



Fiscal Risks Management

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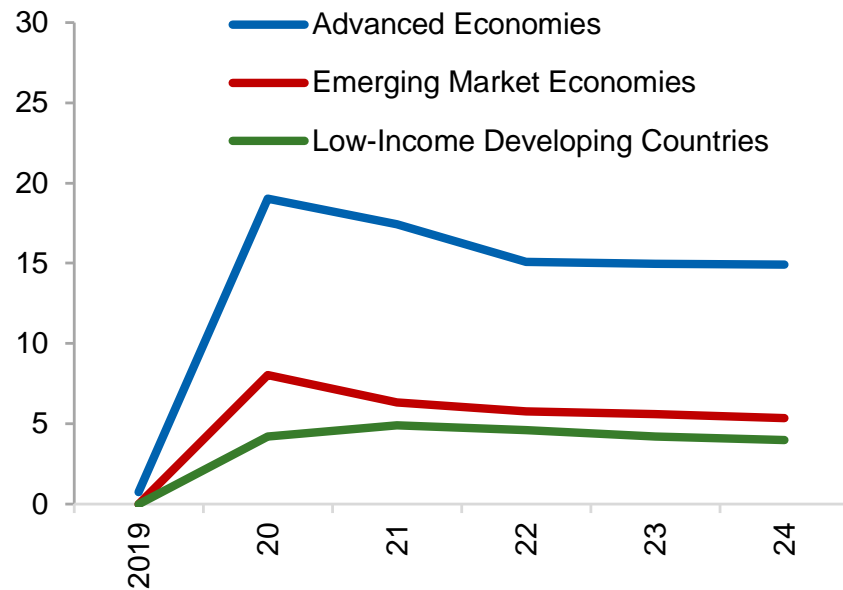
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What are fiscal risks?

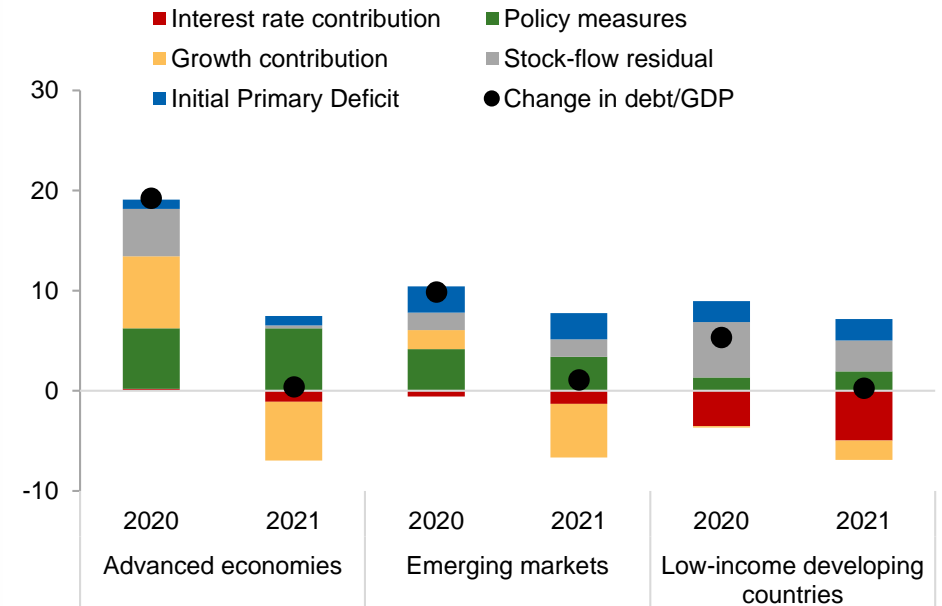
- Fiscal risks are the exposure of public finances to **unexpected or unlikely events** that may lead to fiscal outcomes deviating from expectations (\neq from “policy risks” arising from changes in government policies).
- What can cause deviations in fiscal outcomes, or what are the sources of fiscal risks?
 - **Macroeconomic risks** – unexpected variation in macroeconomic variables (e.g., fluctuations in growth, inflation, interest rate and exchange rate)
 - **Specific risks** - potential obligations that do not arise until the occurrence of a particular discrete event(s) in the future (e.g., a guarantee being called).
 - **Institutional risks** – weaknesses in institutions and processes - e.g., lack of expenditure control, poor revenue collection

Fiscal risks have realized during the COVID-19 pandemic...

Changes to pre-pandemic debt projections
General Government Gross Debt, 2019–24
(percent of GDP)



Drivers of Change in Government Debt, 2019-21
(Percent of GDP)

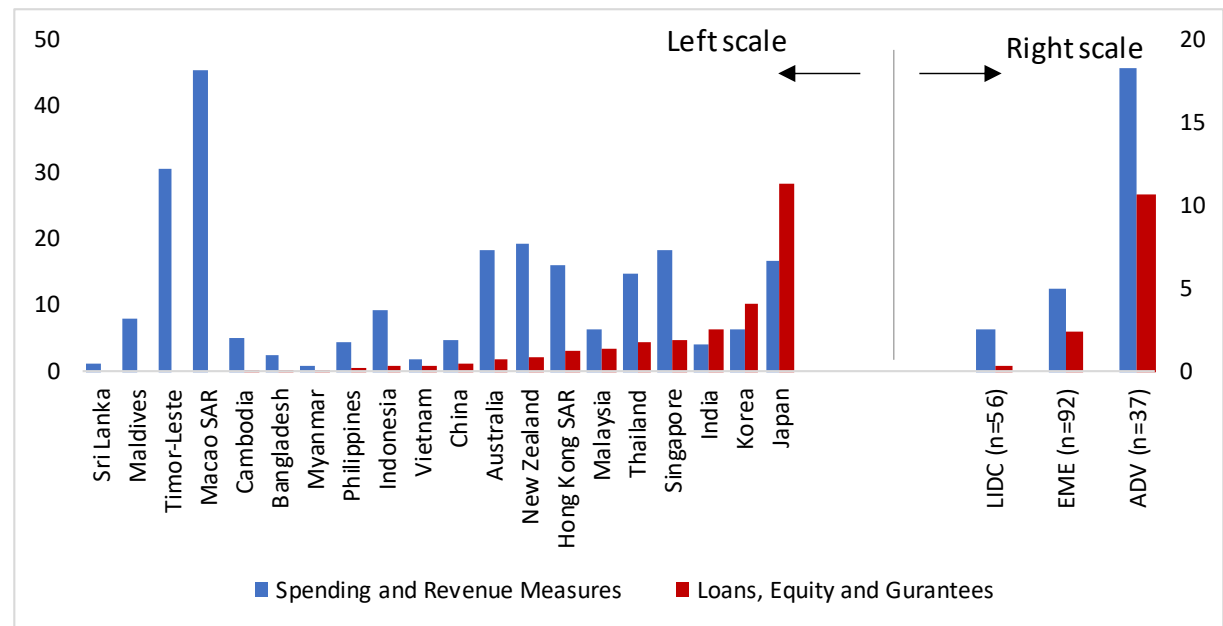


Source: IMF, Fiscal Monitor October 2021

... and have increased in the wake of the pandemic

- Balance sheet and other risks directly generated by the COVID policy measures.
- New macroeconomic risks, higher inflation, as higher global interest rates and risk premiums as debt and gross financing have significantly increased in many countries.

COVID Policy Measures (Above and below the line), October 2021
as a % of GDP



*Note: Income group averages are derived by calculating simple average of each country grouping
Source: IMF Fiscal Monitor Database , October 2021

Why discussing fiscal risks management?

Understanding the sources and scale of fiscal risks is essential for:

1. Recognizing and explaining the high level of uncertainty around macroeconomic and fiscal forecasts.
2. Designing credible post-pandemic fiscal frameworks.

“Fiscal frameworks need to be designed considering the possibility that unexpected fiscal costs will be incurred in the years ahead, whether from a global crisis or country-specific shocks.”

IMF Fiscal Affairs Department [Fiscal Monitor October 2021](#),
Chapter 2: Strengthening the Credibility of Public Finances

“The continued uncertainty created by the COVID-19 pandemic poses a risk to the fiscal forecasts presented in the Budget Economic and Fiscal Update 2021. (...) Despite the disclosure of risks in this chapter, the level of uncertainty means there are risks to the fiscal forecasts that remain too broad in nature to disclose in the statement of specific fiscal risks. (...) The Economic Outlook chapter, from page 15, includes a scenario that models the fiscal impact of how the economy might evolve if some of the key judgements around COVID-19 in the main forecast were to be altered.”

New Zealand, [Economic and Fiscal Update 2021](#)

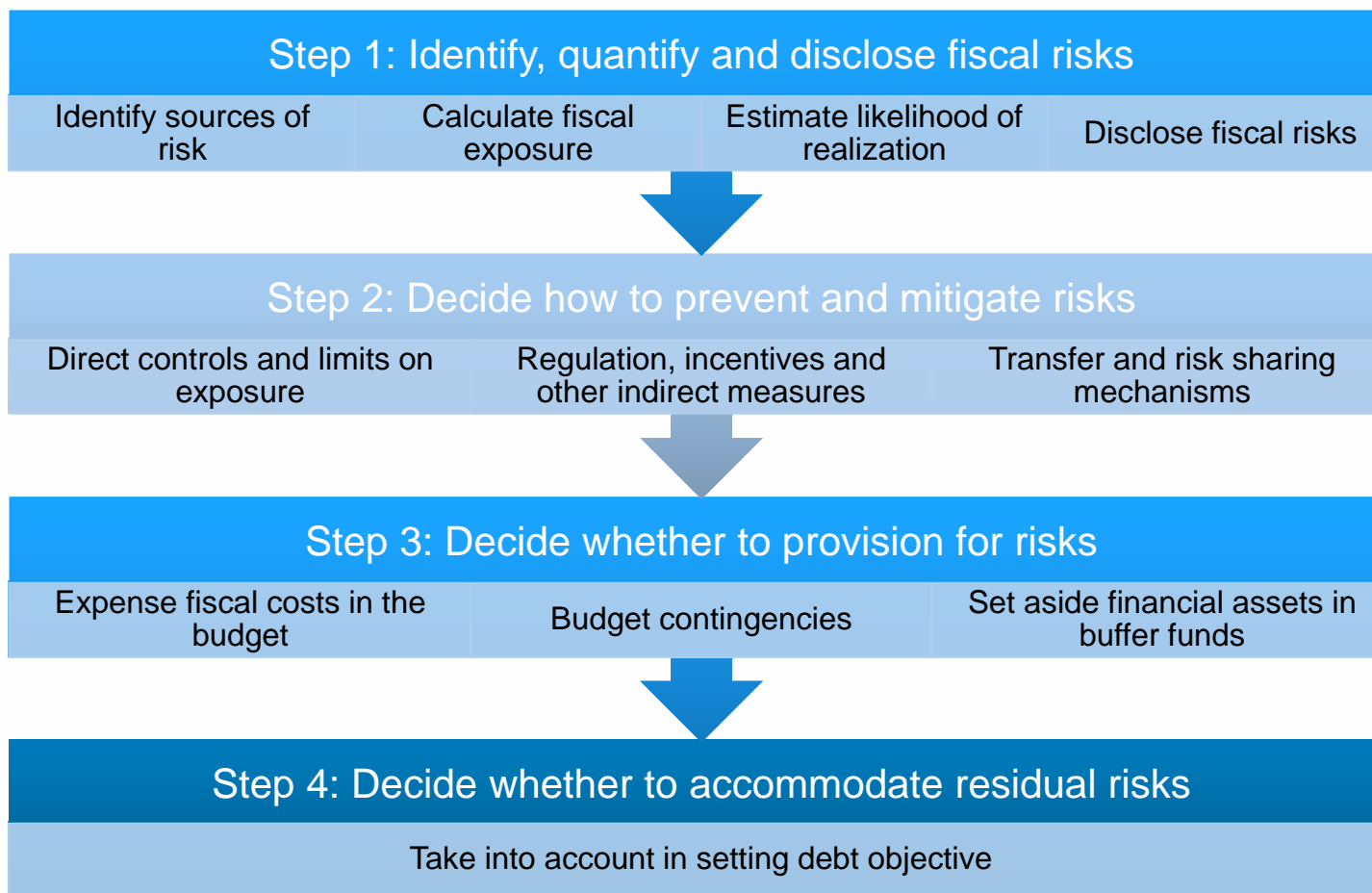
“As we discussed in our November EFO, the exceptional economic and fiscal shock of the pandemic renders our forecast very uncertain. (...) The pandemic has few historical parallels and it is all but impossible to attach probabilities to the different possible paths for the virus and the associated economic consequences. We therefore use this section to discuss how to view uncertainty around our forecast.”

United Kingdom, [Economic and Fiscal Outlook 2021](#)

“To be credible, governments should design fiscal frameworks that account for and manage fiscal risks. In particular, risk analysis should inform the fiscal targets and the flexibility embedded in frameworks to allow for countercyclical response to crises, budgets should account for expected costs of loan guarantees (...)”

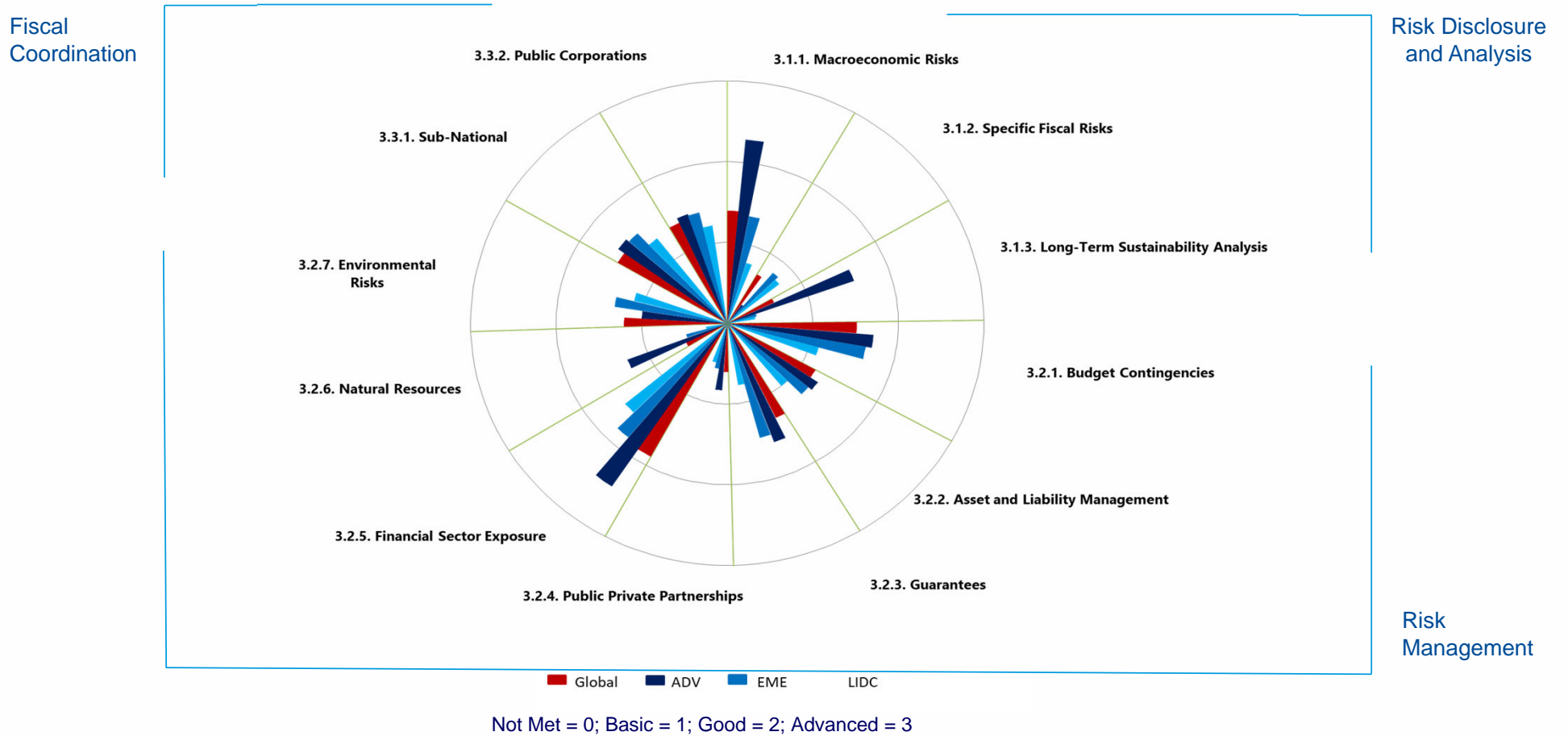
IMF Fiscal Affairs Department [Fiscal Monitor October 2021](#),
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How to manage fiscal risks?



Are countries well-prepared?

FTE Results: Fiscal Risk Analysis and Management By Income Groups
(Average FTE score)



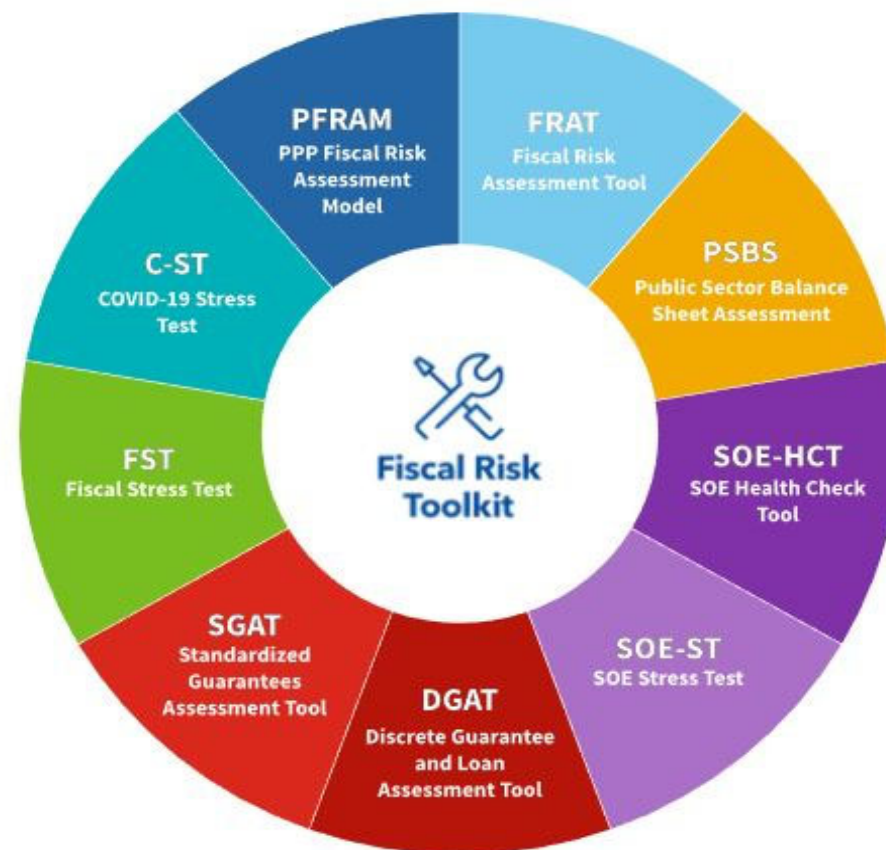
What to measure and disclose?

	Macroeconomic risks	Specific risks
Principle	Gov. reports on how fiscal outcomes might differ from baseline forecasts as a result of different macroeconomic assumptions.	Gov. provides a regular summary report on the main specific risks to its fiscal forecasts.
Basic	Disclosure of macro-fiscal sensitivity analysis	Disclosure of explicit contingent liabilities
Good	Disclosure of alternative macro-fiscal scenarios based on plausible shocks to macroeconomic variables	Fiscal risk statement (explicit and implicit contingent liabilities estimates)
Advanced	Disclosure of confidence intervals (or “fan charts”) around forecasts for key macroeconomic and fiscal variables	Fiscal risks statement (all specific fiscal risks estimates and realization likelihood)

Source: Fiscal Transparency Code, IMF, 2019.

Where to find analytical resources?

- Limited capacities for measuring risks may deter countries from monitoring and disclosing risks.
- The IMF Fiscal Risks Toolkit provides a range of tools to:
 - Identify fiscal risks,
 - Measure them and
 - Produce visualizations



Thank you