Fiscal Risk Analysis & Management

The Role of Debt Managers

Sovereign Debt Management Forum

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October 19 2016
I. Why Fiscal Risks Matter

II. Characteristics of Fiscal Risk

III. Understanding & Management of Fiscal Risks

IV. Strengthening Fiscal Risk Analysis & Mitigation

V. Conclusions
I. Why Fiscal Risks Matter:
   a. Public Debt Forecasts for Advanced Economies

Advanced Economies: Public Debt
(2007-2016, Percent of GDP)

Source: Fiscal Monitor Database and staff estimates.
I. Why Fiscal Risks Matter:
b. Public Debt Forecasts for Emerging Economies

Emerging Economies, Excluding China: Public Debt
(2007-2016, Percent of GDP)

Source: Fiscal Monitor Database and staff estimates.
II. Characteristics of Fiscal Risks

a. Fiscal risks are large (and surprisingly frequent)

Size and likelihood of fiscal shocks by type

Source: Bova et al. (2016)
II. Characteristics of Fiscal Risks

b. Fiscal risks are biased toward the downside

Forecast Error for General Government Debt in Y+3
(2000-13 average as % of GDP, actual-forecast)

Source: European Commission
II. Characteristics of Fiscal Risks

c. Fiscal risks are non-linear

Typical Fiscal Reaction to Macro shocks

Expenditure Variation
(percent of GDP)

Revenue Variation
(percent of GDP)
II. Characteristics of Fiscal Risks

d. Fiscal risks are highly correlated

Source: Bova et al. (2016)
II. Characteristics of Fiscal Risks

e. With broader implications

- Debt
- Increase in Debt
  - Average increase in debt/GDP
  - Average Country-Year CL Realization
- GDP
- Fiscal Balance
### III. Understanding and Management of Fiscal Risks

**a. Fiscal Transparency Code**

<table>
<thead>
<tr>
<th>Risk Disclosure &amp; Analysis</th>
</tr>
</thead>
<tbody>
<tr>
<td>• <strong>Macroeconomic Risks</strong></td>
</tr>
<tr>
<td>• Specific Fiscal Risks</td>
</tr>
<tr>
<td>• Long-Term Sustainability</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Risk Management</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Budgetary Contingencies</td>
</tr>
<tr>
<td>• <strong>Asset and Liability Management</strong></td>
</tr>
<tr>
<td>• <strong>Guarantees, PPPs</strong> and Financial Sector</td>
</tr>
<tr>
<td>• Natural Resources and Environmental</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Fiscal Coordination</th>
</tr>
</thead>
<tbody>
<tr>
<td>• <strong>Sub-National Governments</strong></td>
</tr>
<tr>
<td>• <strong>Public Corporations</strong></td>
</tr>
</tbody>
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III. Understanding & Management of Fiscal Risks

b. Disclosure of risks remains qualitative

Contingent Liabilities

- All
- LIDCs
- EMMIEs
- AEs

Percent of countries

- Quantitative Analysis of Risk
- Qualitative Discussion of Risk
- No Disclosure

Source: IMF Staff Estimates
III. Understanding & Management of Fiscal Risks

c. Mitigation efforts are ad hoc and fragmented

Current Practice for Managing Guarantees

- Limiting Liabilities
- Risk-Based Fees
- Reinsure
- Provision

Source: IMF Staff Estimates
IV. Strengthening Fiscal Risk Analysis & Mitigation:
a. Fiscal Risk Management Toolkit

- **STEP 1: IDENTIFY AND QUANTIFY**
  - Identify risks
  - Calculate exposure and likelihood
  - Weigh costs and benefits of intervention

- **STEP 2: MITIGATE**
  - Cap Exposure
  - Regulate
  - Transfer

- **STEP 3: PROVISION**
  - Expense
  - Budget contingencies
  - Buffer funds

- **STEP 4: ACCOMMODATE RESIDUAL**
  - Account for in setting fiscal objectives