



POST-CRISIS FISCAL POLICY

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Post -Crisis Fiscal Policy

- I. Analytical Framework
- II. Vulnerabilities Prior to Crisis
- III. Policy Response during Crisis
- IV. Fiscal Challenges Laying Ahead
Lessons

I. Analytical Framework

Part I provides analytical underpinnings:

- Intuitive framework of rollover risk
- Analytical insights into bringing debt ratios to more sustainable levels:
 - The key components of the debt dynamics equation
 - The relationship between debt/GDP ratio and growth
- Debt overhang problem and unfavorable global environment will complicate fiscal consolidation

II. Fiscal Vulnerabilities Prior to Crisis

Part II reviews build up of vulnerabilities and highlights differences in pre-crisis fiscal positions:

- Slow build up of vulnerabilities in AEs
 - Book identifies roots of problem in EA
 - Tax policy may have contributed to crisis by encouraging leverage
- EMs and LICs were in a relatively better position

Part II also puts current crisis in historical perspective

III. Policy Response During Crisis

- Provides analysis of timing, size, and composition of fiscal stimulus
- Nature of public support to financial system
- Fiscal challenges at sub-national government level
- Debate surrounding size of fiscal multipliers
 - New evidence on the asymmetry of fiscal multipliers
 - Important implications for design of adjustment plans

IV. Challenges Ahead

Part IV covers fiscal outlook and risks

- Legacy of high debts and large deficits in AEs
- Debt dynamics look better in EMs but predicated on benign global environment
- Path for escaping high debt is quite narrow and lengthy, with no short-cuts:
 - Financial repression not an option
 - Debt restructuring not a good option either

IV. Challenges Ahead

- What institutional reforms are needed to achieve required fiscal adjustment?
 - New fiscal rules better designed to respond to business cycle
 - Growing number of independent fiscal councils
 - New institutions backed by PFM reforms
- Many countries also need to put in place reforms to contain age-related spending

Policy Lessons

- Even advanced economies can have debt crises
- Save during the good times, if you can tell when they are
- Sometimes, no buffer is big enough
- Growth: the spoonful of sugar
- Keeping the faith



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