Fiscal Policy Challenges in a Recovering Global Economy

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Fiscal risks are abating somewhat…

Overall Fiscal Balance
(percent of GDP)

Emerging Market & Developing Economies

Advanced Economies

World

But they remain elevated, particularly in advanced economies

General Government Debt
(percent of GDP)

Advanced Economies  Emerging Economies (excl. China)  Low-Income Economies
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


EMBI
MSCI

2013 Yearly EMBI MSCI Indices
Real interest rates have been on a declining trend

10-year real bond yield; percent per annum

World interquartile range 1/ U.S.
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

United States

Euro Area

Japan

2% inflation target
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)

Latest WEO

0 % inflation from 2014 onwards

-1 % inflation from 2014 onwards

2013 2014 2015 2016 2017 2018
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)

- State Budget
- Off-budget borrowings
- Land sales

2007 2008 2009 2010 2011 2012
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
Low-income countries
... while public capital stocks have been declining
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
Thank you!