



**FISCAL AFFAIRS**

# **Fiscal Policies In The Great Election Year**

**NBER Annual Tax and Economic Meeting**

**SEPTEMBER 26<sup>TH</sup>, 2024**

**Vitor Gaspar**

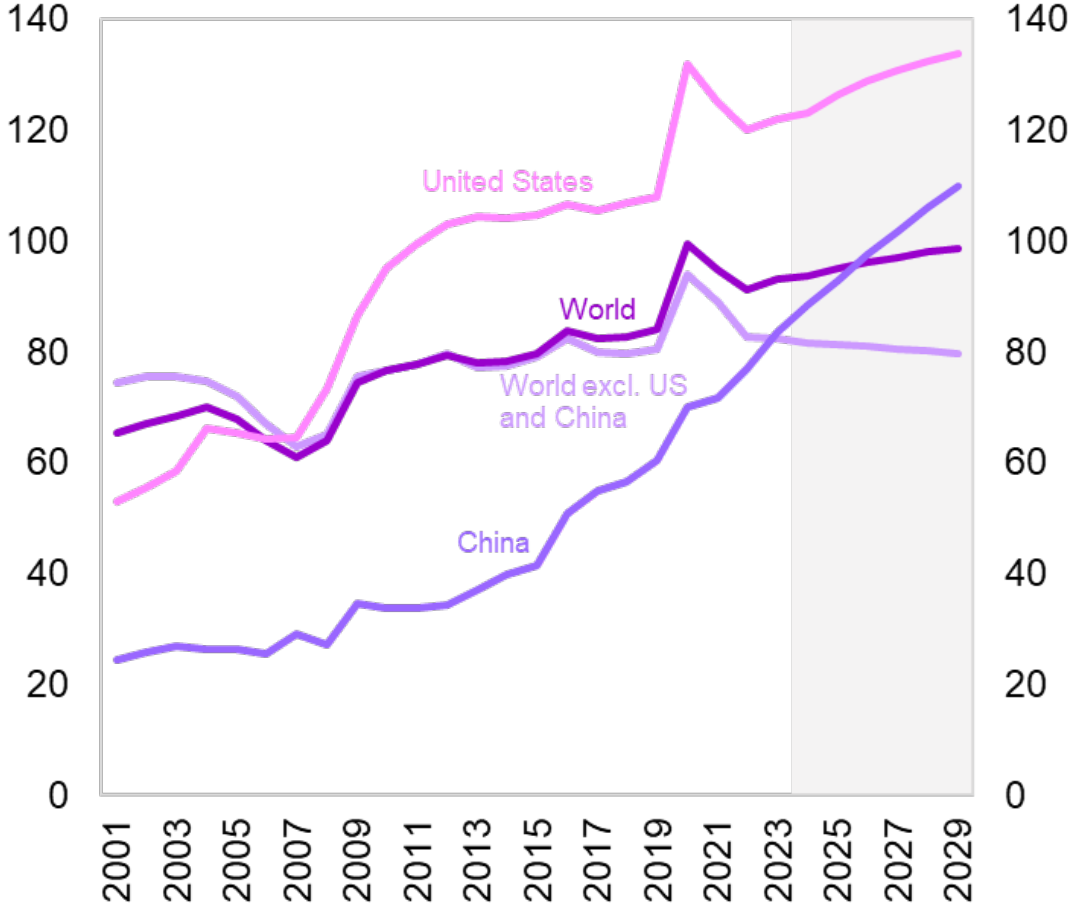
**Director**

**Fiscal Affairs Department**

The presentation was prepared by Misa Takebe, Julieta Ladronis, and Arika Kayastha. Data in the presentation uses WEO April 2024. Dates for high-frequency data are listed in the notes under the figures.

# Higher And Rising Public Debt

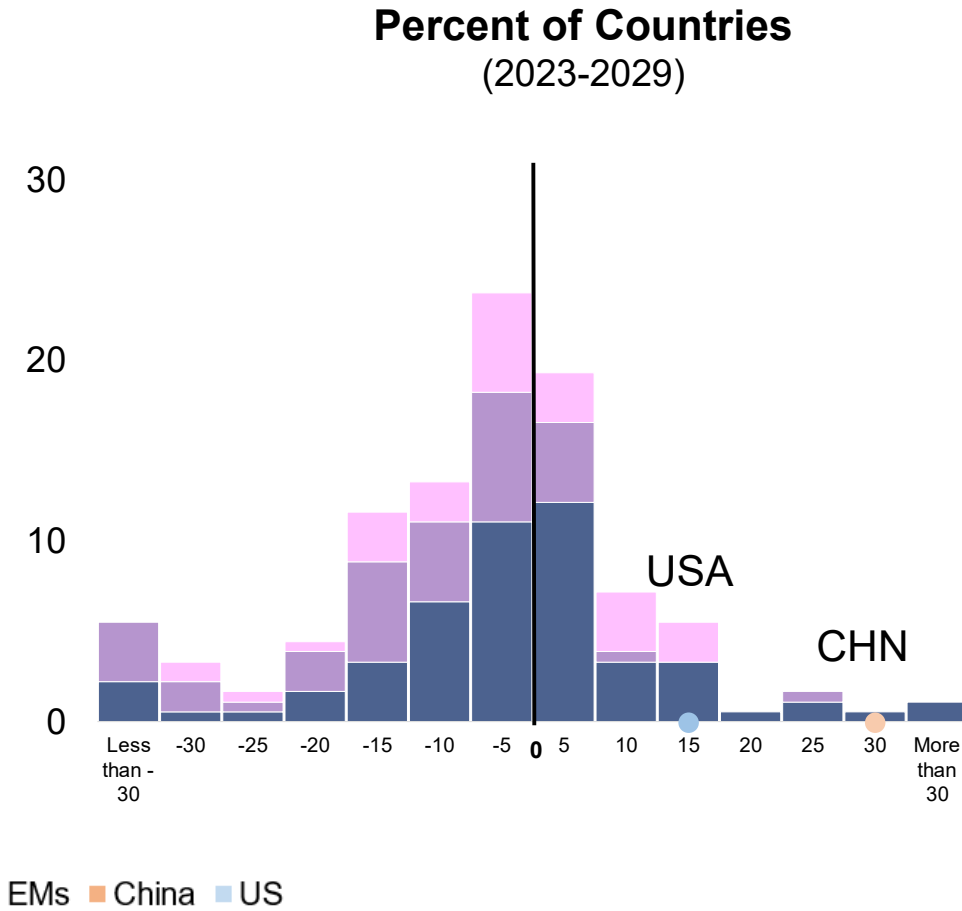
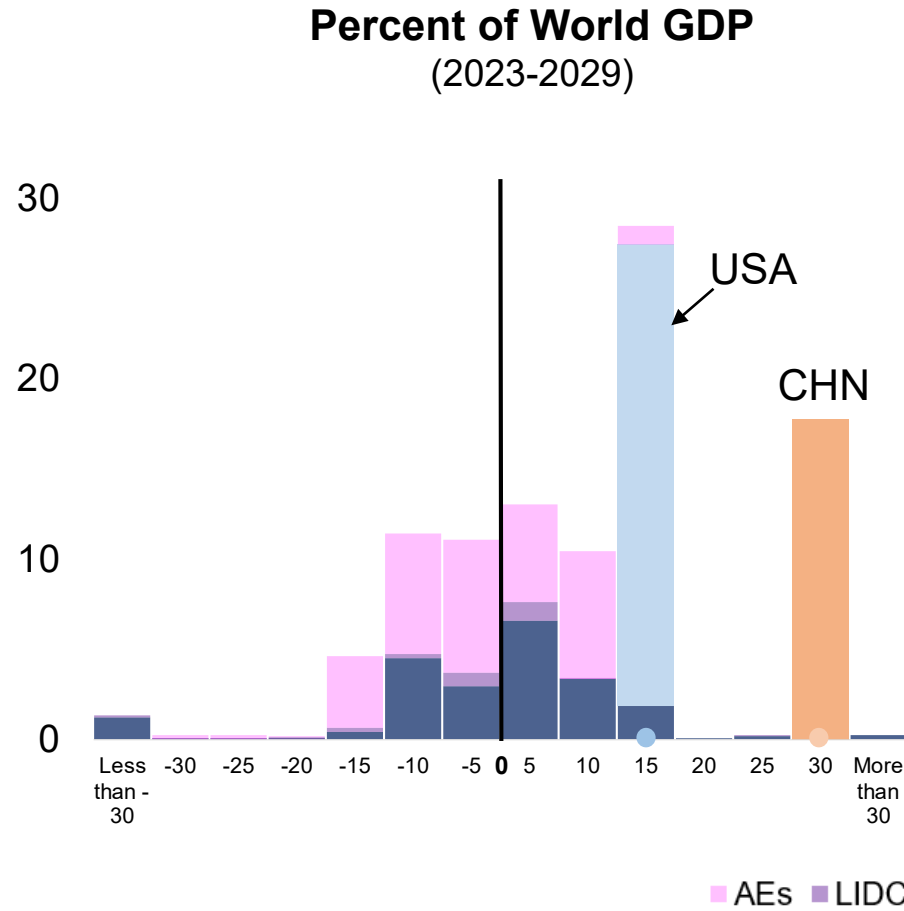
Public Debt-to-GDP ratios, 2001–2029  
(Percent of GDP)



Sources: World Economic Outlook April 2024; IMF staff estimates.

Note: China debt levels were adjusted after 2019.

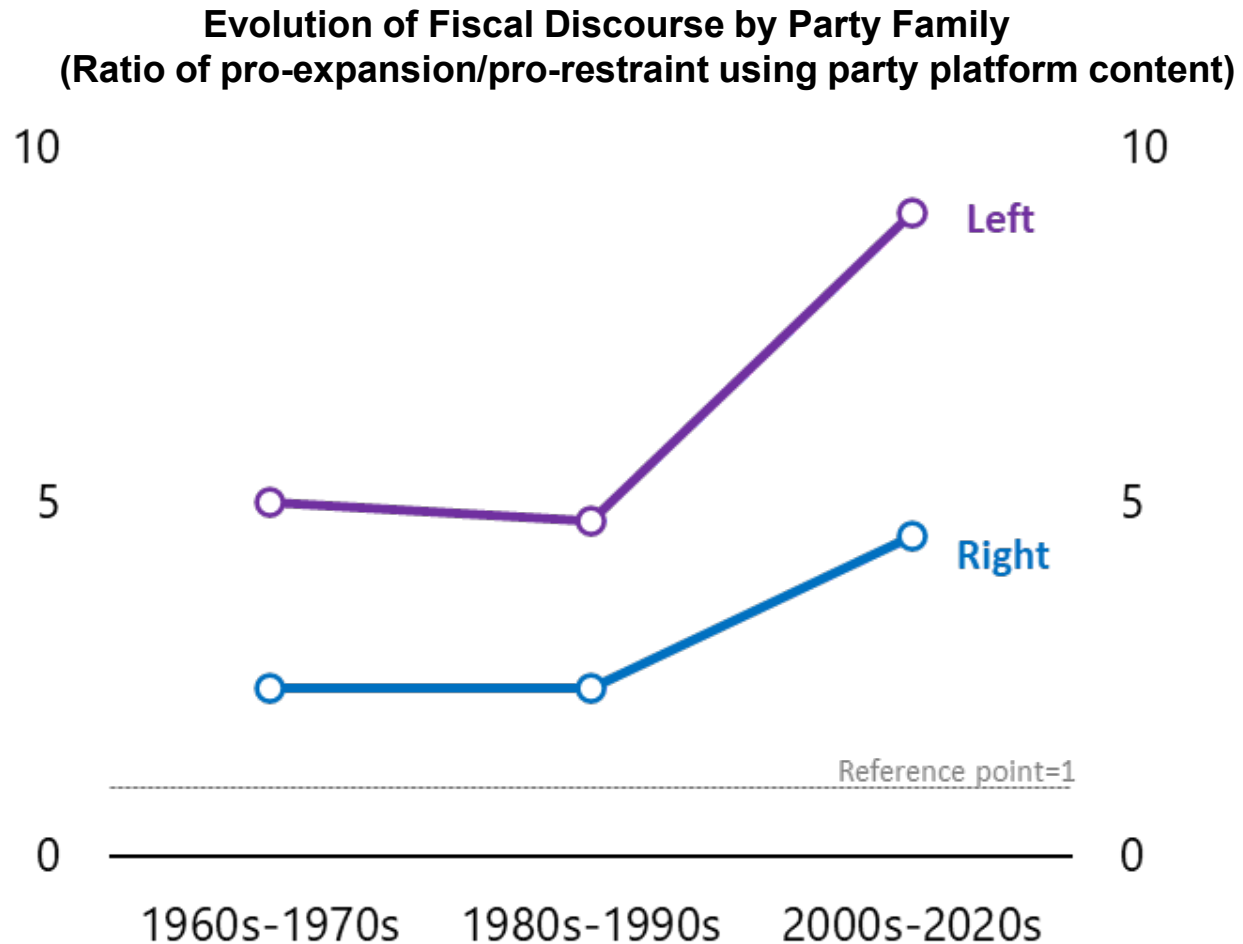
# Changes In Public Debt



Sources: IMF staff calculations and WEO April 2024.

Note: (LHS) Vertical Axis shows percent in the world GDP (RHS) Vertical Axis shows percent in the number of countries, and Horizontal Axis (LHS & RHS) shows percentage points change in Debt/GDP

# Political Pro-Expansionary Bias

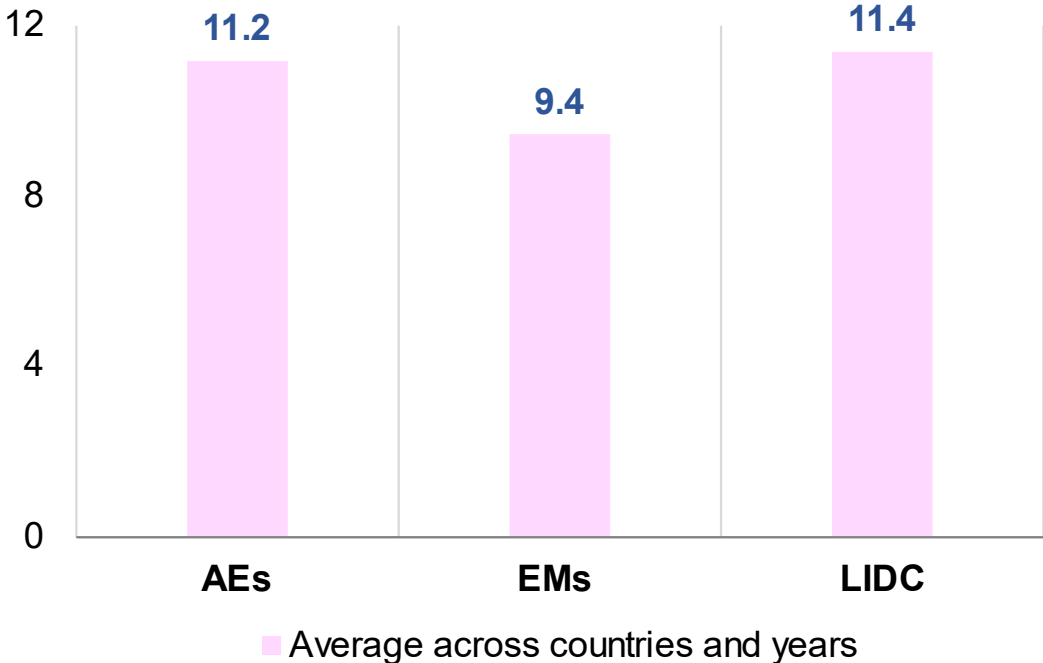


**Sources: Cao, Dabla-Norris, and Di Gregorio (2024), Manifesto Project Database.**

Notes: Manifesto Project data capture both spending intentions and value judgments. For each year in the figure, the year associated with the data refers to the first of four years the data cover. In Panel 1, platform data are first averaged at the country-election level, then by country-year, and finally by four-year period. The vertical axis shows the mean outcomes across all country-years in each four-year period. In panel 2, the top red line sums the shares of all categories below it. The vertical axis reports the mean share of platform statements by policy realm in which a party potentially advocates for more government spending or support. "Social" includes support for the welfare state (for example, health, child, and elder care; pensions; and social housing) and education.

# Sources of debt changes above baseline

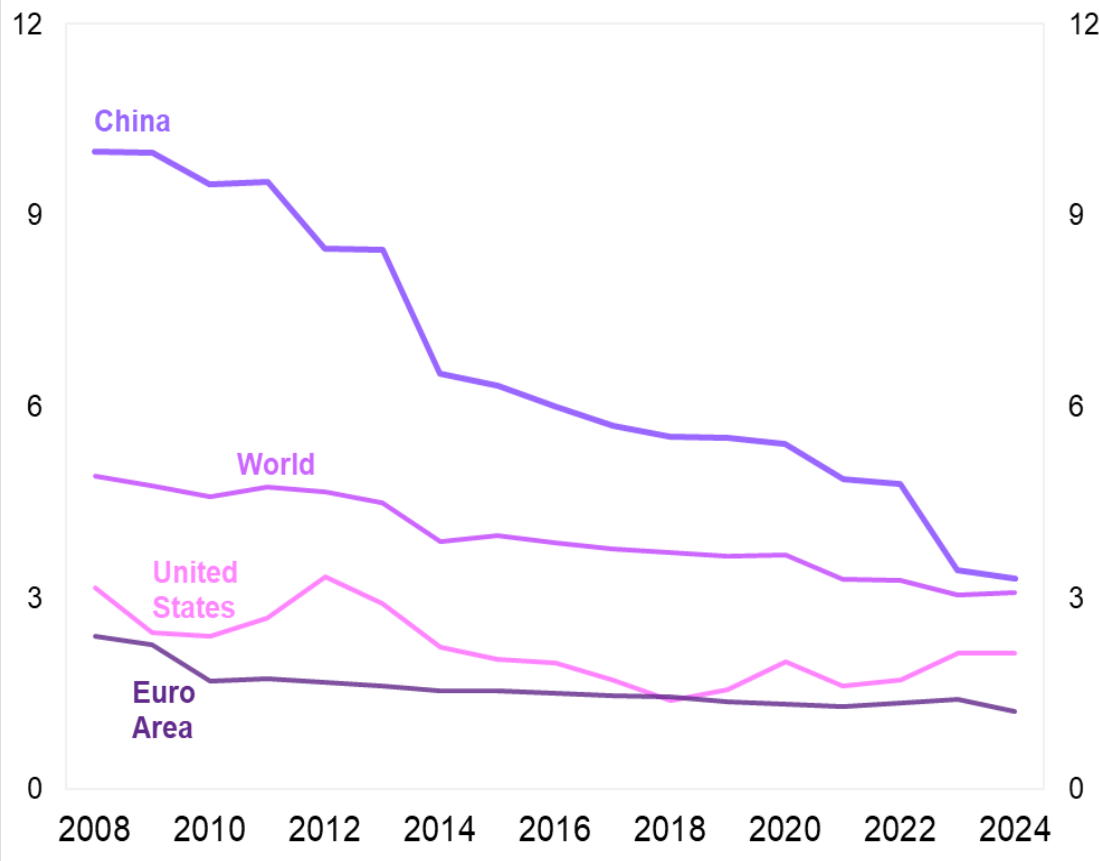
Five-Year Forecast Errors of Public Debt Projections, 1991-2019  
(Percent of GDP)



Sources: Estefania-Flores et al. 2023 & IMF Staff Estimates

# Diminishing Growth Prospects

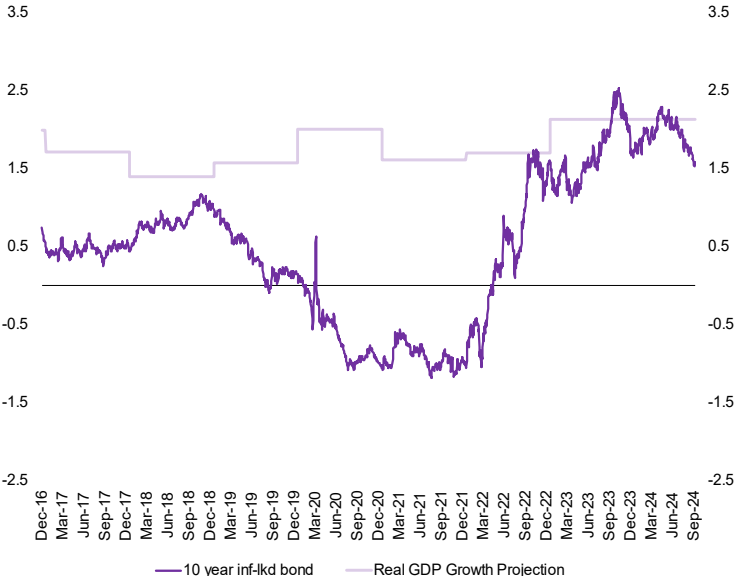
WEO Real Growth 5y Ahead Projections  
(Percent)



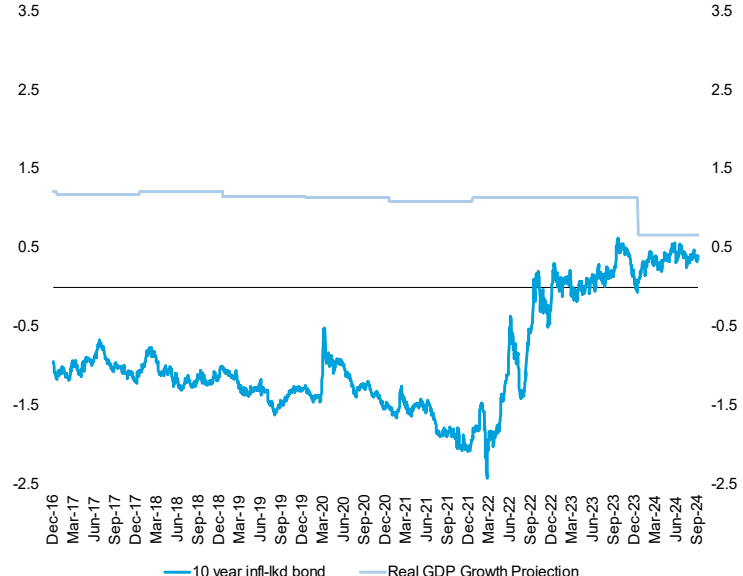
Sources: International Monetary Fund World Economic Outlook and IMF staff calculations.  
Note: The real GDP growth projection uses the 5<sup>th</sup> year projection in the reported year. The real GDP growth projections are on yearly basis.

# Unfavorable R-G Dynamics

**US**  
Real Growth Projections & 10 Year Bond Yield  
(Percent)



**Germany**  
Real Growth Projections & 10 Year Bond Yield  
(Percent)



**Japan**  
Real Growth Projections & 10 Year Bond Yield  
(Percent)



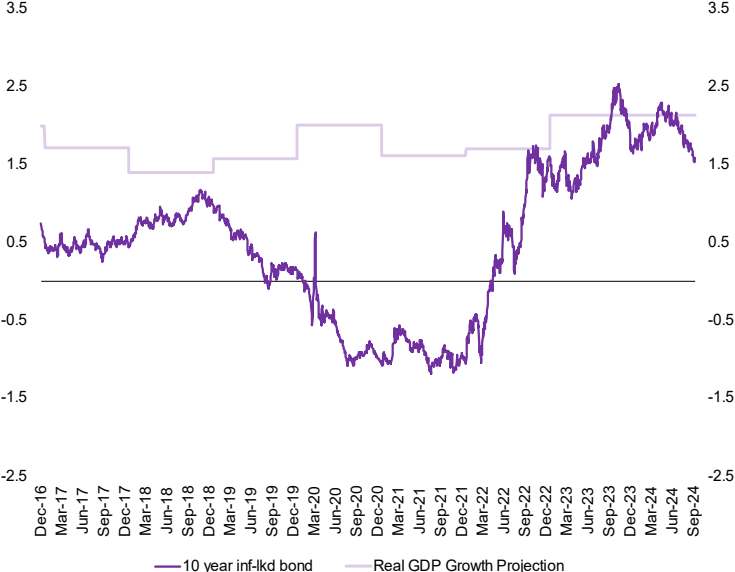
Sources: Bloomberg Finance, Refinitiv Eikon, IMF World Economic Outlook (April 2024) and IMF staff calculations.

Note: The charts use 10-year inflation-linked bond yield daily data. The last data point for bond yield data is Sept 20, 2024. The real GDP growth projection uses the 5<sup>th</sup> year projection in the reported year. The real GDP growth projections are on yearly basis. 2016-2024 use April vintages.

# Unfavorable R-G Dynamics

## US

Real Growth Projections & 10 Year Bond Yield (Percent)



## Italy

Real Growth Projections & 10 Year Bond Yield (Percent)



## France

Real Growth Projections & 10 Year Bond Yield (Percent)

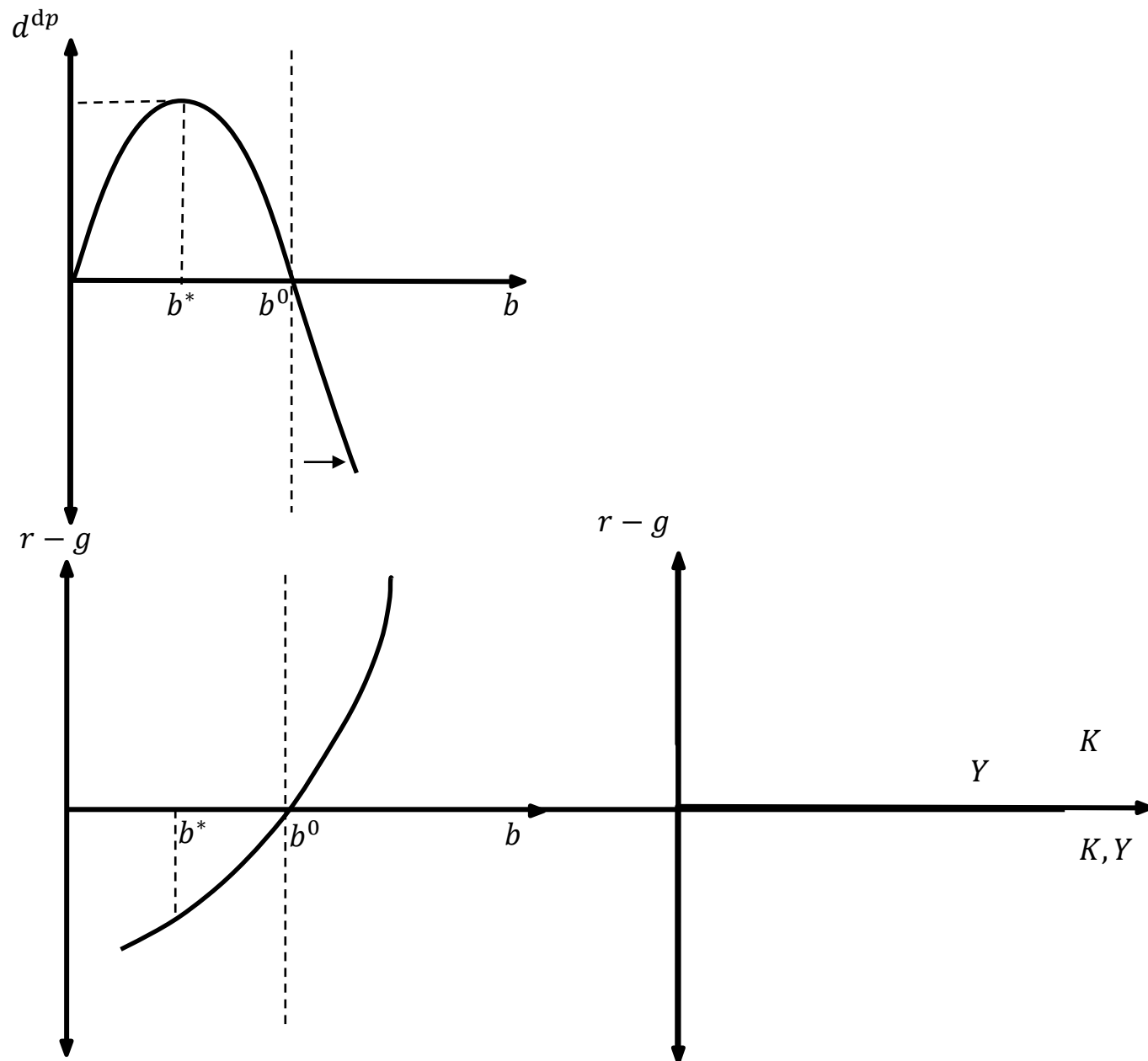


Sources: Bloomberg Finance, Refinitiv Eikon, IMF World Economic Outlook (April 2024) and IMF staff calculations.

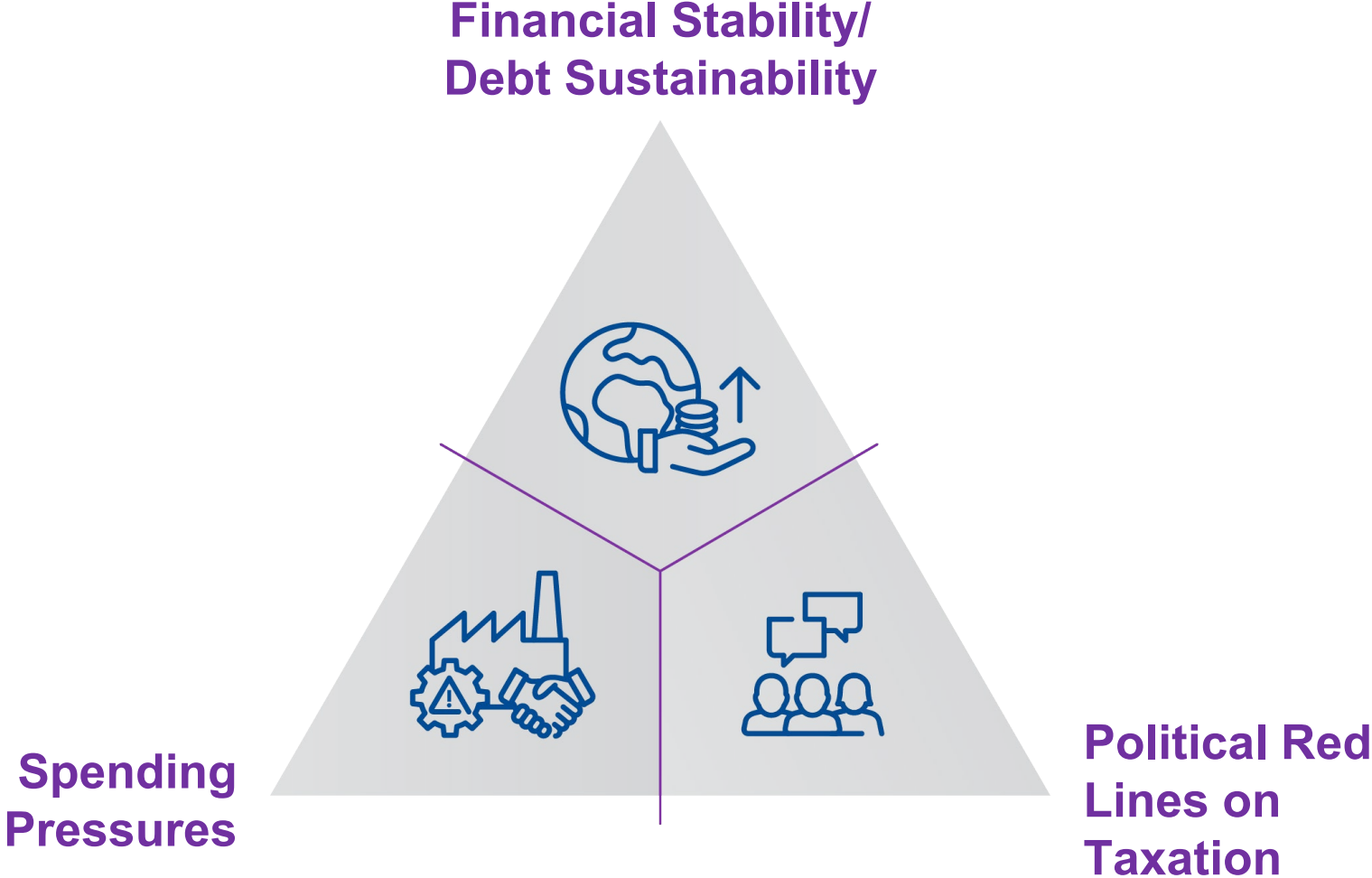
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# Digression: Budget Limits And The Endogeneity Of R-G



# Difficult Policy Trilemma



# Policy Recommendations

- 1 Identify spending priorities and improve the quality of public spending.**
- 2 Whatever spending envelope chosen should be backed by sound public financing.**
- 3 Build fiscal institutions that re-instill and foster public support for fiscal sustainability and stable finances.**
- 4 Carefully calibrate the adjustment design with different fiscal tools.**

**Thank you**