Designing Fiscal Policy

NOVEMBER 1, 2022, WORLD BANK EAST ASIA AND THE PACIFIC SEMINAR

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R-G, MPK-G, dynamic efficiency, MPK-R
Which concept for which question
Why is public debt safer than private?
More studies needed for different concepts
Alesina, De Broeck, Prati, Tabellini. China MPK
Risk, even with diversification
Rating agencies
Risky sovereign debt in many countries

R-G<0: Can we sleep more soundly?
R-G<0 is the norm, and defaults occur
R-G (effective interest rate) does not predict defaults
Distribution of Interest-Growth Differentials

4,000+ observations from 55 countries since 1800 subject to data availability
Mauro and Zhou, 2021, “r-g<0: Can we Sleep More Soundly?” IMF Economic Review
Share of Years (in percent) with r-g<0, by Country

2,879 observations since 1800 for advanced. 1,671 observations since 1865 for emerging.
Mauro and Zhou, 2021, “r-g<0: Can we Sleep More Soundly?” *IMF Economic Review*
Interest-Growth Differentials and Fiscal Variables in the Run-up to Sovereign Default

Mauro and Zhou, 2021, “r-g<0: Can we Sleep More Soundly?” IMF Economic Review
Interest-Growth Differentials and Fiscal Variables in the Run-up to Sovereign Default (continued)

Mauro and Zhou, 2021, “r-g<0: Can we Sleep More Soundly?” IMF Economic Review
Macroeconomic Context

Fiscal and Monetary Policies Interactions

2020

2022 (Projected)

Source: IMF Fiscal Monitor (October 2022); National Sources/ Haver Analytics
Note: Countries in blue represent Advanced Economies and orange represent Emerging Market & Developing Economies (EMDEs). The Euro Area is shown as a singular entity. Around 60% of the Sample is Tightening Monetary and Fiscal Conditions.
Debt Vulnerabilities on the Rise

Sovereign Spreads, by Income Group, 2020–22
(Basis points)

Source: IMF Fiscal Monitor (October 2022); JPMorgan Emerging Market Bond Index.
Note: Lines are median and shaded areas are interquartile ranges for a sample of 49 emerging market economies and 9 low-income developing countries.
Debt, Interest Expense, Inflation and National Budget Balances in East Asia and Pacific

**China**

**EMs Asia and Pacific Excl. China**

**LIDCs Asia and Pacific**

- **Debt-to-GDP Ratio (Left Scale)**
- **Interest Expense (Right Scale)**
- **Inflation (Right Scale)**
- **National Budget Balances (Right Scale)**
GDP Growth and Debt/GDP in Japan

Energy and Food Crisis Put Pressure on Budgets

Energy and Food Support Policies, by Income Group
(Percent of GDP, median, 20th and 80th percentiles)

Source: IMF Fiscal Monitor (October 2022); IMF staff estimates.
Note: Whiskers reflect the 20th and 80th percentiles. Dots reflect the median and the number of announced measures of each type.
Fiscal Support During the Pandemic Helped Reduce Income Inequality and Extreme Poverty

Evolution of Poverty and Income Inequality during the Pandemic in Brazil, 2019–21
(Percent, left scale; Gini coefficients, right scale)

Source: IMF Fiscal Monitor (October 2022); BraSim tax and benefit tool and IMF staff estimates.

Note: Estimates are based on microsimulations. Poverty is defined as per capita household income less than half of minimum wage (US$6.30 per day in 2011 purchasing power parity [PPP] terms). Extreme poverty is US$2.25 per day at 2011 PPP, defined using the Bolsa Familia eligibility thresholds. Income inequality is based on disposable income (market income after taxes and transfers).


## Leveraging Digital Technology in Social Support

**Table. Examples of Additional Social Support during the Pandemic**  
(Selected Country Examples)

<table>
<thead>
<tr>
<th>Emerging G20 Countries</th>
<th>Other Non G-20 Emerging Market and Developing Economies</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Country</strong></td>
<td><strong>Expanded Eligibility</strong></td>
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<tr>
<td>Brazil</td>
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<td>Togo</td>
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</tbody>
</table>

Sources: IMF Fiscal Monitor (October 2022); Database of Fiscal Measures in Response to COVID-19 Pandemic; Shang, Evans, and An 2020; Una and others 2020.
Hyperlink to IMF Fiscal Monitor
Helping People Bounce Back

Check out also IMF Staff Discussion Notes:

The State as Financier of Last Resort

and

The Return to Fiscal Rules