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# Budget Stress Testing Report 2025 Update

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## Introduction

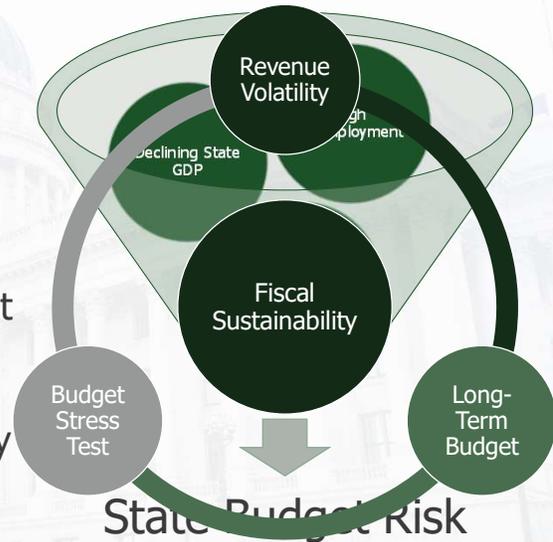
- "In a game of chance, you may lose a round, but you only lose the game if you can't afford to keep playing."  
– *Anonymous Economist*
- The ones that win in the long-run are not those that never lost, they are the ones that anticipated losses and planned to manage through them.



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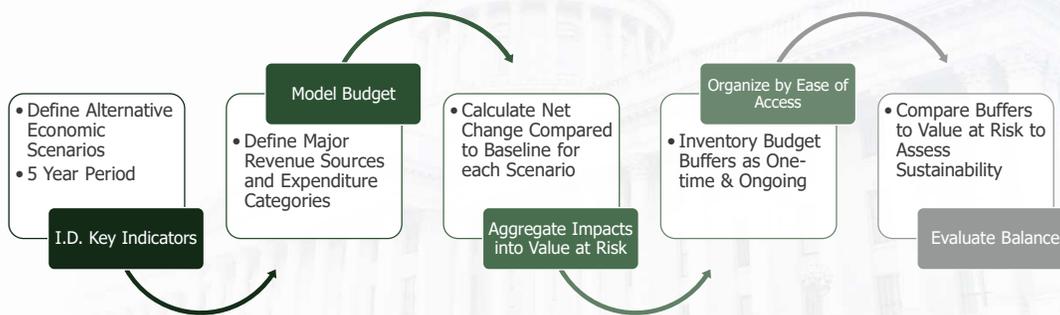
## Budget Stress Testing

- Year Three project in the triennial Fiscal Sustainability Analysis series
- A “what if” analysis at its core
- Construction of a Five-Year Value at Risk profile for state revenue and expenditure
- Evaluation of Budget Buffers’ ability to address these risks



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## Methodology



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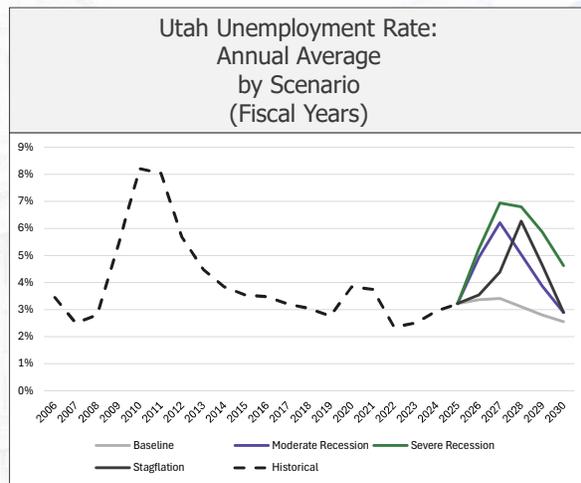
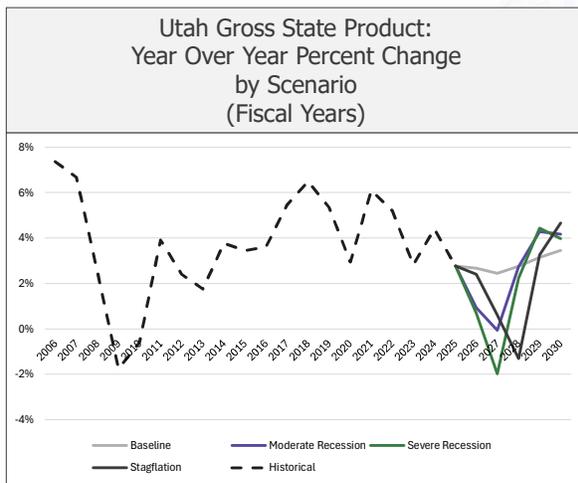
## Scenarios

Baseline	Moderate Recession	Severe Recession	Stagflation
<ul style="list-style-type: none"> <li>No Recession</li> <li>50:50 probability outcome</li> <li>Modest Economic Growth</li> <li>Largely consistent with current levels of activity</li> </ul>	<ul style="list-style-type: none"> <li>3 Quarter Recession</li> <li>90:10 probability outcome</li> <li>No Economic Growth</li> <li>Significant Declines Compared to Current</li> </ul>	<ul style="list-style-type: none"> <li>5 Quarter Recession</li> <li>96:4 probability outcome</li> <li>Negative Economic Growth</li> <li>Deeper Declines and Longer Duration</li> </ul>	<ul style="list-style-type: none"> <li>High Inflation + 4 Quarter Recession</li> <li>Initial Period Similar to Current but with High Inflation</li> <li>Later Period with Recession</li> </ul>



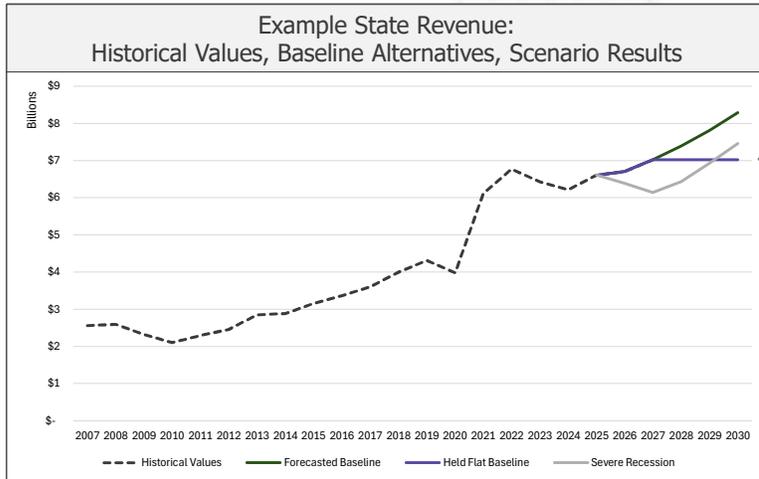
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## Example Indicators



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# New This Year – Forecasted Baselines



Five Year Forecast:  
Consensus Estimate for Two Years  
Held Flat Remaining Three Years

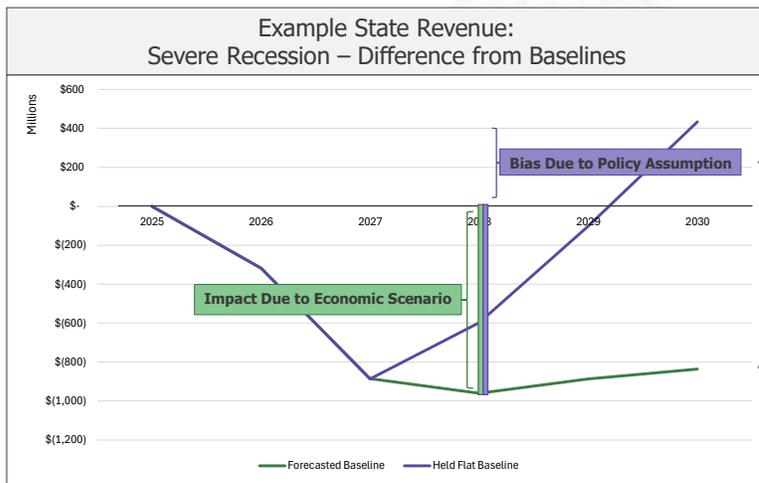
Issue 1:  
Effectively a Policy Assumption

Issue 2:  
Inconsistently Applied



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# New This Year – Forecasted Baselines

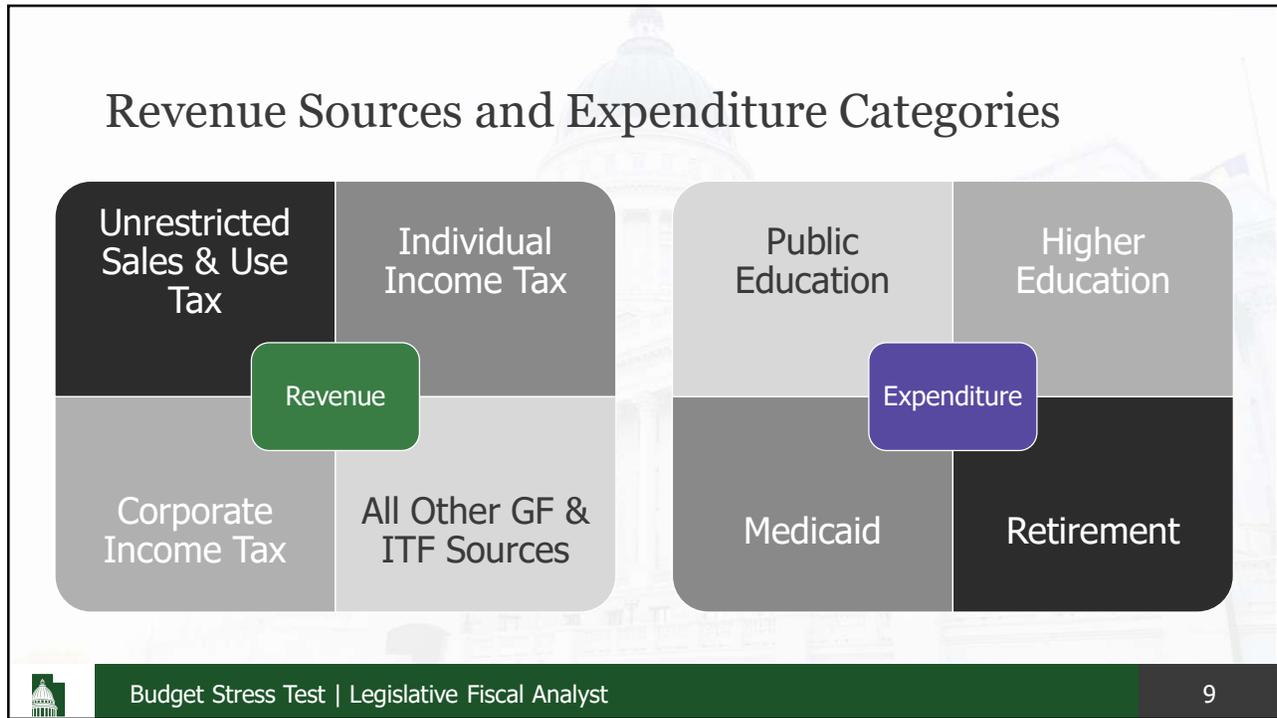


Unintended Consequence

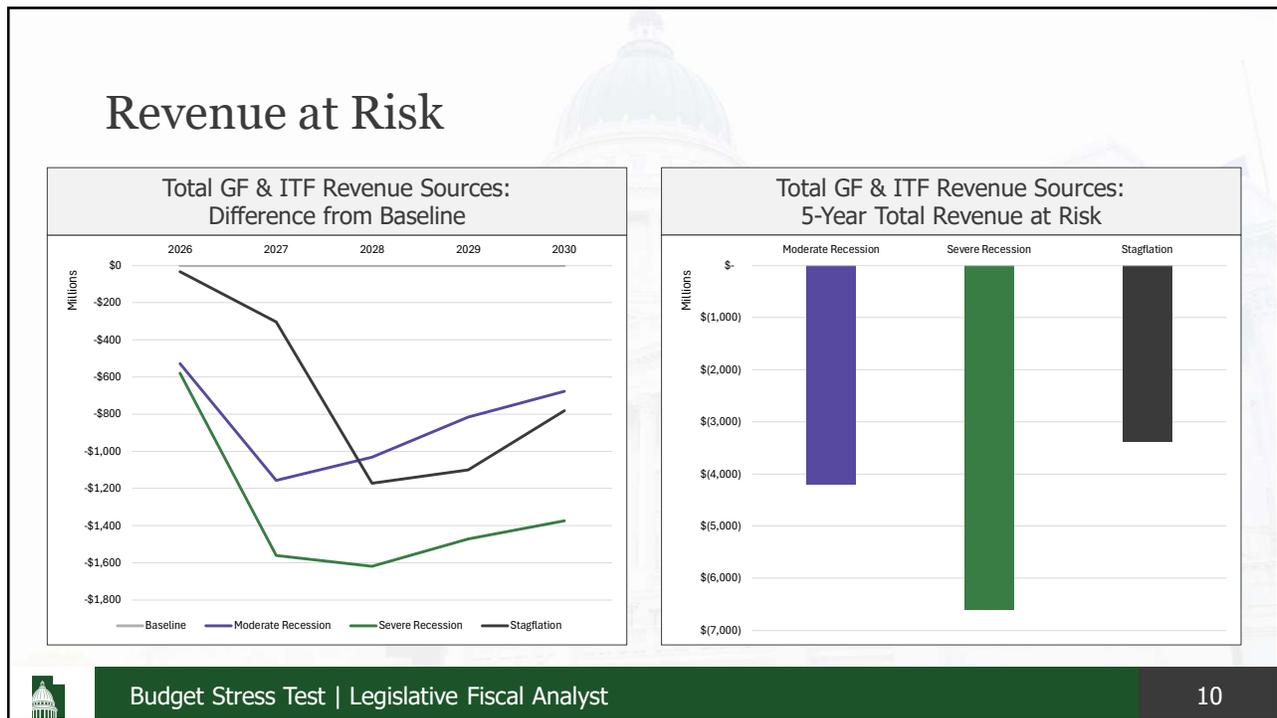
Unbiased Results & Consistent  
with Long-Term Budget  
Methodology



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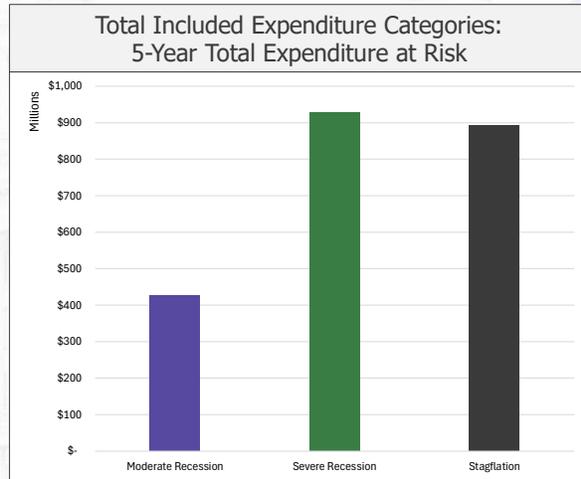
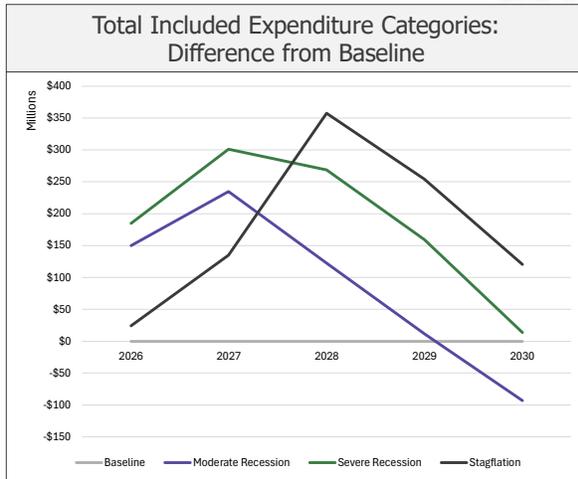


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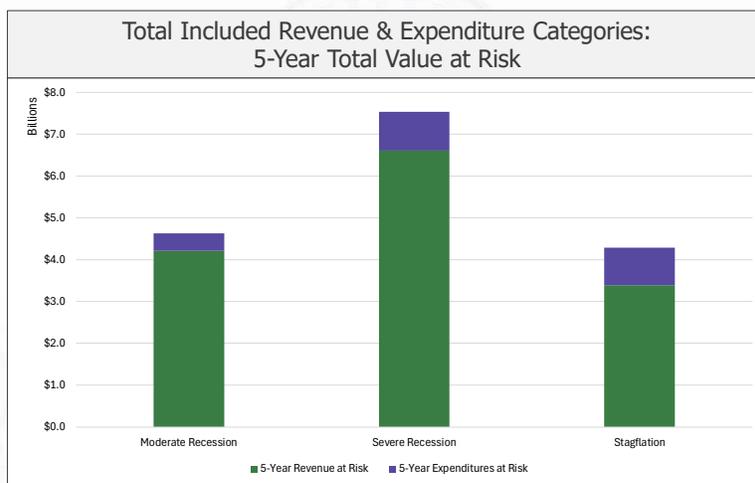
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## Expenditure at Risk



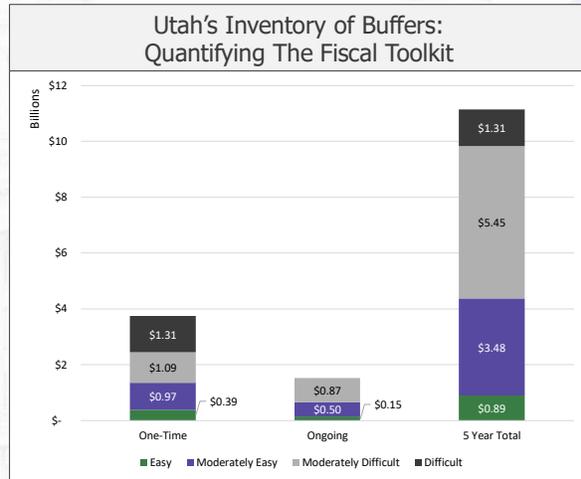
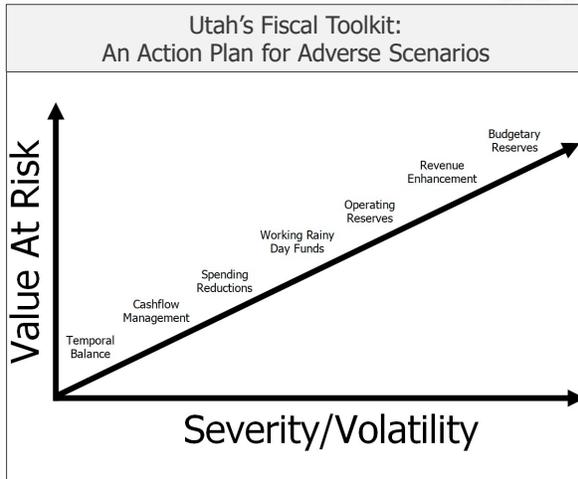
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## Total Value at Risk



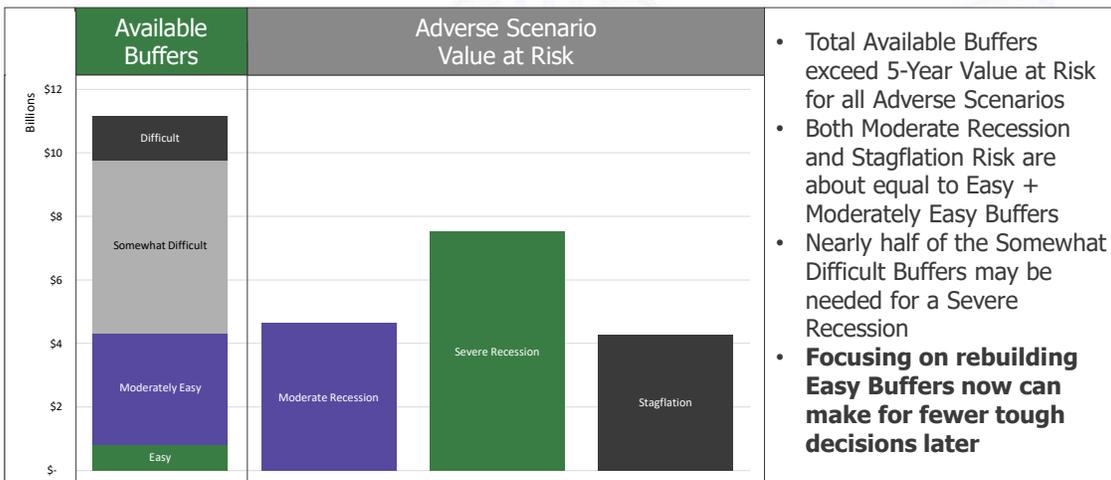
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## Putting This Into Context



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## Comparing Available Buffers To Value at Risk



- Total Available Buffers exceed 5-Year Value at Risk for all Adverse Scenarios
- Both Moderate Recession and Stagflation Risk are about equal to Easy + Moderately Easy Buffers
- Nearly half of the Somewhat Difficult Buffers may be needed for a Severe Recession
- **Focusing on rebuilding Easy Buffers now can make for fewer tough decisions later**



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Thank you.

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