

Fiscal Policy Challenges in a Recovering Global Economy

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NBRM Research Conference

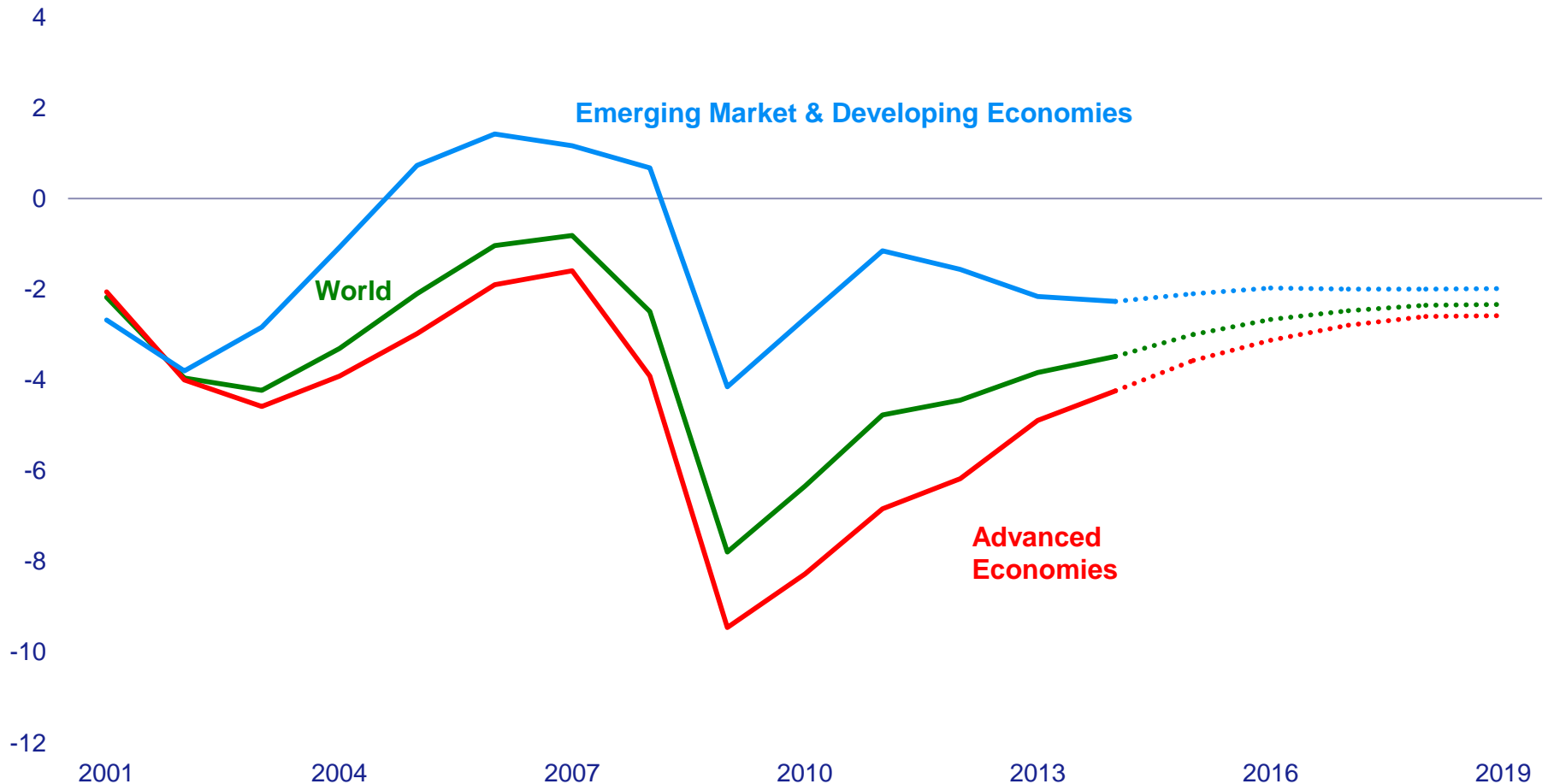
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Skopje, Macedonia



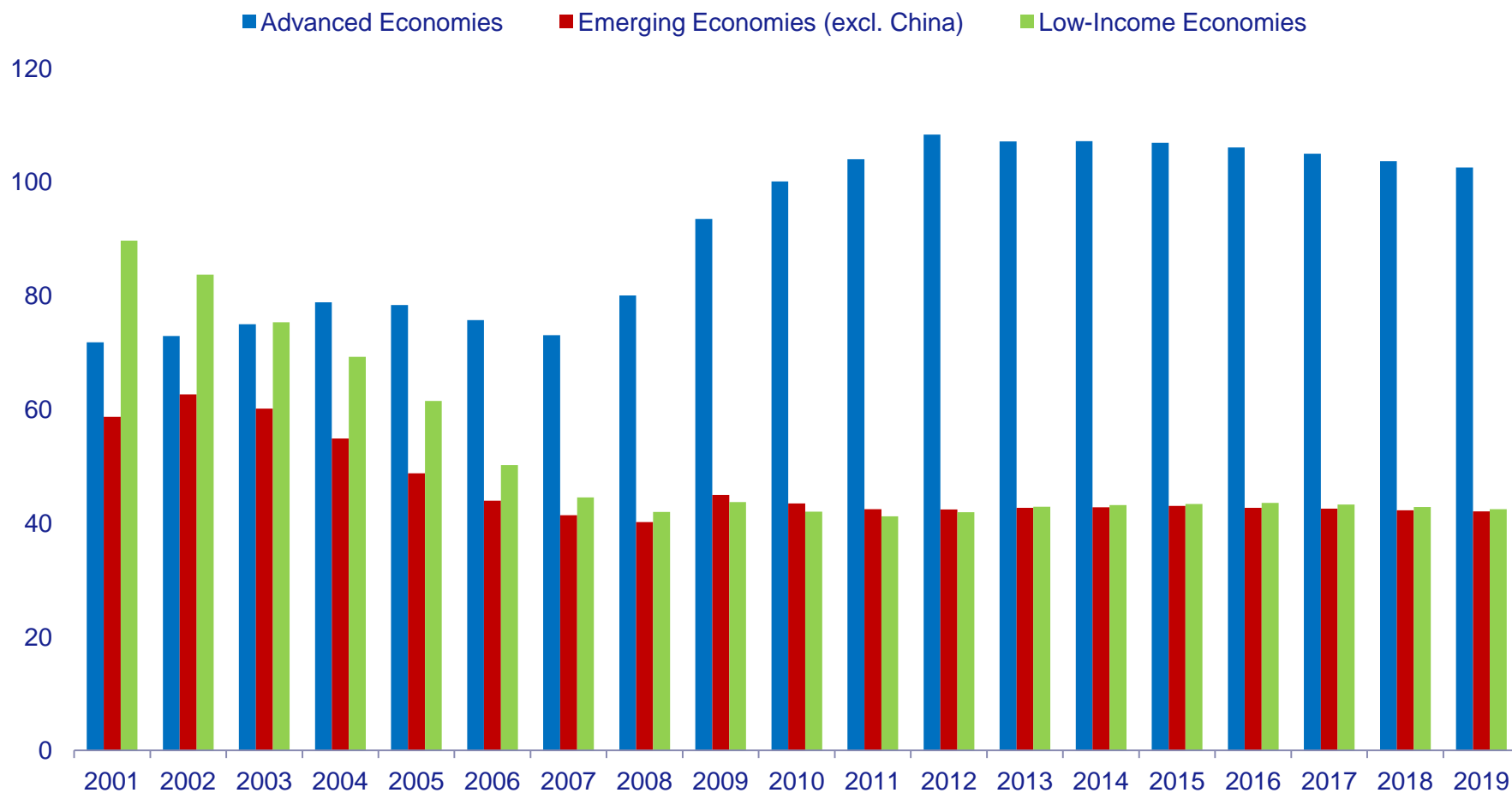
Fiscal risks are abating somewhat...

Overall Fiscal Balance
(percent of GDP)



But they remain elevated, particularly in advanced economies

General Government Debt
(percent of GDP)



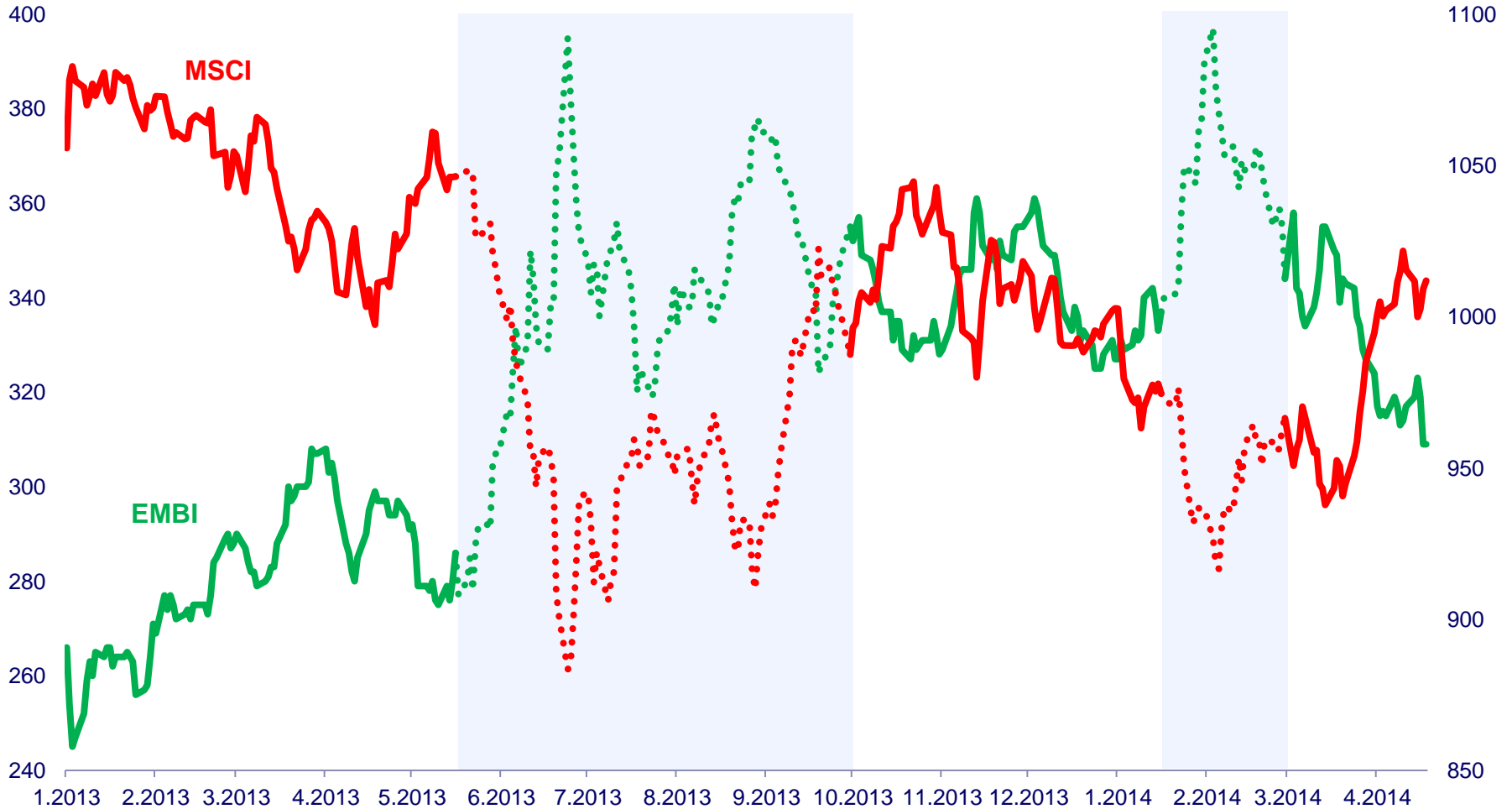
Four fiscal policy challenges

1. The normalization of monetary policy in the main advanced economies

“Tapering talk” and market turmoil

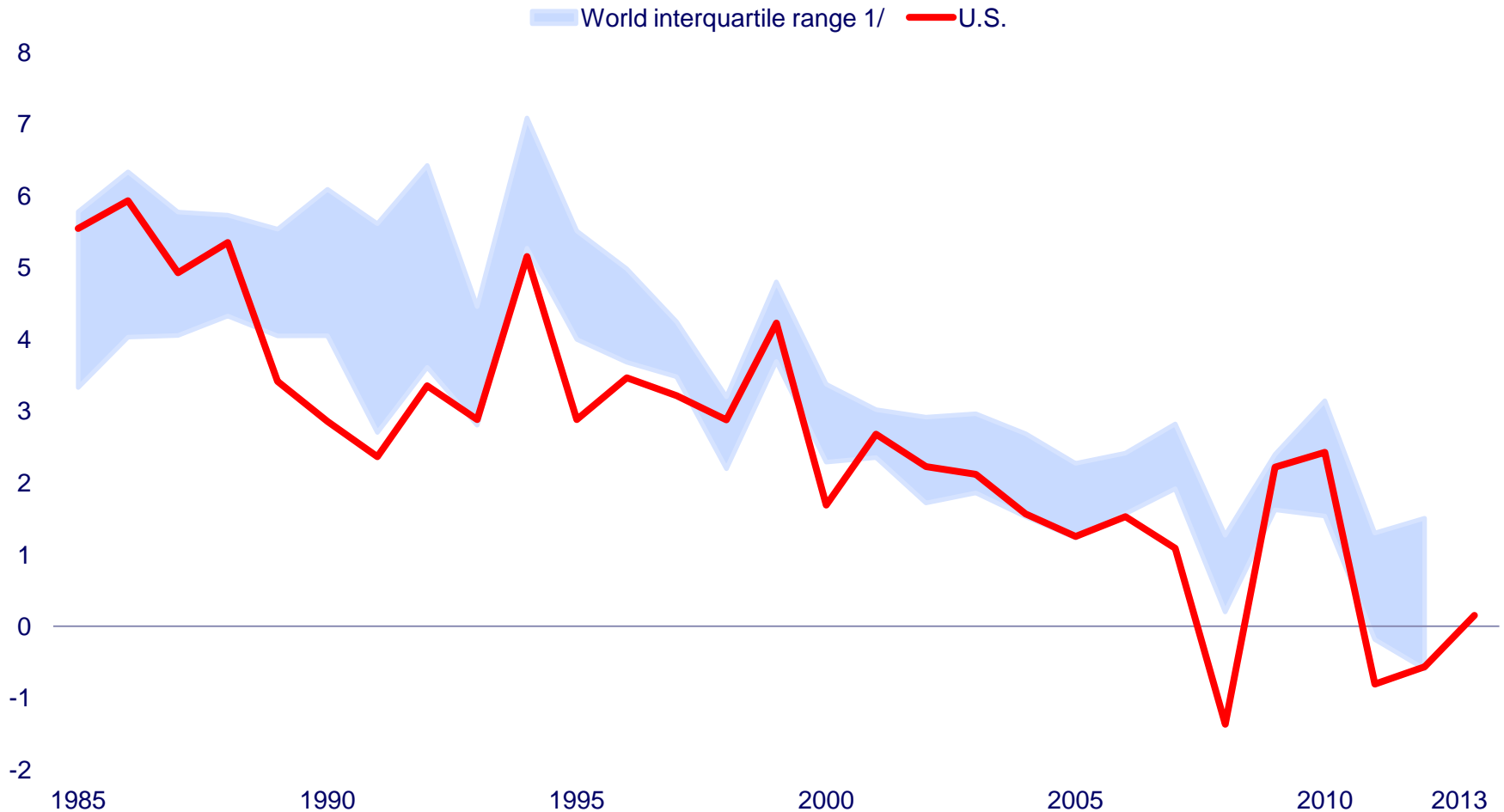
EMBI and MSCI since 2013

— EMBI Stripped Spread — MSCI EM



Real interest rates have been on a declining trend

10-year real bond yield; percent per annum

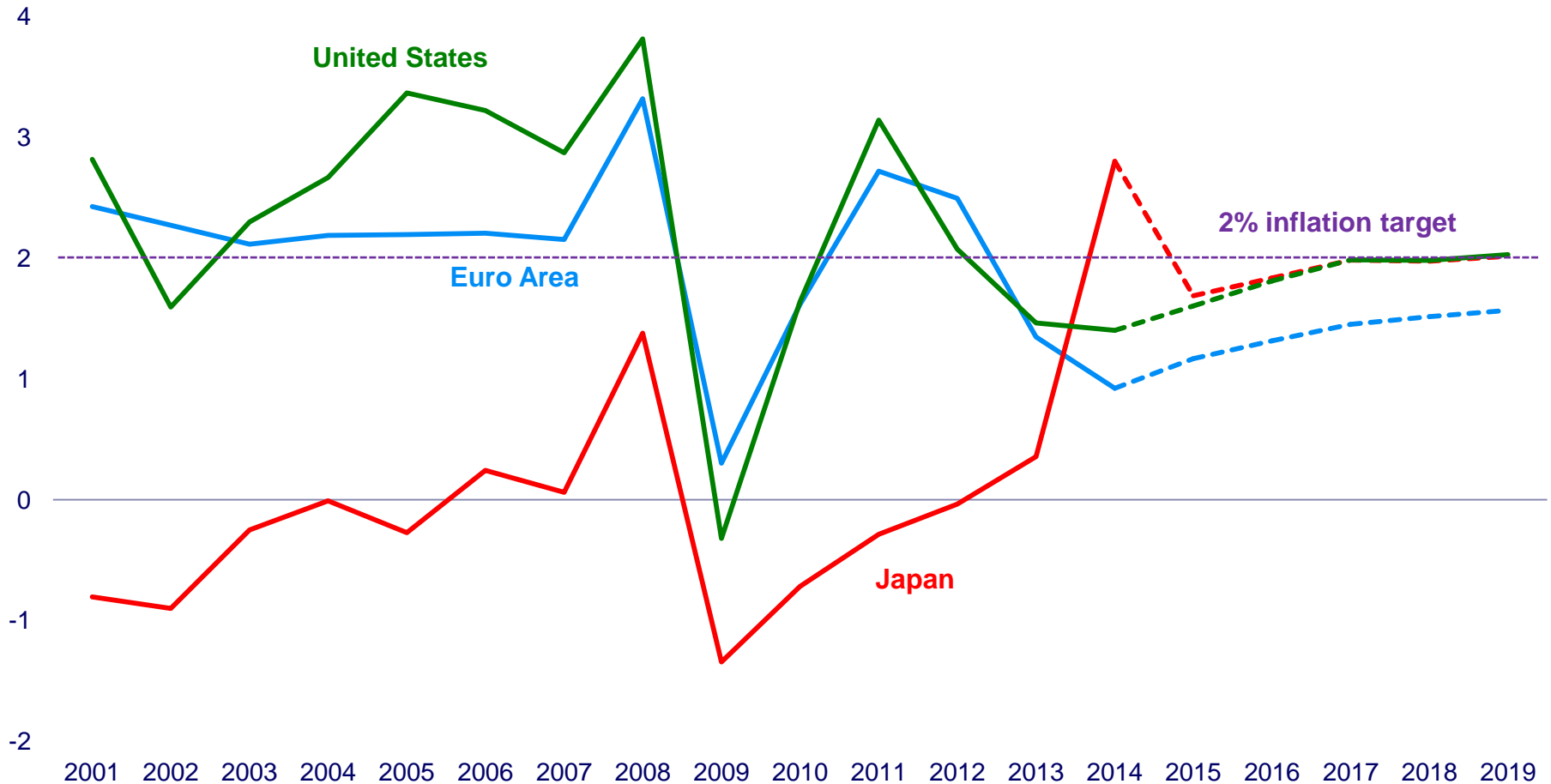


Four fiscal policy challenges

1. The normalization of monetary policy in the main advanced economies
2. Public finances in a very low inflation environment

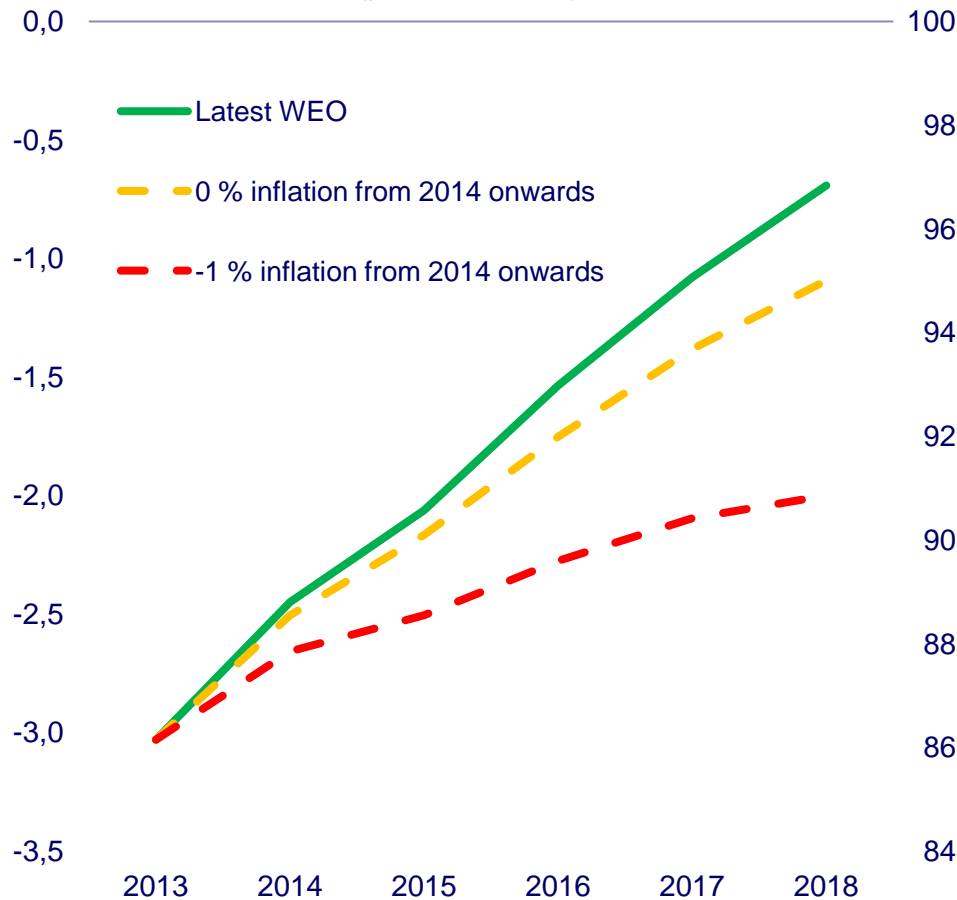
Low inflation seems to be here to stay

Inflation Rate in Euro Area, Japan and United States
(percent)

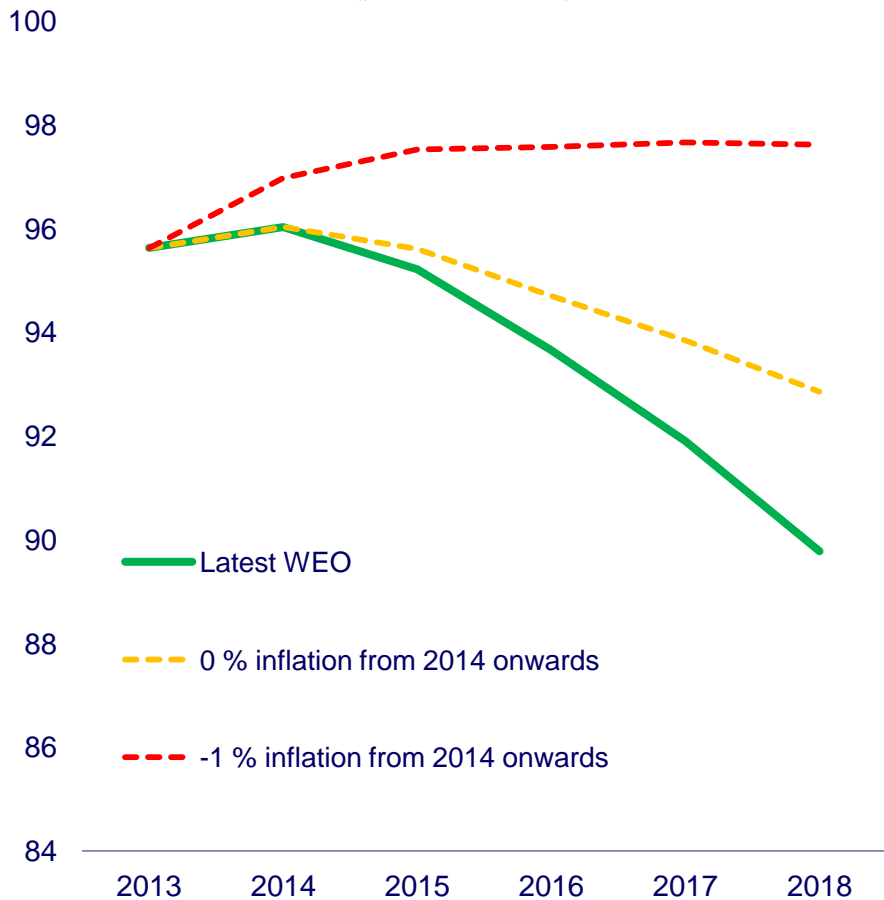


Low inflation and public finance dynamics

Overall Fiscal Balance in the Euro Zone (percent of GDP)



Public Debt in the Euro Zone (percent of GDP)

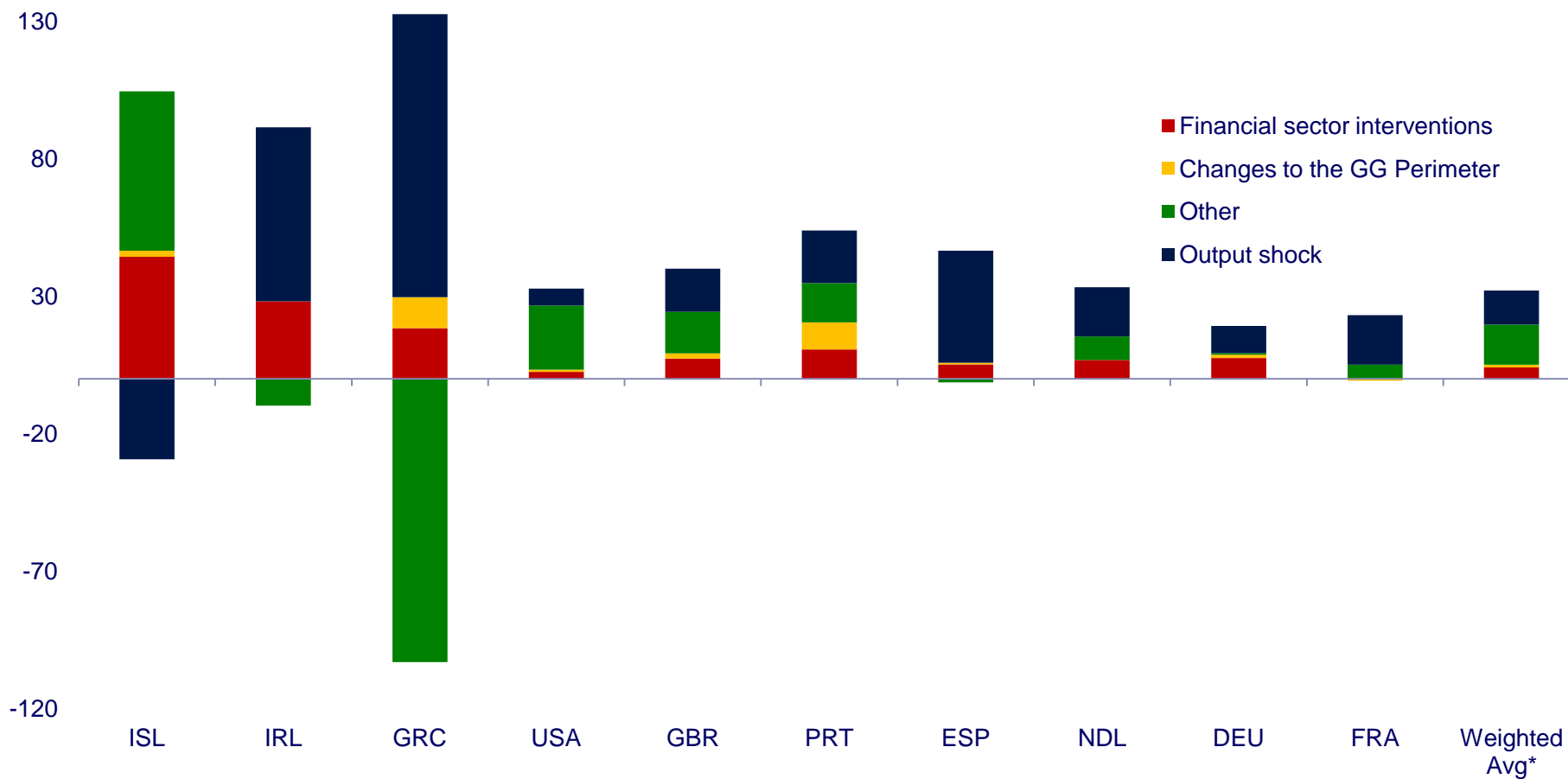


Four fiscal policy challenges

1. The normalization of monetary policy in the main advanced economies
2. Public finances in a very low inflation environment
3. **Public contingent liabilities**

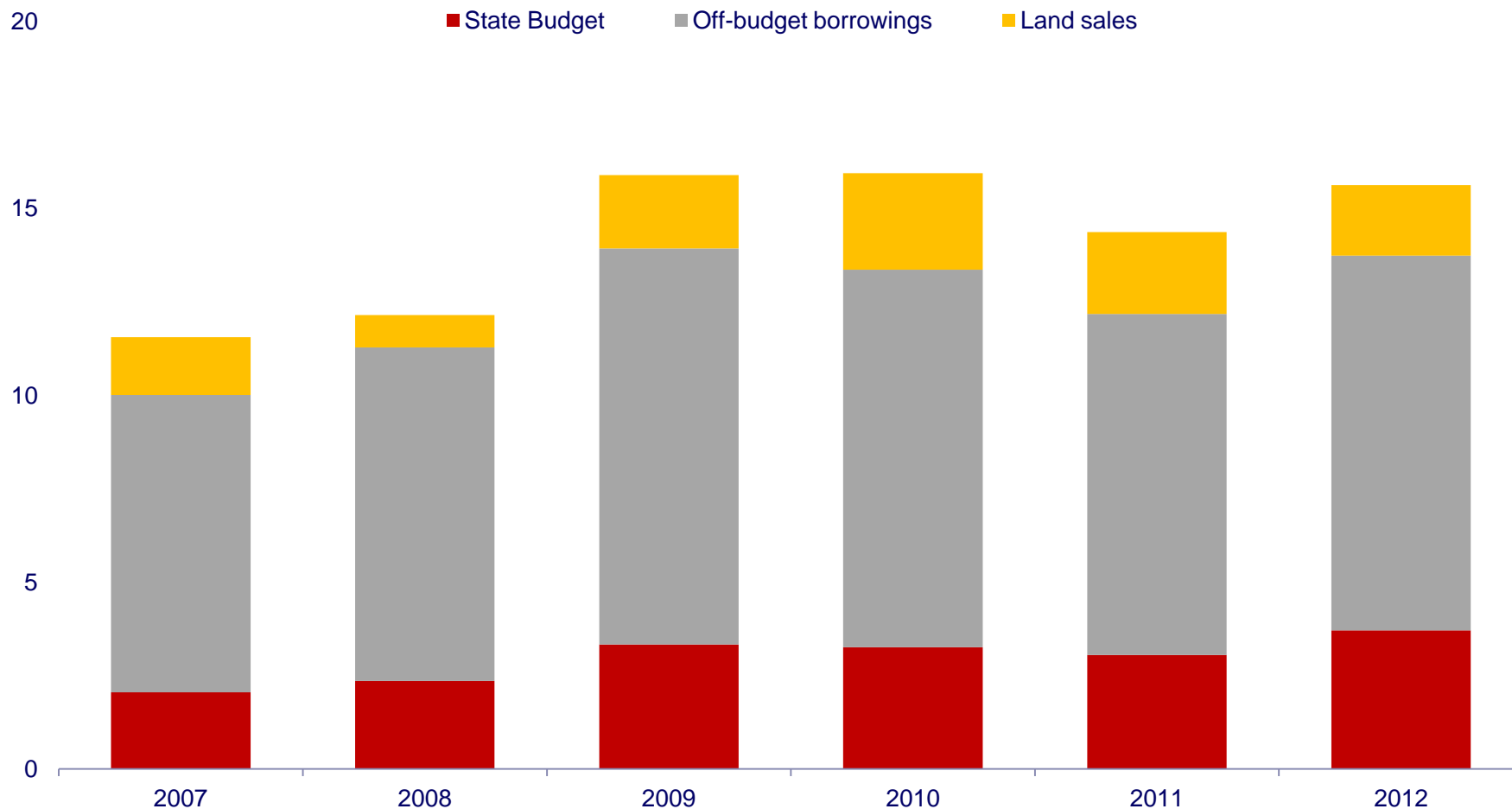
Contingent liabilities pushed debt ratios up in advanced economies

Sources of Unexpected Increases in Public Debt
2007-2012



And they seem to be on the rise in many emerging market economies

China: Financing Sources of Infrastructure Investment
(percent of GDP)



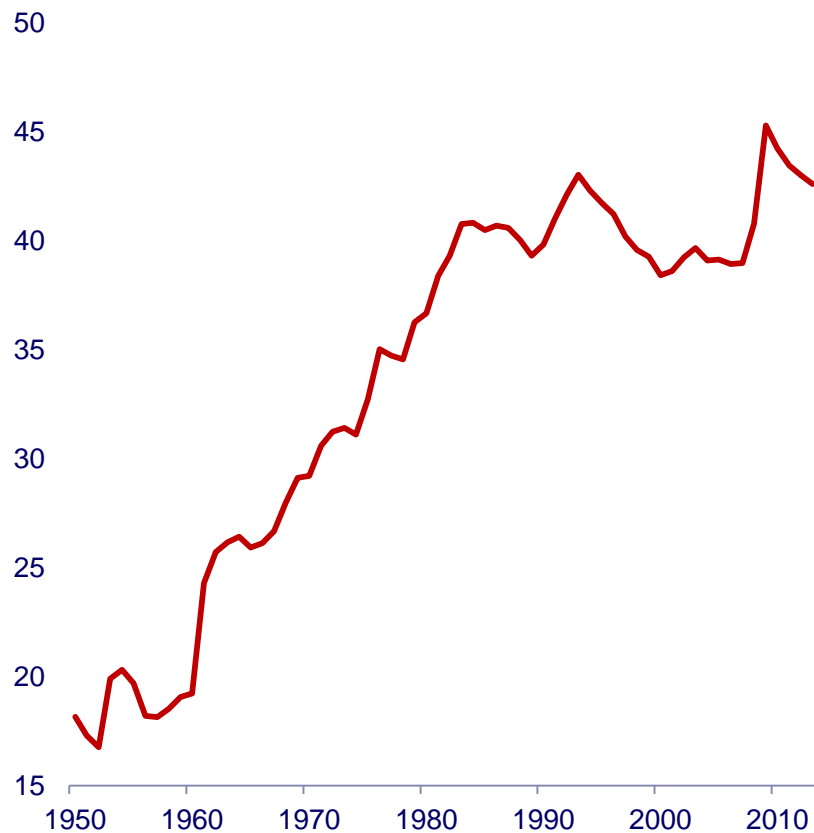
Four fiscal policy challenges

1. The normalization of monetary policy in the main advanced economies
2. Public finances in a very low inflation environment
3. Public contingent liabilities
4. **Containing medium-term spending pressures**

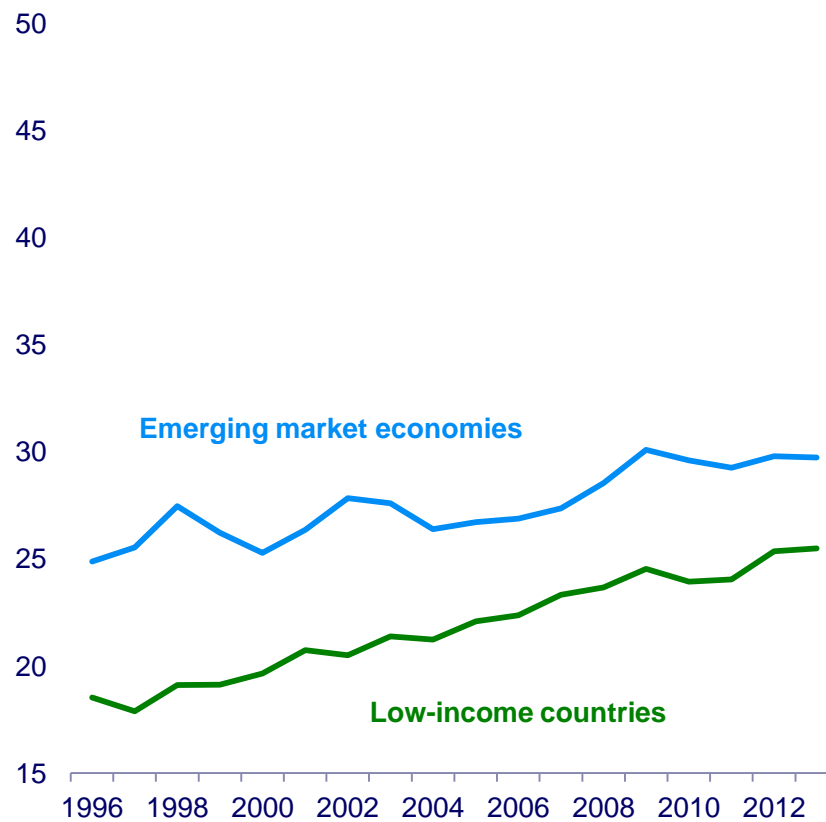
Government spending has been on an upward trend for decades

General Government Expenditure (Percent of GDP)

Select Advanced Economies, 1950–2013

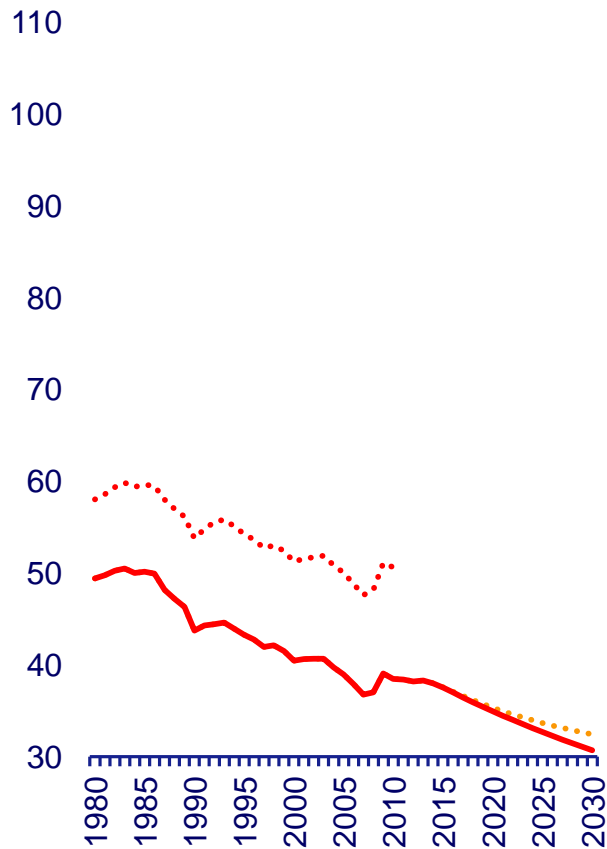


Emerging Market Economies and Low-Income Countries, 1996–2013

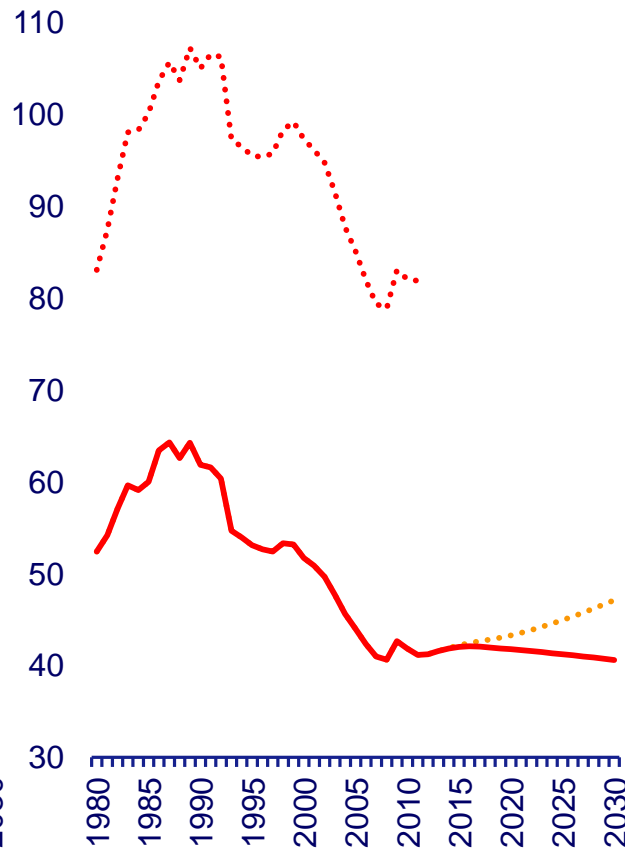


... while public capital stocks have been declining

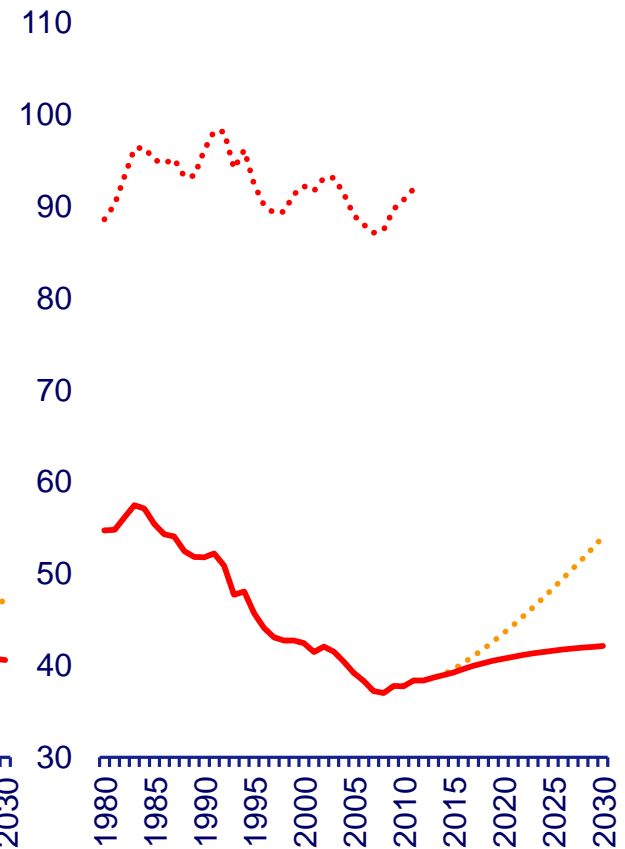
Advanced Economies



Emerging Market Economies



Low-Income Countries



..... Scenario (all inefficiencies eliminated by 2030) — Efficiency-adjusted Baseline Unadjusted Including PPPs

Three guiding principles

- **Fiscal consolidation deserves a higher priority**
- **There is scope for efficiency gains both on the tax and spending sides of the budget**
- **More comprehensive monitoring of fiscal positions will reduce fiscal risks and bolster fiscal credibility**

World Economic and Financial Surveys

Fiscal Monitor

Public Expenditure Reform
Making Difficult Choices
.....

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INTERNATIONAL MONETARY FUND

Thank you!

<http://www.imf.org/external/pubs/ft/fm/2014/01/fmindex.htm>