GLOSSARY

Active labor market policies Policies that help unemployed people get back to work; they include job placement services, benefit administration, and labor market programs such as training and job creation.

Automatic stabilizers Revenue and some expenditure items that adjust automatically to cyclical changes in the economy: for example, as output falls, revenue collections decline and unemployment benefits increase, which "automatically" provides demand support.

Budget-neutral policies Policies that keep a country's fiscal deficit unchanged.

Contingent liabilities Obligations that are not explicitly recorded on government balance sheets and that arise only in the event of a particular discrete situation, such as a crisis.

Countercyclical discretionary fiscal policy Active changes in expenditure and tax policies to smooth the economic cycle (in contrast to the operation of automatic stabilizers): for instance, tax cuts or expenditure increases during an economic downturn.

Cyclically adjusted balance (CAB) Difference between the overall balance and the automatic stabilizers; equivalently, an estimate of the fiscal balance that would apply under current policies if output were equal to potential.

Cyclically adjusted primary balance (CAPB) Cyclically adjusted balance excluding net interest payments (interest expenditure minus interest revenue).

Effective lower bound Level below which the monetary policy rate cannot be further lowered. The effective lower bound may differ from country to country, as it is affected by varying institutional arrangements, regulations in money markets, and the costs of holding large stocks of cash. Depending on the situation, the effective lower bound may be a negative or positive interest rate, but in all cases it is a number near zero.

Effective marginal tax rate Tax burden applied to before-tax capital income realized over an investment's lifetime, as implied by the major provisions of a country's corporate tax code.

Expansionary fiscal policy Discretionary fiscal policy that boosts domestic demand through tax cuts and/or higher government spending.

Fiscal buffer Fiscal space created by saving budgetary resources and reducing public debt in good times.

Fiscal consolidation (also fiscal adjustment) Policies to reduce debt and debt accumulation though reductions in government spending and/or revenue-enhancing measures.

Fiscal multiplier Measures the short-term impact of discretionary fiscal policy on output; usually defined as the ratio of a change in output to an exogenous change in the fiscal deficit with respect to their respective baselines.

Fiscal rule Long-lasting constraint on fiscal policy through numerical limits on budgetary aggregates.

Fiscal space See definition in Annex 1.1.

Fiscal stabilization Contribution of fiscal policy to output stability through its impact on aggregate demand.

General government All government units and all nonmarket, nonprofit institutions that are controlled and mainly financed by government units comprising the central, state, and local governments; includes social security funds, and does not include public corporations or quasi-corporations.

Gini index Measures the extent to which the distribution of income among individuals or households within an economy deviates from a perfectly equal distribution. A Gini index of 0 represents perfect equality, while an index of 1 implies perfect inequality.

Gross debt All liabilities that require future payment of interest and/or principal by the debtor to the creditor. This includes debt liabilities in the form of special drawing rights, currency, and deposits; debt securities; loans; insurance, pension, and standardized guarantee programs; and other accounts payable. (See the IMF's 2001 *Government Finance Statistics Manual* and

Public Sector Debt Statistics Manual.) The term "public debt" is used in the *Fiscal Monitor*, for simplicity, as synonymous with gross debt of the general government, unless specified otherwise. (Strictly speaking, public debt refers to the debt of the public sector as a whole, which includes financial and nonfinancial public enterprises and the central bank.)

Labor tax wedge The difference between the labor cost for an employer and the after-tax wage for an employee.

Net debt Gross debt minus financial assets corresponding to debt instruments. These financial assets are monetary gold and special drawing rights; currency and deposits; debt securities; loans; insurance, pension, and standardized guarantee programs; and other accounts receivable. In some countries, the reported net debt can deviate from this definition based on available information and national fiscal accounting practices.

Nonfinancial public sector General government plus nonfinancial public corporations.

Output gap Deviation of actual from potential GDP, in percent of potential GDP.

Overall fiscal balance (also "headline" fiscal balance) Net lending and borrowing, defined as the difference between revenue and total expenditure, using the IMF's 2001 *Government Finance Statistics Manual* (GFSM 2001). Does not include policy lending. For some countries, the overall balance is still based on the GFSM 1986, which defines it as total revenue and grants minus total expenditure and net lending.

Potential growth Growth in potential output.

Potential output Estimate of the level of GDP that can be reached if the economy's resources are fully employed.

Primary balance Overall balance excluding net interest payment (interest expenditure minus interest revenue).

Primary spending Government expenditure excluding interest payments.

Procyclical discretionary fiscal policy Fiscal policy is said to be procyclical when it amplifies the economic cycle, for instance, by raising taxes or cutting expenditures during an economic downturn.

Public debt See *gross debt*.

Public sector The general government sector plus government-controlled entities, known as public corporations, whose primary activity is to engage in commercial activities.

Resource misallocation Poor distribution of resources across firms, reducing the total output that can be obtained from existing capital and labor.

Structural fiscal balance Extension of the cyclically adjusted balance that also corrects for other nonrecurrent effects that go beyond the cycle, such as one-off operations and other factors whose cyclical fluctuations do not coincide with the output cycle (for instance, asset and commodity prices and output composition effects).