FISCAL AFFAIRS

Fiscal Policies Around the World

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Outline

1. Global Public Debt: History, Prospects and Risks.
2. US Policies: Uncertainties and Spillovers.
3. Public Debt in Major Economies.
4. “When the unlikely happens it will most likely happen in the most likely way.”
5. Tax Capacity, Financial Development and the mobilization of savings for investment and growth.

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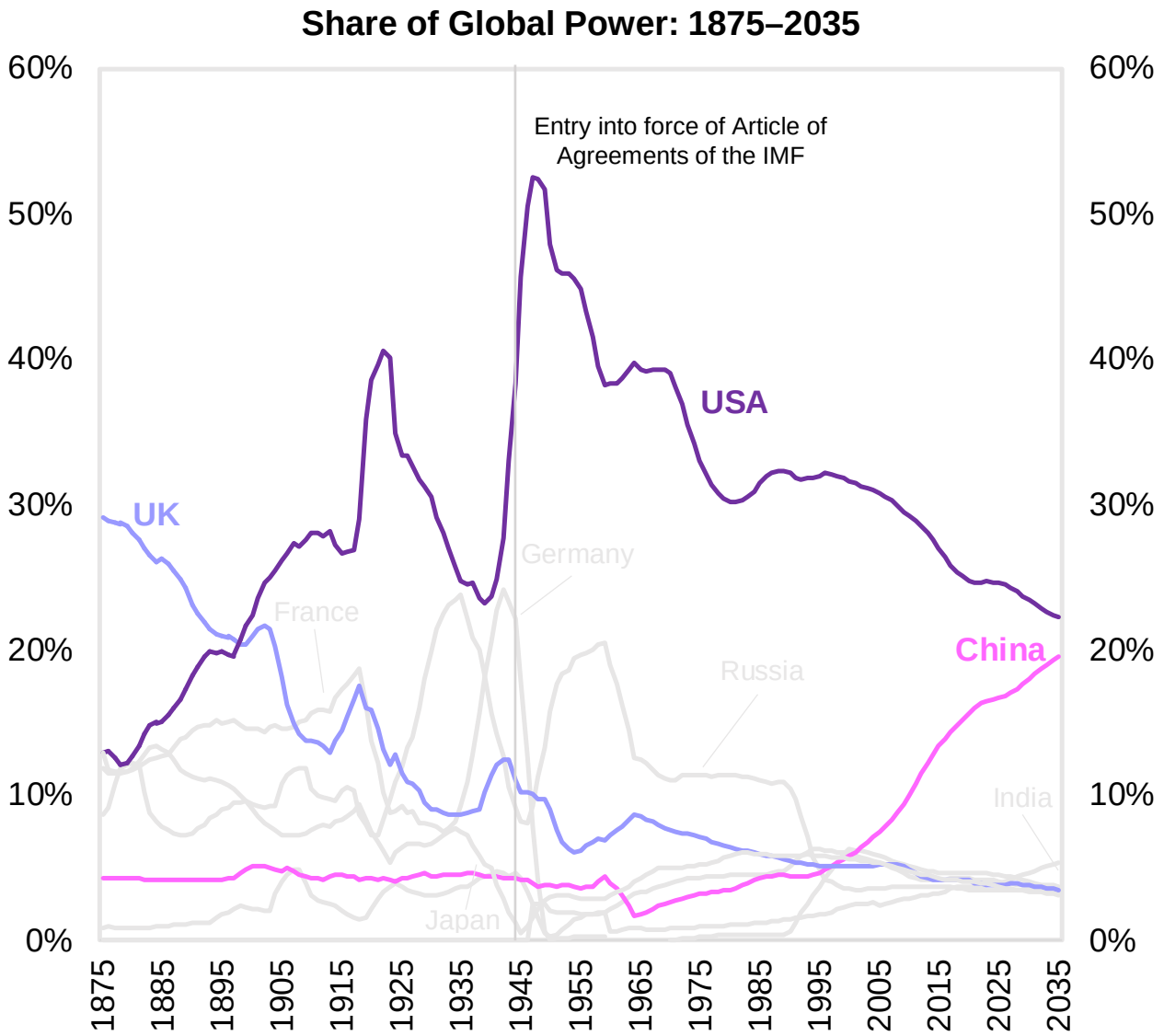
Thucydides Trap – the Return of Power Politics

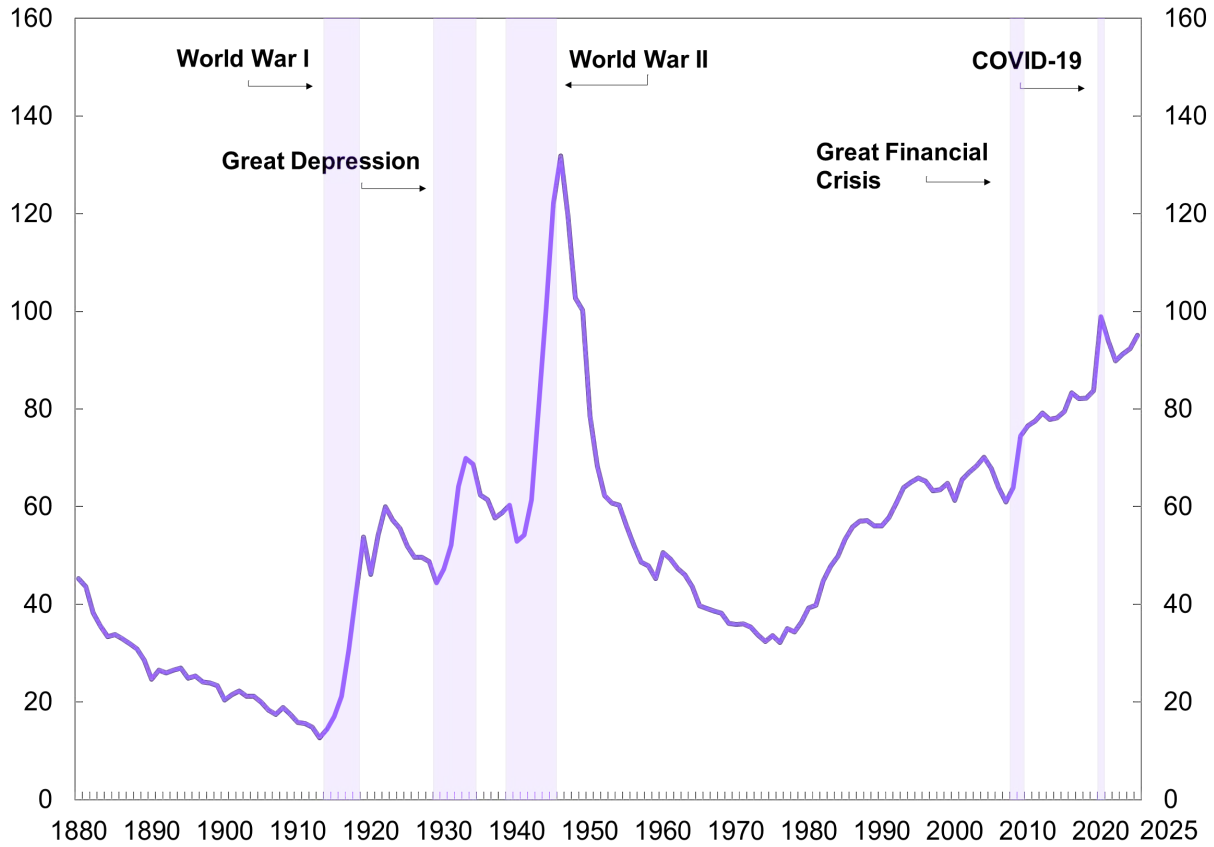


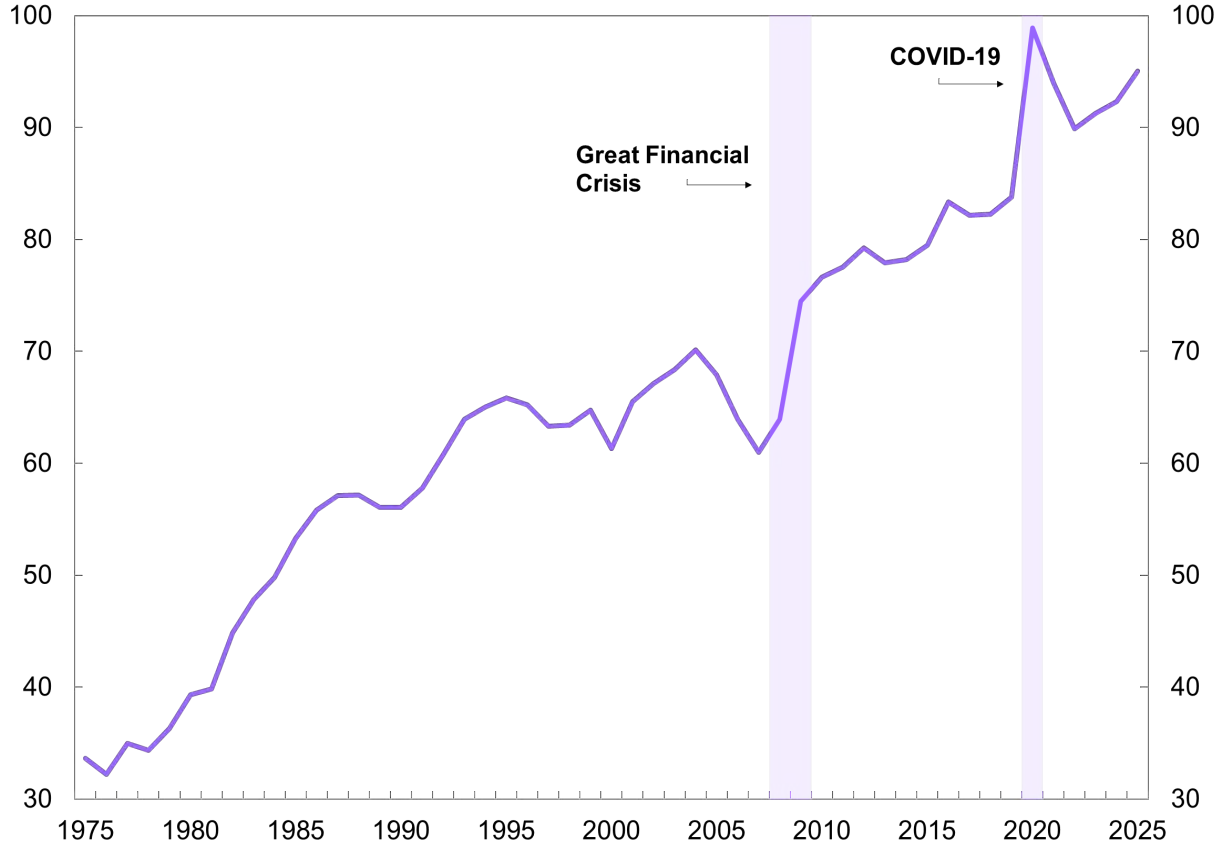
"It was the rise of Athens and the fear that it instilled in Sparta that made war inevitable."

Source: National Power International Studies and "Hegemonic Globalization" by Fernando Broner, Alberto Martin, Josefin Meyer, and Christoph Trebesch.
Note: Graph shows five-year moving average.

Historical Global Public Debt

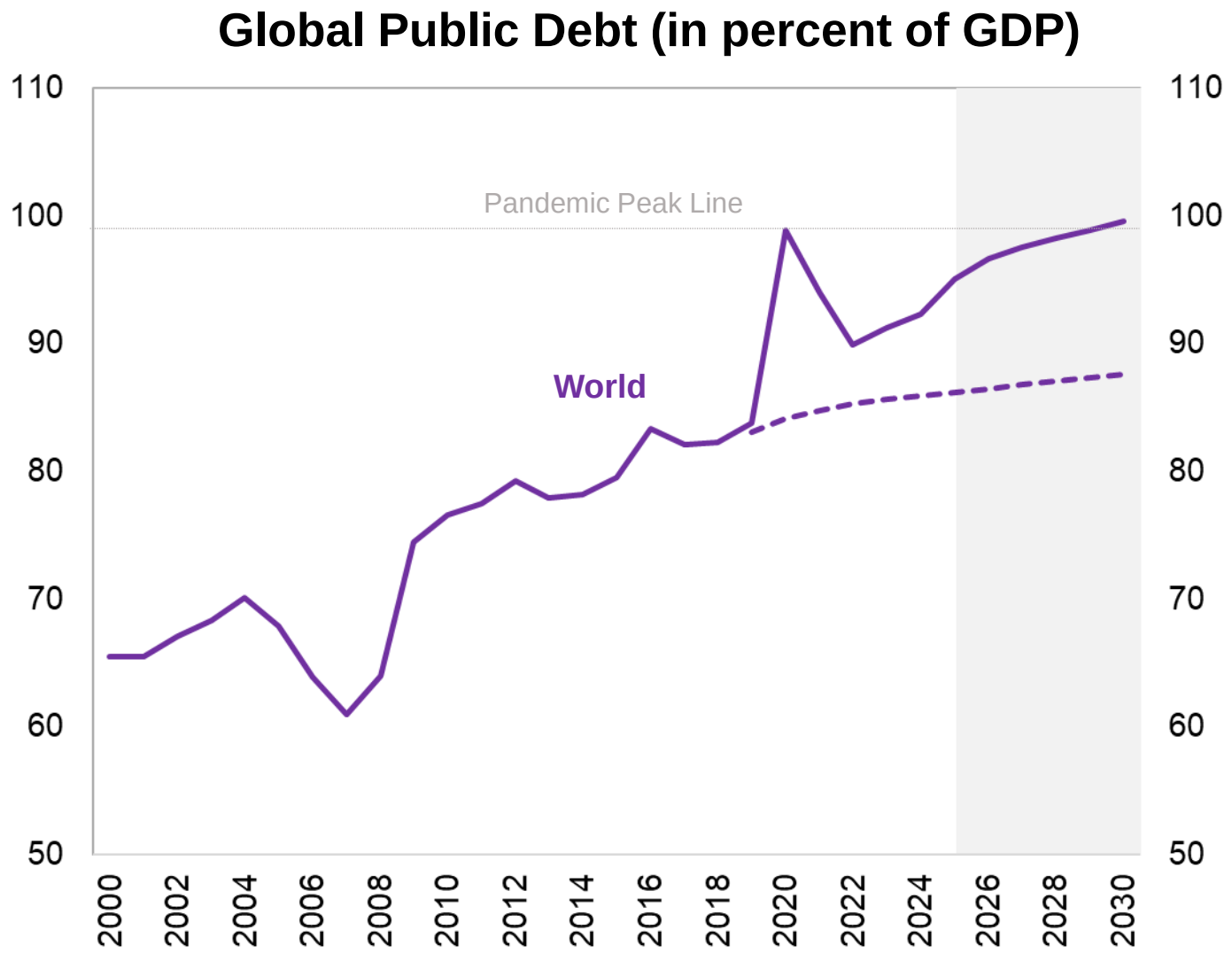
Global Public Debt
(in percent of GDP)





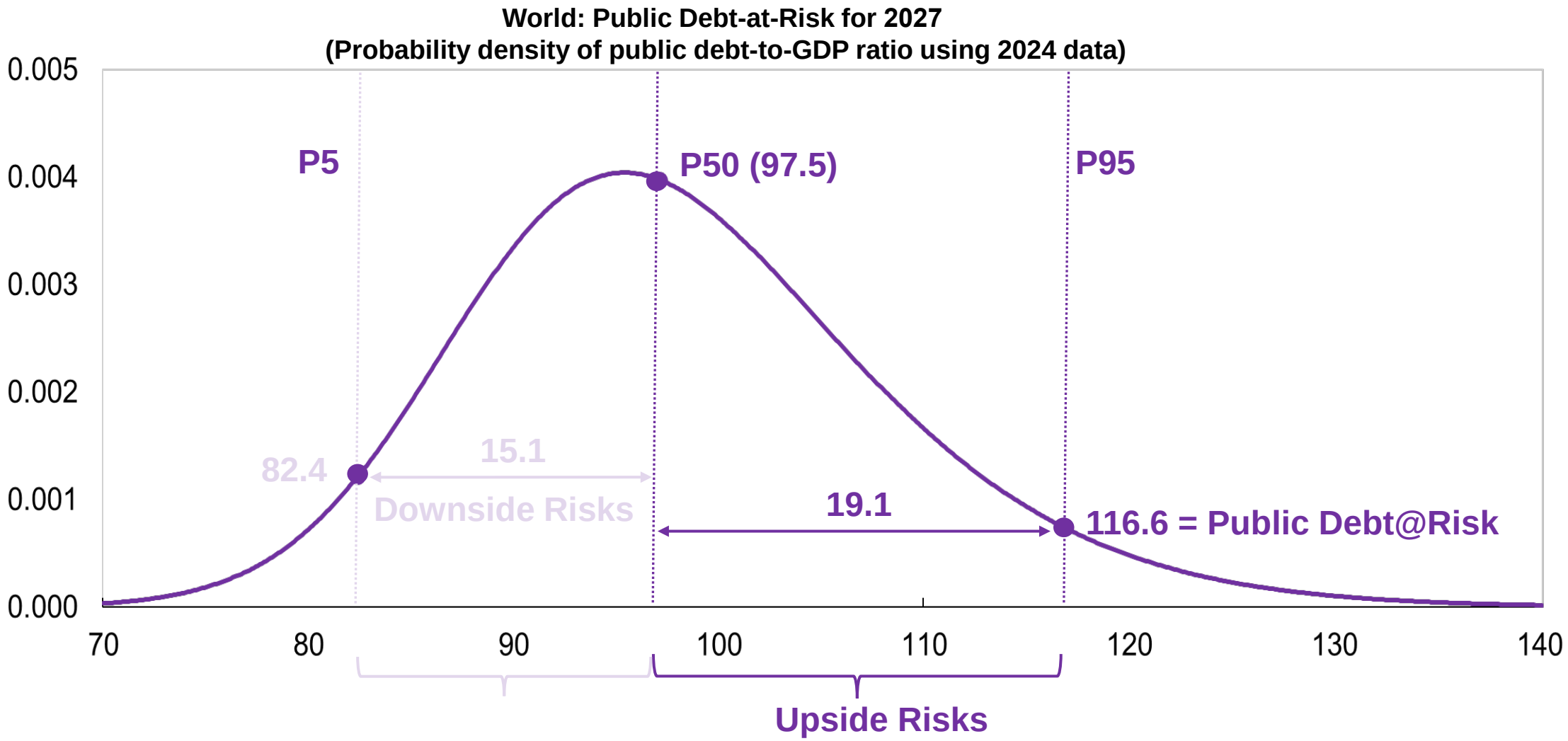
Source: Historical Public Debt Database (HPPD), World Economic Outlook (WEO April 2010 and 2025) & Maddison Project Database (MPD) 2023. https://www.imf.org/external/datamapper/DEBT1@DEBT/FAD_G20Adv/FAD_G20Emg/FAD_LIC
Note: Prior to 1988, IMF staff estimated the GDP weighted average global debt using HPPD, MPD and World Economic Outlook database. From 1989 onwards, the World Economic Outlook database is used.

Global Public Debt is Higher and Rising Faster than Prepandemic



Source: World Economic Outlook April 2025 Vintage; IMF staff calculations.
Note: Dashed line is based on WEO October 2019 vintage. Dotted line represents the pandemic public debt peak of World's GDP. The shaded area indicates a projection period.

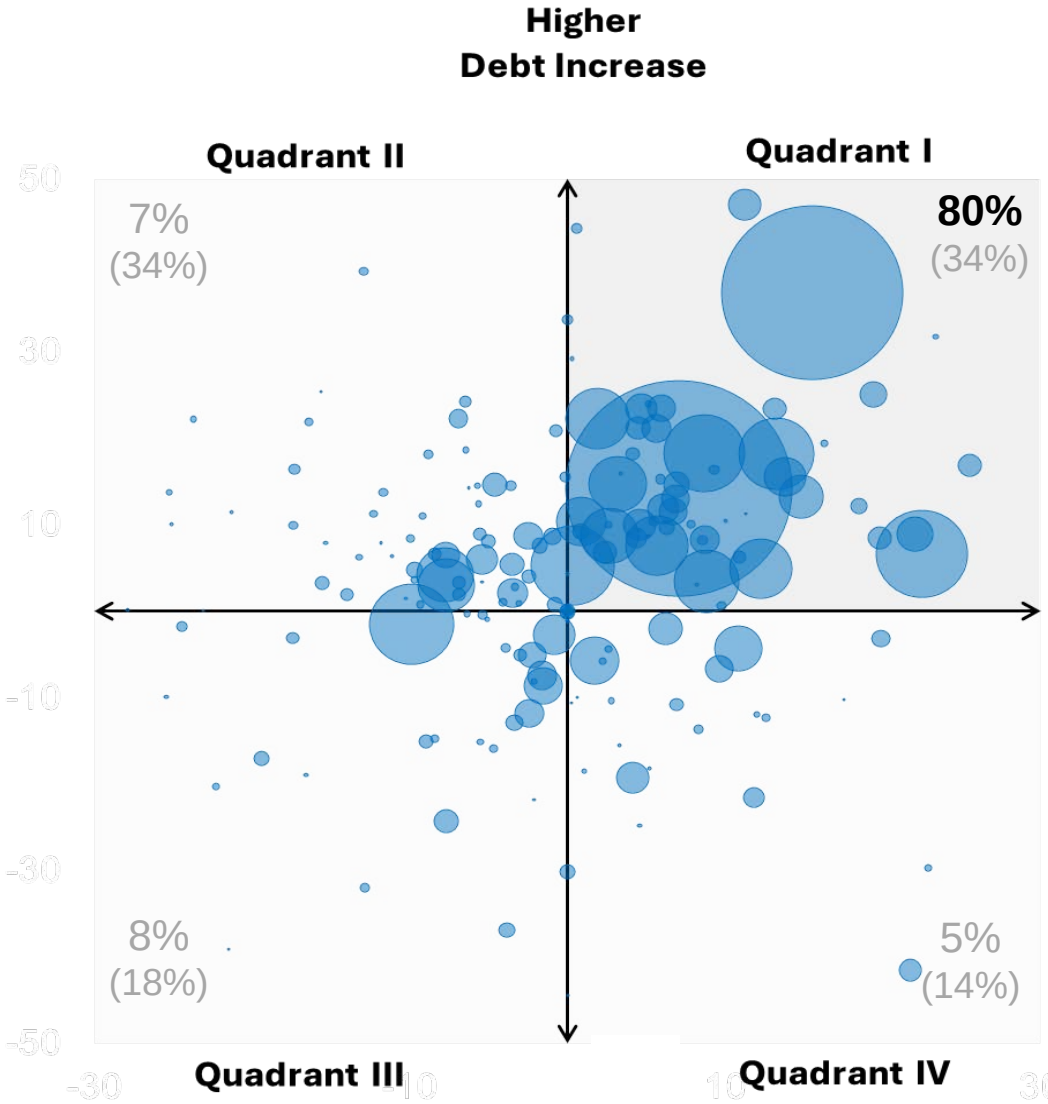
World: Public Debt@Risk



Source: IMF Fiscal Monitor April 2025.
Note: The probability density functions are estimated using panel quantile regressions of the debt-to-GDP ratio on various political, economic, and financial variables. The probability density is calculated using actuals of 2024 based on WEO Live (as of April 15th, 2025). The global sample comprises 90 countries – accounting for more than 90 percent of global debt – for which data on the conditioning variables are available for 2009-24. The dots indicate the predicted 5th (left tail), 50th (median), 95th percentile (debt-at-risk) of the projected 2027 debt-to-GDP ratio. The distribution was recentered such that the predicted median conditional on initial debt matches the corresponding projection for 2027 in WEO live.

Wide Diversity Across Countries

Public Debt Compared to Pre-Pandemic
(in percent of GDP)

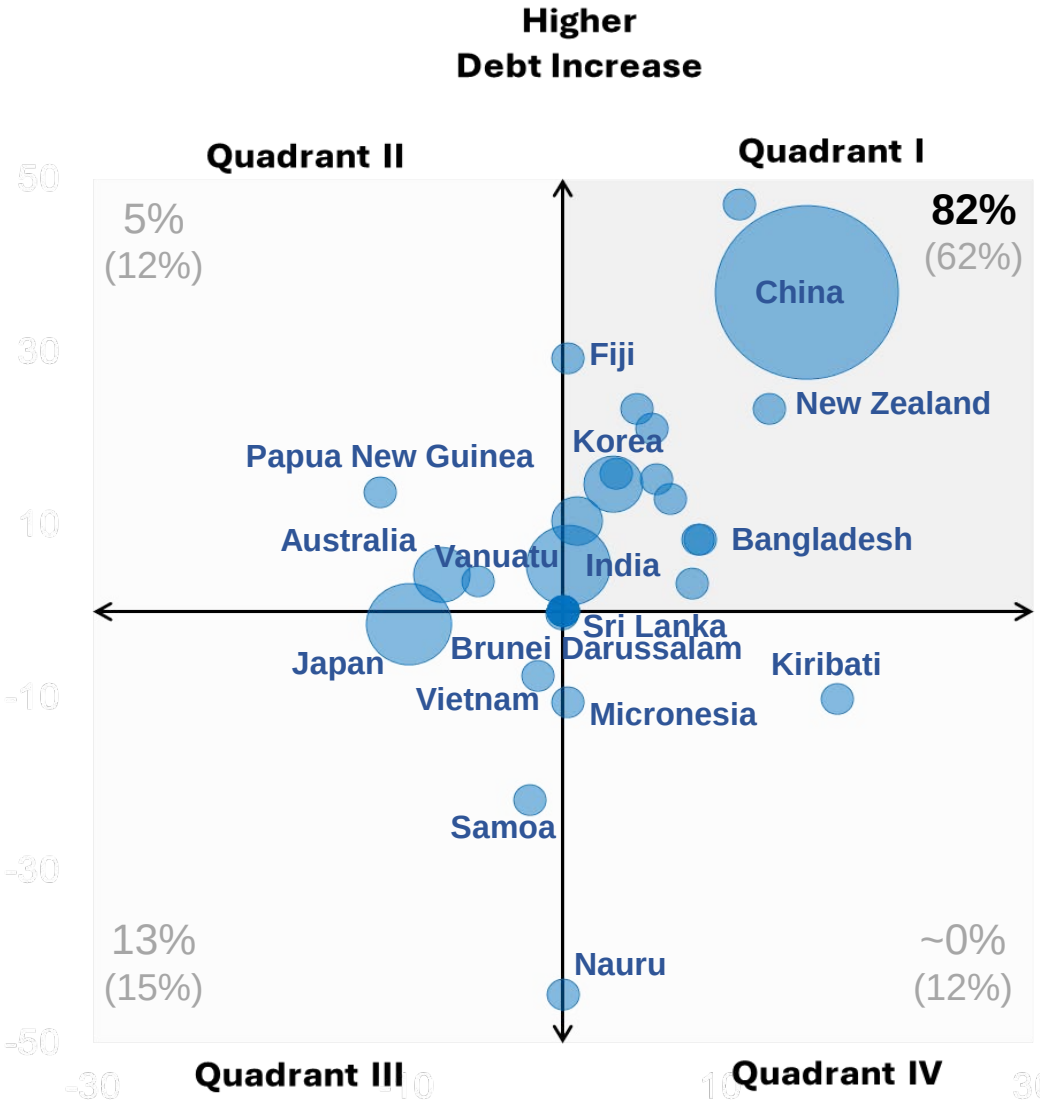


"Keep your Own House In Order (OHIO)."

Source: IMF staff calculations and World Economic Outlook
Note: Y-axis shows difference in debt-to-GDP ratios between 2019-2025 as of April 2015 WEO. X-axis shows the projected growth in debt-to-GDP ratio between 2024-2029 as of April 2025 WEO and 2014-2019 as of April 2025 WEO. Bubble size represents the share in world GDP in 2024.

Wide Diversity in Asia – Pacific

Public Debt Compared to Pre-Pandemic (in percent of GDP)



% of Asia – Pacific GDP
(% of Countries)

Source: IMF staff calculations and World Economic Outlook
Note: Y-axis shows difference in debt-to-GDP ratios between 2019-2025 as of April 2015 WEO. X-axis shows the projected growth in debt-to-GDP ratio between 2024-2029 as of April 2025 WEO and 2014-2019 as of April 2025 WEO. Bubble size represents the share in world GDP in 2024.

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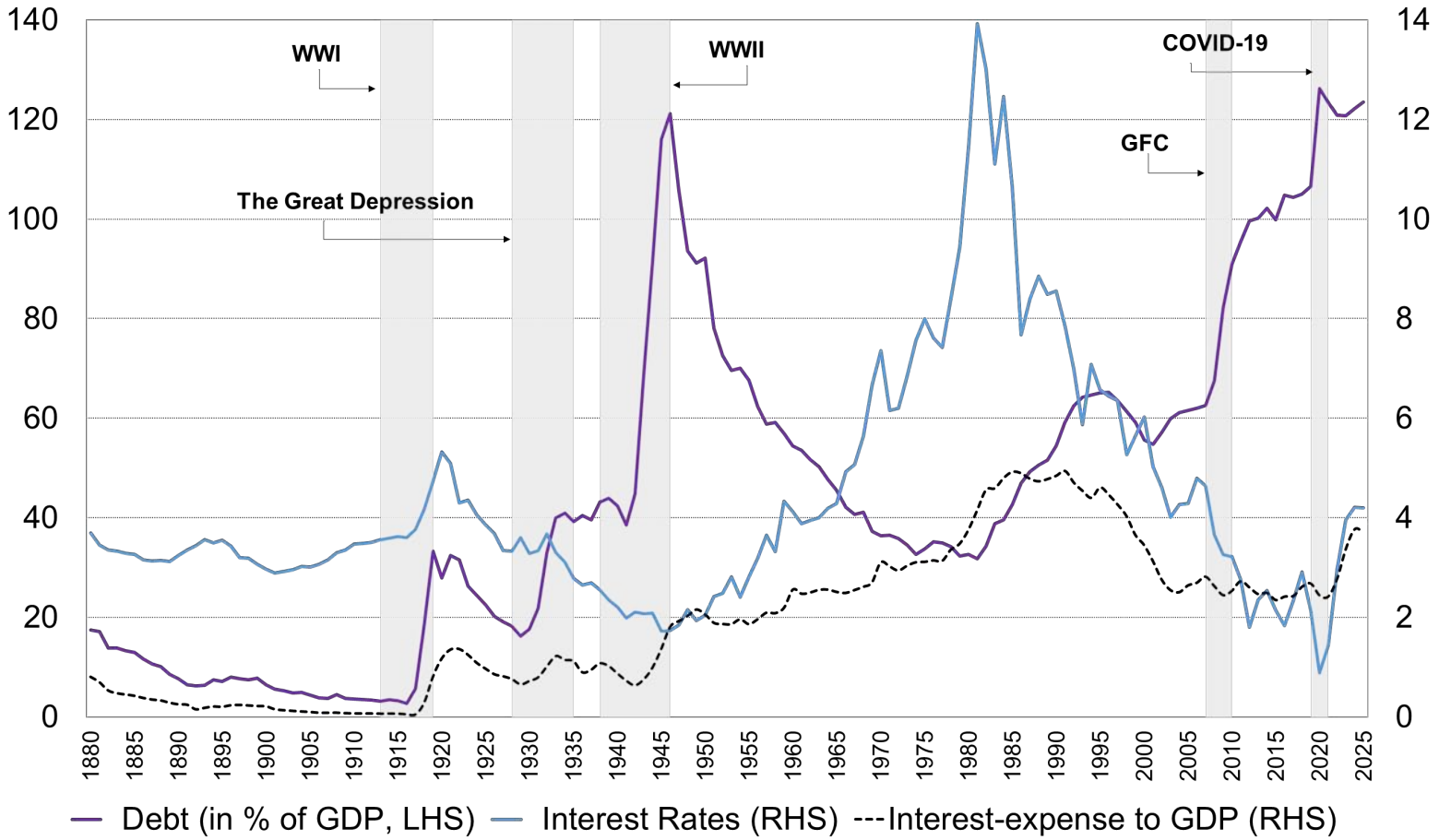
US Debt and Interest Rates

US Federal Debt (% of GDP), Long-Term Nominal Interest Rates (in percent) and Federal Interest Expenses (in percent of GDP), 1880-2025

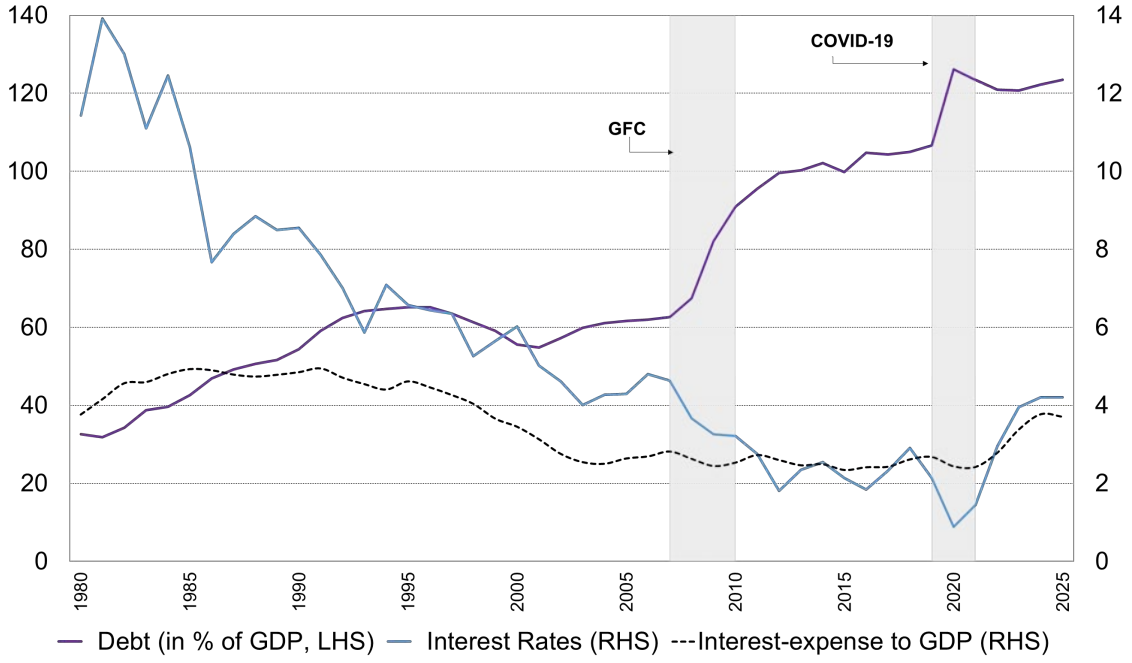


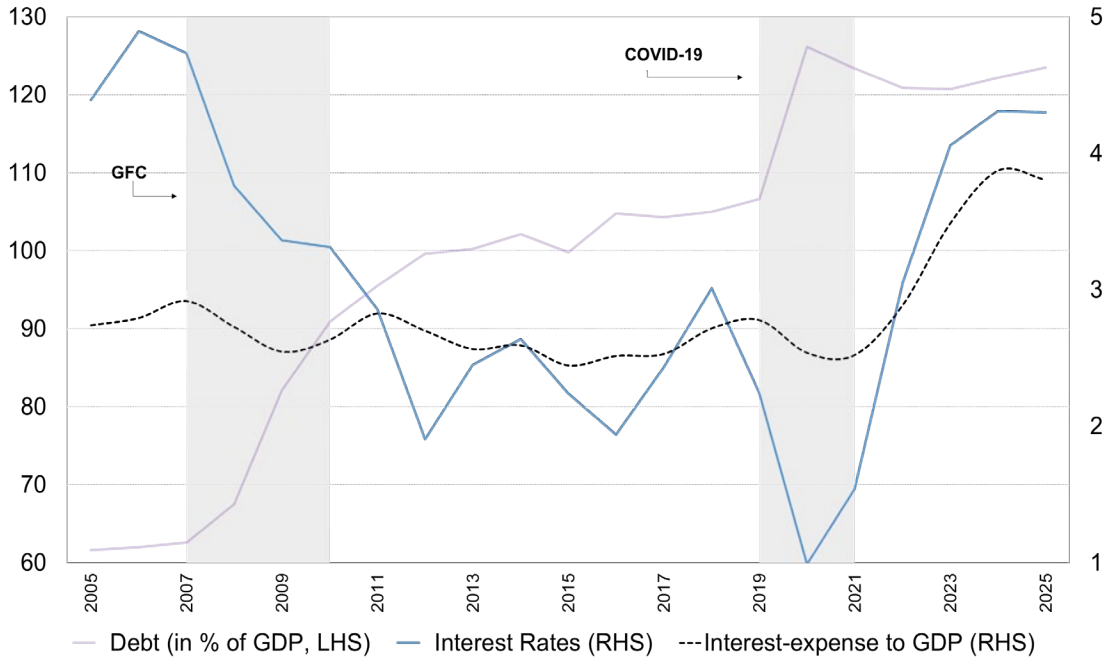
Source: Global Financial Database; Bureau of Economic Analysis; Congressional Budget Office (CBO); IMF World Economic Outlook (WEO) Database (April 2025); Bloomberg Finance LP; National Bureau of Economic Research (NBER) & IMF Staff Calculations

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 2025 debt value is a projection from the CBO, and a BEA year-to-date value for Interest-expenses to GDP, while the 2025 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).

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), 1980-2025 & 2005-2025





Source: Global Financial Database; Bureau of Economic Analysis; Congressional Budget Office (CBO); IMF World Economic Outlook (WEO) Database (April 2025); Bloomberg Finance LP; National Bureau of Economic Research (NBER) & IMF Staff Calculations

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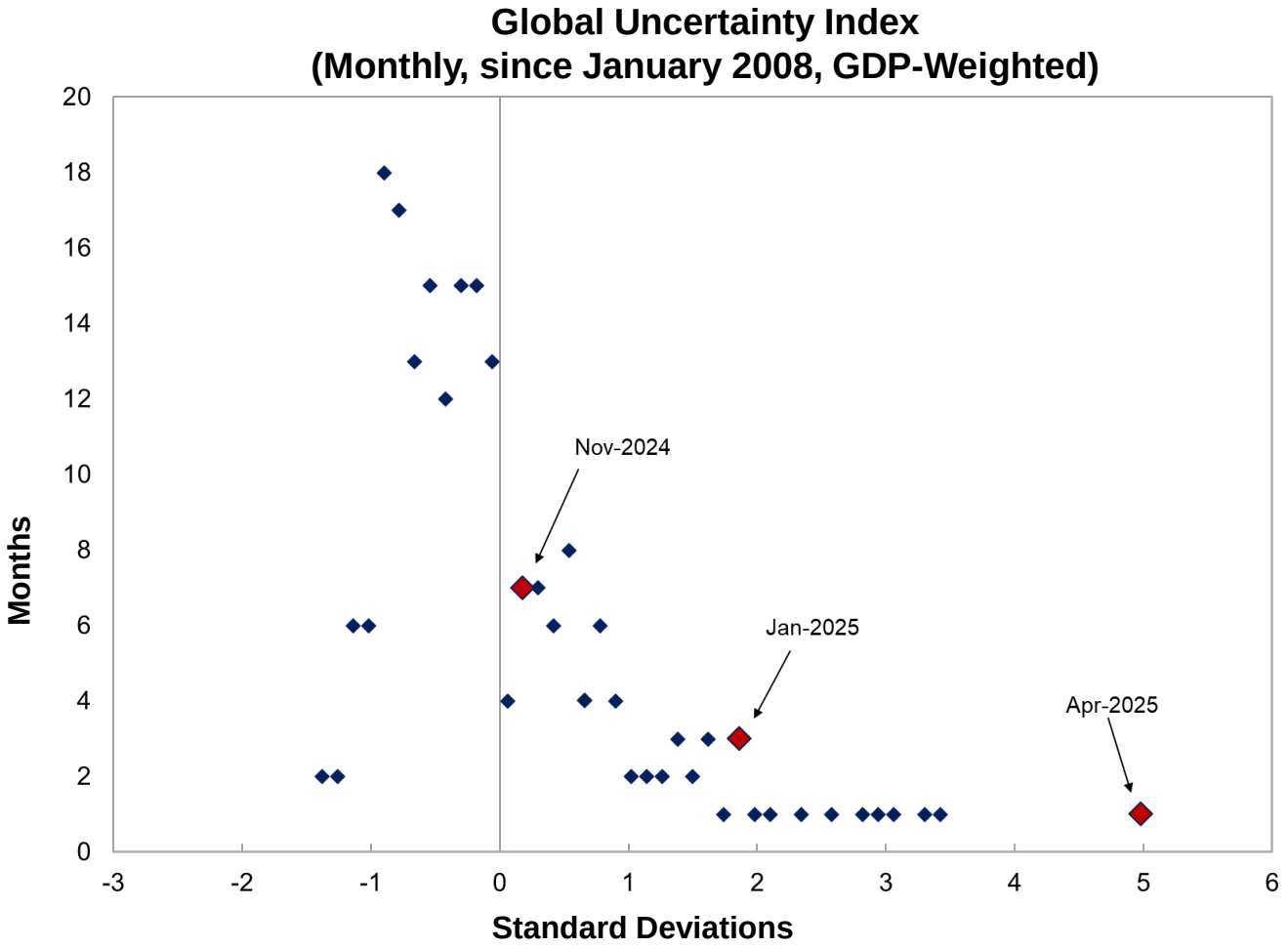
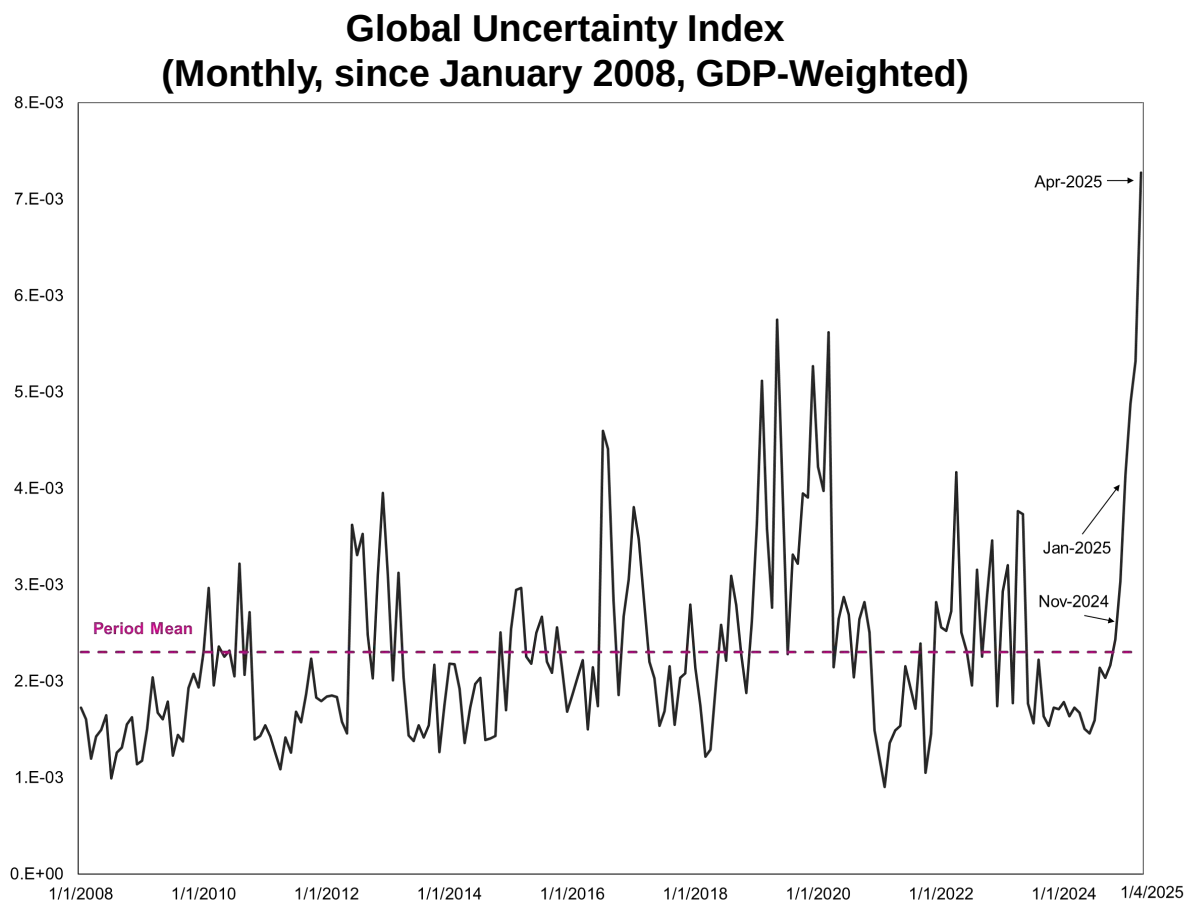
US tariffs drive global policy uncertainty to peak in April

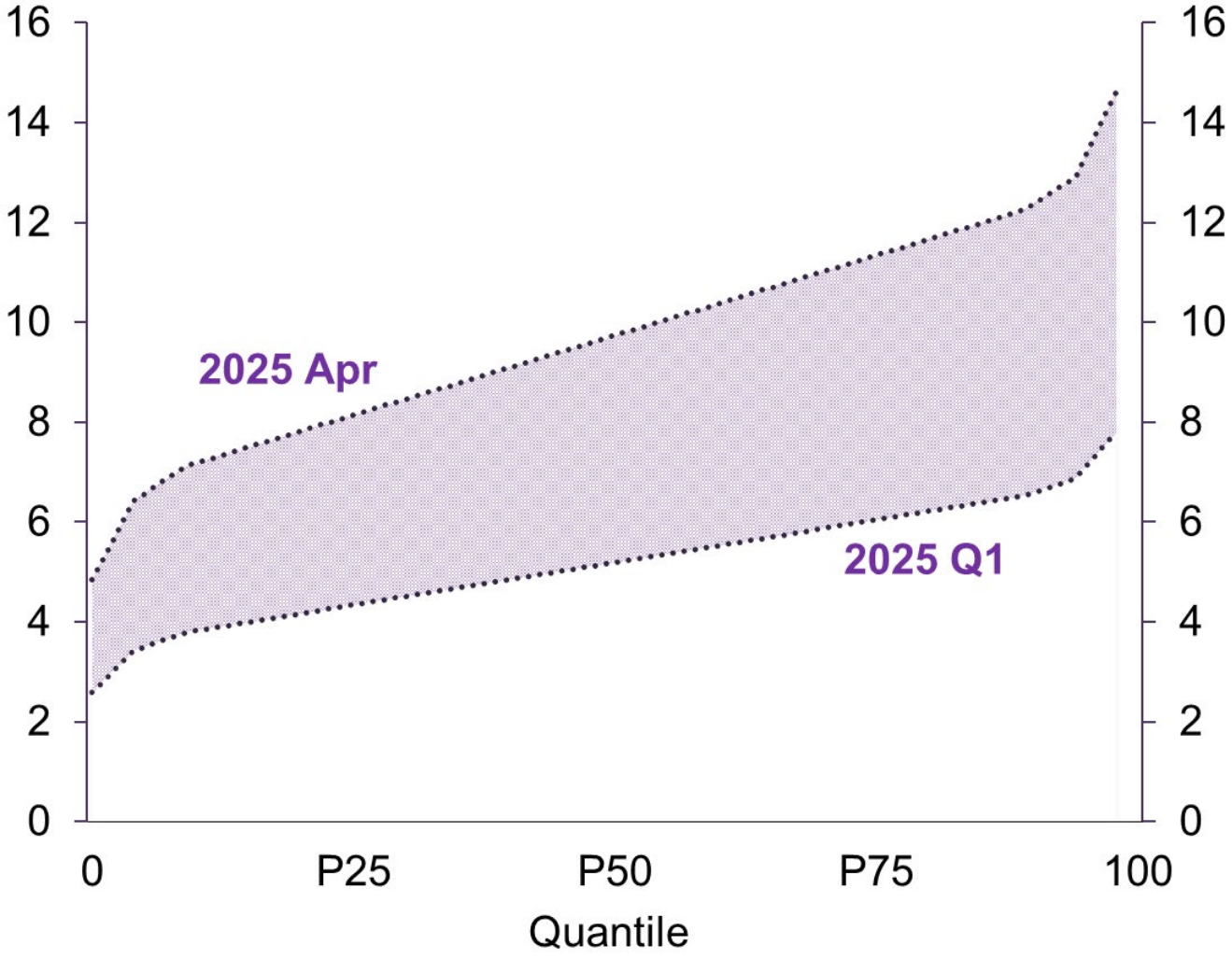




Source: World Uncertainty Index from Nick Bloom et al. (2022).
Note: Both charts use monthly data with latest cutoff as April 2025. Outliers are labelled with dates. (LHS) Monthly Uncertainty Index was standardized with mean of 0 and standard deviation of 1.

Policy Uncertainty Drives Debt@Risk Higher

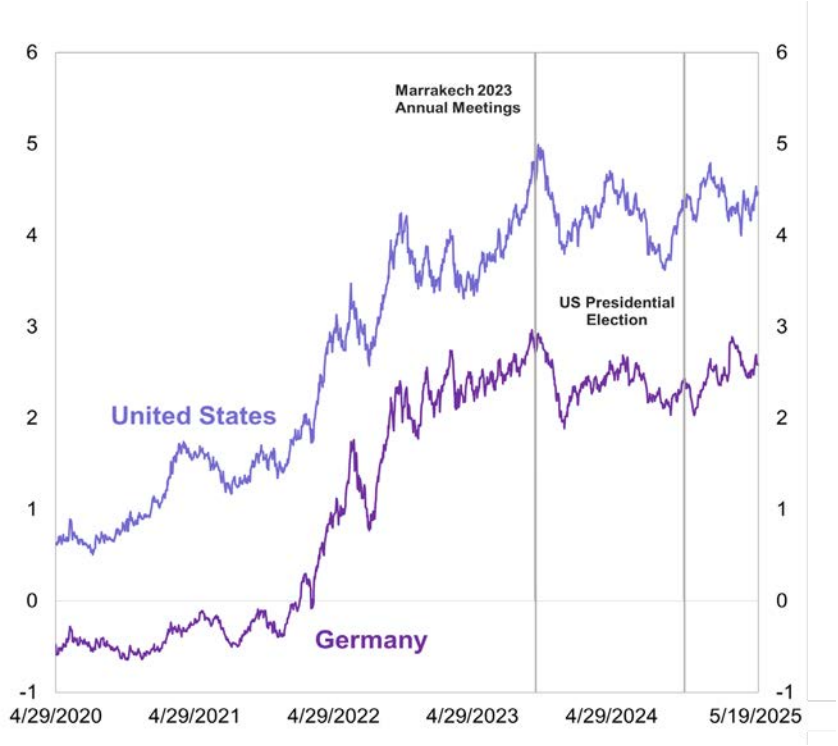
Effects of Higher Geoeconomic Uncertainty on Debt-at-Risk
(Three years ahead, Percentage points of GDP)



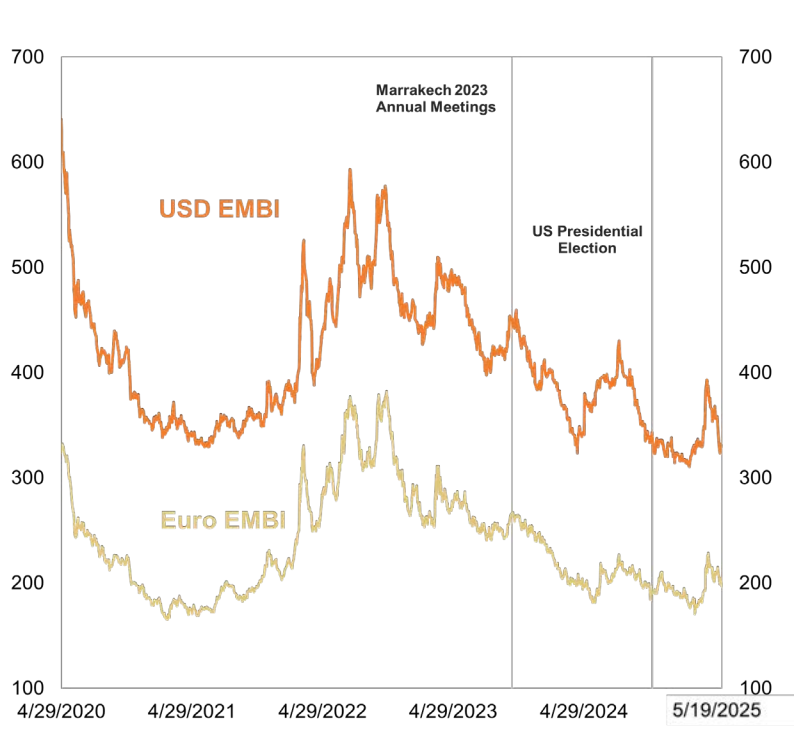
Sources: Fiscal Monitor April 2025 (Online Annex 1.3.5) Fernandez-Villaverde, Mineyama, and Song (2024) and IMF Staff calculations.
Note: The results are presented for the estimation of the effects of higher geopolitical uncertainty on public debt three years ahead (as of 2025 April and the average of 2025 Q1 compared to the average of 2024) by percentile of the distribution of the current public debt in the sample.

Financial Market Developments

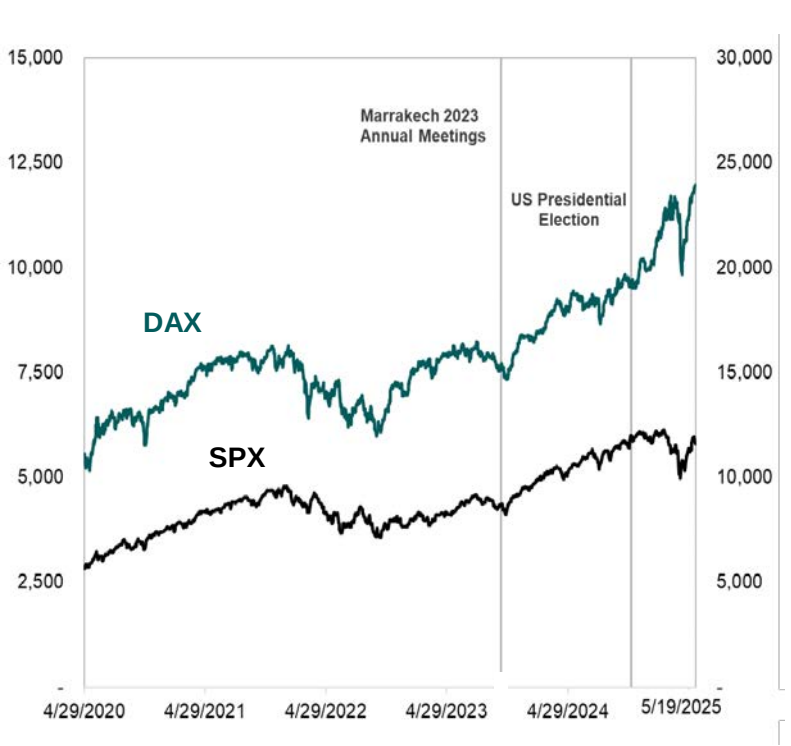
10 Year Bond Yields (Percent)



EMBI Global Sovereign Spread (Basis points)



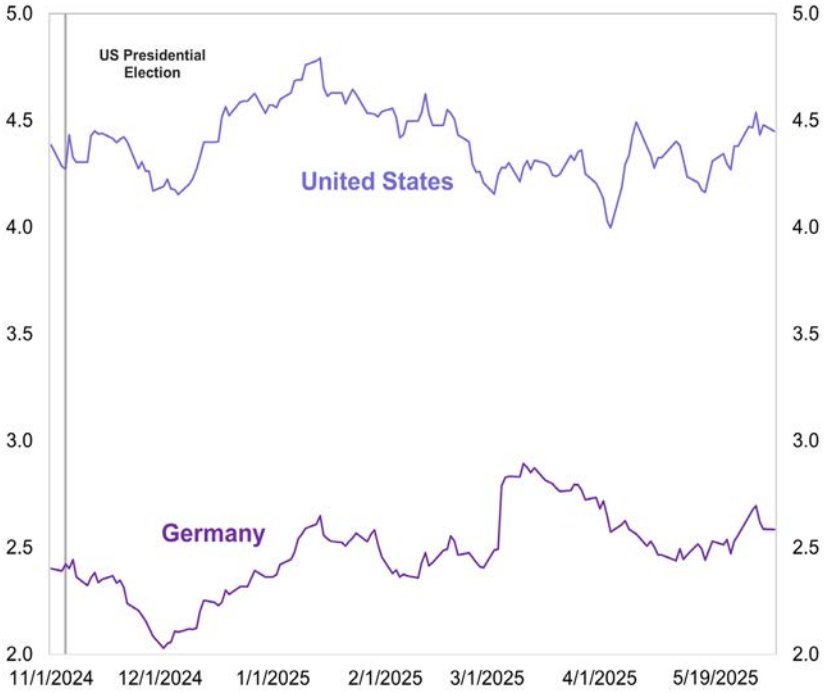
Equity Price (Percent)



Source: Bloomberg Finance, Refinitiv and IMF Staff Calculations.
Note: Latest data point is May 19th, 2025. Data frequency is daily.

Financial Market Developments

10 Year Bond Yields (Percent)



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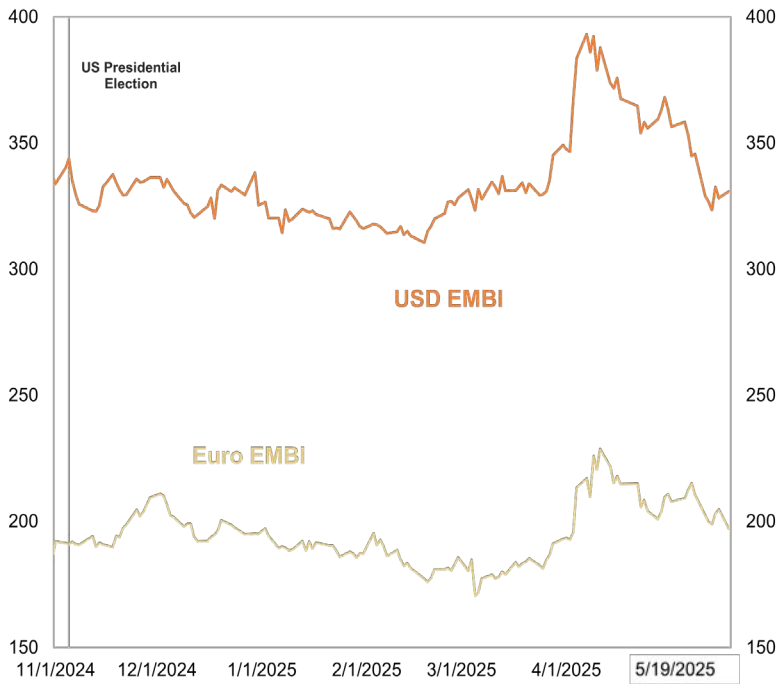

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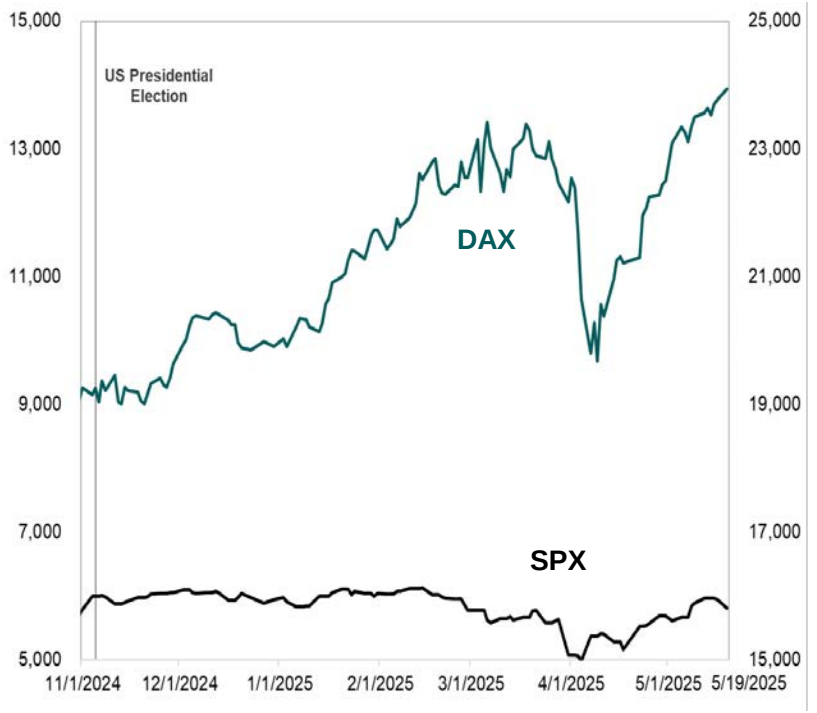
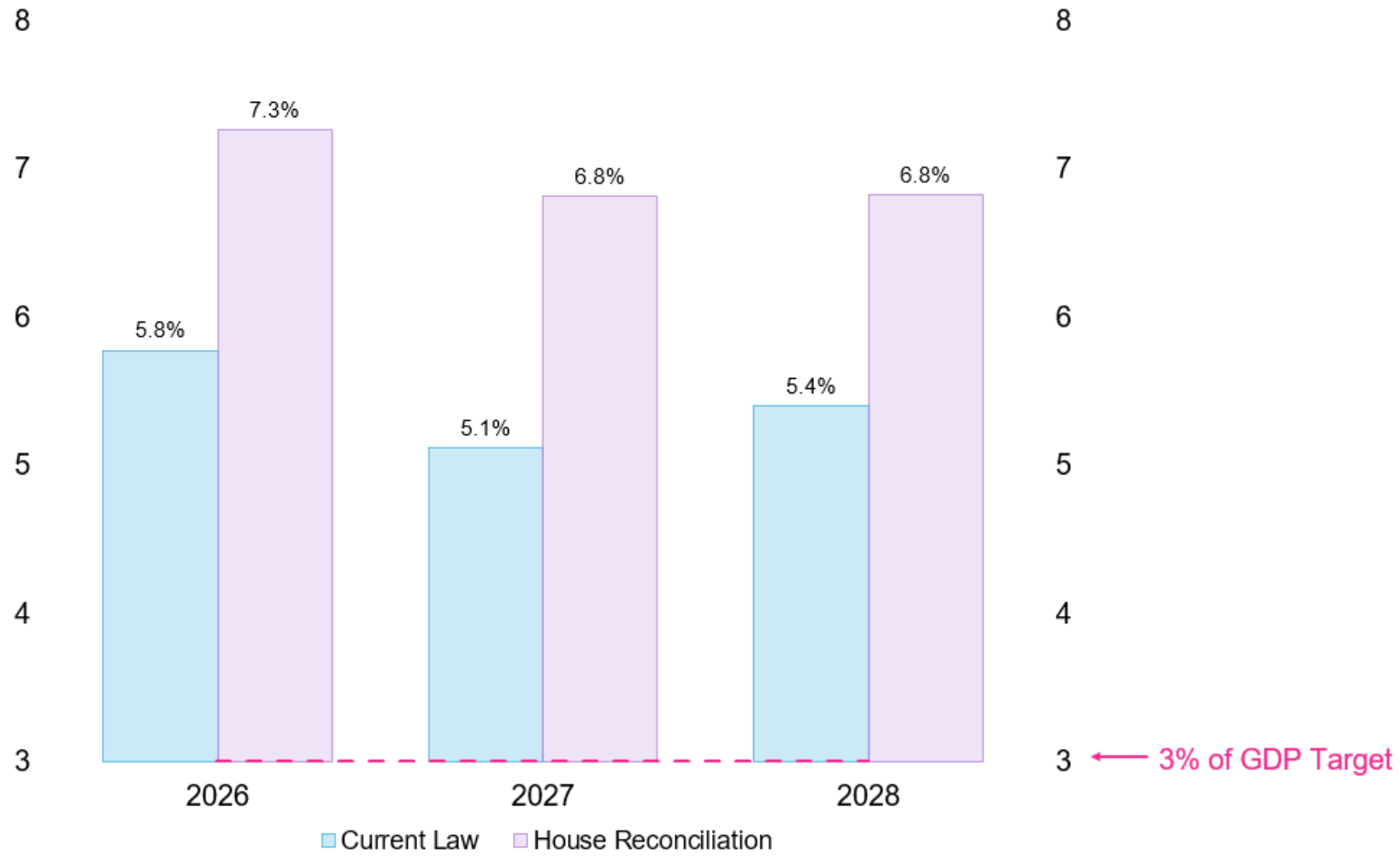


Source: Bloomberg Finance, Refinitiv and IMF Staff Calculations.
Note: Latest data point is May 19th, 2025. Data frequency is daily.

House Bill Increases Budget Deficit Away From Scott Bessent's 3% Target

Federal Government Fiscal Deficit
(Percent of GDP)



Source: World Economic Outlook (January 2025); IMF 2025; US Congressional Budget Office; IMF Staff Calculations.
Note: Chart shows preliminary estimates of the impact of the *One Big Beautiful Bill Act* (OBBBA) on US budget deficit. Data uses January 2025 WEO Live (as of February 6th, 2025). The debt-stabilizing primary balance calculates the level of primary balance ($dspb_t$) that would stabilize a specific initial value of debt (d_{t-1}) – in this case, the ratio of debt to GDP – in the previous year given the values of the nominal effective interest rate (r_t) and growth rate (g_t) in the contemporaneous year: $dspb_t = \frac{(r_t - g_t)}{(1+g_t)} * d_{t-1}$. To calculate the debt-stabilizing primary deficit, those primary balances are simply multiplied by -1.