

International Economic Outlook and Fiscal Developments

Carlos Mulas-Granados
Fiscal Affairs Department, IMF



Outline

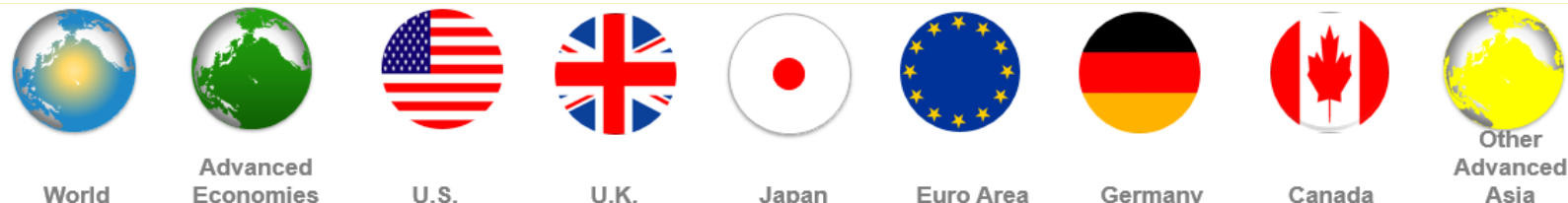


- **Recent Economic Projections (WEO, Spring 2016)**
- **Highlights from recent fiscal developments and risks**
- **Adapting to new realities: no one size fits all**
- **Fiscal policies for innovation and growth**

Recent Economic Projections (WEO)

Growth in 2016: Downward revision in AEs

(percent change from a year earlier)



	World	Advanced Economies	U.S.	U.K.	Japan	Euro Area	Germany	Canada	Other Advanced Asia
2015	3.1	1.9	2.4	2.2	0.5	1.6	1.5	1.2	2.1
2016	3.2	1.9	2.4	1.9	0.5	1.5	1.5	1.5	2.2
Revision from Jan. 2016	-0.2	-0.2	-0.2	-0.3	-0.5	-0.2	-0.2	-0.2	-0.3
2017	3.5	2.0	2.5	2.2	-0.1	1.6	1.6	1.9	2.6
Revision from Jan. 2016	-0.1	-0.1	-0.1	0.0	-0.4	-0.1	-0.1	-0.2	-0.4

Sources: IMF, World Economic Outlook January 2016 Update; and IMF, World Economic Outlook April 2016.

Growth in 2016: Downward revision in EMEDs

(percent change from a year earlier)



World



Emerging Market and Developing Economies



China



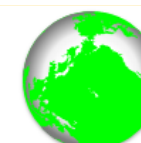
India



Brazil



Russia



Commodity Exporting Economies



Low Income Developing Countries

2015

3.1

4.0

6.9

7.3

-3.8

-3.7

0.7

4.5

2016

3.2

4.1

6.5

7.5

-3.8

-1.8

1.0

4.7

Revision from Jan. 2016

-0.2

-0.2

0.2

0.0

-0.3

-0.8

-0.5

-0.9

2017

3.5

4.6

6.2

7.5

0.0

0.8

2.6

5.5

Revision from Jan. 2016

-0.1

-0.1

0.2

0.0

0.0

-0.2

-0.2

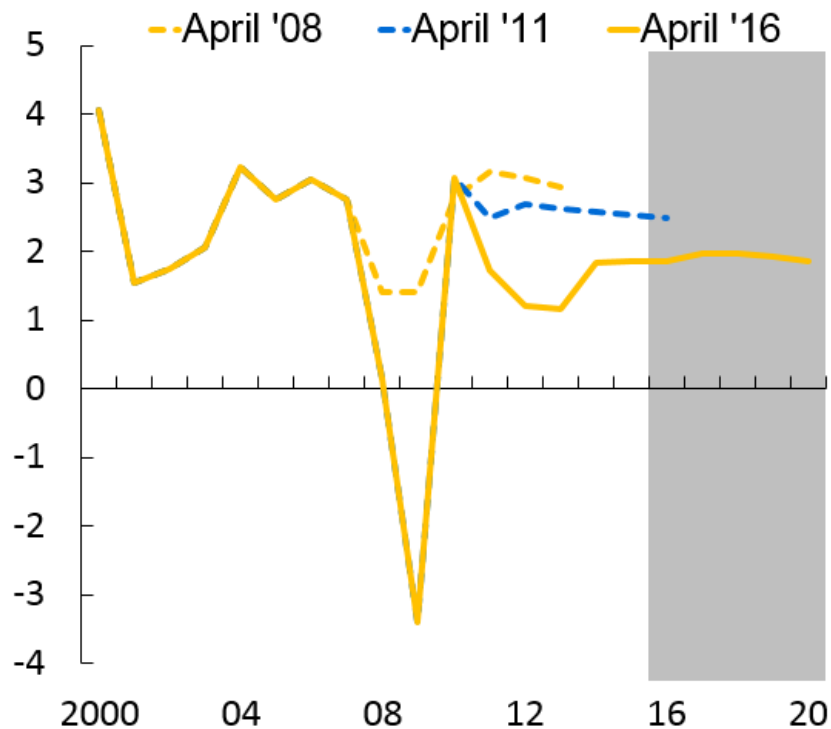
-0.4

Sources: IMF, World Economic Outlook January 2016 Update; and IMF, World Economic Outlook April 2016.

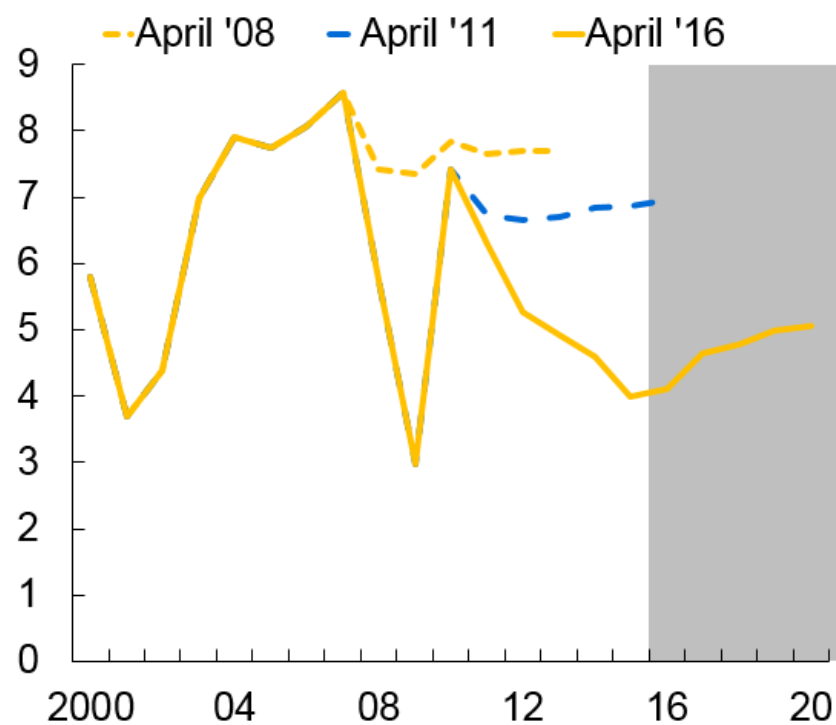
Growth projections also revised beyond 2017



AEs: Real GDP Growth
(percent; various WEO forecast vintages)



EMs: Real GDP Growth
(percent; various WEO forecast vintages)



Recent Fiscal Developments and Risks

AEs: Public debt is reaching historical levels

Advanced economies: Public Debt-to-GDP Ratio, 1925-2016

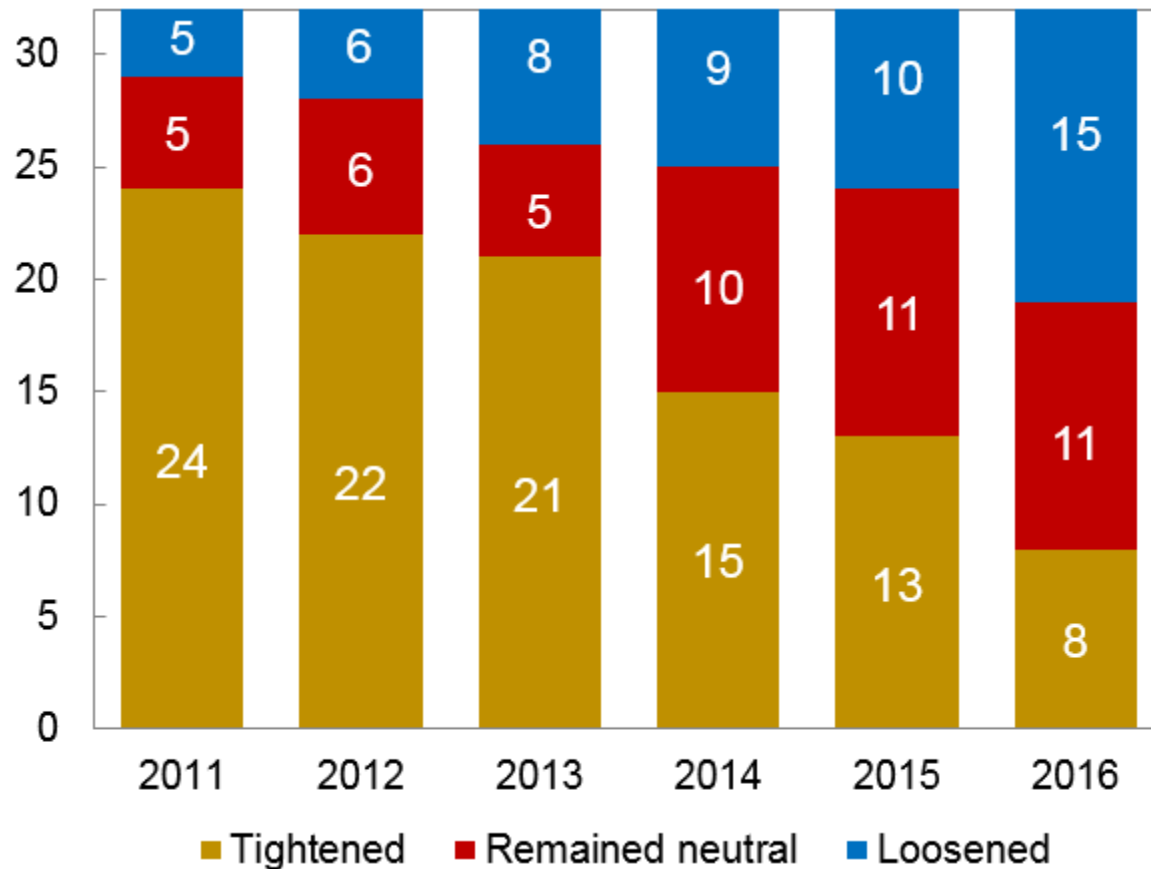


Sources: Historical Public Debt Database

AEs: fiscal results are the result of a loosening of fiscal stances



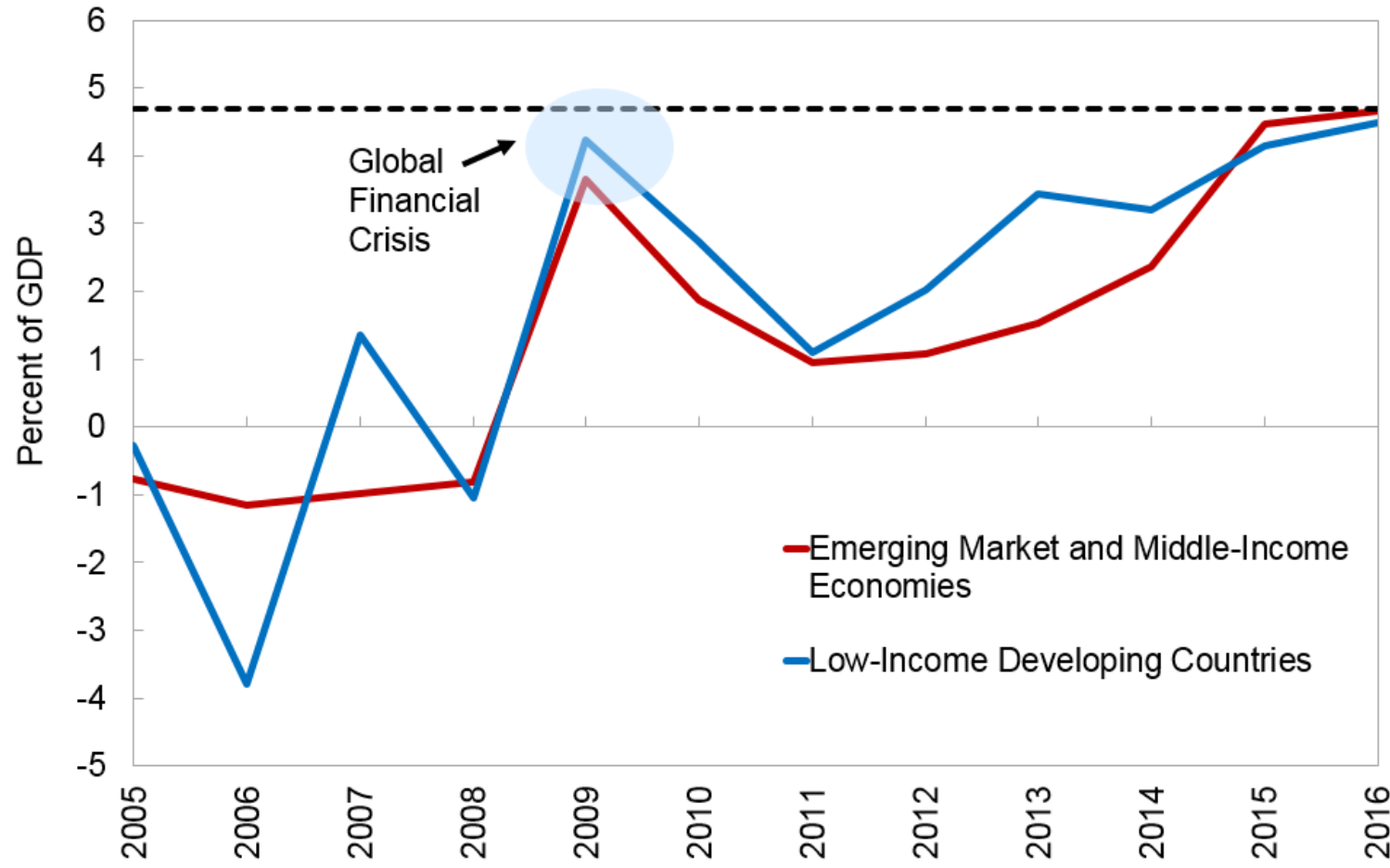
Number of Countries in Which the Fiscal Stance Was Tightened, Loosened, or Remained Neutral, 2011–16



Source: IMF staff estimates

EMs: Fiscal deficits in 2016 reaching levels similar to 2009-crisis

General Government Fiscal Deficit, 2005-16

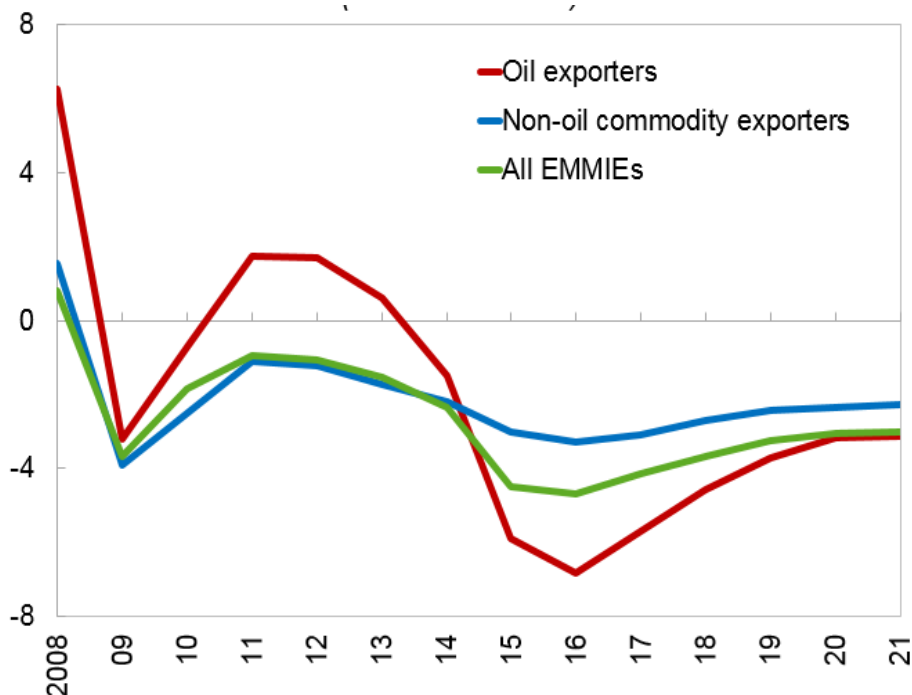


Sources: IMF staff estimates

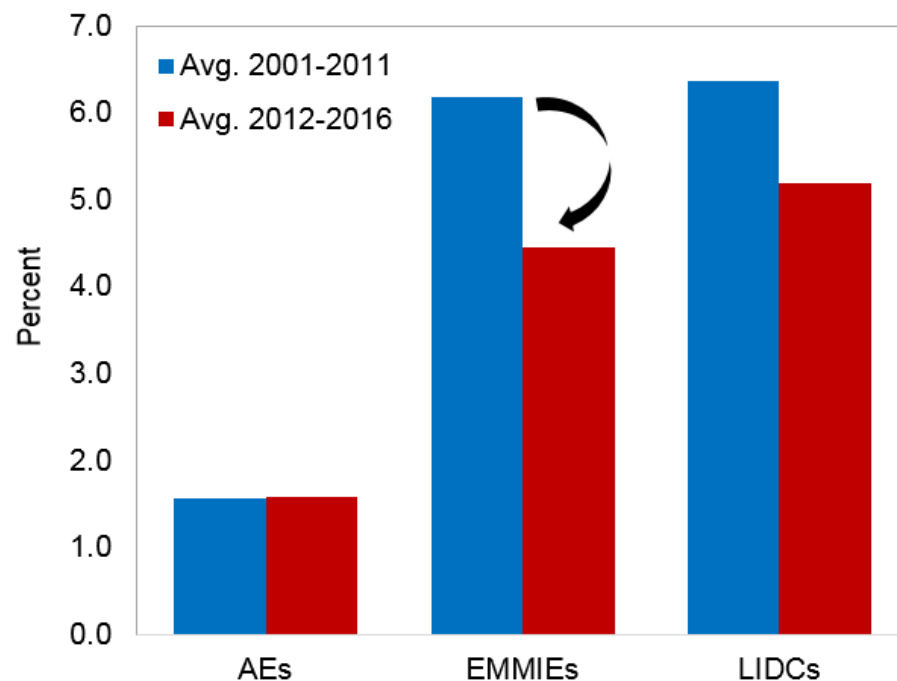
EMs: The fiscal deterioration has been driven by oil price and growth decline



General Government Overall Balance, 2008–21
(Percent of GDP)



Average Real GDP Growth: 2001–11 vs 2012–16
(Weighted Average)

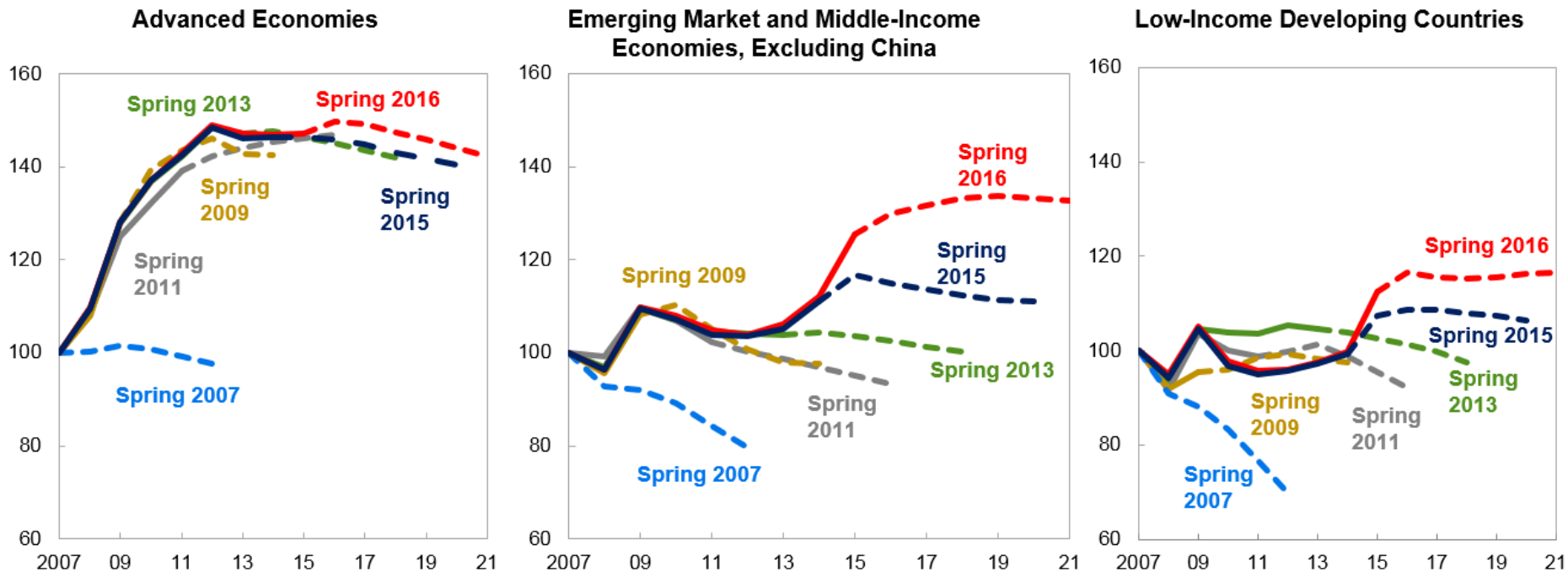


Source: IMF staff estimates

Fiscal forecasts keep being revised upwards around the world



Revisions to General Government Gross Debt-to-GDP Ratio, 2007–21
(Rebased debt ratio, index 2007 = 100)

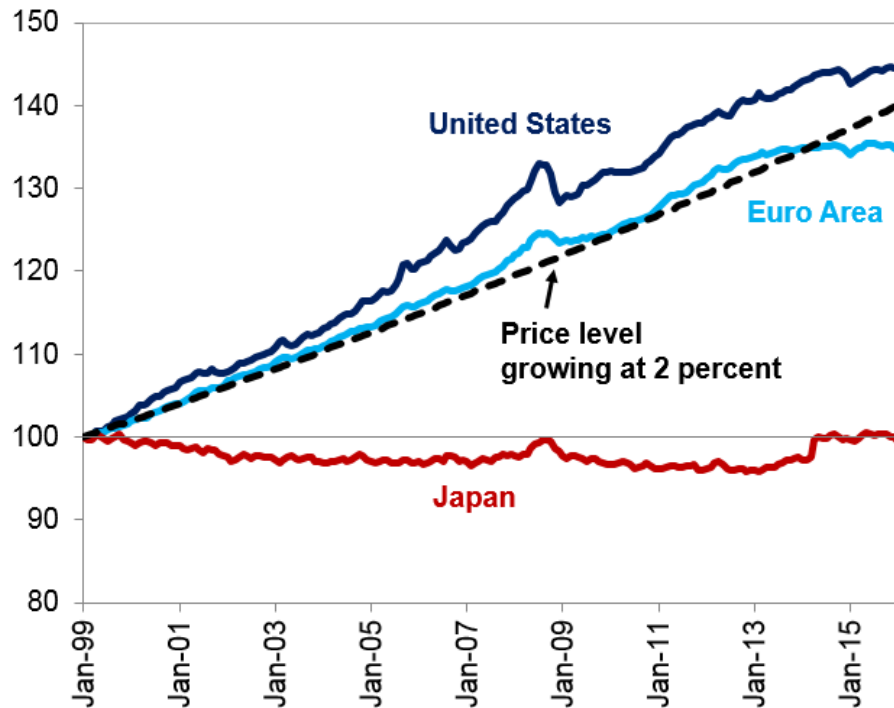


Source: IMF staff estimates

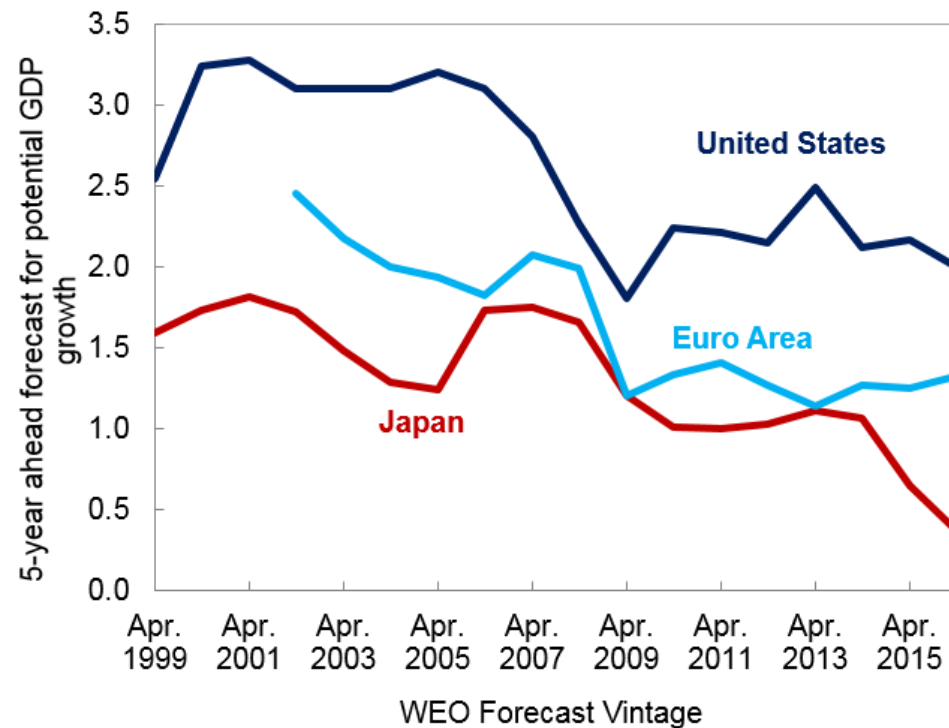
**Adapting to new realities:
no one size fits all**

AEs: Low growth-low inflation-high debt

Price Level Path, Jan 1999–Feb 2016
(Index, January 1990=100)



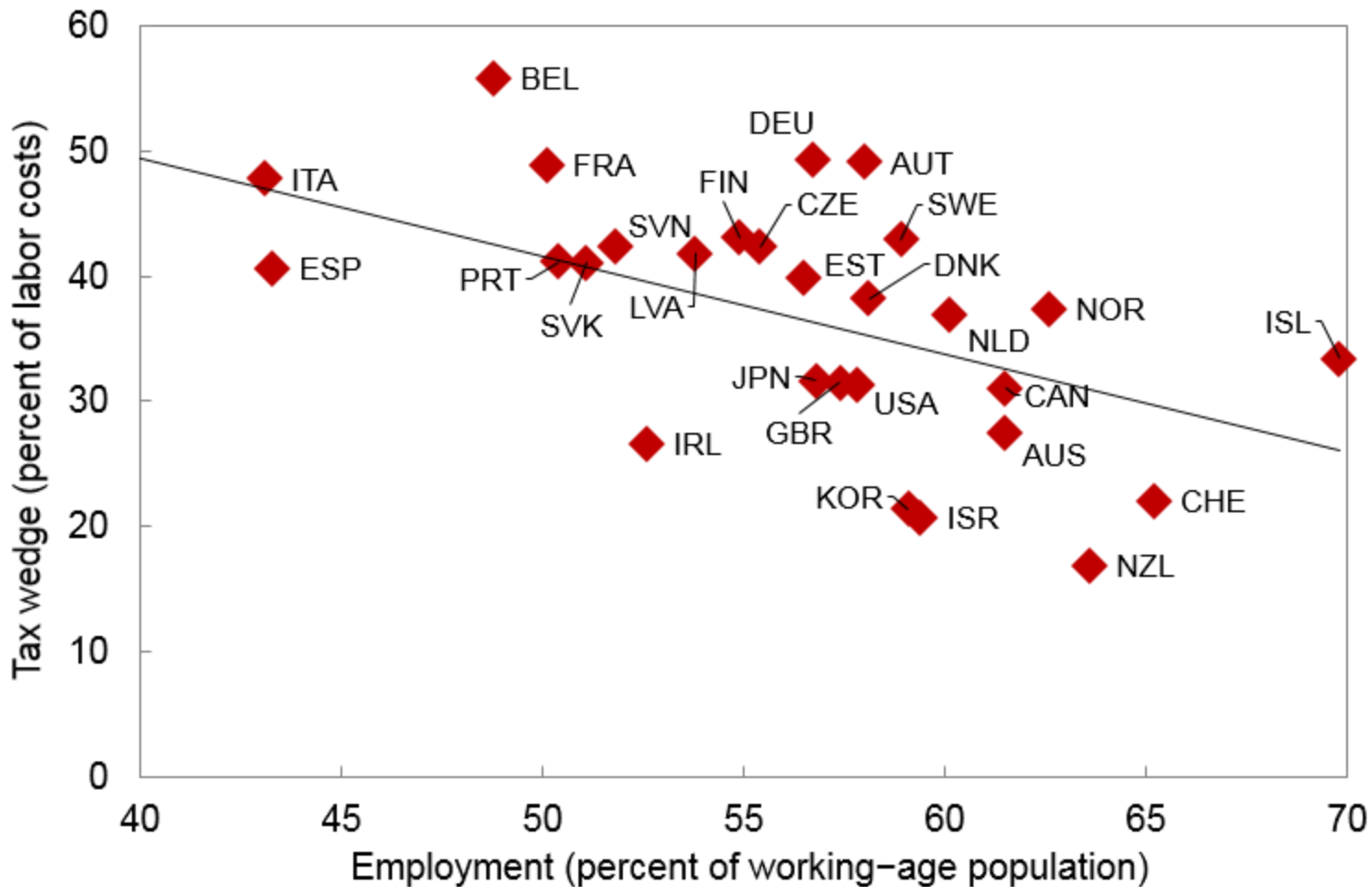
5 year ahead forecast for potential GDP growth



Sources: Haver Analytics; and IMF World Economic Outlook.

AEs: Better coordination of fiscal policy and structural reforms can boost MT growth

Advanced Economies: Tax Wedge and Employment Rate, 2013

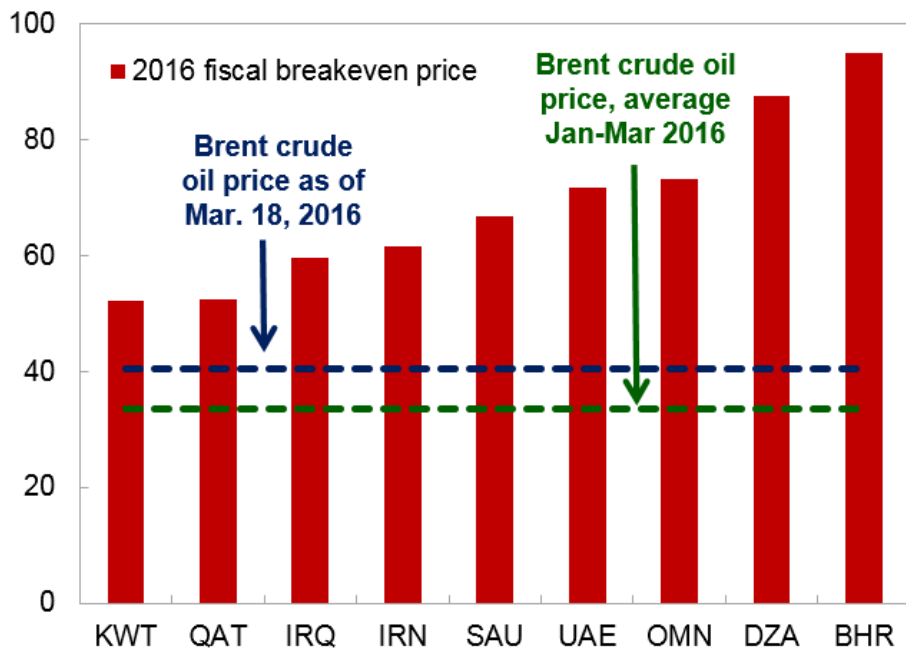


Sources: Institute for the Study of Labor; Organisation for Economic Co-operation and Development; October 2014 Fiscal Monitor; and IMF staff estimates.

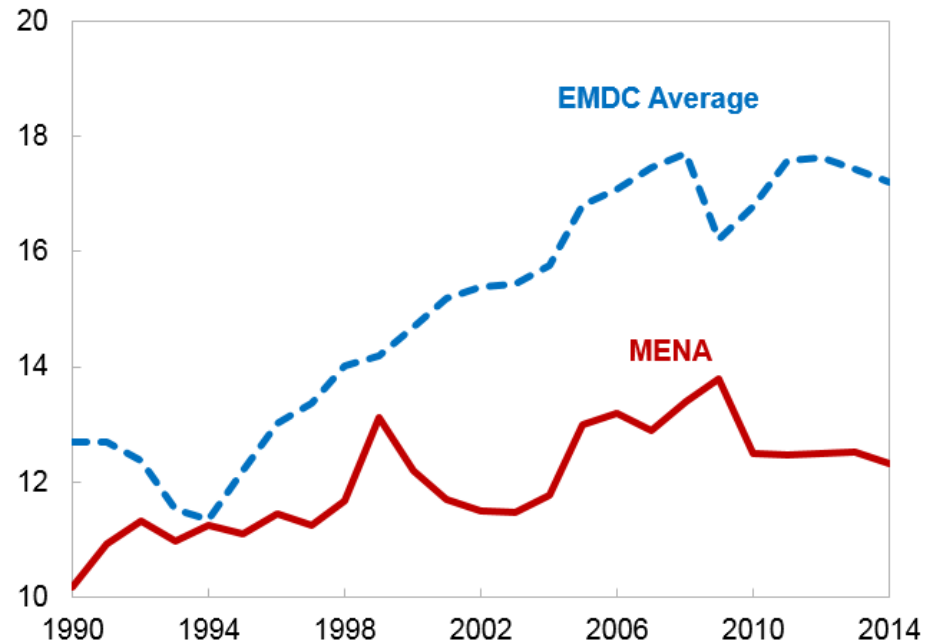
Oil exporters: Need to adjust to lower revenues



MENA Oil Exporters: Current and Fiscal Breakeven Oil Prices¹
(U.S. dollars per barrel)



Non-Oil Tax Revenue²
(percentage of Non-Oil GDP)



Sources: DataStream; October 2015 Middle East and Central Asia *Regional Economic Outlook*; National authorities; and IMF staff calculations.

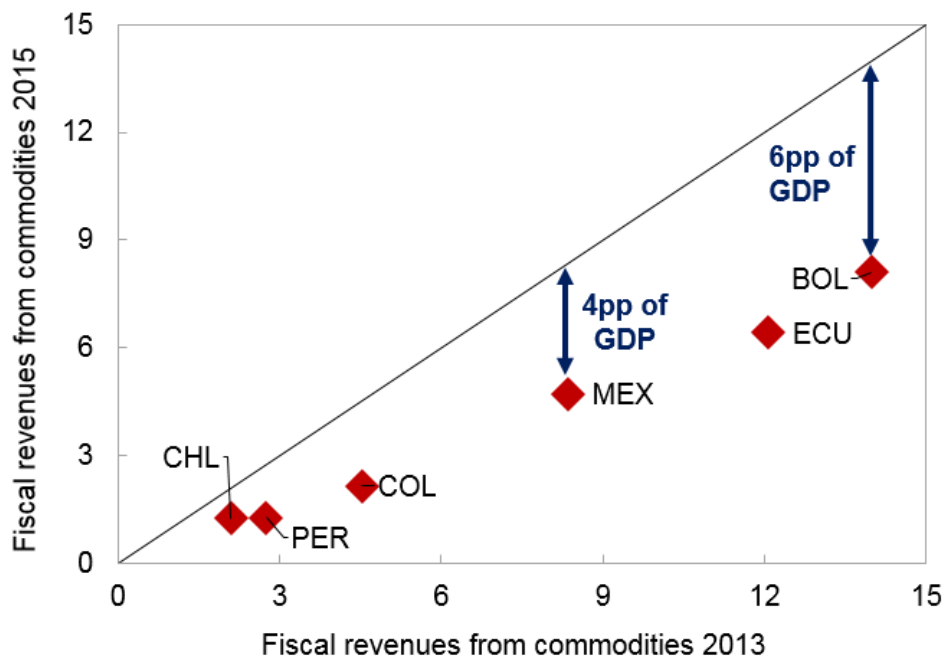
¹ The fiscal breakeven oil price is the oil price that balances the government budget.

² MENA excludes GCC, IRQ, LBY, and SDN.

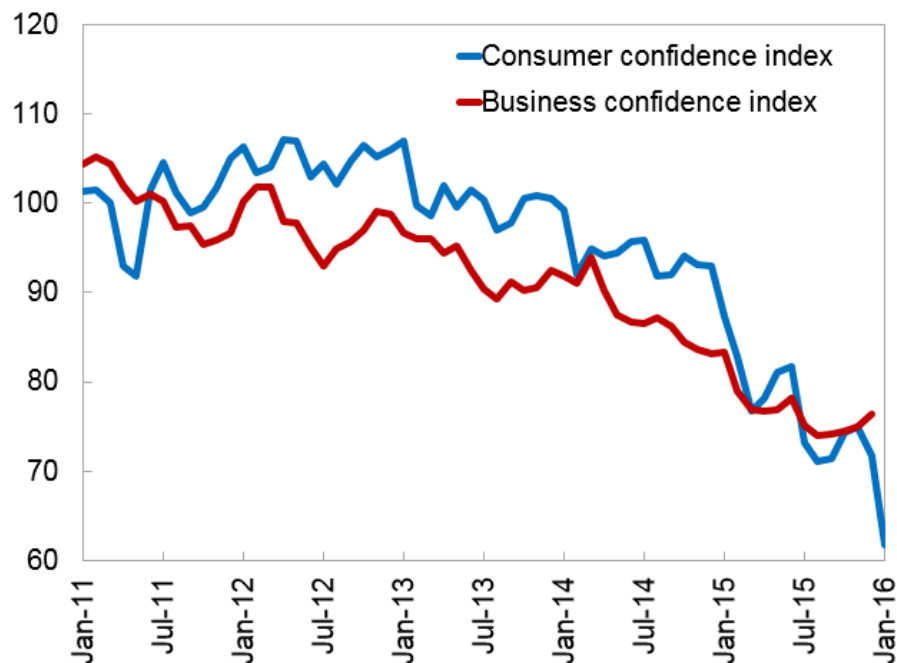
Latin America: Fiscal adjustment to restore confidence



Latin America: Fiscal Revenues from Commodities
(Percent of GDP)



Latin America: Monthly Confidence Indices¹
(Index, 2011 = 100)



Sources: National authorities; April 2016 Western Hemisphere *Regional Economic Outlook*; and IMF staff estimates.

¹ Consumer confidence index uses purchasing power parity GDP-weighted average of Brazil, Chile, Colombia, and Mexico.

Business confidence index uses purchasing power parity GDP-weighted average of Brazil, Chile, Colombia, Mexico, and Peru.

Examples of successful growth-friendly fiscal policies



Fiscal Policy	Examples
Encourage labor supply	
Reduce labor taxes	Ireland 1987
Redesign unemployment benefits	Germany 2005-06
Enhance capital investment	
Reduce the cost of capital	Malaysia 1989
Enhance public investment efficiency	Tanzania 1998-2000
Raise productivity and technological progress	
Tax credits or deductions for private R&D	Poland 2000-04
Raise public R&D spending	Netherlands 1983-86

Fiscal Policies for Innovation and Growth

The role of *fiscal policy* for innovation

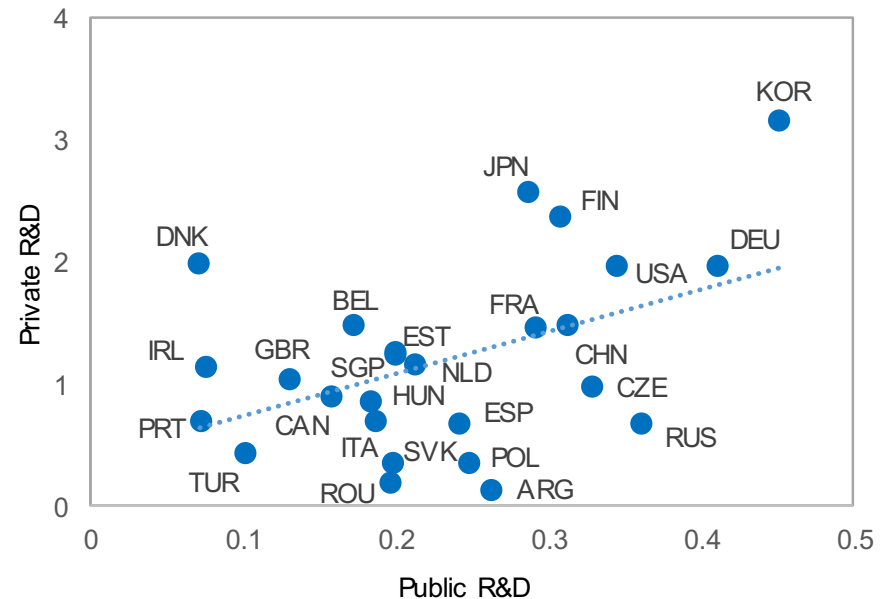
Three pillars of innovation

- **Research and development**
- **Technology transfer**
- **Entrepreneurship**

Public R&D should complement – not substitute for – private R&D

Encourage research collaboration between universities and private firms

Public and Private R&D, 2012

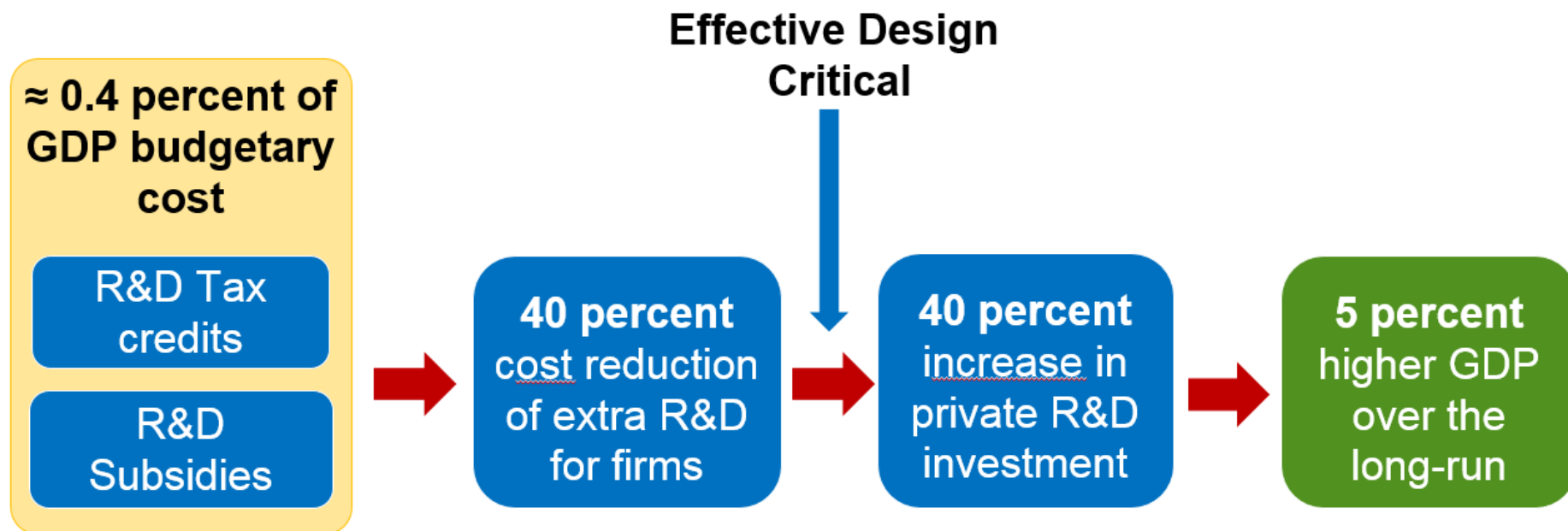


Incentives to R&D deliver innovation and growth



Two reasons for “underinvestment” in private R&D

- **Credit constraints – especially prevalent during recessions**
 - *Fiscal Monitor* finds that fiscal stabilization policies have strong implications for R&D and TFP growth
- **Spillovers to the wider economy**



Note: estimates are averages across OECD countries

Patent boxes: Little bang for plenty of bucks

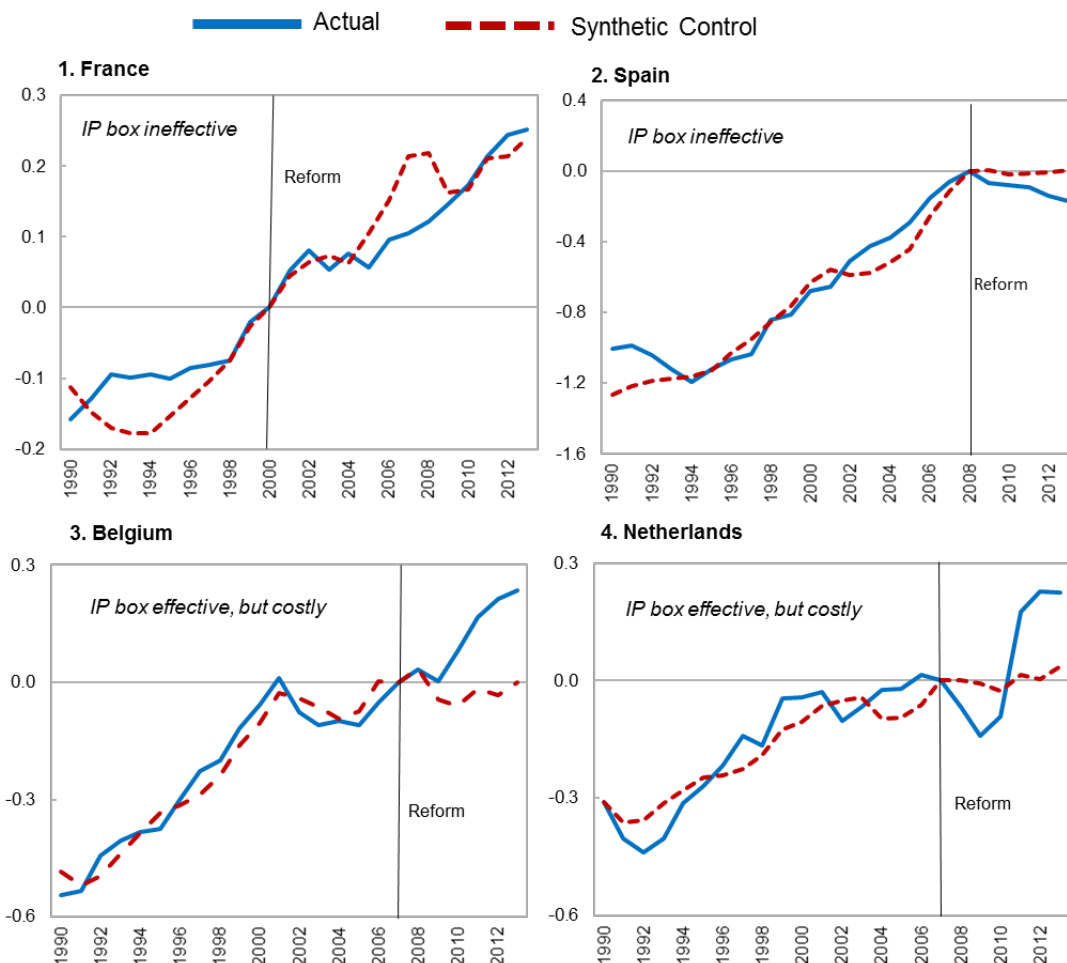


Synthetic Control Estimation Results: Intellectual Property Box and Private R&D (Log of real R&D spending)

- Ineffective

- Inefficient

- A form of international tax competition



Fiscal Policy and Innovation-main lessons



- **R&D – scope to do more and better**
 - Fiscal stabilization matters, also for long-run growth
 - R&D incentives: small expansion, high dividend
 - Design matters: e.g. no patent box
- **Technology transfer**
 - Education critical; tax incentives not
- **Entrepreneurship**
 - ‘New’, not ‘small’ is beautiful

Conclusion: a roadmap for fiscal policy

- **Risks are elevated everywhere**
- **In the short-term, fiscal policy should bolster growth where needed and where fiscal space is available. Focus on measures that boost short and medium-term growth (infrastructure investment; support to structural reforms; innovation policies)**
- **If downside risks materialize, a comprehensive and coordinated approach is necessary (but differentiated across countries)**
- **In the medium to long-term, fiscal adjustment is necessary almost everywhere, and particularly in commodity exporters**
- **Structural fiscal policy should be growth-friendly and aim at managing risks and building resilience**