

# 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

$$Pt = Ht \cdot Et \cdot Yt,$$

## 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

<i>1.1 Macroeconomic conditions</i>	Variation of net commodity prices
Gross Public Debt	Adjusted net national savings
Gross financing needs (GFN)	Non-resource revenue as a share of total government revenues
Output gap	Ratio of proven reserves of natural resources to current extraction
Fiscal multipliers est. range (revenue and expenditure)	
Is monetary policy appropriate?	
Member of a currency union?	<i>1.4 Contingent liability risks</i>
<i>1.2 Expenditure balance considerations</i>	Banking sector NPL ratio
Current account balance	Fiscal costs for past financial sector rescue
Net International Investment Position	Assets of domestic financial sector
Estimated current account gap	Cost of past natural disasters damage
EBA exchange rate overvaluation	Non-financial sector corporate debt
<i>1.3 Resource dependency</i>	Size of outstanding PPP's projects
Non-renewable commodity exports	Stock-flow-adjustment
Product concentration of exports	

## 2. Fiscal Space under the Baseline and Stress Tests

<i>2.1 Is financing available?</i>
Have sovereign bond spreads breached bookmarks? Last 12 months? Last 5 years?
Do debt profile indicators breach benchmarks?
Public financial assets
<i>2.2 State of debt burden indicators</i>
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

## 3. Fiscal Space under Expansionary Fiscal Scenario

<i>3.1 Macro impacts</i>
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
<i>3.2 Debt burden indicators</i>
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
- Pilots 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



# ANNEX

# Stage 1. Initial State

<i>1.1 Macroeconomic conditions</i>	Non-renewable commodity sector
Gross Public Debt	Exports
Gross financing needs (GFN)	Product concentration of exports
Output gap	Variation of net commodity prices
Fiscal multipliers est. range (revenue and expenditure)	Adjusted net national savings
Is monetary policy appropriate?	Non-resource revenue as a share of total government revenues
Member of a currency union?	Ratio of proven reserves of natural resources to current extraction
<i>1.2 Expenditure balance considerations</i>	<i>1.4 Contingent liability risks</i>
Current account balance	Banking sector NPL ratio
Net International Investment Position	Fiscal costs for past financial sector rescue
Est. current account gap	Assets of domestic financial
Exchange rate evaluation	
<i>1.3 Resource dependency</i>	

# Stage 2: Analysis of Fiscal Space indicators under baseline and (plausible) stress tests

## 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 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

### 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?

# The Bottom-Line: Desk Assessment

## **Desk Bottom-Line**

Desk rating (with fiscal rules)

Desk rating (without fiscal rules)

**Desk assessment is the final step**