



# International Monetary Fund

## Expenditure Reform

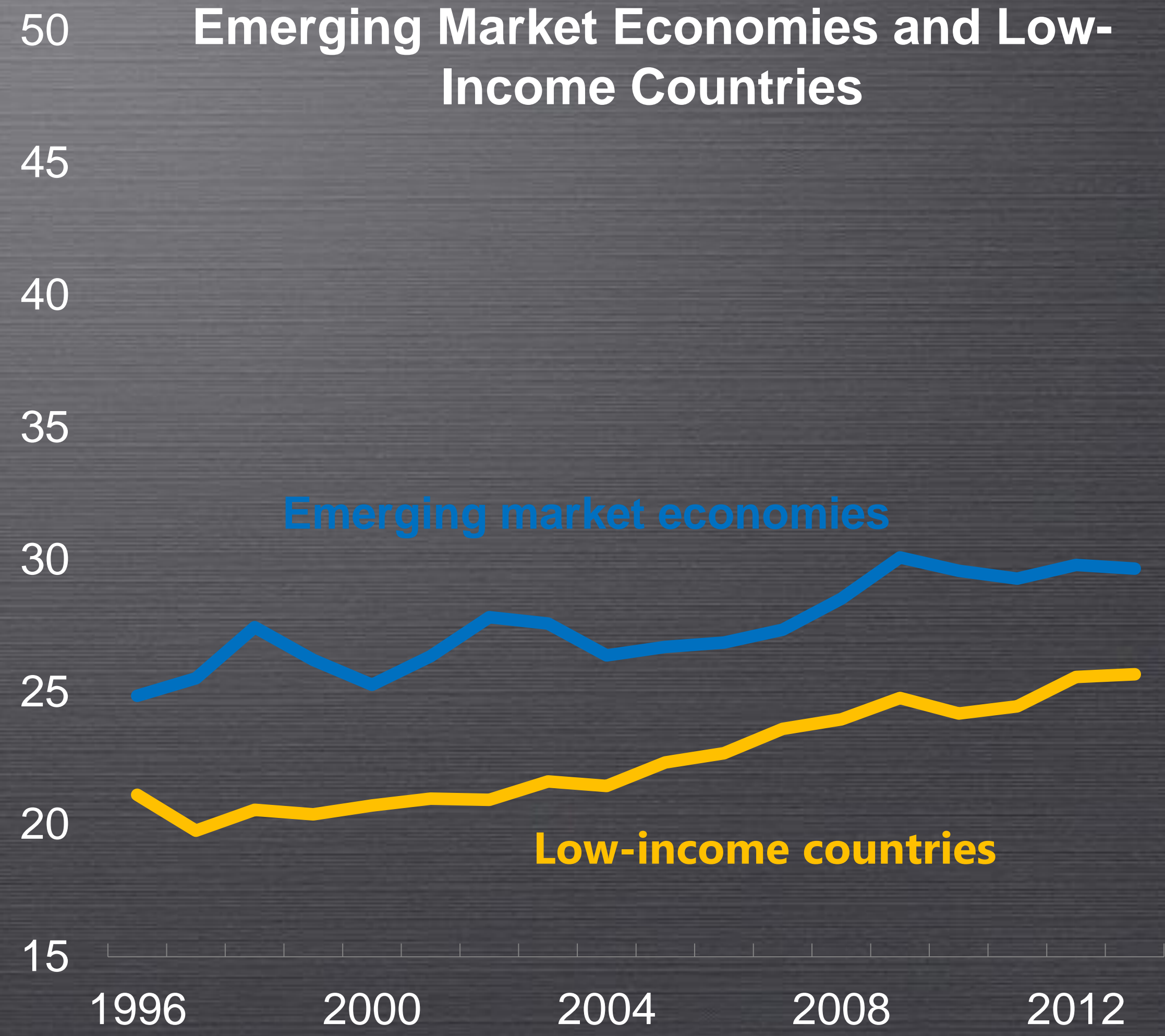
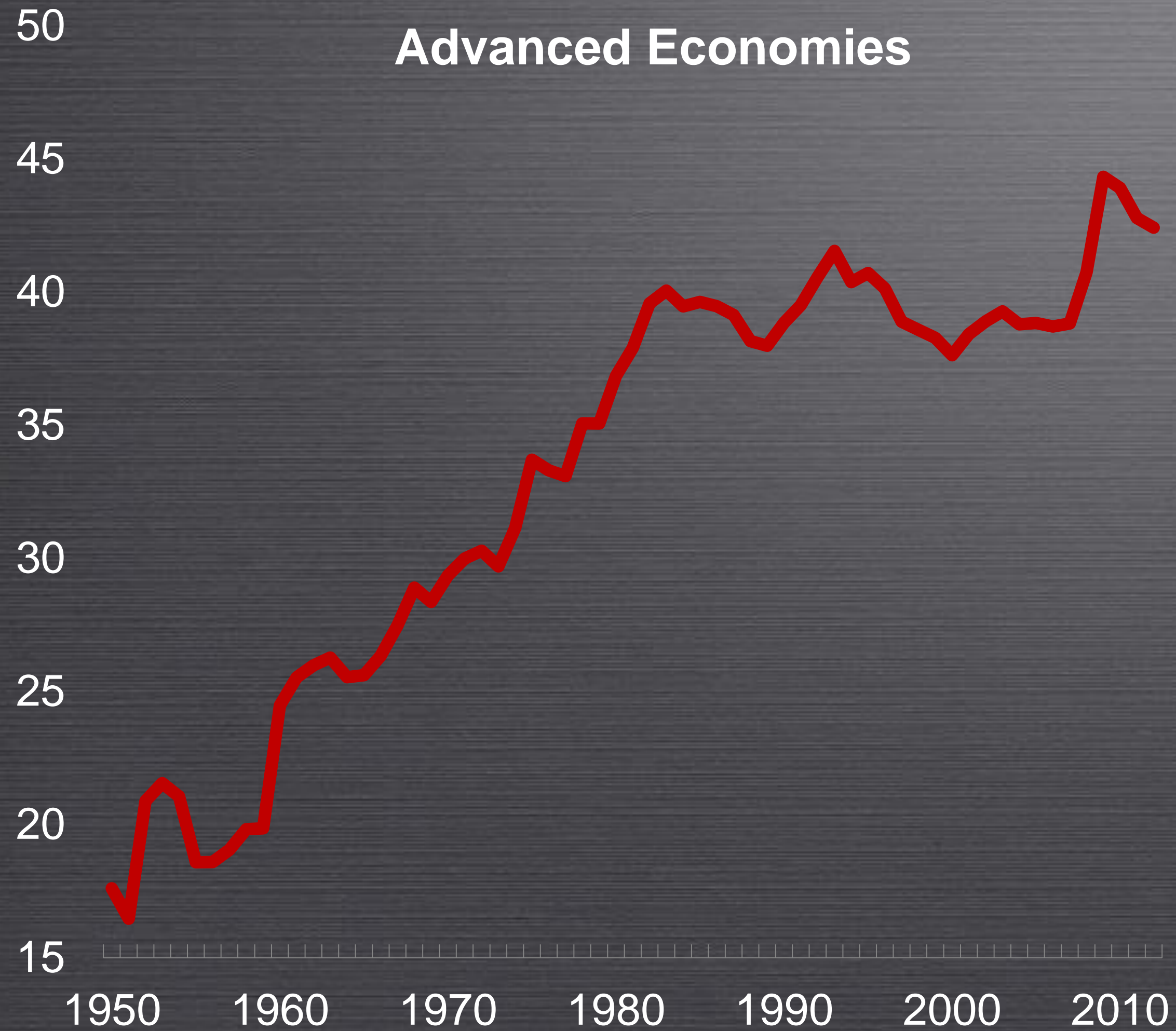
## — Some Considerations

**Brasilia, October 2015**

**Fabian Bornhorst  
Resident Representative—Brazil  
International Monetary Fund**

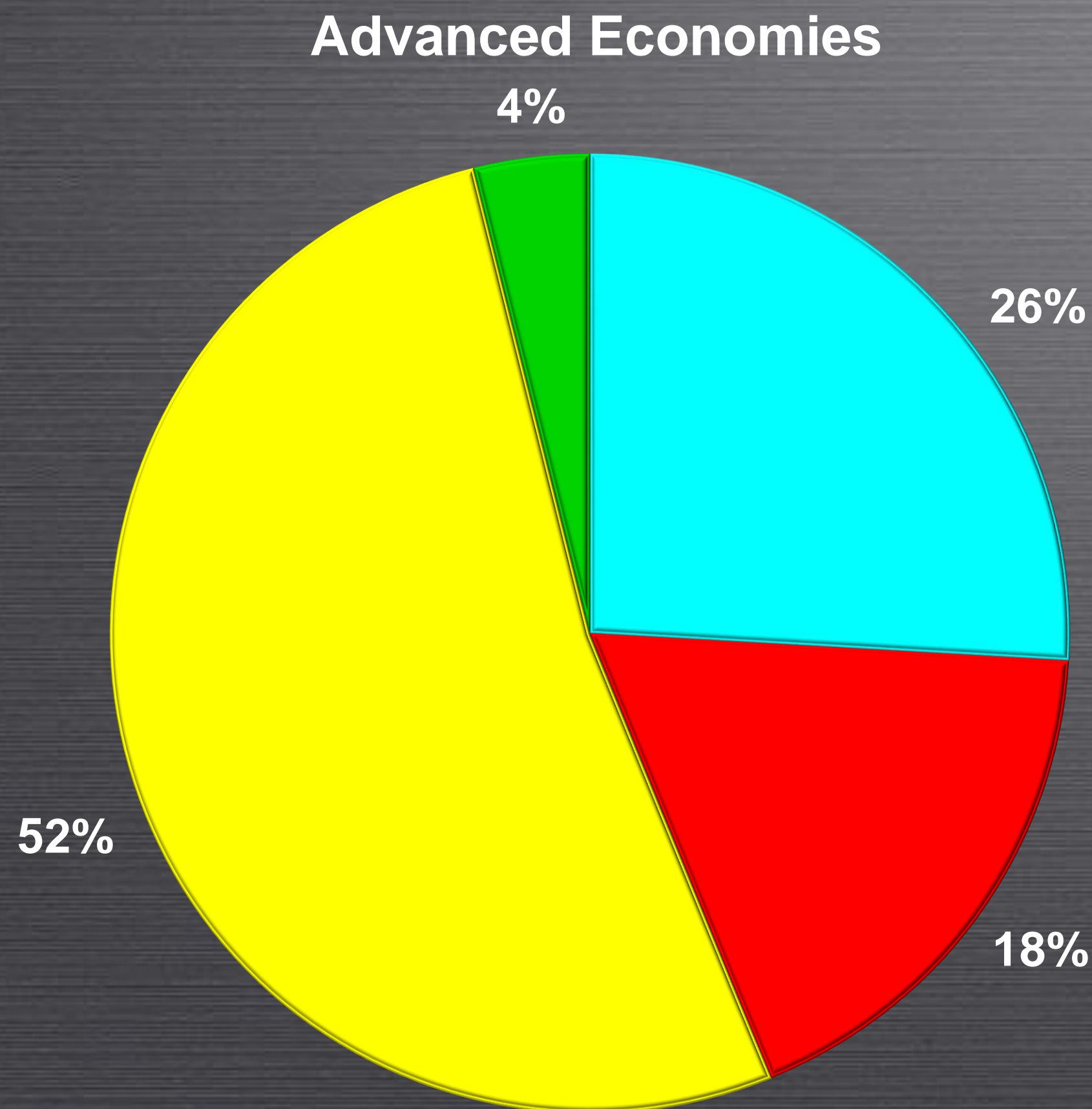
# Secular Increase in Public Expenditure

**General Government Expenditure**  
*(Percent of GDP)*

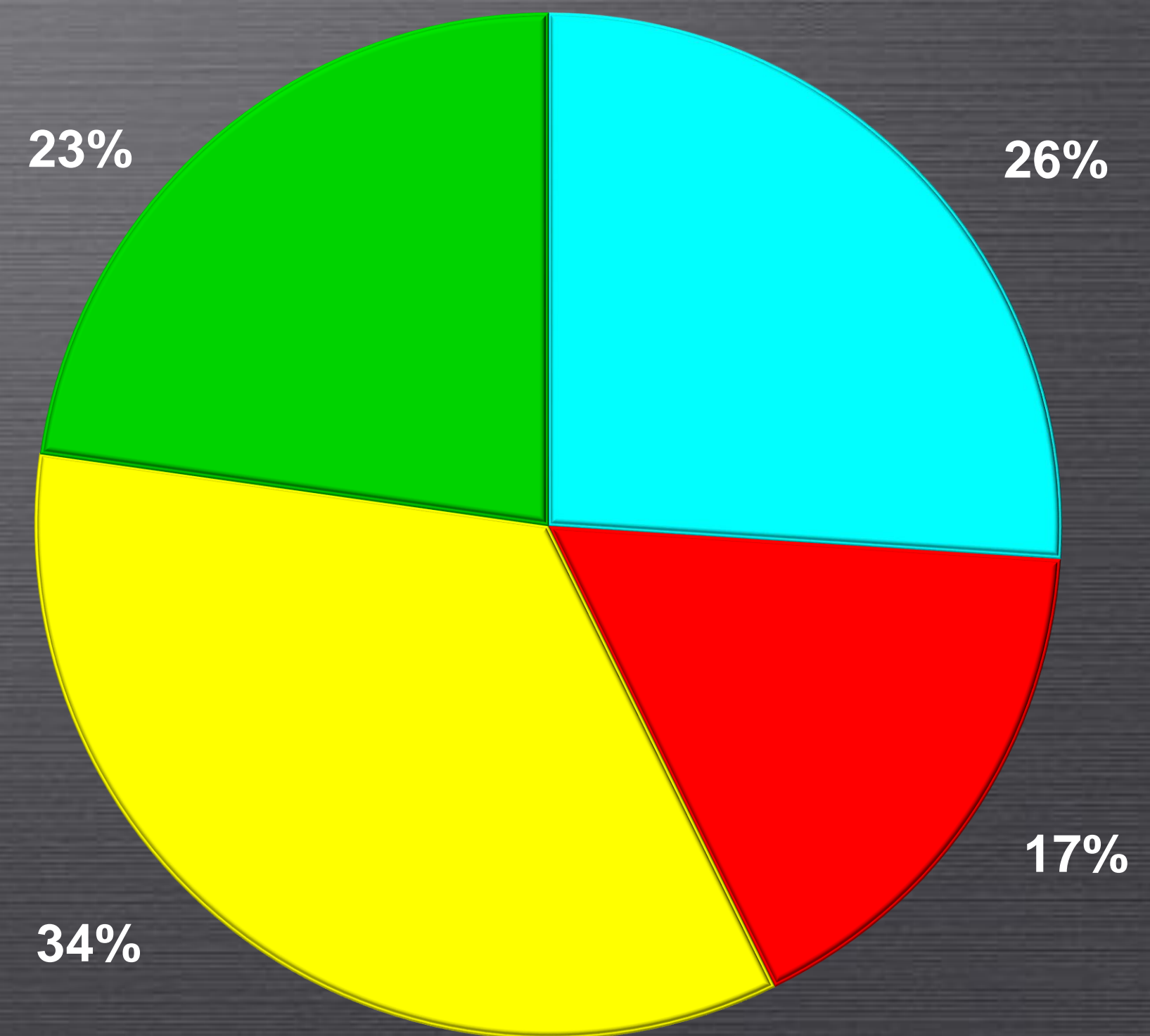


# Expenditure Reforms Should Focus on Largest Budget Items

Expenditure Structure  
(Percent of total primary expenditure)



Emerging Market Economies and Low-Income Countries



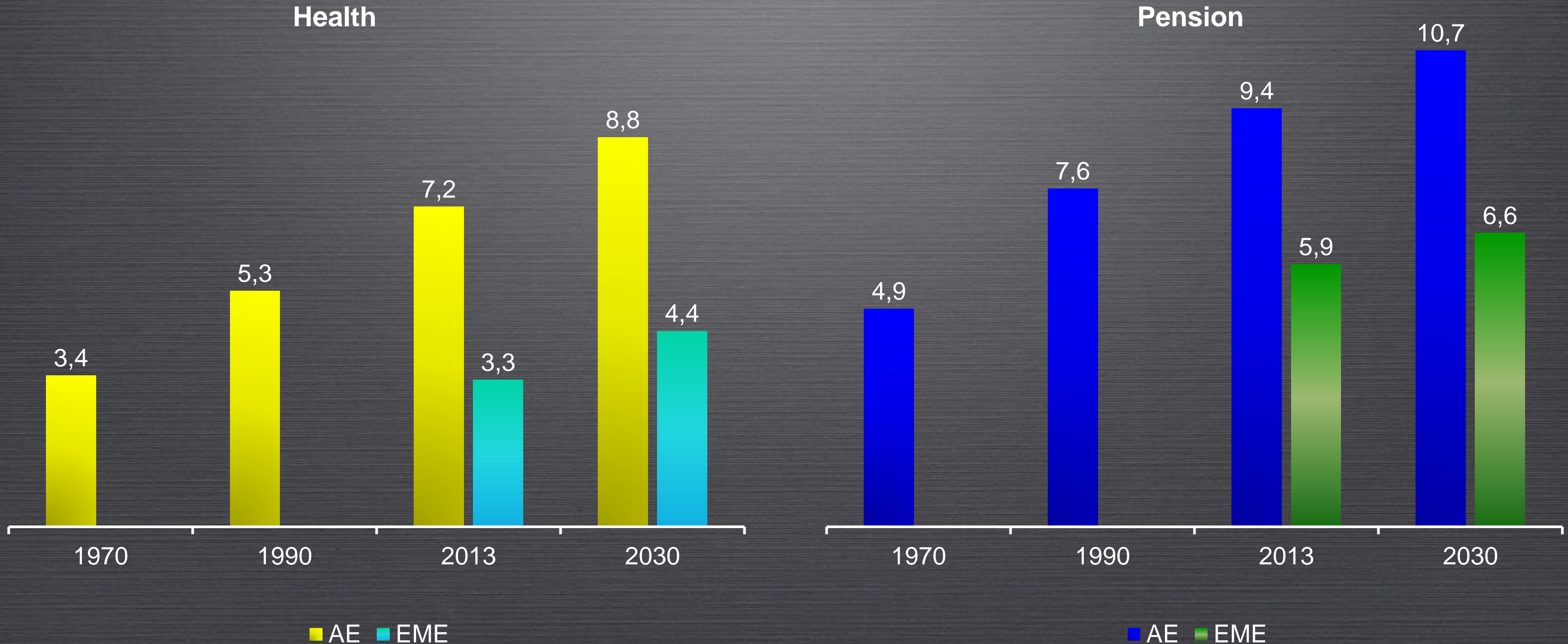
■ Compensation of employees   ■ Goods and services   ■ Social benefits and subsidies   ■ Investment

# And Take Into Account Future Pressures on Spending

Age-Related Expenditure in Advanced and Emerging Economies  
(Percent of GDP)

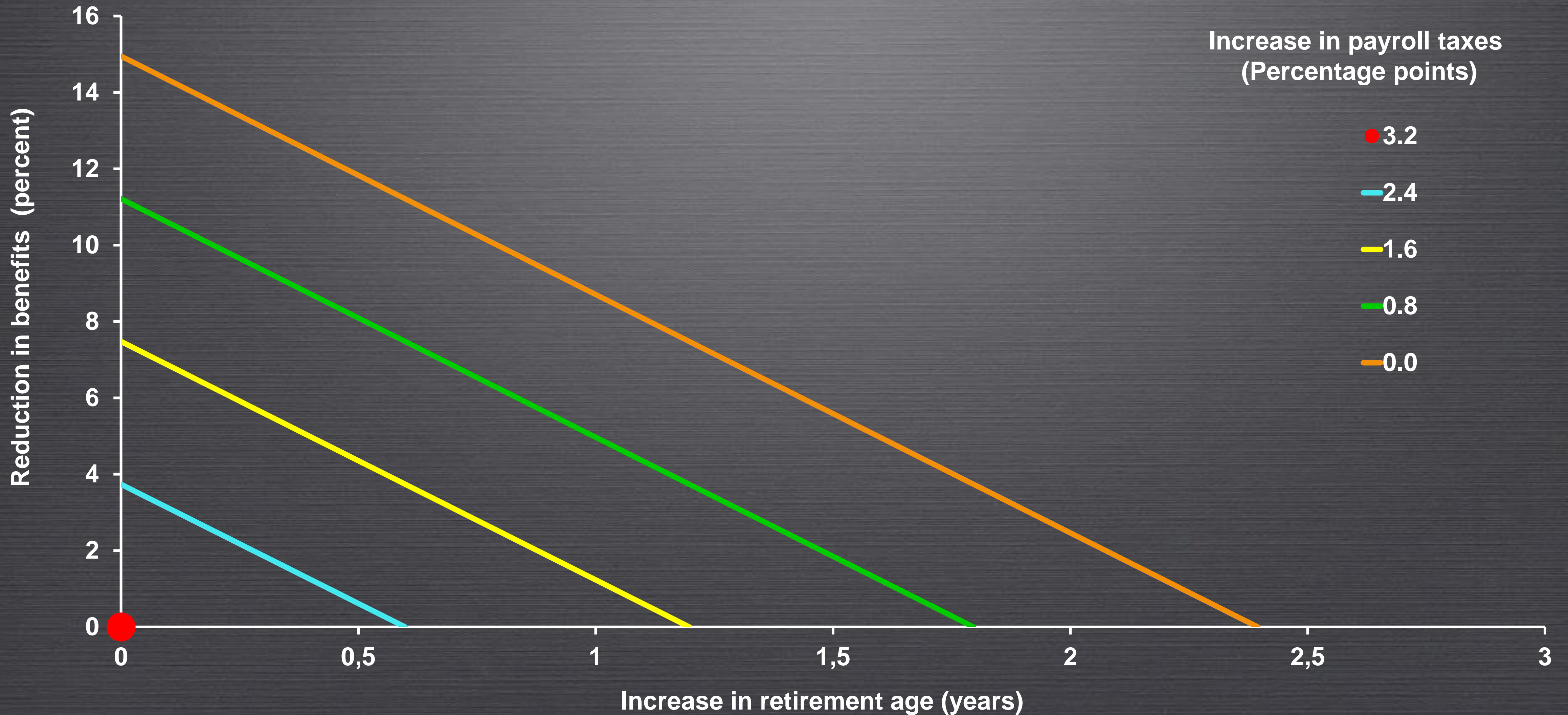
Health

Pension



# Pension Reform: Politically Difficult Tradeoffs

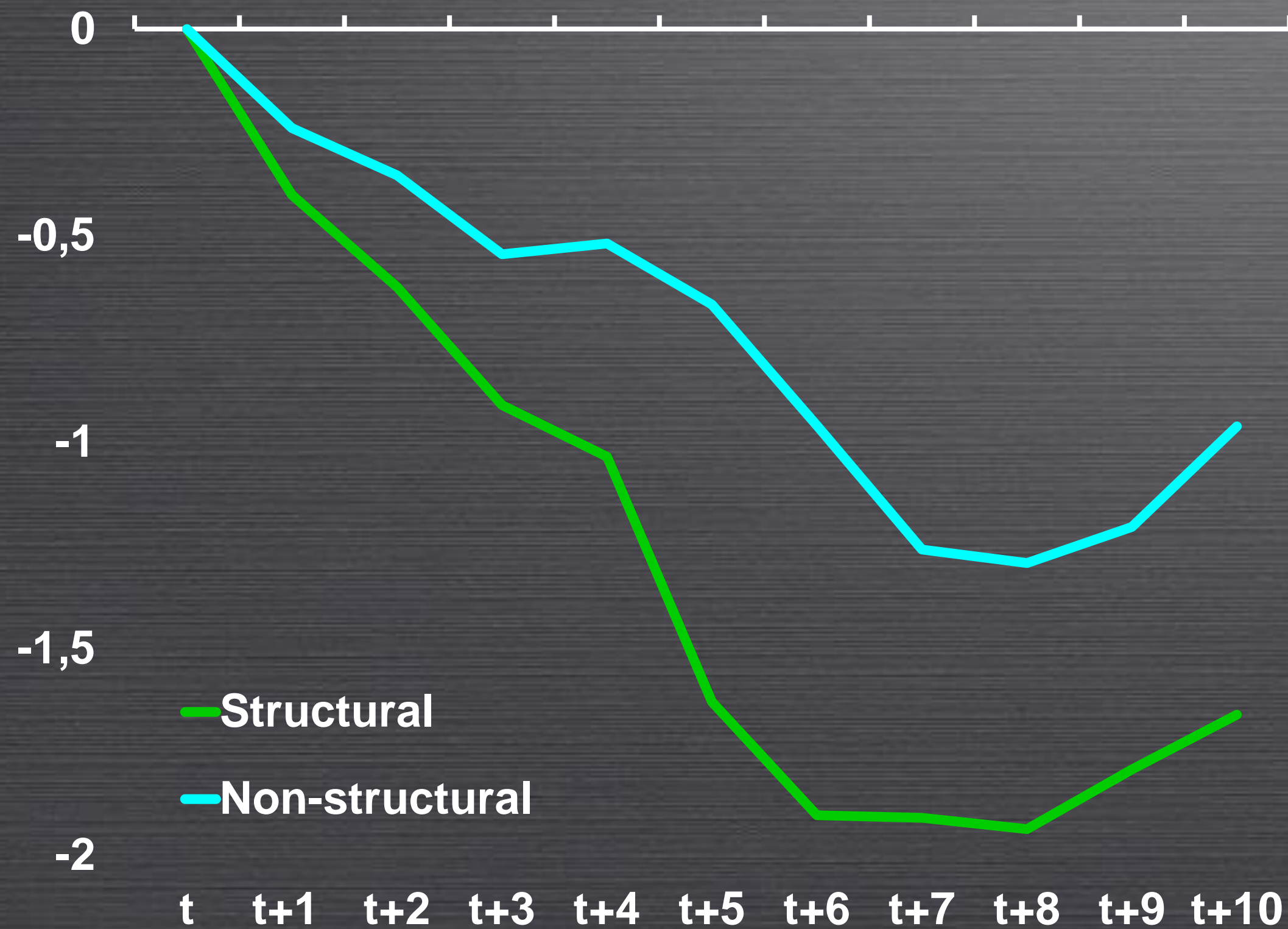
AEs: Tradeoff Between Reform Options to Stabilize Pension Expenditure over 2013-2030



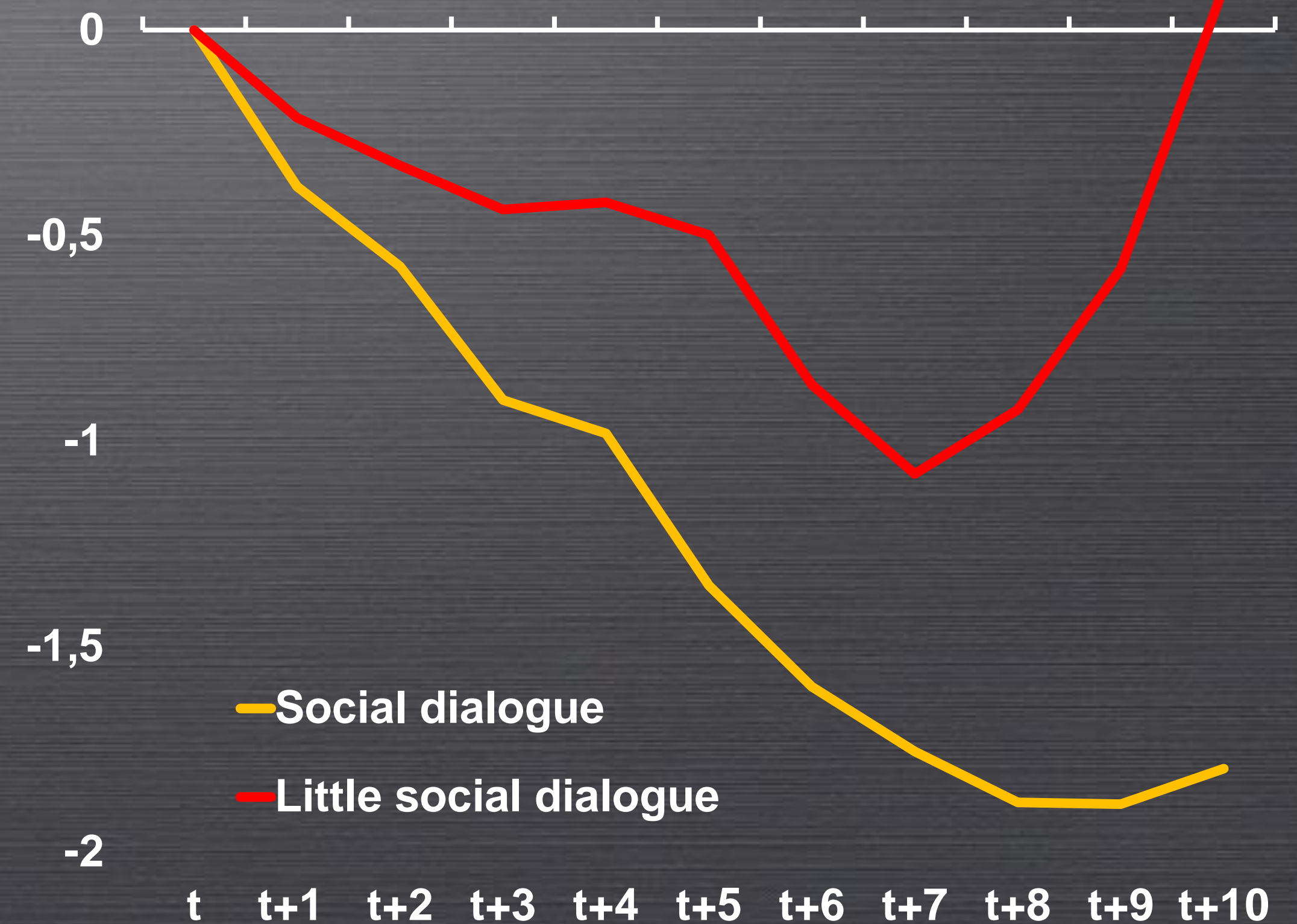
# Wage Bill: Structural and Negotiated Measures Work Best

Cumulative Change in the Public Wage Bill After the First Year of Measures  
(Percent of GDP)

Structural vs. Non-Structural Measures



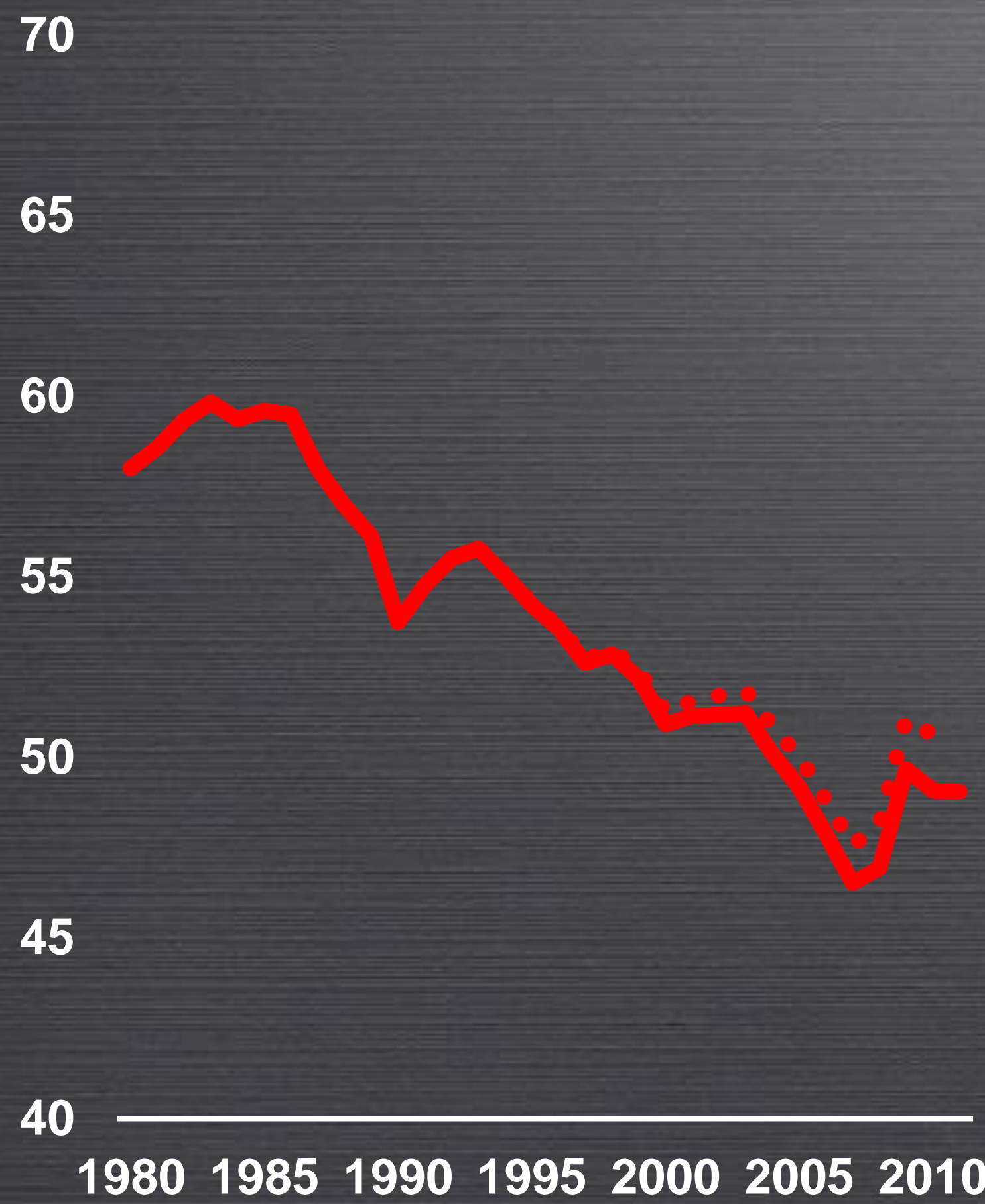
Social Dialogue vs. Little Social Dialogue



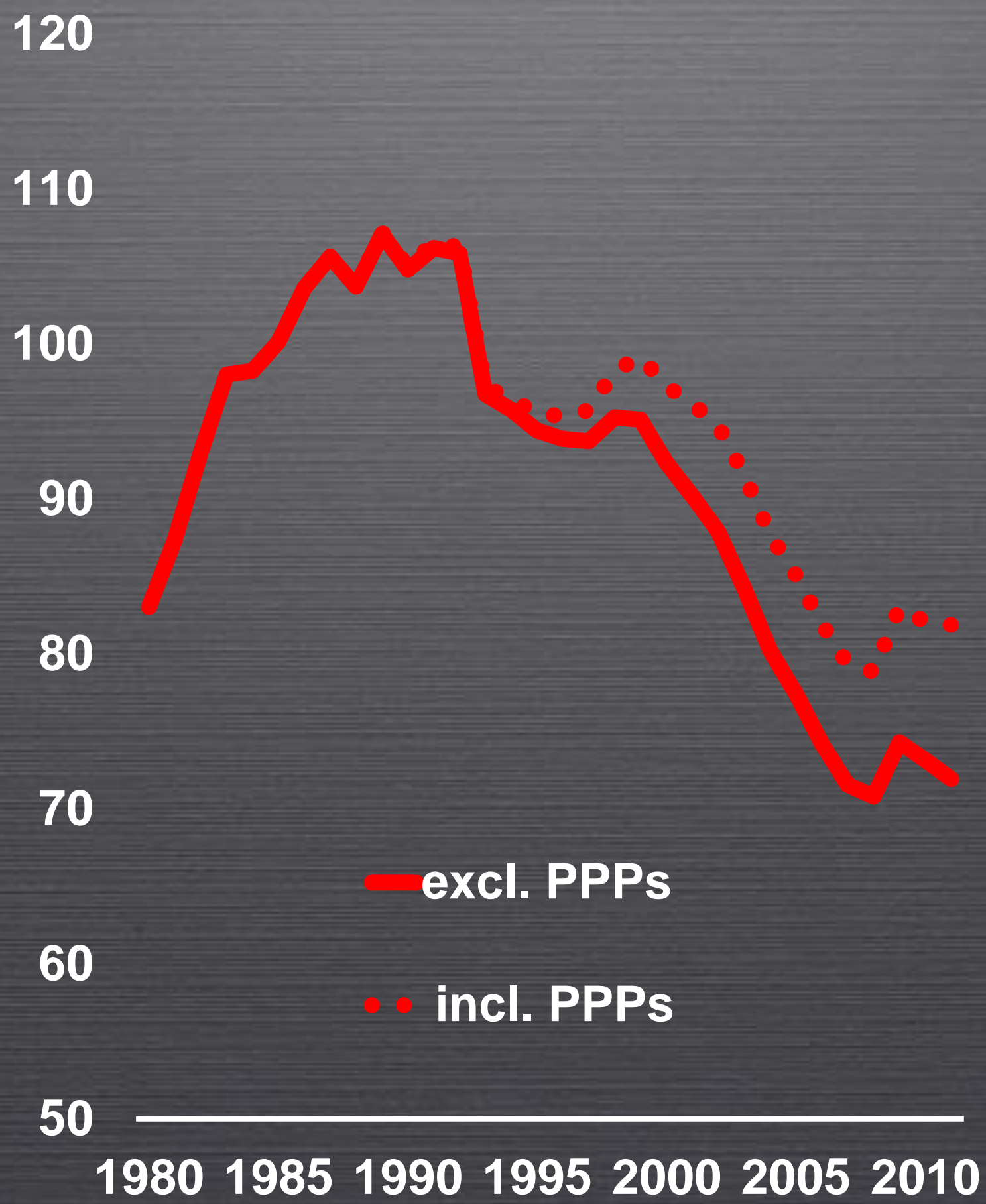
# More Efficient Public Investment or Involvement of Private Sector

## General Government Capital Stock (Percent of GDP)

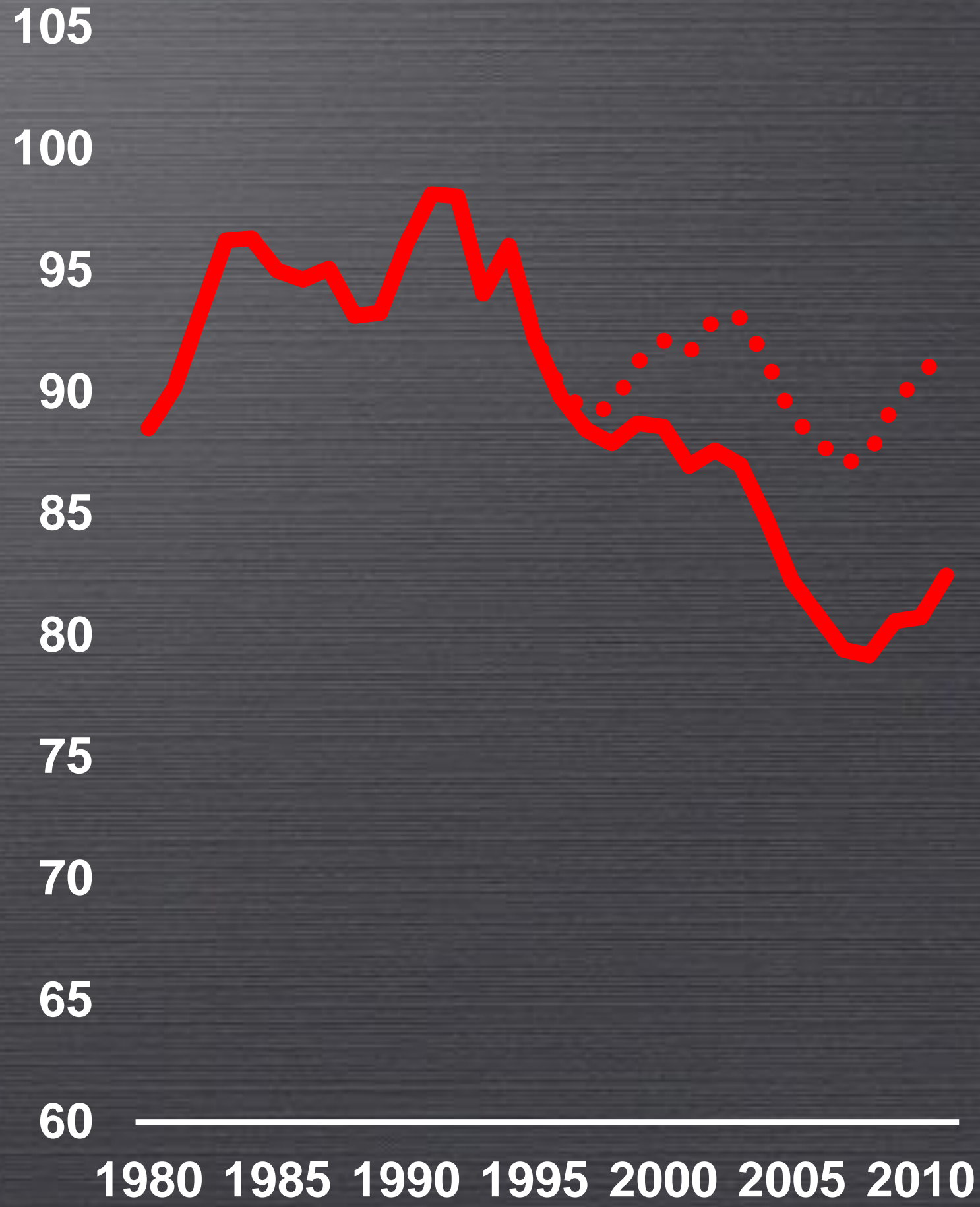
### Advanced Economies



### Emerging Market Economies



### Low-Income Countries



## **Institutional framework key for successful reforms**

- PFM systems help constrain overspending and misallocation of resources
- Expenditure rules can catalyze reform incentives through containment, efficiency, and prioritization of spending
- Well-designed decentralization frameworks critical (one-third of expenditure programs at subnational level)



## Key Elements of Expenditure Reforms

- Tackle the big ticket items (pensions, wages, subsidies)
- Avoid across the board cuts
- Scope to improve efficiency (health, education, benefits)
- Need to arrest public capital depreciation
- Mobilize appropriate institutional and political support
- Institutional framework key for success of reforms



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**More information?**

**<http://www.imf.org/external/pubs/ft/fm/2014/01/fmindex.htm>**



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