



Recent Trends in Public Finances

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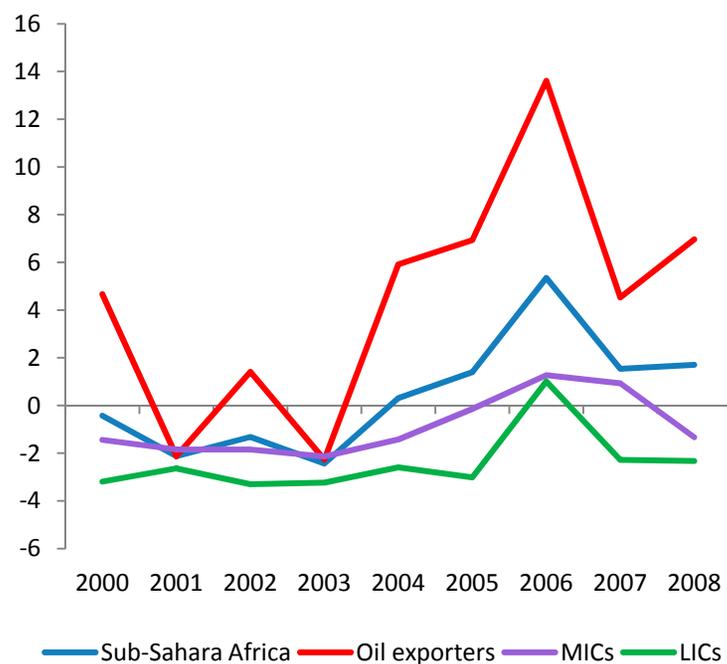
Deputy Director
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African Fiscal Forum
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Cape Town



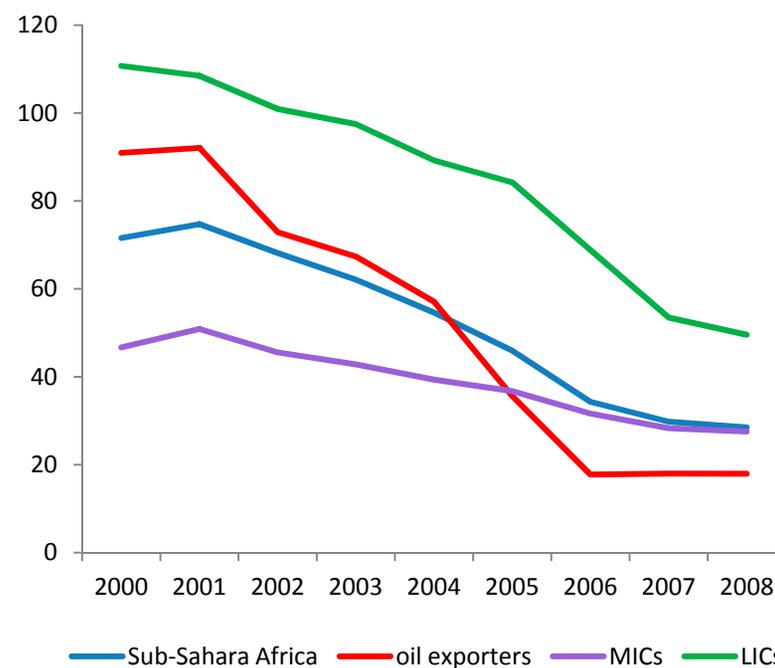
Fiscal buffers improved during the last decade

Fiscal balances strengthened in most countries, including oil producers and MICS...



Overall deficit (% of GDP, wgt'd ave.)

...while debt declined helped by strong policies, growth and debt relief



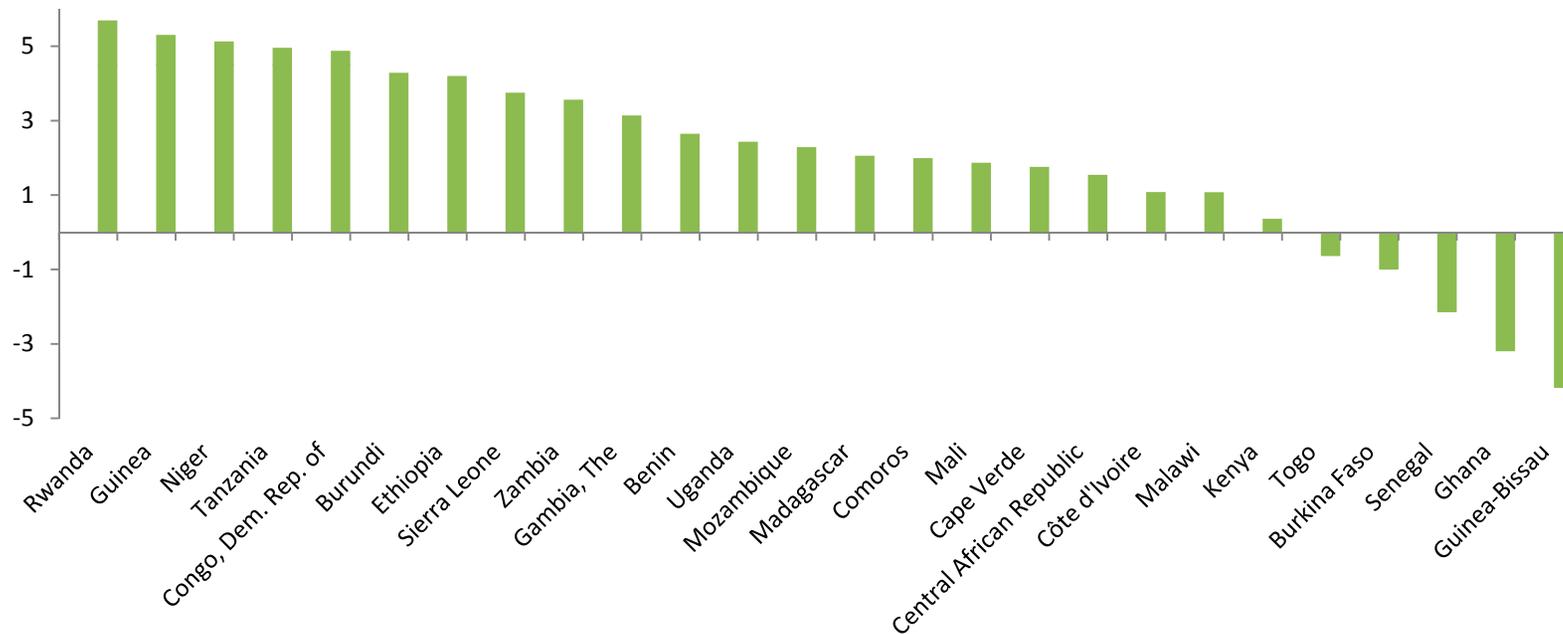
Gross debt (% of GDP, wgt'd ave.)





Within LICs, many countries strengthened their fiscal buffers and generated fiscal space

Fiscal space (% of GDP, 2008)

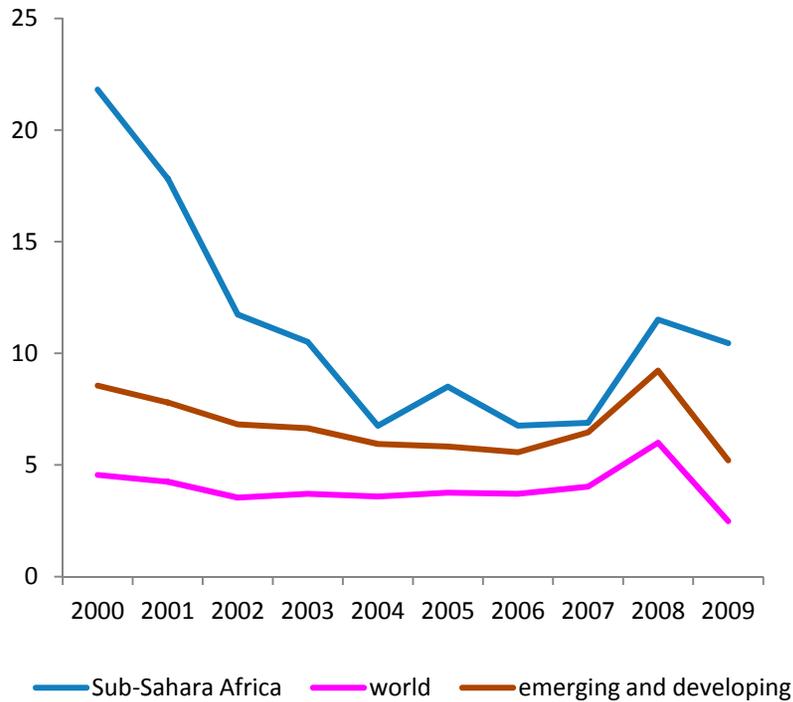


- **Fiscal space** compares the current primary balance in LICs against the primary balance that stabilizes debt at 40 percent of GDP in the long term.



But Africa was then hit by an external price shock...

High food and fuel prices pushed up inflation in 2007/2008...



CPI (% y-o-y, wgted ave.)

Countries responded by fiscal measures to alleviate the social impact

Sub-Saharan Africa: Fiscal Cost of Policy Responses to Higher Fuel and Food Prices

	2007/08 episode	
	Number of countries	Median fiscal cost (% GDP)
Fuel		
Tax decreases	7	0.3
Subsidy increases	6	0.1
Food		
Tax decreases	11	0.4
Subsidy increases	4	0.3
Other responses	6	0.1
Total fiscal cost	20	0.6

Source: Staff estimates based on data provided by country teams and authorities

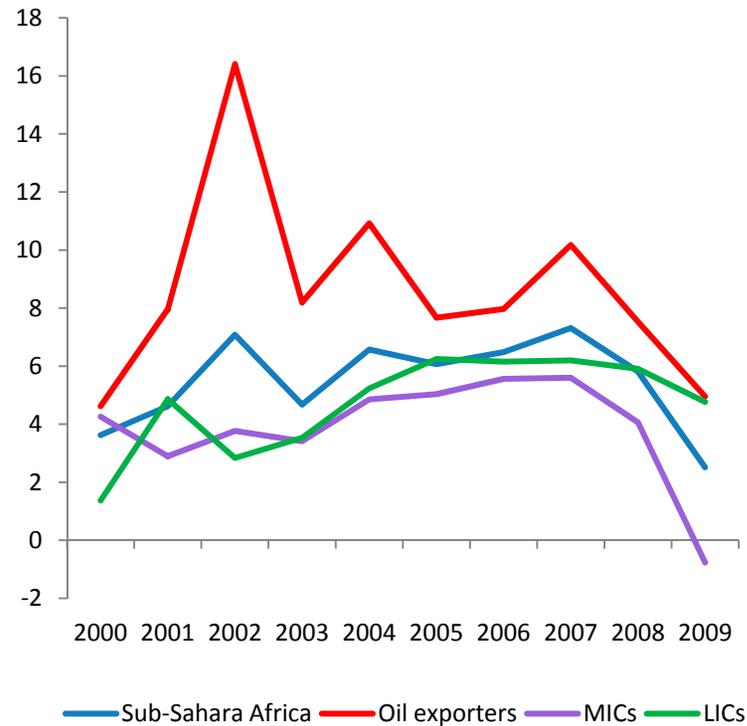
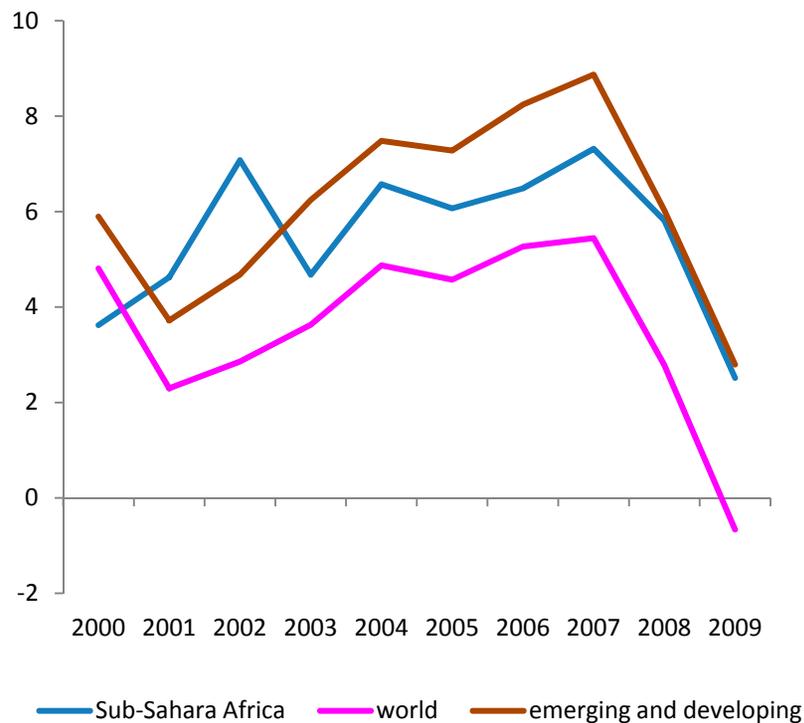


...followed by an external growth shock

Spillovers from the great recession led to a global growth decline in 2009...

...which also impacted sub-Saharan Africa across all country groups

Real GDP growth (% , y-o-y, weighted average)

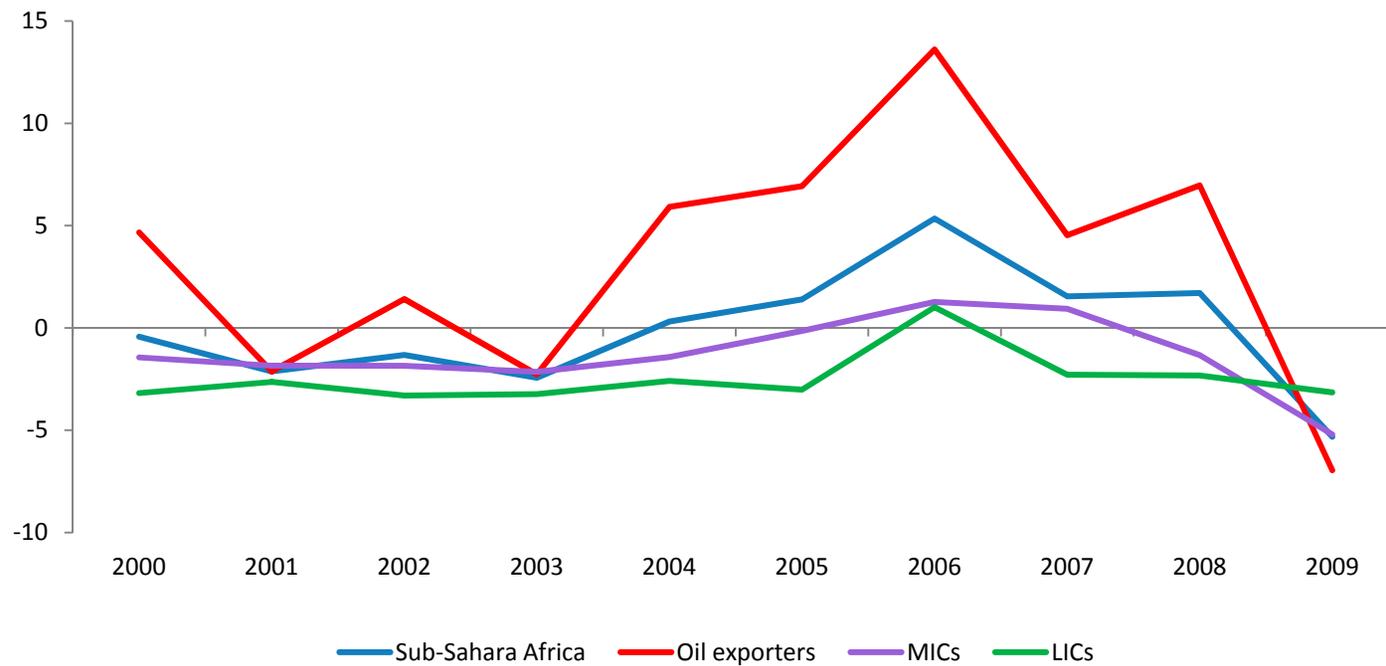


The fiscal response in 2009 differed from the past



More countries were able to pursue a counter cyclical fiscal policy

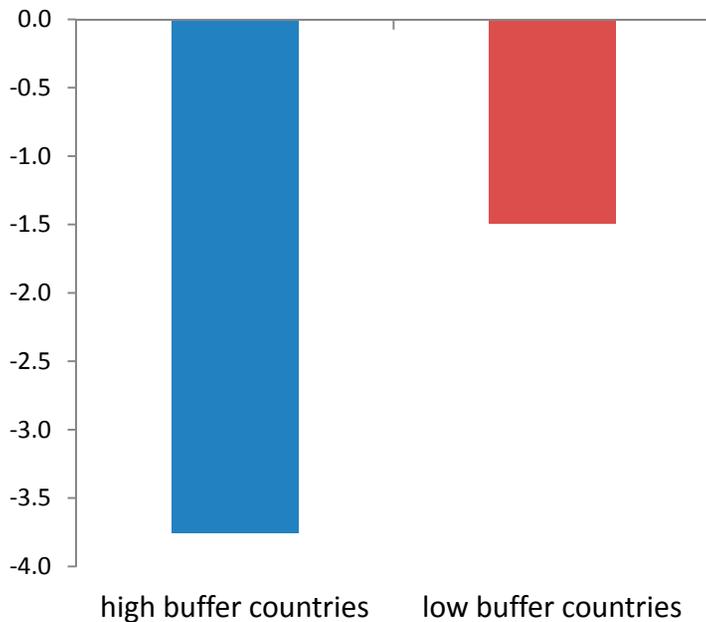
Overall deficit (% of GDP, weighted average)



The fiscal policy response was strongest in countries with larger pre-crisis fiscal buffers

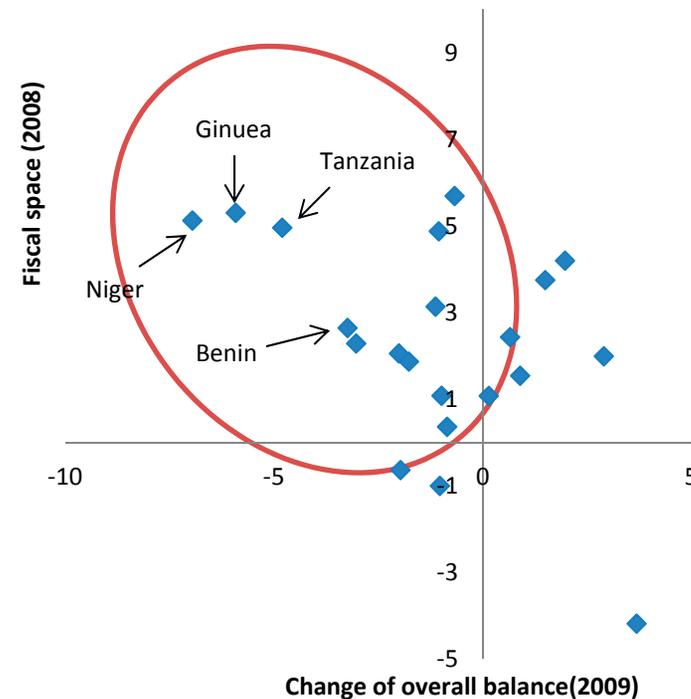


LICs with larger pre-crisis fiscal buffers could absorb a larger widening in the deficit



Annual change in the fiscal space (% of GDP, 2009, median)

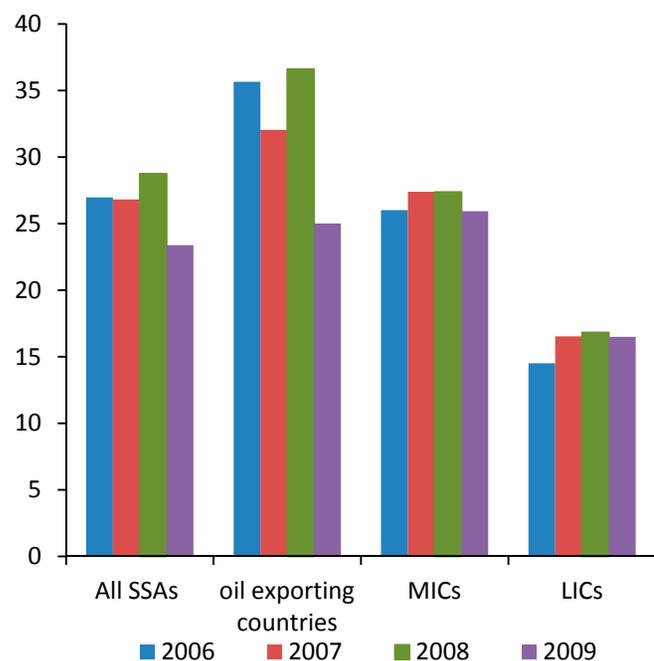
But great variation amongst countries





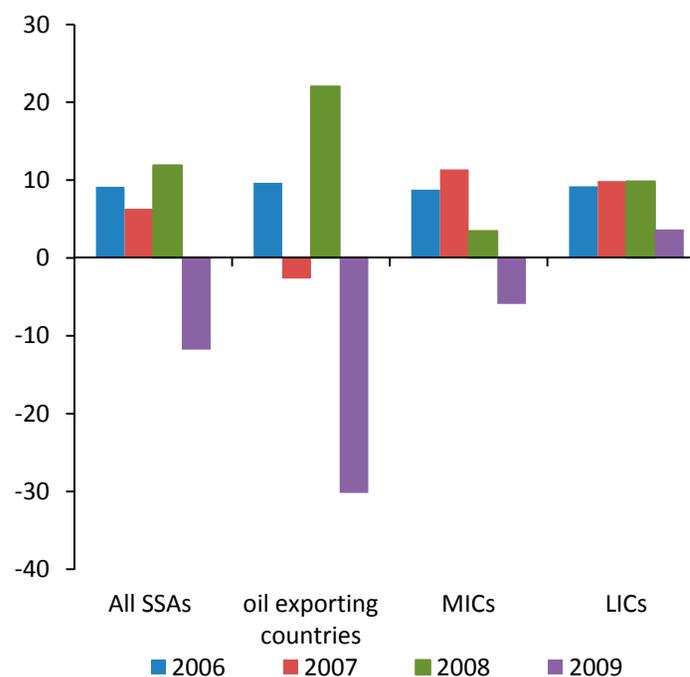
Revenue declined from lower oil prices and the growth shock

The revenue decline was most pronounced for oil exporters



Total revenue, excl. grant (% of GDP, wgted ave.)

But in all countries real revenue fell



Real growth rate of total revenue (% wgted ave.)

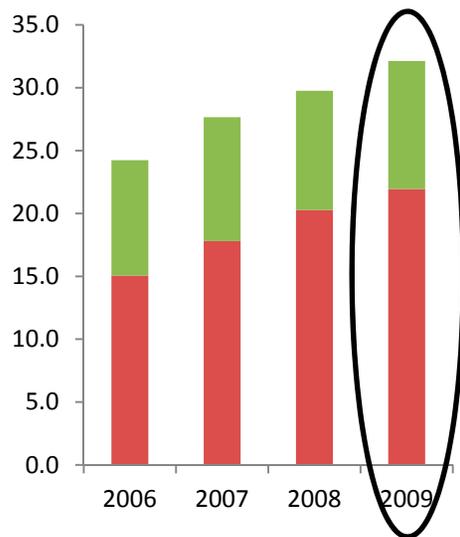
The fiscal buffers enabled countries to protect expenditure or even provide further stimulus



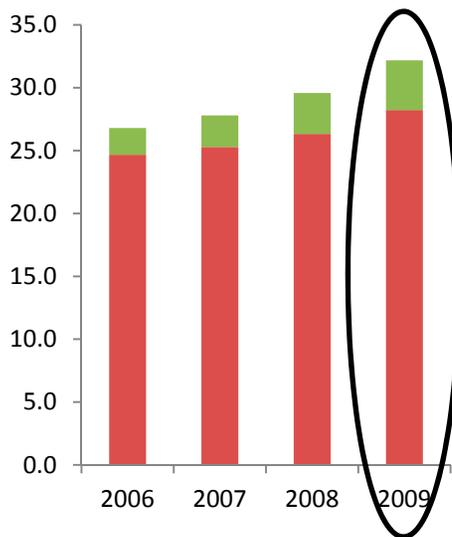
Oil-exporters and MICs increased spending most

While LICs had more stable expenditure levels

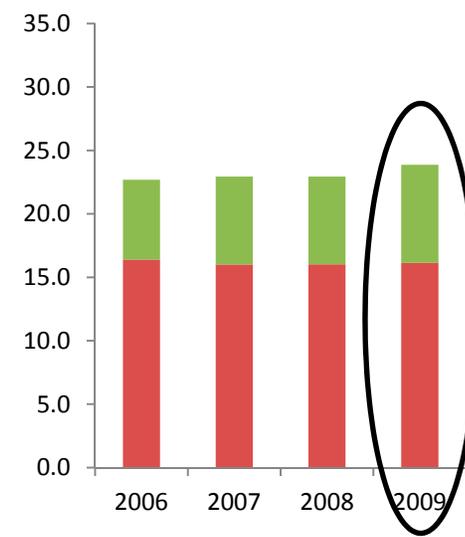
Expenditure composition (% of GDP, weighted average)



Oil exporters



MICs



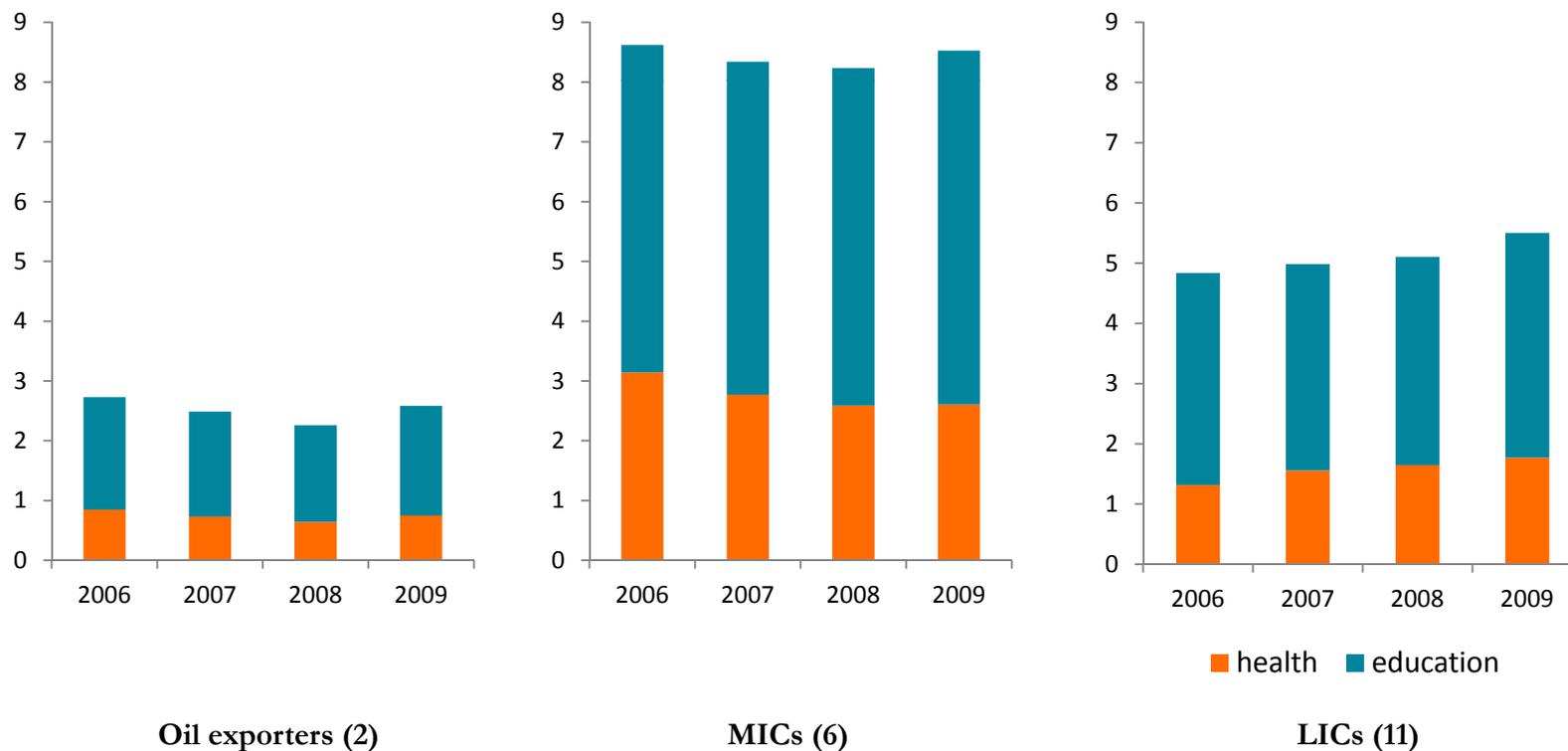
LICs

■ current ■ capital

An effort was made to protect or even increase health and education spending, although this remains low in LICs and oil exporters



Health and education expenditure (% of GDP)



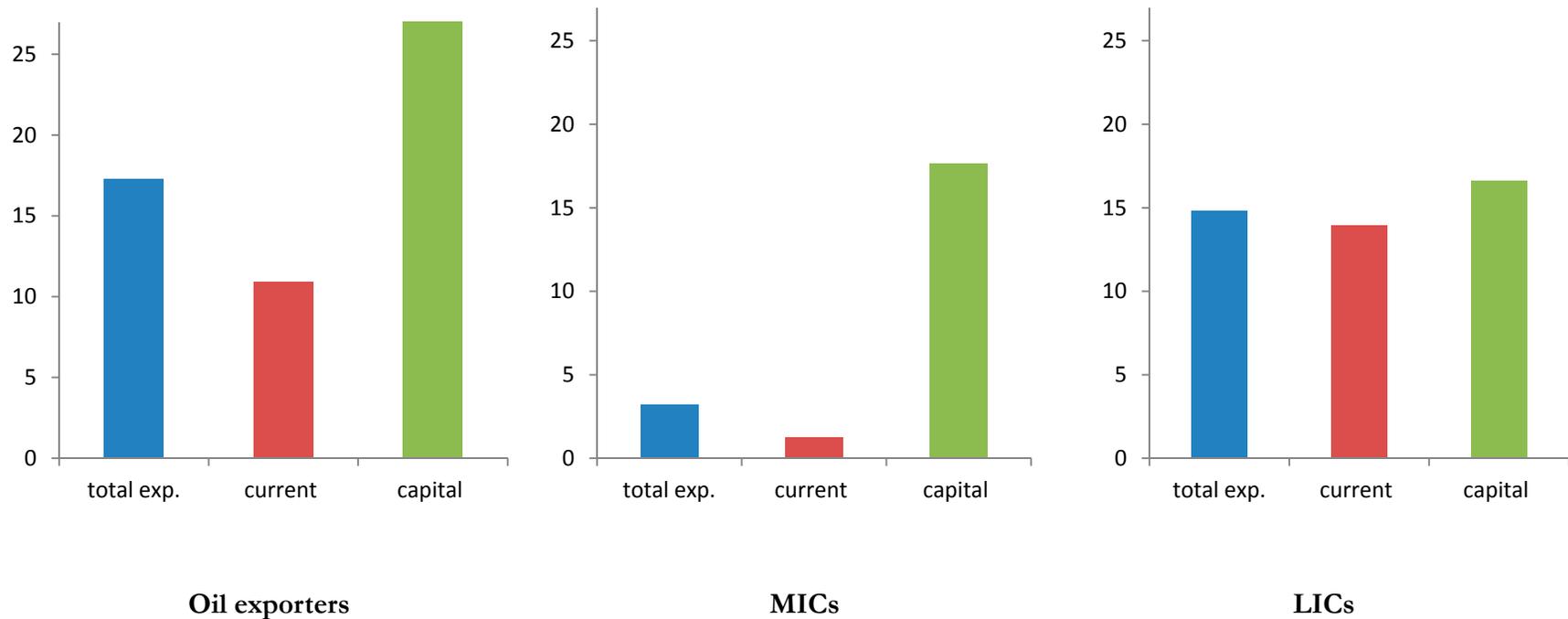


Real expenditure increased in 2009

All SSA countries scaled up capital expenditure in 2009...

...with higher growth for oil producers

Real growth rate of expenditure (% , 2009, weighted average)



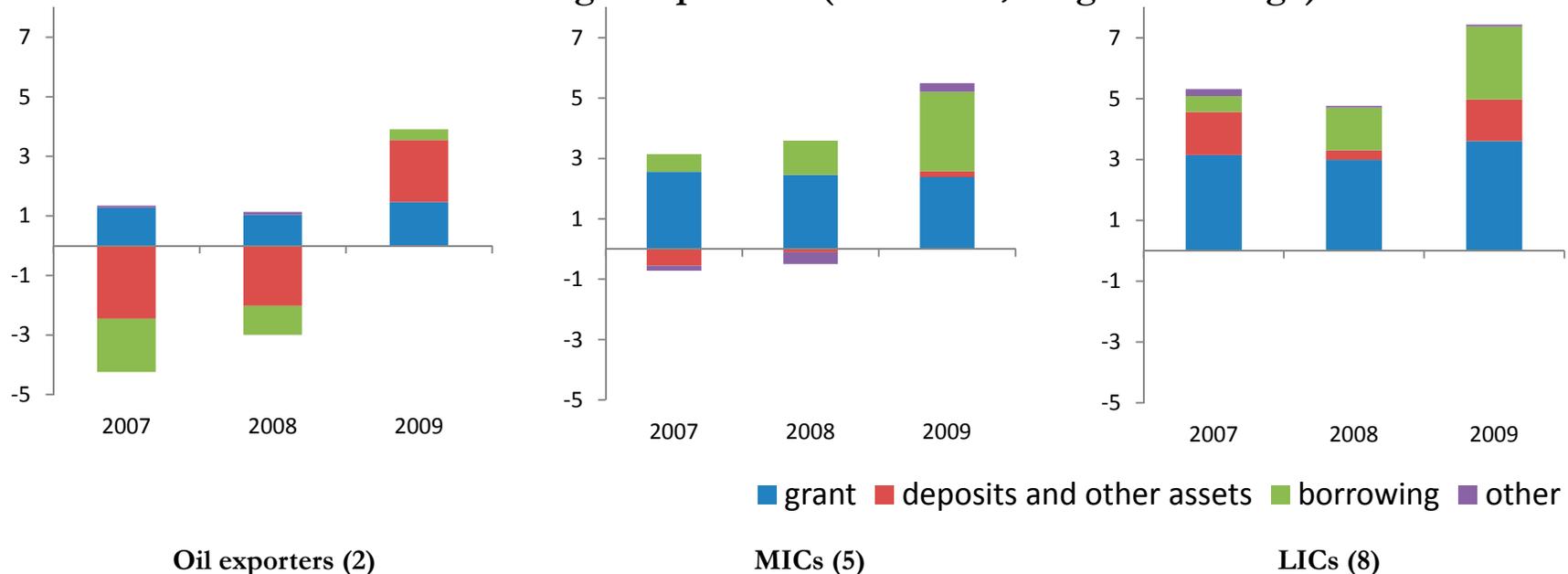
The wider deficits in 2009 were financed mainly by borrowing



LICs and MICs relied more on borrowing largely from domestic sources

...whereas oil exporters and also LICs drew down deposits and other assets

Deficit financing composition (% of GDP, weighted average)

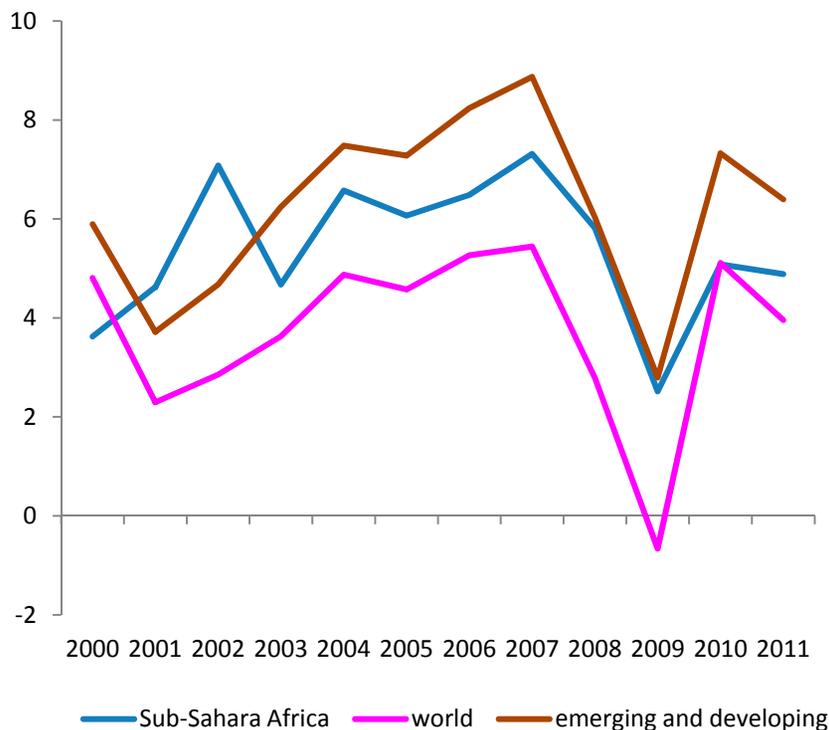


Note : (1) Deposits and other assets = change in government net financial assets
 (2) Borrowing = change in government net liabilities

The economy rebounded in 2010

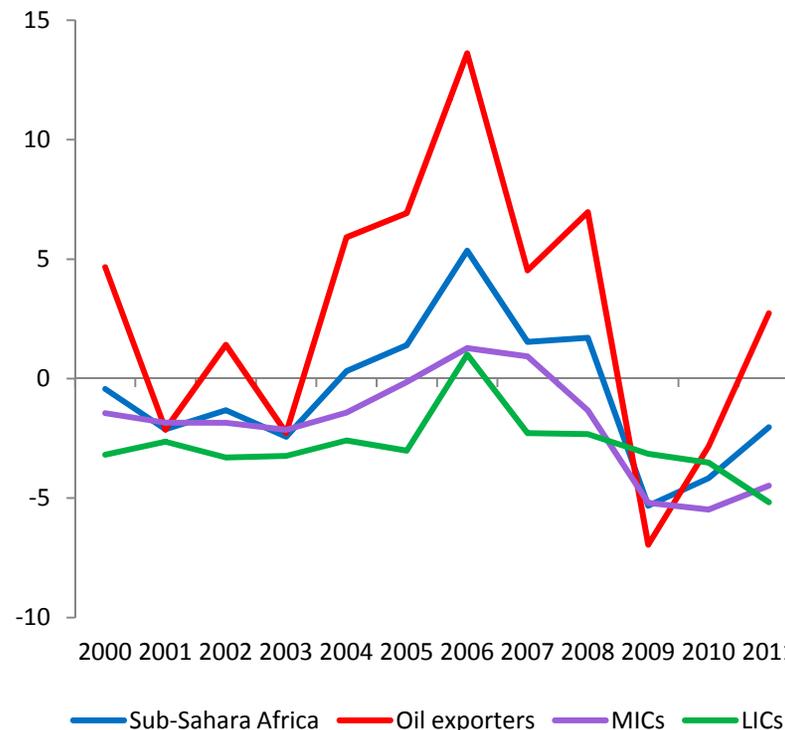


Growth recovered quickly in Africa



Real GDP growth (% , y-o-y, wgted ave.)

...but the rebuilding of fiscal buffers lagged especially in LICs

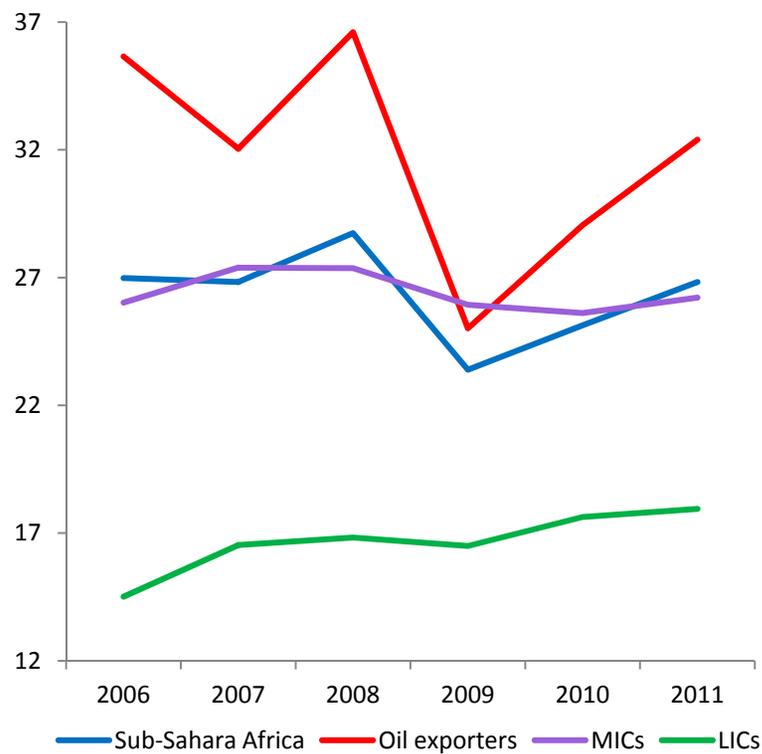


Overall deficit (% of GDP, wgted ave.)



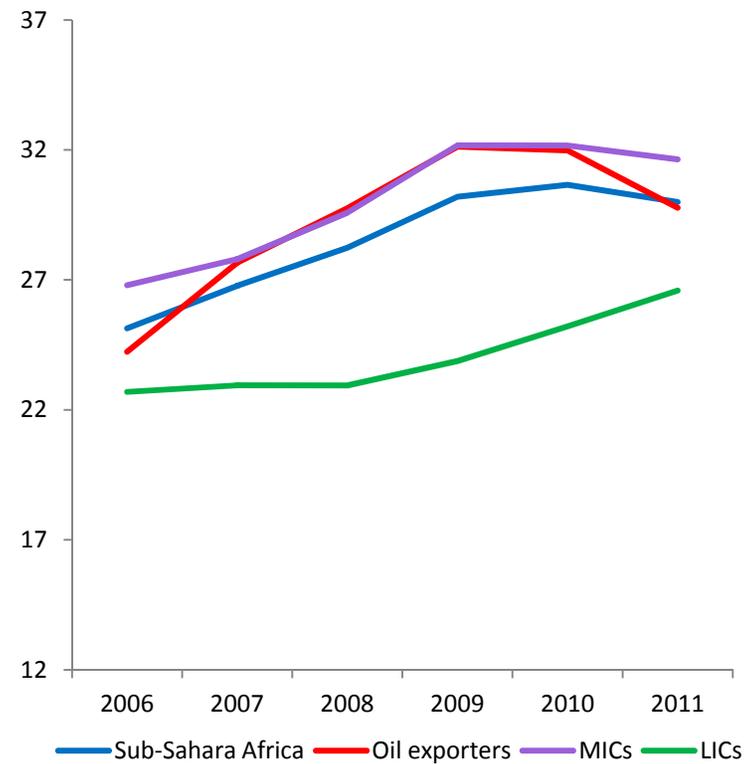
Revenue is improving but expenditure remains high

Tax revenues have improved since the crisis...



Total revenue, excluding grants (% of GDP, wgted ave.)

...and expenditures continued to increase in LICs

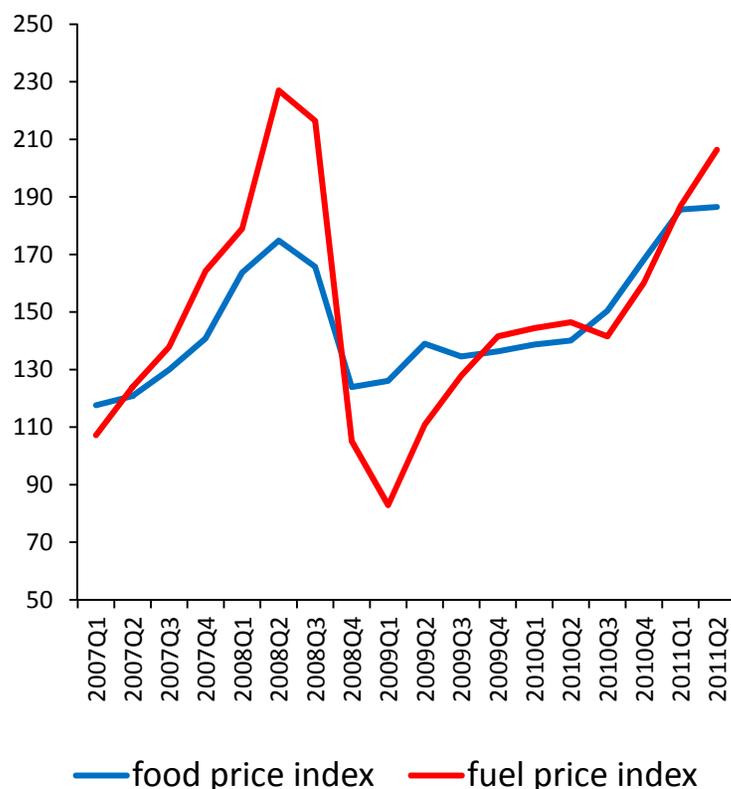


Total expenditure (% of GDP, wgted ave.)



High expenditure in 2011 partly was in response to food and fuel price increases

International food and fuel prices reached another peak in 2011



Many countries took measures again to soften the impact, particularly to mitigate the fuel price increases

Sub-Saharan Africa: Fiscal Cost of Policy Responses to Higher Fuel and Food Prices

	2007/08 episode		2010/11 episode	
	Number of countries	Median fiscal cost (% GDP)	Number of countries	Median fiscal cost (% GDP)
Fuel				
Tax decreases	7	0.3	11	0.4
Subsidy increases	6	0.1	11	2.1
Food				
Tax decreases	11	0.4	4	0.8
Subsidy increases	4	0.3	4	0.1
Other responses	6	0.1	8	0.8
Total fiscal cost	20	0.6	20	1.6

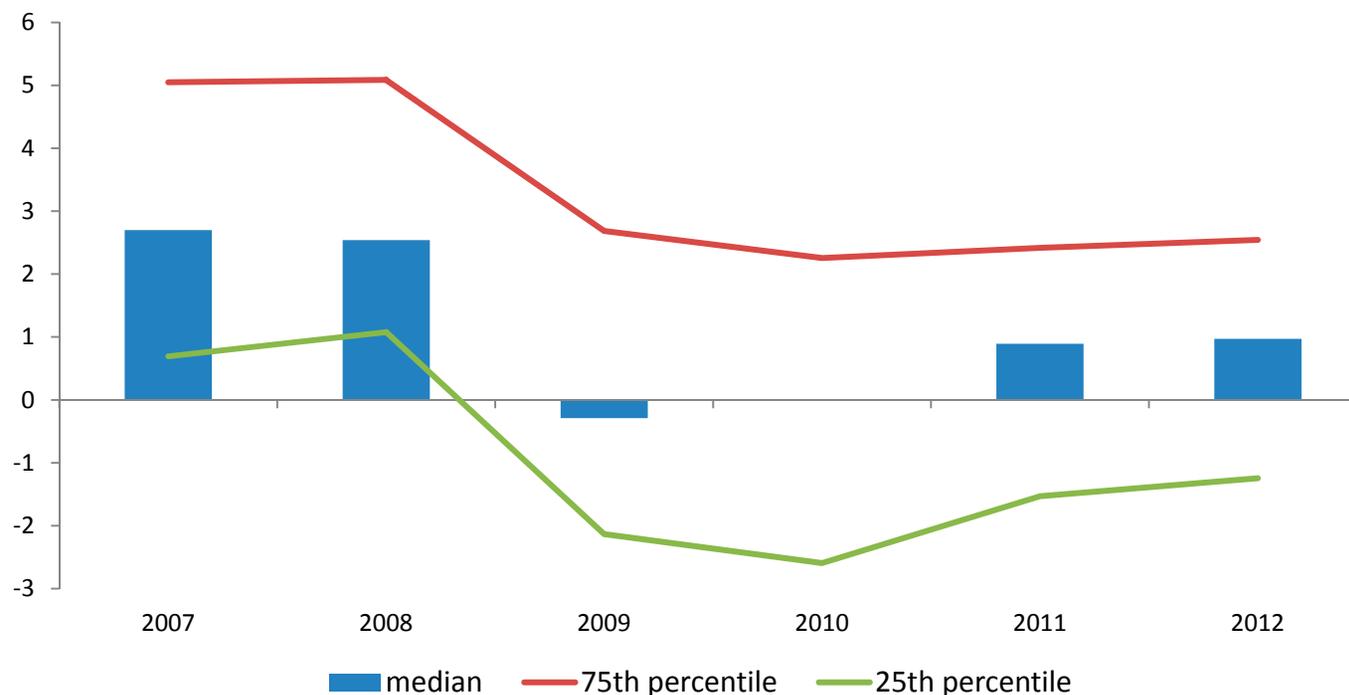
Note: The fiscal cost for the current run-up includes only 12 countries which provided quantitative information

Source: Staff estimates based on data provided by country teams and authorities



While rebuilding fiscal space is lagging in LICs, there is a wide variation across countries

Fiscal space of all LICs (% of GDP)





What should countries do to increase fiscal space

- Boost revenue mobilization
- Improve spending efficiency and public financial management
- At the same time, protect priority spending and develop targeted social safety nets



Thank you !

