

Updating the IMF Fiscal Transparency Code and Assessment

Public Consultation

Fiscal Affairs Department
International Monetary Fund

Mario Pessoa
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- b. Why Fiscal Transparency Matters
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I. Background on Fiscal Transparency:

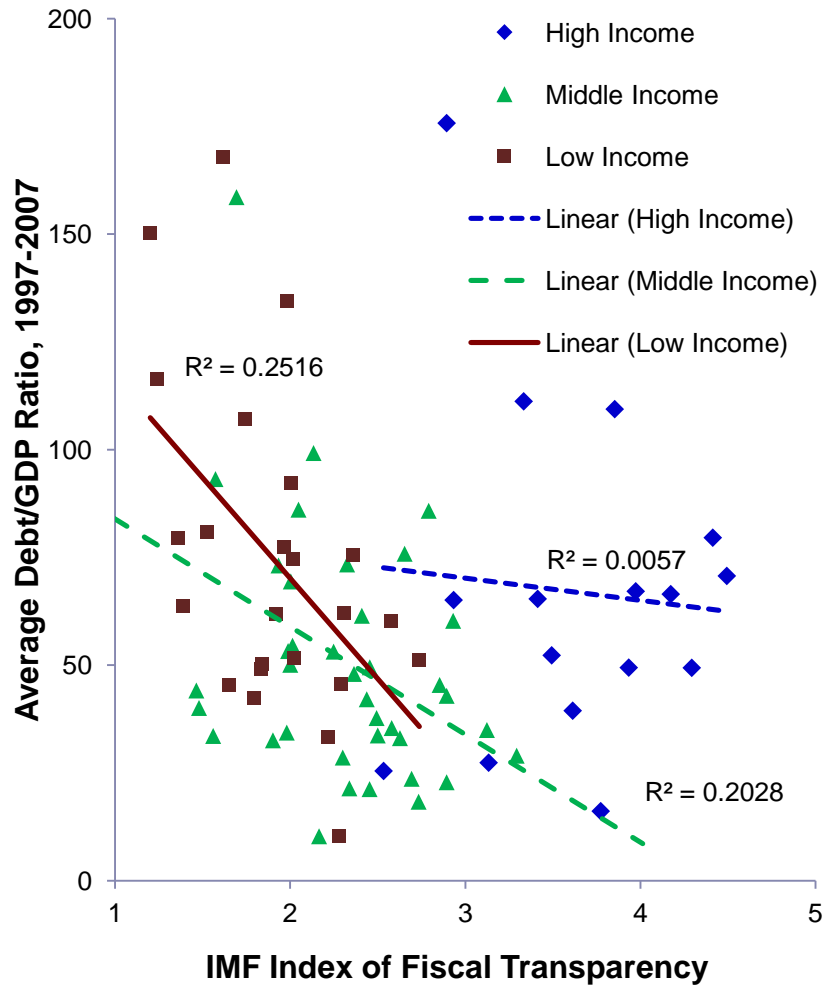
a. What is Fiscal Transparency

- **Fiscal transparency:** the clarity, reliability, frequency, timeliness and relevance of public fiscal reporting and the openness to the public of the government's fiscal policy-making process.
- **Public fiscal reporting:** the publication and dissemination of summary information about the state of the public finances in the form of:
 - fiscal forecasts;
 - government finance statistics; and
 - government financial statements or accounts.
- **Fiscal risks:** factors that lead to differences between a government's forecast and actual fiscal position.
- **Why it matters:** The degree of fiscal transparency has been shown to be an important predictor of a country's fiscal credibility and performance.
 - Empirical evidence points to a positive relationship between the degree of fiscal transparency and market perceptions of fiscal solvency.
 - The recent loss of market confidence in governments with underestimated or hidden deficits underlines the link between fiscal credibility and openness.

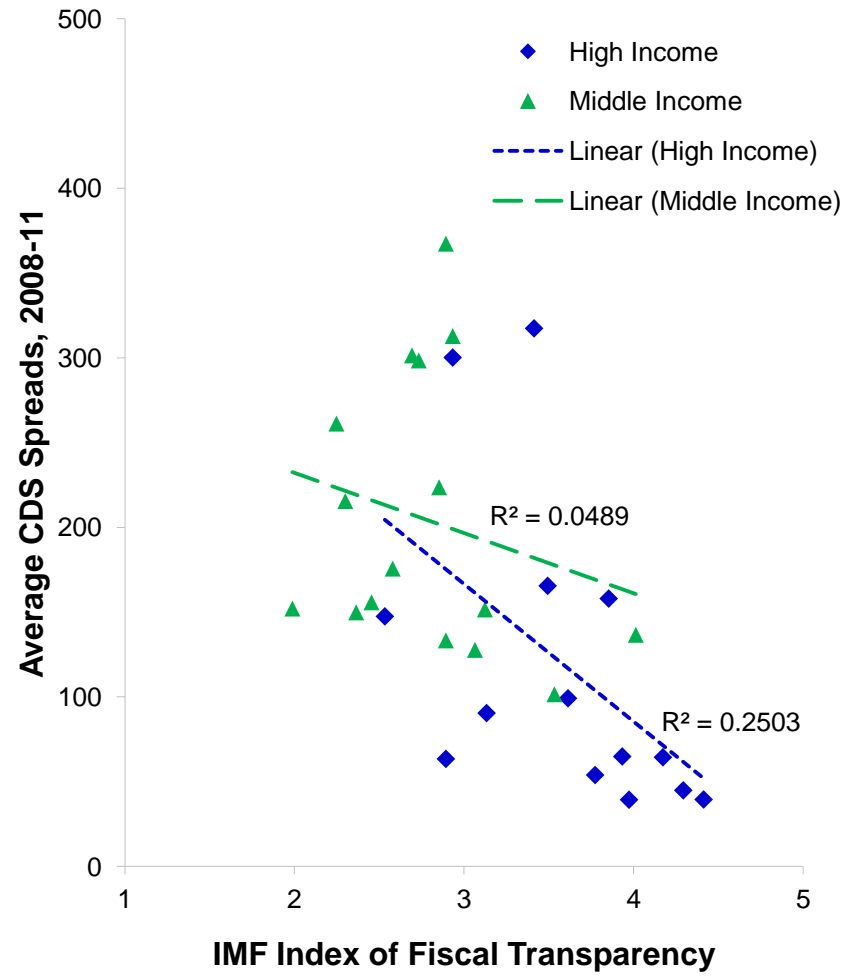
I. Background on Fiscal Transparency:

b. Why Fiscal Transparency Matters

Fiscal Transparency & Fiscal Performance



Fiscal Transparency & Fiscal Credibility





I. Background on Fiscal Transparency:

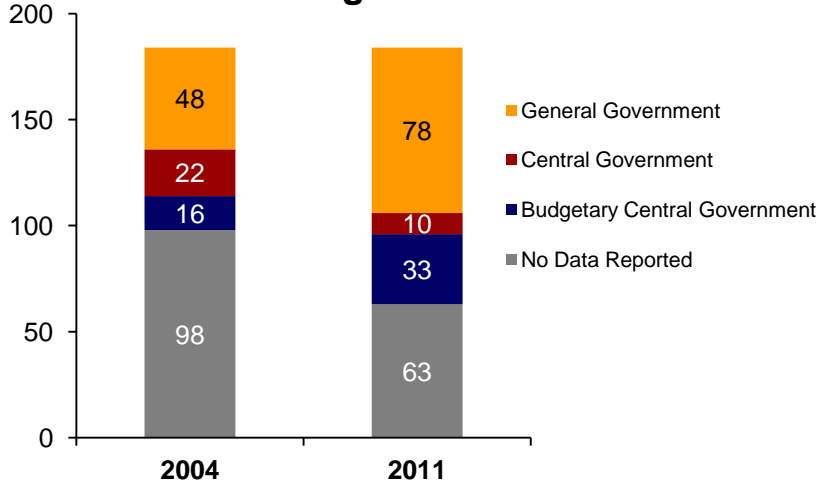
c. Background on the Global Fiscal Transparency Effort

- **A concerted effort to improve fiscal transparency since the late 1990s**
 - Asian crisis highlighted weakness in public and private financial reporting
 - Also underscored the risks associated with undisclosed linkages between the two
- **New fiscal reporting standards were developed**
 - **General:** IMF's Code of Good Practices & Manual on Fiscal Transparency and the OECD Best Practices for Budget Transparency
 - **Statistics:** EU's ESA 95, IMF's GFSM 2001, & UN's SNA 08
 - **Accounting:** IFAC's International Public Sector Accounting Standards (IPSAS)
- **New tools for monitoring compliance with standards were introduced**
 - **Multilateral:** Assessment of country's compliance with the IMF Code on Fiscal Transparency via Reports on the Observance of Standards and Codes (ROSC). Fiscal & Data ROSCs, PEFA, & GDDS/SDDS
 - **Regional:** Eurostat, WAEMU & CEMAC harmonization of fiscal reporting
 - **Civil Society:** Open Budget Survey and Index

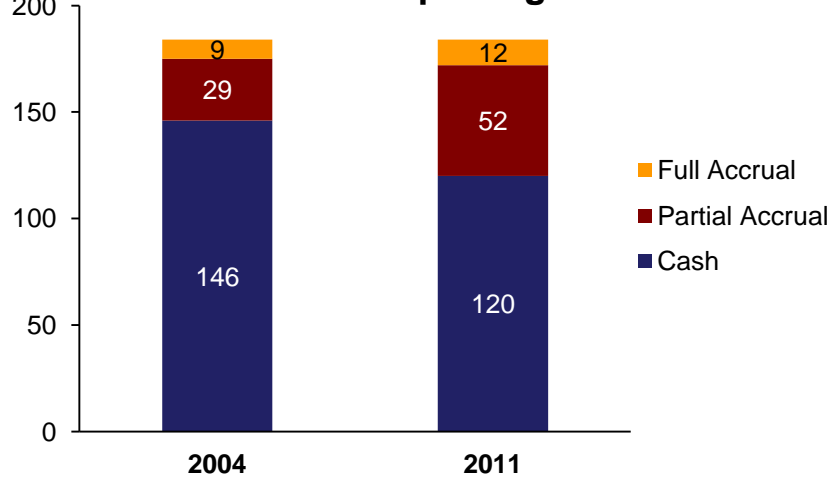
I. Background on Fiscal Transparency:

d. Progress in Improving Fiscal Transparency Practices

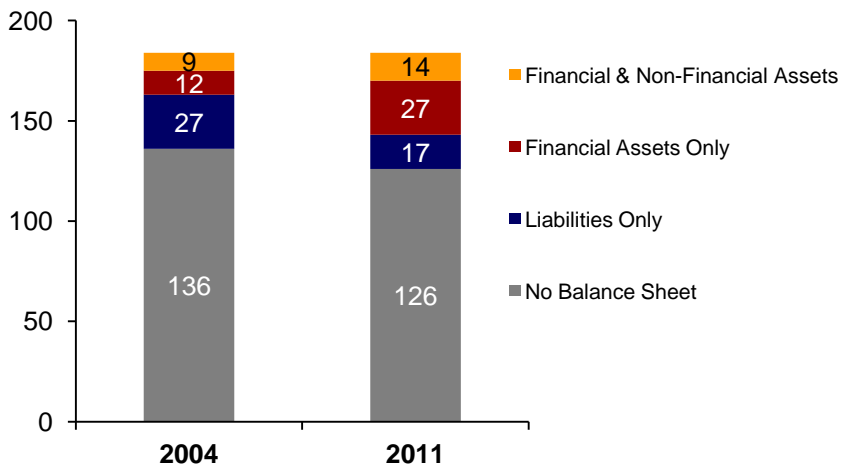
Coverage of Institutions



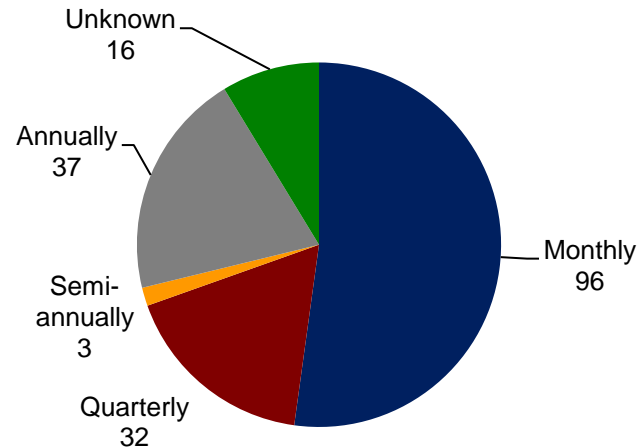
Basis for Reporting Flows



Coverage of Assets & Liabilities



Timeliness of Reporting





II. Fiscal Transparency and Fiscal Risks:

a. Lessons from the Current Crisis

Sources of Unexpected Increase in General Government Debt
(percent of GDP, 2007-2010)

	Fra	Ger	Neth	Spn	Port	UK	US	Grc	Ire	Ice	Ave*
Underlying fiscal position	1.7	3.2	-2.4	1.8	11.3	3.7	8.1	16.3	1.3	10.9	6.0
Revisions to 2007 deficit & debt	1.7	1.8	-0.9	-0.1	0.1	1.5	7.1	2.5	1.6	4.0	4.7
Changes to government boundary	-0.7	1.4	-0.2	0.6	9.4	1.9	0.9	11.2	-0.1	2.5	1.1
Cash-accrual adjustments	0.7	0.0	-1.3	1.3	1.7	0.3	0.0	2.6	-0.2	4.5	0.2
Exogenous shocks	8.4	12.8	14.2	15.4	8.1	17.0	6.3	40.0	60.2	39.5	9.8
Macroeconomic shocks	8.3	4.7	5.2	13.0	4.4	8.9	3.8	38.4	35.7	-3.3	6.0
Financial sector interventions	0.0	8.1	9.0	2.5	3.6	8.1	2.5	1.6	24.5	42.8	3.8
Policy changes	2.3	3.8	1.9	4.9	4.7	1.1	6.4	-8.0	-9.9	-4.3	4.7
Other factors	2.1	-0.3	6.5	1.9	3.7	6.2	8.3	-6.7	7.5	21.6	5.9
Total Unforecast Increase in Debt	14.4	19.5	20.2	24.0	27.8	28.0	29.1	41.7	59.1	67.7	26.4

* GDP-weighted average



II. Fiscal Transparency and Fiscal Risks:

a. Lessons from the Current Crisis (Greece example)

Sources of Unexpected Increase in General Government Debt
(percent of GDP, 2007-2010)

	Fra	Ger	Neth	Spn	Port	UK	US	Grc	Ire	Ice	Ave*
Underlying fiscal position	1.7	3.2	-2.4	8.1	16.3	1.3	10.9	6.0			
Revisions to 2007 deficit & debt	1.7	1.8	-0.9	Lack of timely data on 2007			2.5	1.6			
Changes to government boundary	-0.7	1.4	-0.2	0.6	9.4	1.9	0.9	11.2	Reclassification of SOEs		
Cash-accrual adjustments	0.7	0.0	-1.3	Arrears to the private sector			2.6	-0.2	4.5	0.2	
Exogenous shocks	8.4	12.8	14.2	15.4	8.1	17.0	6.3	40.0	60.2		
Macroeconomic shocks	8.3	4.7	5.2	Capital injection into banks			3.8	38.4	Fiscal impact of fall in GDP		
Financial sector interventions	0.0	8.1	9.0	Residual			1.6	24.5	42.8	3.8	
Policy changes	2.3	3.8	1.9	4.9	4.7	1.1	6.4	-8.0	Fiscal consolidation		
Other factors	2.1	-0.3	6.5	Residual			-6.7	7.5	21.6	5.9	
Total Unforecast Increase in Debt	14.4	19.5	20.2	24.0	27.8	28.0	29.1	41.7	59.1	67.7	26.4

* GDP-weighted average



III. Strengthening Fiscal Transparency Standards:

a. Lessons from the Crisis Regarding Weaknesses of Fiscal Reporting Standards & Practices

Fiscal Reporting Dimension		Weakness in Current Standards & Practices
Retrospective Reporting	Coverage of Institutions	Exclusive focus on general government ignores risks from public corporations and central banks
	Coverage of Stocks	Balance sheets do not recognize contingent liabilities (e.g. to financial sector)
	Coverage of Flows	Accrual accounts do not capture holding losses on liabilities acquired in the wake of the crisis
	Timeliness	Quarterly statistical reporting gives governments only 2 observations before presenting next year's budget 12 month delay in publication of audited annual accounts means that they do not inform the budget for next year
Prospective Reporting	Forecasting	No requirement that fiscal forecasts and budgets capture fiscal impact of all announced policies
	Fiscal Risks	Fiscal risk assessments not integrated into budget documentation and decision-making
	Long-term Projections	Long-term fiscal projections remain exceptional
Consistency of Reporting	Comparability of Forecasts & Actuals	Unexplained discrepancies between: <ul style="list-style-type: none"> • Budgets: Cash • Statistics: Accrual (ESA95, GFSM01) • Accounts: Accrual (IPSAS)



III. Strengthening Fiscal Transparency Standards:

b. Proposed Revisions to Standards & Practices

Fiscal Reporting Dimension		Current Standards (Source)	Proposed Revision
Retrospective Reporting	Coverage of Institutions	General Government (ESA 95/ GFSM2001, SNA08)	Greater focus on public sector (incl. public corporations & central banks)
	Coverage of Stocks	Full balance sheet (ESA 95, GFSM 2001, IPSAS, SNA 08)	Recognition of quantifiable contingent liabilities at expected present value
	Coverage of Flows	Accrual (ESA 95, GFSM 2001, IPSAS)	Recognition of provisions for doubtful debts in summary statistics
	Timeliness	Quarterly statistical reporting (GDDS/SDDS) Audited accounts within 1 year (Fiscal Transparency Code)	Monthly fiscal reporting Audited accounts within 6 months
Prospective Reporting	Forecasting	None	New standard for fiscal forecasting and fiscal risk management
	Fiscal Risks	None	
	Long-term Projections	None	
Consistency of Reporting	Comparability of Forecasts & Actuals	Budgets: Cash Statistics: Accrual (GFSM 2001, ESA 95) Accounts: Accrual (IPSAS)	Alignment of standards for budgets, statistics, and accounts

III. Strengthening Fiscal Transparency Standards & Monitoring:

A more intuitive architecture for the New Transparency Evaluation



Construction

Three Pillars of the Revised Fiscal Transparency Code & Evaluation

Pillar
(Type of Report)

Analysis of Fiscal Vulnerability

Quality of Fiscal Reporting

Openness of Fiscal Decision-making

I. Fiscal Accounts & Statistics

Size of unreported of fiscal flows
Size of unreported public liabilities
Average revisions to reported deficit

Institutional coverage
Treatment of fiscal flows
Treatment of assets and liabilities

Frequency & timeliness of reporting
Independence of statistics agency
Audit of annual accounts

II. Fiscal Forecasts & Budgets

Average fiscal forecasting error
Source of fiscal forecasting error
Timing of fiscal forecasting error

Time horizon
Clarity of fiscal rules/objectives
Separation of baseline & new policies

Independent scrutiny of forecasts
Top-down budgeting
Supplementary budgets

III. Fiscal Risk Analysis

Size of contingent liabilities
Impact of macro / exogenous shocks
Average stock-flow adjustment

Fiscal sensitivity analysis
Reporting of contingent liabilities
Long-term fiscal projections

Approval of contingent liabilities
Oversight of sub-national governments
Surveillance of public corporations



IV. Strengthening Fiscal Transparency Monitoring:

a. Reforming the IMF's Fiscal Transparency Code & ROSC

- **Reorientate both the Code and ROSC to provide greater focus on:**
 - The consolidated public sector;
 - Actual fiscal outcomes;
 - Formal and informal budgeting practices;
 - Quality and comprehensiveness of public documents; and
 - Prospective fiscal forecasting, budgeting and fiscal risk reporting.
- **Update the Fiscal Transparency Code & Manual to distinguish:**
 - **Basic Practice** (e.g., annual fiscal reporting)
 - **Good Practice** (e.g., quarterly fiscal reporting)
 - **Best Practice** (e.g., monthly fiscal reporting)
- **Revise the Fiscal Transparency ROSC to:**
 - Look beyond formal institutions and procedural arrangements;
 - Provide a more substantive analysis of the adequacy and reliability of the fiscal information being collected and published for fiscal policy-making and accountability purposes;
 - Undertake more modular assessments focused on potential areas of fiscal risk;
 - Provide a more accessible, comparable, and action-oriented assessment of country transparency practices; and
 - Provide a time-bound action plan with specific steps to address identified problems.



IV. Strengthening Fiscal Transparency Monitoring:

b. Particular Focus on Prospective Reporting

- **The budget is the primary fiscal tool and report:**
 - Yet there are no accepted standards for content or provision of budget documents.
 - There are severe shortcomings in forecasts across a large share of countries:
 - **Methodology** – distinguishing impact of new and current policies
 - **Construction** – disaggregated multi-year budget estimates
 - **Horizon** – long-term fiscal projections
 - And limited exploration of fiscal risks through scenario analysis and assessment of contingent liabilities.
- **The new standard and assessment tool would require forecasts to:**
 - Cover a minimum time horizon and set of institutions;
 - Separately identify new policy measures, and include them in a post-measures forecast;
 - Provide a reconciliation of changes from the last forecast;
 - Provide fiscal scenarios based on alternative macroeconomic assumptions;
 - Include a statement of fiscal risks, providing values and probabilities, and taking into account of mitigating actions.



IV. Strengthening Fiscal Transparency Monitoring:

c. Complementarity between PEFA and the New ROSC

- **PEFA and ROSC prepared for different reasons:**
 - PEFA is a broad diagnostic of PFM delivery.
 - ROSC focuses on transparency and accountability aspects of PFM systems (*clarity of roles and responsibilities for PFM; open budget processes; public availability of information; and assurances of integrity*).
- **However, there is some overlap:**
 - 40 percent of information from the existing ROSC can be gathered from a PEFA.
 - But PEFAs cover fiscal transparency only insofar as it affects PFM effectiveness. They do not cover clarity of roles and public availability of information much.
 - And ROSCs do not cover relations with donors and performance ratings.
- **New fiscal ROSC will increase complementarity between the two, as it will:**
 - Quantify and assess the size and likelihood of potential weaknesses.
 - Provide greater degree of in-depth analysis of key problem areas (e.g., the size of public sector, contingent liabilities, factors leading to problems).
 - Explore areas largely untouched by PEFA, such as standards of fiscal forecasting, quality of fiscal risk reporting, and full coverage of the public sector.
 - Provide a bridge between assessments of advanced and developing economies, through use of graduated standards.



IV. Strengthening Fiscal Transparency Monitoring:

d. Recent Additions to the Arsenal—Fiscal Safeguards

- **Work on Fiscal Safeguard Assessments launched in 2012:**
 - Traditionally, the IMF's safeguard assessment policy focused on central banks.
 - IMF Board encouraged staff to highlight fiscal safeguard risks in Fund-supported programs involving direct and high budget financing through IMF resources.
 - Pilot exercises launched to assess scope and resource implications, to be completed by end-April 2013.
 - The focus is on **State Treasury** functions for the **Central Government**.
- **The objective is to give reasonable assurances that IMF resources:**
 - Will be spent on legally appropriated expenditures;
 - Will be paid into a Treasury account from which all legally appropriated central government expenditures are financed;
 - Will be financing transactions carried out through a central government budget, subject to transparent and effective internal budget execution procedures and controls;
 - Will be supporting and financing a central government budget that is subject to comprehensive, timely and regular fiscal monitoring and reporting; and
 - Is subject both to effective internal audit procedures and to an external audit conducted by an independent auditor who reports to the Parliament rather than the central government.



V. Questions for Consultation

- **Where are the main problems and areas for improvement in fiscal transparency?**
- **How could the structure and content of the code on fiscal transparency be improved?**
- **Where are the gaps in identification and analysis in existing transparency assessment instruments?**
- **What do you want to see from a new set of fiscal transparency standards and assessment instruments?**
- **How would you use the proposed new fiscal transparency assessment?**



VI. Timeline

- November 2012: Publication of IMF Board Paper *Fiscal Transparency, Accountability, and Risk*

<http://www.imf.org/external/np/pp/eng/2012/080712.pdf>

- December 2012: first public consultation with external stakeholders and countries on revisions to fiscal reporting standards
- Early 2013: Pilot Phase in Countries
- Mid 2013 second public consultation on revised Fiscal Transparency Code
- End of 2013 Publication of New Fiscal Transparency Code, Manual, & ROSC and announce countries that have agreed to undergo new fiscal ROSC



For More Information

- [IMF Survey on Fiscal Transparency Weblink to leave comments](#)

<http://www.imf.org/external/pubs/ft/survey/so/2012/POL110112A.htm>

- [IMF Webpage on Fiscal Transparency and Board paper](#)

<http://www.imf.org/external/np/fad/trans/>

<http://www.imf.org/external/np/pp/eng/2012/080712.pdf>