



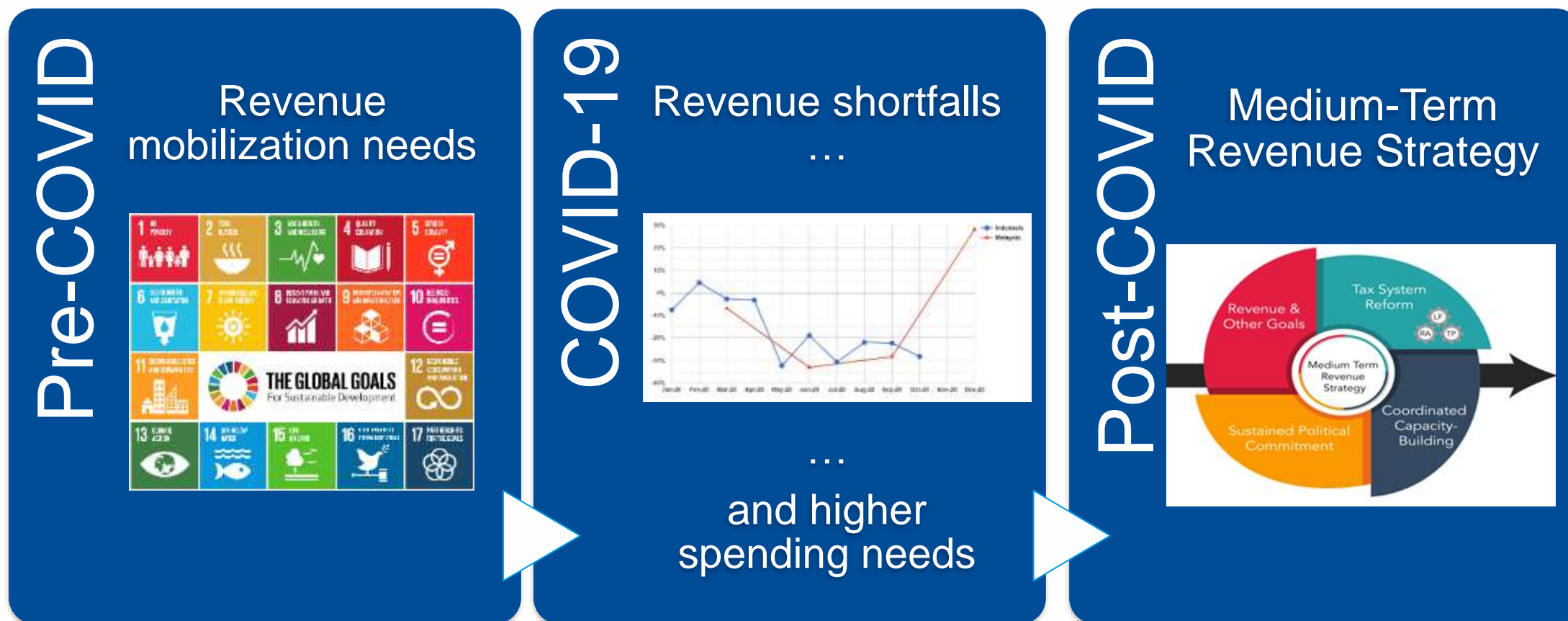
Medium-Term Revenue Strategies to Support Recovery and Development in Asia

PCT AND ADB VIRTUAL WORKSHOP

MAY 26, 2021

Ruud de Mooij
IMF Fiscal Affairs Department

Revenue imperative pre- and post COVID-19 in Asia



Revenue shortfalls ...



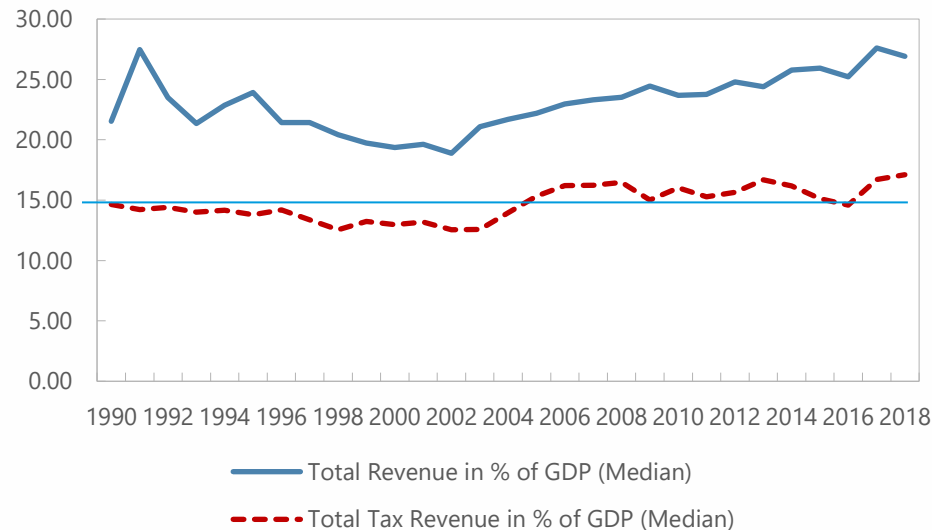
... and higher spending needs

Medium-Term Revenue Strategy



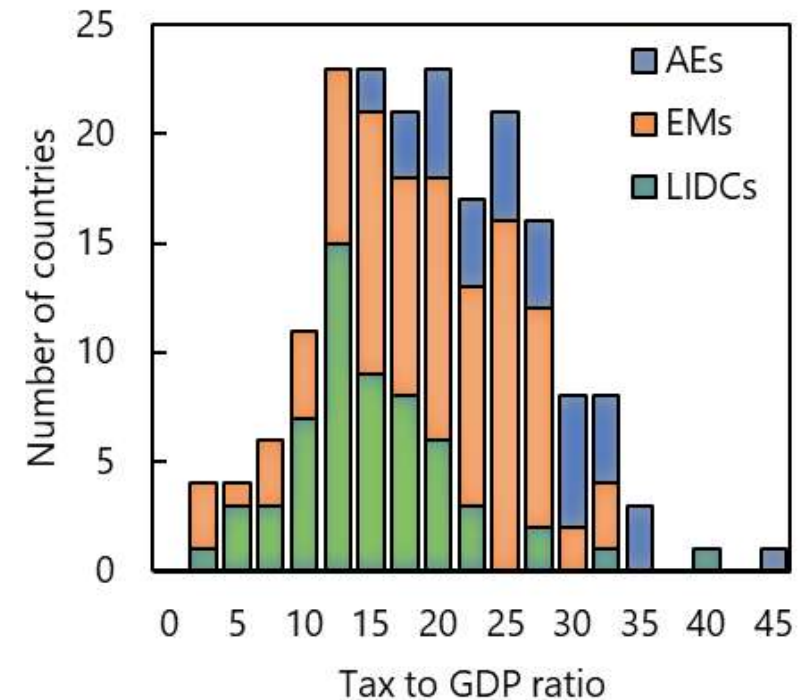
Pre-COVID-19: progress underway – but uneven outcomes

Tax-to-GDP ratios in Emerging and Developing Asia had been rising since the early 2000s



Source: IMF WoRLD Database

Tax-to-GDP ratios are still very low in several LIDCs and EMs



Source: IMF WoRLD Database

COVID-19: Revenue shortfalls

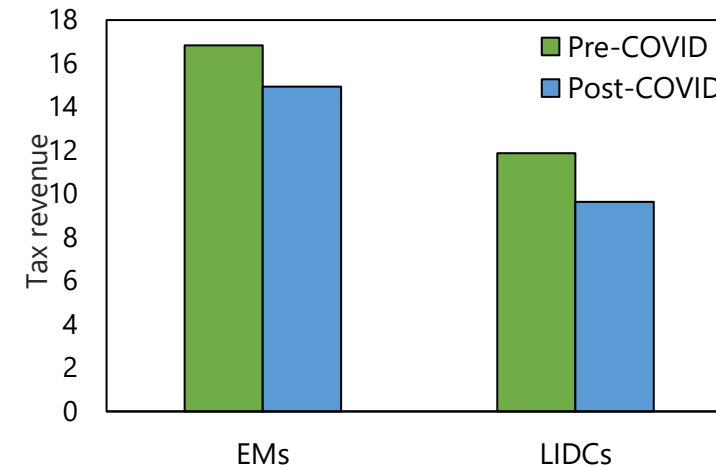
- GDP in emerging and developing Asia dropped
 - ▶ 1 percent in 2020 (WEO)
- But tax revenue dropped more
 - ▶ Tax-to-GDP ratio projected to fall from 16 to 14.1 percent in LIDCs in Asia
- Mostly endogenous response
 - ▶ Commodity price slump
 - ▶ But also measures to support health, firms and individuals
- WEO projections suggest revenue pick up
 - ▶ But convergence to a lower 14.8 percent in 2026 in LIDCs in Asia

Tax revenue collections in Indonesia and Malaysia, change y-o-y 2020



Source: Sebastian James, 2021, "Revenue Effects of COVID-19", Global Fiscal Policy Series, World Bank.

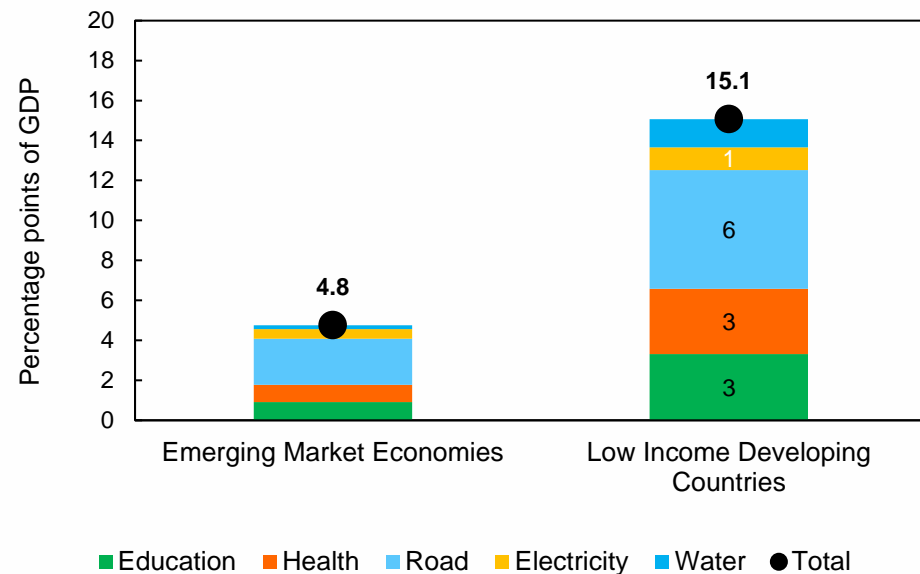
Tax revenue projection pre- and post COVID for 2020 (% GDP)



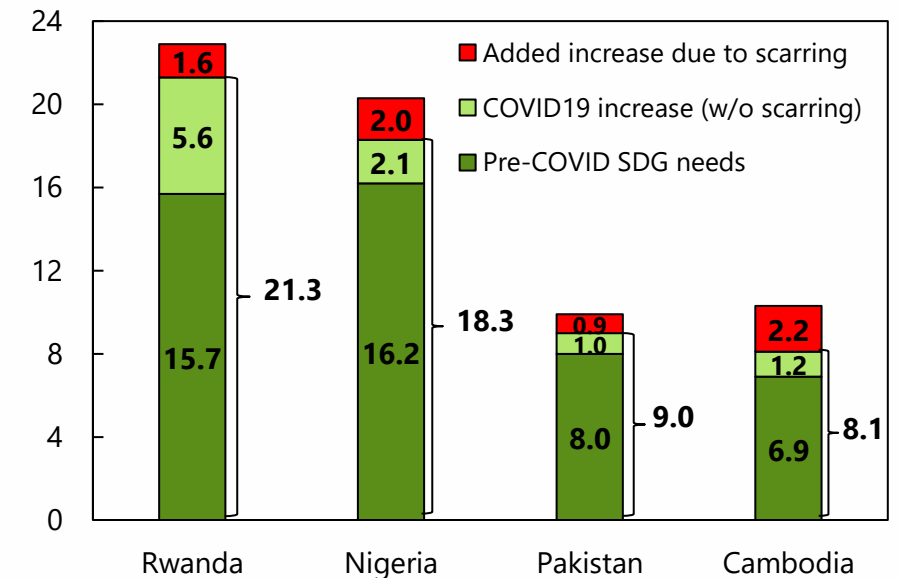
IMF Fiscal Monitor Database

COVID-19: increased already sizeable financing needs to achieve SDGs

Pre-COVID assessment of additional spending needed in 2030 to achieve high outcomes in selected sectors of SDGs (Percentage points of GDP)



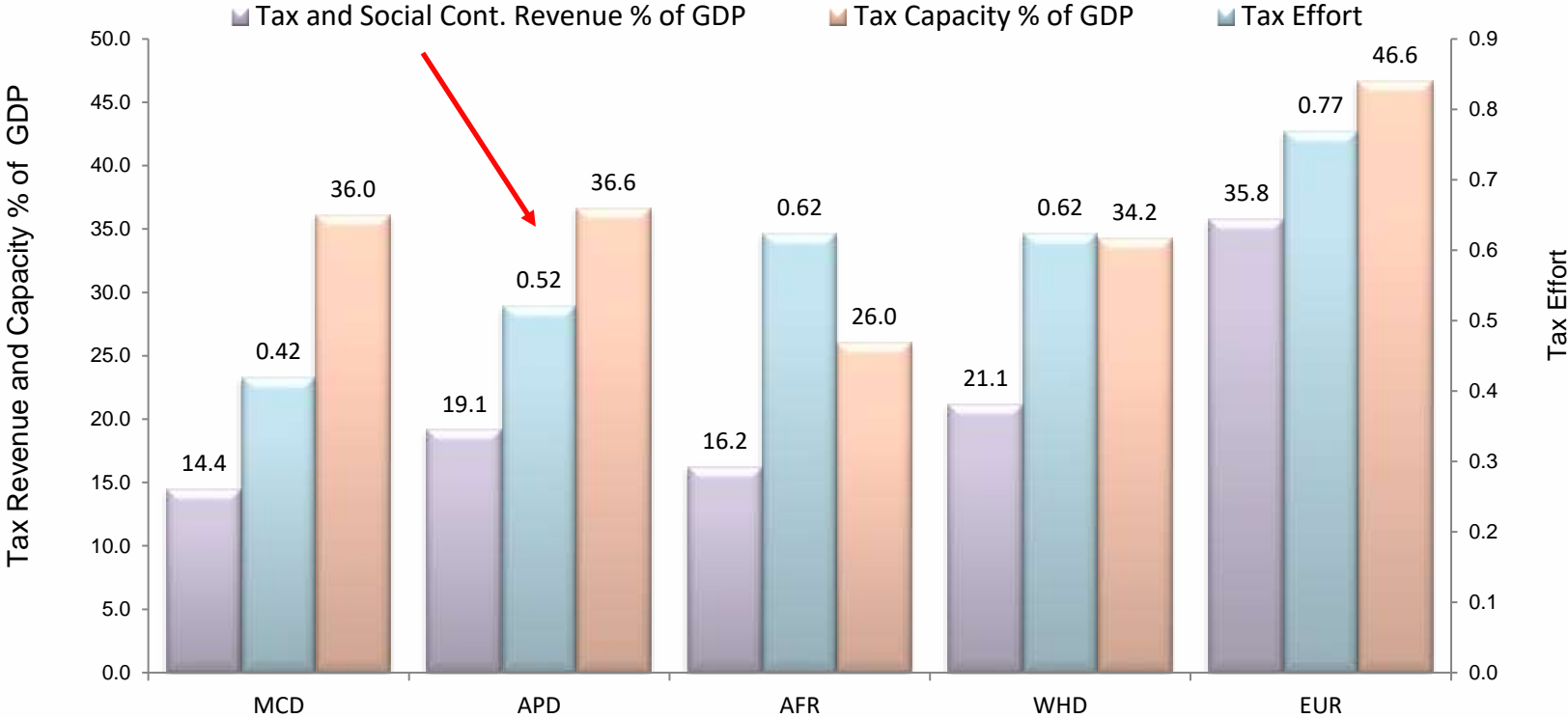
Additional spending needs pre- and post COVID-19 (% GDP)



Source: IMF staff calculations

IMF Staff Discussion Note: A Post-Pandemic Assessment of the Sustainable Development Goals, April 2021

Tax effort in most Asian countries is considerably below tax capacity



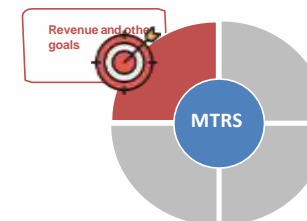
IMF Staff Discussion Note: A Post-Pandemic Assessment of the Sustainable Development Goals, April 2021 (background note)

Post-COVID-19: Building tax capacity through a medium-term revenue strategy

- Embedded in wider government's strategy for economic and social development – such as SDGs
- High-level road map of tax system reform over 4-6 years—policy, administration, legal components
- Country-led – government-owned
- Aligned CD support



#1: Revenue and other goals



Building the narrative

- Revenue mobilization as essential part of the development agenda

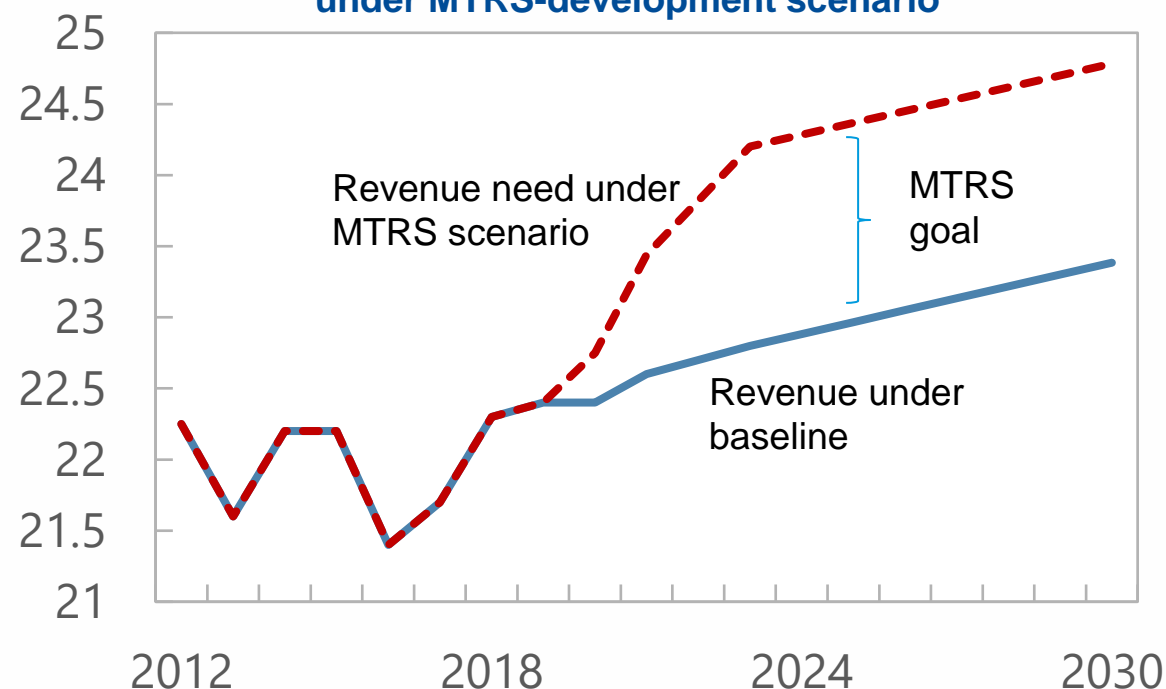
Revenue goal

1. Baseline projections
2. Medium-term expenditure ambition
3. Quantitative revenue goal for MTRS

Other goals – criteria used in MTRS

- Equity – inclusiveness
- Efficiency – (green) investment/growth
- Enforceability – administration
- Compliance
- Certainty

Baseline revenue projection and revenue needs under MTRS-development scenario



Source: IMF MTRS report

#2: Comprehensive tax system reform



Comprehensive

- Covering tax policy, revenue administration and legal framework

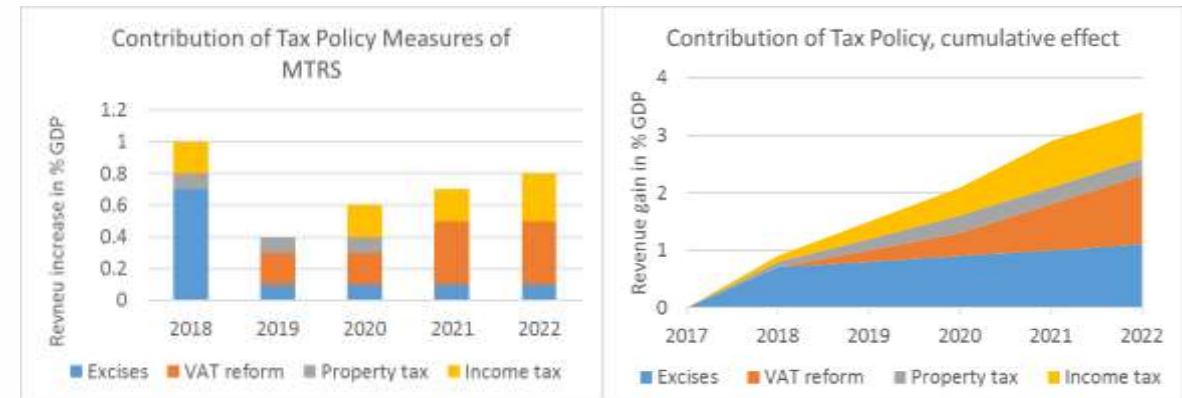
Concrete

- Specific measures with timeline
- Concrete plan for improving tax compliance, building institutional capacity

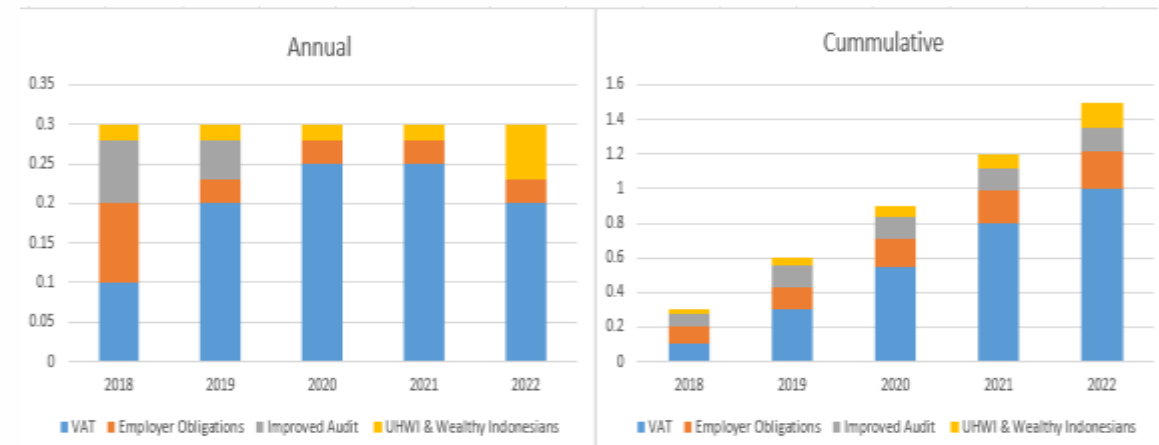
Evidence-based – revenue, distribution, economic impact

- Ensure credibility
- Structured debate
- Enables monitoring

Example: Tax policy measures in Indonesia's MTRS 2018



Example: Tax administration measures in Indonesia's MTRS 2018



Source: Ruud de Mooij, Suahasil Nazara and Juan Toro, A MTRS for Indonesia, 2018

#3: Political commitment



Government leadership

- Commitment from the highest level
- Whole-of-government

Public support

- Consultation with stakeholders
- Support from local governments

Communication

- Emphasize link to expenditures
- Exploit quantitative results

Timing

- Use good times; use bad times
- Sequencing – big bang vs incremental



#4: Capacity development



Identify needs

- Support reform design, quantification
- Build institutions, e.g. tax policy unit
- Support implementation, e.g. capacity/training in revenue agencies, IT implementation

Align/coordinate support

- Fit into the country's own strategy
- Sequencing in line with priorities
- Avoid overlap/gaps or competition

Country leadership

- MTRS not led by partners of PCT
- PCT partners facilitate and support formulation and implementation of MTRS



MTRS: a valued process – more than words

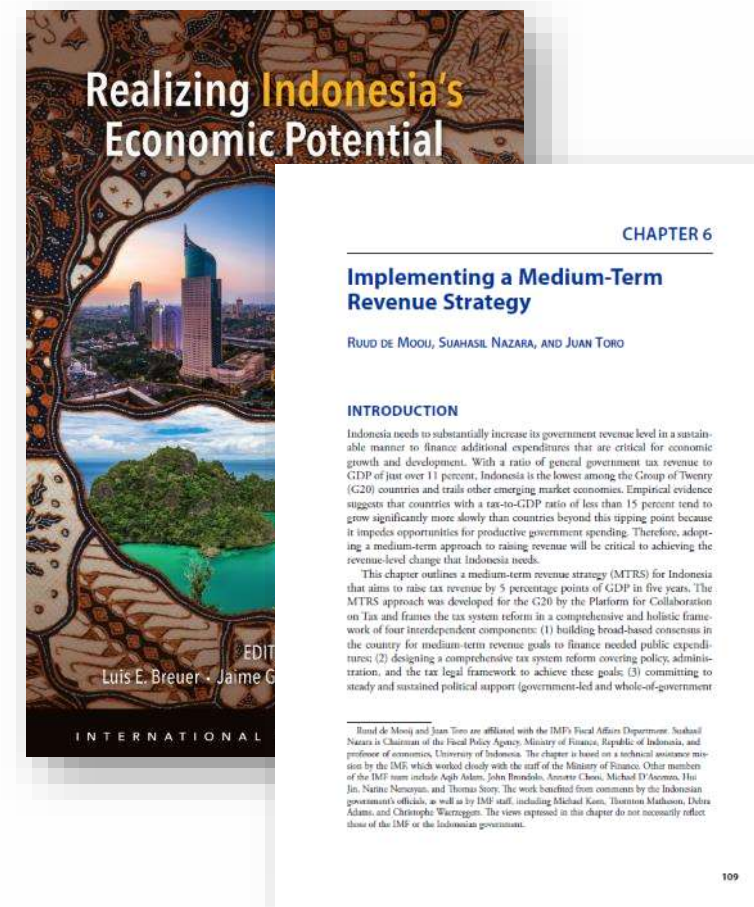
Dialogue – started in Bangladesh, Cameroon, Georgia, Honduras, Jordan, Kenya, Malaysia, Mongolia, Morocco, Togo, Vietnam, Uzbekistan

Formulation – ongoing in Albania, Benin, Ethiopia, Rwanda, Indonesia, Laos, Thailand

Consultation – ongoing in many

Publication/implementation – Egypt, Papua New Guinea (PNG), Senegal, Uganda

MTRS for Indonesia



Workshop Structure

Today May 26

Panel 1: MTRS after COVID-19

Panel 2: MTRS#1 and development agenda (SDGs)

Panel 3: What distinguishes MTRS from other strategies?

Tomorrow May 27

Panel 4: MTRS#2 Comprehensive tax system reform

Panel 5: MTRS#3 Managing an MTRS effort (SDGs)

Panel 6: MTRS#4 Support from IOs and development partners



Thank You!