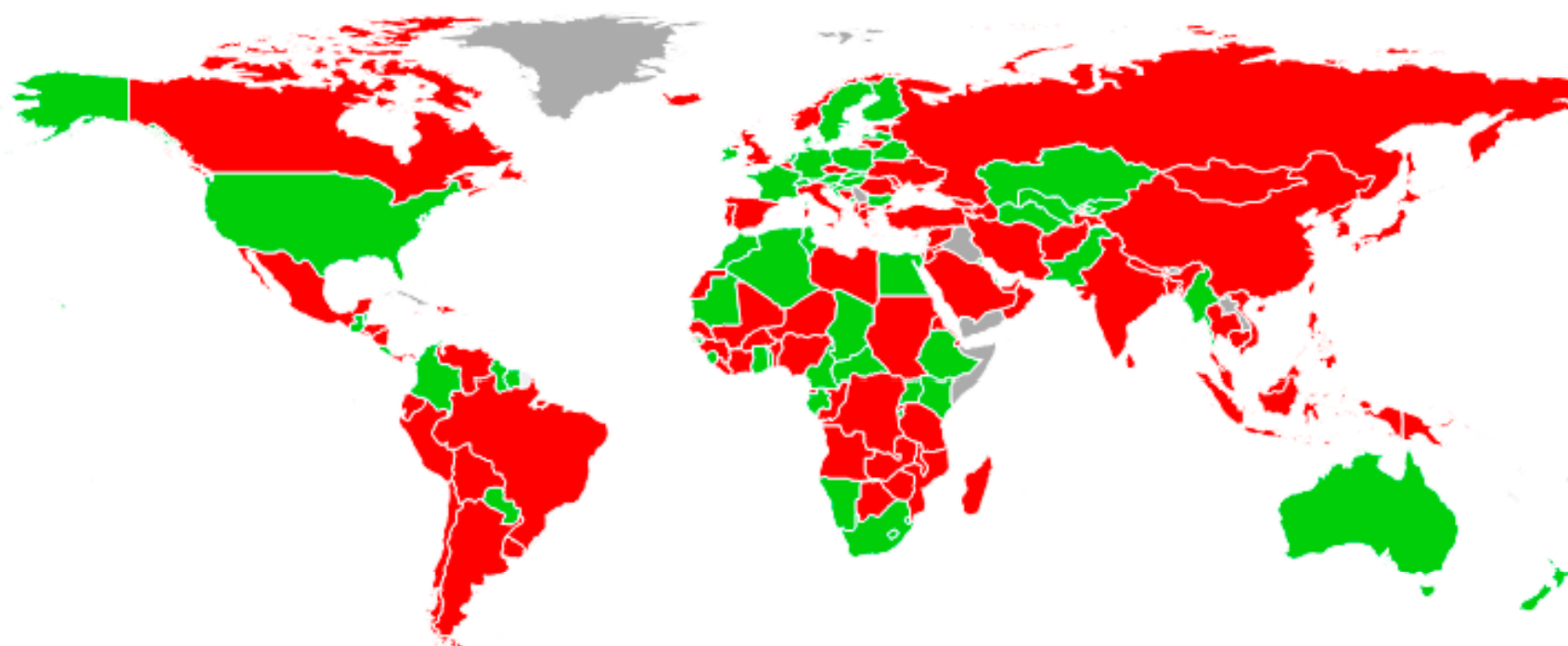
# Fiscal Monitor November 2010



Available at:

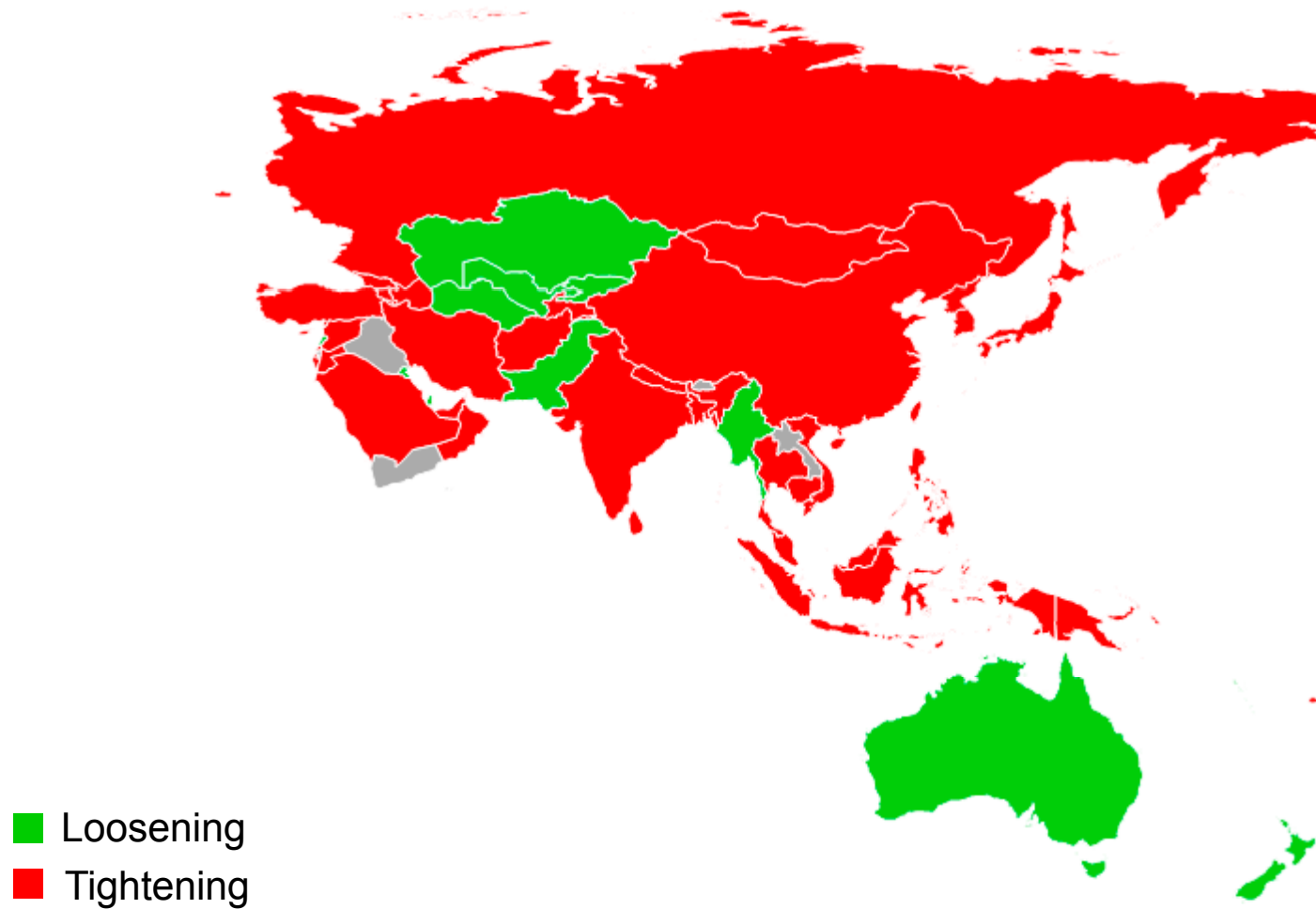
<http://www.imf.org/external/pubs/ft/fm/2010/02/fmindex.htm>

# Change in the Overall Balance in 2010

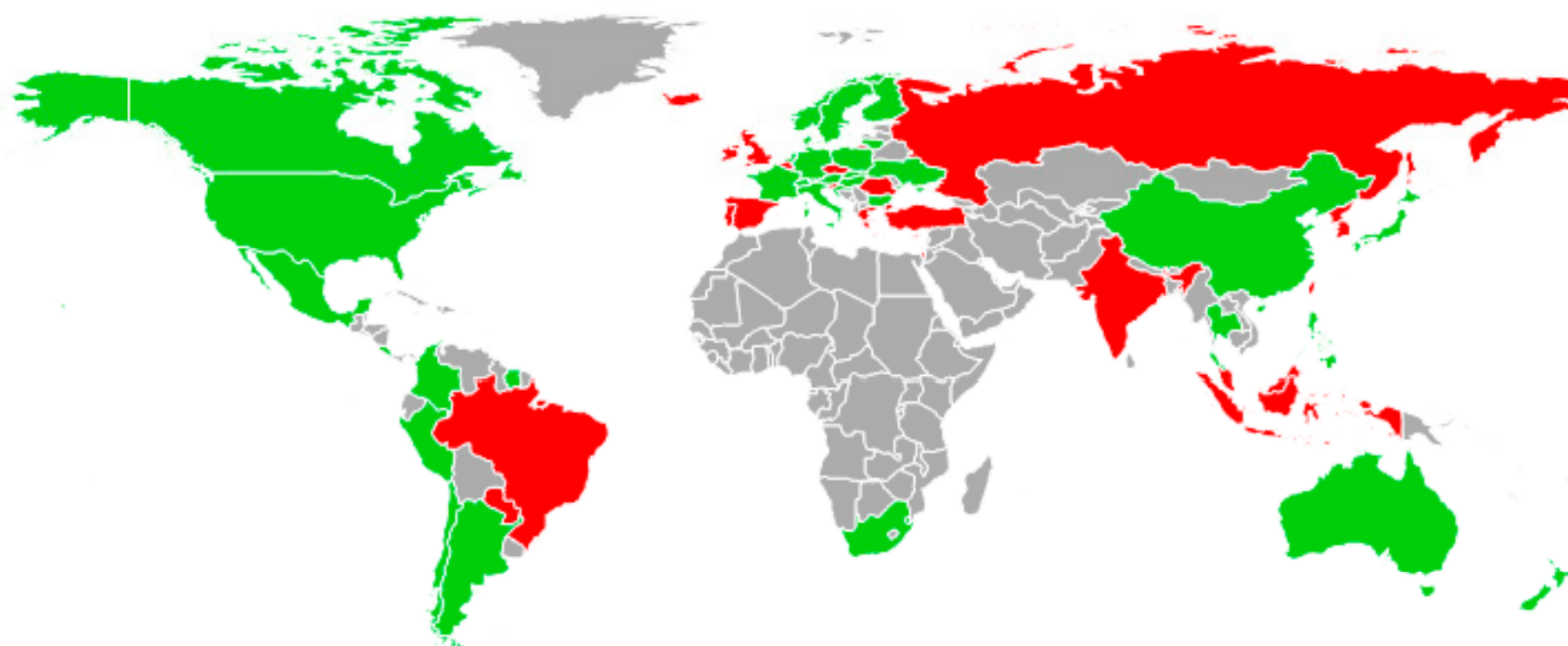


- Loosening
- Tightening

# Asia-Pacific: Change in the Overall Balance in 2010

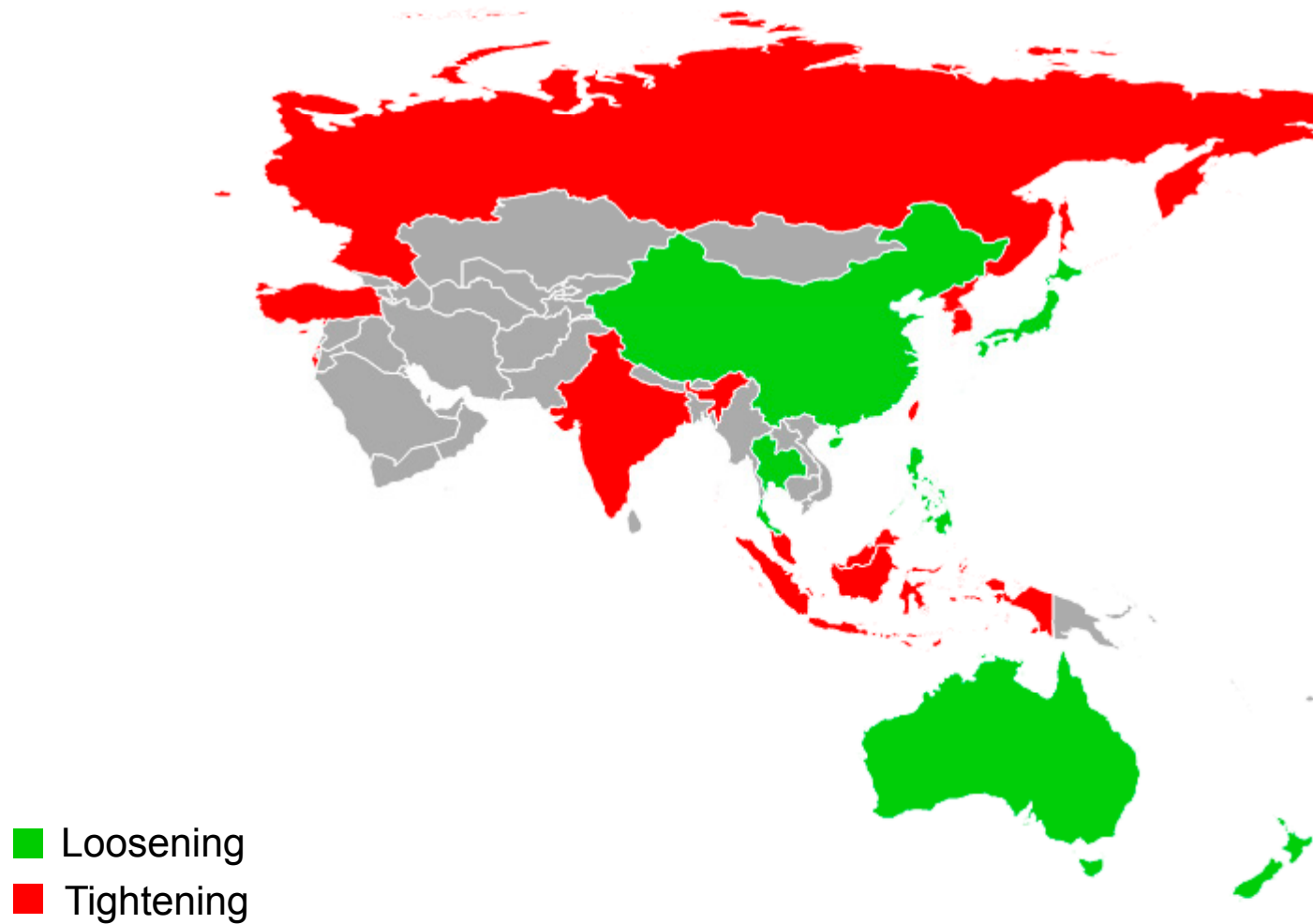


# Change in the Cyclically Adjusted Balance in 2010

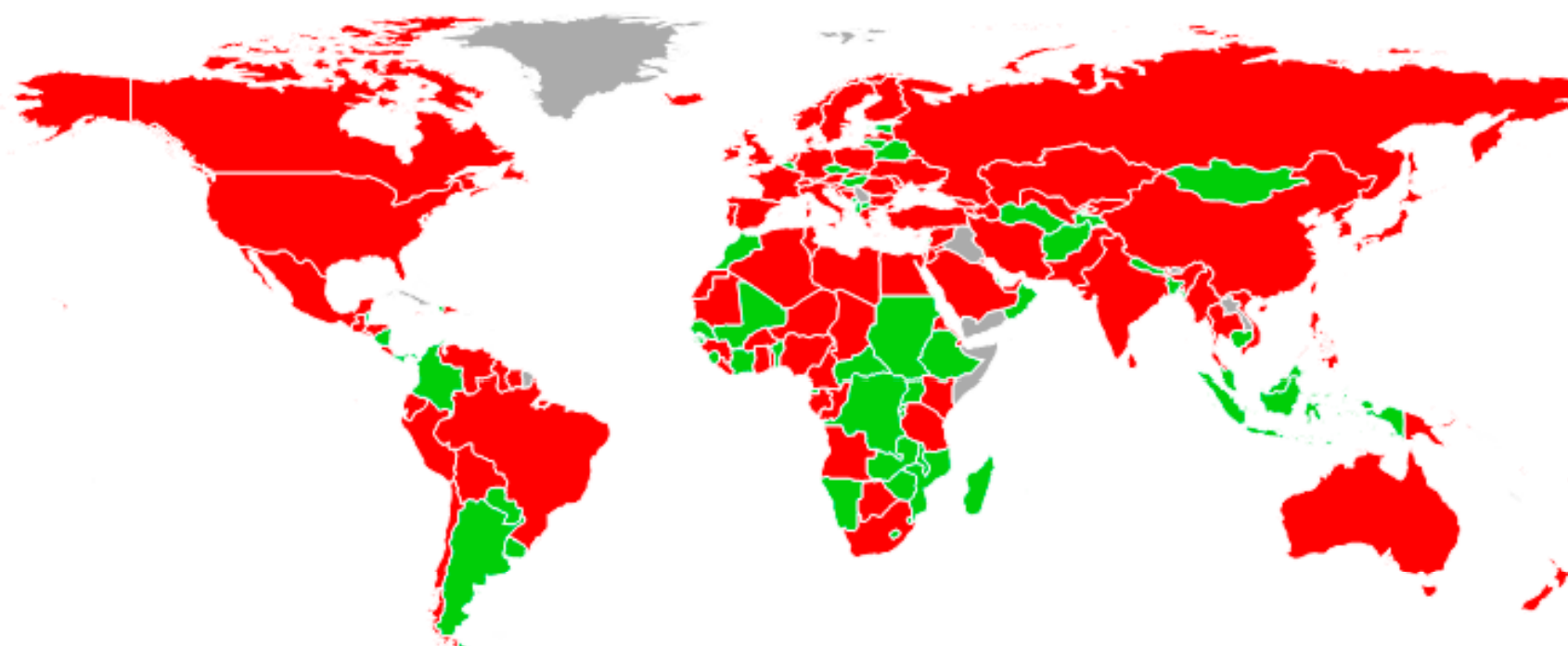


- Loosening
- Tightening

# Asia-Pacific: Change in the Cyclically Adjusted Balance in 2010

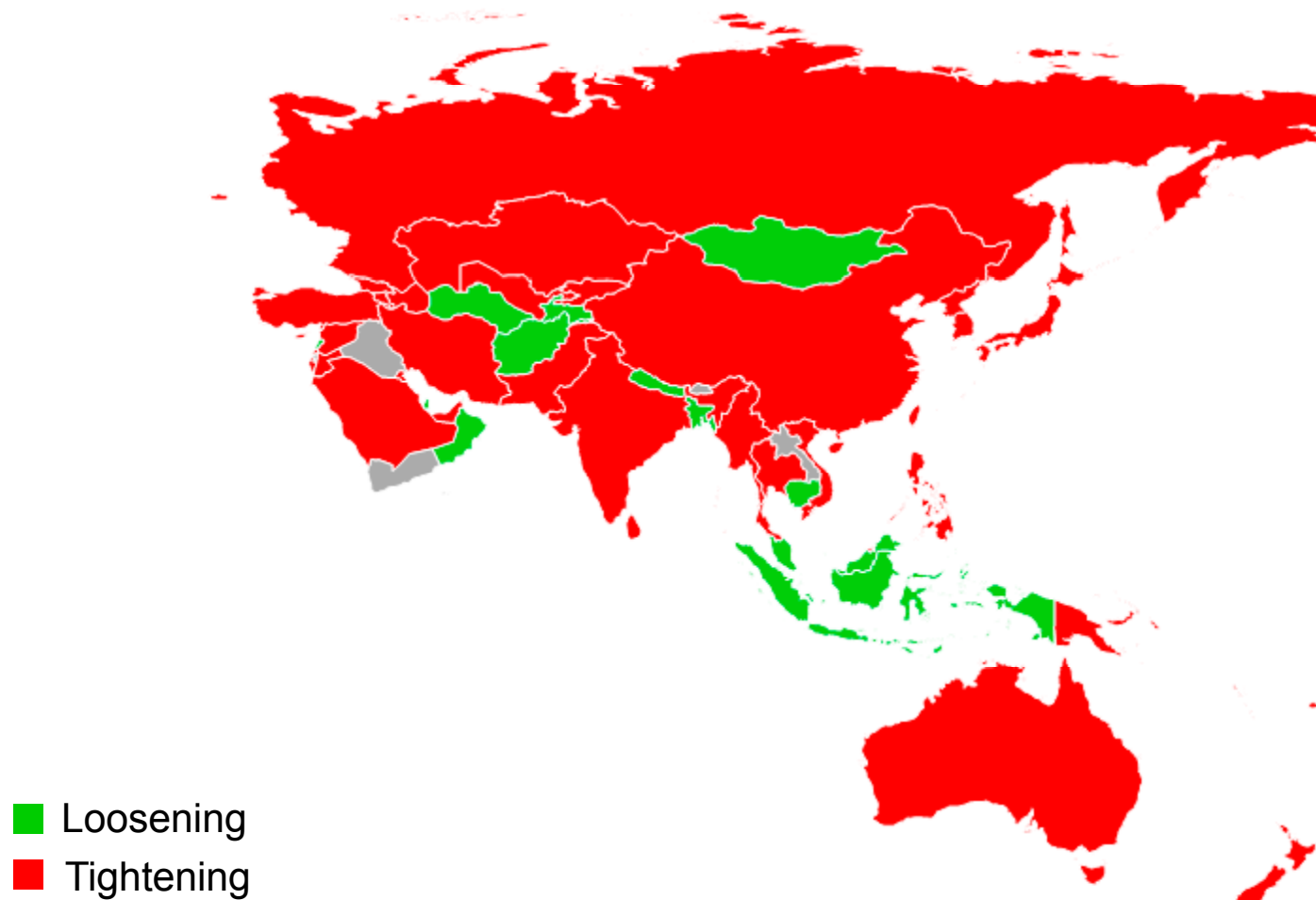
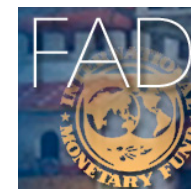


# Change in the Overall Balance in 2011



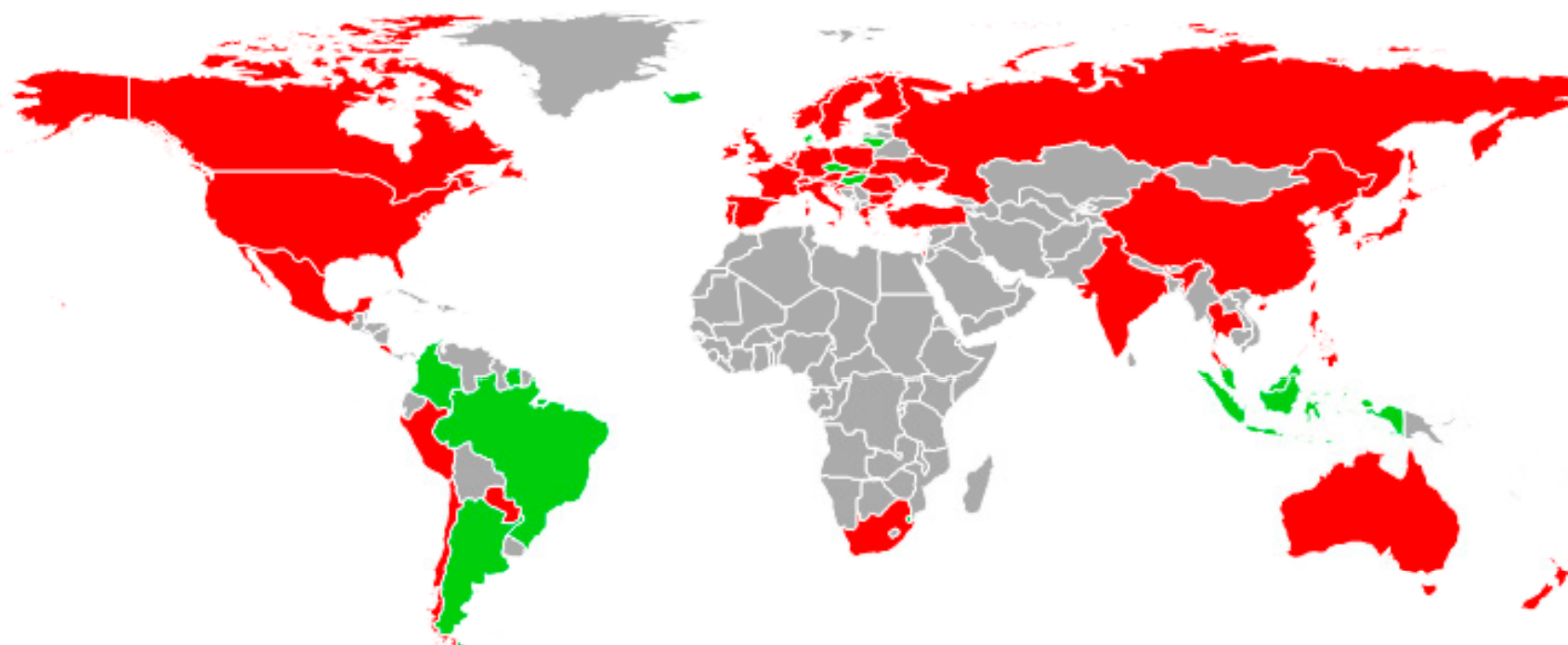
- Loosening
- Tightening

# Asia-Pacific: Change in the Overall Balance in 2011



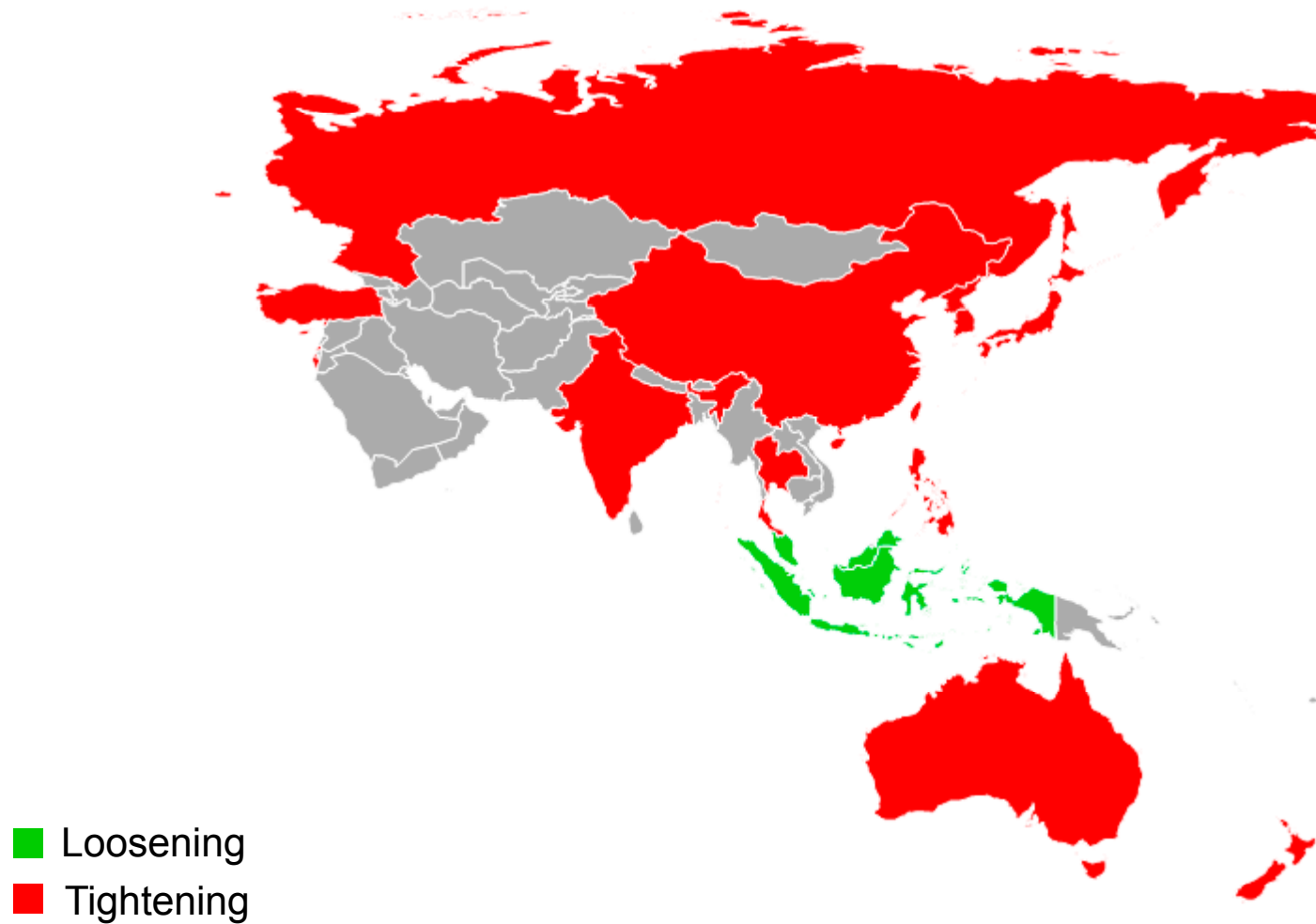


# Change in the Cyclically Adjusted Balance in 2011



- Loosening
- Tightening

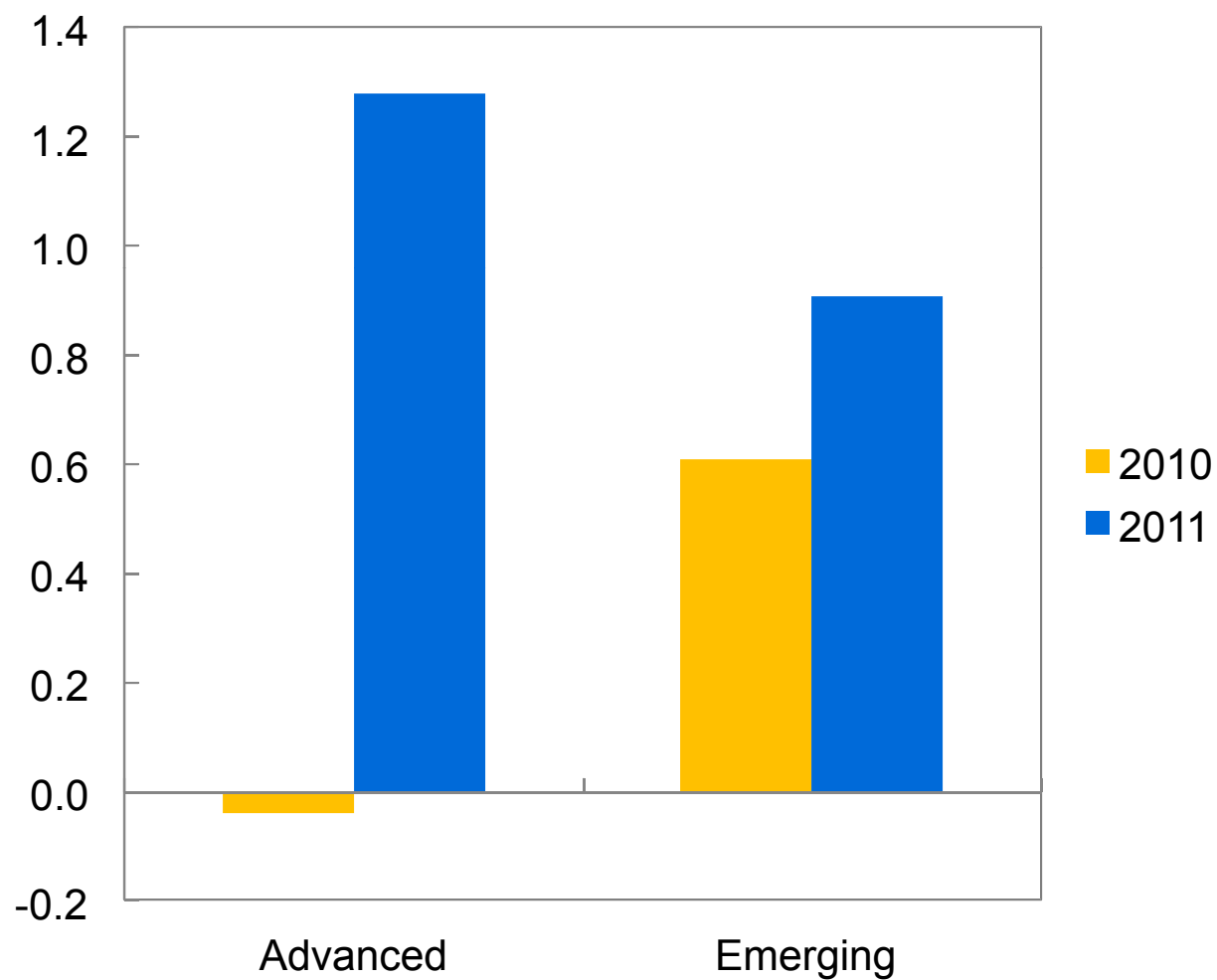
# Asia-Pacific: Change in the Cyclically Adjusted Balance in 2011



# Closer look at the Fiscal Balance



## Strengthening in the Overall Balance 2010 and 2011

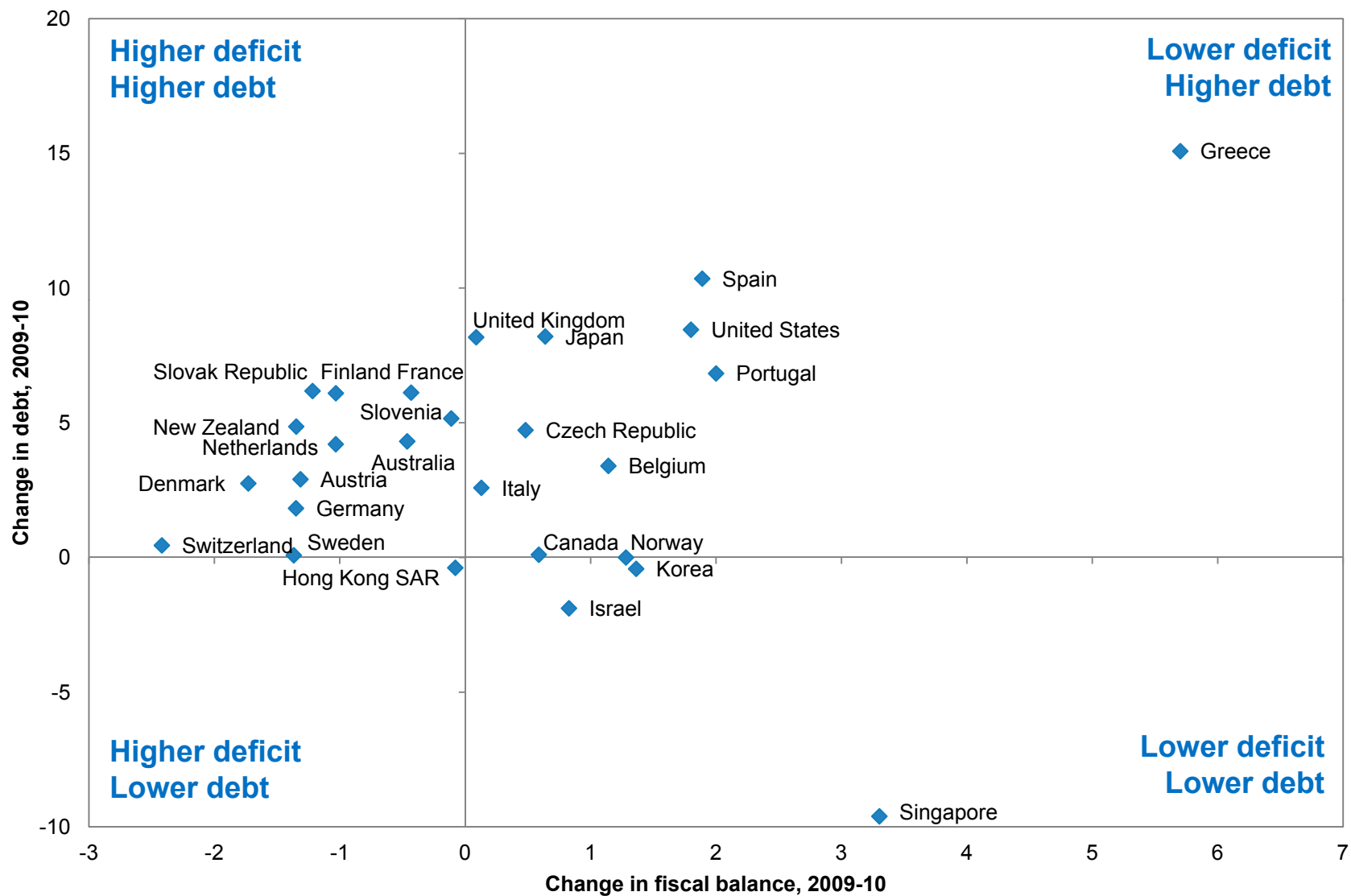


Note: Overall Balance net of financial sector support.

# Advanced Economies: Change in Fiscal Balance and Debt



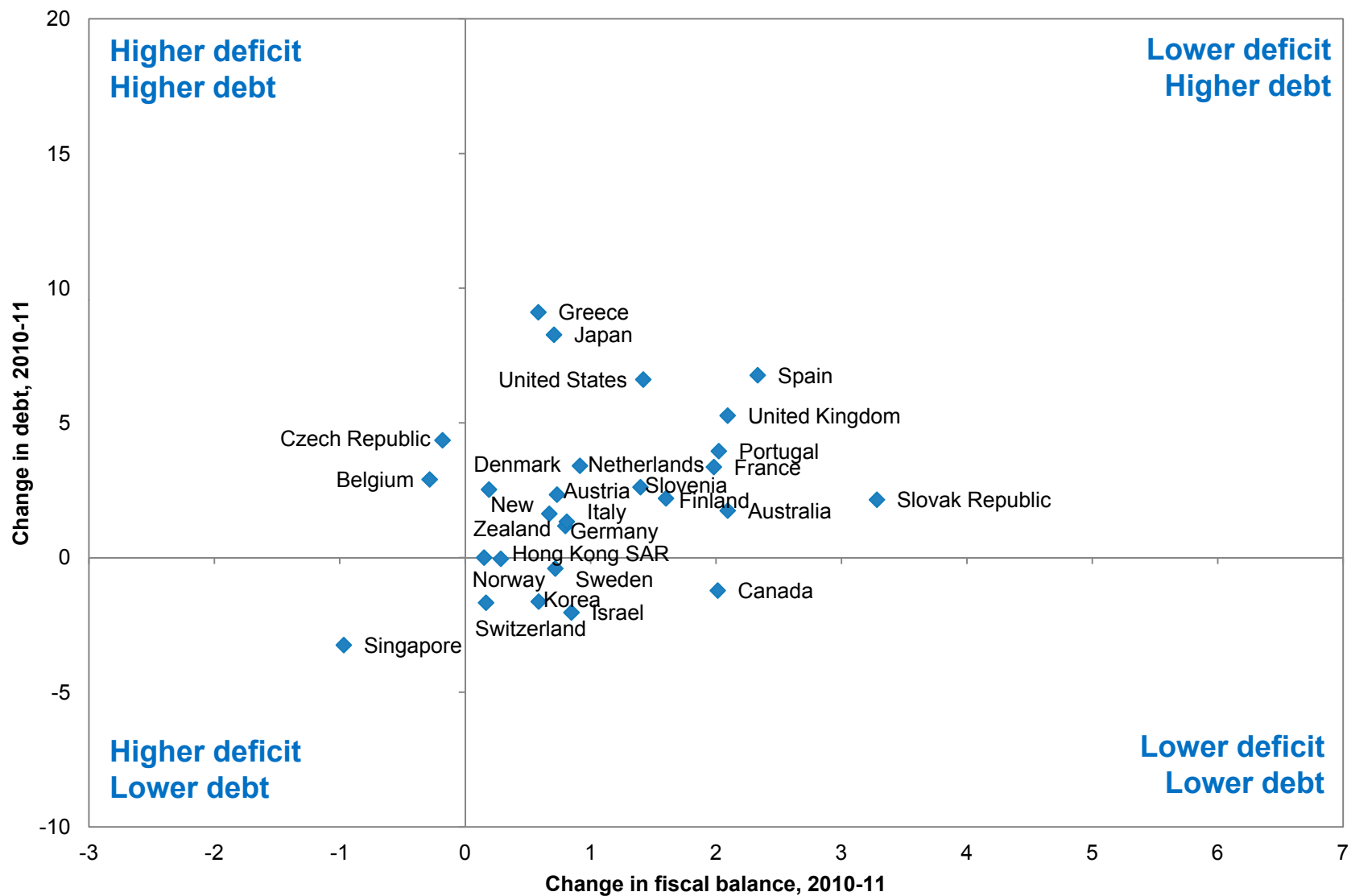
2010



# Advanced Economies: Change in Fiscal Balance and Debt



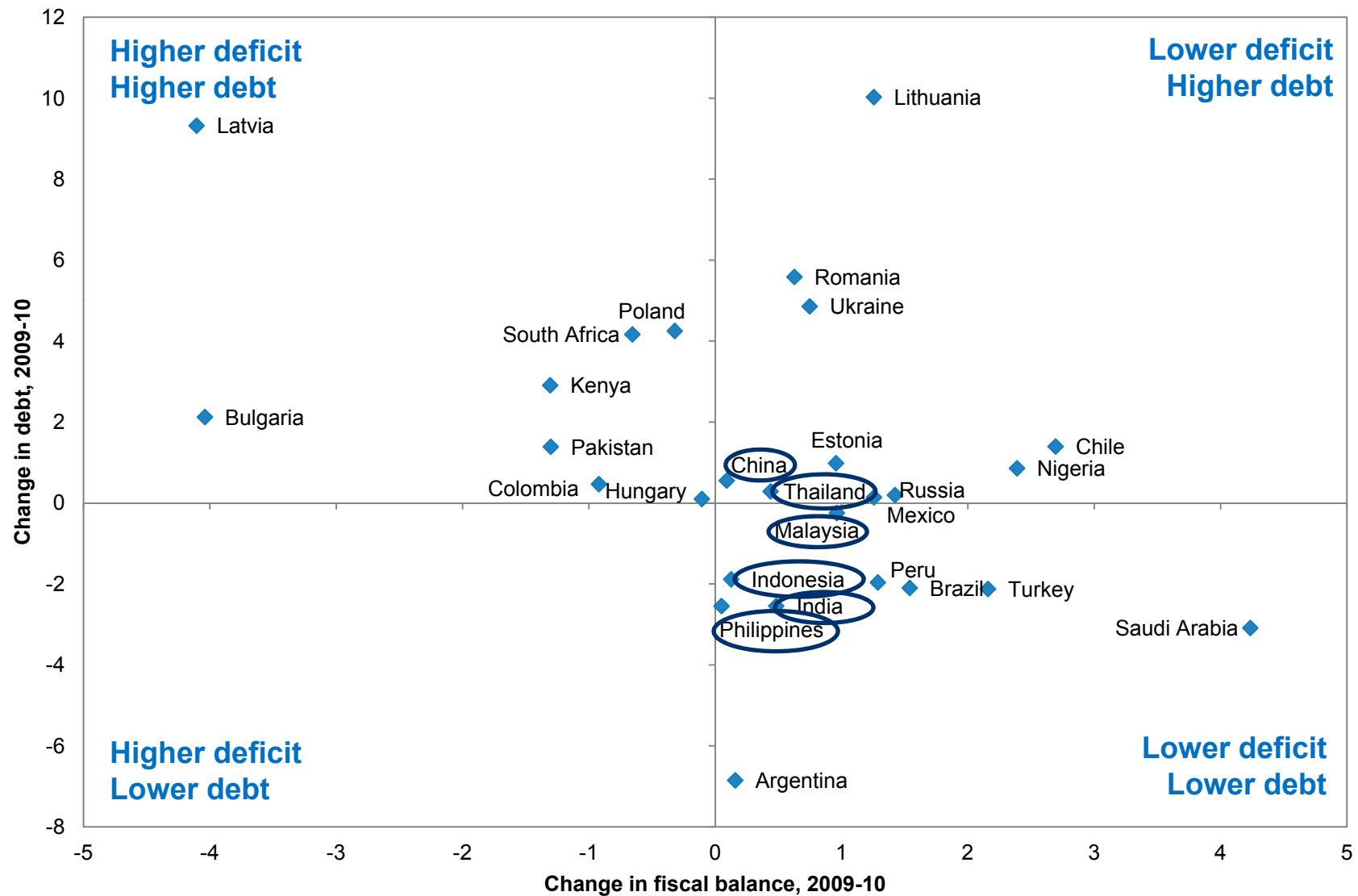
2011



# Emerging Economies: Change in Fiscal Balance and Debt



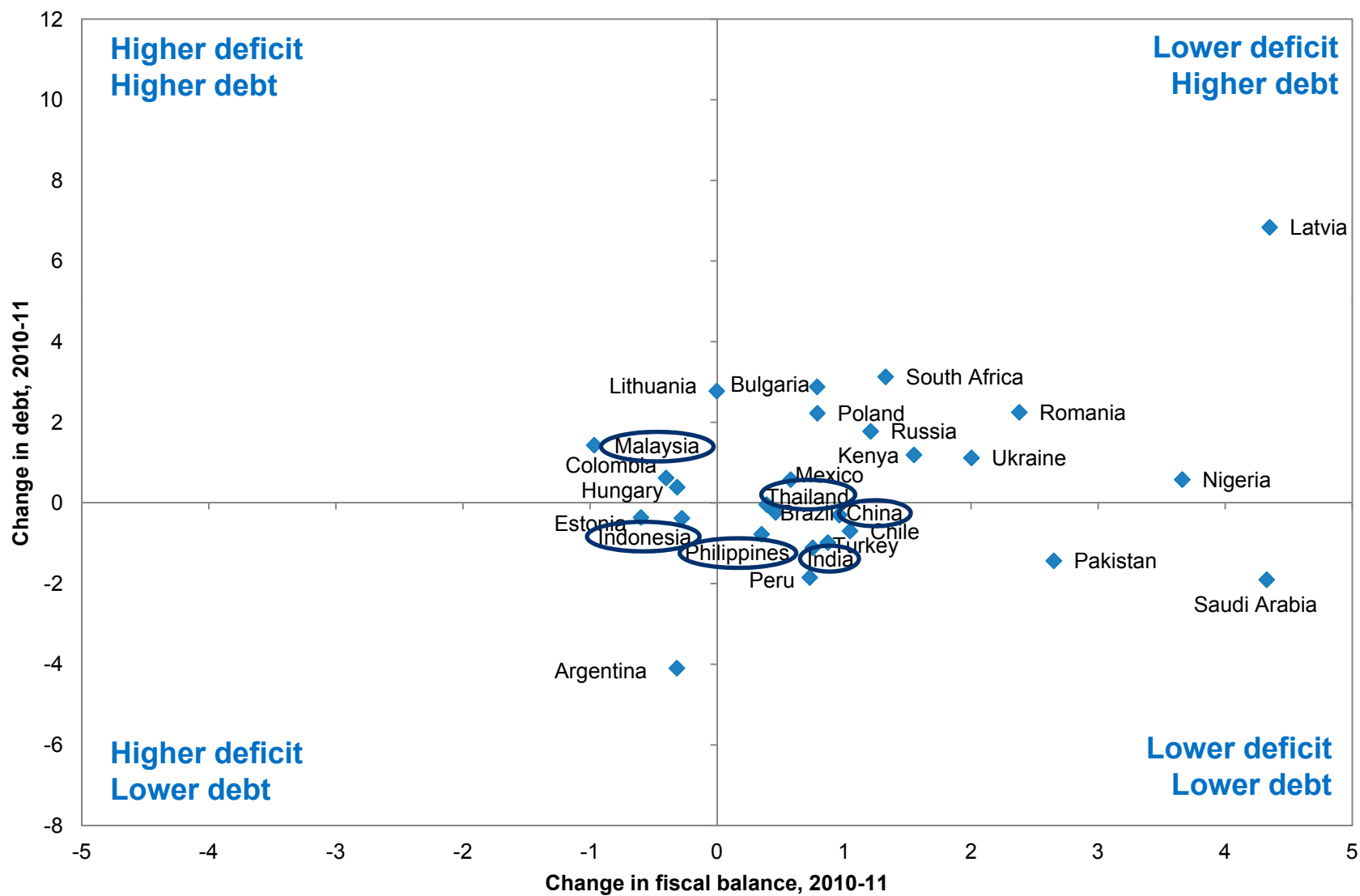
2010



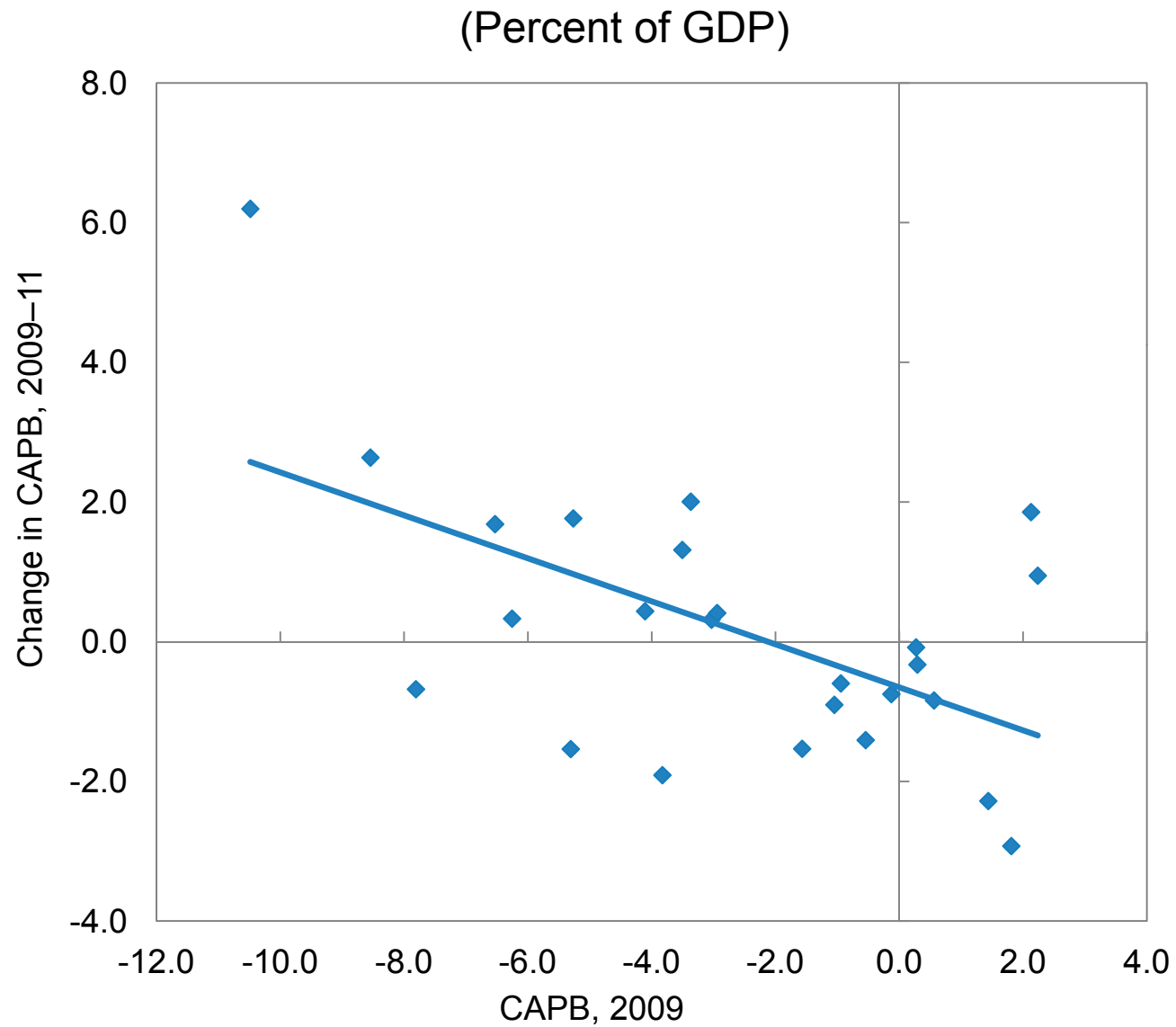
# Emerging Economies: Change in Fiscal Balance and Debt



2011

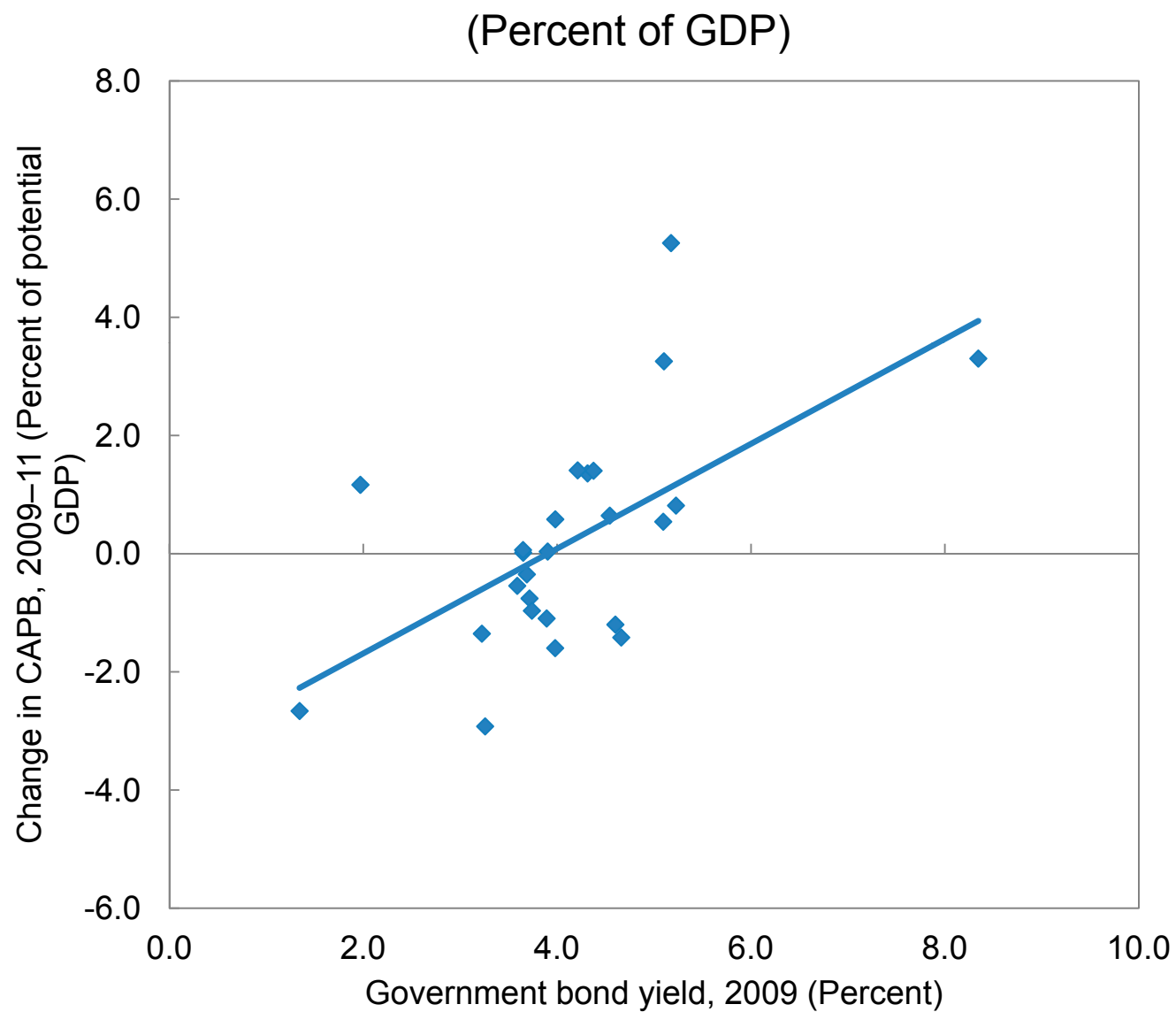


# Adjustment and Initial Fiscal Deficits





# Adjustment and Bond Yields



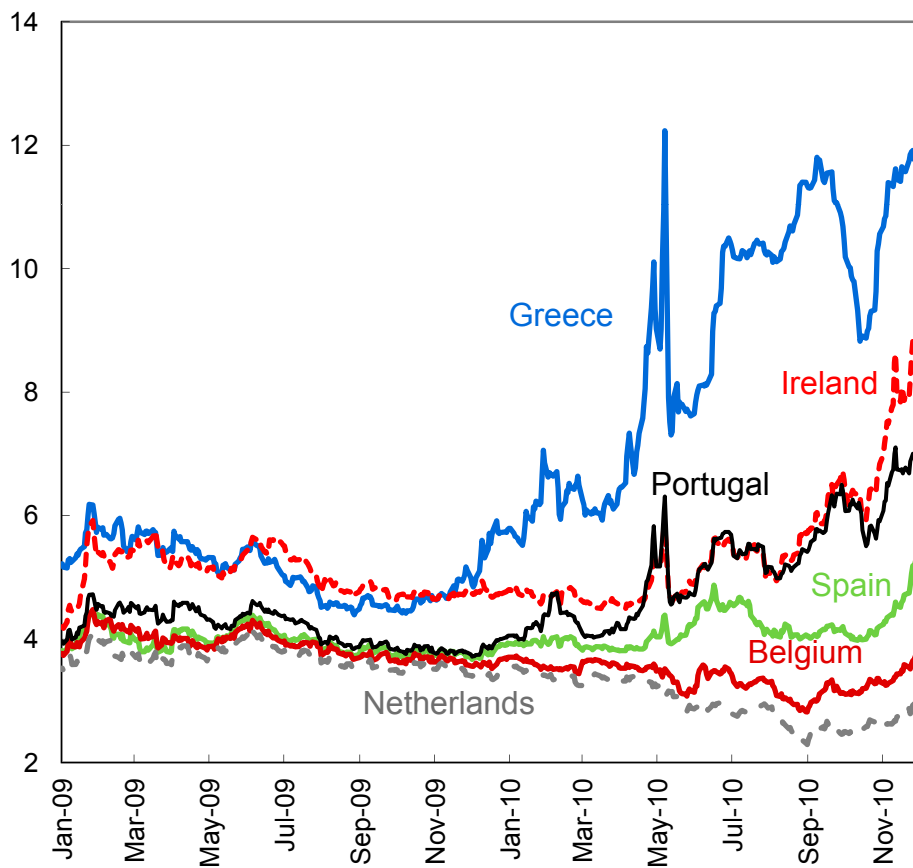


How worried should we be about the further rise in debt ratios in advanced countries?

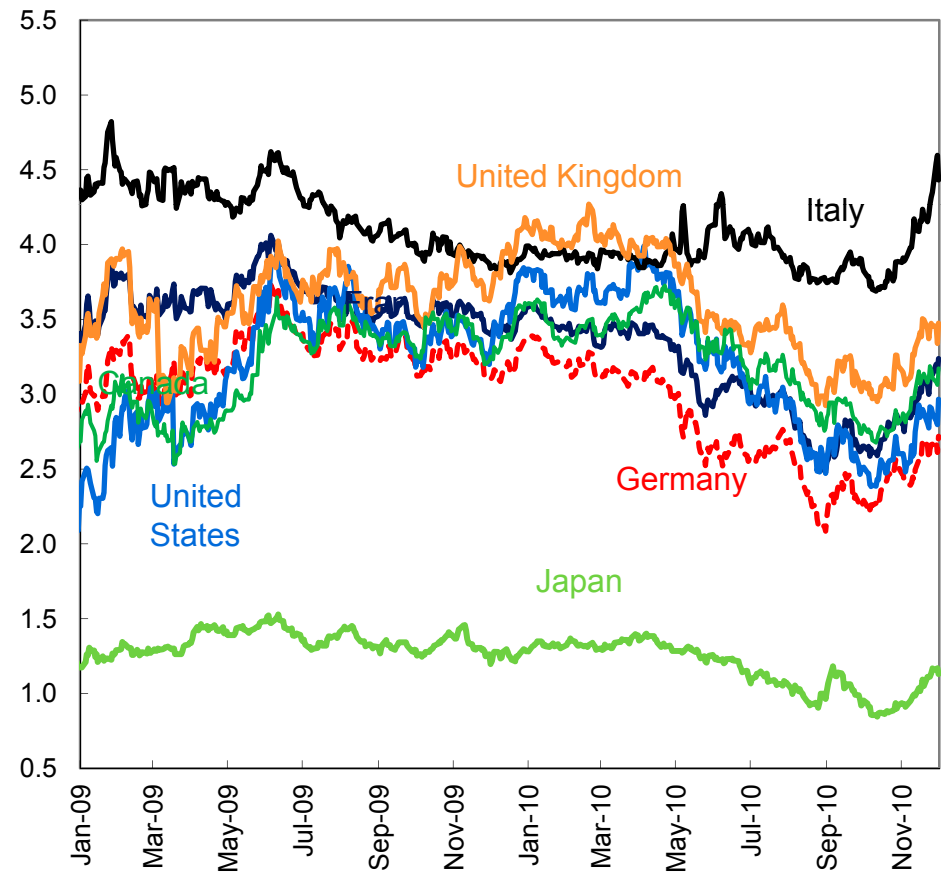
# Sovereign Bond Yields



### Selected EMU Countries



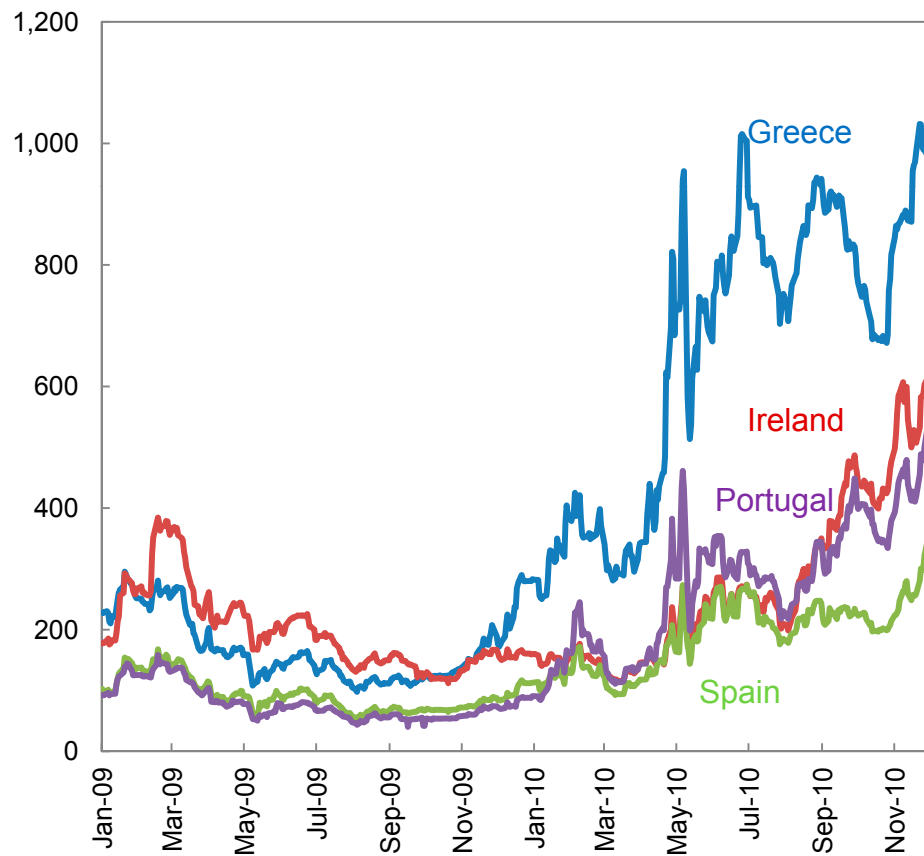
### G-7 Economies



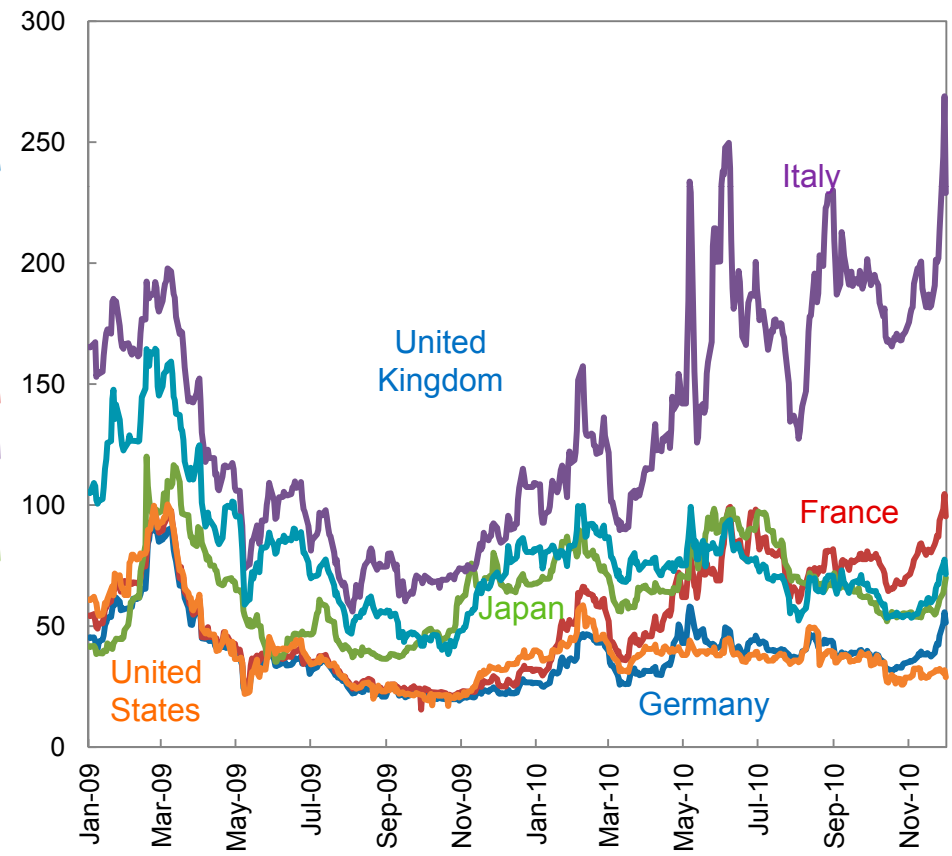
# CDS Spreads



### Selected EMU Countries



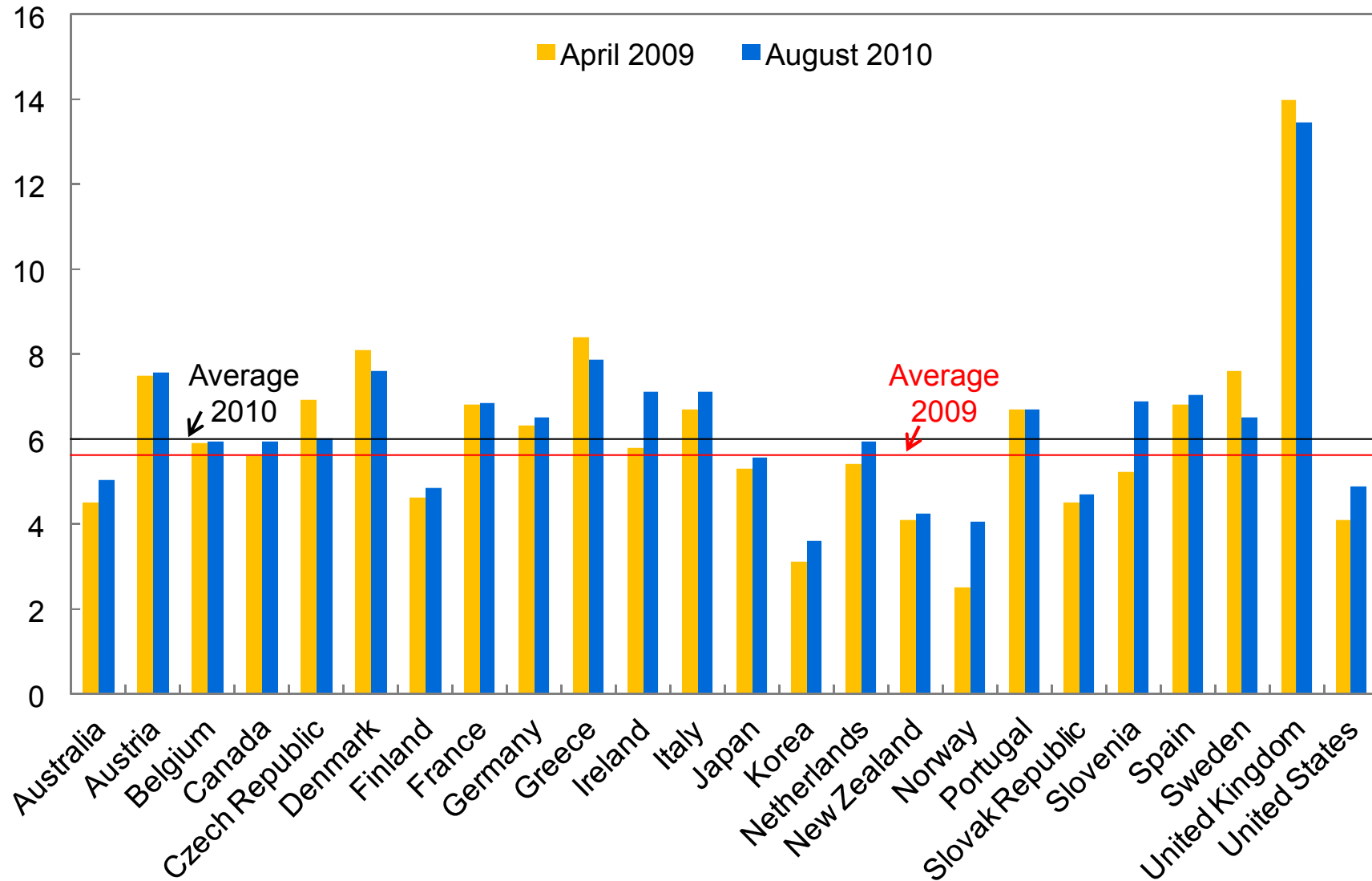
### G-7 Economies



# Maturity of Government Debt



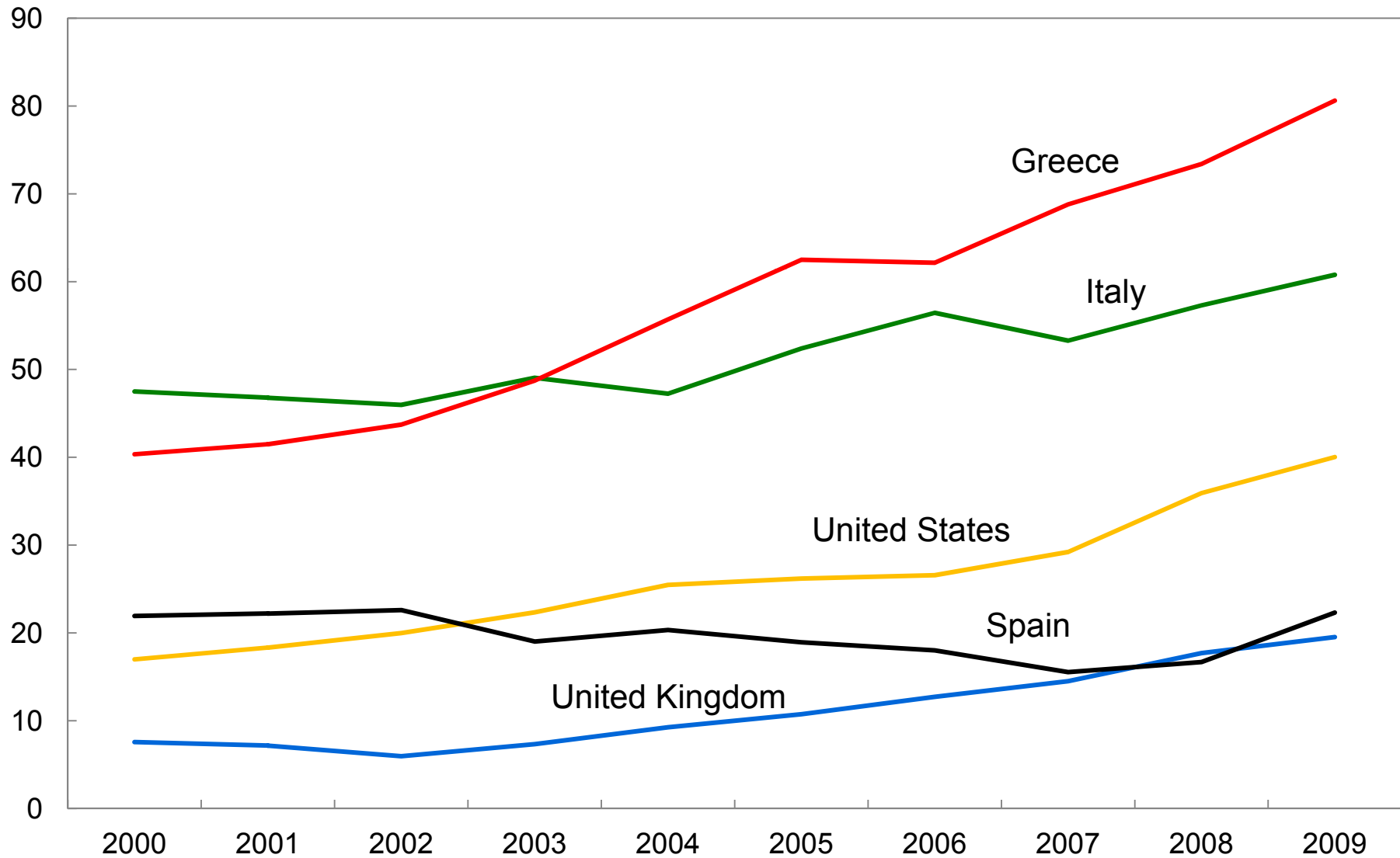
(In Years)



# Nonresident Holding of Government Debt



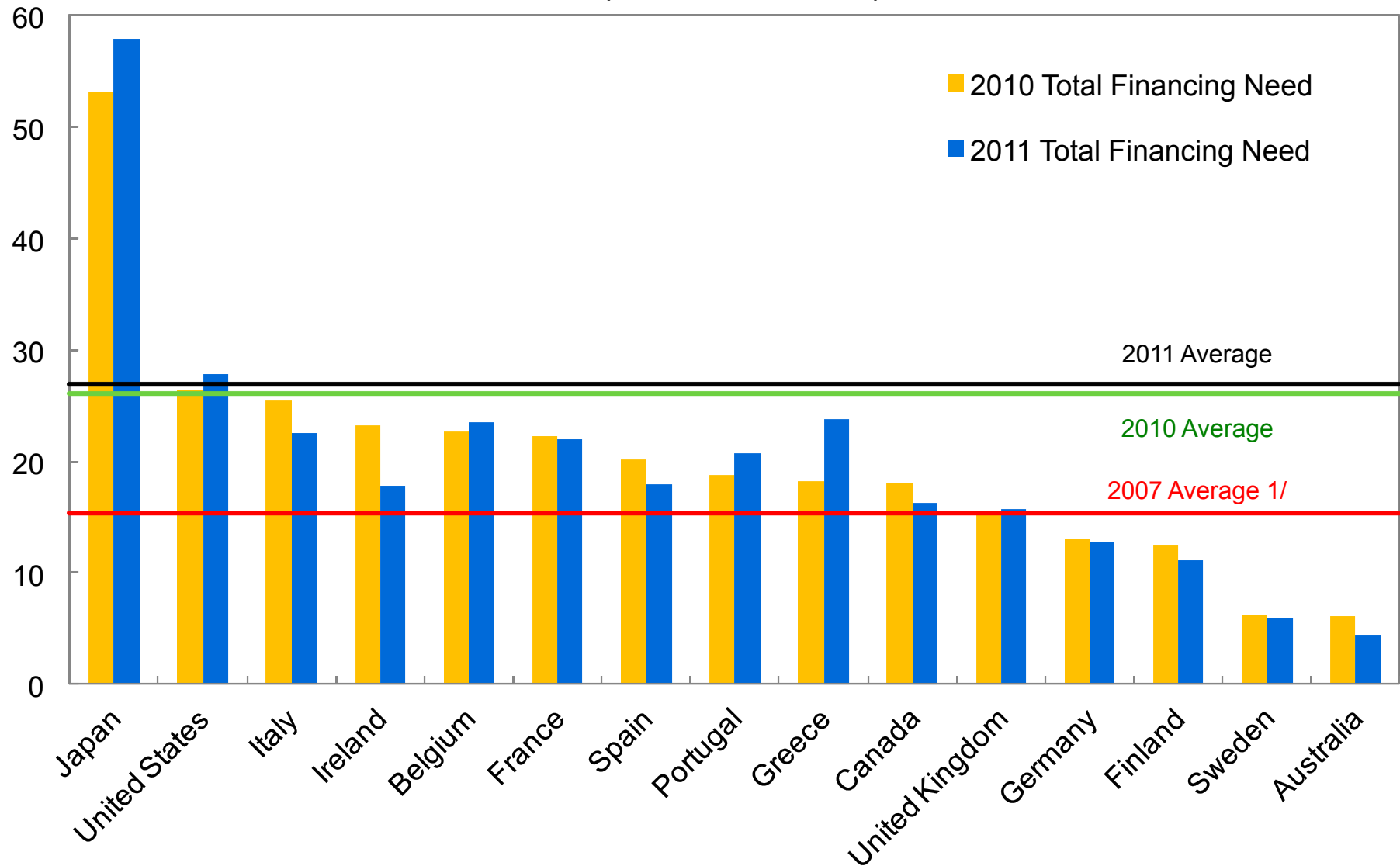
(Percent of GDP)



# Total Financing Needs in Advanced Economies



(Percent of GDP)

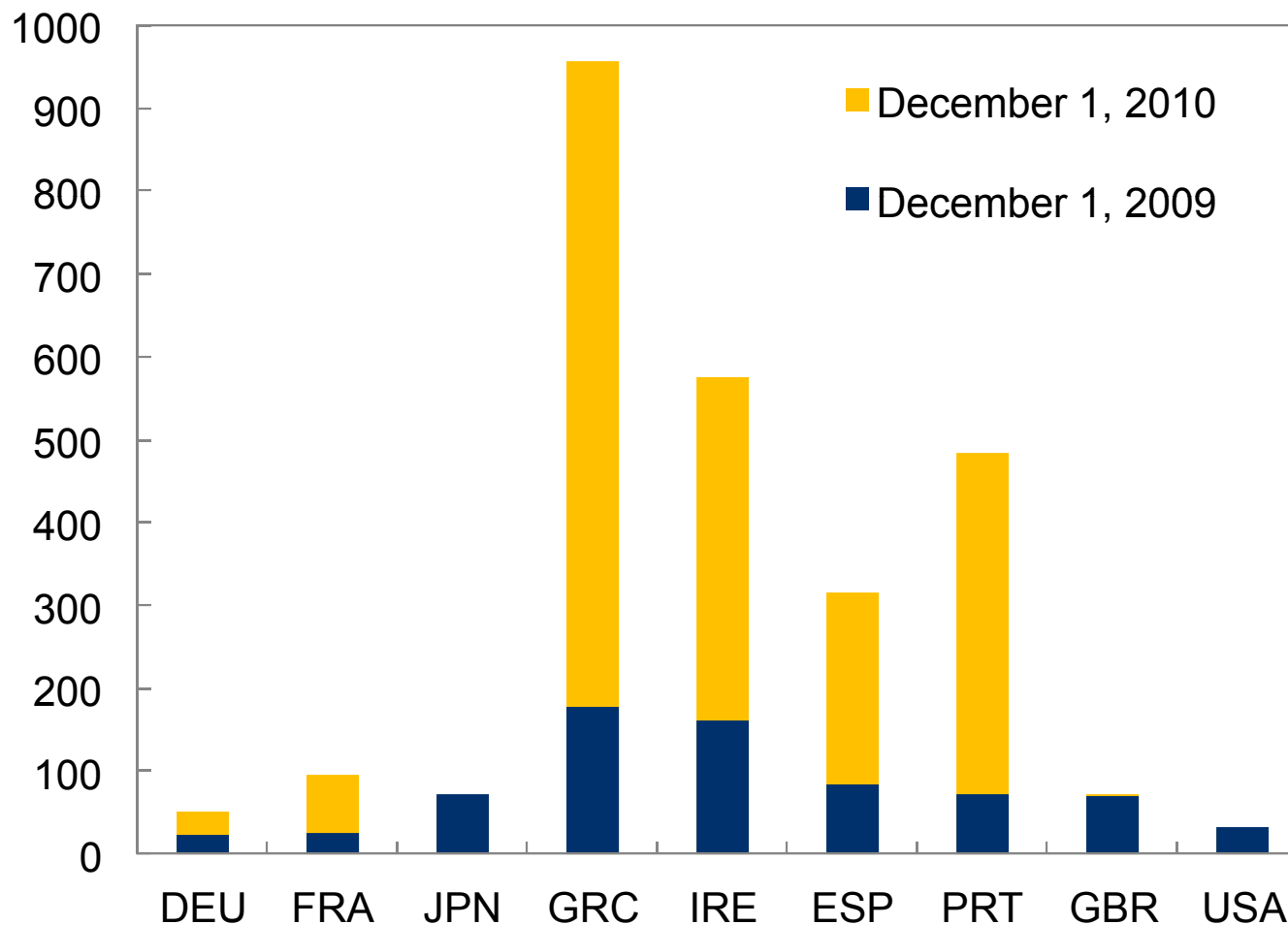


1/ Weighted average for all OECD countries.

# Market Views Can Change Easily



**Credit Default Swap Spreads for Selected Advanced Economies, basis points**





## The *Good* News

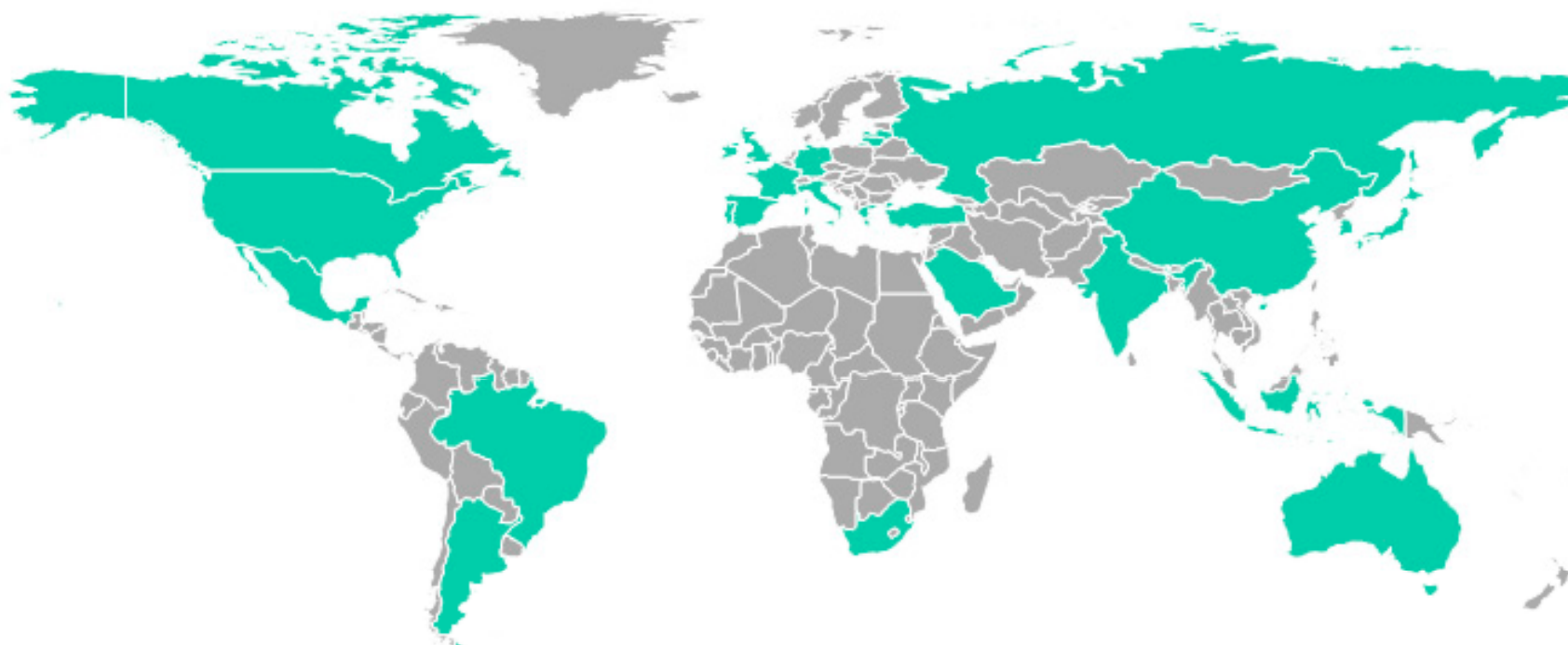


- Most countries have published plans involving fiscal adjustment
- Pace of the adjustment is about right
- Emphasis on expenditure cuts

# Fiscal Consolidation Over the Medium-Term: G-20



## G-20 and Selected Economies with an Adjustment Plan

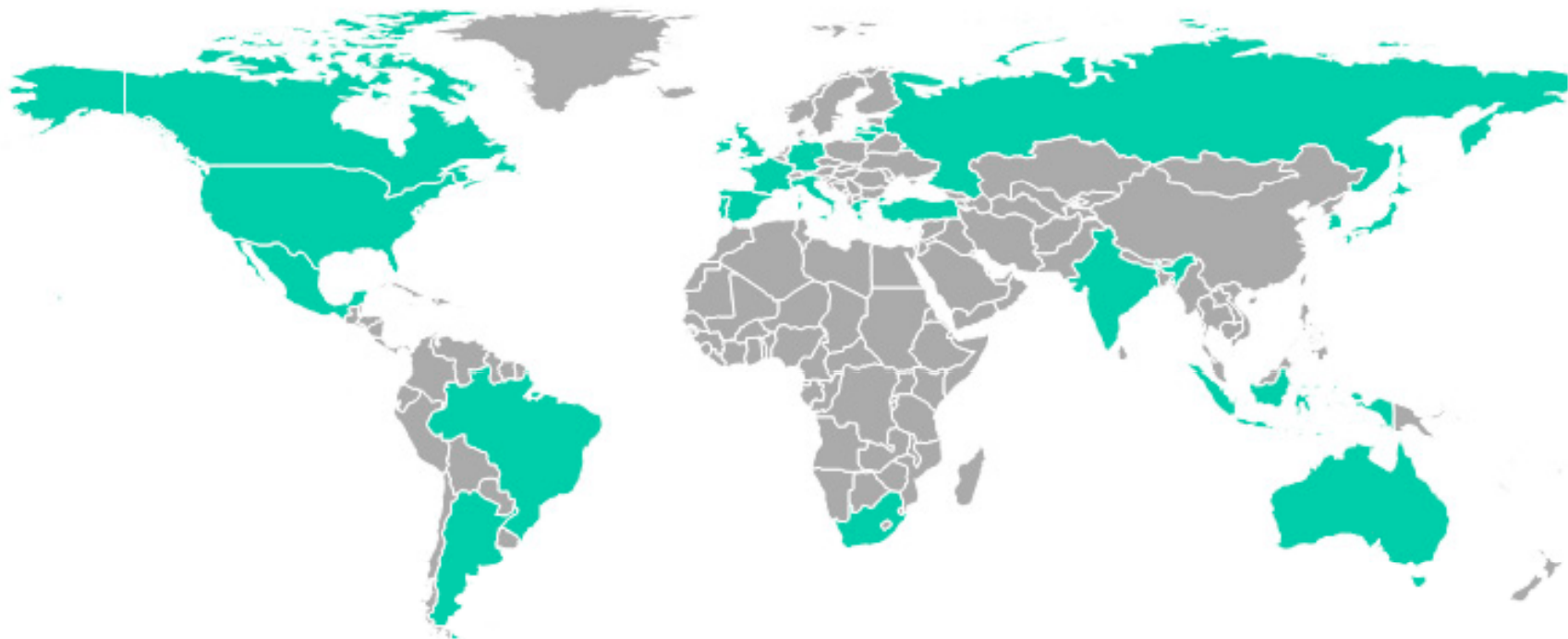


■ Country sample

# Fiscal Consolidation Over the Medium-Term: G-20



## G-20 and Selected Economies with an Adjustment Plan

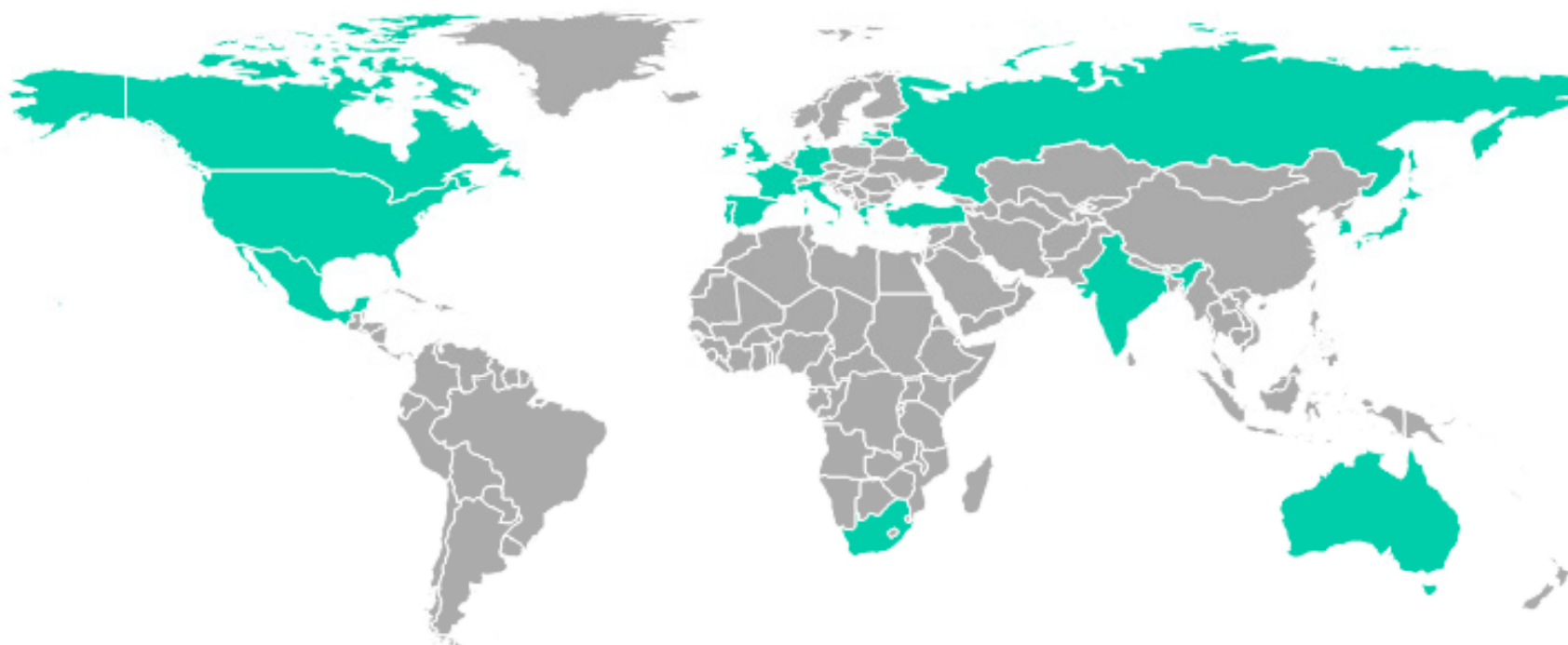


■ Economies with published plans

# Fiscal Consolidation Over the Medium-Term: G-20

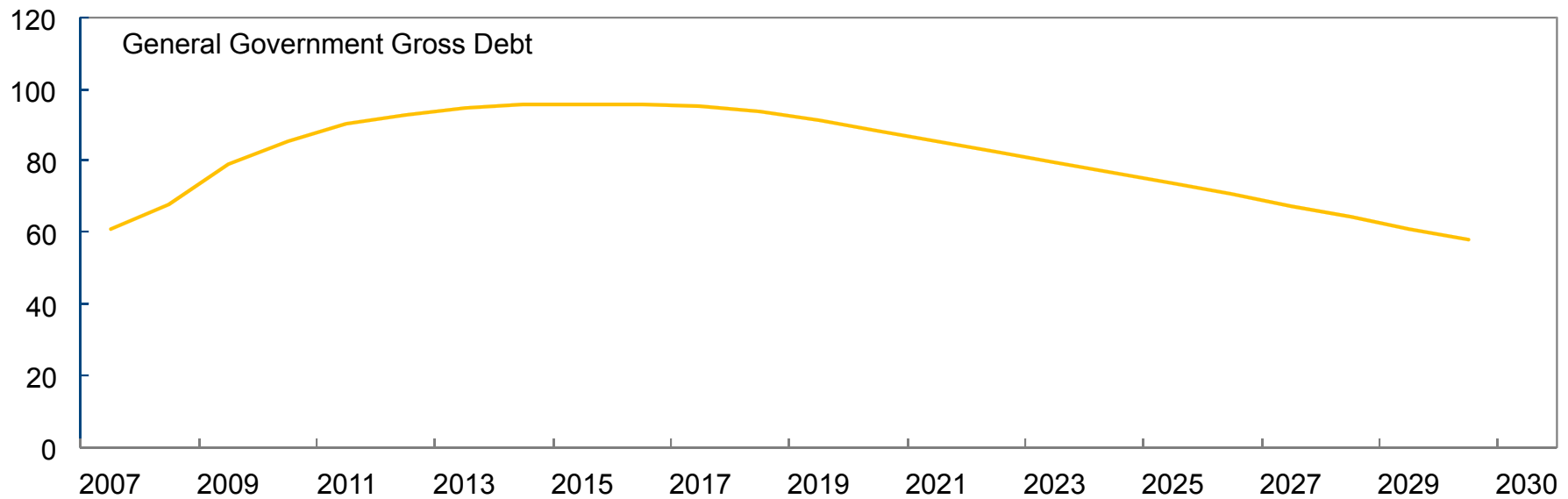
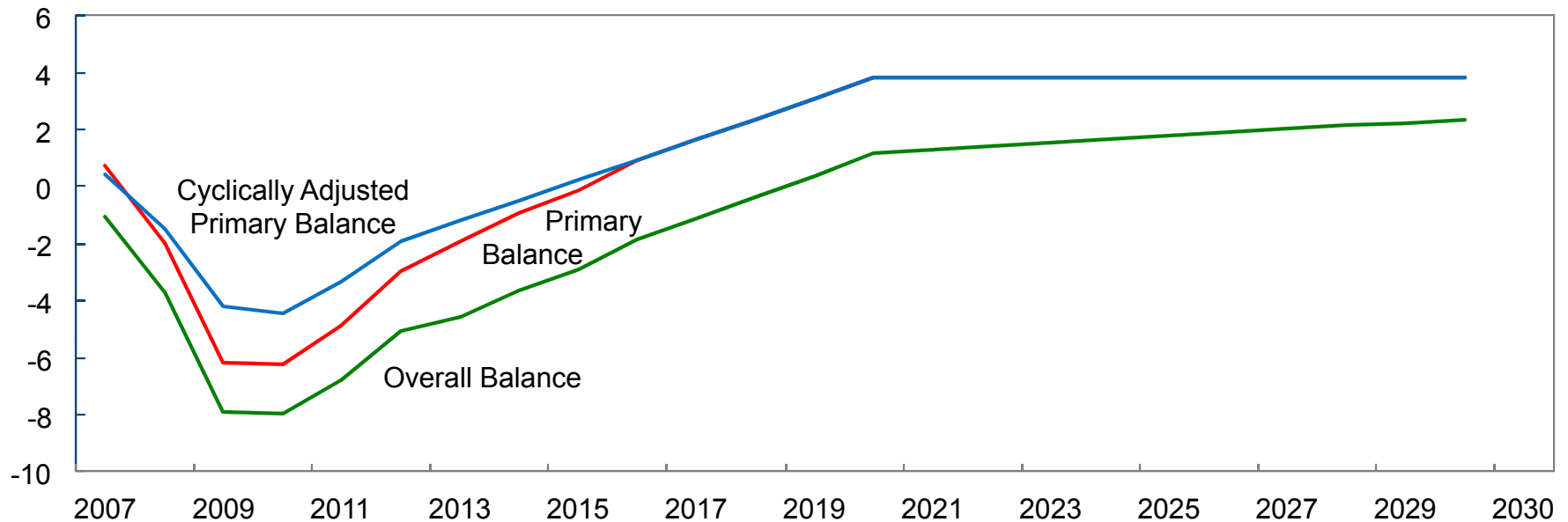


## G-20 and Selected Economies with an Adjustment Plan

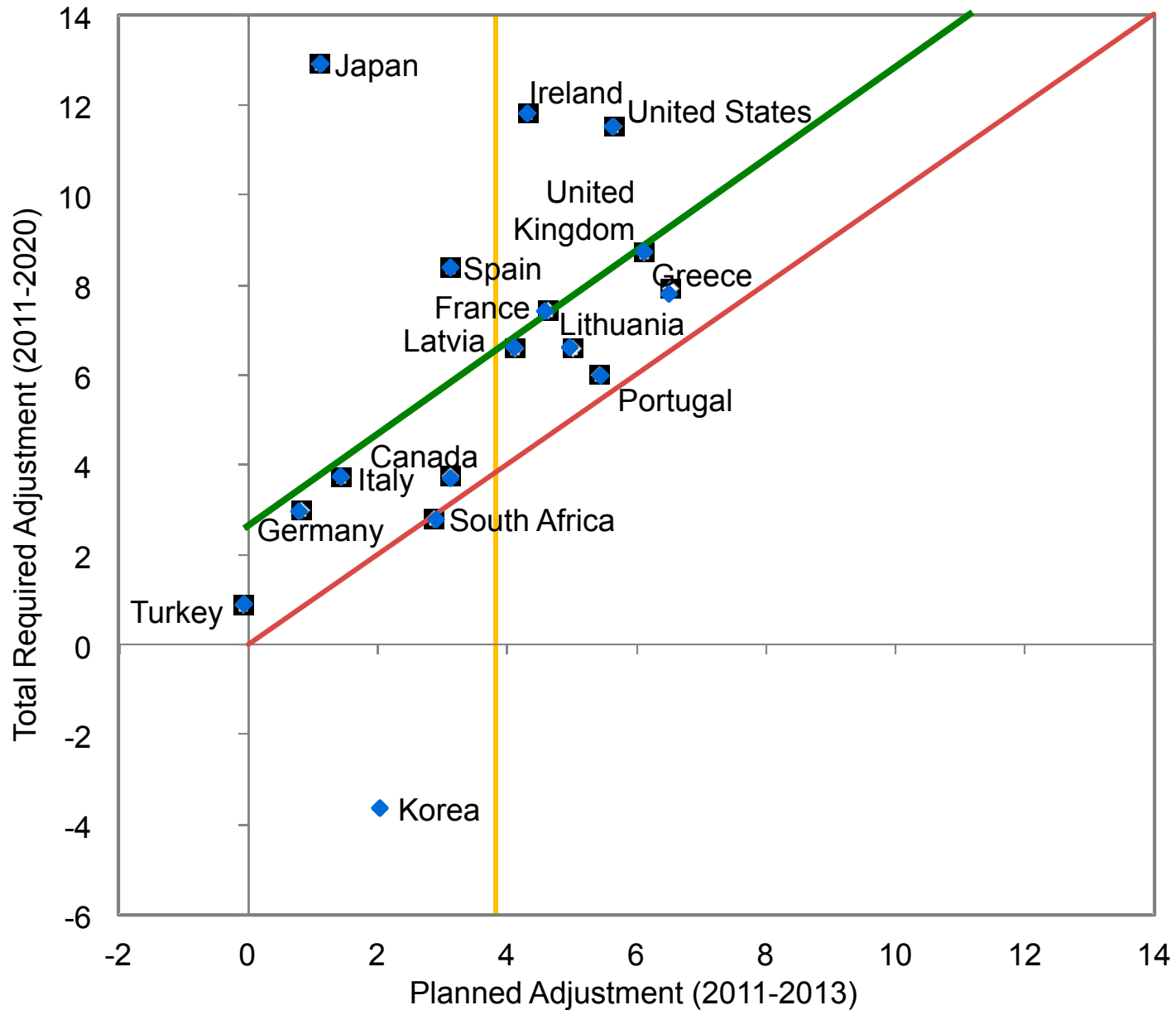


■ Economies with published plans involving fiscal adjustment

# Advanced Economies: Long Term Adjustment



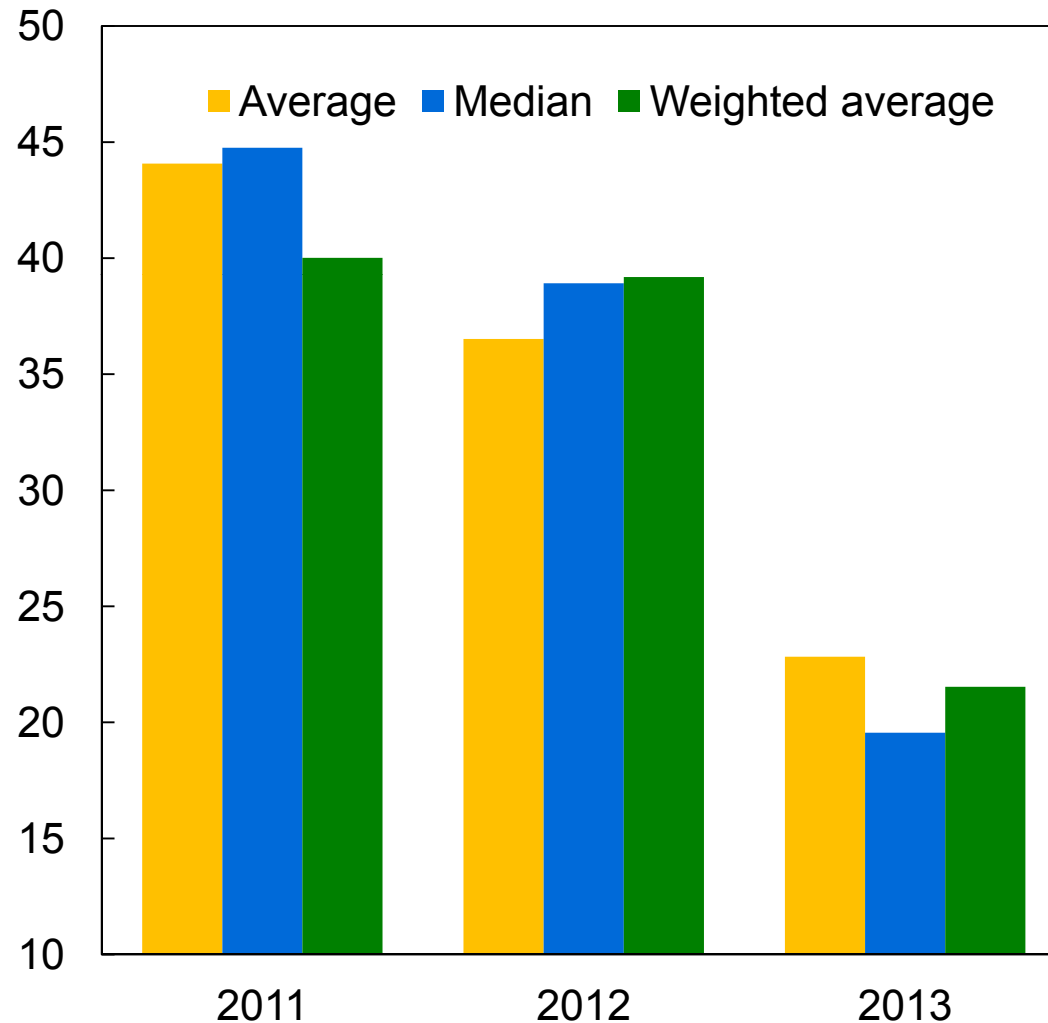
# Planned Adjustment vs. Required Adjustment



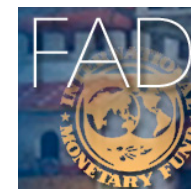
# Crisis Impact, Size, and Timing of Adjustment



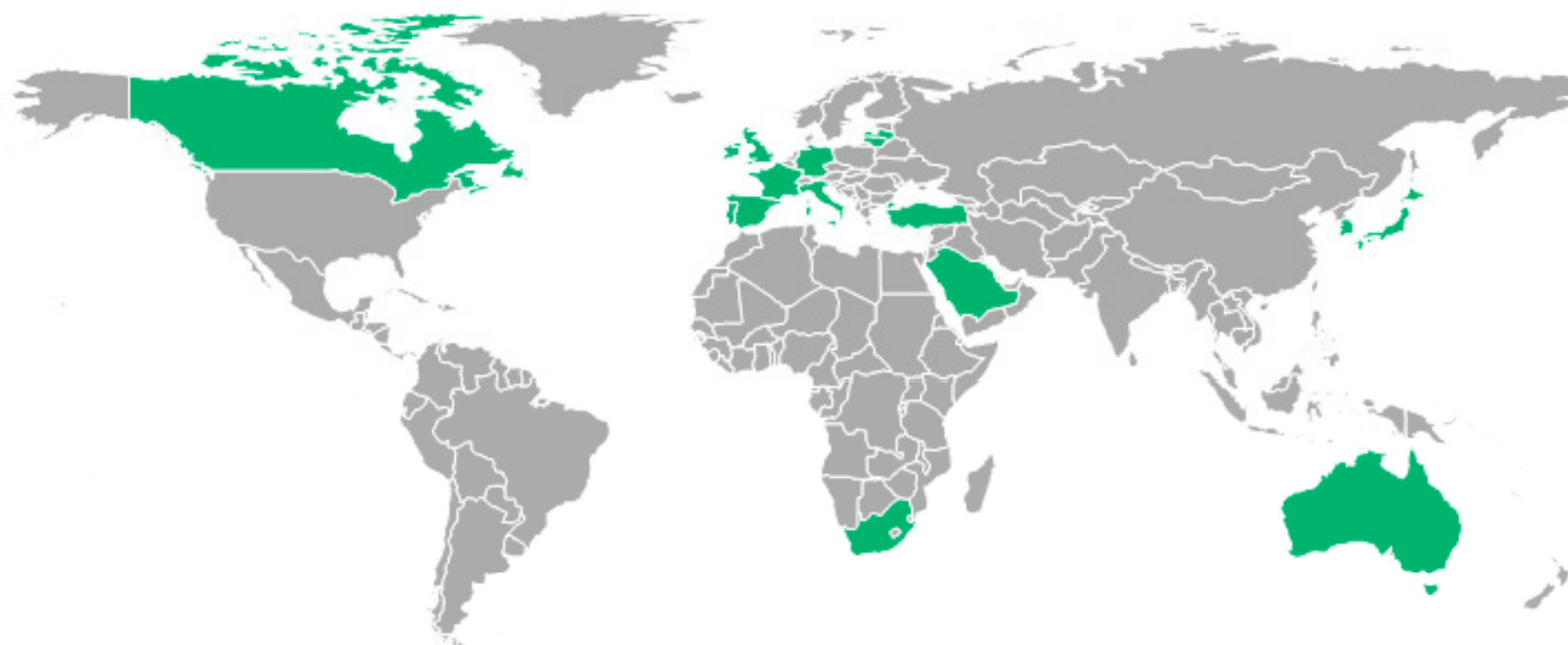
**Distribution of Planned Overall Balance, 2011-13**  
(Percent of total change)



# Fiscal Consolidation Over the Medium-Term: G-20



## Type of Adjustment



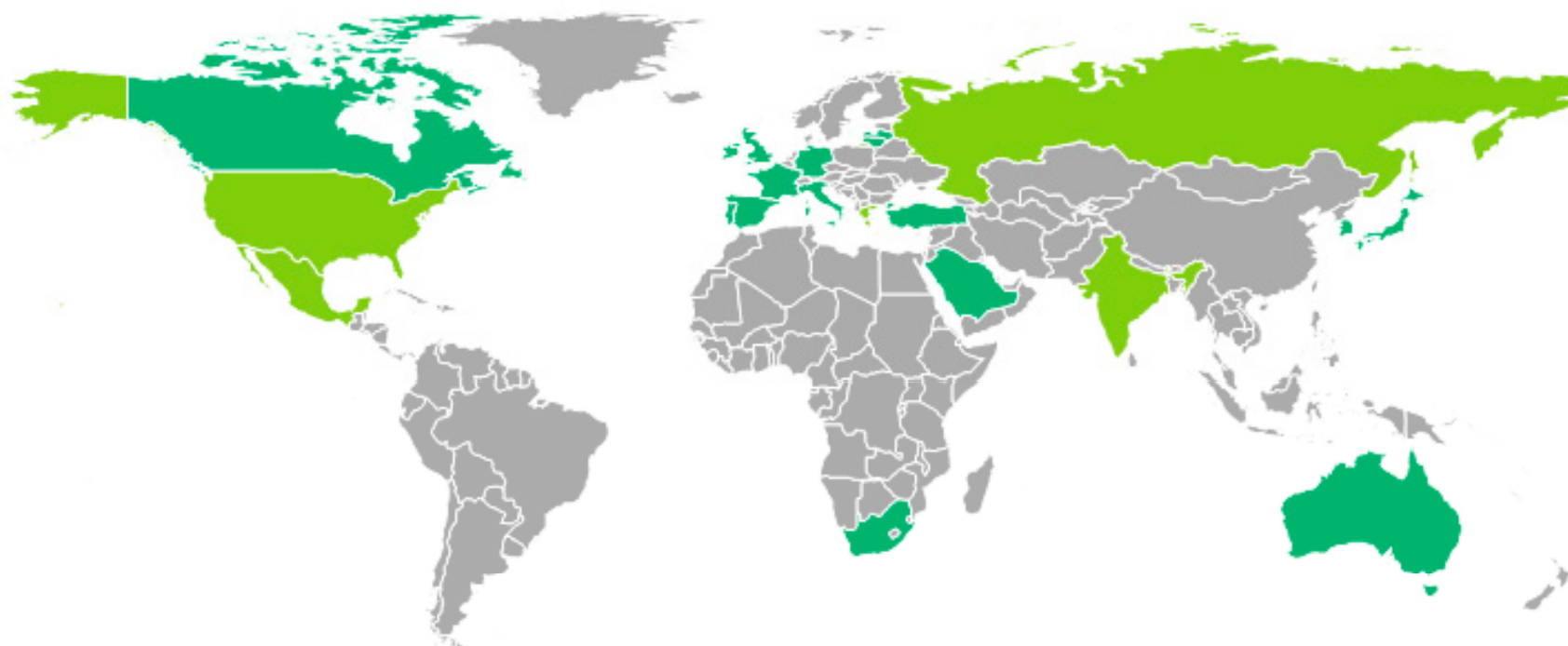
■ Expenditure Based



# Fiscal Consolidation Over the Medium-Term: G-20



## Type of Adjustment

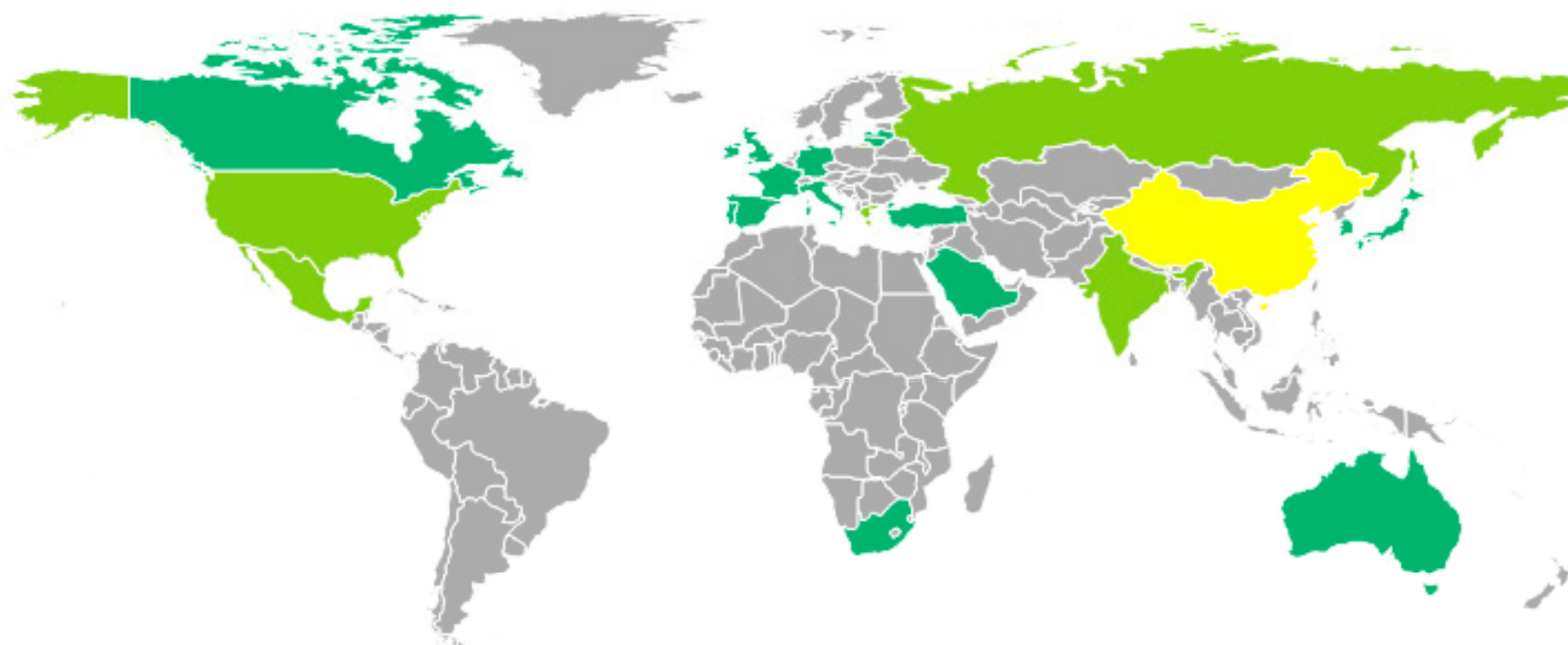


- Expenditure Based
- Mixed

# Fiscal Consolidation Over the Medium-Term: G-20



## Type of Adjustment

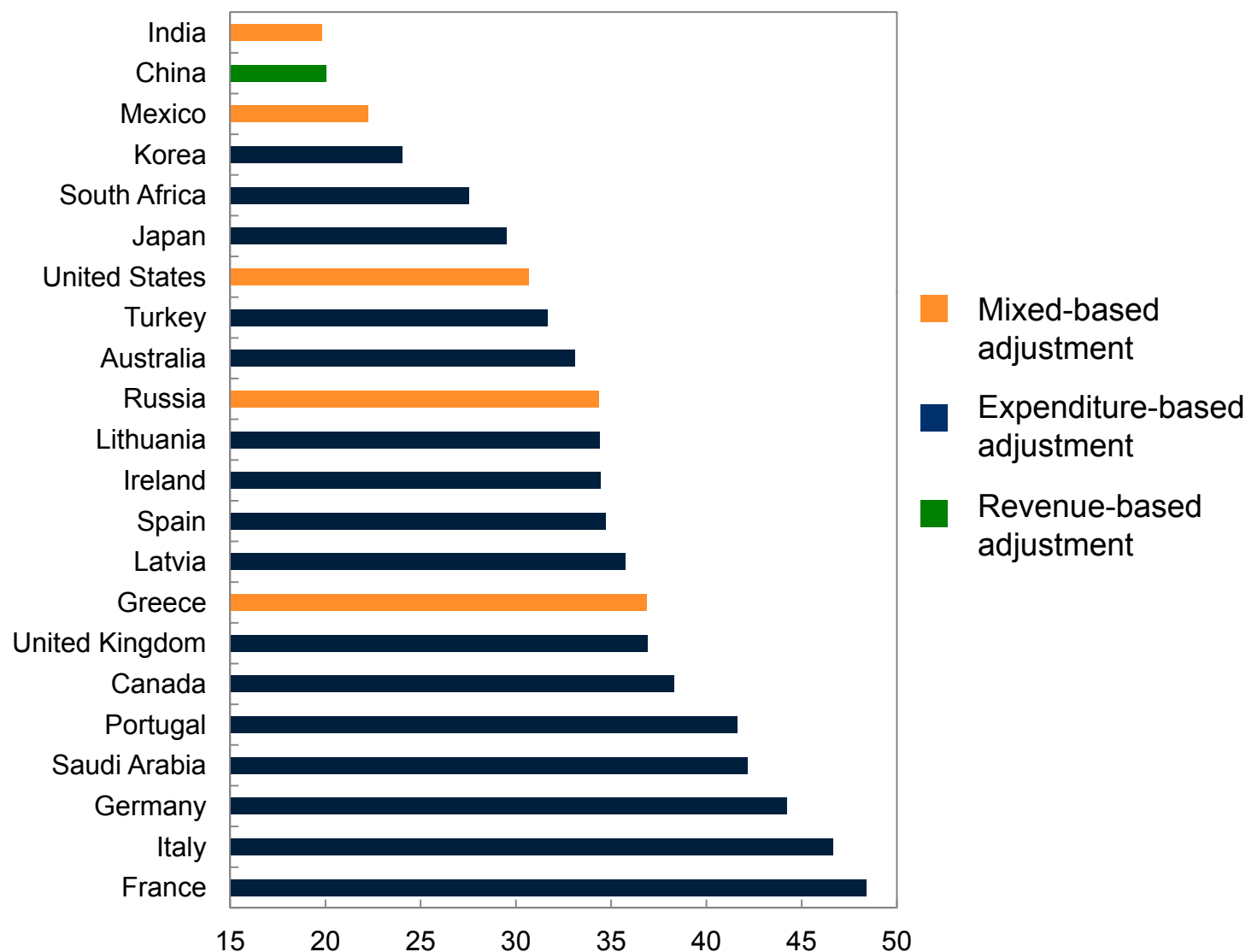


- Expenditure Based
- Mixed
- Revenue Based

# Adjustment of Composition vs. Revenue-to-GDP



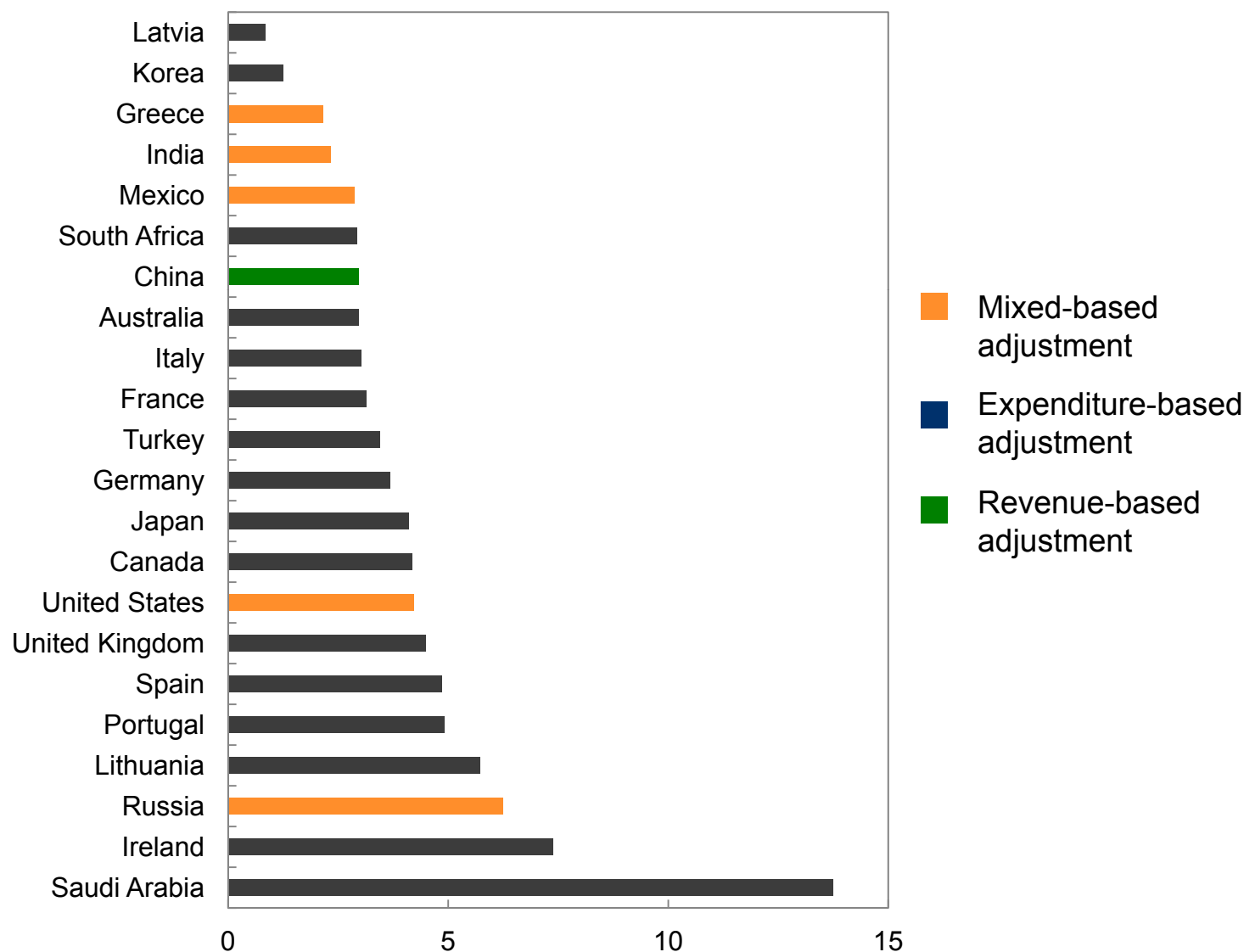
Revenue-to-GDP Ratio, 2009



# Adjustment of Composition vs. Expenditure Increase



## Increase in Expenditure-to-GDP Ratio, 2008-09



## The *Bad* News

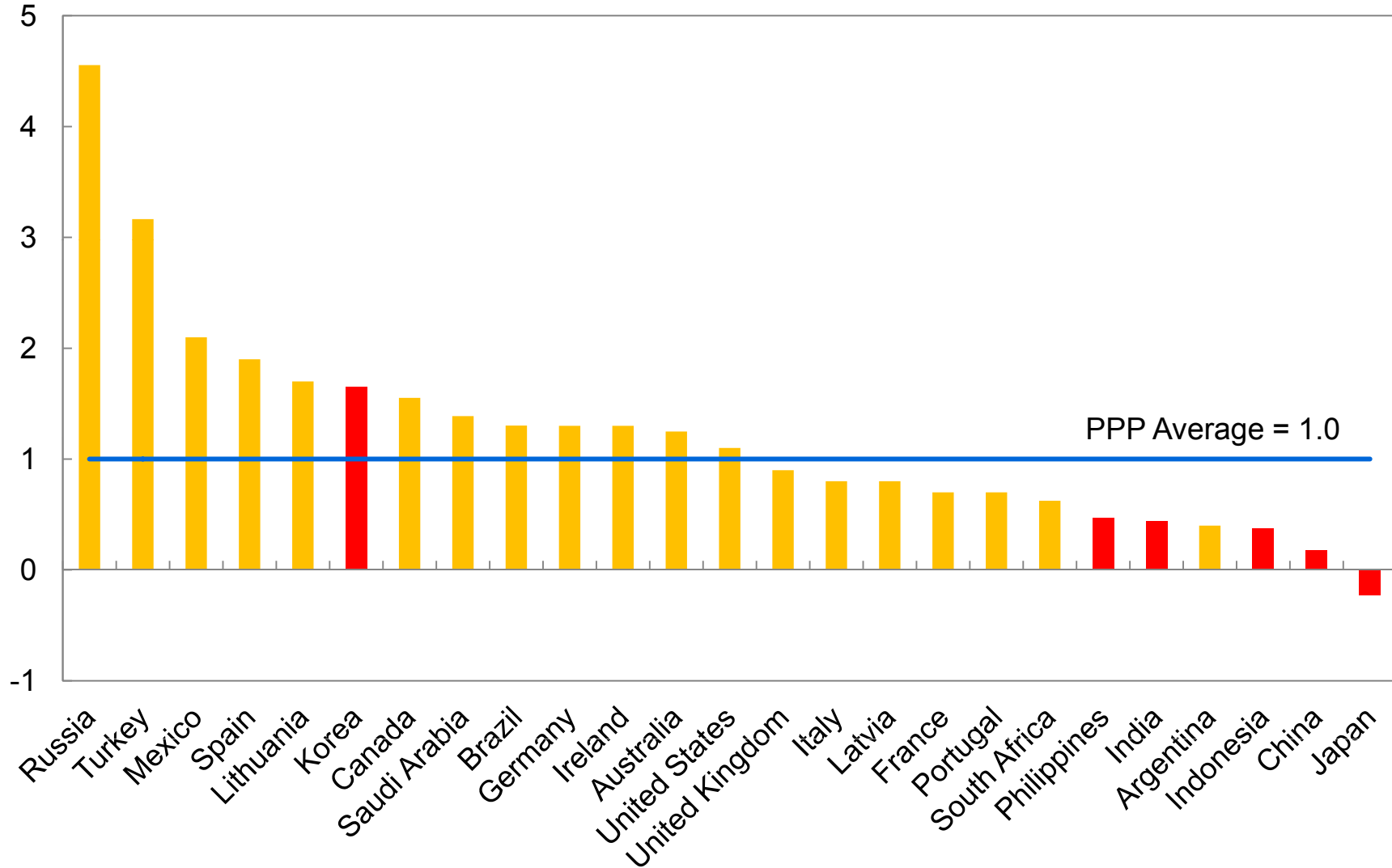


- Many measures yet to be specified
- No clear long-term debt target
- Not much progress on long-term spending trends

# Pension Spending is Projected to Rise



## Projected Increase in Pension Spending (2011-2030)



# Fiscal Consolidation Over the Medium-Term: G-20



## Pension Reforms

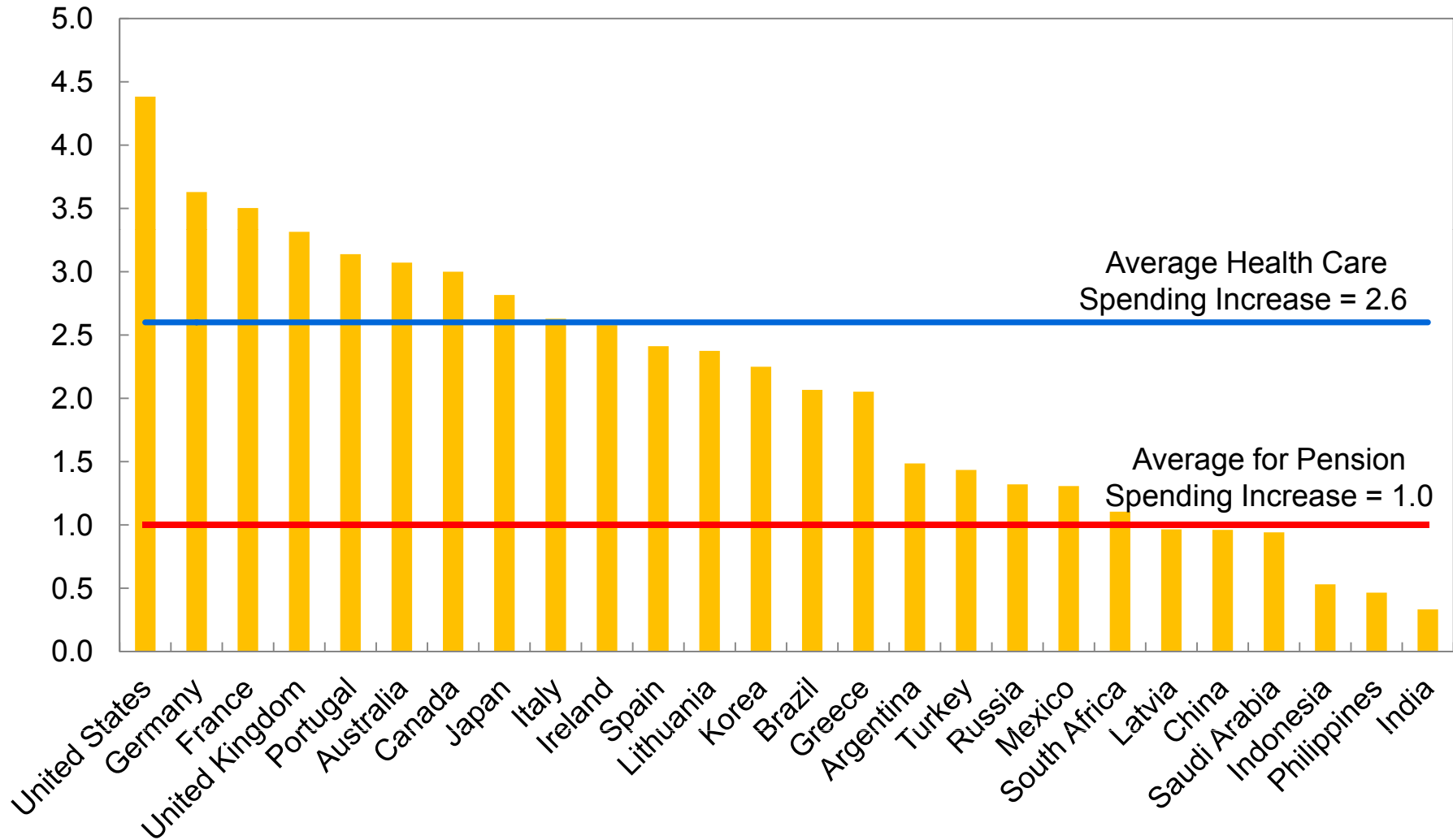


■ Reforms underway

# Health Care Spending is Projected to Rise



## Projected Increase in Health Care Spending (2011-2030)







## Health Care Reforms

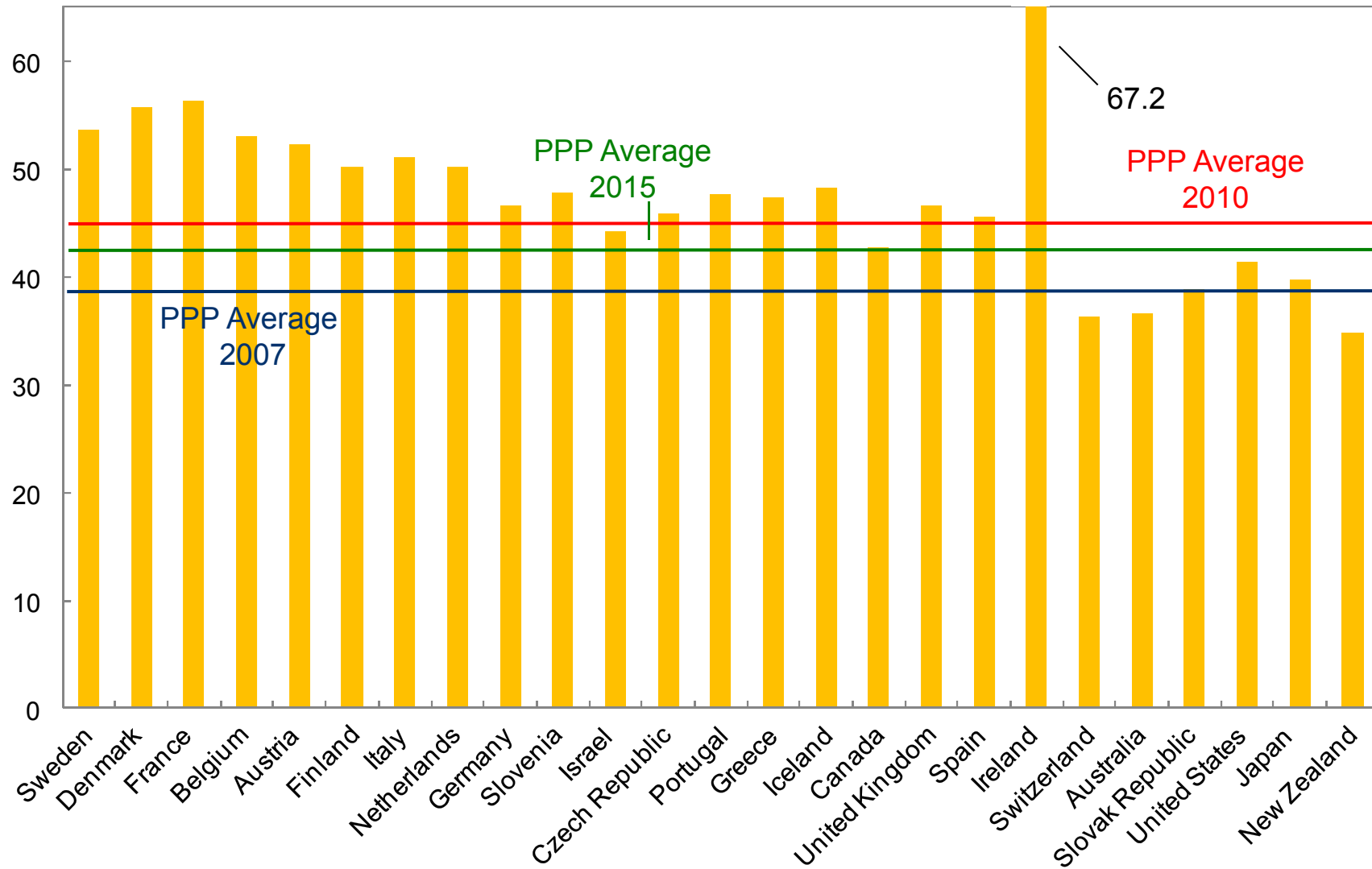


■ Reforms underway

# Expenditure in Advanced Economies



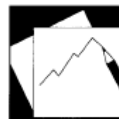
2010 General Government Expenditure (Percent of GDP)



# A Status Update on Fiscal Exit Strategies



WP/10/272



IMF Working Paper

## A Status Update on Fiscal Exit Strategies

*Fabian Bornhorst, Nina Budina, Giovanni Callegari,  
Asmaa ElGanainy, Raquel Gomez Sirera, Andrea Lemgruber,  
Andrea Schaechter, Joong Beom Shin*

INTERNATIONAL MONETARY FUND

Available at:

<http://www.imf.org/>

# Risks and Uncertainties



- Stabilization of public debt at high post-crisis levels
- Potential rollover problems

# Risks

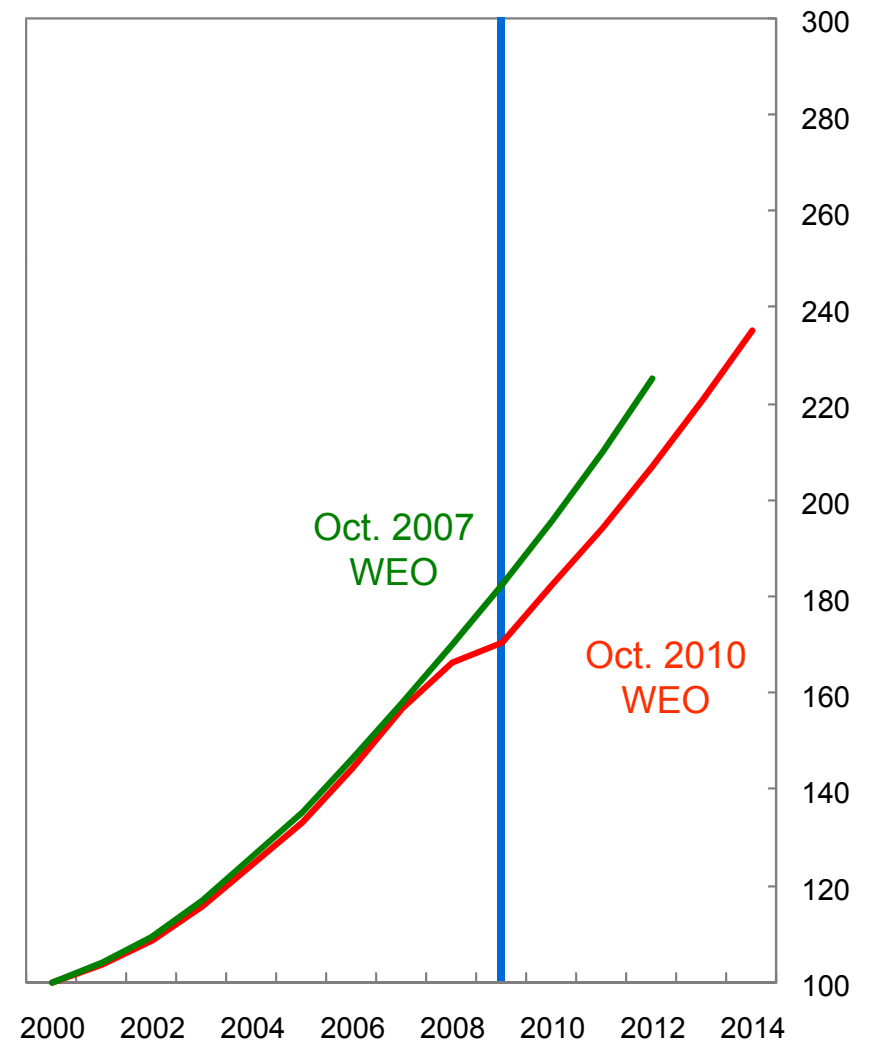
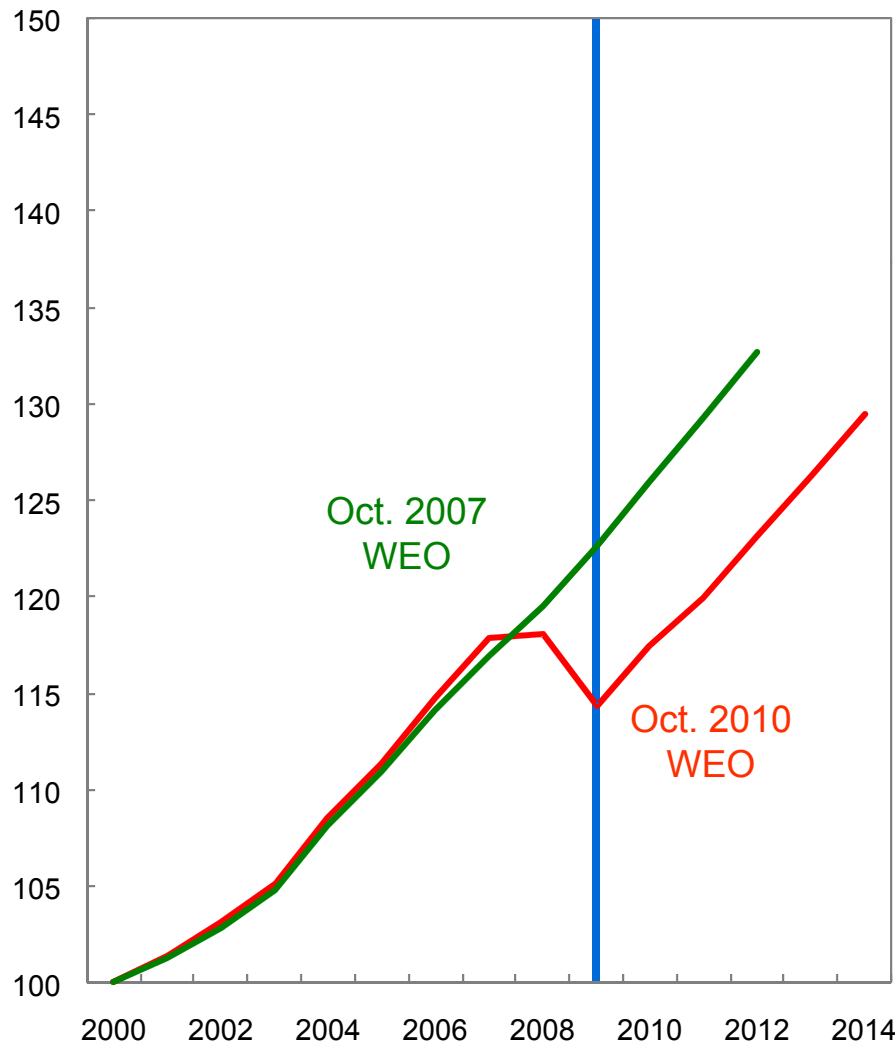


## Real GDP

Advanced

(in levels, 2000=100)

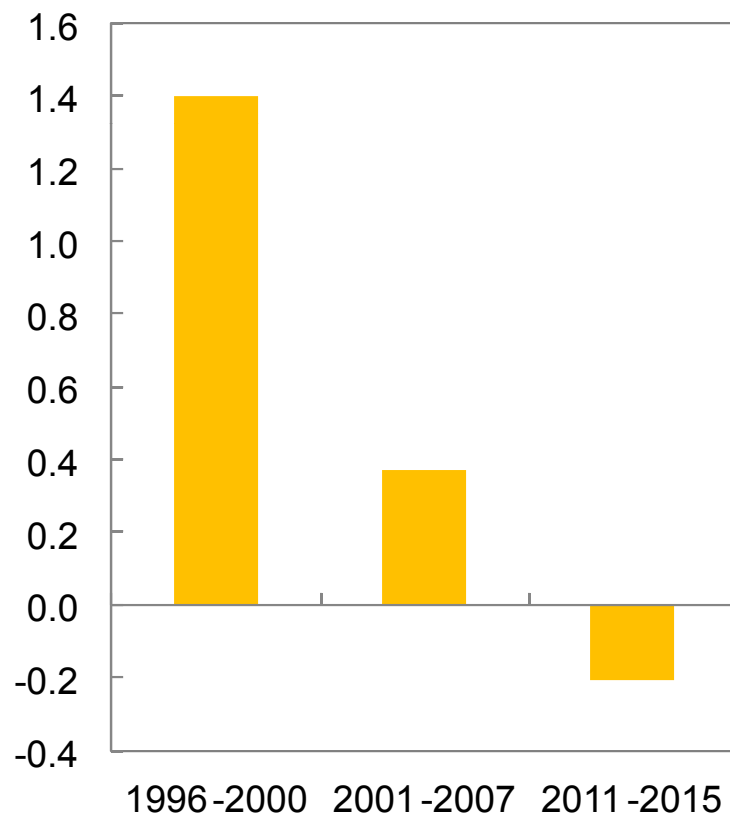
Emerging



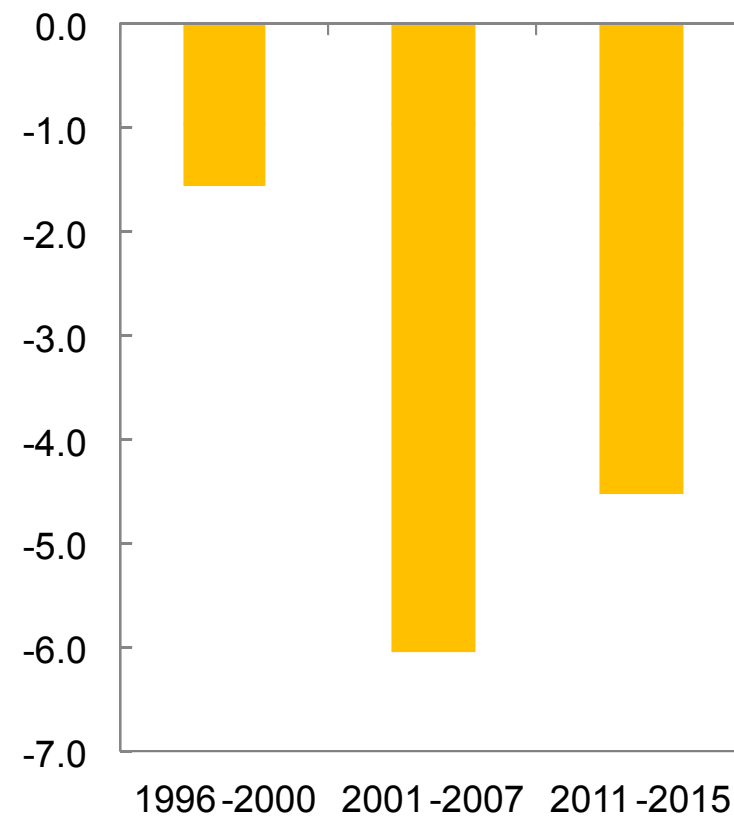


## Interest Rate Growth Differential (Percent)

### Advanced



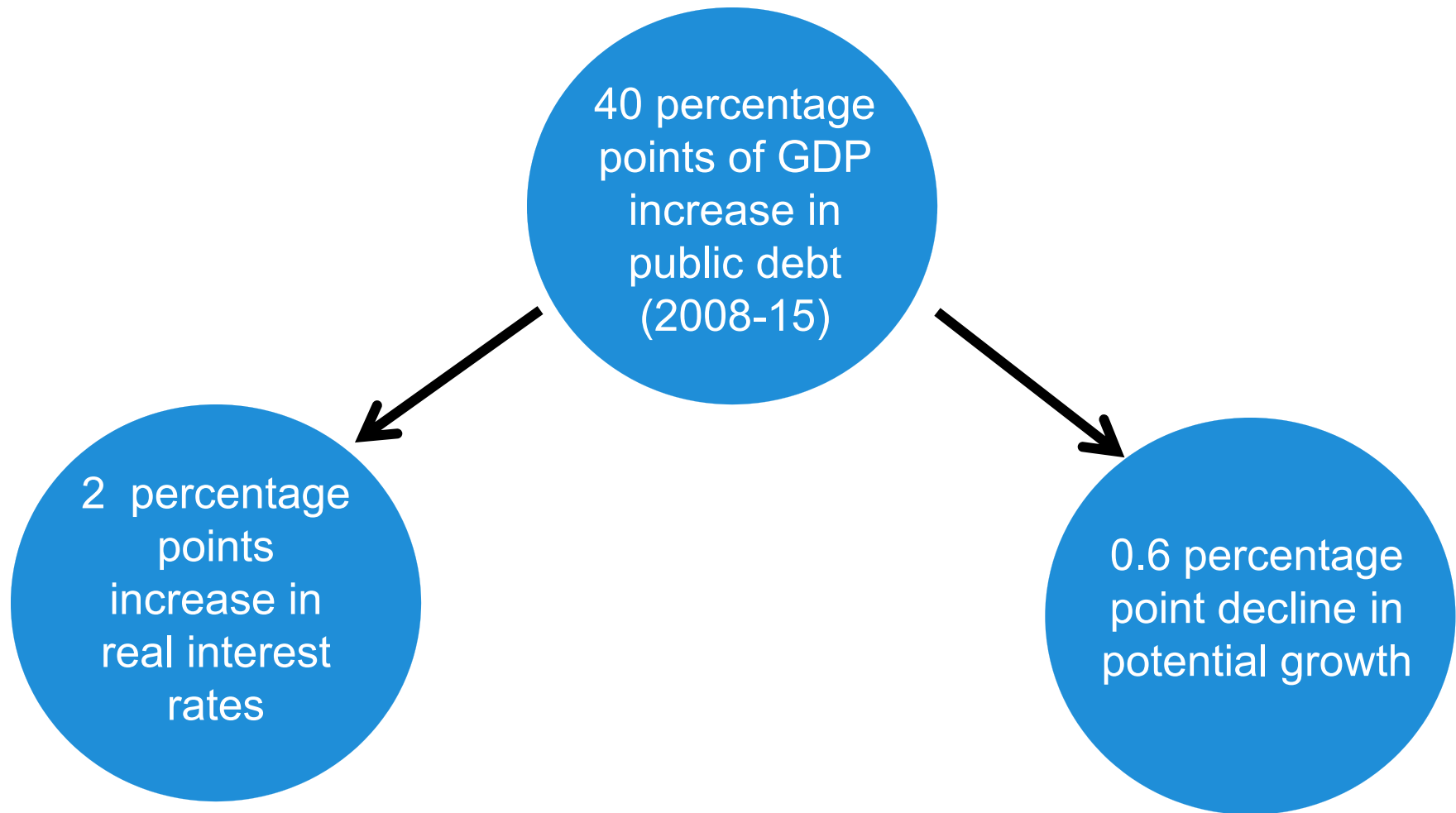
### Emerging



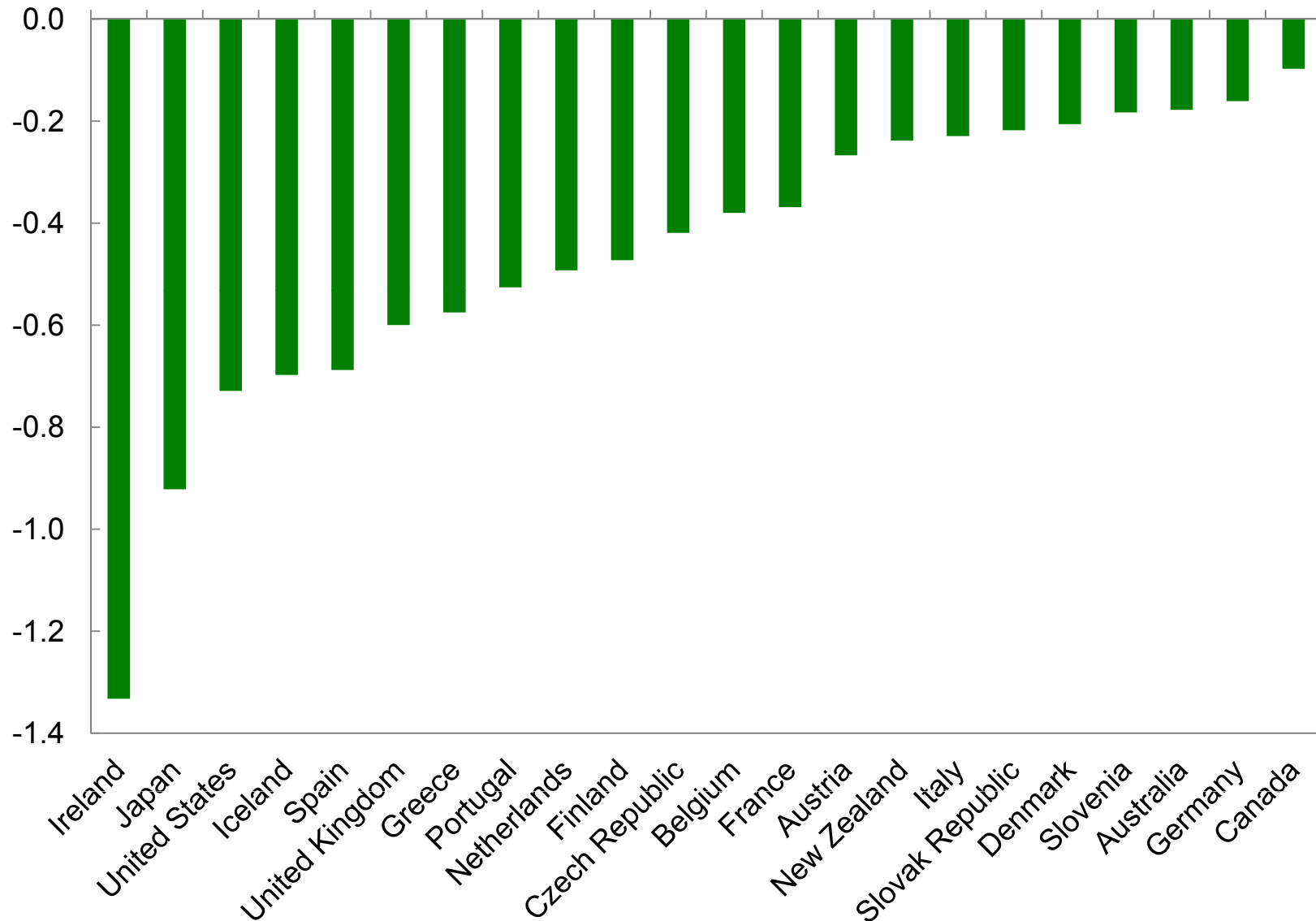
# Impact of Public Debt on Interest Rates and Growth



## G-7 Economies



# Impact of Debt on Growth: Advanced Economies





# Selected Spending and Tax Issues



- Pension reforms and growth
- Financial sector taxation
- Carbon pricing issues pre-Cancun
- Fully tapping VAT potential

# Pension Reforms and Growth



- Simulations using GIMF Model
  - Raise retirement age 2 years
  - Reduce benefits 15 percent
  - Increase contributions 2 ½ percent
  
- Increases in retirement age are the most effective, boosting output by 1% in the ST and 4 ¼% over the LT, while debt ratio falls 30%
  
- Cooperative strategy works better

# Pension Reform

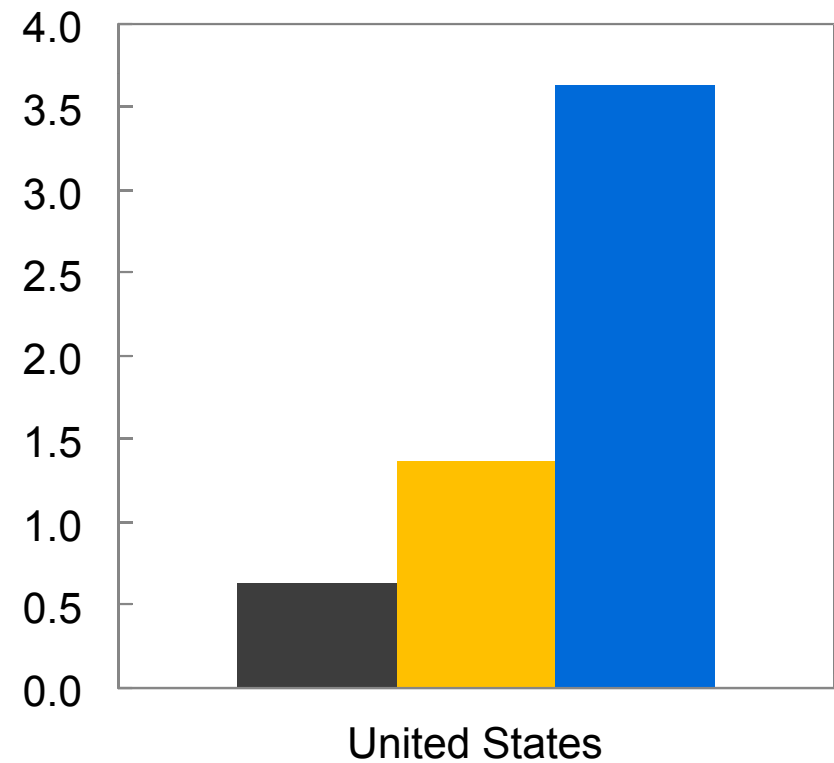
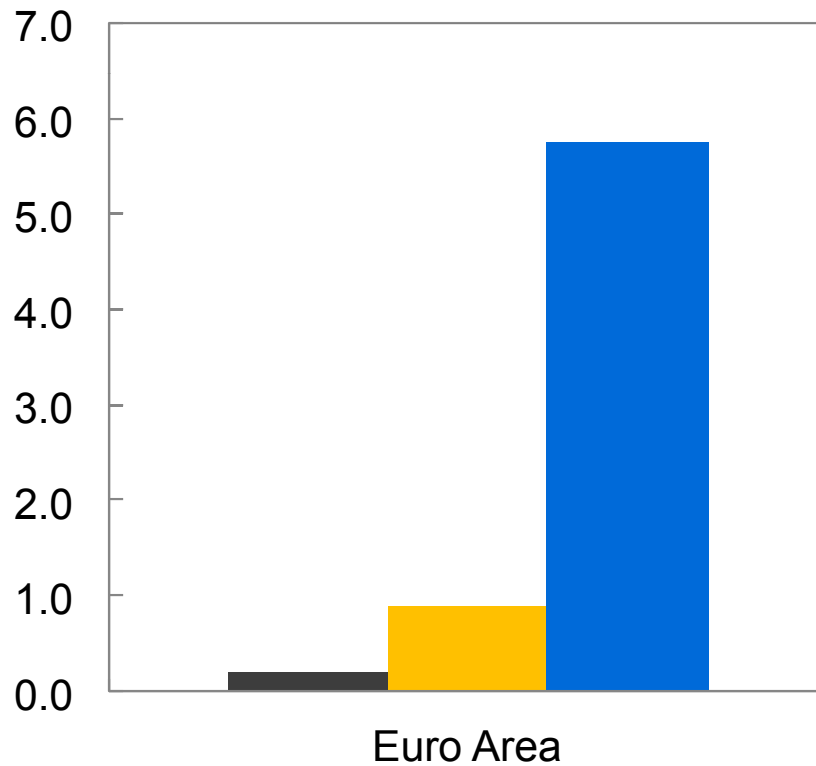


## Individual Pension Reform

(Change in Real GDP)

Increase in statutory retirement age

- Short-term
- Medium-term
- Long term



# Financial Sector Taxation



- In 2009, IMF asked by G-20 leaders to report on how financial sector can make “fair and substantial contribution”
- IMF has proposed a Financial Stability Contribution on liabilities excluding insured deposits, insurance reserves and tier 1 capital
- Countries wanting to raise more revenues (beyond CIT) could levy a Financial Activities Tax either as a VAT on all compensation and profits or taxing only high returns as a deterrent to excessive risk taking

# Carbon Pricing Issues



- Although usually considered primarily a corrective device to reduce greenhouse gases, carbon pricing can raise substantial revenues
- Some governments fear charging for emissions could reduce competitiveness, but distributing permits free creates a windfall
- Others also fear adverse impact on poor, but fuel subsidies involve large leakages
- As with many things, international coordination is critical

# Fully-Tapping VAT



- VAT key element of Article IV recommendations in Japan and U.S.
  
- Most countries have scope to raise more through:
  - Advanced economies need to focus on eliminating exemptions
  - Emerging markets need to improve compliance
  
- Fears that VAT is regressive often misplaced and benefits from exemptions poorly targeted anyway



**Thank you!**