



**FISCAL AFFAIRS**

# The Future Of Fiscal Policy

**JUNE 5, 2024**

**TOKYO FISCAL FORUM**

**Vitor Gaspar**

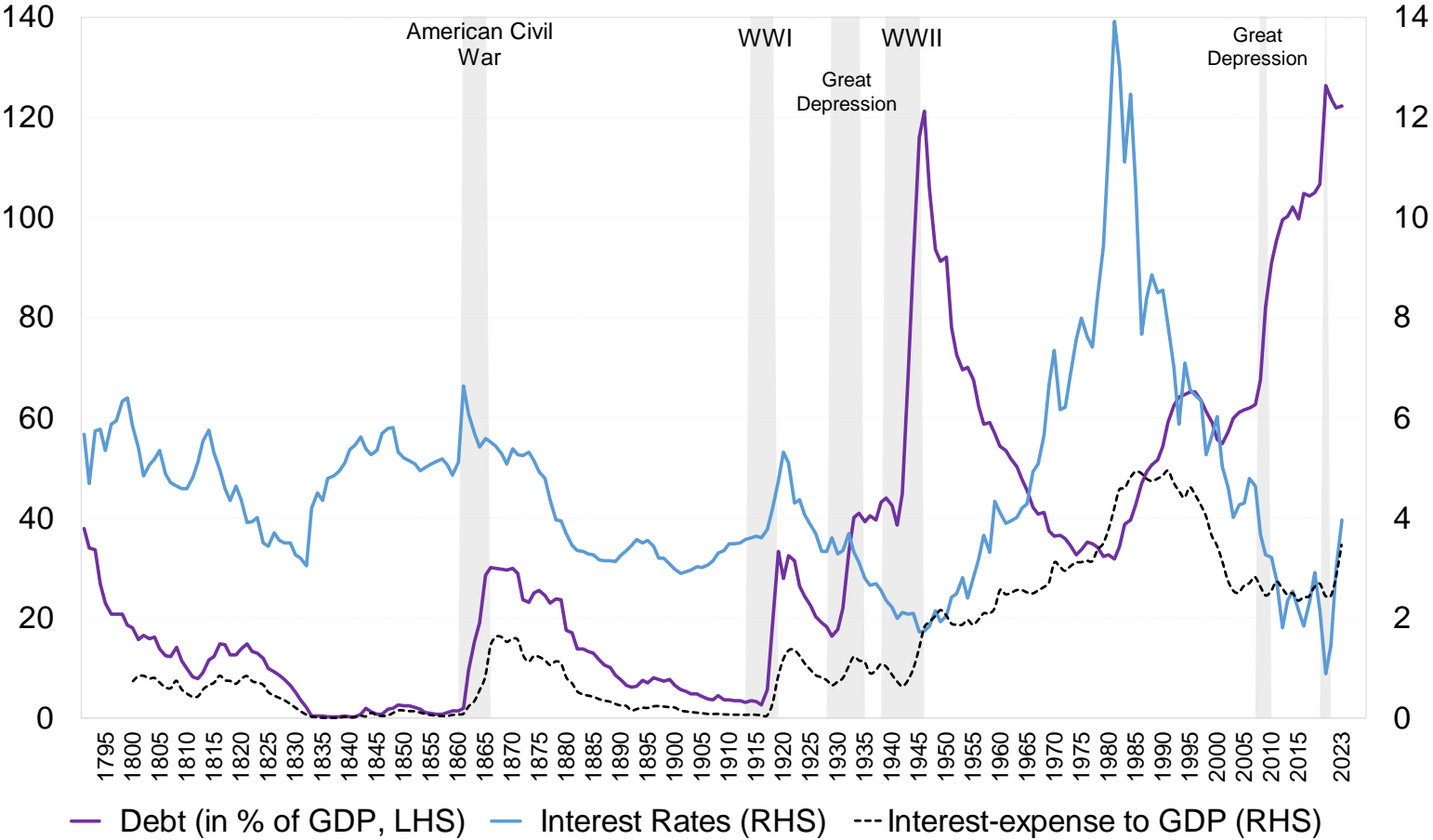
**Director**

**Fiscal Affairs Department**

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

# US Debt and Interest Rates

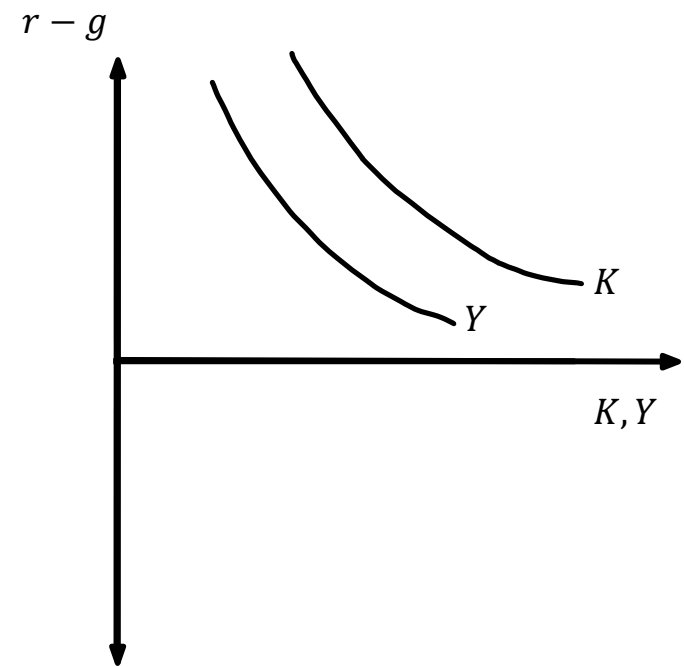
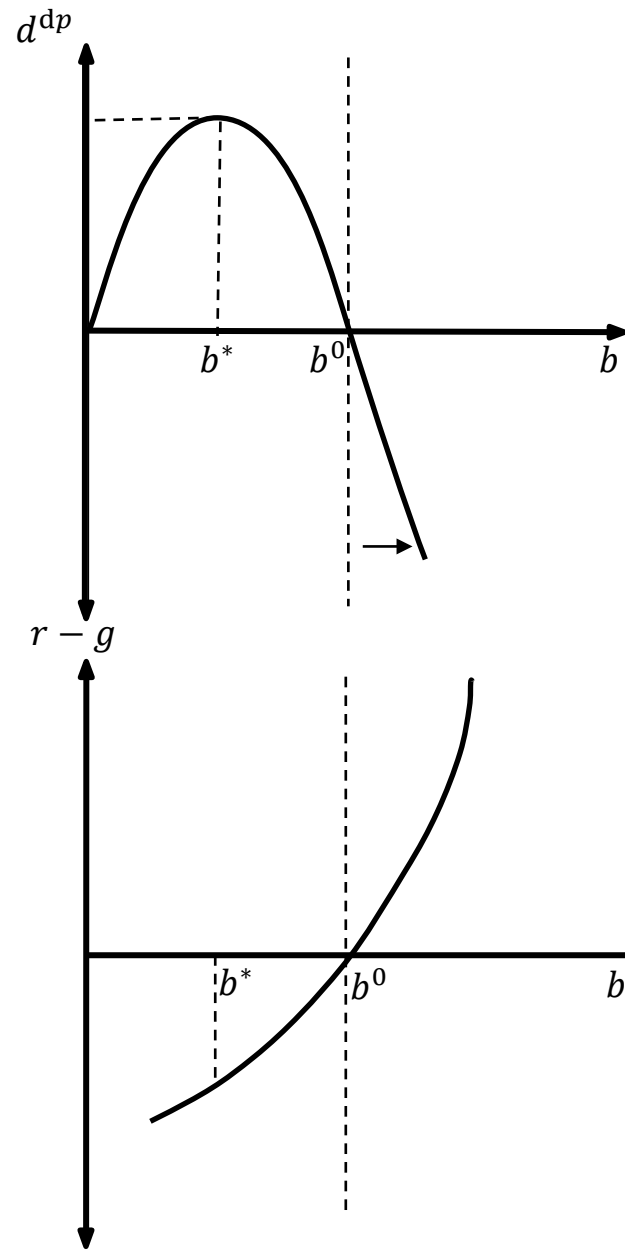
US Federal Debt (% of GDP), Long-Term Nominal Interest Rates (in percent) and Federal Interest Expenses (in percent of GDP), 1791-2023



**Source:** Global Financial Database; Bureau of Economic Analysis; Congressional Budget Office (CBO); IMF World Economic Outlook (WEO) Database (January 2023); Bloomberg Finance LP; National Bureau of Economic Research (NBER) & IMF Staff Calculations

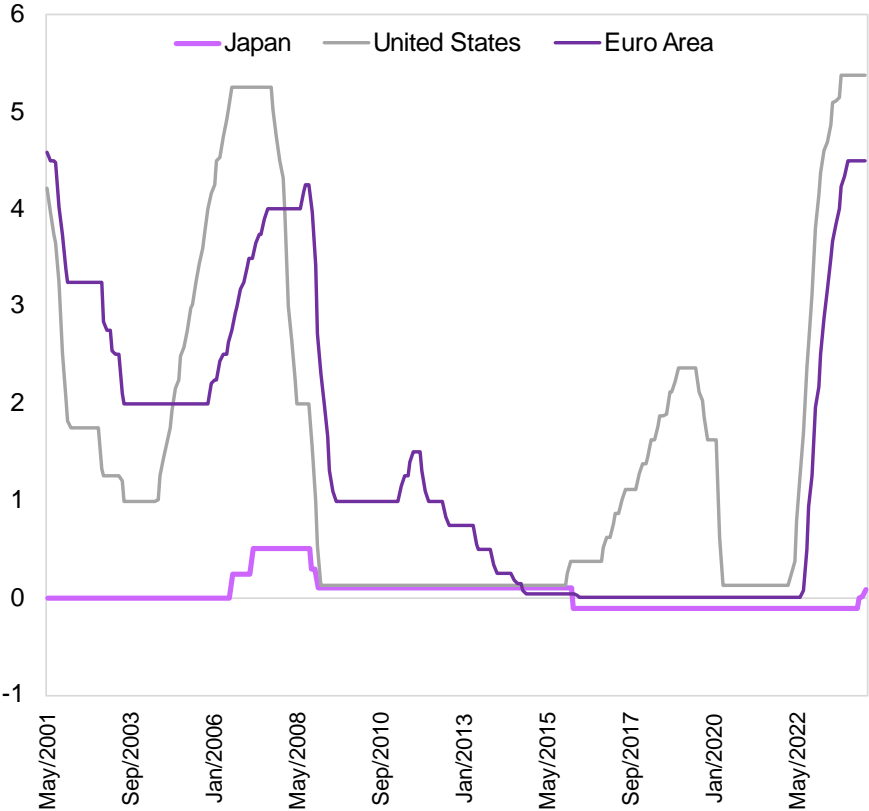
Note: The data are in annual frequency. The figure represents trends in the US. Long-term interest rates refer to yields on 10-year treasury securities except in some historical cases where the closest available maturity is used. The 2022 debt value is a projection from the CBO, and a BEA year-to-date value for Interest-expenses to GDP, while the 2022 long-term interest rate is a WEO projection. The long-term interest rates are an annual average. Wars and Recessions are shaded in grey. Recessions are based on NBER dating of business cycles. The WWI and WWII shaded regions are based on the global start and end years of the war, and not the years of official US participation in the wars. GFC refers to the Global Financial Crisis. Interest expense to GDP are net outlays (interest expenses less interest revenues) till 1946, due to lack of a distinguishable gross interest expense series, after which they are gross interest expenses (in percent of GDP).

# Budget Limits And The Endogeneity Of $r-g$

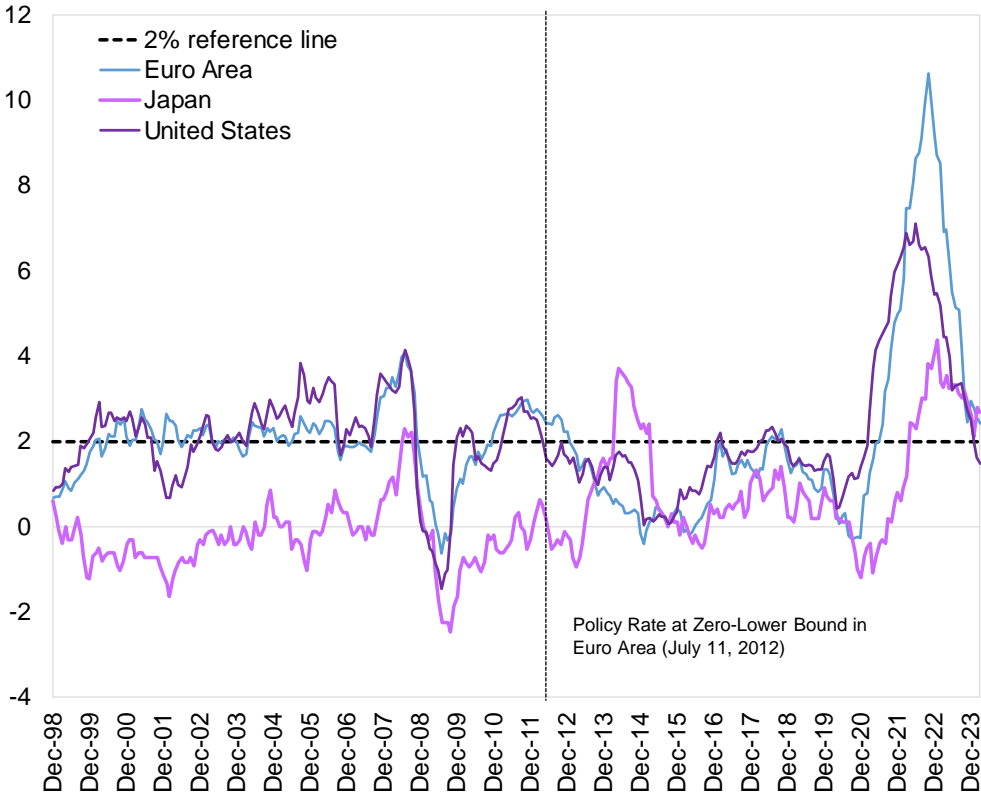


# Interest Rates No Longer at the Lower Bound

**Monetary Policy Rates**  
(Percent)

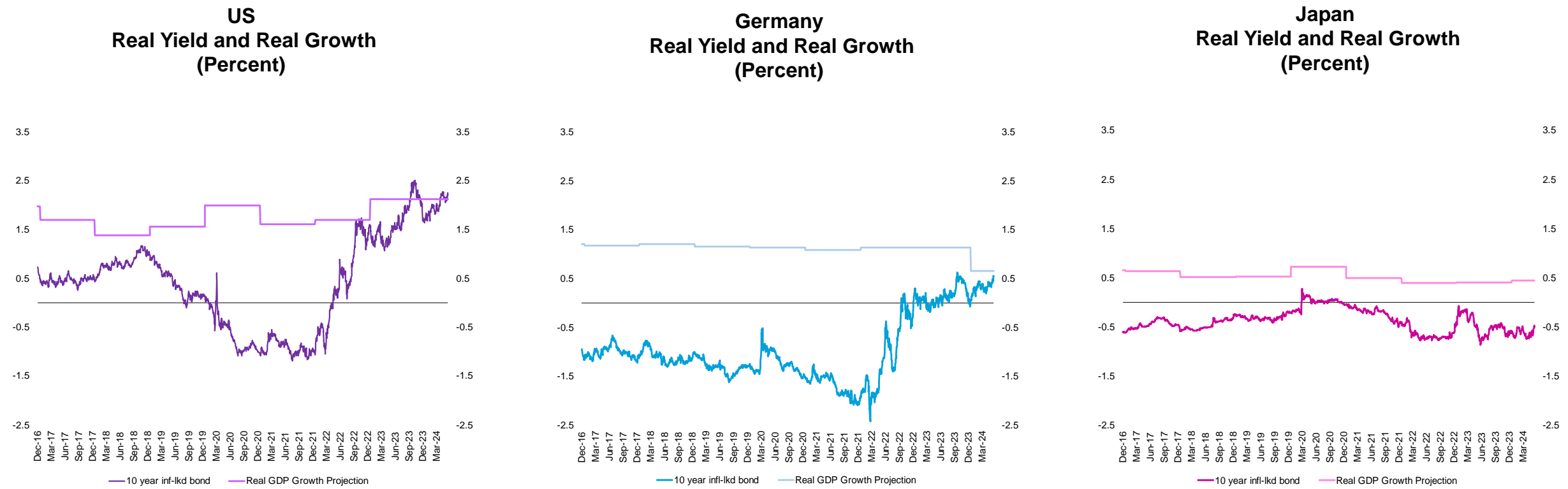


**Inflation in Japan, US, and EA**  
(year-on-year, Dec 1998 – Mar 2024)



**Source: Refinitiv Eikon, FRED & Haver Analytics.**  
Note: Japan – Main Policy Rate until January 2024- and Overnight uncollateralized call money rate (avg.) afterwards. Latest datapoint: April 2024

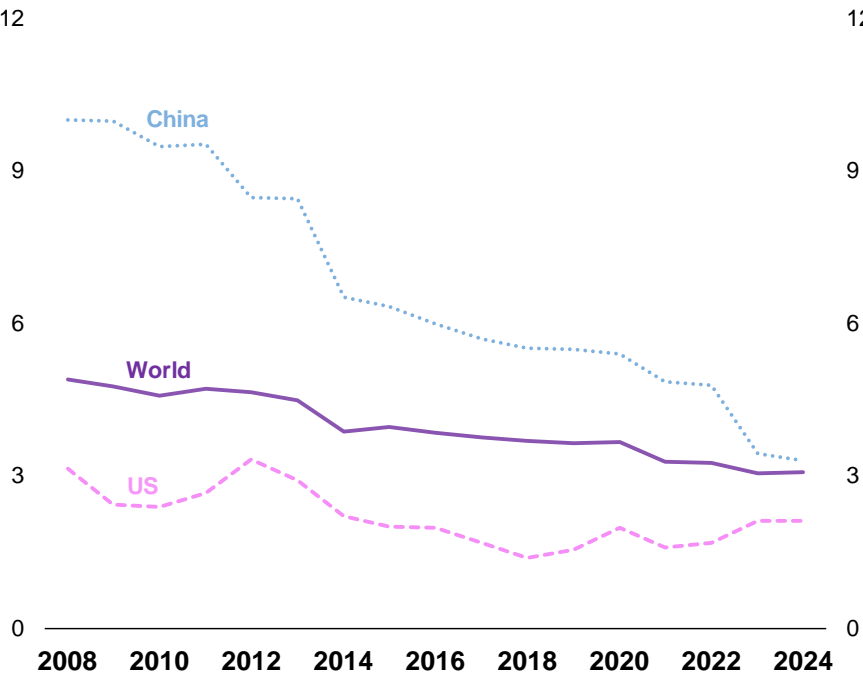
# Real Yields Have Moved Sharply Up (Not in Japan)



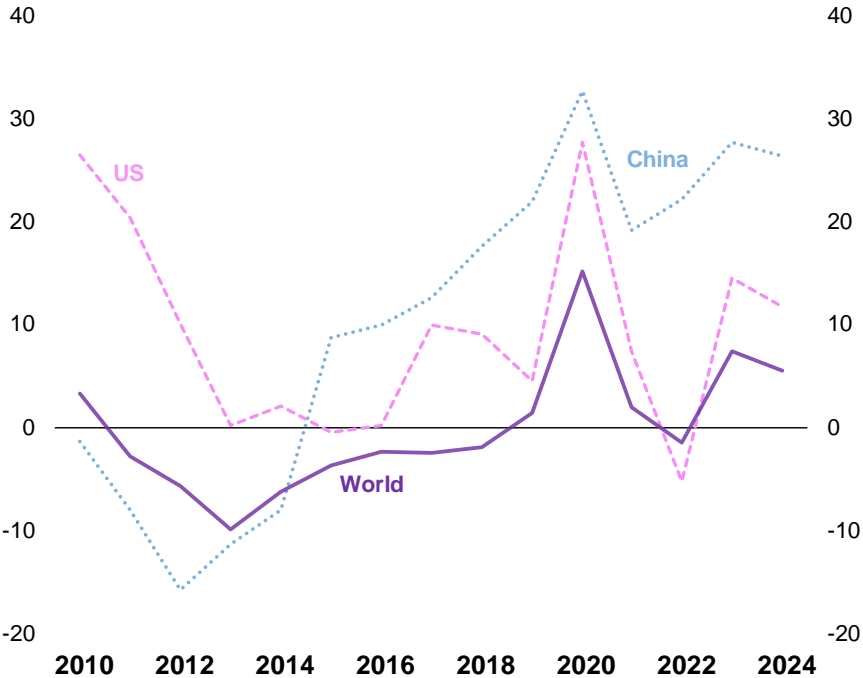
**Source: Bloomberg Finance, Refinitiv Eikon, IMF World Economic Outlook (April 2024) and IMF staff calculations.**  
Note: The charts use 10-year inflation-linked bond yield daily data. The last data point for bond yield data is May 30, 2024. The real GDP growth projection uses the 5<sup>th</sup> year projection in the reported year. The real GDP growth projections are on yearly basis. 2016-2024 use April vintages.

# Diminishing Growth and Rising Debt Prospects

WEO Real Growth 5y Ahead Projections  
(Percent)



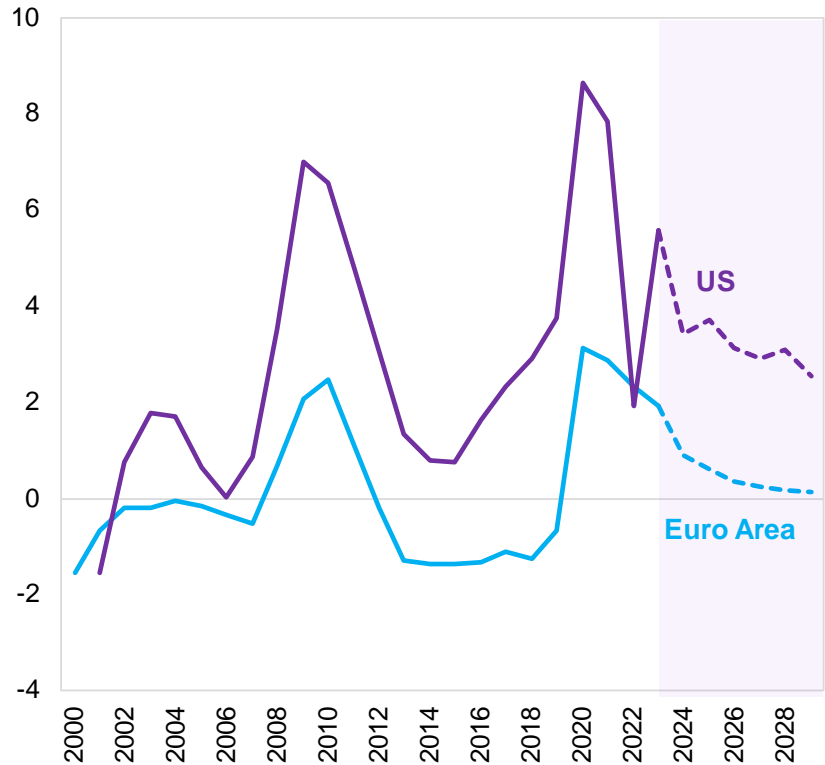
WEO Debt Change 5y Ahead Projections  
(Percent of GDP)



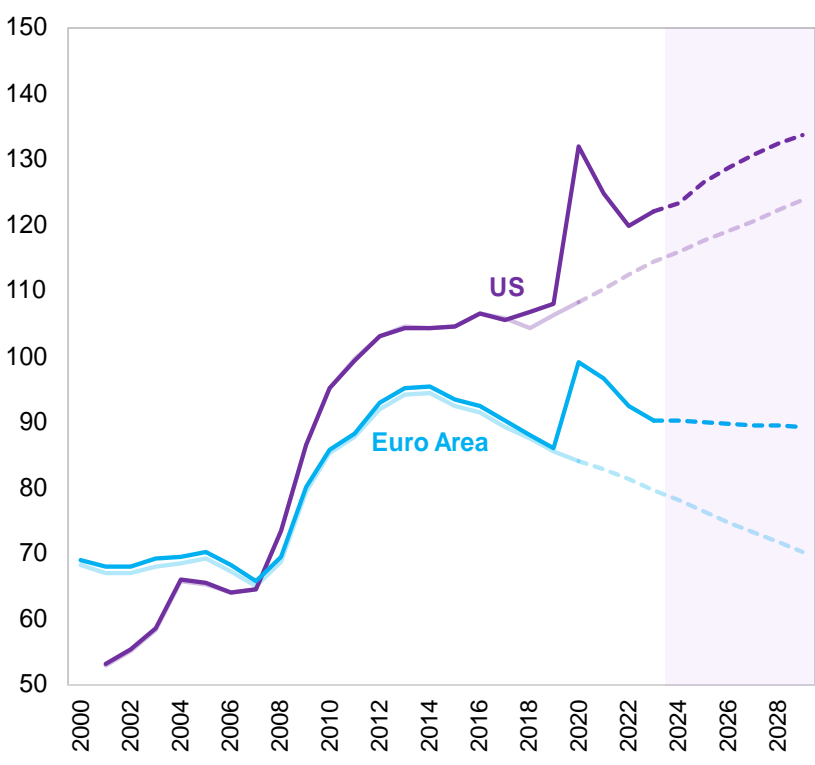
**Source: International Monetary Fund World Economic Outlook and IMF staff calculations.**  
Note: 2008-2024 use April vintages. (LHS) The real GDP growth projection uses the 5<sup>th</sup> year projection in the reported year. The real GDP growth projections are on yearly basis. (RHS) Change in debt is calculated as T+5 – (T-1), where T is the year in which the vintage was released.

# Deficit & Debt : US & EA

**Cyclically Adjusted Primary Deficit  
(Percent of Potential in GDP)**

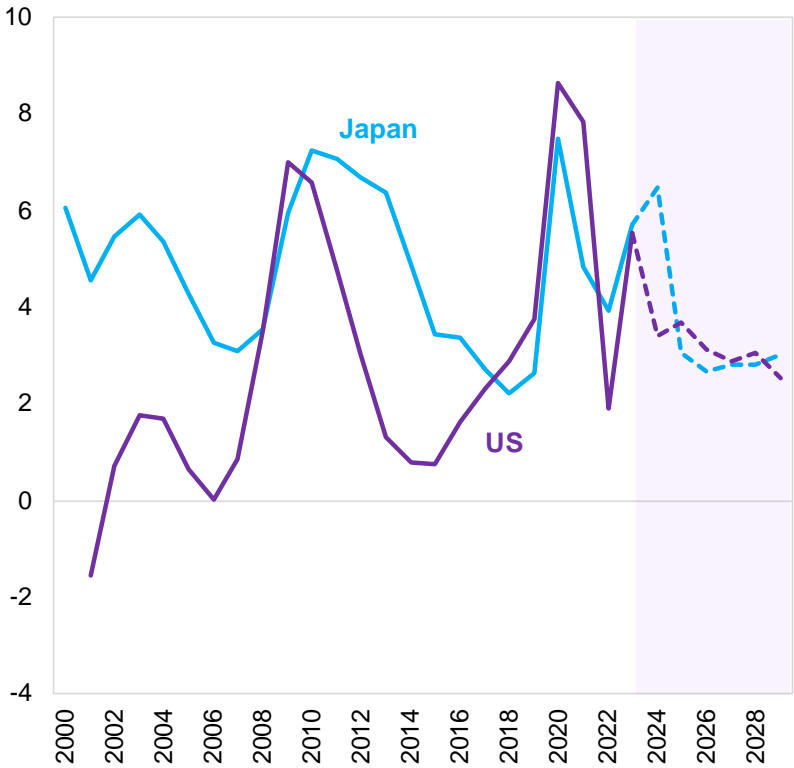


**General Government Debt  
(Percent of GDP)**

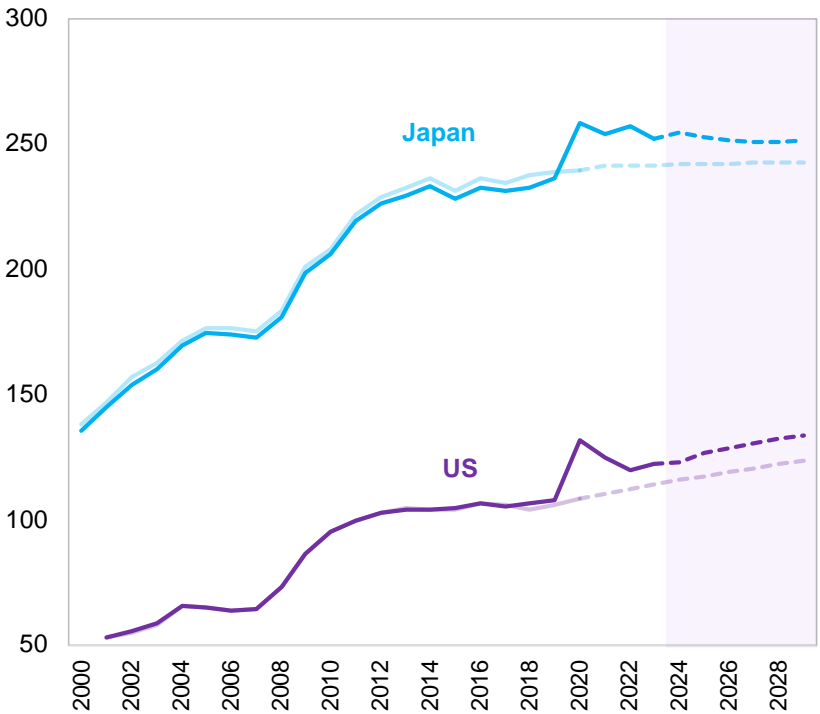


# Deficit & Debt : US & Japan

Cyclically Adjusted Primary Deficit  
(Percent of Potential in GDP)



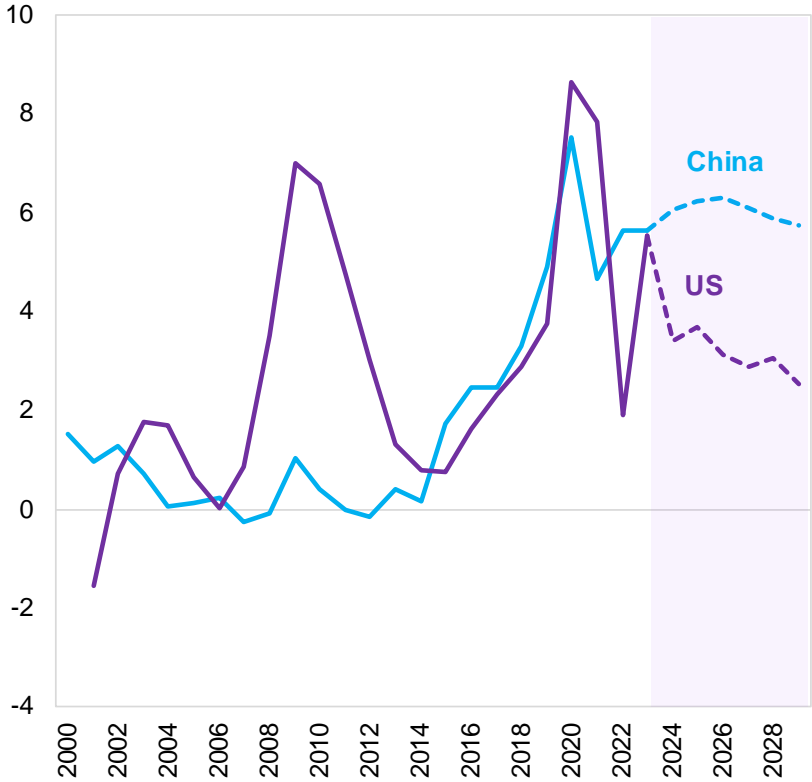
General Government Debt  
(Percent of GDP)



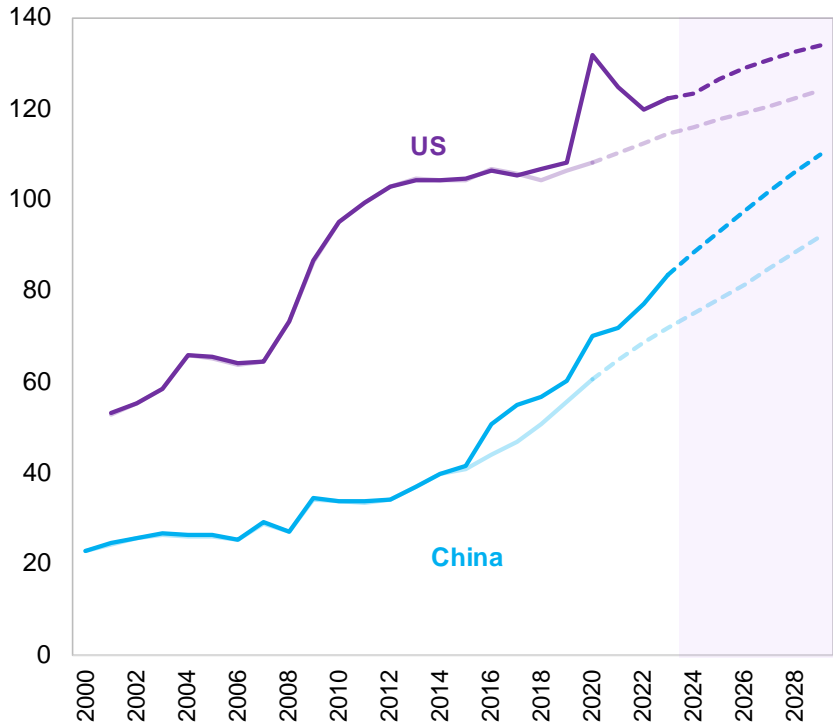


# Deficit & Debt: US & China

**Cyclically Adjusted Primary Deficit  
(Percent of Potential in GDP)**

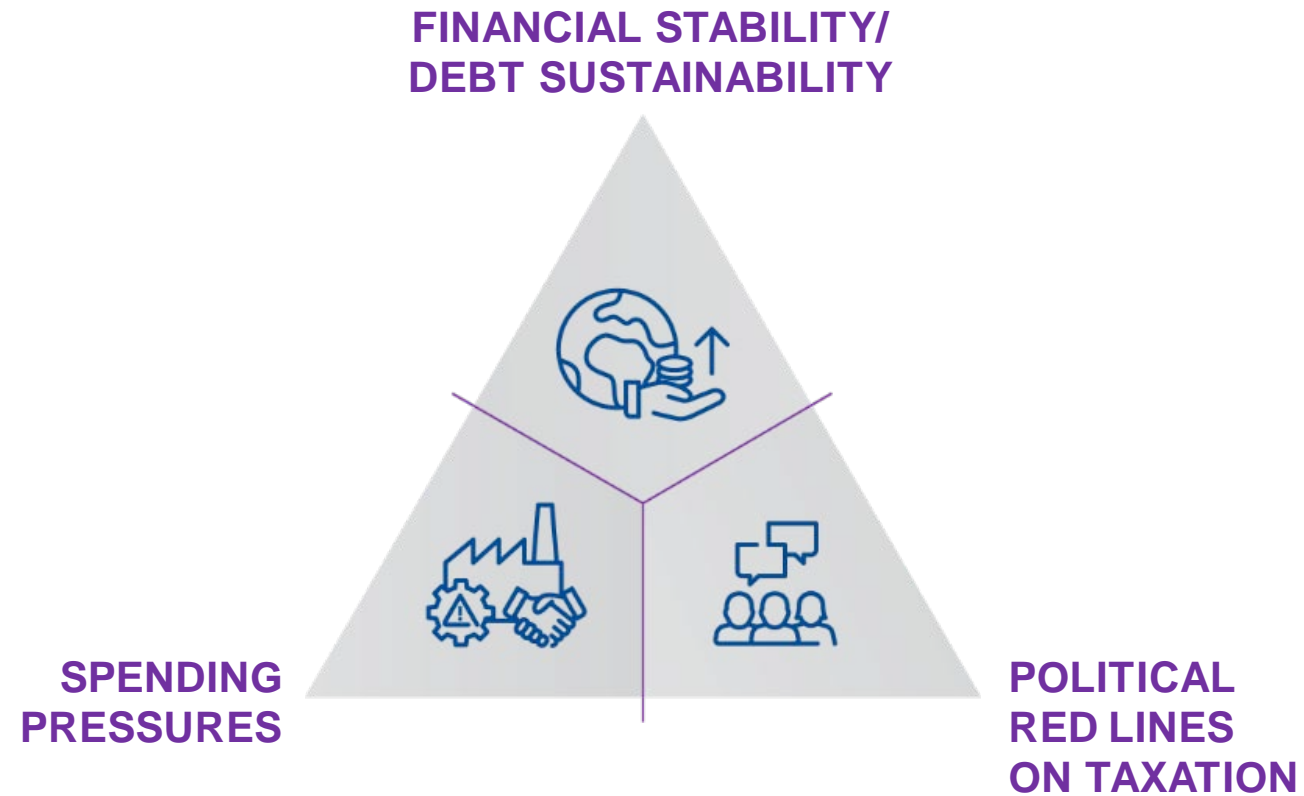


**General Government Debt  
(Percent of GDP)**



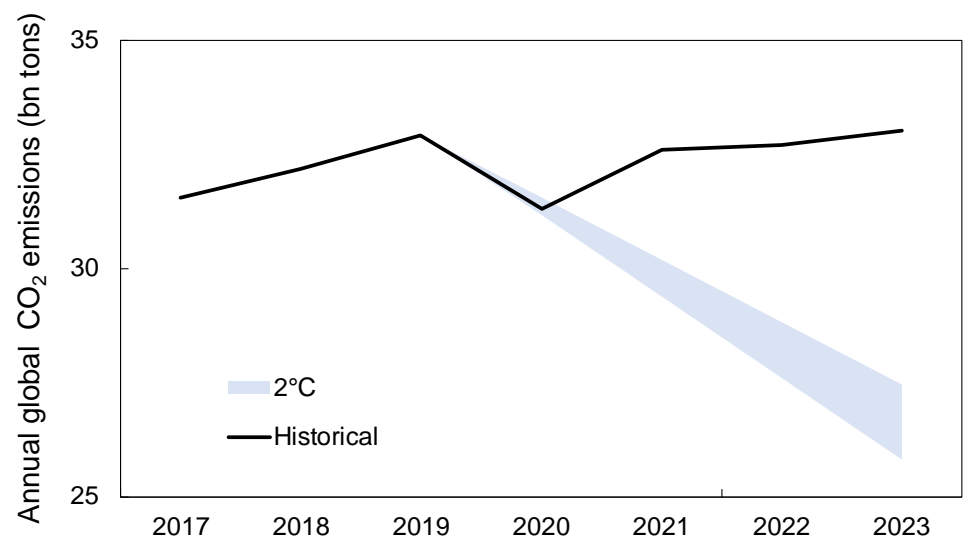
Source: International Monetary Fund World Economic Outlook (WEO January 2024 & January 2020) and IMF staff calculations.  
Note: (RHS) The faded lines represent WEO January 2020 vintage, it is compared with January 2024. The dotted lines represent projections.

# Policy Trilemma

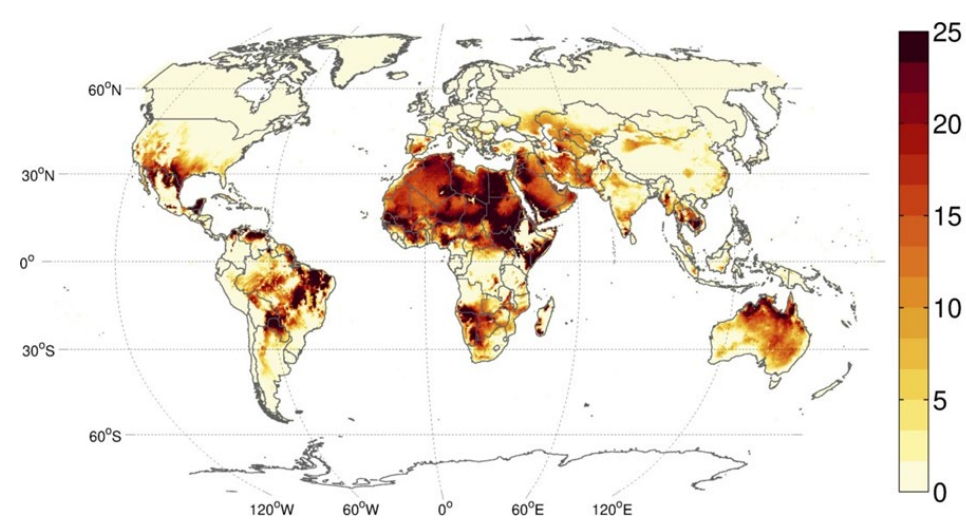


# 2023: The Year of Climate (In)action?

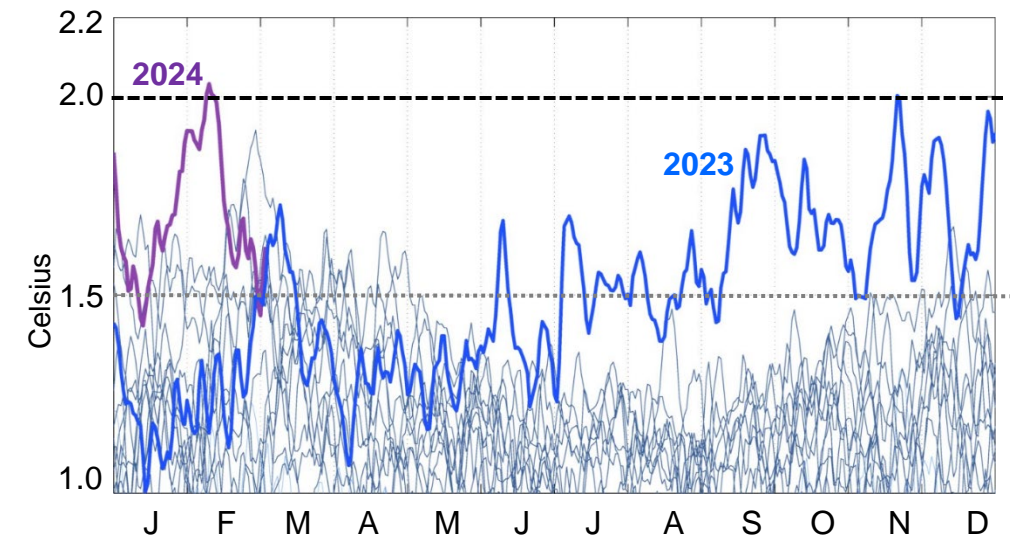
Historical Emissions & Emissions Pathways (1990-2030)



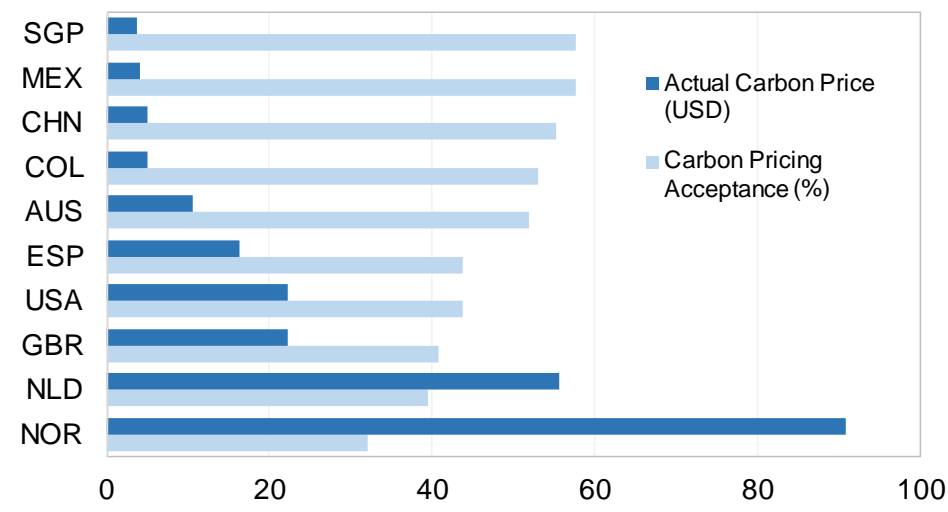
Change in the Average Number of Hot Days per year



Global Daily Surface Air Temperature Anomaly to Pre-Industrial period (1850-1900)



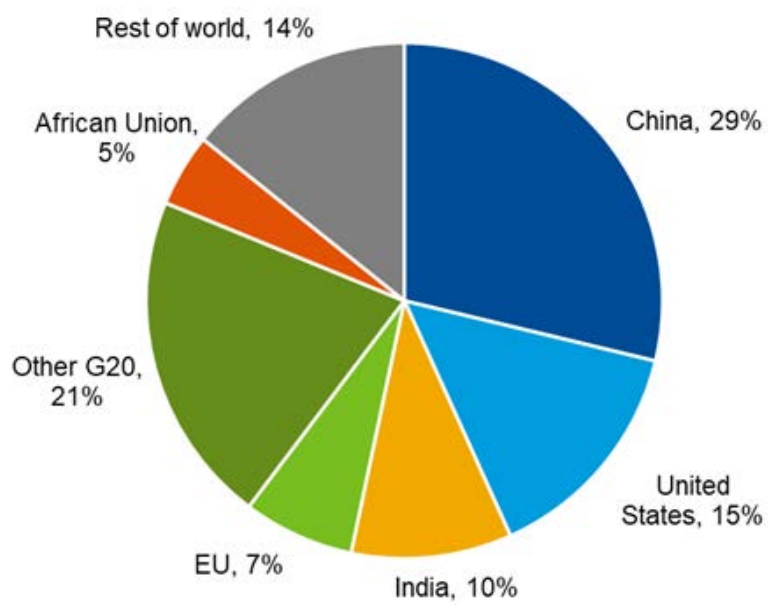
Support For Carbon Taxation & Carbon Price by Country



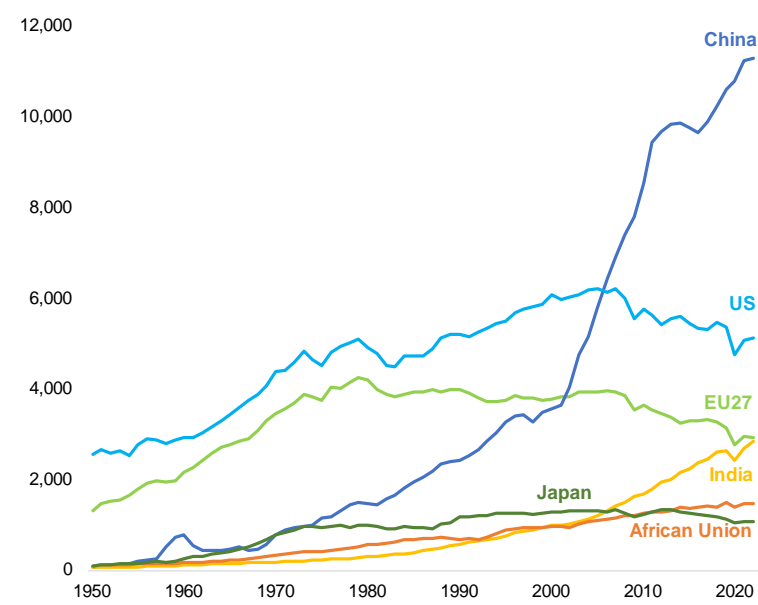
Source: 1) Climate Change Indicators Dashboard (IMF), Intergovernmental Panel on Climate Change, CO2 Emissions in 2023 Analysis – IEA , 2/3) ERA5/ECMW, 4) “Public Support for Climate Change” (SDN) & IMF Estimates.  
Note: 2) Definition of Hot day: when daily maximum air temperature exceeds 35C. The figures shows the change of the 30-year periods (1991:2020) minus(1961-1990)

# Global Emissions

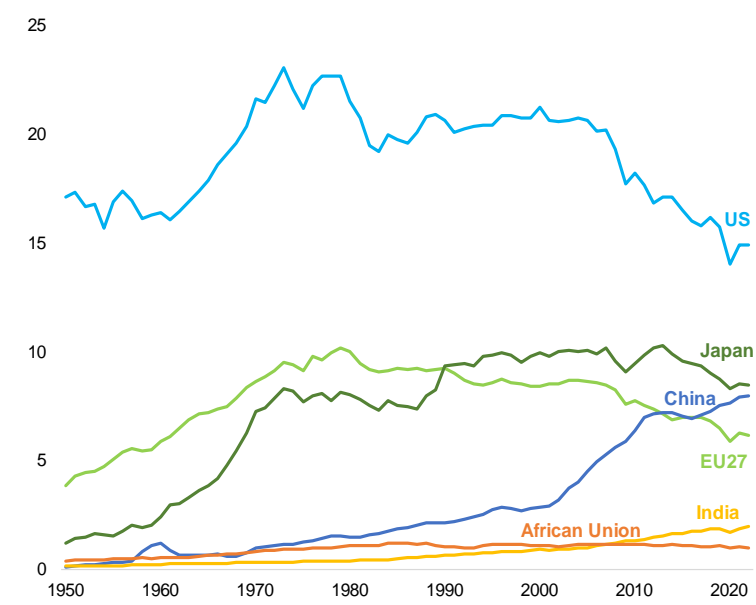
**Projected Contributions to Global Carbon Emissions in 2030 with Unchanged Policies, By Major Emitter**



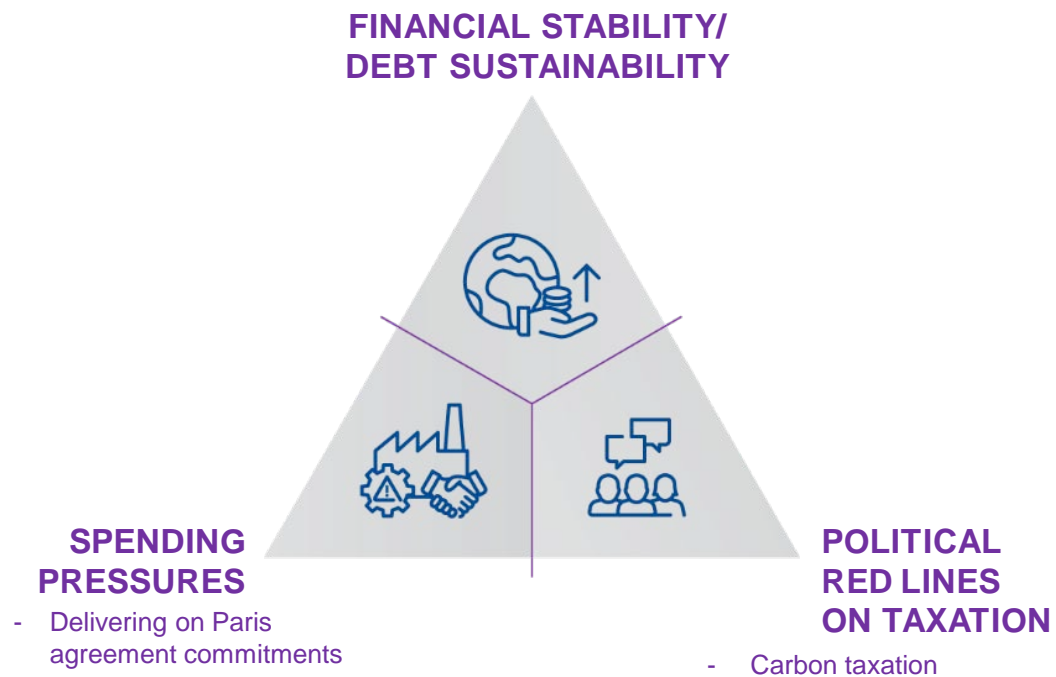
**Fossil Fuel Emissions (Million tonnes CO2/year)**



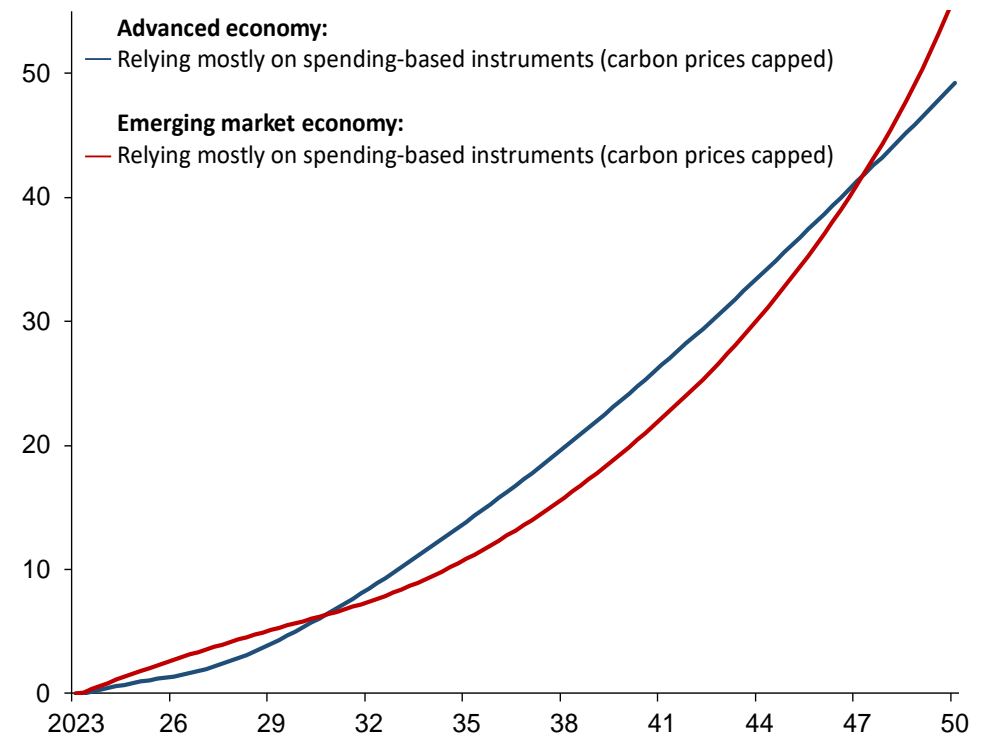
**Per-capita Fossil Fuel Emissions (Million tonnes CO2/year)**



# The Policy Trilemma with Climate Change

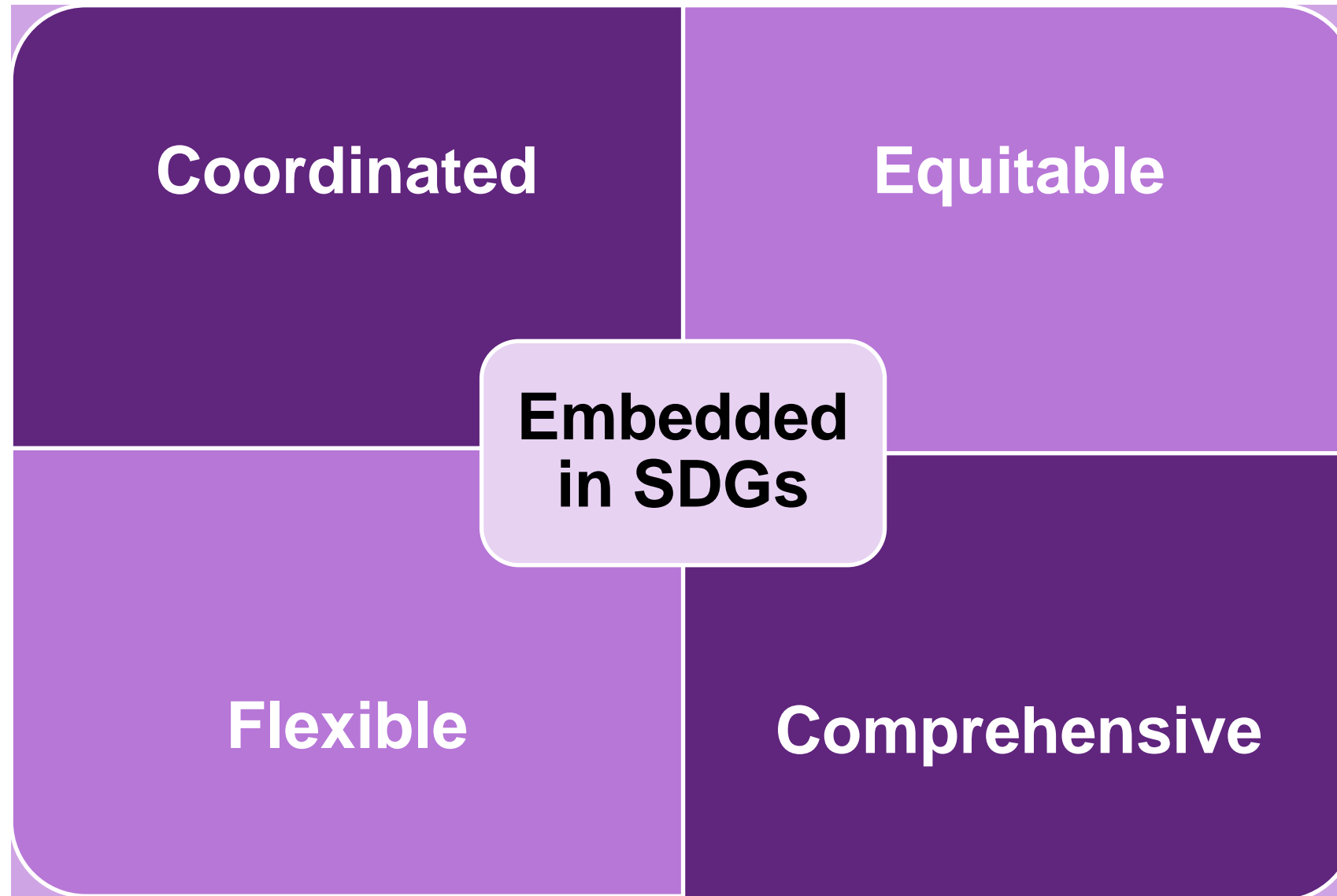


**Debt Dynamics With Expanded  
Expenditure-Based Climate Policies  
(Percent of GDP)**



Source: IMF World Economic Outlook (October 2023) and IMF staff calculations. (RHS) - Fiscal Monitor, October 2023, IMF staff estimates using the IMF–World Bank Climate Policy Assessment Tool.

# Principles For a Global Agreement



Thank you