



# The Implications of the Global Crisis for Public Finances

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# Direct Cost of Financial Sector Support



- Support to financial institutions, especially in advanced economies
  - Upfront rise in gross debt, not necessarily change in net worth
  - Transparent treatment in the fiscal accounts
  - Realistic expectations to recovery rates
  - Managing and disposing of acquired assets



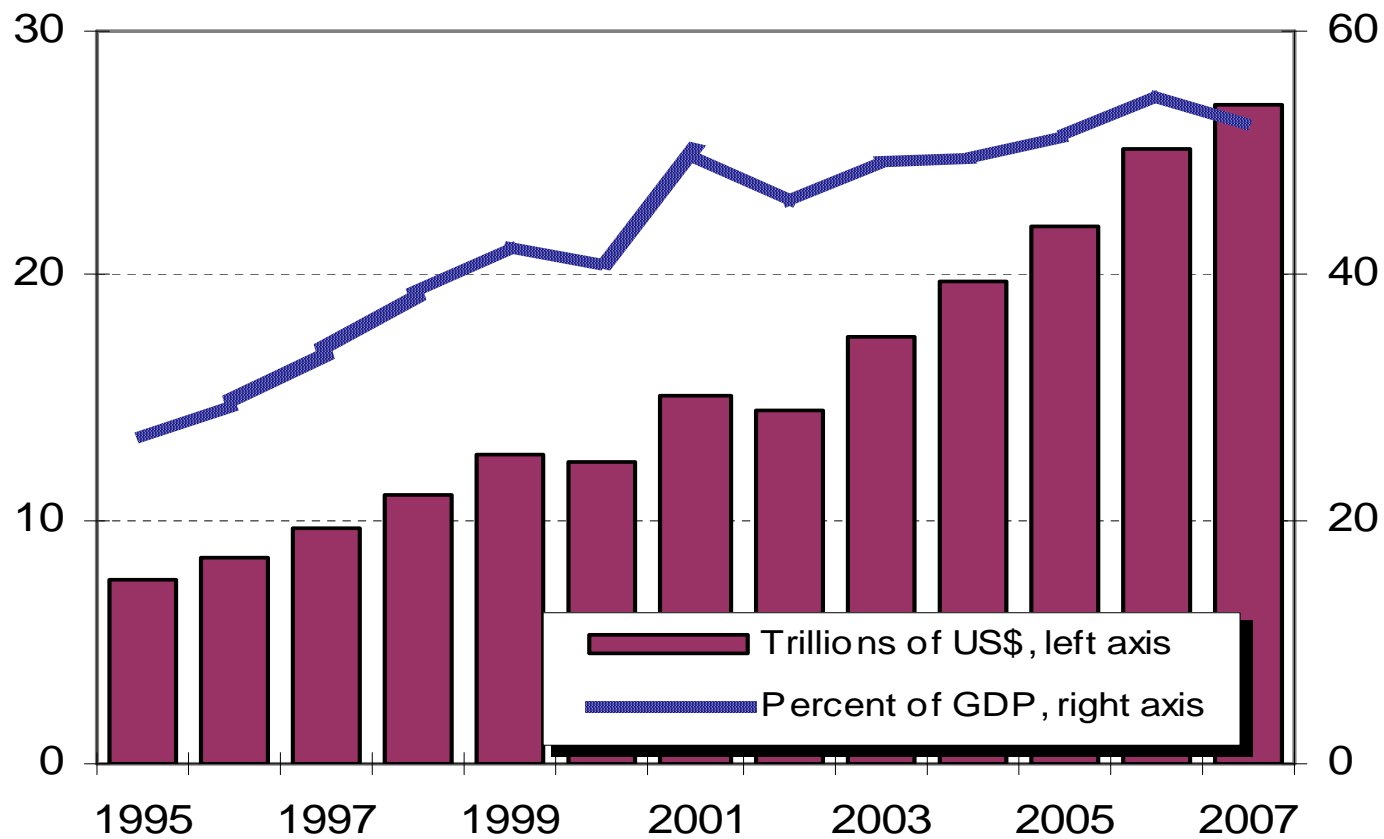
# The Fiscal Cost of the Recession

- The recession will affect the fiscal accounts through three channels
  - Automatic stabilizers
  - Non-discretionary effects from collapsing asset prices, financial sector profits, and commodity prices
  - Fiscal stimulus—temporary vs. permanent measures

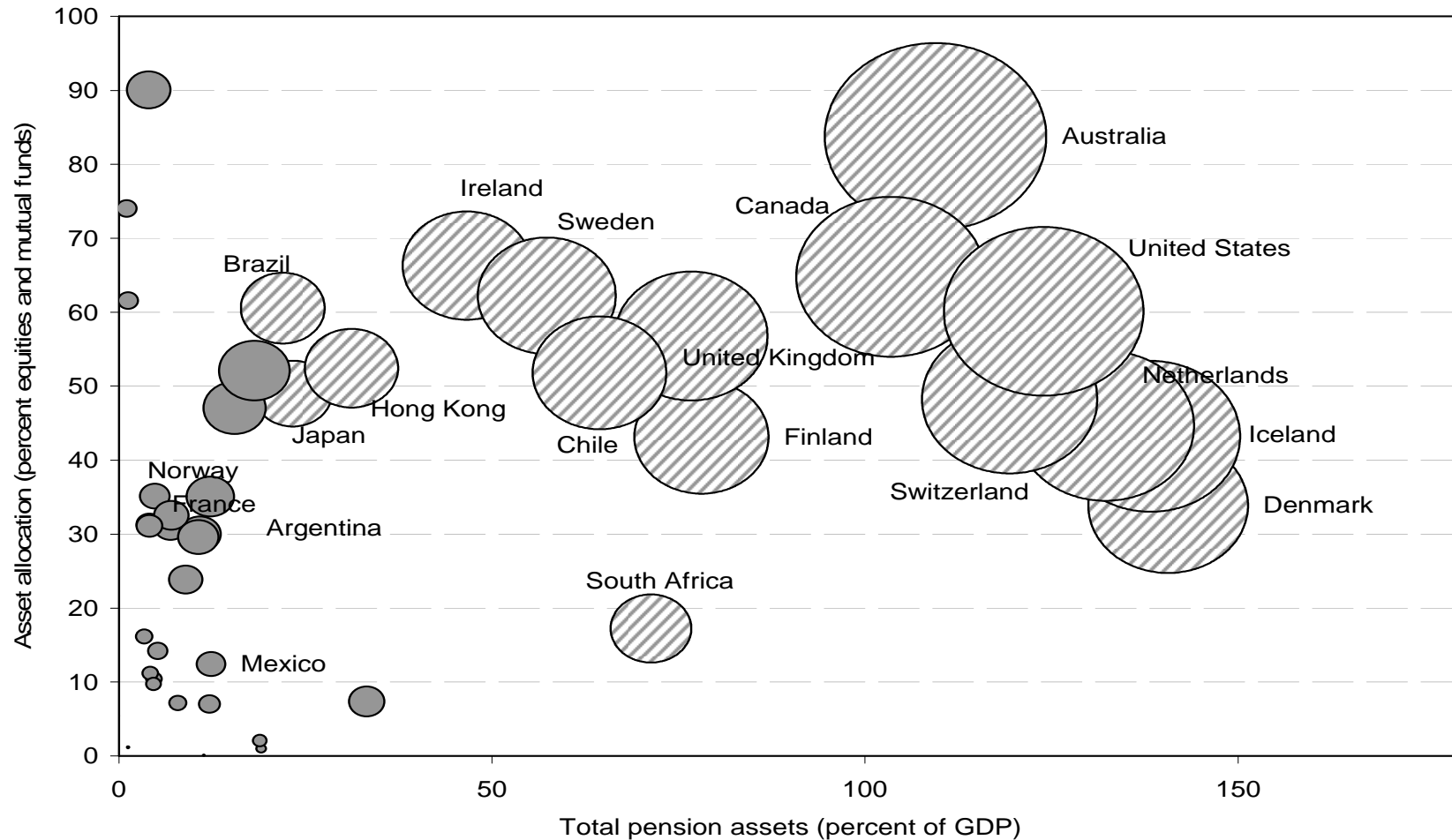
# Rapid increase in the level of funding for pensions



## Pension Fund Assets in OECD Countries



# Countries with a large share of pension saving invested in equity and mutual funds





# Funded Pension Schemes

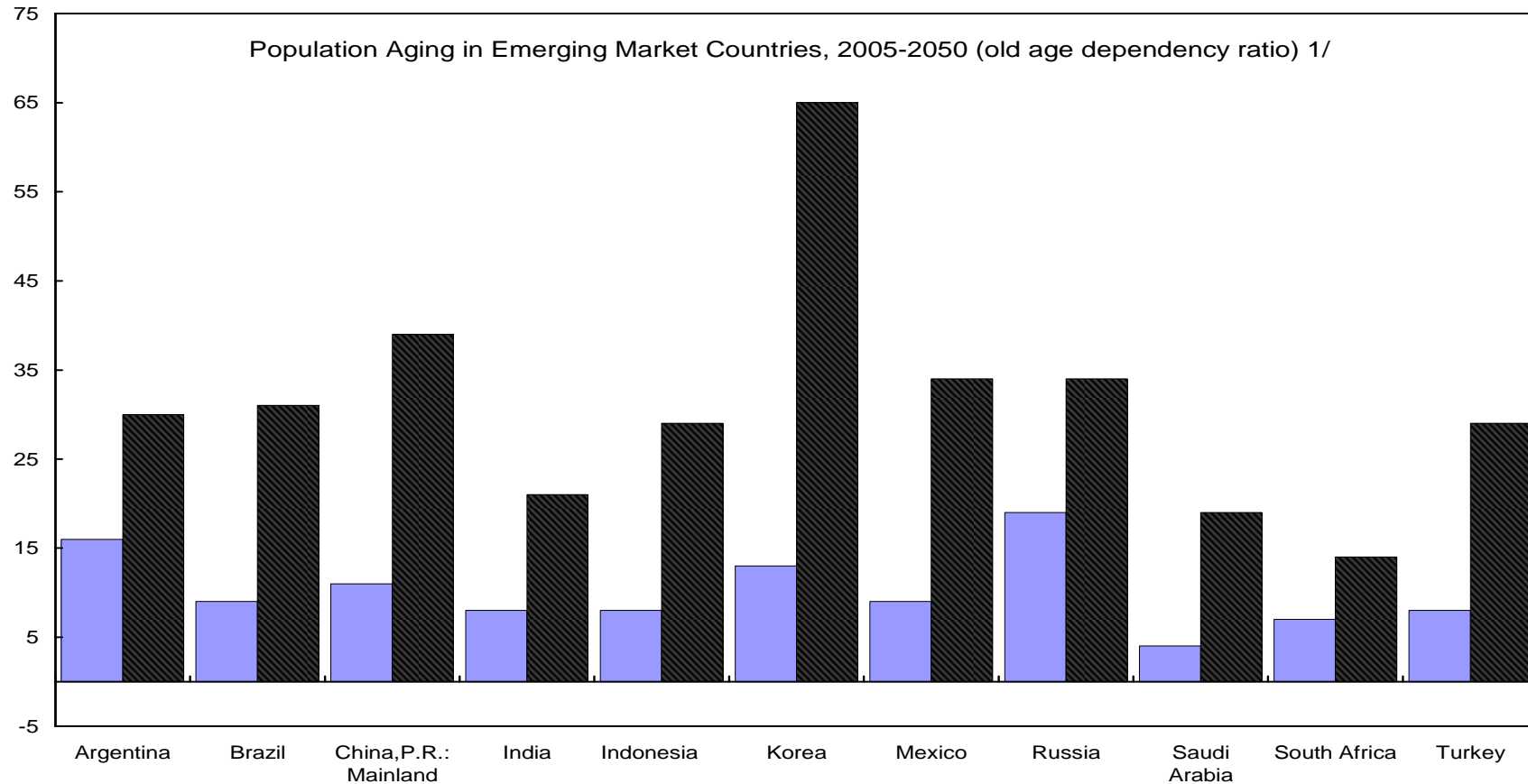
- Risks for governments
  - Direct effects on pension investments
  - Explicit guarantees to pension schemes
  - Pressures to make up pension losses



# The Fiscal Outlook

- Fiscal accounts will be severely affected, especially in advanced economies
- Gross public debt—the highest increase in decades
- Fiscal balances—weakened outlook over the medium term
- Long-term fiscal trends and the impact of aging

# Population aging is also an issue for some emerging economies



1/ Population aged 65+ over population aged 15-64

Source: United Nations, 2006, World Population Prospects: The 2006 Revision, United Nations Population Division. [Http://esa.un.org/unpp/p2k0dat](http://esa.un.org/unpp/p2k0dat)



# What Should Be Done?

- Ensure that fiscal solvency is not at risk
- In countries with room for fiscal expansion, measures should be temporary
- Cast policies within medium-term fiscal frameworks
- Structural reforms to enhance growth
- Reform pension and health entitlements