UNIVERSIDADE
EDUARDO
MONDLANE

Módulo de Análise e Gestão dos Riscos Fiscais

MINISTÉRIO DA ECONOMIA E FINANÇAS
GABINETE DE GESTÃO DO RISCO

-UNIVERSIDADE EDUARDO MONDLANE

Ambasáid na hÉireann
Embassy of Ireland

Why fiscal risks matter

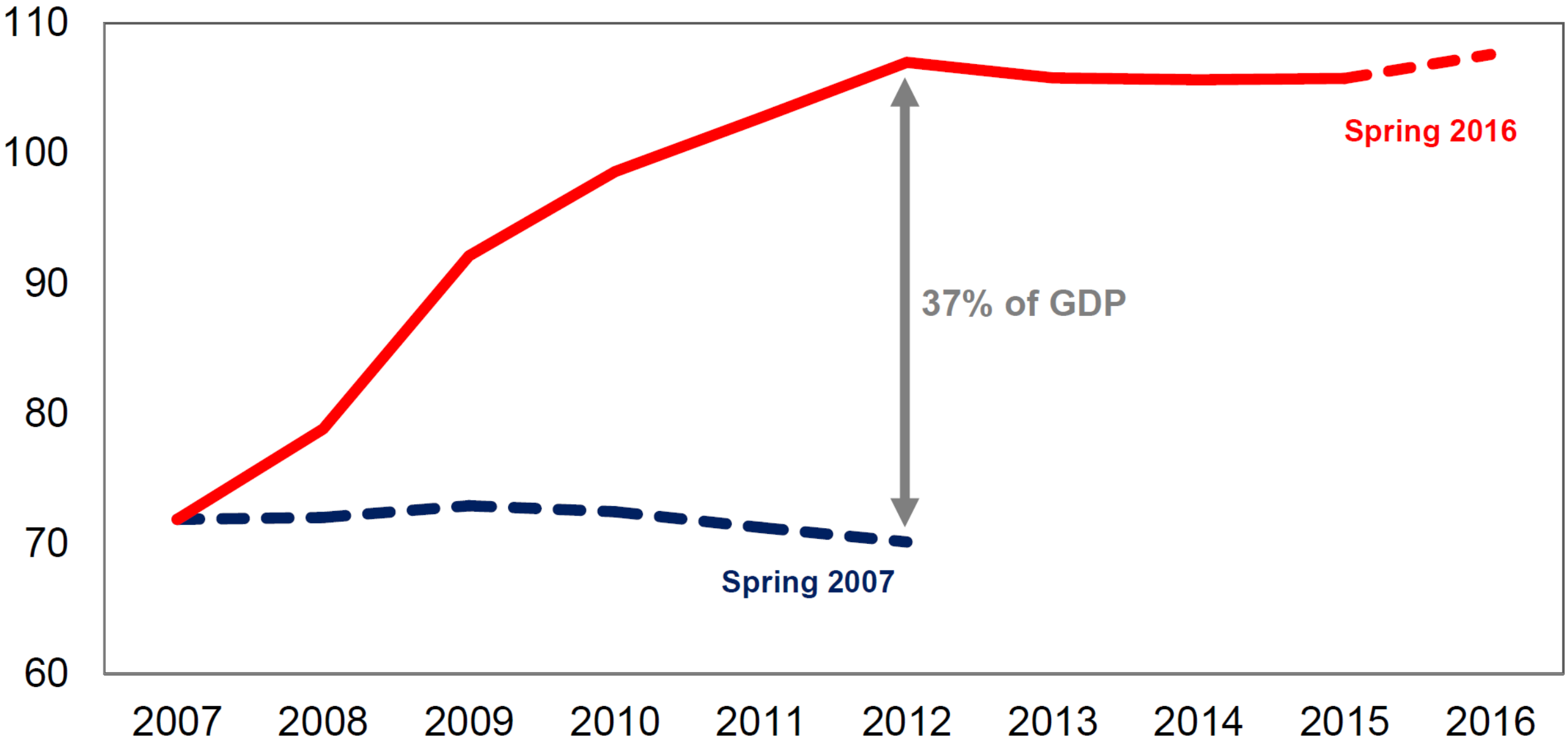
- Fiscal risks are factors that may cause fiscal outcomes to deviate from expectations or forecasts:
  - Government revenue
  - Government expenditure
  - Government debt

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

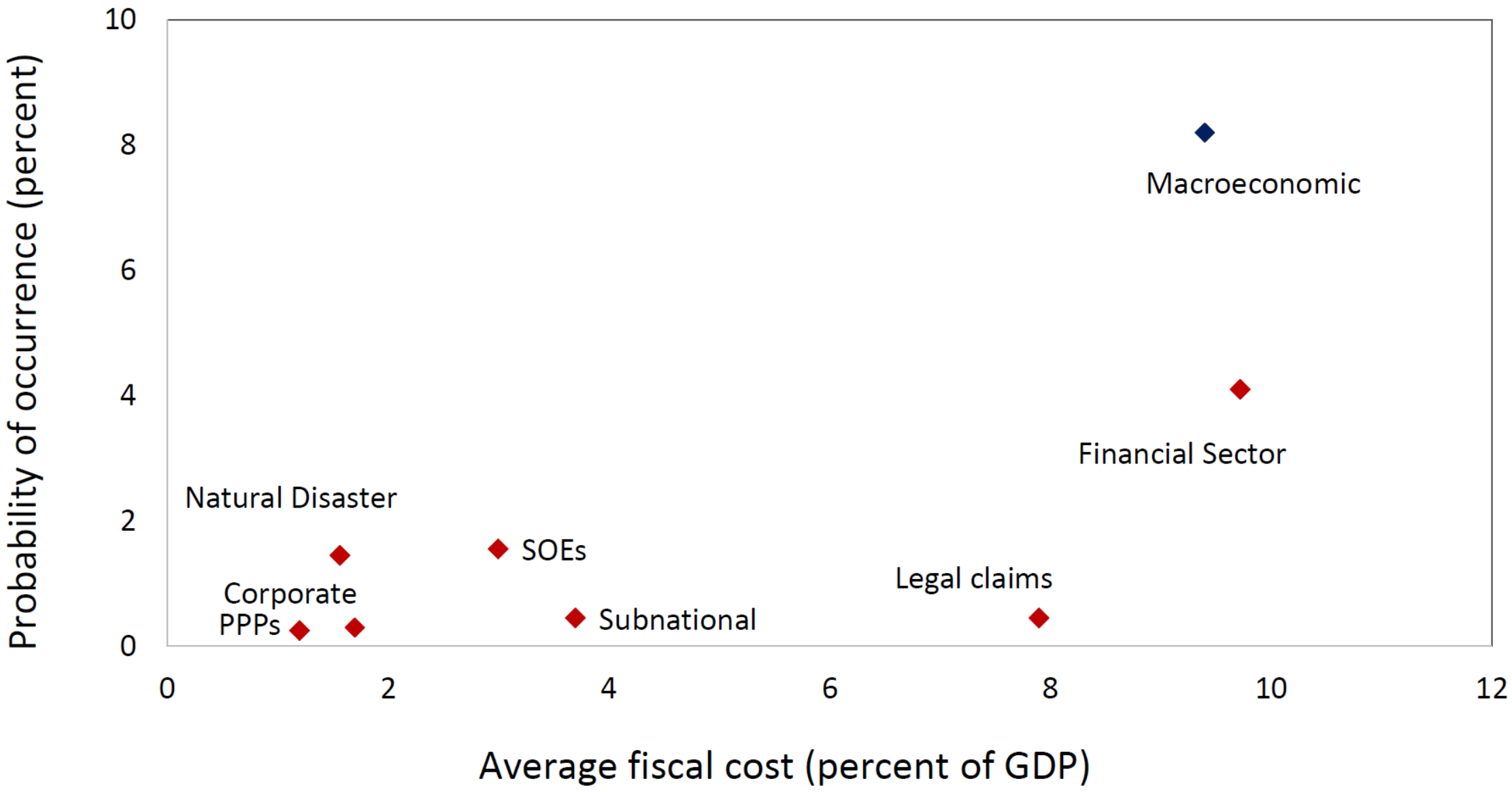
- Sound public finances are critical to allow fiscal policy to (i) assist in effective and efficient allocation of government resources, (ii) stabilizing economic activity in the short-run, and (iii) to promote economic growth over the longer term.

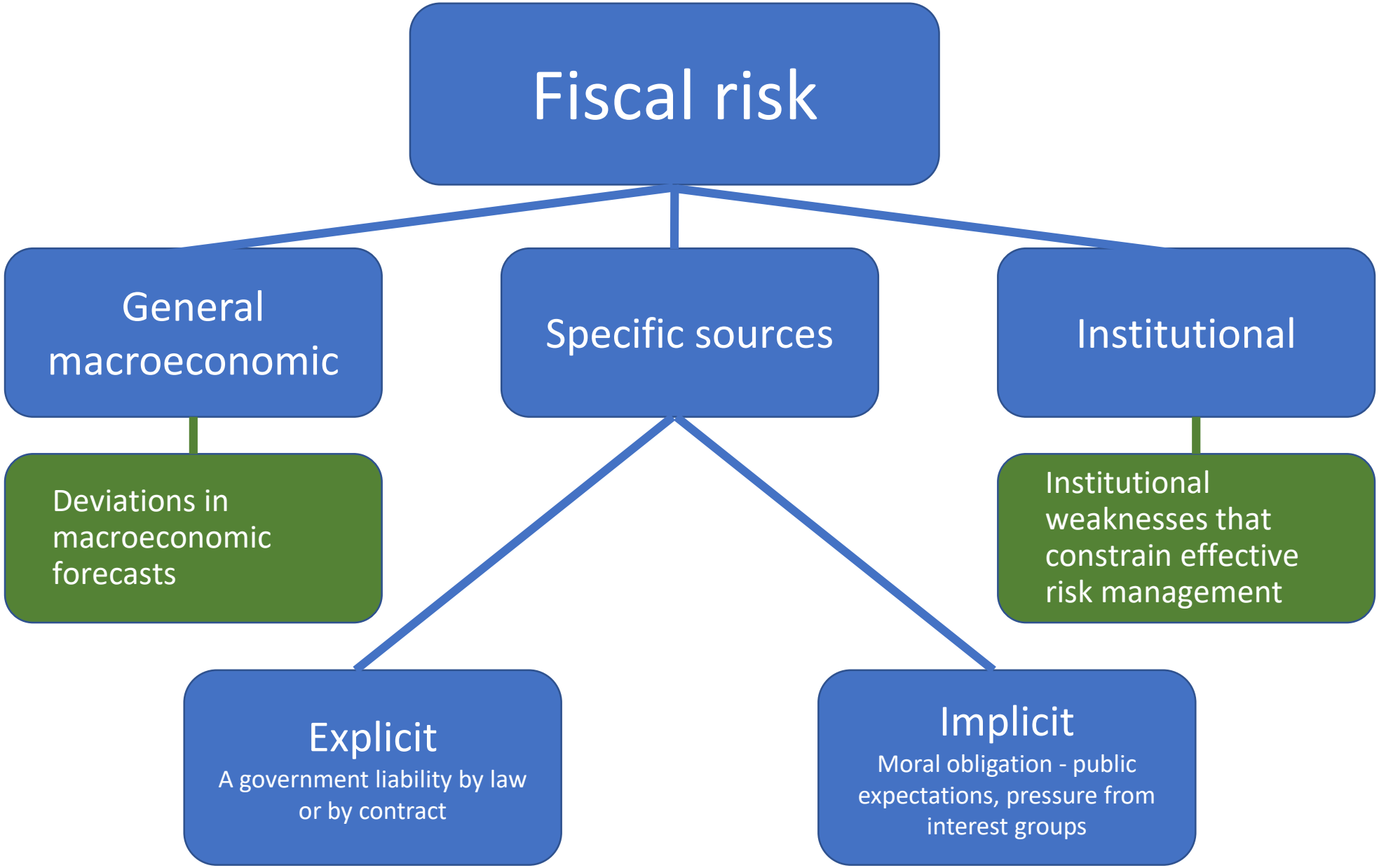
Advanced Economies: Public Debt

(2007-2016, Percent of GDP)



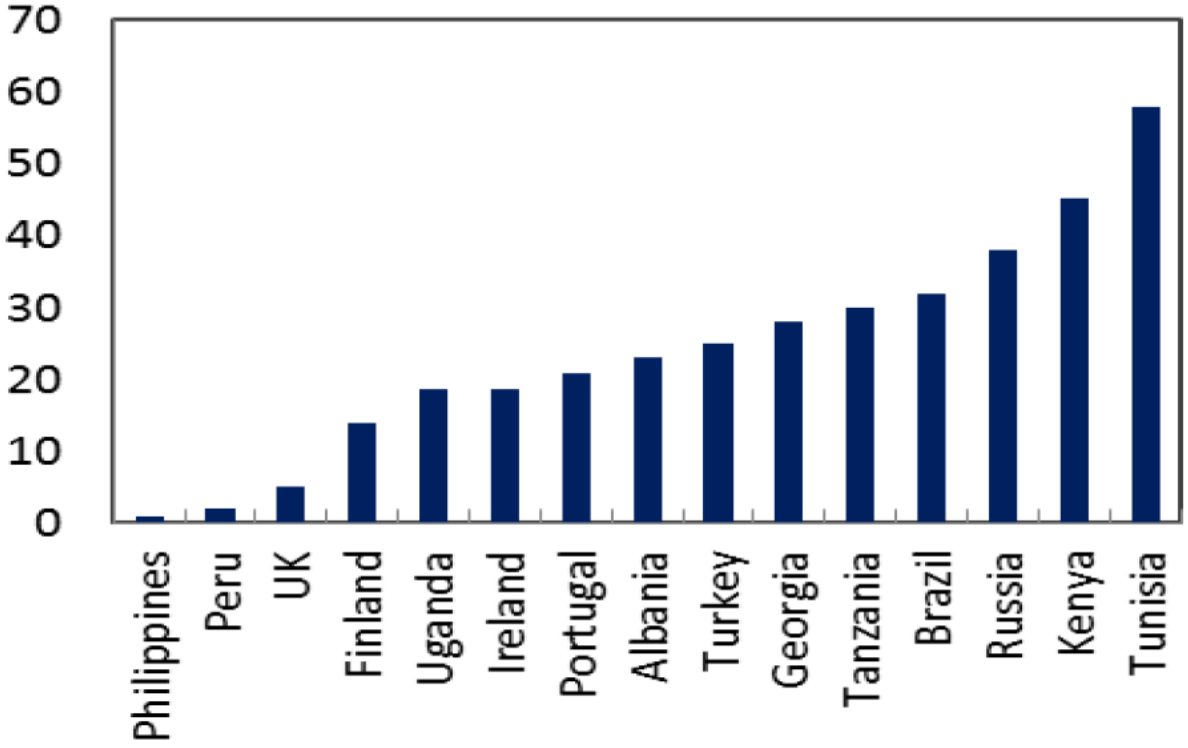
Size and likelihood of fiscal shocks by type




Fiscal risk
General macroeconomic
Specific sources
Institutional
Deviations in macroeconomic forecasts
Institutional weaknesses that constrain effective risk management
Explicit
A government liability by law or by contract
Implicit
Moral obligation - public expectations, pressure from interest groups

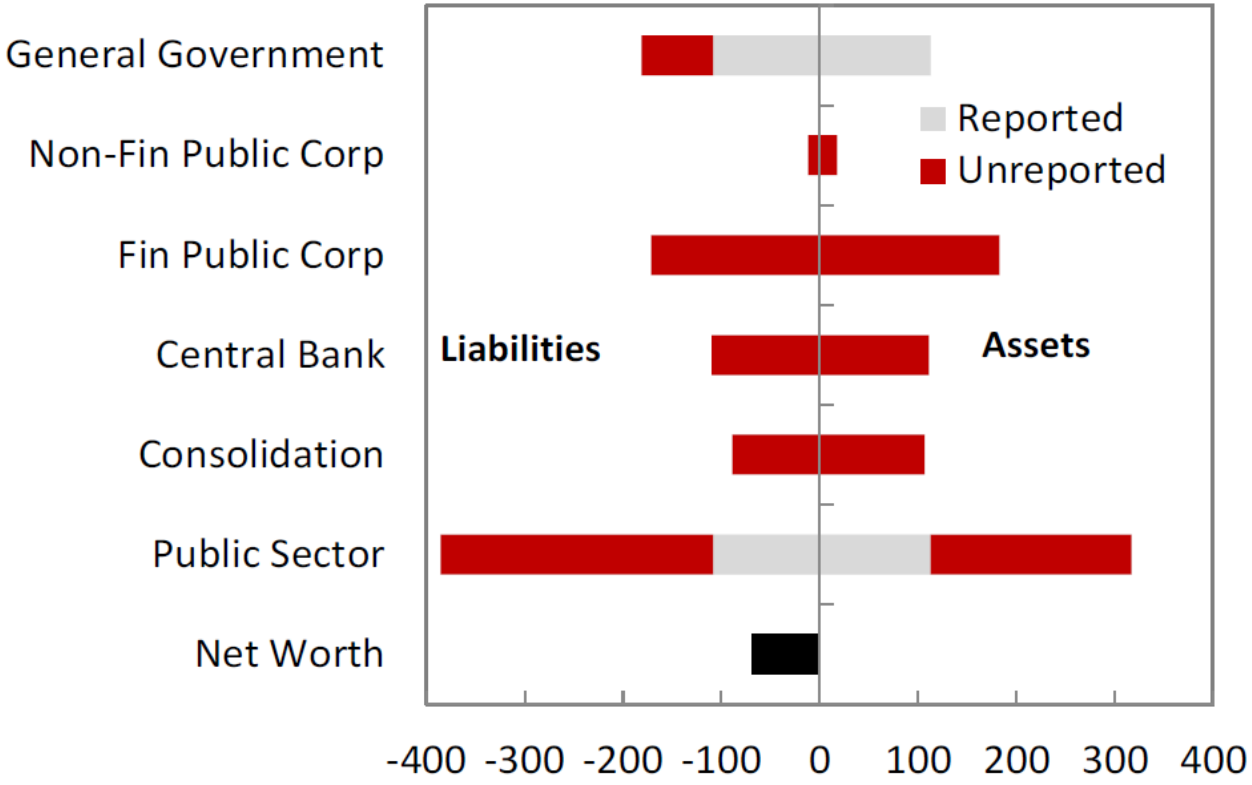
Countries often report much less than full public sector

Unreported Public Sector Expenditure
(Percent of Total Expenditure)

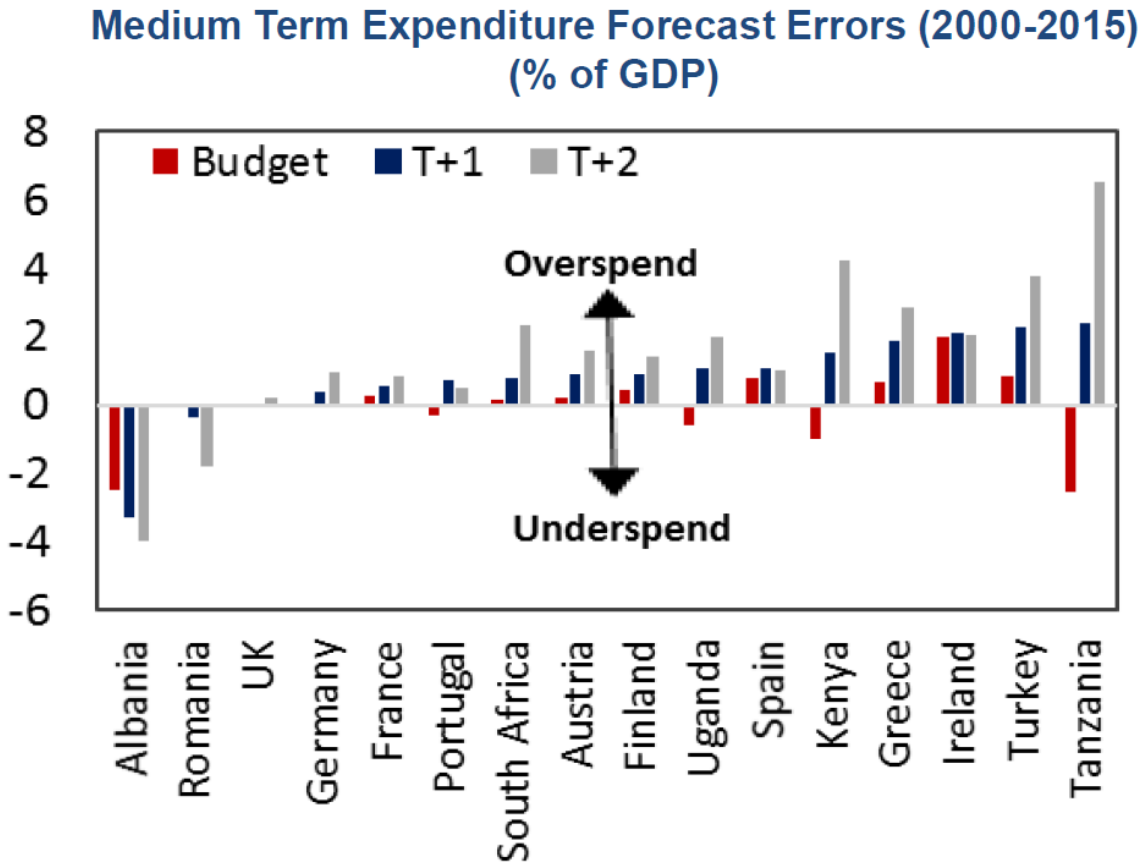


Large gaps in public sector balance sheet

Ireland: Public Sector Balance Sheet, 2011
(Percent of GDP)

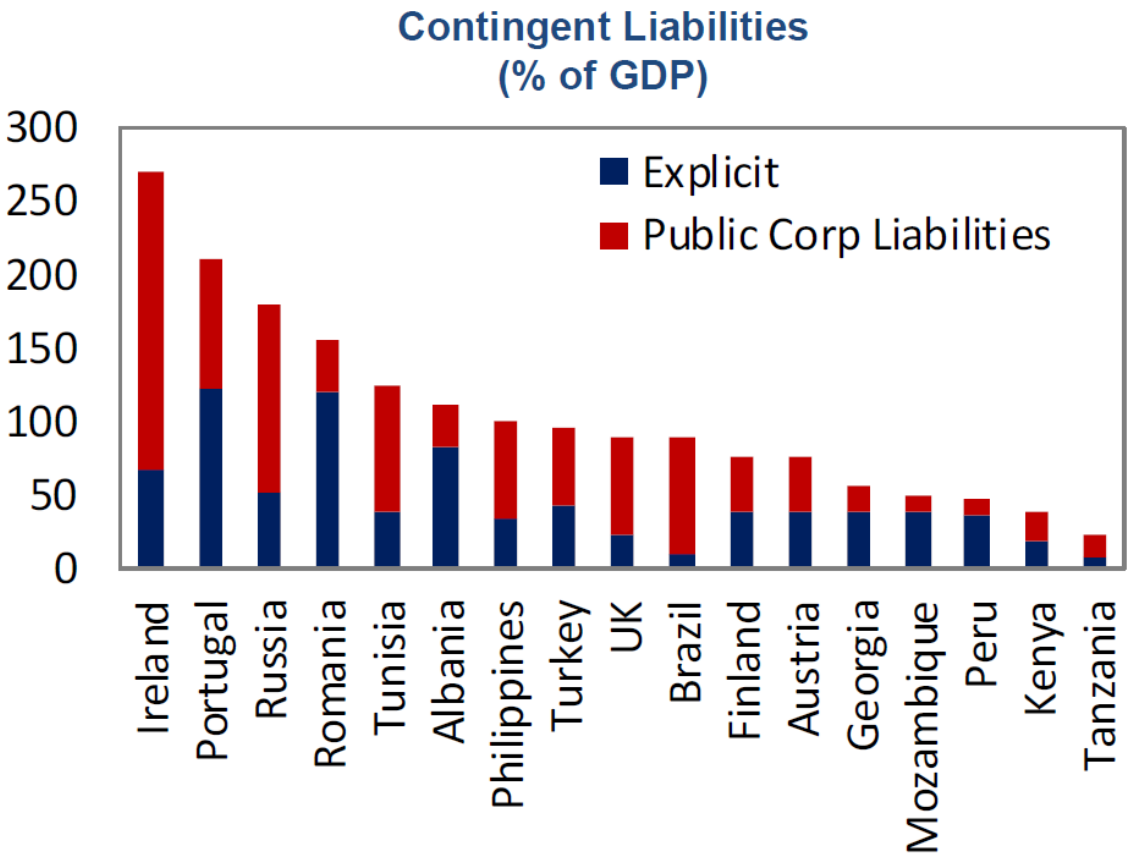


Macro and fiscal forecasts are systematically optimistic



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

Large contingent liabilities, many of which are unreported

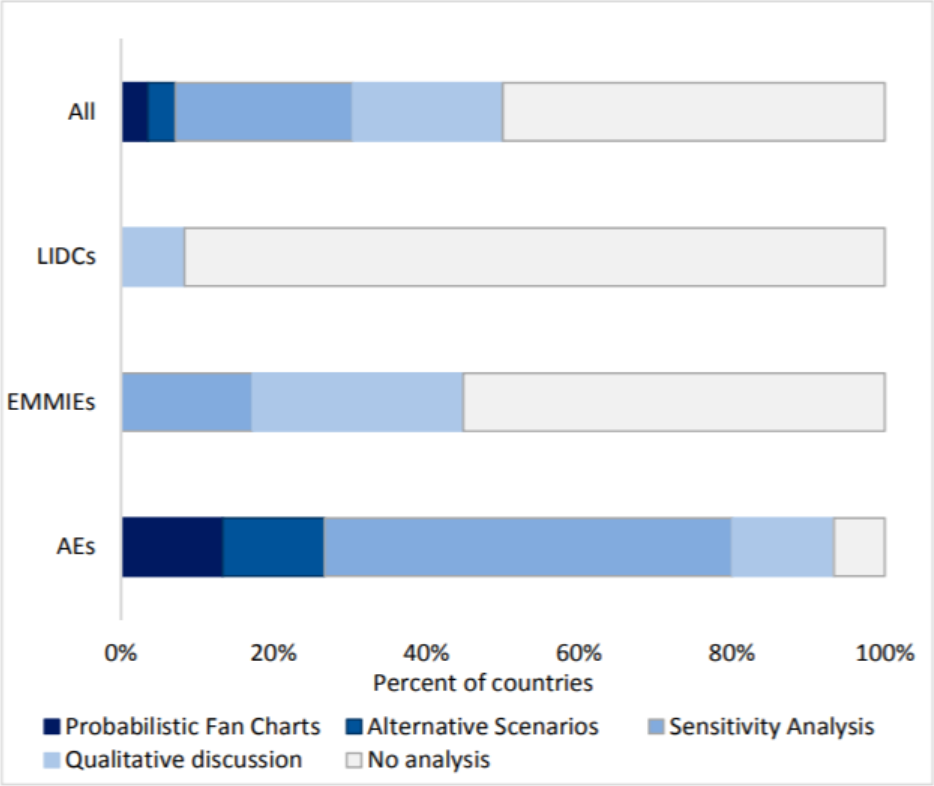


- Include guarantees, PPPs, pension liabilities and public corporation liabilities.

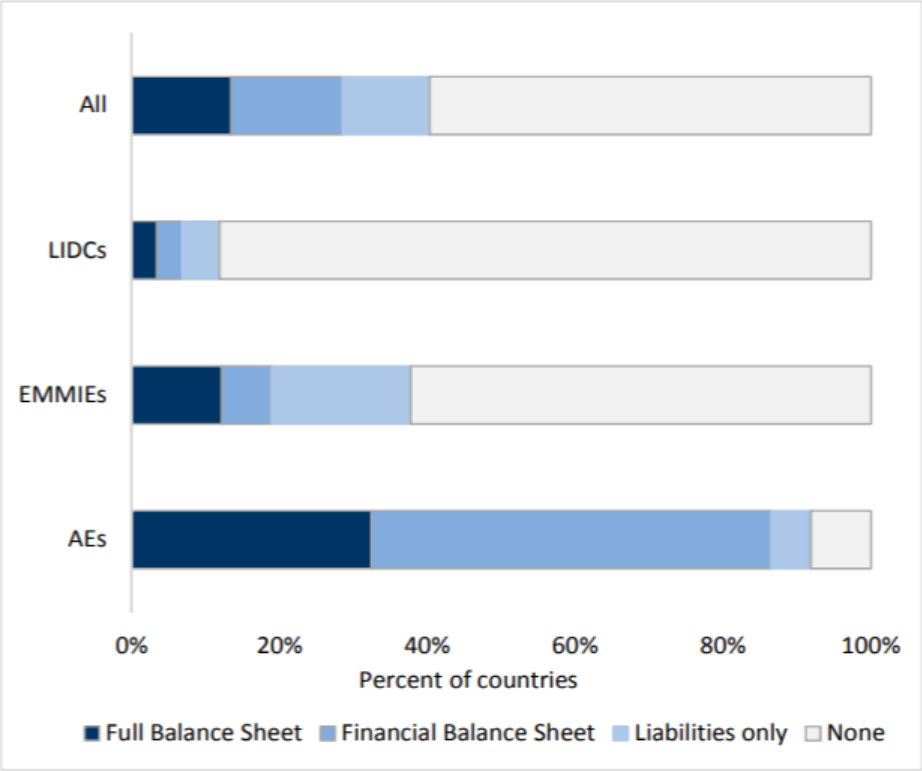
Few countries conduct sophisticated analysis of macro-fiscal risks…

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

a. Macro-Fiscal Risk

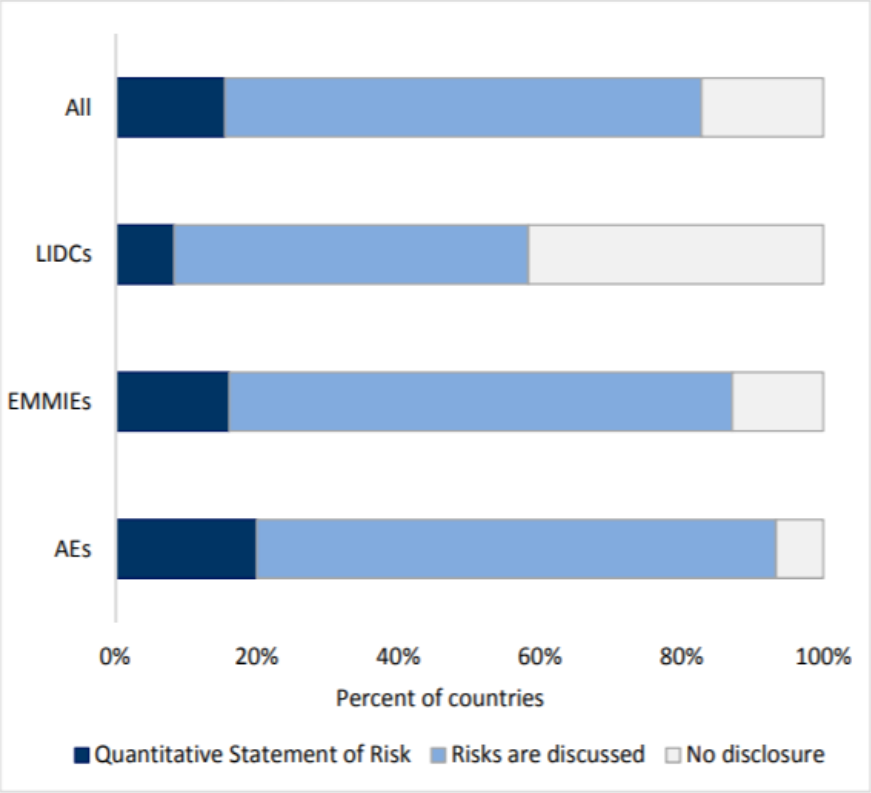


b. Assets and Liabilities



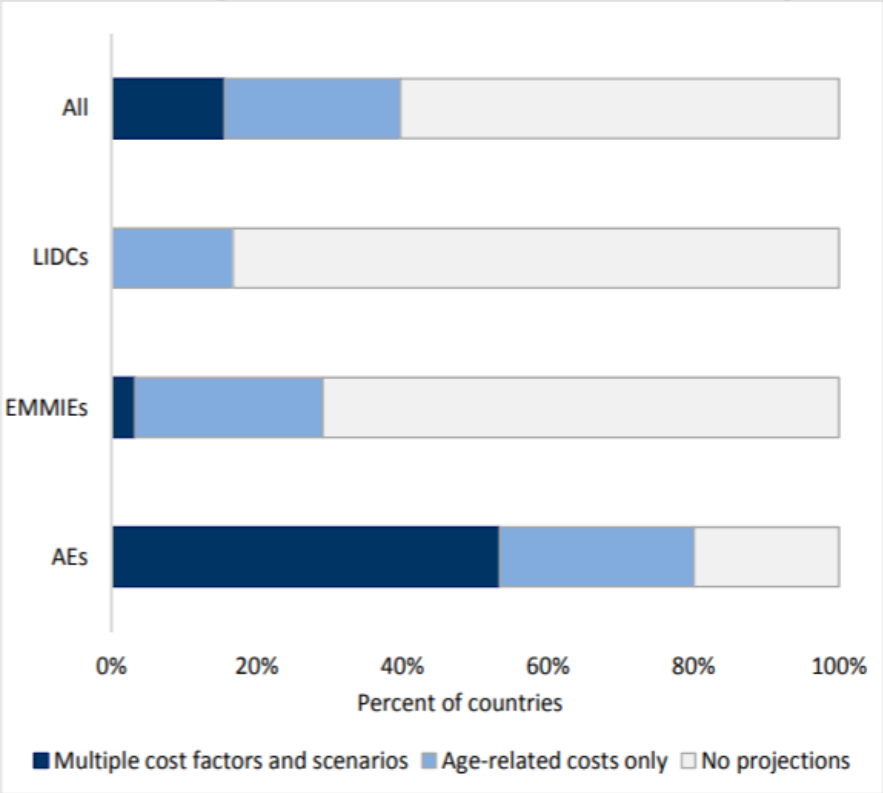
Many countries discuss specific risks but not many quantify their size or probability…

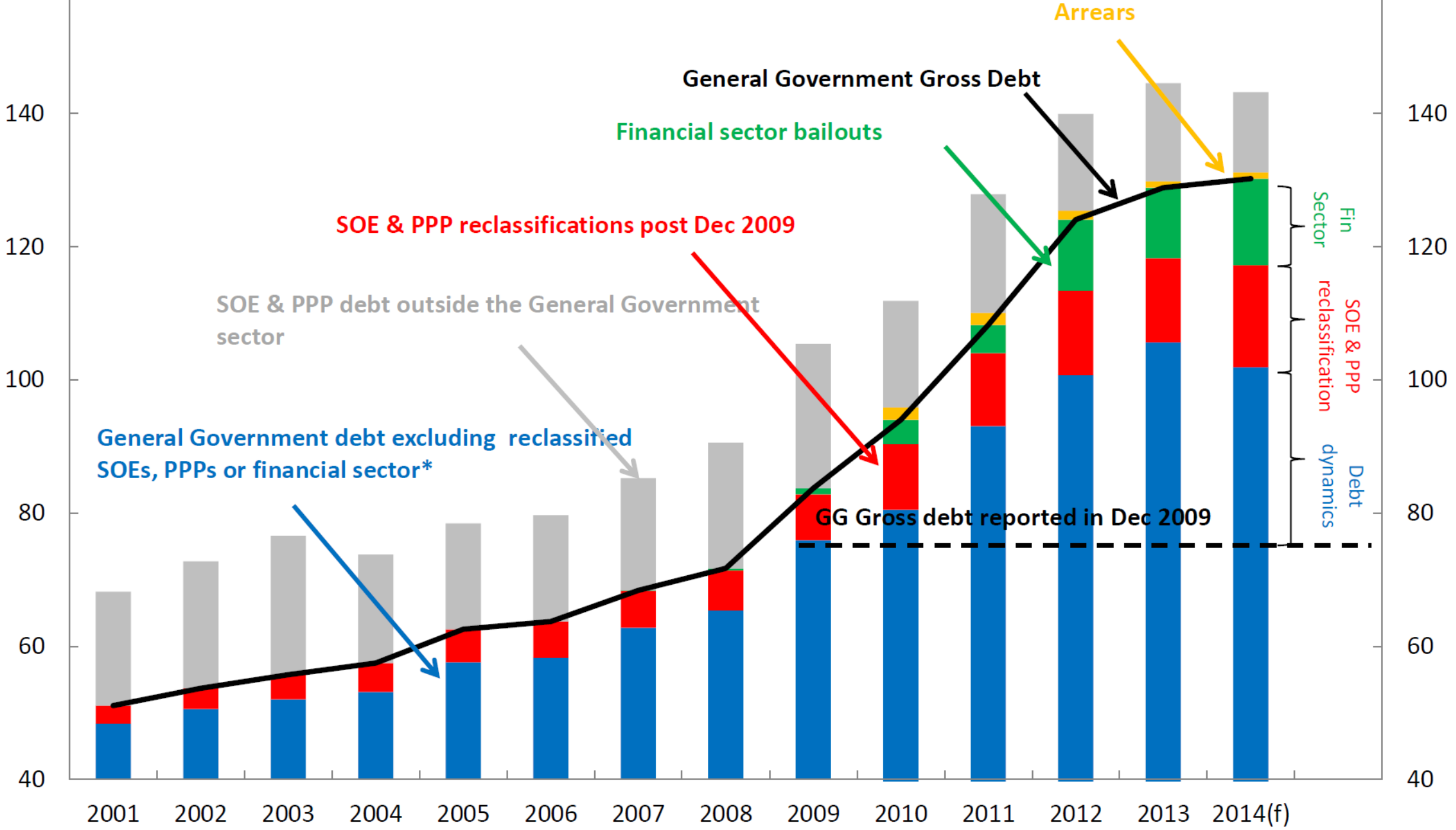
c. Specific Fiscal Risks



…while relatively few non-advanced countries publish long-term projections

d. Long-Term Fiscal Sustainability




Arrears
General Government Gross Debt
Financial sector bailouts
SOE & PPP reclassifications post Dec 2009
SOE & PPP debt outside the General Government sector
General Government debt excluding reclassified SOEs, PPPs or financial sector*
GG Gross debt reported in Dec 2009
Fin Sector
SOE & PPP reclassification
Debt dynamics
140
120
100
80
60
40
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014(f)

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

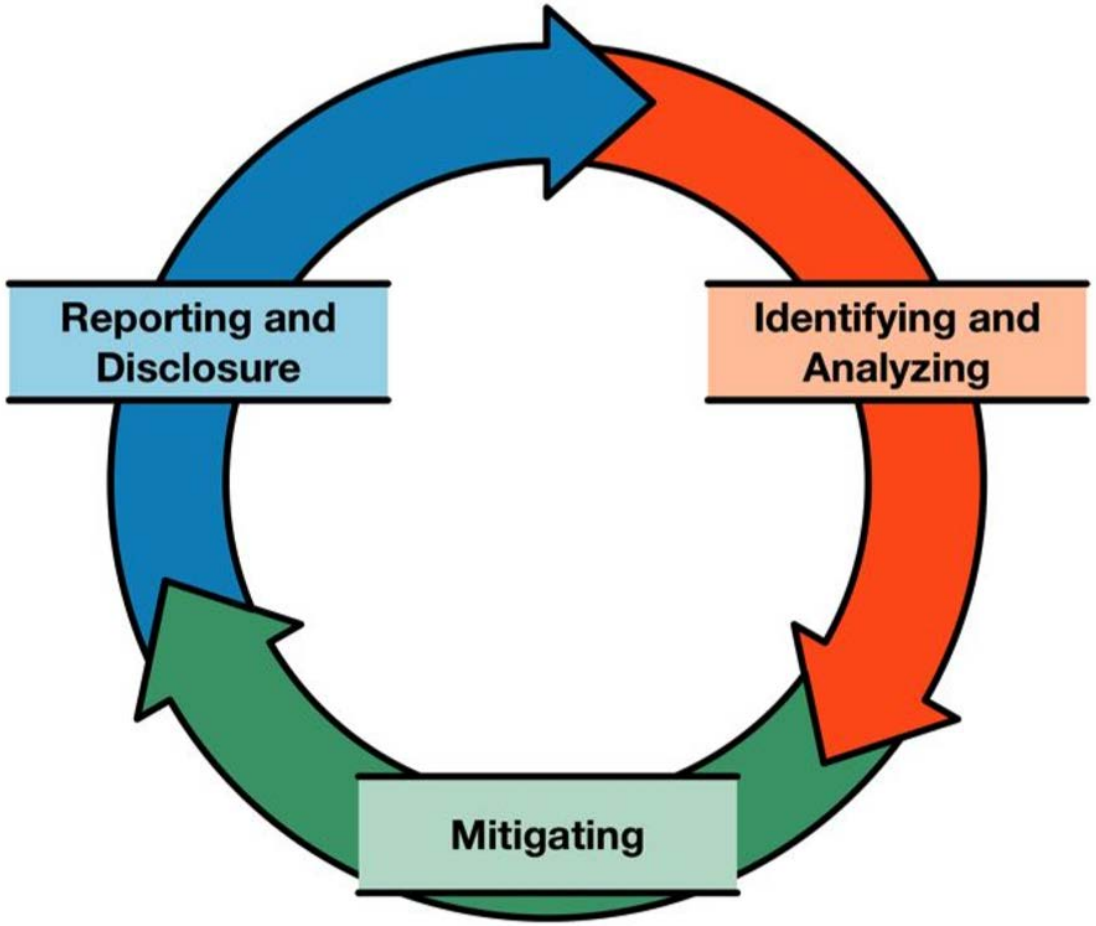
When a government runs a deficit, it must borrow from the financial markets.

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



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.