Fiscal risks management

In OECD countries and beyond, the government has the ultimate responsibility to guarantee the smooth functioning of the economic system as a whole. To do so, it has to deploy several tools and assume different responsibilities. This, in turn, means that the risks affecting government finances can emanate from countless sources and government's forecasts and plans are constantly at risks of being derailed or proven wrong.

Although fiscal risks are, by definition uncertain, awareness and understanding of them allow policy makers to increase a government's capacity to adapt and rebound from them. Accordingly, the 2015 OECD *Recommendation of the Council on Budgetary Governance* advises governments to "identify, assess and manage prudently longer-term sustainability and other fiscal risks."

In 2018, the trend was clear: a majority of OECD countries have taken steps to strengthen their fiscal risk management. About 60% of OECD countries have in place a framework or guidance – in the form of a supra-national directive or national law, regulation or policy document – for monitoring fiscal risks. Responsibility for implementing the framework often lies within the Ministry of Finance. Some countries, such as Austria and the United Kingdom have, however, taken the step to establish dedicated cross-ministerial committees to monitor fiscal risks, so as to enhance co-ordination of actors involved in fiscal risks monitoring and management. In Belgium, the Czech Republic, Luxembourg, and the United Kingdom, the independent fiscal institution identifies and analyses fiscal risks as part of its oversight function of government's economic and/or fiscal forecasts (OECD, 2019).

Public reporting on fiscal risks is also increasingly common practice: around 75% of OECD countries publicly disclose some information on their fiscal risks. However, the means for disclosing them, as well as the breadth and depth of information published, varies widely. Information on fiscal risks is often provided in the annual budget documentation, alongside economic and fiscal forecasts. For example, Canada includes a chapter on "upside and downside risks to the economic and fiscal outlook" in its budget plan. Only Finland and the United Kingdom have taken the step to establish stand-alone fiscal risks reports. There are also some countries, like Sweden, which disclose high-quality information on specific risks in a range of reports but do not provide a consolidated vision.

OECD countries monitor similar types of fiscal risks. A vast majority of countries monitor the main variables that underlie fiscal forecasts and macroeconomic forecasts, such as the government debt, growth and demography; the stability of the financial sector; as well as potential claims on budgetary resources due to guarantees granted by the government. Within these broad categories, each country may identify specific risks related to its own circumstances. For example, risks related to government debt can include financing risks (liquidity and refinancing risks), market risks (interest and foreign exchange risks), credit risks, legal and operational risks, and model risks. Risks related to macro-economy can include the fiscal impact of an unexpected fall in output, and risks related to the demography can include an increase in age-related expenditure, such as pensions and health care expenditure (e.g. Mexico). Litigations, guarantees associated with public-private partnerships (PPPs), recapitalisation of state-own enterprises, bailouts of sub-national governments, or natural disasters are identified as fiscal risks by fewer countries. Additional fiscal risks mentioned include tax expenditures (France) and mandatory spending.

Methodology and definitions

Data are derived from the 2018 OECD Budget Practices and Procedures Survey. Respondents were predominantly senior budget officials in OECD countries. Responses represent the countries' own assessment of current practices. Unless specified otherwise responses refer to central/federal government.

According to Kopits (2014), fiscal risks denote the uncertainty associated with the outlook in public finances and can be defined as the probability of significant differences between actual and expected fiscal performance, over the short to medium-term horizon.

A balance sheet is a financial statement that reports a government's assets, liabilities and net worth at a specific point in time.

Further reading

Kopits, G. (2014), "Coping with fiscal risk: Analysis and practice", OECD Journal on Budgeting, Vol. 14/1, https://doi.org/10.1787/budget-14-5jxrgssdqnlt.

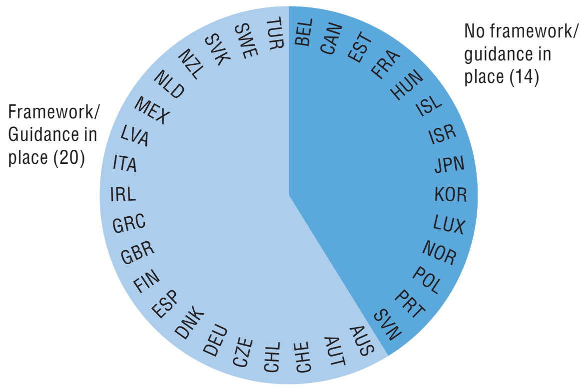
Moretti, D. and T. Youngberry (2018), "Getting added value out of accruals reforms", OECD Journal on Budgeting, Vol. 18/1, *https://doi.org/10.1787/budget-18-5j8l804hpvmt*.

OECD (2019), Budgeting and Public Expenditures in OECD Countries 2019, OECD Publishing, Paris, https://doi.org/10.1787/9789264307957-en

Figure notes

On data for Israel, see *http://doi.org/10.1787/888932315602*. Data for the United States are not available.

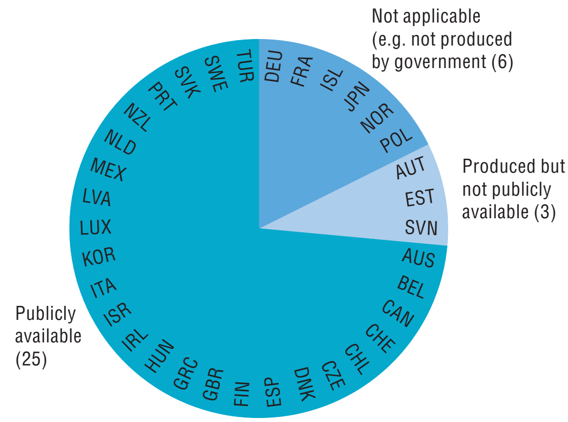
5.4. Framework or guidance for fiscal risks management, 2018



Source: OECD (2018), *OECD Budget Practices and Procedures Survey*.

StatLink https://doi.org/10.1787/888934032339

5.5. Disclosure of fiscal risks in a report, 2018



Source: OECD (2018), *OECD Budget Practices and Procedures Survey*.

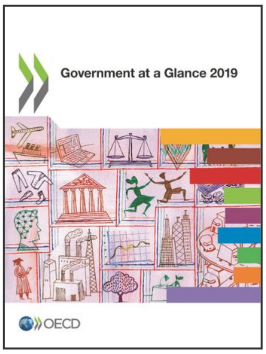
StatLink https://doi.org/10.1787/888934032358

5.6. Fiscal risks monitored by countries, 2018

	Macro-economic shocks	Financial sector crisis	Change in debt interest rates	Demographic changes	Natural disasters	Government guarantees	Government litigations and lawsuits	Public private partnerships and/or private financial initatives	Environmental degradation	Local government and/or developed administrations	State owned entreprises
Australia	●	●	●	●	○	●	●	○	○	○	○
Austria	●	●	●	●	●	●	●	○	●	●	●
Belgium	●	○	●	●	○	○	○	○	○	○	○
Canada	●	○	●	●	○	●	●	○	○	○	●
Chile	○	●	○	○	○	●	●	●	○	○	○
Czech Republic	●	○	●	●	○	●	●	●	●	●	●
Denmark	●	○	●	●	○	●	○	○	○	○	○
Estonia	●	○	○	○	○	○	○	○	○	○	○
Finland	●	●	●	●	○	●	○	●	○	●	●
France	●	●	●	●	○	●	●	●	○	○	○
Germany	○	○	○	●	○	●	○	○	●	○	●
Greece	○	○	●	●	○	●	○	○	○	●	○
Hungary	●	●	●	●	○	●	●	●	○	●	●
Iceland	●	●	●	○	○	●	○	●	●	○	○
Ireland	●	○	●	●	○	●	○	●	○	○	○
Israel	●	●	●	○	○	●	○	○	○	○	○
Italy	●	●	●	●	●	●	○	○	○	○	○
Japan	●	○	●	●	●	●	●	○	○	○	○
Korea	●	○	●	○	○	●	○	○	○	○	○
Latvia	○	○	○	●	○	●	●	●	○	●	●
Luxembourg	●	○	●	●	○	○	○	○	○	○	○
Mexico	●	●	●	●	●	●	●	●	●	●	●
Netherlands	●	●	●	●	●	●	●	●	●	●	●
New Zealand	○	○	○	○	○	●	●	●	●	○	●
Norway	●	○	○	○	○	●	○	○	○	○	○
Poland	●	○	●	○	○	●	○	○	○	○	○
Portugal	●	●	●	●	○	●	○	●	○	●	●
Slovak Republic	●	●	●	●	○	●	●	●	○	○	○
Slovenia	●	○	●	●	○	○	●	○	○	○	○
Spain	●	●	●	○	○	●	●	○	○	●	●
Sweden	●	●	●	●	○	●	○	●	○	●	●
Switzerland	●	●	●	●	●	●	●	○	●	○	●
Turkey	●	●	●	●	●	●	●	●	○	●	●
United Kingdom	●	●	●	●	○	●	●	○	○	●	○
OECD Total											
● Yes	29	18	28	25	7	30	18	15	8	13	15
○ No	5	16	6	9	27	4	16	19	26	21	19

Source: OECD (2018), *OECD Budget Practices and Procedures Survey*.

StatLink https://doi.org/10.1787/888934032377



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