Assessing Fiscal Space in the SDG Era

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Outline

Four elements

• Fiscal space—evolution of the concept
• IMF’s framework
• IMF’s framework—results
• How will this framework help health
I. Fiscal Space—Evolution of the Concept

• A formal definition first presented by Heller in 2005 as “the capacity of government to provide additional budgetary resources for a desired purpose without any prejudice to the sustainability of its financial position”

• In the following year, Peter listed elements that comprised fiscal space for health, including (1) higher overall revenues, (2) increasing budget share of health, (3) borrowing, (4) seigniorage and (5) external grants

• Developed further by Tandon and Cashin (2010) with five pillars which replaced revenues with economic growth and added health efficiency in place of seigniorage

• Subsequently, the key drivers of FSH were subsumed under the following identity

  \[ P_t = H_t \cdot E_t \cdot Y_t, \]
II. IMF's Framework

- In 2016, IMF proposed a uniform definition of fiscal space approved by its Board.
- Reason: to allow a consistent assessment of fiscal space across countries.
- The framework assesses whether a country has room for discretionary fiscal policy without endangering market access and debt sustainability.
- Four types of categorization possible:
  - No fiscal space
  - Fiscal space at risk
  - Some fiscal space
  - Substantial fiscal space
II. IMF’s Framework

1. Snapshot of initial state
   *Macro-fiscal indicators*

2. Analysis of fiscal space indicators under baseline and stress tests
   *Financing debt and GFN needs*

3. Analysis of discretionary fiscal policy
   *Simulate macro-fiscal effects of expansion*

4. Desk Assessment
II. IMF’s Framework

1. Initial State

1.1 Macroeconomic conditions
- Gross Public Debt
- Gross financing needs (GFN)
- Output gap
- Fiscal multipliers est. range (revenue and expenditure)
- Is monetary policy appropriate?
- Member of a currency union?

1.2 Expenditure balance considerations
- Current account balance
- Net International Investment Position
- Estimated current account gap
- EBA exchange rate overvaluation

1.3 Resource dependency
- Non-renewable commodity exports
- Product concentration of exports
- Variation of net commodity prices
- Adjusted net national savings
- Non-resource revenue as a share of total government revenues
- Ratio of proven reserves of natural resources to current extraction

1.4 Contingent liability risks
- Banking sector NPL ratio
- Fiscal costs for past financial sector rescue
- Assets of domestic financial sector
- Cost of past natural disasters damage
- Non-financial sector corporate debt
- Size of outstanding PPP’s projects
- Stock-flow-adjustment

2. Fiscal Space under the Baseline and Stress Tests

2.1 Is financing available?
- Have sovereign bond spreads breached bookmarks? Last 12 months? Last 5 years?
- Do debt profile indicators breach benchmarks?
- Public financial assets

2.2 State of debt burden indicators
- Does debt level breach the benchmark during the projection period?
- Does debt level breach the benchmark at the end of the projection period?
- Does GFN breach the benchmark during projection period?
- Does debt trajectory at least stabilize in last 2 years?
- Contingent liability stress test

3. Fiscal Space under Expansionary Fiscal Scenario

3.1 Macro impacts
- End of projection year
- Change in potential GDP relative to baseline at the end of the projection period
- Change in nominal GDP relative to baseline at the end of the projection period

3.2 Debt burden indicators
- Does debt level breach the benchmark during the projection period?
- Does debt level breach the benchmark at the end of the projection period?
- Does GFN breach the benchmark during projection period?
- Does debt trajectory at least stabilize in last 2 years?

Desk Bottom-Line
- Desk rating (with fiscal rules)
- Desk rating (without fiscal rules)
III. IMF’s Framework--Results

• 34 pilots during 2017 and early 2018, mostly advanced and emerging constituting 80% of global GDP in PPP terms

• Plots concluded that most countries had at least some space (advanced countries had more) despite elevated levels of public debt

• Fiscal space a forward-looking and dynamic concept

• 31 additional countries have implemented the fiscal space framework in 2018/19 with and without any fiscal rules—results not published
IV. How will this framework help health?

• Health part of the overall fiscal space

• Fund discussing this framework with ministries of finance

• Important for Ministries of Health to understand the conclusions arising the IMF exercise and then make a case for more space for health
Stage 1. Initial State

1.1 Macroeconomic conditions
- Gross Public Debt Gross financing needs (GFN)
- Output gap
- Fiscal multipliers est. range (revenue and expenditure)
- Is monetary policy appropriate?
- Member of a currency union?

1.2 Expenditure balance considerations
- Current account balance
- Net International Investment Position
- Est. current account gap
- Exchange rate evaluation

1.3 Resource dependency
- Non-renewable commodity exports
- Product concentration of exports
- Variation of net commodity prices
- Adjusted net national savings
- Non-resource revenue as a share of total government revenues
- Ratio of proven reserves of natural resources to current extraction

1.4 Contingent liability risks
- Banking sector NPL ratio
- Fiscal costs for past financial sector rescue
- Assets of domestic financial sector
- Cost of past natural disasters damage
- Non-financial sector corporate debt
- Size of outstanding PPP’s projects
2. Fiscal Space under the Baseline and Stress Tests

2.1 Is financing available?
Have sovereign bond spreads breached benchmarks? Last 12 months? Last 5 years?
Do debt profile indicators breach benchmarks?
Public financial assets

2.2 State of debt burden indicators
Does debt level breach the benchmark during projection period?
Probability of breaching the benchmark at end of projection period
Do GFN breach the benchmark during projection period?
Does debt trajectory at least stabilize in the last 2 years?
Contingent liability stress test
Stage 3. Analysis of effects of expansionary fiscal policy

3. Fiscal Space under Expansionary Fiscal Scenario

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End of projection year
Change in potential GDP relative to baseline at the end of the projection period
Change in nominal GDP relative to baseline at the end of the projection period

3.2 Debt burden indicators
Does debt level breach the benchmark during the projection period?
Does debt level breach the benchmark at the end of the projection period?
Does GFN breach the benchmark during projection period?
Does debt trajectory at least stabilize in last 2 years?
The Bottom-Line: Desk Assessment

Desk Bottom-Line
Desk rating (with fiscal rules)
Desk rating (without fiscal rules)

Desk assessment is the final step