

INTERNATIONAL MONETARY FUND

Fiscal Transparency, Accountability, and Risk

Prepared by the Fiscal Affairs Department in collaboration with the Statistics Department

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EXECUTIVE SUMMARY

Fiscal transparency is a critical element of effective fiscal policymaking and the management of fiscal risks. The last decade and a half has seen a concerted effort to develop a set of internationally accepted standards for fiscal transparency and to monitor and promote the implementation of those standards at the national level. This period has also witnessed a steady improvement in the comprehensiveness, quality, and timeliness of public financial reporting in countries across the income scale.

Despite these advances, understanding of governments' underlying fiscal position and the risks to that position remains inadequate. This was demonstrated by the emergence of previously unreported fiscal deficits and debts and the crystallization of large, mainly implicit, government liabilities to the financial sector during the current crisis. These shortcomings in fiscal disclosure are due to a combination of gaps and inconsistencies in fiscal transparency standards, delays and discrepancies in countries' adherence to those standards, and a lack of effective multilateral monitoring of compliance with those standards. A revitalized fiscal transparency effort is needed to address the shortcomings in standards and practices revealed by the crisis and guard against a resurgence of fiscal opacity in the face of growing pressures on government finances. This requires action along three fronts.

First, fiscal transparency standards need to be updated to address gaps in and inconsistencies between those standards. In particular, the standards need to ensure that published fiscal reports (i) cover a wider range of public sector institutions; (ii) capture a broader range of direct and contingent assets and liabilities; (iii) recognize a wider range of transactions and flows; (iv) be published in a more timely manner; (v) take a more rigorous approach to fiscal forecasting and risk analysis; and (vi) present forecast and actual fiscal data on a consistent basis. Some standards also need to be supplemented by guidance on their implementation.

Second, the IMF needs to adopt a more modular, analytical, and calibrated approach to evaluating country compliance with fiscal transparency standards. This requires revisions to the Fiscal Transparency Code and Manual to reflect the above refinements in standards and provide a set of achievable milestones on the way to full compliance with those standards. The more graduated Code and Manual would provide the basis for a more focused and substantive fiscal ROSC which would (i) cater for modular assessments focused on key areas of fiscal risk; (ii) include an assessment of the adequacy and reliability of public information on the state of the fiscal accounts; and (iii) provide a comparable and actionable final report.

Third, national, regional, and international institutions need to strengthen incentives for improvements in fiscal transparency practices. This could be done by: (i) fostering national and regional constituencies for transparency, such as supreme audit institutions, national statistics agencies, fiscal councils, and regional surveillance bodies; (ii) strengthening the institutional relationships among international standard-setters; and (iii) providing regular updates on the state of fiscal transparency practices across countries.

I. INTRODUCTION

- Fiscal transparency—defined as 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—is a critical element of effective fiscal management.**¹ Fiscal transparency helps ensure that governments’ economic decisions are informed by a shared and accurate assessment of the current fiscal position, the costs and benefits of any policy changes, and the potential risks to the fiscal outlook. Fiscal transparency also provides legislatures, markets, and citizens with the information they need to make efficient financial decisions and to hold governments to account for their fiscal performance and their utilization of public resources. Finally, fiscal transparency facilitates international surveillance of fiscal developments and helps mitigate the transmission of fiscal spillovers between countries.
- In the wake of the recent economic and financial crisis, there is a need to reassess international efforts to promote fiscal transparency for three reasons.** First, the crisis revealed that, even among advanced economies, governments’ understanding of their current fiscal position was inadequate, as shown by the emergence of previously unrecorded deficits and debts. Second, the crisis demonstrated that, in many cases, countries had substantially underestimated the risks to their fiscal prospects, especially those emanating from the financial sector. Third, the sharp deterioration of the fiscal stance that accompanied the crisis, and the related need for fiscal adjustment, have increased the incentives on governments to engage in activities which cloud the true state of their finances. A revitalized international fiscal transparency effort is therefore critical both to reflect the lessons of the crisis itself and to prevent a resurgence of fiscal opacity in its wake.
- The rest of this paper is divided into five sections.** Section II provides background on the benefits of fiscal transparency and on international efforts to promote fiscal transparency over the past decade; Section III explores the relationship between fiscal transparency and fiscal risks; Section IV considers the adequacy of prevailing fiscal transparency standards and practices in enabling governments to understand and manage those risks; Section V assesses the existing international, regional, and national mechanisms for monitoring and promoting compliance with fiscal transparency standards; and Section VI suggests issues for discussion.

¹ While this paper focuses on the public dissemination of fiscal information, many of its conclusions apply to the availability of information for policymakers even if not made public. Publication of this information brings the added benefits of improving its quality, compelling governments to confront its implications, and widening the debate on how to respond. See Box 1 for definitions of fiscal accounting, reporting, transparency, and risk.

Box 1. Definitions: Accounting, Reporting, Transparency, and Risk

This paper deals with the distinct but related concepts of government accounting, fiscal reporting, fiscal transparency, and fiscal risk. For the purposes of the ensuing discussion:

- **government accounting** refers to the concepts, standards, rules, and systems used to generate the financial information used in fiscal reporting;
- **fiscal reporting** refers to the production of summary information about the past, present, and future state of the public finances for both internal (management) and external (accountability) uses;
- **public fiscal reporting** refers to the publication and dissemination of this summary information about the state of the public finances to citizens in the form of **fiscal forecasts** (in fiscal strategy or budget documents), **government finance statistics** (fiscal reports produced in accordance with statistical standards), or **government financial statements or accounts** (fiscal reports produced in accordance with accounting standards);
- **fiscal transparency** refers to 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. Within this, **clarity** refers to the ease with which these reports can be understood by users, **reliability** refers to the extent to which these reports reflect the government's true financial position, **frequency** (or **periodicity**) refers to the regularity with which reports are published, **timeliness** refers to the time lag involved in the dissemination of these reports, **relevance** refers to the extent to which these reports provide users with the information they need to make effective decisions, and **openness** refers to the ease with which the public can understand, influence, and hold governments to account for their fiscal policy decisions; and
- **fiscal risks** are factors that lead to differences between a government's forecast and actual fiscal position.

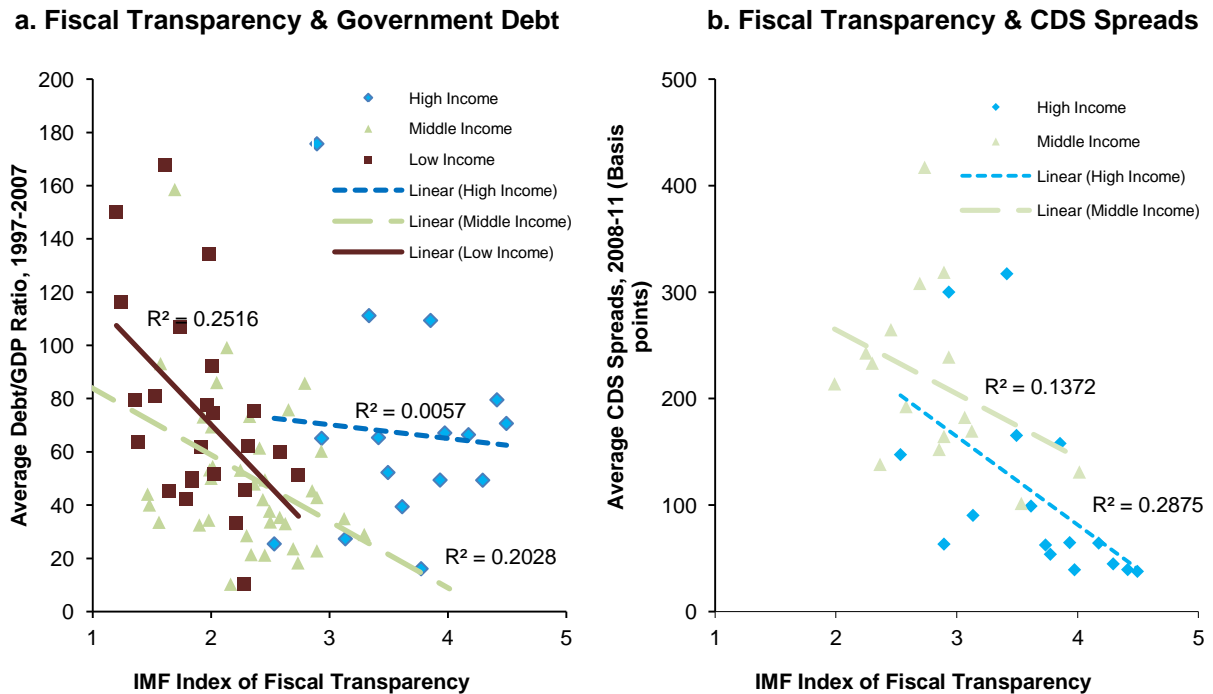
II. WHY FISCAL TRANSPARENCY?

4. **The degree of fiscal transparency has been shown to be an important predictor of a country's fiscal credibility and performance.** A growing body of empirical research has highlighted the positive relationship between the degree of fiscal transparency and measures of fiscal sustainability (such as government deficits and debts), with a stronger correlation among low and middle income countries than among high income countries (Figure 1a). Empirical evidence also points to a positive relationship between the degree of fiscal transparency and market perceptions of fiscal solvency (such as credit default swap spreads on sovereign debt, credit ratings, and foreign equity investment), this time with a stronger correlation among high-income than middle-income countries (Figure 1b).² Recent

² [Hameed \(2005\)](#), and [Dabla-Norris and others \(2010\)](#) find that more transparent developing countries have better credit ratings and better fiscal discipline. This is supported by Alt and Lassen (2006) who find that a greater fiscal transparency is associated with lower public debt and deficits in 19 advanced economies. [Arbatli and Escolano \(2012\)](#) take this further by decomposing the relationship between transparency and credit ratings into the direct impact (reducing current uncertainty over the fiscal position) and the indirect impact (improving primary balance and gross debt over time), finding that the former dominates in developing countries, while the latter dominates in advanced economies. To clarify the direction of causality between fiscal transparency and outcomes, [Glennester and Shin \(2008\)](#) use the publication of IMF fiscal data and reports to identify a significant causal relationship between publication and quality assurance of fiscal information and lower government bond yields.

studies have also shown a positive relationship between fiscal obfuscation (such as the use of accounting stratagems to hide deficits and debts) and perceptions of sovereign default risk.³ The recent loss of market confidence in governments with underestimated or hidden deficits underlines the link between fiscal credibility and openness.

Figure 1. Fiscal Transparency and CDS Spreads^{1/}



Sources: World Economic Outlook (Debt to GDP);
Staff estimates (Fiscal Transparency Index).^{1/}

Source: Markit Five Year CDS (credit default swap)
Note: Four outliers with very high average CDS spreads
(Argentina, Greece, Pakistan, and Ukraine) are excluded.

^{1/} Fiscal Transparency Index is based on data from two sources: fiscal ROSC reports (see Hameed, 2005) and Dabla-Norris and others (2010). See Weber (2012) for an explanation of how it is constructed.

5. The last decade and a half has seen substantial efforts to improve fiscal transparency across advanced, emerging, and developing economies. While recent history has seen a gradual improvement in fiscal transparency across countries, the Asian crisis of the late 1990s highlighted shortcomings in financial reporting in both public and private sectors and regarding the linkages between the two (Lane and others, 1999). Since then, there has been a concerted effort at the international, regional, and national level to:

³ Weber (2012) identifies poor fiscal transparency as a key predictor of statistical discrepancies in published fiscal data as measured by stock-flow adjustments between general government net lending/borrowing and the change in net debt. Irwin (2012) notes a positive relationship between the use of accounting devices and perceptions of sovereign credit risks as measured by credit default swap spreads. Gelos and Wei (2005) find that fiscally more transparent countries tend to attract more foreign equity investment and are less vulnerable to withdrawals during times of stress.

- develop a global architecture of fiscal transparency norms and standards.** The centerpiece of this normative architecture has been the IMF's Code of Good Practices on Fiscal Transparency and accompanying manuals and guides ([IMF 2007a](#), and [2007b](#)). These have been supported by detailed standards such as the IMF's *Government Finance Statistics Manual* ([GFSM 1986](#) and [2001](#)) in the area of statistical reporting and the International Federation of Accountants' (IFAC's) International Public Sector Accounting Standards (IPSAS) in the area of accounting;⁴
- strengthen monitoring of compliance with those norms and standards.** At the international level, the Fiscal Transparency Report on Observance of Standards and Codes (ROSC) was the first comprehensive fiscal transparency diagnostic. The Fund has conducted 111 ROSCs since 1999, covering 94 countries. The IMF, World Bank, and other international partners have also undertaken 285 Public Expenditure and Financial Accountability (PEFA) assessments covering 135 countries, which have a significant transparency component.⁵ At the regional level, institutions such as the European Statistics Agency (Eurostat) have been a driving force behind the harmonization of fiscal reporting practices across EU member states. Within civil society, the International Budget Partnership (IBP) has developed its own instrument, the Open Budget Survey (OBS), for assessing budget transparency which now covers more than 100 countries;⁶ and
- improve fiscal transparency at the national level.** Since the late 1990s, there have been significant improvements in the comprehensiveness, quality, and timeliness of public fiscal reporting in countries across the income scale in response to international, regional, and domestic pressures. According to the 2010 OBS, 87 percent of countries surveyed published their annual budgets in 2010 and the content of many countries' budget documentation has expanded. A growing number of governments now produce accrual-based accounts or fiscal statistics based on

⁴ The first IPSAS—on Presentation of Financial Statements—was issued in May 2000. Since then 31 more IPSASs have been issued covering a range of topics, including cash flows, financial instruments, presentation of budget information in financial statements, service concession arrangements (including public-private partnerships), intangible assets, and contingent liabilities.

⁵ Of the 285 PEFA assessments, 133 are now public, 84 are final (endorsed by the lead agency but not yet made public) and 68 are in draft. Another 45 assessments are ongoing or planned. While around 40 percent of the information gathered through the fiscal transparency ROSC can also be derived from a PEFA evaluation, the PEFA does not provide a comprehensive assessment of fiscal transparency.

⁶ The IBP's 92 question Open Budget Survey (<http://internationalbudget.org/what-we-do/open-budget-survey/full-report/>) assesses the availability of eight key budget documents, the comprehensiveness of the data contained in these documents, and the effectiveness of fiscal oversight provided by legislatures, supreme audit institutions, and the public. Answers to these questions are then compiled to generate an Open Budget Index value which is used to rank each country's relative level of transparency.

international standards, including middle-income countries such as Colombia, the Philippines, and Russia. More generally, synthetic measures of fiscal transparency such as the IBP's Open Budget Index (OBI) show an increase in the average country score from 46 in 2006 to 50 in 2010 (out of a possible 100).

6. **However, substantial shortcomings in fiscal transparency remain:**

- First, there remain significant **gaps and inconsistencies in fiscal transparency standards** in areas such as the coverage of public institutions, treatment of assets and liabilities, reporting of transactions and other economic flows, and the comparability between forecast and actual data.
- Second, **governments' implementation of international accounting and statistical reporting standards has lagged behind** the development of the standards themselves. Although the first IPSAS was issued in 2000 and the revised *GFSM* was promulgated in 2001, out of 182 countries, only 55 countries had fully adopted *GFSM 2001* for statistical reporting by 2010⁷ and less than 20 countries have fully adopted IPSAS, International Financial Reporting Standards (IFRS), or similar standards for accounting (IFAC, 2008).
- Third, the IMF's **monitoring of fiscal transparency has waned** in recent years. After reaching a peak of 21 in 2002, the annual number of countries undergoing a fiscal ROSC or update has fallen to just one in 2011. This reflected a combination of falling demand and a reduction in Fund resources devoted to this area. Moreover, monitoring of fiscal transparency by other institutions has not been sufficient to prevent the substantial underreported deficits and debt in some advanced economies.

⁷ According to [IMF \(2010b\)](#), 124 countries were able to transform their national presentation into *GFSM 2001* format. However, only 55 compiled and reported *GFSM 2001* data directly.

III. FISCAL TRANSPARENCY AND FISCAL RISKS

7. **Fiscal transparency plays an important part in the evaluation and management of fiscal risks.** Fiscal risks are factors that give rise to differences between a government's forecast and actual fiscal position (Cebotari, 2008). These differences can be the result of (i) an incomplete understanding of the government's underlying fiscal position; (ii) exogenous shocks to the public finances; or (iii) endogenous changes in fiscal policy settings. While improvements in fiscal transparency cannot eliminate these risks, they can help policymakers and the public to understand and respond to them. For example:

- more frequent and timely public reporting of fiscal developments can help ensure that fiscal forecasts are based on the most up-to-date understanding of the current fiscal position and facilitate rapid policy responses to shocks;
- budget sincerity requirements,⁸ comparisons with independent forecasts, and alternative macro-fiscal forecast scenarios can help ensure that fiscal forecasts are credible and fiscal policy settings are robust to a range of macroeconomic outcomes;
- fiscal risk statements can raise awareness of the magnitude of potential shocks to the public finances and encourage government to mitigate or provide for those risks;
- expanding the institutional coverage of public fiscal reporting can reduce the scope for off-budget fiscal activity whose costs can later rebound on the government;
- implementation of international accounting and statistical standards can highlight otherwise hidden costs or obligations and encourage governments to budget for them;
- aligning the methodologies and standards for fiscal forecasting, budgeting, and reporting can help eliminate unexplained inconsistencies between forecasts and outcomes; and
- publication of audit reports in accordance with internationally accepted standards can highlight weaknesses in government financial control or accounting practices and prompt governments to address them.

8. **The recent crisis has revealed shortcomings in many governments' understanding of their underlying fiscal position and potential shocks to that position.** Box 2 looks at the ten countries that experienced the largest unexpected increases in general government gross debt as a share of GDP between 2007 and 2010 and identifies the factors that contributed to that deterioration. It finds that:

⁸ Legal provisions obliging governments to ensure that all budget documents are based on the most up-to-date information about macroeconomic conditions and the cost of government policies.

- **23 percent of the increase was due to incomplete information about the government's underlying fiscal position.** In particular, a lack of timely and reliable data about the government's deficit and debt contributed to a collapse in market confidence in Greece and Portugal. Hidden or implicit obligations to public corporations and public-private partnerships (PPPs) outside the general government perimeter rebounded on the government finances when the crisis struck in Greece, Germany, Iceland, Portugal, and the US. In Greece, Portugal, and Spain, governments' cash-based budgeting, accounting, and reporting systems failed to capture and control expenditure commitments, resulting in an accumulation of payment arrears before and during the crisis;
- **37 percent of the increase was due to an underestimation of the likelihood and scale of shocks to the government's fiscal position.** In particular, the fiscal impact of the unexpected fall in output was an important factor in all countries and the principal reason for the unexpected surge in government liabilities in five. Emergency support to troubled financial institutions was the second largest shock overall and the largest source of fiscal risk in Germany, Iceland, the Netherlands, and the UK. While a number of countries modeled alternative fiscal scenarios before the crisis, none envisaged such a large and sustained fall in output or recognized the scale of their implicit exposure to the private financial and housing sectors;⁹
- **18 percent of the increase was attributable to discretionary policy measures introduced in the wake of the crisis.** Their net impact varied across countries depending on whether their overall aim was to stimulate the economy (France, Germany, Netherlands, Portugal, Spain, the UK, and the US) or consolidate the fiscal position (Greece, Iceland, and Ireland); and
- **the remaining 22 percent of the increase was due to other factors.**

⁹ Indeed, it is unlikely that any of the standard fiscal risk assessments conducted before 2007 which focused on modeling shocks of one or two standard deviations would have caught the magnitude of the exposure to risks. Nevertheless, more analysis of macroeconomic and financial sector risks would have at least highlighted some of the exposure to shocks and the channels through which they would play out and, in any case, would be useful in case of more ordinary shocks.

Box 2. Sources of Fiscal Shocks during the Crisis

For the ten countries that experienced the largest unanticipated increase in general government gross debt between 2007 and 2010, the table below decomposes the unforecast increase into three main factors:

- **an incomplete understanding of the country's underlying fiscal position** on the eve of the crisis as revealed by (a) revisions in the general government deficit and debt in 2007, (b) revisions due to the inclusion of hidden or implicit obligations to public corporations, PPPs, and other public entities that were previously outside the general government perimeter, and (c) cash-to-accrual accounting adjustments to capture arrears and other net payables that were not captured in initial cash-based forecasts of revenue and expenditure;
- **an insufficient appreciation of the scale and likelihood of exogenous shocks to the government's fiscal position** including (d) unexpected changes in macroeconomic conditions (including output, interest payments, and the exchange rate), and (e) crystallization of implicit contingent liabilities to the financial sector; and
- **endogenous shocks to the government's fiscal position** in the form of (f) unforecast policy measures either to stimulate output or consolidate the fiscal position in the wake of the crisis.

Sources of Unanticipated Increases in General Government Debt between 2007 and 2010
(percent of 2010 GDP)

	Fra	Ger [†]	Neth	Spn	Port	UK	US	Grc	Ire	Ice	Weighted Ave [*]
2007 FORECAST FOR 2010 GROSS DEBT	62.4	59.8	39.4	31.2	61.2	42.5	64.2	73.2	23.4	28.5	58.8
Underlying fiscal position (a+b+c)	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 and debt (a)	1.7	1.8	-0.9	-0.1	0.1	1.5	7.1	2.5	1.6	4.0	4.7
Changes to the general government perimeter (b) [‡]	-0.7	1.4	-0.2	0.6	9.4	1.9	0.9	11.2	-0.1	2.5	1.1
Cash to accrual adjustments (c)	0.7	0.0	-1.3	1.3	1.7	0.3	0.0	2.6	-0.2	4.5	0.2
Exogenous shocks (d+e)	8.4	12.8	14.2	15.4	8.1	17.0	6.3	40.0	60.2	39.5	9.8
Macroeconomic factors (d), of which:	8.3	4.7	5.2	13.0	4.4	8.9	3.8	38.4	35.7	-3.3	6.0
<i>Output shock</i>	7.8	6.3	6.3	13.9	4.4	8.3	5.2	34.6	30.3	-18.8	6.9
<i>Interest payments</i>	0.5	-1.6	-1.1	-0.9	-0.2	0.6	-1.4	3.8	5.4	3.5	-0.9
<i>Exchange rate</i>	0.0	0.0	0.0	0.0	0.2	0.0	0.0	0.0	0.0	12.0	0.0
Financial sector interventions (e)	0.0	8.1	9.0	2.5	3.6	8.1	2.5	1.6	24.5	42.8	3.8
Policy changes (f)	2.3	3.8	1.9	4.9	4.7	1.1	6.4	-8.0	-9.9	-4.3	4.7
Others factors (g)	2.1	-0.3	6.5	1.9	3.7	6.2	8.3	-6.7	7.5	21.6	5.9
HIGHER THAN EXPECTED DEBT (a+b+c+d+e+f+g)	14.4	19.5	20.2	24.0	27.8	28.0	29.1	41.7	59.1	67.7	26.4
LOWER THAN EXPECTED GDP (h)**	5.5	3.9	3.3	6.0	4.4	4.6	5.3	27.9	9.9	-3.5	5.4
INCREASE IN DEBT/GDP RATIO (a+b+c+d+e+f+g+h)	20.0	23.4	23.5	30.0	32.2	32.6	34.3	69.6	69.1	64.3	31.8
ACTUAL 2010 GROSS DEBT	82.4	83.2	62.9	61.2	93.4	75.1	98.5	142.8	92.5	92.8	90.6

* GDP PPP weighted average.

† Includes reclassifications of public corporations, PPPs, public banks and conservatorship of Government Sponsored Enterprises.

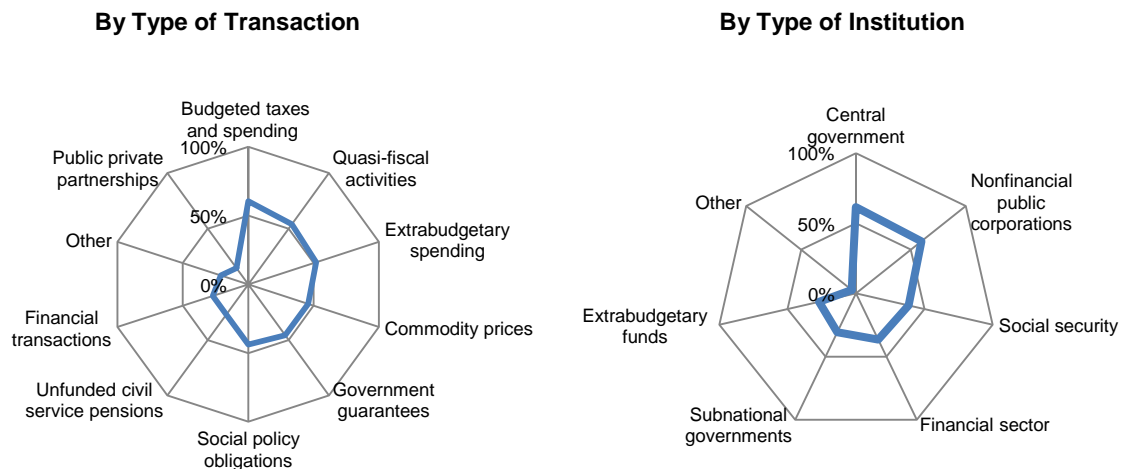
‡ Changes to the GG perimeter and financial sector intervention include the estimated impact of liabilities transferred to newly created government sector entities, taking into account operations from the central and subnational governments. As public debt is a gross concept, this neglects the simultaneous increase in government assets. Taking this into account, net debt effect amounted to 1.4 percent of GDP, which was recorded as a deficit. The EU Commission has assessed the aid element of these transfers at about 0.8 percent of GDP.

** The increase in the debt to GDP ratio owing to the GDP forecast error of the denominator, rather than higher nominal debt.

Source: Staff estimates, WEO, Eurostat, Article IV reports, IMF Fiscal Monitor and country budget documents.

9. **These findings about the sources of fiscal risks are supported by a broader survey of the perceptions of IMF staff.** The survey conducted in early 2012 asked Fiscal Affairs Department (FAD) country economists working on 48 countries to identify the nature and sources of the main fiscal risks facing their countries. The results of the survey, summarized in Figure 2 and Appendix I, found that, in terms of transactions, macroeconomic shocks to budgeted revenue and spending are the most common source of fiscal risks in all regions. These are followed by quasi-fiscal activities, extrabudgetary spending, government guarantees, and social security obligations. On the institutional sources of those risks, public corporations were seen to pose almost as great a risk as shocks to the central government budget, followed by social security institutions, the financial sector, and subnational governments.

Figure 2. Sources of Fiscal Risk by Institution and Transaction
(FAD Economist Survey Results)



Note: Data refer to the portion of sampled countries (n=48) for which a given transaction or institution was indicated to be a source of significant fiscal risk.

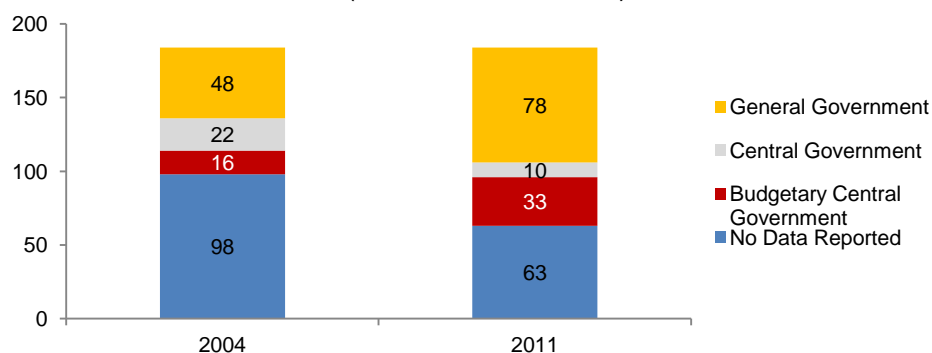
IV. STRENGTHENING FISCAL TRANSPARENCY STANDARDS AND PRACTICES

10. **To help policymakers and citizens to understand and address these sources of fiscal risk, fiscal transparency standards and practices need to improve along several dimensions:** (a) more complete coverage of public sector institutions; (b) more comprehensive reporting of assets and liabilities; (c) recognition of a broader range of transactions and other economic flows; (c) more frequent and timely fiscal reporting; (e) more rigorous approach to fiscal forecasting and risk analysis; and (f) alignment of standards for budgets, statistics, and accounts. This section considers the implications of these reform priorities for current fiscal transparency standards and practices.

A. Coverage of Public Institutions

11. For over a decade, international and regional statistical standards have focused on expanding the scope of fiscal reporting to encompass the general government. The IMF's *GFSM 2001*, EU's ESA95, and the UN's 2008 SNA all emphasize the consolidated general government as the relevant unit for fiscal policy-making and statistical reporting on fiscal developments. General government consists of all entities that are controlled by central, state, or local government or social security funds and are engaged primarily in non-market activity.¹⁰ Significant progress has been made since the 1990s in expanding the institutional coverage of fiscal reports to encompass general government, especially in Europe and Latin America (Figure 3). Moreover, a number of Latin American countries including Brazil, Colombia, Costa Rica, Honduras, Panama, Peru, and Uruguay prepare data for the nonfinancial public sector which consolidates the general government with all nonfinancial public corporations.¹¹ A handful of advanced countries including Australia, Iceland, and the UK publish fiscal statistics covering the entire public sector, which consolidate the general government with all nonfinancial and financial public corporations (including the central bank).¹²

Figure 3. Institutional Coverage of Government Finance Statistics
(Number of countries)



Source: *Government Financial Statistics Yearbook (GFSY)*, 2004 and 2011.

Note: Data reported to and published by the IMF are not necessarily the same as data published in the country or used in domestic fiscal analysis. For the purpose of this graph, reporting is defined as reporting of revenue.

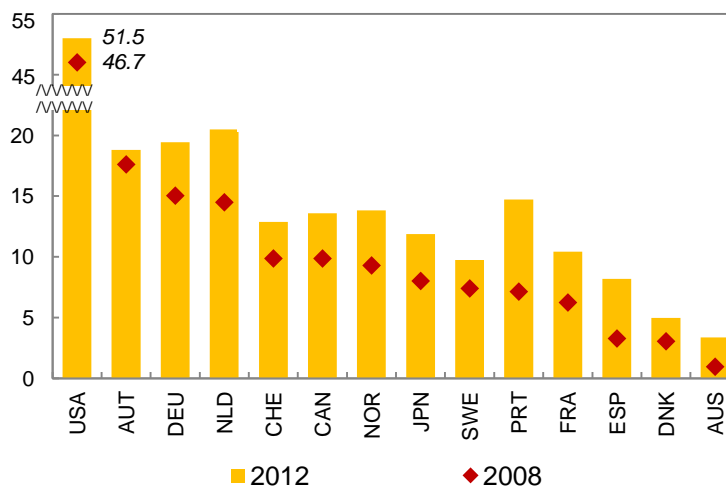
¹⁰ International statistical and accounting standards define government control in broadly similar terms, as the authority and capacity to direct the policies or activities of another entity when the results of such direction can generate financial or other benefits for the government or expose it to a financial burden or loss. Under 2008 SNA, indicators of control include ownership of majority voting interest or “golden share,” the power to appoint the majority of the board of directors, or the power to dissolve an entity.

¹¹ Fiscal statistics in Brazil, Honduras, and Uruguay consolidate not only all nonfinancial public corporations but also the central bank.

¹² Since January 2011, the UK's public sector financial statistics have also included the private financial institutions acquired by the government in the wake of the crisis. However, these recently acquired financial institutions are excluded from the public sector fiscal aggregates targeted for fiscal policy purposes.

12. **However, in most countries there is a range of public entities outside the general government whose activities can and do have fiscal implications.** These comprise non-financial corporations and financial public corporations (including the central bank). Despite the large scale privatizations since the 1980s, government-owned or controlled corporations continue to account for a significant share of economic activity even in advanced economies. The outstanding debt of government-related enterprises (excluding the central bank) in 14 advanced countries amounted to US\$8.4 trillion or 25 percent of their aggregate GDP in 2008 and has risen to US\$10.6 trillion or 29.5 percent of aggregate GDP (Figure 4) since the crisis ([IMF, 2012a](#)).

Figure 4. Outstanding Debt of Government-Related Enterprises^{1/}
(Percent of GDP)



Source: IMF (2012) *Fiscal Monitor—Balancing Fiscal Policy Risks*.

^{1/} Bonds issued by government-owned or government-related financial and nonfinancial institutions, subject to data availability. For the United States, it includes mortgage-backed securities and other guarantees of government sponsored enterprises.

13. **Public corporations need to be part of any comprehensive analysis of public finances since their debts are often implicitly or explicitly government-guaranteed.** This was apparent from fiscal crises in Latin America in the 1980s, but was revealed again in the run-up to the sovereign debt crisis in Europe, where the Stability and Growth Pact's (SGP) focus on general government deficit and debt created incentives for governments to shift fiscal activity into public corporations (see Box 3). In the USA, the classification of Fannie Mae and Freddie Mac as Government Sponsored Enterprises (GSE) outside the federal government's accounts made them attractive means of delivering quasi-fiscal support to the mortgage market without increasing the federal government's reported gross debt ([IMF, 2003](#)). The crystallization of the federal government's implicit guarantee to Fannie Mae and Freddie Mac in 2008 increased the federal deficit by US\$291 billion (2 percent of GDP) and

gave rise to cumulative commitments of around \$100 billion over the following decade.¹³ In the United Arab Emirates, the financial rescue of Dubai by neighboring Abu Dhabi was due in part to the unsustainable accumulation of liabilities by government-related enterprises, such as Dubai World, which had accumulated as of January 2010 US\$86 billion (79 percent of GDP) in debt compared with just US\$24 billion (21 percent of GDP) owed by the government of Dubai.¹⁴

Box 3. Defining the Public Realm: Problems at the Border

Subjecting government finances to intense scrutiny inevitably creates problems at the frontier between the government and the rest of the economy. If the central government budget is put under the microscope, the government will be tempted to move spending off-budget. If attention switches to the whole of general government, it will be tempted to shift spending to public corporations. In Europe, for example, fiscal rules apply to the deficit and debt of the general government, and the test that Eurostat applies to determine when a public entity is in the general government is whether at least 50 percent of its costs are covered by market sales.^{1/} There is thus an incentive to shift spending to public corporations whose commercial activities currently cover more than 50 percent of their costs. Such cost shifting undermines the quality of fiscal statistics, reduces the effectiveness of fiscal rules, and undermines the financial performance of public corporations.

Eurostat and national statistical agencies often detect such problems and reclassify the corporations into the general government. This improves the accuracy of the statistics and the effectiveness of the rules, but it can also create problems for fiscal management by causing large, unexpected, and retrospective changes in fiscal data that bear only a loose connection to changes in fiscal reality. In 2009, for example, it was decided that Irish Rail should be reclassified into general government—with effect from 2006. In Spain, consideration of the appropriate classification of public corporations happens only every five years, so quasi-fiscal activities of public corporations can go undetected for years and reclassifications can change years of data retrospectively.^{2/}

These particular problems would be solved if the scope of fiscal analysis were extended to the public sector, which includes all corporations that government can control (and therefore direct to spend or borrow). Of course, more intensive scrutiny of the finances of the public sector would lead to disputes at the boundary between the public and private sectors, and tempt governments to create entities over which the government's influence fell just short of the operational definition of control, or to impose heavier regulatory burdens on private firms. The public sector boundary could, however, prove more stable than that of the general government, since, for example, private firms have stronger incentives than public corporations to resist interference in their operations and, unlike government, are typically obliged to apply international accounting standards which, among other things, require them to be clear about the entities that *they* control.

1/ See Eurostat (2011c).

2/ See Eurostat (2011a and b).

14. Central banks can also be a source of significant quasi-fiscal activity (QFA) in the wider public sector. In the 1980s and 1990s, the QFA of central banks in some

¹³ The US\$291 billion increase in the deficit is the Congressional Budget Office's (CBO) estimate of the net present value of anticipated cash flows. (CBO, 2009).

¹⁴ See [IMF \(2010c\)](#). Figures in parentheses are as a percent of Dubai and northern emirates GDP.

emerging and developing economies contributed to significant and unexpected deteriorations in the overall financial position of the public sector. These QFAs took the form of subsidized lending, multiple exchange rate practices, or purchases of troubled assets. While central bank profits or losses from conventional monetary policy operations seldom exceed a few percent of GDP, the public sector losses from QFAs have ranged from 5 percent of GDP in Jamaica in the early 1990s to 29 percent of GDP in Zimbabwe in 2006.¹⁵ By contrast, the net public sector impact of central banks' interventions in the wake of the recent crisis has been more complex, as discussed in Box 4.

15. The transparency of central bank activities would be enhanced if they prepared their financial statements in accordance with international standards. Central banks tend to have more advanced accounting and reporting than governments, with many following accrual accounting and preparing their financial statements in accordance with international standards such as IFRS. However, some central banks depart from those standards when they consider such departures justified. For example, some central banks consider certain disclosure requirements in respect of contingent liabilities to be inappropriate to their function when acting as lender of last resort. Central banks also adopt valuation bases for particular financial assets that differ from those specified by the relevant standards. Finally, some central banks do not publish a cash flow statement because they consider such a statement to be of limited relevance to their stakeholders. Such practices can impair the transparency of the whole-of-government financial statements that consolidate the financial statements of the central bank. When material, such departures from the standards may also lead to the whole-of-government financial statements failing to receive an unqualified audit opinion. Central banks should therefore be encouraged to follow internationally recognized standards in full, though (as discussed in paragraph 17) some supplementary information may also be required to allow for consolidation with public sector accounts.

16. Broadening the institutional coverage of fiscal analysis would improve understanding of fiscal risks and reduce the temptation for governments to use public corporations as vehicles for QFA. While general government remains an appropriate focus for fiscal rules and targets in most countries, fiscal data for the general government and its sub-sectors should be complemented by publication of comparable data on other parts of the public sector, including nonfinancial public corporations, and financial public corporations, (including the central bank). As understanding of the financial relationship between the general government and the wider public sector improves, governments should aim to publish consolidated fiscal data for the nonfinancial public sector and for the public sector as a whole. The Statistics Department's (STA) 2008 Guide on Consolidation of Nonfinancial Public Sector Statistics¹⁶ and a forthcoming FAD technical note on the financial oversight of

¹⁵ See [Dalton and Dziobek \(2005\)](#); [Mackenzie and Stella \(1996\)](#); and [IMF \(2010d\)](#).

¹⁶ [Wickens, 2008](#).

public corporations will provide operational guidance to countries on how to broaden the scope of their fiscal reporting and oversight.

17. **There are significant challenges, however, in evaluating the financial position of the whole public sector.** Many of these arise due to conceptual and practical differences between the accounting used by national governments and public corporations:¹⁷

- public corporations that use commercial accounting do not typically regard investment in fixed assets as a cost (as it creates a corresponding asset on their balance sheet), while most governments treat capital expenditure as a cost as it increases their primary measure of the deficit (net borrowing);
- revenues from the voluntary commercial activities of public corporations are conceptually different from those that governments derive from compulsory taxation, therefore simply adding the two together would overstate the tax burden;
- consolidation of public corporations' gross liabilities with those of the general government could overstate the financial vulnerability of the public sector as the liabilities of public corporations are typically matched by commercial assets; and
- consolidating the central bank with the rest of the public sector requires a different treatment of the former's monetary liabilities, as the issuance of base money generally does not give rise to a fiscal imbalance.

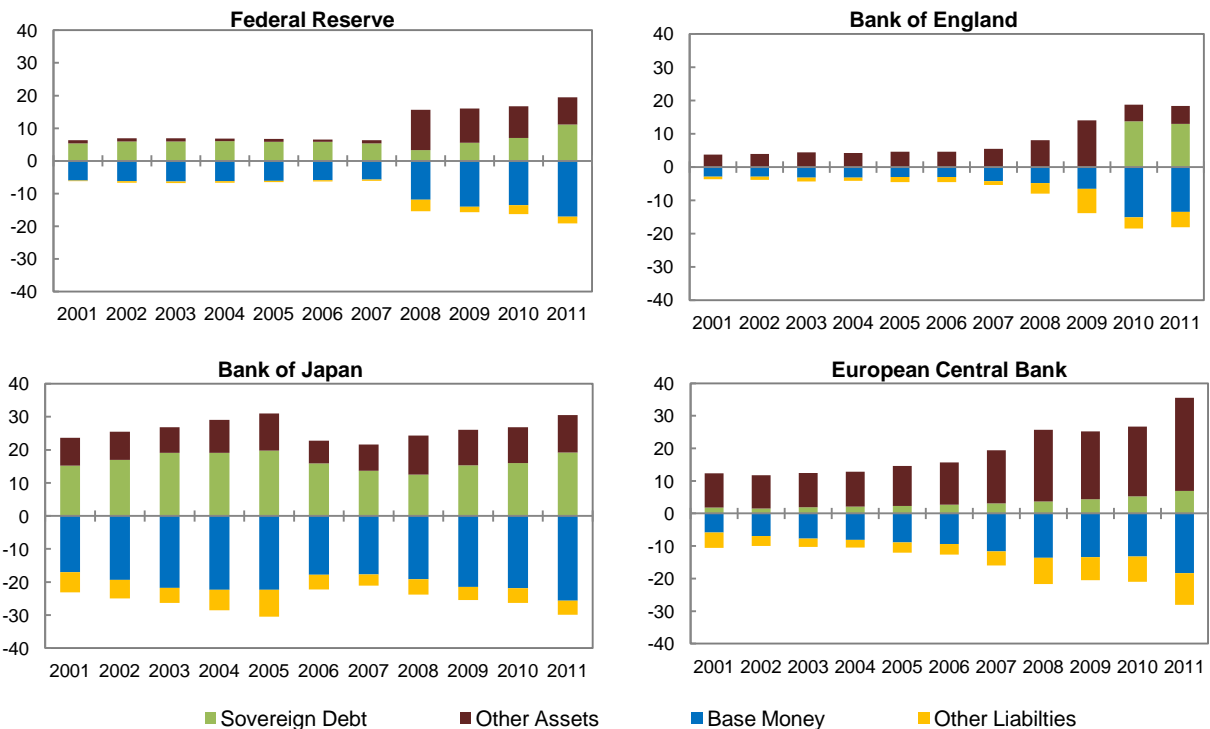
¹⁷ A number of these conceptual differences (especially around treatment of investment and consolidation of liabilities) would be eliminated if governments implemented accrual-based reporting standards such as *GFSM 2001* and IPSAS which focus on the operating balance as the principal measure of the government's financial performance and the overall net worth as the principal measure of the government's financial position.

Box 4. Central Banks and Financial Sector Interventions

Since the start of the financial crisis in 2008, central bank balance sheets have expanded significantly in many advanced economies. Between 2007 and 2011, the liabilities of the European Central Bank doubled, and those of the Federal Reserve and Bank of England more than tripled in size. By the end of 2011, these central banks' assets and liabilities accounted for between 15 and 30 percent of GDP. This expansion has been due to stepped up direct and indirect purchases of sovereign debt and other assets (such as mortgage-backed securities) from private banks.

As shown in the figure below, these asset purchases have been primarily funded through increases in base money (quantitative easing) to meet high levels of financial market demand for liquidity. This increase in base money has accounted for around half of the increase in the European Central Bank's liabilities, three quarters for the Federal Reserve and Bank of England, and over 90 percent for the Bank of Japan.

Central Bank Assets and Liabilities in USA, UK, Japan, the Euro Area, 2001-11
(percent of GDP)



Sources: Federal Reserve, ECB, Bank of Japan and Bank of England annual reports, IMF International Finance Statistics

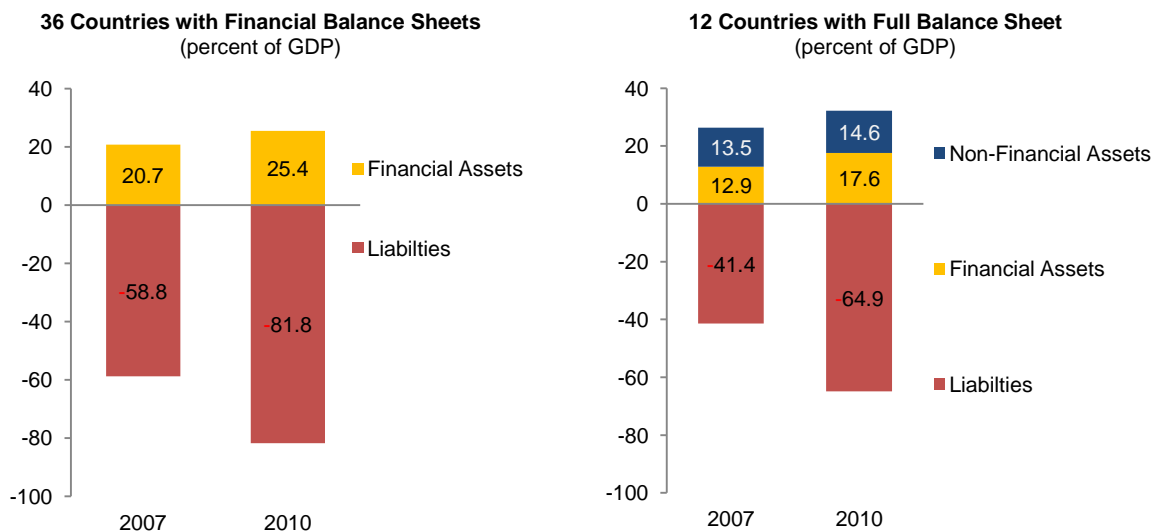
The net impact of this expansion of central bank balance sheets on the public finances as a whole has been positive in the short term. This near-term benefit comes primarily in the form of seigniorage revenues generated from quantitative easing which has increased from less than ½ percent of GDP per year before the crisis to over 2 percent of GDP per year since 2008 across selected advanced countries. Increased central bank purchases of sovereign debt have also flattered the overall public sector financial position by reducing its net liabilities to the private sector and helping to keep sovereign borrowing costs low.

However, the long-term fiscal impact of these interventions is more uncertain. As real money demand returns to normal so will “pure” (i.e., non-inflationary) revenues from seigniorage. Central banks may also find it difficult to wind down their sizable asset holdings at a profit, especially if (i) the quality of those assets has been impaired in the interim; (ii) government financing requirements remain high; or (iii) future interest rate rises reduce the market value of fixed-rate instruments. In a worst case scenario for the public sector as a whole, losses incurred by the central bank on its asset holdings could create a need for a capital injection from the government to recapitalize the central bank.

B. Reporting of Assets and Liabilities

18. **Even before the current crisis, governments held significant stocks of financial and nonfinancial assets and liabilities.** In 2007, the 36 governments that produced financial balance sheets reported holdings of financial assets of 21 percent of GDP on average with shares and other equity and currency and deposits accounting for the largest instruments in their financial portfolios. In some countries, especially those that have built up large sovereign wealth funds, government holdings of financial assets can be two or more times GDP. The 12 governments that produce full balance sheets reported holdings of nonfinancial assets of 14 percent of GDP on average with buildings and land being the largest share of the total. However, in countries with large natural resource endowments, governments' nonfinancial assets can also be many multiples of GDP.

Figure 5. Evolution of Government Balance Sheets (2007–10)

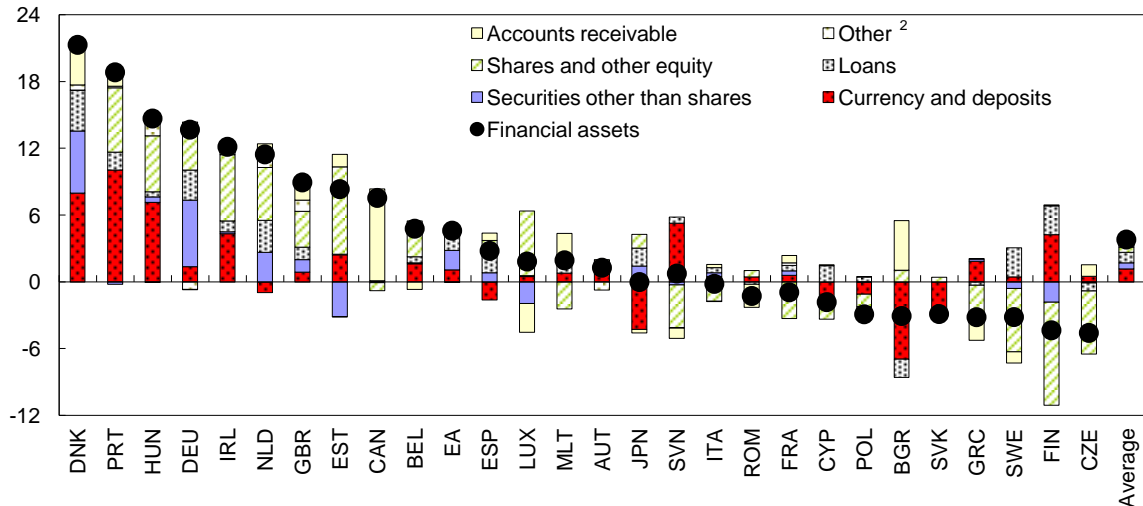


Source: *GFSY 2007; GFSY 2010*.

19. **The crisis has seen an expansion and diversification of government assets and liabilities, especially in advanced economies.** As shown in Figure 5, government holdings of financial assets have increased by around 4 to 5 percent of GDP on average while liabilities have increased by more than 20 percent of GDP since 2007. The increase has been most dramatic in those countries whose governments have extended large-scale financial support to distressed banks and financial institutions to provide liquidity, maintain confidence, and stimulate economic activity. As a result, governments acquired significant new financial assets (such as shares in financial institutions) and assumed new liabilities and contingent liabilities (such as guarantees over particular classes of privately held assets). As shown in Figure 6, around 30 percent of the increase in government holdings of financial assets since 2007 was from acquisition of currency and deposits, 25 percent each from acquisitions of loans and securities, and the remainder from accounts receivable and other

financial assets. The challenges of accounting for these interventions are discussed in Box 5 and below.

Figure 6. Change in General Government Financial Assets 2007–11Q3^{1/}
(Percent of GDP)



Sources: IMF, *Fiscal Monitor*, April 2012.

Note: EA: euro area.

^{1/} For France, Germany, and Japan, data as of 2010. For all other countries, stock as of end of third quarter of 2011 in percent of 2011 GDP.

^{2/} Includes monetary gold and Special Drawing Rights, financial derivatives, and insurance technical reserves.

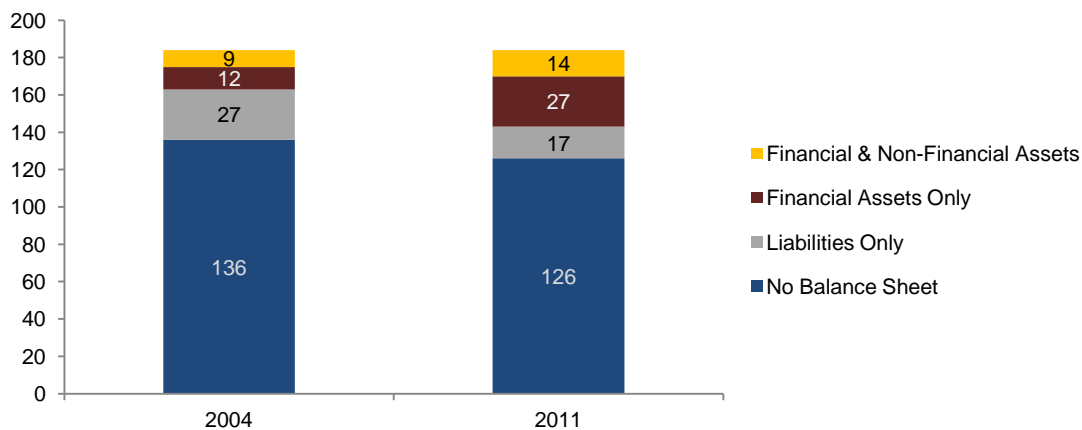
Box 5. Accounting for Government Interventions in the Financial Sector

The scale, variety, and complexity of government interventions in the financial sector in response to the current crisis pose challenges for financial reporting standards and practices. Key challenges include:

- Coverage of financial statements:** Many of the financial interventions have been undertaken by the central bank or a special purpose vehicle which are generally not consolidated with the government's own financial statements. Furthermore, even where the interventions result in the government acquiring a majority stake and managerial control over an entity, that entity may not be consolidated. This has made it difficult to assess the net impact of the crisis on the public sector balance sheet.
- Valuation of assets and liabilities and gains and losses:** While most governments that report on an accrual basis value the assets and liabilities acquired as a result of their interventions on a basis that approximate their fair value or recoverable amount, the treatment of subsequent gains and losses in the value of those assets vary from non-recognition to full recognition and inclusion in the measure of the government's surplus or deficit. Other governments that report on a cash basis may not report the assets and liabilities at all or recognize any valuation gains and losses.
- Information on contingent liabilities:** While many countries disclose the size of the government's guarantees and other contingent liabilities to financial institutions in some manner, very few recognize provisions for amounts that may be payable under these arrangements.

20. **While reporting standards call for the provision of balance sheets, relatively few governments can fully account for their overall financial position.** Both *GFSM 2001* and IPSAS call for government financial statements to include comprehensive balance sheets reporting the value of government financial and nonfinancial assets and liabilities.¹⁸ As shown in Figure 7, over the past six years, the number of countries reporting data on financial assets and liabilities to the IMF has increased from 21 in 2004 to 41 in 2011, including almost all countries in the EU. However, the vast majority of countries continue to provide no comprehensive data on their financial assets and liabilities which makes it difficult to judge their overall net financial worth.

Figure 7. Reporting of Assets and Liabilities
(Number of countries)



Source: *GFSY 2004*; *GFSY 2011*.

Note: To eliminate complications from late reporting, data captures the assets and liabilities published two years prior to indicated year. Data reported to the IMF are not necessarily the same as data published in the country or used in domestic fiscal analysis.

21. **Even less progress has been made in the disclosure of information about the value of nonfinancial assets.** Between 2004 and 2011, the number of countries that were able to provide the IMF with comprehensive balance sheets including both financial and nonfinancial assets and liabilities and an overall picture of government net worth increased from 9 to 14. For many countries, one of their most valuable nonfinancial assets is a subsoil mineral resource such as oil, gas, diamonds, or precious or industrial metals. However, only 13 countries reported data on the stock and depletion of naturally occurring assets to the Fund despite there being 47 countries which rely on the exploitation of such assets for over half of their export revenue [IMF \(2011d\)](#). The limited reporting of subsoil assets is partly a reflection of the complexities associated with assessing the market value of such assets which requires estimates of the size of subsoil reserves, the time and cost profile of extraction, and the path of future prices for the commodity. However, progress is being made in developing

¹⁸ [IMF \(2011e\)](#) provides detailed guidance on the measurement of debt.

appropriate reporting requirements on this topic—the US federal government is now required to report estimated royalties from the production of federal oil and gas proven reserves as supplementary information, and a proposal to develop an international public sector standard in this area is under active consideration.

22. **Fully accounting for the fiscal implications of government’s crisis-related interventions requires not only comprehensive balance sheet data but also a more sophisticated approach to the treatment of contingent liabilities.** Much of the public support extended to crisis-hit financial institutions, businesses, and households was in the form of government guarantees over their assets or liabilities. As shown in Figure 8, the stock of government-guaranteed bonds issued by private and public financial institutions has increased more than ten-fold since the crisis from US\$120 billion in 2008 to US\$1.4 trillion in 2012. Current statistical standards do not allow for the recognition of most guarantees or other contingent liabilities or related provisions on the government balance sheet unless and until they have been called or crystallized.¹⁹ While IPSAS requires the recognition of financial guarantee contracts at fair value, provisions related to other contingent liabilities are only recognized when payment is deemed to be probable (i.e., more than 50 percent likely).²⁰ This creates a strong temptation for governments to class these liabilities as just on the unlikely side of “probable” pending any review by their external auditors. As governments seek to consolidate their fiscal positions, they will also be tempted to offer further assistance to the private sector in the form of guarantees instead of subsidies or direct lending. For example, since March 2012 the UK government announced new government guarantees of £20 billion (1.3 percent of GDP) to encourage a resumption of commercial bank lending to small businesses and a further £50bn (3.2 percent of GDP) to promote private investment in infrastructure and exports.²¹

23. **Fully reflecting the impact of governments’ crisis-related financial interventions in public fiscal reports also requires a reconsideration of the treatment of bad and doubtful debts.** As their portfolios of loans and guarantees to the private sector have grown, governments have become more exposed to credit risk on these instruments. Accounting standards require the recognition of any change in the likelihood of repayment on these items as an expense. However, under statistical standards, bad debts written off are recognized as other economic flows and provisions for doubtful debts are not recognized but only disclosed as memorandum items. Although efforts to harmonize statistical and accounting standards

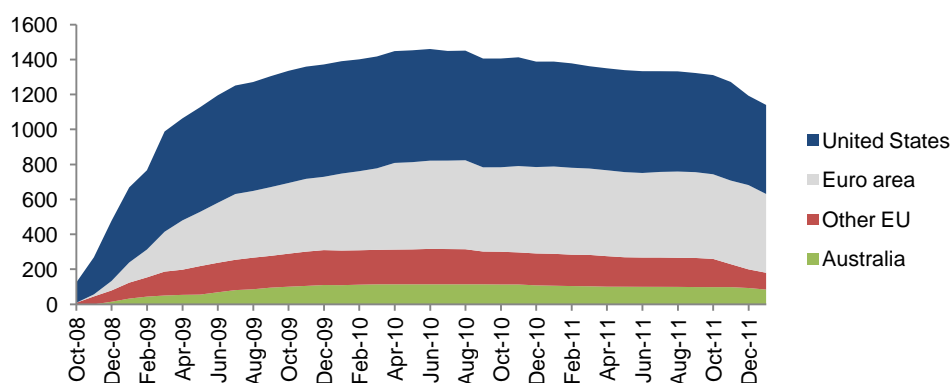
¹⁹ *GFSM 2001* does require outstanding contingent liabilities to be disclosed as memorandum items to the balance sheet.

²⁰ Even when the expected value is not recognized in accounts, IPSAS does require relevant information about the size, nature, and beneficiary of the guarantee to be disclosed in the notes to the accounts.

²¹ HM Treasury, National Loan Guarantee Scheme (<http://www.hm-treasury.gov.uk/nlgs.htm>) and “UK Guarantees,” Written Ministerial Statement by Lord Sassoon (July 18, 2012).

are ongoing, full harmonization may not be achievable given the different objectives of these frameworks. Specifically, under statistical standards provisions for contingent liabilities or doubtful debts are not recognized mainly because recognizing provisions in the financial accounts of the government as the guarantor or creditor, but not in those of the recipient of the guarantee or the debtor, would result in asymmetrical treatment and is contrary to the fundamental concept of balance being maintained in the national accounts statistics for the economy as a whole. On the other hand, the need to reflect the fiscal position of the government in a true and fair manner requires the recognition of these items. An option to bridge this gap would involve the inclusion of supplementary information on these items and multiple summary aggregates in statistical reports.

Figure 8. Outstanding Government-Guaranteed Bonds
(US\$ billions)



Sources: Dealogic; and IMF staff estimates.

Note: State guarantees on bonds issued by private and public banks, and financial institutions. Short-term debt is not included. Countries included in the sample are: Australia, Austria, Belgium, Denmark, France, Germany, Greece, Ireland, Luxembourg, the Netherlands, Portugal, Slovenia, Spain, Sweden, the United Kingdom, and the United States. Data for Greece has not been updated since July 2011.

24. **In summary, providing a more comprehensive picture of overall sovereign net worth requires international reporting standards to capture a broader range of direct and contingent assets and liabilities.** In particular, there is a case for:

- supplementing existing statistical and accounting standards with guidance regarding the recognition of subsoil assets in the face of uncertainty or incomplete information about their value;
- requiring recognition of provisions in respect of a broader range of contingent liabilities in accounts and supplementary summary statistics provided that the amounts can be reliably valued. These contingent liabilities should be valued at their market, fair, or expected present value, taking into account the probability of the liability being called and the amount and timing of any resulting payments, unless there is a clear moral hazard case for non-recognition; and

- presenting multiple aggregates in fiscal statistics to supplement the information provided in accordance with existing statistical standards. In particular, if *GFSM 2001* cannot be revised in the short to medium term to recognize provisions for contingent liabilities and doubtful debts, these could be incorporated, for analytical purposes, in a fiscal balance that supplements the conventional aggregates such as net lending/borrowing.

C. Accounting for Transactions and Other Economic Flows

25. **Fiscal pressures can also prompt some governments to design specific transactions that artificially reduce their publicly reported deficits or debt.** For example, several European governments, including Portugal and France, have reduced their headline deficits by taking over the pension schemes of public or private corporations, thus counting the receipt of the pension scheme assets as revenue (Koen and van den Noord, 2005). This is possible because, while the governments' obligations to make future pension payments have a real cost, this is not counted as a liability in the fiscal statistics underlying Europe's fiscal rules. In other countries, such as Spain, subnational governments sought to sell and simultaneously lease back government office buildings.

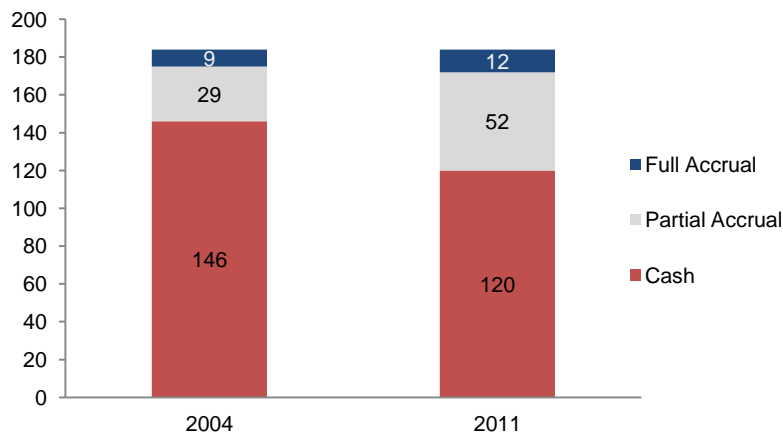
26. **The scope for manipulating the timing of reported transactions to report a lower deficit is partly an artifact of the predominance of cash accounting.** Cash deficits can be reduced simply by deferring the disbursement of cash, for example, by not paying bills on time as occurred in Greece, Portugal, and at the subnational level in Spain. *GFSM 2001*, ESA95 and IPSAS try to address this problem by requiring revenue and expenditure to be recorded at the point at which value is transferred rather than when the actual payment is made, which means that postponing payment does not affect the deficit. As shown in Figure 9, over the past seven years the number of countries reporting data to the IMF on a partial or full accrual basis has increased from 38 to 64. However, most countries continue to record and report all government transactions solely on a cash basis.

27. **Derivative transactions are another important area where standards have been developed, but public reporting lags far behind.** *GFSM 2001* provides for the recognition of assets and liabilities in relation to swaps, futures, and other derivatives—contracts often used in debt management, for example, to hedge interest- and exchange-rate risks. IPSAS has similar requirements and also requires the disclosure of additional information about those derivatives. However, many governments do not yet comply with these standards, especially the requirements to recognize changes in the market values of derivative contracts after they have been entered into. Because derivative liabilities are not included in the Maastricht measure of debt, off-market swaps were sometimes used in Europe before the crisis to borrow money without reporting additional debt.²² Although the off-market-swap loophole

²² See, for example, Eurostat (2010).

has been closed, ordinary derivative liabilities are still excluded from the Maastricht measure of debt and are therefore subject to less scrutiny than other liabilities. This has created uncertainty about the total liabilities of governments that have used derivatives.

Figure 9. Basis for Reporting of Government Flows
(Number of countries)



Source: *GFSY 2004; GFSY 2011*.

Note: Partial accrual includes countries that report transactions and other economic flows on an accrual basis but do not prepare a full balance sheet. Full accrual includes countries that record transactions and other economic flows on an accrual basis and publish a full balance sheet.

28. **Action at the international, regional, and national level is required to accelerate the shift from cash to full accrual-based recording of transactions and to capture other economic flows in fiscal reports.** At the international level, standard-setters need to provide practical guidance on the sequencing of the adoption and implementation of accrual-based reporting standards, based on successful experiences in advanced and emerging economies. Building on its past advice in this area, FAD staff will prepare a guidance note on the operational steps involved in moving from cash to full accrual accounting.²³ Regional standard-setters such as Eurostat need to explore the scope for aligning treatment of accounts payable and derivative and other financial instruments with more comprehensive GFSM 2001 and IPSAS standards.²⁴ Finally, at the national level, governments need to upgrade their accounting systems and practices to record revenues and expenditures when value is transferred and capture other non-transactional economic flows. Such improvements are likely to be made only gradually as public financial management institutions, systems, and capacity are improved. In the process of moving to accrual-based fiscal reporting, it is

²³ This will build on the more general guidance offered in [Khan and Mayes \(2009\)](#).

²⁴ Eurostat is currently carrying out an assessment of the suitability of implementing IPSAS in EU member states (http://epp.eurostat.ec.europa.eu/portal/page/portal/public_consultations/consultations/ipsas).

important that countries retain a firm understanding of and controls over their underlying cash position, given the link to the government's liquidity requirements.

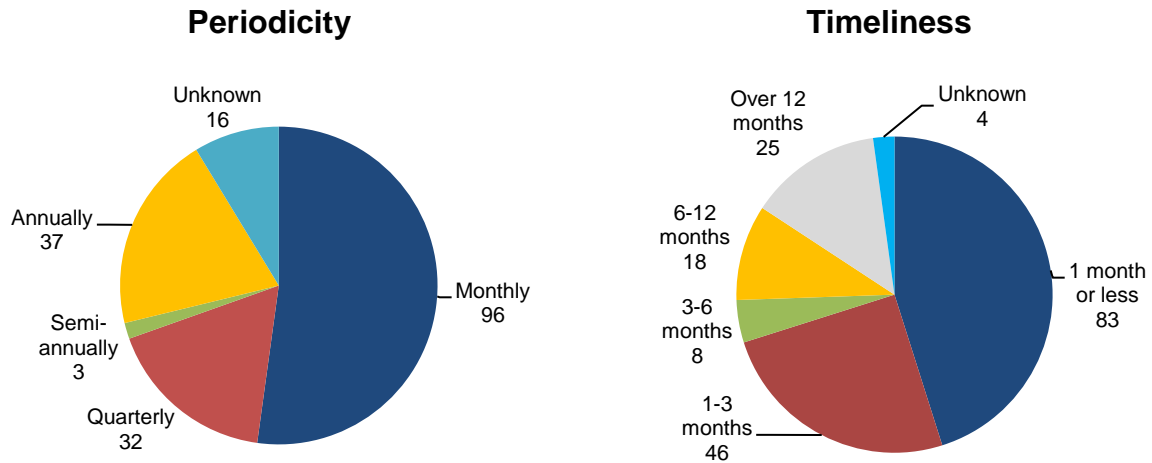
D. Frequency and Timeliness of Fiscal Reporting

29. **Lack of timely information about the current fiscal position can also be an important source of risks.** Fiscal strategies and budgets are typically prepared and approved before the start of the financial year to which they refer. Timely information about the state of the government finances for the current year is critical to establishing the baseline for fiscal settings. As shown in Figure 10, just over half of all countries currently publish consolidated fiscal reports for central government on a monthly basis, with the remainder reporting quarterly, semi-annually, or annually. In both Greece and Portugal, a lack of timely data about in-year fiscal developments contributed to substantial revisions to initial estimates of the general government debt and deficit in the current and previous fiscal years. These large ex post revisions rendered their fiscal adjustment plans out of date shortly after they were approved and undermined the credibility of the government's fiscal policy statements.

30. **While statistical reporting standards call for detailed quarterly general government fiscal reporting,²⁵ governments should consider publishing reports on a monthly basis.** Given reporting lags in the production of quarterly data, it is often the case that governments have only two observations of in-year fiscal developments before they present their fiscal plans and budgets for the next financial year. This is especially problematic for those countries with fiscal rules that relate past fiscal performance to future fiscal policy setting. As those fiscal rules increasingly apply to the consolidated general government, policymakers need more regular feedback on general government fiscal performance. Publishing provisional data on a monthly basis with a one-month lag would give governments between eight and ten observations before they submit their fiscal plans and budgets to their legislatures. While these provisional monthly data will doubtless be less detailed, more volatile, and subject to greater revision than quarterly statistical data, they can help to improve policymakers' and the public's understanding of in-year fiscal developments and patterns.

²⁵ Statistical standards require reporting of both transactions and positions.

Figure 10. Periodicity and Timeliness of Central Government Fiscal Reporting
(Number of countries)



Source: Special Data Dissemination Standards (SDDS) Database; General Data Dissemination Standards (GDDS) Database.

E. Fiscal Forecasting and Budget Planning

31. **While there has been a sustained effort to develop and disseminate standards for *retrospective* fiscal reporting, the same cannot be said for *prospective* fiscal reporting.**

There are currently no internationally accepted standards for the content and presentation of the budget and related documents. As a result, the methodology, construction, and time horizon of fiscal forecasts and budgets vary greatly across countries. The OECD's 2007–08 Survey of Budget Practices and Procedures in 97 countries found shortcomings in forecast:

- **methodology**, where only one-third of countries systematically distinguish the fiscal impact of current and new policies, making it difficult to hold government to account for the adequacy and implementation of discretionary tax and spending decisions;
- **construction**, where less than half of countries prepare disaggregated multi-year budget estimates, making it difficult to understand the distributional implications of fiscal policies or compare current fiscal plans with future annual budgets; and
- **horizon**, where three quarters of countries' fiscal forecasts now extend three-to-five years ahead, but less than one quarter routinely produce the kind of long-term fiscal projections (i.e., for 30 years or more), required to judge the sustainability and intergenerational fairness of current fiscal policies (OECD, 2007).

32. **In addition, most countries' fiscal forecasts are based on a single, central scenario with limited exploration of the implications of alternative assumptions.**

Improving understanding of the magnitude and likelihood of fiscal risks is critical to safeguarding government's future fiscal solvency. The Code and other fiscal transparency norms such as the OECD's Good Practices in Budget Transparency call on governments to include in their budget documentation both alternative macroeconomic and fiscal scenarios

and quantified statements of discrete fiscal risks such as guarantees, PPPs, and other contingent liabilities. However, even among advanced economies, less than half provide this kind of systematic exploration of the risks to their fiscal outlook (OECD, 2007).

33. **A new standard for fiscal forecasting could help to improve the quality and consistency of prospective fiscal reporting.** The standard would require fiscal forecasts to:

- cover a minimum time horizon and set of institutions;
- state the economic, demographic, and other assumptions underlying the fiscal projections;
- separately identify the impact of new policy measures and include all announced government policies in the “post-measures” forecast, even where those measures have yet to be legislated or implemented;
- provide a breakdown of revenue by main revenue heading and expenditure by economic category, ministry, and program where relevant;
- provide a reconciliation of material changes since the last fiscal forecast;
- analyze the distributional impact of government policies on households; and
- regularly include long-term fiscal projections based on a plausible range of forecast assumptions.

34. **The standard would also require disclosure and analysis of fiscal risks through:**

- provision of fiscal scenarios on the basis of various macroeconomic assumptions;
- a statement of discrete fiscal risks (such as natural disasters, guarantees, and other contingent liabilities) providing their maximum value, probability, and expected value wherever possible and an account of the mitigating actions being taken; and
- an account of how these risks have been taken into consideration in setting the overall fiscal stance.

F. Aligning Budgets, Statistics, and Accounts

35. **A final source of fiscal risk observed during the recent crisis is divergence in the reporting concepts used in ex ante budgets and ex post statistics and accounts.** For example, in the EU, member states typically prepare fiscal forecasts and budgets on a cash

basis²⁶ while the SGP limits on deficits and debts are on a modified accrual basis.²⁷ This makes the budget an imperfect instrument for meeting SGP targets ex post. For example, in Greece, Portugal, and Spain, lack of control over and accounting for payables and arrears to suppliers were a significant source of ex post revisions to fiscal deficits first reported to the European Commission. As discussed in Box 7, a desire to promote greater transparency and accountability at the national level has prompted a number of countries to align the reporting standards across budgets, statistics, and accounts.

Box 7. Aligning Accountability Documents in Australia, New Zealand, and the UK

In many countries, the various fiscal documents, such as budgets, appropriation acts, budget execution reports, financial statistics, and financial statements, are prepared on different bases, using different institutional coverage and accounting standards. This variation is due to the fact that they are often produced by different institutions for different purposes and constituencies and have therefore developed in different directions. However, this misalignment can make it difficult to assess and scrutinize how fiscal outcomes relate to the initial budget appropriations and whether these outcomes are in line with fiscal rules and strategies. In order to provide a coherent and consistent fiscal picture at all stages of the budget process, a number of countries have moved to harmonize or align the reporting basis across different accountability documents.

One of Australia's main ex post accountability documents is the Final Budget Outcome, which is published within three months of the end of the financial year. This document is prepared on the same basis as the budget and the mid-year update, and provides a direct comparison of the outcome to the budgeted amounts, both for the flows (revenues, expenditures and balances) as well as the stocks (net debt and net financial worth), with all major deviations explained. It also provides a direct comparison with the financial statements for the general government sector, as well as the nonfinancial and financial public corporations sectors. All fiscal information is based on common reporting standards, largely in line with *GFSM 2001*, although there are some departures from these standards when Australian Accounting Standards (mainly IFRS) are used. While this creates some differences to the statistical reports, these departures and their rationale are all disclosed.

New Zealand produces its audited annual report three months after the end of the financial year. This report provides a detailed comparison of budgeted amounts and outturns, as well as brief analysis of the major variations, and a description of the progress the government has made in implementing its fiscal strategy, as laid out in the (prebudget) fiscal strategy report. Budgets and forecasts are prepared on the same accounting basis (mainly IFRS) as accounts. Forecasts also comply with New Zealand accounting standard that, among other things, requires that forecasts be prepared using the accounting rules that will apply to retrospective reports and that assumptions be "reasonable and supportable," internally consistent, and published.

The UK has also been seeking to improve the consistency between ex ante and ex post financial reporting through its Alignment Project which aimed to produce a consistent set of budgets, statistics, and accounts by June 2012. The UK government previously prepared its budget on one basis, presented the expenditure estimates for parliamentary approval on another, and produced its end-of-year resource accounts on yet another basis. The result was a significant misalignment between the three accountability documents, which added up to around 4 percent of GDP. The Alignment Project has established a clear line of sight between the three accountability documents, reduced this discrepancy, and brought the various elements closer to IFRS.

²⁶ Among the 27 EU member states, only Denmark and the UK prepare budgets on an accrual basis. Austria will adopt accrual budgeting from 2013.

²⁷ Under the SGP, the deficit is measured on an accrual basis, except that the cost of acquiring a nonfinancial asset is recorded as expenditure in the year of acquisition rather than being spread over the life of the asset.

36. **Part of the above divergence can be attributed to differences in the reporting standards applied to the various accountability documents.**²⁸ The accountability problems created by these discrepancies have become increasingly apparent in the wake of the crisis, especially discrepancies in:

- **Institutional coverage.** Budgets typically cover those institutions specified as budgetary in the national constitution or organic budget law. Statistical standards focus on all institutions considered to be engaged in non-market activity, a group which is typically broader than just those entities included in the central government budget. Accounting standards also require the consolidation of all entities regarded as controlled by government, which is often an even broader group as it includes public corporations. This means that the financial institutions acquired by governments in the wake of the crisis would typically not be consolidated with the rest of government in budgets or statistics under applicable standards. Therefore, the fiscal implications of any changes in the financial position of these institutions for the wider public sector will only be fully captured in ex post accounts, if at all.
- **Recording of transactions.** Budgets are largely prepared on a cash basis, while accounts and statistics are increasingly being prepared on an accrual basis. In addition to the problem of expenditure arrears discussed above, this discrepancy can also lead to underprovisioning for the full, long-term costs of government decisions. For example, in the US, the federal government's cash-based budget outlays include an average of US\$128 billion of payments for pensions and other benefits for former federal employees, but do not include the additional US\$257 billion annual average increase in pension and other benefit liabilities, that stood at US\$5.8 trillion (38.2 percent of GDP) in 2011.²⁹
- **Treatment of balance sheet gains and losses.** Only a handful of countries require explicit provision in budgets for depreciation, impairments, or other changes in the value of assets and liabilities.³⁰ Those countries that have fully adopted *GFSM 2001* for fiscal statistics or *IPSAS* for the accounts should (and increasingly do) recognize gains and losses in government assets and liabilities in their final accounts and, under *IPSAS*, their reported fiscal balance. However, given the rapid expansion in public sector balance sheets in the wake of the crisis, governments need to be cognizant of

²⁸ The term accountability documents refer to fiscal strategy documents, the annual budget document, in-year and year-end fiscal statistics releases, and in-year and end-of-year accounts.

²⁹ See Office of Management and Budget (2012); and the US Treasury (2012).

³⁰ Australia, Iceland, New Zealand, and the United Kingdom.

these potentially large changes in the value of their newly acquired assets and liabilities when determining their long-term fiscal stance in the budget itself.³¹

37. International standard-setting bodies (such as the UN, IMF, Eurostat, and IPSASB) should work to harmonize reporting standards for budgets, statistics, and accounts. Guidance on the coverage of institutions needs to be aligned to encourage the broad and consistent coverage across financial accountability documents. Standards for fiscal forecasting need to include standards for the preparation of both cash and accrual budget forecasts, including forecast balance sheets, which give a clear picture of the government's financing needs while also being fully comparable with accrual-based fiscal statistics and final accounts. Treatment of contingent liabilities and valuation gains and losses should be more closely aligned across budgets, statistics, and accounts so the realization of these balance sheet changes does not consistently come as an ex post surprise to fiscal policymakers and observers. Of course, full comparability of prospective and retrospective fiscal data within countries will only be achieved when underlying national standards and systems used to generate the data are aligned or integrated. As an input into these discussions, FAD, in consultation with STA, will prepare a position paper on the integration of fiscal reporting across budgets, statistical reports, and financial statements.

V. STRENGTHENING FISCAL TRANSPARENCY MONITORING AND INCENTIVES

38. Promoting greater fiscal transparency requires not only clear reporting standards but also effective monitoring and enforcement of compliance with those standards. Pressure for greater disclosure of fiscal information can come from: (a) national institutions such as parliaments, supreme audit offices, national statistics bodies, independent fiscal agencies, and professional and civic organizations; (b) regional institutions such as regional unions, monetary arrangements, and statistics agencies; and (c) international institutions such as the IMF, World Bank, and OECD, international standard-setting bodies such as IFAC, IPSASB, and the International Organization of Supreme Audit Institutions (INTOSAI), and civil society groups such as IBP and the recently launched Global Initiative on Fiscal Transparency (GIFT).³² This section reviews the effectiveness of these three tiers of fiscal transparency monitoring and enforcement and makes recommendations for how to enhance their impact.

³¹ This does not necessarily imply that all such changes should be recognized in determining the deficit in budgets or ex post reports or that governments should change fiscal policy settings in response to short-term fluctuations in the value of their assets and liabilities. For example, *GFSM 2001* distinguishes between changes in net worth due to transactions and holding gains and losses.

³² The INTOSAI operates as an umbrella organization for the government external audit community to promote development and transfer of knowledge, improve government auditing practices worldwide and enhance professional capacities, standing and influence of member supreme audit institutions (SAIs). The GIFT is a multi-stakeholder network working to advance and institutionalize global norms and bring continuous improvements in fiscal transparency, participation, and accountability in various countries.

A. National and Regional Monitoring of Transparency

39. **Pressure for greater fiscal transparency has traditionally come from national institutions.** Parliaments, as representatives of taxpayers, have in almost every country a constitutional right and responsibility to hold the government to account for the use of their constituents' money. Parliaments are traditionally supported in this task by supreme audit institutions (SAIs) and national statistics agencies. More recently, the proliferation of fiscal rules and responsibility laws has been accompanied by the rise of independent fiscal agencies charged with providing an external expert perspective on the government's fiscal forecasts, policies, and performance. Finally, national professional bodies such as chartered institutes of public accountants and auditors have also been an important source of pressures for improvements in government reporting practices (Box 8).

40. **While legislatures' role in fiscal policymaking has grown in recent years, many continue to lack the information, time, and powers to hold governments to account.** Recent reforms in this area include (i) giving legislatures greater input into the formulation of ex ante fiscal policy; (ii) greater involvement in budget policy decisions; (iii) better analytical support through parliamentary budget offices; and (iv) enhanced information and oversight regarding budget execution. However, progress in these areas has been slow, especially outside advanced countries. According to the latest OBI survey, only 45 percent of parliaments are given the opportunity to scrutinize in advance the medium-term fiscal policy framework that informs the preparation of the annual budget. The situation is somewhat better among advanced countries, where 26 of 30 parliaments are provided with some kind of pre-budget report (OECD, 2007). Furthermore, when the annual budget is submitted for debate and approval, legislatures do not always have the time and resources to give it proper scrutiny. For example, over 30 percent of legislatures are given less than six weeks to debate and approve the government's budget before the start of the year, compared with the minimum of three months called for in IMF and OECD guidance (IBP, 2010).

41. **SAIs also play a central role in scrutinizing government financial information, but are also not always fully empowered to meet their obligations.** The OBS found that around 80 percent of SAIs are legally, financially, and operationally independent of government. However, over half of countries' audit reports on the government's annual accounts are either not published or published more than a year later—which greatly reduces their impact. Furthermore, an unpublished IMF survey of budget institutions in some 50 countries found that in one-third of countries, the auditor general is not obliged to provide an audit opinion as to whether the government's accounts provide a "true and fair view" of the government financial position. Finally, even where the auditor general finds accounting or other irregularities, in less than one-third of countries is the government obliged to report to parliament and the public on how those irregularities are being addressed (IBP, 2010).

Box 8. Role of National Institutions in Promoting Fiscal Transparency

Legislatures are central actors at all phases of the financial management cycle from ex ante scrutiny and approval of the government's fiscal strategy and budget, to in-year monitoring and adjustment to budgetary appropriations, to ex post scrutiny of the use of public resources and follow-up on the findings of national audit bodies. Legislatures often exercise these functions through various parliamentary committees and bodies such as budget, finance, or public accounts committees, and parliamentary budget offices. In France, the financial committees of the Assembly and Senate were the driving force behind the country's 2001 organic budget law (*Loi Organique relative aux Lois de Finances*), which overhauled the budgetary and accounting rules to enhance fiscal transparency at every stage of the financial management cycle.

Supreme audit institutions (SAIs) play a key role in identifying gaps in the quality and reliability of government accounts and financial information produced by governments. External audit by an SAI provides a key means by which the legislature, on behalf of the taxpayer, scrutinizes how government uses the money voted to it. Although most SAIs have the primary responsibility for the audit of information disclosed in the government's financial statements, some SAIs have taken steps to improve the understanding and oversight of the government's wider financial exposures. For example, the Australian National Audit Office has recently conducted reviews of government guarantees, indemnities, and letters of comfort to assess the size of the government's exposure; the adequacy of the government's monitoring, management, and reporting arrangements; and areas for improving the oversight and disclosure of these contingent liabilities.^{1/}

National statistical bodies are critical sources of reliable in-year and annual fiscal statistics. Although specific roles and responsibilities of these bodies vary across countries, their institutional and operational independence is important to ensure that they are in a position to verify (without political influence) the comprehensiveness, quality and reliability of fiscal data produced by governments. For example, the principle of professional independence of national statistical bodies was recognized by the European Parliament and the Council in the legislative "six-pack" on enhanced economic governance which entered into force in December 2011.^{2/}

Independent fiscal agencies have been established in a growing number of countries in recent years to provide an independent view on the reliability of fiscal forecasts and the sustainability of fiscal policies and performance. They can also be a driving force in improvements in national fiscal transparency practices. For example, the Congressional Budget Office (CBO) in the US was the first to make long-term fiscal forecasts and now publishes its annual update of its long-term budget outlook.

Professional bodies of government accountants and auditors have also played an important role in improving government financial reporting practices and upholding the professional integrity of government financial managers. This is especially the case in countries like the UK where all ministerial financial directors need to hold an accounting qualification and be a certified member of a professional accounting association such as the Chartered Institute of Public Finance Accountants (CIPFA).

1/ See "Fiscal Exposures: Implications for Debt Management and the Role for SAIs," INTOSAI Public Debt Committee, February 2003.

2/ EU Council Directive #85/2011.

42. **Citizens, civic groups, and markets also have a vital part to play in holding governments to account for the use of their money and in pressing for transparency improvements.** Access to information is a precondition for citizens to understand how a government is using its powers to conduct fiscal policy. As the budget is the key instrument through which a government translates its policies into action, it should be presented clearly

to the public. However, only 21 percent of countries currently publish a citizens' guide to the budget. While many governments solicit written inputs from key organizations regarding their budget priorities, only 28 percent of legislatures organize public hearings at which citizens are given the opportunity to testify on budgetary matters. Indeed, in more than one-third of countries, all budgetary discussions between the legislative and the executive are conducted behind closed doors (IBP, 2010). As sources of both tax revenue and financing for governments, markets also can be an important source of pressures for fiscal transparency improvements. However, a lack of readily accessible cross-country data on fiscal transparency practices has been cited by civil society groups, businesses, and other stakeholders as an impediment to domestic and international efforts to promote greater fiscal transparency.³³

43. **Regional bodies play an increasingly important role in harmonizing fiscal reporting practices and enforcing transparency standards among their members.** These regional harmonization efforts are often the most extensive in monetary unions where timely, reliable, and comparable fiscal data from member states are needed to monitor and enforce regional fiscal convergence criteria. In Europe, Eurostat has been the driving force behind the standardization of fiscal reporting across EU member states through the development of a common European System of Accounts (ESA) and activities to harmonize national statistical methodologies across the region. Eurostat is also tasked with assessing the quality and reliability of fiscal data notified by EU member states to the European Commission concerning their compliance with the limits set out in the Stability and Growth Pact. In Africa, the West African Economic and Monetary Union (WAEMU) and Central African Economic and Monetary Community (CEMAC) have also been catalysts for upgrading and harmonizing fiscal reporting practices among their member countries.

B. International Monitoring of Transparency

44. **The IMF's Fiscal Transparency ROSC, established in 1999, is the principal tool for assessing the openness of national institutions for fiscal policy-making and the transparency of fiscal reporting practices.** The fiscal ROSC evaluation framework is based on the Fund's Code of Good Practices on Fiscal Transparency, which was updated in 2007, based on assessments of country observance relative to the good practices identified in the previous version of the Code.³⁴ The revised Code retained the original four pillars of fiscal transparency: (i) clarity of roles and responsibilities; (ii) open budget processes; (iii) public availability of information; and (iv) assurances of integrity. It also introduced some new good practices and broadened the coverage of others, including in the areas of contractual arrangements with private companies; publication of a citizens' guide to the budget;

³³ See [Petrie \(2003\)](#) for a discussion of these aspects.

³⁴ The revised *Code* took into consideration suggestions from the general public, country authorities, development agencies, academics, and nongovernmental agencies working in the area of budget transparency.

consultation periods for the budget and changes to laws and regulations; periodic reports on long-term public finances; and openness in the sale and purchase of government assets. The government finance statistics module of the IMF's data dissemination ROSC complements the fiscal ROSC by assessing country compliance with IMF standards for statistical reporting.

45. **Despite these refinements, the fiscal transparency ROSC's record in identifying problems that contributed to or exacerbated the fiscal impact of the recent crisis was mixed.** Of the ten countries that experienced the largest increase in government liabilities during the crisis, nine had undergone a ROSC within the previous eight years. These reports identified some but not all of the key transparency problems revealed by the crisis (see Appendix II for a summary). The reports were most effective in identifying inadequate coverage of fiscal reports, lack of medium-term fiscal forecasts, and weak controls over budget execution. However, issues such as the need for fiscal risk analysis to explore a broader range of output scenarios or better surveillance of exposure to financial sector risks were generally not explored. Even where shortcomings were identified, their relative seriousness was generally not quantified and they were not always given due prominence in the summary recommendations.

46. **This and other evaluations of the ROSC program³⁵ highlighted a number of shortcomings in the design of the fiscal ROSC itself that may have reduced its impact:**

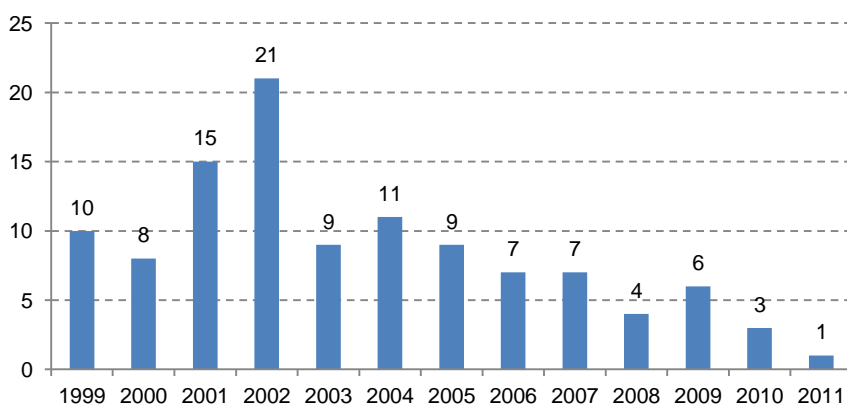
- the **methodology** is one-size-fits-all and makes no allowance for different levels of institutional capacity or economic development. This makes it difficult for countries at a lower level of observance to use the ROSC to chart a sequenced reform path from their current practice to the best practices set out in the Code and Manual;
- the **assessment** places equal weight on compliance with all elements of the Code and focuses on verifying the existence of formal institutions rather than validating the quality of their output. This gives the evaluation the flavor of a "box ticking exercise" which can overlook examples of both good and bad informal practices and fails to distinguish between more or less serious deficiencies in terms of implications for the quality of published information;
- while the **reports** tend to be exhaustive and qualitative in presenting the results of the evaluation, they lack a clear and accessible summary of a country's performance both relative to the absolute standards set by the Code and to other comparable country groupings; and

³⁵ See Petrie (2003), and [IMF \(2011a\)](#).

- the **recommendations** are not always integrated into Article IV consultations and surveillance, nor always followed-up by the countries themselves. However, they often inform the setting of structural conditionality for countries with IMF programs.

47. **After peaking in 2002, the annual number of fiscal ROSCs dropped significantly in recent years.** Various factors explain the reduction in the number of fiscal ROSCs. First, many countries have undergone initial assessments and the gains to undertaking further updates are perceived to be limited in the absence of significant reforms or changes to the ROSC standard itself. Second, as noted above, fiscal ROSCs do not provide for a graduated assessment of conformity to the best international practice which means it is difficult for low- and middle-income countries to use repeated assessments as a tool for charting the progress of their fiscal reform efforts. Third, the fiscal ROSC did not benefit from an explicit link with access to IMF or other official external financing. Finally, there was a reduction in the resources to deliver ROSCs, including as a result of the IMF downsizing undertaken in 2008.

Figure 11. Number of Fiscal ROSCs^{1/}



Source: IMF (2011c).

^{1/}The Fiscal ROSC numbers in the chart include full ROSCs and updates.

48. **Addressing these shortcomings in fiscal transparency evaluations will require actions to:** (a) strengthen national and regional institutions for fiscal transparency; (b) update the IMF Fiscal Transparency Code and Manual and strengthen the Fund's relationship with other international standard-setters; and (c) adopt a more graduated, accessible, and risk-based approach to IMF evaluations of fiscal transparency practices.

C. Strengthening National and Regional Fiscal Transparency Institutions

49. **The effectiveness of national institutions in promoting greater fiscal transparency depends on their legal status, resources, and capacity.** To perform their functions, audit institutions, statistics agencies, independent fiscal agencies should:

- **be institutionally independent of government.** This requires these institutions to be established in the constitution or primary legislation. The heads of these institutions should be selected based on professional merit, appointed for a fixed term either by or

- with the concurrence of the legislature, and removable only for serious misconduct. The budgets of these institutions should provide medium-term certainty of funding and be insulated from undue interference by the executive. Finally, these institutions should report directly to the legislature and the public and not through the executive;
- **have a well defined role in the public financial management cycle.** SAIs should be required to provide a formal audit opinion on government accounts to parliament; statistics agencies' responsibilities and procedures regarding the production and dissemination of government finance statistics should be publicized; fiscal councils should be given clear remits regarding their ex ante and ex post analysis of fiscal performance; and professional bodies should play a role in certifying the qualifications of government accountants; and
 - **have the legal powers to hold government to account.** Governments should (i) be obliged to appear before parliamentary finance committees whenever called to testify; (ii) be required to respond to the auditor generals' recommendations in a timely manner; (iii) be obliged to provide statistics agencies with necessary data about government activities; (iv) recognize the fiscal council's verdict on their fiscal performance; and (v) ensure that relevant finance staff hold professional qualifications and conduct themselves with integrity.

50. **In its capacity building activities, the Fund can help governments foster strong and independent national institutions for fiscal transparency.** These would include independent fiscal agencies, parliamentary budget and accounts committees, national statistics agencies, and supreme audit institutions. Technical assistance (TA) in the fiscal area has traditionally focused primarily on the ministry of finance as the principal agency of fiscal management. However, there is a good case for relevant TA missions and other capacity-building activities in the fiscal area to engage more fully with those institutions charged with holding the government to account for fiscal transparency. FAD will consider further expanding its range of contacts, scope of engagement, and portfolio of skills to encompass the activities of these important institutions and will look to identify external resources and reallocate internal resources for these activities.

51. **Regional institutions can help improve transparency, especially where their efforts are linked to improvements in their members' financial management practices.** The realization that the effectiveness of regional fiscal surveillance depends on the quality of the underlying budgeting and accounting systems of member states prompted the EU, WAEMU, and CEMAC to adopt some form of regional budget frameworks directives. These directives seek to harmonize members' budget system laws, budget classification, charts of accounts, and the format of fiscal reports.³⁶ These regional unions have also established

³⁶ See CEMAC Directives # 1, 2, 3, 4, and 5/2008; WAEMU Directives # 1, 6, 7, 8, 9 and 10/2009; and EU Council Directive #85/2011.

cross-country monitoring committees to oversee national implementation of these directives. Full implementation of these reforms will require a concerted and sustained effort on the part of member states, as evinced by the fact that WAEMU and CEMAC countries have been given between seven and ten years to introduce the required changes. Fund staff has been providing technical assistance to a number of regional institutions including WAEMU, CEMAC, and the East African Community to help improve fiscal reporting practices across their members.

D. Updating the IMF Fiscal Transparency Code and Manual

52. **The Code of Good Practices and Manual on Fiscal Transparency need to be revised to reflect the developments in specific standards proposed in Section III.** The revised Code and Manual need to, inter alia:

- place greater emphasis on the consolidated public sector as the broadest unit of fiscal analysis;
- more systematically refer to relevant international reporting standards where they exist;
- require governments' powers to issue guarantees and conclude PPP contracts to be clearly articulated in organic budget legislation;
- encourage the publication of a full set of accounts, including comprehensive balance sheets covering the full range of financial and, eventually, nonfinancial assets and liabilities;³⁷
- incorporate new standards for fiscal forecasting, budgeting, and fiscal risk reporting;
- promote monthly reporting on general government finances, especially for countries with a general government fiscal rule, and the publication of audited year-end financial statements within six months;
- promote the alignment of reporting standards used in budgets, statistics, and accounts with any remaining discrepancies set out in reconciliation tables; and
- ensure that external oversight institutions and citizens have the information they need to hold governments to account.

53. **The revised Code and Manual should also provide for each practice a description of basic, good, and best practice.** This would provide all countries with a set of

³⁷ Where a differentiated standard already exists (as in the case of GDDS, SDDS, and SDDS Plus for statistical reporting), the Code and Manual will look to align themselves with these milestones.

achievable milestones on the way towards full compliance with international standards within which, for each individual practice under the Code:

- **basic practices** would be considered as a minimum achievable by all countries;
- **good practices** would require more developed institutional, human, and technological capacities; and
- **best practices** would entail full compliance with relevant international standards and being in line with the current “state-of-the-art.”³⁸

As discussed below, this more differentiated Code and Manual would also provide the basis for a more transparent, accessible, and internationally comparable assessment of a country’s level of fiscal transparency. In revising the fiscal transparency Code, Manual, and ROSC, Fund staff will look to exploit synergies with the ongoing review of the PEFA to streamline the compliance burden that these evaluations can put on country authorities. FAD plans to consult with external stakeholders on these revisions to the Code and Manual.

54. **The Fund should also further strengthen its institutional relationships with other international standard-setters, professional bodies, and voluntary organizations.** This could be done by making a more explicit link in the revised Code and ROSC to compliance with relevant international standards in the areas of budgeting, statistics, accounting, and audit. The Fund is also uniquely positioned to strengthen coordination between standard-setters, professional organizations, and civil society groups in the fiscal reporting area through more regular and intensive engagement with these bodies. Building on the G-20/IMFC Data Gaps Initiative, the aim of this engagement would be to (i) promote the alignment of international reporting standards; (ii) identify and address any gaps in the normative architecture for fiscal transparency; (iii) review progress in the implementation of those standards; and (iv) identify priorities for technical assistance and opportunities for mutual assistance in the fiscal reporting area. To enable it to play this coordinating role in the fiscal reporting area, the IMF should also play a more active role in key standard-setting bodies such as IPSASB. Fund staff should also continue its active engagement in multi-stakeholder initiatives and civil society groups active in the fiscal transparency area.

E. More Effective Multilateral Monitoring of Fiscal Transparency

55. **The effectiveness of the Fund’s assessments of national fiscal transparency practices also needs to be enhanced.** In particular, there is a need for an enhanced ROSC which moves away from the “box-ticking exercise” of the past in favor of a more targeted and substantive assessment of the quality of published fiscal information. For a particular

³⁸ For example, in the case of the institutional coverage of fiscal reports, coverage of central government would be considered basic practice, general government (and its subsectors) would be considered good practice, and public sector (and its subsectors) would be considered best practice.

aspect of fiscal reporting, the revised ROSC would not only assess whether formal institutions conform, in principle, with the Code, but also whether actual fiscal reporting practices provide an accurate picture of the true state of public finances. In doing so, it would look to evaluate the consequences of deviations from the Code and their implications for the reliability of public information on the state of the fiscal accounts. More specifically, the new revamped fiscal ROSC will:

- **cater for more modular evaluations focused on key areas of fiscal risk, as recommended by the 2011 Standards and Codes Review and Triennial Surveillance Review.**³⁹ Rather than placing equal weight on all aspects of the Code, these targeted evaluations would focus on particular sectors (such as oversight of public corporations) or aspects of fiscal reporting and decision-making (such as disclosure and management of fiscal risks);⁴⁰
- **provide more substantive analysis of the adequacy of fiscal reporting practices in these areas.** Rather than merely review whether existing laws, regulations, and documents comply with the Code, the revised ROSC will examine whether a country's published fiscal data provide policymakers, the public, and the international community with an adequate picture of the state of and risks to the public finances and estimate, the extent possible, the fiscal implications of deviations from the Code. This will provide countries with a clearer sense of the sources and scale of structural fiscal vulnerabilities and analytical basis for prioritizing transparency-related reforms; and
- **offer a more graduated, comparable, and actionable assessment of country practices.** Rather than compare all countries against a best practice standard, the revised ROSC evaluation would be based on the updated Code which differentiates between basic, good, and best practices in each area. The final ROSC report would provide countries with a more accessible summary of where they stand against each of the key transparency practices as well as how they compare with other countries. The ROSC would also incorporate a prioritized and sequenced fiscal transparency action plan to enable authorities, IMF area departments, and the public to monitor progress against key recommendations.

³⁹ [IMF \(2011b\)](#). The 2011 Standards and Codes Review Board Paper recommended extending the methodology of targeted ROSCs (currently applied to financial sector ROSCs) to a larger group of ROSCs.

⁴⁰ Modules of the revised ROSC could also be used as the basis of a fiduciary risk assessment for countries seeking to access Fund resources, incorporating the lessons of the current fiscal safeguards pilots. See [IMF \(2012b\)](#).

56. **There is also a need to improve the dissemination of information about the state of fiscal transparency practices.** Basic information about countries' fiscal reporting practices can be found in a range of public sources including STA's Dissemination Standards Bulletin Board and Government Finance Statistics Yearbook, the OECD's Budget Practices Database, individual ROSC and PEFA reports, and the IBP's Open Budget Survey. However, there is no single, accessible, and up-to-date source of information about the state of fiscal transparency practices across countries. FAD therefore proposes to provide a regular fiscal transparency update on a set of cross-country fiscal transparency indicators which could also be available electronically.

F. Resource Implications

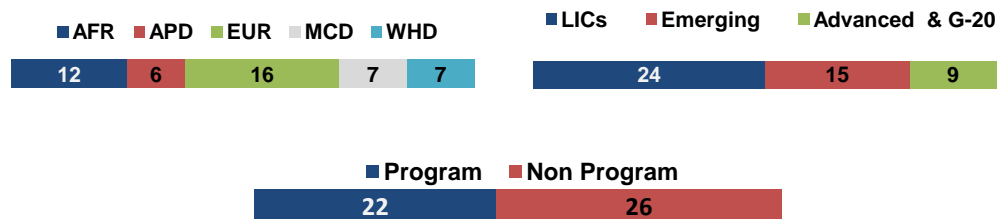
57. **The costs of the proposed initiatives can be accommodated over the next three years within FAD's budget.** FAD's FY2013–15 business plan includes an allocation for policy development in the fiscal transparency area which will be used to fund the revision of the Fiscal Transparency Code, Manual, and ROSC. FAD's FY2013–15 resource allocation plan includes provisions for two-three fiscal ROSCs per year which can be used to fund pilots of the revised transparency evaluation missions in FY 2014 and 2015 to low-income, emerging, and advanced economies. Work on the various policy and guidance notes, and databases can be met from existing resources for research and policy development in the fiscal area.

APPENDIX I. RESULTS OF FAD SURVEY ON FISCAL TRANSPARENCY AND RISK

G. Overview of Countries Surveyed

In January 2012, a survey of fiscal transparency and risks was conducted among FAD economists working on 48 countries, reflecting a range of income levels, regions, and relations with the Fund (Figure A1). The survey asked them to describe the institutional coverage, consolidation details, and timeliness of fiscal reports, and to indicate quasi-fiscal activities, inconsistencies in accounting standards, or other factors that could lead to a discrepancy between overall balance and financing data of the countries to which they were assigned. Furthermore, the survey asked economists to indicate government entities and financial activities whose volatility could lead to a deviation between budgeted and actual fiscal outcomes, and to what extent this volatility posed a threat.

Figure A1. Income, Regional, and IMF Program Status of Sampled Countries



H. Institutional Coverage of Fiscal Data

The **institutional coverage** of the fiscal data received by Fund staff are presented in Table A1:

Table A1. Institutional Coverage of Regularly Published Data on Fiscal Flows^{1/}

	Central Government Budget	Extrabudgetary Funds	Regional and Local governments	Nonfinancial Public Corporations	Financial Public Corporations	Other
By Region						
Africa	100	25	25	0	0	0
Asia and Pacific	100	17	67	0	0	17
Europe	100	38	94	25	25	13
Middle East and Central Asia	86	29	57	14	0	0
Latin America	86	14	29	57	14	14
By Income						
Developing	92	17	38	13	0	0
Emerging	100	38	75	13	19	0
Advanced or G-20	100	38	88	50	25	0
All	96	27	58	19	10	8
of which, program	95	36	59	14	5	0
of which, non-program	96	19	58	23	15	15

^{1/}Percentage of sample for which given transaction or entity was assessed to pose fiscal risk.

I. Timeliness of Fiscal Data

The periodicity and timeliness of fiscal data received is as follows (Table A2):

Table A2. Periodicity and Reporting Lag of Regularly Published Fiscal Flows

	Periodicity				Timeliness			
	Month	Quarter	Annual	Other	No More than One Month	No More than one Quarter	No More than Six Months	No More than One Year
By Region								
Africa	50	33	8	8	17	58	17	8
Asia and Pacific	83	17	0	0	67	33	0	0
Europe	63	25	6	6	44	50	6	0
Middle East and Central Asia	43	29	0	29	33	67	0	0
Latin America	57	29	0	14	14	86	0	0
By Income								
Developing	46	33	4	17	26	61	9	4
Emerging	56	31	6	6	38	56	6	0
Advanced or G-20	100	0	0	0	50	50	0	0
All	58	27	4	10	34	57	6	2
of which, program	64	18	5	14	36	59	5	0
of which, non-program	54	35	4	8	32	56	8	4

J. Reliability of Fiscal Data

According to fiscal economists there were two concerns regarding the reliability of the data:

- Quasi-fiscal activities:** of the countries sampled, 75 percent were perceived to have known quasi-fiscal activity conducted outside the reported fiscal data. The most significant of these was subsidized lending and/or bank recapitalization reported in 50 percent of countries. Also significant was the practice of governments charging less than commercial prices for goods such as fuel, electricity, and water which was reported in 44 percent of countries.
- Statistical discrepancy:** 35 percent of countries were determined to have a significant discrepancy (greater than 1 percent of GDP) between the government's overall balance and its financing data for the highest reported level of consolidation. Such significant discrepancies were especially common in Latin America (80 percent) and Asia-Pacific (50 percent). Of this subset, the discrepancy was most often attributed to the differences in both coverage and accounting bases between monetary and fiscal statistics. An additional source of discrepancy was the presence of extrabudgetary operations not captured in revenue and expenditure data.

Table A3. Transactions and Institutions as a Source of Fiscal Risk

	By Transaction										By Institution						
	Budgeted taxes and spending	Unfunded civil service pensions	Extrabudgetary spending	Quasi-fiscal activities	Social policy obligations	Commodity prices	Financial transactions	Government guarantees	Public private partnerships	Other	Central government	Extrabudgetary funds	Social security	Subnational governments	Nonfinancial public corporations	The financial sector	Other
By Region																	
Africa	75	25	58	67	17	92	17	42	33	25	92	33	17	8	75	25	0
Asia and Pacific	17	17	17	50	33	67	50	50	0	33	67	17	17	33	67	67	0
Europe	69	25	50	38	75	6	31	44	13	19	63	19	63	50	56	56	6
Middle East and Central Asia	71	29	86	57	14	43	14	29	14	29	57	57	43	57	71	14	14
Latin America	43	43	43	71	57	43	29	71	0	0	43	29	57	14	57	29	0
By Income Level																	
Developing	63	29	58	54	29	67	29	46	21	25	71	33	29	33	75	38	4
Emerging	56	25	50	63	56	25	25	50	0	13	63	31	44	31	56	44	6
Advanced or G-20	63	25	38	38	63	25	25	38	25	25	63	13	75	38	50	38	0
All	60	27	52	54	44	46	27	46	15	21	62	27	38	31	60	37	4
of which, program	82	27	55	45	32	45	36	50	18	18	76	43	38	33	67	38	0
of which, non-program	42	27	50	62	54	46	19	42	12	23	58	19	42	31	65	38	8

K. Sources and Management of Fiscal Risks

The survey also asked fiscal economists to identify the main sources of fiscal risks in their country assignment and evaluate their fiscal risk disclosure and management practices.

The **sources of fiscal risks** perceived are presented in Tables A3.

Regarding governments' **fiscal risk disclosure and management** practices (Table A4), economists reported:

- **Alternative macroeconomic scenarios:** only 10 percent of the countries sampled produce alternative macroeconomic scenarios and only 8 percent produced alternative fiscal scenarios. Within this, 38 percent of advanced and G-20 countries provided alternative macro-fiscal scenarios, compared with 6 percent of emerging and none of developing countries.
- **Fiscal risk statements:** two-thirds of countries sampled did not publish fiscal risk statements of any kind. Of those countries which did, the most commonly published fiscal risk statement was a qualitative description of risks produced by 23 percent of countries. Only 10 percent of countries sampled produced a quantified statement of fiscal risk.

Table A4. Fiscal Risk Disclosure and Management

	Alternative macro-economic scenarios	Alternative fiscal scenarios	Qualitative statement of fiscal risks	Quantified statement of fiscal risks	Other	None
By Region						
Africa	0	0	8	0	0	92
Asia and Pacific	0	0	17	33	0	67
Europe	25	25	38	6	25	44
Middle East and Central Asia	14	0	29	14	0	71
Latin America	0	0	14	14	0	71
By Income Level						
Developing	4	0	8	4	0	92
Emerging	6	6	31	13	6	63
Advanced	38	38	50	25	38	0
All	10	8	23	10	8	67
of which, program	14	10	24	5	5	76
of which, non-program	4	4	19	12	12	62

APPENDIX II: REVIEW OF FISCAL ROSCs IN CRISIS-HIT COUNTRIES

Of the ten countries that experienced the largest increase in government liabilities during the crisis (see Box 2 of the main text), eight had undergone a Fiscal Transparency ROSC within the previous eight years. This appendix summarizes the results of a review of the findings and recommendations of these ROSCs, with a particular focus on the following questions:

- What criteria did the ROSCs use to make judgments on the level of transparency the countries had achieved? What evidence was provided to support these judgments?
- Did the ROSCs identify the key transparency problems revealed by the crisis? Were these problems given sufficient prominence? Was the relative seriousness of these problems analyzed?
- Were the ROSC recommendations implemented by the authorities? Did subsequent Article IV staff reports assess progress in implementation of ROSC recommendations?

Germany

Germany underwent a Fiscal Transparency ROSC in 2003. The report found that Germany had achieved “a high level of fiscal transparency,” citing, in general terms, a comprehensive, precise and carefully respected body of fiscal laws and regulations which clearly assigns roles and responsibilities for branches and tiers of government and set standards for budgeting, accounting and reporting at all levels of government which require disclosure of not only cash revenue and expenditure but also contingent liabilities, guarantees, tax expenditures, and equity holdings.

At the same time, the ROSC noted that public ownership of financial institutions is extensive at all levels of government, and these institutions often conduct quasi-fiscal activities. As an example, the report noted that in some cases loans were not strictly screened on the basis of creditworthiness, and that many public financial institutions still enjoyed a government guarantee over all of their liabilities, which contributed to very good credit ratings. While noting that quasi-fiscal activities did not appear to be extensive, their cost were not estimated by the authorities nor included in the budget documents. Since the ROSC was issued, many of the quasi-fiscal activities have been transferred to specialist development banks.

The report also noted that budget documents should provide more in-depth information on macrofiscal strategy, risks and structural trends. Further, a lack of a legally binding mechanism for committing the government to achieving its general government deficit and debt targets called for greater clarity in the budget documents regarding performance against its obligations under the Maastricht Treaty. This issue has since been addressed to some extent by the adoption of the so-called debt-brake rule in the German Constitution.

Subsequent Article IVs were silent on the implementation of ROSC recommendations.

France

France underwent a fiscal transparency ROSC in 2000, followed by three updates over the following four years. The initial report found that France had achieved a high level of fiscal transparency, noting the very high standards set in most aspects of the code. The report focused on recent improvements to the coverage and presentation of fiscal information, citing more complete information on government assets and liabilities as well as disclosure of contingent liabilities, and the change in accounting standards to reflect accrual principles in a number of areas. This assessment seems to have been largely borne out during the crisis, where almost all of the increase in debt was due to the output shock, with relatively small transparency-related factors.

Despite the generally positive findings, the report identified a number of areas where improvements could be made, including clearer identification and reporting of quasi-fiscal activities in the budget presentation; better presentation of fiscal activity that occurs outside the appropriation process, such as issuance of contingent liabilities, quasi-fiscal activity and tax expenditures; and improving the reconciliation of stated policies with outcomes at the general government level. The reports gave no real sense of the magnitudes or priorities of these issues, nor how to resolve them.

Many of these issues were addressed in the *Loi Organique aux Lois de Finances* (LOLF), which has become fully effective on January 1, 2006. In addition to the annual appropriations, the government has to commit to a multi-annual framework, details of which are provided in the economic, social, and financial report attached to the Budget Act. The first multi-annual fiscal framework law was adopted in 2009. The LOLF also strengthens parliamentary oversight powers, confirms implementation of accrual-basis accounting, and broadens information requirements.

The ROSC updates provided details about improvements to the French system, through the passage of the LOLF, particularly regarding improved analysis of taxes and social security contributions (2001 and 2002 updates), analysis of expenditure (2004 update), principle of sincerity (2002 update), and results-based expenditure appropriation (2001 update). However, the updates tended to focus on actions the government had taken, with little follow up regarding the problem areas that had been identified in the initial report. The ROSC recommendations were featured in subsequent Article IV reports.

Greece

Between 1999 and 2006, Fund staff prepared six Fiscal Transparency ROSCs, including two full reports and four updates. The 1999 “experimental” ROSC report was on the whole appreciative of the progress the authorities had made in various areas. It recommended clarifying the treatment of public corporations, investment, quasi-fiscal activities, and state assets, clearly stating the accounting basis underlying the budget and audited financial statements presented to parliament. Further, it recommended “a comprehensive analysis of

the sustainability of the government's fiscal position in the budget report." The 2005 full report, while noting that Greece had made progress in meeting the requirements of the fiscal transparency code particularly in the area of public availability of information, raised concerns about a range of specific deficiencies including the lack of a consolidated budget covering ordinary, investment, and military expenditure, large number of extrabudgetary funds, inadequate coverage, timeliness and reliability of general government fiscal reporting, lack of control over expenditure commitments and arrears, inadequate assessment of fiscal risk, and lack of systematic analysis/monitoring of fiscal policy objectives. Although the ROSCs identified many of the deficiencies contributing to the fiscal crisis in Greece, there was no attempt to quantify and estimate their relative fiscal costs.

Between 1999 and 2005, the Fund's Article IV staff reports on Greece consistently reported key ROSC recommendations, without a clear follow-up on the implementation. The 1999 Article IV staff report summarized the recommendations of the ROSC of that year. The 2004 staff report emphasized the need for timely and accurate fiscal data and urged the government to reinforce the integrity of the fiscal accounts. Finally, the 2005 staff report contained a box on the key recommendations of the 2005 reassessment, which was published as a standalone document. However, after 2005, fiscal transparency issues received less attention and Article IV reports were silent about the ROSC findings, and no further follow up was requested.

Netherlands

The Netherlands underwent a Fiscal Transparency ROSC in December 2005. The ROSC found that the Netherlands met or exceeded good practice against each of the four general principles of the Code. At the same time, the ROSC noted that the Netherlands should ensure consistent fiscal reporting across general government to facilitate compliance with ESA 95, place more emphasis on scrutiny and reporting of fiscal developments in the local government sector, and more strictly monitor the financial decisions of line ministries, in particular with respect to PPPs. The ROSC did not include an explicit analysis of the fiscal-financial sector linkage other than the relationship between government and public financial corporations, which mostly operated in dedicated market segments with some quasi-fiscal activity. State ownership of some banks also implied an implicit guarantee for their funding activities.

The 2006 Article IV summarized the ROSC recommendations and noted that they are under consideration by the official working group contemplating a fiscal strategy. The 2007 Article IV reiterated the ROSC's key message, and noted that many of the new refinements to the fiscal framework were in line with earlier staff recommendations, but not directly related to any specific ROSC recommendations.

Portugal

Portugal underwent a ROSC in 2003. The final report noted that Portugal met the requirements of the fiscal transparency code in several areas and it had been making significant progress in strengthening fiscal management and transparency. To justify this assessment, the report noted, in general terms, that the allocation of responsibilities between different levels of government was clearly defined and intergovernmental fiscal relations were based on relatively stable principles. The report also noted that budget process was based on a clear legal framework and adequate mechanisms of internal and external control of government operations are in place. Further, the report commended the new budget framework legislation for improving fiscal coordination, accounting and reporting arrangements requirements across all levels of the general government.

However, the report also identified many of the shortcomings revealed by the crisis, including: (i) a lack of focus on institutions on the periphery of the general government sector, such as PPPs and SOEs, that were subsequently reclassified into the general government; (ii) the lack of a sound medium-term budgetary framework, that resulted in continued fiscal drift over the decade as longer-term fiscal objectives were consistently missed; and (iii) weaknesses in budget execution, reporting and accounting processes, that resulted in a large and unobserved build up in expenditure arrears.

The 2003 Article IV report noted briefly that implementing the ROSC recommendations could facilitate the efficient achievement of fiscal objectives.

Spain

Spain's 2005 Fiscal Transparency ROSC noted that Spain had made significant progress in strengthening its fiscal institutions and in disseminating information about the government's operations. It also noted that the legal framework clearly delineated the scope and responsibilities of the general government and its subsectors, including their relations with the public corporations.

However, the ROSC raised concerns about the lack of timely information on the fiscal decisions and accounts of the subnational tier. To address these concerns, it was recommended that medium- to long-term fiscal costs and risks associated with various forms of PPPs at all levels of government should be systematically quantified, transparently disclosed in budgetary documentation, and taken into account in fiscal scenarios and long-term projections. The report also recommended that the analysis of fiscal risks and contingencies in budget documents should be improved.

The 2006 Article IV noted that while there had been some progress in implementing some of the 2005 ROSC recommendations, considerable scope remained for more extensive and timely publication of territorial governments' fiscal data, in particular concerning budget execution, quasi-fiscal activities, and contingent liabilities. The 2007 Article IV reiterated the 2005 ROSC recommendations by noting that strengthened transparency and

monitoring remain the most effective means to secure fiscal discipline at the regional and local government levels.

United Kingdom

The UK underwent one of the first “experimental” ROSCs in March 1999 covering eight codes and standards including fiscal transparency. While the brief account found that the UK had achieved a “very high level of transparency,” it was not clear what absolute or comparative standard was used as the basis for this summary assessment.

While the report raised concerns about the fact that estimates of contingent liabilities, tax expenditures, and quasi-fiscal activities were not integrated into budget documents, there was no attempt to estimate the importance of these fiscal risks other than to say that the latter was “not significant.” The UK government’s limited exploration of alternative macro-fiscal scenarios, large implicit contingent liabilities to the domestic private financial sector, and growing exposure to public private partnership liabilities revealed during the crisis were not explicitly discussed.

The subsequent Article IV, released in 2000, mentioned the 1999 ROSC and noted that fiscal transparency had improved since the assessment, including through fuller reporting of tax expenditures in budget documents. However, the Article IV also emphasized that improvements are needed in the area of budget reporting. Most notably, the absence of regular treasury reports analyzing fiscal performance during the year in relation to expectations was seen to hamper the public’s assessment of fiscal developments.

United States

The US’s 2003 fiscal ROSC found that it was “fully compliant with most elements of the Fund’s Code, and sets best practice standards in many areas.” It praised the clarity of roles and responsibilities under the US Constitution, the openness of the budget process, and the quality and scope of the budget documentation including detailed sensitivity analysis.

Nonetheless, the ROSC also identified a number of weaknesses including concerns over the lack of clarity over the longer-term direction of fiscal policy, the complexity of the congressional budget process, and the need to provide greater information on the costs and risks associated with GSE such as Fannie Mae and Freddie Mac and other contingent liabilities. Since the ROSC, there has been little concrete progress in addressing these weaknesses despite a number of attempts on the part of the administration, congress, and third parties. In the wake of the crisis, all three of these issues complicated the administration’s fiscal policy making efforts.

The Fund’s 2003 Article IV staff report contained a box on the key recommendations of the ROSC assessment, and subsequent Article IV reports have raised concerns over the GSEs and institutional issues.

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