

IMF–ICRIER Conference on Fiscal Policy Achievements and Challenges in Asia—Implications for India

Fiscal Policy **Dampening Cyclical Fluctuations,** **Supporting Inclusive Growth**

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New Delhi, India

INTERNATIONAL MONETARY FUND

Contents

I. The role of fiscal policy in dampening output fluctuations

II. The challenge ahead: increasing space to support inclusive and sustained growth

A. Improving efficiency and structure of taxes

B. Enhancing public spending composition

I. The role of fiscal policy in dampening output fluctuations

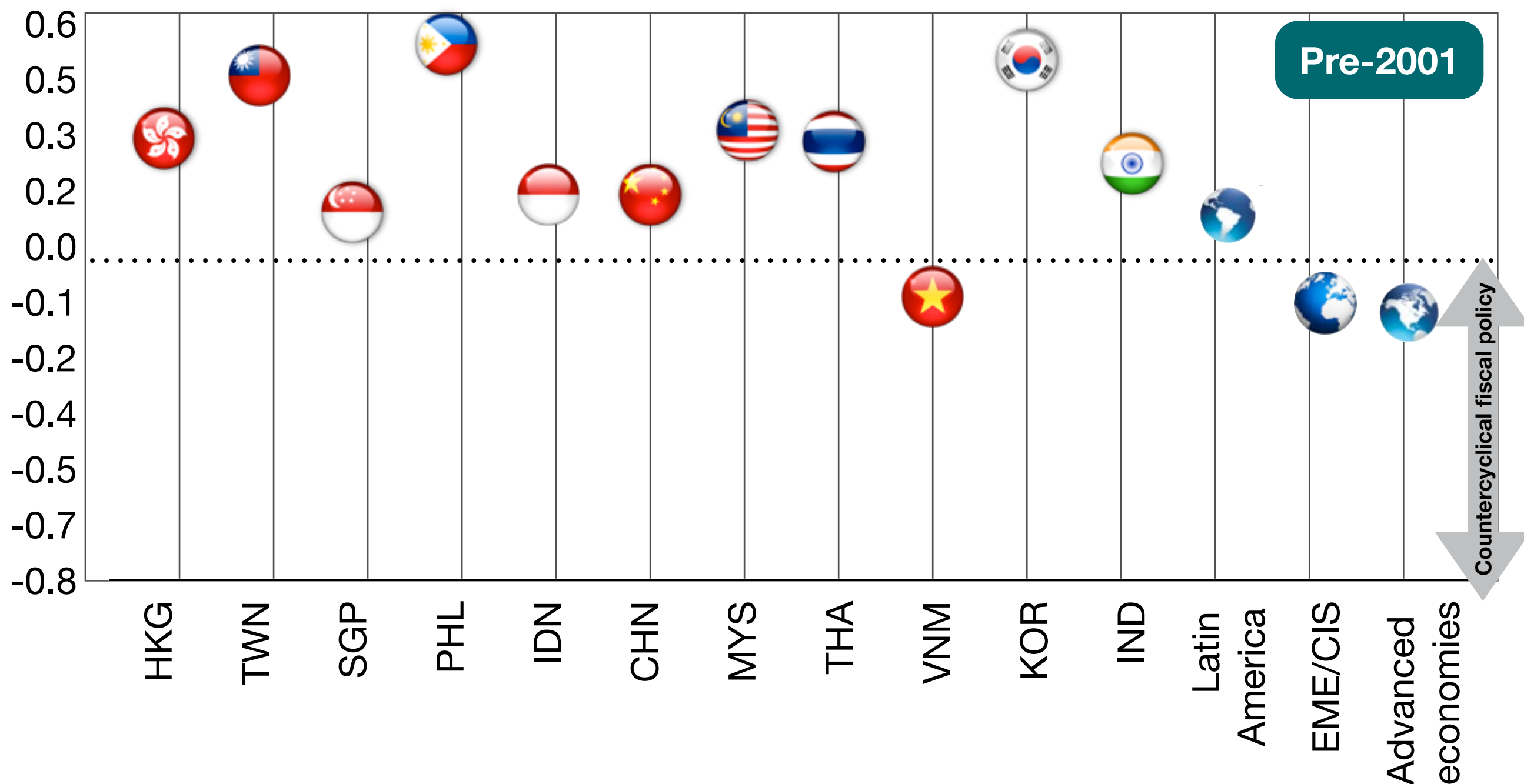
- *In the past decade fiscal policy has become generally more countercyclical*
- *Discretionary policies have been effective*
- *Stronger automatic stabilizers could enhance countercyclicality*





The fiscal policy response to output fluctuations has become stronger in Asia.

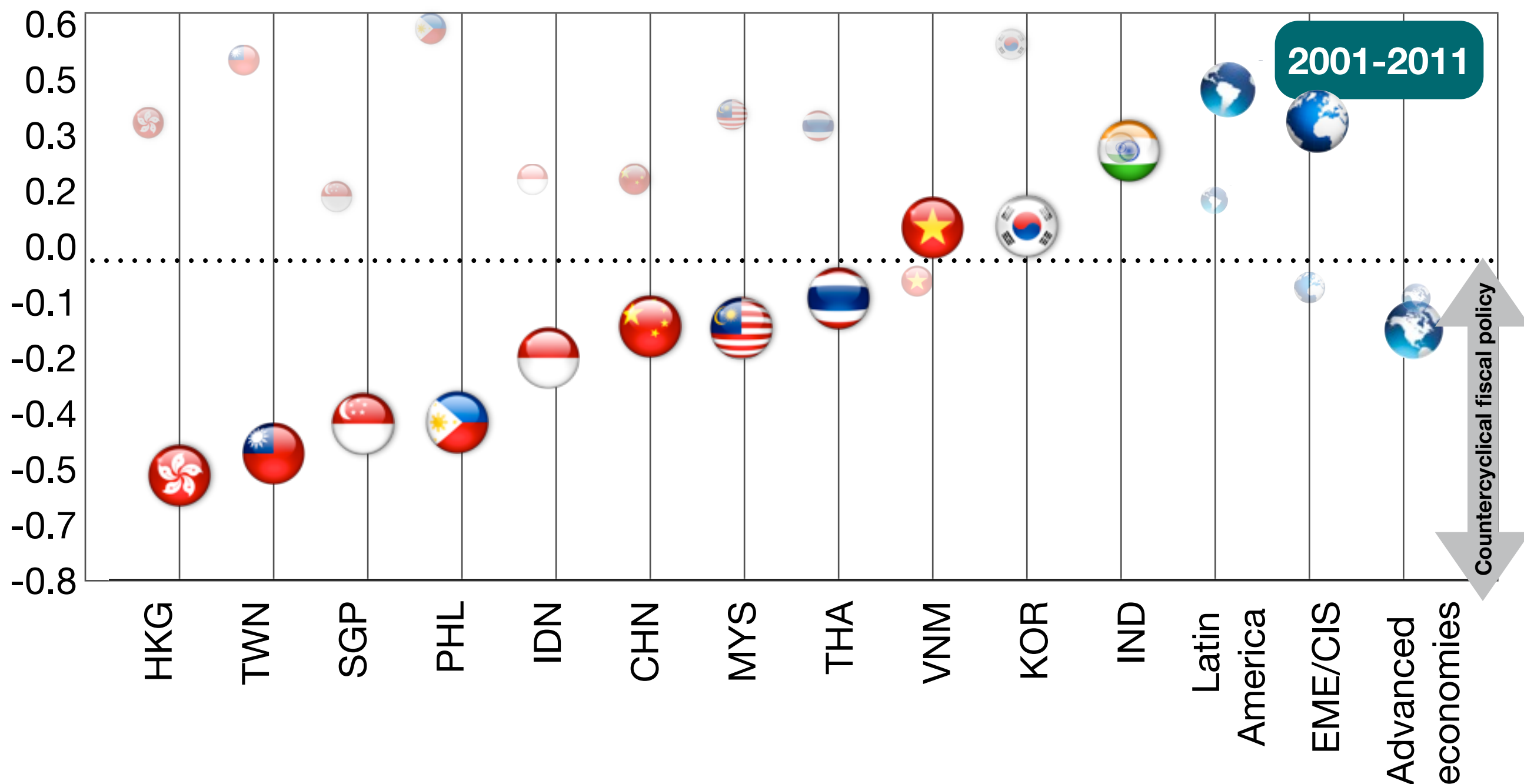
Correlation Between Government Spending and GDP





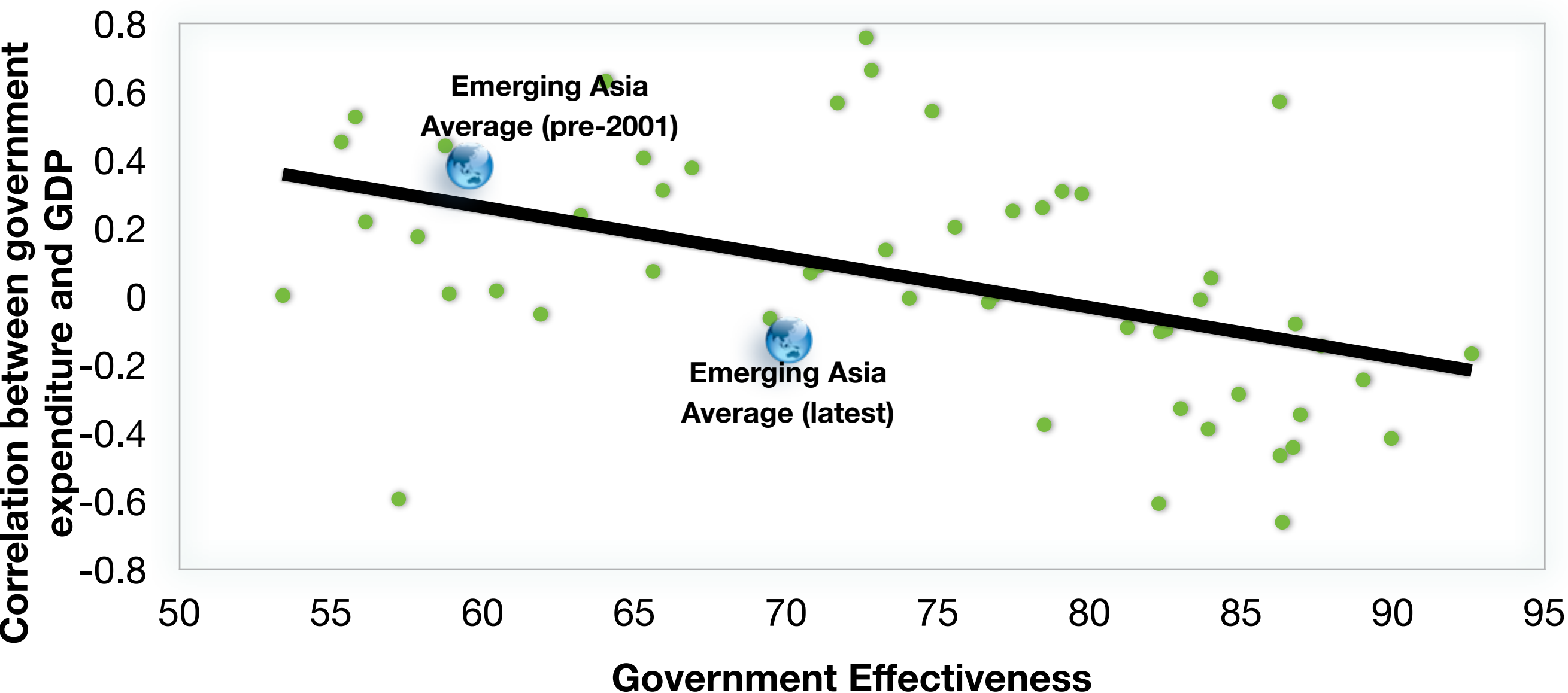
The fiscal policy response to output fluctuations has become stronger in Asia.

Correlation Between Government Spending and GDP



Stronger institutions are associated with higher countercyclicality.

Procyclicality and Government Effectiveness (1980-2011)

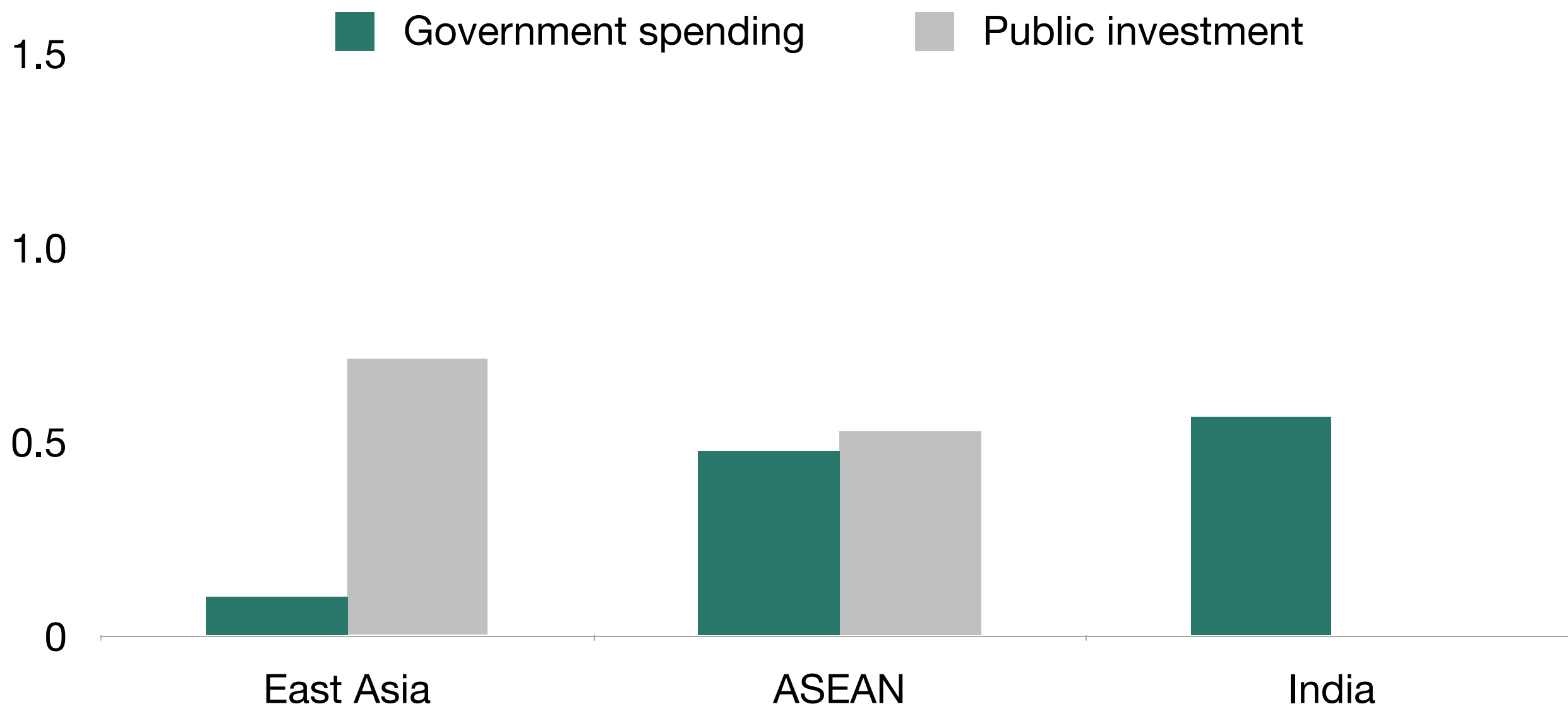


● = Sample of 60 advanced and emerging economies.



Discretionary policy has helped dampen the cycle...

Selected Asia: Multipliers for Government Spending and Public Investment (1996:Q2 - 2012:Q1)



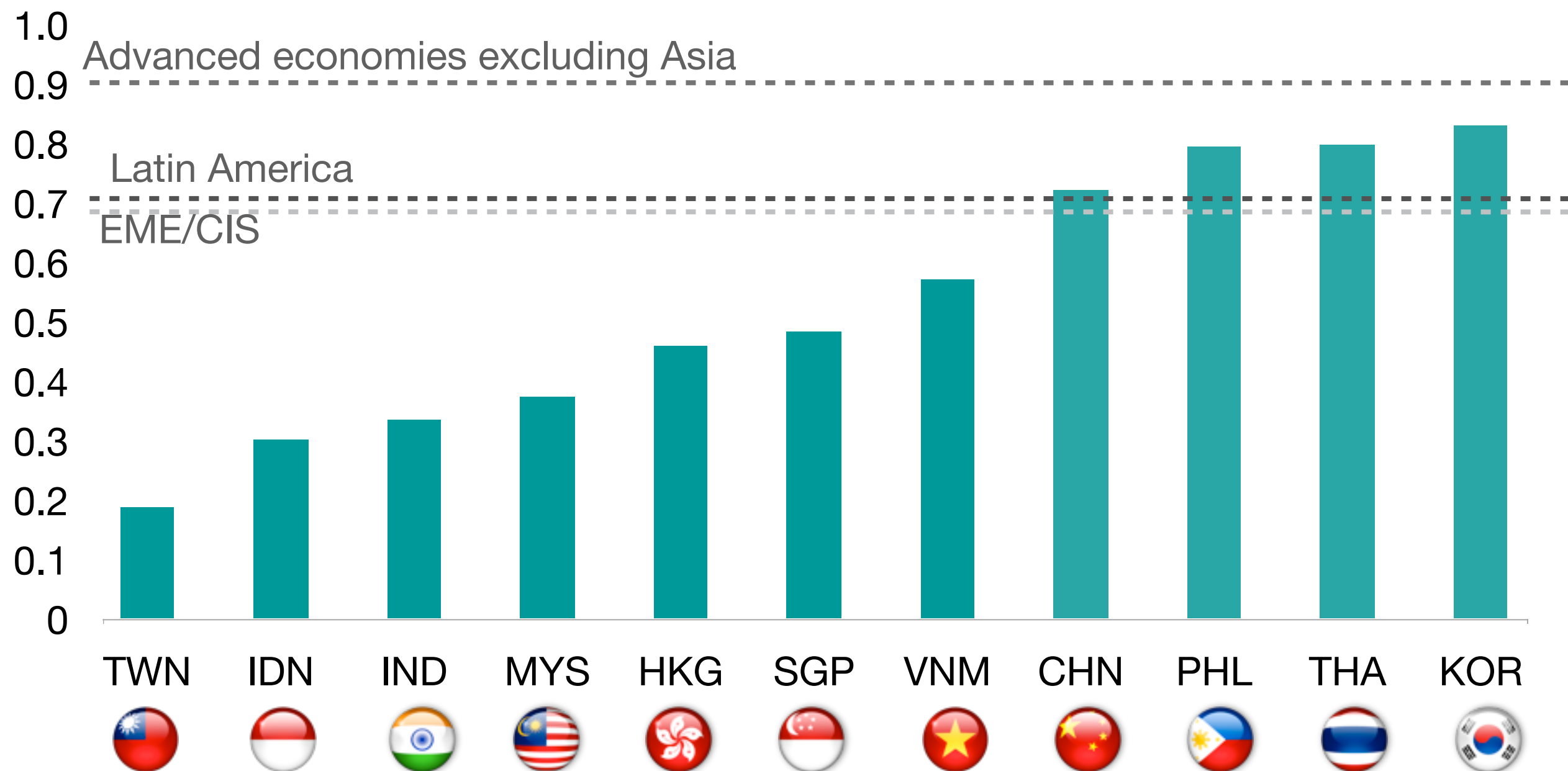
Note: ASEAN includes Indonesia, Malaysia, the Philippines, Singapore, and Thailand. For Japan and India, multipliers are the average of VAR estimates and DSGE model simulations.



...which is especially helpful since automatic stabilizers remain low.

Automatic Stabilizers: 2001–11

(Correlation between output gaps and cyclical fiscal balance)



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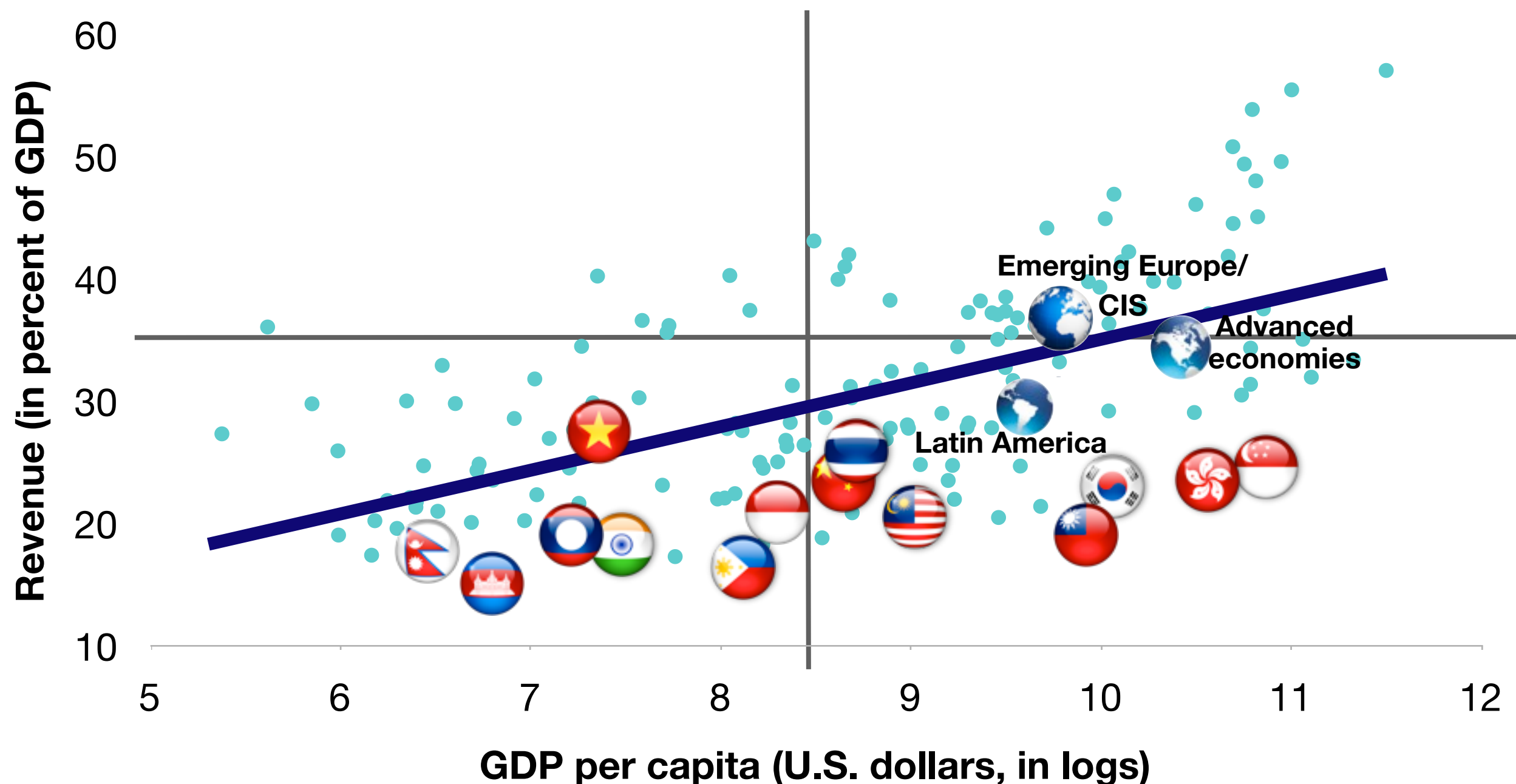
- *There is room to reduce complex and poorly targeted tax incentives and enhance revenue administration*
- *The revenue structure could be made more growth friendly in some economies*





Revenues are low in comparison with other economies at the same income level.

General Government Revenue and GDP per capita, 2011



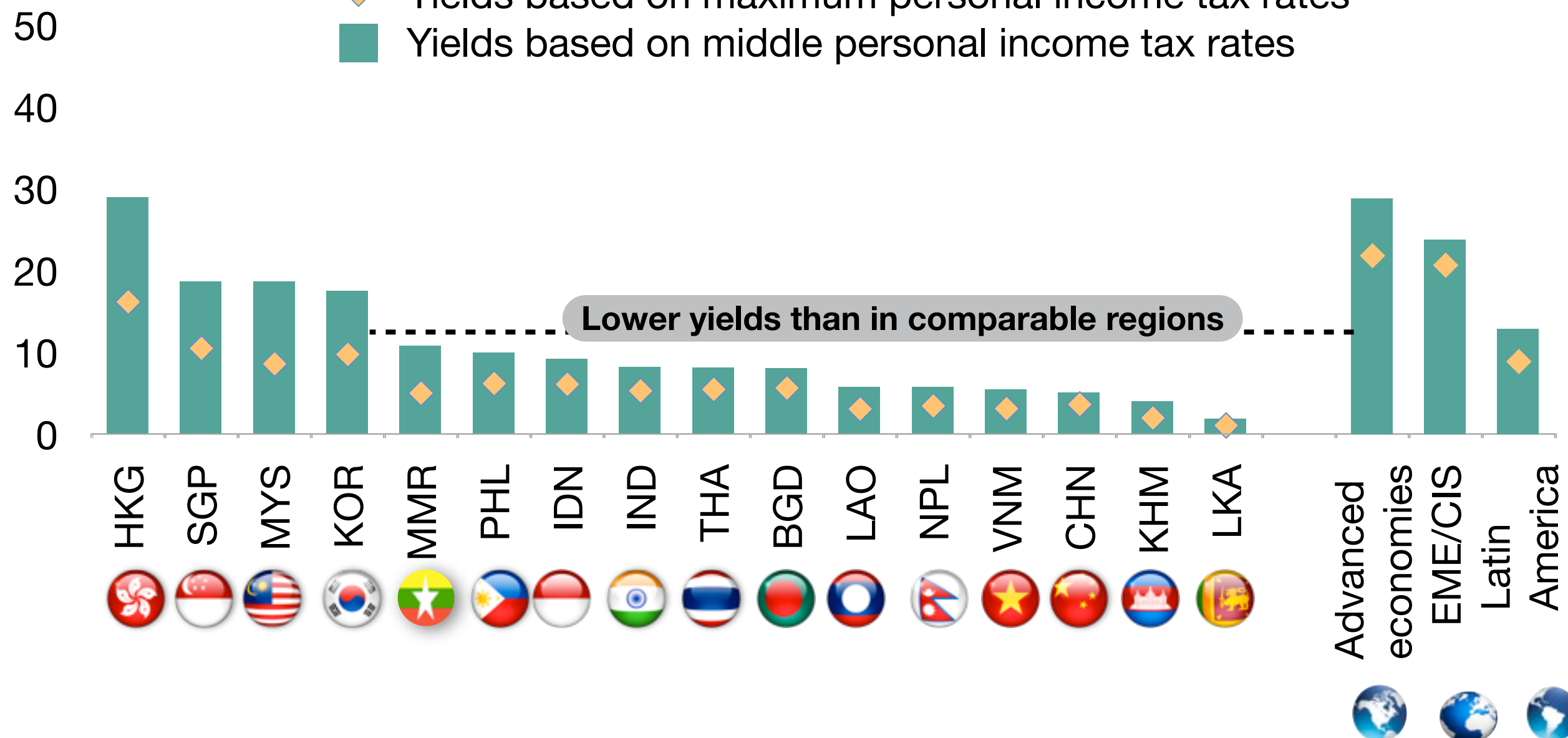


Personal income tax yields are relatively low in most Asian emerging and low income economies.

Yields from Personal Income Tax

(In percent, 2011 or latest available)

- ◆ Yields based on maximum personal income tax rates
- Yields based on middle personal income tax rates

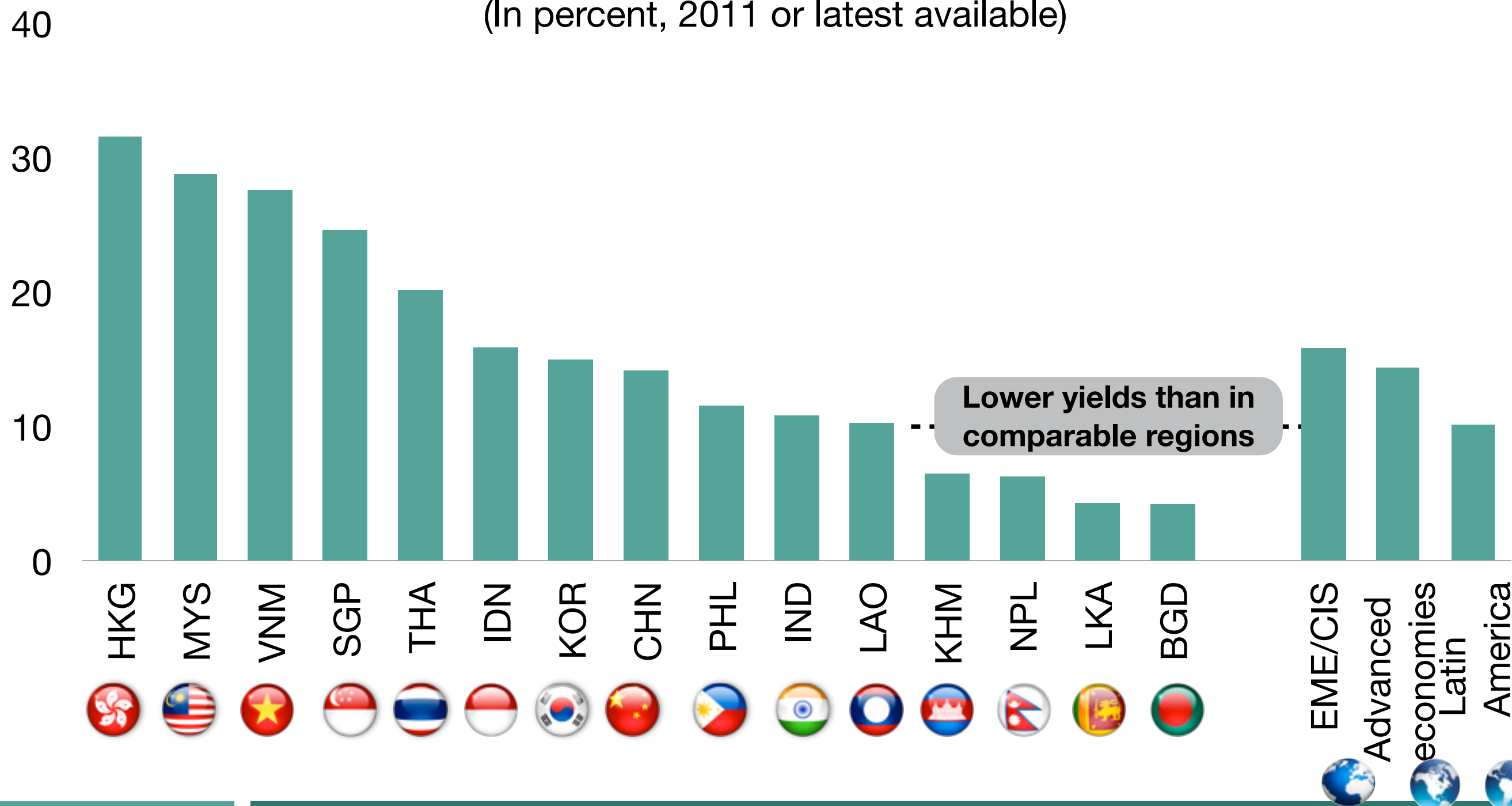




Yields from corporate income tax are weak in some low income economies and Sri Lanka.

Yields from Corporate Income Tax

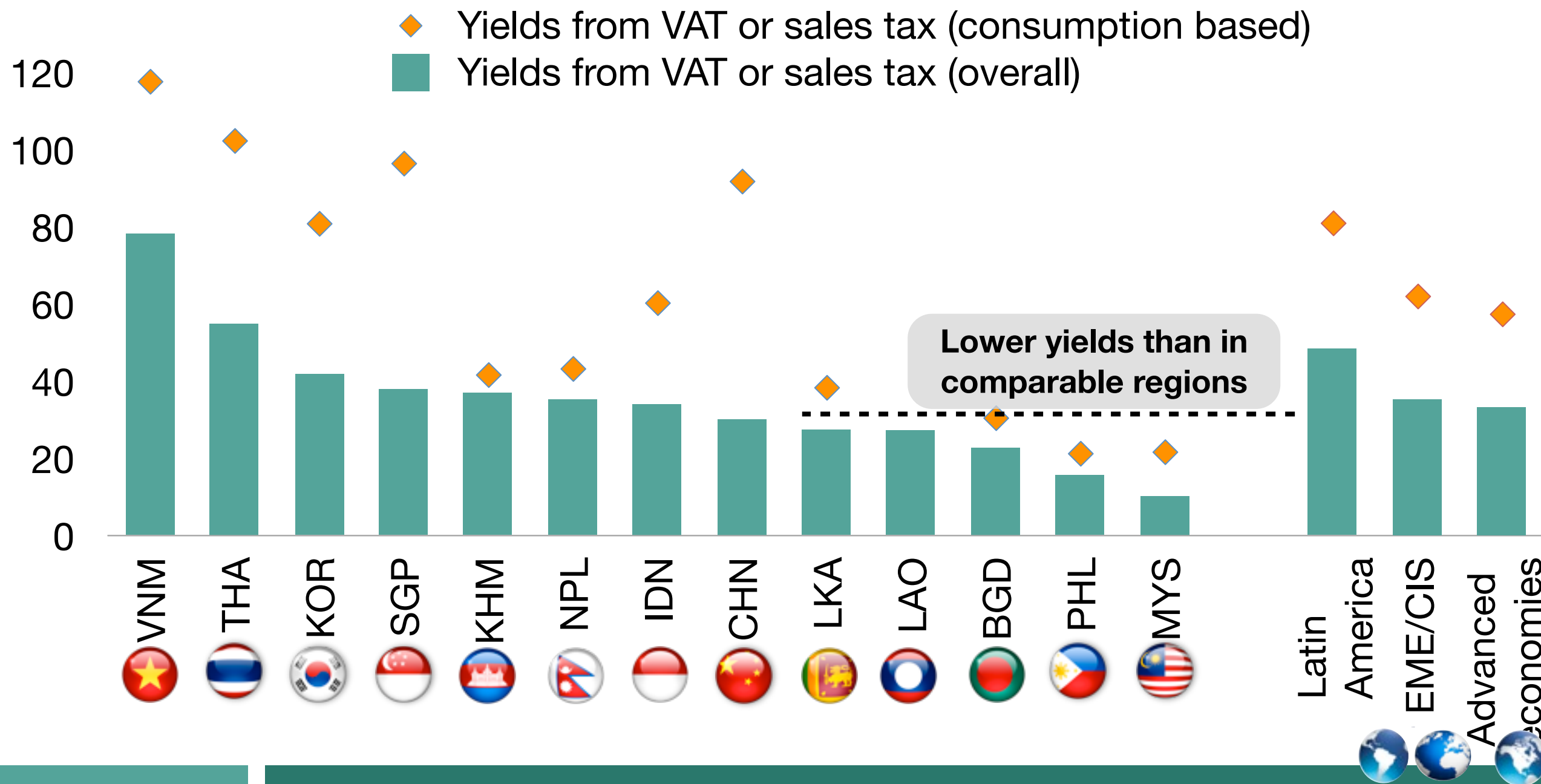
(In percent, 2011 or latest available)





Yields from the VAT or sales taxes are low in some economies.

Yields from VAT or Sales Tax (In percent, 2011 or latest available)



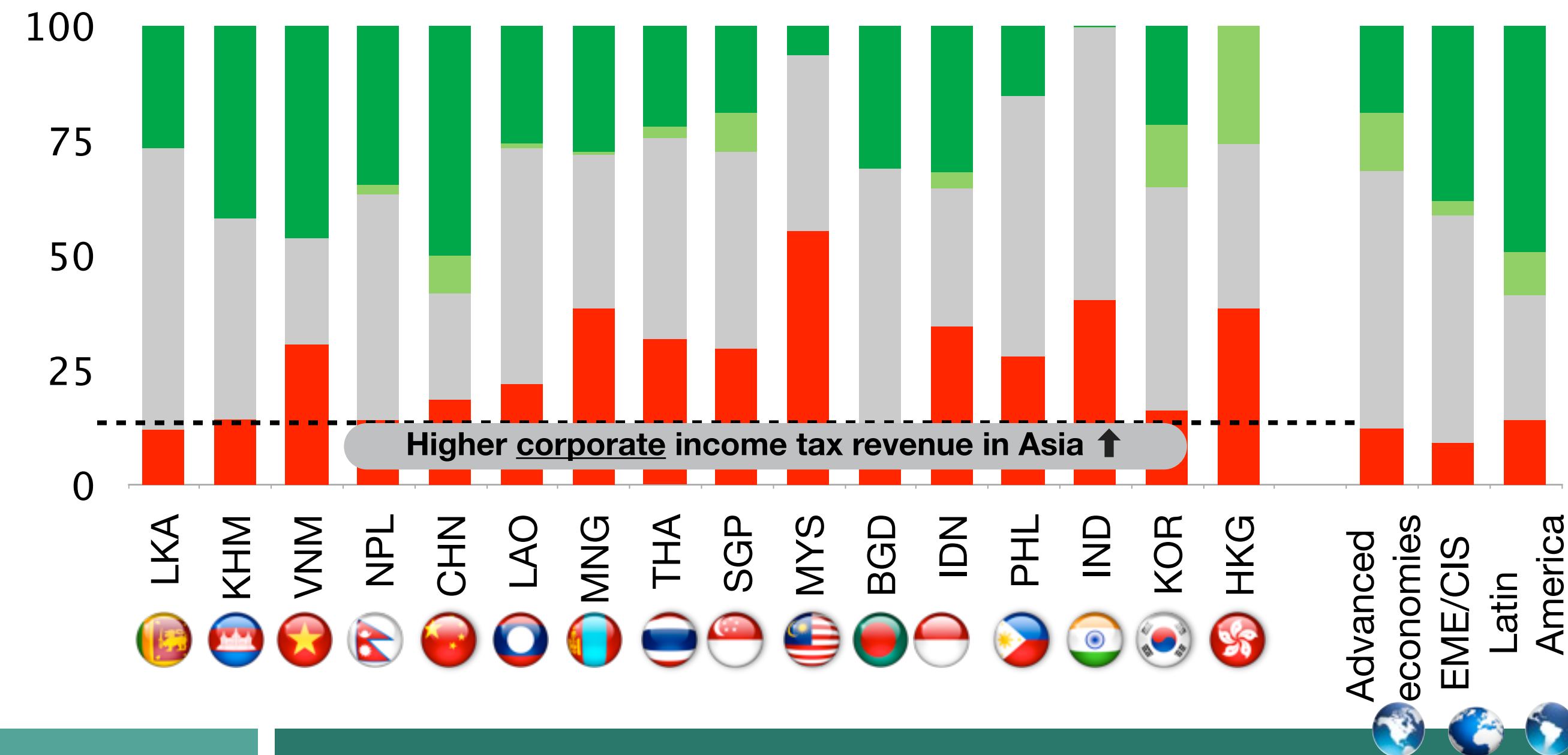


In some economies, the tax mix could be made more growth-friendly.

Tax Revenue by Category

(In percent of total tax revenue, 2011 or latest available)

Corporate income tax Other Property tax General tax on goods and services



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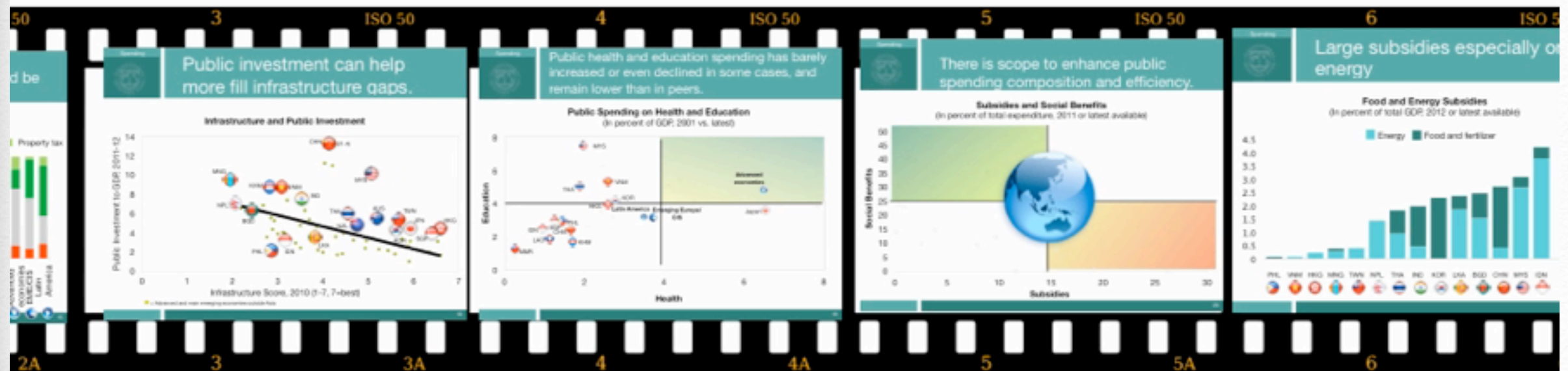
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B. Enhancing public spending composition

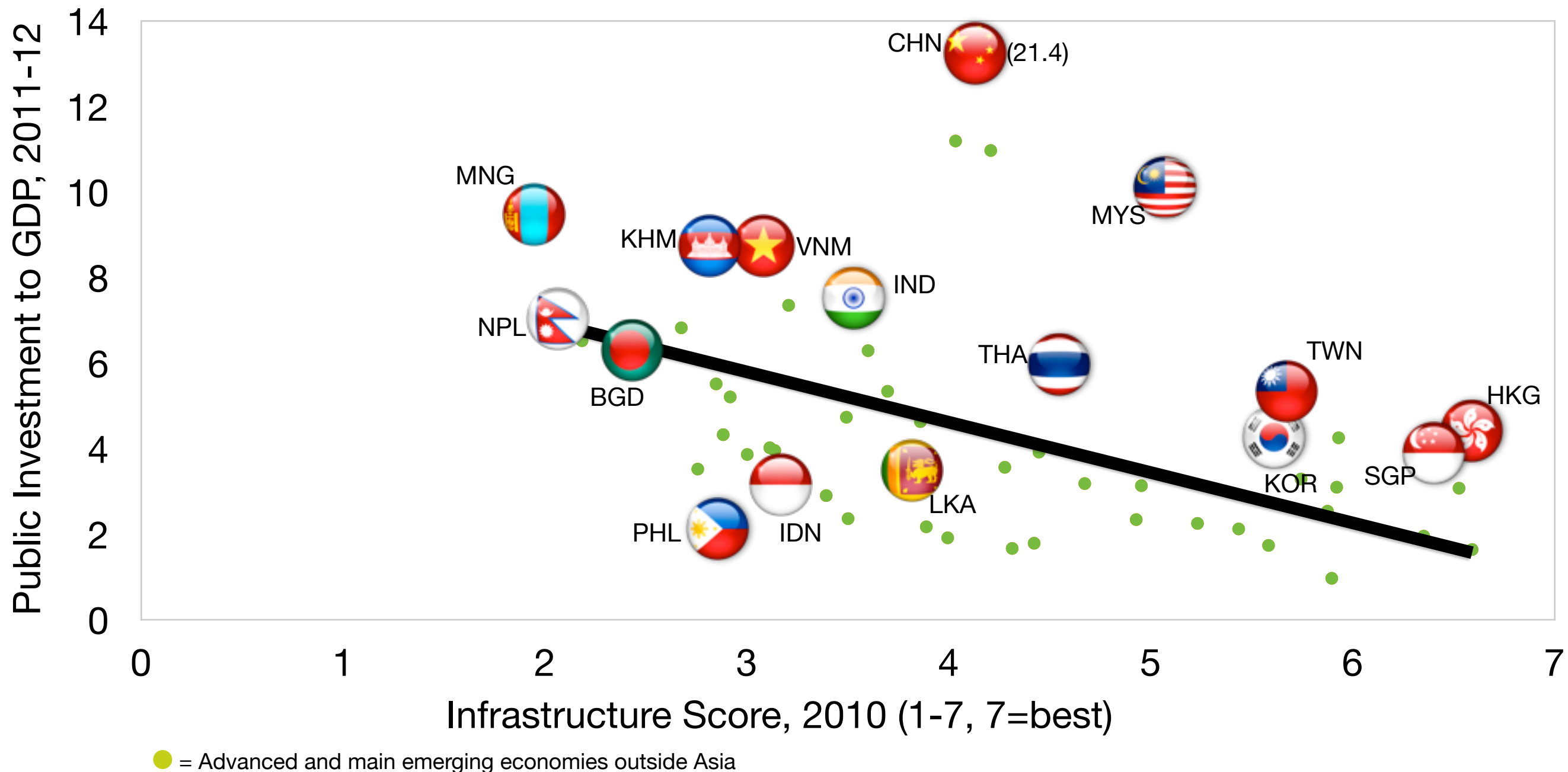
- *Public investment can help fill infrastructure gaps*
- *Spending on education and health needs to be scaled up*
- *Subsidies could be gradually replaced by better targeted programs*





Public investment can help fill infrastructure gaps.

Infrastructure and Public Investment

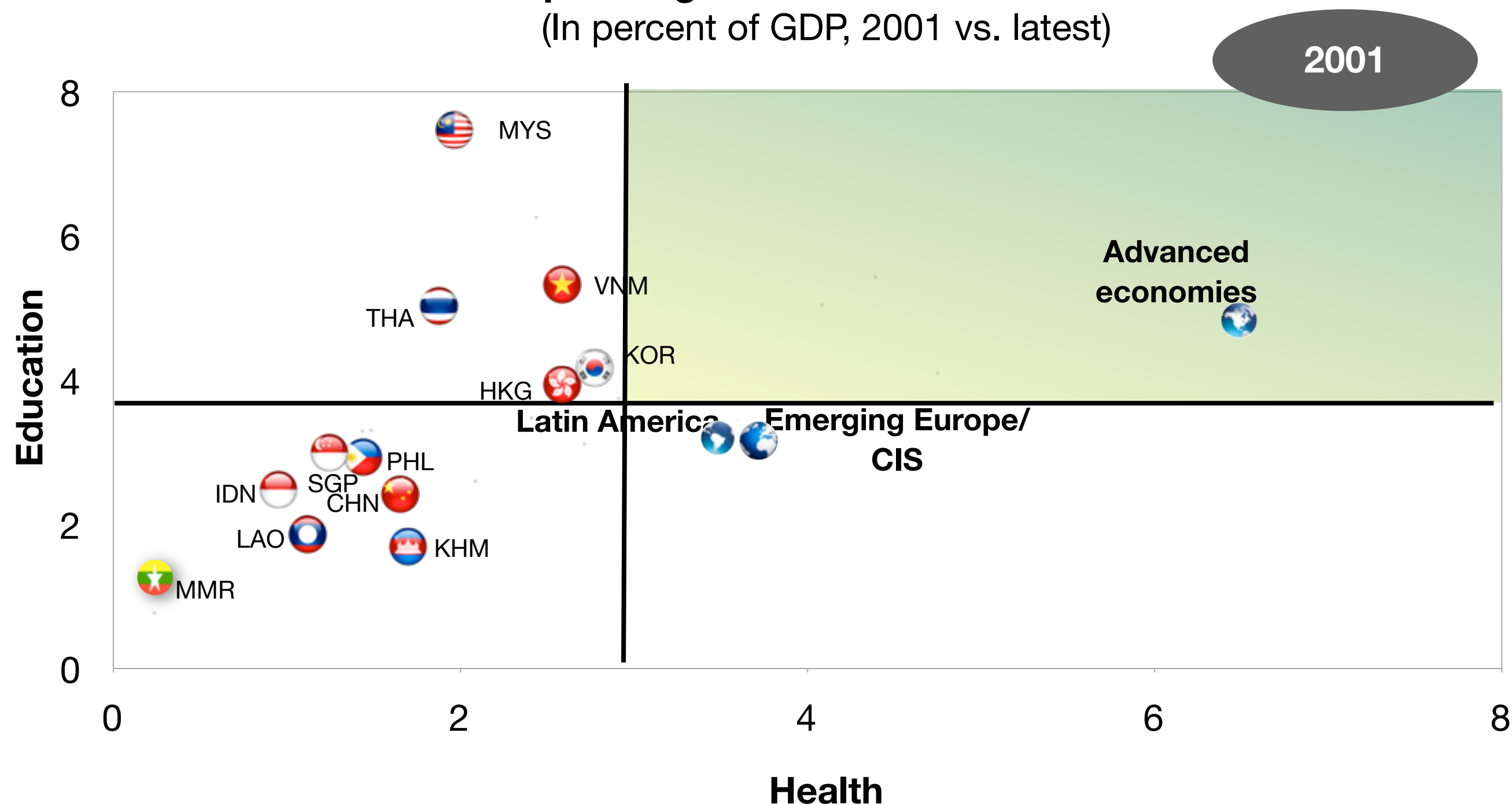




Public spending on education and health has also been lagging behind.

Public Spending on Health and Education

(In percent of GDP, 2001 vs. latest)

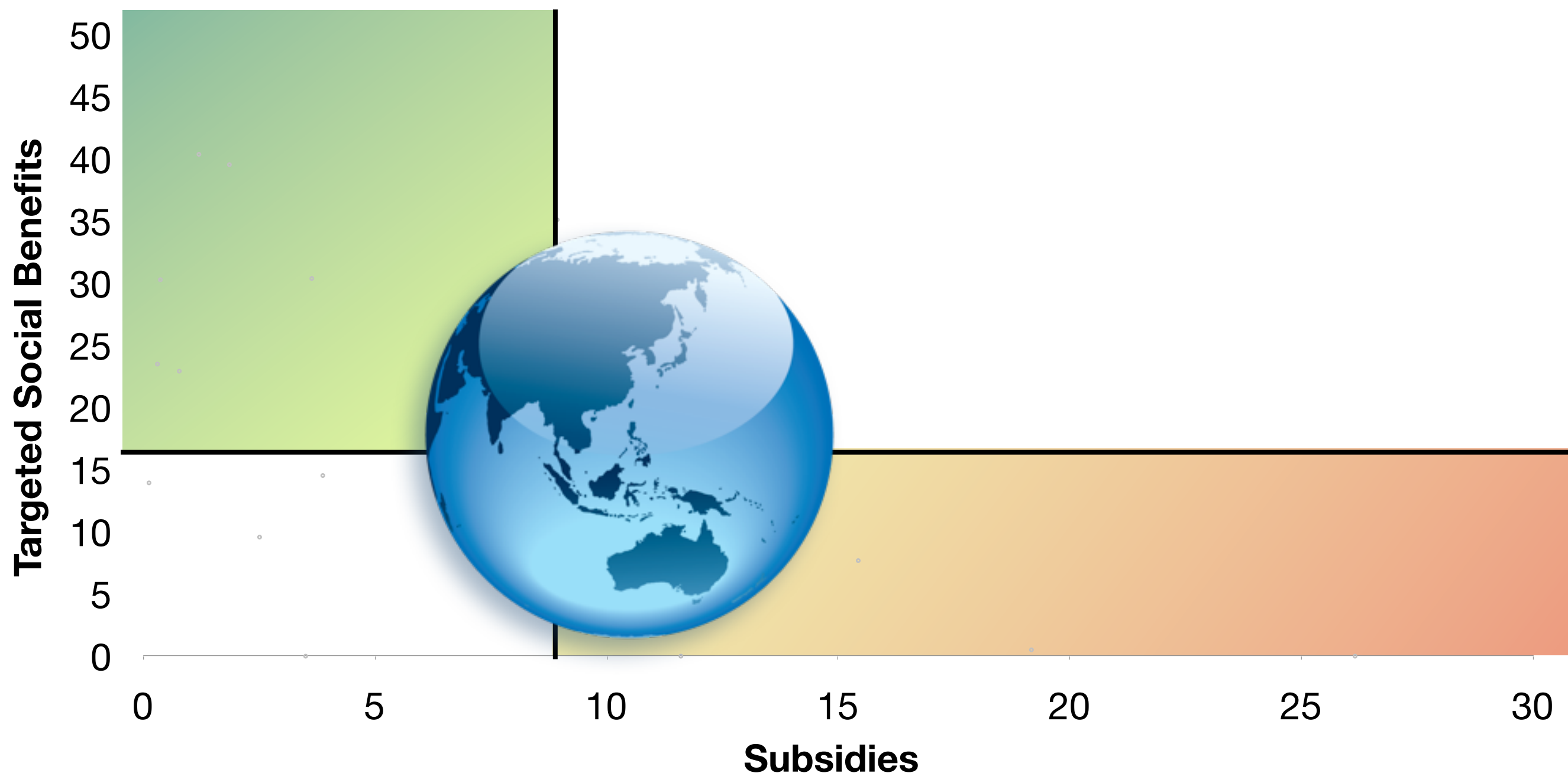




There is scope to enhance public spending composition and efficiency.

Subsidies and Targeted Social Benefits

(In percent of total expenditure, 2011 or latest available)

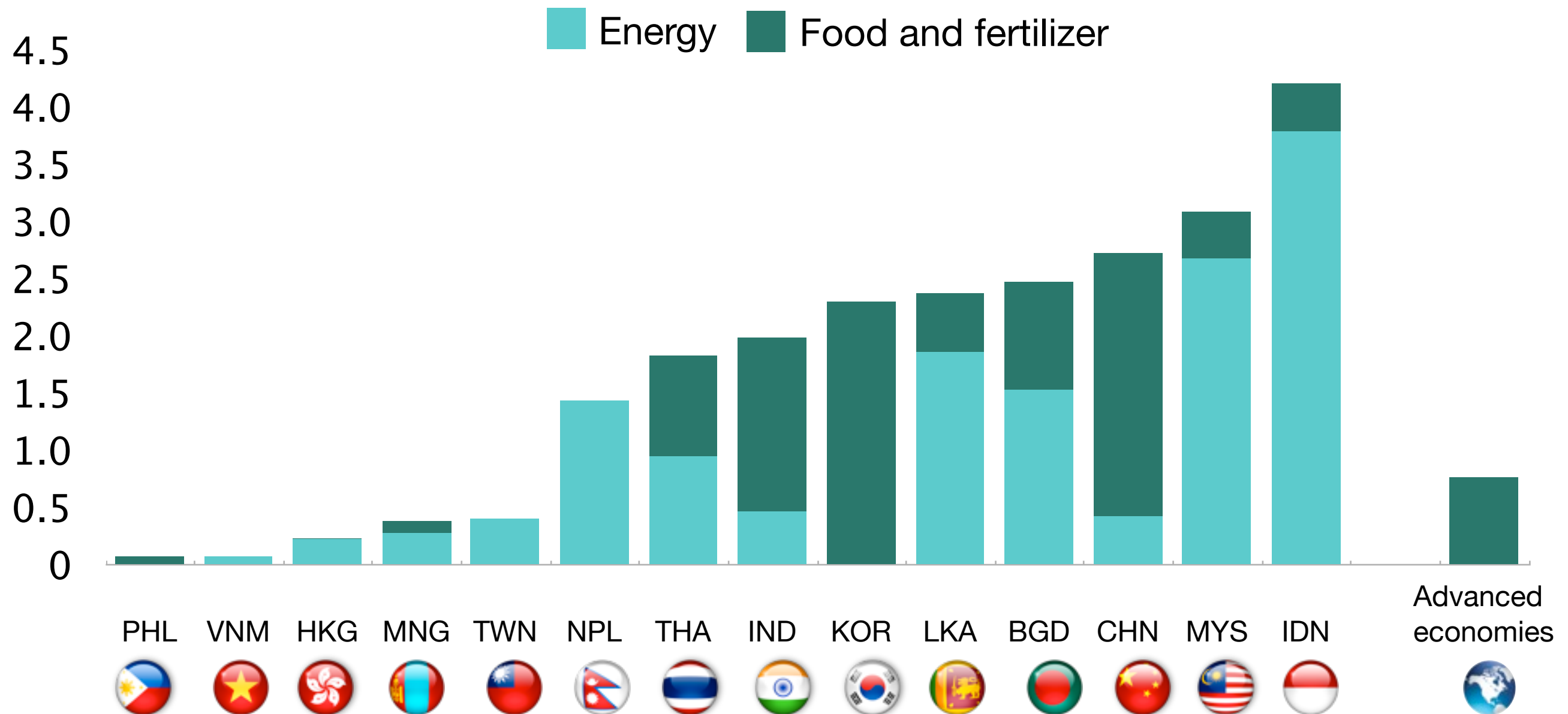




Large subsidies especially on energy

Food and Energy Subsidies

(In percent of total GDP, 2012 or latest available)



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Thank You

