

In Recognition of Financial Sustainability

Jim Brumby

Director

Governance Global Practice

IMF/IPSASB/WBG Conference on “*Transparency and Beyond: Harnessing the Power of Accrual in Managing Public Finances*”. Washington, DC. March 6, 2017

25 years progress?

1. MODELLING THE COMPREHENSIVE

This paper presents an analytical framework (CNW) within a fiscal model. The long-term fiscal model provides fifty years of time horizon, the comprehensive

$$CNW_t = RNW_t - TA_t$$

where

CNW

RNW

TA

R

FR

i

r

FR + i

According to equilibrium assets (net realisable surpluses).

CNW is based on the accounting framework. CNW recorded in the Crown's balance sheet reflects the sustainability of the fiscal position.

The long-term fiscal model is used for fifty five years that sets CNW equal to zero. If CNW is greater than zero, the IBC is satisfied.

2. THE MODEL

Fiscal projections equal Treasury

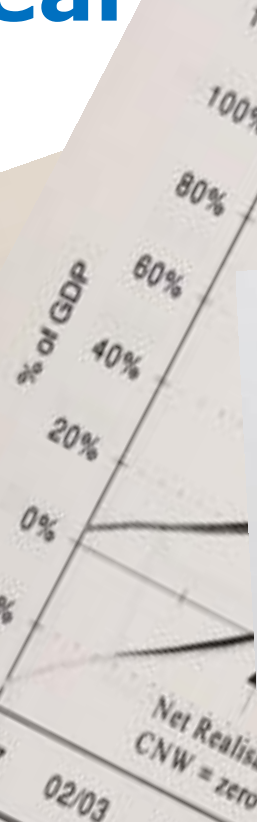
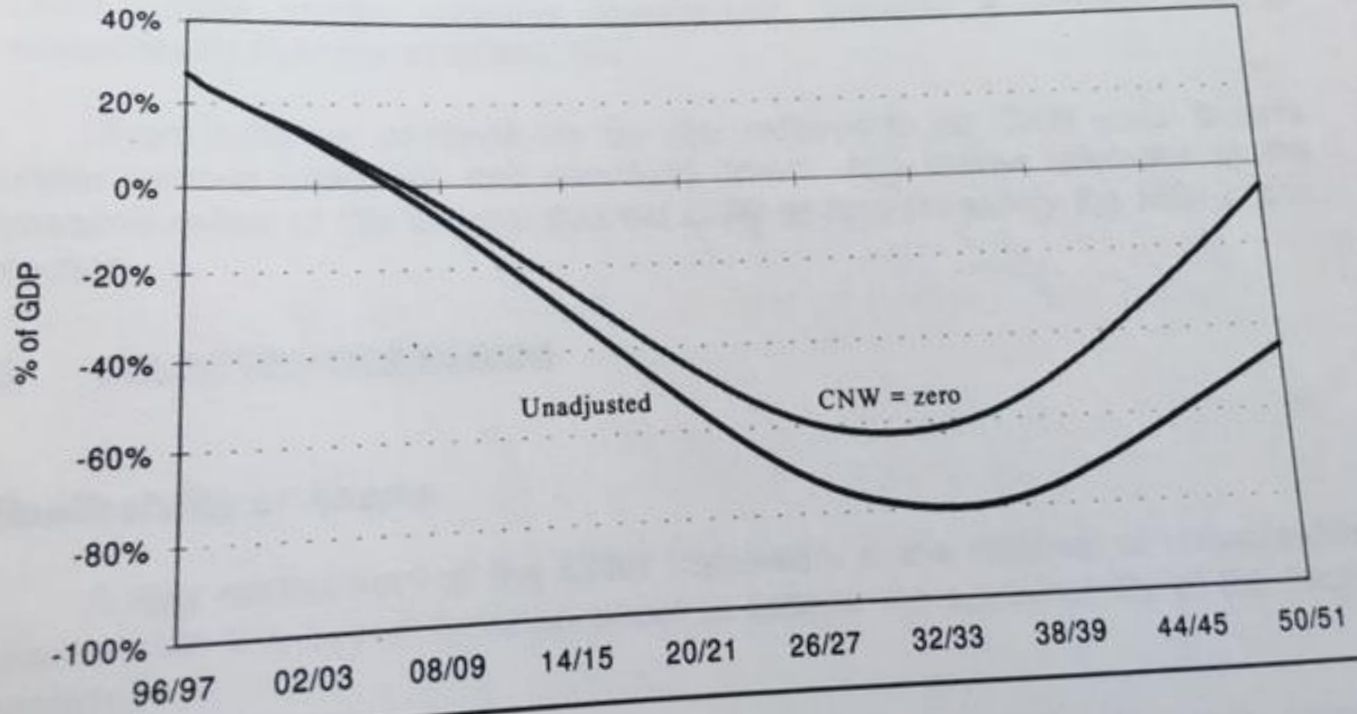


FIGURE 1.34: BASELINE

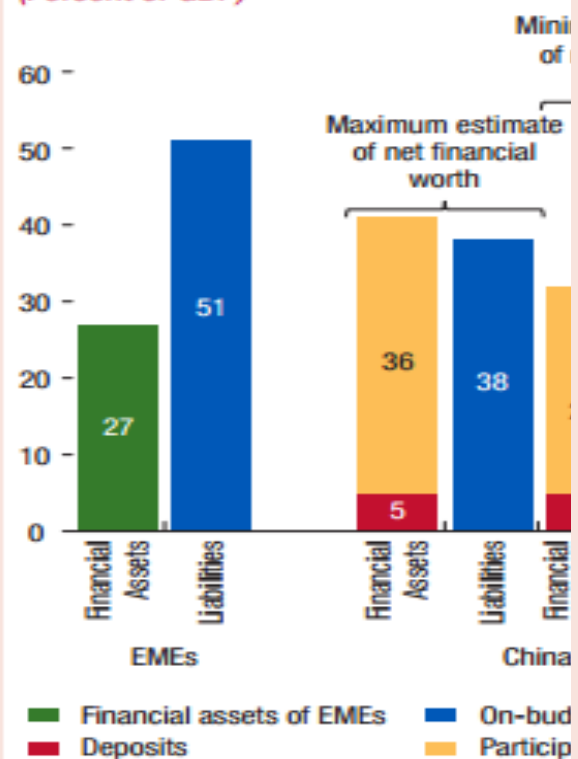
Reported... to full primary surpluses at some time in the future. The CNW framework does not imply that net realisable worth must be repaid, positive or negative, or even remain constant. All it implies is that net realisable worth deteriorates less rapidly than the discount rate.

FIGURE 1.33: BASELINE - NET DEBT



Substantively, are the gains in place?

Figure 1.1.1. China and Other Emerging Market Economies: Estimates of Net Financial Worth at the End of 2015
(Percent of GDP)



Source: IMF staff estimates.
Note: Estimates for emerging market economies are based on the average for Brazil, Bulgaria, Salvador, Hungary, Indonesia, Peru, Poland, Russia, Turkey, Ukraine, and Uruguay, for which data are available. SOEs = state-owned enterprises.

The general government's net financial worth may not, however, give a full picture of the available buffers. Ideally one would like to look at the public sector (including the central bank), but limitations of available data on public corporations, including estimates of the value of implicit government guarantees, preclude a full assessment. In addition, other nonfinancial assets and other contingent liabilities of the general government should be accounted for. For example, the value of land ownership (a nonfinancial asset) estimated by computing the net present value of net use right fees for the next 25 years could be up to 51 percent of GDP. On the other hand, under current policies, estimated increases in age-related spending (following the methodology in Clements and others 2015) would amount to 128 percent of GDP in net present value terms. Also, contingent liabilities such as potential losses on corporate loans from rapid and inefficient credit expansion may put further pressure on the fiscal accounts (April 2016 *Global Financial Stability Report*). Additional losses can be expected in other parts of the financial system, especially in shadow credit products.

Europe (Gross debt)			
1993	62%		
2017	87%		
Advanced countries (Net debt)			
2001	42%		
2017	72%		
Emerging Asia (Net)			
2001	51%		
2017	48%		

GFS accrual rollout

Figure 10. Staff Reports in the GFSM 2001 Format and Financial Balance Sheet Data

Figure 9. Number of Countries Reporting Data on Assets and Liabilities for the GFSY

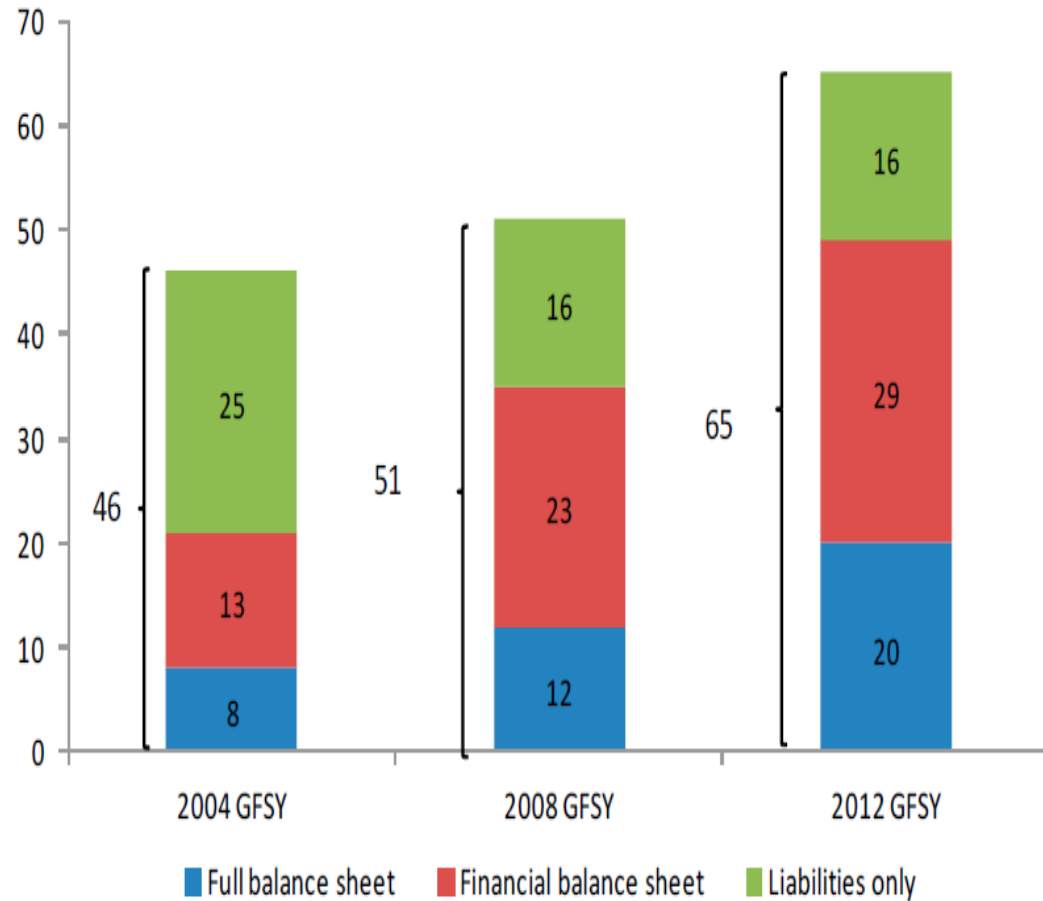


Figure 7. Staff Reports of Fund-Supported Program Countries also Included the GFSM 2001 Fiscal Presentation

Percentage by area department, as of June 2013

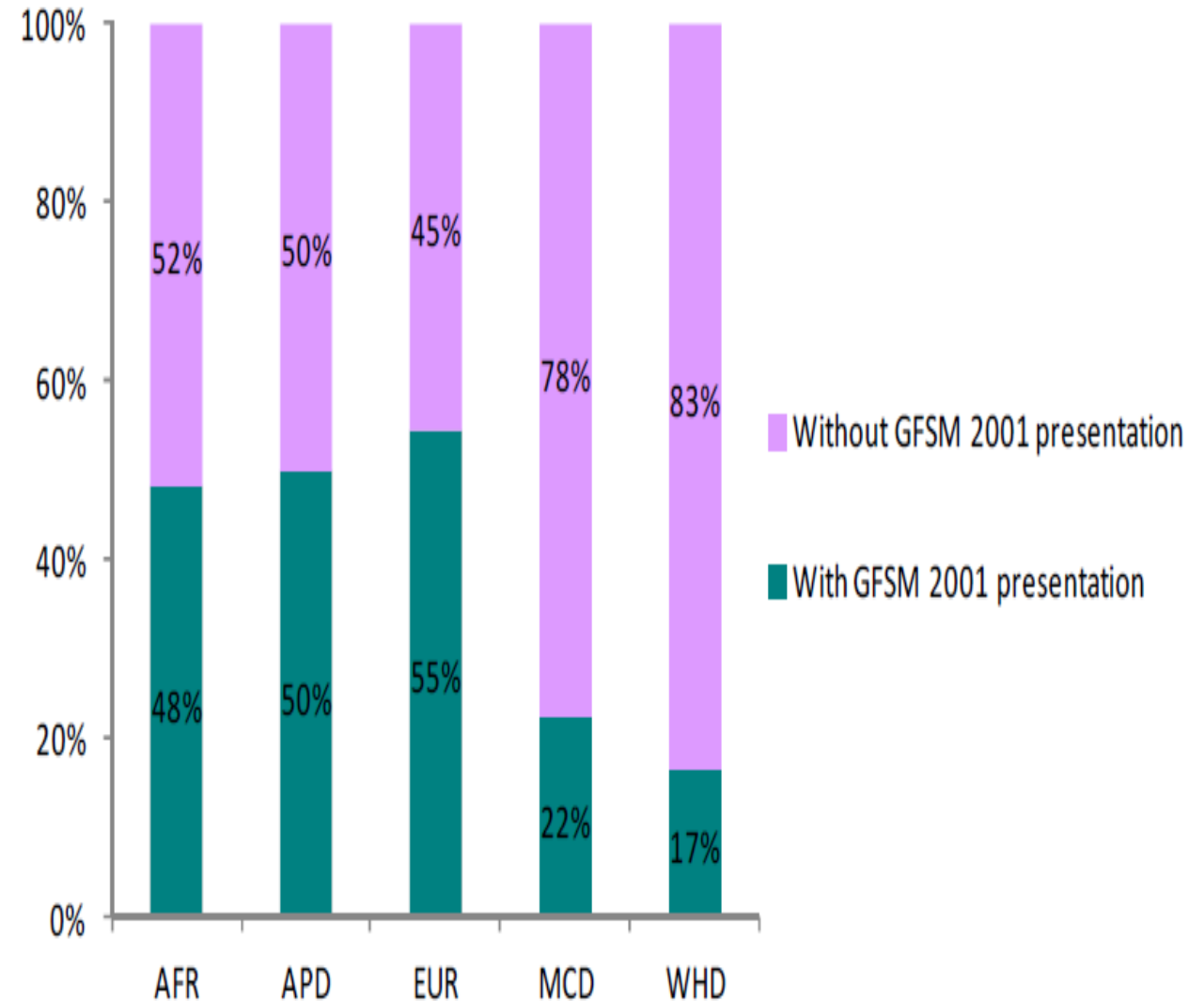
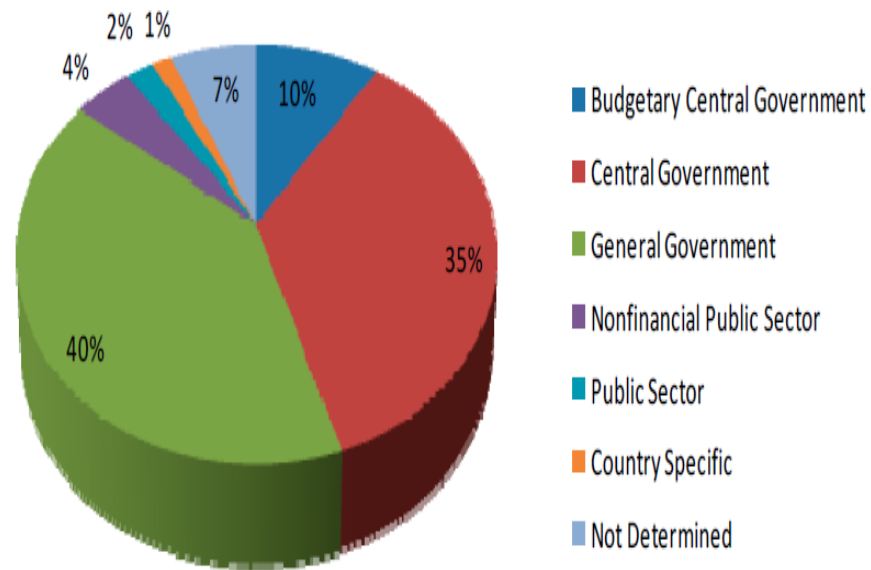


Figure 11. The Coverage of Government in Staff Reports in GFSM 2001 Format

As of June 2013



Some important distinctions that need not act as a drag

Account (ability) reporting and statistical (analytical) reporting have different requirements and different historical legacies:

- Objectives
- Reporting entity
- Recognition criteria for some assets, liabilities, revenue, and expense
- Valuation (measurement) differences for certain types of assets and liabilities
- Revaluations and other volume changes

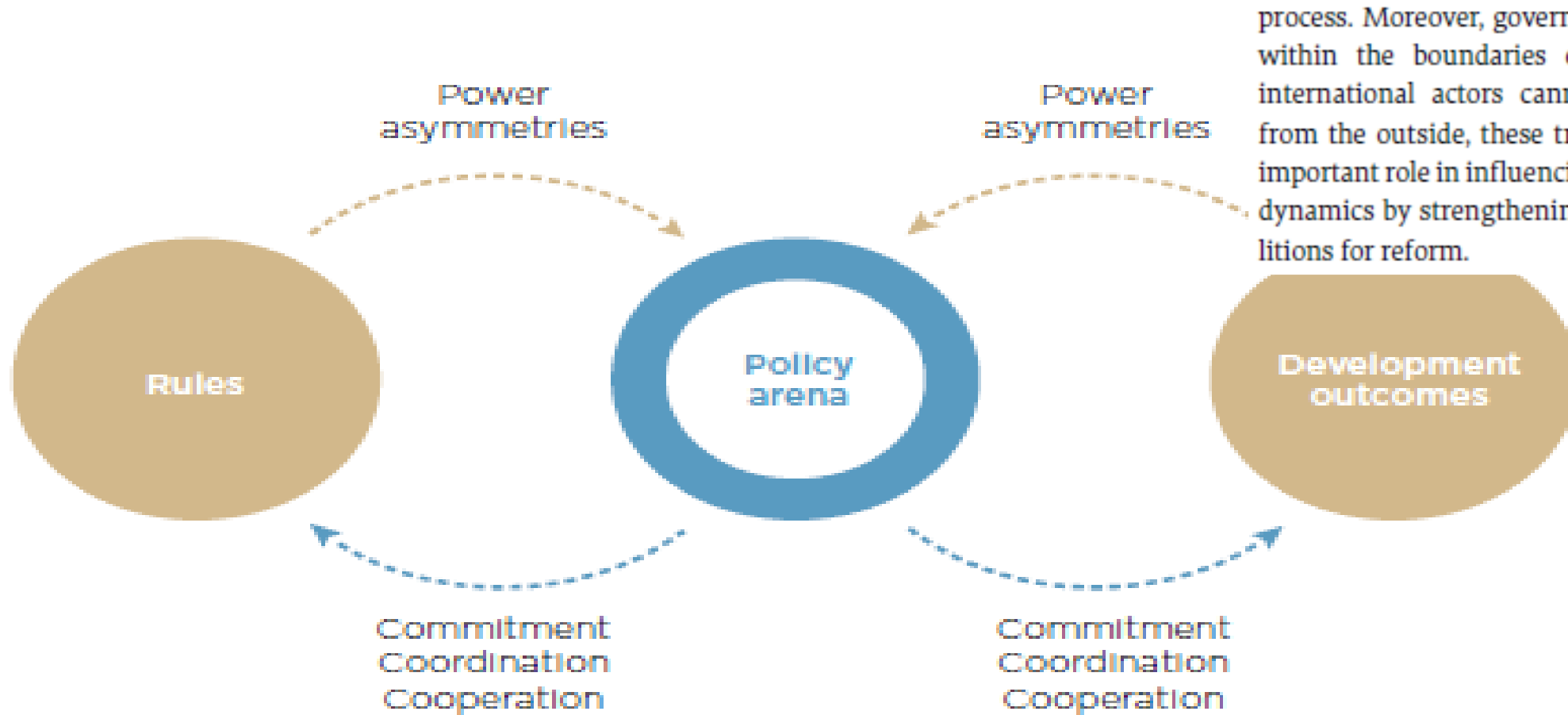
Recognition

- For analytical purposes, there is no real distinction between recognition and disclosure
 - the impact is measured and taken account of; there can be scenarios
 - one way to deal with this is through the comprehensive net worth approach, using accounting information as an analytical base, and then adding to it with expected flow data, and 'potential flows' data
- From an accountability and 'contracting' perspective, there is a considerable difference
 - GAAP-based reports are central to many financial contracts; auditing matters
 - reliability in measurement, and whether the activity has occurred are most important (IPSAS19)
- Mutual recognition of technical terms matters
 - economists have come late to some (accrual) accounting terms

What are some of the explanations

- Is GFS decision-relevant?
 - in most countries no decision-making body maps to GFS; compliance to a standard that doesn't matter
 - hard to interpret; lack of alignment to accountability matters
- Are the right people at the table?
 - assets are often held by the constituent parts of the public sector
 - SOEs exist at central and subnational level; e.g. infrastructure
 - service delivery is often performed at subnational level; funding sources
- We now have more information, more sophisticated approaches but seem to be doing worse
 - PS accounting standards have taken some time; it's a big job
 - complexity maybe a problem; accountants redefining operating balance to align with fiscal management; GFS requires compilation by so many players
 - is it a collective action problem appearing as a technical problem

Is the strategy the right one?

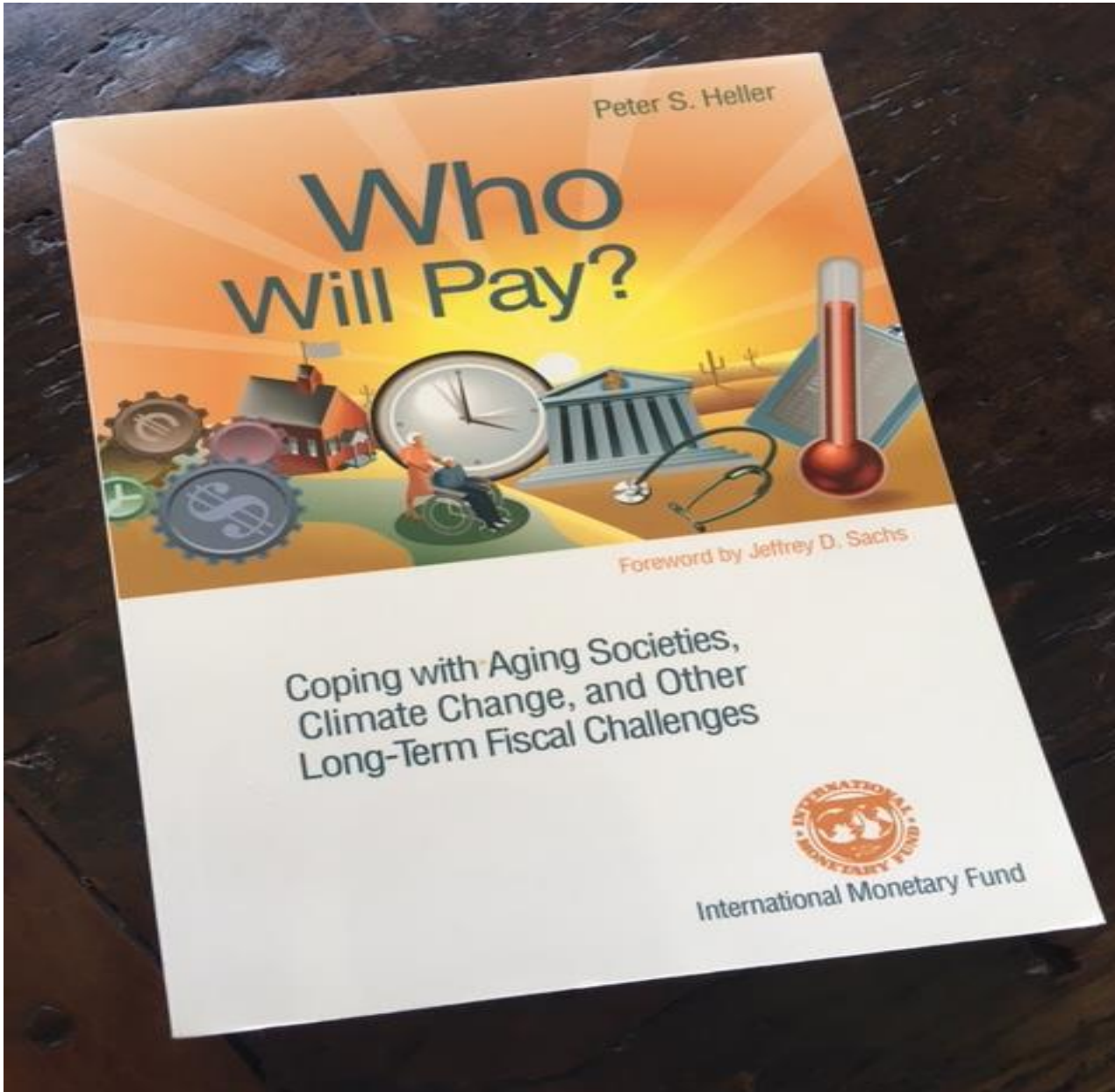


process. Moreover, governance does not occur solely within the boundaries of nation-states. Although international actors cannot engineer development from the outside, these transnational actors play an important role in influencing the domestic bargaining dynamics by strengthening (or weakening) local coalitions for reform.

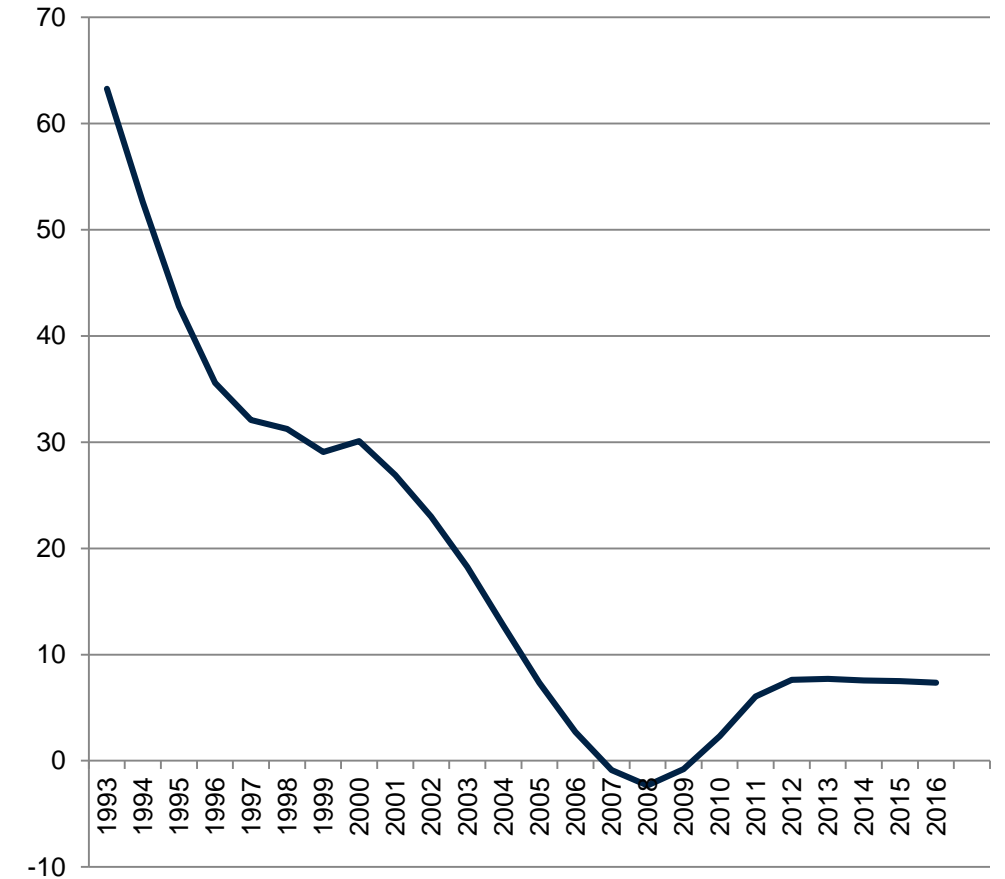
Source: WDR 2017 team.

Note: Rules refers to formal and informal rules (norms). Development outcomes, in the context of this Report, refers to security, growth, and equity. The actors in the policy arena can be grouped into elites, citizens, and international actors.

So, what happened in New Zealand?

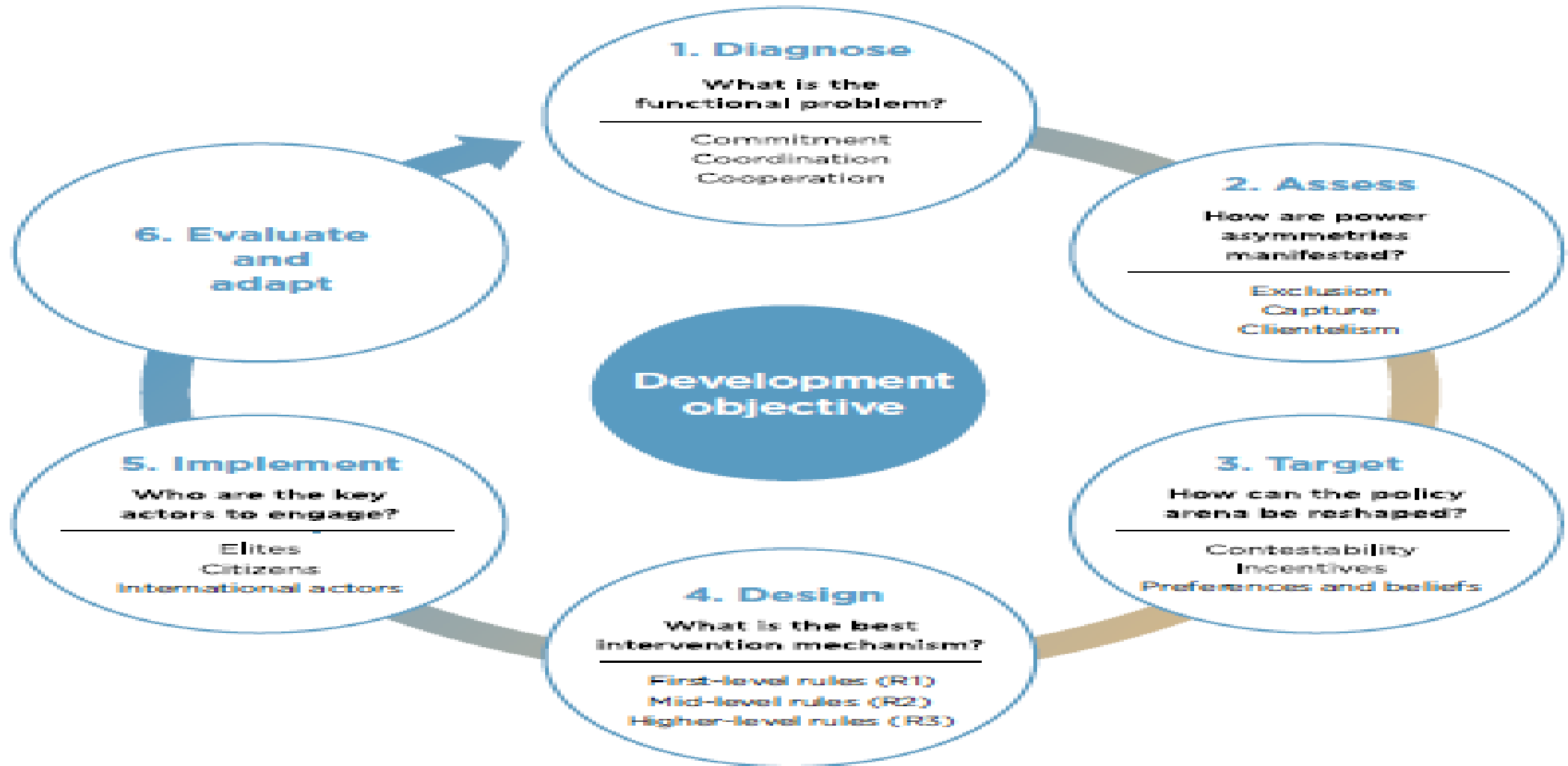


**NZ GG net debt
Percent of GDP**



Source: IMF WEO database

Annex: WDR2017 Framework



Source: WDR 2017 team.