

Fiscal space and development strategies

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Agenda

- Set the scene for a debate amongst participants about the question on how countries can create fiscal space to support growth and poverty reduction.
- Draw on a publication of the World Bank (“Fiscal Policy for Growth and Development”), and one by Peter Heller (“Fiscal Policy for Growth and Development: The Fiscal Space Debate”).
- Setting the scene will require a brief discussion of
 - the concept of fiscal space,
 - considering alternative ways in which fiscal space can be created and
 - linking this to enhanced growth and poverty reduction.

Before we get into the concept of fiscal space....

- Let us observe the international consensus that fiscal policy cannot just be about macroeconomic stabilization, but that it needs to balance such stability with growth consequences.
- Fiscal policy therefore needs a focus on the likely growth effects of the level, composition and efficiency of public spending and taxation.
- Part of the problem is the dominant focus on fiscal deficit as a primary policy target.

Turning to “fiscal space”

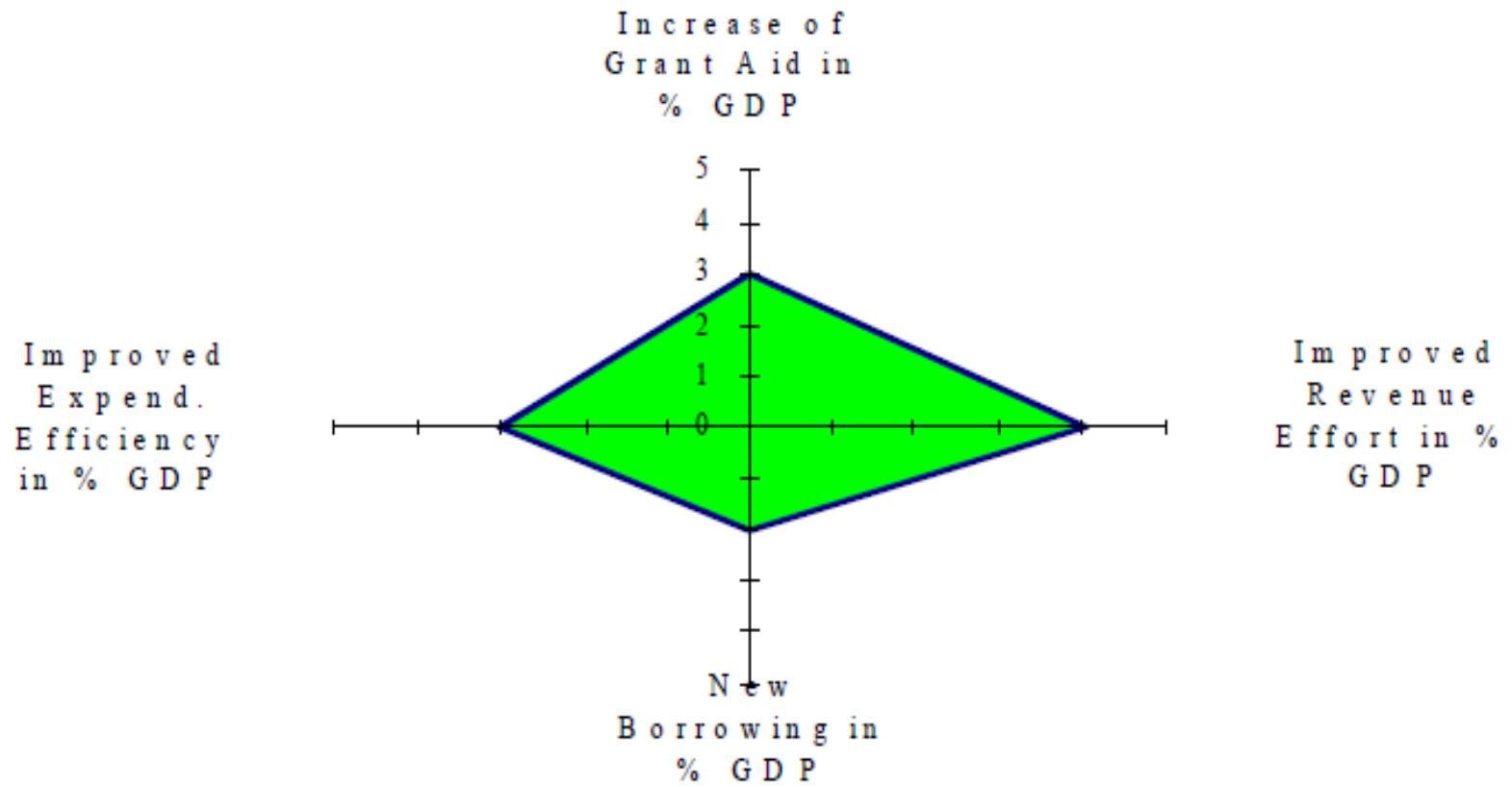
- World Bank - it is defined to exist “when a government can increase expenditure without impairing its fiscal solvency, i.e. without impairing its capacity to service its debt.”
- Heller - “the capacity of a government to provide financial resources for a desired purpose, subject to the constraint that the fiscal position is sustainable, both over the medium- and long-term.”
- In both the definitions, the fiscal sustainability constraint is clearly critical
- Another critical consideration is that of “macroeconomic space”, which exists when a government can increase expenditure without impairing macroeconomic stability.
- Additional public expenditure is possible when there is both fiscal and macroeconomic space.

Alternative ways in which “fiscal space” can be created...

- Qualification - application should be highly country specific.
- Fiscal space can firstly be created through measures that do not require borrowing – for example through:
 1. improvements to the efficiency of public expenditure that release resources for reallocation;
 2. efficient revenue enhancement measures, including tax measures and user charges;
 3. public private partnerships (PPP);
 4. through access to external grant aid; and
 5. addressing inefficient and loss-making state enterprises.
- Alternatively, governments may try to create fiscal space through new borrowing.
- In both cases the opportunity is in using fiscal space to raise the potential growth rate of the economy, without compromise to macroeconomic stability.

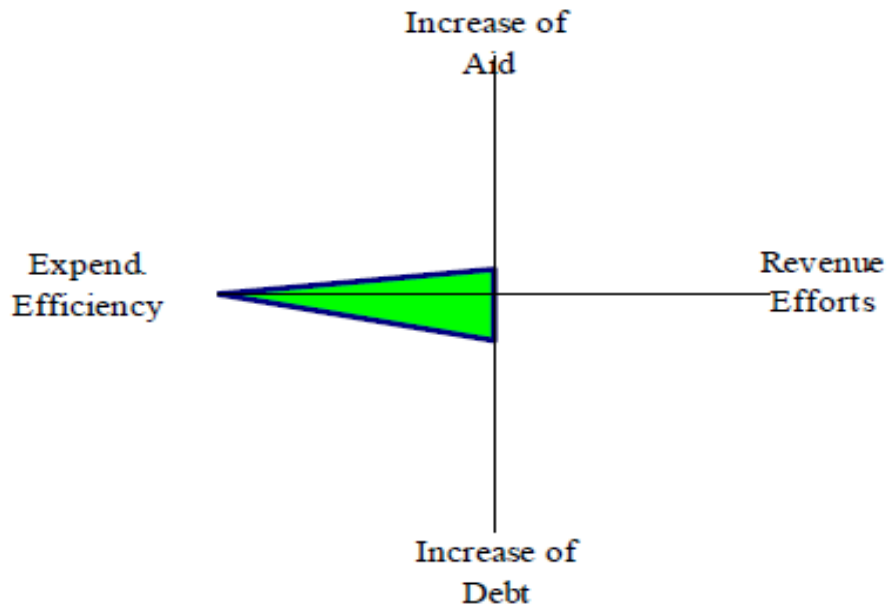
“Fiscal space diamonds”

Figure 5: Fiscal Space

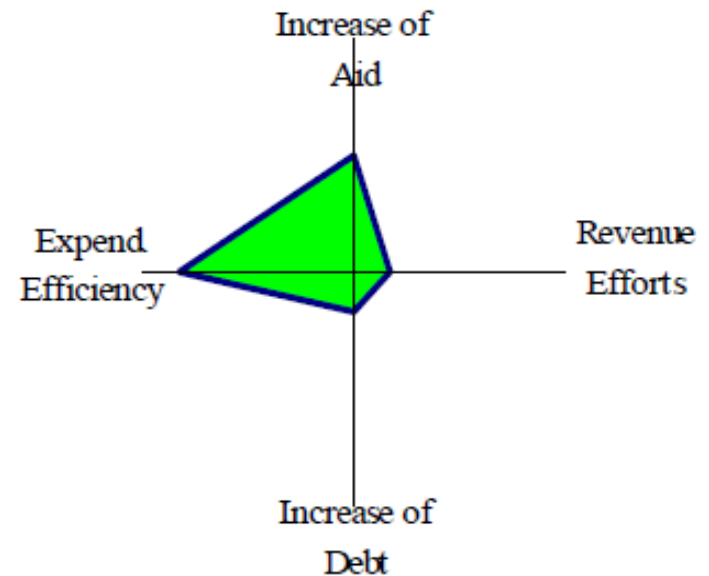


Some country examples ...

Fiscal Space: Brazil



Fiscal Space: Ethiopia



Linking it to enhanced growth and poverty reduction...

- This is where “the rubber hits the road”.
- Remember that country-specific circumstances and issues dominate.
- Common themes do emerge –
 - Infrastructure needs appear to be an important priority – climate change, technologies that will facilitate productivity in the 21st century, such as the telecommunications sector;
 - research and development outlays appear under-funded;
 - addressing prevailing generational imbalances; and
 - addressing poverty challenges.

In conclusion.....

- Let's consider the attention to budget systems, development of medium term expenditure frameworks, and institutional capabilities for budget management
- Most certainly it remains important, even more so because –
 - of the remaining challenge in many countries to improve linkages with policy objectives and
 - more explicit consideration of how those objectives are influenced by the political economy of the country.
- Much remains to be done...

Thanks for your time!