ANNEX 5

ENTERPRISE RISK ASSESSMENT

RISKS TO THE IMF WITHOUT THE PROPOSED POLICY CHANGES

Overall, the IMF's bilateral fiscal policy advice and its overarching fiscal messages within the framework of multilateral surveillance have effectively adapted to the evolving global economic landscape from 2008 to 2023. The Fund transitioned from a pre-GFC approach that primarily focused on fiscal sustainability to a more multidimensional strategy that places greater emphasis on output stabilization over economic cycles, potential output, and the provision of public goods. As member countries confronted various challenges—including aging populations, climate change, social inequalities, and, more recently, geopolitical shifts—the Fund's fiscal policy advice had to navigate complex trade-offs among competing and increasingly diverse priorities. Throughout this evolution, the Fund successfully preserved intellectual coherence. However, the shift to a more multidimensional fiscal perspective introduced additional complexity to its recommendations.

Assessment

Over time, successive surveillance decisions, reviews, and guidance notes have widened the perimeter, both in terms of range of issues and the time horizon, of what the IMF's fiscal policy advice could cover (Annex 3). The existing guidance mitigates a checkbox approach and provides mission chiefs with considerable flexibility to determine which fiscal topics are most relevant, taking into account country-specific circumstances and the fiscal goals established by the authorities. However, the range and depth of fiscal topics that country teams can address during (bi)annual Article IV consultations is also limited by the resources and expertise available within area and functional departments, the availability and accessibility of data and information, and word count restrictions for staff reports. This led to four key challenges that posed reputational risks and affected the credibility of the Fund's fiscal policy advice:

- **Inconsistent coverage of fiscal issues**: There was a lack of uniformity in the coverage of core macro-fiscal issues across member countries and over time. Various staff reports did not consistently cover the macro-fiscal topics, such as the fiscal stance, the pace and scale of adjustments, or offer rationales for the medium-term anchor.
- **Varied depth of coverage and analysis of trade-offs**: The depth of analysis for short- to medium-term fiscal issues—aligned with the Fund's traditional stabilizing mandate—was generally stronger than that for long-term economic sustainability issues. Discussions around trade-offs were particularly inconsistent, limiting the relevance and value of the Fund's advice on long-term sustainability challenges, including climate change and the SDGs.
- **Inconsistent justifications**: The justifications of fiscal policy recommendations in staff reports varied across member countries and over time.

- **Perceptions of lack of uniformity of treatment**: The differences in covered fiscal topics, the extent of that coverage, how political economy considerations were taken into account, and the justification of fiscal policy recommendations contributed to perceptions of a lack of evenhandedness in the Fund's approach.

Risk Mitigation

The four recommendations address three level-1 risks, namely, reputational risks, business risks, and strategic risks associated with the status quo (Table A5.1).

Recommendation 1 mitigates reputational and business risks. It aims to enhance the relevance, consistency, and country-specificity of the Fund's fiscal policy advice. Offering clear and specific recommendations regarding the short- to medium-term fiscal stance, along with consistent justifications, discussing trade-offs, and more effectively integrating bilateral and multilateral advice, would strengthen the credibility and added value of the Fund's fiscal policy advice.

Recommendation 2 mitigates reputational and business risks. It seeks to better underpin fiscal policy recommendations—and enhance their analytical accuracy and credibility—through a more consistent and tailored application of existing tools and conducting further research on critical aspects of fiscal policy relevant to the Fund's membership.

Recommendation 3 mitigates business and strategic risks. More consistently using DSA findings to link baseline advice with identified debt risks; offering timely, specific, and tailored advice on fiscal frameworks; and improving debt data while addressing institutional aspects would significantly strengthen the analytical accuracy and utility of the Fund's recommendations.

TABLE A5.1. RISKS TO THE FUND *WITHOUT* THE PROPOSED RECOMMENDATIONS

RISK NAME AND DESCRIPTION	RISK TIMEFRAME	LIKELIHOOD	IMPACT	RATING
Reputational Risks: Inconsistent coverage of fiscal policy issues, inconsistent justifications underpinning fiscal policy recommendations, varied depth of coverage and trade-offs, reducing the consistency, credibility, and value of fiscal policy advice, and leading to perceptions of lack of evenhandedness. **Risk treatment: Recommendations 1 and 2**	Current (0–1 yrs)	Likely	Somewhat major	Major
Business Risk: Inconsistent coverage of fiscal policy issues, inconsistent justifications underpinning fiscal policy recommendations, varied depth of coverage and trade-offs, reducing the consistency, credibility, and value of fiscal policy advice. **Risk treatment: Recommendations 1, 2, 3, and 4**	Current (0–1 yrs)	Likely	Somewhat major	Major
Strategic Risk: Inconsistent coverage of fiscal policy issues, inconsistent justifications underpinning fiscal policy recommendations, varied depth of coverage and trade-offs, reducing the consistency, credibility, and value of fiscal policy advice. **Risk treatment: Recommendations 3 and 4**	Current (0–1 yrs)	Likely	Somewhat major	Major

Recommendation 4 mitigates business and strategic risks. It seeks to bridge the expectation gap between the Fund's articulated fiscal policy objectives concerning long-term economic sustainability and its actual implementation of these objectives. By clarifying the trade-offs between funding long-term spending needs and upholding fiscal sustainability, the relevance of the Fund's recommendations for policymakers would be enhanced, as would their alignment with the high-level messages conveyed by the Fund in its multilateral surveillance.

RISKS ASSOCIATED WITH IMPLEMENTING THE RECOMMENDATIONS

Implementing the IEO recommendations would require managing budget, human capital, and process risks (Table A5.2). Depending on how the recommendations are implemented, either additional resources or a reallocation of existing resources is required. However, the need for additional resources may be mitigated by clarifying which elements of fiscal policy advice should normally be covered in depth during (bi)annual Article IV consultations and which should only be signaled or reviewed in detail at specific intervals. For example, fiscal policy guidance concerning long-term issues such as climate change or the SDGs could be reviewed comprehensively every three to five years, possibly through a Selected Issues Paper, instead of in every Article IV report.

RESIDUAL RISKS

The IMF must maintain a careful balance between offering comprehensive guidance on what fiscal policy advice should typically cover—aimed at ensuring consistency across member countries and over time—and allowing mission chiefs the flexibility to focus on fiscal topics they consider most pertinent based on the unique circumstances of each country and the fiscal objectives set by their authorities. Furthermore, providing fiscal policy advice will always involve a degree of judgment, including considerations regarding the impact of the advice and the operational and political economy constraints that may apply. Consequently, the Fund will continue to encounter reputational risks related to the consistency in its coverage of fiscal policy issues and the uniformity of treatment of its members. Furthermore, failure to (re)allocate the required resources to implement the recommendations and consider tradeoffs in terms of depth and frequency of coverage of fiscal policy issues would result in business and reputational risks.

TABLE A5.2. RISKS ASSOCIATED *WITH* IMPLEMENTING THE PROPOSED RECOMMENDATIONS

RISK NAME AND DESCRIPTION	RISK TIMEFRAME	LIKELIHOOD	IMPACT	RATING
Reputational Risks: Increased workload for Area Departments, FAD, RES, SPR. Failure to (re)allocate the required resources to implement the recommendations and consider tradeoffs in terms of depth and frequency of coverage of fiscal policy issues would result in reputational risks.	Emerging (1–3 yrs)	Possible	Moderate	Moderate
Business Risk: Increased workload for Area Departments, FAD, RES, SPR. Failure to (re)allocate the required resources to implement the recommendations and consider tradeoffs in terms of depth and frequency of coverage of fiscal policy issues would result in business risks.	Emerging (1–3 yrs)	Possible	Moderate	Moderate