



FISCAL AFFAIRS

The Impact of Geopolitics on Fiscal Policy

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**80 YEARS AFTER BRETTON WOODS, RELAUNCHING MULTILATERALISM THROUGH
REGIONAL MONETARY UNIONS**

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

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Fragmentation in the World

Trading with friends and enemies: The threat of global fragmentation



WTO in 'damage control' mode as Abu Dhabi agenda unravels

The failure of WTO member countries to produce anything meaningful at the group's 13th Ministerial Conference could further erode the Geneva-based organization's ability to create new global trade rules.



WTO sees signs of fragmented trade, but no de-globalisation

WTO warns about fragmentation of global trade into allied blocs

Poland warns of further trade restrictions if deal with Ukraine not reached



Countries' vulnerability to food supply disruptions caused by the Russia-Ukraine war from a trade dependency perspective



WTO chief warns on 'very costly' fragmentation of global economy

'Friend-shoring' set to lift prices, warns ECB

Growing number of European multinationals move production to politically friendly countries



New UK and EU Sanctions Introduced Against Russia

The rise of 'friendshoring' has sparked a new kind of trade war

China to help NEV industry respond to foreign trade restrictions

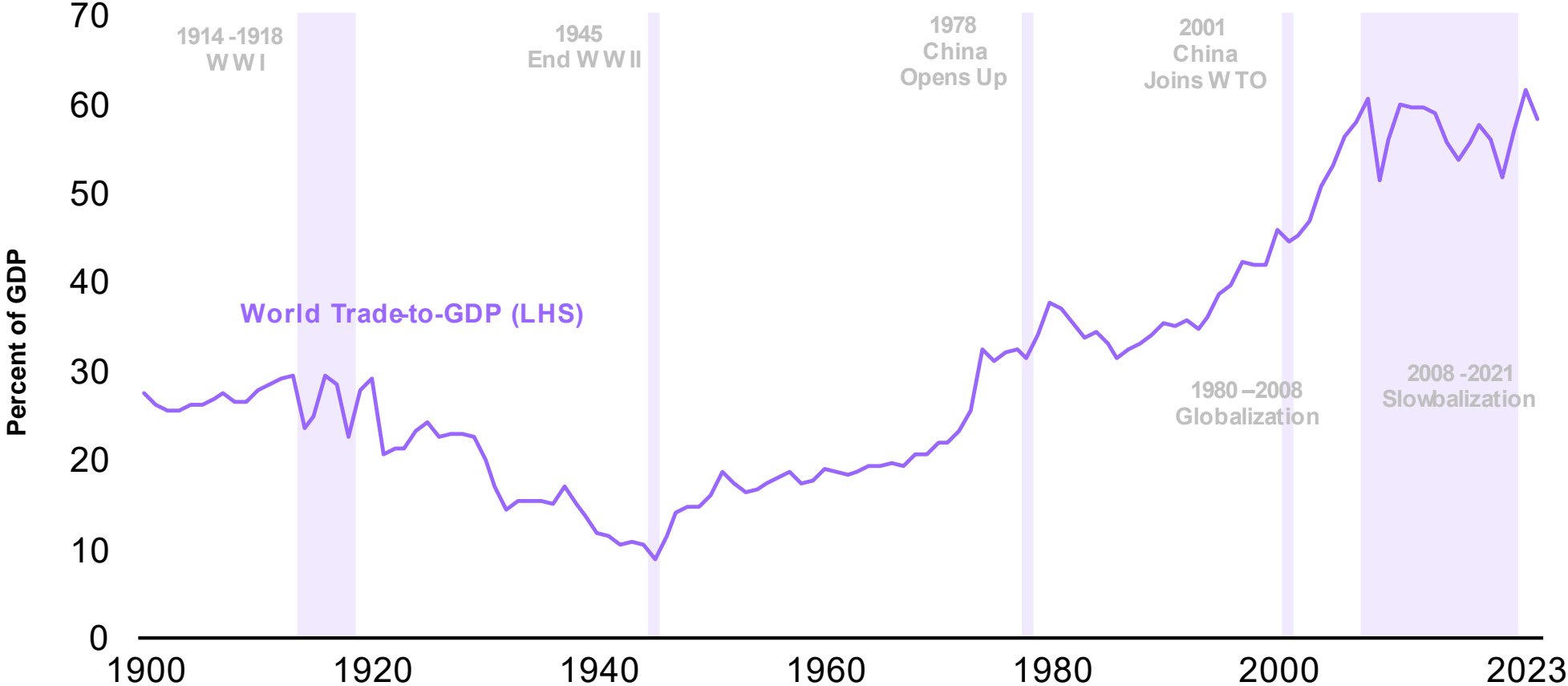
Fragmented world set to alter global trade supply chains



Global trade rift widening as Ukraine war passes two-year mark

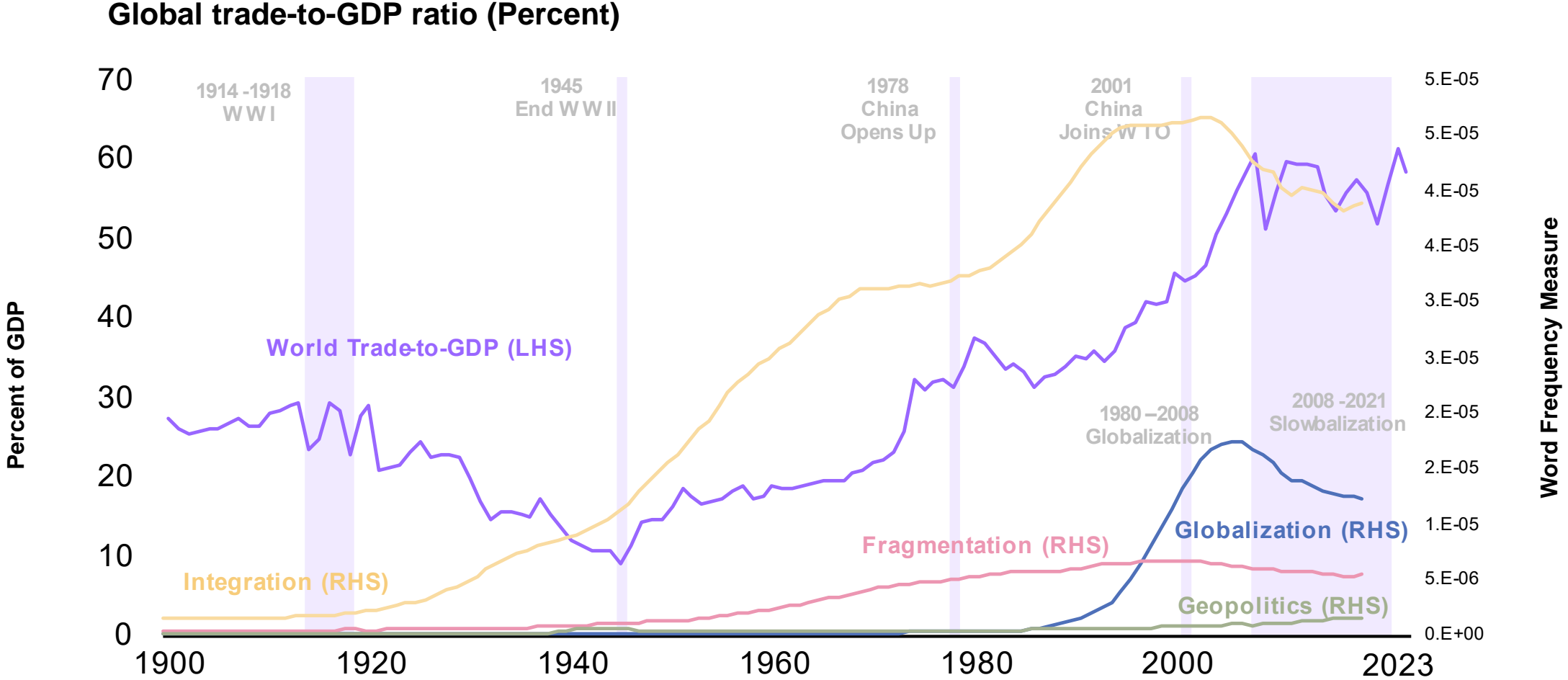
Globalization

Global trade-to-GDP ratio (Percent)



Sources: Cold War II? Preserving Economic Cooperation Amid Goeconomic Fragmentation. Plenary Speech by IMF First Managing Deputy Director Gita Gopinath at the 20th World Congress of the International Economic Association, Colombia. December 11, 2023

Globalization

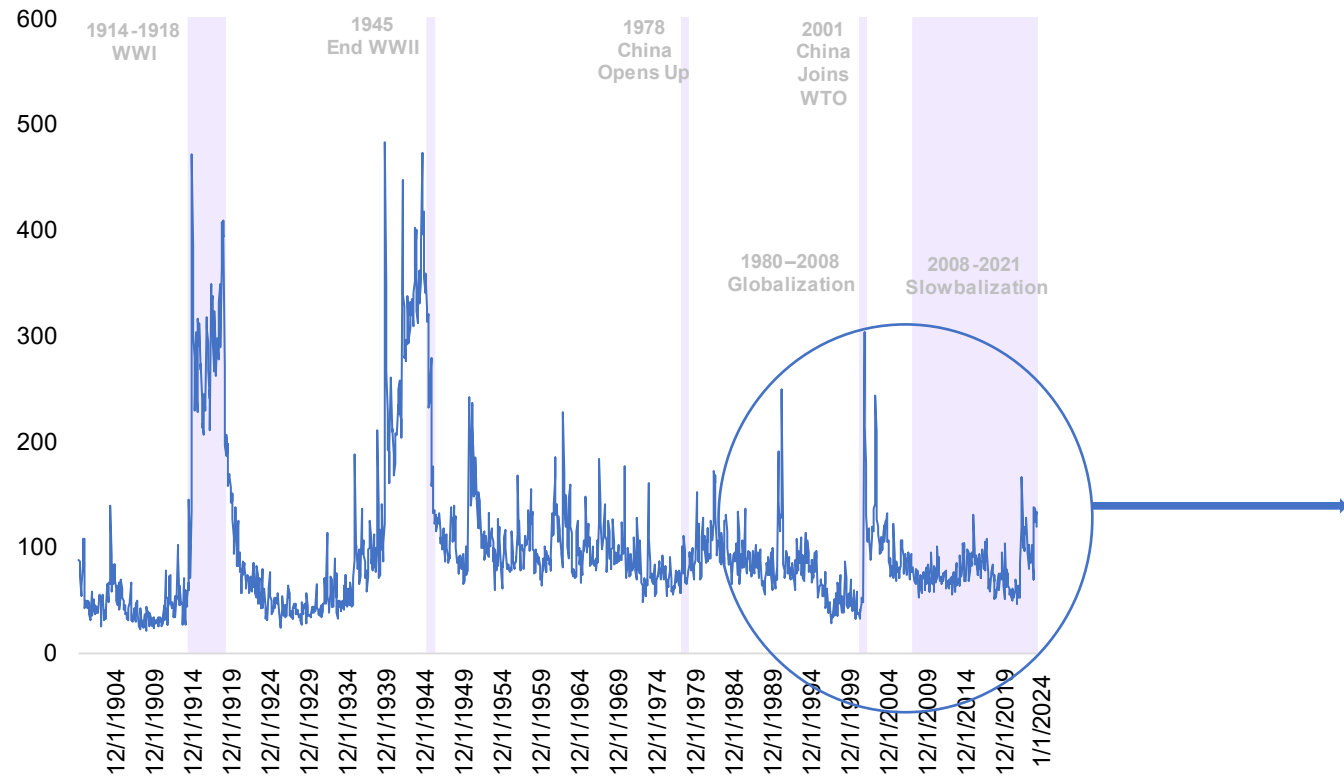


Sources: (LHS) Cold War II? Preserving Economic Cooperation Amid Goeconomic Fragmentation. Plenary Speech by IMF First Managing Deputy Director Gita Gopinath at the 20th World Congress of the International Economic Association, Colombia. December 11, 2023. (RHS) Google Ngram Viewer.

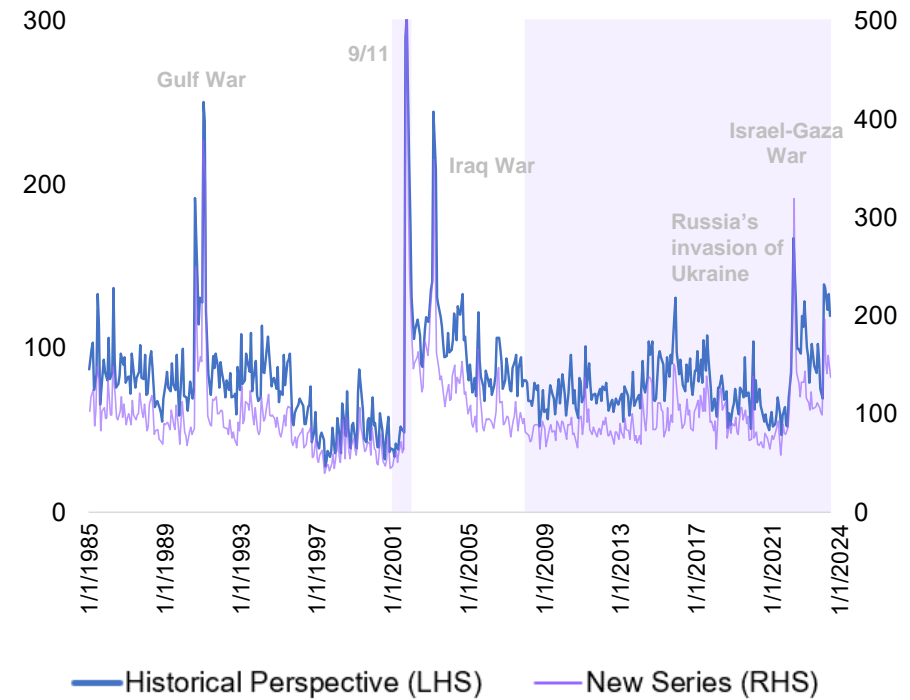
Notes: The Google Ngram Viewer is an online search engine that charts the frequencies of any set of search strings using a yearly count of n-grams found in printed sources published between 1500 and 2019.

Geopolitical Risk Index

Historical Perspective, 1900-2024
(Index: 1900:2019=100)



Historical Perspective & New Series, 1985-2024



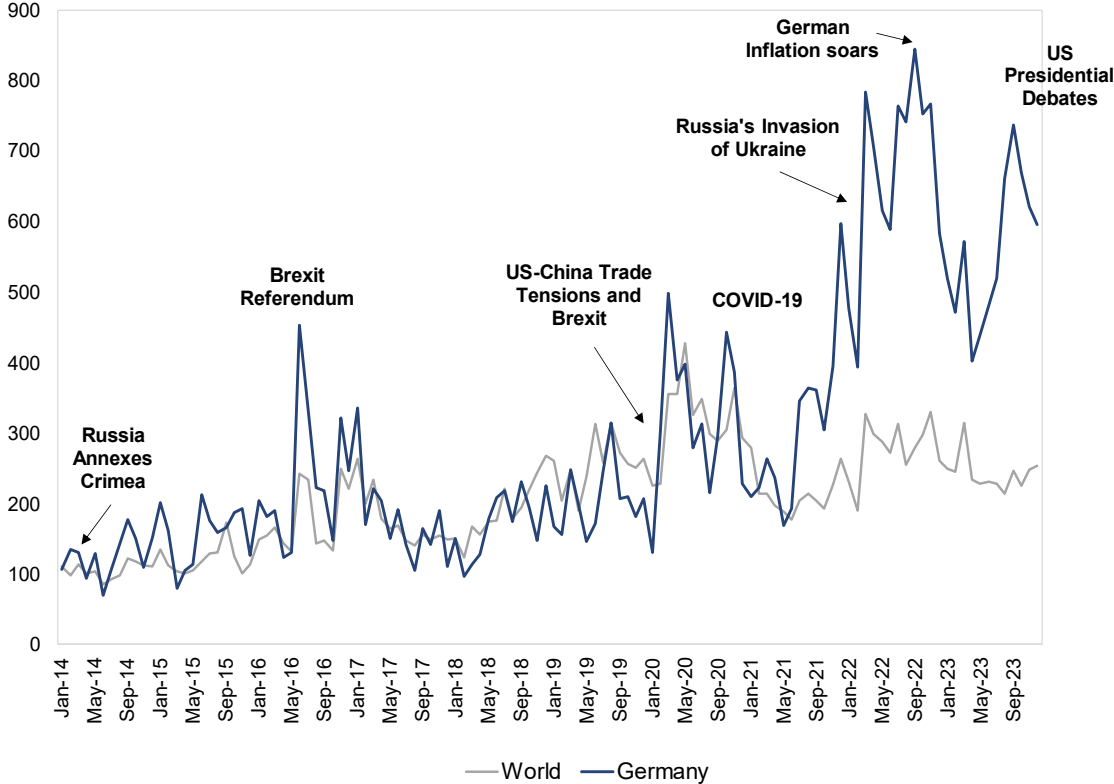
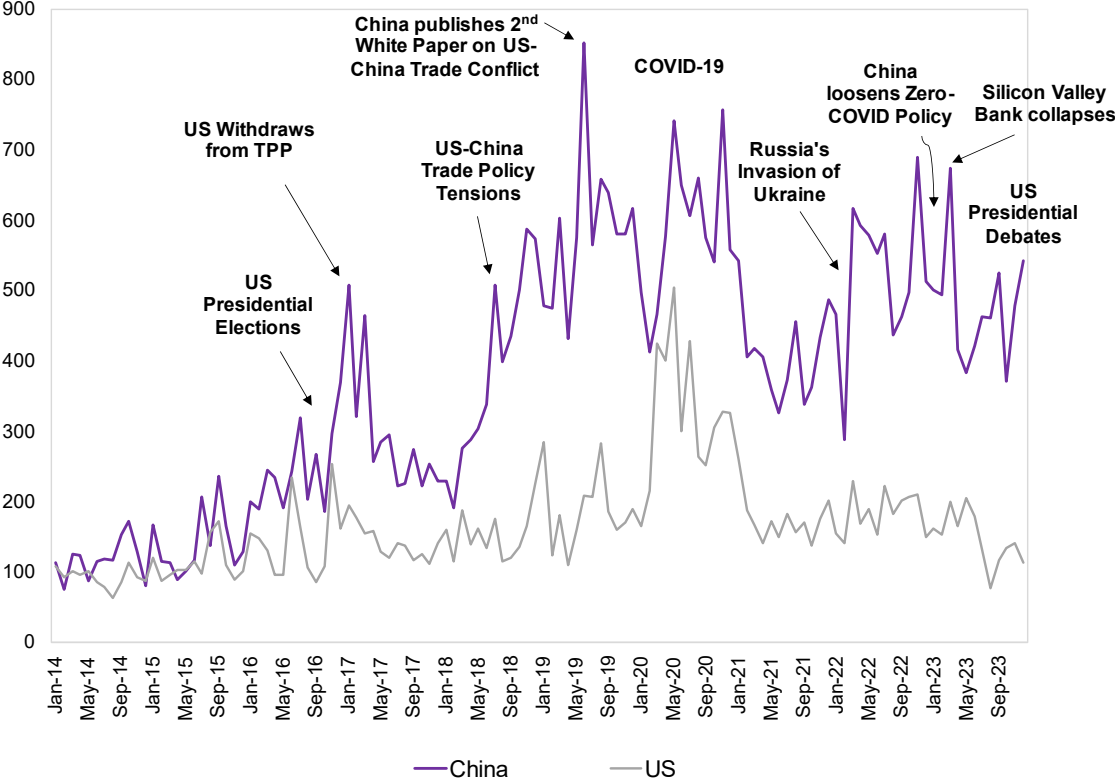
— Historical Perspective (LHS) — New Series (RHS)

Source: Caldara and Iacoviello (2022). Data downloaded from <https://www.matteoiacoviello.com/gpr.htm> on March 08, 2024. Latest data point 2/1/2024.

Note: The Historical Index uses 3 newspapers and starts in 1900. The Recent GPR (Index: 1985:2019=100) uses 10 newspapers and starts in 1985.

Geopolitical Uncertainty

Global Economic Policy Uncertainty Index



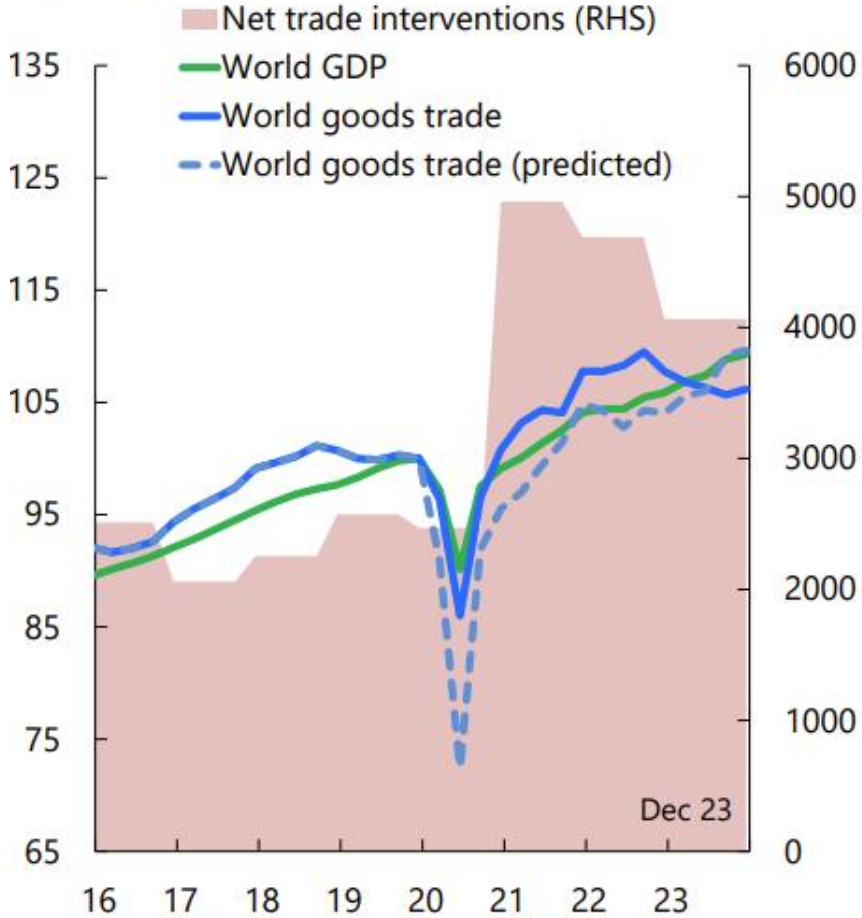
Source: Ahir, H., Bloom, N., & Furceri, D. (2022); Baker, S. R., Bloom, N., & Davis, S. J. (2016).; Caldara, Dario and Matteo Iacoviello (2022).

Note: The Global Economic Policy Uncertainty Index is in monthly frequency and ends in December 2023.

Shifting Trade Patterns

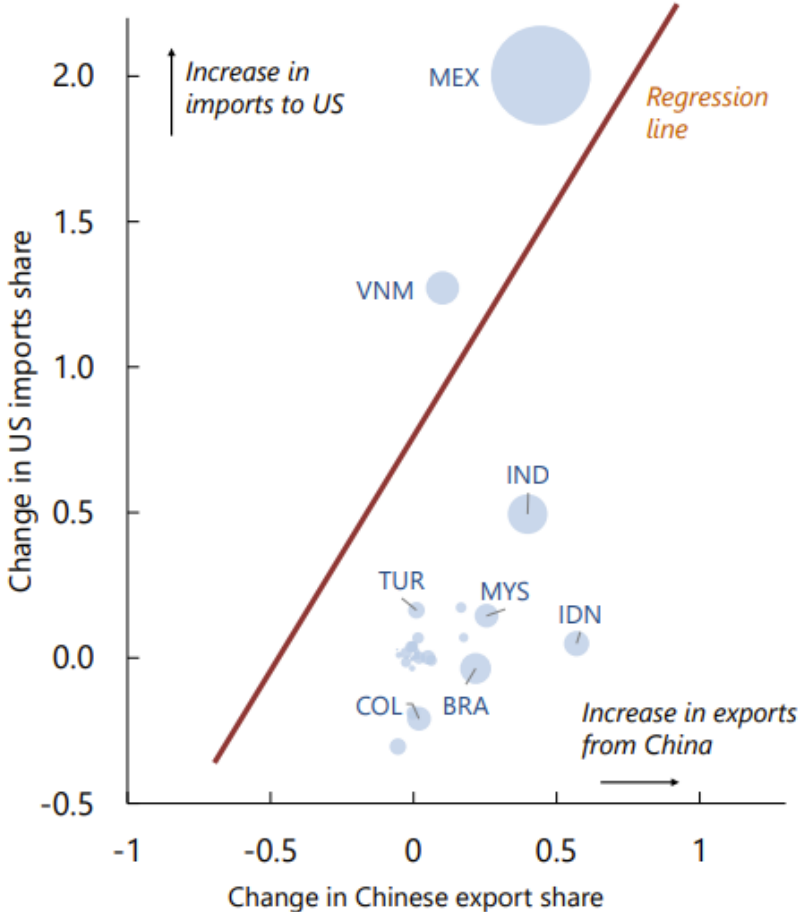
Goods trade volume and restrictions 1/

(index; 2019Q4=100; number of interventions)



Shifting trade patterns: Rise of connectors 3/

(percent change in trade share; 2013-17 vs. 2018-23)



Source: (LHS) IMF World Economic Outlook, Eurostat and IMF staff calculations. (LHS) Trade-Map (UN-WTO), Voeten, Strezhnev and Bailey, Harvard Dataverse, United Nations General Assembly Voting Data & IMF staff calculations. Note: (LHS) Euro Area refers to the extra-Euro Area trade. (RHS) The measure of geopolitical distance used in the analysis is the Ideal Point Distance (IPD) constructed by Bailey and others (2017). It is based on the votes at the United Nation General Assembly between 1946 and 2021.

The Impact of Geopolitics on Fiscal Policy

1

*Growing
Fault Lines*

2

Trading Places

3

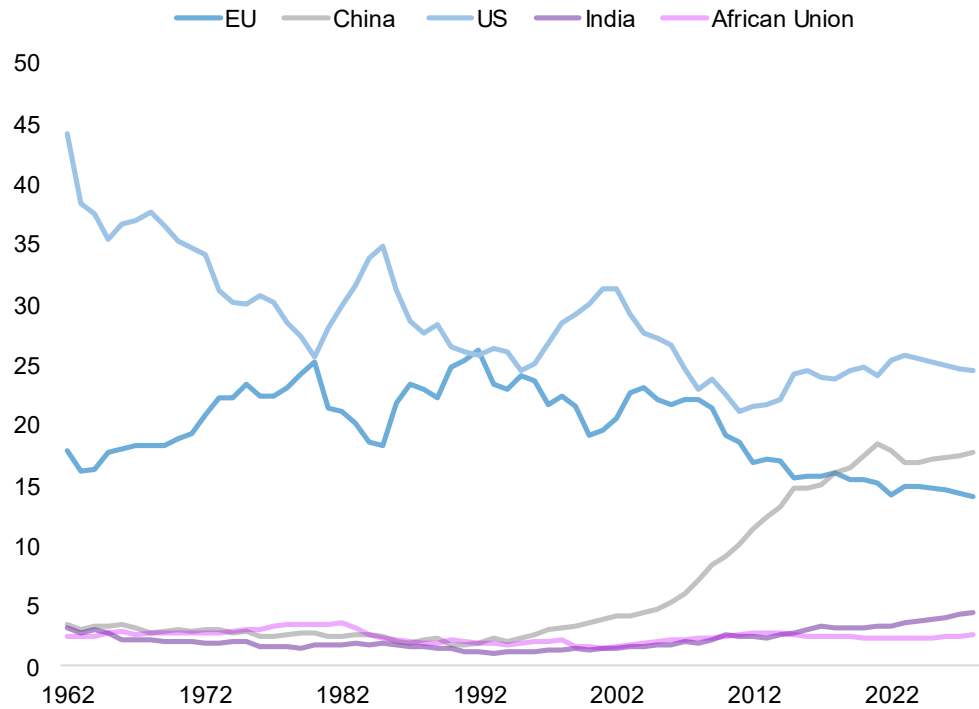
*Fiscal Policy
Implications*

The Impact of Geopolitics on Fiscal Policy

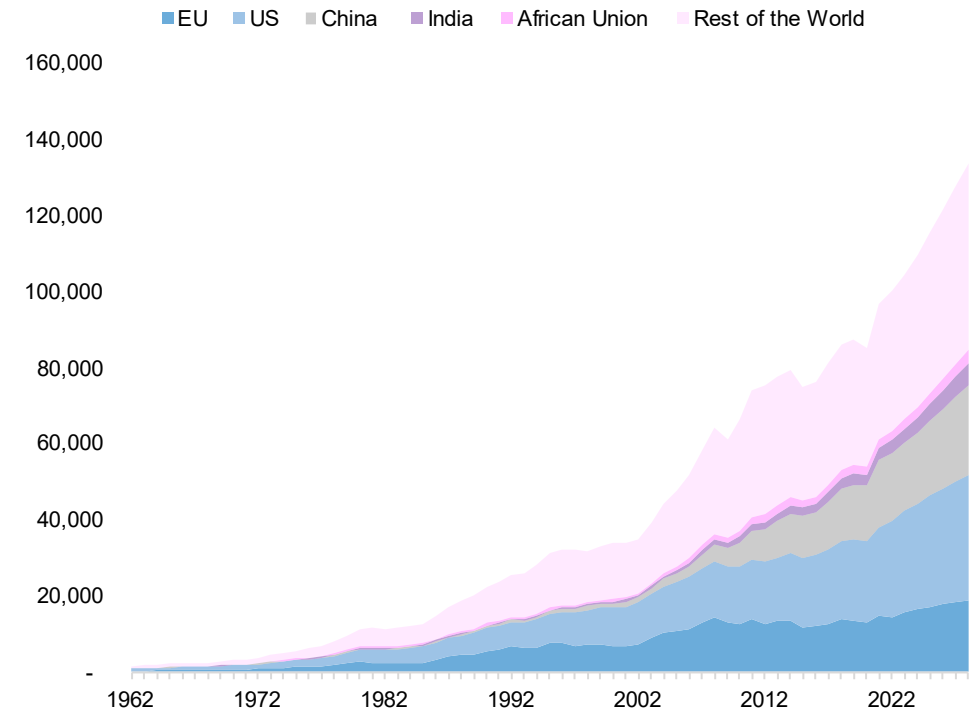


Shifting Powers

Share in the World's Economy (Percent of World GDP)



World's GDP Constant Prices (Billion, 2017 PPP)

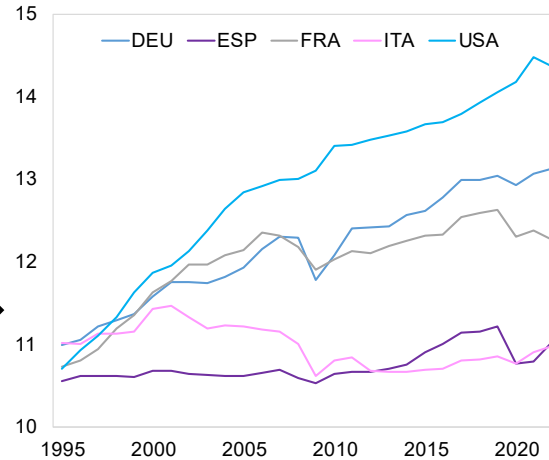
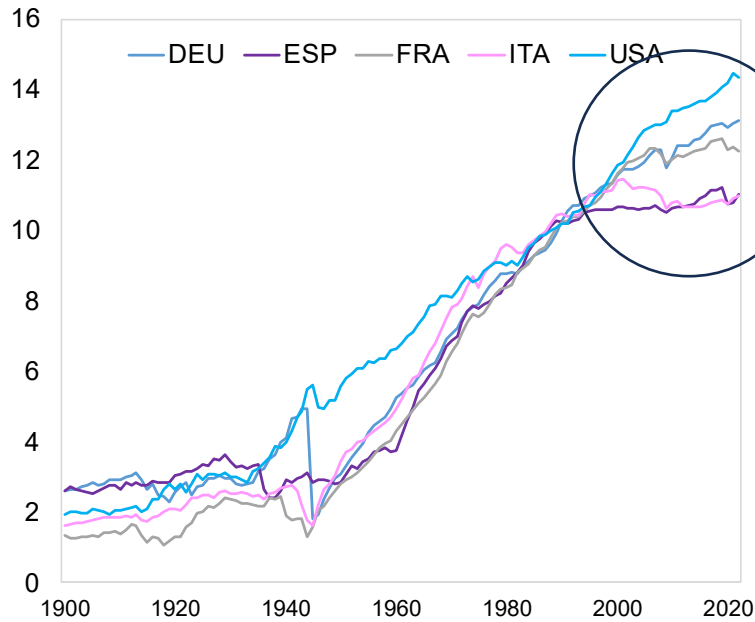


Source: IMF World Economic Outlook and IMF staff calculations.

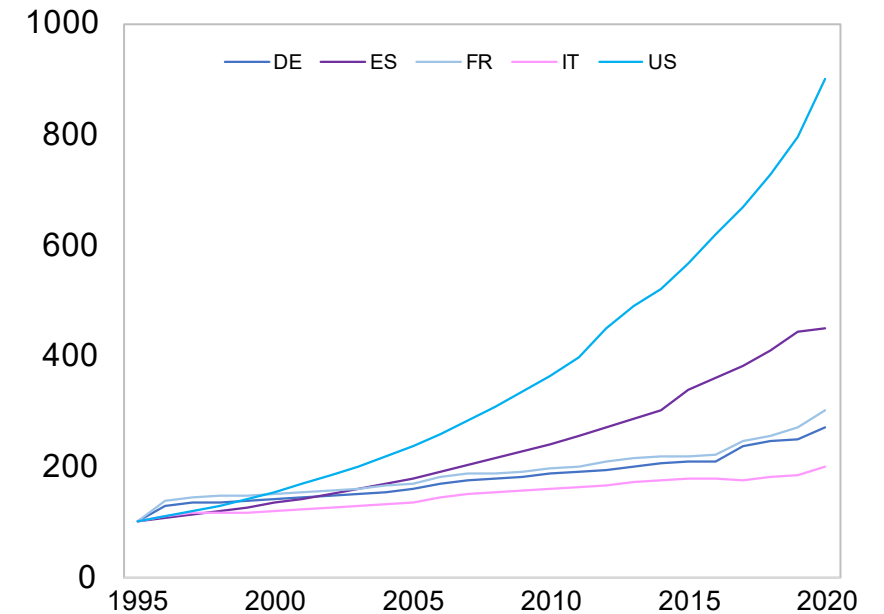
Note: Latest data point is 2028. Data are on fiscal year basis. (LHS) Shares calculated using GDP in current USD.

Catching Up Turns Into Falling Behind

Productivity (TFP)



Real IT-Related Capital Stock (Index: 1995=100)

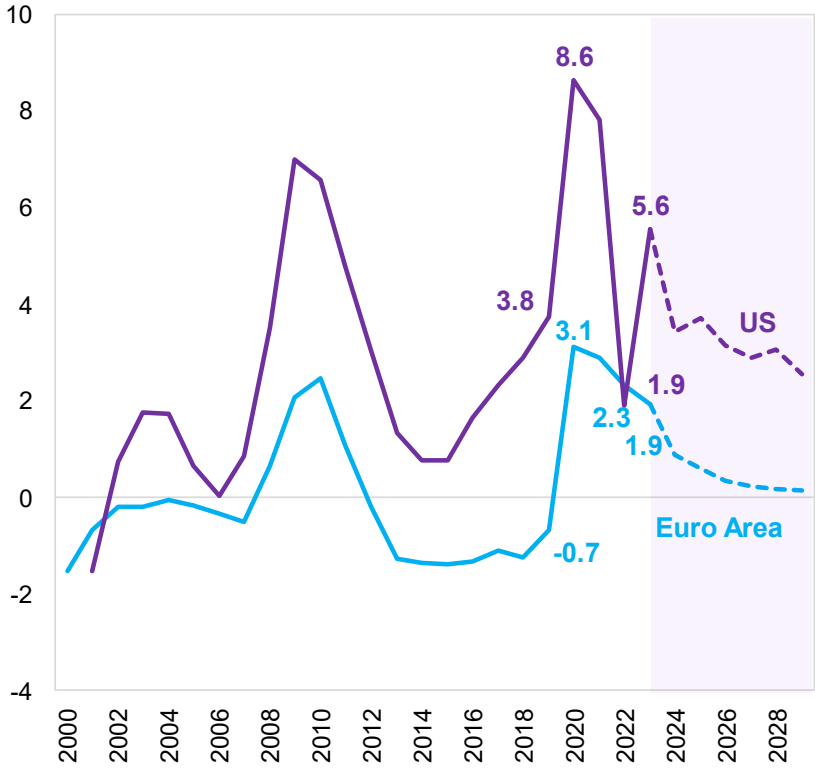


Source: "From laggard to leader? Closing the euro area's technology gap" Inaugural lecture of the EMU Lab by Isabel Schnabel, Member of the Executive Board of the ECB, at the European University Institute

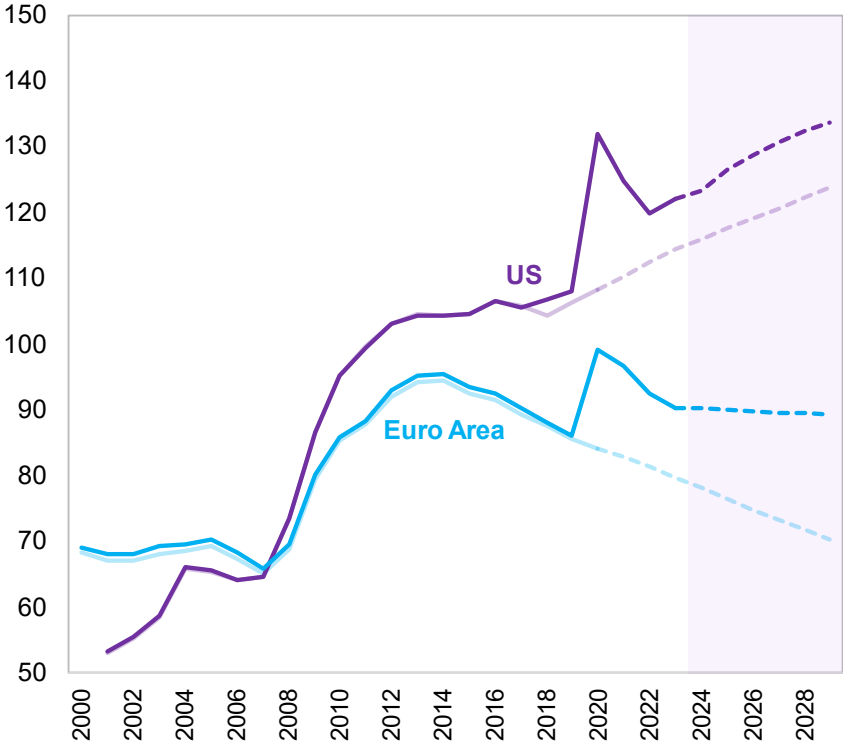
Note: 1) Productivity is TFP (\$US 2010 ppp). Real IT Related Capital Stock is the sum of computing equipment and computer software & databases for all NACE Industries. See details in: <http://www.longtermproductivity.com/about.html> 2) Vertical lines indicate 1995, when the European Union was created.

Diverging Trends in Debt and Deficits

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



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



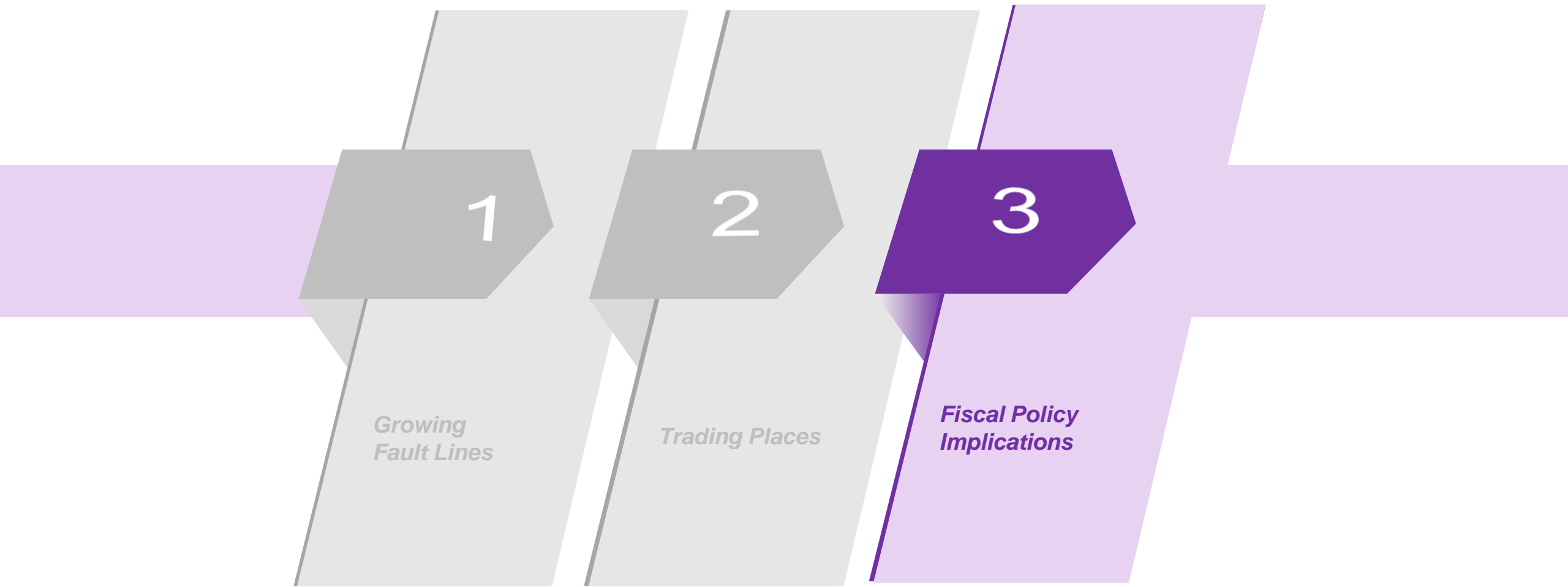
Source: International Monetary Fund World Economic Outlook (WEO April 2024 & January 2020) and IMF staff calculations.

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.

The Impact of Geopolitics on Fiscal Policy

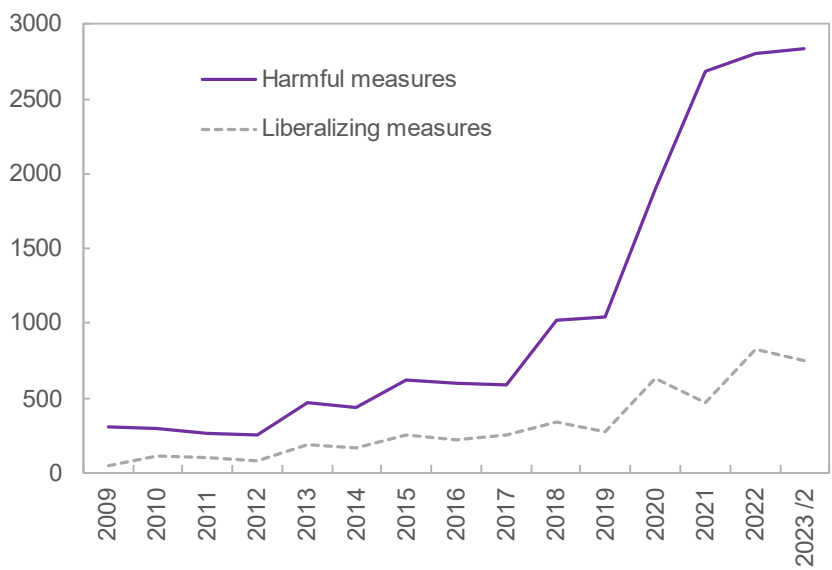


Geopolitics and Fiscal Policies

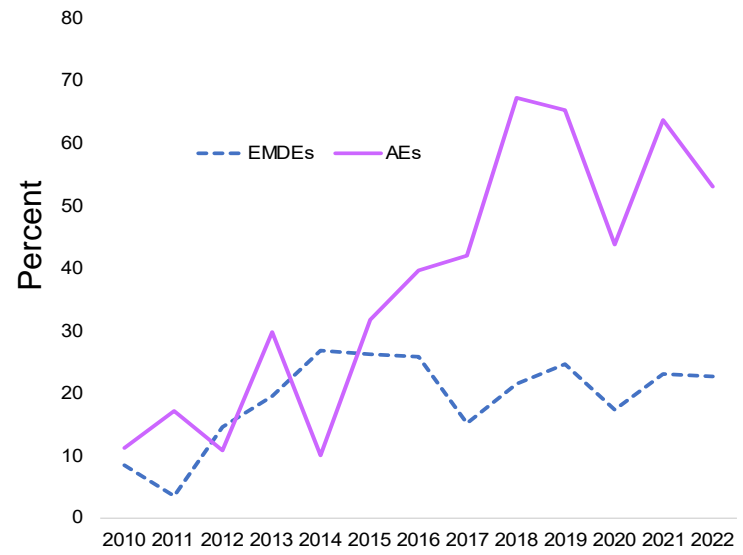


The Rise of Industrial Policy

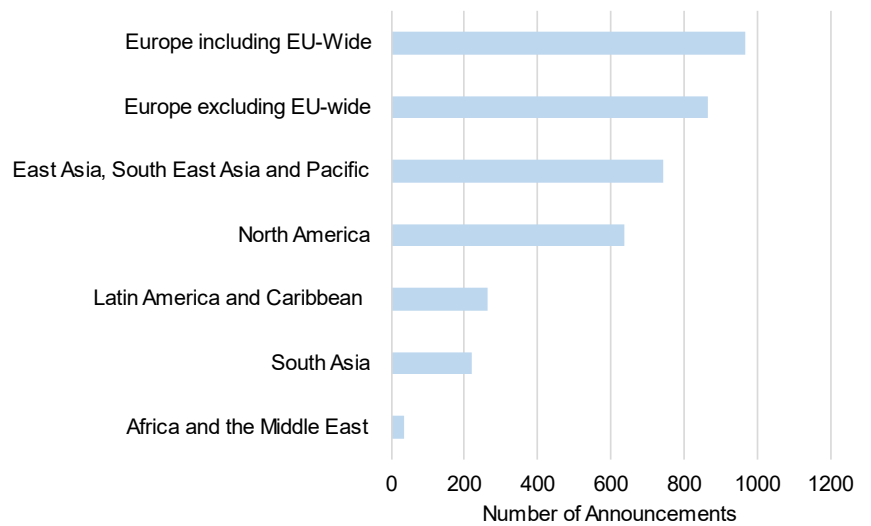
Number of Newly Implemented Trade and FDI Restrictions



Industrial Policy as Share of Total Trade Policies



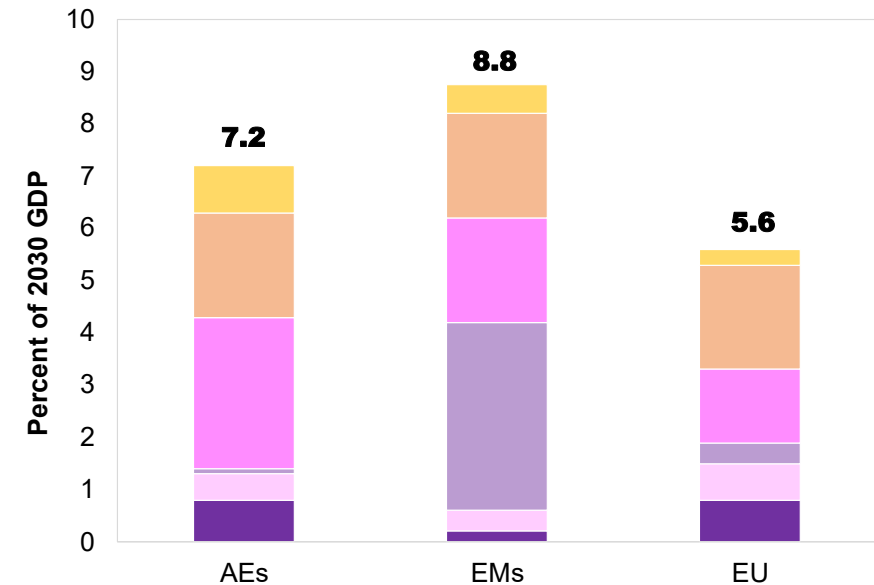
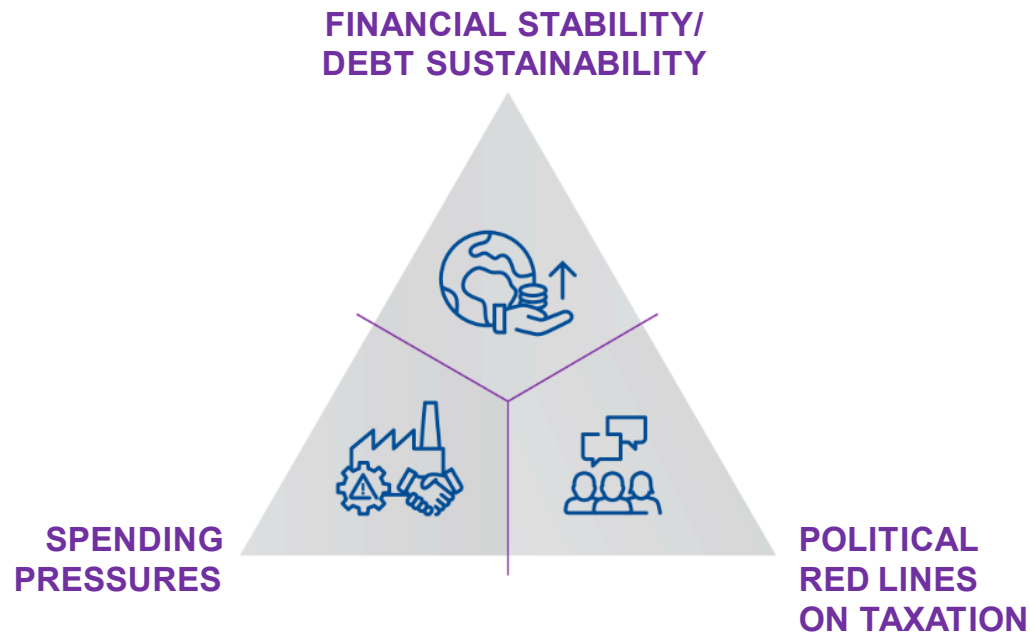
Industrial Policy: Announcements in 2023 (Number of Measures)



Source: (1) Global Trade Alert. Note: 1/ The number of new policy measures that restrict (harmful) or liberalize trade or FDI introduced in each year. The metric does not account for a measure's intensity. 2/ Cutoff date as of November 22, 2023. (2) Global Trade Alert database, Juhász and others (2022). RHS - Evenett, Jakubik, Martin, and Ruta (2024). (3) GTA NIPO and IMF Estimates.

Policy Trilemma under Rising Geopolitical Tensions

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

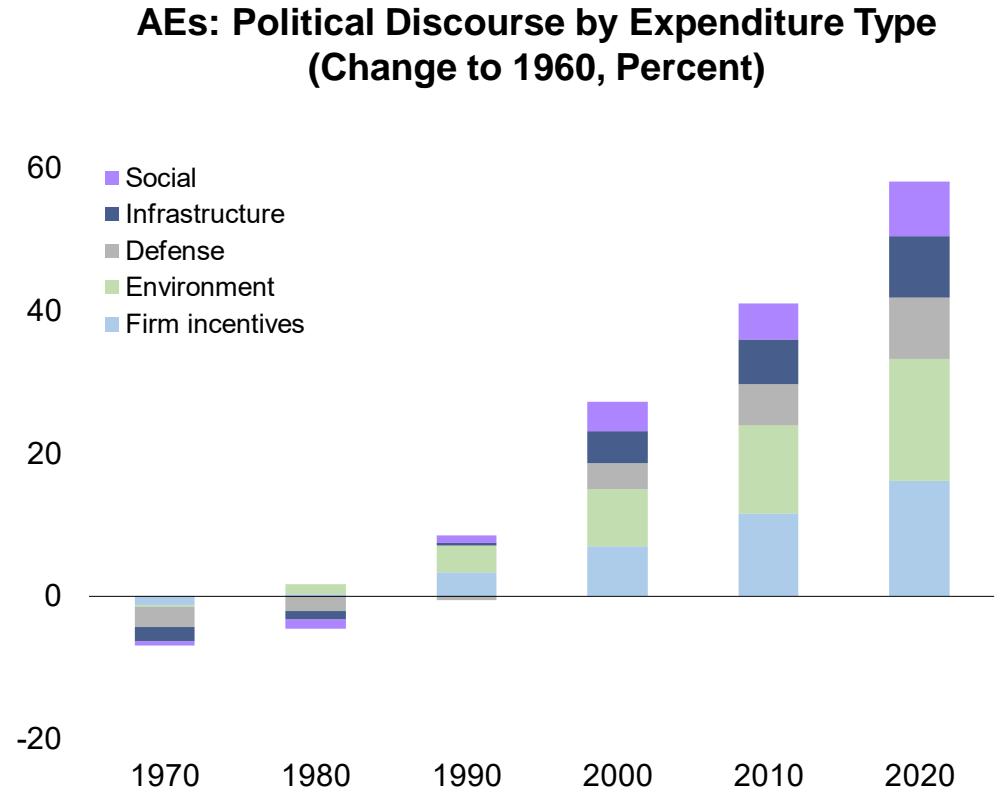
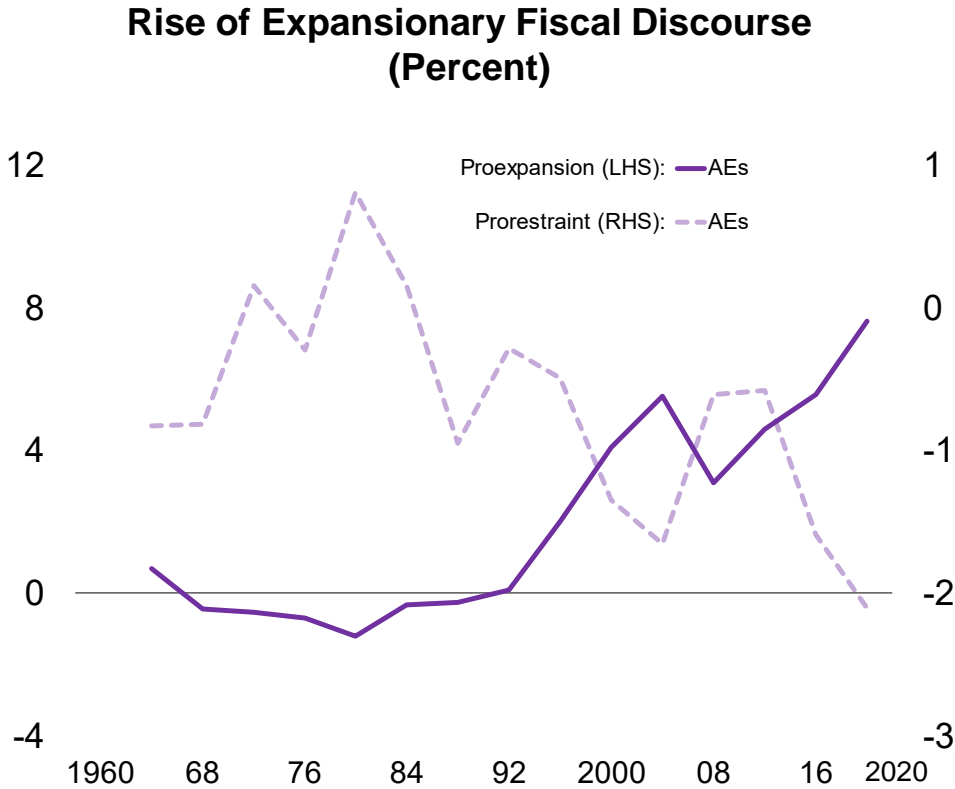


- Interest payments
- Climate
- Pension and health care
- SDGs
- Defense
- Industrial policy

Source: IMF Staff Estimates.

Note: AEs = Advanced Economies, EMs = Emerging Economies, EU= European Union, AU = African Union.

Elections, Fiscal Policy & Fiscal Slippages



Source: Fiscal Monitor (April 2024).

Note: 1) Available data for the model on the right cover the 1997-2020 period. 3) AEs: Share of Political Discourse by Expenditure Categories changes in the share of content of political parties' platforms across countries compared to 1960.

Conclusions

- 1 Spend better**
- 2 Revenues to keep up with spending**
- 3 Stronger fiscal frameworks**
- 4 Fiscal policy is structural policy**