



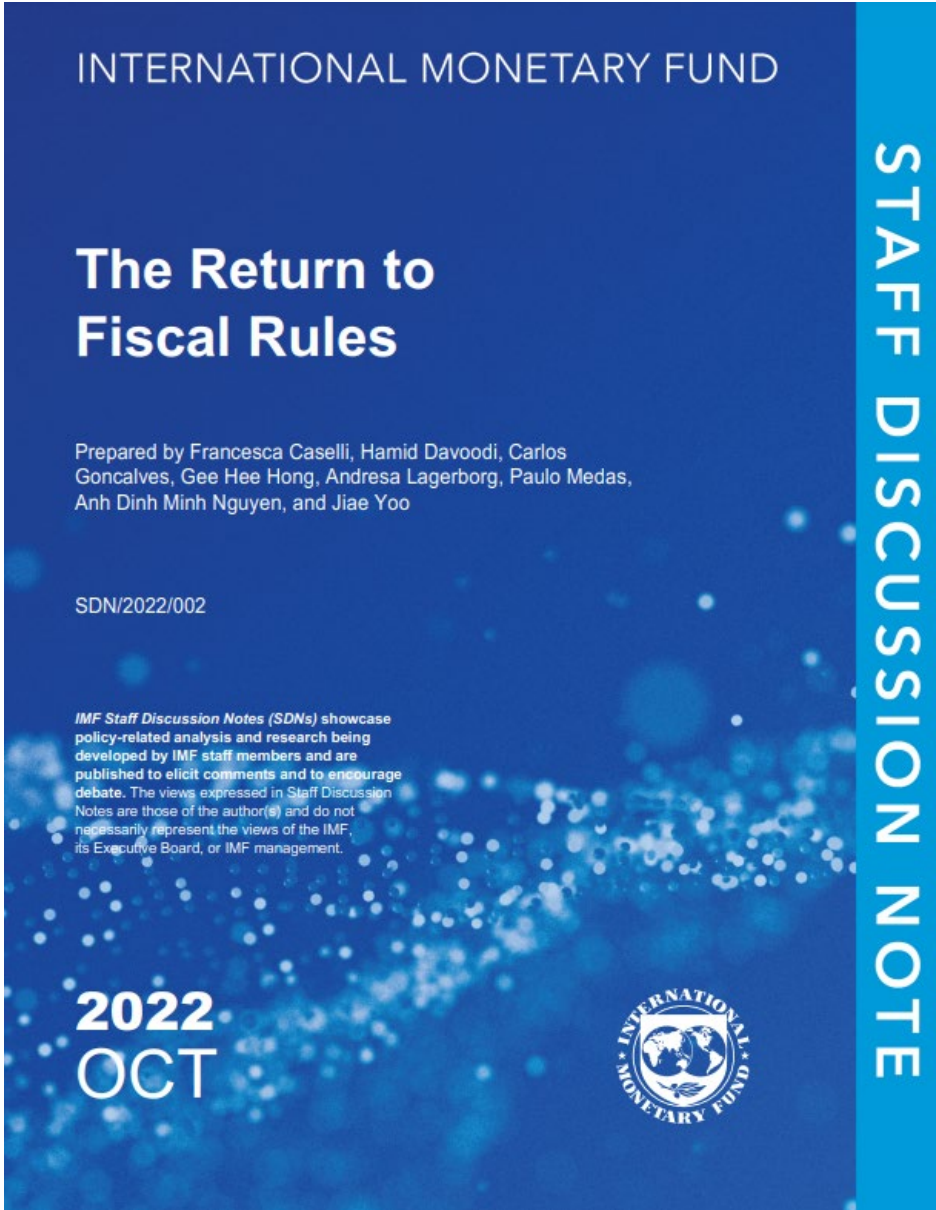
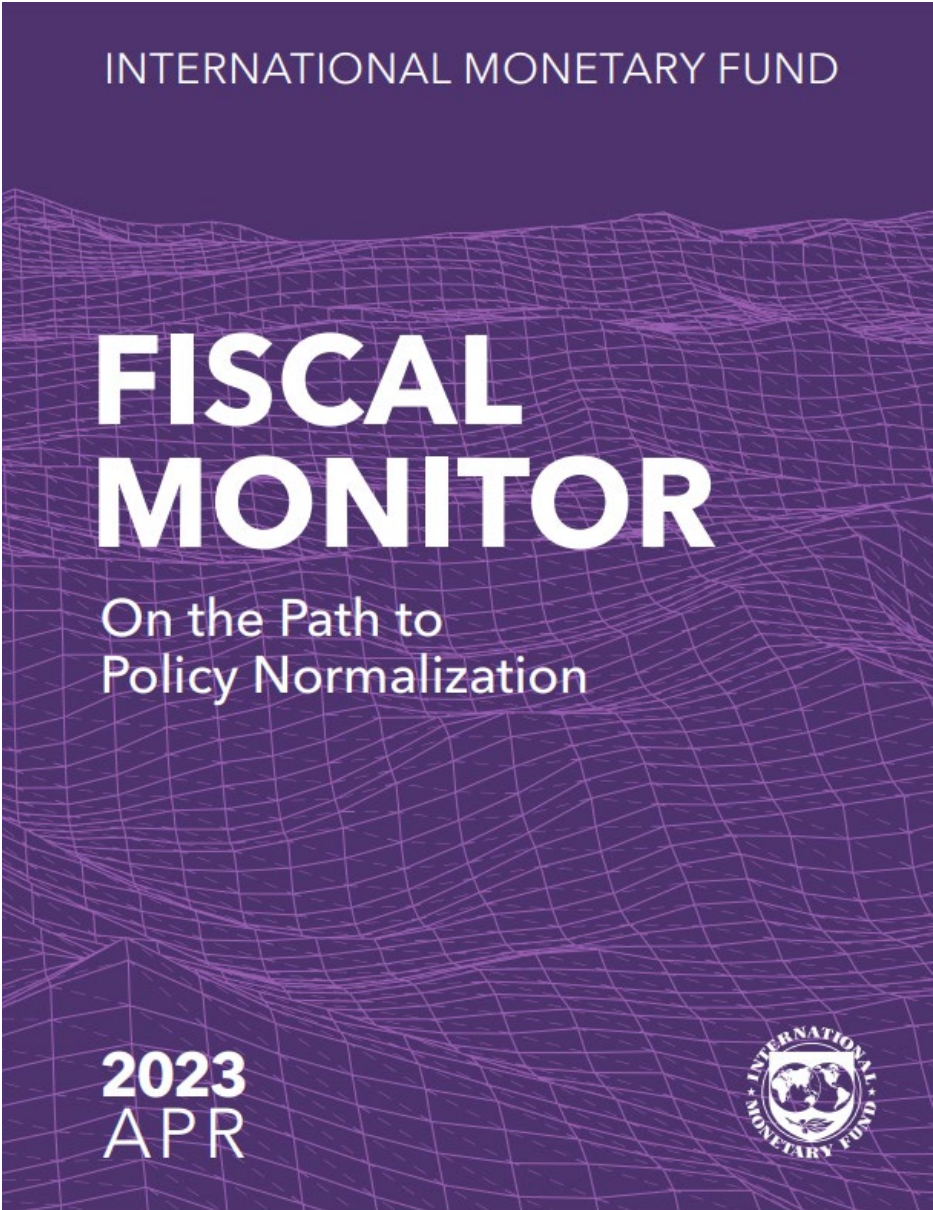
**FISCAL AFFAIRS**

## **Rethinking Fiscal Policy IMF/PIIE Event**

**MAY 31, 2023**

Francesca Caselli  
IMF Fiscal Affairs Department

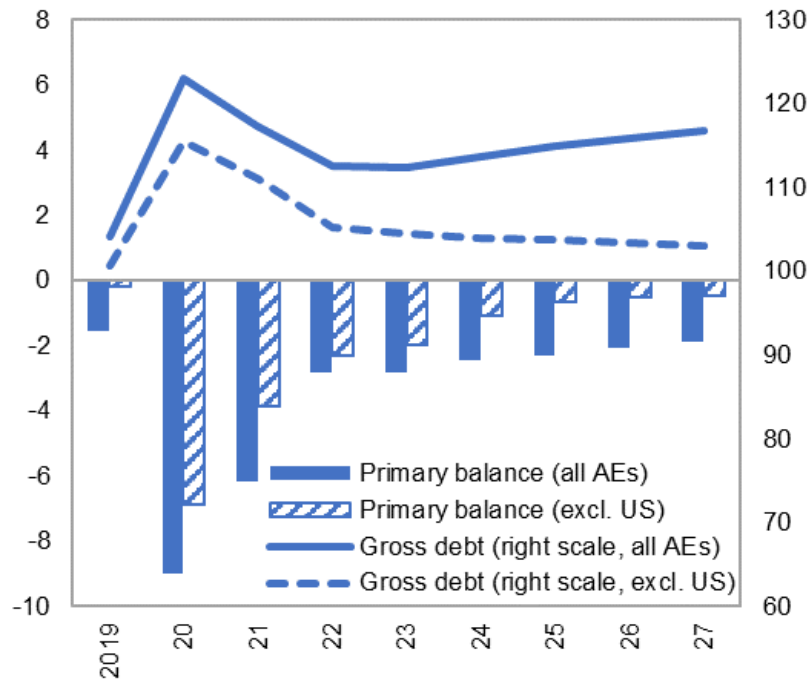
# Related IMF publications



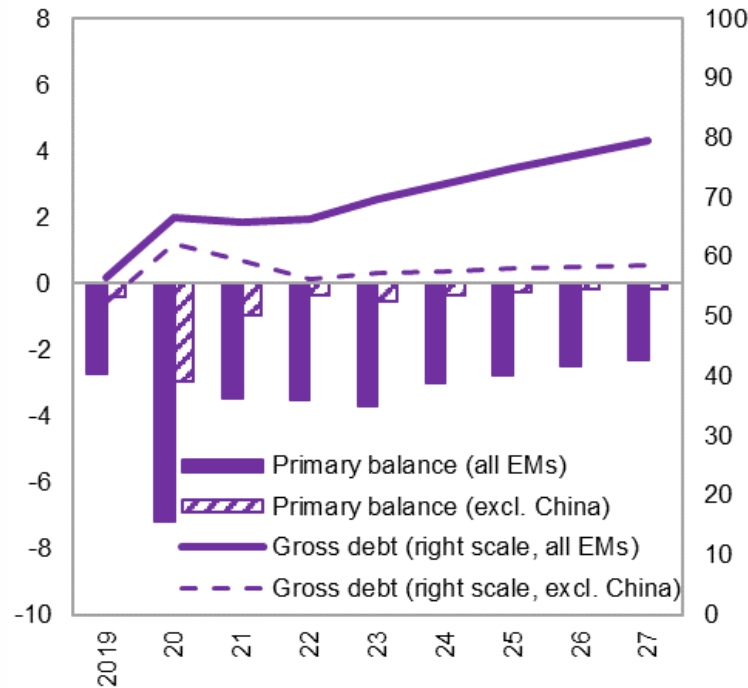
# Public finances returning to normal but projected to deteriorate

General Government Primary Balance and Debt, 2019-2027  
(Percent of GDP)

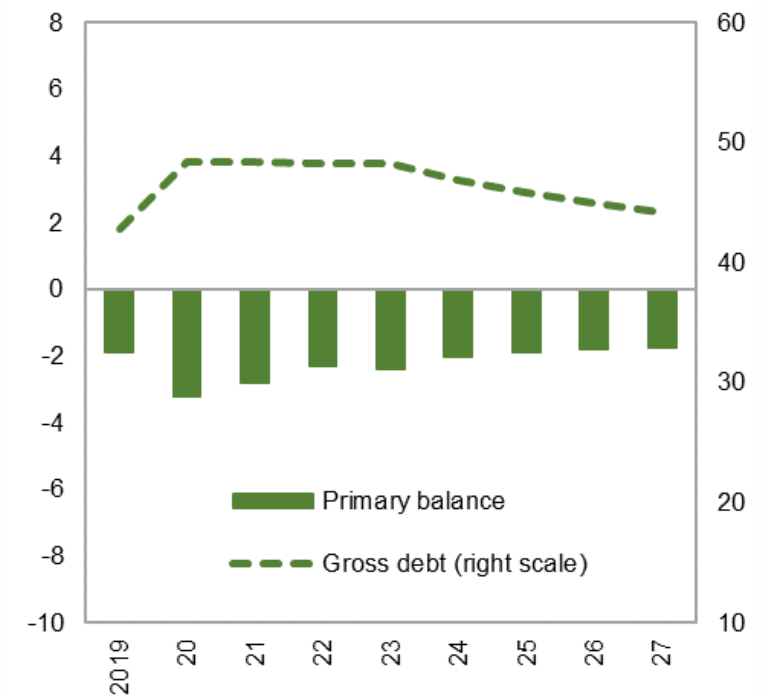
## Advanced Economies



## Emerging Markets



## Low-income Developing Economies

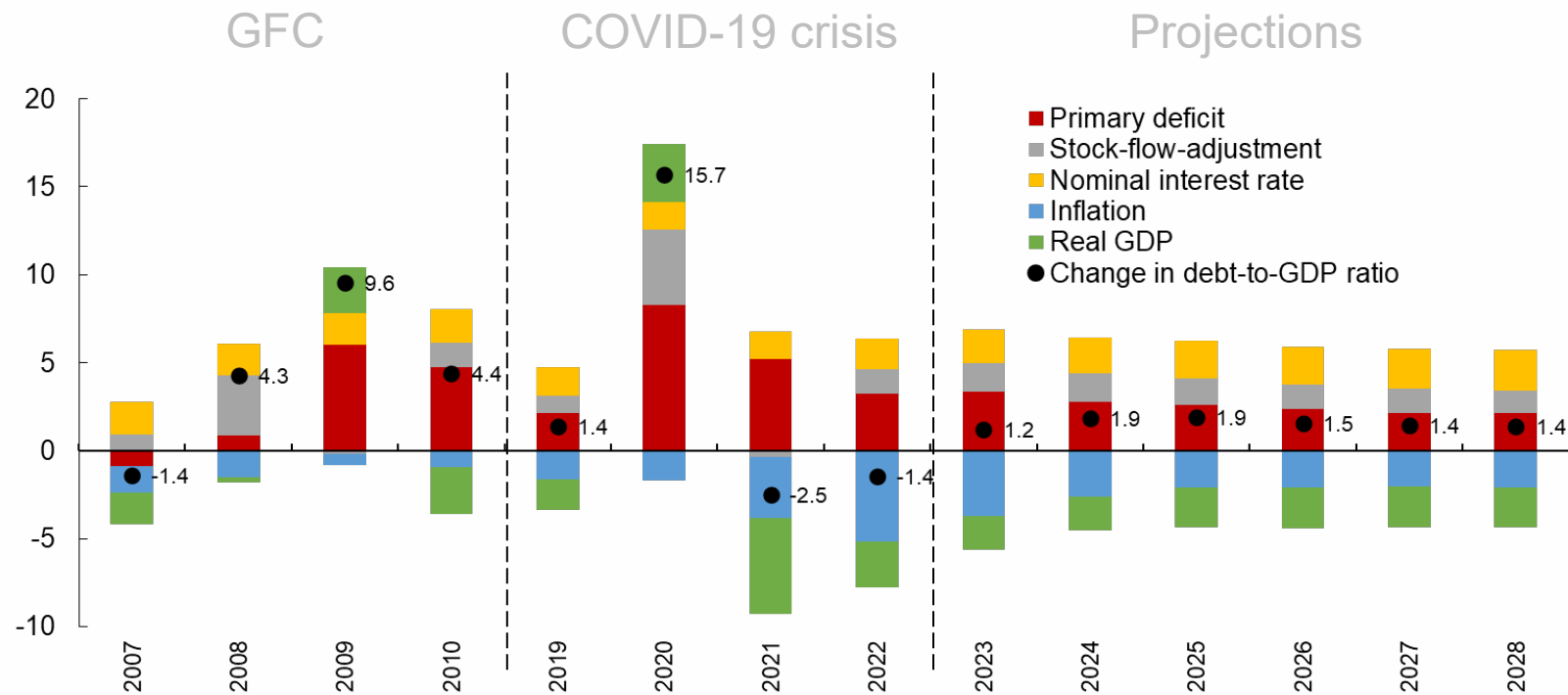


Source: April 2023 IMF World Economic Outlook (WEO) & IMF Staff Calculations.

Note: Averages are weighted by purchasing-power-parity-adjusted nominal GDP in US dollars. AEs= advanced economies. EMs = emerging markets.

# A debt rollercoaster driven by unusual economic conditions

**Drivers of World General Government Debt Changes, 2007-2028**  
(Percent of GDP)



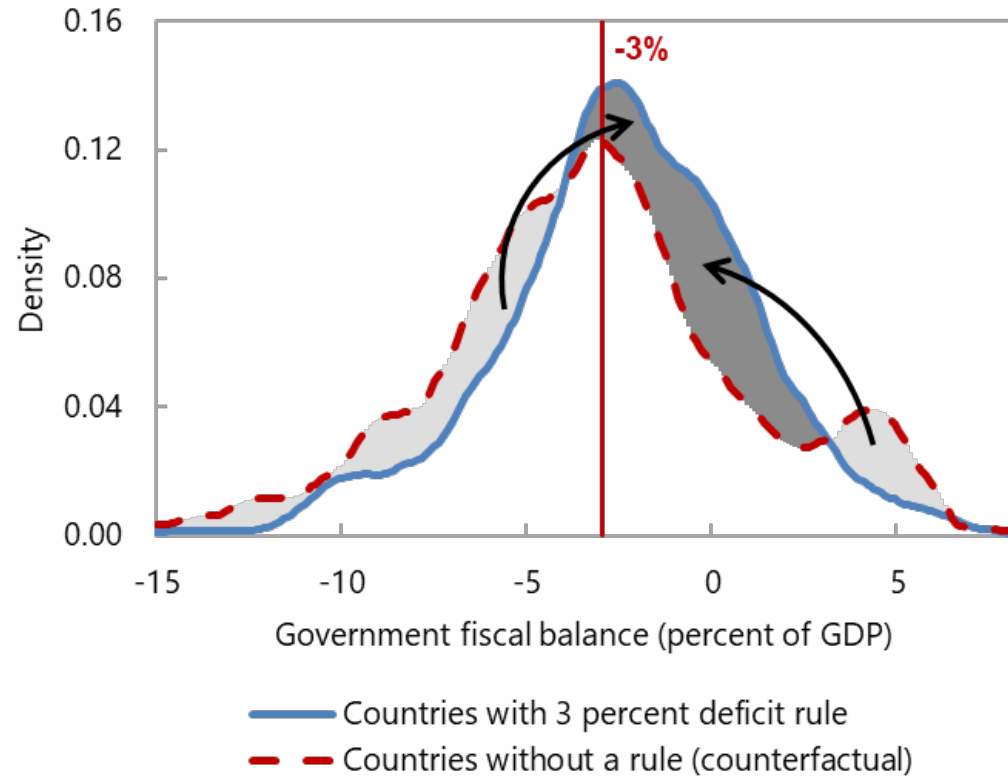
Source: IMF, World Economic Outlook database; and IMF staff calculations.

Note: The figure shows contributions to changes in the debt-to-GDP ratio, following Escolano (2010). Stock-flow adjustments include effects of exchange rate depreciations. GDP deflators are used for inflation. The world average is constructed by weighting the debt change by nominal fiscal year GDP in dollars in the most recent year of the change.

# Pre-pandemic rules: providing the right incentives, but complex and not complied with

## Distribution of Fiscal Deficits in European Countries with and without Deficit Rule

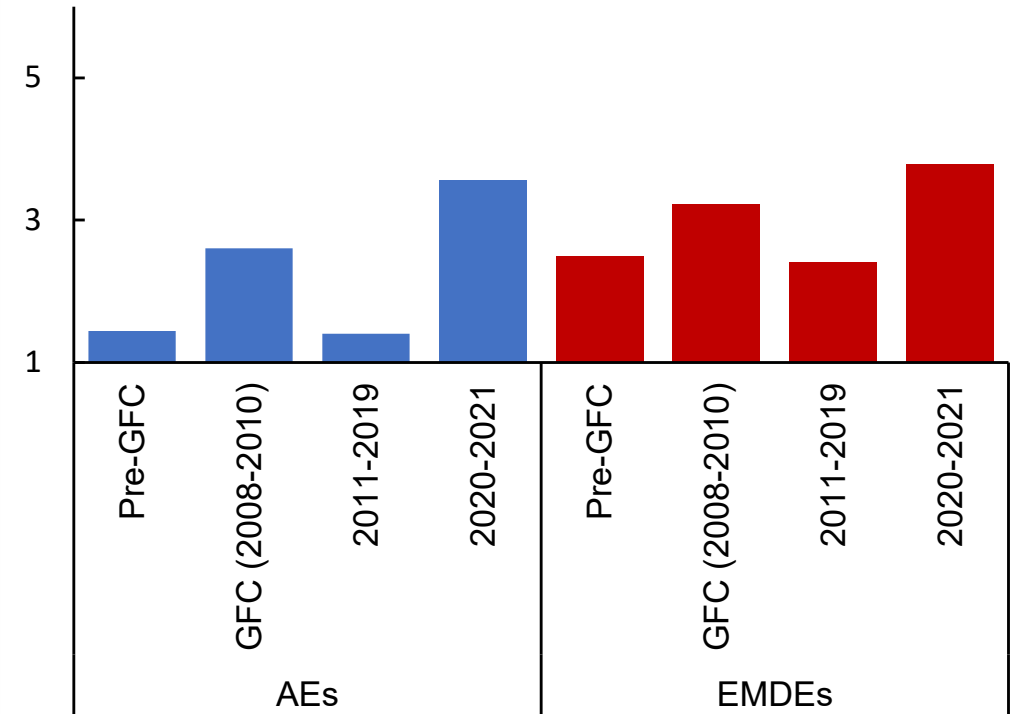
(Percent of GDP)



Source: Caselli and Wingender (2021).

## Deviations from Budget Balance Rules

(Percent of GDP)

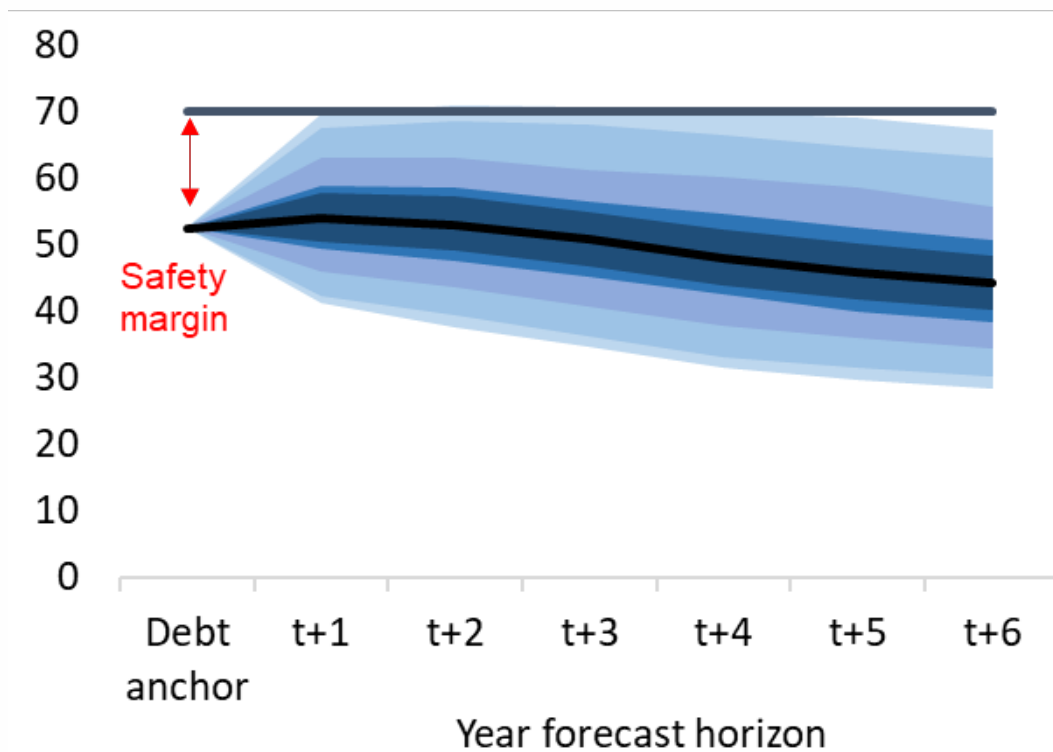


Source: Davoodi and others (2022).

# The way forward: risk-based fiscal frameworks with flexible rules

## Government Debt

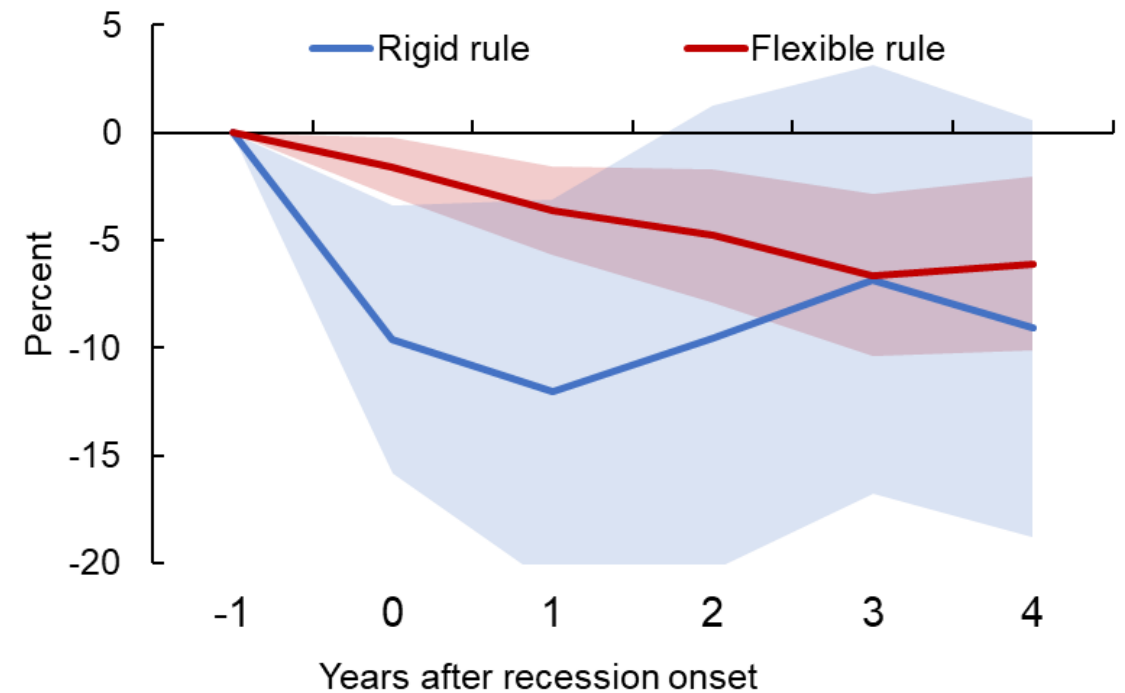
(Percent of GDP)



Source: Caselli and others (2022).

## Effects of Recession on Primary Expenditure

(Percent of GDP)



Source: Caselli and others (2022).

# Main takeaways

- Fiscal policy is on the way to normalization: deficit and debt ratios are returning to pre-pandemic levels driven by the economic rebound, the inflation surprise, and the end of fiscal support measures.
- However, public debt is expected to resume an upward trend driven by some large advanced and emerging economies making the near-term outlook complex amid high inflation and tightening financing conditions.
- Medium-term fiscal frameworks can guide the adjustment and could include revamped fiscal rules with stronger emphasis on risk assessment and flexibility to cope with shocks.