



# International Monetary Fund

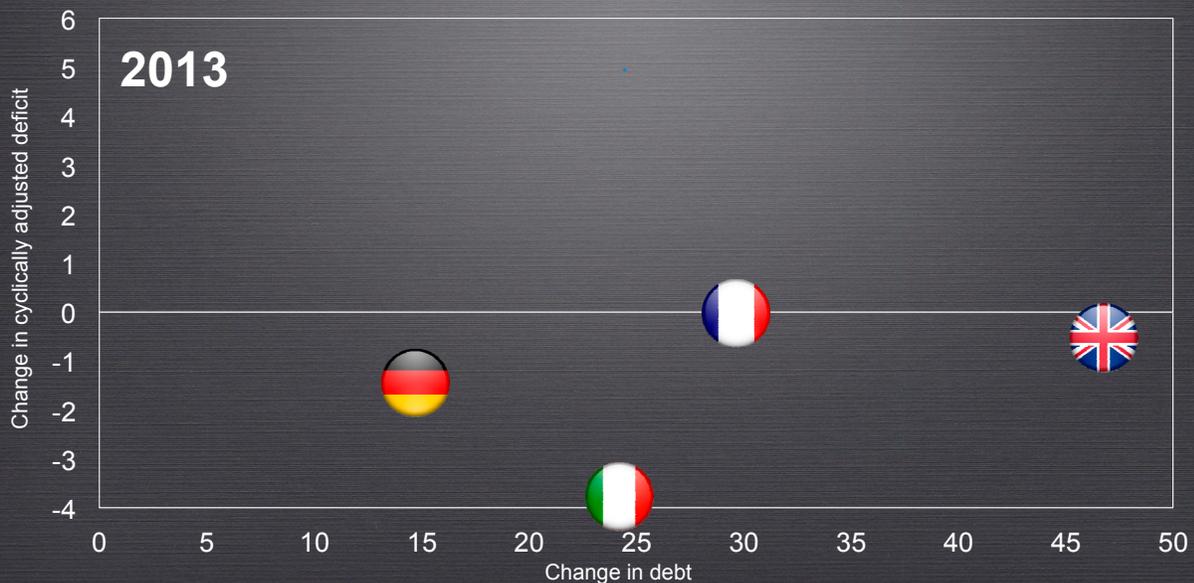
January 18, 2012

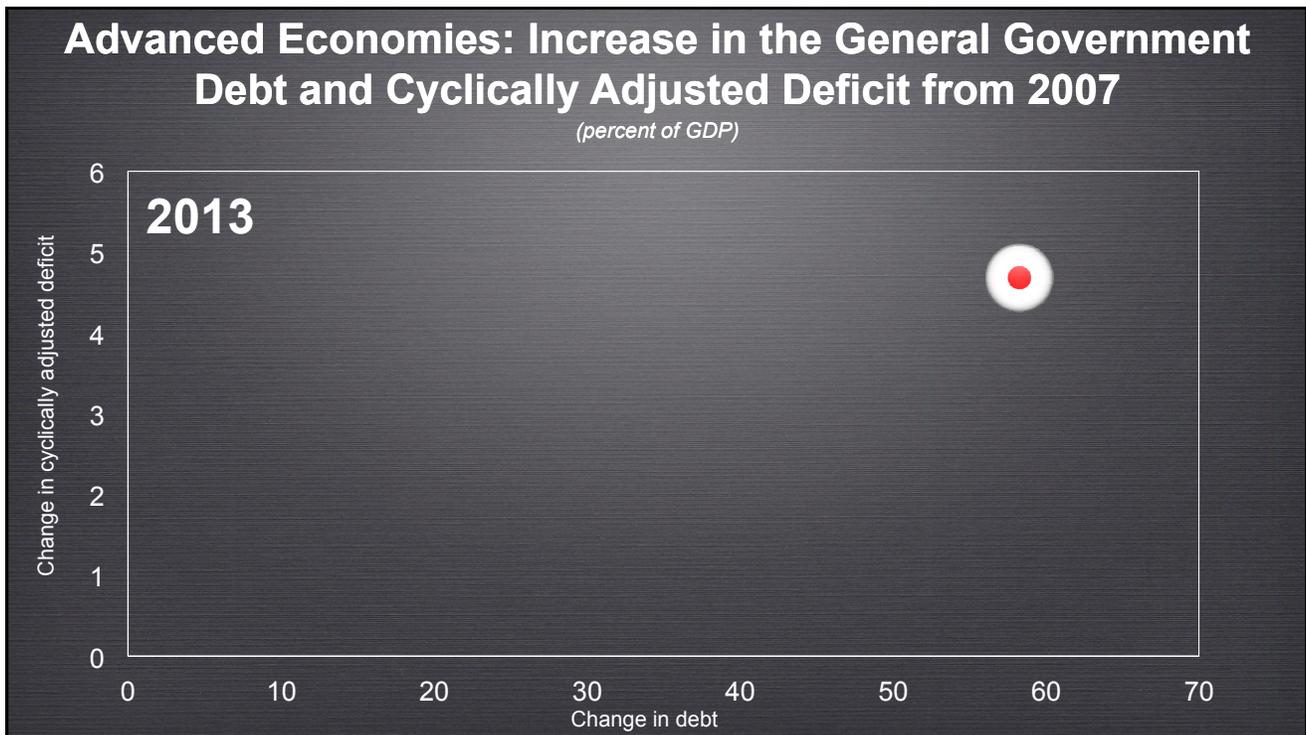
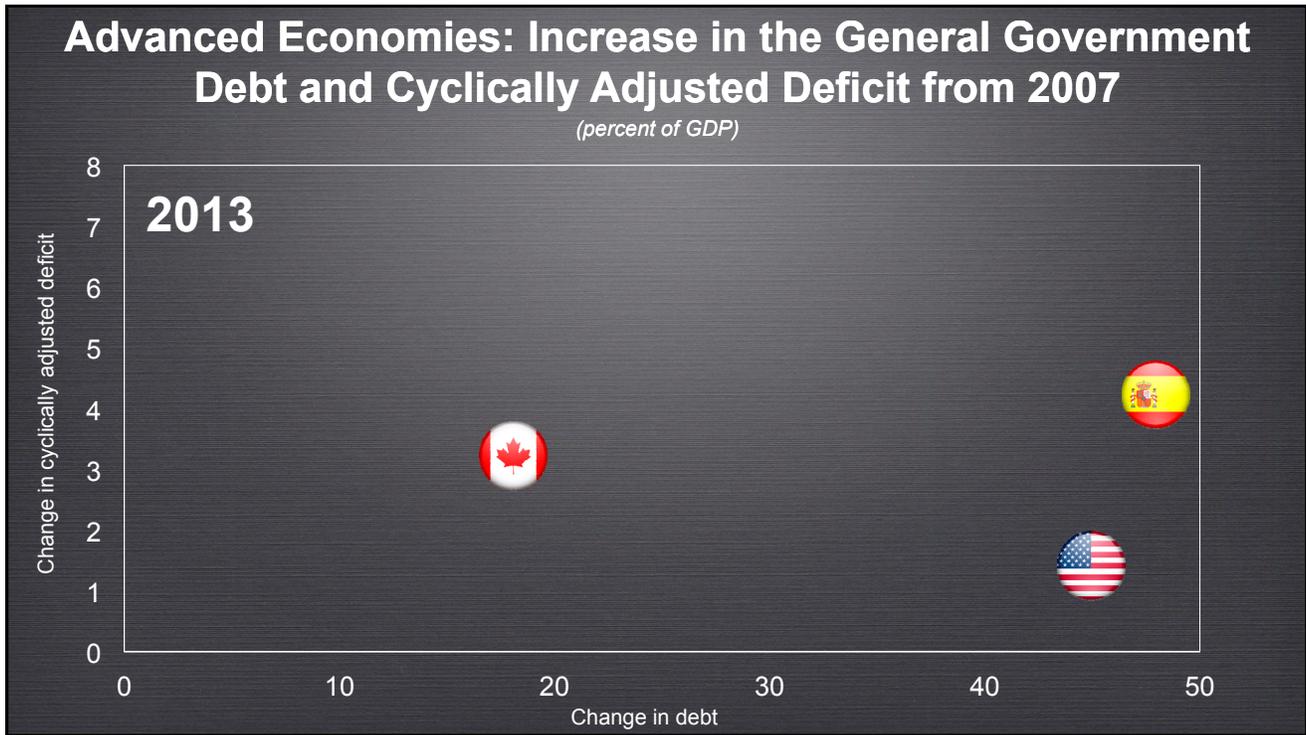
## World Economic and Market Developments

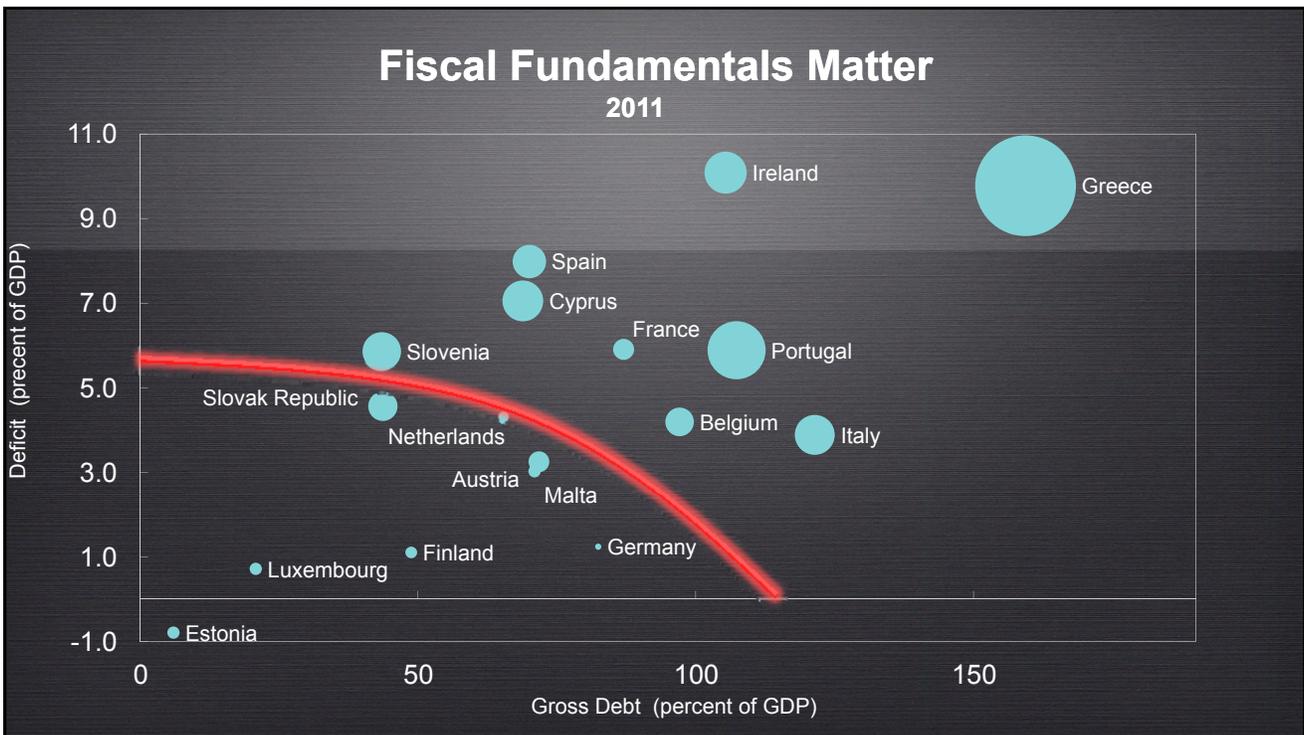
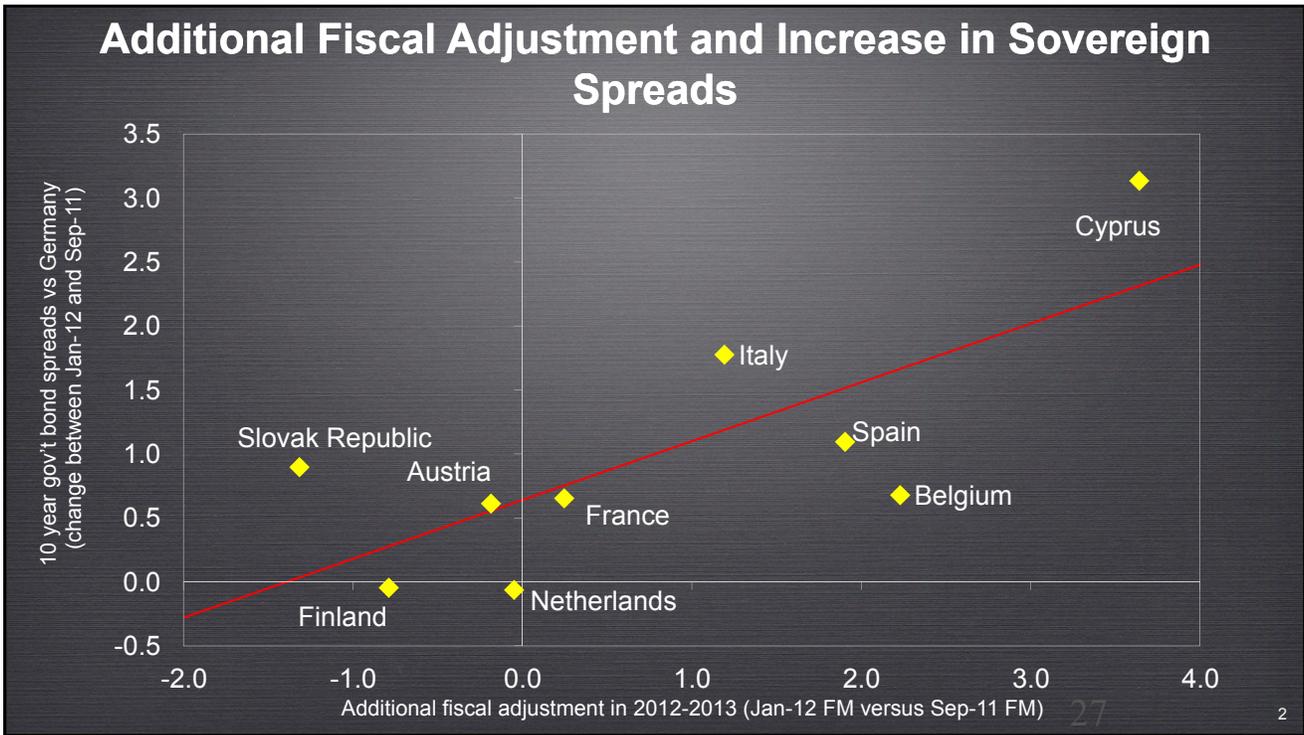
*Carlo Cottarelli*  
*Director, Fiscal Affairs Department*

### Advanced Economies: Increase in the General Government Debt and Cyclically Adjusted Deficit from 2007

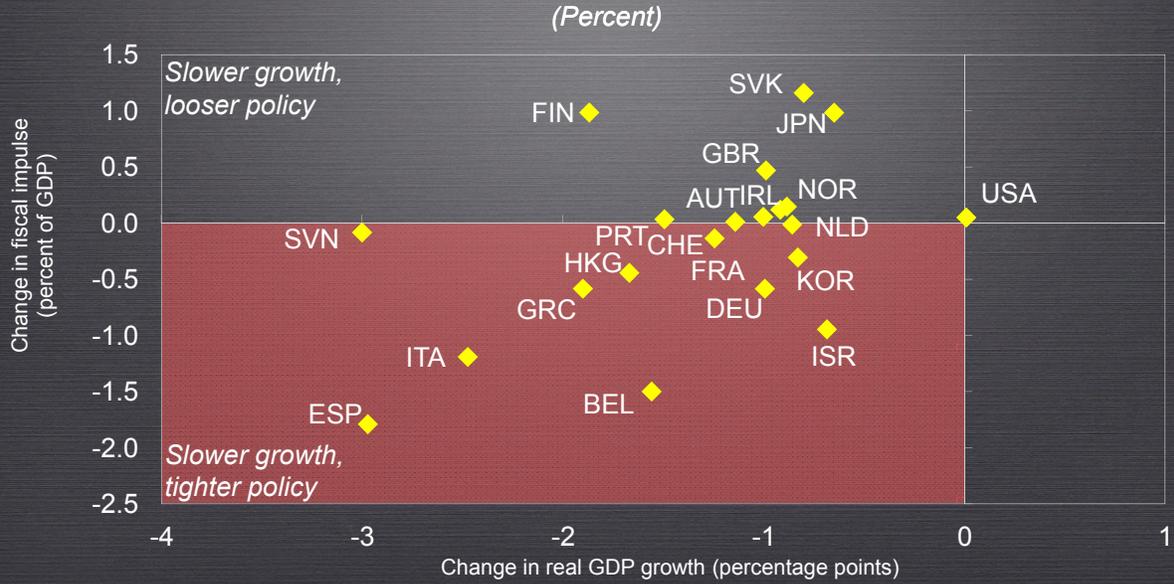
(percent of GDP)



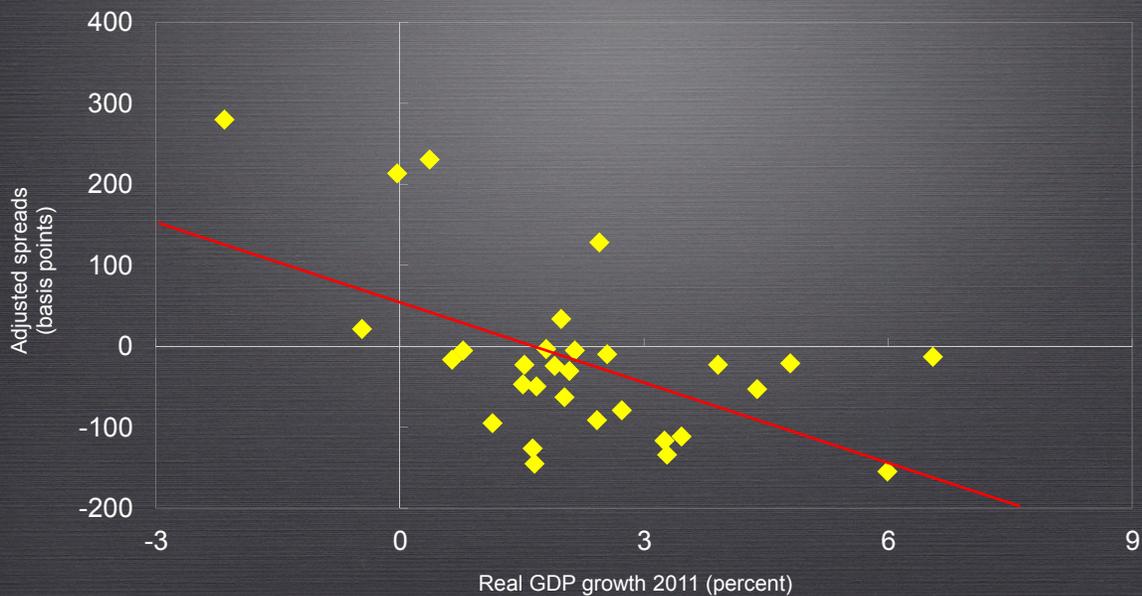


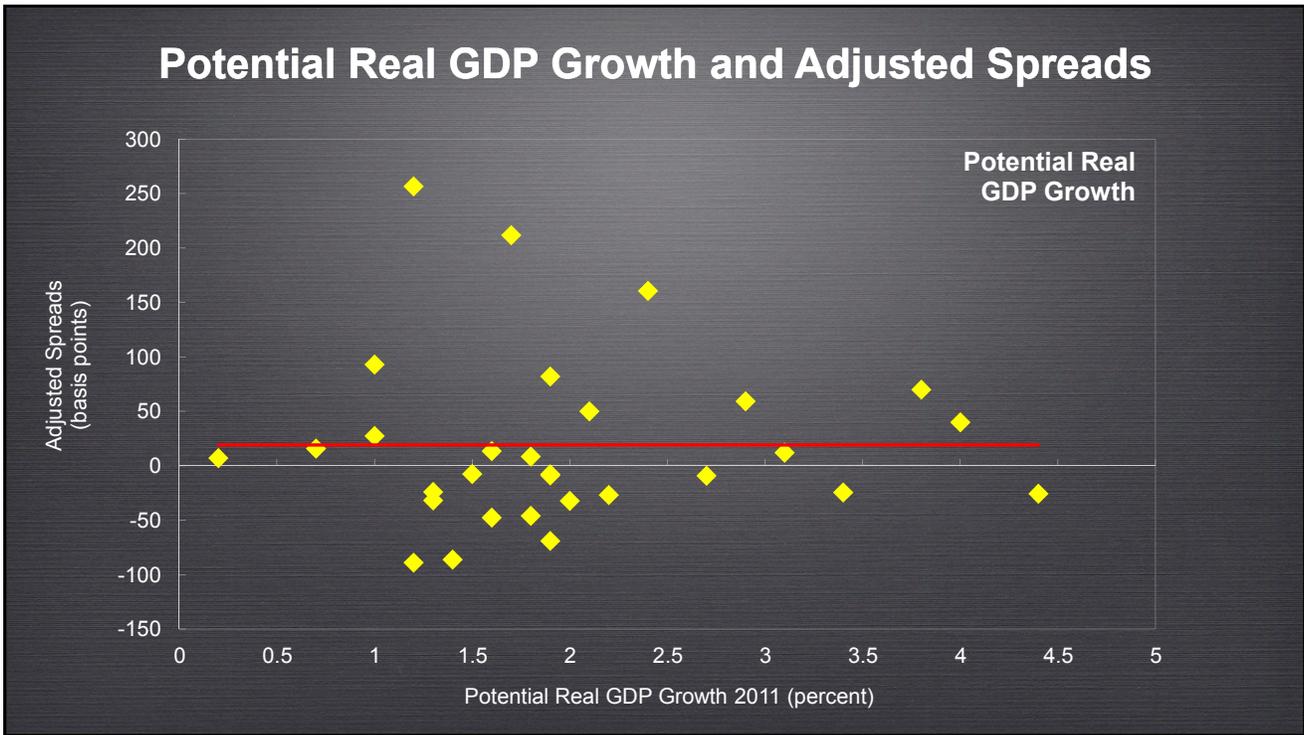


## Advanced Economies: Change in Fiscal Impulse and Real GDP Growth, 2012



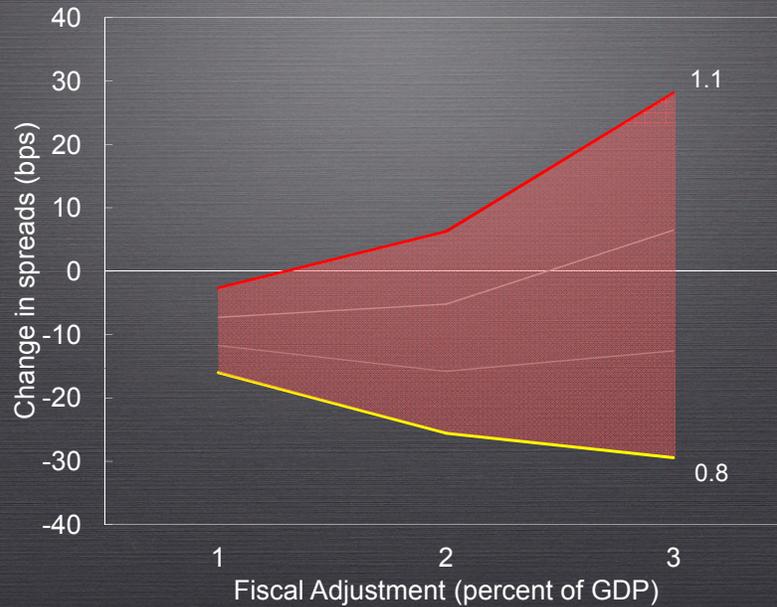
## Real GDP Growth and Adjusted Spreads





*“...we believe that a reform process based on a pillar of fiscal austerity alone risks becoming self-defeating, as domestic demand falls in line with consumers’ rising concerns about job security and disposable income, eroding national tax revenues”*

## Fiscal Adjustment and Change in Spreads



## Policy Implications

**Fiscal policy must be tightened but, if you do not have to, avoid tightening too much**

- Automatic stabilizers should be allowed to operate
- Slow down the pace of fiscal adjustment in case of shocks

**Short-term tightening of fiscal policy cannot be the only adjustment tool**

**There is a need for fiscal policies that can help broaden the narrow path**

- Stronger fiscal institutions
- Reforms affecting long-term spending trends
- Better communication

Thank you!