



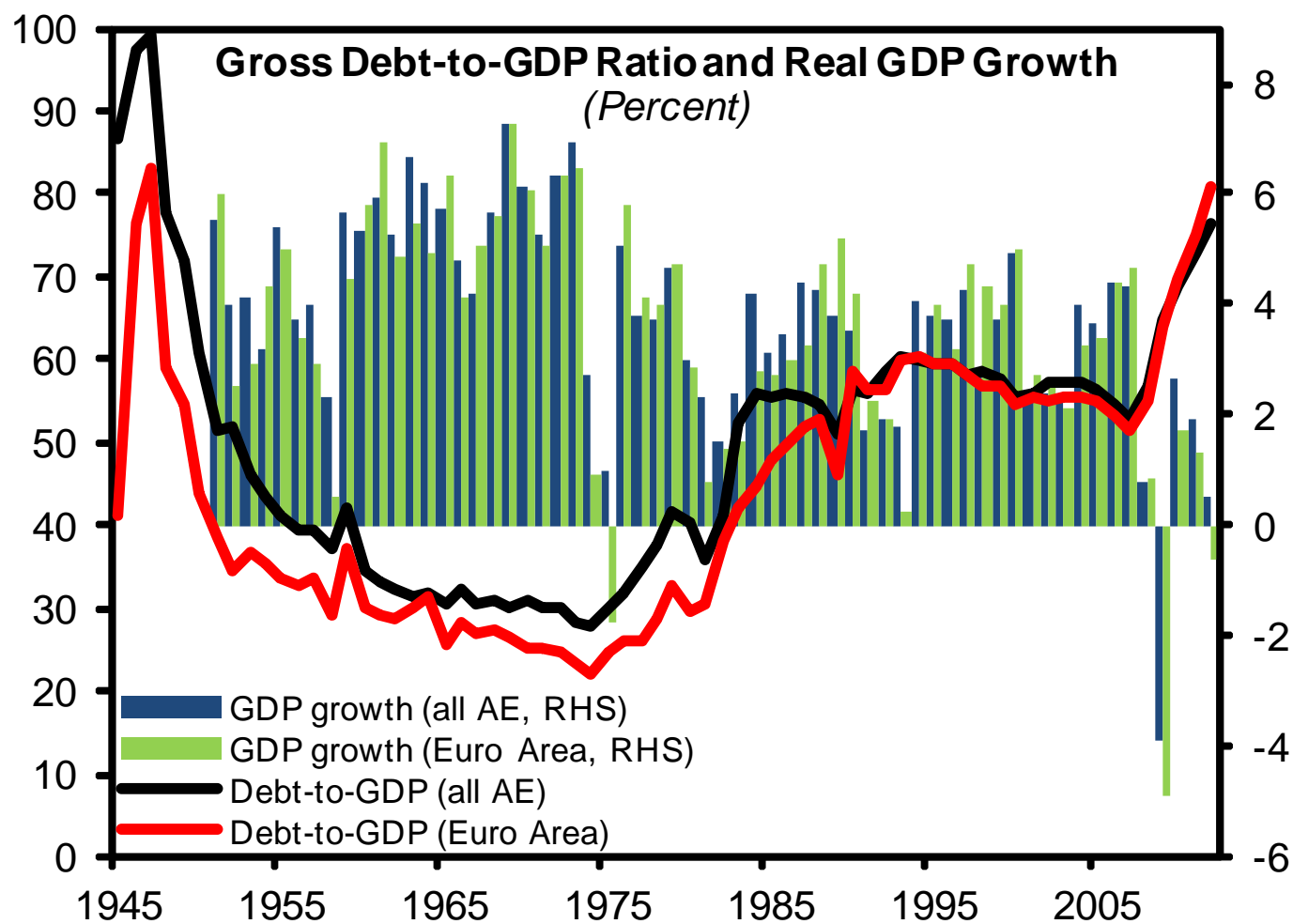
# **MANAGING PUBLIC DEBT AT A TIME OF SLOW GROWTH**

Paulo Medas

International Monetary Fund

# THE SIZE OF THE PROBLEM

## Debt at historical highs amid modest growth



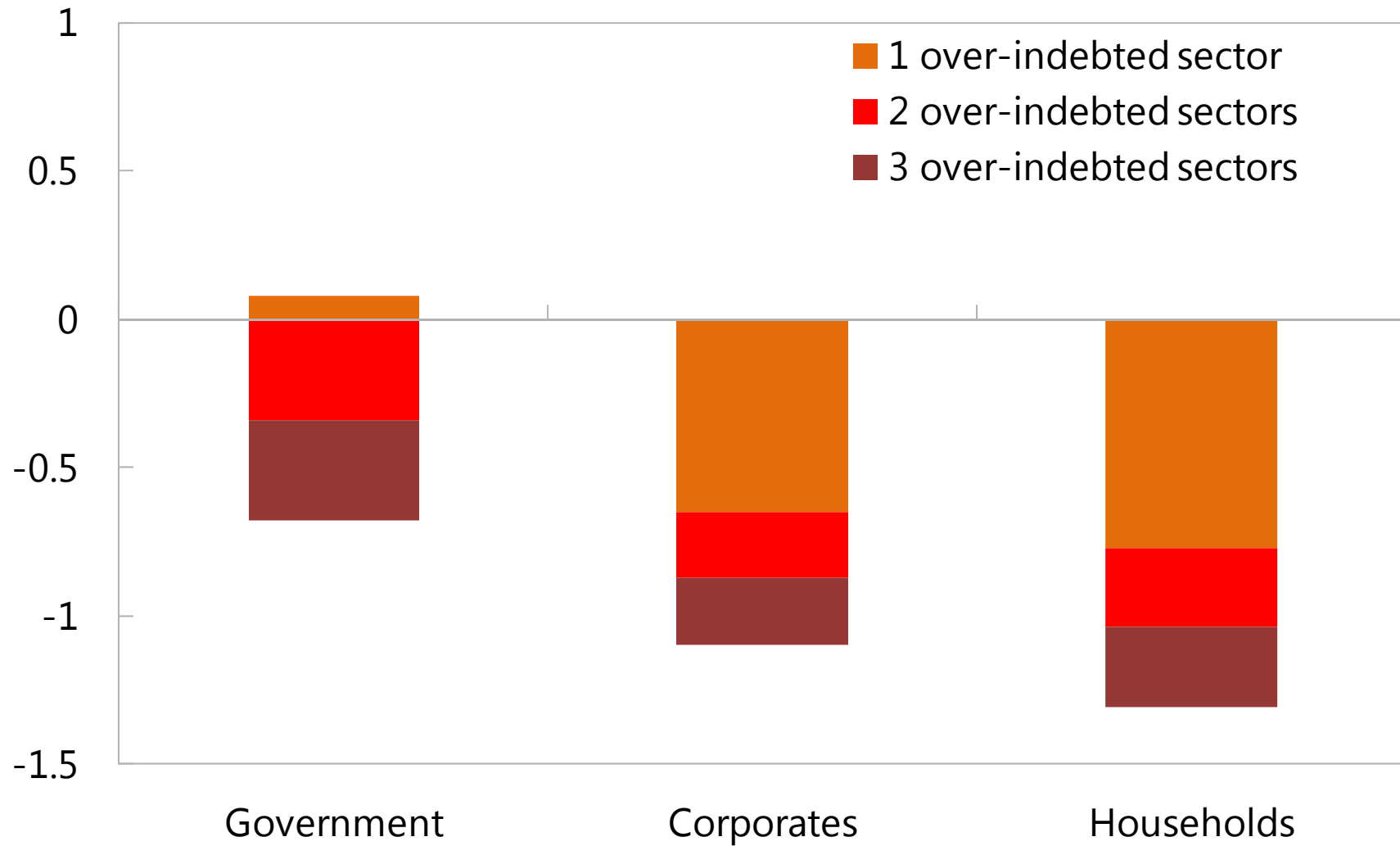
Sources: Historical Public Debt Database, IMF Fiscal Monitor, IMF World Economic Outlook, and IMF staff calculations.

## Why do we care about high debt?

- Impact on growth
- Vulnerability to shocks, market sentiment
  - Ability to use countercyclical policy
- Risk of disruptive adjustment
  - unable to pay for essential public services
  - Hurt short-term growth

# The Impact of High Debt on Growth

(by sector and indebtedness of other sectors, estimated coefficient)

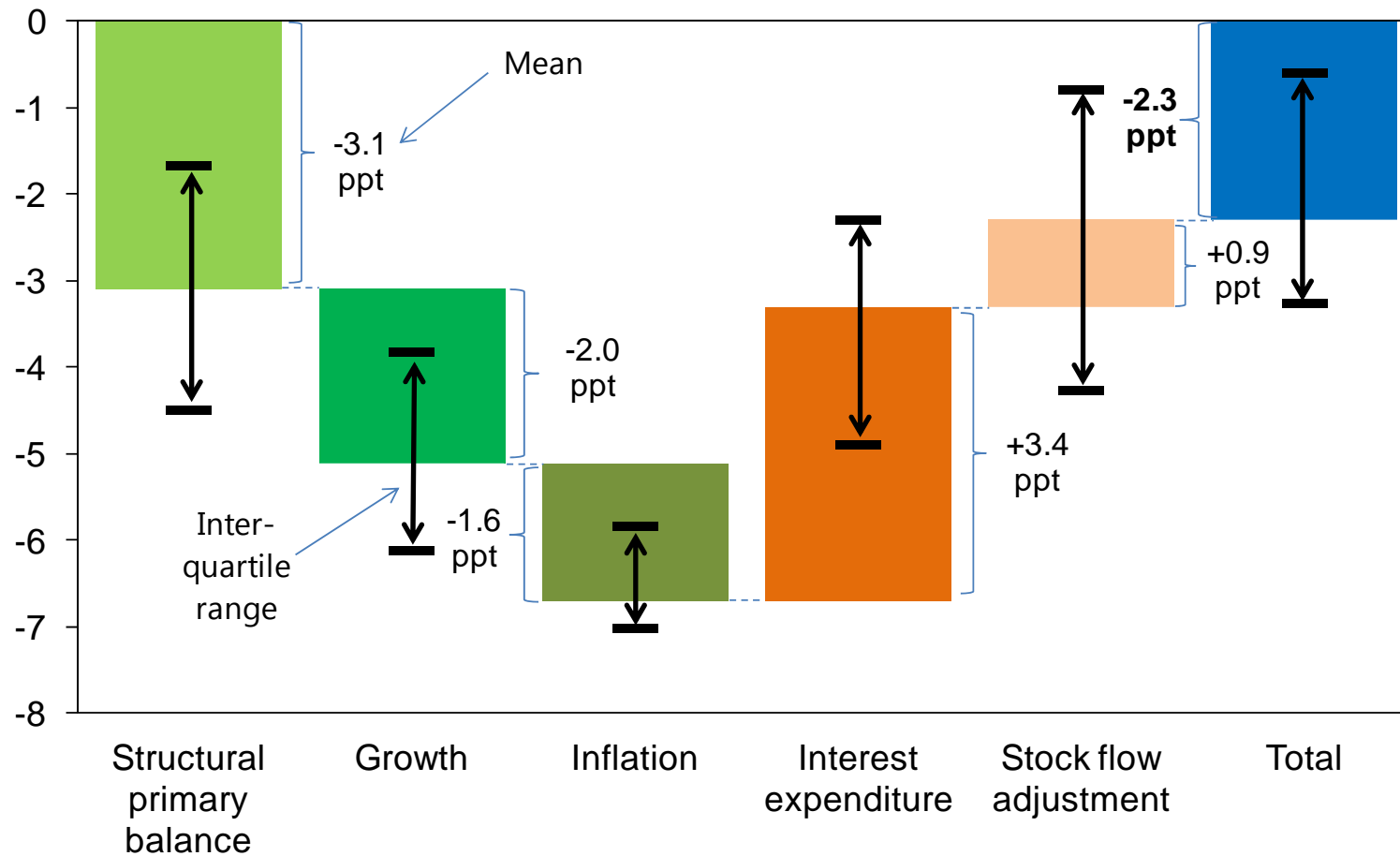


Sources: Staff estimates.

# WHAT MOVES THE DEBT RATIO?

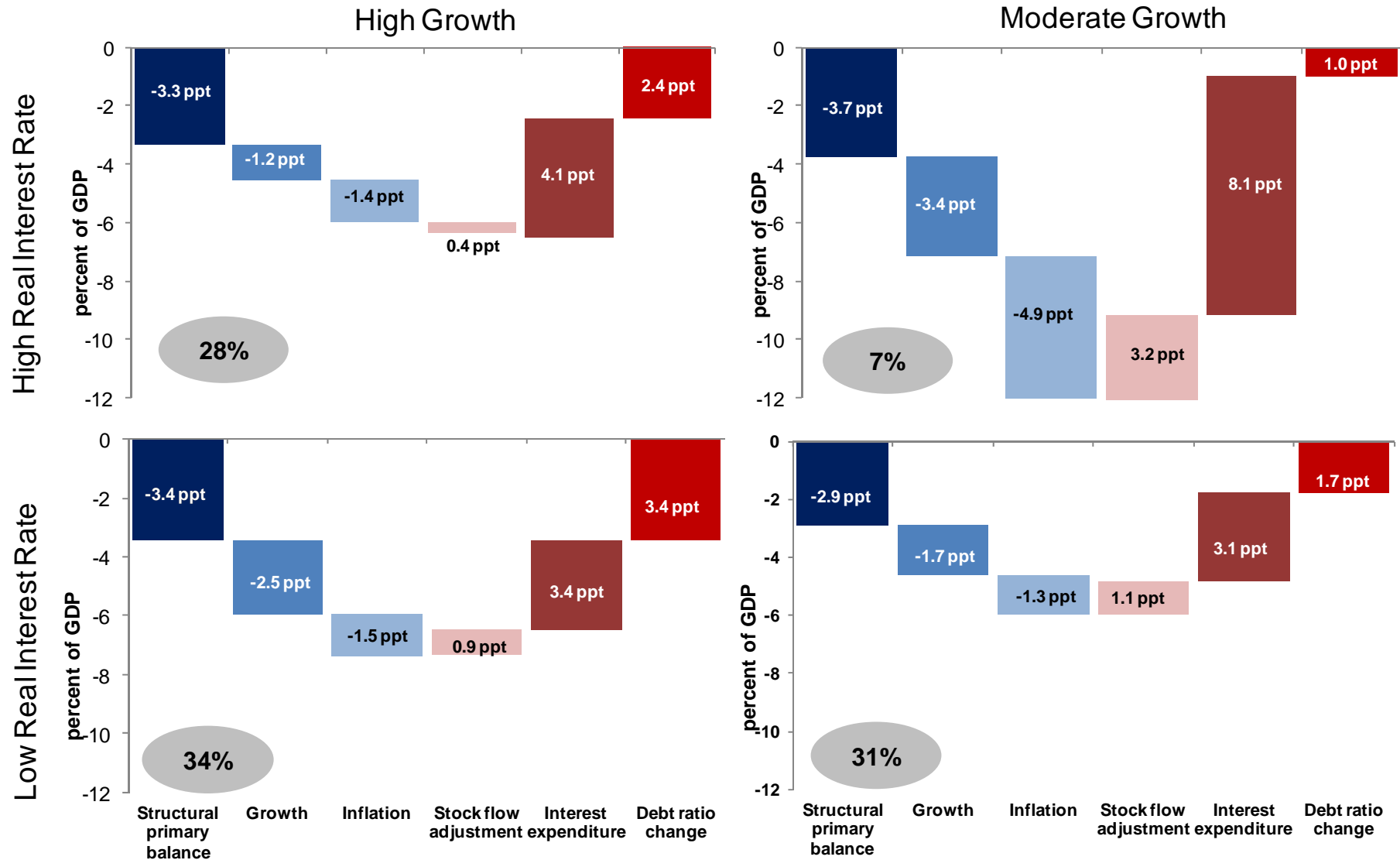
# Decomposition of debt changes points to fiscal effort

**Contribution to Annual Debt Ratio Reductions**  
(Percent of GDP)



Sources: IMF World Economic Outlook; and IMF staff calculations.

# ...but success shaped by economic conditions

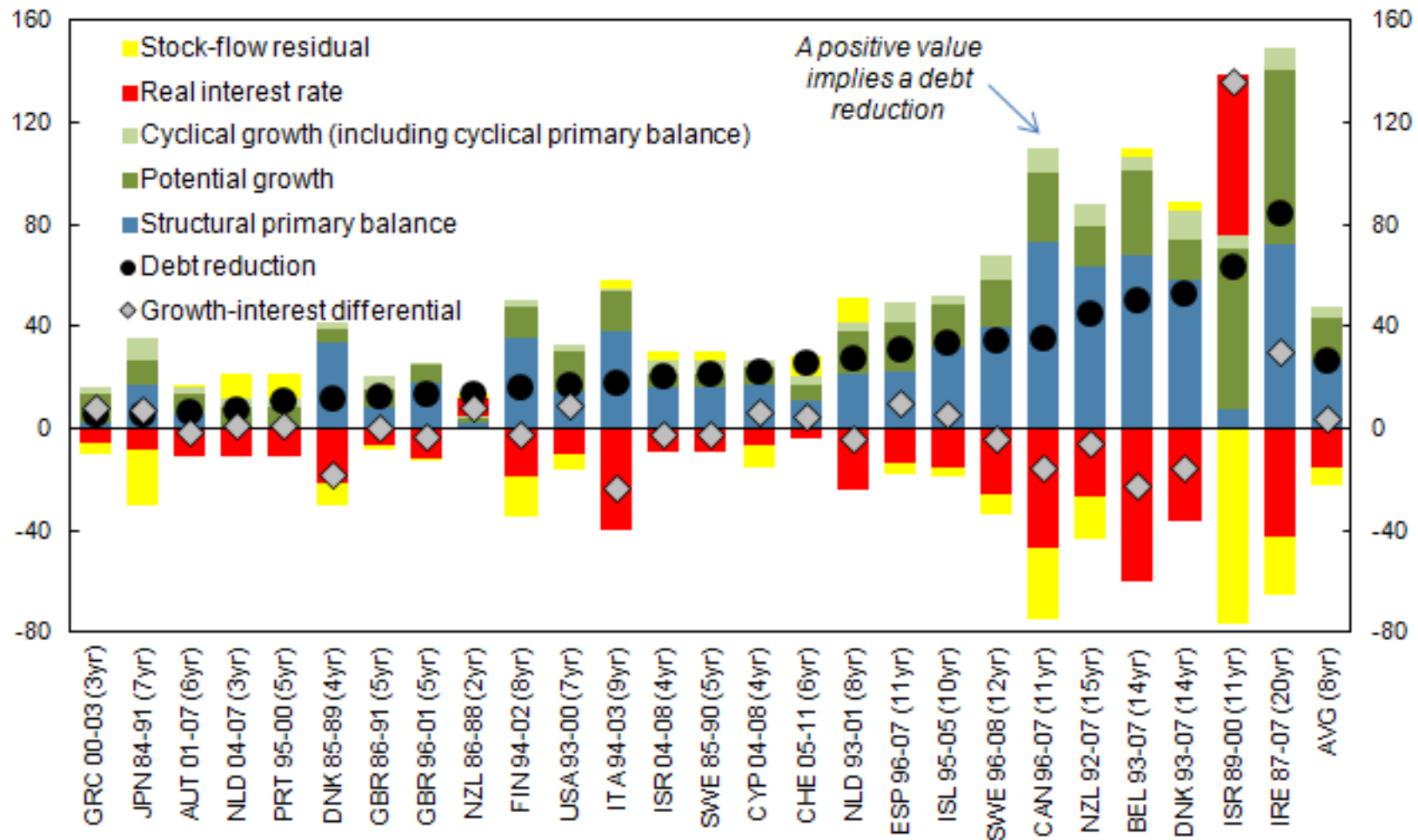




# PAST DEBT REDUCTIONS

# 26 major debt reductions since 1980

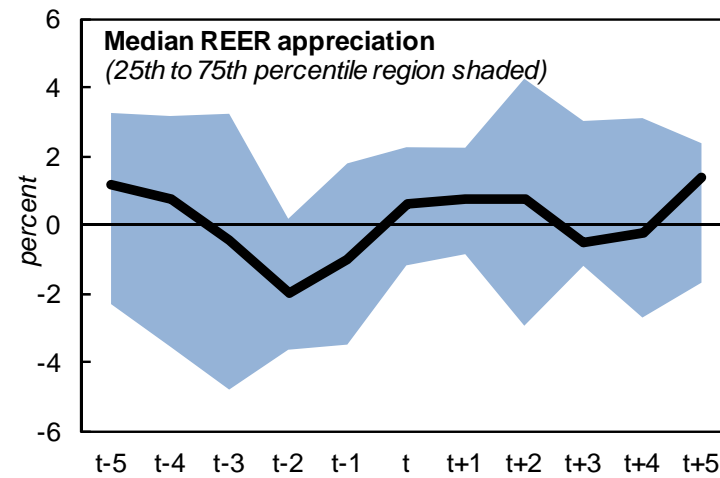
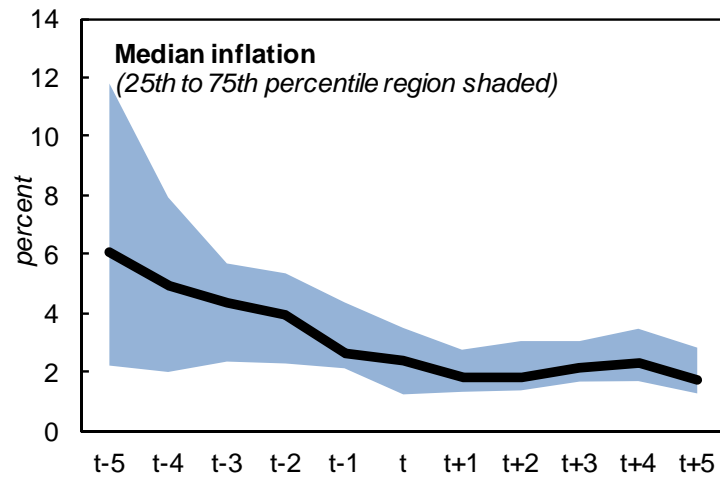
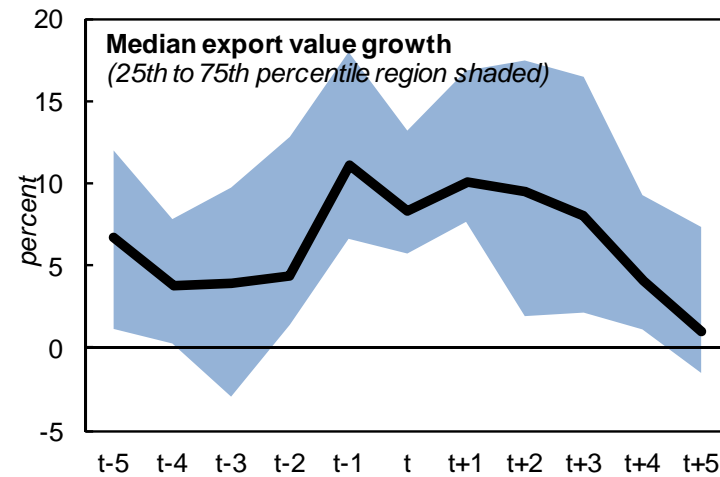
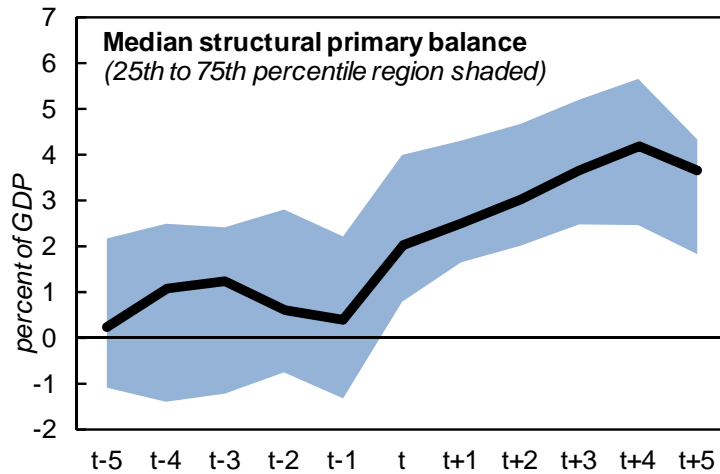
**Components of Major Debt-to-GDP Reductions** (percent of GDP)



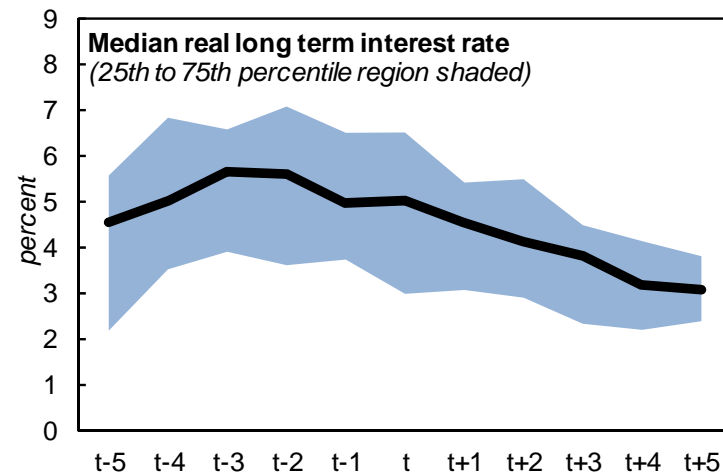
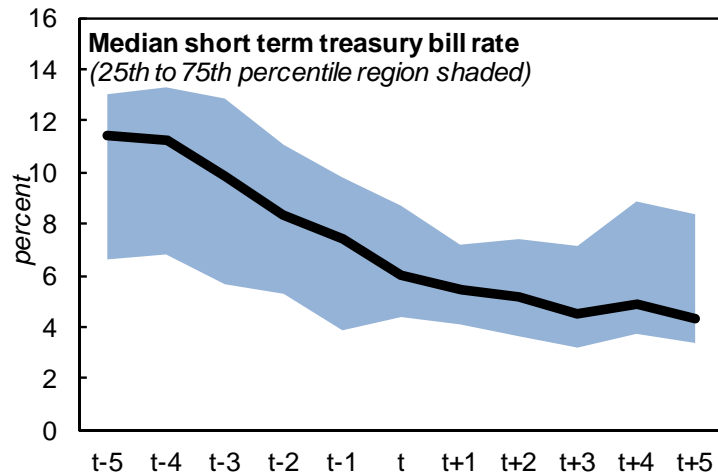
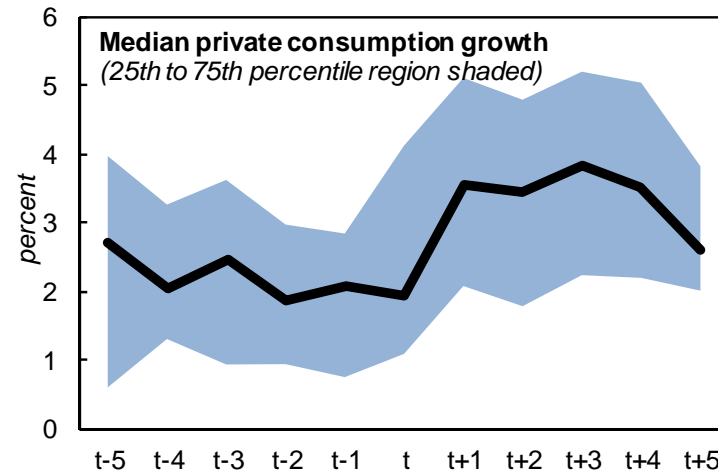
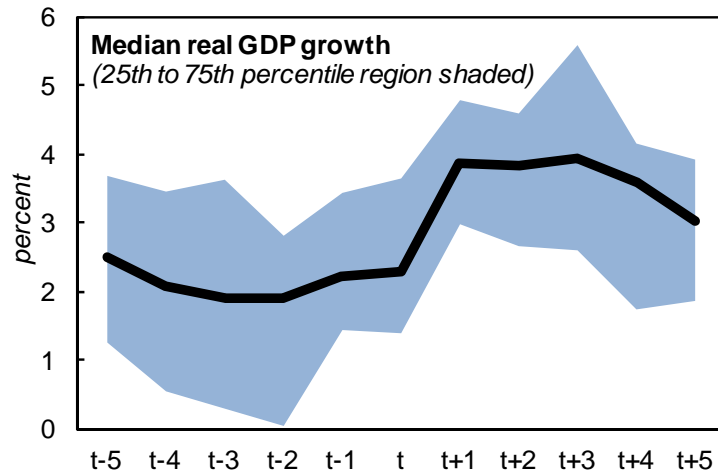
Sources: IMF World Economic Outlook ; and IMF staff calculations.

\* Total contribution of components over entire debt reduction period (length of period in brackets).

# Sustained effort + supportive external demand



# Accommodative monetary policy + credibility effects

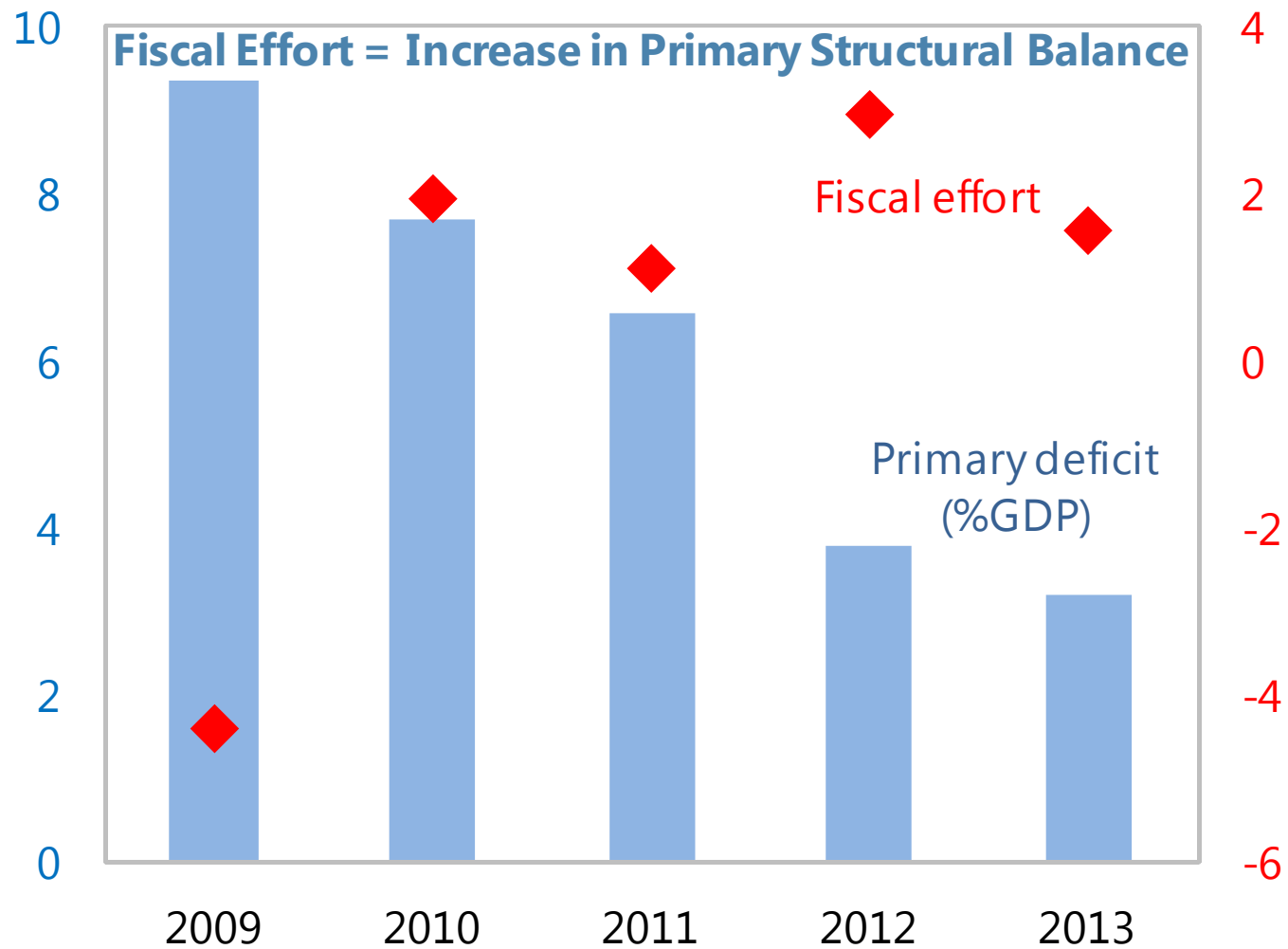


## Some lessons from past experience

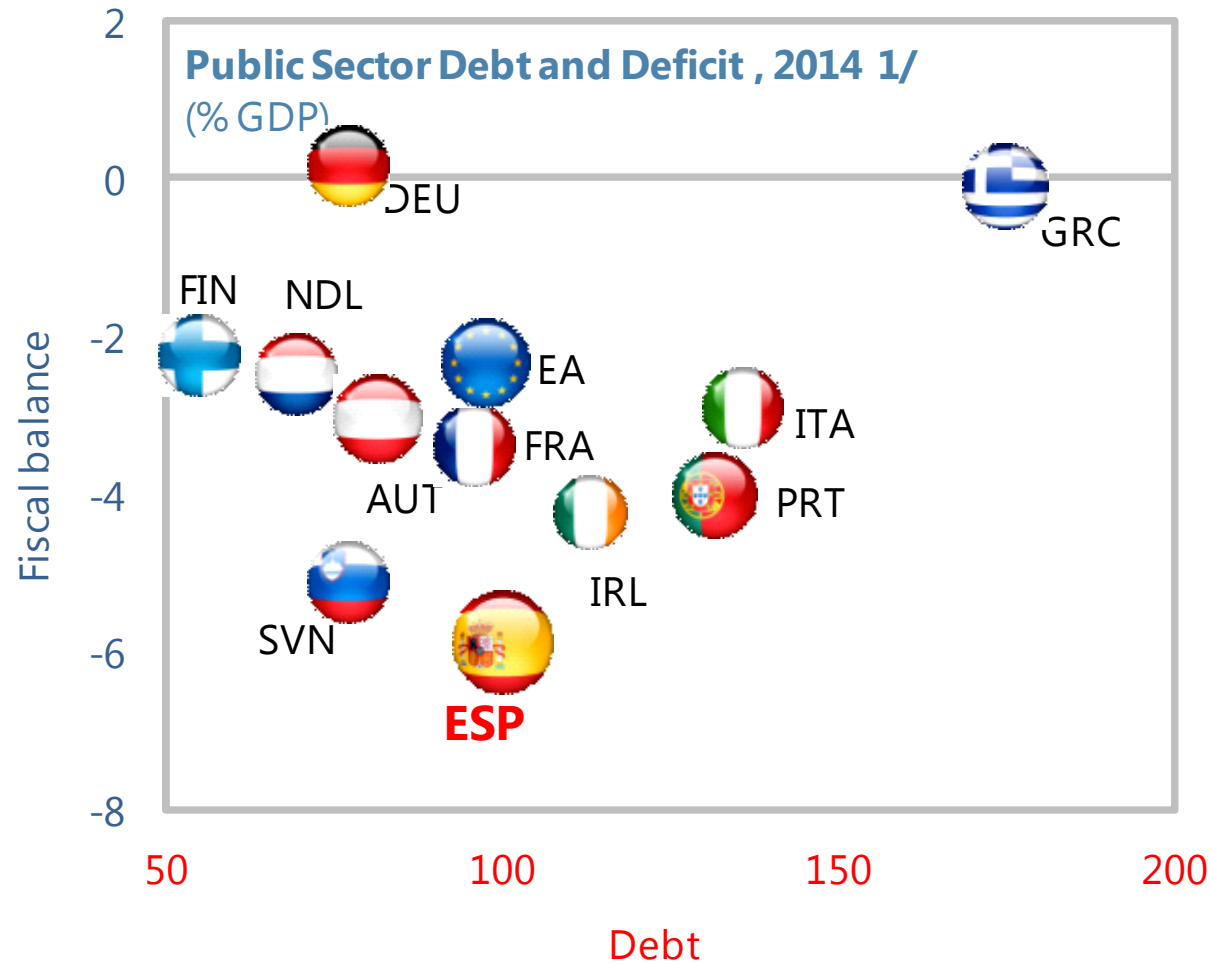
- Examples of successful debt reductions, even under adverse circumstances
- Current environment shifts much of the burden to fiscal policy
- Trade-offs (where there is a choice)
- Well-designed consolidation: targeted, gradual, within good medium-term framework
- Monetary policy
- Structural reforms for growth

# THE CASE OF SPAIN

# Despite a significant fiscal effort



# The deficit remains high and public debt is rising

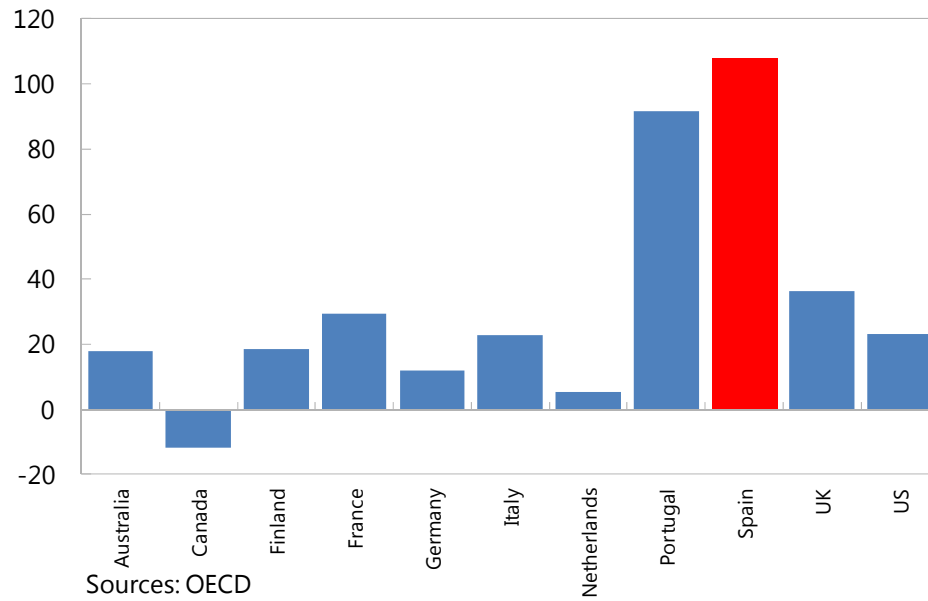




# Context: High private leverage

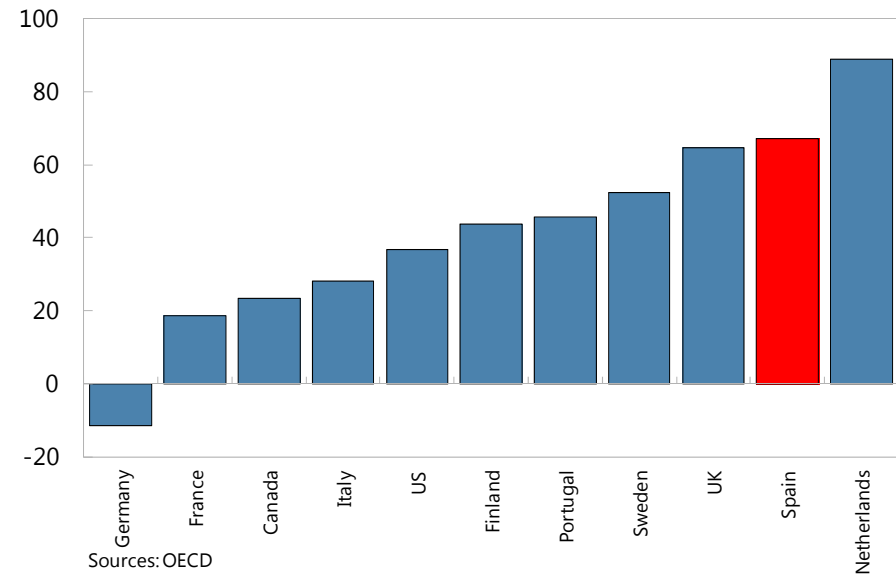
## Corporate debt - Change between 1995-2007

(NFC, percent of GDP)



## Household Debt - change between 1995 and 2007

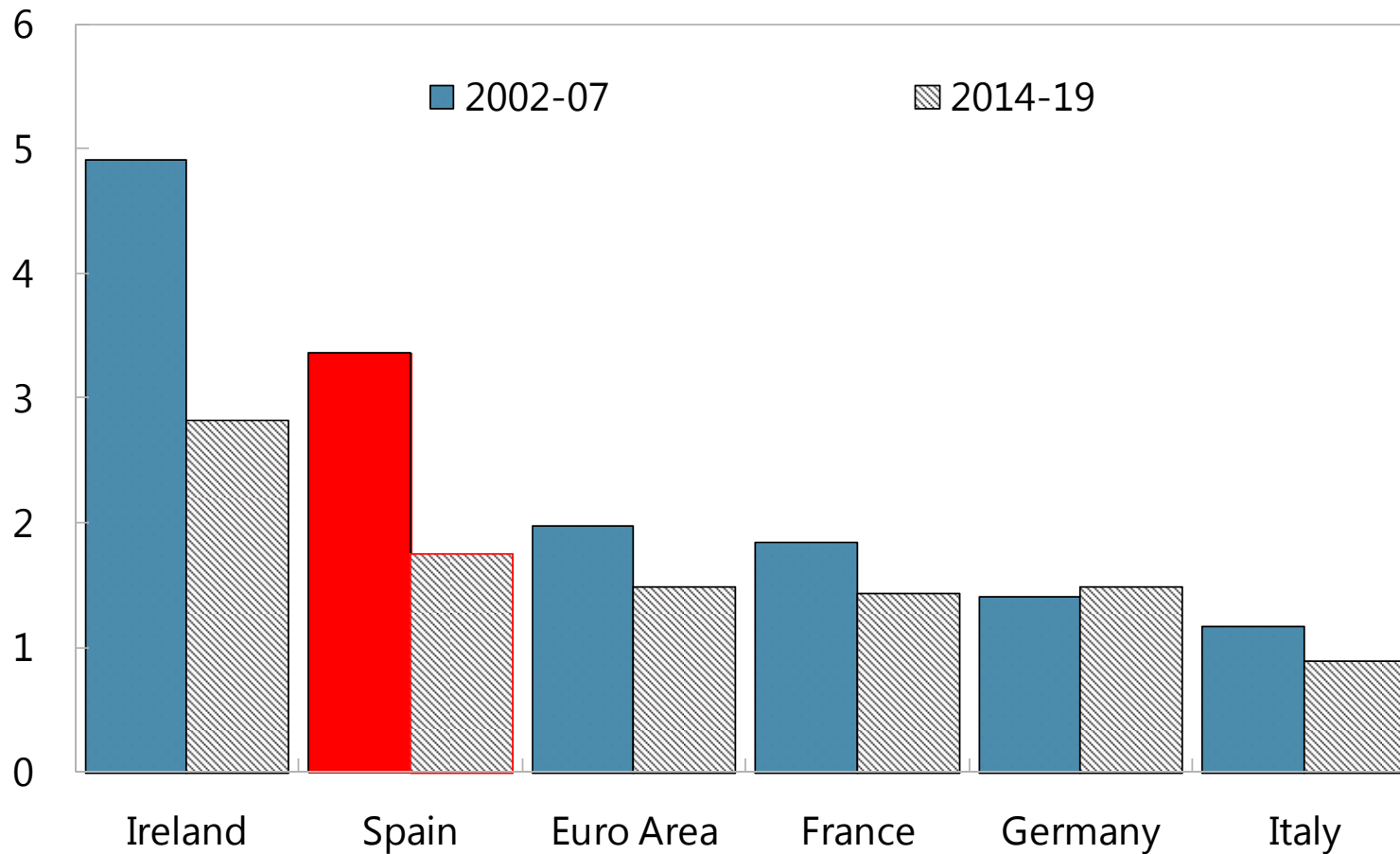
(percent of disposable income)



# Context: Modest growth

## Growth Outlook for Euro Area

(average GDP yearly growth, percent)

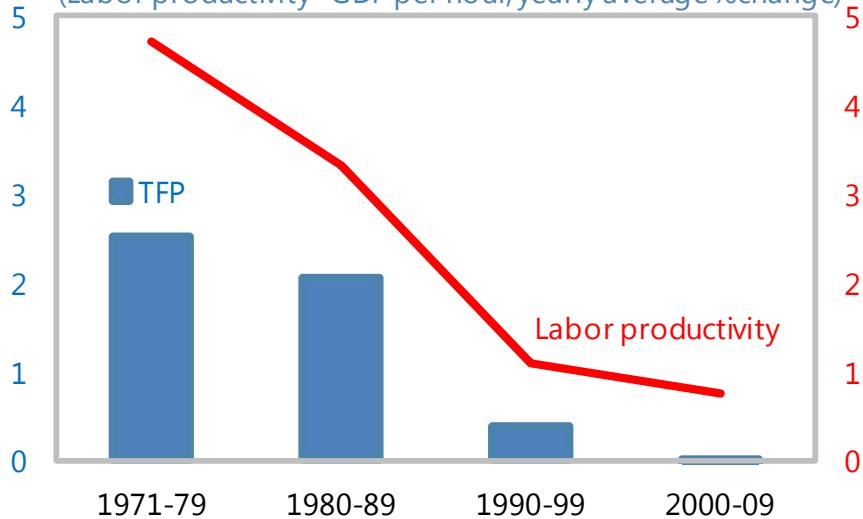


Sources: IMF staff estimates and projections

# Context: Productivity growth has been low

Productivity growth has declined sharply over the last decades

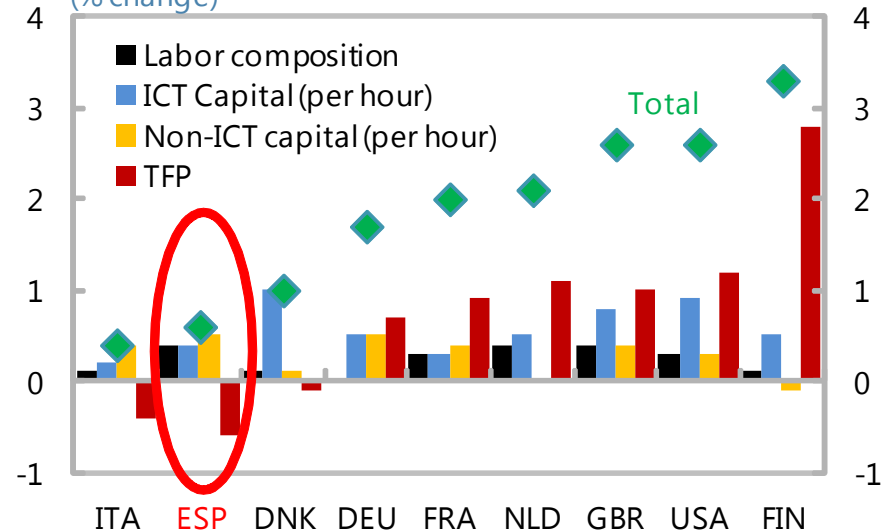
(Labor productivity=GDP per hour, yearly average %change)



Sources: INE; Eurostat; and IMF staff estimates.

Labor productivity has been lower and composition worse than international peers, 1995-2007

(% change)

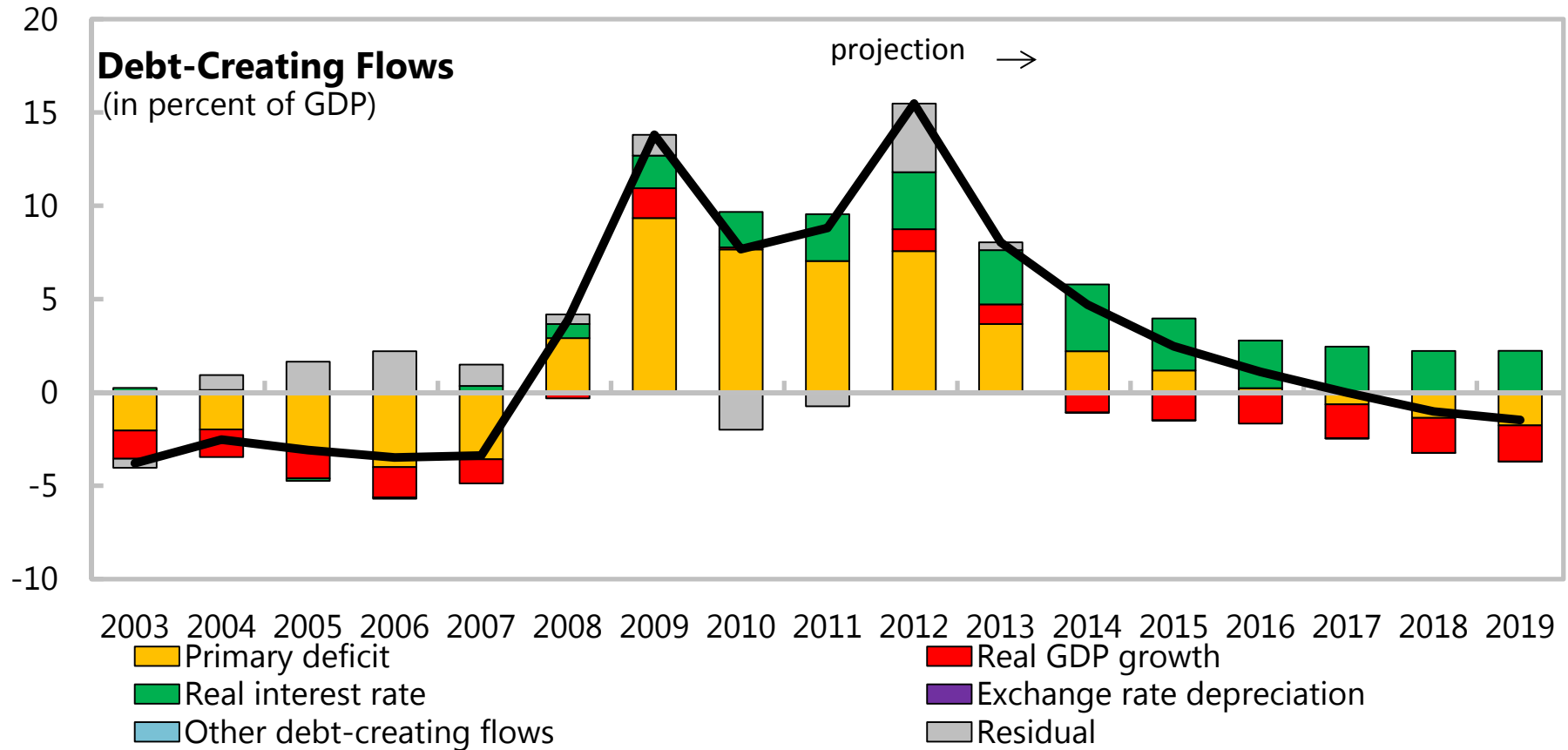


Source: OECD.

## Fiscal Policy

- Fiscal consolidation needs to continue
- The structural adjustment path needs to find right balance between supporting the recovery and reducing fiscal deficit/debt over time.
- Important to ensure a high quality adjustment
  - Should be pro-jobs (e.g. reduce taxation on labor; active employment policies)
  - Expenditure review— continue to improve spending efficiency
  - Room to increase tax collection (e.g. fight tax evasion; broaden tax bases; focus on indirect taxes)

# Need continue a gradual consolidation



## Conclusions

- Spain has done a significant fiscal effort under difficult conditions
- Fiscal consolidation needs to continue to bring debt dynamics to a more sustainable path
- The pace and quality of consolidation needs to be growth/job friendly
- Should be done in conjunction with structural reforms for growth and jobs (productivity; structural unemployment)

## References (work at IMF)

- Dealing with High Debt in an Era of Low growth (2013)
- Reassessing the role and modalities of fiscal policy in advanced economies (2013)
- Fiscal Monitor (several issues)
- The perils of private-sector deleveraging in the Eurozone (2013)