Section 2
Comparison and Consideration of Fiscal Measures in Response to the COVID-19 Pandemic

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1. Introduction

Following the rapid spread of the novel coronavirus (COVID-19) worldwide from the beginning of 2020 (certified as a pandemic by the World Health Organization), national governments have been implementing large-scale fiscal measures to mitigate the economic damage, including increasing direct fiscal spending, tax cuts, and support for private sector funding.

These extraordinary fiscal measures have been positively evaluated because they have prevented an escalation of economic stagnation and an increase in job losses, but at the same time, they have significantly increased fiscal deficits and government debt to unprecedented levels, resulting in a tough fiscal outlook.

In this section, I compare the fiscal measures taken in selected economies in response to the COVID-19 pandemic and discuss fiscal consolidation issues based on the analyses in the Fiscal Monitor reports[1)] released by the International Monetary Fund (IMF) in April and October 2021.

2. Status of Fiscal Measures in Response to the COVID-19 Pandemic

(1) Scale of Fiscal Measures in Response to the COVID-19 Pandemic

According to the IMF, the scale of fiscal measures implemented in response to the COVID-19 pandemic by national governments was estimated to be USD 16.9 trillion (16.4% of nominal GDP) globally as of October 2021. Figure 1-2-1 illustrates the scale of the fiscal measures taken in selected economies (as percentages of nominal GDP) based on the IMF's country classifications[2)]. The comparison shows that there is a large difference between countries in terms of their ability to increase government expenditure.

1) The Fiscal Monitor is a report prepared and published twice a year by the IMF Secretariat on each country's latest fiscal conditions and medium- to long-term fiscal projections.
2) The IMF has classified global economies into advanced economies, emerging market economies, and low-income developing countries, which are also used in this report.

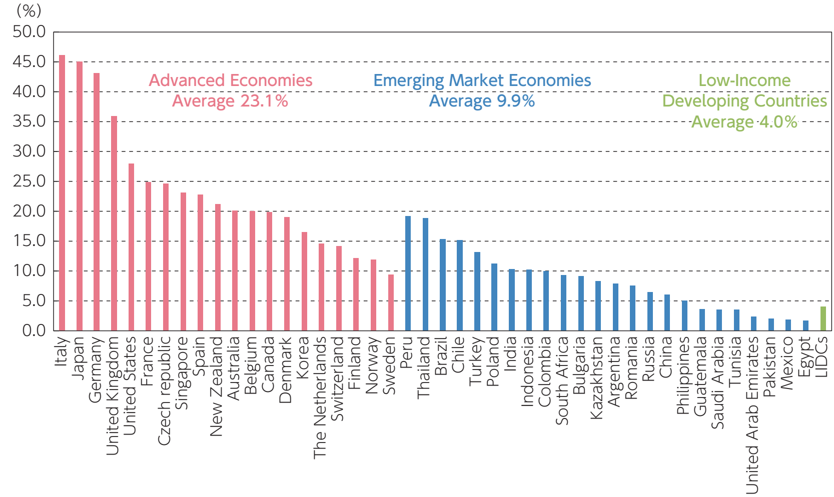

Figure 1-2-1 Scale of fiscal measures in selected economies (percentage of GDP)

Note: The classifications of advanced economies, emerging market economies, and low-income developing countries are based on the definitions of the IMF. Ratios are percentages of nominal GDP.
Source: IMF, Database of Country Fiscal Measures in Response to the COVID-19 Pandemic

The scale of fiscal measures is the largest in advanced economies with strong economic power (23.1% on average), followed, although with a large difference, by emerging market economies (9.9% on average), while the scale is generally small in low-income developing countries (4.0% on average).

Among the top five advanced economies, Italy is the highest at 46.2% as a percentage of nominal GDP, followed by Japan (45.1%), Germany (43.1%), the UK (36.0%), and the US (27.9%).

The top emerging market economies are Peru (19.2%), Thailand (18.8%), Brazil (15.4%), Chile (15.2%), and Turkey (13.1%). China, which contained the outbreak of COVID-19 infections at an early stage, stood at a low 6.1% relative to its economic scale.

The IMF classifies the contents of fiscal measures into measures within a budget (additional spending and forgone revenues such as tax cuts) and off-budget measures (equity, loans, and guarantees by the government sector). Off-budget measures are support by financing from private sources. Figure 1-2-2 and Figure 1-2-3 show international comparisons of the scale of fiscal measures as percentages of nominal GDP in advanced economies and in emerging market economies based on the classifications.

Regarding fiscal measures, which is the larger of the within-budget and off-budget measures differs depending on the country. Generally speaking, ad-

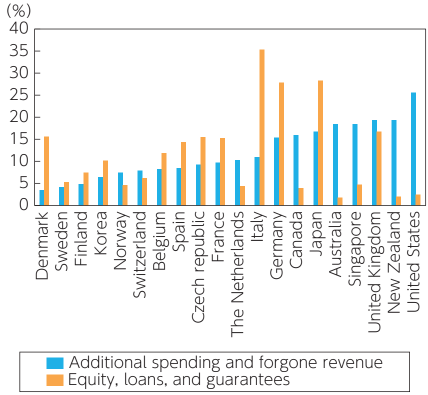

Figure 1-2-2 Scale of fiscal measures in advanced economies (percentage of GDP)

Note: Ratios are in percentages of nominal GDP.
Source: IMF, Database of Country Fiscal Measures in Response to the COVID-19 Pandemic

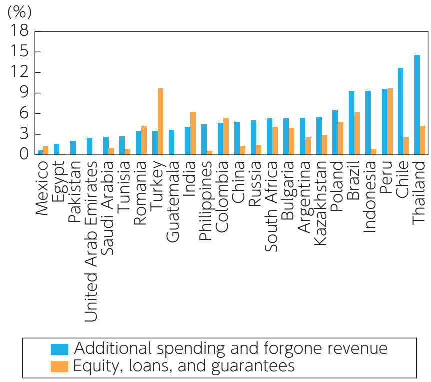

Figure 1-2-3 Scale of fiscal measures in emerging market economies (percentage of GDP)

Note: Ratios are percentages of nominal GDP.
Source: IMF, Database of Country Fiscal Measures in Response to the COVID-19 Pandemic

vanced economies with larger government debt compared to the pre-pandemic levels have implemented larger off-budget measures (Spain, France, Italy, and Japan). In Germany as well, which maintains strict fiscal discipline, off-budget funding support measures account for a larger percentage. On the other hand, in the US, which provided direct benefits to individuals three times and a large amount of additional unemployment insurance benefits, the additional spending within the budget accounts for a much larger percentage.

In emerging market economies, unlike advanced economies where the

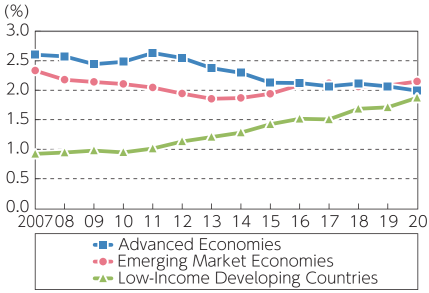

Figure 1-2-4 Changes in interest payment costs of general governments (percentage of GDP)

Note: Ratios are percentages of nominal GDP.
Source: IMF, Fiscal Monitor, April 2021

types of fiscal measures differ from country to country, the higher the stage of economic development, the more flexibly fiscal measures have been taken, and many economies rely more on additional spending within their budgets.

It can be said that the reason why such extraordinary large-scale fiscal measures were taken in advanced economies and some emerging market economies is because the COVID-19 pandemic, which emerged rapidly, and its serious impact prompted quick responses. As the IMF points out, in the background to this lies central banks' large-scale monetary easing measures, including reductions in their policy interest rates and purchases of government bonds, that allowed the fiscal authorities of each country to finance their huge fiscal deficits by issuing government bonds at low interest rates.

As shown in Figure 1-2-4, in the continued low interest rate environment, interest payment costs as percentages of nominal GDP of the general governments of advanced economies and emerging market economies have remained at low levels (1.9% to 2.6%) for the past 10 years. Although interest payment costs have been trending upward in low-income developing countries, the ratio still remains at the low level of less than 2.0% as a percentage of GDP.

But recently, long-term interest rates have been trending upward. The US 10-year government bond interest rate increased from around 0.7% in September 2020 to around 1.5% in November 2021. The Federal Reserve Board (FRB) decided on a policy of gradually reducing quantitative easing from November 2021. Long-term interest rates may continue to rise in the future, coupled with inflationary concerns due to the expansion of demand associated with the huge fiscal stimulus package under the Biden administration. It should be noted that if the rise in interest rates spreads to advanced economies, there is the risk that this will increase interest payment costs in each country.

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(2) Outlook for the Fiscal Balance and Government Debt

Large-scale fiscal measures in response to the global spread of COVID-19 have significantly worsened each country's fiscal balance. The IMF projects a sharp deterioration of fiscal balances in 2020 (Table 1-2-1). When looking at the ratio of the fiscal deficit to nominal GDP in 2020, the average was 10.8% for advanced economies, 9.6% for emerging market economies, and 5.2% for low-income developing countries.

The IMF predicts that fiscal deficits will shrink in most countries in 2021 because COVID-19-related support measures will end or decrease. Although each country's fiscal deficit is currently well above their pre-pandemic levels, the IMF predicts that the deficits in most countries will return to their pre-pandemic levels by 2026.

Large-scale fiscal measures in response to COVID-19 have become a factor

Table 1-2-1 Changes in general governments' fiscal balances (percentage of GDP)

(Percent of GDP)	2016	2017	2018	2019	2020	Projections					
						2021	2022	2023	2024	2025	2026
World	**-3.5**	**-3.0**	**-3.0**	**-3.6**	**-10.2**	**-7.9**	**-5.2**	**-4.2**	**-3.8**	**-3.6**	**-3.5**
Advanced Economies	**-2.7**	**-2.4**	**-2.5**	**-3.0**	**-10.8**	**-8.8**	**-4.8**	**-3.6**	**-3.2**	**-3.1**	**-3.0**
Canada	-0.5	-0.1	0.3	0.5	-10.9	-7.5	-2.2	-0.5	-0.1	0.2	0.4
France	-3.6	-3.0	-2.3	-3.1	-9.2	-8.9	-4.7	-3.9	-3.6	-3.4	-3.4
Germany	1.2	1.3	1.9	1.5	-4.3	-6.8	-1.8	-0.4	0.0	0.5	0.5
Italy	-2.4	-2.4	-2.2	-1.6	-9.5	-10.2	-4.7	-3.5	-2.9	-2.6	-2.4
Japan	**-3.8**	**-3.3**	**-2.7**	**-3.1**	**-10.3**	**-9.0**	**-3.9**	**-2.1**	**-2.1**	**-2.1**	**-2.2**
United Kingdom	-3.3	-2.4	-2.2	-2.3	-12.5	-11.9	-5.6	-3.6	-3.2	-3.1	-2.9
United States	-4.3	-4.6	-5.4	-5.7	-14.9	-10.8	-6.9	-5.7	-5.2	-5.3	-5.3
Emerging Market Economies	**-4.8**	**-4.1**	**-3.7**	**-4.7**	**-9.6**	**-6.6**	**-5.8**	**-5.2**	**-4.8**	**-4.4**	**-4.1**
China	-3.7	-3.8	-4.7	-6.3	-11.2	-7.5	-6.8	-6.2	-5.6	-5.0	-4.5
India	-7.1	-6.2	-6.4	-7.4	-12.8	-11.3	-9.7	-8.8	-8.3	-8.1	-7.8
Russian Federation	-3.7	-1.5	2.9	1.9	-4.0	-0.6	0.0	0.2	0.1	-0.2	-0.5
Brazil	-9.0	-7.9	-7.1	-5.9	-13.4	-6.2	-7.4	-6.4	-5.4	-4.8	-4.4
Mexico	-2.8	-1.1	-2.2	-2.3	-4.5	-4.2	-3.5	-3.2	-2.9	-2.8	-2.8
Saudi Arabia	-17.2	-9.2	-5.9	-4.5	-11.3	-3.1	-1.8	-1.4	-1.1	-0.6	0.1
South Africa	-3.7	-4.0	-3.7	-4.8	-10.8	-8.4	-7.0	-6.4	-6.2	-6.5	-6.8
Low-Income Developing Countries	**-3.8**	**-3.6**	**-3.4**	**-3.9**	**-5.2**	**-5.4**	**-5.0**	**-4.5**	**-4.3**	**-4.1**	**-3.9**

Note: Ratios are percentages of nominal GDP.
Source: IMF, Fiscal Monitor, October 2021

Table 1-2-2 Changes in general government debt (percentage of GDP)

(Percent of GDP)	2016	2017	2018	2019	2020	Projections					
						2021	2022	2023	2024	2025	2026
World	**83.2**	**82.0**	**82.3**	**83.6**	**98.6**	**97.8**	**96.9**	**97.0**	**96.9**	**96.8**	**96.5**
Advanced Economies	**105.6**	**103.2**	**102.7**	**103.8**	**122.7**	**121.6**	**119.3**	**119.3**	**119.1**	**118.8**	**118.6**
Canada	91.7	88.8	88.8	86.8	117.5	109.9	103.9	100.2	96.9	93.4	89.7
France	98.0	98.3	98.0	97.6	115.1	115.8	113.5	114.6	115.4	116.2	116.9
Germany	69.3	65.0	61.6	59.2	69.1	72.5	69.8	68.0	65.9	63.4	60.9
Italy	134.8	134.1	134.4	134.6	155.8	154.8	150.4	149.4	148.6	147.5	146.5
Japan	232.5	231.4	232.5	235.4	254.1	256.9	252.3	250.8	251.0	251.3	251.9
United Kingdom	86.8	86.3	85.8	85.2	104.5	108.5	107.1	109.4	110.5	111.2	111.6
United States	106.9	106.0	107.1	108.5	133.9	133.3	130.7	131.1	131.7	132.5	133.5
Emerging Market Economies	**48.4**	**50.5**	**52.4**	**54.7**	**64.0**	**64.3**	**65.8**	**67.1**	**68.2**	**69.0**	**69.8**
China	48.2	51.7	53.8	57.1	66.3	68.9	72.1	74.5	76.6	78.5	80.1
India	68.9	69.7	70.4	74.1	89.6	90.6	88.8	88.1	87.3	86.3	85.2
Russian Federation	14.8	14.3	13.6	13.8	19.3	17.9	17.9	17.7	17.8	17.5	17.5
Brazil	78.3	83.6	85.6	87.7	98.9	90.6	90.2	91.7	92.4	92.6	92.4
Mexico	56.7	54.0	53.6	53.3	61.0	59.8	60.1	60.5	60.9	61.2	61.5
Saudi Arabia	13.1	17.2	19.0	22.8	32.5	29.7	30.8	30.4	29.5	28.4	27.2
South Africa	47.1	48.6	51.6	56.3	69.4	68.8	72.3	74.9	77.4	80.2	83.0
Low-Income Developing Countries	**39.5**	**42.1**	**42.7**	**44.2**	**49.9**	**50.2**	**49.8**	**49.0**	**48.5**	**48.0**	**47.3**

Note: Ratios are gross debts' percentages of nominal GDP.
Source: IMF, Fiscal Monitor, October 2021

behind the record accumulation of government debt[3], as well as the worsening of fiscal balances (Table 1-2-2). When looking at the ratio of the government debt of general governments to nominal GDP in 2020, the average was 122.7% for advanced economies, 64.0% for emerging market economies, and 49.9% for low-income developing countries.

The ratio of each country's government debt to nominal GDP is expected to remain at a high level until 2021, and in advanced economies, it is expected to slightly decline towards 2026. There may be some emerging market economies and low-income developing countries in which it will continue to increase due to development factors. International aid may need to be expanded to support low-income developing countries.

The ratio of Japan's government debt to nominal GDP is the highest among

3) Government debt here refers to gross debt or the total amount of debt that requires payments of the principal and interest. Gross debt data are used in this report because net debt data on some emerging market economies and low-income developing countries are not available from the IMF's Fiscal Monitor. There is no difference in data trends between gross debt and net debt.

advanced economies at well over twice the level of pre-pandemic GDP, which is progressively increasing to respond to COVID-19. For Japan, which faces structural challenges such as increasing social security spending and government debt with the progress of the aging population, the risk of rising interest rates has become even greater. If government debt has a negative impact on long-term economic growth, there is the concern that Japan could be most seriously affected.

The IMF also mentions risks to the fiscal outlook. A scaling up of vaccine production and delivery, especially to emerging market economies and low-income developing countries, would improve the economy and limit further fiscal deterioration. On the downside, new variants of the virus and low vaccine coverage could increase pressure and inflict new damage on public budgets. The realization of contingent liabilities from guarantee programs may also lead to unexpected increases in government debt. In short, the longer the pandemic, the bigger the financial problems.

3. Challenges for Fiscal Consolidation in the Future

During the COVID-19 pandemic, the unprecedented size of the fiscal response has saved people's lives and jobs. Although the current fiscal measures are appropriate, the increased government debt will remain high for many years.

The IMF points out that commitment to fiscal sustainability is important for future fiscal management. Governments can signal their commitment to fiscal discipline to the public and to the markets, while also addressing the ongoing crisis, in various ways, including by reducing structural fiscal deficits or by adopting strong fiscal frameworks into which deficit reduction in the future is embedded. The IMF points out that if the market trusts the government's commitment to fiscal discipline, financing deficits becomes easier.

Looking ahead to the post-pandemic environment, I believe the situation is in line with IMF's recommendations for future financial management. Advanced economies with an extraordinarily large amount of government debt may need a common commitment to fiscal sustainability with a view to the post-pandemic era and a clear path to fiscal consolidation.

Unfortunately, in Japan the government and the Diet have not yet started full-fledged discussions, but studies and discussions on concrete measures for the consolidation of the fiscal situation that has deteriorated due to the responses to COVID-19 have already started in Europe and the US.

In the US, the Democratic Party announced on August 9, 2021, a USD 3.5 trillion budget plan over a 10-year period for measures to achieve growth by investing in the fields of infrastructure, education, medical care, and childcare. As the financial resources for this, raising the corporate tax rate for large companies and raising the maximum income and capital gain tax rates are being discussed.

The UK's finance minister Rishi Sunak has stated the need for fiscal consolidation in line with the announcement of the 2021 budget, and as a measure to that end, announced a corporate tax hike for the first such hike in nearly half a century. The current uniform corporate tax rate of 19% will be raised to a maximum of 25% from April 2023 depending on corporate profits (the bill was passed on June 10, 2021).

In Germany, the Basic Law for the Federal Republic of Germany requires the federal government to maintain balanced finances and limits its borrowing to no more than 0.35% of GDP. The borrowing limit may be exceeded in the case of natural disasters or unusual emergency situations following the adoption of a resolution by the Bundestag, the German federal parliament, accompanied by a redemption schedule. According to the redemption schedule, the excess borrowing for COVID-19 measures (EUR 41.9 billion for 2020, EUR 216.4 billion for 2021) will be repaid by 2042.

In France, the report released on March 18, 2021, by the Committee for Future Finance set up by Prime Minister Jean Castex clarifies the policy of ensuring fiscal sustainability by keeping the government expenditure growth rate lower than the revenue growth rate over the long term. The 2022 budget bill (submitted by Parliament on September 22) stipulates that COVID-19 related debt (EUR 165 billion) will be repaid by 2042.

The European Union will finance the Next Generation EU Program by issuing common bonds, whose repayment schedule until 2058 has also been determined. Introductions of new taxes and levies are being discussed as sources of redemption funds.

In this way, major advanced economies have begun discussing measures to secure financial resources, including tax hikes, and for fiscal consolidation in light of the deterioration of fiscal conditions.

The Japanese government should also flexibly implement the necessary fiscal measures to respond to the COVID-19 crisis without hesitation, but it should not leave the loose fiscal discipline unattended. It is crucial for Japan to discuss and consider what kind of measures should be taken for fiscal consolidation after the ongoing emergency has ended in the near future.

Whatever the case, I expect the Japanese government to urgently discuss measures to be taken for fiscal consolidation and present the discussion process and proposals to the public in an easy-to-understand manner.

References

IMF, Fiscal Monitor, April 2021
IMF, Fiscal Monitor, October 2021