



**FISCAL AFFAIRS**

# **Fiscal Policy in a Turbulent Era**

**MAY 22ND, 2024**

**Vitor Gaspar**

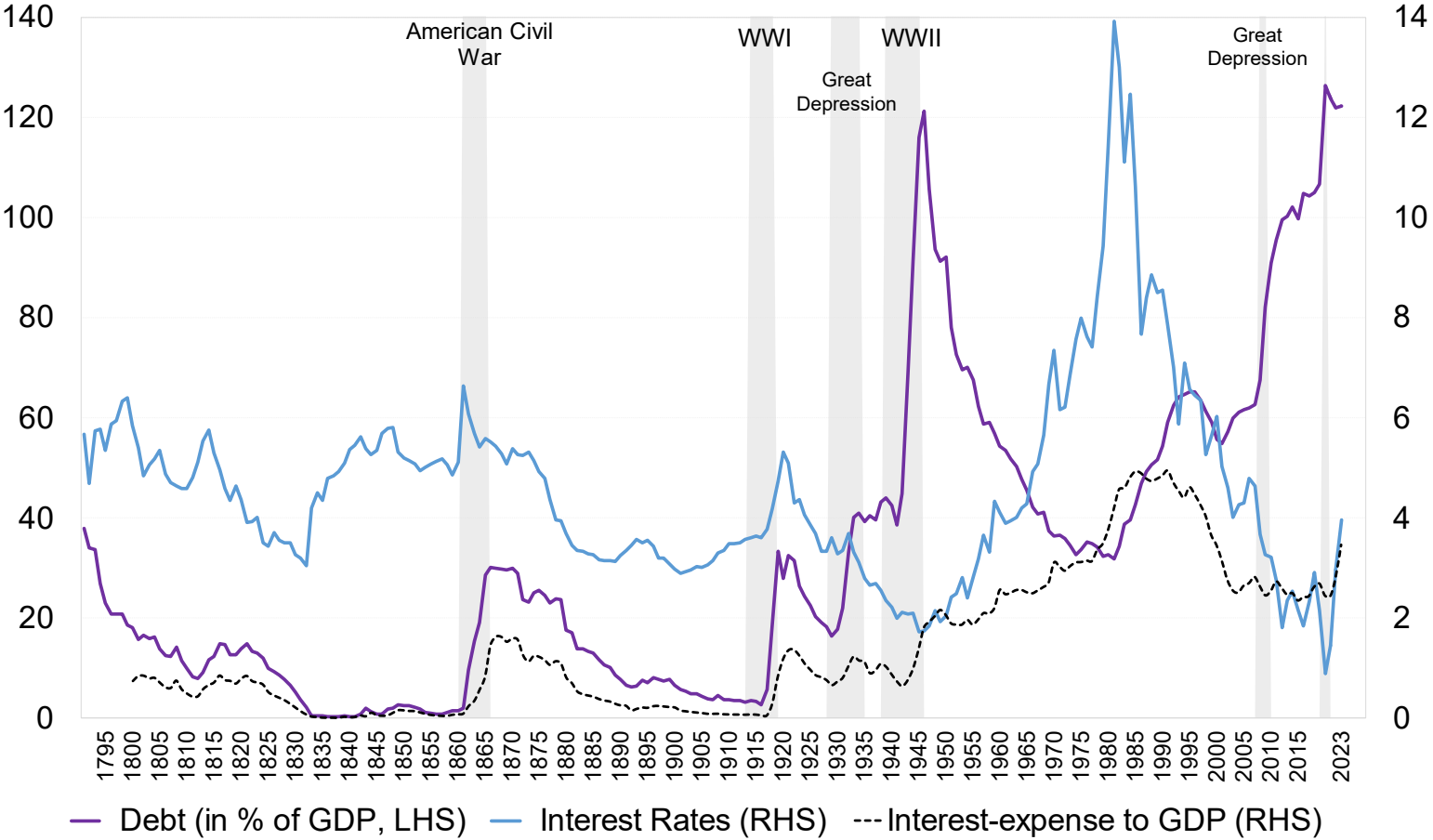
**Director**

**Fiscal Affairs Department**

The presentation was prepared by Misa Takebe, Julieta Ladronis, and Polina Prokofyeva. 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

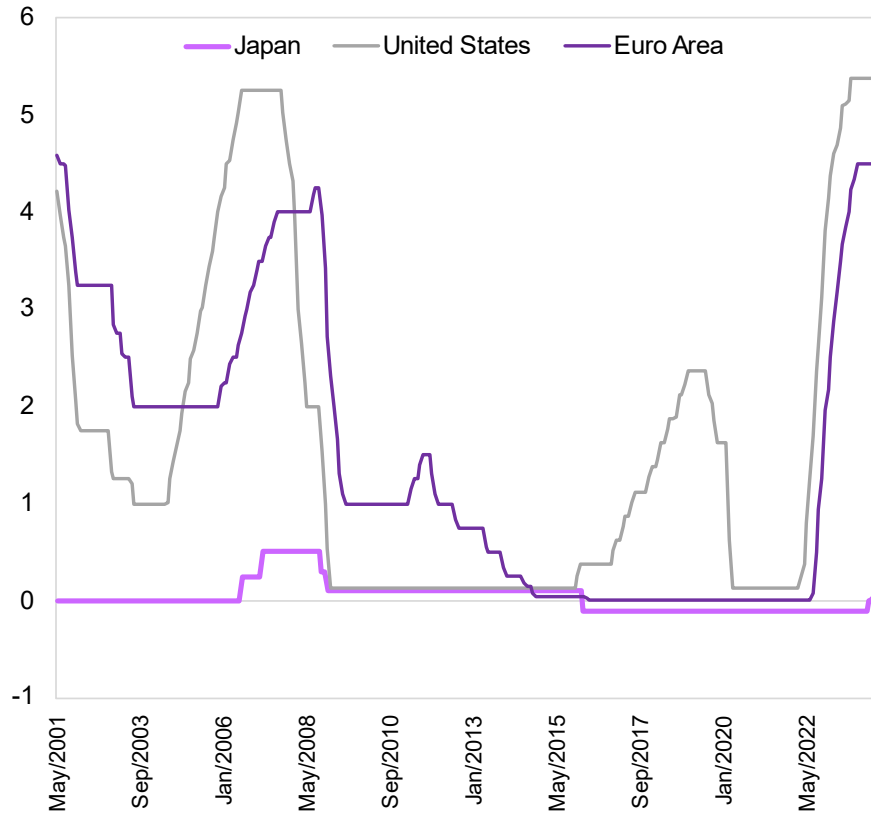


Source: Global Financial Database; Bureau of Economic Analysis; Congressional Budget Office (CBO); IMF World Economic Outlook (WEO) Database (January 2023); Bloomberg Finance LP; National Bureau of Economic Research (NBER) & IMF Staff Calculations

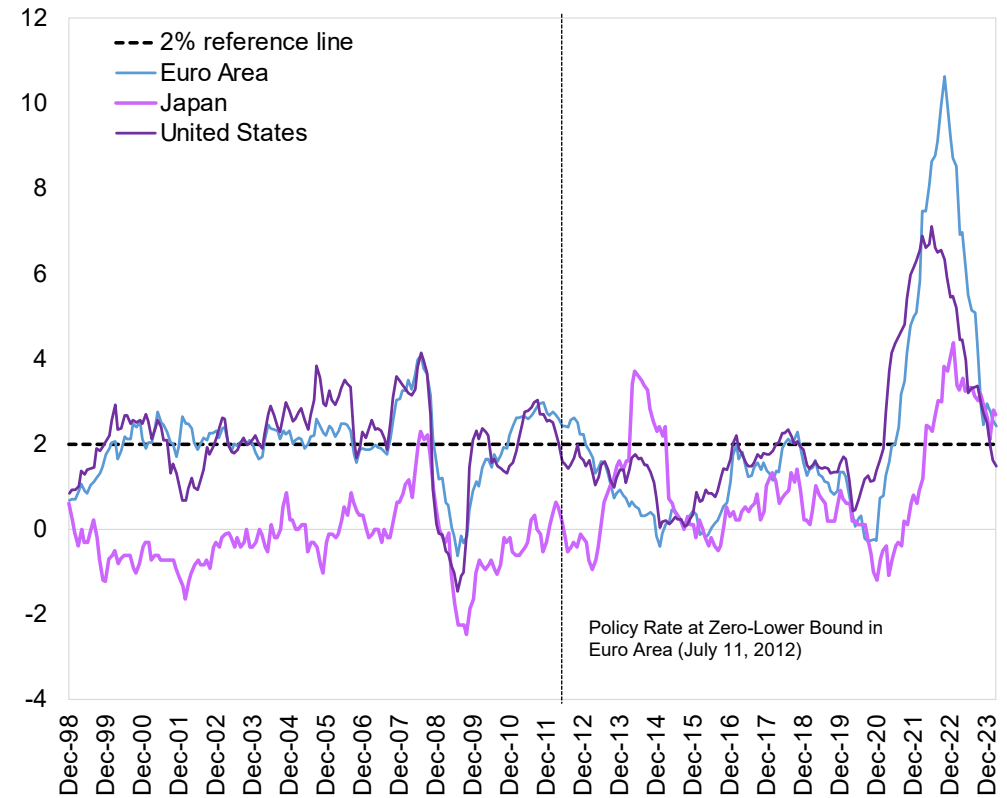
Note: The data are in annual frequency. The figure represents trends in the US. Long-term interest rates refer to yields on 10-year treasury securities except in some historical cases where the closest available maturity is used. The 2022 debt value is a projection from the CBO, and a BEA year-to-date 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).

# Interest Rates at the Lower Bound

## Monetary Policy Rates (Percent)



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

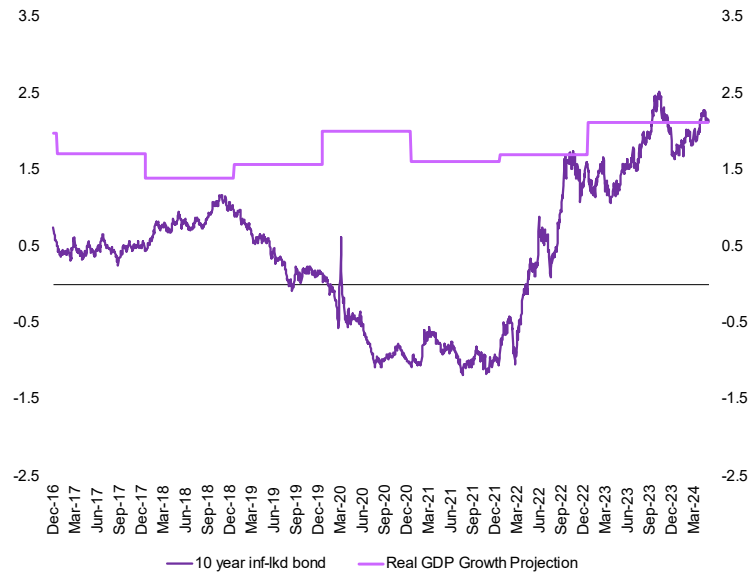


Source: Refinitiv Eikon, FRED & Haver Analytics.

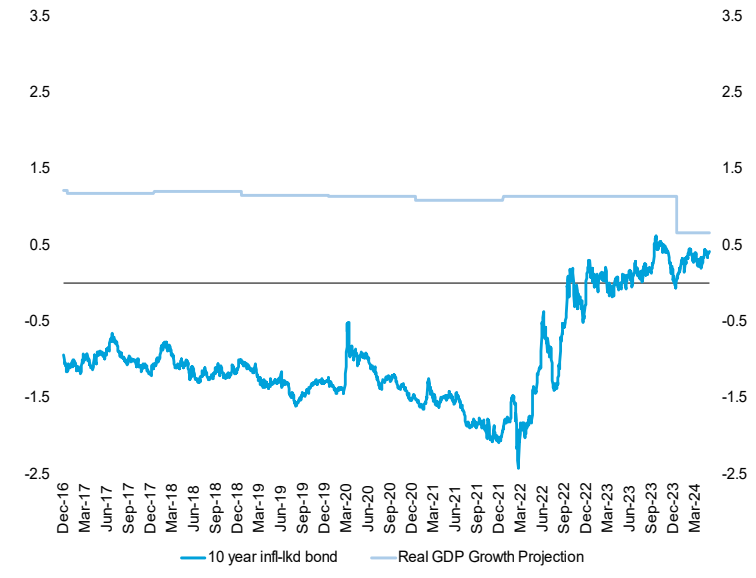
Note: Japan – Main Policy Rate until January 2024- and Overnight uncollateralized call money rate (avg.) afterwards. Latest datapoint: April 2024

# Volatility of R-G

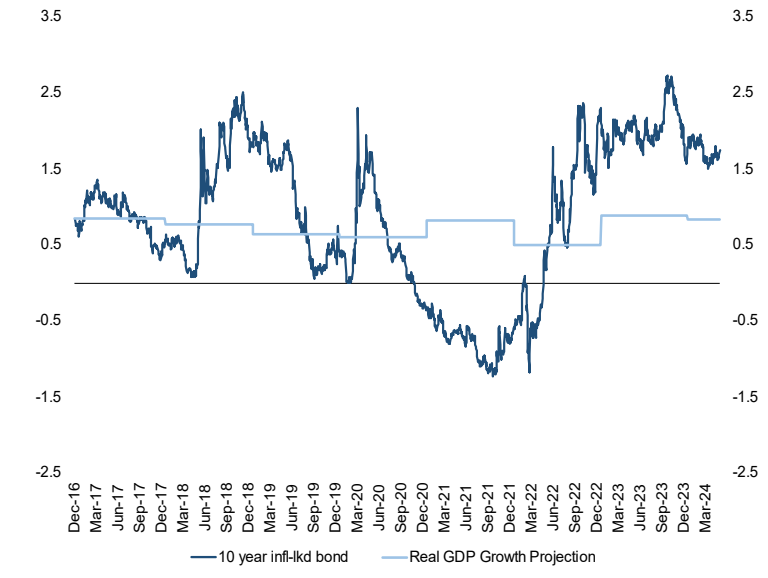
**US**  
Real Growth Projections & 10 Year Bond Yield  
(Percent)



**Germany**  
Real Growth Projections & 10 Year Bond Yield  
(Percent)



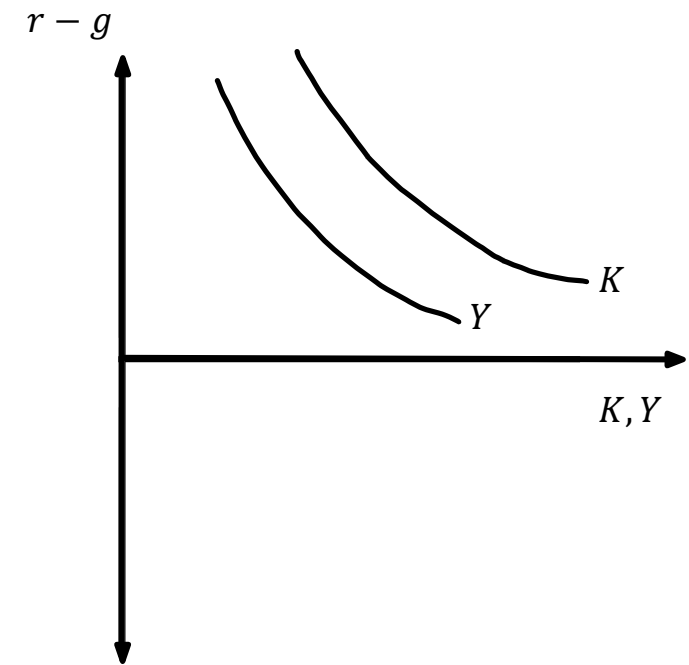
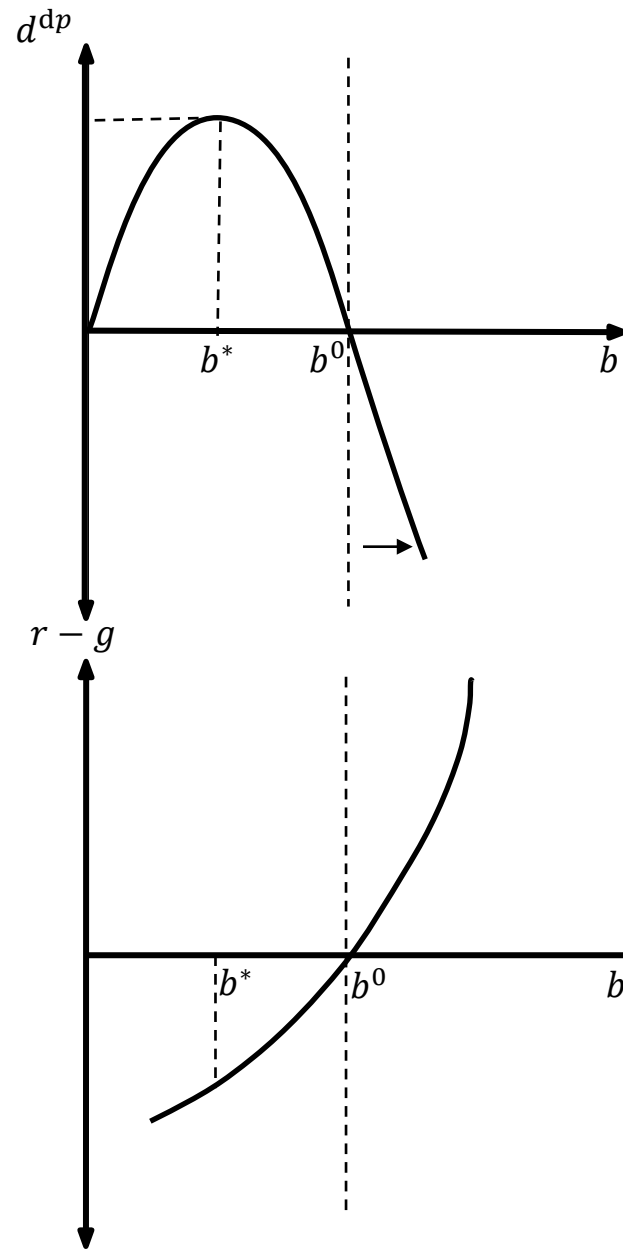
**Italy**  
Real Growth Projections & 10 Year Bond Yield  
(Percent)



**Source: 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 14, 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.

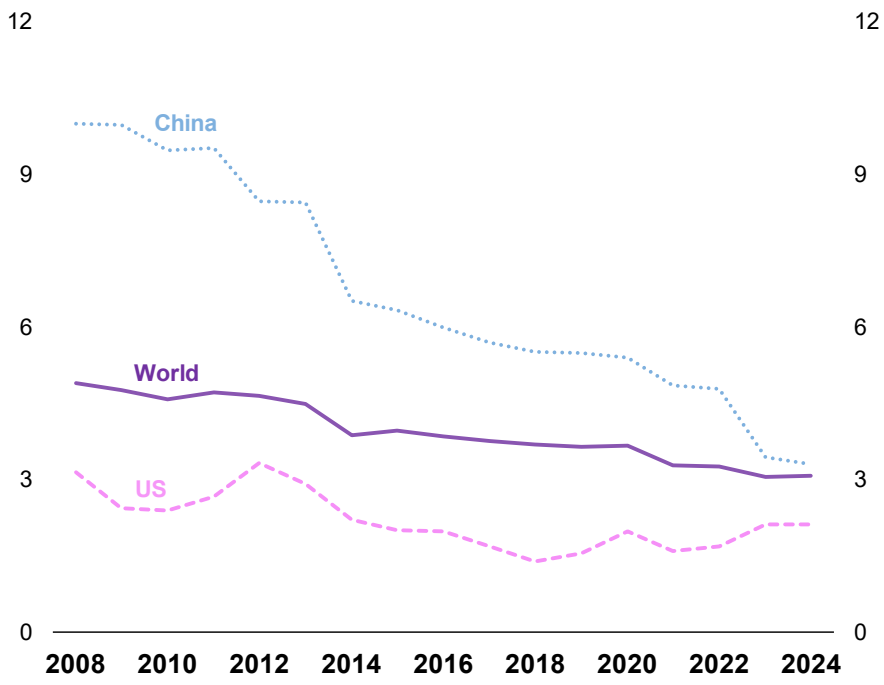
# Budget Limits And The Endogeneity Of $r-g$



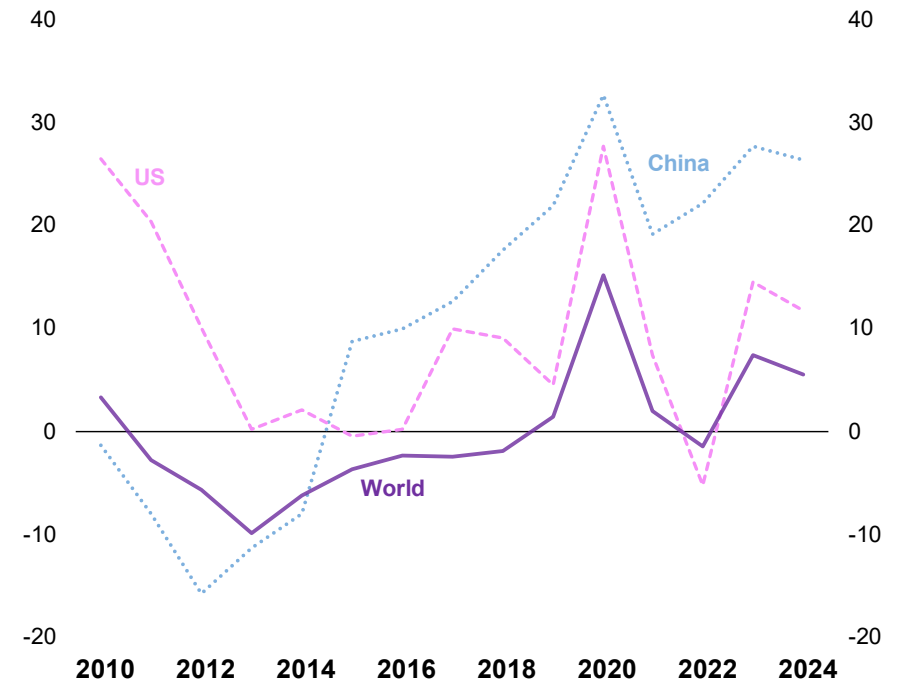


# Diminishing Growth and Rising Debt Prospects

### WEO Real Growth 5y Ahead Projections (Percent)



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

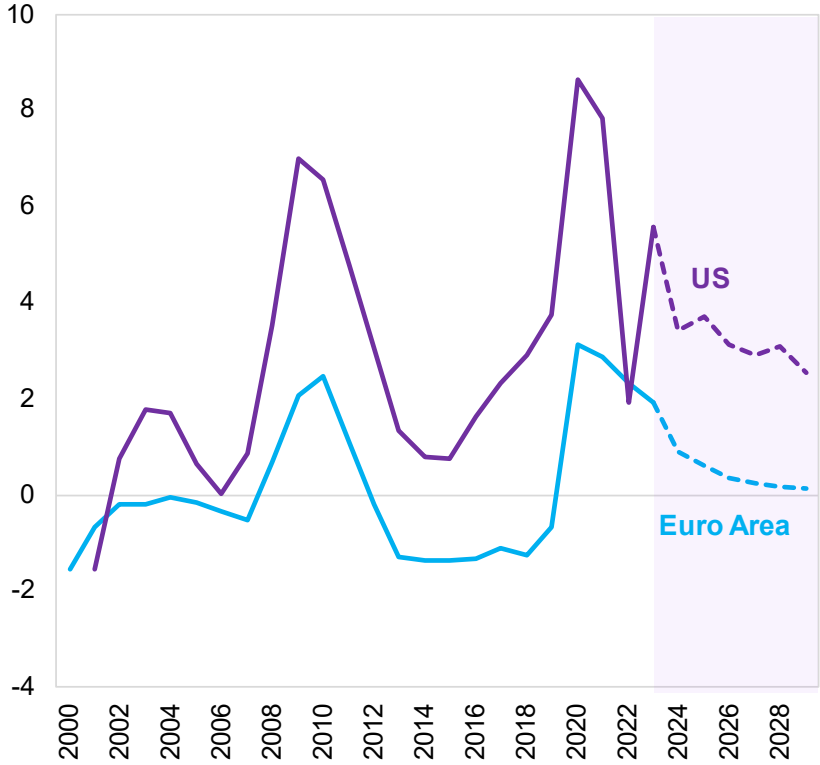


Source: International Monetary Fund World Economic Outlook and IMF staff calculations.

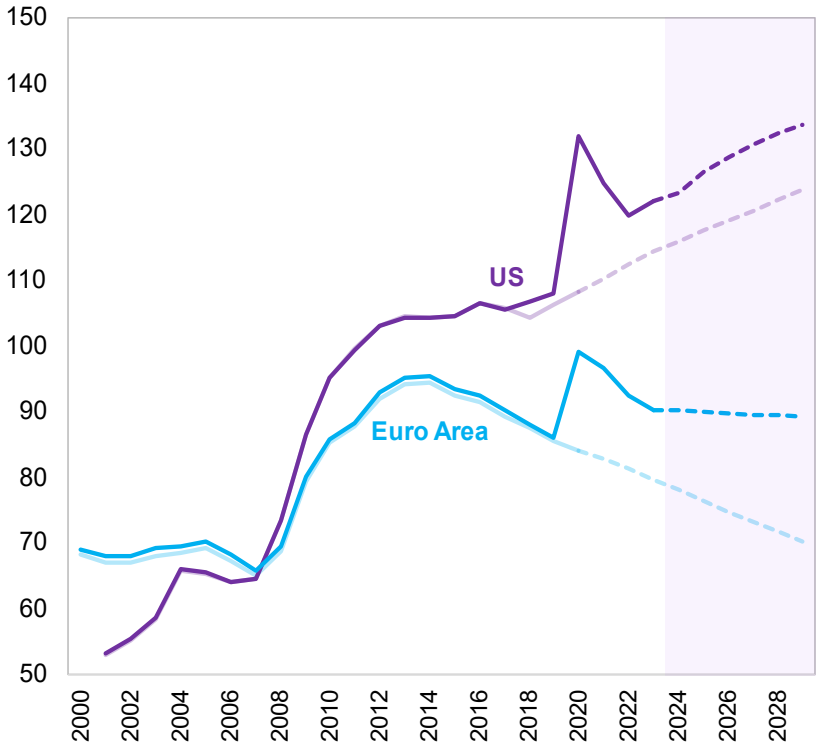
Note: 2008-2024 use April vintages. (LHS) The real GDP growth projection uses the 5<sup>th</sup> year projection in the reported year. The real GDP growth projections are on yearly basis. (RHS) Change in debt is calculated as T+5 – (T-1), where T is the year in which the vintage was released.

# Divergences in Advanced Economies

**US & Euro Area: Cyclically Adjusted Primary Deficit (Percent of Potential in GDP)**

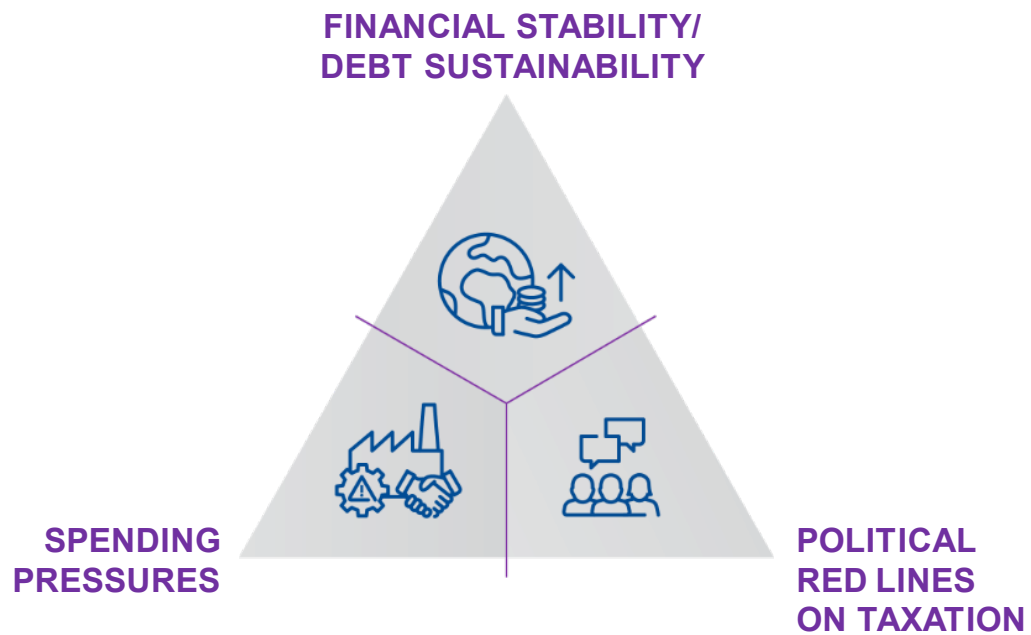


**US & Euro Area: General Government Debt (Percent of GDP)**

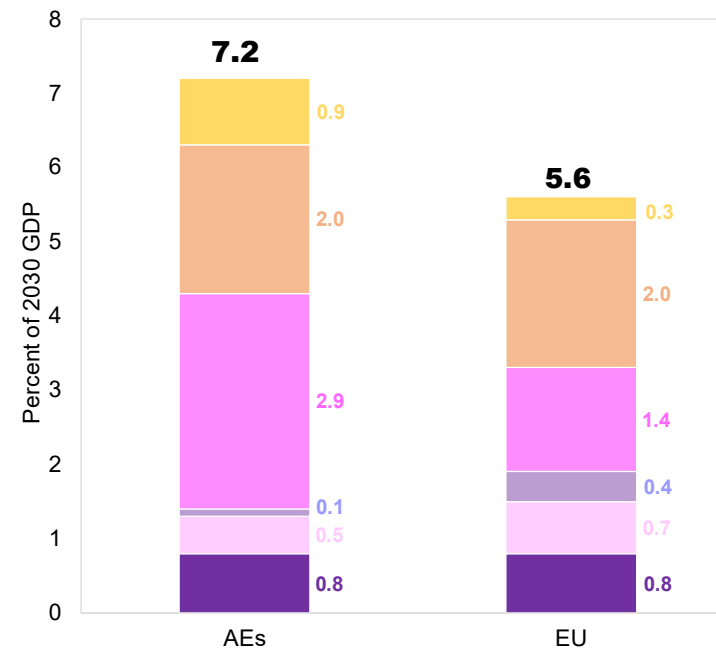


Source: International Monetary Fund World Economic Outlook (WEO April 2024 & January 2020) and IMF staff calculations. Note: (LHS) –The chart uses April 2024 vintage. (RHS) - The faded lines represent WEO January 2020 vintage which is compared with WEO April 2024 vintage. The dashed lines represent projections. The last data point is 2029.

# Policy Trilemma



**Pressures to Public Spending  
(Potential increases by 2030 relative 2023 spending levels)**



- Interest payments
- Climate
- Pension and health care
- SDGs
- Defense
- Industrial policy

Source: IMF Staff Estimates.

Note: AEs = Advanced Economies, EU= European Union.



**Thank you**