Discussion of *The Motives to Borrow* by Fatás, Ghosh, Panizza, Presbitero

Paolo Mauro
IMF, Fiscal Affairs Department

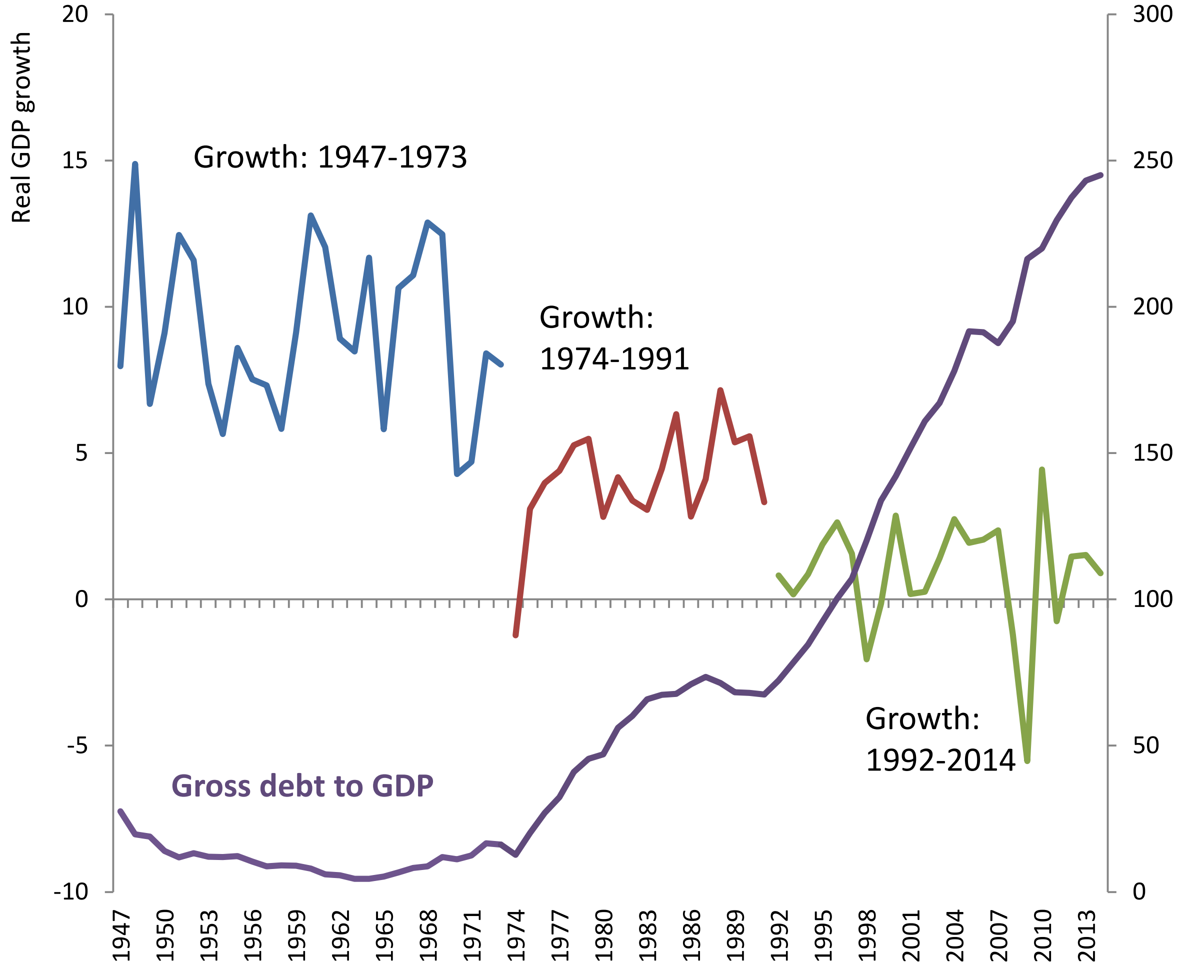
Motives to Borrow

- Good: intertemporal tax smoothing, stimulus..
- Bad: short political horizons, strategic manipulation, common pool problems…
- Ugly: exchange rate crises, banking crises…

Please emphasize more:

- Distributional implications (across generations, but also taxpayers versus bondholders)
- Impact of economic growth on revenues, debt ratio
- Ability to borrow, interest costs
- Mauro et al (JME 2015): Increase in primary fiscal balance in response to debt increases is weaker when borrowing costs are low, and when potential economic growth worsens unexpectedly

GDP Growth and Debt/GDP in Japan



Source: P. Mauro, R. Romeu, A. Binder, and A. Zaman, 2015, "A Modern History of Fiscal Prudence and Profligacy," *Journal of Monetary Economics, 76,* 55-70.

Growth Matters More Than We Usually Say

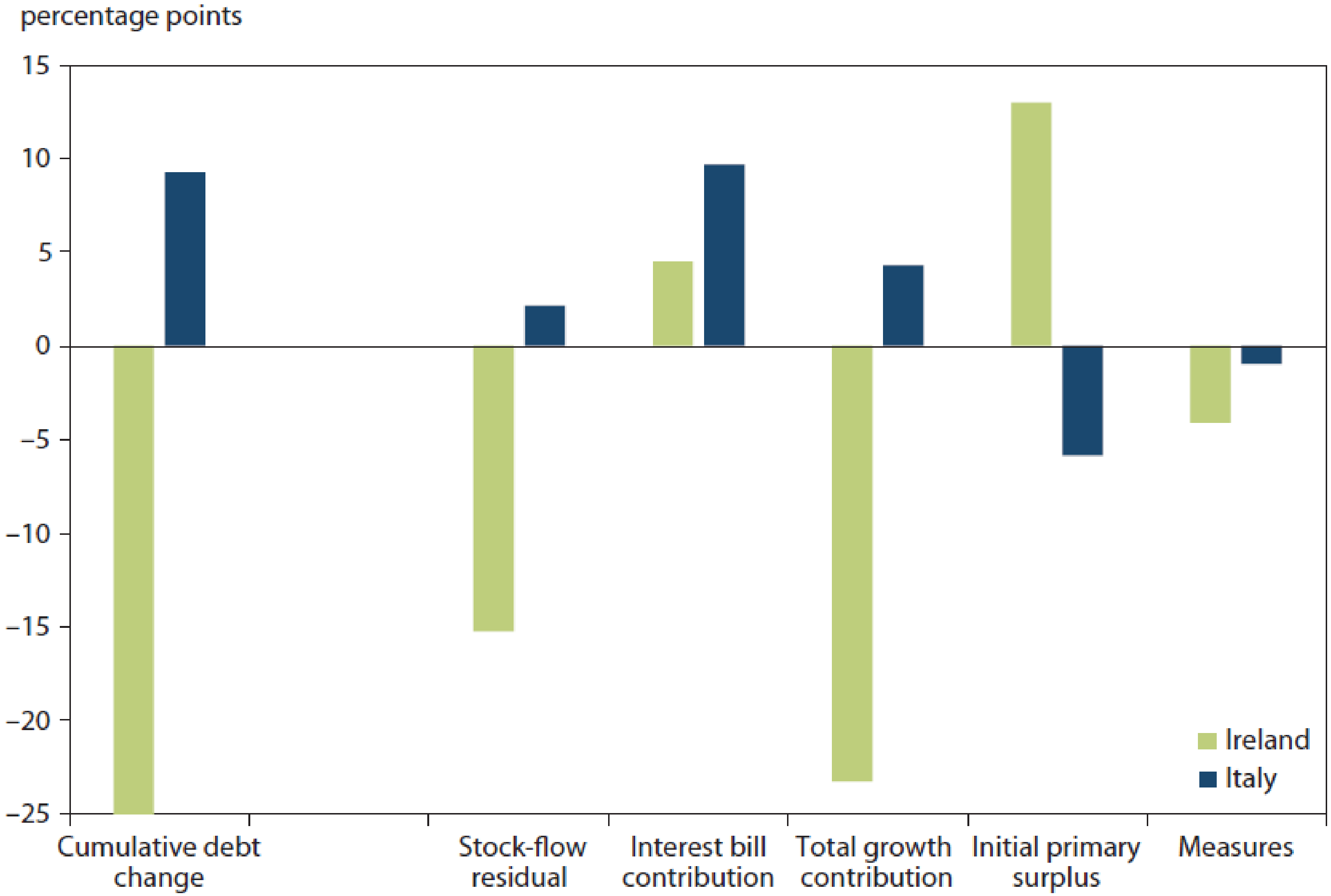
- Conventional $d_t - d_{t-1} = \left(\frac{r_t}{1+g_t}\right) d_{t-1} - \left(\frac{g_t}{1+g_t}\right) d_{t-1} - p_t + f_t$

- Add $p_t = p_{t-1} + e_{t-1} \left(\frac{g_t}{1+g_t}\right) + m_t$

- Complete $d_t - d_{t-1} = \left(\frac{r_t}{1+g_t}\right) d_{t-1} - m_t - p_{t-1} + f_t - \left(\frac{g_t}{1+g_t}\right) (d_{t-1} + e_{t-1})$

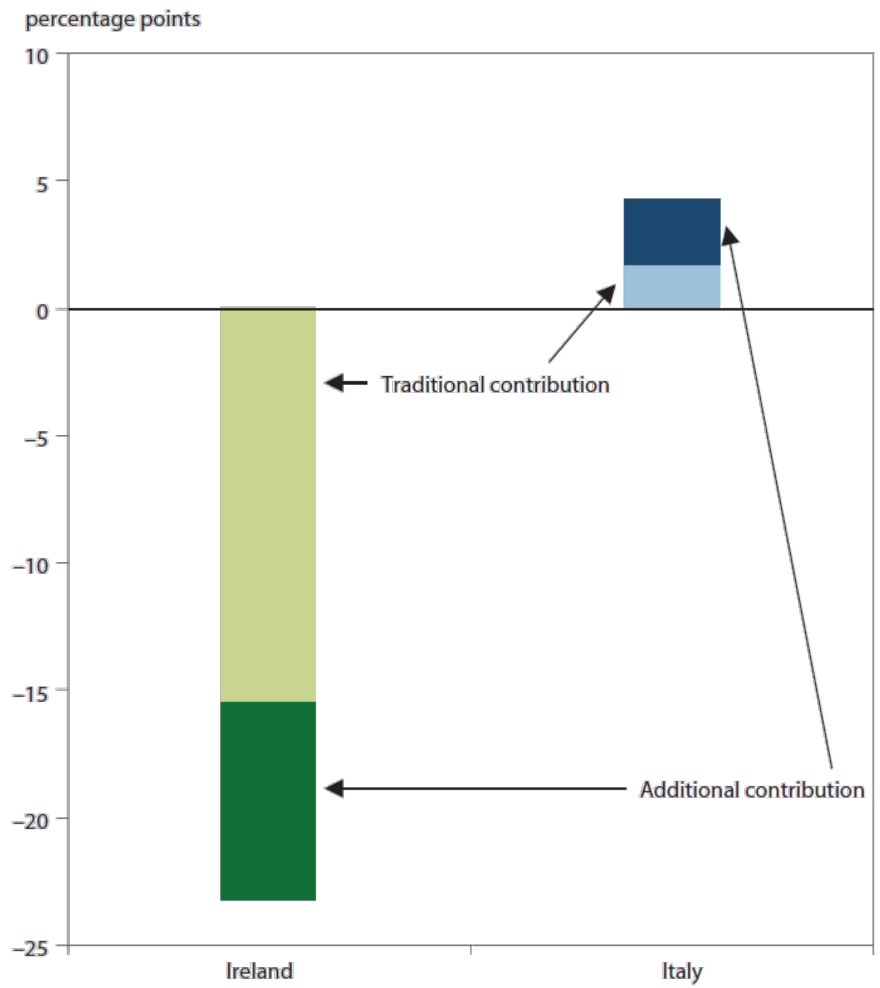
P. Mauro and J. Zilinsky, 2016, “Reducing Government Debt Ratios in an Era of Low Growth,” Peterson Institute for International Economics, Policy Brief 16-10.

Cumulative contributions to changes in government debt-to-GDP ratios between end-2012 and end-2015 in Ireland and Italy (same debt ratio at end-2012)



Source: IMF, *World Economic Outlook* database, April 2016.

Traditional and additional growth contributions to changes in debt-to-GDP ratios between end-2012 and end-2015 in Ireland and Italy



Source: IMF, *World Economic Outlook* database, April 2016.