

Opening Address

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Good morning Ladies, and Gentlemen,

On behalf of my colleagues, it is my great pleasure to welcome you to this high-level conference on fiscal risks co-organized with the Fiscal Affairs Department. I am particularly pleased that you have taken time away from your busy schedule in these critical times to be with us today and tomorrow. I interpret your presence as the strongest possible indication of the importance you give to the topic we will be debating. I also want to thank all the speakers for having taken the time to put together their thoughts on these issues.

I regret that Mr. Portugal, our Deputy Managing Director, could not attend the conference due to the massive workload at headquarters related to the current crisis, but I would like to take this opportunity to thank both the Director of the Fiscal Affairs Department – Ms. Teresa Ter-Minassian – and her designated successor – Mr. Carlo Cottarelli – for having come all the way to Paris for this event.

This is the last event that we organize with FAD under Mrs. Ter-Minassian's leadership. So, let me say how well aware I am of the appreciation of member countries for her contribution to the Fund's and the countries' work. She has been very involved in the negotiation of high-profile programs—like Italy in the 1970s, Portugal in the 1980s, and Brazil and Argentina in the 1990s. She has also been heavily involved in surveillance and technical assistance, and will now move to the position of Special Advisor to the Managing Director at the beginning of November. But to me, above all, she has been a great colleague and a dear friend. I am sure that Mr. Cottarelli, who has held a wide range of high-profile assignments in the Fund and thus brings a very broad experience and deep understanding to his new position, will follow in her footsteps in the Fiscal Affairs Department, and I look forward to working with him.

We have a very busy schedule in front of us, but we have tried to organize this conference in such a way that all participants have ample opportunity to share their experience. In other words, we are certainly not here to lecture you and you are not here only to listen to us. Rather, we are all here to take part in a fruitful dialogue and share our experience. As always, time is limited and chairpersons will be tasked with the delicate and thankless responsibility of making sure that we respect the schedule.

But experience tells me that coffee breaks and the lunch will provide a good opportunity to pursue arguments that could not be completed in the conference room.

Mr. Portugal has asked me to convey his apologies and asked Mrs. Ter-Minassian to deliver the opening address on his behalf. I understand that she will take the opportunity to review some of the recent dramatic financial developments that are of concern to all of us while being clearly most relevant to this high-level conference. For my part, I would like to raise a couple of issues that we are likely to touch upon during the various sessions and that, I believe, should be kept in mind.

The conference will address issues related to enhanced transparency and the management of fiscal risks. One important way to increase transparency is to be explicit about the risks that could impact on the budget during the current year or in the future and I certainly welcome the global trend toward more disclosure of information. Unfortunately, and this is the first issue I want to highlight, this is sometimes complicated by several factors. One is that there is a whole class of risks for which gathering information is so complex that they are deemed unquantifiable. For those risks – and we have seen some of them materialize recently in a spectacular manner, especially those related to implicit guarantees – scope for action in fiscal risk management clearly

becomes more complicated. I would like to hear from the participants what their experience has been, in the context of this current or past crises.

For some fiscal risks – such as those arising in the banking systems prior to a crisis - revealing to the public the nature and extent of such risks may be counterproductive as it could lead to moral hazard or affect the economic interest of the country. Often, the decision to disclose or not to disclose information about such risks is left to the discretion of the executive. Very few countries have a well-established framework for making that decision and, in itself, announcing that such a framework exists would be a step towards more transparency. We will all benefit if participants could share their views on this issue.

My other thought on fiscal risks—and the second issue I want to highlight—is that even when risks are quantifiable, measuring them, preparing scenarios, and publishing the results entails a cost—as is always the case in economics—that could limit how far the best-intentioned authorities can and should go. Besides, costs are not limited to the government. Those who are processing the information—the public in general, including private sector investors for example—also bear a cost. In this day and age, the public is often overloaded with information from a seemingly infinite number of sources on numerous topics and it

tends to strictly limit the size of the informational set that it is ready to scrutinize. Sometimes, the decision is taken for them – say if one uses a search engine – and the results do not necessary correspond to the information the authorities would consider as priority. In short, putting up too much information for public consumption may, thus, well result in a higher degree of public confusion, notwithstanding the work done by the media, think tanks and other bodies—let alone search engines—to independently analyze that information and repackage it in an easier to consume format.

Having thought out these two issues, I would urge you not to misunderstand my views: I would love to live in a world where all risks can be quantified and presented in a user-friendly format; where detailed scenarios can be drawn and probabilities assigned to each of them; where rules exist to clearly identify risks that could affect the overall economic interest of the country; and where the impact of risks on the current and the medium-term fiscal framework can be analyzed in an exhaustive manner; and all that at minimum cost. Unfortunately, we all have to live with practical realities. We cannot analyze everything and, especially in the area of risks, there are limits to what authorities can assess and report on. Perhaps we can discuss how to provide the right information and the right amount of information so as to enhance transparency without

overburdening the authorities who need to prepare it and the public who needs to digest it. If we can find the right balance, then transparency will be significantly improved.

This is where, I believe, an interactive process is particularly important and this conference is precisely the type of event that can promote a fruitful dialogue. I am looking forward to hearing about your experience in addressing the various types of risks your country has faced. It will be very helpful to hear from you about the lessons that you draw from your country's experience so that we can all help each other in addressing the issue of fiscal risks in increasingly complex economic situations.

Let me not end before thanking the staff who worked so hard to organize this conference, particularly Mr. Leruth of EUO and Mr. Mauro of FAD, as well as Ms. Dyer here in Paris, and Ms. Estabrook from FAD in Washington.

So welcome to Paris, the city of lights. And I urge you to do try to take some time to visit while you are here. I turn now to Teresa to deliver the keynote address on behalf of Mr. Portugal.