



Fiscal Affairs Department

Session I: Global Economic Landscape and the Role of Fiscal Policies

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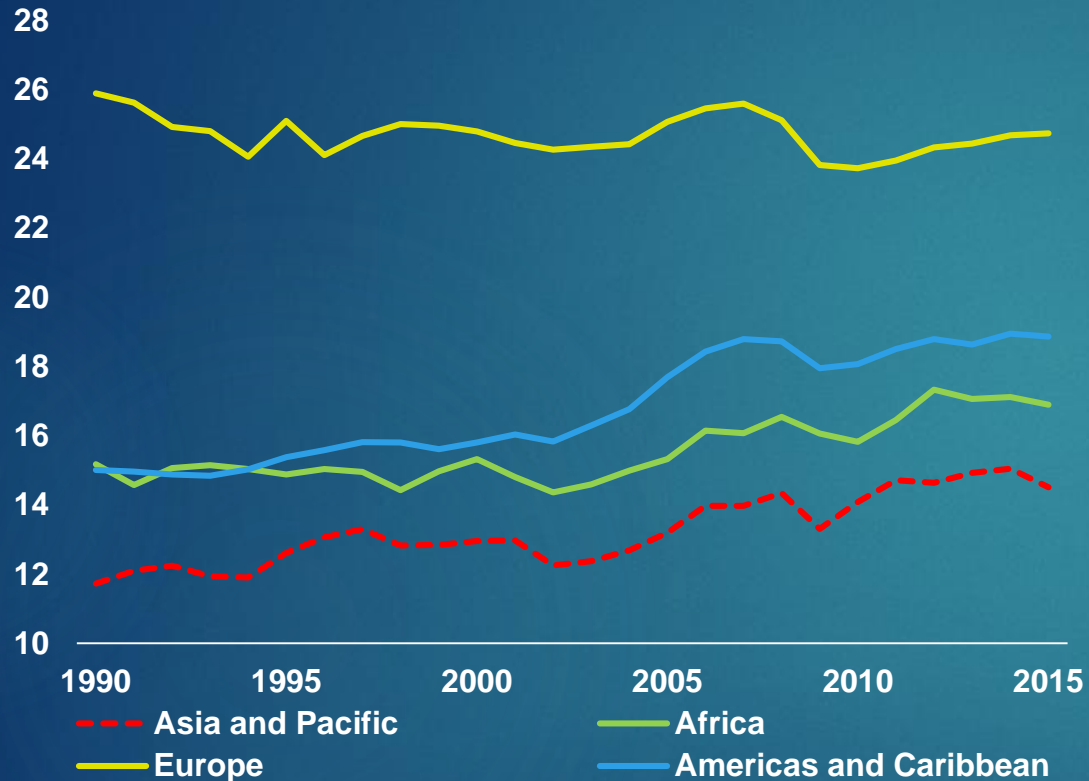
Outline

- ▶ Need for tax revenue
- ▶ Fiscal structural reforms
 - ▶ *Policies to push out the technology frontier*
 - ▶ *Policies to help narrow the productivity gap between firms*
 - ▶ *Policies to address international spillovers*

Need for tax revenue

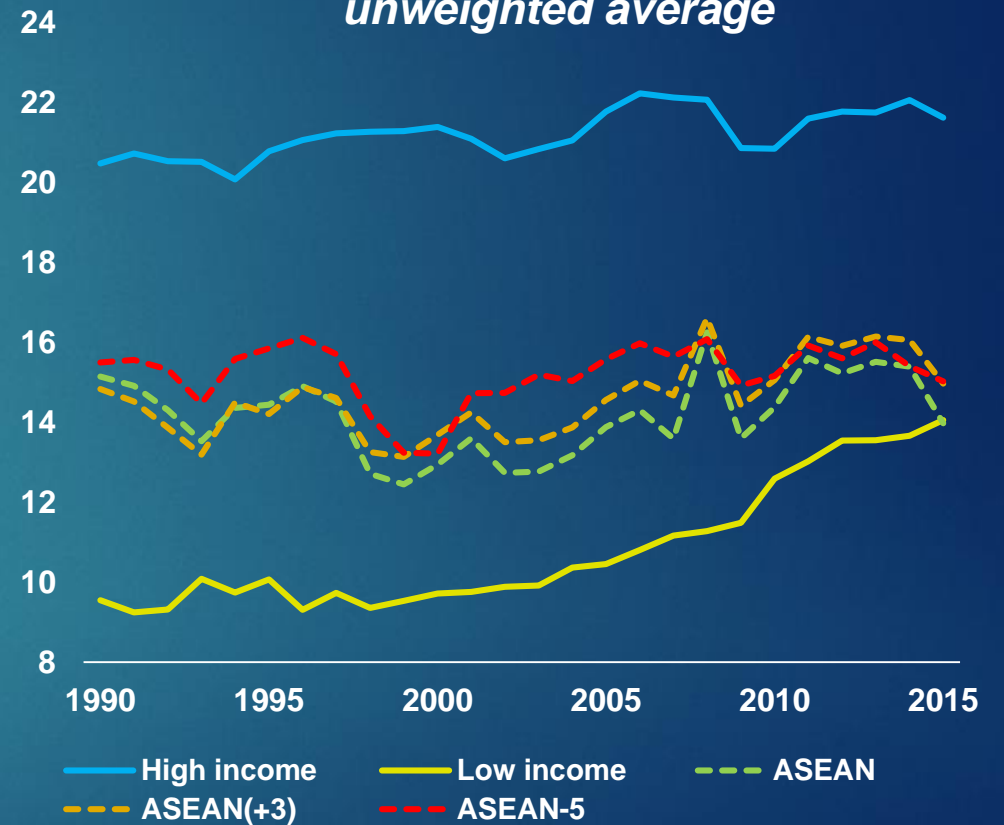
Revenues traditionally low: focus on Asia, ASEAN

Tax Revenue as percent of GDP: regions
unweighted average



Source: IMF World Revenue Longitudinal Dataset (WoRLD)

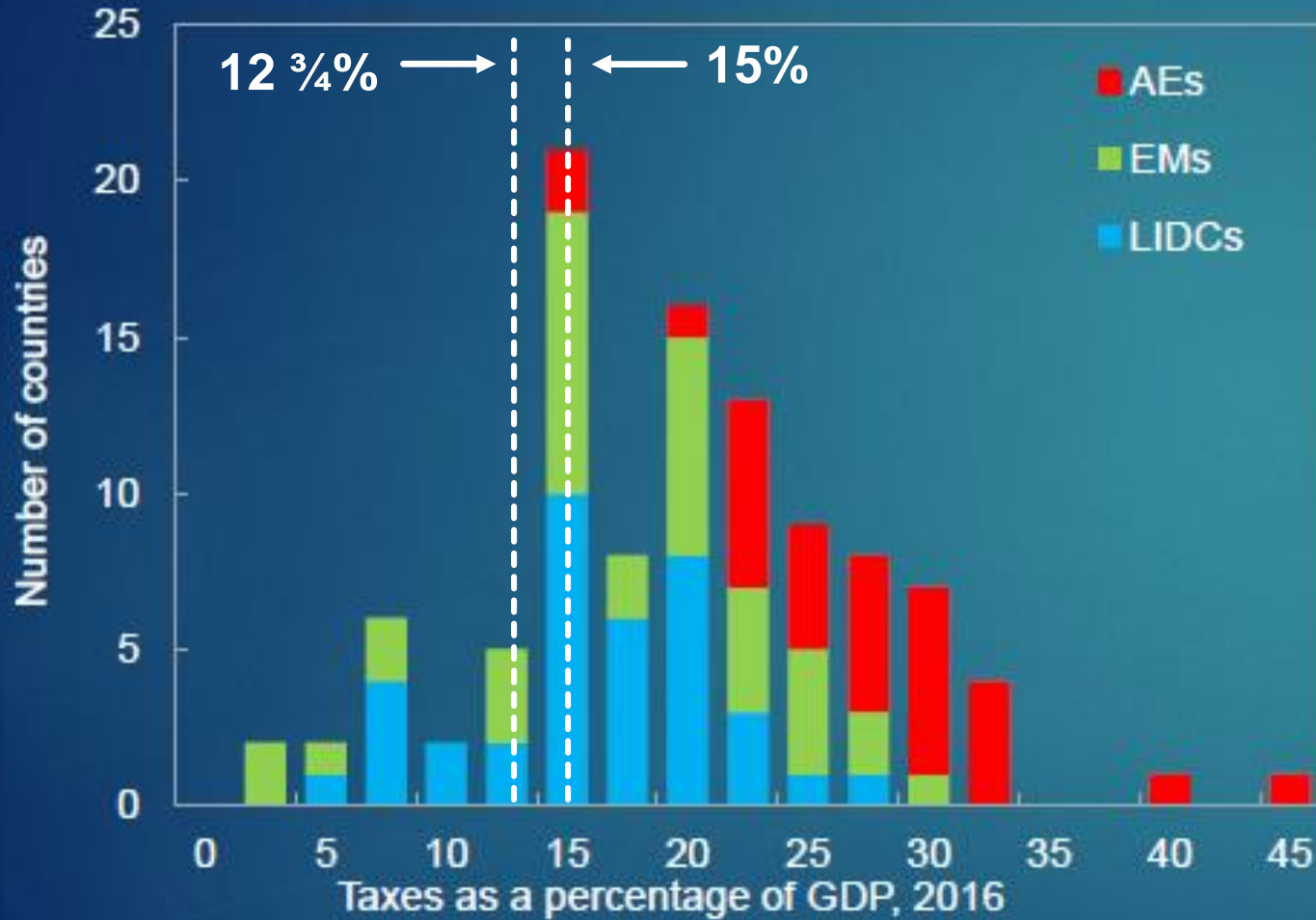
Tax Revenue as percent of GDP: income groups
and ASEAN
unweighted average



Source: IMF World Revenue Longitudinal Dataset (WoRLD)

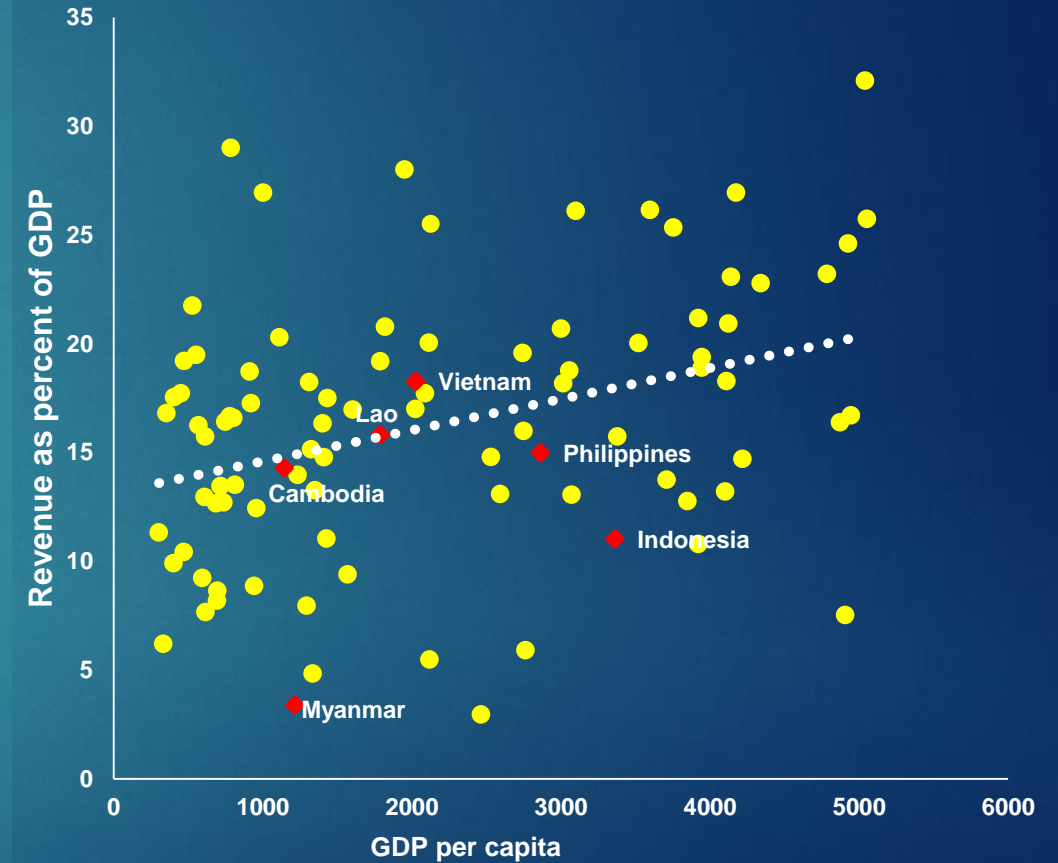
Positive relationship: tax and GDP per capita

World Distribution of Tax to GDP ratio



Source: IMF World Economic Outlook (WEO), Vitor Gaspar and others (2016), and IMF Staff

Tax and GDP per capita, 2015
Low and middle income countries

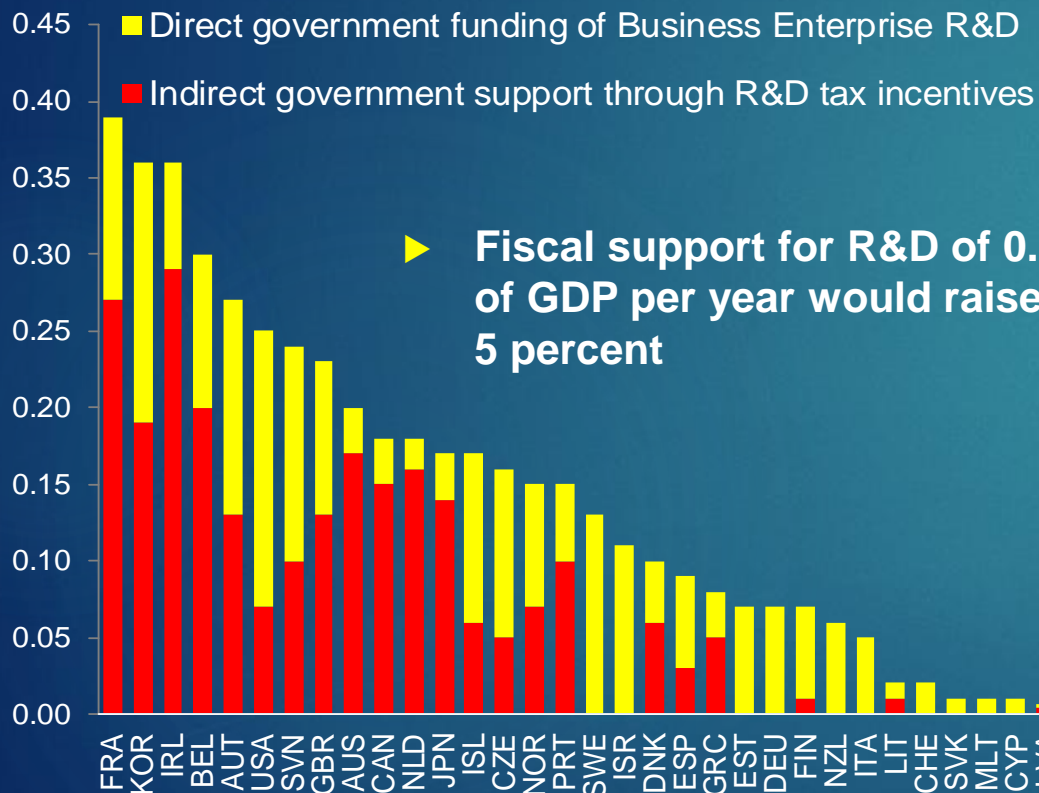


Source: IMF World Revenue Longitudinal Dataset (WoRLD)

*Fiscal structural reforms:
Policies to push out the technology
frontier through encouraging innovation*

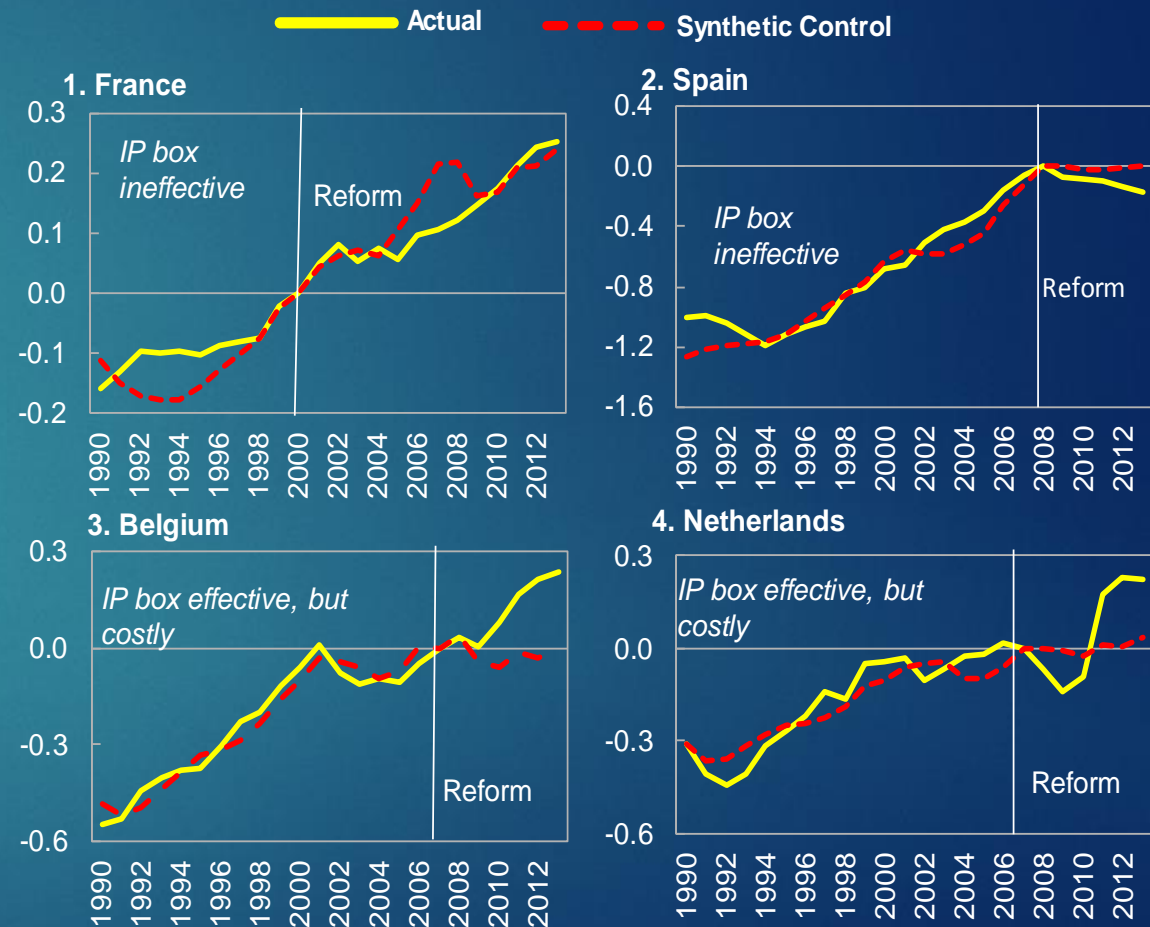
R&D tax incentives play an important role... ...but “Patent Boxes” should be avoided

Direct Government Funding of business R&D and R&D tax incentives, 2014 (Percent of GDP)



▶ **Fiscal support for R&D of 0.4 percent of GDP per year would raise GDP by 5 percent**

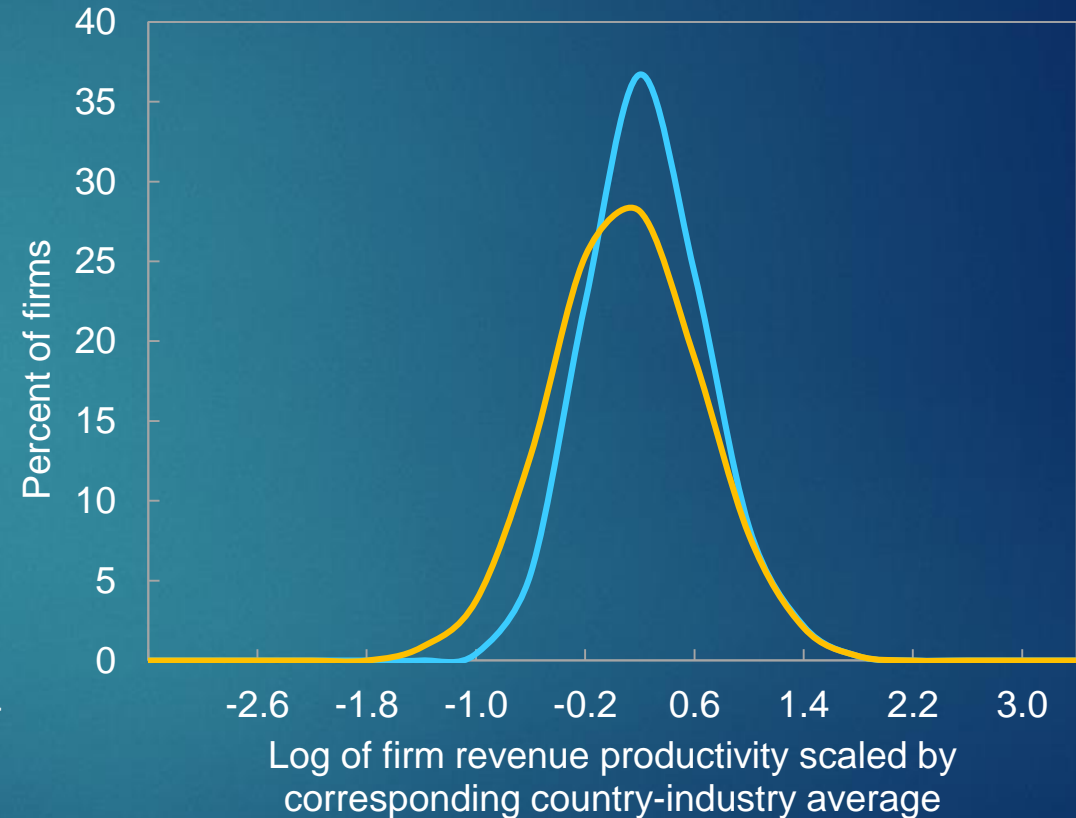
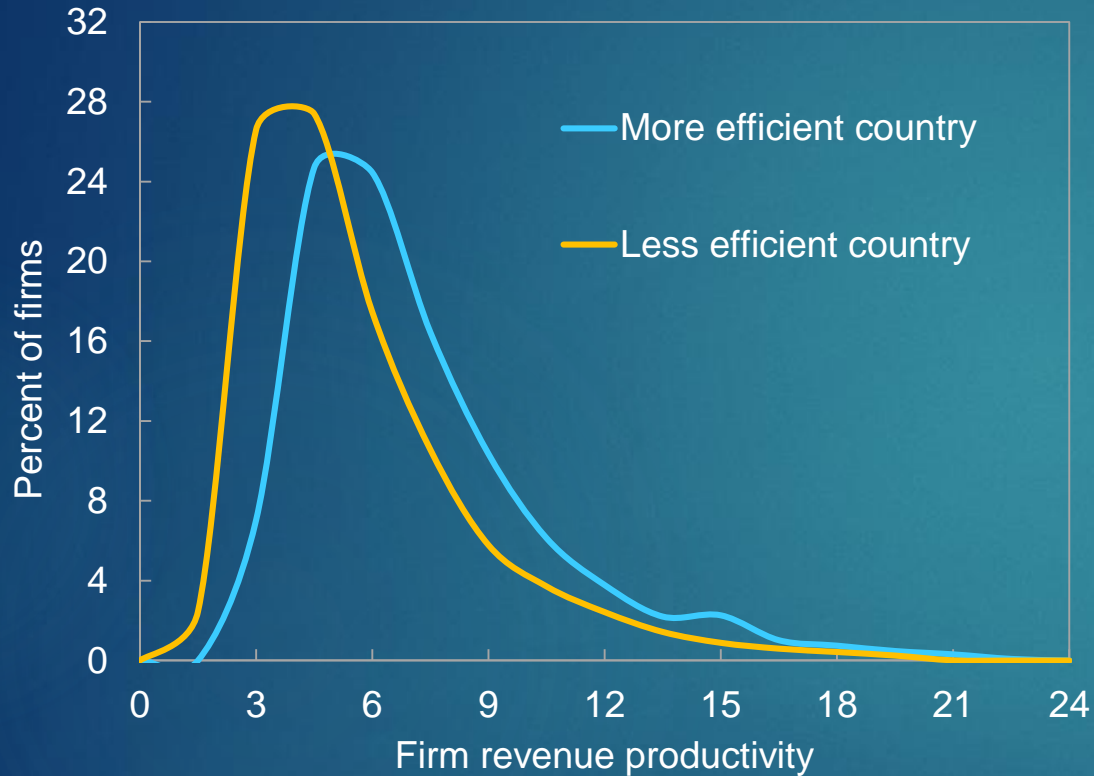
Source: OECD



*Fiscal structural reforms:
Policies to help narrow the productivity
gap between firms*

Productivity gaps between firms can be large

Distribution of Firm-Level Revenue Productivities



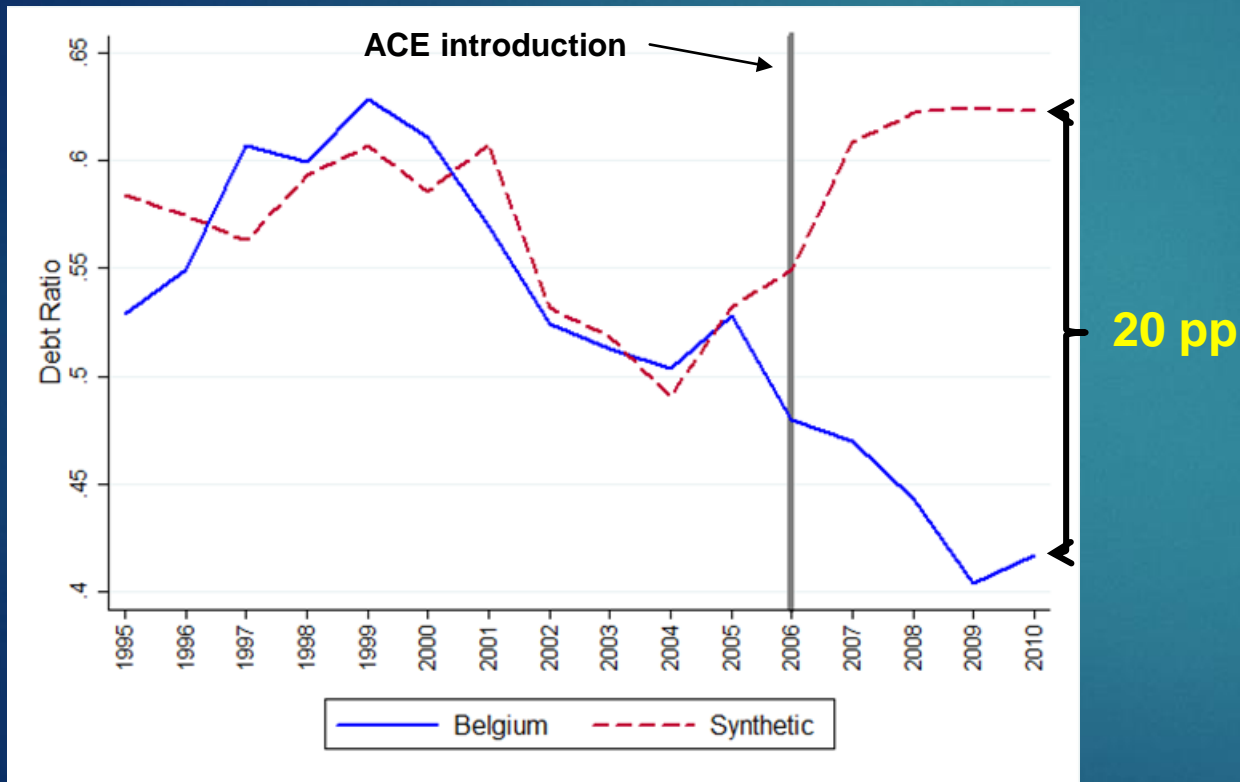
Sources: ORBIS; and IMF staff estimates.

Note: The figure shows the distribution for firms in the manufacturing sector for each country. More (less) efficient country is defined as a country at the 75th (25th) percentile of the distribution of resource allocation efficiency, based on the ORBIS sample.

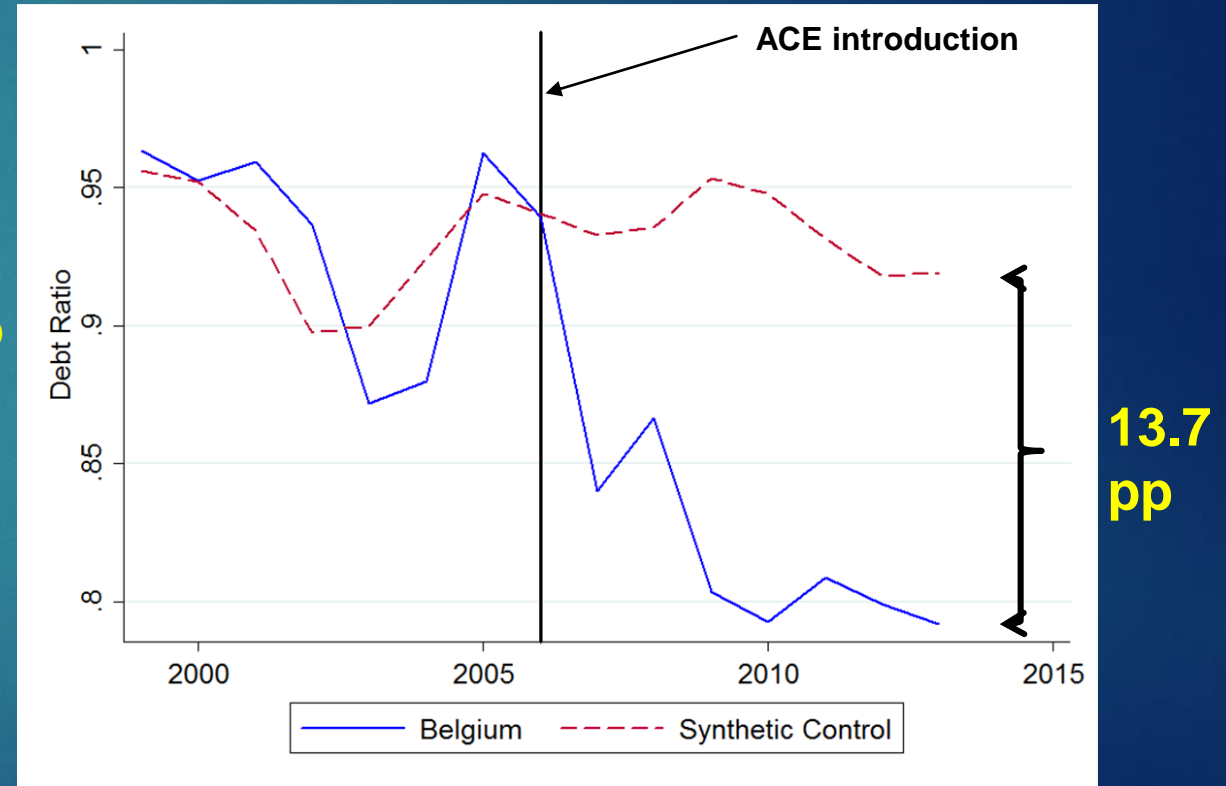
Example 1: Tax reforms can reduce debt bias

Introduction of an Allowance for Corporate Equity System in Belgium

Non-financial corporations



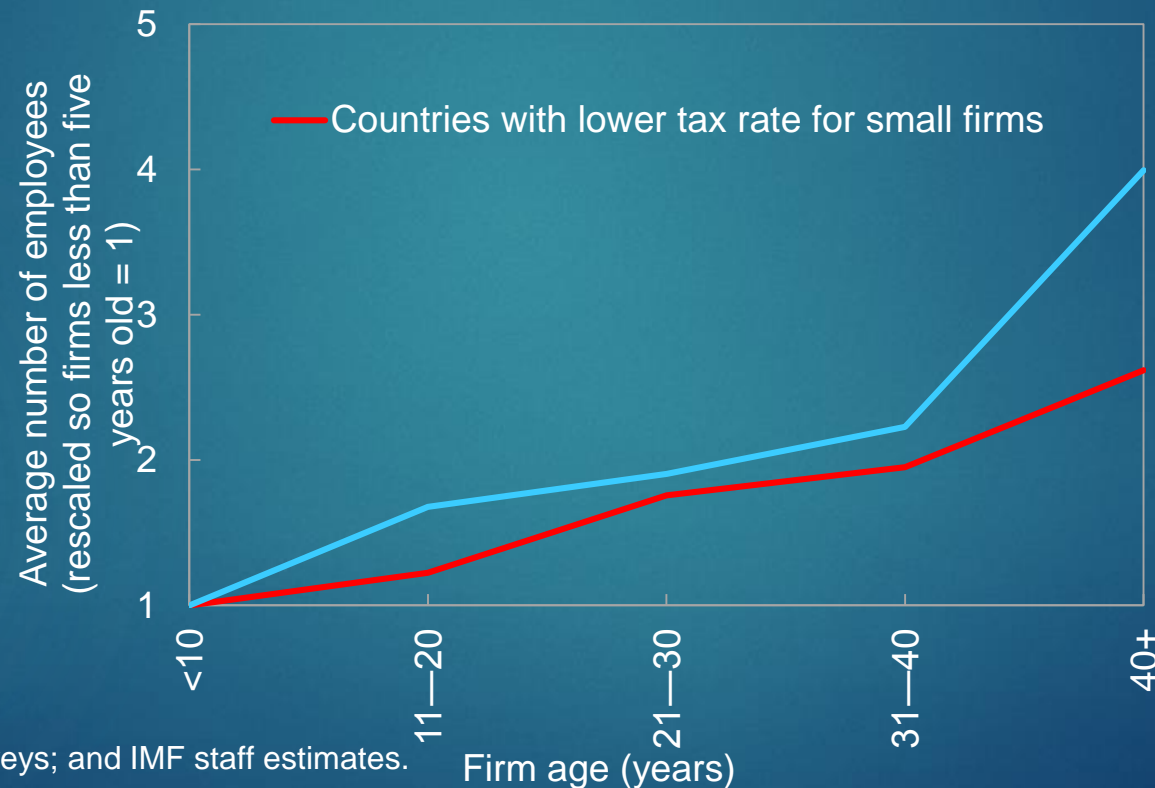
Banks



Source: IMF, 2016, "Tax Policy, Leverage and Macroeconomic Stability," IMF Policy Paper.

Example 2: Lower taxes for small firms creates a small business trap

Developing Countries: Employment by Firm Age



Sources: KPMG; World Bank, Enterprise Surveys; and IMF staff estimates.

Note: Lines represent the median for each group.

*Fiscal structural reforms:
Policies to address international
spillovers*

Is current international tax architecture adequate? How to address inadequacies?



Current international tax architecture



- Inadequate compromise on taxing rights
- Vulnerable to tax avoidance and evasion
- Distortive; propagates economic inefficiencies
- Highly susceptible to tax competition

Initiatives to address shortfalls

- ▶ G20/OECD BEPS project
 - ▶ Inclusive Framework: 100 countries committed to implement 4 minimum standards
 - ▶ Brunei Darussalam, Indonesia, Malaysia, Singapore Thailand, Vietnam
- ▶ Automatic Exchange of Information (AEOI)
- ▶ Toolkits for LICs developed under the Platform for Collaboration on Tax
- ▶ Regional cooperation and coordination

Thank you!