



# Fiscal Monitor

## Balancing Fiscal Policy Risks

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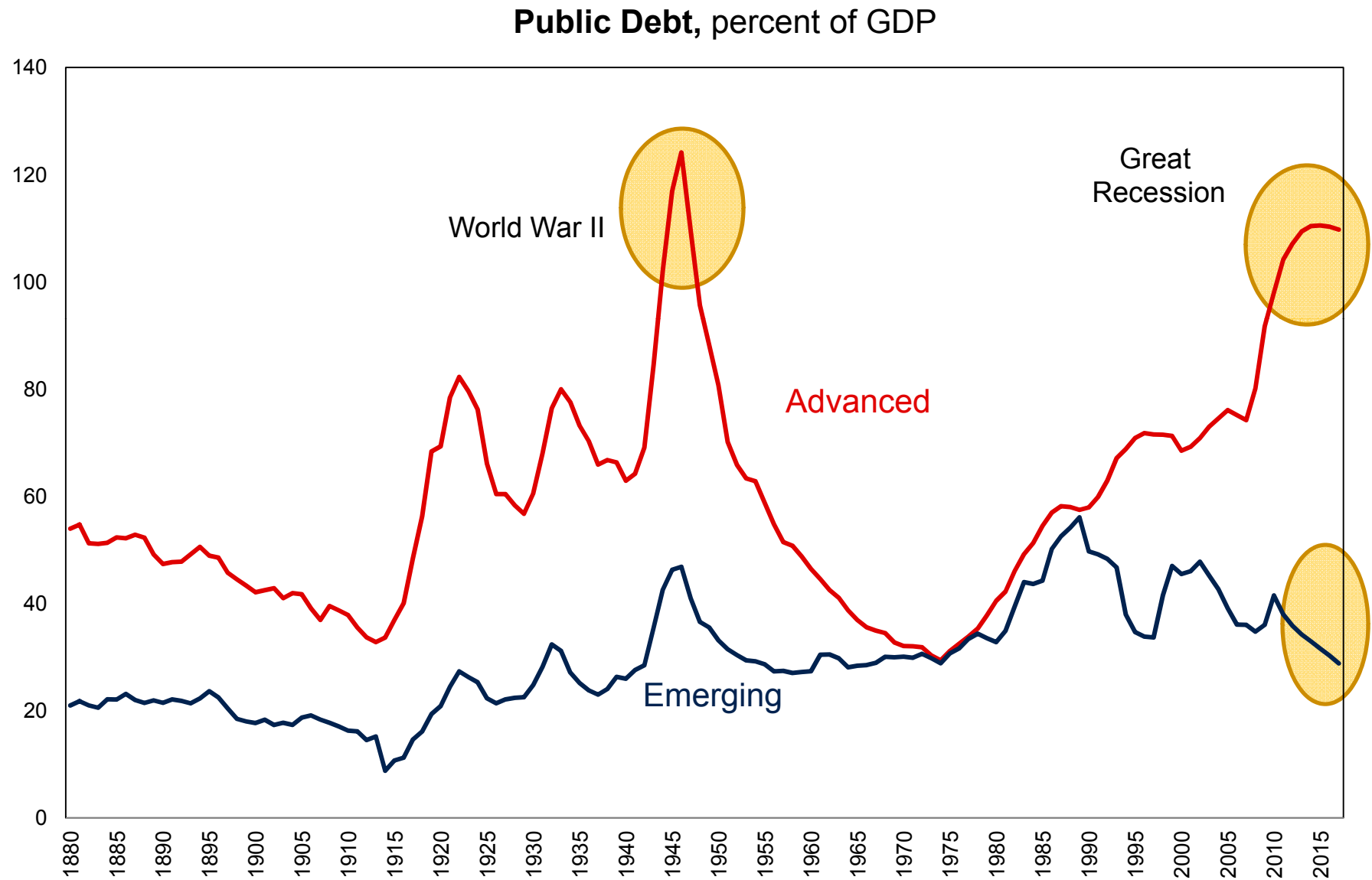
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Fiscal Affairs Department



# Roadmap

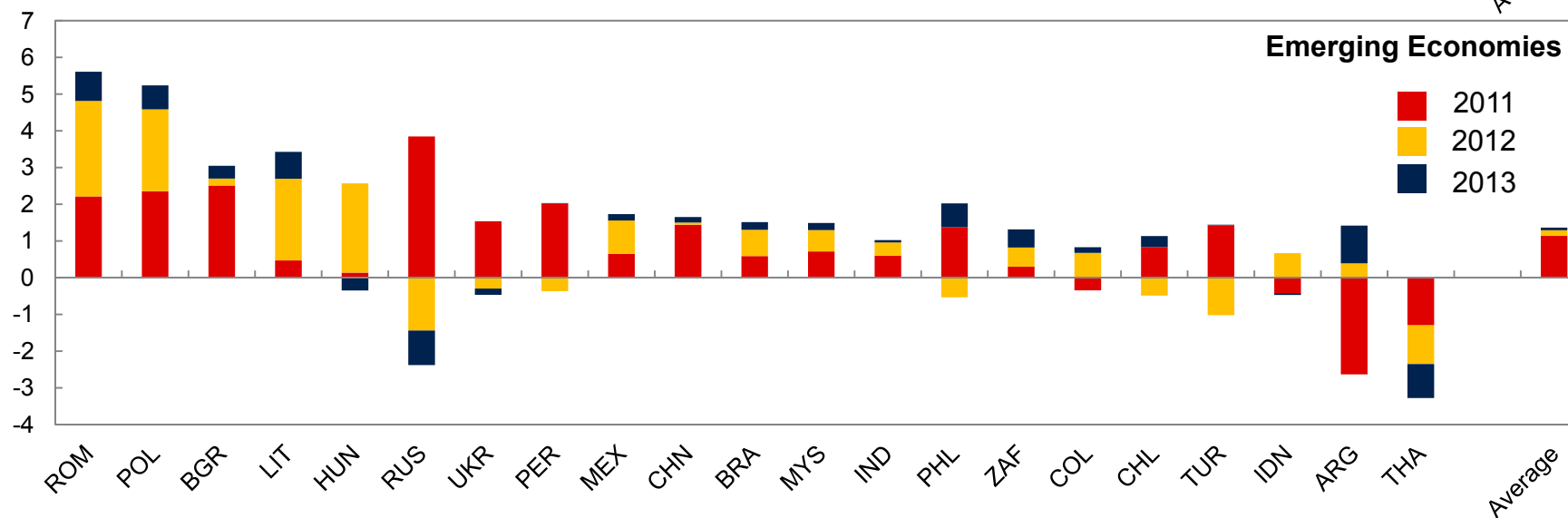
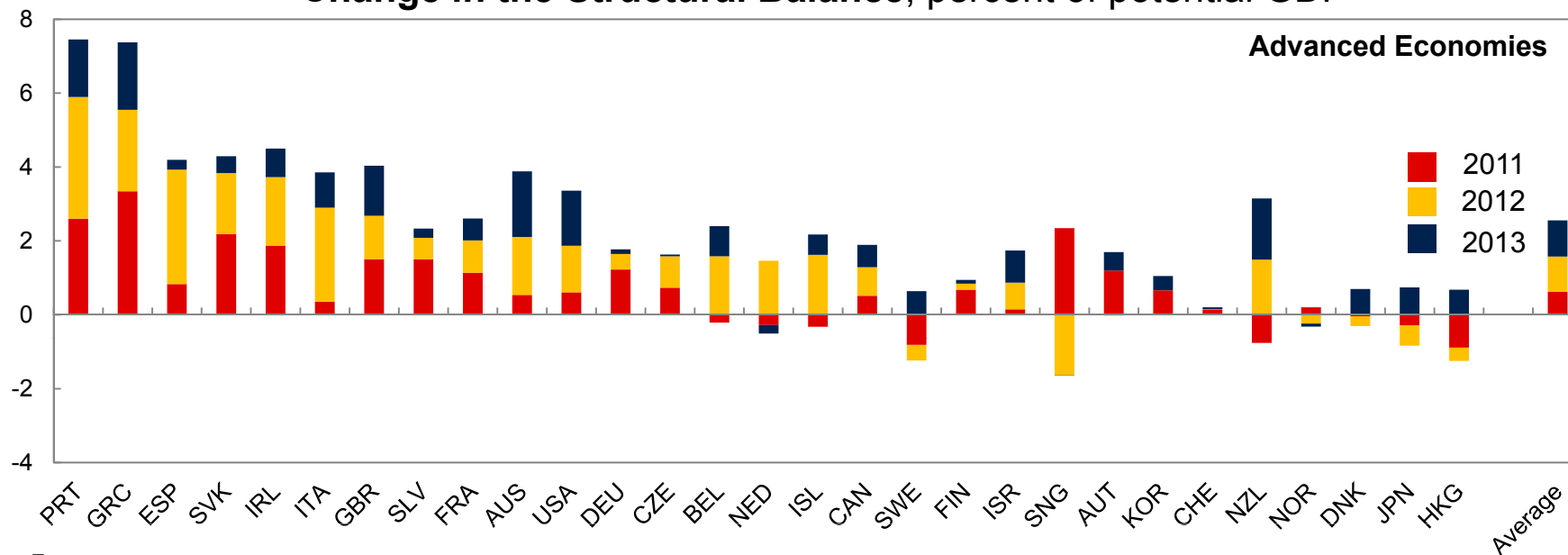
- Recent developments: fiscal risks remain elevated, although declining.
  - Deficits are falling but debt ratios are still on the rise, and subject to considerable risk.
- Near-term challenges: calibrating fiscal policy to advance consolidation without hurting the recovery.
- Long-term challenges: reducing debt-to-GDP ratios will require sizeable adjustment efforts.

# Debt ratios remain at historic levels in advanced economies

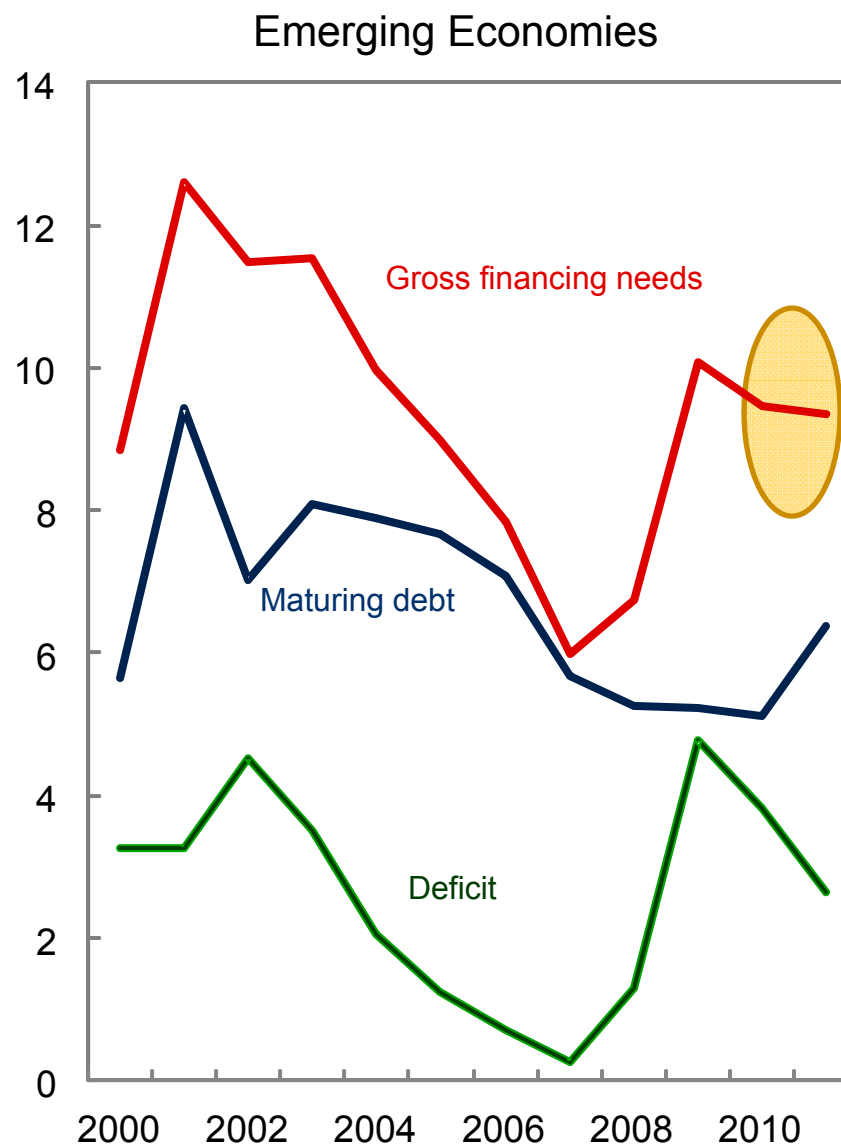
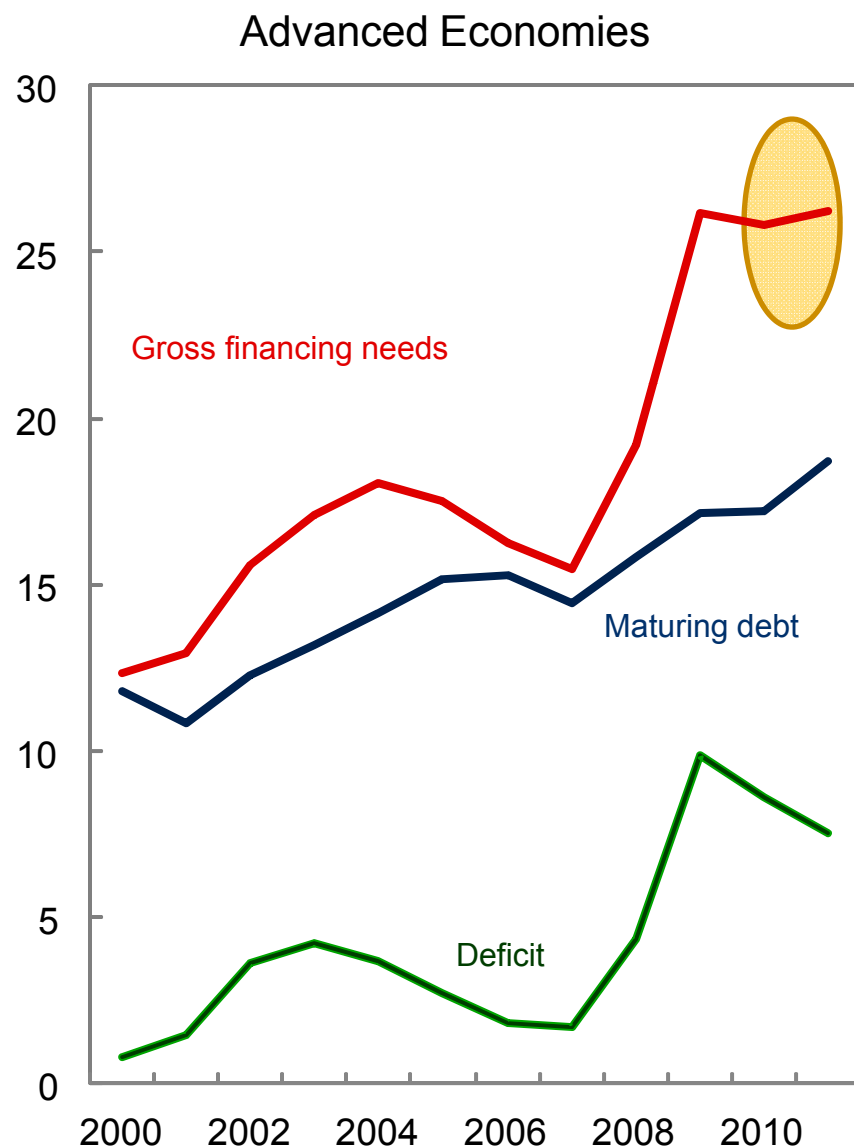


# Fiscal consolidation continues to advance in most countries, and more is in the pipeline...

Change in the Structural Balance, percent of potential GDP

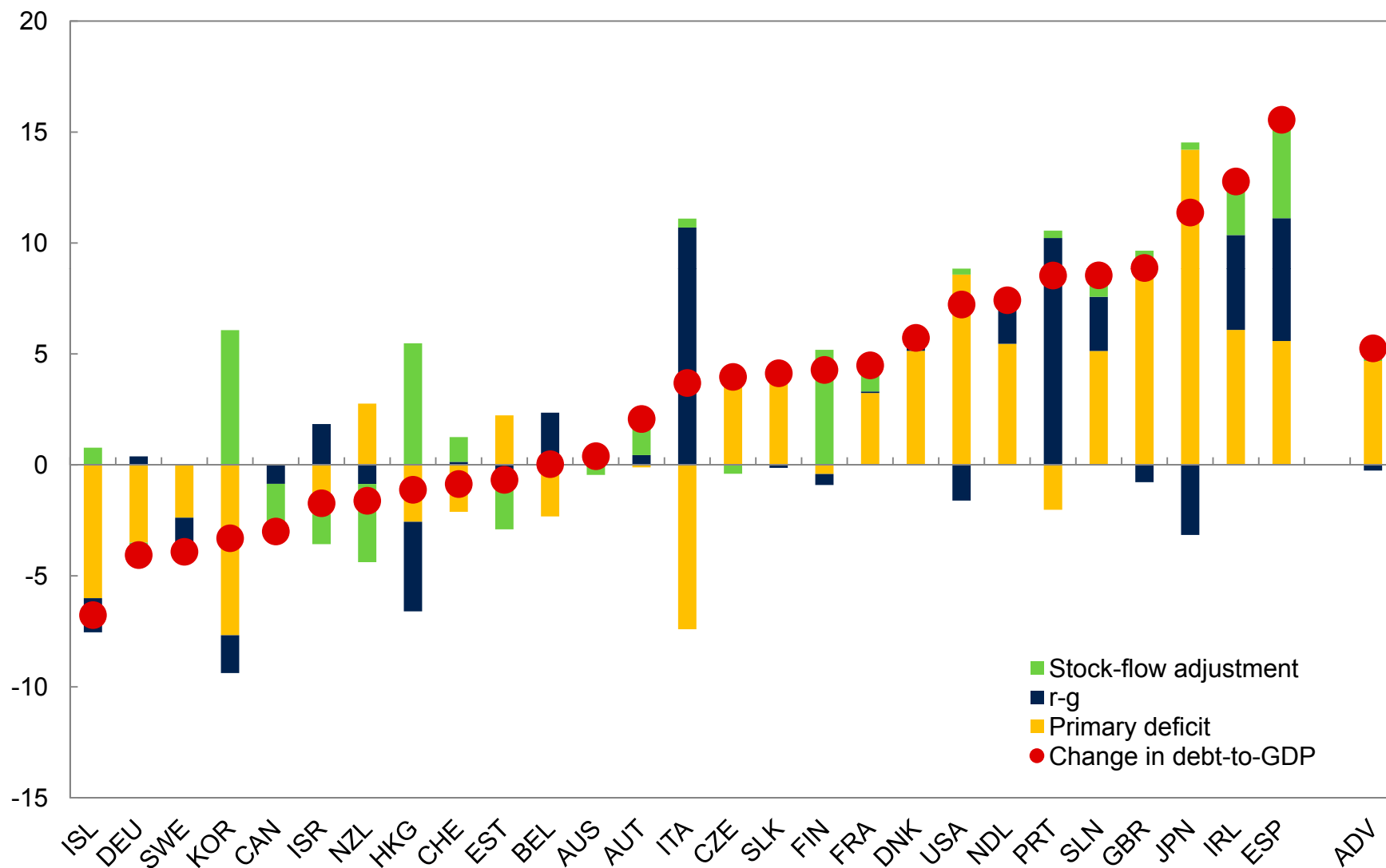


## Borrowing requirements continue to be large, with financial markets still in a state of alert

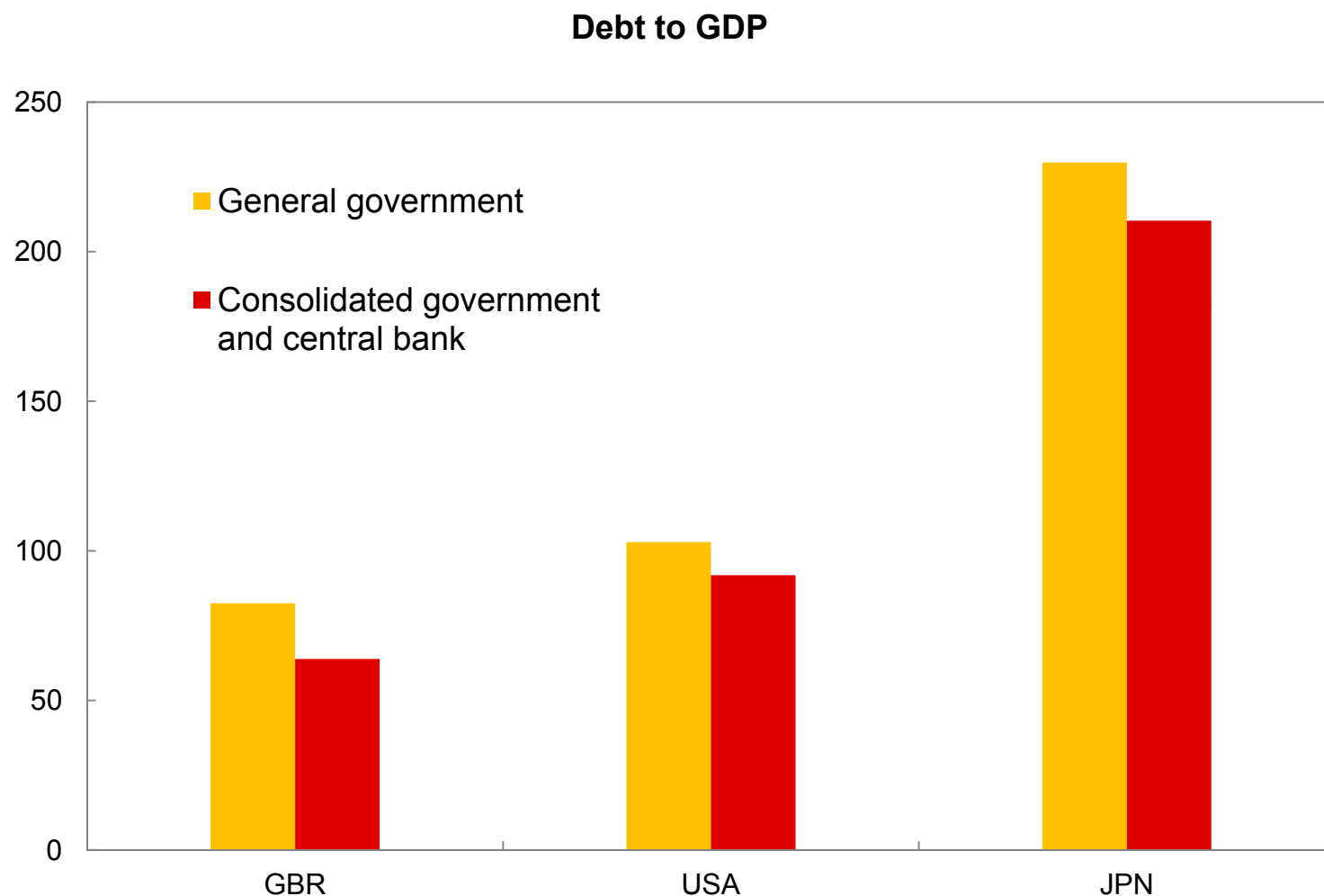


# Debt-to-GDP ratios expected to continue rising until 2015

Decomposition of General Government Gross Debt Accumulation, 2012-13 (Percent of GDP)

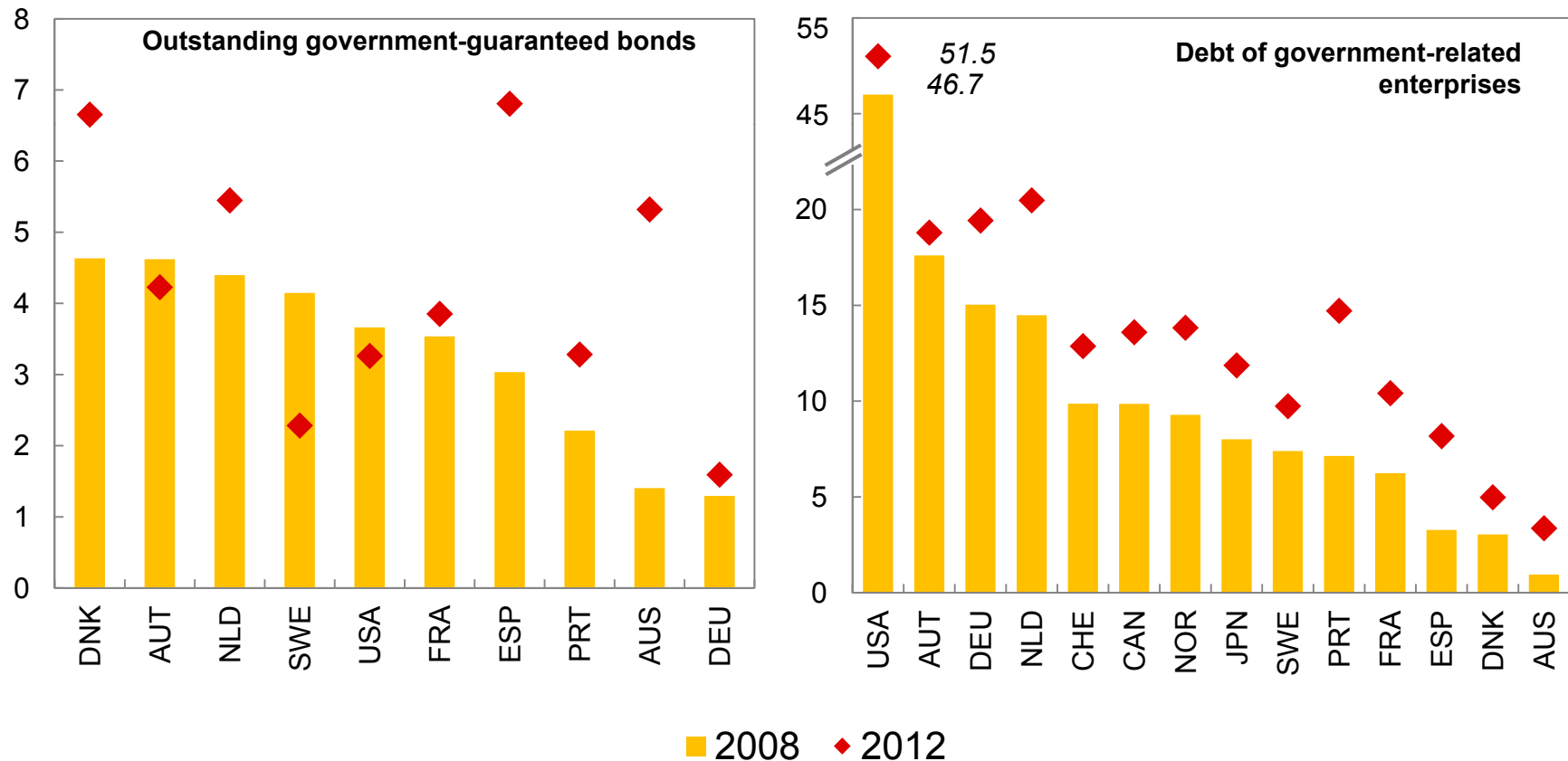


**Central bank purchases of government securities may have reduced market pressures, but this is only a temporary respite**



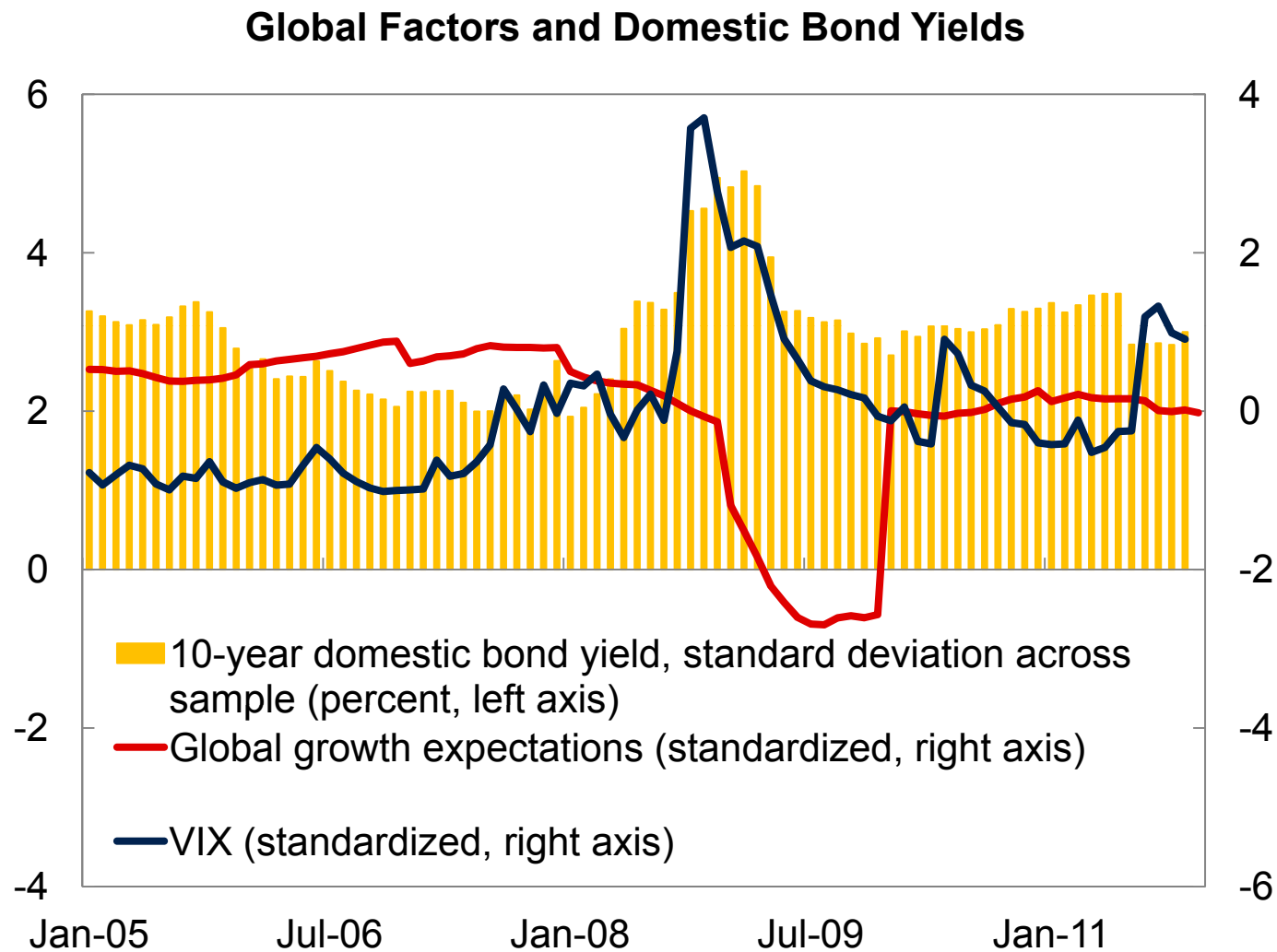
# And contingent liabilities may be on the rise

**Outstanding Government-Guaranteed Bonds and Debt of Government-Related Enterprises**  
(Percent of GDP)





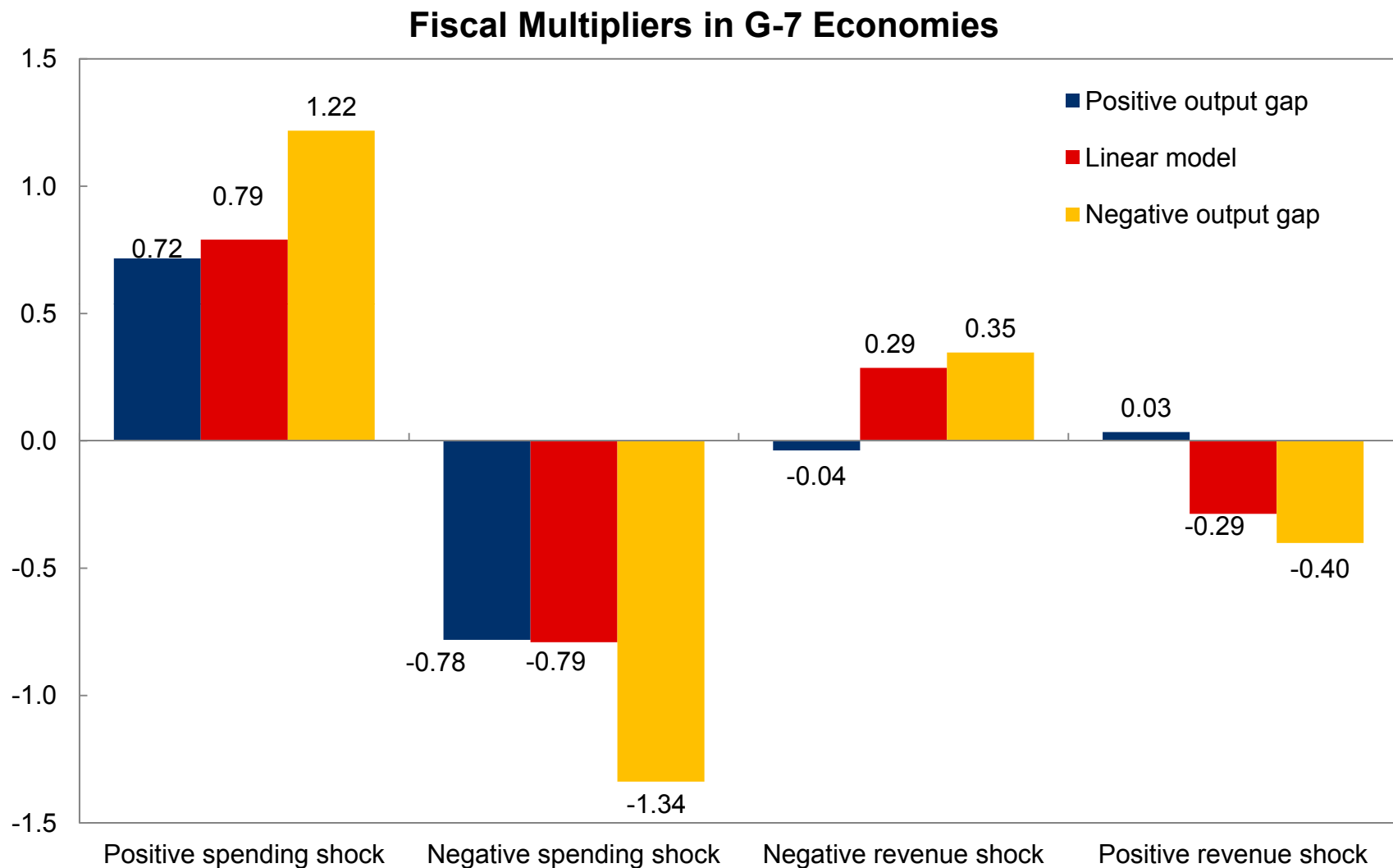
## Emerging economies continue to be exposed to negative spillovers



## Two key policy questions

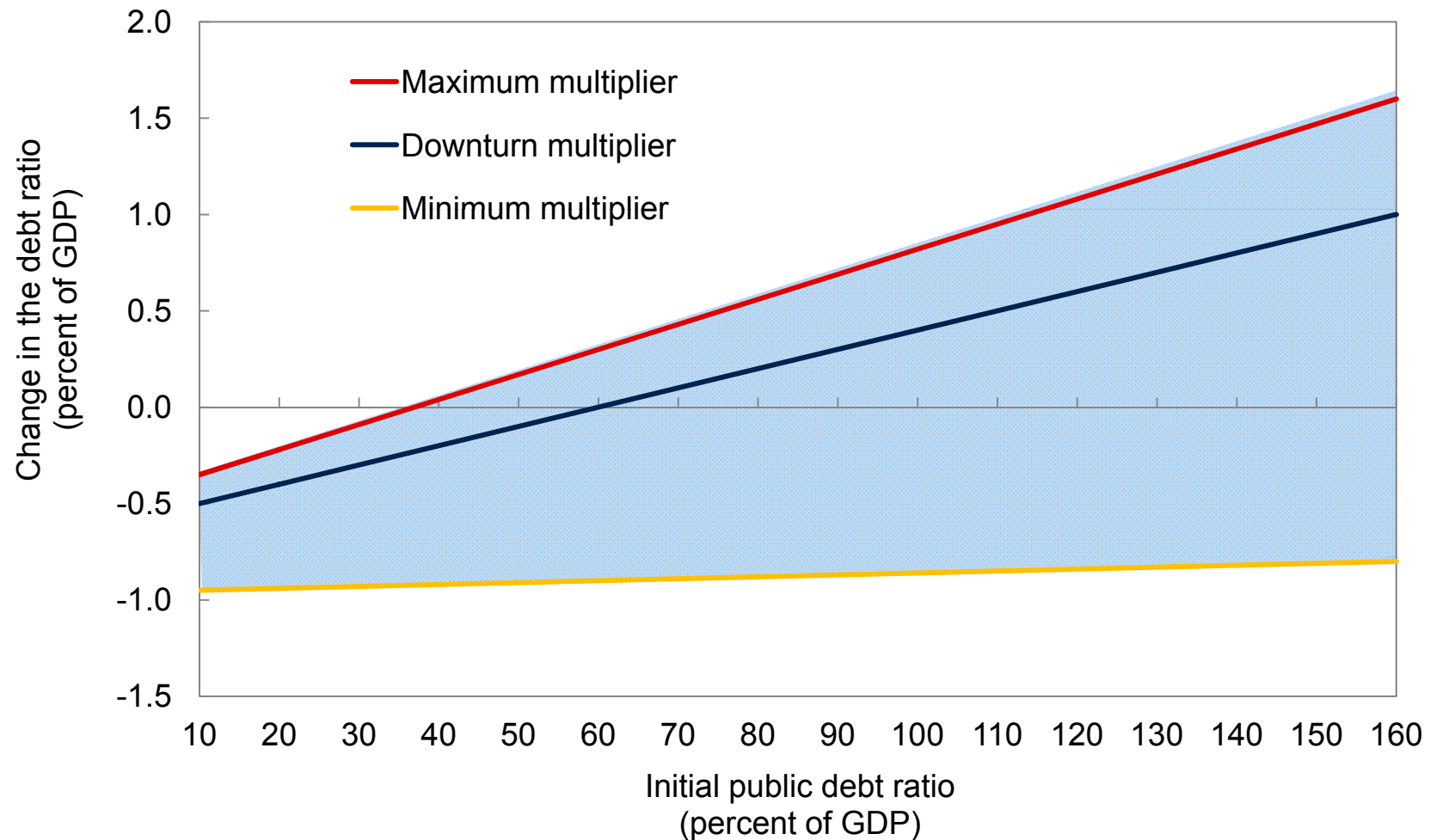
- With raising risks to growth, what is the appropriate stance of fiscal policy in the short-term?
- How to tackle the sizeable long-term adjustment needs?

**In the current context of weak growth, fiscal multipliers are expected to be high**



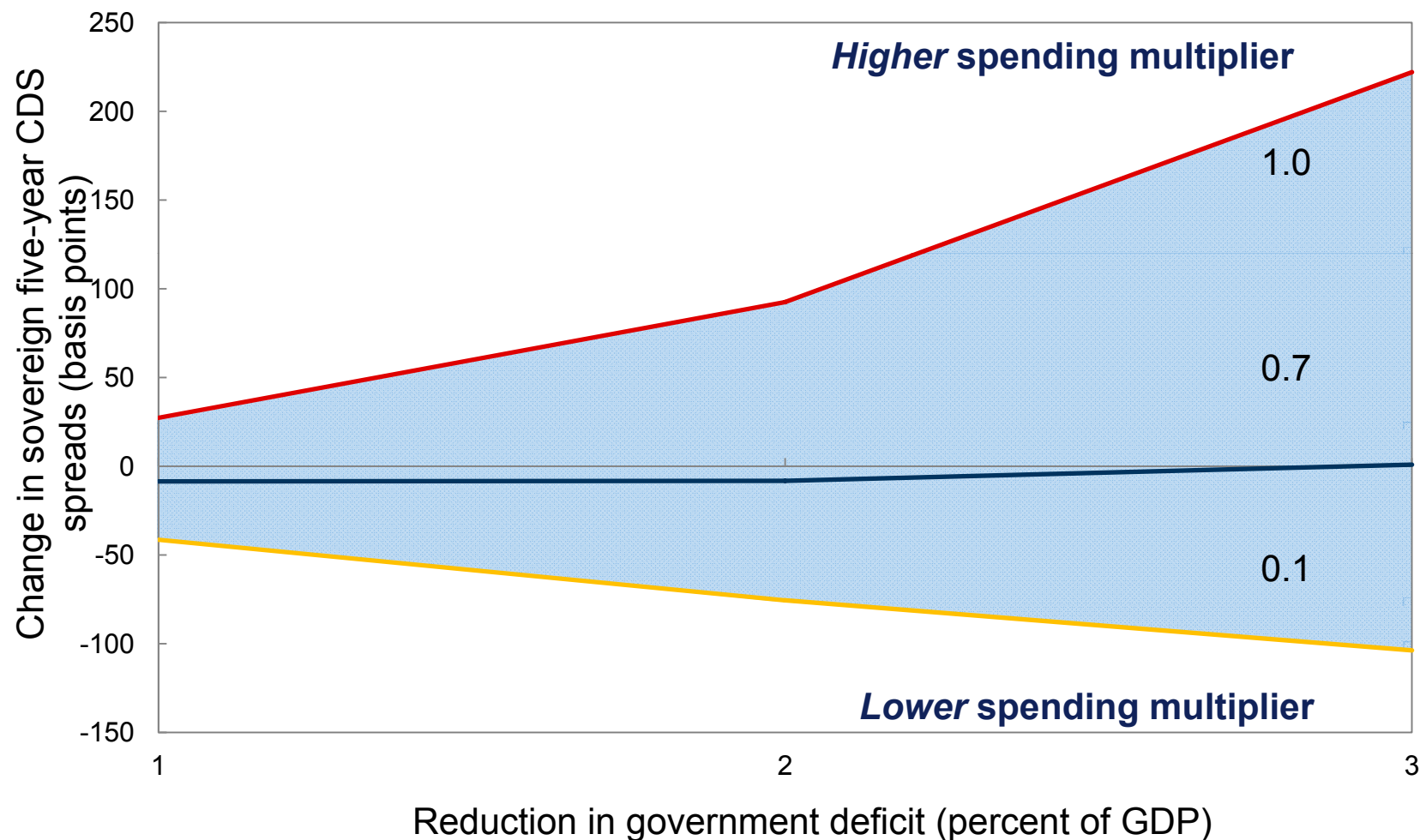
## This could delay the effect of consolidation on debt-to-GDP ratios

### Impact on the Debt Ratio in the First Year of a 1 Percent Package of Discretionary Fiscal Measures



## Markets may also be slow to reward consolidation if growth falls

Fiscal Adjustment and CDS Spreads with Alternative Fiscal Multipliers



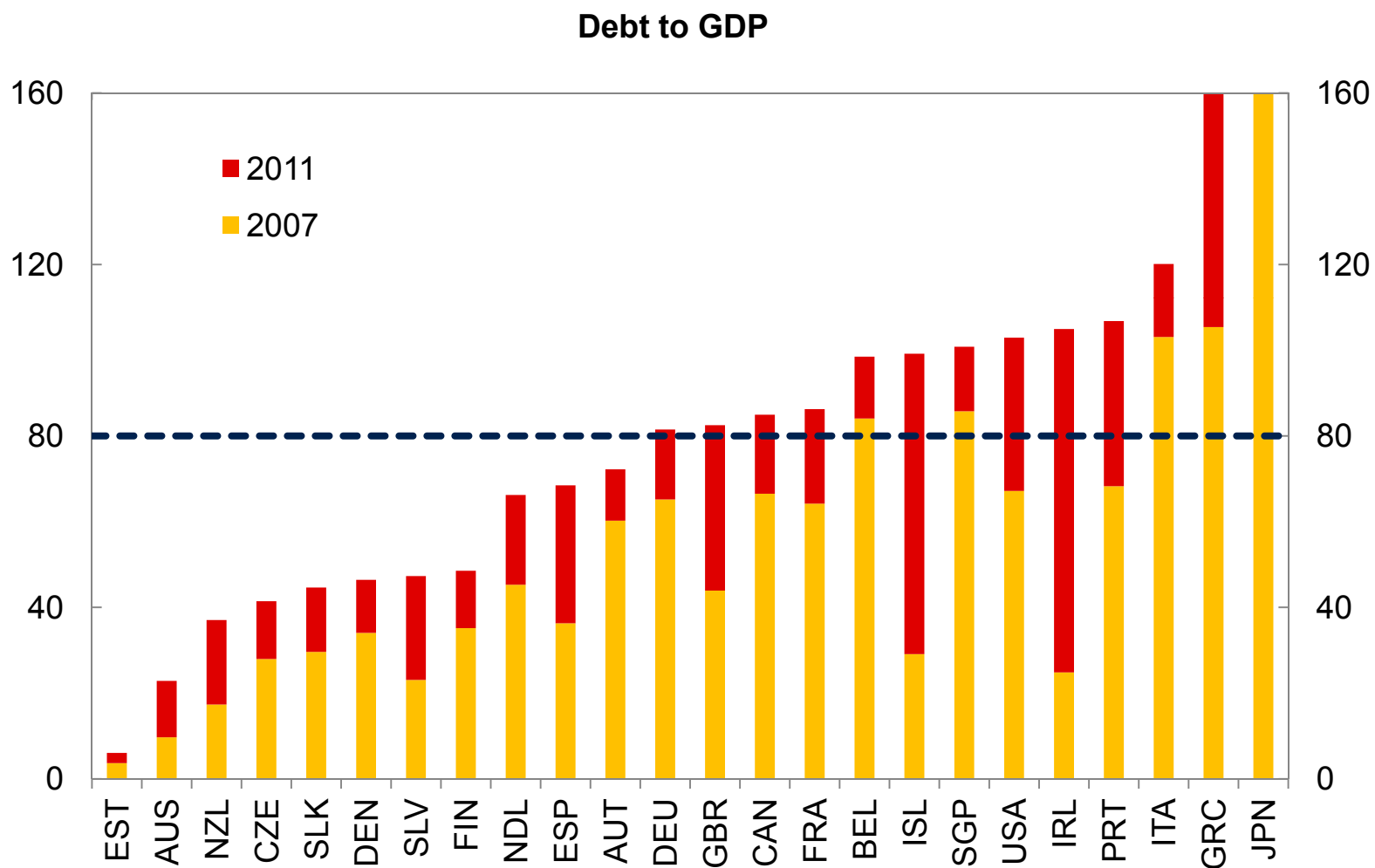
## Policy Implications

- In the current environment, a gradual but steady pace of adjustment seems preferable to heavy front-loading.
- Countries with strong positions, in terms of fiscal accounts and credibility with markets, can consider slowing the pace of fiscal consolidation to reduce downside risks to growth.
- Should growth slow further, countries should to the extent possible allow automatic stabilizers to operate.

## What lessons can be drawn from recent experiences of fiscal adjustment ?

- Stop-gap measures are often needed
- Close coordination with subnational/local governments is a must
- Well-designed communication strategies can make a difference.

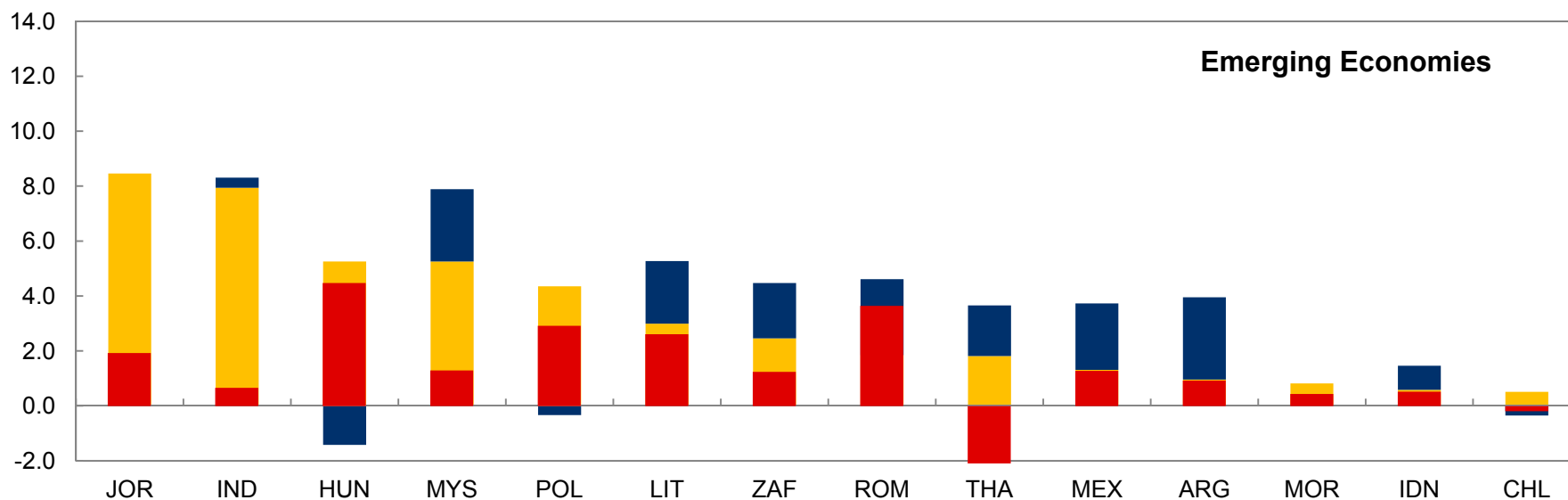
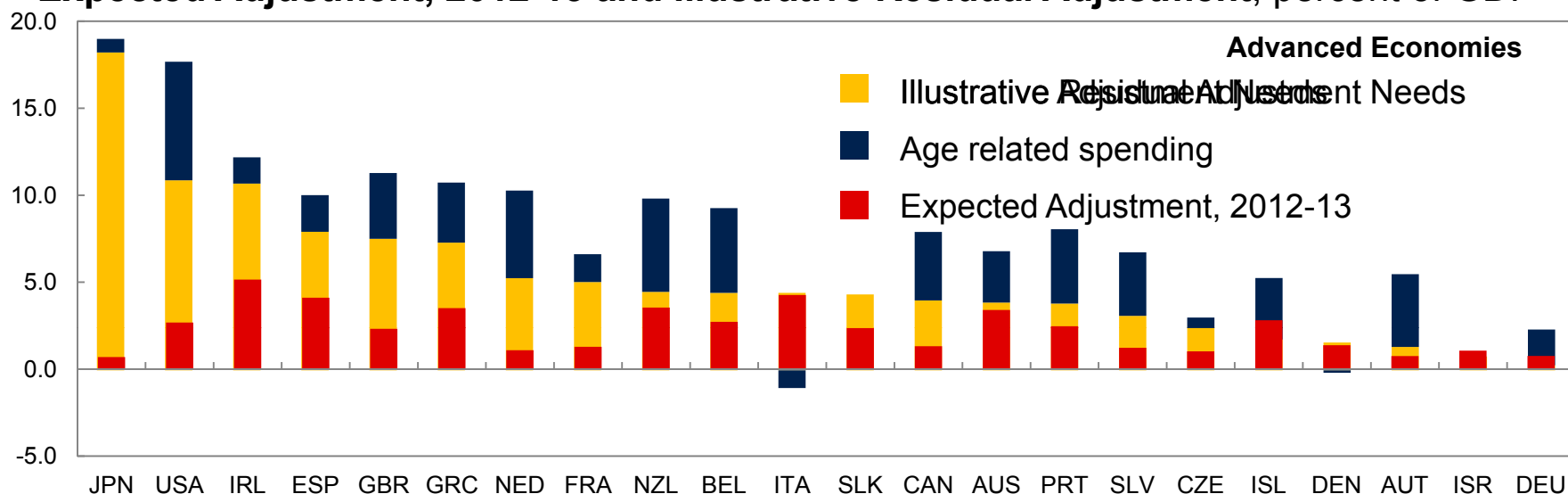
# High debt to GDP ratios hurt potential growth





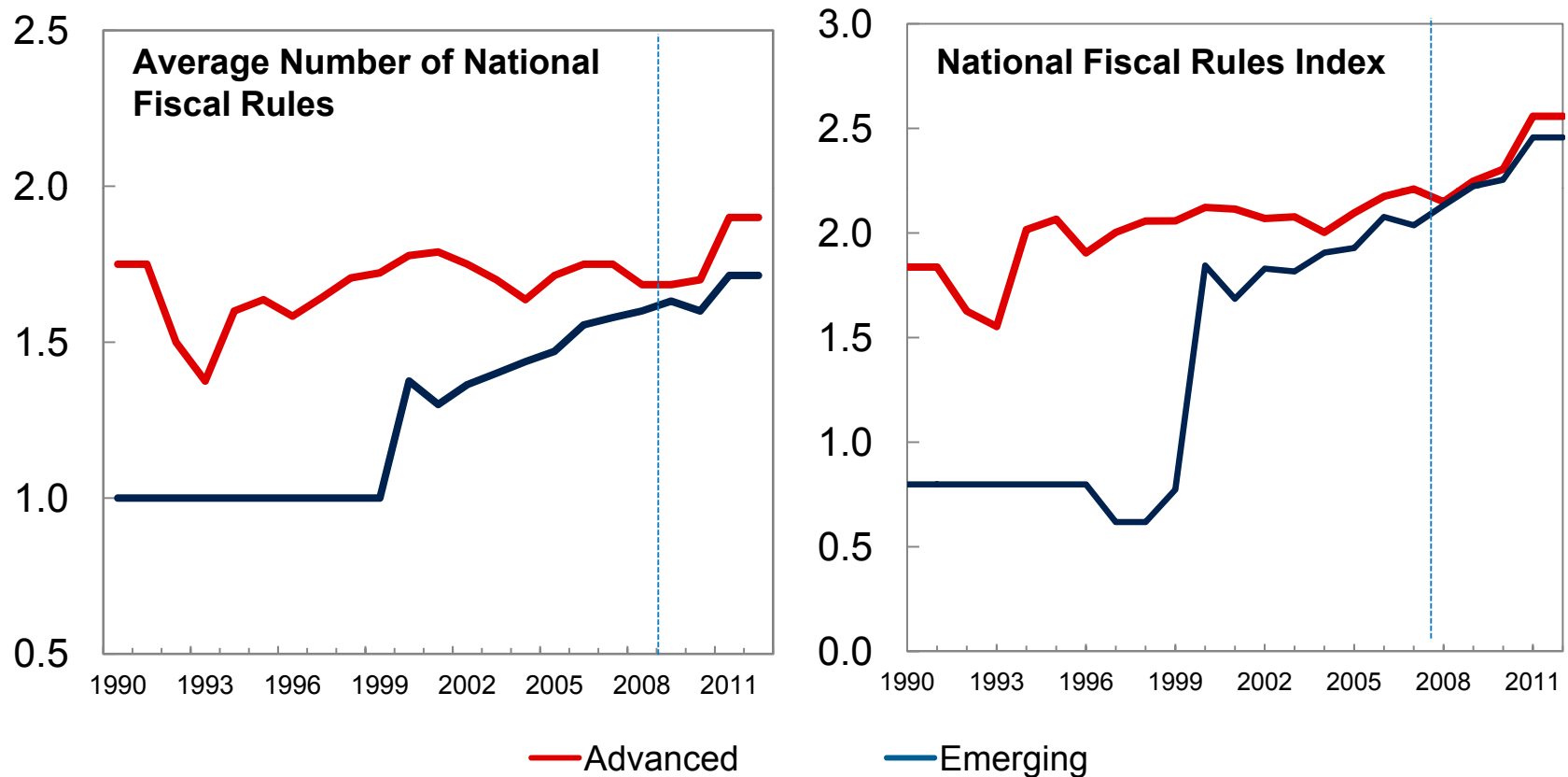
# Substantial adjustment is needed to bring debt ratios to appropriate levels

**Expected Adjustment, 2012-13 and Illustrative Residual Adjustment, percent of GDP**



## Several countries have renewed efforts to strengthen fiscal frameworks, including through fiscal rules

**Trends in National Fiscal Rules**



## Policy Implications

- Implementation of a clear medium-term fiscal adjustment plan is key for sustainable growth.
- Entitlement reform remains critical.
- Though not a substitute for the commitment to sound fiscal policies, fiscal rules can enhance the credibility of policymakers.
- The real challenge is to raise potential growth, particularly in advanced economies.

## Conclusions

- Deficits are falling at a broadly appropriate pace, bearing in mind financing constraints and downside risks to growth
- Implementation of a clear medium-term fiscal adjustment plan, including entitlement reform, is key for sustainable growth
- Fiscal consolidation should be accompanied by proactive communication strategies, and policies to raise potential growth.

# Thank You!

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