# IMPORTANCE OF FISCAL RISK MANAGEMENT

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# CONTENT

- Fiscal risk management – why does it matter and what is it?
- Case of Slovenia
- Q &A

# FISCAL RISK MANAGEMENT

- Identification of fiscal risks and measurement of their size
- Management of identified risks >> reducing the probability of realisation; reducing the shock for public spending if realised
- Finding the right balance between prudency of fiscal policy and providing sufficient resources for public spending and supporting growth potential

# FISCAL RISK MANAGEMENT (2)

- Identification of fiscal risks:
  - Long term and short term risks
  - Macroeconomic forecasting – too conservative or too optimistic?
  - Revenue forecasting – conservative enough?

# FISCAL RISK MANAGEMENT (3)

- Identification of fiscal risks (cont‘d):
  - Unexpected expenditures:
    - Contingent liabilities (government guarantees)
    - Open disputes (litigations)
    - Sudden changes of macro-economic circumstances (example: interest expenditures)
  - Identification of inefficient/not sufficiently efficient use of public resources
  - (Un)flexibility of budget expenditures

# FISCAL RISK MANAGEMENT (4)

- Annual budget planning vs. multiannual fiscal framework
- Focus – state budget or general government sector (S.13 according to ESA10)
- Main S.13 units of interest for fiscal risk management: state budget, local community budgets, pension fund, health fund, other public entities, some enterprises…

# FISCAL RISK MANAGEMENT (5)

- Ownership/responsibility for fiscal risk management:
  - Ministry of Finance
  - Independent Fiscal Board
  - Line ministries
  - Government
  - Parliament
  - Public understanding of fiscal issues and public opinion

# FISCAL RISK MANAGEMENT (6)

- Tools of fiscal risk management:
  - Fiscal transparency
  - Setting long term objectives/targets
  - Programme oriented fiscal planning
  - Adapting fiscal planning to developments in economic and social environment>> allow for enough flexibility in fiscal planning taking into account stability
  - Setting limits to public spending in general and for particular purposes
  - Recording of fiscal risks and their size
  - Independent and/or public reviews of fiscal targets
  - Structural reforms

# FISCAL RISK MANAGEMENT (7)

- Different approaches to address risks:
  - Monitor and take actions to reduce risks themselves (example: management of interest expenditures)
  - Create fiscal space by limiting public spending in certain areas – reduce benefits from public resources (example: limit public pensions; limit the level of compensation for sick leave or maternity leave)
  - Long term risks – prevent or reduce the possibility of materialisation of the risk (example: increase the potential GDP growth and foster sustainability of public pensions).

# FISCAL RISK MANAGEMENT (8)

- Linking fiscal risk management and structural reforms:
  - Fiscal policy is important tool of governmental economic policy (setting regulatory and business environment);
  - Efficient use of public resources („Doing more with less“);
  - Fiscal targets can be achieved in many different ways, but not without changes – reforms, therefore CHOICES are needed

# CASE OF SLOVENIA

- Shift from annual to multiannual fiscal planning
- Shift of focus from only state budget to general government level
- Increased focus on fiscal rules on national and supranational level because of financial and economic crisis

# CASE OF SLOVENIA(2)

- Constitutional changes (2013)
- Additional legislative framework – Fiscal Rules Act (2105); amendments to the Public Finance Act (2108)
- Behavioural change – on going:
  - within the Ministry of Finance
  - in Line Ministries – Government; other units of general government
  - in Parliament
  - in public perception

# CASE OF SLOVENIA (3)

- Fiscal rules employed (as in other Euro countries):
  - structural balance of general government
  - expenditure rule
  - debt rule
- Aim: provide for counter-cyclical fiscal policy and create possibilities of public finances to absorb or minimize shocks stemming from changes in economic cycle.

# CASE OF SLOVENIA (4)

- Multiannual fiscal planning:
  - Multiannual fiscal framework (rotating 3 year horizon)
  - Stability programme and National reform programme
  - Annual budget for the next year and the year to follow – obligatory for state budget, pension and health fund but optional for local communities
- Important inputs:
  - Slovenian Development Strategy (30 year outlook)
  - State programme of development policies (rotating 4 year horizon; from 2020 onwards)

# CASE OF SLOVENIA (5)

- Other elements of fiscal risk management:
  - Setting annual level of  new state guarantees
  - Setting annual level of issuance of new debt instruments by central government
  - Debt related risk management
  - System of central recording, approvals and limitations to raising new debt of other units of general government
  - Prudent planning and use of budget reserves
  - Central recording of guarantees issued by the government
  - Central recording of litigations with important fiscal impact and active approach to mitigation of disputes

# CASE OF SLOVENIA (6)

- Fiscal risk management tools are overlapping with tools of performance based budget:
  - Programme based state budget
  - Assessment of efficiency of public spending in different areas (spending reviews)
  - Structural reforms aiming at:
    - fiscal risk reduction
    - more efficient public spending
    - increasing GDP potential growth
    - increasing public revenues

# QUESTIONS, COMMENTS, EXAMPLES?

# CONCLUSION

**Fiscal management is dealing with many uncertainties. The level of predictability increases with stability of national and international economic and social environment, but uncertainties can not be avoided. Nevertheless, uncertainties can be managed and their influence on fiscal stability can be mitigated. Fiscal risks management is task of all ministries, not only MoF!**