Ambrogio Lorenzetti; The Effects of Good Government on the City Life; Fresco; Palazzo Pubblico, Siena (Italy)

**African Fiscal Forum**

# Fiscal Policy Effectiveness in the Post-Global Financial Crisis Period

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# Key Points

- Fiscal buffers in sub-Saharan African countries allowed these countries to implement a countercyclical policy response for the first time
- Growth in Sub-Saharan African countries recovered swiftly and in sync with major trading partners but progress has been slower in rebuilding fiscal buffers
- Continued growth with appropriate policy adjustment provides an opportunity to rebuild policy buffers while ensuring that development needs will not be compromised

# Plan of Presentation

I. Macro-fiscal impact of the global financial crisis in advanced economies

II. Impact of the crisis in sub-Saharan African countries

III. Rebuilding fiscal buffers

IV. Summary

# I. Impact of the Global Financial Crisis on Advanced Economies

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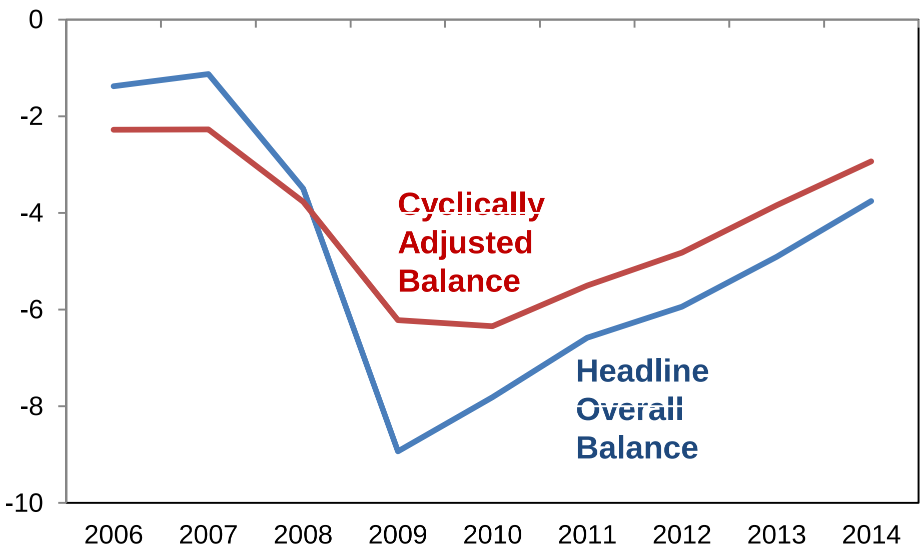
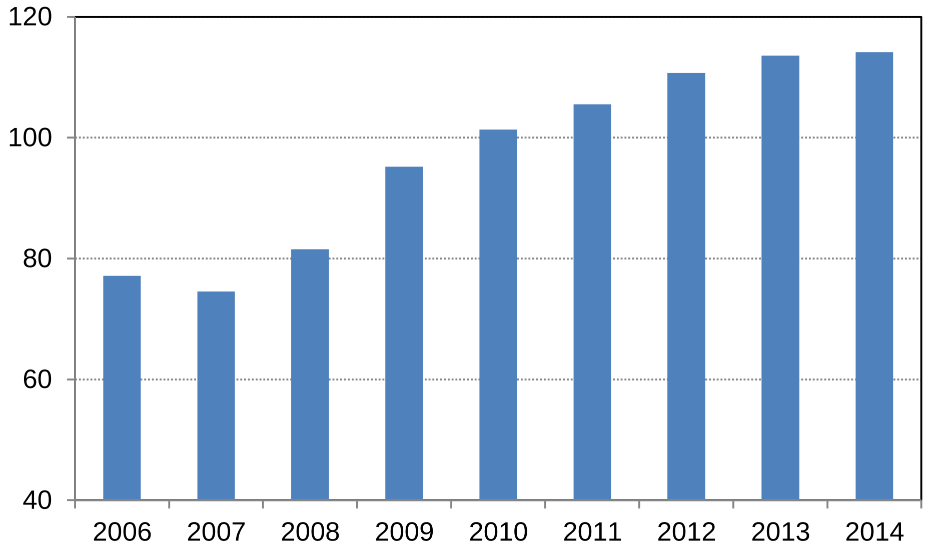
**As the epicenter of the global financial crisis, fiscal balances and public debt deteriorated sharply in advanced economies**

Headline and Cyclically Adjusted Balance (in percent of GDP)




Average Gross Public Debt (in percent of GDP)

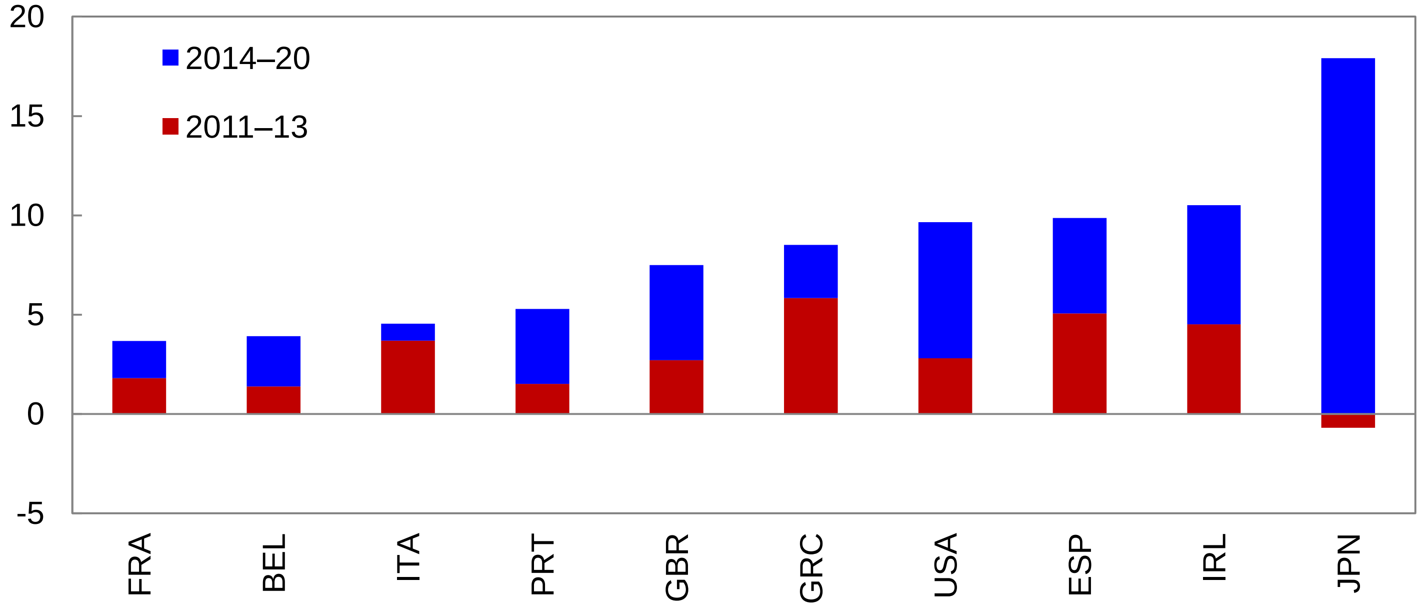



Sources: Fiscal Monitor (October 2012); WEO database; IMF staff estimates

# I. Impact of the Global Financial Crisis on Advanced Economies

**Many advanced economies require sizable and sustained consolidations to rebuild fiscal buffers after the crisis**

Advanced Economies with Largest Adjustment Needs: Required Changes in the CAPB (in percent of GDP)




Sources: IMF staff estimates and projections.
Note: Figure shows the ten largest illustrative adjustment needs for advanced economies between 2011 and 2030 based on the Fiscal Monitor baseline scenario. The red bars shows the adjustment expected to take place between 2011 and 2013. It excludes increases in age-related spending.

## II. Impact of the Global Financial Crisis in Sub-Saharan Africa

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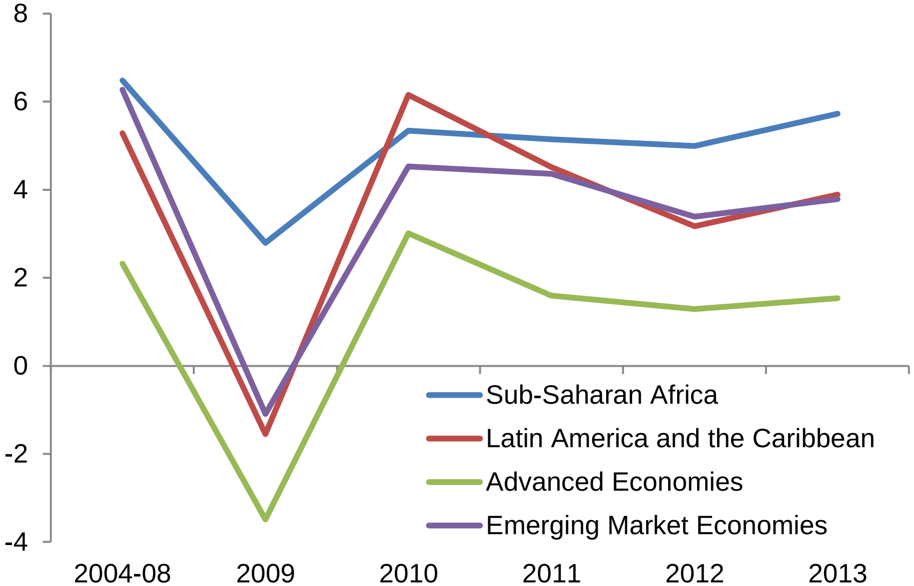
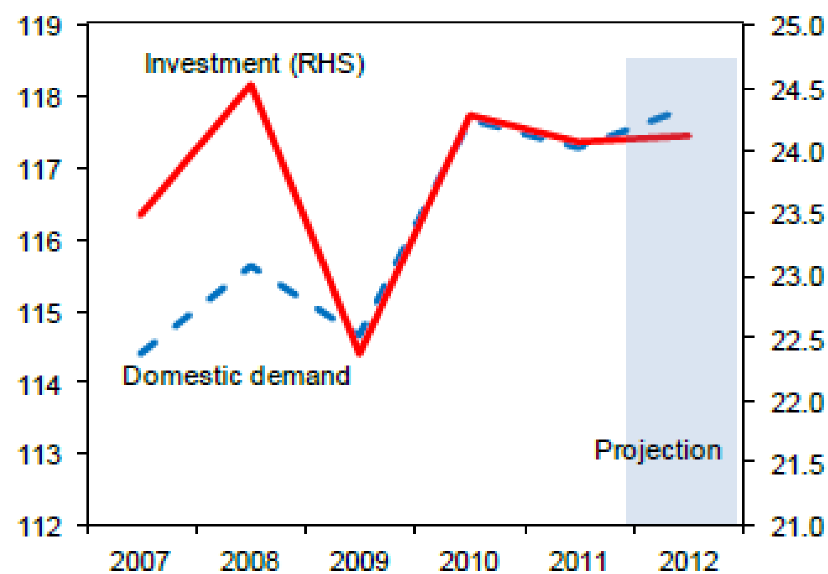
**Growth in sub-Saharan Africa has held up well compared to the protracted slowdown in advanced economies**

Average Real GDP Growth Rate (in percent)




Domestic Demand Led the Recovery in Sub-Sahara Africa (percent of GDP)

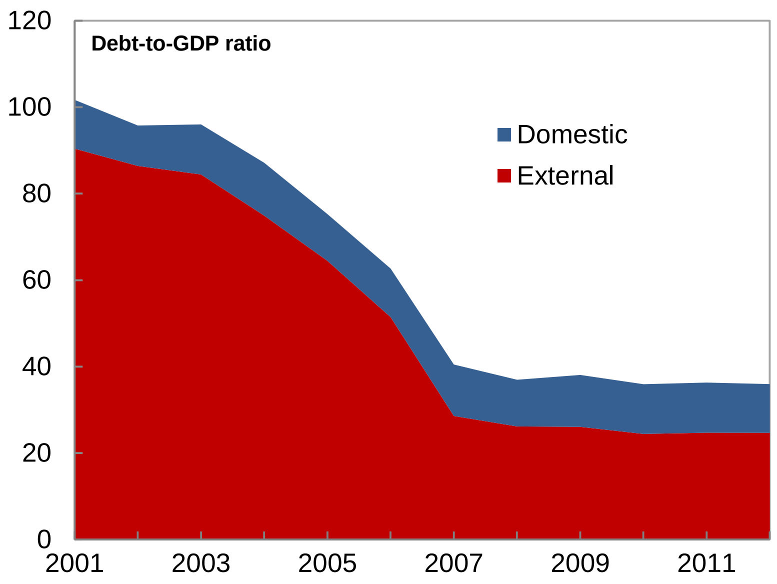



Sources: WEO (October 2012); VE-LIC (October 2012); IMF staff estimates

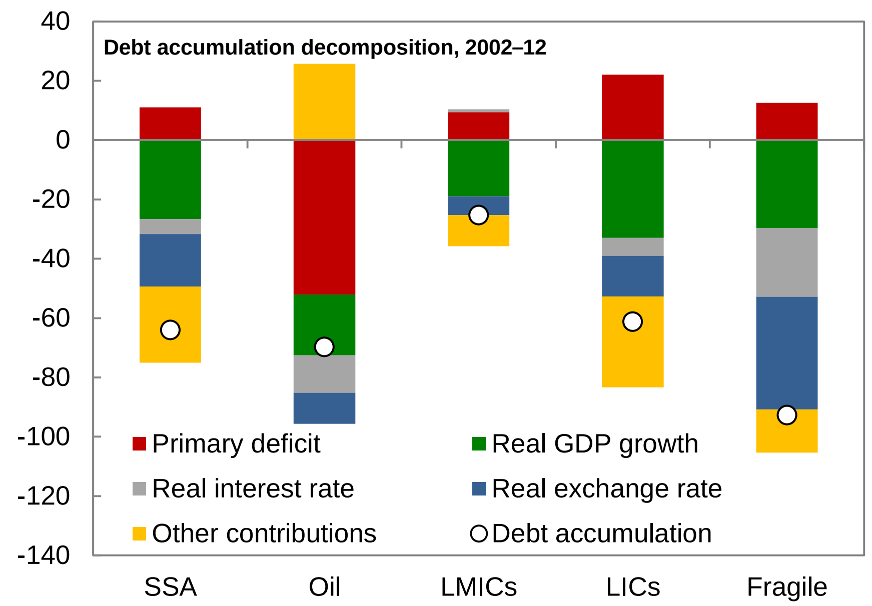
# II. Impact of the Global Financial Crisis on Sub-Saharan Africa

**Debt relief and favorable debt dynamics helped sub-Saharan African countries build solid fiscal buffers**

**Sub-Saharan Africa Public Debt**
(in percent of GDP)




**Decomposing Debt Accumulation**
(in percent of GDP)

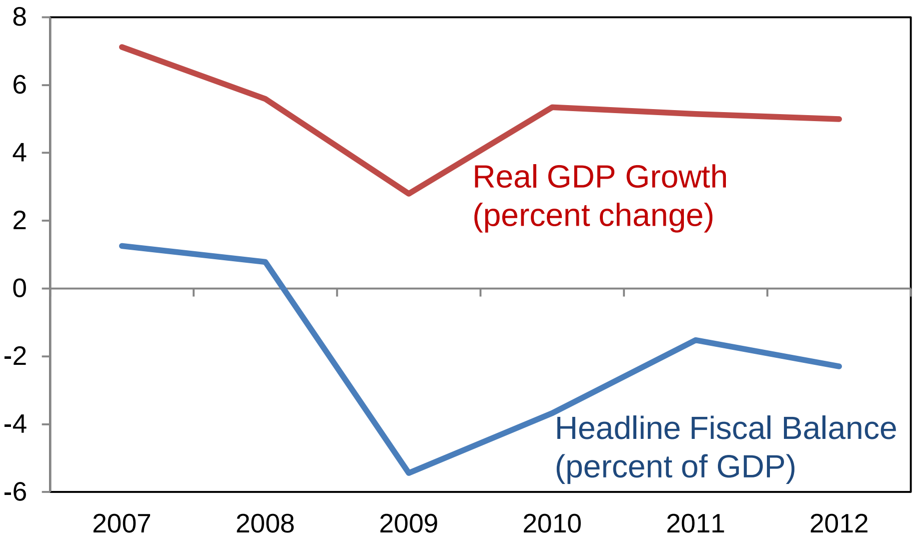



Sources: Fiscal Monitor (2013, forthcoming); IMF staff estimates

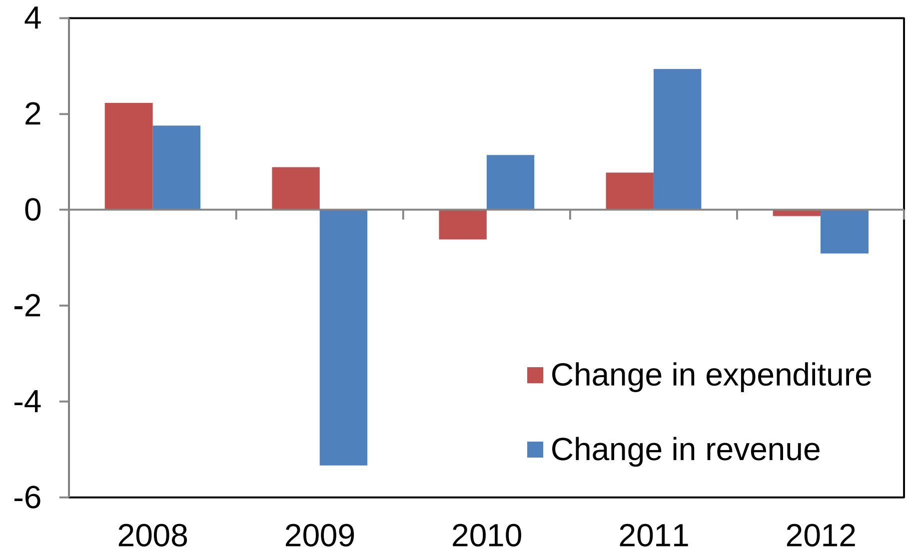
# II. Impact of the Global Financial Crisis on Sub-Saharan Africa

**Solid fiscal buffers in 2009 facilitated a counter-cyclical policy response by sub-Saharan African countries for the first time**

### Slower Growth was Accommodated by a Wider Fiscal Deficit




### Revenues Declined Sharply in 2009 but Expenditure was Smoothed




Sources: WEO database; IMF staff estimates

# III. Rebuilding Fiscal Buffers

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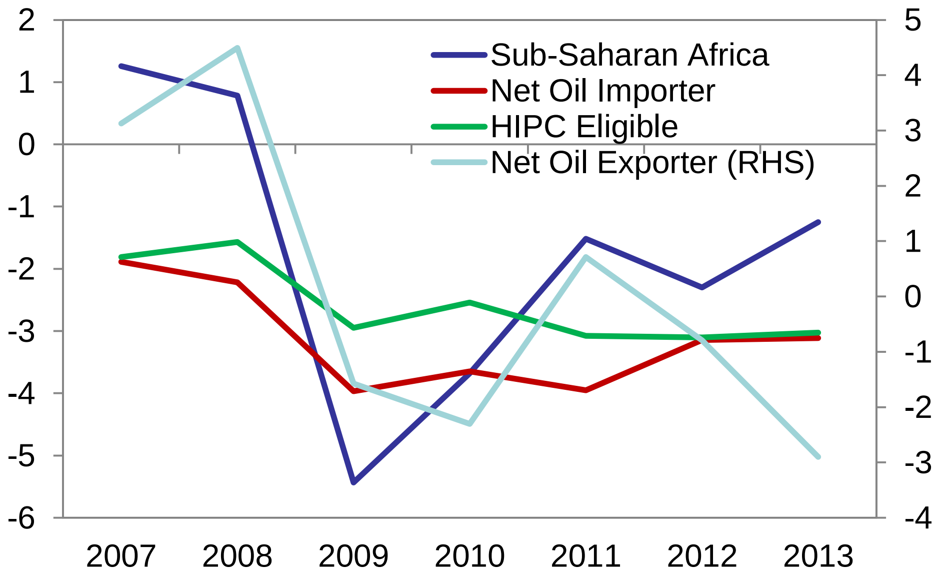
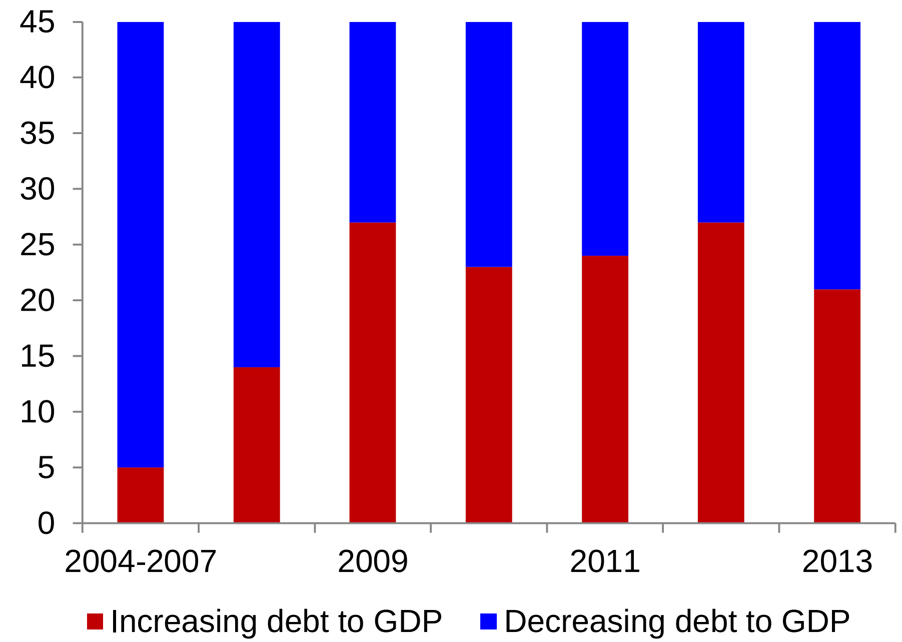
**Despite solid growth after 2009, many countries have been slow to rebuild their fiscal policy buffers and others continue to accumulate additional debt**

Recent Trend in Fiscal Balances (in percent of GDP)



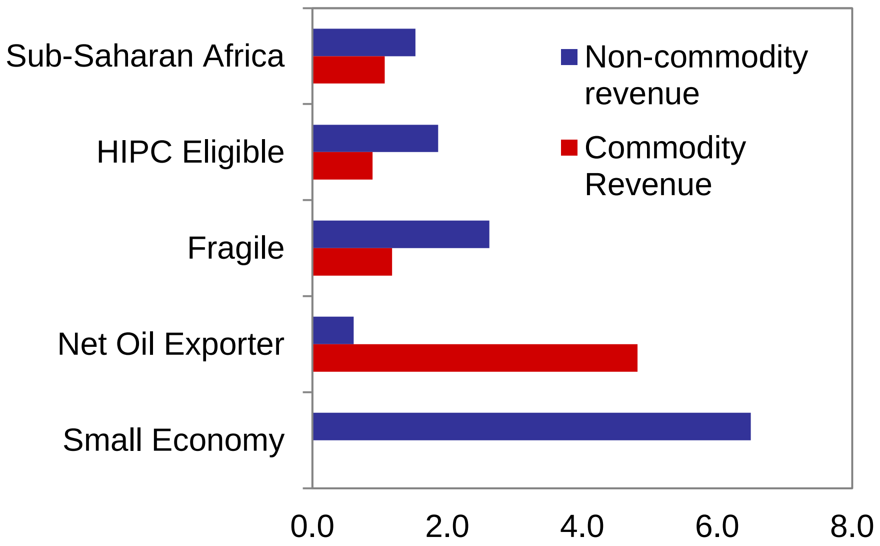

Number of Countries Increasing or Decreasing Debt to GDP



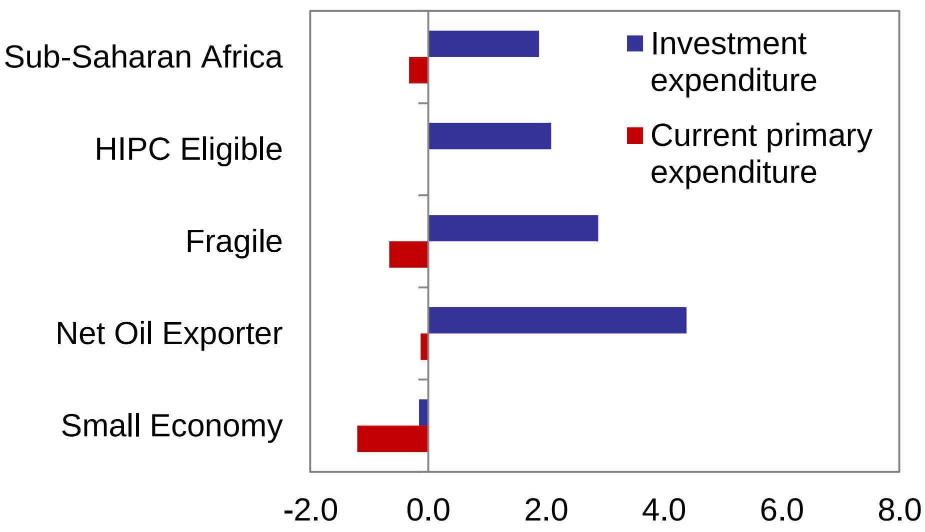
# III. Impact of the Global Financial Crisis on Sub-Saharan Africa

**Higher revenues since the 2009 crisis have broadly corresponded to increases in public investment**

Change in Revenue, 2009-13
(in percent of GDP)




Change in Expenditure, 2009-13
(in percent of GDP)



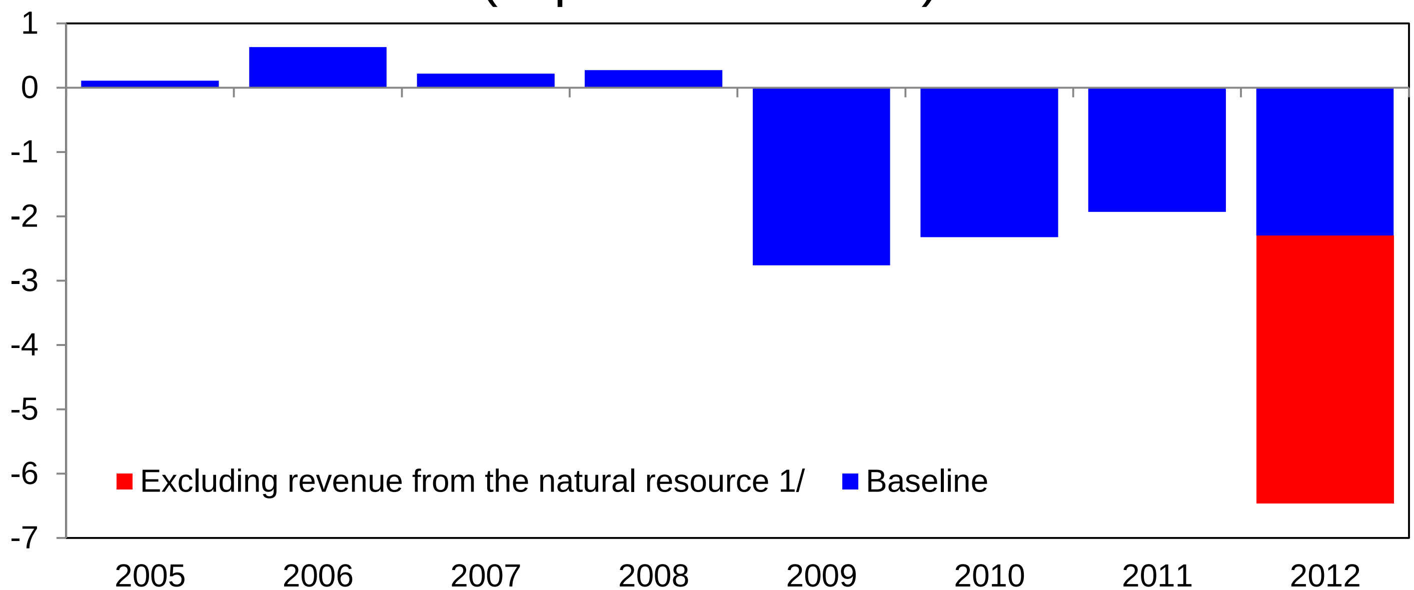

Sources: Fiscal Monitor (October 2012), WEO database, and IMF staff estimates

# III. Rebuilding Fiscal Buffers

**Resource-rich countries should be building larger buffers to mitigate volatility in resource revenues and ensure a sustainable fiscal policy framework**

Primary Balance Excluding Resource Revenues in 2012

(in percent of GDP)

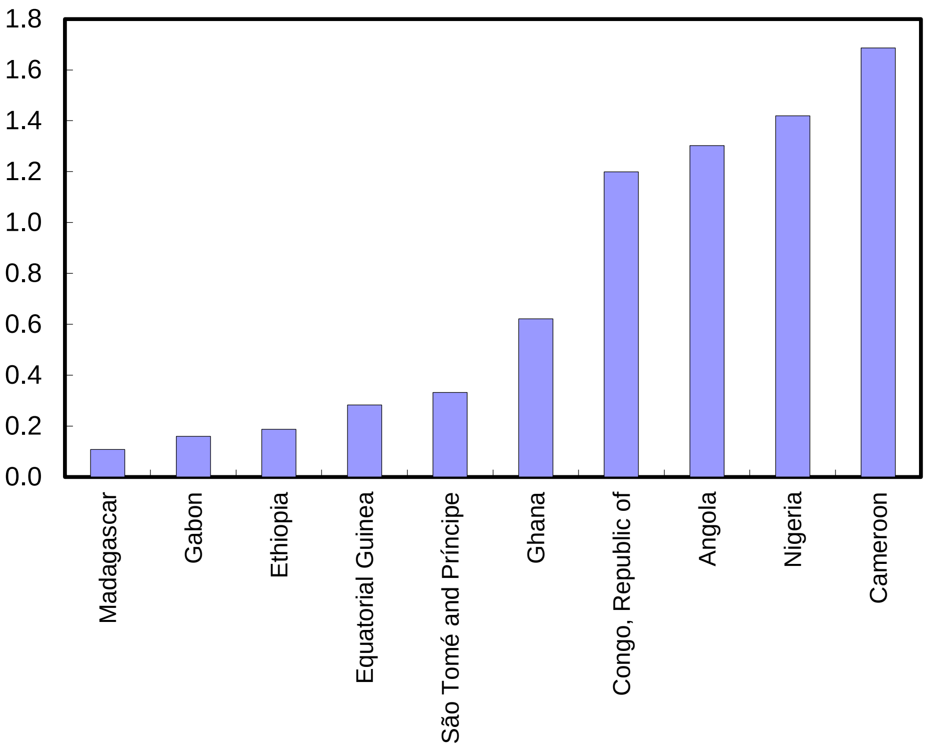



1/ Revenues from the natural resource are only displayed for 2012. Countries include Burkina Faso, Cameroon, Chad, Congo, Cote d'Ivoire, The Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Mauritania, Niger, Nigeria, Rwanda, Sao Tome & Principe, Senegal, Sierra Leone and Zambia.

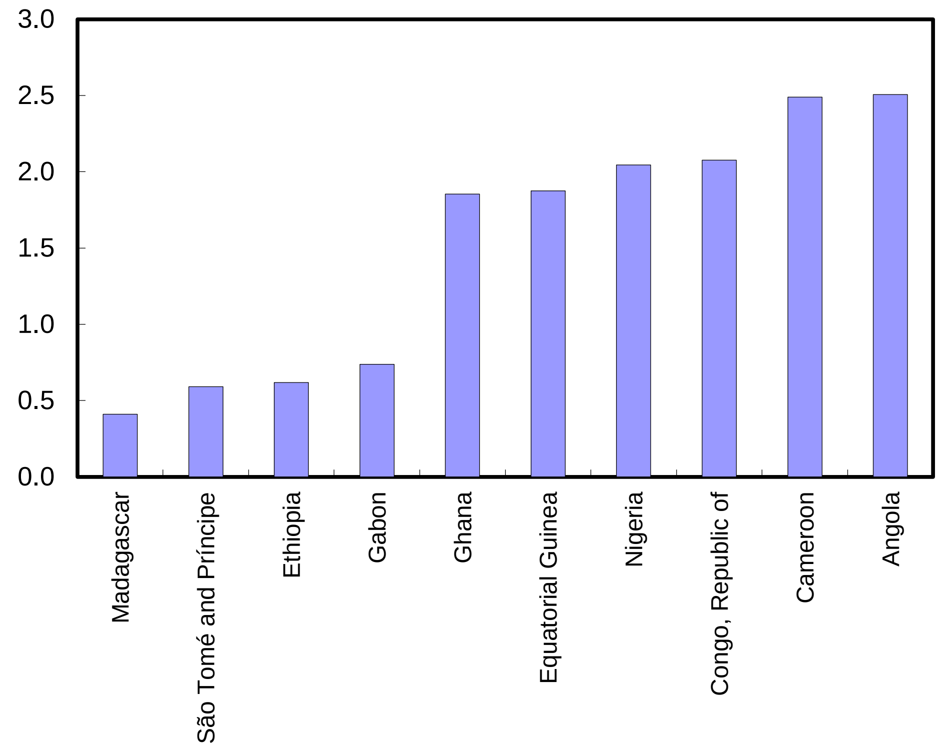
# III. Rebuilding Fiscal Buffers

**Energy subsidies increase vulnerability in many countries to commodity price shocks**

Petroleum Fuel Pre-Tax Price Subsidies
(in percent of GDP)




Petroleum Fuel Post-Tax Price Subsidies
(in percent of GDP)



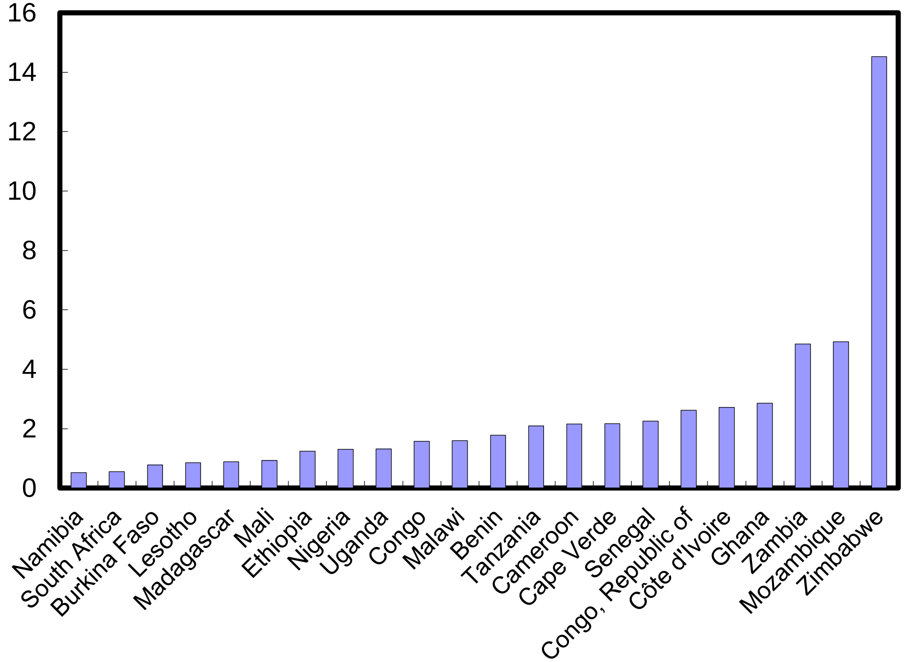



Sources: Fiscal Affairs Department database (March 2013); IMF staff estimates

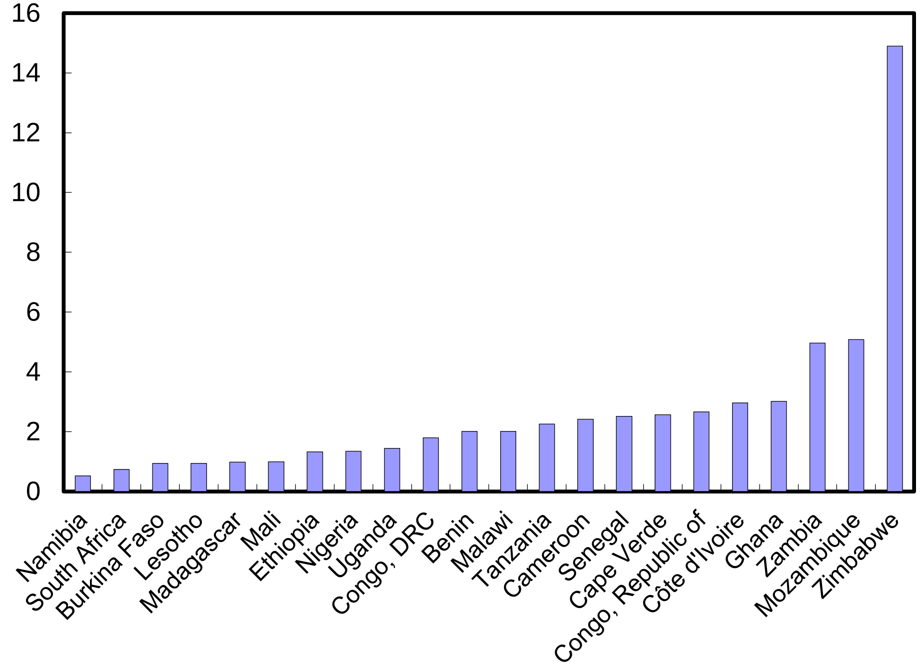
# III. Rebuilding Fiscal Buffers

## Energy subsidies increase vulnerability in many countries to commodity price shocks

Electricity Pre-Tax Price Subsidies
(in percent of GDP)




Electricity Post-Tax Price Subsidies
(in percent of GDP)

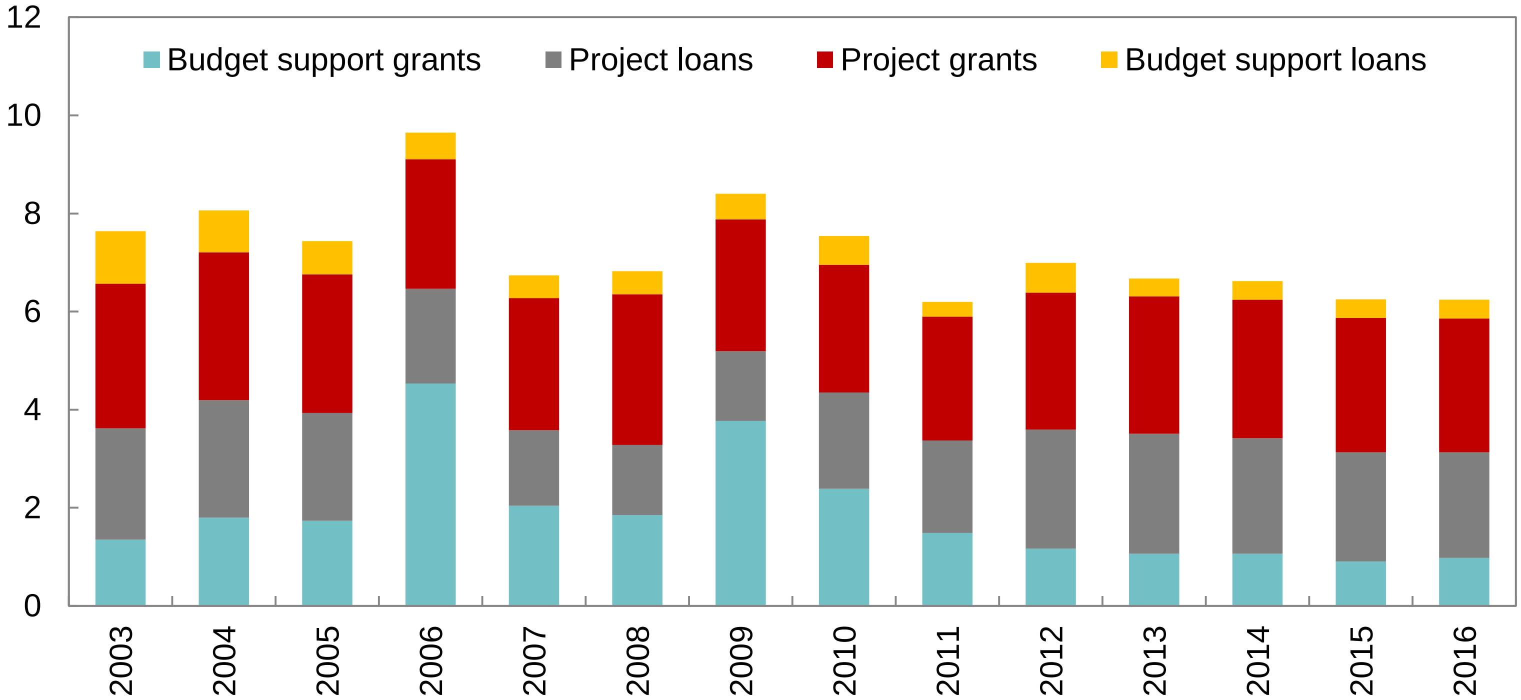





Sources: Fiscal Affairs Department database (March 2013); IMF staff estimates

## External financing envelopes are also becoming tighter and the composition is shifting towards project support

**Composition and Level of Aid Flows (percent of GDP)**




Sources: Fiscal Monitor (October 2012); IMF staff estimates

# IV. Summary

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In 2009, low-income countries (LICs) in sub-Saharan Africa benefited from solid fiscal buffers, allowing for a countercyclical policy response for the first time

Most sub-Saharan African countries recovered from the crisis swiftly but progress has been slower in rebuilding fiscal buffers

Diminished fiscal buffers have increased the region's exposure to downside global risks

Steady growth combined with policy adjustment provides an opportunity to rebuild fiscal buffers without compromising on development needs

Sources: WEO database; IMF staff estimates

# THANK YOU

# Presentation is based on:

Fiscal Monitor, *Taking Stock: A Progress Report on Fiscal Adjustment*, October 2012. Fiscal Affairs Department, IMF. Available at: *www.imf.org/external/pubs/ft/fm/2012/02/pdf/fm1202.pdf*

Regional Economic Outlook, *Sub-Saharan Africa: Maintaining Growth in an Uncertain World*, October 2012, African Department, IMF. Available at: http://www.imf.org/external/pubs/ft/reo/2012/afr/eng/sreo1012.htm

Global Risks, Vulnerabilities, and Policy Challenges Facing Low-Income Countries, IMF, October 12, 2012. Available at: http://www.imf.org/external/np/pp/eng/2012/101012a.pdf