Módulo de Análise e Gestão dos Riscos Fiscais

MINISTÉRIO DA ECONOMIA E FINANÇAS
GABINETE DE GESTÃO DO RISCO

- UNIVERSIDADE EDUARDO MONDLANE
Why fiscal risks matter

• Fiscal risks are factors that may cause fiscal outcomes to deviate from expectations or forecasts:
  • Government revenue
  • Government expenditure
  • Government debt

• However, the past decade has served to underscore how economic shocks and fiscal risks can impair a governments’ ability to exercise good fiscal policy.

• Sound public finances are critical to allow fiscal policy to (i) assist in effective and efficient allocation of government resources, (ii) stabilizing economic activity in the short-run, and (iii) to promote economic growth over the longer term.
Size and likelihood of fiscal shocks by type

- Macroeconomic
- Financial Sector
- Natural Disaster
- Corporate
- PPPs
- SOEs
- Subnational
- Legal claims
Fiscal risk

General macroeconomic
- Deviations in macroeconomic forecasts

Specific sources
- Explicit
  - A government liability by law or by contract
- Implicit
  - Moral obligation - public expectations, pressure from interest groups

Institutional
- Institutional weaknesses that constrain effective risk management
Countries often report much less than full public sector

Unreported Public Sector Expenditure
(Percent of Total Expenditure)

Large gaps in public sector balance sheet

Ireland: Public Sector Balance Sheet, 2011
(Percent of GDP)
Macro and fiscal forecasts are systematically optimistic

Medium Term Expenditure Forecast Errors (2000-2015) (% of GDP)

- Leads to unrealistic medium-term fiscal plans with weak credibility.

Large contingent liabilities, many of which are unreported

Contingent Liabilities (% of GDP)

- Include guarantees, PPPs, pension liabilities and public corporation liabilities.
Few countries conduct sophisticated analysis of macro-fiscal risks...

...while even fewer examine the impact of macro trends and policy on government balance sheets

a. Macro-Fiscal Risk

b. Assets and Liabilities
Many countries discuss specific risks but not many quantify their size or probability...

...while relatively few non-advanced countries publish long-term projections
The nature of fiscal risks

• The impact of fiscal risks can be large

• Fiscal risks tend to be negatively biased

• Fiscal risks are highly correlated

• The impact of fiscal shocks can be highly nonlinear
Course objectives

- Understand concepts and sources of fiscal risks
- Apply techniques acquired to assess and manage risks in the Mozambican public and private sector
- Learn techniques to estimate risk exposure.
- Assess fiscal sustainability.
- Identify near- and long-term risks and fiscal vulnerabilities.
- Formulate fiscal risk management strategies.
Fiscal sustainability

A situation in which a government is expected to be able to continue servicing its debt....

....without an unrealistically large adjustment to its balance of revenues and expenditure.....

....without debt restructuring or default.
Fiscal sustainability

- **Solvency**: the ability to repay debt.
- **Liquidity**: good market access and the ability to rollover debt.
- **Realism**:
  - Debt forecast is realistic
  - Debt portfolio is well balanced
  - Any fiscal adjustment needed to preserve a sustainable debt level is economically and politically feasible.

*Sovereign ≠ Private company*
Fiscal sustainability

When a government runs a deficit, it must borrow from the financial markets.

When a government runs a surplus, these funds flow into the financial markets and are available for other entities to borrow.

The total government debt is simply the accumulation of all the previous years’ deficits, and this debt should be repaid by future surpluses.
Fiscal risk management

**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

![Diagram showing the cycle of fiscal risk management]

- Reporting and Disclosure
- Identifying and Analyzing
- Mitigating
Fiscal risk management

- State-owned enterprises
- Public-private partnerships
- Natural disasters and environmental risks
- Sub-national
- Legal claims against the government
- Macroeconomic shocks

1. Risk identification
2. Risk assessment
3. Risk mitigation and management
Thank you.