



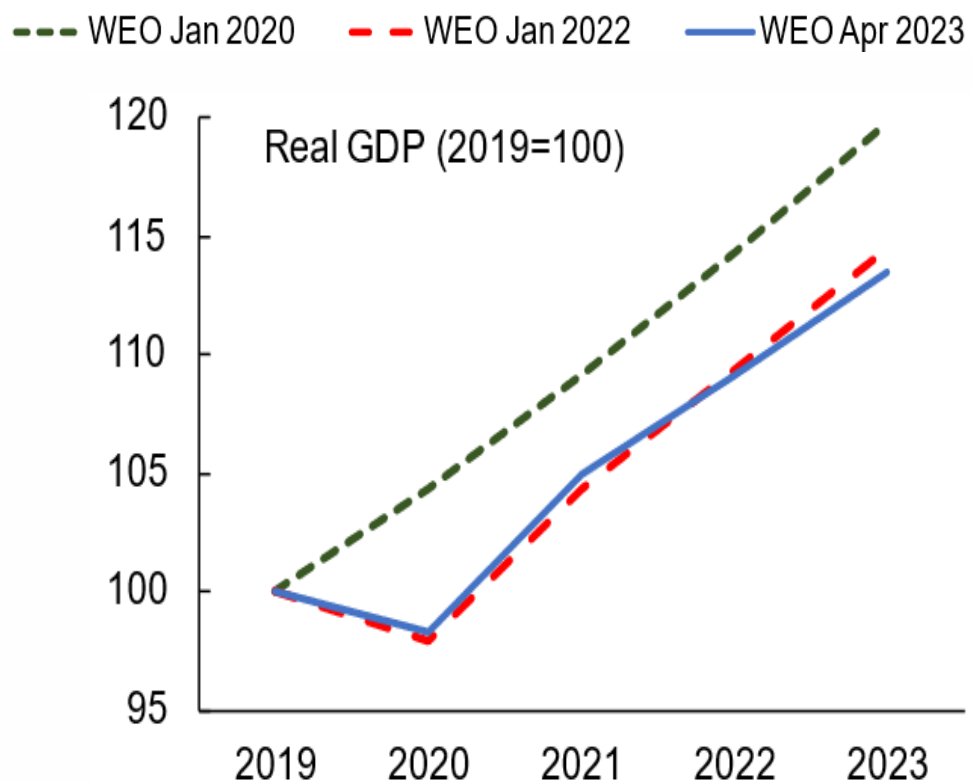
Market Reforms and Public Debt Dynamics in Emerging Market and Developing Economies

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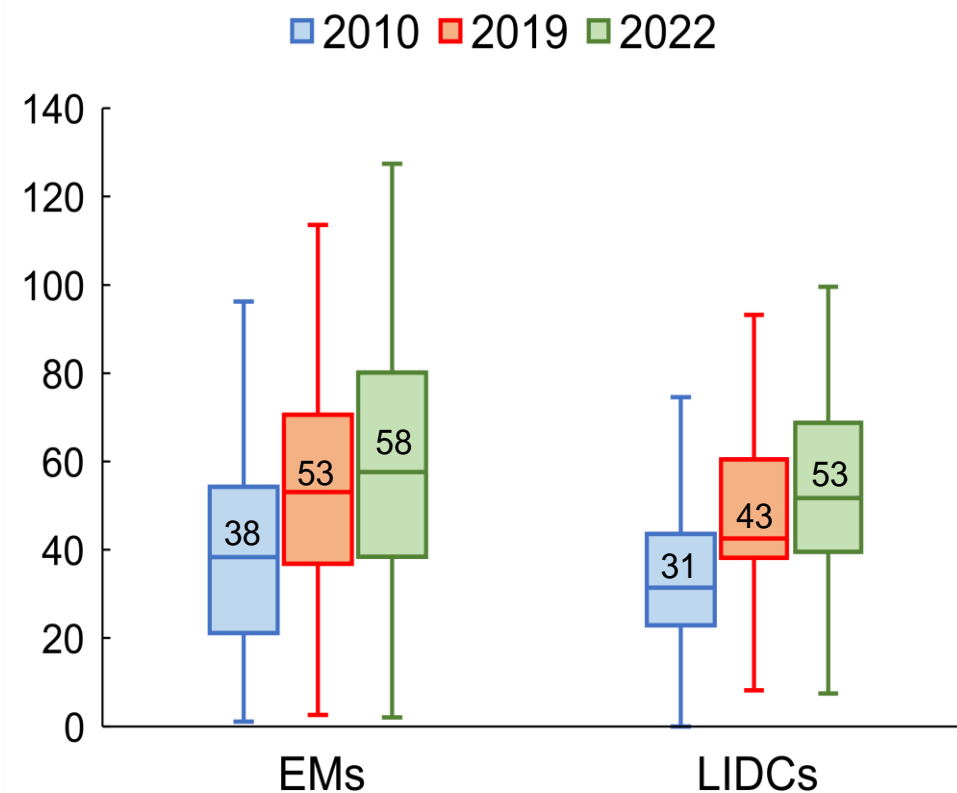
Kuwait City,
June 11 2024

Multiple global shocks and limited fiscal space in EMDEs

Pre- and post-pandemic growth in EMDEs (Percent)



Public debt in EMDEs (Percent of GDP)

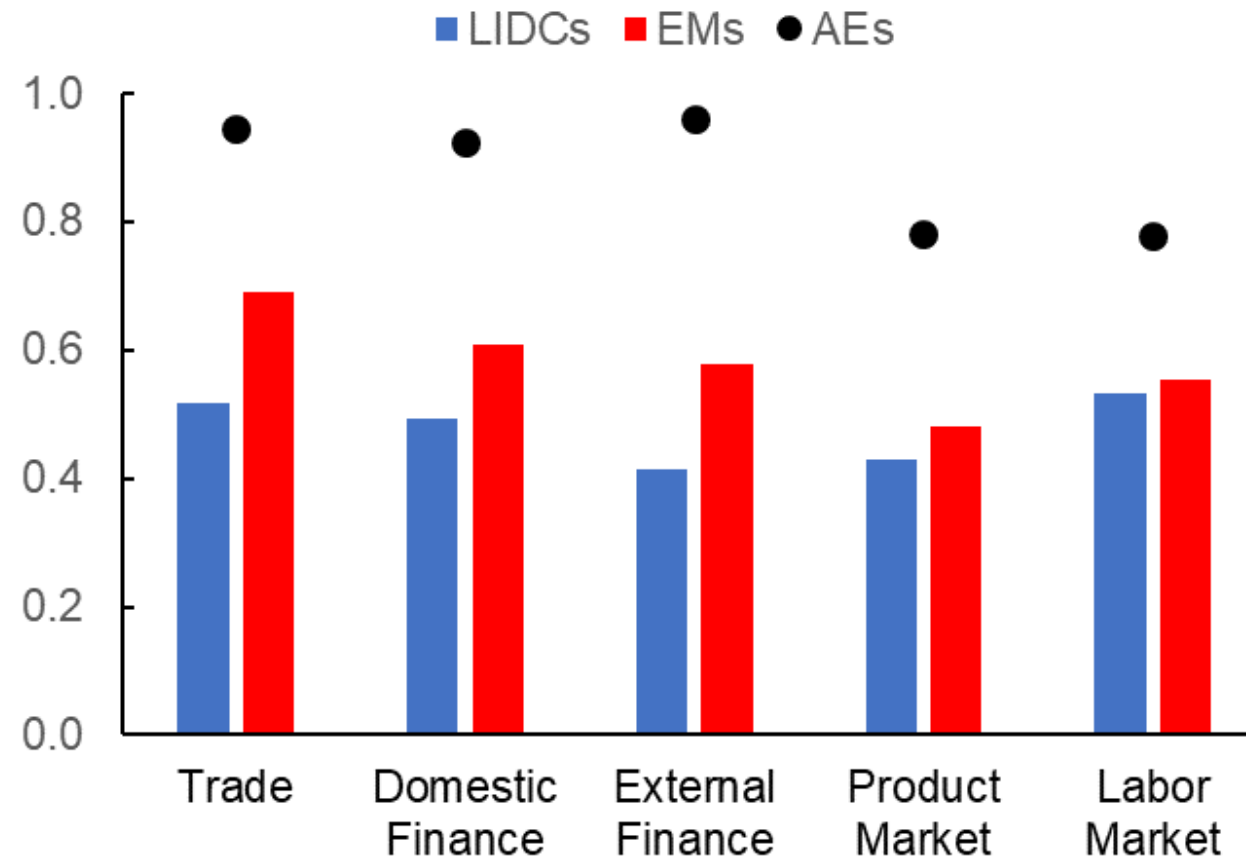


Sources. IMF's Sovereign Debt Monitor; World Economic Outlook database.

Reforms could deliver medium-term growth and ease the need for consolidation.

Room for market reforms in EMDEs

(Index from 0 to 1, PPP GDP weighted average)



Sources. IMF's Structural Reform Database and World Economic Outlook database (IMF 2023).

Key Questions

- **Can market-oriented reforms help ease the trade-off between revitalizing economic activity and preserving medium-term fiscal sustainability in EMDEs?**
- **How can the debt-reducing effect of the reforms be enhanced?**

Answers

- **Can market-oriented reforms help ease the trade-off between revitalizing economic activity and preserving medium-term fiscal sustainability in EMDEs?**
 - YES
- **How can the debt-reducing effect of the reforms be enhanced?**
 - Increasing tax-collection efficiency
 - Channeling increase in expenditure to growth-friendly investment
 - Political Economy

NEW! Structural Reforms Dataset @ data.imf.org

IMF's Structural Reform Database

Latest Update Date: 09/06/2023



At a Glance Query Dividends Toolkit

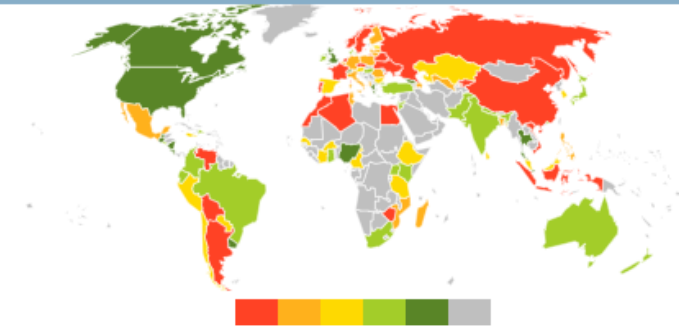
Structural policies have become a key policy agenda item across many countries. The IMF's Structural Reform Database (SRD) provides a comprehensive set of indicators on structural policies. The SRD covers a wide range of structural policy areas over 40 years for 90 countries with various development levels. The indicators measure the degree of regulatory stance in five broad policy areas, with granular sub-indicators. An episode of major structural reforms can be identified by a large increase in the indicators.

The IMF's SRD is developed by the IMF staff in collaboration with external researchers (Alesina and others, 2020), under a research collaboration between the IMF and the former U.K. Department for International Development (DFID), which merged with the Foreign and Commonwealth Office (FCO) on September 2, 2020 to become the Foreign, Commonwealth and Development Office (FCDO). The SRD does not necessarily represent the views of the IMF, its Executive Board, IMF management, or the FCDO.

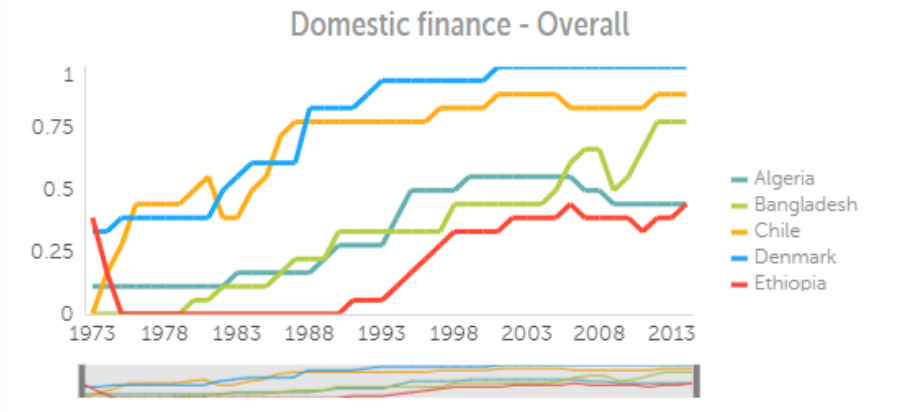
References:

- Data Documentation of the Structural Reform Database
- Alesina, Alberto F., Davide Furceri, Jonathan D. Ostry, Chris Papageorgiou and Dennis P. Quinn (2020). "Structural Reforms and Elections: Evidence from a World-Wide New Dataset," NBER Working Papers 26720, National Bureau of Economic Research. <https://www.nber.org/papers/w26720>

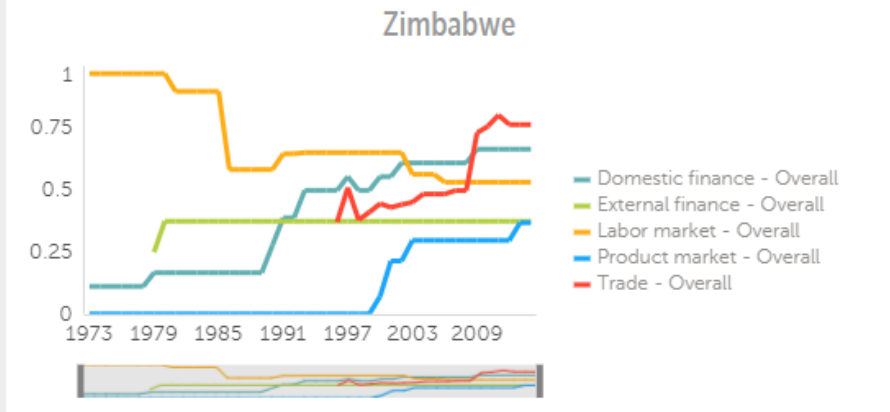
Indicator (Labor market - Overall)



Indicator (Domestic finance - Overall) Country (5 from 90)

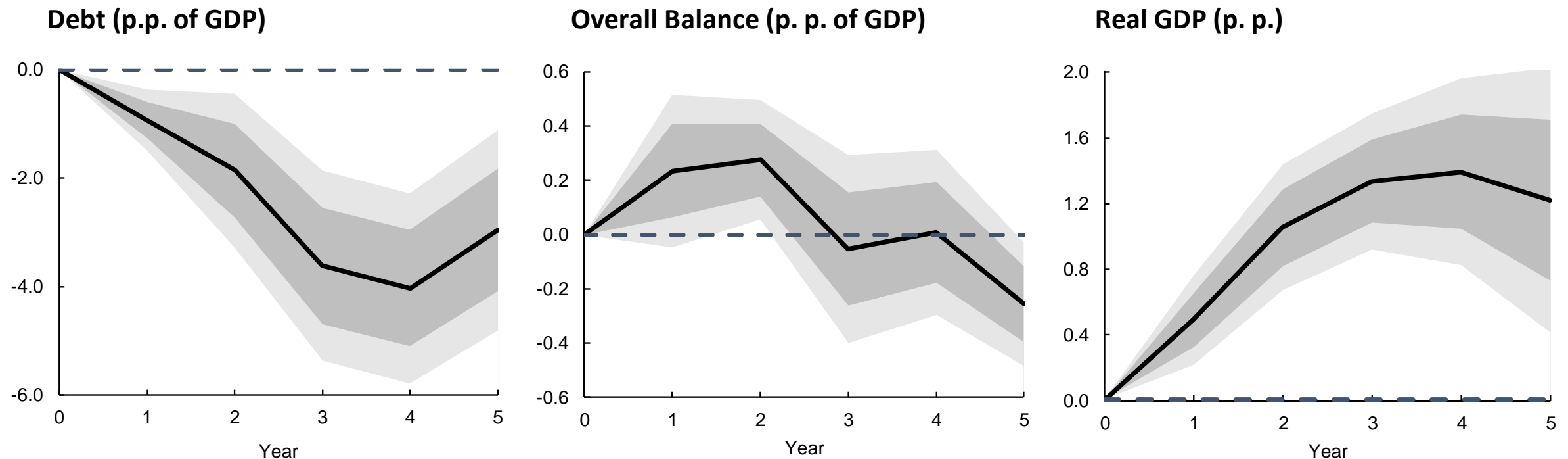


Country (Zimbabwe) Indicator (5 from 44)



Reforms in EMDEs are associated with public debt reduction both via GDP growth and fiscal strengthening

Empirical Impulse Responses Upon Market Reforms (Response to 2-Standard Deviation Shock of Combined Index)

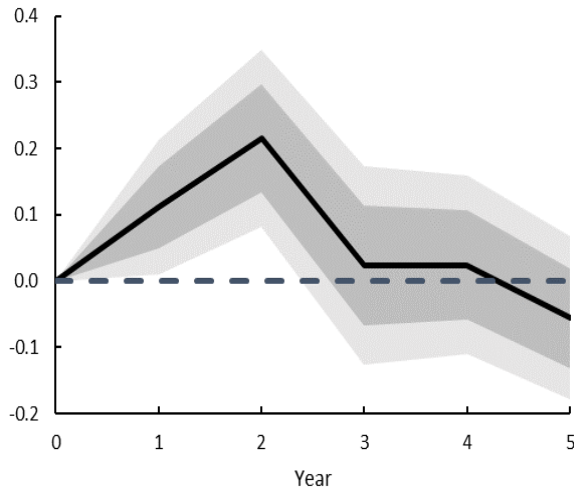


Sources. IMF's Structural Reform Database (Alesina and others, 2020), World Economic Outlook database (IMF 2023), and Global Debt Database (Mbaye and others, 2018), and IMF staff calculations.

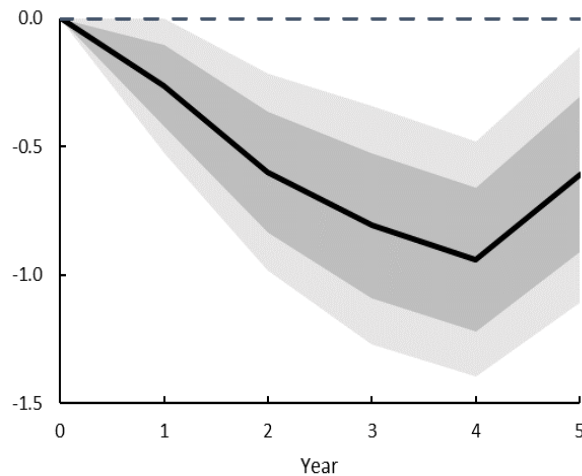
Offsetting changes in revenues and expenditures drive the modest improvements in the fiscal position

Empirical Impulse Responses Upon Market Reforms by Fiscal Component (Combined Index) (Response to 1-Standard Deviation Shock of Combined Index)

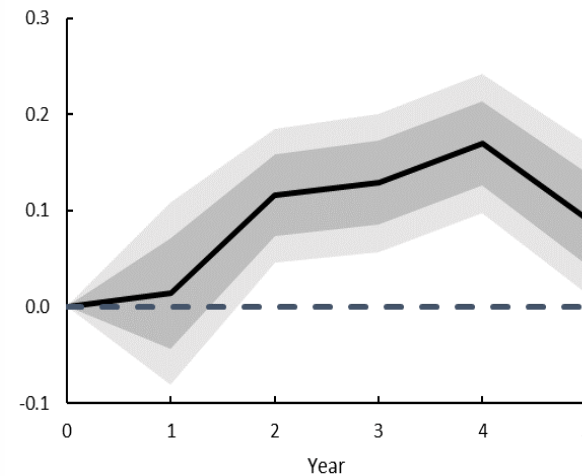
Revenue
(percent of GDP)



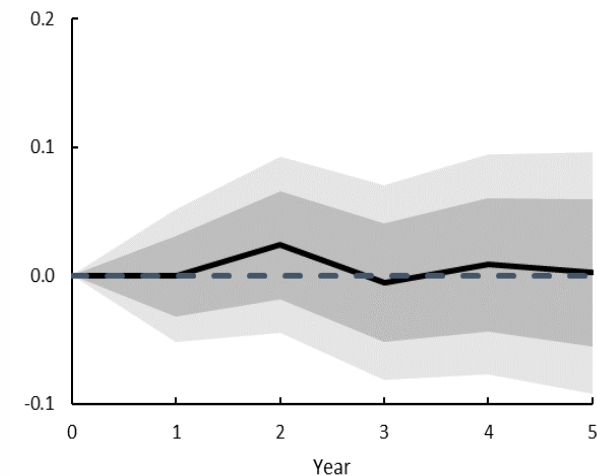
Sovereign Spread
(percentage points)



Public Consumption
(percent of GDP)



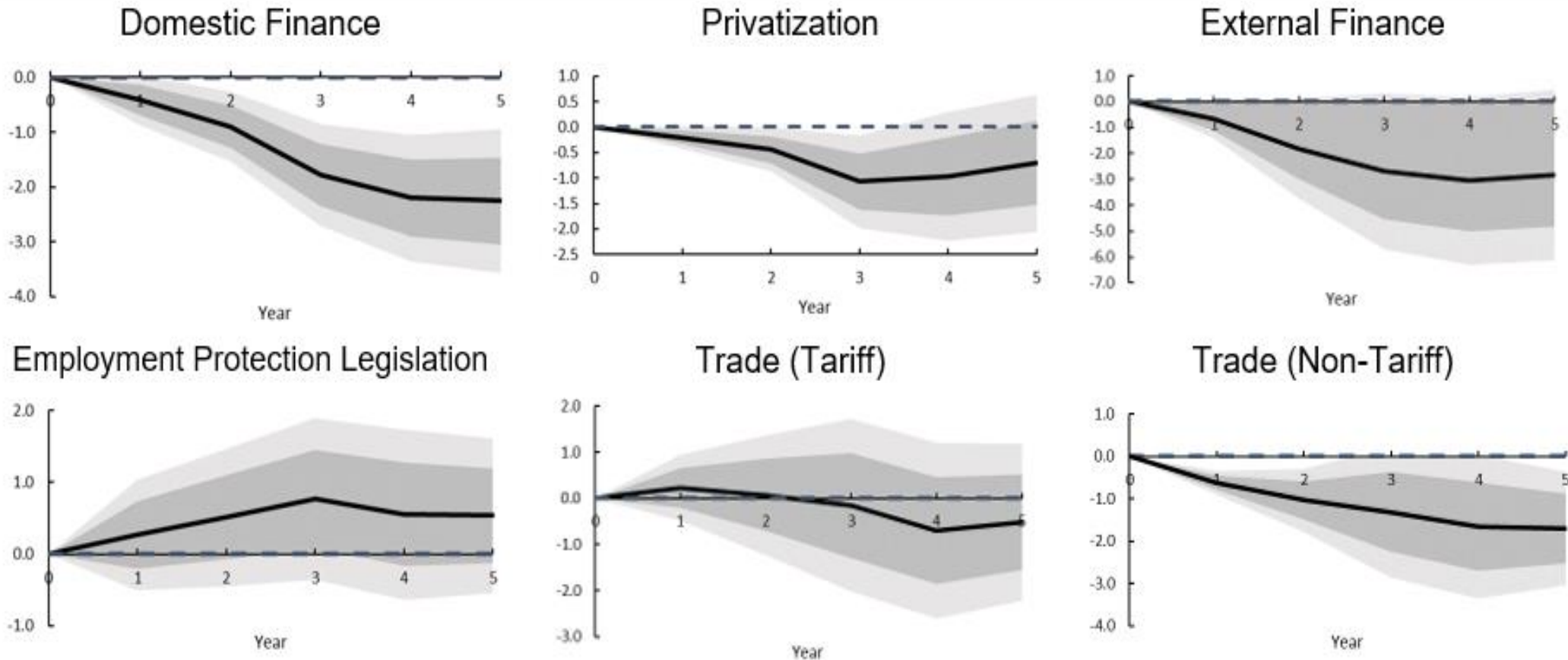
Public Investment
(percent of GDP)



Sources. Bloomberg, IMF's Structural Reform Database (Alesina and others, 2020), World Economic Outlook database (IMF 2023), and Global Debt Database (Mbaye and others, 2018), and IMF staff calculations.

Debt dynamics vary for individual reform areas

Empirical Impulse Response of Public Debt-to-GDP Upon Individual Market Reforms
(Response to 1-Standard Deviation Shock of Each Individual Index)



Sources. IMF's Structural Reform Database (Alesina and others, 2020), World Economic Outlook database (IMF 2023), and Global Debt Database (Mbaye and others, 2018), and IMF staff calculations.

Policy Considerations

- Market-oriented reforms can help partially alleviate the trade-off between supporting economic activity and preserving fiscal sustainability in EMDEs.
- Initial level of debt is a key factor in determining how fiscal gains from reforms can be spent. EMDEs with lower debt burdens have greater room to use the fiscal gains for public investments that could improve growth prospects.
- **Strengthening tax efficiency and reducing informality are key to amplifying the fiscal gains.**
- **Prioritization of reforms expected to produce sizeable output gains in the short term—such as banking reforms, privatization and reductions of non-tariff barriers—can help reduce public debt quickly.**
- **Fiscal costs may be needed to foster reform implementation, when political economy and distributional concerns are high.**



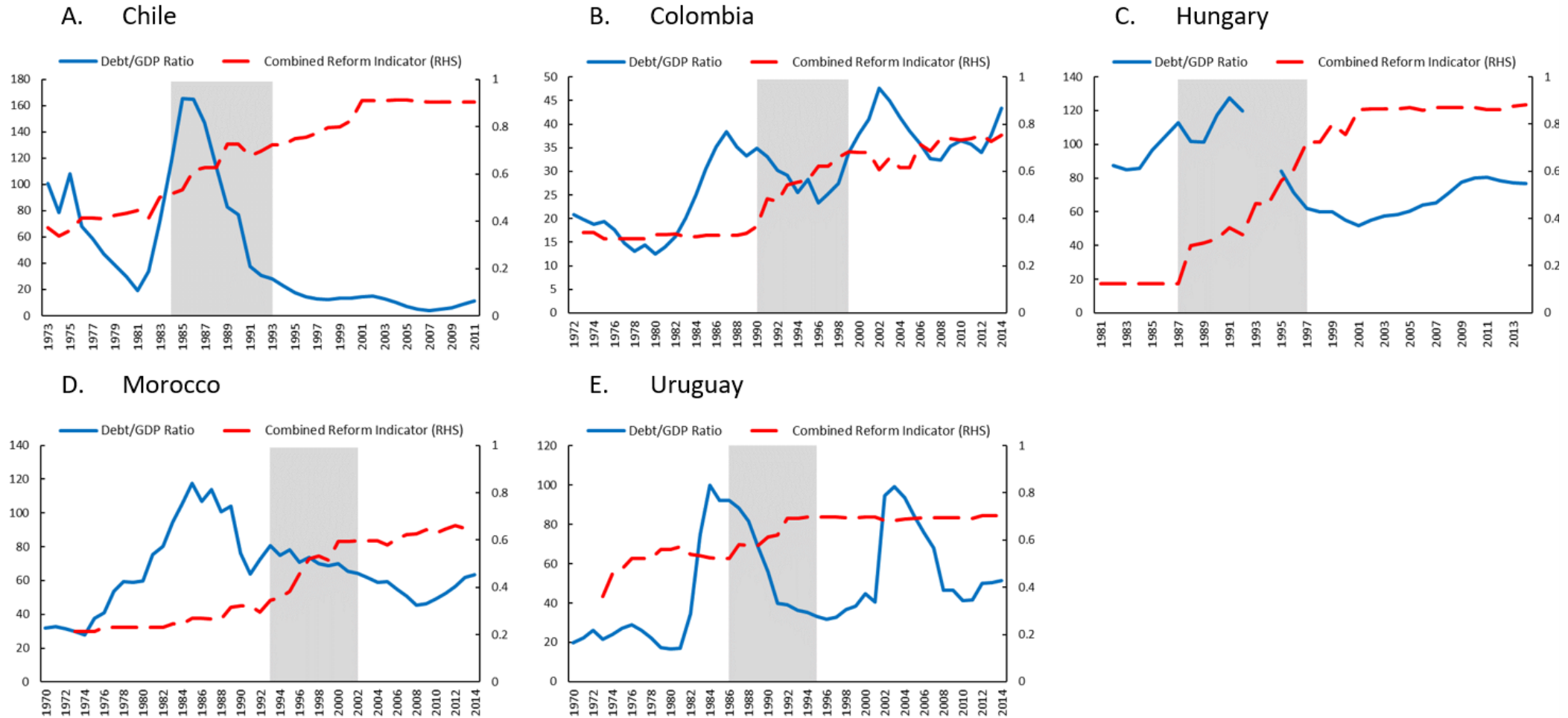
Staff Discussion Note: Market Reforms and Public Debt Dynamics in Emerging Market and Developing Economies

THANK YOU!

Description of reform areas in the IMF Structural Reforms Database

Reform Area	Definition
Domestic Finance	Degree of government restrictions on domestic financial markets and development of a regulatory framework, including credit and interest rate controls for banks, restrictions on entry of new banks, share of private institutions in the credit market, adoption of international standard of banking supervision regulation, and development of a private securities market.
External Finance	Degree of government restrictions on exchange payments for capital inflows and outflows, including FDI, equities, securities, bank credit, and money market funds.
Product Markets	Degree of government intervention in the markets for electricity and telecommunication, regarding presence of state-owned firms as well as access to services, independence of regulatory body, and other market structures.
Labor Market	Degree of employment protection in five dimensions: valid-ground dismissals by employers, procedural inconvenience in layoffs, monetary and non-monetary firing costs, redress measures to contest layoffs, and additional requirements for collective dismissals.
Trade	Presence of tariff and non-tariff restrictions on imports and exports of products as well as restrictions on receipts and payments made for trade.

Selected historical cases of debt reductions during periods of large reforms



Sources. IMF's Structural Reform Database (Alesina and others, 2020), World Economic Outlook database (IMF 2023), and Global Debt Database (Mbaye and others, 2018), and IMF staff calculations.