Discussion of *The Motives to Borrow* by Fatás, Ghosh, Panizza, Presbitero

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Motives to Borrow

- Good: intertemporal tax smoothing, stimulus..
- Bad: short political horizons, strategic manipulation, common pool problems…
- Ugly: exchange rate crises, banking crises…
Please emphasize more:

- Distributional implications (across generations, but also taxpayers versus bondholders)
- Impact of economic growth on revenues, debt ratio
- Ability to borrow, interest costs
- Mauro et al (JME 2015): Increase in primary fiscal balance in response to debt increases is weaker when borrowing costs are low, and when potential economic growth worsens unexpectedly
GDP Growth and Debt/GDP in Japan

Growth Matters More Than We Usually Say

• Conventional \[ d_t - d_{t-1} = \left(\frac{r_t}{1+g_t}\right)d_{t-1} - \left(\frac{g_t}{1+g_t}\right)d_{t-1} - p_t + f_t \]

• Add \[ p_t = p_{t-1} + e_{t-1}\left(\frac{g_t}{1+g_t}\right) + m_t \]

• Complete \[ d_t - d_{t-1} = \left(\frac{r_t}{1+g_t}\right)d_{t-1} - m_t - p_{t-1} + f_t - \left(\frac{g_t}{1+g_t}\right)(d_{t-1} + e_{t-1}) \]

Cumulative contributions to changes in government debt-to-GDP ratios between end-2012 and end-2015 in Ireland and Italy (same debt ratio at end-2012)

Source: IMF, World Economic Outlook database, April 2016.
Traditional and additional growth contributions to changes in debt-to-GDP ratios between end-2012 and end-2015 in Ireland and Italy

Source: IMF, World Economic Outlook database, April 2016.