

CIVIL SOCIETY POLICY FORUM

COVID-19 Recovery: From Government Response to Private Sector-Led Sustainable Growth

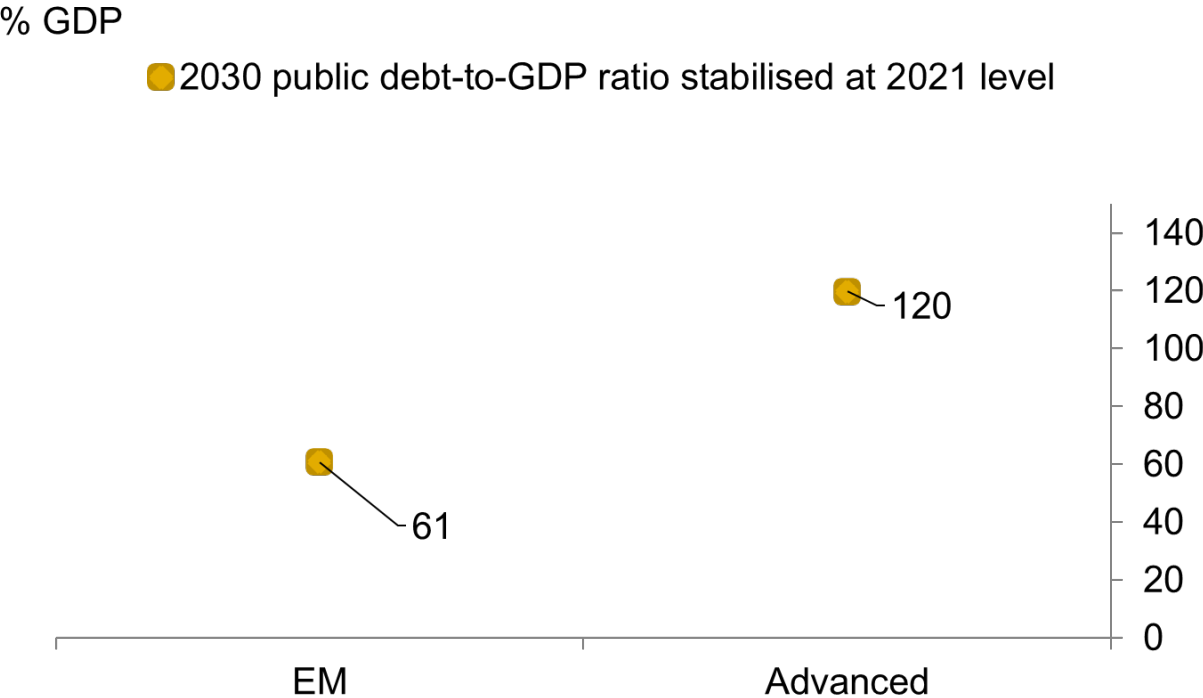
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29th September 2021



Most can stabilise debt-to-GDP at 2021 levels with limited (if any) fiscal adjustment

- Fiscal policy responses broadly appropriate
- Public debt has increased dramatically, now at 60% of GDP in EMs, 120% in advanced economies

Avg primary deficit (2021-30) required for debt/GDP to stabilise at 2021 level (baseline and stagflation scenario)

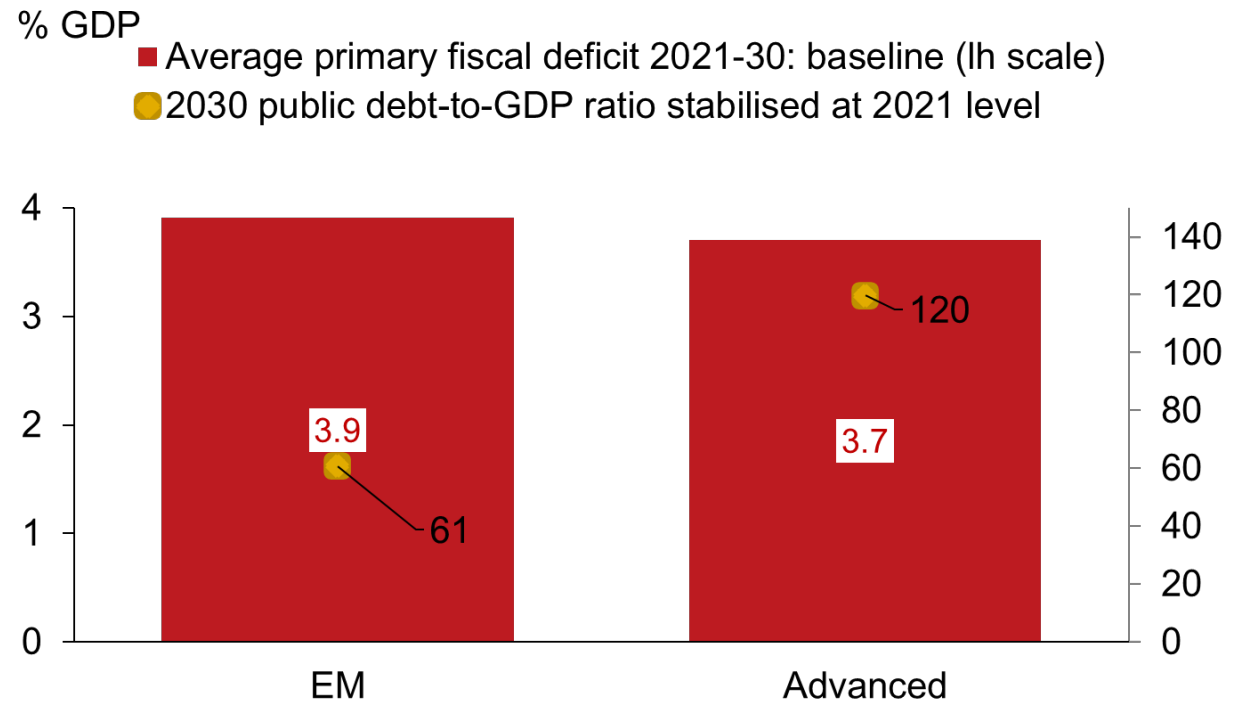


Source: Oxford Economics/IMF

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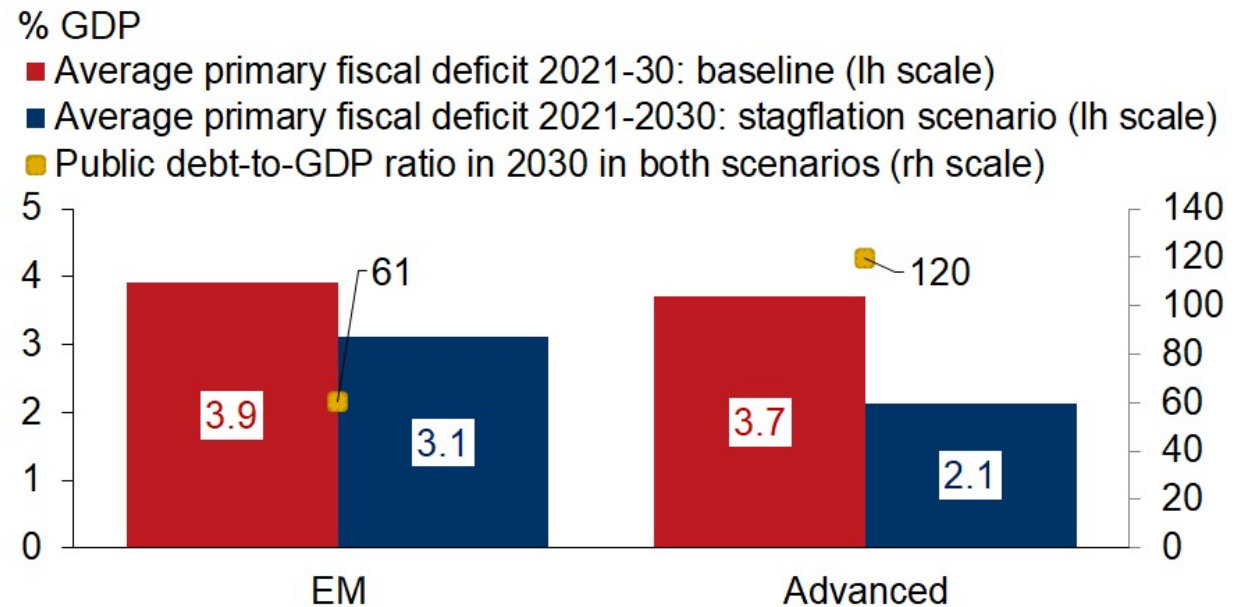


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- Public debt has increased dramatically, now at 60% of GDP in EMs, 120% in advanced economies
- But debt can be stabilised with only moderate fiscal effort...
- ... even in a stagflation scenario
- In stagflation, Brazil, South Africa, Turkey, and China would see debt trend up quite sharply

Avg primary deficit (2021-30) required for debt/GDP to stabilise at 2021 level (baseline and stagflation scenario)



Note: The stagflation scenario involves inflation 1ppt higher than baseline each year, real GDP growth 1ppt lower than baseline each year, and a sustained 200bps increase in global yields
Source: Oxford Economics/IMF

EM (and global) funding conditions will likely remain favourable

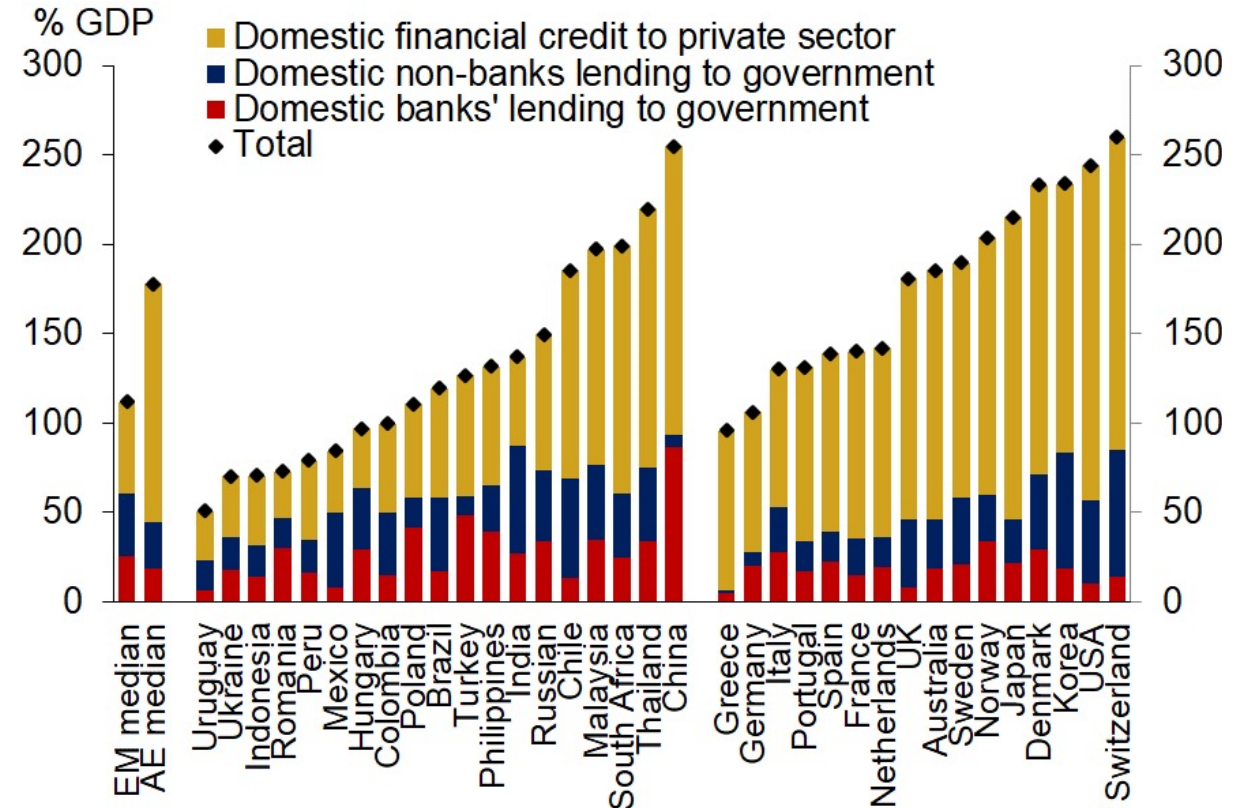
The good news:

- Favourable Longer-term funding conditions
- Global excess savings could persist for 30 years
- Funding capacity of EMs domestic financial systems has rocketed
- Average maturities are long
- Scope for global investors to hold more EM assets

The less good news:

- Market discipline weaker; will debt just keep rising?
- Some governments have a poor reputation
- A few governments are in a tricky predicament

Indicator of domestically-sourced credit



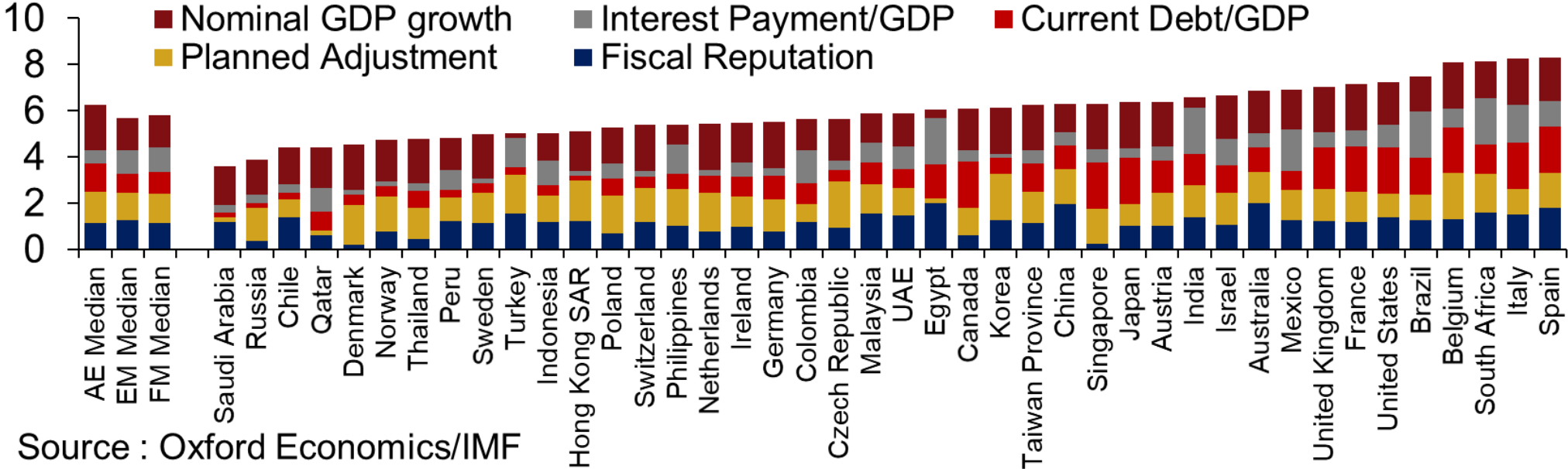
Source : Oxford Economics/Haver Analytics

The fiscal adjustment predicament – global rankings

- But some countries face a more difficult fiscal adjustment predicament.
- We find the prospects for fiscal adjustment are a bit more severe for AEs than EMs overall.
- Two frontier markets (El Salvador and Sri Lanka) face the most severe of all fiscal predicaments.
- Among larger economies, Spain, Italy, South Africa, Belgium and Brazil face more severe predicaments

AE & EM fiscal adjustment predicament scorecard

Score (10 is max and indicates the biggest adjustment predicament)

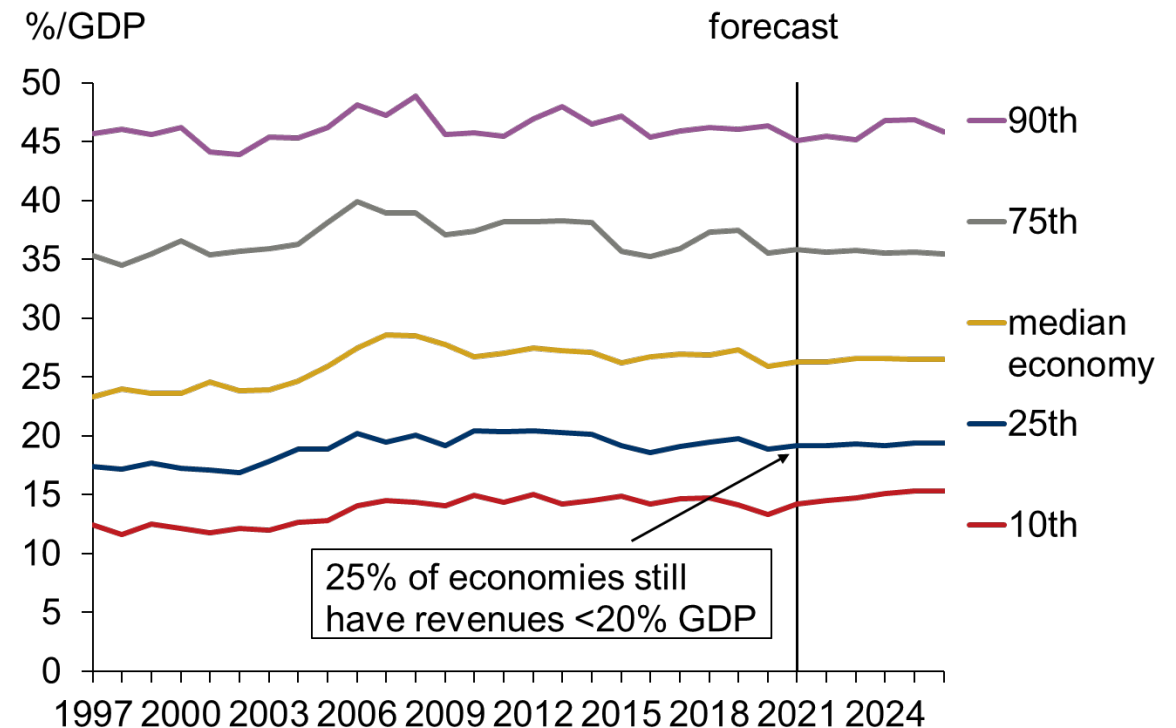


Source : Oxford Economics/IMF

Opportunities/challenges for enhancing tax efficiency not much affected by Covid

- Covid derailed implementation of SDGs
- History suggests big challenges in deepening tax base.
- Hard to build back better when there isn't enough government
- Stick to basic principals
 - (1) avoid discouraging work and investment
 - (2) Minimize compliance/admin costs
 - (3) Be fair and competitive
- New taxes may be necessary when social safety net inadequate

Tax revenues as a share of GDP: percentiles in distribution across 190 economies



Source : Oxford Economics/IMF WEO

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