Effective PFM Reforms: Transparency in Fiscal Risk Reporting

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Three key messages

- Transparency in fiscal risk reporting is critical for sound macro-fiscal performance - but many countries still have a long way to go to improve their understanding and management of fiscal risks
- IMF's Fiscal Transparency Code provides standards and norms to guide countries in fiscal risk disclosure, analysis and management practices
- Georgia is an example of a country that has invested significant effort to enhance its understanding and disclosure of fiscal risks, providing some important lessons

I. Importance of Fiscal Transparency
a. Origins of the Global Fiscal Transparency Effort

A concerted effort to improve fiscal transparency since the late 1990s

- **Asian crisis highlighted weakness in public and private financial reporting**
- **Also underscored the risks associated with undisclosed linkages between the two**

New fiscal reporting standards were developed

- **General:** IMF's Code & Manual on Fiscal Transparency
- **Budgeting:** OECD Best Practices for Budget Transparency
- **Statistics:** EU's ESA 95, IMF's GFSM 2001 and 2014, & UN's SNA 08
- **Accounting:** IFAC's International Public Sector Accounting Standards (IPSAS)

New tools for monitoring compliance with standards were introduced

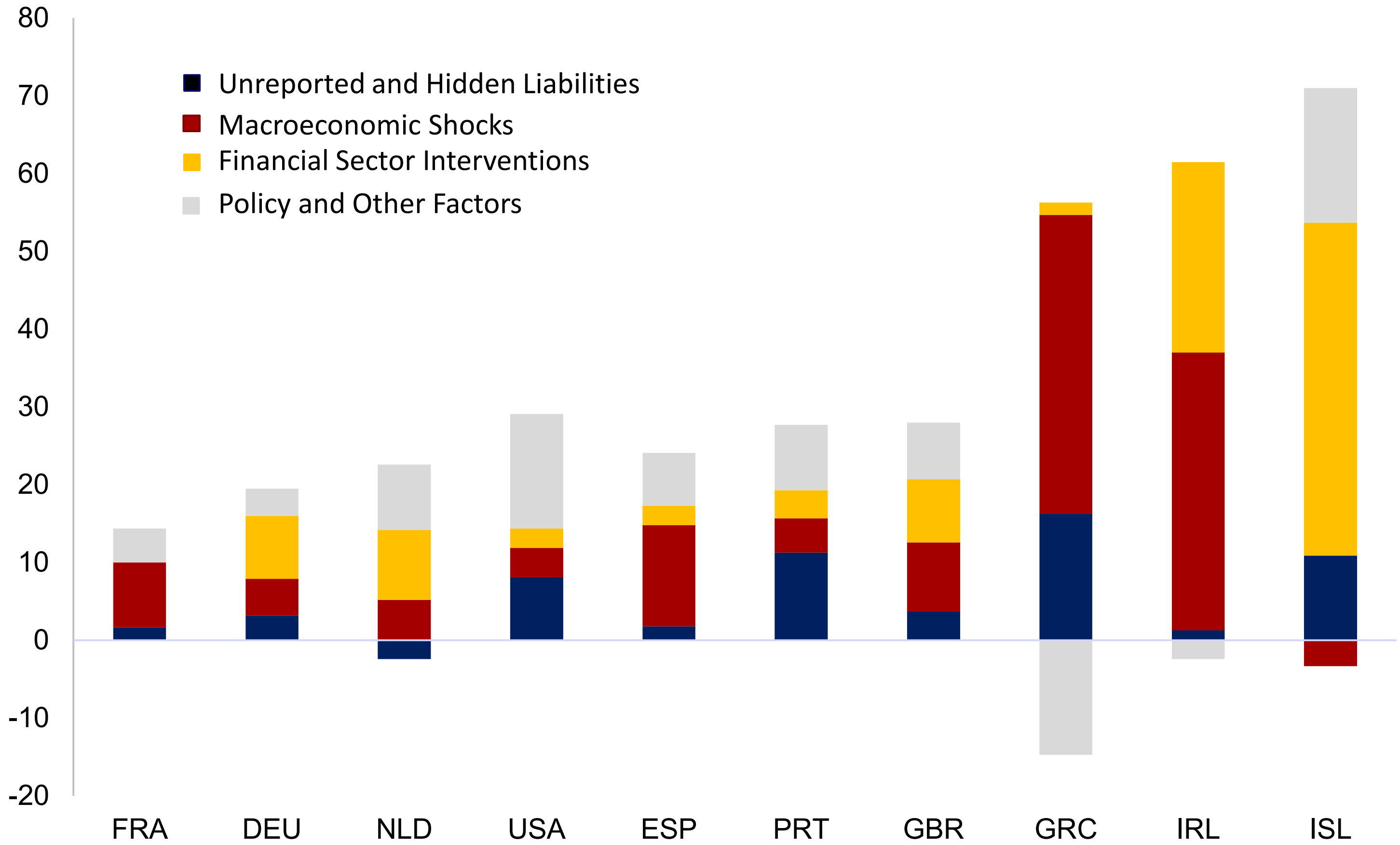
- **Multilateral:** Fiscal ROSCs, GDDS/SDDS, & PEFA
- **Regional:** Eurostat, WAEMU & CEMAC harmonization of fiscal reporting
- **Civil Society:** Open Budget Survey and Index, GIFT Principles

I. Importance of Fiscal Transparency

a. Fiscal shocks can be large and damaging

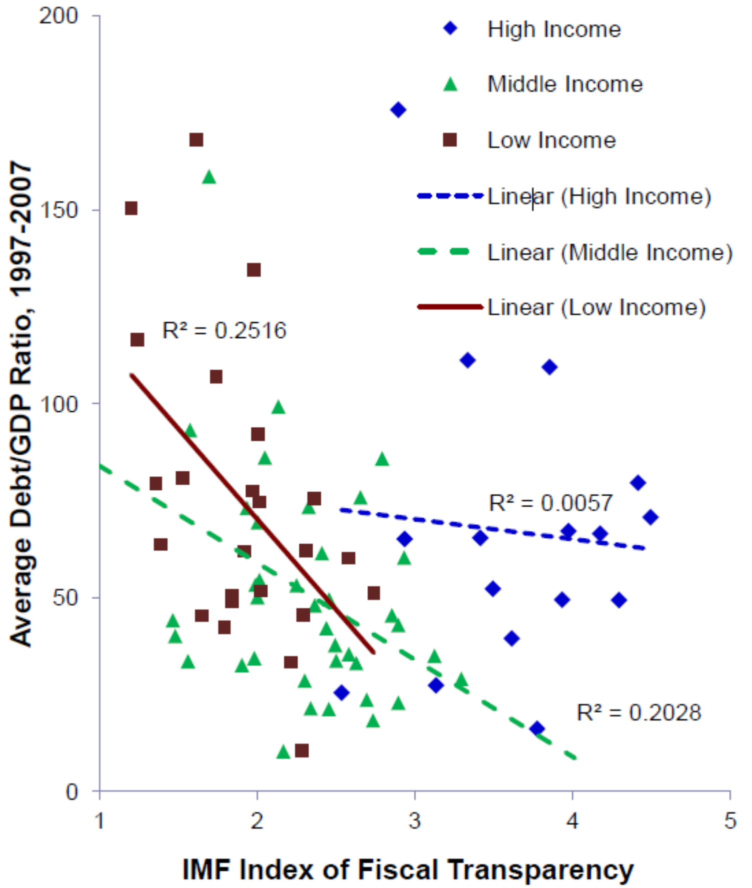
Sources of Unexpected Increase in General Government Debt

(percent of GDP, 2007-2010)

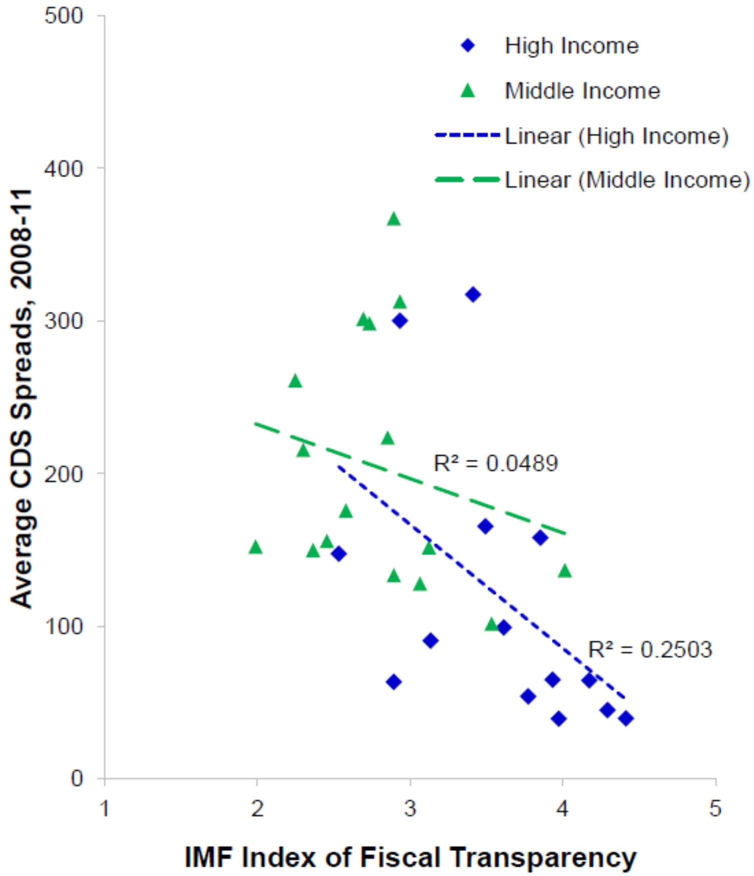


I. Importance of Fiscal Transparency
b. Transparency and Fiscal Outcomes

Fiscal Transparency & Fiscal Solvency



Fiscal Transparency & Fiscal Credibility

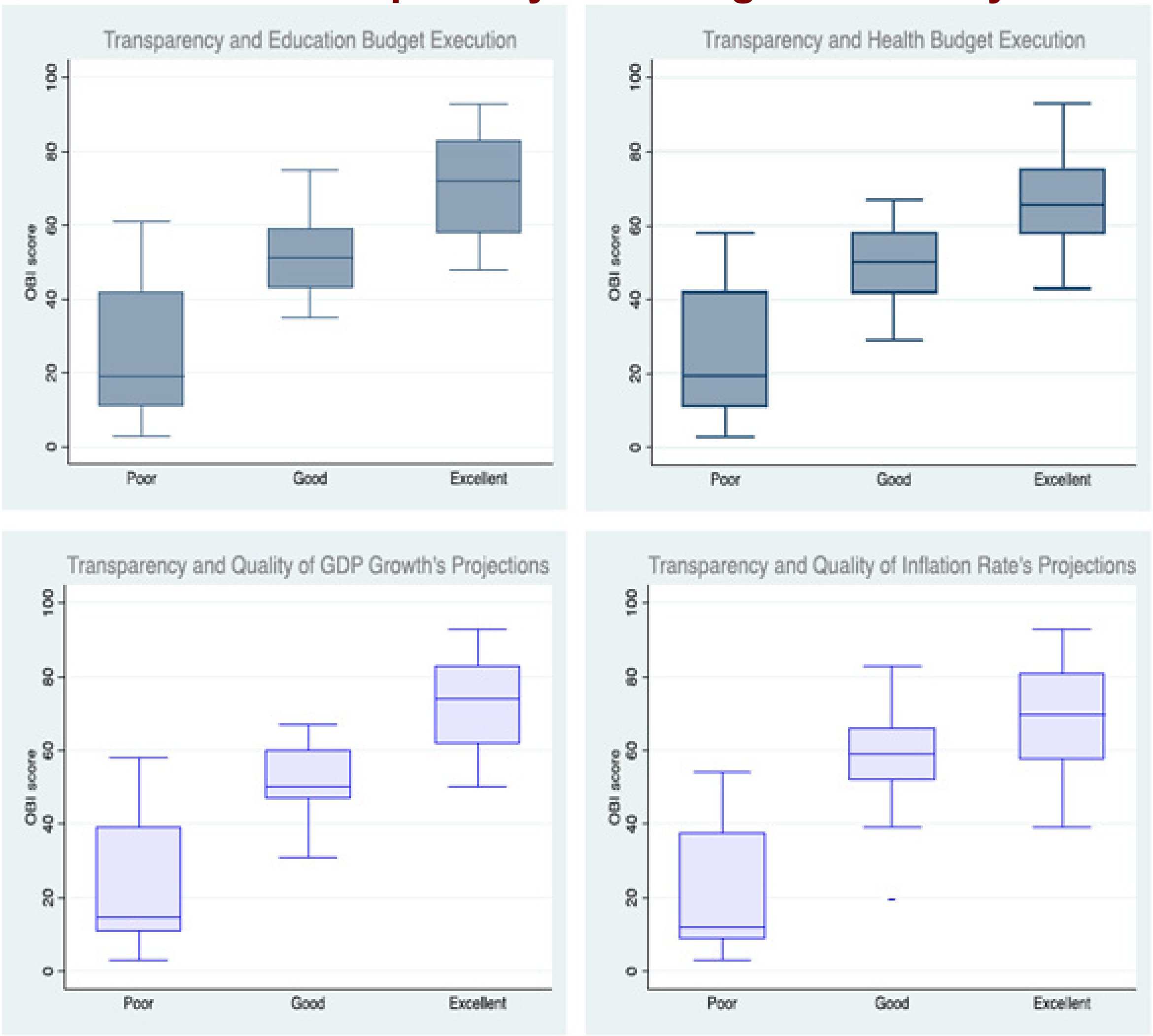


Note: Fiscal Transparency Index is based on data from fiscal ROSC reports and the quality of budget institutions index developed by Dabla-Norris and others (2010).

Source: IMF (2012) "Fiscal Transparency, Accountability and Risk," IMF Policy Paper.

I. Importance of Fiscal Transparency
c. Transparency and Fiscal Outcomes

Fiscal Transparency and Budget Credibility



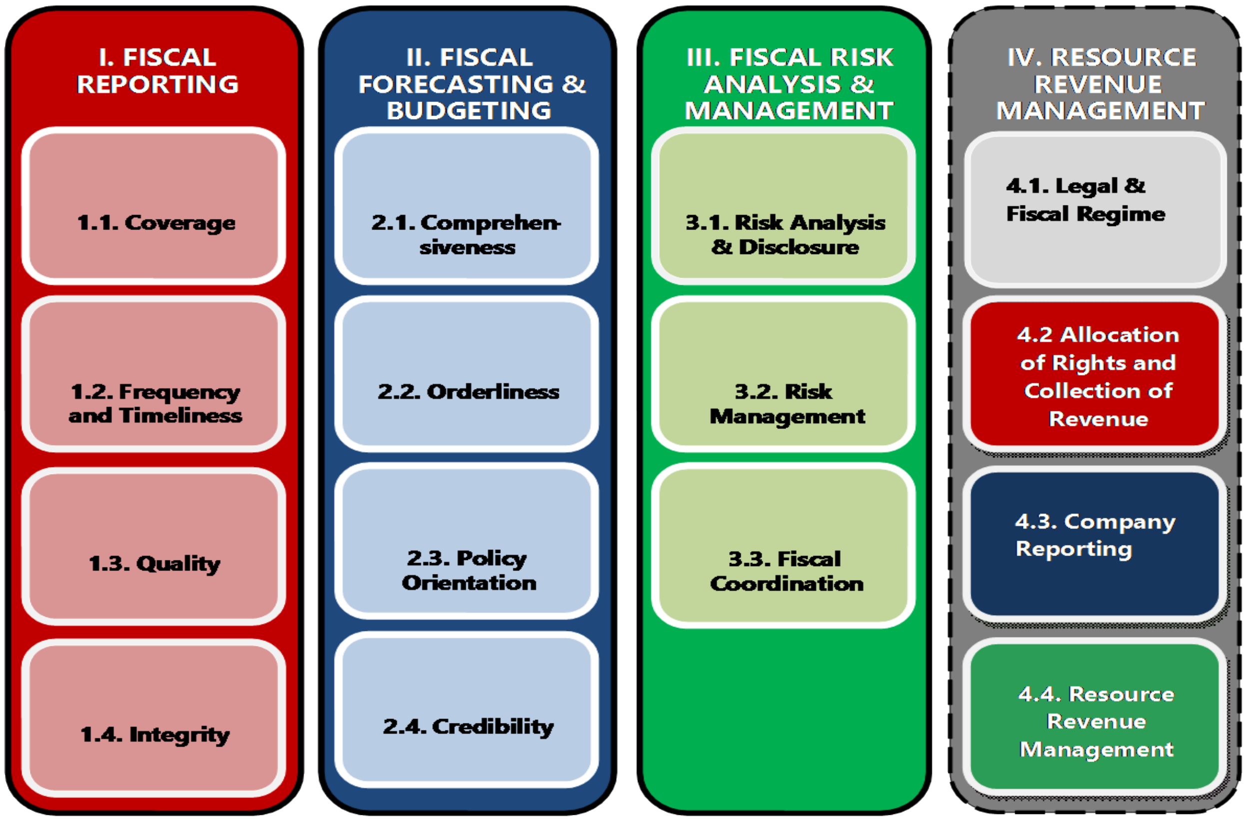
Source: Sarr, B. (2015) “Credibility and Reliability of Government Budgets: Does Fiscal Transparency Matter?” International Budget Partnership Working Paper No. 5.

II. Fiscal Transparency Code
b. The New Fiscal Transparency Code

Fiscal Transparency Code was revised following the global financial crisis

- A greater emphasis on fiscal risk disclosure, analysis and management
- Focuses on the quality of outputs, rather than processes

Four Pillars of the New Code



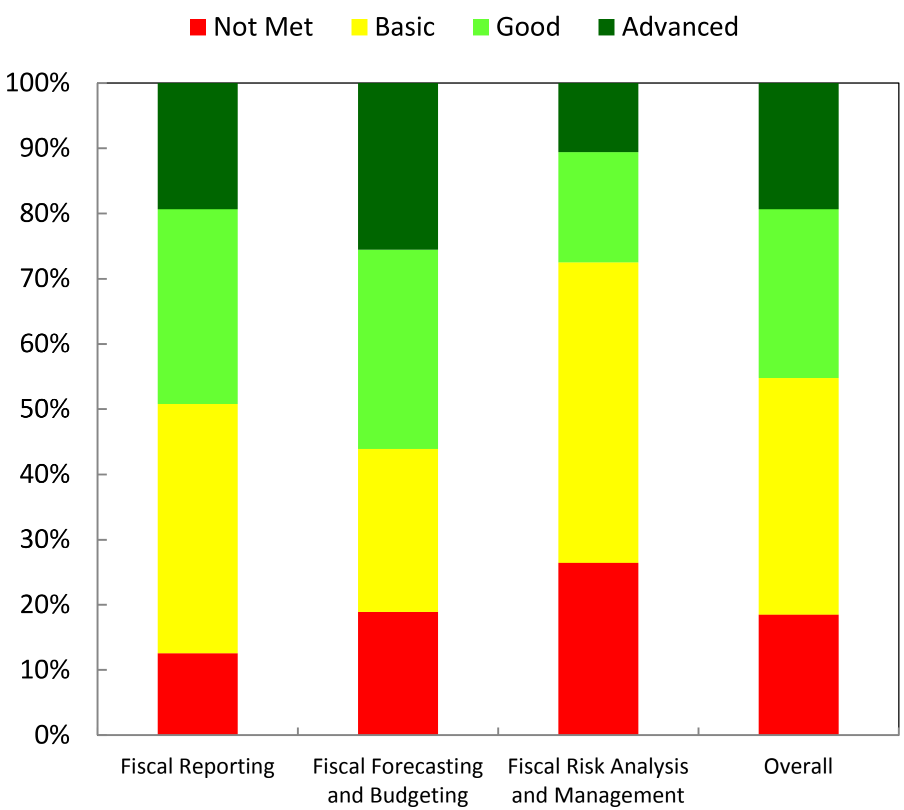
II. Fiscal Transparency Code

c. Fiscal Risk Analysis and Management

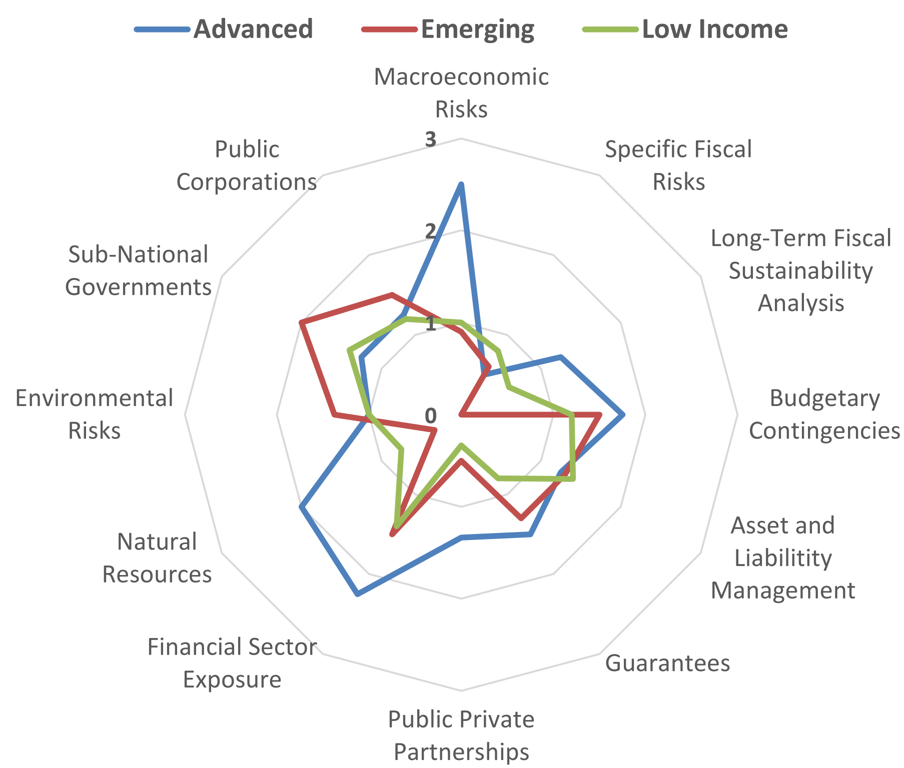
DIMENSION	PRACTICES		
	BASIC	**GOOD**	**ADVANCED**
Macroeconomic Risks: Government reports on how fiscal outcomes might differ from baseline forecasts.	Budget includes discussion of the sensitivity of fiscal forecasts to major macroeconomic assumptions.	Budget includes sensitivity analysis and alternative macroeconomic and fiscal forecast scenarios.	Budget includes sensitivity analysis, alternative scenarios, and probabilistic forecasts of fiscal outcomes.
Specific Fiscal Risks: Government provides a regular summary report on the main specific risks to the fiscal forecasts.	The main specific risks to the fiscal forecast are disclosed in a summary report and discussed in qualitative terms.	The main specific risks to the fiscal forecast are disclosed in a summary report, along with estimates of their magnitude.	The main specific risks to the fiscal forecast are disclosed in a summary report, along with estimates of their magnitude and, where practicable, their likelihood.
Long-Term Fiscal Sustainability Analysis: Government regularly publishes projections of the evolution of public finances over the long-term.	Government regularly publishes fiscal projections of the sustainability of the main fiscal aggregates and any health and social security funds over at least the next 10 years.	Government regularly publishes multiple scenarios for the sustainability of the main fiscal aggregates and any health and social security funds over at least the next 30 years using a range of macroeconomic assumptions.	Government regularly publishes multiple scenarios for the sustainability of the main fiscal aggregates and any health and social security funds over at least the next 30 years using a range of macro, demographic, natural resource, or other assumptions.

II. Fiscal Transparency Code
d. Findings on Fiscal Risk Management Practices

FTE Results by Pillar
(Percent of total scores)



FTE Results For Fiscal Risk Management
(Average Index Score)



Source: IMF Fiscal Transparency Evaluations.

III. Georgia: Improving Disclosure and Management of Fiscal Risks

- **Ongoing focus on enhancing fiscal risk transparency since 2012**

- **Two-pronged approach**
  - Enhancing budget transparency and reporting of fiscal risks
  - Improving the framework for managing specific fiscal risks, such as SOEs, PPPs and large hydropower projects (where work is underway)

- **Has resulted in better understanding of fiscal risks and their interaction and a more careful approach to creating new fiscal risks – and hopefully in better preparedness if shocks arise**

III. Georgia: Improving Disclosure and Management of Fiscal Risks

Enhancing transparency in fiscal risk reporting

- **Before 2013:**
  - Georgia did not publish macroeconomic risk analysis, despite undertaking it for internal purposes
  - Disclosure of specific fiscal risks was limited and fragmented
  - No consolidated reporting on public corporations
- **Since 2013, Georgia has taken steps to enhance its understanding of fiscal risks and their disclosure:**
  - Established a central unit to monitor and assess fiscal risks
  - Publishes annual Statement of Fiscal Risks covering:
    - Alternative macro-fiscal forecast scenarios
    - Debt sustainability analysis
    - SOE related fiscal risks
  - Developed a medium term debt management strategy
  - Expanded financial reporting requirements for SOEs

III. Georgia: Improving Disclosure and Management of Fiscal Risks

Framework Reforms

- **Georgia has also taken steps to strengthen its fiscal risk management frameworks:**
  - Permanent limits on expenditure, debt and deficits to GDP under the Economic Liberty Act 2013
  - Strengthened oversight of SOEs, by transferring major entities to a holding company, increasingly centralizing oversight of other SOEs in a single entity, and gradually winding down non-viable entities
  - New public investment management system with stronger MoF mandate, being implemented from 2017
  - Developing law on Public Private Partnerships that will, amongst other things, strengthen fiscal risk assessment
- **IMF, WB, ADB and other international bodies have provided support in these areas**

IV. Lessons

- **Understanding fiscal risk exposures to public finances is critical, as highlighted by the global financial crisis**
- **Enhanced transparency has tangible and significant benefits in terms of understanding of risks and market perceptions**
- **In Georgia, greater transparency has been facilitated by:**
  - High-level and sustained commitment
  - Significant technical assistance
  - Central unit with dedicated staff to reduce fragmentation in risk analysis and build capacity in fiscal risk reporting
  - A phased approach to capacity building, focusing first on risks that were already well understood
  - Emphasis on identifying information gaps and establishing systems to rectify these
- **Disclosing information is only one step in managing fiscal risks**
  - Countries should also build capacity to assess their exposures and integrate these assessments into fiscal policymaking, and should put in place institutional frameworks to better manage fiscal risks

IV. Lessons

Georgia has substantially improved its budget transparency ratings