Converging to a Comprehensive Risk-Adjusted Fiscal Sustainability Analysis

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Since the early 2000s, there has been widespread interest in developing medium- to long-term fiscal sustainability analysis for formulating policy advice to contain the rise in public indebtedness. Partly to address the limitations of the IMF's debt sustainability analysis (DSA), which had become the "work horse" template in numerous countries, and partly in response to financial and debt crises, considerable experimentation has taken place to expand the analysis in the context of anintertemporal public sector balance sheet,on the one hand,and to introduce uncertainty into the analysis, on the other. The methods that have evolved can be classified under two basic approaches: a deterministic approach embellished with sensitivity tests, stress tests, orillustrativescenarios; and a stochastic approach based on random probability distributions around a baseline path. Application of criteria of good practice suggests that the Value-at-Risk method—adopted or considered in some countries—is superior as comparedwith all the others.