Prioritizing Structural Reforms for Economic Growth

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Conclusions

• Prioritize structural reforms in line with own policy priorities and own capacity
• Focus on infrastructure (electricity, water, roads), agriculture, fiscal reforms and the banking sector
• Watch revenue implications of any reform
• Inclusiveness: best practices, data, doing business, transparency.
Taking stock: commitments

• Accession template 56 areas
• Working Party 30 sections
• Commitments directly affecting trade:
  – market access for goods (import tariffs and quantitative restrictions)
  – services (financial and other)
  – trade-related fiscal measures (export duties, internal taxes, fees and charges).
• Commitments in nontrade areas of the economy:
  – subsidies (agriculture, domestic support, export and industrial)
  – price controls
  – state monopolies
  – trade-related investment measures
  – intellectual property rights
  – privatization
  – transparency.
Test Variables
Positive Impact from Accession (Score)

- Saudi Arabia
- Seychelles
- Oman
- Lithuania
- Russian Federation
- Latvia
- Estonia
- Croatia
- Mongolia
- Ecuador
- China
- Viet Nam
- Ukraine
- Georgia
- Taiwan, China
- Panama
- Bulgaria
Neutral and Negative Impact of Accessions

Scores:
- Jordan
- Kazakhstan
- Tajikistan
- Kyrgyz Republic
- Armenia
- Yemen
- Nepal
- Afghanistan
- Montenegro
- Lao PDR
- Cambodia
- Tonga
- Albania
- Moldova
- Vanuatu
- Samoa
- Cabo Verde
Looking Forward: Reform Prioritization
Fiscal implications: substantial

• **Uncertain:**
  – depend on the tariff structure
  – initial conditions
  – the reform strategy, if their tariff structures are complex

• **Revenue loss and recovery:**
  – high-income countries recovered revenue losses
  – middle-income countries - recovery was about 45–60 percent
  – weak in low-income countries – not more than 30 percent

• **Impact on fiscal revenue depends on country**

• **Impact on expenditure:** significant budgetary and other adjustment costs
Fiscal Impact

The impact depends
- reduce its applied duties to the bound level
- the elasticity of import volumes to the duty rate,
- the relative importance of customs revenue in overall revenue,
- and whether replace quotas are with customs duties.

Negative
- if it has to reduce applied import duties
- import volumes will not increase after this reduction
- no quotas were replaced with import duties,
- has to remove import surcharges.
Tax Revenue

12 % of GDP
Trade Taxes: Two cases

Case 1.
• Growth 3% (unstable -1.6 to 5.3)
• Tax revenues 6% of GDP (12 percent of GDP on average in LDCs in 1995–2015)
• 2% of GDP from trade = subsidies (fuel, wheat)
• Weak collection (0.2 vs. 0.4), low imports and overvalued exchange rate.
• Low efficiency = large tax exemptions and/or tax administration.
• Can increase the ratio by 6 points of GDP, especially by raising tax collections on income and goods and services.

Case 2.
• Low growth (1 percent, amemic, population 3 percent)
• Tax ratio 12 percent of GDP, declining
• 2 percent from trade (wages + pensions and transfers)
• Remittances; electricity crisis
• All tax revenue goes to finance salaries
• Low tax and customs collection
Offsetting trade tax losses

Difficult, in particular in LDCs

Policies
• Rebalance the whole tax structure from external to domestic
• In domestic - from direct to indirect taxes
• Assess expenditure implications
• Combine tariff reduction with increases in consumption taxes
• VAT: enhance the base, increase in rates not recommended

Administration
• Expand the base (exemptions, informal sector, labor force participation, computerization, de-cashing)
• Offset import tariff on excisable products by an increase in excise taxes
• Apply a withholding tax on imports, if there is an informal sector
• Increases in a range of domestic taxes, including the income tax
Priority – FDI

• Use best practices: WTO rules, GFSM 2001/14, BoP2006

• Improve business climate:
  – Sudan 159/189 (trading across borders, access to credit, and investor protection);
  – Comoros 154/189, enforcing contracts (179) and resolving business disputes (189).

• Rebalance the tax system:
  – From direct income to consumption taxes
  – Expand the base

• Inclusiveness: regions, SMEs, stakeholders, transparency
To do list

• Prepare a budgetary implication study
• Contact your MoF, explain the WTO
• Send a TA request to IMF Fiscal Affairs Department
• Come to IMF Spring Meetings April 21-23, 2017
• Have a meeting with FAD and regional depts
• Raise all your macro concerns
• Ask for help in macro programming
• Include as a subject in next Article IV consultation
Recommendation

• Build on the experience of acceded countries by designing similar reform agendas
• Lock them into a credible policy framework through domestic and international agreements
• Frontload reforms to gain credibility and persisting in their implementation
• Balance short-term costs with long-term benefits
• Learn from Article XII peers who have gained substantial experience in managing reforms