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FACTSHEET

How Does the IMF Encourage Greater Fiscal Transparency?

Fiscal transparency is a critical element of fiscal management and accountability. It ensures that governments have an accurate picture of their fiscal position and prospects, the long-term costs and benefits of any policy changes, and the potential fiscal risks that may blow them off course. It also provides legislatures, markets, and citizens with the information they need to hold governments accountable. The IMF's Fiscal Transparency Code and Evaluation are part of its efforts to strengthen fiscal surveillance, support policymaking, and improve fiscal accountability.

Why is increased fiscal transparency desirable?

Fiscal transparency allows for a better-informed debate by both policymakers and the public about the design and results of fiscal policy, and helps establish accountability for its implementation. It helps to highlight risks to the fiscal outlook, allowing an earlier and smoother fiscal policy response to changing economic conditions, and thereby reducing the incidence and severity of crises. Fiscal transparency helps strengthen the credibility of a country's fiscal plans, and can help underpin financial market confidence. The global financial crisis highlighted weaknesses in government's understanding of their fiscal position and risks to public finances and underscored the importance of fiscal transparency for financial and economic stability.

The IMF's work on fiscal transparency

The IMF's Fiscal Transparency Code (the Code) is the international standard for disclosure of information about public finances. The Code was first published in 1998 and updated in 2007 and 2014. Its 2007 version and the accompanying Manual and Guide provided the framework for conducting assessments of countries' fiscal transparency, as part of the IMF's Reports on the Observance of Standards and Codes (ROSC) initiative. In these assessments, IMF staff analyzed countries' adherence to the principles and practices in the Code, with 93 countries publishing their results on the Standards and Codes web page.

The IMF reviewed the state of fiscal transparency in the wake of the global financial crisis and proposed a series of improvements to existing international fiscal transparency standards and monitoring arrangements. These were incorporated in a revised **Fiscal Transparency Code** and accompanying Fiscal Transparency Evaluations.

The Code and evaluation

The 2014 Fiscal Transparency Code focuses on outputs; takes account of different levels of country capacity by differentiating between basic, good, and advanced practices for each fiscal transparency principle; and places a greater emphasis on fiscal risks, reflecting the lessons of the global financial crisis. The Code covers four key elements of fiscal transparency:

- **Pillar I: Fiscal Reporting,** which should offer relevant, comprehensive, timely, and reliable information on the government's financial position and performance.

- **Pillar II: Fiscal Forecasting and Budgeting,** which should provide a clear statement of the government's budgetary objectives and policy intentions, together with comprehensive, timely, and credible projections of the evolution of the public finances.

- **Pillar III: Fiscal Risk Analysis and Management,** which should ensure that risks to public finances are disclosed, analyzed and managed, and that fiscal decision-making across the public sector is effectively coordinated.

- **Pillar IV: Resource Revenue Management,** which should provide a transparent framework for the ownership, contracting, taxation, and utilization of natural resource endowments.

Pillars I, II, and III have been issued and a draft of Pillar IV has undergone two rounds of public consultation and several piloting in the field. Pillar IV completes the Code by stating specific principles and practices applicable to resource-rich countries, which are not already covered by the other three pillars.

Fiscal Transparency Evaluations (FTEs) are the IMF's principal fiscal transparency diagnostic tool. FTEs provide a comprehensive assessment of country practices against the standards set by the Code, quantified analyses of the scale and sources of fiscal vulnerability based on a set of fiscal transparency indicators, a summary of country fiscal transparency strengths and reform priorities through a set of heat maps, and the option of a sequenced fiscal transparency action plan to help countries address those reform priorities. FTEs also allow for modular assessments focused on the new Code's individual pillars for addressing the most pressing transparency issues. As of August 2017, 22 FTEs have been conducted and 18 of the evaluation reports have been finalized and published for Albania, Bolivia, Brazil, Costa Rica, Guatemala, Finland, Ireland, Kenya, Mozambique, the Philippines, Peru, Portugal, Romania, Russia, Tunisia, Turkey, Uganda, and the United Kingdom.

Next steps in the IMF's fiscal transparency initiative

- Complete Pillar IV of the Code and submit the full Fiscal Transparency Code to the IMF's Executive Board for approval.

- Finalize a two-volume Fiscal Transparency Manual*,* which will provide more detailed guidance on the implementation of the Code's principles and practices. Volume I of the Manual will cover Pillars I, II, and III, and Volume II will focus on Pillar IV and integrate the previously separate *Guide on Resource Revenue Transparency*.

- Carry out additional FTEs on the basis of the Code.