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Oliinyk Yana, DSc (Econ.), Assoc. Prof.
State Educational-Scientific Establishment «Academy of Financial Management»

FISCAL RISK MANAGEMENT: OECD COUNTRIES' EXPERIENCE AND UKRAINE'S CURRENT PRACTICES

Fiscal risks are an inherent element of public finance, shaping the resilience of budgetary systems and determining governments' ability to fulfil socio-economic functions under uncertainty. Effective fiscal risk management requires a holistic approach that combines identification, forecasting, disclosure, creation of reserves, and preventive measures. OECD countries were among the first to institutionalize these practices in the 1990s, and their experience offers valuable lessons for Ukraine. However, Ukraine has also begun introducing more structured risk assessment instruments, particularly with the Ministry of Finance publishing annual «Information on Fiscal Risks and Their Impact on the State Budget Indicators,» a process conducted regularly since 2019.

The OECD experience demonstrates diversity and common ground. Australia and New Zealand were pioneers in introducing systematic risk assessment. Australia emphasizes decentralization, where ministries and departments bear primary responsibility for risk identification and mitigation, while central agencies provide coordination. New Zealand has relied more on central oversight and introduced balance sheet stress testing, making it a formal part of fiscal planning. The Netherlands adopted a rule-based model by imposing strict ceilings on government guarantees and contingent liabilities, while Finland focused on internal risks generated by program implementation. The United Kingdom has institutionalized a structured five-step strategy: risk identification, disclosure, mitigation, allocation of reserves, and residual risk management, supported by the independent Office for Budget Responsibility.

Although the approaches differ, several principles are consistent: disclosure of risks in budget documents, use of fiscal stress testing, evaluation of contingent liabilities, and emphasis on long-term sustainability. These practices help governments avoid underestimating vulnerabilities and improve fiscal policy credibility. For Ukraine, the key lesson is that successful risk management requires technical tools, strong institutions, and public accountability.

Ukraine has recently taken important steps in this direction. Since 2019, the Ministry of Finance has been preparing and publishing the «Information on Fiscal Risks and Their Impact on the State Budget Indicators,» which aligns with the requirements of Article 38 of the Budget Code of Ukraine. The 2026 report consolidates data from key spending units, state-owned enterprises, and other institutions. It identifies fiscal risks across a broad spectrum: macroeconomic volatility, financial sector vulnerabilities, management of public and government-guaranteed debt, performance of state-owned enterprises, underperformance of privatisation revenues, judicial rulings, public-private partnership projects, social obligations, agriculture and food security, and the consequences of natural or technological disasters. Notably, for the first time, the 2026 report included a section on fiscal risks arising from judicial decisions, reflecting growing attention to legal uncertainties as a source of budgetary stress [1].

The preparation of this report also incorporated recommendations from IMF technical missions. In particular, experts advised on stress testing state-owned enterprises and evaluating PPP and concession projects. Twelve large state-owned enterprises, mainly in the energy and transport sectors, were subjected to stress tests. These companies are strategically important for Ukraine's economy but have been severely affected by the war. The stress testing results show potential financial trends under different scenarios, though they are not precise forecasts, as unexpected events can shift the outcomes. This analytical work helps policymakers understand enterprise vulnerabilities that could translate into significant fiscal or quasi-fiscal costs.

The Ministry of Finance is willing to align domestic practice with international standards by publishing such reports annually, ensuring fiscal transparency and accountability. The reports identify risks and provide recommendations for government agencies and other institutions on how to mitigate them. For example, in the energy sector, risk management may include diversification of suppliers and modernization of infrastructure; in the social sphere, stricter targeting of assistance programs; and in agriculture, building reserves to protect food security. The Ministry has stressed, however, that the list of risks is not exhaustive. The fiscal landscape will depend on the development of the war, changes in global markets, and other external and internal shocks. This adaptive understanding is consistent with OECD countries' practices, where fiscal risk management is viewed as an ongoing process rather than a static document.

While OECD countries often emphasise building fiscal buffers, approaches vary: some rely on annual budget reserves (e.g., Australia, UK), others on specialised funds (New Zealand), while some prefer no central reserves but strict reallocation rules (Finland, Netherlands). Given the extraordinary defence and social needs, Ukraine's context does not yet allow for large-scale reserves. However, introducing partial buffers for emergencies could help reduce vulnerability in the medium term. The stress testing of enterprises undertaken by the Ministry of Finance in 2026 is a promising step in this direction. If institutionalized and repeated annually, such practices will give policymakers a clearer picture of where risks lie and how they could affect the state budget.

The Ukrainian approach also reflects growing recognition that fiscal risks are multidimensional. They are not limited to macroeconomic shocks or debt sustainability but include judicial rulings, PPP projects, and quasi-fiscal operations of state-owned enterprises. This is particularly relevant in wartime, when court cases and compensation claims may suddenly generate new liabilities for the state, and when SOEs face operational disruptions and pressure to fulfil social obligations. By including these elements in the 2026 report, Ukraine has moved closer to international best practice.

In conclusion, fiscal risk management is no longer a purely technical matter. For OECD countries, it has become a key part of building resilience, transparency, and trust in public finance. Ukraine, by preparing and publishing annual Information on Fiscal Risks since 2019, has taken a significant step in the same direction. The combination of IMF recommendations, stress testing of SOEs, identification of sectoral risks, and inclusion of judicial decisions shows a more systematic approach than in previous years. Although challenges remain, especially in institutional capacity and fiscal buffers, Ukraine has begun aligning its practices with global standards. In wartime conditions and during post-war recovery, this risk-oriented perspective will be essential for maintaining economic security, ensuring donor trust, and building a stable foundation for growth.

Список використаних джерел:

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