

Using Balance Sheets for Fiscal Analysis and Policymaking

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Overview

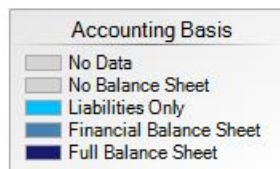
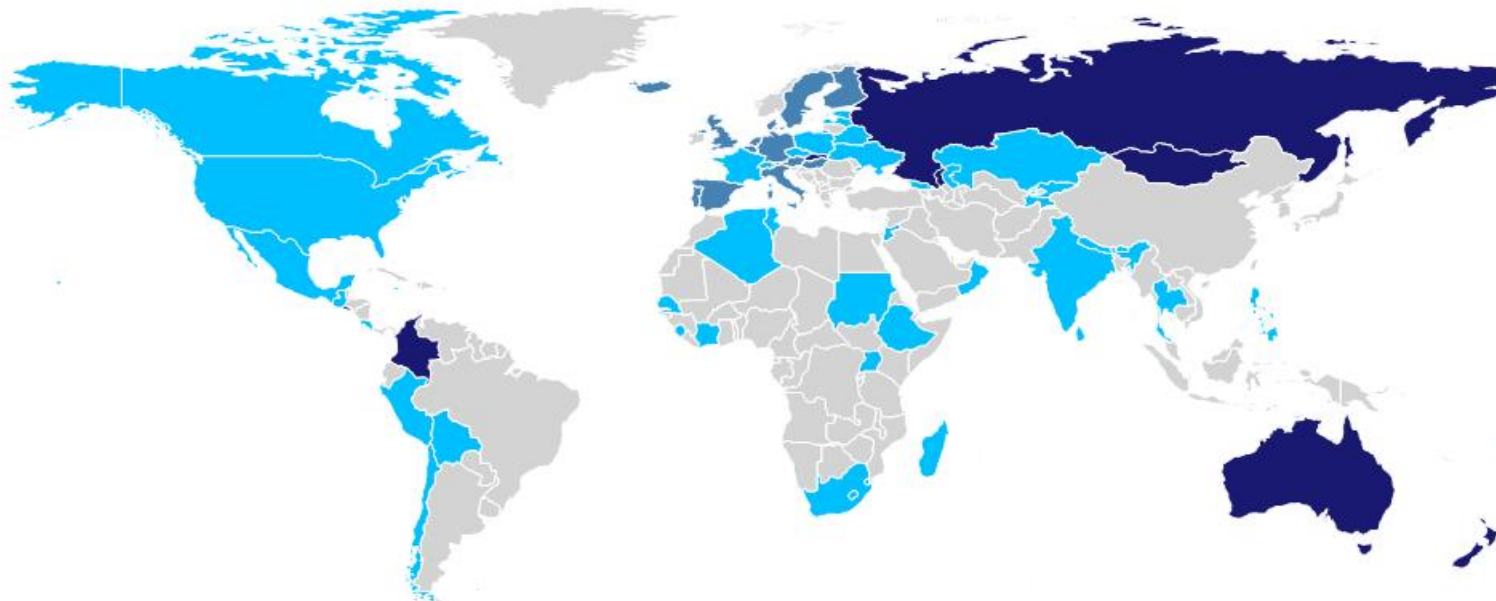
- 1. Some progress in producing balance sheets**
- 2. But, they are not always used for fiscal analysis**
- 3. Challenge is how to make them more relevant**

Some improvement in balance sheet reporting, but substantial gaps remain



Coverage of Balance Sheet Data (GFS)

2003

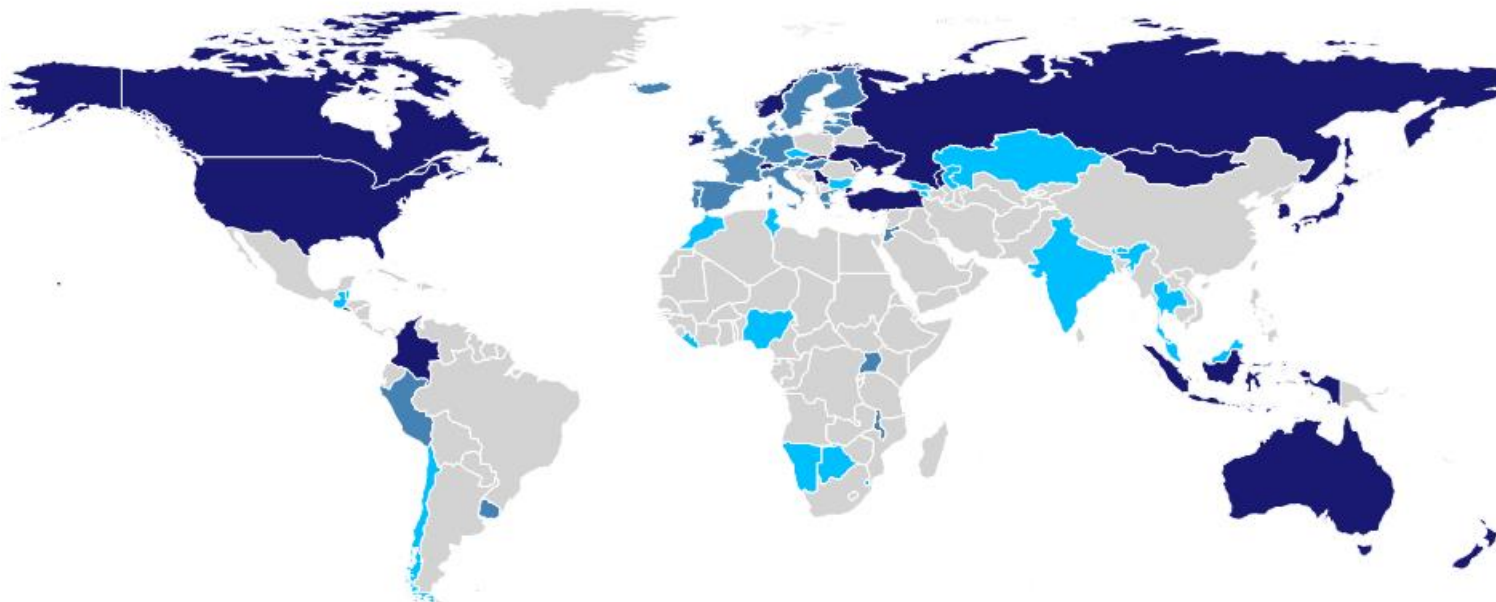


Some improvement in balance sheet reporting, but substantial gaps remain



Coverage of Balance Sheet Data (GFS)

2013



Balance sheets can inform fiscal analysis and policymaking

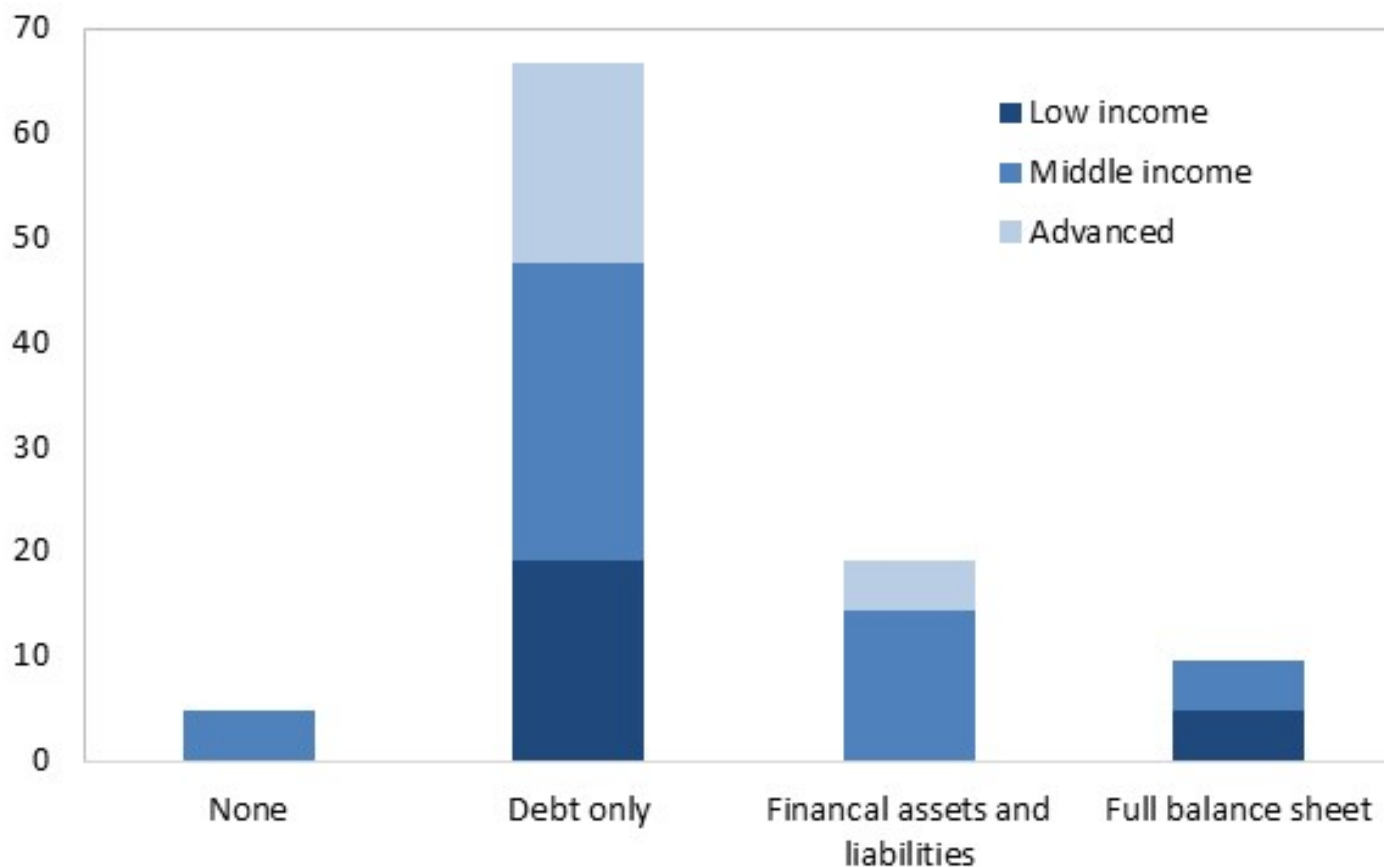


- Provide public and policymakers with better understanding of their underlying fiscal position
- Identifying and valuing assets and liabilities provides basis for their management
- Facilitates a more integrated approach to asset and liability management
- Informs policy decision making by showing costs and benefits of policies

But, improved reporting has not translated into enhanced analysis and management



Asset and Liability Management: (percent of countries)



Source: IMF Fiscal Transparency Evaluations for 21 countries for which they have been conducted. ■



Factors limiting their role in fiscal analysis

- **Come too late to influence policy**
- **Limited links to fiscal policy or fiscal targets**
- **Backward looking — lack information on sustainability of policies**
- **Costs of decision-making may not be fully accounted for**
 - e.g. costs of potential contingent liability realizations not fully provisioned for; loan portfolios not always appropriately valued
- **Focus on instruments means information relevant to risk analysis not always reported**
 - e.g. foreign currency composition of assets and liabilities, maturity structure of debt obligations, counterparty exposures.



How Can Policymakers Better Use Balance Sheets as a Tool for Fiscal Policy and Analysis?

- **Use balance sheets to inform fiscal strategy and objectives**
 - Shift from debt/fiscal balance focus, towards broader balance sheet measures (e.g. net financial worth or net worth)
- **Include forecasts of the balance sheet in the budget**
 - Extend macro and fiscal projections to include balance sheet components
 - Impact of macro variables (interest, exchange and equity)
- **Assess balance sheet impacts of policy decisions**
 - Incorporate public investment analysis within fiscal aggregates
 - Include non-debt costs and returns on planned equity investments
 - Assess expected value of future flows for credit programs
- **Better integrate asset and liability management**
 - Requires supplementary information on currency, maturity profile, counterparty exposures
- **Build on standard balance sheet to better inform fiscal policymaking**
 - Bring together accounting balance sheet, expected contingent liability realizations, and long-term sustainability in a comprehensive balance sheet e.g., NZ
- **Stress test public sector balance sheets**
 - IMF Fiscal stress test

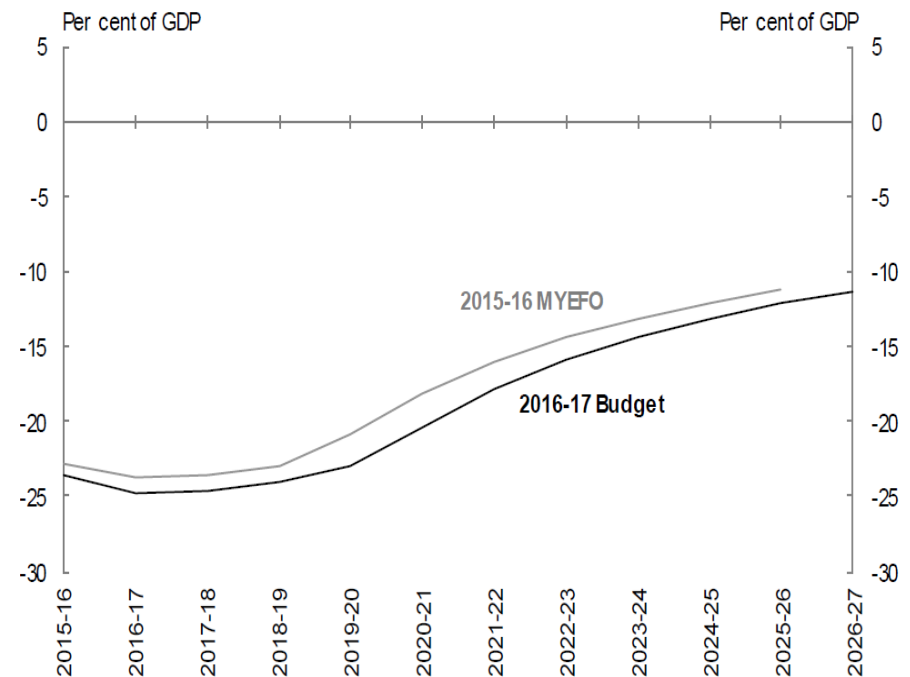
Using Balance Sheets as a Tool for Fiscal Policy and Analysis: Forecasting Balance Sheets

Australia produces forecast balance sheets to guide fiscal policymaking

Forecast Balance Sheet Aggregates

	Estimates			Projections	
	2015-16	2016-17	2017-18	2018-19	2019-20
	\$b	\$b	\$b	\$b	\$b
Financial assets	342.6	383.4	414.0	432.2	453.4
Non-financial assets	122.9	126.2	130.6	134.9	139.7
Total assets	465.4	509.6	544.6	567.2	593.1
Total liabilities	730.4	810.6	859.2	886.6	909.2
Net worth	-265.0	-300.9	-314.6	-319.4	-316.1
Net financial worth(a)	-387.9	-427.2	-445.2	-454.3	-455.8
Per cent of GDP	-23.5	-24.8	-24.6	-24.0	-22.9
Net debt(b)	285.7	326.0	346.8	356.4	355.1
Per cent of GDP	17.3	18.9	19.2	18.8	17.8

Projections of Net Financial Worth



Using Balance Sheets as a Tool for Fiscal Policy and Analysis: Comprehensive Balance Sheet

Comprehensive Net Worth

NZ\$ billion		Assets	Liabilities	Net Worth
Based on accounting principles	Social	130	86	44
	Financial	122	96	25
	Commercial	23	11	13
Accounting Net Worth		275	193	82
Add	Contingent Liabilities	0	18	(18)
Add	NPV future expenses & revenue	785	886	(101)
Comprehensive Net Worth		1078	1098	(20)

All of the assets and liabilities have the potential to create fiscal risk. These impact on comprehensive net worth *immediately* and GAAP net worth *eventually*.

Accounting Net Worth – Cumulative impact of past decisions

Contingent Liabilities – Estimate of the value of contingent and implicit liabilities.

Fiscal – Estimates of the present value of future Government spending and income

Comprehensive Net Worth – Combines balance sheet, expected losses from CL realizations, and NPV of future policies

Note: Figures are illustrative only.



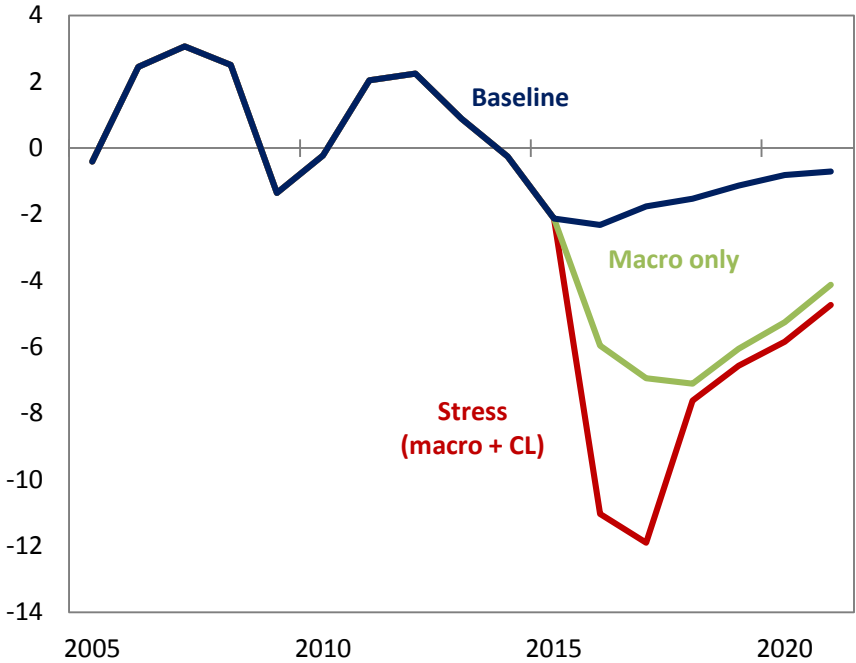
Using Balance Sheets as a Tool for Fiscal Policy and Analysis: Fiscal Stress Tests

- **Fiscal Stress Testing can be used to test the resilience of public balance sheets**
- **Features of stress test:**
 - Focus on more extreme events; rather than year-to-year volatility
 - Explore a range of correlated shocks in an integrated way
 - Combine macroeconomic shocks with contingent liability realization
 - Analyze impact on future flows, assets and liabilities (including valuation changes)

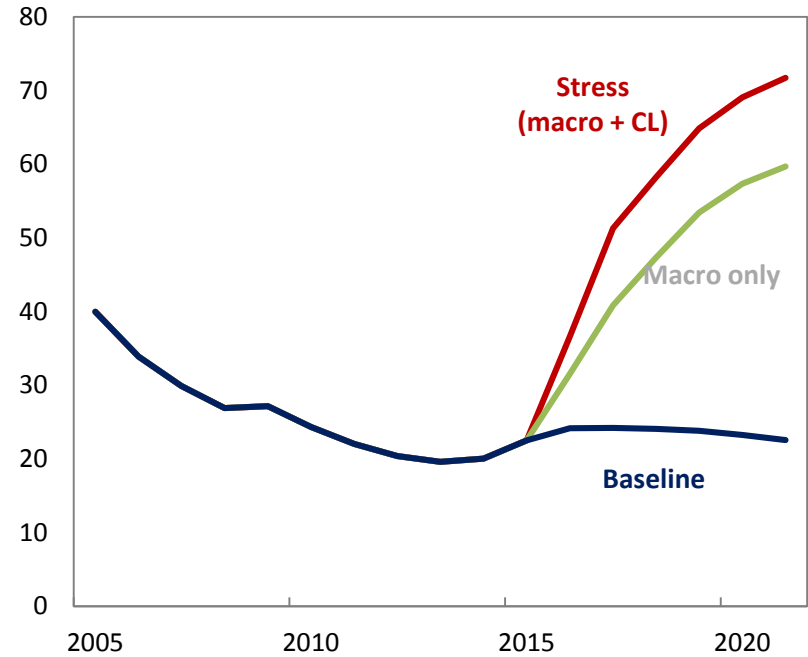
Using Balance Sheets as a Tool for Fiscal Policy and Analysis: Fiscal Stress Tests

Peru Illustrative Stress Test

Fiscal Balance
(Percent of GDP)



Public Debt
(Percent of GDP)



Source: IMF (2016) "Analyzing and Managing Fiscal Risks – Best Practices," IMF Policy Paper, June (Washington: International Monetary Fund).

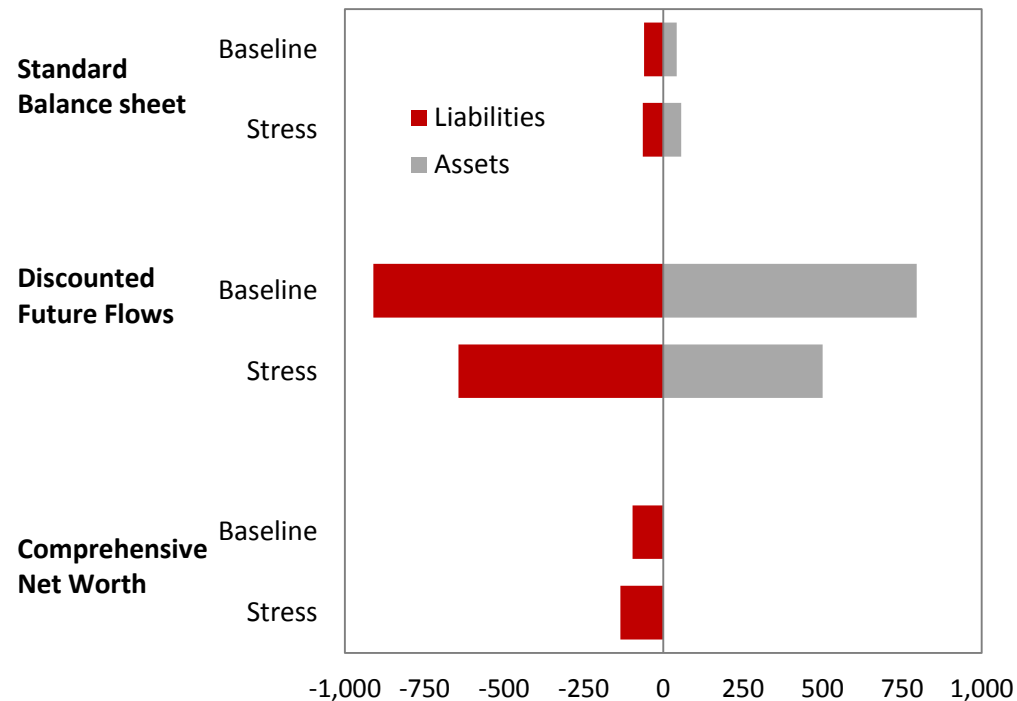
Using Balance Sheets as a Tool for Fiscal Policy and Analysis: Fiscal Stress Tests

Peru Illustrative Stress Test

Comprehensive Balance Sheet (Percent of GDP)

Non-financial Public Sector Balance Sheet (2017) (Percent of 2017 Baseline GDP)		
	Baseline	Shock
Total Assets	856.8	564.2
Non-Financial Assets	41.5	41.5
Financial Assets	19.4	22.8
Currency and Deposits	14.6	14.6
Debt securities	2.6	2.6
Loans	1.2	1.2
Equity	1.0	4.5
<i>NPV Revenues</i>	<i>795.9</i>	<i>499.8</i>
Liabilities	953.2	699.3
Debt securities	15.2	23.8
Loans	9.0	14.1
Insurance, pensions	18.0	18.0
<i>NPV Expenditure</i>	<i>911.1</i>	<i>643.4</i>
Comprehensive net worth	-96.5	-135.2
Existing net worth	18.7	8.4
Future discounted deficits	-115.1	-143.6

Solvency: Net Financial Worth (Percent of 2017 GDP)



Conclusions

- Countries have made some progress in producing balance sheets
- But, they are not always used in fiscal analysis
- Challenge is how to best utilize them in fiscal policymaking
 1. Make accounting and statistical balance sheet information more relevant for policymakers by ensuring:
 - Assets and liabilities reflect expected future flows (*provisioning*)
 - Capture information relevant to risk analysis and management (*memorandum items*)
 2. Better integrate them into policy decision making by:
 - Linking fiscal objectives to balance sheet indicators
 - Including forecast balance sheets in budgets
 - Augmenting traditional balance sheets with comprehensive approach
 - Stress testing balance sheets