



Independent Authority
for Fiscal Responsibility

AIReF's view on fiscal risks assessment

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**IFAC- "Path for the Public Finances, 2017: Fiscal Risks"
Dublin, 30th March 2017**

Fiscal risks assessment is part of AIReF's current activity

❖ Two approaches:

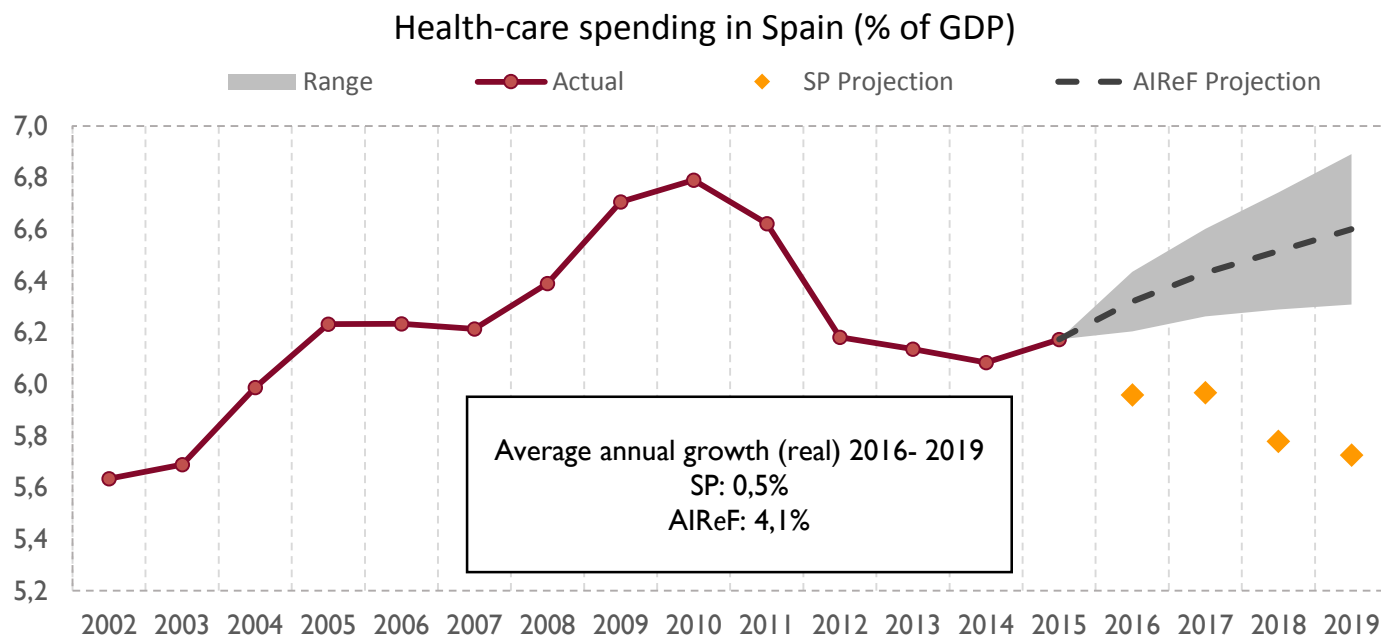
1. **Contingent liabilities assessment:** clearly underdeveloped

- Compulsory reporting to Eurostat insufficient
- IFIs pressure to improve information. AIReF's work in progress

2. **More comprehensive reporting: FFR 2018**

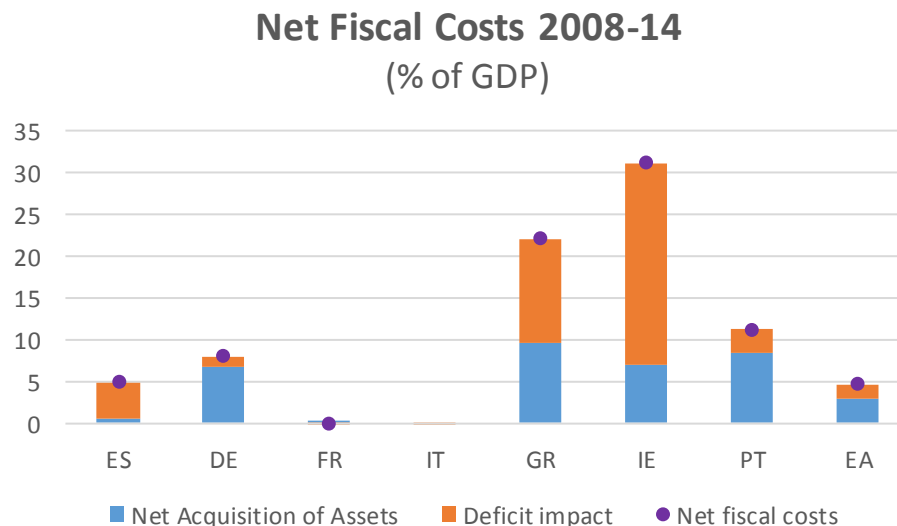
A. Ageing-related implicit liabilities

- ❖ Ageing related costs in the **euro area** projected to increase by 2.1 p.p. by 2060 (**AWG estimates**):
 - Pension expenditure: 0 p.p. conditional on reform implementation
 - Healthcare: 0.8 p.p.
 - **Long-term care: 1.3 p.p.**
- ❖ Large uncertainty even in the short-run



B. Financial crises

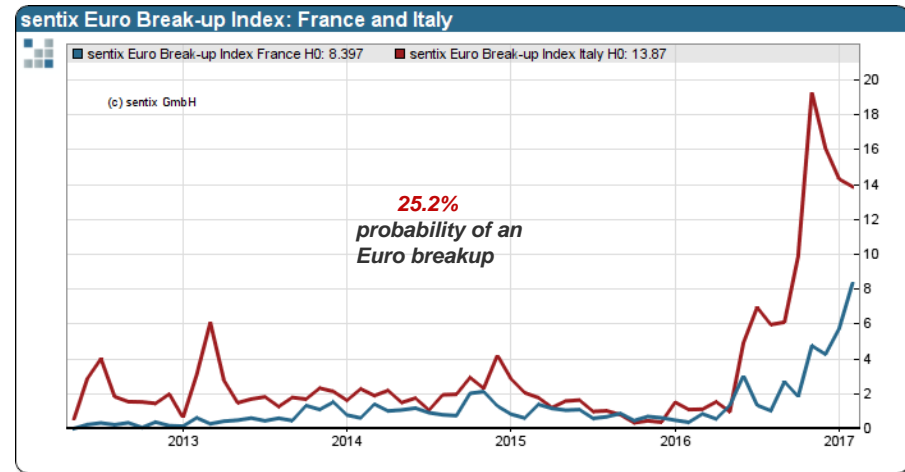
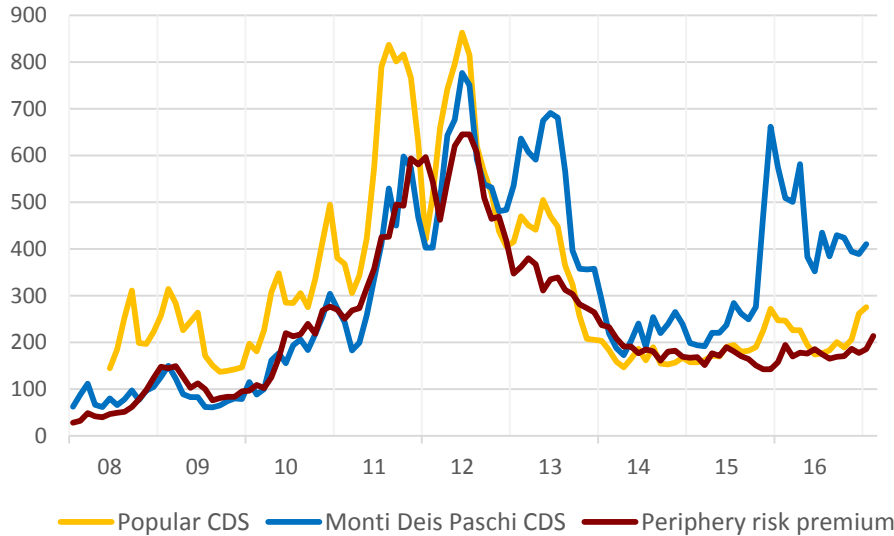
❖ Fiscal cost of financial sector support, according to ECB'2015:



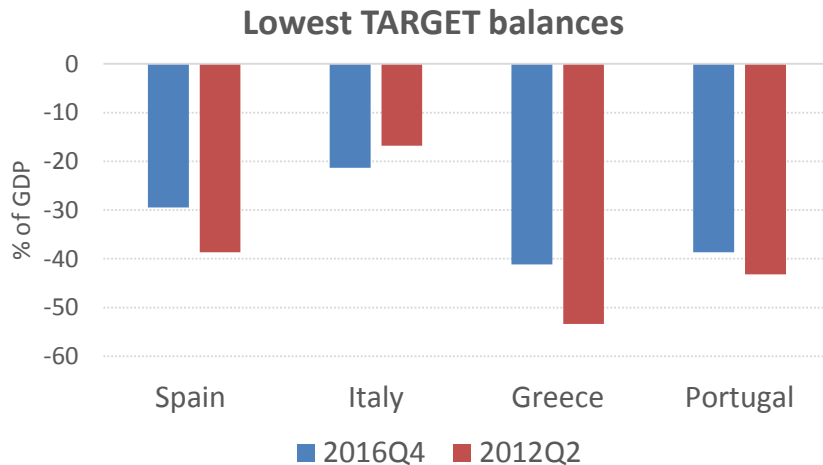
- ❖ **Regulatory measures** have strengthened the financial system
- ❖ **But higher level of contingent liabilities than before the crisis**
 - ❖ Before the crisis, minimum guarantee well below €100,000
 - ❖ 2009 Directive: coverage increased to at least €100,000 by end of 2010
 - ❖ Minimum target level for ex ante funds of Deposit Guarantee Schemes is 0.8% of covered deposits to be reached in 10 years => unfunded systemic risk

C. Tail events: Euro-breakup

❖ The probability of the euro breakup remains significant



❖ Callable liabilities within EMU would amount to almost €1T

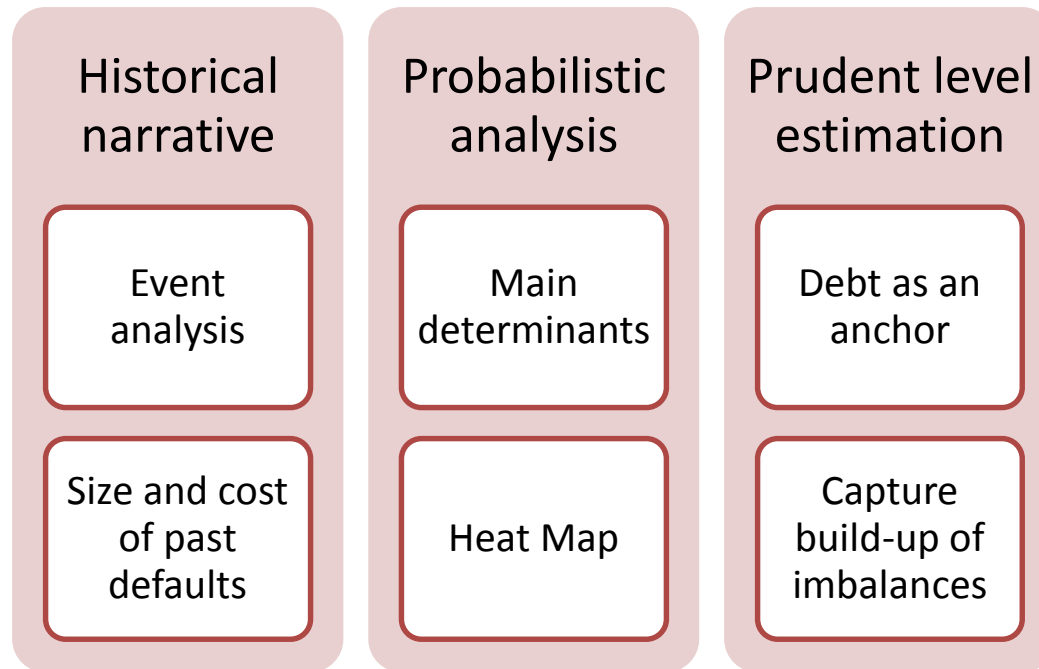


1. Contingent liabilities assessment: summary

		A. Ageing related	B. Financial crises	C. Euro break up
Fiscal impact	❖ Probability	Almost certain	Medium: once every 24 years	Highly unlikely? non-linear
	❖ Size	Moderate: 2-3% of GDP in 40 year horizon	High: 10% of GDP during a downturn	Very high and sudden
	❖ Persistence	Permanent, even accumulative	Moderate	Unknown

2. More comprehensive reporting: 2018 FRR

- ❖ **Goal: Increase awareness and complement DSA analysis**
- ❖ **Challenge 1: subnational dimension** (financing system, bail-out clauses, vertical fiscal imbalances)
- ❖ **Challenge 2: timing (existing fiscal space)**
- ❖ **Challenge 3: national and EU stability law reforms** (debt as an anchor)





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