



FISCAL AFFAIRS

What is Next for Fiscal Policy to Achieve Inclusive and Sustainable Growth?

IMF-JICA Conference: Navigating For a Better Future in Emerging and Frontier Asia Under Uncertainty

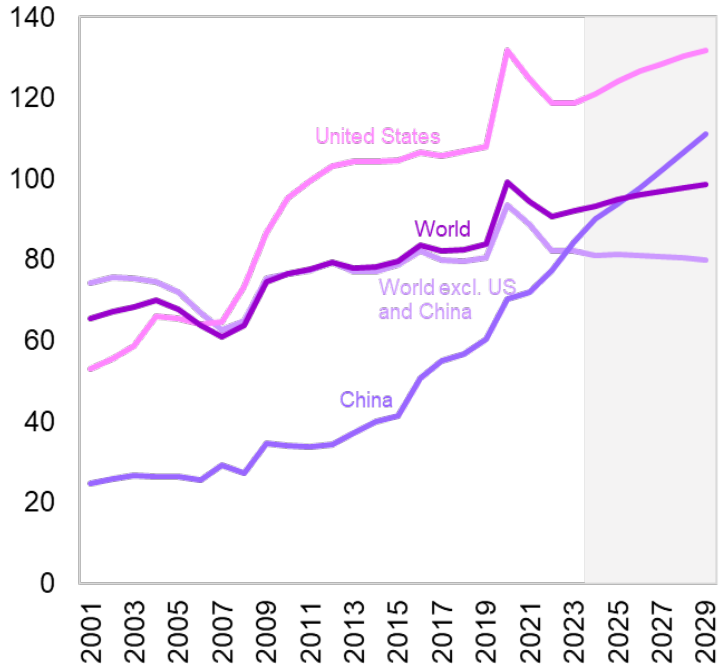
FEBRUARY 13, 2025

Ruud De Mooij
Deputy Director
Fiscal Affairs Department

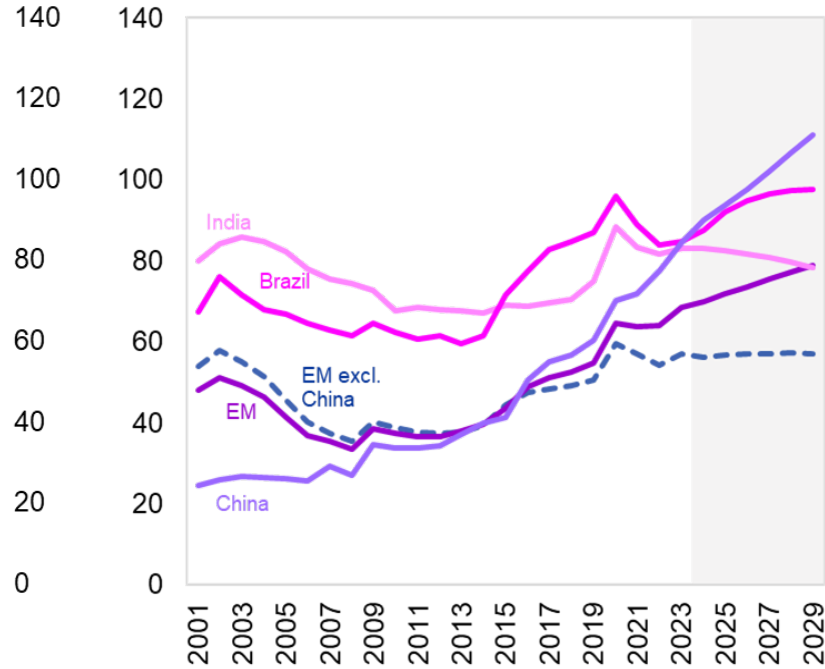
Fiscal challenge #1: High And Rising Public Debt

Public Debt-to-GDP Ratios, 2001–2029
(Percent of GDP)

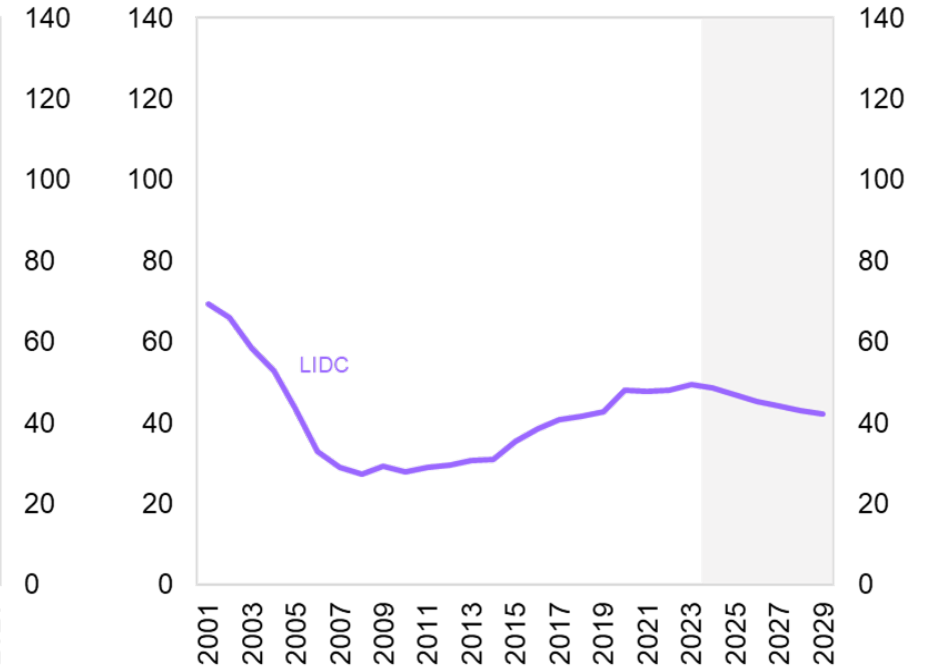
World



EMs

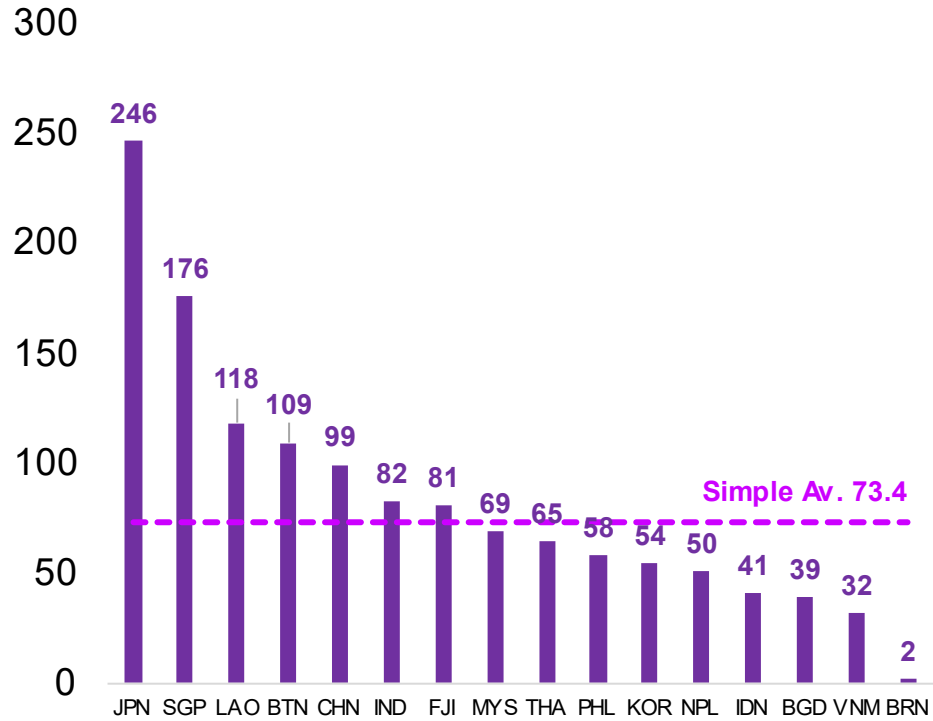


LIDCs

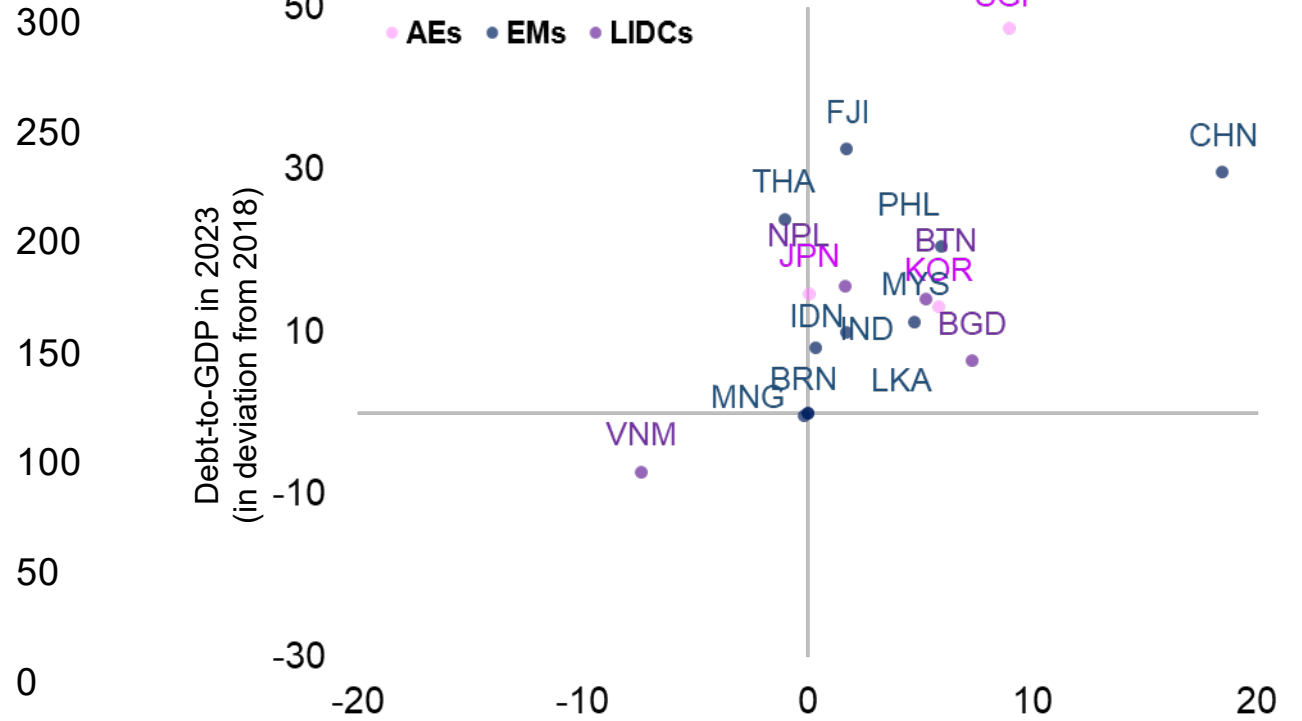


Public Debt in Asia: A Diverse Landscape

**General Government Debt 2024
(Percent of GDP)**



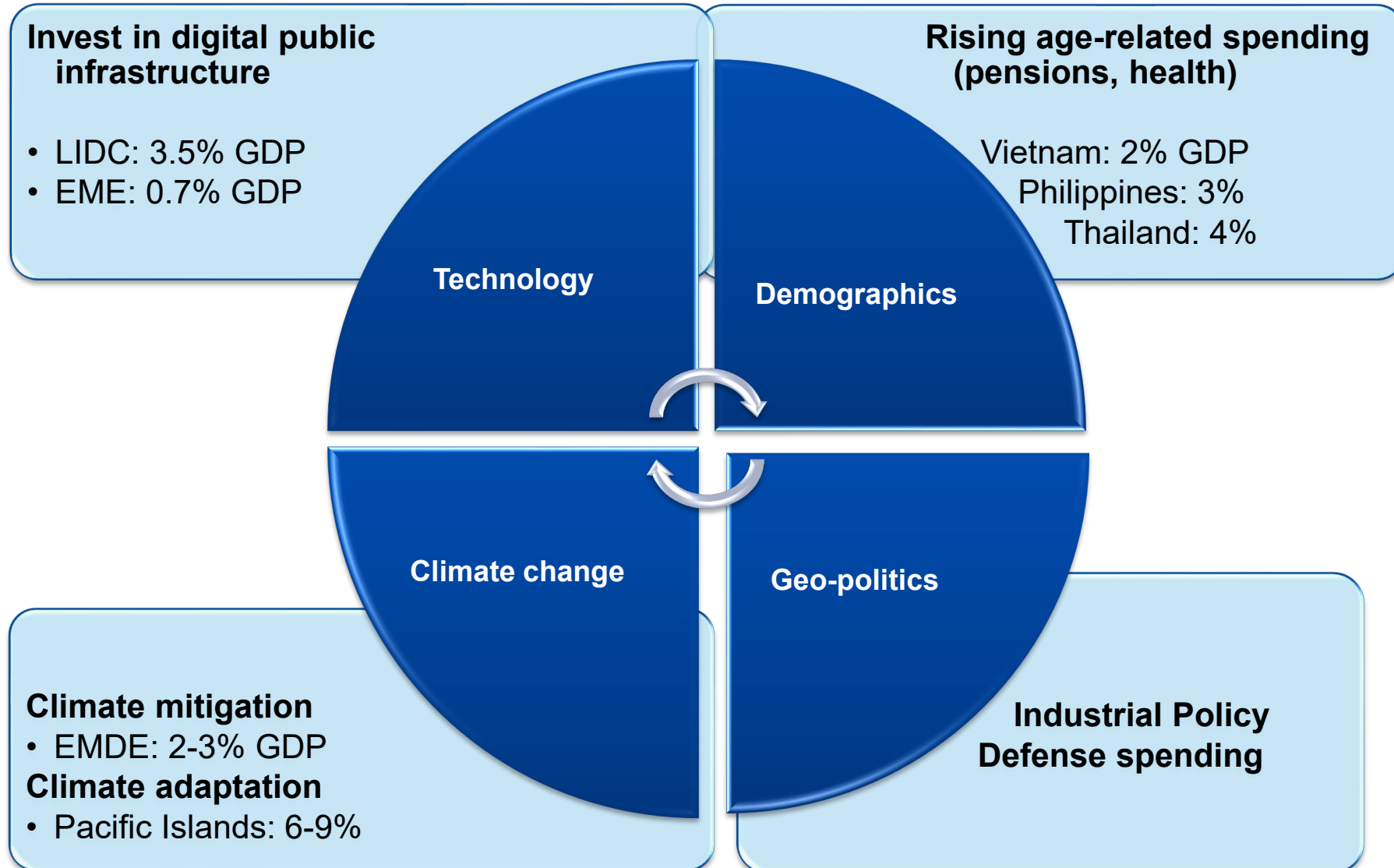
**Public Debt Evolution between 2018 and 2023
(Percent of GDP)**



Sources: IMF staff calculations and World Economic Outlook 2025 and World Economic Outlook October 2019.

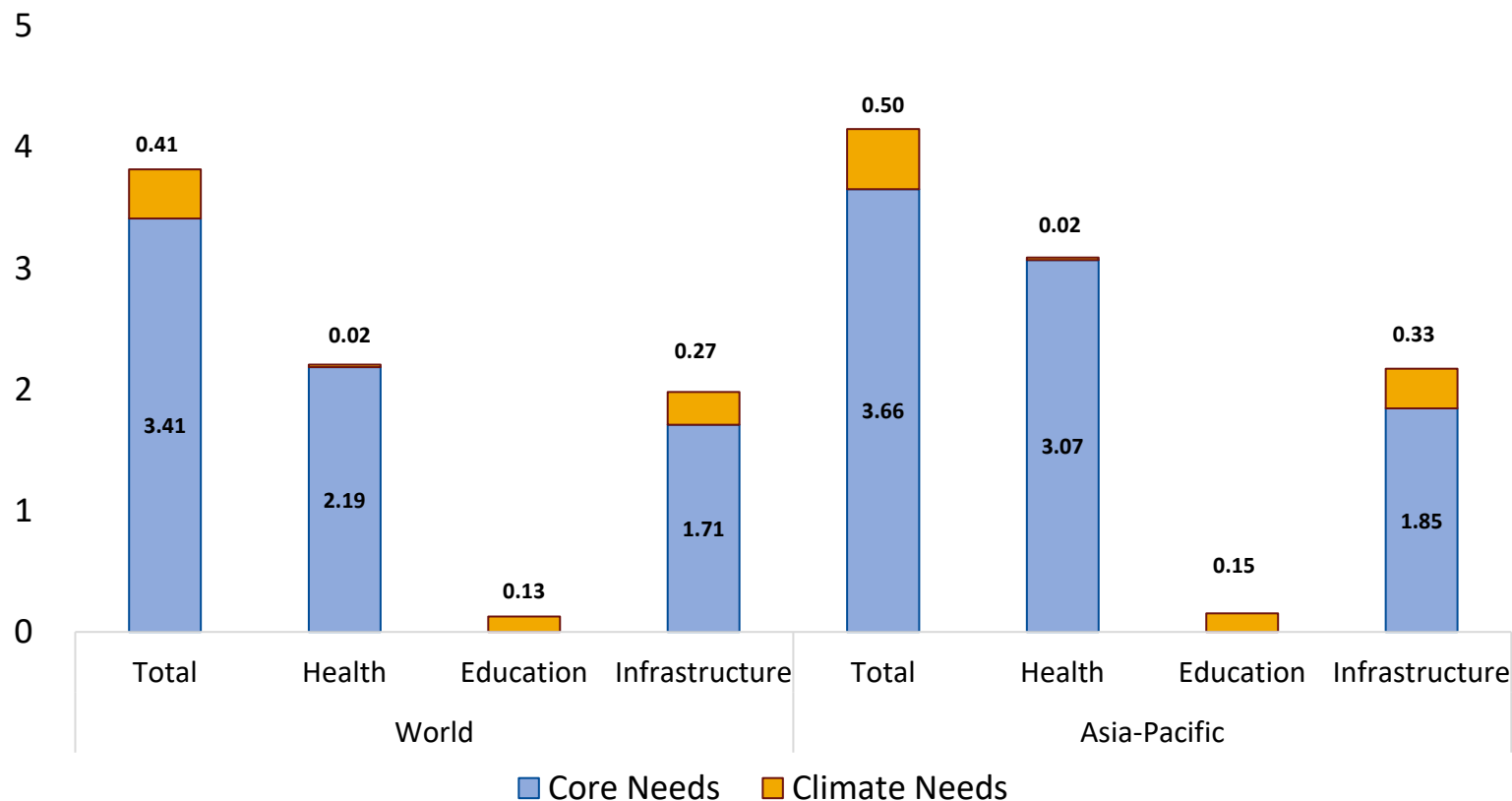
Notes: Y-axis shows difference in debt-to-GDP ratios between 2018-2023 as of WEO January 2025, X-axis shows the projected growth in debt-to-GDP ratio between 2024-2029 as of WEO October 2024 (WEO Live) and the projected growth between 2014-2019 as of WEO October 2014.

Fiscal challenge #2: Spending Pressures



SDG Spending Needs by Category, incl. Climate

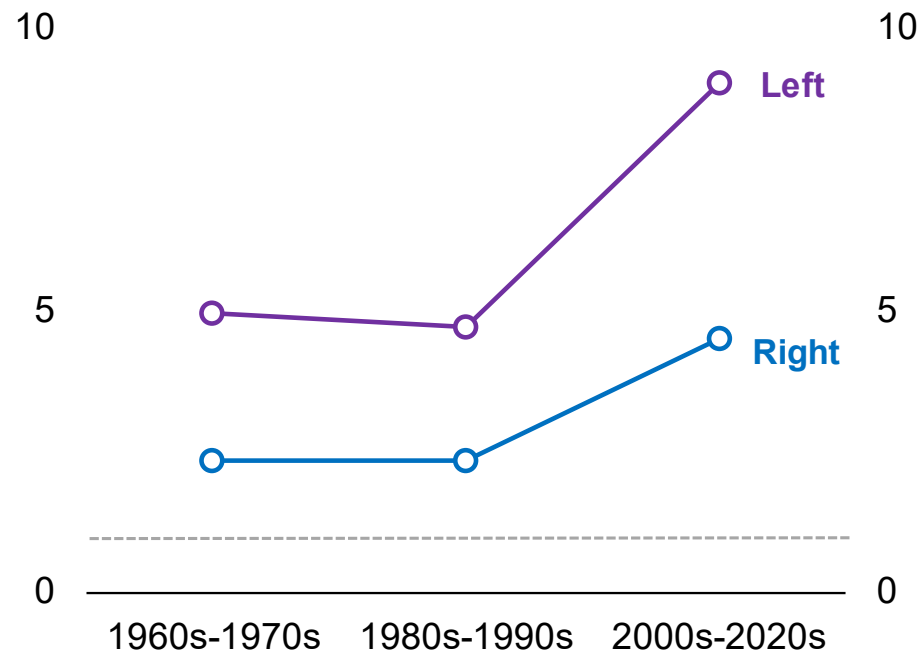
Additional Spending Needs Including Climate Risks



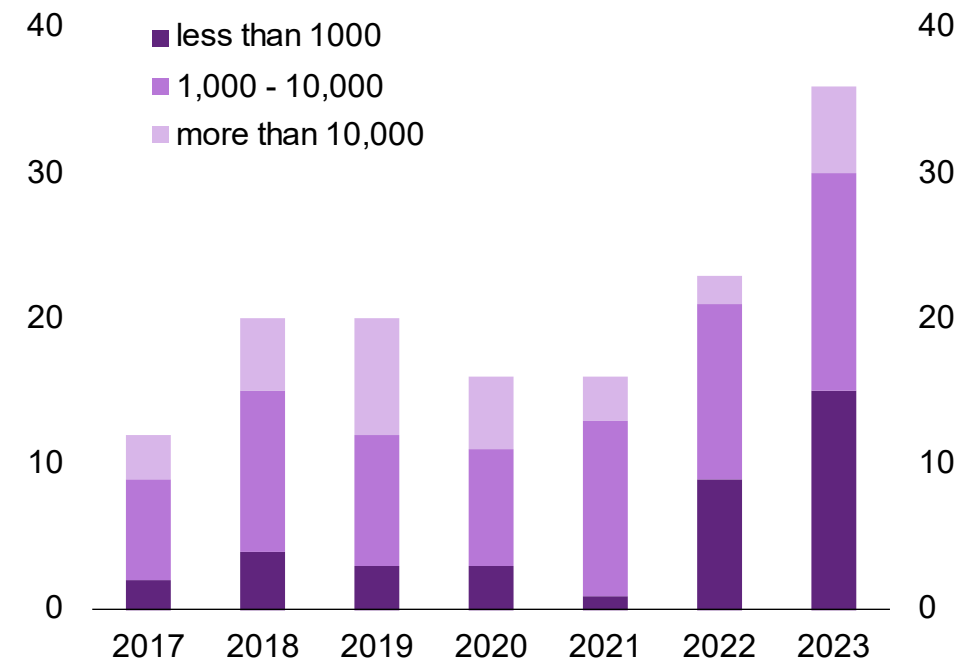
Sources: The IMF SDG Costing Tool 3rd Edition; Accounting for Climate Risks in Costing the Sustainable Development Goals (Rimjhim et. al (2023). The IMF 3rd Edition refers to estimates from “How to Assess Spending Needs of the Sustainable Development Goals: The Third Edition of the IMF SDG Costing Tool” Piergiorgio et. al (2022).

Fiscal challenge #3: Managing Political Factors

**Advanced Economies:
Evolution of Fiscal Discourse by Party Family, 1960s-2020s
(Ratio of pro-expansion/pro-restraint)**



LIDCs: Number of Protests, 2017-2023

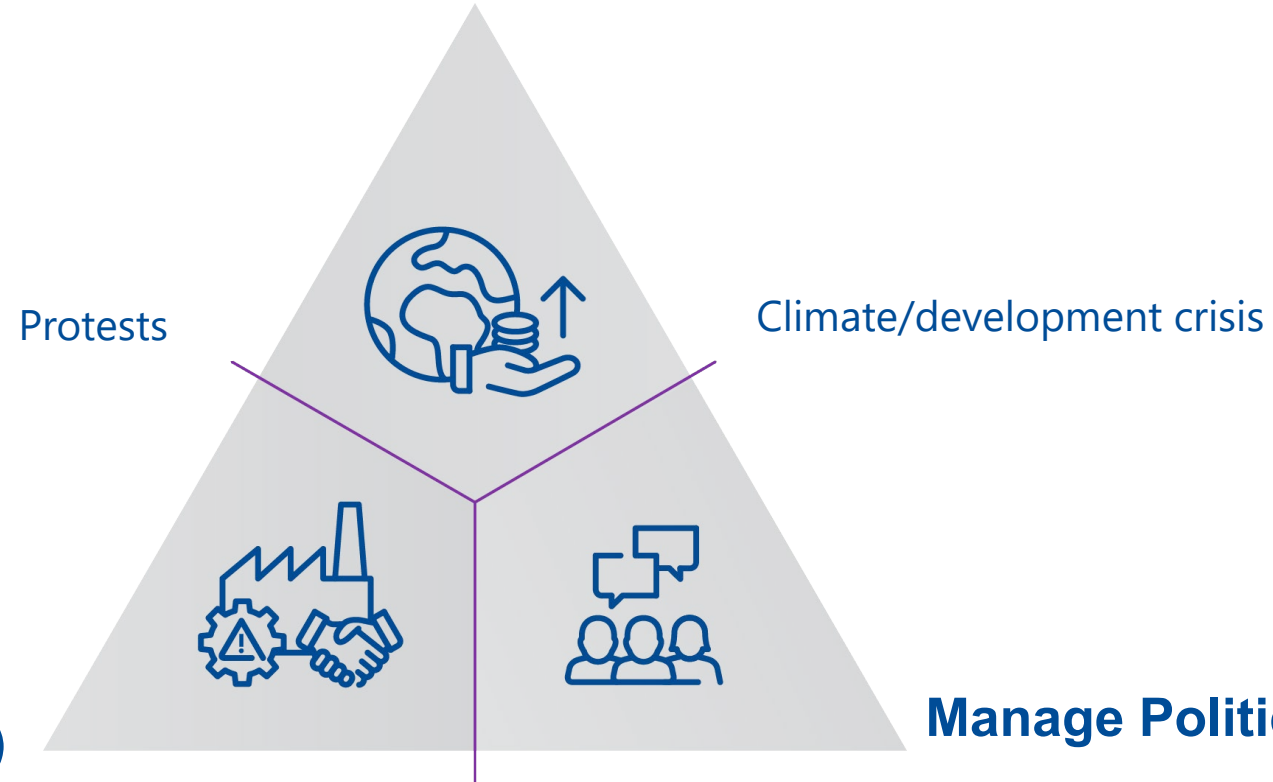


Sources: (LHS) Cao, Dabla-Norris, and Di Gregorio (2024), and Manifesto Project Database. (RHS) Global Protest Tracker, Carnegie Endowment for International Peace.

Notes: (LHS) Manifesto Project data capture both spending intentions and value judgments. The data are first averaged at the country-election level, then by country-year, and finally by four-year period. The vertical axis reports the ratio of platform statements by policy realm in which a party potentially advocates for more government spending or support.

A Difficult Fiscal Policy Trilemma

Keep Debt Sustainable (#1)



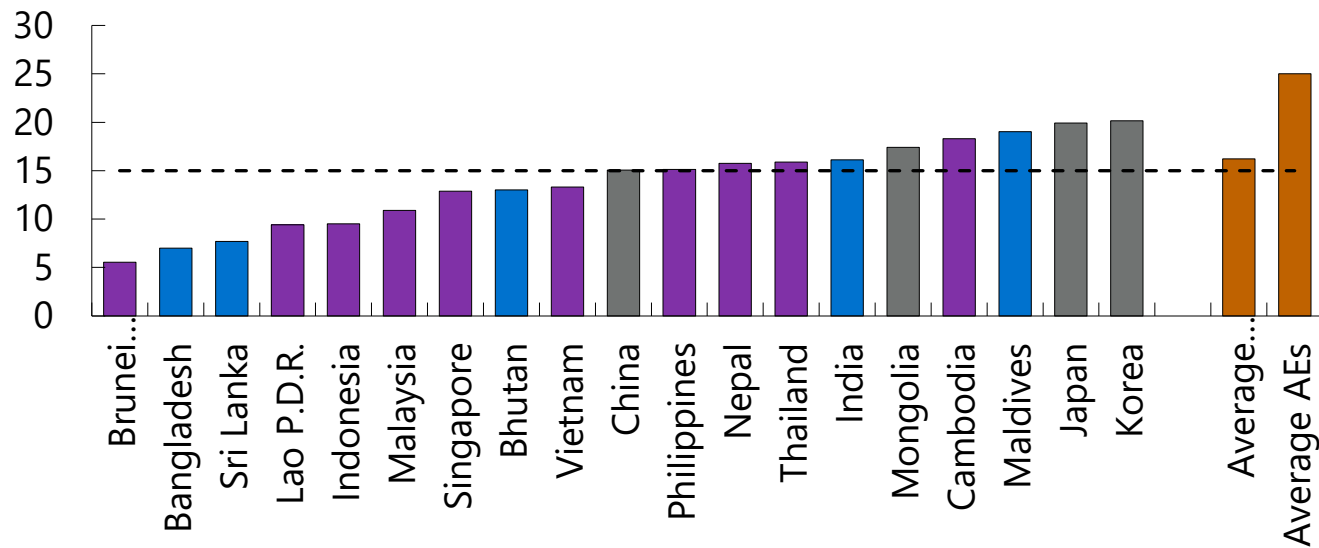


FISCAL AFFAIRS

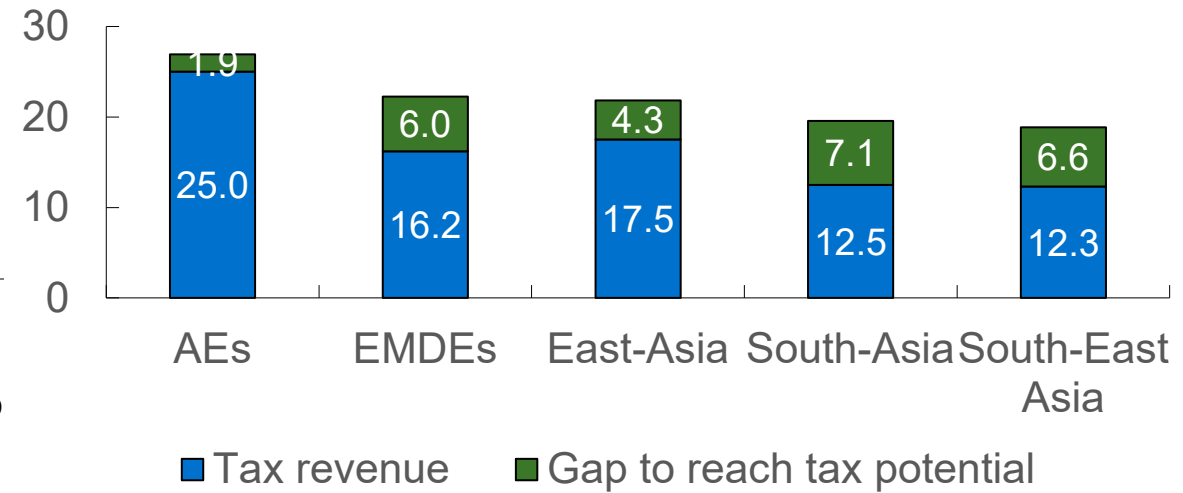
How to relax the Trilemma?

#1. Improving tax capacity – a key priority

Tax ratios are low in Asia ...



... and untapped tax potential is significant

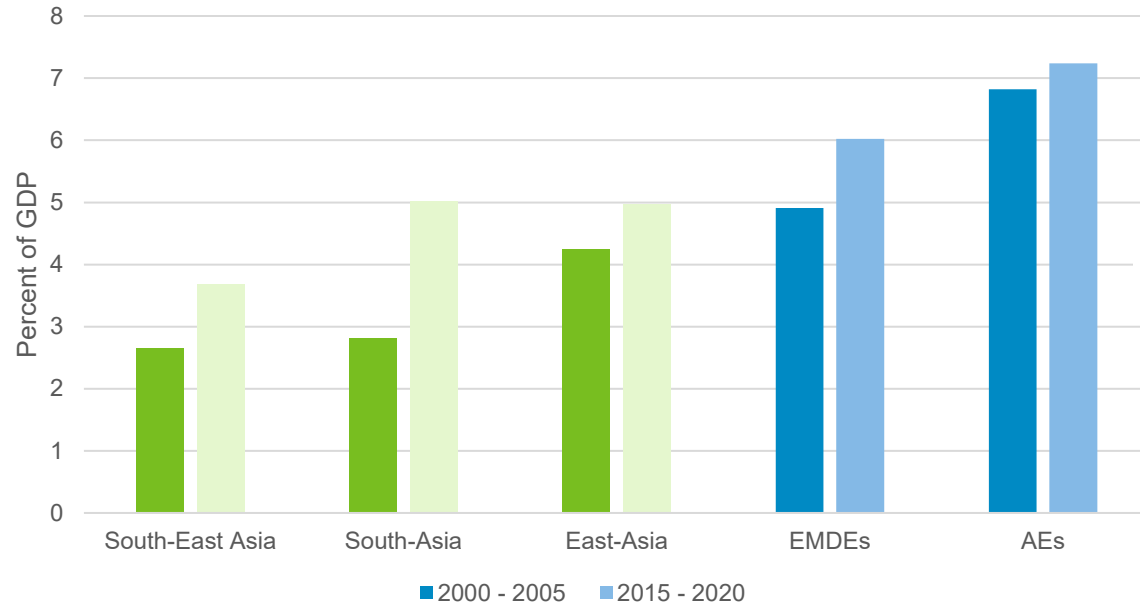


Tax-to-GDP Ratios in 2020 (excluding Social Contributions)

Source: IMF WoRLD Database.

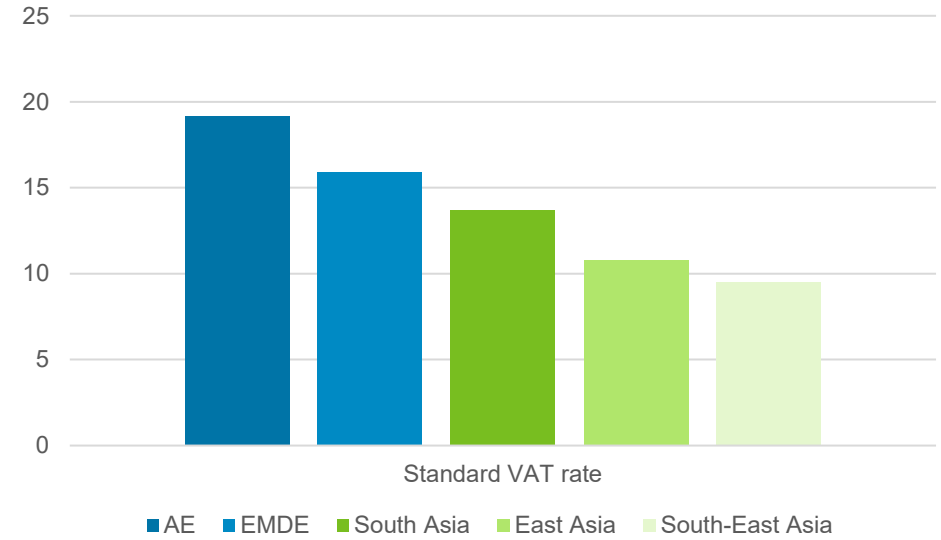
Significant scope to boost VAT Revenue

VAT Revenues low in Asia ...

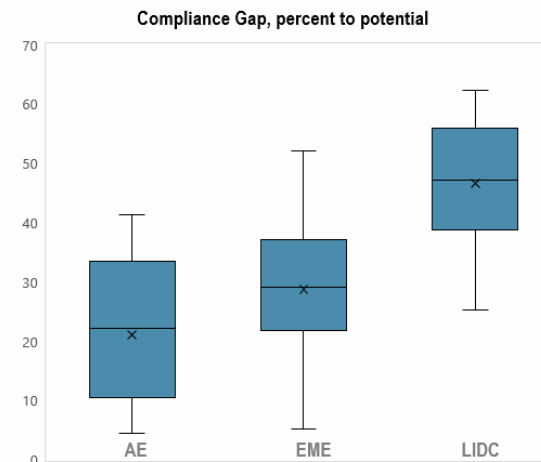


Source: IMF World Database.

... in light of low Standard VAT Rates



... and large Non-Compliance



Options for expanding the tax base

Reconsider tax expenditures

- ▶ About one quarter of tax revenue in EMEs and LIDCs, or **between 2 – 4% GDP**

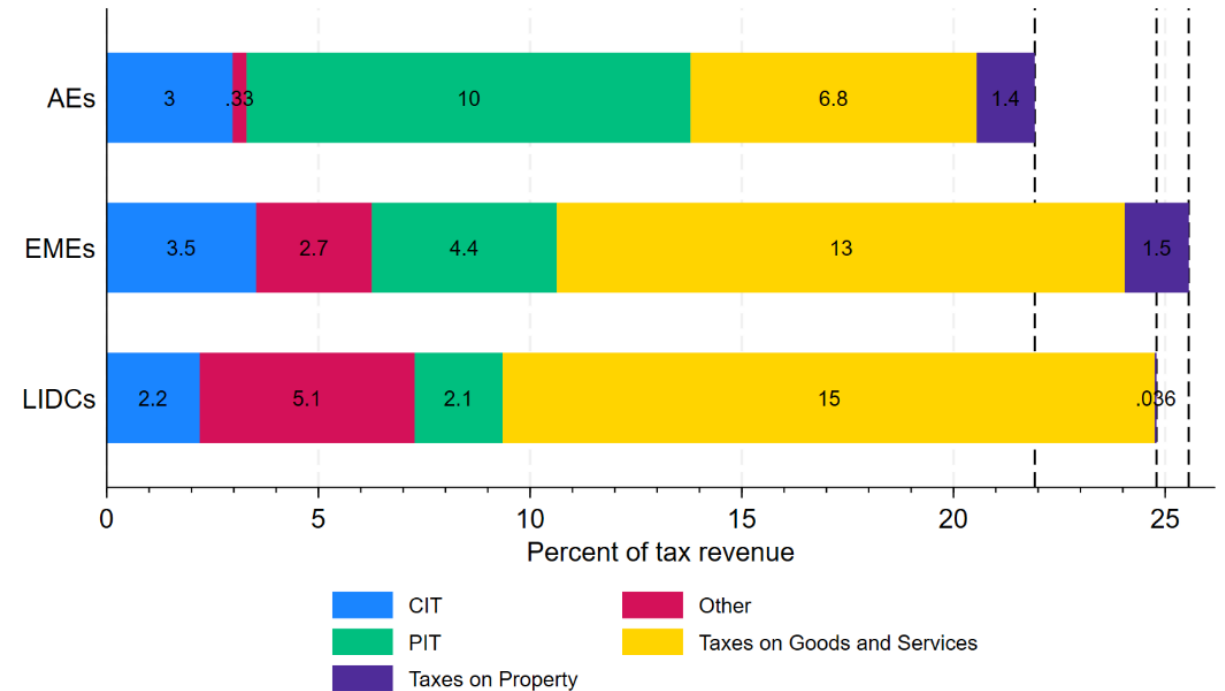
Expand taxes on income and wealth

- ▶ Professionals, high-wealth individuals, capital gains
- ▶ Property tax
- ▶ Fiscal regimes for extractive industries

Exploit excises

- ▶ Health, energy, carbon

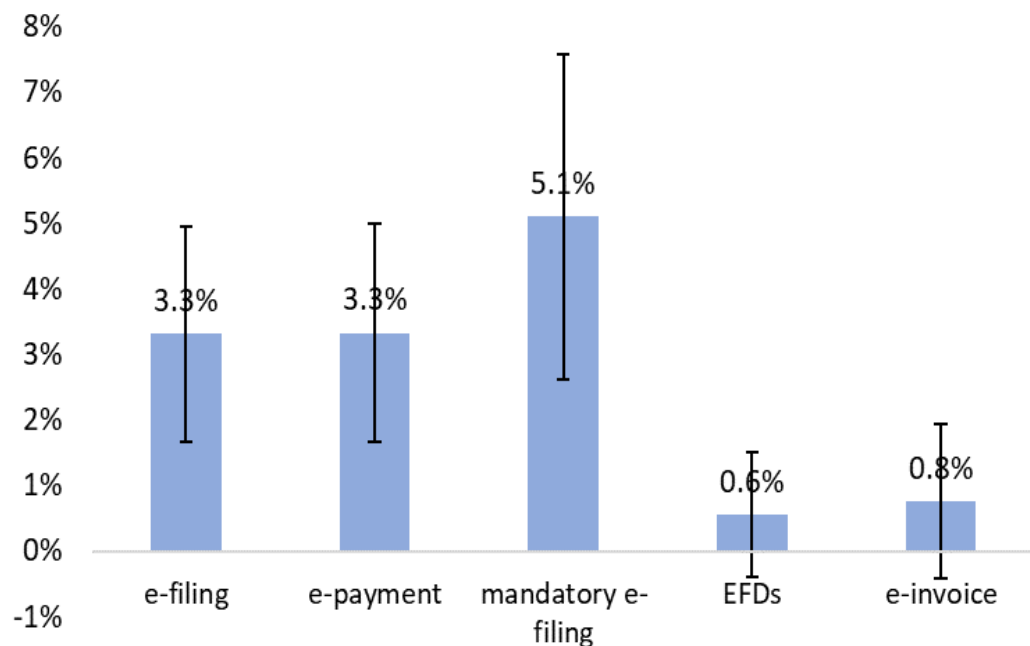
Estimates of Tax Expenditures – average 2012-21



Sources: Global Tax Expenditures Database and IMF staff calculations using results of gap studies conducted in more than 30 countries.

#2. Exploiting gains from digitalization (and AI)

Impact on Tax Revenue from Policy Change (percent of GDP)



Effects are conditional on enabling factors

Figure 3. Impact of Online Filing on Nontrade Tax Revenues: Heterogeneous Effect, by Enablers (in Percent of GDP)



Sources: IMF, World Bank, United Nations, ISORA, Alper and Miktus (2019); and authors' estimates.

Sources: Nose (2023) using IMF, World Bank GovTech Maturity Index, ISORA, TADAT.

Note: Bars show point estimates from fixed effect regressions, controlling for macroeconomic, structural, and institutional determinants of each outcome. Error bars present 95 percent confidence intervals. Impact measures moving from no to full digitalization.

#3. International Cooperation

• Climate policy

- Reinforce Paris Agreement
- If not global/universal, then regional/sectoral

• Taxation

- Global corporate tax deal
- Exchange of information
- Regional cooperation

• Trade and technology

- WTO compliance



#4. Sound fiscal management

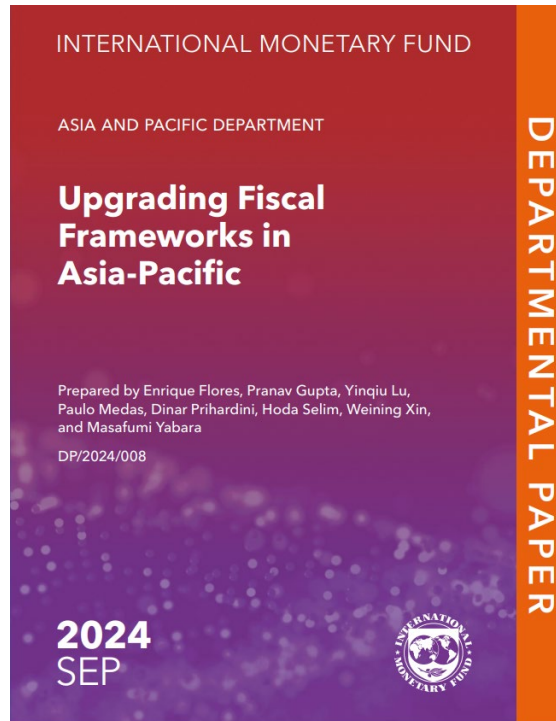
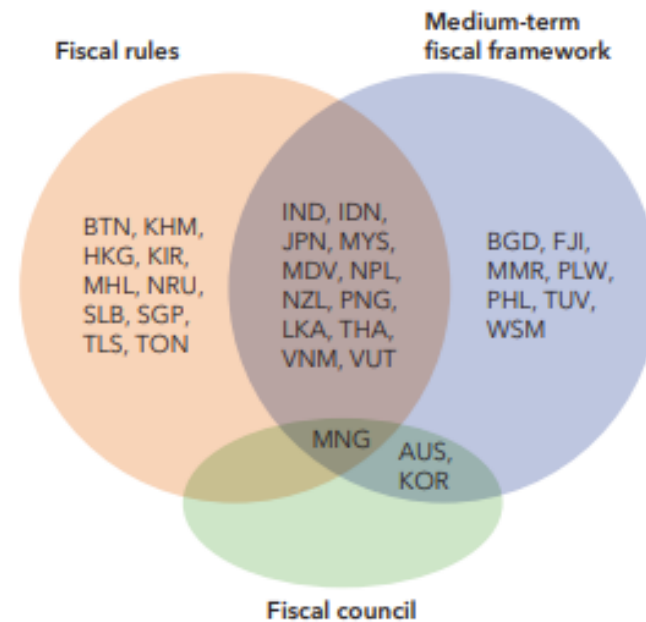


Figure 12. Fiscal Frameworks in Asia-Pacific



Sources: Survey of IMF country teams; and authors' calculations.
Note: Data labels in the figure use International Organization for Standardization (ISO) country codes.



FISCAL AFFAIRS

Thank You!