

Rethinking Fiscal Policy Seminar

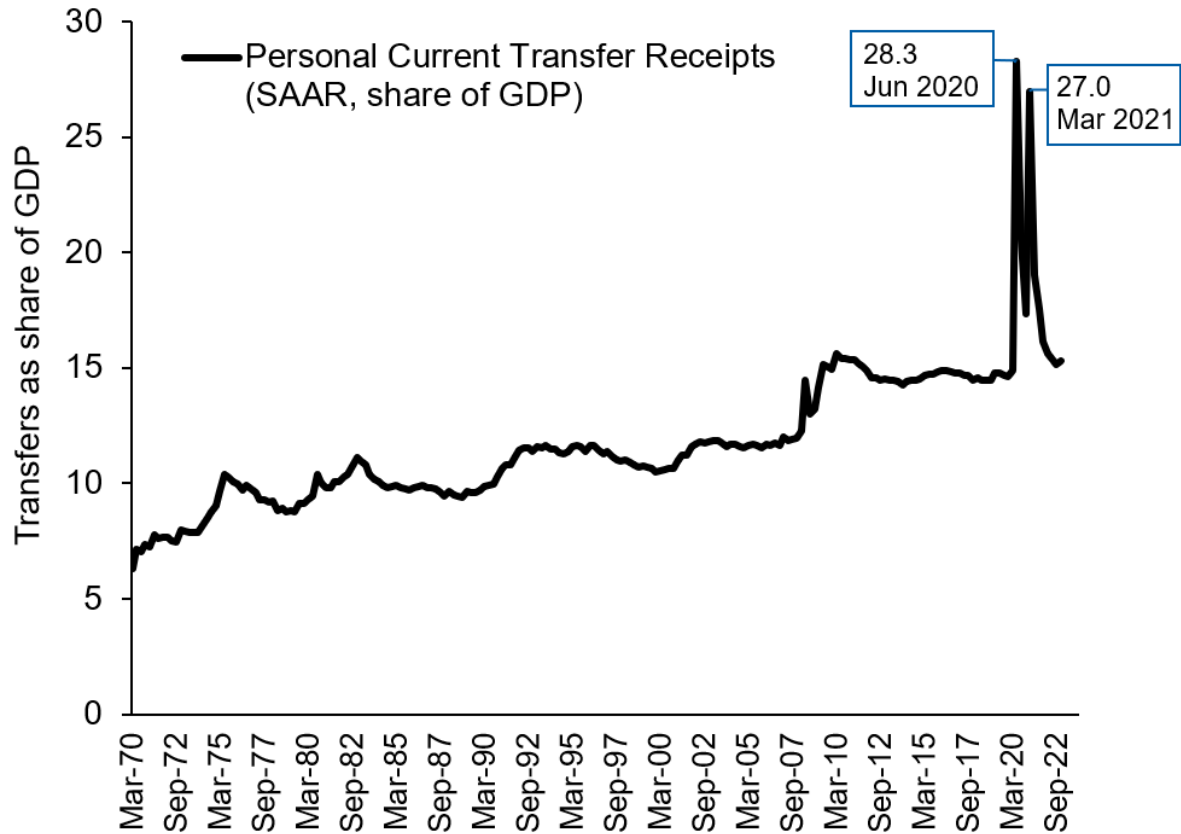


Rethinking Fiscal Policy: Some old, Some new

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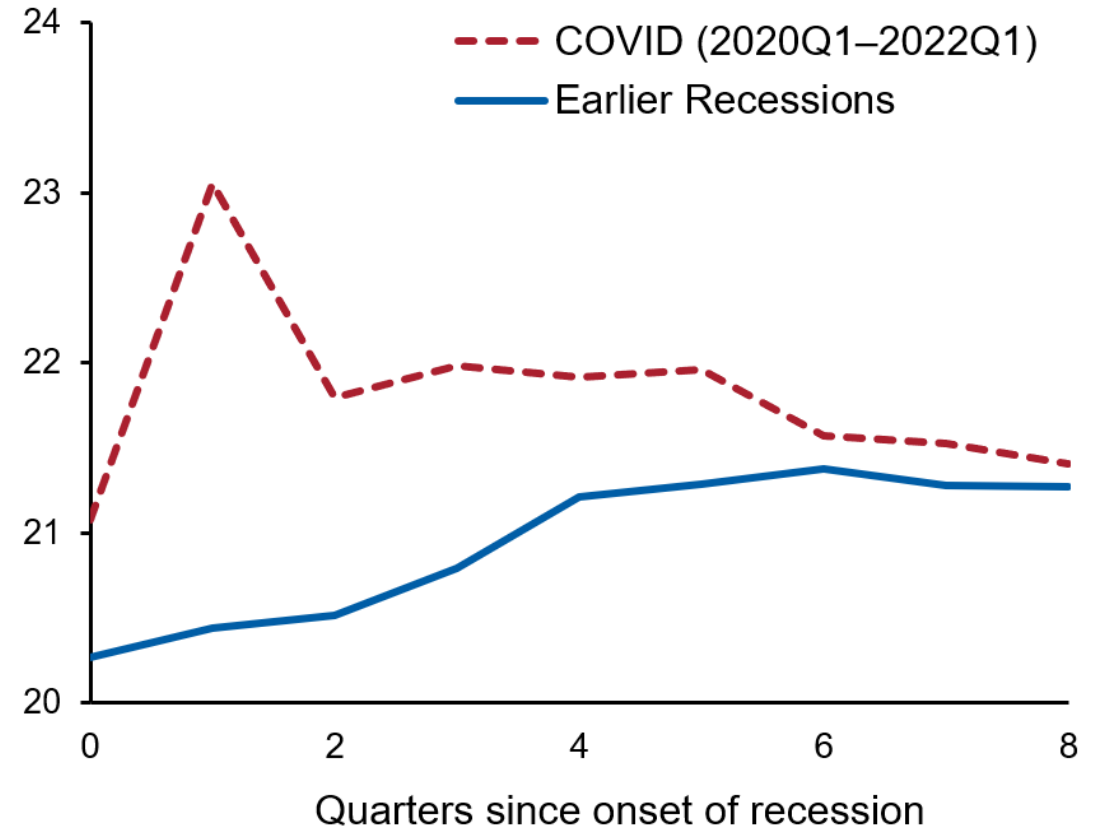
#1. Fiscal policy can be decisive, quick, and innovative ...at least in a major crisis

US Federal government Transfers (Percent of GDP)



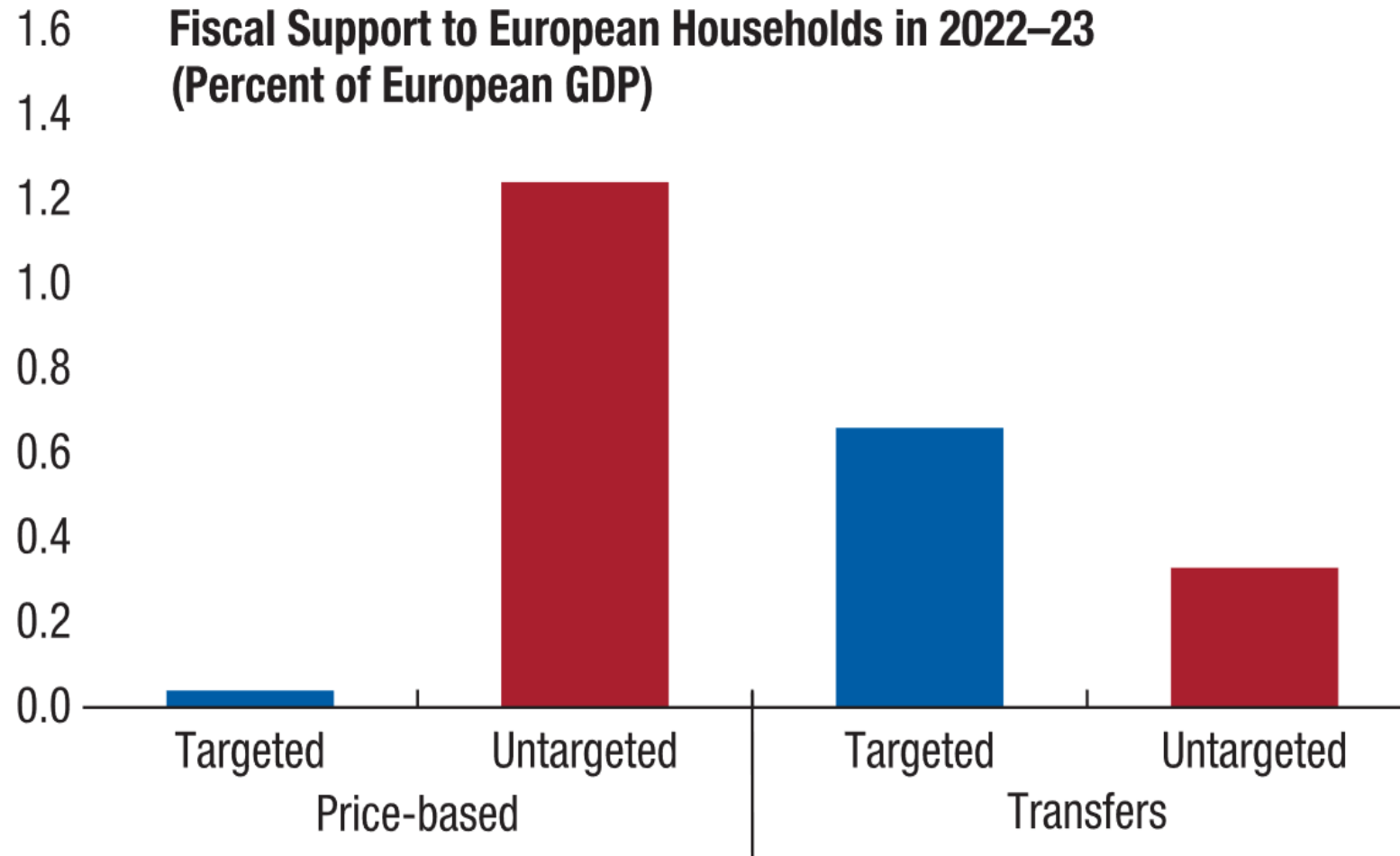
Source: Haver Analytics.
Note: Data are in quarterly frequency.

General Government Expenditures -- Europe (Percent of GDP)



Source: Haver Analytics, Statistical Office of the European Communities.
Note: Past recessions take an average of two recession periods from start date to 8 quarters after. The periods covered are 2008Q1–2010Q1 and 2011Q3–2013Q3.

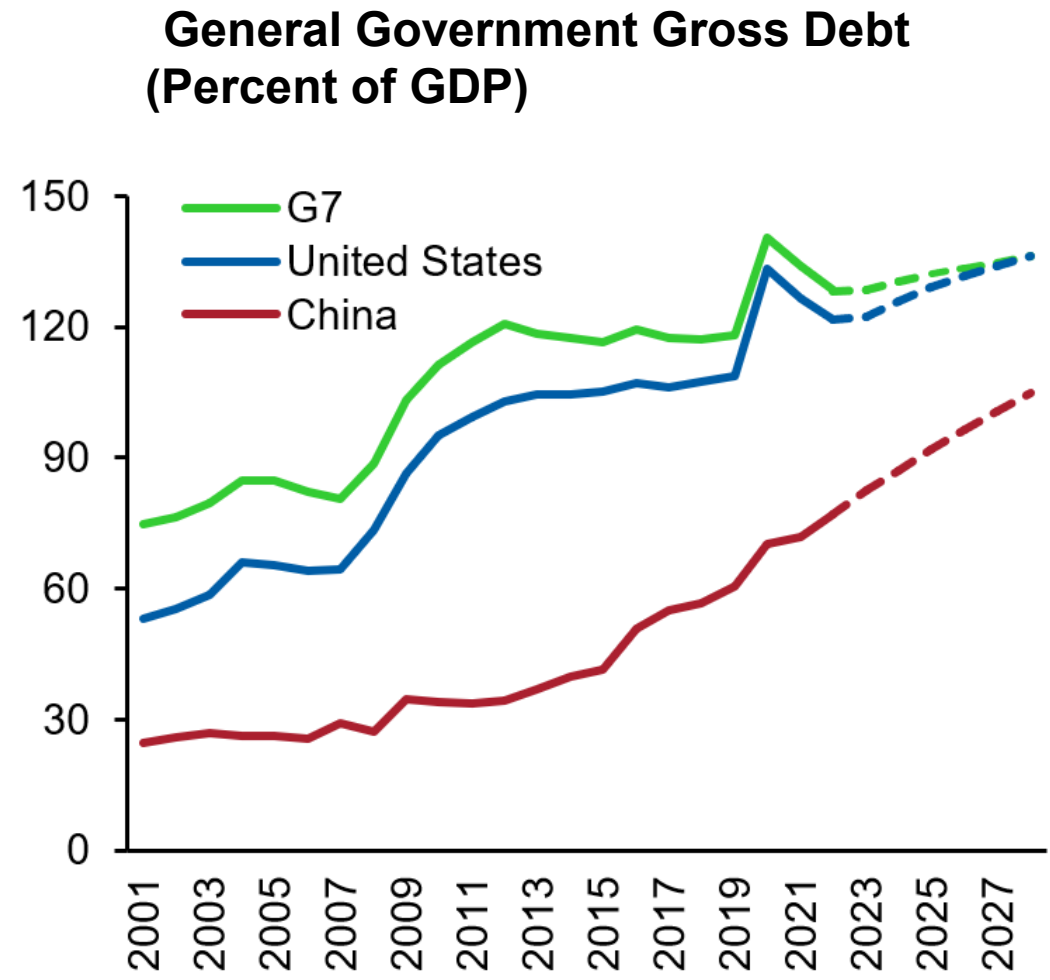
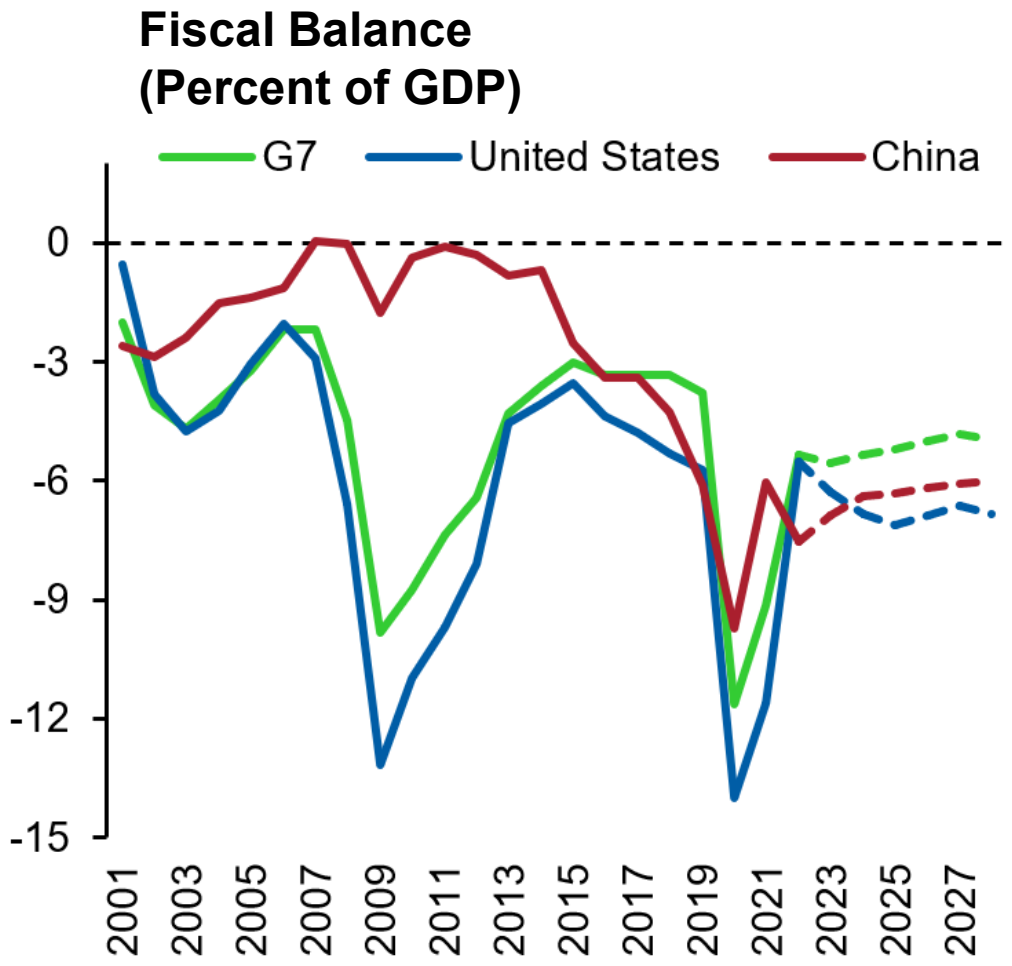
#2. But, very difficult to ensure fiscal support is “targeted and temporary.” True both during Covid-19 and during energy crisis



Source: IMF April 2023 World Economic Outlook, Chapter 1.

Sample of countries: North Macedonia, Moldova, Serbia, Romania, Italy, Croatia, Netherlands, Latvia, Portugal, Albania, Turkey, Germany, Luxembourg, Czech Republic, Bosnia and Herzegovina, Norway, Estonia, Belgium, Slovenia, Sweden, Spain, Ireland, Cyprus, Hungary, San Marino, Finland, Bulgaria, Denmark, Israel, Iceland, and Montenegro

#3. Recall fiscal policy basics: Tighter fiscal to complement monetary policy to bring inflation down and rebuild buffers.



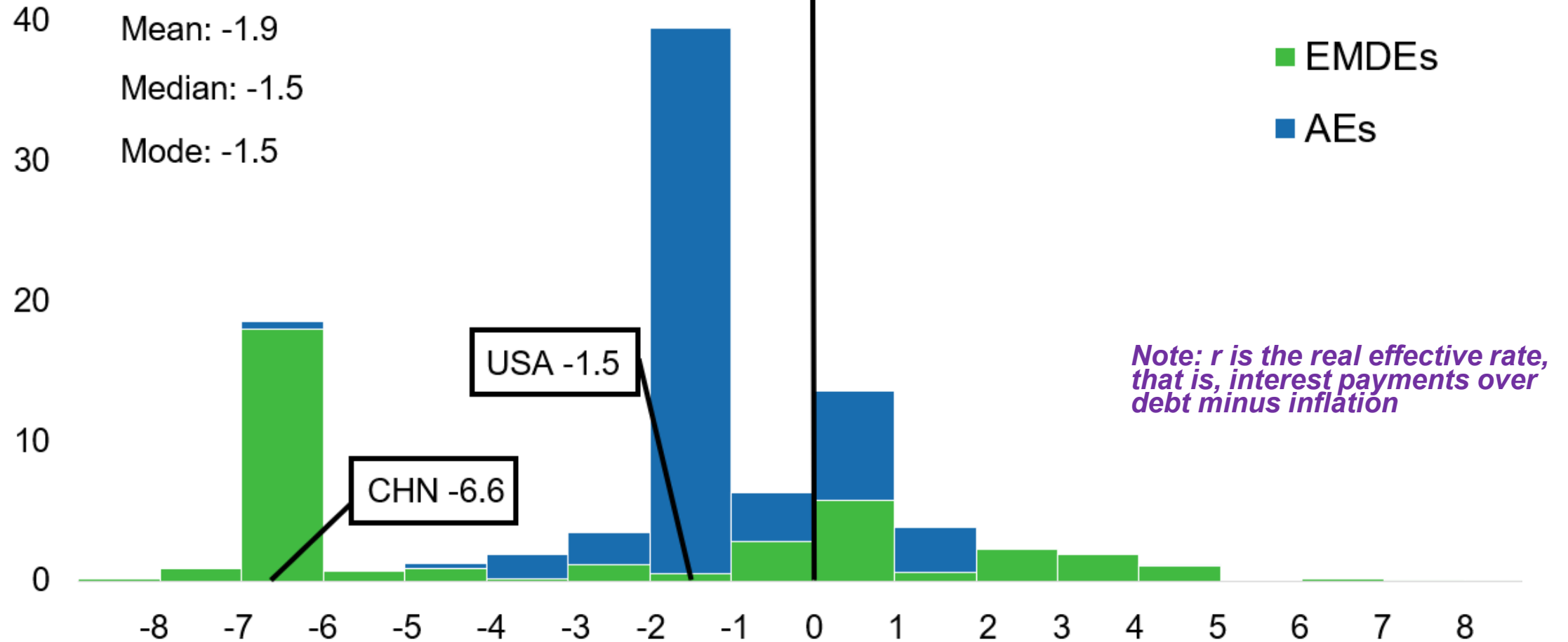
Source: IMF April 2023 World Economic Outlook Database.

#4. How to get temporary/targeted? How to withdraw support once the emergency is over?

- ✓ The bar for exceptional interventions must be set high (even more so when supporting firms)
- ✓ Digital information infrastructure can help enhance targeting (general equilibrium effects of transferring resources only to least well-off can be powerful).
- ✓ Needed: a medium-term fiscal framework that combines standards and rules with pre-specified criteria and escape clauses (governments have higher discount rate than society at large).

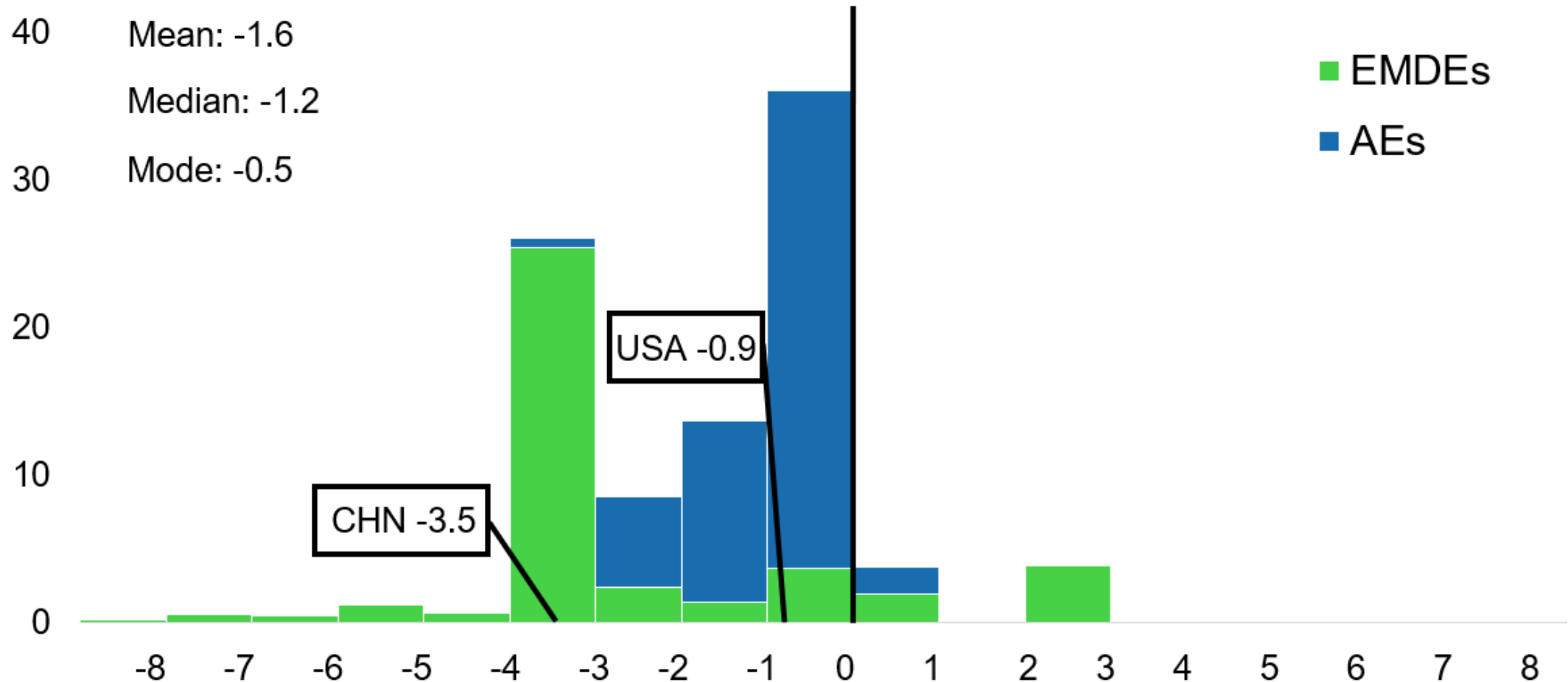
5. $r-g < 0$ provides limited comfort

Percent of World GDP : 2019



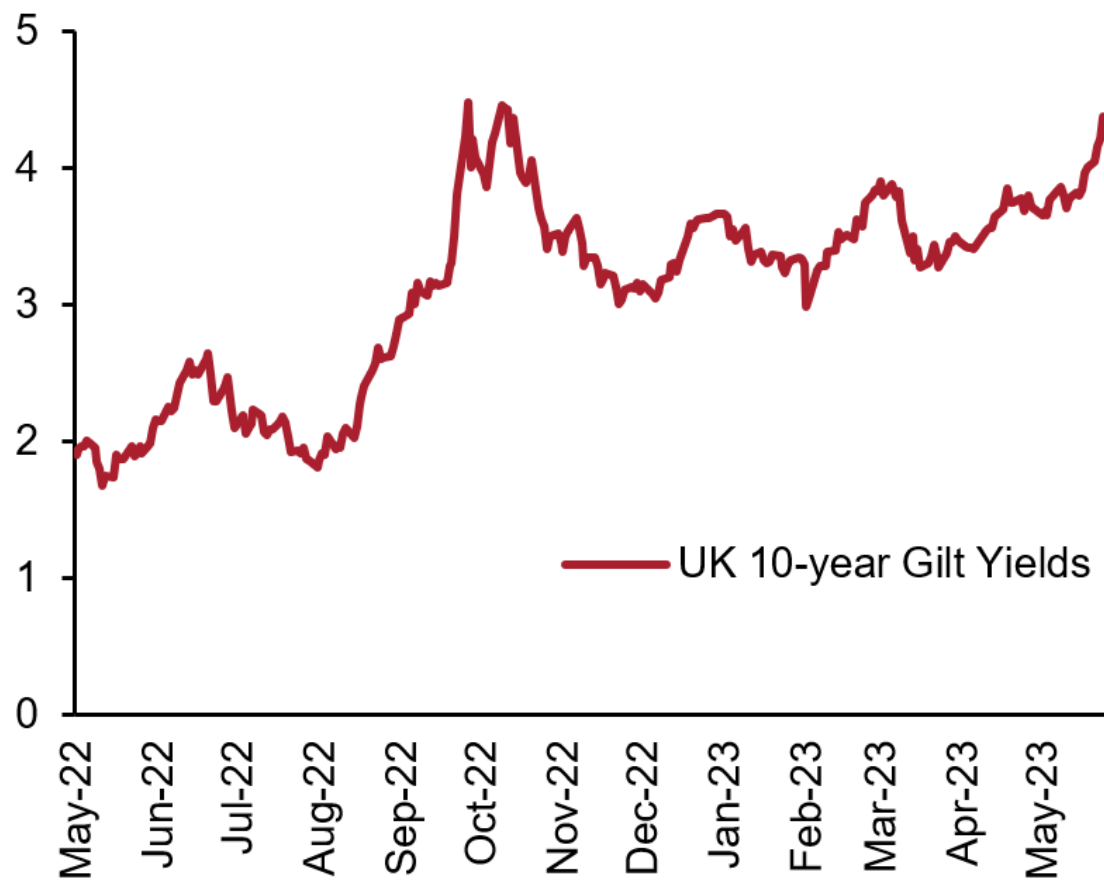
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Percent of World GDP: WEO forecast for 2027

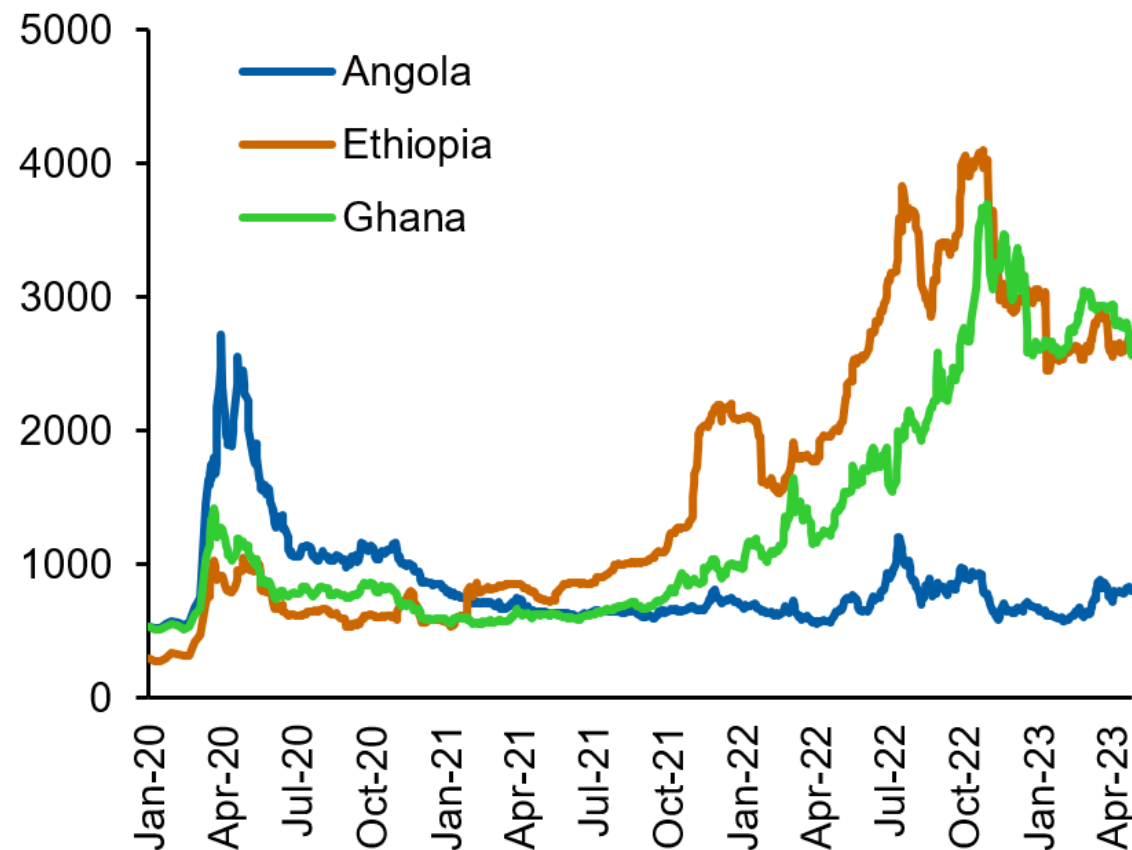


5. Interest rates can jump unexpectedly

UK 10-year Gilt Yields (%)



Selected Low Income Countries – Spreads (bps)



Source: Haver Analytics.

Note: Data are in daily frequency. Last data point is May 26, 2023.

Note: Spreads are over US treasuries of same maturity.

6. Revival of Industrial Policies: Proceed with care

