

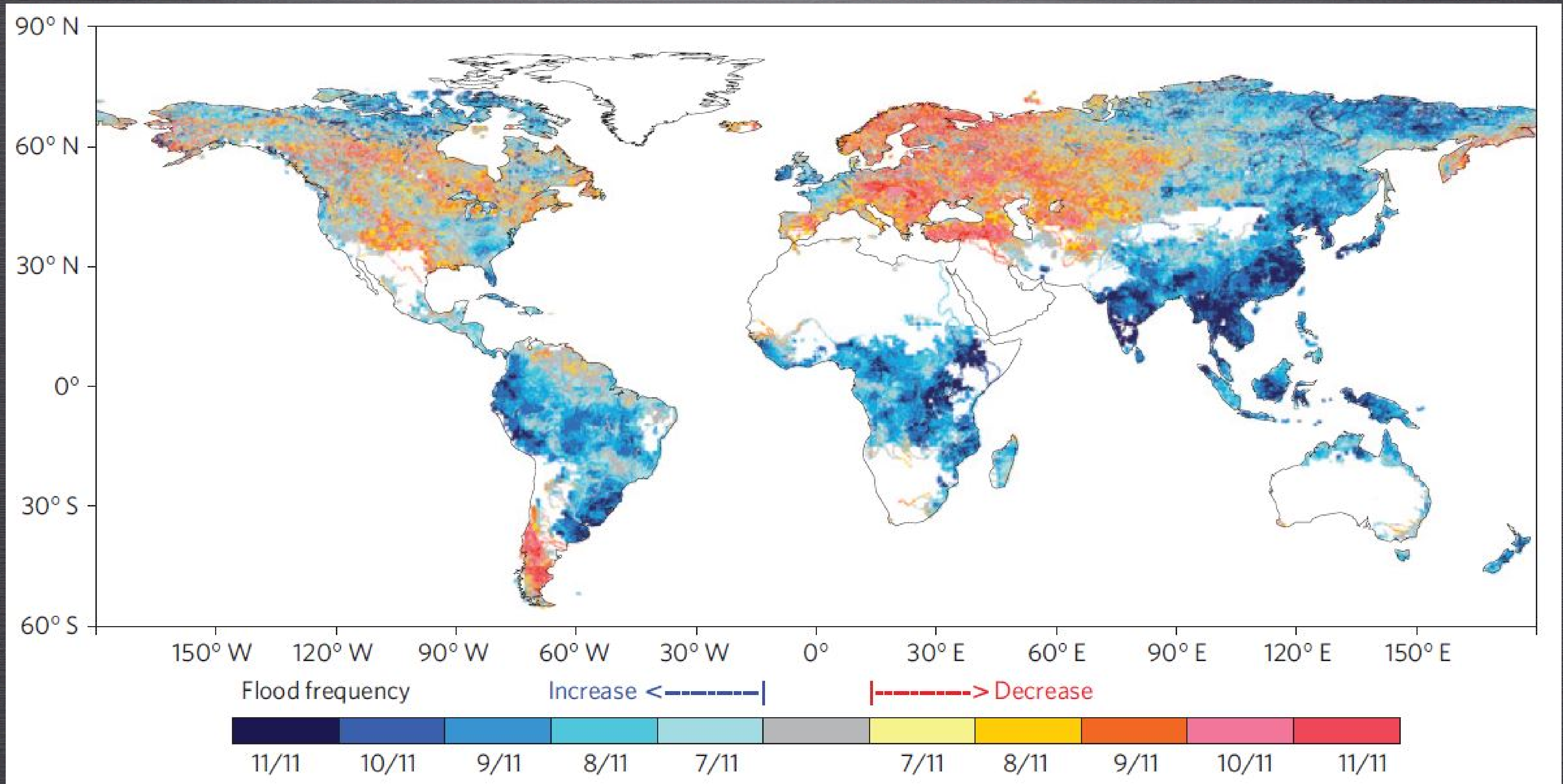


Comments:
Fiscal Risks and Fiscal Management

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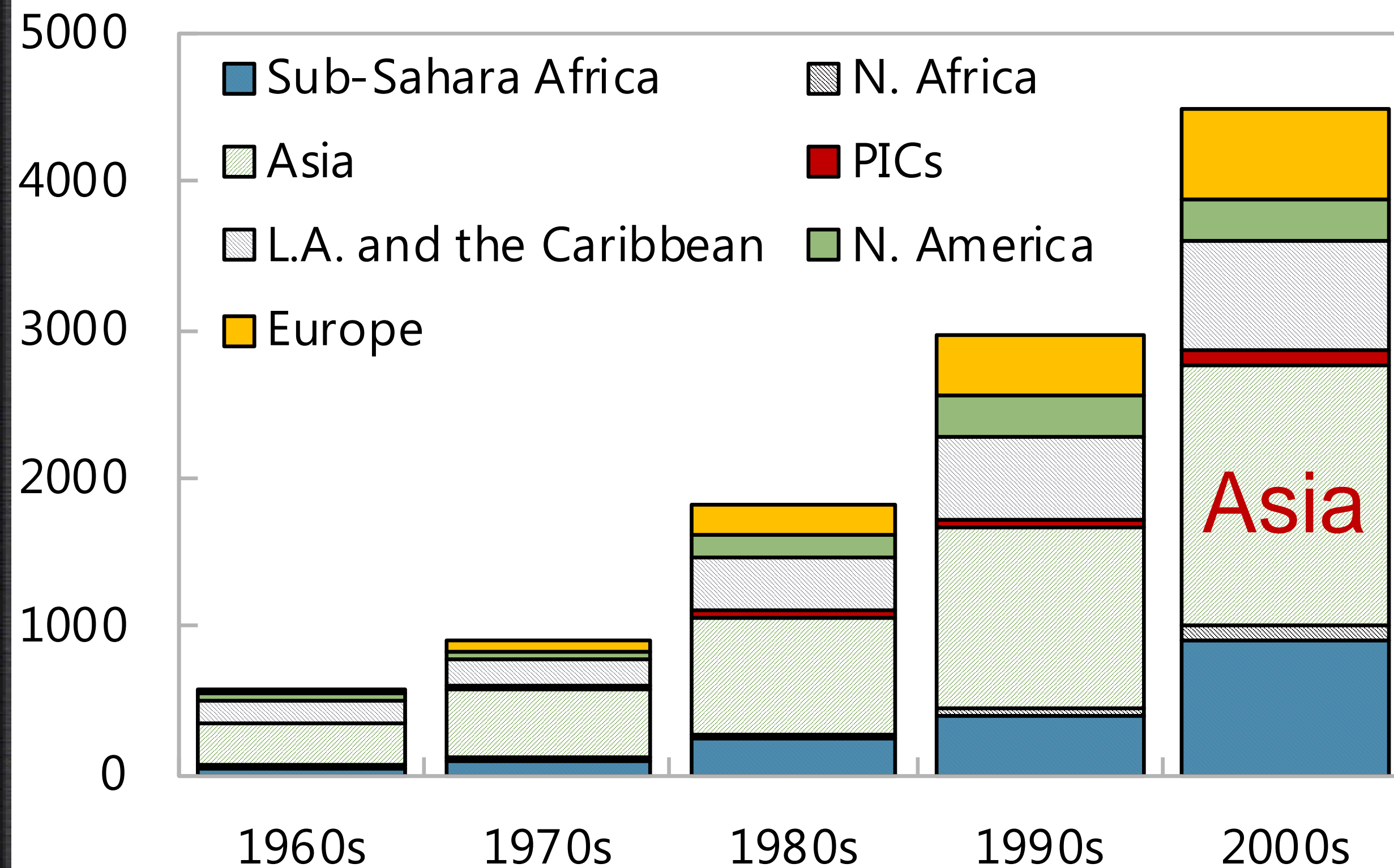
Is Asia likely to fall behind in the future? Hazard risk is expected to increase with climate change ...



The occurrence of flood and storm has been more frequent and on the rise in Asia ...

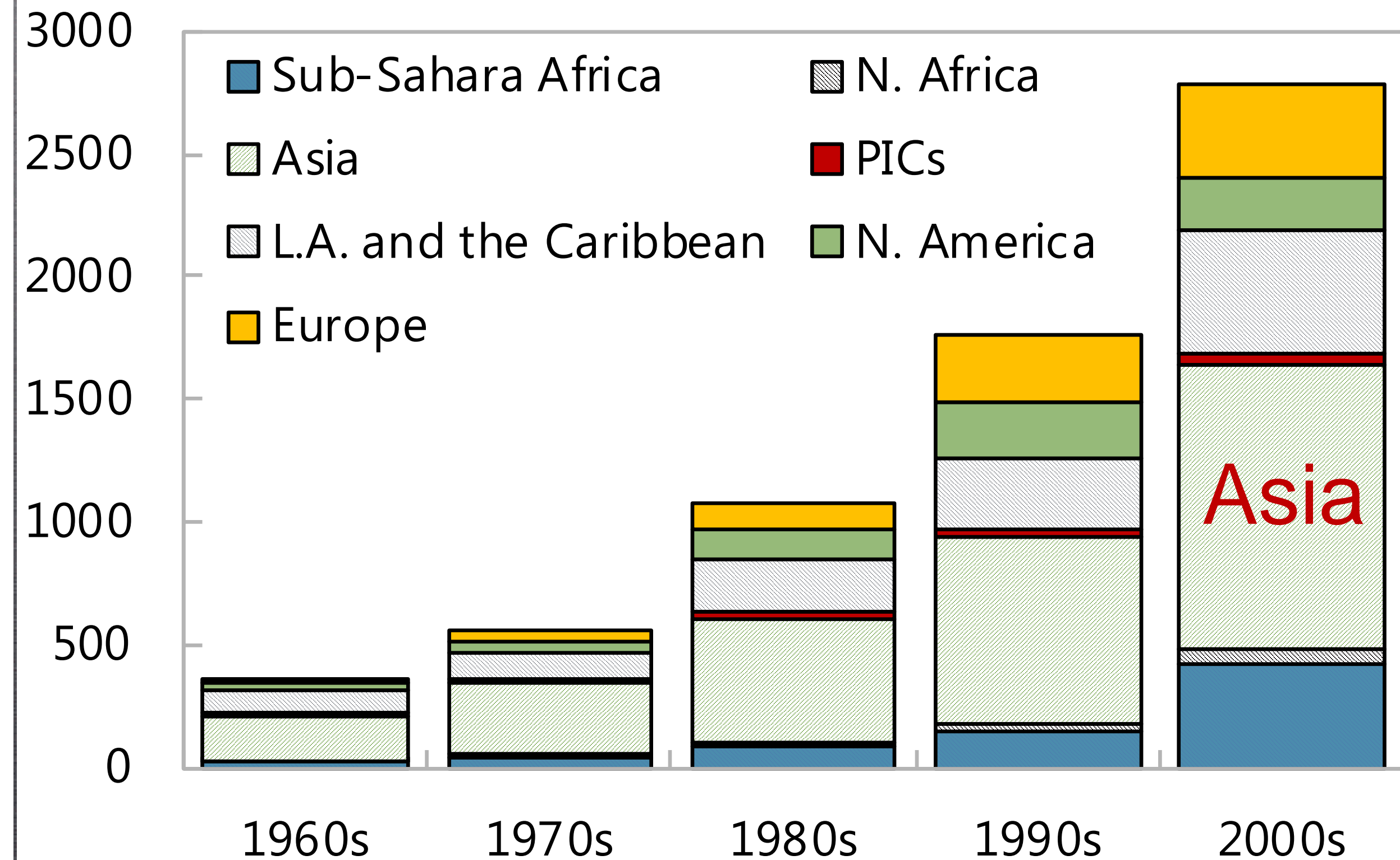
All Types: By Region

(Number of times of occurrence)



Flood and Storm: By Region

(Number of times of occurrence)



Economic loss from natural disasters can be substantial!

	1960s	1970s	1980s	1990s	2000s
	Average (Percent of GDP)				
East Asia & Pacific	0.3	0.5	2.8	3.1	0.5
Europe & Central Asia	0.3	0.3	0.4	0.6	0.5
Latin America & Caribbean	4.5	5.5	4.3	3.9	2.9
Middle East & North Africa	1.2	0.2	1.5	1.0	0.7
North America	0.1	0.1	0.2	0.1	0.2
South Asia	0.4	1.2	1.1	1.0	1.3
Sub-Saharan Africa	3.1	2.5	3.0	0.8	0.8
Total	2.1	2.0	2.4	2.0	1.0
	Max (Percent of GDP)				
East Asia & Pacific	2.0	7.1	139.9	221.3	30.7
Europe & Central Asia	2.7	2.1	4.2	17.6	16.3
Latin America & Caribbean	200.2	100.8	66.0	109.6	148.4
Middle East & North Africa	7.8	0.8	12.3	7.5	9.3
North America	0.2	1.4	3.9	0.5	7.2
South Asia	2.8	10.5	12.6	12.3	39.1
Sub-Saharan Africa	17.6	14.8	20.6	12.2	8.4
Total	200.2	100.8	139.9	221.3	148.4

Source: D. Guha-Sapir, R. Below, Ph. Hoyois - EM-DAT: International Disaster Database – www.emdat.be – Université Catholique de Louvain–Brussels–Belgium.

Why do natural disasters matter for development?

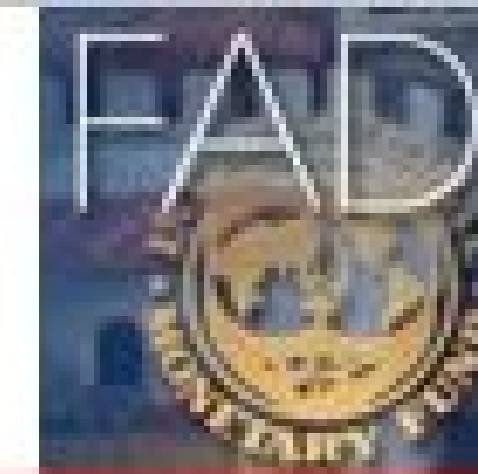
Greater exposure to disasters has important macroeconomic effects, such as:

1. Lower investment
2. Lower GDP per capita
3. Higher poverty and
4. More volatile revenue base

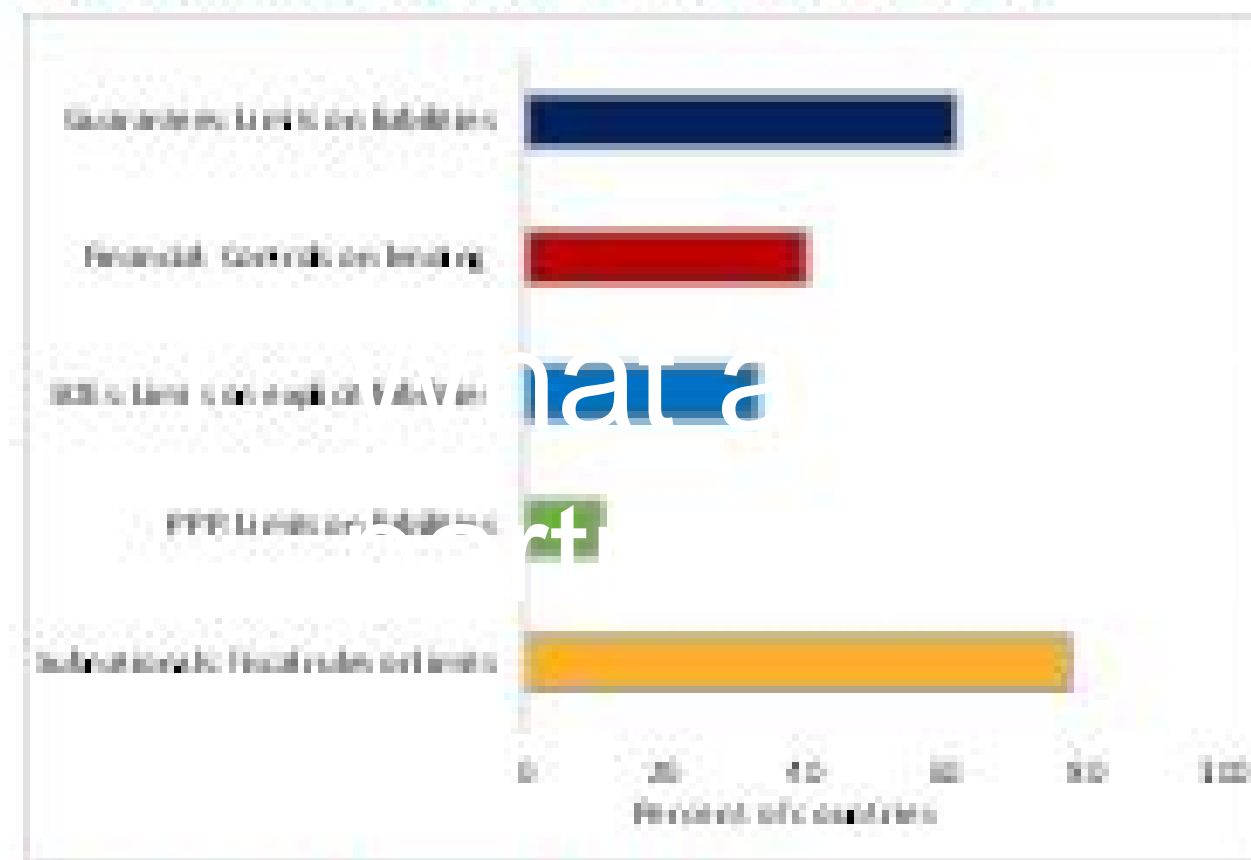
Due to these consequences, risk mitigation efforts are important!

Risk mitigation efforts are ad hoc and fragmented ...

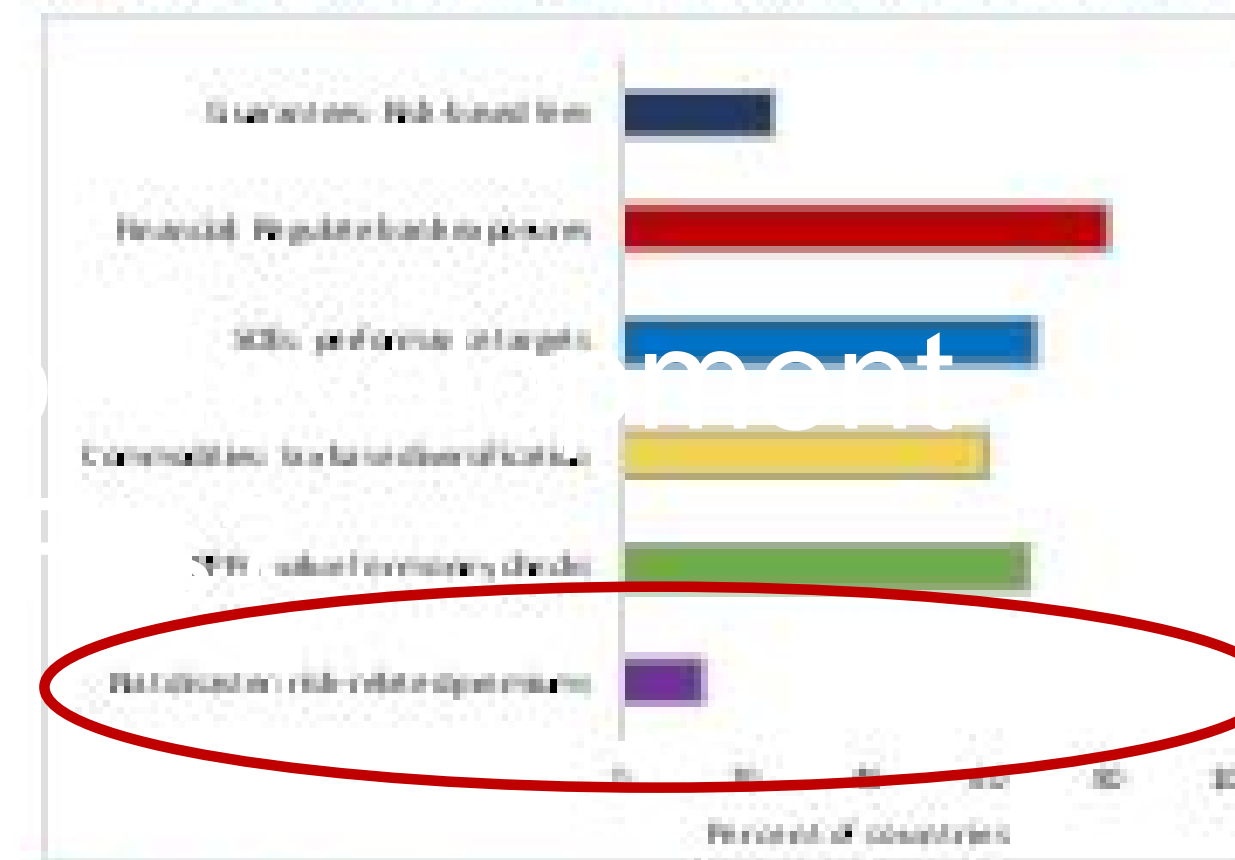
IV. Understanding & Management of Fiscal Risks e. Mitigation efforts are ad hoc and fragmented



Direct controls and limits on exposure



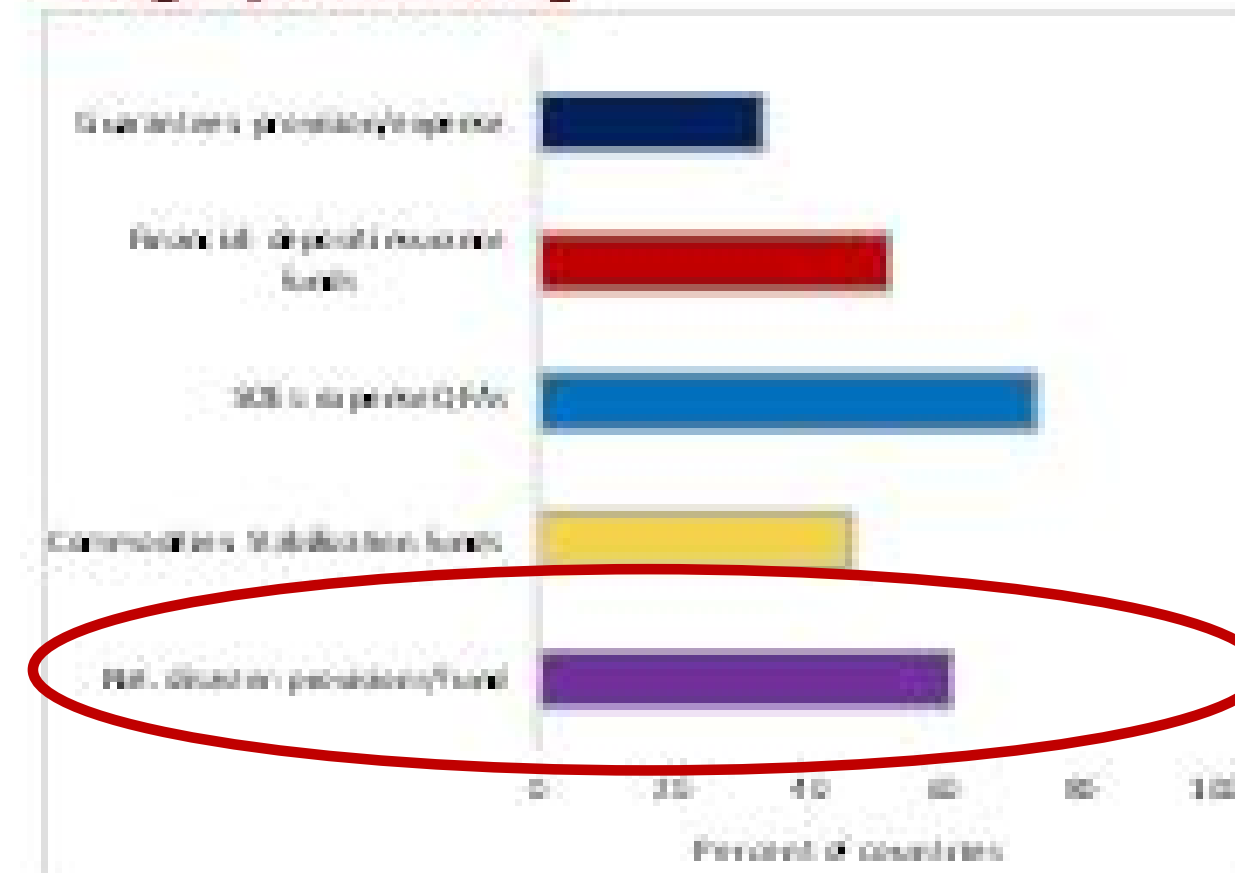
Regulations, Incentives, and other measures



Transfer or sharing of risks



Budget provisioning



Additional questions to be addressed are ...

Questions:

1. What should the authorities do in case of fiscal risks coming from natural disasters?
2. What can development partners (incl. IMF) do to address risks of natural disasters?

Question 1: Better disaster response is important. But more focus should be given on risk reduction and preparedness ...

1. Directly reducing exposure in high-risk areas.
(introducing tax premia in high-risk areas to discourage concentration of activity in those areas)
2. Specifying building codes to strengthen infrastructure.
3. Transferring risks to international capital markets through traditional insurance
(catastrophe bonds which forgive interest and principal in the event of specified catastrophes; mandating private insurance)
4. Gov't to set aside a contingency provision in the annual budget
(establish natural disaster funds)

Question 2: Capacity building support from development partners remain critical.

What does the IMF do in this regard?

1. Fund analysis to make specific allowance of natural disaster risks. (eg. the macro framework, debt sustainability analysis, and external imbalances)
2. Macro baselines over the medium- to long-term to factor in the economic impact of future natural disasters.
3. Advice on policy implications of adverse scenarios which calibrate to reflect a “tail risk” and/or “average risk” of natural disaster. Evaluating the adequacy of fiscal and external buffers is critical.
4. Assessing financial risks and reserve adequacy is also important.