

# Recent Trends in Public Finances

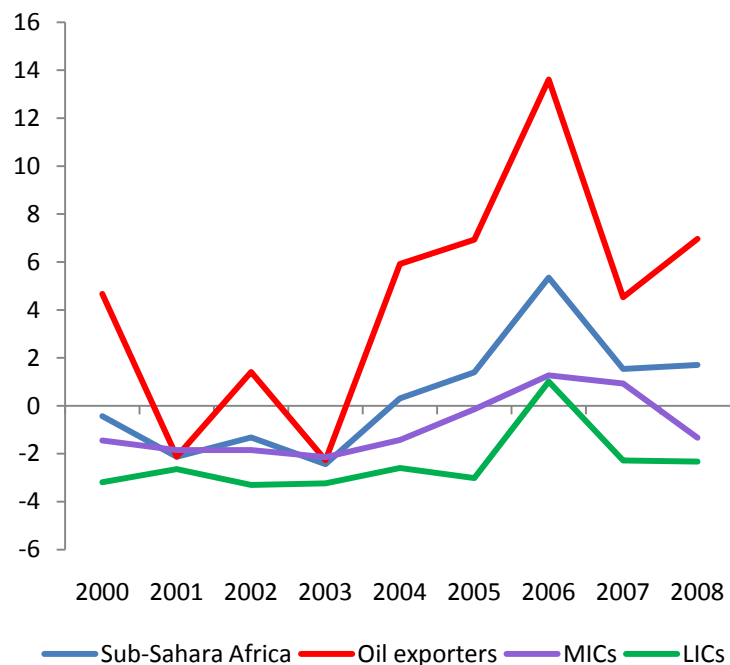
**Sanjeev Gupta**

Deputy Director  
Fiscal Affairs Department

African Fiscal Forum  
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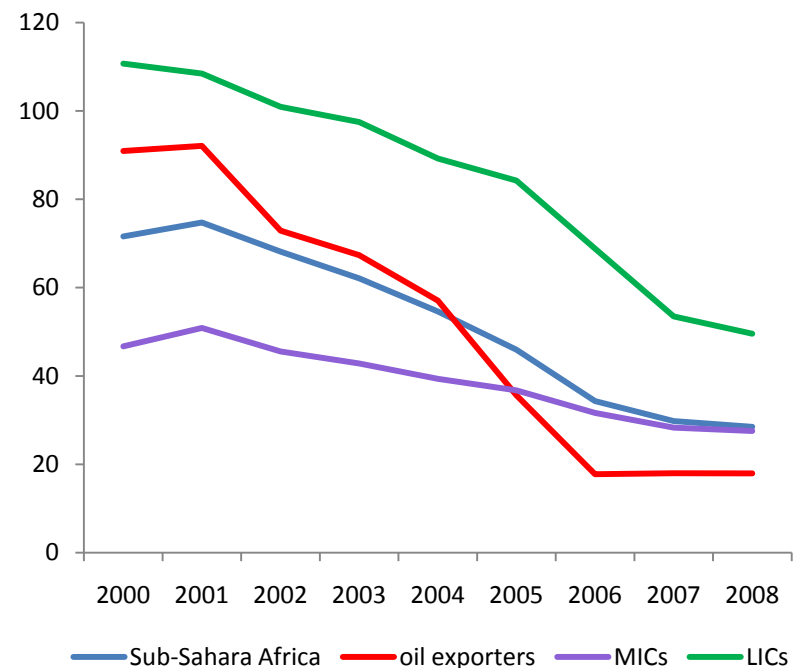
# Fiscal buffers improved during the last decade

**Fiscal balances strengthened in most countries, including oil producers and MICs...**



Overall deficit (% of GDP, wgt'd ave.)

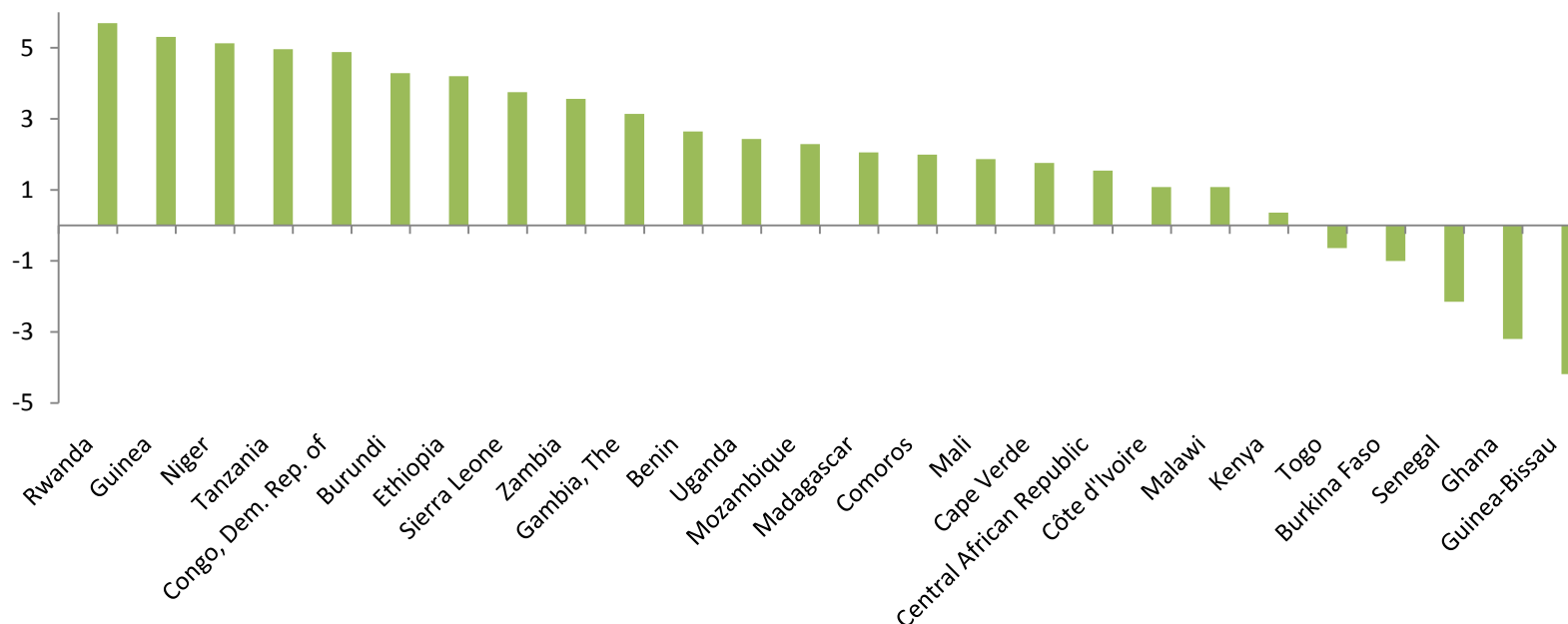
**...while debt declined helped by strong policies, growth and debt relief**



Gross debt (% of GDP, wgt'd ave.)

# Within LICs, many countries strengthened their fiscal buffers and generated fiscal space

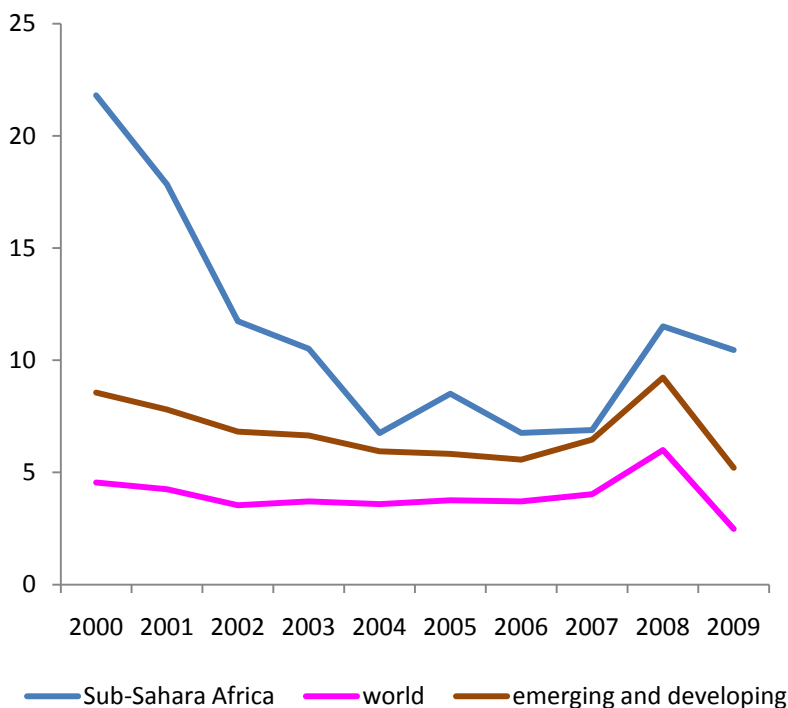
**Fiscal space (% of GDP, 2008)**



- **Fiscal space** compares the current primary balance in LICs against the primary balance that stabilizes debt at 40 percent of GDP in the long term.

# But Africa was then hit by an external price shock...

High food and fuel prices pushed up inflation in 2007/2008...



CPI (% y-o-y, wgt'd ave.)

Countries responded by fiscal measures to alleviate the social impact

## Sub-Saharan Africa: Fiscal Cost of Policy Responses to Higher Fuel and Food Prices

	2007/08 episode	
	Number of countries	Median fiscal cost (% GDP)
Fuel		
Tax decreases	7	0.3
Subsidy increases	6	0.1
Food		
Tax decreases	11	0.4
Subsidy increases	4	0.3
Other responses	6	0.1
<i>Total fiscal cost</i>	<i>20</i>	<i>0.6</i>

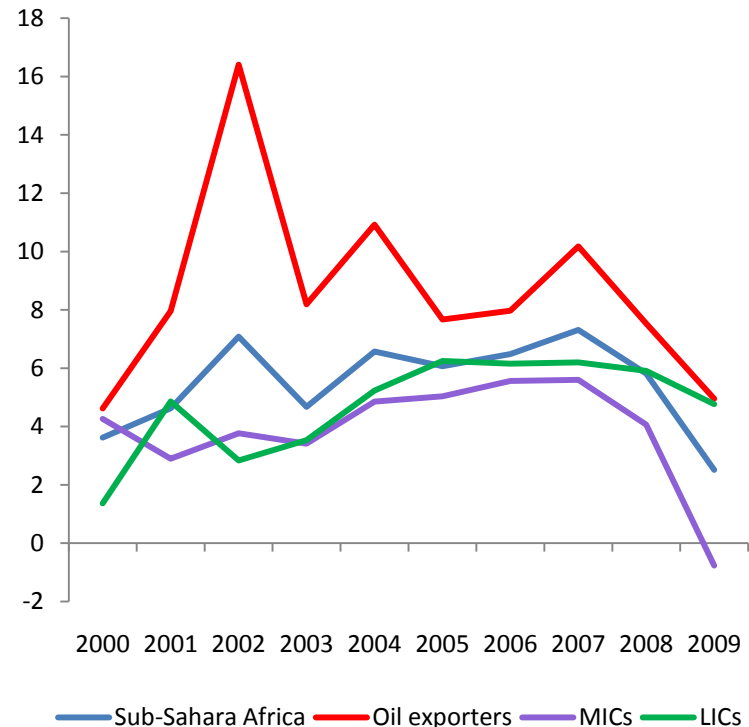
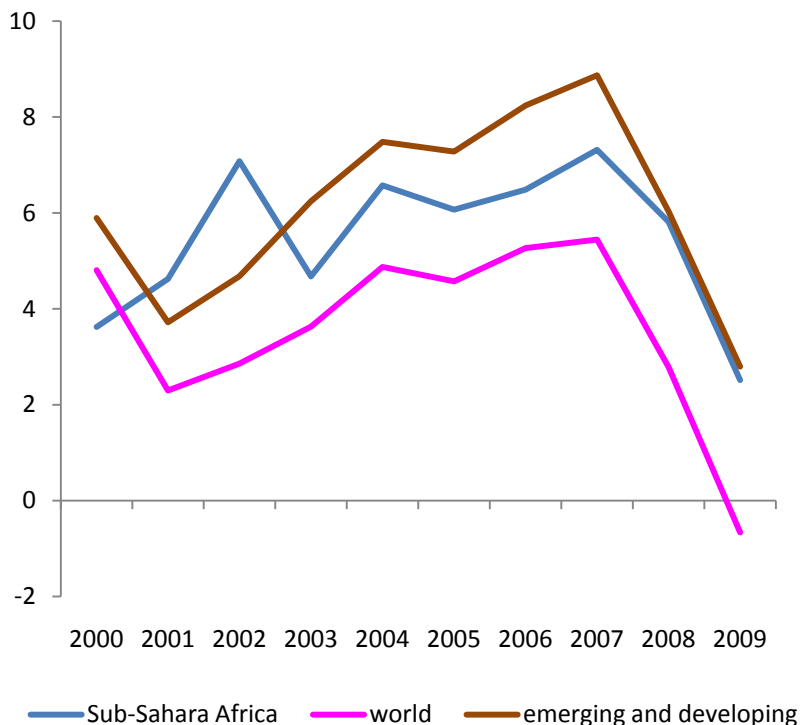
Source: Staff estimates based on data provided by country teams and authorities

# ...followed by an external growth shock

Spillovers from the great recession led to a global growth decline in 2009...

...which also impacted sub-Saharan Africa across all country groups

**Real GDP growth (% , y-o-y, weighted average)**

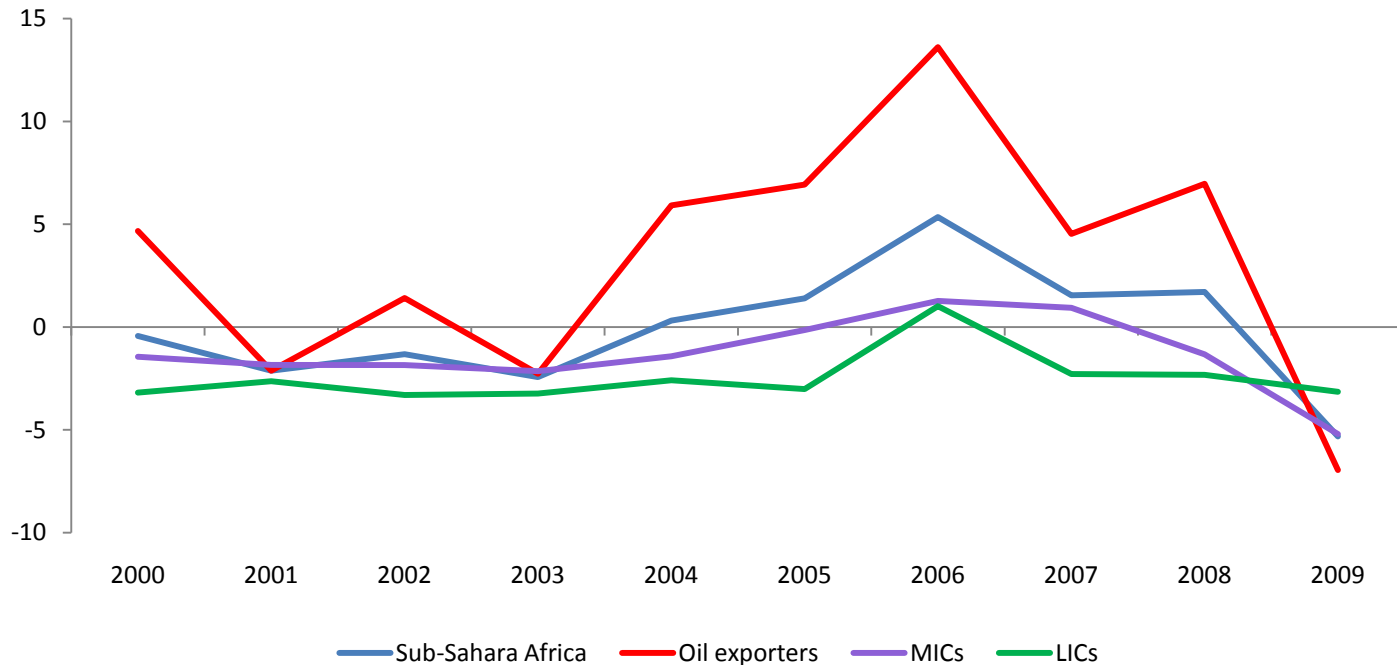


# The fiscal response in 2009 differed from the past



**More countries were able to pursue a counter cyclical fiscal policy**

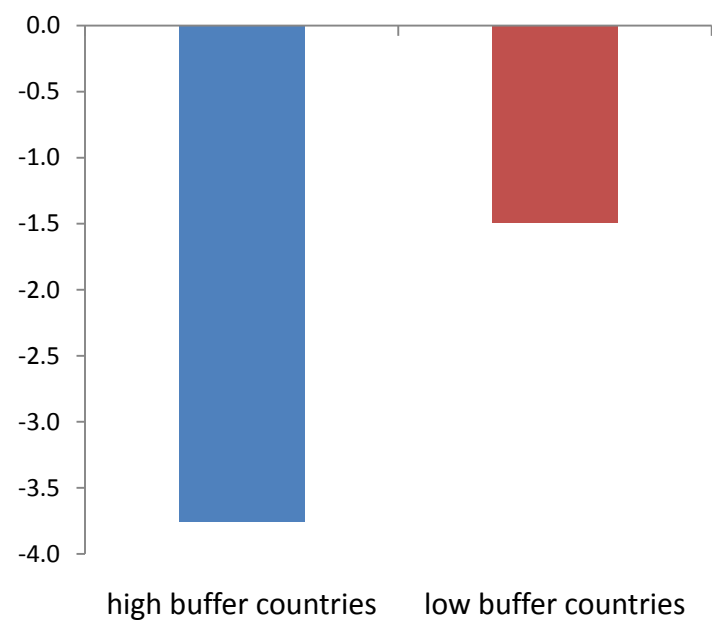
**Overall deficit (% of GDP, weighted average)**



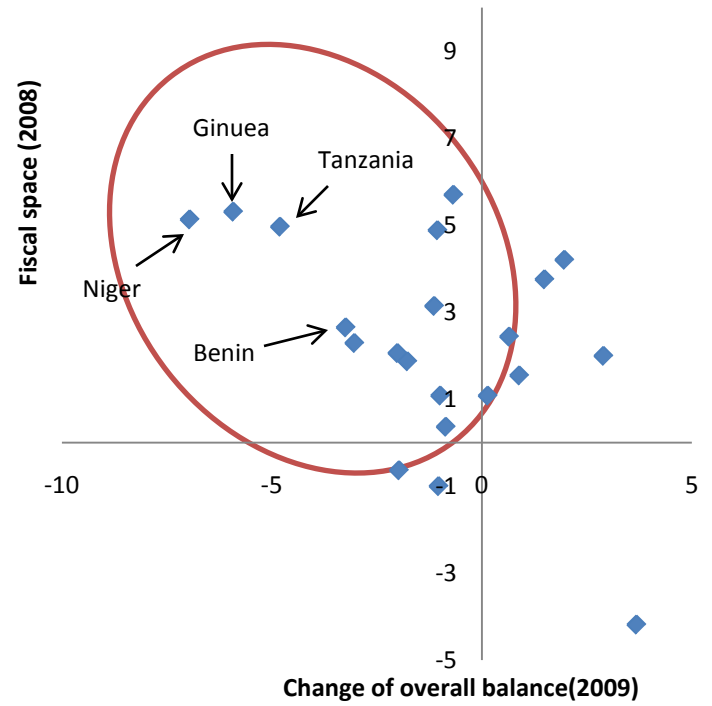
# The fiscal policy response was strongest in countries with larger pre-crisis fiscal buffers

**LICs with larger pre-crisis fiscal buffers could absorb a larger widening in the deficit**

**But great variation amongst countries**

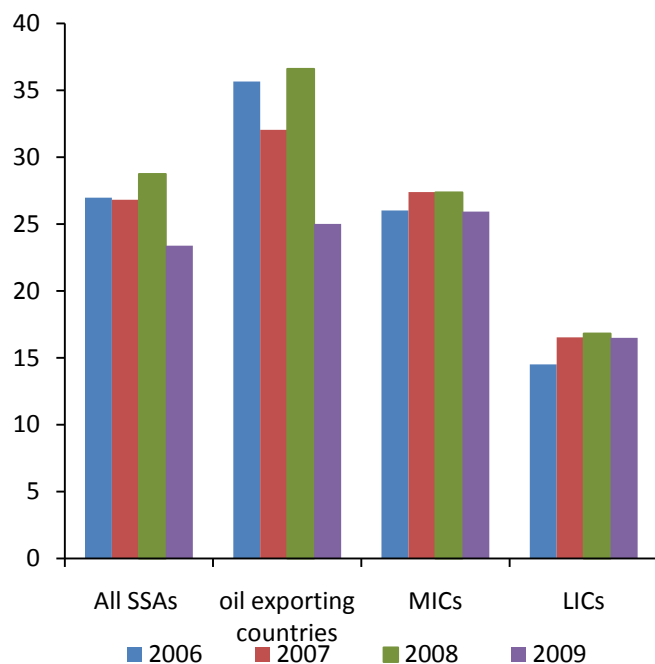


Annual change in the fiscal space (% of GDP, 2009, median)



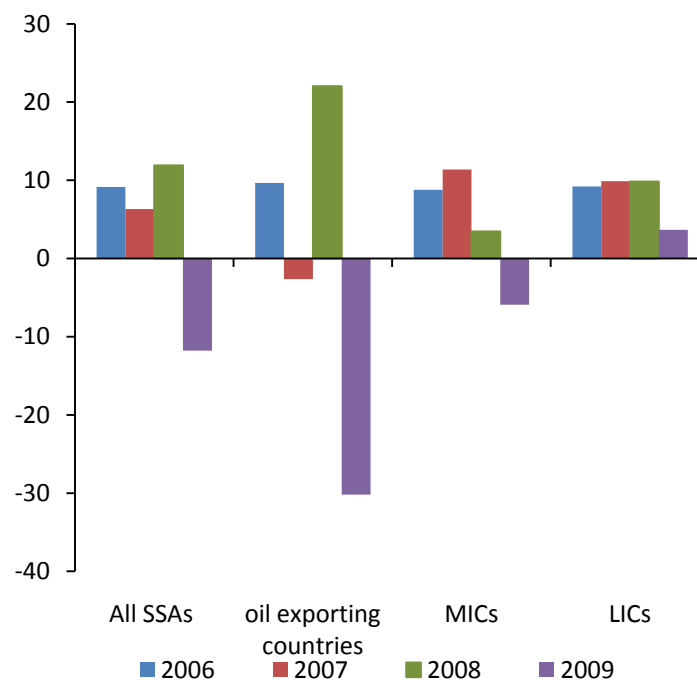
# Revenue declined from lower oil prices and the growth shock

**The revenue decline was most pronounced for oil exporters**



Total revenue, excl. grant (% of GDP, wgt'd ave.)

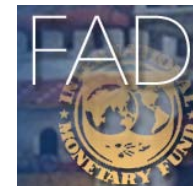
**But in all countries real revenue fell**



Real growth rate of total revenue (% wgt'd ave.)



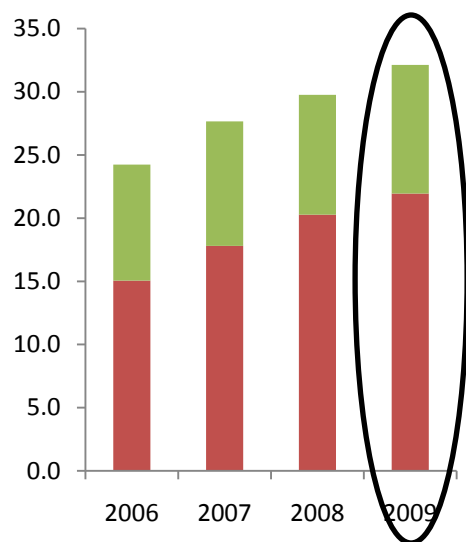
# The fiscal buffers enabled countries to protect expenditure or even provide further stimulus



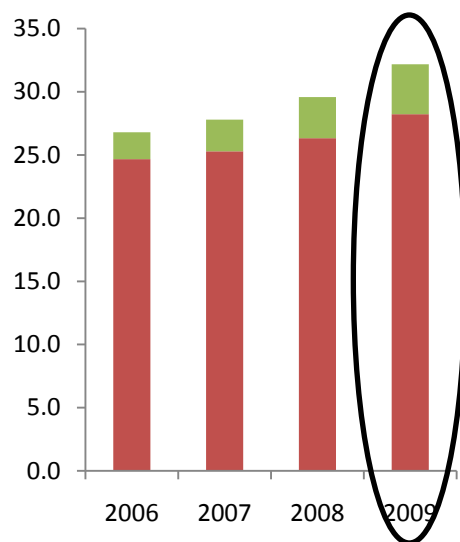
**Oil-exporters and MICs increased spending most**

**While LICs had more stable expenditure levels**

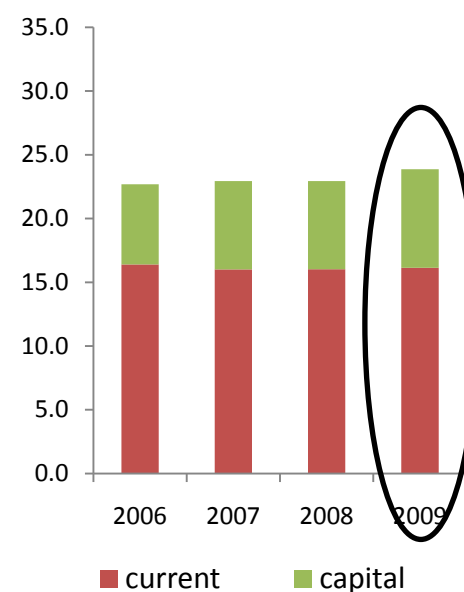
Expenditure composition (% of GDP, weighted average)



Oil exporters



MICs

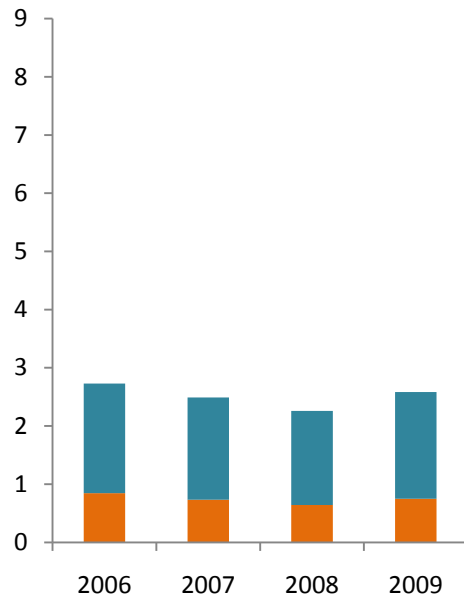


LICs

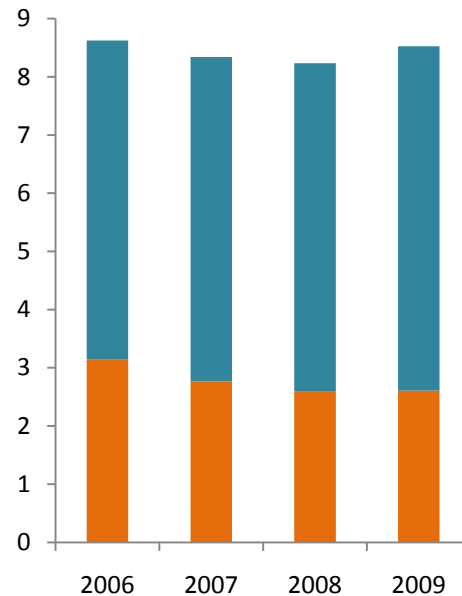
An effort was made to protect or even increase health and education spending, although this remains low in LICs and oil exporters



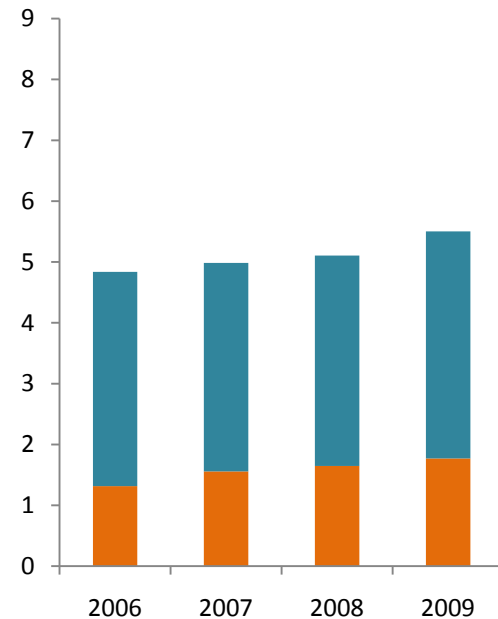
### Health and education expenditure (% of GDP)



Oil exporters (2)



MICs (6)



LICs (11)

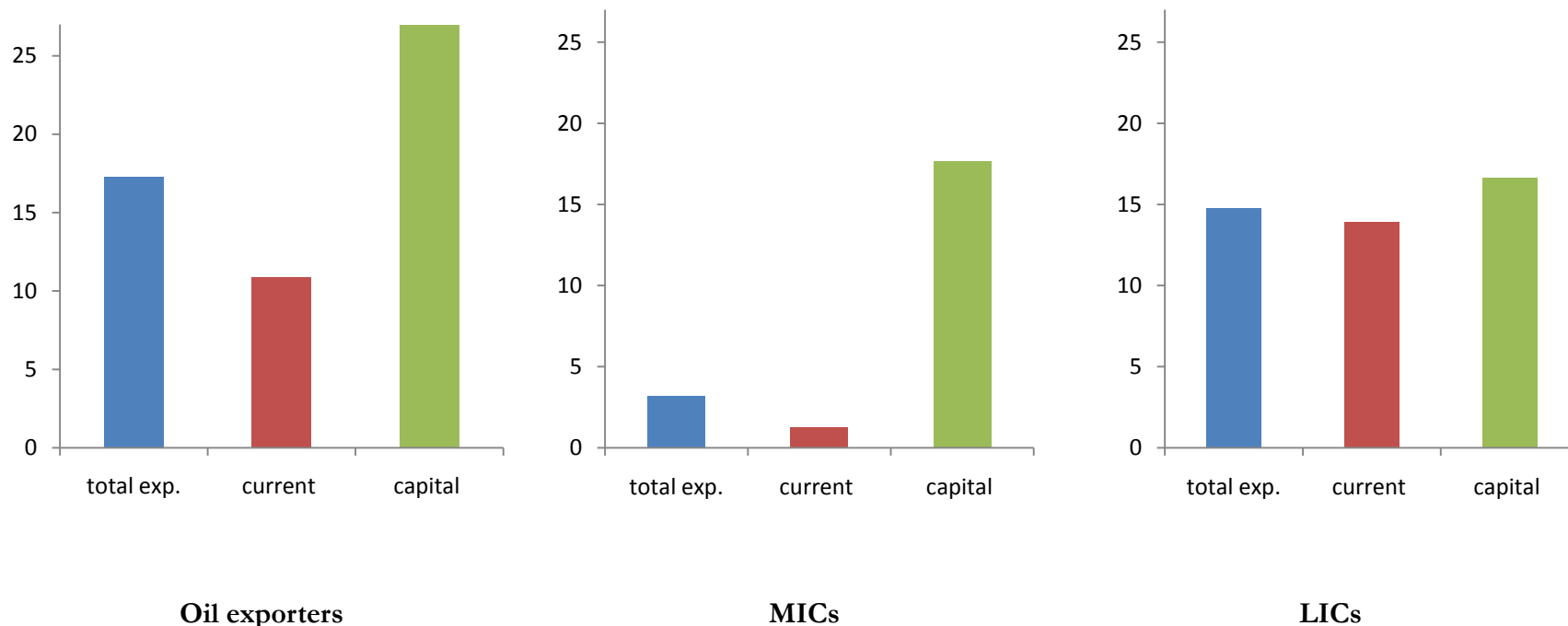
health education

# Real expenditure increased in 2009

**All SSA countries scaled up capital expenditure in 2009...**

**...with higher growth for oil producers**

Real growth rate of expenditure (% , 2009, weighted average)



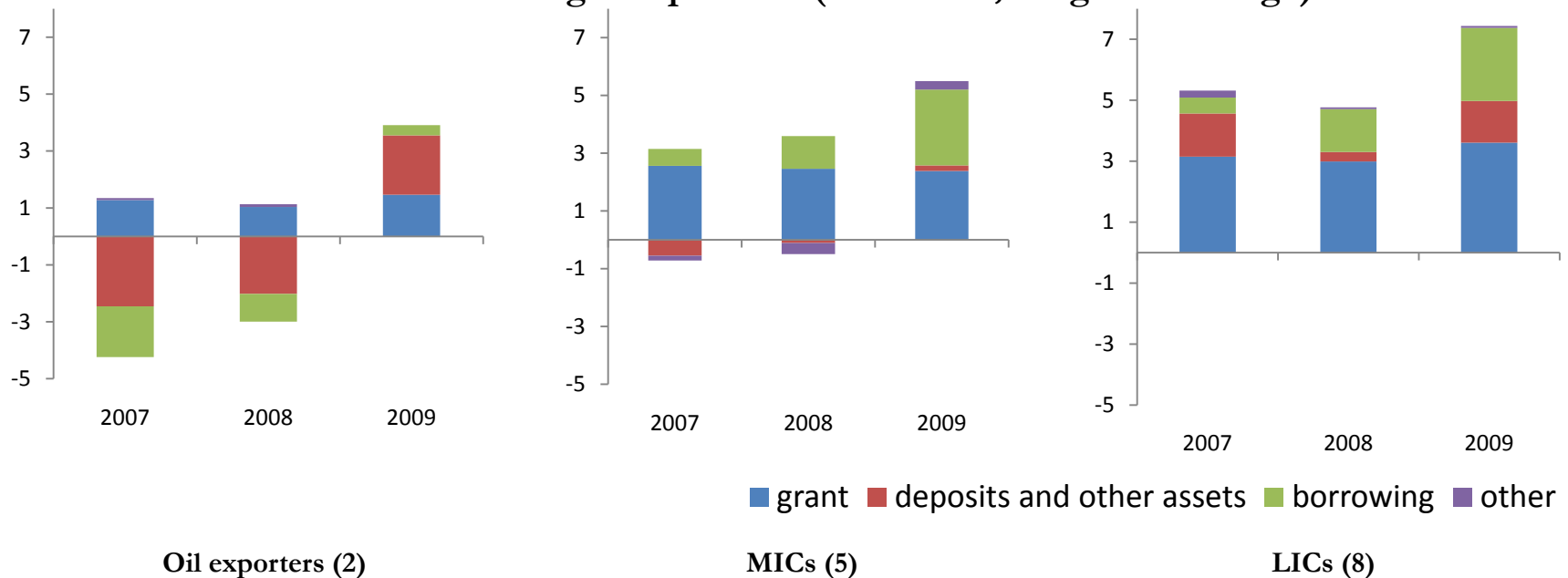
# The wider deficits in 2009 were financed mainly by borrowing



**LICs and MICs relied more on borrowing largely from domestic sources**

**...whereas oil exporters and also LICs drew down deposits and other assets**

Deficit financing composition (% of GDP, weighted average)

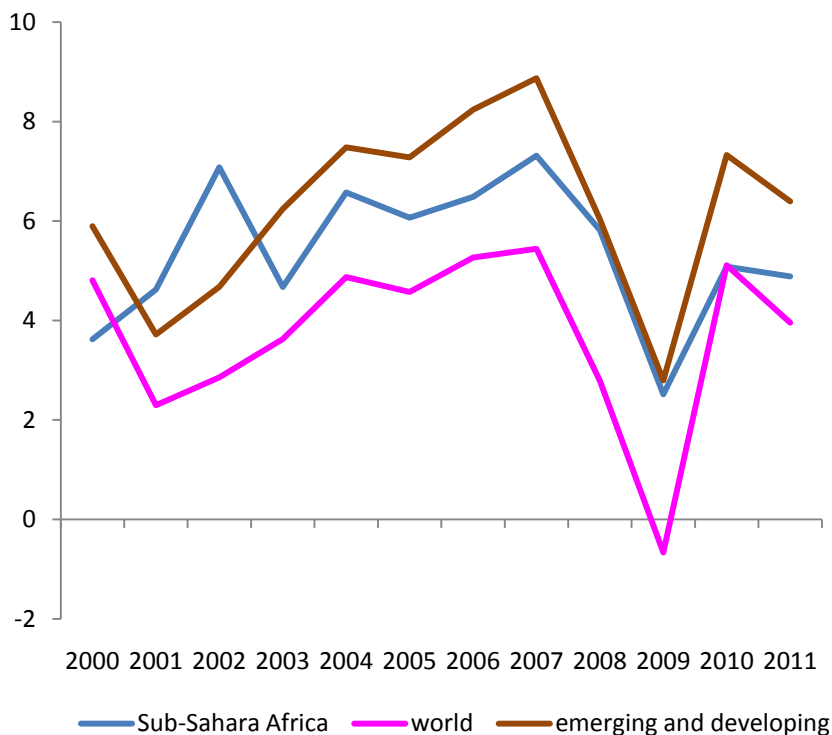


Note : (1) Deposits and other assets = change in government net financial assets  
 (2) Borrowing = change in government net liabilities

# The economy rebounded in 2010

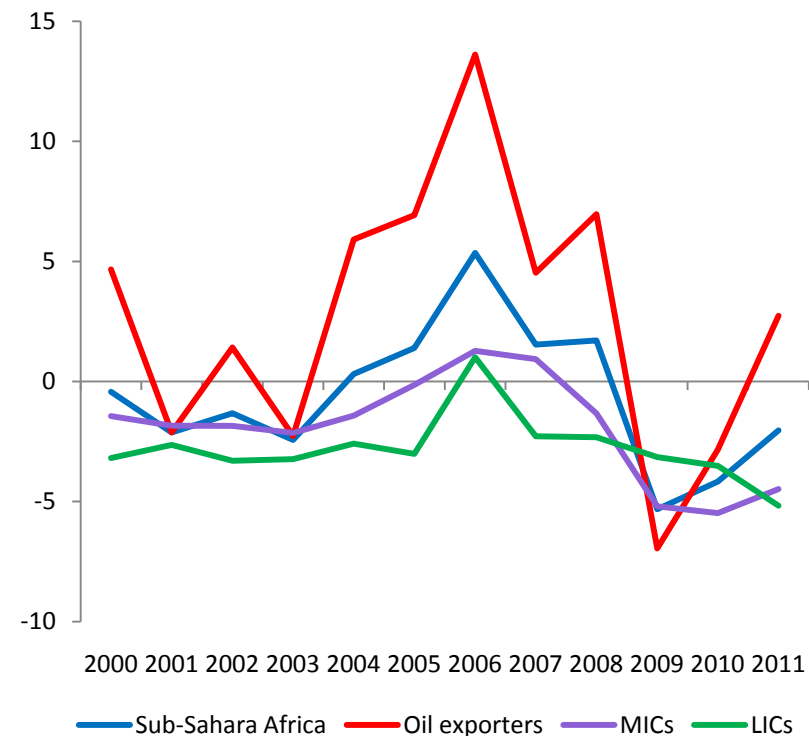


## Growth recovered quickly in Africa



Real GDP growth (% , y-o-y, wgt'd ave.)

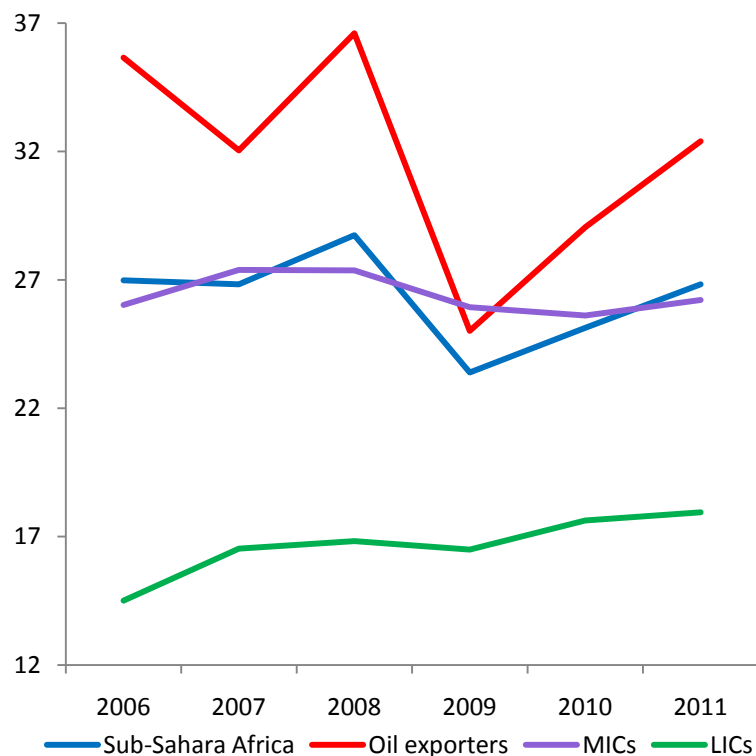
## ...but the rebuilding of fiscal buffers lagged especially in LICs



Overall deficit (% of GDP, wgt'd ave.)

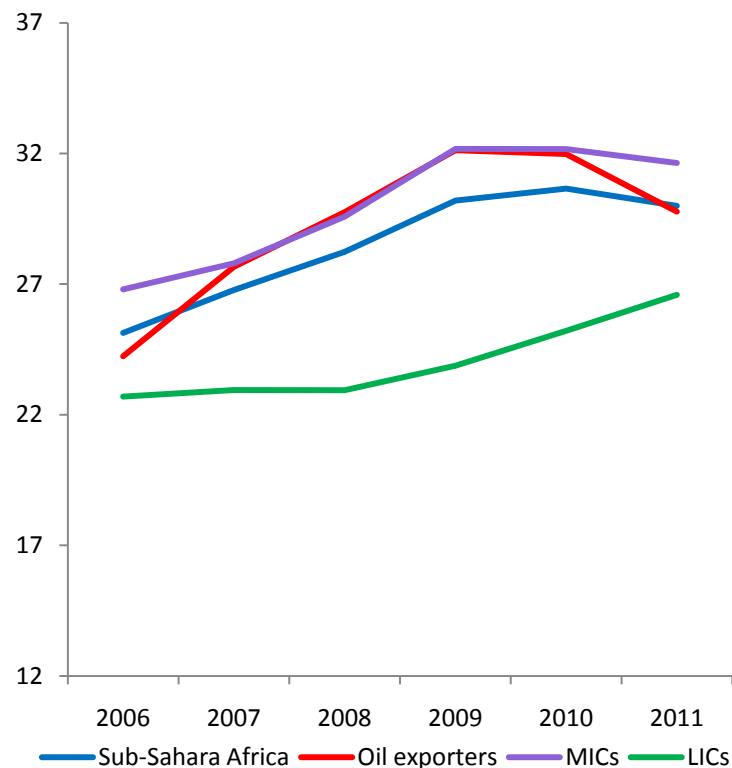
# Revenue is improving but expenditure remains high

**Tax revenues have improved since the crisis...**



Total revenue, excluding grants (% of GDP, wgted ave.)

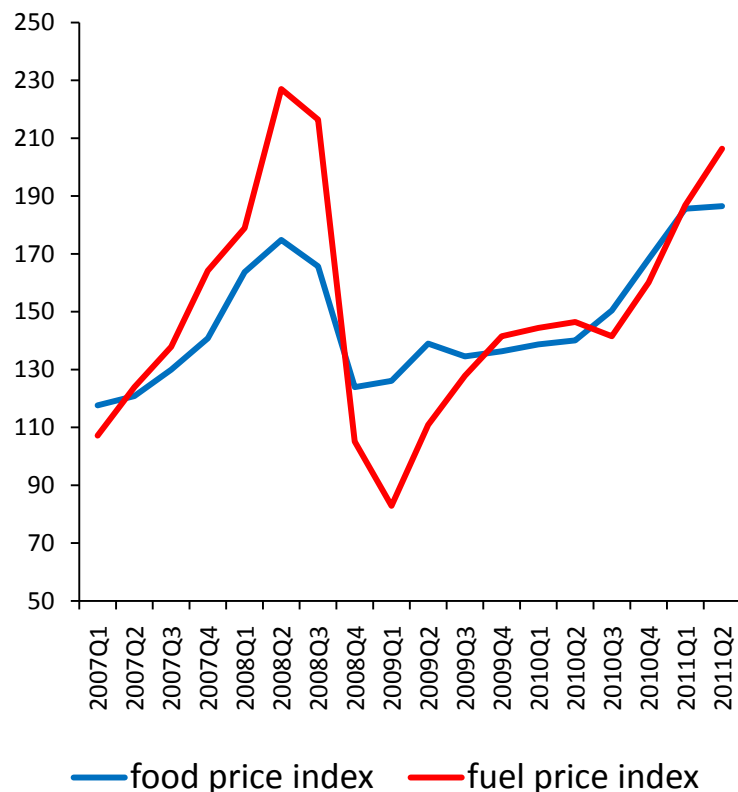
**...and expenditures continued to increase in LICs**



Total expenditure (% of GDP, wgted ave.)

# High expenditure in 2011 partly was in response to food and fuel price increases

**International food and fuel prices reached another peak in 2011**



**Many countries took measures again to soften the impact, particularly to mitigate the fuel price increases**

**Sub-Saharan Africa: Fiscal Cost of Policy Responses to Higher Fuel and Food Prices**

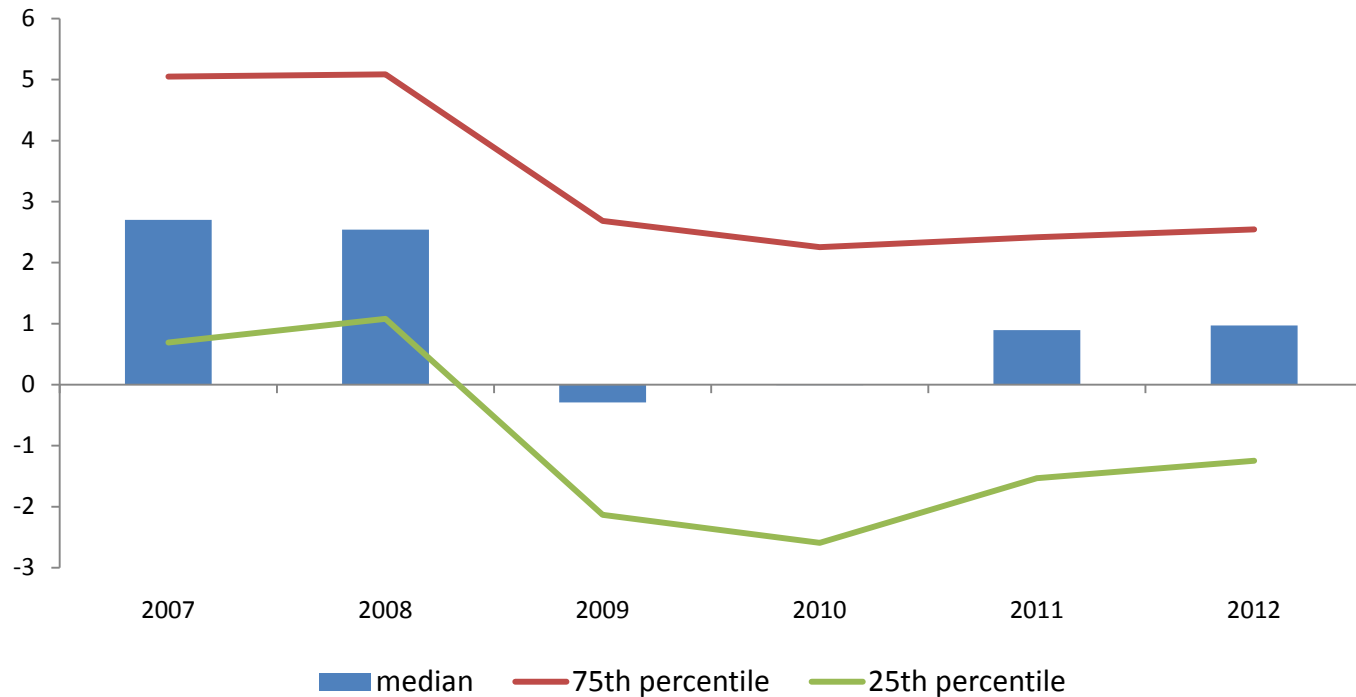
	2007/08 episode		2010/11 episode	
	Number of countries	Median fiscal cost (% GDP)	Number of countries	Median fiscal cost (% GDP)
<b>Fuel</b>				
Tax decreases	7	0.3	11	0.4
Subsidy increases	6	0.1	11	2.1
<b>Food</b>				
Tax decreases	11	0.4	4	0.8
Subsidy increases	4	0.3	4	0.1
<b>Other responses</b>	6	0.1	8	0.8
<b>Total fiscal cost</b>	20	0.6	20	1.6

*Note: The fiscal cost for the current run-up includes only 12 countries which provided quantitative information*

Source: Staff estimates based on data provided by country teams and authorities

While rebuilding fiscal space is lagging in LICs, there is a wide variation across countries

**Fiscal space of all LICs (% of GDP)**





# What should countries do to increase fiscal space

- Boost revenue mobilization
- Improve spending efficiency and public financial management
- At the same time, protect priority spending and develop targeted social safety nets

Thank you !