New Draft Fiscal Transparency Code and Assessment

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Public Financial Management Division

Revitalizing the Fiscal Transparency Agenda
April 15, 2013
New Draft Fiscal Transparency Code & Assessment: 
Outline of the Presentation

I. Background and Context

II. Revising the Fiscal Transparency Code

III. The New Fiscal Transparency Assessment

IV. Questions and Comments

- A concerted effort to improve fiscal transparency since the late 1990s
  - Asian crisis highlighted weakness in public and private financial reporting
  - Also underscored the risks associated with undisclosed linkages between the two

- New fiscal reporting standards were developed
  - General: IMF’s Code & Manual on Fiscal Transparency
  - Budgeting: OECD Best Practices for Budget Transparency
  - Statistics: EU’s ESA 95, IMF’s GFSM 2001, & UN’s SNA 08
  - Accounting: IFAC’s International Public Sector Accounting Standards (IPSAS)

- New tools for monitoring compliance with standards were introduced
  - Multilateral: Fiscal and Data ROSCs, GDDS/SDDS, & PEFA
  - Regional: Eurostat, WAEMU & CEMAC harmonization of fiscal reporting
  - Civil Society: Open Budget Survey and Index, GIFT Principles
I. Background and Context: 
b. Lessons from the Recent Crisis

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

<table>
<thead>
<tr>
<th></th>
<th>FRA</th>
<th>DEU</th>
<th>NLD</th>
<th>ESP</th>
<th>PRT</th>
<th>GBR</th>
<th>USA</th>
<th>GRC</th>
<th>IRL</th>
<th>ISL</th>
<th>AVE*</th>
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<tbody>
<tr>
<td>Underlying fiscal position</td>
<td>1.7</td>
<td>3.2</td>
<td>-2.4</td>
<td>1.8</td>
<td>11.3</td>
<td>3.7</td>
<td>8.1</td>
<td>16.3</td>
<td>1.3</td>
<td>10.9</td>
<td>6.0</td>
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<tr>
<td>Revisions to 2007 deficit &amp; debt</td>
<td>1.7</td>
<td>1.8</td>
<td>-0.9</td>
<td>-0.1</td>
<td>0.1</td>
<td>1.5</td>
<td>7.1</td>
<td>2.5</td>
<td>1.6</td>
<td>4.0</td>
<td>4.7</td>
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<tr>
<td>Changes to government boundary</td>
<td>-0.7</td>
<td>1.4</td>
<td>-0.2</td>
<td>0.6</td>
<td>9.4</td>
<td>1.9</td>
<td>0.9</td>
<td>11.2</td>
<td>-0.1</td>
<td>2.5</td>
<td>1.1</td>
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<td>Cash-accrual adjustments</td>
<td>0.7</td>
<td>0.0</td>
<td>-1.3</td>
<td>1.3</td>
<td>1.7</td>
<td>0.3</td>
<td>0.0</td>
<td>2.6</td>
<td>-0.2</td>
<td>4.5</td>
<td>0.2</td>
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<td>Exogenous shocks</td>
<td>8.4</td>
<td>12.8</td>
<td>14.2</td>
<td>15.4</td>
<td>8.1</td>
<td>17.0</td>
<td>6.3</td>
<td>40.0</td>
<td>60.2</td>
<td>39.5</td>
<td>9.8</td>
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<td>Macroeconomic shocks</td>
<td>8.3</td>
<td>4.7</td>
<td>5.2</td>
<td>13.0</td>
<td>4.4</td>
<td>8.9</td>
<td>3.8</td>
<td>38.4</td>
<td>35.7</td>
<td>-3.3</td>
<td>6.0</td>
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<td>Financial sector interventions</td>
<td>0.0</td>
<td>8.1</td>
<td>9.0</td>
<td>2.5</td>
<td>3.6</td>
<td>8.1</td>
<td>2.5</td>
<td>1.6</td>
<td>24.5</td>
<td>42.8</td>
<td>3.8</td>
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<td>Policy changes</td>
<td>2.3</td>
<td>3.8</td>
<td>1.9</td>
<td>4.9</td>
<td>4.7</td>
<td>1.1</td>
<td>6.4</td>
<td>-8.0</td>
<td>-9.9</td>
<td>-4.3</td>
<td>4.7</td>
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<tr>
<td>Other factors</td>
<td>2.1</td>
<td>-0.3</td>
<td>6.5</td>
<td>1.9</td>
<td>3.7</td>
<td>6.2</td>
<td>8.3</td>
<td>-6.7</td>
<td>7.5</td>
<td>21.6</td>
<td>5.9</td>
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<tr>
<td>Total Unforecast Increase in Debt</td>
<td>14.4</td>
<td>19.5</td>
<td>20.2</td>
<td>24.0</td>
<td>27.8</td>
<td>28.0</td>
<td>29.1</td>
<td>41.7</td>
<td>59.1</td>
<td>67.7</td>
<td>26.4</td>
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* GDP-weighted average
### I. Background and Context:
#### c. Implications for Fiscal Transparency Standards

<table>
<thead>
<tr>
<th>Problem</th>
<th>Weakness in Current Standards</th>
<th>Recommendation</th>
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<tbody>
<tr>
<td>Revisions to Deficits</td>
<td>Infrequent fiscal reporting</td>
<td>Monthly operational fiscal reports</td>
</tr>
<tr>
<td>Quasi-fiscal Activity by SoEs</td>
<td>Exclusive focus on general government</td>
<td>Publication of fiscal data for public sector</td>
</tr>
<tr>
<td>Unreported Flows</td>
<td>Losses on asset &amp; liability holdings not recognized</td>
<td>Recognition of doubtful debts in summary aggregates</td>
</tr>
<tr>
<td>Macroeconomic Shocks</td>
<td>Bias in macroeconomic forecasting</td>
<td>Alternative macro-fiscal scenario analysis</td>
</tr>
<tr>
<td>Exposure to Financial Sector</td>
<td>No recognition of contingent liabilities</td>
<td>Recognition of quantifiable contingent liabilities</td>
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</tbody>
</table>
I. Background and Context:

d. Weaknesses of the Existing Code & ROSC

• Code & ROSC evaluate clarity of reporting procedures not quality of reports
  – Code’s 4 “Pillars” reinforce focus on formal laws, institutions, and processes
    i. Clarity of Roles and Responsibility
    ii. Open Budget Processes
    iii. Public Availability of Information
    iv. Assurances of integrity
  – ROSCs pay too little attention to the content of fiscal reports themselves

• Code & ROSC adopt a “one-size-fits-all” approach to evaluating countries
  – Do not take into account different levels of institutional capacity
  – Do not provide milestones to full compliance with international standards
  – Make it difficult to benchmark against comparator countries

• ROSC assessments tended to be exhaustive rather than risk-based
  – Place equal weight on all elements of the Code
  – Difficult to judge relative seriousness of different fiscal reporting gaps
  – Include a large number of unprioritized recommendations

• Annual number of fiscal ROSCs declined from peak of 21 in 2002 to one in 2011
II. Revising the Fiscal Transparency Code:

a. Objectives of the Revisions

1. Emphasize the quality and reliability of published information rather than clarity of reporting procedures

2. Update the principles and practices to reflect the lessons of the recent crisis

3. Align the principles and practices with relevant international standards (GFSM 2001, IPSAS, OECD Principles, PEFA)

4. Provide countries with a set of achievable milestones on the way towards full compliance with international standards
II. Revising the Fiscal Transparency Code:  
b. Architecture of the New Code

Three Pillars of the Revised Fiscal Transparency Code & Assessment

**I. Fiscal Reports**
- Size of unreported flows
- Size of unreported liabilities
- Average revisions to deficit
- Institutional coverage
- Accounting for flows
- Valuation of assets & liabilities
- Timeliness of reporting
- Independence of statistics agency
- Audit of annual accounts

**II. Fiscal Forecasts**
- Average forecast error
- Source of forecast error
- Timing of forecast error
- Time horizon
- Clarity of fiscal objectives
- Separation of baseline & new policies
- Timeliness of budget submission
- Independent scrutiny of forecasts
- Supplementary budgets

**III. Fiscal Risk Analysis**
- Size of contingent liabilities
- Impact of exogenous shocks
- Average stock-flow adjustment
- Fiscal sensitivity analysis
- Reporting of contingent liabilities
- Long-term fiscal projections
- Approval of contingent liabilities
- Oversight of local governments
- Surveillance of public corporations

**Construction (Type of Report)**

**Quality of Fiscal Reporting**

**Openness of Fiscal Decision-making**
II. Revising the Fiscal Transparency Code:
c. More Graduated Set of Practices

<table>
<thead>
<tr>
<th>#</th>
<th>DIMENSION</th>
<th>PRINCIPLE</th>
<th>BASIC</th>
<th>GOOD</th>
<th>ADVANCED</th>
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</thead>
<tbody>
<tr>
<td>1</td>
<td>FISCAL REPORTING</td>
<td>Fiscal reports should provide a comprehensive, relevant, timely, and reliable overview of the government’s financial position and performance</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>1.1</td>
<td>Coverage</td>
<td><em>Fiscal reports should provide a comprehensive overview of the fiscal activities of the public sector</em></td>
<td>Fiscal reports consolidate all central government entities.</td>
<td>Fiscal reports consolidate all general government entities.</td>
<td>Fiscal reports consolidate all public sector entities.</td>
</tr>
<tr>
<td>1.1.1</td>
<td>Coverage of Institutions</td>
<td>Fiscal reports cover all entities engaged in public activity that are delineated according to international standards.</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>1.1.2</td>
<td>Coverage of Flows</td>
<td>Fiscal reports cover all government revenues, expenditures, and financing.</td>
<td>Fiscal reports cover all cash revenues and expenditures.</td>
<td>Fiscal reports cover cash flows and all accrued revenues and expenditures.</td>
<td></td>
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<tr>
<td>1.1.3</td>
<td>Coverage of Stocks</td>
<td>Fiscal reports include a balance sheet of government assets, liabilities, and net worth.</td>
<td>Fiscal reports cover cash and all debt</td>
<td>Fiscal reports cover all financial assets and liabilities.</td>
<td>Fiscal reports cover all financial and non-financial assets and liabilities, and net worth.</td>
</tr>
</tbody>
</table>
III. New Fiscal Transparency Assessment

a. Objectives of the New Assessment

1. Distinguish between more and less serious deficiencies in countries’ fiscal transparency practices

2. Provide countries with a clear picture of where their fiscal reporting practices stand relative to comparator countries and international standards

3. Provide countries with a more targeted and sequenced action plan for addressing the main transparency weaknesses identified

4. Allow for modular application including assessments of just one of the three pillars or assessments of their internal risk management practices
III. New Fiscal Transparency Assessment: b. Fiscal Transparency Indicators

Sample Fiscal Transparency Indicators

Coverage of Public Sector Entities (% of GDP)

- Central Government: 31%
- Local Govt: 14%
- Non Financial Public Corporations: 5%

Sources of Fiscal Forecast Error (% of Original Budget)

- Wages: 12.8%
- Other Current: 2.0%
- Pensions: 1.9%
- Capital: -5.1%
- Local Govt & Parastatals: 13.6%
- Other: 3.9%
- Net Error: 29.0%

Coverage limited to central government budget

Wages, local govts & SoEs are biggest risk to fiscal forecast

Reporting of Assets and Liabilities (% of GDP)

- Budgetary
- Extrabudgetary
- Social Security
- Local Govts
- Pub Corps
- Gross Stocks

No reporting of assets and large unreported liabilities

Contingent Liabilities (% of GDP)

- Guarantees (Public): 6.1%
- Guarantees (Private): 16.3%
- Central Bank: 15.3%
- Liabilities of Financial PCs: 37.6%

Contingent liabilities are large and diverse

#### Sample Summary Assessment: Fiscal Reporting

<table>
<thead>
<tr>
<th>Principle</th>
<th>Assessment</th>
<th>Importance</th>
<th>Rec</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.1.1 Coverage of Institutions</td>
<td><strong>Not Met:</strong> Fiscal reports cover only central government budget</td>
<td><strong>High:</strong> Quasi-fiscal activities by SoEs equivalent to 6% of GDP annually</td>
<td>1</td>
</tr>
<tr>
<td>1.1.2 Coverage of Flows</td>
<td><strong>Basic:</strong> Fiscal reports cover all cash revenues and expenditures</td>
<td><strong>Medium:</strong> Government expenditure arrears of 2% of GDP annually</td>
<td>2</td>
</tr>
<tr>
<td>1.1.3 Coverage of Stocks</td>
<td><strong>Good:</strong> Fiscal reports cover all financial assets and liabilities</td>
<td><strong>High:</strong> Accrued liabilities from public sector pensions of 30% of GDP</td>
<td>3</td>
</tr>
<tr>
<td>1.1.4 Tax Expenditures</td>
<td><strong>Basic:</strong> Revenue loss from tax expenditures is published at least annually</td>
<td><strong>Low:</strong> Tax expenditures less than 1% of GDP annually.</td>
<td></td>
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Sample Fiscal Transparency Action Plan

<table>
<thead>
<tr>
<th>Action</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
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<tbody>
<tr>
<td>b. Consolidate local governments</td>
<td>Publish annual data for aggregate local government sector</td>
<td>Consolidate LG 1, LG 2, and LG 3</td>
<td>Consolidate remaining local governments</td>
<td>Publish annual statistics for consolidated general government</td>
<td>Publish quarterly statistics for consolidated general government</td>
</tr>
<tr>
<td>c. Consolidate public corporations</td>
<td>Publish annual data for aggregate public corporations sector</td>
<td>Consolidate PC X, PC Y, and PC Z</td>
<td>Consolidate remaining public corporations</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

2. Improve reporting of expenditure arrears

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IV. Questions and Comments