

Fiscal Affairs Department

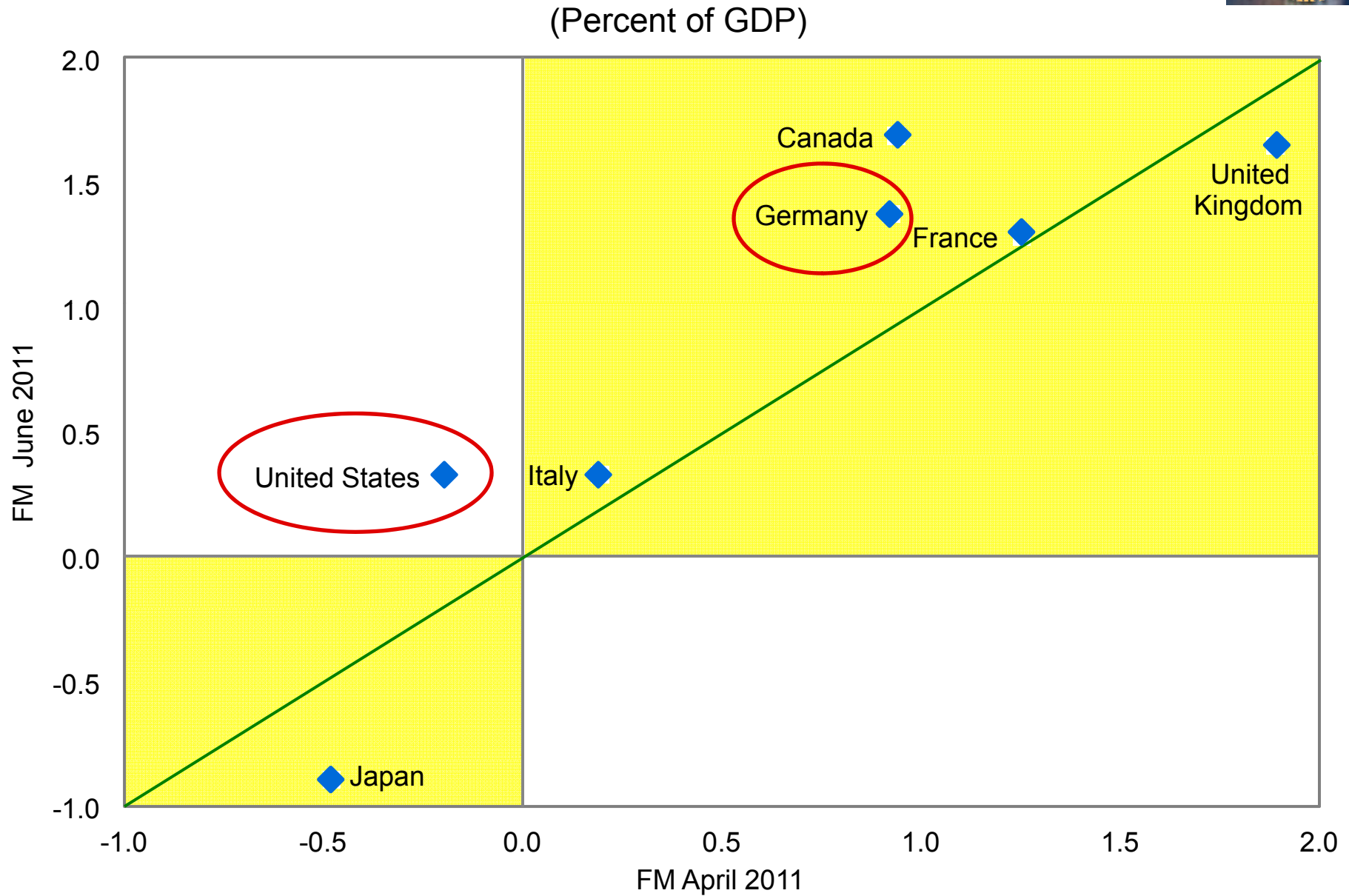
June 2011 Fiscal Monitor Update



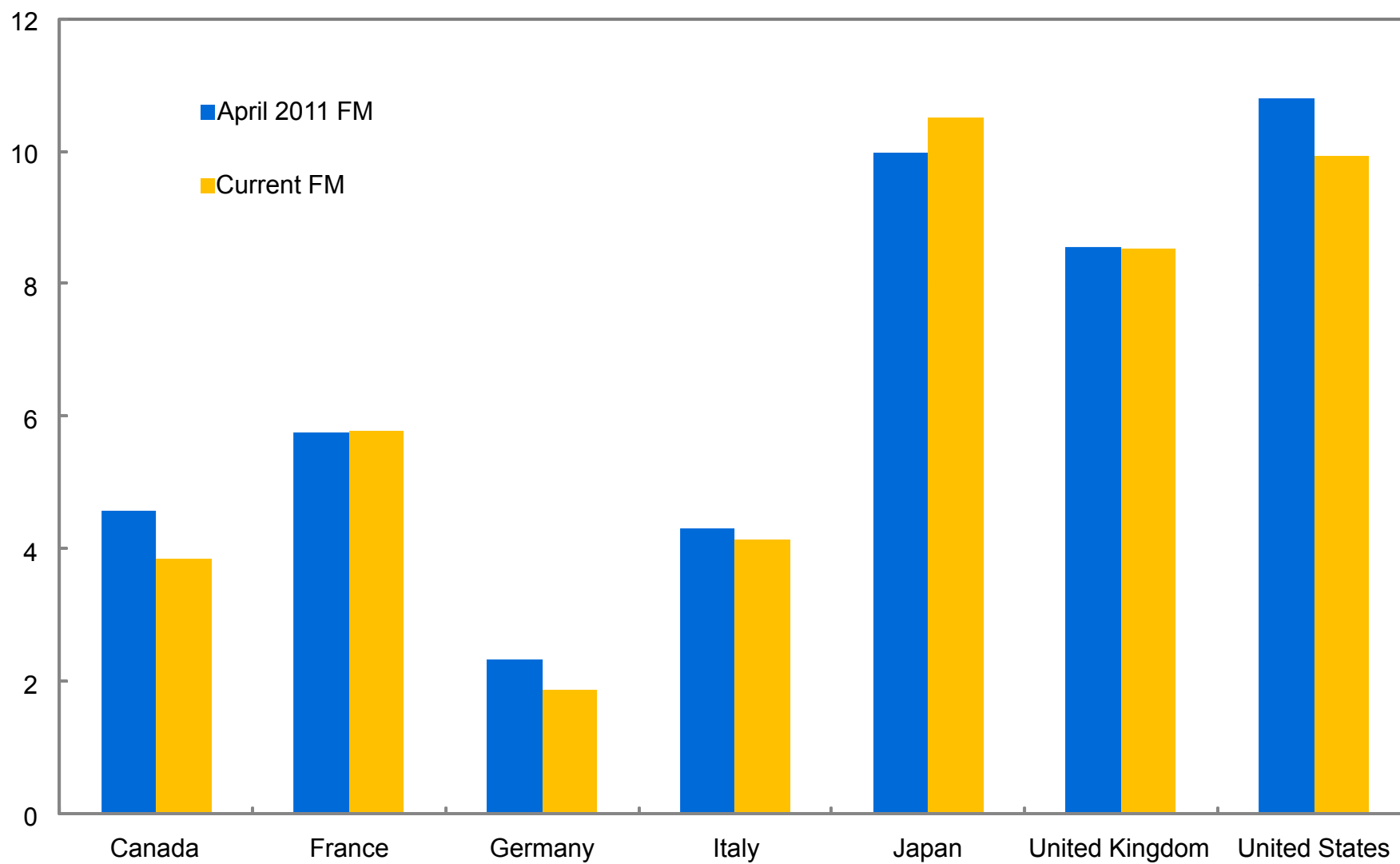
Carlo Cottarelli
Director, Fiscal Affairs Department

June 2011

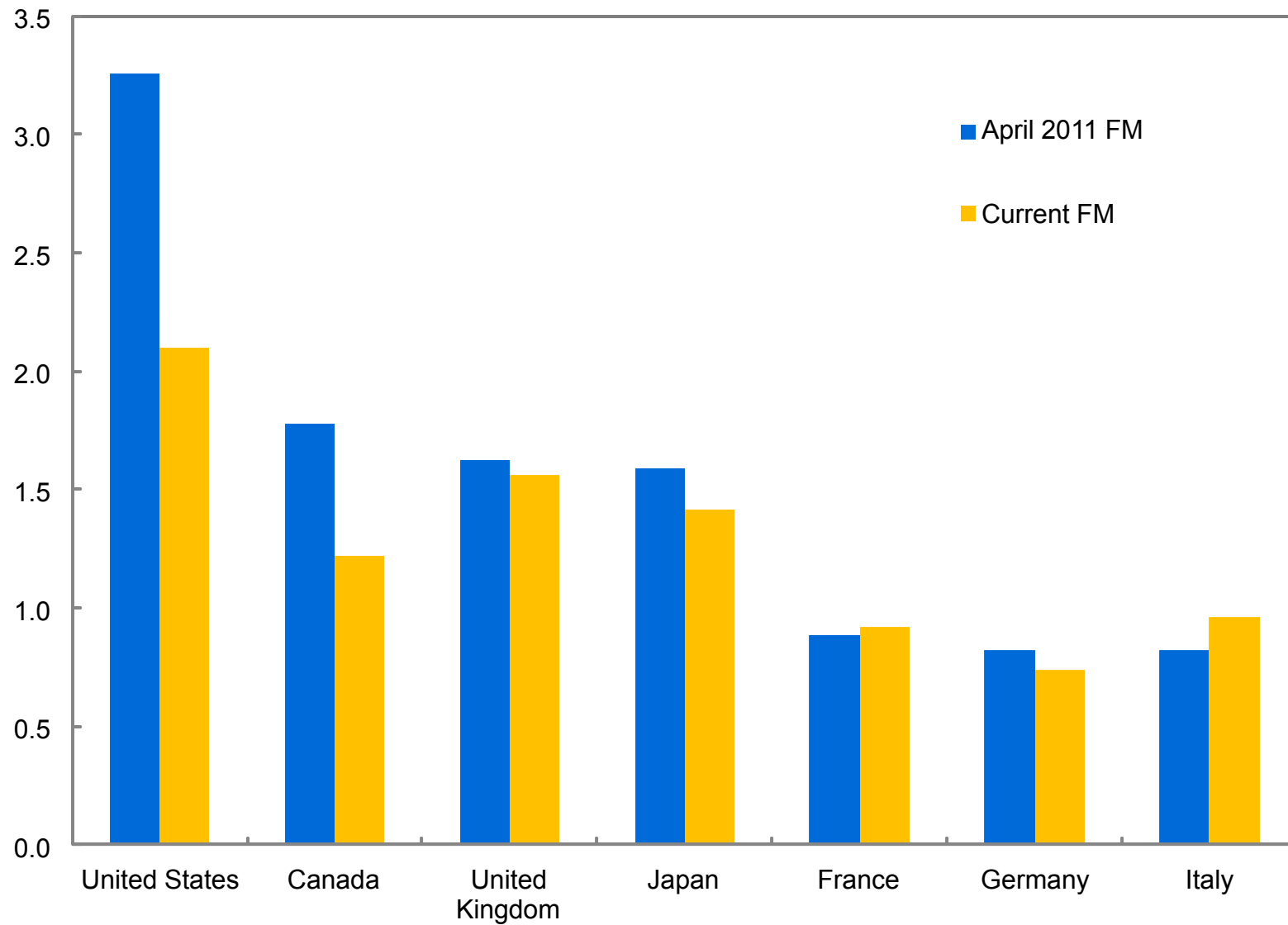
G7 Economies: Change in Fiscal Balance, 2011



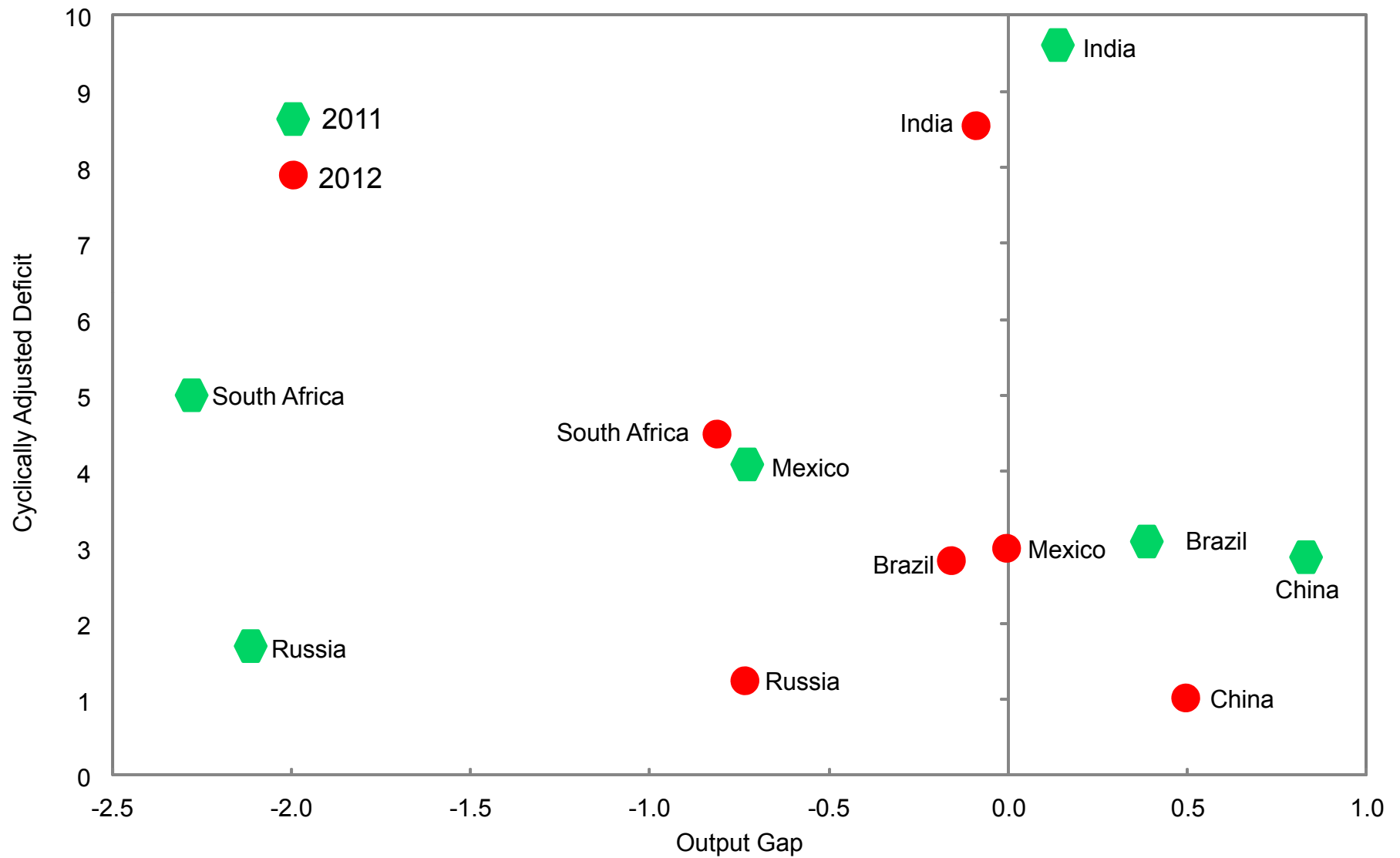
2011 Deficit in the G7, in percent of GDP



Change in the Overall Balance, 2011 - 12



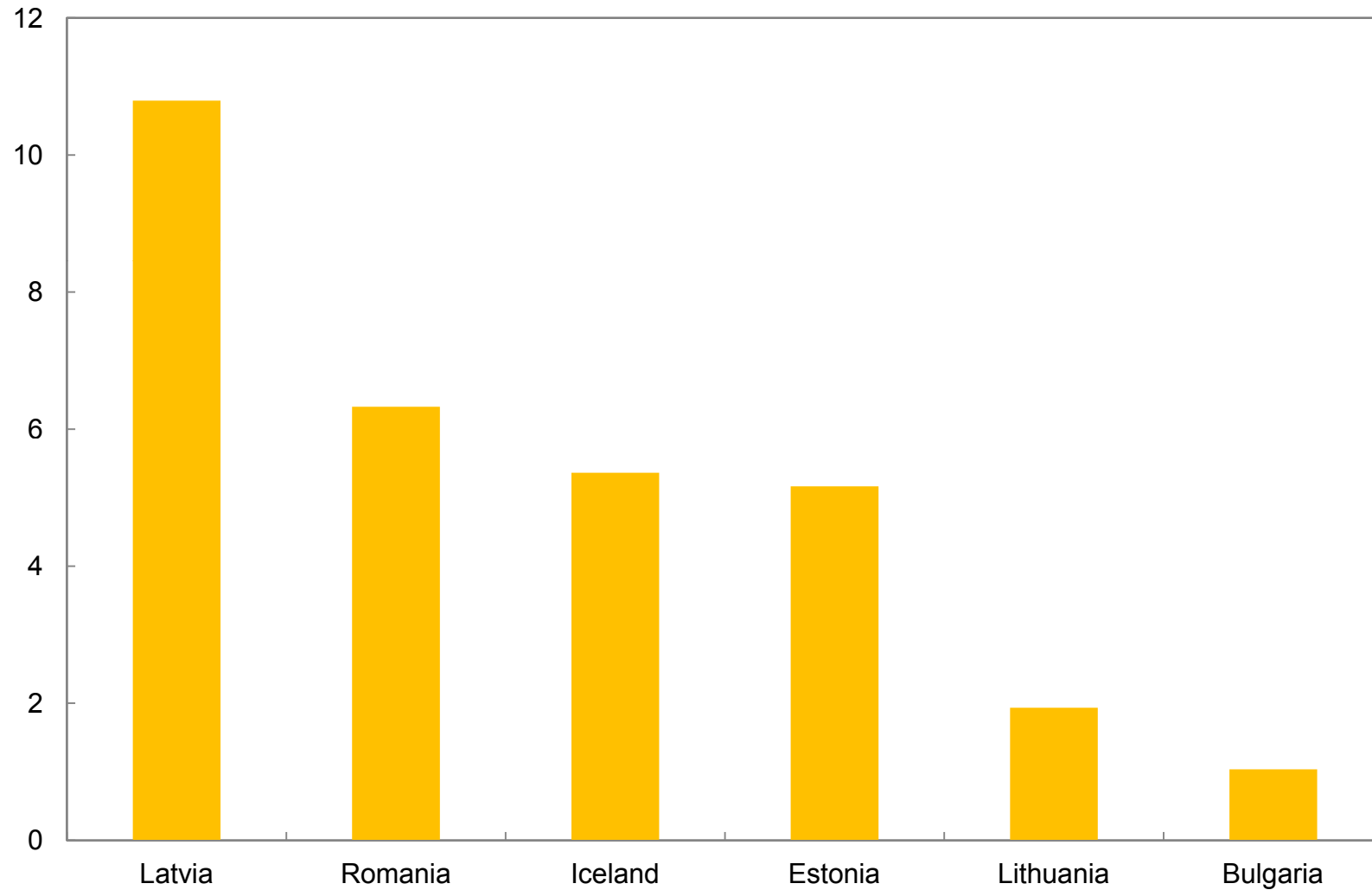
Emerging Economies



Fiscal Adjustment, 2008 - 11



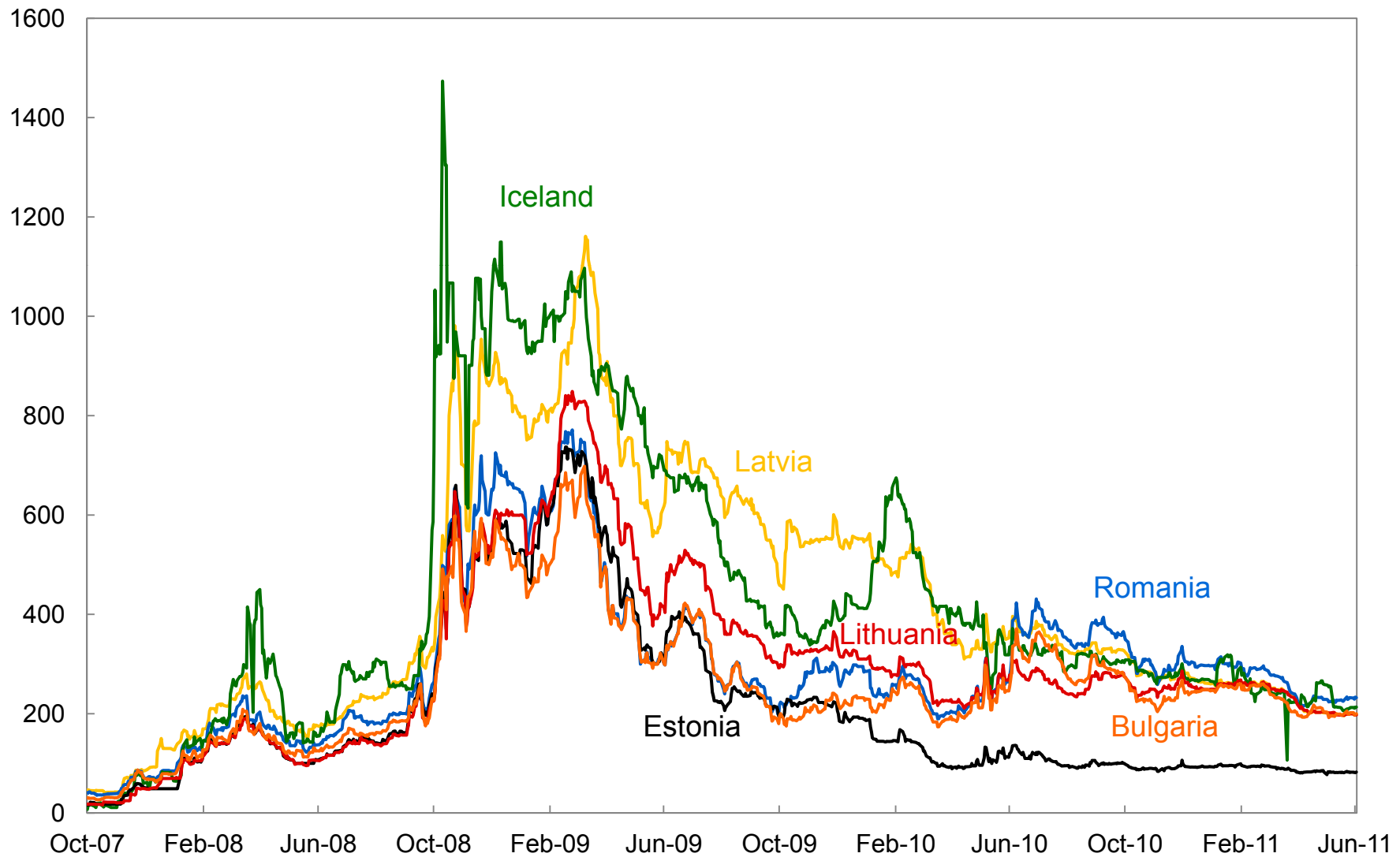
Change in Cyclically Adjusted Primary Balance, in percent



Credit Default Swap Spreads



5-Year CDS Spreads, basis points



What **DID NOT** Happen?

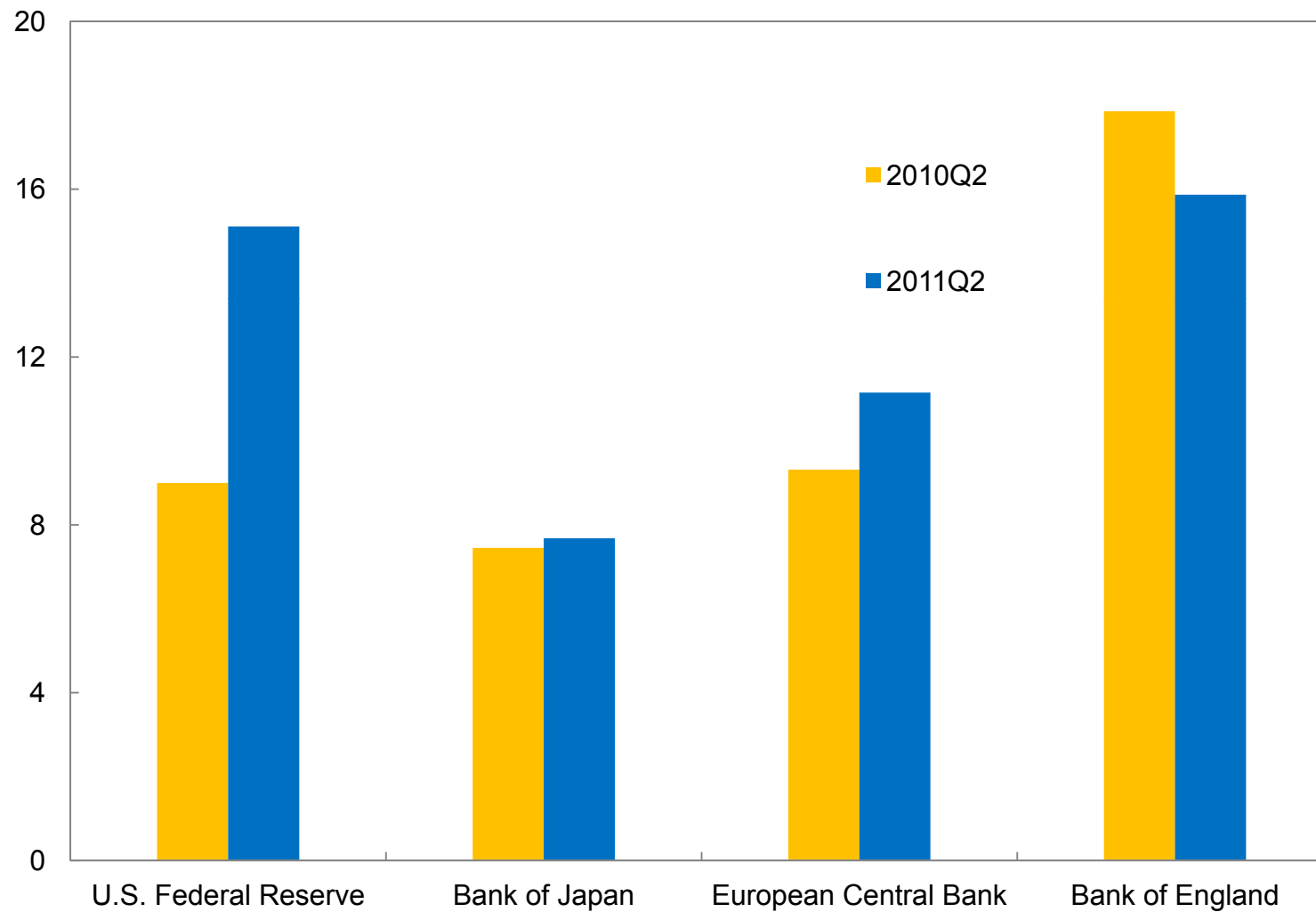


- Credible fiscal adjustment plan for the United States
- Credible fiscal adjustment plan for Japan
- Comprehensive crisis management plan in Europe
- Rising government bond yields in major advanced economies

Central Bank Holdings of Government Securities



(Percent of Outstanding Debt)



EU Developments in Fiscal Institutions



- Long Standing Problems in Budgeting Process:
 - Absence of *national* fiscal rules consistent with the SGP
 - Optimism in fiscal forecasts
 - Lack of transparency in fiscal data

- Additional proposals by Parliamentary Committee:
 - International Public Sector Accounting Standards
 - “Top-down” approach to budgeting
 - Countries with poor record of forecasting must adopt EC forecasts or independent fiscal councils



Privatization

Analysis of Largest 2 Year Revenue Windows

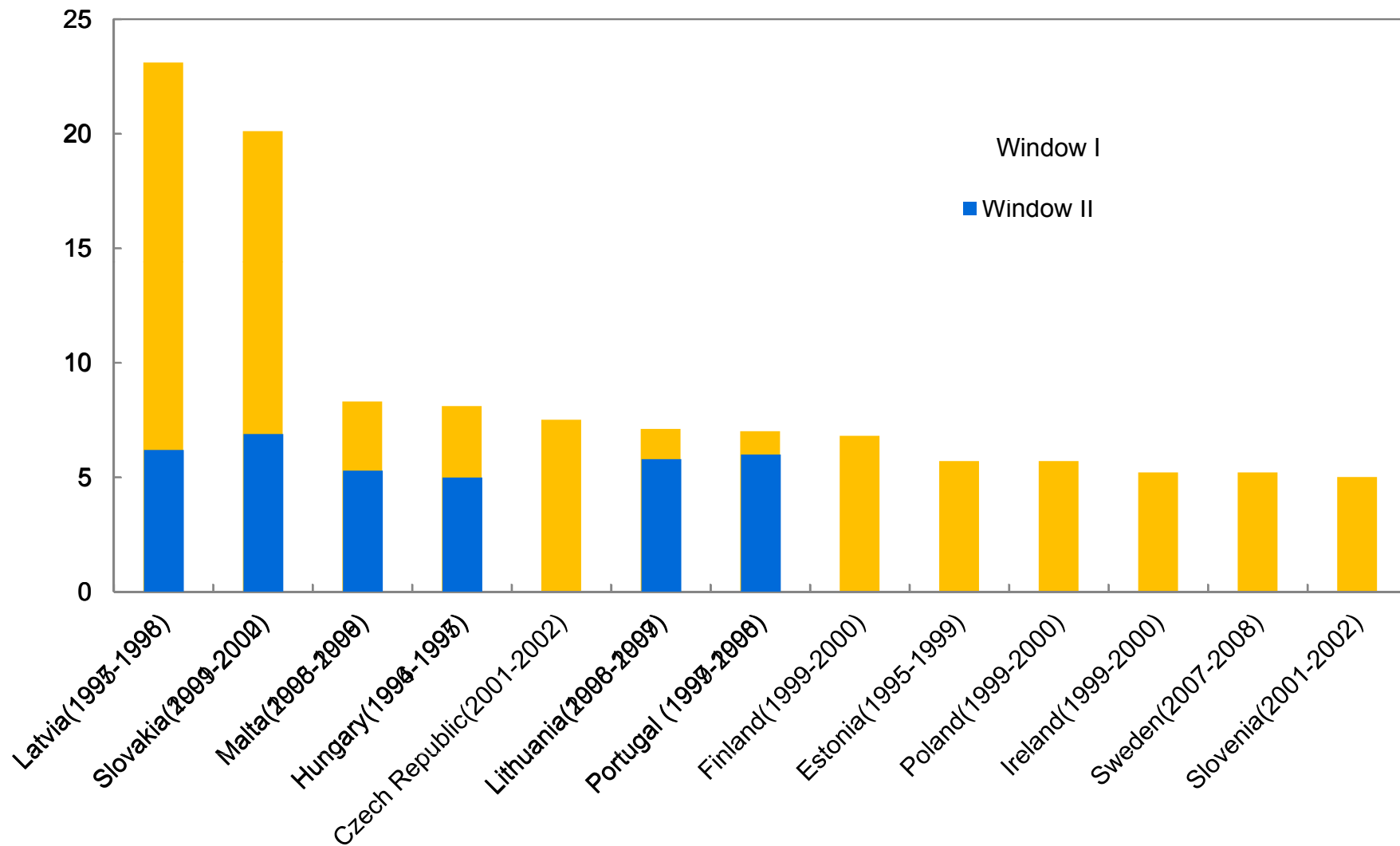


- 13 out of 25 countries experienced at least one 2 year period with cumulative privatization receipts of 5 percent of GDP or more between 1977 and 2009
- 6 of these 13 countries experienced two additional, non-overlapping episodes with privatization receipts of 5 percent of GDP or more

Privatization Receipts



(Percent of GDP)





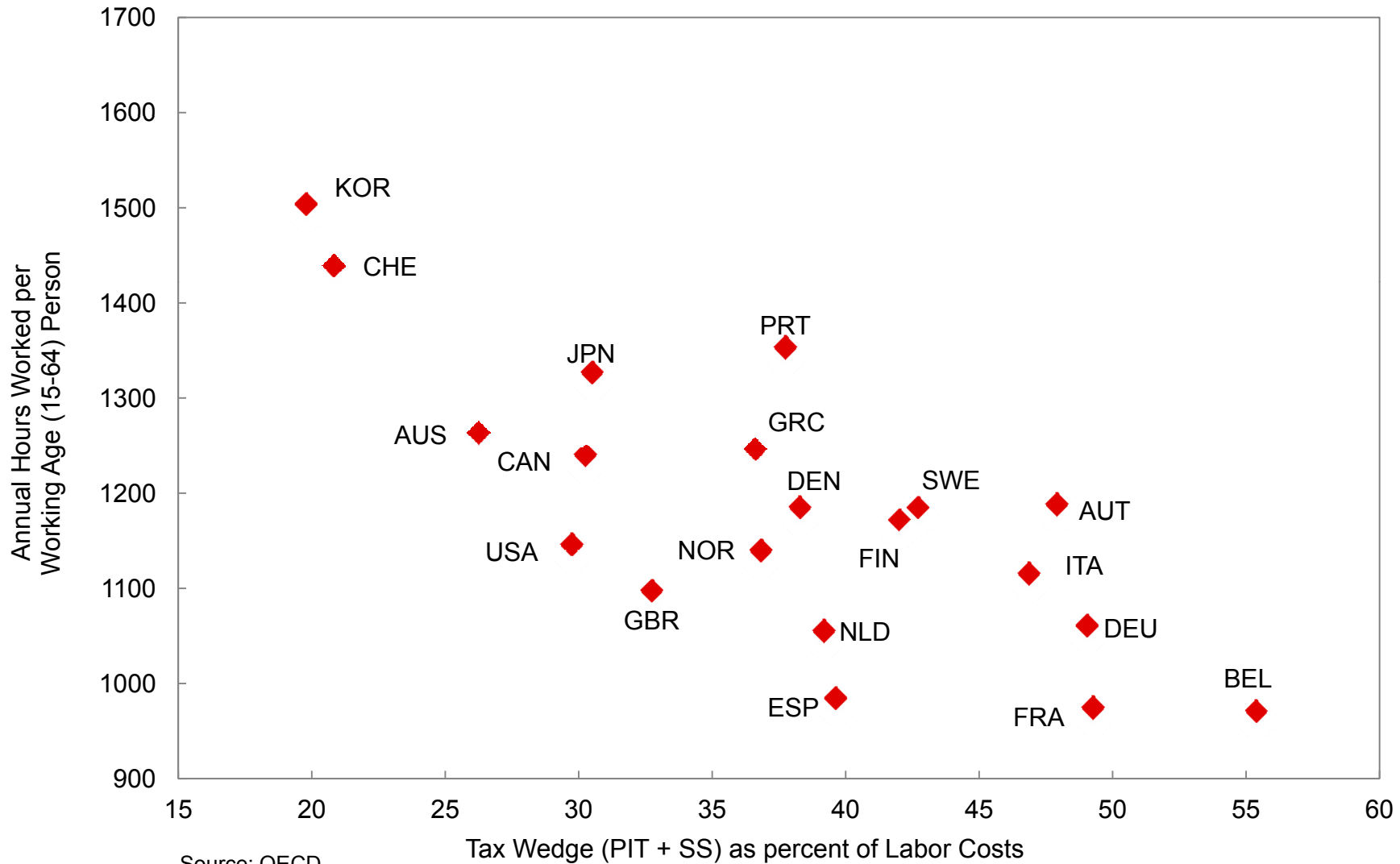
Fiscal Devaluation

(A switch between taxation on labor to taxation of consumption)

Tax Wedge



Tax Wedge and Hours Worked per Working-Age Resident (2010)



Source: OECD.

Note: PIT refers to Personal Income Tax; SS refers to Social Security contributions.

How Does Fiscal Devaluation Work?



- Changes the incidence of the tax burden
- Reduces unit labor costs if wages are sticky

Policy Conclusions



- It is urgent for the United States and Japan to approve a credible medium-term fiscal adjustment plan
- For the United States, attaining the authorities' 2012 targets now presents fewer risks
- Europe needs to continue fiscal adjustment and agree on a comprehensive crisis management plan
- In some emerging markets, the task is to avoid overheating



Thank you!